

## Wheat Market Outlook and Price Report: July 4, 2023

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Mercantile Consulting Venture Inc.

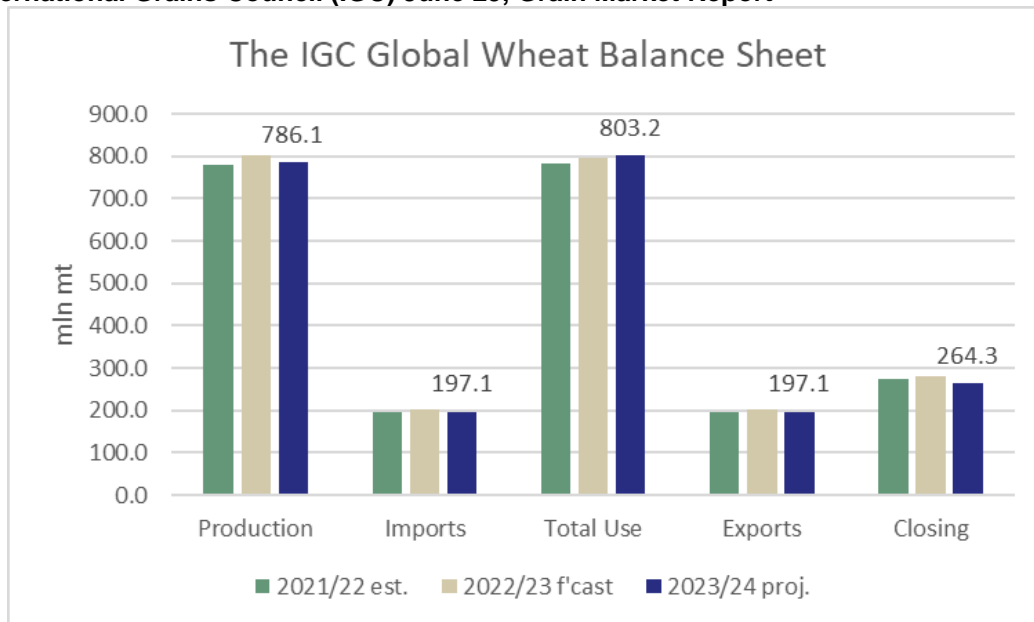
### **i) Background and Rationale for the Report**

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 4, 2023**

#### The International Grains Council (IGC) June 29, Grain Market Report

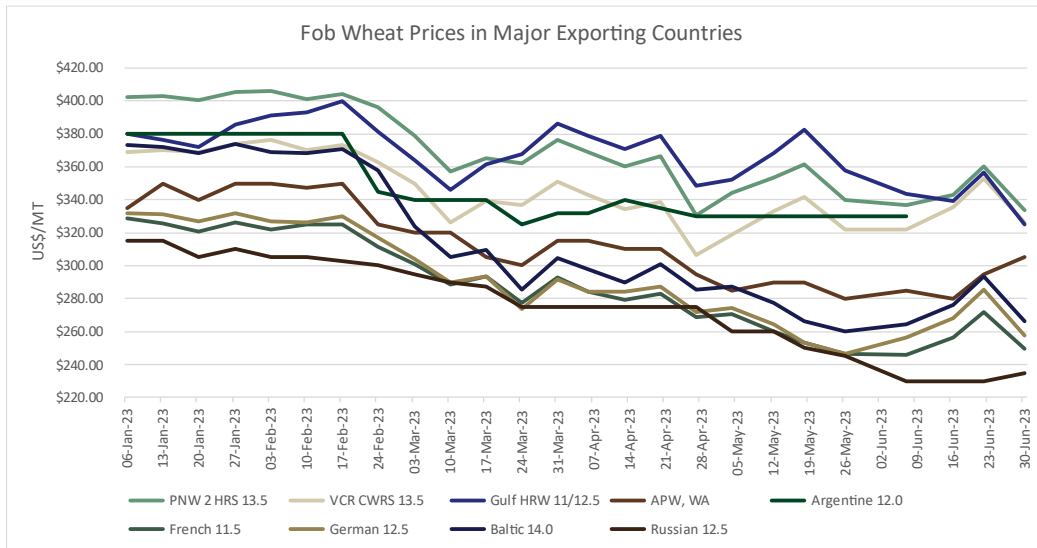


Source: Based on IGC data

- The International Grains Council (IGC) increased global wheat production by 3.4 million mt in their latest report. Global wheat production in the 2023/2024 season is now expected to be 786.1 million mt which is now just two per cent less than last year. The increase in production was driven by a larger expected crop in Ukraine, which was raised by 2.3 million mt to 22.5 million mt. Wheat crops in Kazakhstan and the EU were reduced by one million mt and 700k mt respectively.

