

## Wheat Market Outlook and Price Report: March 13, 2023

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

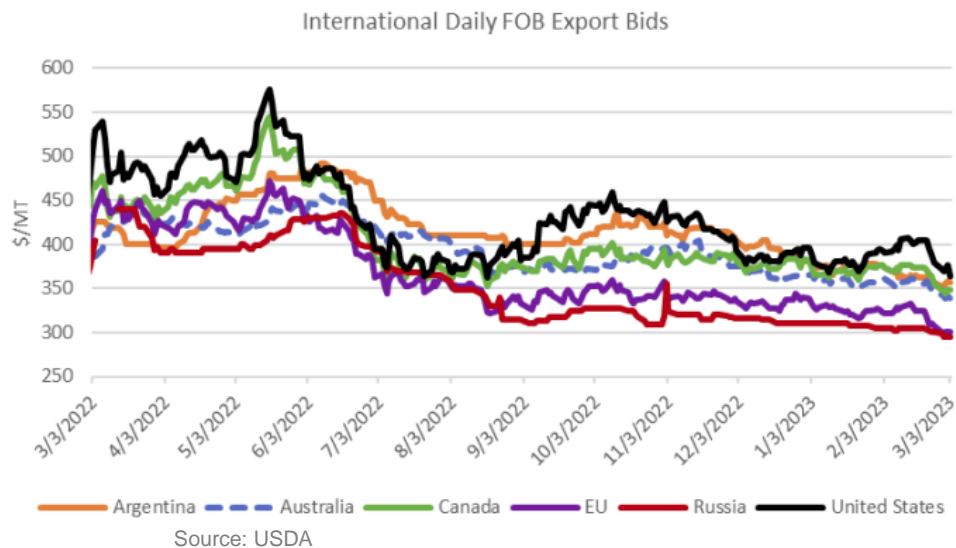
### **i) Background and Rationale for the Report**

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 March 13, 2023**

#### **Global Wheat Prices: March WASDE**



- Global wheat prices fell dramatically from early last month. The declines were largely driven by large exportable supplies and improved weather in winter wheat growing regions.
- The US saw the largest decline in their wheat prices which fell by an average of \$27/mt over the month because of slow exports, moisture in the winter wheat belt and rising currency.
- Declines in US prices were closely followed by a \$25/mt drop in Canadian wheat values.
- Wheat prices in Australia fell by \$22/mt over the month as prices in other origins fell and the full extent of their record wheat crop was realized.
- Argentina's wheat prices fell \$16/mt over the month. Wheat values were pressured by competition from Brazil but remain supported by low domestic production.
- Black Sea wheat is \$10/mt cheaper than last month and won most of the large wheat tenders in February. Competition from the Black Sea caused EU prices to fall by \$21/mt in February.

➤ **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:**

- March '23 contract **Chicago winter wheat** closed at \$679-2, up 13-4 cents Friday, *down 29-4 cents on the week.*
- March '23 contract **Kansas hard red winter wheat** closed at \$789-2, up 21-0 cents on Friday, *down 18-0 cents on the week.*
- March '23 **Minneapolis hard red spring wheat** closed at \$824-4, up 7-0 cents on Friday, *down 48-2 on the week.*
- *US wheat futures are currently trading 11 to 16 cents higher at the time of writing.*

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



**KC May 2023 Wheat**

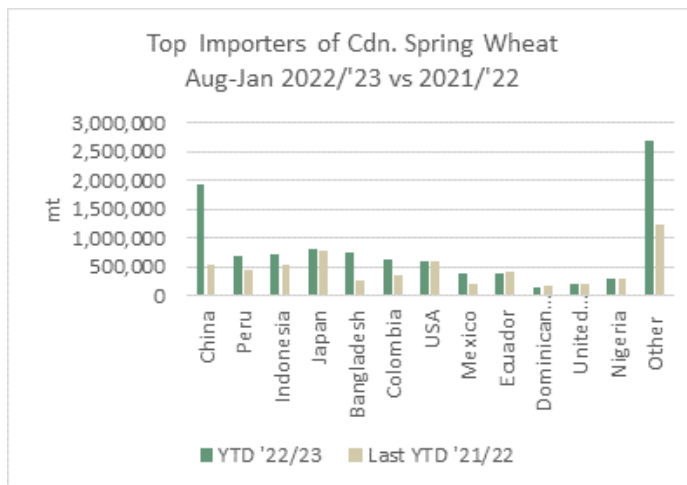


**Mpls. May 2023 Wheat**



**Canadian Wheat**

- Canadian wheat exports in January were 1.9 million mt, which was the second highest monthly volume so far this marketing year.
- Japan was the largest customer, followed by Peru at 219.3k mt and 215.2k mt respectively.
- Chinese imports in January were down to 169.0k mt which was only 40 per cent of the average monthly volume they have been doing so far this year. With that said, their total wheat imports as of January are 368 per cent more than this time last year.



