

## Wheat Market Outlook and Price Report: May 16, 2022

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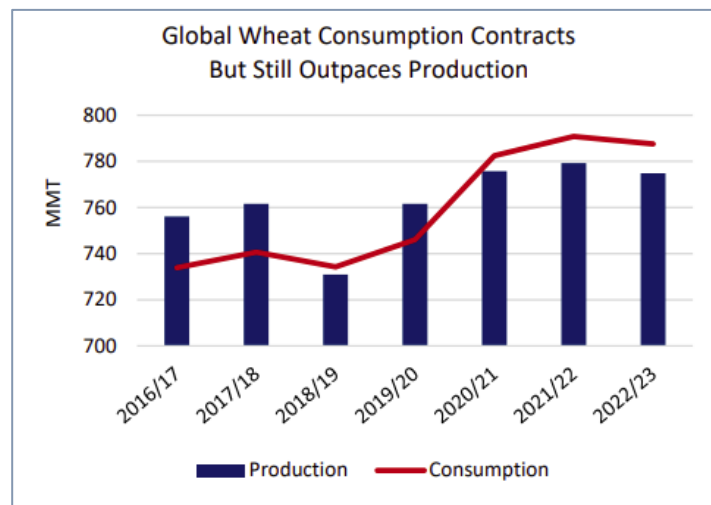
### i) Background and Rationale for the Report

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 May 16, 2022

#### USDA Grain: World Markets and Trade



Source: USDA, May 12, 2022

- The USDA released its WASDE report for May 2022. The report included revisions for the 2021/'22 crop and the first official look at the upcoming 2022/'23 season.
- For old crop, global wheat production was seen 1.2 million mt higher to 779.3 million mt. The increase was from a 1.2 million mt increase in Argentina.
- Global production is expected to shrink by 3.6 million mt in 2022/'23 to 774.8 million mt. The year-over-year decrease is due to widespread production decreases in several major wheat-producing countries including Australia, Morocco, Argentina, the EU, China, and Ukraine.
- Consumption in 2022/'23 is expected to fall by 3.3 million mt to 787.5 million mt as lower feed use will outstrip the expected increase in food use.
- With consumption exceeding production, global ending stocks are expected to shrink for the third year in a row to 267.0 million mt (5% less than last year).

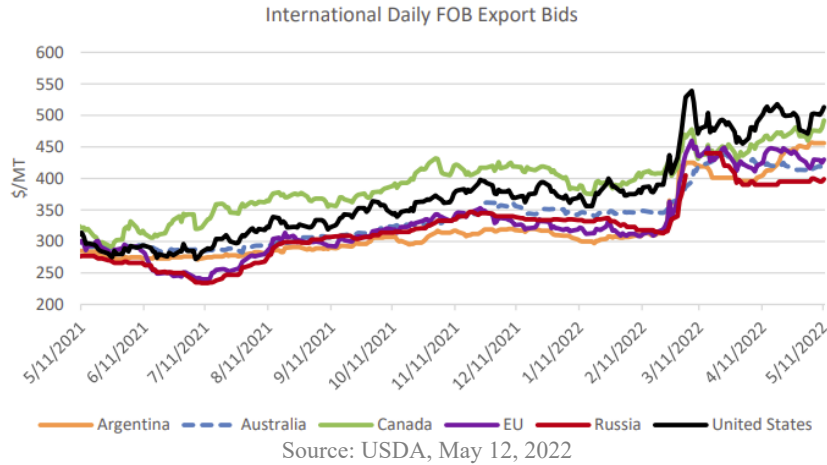
**Recent Developments in Wheat Demand:**

There were a few purchases last week, all at record high levels. In addition to extremely high commodity prices are rising shipping rates as the Baltic Dry Freight Index is up 125% since January.

**May 12/22:**

Argentina	Australia	Canada	EU	Russia	United States
\$456	\$417	\$492	\$430	\$399	\$513

Note: As of May 11, 2022



➤ **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 1177-4, down 1-2 cents on Friday, up 69-0 cents on the week.
- July '22 contract Kansas hard red winter wheat closed at 1282-0, up 12-0 cents in Friday's trade, up 111-4 cents on the week.
- July '22 Minneapolis hard red spring wheat closed at 1325-0, up 9 cents on Friday, up 116-2 cents on the week.