- Smaller beginning stocks offset the increase in production by 1.4 million mt as total supply was only 2.0 million mt higher than last month. Beginning stocks in Canada were reduced by 1.0 million mt to 7.2 million mt.
- Total use was raised by a large, 8.7 million mt, because of higher feed use.
- Ending stocks were reduced by 6.7 million mt from last month to 264.3 million mt, down six per cent from last year.

### FOB Wheat Price Comparison



Source: Based on Merc data

- Global wheat prices were generally lower last week as the market reacts to lower futures values and as new crop harvest gets underway.
- Russian prices showed some strength last week, but this will likely be limited as harvest continues there.

### ➤ 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:

- Sept 2023 contract Chicago winter wheat closed at \$651-0, down 16-4 cents on Friday, *down 95-4 cents on the week*.
- Sept 2023 contract Kansas hard red winter wheat closed at \$800-0, unchanged on Friday, *down 61-6 cents on the week*.
- Sept 2023 Minneapolis hard red spring wheat closed at \$817-0, down 8-4 cents on Friday, *down 56-6 cents on the week*.
- U.S. wheat futures closed 1-8 cents lower yesterday and are closed for the U.S. holiday. MATIF milling wheat futures lost €9.50 over the week.

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



**Kansas July 2023 Wheat**

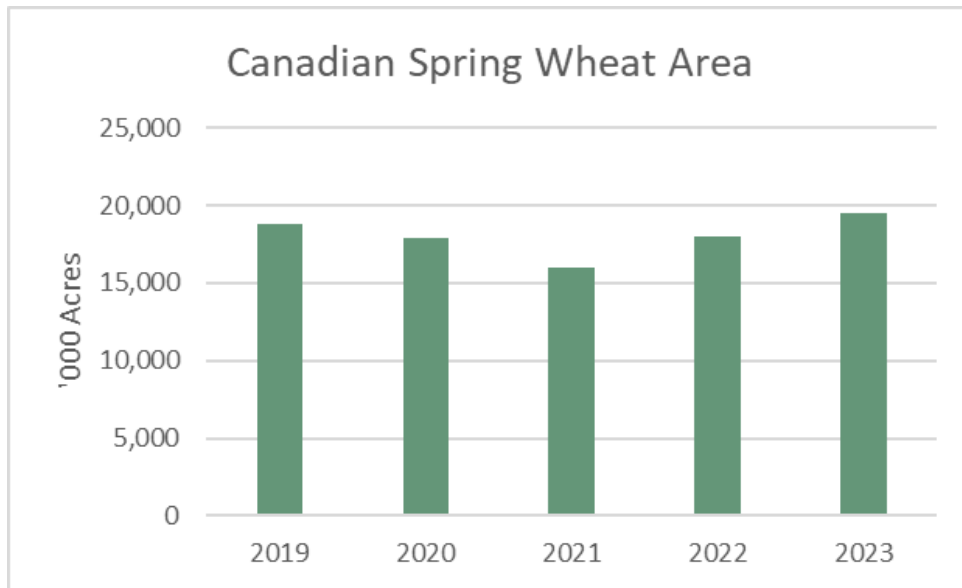


**Minneapolis July 2023 Wheat**



**Canadian Wheat**

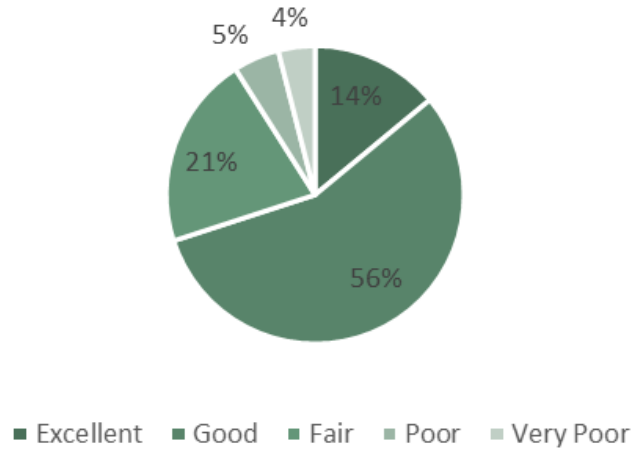
- Stats Canada raised Canadian all wheat area to 26.9 million acres, up seven per cent from last year and the largest seeded area since 2001. Spring wheat area was raised by another 85k acres to 19.5 million acres, up eight per cent from last year. This is in line with the number that we have been using.



