

Wheat Market Outlook and Price Report: September 19, 2022

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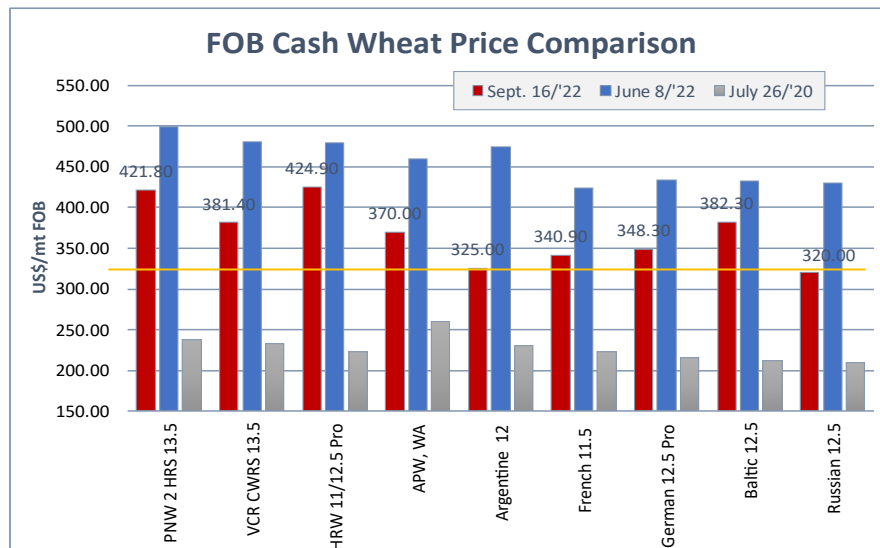
i) Background and Rationale for the Report

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 September 19, 2022

FOB Cash Wheat Price Comparison (as of September 16, 2022):



- The FOB price lineup shows that North American FOB wheat prices are currently well above those from other origins.
- Specifically, US HRW wheat now is \$70-75/mt more costly than German 12.5 Pro wheat and \$90-100 above Russian 12.5 Pro wheat. US SRW wheat now is \$30-35/mt above French wheat and \$50-55/mt higher than above Russian wheat.
- It will be difficult to increase market shares for North American wheat based on these comparisons.
- Interesting also to observe the price comparisons to early June 2022 and certainly to late July 2020.

Developments in Wheat Demand:

In general, last week's USDA-WASDE reports were supportive from the supply side. However, concerns about the effect of inflation/ potential recessions/ rising interest rates make the long-term outlook for demand and prices very tough to forecast.

➤ **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:

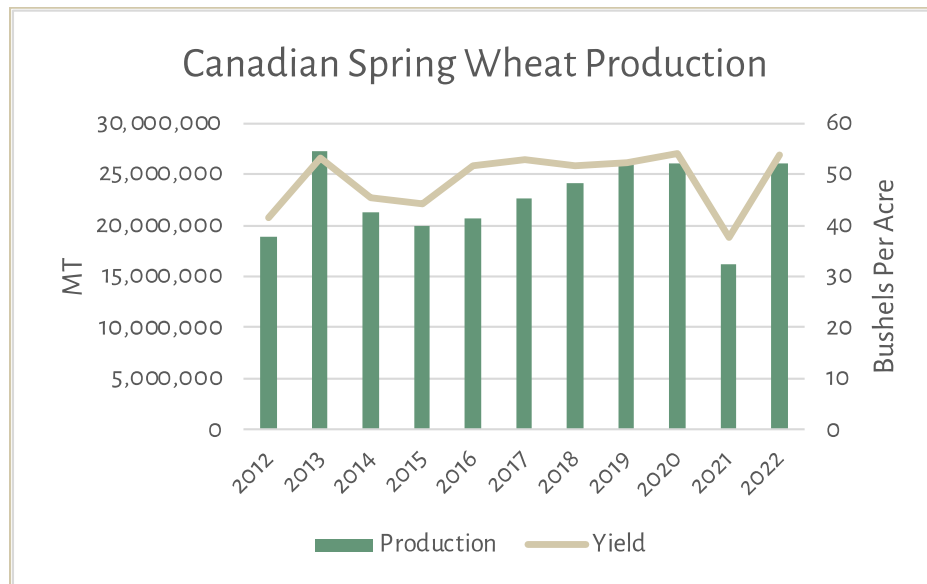
- December 2022 contract **Chicago winter wheat** closed at 859-6, up 14-6 cents on Friday, *down 9-6 cents on the week.*
- December 2022 contract **Kansas hard red winter wheat** closed at 935-2, up 9-0 cents in Friday's trade, *up 6-0 cents on the week.*
- December 2022 **Minneapolis hard red spring wheat** closed at 838-6, up 10-0 cents on Friday, *up 11-2 cents on the week.*
- Futures are own this morning by a big 24-36c/bu. Harvest in North America has progressed well and the concern about the Black Sea export corridor seems to be waning after the meeting between Russia's Putin and Turkey's Erdogan.

