

Wheat Market Outlook and Price Report: June 13, 2022

By Marlene Boersch/ A.P. Temple/ Michael Wilton
Mercantile Consulting Venture Inc.

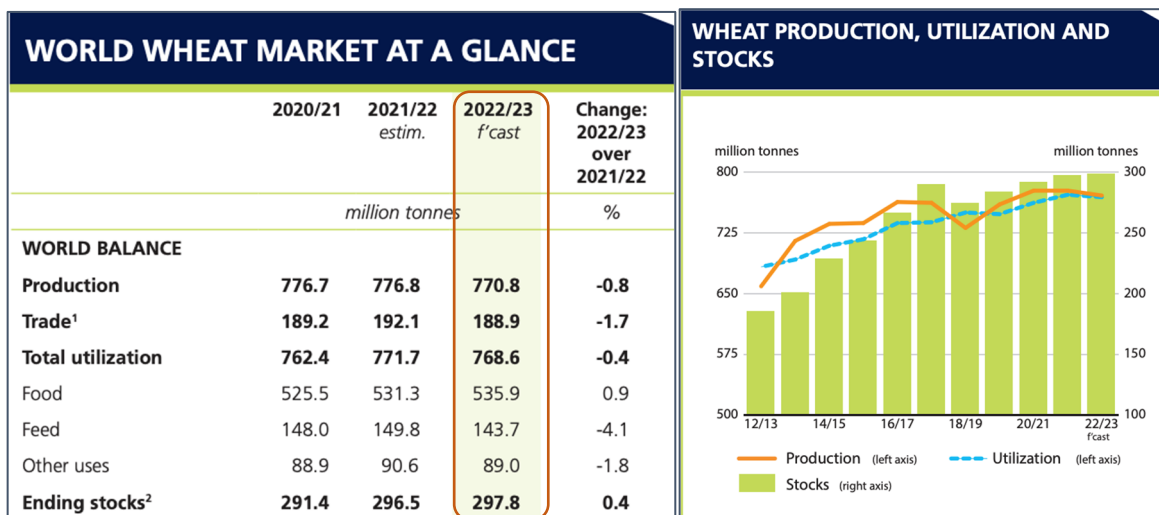
i) Background and Rationale for the Report

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 June 13, 2022

FAO View on Wheat Outlook, June 2022:



Source: FAO, Food Outlook, June 2022

- According to FAO analysis, **global wheat production** in 2022 is predicted to decline from the 2021 record level by 0.8 percent, reaching 771 million mt and marking the first drop in four years. Year-on-year falls in production in Australia, India, Morocco and Ukraine will likely outweigh expected increases in Canada, the Islamic Republic of Iran and the Russian Federation.
- While **world food consumption** of wheat is projected to expand, albeit, at a below-average pace, a decrease in the feed use, driven by high prices and, to a lesser extent, industrial use of wheat is anticipated to cause a 0.4-percent decline in total wheat utilization in 2022/23 to 769 million mt. This would be 1.1 percent below the ten-year trend, marking the first time in three years that global utilization has fallen below the trend.
- **2022/23 world wheat stocks** are set to increase marginally, by 0.4 percent, to 298 million mt by the close of the seasons in 2023. However, much of that increase is foreseen to be concentrated

in China, the Russian Federation and Ukraine, while stock drawdowns are anticipated in several countries in Africa and Asia.

- At 189 million mt, the preliminary forecast for **world trade** in wheat (including wheat flour in wheat equivalent) in 2022/23 (July/June) points to a 1.7% decline from the 2021/22 level.

Developments in Wheat Demand:

Per **FAO**, world food consumption of wheat is projected to expand, but a decrease in the feed usage and industrial use of wheat is expected to result in a 0.4% decline in total wheat utilization in 2022/23 to 769 million mt, 1.1% below the ten-year trend.

The **USDA June WASDE** showed no changes to the demand side for either old crop or new crop wheat.

