

Wheat Market Outlook and Price Report: May 8, 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 May 8, 2023

Agricultural Market Information System ¹ (AMIS) view of the 2022/2023 Global Wheat Market:

	FAO-AMIS			USDA		IGC		IN MILLION TONNES
	2021/22 est	2022/23 f'cast		2021/22 est	2022/23 f'cast	2021/22 est	2022/23 f'cast	
		6 Apr	4 May					
Wheat Prod.	777.5	796.6	800.4	779.1	789.0	781.0	801.0	
	640.6	658.9	662.7	642.2	651.3	644.0	663.3	
Supply	1070.7	1090.5	1094.8	1065.5	1061.1	1057.8	1075.6	
	803.3	818.9	823.2	789.4	786.6	793.6	806.0	
Utiliz.	773.8	780.1	781.5	793.4	796.1	783.3	789.3	
	631.0	638.4	639.3	645.4	650.1	642.1	649.8	
Trade	195.7	199.4	200.1	205.4	210.4	196.8	199.1	
	186.0	188.4	188.6	195.8	198.4	187.0	189.4	
Stocks	294.5	309.5	309.7	272.1	265.1	274.6	286.2	
	160.5	168.3	169.0	135.3	125.5	141.7	146.6	

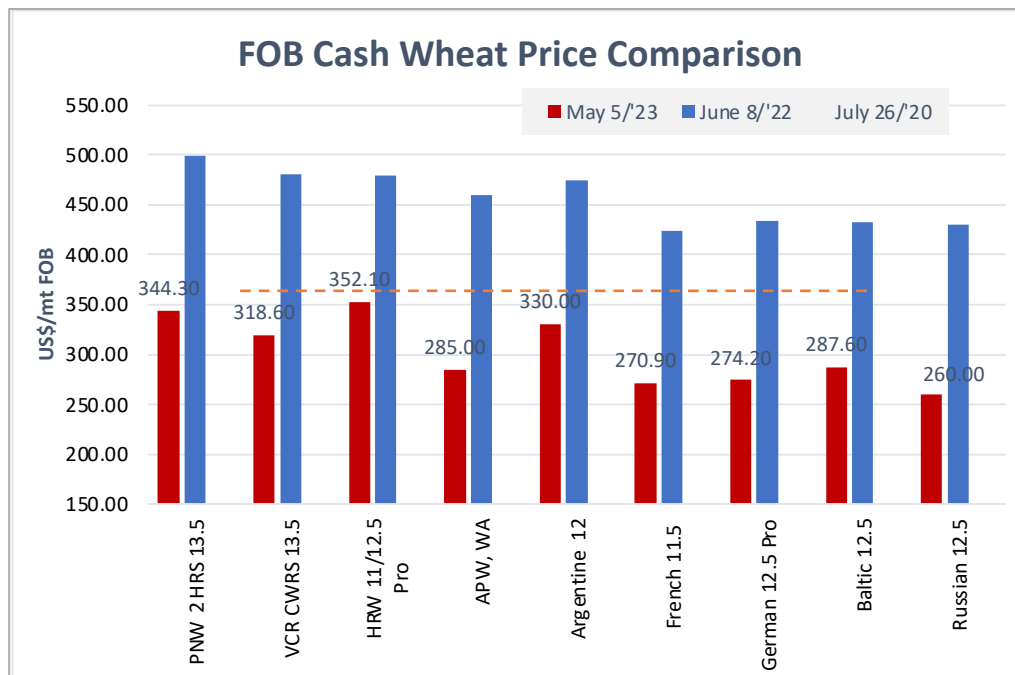
Source: AMIS

- AMIS increase the current crop **global wheat production** by another 4 million mt, led by higher production in Kazakhstan. Total 2022/2023 global output at 800 million mt is two point nine per cent more than the 2021/2022 season.

