

Wheat Market Outlook and Price Report: February 28, 2022
By Marlene Boersch/ A.P. Temple/ Michael Wilton
Mercantile Consulting Venture Inc.

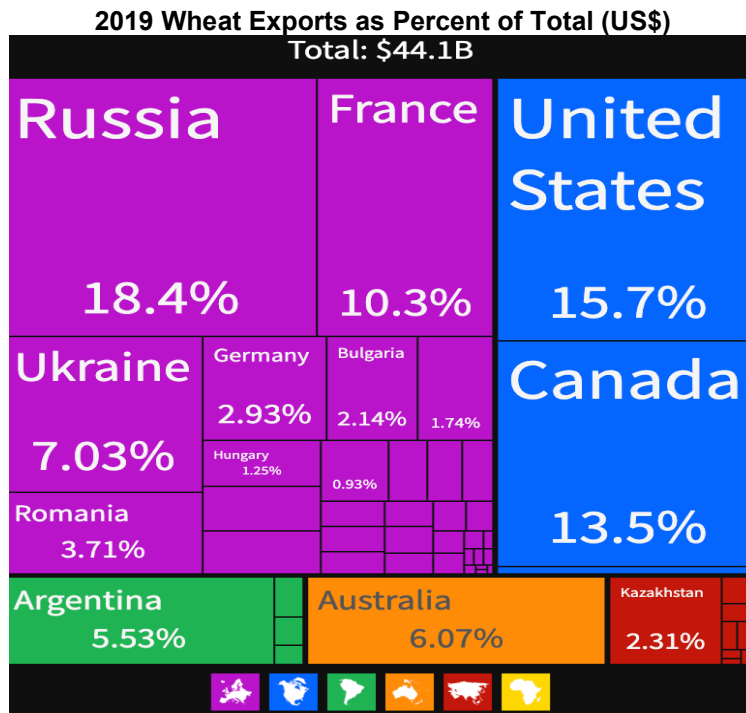
i) Background and Rationale for the Report

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 February 28, 2022

Importance of Russian & Ukrainian wheat exports to Global Wheat Trade:



SOURCE: Observatory of Economic Complexity, accessed Feb. 25/22

- Russian wheat accounts for more than 18% of international wheat exports.
- In 2019, Russia and Ukraine combined exported more than a quarter (25.4%) of the world's wheat.
- Russian wheat exports are particularly important to Egypt, Turkey, Bangladesh, Nigeria, Yemen, Azerbaijan, Sudan, the UAE.
- Ukrainian wheat exports are particularly important to Egypt, Turkey, Indonesia, Tunisia, the Philippines, Morocco, Thailand, South Korea.

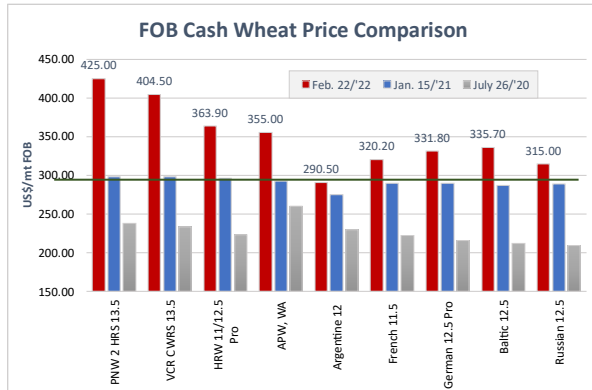
- These numbers put the events between Russia and Ukraine into sharp focus relative to global trade in wheat.
- President Putin 'could be' in control of ~25% of wheat exports next crop year.

