

## Wheat Market Outlook and Price Report: January 31, 2022

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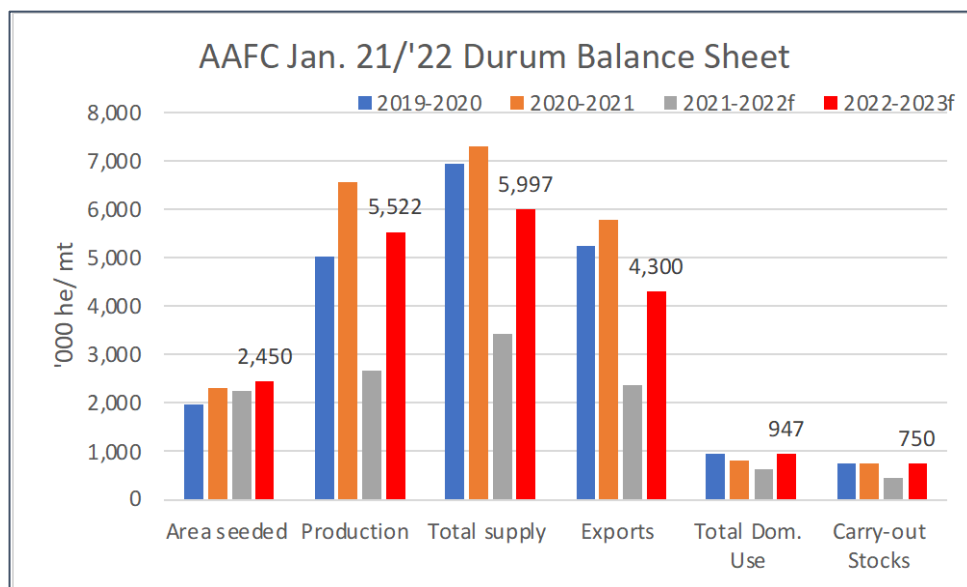
### **i) Background and Rationale for the Report**

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 January 31, 2022**

#### **Revisiting Canadian Durum Numbers – AAFC Jan. 21/22:**



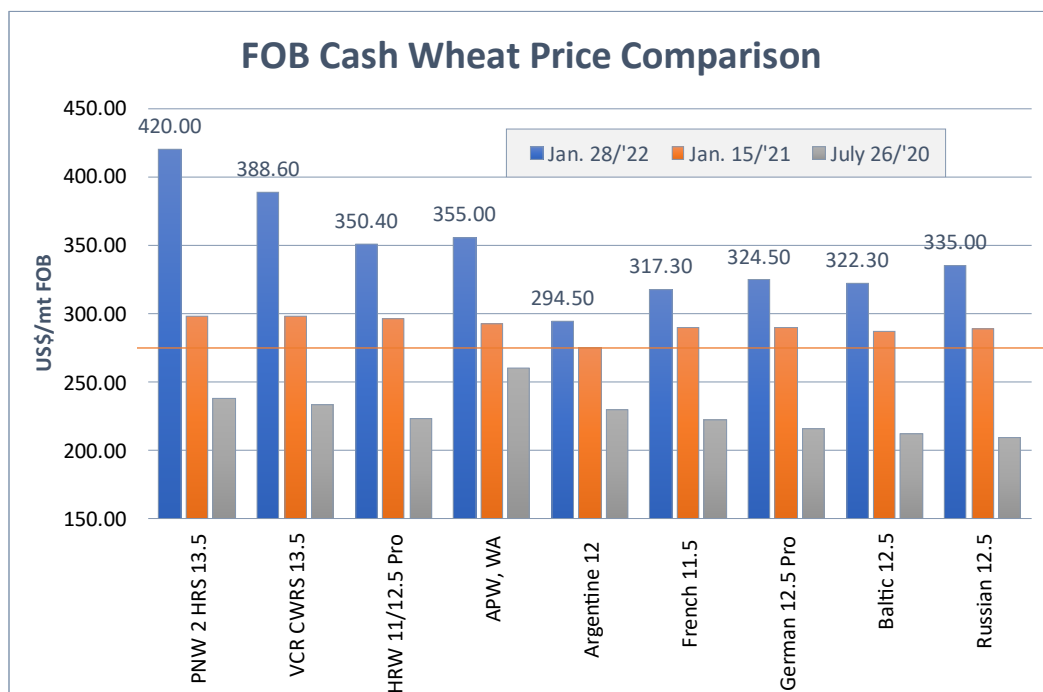
- The durum wheat market is very different from the general wheat markets in that production is limited to a few select areas in the world. Canada, the EU-27, Mexico and the US are the major players on the production side.
- On the demand side, the EU (Italy, Spain, Belgium), Algeria, Morocco, Japan and the US are the main buyers.
- Last year's North American durum production (US & Canada) dropped 1.5 million mt (- 17%) to 7 million mt, tightening the overall durum supply significantly.

