

Wheat Market Outlook and Price Report: April 4, 2022
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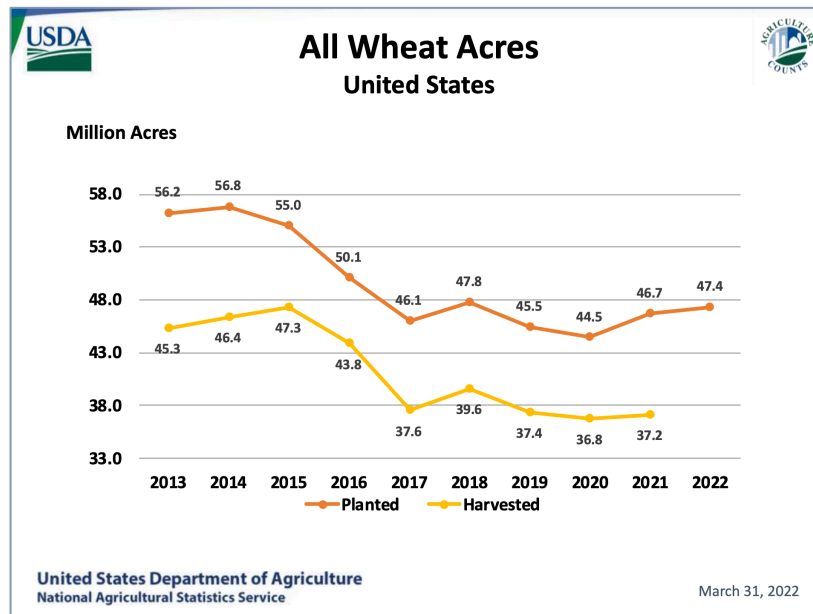
i) Background and Rationale for the Report

The following wheat market outlook and price report will be published on a weekly basis on the Sask Wheat Website. The report provides producers with an overview of world wheat markets, a market forecast, and benchmark prices at both the primary elevator and export positions (FOB Vancouver or elsewhere).

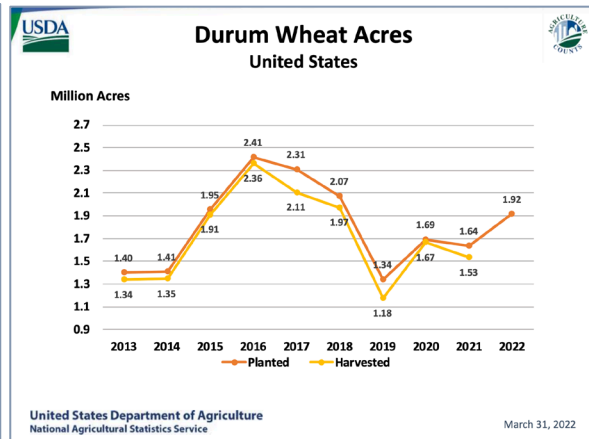
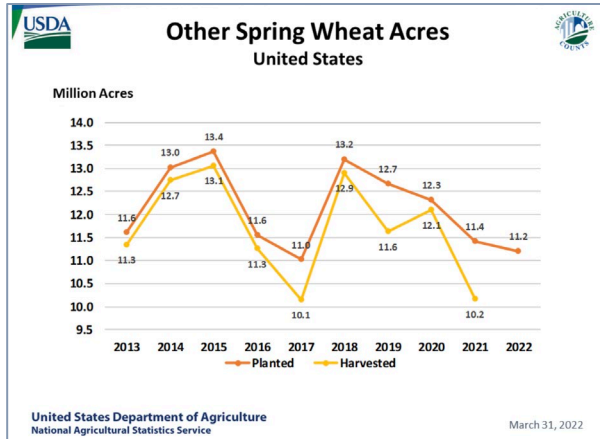
The report is made up of several sections. Following this section, a World Wheat overview is provided, which includes a summary of wheat market fundamentals, world production and trade, and a wheat market outlook. This is followed by several price tables, which include primary elevator bids at various Saskatchewan locations (Table 1), grain spreads (Table 2), and FOB port prices and basis (as measured by subtracting the primary elevator price (Rosetown) from the relevant port location price for individual crops) (Table 3). Table 3 is preceded by a description of the various assumptions, definitions and methodology used in arriving at the FOB port prices and in the export basis calculation.

