

Wheat Market Outlook and Price Report: January 24, 2022

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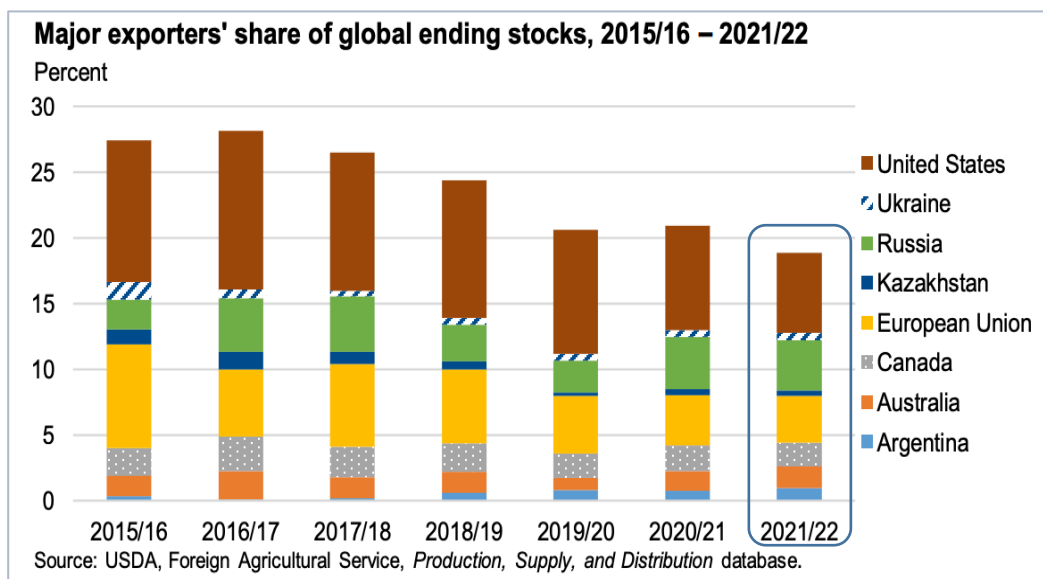
i) Background and Rationale for the Report

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 January 24, 2022

USDA January 2022 numbers: Review of Global Ending Stocks by Exporter

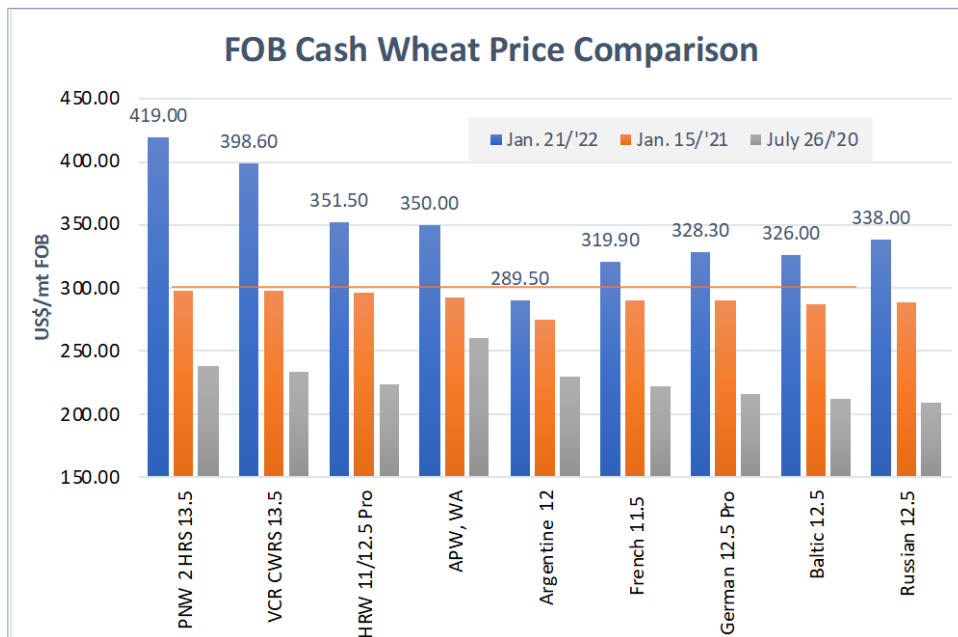


- In their January report, USDA revised **global ending stocks** for 2021/22 *higher by 1.8 million MT* to 279.9 million MT.
- Even with this increase, **major exporters' ending stocks** are the tightest since 2007/08 and only account for 19 percent of global ending stocks.
- **Higher production** for Argentina allows for more cushion in their stocks (+369k MT to 2.7 million MT). Russia and Kazakhstan are both revised up 400k MT to 10.6 million MT and 1.2 million MT,