Recent Developments in Wheat Demand:

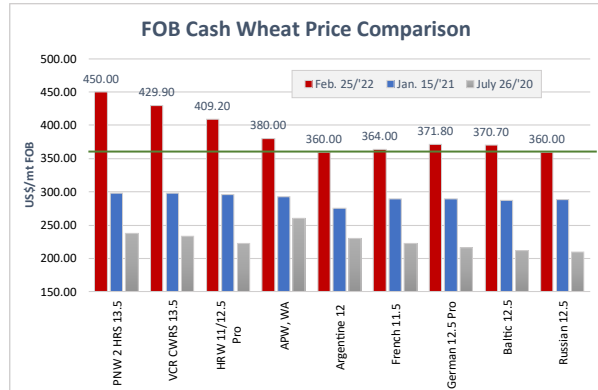
Egypt (GASC) canceled their wheat tender on Thursday with only one trading house brave enough to show an offer. Their regulations require at least two offers to make a purchase.

It is almost impossible to give a true reflection of FOB values right now:

Feb. 22/'22:



Feb. 25/'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:**
- March 2022 contract **Chicago winter wheat** closed at 843-0, down 83-0 cents on Friday, *up 45-0 cents on the week.*
- March 2022 contract **Kansas hard red winter wheat** closed at 886-6, down 76-2 cents on Friday's trade, *up 63-6 cents on the week.*
- March 2022 **Minneapolis hard red spring wheat** closed at 952-2, down 77-6 cents on Friday, *down 5-0 cents on the week.*
- **This Tuesday morning's wheat markets are up again by currently 17-48c/bu.**

CBOT March 2022 Wheat (1 yr.)



KC March 2022 Wheat



Mpls. March 2022 Wheat



Canadian Wheat:

- Wheat futures closed up on Thursday following the start of the invasion of Ukraine and then tumbled on Friday as traders/funds took profits and realized that initial Western sanctions may do little to stop the flow of Russian food and oil exports.
- Ukraine's ports are closed as the Azov Sea is blocked by Russia. USDA's numbers suggest they still think that 18 million mt of wheat will still be shipped from the region in the remaining four months of the marketing year (this number was too high even before the invasion).
- Russia is also extremely important to fertilizer supplies, with export market shares of 27% for MOP (3rd largest share), 49% for ammonium nitrate (1st), 18% for urea (1st), 38% NPK's (1st), 30% ammonia (1st), 14% DAP/MAP (4th), 9% for sulfur (3rd). [Source of market share numbers: Argus]
- On Friday, Minneapolis closed down five cents vs. Chicago, which closed 45 cents higher, and caused the Minneapolis-Chicago spread to shrink to \$1.09 (Low priced wheat has appreciated in value due to the Russian/Ukraine crisis). We have been saying it should be ~\$1.50 this year. This spread will narrow for as long as Black Sea wheat is at risk. Volatility will prevail while the war continues.

20 Year March Wheat Futures Chart
Chicago (Black), Kansas (Green), Minneapolis (Red)



- Crop insurance prices are out for all provinces:
 - AB: \$8.71/bu
 - SK: \$8.71/bu
 - MB \$9.53/bu

This is well below posted bids and *could* be negative to farmers' planting decisions compared to other crops which are more closely tied to actual market values.

- Canadian shipping week 29 exports were 210.3k mt for a season total of 6.6 million mt, 60% (-4.5 million mt) less than last year. Week 29 exports were below the average 279k mt of weekly exports needed to meet AAFC's number. Weekly export will pick up later in the year as producers sell into higher-priced deferred positions and the Lakes open in the spring. The entirety of last week's exports were out of Vancouver.
- *The dominant news is the Russia and Ukraine conflict. We wait and see how the trade reacts after such wide swings late last week. Fundamentally, the conflict primarily affects common wheat (not spring wheat), but once Minneapolis futures figure out what spread to Chicago it needs it will follow the ride. Volatility will be the name of the game until the situation stabilizes. Unfortunately, the cards seem heavily stacked in Russia's favour. We would hold additional sales for now.*

