

Wheat Market Outlook and Price Report: February 21, 2023

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

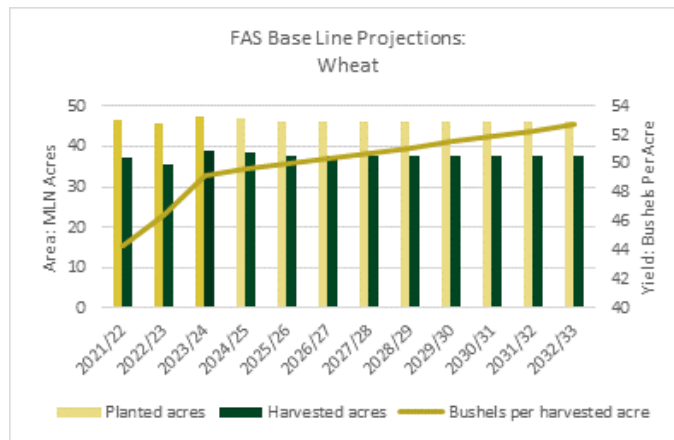
i) Background and Rationale for the Report

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 February 21, 2023

USDA Baseline Wheat Projections to 2032



Source: Based on USDA data

- The USDA released their annual baseline projections last week. They are forecasting US wheat area in the upcoming 2023/24 season will grow by 1.8 million acres to 47.5 million acres. Larger seeded area is expected to be driven by strong cash prices driven by tight supplies.
- Exports are forecast to grow by 50 million bu to 825 million bu in 2023/'24.
- Domestic us is expected to grow by 4% from last year to 1.1 million bushels.
- US wheat stocks are forecast to grow by 15% from 2022/'23 to 663 million bu. Stocks to use would rise by almost 3 points to 34%.
- The USDA Outlook Conference is the second half of the week and will bring additional thoughts for the upcoming growing season.

➤ **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 2023 contract **Chicago winter wheat** closed at \$765-4, up 0-4 cents Friday, *down 20-4 cents on the week.*
- March 2023 contract **Kansas hard red winter wheat** closed at \$906-4, up 8-0 cents on Friday, *down 2-4 cents on the week.*
- March 2023 **Minneapolis hard red spring wheat** closed at \$930-2, unchanged on Friday, *unchanged on the week*
- *US wheat futures are closed on Monday for President's Day.*

CBOT Mch. 2023 Wheat (1 yr.)



KC Mch. 2023 Wheat

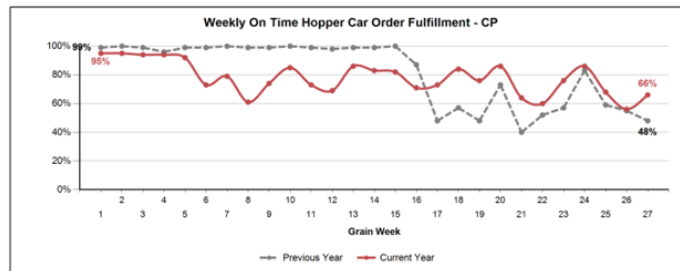
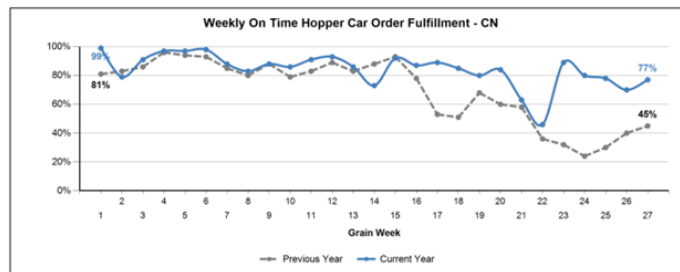


