

Wheat Market Outlook and Price Report: July 17, 2023

By Marlene Boersch/ A.P. Temple/ Michael Wilton
Mercantile Consulting Venture Inc.

i) Background and Rationale for the Report

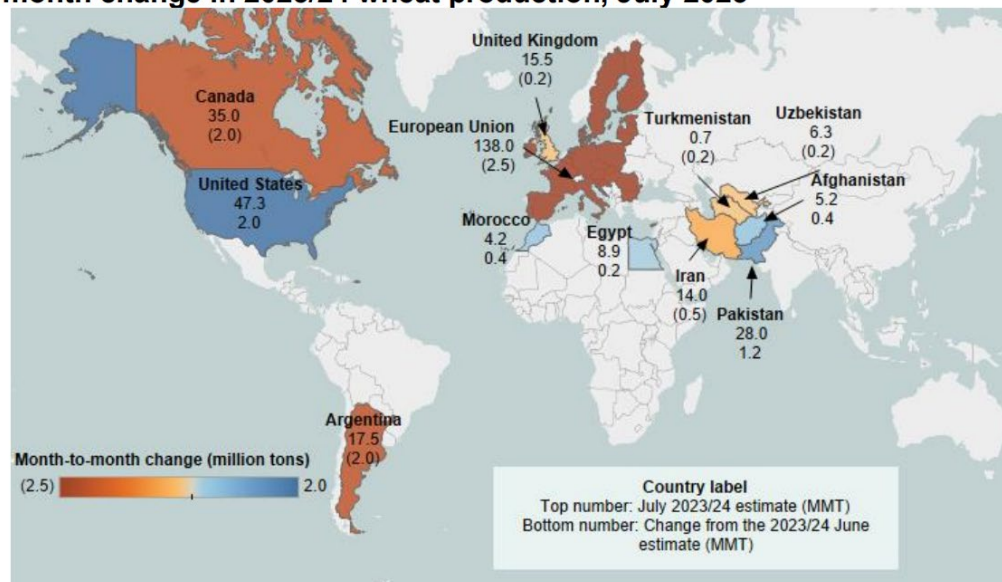
The following wheat market outlook and price report will be published on a weekly basis on the Sask Wheat Website. The report provides producers with an overview of world wheat markets, a market forecast, and benchmark prices at both the primary elevator and export positions (FOB Vancouver or elsewhere).

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 July 17, 2023

USDA Wheat Outlook: July 2023

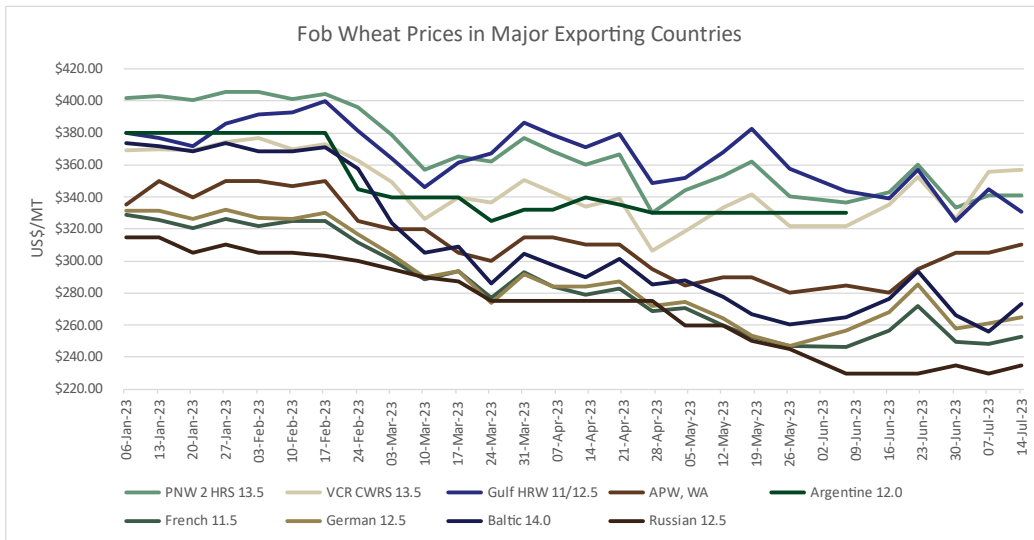
Month-to-month change in 2023/24 wheat production, July 2023