ii) Wheat Market Outlook April 4, 2022

USDA – Prospective Plantings Report March 31, 2022:



- **All wheat planted area** in the US for 2022 is estimated at 47.4 million acres, up 1% from 2021. If realized, this represents the fifth-lowest all wheat planted area since records began in 1919.
- The 2022 **winter wheat planted area**, at 34.2 million acres, is up 2% from last year. Of this total, about 23.7 million acres are hard red winter, 6.89 million acres are soft red winter, and 3.62 million acres are white winter wheat.



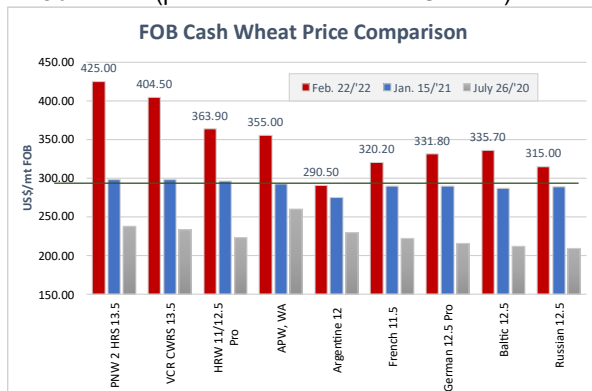
Source: USDA, NASS, April 1/22

- According to USDA, US growers intend to plant 11.2 million acres of other **spring wheat**, down 2% from 2021. Of this total, about 10.5 million acres are hard red spring wheat. Planted area in North Dakota, the largest spring wheat-producing state, is estimated at 5.20 million acres, down 5% from last year.
- Area seeded to **durum wheat** in the US for 2022 is estimated at 1.92 million acres, up 17% from 2021. Idaho is expecting a record low durum wheat acreage and is the only estimating State expecting a decrease from last year. The heading of durum wheat in Arizona was 44 percent complete by March 27.

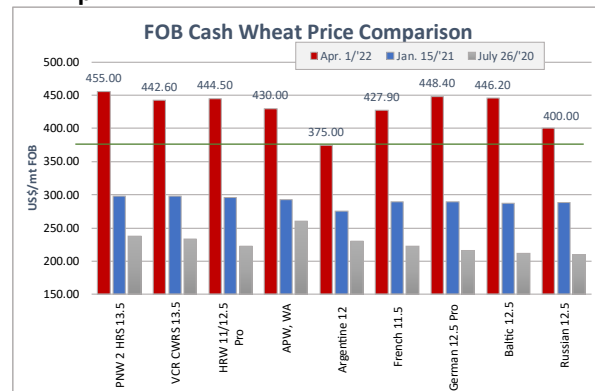
Recent Developments in Wheat Demand:

Besides overall supply, a critical issue in the 2022/23 global wheat balance sheet will be if/to what extent the elevated price levels for wheat will curtail overall demand for wheat. Feed grain values will play into this to the extent that wheat is used for feeding purposes. In our view, wheat currently has too big a premium to corn.

Feb. 22/22 (pre-Russian invasion of Ukraine):



Apr. 1/22:



➤ **Global wheat production and trade:**

There is a lot of competition in the wheat markets as wheat is produced around the world. Below is a brief synopsis of last week's market events in the major wheat origins.

Futures:

- May '22 contract **Chicago winter wheat** closed at 984-4, down 21-4 cents on Friday, *down 117-6 cents on the week.*
- May '22 contract **Kansas hard red winter wheat** closed at 1013-0, down 16-6 cents in Friday's trade, *down 97-6 cents on the week.*
- May '22 **Minneapolis hard red spring wheat** closed at 1065-2, down 14-2 cents on Friday, *down 39-0 cents on the week.*
- *Extreme volatility in futures continues.* This Monday morning, wheat markets are up by double-digit numbers, currently showing 17c to 30c/bu gains, with the biggest gains in Chicago.

CBOT May 2022 Wheat (1 yr.)



