

Wheat Market Outlook and Price Report: January 17, 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 January 17, 2022

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

	18/19	19/20	20/21 est.	21/22 f'cast	
million tons				18.11	13.01
WHEAT					
Production	733	762	773	777	781
Trade	168	185	191	196	196
Consumption	740	745	771	782	783
Carryover stocks	260	276	278	274	276
year/year change	-8	16	2		-2
Major exporters ^{b)}	69	63	59	53	56

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

- The International Grains Council (IGC) increased its forecast for the **2021/22 global wheat production** last Friday, led by increases for Australia and Argentina.
- Specifically, the **IGC raised their '21/22 world wheat production estimate by 4 million MT** back to 781 million MT from 777 million MT in October.

- The IGC estimate for **wheat trade** stayed the same at 196 million MT.
- **Wheat consumption** was increased by 1 million MT to 783 million MT, which is 2 million MT higher than the production estimate, and a big 12 million MT higher than last year's consumption.
- **Ending stocks for '21/22** were estimated at 276 million MT, 2 million MT higher than estimated a month ago and 2 million MT less than last years. Ending stocks for the major exporters increased by 3 million MT from last month to 56 million MT (3 million MT less than last year's).

Recent Developments in Wheat Demand:

USDA lowered global consumption of wheat this month, primarily on reduced feed and residual use. (We likely lost some demand to corn while wheat was at a healthy premium to corn.) Global trade was forecast lower with reduced imports for the US, Pakistan, and South Africa, but the trade number remains at a record level. Exports were trimmed for Russia and the US, partially offset by a higher forecast for Argentina. Ending stocks were revised slightly higher this month but are still down more than 3% from the prior year.

➤ 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:**
- March 2022 contract **Chicago winter wheat** closed at 741-4, down 5-2 cents on Friday, *down 17 cents on the week.*
- March 2022 contract **Kansas hard red winter wheat** closed at 745-0, down 14-6 cents in Friday's trade, *down 30 cents on the week.*
- March 2022 **Minneapolis hard red spring wheat** closed at 878-2, down 17-2 cents on Friday, *down 45 cents on the week.*

CBOT March 2022 Wheat (1 yr.)



KC March 2022 Wheat

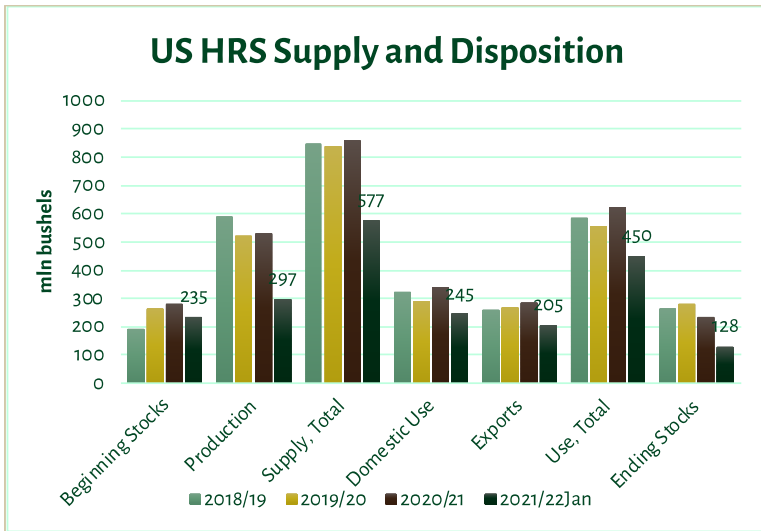


Mpls. March 2022 Wheat



Canadian Wheat:

- March '21 Minneapolis hard red spring wheat closed at 878-2, down 17-2 cents on Friday, down 45 cents on the week.
- The USDA decreased US all wheat imports by 10 million MT, half of this decrease was in the HRS class. The decrease caused a respective fall in ending stocks to 128 million bushels.



- Wheat futures have fallen dramatically since the holidays. The most significant change in the wheat market is the trade's lack of willingness to keep the large quality premium that had been increasing since last July.

