

Wheat Market Outlook and Price Report: May 30, 2022

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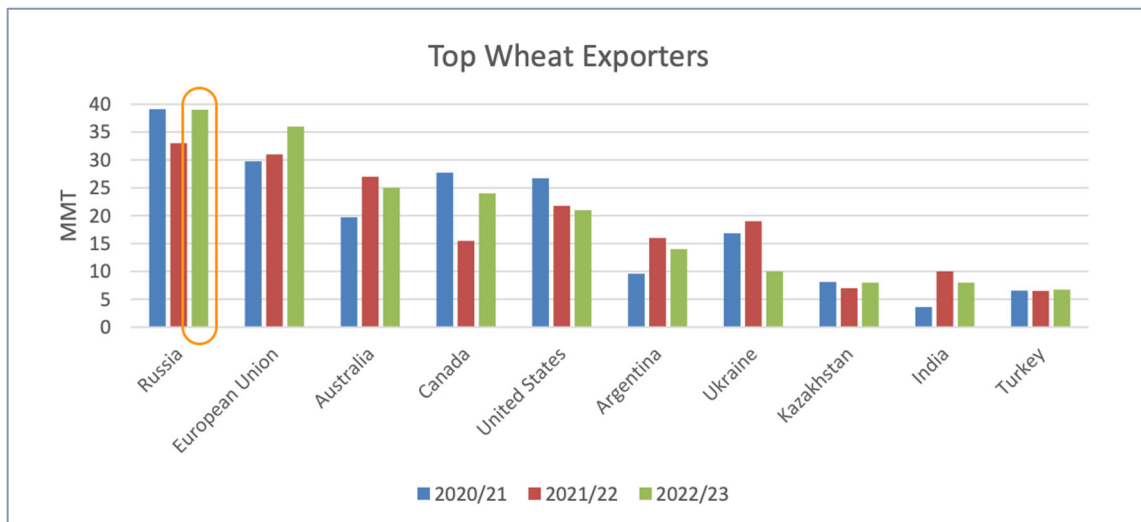
i) Background and Rationale for the Report

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 30, 2022

2022/23 Global Wheat Export Outlook (USDA numbers):



Source: USDA-FAS, May 2022

- **2022/23 global wheat exports** are forecast to reach a record 205 million mt as robust import demand and high prices are expected to lead major exporters to prioritize ample supplies for export.
- **Russia** is forecast to be the largest exporter for the third year in a row on a larger crop and strong global demand for affordable Black Sea wheat as exports from Ukraine are curtailed. Currently, **Ukraine** is unable to export via seaports because of the ongoing war but is seeking to use alternative routes, primarily by rail and export through neighboring European countries.

- The **European Union** is projected to be the second largest exporter, reflecting a larger crop from France, Romania, and Germany, as well as growing demand from Sub-Saharan Africa and Middle East markets.
- **Australia** is forecast to have a significant decline in exports; however, if realized, this would still mark the second largest exports on record, reflecting strong demand from Southeast Asia markets.
- **U.S.** exports are forecast to be lower, as several major exporters are projected to have larger supplies in 2022/23 and relatively high U.S. prices are expected to reduce U.S. competitiveness.
- **Canada** is projected to have the largest increase in exports year-over-year, as a much larger crop and strong global demand for durum wheat spur strong growth.
- **Argentina** exports are forecast to be down on a smaller crop and stronger competition from North America.
- **Kazakhstan** is forecast to see a surge in exports on strong demand from Central Asia for wheat and wheat flour. India is forecast to have another strong year of exports with continued competitiveness in the region and ample sufficient supplies.

Developments in Wheat Demand:

- Pakistan purchased 500k mt of wheat on the weekend at around \$460/mt FOB parity for a June-July shipment. Pakistan is also said to have made an agreement with Russia on a government-to-government basis to import two million mt of wheat from Russia with cash payment amid the continuing sanctions on Moscow that have made trade difficult with the Putin government.
- The Egyptian Trade Ministry has raised the maximum allowable moisture content for wheat imports to 14%, which will open up other origins for GASC tenders.