respectively. Outside of the major exporters, there were downward revisions for Pakistan (- 200k MT to 4.4 million MT), South Africa (-156k MT to 0.6 million MT), and Brazil (-100k MT to 0.8 million MT).

Recent Developments in Wheat Demand:

US and Canadian wheat is still not buying any incremental demand on the export market, although long-term, weather forecasts look concerning for the US Plains with potential drought expansion into the summer amidst hot dry conditions.

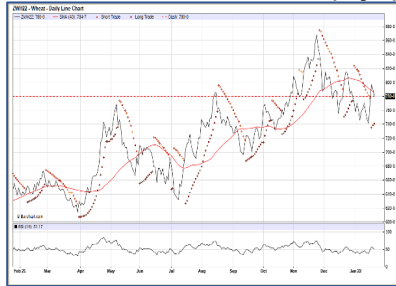


➤ **Global wheat production and trade:**

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 2022 contract **Chicago winter wheat** closed at 780-0, down 10-2 cents on Friday, *up 33-2 cents on the week.*
- March 2022 contract **Kansas hard red winter wheat** closed at 793-2, down 3-2 cents in Friday’s trade, *up 33-4 cents on the week.*
- March 2022 **Minneapolis hard red spring wheat** closed at 936-0, down 8-6 cents on Friday, *up 40-4 cents on the week.*
- This Monday morning wheat markets are again up by currently 9-15c/bu due to continued threats of a conflict in the Black Sea area.

CBOT March 2022 Wheat (1 yr.)