US Wheat Futures Comparison
Minneapolis (black), Kansas (blue) and Chicago (green)



Source: Barchart

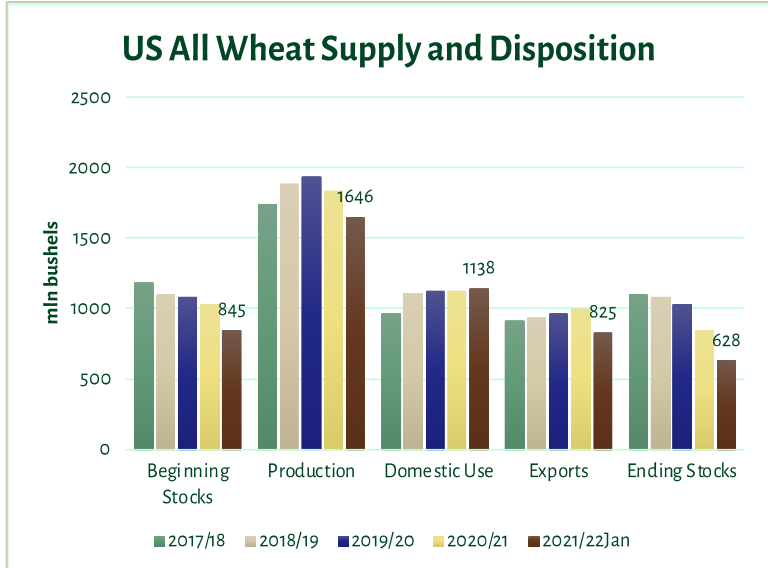
- Canadian exports during week 23 were 187.1k MT for a season total of 5.2 million MT. This is 58% (-3.8 million MT) of last year's amount. Seasonally, Canadian Spring wheat export trend lower into February before increasing again between March and May when the Lakes open up again. This trend will need to hold this year as wheat remains heavily reliant on exports.
- **For the present, we would prefer to hold feed grains and sell more spring wheat. We would like to be 80 percent sold spring wheat.**

(CGC) Grain Handling Summary Wheat	Wk. 23	(January. 9/'21)		
(000 MT)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Wk. 23	92.8	226.1	187.1	103.8
Week ago	317.4	455.2	263.8	118.9
YTD	7,024.0	7,107.5	5,179.0	2,034.8
Last YTD	9,765.3	10,851.7	8,938.9	2,101.3
YTD less Last YTD	-2,741.3	-3,744.2	-3,759.9	-66.5
YTD over Last YTD	72%	65%	58%	97%

US Wheat:

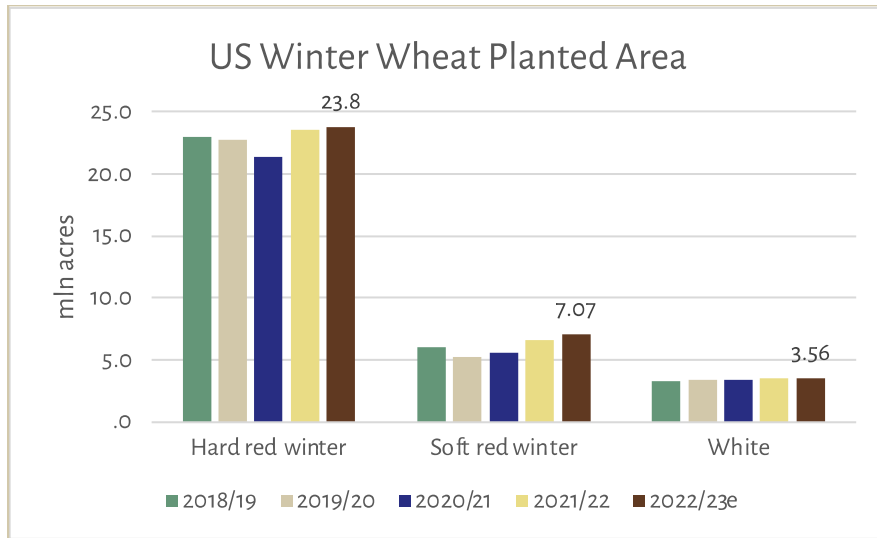
- Wheat futures fell during the week due to a somewhat bearish USDA wheat report which sparked a sell off.
- **US wheat numbers:** The USDA decreased US imports (from Canada) by 10 million bushels to 100 million (the same as last year). Domestic use was decreased by 25 million bushels and exports fell by 15 million bushels to 825 million bushels. Thus, total use was decreased by 40 million bushels for a 30-million-bushel increase in ending stocks to 628 million bushels.
- **Global wheat numbers:** World wheat production was raised 0.7 million MT to 778.6 million MT. The increase was from higher production in Argentina (+0.5 million MT) and the EU (+0.2

