

Wheat Market Outlook and Price Report: August 28, 2023

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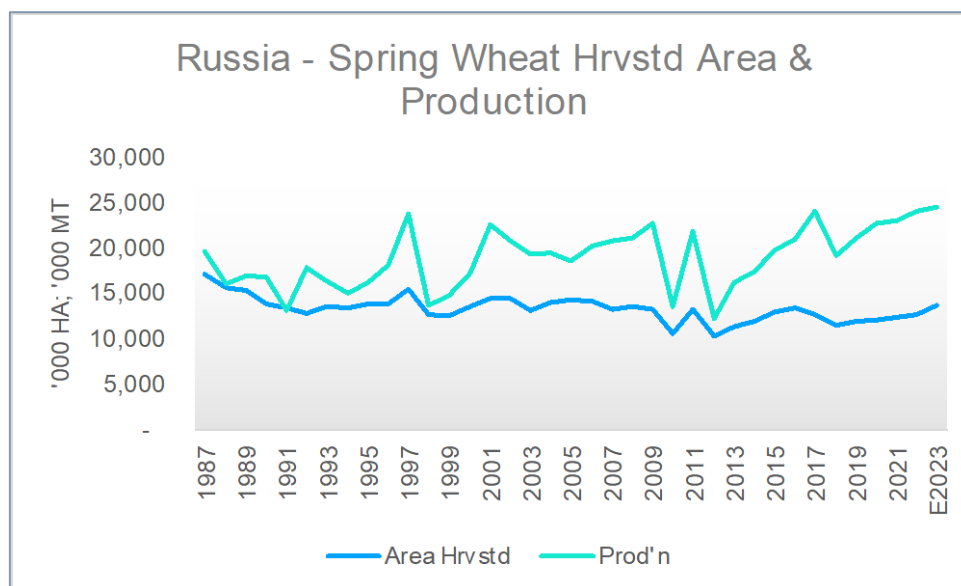
i) Background and Rationale for the Report

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 28, 2023

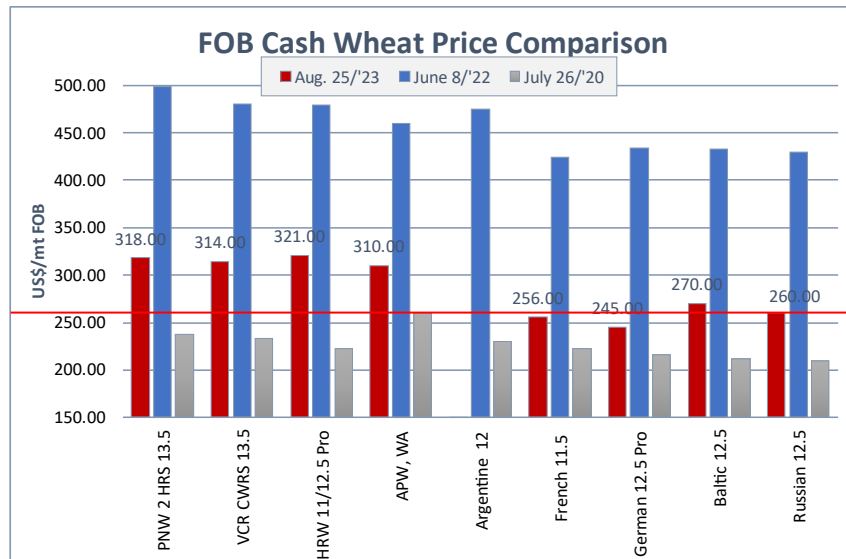
USDA – Russian Spring Wheat Area and Production



Source: Mercantile, based on USDA data

- Weather problems, especially in Europe, have led to the production of more feed-quality wheat this year. This puts special attention on HRW and spring wheat production in Russia and in North America.
- While the verdict on North American production and quality is still out, the 2023 Russian spring wheat crop has been mostly harvested.
- According to the latest USDA estimates, Russia produced 24.5 million mt of spring wheat this year, up 500k mt from last year's 24 million mt. Spring wheat production represents roughly 29 per cent of the total Russian wheat crop.

FOB Wheat Price Developments:



- FOB wheat price moves were mixed last week, with German and North American FOB prices down, up for French wheat and mixed for Russian wheat, depending on quality and type of business (private or tender).

