

## Wheat Market Outlook and Price Report: January 9, 2023

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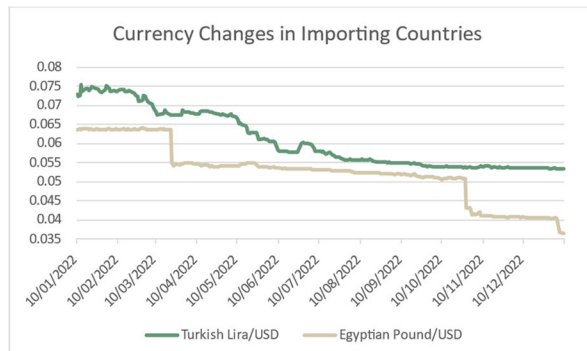
### i) Background and Rationale for the Report

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).

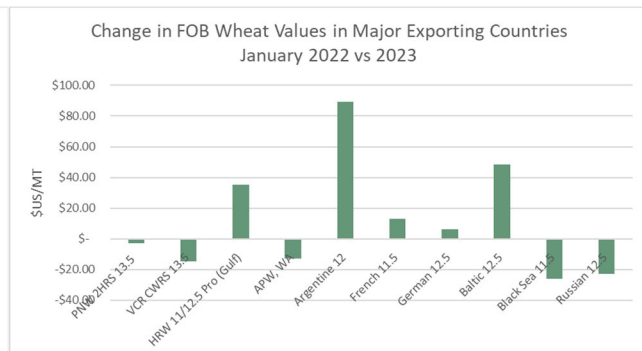
The report is made up of several sections. Following this section, a World Wheat overview is provided, which includes a summary of wheat market fundamentals, world production and trade, and a wheat market outlook. This is followed by several price tables, which include primary elevator bids at various 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 January 9, 2023

#### Change in Value of the Turkish Lira and Egyptian Pound Compared to the US Dollar



Data Source: Yahoo Finance



Source: Merc

- When comparing the price of wheat from the beginning of 2022 with the beginning of 2023, global wheat prices are generally higher than last year: Gulf 11/12.5 pro is up \$35.30/mt, and EU wheat is up \$22.60/mt (on average). Black Sea wheat on the other hand is \$26.00/mt cheaper than last year.
- The general increase in the price of wheat has made the commodity expensive for importing countries. This becomes even more evident when accounting for the impact of currency changes in importing countries compared to the US Dollar. For example, in 2022 the Turkish lira lost 27% of its values against the US dollar, and the Egyptian pound lost 43% of its value against the US dollar.
- The high price of wheat is thus compounded by the weakening currencies of importing countries. There have been some stories of importers having payment issues, and many countries have adjusted how they do business (allowing more private imports, etc.). So far, it seems like most trades are being completed, but it does cause concern about the importer's ability to secure wheat.

➤ **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 '23 contract **Chicago winter wheat** closed at \$743-4 down 3-2 cents on Friday, down 30-4 cents on the week.
- March '23 contract **Kansas hard red winter wheat** closed at \$831-0, down 7-6 cents on Friday, down 34-4 cents on the week.
- March '23 **Minneapolis hard red spring wheat** closed at \$901-6, down 7-2 cents on Friday, down 12-2 cents on the week.
- *Wheat futures are currently trading 3-7 c/bu higher this Monday morning.*