Data source: USDA

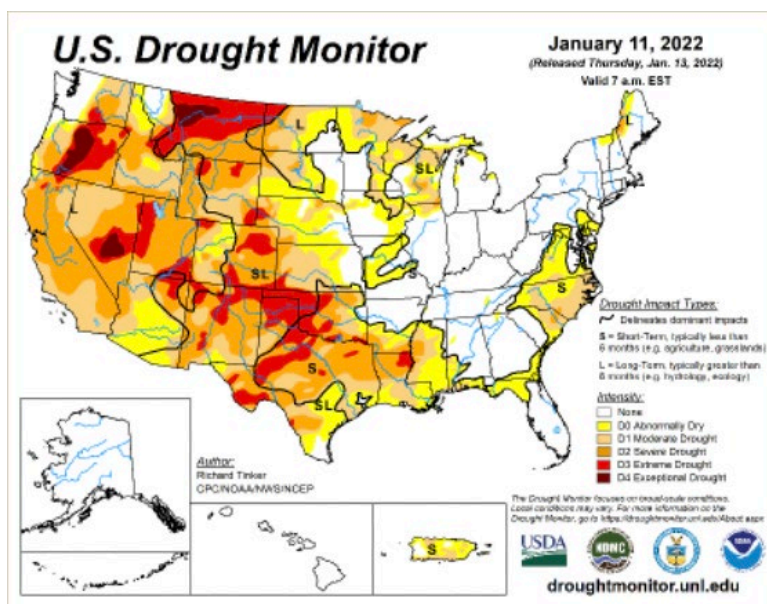


million MT). Russian exports were decreased by 1.0 million MT to 35 million MT, while EU exports were raised by 0.5 million MT. Global stocks grew by 1.8 million MT to 280.0 million MT.

- The USDA also released their first stab at the **US winter wheat area** for harvest in 2022. The total winter wheat area was put 14 million acres higher than what trade was expecting at 34.30 million acres. This is 450k acres (2%) more than last year.



- The **drought** in the US winter wheat belt continues to grow. The area of winter wheat experiencing drought conditions has risen to 4% from last week to 69%. Most of the week-over-week increase was in Kansas.



- **Weekly US export sales** were within expectations at 265k MT (9.7 million bushels). Total commitments are now 593 million bushels, or 23% less than last year compared to the USDA's

projected 17% decline. Weekly sales must average 10.4 million bushels to reach the USDA's number.

- US HRS for February '22 is valued at \$410.00/ MT FOB PNW (up \$5/MT from last week, but down \$20/MT from two weeks ago), FOB Gulf HRW 11/12.5 pro is valued at \$339.80/MT (down \$5.10/MT from last week).

Australian wheat:

- Australian wheat futures were sharply lower on Friday and have given back almost all the early week gains ahead of next week's expiry of the January contract.
- FOB markets are slipping along with the other markets.
- The reported sale of 150k MT to Iraq at \$447/MT is cheap and looks to have like a significant risk premium against replacement.
- Australian new crop FOB APW wheat for February '22 was quoted at \$350.00/MT, up \$2.00/MT from last week.

Argentine wheat:

- Argentine FOB values were little changed, but low river levels and high freight rates continue to add to the pressure from the international markets.
- Argentine wheat remains the cheapest in the world on an FOB basis. At ~\$290/MT FOB, Argentine 12% pro wheat is around \$50/MT cheaper than HRW FOB the Gulf.

EU wheat:

- Matif wheat in Europe slumped €6/MT to its lowest intraday close for 3 months. Underlying reasons are:
 - fresh 2-month highs in the Euro,
 - the sell-off in US wheat futures, and
 - the changing reports whether Algeria would or could buy French wheat at Friday's wheat tender.
- In the Algerian tender, French wheat easily was the cheapest on offer, but Algeria's OAIC booked 600k MT of other origins at \$348 to \$350/MT C&F. It is evident that a solution to the political problems needs to be found in the interest of both parties. Soil moisture levels show most of N Africa well below levels a year ago.
- FOB prices in the EU: February '22 French 11.5 pro closed at \$314.60/MT, down \$1.30/MT from last week. February German 12.5 pro wheat closed at \$322.00, down \$3.40/MT. January Baltic 12.5 pro wheat was at \$321.40/MT, down \$3.50/MT.

Black Sea wheat:

- Black Sea futures fell by \$4-6/my, but it is not clear where the cash markets are.
- Given current German/Baltic levels and average freight spreads, Russian wheat should not be much above \$330/MT FOB. That would equate to ~Rb16,100/MT, but the domestic market reported higher, which on paper makes replacement for the export market very tough.
- Current calculations of the export tax for next week show \$98/MT.
- In Ukraine, the AgMin said that just 2.6 million MT of milling were left for export in 21/22, and traders were "advised" to switch to the export of feed grains to avoid fuelling domestic price increases.
- There seems to be no progress on the Russia-USA-NATO talks, and Ukraine is reporting a massive cyber-attack on government websites on Friday.
- Russian January '22 12.5 pro wheat is valued at ~\$333.00/MT, down \$5/MT from last week.