Source: USDA

- The USDA decreased global wheat supply for the 2023/24 season by 3.5 million mt. The decrease was led by lower production in Argentina (-2 million mt), Canada (-2 million mt) and the EU (-2.5 million mt) which was only partially offset by two million mt more production in the US.
- Global trade was reduced by one million mt as smaller exports from Canada and Argentina are only partially offset by larger exports from Russia.
- Beginning stocks were thought to be 2.6 million mt higher than last month while use was raised 3.3 million mt.
- Global wheat stocks were seen shrinking by 4.2 million mt to 271 million mt from last month, down one per cent from last year.

FOB Wheat Price Comparison



Source: based on Merc data

- Global wheat FOB prices continued higher last week as dry conditions and the unknown fate of the Black Sea Trade Deal supported cash markets.
- Russian wheat remains the cheapest, but Russian FOB prices were reported to have risen \$5.00/mt over the week. There were also rumours of a potential Russian price floor at \$240/mt.

➤ 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:

- Sept '23 contract Chicago winter wheat closed at \$661.4, up 21-6 cents on Friday, *up 12-0 cents on the week.*
- Sept '23 contract Kansas hard red winter wheat closed at \$829-0, up 23-0 on Friday, *up 10-6 cents on the week.*
- Sept '23 Minneapolis hard red spring wheat closed at \$884-2, up 22-4 cents on Friday, *up 36-4 cents on the week.*
- MATIF milling wheat futures rose €6.00 over the week.
- US wheat futures are currently four-to-12 cents lower at the time of writing

CBOT Sept 2023 Wheat (1 yr.)