**CBOT Mch. 2023 Wheat (1 yr.)**



**KC Mch. 2023 Wheat**

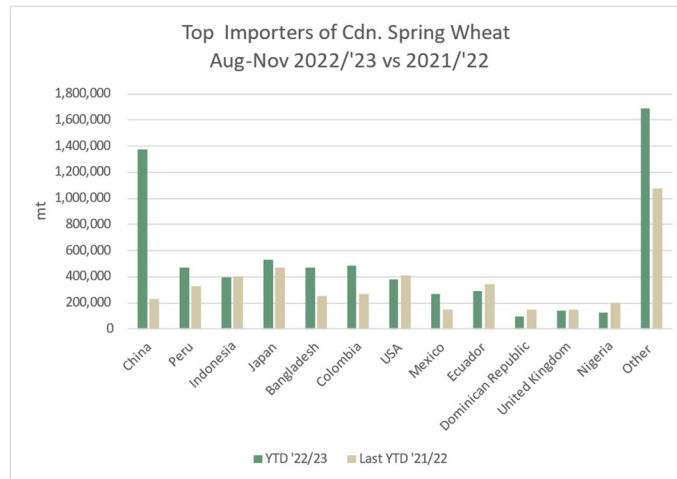


**Mpls. Mch. 2023 Wheat**



**Canadian Wheat**

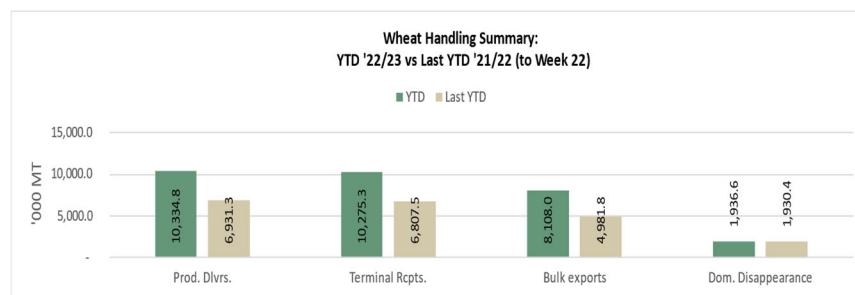
- The US wheat futures were lower last week as traders returned from the holidays. The drop could have been caused by the lack of traders at their desks, the continuance of the holiday season in Asia, or the lack of any new tenders in the markets. The news was limited outside of a strong US dollar and a general lack of export demand. US wheat is expensive compared to other origins, and the changing value of the currencies of importing countries relative to the US dollar is exacerbating the high cost of wheat for these countries.
- **Canadian export performance:** According to Stats Canada, Canadian wheat exports during November were 1.9 million mt, which is strong, albeit 204.8k mt less than October's amount. The biggest change from last year are exports to China, which, at a year-to-date total of 1.4 million mt, are almost five times larger (up 1.1 million mt) than they were during the same time last year. Exports to "other" countries were also strong at 514.3k mt in November for a year-to-date total of 1.7 million mt, up 57% from last year. Interestingly, there was 73.9k mt of wheat exported to India in November – the first Canadian wheat exports to India in over five years.



Source: CIMT

- The CGC says there was 552.3k mt of wheat exported over weeks 21 and 22 for a total of 8.1 million mt – over 3.1 million mt more than last year. The current pace still argues that we will export ~19.1 million mt of wheat which is 200k mt more than Stats Canada is estimating.
- The large crop in Australia is going to compete with Canadian wheat, but limited export capacity will restrict their exports to be only slightly larger than last year.

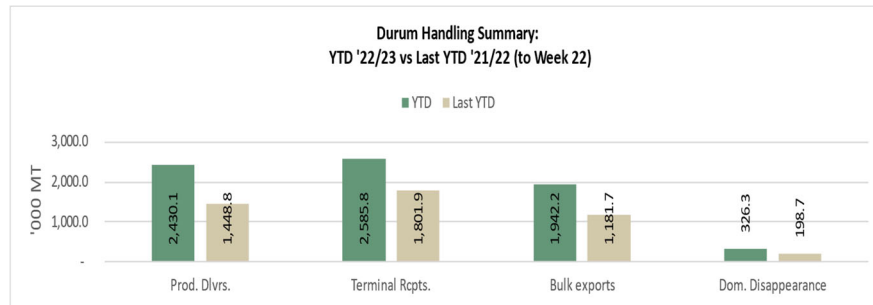
(CGC) Grain Handling Summary Wheat	Week 21 & 22			(Jan.1'23)
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 21 & 22	506.5	627.9	552.3	188.4
Week ago	593.6	493.6	517.0	115.4
YTD	10,334.8	10,275.3	8,108.0	1,936.6
Last YTD	6,931.3	6,807.5	4,981.8	1,930.4
<b>YTD less Last YTD</b>	<b>3,403.5</b>	<b>3,467.8</b>	<b>3,126.2</b>	<b>6.2</b>
<b>YTD over Last YTD</b>	<b>149%</b>	<b>151%</b>	<b>163%</b>	<b>100%</b>



Source: CGC

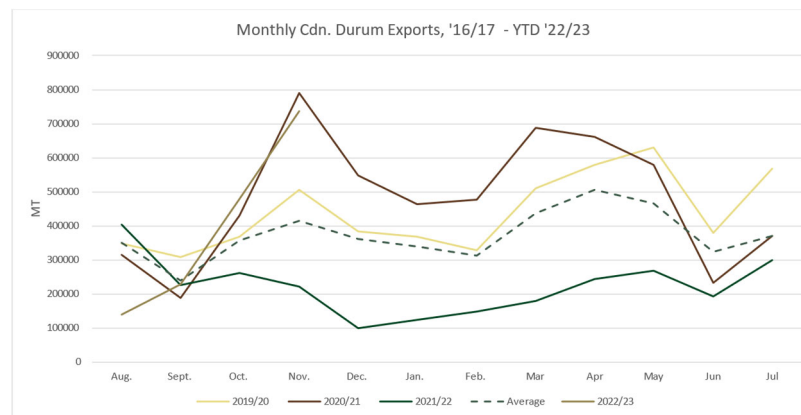
- *Currency fluctuations in importing countries have caused wheat prices there to be very expensive, and no one knows what happens when the money isn't there to pay for wheat. Producers are advised to be 50% sold and should consider selling an additional 25% at \$12.00/bu or better.*