¹ AMIS: Agricultural Market Information System. Input comes from the ten organizations that form the AMIS Secretariat: FAO, IFAD, IFPRI, IGC, OECD, UNCTAD, World Bank Group, WFP, WTO, GLAM.

- **Wheat utilization** in 2022/2023 was also raised by four point three million mt. The increase was largely from more use in India and the EU. Total use of 1,095 million mt is one per cent higher than last year.
- **Wheat trade** in 2022/2023 was raised only slightly to 200 million mt. The increase was from the strong pace of imports by the EU and China and large exports from Russia.
- **Global wheat stocks** were slightly (200k mt) higher at 309.7 million mt. This is still five point two per cent more than last year. Stocks were seen building in Kazakhstan because of their bigger crop, but this was mostly offset by smaller stocks in Russia.

FOB Wheat Price Comparison



- FOB wheat prices have adjusted further led by Russian wheat at U.S.\$260/mt FOB.
- Spring wheat off the West Coast/PNW is cheaper than HRW in the Gulf.
- For new crop, U.S. SRW is currently only about \$5/mt higher priced to Russian wheat, albeit only on a FOB basis.

➤ 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:

- July 2023 contract **Chicago winter wheat** closed at \$660-2, up 15-2 cents on Friday, *up 26-4 cents on the week.*
- July 2023 contract **Kansas hard red winter wheat** closed at \$833-0, up 34-6 cents on Friday, *up 56-6 cents on the week.*
- July 2023 **Minneapolis hard red spring wheat** closed at \$836-0, up 24-0 cents on Friday, *up 32-2 cents on the week.*
- *U.S. wheat futures are currently trading 13 cents higher to 2 cents lower at the time of writing.*

Chicago July 2023 Wheat (1 yr.)



