

Wheat Market Outlook and Price Report: April 24, 2023
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Mercantile Consulting Venture Inc.

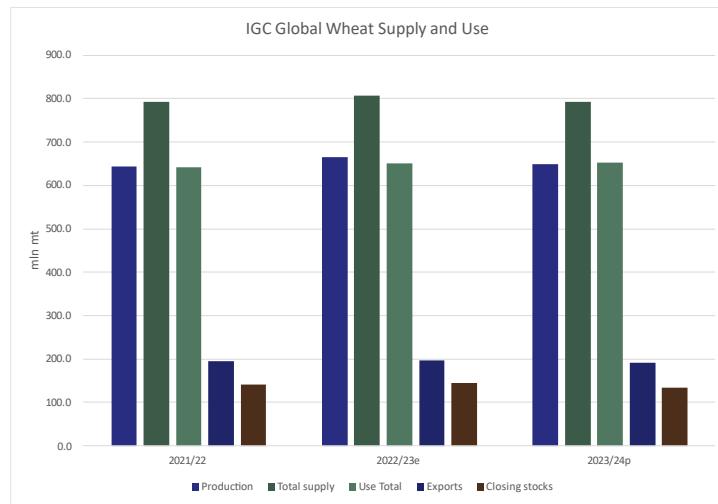
i) Background and Rationale for the Report

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 24, 2023

International Grains Council's April Grain Market Report



Source: based on IGC data

- The attention of the wheat market is increasingly turning towards new crop which will start becoming available in late June. The International Grains Council (IGC) released their April Grain Market Report on April 20.
- The IGC put the global 2023/2024 wheat crop at 787.3 million mt. This would be a two per cent (15.7 million mt) decline in global wheat production from the previous year. Most of the year-over-year decrease in production is expected to come from smaller crops in Russia, Australia and Ukraine. These decreases would only be partially offset by stronger production in Argentina and the U.S.
- Global use in 2023/2024 is expected to rise by another one million mt, and ending stocks are forecast to tighten by two per cent, or 6.7 million mt.

➤ **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 \$661-6, down 6-0 cents on Friday, *down 20-6 cents on the week.*
- May 2023 contract **Kansas hard red winter wheat** closed at \$840-6, up 0-4 cents on Friday, *down 38-0 cents on the week.*
- May 2023 **Minneapolis hard red spring wheat** closed at \$847-0, down 8-6 cents on Friday, *down 29-2 cents on the week.*
- *U.S. wheat futures are currently trading 5 cents higher to 4 cents lower at the time of writing.*

Chicago May 2023 Wheat (1 yr.)



Kansas May 2023 Wheat



Minneapolis May 2023 Wheat



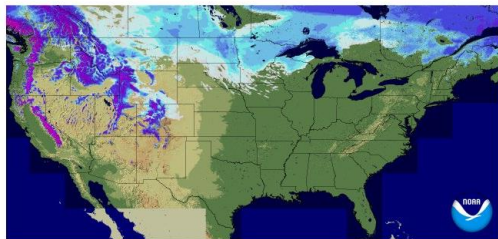
Canadian Wheat

- Spring wheat seeding in North America continues to look like it will have a slow start. There was additional snow in large parts of the Canadian prairies last week, and snow still covers large areas of Montana and North Dakota. Three percent of the U.S. spring wheat area has been seeded which is five per cent behind last year and four per cent behind average.