KC Sept 2023 Wheat

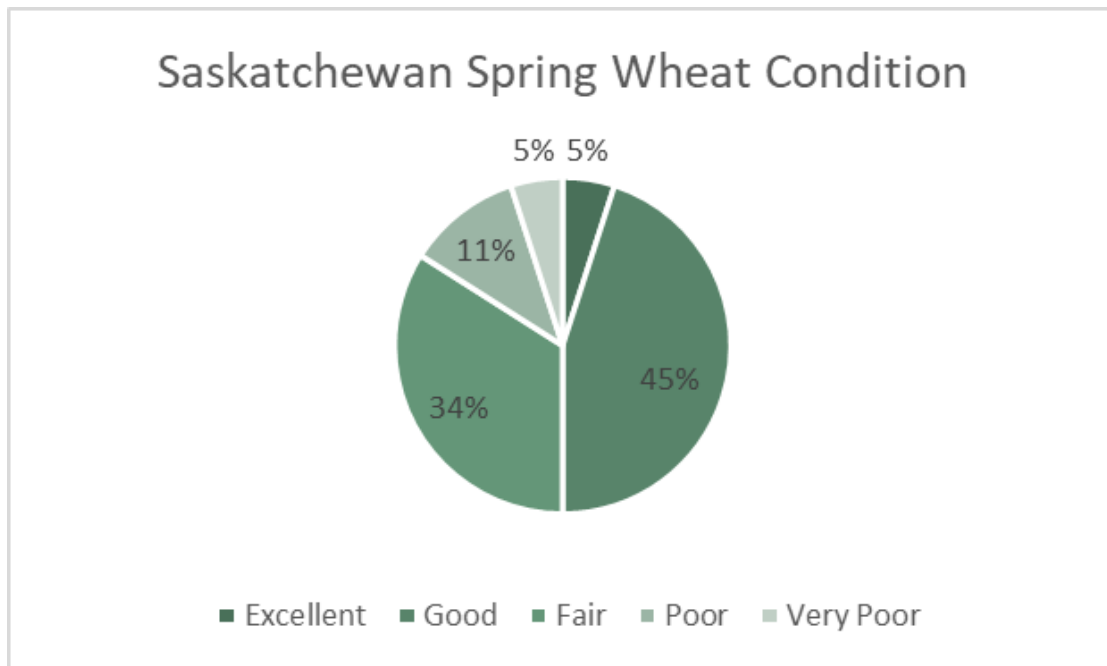


Mpls. Sept 2023 Wheat



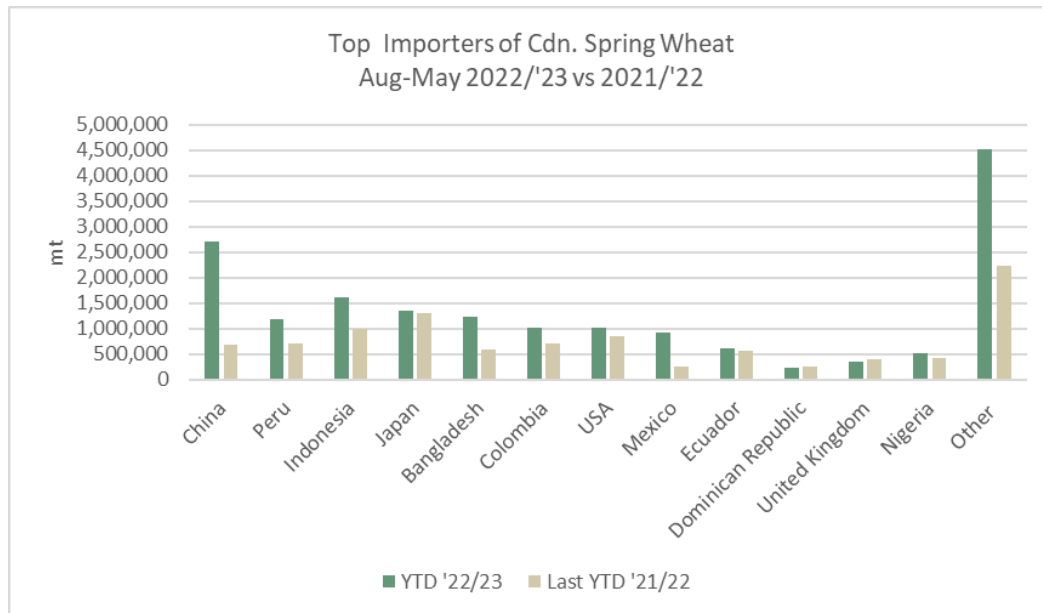
Canadian Wheat

- Crop conditions in Saskatchewan fell 20 per cent over the past two weeks to 50 per cent Gd/Ex. Crops considered to be poor to very poor rose seven per cent to 16 per cent. Soil moisture conditions were cut in half over the week with just 21 per cent of the province with “adequate” soil moisture. Alberta’s spring wheat crop condition improved one per cent over the past two weeks to 46 per cent Gd/Ex. Soil moisture conditions were essentially unchanged from two weeks ago at 45 per cent Gd/Ex



Source: based on Sask Ag data

- Stats Canada says 1.6 million mt of Canadian wheat was exported in May. This was the second smallest monthly amount this marketing year. Mexico was the largest customer in May, importing 254k mt of wheat during the month for a season total of 913k mt. Exports to Mexico are over three times more than last year’s amount. This year-over-year increase is only beaten by China. China has imported almost four times more Canadian wheat than last year at 2.7 million mt.



