

Wheat Market Outlook and Price Report: August 21, 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 August 21, 2023

International Grains Council (IGC): July Global Wheat Forecast

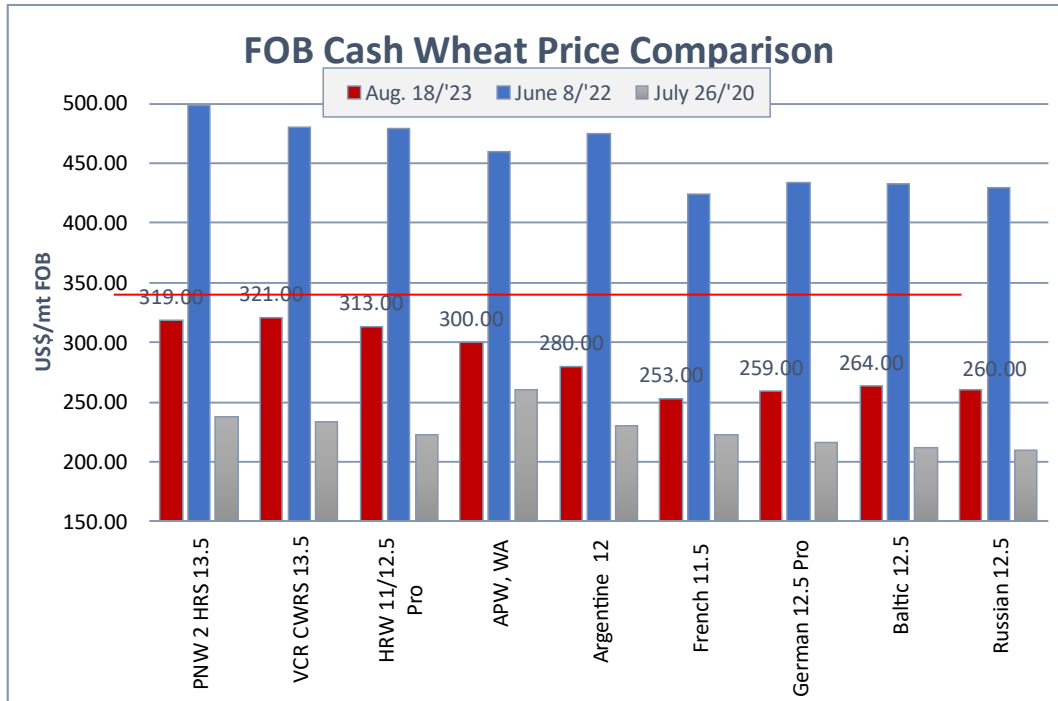
	20/21	21/22	22/23 est.	23/24 f' cast	
million tons				20.07	17.08
WHEAT					
Production	774	780	803	784	784
Trade	191	198	207	197	197
Consumption	773	784	795	804	805
Carryover stocks	277	274	282	263	261
<i>year/year change</i>	1	-4	8		-21
Major exporters ^{b)}	59	61	66	52	52

Source: IGC July 17, 2023

- The IGC left **global wheat production** unchanged in their July forecast at 784 million mt.
 - We note that **global total grains production** (wheat & coarse grains combined) is forecast to be the second largest on record, seen one per cent higher year-on-year, at 2,294 million mt, with solid gains in corn and sorghum more than compensating for smaller wheat, barley, oats and rye harvests.
- **Global consumption** was increased slightly by one million mt to 805 million mt. This is 21 million mt higher than production.
- **Wheat trade** remained the same at 197 million mt.
- **Global wheat carryover stocks** were reduced by two million mt from last month to 261 million mt. This would be 21 million mt smaller than last year's carryover stocks.

- **Stocks by major exporters** stayed at 52 million mt, 14 million mt smaller than last year's.

FOB Wheat Price Developments:



- FOB wheat prices have decreased over the past week by \$5-13/mt. Funds are thought to have sold around 25,000 contracts on the CBOT since the last CFTC update, which would put them currently short around 87,000 contracts. Russia keeps pushing wheat into the available markets, and so far, the market seems to ignore the potential for volume Indian imports and the increasing concern about northern and southern hemisphere crops.

➤ **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.

