

**Wheat Market Outlook and Price Report: June 27, 2022**  
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**i) Background and Rationale for the Report**

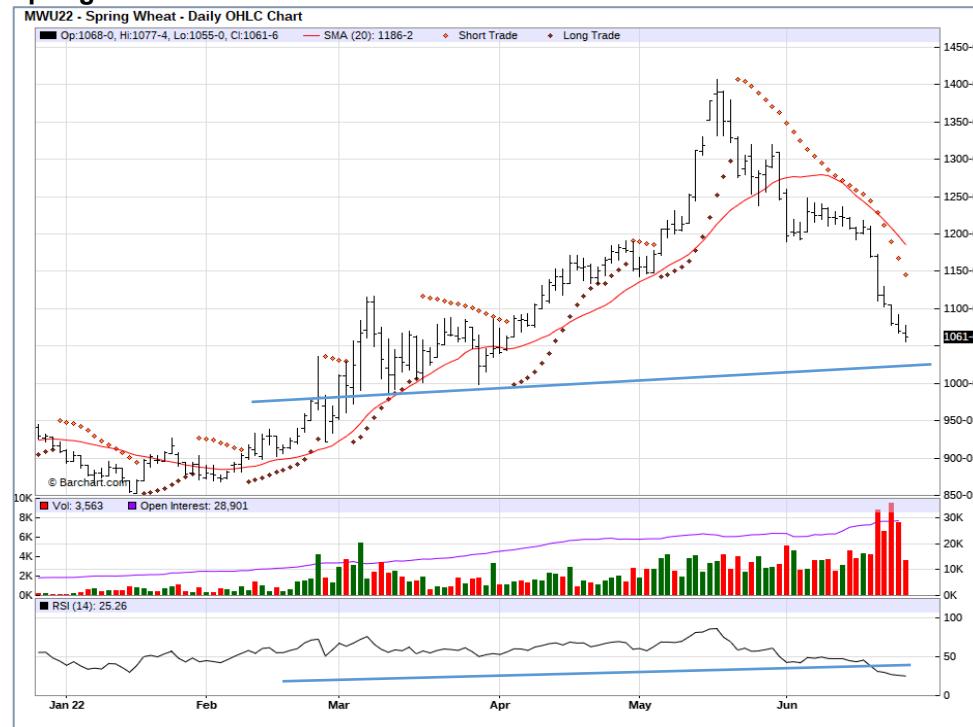
The following wheat market outlook and price report will be published on a weekly basis on the Sask Wheat Website. The report provides producers with an overview of world wheat markets, a market forecast, and benchmark prices at both the primary elevator and export positions (FOB Vancouver or elsewhere).

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 27, 2022**

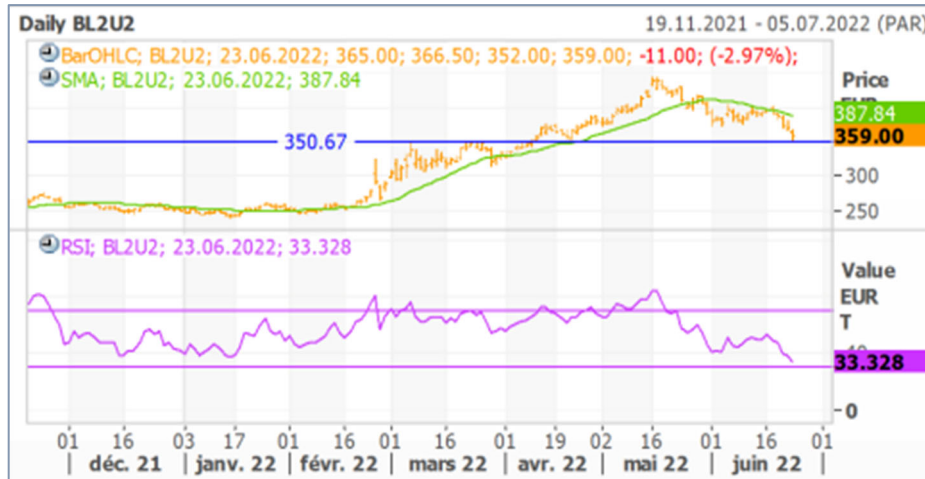
**‘Technicals’ - Charts show wheat to be getting oversold (Spring wheat/ Matif<sup>1</sup> wheat/ Matif corn):**

**Spring Wheat**



<sup>1</sup> 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.

