

**Wheat Market Outlook and Price Report: March 7, 2022**  
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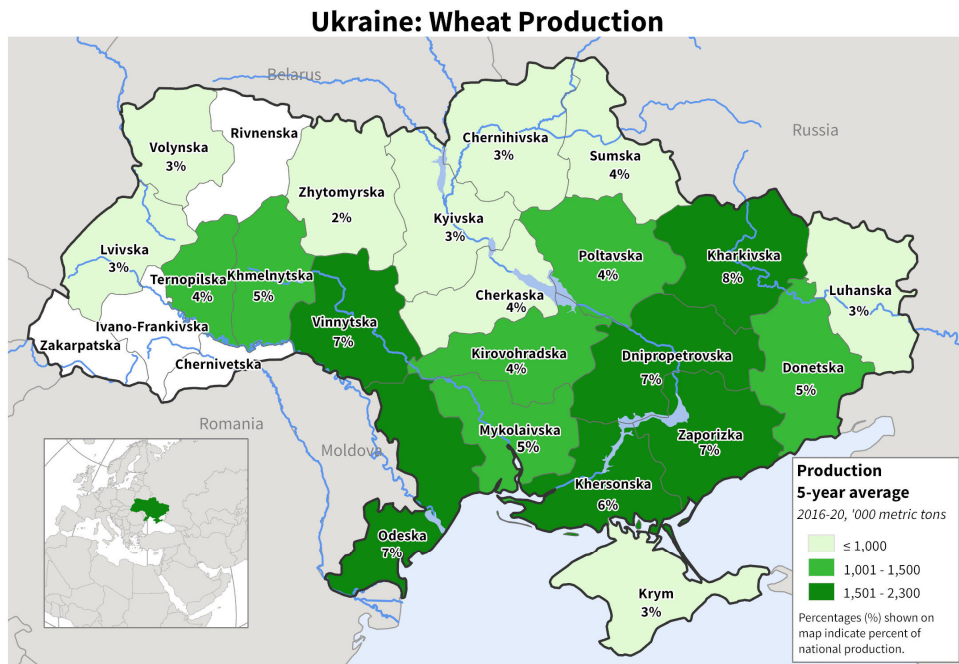
**i) Background and Rationale for the Report**

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 March 7, 2022**

**Wheat Production Areas in Ukraine:**



 **Foreign Agricultural Service**  
U.S. DEPARTMENT OF AGRICULTURE

Source: State Statistics Service of Ukraine (Rosstat for Crimea Oblast)  
Average Wheat Production 2016-2020

- The map depicts the major wheat production areas in Ukraine.
- We note that important production areas coincide with the areas that are under pressure by the Russian invasion [see map below]. Even though ~90% of all wheat in the Ukraine is winter wheat, the invasion may well result in production losses for the 2022 crop in the occupied areas and beyond due to lack of fertilizer application, chemicals, potential fuel shortages, etc.

- Ukraine produced 33 million mt of wheat in '21/22, with 24 million mt for export.
- Russia produced 75.5 million mt of wheat in '21/22, with 35 million mt for export.
- Should Russia subjugate Ukraine, Russia would control close to 60 million mt of export wheat, which would represent about 30% of the global export wheat movement.



Source: The Economist, accessed March 2/22

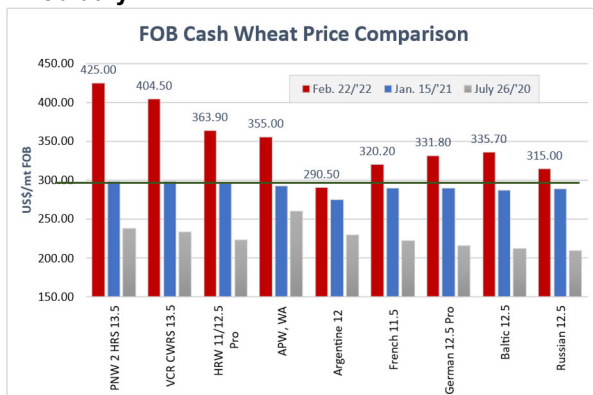
**Recent Developments in Wheat Demand:**

Once again there were no Russian or Ukrainian cash wheat prices in the market last week.

