

## Wheat Market Outlook and Price Report: May 2, 2022

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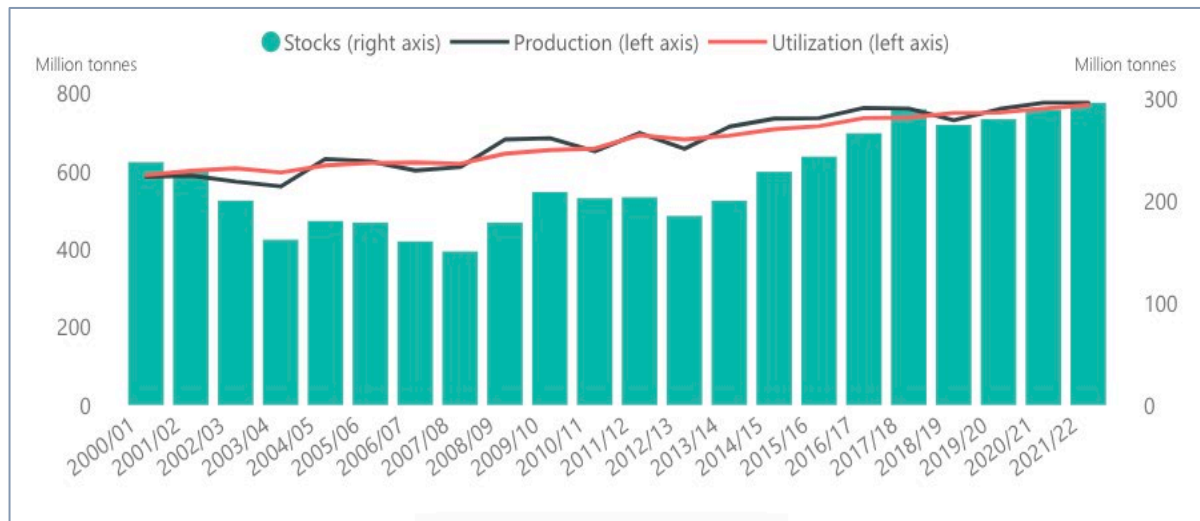
### **i) Background and Rationale for the Report**

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 2, 2022**

#### **AMIS<sup>1</sup> Crop Monitor: World Wheat production, Utilization & Stocks**



Source: AMIS, May 2, 2022

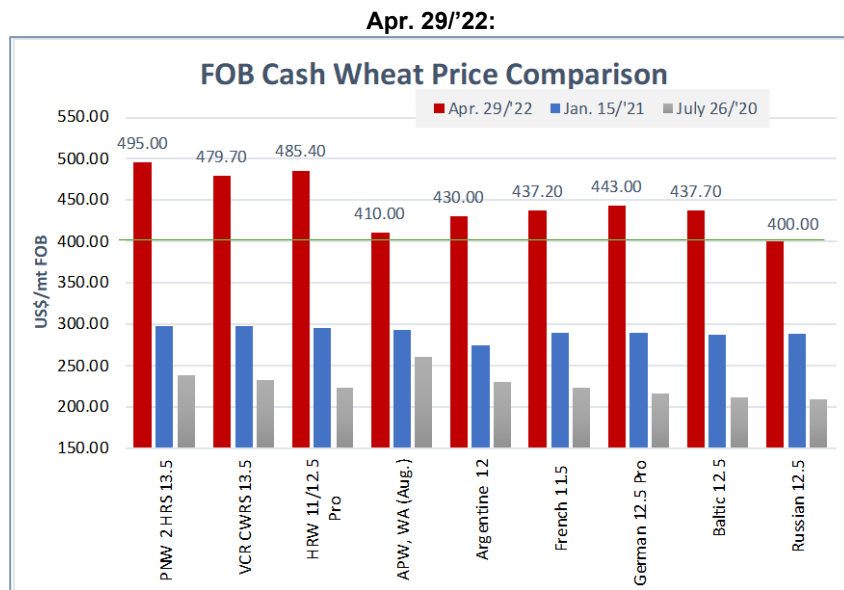
- According to AMIS, the 2021/22 global wheat balance sheet still is fairly balanced and is expected to leave 296k mt of ending stocks by the end of the crop year (162k mt excluding China).

<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.

- Barring major production problems, this most likely leaves enough of a reserve to cushion the problems arising from the Russia-Ukraine conflict and the resulting reduction in Ukrainian wheat production and wheat export capacity.
- Nevertheless, the effect on the price of wheat has been significant and will especially hurt the traditional buyers of Black Sea wheat.

