

Wheat Market Outlook and Price Report: August 8, 2022

By Marlene Boersch/ A.P. Temple/ Michael Wilton
Mercantile Consulting Venture Inc.

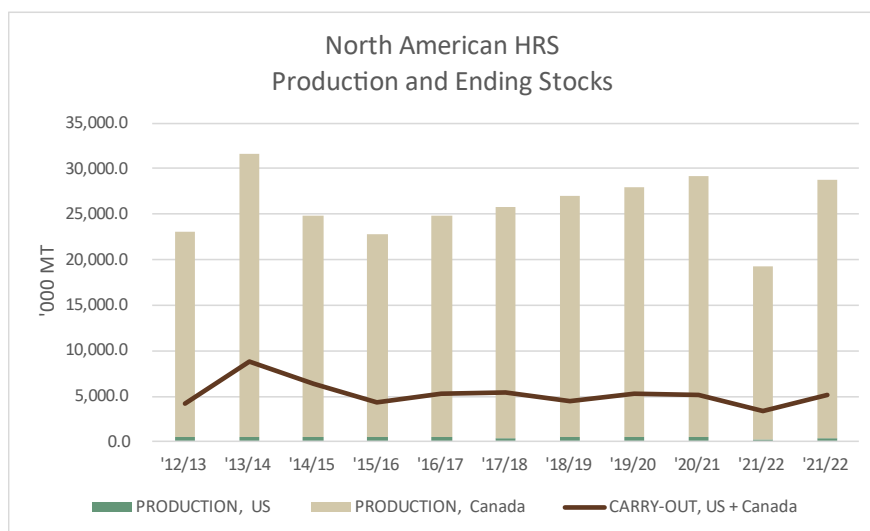
i) Background and Rationale for the Report

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 August 8, 2022

North American Hard Red Spring Wheat Production and Ending Stocks:



Data Source: USDA, Stats Canada

- The condition of the spring wheat crops in Canada and the Northern Plains are indicative of very strong production. The USDA and Stats Canada are forecasting that spring wheat production in the US and Canada will be upwards of 28.7 million mt this year, a large jump from the combined 19.3 million mt of spring wheat that was produced last year. Production in 2022/'23 is expected to be 3 million mt higher than the 10-year average.
- The strong increase in production has been pressuring domestic wheat prices, but the low carry-out of spring wheat in Canada and the US will prevent stocks from becoming burdensome. USDA and Stats Canada data indicate that spring wheat ending stocks in North America will be 5.1 million mt, a 1.8 million mt increase from last year, but still below average by 146k mt.

Developments in Wheat Demand:

It was a slow week for wheat trade. Grain (corn) moving out of Ukraine pressured markets, but there has not yet been any talk of Ukrainian wheat shipments.

➤ 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 on last week's market events in the major wheat origins.

Futures:

- September 2022 contract Chicago winter wheat closed at 775-6, down 6-6 cents on Friday, down 32-0 cents on the week.
- September 2022 contract Kansas hard red winter wheat closed at 848-2, down 12-0 cents in Friday's trade, down 26-2 cents on the week.
- September 2022 Minneapolis hard red spring wheat closed at 886-4, down 7-6 cents on Friday, down 19-4 cents on the week.
- Wheat futures prices this (Monday) morning are mixed from 5 cents lower to 3 cents higher.

CBOT Sept. 2022 Wheat (1 yr.)



