

Wheat Market Outlook and Price Report: July 4, 2022

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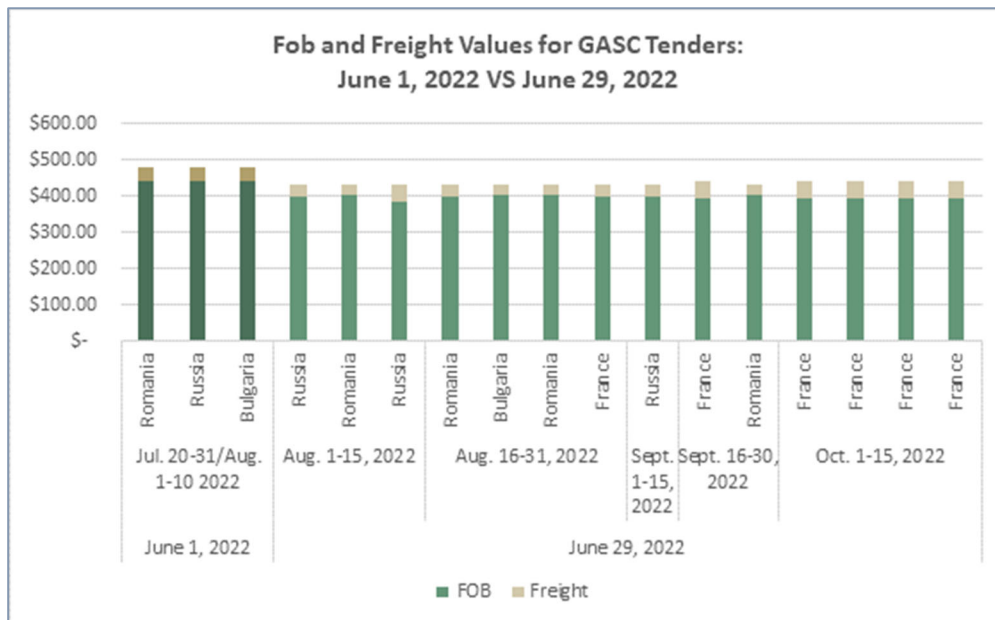
i) Background and Rationale for the Report

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 July 4, 2022

Fob and Freight Values at the Two most Recent GASC Tenders



- It seems like traders are realizing what we have been pointing to for several weeks now. The simple truth is that there is enough grain to cover demand. This was most recently illustrated by last week's GASC tender.
- The Egyptian state grain buying agency, GASC, bought 825,000 mt of wheat. This is the largest single purchase of wheat in 13 years. They bought from France, Romania, Russia, and Bulgaria. The total cost of the purchase was almost \$360 million and came on the heels of the \$500 million that the World Bank provided to Egypt for wheat purchases.

- Of note, was the 47 different offers that were made at the tender and the average \$8.90/mt decrease in price between the initial offer and the final price. These are signs that grain companies were both adding protection to their bids and were negotiating heavily to win a share of the tender

Developments in Wheat Demand:

There were large volumes traded last week to the Middle East. Egypt, Algeria, and others were buyers in positions from nearby to December. Egypt was the biggest buyer at 825,000 tonnes.

➤ **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:

- Sept '22 contract Chicago winter wheat closed at 846-0, down 38-0 cents on Friday, *down 90-4 cents on the week.*
- Sept '22 contract Kansas hard red winter wheat closed at 913-4, down 38-2 cents in Friday's trade, *down 84-6 cents on the week.*
- Sept '22 Minneapolis hard red spring wheat closed at 948-0, down 42-0 cents on Friday, *down 122-4 cents on the week*

CBOT Sept. 2022 Wheat (1 yr.)