➤ **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:

- US wheat futures all closed at or near weekly contract lows.
- September 2023 Chicago Board of Trade (CBOT) soft red winter (SRW) futures were down 10-6 cents on Friday, and down 19 cents on the week, closing at \$5.93-2/bu.
- Kansas City Board of Trade (KCBT) HRW futures were up 1 cent on Friday and up 0-4 for the week, closing at \$7.54/bu.
- HRS futures in Minneapolis were up 1 cent on Friday, and down 27 cents on the week, closing at \$7.75-63/bu.
- Nearby MATIF milling wheat futures are down €2.50-4.75/mt this Monday morning.
- CBOT wheat futures are currently down 8-16 cents/bu at the time of writing.

CBOT Sept 2023 Wheat (1 yr.)



KC Sept 2023 Wheat



Mpls. Sept 2023 Wheat



Canadian Wheat

- The Saskatchewan spring wheat crop is 13 per cent harvested, with the eastern regions furthest advanced. AB spring wheat is 12 per cent harvested, with 44 per cent still in Gd/Exc condition. Alberta Ag assessed a 39.1 bu average yield.
- Mercantile expects a 24 million mt spring wheat crop, which is slightly higher than the average production estimate of 23.1 million mt shown in a Reuters production survey last week.
- US HRS: As of August 21, the US HRS harvest is 75per cent complete in South Dakota, 60 per cent in Montana, 41 per cent in Minnesota and 24 per cent in North Dakota. Minnesota reports that yields are better than anticipated; harvest is progressing slowly due to humidity and dew. North Dakota is similarly delayed due to humidity, light moisture, and cloudy conditions. while variable, North Dakota yields have been better than expected. Montana reports no test weight issues as harvest progresses, while proteins are average.
- At 278k mt, **Canadian wheat exports** in week three were decent, advancing year-to-date wheat exports to 903k mt.

(CGC) Grain Handling Summary - Wheat		Week 3		(to Aug. 20/'23)
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 3	370.0	592.9	278.4	173.9
Week ago	149.1	355.4	362.5	99.2
YTD	709.9	1,368.7	902.6	425.0
Last YTD	482.6	969.2	662.8	207.6
YTD less Last YTD	227.3	399.5	239.8	217.4
YTD over Last YTD	147%	141%	136%	205%

- *Mercantile expects markets to move higher in the New Year, so storage is important, and they suggest selling as little as possible right now.*
- **Durum:** About 26 per cent of Saskatchewan durum has been harvested. Alberta Ag did not specify harvest progress for durum but said that 32 per cent of durum is in Gd/ Exc condition. Yield results remain all over the map, making an overall estimate very difficult. Mercantile is still using a 4.2 million mt durum production estimate for Canada, as detailed previously.
- A Reuters poll of 15 traders and analysts showed an average durum production estimate of 4.3 million mt last week, but with a huge range in the estimates spanning from a low of 3.7 million mt and to a high of 5.3 million mt.
- US crop: moisture/ humidity slowed down the northern durum harvest, with 33 per cent of the crop harvested in Montana and 15 per cent in North Dakota. Crop ratings for durum decreased this week with North Dakota now at 46 per cent good to excellent and Montana at 10 per cent. Overall, Montana expects a good quality crop with higher protein, average test weight and below-average yields. In North Dakota, yields and protein are expected to be average to below average. Humidity and precipitation are expected to taper off over the weekend.
- We still anticipate a North American durum production of ~5.7 million mt (compared to 7.2 million mt last year and 4.1 million mt in 2021).

- North American durum supply (production plus carry-in) should reach ~ 6.7 million mt, down about 20 per cent from last year's supply.

N American Durum Production (in MT)	2018	2019	2020	2021	2022	F2023	
US & Cdn. prod'n est.'s	7,907,187	6,485,512	8,452,895	4,057,120	7,184,740	5,740,007	79.9%
vol. ranking	2	4	1	6	3	5	
Carry-in Cda.					569,000	240,000	
Carry-in USA					653,000	762,000	
Estimated Supply					8,406,740	6,742,007	80.2%

- On the demand side, the US durum disappearance (including exports) should be around 3 million mt, with Canada at 4.5-5.5 million mt. This means North American supplies (incl. export requirements) will be tight. We expect that exports will likely have to be rationed at some point.
- Saskatchewan durum bids have appreciated, reflecting both the reduced supply outlook and the need for quality durum to blend with a difficult European crop. \$15/bu is being bid in Saskatchewan for No. 2 o/b quality.
- Mercantile cautions that durum is already reflecting a high premium over spring wheat values. If these premiums get too high, some users will switch to hard wheat.
- Nevertheless, they suggest holding for now to see how yields and quality average out.
- **Canadian durum exports** for week three were at 36k mt, for a year-to-date total of 103k mt, compared to 110k mt last year-to-date.

