

Wheat Market Outlook and Price Report: February 14, 2022

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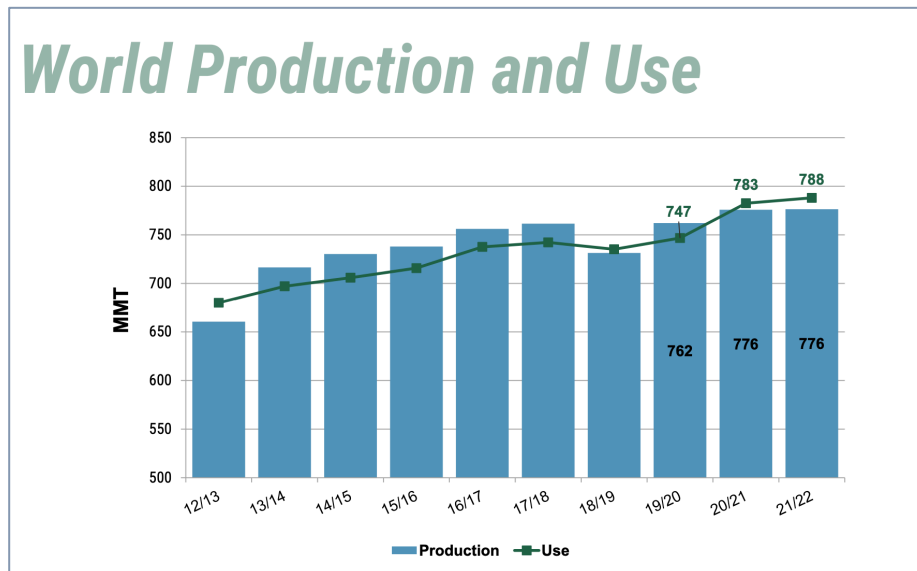
i) Background and Rationale for the Report

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 February 14, 2022

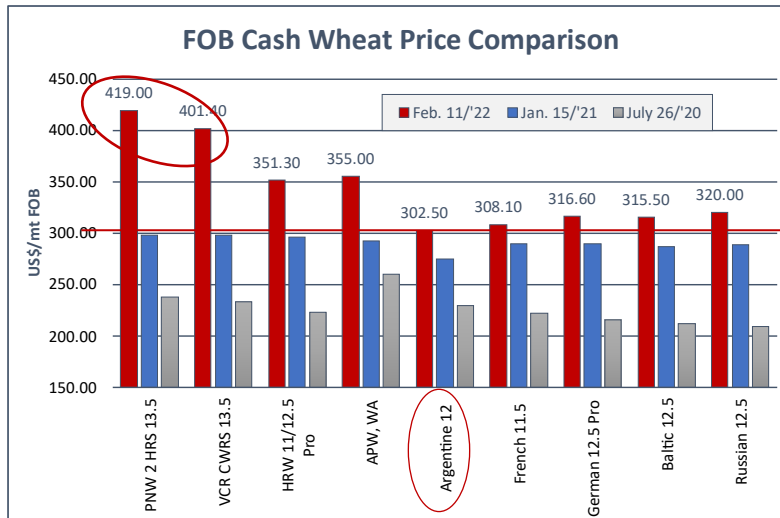
February 9 USDA-WASDE report on wheat:



- In last week's WASDE report, the USDA lowered its estimate for **2021/22 global wheat production** by 2.2 million mt from last month to 776.4 million mt.
- The estimate for **global wheat consumption** was increased by 610k mt to 788.1 million mt.
- **2021/22 world trade of wheat** was increased by 2.3 million mt from last month to 206.7 million mt,
- In turn, USDA lowered **global wheat ending stocks** by 1.7 million mt from last month to 278.2 million mt (290 million mt in '20/21).

Recent Developments in Wheat Demand:

World wheat trade: In last week's USDA report, exports from Argentina were increased by 500k mt to 14 million mt, 11% above the 5-year average. Ukrainian exports were reduced by 200k mt compared to January to 24 million mt, 42% more than 2020/21. Importantly, U.S. 2021/22 exports are expected to fall 400k mt from last month to 22 million mt.



