

Wheat Market Outlook and Price Report: April 10, 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 April 10, 2023

Agricultural Market Information System (AMIS) April 6 - Market Monitor

	FAO-AMIS			USDA		IGC		IN MILLION TONNES	
	Wheat	2021/22 est	2022/23 f'cast		2021/22 est	2022/23 f'cast	2021/22 est		2022/23 f'cast
		Prod.	2 Mar	6 Apr		8 Mar			16 Mar
Wheat Prod.	778.1	794.6	796.6	779.2	788.9	781.0	801.0		
	641.2	656.9	658.9	642.3	651.2	644.0	663.3		
Supply	1070.7	1088.4	1090.5	1064.2	1060.4	1057.8	1075.6		
	803.4	816.7	818.9	788.1	785.9	793.6	806.0		
Utiliz.	773.6	779.5	780.1	792.7	793.2	783.3	789.3		
	630.8	639.8	638.4	644.7	649.2	642.1	649.8		
Trade	195.7	197.8	199.4	205.3	212.4	196.8	199.1		
	186.0	188.8	188.4	195.8	202.4	187.0	189.4		
Stocks	293.9	305.7	309.5	271.4	267.2	274.6	286.2		
	160.0	164.3	168.3	134.7	127.6	141.7	146.6		

Source: AMIS

- The Agricultural Market Information System (AMIS) released their April report last week. They raised 2022/2023 global wheat production by another 2.0 million mt. The increase was driven by a 2.6 million mt increase in Australia's crop. There were small decreases in Argentina and the EU.
- Global wheat use was put just 600k mt higher to 790.1 million mt. The increase was driven by higher feed use in China. Chinese use is expected to be just under one per cent higher than last year because of larger consumption in both the feed and food sectors.
- Global wheat trade was increased by 1.6 million mt because of larger Chinese imports and larger exports from Australia and Kazakhstan.
- AMIS raised global ending stocks by another 3.8 million mt to 309.5 million mt. This now reflects a five per cent increase in global stocks from last year.

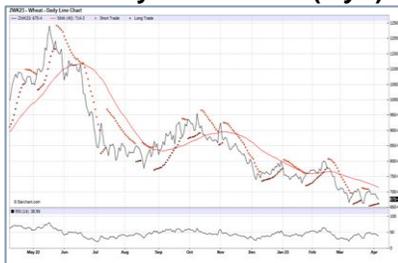
➤ **Global wheat production and trade:**

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:

- May 2023 contract **Chicago winter wheat** closed at \$675-4, down 6-4 cents on Thursday, *down 16-6 cents on the week.*
- May 2023 contract **Kansas hard red winter wheat** closed at \$864-4, up 3-0 cents on Thursday, *down 7-0 cents on the week.*
- May 2023 **Minneapolis hard red spring wheat** closed at \$872-0, down 1-4 cents on Thursday, *down 7-6 cents on the week.*
- *US wheat futures are currently unchanged to five cents higher at the time of writing this Monday morning.*

CBOT May 2023 Wheat (1 yr.)



Kansas May 2023 Wheat



Minneapolis May 2023 Wheat

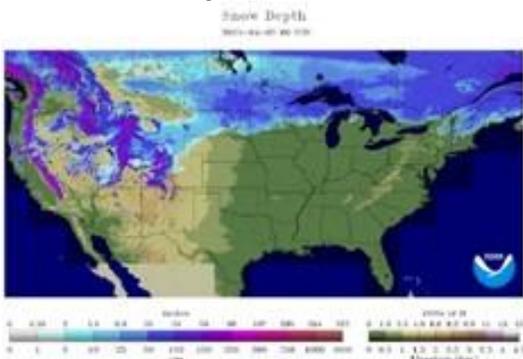


Canadian Wheat

- The possibility of a late spring was supportive to HRS wheat prices, but not enough to prevent Canadian wheat values from moving lower on the week. Canadian prices were pressured by lower futures prices and a stronger Canadian dollar.
- The Northern Plains and southern portions of the Canadian Prairies got hit by heavy snow last week, further prompting concerns of delayed planting in the US HRS region.