(CGC) Grain Handling Summary Wheat	Wk. 29	(Feb.20/'22)		
	Producer Deliveries	Terminal Receipts	Bulk exports	Domestic Disappearance
('000 mt)				
Wk. 29	462.2	192.5	210.3	71.2
Week ago	371.7	227.1	309.0	67.4
YTD	9,137.2	8,489.6	6,585.3	2,368.0
Last YTD	12,412.9	12,731.8	11,041.6	2,374.1
YTD less Last YTD	-3,275.7	-4,242.2	-4,456.3	-6.1
YTD over Last YTD	74%	67%	60%	100%

- **Durum:** The invasion by Russia of the Ukraine should not have much impact on the durum market.
- Durum crop insurance prices have been released for all provinces:
 - AB: \$10.89/bu
 - SK: \$11.16/bu
 - MB: \$10.89/bu

These prices are much more in line with where the new crop market is (better than spring wheat at least) than spring wheat.

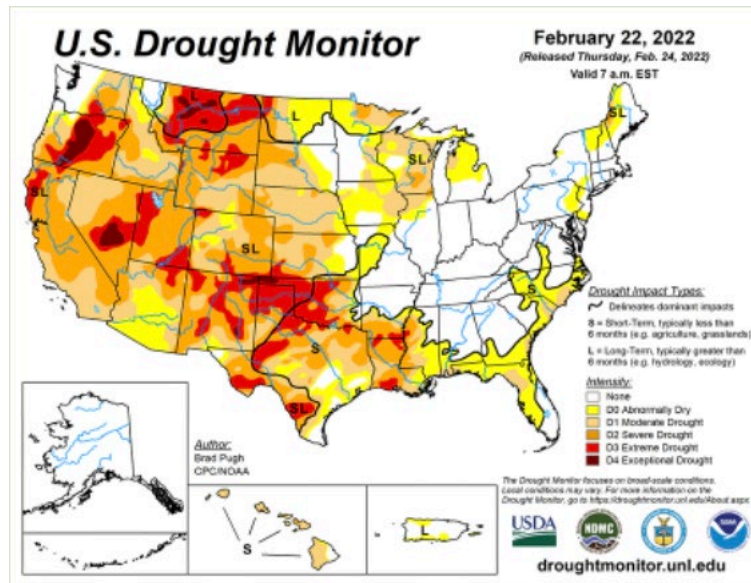
(CGC) Grain Handling Summary Durum	Wk. 29	(Feb 20/'22)		
	Producer Deliveries	Terminal Receipts	Bulk exports	Domestic Disappearance
('000 mt)				
Wk. 29	31.6	11.9	5.4	7.0
Week ago	39.9	15.3	75.8	6.2
YTD	1,733.1	2,033.7	1,423.9	266.8
Last YTD	3,606.5	4,055.5	3,275.4	310.3
YTD less Last YTD	-1,873.4	-2,021.8	-1,851.5	-43.5
YTD over Last YTD	48%	50%	43%	86%

- Canadian shipping week 29 exports were 5.4k mt for a season total of 1.4 million mt, 43% (-4.5 million mt) of last year's amount. Again, exports will need to pick up once the Lakes open again. It is far from a normal year, but usually Morocco ramps up purchases in April-May.
- *Demand is thin, but old crop should be worth \$15.50-\$16.00/bu. New crop bids are ~\$12.00/bu. We are sold out of old crop. We recommend selling some new crop durum and would target \$13.00/bu (+) for a #3 CWAD.*

Note: Watch the specs closely in new crop contracts. Some buyers are buying a "#3 CWAD Milling", which essentially turn out to be 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:

- Events in Ukraine completely overshadowed the **USDA Outlook Forum**, and the numbers were likely irrelevant in Thursday's context. Ending stocks were raised 100 million bu from the November Baseline estimate, mostly via lower exports. However, given the current geopolitics, setting out the 2022/23 world trade matrix for wheat is impossible for now.
- US wheat sales last week were above expectations at 516.9k mt (19.0 million bu) for a season total of 661 million bushels. This is 24% behind last year compared to the USDA's 810 million bushels export projection. Sales need to be 4.2 million bushels per week through to the end of May to meet the USDA's number.
- The drought area in the US winter wheat belt expanded 1% from last week and now covers 73% of the US winter wheat area. Winter wheat conditions in Kansas are 26% Gd/Ex and 64% Poor/Very poor. Topsoil moisture conditions in Kansas are 45% very short.