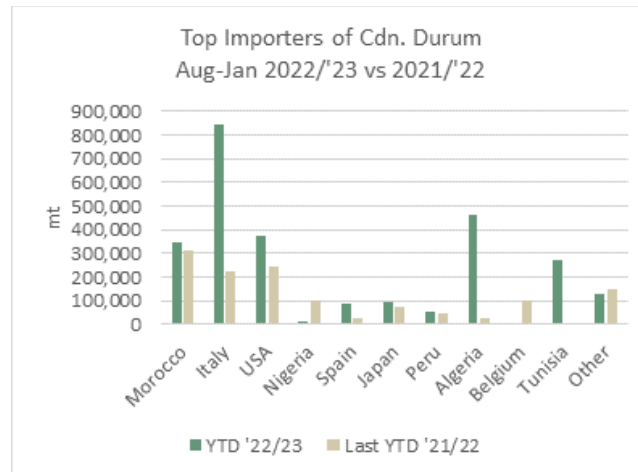
Source: Based on Stats Canada data

- Week 31 exports were large at 463.8k mt for a season total of 4.7 million mt, up 67 per cent from last year. Producer deliveries were also strong which allowed visible supplies to remain large (above 3.0 million mt).

(CGC) Grain Handling Summary Wheat			Week 31 (Mar. 5'23)	
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Week 31	565.3	373.7	463.8	42.6
Week ago	304.7	389.0	396.2	42.7
YTD	14,777.1	13,889.6	11,816.7	2,549.7
Last YTD	9,923.4	9,000.2	7,082.8	2,484.7
<b>YTD less Last YTD</b>	<b>4,853.7</b>	<b>4,889.4</b>	<b>4,733.9</b>	<b>65.0</b>
<b>YTD over Last YTD</b>	<b>149%</b>	<b>154%</b>	<b>167%</b>	<b>103%</b>

Source: Based on CGC data

- **Durum:** We expected January durum exports to be strong, but it was impressive to see the numbers come out. Stats Canada is showing that Canada exported 808.1k mt of durum during January 2023. This is a record monthly amount and especially strong for January when Canadian durum exports are usually at their seasonal low. The two major importers in January were Algeria and Tunisia which bought 276.9k mt and 108.3k mt of durum, respectively.



Source: Based on Stats Canada data

- Durum exports in week 31 were smaller at 68.2k mt. Producer deliveries were 170.2k mt as exporters build stocks for the spring shipping season. Visible supply rose to 673.2k mt over the week.

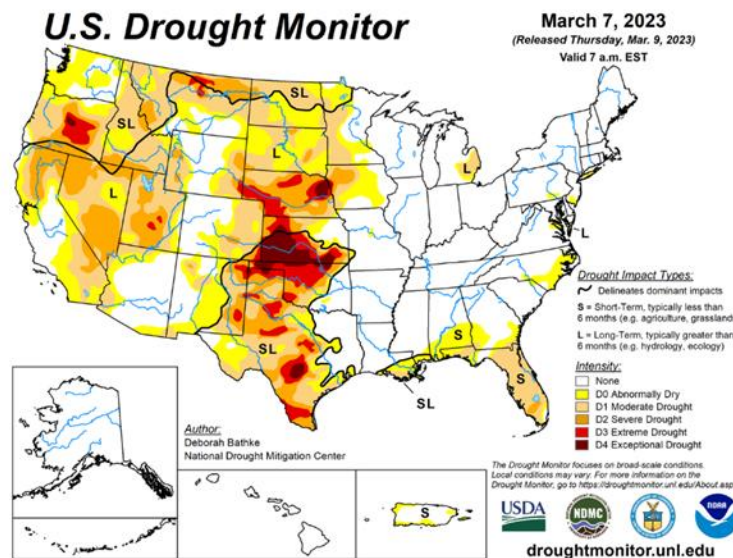
(CGC) Grain Handling Summary Durum			Week 31	(Mar. 5'23)
('000 mt)	Prod. Dlvrs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Week 31	170.2	96.8	68.2	7.6
Week ago	75.0	104.6	137.3	5.1
YTD	3,699.3	3,694.9	3,270.2	375.5
Last YTD	1,787.4	2,077.0	1,503.8	278.2
<b>YTD less Last YTD</b>	<b>1,911.9</b>	<b>1,617.9</b>	<b>1,766.4</b>	<b>97.3</b>
<b>YTD over Last YTD</b>	<b>207%</b>	<b>178%</b>	<b>217%</b>	<b>135%</b>

Source: Based on CGC data

- New crop durum is 20 per cent sold. There is some strong local demand by exporters who have a new crop program on. In these cases, we would get up to 40 per cent sold.