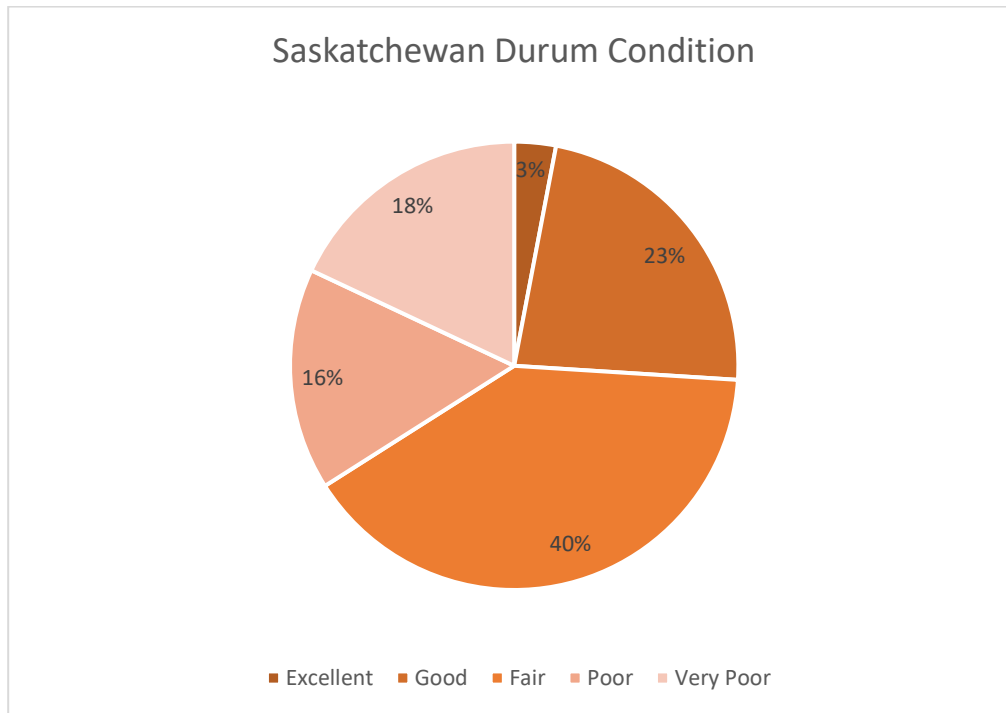
Source: Based on STC data

- Canadian wheat exports in week 49 were 335.7k mt for a season total of 18.5 million mt. Weekly exports need to be around 360k mt per week for the remaining three weeks of the season to meet the AAFC's 19.6 million mt number.

(CGC) Grain Handling Summary Wheat		Week 49 (Jul. 9'23)		
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 49	310.4	440.4	335.7	62.1
Week ago	455.5	480.8	396.4	173.9
YTD	21,456.9	22,190.6	18,504.0	4,379.4
Last YTD	13,959.7	13,778.1	10,537.8	3,800.3
YTD less Last YTD	7,497.2	8,412.5	7,966.2	579.1
YTD over Last YTD	154%	161%	176%	115%

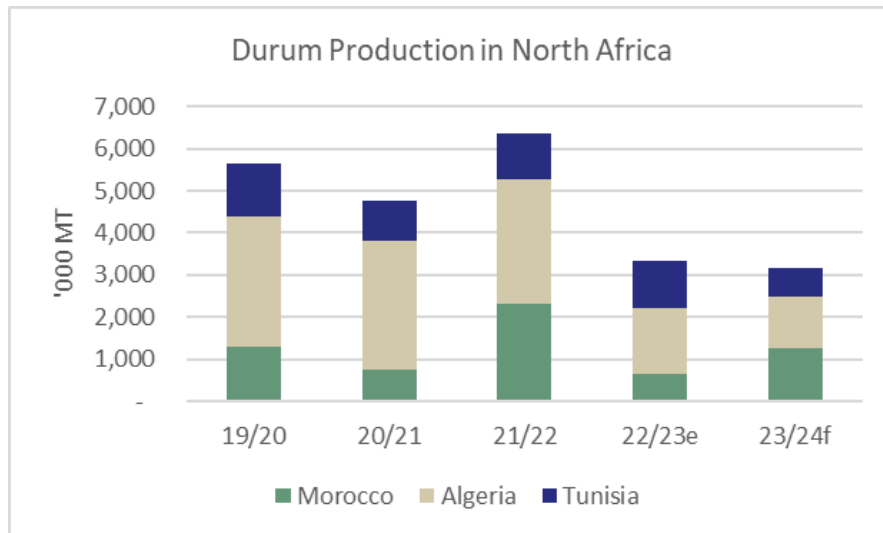
Source: based on CGC data

- Durum:** The condition of Canada's durum crop continues to deteriorate. In Saskatchewan, durum crop conditions fell 16 points over the past two weeks to 26 per cent Gd/Ex (vs 58 per cent last year). This is second-worst crop rating for this time of year in recent history. Thirty-four per cent of the crop condition is poor or very poor. Alberta Ag put their durum crop at 34 per cent Gd/Ex (vs 64 per cent last year).