- *Mercantile does not think that either FAO or USDA have sufficiently weighed the effects of the new high prices per mt on demand. Compared to last year, we estimate the world will need to find an additional \$240 billion, yes billion, US dollars, to buy the same amount of grain if prices stay as they are. In our view, that is not possible; either prices or demand will go down. Note we do not expect prices to fall in the short term.*

Global Price Review for Wheat (US\$/mt):

Global wheat prices continued to fluctuate greatly over the past month as the market reacted to announcements about the Indian wheat export ban and ongoing negotiations regarding Ukraine’s ability to ship.

EU quotes are currently the most competitive and have fallen \$11/mt over the past month.

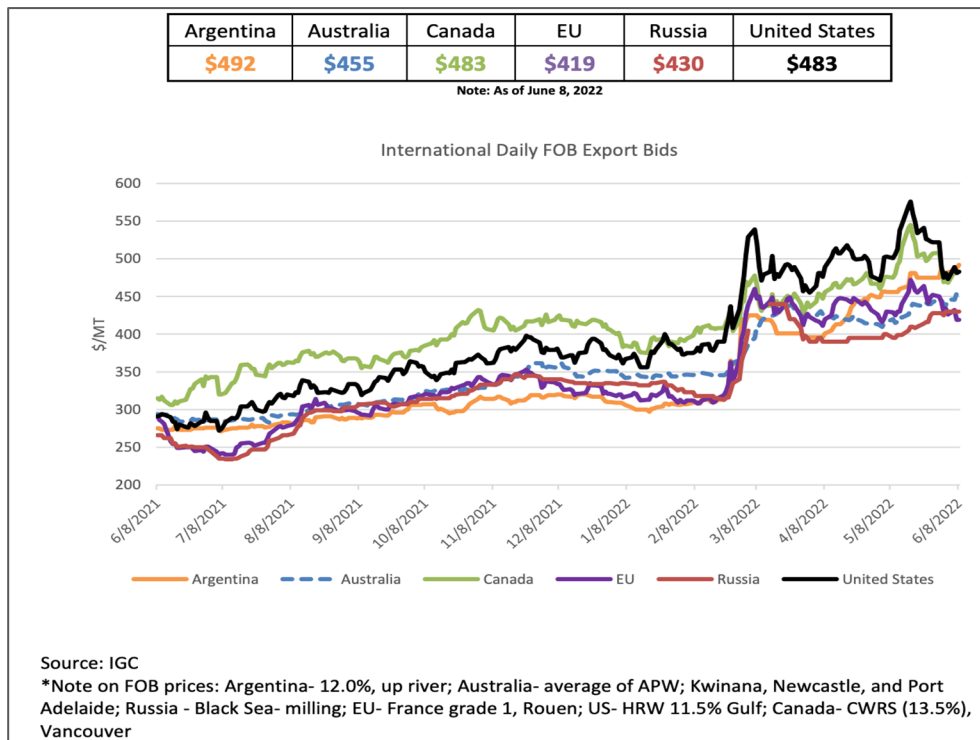
Canadian quotes fell \$9/mt with the near completion of spring wheat plantings.

U.S. quotes slid \$30/mt from exceptionally high levels as the winter wheat harvest begins.

Argentina, the most competitive exporter only 2 months ago, has become the most expensive origin as large exports have diminished available supplies.

Russian quotes shot up \$31/mt on tight Black Sea supplies.

Australian quotes rose \$38/mt with robust international demand.



Source: USDA-FAS, June 10/22

➤ **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.

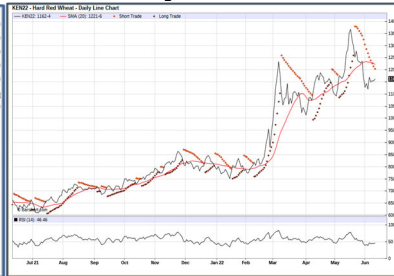
Futures:

- July '22 contract **Chicago winter wheat** closed at 1070-6, up 56-6 cents on the week.
- July '22 contract **Kansas hard red winter wheat** closed at 1162-4, up 41-4 cents on the week.
- July '22 **Minneapolis hard red spring wheat** closed at 1291-4, up 29-8 cents on the week.
- Futures markets today are very volatile and are currently trading down (this Monday) by 2c/bu.

