

## Wheat Market Outlook and Price Report: April 17, 2023

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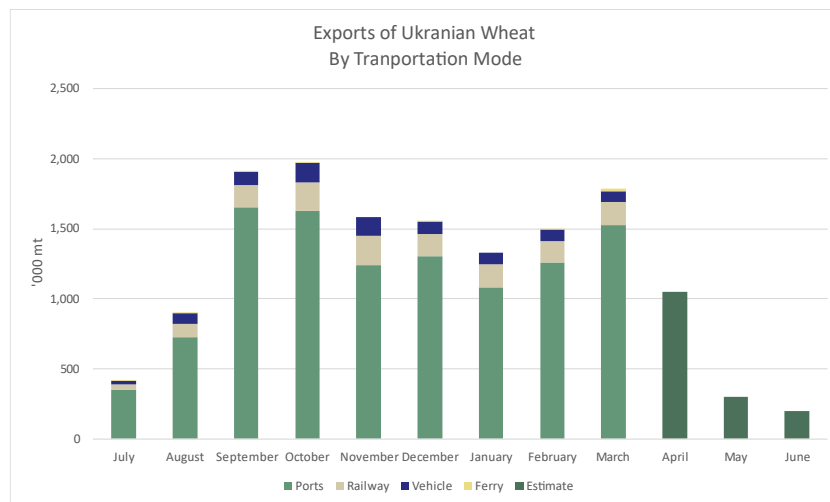
### **i) Background and Rationale for the Report**

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 April 17, 2023**

#### **Ukrainian 2022/23 Wheat Exports**



Source: based on MAPFU data and Merc estimates

- The Russian Foreign Ministry said they do not see the possibility of extending the Trade Corridor after May 18<sup>th</sup> unless some key issues are addressed.
- As of March 2023, Ukraine has exported a July to March total of 13.0 million mt of wheat. Approximately half of this went through the Trade Corridor.
- Last week, the USDA increased their export projection for Ukraine to 14.5 million mt which means they have 1.5 million mt of wheat to ship in April to June.
- With 90 per cent of Ukraine's estimated wheat exports already shipped, and with the corridor remaining open until mid-May, the possible halt of the Black Sea Grain Initiative will be more important for new crop, as Ukraine will be essentially done exporting their old crop supplies.

➤ **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:**

- May 2023 contract **Chicago winter wheat** closed at \$682-4, up 15-4 cents on Friday, *up 7-0 cents on the week.*
- May 2023 contract **Kansas hard red winter wheat** closed at \$878-6, up 33-4 cents on Friday, *up 14-2 cents on the week.*
- May 2023 **Minneapolis hard red spring wheat** closed at \$876-2, up 26-6 cents on Friday, *up 4-2 cents on the week.*
- *U.S. wheat futures are currently trading 3 to 12 cents higher at the time of writing.*

