

Wheat Market Outlook and Price Report: August 22, 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 August 22, 2022

The International Grains Council August Grain Market Report:

WHEAT					
Production	761	774	781	770	778
Trade	185	190	197	194	193
Consumption	745	771	780	780	783
Carryover stocks	275	279	280	272	275
year/year change	16	4	1		-5
Major exporters ^{b)}	62	60	64	60	61

Source: ICG

- The International Grains Council (ICG) released its August global supply and demand estimates last week. They indicated an “overall tighter supply outlook” for global grains. Global grain production was reduced by 4 million mt from July. The two major revisions were a 10 million mt decrease in global corn production that was partially offset by an 8 million mt increase in wheat production. Global grain production is now forecast to be 2,248 million mt, down 43 million mt from last year’s record 2,291 million mt.
- Global wheat production was put to 778 million mt (vs USDA’s 780 million mt), while global consumption was raised by 3 million mt to 783 million mt.
- Larger increases in production over consumption caused the ICG to raise global wheat ending stocks by 3 million mt from July to 275 million mt. This is the smallest ending stock number since the 2019/20 crop year.

Developments in Wheat Demand:

Wheat markets were lower last week due to improved Black Sea exports, a larger crop in India (which is untrue), and harvest pressure.

➤ **Global wheat production and trade:**

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

Futures:

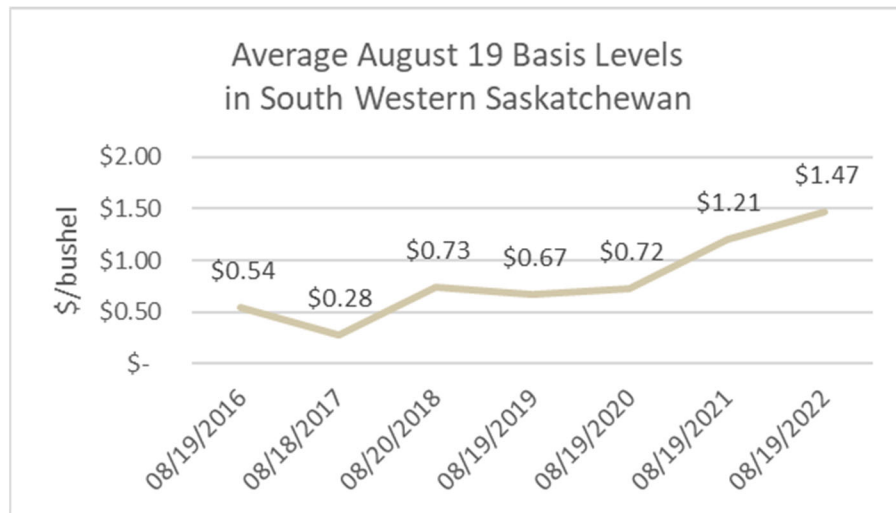
- September 2022 contract Chicago winter wheat closed at 753-2, up 21-6 cents on Friday, down 52-6 cents on the week.
- September 2022 contract Kansas hard red winter wheat closed at 844-6, up 32-2 cents in Friday's trade, down 44-4 cents on the week.
- September 2022 Minneapolis hard red spring wheat closed at 874-6, up 22-0 cents on Friday, down 44-6 cents on the week.
- This Monday morning, wheat is currently trading 10 to 15 cents higher.

CBOT Sept. 2022 Wheat (1 yr.) Kansas City Sept. 2022 Wheat Minneapolis Sept. 2022 Wheat