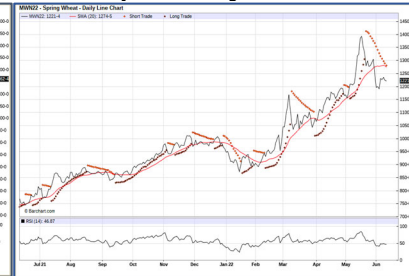
CBOT July 2022 Wheat (1 yr.)



KC July 2022 Wheat



Minneapolis July 2022 Wheat



Canadian Wheat:

- USDA kept spring wheat production steady at 556 million bu from May.
- Crop progress **Canada**: Other than in some areas of Manitoba, spring wheat seeding is essentially finished in Western Canada.
- In the **US**, spring wheat and durum are emerging very nicely in some areas, while others are still being seeded in a drawn-out planting season: As of June 6, USDA had Minnesota 65% planted with spring wheat and North Dakota 74%. Minnesota crop could be 100% planted by this Monday due to excellent planting weather this week. Excellent progress was also made in North Dakota, but a higher-than-normal number of acres are expected to remain unplanted.
- The US HRS crop is now 84% planted and 61% emerged. According to USDA, 61% of the South Dakota crop and 18% of the Montana crop is in good to excellent condition; spring wheat crop conditions are not yet available for Minnesota or North Dakota. Good HRS growing conditions are expected to continue into this week.
- At 234k mt, **Canadian wheat exports** improved last week (wk. 44), advancing year-to-date wheat exports to 9.7 million mt, 43% smaller than last year-to-date.

(CGC) Grain Handling Summary Wheat		Week 44	(June 05/'22)	
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 44	189.9	216.0	234.1	111.0
Week ago	114.7	245.7	168.9	51.4
YTD	12,826.7	12,441.0	9,749.8	3,500.8
Last YTD	19,041.5	19,928.8	17,157.1	3,440.7
YTD less Last YTD	-6,214.8	19,500.2	-7,407.3	60.1
YTD over Last YTD	67%	62%	57%	102%

- Per StatsCan, Canada exported 806k mt of wheat (excluding durum) in April 2021, compared to 1.8 million mt in April 2022.
- Mercantile thinks that there should be *NO* 2021 crop wheat held over into the new year, and there should be some new crop sales on the books. Our conclusion based on the current production outlook against potential demand is that there is tightness and there are clearly logistic and freight problems, but demand will eventually be affected by high prices. Futures are holding so far, but longer term, we expect prices for wheat to weaken from record levels. Given our weekly comments, we hope that farmers took and continue to take advantage of high prices and good returns on investment in their crop.
- **Durum** - Canadian durum seeding is essentially finished.
- In the US, North Dakota was 62% planted as of June 6 with significant progress made last week. The North Dakota crop is 34% emerged compared to the 5-year average of 81%. Montana is 93% planted and 70% emerged. In NW North Dakota, where conditions have remained wetter, it is expected that an above-average number of acres will remain unplanted.
- **Durum exports** for week 44 were at an improved 73k mt, for a year-to-date total of 2.2 million mt, compared to 5.4 million mt last year-to-date. This is now 59% behind last year's pace.

(CGC) Grain Handling Summary Durum		Week 44	(June 05/'22)	
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 44	52.2	46.6	72.8	14.6
Week ago	12.7	37.9	30.8	6.1
YTD	2,140.8	2,606.8	2,222.6	380.9
Last YTD	5,301.2	6,340.5	5,428.3	469.7
YTD less Last YTD	-3,160.4	-3,733.7	-3,205.7	-88.8
YTD over Last YTD	40%	41%	41%	81%

- Per StatsCan, Canada exported 244k mt of durum in April 2021, compared to 661k mt in April 2022.
- Durum will remain tight in the new crop year, and crop development on the southern Prairies will be monitored closely.

