

Wheat Market Outlook and Price Report: February 22, 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 February 22, 2022

International Grains Council (IGC) - February 2022 Global Wheat Estimate:

	18/19	19/20	20/21 est.	21/22 f'cast	
million tons				13.01	17.02
WHEAT					
Production	733	762	774	781	781
Trade	169	185	190	196	197
Consumption	740	746	771	783	781
Carryover stocks	259	275	278	276	278
year/year change	-8	16	3		0
Major exporters ^{b)}	69	63	61	56	57

b) Argentina, Australia, Canada, EU, Kazakhstan., Russia, Ukraine, USA

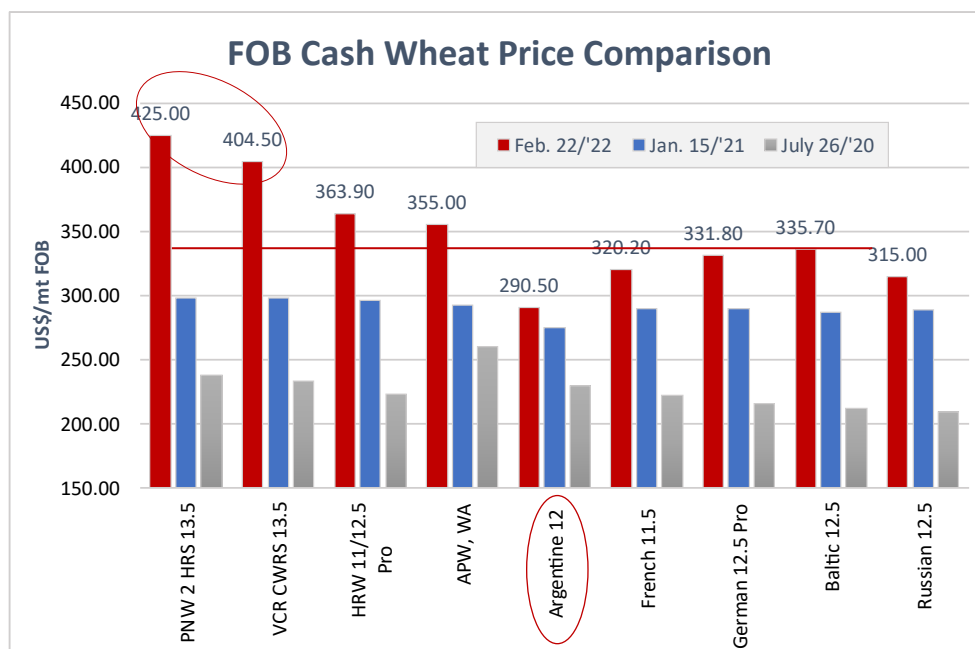
- The International Grains Council (IGC) left its forecast for the **2021/22 global wheat production** unchanged last Friday at 781 million mt.
- The IGC estimate for **wheat trade** increased by 1 million mt to 197 million mt.
- **Wheat consumption** decreased by 2 million mt to 781 million mt, which is the same as the production estimate, and still 10 million mt higher than last year's consumption.

- **Ending stocks for '21/22** were estimated at 278 million mt, 2 million mt higher than estimated a month ago and the same as last year. Ending stocks for the major exporters increased by 1 million mt from last month to 57 million mt (4 million mt smaller than last year).

Recent Developments in Wheat Demand:

The IGC lowered consumption by 2 million mt from last month's estimate, but they increased trade by 1 million mt.

We note that over the past week two major buyers, Algeria and Egypt came back into the market [see below]. N American wheat remains relatively expensive and is not seeing much demand.



➤ 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 797-0, down 1-0 cents on Friday, *down 0-6 cents on the week.*
- March 2022 contract Kansas hard red winter wheat closed at 835-2, up 12-2 cents on Friday's trade, *up 11-0 cents on the week.*
- March 2022 Minneapolis hard red spring wheat closed at 960-6, up 3-4 cents on Friday, *down 0-6 cents on the week.*
- **This Tuesday morning wheat markets are up by currently 19-34c/bu.** *US wheat markets were closed yesterday, but the increase in wheat values follows Russian President Putin's decision to officially recognize the Donetsk and Luhansk "People's Republics" in Eastern Ukraine. This was expected last night, but it was not expected that he would immediately send in 'peace keeping' troops to the areas, and the markets have reacted not only to this but also to the heightened concern that this is not the last action.*

CBOT March 2022 Wheat (1 yr.)



