

Wheat Market Outlook and Price Report: August 29, 2022

By Marlene Boersch/ A.P. Temple/ Michael Wilton
Mercantile Consulting Venture Inc.

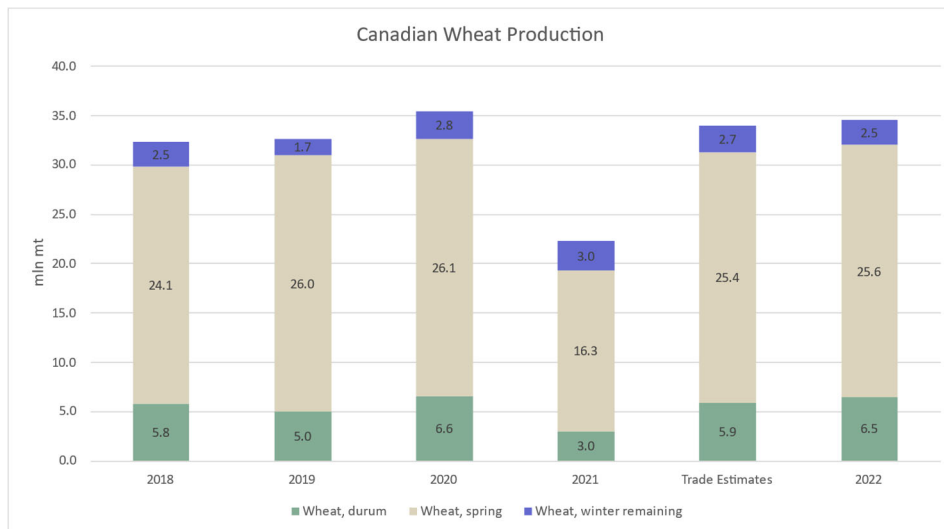
i) Background and Rationale for the Report

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 29, 2022

Statistics Canada Wheat Production Estimates:



Source: Stats Canada, Merc

- Stats Canada released their first production numbers for the 2022 crop this (Monday) morning.
- Canadian all wheat production was put at 34.6 million mt compared to analysts' 34.0 million mt estimate. This is a 12.3 million mt increase from last year and the second largest wheat crop in 9 years.
- Spring wheat (excl durum) was put at 25.6 million mt, 160k mt more than what analysts were expecting and 57% more than last year. Spring wheat yield was put at 52.7 bushels per acre.
- Canadian durum production is expected to be 6.5 million mt compared to analysts 5.9 million mt number. The average durum yield is expected to be 40.6 bushels per acre.
- The report is neutral to bullish overall, but futures markets are not seeming to notice (spring wheat futures are currently up 20 cents for the day). These estimates were produced using satellite imagery that was taken up to July 31st.

Developments in Wheat Demand:

Wheat markets managed to regain all the previous week's losses on spill-over demand from corn.

➤ 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:

- Sept '22 contract Chicago winter wheat closed at 784-6, up 15-0 cents on Friday, up 31-4 cents on the week.
- Sept '22 contract Kansas hard red winter wheat closed at 883-2, up 14-2 cents in Friday's trade, up 38-4 cents on the week.
- Sept '22 Minneapolis hard red spring wheat closed at 894-4, up 11-6 cents on Friday, up 19-2 cents on the week.
- This Monday morning, wheat is trading 20-35 cents higher in reaction to the ProFarmer Tour corn yield results.

CBOT Sept. 2022 Wheat (1 yr.)