- Global ending stocks this year (2021/22) will be close to 6 million mt, down from about 7.65 million mt last crop year.
- The big question now becomes where North American durum production will end up in 2022/23. **AAFC** in Canada projected a 9.5% increase in Canadian seeded durum acres for 2022 to just over 6 million acres. AAFC assumes yield to rebound to 39.5 bu/acre, roughly the 5-year average yield including last year's. Production is projected at just under 6 million mt. Exports should rebound to 4.3 million mt, with 2022/23 ending stocks at 750k mt.
- For the US, a 13% increase in acreage is being talked about with about 1.7 million mt in production. Note, however, that USDA reports that -as of December 14, 2021- ~86% of the US durum area is within an area experiencing drought. Something similar can be said of the Canadian durum production area.
- Conditions in the MENA production areas (Algeria, Tunisia, Morocco) as well as in Turkey are not off to a great start, showing increasingly dry conditions.
- *It remains to be seen if North American and global durum production can recover next crop year despite the expected significant increases in acreage in North America.*

**Recent Developments in Wheat Demand:**

Egypt (GASC) returned to the market for 420k mt of wheat last Friday. They bought Ukrainian, Romanian, and Russian wheat for March shipment.

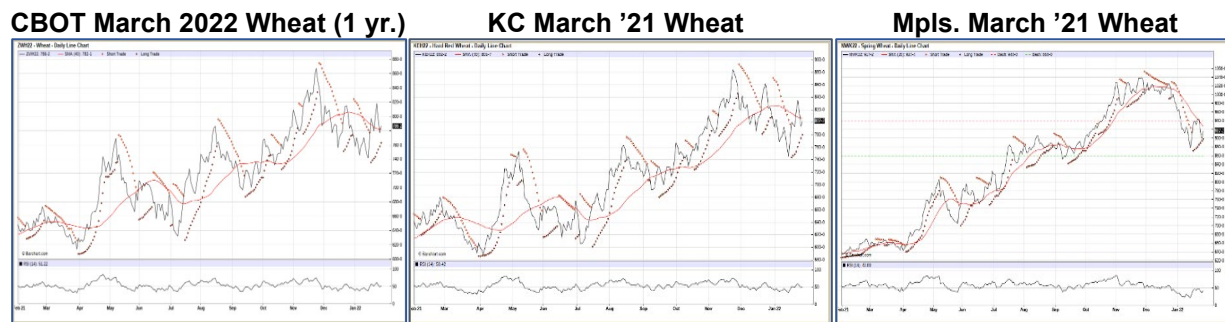
US and Canadian wheat are still not buying any incremental demand on the export market, although long-term, weather forecasts look concerning for the US Plains with potential drought expansion into the summer amidst hot dry conditions.



➤ **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:**
- March 2022 contract Chicago winter wheat closed at 786-2, up 9-2 cents on Friday, *up 6-2 cents on the week*.
- March 2022 contract Kansas hard red winter wheat closed at 802-2, up 8-6 cents on Friday's trade, *up 9-0 cents on the week*.
- March 2022 Minneapolis hard red spring wheat closed at 920-2, up 17-9 cents on Friday, *down 15-6 cents on the week*. The weekly data showed long liquidation for Minneapolis wheat spec traders, which reduced their net long by 517 contracts to 3,340 contracts.
- However, this Monday morning, wheat markets were down by 19-26c/bu following the seeming relaxation of the immediate threat of a military conflict in the Black Sea area.