KC March 2022 Wheat



Minneapolis March 2022 Wheat

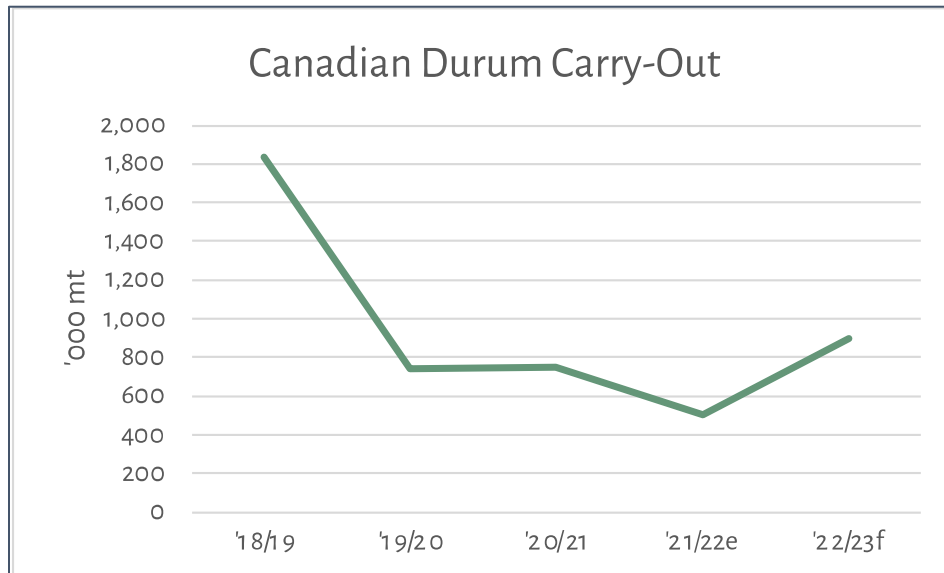


Canadian Wheat:

- **The February AAFC balance sheet update:** Last Friday, the AAFC cut Canadian wheat exports by another 1.0 million mt to 13.0 million mt. Feed use was raised by 459k mt. Ending stocks were seen 500k mt higher at 3.5 million mt. Higher beginning stocks for the 2022/'23 year led AAFC to raise their feed use number by 250k mt while the remaining 205k mt went into ending stocks which rose to 4.3 million mt.
- **Canadian shipping week 27 exports** were 309.0k mt for a season total of 6.4 million mt, down 41% (-4.5 million mt) from last year. Weekly exports needed to meet AAFC's recently lowered projection are 276k mt per week. This is possible, but it will require us to do better than the current pace of 228k mt per week.
- *Exports from Canada and the US are smaller than expected and there is little (outside of a war in Ukraine) that is fundamentally bullish for wheat. The Russia/Ukraine dispute will likely have more effect on the wheat market than other commodities, so wheat is hard to call while the dispute continues. Our feeling is the dispute will be resolved and wheat will fall.*

(CGC) Grain Handling Summary Wheat	Wk. 28	(Feb 13/'21)		
('000 mt)			Prod. Dlvs.	Terminal Rcpts.
			Bulk exports	Dom. Disappearance
Wk. 28	371.7	227.1	309.0	67.4
Week ago	206.5	271.7	240.0	52.9
YTD	8,675.1	8,296.4	6,374.9	2,294.0
Last YTD	11,991.0	12,440.4	10,892.8	2,321.0
YTD less Last YTD	-3,315.9	-4,144.0	-4,517.9	-27.0
YTD over Last YTD	72%	67%	59%	99%

Durum: The AAFC raised 2022/23 beginning stocks of durum and decreased feed use by 100k mt for a 150k mt increase in ending stocks to 900k mt. This is not burdensome.