KC May '22 Wheat



Mpls. May '22 Wheat

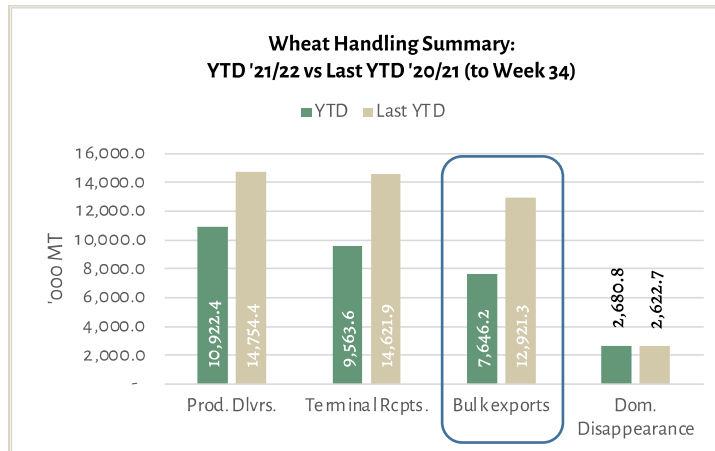


General Comment

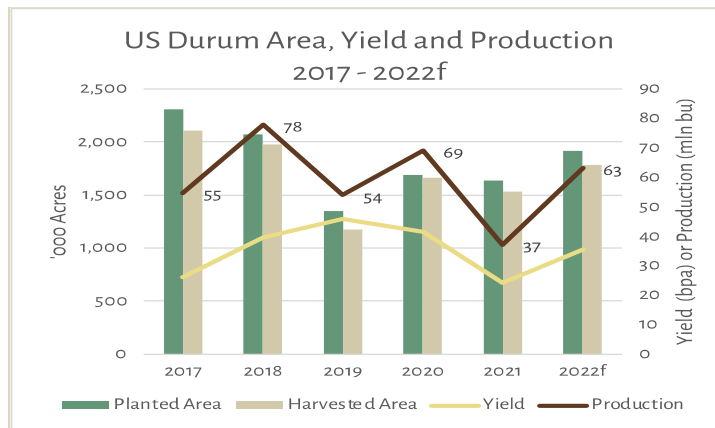
USDA estimates for the 2022 Ukrainian wheat crop at 26.4 million mt are 20% lower than last year's crop there. If the 20% reduction is realized, this would be still up 3.9% from their 2020/21 crop. Given this, the weather is the main issue for all crops. If the weather turns out to be average to normal this coming season, we think we will have more than sufficient wheat in the world. If not, things can get tight.

Canadian Wheat:

- The USDA planting report showed US spring wheat area at 11.2 million acres. This is 2% (-220k acres) less than last year.
- Week 34 Canadian wheat exports were poor again. The 171.3k mt of exports makes for a season total of 7.6 million mt, 41% behind last year's amount vs AAFC's projected 36% decline.



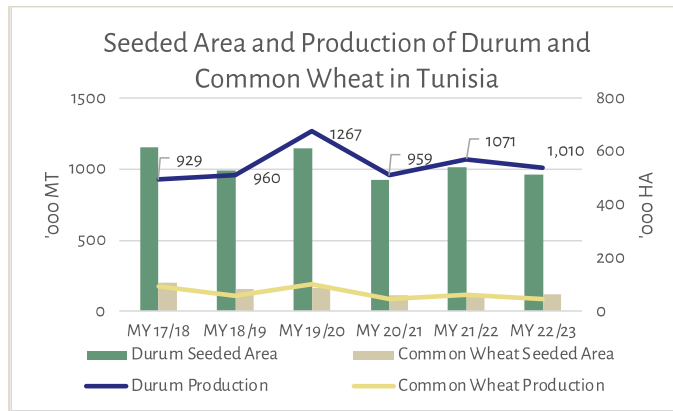
- *Attention is increasingly turning towards new crop. Dry conditions in various parts of the US will start to draw more attention. We note that while futures prices were lower on the week, basis levels have worked to keep cash prices fairly steady. We recommend finishing old crop sales and have recommended getting 50% sold new crop at \$13.00/bu.*
- **Durum:** USDA is expecting US planted durum area to grow by 280k acres (+17%) from last year to 1.9 million acres. The entire increase is slated to come from higher acres in Montana (+170k acres) and North Dakota (+100 acres).
- We note that Montana and parts of Western North Dakota remain under severe to extreme drought (See map in US section). The 5-year average US durum yield (which includes poor yields in 2017 and 2021) is 35.4 bushels per acre. With average abandonment, total production would be 63.2 million bushels (1.7 million mt). This would be a 70% (26 million bu) increase in production over 2021 and an 8% (5 million bu) increase over the 5-year average production.