Kansas July 2023 Wheat



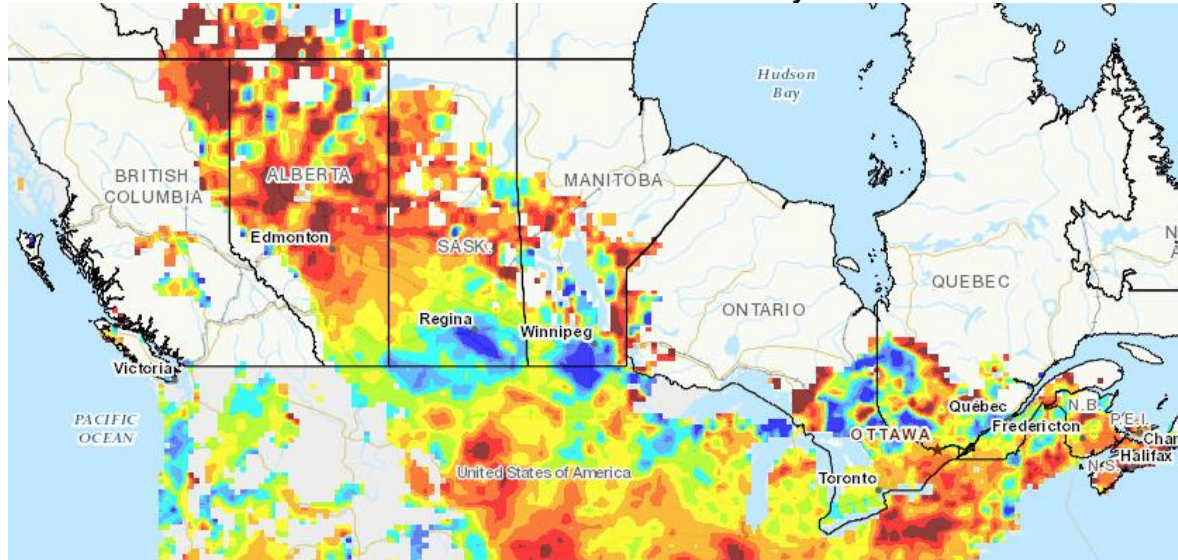
Minneapolis July 2023 Wheat



Canadian Wheat

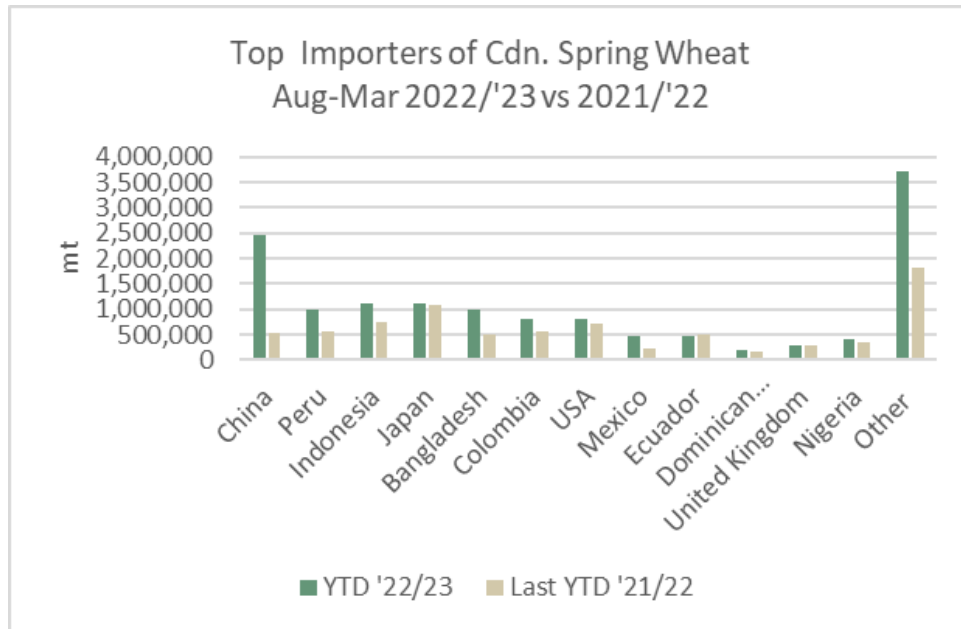
- Spring wheat prices were supported last week as seeding progress continues to be slow and a large swath of the Canadian Prairies is dry.

Per cent Saturated Surface Soil Moisture Weekly Anomalies



Source: AAFC

- Stats Canada released their export numbers for the month of March. They showed a season high of two point two million mt of wheat being exported during the month. Indonesia and China were the top customers at 275.7k mt and 272.2k mt, respectively. China has now imported a total of two point five million mt of Canadian wheat from August-September, more than three and a half times of last year. Exports to “other” countries were also high in March at 668.1k mt. These countries have imported a combined three point seven million mt, which is two times more than last year. Canadian exports from August-March total 13.8 million mt, which is the same pace as in the 2020/2021 season when Canada shipped a total of 20.5 million mt. The AAFC’s current 2022/2023 projection is 19.6 million mt.