Snow Depth in the US and Southern Canada

April 7, 2023

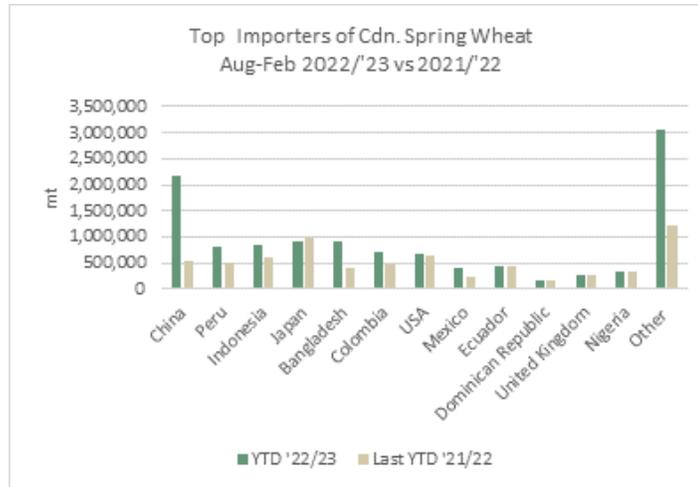


April 7, 2022



- Stats Canada showed February exports at 1.5 million, which is well ahead of the average February volume of 1.1 million mt. August to February exports is now 11.7 million, up 63 per cent from last year. China continues to be the star customer having imported another 255.7k mt of wheat in February. China has now imported an August to February total of 2.2 million mt of Canadian wheat, up 312 per cent from last year. Most of Canada's other major importers are

taking only slightly larger volumes than last year. Exports to “other” countries is also up by 150 per cent. These countries had dramatically reduced their purchases of Canadian wheat last year.



Source: Based on CIMT data

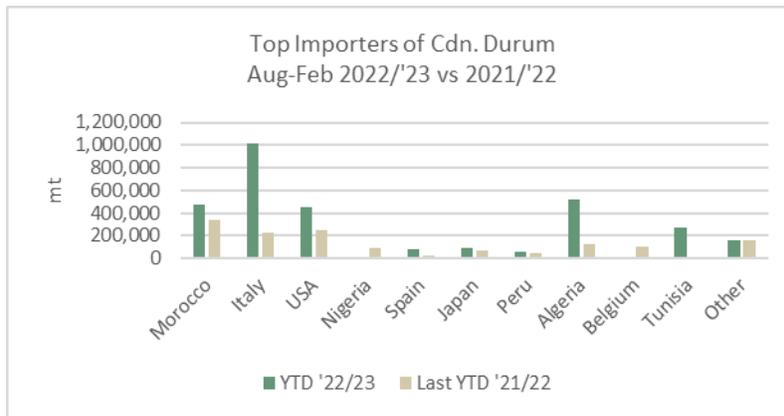
- Canadian wheat exports in week 35 were 388.9k mt for a season total of 13.6 million bushels, up 73 per cent from last year. Although producer deliveries were larger than exports, a jump in domestic use caused visible supply to be lower than the previous week. Nothing has been exported from Thunder Bay yet where wheat stocks have grown to 315.5k mt.

(CGC) Grain Handling Summary Wheat		Week 35 (April 2, 2023)		
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 35	481.8	434.6	388.9	121.7
Week ago	558.9	447.7	392.7	38.9
YTD	16,771.4	15,617.3	13,584.1	2,865.8
Last YTD	11,155.3	9,778.3	7,834.8	2,788.1
YTD less Last YTD	5,616.1	5,839.0	5,749.3	77.7
YTD over Last YTD	150%	160%	173%	103%

Based on CGC data

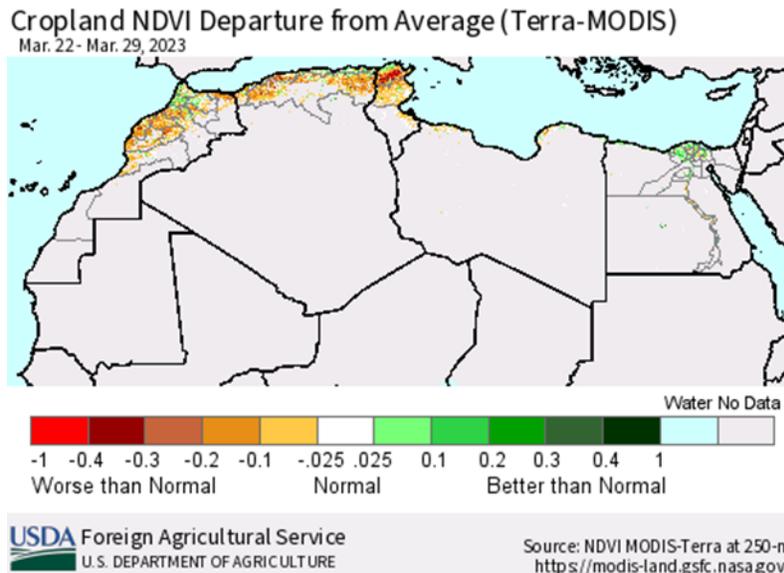
Source:

- Durum:** StatsCan data shows that 482.8k mt of durum were exported in February. This was just over half of the volume in January, but still makes for a season total of 3.2 million mt. This is more than two times last year's amount, and two per cent less than in 2020/2021. Italy is back to being the largest customer, importing a large August to February total of 1.0 million mt. Exports to Italy are more than four and a half times more than last year.



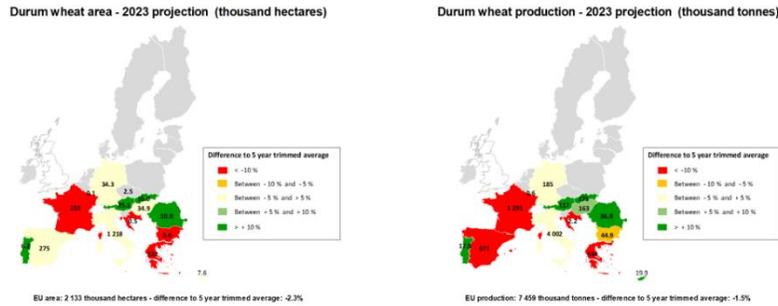
Source: Based on CIMT data

- Looking ahead to next year, durum exports to North Africa and the EU will be the major factors affecting demand for Canadian durum. North Africa's crop is experiencing significant difficulty as drought affects their crop ahead of May harvest time. Demand should remain strong in Tunisia, Morocco and Algeria.



- Meanwhile, the EU commission is expecting that EU durum area will be 100k hectares smaller in 2023/2024 at 2.1 million hectares. We expect that better growing conditions will allow production to be six per cent (400k mt) higher than last year at 7.5 million mt. This would still be two per cent less than the 5-year average.

Durum wheat 2023/24



Source: EU Commission

- Overall, Mercantile thinks durum demand in the EU and Africa will be similar to the current year. While more production in the US will limit demand there, Mercantile thinks Canadian durum will remain robust in the upcoming season.
- Durum exports in week 35 were 88.7k mt. Stocks continue to build in Thunder Bay where there is now 147.5k mt of durum ready for export.

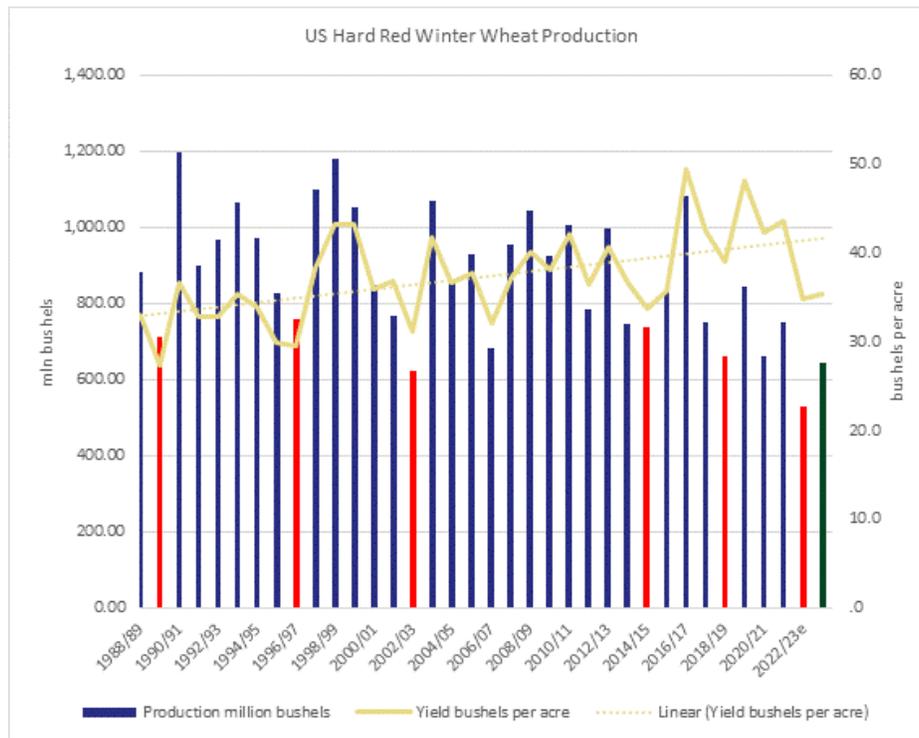
(CGC) Grain Handling Summary Durum			Week 35	(April 2, 2023)
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 35	114.9	93.5	88.7	11.6
Week ago	129.7	137.8	53.0	3.9
YTD	4,197.4	4,191.3	3,684.4	424.3
Last YTD	1,906.5	2,176.0	1,651.5	295.9
YTD less Last YTD	2,290.9	2,015.3	2,032.9	128.4
YTD over Last YTD	220%	193%	223%	143%