(CGC) Grain Handling Summary - Durum		Week 3		(to Aug. 20/'23)
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 3	57.6	4.8	35.7	2.6
Week ago,	24.7	18.0	22.3	18.6
YTD	101.3	63.5	102.8	25.6
Last YTD	101.9	164.5	109.7	49.4
YTD less Last YTD	-0.6	-101.0	-6.9	-23.8
YTD over Last YTD	99%	39%	94%	52%

US Wheat:

- The US HRW harvest is winding down with less than five per cent remaining. With more than half the spring wheat crop in the bin, protein, moisture, and test weights are continuing to improve.
- As of August 21, the US HRS harvest is 75 per cent complete in South Dakota, 60 per cent in Montana, 41 per cent in Minnesota, and 24 per cent in North Dakota. No major harvest or quality issues have been reported thus far.
- USDA's weekly export sales report showed 406k MT of wheat was sold during the week that ended August 17. This left a season total of 264 million bu, which is down 18.5 per cent from last year.
- US wheat futures all closed at or near weekly contract lows.
- US HRS for September 2023 was valued at \$318.00/mt FOB PNW (down \$1.00/mt from last week), FOB Gulf HRW 11/12.5 pro is valued at \$313.00/mt (up 8.00/mt from last week).

Australian wheat:

- Australian wheat futures ended flat on the week.
- In Australia, the last El Nino year produced a 14.5 million mt crop yielding 30 per cent below trend, but the USDA still estimates a 29 million mt wheat crop, five per cent above yield trend.
- FOB values in Australia: September 2023 AWP, WA is valued at \$310.00/mt (*up \$10.00/mt from last week*).

Argentine wheat:

- In Argentina, Buenos Aires Grain Exchange (BAGE) surprisingly raised crop ratings by three points to 23 per cent Gd/Exc compared to 18 per cent last year. BAGE did note that the crop needs rain in the coming days to avoid reductions in yield.
- FOB new crop Argentine wheat (11.5 per cent pro) for December was quoted at \$265.00/mt, but there was no trade activity.

Indian wheat:

- Mercantile has heard nothing further regarding a potential Russia-India volume wheat deal.

Chinese wheat:

- On Monday, Chinese weather forecasters warned several provinces to expect torrential rain and flash floods over the next two days as unrelenting downpours wreaked havoc on the country. China has been gripped by weeks of rains and floods amid an unusually wet summer. In late July, storms from Typhoon Dokusri caused record rains to hit China in over a decade, with Beijing experiencing its heaviest rainfall in 140 years.

EU wheat:

- Matif wheat ended the week flat. Disease and quality issues in the north increased and quality spreads widened.
- The European Commission lowered their estimate for wheat production by 300k mt to 126.1 million mt with 2023/24 ending stocks down 1.1 million mt at 16.3 million mt.
- Basically, the pace of harvest in the EU has been slow and quality concerns have been in the headlines because of consistent rainfall in August.
- EU FOB prices: September 2023 French 11.5 pro wheat closed at \$256.00/mt (*up \$1/mt from last week*); September 2023 German 12.5 pro wheat closed at \$245.00 (*down \$14.00/mt from last week*); September 2023 Baltic 14.0 pro wheat closed at \$270.00/mt (*up \$6.00/mt from last week*).

Black Sea wheat:

- There seems to be a new floor price for Russian wheat at \$270/mt for 12.5 per cent pro tender business, and at \$250/mt for 10.5 per cent pro tender business. Minimum prices for private commercial business differ by -\$10/mt. The market is trying to digest what the changes in the Russian floor prices really mean, but SRW now looks cheap against both EU and Russian wheat, at least through FH October.
- The Ukraine Agriculture Ministry called their wheat harvest complete at 21.94 million mt.
- Some eastern European countries are saying they will extend the ban on Ukraine imports indefinitely, with or without EU permission. On the other hand, there are plans to significantly increase the Costanza shipment capacity.
- It seems that the wheat market is now ignoring the supply-side risk stemming from the Ukraine-Russia conflict.
- Russian FOB values for 12.5 per cent protein were reportedly offered at \$260/mt last week (unchanged from last week).