Source: based on STC data

- Hot and dry weather caused the condition of the Canadian wheat crop to deteriorate over the week. Crop conditions in Alberta fell by six per cent from last week to 45 per cent Gd/Ex. Conditions in Saskatchewan fell from 81 per cent Gd/Ex on June 12 to 70 per cent Gd/Ex on June 26. Manitoba Ag does not give crop ratings but reported that “some crops in the Central region have been suffering from moisture stress, with cereals particularly hit badly”.

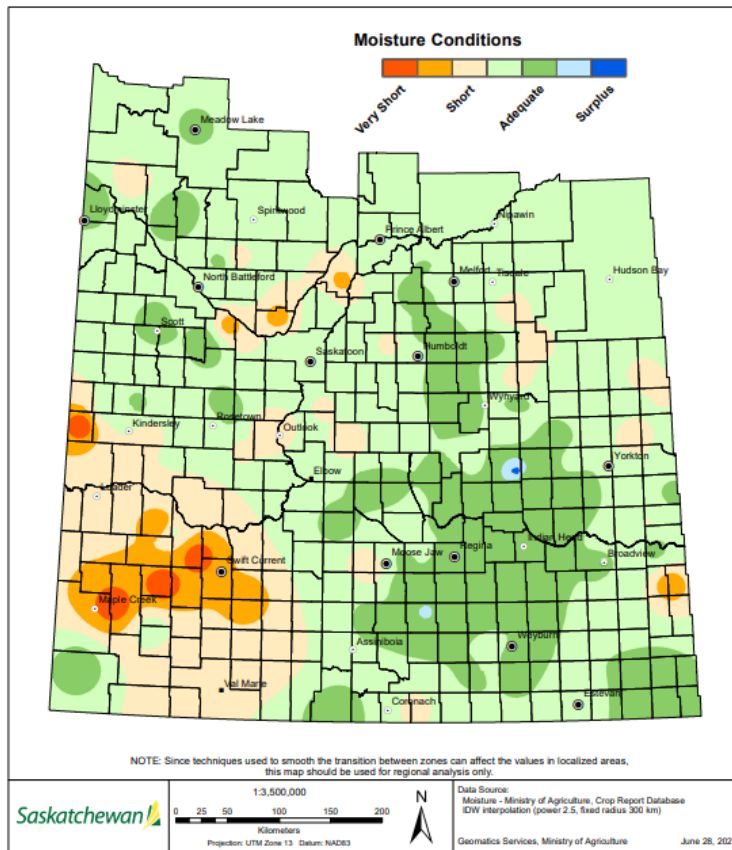
## Saskatchewan Spring Wheat Condition



Source: based on Sask Ag data

## Cropland Topsoil Moisture Conditions

June 26, 2023

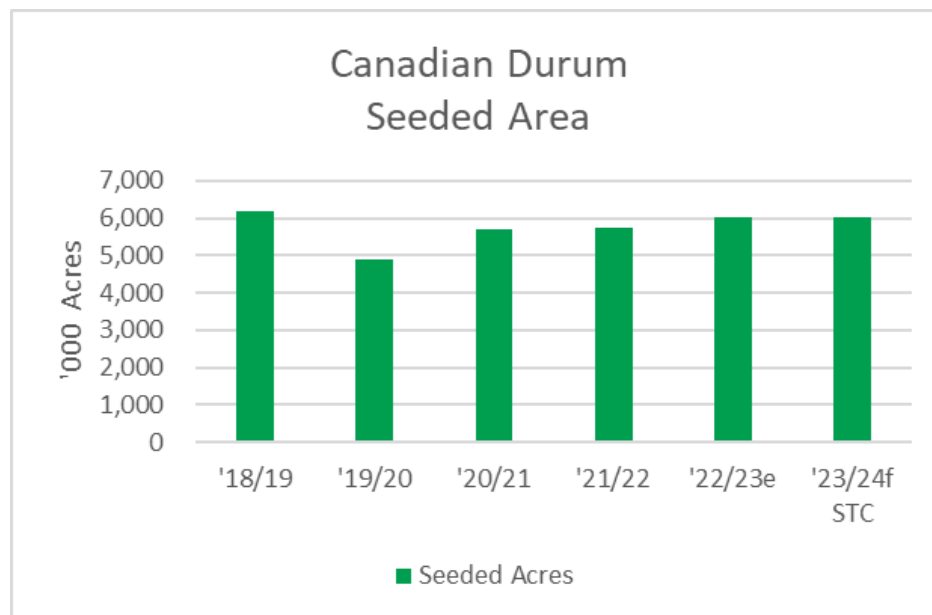


- Canadian week 47 wheat exports were 357.7k mt for a season total of 17.8 million mt. Exports in week 47 were largely in-line with the pace needed to meet the AAFC's 19.6 million mt export projection. The export pace will likely pick up further as producers have been delivering wheat at a rapid pace since seeding completed. There was another 534.4k mt of wheat delivered into the elevator system in week 47, causing visible supplies to grow by another 200k mt to 2.2 million mt.

(CGC) Grain Handling Summary Wheat		Week 47 (June 25, 2023)		
