

Wheat Market Outlook and Price Report: October 11, 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 October 11, 2022

Change in Canadian Cash Price and Basis Across the Western Prairies: October 11th, 2022 vs 2021



Source: PDQ, Merc: Oct 11/2022

- Prairie cash prices have continued to strengthen on rising futures values and strong basis levels.
- Average posted cash prices in the Western Prairies are ranging from \$12.12 per bushel in southeast Saskatchewan to \$12.68 per bushel in southern Alberta.
- The average posted cash price in the Western Prairies is \$12.40 per bushel. This is \$1.26 per bushel more than last year.
- Stronger basis levels are making up \$0.57 of the increase in price from last year. Basis levels in the Prairies are ranging from \$1.97 to \$2.54 thanks to strong demand and a Canadian dollar that, at 72.63 cents, has lost 4% of it's value from this time last year.

Developments in Wheat Demand:

The difficulty and price of sourcing wheat has caused buyers' coverage to be small as they limit purchases to immediate needs. There are also stories coming out that private importers in Egypt unable to pay for wheat which is resulting in mills being shut down.

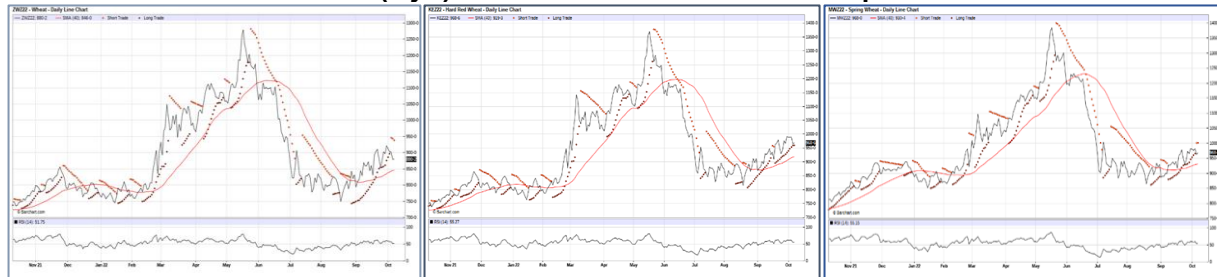
➤ **Global wheat production and trade:**

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:

- December 2022 contract **Chicago winter wheat** closed at 880-2, up 1-2 cents on Friday, *down 41-2 cents on the week.*
- December 2022 contract **Kansas hard red winter wheat** closed at 968-6, up 3-6 cents in Friday's trade, *down 22-6 cents on the week.*
- December 2022 **Minneapolis hard red spring wheat** closed at 968-0, up 5-4 cents on Friday, *down 14-0 cents on the week.*
- *All wheat futures rose sharply on Monday in reaction to the escalations in Ukraine. Profit taking is pushing the market 19-29 cents lower this Tuesday morning.*

CBOT December 2022 Wheat (1 yr.) KC December 2022 Wheat Mpls. December 2022 Wheat