➤ **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:

- July 2022 contract Chicago winter wheat closed at 1157-4, up 14-2 cents on Friday, *down 11-2 cents on the week.*
- July 2022 contract Kansas hard red winter wheat closed at 1235-2, up 6-6 cents in Friday's trade, *down 17-4 cents on the week.*
- July 2022 Minneapolis hard red spring wheat closed at 1304-6, up 12-4 cents on Friday, *up 25-6 cents on the week.*
- US futures are closed today for the Memorial Day holiday.

CBOT July 2022 Wheat (1 yr.)



KC July 2022 Wheat



Minneapolis July 2022 Wheat



General Comment:

Funds have reduced their position in futures considerably. Following the Russia-Pakistan wheat deal, the market awaits to see how new crop import tenders will be priced.

Canadian Wheat:

- Wheat markets rallied into the green mid-session Friday. MGE spring wheat closed higher due to ongoing wet conditions in the Northern Plains and in Canada. There is worry that some of the HRS acres will be lost to Prevent Plant.
- Seeding in Saskatchewan took a jump forward to 52% seeded overall. There was no progress report given by crop. In Alberta, spring wheat was 93% seeded, but moisture deficits in the south of Alberta are worrisome. Manitoba is having continued rain delay problems.
- In North Dakota, spring wheat planted at 27% (as of May 22) is well behind 93% last year and 80% average. Emerged was 9%, well behind 55% last year and 42% average. Montana spring wheat is 85% planted and 59% emerged. *There is concern about Prevent Plant acres for U.S. spring wheat, which was supportive to Minneapolis wheat on Friday.* The U.S. crop update next Tuesday should give a better idea about Prevent Plant acres for U.S. spring wheat.
- **Canadian wheat exports** were decent last week (week 42) at 309k mt, advancing year-to-date wheat exports to 9.35 million mt, 7.1 million mt lower (-43%) than last year-to-date.

(CGC) Grain Handling Summary Wheat		Week 42	(May 22/'22)	
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 42	90.5	230.7	308.5	110.5
Week ago	113.9	287.2	186.6	84.6
YTD	13,062.8	11,855.0	9,346.7	3,336.9
Last YTD	17,854.0	19,005.7	16,453.1	3,289.4
YTD less Last YTD	-4,791.2	-7,150.7	-7,106.4	47.5
YTD over Last YTD	73%	62%	57%	101%

- Weather is increasingly an issue across the Northern Hemisphere and big questions remain over the levels of Black Sea and Indian exports. However, markets are also near all-time highs and demand has slowed. There is no clear picture as to how grain will move next season and how Black Sea storage issues will be solved. We worry that this could create supply pressure at the source of grain, while shortages will exist elsewhere. FOB and CIF (cost, insurance, freight) price relationships may erode. Given the degree of uncertainty in this market, we would be reluctant to have your new crop fully unsold.
- **Durum exports** for week 42 were a good 119k mt, for a YTD total of 2.1 million mt, compared to 5.24 million mt last YTD. This is now 59% behind last year's pace.
- There was no seeding progress report specific to durum in SK or AB. In N Dakota, durum wheat planted was at 17%, well behind 75% last year and 69% average. Emerged was 4%, well behind 32% last year and 27% average. In Montana, durum was 65% planted (66% average) and 30% emerged.
- Durum will remain tight in the new crop year, and crop development on the southern Prairies will be monitored closely.

(CGC) Grain Handling Summary Durum	Week 42		(May 22/'22)	
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 42	8.7	30.4	118.7	7.0
Week ago	5.8	85.1	47.3	3.6
YTD	2,076.8	2,522.1	2,118.9	360.4
Last YTD	5,125.2	6,181.4	5,224.5	439.4
YTD less Last YTD	-3,048.4	-3,659.3	-3,105.6	-79.0
YTD over Last YTD	41%	41%	41%	82%

- In international durum news, Turkish Phytosanitary and Customs Authorities are said to have rejected 55k mt of Indian origin durum wheat which was sold to a private buyer in Turkey. The vessel is currently at Iskenderun Port but is believed to be leaving the port soon before berthing.