## Matif wheat:



## Matif Corn:



- New crop wheat fell more sharply than corn, although in our opinion, it remains overpriced compared to corn.
- Matif wheat in Europe dropped to its long-term support of €359/mt. It is getting into oversold territory.
- Matif corn in Europe is also hitting oversold territory but may have already gone through long-term support.

## Developments in Wheat Demand:

There were no sizeable purchases last week other than a sale to Algeria for August shipment. Markets are moving into new crop positions.

The big question currently is if/ to what degree stressful economic conditions will affect the overall demand for the coming crop. High inflation, low pay increases -if any- compared to inflation, strikes, big government debts, threats of stagflation, and energy gouging may have caused consumption cutbacks so that demand for grains and oilseeds could now be grossly overstated.

➤ **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 2022 contract Chicago winter wheat closed at 923-6, down 13-4 cents on Friday, *down 154-4 cents on the week.*
- July 2022 contract Kansas hard red winter wheat closed at 992-4, down 12-4 cents in Friday's trade, *down 156-0 cents on the week.*
- July 2022 Minneapolis hard red spring wheat closed at 1070-6, down 9-6 cents on Friday, *down 138-2 cents on the week.*
- Wheat longs were about 50,000 contracts long of wheat in the main Kansas City exchange.
- Wheat markets are currently down 4-8c/bu this Monday morning.