KC March '21 Wheat

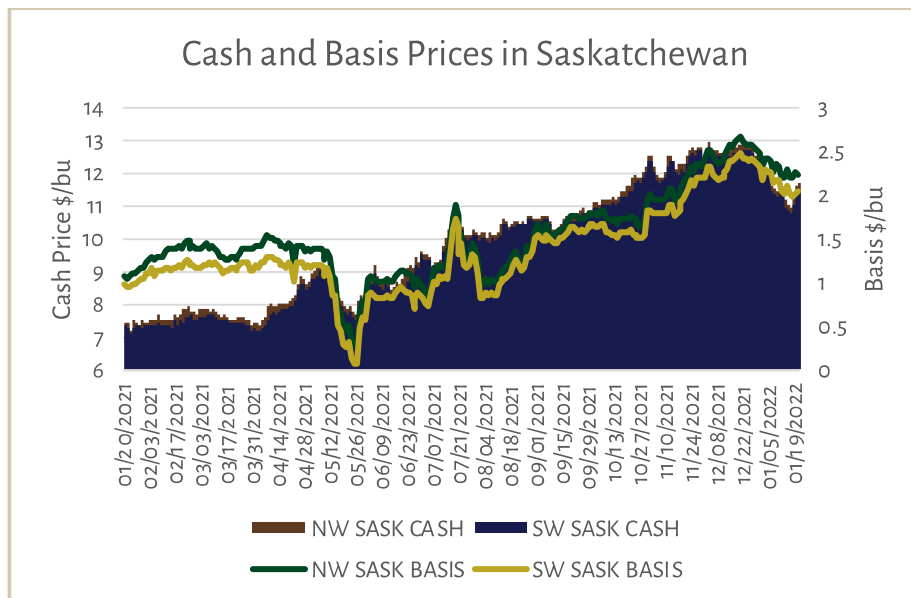


Mpls. March '21 Wheat



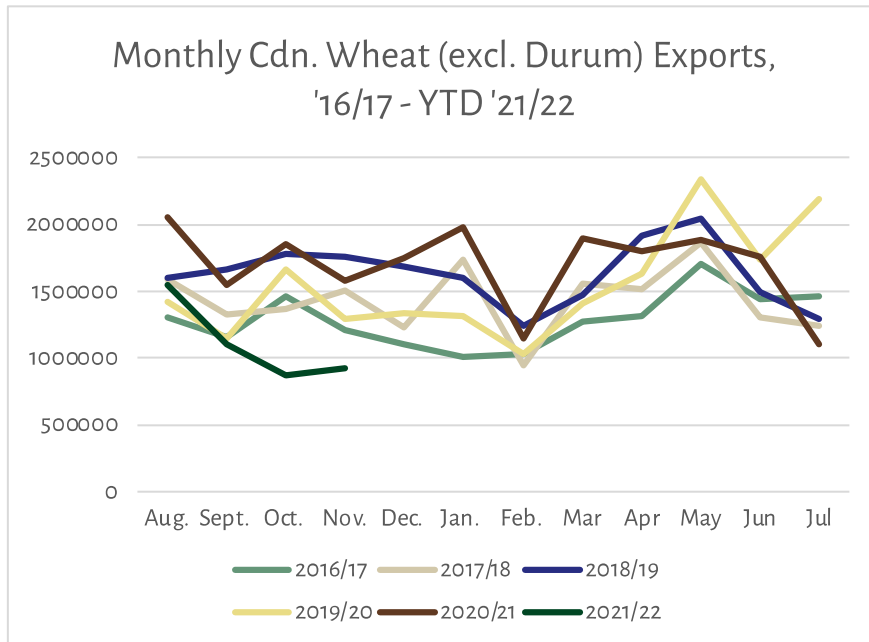
Canadian Wheat:

- **Cash prices** in Saskatchewan were higher last week given the increase in futures prices. Basis levels were sideways to slightly higher. Although futures prices have dropped from their December highs, basis prices have helped to soften the decrease in futures on cash prices.



- **AAFC released their January estimates for the 2021/'22 crop, along with their first 2022/'23 supply and demand estimates.**
 - For the **2021 crop**, imports were reduced by 100k MT to 200k MT. Feed use was decreased by an equal amount for an unchanged ending stock number of 3.0 million MT (compared to 5 million MT the previous year).
 - For the **2022 crop**, AAFC expects seeded area to rise by 5% from last year to 7.6 million ha. Yield was put at 3.44 MT per ha, which is 28% more than last year, but is essentially the 5-year average. Production is expected to rise to 25.6 million