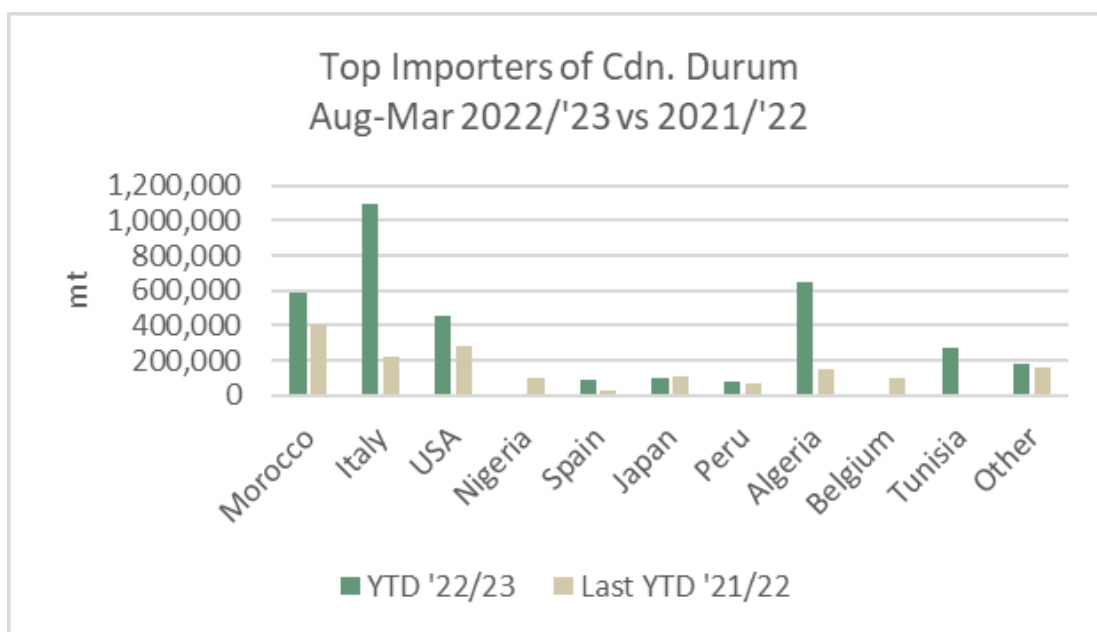
Source: Based on Stats Canada data

- The CGC reported that Canada exported a large, 572.9k mt, of wheat in shipping week 39. Year-to-date exports as of week April 30 are now 15.3 million mt. This compares with the 2020/2021 season (as mentioned above) when 15.1 million mt of wheat had been shipped as of week 39. The average export pace for the season is 393.4k mt of wheat per week. If we maintain this pace for the remainder of the season, we will export a total of 20.5 million mt. good exports would lower the carry-out to around three million mt, similar to last year's record low

(CGC) Grain Handling Summary Wheat			Week 39	(Apr. 30'23)
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Week 39	275.4	485.9	572.9	136.7
Week ago	266.5	514.7	499.1	138.7
YTD	18,067.2	17,898.4	15,341.6	3,281.2
Last YTD	12,131.6	11,013.0	8,517.1	3,059.2
YTD less Last YTD	5,935.6	6,885.4	6,824.5	222.0
YTD over Last YTD	149%	163%	180%	107%

Source: Based on Stats Canada data

- Durum:** Stats Canada data shows that durum exports in March were 433.7k mt. Algeria imported 129.3k mt, for a season total of 648.4k mt. This is over three times more than last year's volume. Italy imported another 76.1k mt, for an August-March total of one point on million mt, almost four times more than last year.



Source: Based on Stats Canada data

- Durum exports in week 39 were strong again at 194.8k mt. The entirety of this was shipped through Vancouver. Freight from Vancouver to Europe and North Africa remains cheap compared to shipping through the Great Lakes.
- Canadian Durum exports will need to slow in the remaining quarter of the shipping season as supplies run short. We think there are another ~800k mt of exportable supplies to ship in the remaining 13 weeks of the marketing year. This means average weekly exports will be ~60k mt per week.

(CGC) Grain Handling Summary Durum		Week 39 (Apr. 30'23)		
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Week 39	44.9	134.2	194.8	13.7
Week ago	39.8	136.1	185.1	40.6
YTD	4,398.3	4,950.5	4,234.1	538.5
Last YTD	2,043.2	2,334.1	1,909.7	345.7
YTD less Last YTD	2,355.1	2,616.4	2,324.4	192.8
YTD over Last YTD	215%	212%	222%	156%