CBOT December 2022 Wheat (1 yr.) KC December 2022 Wheat Mpls. December 2022 Wheat



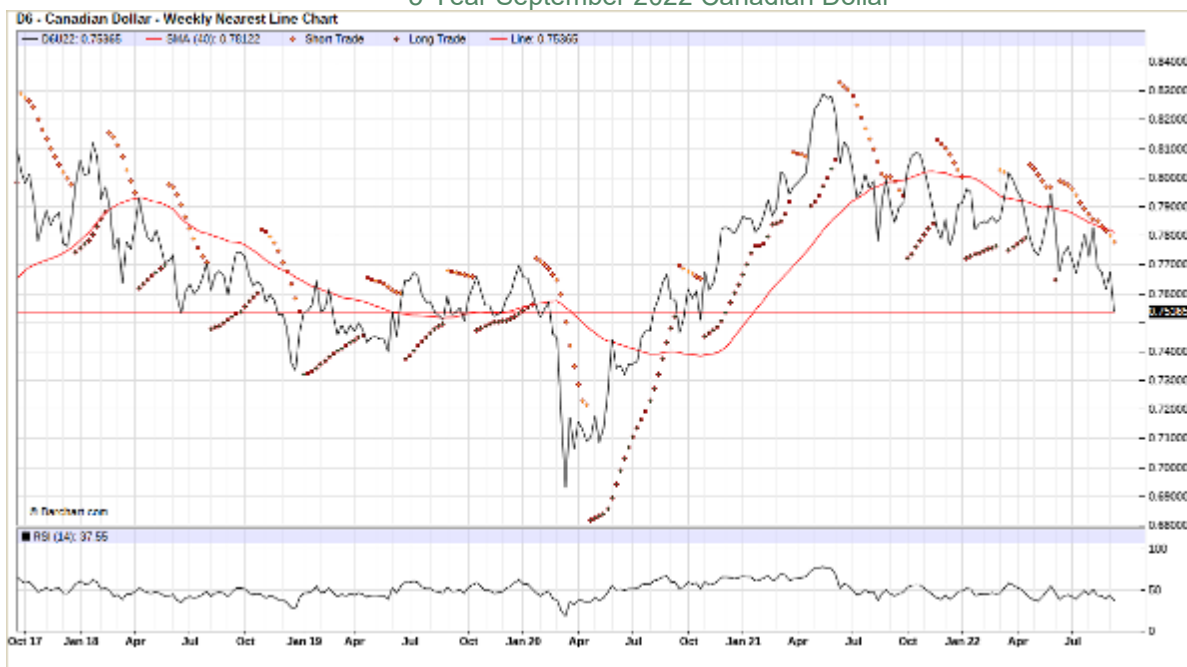
Canadian Wheat

- Spring wheat harvest across the Prairies is 57% complete in Manitoba, 68% done in Saskatchewan, and 75% finished in Alberta. Saskatchewan Agriculture has their spring wheat yield at 43 bushels per acre, while Alberta Ag is forecasting a 53-bushel yield.
- Last week **Stats Canada put Canadian all wheat production** at 34.7 million mt, up 56% from last year. Most of the increase is from higher yields, which, at 51.3 bushels per acre are 42% higher than last year – in line with the 5-year average. Spring wheat production of 26.1 million mt is up 60% from last year and is the main contributor to the recovery in Canadian wheat production. Stats Canada is using a 47.8 bushel per acre number for Saskatchewan and a 58.7 bushel per acre number for Alberta compared to the respective ag ministries' estimates of 43 and 53 bushels per acre. The combined difference in production between these yield estimates and Stats Canada's number amounts to over 2.0 million mt of production.