Snow Depth in the U.S. and Southern Prairies

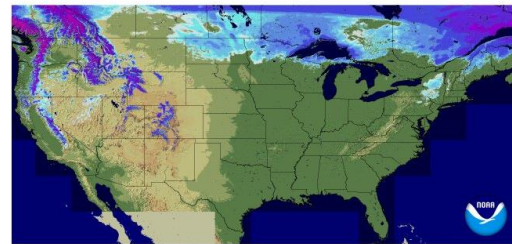
April 22, 2023

Snow Depth
2023-04-22 06 UTC

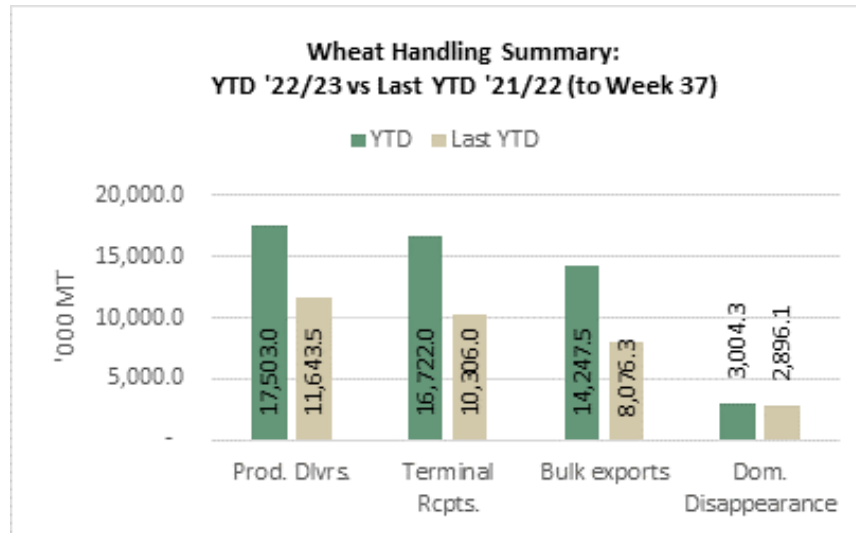


April 22, 2022

Snow Depth
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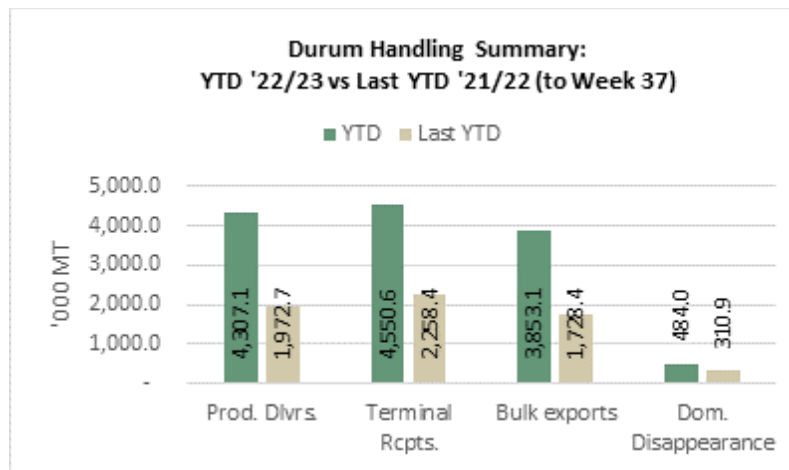


- Canadian wheat exports in week 37 were 321.8k mt for a season total of 8.1 million mt. There were no exports from Thunder Bay, and just 22.6k mt exported from the Bay and Lakes.



Source: Based on CGC data

- **Durum:** There was not a whole lot new in the durum market. Most of the old crop trade is done and users will be increasingly turning to new crop.
- Durum exports in week 37 were 69.8k mt for a season total of 3.8 million mt. This means that Canada has approximately 1.0 million mt of exportable surplus remaining to export in the last 15 weeks of the marketing year. Farmers have already delivered 563.2k mt of this into the elevator system. There was nothing exported from Thunder Bay where durum stocks grew only slightly to 108.0k mt.



Source: based on CGC data

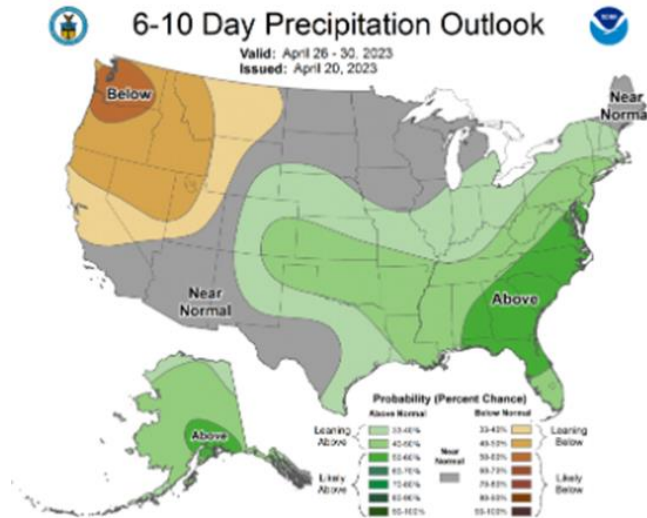
- *Mercantile is sold out of old crop durum and have sold 40 per cent of expected new crop production.*

U.S. Wheat:

- U.S. wheat futures were lower last week on rain in the forecast in the Southern U.S. Plains.
- U.S. crop ratings were unchanged at 27 per cent Gd/Ex. This is still the worst condition rating in the past 34 years, and three points below last year. Kansas, Oklahoma, and Texas crops are

being impacted the most where poor/very poor conditions are 60 per cent, 53 per cent and 52 per cent respectively.