**Chicago May 2023 Wheat (1 yr.)**



**Kansas May 2023 Wheat**

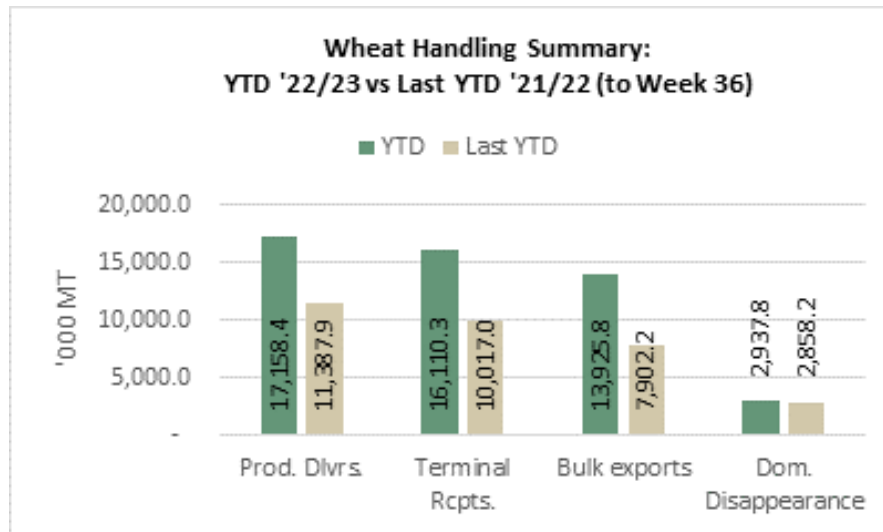


**Minneapolis May 2023 Wheat**



**Canadian Wheat**

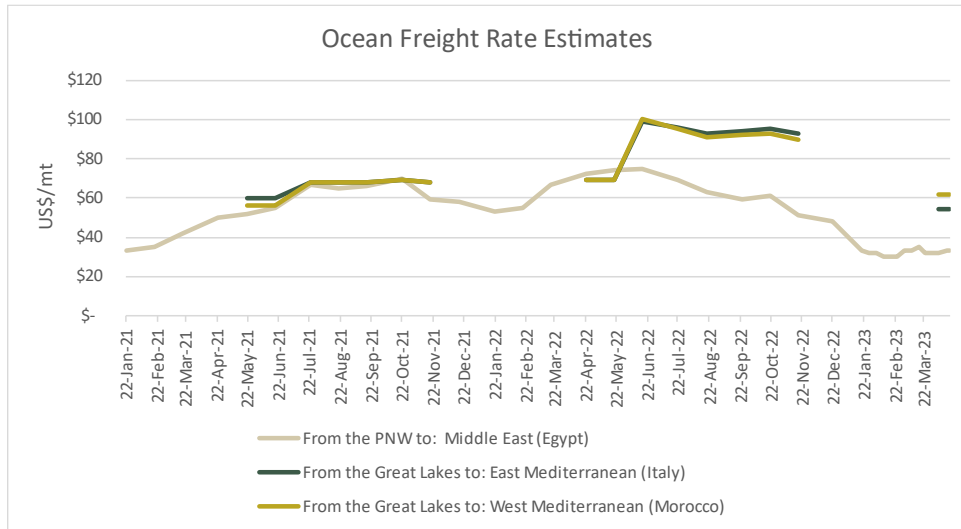
- Canadian wheat exports in week 36 were slower again at 341.8k mt. The first 21.3k mt of wheat of the year was exported from Thunder Bay last week. There are 395.9k mt of wheat in Thunder Bay which is similar last year's amount in week 36.



Source: Based on CGC data

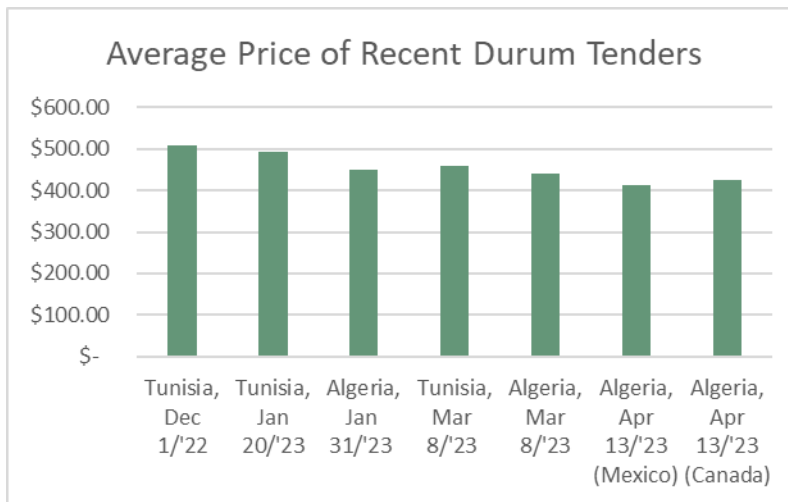
- Although shipping companies in the Great Lakes are expecting a busy season, we note that freight rates from Thunder Bay are comparatively high. This could limit how much grain is shipped through the east. Bulk shipping from the Great Lakes to the East Mediterranean is approximately

U.S.\$20/mt more than shipping from Vancouver. This time last year, it was U.S.\$3/mt cheaper to ship through the Great Lakes.