KC Sept. 2022 Wheat

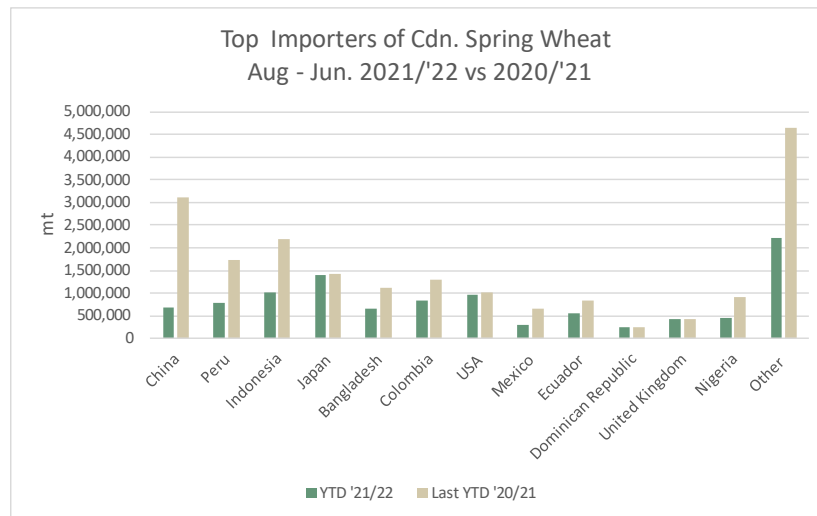


Minneapolis Sept. 2022 Wheat



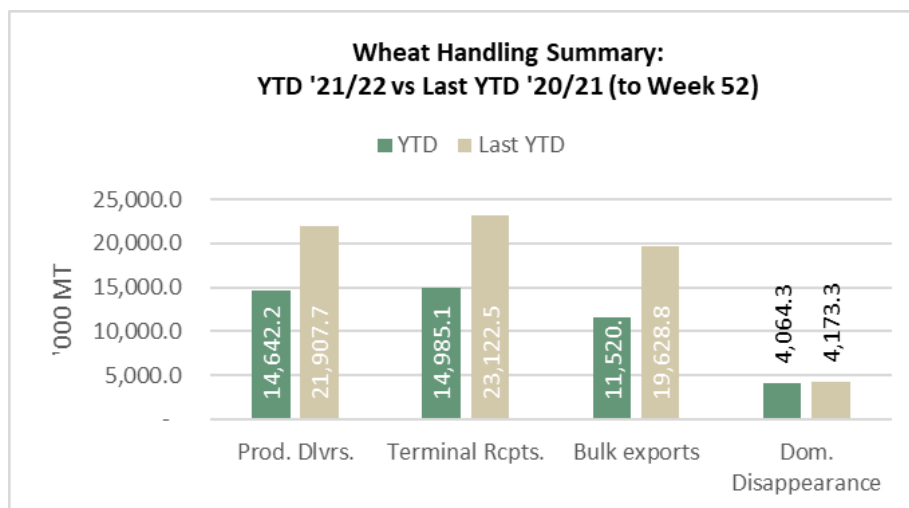
Canadian Wheat

- Spring wheat conditions in the Western Prairies remain favourable overall. Most of the growing regions in Manitoba are 80-95% Gd/Ex. One notable exception to this is the Interlake region where just 55% of the crop is Gd/Ex and 20% of the crop is in poor or very poor condition. There was no update for Saskatchewan's crop, but soil moisture remains strong. Alberta's crop was 80% Gd/Ex as of July 26th when they were forecasting a strong, 52 bushel per acre crop. Their next crop report is out on the 9th.
- Stats Canada says June exports of Canadian wheat were 807k mt for an August to June total of 10.7 million mt, 56% (-8.5 million mt) of last year's amount. Japan has been the largest customer of Canadian wheat, importing a to-date total of 1.4 million mt which is 98% of their to-date amount last year. China has been the destination with the largest year-over-year decrease. Exports to China are down 78% from last year (-2.4 million mt) to 690k mt