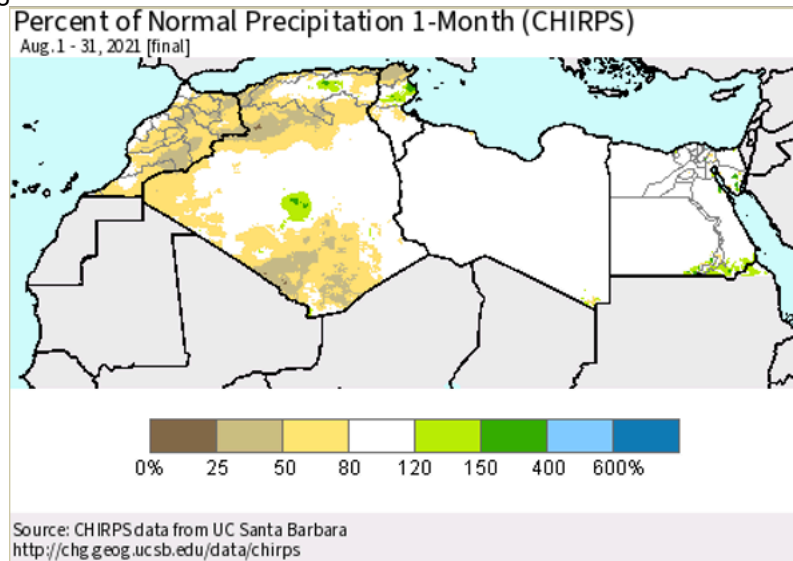


**Canadian Wheat:**

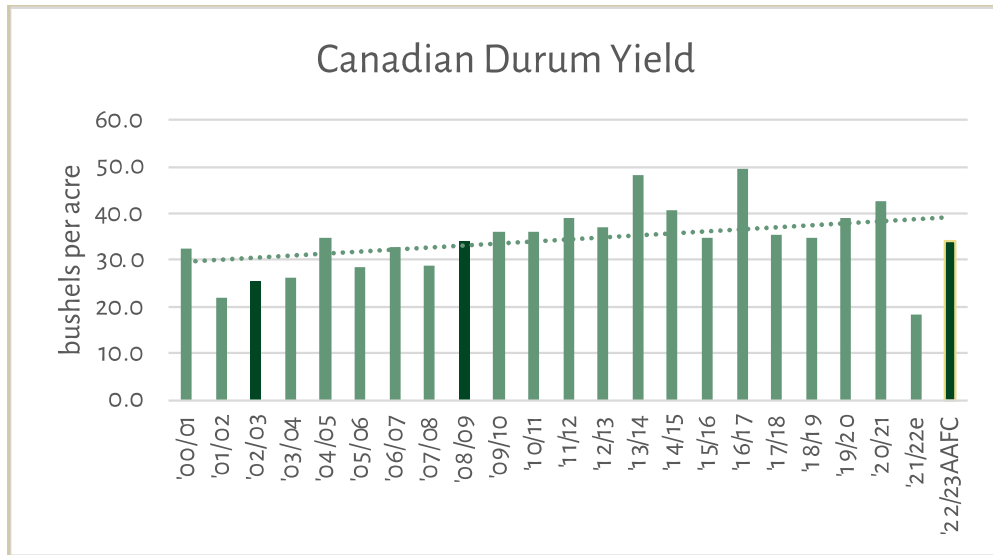
- *Minneapolis spring wheat is returning to a more moderate premium to Chicago wheat. Chicago wheat should be roughly a \$1.50/bu premium to corn. Barring a hands-on conflict in Ukraine, Chicago wheat will find it's nearby direction from corn. And feed grains will follow the weather conditions in the Southern Hemisphere.*
- We don't see wheat collapsing, but there seems to be sufficient milling supply for wheat to follow rather than lead the markets. This is provided that the Russian/Ukrainian dispute does not lead to war.
- Canadian shipping week 25 exports were uninspiring at 104.6k mt, for a season total of 5.6 million mt. This is 43% (-4.2 million mt) less than last year.
- We are now 48% through the marketing year and Canada has exported 40% of AAFC's 14.0 million mt projection. Exports will increase in the latter half of the year, but the current pace does not suggest that we will do much better than what AAFC is suggesting.
- The market will be supported by corn, but there is nothing (outside of increasing conflict in Eastern Europe) to prompt a sharp move higher. North American wheat is expensive and will not buy extra demand. Our recommendation is to sell millable wheat at current indications of Saskatchewan values, or better.

