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GRAIN MARKETING INSIGHTS

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Prairie winter wheat markets affected by global and local factors

Wheat markets are going through a period of tremendous uncertainty. Some factors driving the turmoil were already building through the winter, with the Russian invasion of Ukraine only adding to the volatility. In addition, the production outlook for the Canadian Prairies is unknown. All of this means there are many moving parts affecting the price Manitoba farmers will receive for their winter wheat this coming year.

Global landscape highly uncertain

World wheat prices have been historically high through the winter, as stocks across the major exporters are set to be at the lowest levels seen in nearly a decade. Western Canada saw sharply lower production due to the drought, while the U.S. and Russia also had smaller harvests. This was partially offset by large crops in other countries, such as Australia, but strong import demand and rising global food prices mean inventories are getting drawn down.

Russia's invasion of Ukraine added tremendous uncertainty for two of the world's largest exporters. While the impact for the current year is somewhat smaller since the bulk of their shipments move in fall, there is uncertainty about how much will be exported from the region in the coming season. This is critical for markets, as the two nations combine for up to 30 per cent of global wheat exports.

Part of what makes the war in Ukraine so impactful is that it compounds supply concerns that were already percolating. This includes several key Northern Hemisphere growing regions facing early yield threats. A sizable portion of the Canadian Prairies is critically dry. The U.S. winter wheat crop has a historically low good/excellent rating for this time of year. China has expressed concerns about their winter wheat crop, which could raise import needs. The EU is also facing some potential dryness. Favourable weather through these areas would see some risk premium erode from the market, but it's also possible conditions get worse, driving prices even higher.

Prairie-specific factors affect local winter wheat values

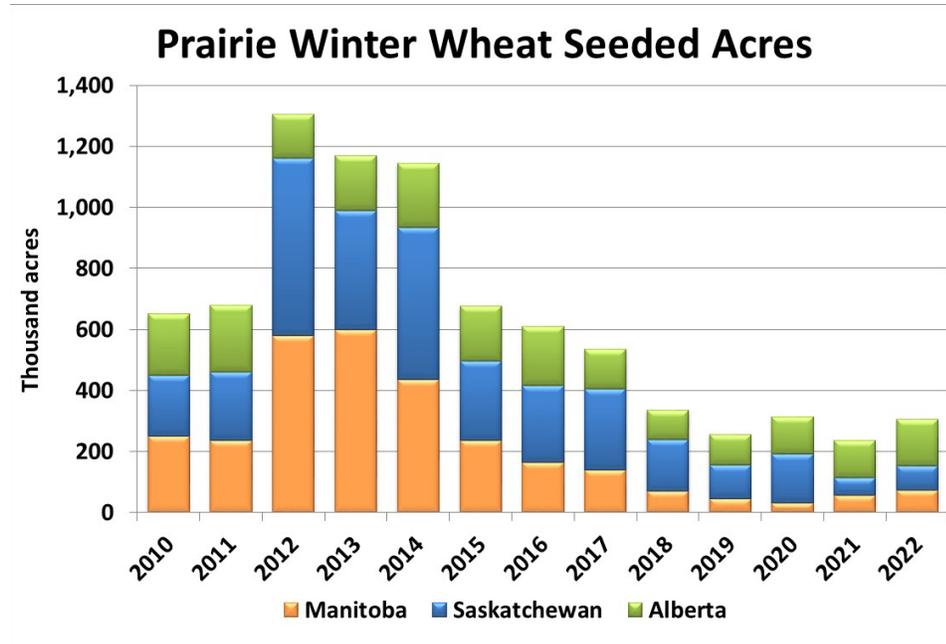
Canada is only one of several key players in global wheat markets, so our own crop size typically doesn't have a large impact on the big picture. This is particularly the case

for winter wheat, which tends to account for less than 10 per cent of the wheat acres in Canada and is more heavily weighted to the eastern provinces. However, local prices are still impacted by what happens in our own backyard.

For example, last year's drought resulted in substantially lower production across the Prairies. This created a shortage of feed grains, which in turn drove the value of feed wheat to historically high levels. In those feed grain deficit regions, such as southern Alberta or the Red River Valley in Manitoba, it's been common to see feed wheat bids almost on par with high-quality milling wheat. In these conditions, winter wheat often found its best value at a local feeder, rather than in export markets, even though world prices were also historically high.

Looking ahead

Statistics Canada estimated Canadian winter wheat plantings for 2022 at 1.352 million acres, the second lowest in 15 years. This was due to less area in the east, as Prairie winter wheat acres rose to 304,100 acres, compared to 236,500 acres the year prior. This is roughly the average of the previous four years, but a fraction of what was seen a decade ago when plantings would exceed one million acres. Manitoba's acres are estimated at 73,400, the highest since 2017, but also far below what was common eight to 10 years ago.



Production will be determined by how many acres are lost to winterkill and, more importantly, growing conditions through the spring and summer. While seeded acres are up nearly 30%, a return to better weather and more normal yields could see winter wheat production in Western Canada nearly double.

Wheat, perhaps more than any other crop, has a wide range of possible price scenarios going forward. Local winter wheat values will primarily be affected by global markets, which will be driven by the war in Ukraine and yields through the major growing regions, both of which are uncertain. In the meantime, the Prairie feed grain complex will be tight again next season, even if perhaps not to the same extreme as last year. This will support winter wheat prices, and possibly open attractive opportunities during early harvest to help bridge the supply gap until barley and other crops get harvested.

It's impossible to say if winter wheat prices will continue to move higher, or if improved weather conditions cause the uptrend to reverse. But the market will remain dynamic and volatile for the foreseeable future.