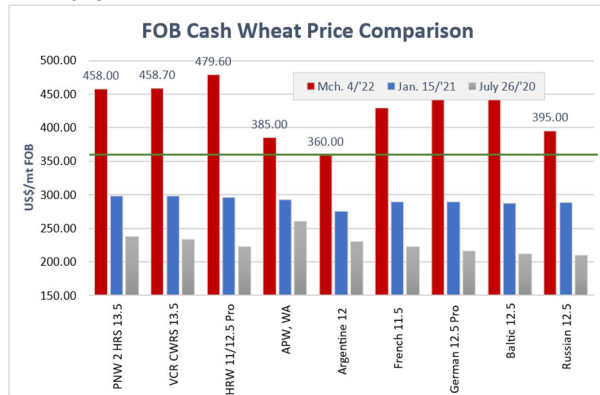
- Egypt extended their wheat moisture limit specifications to 13.5% (from 13%) to try to diversify its import origins. Egypt currently sources ~50% of its wheat from Russia, and 30% from Ukraine.
- Algeria decided to re-allow French wheat imports in March because of disruption to Black Sea shipments, overturning a recent exclusion that had hit the EU's biggest wheat exporter.

It is very difficult to give a true reflection of FOB values right now:

**February 22/22:**



**March 4/22:**



➤ **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 on last week's market events in the major wheat origins.

**Futures:**

- May 2022 contract **Chicago winter wheat** closed at 1209-0, up 75-0 cents on Friday, *up 349-2 cents on the week.*  
May 2022 contract **Kansas hard red winter wheat** closed at 1214-4, up 64-2 cents on Friday's trade, *up 323-4 cents on the week.*  
May 2022 **Minneapolis hard red spring wheat** closed at 1147-0, up 28-6 cents on Friday, *up 186-6 cents on the week.*
- This Tuesday morning, wheat markets are up again by currently 15-85c/bu, with CBOT leading the parade.

**CBOT May 2022 Wheat (20 yr.)**

**KC May 2022 Wheat**

**Mpls. May 2022 Wheat**



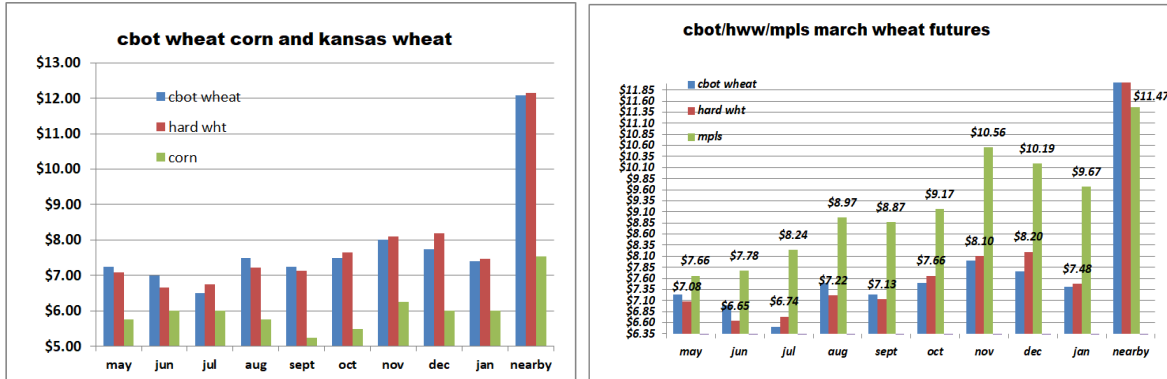
**General Comment**

- The Russian invasion of Ukraine is the dominant news for the week, and it is having a **major** effect on the grain markets, particularly wheat. As the world starts to catch up on the longer-term aspects of the eventual Russian control of Ukraine, it starts to realize the possible world disasters we may face. A best-case scenario says that Ukraine and Russia will be out of the export market for months.