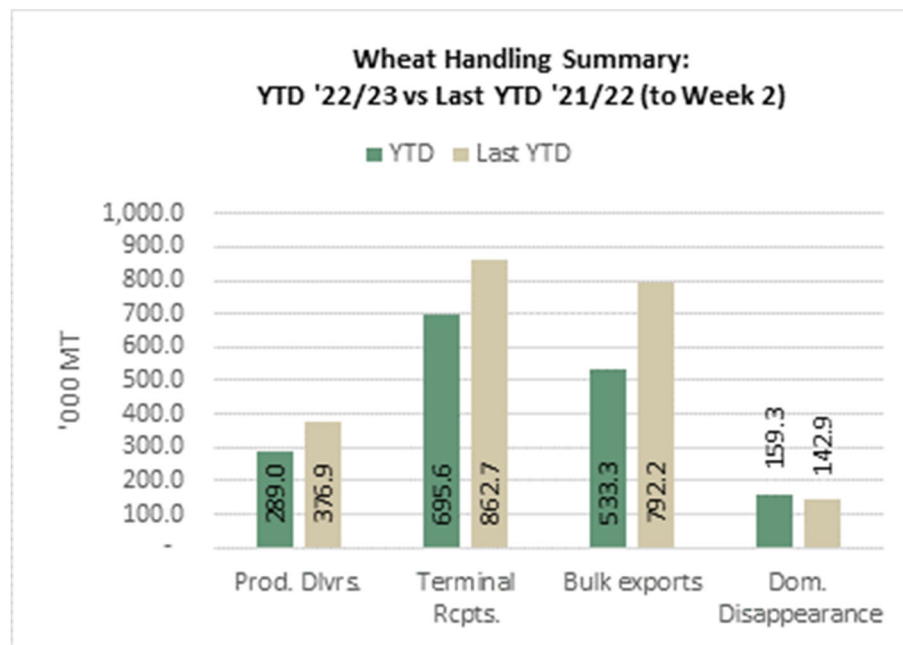
Canadian Wheat

- Spring wheat harvest is just getting going across the Western Prairies (1% complete in Saskatchewan).
- Winter wheat and fall rye harvest is almost done in Manitoba. Rye yields have been average (75-85 bpa) which is lower than most expected. Winter wheat yields have been low at 60-75 bushels per acre.
- Basis levels in the Northern States and Canada are relatively strong as we enter harvest time. This is largely a function of the late harvest. It could also mean there is decent demand as basis levels in the US are strong despite harvest progress. *Mercantile is concerned about rail performance this year. Coal prices have soared since the Russian invasion of Ukraine, and rail companies seem to enjoy moving coal more than grain. There is concern that they plan to favour coal movement over grain.*



Data Source: PDQ

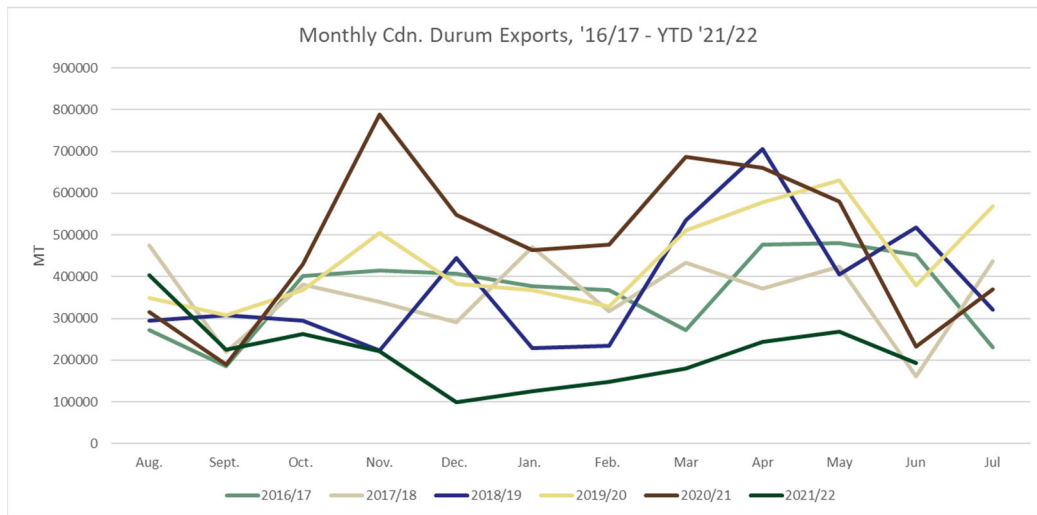
- Producers delivered another 169.3k mt of grain into the Canadian system, and there were 298.4k mt of exports during shipping week two. Visible supplies fell slightly to 1.76 million mt, which is still high as we head into a large harvest.



Data Source: CGC

- The large crop in Western Canada means that there will be a lot of demand for allocation at the elevator. Mercantile worries that rail service could be inadequate due to large coal shipments this fall. It would not hurt to start having conversations with your elevator managers about when you expect to be harvesting and when you will need to haul (as per your contracts).**
- Durum** harvest has started in Alberta and is 8% done in Saskatchewan.

- The Argus crop tour lowered their average durum yield guess slightly to 39.5 bushels per acre. We have not heard any harvested yields yet, but we have heard that lentil yields in some of the durum-producing areas of Saskatchewan and Alberta have been lower than expected.
- Canada shipped 59k mt of durum in shipping week two. Durum exports tend to be low in August-September and start to grow in October-November.