- US HRS for March 2022 is valued at \$450.00/ mt FOB PNW (up \$25/mt from last week), FOB Gulf HRW 11/12.5 pro is valued at \$409.20/mt (up \$45/mt from last week).

Australian wheat:

- Thailand bought 63k mt Australian feed wheat for May-June at \$349/mt, but the sale was made before Thursday's price spikes.
- Australian new crop FOB APW wheat for March 2022 was quoted at \$380.00/mt, up \$25/mt over the past week.

Argentine wheat:

- March shipment Argentine 12% pro wheat was valued at ~\$360.00/mt FOB, up \$70/mt over the past week.

EU wheat:

- In Europe, Matif closed up Friday €20-30/mt having hit gains of €57 during the session. This Monday, March wheat on the Matif is up €32/mt.
- The threat of **additional volume demand** being switched from Russia/Ukraine to the EU was evident Friday. Despite the massive rally in Matif, Fob premium bids were unchanged. It seems clear that importers will have to adjust to a much higher overall price structure, but how this ultimately affects demand remains to be seen. Margin calls will be an increasing factor in futures volatility.
- **Turkey** potentially also has a major part to play in the conflict. On Friday Ukraine yesterday asked Ankara to close the Bosphorus and Dardanelles to Russian ships. Under the 1936 Montreux

Convention, Turkey has control over the straits and can limit the passage of warships. Turkey agreed to the request over the weekend.

- Fob prices in the EU: March 2022 French 11.5 pro closed at \$364.00/mt, up \$43.80/mt from last week. March German 12.5 pro wheat closed at \$371.80/mt, up \$40/mt. March Baltic 12.5 pro wheat was at \$375.70/mt, up \$450/mt.

Black Sea wheat:

- The wheat market currently is about how long the **war between Russia and Ukraine** will last and what it will mean for world trade. The Azov Sea has been blocked by Russia, and Ukraine port operations have been halted by the military. Meanwhile, the USDA still shows about 18 million mt of wheat to be shipped from the Black Sea region in the remaining four months of the '21/22 season. This already was too much before last week by about four million mt given shipments to date plus the February-June quota. Ukraine only has about three million mt of milling wheat left in its quota.
- The Russian Ruble fell to an all-time low and their central bank took their interest rates from ~9% to 20%.
- Russian March 2022 12.5 pro wheat value is at ~\$360.00/mt, up \$45/mt from last week.

➤ **Significant purchases/ trades:**

- **Thailand** bought 63k mt of Australian feed wheat for May-June at \$349/mt, but the sale was made before Thursday's price spikes.
- **Egypt** (GASC) got just one offer on their tender last week and cancelled the tender.
- **Turkey** (TMO) is in the market this week for 435k mt of wheat for March-April. Given the shipping situation in the Black Sea and Sea of Azov, offers will probably be limited to whatever is already in-store in Turkey.
- **US wheat sales** last week were above expectations at 516.9k mt (19.0 million bu) for a season total of 661 million bushels.