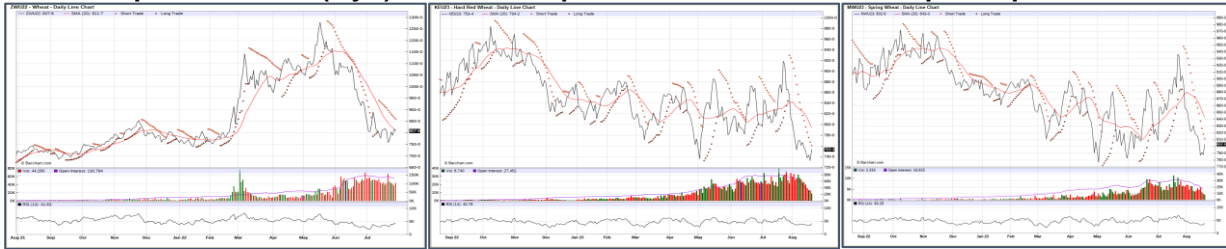
Futures:

- Sept. 2023 CBOT soft red winter (SRW) futures were down 14 cents on the week, closing at \$6.13/bu.
- KCBT HRW futures were down two cents, at \$7.54/bu.
- HRS futures were down 12 cents at \$8.03/bu.
- Funds added to their shorts.
- Nearby MATIF milling wheat futures are down €2.50-4.00/mt this Monday morning.
- CBOT wheat futures are currently also down 8-14 cents/bu at the time of writing.

CBOT Sept 2023 Wheat (1 yr.)

KC Sept 2023 Wheat

Mpls. Sept 2023 Wheat



Canadian Wheat

- Saskatchewan Ag reported two per cent of spring wheat harvested as of Aug. 14. Alberta Ag gave no harvest estimate/crop report last week. - The few yields we have seen so far vary widely from region to region, so the verdict on actual yields is stillest there. We have not changed our estimated yield/production numbers for Canada and the U.S. from last week’s report.
- In the U.S., spring wheat conditions increased slightly, with 42 per cent good to excellent, up one point from the week prior. Spring wheat rated fair was 38 per cent, and 20 per cent came in as poor to very poor. USDA estimates the share of spring wheat harvested at 24 per cent, up 13 points from the week prior and four points below the five-year average.
- Matif in Europe ended the week lower despite a bounce Friday, with increasing quality concerns continuing to widen the feed-milling spreads. There are large volumes of feed wheat which came at the expense of milling qualities. Most countries in Europe are having issues with Hagberg, test weights or proteins. This is most evident is widening spreads between 11.5 and 12.5 pro wheat in Germany and in the Baltic countries, which have widened out to €15/mt (C\$22.10/mt).
- If the U.S. Pro Farmer crop tour effects a weakening of corn, this could serve to further widen the feed grain-milling grain premiums.
- **Canadian wheat exports** for shipping week two came in at 363k mt, for a two-week (YTD) total of 624k mt, 80k mt more than last YTD.

(CGC) Grain Handling Summary Wheat		Week 2	(To Aug. 13, 2023)	
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 2	149.1	355.4	362.5	99.2
Week ago	187.7	379.2	261.6	122.4
YTD	336.6	766.8	624.1	222.6
Last YTD	289.0	695.6	544.6	211.0
YTD less Last YTD	47.6	71.2	79.5	11.6
YTD over Last YTD	116%	110%	115%	105%

Source: Mercantile based on CGC data

- We would wait to sell additional volumes right now.
- **Durum:** About seven per cent of SK durum was combined as of last Thursday, so it stills hard to get an overall picture. Mercantile continues to get varying reports on yields, with several reports on yields that came in almost 10 bu higher than initially expected against quite low yields in other areas. Mercantile has left yield/production estimates unchanged from last week’s report/numbers for now!
- In the U.S., North Dakota rated their durum wheat at 4 per cent very poor, 10 per cent poor, 34 per cent fair, 49 per cent good, and 3 per cent excellent. Durum wheat colouring was 85 per cent, ahead of 69 per cent last year, but near 88 per cent average. Harvested acreage was 4 per cent, behind 9 per cent last year and 11 per cent on average. Montana showed 27 per cent of durum harvested, compared to 17 per cent on average. - Overall, Montana expects a good quality crop with higher protein, average test weight and – if the weather holds – no colour issues. But in North Dakota, yields are expected to be below average due to prolonged heat and dryness.
- Bids for durum in Canada have improved over the past two weeks to generally around \$14.50/bu with up to \$15.75/bu delivered to southern SK for fall to winter shipment. Values for durum in Italy were not updated by the EC, but other destinations indicated a €10/mt (C\$15/mt) increase over the past week, which would imply ~€435/mt CIF Italy, up €90/mt since early July.
- *As farmers, Mercantile would not yet sell until they know more about production volumes and quality.*
- **Durum** deliveries into the handling system were still quite small at 25k mt, indicating that harvest has just begun. Exports for week two were at a small 22k mt, for a two-week (YTD) total of 67k mt, compared to 88 k mt last YTD.