**CBOT July 2022 Wheat (1 yr.)**



**KC July 2022 Wheat**

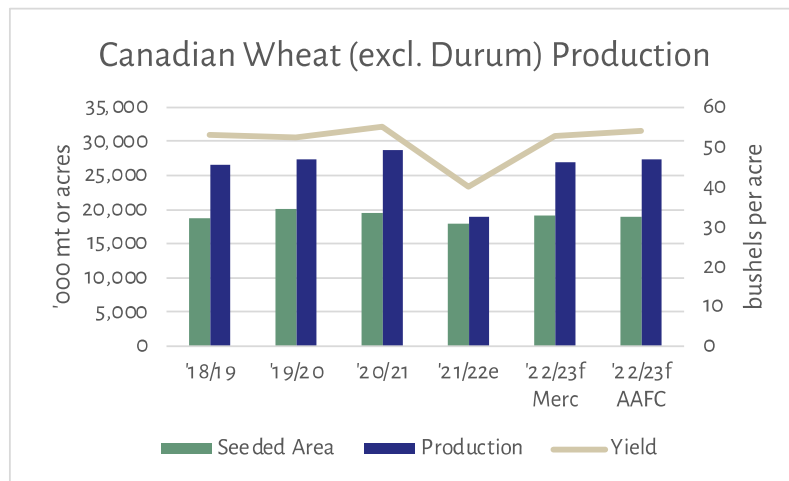


**Minneapolis July 2022 Wheat**



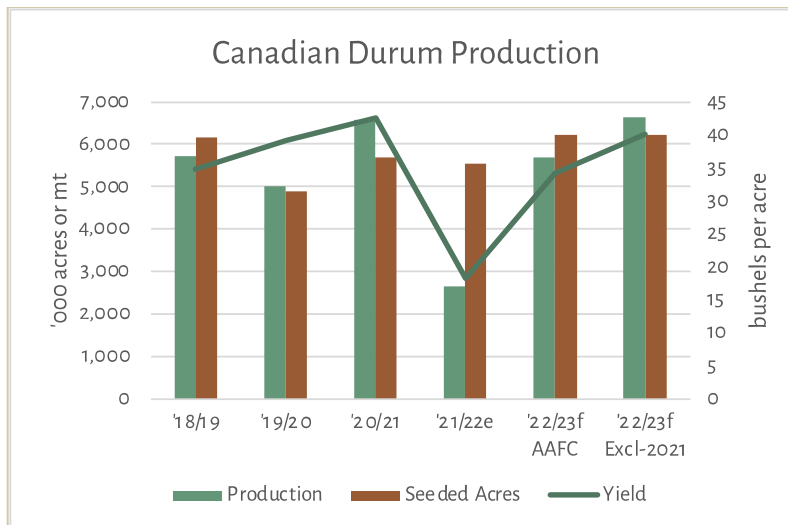
**Canadian Wheat:**

- As of June 21<sup>st</sup>, 91 percent of Manitoba's crop had been planted. Manitoba Ag says that spring cereal seeding is "nearly complete," but this is essentially true by definition as the crop insurance deadline for most remaining crops was on the 20<sup>th</sup>. Spring wheat crops that were seeded are in good condition, albeit three or so weeks later than normal. Spring wheat conditions in Alberta improved 4 percent from last week and are now 84percent Gd/Ex. Soil moisture conditions improved with just 3.3 percent of the province experiencing poor soil moisture. Sask Ag is not releasing crop condition statistics yet, but soil maps show that most of the province is experiencing favourable moisture conditions.
- Ninety-eight percent of the US spring wheat crop has been planted. The spring wheat crop condition rose five points from last week to 59percent Gd/Exc.
- There were only minor changes in the AAFC June balance sheet update. They are still expecting that Canadian wheat area to increase by six percent from last year to 19 million acres. We think that AAFC's number could be too low, and the area seeded could be closer to 19.2 million acres. The AAFC is using a 54 bushel per acre number which is the pre-2021 five-year average. The five-year average including 2021 would be 53 bushels per acre. We are guessing yield will be somewhere in between these.
- The Stats Canada's seeded area report is out on July 5<sup>th</sup>. There is a good chance that Stats Canada's number will not reflect acres that were switched from to late seeding as farmers were supposed to have completed the questionnaire by May 27<sup>th</sup>.



(CGC) Grain Handling Summary Wheat		Wk. 46	June 19/2022	
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Wk. 46	234.1	222.2	106.3	67.2
Week ago,	187.3	223.0	93.0	63.8
YTD	13,248.1	12,928.6	9,949.0	3,632.2
Last YTD	19,998.3	20,929.3	17,844.5	3,578.4
<b>YTD less Last YTD</b>	<b>-6,750.2</b>	<b>-8,000.7</b>	<b>-7,895.5</b>	<b>53.8</b>
<b>YTD over Last YTD</b>	<b>66percent</b>	<b>62percent</b>	<b>56percent</b>	<b>102percent</b>

- Mercantile recommends considering selling some Minneapolis December wheat.
- **Durum** – The AAFC made no changes in their updated June balance sheet for durum. Stats Canada will release their acreage numbers on July 5<sup>th</sup>. Stats Canada is currently estimating that the seeded area will be 6.22 million acres – a 13percent (+694k acre) increase from last year. They are currently using a five-year average yield number of 34 bushels per acres number for a total production number of 5.7 million mt, up 114percent (+3.0 million mt) from last year. We think that their acreage number is close, but the big question is on yield assumptions. If we exclude last year, the five-year (2016-2020) average is 40 bushels per acre. This would produce a 6.6 million mt crop which would be 150percent (+4.0 million mt) larger than last year.
- Given the slow seeding and/or dry conditions in many of the durum-producing areas, expect that yields will be in the 34-36 bushels per acre range, although the recent rains should help greatly. The durum crop in Alberta is rated as 61percent Gd/Ex (unchanged from last week) compared to 77percent Gd/Ex this time last year. (Note: durum crop ratings in Alberta fell to 19percent by August 10, 2021). There are no condition ratings for the Saskatchewan crop yet.



- Higher seeded area and better yields will raise the supply of durum and pressure prices. That said, carry-in is negligible and under most scenarios, the balance sheet does not begin to look burdensome unless yields are quite exceptional. New crop bids were lower last week on improved conditions. Mercantile recommends being 50 percent sold new crops.