US Wheat:

- There is concern that some of the HRS acres will be lost to Prevent Plant. In North Dakota, spring wheat planted at 27% (as of May 2022) is well behind 93% last year and 80% average. Montana spring wheat is 85% planted and 59% emerged. - The U.S. crop update next Tuesday should give a better idea about Prevent Plant acres for US spring wheat.
- Meanwhile, the Texas panhandle and central and northern Oklahoma received much-needed rain last week, with as much as six inches in some areas. Considerable seasonal rain has shrunk areas rated with abnormal dryness and severe drought conditions across Washington, Oregon, Idaho, and Montana.
- U.S. export sales were disappointing with old crop net negative 2k mt and new crop 246k mt.
- U.S. HRS for June 2022 is valued at \$517.00/ mt FOB PNW (down 3.00/mt from last week), FOB Gulf HRW 11/12.5 pro is valued at \$510.20/mt (down \$17.60/mt from last week).

Australian wheat:

- Rain continues in SE Australia.
- Australian FOB APW wheat for August 2022 was quoted at \$450.00/mt (up 5.00/mt from last week)

Argentine wheat:

- BAGE put wheat planting progress at 5.3% complete on an expected total acreage of 6.6 million ha. This is well below last year's 10% with dryness as the prime reason.
- BAGE has not yet given a crop estimate for 2022/23.
- June shipment 12% pro Argentine wheat was valued at ~\$485.00/mt FOB (up 15.00/mt from last week).

Indian wheat:

- The U.S. Ag Attaché cut India's crop to 99 million mt compared to the USDA's 108.50 million mt and put exports at "barely" 6 million mt. But this applies to the marketing year April-March, and shipments of existing sales will have been completed prior to the start of the 22/23 July-June year.

Chinese wheat:

- Precipitation during April-May across China's major winter wheat regions has ranged from 30% to 70% of normal and the forecast remains mostly dry for the coming two weeks with temperatures turning above/much above normal. - China's winter wheat areas continue to suffer from prolonged dryness.

EU wheat:

- Last Thursday was a holiday in Europe (Ascension Day), but Matif was trading and like the US markets, it fell to sharp losses on talk of grain export corridors in the Black Sea. However, Putin eventually stated: "Russia will contribute to solving the food crisis if sanctions are lifted". This is unlikely to happen, so following this declaration, Matif reversed course to close up €5/mt on the day.
- European weather looks mixed with the northern and southern seaboard mostly dry, but with improved rain in a central band between the two.
- French wheat crop ratings fell for the 3rd week to 69% Gd./Exc. compared to 89% at the start of May.
- Fob prices in the EU: July '22 French 11.5 pro wheat closed at \$448.70/mt (down \$16.40/mt from last week); July German 12.5 pro wheat closed at \$450.80/mt (down \$15.50/mt from last week). August Baltic 12.5 pro wheat was at \$450.80/mt (down \$15.60/mt from last week).

Black Sea wheat:

- Ukraine is desperately trying to export its vast stores of grain by road, river, and rail to help avert a global food crisis but has no chance of hitting its targets unless Russia's blockade of its Black Sea ports is lifted.
- Over the weekend, newswires again reported that Vladimir Putin was ready to discuss Ukraine grain exports, but they did not report his position on sanction removal, which until now has been his condition for any move to free up shipments, and which until now has been flatly rejected by the west.
- Iran and Russia have reportedly agreed to a government-to-government deal for 5 million mt of 'grain' exports (including wheat).
- Pakistan and Russia have reportedly forged a government-to-government deal to import 2 million mt of wheat from Russia.
- Prices in the Black Sea are ill-defined. Russian Fob prices for 12.5 pro June delivery wheat were quoted at \$445.00/mt, *up \$25/mt from last week*.

➤ **Significant purchases/ trades:**

- **Pakistan** bought 500k mt of Russian wheat during the weekend at around \$460/mt FOB parity for the June-July shipment.
- **Pakistan** and Russia reportedly forged a government-to-government deal to import 2 million mt of wheat from Russia.
- **Iran** and Russia have reportedly agreed to a government-to-government deal for 5 million mt of 'grain' exports (including wheat).
- The **Egyptian** Trade Ministry has raised the maximum allowable moisture content for wheat imports to 14%, which will open up other origins for GASC tenders.
- **Algeria's** state grains agency OAIC has issued an international tender to buy milling wheat for shipment to one or both of Mostaganem and Tenes, two small ports, suggesting a limited volume may be purchased.