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 47	534.4	542.9	357.7	114.3
Week ago	444.7	373.3	384.1	134.5
YTD	20,688.5	21,189.6	17,771.8	4,139.9
Last YTD	13,498.8	13,189.3	10,077.7	3,688.6
<b>YTD less Last YTD</b>	<b>7,189.7</b>	<b>8,000.3</b>	<b>7,694.1</b>	<b>451.3</b>
<b>YTD over Last YTD</b>	<b>153%</b>	<b>161%</b>	<b>176%</b>	<b>112%</b>

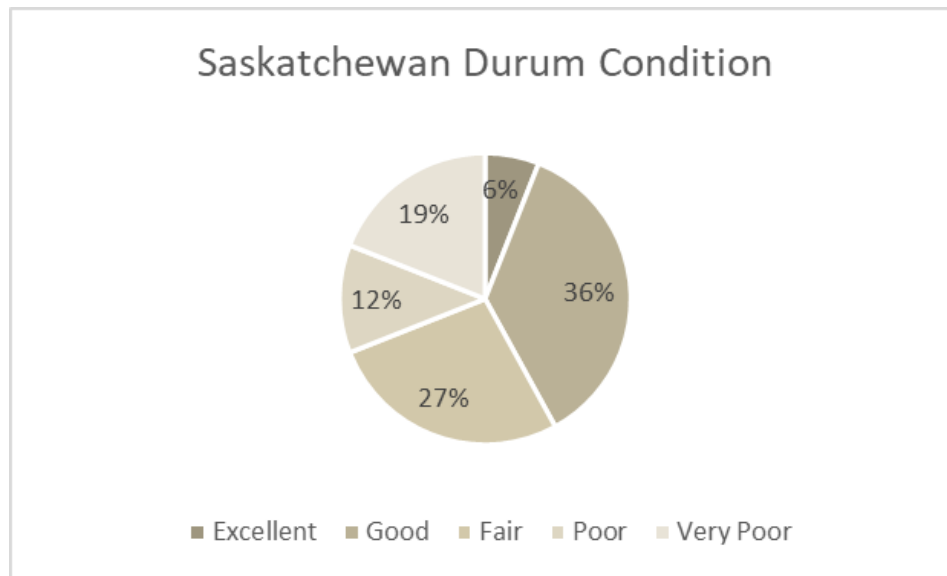
Source: Based on CGC data

- Durum:** Stats Canada reduced its seeded area for Canadian durum by 28k acres to 6.0 acres. This is essentially unchanged from last year compared to our estimate for a one per cent increase.



Source: Based on STC data

- The condition of Canada's durum crop has been deteriorating. Crop conditions in Alberta fell by 16 per cent over the past two weeks to 47 per cent Gd/Ex. Soil moisture conditions in Alberta's Southern region fell by 11 per cent from last week to 25 per cent Gd/Ex. Saskatchewan's crop condition fell by 30 points over the past two weeks to 42 per cent Gd/Ex.



Source: Based on Sask Ag data

- Canada has now shipped all the 4.8 million mt of durum that the AAFC was expecting. We think that exports will be closer to 5.0 million mt which would draw ending stocks down to a record low.