- The USDA left their numbers for the US spring wheat crop entirely unchanged from last month.
- There was strong local demand for wheat last week as there were several elevator “specials” and targets being hit. Adding to the strength in futures prices was the plummeting Canadian dollar which fell to the lowest level since November 2020 at \$0.75365.

5-Year September 2022 Canadian Dollar

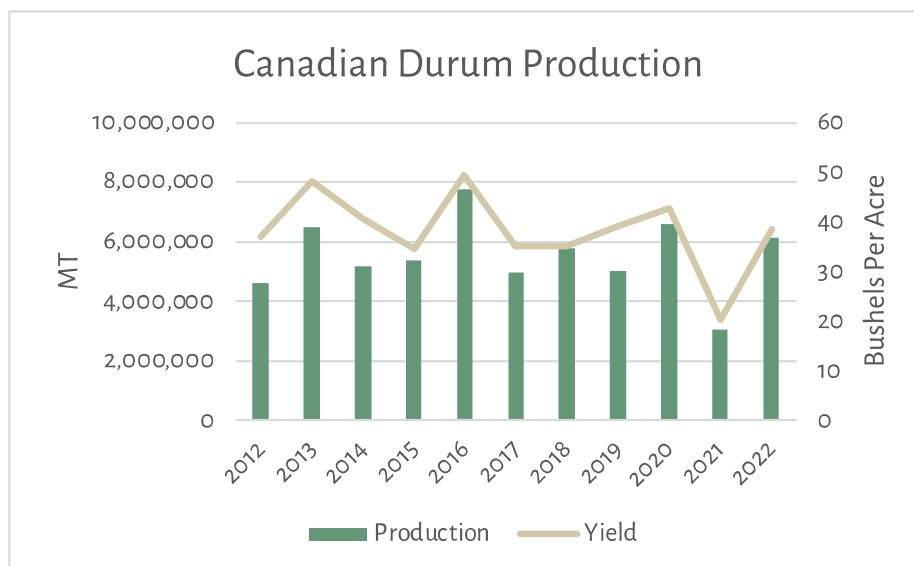


- There were very big **wheat deliveries** to primary elevators in shipping week 6, with over 1 million mt of wheat entering the Canadian grain system. Most of this is sitting in visible supplies as just 279.7k mt of wheat was exported over the week. Exportable supplies rose to 3.1 million mt. Most of this is sitting in primary elevators, but there are 258.8k mt ready to export on the West Coast and another 1.1 million mt sitting in terminals on the Great Lakes.

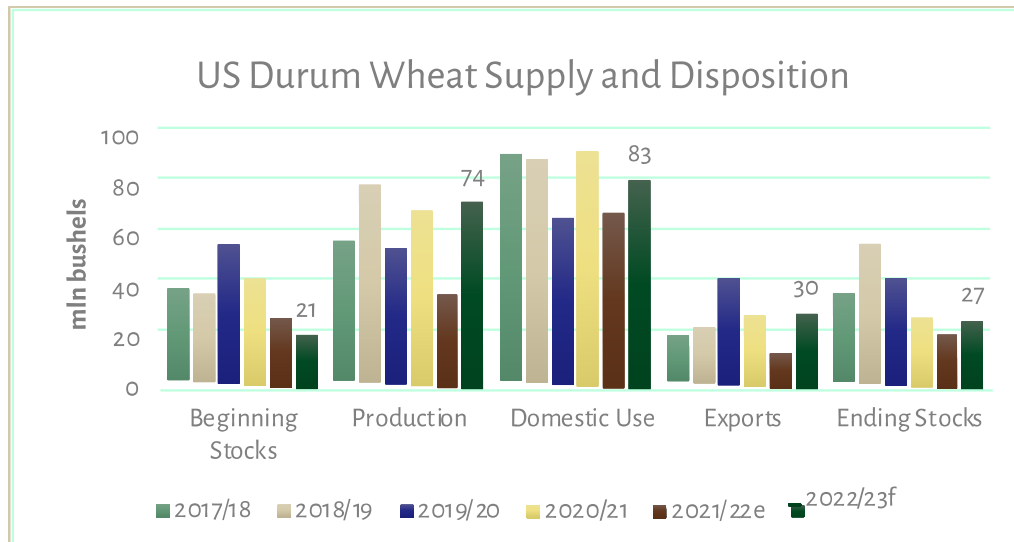
- Data has not yet been released for shipping weeks 5 and 6, but according to the Ag Transport Coalition, CN and CP supplied 95% of the hopper cars ordered in week 4.