➤ **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:**
- March 2021 contract **Chicago winter wheat** closed at 797-6, up 26-2 cents on Friday, *up 34-4 cents on the week.*
- March 2021 contract **Kansas hard red winter wheat** closed at 824-2, up 23-2 cents on Friday's trade, *up 38-4 cents on the week.*
- March 2021 **Minneapolis hard red spring wheat** closed at 961-4, up 19-2 cents on Friday, *up 48-4 cents on the week.*
- This Monday morning wheat markets are down by currently 5-8c/bu.

CBOT March 2022 Wheat (1 yr.)



KC March '22 Wheat

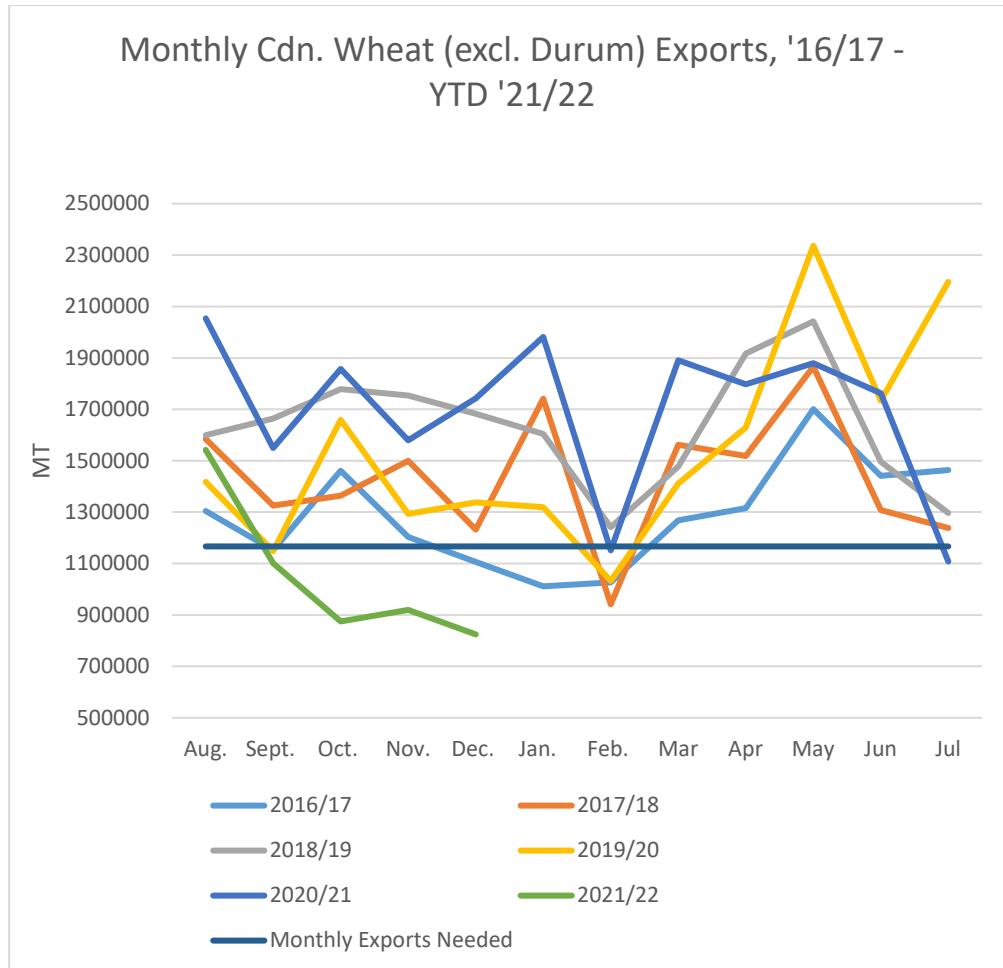


Minneapolis March '22 Wheat

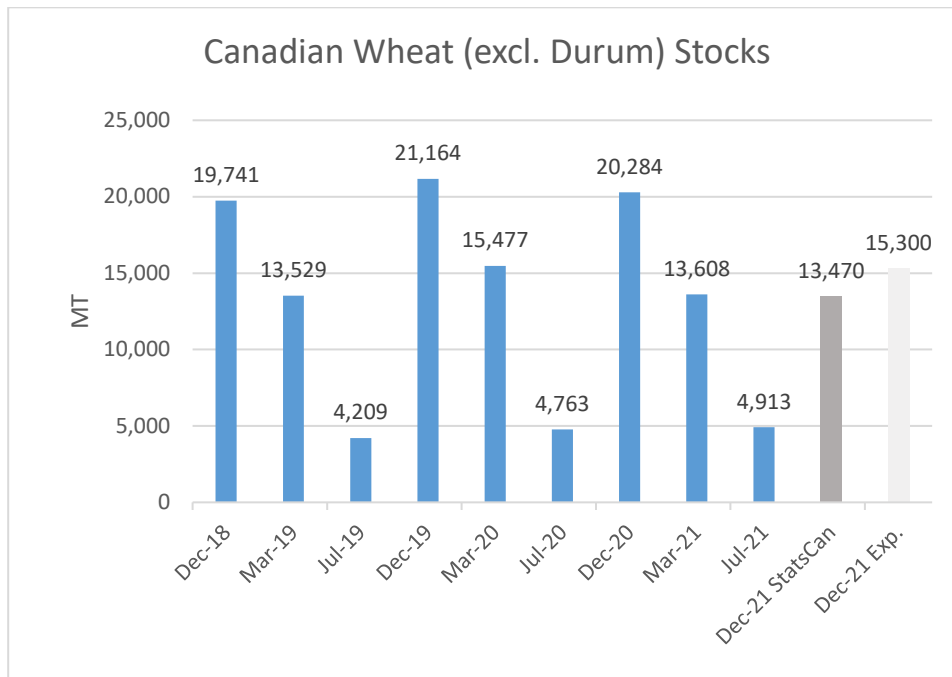


Canadian Wheat:

- Canadian December exports:** StatsCan (STC) reported that Canada exported 824k mt of non-durum wheat during the month of December. August-December exports are now 5.3 million mt, down 40% (-3.5 million mt) from last year. Exports to all major destinations are down, with the largest decrease being China who has imported just 24% (-1.0 million mt) of last year's amount. We are concerned about the rate of Canadian exports. We have been shipping significantly less than the amount needed (dashed line) to reach AAFC's 14.0 million mt export number.



- STC stock numbers:** The largest surprise in Stats Canada's stock numbers was in wheat. Wheat stocks were put at 15.6 million mt, 1.7 million mt below expectations and 38% (9.4 million mt) less than last year. Wheat excluding durum stocks were 13.5 million mt (down 34% y/y) compared to trade's 15.3 million mt expectations. – STC's December 31 stocks of just 15.5 million mt added support to Minneapolis wheat.

