

## Wheat Market Outlook and Price Report: June 6, 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 6, 2022

#### AMIS<sup>1</sup> June 2022 Global Wheat Supply-Demand Outlook:

Wheat	FAO-AMIS		USDA		IGC		IN MILLION TONNES
	2021/22 est	2022/23 f'cast	2021/22 est	2022/23 f'cast	2020/21 est	2021/22 f'cast	
		2 Jun		12 May		19 May	
Wheat Prod.	776.8 639.9	770.8 634.0	779.3 642.3	774.8 639.8	774.3 640.0	781.2 644.1	
Supply	1068.2 800.9	1067.4 796.7	1070.5 789.4	1054.5 777.6	1049.5 786.2	1059.7 795.5	
Utiliz.	771.7 628.9	768.6 630.9	790.8 642.8	787.5 643.5	770.9 625.0	777.6 636.8	
Trade	192.1 182.6	188.9 181.1	201.6 191.9	205.3 195.8	190.3 179.3	193.6 184.0	
Stocks	296.5 162.8	297.8 157.2	279.7 137.8	267.0 125.5	278.5 150.2	282.1 149.1	

Source: AMIS, June 2022

- **Global wheat production** in 2022 is forecast to decline for the first time in four years, down 0.8 percent from the 2021 record, mostly reflecting lower expected outputs in Australia, India, Morocco, and Ukraine.
- **Global wheat utilization** is seen falling in 2022/23, down 0.4 percent from 2021/22, led by a decline in feed use, as a result of high prices, and, to a lesser extent, industrial use.

<sup>1</sup> AMIS: Agricultural Market Information System. Input comes from the ten organizations that form the AMIS Secretariat: FAO, IFAD, IFPRI, IGC, OECD, UNCTAD, World Bank Group, WFP, WTO, GLAM.

- **Wheat trade** in 2022/23 (July/June) is set to contract from the 2021/22 record, mainly reflecting lower exports from Ukraine, due to conflict disruptions, as well as Argentina, Australia, and India, stemming from lower production, on top of an export ban in India.
- **Wheat stocks** (ending in 2023) are forecast to rise marginally above opening levels, with increases mostly in China, Russia, and Ukraine outweighing anticipated stock drawdowns in several countries in Africa and Asia.

### Wheat Crop Conditions:

**EU:** conditions are generally favourable; however, dry weather is impacting parts of France, Spain, and Portugal.

**United Kingdom:** winter wheat conditions are favourable.

**Ukraine:** weather conditions remain stable; however, the ongoing war continues to bring significant uncertainties, particularly in the south and east regions.

**Russian Federation:** conditions are favourable for winter wheat and spring wheat, which are currently sowing.

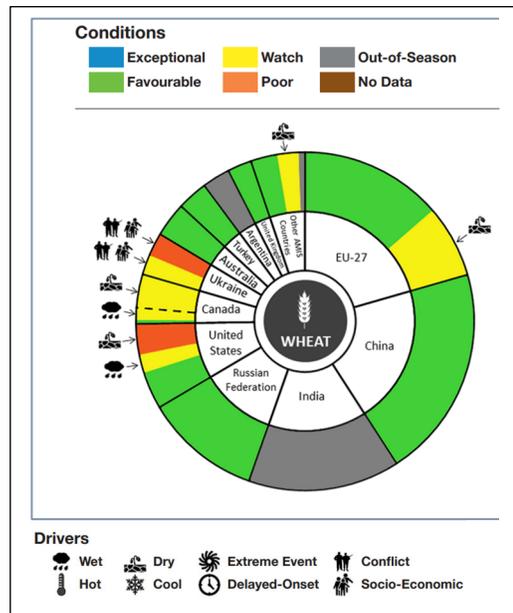
**Turkey:** conditions are favourable despite the delays in crop development from the cold and dry weather earlier in the season.

**China:** conditions are favourable for both winter and spring wheat.

**US:** long-term dryness in the central and southern Great Plains is expected to have reduced winter wheat yields. Spring wheat sowing is ongoing, albeit delayed in North Dakota and Minnesota due to wet conditions.

**Canada:** winter wheat conditions remain favourable in Ontario but are mixed in the Prairies. Spring wheat sowing has begun under mixed conditions in the Prairies due to dryness in the west and excess moisture in the east.

**Australia:** sowing is ongoing under favourable conditions.



### Developments in Wheat Demand:

- According to AMIS, both wheat utilization and trade are forecast to drop slightly from last year due to high prices and the Russia-Ukraine conflict.