US Wheat:

- We did not consider the **USDA-WASDE** report to be bullish on wheat.
- The June USDA-WASDE had no major changes on the demand side for either old crop or new crop wheat. World consumption was down 1.5 million mt, mostly in India. New crop US supply was increased by 8 million mt, although less than expected.
 - By type of wheat, the HRW estimate was down 7.2 million bu from May to 582 million bu, vs a 3.9 million bu increase in SRW and an 11.8 million bu increase in white winter wheat. Spring wheat production was steady at 556 million bu from May.
 - Global wheat production was reduced by 1.4 million mt to 773.4 million mt, as India was cut by 2.5 million mt and the U.S. was increased. Global wheat stocks are seen at 266.9 million mt.
 - Both Russia and Ukraine were unchanged from the May estimates.
- In the US, heavy rain and isolated hailstorms slowed harvest progress in Texas and Oklahoma. The SRW harvest is well underway. Significant HRS planting progress was made in Minnesota.

Improved weather allowed for significant progress during the last week of HRS and northern durum planting. The SW crop in the Pacific Northwest is 2-3 weeks behind average but remains in good to excellent condition.

- US HRS for July 2022 was valued at \$501.40/ mt FOB PNW (up \$14.70/mt from last week), FOB Gulf HRW 11/12.5 pro is valued at \$481.40/mt (up \$6.10/mt from last week).

Australian wheat:

- There were no quotes for Australian wheat on Friday.

Argentine wheat:

- In Argentina, farmer selling of new crop wheat remains very slow with no sign of a break in the long-term dryness.
- July shipment 12% pro Argentine wheat was valued at ~\$470.00/mt FOB (down \$5.00/mt from last week).

Indian wheat:

- The biggest change USDA made to the world wheat S&D was to lower the Indian wheat crop by 2.5 million mt. At the adjusted 106 million mt, this is still too high. More importantly, July-June 2022/23 Indian exports were assessed at 6 million mt, despite the Indian Govt's confirmation of an export ban. This looks too high.

EU wheat:

- Matif is down Euro1.50/mt this morning.
- USDA lowered EU wheat production by just 400k mt, despite the reduction in French crop ratings from 89% Gd/Exc to just 66% in the last report (June 6).
- FOB prices in the EU: August 2022 French 11.5 pro wheat closed at \$421.50/mt (up \$2.10/mt from last week); August German 12.5 pro wheat closed at \$430.90/mt (up \$4.70/mt from last week). August Baltic 12.5 pro wheat was at \$429.80/mt (down \$3.20/mt from last week).

Black Sea wheat:

- The discussions about a 'grain corridor' in Turkey did not change anything. The Black Sea harvest starts in a couple of weeks with no chance of Ukrainian maritime grain exports. Ukrainian overland exports will run into serious competition for elevations by the Balkan harvest, which until now had not been the case.
- The volume of new crop Russian business remains to be seen. Insuring freight remains massively expensive, although Refinitiv/Reuters reported this morning that state-controlled Russian National Reinsurance Company (RNRC) is now the main reinsurer of Russian ships, including Sovcomflot's fleet, after Western insurance firms withdrew cover for Russian shipowners.
- Prices in the Black Sea remain ill-defined. Russian FOB prices for 12.5 pro July delivery wheat were quoted at \$430.00/mt, *down \$8.00/mt from last week*.

➤ **Significant purchases/ trades:**

- There was no major trade to report last week as buyers wanted to watch what the USDA's WASDE report said.
- **Japan** bought a total of 147k mt of food-quality wheat from the US and Canada in regular tenders last Thursday. They also tendered 22k mt of Standard White wheat from Australia on Tuesday, but no deals were done.

➤ **Wheat Market Outlook:**

Significant events:

- The **June USDA-WASDE** had no major changes on the demand side for either old crop or new crop wheat. World consumption was down 1.5 million mt, mostly in India. New crop US supply was increased by 8 million mt, although less than expected.
- We did not consider the **USDA-WASDE** report to be bullish on wheat.
- Other than in some areas of Manitoba, spring wheat **seeding** is essentially finished in W Canada and germination seems generally good. The U.S. HRS crop is now 84% planted and 61% emerged. There will have sufficient milling wheat.
- There was **no trade** to report as buyers wanted to watch what the USDA's WASDE report said.
- The discussions about a '**grain corridor**' in Turkey did not change anything. The Black Sea harvest starts in a couple of weeks with no chance of Ukrainian maritime grain exports happening.
- Reuters reported this morning that state-controlled Russian National Reinsurance Company (RNRC) is now the main **reinsurer of Russian ships**, including Sovcomflot's fleet, after Western insurance firms withdrew cover for Russian shipowners.