➤ **Wheat Market Outlook:**

Significant events:

- There are again reports that Vladimir Putin was ready to discuss **Ukraine grain exports**, but they did not report his position on sanction removal, which until now has been his condition for any move to free up shipments, and which until now has been flatly rejected by the west.
- **Ukraine** is desperately trying to export its vast stores of grain by road, river, and rail but has no chance of hitting its targets unless Russia's blockade of its Black Sea ports is lifted.
- The US Ag Attaché cut **India's wheat crop** to 99 million mt compared to the USDA's 108.50 million mt and put exports at 6 million mt.
- **U.S. HRW:** The Texas panhandle and central and northern Oklahoma received much-needed rain last week, with as much as six inches in some areas.
- There is concern that some of the **HRS acres** will be lost to Prevent Plant. In North Dakota, spring wheat planted at 27%, and Montana spring wheat is at 85%. The US crop update next Tuesday should give a better idea about Prevent Plant acres for US spring wheat.
- **Spring wheat** seeding in Saskatchewan and Manitoba is also well behind normal.
- **Russia's '22/23 wheat crop** estimates keep increasing, and some put 2022/23 Russian exports as high as 40 million mt.
- **Russia** reportedly forged government-to-government wheat deals with Iran for 5 million mt and with Pakistan for 2 million mt.

Outlook:

A very difficult market. Weather is increasingly an issue across the Northern Hemisphere and big questions remain over the levels of Black Sea and Indian exports. However, markets are also near all-time highs and, aside from some of the Russian government's top deals, demand has slowed. There is no clear picture as to how grain will move next season and how Black Sea storage issues will be solved. We worry that this could create supply pressure at the source of grain, while shortages will clearly exist elsewhere. FOB and CIF (cost, insurance, freight) price relationships may erode. Given the degree of uncertainty in this market, we would be reluctant to have your new crop fully unsold. This week, it's a short week, and we see no reason to sell additional cash currently.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: 30-05-2022					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Sept. '22 (bu.)	Sept. '22 (mt)
1 CWRS 13.5	\$15.32	\$562.92	1 CWRS 13.5	\$14.89	\$547.12
1 CWAD 13.0	\$16.04	\$589.37	1 CWAD 13.0	\$14.85	\$545.65
1 CPSR 11.5	\$14.41	\$529.48	1 CPSR 11.5	\$14.23	\$522.87
SW Sask			SW Sask		
1 CWRS 13.5	\$15.18	\$557.77	1 CWRS 13.5	\$14.73	\$541.24
1 CWAD 13.0	\$16.11	\$591.95	1 CWAD 13.0	\$15.14	\$556.30
1 CPSR 11.5	\$14.32	\$526.17	1 CPSR 11.5	\$14.09	\$517.72
NE Sask			NE Sask		
1 CWRS 13.5	\$15.11	\$555.20	1 CWRS 13.5	\$14.60	\$536.46
1 CWAD 13.0	\$16.32	\$599.66	1 CWAD 13.0	\$15.37	\$564.76
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	
SE Sask			SE Sask		
1 CWRS 13.5	\$15.10	\$554.83	1 CWRS 13.5	\$14.64	\$537.93
1 CWAD 13.0	\$16.00	\$587.90	1 CWAD 13.0	\$15.17	\$557.41
1 CPSR 11.5	\$14.22	\$522.50	1 CPSR 11.5	\$13.95	\$512.58

Data source: PDQ, May 30/22

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 30/22

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 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 Northwest (PNW) ≈ 1 CWRS 13.5% in Vancouver
 - HRS in the Pacific Northwest (PNW) ≈ 2 CWRS 13.0% in Vancouver

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.”

- 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				30-05-2022
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	\$648.23	\$756.66		
HRS	\$636.65			
HRW 11.5	\$629.70			
SWW 12.0	\$550.93			
1 CWRS 13.5 ³	\$648.23		\$557.77	\$90.46
2 CWRS 13.0 ³	\$636.65		\$554.10	\$82.55
3 CWRS ³	\$629.70		\$544.91	\$84.79
CPS ³	\$544.44		\$509.64	\$34.80
1 CWAD ⁴		\$750.17	\$606.28	\$143.89
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$445.00	June		
French 11.5 (Rouen)	\$448.70	July		
APW 10.5 (W Coast)	\$450.00	August		
Argentine 12.0	\$485.00	June		

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