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



**KC July '22 Wheat**



**Minneapolis. July '22 Wheat**

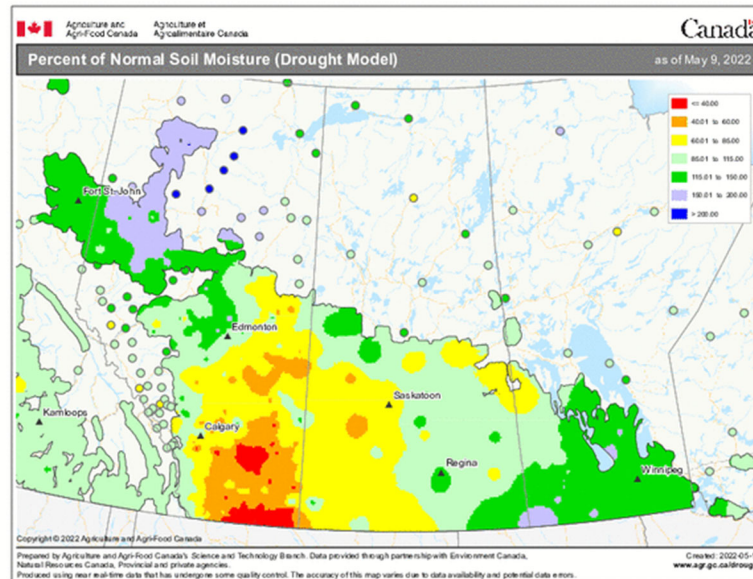


## General Comment:

- Wheat markets shot higher last week on a bullish reaction to the USDA report. The report was not so bullish itself, but the trade considered that many of the USDA's assumptions could not occur due to conditions after the report's preparation. The drought in the US Plains is adding support to wheat markets as are the poor seeding conditions in the Northern Plains and Canadian Prairies.

## Canadian Wheat:

- Seeding progress is lagging in each of the Prairie provinces. In Alberta, spring wheat seeding is 26% complete as of May 10<sup>th</sup> (compared to 42% at this time last year). Seeding in Saskatchewan is 4% done as of May 9<sup>th</sup> (which is 23% behind average). In Manitoba, there has been very little progress. The Prairie provinces are suffering from a lack of moisture in the west and excessive moisture in the east.



Source: AAFC, May 13, 2022

- Canadian wheat exports for week 40 ending May 8th were 334.6k mt for a season total of 8.9 million mt. Exports would need to be 435k mt for each of the 15 remaining weeks of the marketing year to meet the AAFC's 13.2 million mt export projection. This is unlikely as we continue to hear of shipping delays and slow movement which will result in higher Canadian ending stocks.

(CGC) Grain Handling Summary Wheat		Wk. 40		(May 8/'21)
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Wk. 40	186.0	200.7	334.6	82.6
Week ago	257.0	339.7	222.2	43.4
YTD	12,317.7	11,222.8	8,851.6	3,141.9
Last YTD	17,308.2	18,018.9	15,632.9	3,127.0
<b>YTD less Last YTD</b>	<b>-4,990.5</b>	<b>-6,796.1</b>	<b>-6,781.3</b>	<b>14.9</b>
<b>YTD over Last YTD</b>	<b>71%</b>	<b>62%</b>	<b>57%</b>	<b>100%</b>

- The USDA is forecasting another decrease in global stocks and there are several wheat-producing areas that are experiencing adverse weather. The wheat market continues to show strength, but wheat continues to be expensive compared to corn.

**Durum:**

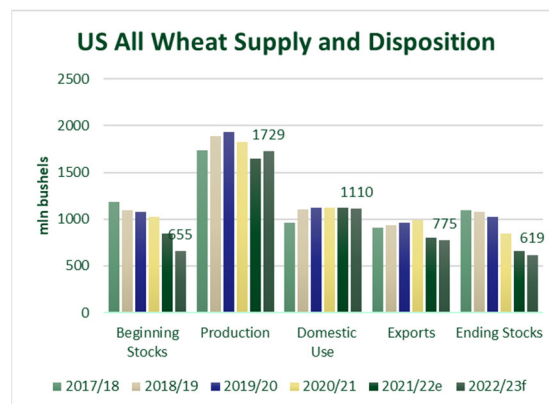
- Durum seeding is 3% complete in Saskatchewan. There was no update for durum seeding progress in Alberta. Durum planting in North Dakota is 3% done (23% average) and 30% complete in Montana (27% average).
- A large portion of the durum area in Canada and the Northern Plains are dry.
- The USDA made minor changes to the 2021/'22 US durum balance sheet. Domestic use was raised by 1 million bu, which reduced ending stocks respectively to 24 million mt.
- The USDA is expecting that two major Canadian durum customers, Morocco and Algeria, will increase wheat imports next year. Both countries' crops have been severely impacted by drought. All wheat imports in North Africa are expected to grow by 4% (1.2 million mt) in 22/'23.
- Week 40 durum exports were 43.2k mt for a season total of 1.9 million mt. The durum export pace remains in line with AAFC's 2.4 million mt projection.