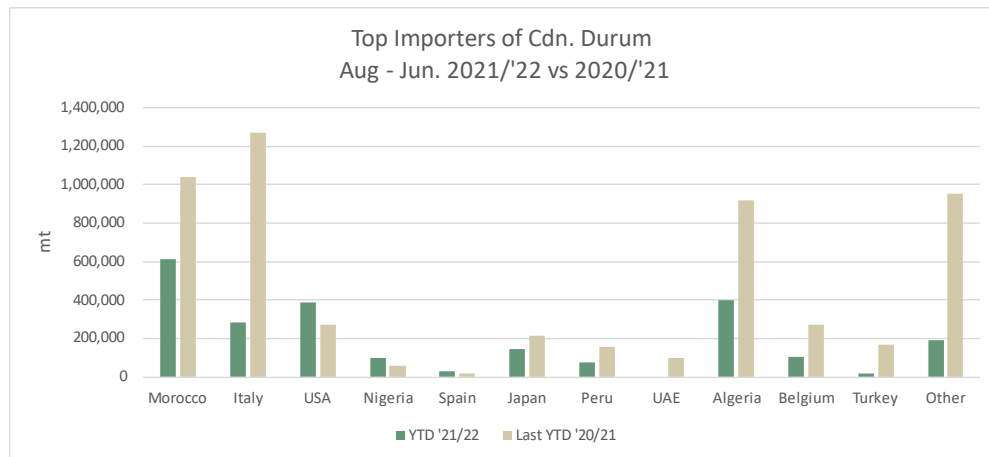
Source: CIMT

- According to the CGC, Canada exported 421k mt of wheat in the final shipping week of the season. Total exports for the crop year are 11.5 million mt which is 59% (-8.1 million mt) of last year's number. (Note: CGC data does not track some movement to the US and is usually ~900k mt less than Stats Canada's export number). Visible supplies have been shrinking, but there are still 1.8 million mt of wheat stocks in Canadian elevators and ports that will be exported/milled in the 2022/23 season.



Source: CGC

- According to Alberta Ag, **durum conditions** as of July 26th are 48% Gd/Ex as of July 26th. Some of our contacts in the province indicate that this number is likely too low.
- Stats Canada says that Canadian grain companies exported 192k mt of durum in June for an August-June total of 2.4 million mt, or 43% (-3.1 million mt) of last year's amount. Morocco remains the top customer this year, importing a to-date total of 613k mt.



Source: CIMT

- Canada exported 81k mt of durum in the final shipping week of the season for a total of 2.6 million mt. This is 200k mt more than Stats Canada's current number. This is somewhat surprising as CGC data does not always capture exports to the US well (something that was a much larger occurrence this year). A 2.6 million mt export number would give us a carry-out of 250k mt (using Stats Canada's numbers). Of course, this cannot be true as the CGC is reporting a commercial visible supply is 446k mt and we know that there are farmers who have not finished selling old-crop supplies as well.

(CGC) Grain Handling Summary Durum		Wk. 52	(July 31 '22)	
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Wk. 52	36.2	39.9	81.4	3.9
Week ago	2,602.1	92.5	60.7	13.3
YTD	6,163.7	3,053.5	2,633.3	474.3
Last YTD	5,786.9	7,284.5	6,061.7	530.4
YTD less Last YTD	376.8	-4,231.0	-3,428.4	-56.1
YTD over Last	107%	42%	43%	89%

- US conditions:** North Dakota's durum crop lost 3 points over the week to 84% Gd/Ex. Conditions in Montana, where durum harvest is 5% complete, improved slightly to 51%.

US Wheat:

- Spring wheat conditions in the US improved by 2 points from last week and are now 70% Gd/Ex. Condition indices are indicating a 47-48 bushel per acre yield for the US spring wheat crop which is in line with the USDA's 47 bpa number. Last week, we reported that the Wheat Quality Tour estimated yields at 49.1 bpa. Fifty percent of South Dakota's crop has been harvested and the quality has been strong.
- The weekly Commitment of Traders report showed the funds were extending their net short in Soft Red Wheat through the week ending August 2nd. Managed money opened 9,200 new shorts through the week and opened 4,700 new longs, for a net 14,970 contract short position as a group.

In Kansas City wheat, managed money firms were 9,992 contracts net long, compared to 11,041 last week. Spring wheat speculative traders were closing more longs than shorts through the week and flipped net short for the first time since 10/13 of 2020. Their net short was reported at 652 contracts. *Wheat markets look oversold.*

- Weekly US wheat sales were low at 250k mt creating a season total of 303 million bushels, down 2% from last year.
- US HRS and HRW are competitive on a FOB basis, but freight is making it too expensive to buy additional demand. US HRS for September '22 was valued at \$383.80/ mt FOB PNW (*down \$1.10/mt from last week*), FOB Gulf HRW 11/12.5 pro is valued at \$376.70/mt (*down \$2.30/mt from last week*).