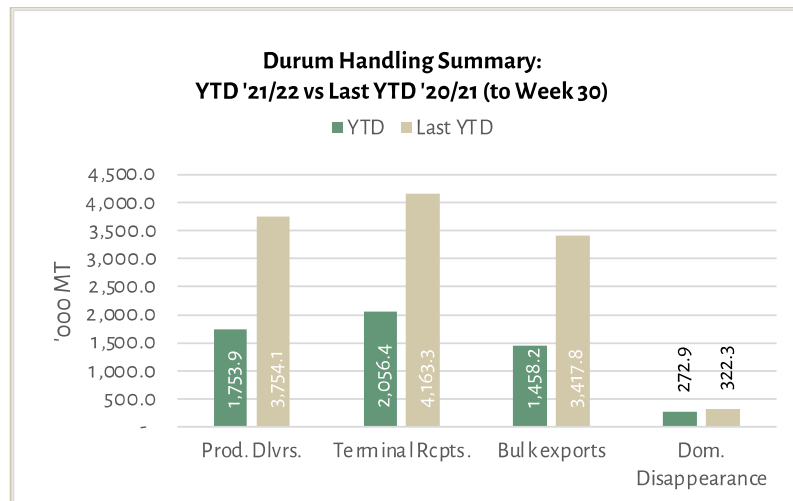
**Canadian Wheat:**

- We had an extremely volatile week in futures markets and cash markets like never seen before. Funds liquidated about 10 percent of their long of corn futures earning spectacular profits. Many future shorts were forced to cover due to "margin" calls. Chicago wheat futures have 75 cent expanded limits continuing for Monday's session in the winter wheat markets.
- Chicago wheat is now trading at a 62-cent premium to Minneapolis wheat. The market has realized that there are upwards of 10-12 million mt of Black Sea old crop wheat that may not make it to market.
- Meanwhile, Canadian wheat movement continues to trundle along with another 281.6k mt of wheat being exported during shipping week 30. Year-to-date exports are now 6.9 million mt which is 40% (-4.5 million mt) less than last year. Week 30 exports were just over the 279k mt/week needed to meet the AAFC's 13 million mt number. Exports are poised to step up into spring as elevators fill with March contracts.
- **However, CP Rail is set to go on strike on March 16<sup>th</sup>, which would be a huge blow to Canadian agriculture.** With the large (80 cent) old crop-new crop inverse, it would be a crime if rail lines prevented farmers from capturing these strong prices.
- In our view, growers should be completely sold on old crop wheat and be at least 50 percent sold on new crop wheat. Cash wheat is at a discount, but sell cash, not futures, unless you can stand "margin" calls on futures.

- We can see on the charts below that the biggest appreciation of wheat prices has been in the lower qualities. We think that in the coming week there may be opportunities to sell new crop Canadian wheat at close to \$13.00 per bushel. This should not be missed for at least 50 percent of your planned crop.

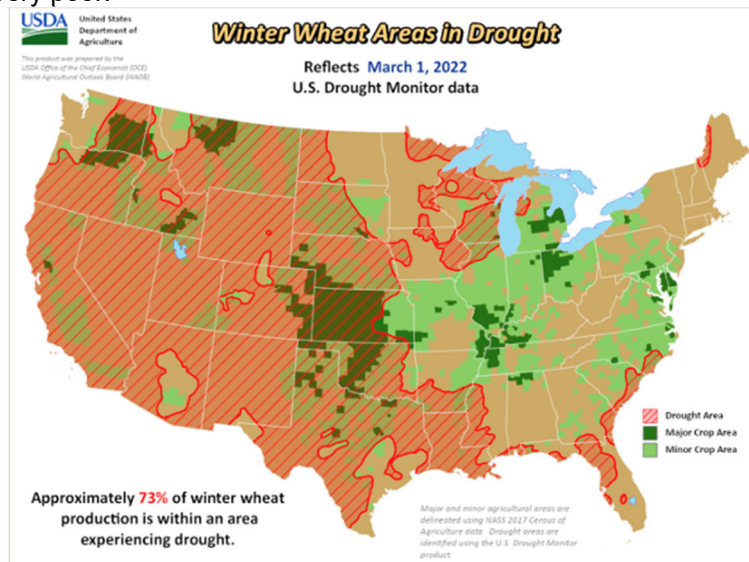


- Durum:** Old crop prices have dropped significantly over the past few weeks. There was some rain in Algeria last week which was negative, but Morocco remains dry.
- Algeria tendered for 50k mt durum last week and bought 250k mt of durum at \$625-\$630/mt. Tunisia tendered for 75k mt but bought 100k mt of durum at \$635/mt. The Tunisian price was \$10/mt lower than the average price they paid in February and \$60/mt less than the price paid in January.
- The French durum crop is in very good condition at 90% Gd/Ex.
- Thirty-four tonnes of Canadian durum were shipped during week 30 for a season total of 1.5 million mt, which is just 43% of last year's amount.
- Although there is room for old crop prices to rebound, there are so few supplies that most traders will be focused on crops where there is still some volume. We are almost sold out of old crop. New crop bids are low, ~\$12.00/bu, and will need to rise to stay competitive with rapidly rising spring wheat prices.*



## US Wheat:

- *The next USDA is due on Wednesday, but this time the WASDE numbers will not mean much. What becomes more critical is what is shippable or whether countries allow exports and whether what is available can meet the global demand.*
- USA wheat exports were slightly better as buyers started to realize they would not get their Black Sea purchases.
- The first shipment of tariff-free US wheat has arrived in Vietnam. US delegates were able to negotiate with the Vietnamese government to eliminate the previous 3% tax on US wheat.
- The drought in the US was unchanged from last week as 73% of the US winter wheat crop remains under drought conditions. In Kansas, winter wheat conditions are rated 25% Gd/Ex, 37% fair, and 38% poor to very poor.