(CGC) Grain Handling Summary Wheat		Week 6 (Sept. 11/2022)		
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 6	1,051.4	390.9	279.7	77.9
Week ago	799.7	357.6	248.1	63.2
YTD	2,624.2	2,093.8	1,456.0	495.3
Last YTD	2,060.6	2,452.2	1,754.0	628.6
YTD less Last YTD	563.6	-358.4	-298.0	-133.3
YTD over Last YTD	127%	85%	83%	79%

- Wheat prices were supported by strong futures and a weak Canadian dollar. There were several “specials” at prairie elevators where \$11.50 for November delivery was sold. These are good prices, but if you have followed Mercantile’s recommendations and are 50% sold new crop, it is recommended you continue to sit tight for now.
- Durum:** The durum harvest is 90% complete in Saskatchewan and 73% done in Alberta. Saskatchewan Agriculture is predicting Saskatchewan yields of 30 bushels per acre.
- Stats Canada is expecting that Canada’s durum wheat crop will yield 38.4 bushels per acre to make a 6.1 million mt crop. This would be 101% more than last year. Mercantile believes Stats Canada is likely overestimating the durum crop. Their yield number for Saskatchewan, where 81% of the crop is grown, is 6 bushels per acre higher than what Sask Ag is forecasting at 36 bushels per acre. Our production number is currently at 5.9 million mt.



- The USDA left the US durum balance sheet entirely unchanged from last month's report.



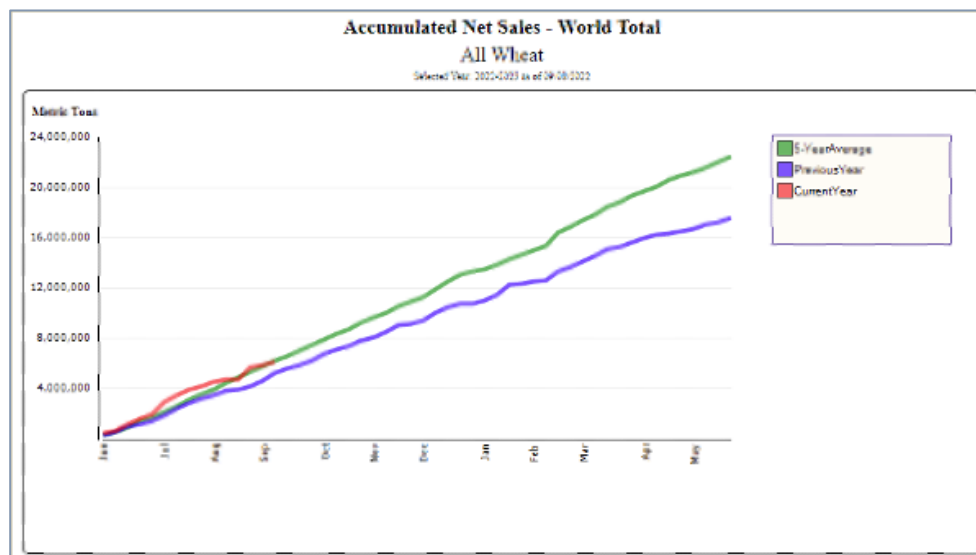
- Durum bids improved last week. Mercantile heard of a bid at \$11.62/bu for October delivery. There are quality issues in the European durum crop, so buyers will want to add good quality durum from Canada and the US.

(CGC) Grain Handling Summary Durum					Week 6	(Sept. 11/2022)
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance		
Week 6	139.6	79.1	54.5	4.3		
Week ago	116.4	63.2	11.0	4.7		
YTD	462.7	356.2	199.9	62.7		
Last YTD	381.7	325.4	475.6	18.0		
YTD less Last YTD	81.0	30.8	-275.7	44.7		
YTD over Last YTD	121%	109%	42%	348%		

US Wheat:

- The US hard red winter (HRW) **harvest** is now complete, while the soft white (SW) harvest is winding down amid dry weather. Nationwide, the harvest is about 95% complete.
- The harvest of hard red spring (HRS) advanced rapidly because of dry conditions, with more than 85% of the crop harvested nationwide.
- The northern durum crop made “good progress” last week with Montana’s harvest 91% complete, and North Dakota’s crop 65% complete. Nationwide, the harvest is approaching 80% complete.