(CGC) Grain Handling Summary Durum		Week 47 (June 25, 2023)		
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 47	78.8	69.2	66.7	3.3
Week ago	111.5	56.0	137.3	3.0
YTD	4,875.6	5,549.3	4,814.0	596.9
Last YTD	2,316.5	2,761.9	2,334.7	409.2
<b>YTD less Last YTD</b>	<b>2,559.1</b>	<b>2,787.4</b>	<b>2,479.3</b>	<b>187.7</b>
<b>YTD over Last YTD</b>	<b>210%</b>	<b>201%</b>	<b>206%</b>	<b>146%</b>

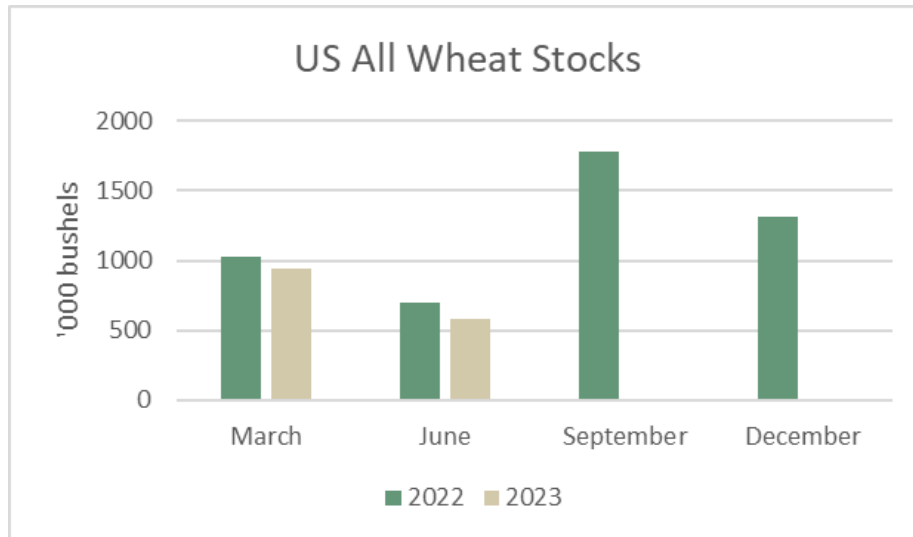
Source: Based on CGC data

- *Domestic durum stocks are tight, global demand in the coming year will be strong, and the Canadian crop is not made yet. We are sold out of old crop and would wait before selling additional new crop.*

**U.S. Wheat:**

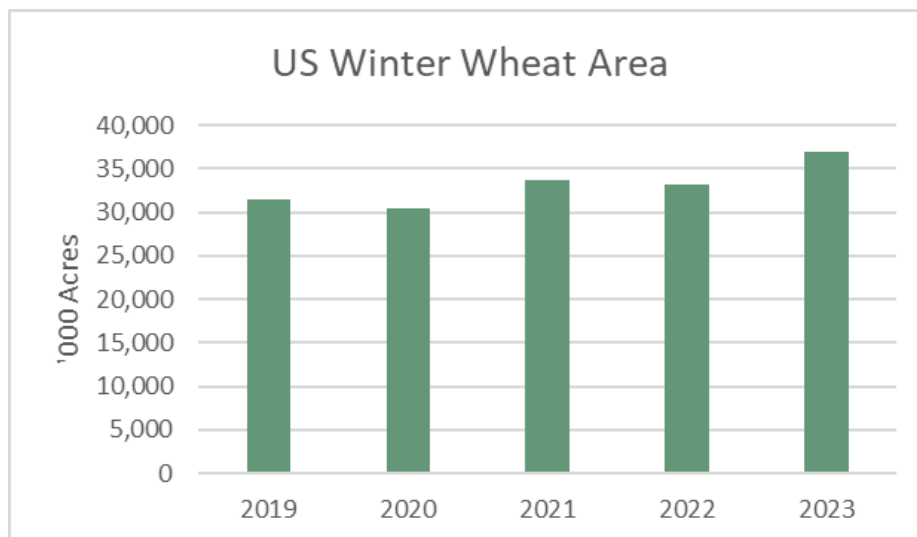
- Wheat futures were lower leading into the USDA reports on weak export sales. The USDA stocks report showed a further tightening of US wheat stocks, but the acreage report showed all wheat harvested areas rising by 600k acres. Bearish corn area numbers also pressured wheat markets.
- U.S. export sales were 155k mt (5.7 million bushels) for a season total of 212 million bushels, down 27 per cent from last year.