Source: USDA and Merc

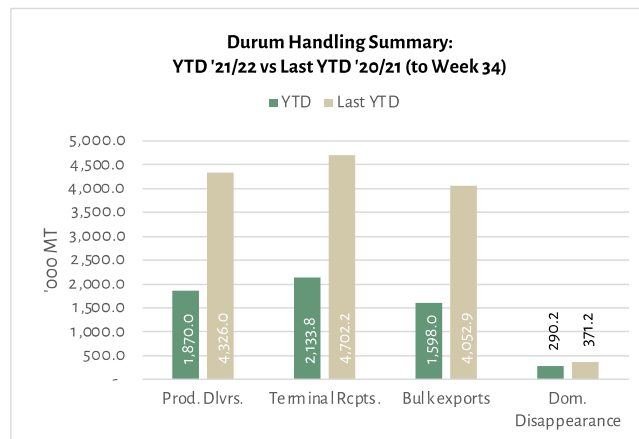
- The USDA stock report indicated that there are 29.7 million bushels of durum wheat (810k mt) stored in all positions as of March 1, 2022. This is 30% less than this time last year. The March 1 stocks indicate that the December to February usage was 12.3 million bushels, or 37% less than last year.
- Update on **Tunisia:** The USDA Post in Tunisia is expecting average wheat yields for the area, albeit on a smaller planted area. The wheat area is down 5% from last year to 579,000 hectares from last year due to economic uncertainty during the October to December planting period. Durum wheat accounts for 88% (515,000 hectares) of the total wheat area. Rain in Tunisia was

limited in the January and February period, but thanks to moderate temperatures, the USDA Post expects average yields for a total durum production number of 1.0 million mt. Although normally 48% of Tunisia’s supplies are sourced from Ukraine and despite questions about Tunisia’s ability to pay, the USDA Post expects Tunisia to increase 2022/23 all wheat imports by 16% from last year to 2.1 million mt. Most of the lost Ukrainian supplies will be replaced by the EU. On average, Canada supplies 8% of Tunisia’s all wheat imports (mostly durum).



Source: USDA

- *New crop durum prices have increased to \$14.00/bu in some areas which is a very good price. We are 20% sold.*
[Note some buyers have been buying a “#3 CWAD Milling” which is essentially the specs of a #1 CWAD with some #3 CWAD allowances. Make sure that the specs are for a #3 CWAD or understand that you might be signing up for #1 CWAD specs.]

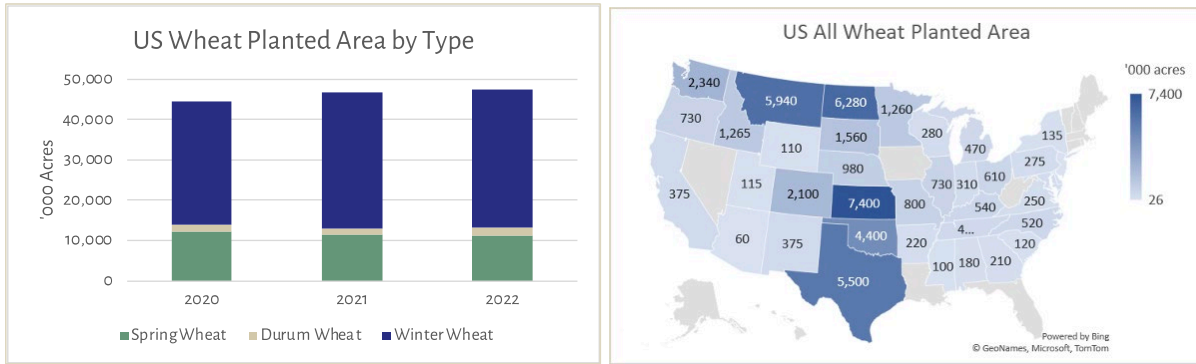


Source: Mercantile based on CGC data

US Wheat:

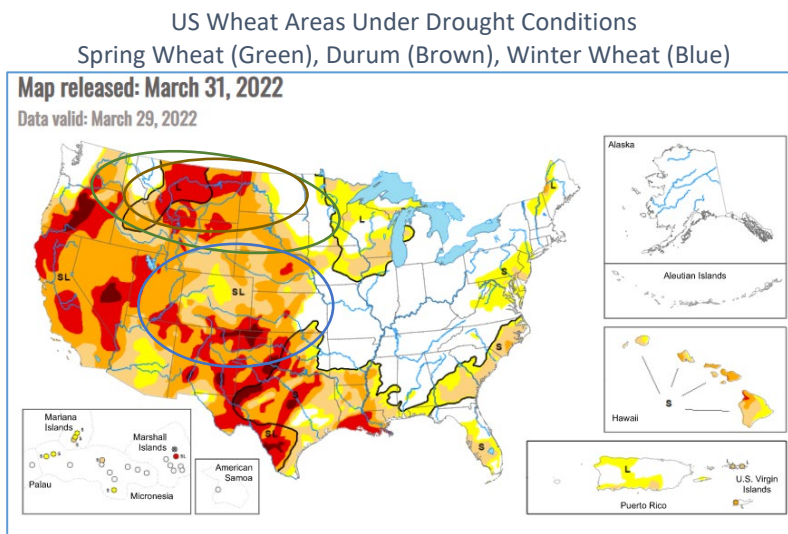
- There was some mid-week support of futures from the USDA’s stocks and planting report (which showed fewer wheat acres than expected), but futures were lower again on Friday.
- **USDA Stocks report:** All wheat stored in all positions as of March 1, 2022 was at 1.02 billion bushels, down 22% from the same time last year. The indicated December to February disappearance is 353 million bushels, or 10% less than last year.

- The **USDA-NASS planting report** estimates that the US all wheat area will be 1% (648k acres) higher than last year at 47.4 million acres. Winter wheat makes up the bulk (588k acres) of this increase, which is projected to be 2% higher than last year at 34.2 million acres. Spring wheat is expected to be 2% (220k acres) lower than last year at 11.2 million acres, while durum wheat was put 17% (280k acres) higher at 1.9 million acres.



Data Source: USDA

- We note that a large portion of the current/projected wheat area for the 2022 growing season is under severe to extreme drought. As of March 29th, 69% of all US winter wheat area was under drought conditions, 46% of US spring wheat area was under drought conditions, and 86% of all US durum area was under drought conditions.



- Net U.S. wheat sales of 95k mt were reported for the week, down 39% from last week's 156k mt and within trade expectations of 50k to 300k mt. Year-to-date commercial sales for delivery in '21/22 total 18.9 million mt, 24% lower than the same time last year.
- US HRS for Apr. '22 is valued at \$455.00/ mt FOB PNW (down \$5/mt from last week, and up \$30/mt since February 14), FOB Gulf HRW 11/12.5 pro is valued at \$444.50/mt (down \$31.90/mt from last week, down \$10.20/mt since Feb. 24).

Australian wheat:

- Australian FOB APW wheat for Apr. '22 was quoted at \$430.00/mt, unchanged over the past week.

Argentine wheat:

- Argentine FOB wheat was also unchanged but inactive.
- April shipment Argentine 12% pro wheat was valued at ~\$375.00/mt FOB, unchanged from the previous week.

EU wheat:

- Matif was flat prior to the USDA reports, spiked to gains of €12/mt following the report, before giving it all back. Matif currently is down €1.50 for May, but up new crop €6.50/mt for Sept.
- News agencies are reporting France's worst bird flu crisis ever with more than 11 million birds already culled.
- The weather is increasingly a concern with no rainfall so far and the forecast turning increasingly dry. In addition, most of Europe is set for several days of sub-zero temperatures.
- Fob prices in the EU: April '22 French 11.5 pro closed at \$427.90/mt, down \$20.80/mt from last week (up \$107.70/mt since February 24). April German 12.5 pro wheat closed at \$448.40/mt, down \$13.10/mt (up \$116.40/mt since February 24). April Baltic 12.5 pro wheat was at \$446.20/mt, down \$13.10/mt (up \$114.30/mt since February 24).