➤ **Wheat Market Outlook:**

Significant events:

- The wheat market currently is about how long the **war between Russia and Ukraine** will last and what it will mean for world trade. The Azov Sea has been blocked by Russia, and Ukraine port operations have been halted by the military. Meanwhile, the USDA still shows about 18 million mt of wheat to be shipped from the Black Sea region in the remaining four months of the '21/22 season. This already was too much before last week by about four million mt given shipments to date plus the February-June quota. Ukraine only has about three million mt of milling wheat left in its quota.
- The **Russian Ruble** fell to an all-time low and their central bank took their interest rates from ~9% to 20%.
- Fundamentally, the conflict primarily affects **common wheat** (not spring wheat), but once Minneapolis futures figure out what spread to Chicago it needs it will follow the ride. Volatility will be the name of the game until the situation stabilizes. Unfortunately, the cards seem heavily stacked in Russia's favour. We would hold additional sales for now.
- The threat of **additional volume demand** being switched from Russia/ Ukraine to the EU was evident Friday. Despite the massive rally in Matif, Fob premium bids were unchanged. It seems clear that importers will have to adjust to a much higher overall price structure, but how this ultimately affects demand remains to be seen. Margin calls will be an increasing factor in futures volatility.
- **Turkey** potentially also has a major part to play in the conflict. On Friday, Ukraine asked Ankara to close the Bosphorus and Dardanelles to Russian ships. Under the 1936 Montreux Convention,

Turkey has control over the straits and can limit the passage of warships. Turkey agreed to the request over the weekend.

- Events in Ukraine completely overshadowed the **USDA Outlook Forum**, and the numbers were likely irrelevant in Thursday's context. Ending stocks were raised 100 million bu from the November Baseline estimate, mostly via lower exports. However, given the current geopolitics, setting out the 2022/23 world trade matrix for wheat is impossible for now.

Outlook:

The only important news is the Russia - Ukraine conflict. We need to wait and see how the trade reacts after such wide swings late last week. Fundamentally, the conflict primarily affects common wheat (not spring wheat), but once Minneapolis futures figure out what spread to Chicago it needs it will follow the ride. Volatility will be the name of the game until the situation stabilizes. Unfortunately, the cards are heavily stacked in Russia's favour.

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: 28-02-2022					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		May '22 (bu.)	May '22 (mt)
1 CWRS 13.5	\$11.56	\$424.76	1 CWRS 13.5	\$11.75	\$431.74
1 CWAD 13.0	\$15.44	\$567.33	1 CWAD 13.0	\$14.93	\$548.59
1 CPSR 11.5	\$11.00	\$404.18	1 CPSR 11.5	\$11.19	\$411.17
SW Sask			SW Sask		
1 CWRS 13.5	\$11.47	\$421.45	1 CWRS 13.5	\$11.67	\$428.80
1 CWAD 13.0	\$15.42	\$566.59	1 CWAD 13.0	\$14.94	\$548.96
1 CPSR 11.5	\$10.88	\$399.77	1 CPSR 11.5	\$10.90	\$400.51
NE Sask			NE Sask		
1 CWRS 13.5	\$11.22	\$412.27	1 CWRS 13.5	\$11.42	\$419.62
1 CWAD 13.0	\$15.75	\$578.72	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	\$11.29	\$414.84	1 CWRS 13.5	\$11.47	\$421.45
1 CWAD 13.0	\$15.54	\$571.00	1 CWAD 13.0	n/a	
1 CPSR 11.5	\$10.70	\$393.16	1 CPSR 11.5	\$10.95	\$402.35

Data source: PDQ, Feb. 28/22

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, Feb. 28/'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*

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.

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
 - 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.

“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.”

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

Relevant FOB Prices and Export Basis				28-02-2022
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	\$521.58	\$761.17		
HRS	\$514.59			
HRW 11.5	\$543.49			
SWW 12.0	\$519.25			
1 CWRS 13.5 ³	\$521.58		\$445.34	\$76.25
2 CWRS 13.0 ³	\$514.59		\$440.93	\$73.67
3 CWRS ³	\$543.49		\$431.74	\$111.75
CPS ³	\$512.73		\$425.13	\$87.60
1 CWAD ⁴		\$754.64	\$551.16	\$203.48
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$360.00	March		
French 11.5 (Rouen)	\$364.00	March		
APW 10.5 (W Coast)	\$380.00	March		
Argentine 12.0	\$360.00	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