US Wheat:

- Winter wheat harvest in the US is 90% complete. Progress has slowed as harvest moves further north.
- Spring wheat conditions in the US were unchanged at 64% Gd/Ex. Harvest progress rose 7% from last week to 16% complete.
- The US durum crop is 19% harvested in Montana and 10% harvested in North Dakota. Yields in Montana continue to be poor. Yields are much better in North Dakota.
- US weekly export sales were 207k mt for a season total of 323 million bushels, down 2% from last year.
- US HRS for September 2022 was valued at \$372.10/ mt FOB PNW (*down \$17.90/mt from last week*), FOB Gulf HRW 11/12.5 pro is valued at \$361.00/mt (*down \$22.20/mt from last week*).

Australian wheat:

- Futures prices in Australia fell AU\$27 last week to pre-war levels.

Argentine wheat:

- BAGE says 70% of Argentina's wheat crop has adequate moisture. There was no update in crop ratings, but they were 18% Gd/Ex last week vs 47% Gd/Ex last year.
- Wheat harvest in Argentina will begin in November.
- Upwards of 90% inflation and a deteriorating peso is causing Argentina's farmers to be reluctant sellers. The government is meeting with farmers to try to convince them to sell grain. Farm groups are proposing tax concessions in return.

India wheat:

- The Indian government raised their wheat crop number by 400k mt to 106.8 million mt (vs the USDA's 99 million mt). This number is clearly wrong. Most think it is a political attempt to temper record-high domestic wheat prices. So far, the government's wheat procurement program has only sourced 57% of the wheat it did this time last year.
- Harvest in India ended in June, and there has not yet been talk of lifting the current ban on wheat exports. The UDSA still has India exporting 6.5 million mt. In reality, net exports will be close to zero.

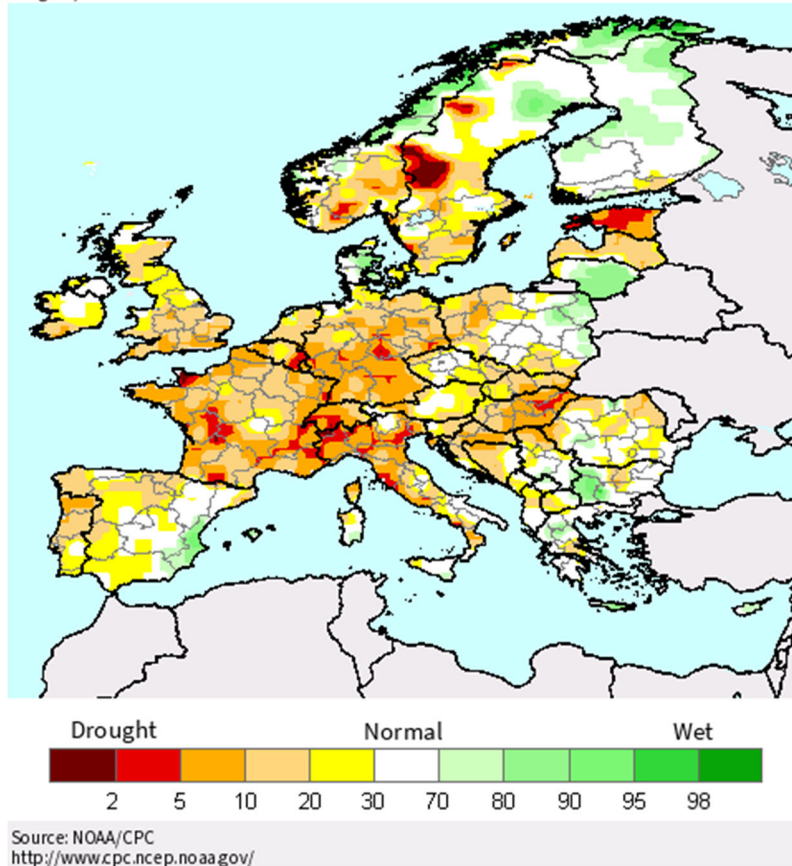
China wheat:

- China has issued its first national drought alert for the year as temperatures have scorched the Yangtze river basin. This area is their central region for rice and canola production.

EU wheat:

- Europe is almost completely dry and will remain that way for at least another two weeks. Moisture will be needed for seeding, which usually starts in September.

CPC Calculated Soil Moisture Ranking Percentile
Aug.15, 2022



- The EU export pace is 30% ahead of last year compared to the USDA's forecasted 5% increase.

- The deteriorating corn crop in the EU will cause them to increase wheat feeding and corn imports. The condition of the French corn crop fell to 50% Gd/Ex last week.
- Dry conditions caused Bulgaria's wheat crop to be 11% less than last year's record crop at 6.3 million mt.
- The drought in the EU impacted their durum yields. Strategie Grains put EU durum production at 6.9 million mt. This is now 11% (800k mt) less than last year. We expect the EU to be a strong customer of Canadian durum this year.
- FOB prices in the EU: September 2022 French 11.5 pro wheat closed at \$325.90/mt (*down \$30.30/mt from last week*); September 2022 German 12.5 pro wheat closed at \$337.30/mt (*down \$41.90/mt from last week*).