- **USDA-WASDE reports:** The USDA left the US wheat balance sheet entirely unchanged. The USDA added more wheat to the global balance sheet, however. Production was increased by 4.3 million mt from last month thanks to increases in Russia (up 3 million mt to 91 million mt) and Ukraine (up 1 million mt to 20.5 million mt). Exports in these countries were raised by just 1 million mt (to 45 million mt) and 0.5 million mt (to 10.7 million mt) respectively. Global wheat use was raised by a 1.2 million mt increase in ending stocks to 268.6 million mt.
- In the last WASDE report, the USDA took out nearly 6 million tonnes of grains (corn & wheat), leaving us with a tight carry-in. However, what remains to be seen is how the consumption markets are going to work with concerns about inflation/recession/interest rates in the market.
- The USA rail strike was averted. However, don't expect exports to increase because North American wheat is presently at a huge premium to Russian wheat.
- US wheat exports are going to struggle. US wheat is so expensive compared to other origins [see graph p. 1], that US traders could import wheat for a profit. This will not happen, but US wheat will currently only go to the most inelastic of buyers.



Source: USDA

- US HRS for October 2022 was valued at \$395.00/ mt FOB PNW (*down \$5.70/mt from last week*), FOB Gulf HRW 11/12.5 pro is valued at \$409.00/mt (*up \$21.90/mt from last week*).

Australian wheat:

- Rain and cold temps persist in Eastern Australia.

Argentine wheat:

- BAGE lowered their wheat crop ratings again by 2% to just 15% Gd/Exc against 50% last year. Just 11% of the crop is heading against 16% on average and the main farming areas are facing the driest conditions in around 30 years.
- BAGE has still not given a production number, but private estimates have dropped below 17 million mt leaving only ~10 million mt for exports, compared to the USDA's 13 million mt. Last year's exports were at 16.5 million mt.

EU wheat:

- Matif wheat closed down €5/mt both on Friday and on the week following weakness from the US, a reversal in domestic premiums, and expectations that Russian wheat will take most, if not all of Friday's Saudi Arabia's 535k mt tender. According to SAGO today, they purchased 556k mt. The wheat has 12.5% protein content and can be sourced from Europe, North America, South America, and Australia. This should take the Saudi total July 2022-February 2023 purchases to just under 3.1 million mt, or an average monthly total of around 450k mt.
- FOB prices in the EU: October 2022 French 11.5 pro wheat closed at \$340.90/mt (*up \$6.70/mt from last week*); October 2022 German 12.5 pro wheat closed at \$348.30/mt (*up \$0.70/mt from last week*); October 2022 Baltic 14.0 pro wheat closed at \$382.30/mt (*up \$2.70/mt from last week*).

Black Sea wheat:

- According to the Financial Times, the US and EU are stepping up pressure on Turkey to enforce Russian sanctions. The focus is on Turkish banks which have integrated into Russia's Mir payments system, with Brussels intending to send a delegation to Turkey to express its concerns.
- Estimates of Russia's September wheat exports range from 3.5-4 million mt, which would take the season total to 9-9.5 million mt. This would require an average of 3.65 million mt every month for the rest of the season to meet the USDA's 42 million mt annual number.
- FOB prices in the Black Sea: October 2022 Russian 12.5 pro closed at \$320.00/mt (*up \$5.00/mt from last week*).

➤ Significant purchases/ trades:

- Mercantile did not hear of any significant wheat trades this week. It is notable that Russian offers were the cheapest in the market.
- There are quality problems with European-origin milling wheats, particularly in durum.
- **Saudi Arabia's** SAGO confirmed over the weekend that they purchased 556k mt of wheat in an international tender. The wheat has 12.5% protein content and can be sourced from Europe, North America, South America, and Australia. – This should take the Saudi total July 2022-February 2023 purchases to just under 3.1 million mt, or an average monthly total of around 450k mt.