China:

- China allocated another two billion yuan (\$315 million USD) to aid winter wheat crop growth, bringing the total up to five billion yuan (\$788 bln USD).

Black Sea wheat:

- Early in the week, news about peace talks caused wheat futures to fall. Now Russia is threatening that they will limit wheat exports to countries that are not supportive of their military actions. They are also threatening that future oil sales will need to be made in rubles.
- Ukraine's Ag Minister said that they are in talks with Romania about using the port of Constanta. Romanian officials have said the port could handle additional capacity. They note that volumes at the port have already risen 23% in March. Insurance companies have been warning ships in the Black Sea to be on the lookout for mines. Turkey and Romania were both diffusing mines in their waters last week.
- Cash prices for Russian wheat remain extremely tough to define, and export numbers differ considerably depending on the source. Meanwhile, domestic wheat and flour prices remain at record highs.
- However, competition by wheat from the Balkans seems to be weighing on Russian prices, and the export tax calculation is starting to more realistically reflect the market (up \$9 to \$96/mt from April 6). Along with Russian farmers holding out for higher prices, this is all cutting into the earlier big margins of exporters.
- Russian domestic wheat and flour prices remain at or near record levels. This is fostering more talk of potential additional export restrictions.

➤ **Significant purchases/ trades:**

- **Algeria** was reported buying 600k mt of optional origin wheat at about \$448.00/mt.
- **Saudi Arabia (SAGO)** held a tender for 355kt September to November arrival and bought a full bought 625k mt over the weekend. (Their previous tender was on December 7th for 535k mt May-July arrival, but they bought 689k mt for arrival July.)
- **Iraq** reportedly bought 100k mt from its March tender at \$570/mt Liner Out.

- **Tunisia** bought around 125k tonnes of soft wheat at 439.39/mt in international tenders on Wednesday, for April-May-June shipment.
- **Jordan** tenders tomorrow (Tuesday) for 120k mt May-July shipment.
- **U.S.** wheat sales were small at 95k mt.
- **Demand for old crop wheat** is slowing.

➤ **Wheat Market Outlook:**

Significant events:

- **USDA reported wheat stocks** at 1.025 billion bushels and **expected wheat plantings** 47.9 million acres, broadly in line with private ideas. Only the spring wheat acreage was lower than expected at 11.2 million acres. This is 2% (-220k acres) less than last year.
- Also, as of March 29th, 69% of all US winter wheat area was under **drought conditions**, 46% of US spring wheat area was under drought conditions, and 86% of all US durum area was under drought conditions.
- **US planted durum area** will increase by 280k acres (+17%) from last year to 1.9 million acres.
- USDA estimates for the **2022 Ukrainian wheat crop** at 26.4 million mt are 20% lower than last year's crop there. If the 20% reduction is realized, this would be still up 3.9% from their 2020/21 crop. Given this, the weather is the main issue for all crops. If the weather turns out to be average to normal this coming season, we think we will have more than sufficient wheat in the world. – If not, things can get tight.
- **Weekly U.S. wheat sales** remained small at 95k mt and are 24% smaller than this time last year.
- **Putin** issued a 'Presidential decree' on Ruble payments for the oil by "unfriendly countries", and ex-President **Medvedev** said that Russian ag products would only be sold to "friends".
- **Peace talks** between Russia and Ukraine continue virtually, but with no evidence of progress.
- **Kazakhstan** is the latest country to contemplate export bans on various goods.
- The London Marine Insurance market today categorized all **Russian waters** as "high risk". This includes the Baltic, Far East ports, as well as Black Sea ports.

Outlook:

Trying to assess the overall availability of wheat to the markets, we note that USDA estimated the 2022 Ukrainian wheat crop at 20% lower than last year's. If the 20% reduction is realized, that would still leave Ukraine's '22/23 wheat output near 26.4 tonnes, which is still up 3.9% from 2020/21. Given this, whether now is the main issue for all crops. If it turns out to be average to normal, then we will have more than sufficient wheat for the markets. If not, things can get tight.

The weather needs to be watched. In our view, wheat has too big a premium to corn.