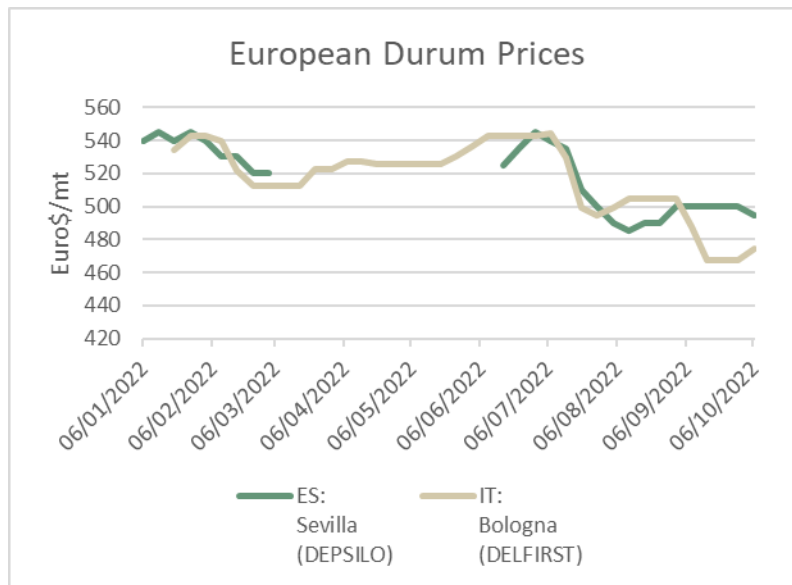


Canadian Wheat

- Spring wheat harvest in Saskatchewan is 93% complete, up 10% from last week. In Manitoba, spring wheat harvest is 85% complete while Alberta is essentially done at 99% harvested. Saskatchewan Agriculture is still predicting a 43 bushel per acre yield. Alberta Agriculture decreased their yield estimate by 1 bushel to 53 bushels per acre. On paper, the decrease in yield would take Alberta's production down by ~189k mt to 9.1 million mt and further widen the spread between Stats Canada's spring wheat production estimate of 26.1 million mt and the now 23.9 million mt of production implied by provincial yields.
- Wheat deliveries continue to be strong, but slow exports are resulting in a build-up of stocks. Farmers delivered 459.8k mt of wheat while 380.4k mt was exported. Stock grew to a large 3.3 million mt – 1.8 million mt is in elevators, 307.4k mt is in Vancouver/Prince Rupert, and 1.1 million mt is in the Great Lakes.
- The performance of the Canadian rail lines has become dramatically worse. In week 8, CP only supplied 61% of the cars ordered and CN provided 83% of cars ordered. The railroads are moving other materials (like coal) that are more convenient and profitable for its shareholders than grain.

| (CGC) Grain Handling Summary Wheat | | Wk. 9 (Oct. 22022) | | |
|------------------------------------|---------------------|--------------------|--------------|------------------------|
| ('000 mt) | Producer Deliveries | Terminal Receipts | Bulk Exports | Domestic Disappearance |
| Wk. 9 | 459.8 | 580.1 | 380.4 | 73.3 |
| Week ago | 547.1 | 654.9 | 627.8 | 102.0 |
| YTD | 4,400.8 | 3,996.4 | 2,742.8 | 766.1 |
| Last YTD | 2,982.2 | 3,545.8 | 2,472.0 | 940.2 |
| YTD less Last YTD | 1,418.6 | 450.6 | 270.8 | -174.1 |
| YTD over Last YTD | 148% | 113% | 111% | 81% |

- *Wheat futures are supported by the escalations in Ukraine while basis is being supported by the low Canadian dollar. Mercantile believes wheat prices can move higher, but poor rail performance is restricting movement and is causing backlogs in the elevator system.*
- **Durum:** Durum prices in Italy regained Euro\$7 from last week to Euro\$475/mt (~US\$467.02) which is roughly CA\$12.10/bu at the Saskatchewan elevator. Additionally, Tunisia bought 100k mt of durum wheat last week for a price that backs off to ~\$14-15 at the elevator in Saskatchewan. So, we know that elevators can do better than the \$12.50-\$13.00 that they were offering.



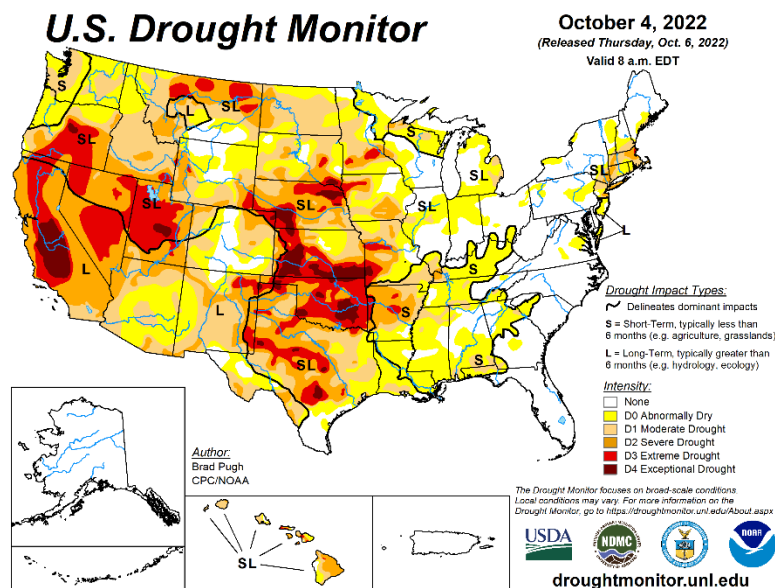
Source: EU Commission, October 7th, 2022

- Producer durum deliveries continue to almost double the amount being exported. This is resulting in a buildup of visible supplies to 760k mt. Of note, is the strong to-date pace of domestic durum use. As of week 9, durum use is two times larger than last year. This could be indicative of just how low domestic mills were on supplies to start the year. We note that this could also be a reporting error.