(CGC) Grain Handling Summary Durum	Week 2		(To Aug. 13, 2023)	
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 2	24.7	18.0	22.3	18.6
Week ago	18.6	33.2	44.8	4.4
YTD	43.2	55.0	67.1	23.0
Last YTD	45.7	79.5	88.1	29.8
YTD less Last YTD	-2.5	-24.5	-21.0	-6.8
YTD over Last YTD	95%	69%	76%	77%

U.S. Wheat:

- The **USDA crop progress report** put the winter wheat harvest at 92 per cent complete, up five points from last week and even with the five-year average. The winter wheat harvest is progressing in Idaho (49 per cent complete), Montana (70 per cent complete), and Washington

(70 per cent complete). *Spring wheat conditions increased slightly, with 42 per cent good to excellent, up one point from the week prior.* Spring wheat rated fair was 38 per cent, and 20 per cent came in as poor to very poor. USDA estimates the share of spring wheat harvested at 24 per cent, up 13 points from the week prior and four points below the five-year average.

- U.S. wheat sales of 360k mt for delivery in 2023/2024, were within trade expectations of 200k to 525k mt, though down 37 per cent from the week prior. Year-to-date 2023/2024 commercial sales total 6.7 million mt (8.8 mln mt last year), down 23 per cent.
- Markets fell after the export sales report posted a decline in sales. Harvest pressure and lack of demand will keep prices from making a significant rally, but with charts reaching previous swing lows, we could see a correction.
- The Pro Farmer crop tour in the U.S. this week will be focusing on corn and soybeans, but with wheat, barley and corn now all closely aligned in the feed markets, any strength/weakness in corn could transfer to other feed grain prices. And any weakness in corn coming from the tour could further widen feed -milling premiums.
- U.S. HRS for Sept. 2023 was valued at \$319.00/mt FOB PNW (*down \$7.00/mt from last week*), FOB Gulf HRW 11/12.5 pro is valued at \$313.00/mt (*down 11.00/mt from last week*).

Australian Wheat:

- Australian wheat futures are down \$2 on the week at A\$409/mt
- As El Nino continues to build, the Australian outlook is turning increasingly menacing. The next two-to-six weeks are critical for southern hemisphere wheat crops. Trade production estimates continue to gravitate towards the 25-27 million mt level versus the USDA at 29 million mt.
- FOB values in Australia: Sept. 2023 AWP, WA is valued at \$300.00/mt (*down \$5.00/mt from last week*).

Argentine Wheat:

- In Argentina, BAGE lowered crop ratings one per cent to 20 per cent Gd./Exc. compared to 19 per cent last year.
- The USDA is projecting a 32.5 per cent increase in yield for the coming crop, back to trend levels and to 17.5 million mt. But the current heat and dryness make this assumption questionable with the next six weeks being critical. A repeat of last year's yield would lower the crop by approximately five million mt.
- FOB Sept. Argentine wheat (12 per cent pro) is quoted at \$280.00/mt (*down \$5.00/mt from last week*).

Indian Wheat

- Rain in India seems confined to the northwest quarter, and the August precipitation total is expected to be the lowest since records began in 1901.
- There were fresh rumours of government-to-government sales of Russian wheat to India as stocks there decline to 28 million mt in August, albeit up versus 26.6 million mt at this time last year.
- Sources in India maintain that the USDA is over-stating Indian wheat production by some 10 million mt, and expect imports to be up to 8-9 million mt.

EU Wheat:

- Matif in Europe ended lower despite a bounce on Friday, with increasing quality concerns continuing to widen the feed-milling spreads. [See also comments in the Canadian section].
- EU FOB prices: Sept. 2023 French 11.5 pro wheat closed at \$255.00/mt (*down \$3/mt from last week*); Sept. 2023 German 12.5 pro wheat closed at \$259.00 (*down \$12.00/mt from last week*); Sept. 2023 Baltic 14.0 pro wheat closed at \$264.00/mt (*down \$13.00/mt from last week*).

Black Sea Wheat:

- The new Russian floor price of \$260/mt appeared to hold amidst a huge 350-point rise in interest rates, talk of reintroducing compulsory sales of FX revenues, and additional capital controls. Russia continues to be aggressive in the markets and their crop is getting bigger.
- The Russian wheat harvest is 50 per cent complete, with local estimates projecting a wheat crop of 89.5 million mt. *For the marketing year 2023/2024, Russian wheat exports have topped 6.6 million mt, a 78 per cent increase from last year.*
- Russian drone strikes damaged grain silos and warehouses at the Ukrainian river port of Reni on the Danube, a vital wartime route for Ukrainian food exports.
- Meanwhile, according to Transport Minister Sorin Grindeanu, Romania aims to double the monthly transit capacity of Ukrainian grain to its flagship Black Sea port of Constanta to four million tonnes in the coming months, particularly via the Danube River.
- *It seems that the wheat market has spurned the supply-side risk stemming from the Ukraine-Russia conflict over the past two weeks.*
- Russian FOB values for 11.5 per cent protein were reportedly offered at \$260/mt last week (*up \$5.00/mt from last week*).