- There is rain in the forecast for a swath of the Southern Plains. The rain will improve conditions in some regions, but it is likely too late to save the crops in many of the most drought-impacted areas.



- U.S. commercial wheat sales were 259.0k mt (9.5 million bushels) for the week, resulting in a season total of 18.5 million mt (681.1 million bushels). Total commitments are now four per cent behind last year. We estimate that U.S. sales only need to be about a million bushels per week for the remaining six weeks of the U.S. wheat marketing year.
- U.S. HRS for May 2023 was valued at \$366.30/mt FOB PNW (*up \$6.30/mt from last week*), FOB Gulf HRW 11/12.5 pro is valued at \$379.10/mt (*up \$8.10/mt from last week*).

Australian wheat:

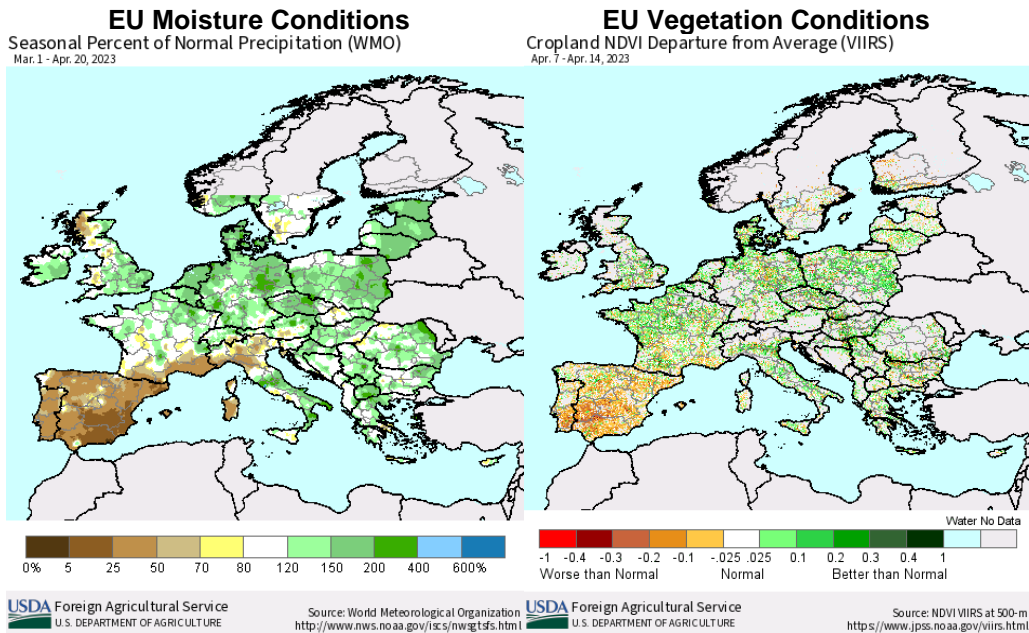
- Seeding has started in Australia’s Queensland where soil moisture levels are good.
- The International Grain Council thinks Australia’s 2023/2024 wheat crop will be impacted by the El Nino. It is predicting Australia’s 2023/2024 crop will be 27.9 million mt which is almost 30 per cent less than last year.
- FOB values in Australia: May 2023 AWP, WA is valued at \$310.00/mt (*unchanged from last week*).

Argentine wheat:

- In Argentina, farms sold just 70k mt of wheat over the week. Twenty thousand tonnes went to exporters while mills bought 50k mt. Argentina’s mills use about 120k mt of wheat per week. Their purchases imply they have been running hand-to-mouth.
- Argentina is not seeing any of the usual impacts of the El Nino as the country remains dry and warm as seeding time approaches.

EU wheat:

- While most of the EU has strong growing conditions, dryness in parts of southern Europe is a growing issue. Spain is being impacted the most, where 3.5 million hectares of crop are said to be irreversibly damaged. Spain grows about four per cent of all EU wheat production. Crop conditions in France and Italy are strong, but the drought is causing water use restrictions in these countries as well.