Mpls. Mch. 2023 Wheat



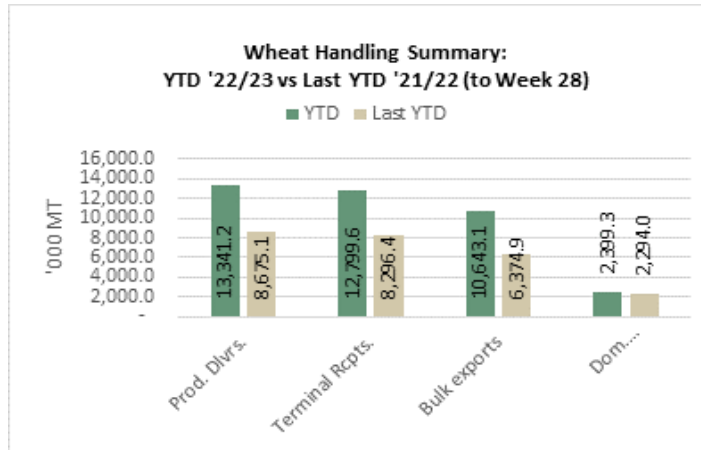
Canadian Wheat

- Canada's export pace remains strong even though rail performance has been less than inspiring. CN and CP supplied a combined 71% of the ordered hopper cars in week 27, which, although a strong increase over the previous week's 63%, marks the 12th week in a row that both companies have supplied fewer than the 90% threshold. According to the Ag Transport Coalition, CN has supplied less than 90% of the ordered cars in 14 of the past 15 weeks and CP has supplied less than 90% of the ordered cars for the 22nd week in a row.



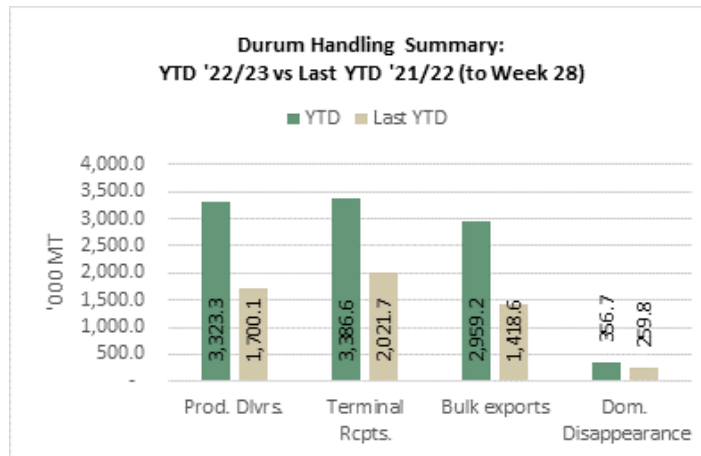
Source: Ag Transport Coalition

- Week 28 wheat exports were 364.6k mt for a season total of 10.6 million mt. Weekly exports were below the current average export pace, but still above the weekly average amount that is needed to meet the AAFC's 19.1 million mt export projection.



Source: Based on CIMT data

- **Durum:** Week 28 Canadian durum exports were 166.2k mt for a season total of 3.0 million mt. Canadian durum exports in Feb-Mar should be decently strong as we suspect Canada won portions of both Tunisia and Algeria's recent tenders.



Source: Based on CGC data

- Durum prices in Italy fell another €10/mt over the week to €408/mt. This calculates to about \$12.50 at the elevator in Saskatchewan. Durum prices in Italy have fallen €30/mt since Algeria's purchase which was well below expected values. There are rumors that (a) Canadian exporter(s) were wanting to clear out durum supplies on the West Coast and sold to Algeria at a discount.
- The French Farm ministry is expecting their durum area will fall by 4.9% to 233k ha.
- *We would finish old crop durum sales and would sell 20% of new crop at \$12.00/bu.*

US Wheat:

- US weekly wheat sales were at the low end of expectations at 209.8k mt. Year-to-date commercial sales are now 16.5 million mt, down 5% from last year compared to the USDA' 3% decline.

- Most of the US Southern Plains was dry, although some of eastern Kansas received heavy rain. Forecasts were showing the potential of additional rain, but this has largely been eliminated.
- US HRS for March 2023 was valued at \$404.30/mt FOB PNW (*up \$3.00/mt from last week*), FOB Gulf HRW 11/12.5 pro is valued at \$400.00/mt (*up \$7.20/mt from last week*).

Australian wheat:

- Futures prices in Australia finished the week at a 7-week high as the Australian dollar continued to slide.
- Australia exported a record, 2.7 million mt of wheat in December. This is a strong start to the season given Australia's wheat exports usually are the strongest in Jan-Jul.
- FOB values in Australia: Mar. '23 AWP WA is valued at \$350.00/mt (*up \$3.00/mt from last week*).