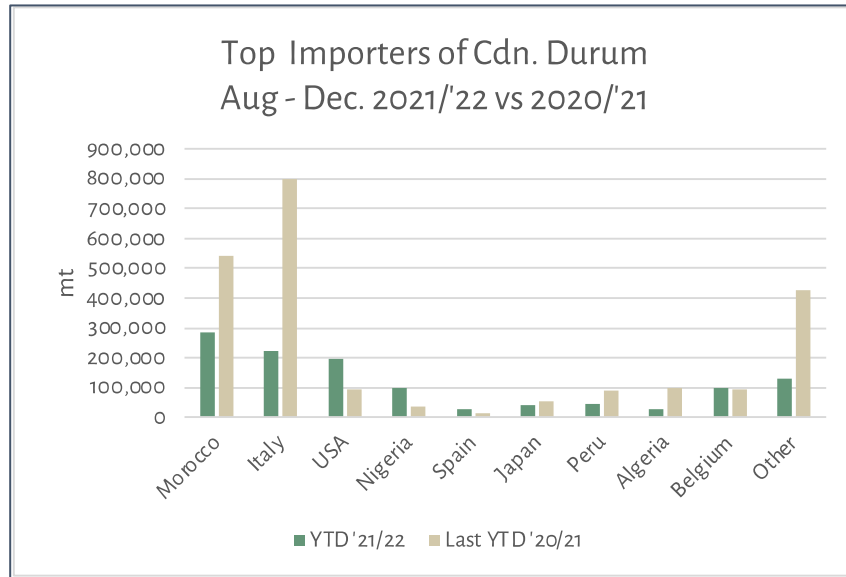


- The **USDA** reduced HRS domestic use by 1 million bushels last week. No other changes resulted in a 1 million bushel increase to ending stocks.
- Canadian **shipping week 27 exports** were 240k mt for a season total of 6.1 million mt, down 43% (-4.5 million mt) from last year. Weekly exports needed to meet AAFC's projection are 317k mt. Movement will pick up in the second half of the marketing year, but we are becoming increasingly skeptical that this will happen.

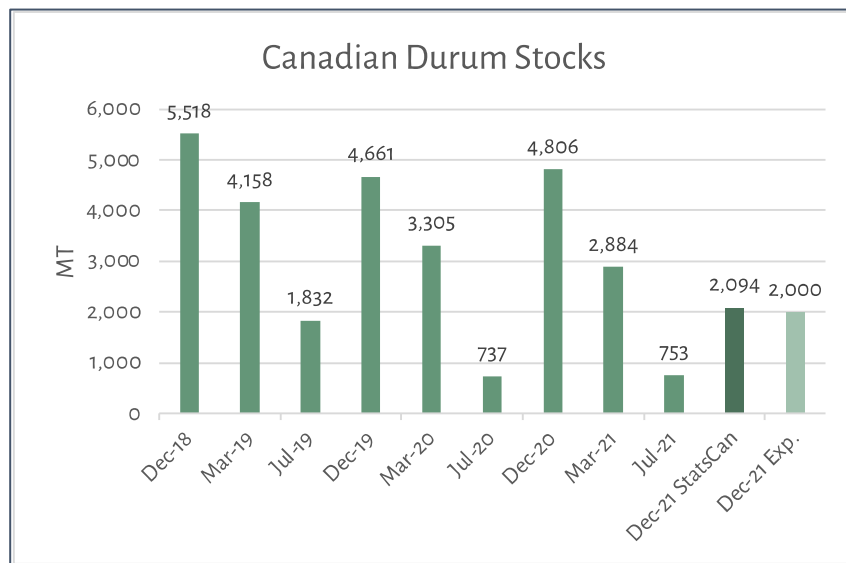
(CGC) Grain Handling Summary Wheat		Wk. 27		(February 6/'21)
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Wk. 26	399.7	262.2	238.2	50.7
Week ago	266.8	192.6	104.6	29.8
YTD	8,097.1	7,797.3	5,825.9	2,173.4
Last YTD	11,307.6	11,917.8	10,084.4	2,249.6
YTD less Last YTD	-3,210.5	-4,120.5	-4,258.5	-76.2
YTD over Last YTD	72%	65%	58%	97%

- *Wheat markets are going to depend on the situation in Ukraine. What happens there will lead the wheat market to shoot higher or lower. We are 80% sold old crop and 20% sold new crop at \$10.50 or better.*