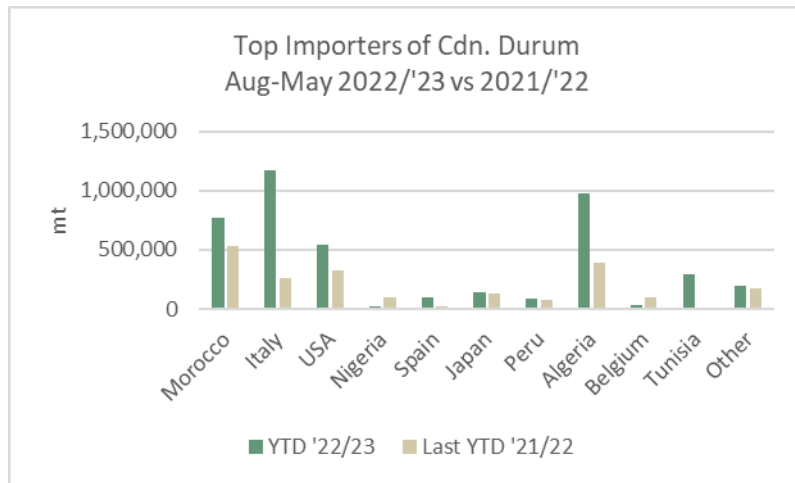
Source: based on Sask Ag data

- The global durum crop is also struggling. Harvest in France is 26 per cent complete and the yield and quality of the crop is below expectations. Meanwhile, North African countries were hit with the 3rd drought in the past four years. Total wheat production in North Africa is expected to be 7.3 million mt, down five per cent from last year. We estimate this will result in a similar decline in durum production to 3.2 million mt.



Source: based on USDA data and Merc estimates

- According to Stats Canada, Canadian exports during May were smaller at 286k mt. Algeria and Morocco were the top customers, importing 108k mt and 101k mt respectively. Aug-May exports to Algeria are 245 per cent more than last year at 972k mt. There were no exports to Italy in May. Despite this, Italy remains the top customer of Canadian durum having imported a total of 1.1 million mt, or 26 per cent of all exports from Aug-May.



Source: based on STC data

- Canadian exports in week 49 were 23.0k mt for a season total of 4.9 million mt. Visible supplies grew to 299k mt over the week.

(CGC) Grain Handling Summary			Week 49	(Jul. 9'23)
Durum				
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Week 49	59.2	95.2	23.0	2.0
Week ago	81.2	94.4	87.6	14.8
YTD	5,016.7	5,767.5	4,924.6	613.9
Last YTD	2,425.5	2,853.9	2,451.1	435.2
YTD less Last YTD	2,591.2	2,913.6	2,473.5	178.7
YTD over Last YTD	207per cent	202per cent	201per cent	141per cent

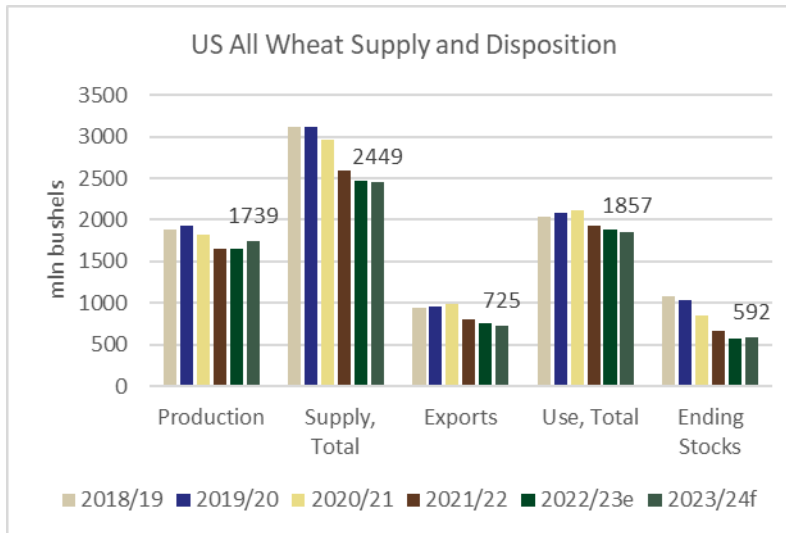
Source: Based on CGC data

- Durum stocks are tight and there are developing problems in most major durum-producing countries. We would not sell more durum for now.*

US Wheat:

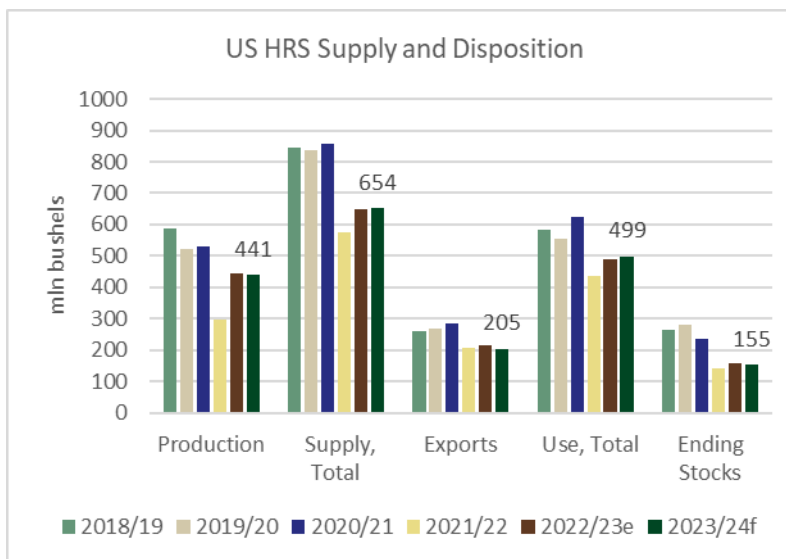
- Summary of the USDA WASDE report:
 - For the 2022/23 crop, the USDA decreased all wheat imports by three million bushels for a three million bushel decrease in supply. On the demand side, domestic use was raised 31 million bushels (primarily in the HRW class) while exports were reduced by 16 million bushels. Old crop ending stocks were seen shrinking by 18 million bushels to 598 million bushels.
 - For the 2023/24 crop, the USDA increased US production by 74 million bushels from last month to 1,665 million bushels, up five per cent from last year. Most of the year-over-year increase was in the SRW and HRW classes. Feed use was reduced by 20 million bushels from last month which put domestic use unchanged from last year. Exports are expected to shrink by 34 million bushels (four per cent) from last year to 725 million bushels.

bushels. Overall, ending stocks were raised by 30 million bushels from last month to 592 million bushels, up two per cent (12 million bushels) from last year.



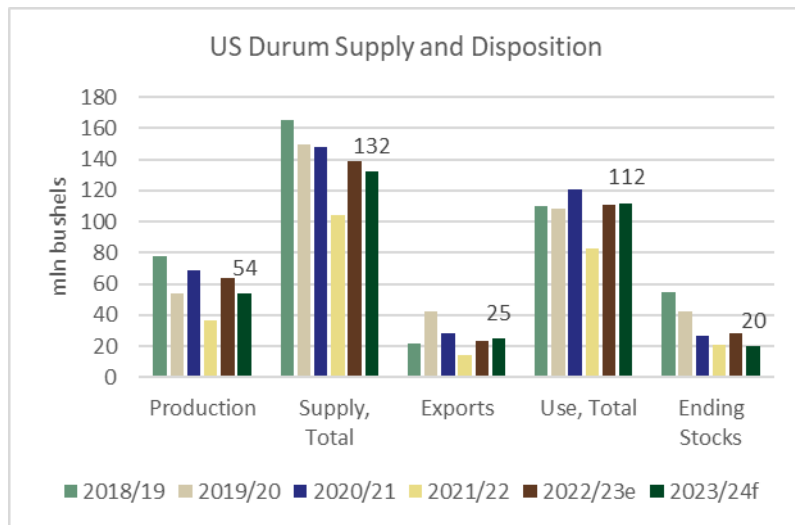
Source: based on USDA data

- Winter wheat harvest in the US progressed by nine per cent over the week and is now 46 per cent complete. The condition of the US winter wheat crop is 40 per cent Gd/Ex, one per cent below last year.
- For the hard red spring wheat class, the USDA increased US HRS old crop imports by one million bushels while decreasing exports by six million bushels. 2022/23 ending stocks were thus raised by seven million bushels from last month to 158 million bushels, up 18 million bushels from the previous year.
- For new crop, HRS production is expected to fall by one per cent from last year to 441 million bushels. The impact of this was offset by higher ending stocks as supply is expected to be slightly (one per cent) higher. Domestic use is expected to grow by 18 million bushels from last year, while exports are seen falling by nine million bushels. Ending stocks are expected to shrink by two per cent from last year to 155 million bushels. This is just 15 bushels more than the very low level seen in 2021/22.