- The USDA put U.S. June 1 all wheat stocks at 580 million bushels, down 17 per cent from last year. This is a 16-year low for this time of year. March-May indicated disappearance is 366 million bushels, up 11 per cent from last year.



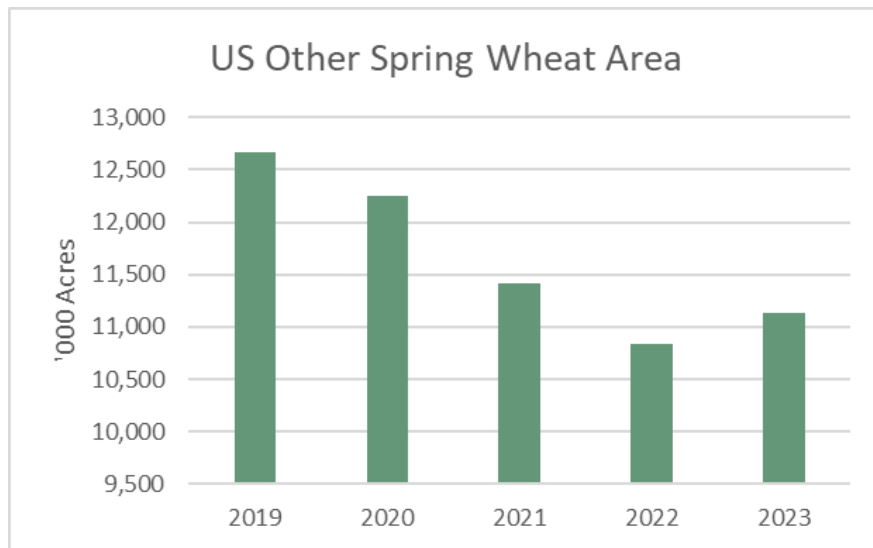
Source: based on USDA data

- U.S. wheat area was reduced by 227k acres to 49.6 million acres, up nine per cent (3.9 million acres) from last year. A large increase in the spring wheat area was partially offset by the lower durum wheat area. Winter wheat planting was reduced by 500k acres, but at 37 million acres, is still up 11 per cent from last year. Despite the smaller planting number, the USDA raised wheat harvested area by 600k acres.



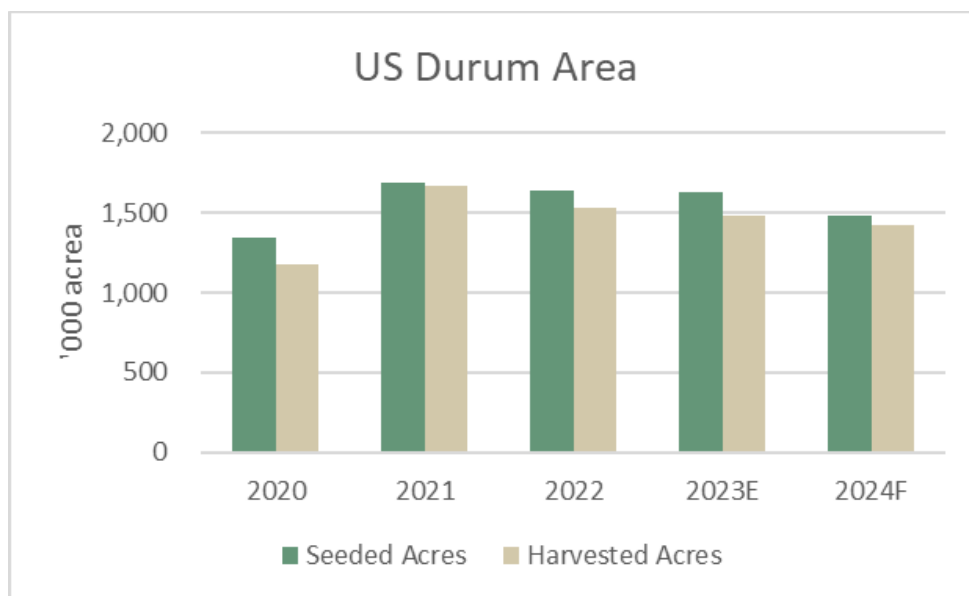
Source: based on USDA data

- The U.S. winter wheat harvest rose 10 per cent over the week to 25 per cent complete (33 per cent average).
- The USDA raised the U.S. spring wheat area by 570k acres to 11.1 million acres. The increase switched U.S. spring wheat acres from a two per cent decrease to a three per cent increase from last year.