➤ Wheat Market Outlook:

Significant events over the past week:

- **Spring wheat harvest** across the Prairies is 57% complete in Manitoba, 68% done in Saskatchewan, and 75% finished in Alberta.
- **Stats Canada put Canadian all wheat production** at 34.7 million mt, up 56% from last year. Most of the increase is from higher yields at 51.3 bushels per acre.
- The **durum harvest** is 90% complete in Saskatchewan and 73% done in Alberta. Saskatchewan Agriculture is predicting Saskatchewan yields of only 30 bushels per acre. However, Stats Canada is expecting that **Canada's durum wheat crop** will yield 38.4 bushels per acre, resulting in a 6.1 million mt crop, which would be 101% bigger than last year.
- There were very big **wheat deliveries** to primary elevators in shipping week 6, with over 1.0 million mt of wheat entering the Canadian grain system.
- Data has not yet been released for shipping week 5 and 6, but according to the Ag Transport Coalition, CN and CP supplied 95% of the **hopper cars** ordered in week 4.
- In the **US, the harvest** of hard red spring (HRS) advanced rapidly because of dry conditions, with more than 85% of the crop harvested nationwide. The northern durum crop made "good progress" last week with the harvest approaching 80% complete.

- In the last **WASDE report**, the USDA took out nearly 6 million tonnes of grains (corn & wheat), leaving us with a tight carry-in. However, what remains to be seen is how the consumption markets are going to work with concerns about inflation/recession/interest rates in the market.
- The **FOB price lineup** shows that North American FOB wheat prices are currently well above those from other origins. It will be difficult to increase market shares for North American wheat based on these comparisons.
- The **USA rail strike** was averted at the last minute.

Outlook:

In the last WASDE report, the USDA took out nearly 6 million tonnes of grains (corn and wheat), leaving us with a tight carry-in. However, what remains to be seen is how the consumption markets are going to work with concerns about the effect of inflation/ potential recessions/ rising interest rates in the market.

Markets will be a little weaker as harvest pressure increases, and once all the crops are in the bin, it will become more difficult to buy. The USA rail strike was averted. However, don't expect exports to increase because North American wheat is presently at a huge premium to Russian wheat.

It is advisable to sell only what you need for cash flow and store the rest.

iii) Primary Elevator Price Tables and Grade Spreads

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

		Date: 19-09-2022			
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Nov. '22 (bu.)	Nov. '22 (mt)
1 CWRS 13.5	\$10.86	\$399.04	1 CWRS 13.5	\$11.02	\$404.92
1 CWAD 13.0	\$10.84	\$398.30	1 CWAD 13.0	\$10.93	\$401.61
1 CPSR 11.5	\$10.28	\$377.73	1 CPSR 11.5	\$10.33	\$379.57
SW Sask			SW Sask		
1 CWRS 13.5	\$10.65	\$391.32	1 CWRS 13.5	\$10.85	\$398.67
1 CWAD 13.0	\$10.88	\$399.77	1 CWAD 13.0	\$10.95	\$402.35
1 CPSR 11.5	\$10.22	\$375.52	1 CPSR 11.5	\$10.24	\$376.26
NE Sask			NE Sask		
1 CWRS 13.5	\$10.51	\$386.18	1 CWRS 13.5	\$10.71	\$393.53
1 CWAD 13.0	\$10.83	\$397.94	1 CWAD 13.0	\$10.93	\$401.61
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	
SE Sask			SE Sask		
1 CWRS 13.5	\$10.41	\$382.51	1 CWRS 13.5	\$10.68	\$392.43
1 CWAD 13.0	\$10.71	\$393.53	1 CWAD 13.0	\$10.86	\$399.04
1 CPSR 11.5	n/a		1 CPSR 11.5	\$10.00	\$367.44

Data source: PDQ, Sept. 19/2022

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, Sept. 19/2022

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).

- 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

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.”

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				19-09-2022
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	\$493.79	\$550.88		
HRS	\$486.47			
HRW 11.5	\$507.94			
SWW 12.0	\$455.73			
1 CWRS 13.5³	\$493.79		\$396.84	\$96.96
2 CWRS 13.0³	\$486.47		\$393.16	\$93.31
3 CWRS³	\$507.94		\$378.46	\$129.48
CPS³	\$448.90		\$374.42	\$74.48
1 CWAD⁴		\$544.05	\$404.55	\$139.50
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$320.00	Oct.		
French 11.5 (Rouen)	\$340.90	Oct.		
APW 10.5 (W Coast)	\$370.00	Dec.		
Argentine 12.0	\$325.00	Dec.		

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