| (CGC) Grain Handling Summary Durum | | Wk. 9 (Oct. 22022) | | |
|------------------------------------|----------------------|--------------------|--------------|------------------------|
| ('000 mt) | Producers Deliveries | Terminal Receipts | Bulk Exports | Domestic Disappearance |
| Wk. 9 | 134.5 | 116.4 | 75.9 | 3.2 |
| Week ago | 97.0 | 98.4 | 27.7 | 13.9 |
| YTD | 810.1 | 670.3 | 380.7 | 94.8 |
| Last YTD | 646.5 | 547.1 | 597.8 | 46.5 |
| YTD less Last YTD | 163.6 | 123.2 | -217.1 | 48.3 |
| YTD over Last YTD | 125% | 123% | 64% | 204% |

US Wheat:

- **Winter wheat seeding** in the US is 40% complete having progressed 9% from last week. Sixty-three percent of the US winter wheat area is under drought conditions.



Source: US Drought Monitor, October 8th, 2022

- **US wheat sales** for the week were at the low end of expectations at 229,400 mt (8.4 million bushels). Total commitments are now 401 million bushels, down 4.3% from last year. Wheat sales over the past 4 weeks are an average of 8.4 million bushels per week. Weekly sales need to be 10.3 million bushels per week for the remainder of the marketing year to meet the USDA's 825 million bushel projection. The USDA will likely reduce their export number for US wheat tomorrow.
- US HRS for October 2022 was valued at \$455.40/ mt FOB PNW (*up \$23.30/mt from last week*), FOB Gulf HRW 11/12.5 pro is valued at \$457.20/mt (*up \$24.80/mt from last week*).

Australian wheat:

- The Grain Industry Association of Western Australia expects wheat output to reach 12.1 million mt from the West, up from their prior estimate of 10.75 million mt.

Argentine wheat:

- Argentina has missed out on most of the recent rainfall, leading Buenos Aires Grain Exchange (BAGE) to cut the wheat crop forecast to 17.5 million mt from the 20.5 million mt reported in May.

EU wheat:

- Marché à Terme International de France (Matif) wheat futures gaped to a 15-week high on the Russian retaliation over the weekend.
- There are reports that northern ports of France are struggling to source exportable quality wheat.
- FOB prices in the EU: October 2022 French 11.5 pro wheat closed at \$358.70/mt (*up \$11.40/mt from last week*); October 2022 German 12.5 pro wheat closed at \$365.00/mt (*up \$8.60/mt from last week*); October 2022 Baltic 14.0 pro wheat closed at \$403.20/mt (*up \$10.70/mt from last week*).

Black Sea wheat:

- The war in Ukraine continues to be the main driving factor in the wheat markets. The bombing over the weekend in retaliation to the explosion on the Kerch Bridge caused wheat futures to shoot higher. The bridge is still able to transport rail cars and trucks are passing by ferry.
- It is unlikely that the grain corridor will be renewed. There are documents circulating that Putin will not allow an extension of the grain corridor once it expires in November.
- Turkey's roll as arbiter of the grain corridor is also gaining scrutiny. They are receiving a large share of the exports through the corridor, and it seems as though vessels carrying stolen Ukrainian grain and ships loaded with Iranian drones for Russia are being allowed to sail through the Bosphorus.
- The pace of Ukrainian winter wheat planting is three times slower than last year. As of October 2nd, just 1.1 million hectares of Ukraine's winter wheat area had been planted. This is just 27% of the total expected area which was already 45% less than last year.
- Russian winter planting is running 15-20% behind average which is the slowest in 9 years.

➤ **Significant purchases/ trades:**

- **Korea** bought 65k mt of February-March wheat from Australia at \$349.90/mt
- **Jordan** has cancelled and rescheduled their 120k mt wheat tender twice now. They were supposed to tender today, but now say they will tender next Tuesday.
- **Iraq** bought 50k mt of wheat. It was believed to be from Ukraine which was the lowest price offered at \$386/mt C&F (Russia was excluded),
- **Algeria** tendered for 50k mt of durum wheat. We did not hear of any results. They are back again today (October 11th) for 50k mt of milling wheat.

- **Tunisia** bought 150k mt of soft wheat at Euros\$383-389/mt and \$100k mt of durum at Euros\$506-523/mt.
- **China** set their 2023 TRQ for wheat imports to 9.64 million mt which is unchanged from last year.
- **US wheat sales** for the week were at the low end of expectations at 229,400 mt (8.4 million bushels).
- **Private Egyptian importers** are struggling to pay for 700k mt of wheat that is being held in the port. This has reportedly caused 80% of the mills producing commercially sold bread and flour in the country to shut down.