Argentine wheat:

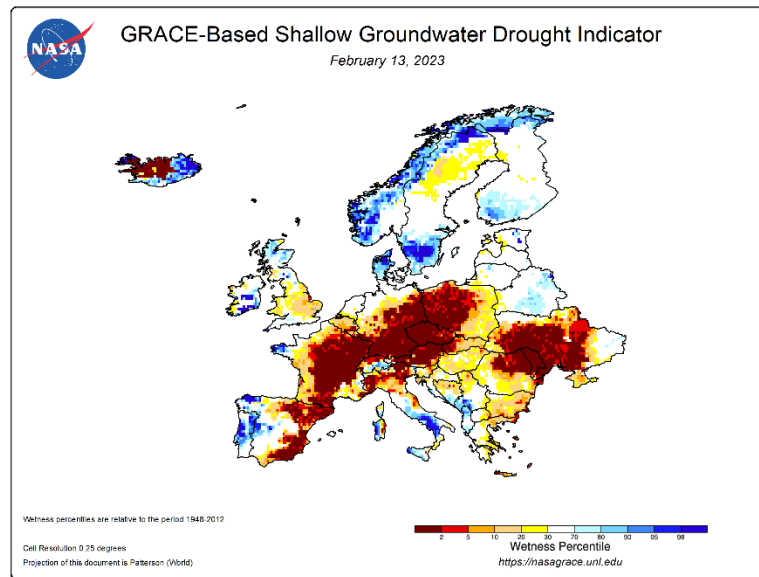
- There was little action in Argentina's wheat market. A cold snap late last week caused frost damage on their corn and soybean crops.
- Inflation in Argentina is pushing up to 100% as revenues from their export tax deteriorate along with the condition of their crops.

EU wheat:

- There was no update on EU exports, but the FranceAgriMer lowered its outlook for French soft wheat exports by 150k mt for a season total of 10.45 million mt.
- The French Farm Ministry put their winter wheat area for 2023 at 4.8 million ha. This is a 2% increase from last year.
- It is becoming apparent that the trade corridor will likely be renewed, which is negative for European prices.
- Fob prices in the EU: Mar. '23 French 11.5 pro wheat closed at \$324.90/mt (*down \$0.40/mt from last week*); Mar. '23 German 12.5 pro wheat closed at \$330.20 (*up \$3.80/mt from last week*); Mar. '23 Baltic 14.0 pro wheat closed at \$370.90/mt (*up \$2.70/mt from last week*).

Black Sea wheat:

- The general sentiment is that Moscow will renew the Trade Corridor. China has been buying roughly 1.0 million mt of Ukrainian corn per month and Putin will not want to tread on Xi's toes.
- As the winter wheat crops are starting to come out of dormancy, analysts are taking a closer look at soil moisture levels in Europe which are currently quite low.
- Despite this, Russia's AgMin said that 95% of the country's wheat crop is in good/satisfactory condition. Given the conditions so far, we are not so sure. The long-term forecast for Europe is calling for a hot and dry spring and summer.



- Russia donated 25k mt of “emergency” wheat to Cuba to combat shortages. The donation signals deepening ties between the two countries.
- March shipment Russian wheat prices are around \$303.00/mt FOB (*down \$2.00/mt from last week*).

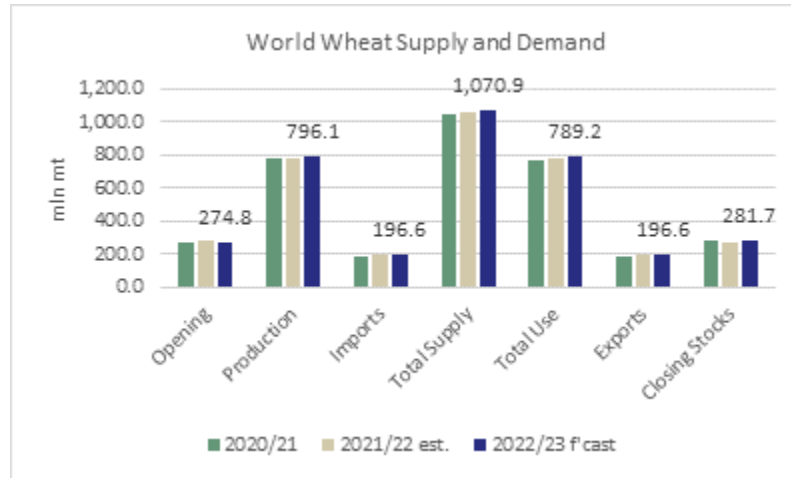
➤ **Significant purchases/ trades:**

- **Tunisia** was expected to tender for 100,000 mt of March soft wheat.
- **Jordan** for 120,000 mt of hard wheat for June-July delivery.
 - There were no results for either Tunisia or Jordan’s tender, but Russia was well positioned to have won the lion’s share of both.
- **Egypt** (GASC) is scheduled to tender on Wednesday for early April delivery wheat.
- **USA** export sales of 210,000 mt were at the low end of trade guesses, leaving the season total of 606 million bushels down 5.5% on last year, against the USDA's 3% decline.