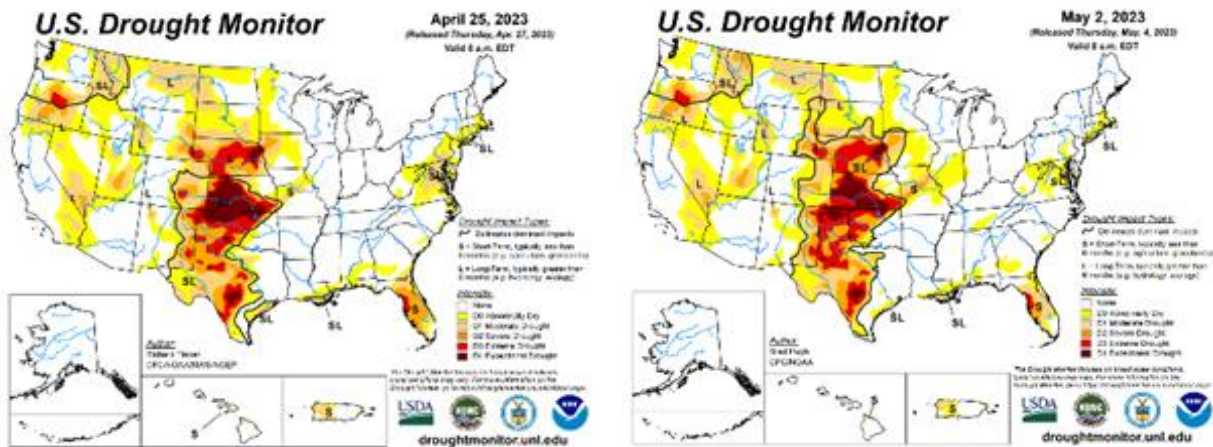
Source: Based on Stats Canada data

- *Old crop durum bids were slightly higher at \$12.00/bu. Mercantile is sold out of old crop and would wait before selling additional new crop.*

U.S. Wheat:

- Rain caused the condition of the U.S. winter wheat crop to gain two points over the week to 28 per cent Gd/Ex. One quarter of the U.S. winter wheat crop has headed.
- Last week's rain will continue to improve the condition of the U.S. winter wheat crop, but it seems like the impact will be muted. The rain helped drought conditions in parts of Colorado and southwest Kansas, but a large area of the winter wheat belt remains under extreme to exceptional drought.

**Weekly Change in Drought Conditions in the U.S.
Apr 25 – May 2**



- The Oklahoma crop tour is estimating that the state will produce 54.3 million bushels of wheat, which is 21 per cent less than last year. Other estimates are smaller at 40.7 million bushels.
- Commercial sales for the week ending April 27 were 211,100 mt (7.8 million bushels) for a total commitment number of 694.5 million bushels compared to the USDA's 775 million bushels estimate.
- U.S. HRS for June 2023 was valued at \$344.30/mt FOB PNW (up \$14.00/mt from last week), FOB Gulf HRW 11/12.5 pro is valued at \$352.10/mt (up \$12.10/mt from last week).

Australian Wheat:

- Wheat futures in Australia were lower for old crop, but higher for new crop. It appears Asian buyers are largely covered into September.
- Record high ocean temperatures continue to argue that an El Nino is coming, but so far Australia has seen good moisture conditions.
- FOB values in Australia: June 2023 AWP, WA is valued at \$285.00/mt (down \$10.00 from last week).

Argentine Wheat:

- BAGE did not make any changes to their wheat planting estimate despite ongoing dryness.
- New crop values in Argentina for December-January look competitive compared the U.S. prices for that time.

EU wheat:

- Dry conditions in the EU are spreading into France and Germany. This will need to be watched, but it seems like dryness has, so far, degraded the crop from an exceptionally strong condition to more average levels. France and Germany collectively account for roughly 40 per cent of EU wheat production.