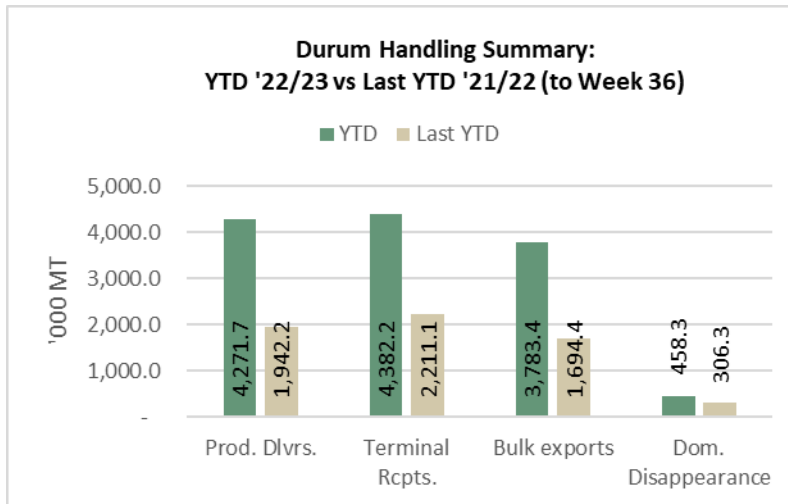
Source: Based on USWA data

- Durum:** Algeria’s OAIC tendered for May/June durum from Mexico and Canada. Mexican new crop is available for May-June shipment. Algeria bought durum from Mexico at ~U.S.\$413/mt and Canada at \$422-430/mt. Canada’s price calculates to just over CA\$12.00/bu. Algeria’s last tender on March 8th traded at US\$441/mt, which worked back to ~CA13.40/bu at the elevator in Saskatchewan.



Source: Merc

- Durum exports in week 36 were 98.9k mt for a season total of 3.8 million mt. There has not been any durum shipped from Thunder Bay so far this spring. Stocks in Thunder Bay have increased to 106.4k mt. Freight out of the Great Lakes is relatively expensive compared to exporting from Vancouver, so we expect durum will continue to be shipped from there as well.

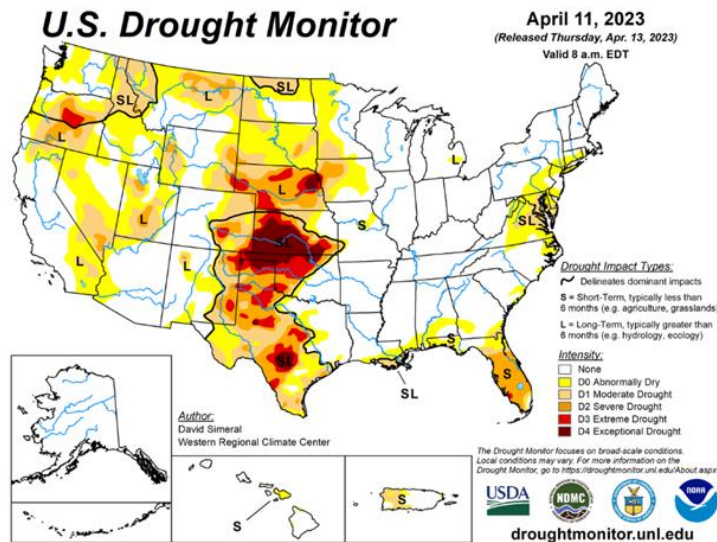


Source: Based on CIMT data

- We are sold out of old crop durum and have sold 40 per cent of expected new crop production.