MT (+25% y/y). Low beginning stocks will cause total supply to be 19% higher than last year at 28.7 million MT. Exports are up to 17.0 million MT reflecting the increase in total supply. Overall, ending stocks are expected to be 4.0 million MT which is still almost 1.0 million MT less than average (excluding 2021).
- Wheat movement in **Canadian shipping week 24** was relatively strong. Producers delivered 406k MT of wheat into the elevator system. Exports were 304k MT for the week, creating a season total of 5.5 million mt. Exports are now 41% (-3.7 million mt) smaller than last year compared to

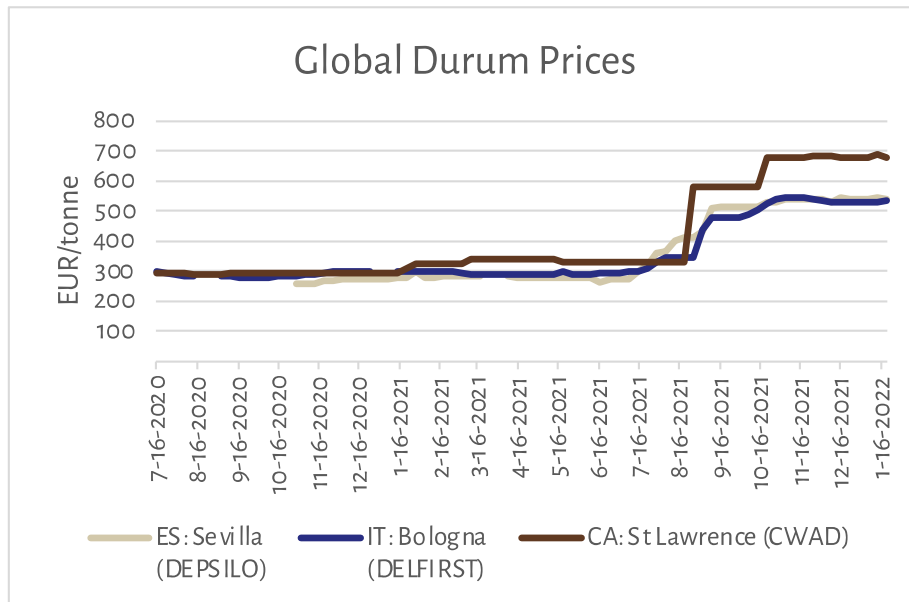
AAFC's projected 35% decline. The slow pace of wheat exports is concerning. Seasonally, Canadian exports decrease into the heart of winter before picking up again in March through May. The seasonal pattern will have to prove true in a big way this year. We are 46% of the way through the marketing year and have exported just 39% of AAFC's projected 14.0 million MT exports.