KC Sept. '22 Wheat



Minneapolis. Sept. '22 Wheat



Canadian Wheat

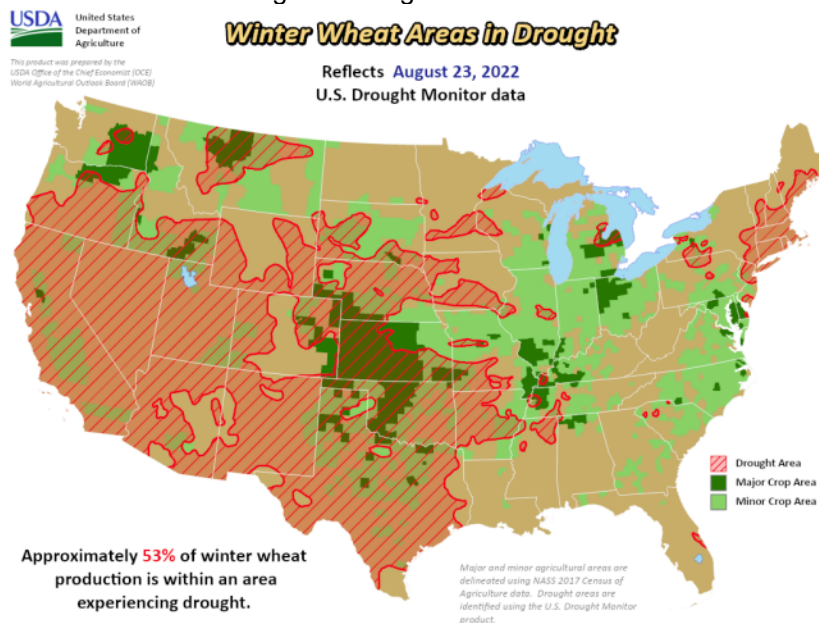
- Spring wheat harvest is <1% done in Manitoba and 6% done in Saskatchewan. Alberta Ag is expecting average yields in AB to be 53.2 bushels per acre; up from their last estimate of 32.8 bushels per acre.
- Canadian producers delivered 191.4k mt of grain into the Canadian elevator system, a slight uptick from previous weeks as some new crop is now entering the system. Exports were low at 129.6 million mt. There is still just under 1.8 million mt of visible supplies in the system. Canadian grain exports are going to fight for capacity against high priced coal movement which we fear will take priority over grain exports.

(CGC) Grain Handling Summary Wheat		Wk. 3		(August 21 '22)
('000 mt)	Prod. Dlvr.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Wk. 3	191.4	253.7	129.6	43.6
Week ago,	169.3	336.1	298.4	62.3
YTD	482.6	969.2	662.8	207.6
Last YTD	767.8	1,285.4	979.5	276.5
YTD less Last YTD	-285.2	-316.2	-316.7	-68.9
YTD over Last YTD	63%	75%	68%	75%

- According to the AG Transport Coalition, CN and CP supplied 91% of the hopper cars ordered in week 2 vs 97% the previous week. The decline in performance was due to CN supplying just 79% of the ordered cars in week 2. This is the first time that CN's order fulfillment has fallen below 90% since April.
- Canadian **durum** yields have been mixed. There are poor yields being reported in West Central Saskatchewan, but yields are generally stronger in the South.
- Durum bids have been following seasonal patterns. They will drift lower into harvest before recovering in Nov-Dec. There will be lots more Canadian durum than last year, but small harvests in the EU and Africa will cause export demand to be strong.

US Wheat:

- Winter wheat harvest in the US is 95% complete, up 5% from last week. Forty-six percent of the US spring wheat crop has been harvested. Durum harvest is 38% complete in Montana. Yields have been extremely poor. We have heard many yields in the single digits. Harvest in North Dakota is 23% complete and yields are much stronger there.
- There was some rain in the US winter wheat belt that will improve soil moisture conditions. More rain will be needed ahead of seeding which begins in the next few weeks.



Source: USDA

- US HRS for Sept. '22 was valued at \$399.50/ mt FOB PNW (*up \$27.40/mt from last week*), FOB Gulf HRW 11/12.5 pro is valued at \$387.30/mt (*up \$26.30/mt from last week*).

Australian wheat:

- Wheat markets were quiet in Australia. Futures prices closed higher on the week, but there was very little cash demand.