**US Wheat:**

- The USDA left the US wheat balance sheet entirely unchanged.
- US weekly commercial sales were at the low end of trade expectations at 266.7k mt (9.8 million bushels). Total commitments are now 639 million bushels, down 6.4 per cent from last year compared to the USDA's (unchanged) 3.1 per cent expected decline. Average weekly sales needed to meet the USDA's 775 million bushel estimate are just 3 million bushels per week.
- Persistent drought remains over a large swath of the southern plains, but heavy rain brought relief to parts of southeast Kansas.



Source: US Drought Monitor

- US HRS for April '23 was valued at \$357.30/mt FOB PNW (down \$21.60/mt from last week), FOB Gulf HRW 11/12.5 pro is valued at \$346.20/mt (down \$17.90/mt from last week).

#### Australian wheat:

- The USDA increased Australia's 2022/'23 wheat crop by 1.0 million mt to 39.0 million mt. Exports were raised by 500k mt to 28.5 million mt and the remainder of the increase in supply went into ending stocks.
- ABARES is estimating that next year's wheat crop will be 28.2 million mt compared to local trader's thoughts of ~25 million mt. Seeded area and trend yields support a 28 million mt number (or better), but local traders say they expect the La Nino will cause yields to fall below trend.
- FOB values in Australia: April '23 AWP WA is valued at \$320.00/mt (*unchanged from last week*).

#### Argentine wheat:

- The USDA increased their estimate for Argentina's wheat crop by 400k mt from last month to 12.9 million mt while decreasing the country's exports by 1.0 million mt to 6.5 million mt.
- With recent decreases in Argentina's corn and soybean crops, the country's grain production may fall by upwards of 50 million mt from last year.

#### EU wheat:

- MATIF wheat futures are trading at levels that have not been seen since before the risk of war in Ukraine was being talked about.
- The USDA left the EU wheat balance sheet unchanged which means they are still overestimating the volume of EU exports.
- FOB prices in the EU: April '23 French 11.5 pro wheat closed at \$288.40/mt (*down \$12.50/mt from last week*); April '23 German 12.5 pro wheat closed at \$290.40 (*down \$13.60/mt from last week*); April '23 Baltic 14.0 pro wheat closed at \$305.10/mt (*down \$18.60/mt from last week*).

#### Black Sea wheat:

- The USDA left Russia's wheat balance sheet unchanged. A slight decrease in Ukraine's 2022/'23 beginning stocks resulted in a respective decrease in its ending stocks.
- The Black Sea Grain Initiative expires on March 18<sup>th</sup>. There has been a lot of posturing leading up to the negotiations, but the trade evidently believes that it will be renewed.
- Russia continues to export wheat at a remarkable pace. Russian wheat exports have reached 33 million mt and some think they could export as much as 46 million mt this season. The USDA left their export number for Russia at 43.5 million mt.

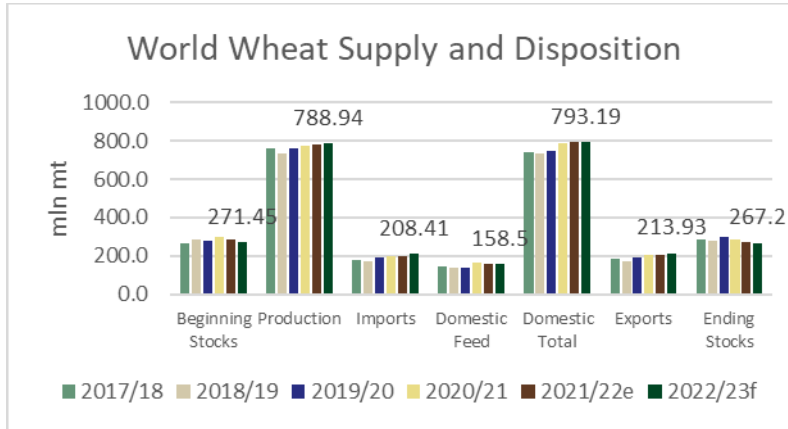
#### ➤ Significant purchases/ trades:

- **Turkey** bought 750k mt of March-May wheat in their scheduled tender on Tuesday from Ukraine and Russia.
- **Saudi Arabia** is tendering for 480k mt. The results should be out Monday evening.