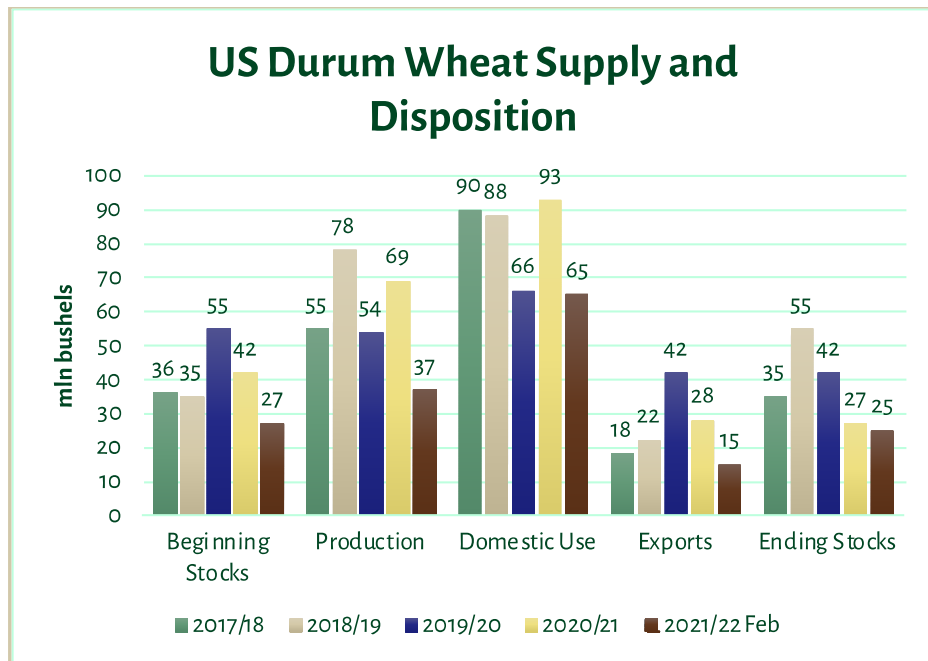
- Durum: Canadian December exports:** According to Stats Canada, Canadian durum exports during December were 99.8k mt for an August-December total of 1.2 million mt, just over half of last year's amount. Italy was the top buyer, importing 27.5k mt of Canadian durum. Exports to all major importers are down from last year with a notable exception being the US who has imported more than two times (+100k mt) last year's volume.



- STC stock numbers:** StatsCan put Canadian December durum stocks right at expectations at 2.1 million mt, 56% less than last year.



- The USDA decreased domestic use by 3 million bushels. Everything else was held constant for a 3 million bushel increase in ending stocks. US ending stocks are thus forecast to fall by just 7% from last year.
- French durum planted area is expected to be down 2.5% from last year to 277k ha.



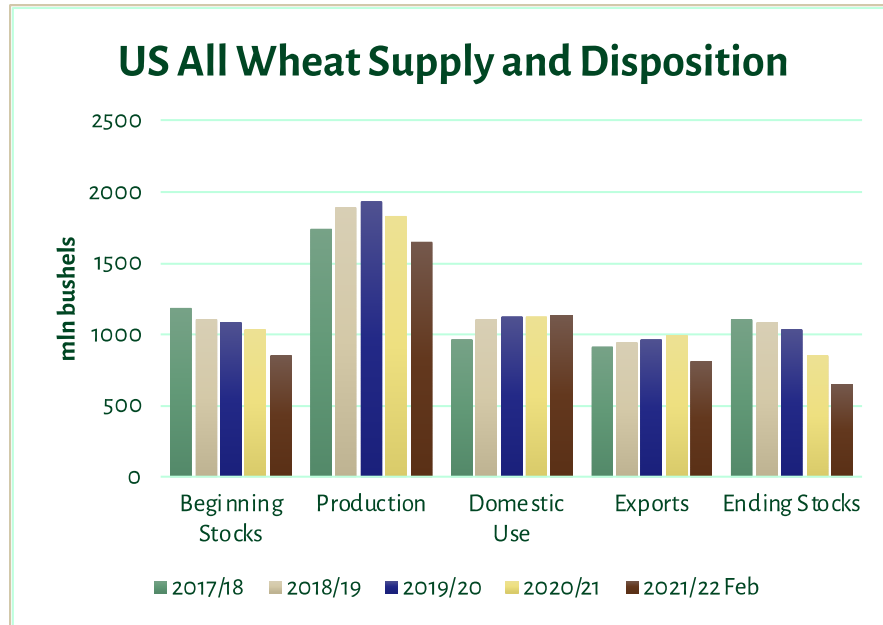
- Week 27 durum exports were 42.5k mt for a seasonal total of 1.3 million mt, down 56% (-1.7) from last year. We continue to export the minimum weekly amount needed to reach the AAFC's 2.3 million mt number.