**Recent Developments in Wheat Demand:**

US wheat is still too expensive to increase demand for it. Users are buying the absolute minimum amount of wheat needed until the new crop is available. We note that several tenders have been being passed on (Jordan and Thailand last week). In addition, some of the tenders that are being done seem to indicate they are finishing old crop purchases and are looking at/booking new crop wheat.



➤ **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 1055-6, down 29-4 cents on Friday, *down 26-0 cents on the week.*
- July '22 contract Kansas hard red winter wheat closed at 1149-4, down 13-2 cents in Friday's trade, *down 2-8 cents on the week.*
- July '22 Minneapolis hard red spring wheat closed at 1166-0, down 28-0 cents on Friday, *down 25-4 cents on the week.*
- With the May 1 (Mayday) holiday being observed in much of the world (plus Russia and China out until Wednesday/Thursday), futures were thinly traded, and volatility was high.

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



**KC May '22 Wheat**



**Minneapolis May '22 Wheat**



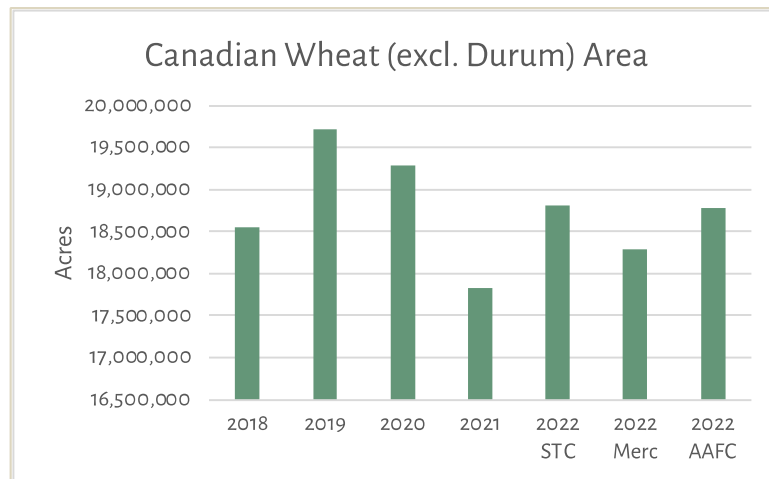
**General Comment**

Wheat took the biggest hit in the commodity markets last week as traders expected improved weather conditions amidst an absence of cash buyers. China seems to believe they can cover any shortfall of Ukrainian supplies from Russia, so are not too concerned about 2022 wheat.

Expect more wheat supplies from alternate origins this year, from Canada, for example. In addition, foreign exchange is going to make it difficult for some countries to buy as much or more wheat as last year.

**Canadian Wheat:**

- Statistics Canada estimated the Canadian spring wheat area at 17.6 million acres. This represents a 7% increase from last year. The non-durum wheat area is expected to grow by 5% from last year to 18.8 million acres. It's likely that Stats Canada has their canola number too low and that some of these wheat acres will be planted to canola. The Mercantile non-durum wheat area shows a 3% increase from last year at 18.3 million acres.

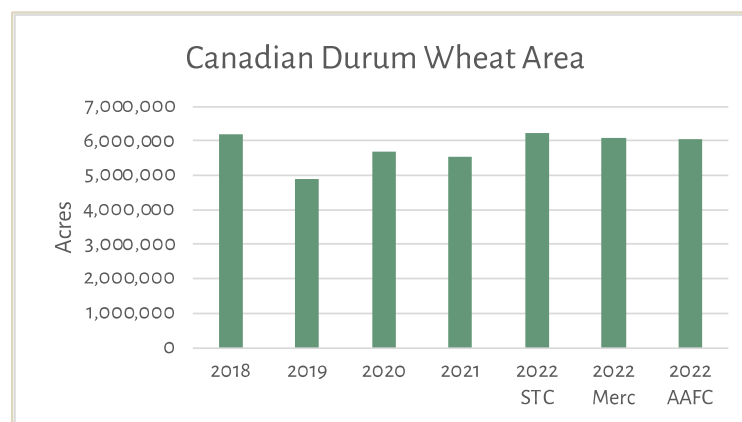


- CME group (Chicago Commodity Exchange) announced that, pending approval, they will launch Canadian Wheat futures on June 13. According to CME, "the Canadian Wheat contract will be based on the Platts CWRS (Canadian Western Red Spring) Wheat for Number 2 CWRS 13.5% protein FOB Vancouver daily price assessment."
- Canadian week 38 wheat exports were at 219k mt for a total export volume of 8.3 million mt, compared to 14.6 million mt last year-to-date.

