

Wheat Market Outlook and Price Report: August 2, 2022
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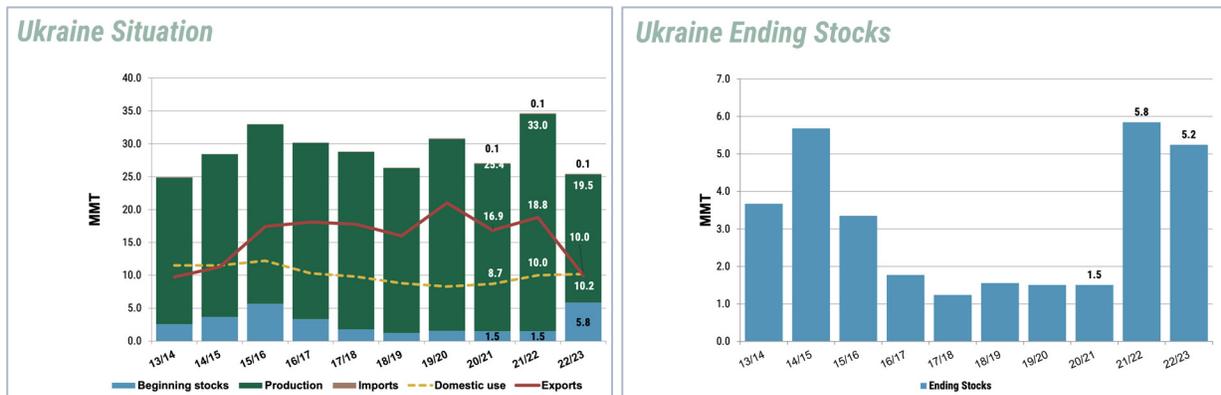
i) Background and Rationale for the Report

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 August 2, 2022

USDA – Ukraine Wheat Situation:



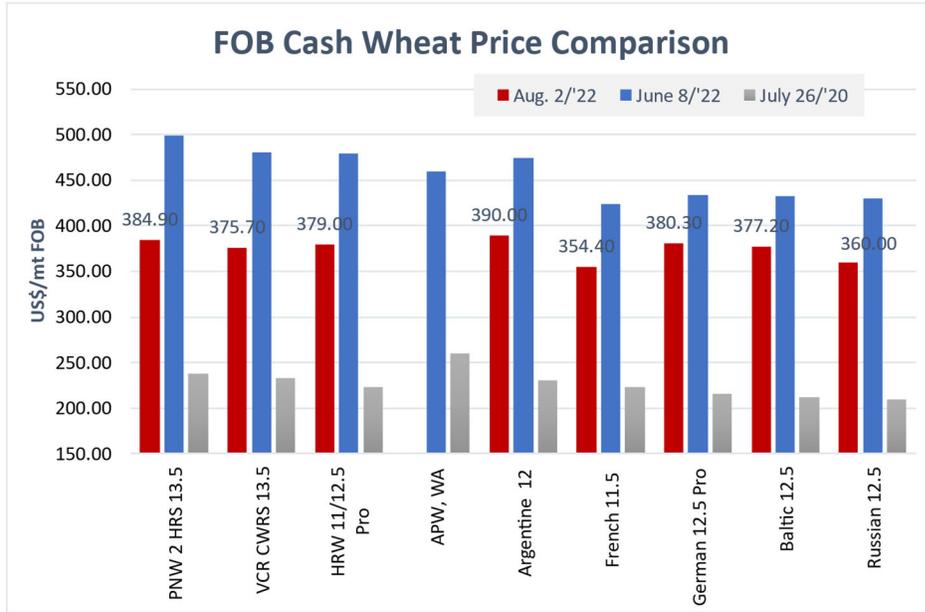
Data Source: USDA

- In the last USDA-WASDE report, Ukrainian 2022/23 wheat production was lowered by 2.0 million mt to 19.5 million mt on a reduction in harvested area, as indicated by government statistics. Last year's production was at 33 million mt.
- 2022/23 Ukrainian exports were left at 10 million mt, compared to 18.8 million mt in 2021/22.
- 2022/23 Ukrainian wheat ending stocks are currently projected at 5.24 million mt, down from 6 million mt in last month's estimate.