**U.S. Wheat:**

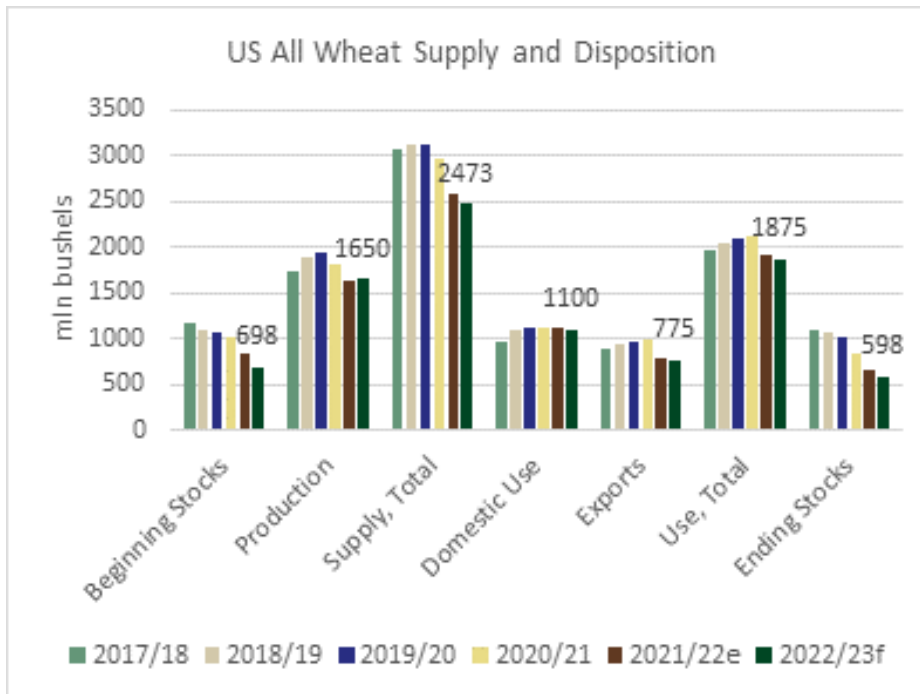
- The condition of the U.S. winter wheat crop deteriorated by another point to 27 per cent Gd/Ex. This is five points below last year and tied with 1996 as the lowest crop condition rating in history. Years with similarly poor crop conditions had yields that were 4-12 per cent below trend levels. Unharvested area also tends to be higher in these years. Kansas accounts for roughly 25 per cent of all U.S. winter wheat production (which is about 17 per cent of all U.S. wheat production). Approximately 50 per cent of Kansas' wheat area is concentrated in the central and southwest parts of the state where the drought has been the deepest and most persistent. There is still time for rain to help most of crop, but this window is closing.



Source: US Drought Monitor

The USDA increased U.S. all wheat supply by 5 million bushels. Most of the increase was because of a 4 million bushel increase in durum wheat imports. Lower food and feed use caused domestic use to fall 25 million bushels. Ending stocks were raised by 30 million bushels to 598 million bushels which was higher than expectations. U.S. wheat ending stocks are forecast to be

9 per cent lower than last year. All the decrease in U.S. wheat stocks from last year is in winter wheat classes. U.S. HRW ending stocks are expected to be 26 per cent lower than last year while



HRS endings stocks are up by 8 per cent.

Source: Based on USDA data

- U.S. weekly wheat sales were 135.7k mt for a season total of 18.3 million mt, down 5 per cent from last year compared to the USDA’s unchanged forecast for a 3 per cent decline. U.S. wheat is expensive compared to EU origin, so while we expect exports will meet the USDA’s number, they will not surpass it by any great extent.
- U.S. HRS for May 2023 was valued at \$360.00/mt FOB PNW (down \$8.70/mt from last week), FOB Gulf HRW 11/12.5 pro is valued at \$371.00/mt (down \$8.00/mt from last week).

**Australian wheat:**

- The trade is still watching for the impact, or lack thereof, of the El Nino. So far, conditions are strong ahead of planting time. Southern Australia saw additional rain. Western Australia was drier.
- FOB values in Australia: May 2023 AWP, WA is valued at \$310.00/mt (down \$5.00/mt from last week).