- **Durum:** Durum bids are now around \$13.70/bu delivered to the elevator (depending on location).
- **Canadian durum exports:** Durum exports during November were very strong. Stats Canada reported that over 736.4k mt of durum was exported during the month. Italy was the big buyer, taking 223.2k mt of the total amount for a to-date total of 568.4k mt - 191% more than last year. Morocco (which usually imports ~25% of the monthly total) was absent. There were also strong exports to Algeria in November.
- According to the CGC, week 21 and 22 exports were 97.4k mt for a season total of 1.9 million mt, up 64% from last year.



Source: CGC

- The pace of durum exports has weakened as of late, as exports out of Thunder Bay are restricted when the Lakes freeze.



Source: CIMT

- *Producers should be 50% sold durum and are advised to finish drum sales at \$14.00/bu ~\$13.85/bu for a #3CWAD.*

### US Wheat:

- The drought in the US winter wheat belt has improved. Now, 64% of the US winter wheat crop is under drought conditions. The last crop condition report was on November 29<sup>th</sup>, when 34% of the crop was considered Gd/Ex, compared to 44% Gd/Ex the year previous. The next crop progress report is not out until April 3<sup>rd</sup>.
- US export sales were poor at 47.1k mt.
- US HRS for February 2023 was valued at \$402.00/mt FOB PNW (down \$9.20/mt from last week), FOB Gulf HRW 11/12.5 pro is valued at \$380.20/mt (down \$11.00/mt from last week).

**Australian wheat:**

- Australia's harvest is 80% complete with better-than-expected yields. Production estimates for Australia's crop is rising from 36 million mt to 42 million mt. It also seems as though there are fewer quality issues than what was originally feared given the untimely rain at harvest.
- Despite the large harvest, we expect wheat exports from Australia to be only slightly higher than the 27.5 million mt of wheat that was exported last year due to capacity constraints.
- FOB values fell another \$20.00/mt again last week, and Australian wheat is taking much of the Asian demand.

**Argentine wheat:**

- Wheat harvest in Argentina is finished. BAGE left their crop estimate at 12.4 million mt which is 44% (9.75 million mt) less than what the USDA says they produced last year. Farmer sales rose by 200k mt over the week. Most of the selling was bought by domestic millers. Total farmer sales of 6.6 million mt are roughly half of last year's amount to-date. The USDA thinks that Argentina will export 7.5 million mt of wheat this year. Down 8.75 million mt from last year

**EU wheat:**

- Matif wheat futures fell €9 on reports of falling values in the Black Sea. Insurance issues are keeping freight expensive in the Black Sea which should allow EU wheat to continue making some sales.
- Much of Europe has experienced an unseasonably warm winter, but limited snow is leaving the winter crop exposed as temperatures are starting to fall.
- FOB prices in the EU: February 2023 French 11.5 pro wheat closed at \$329.00/mt (*down \$15.40/mt from last week*); February 2023 German 12.5 pro wheat closed at \$331.00 (*down \$15.30/mt from last week*); February 2023 Baltic 14.0 pro wheat closed at \$373.40/mt (*down \$15.30/mt from last week*).

**Black Sea wheat:**

- Russian wheat continues to be the cheapest in the world and is taking much of the demand. With that said, there is a growing number of issues with getting wheat out of the Black Sea. A growing number of companies are saying they will not cover war risk coverage for vessels from Russia, Ukraine, and Belarus. Additionally, wait times in the Bosphorus are increasing shipping costs.
- No new vessels are currently expected to arrive in Ukraine for loading, and 94 vessels were waiting for inspection in Turkey (as of June 3<sup>rd</sup>). Some ships have been waiting for more than a month for inspection.
- Like the rest of Europe, Russia and Ukraine has been unseasonably warm. Temperatures are now dropping below -20°C and there is little to no snow protecting their winter crops.
- Russian and Ukrainian farmers were celebrating Orthodox Christmas last week, and it will be interesting to see how they act when they return from holiday. Farmer selling, and subsequent Black Sea exports, will be a function of the condition of their winter crop and their ability to plant spring crops.
- February 2023 12.5% Pro Russian wheat is quoted at \$315.00/mt FOB (up \$5.00/mt from last week).

➤ **Significant purchases/ trades:**

- **US** weekly commercial sales were 47,142 mt, 90% below the previous week's 478,100 mt. Traders were thinking sales would be in the 250,000 to 450,000 range. Year-to-date commercial sales are 14.97 mt.
- **Tunisia** bought 100k mt of wheat at \$351.86-\$353.89 C&F and was likely filled with Black Sea wheat. This price backs off to about \$320/mt FOB Russia, and \$310/mt FOB Ukraine.