- Durum users have been buying hand-to-mouth and have been using higher volumes of non-durum wheat for pasta production. Buyers will need to find more durum before the 2022 harvest starts in June.
- Year-to-date US commercial durum sales are 168k mt which is just 26% of last year's volume. Similarly, Canadian week 28 durum exports were 75.8k mt for a seasonal total of 1.4 million mt. This is 45% (-1.7 million mt) of last year's volume. The AAFC is still expecting that Canada will export 2.4 million mt of durum, which means average weekly exports need to be 39k mt per week. This is possible.
- *We are sold out of the old crop. Low stocks mean that prices will remain volatile. The sales window is shrinking as new crop durum will be available in the next 3-5 weeks, but buyers will need more supplies before then. We recommend selling some new crop. The new crop market has backed off some, but we would target \$13.00/bu for a #3 CWAD. [Note: Some buyers are buying a "#3 CWAD Milling" which is essentially the specs of a #1 CWAD with some #3 CWAD allowances. Make sure that the specs are for a #3 CWAD or understand that you might be signing up for #1 CWAD specs.]*

(CGC) Grain Handling Summary Durum	Wk. 28	(Feb 13/'21)		
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Wk. 28	39.9	15.3	75.8	6.2
Week ago	26.2	55.0	42.5	7.7
YTD	1,700.1	2,021.7	1,418.6	259.8
Last YTD	3,447.0	3,949.6	3,130.3	306.5
YTD less Last YTD	-1,746.9	-1,927.9	-1,711.7	-46.7
YTD over Last YTD	49%	51%	45%	85%

US Wheat:

- *The uncertainty in Eastern Europe led shorts to find coverage heading into the long weekend.*
- *How the unfolding events in Ukraine will impact upcoming business remains to be seen.*
- The trader's attention will also be on the USDA Outlook Conference's views of losses in South America and what acreage gains in corn and/or soybeans might materialize in North America.
- US wheat sales last week were small at 118k mt (4.3 million bushels) for a season total of 642 million bushels - just 25% of last year's amount compared to the USDA's 18% decline. Sales need to average 5.2 million bushels per week to meet the USDA's 810-million-bushel export number which will be a stretch. – We note that USDA reported a 120k mt US HRW sale to Nigeria this Tuesday morning.
- There were two large purchases last week: Egypt bought 180k mt of Romanian wheat for \$338.55/mt C&F while Algeria bought 720k mt of (mostly Black Sea with possibly some French) wheat at \$345.50-\$347.00/mt C&F; neither included N American wheat.
- The drought in the US plains has continued to grow and deepen. Now, 72% of the US winter wheat-producing area is under drought conditions. The NOAA extended forecast has the drought persisting until May.
- US HRS for March '22 is valued at \$425.00/ mt FOB PNW (up \$6/mt from last week), FOB Gulf HRW 11/12.5 pro is valued at \$363.90/mt (up \$12.60/mt from last week).

Australian wheat:

- Australian futures are nominally A\$10/mt higher this morning but there is no actual business.
- Australian new crop FOB APW wheat for March '22 was quoted at \$355.00/mt, unchanged over the past three weeks.

Argentine wheat:

- Argentine Fob values were little changed this morning but will likely move up now.
- March shipment Argentine 12% pro wheat was valued at ~\$290.5/mt FOB, down \$5/mt over the past week.

EU wheat:

- In Europe, Matif wheat will certainly be much higher again today following overnight moves by Russia.
- France missed out on both the Algerian and Egyptian (GASC) tenders, and the EU shipment update again contended the EU will fall some 5 million mt short of the USDA's 37.5 million mt projection.

- For the fourth consecutive month agriculture consultancy FranceAgriMer cut its forecast for French soft wheat exports outside of the European Union. The consultancy blamed competition with Black Sea exports to Algeria, a traditional French wheat buyer. The agency reduced the export forecast from 9 MMT to 8.9 MMT.
- Fob prices in the EU: March '22 French 11.5 pro closed at \$320.20/mt, up \$12.10/mt from last week. March German 12.5 pro wheat closed at \$331.80, up \$15.20/mt. March Baltic 12.5 pro wheat was at \$330.70/mt, up \$15.20/mt.

Black Sea wheat:

- *Following the moves by Russia, all commodity markets are up sharply with crude Brent at new highs of \$97.50, while the world's stock markets are all sharply lower. The Ruble fell to 15-month lows last night and is holding those levels this morning at close to 80 against the dollar, and Russia's stock market had its worst day in 8 years yesterday. It is impossible to price Russian wheat while the Ruble is tumbling, the export tax nominally falls sharply, and major uncertainty grows as to the possibility of getting vessels into Black Sea to load out grain.*
- Freight and war insurance cover for the Black Sea will be a problem.
- There is no way of knowing how this will develop but the possibility of the removal of Russian and Ukrainian wheat and corn supplies from the world market looks much more plausible than 24 hours ago. Finding sellers will be hard.
- The question the markets are asking now is: What is Pres. Putin's final objective, and how will the Western alliance react?
- Russian March '22 12.5 pro wheat value last at ~\$315.00/mt, down \$5/mt from last week.??