- The market will be supported by corn, but other than unrest in Eastern Europe there is little to prompt a sharp move higher for now. North American wheat is expensive and has a hard time buying extra demand. We would sell 2 CWRS at \$11.50 per bushel or better.

(CGC) Grain Handling Summary Wheat	Wk. 23	(Jan. 9/'21)		
('000 MT)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Wk. 23	92.8	226.1	187.1	103.8
Week ago	317.4	455.2	263.8	118.9
YTD	7,024.0	7,107.5	5,179.0	2,034.8
Last YTD	9,765.3	10,851.7	8,938.9	2,101.3
YTD less Last YTD	-2,741.3	-3,744.2	-3,759.9	-66.5
YTD over Last YTD	72%	65%	58%	97%

- Durum:** Although local durum bids have backed off somewhat, this has not been the case in the global market. Bids for durum in France rose CA\$20/MT last week to CA\$787/MT. Bids in Italy rose CA\$10/MT to CA\$763/MT, while prices in Spain fell CA\$7/MT to CA\$770/MT.

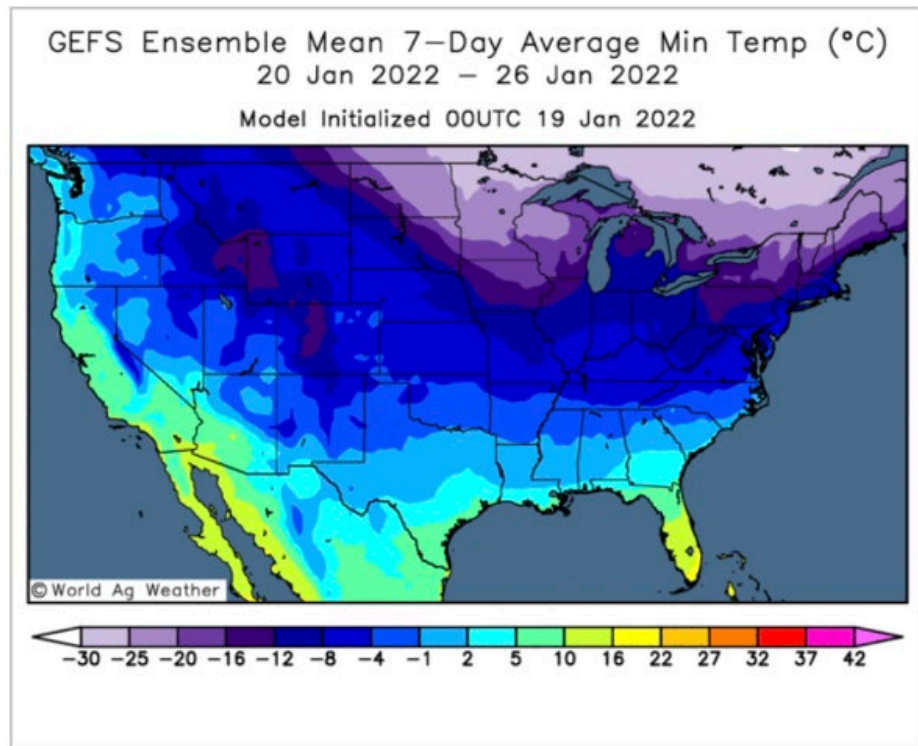


- The **ICG** cut 21/22 durum production in major exporting countries to 12.9 million MT. Exports were subsequently lowered to 6.1 million MT.
- **AAFC estimated 2022/23 durum seeded area** up 9% from last year at 2.45 million ha. Yield was put exactly at the 5-year average of 2.30 MT per ha for a production number of 5.5 million MT - 8% more than last year. Ending stocks are projected at 751k MT (up 37%), which is in-line with 2020/21 levels.
- **Week 24 exports** of Canadian durum were a small 11.2k MT for a season total of 1.2 million MT. This is now 47% (-1.3 million MT) of last year's volume. Durum producers have delivered 1.5 million MT (58%) of the total 2021 durum crop. This leaves ~1.11 million MT of durum remaining on farm. Producers will need~ 240k MT of supplies for seed. So, at the current pace of deliveries, on farm stocks would run out by week 38. Of course, this will not be the case, but durum deliveries will slow rapidly moving forward. According to Agricensus, traders are expecting to look to Canada for additional supplies in late-Feb or early-Mar as stockpiles shrink in other countries.
- We had recommended earlier that you finish old crop sales. Prices could increase locally, but it will be hard for exporters to have a sustained program due to low stocks.

(CGC) Grain Handling Summary Durum	Wk. 24	(Jan 26/'21)		
('000 MT)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Wk. 24	74.1	14.1	11.2	22.5
Week ago	14.8	35.3	19.6	16.5
YTD	1,542.8	1,891.3	1,212.3	237.7
Last YTD	2,972.5	3,542.7	2,553.9	250.4
YTD less Last YTD	-1,429.7	-1,651.4	-1,341.6	-12.7
YTD over Last YTD	52%	53%	47%	95%

US Wheat:

- **Wheat futures** were stronger on the week supported by a combination of tensions in Eastern Europe and support from corn/ feed grains.
- The **drought in the US** remains intact. The winter wheat area under drought conditions improved 1% from last week to 68%. The lack of snow cover has left the crop exposed to the cold front that has settled over the US. Some think the cold temperatures could kill upwards of 20% of the northern US SRW belt. The long-term forecast has the drought in the US Plains remaining until summer.



- **Weekly US export sales** were 381k MT (14.0 million bushels) which was at the high end of expectations. Total commitments are now 607 million bushels, down 23% from last year. The USDA's 825 million bushel estimate reflects a 17% decline from last year.
- US HRS for February 2022 is valued at \$419.00/ MT FOB PNW (up \$9/MT from last week), FOB Gulf HRW 11/12.5 pro is valued at \$351.50/MT (up \$11.70/MT from last week).

Australian wheat:

- Australian futures were trading lower on Friday but made a 3-week high weekly close.
- The risk to Black Sea shipments due to the Russian-Ukraine conflict brought Asian importers back to the Australian market, but there are no Australian shipping slots open prior to June-July.
- Australian new crop FOB APW wheat for February 2022 was quoted at \$350.00/MT, unchanged from last week.

Argentine wheat:

- The Buenos Aires Grain Exchange (BAGE) raised their crop estimate to 21.8 million MT compared to the USDA's 20.5 million MT estimate. Despite this, FOB values in Argentina were \$2-3/MT higher for the week.

EU wheat:

- EU wheat remains very competitive in export markets, particularly as freight rates continue to slide.
- The Freight markets continue to fall: the Baltic Capesize index is down a huge 80% from the highs in the middle of December, the Panamax index is off 53% from the October highs, and Handies are down 45%. This makes it difficult for CIF buyers.
- FOB prices in the EU: February 2022 French 11.5 pro closed at \$319.90/MT, up \$5.30/MT from last week. February German 12.5 pro wheat closed at \$328.30, down \$6.30/MT. January Baltic 12.5 pro wheat was at \$326.00MT, up \$4.60/MT.