(CGC) Grain Handling Summary Wheat	Wk. 25	(Jan. 23/'21)		
	<b>Producer Deliveries</b>	<b>Terminal Receipts</b>	<b>Bulk Exports</b>	<b>Domestic Disappearance</b>
('000 mt)				
Wk. 25	266.8	192.6	104.6	29.8
Week ago	406.0	234.4	304.3	56.3
YTD	7,697.3	7,534.7	5,587.8	2,122.3
Last YTD	10,841.0	11,591.0	9,832.0	2,202.6
<b>YTD less Last YTD</b>	<b>-3,143.7</b>	<b>-4,056.3</b>	<b>-4,244.2</b>	<b>-80.3</b>
<b>YTD over Last YTD</b>	<b>71%</b>	<b>65%</b>	<b>57%</b>	<b>96%</b>

- Durum:** The durum crop in Northern Africa is struggling. The crop is largely dormant for now, but NDVI imagery is showing a strong decrease in vegetative health. Algeria is experiencing a “severe” drought, while drought conditions in Morocco and Tunisia are considered “extreme”. Conditions in Morocco, for now, are replicating the 2001 season when wheat production fell to 56% of average.



- Small carry-in stocks into the 2022/'23 crop year put even more focus on new crop production. Less than ideal conditions in **North Africa** will force attention towards production in North America. In the **US**, USDA reports that -as of Dec. 14, 2021- ~86% of the US durum area is within an area experiencing drought. Current **Canadian soil maps** show dryness in key production areas, and there is strong evidence that the yield drag after last year's drought year could be more pronounced than what AAFC is thinking. AAFC is currently expecting that durum yield will rebound to 34.2 bu/acre. This is a 187% increase from last year. Meanwhile, in the years following the droughts of 2001 and 2007, the yield improvement was just 116% and 118% respectively.



- AAFC's 34.2 bu/acre yield might be at the top end of what is possible, but if true, the balance sheet is still not burdensome. If acres increase by 9%, ending stocks would still be in the sub-600k mt range which is quite low.
- Week 25 durum exports were 41.6k mt for a seasonal total of 1.3 million mt, down 54% from last year. Weekly exports needed to reach AAFC's 2.3 million mt number is 41.8 million mt. This will leave ending stocks very low.
- *Local durum prices have backed off. We had recommended earlier that you finish old crop sales. Local prices could climb again, but stocks are so low that any sort of price increase will be at a regional level and will depend on what kind of program your buyer has on.*

(CGC) Grain Handling Summary Durum	Wk. 25	(Jan 23/'21)		
	<b>Producer Deliveries</b>	<b>Terminal Receipts</b>	<b>Bulk exports</b>	<b>Domestic Disappearance</b>
('000 mt)				
Wk. 25	43.2	17.9	41.6	2.9
Week ago	74.1	14.1	11.2	22.5
YTD	1,586.0	1,919.6	1,253.9	240.7
Last YTD	3,123.9	3,680.9	2,743.3	264.0
YTD less Last YTD	-1,537.9	-1,761.3	-1,489.4	-23.3
YTD over Last YTD	51%	52%	46%	91%

**US Wheat:**

- Wheat futures broke last Wednesday over reports of an EU-Russia agreement (which does not seem to exist) but were able to recover and close higher on the week following corn.
- **Winter wheat crop conditions** deteriorated again between December and January: Kansas was down 3% to 30% Gd/Ex, Oklahoma was down 6% to 16% Gd/Ex. Ratings in Texas are 7% Gd/Ex, down 13% from November. US farmers are becoming increasingly reluctant sellers given the depressed prices and poor crop conditions. Poor US wheat conditions will become more important in the spring, but it does seem to be giving the market some underlying strength. Winter wheat conditions in the rest of the Northern Hemisphere look good. Mild weather in the EU has benefited crops, but there are areas of the Black Sea that are still susceptible to winter kill.
- **US weekly wheat exports** sales were at a marketing year high at 677k mt (24.9 million bushels). Total commitments are now 632 million bushels, which is 21% less than last year. Sales needed to meet the USDA's export number are 9.4 million bushels per week. Sales like last week's make us optimistic that this is possible, but the rising US dollar compared to other wheat origins (the EU and the Black Sea) will make it difficult to attract additional demand.
- US HRS for February 2022 is valued at \$420.00/ mt FOB PNW (up \$1/mt from last week), FOB Gulf HRW 11/12.5 pro is valued at \$350.40/mt (down \$1.10/mt from last week).