Australian wheat:

- Crop conditions in Australia continue to look favourable which has pushed their futures prices to 4-month lows.

Argentine wheat:

- Argentina's wheat crop condition improved by 1% from last week but is still just 17% Gd/Ex. Rain helped slow the deterioration of the crop, but more will be needed. The crop will be heading in mid-August.
- September shipment 12% pro Argentine wheat was valued at ~\$390.00/mt (*unchanged from last week*).

China wheat:

- Rice crops in India, China and Vietnam have been struggling which will need to be watched as it could add to the demand side for wheat.

EU wheat:

- Farmer selling in the EU has been limited causing Matif wheat futures to rise €6/mt over the week along with higher premiums.
- The German farm association DBV has estimated that the country's winter wheat crop will be 1% higher than last year at 21.4 million mt. They mentioned that while some areas are in poor condition, other areas "were reasonable." National wheat yields are expected to be 4% higher than last year at 7.64 million mt.
- France experienced their hottest July since 1961. Hot and dry conditions in the EU's largest wheat-producing country has caused French consultancy, Agritel, to cut wheat forecasts to 33.4 million mt, down 5.6% from last year.
- FOB prices in the EU: September 2022 French 11.5 pro wheat closed at \$355.10/mt (*up \$0.70/mt from last week*); September 2022 German 12.5 pro wheat closed at \$379.00/mt, (*down \$1.30/mt from last week*).

Black Sea wheat:

- The first shipment of **Ukrainian** grain (likely corn) made it safely to Turkey for inspection. Another 3 ships carrying corn and other feedstuffs reportedly left Ukraine over the weekend. The UN is hoping that these will be followed by an inbound vessel which has been authorized to load in Ukraine. This would be the first bulk vessel to sail to Ukraine since February 24th. These developments are a very slow start to the Ukrainian Transport Minister's very optimistic hopes of 100 vessels of grain loaded per month.
- There has been no movement of Ukrainian wheat. A significant portion of which is sitting in Russian-occupied regions and its fate remains uncertain.
- Prices offered to Ukrainian farmers are still well below the cost of production. This, combined with low soil moisture levels and an unfavourable forecast, is limiting the incentive for Ukraine's farmers to plant the next crop.

- **Russian** wheat prices fell \$15/mt over the week to \$345/mt. Under normal circumstances, Russian wheat would be taking all the demand at these levels, but importers have been reluctant to risk buying Russian grain. Russian exports are well below the USDA's projected export pace, but the recent progress in the Black Sea will likely keep the USDA from making major changes in the upcoming report.

➤ **Significant purchases/ trades:**

There was some trade early in the week.

- **Iran** bought 240,000 mt of September/October wheat from Russia at \$439.00/mt.
- **Algeria** reportedly bought a reported 660,000 mt from 7 different sellers at around \$384/mt for 21 September - 31 October.
- **Jordan** bought 60,000 mt wheat for FH January at \$404/mt.
- **USA** export sales of 250,000 mt were considered low.

➤ **Wheat Market Outlook:**

Significant events over the past week:

- **The first Ukrainian grain vessel** to leave the Black Sea since Russia's invasion of Ukraine in February passed through the Bosphorus straight on August 3 carrying 27,000 MT of corn bound for Lebanon. The Associated Press reported on August 5 that three more ships carrying corn left Ukrainian ports. The United Nations (U.N.) and Turkey brokered a deal between Ukraine and Russia to allow Ukrainian grain vessels to resume shipment last month. Each ship that sails is jointly inspected by Ukrainian, Turkish, U.N., and Russian personnel at the Joint Coordination Center (JCC) near Istanbul. An unnamed Turkish official said that up to three vessels could set sail each day under the deal.
- **Low prices** offered to Ukraine's farmers, along with a poor weather outlook, are causing analysts to question how much crop is going to be planted in the fall.
- Though **hot, dry temperatures** prevailed in many areas, conditions varied across wheat-growing regions last week. Rain in the Texas Panhandle and northern Oklahoma eased drought conditions with above-normal temperatures continuing in the region. Colorado and western Kansas experienced heavy rain this week related to monsoon activity, making minor improvements to drought conditions.
- **Small rice crops** in India, China and Vietnam could add to the demand side of world wheat going forward.
- The trade is starting to believe that **the USDA's corn crop estimates** for the EU, Argentina and the US are too large.