➤ **Wheat Market Outlook:**

Significant events over the past week:

- Spring wheat harvest in Saskatchewan is 93% complete, up 10% from last week. In Manitoba, spring wheat harvest is 85% complete, while Alberta is essentially done at 99% harvested. Saskatchewan Agriculture is still predicting a 43 bushel per acre yield. **Alberta Agriculture decreased its yield estimate by 1 bushel** to 53 bushels per acre.
- In week 8, **CP only supplied 61% of the cars ordered and CN provided 83% of cars ordered.** The railroads are moving other materials (like coal) that are more convenient and profitable for its shareholders than grain.
- Private **Egyptian importers are struggling to pay for 700k mt of wheat** that is being held in the port. This has reportedly caused **80% of the mills producing commercially sold bread and flour in the country to shut down.**
- **Winter crop planting in the Black Sea is well behind the average pace.** Russian planting is running the slowest in 9 years and just 27% of Ukraine's winter wheat crop has been planted.

Outlook:

The war in Ukraine is still the major driver and it is becoming more evident that the trade corridor will not be extended beyond its November expiration. Next year's crop is also gaining attention as planting ideas in the Black Sea are being trimmed and there has been no relief to the droughts in the US and Argentina. The trade will be watching Wednesday's USDA report which is expected to trim corn supplies and may reduce wheat supplies. *Mercantile continues to be optimistic about wheat prices and recommends not extending 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

Date: 11/10/2022

| NW Sask | Spot | | NW Sask | Deferred | |
|----------------|---------|----------|----------------|---------------|---------------|
| | (bu.) | (mt) | | Dec '22 (bu.) | Dec '22 (mt.) |
| 1 CWRS 13.5 | \$12.47 | \$458.20 | 1 CWRS 13.5 | \$12.50 | \$459.30 |
| 1 CWAD 13.0 | \$12.61 | \$463.34 | 1 CWAD 13.0 | \$12.68 | \$465.91 |
| 1 CPSR 11.5 | \$11.86 | \$435.78 | 1 CPSR 11.5 | \$11.98 | \$440.19 |
| SW Sask | | | SW Sask | | |
| 1 CWRS 13.5 | \$12.31 | \$452.32 | 1 CWRS 13.5 | \$12.38 | \$454.89 |
| 1 CWAD 13.0 | \$12.56 | \$461.50 | 1 CWAD 13.0 | \$12.62 | \$463.71 |
| 1 CPSR 11.5 | \$11.72 | \$430.64 | 1 CPSR 11.5 | \$11.90 | \$437.25 |
| NE Sask | | | NE Sask | | |
| 1 CWRS 13.5 | \$12.13 | \$445.70 | 1 CWRS 13.5 | \$12.22 | \$449.01 |
| 1 CWAD 13.0 | \$12.58 | \$462.24 | 1 CWAD 13.0 | \$12.60 | \$462.97 |
| 1 CPSR 11.5 | n/a | n/a | 1 CPSR 11.5 | n/a | n/a |
| SE Sask | | | SE Sask | | |
| 1 CWRS 13.5 | \$12.12 | \$445.34 | 1 CWRS 13.5 | \$12.21 | \$448.64 |
| 1 CWAD 13.0 | \$12.40 | \$455.63 | 1 CWAD 13.0 | \$12.45 | \$457.46 |
| 1 CPSR 11.5 | \$11.56 | \$424.76 | 1 CPSR 11.5 | \$11.68 | \$429.17 |

Data source: PDQ, Oct. 11/2022

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, Oct. 11/2022

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 Basis¹ (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)

¹ 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 | | | | October 11, 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 | \$554.62 | \$856.66 | | |
| HRS | \$548.12 | | | |
| HRW 11.5 | \$577.49 | | | |
| SWW 12.0 | \$490.06 | | | |
| 1 CWRS 13.5 ³ | \$554.62 | | \$442.77 | \$111.85 |
| 2 CWRS 13.0 ³ | \$548.12 | | \$429.90 | \$118.22 |
| 3 CWRS ³ | \$577.49 | | \$411.53 | \$165.96 |
| CPS ³ | \$482.94 | | \$425.13 | \$57.81 |
| 1 CWAD ⁴ | | \$399.77 | \$450.11 | \$102.98 |
| Competing wheat: | | | | |
| | US\$/mt | | | |
| Russia 12.5 (Black Sea, 25k mt) | \$335.00 | | November | |
| French 11.5 (Rouen) | \$358.70 | | November | |
| APW 10.5 (W Coast) | \$385.00 | | December | |
| Argentine 12.5 | \$380.00 | | December | |
| 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 | | | | |