➤ **Wheat Market Outlook:**

Significant events over the past week:

- The International Grains Council made slight changes to the global wheat balance sheet. Production was raised by 400k mt led by larger production in Kazakhstan. Beginning stocks were also raised by 900k mt. Most of the increase in stocks was in the US. Exports were 2.5 million mt higher than last month with increases in Australia, Kazakhstan, and Russia offsetting a 500k mt decrease in US exports. Total use was raised 200k mt for a 1.1 million mt increase in ending stocks to 281.7k mt which is 2% more than last year.



Source: Based on CGC data

- **The ICG cut to global corn production by 8.5 million mt to 1,153 million mt.** Most of the decrease was in the US and Argentina. The decrease in production was offset by less use for an overall 200k mt increase in ending stocks to 254.6k mt.
- **India's AgMin is forecasting a record wheat crop.** They said similar, untrue, things last year, and the extreme heat in the country's north is making us skeptical of this prediction.

Outlook:

This week will be a short trading week and we do not expect a lot of movement in the wheat market. The USDA Outlook conference will give some early thoughts for next year's seeded area, but these numbers usually do not have a large impact on the market. Global wheat stocks remain relatively tight, but cash trade looks like it will continue to be slow with GASC being the only tender scheduled for this week. The upside for old crop is limited. -We would finish old crop wheat sales at around \$12.00/bu and would sell 20% of expected new crop production at \$11.00/bu.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: February 21, 2023					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Apr '23 (bu.)	Apr '23 (mt.)
1 CWRS 13.5	\$11.49	\$422.19	1 CWRS 13.5	\$11.51	\$422.92
1 CWAD 13.0	\$12.37	\$454.52	1 CWAD 13.0	\$12.33	\$453.05
1 CPSR 11.5	\$11.02	\$404.92	1 CPSR 11.5	\$11.07	\$406.76
SW Sask			SW Sask		
1 CWRS 13.5	\$11.43	\$419.98	1 CWRS 13.5	\$11.46	\$421.09
1 CWAD 13.0	\$12.37	\$454.52	1 CWAD 13.0	\$12.33	\$453.05
1 CPSR 11.5	\$10.99	\$403.82	1 CPSR 11.5	\$11.03	\$405.29
NE Sask			NE Sask		
1 CWRS 13.5	\$11.17	\$410.43	1 CWRS 13.5	\$11.22	\$412.27
1 CWAD 13.0	\$12.31	\$452.32	1 CWAD 13.0	\$12.24	\$449.75
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a
SE Sask			SE Sask		
1 CWRS 13.5	\$11.19	\$411.17	1 CWRS 13.5	\$11.28	\$414.47
1 CWAD 13.0	\$12.30	\$451.95	1 CWAD 13.0	\$12.26	\$450.48
1 CPSR 11.5	\$10.87	\$399.41	1 CPSR 11.5	\$10.93	\$401.61

Data source: PDQ, Feb. 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	(0.40)	-14.70
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, Feb. 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/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:
 - 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:

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.”

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, US & Canadian Dollars per MT

Relevant FOB Prices and Export Basis				February 21, 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	\$505.11	Closed		
HRS	\$498.90			
HRW 11.5	\$518.95			
SWW 12.0	\$424.55			
1 CWRS 13.5 ³	\$505.11		\$416.68	\$88.43
2 CWRS 13.0 ³	\$498.90		\$405.65	\$93.25
3 CWRS ³	\$518.95		\$392.79	\$126.15
CPS ³	\$417.63		\$303.87	\$113.76
1 CWAD ⁴		Closed	\$459.30	
Competing wheat:				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$303.00		March	
French 11.5 (Rouen)	\$324.90		March	
APW 10.5 (W Coast)	\$350.00		March	
Argentine 12.5	\$380.00		March	
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				