Source: based on USDA data

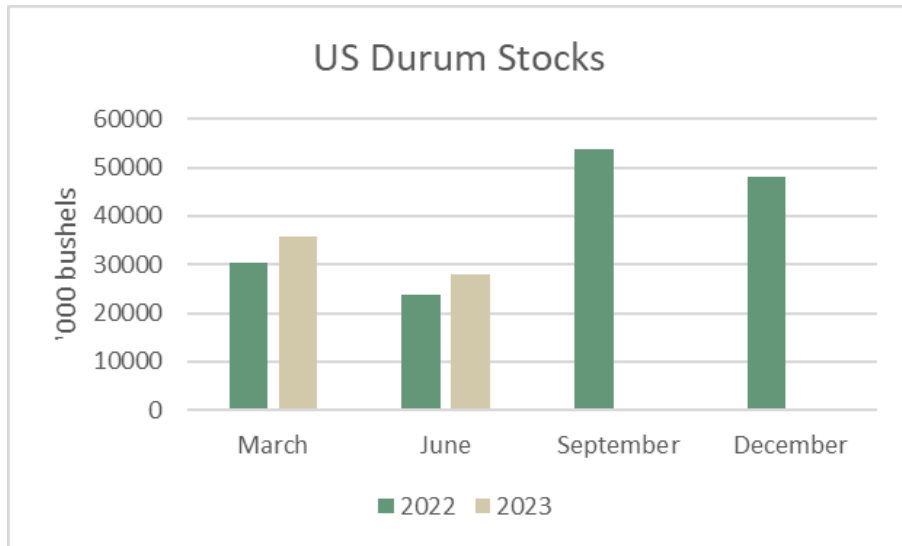
- The condition of the U.S. spring wheat crop fell by three per cent over the past two weeks to 48 per cent Gd/Ex. Fifty-one percent of the crop has headed, which is six per cent ahead of average.
- Fifteen per cent of the U.S. spring wheat crop is under drought conditions which is unchanged from last week. North and South Dakota received about two inches of rain last week which will improve this.
- The USDA is expecting that 2023 **durum** area in the U.S. will shrink by nine per cent from last year to 1.5 million acres. Harvested areas are only expected to fall by four per cent. A return to trend yield would cause U.S. durum production to be like last year.



Source: based on USDA data

- U.S. durum stocks as of June 1 were 28.0 million bushels, up 18 per cent from last year. Most of the increase in stocks are on farms, where stocks are up by 38 per cent from last year. Off-farm stocks are up by just six per cent. Mar.-May indicated disappearance was 7.8 million bushels, up 18 per cent from last year.





Source: based on USDA data

- The durum crop in North Dakota is 73 per cent Gd/Ex, down three per cent from last week, while Montana's crop is 37 per cent good, up nine points from last week.
- U.S. HRS for August 2023 was valued at \$333.50/mt FOB PNW (*down \$26.60/mt from last week*), FOB Gulf HRW 11/12.5 pro is valued at \$324.90/mt (*down 31.90/mt from last week*).

**Australian Wheat:**

- Seeding is complete in Australia. Farmers and traders alike are anxiously watching the weather and the potential impact of the El Niño.
- FOB values in Australia: August 2023 AWP, WA is valued at \$305.00/mt (*up \$5.00/mt from last week*).

**Argentine Wheat:**

- BAGE decreased seeded area in Argentina to 6.0 million hectares. BAGE has decreased seeded area in the country by 300k hectares over the past two weeks. Planting is now 72 per cent complete.
- Crop condition ratings in Argentina fell by two points to 28 per cent Gd/Ex.
- New crop wheat sales in Argentina are just 500k mt compared to 4.8 million mt this time last year.

**EU Wheat:**

- MATIF wheat futures fell to a one-month low as cash trade remains thin and there was more optimism that the Black Sea Corridor would be extended.
- French durum crop ratings fell by eight per cent to 69 per cent Gd/Ex.
- EU FOB prices: August 2023 French 11.5 pro wheat closed at \$249.30/mt (*down \$22.50/mt from last week*); August 2023 German 12.5 pro wheat closed at \$257.90 (*down \$27.50/mt from last week*); August 2023 Baltic 14.0 pro wheat closed at \$266.30/mt (*down \$27.40/mt from last week*).