(CGC) Grain Handling Summary Durum		Wk. 46		June 19/2022
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk exports	Domestic Disappearance
Wk. 46	53.9	60.0	33.9	4.2
Week ago,	59.2	23.7	31.6	8.2
YTD	2,254.4	2,695.8	2,288.1	394.1
Last YTD	5,571.7	6,517.5	5,578.8	499.6
<b>YTD less Last YTD</b>	<b>-3,317.3</b>	<b>-3,821.7</b>	<b>-3,290.7</b>	<b>-105.5</b>
<b>YTD over Last YTD</b>	<b>40percent</b>	<b>41percent</b>	<b>41percent</b>	<b>79percent</b>

### US Wheat:

- Wheat futures plummeted on a combination of risk-off selling, a rapidly progressing US harvest and improved conditions in Canada, and questions about the demand outlook.
- The US winter wheat harvest is moving rapidly under hot, dry conditions. One-quarter of the crop had been harvested as of the 19<sup>th</sup>. Crop conditions lost another point to 30percent Gd/Ex.
- US weekly sales were above expectations at 477,800 mt for new crop for a total 2022/'23 commitment number of 5.2 million mt. This is almost one-quarter of the USDA's total projected export number for 2022/23.
- US HRS for July 2022 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 \$439.60/mt (down \$39.40/mt from last week).

**Australian wheat:**

- Australian futures are down, but there still is little to no consumer demand.

**Argentine wheat:**

- Dryness remains a potential major issue for the whole of the center-north and western regions.
- July shipment 12 percent pro Argentine wheat was valued at ~\$480.00/mt FOB (Down \$10.00/mt from last week).

**Indian wheat:**

- After Bangladesh's biggest supplier India banned exports of wheat last month to contain local prices, Bangladesh is trying to secure wheat supplies from Russia in a government-to-government deal.

**EU wheat:**

- Nearby world wheat futures fell to their lowest weekly close since the first week of the Ukraine war.
- Early yields in France were reported as poor but were expected to improve as harvest moves north.
- FOB prices in the EU: July 2022 French 11.5 pro wheat closed at \$403.40/mt (down \$27.50/mt from last week); Aug. German 12.5 pro wheat closed at \$411.12/mt (down \$26.68/mt from last week). Aug. Baltic 12.5 pro wheat was at \$408.00/mt (down \$26.70/mt from last week).

**Black Sea wheat:**

- There are still discussions about an export corridor at meetings in Russia and Turkey with projections of likely unfeasible amounts of grain to be shipped from Odessa (30-35 million mt in the next 6-8 months). The numbers would imply Odessa alone will ship 5 million mt of grain every month (pre-war shipments from the whole of Ukraine were ~ 6 million mt).
- Ukraine has exported just 78kt wheat so far in June.
- The Russia-Ukraine war rages on with weekend strikes on Kyiv ahead of the G7 summit.
- Prices in the Black Sea remain ill-defined. Russian Fob prices for 12.5 pro July delivery wheat were quoted at \$420.00/mt, *down \$20.00/mt from last week*.

➤ **Significant purchases/ trades:**

- **Algeria** reportedly bought 600-650k mt of August shipment wheat at around \$445/mt.
- **Jordan** passed on their tender.
- **Tunisia** bought 100kt July-August (no price details were available).
- **Pakistan** returns July 1st for 500k mt of wheat for August-15 September.
- **Bangladesh** is trying to get a government-to-government deal with Russia going, as India is no longer interested in selling wheat.
- US weekly sales were above expectations at 477,800 mt for new crop wheat.

➤ **Wheat Market Outlook:**

**Significant events:**

- **Wheat futures** plummeted on a combination of risk-off selling, a rapidly progressing US harvest and improved conditions in Canada, and questions about the demand outlook.
- Nearby world wheat futures fell to their lowest weekly close since the first week of the Ukraine war.
- We note that new crop wheat fell more sharply than corn, although in our opinion, it remains overpriced compared to corn.
- Canadian wheat is **all planted**, and 98 percent of the US spring wheat crop has been planted. The US spring wheat crop condition rose five points from last week to 59percent Gd/Exc.
- After India banned exports of wheat last month to contain local prices, **Bangladesh** is trying to secure wheat supplies from Russia in a government-to-government deal.
- There are still discussions about an **export corridor** at meetings in Russia and Turkey; we don't think this will happen.
- A big question currently is if high inflation, strikes, huge government debts, threats of stagflation, and energy gouging have caused consumption cutbacks so that previous **demand projections** for grains and oilseeds are overstated.