KC Sept. '22 Wheat



Minneapolis Sept. '22 Wheat

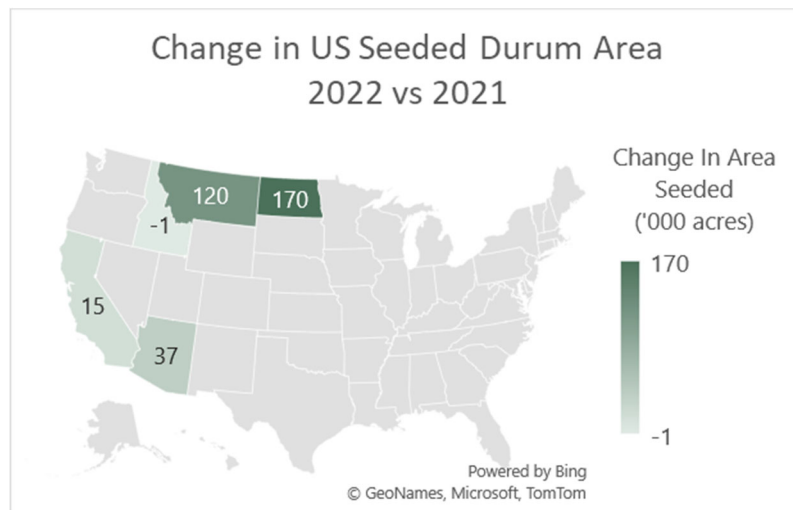


Canadian Wheat:

- The trade is expecting that Stats Canada will put Canadian all wheat acres at 23.4 million acres compared to Stats Canada's April estimate of 25.0 million acres. Spring wheat acres are expected to be 16.5 million acres which would be 1.1 million acres less than Stats Canada's current number. The June seeded area update will be out tomorrow (July 5th).
- Alberta's spring wheat crop condition lost 2% from last week to 82% Gd/Ex. The decrease was from excessive moisture in parts of Central Alberta. The rest of the province, as well as the majority of Saskatchewan and Manitoba, have strong moisture conditions.

(CGC) Grain Handling Summary Wheat		Wk. 47		June 26'21)
(000 mt)	Prod. Dlvsr.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Wk. 47	251.0	259.2	128.8	56.2
Week ago,	234.1	222.2	106.3	67.2
YTD	13,498.8	13,189.3	10,077.7	3,688.6
Last YTD	20,439.0	21,350.9	18,243.3	3,651.7
YTD less Last YTD	-6,940.2	-8,161.6	-8,165.6	36.9
YTD over Last YTD	66%	62%	55%	101%

- **Durum** – The trade is expecting that Stats Canada’s durum area number will be 6.1 million acres compared to their April number of 6.2 million acres.
- The USDA put US durum acres at 1.98 million acres, up 61k acres from the March report and 341k acres (21%) higher than last year. Seeded area in Montana was decreased by 50k acres, but this is still 120k acres larger than last year. Seeded area in North Dakota is expected to rise to 1.05 million acres which is a 170k acre increase from last year.

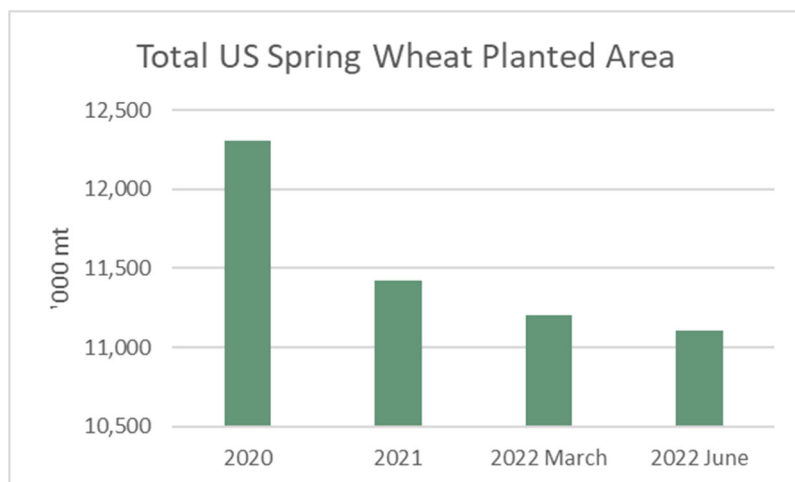


- The USDA put old crop durum stocks as of June 1st at 21.1 million bushels, down 22% from last year. March - May disappearance was 9.11 million bushels which is 39% less than the same period last year.
- Smaller seeded area in Canada looks like it will be largely offset by higher seeded area in the US. Durum production will be higher than last year, but the balance sheet does not look burdensome.