(CGC) Grain Handling Summary Durum	Wk. 27	(February 6/'21)			
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance	
Wk. 27	26.2	55.0	42.5	7.7	
Week ago	47.8	31.8	46.3	5.1	
YTD	1,660.1	2,006.5	1,342.7	253.5	
Last YTD	3,386.6	3,871.5	3,045.6	292.2	
YTD less Last YTD	-1,726.5	-1,865.0	-1,702.9	-38.7	
YTD over Last YTD	49%	52%	44%	87%	

- *We are sold out of most old crop stocks. Low stocks mean that prices will remain volatile. The sales window is shrinking as new crop durum will be available in the next 5 weeks. We also recommend selling some new crop. New crop should be sold for \$13 or better for a #3 CWAD. Note: Some buyers are 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.*

US Wheat:

- The USDA was forced to reduce US wheat exports by an additional 15 million bushels to 810 million bushels. In addition to this was a 5 million bushel reduction in domestic use for a 20 million bushel increase in ending stocks to 648 million bushels.
- US wheat export sales were small again at 85k mt (3.1 million bushels). Total commitments are now 637 million bushels, now 25% behind last year compared to the USDA's projected 18% decline. Wheat sales from now until May need to average 5.2 million bushels per week to reach the USDA's number.



- Exports have been terrible in the US and Canada, which will only serve to increase North American ending stocks. On the other hand, record low '21/22 stock-use ratios and the need for more acres and near perfect weather to replenish world stocks will keep support under wheat. The Ukrainian situation still is a wild card.
- US HRS for March 2022 is valued at \$419.00/ mt FOB PNW (up \$19/mt from last week), FOB Gulf HRW 11/12.5 pro is valued at \$351.30/mt (up \$8.10/mt from last week).

Australian wheat:

- Australian FOB wheat was quiet, no action here.
- Australian new crop FOB APW wheat for March 2022 was quoted at \$355.00/mt, unchanged over the past two weeks.

Argentine wheat:

- Argentine FOB values were little changed. March shipment Argentine 12% pro wheat was valued at ~\$300-305/mt FOB, unchanged over the past two weeks.

EU wheat:

- In Europe, Matif wheat traded in a wide range of over €7/mt (Canadian \$10/mt), before ending down €1-2/mt. Nearby March did hold at the 4-month lows set last week and this level will be crucial as a break below could signal further falls to around €250/mt (Canadian \$360/mt).

- The rally seemed to have been prompted by a renewed surge in Russian-Ukrainian tensions as Russian vessel and submarine movements in the Black Sea caused fresh confusion for the wheat market.
- But the market remains in a state of flux with the EU having no way of knowing just how much additional export demand might find its way into their balance sheet, should there be outright fighting the Black Sea.
- Fob prices in the EU: March 2022 French 11.5 pro closed at \$308.10/mt, down \$1.90/mt from last week. March German 12.5 pro wheat closed at \$316.60, down \$3.10/mt. March Baltic 12.5 pro wheat was at \$315.50/mt, down \$4.50/mt.

Black Sea wheat:

- The **geo-political issues in the Black Sea** have only sharpened: There are Russian vessel and submarine movements in the Black Sea for 'naval and missile drills' using live ammunition, along with additional Russian maneuvers in Belorussia. Ukraine accused Russia of blockading its ports, Russia replied it was only for a few days, that the operations were in line with legal norms, and that commercial traffic would not be affected. There is no way of telling where this is leading.
- Following the meeting between Vladimir Putin and China's Xi Jinping last week at the Olympics, China is said to be opening its border to Russian wheat and barley. It is hard to say what this will do to Canadian barley and wheat exports to China, but a rapprochement between Russia and China (if lasting) is not good for North American exports in general. We know that China has been on trend to diversify imports over the past couple of years.
- We estimate Russian March 2022 12.5 pro wheat value at ~\$320.00/mt, down \$5/mt from last week.

