

Wheat Market Outlook and Price Report: June 22, 2022

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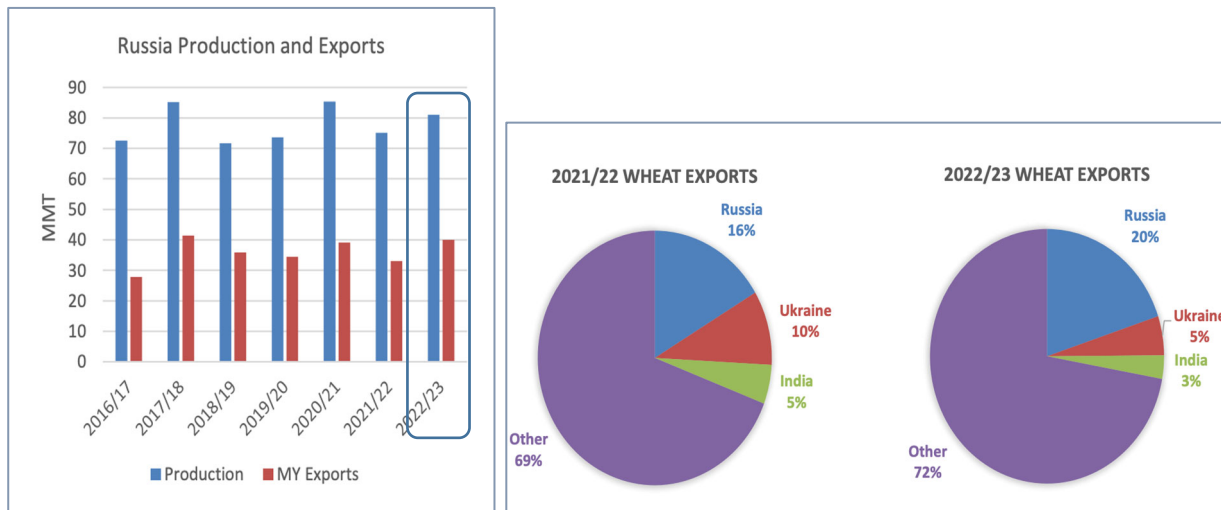
i) Background and Rationale for the Report

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 June 22, 2022

Russia – Wheat Production and Export Outlook (USDA):



Source: USDA-FAS, June 2022

- Last week, USDA increased 2022/23 Russian exports by 1.0 million mt to a near-record 40.0 million mt (up 7.0 million mt from the prior year) due to a more abundant harvest and dominance over other Black Sea suppliers. Russia's winter wheat crop was decimated last year by an unusual ice-crusting event, but growing conditions this year have remained favorable with limited winterkill and yields are expected to be higher.
- Russia exports are also expected to expand given the challenges it created for Ukrainian wheat exports. Discussions are ongoing about potentially opening a corridor for Ukrainian exports, but there has been little progress thus far as Russia has called for lifting sanctions as a prerequisite to ensuring an open flow of Ukrainian exports.
- The ban on wheat exports by India further exacerbates the situation for price-sensitive markets but creates further opportunities for Russia to ship to India's markets.

- Despite economic sanctions and a hefty export tax, Russia is still poised to be the top wheat exporter in 2022/23 as importing countries seek affordable supplies.

Developments in Wheat Demand:

The Indian export ban removes another source of affordable wheat for many low-income importing countries, adding stress to a tight global market.

In India, overall wheat consumption is forecast to decline, while rice consumption is forecast to rise.

➤ **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:

- July 2022 contract **Chicago winter wheat** closed at 1034-2, down 44-0 cents on Friday, *down 36-4 cents on the week.*
- July 2022 contract **Kansas hard red winter wheat** closed at 1105-0, down 43-4 cents in Friday's trade, *down 57-4 cents on the week.*
- July 2022 **Minneapolis hard red spring wheat** closed at 1169-4, down 39-4 cents on Friday, *down 52-0 cents on the week.*
- **The Funds long liquidation took their net long wheat position to the lowest since mid-February (pre-invasion).**
- The market is closed this Monday in recognition of Juneteenth Day, commemorating the end of slavery in the United States.

CBOT July 2022 Wheat (1 yr.)