Developments in Wheat Demand:

Global wheat exports for 2022/23 are currently projected at 205.5 million mt compared to 200.1 million mt in 2021/22.

FOB Cash Price Comparison:



➤ **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:

- September 2022 contract Chicago winter wheat closed at 807-6, down 9-2 cents on Friday, *up 49 cents on the week.*
- September 2022 contract Kansas hard red winter wheat closed at 874-4, down 15-2 cents in Friday's trade, *up 54-2 cents on the week.*
- September 2022 Minneapolis hard red spring wheat closed at 906-0, down 22 cents on Friday, *up 35 cents on the week.*
- Wheat futures were down on Monday by 5-9c/bu, and this morning (Tuesday) by currently 22-25 cents.

CBOT Sept. 2022 Wheat (1 yr.)



KC Sept. 2022 Wheat



Minneapolis Sept. 2022 Wheat



Canadian Wheat

- The Canadian wheat crop looks pretty good and better than average yields can be expected. In Alberta, Alberta Ag assessed 80% of their spring wheat acres in good to excellent condition. Last Friday, Alberta Ag projected Alberta spring wheat yields at 52.3 bu/acre, compared to a 45.4 bu/ac 5-year average and a 45.2 bu/ac 10-year average yield. Also, plant development for most crops in AB is right in line with long-term averages.
- At 395k mt, **Canadian wheat exports** in week 51 were relatively good, advancing year-to-date wheat exports to 11.1million mt, 8.3 million mt lower (-43%) than last year-to-date.

(CGC) Grain Handling Summary - Wheat		Week 51 (July 24/'22)		
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 51	202.1	317.7	394.6	84.9
Week ago	261.4	339.5	166.4	105.7
YTD	14,428.3	14,521.3	11,098.8	3,993.9
Last YTD	21,698.1	22,708.2	19,370.7	4,016.5
YTD less Last YTD	-7,269.8	19,500.2	-8,271.9	-22.6
YTD over Last YTD	66%	64%	57%	99%

- There still is a lot of uncertainty over the volume of Black Sea shipments this year. Meanwhile, EU cash values have led the market higher. We will have to watch how the USDA handles all the moving parts in two weeks' time.
- **Durum exports** for week 51 were at 61k mt, for a year-to-date total of 2.6 million mt, compared to 6 million mt last year-to-date.

(CGC) Grain Handling Summary - Durum		Week 51 (July 24/'22)		
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 51	36.2	92.5	60.7	13.3
Week ago	97.5	57.1	40.1	21.9
YTD	2,559.3	3,003.5	2,551.9	470.3
Last YTD	6,103.1	7,203.1	6,002.5	527.2
YTD less Last YTD	-3,543.8	-4,199.6	-3,450.6	-56.9
YTD over Last YTD	42%	42%	43%	89%

- We saw a lot of very good durum fields on our Saskatchewan crop tour and barring an early frost, expect above-average yields for Saskatchewan durum this year. However, in their July 26 report, Alberta Ag assessed only 48% of Alberta durum in good to excellent condition. Alberta has ~ 958k acres of durum this year, accounting for roughly 15% of total durum acres.

- **US conditions** for northern durum crop remain good, with North Dakota rated 87% good to excellent. In North Dakota, recent rainfall and warmer temperatures have aided crop development. However, Montana ratings decreased to 49% due to hot, dry weather. Precipitation is needed in Montana for the crop to meet its full potential.
- We are content being sold out old crop and well-sold new crop. Given you made the new crop sales, there is not much to be added right now.