Source: based on USDA data

- The condition of the US spring wheat crop fell for the 7th consecutive week to 47 per cent Gd/Ex.
- For durum, the USDA decreased old crop imports (by three million bushels), domestic use (by five million bushels) and exports (by two million bushels). Ending stocks were four million mt higher at 28 million bushels. This is seven million bushels more than the previous year's record low.
- For the current crop, the USDA is expecting production will fall by 10 million bushels (16 per cent) from last year to 54 million bushels. Some (four million bushels) of this decrease will be offset by higher beginning stocks. Domestic use is expected to be one million bushels lower while exports are up by two million bushels. Ending stocks are expected to shrink by eight million bushels to 20 million bushels, down 29 per cent from last year and one million bushels less than in 2021/22



Source: based on USDA data

- Durum crop conditions in North Dakota were unchanged from last week at 64 per cent Gd/Ex (vs 89 per cent last year). Conditions in Montana fell by seven points to 21 per cent Gd/Ex (vs 56 per cent last year). The USDA expects the yield for both states to be 34 bushels per acre which would be a six-bushel decrease from last year in North Dakota and a six-bushel improvement in Montana.
- There were reports of Brazil buying US HRW. This is not uncommon, but HRW supplies are tight.
- US HRS for August '23 was valued at \$341.00/mt FOB PNW (*unchanged last week*), FOB Gulf HRW 11/12.5 pro is valued at \$357.00/mt (*up \$1.00/mt from last week*).

Australian wheat:

- Conditions in Australia continue to be strong despite the El Nino. There was additional rain in New South Wales and Victoria while Western Australia was drier.
- FOB values in Australia: August '23 AWP, WA is valued at \$310.00/mt (*up \$5.00/mt from last week*).

Argentine wheat:

- Wheat planting in Argentina is 86 per cent complete. After a dry start, the country has received near-normal July rainfall amounts.
- The USDA decreased wheat production in Argentina by 2 million mt, but their current estimate of a 17.5 million mt crop is well above local estimates of ~15.5 million mt.
- Old crop sales in Argentina rose by 170k mt over the week to 10.1 million mt. New crop sales were just 40k mt for a total of 650k mt compared to 4.8 million mt last year.

Indian wheat

- India is banning exports of non-Basmati rice. The move sparked speculation about the country's wheat exports and if they would decrease or eliminate the import tax on wheat.
- After two years of large wheat crops, wheat stocks in India are reportedly at the lowest level since 2016 and 2017. These years, the country imported over one million mt of wheat primarily from Australia and Ukraine.

EU wheat:

- Strategie Grains decreased their estimate for EU wheat production by 2.5 million mt to 126.2 million mt. The size of the decrease was the same as the USDA's.
- Soft wheat harvest in France is 33 per cent complete. There is concern that the lower yields and poor quality being experienced in the French durum crop may translate into the soft wheat crop. This is limiting French farmer selling.
- The French Farm Ministry put the French crop at 35 million mt. This is 1.3 million mt above last year, but less than trade expectations.
- EU FOB prices: August '23 French 11.5 pro wheat closed at \$253.00/mt (*up \$5.00/mt from last week*); August '23 German 12.5 pro wheat closed at \$265.00 (*up \$4.00/mt from last week*); August '23 Baltic 14.0 pro wheat closed at \$273.00/mt (*up \$17.00/mt from last week*).

Black Sea wheat:

- Breaking news this morning is that Russia backed out of The Black Sea Trade Deal just hours before it was set to expire. This outcome was largely as expected by the trade as wheat futures rallied at the start of the trading session before moving lower.
- Physical wheat offers from Russia disappeared as rumours surfaced of a \$240/mt floor price. Offers continue to be shown below this level, but there were signs that Russian prices were appreciating to \$235/mt even before the floor price rumours.
- There was ongoing rhetoric about the Black Sea Trade Corridor. The corridor expires today.
- Wheat harvest in Ukraine is 10 per cent complete. Local estimates say the crop could be 20 million mt compared to the USDA's 17.5 million mt estimate.
- Russian Fob values were reportedly offered at \$235/mt last week (*up \$5.00/mt from last week*).