- US HRS for April '22 is valued at \$458.00/ mt FOB PNW (up \$8/mt from last week), FOB Gulf HRW 11/12.5 pro is valued at \$479.60/mt (up \$70.40/mt from last week, up \$115/mt over the past two weeks!)

## Australian wheat:

- ABARES increased the Australian 2021/'22 production number by 2 million mt to 36.3 million mt. This is in line with what many analysts were thinking.
- Australian new crop FOB APW wheat for April '22 was quoted at \$385.00/mt, up \$5/mt over the past week.

## Argentine wheat:

- Argentina is discussing further export controls to keep food inflation low.
- April shipment Argentine 12% pro wheat was valued at ~\$360.00/mt FOB, unchanged over the past week, but up \$70/mt the previous week.

## EU wheat:

- Matif May rose €82/mt last week to a contract high close and is showing another €25/mt gain today.
- Despite the futures rally, premiums continued to rise with new highs both in France, Germany and the Baltic.
- FOB prices in the EU: April '22 French 11.5 pro closed at \$429.90/mt, up \$65.90/mt from last week (up \$109.70/mt over the past two weeks). April German 12.5 pro wheat closed at \$446.00/mt, up \$74.20/mt (up \$114/mt over the past two weeks). April Baltic 12.5 pro wheat was at \$444.90/mt, up \$69.2/mt (up \$113/mt over the past two weeks).



### Black Sea wheat:

- Ukraine and the Russian Federation combined account for around 30 percent of global wheat exports. The harbour of Odesa and the Black Sea serve as major conduits for international grain shipments from Ukraine, and the country is also among the top exporters of barley, maize, sunflower, and other oilseeds.
- Any serious disruption of production and exports from these suppliers will no doubt drive up prices further and erode food security for millions of people.
- Over 6.1 million mt of wheat is now trapped in Ukraine. GASC and Algeria are being forced to turn to French wheat while Asian buyers are turning to India.
- A prolonged conflict between Russia and Ukraine will impact the new crop season as well. Spring wheat accounts for ~10% of the 2022/'23 wheat area in Ukraine and planting would normally start in mid-April. Our sources say that farmers should be able to plant spring crops. Meanwhile, winter wheat acres in the north and east that are closest to the conflict may not be fertilized, which will impact yield. Again, the crop should get harvested (harvest starts in June) but will be hampered by lower input use and restricted/uncertain movement.
- Russian March '22 12.5 pro wheat value is at ~\$395.00/mt, up \$35/mt from last week (up \$80/mt over the past two weeks).

### ➤ Significant purchases/ trades:

- **Egyptian** private buyers are desperately seeking offers at "reasonable" prices.
- **Iraq** began taking offers Sunday for up to 2 million mt of wheat.
- **Algeria** tenders Tuesday for an unspecified amount of wheat with French origin wheat now acceptable out of necessity!
- **US wheat sales** of 300k mt (11.0 million bushels) were at the low end of expectations, but still well ahead of the 3.7 million bu/week needed to meet the USDA's projection.

### On the other side of the equation,

- **Hungary** has banned the export of all grains, effective immediately and for an unspecified period.
- **Bulgaria** is slowing exports via additional customs intervention and documentary issues, with the trade fearing they will follow Hungary with a total ban on exports.

### ➤ Wheat Market Outlook:

#### Significant events:

- The **Russian invasion of Ukraine** remains the dominant news for the week, and it is having a **major** effect on the grain markets, particularly wheat. As the world starts to catch up on the longer-term aspects of the eventual Russian control of Ukraine it starts to realize the possible world disasters we may face.
- **Ukraine and the Russian Federation** combined account for around 30 percent of global wheat exports. The harbour of Odesa and the Black Sea serve as major conduits for international grain shipments from Ukraine, and the country is also among the top exporters of barley, maize, sunflower and other oilseeds.
- **If Russia controls the exports of grain** from Ukraine, they will control at least 100 million tonnes of the world's export food supplies.
- Any **serious disruption of production and exports** from these suppliers will no doubt drive up prices further and erode food security for millions of people.
- Over 6.1 million mt of wheat is now trapped in Ukraine. GASC and Algeria are being forced to turn to French wheat, while Asian buyers are turning to India.
- A prolonged conflict between Russia and Ukraine will impact the **new crop season** as well. Spring wheat accounts for ~10% of the 2022/'23 wheat area in Ukraine and planting would normally start in mid-April. Our sources say that farmers should be able to plant spring crops. Meanwhile, winter

wheat acres in the north and east that are closest to the conflict may not be fertilized, which will impact yield. Again, the crop should get harvested (harvest starts in June) but will be hampered by lower input use and restricted/uncertain movement.