➤ **Significant purchases/ trades:**

- We did not hear of any significant wheat trades.
- US weekly export sales were again poor at just 85,000 tonnes, leaving the season total of 638 myn bushels down 25% on last year.

➤ **Wheat Market Outlook:**

Significant events:

- **Friday's rally** seemed to have been prompted by a renewed surge in Russian-Ukrainian tensions as Russian vessel and submarine movements in the Black Sea caused fresh confusion for the wheat market.
- The **Russia/Ukraine dispute** remains a factor in wheat pricing as does the lack of snow cover in Eastern Europe.
- Russia-China meeting: A **rapprochement between Russia and China** (if lasting) is not good for North American exports in general.
- Basically, the **market remains in a state of flux** with the EU having no way of knowing just how much additional export demand might find its way into their balance sheet, should there be outright fighting the Black Sea.
- STC put **Canadian wheat stocks** at 15.6 million mt, 1.7 million mt below expectations and 38% (9.4 million mt) less than last year. Wheat excluding durum stocks were 13.5 million mt (down 34% y/y) compared to trade's 15.3 million mt expectations.

Outlook:

The world grain and oilseed markets have become very volatile due to a mix of massive crop losses in South America and the geo-political issues in the Black Sea. And the Russia/Ukraine dispute remains a factor in wheat pricing as does the lack of snow cover in Eastern Europe. We would hold additional 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: 14-02-2022					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		May '22 (bu.)	May '22 (mt)
1 CWRS 13.5	\$12.14	\$446.07	1 CWRS 13.5	\$12.20	\$448.28
1 CWAD 13.0	\$15.68	\$576.15	1 CWAD 13.0	\$15.30	\$562.18
1 CPSR 11.5	\$11.12	\$408.59	1 CPSR 11.5	\$11.27	\$414.10
SW Sask			SW Sask		
1 CWRS 13.5	\$11.99	\$440.56	1 CWRS 13.5	\$12.05	\$442.77
1 CWAD 13.0	\$15.66	\$575.41	1 CWAD 13.0	\$15.32	\$562.92
1 CPSR 11.5	\$10.91	\$400.88	1 CPSR 11.5	\$11.20	\$411.53
NE Sask			NE Sask		
1 CWRS 13.5	\$11.82	\$434.31	1 CWRS 13.5	\$11.88	\$436.52
1 CWAD 13.0	\$15.86	\$582.76	1 CWAD 13.0	n/a	
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	
SE Sask			SE Sask		
1 CWRS 13.5	\$11.76	\$432.11	1 CWRS 13.5	\$11.83	\$434.68
1 CWAD 13.0	\$15.72	\$577.62	1 CWAD 13.0	n/a	
1 CPSR 11.5	\$10.81	\$397.20	1 CPSR 11.5	\$10.96	\$402.71

Data source: PDQ, February. 14/22

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, February. 14/22

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 Cdn. FOB Prices minus primary elevator bids, the FOB prices are translated into Cdn. 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

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.”

- 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:
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				14-02-2022
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	\$505.44	\$814.51		
HRS	\$497.49			
HRW 11.5	\$482.06			
SWW 12.0	\$520.87			
1 CWRS 13.5 ³	\$505.44		\$439.83	\$65.62
2 CWRS 13.0 ³	\$497.49		\$434.31	\$63.18
3 CWRS ³	\$482.06		\$426.97	\$55.10
CPS ³	\$514.33		\$390.59	\$123.74
1 CWAD ⁴		\$807.96	\$551.16	\$256.80
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$320.00	March		
French 11.5 (Rouen)	\$308.10	March		
APW 10.5 (W Coast)	\$355.00	March		
Argentine 12.0	\$302.50	March		

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