**Black Sea Wheat:**

- A survey of Ukrainian farmers put their wheat production at 23-24 million mt. This compares to both the Ag Min and USDA's respective 17 million mt and 17.5 million mt estimates.
- Russia's Rosstat is estimating winter kill of the Russian winter wheat crop will be upwards of four point three per cent compared to one per cent last year.

- The Russian Ag Min is leaving their production estimate at 78 million mt (vs the USDA's 85 million mt and MARS 86.7 million mt) because of the possible impact of inclement weather.
- There was increased optimism last week that the Black Sea Corridor would be extended. The EU is considering concessions for a sanctioned Russian bank to salvage the grain deal. No new Ukrainian ships have entered the trade corridor since June 26.
- Russian 12.5 pro wheat showed some strength being offered at \$235.00/mt (*up \$5.00/mt from last week*).

➤ **Significant purchases/ trades:**

- We suspect **Morocco** bought 300-400k mt of optional origin wheat, but we don't have this confirmed or the price.
- The **Baltic Dry Index** (BDI) decreased by 12 per cent over the week, ending at 1,091. Demand remains slow as Singapore and the Middle East are on holidays.

➤ **Wheat Market Outlook:**

**Significant events over the past week:**

- Corn and wheat futures markets fell heavily following the **USDA reports and forecasts for rain**. The USDA reports were largely neutral for wheat, but corn area was seen growing by 2.1 million acres to 94.1 million acres, up six per cent from last year.
- **Port workers in B.C.** went on strike on July 1 sparking concern about Canada's supply chain.
- **The EU is considering concessions to a sanctioned Russian bank** in an attempt to renew the Black Sea Grain Initiative that expires on July 17. Until recently, many have been saying that the chances of the deal being extended were slim.

**Outlook:**

It will be a short week with U.S. traders on Holiday. In Mercantile's view, futures still need some adjustment to line up with cash prices and North American seeded area. In Mercantile's view, North American prices will not improve much until the New Year unless there is a major weather event.

*We are 60 per cent sold expected new crop production and would hold additional sales for now.*

**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 4, 2023

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Sept '23 (bu.)	Sept '23 (mt.)
1 CWRS 13.5	\$10.08	\$370.38	1 CWRS 13.5	\$9.34	\$343.19
1 CWAD 13.0	\$10.62	\$390.22	1 CWAD 13.0	\$9.66	\$354.95
1 CPSR 11.5	\$9.54	\$350.54	1 CPSR 11.5	\$8.70	\$319.67
SW Sask			SW Sask		
1 CWRS 13.5	\$9.92	\$364.50	1 CWRS 13.5	\$9.35	\$343.56
1 CWAD 13.0	\$10.64	\$390.96	1 CWAD 13.0	\$9.67	\$355.31
1 CPSR 11.5	\$9.37	\$344.29	1 CPSR 11.5	\$8.63	\$317.10
NE Sask			NE Sask		
1 CWRS 13.5	\$9.82	\$360.83	1 CWRS 13.5	\$9.02	\$331.43
1 CWAD 13.0	\$10.68	\$392.43	1 CWAD 13.0	\$9.63	\$353.84
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a
SE Sask			SE Sask		
1 CWRS 13.5	\$9.78	\$359.36	1 CWRS 13.5	\$9.07	\$333.27
1 CWAD 13.0	\$10.62	\$390.22	1 CWAD 13.0	\$9.55	\$350.91
1 CPSR 11.5	\$9.11	\$334.74	1 CPSR 11.5	\$8.37	\$307.55

Data source: PDQ, July 4, 2023

**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 4, 2023

#### **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 U.S. 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.

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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.”

- 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)
  
- 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 one 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, U.S. & Canadian Dollars per MT**

Relevant FOB Prices and Export Basis				July 4, 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	\$433.31	\$8.87		
HRS	\$427.28			
HRW 11.5	\$414.87			
SWW 12.0	\$346.45			
1 CWRS 13.5 <sup>3</sup>	\$433.31		\$365.97	\$67.34
2 CWRS 13.0 <sup>3</sup>	\$427.28		\$354.95	\$72.33
3 CWRS <sup>3</sup>	\$414.87		\$340.25	\$74.62
CPS <sup>3</sup>	\$339.66		\$328.12	\$11.54
1 CWAD <sup>4</sup>		\$9.93	\$389.49	\$92.35
<b>Competing wheat:</b>				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$235.00		August	
French 11.5 (Rouen)	\$249.30		August	
APW 10.5 (W Coast)	\$305.00		August	
Argentine 12.5				
<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				