Argentine wheat:

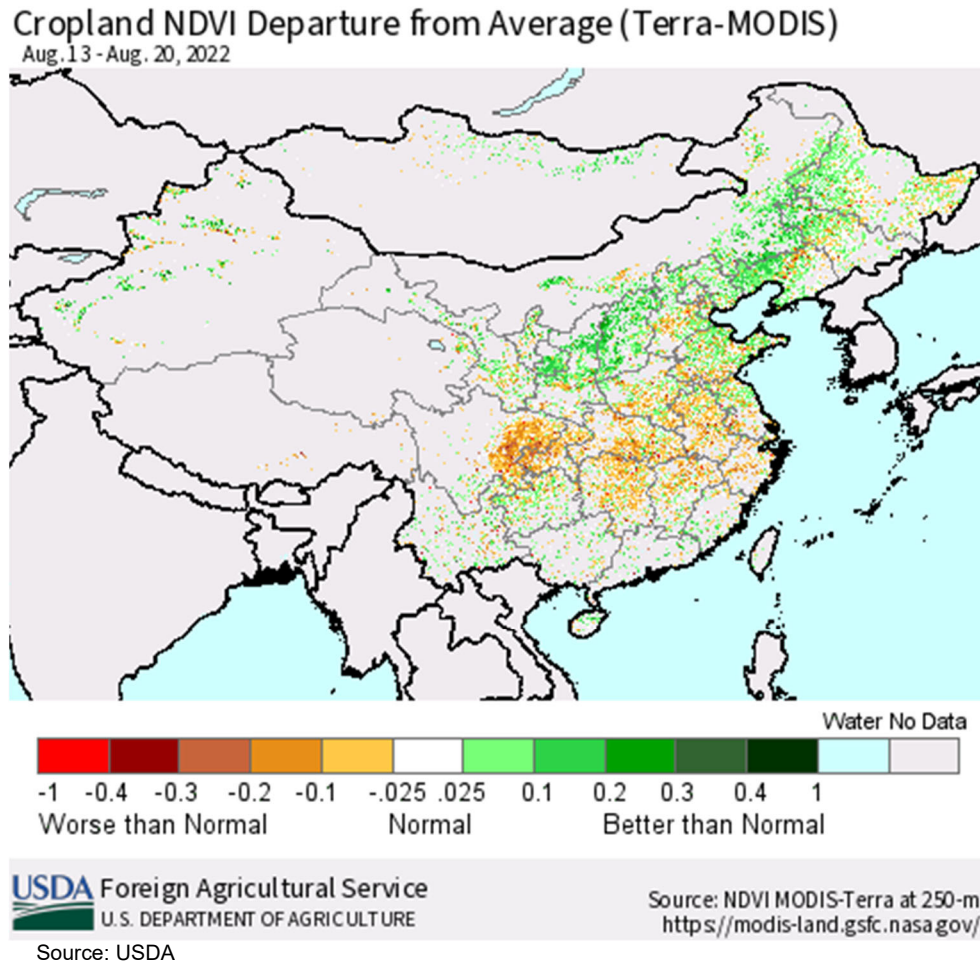
- BAGE lowered the condition of Argentina's wheat crop by another 1% to 18% Gd/Ex (32% last year). They have not updated their production number. Harvest in Argentina will start in November. The USDA's current production number for Argentina is 19.0 million mt (compared to 22.5 million mt last year) and is too high.

India wheat:

- India's government issued a statement last week that they do not plan to import wheat this year. We will see. India's ban on flour exports came into effect last week.

China wheat:

- China's drought continued to deepen last week. The worst affected areas continue to be the Yangtze River where a significant portion of their rice is grown. Significant losses in rice production are being reported which may lead to additional wheat imports.



EU wheat:

- The EU commission increased their soft wheat production number from 124 million mt to 126 million mt. Exports were unchanged at 36 million mt and the entirety of the increase in production was added to ending stocks.
- Protein levels of the French wheat crop are lower than last year. Twenty-seven percent of wheat samples tested have protein levels less than the 11% minimum for milling markets. Fifty-eight percent of the crop is below 11.5% which is normally the minimum for export.
- The EU remains dry ahead of planting season. There is some rain in the 14-day forecast.
- Fob prices in the EU: Sept. '22 French 11.5 pro wheat closed at \$330.00/mt (*up \$4.10/mt from last week*); Sept. '22 German 12.5 pro wheat closed at \$346.20/mt, (*up \$8.90/mt from last week*).