➤ **Wheat Market Outlook:**

**Significant events over the past week:**

- **Coming off the recent holidays** and with New Year holidays still in full swing across Asia, lackluster commercial sales pointed to slow export demand. Many buyers covered their needs through the beginning of 2023 and have not yet re-entered the market.
- **Despite sluggish demand**, soft white (SW) prices from the PNW and Gulf SRW basis dropped in competition with Australian and French soft wheat. Gulf HRS basis increased as rail performance struggles to catch up after late December storms. In spite of poor rail performance, PNW HRS eased slightly, positioning itself for potential demand in the coming weeks. PNW HRW held steady, while Gulf HRW basis increased slightly, supported by the recent cold weather in the Southern Plains.
- The **January USDA WASDE** report is out this week (January 12<sup>th</sup>). Traders are watching for significant reductions with South America's corn/soybean crop as well as less export demand for corn in the US.
- Starting January 1, **some insurers will cancel war risk coverage** for vessels from Russia, Ukraine, and Belarus. Reinsurers (entities that insure the insurance companies) are the primary driver of the policy shift as they try to limit exposure in the region after incurring losses related to the war and Hurricane Ida in the United States. The withdrawal does not apply to all policies in the region, but exclusions would make it harder for charters to find insurance, and prices may increase.
- **Late-season frost and drought** continue to impact Argentina's wheat crop, with recent estimates coming in at 12.4 million tonnes, a far cry below the Buenos Aires Grains Exchange's initial assessment of 20.5 million tonnes. As of Wednesday, Argentine farmers had harvested 91.4% of the 6.1 million hectares (15 million acres) they planted.

**Outlook:**

Wheat, especially US wheat, is expensive and there remains an abundance of Black Sea wheat. Russia and Ukraine are on holiday, and the near-term focus of the cash market is whether Russian farmers continue to sell when they return. Russian exports will largely be a function of the condition of their winter crop and their ability to plant spring crops. We expect wheat prices to be a little stronger in the New Year because the balance sheet remains tight and Russian prices should rally. *Producers are advised to be 50% sold and should consider selling an additional 25% at \$12.00/bu or better.*

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

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

Date: January 9, 2023

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Mar '23 (bu.)	Mar '23 (mt.)
1 CWRS 13.5	\$11.53	\$423.66	1 CWRS 13.5	\$11.52	\$423.29
1 CWAD 13.0	\$13.55	\$497.88	1 CWAD 13.0	\$13.48	\$495.31
1 CPSR 11.5	\$10.87	\$399.41	1 CPSR 11.5	\$10.95	\$402.35
SW Sask			SW Sask		
1 CWRS 13.5	\$11.41	\$419.25	1 CWRS 13.5	\$11.49	\$422.19
1 CWAD 13.0	\$13.53	\$497.15	1 CWAD 13.0	\$13.47	\$494.94
1 CPSR 11.5	\$10.71	\$393.53	1 CPSR 11.5	\$10.90	\$400.51
NE Sask			NE Sask		
1 CWRS 13.5	\$11.17	\$410.43	1 CWRS 13.5	\$11.17	\$410.43
1 CWAD 13.0	\$13.39	\$492.00	1 CWAD 13.0	\$13.40	\$492.37
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a
SE Sask			SE Sask		
1 CWRS 13.5	\$11.14	\$409.33	1 CWRS 13.5	\$11.20	\$411.53
1 CWAD 13.0	\$13.39	\$492.00	1 CWAD 13.0	\$13.37	\$491.27
1 CPSR 11.5	\$10.57	\$388.38	1 CPSR 11.5	\$10.71	\$393.53

Data source: PDQ, Jan. 9/23

**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, Jan. 9/23

#### **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 2013/14 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 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, 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

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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.”



- 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				January 9, 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	\$491.59	Closed		
HRS	\$485.44			
HRW 11.5	\$477.84			
SWW 12.0	\$414.49			
1 CWRS 13.5 <sup>3</sup>	\$491.59		\$412.64	\$78.95
2 CWRS 13.0 <sup>3</sup>	\$485.44		\$401.61	\$83.83
3 CWRS <sup>3</sup>	\$477.84		\$388.75	\$89.09
CPS <sup>3</sup>	\$407.61		\$303.87	\$103.74
1 CWAD <sup>4</sup>		Closed	\$503.39	#VALUE!
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$315.00		February	
French 11.5 (Rouen)	\$329.00		February	
APW 10.5 (W Coast)	\$335.00		February	
Argentine 12.5	\$380.00		February	
<sup>1</sup> FOB Prices CDA = FOB US\$ converted into Canadian Currency <sup>2</sup> Export Basis = FOB Prices CDA minus Cdn. 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				