**Australian wheat:**

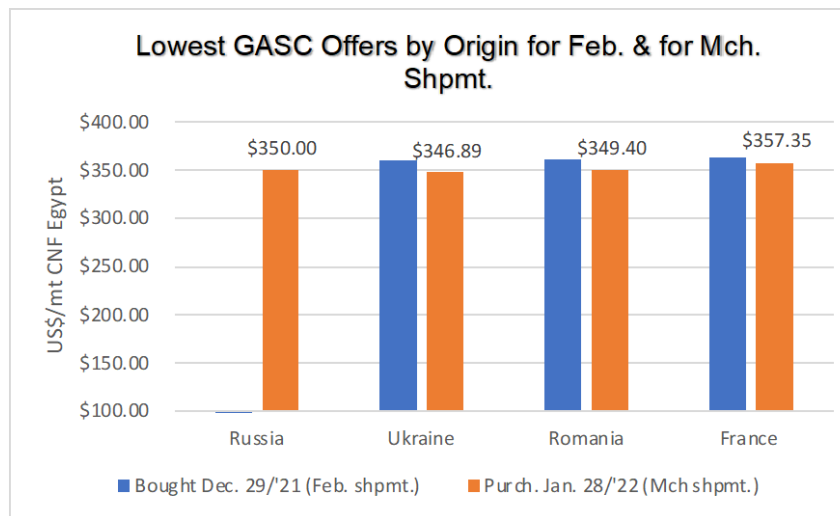
- The Philippines bought 50k mt Australian feed wheat for June shipment at \$338-340/mt CNF. *It is notable that the June position was about \$20/mt cheaper than an earlier purchase for April shipment.*
- Australian new crop FOB APW wheat for February 2022 was quoted at \$355.00/mt, up \$5/mt from last week.

**Argentine wheat:**

- Argentine FOB values were little changed. February shipment Argentine 12% pro wheat was valued at ~\$292-297/mt FOB.

**EU wheat:**

- Despite 18-month lows in the Euro, Matif wheat futures showed 2-day losses at €15/mt, turning the charts negative.
- In Friday's Egyptian (GASC) tender, French wheat looked like it ought to be able to compete with Black Sea wheat, but with both difficult FOB replacement and difficult freight markets, it was ~\$7/mt too expensive.
- FOB prices in the EU: February 2022 French 11.5 pro closed at \$317.30/mt, down \$2.60/mt from last week. February German 12.5 pro wheat closed at \$324.50, down \$3.80/mt. January Baltic 12.5 pro wheat was at \$322.30mt, down \$3.70/mt.



**Black Sea wheat:**

- Black Sea cash values are very hard to pin down, with the only recent confirmed trades dating back to last week at around \$338/mt to Iran.
- We estimate Russian February 2022 12.5 pro wheat value at ~\$335.00/mt, down \$3/mt from last week.

➤ **Significant purchases/ trades:**

- The **Philippines** bought 50k mt of Australian feed wheat for June shipment at \$338-340/mt.
- **Korea** bought 115k mt of feed at \$332-339/mt.
- **Algeria (OAIC)** purchased milling wheat on Wednesday. Initial estimates of the purchase were about 60k to 80k mt.
- **Egypt (GASC)** booked 420k mt of wheat, to be sourced 180k mt from Ukraine, 120k mt from Russia, and 120k mt from Romania with a mid-March delivery.
- **Iran** reportedly passed at this week's tender but there are reports that **Iraq** will be back shortly.
- **US export sales** were at 677,000 tonnes, which took the season total to 632 million bushels, down 21% on last year against the USDA's projected 17% decline.