Source: Based on CGC data

- *Mercantile is done old crop sales and are 40 per cent sold new crop.*

US Wheat:

- A large portion of the Southern Plains remains dry. Over 50 per cent of Kansas is under extreme to exceptional drought and 48 per cent of the entire US winter wheat crop is under drought conditions.
- The first US crop progress report for the season put the US winter wheat crop condition at 28 per cent Gd/Ex. This was three points lower than what the trade was expecting and two points below last year.
- Winter wheat crop conditions at 28 per cent Gd/Ex is the second lowest rating for this time of year since records began in 1989. The chart below shows the yield and production of the US HRW crop. The production of each year when the initial crop ratings were below 35 per cent Gd/Ex are highlighted in red. Each year highlighted marks a significant drop in yield below trend. The green bar is a production estimate for 2023/2024 using the USDA's seeded area and a yield discount similar those other years with poor initial condition ratings.



Source: Based on USDA data and Merc estimates

- US wheat sales were strong at 193.6k mt (7.1 million bushels). China was the largest buyer at 69.3k mt. Egypt was also reported to have bought 50k mt. Total sales are now 666.6 million bushels which is five per cent behind last year. Weekly sales need to be 2 million bushels for the remainder of the season to meet the USDA's 775 million bushel number.
- US HRS for May 2023 was valued at \$368.70/mt FOB PNW (*down \$7.80/mt from last week*), FOB Gulf HRW 11/12.5 pro is valued at \$379.00/mt (*down \$7.40/mt from last week*).

Australian wheat:

- Reporting agencies are still increasing the size of Australia's 2022/2023 wheat crop. AMIS raised Australia's wheat production by 2.6 million mt from their March estimate which prompted it to raise Australian exports by 2.0 million mt.
- Rain alleviated some concerns of dryness heading into planting. Moisture levels are currently strong, but the El Nino is still in the background.
- FOB values in Australia: May 2023 AWP, WA is valued at \$315.00/mt (*unchanged from last week*).

Argentine wheat:

- The forecast in Argentina is turning drier again. Soil moisture is low ahead of seeding which starts next month.
- Argentina's Grain Inspectors' Union are back to work after a week-long strike.

EU wheat:

- Marché à Terme International de France (MATIF) wheat futures were stronger mid-week but turned lower on the Russian sale to Egypt. EU wheat exports are not able to compete with cheap Black Sea supplies, and news from the Black Sea is causing EU prices to be volatile.

- Hungary, Romania, Bulgaria and Slovakia have joined Poland in raising concerns about the large volumes of cheap Ukrainian grain that have been entering their countries. Last week, Poland suggested curbs on Ukrainian grain coming into the EU.
- FOB prices in the EU: May 2023 French 11.5 pro wheat closed at \$283.90/mt (*down \$9.10/mt from last week*); May 2023 German 12.5 pro wheat closed at \$283.90 (*down \$7.90/mt from last week*); May 2023 Baltic 14.0 pro wheat closed at \$297.80/mt (*down \$6.90/mt from last week*).