#### ➤ Wheat Market Outlook:

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

- **The USDA/WASDE March report was released on Wednesday.** The USDA raised global production by 5 million mt from last month. The increase was led by a 2.4 million mt increase in Kazakhstan and a surprise 1 million mt increase in India. Production in Kazakhstan has climbed to 16.4 million mt which is 40 per cent more than last year. India's crop is expected to be 104 million mt which is 5 per cent less than last year (India's government is forecasting a 112 million mt crop which is too high). The USDA maintained their 92 million mt Russian production number. The entirety of the increase in production was offset by 5 million mt smaller beginning stocks because of higher Chinese feed demand in 2020/21. Global consumption was raised by 2.0 million mt, and exports were 1.0 million mt higher (now 6 per cent above last year). Ending stocks were 2.1 million mt lower than last month at 267.2 million mt, down 2 per cent from last year.



Source: Based on USDA data

**Outlook:**

Wheat was lower following the USDA report. The Russian delegation will meet with the UN to discuss their side of the Grain Corridor export deal on March 13th. We assume the corridor is going to be left open. If left open, it is neutral to bearish. If it's not, it is bullish. The exchange in local currencies is high, so demand will remain slow. Keep in mind European new crop is available in July, and the weather is benign. Old crop carryovers will be at their minimum, putting pressure on any inverse. – *Mercantile is sold out on current crop and will wait on weather developments before selling additional new crop.*

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

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

Date: March 13, 2023

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		May '23 (bu.)	May '23 (mt.)
1 CWRS 13.5	\$10.87	\$399.41	1 CWRS 13.5	\$10.84	\$398.30
1 CWAD 13.0	\$12.45	\$457.46	1 CWAD 13.0	\$12.39	\$455.26
1 CPSR 11.5	\$10.34	\$379.93	1 CPSR 11.5	\$10.39	\$381.77
SW Sask			SW Sask		
1 CWRS 13.5	\$10.67	\$392.06	1 CWRS 13.5	\$10.69	\$392.79
1 CWAD 13.0	\$12.42	\$456.36	1 CWAD 13.0	\$12.35	\$453.79
1 CPSR 11.5	\$10.13	\$372.22	1 CPSR 11.5	\$10.24	\$376.26
NE Sask			NE Sask		
1 CWRS 13.5	\$10.63	\$390.59	1 CWRS 13.5	\$10.56	\$388.02
1 CWAD 13.0	\$12.28	\$451.22	1 CWAD 13.0	\$12.26	\$450.48
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a
SE Sask			SE Sask		
1 CWRS 13.5	\$10.53	\$386.91	1 CWRS 13.5	\$10.52	\$386.55
1 CWAD 13.0	\$12.35	\$453.79	1 CWAD 13.0	\$12.33	\$453.05
1 CPSR 11.5	\$10.03	\$368.54	1 CPSR 11.5	\$10.10	\$371.11

Data source: PDQ, Mar. 13/23

**Table 2: Grade Spreads, in Canadian Dollars per Bu and per MLN 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, Mar. 13/23

#### **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/mln mt. During the 2013/14 crop year the export basis for wheat widened to approximately C\$250/mln 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*

<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.

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/mtn 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
  - 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.

---

“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.”



**Table 3: Relevant FOB Prices and calculated Basis, US & Canadian Dollars per MT**

Relevant FOB Prices and Export Basis				March 13, 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	\$481.78	Closed		
HRS	\$475.45			
HRW 11.5	\$477.28			
SWW 12.0	\$414.74			
1 CWRS 13.5 <sup>3</sup>	\$481.78		\$392.43	\$89.36
2 CWRS 13.0 <sup>3</sup>	\$475.45		\$381.40	\$94.05
3 CWRS <sup>3</sup>	\$477.28		\$368.54	\$108.74
CPS <sup>3</sup>	\$407.74		\$303.87	\$103.87
1 CWAD <sup>4</sup>		Closed	\$459.30	
Competing wheat: US\$/mt				
Russia 12.5 (Black Sea, 25k mt)	\$290.00		April	
French 11.5 (Rouen)	\$288.40		April	
APW 10.5 (W Coast)	\$320.00		April	
Argentine 12.5	\$340.00		April	
<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				