### ➤ 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 1014-0, down 18-2 cents on Friday, *down 117-4 cents on the week.*
- July '22 contract Kansas hard red winter wheat closed at 1121-0, down 22-4 cents in Friday's trade, *down 114-2 cents on the week.*
- July '22 Minneapolis hard red spring wheat closed at 1191-6, down 22 cents on Friday, *down 113 cents on the week.*
- Markets were much weaker this past week. Funds were again sellers.
- Most of Europe is closed today (Monday) due Whitsunday.

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



**KC July 2022 Wheat**



**Minneapolis July 2022 Wheat**



**General Comment:**

Wheat (and corn) tumbled on rumours the Russians were going to allow Ukrainian exports. The commodity futures weekly report confirmed long liquidation from managed money of winter wheat traders.

**Canadian Wheat:**

- Surprisingly, the commodity futures weekly report showed managed money firms were 292 contracts more net-long week-over-week in spring wheat futures and options. That extended their net long to 15,523 contracts as of May 31.
- Seeding in Saskatchewan took another jump forward to 75% seeded compared to 97% on average. In Alberta, spring wheat was 97% seeded, but moisture deficits in the south of Alberta remain worrisome. Manitoba was only 40% seeded overall last Thursday.
- US spring wheat jumped to 73% seeded as of May 29th, compared to 92% on average. In North Dakota, spring wheat was at 59% planted, a big jump from the 27% the week prior. Montana is 94% planted. Concerns about Prevent Plant acres in the US have largely been abated.
- Planting progress in Canada and the US was quite good last week, and there does not seem to be an immediate yield threat on the horizon.
- **Canadian wheat exports** were small last week (week 43) at 169k mt, advancing year-to-date wheat exports to 9.5 million mt, 7.1 million mt lower (-43%) than last year-to-date.

(CGC) Grain Handling Summary Wheat		Week 43	(May 29/'22)	
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 43	114.7	230.7	168.9	51.4
Week ago	90.5	245.7	308.5	110.5
Year-to-Date	12,636.8	230.7	9,515.7	3,389.5
Last Year-to-Date	18,406.3	12,223.7	16,640.7	3,360.9
YTD less Last YTD	-5,769.5	19,500.2	-7,125.0	28.6
YTD over Last YTD	69%	2%	57%	101%

- Talk about a 'grain corridor' for Ukrainian wheat exports has been kept alive by pending discussions on the topic in Turkey. With no fresh news to feed the bulls, against the realization that grain has become prohibitively expensive to some buyers, all wheat markets broke decisively lower.
- *Big questions remain over Black Sea and Indian wheat exports. However, markets are also near all-time highs and demand has slowed. Mercantile thinks there is enough wheat for world demand and that wheat is overpriced to corn. Given the degree of uncertainty in this market, Mercantile sees no reason to make additional sales at this time.*
- **Durum exports** for week 43 were small at 31k mt, for a year-to-date total of 2.1 million mt, compared to 5.4 million mt last year-to-date. This is now 60% behind last year's pace.

(CGC) Grain Handling Summary Durum		Week 43	(May 29/'22)	
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 43	12.7	37.9	30.8	6.1
Week ago	8.7	30.4	118.7	7.0
Year-to-date	2,089.5	2,560.0	2,149.7	366.4
Last Year-to-date	5,199.0	6,253.1	5,368.0	460.8
YTD less Last YTD	-3,109.5	-3,693.1	-3,218.3	-94.4
YTD over Last YTD	40%	41%	40%	80%

- Durum seeding in Saskatchewan reached 91% seeded compared to 98% on average. In Alberta, durum wheat was 100% seeded, but moisture deficits in the south of Alberta remain a problem.
- In North Dakota, durum wheat planted was at 46%, well behind 87% last year and 86% on average. Emerged was 14%, well behind 48% last year and 49% average. In Montana, durum was 83% planted (85% average) and 42% emerged.
- *Durum will remain tight in the new crop year, and crop development on the southern Prairies will be monitored closely.*

#### US Wheat:

- The crop progress report last week confirmed that a crop can be planted very quickly these days, although spring wheat planting still has a long way to go before being complete. The May 31 report rated 29% of the winter wheat crop as good or excellent, a 1-point improvement from the week before.
- The US forecast maintains near-normal precipitation across most of the country, with needed drier conditions in North Dakota and across eastern Canada, but temperatures remain well below normal. The NOAA 7-day forecast shows rain for most of Kansas, accumulating to 2-3" this coming week. Oklahoma and Texas will lean dryer, catching a tenth to a half of an inch. Harvest is underway in that area.
- The weekly USDA sales report there were only 700 mt of wheat sold for the 2021/22 marketing year, which ends at the end of this month, and there were 363,500 mt sold for the new crop 2022/23 marketing year.
- US HRS for June '22 is valued at \$486.70/ mt FOB PNW (down \$30.30/mt from last week), FOB Gulf HRW 11/12.5 pro is valued at \$475.30/mt (down \$34.90/mt from last week).