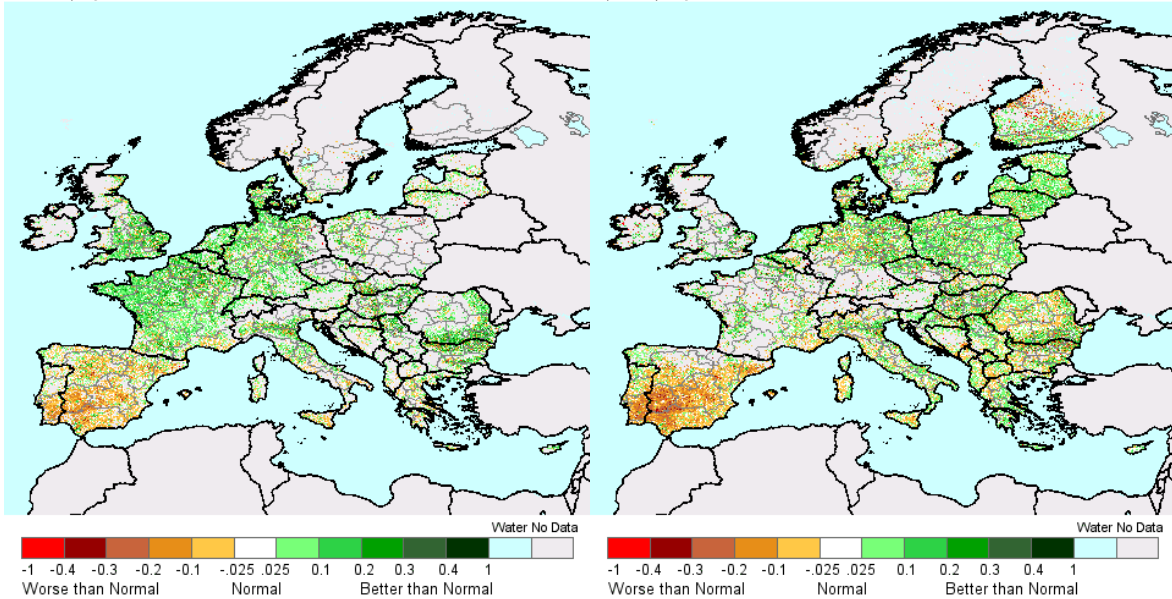
Change in Cropland NDVI in the EU during April

April 6, 2023

April 30, 2023

Cropland NDVI Departure from Average (VIIRS)
Mar. 30 - Apr. 6, 2023

NDVI Departure from Average (VIIRS)
Apr. 23 - Apr. 30, 2023



USDA Foreign Agricultural Service
U.S. DEPARTMENT OF AGRICULTURE

Source: NDVI VIIRS at 500-m
<https://www.jpss.noaa.gov/viirs.html>

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Source: NDVI VIIRS at 500-m
<https://www.jpss.noaa.gov/viirs.html>

- The UN's FAO expects the 2023/2024 wheat crop at 139.5 million tonnes for the EU, citing improved April rains. They had the world total output at 785 million tonnes for 2023/2024 and old crop ending stocks at 309.7 million tonnes.
- FOB prices in the EU: June 2023 French 11.5 pro wheat closed at \$270.90/mt (*up \$2.30/mt from last week*); June 2023 German 12.5 pro wheat closed at \$274.20 (*up \$2.30/mt from last week*); June 2023 Baltic 14.0 pro wheat closed at \$287.60/mt (*up \$2.30/mt from last week*).

Black Sea Wheat:

- The pace of shipments from Ukraine has slowed as the deadline to the trade corridor approaches. The current agreement for the Black Sea Trade Corridor expires on the 18th. Delegates from Turkey, Russia and Ukraine are in discussions for an extension. We will see. There has been lots of rhetoric from Russia that they will cancel the corridor if certain restrictions on Russia are not removed. These remain in place. The alleged attacks by Ukraine on Crimea and the Kremlin will also not help negotiations.
- A Ukrainian official said that the country's wheat crop in the upcoming season will produce 17 million mt (vs 21 million mt in 2022/23) and exports will be nine million mt (vs 14.5 million mt in 2022/2023). He said that would leave an 11-12 million mt carry out (vs three million mt in 2022/23).
- Russian wheat won the lion's share of the Egyptian wheat tender for June-July wheat. The June position wheat was sold at \$250/mt on a FOB basis while the July position wheat was at \$260/mt FOB. Both prices were well below the supposed \$275/mt price floor that the government recommended.