(CGC) Grain Handling Summary Durum		Wk. 47		(June 26'21)
(000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Wk. 47	62.1	56.3	46.5	15.2
Week ago,	53.9	60.0	33.9	4.2
YTD	2,316.5	2,761.9	2,334.7	409.2
Last YTD	5,699.1	6,677.6	5,593.0	505.1
YTD less Last YTD	-3,382.6	-3,915.7	-3,258.3	-95.9
YTD over Last YTD	41%	41%	42%	81%

US Wheat:

- US wheat futures continued to fall rapidly as traders rushed to liquidate long positions.
- The US winter wheat harvest progressed 16% over the week and is now 41% complete.
- The USDA stock report indicated US stocks stored in all positions as of June 1st was 660 million bushels, down 22% from last year, but 5 million bushels higher than what the trade was expecting. The March – May indicated disappearance is 364 million bushels which is 22% less than the same period last year.
- The USDA seeded area report put US all wheat area at 47.1 million acres, up 1% from last year. Spring wheat area was decreased by 100k acres from the March estimate to 11.1 million acres. This is 3% (310k) acres less than last year, but harvested area is expected to be 5% higher at 10.7 million acres. Seeded area in North Dakota is expected to fall by 2% from last year to 5.4 million acres. *The USDA acknowledged that the late spring may have changed seeding intentions and will resurvey Minnesota and both North and South Dakota's planted area in July. Any revisions will be published in the August report.*



- As of June 27th, 59% of the US spring wheat crop was in Gd/Ex condition. This is unchanged from last week and 39% better than the drought-stricken crop of last year.
- US HRS for July '22 was valued at \$462.20/ mt FOB PNW (down \$29.800/mt from last week), FOB Gulf HRW 11/12.5 pro is valued at \$419.00/mt (down \$20.60/mt from last week).

Australian wheat:

- There is extreme flooding in Eastern Australia, but it seems to be missing the bulk of the crop areas. Crop prospects in Australia remain very strong.

Argentine wheat:

- Truckers in Argentina are back to work after a one-week protest of diesel prices and shortages of fuel and fertilizer. The protest had essentially halted the flow of grain to ports.
- Dry conditions slowed seeding progress, and germination has been poor so far. There is currently no rain in the forecast.
- July shipment 12% pro Argentine wheat was valued at ~\$475.00/mt FOB (down \$5.00/mt from last week).

Indian wheat:

- The monsoon in India is nearing normal levels as it pushes into the north-west.
- India's ban on wheat exports has effectively removed them from the export market.

EU wheat:

- EU wheat futures followed the US with heavy losses. Additional pressure came from Russia's announcement of a new export tax calculation which will effectively reduce the tax by US\$61.00/mt.
- EU wheat came against strong competition in the GASC tender, but French wheat managed to win the largest share accounting for 350k mt of the total tender amount.
- Fob prices in the EU: July '22 French 11.5 pro wheat closed at \$388.80/mt (down \$14.60/mt from last week); Aug. German 12.5 pro wheat closed at \$394.60/mt (down \$16.52/mt from last week). Aug. Baltic 12.5 pro wheat was at \$393.60/mt (down \$14.40/mt from last week).

Black Sea wheat:

- The average analyst guess of Russia's 2022/'23 wheat crop is 86.9 million mt. Analysts also have Russia exporting 41.0 million mt of wheat compared to Sovecon who last week increased their forecast by an additional 300k mt to a record high 42.6 million mt.
- Poland says that the EU's goal to move 20.0 million mt of grain out of Ukraine by the end of July is unrealistic. We are not surprized. Pre-war, when they had full use of The Black Sea, Ukraine was only shipping 6.0 million mt of grain per month.
- This (Monday) morning, news was released that Turkey has detained a Russian-flagged ship carrying Ukrainian wheat that was taken from the Russian occupied port of Berdyans'k
- Romania's crop looks like it will be 17% smaller than last year at 9.3 million mt. A dry spring followed by a dry growing season is shrinking yield prospects.
- Russia's export tax was reduced dramatically after the government changed how the tax was calculated. The tax effectively fell from US\$146.00/mt to US\$85.00/mt. As the tax is still based on bill of landing date, it remains impossible to fix the tax which makes forwards sales difficult.
- Russian Fob prices for 12.5 pro July delivery wheat were quoted at \$398.00/mt, *down \$22.00/mt from last week.*