Black Sea wheat:

- Global wheat markets were pressured by the Russian sale of 600,000 mt of wheat to Egypt. The sales were made at \$269.00/mt on an FOB basis compared to the \$275.00/mt that many analysts were saying would be the floor price.
- There was renewed rhetoric over the weekend of Russia's displeasure of the Black Sea Grain Deal. Russia threatened to scrap the deal if barriers to Russian grain and fertilizer persist.
- The Ruble made an all-time low close. As Russia's economy looks set to crumble, the Russians need to sell wheat in dollars.
- Louis Dreyfus added their hat to the group of multinational grain companies exiting the Russian market.

➤ **Significant purchases/ trades:**

- **Egypt** bought 600,000 mt of wheat for Russia at \$269.00/mt.
- **Japan** bought 79,000 mt of food quality wheat from the US and Canada in their weekly tender.
- **US** commercial wheat sales were 151,700 mt for a year-to-date total of 18.0 million mt. This is five per cent behind last year's pace.

➤ **Wheat Market Outlook:**

Significant events over the past week:

- **Although wheat area in Turkey is expected to have grown by 350k hectares in 2023/2024, the USDA Post is expecting wheat production will be unchanged from last year** at 17.25 million mt. Of this, 3.0 million mt is expected to be durum. Unchanged production despite a five per cent increase in area is because of dry conditions from October to February. Post is expecting conditions will improve from March to June. Imports are expected to be unchanged from last year at 10.0 million mt and exports are projected to be unchanged at 7.0 million mt.
- **The next USDA report is out on Tuesday.** We expect the report to be neutral for wheat, but there could be some spillover buying or selling in wheat if corn numbers are significantly different than expectations. The trade is expecting US corn stocks will be 23 million bushels lower at 1.3 billion bushels. US wheat stocks are expected to rise by 6 million bushels to 574 million bushels.

Outlook:

The funds and consumers are keeping their ownership of old crop to a minimum as they expect new crop will be available at lower prices. Weather continues to be a big factor of uncertainty and needs to be watched. From Mercantile's perspective, new crop is undervalued considering how long it is before new crop grain is safely in the bin. – *Mercantile is sold out of old crop and will wait 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 MILLION MT

Date: April 10, 2023					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		June '23 (bu.)	June '23 (mt.)
1 CWRS 13.5	\$10.93	\$401.61	1 CWRS 13.5	\$10.91	\$400.88
1 CWAD 13.0	\$12.21	\$448.64	1 CWAD 13.0	\$12.16	\$446.81
1 CPSR 11.5	\$10.92	\$401.24	1 CPSR 11.5	\$10.60	\$389.49
SW Sask			SW Sask		
1 CWRS 13.5	\$10.77	\$395.73	1 CWRS 13.5	\$10.77	\$395.73
1 CWAD 13.0	\$12.21	\$448.64	1 CWAD 13.0	\$12.16	\$446.81
1 CPSR 11.5	\$10.43	\$383.24	1 CPSR 11.5	\$10.42	\$382.87
NE Sask			NE Sask		
1 CWRS 13.5	\$10.69	\$392.79	1 CWRS 13.5	\$10.67	\$392.06
1 CWAD 13.0	\$12.02	\$441.66	1 CWAD 13.0	\$11.98	\$440.19
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a
SE Sask			SE Sask		
1 CWRS 13.5	\$10.59	\$389.12	1 CWRS 13.5	\$10.55	\$387.65
1 CWAD 13.0	\$12.13	\$445.70	1 CWAD 13.0	\$12.07	\$443.50
1 CPSR 11.5	\$10.28	\$377.73	1 CPSR 11.5	\$10.25	\$376.63

Data source: PDQ, Apr. 10/23

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, Apr. 10/23

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 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, SK (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)

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.”

- 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.
 - 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, US & Canadian Dollars per MT

Relevant FOB Prices and Export Basis				April 10, 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	\$481.97	\$9.37		
HRS	\$475.71			
HRW 11.5	\$503.83			
SWW 12.0	\$377.13			
1 CWRS 13.5 ³	\$481.97		\$397.94	\$84.03
2 CWRS 13.0 ³	\$475.71		\$386.91	\$88.79
3 CWRS ³	\$503.83		\$374.05	\$129.78
CPS ³	\$370.17		\$303.87	\$66.30
1 CWAD ⁴		\$11.85	\$455.63	\$133.17
Competing wheat:				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$275.00		May	
French 11.5 (Rouen)	\$9.10		May	
APW 10.5 (W Coast)	\$315.00		May	
Argentine 12.5	\$332.00		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				