- *The wheat market remains firm, but there are signs of rationing as buyers are using the absolute minimum amount until the new crop is available. Weather concerns are supporting prices, but there is a downside risk at these very profitable levels. Mercantile continues to recommend being 50% sold new crop at these levels.*

(CGC) Grain Handling Summary Wheat		Wk. 37	(Apr. 24/'21)	
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Wk. 38	230.3	282.6	218.9	115.2
Week ago	255.4	261.7	174.1	37.7
YTD	11,874.7	10,670.5	8,294.9	3,014.8
Last YTD	16,533.3	16,790.2	14,547.1	2,954.9
YTD less Last YTD	-4,658.6	-6,119.7	-6,252.2	59.9
YTD over Last YTD	72%	64%	57%	102%

- **Durum:** Algeria bought 250k mt of May-June durum at \$570-\$590/mt C&F. This is thought to come from Mexico. This backs off to ~\$15.75/bu which is roughly where old crop bids are.
- Stats Canada is expecting that durum area will grow by 12%, or 694k acres from last year. This is a very large increase, but Mercantile's 10% increase is not that far off from what Stats Canada is thinking. Strong new crop prices have shown good returns vs other crops.



- *New crop durum prices were changed little over the week. There is a risk to durum prices, as a 12% increase in Canada and a 17% increase in the US would, under normal conditions, add a large amount of durum to the market. Many durum growing regions in Alberta and Montana, however, remain dry and look like they will largely stay that way in the near future. Mercantile believes it is prudent to be 50% sold new crop at these levels.*

**US Wheat:**

- The US winter wheat crop conditions lost another 3% from last year and are now rated as 27% Gd/Ex. This is the lowest level since 1989. Weather models are expecting precipitation in the central plains over the next 10 days. Meanwhile, harvest in Texas will start in the next few weeks.
- US weekly wheat sales were 32.3k mt for 2021/22. Sales for 2022/23 were 124.3k mt
- US HRS for May '22 is valued at \$495.00/ mt FOB PNW (up \$16/mt from last week), FOB Gulf HRW 11/12.5 pro is valued at \$485.40/mt (*up \$4.90/mt from last week*).

**Australian wheat:**

- Precipitation continues in E Australia.
- Australian FOB APW wheat for August '22 was quoted at \$410.00/mt.

**Argentine wheat:**

- The start of planting is still a couple of weeks away, but soil moisture is falling and there is no rain in the forecast.
- May shipment Argentine 12% pro wheat was valued at ~\$425.00/mt FOB, down \$5/mt from the previous week.

**Indian wheat:**

- India may well have a little more wheat to export after all.

**EU wheat:**

- Matif wheat ended last week lower on the old crop but had a third straight day of new highs on the new crop. Matif futures reflect the growing likelihood that major additional export demand will have to be switched from the Black Sea to the EU as the cheapest alternative to Black Sea wheat.
- The European Commission reduced the EU's 22/23 wheat crop estimate by 1.2 million mt to 130.1 million mt, although exports remained unchanged at 40 million mt.
- FOB prices in the EU: May '22 French 11.5 pro wheat closed at 437.20/mt, down \$15.10/mt from last week; May German 12.5 pro wheat closed at \$443.00/mt, up \$3.20/mt. April Baltic 12.5 pro wheat was at \$437.70/mt, down \$4.80/mt.

**Black Sea wheat:**

- Russian winter wheat development and spring plantings were termed "slow".
- There is no real EU or Black Sea FOB market. The few reported bid-offer spreads are too wide to trade.
- All eyes are now on today's TMO tender in the hope of a clearer indication of where cash values are for both old and new crop.

➤ **Significant purchases/ trades:**

- We heard of no major international buying.
- Turkey (TMO) is tendering 480k mt of wheat for May 17 - August 10.
- US export sales were again poor at just 32k mt old crop and 124k mt new crop. The current season total of 710 million bu is down 25% on last year.