(CGC) Grain Handling Summary Durum		Wk. 40		(May 8/'21)
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dor Disappearance
Wk. 40	19.3	68.2	43.2	4
Week ago	32.8	32.1	50.2	16
YTD	2,062.5	2,402.3	1,952.9	349
Last YTD	5,031.2	5,911.6	4,984.1	435
<b>YTD less Last YTD</b>	<b>-2,968.7</b>	<b>-3,509.3</b>	<b>-3,031.2</b>	<b>-85</b>
<b>YTD over Last YTD</b>	<b>41%</b>	<b>41%</b>	<b>39%</b>	<b>80</b>

- The momentum is running out of the durum market as we approach new crop production which is now just a few weeks away. There are several moisture shortfalls in producing areas that need to be watched.

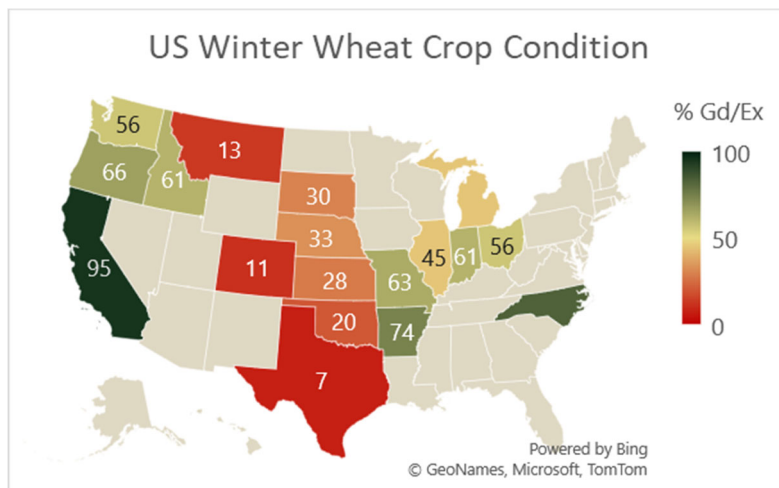
**US Wheat:**

- The USDA put US 22/'23 all wheat production 83 million bushels higher than last year at 1,729 million bushels. Smaller beginning stocks still cause total supply to be 82 million bushels lower than 21/'22 at 2,504 million bushels. Feed use and exports are forecast lower for a 46 million bushel decrease in total use to 1,885 million bushels. Overall, the USDA is expecting an additional 36 million bushel decrease in ending stocks to 619 million bushels.



Source: USDA, May 12, 2022

- The US winter wheat crop condition improved by 2% from last week to 29% Gd/Ex. This is still well behind last year's 49% Gd/Ex. Thirty-three percent of the crop has headed. Sixty-eight percent of the US winter wheat crop is under drought conditions. Harvest will begin in Texas within the next two weeks.



Source: NASS, May 9, 2022

- US HRS for June '22 is valued at \$525.00/ mt FOB PNW (*up \$55.00/mt from last week*), FOB Gulf HRW 11/12.5 pro is valued at \$525.50/mt (*up \$71.10/mt from last week*).

#### Australian wheat:

- The USDA put new crop wheat production in Australia to 30 million mt which is 6.3 million mt less than last year's bumper crop. Their exports are expected to shrink by 2 million mt.
- The rain in Australia is expected to ease ahead of spring planting.
- Australian FOB APW wheat for Aug. '22 was quoted at \$435.00/mt (*up \$15.00/mt from last week*)

#### Argentine wheat:

- The USDA put old crop wheat production 1.2 million mt higher than last month to 22.2 million mt. New crop production is expected to be 20 million mt, which is still above average production levels.
- June shipment Argentine 12% pro wheat was valued at ~\$435.00/mt FOB (*up \$10.00/mt from the previous week*).

#### Indian wheat:

- The USDA put India's wheat crop at 108.5 million mt with an export number of 8.5 million mt. As India's wheat crop was seared by extreme heat. The USDA's estimate is 2.5 million mt more than the Indian government's estimate, and upwards of 10 million mt higher than private estimates we have heard.
- The day after the USDA's report, India placed a ban on wheat exports effective immediately (except for a 500k mt deal with Egypt).

#### EU wheat:

- Strategie grains cut their EU old crop wheat export forecast by 1.5 million mt as Russian exports have help up better than expected. Total wheat exports are now expected to be 29.9 million mt for 2021/22. There is going to be strong competition between the export and domestic market for the remaining old crop wheat in the EU.

- The USDA is expecting the wheat production in the EU in the coming year will be 1.9 million mt less than last year at 136.5 million mt. EU exports are expected to rise 5.0 million mt to 36.0 million mt.
- French wheat crop ratings fell 7% from last week to 82% as moisture levels are deteriorating in many parts of the EU.
- Fob prices in the EU: July '22 French 11.5 pro wheat closed at \$433.10/mt, *up \$17.00/mt* from last week; August German 12.5 pro wheat closed at \$431.90/mt, *up \$8.00/mt*. August Baltic 12.5 pro wheat was at \$434.20/mt, *up \$9.20/mt*.