➤ **Significant purchases/ trades:**

There still was not much activity and no major tender business.

- **Egypt** (GASC) only bought a small 60k mt on their tender despite offers adding to 1.7 million mt.
- **Taiwan** bought 104k mt of milling wheat from the US.
- The USDA weekly export sales report showed 406k mt of wheat was sold during the week. US export commitments are still down 18.5 per cent on last year against the USDA's 7.5 per cent projected decline.

➤ **Wheat Market Outlook:**

Significant events over the past week:

- Production volumes and quality of **North American spring wheat and durum** are not yet clear. The forecast for the next week is for hot temperatures.
- **South Hemisphere** wheat production needs to be watched.
- **US season total wheat sales** of 264 million bu are still down 18.5 per cent on last year.
- There was nothing further regarding a **potential Russia-India volume wheat deal**.
- In the EU, **disease and quality issues** in the north increased and quality spreads widened.
- There seems to be a **new floor price for Russian wheat** at \$270/mt for 12.5 per cent pro tender business, and at \$250/mt for 10.5 per cent pro tender business. Minimum prices for commercial businesses differ by -\$10/mt. The market is trying to digest what the changes in the Russian floor prices really mean, but SRW now looks cheap against both EU and Russian wheat, at least through FH October.
- Some eastern European countries are saying they will extend the ban on Ukraine imports indefinitely, with or without EU permission. On the other hand, there are plans to significantly increase the Costanza shipment capacity.
- It seems that the wheat market is now ignoring the supply-side risk stemming from the Ukraine-Russia conflict.

Outlook:

US wheat futures were down while facing a strong US dollar, renewed optimism for Ukrainian exports, record July-August Russian export shipments, and US sales lower by 18 per cent against the USDA's projected eight per cent decline. These factors outweighed the slow US/ Canadian spring wheat harvests, poor crop ratings, questions about Indian buying, and unfavourable Southern Hemisphere weather.

The wheat market remains very complicated, but Mercantile expects it to move higher in the New Year, so storage is important and selling as little as possible 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: 28-08-2023					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Dec. '23 (bu.)	Dec.'23 (mt)
1 CWRS 13.5	\$9.51	\$349.44	1 CWRS 13.5	\$9.56	\$351.27
1 CWAD 13.0	\$14.19	\$521.40	1 CWAD 13.0	\$13.87	\$509.64
1 CPSR 11.5	\$8.97	\$329.59	1 CPSR 11.5	\$9.09	\$334.00
SW Sask			SW Sask		
1 CWRS 13.5	\$9.42	\$346.13	1 CWRS 13.5	\$9.55	\$350.91
1 CWAD 13.0	\$14.39	\$528.75	1 CWAD 13.0	\$13.76	\$505.60
1 CPSR 11.5	\$8.87	\$325.92	1 CPSR 11.5	\$9.02	\$331.43
NE Sask			NE Sask		
1 CWRS 13.5	\$9.29	\$341.35	1 CWRS 13.5	\$9.33	\$342.82
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	\$9.29	\$341.35	1 CWRS 13.5	\$9.42	\$346.13
1 CWAD 13.0	\$14.19	\$521.40	1 CWAD 13.0	\$13.79	\$506.70
1 CPSR 11.5	\$8.77	\$322.24	1 CPSR 11.5	\$8.84	\$324.82

Data source: PDQ, Aug. 28/23

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. 28/23

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:

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 14per cent in the Pacific North West (PNW) ≈ 1 CWRS 13.5per cent in Vancouver
 - 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				28-08-2023
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	\$427.64	\$419.65		
HRS	\$419.15			
HRW 11.5	\$391.17			
SWW 12.0	\$349.21			
1 CWRS 13.5 ³	\$427.64		\$340.62	\$87.02
2 CWRS 13.0 ³	\$419.15		\$325.92	\$93.23
3 CWRS ³	\$391.17		\$311.22	\$79.95
CPS ³	\$342.21		\$319.67	\$22.54
1 CWAD ⁴		\$663.44	\$524.34	\$139.10
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$260.00	Sept. '23		
French 11.5 (Rouen)	\$256.00	Sept. '23		
APW 10.5 (W Coast)	\$310.00	Sept. '23		
Argentine 12.0	\$265.00	Dec. '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