Black Sea wheat:

- Grain is leaving Ukraine from three different ports. So far, they have only shipped 41k mt of wheat. They need to do one million mt/month to meet the USDA's 11 million mt number.
- Ukraine's FOB price is low, but this is necessary as freight and insurance costs are high.
- Russian production potential continues to be exceptional. Some are putting estimates in the triple digits compared to the Russian AgMin's 90.5-95.0 million mt number. The Russian export pace is on track to be 30-32 million mt compared to the USDA's 42 million mt number.

➤ **Significant purchases/ trades:**

- We did not hear of any new business as high freight costs and premiums are keeping buyers reluctant and cautious.
- The tender that was expected for **Iraq** was cancelled.
- Weekly **US** wheat sales were 207k mt, below trade expectations of 250k-650,000 mt. Total sales to date are 8.8 million mt vs the USDA's total wheat export number of 22.45 million mt.

➤ **Wheat Market Outlook:**

Significant events over the past week:

- **Ukraine is shipping grain out of three of its seaports.** So far, 25 ships carrying 630k mt of grain have set sail since August 1st. As of Friday, 10 additional vessels were being loaded. Total grain exports from Ukraine are 3.0 million mt, down 52% from last year. Ukraine's government says they can export 3 million mt of grain in September and 4 million mt in October. This would be 15 ships per day, but it might be difficult to find that many ships willing to go to Ukraine.
- FranceAgriMer **reduced their rating of the French corn crop** to 50% Gd/Ex.
- **Weather conditions in China** look very poor for corn production and there is a severe drought in their canola and rice-producing areas.
- Weekly data revealed Chicago **wheat spec traders** reduced their net short by 2,241 contracts to 18,107 through the week ending September 16th. Spring wheat spec traders decreased their net short by 258 contracts to 757 by covering a few shorts through the week.

Outlook:

Wheat is currently under pressure from a lack of buyers and harvest pressure. After harvest, expect prices to improve as cash interest improves and crop damage (especially in corn) becomes more evident. *It is not recommended to extend sales for now.*

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: 22/08/2022

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Oct '22 (bu.)	Oct '22 (mt.)
1 CWRS 13.5	\$10.49	\$385.44	1 CWRS 13.5	\$10.42	\$382.87
1 CWAD 13.0	\$11.43	\$419.98	1 CWAD 13.0	\$11.48	\$421.82
1 CPSR 11.5	\$9.60	\$352.74	1 CPSR 11.5	\$9.57	\$351.64
SW Sask			SW Sask		
1 CWRS 13.5	\$10.22	\$375.52	1 CWRS 13.5	\$10.19	\$374.42
1 CWAD 13.0	\$11.41	\$419.25	1 CWAD 13.0	\$11.48	\$421.82
1 CPSR 11.5	\$9.46	\$347.60	1 CPSR 11.5	\$9.42	\$346.13
NE Sask			NE Sask		
1 CWRS 13.5	\$10.18	\$374.05	1 CWRS 13.5	\$10.13	\$372.22
1 CWAD 13.0	\$11.46	\$421.09	1 CWAD 13.0	\$44.59	\$1,638.41
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a
SE Sask			SE Sask		
1 CWRS 13.5	\$10.04	\$368.91	1 CWRS 13.5	\$10.05	\$369.28
1 CWAD 13.0	\$11.39	\$418.51	1 CWAD 13.0	\$11.59	\$425.86
1 CPSR 11.5	\$9.40	\$345.39	1 CPSR 11.5	\$9.34	\$343.19

Data source: PDQ, Aug. 22/22

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. 15/22

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)
 - 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:

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.”

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 22, 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	\$465.08	\$856.66		
HRS	\$459.17			
HRW 11.5	\$470.84			
SWW 12.0	\$404.67			
1 CWRS 13.5 ³	\$465.08		\$388.38	\$76.70
2 CWRS 13.0 ³	\$459.17		\$373.69	\$85.48
3 CWRS ³	\$470.84		\$342.45	\$128.38
CPS ³	\$397.96		\$369.64	\$28.31
1 CWAD ⁴		\$519.93	\$422.56	\$255.89
Competing wheat:				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$340.00		September	
French 11.5 (Rouen)	\$325.90		September	
APW 10.5 (W Coast)	\$365.00		December	
Argentine 12.5	\$335.00		December	

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