➤ **Significant purchases/ trades:**

- Algeria bought 720,000 mt Romanian wheat at around \$346/mt C&F.
- Egypt (GASC) bought 180,000 mt of Romanian wheat at \$338.50.
- US wheat sales were small at 118k mt (4.3 million bushels) for a season total of 642 million bushels - just 25% of last year's amount compared to the USDA's 18% decline.
- USDA reported a 120k mt US HRW sale to Nigeria this Tuesday morning.

➤ **Wheat Market Outlook:**

Significant events:

- *Russian **President Putin's decision** to officially recognize the Donetsk and Luhansk "People's Republics" in E Ukraine was followed by sharply increased commodity markets and falling stock markets. The recognition of the Donetsk and Luhansk "People's Republics" in E Ukraine was expected last night, but it was not anticipated that Putin would immediately send in 'peace keeping' troops to the areas, and the markets have reacted not only to this but also to the heightened concern that this is not the last action.*
- Following the Russian action, the **Ruble** fell to 15-month lows last night and is holding at these levels this morning at close to 80 against the dollar, and Russia's stock market had its worst day in 8 years yesterday. It is impossible to price Russian wheat while the Ruble is tumbling, the **export tax nominally falls sharply**, and major uncertainty grows as to the possibility of getting vessels into Black Sea to load out grain.
- **Freight and war insurance** cover vessels for the Black Sea will be a problem.
- There is no way of knowing how this will develop but the possibility of the removal of **Russian and Ukrainian wheat and corn supplies** from the world market looks much more plausible than 24 hours ago. Finding sellers will be hard to find.

- We also have the **USDA Outlook Conference** this week, starting Tuesday. Trader's attention will be on the USDA Outlook Conference's views of losses in South America and what acreage gains in corn and/or soybeans might materialize in North America.

Outlook:

Without having insight into Pres. Putin's final objective with Ukraine or knowing how the Western alliance will react it is hard to determine the markets. In general, wheat futures should follow corn right now, but we felt there was much less cash demand for wheat. - However, the Russia/Ukraine dispute will have more effect on the wheat market than other commodities.

We should hold additional sales for the present until we see the USDA Outlook Conference comments and what Putin's next move is, as well as the response by the West.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: 22-02-2022					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		May '22 (bu.)	May '22 (mt)
1 CWRS 13.5	\$12.13	\$445.70	1 CWRS 13.5	\$12.24	\$449.75
1 CWAD 13.0	n/a		1 CWAD 13.0	n/a	
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	
SW Sask			SW Sask		
1 CWRS 13.5	\$11.93	\$438.36	1 CWRS 13.5	\$12.08	\$443.87
1 CWAD 13.0	n/a		1 CWAD 13.0	n/a	
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	
NE Sask			NE Sask		
1 CWRS 13.5	n/a		1 CWRS 13.5	n/a	
1 CWAD 13.0	n/a		1 CWAD 13.0	n/a	
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	
SE Sask			SE Sask		
1 CWRS 13.5	\$11.73	\$431.01	1 CWRS 13.5	\$11.84	\$435.05
1 CWAD 13.0	n/a		1 CWAD 13.0	n/a	
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	

Data source: PDQ, Feb. 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	0.00	0.00
2 CWAD 13.5	(0.09)	(3.31)
2 CWAD 12.5	(0.11)	(4.04)

Data source: PDQ, Feb. 22/22

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

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.”

➤ 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				22-02-2022
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	\$515.71	\$764.90		
HRS	\$503.07			
HRW 11.5	\$504.47			
SWW 12.0	\$521.80			
1 CWRS 13.5 ³	\$515.71		\$451.95	\$63.76
2 CWRS 13.0 ³	\$503.07		\$447.54	\$55.52
3 CWRS ³	\$504.47		\$438.36	\$66.12
CPS ³	\$515.25		\$422.56	\$92.69
1 CWAD ⁴		\$758.35	\$551.16	\$207.19
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$315.00	March		
French 11.5 (Rouen)	\$320.20	March		
APW 10.5 (W Coast)	\$355.00	March		
Argentine 12.0	\$290.50	March		

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