➤ Significant purchases/ trades:

- **Algeria** reportedly paid around \$269.00/mt for Aug-Sep wheat.
- **US** export sales of 396,000 mt left the season total of 184 million bushels, down 30per cent on last year against the USDA's 4.5per cent projected decline.

➤ Wheat Market Outlook:

Significant events over the past week:

- **Russia backed out of the Black Sea Trade Deal** hours before it was set to expire. This outcome was largely as expected by the trade.
- **The USDA decreased global wheat supply for the 2023/24 season by 3.5 million mt.** The decrease was because of lower production in Argentina (-2 million mt), Canada (-2 million mt) and the EU (-2.5 million mt) which was only partially offset by two million mt more production in the US. Global stocks were seen shrinking by 4.2 million mt to 271 million mt, down one per cent from last year.
- **Heavy rain in the Southern Plains** improved drought conditions, but also served to slow harvest progress and may impact the quality of the wheat crop.

Outlook:

Wheat markets will centre on weather conditions as major exporter crop prospects continue to decline. However, the trade would now like to see some real demand. The cash market depends on Russia. Their wheat prices remain at a steep discount to North American prices. - *It would be wise to wait for further weather developments before extending sales.*

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: July 17, 2023

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Sept '23 (bu.)	Sept '23 (mt.)
1 CWRS 13.5	\$10.92	\$401.24	1 CWRS 13.5	\$10.25	\$376.63
1 CWAD 13.0	\$11.10	\$407.86	1 CWAD 13.0	\$10.35	\$380.30
1 CPSR 11.5	\$10.20	\$374.79	1 CPSR 11.5	\$9.39	\$345.03
SW Sask			SW Sask		
1 CWRS 13.5	\$10.69	\$392.79	1 CWRS 13.5	\$10.17	\$373.69
1 CWAD 13.0	\$11.00	\$404.18	1 CWAD 13.0	\$10.35	\$380.30
1 CPSR 11.5	\$9.89	\$363.40	1 CPSR 11.5	\$9.28	\$340.98
NE Sask			NE Sask		
1 CWRS 13.5	\$10.69	\$392.79	1 CWRS 13.5	\$10.00	\$367.44
1 CWAD 13.0	\$11.11	\$408.23	1 CWAD 13.0	\$10.39	\$381.77
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a
SE Sask			SE Sask		
1 CWRS 13.5	\$10.60	\$389.49	1 CWRS 13.5	\$9.97	\$366.34
1 CWAD 13.0	\$10.98	\$403.45	1 CWAD 13.0	\$10.29	\$378.10
1 CPSR 11.5	\$9.68	\$355.68	1 CPSR 11.5	\$8.94	\$328.49

Data source: PDQ, July 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, July 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 2013/14 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 Cdn. FOB Prices minus primary elevator bids, the FOB prices are translated into Cdn. 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 14per cent in the Pacific North West (PNW) ≈ 1 CWRS 13.5per cent in Vancouver

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.”

- HRS in the Pacific North West (PNW) ≈ 2 CWRS 13.0per cent 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 38per cent of total export volume crop year to date.
 - Italy is the single biggest buyer of Canadian durum wheat with 27per 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				July 17, 2023
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	\$460.51	\$9.74		
HRS	\$454.51			
HRW 11.5	\$418.42			
SWW 12.0	\$352.64			
1 CWRS 13.5 ³	\$460.51		\$390.59	\$69.92
2 CWRS 13.0 ³	\$454.51		\$379.57	\$74.94
3 CWRS ³	\$418.42		\$364.87	\$53.56
CPS ³	\$345.87		\$335.47	\$10.39
1 CWAD ⁴		\$10.89	\$404.18	\$122.60
Competing wheat:				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$235.00		August	
French 11.5 (Rouen)	\$253.00		August	
APW 10.5 (W Coast)	\$310.00		August	
Argentine 12.5			August	
¹ FOB Prices CDA = FOB US\$ converted into Canadian Currency ² Basis = FOB Prices CDA minus Street Price ³ DNS 14% ≈ 1 CRWS 13.5%; HRS ≈ 2 CWRS 13.0%; HRW ≈ 3CWRS; SWW ≈ CPS ⁴ Values derived to Lakehead FOB				