➤ **Significant purchases/ trades:**

- **Saudi Arabia** bought 495k mt of Nov-Jan wheat.
- **Egypt** bought 180k mt of Indian wheat on a government-to-government agreement (a previous 500k mt agreement has been scrapped).
- **Jordan** bought 60k mt Sept wheat at \$455, or \$400 Fob parity
- **Algeria** increased the size of last week's purchase from 660k mt to 740k mt at an unchanged price of \$445/mt.
- **GASC (Egypt)** bought 825k mt of Aug-Oct wheat at prices ranging from \$432-\$440/mt.

- US weekly new crop commercial sales were within trade expectations at 496,700 mt, for a season total of 5.7 million mt. This is 27% of the USDA's total export forecast for 2022/'23.

➤ **Wheat Market Outlook:**

Significant events:

- **Wheat futures** were weak to start the week as Funds continued to sell their long.
- There was a good volume of cash wheat trade, albeit at lower prices, as the trades did not involve any North American grain.
- The **USDA stock report** showed USA wheat ending stocks for the 21/22 season were up about 5 million bushels from both the trade's average guess and the WASDE forecast.
- The trade increased their estimate of the **Russian crop**, and the Russian government released a **new export tax calculation** which effectively reduces the tax by \$61/mt.

Outlook:

Chart-wise, the market is telling us that it is oversold. However, there is not much bullish in the numbers, and we do not expect any major cash business in the coming week. We expect markets to be slow, but slightly lower by the end of the week - we do not have additional recommendations at this stage.

iii) Primary Elevator Price Tables and Grade Spreads

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

					Date:	01/07/2022
NW Sask	Spot		NW Sask	Deferred		
	(bu.)	(mt)		Sept '22 (bu.)	Sept '22 (mt.)	
1 CWRS 13.5	\$11.56	\$424.76	1 CWRS 13.5	\$11.12	\$408.59	
1 CWAD 13.0	\$15.18	\$13.52	1 CWAD 13.0	\$14.69	\$539.77	
1 CPSR 11.5	\$10.59	\$389.12	1 CPSR 11.5	\$10.58	\$388.75	
SW Sask			SW Sask			
1 CWRS 13.5	\$11.45	\$420.72	1 CWRS 13.5	\$10.95	\$402.35	
1 CWAD 13.0	\$15.18	\$557.77	1 CWAD 13.0	\$14.95	\$549.32	
1 CPSR 11.5	\$10.54	\$387.28	1 CPSR 11.5	\$10.44	\$383.61	
NE Sask			NE Sask			
1 CWRS 13.5	\$11.28	\$414.47	1 CWRS 13.5	\$10.82	\$397.57	
1 CWAD 13.0	\$15.23	\$559.61	1 CWAD 13.0	\$14.95	\$549.32	
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a	
SE Sask			SE Sask			
1 CWRS 13.5	\$11.34	\$416.68	1 CWRS 13.5	\$10.85	\$398.67	
1 CWAD 13.0	\$15.16	\$557.04	1 CWAD 13.0	\$14.98	\$550.43	
1 CPSR 11.5	\$10.56	\$388.02	1 CPSR 11.5	\$10.36	\$380.67	

Data source: PDQ, June 27/'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, June 27/22

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 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.
 - 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				July 4, 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	\$493.01	\$856.66		
HRS	\$487.22			
HRW 11.5	\$490.65			
SWW 12.0	\$456.11			
1 CWRS 13.5 ³	\$493.01		\$414.84	\$78.17
2 CWRS 13.0 ³	\$487.22		\$411.17	\$76.06
3 CWRS ³	\$490.65		\$401.98	\$88.67
CPS ³	\$449.48		\$368.91	\$80.57
1 CWAD ⁴		\$564.76	\$569.53	\$157.68
Competing wheat:				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$398.00		July	
French 11.5 (Rouen)	\$388.80		July	
APW 10.5 (W Coast)	\$420.00		October	
Argentine 12.5	\$475.00		July	
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				