#### **Black Sea wheat:**

- One of the main areas of contention in the USDA report last week was in regard to the Black Sea. The USDA put Russia's new crop exports at 39 million mt which is the equivalent of 3.25 million mt per month which is 60% more than the monthly total they have achieved since the beginning of the war. It is difficult to see them achieving this as well as the additional 10 million corn and barley exports. Similarly, new crop exports from Ukraine were pegged at 10 million mt, plus 11 million mt of additional corn and barley exports. The combination of these equates to 1.75 million mt which is twice the amount they were able to export via land out their western borders in April. Ukraine is unlikely to meet USDA's export number unless they can resume operations of their ports.
- Prices in the Black Sea are ill-defined at best. We saw Russian Fob prices for 12.5 pro June delivery wheat quoted at \$405.00/mt.

#### ➤ **Significant purchases/ trades:**

- Algeria bought 450,000 mt of July wheat at (reportedly) \$466/mt.
- Jordan bought 60,000 mt of June wheat.
- Egypt bought 500,000 tonnes from India at \$436/mt C&F.
- US wheat sales were small at 14,100 mt for old crop and 124,300 mt for new crop.
- Four grain vessels have been stuck in ports in Tunisia due to payment problems.
- The Baltic Dry Freight Index is up 125% since January.

#### ➤ **Wheat Market Outlook:**

##### **Significant events:**

- Flour prices in **India** have risen to record highs, contributing to the government's decision to ban exports effective immediately (except for the trade to Egypt).
- Soaring bread prices have spiked riots in **Iran** where domestic production was damaged by drought and half of the population lives below the poverty line.
- Morocco announced that their grain crop will fall 69% from last year due to drought.
- Over 20 million people in **Eastern Africa** are facing starvation according to the World Food Programme.

##### **Outlook:**

The WASDE report makes wheat reliant on the weather and, from a trader's perspective, is still bullish. The only thing that could keep prices down is severe rationing, more planting than expected, inability to pay these prices, and potential hunger for many.

Producers are advised to sell all old crop and hold additional new crop sales for now.

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

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

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Sept '22 (bu.)	Sept '22 (mt.)
1 CWRS 13.5	\$15.86	\$582.76	1 CWRS 13.5	\$15.36	\$564.39
1 CWAD 13.0	\$15.40	\$13.52	1 CWAD 13.0	\$14.09	\$517.72
1 CPSR 11.5	\$15.18	\$557.77	1 CPSR 11.5	\$14.91	\$547.85
SW Sask			SW Sask		
1 CWRS 13.5	\$15.77	\$579.45	1 CWRS 13.5	\$15.23	\$559.61
1 CWAD 13.0	\$15.49	\$569.16	1 CWAD 13.0	\$14.41	\$529.48
1 CPSR 11.5	\$15.12	\$555.57	1 CPSR 11.5	\$14.75	\$541.97
NE Sask			NE Sask		
1 CWRS 13.5	\$15.67	\$575.78	1 CWRS 13.5	\$15.09	\$554.47
1 CWAD 13.0	\$15.97	\$586.80	1 CWAD 13.0	\$14.79	\$543.44
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a
SE Sask			SE Sask		
1 CWRS 13.5	\$15.70	\$576.88	1 CWRS 13.5	\$15.10	\$554.83
1 CWAD 13.0	\$15.64	\$574.68	1 CWAD 13.0	\$14.57	\$535.36
1 CPSR 11.5	\$14.94	\$548.96	1 CPSR 11.5	\$14.66	\$538.67

Data source: PDQ, May 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, May 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 Basis<sup>1</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
  - 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)

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<sup>1</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.”



- 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				May 13, 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	\$700.52	\$856.66		
HRS	\$694.71			
HRW 11.5	\$699.57			
SWW 12.0	\$542.21			
1 CWRS 13.5 <sup>3</sup>	\$700.52		\$608.11	\$92.40
2 CWRS 13.0 <sup>3</sup>	\$694.71		\$604.44	\$90.27
3 CWRS <sup>3</sup>	\$699.57		\$595.25	\$104.32
CPS <sup>3</sup>	\$535.58		\$569.16	-\$33.59
1 CWAD <sup>4</sup>		\$594.89	\$587.90	\$179.44
<b>Competing wheat:</b>				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$405.00		June	
French 11.5 (Rouen)	\$433.10		August	
APW 10.5 (W Coast)	\$435.00		August	
Argentine 12.5	\$455.00		June	
<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				