**Argentine wheat:**

- Argentina continues to be dry, and the forecast indicates this will continue into the planting season.

**EU wheat:**

- The USDA lowered EU exports by 2 million mt as the EU member countries continue to struggle to compete with very cheap Black Sea supplies. The USDA increased EU ending stocks to 12.2 million mt, which is still 6 million mt lower than the EU Commission’s number.
- Except for France, farmers in the EU are still sitting on large volumes of old crop wheat. Poland wants to export 3-4 million mt of wheat in the next three months to make room for the upcoming harvest. There are rumors that Polish milling wheat works into the southeast U.S.

- Both Poland and Hungary announced they were banning the imports of Ukrainian agricultural products, including wheat. This was quickly shot down by the EU Commission that said unilateral moves like this will not be tolerated. Hungary and Poland are trying to protect their ag sectors as cheap Ukrainian products have been flowing into the EU and getting stuck in Central Europe because of logistical holdups.
- The condition of the French wheat crop improved by another percent over the week to 94 per cent Gd/Ex. Eighty-one percent of the crop is in the early tillering stage.
- FOB prices in the EU: May 2023 French 11.5 pro wheat closed at \$279.00/mt (*down \$4.90/mt from last week*); May 2023 German 12.5 pro wheat closed at \$284.00 (*up \$0.10/mt from last week*); May 2023 Baltic 14.0 pro wheat closed at \$290.00/mt (*down \$7.80/mt from last week*).

#### **Black Sea wheat:**

- Russian wheat prices seem to be stabilizing around \$273/mt on an FOB basis. This alludes to the ~\$275/mt we have been saying would be an approximate price floor after the government told exporters to pay farmers enough to cover their production costs.
- There is increased speculation that Russia will not renew the Black Sea Grain Initiative once it expires on May 18th. On Wednesday, the Kremlin warned that the chances of the deal being renewed were unlikely so long as barriers (restrictions on payments, logistics and insurance) on Russian exports remain.
- Spring wheat planting in Ukraine is 50 per cent complete.

#### ➤ **Significant purchases/ trades:**

- **Jordan** bought 60k mt of wheat at \$303.33 CFR.
- **Algeria** bought an estimated 400-450k mt of May-June durum from Canada and Mexico at \$413-\$423/mt depending on the origin and ship size.
- **U.S.** commercial wheat sales were 135,700 mt for a year-to-date total of 18.3 million mt. This is 5 per cent behind last year's pace.

#### ➤ **Wheat Market Outlook:**

##### **Significant events over the past week:**

- **The Russian Foreign Ministry does not see the possibility of extending the grain deal after May 18<sup>th</sup>** if the "five systemic problems" of the agreement concluded in the summer of 2022 are not resolved.
- **U.S. corn futures close at the highest level in eight weeks** supported by continued buying by China (700k mt past several days). However, *Marché à Terme International de France* (MATIF) in Europe closed lower.
- **Kansas experienced its fourth driest July to March on record.**
- **China is expected to be the largest wheat importer in the world in 2022/2023.** The USDA increased Chinese wheat imports by 2 million mt to 12.0 million mt. This is the highest level since the 1995/1996 season.

#### **Outlook:**

While futures week over week were higher, Mercantile believes the cash trade was very slow and prices about unchanged. Mercantile says there are concerns about the Black Sea corridor closing, but this has not led to any new buying of wheat. Excess supplies in Russia and the EU will cap rallies nearby, but dryness in the U.S. Plains, Argentina and North Africa, spring wheat seeding concerns in the U.S. and in Canada, and risks to Australia from an El Nino argue for longer term support. - *We are sold out of old crop and will wait before selling additional volumes of new crop.*