➤ **Significant purchases/ trades:**

- **Japan** purchased 108k MT of food-quality wheat in their weekly MOA tender, with 56k MT US specific and 52k MT from Canada.
- **Algerian** tender: French wheat easily was the cheapest on offer, but Algeria's OAIC booked 600k MT of other origins at \$348 to \$350/MT C&F. (Algerian buyers need written permission from the Government to buy French wheat.)
- **Iran** bought an estimated 240,000 MT of Russian/German wheat at a reported €360-365.00/MT.
- **Iraq** bought 3 cargoes of Australian wheat at \$447/MT.
- **Turkey** returns on January 18 for 350,000 MT of wheat for February 10-March 10 delivery.
- **USA export sales** of 265k MT left the season total of 590 million bushels down 24% on last year.

➤ **Wheat Market Outlook:**

Significant events:

- Traders saw the **WASDE report** as making more USA milling wheat available for the first part of 2022 and consequently reduced the premium for USA Hard wheats over Chicago. The premium had been as high as \$2.20 per bushel but closed on Friday at \$1.49 per bushel.
- **Spring wheat futures** ended below \$9 last week for the first time since late September.
- There still is a discussion about the supply side of the **USDA's world wheat trade matrix**.
- On Thursday, the **IGC** raised its forecast for 2021/22 global wheat production by 4 million MT to 781 million MT, partly driven by an improved outlook for the crop in Australia and Argentina.
- **The annual Winter Wheat** and Canola Seeding's Report was published this week by the USDA-NASS, showing winter wheat seeded area for 2022 at 34,397,000 acres, up 2% from 2021 and 13% from 2020.

Outlook:

Unlike for corn and soybeans, weather is not currently a direct issue for wheat.

Last week, traders interpreted the WASDE report as making more USA milling wheat available for the first part of 2022 and consequently reduced the premium for USA Hard wheat over Chicago. The premium had been as high as \$2.20 per bushel but closed on Friday at \$1.49 per bushel. - We think CBOT wheat should maintain a \$1.50/bu premium to corn and this should be the low for Kansas City wheat. We think Minneapolis is vulnerable to a reduction in premium to HRW/Kansas.

For the present, we would prefer to hold feed grains and sell more spring wheat. We would like to be 80 percent sold spring wheat.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: 17-01-2022					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Mch. '22 (bu.)	Mch. '22 (mt)
1 CWRS 13.5	\$11.08	\$407.12	1 CWRS 13.5	\$11.08	\$407.12
1 CWAD 13.0	\$19.87	\$730.10	1 CWAD 13.0	\$20.08	\$737.82
1 CPSR 11.5	\$10.31	\$378.83	1 CPSR 11.5	\$10.37	\$381.04
SW Sask			SW Sask		
1 CWRS 13.5	\$10.88	\$399.77	1 CWRS 13.5	\$10.90	\$400.51
1 CWAD 13.0	\$19.85	\$729.37	1 CWAD 13.0	\$20.06	\$737.08
1 CPSR 11.5	\$10.19	\$374.42	1 CPSR 11.5	\$10.26	\$376.99
NE Sask			NE Sask		
1 CWRS 13.5	\$10.77	\$395.73	1 CWRS 13.5	\$10.74	\$394.63
1 CWAD 13.0	\$19.97	\$733.78	1 CWAD 13.0	\$20.08	\$737.82
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	
SE Sask			SE Sask		
1 CWRS 13.5	\$10.67	\$392.06	1 CWRS 13.5	\$10.67	\$392.06
1 CWAD 13.0	\$19.95	\$733.04	1 CWAD 13.0	\$20.09	\$738.19
1 CPSR 11.5	\$10.10	\$371.11	1 CPSR 11.5	\$10.13	\$372.22

Data source: PDQ, January. 17/22

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, January. 17/22

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.

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.”

- 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).

- 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				17-01-2021
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	\$460.77	\$834.16		
HRS	\$450.19			
HRW 11.5	\$440.99			
SWW 12.0	\$503.07			
1 CWRS 13.5³	\$460.77		\$397.94	\$62.83
2 CWRS 13.0³	\$450.19		\$392.43	\$57.76
3 CWRS³	\$440.99		\$385.08	\$55.92
CPS³	\$496.63		\$376.99	\$119.64
1 CWAD⁴		\$827.72	\$707.69	\$120.03
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$333.00	February		
French 11.5 (Rouen)	\$314.60	February		
APW 10.5 (W Coast)	\$350.00	February		
Argentine 12.0	\$300.00	February		

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