US Wheat:

- In the US, the weekly crop report raised spring ratings another 2% to 70% good to excellent, with the winter wheat harvest 82% complete, still slightly behind both last year's 90% and the 5-year average of 85%.
- The annual Wheat Quality Tour, which surveyed HRS fields this week, estimated yields at 49.1 bu/ac, the highest since 2015 and *well over the 5-year average of 39.4 bu/ac*.
- The weekly Commitment of Traders report indicated specs in Chicago wheat futures and options added another 3,575 contracts to their net short position as of 7/26, taking it to 10,391 contracts. In KC wheat, they trimmed their net long position by 827 contracts to 11,041 contracts as of Tuesday.
- Weekly US export sales of 412k mt took the season total to 294 million bu, down 1% on last year.
- US HRS for September 2022 was valued at \$384.90/ mt FOB PNW (*down \$13.70/mt from last week*), FOB Gulf HRW 11/12.5 pro is valued at \$379.00/mt (*up \$2.60/mt from last week*).

Australian wheat:

- Crop conditions in Australia remain good with trade estimates rising above 30 million mt.
- Australian futures are lower this Tuesday morning due to lower international markets and another 50-point hike by their central bank.

Argentine wheat:

- Crop conditions in Argentina should improve this week. Last week, the Argentine crop update (BAGE) showed no changes to good to excellent ratings at only 16% (55% last year). Plantings are 99% complete.
- The government announced that the new economy minister will also be the minister of agriculture.
- FOB values were nominally unchanged, but farmers are once again totally out of the market and waiting for some indication as to any change in policies.
- The official peso is at 132 while the parallel informal rate has firmed to 275.
- September shipment 12% protein Argentine wheat was valued at ~\$390.00/mt (down \$20/mt from last week).

China wheat:

There seems to be spillover weakness coming from the soybean/ oilseed market's anxieties over the impact of a visit to Taiwan by Nancy Pelosi on Chinese demand for US product.

EU wheat:

- Matif wheat futures fell sharply and had closed before the US bounced yesterday.
- The prevailing daily volatility of €10/mt (~C\$13.12/mt) will make pricing today's Algerian tender difficult. However, it will likely be based on French wheat because of the inability to forward price Russian wheat due to their export tax.
- Protein spreads in Germany and the Baltic continue to widen, and Romanian wheat export potential is in question as the Romanian corn crop has been called a disaster.
- FOB prices in the EU: Sept. '22 French 11.5 pro wheat closed at \$354.40/mt (*down \$4.40mt from last week*); September German 12.5 protein wheat 10.80/mt from last week).

Black Sea wheat:

- **Russian** interior prices were reported to be lower, and the export tax continues to slide, but it cannot be hedged or prefixed, which is causing problems with forward pricing for export. (While the tax level is coming down, at ~\$75/mt it is still high and not hedgeable and prevents forward pricing of Russian wheat in the export markets.)
- There are reports from Russia about quality damage due to excessive and ongoing rain. The discussion revolves around the volume of low-quality/feed wheat that is being harvested. The USDA export number of 40 million mt might be in question.
- **Ukraine** reported that 8 million mt of wheat being harvested so far (vs. the USDA projection of 19.5 million mt).
- Regarding Ukrainian exports, focus is for now entirely on those 17 vessels that have been stuck in port since the start of the war. The insurers Lloyds of London said yesterday that agreeing on operating procedures for empty vessels to come into the ports will take more time due to issues of crewing. This does not imply an imminent start to volume shipments.

➤ **Significant purchases/ trades:**

There was some trade early in the week.

- **Pakistan** was reported as buying 190k mt of wheat at \$407/mt cost, insurance, and freight (CIF).
- **Bangladesh** bought 50k mt at \$476.00/mt CIF.
- Weekly **USA** wheat sales for exports were said to be 412,000 tonnes, which puts export sales in line with last year and slightly above the pace needed to meet the USDA report.
- **Algeria** returns to the market today for the September-October position.
- **Jordan** is also in the market for 120k mt of wheat for December-January shipment.