### iii) Primary Elevator Price Tables and Grade Spreads

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

Date: April 17, 2023

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		June '23 (bu.)	June '23 (mt.)
1 CWRS 13.5	\$10.77	\$395.73	1 CWRS 13.5	\$10.74	\$394.63
1 CWAD 13.0	\$11.94	\$438.72	1 CWAD 13.0	\$11.90	\$437.25
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a
SW Sask			SW Sask		
1 CWRS 13.5	\$10.59	\$389.12	1 CWRS 13.5	\$10.44	\$383.61
1 CWAD 13.0	\$12.92	\$474.73	1 CWAD 13.0	\$11.77	\$432.48
1 CPSR 11.5	\$10.18	\$374.05	1 CPSR 11.5	\$10.12	\$371.85
NE Sask			NE Sask		
1 CWRS 13.5	\$10.51	\$386.18	1 CWRS 13.5	\$10.47	\$384.71
1 CWAD 13.0	\$11.82	\$434.31	1 CWAD 13.0	\$11.79	\$433.21
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a
SE Sask			SE Sask		
1 CWRS 13.5	\$10.41	\$382.51	1 CWRS 13.5	\$10.34	\$379.93
1 CWAD 13.0	\$11.90	\$437.25	1 CWAD 13.0	\$11.85	\$435.42
1 CPSR 11.5	\$10.00	\$367.44	1 CPSR 11.5	\$10.00	\$367.44

Data source: PDQ, Apr. 17/23

**Table 2: Grade Spreads, in Canadian Dollars per Bu and per MILLION MT**

Avg. Grade Spread/ Pro Discounts	Cdn\$/bu.	Cdn.\$/mt
1 CWRS 14.0	0.05	1.89
1 CWRS 13.5	Base Grade	Base Grade
2 CWRS 13.5	(0.10)	-3.67
1 CWRS 12.5	(0.30)	-11.02
1 CWAD 13.0	Base Grade	Base Grade
1 CWAD 13.5	0.00	0.00
2 CWAD 13.0	(0.10)	-3.67
2 CWAD 12.5	(0.15)	-5.51

Data source: PDQ, Apr. 17/23

### 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 2013/2014 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 Basis<sup>1</sup> (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, Sask. (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 per cent in the Pacific Northwest (PNW) ≈ 1 CWRS 13.5 per cent in Vancouver
  - HRS in the Pacific Northwest (PNW) ≈ 2 CWRS 13.0 per cent 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)

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<sup>1</sup> 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.”



- 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 per cent of total export volume crop year to date.
  - Italy is the single biggest buyer of Canadian durum wheat with 27 per cent 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				April 17, 2023
Type of Wheat	FOB Prices CDA <sup>1</sup> (calculated)		Street Prices	Export Basis <sup>2</sup>
	West Coast (Cdn./mt\$)	Great Lakes (Cdn.\$/mt)	Rosetown (Cdn.\$/mt)	Basis: West Coast-Centr. SK (Cdn\$/mt)
DNS 14.0	\$482.02	\$9.41		
HRS	\$475.85			
HRW 11.5	\$504.15			
SWW 12.0	\$380.70			
1 CWRS 13.5 <sup>3</sup>	\$482.02		\$402.71	\$79.30
2 CWRS 13.0 <sup>3</sup>	\$475.85		\$393.53	\$82.33
3 CWRS <sup>3</sup>	\$504.15		\$371.48	\$132.67
CPS <sup>3</sup>	\$373.81		\$303.87	\$69.94
1 CWAD <sup>4</sup>		\$11.00	\$440.93	\$100.11
Competing wheat: US\$/mt				
Russia 12.5 (Black Sea, 25k mt)	\$275.00		May	
French 11.5 (Rouen)	\$279.00		May	
APW 10.5 (W Coast)	\$310.00		May	
Argentine 12.5	\$340.00		May	

<sup>1</sup> FOB Prices CDA = FOB US\$ converted into Canadian Currency  
<sup>2</sup> Basis = FOB Prices CDA minus Street Price  
<sup>3</sup> DNS 14% ≈ 1 CRWS 13.5%; HRS ≈ 2 CWRS 13.0%; HRW ≈ 3CWRS; SWW = CPS  
<sup>4</sup> Values derived to Lakehead FOB