**Australian wheat:**

- Aussie futures are down last week, and both old and new crop headed for their lowest weekly close in a month.
- Australian FOB APW wheat for July. '22 was quoted at \$460.00/mt (up 5.00/mt from last week)

**Argentine wheat:**

- BAGE lowered its acreage forecast by 100k ha (-247k acres) to 6.5 million ha, due to dryness and high input costs. Plantings were put at 14% complete against 18% average.
- BAGE has not yet given a crop estimate for 2022/23.
- July shipment 12% pro Argentine wheat was valued at ~\$475.00/mt FOB (down 10.00/mt from last week).

**Indian wheat:**

- Egypt rejected a cargo of Indian wheat that had already been rejected once by Turkish authorities. The first direct Egyptian purchase of Indian wheat was due to arrive over the past weekend and will be closely watched.
- While Egypt's government-to-government purchase of 500kt Indian wheat has reportedly been agreed to, it has not yet been officially signed.
- India's participation in the global export wheat market this year remains questionable.

**Chinese wheat:**

- Chinese consumers likely will have to pay more for food staples like noodles and bread this year, as record wheat prices in the world's top consumer of the grain get passed on to food makers. Wheat harvested in China in recent weeks is being sold at around 3,200 yuan (\$477) /mt, about 30% higher than a year ago and the highest level on record, despite stable demand.

**EU wheat:**

- Matif wheat prices have also dropped sharply as everyone looked at the potential of having Ukraine come back as an exporter of grains in the coming months (via 'grain corridor'), but that would only happen if everyone agreed to lift sanctions against Russia.
- EU farmers are already well committed and have stopped selling as the weather turns warmer and drier.
- FranceAgriMer reported that crop conditions in France deteriorated to 69% good to excellent from 73% the previous week. The soft (non-durum) wheat rating has dropped 20 points in the last three weeks. Temperatures in some regions hit record highs in May, depleting soil moisture.
- FOB prices in the EU: July 2022 French 11.5 pro wheat closed at \$419.40/mt (down \$29.30/mt from last week); August German 12.5 pro wheat closed at \$426.2/mt (down \$24.60/mt from last week). July Baltic 12.5 pro wheat was at \$433.00/mt (down \$17.80/mt from last week).

**Black Sea wheat:**

- Reports, films and photographs purporting to show renewed Russian attacks on Kyiv, the ports of Nikolaev and Nika-Terra, and warehouses containing grains and oilseeds have been in free circulation this weekend.
- Meanwhile, the "grain corridor" talks are expected to take place in Turkey on Thursday, with Belarus adding their voice to Russia's voice: "Lift the sanctions and we'll allow cargo to move." However, we think the West has NO reason to lift the sanctions, and the discussions are expected to be futile.
- The Ukrainian grain trader's union estimates that the Ukrainian wheat harvest will drop to 19.2 million mt from 33.0 million mt in 2021, with only 10.0 million mt of exportable surplus. Due to decreased exports, total grain stocks may reach a record 25.0 million mt, but could rise to as high as 43.0 million mt in a worst-case scenario.
- Prices in the Black Sea remain ill-defined. Russian Fob prices for 12.5 pro June delivery wheat were quoted at \$438.00/mt, *down \$7.00/mt from last week.*

➤ **Significant purchases/ trades:**

- **Egypt** bought 450,000 mt of wheat during the week at \$480.00/mt CIF (Cost, Insurance, Freight) on 180-day credit terms. Romania (240k mt), Russia (175k mt) and Bulgaria (50k mt) were the sellers.
- **Algeria** also bought some wheat (likely 90k mt), but we don't have details.
- There was a sale of French wheat reported to **Morocco**, but there are no details.
- A number of Middle Eastern/ African buyers are having problems financing wheat purchases at current prices:
  - Following the \$3 billion of financing obtained last week from the ITFC (International Islamic Trade Finance Corporation, Saudi-based), **Egypt** will get \$600 million from the EU and World Bank to finance storage improvement for domestic wheat purchases.
  - The EBRD bank (European Bank for Reconstruction and Development) has lent **Tunisia** €150 million to finance grain purchases, following a financial crisis that has caused payment delays to recent shipments.