KC July 2022 Wheat



Minneapolis July 2022 Wheat

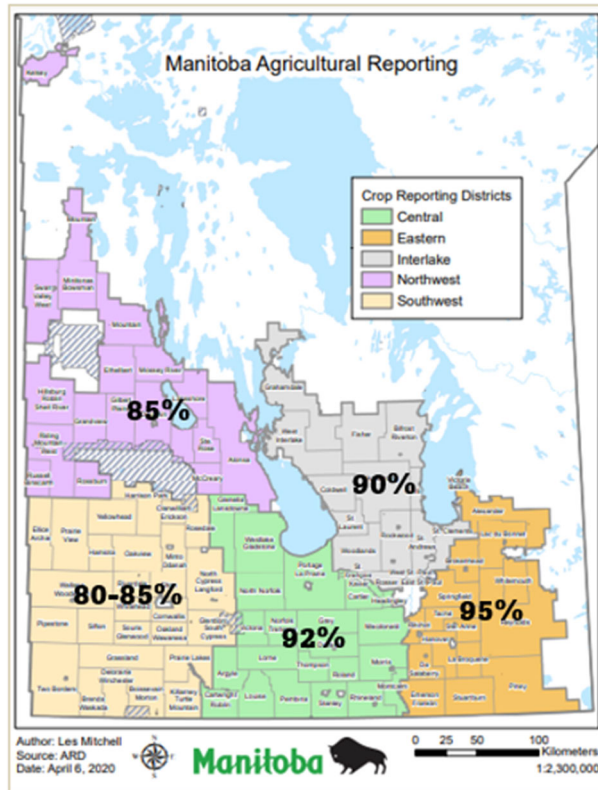


Canadian Wheat:

- Ninety-four percent of the US spring wheat crop had been planted as of June 12th. Just 72% of the crop has emerged which is 21% behind average. Fifty-four percent of the spring wheat crop is in Gd/Ex condition compared to last year's 37% Gd/Ex.
- In Canada, spring wheat planting is winding up in most areas of the Western Prairies. Spring wheat planting is 91% complete in Saskatchewan, 99% done in Alberta, while Manitoba is lagging at 65% complete. Wet conditions will prevent some areas in regions across Manitoba from finishing seeding as the crop insurance deadline for spring wheat is June 20th. Most of the prevent plant areas will be in the western regions, but Manitoba Ag also says that 5-10% of the fields around Portage and the Altona–Morris area will not be planted.
- There was beneficial rain over a large portion of Alberta and parts of Saskatchewan which has improved conditions. Soil moisture ratings went from 11.5% poor to 7.7% poor. The Alberta spring

wheat crop condition is 80% Gd/Ex. Topsoil moisture conditions improved 9 points in Saskatchewan to 65% adequate.

- All old crop wheat should be sold by now, and a good portion (~50%) of new crop should be forward contracted. Mercantile thinks there will be more wheat and less demand than what the trade is currently expecting.



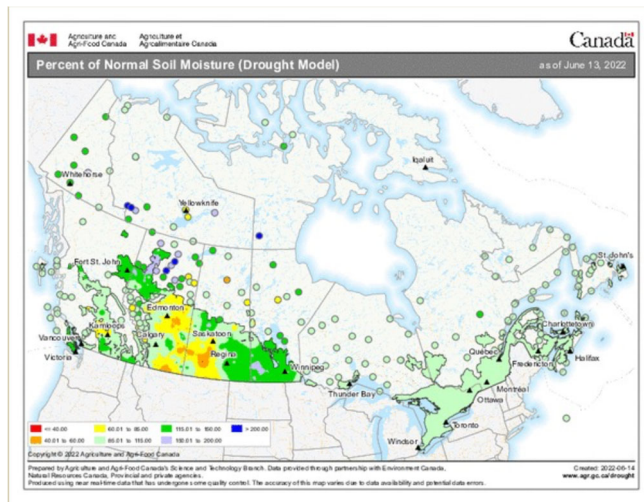
Regional Spring Seeding Progress in Manitoba as of June 14th

(CGC) Grain Handling Summary Wheat Wk. 45 (June 12/2022)

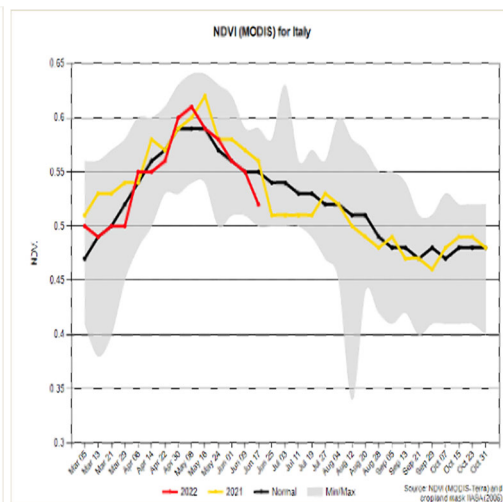
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Wk. 45	187.3	223.0	93.0	63.8
Week ago	189.9	216.0	234.1	111.0
YTD	13,013.9	12,664.2	9,842.7	3,564.8
Last YTD	19,504.4	20,436.6	17,412.3	3,520.2
YTD less Last YTD	-6,490.5	-7,772.4	-7,569.6	44.6
YTD over Last YTD	67%	62%	57%	101%

- **Durum** – Durum conditions in Alberta are 61% Gd/Ex while the durum crop in southwest and west-central Saskatchewan are 57% and 36% are in good condition. Widespread rain over Alberta and parts of Saskatchewan last week will improve these ratings.