➤ **Wheat Market Outlook:**

**Significant events:**

- **US wheat futures** fell to 10-day lows last week when the Russia-Ukraine conflict showed no fresh developments and while the US dollar broke out to levels not seen since July 2020.
- **Weekly US export sales** were above expectations and the cumulative gap on the USDA's projection is narrowing, although on paper US wheat prices are still not buying incremental export demand.
- **US winter wheat crop conditions** deteriorated again between December and January.
- **Australia sold feed wheat** to the Philippines for the June position at about \$20/mt cheaper than an earlier sale for April shipment.
- **Egypt's GASC** booked 420k mt of wheat at \$347-350/mt, to be sourced 180k mt from Ukraine, 120k mt from Russia, and 120k mt from Romania with a mid-March delivery. French wheat was about \$7/mt more expensive and did not get bought.
- As we had expected, there was affair amount of **cash business** done last week, notably by Egypt, and still for nearby positions.
- **Durum:** Soil moisture conditions for 2022 presently look dry in several growing areas.

**Outlook:**

We still think that the USDA overestimates wheat supply by about 8 million tonnes against good demand while the Russian-Ukrainian dispute exists. However, while we do not see wheat collapsing, there seems to be sufficient milling wheat supply available for wheat to follow rather than lead the markets. This is provided that the Russian/Ukrainian dispute does not lead to war.

Our recommendation would be to sell millable wheat at our current indications of Saskatchewan values, or better (... above \$11.00/bu for 2CWRS, \$10.50/bu for 3CWRS).

**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)		Apr. '22 (bu.)	Apr. '22 (mt)
<b>1 CWRS 13.5</b>	\$11.69	\$429.54	<b>1 CWRS 13.5</b>	\$11.75	\$431.74
<b>1 CWAD 13.0</b>	\$19.00	\$698.14	<b>1 CWAD 13.0</b>	\$19.04	\$699.61
<b>1 CPSR 11.5</b>	\$10.84	\$398.30	<b>1 CPSR 11.5</b>	\$10.94	\$401.98
<b>SW Sask</b>			<b>SW Sask</b>		
<b>1 CWRS 13.5</b>	\$11.51	\$422.92	<b>1 CWRS 13.5</b>	\$11.58	\$425.50
<b>1 CWAD 13.0</b>	\$18.98	\$697.40	<b>1 CWAD 13.0</b>	\$19.00	\$698.14
<b>1 CPSR 11.5</b>	\$10.61	\$389.85	<b>1 CPSR 11.5</b>	\$10.63	\$390.59
<b>NE Sask</b>			<b>NE Sask</b>		
<b>1 CWRS 13.5</b>	\$11.30	\$415.21	<b>1 CWRS 13.5</b>	\$11.50	\$422.56
<b>1 CWAD 13.0</b>	\$19.01	\$698.50	<b>1 CWAD 13.0</b>	\$19.06	\$700.34
<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>	\$11.30	\$415.21	<b>1 CWRS 13.5</b>	\$11.35	\$417.04
<b>1 CWAD 13.0</b>	\$19.01	\$698.50	<b>1 CWAD 13.0</b>	\$19.45	\$714.67
<b>1 CPSR 11.5</b>	\$10.51	\$386.18	<b>1 CPSR 11.5</b>	\$10.49	\$385.44

Data source: PDQ, Jan. 31/'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, Jan. 31/'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

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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.”

- 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 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				31-01-2021
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>	\$478.26	\$846.40		
<b>HRS</b>	\$470.79			
<b>HRW 11.5</b>	\$463.79			
<b>SWW 12.0</b>	\$508.12			
<b>1 CWRS 13.5<sup>3</sup></b>	\$478.26		\$416.31	\$61.95
<b>2 CWRS 13.0<sup>3</sup></b>	\$470.79		\$410.06	\$60.73
<b>3 CWRS<sup>3</sup></b>	\$463.79		\$402.71	\$61.08
<b>CPS<sup>3</sup></b>	\$501.58		\$375.52	\$126.06
<b>1 CWAD<sup>4</sup></b>		\$839.86	\$689.32	\$150.55
<b>Competing wheat:</b>	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$335.00	February		
French 11.5 (Rouen)	\$317.30	February		
APW 10.5 (W Coast)	\$355.00	February		
Argentine 12.0	\$294.50	February		

<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