➤ **Wheat Market Outlook:**

**Significant events:**

- **Markets** were much weaker this past week. Funds were again sellers. - Wheat (and corn) tumbled on rumours the Russians were going to allow Ukrainian exports. The commodity futures weekly report confirmed long liquidation from managed money of winter wheat traders.
- **Planting progress** in Canada and the US was quite good last week, and there does not seem to be an immediate yield threat on the horizon. In fact, the crop progress reports last week confirmed that a crop can be planted very quickly these days, although spring wheat planting still has a long way to go before being complete.
- The May 31 US crop report rated 29% of the **US winter wheat crop** as good or excellent, a 1-point improvement from the week before.
- FranceAgriMer reported that crop conditions in **France** deteriorated to 69% good to excellent from 73% the previous week. Temperatures in some regions hit record highs in May, depleting soil moisture.
- And there are reports this morning about a severe weather event in **France** that dropped big amounts of rain and hail in parts of France's wheat & wine country over the weekend, which is sending their wheat prices up. Matif currently is up €21/mt.
- In **Argentina**, BAGE lowered its acreage forecast by 100k ha (-247k acres) to 6.5 million ha, due to dryness and high input costs.
- The Ukrainian grain trader's union estimates that the **Ukrainian** wheat harvest will drop to 19.2 million mt from 33.0 million mt in 2021, with only 10.0 million mt of exportable surplus.
- The first direct Egyptian purchase of **Indian wheat** was due to arrive over the past weekend.
- But: **India's** ability to participate in the global export wheat market this year remains questionable.
- The "**grain corridor**" talks are expected to take place in Turkey on Thursday, with Belarus adding their voice to Russia's voice.
- There are reports, films and photographs purporting to show **renewed Russian attacks** on Kyiv, the ports of Nikolaev and Nika-Terra, and warehouses containing grains and oilseeds.
- On the demand side:
  - Following the \$3 billion of financing obtained last week from the ITFC, **Egypt** will get \$600 million from the EU and World Bank to finance storage improvement for domestic wheat purchases.
  - The EBRD bank (European Bank for Reconstruction and Development) has lent **Tunisia** €150 million to finance grain purchases.

**Outlook:**

Wheat tumbled last week on rumours the Russians were going to allow Ukrainian wheat exports, and the commodity futures weekly report confirmed long liquidation from managed money of winter wheat traders. Mercantile does not expect the 'grain corridor' to happen as there is no incentive for the West to drop their sanctions now, but the markets are confused. Mercantile thinks there is enough wheat to satisfy world demand and that wheat is overpriced to corn. However, discussion over Black Sea exports will continue to generate high volatility.

Mercantile sees no reason to make additional sales at this time.

**iii) Primary Elevator Price Tables and Grade Spreads**

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

Date: **06-06-2022**

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Sept. '22 (bu.)	Sept. '22 (mt)
1 CWRS 13.5	\$13.83	\$508.17	1 CWRS 13.5	\$13.70	\$503.39
1 CWAD 13.0	\$16.24	\$596.72	1 CWAD 13.0	\$15.37	\$564.76
1 CPSR 11.5	\$12.94	\$475.47	1 CPSR 11.5	\$12.73	\$467.75
<b>SW Sask</b>			<b>SW Sask</b>		
1 CWRS 13.5	\$13.67	\$502.29	1 CWRS 13.5	\$13.51	\$496.41
1 CWAD 13.0	\$16.29	\$598.56	1 CWAD 13.0	\$15.63	\$574.31
1 CPSR 11.5	\$12.85	\$472.16	1 CPSR 11.5	\$12.62	\$463.71
<b>NE Sask</b>			<b>NE Sask</b>		
1 CWRS 13.5	\$13.59	\$499.35	1 CWRS 13.5	\$13.44	\$493.84
1 CWAD 13.0	\$16.41	\$602.97	1 CWAD 13.0	\$15.68	\$576.15
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	
<b>SE Sask</b>			<b>SE Sask</b>		
1 CWRS 13.5	\$13.62	\$500.45	1 CWRS 13.5	\$13.39	\$492.00
1 CWAD 13.0	\$16.11	\$591.95	1 CWAD 13.0	\$15.56	\$571.74
1 CPSR 11.5	\$12.77	\$469.22	1 CPSR 11.5	\$12.53	\$460.40

Data source: PDQ, June 6/22

**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 6/22

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

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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.”

- 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				06-06-2022
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	\$614.25	\$754.75		
HRS	\$602.69			
HRW 11.5	\$600.38			
SWW 12.0	\$528.74			
1 CWRS 13.5 <sup>3</sup>	\$614.25		\$521.40	\$92.85
2 CWRS 13.0 <sup>3</sup>	\$602.69		\$517.72	\$84.97
3 CWRS <sup>3</sup>	\$600.38		\$508.54	\$91.85
CPS <sup>3</sup>	\$522.27		\$475.47	\$46.81
1 CWAD <sup>4</sup>		\$748.28	\$606.28	\$142.01
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$438.00	July		
French 11.5 (Rouen)	\$419.40	July		
APW 10.5 (W Coast)	\$460.00	July		
Argentina 12.0	\$475.00	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