Outlook:

The USDA June WASDE report showed no changes to the demand side for either old crop or new crop wheat. New crop supply was lifted by 8 million bushels, but not the 10 million bushels cut the trade was said to expect. Despite the negatives in the WASDE estimate, wheat futures closed higher. There was no progress on talks to free the export corridor from Ukraine. Mercantile thought that the USDA overestimated the demand side by not considering/ evaluating the consequences of very high prices on demand. Mercantile thinks that either prices or demand will eventually have to go down. Mercantile also does not expect prices to fall in the short term. Weather remains a factor and presently there is not much selling of futures. We do have sufficient milling wheat.

If not already sold, Mercantile believes producers should be sold out of old crop and 50% sold new crop 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: 13-06-2022					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Sept. '22 (bu.)	Sept. '22 (mt)
1 CWRS 13.5	\$14.37	\$528.01	1 CWRS 13.5	\$14.22	\$522.50
1 CWAD 13.0	\$16.31	\$599.29	1 CWAD 13.0	\$15.44	\$567.33
1 CPSR 11.5	\$13.49	\$495.68	1 CPSR 11.5	\$13.27	\$487.59
SW Sask			SW Sask		
1 CWRS 13.5	\$14.19	\$521.40	1 CWRS 13.5	\$14.00	\$514.42
1 CWAD 13.0	\$16.26	\$597.46	1 CWAD 13.0	\$15.71	\$577.25
1 CPSR 11.5	\$13.40	\$492.37	1 CPSR 11.5	\$13.14	\$482.82
NE Sask			NE Sask		
1 CWRS 13.5	\$14.13	\$519.19	1 CWRS 13.5	\$13.96	\$512.95
1 CWAD 13.0	\$16.29	\$598.56	1 CWAD 13.0	\$15.82	\$581.29
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	
SE Sask			SE Sask		
1 CWRS 13.5	\$14.14	\$519.56	1 CWRS 13.5	\$13.89	\$510.37
1 CWAD 13.0	\$16.01	\$588.27	1 CWAD 13.0	\$15.76	\$579.09
1 CPSR 11.5	\$13.34	\$490.16	1 CPSR 11.5	\$13.08	\$480.61

Data source: PDQ, June 13/22

Table 2: Grade Spreads, in Canadian Dollars per Bu and per MILLION MT

Avg. Grade Spread/ Pro Discounts	Cdn\$/bu.	Cdn.\$/mt
1 CWRS 14.0	0.01	0.38
1 CWRS 13.5	Base Grade	Base Grade
2 CWRS 13.5	(0.10)	-3.67
1 CWRS 12.5	(0.02)	-0.73
1 CWAD 13.0	Base Grade	Base Grade
1 CWAD 13.5	0.01	0.37
2 CWAD 13.0	(0.10)	-3.67
2 CWAD 12.5	(0.11)	-4.04

Data source: PDQ, June 13/22

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 Northwest (PNW) ≈ 1 CWRS 13.5% in Vancouver
 - HRS in the Pacific Northwest (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 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.

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

Relevant FOB Prices and Export Basis				13-06-2022
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	\$621.62	\$771.94		
HRS	\$609.33			
HRW 11.5	\$607.44			
SWW 12.0	\$557.33			
1 CWRS 13.5 ³	\$621.62		\$528.01	\$93.61
2 CWRS 13.0 ³	\$609.33		\$524.34	\$84.99
3 CWRS ³	\$607.44		\$515.15	\$92.29
CPS ³	\$550.71		\$480.98	\$69.73
1 CWAD ⁴		\$765.32	\$606.28	\$159.05
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$430.00	July		
French 11.5 (Rouen)	\$421.50	Aug.		
APW 10.5 (W Coast)	n/a	July		
Argentine 12.0	\$470.00	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