We prefer to be fully sold on old crop.

iii) Primary Elevator Price Tables and Grade Spreads

Table 1: Canadian Primary Elevator Bids, in Canadian Dollars per Bu and per MILLION MT

Date: 04-04-2022					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Aug. '22 (bu.)	Aug. '22 (mt)
1 CWRS 13.5	\$12.86	\$472.53	1 CWRS 13.5	\$11.76	\$432.11
1 CWAD 13.0	\$15.69	\$576.51	1 CWAD 13.0	\$11.39	\$418.51
1 CPSR 11.5	\$11.65	\$428.07	1 CPSR 11.5	n/a	
SW Sask			SW Sask		
1 CWRS 13.5	\$12.75	\$468.49	1 CWRS 13.5	\$11.49	\$422.19
1 CWAD 13.0	\$15.72	\$577.62	1 CWAD 13.0	\$11.70	\$429.90
1 CPSR 11.5	\$11.54	\$424.03	1 CPSR 11.5	\$10.55	\$387.65
NE Sask			NE Sask		
1 CWRS 13.5	\$12.65	\$464.81	1 CWRS 13.5	\$11.62	\$426.97
1 CWAD 13.0	\$15.97	\$586.80	1 CWAD 13.0	\$13.02	\$478.41
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	
SE Sask			SE Sask		
1 CWRS 13.5	\$12.59	\$462.61	1 CWRS 13.5	\$11.47	\$421.45
1 CWAD 13.0	\$15.70	\$576.88	1 CWAD 13.0	\$12.69	\$466.28
1 CPSR 11.5	\$11.30	\$415.21	1 CPSR 11.5	\$10.68	\$392.43

Data source: PDQ, Apr. 4/22

Table 2: Grade Spreads, in Canadian Dollars per Bu and per MILLION MT

Avg. Grade Spread/ Pro Discounts	Cdn\$/bu.	Cdn./mt
1 CWRS 13.5	Base Grade	Base Grade
2 CWRS 13.5	(0.10)	(3.67)
1 CWRS 12.5	(0.02)	(0.85)
1 CWAD 13.0	Base Grade	Base Grade
1 CWAD 13.5	0.00	0.00
2 CWAD 13.5	(0.09)	(3.31)
2 CWAD 12.5	(0.11)	(4.04)

Data source: PDQ, Apr. 4/22

iv) FOB Wheat Prices and Export Basis Calculation

Background and Rationale:

Reporting FOB prices at port position and primary elevator prices allows the reader to gain an understanding of both local and international wheat prices and to understand the relationship

between the two, as measured by the export basis. Export basis can be defined as FOB port position prices minus the primary elevator prices at any given prairie delivery location and is therefore reflective of transportation costs plus any premiums being captured by terminal grain elevator companies or the railway companies, at any given time.

In general, a widening basis is indicative of decreasing system performance in terms of either reduced port capacity or rail service, or both. A narrowing basis is indicative of increased available port capacity and/or better ability of the railways to provide ample service to grain shippers. In this regard, tracking these prices over time has value both in terms of producers being able to time the selling of their grain but also in terms of evaluating and setting policy related to various transportation and capacity issues.

Gray (2015) has calculated a normal basis to be in the range of C\$72/million mt. During the 2013/14 crop year the export basis for wheat widened to approximately C\$250/million mt, which indicated an inability of the grain handling and transportation system to adequately handle the record crop produced that year. This occurrence has highlighted the need to improve the level of rail service and take measures to expand port capacity where possible. It has also underscored the need for better price transparency and market information within the grain sector.