Black Sea wheat:

- Planting season in Ukraine will start next month, but it is not apparent how much of the crop will be planted. It is estimated that 40% of Ukraine's winter wheat area is under Russian control. In addition to this is a general lack of money for inputs and local wheat prices that are below the cost of production. Current estimates for planting losses are ranging from 30-75% depending on the region.
- Thirty-three vessels have now left Ukraine's ports and there are another 20+ ships waiting to be loaded. So far, just 100k mt of wheat has been shipped.
- Russian prices fell as the crop increasingly looks like it will be close to 100 million mt (vs USDA's current 88 million mt number). A crop of that size would result in a 55 million mt exportable surplus, but capacity limitations will not allow for this. The current pace of Russian exports is an annualized 32-34 million mt.

➤ **Significant purchases/ trades:**

- Cash trade was quiet last week.
- Bangladesh is reportedly going to sign a government-to-government deal to buy 500k mt of Russian wheat for \$430/mt.
- US sales were not reported last week because of a technical glitch in the reporting system. We suspect the strong US dollar kept new purchases at bay.

➤ **Wheat Market Outlook:**

Significant events over the past week:

- Much of the movement in wheat prices last week was spill over demand from corn markets:
 - **The US ProFarmer Tour** concluded that the average US corn yield would be 168 bushels per acre for a total production of 13.76 billion bushels. These estimates contrast with the USDA's current 175 bushels per acre yield and 14.36 billion bushel production number.
 - **The EU commission cut their corn** crop by another 10% from their July estimate to 59.3 million mt (vs USDA's 60 million mt). This would be the smallest corn crop in 7 years. The commission increased their import number by 3.5 million mt to 20 million mt and decreased exports by 1 million mt to 4 million mt.
- **Global wheat demand** continues to be slow. Exports from the top wheat suppliers are down 3% from last year compared to the USDA's projected 3% increase in exports.

Outlook:

Wheat markets will continue to follow corn as there is little wheat specific news. Demand has been very slow. Winter wheat harvest is rapping up in the Northern Hemisphere and the Canadian harvest is progressing well, so production amounts are essentially accounted for in the market. Argentina's drought will need to be watched as well as planting conditions in the EU and Ukraine.

– *We do not recommend extending sale 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: 29/08/2022

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Oct '22 (bu.)	Oct '22 (mt.)
1 CWRS 13.5	\$10.82	\$397.57	1 CWRS 13.5	\$10.70	\$393.16
1 CWAD 13.0	\$11.25	\$413.37	1 CWAD 13.0	\$11.31	\$415.57
1 CPSR 11.5	\$9.80	\$360.09	1 CPSR 11.5	\$9.84	\$361.56
SW Sask			SW Sask		
1 CWRS 13.5	\$10.53	\$386.91	1 CWRS 13.5	\$10.54	\$387.28
1 CWAD 13.0	\$11.21	\$411.90	1 CWAD 13.0	\$11.28	\$414.47
1 CPSR 11.5	\$9.78	\$359.36	1 CPSR 11.5	\$9.80	\$360.09
NE Sask			NE Sask		
1 CWRS 13.5	\$10.49	\$385.44	1 CWRS 13.5	\$10.42	\$382.87
1 CWAD 13.0	\$11.11	\$408.23	1 CWAD 13.0	\$11.24	\$413.00
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a
SE Sask			SE Sask		
1 CWRS 13.5	\$10.36	\$380.67	1 CWRS 13.5	\$10.36	\$380.67
1 CWAD 13.0	\$10.96	\$402.71	1 CWAD 13.0	\$11.16	\$410.06
1 CPSR 11.5	\$9.59	\$352.37	1 CPSR 11.5	\$9.64	\$354.21

Data source: PDQ, Aug. 22/22

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. 15/22

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
 - 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.

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.”

- 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				August 29, 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	\$480.01	\$856.66		
HRS	\$474.12			
HRW 11.5	\$491.48			
SWW 12.0	\$429.81			
1 CWRS 13.5 ³	\$480.01		\$406.02	\$73.99
2 CWRS 13.0 ³	\$474.12		\$391.32	\$82.80
3 CWRS ³	\$491.48		\$382.14	\$109.34
CPS ³	\$423.11		\$303.87	\$119.24
1 CWAD ⁴		\$419.98	\$413.37	\$133.09
Competing wheat:				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$320.00		September	
French 11.5 (Rouen)	\$330.90		September	
APW 10.5 (W Coast)	\$360.00		December	
Argentine 12.5	\$330.00		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				