➤ **Wheat Market Outlook:**

**Significant events:**

- **Wheat** took the biggest hit in the commodity markets last week as traders expected improved weather conditions amidst an absence of cash buyers. **China** seems to believe they can cover any shortfall of Ukrainian supplies from Russia, so they are not too concerned about 2022 wheat.
- **Statistics Canada** estimated Canadian **spring wheat area** at 17.6 million acres. This represents a 7% increase from last year. The non-durum wheat area is expected to grow by 5% from last year to 18.8 million acres.
- **Stats Canada** is expecting that the **durum area** will grow by 12%, or 694k acres from last year.
- **US winter wheat crop conditions** lost another 3% from last year and is now rated as 27% Gd/Ex. This is the lowest level since 1989.
- **Matif wheat** ended last week lower on old crop but had a third straight day of new highs on new crop last week.
- Mercantile did not hear of any major international buying last week.

**Outlook:**

The markets are very difficult to forecast with numerous weather reports and various news services reporting crop problems (some fact, some fiction) with the markets dominated by financial interests more than by traditional commodity traders. Mercantile has spent more time on spreads than outright long-short positioning.

Don't expect markets to drop too much on the new crop for the present, although if you were to short anything, it would be wheat.

Mercantile recommends being fully sold on old crop grains and recommends selling 40 percent of spring wheat or selling Kansas and buying Minneapolis at 50 cents per bushel premium of Minneapolis.

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

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

Date: 02-05-2022					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Sept. '22 (bu.)	Sept. '22 (mt)
<b>1 CWRS 13.5</b>	\$14.13	\$519.19	<b>1 CWRS 13.5</b>	\$13.52	\$496.78
<b>1 CWAD 13.0</b>	\$15.23	\$559.61	<b>1 CWAD 13.0</b>	\$12.09	\$444.23
<b>1 CPSR 11.5</b>	\$12.86	\$472.53	<b>1 CPSR 11.5</b>	\$12.59	\$462.61
<b>SW Sask</b>			<b>SW Sask</b>		
<b>1 CWRS 13.5</b>	\$13.97	\$513.31	<b>1 CWRS 13.5</b>	\$13.32	\$489.43
<b>1 CWAD 13.0</b>	\$15.30	\$562.18	<b>1 CWAD 13.0</b>	\$12.48	\$458.57
<b>1 CPSR 11.5</b>	\$12.80	\$470.32	<b>1 CPSR 11.5</b>	\$12.47	\$458.20
<b>NE Sask</b>			<b>NE Sask</b>		
<b>1 CWRS 13.5</b>	\$14.04	\$515.89	<b>1 CWRS 13.5</b>	\$13.25	\$486.86
<b>1 CWAD 13.0</b>	\$15.64	\$574.68	<b>1 CWAD 13.0</b>	\$13.24	\$486.49
<b>1 CPSR 11.5</b>	n/a		<b>1 CPSR 11.5</b>	n/a	
<b>SE Sask</b>			<b>SE Sask</b>		
<b>1 CWRS 13.5</b>	\$13.97	\$513.31	<b>1 CWRS 13.5</b>	\$13.14	\$482.82
<b>1 CWAD 13.0</b>	\$15.48	\$568.80	<b>1 CWAD 13.0</b>	\$12.90	\$474.00
<b>1 CPSR 11.5</b>	\$12.75	\$468.49	<b>1 CPSR 11.5</b>	\$12.37	\$454.52

Data source: PDQ, May /'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, May 2/'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				02-05-2022
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>	\$598.32	\$774.83		
<b>HRS</b>	\$590.26			
<b>HRW 11.5</b>	\$579.82			
<b>SWW 12.0</b>	\$533.32			
<b>1 CWRS 13.5<sup>3</sup></b>	\$598.32		\$525.44	\$72.88
<b>2 CWRS 13.0<sup>3</sup></b>	\$590.26		\$521.40	\$68.86
<b>3 CWRS<sup>3</sup></b>	\$579.82		\$512.21	\$67.61
<b>CPS<sup>3</sup></b>	\$526.68		\$451.58	\$75.09
<b>1 CWAD<sup>4</sup></b>		\$768.19	\$551.16	\$217.03
<b>Competing wheat:</b>	<b>US\$/mt</b>			
<b>Russia 12.5 (Black Sea, 25k mt)</b>	<b>\$400.00</b>	April		
<b>French 11.5 (Rouen)</b>	<b>\$437.20</b>	April		
<b>APW 10.5 (W Coast)</b>	<b>\$410.00</b>	April		
<b>Argentine 12.0</b>	<b>\$430.00</b>	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