- **US durum:** North Dakota durum was 83% planted as of June 12th (vs. 1005 on average). Only 43% was emerged (vs. 87% on average). In Montana, 98% of durum was planted, and 86% emerged.
- Drought in **Northern Italy** has put the country's wheat crop at risk. Production in Italy is seen falling 15% to 6.5 million mt. Italian farm lobby groups say that the shortfall in wheat production will increase their "dependence on foreign countries". Italy normally produces 62% of their durum needs. (Note the early peak and rapid decline of normalized difference vegetation index (NDVI) values in the chart below.)
- Coldiretti, an Italian farm group, thinks that the country's wheat production could end up 15% below last year's output. (Italy is the biggest durum producer in the EU, followed by France, Spain and Greece).
- The durum harvest in North Africa was below-average.



Soil Moisture on the Prairies



NDVI Vegetation Index Values for Italy

- *A larger planted area and better yields this year compared to last year could result in Canadian durum production being twice as big as last year's. However, there will be strong demand for Canadian durum (conditions are poor and/or are deteriorating for several of Canada's top durum customers including North Africa and Italy).*

(CGC) Grain Handling Summary Durum		Wk. 45	(June. 12/'22)	
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Wk. 45	59.2	23.7	31.6	8.2
Week ago	52.2	46.6	72.8	14.6
YTD	2,200.4	2,630.4	2,254.2	389.9
Last YTD	5,412.0	6,436.9	5,474.8	472.5
YTD less Last YTD	-3,211.6	-3,806.5	-3,220.6	-82.6
YTD over Last YTD	41%	41%	41%	83%

US Wheat:

- US wheat futures traded lower into the weekend as investors liquidated long positions. The commitment of trader's report showed funds sold 5,736 Chicago wheat contracts and now hold an estimated long position of just 6,939 contracts. This is their weakest long position since being net short on March 1st. Similarly, funds sold 1,112 Kansas wheat contracts for a net long position of 36,386 contracts.
- The US winter wheat crop is rated as 31% Gd/Ex, up 1% from the previous week. Eighty-six percent of the crop has headed and 10% of the crop has been harvested.
- US weekly commercial sales were 236,900 mt which was at the low end of trade expectations.
- US HRS for July 2022 was valued at \$42.00/ mt FOB PNW (down \$9.40/mt from last week), FOB Gulf HRW 11/12.5 pro is valued at \$479.00/mt (down \$2.40/mt from last week).

Australian wheat:

- The weather outlook remains generally favourable, but old crop logistics in WA are still a major problem.

Argentine wheat:

- The Buenos Aires Grains Exchange (BAGE) put plantings at 47% complete against 57% last year and 53% average. BAGE mentioned potential further declines in the final planted area as the country heads for a "severe, dry and cold winter".
- July shipment 12% pro Argentine wheat was valued at ~\$490.00/mt FOB (up \$20.00/mt from last week).

Indian wheat:

- India's monsoon remains sub-par in the west and north.

China:

- Wheat in China is an enigma: Some weeks ago, an official reported that this year's wheat crop in China was "the worst ever", but the government and the USDA continue to forecast a 135 million mt crop, the second largest ever just behind last year's record 137 million mt. At the same time, wheat and flour prices are at record highs with the government paying almost \$500/mt to place wheat in the reserve, and noodle prices hitting new highs. Does China really have 140 million mt of wheat in stock?

EU wheat:

- There is a severe heatwave in western Europe that is causing concern. Spain and France saw temperatures of 40 degrees last week. Hot dry conditions have caused crop conditions to fall in still-developing crops but has also helped ripen and speed harvest progress.
- Given the severe heat across much of Europe, gains for MATIF¹ wheat were relatively light.
- Fob prices in the EU: July. '22 French 11.5 pro wheat closed at \$430.90/mt (up \$9.40/mt from last week); August German 12.5 pro wheat closed at \$437.80/mt (up \$6.90/mt from last week). Aug. Baltic 12.5 pro wheat was at \$434.70/mt (up \$4.90/mt from last week).