**Outlook:**

Thursday is a big day with the release of the USDA Quarterly Grain Stocks report.

Mercantile expects wheat to hold steadier for now, although long term, they think the wheat over corn premium is still too high. There are several tenders due this week, which if they trade will support wheat in the short term. There was again talk of opening Ukrainian export corridors, but it is unlikely this will be allowed to happen by the Russians. Mercantile recommends selling some Minneapolis December 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: <b>27-06-2022</b>					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Sept. '22 (bu.)	Sept. '22 (mt)
1 CWRS 13.5	\$12.72	\$467.38	1 CWRS 13.5	\$12.55	\$461.14
1 CWAD 13.0	\$15.27	\$561.08	1 CWAD 13.0	\$14.90	\$547.49
1 CPSR 11.5	\$11.78	\$432.84	1 CPSR 11.5	\$11.82	\$434.31
<b>SW Sask</b>			<b>SW Sask</b>		
1 CWRS 13.5	\$12.49	\$458.93	1 CWRS 13.5	\$12.35	\$453.79
1 CWAD 13.0	\$15.25	\$560.35	1 CWAD 13.0	\$15.15	\$556.67
1 CPSR 11.5	\$11.67	\$428.80	1 CPSR 11.5	\$11.69	\$429.54
<b>NE Sask</b>			<b>NE Sask</b>		
1 CWRS 13.5	\$12.45	\$457.46	1 CWRS 13.5	\$12.28	\$451.22
1 CWAD 13.0	\$15.15	\$556.67	1 CWAD 13.0	\$15.07	\$553.73
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	
<b>SE Sask</b>			<b>SE Sask</b>		
1 CWRS 13.5	\$12.44	\$457.10	1 CWRS 13.5	\$12.23	\$449.38
1 CWAD 13.0	\$15.14	\$556.30	1 CWAD 13.0	\$15.13	\$555.94
1 CPSR 11.5	\$11.58	\$425.50	1 CPSR 11.5	\$11.56	\$424.76

Data source: PDQ, June 27/2022

**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 27/2022



#### **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 Basis<sup>2</sup> (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:

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<sup>2</sup> 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 14percent in the Pacific Northwest (PNW) ≈ 1 CWRS 13.5percent in Vancouver
  - HRS in the Pacific Northwest (PNW) ≈ 2 CWRS 13.0percent 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 38percent of total export volume crop year to date.
  - Italy is the single biggest buyer of Canadian durum wheat with 27percent 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				27-06-2022
Type of Wheat	FOB Prices CDA <sup>1</sup> (calculated)		Street Prices	Export Basis <sup>2</sup>
	West Coast (Cdn./mt\$)	Great Lakes (Cdn.\$/mt)	Rosetown (Cdn.\$/mt)	Basis: West Coast-Centr. SK (Cdn\$/mt)
DNS 14.0	\$543.13	\$733.79		
HRS	\$531.77			
HRW 11.5	\$524.20			
SWW 12.0	\$498.66			
1 CWRS 13.5 <sup>3</sup>	\$543.13		\$451.95	\$91.18
2 CWRS 13.0 <sup>3</sup>	\$531.77		\$446.81	\$84.97
3 CWRS <sup>3</sup>	\$524.20		\$437.62	\$86.58
CPS <sup>3</sup>	\$492.03		\$404.92	\$87.11
1 CWAD <sup>4</sup>		\$727.17	\$569.53	\$157.64
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		

<sup>1</sup> FOB Prices CDA = FOB US\$ converted into Canadian Currency

<sup>2</sup> Export Basis = FOB Prices CDA minus Cdn. Street Price

<sup>3</sup> DNS 14% ≈ 1 CRWS 13.5%; HRS ≈ 2 CWRS 13.0%; HRW ≈ 3CWRS; SWW ≈ CPS

<sup>4</sup> Values derived to Lakehead FOB