- *In Canada, **CP rail workers** threaten to strike in this environment of elevated prices when Canada should move as much grain as humanly possible!*

**Outlook:**

The Russian invasion of Ukraine remains the dominant news for the week, and it is having a major effect on the grain markets, particularly wheat. European wheat futures increased by €82/mt and FOB premiums were also up €10-15/mt as the EU continued to work to keep wheat out of export channels.

Cash wheat is at a discount to futures, but as farmers, we would sell cash, not futures, unless you can stand “margin” calls on futures. The biggest appreciation of wheat prices has been in the lower qualities. We think that in the coming week there may be opportunities to sell new crop Canadian wheat at close to \$13.00 per bushel. This should not be missed for at least 50 percent of your planned crop.

**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)		May '22 (bu.)	May '22 (mt)
1 CWRS 13.5	\$13.01	\$478.04	1 CWRS 13.5	\$13.15	\$483.18
1 CWAD 13.0	\$12.47	\$458.20	1 CWAD 13.0	\$14.93	\$548.59
1 CPSR 11.5	\$12.22	\$449.01	1 CPSR 11.5	\$12.30	\$451.95
<b>SW Sask</b>			<b>SW Sask</b>		
1 CWRS 13.5	\$12.97	\$476.57	1 CWRS 13.5	\$13.10	\$481.35
1 CWAD 13.0	\$15.45	\$567.69	1 CWAD 13.0	\$14.95	\$549.32
1 CPSR 11.5	\$12.18	\$447.54	1 CPSR 11.5	\$12.24	\$449.75
<b>NE Sask</b>			<b>NE Sask</b>		
1 CWRS 13.5	\$12.56	\$461.50	1 CWRS 13.5	\$12.70	\$466.65
1 CWAD 13.0	\$15.85	\$582.39	1 CWAD 13.0	n/a	
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	
<b>SE Sask</b>			<b>SE Sask</b>		
1 CWRS 13.5	\$12.80	\$470.32	1 CWRS 13.5	\$12.93	\$475.10
1 CWAD 13.0	\$15.62	\$573.94	1 CWAD 13.0	n/a	
1 CPSR 11.5	\$11.93	\$438.36	1 CPSR 11.5	\$12.05	\$442.77

Data source: PDQ, March. 7/22

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

Avg. Grade Spread/ Pro Discounts	Cdn\$/bu.	Cdn.\$/mt
<b>1 CWRS 13.5</b>	Base Grade	Base Grade
<b>2 CWRS 13.5</b>	(0.10)	(3.67)
<b>1 CWRS 12.5</b>	(0.02)	(0.85)
<b>1 CWAD 13.0</b>	Base Grade	Base Grade
<b>1 CWAD 13.5</b>	0.00	0.00
<b>2 CWAD 13.5</b>	(0.09)	(3.31)
<b>2 CWAD 12.5</b>	(0.11)	(4.04)

Data source: PDQ, March. 7/22

#### **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 North West (PNW) ≈ 1 CWRS 13.5% in Vancouver
  - HRS in the Pacific North West (PNW) ≈ 2 CWRS 13.0% in Vancouver
  - HRW in the Pacific North West (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

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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.”

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				07-03-2022
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)
<b>DNS 14.0</b>	\$587.34	\$767.30		
<b>HRS</b>	\$575.12			
<b>HRW 11.5</b>	\$633.86			
<b>SWW 12.0</b>	\$561.03			
<b>1 CWRS 13.5<sup>3</sup></b>	\$587.34		\$510.01	\$77.33
<b>2 CWRS 13.0<sup>3</sup></b>	\$575.12		\$506.33	\$68.79
<b>3 CWRS<sup>3</sup></b>	\$633.86		\$497.15	\$136.71
<b>CPS<sup>3</sup></b>	\$554.45		\$454.16	\$100.29
<b>1 CWAD<sup>4</sup></b>		\$760.72	\$551.16	\$209.56
<b>Competing wheat:</b>	<b>US\$/mt</b>			
<b>Russia 12.5 (Black Sea, 25k mt)</b>	\$395.00	April		
<b>French 11.5 (Rouen)</b>	\$429.90	April		
<b>APW 10.5 (W Coast)</b>	\$385.00	April		
<b>Argentina 12.0</b>	\$360.00	April		

<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