Assumptions, Definitions, and Methodology

The following background information should assist in understanding and interpreting international market signals and to relate them to the 'local' Saskatchewan wheat market:

- The price information generated for the weekly report is designed to show farmers at what price levels several wheat classes are trading at local primary elevators (Table 1) and in nearby international markets (Table 3). To express the Export Basis¹ (see *Export Basis* in Table 3) defined as Canadian FOB Prices minus primary elevator bids, the FOB prices are translated into Canadian dollars from US dollars and compared to current actual primary elevator Street prices at Rosetown, Saskatchewan (see *Street Prices* in Table 3). Rosetown is used as a proxy for all primary elevators in the basis calculation. The actual handling and transportation costs from the West Coast to delivered elevator (Rosetown area) range from ~C\$58.00-C\$74.72/million mt, depending on number of cars moved and elevator used.
- Approximate relationship between U.S. wheat classes and Canadian wheat classes:
 - DNS 14% in the Pacific North West (PNW) ≈ 1 CWRS 13.5% in Vancouver
 - HRS in the Pacific North West (PNW) ≈ 2 CWRS 13.0% in Vancouver
 - HRW in the Pacific North West (PNW) ≈ 3 CWRS in Vancouver
 - SW (lowest price wheat) ≈ CPS red (mostly fed domestically)
 - HAD (Lakes) ≈ CWAD (Thunder Bay/ Lawrence)

¹ Gray, R.S. (2015). The Economic Impacts of Elevated Export Basis Levels on Western Canadian Grain Producers 2012/13, 2013/14 and 2014/15.

“The difference between FOB Vancouver prices and the Saskatchewan elevator cash bids to producers is referred to as export basis: Basis can refer to the difference between any two prices. As the largest volume port, Vancouver FOB, minus the elevator bid prices representative measure of the “export” basis for grains in Western Canada.”

- Abbreviations: DNS (Dark Northern Spring Wheat); HRS (Hard Red Spring Wheat); HRW (Hard Red Winter Wheat); SW (Soft Wheat); HAD (Hard Amber Durum Wheat); CWRS (Canadian Western Red Spring Wheat); CPS (Canada Prairie Spring Wheat); CWAD (Canadian Western Amber Durum Wheat)

- Hard wheat price calculations:
Exporters in Western Canada generally derive their primary elevator wheat prices from HRS values at the West Coast (Pacific Northwest - PNW). Similarly, HRW values are used for lower grade (3) CWRS.
 - West Coast HRS and HRW values essentially dominate the international hard wheat trade and determine its basic value.
 - If premiums are paid for 1 CWRS 13.5, elevator companies are often able to retain the premium

- Durum wheat price calculations:
The primary export route for Canadian durum wheat is still through Thunder Bay, not the West Coast of Canada.
 - Nevertheless, the Pacific Coast has increased in importance for durum over time with 38% of total export volume crop year to date.
 - Italy is the single biggest buyer of Canadian durum wheat with 27% of total Canadian durum exports YTD (East Coast shipments).

- Optional origin grain sales:
Most major international grain companies sell 'optional origin' wheat to their customers and often cover their sales 'at best' closer to the shipment position. The Canadian grain system is not conducive to servicing optional origin sales because the volume of wheat kept in storage in port today is much smaller than prior to deregulation of the Canadian wheat market.

Table 3: Relevant FOB Prices and calculated Basis, US & Canadian Dollars per MT

Relevant FOB Prices and Export Basis				04-04-2022
Type of Wheat	FOB Prices CDA ¹ (calculated)		Street Prices	Export Basis ²
	West Coast (Cdn./mt\$)	Great Lakes (Cdn.\$/mt)	Rosetown (Cdn.\$/mt)	Basis: West Coast-Centr. SK (Cdn\$/mt)
DNS 14.0	\$541.06	\$750.04		
HRS	\$534.63			
HRW 11.5	\$530.03			
SWW 12.0	\$500.18			
1 CWRS 13.5 ³	\$541.06		\$468.12	\$72.94
2 CWRS 13.0 ³	\$534.63		\$477.30	\$57.32
3 CWRS ³	\$530.03		\$466.65	\$63.38
CPS ³	\$493.75		\$400.14	\$93.61
1 CWAD ⁴		\$743.61	\$551.16	\$192.45
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$400.00	April		
French 11.5 (Rouen)	\$427.90	April		
APW 10.5 (W Coast)	\$430.00	April		
Argentine 12.0	\$375.00	April		

¹ FOB Prices CDA = FOB US\$ converted into Canadian Currency

² Export Basis = FOB Prices CDA minus Cdn. Street Price

³ DNS 14% ≈ 1 CRWS 13.5%; HRS ≈ 2 CWRS 13.0%; HRW ≈ 3CWRS; SWW ≈ CPS

⁴ Values derived to Lakehead FOB