➤ **Significant purchases/ trades:**

There was not much activity and no major tender business.

- Jordan reportedly bought 60k mt of wheat for LH Jan at \$295/mt.
- Thailand bought 13.5 pro CWRS for Oct. at around \$355/mt.
- U.S. export sales amounted to 360k mt and were in the middle of the expected trade range. Total U.S. sales are currently 6.77 million mt compared to 8.81 million mt last year, down 23 per cent.

➤ **Wheat Market Outlook:**

Significant events over the past week:

- The **Pro Farmer crop tour** in the U.S. this week will be focusing on corn and soybeans, but with wheat, barley and corn now all closely aligned in the feed markets, any strength/weakness in corn could transfer to other feed grain prices. And any weakness in corn coming from the tour could further widen feed-milling premiums.
- Increasing **quality concerns in Europe** are continuing to widen the feed-milling spreads.
- The verdict on the volume and quality of the **North American durum crop** is still out there. However, while there are some good crops, average yields do not look promising, and this market will likely be tight.
- **Year-to-date 2023/24 U.S. wheat sales** total 6.7 million mt (8.8 million mt last year), down 23 per cent.
- Meanwhile, there were fresh rumours of **Russia working on aggressive government-to-government sales** of Russian wheat to India.
- **Russia** continues to be very aggressive in the wheat markets and their crop is getting bigger.

Outlook:

Mercantile says, Russia continues to push wheat into the market while buyers are being very cautious in their buying and remain so in a falling market. However, Canada, Argentina and Australia all now have significant crop concerns, which along with a potentially significant major import program by India could materially change the market in the latter half of the season, according to Mercantile. Mercantile expects markets to move higher in the new year, so storage is important and selling as little as possible for now.

Mercantile says producers will have to be patient with this market to work through some of the cheaper supplies into the new year.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: 21-08-2023					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Dec. '23 (bu.)	Dec.'23 (mt)
1 CWRS 13.5	\$9.65	\$354.58	1 CWRS 13.5	\$9.74	\$357.89
1 CWAD 13.0	\$14.23	\$522.87	1 CWAD 13.0	\$13.91	\$511.11
1 CPSR 11.5	\$9.03	\$331.80	1 CPSR 11.5	\$9.11	\$334.74
SW Sask			SW Sask		
1 CWRS 13.5	\$9.54	\$350.54	1 CWRS 13.5	\$9.70	\$356.42
1 CWAD 13.0	\$14.44	\$530.58	1 CWAD 13.0	\$13.76	\$505.60
1 CPSR 11.5	\$8.90	\$327.02	1 CPSR 11.5	\$9.07	\$333.27
NE Sask			NE Sask		
1 CWRS 13.5	\$9.46	\$347.60	1 CWRS 13.5	\$9.51	\$349.44
1 CWAD 13.0	\$14.17	\$520.66	1 CWAD 13.0	\$13.81	\$507.43
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	
SE Sask			SE Sask		
1 CWRS 13.5	\$9.42	\$346.13	1 CWRS 13.5	\$9.54	\$350.54
1 CWAD 13.0	\$14.20	\$521.76	1 CWAD 13.0	\$13.78	\$506.33
1 CPSR 11.5	\$8.81	\$323.71	1 CPSR 11.5	\$8.80	\$323.35

Data source: PDQ, Aug. 21/'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, Aug. 21/'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 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/mln mt, depending on number of cars moved and elevator used.

- Approximate relationship between U.S. wheat classes and Canadian wheat classes:

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.”

- 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.

Table 3: Relevant FOB Prices and calculated Basis, U.S. & Canadian Dollars per MT

Relevant FOB Prices and Export Basis				21-08-2023
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	\$430.73	\$431.73		
HRS	\$422.76			
HRW 11.5	\$387.41			
SWW 12.0	\$350.56			
1 CWRS 13.5 ³	\$430.73		\$341.35	\$89.38
2 CWRS 13.0 ³	\$422.76		\$329.23	\$93.54
3 CWRS ³	\$387.41		\$314.53	\$72.88
CPS ³	\$343.59		\$313.79	\$29.79
1 CWAD ⁴		\$661.28	\$532.79	\$128.49
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$260.00	Sept. '23		
French 11.5 (Rouen)	\$255.00	Sept. '23		
APW 10.5 (W Coast)	\$300.00	Sept. '23		
Argentine 12.0	\$280.00	Sept. '23		

¹ FOB Prices CDA = FOB US\$ converted into Canadian Currency

² Export Basis = FOB Prices CDA minus Cdn. Street Price

³ DNS 14% ≈ 1 CRWS 13.5%; HRS ≈ 2 CWRS 13.0%; HRW ≈ 3CWRS; SWW ≈ CPS

⁴ Values derived to Lakehead FOB