➤ **Wheat Market Outlook:**

Significant events over the past week:

- Regarding **Ukrainian exports**, the focus, for now, is exclusively on those (17) ships that had been stuck in port since the start of the war. The insurers Lloyds of London said yesterday that agreeing on operating procedures for empty vessels to come into the ports will take more time due to issues of crewing, which does not imply an imminent start to volume shipments.
- **China** has been making threats about retaliating if US lawmaker Nancy Pelosi makes a stop in Taiwan during her Asian trip.
- In the **US**, the **weekly crop report** yesterday raised spring ratings another 2% to 70% Gd/Exc, with the winter wheat harvest 82% complete.
- The **Canadian wheat crop** looks pretty good and at better than average yields can be expected. In Alberta, Alberta Ag assessed 80% of their spring wheat acres in good to excellent condition. Alberta Ag projected Alberta spring wheat yields at 52.3 bu/acre, compared to a 45.4 bu/ac 5-year average.
- Crop conditions in **Australia** remain good with trade estimates rising above 30 million mt.
- Crop conditions in **Argentina** should improve this week. Last week, the Argentine crop update (BAGE) showed no changes to good to excellent. ratings at only 16% (55% last year).
- Protein spreads in **Germany and the Baltic** continue to widen.
- In **Russia**, there are reports about quality damage due to excessive and ongoing rain.
- **Ukraine** reported that 8 million mt of wheat is being harvested so far (vs. the USDA projection of 19.5 million mt).

Outlook:

The slow export demand is weighing on markets more than potential yield losses currently, but technically, the charts are just showing a consolidation or correction after last week's strong move higher. It still is unlikely that Black Sea exports will get anywhere near their normal pace anytime soon. Volume demand will continue to move to the EU where cash premiums and protein spreads are record high.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: **02-08-2022**

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Oct. '22 (bu.)	Oct. '22 (mt)
1 CWRS 13.5	\$10.44	\$383.61	1 CWRS 13.5	\$10.43	\$383.24
1 CWAD 13.0	\$11.71	\$430.27	1 CWAD 13.0	\$11.80	\$433.58
1 CPSR 11.5	n/a		1 CPSR 11.5	\$9.89	\$363.40
SW Sask			SW Sask		
1 CWRS 13.5	\$10.19	\$374.42	1 CWRS 13.5	\$10.21	\$375.16
1 CWAD 13.0	\$11.78	\$432.84	1 CWAD 13.0	\$11.86	\$435.78
1 CPSR 11.5	n/a		1 CPSR 11.5	\$9.69	\$356.05
NE Sask			NE Sask		
1 CWRS 13.5	\$10.15	\$372.95	1 CWRS 13.5	\$10.15	\$372.95
1 CWAD 13.0	\$12.10	\$444.60	1 CWAD 13.0	\$12.17	\$447.17
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	
SE Sask			SE Sask		
1 CWRS 13.5	\$10.11	\$371.48	1 CWRS 13.5	\$10.11	\$371.48
1 CWAD 13.0	\$12.00	\$440.93	1 CWAD 13.0	\$12.11	\$444.97
1 CPSR 11.5	n/a		1 CPSR 11.5	\$9.52	\$349.80

Data source: PDQ, Aug. 2/22

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

Avg. Grade Spread/ Pro Discounts	Cdn\$/bu.	Cdn.\$/mt
1 CWRS 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, Aug. 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 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				02-08-2022
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	\$460.60	\$675.77		
HRS	\$453.51			
HRW 11.5	\$458.24			
SWW 12.0	\$432.23			
1 CWRS 13.5 ³	\$460.60		\$391.69	\$68.91
2 CWRS 13.0 ³	\$453.51		\$377.73	\$75.78
3 CWRS ³	\$458.24		\$363.03	\$95.21
CPS ³	\$425.61		\$356.42	\$69.19
1 CWAD ⁴		\$669.15	\$408.59	\$260.55
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$360.00	Sept.		
French 11.5 (Rouen)	\$354.40	Sept.		
APW 10.5 (W Coast)	n/a	Sept.		
Argentine 12.0	\$390.00	Sept.		

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