Black Sea wheat:

- Hot dry conditions are also an issue for Black Sea crops.
- Satellite photos seem to confirm that the Nika-Tera storage and terminal complex south of Nikolaev had been rendered 'unusable'. The complex handled over 7.6 million mt of cargo in 2021 and is one of just two deep-sea Ukraine ports still under Ukrainian control (the other being Odessa).

¹ MATIF (Marché à Terme International de France) is a former futures exchange in France. It was merged with the merger of the Paris Bourse with Euronext NV to Euronext Paris, which belongs to the exchange operator Euro Next. Although the contract is not named "Matif Milling Wheat" anymore, it is still commonly referred to by this name. The official name for this contract is Euronext milling wheat No 2.

- There still is some hope that a corridor will be created to allow Ukrainian exports. However, we expect the Russians to demand unacceptable terms.
- Prices in the Black Sea remain ill-defined. Russian FOB prices for 12.5 pro July delivery wheat were quoted at \$440.00/mt, *up \$10.00/mt from last week.*

➤ **Significant purchases/ trades:**

- We did not hear of any significant cash business being concluded last week. We think buyers will hold off for the present while economic conditions are complicated (high inflation, higher dollar, high interest rates, fear of stagnation) and economies are very fragile.

➤ **Wheat Market Outlook:**

Significant events:

- The **funds'** long liquidation took their net long wheat position to the lowest since mid-February (pre-invasion).
- **Weather:** Crop risks in North America and Europe, and to some degree in Argentina.
 - Weather might be the key driver in July.
 - Durum conditions in Italy are declining.
 - Closer to home in Canada there were significant rains in Saskatchewan and Alberta.
- There was no significant **cash business** done.
- The **Russia-Ukraine war** seems to be more and more entrenched and could last a while. However, Russian wheat exports are expected to reach a near record 40 million mt in 2022/23.
- There still is some hope that a **grain corridor** will be created to allow Ukrainian exports. However, we expect the Russians to demand unacceptable terms.

Outlook:

The funds' long liquidation took their net long wheat position to the lowest since mid-February (pre-invasion). Buyers will likely hold off for the present while economic conditions are so complicated, and economies are very fragile. Wheat was overpriced compared to corn, so the drop in wheat values was to be expected and there may still be more correction. Weather remains an intangible at this stage and there is also still some hope that a corridor will be created to allow Ukrainian exports; expect that the Russians will demand unacceptable terms.

Mercantile expects markets to be firmer next week, so they don't suggest sales at current levels.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: 20-06-2022

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Sept. '22 (bu.)	Sept. '22 (mt)
1 CWRS 13.5	\$14.12	\$518.83	1 CWRS 13.5	\$13.94	\$512.21
1 CWAD 13.0	\$16.31	\$599.29	1 CWAD 13.0	\$15.53	\$570.63
1 CPSR 11.5	\$13.26	\$487.23	1 CPSR 11.5	\$13.16	\$483.55
SW Sask			SW Sask		
1 CWRS 13.5	\$13.69	\$503.03	1 CWRS 13.5	\$13.75	\$505.23
1 CWAD 13.0	\$16.33	\$600.03	1 CWAD 13.0	\$15.81	\$580.92
1 CPSR 11.5	\$13.11	\$481.71	1 CPSR 11.5	\$13.03	\$478.77
NE Sask			NE Sask		
1 CWRS 13.5	\$13.89	\$510.37	1 CWRS 13.5	\$13.67	\$502.29
1 CWAD 13.0	\$16.43	\$603.70	1 CWAD 13.0	\$15.96	\$586.43
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	
SE Sask			SE Sask		
1 CWRS 13.5	\$13.88	\$510.01	1 CWRS 13.5	\$13.65	\$501.56
1 CWAD 13.0	\$16.27	\$597.82	1 CWAD 13.0	\$15.91	\$584.60
1 CPSR 11.5	\$13.09	\$480.98	1 CPSR 11.5	\$12.94	\$475.47

Data source: PDQ, June 20/22

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 20/22

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 Basis² (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
 - 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

² 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.”

(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			20-06-2022	
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	\$602.78	\$779.36		
HRS	\$596.09			
HRW 11.5	\$586.55			
SWW 12.0	\$550.75			
1 CWRS 13.5 ³	\$602.78		\$512.95	\$89.83
2 CWRS 13.0 ³	\$596.09		\$509.27	\$86.82
3 CWRS ³	\$586.55		\$500.09	\$86.46
CPS ³	\$544.07		\$466.65	\$77.42
1 CWAD ⁴		\$772.68	\$597.09	\$175.59
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$440.00	July		
French 11.5 (Rouen)	\$430.90	Aug.		
APW 10.5 (W Coast)	n/a	July		
Argentine 12.0	\$490.00	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