➤ **Significant purchases/ trades:**

- **Egypt** (GASC) bought 600,000 tonnes of mainly Russian and some Romanian wheat at \$150-\$160/mt on a FOB basis.
- **Tunisia** reportedly bought 100,000 mt of durum on Friday.

➤ **Wheat Market Outlook:**

Significant events over the past week:

- The **EU Commission** officially suspended grain imports from Ukraine to Bulgaria, Hungary, Poland, Romania and Slovakia until June 5. The Commission has built in provisions to suspend it longer if the situation has not improved.
- **Egypt is considering approving the currencies of trading partners** like China, India and Russia. The change would allow them to decrease their reliance on U.S. dollars.
- **Turkey has a Presidential election** on the 14th, and the outcome of this could also impact the Black Sea trade Deal. The current President, who is rumoured to be unwell, is relatively warm to Russia, while his opponent could be more friendly to Ukraine.

Outlook:

Mercantile believes the rally in futures is a good opportunity to finish old crop sales if not already done. For now, Mercantile thinks 2023 crops look big and local currencies are weak, so it is difficult to be sure of demand. Russia is very hard to predict, according to Mercantile, but they think Russia will be the cheapest cash wheat suppliers through the September-December period. Weather continues to create uncertainty.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: May 8, 2023					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		July '23 (bu.)	July '23 (mt.)
1 CWRS 13.5	\$10.44	\$383.61	1 CWRS 13.5	\$10.38	\$381.40
1 CWAD 13.0	\$11.44	\$420.35	1 CWAD 13.0	\$11.35	\$417.04
1 CPSR 11.5	\$10.24	\$376.26	1 CPSR 11.5	\$10.16	\$373.32
SW Sask			SW Sask		
1 CWRS 13.5	\$10.27	\$377.36	1 CWRS 13.5	\$10.25	\$376.63
1 CWAD 13.0	\$11.24	\$413.00	1 CWAD 13.0	\$11.25	\$413.37
1 CPSR 11.5	\$10.04	\$368.91	1 CPSR 11.5	\$11.25	\$413.37
NE Sask			NE Sask		
1 CWRS 13.5	\$10.17	\$373.69	1 CWRS 13.5	\$10.13	\$372.22
1 CWAD 13.0	\$11.28	\$414.47	1 CWAD 13.0	\$11.17	\$410.43
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a
SE Sask			SE Sask		
1 CWRS 13.5	\$10.11	\$371.48	1 CWRS 13.5	\$10.09	\$370.75
1 CWAD 13.0	\$11.33	\$416.31	1 CWAD 13.0	\$11.25	\$413.37
1 CPSR 11.5	\$9.86	\$362.30	1 CPSR 11.5	\$9.80	\$360.09

Data source: PDQ, May 8/23

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, May 8/23

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 Basis² (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 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 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.

² 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.”

- 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				May 1, 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	\$440.97	\$8.89		
HRS	\$434.70			
HRW 11.5	\$441.46			
SWW 12.0	\$362.42			
1 CWRS 13.5 ³	\$440.97		\$354.58	\$86.39
2 CWRS 13.0 ³	\$434.70		\$343.56	\$91.14
3 CWRS ³	\$441.46		\$330.70	\$110.77
CPS ³	\$355.46		\$303.87	\$51.59
1 CWAD ⁴		\$10.07	\$433.58	\$67.05
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$275.00		May	
French 11.5 (Rouen)	\$268.60		May	
APW 10.5 (W Coast)	\$295.00		May	
Argentine 12.5	\$330.00		May	
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				