Black Sea wheat:

- Black Sea futures eased by \$1-2, but FOB values are hard to ascertain due to the potential conflict with Ukraine.
- **Russia** is acting increasingly aggressive as tensions between Russia and Ukraine continue to grow. A conflict would hinder both countries from exporting wheat from Black Sea ports. As of November, Ukraine had shipped 17.7 million MT of wheat compared to the USDA’s total export number of 24.2 million MT. Russia has recently moved troops to Belarus for “military drills” which has onlookers concerned about a new military offensive. Russia has denied these allegations.



Build-up of Russian Troops Along the Border of Ukraine
Source: New York Times

- Traders are wondering how the contract laws of 'Force Majeure' and 'Contract Frustration' would play out in the event of a major incursion of Russian troops into the Ukraine.
- Russian February 2022 12.5 pro wheat is valued at ~\$338.00/MT, up \$5/MT from last week.

➤ **Significant purchases/ trades:**

- **Iran's** Government Trading Corporation (GTC) is said to have purchased milling last Friday. The estimated tonnage is ~195k MT and was likely purchased in three consignments of about 65,000 tonnes.
- USA export sales at 380k MT were at the high end of expectations.

➤ **Wheat Market Outlook:**

Significant events:

- **US wheat futures** increased by 33-50¢/bu last week on short covering and the addition of a risk premium on the ongoing Russia-Ukraine confrontation/ stalemate.
- The **risk to Black Sea shipment execution** due to the **Russian-Ukraine conflict** brought Asian importers back to the Australian market, but there are no Australian shipping slots open prior to June-July.
- The **freight markets** continue to fall: The Baltic Capesize index is down a huge 80% from the highs in the middle of December, the Panamax index is off 53% from the October highs, and Handies are down 45%. This makes it difficult for CIF buyers.
- **EU wheat** remains very competitive in export markets, particularly as freight rates continue to slide.
- We expect more business in the coming week.

Outlook:

It is the situation in Ukraine that the market will keep upfront and center and that is keeping wheat firm. In our view, wheat is presently undervalued, and we should see a 25-cent rally in wheat futures. *If so, we feel that to be a good time to sell additional Canadian Spring 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: 24-01-2022					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Apr. '22 (bu.)	Apr. '22 (mt)
1 CWRS 13.5	\$11.68	\$429.17	1 CWRS 13.5	\$11.74	\$431.37
1 CWAD 13.0	\$19.21	\$705.85	1 CWAD 13.0	\$19.53	\$717.61
1 CPSR 11.5	\$10.68	\$392.43	1 CPSR 11.5	\$10.77	\$395.73
SW Sask			SW Sask		
1 CWRS 13.5	\$11.47	\$421.45	1 CWRS 13.5	\$11.56	\$424.76
1 CWAD 13.0	\$19.24	\$706.95	1 CWAD 13.0	\$19.54	\$717.98
1 CPSR 11.5	\$10.42	\$382.87	1 CPSR 11.5	\$10.44	\$383.61
NE Sask			NE Sask		
1 CWRS 13.5	\$11.43	\$419.98	1 CWRS 13.5	\$11.48	\$421.82
1 CWAD 13.0	\$19.26	\$707.69	1 CWAD 13.0	\$19.42	\$713.57
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	\$11.35	\$417.04
1 CWAD 13.0	\$19.24	\$706.95	1 CWAD 13.0	\$19.45	\$714.67
1 CPSR 11.5	\$10.46	\$384.34	1 CPSR 11.5	\$10.49	\$385.44

Data source: PDQ, Jan. 24/'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, Jan. 24/'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:

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.”

- 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.

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

Relevant FOB Prices and Export Basis				24-01-2021
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	\$496.52	\$846.50		
HRS	\$484.85			
HRW 11.5	\$476.92			
SWW 12.0	\$519.85			
1 CWRS 13.5³	\$496.52		\$434.31	\$62.20
2 CWRS 13.0³	\$484.85		\$428.80	\$56.05
3 CWRS³	\$476.92		\$421.45	\$55.46
CPS³	\$513.31		\$396.10	\$117.21
1 CWAD⁴		\$839.97	\$707.69	\$132.28
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$338.00	February		
French 11.5 (Rouen)	\$319.90	February		
APW 10.5 (W Coast)	\$350.00	February		
Argentine 12.0	\$292.00	February		

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