Outlook:

Mercantile doesn't expect much change in futures. However, the markets are both thin and volatile on small trade. Demand is lower due to financials, a constraint which makes the next WASDE report very important. There could be some big changes in both supply and demand in Friday's USDA report along with shrinking corn crops in the EU, Argentina and the US which would be supportive to wheat.

iii) Primary Elevator Price Tables and Grade Spreads

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

					Date:	08/08/2022
NW Sask	Spot		NW Sask	Deferred		
	(bu.)	(mt)		Oct '22 (bu.)	Oct '22 (mt.)	
1 CWRS 13.5	\$10.50	\$385.81	1 CWRS 13.5	\$10.39	\$381.77	
1 CWAD 13.0	\$11.79	\$13.52	1 CWAD 13.0	\$11.78	\$432.84	
1 CPSR 11.5	\$9.48	\$348.33	1 CPSR 11.5	\$9.72	\$357.15	
SW Sask			SW Sask			
1 CWRS 13.5	\$10.31	\$378.83	1 CWRS 13.5	\$10.17	\$373.69	
1 CWAD 13.0	\$11.83	\$434.68	1 CWAD 13.0	\$11.83	\$434.68	
1 CPSR 11.5	\$9.39	\$345.03	1 CPSR 11.5	\$9.57	\$351.64	
NE Sask			NE Sask			
1 CWRS 13.5	\$10.21	\$375.16	1 CWRS 13.5	\$10.11	\$371.48	
1 CWAD 13.0	\$12.14	\$446.07	1 CWAD 13.0	\$12.16	\$446.81	
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a	
SE Sask			SE Sask			
1 CWRS 13.5	\$10.26	\$376.99	1 CWRS 13.5	\$10.08	\$370.38	
1 CWAD 13.0	\$12.01	\$441.30	1 CWAD 13.0	\$12.05	\$442.77	
1 CPSR 11.5	\$9.39	\$345.03	1 CPSR 11.5	\$9.43	\$346.50	

Data source: PDQ, Aug. 8/22

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	0.01	0.37
2 CWAD 13.5	(0.09)	(3.31)
2 CWAD 12.5	(0.11)	(4.04)

Data source: PDQ, Aug. 8/22

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 Northwest (PNW) ≈ 1 CWRS 13.5% in Vancouver
 - HRS in the Pacific Northwest (PNW) ≈ 2 CWRS 13.0% in Vancouver
 - HRW in the Pacific Northwest (PNW) ≈ 3 CWRS in Vancouver
 - SW (lowest price wheat) ≈ CPS red (mostly fed domestically)
 - HAD (Lakes) ≈ CWAD (Thunder Bay/ Lawrence)
 - 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.

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.”

- 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				August 8, 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	\$458.83	\$856.66		
HRS	\$453.05			
HRW 11.5	\$456.94			
SWW 12.0	\$431.89			
1 CWRS 13.5 ³	\$458.83		\$365.24	\$93.59
2 CWRS 13.0 ³	\$453.05		\$350.54	\$102.51
3 CWRS ³	\$456.94		\$336.21	\$120.73
CPS ³	\$425.28		\$358.25	\$67.02
1 CWAD ⁴		\$519.93	\$434.68	\$233.95
Competing wheat:				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$345.00		September	
French 11.5 (Rouen)	\$355.10		September	
APW 10.5 (W Coast)	\$370.00		December	
Argentine 12.5	\$390.00		September	

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