- Bulgaria, Hungary, Poland, Romania and Slovakia all announced bans on grain and other food imports from Ukraine. The EU Commission said it would ban Ukrainian grain and oil seed imports in these countries until June 5 but will only enforce it if the bans by the individual countries are removed. Some of these countries have said they will allow Ukrainian food products through their countries so long as nothing is unloaded. In Poland, there are videos of electronic seals being added to Ukrainian transport trucks which are then escorted by boarder patrol across the country.
- FOB prices in the EU: May 2023 French 11.5 pro wheat closed at \$282.80/mt (*up \$3.80/mt from last week*); May 2023 German 12.5 pro wheat closed at \$287.20 (*up \$3.20/mt from last week*); May 2023 Baltic 14.0 pro wheat closed at \$301.10/mt (*up \$11.10/mt from last week*).

Black Sea wheat:

- There is on-going rhetoric about the Black Sea corridor. Inspections were halted for two days but have since resumed. There are reports that the corridor will be wound down even before the May 18 deadline.
- Ukraine is looking to deepen the Danube River so they will be able to export grains into Western Europe even if the trade corridor closes.
- The Russian AgMin put Russia's wheat crop at 78 million mt, which included parts of occupied Ukraine. There is no way of knowing what Russia planted last fall, but it likely means that Russia will produce 75 million mt on their own land. A 75 million mt crop means that yield would be 25 per cent less than last year. Previous estimates put Russia's crop at 80-85 million mt.

➤ Significant purchases/ trades:

- **The Philippines** bought June-July Australian wheat at around \$290.00/mt.
- **U.S.** commercial wheat sales were 259,000 mt for a year-to-date total of 18.5 million mt. This is four per cent behind last year's pace.

➤ Wheat Market Outlook:

Significant events over the past week:

- **The EU and Russia are still sitting on large stockpiles of old crop wheat.** Russia's record wheat crop and EU farmer's reluctance to sell at lower prices has caused wheat stocks in Europe to be large.
- **Vessel inspections in the Joint Coordination Center were halted for two days** as Russian officials continued to call for the lifting of sanctions on Russian payments, logistics and insurance. Threats over the Grain Corridor have been a regular occurrence since it was implemented, but there is a growing feeling that Russia may follow through this time. A closure of the trade corridor would be more important for new crop, as Ukraine has already shipped most of its exportable surplus of wheat.
- Commodity Future Trading Commission (CFTC) confirmed spring wheat speculative traders were 38 contracts net long on 18,000 open interests. **Overall speculative traders were short about 100,000 contracts of U.S. wheat futures.**

Outlook:

Mercantile believes Russian new crop supplies should be ample, and prices are still attractive to Russian growers and assumes Russia will again be an aggressive seller of wheat for the Sept. - Dec. period. According to Mercantile, the future of Ukraine's wheat crop and their ability to move it remains difficult to assess. Rain in the U.S. will probably not change crop prospects there materially, and while conditions have improved, Mercantile says Canada still needs to get a crop in the ground. – *Mercantile is sold out of old crop and will wait before selling additional volumes of 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 24, 2023

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		June '23 (bu.)	June '23 (mt.)
1 CWRS 13.5	\$10.53	\$386.91	1 CWRS 13.5	\$10.52	\$386.55
1 CWAD 13.0	\$11.87	\$436.15	1 CWAD 13.0	\$11.74	\$431.37
1 CPSR 11.5	\$10.16	\$373.32	1 CPSR 11.5	\$10.18	\$374.05
SW Sask			SW Sask		
1 CWRS 13.5	\$10.34	\$379.93	1 CWRS 13.5	\$10.26	\$376.99
1 CWAD 13.0	\$11.74	\$431.37	1 CWAD 13.0	\$11.51	\$422.92
1 CPSR 11.5	\$9.93	\$364.87	1 CPSR 11.5	\$9.90	\$363.77
NE Sask			NE Sask		
1 CWRS 13.5	\$10.25	\$376.63	1 CWRS 13.5	\$10.24	\$376.26
1 CWAD 13.0	\$11.71	\$430.27	1 CWAD 13.0	\$11.68	\$429.17
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a
SE Sask			SE Sask		
1 CWRS 13.5	\$10.15	\$372.95	1 CWRS 13.5	\$10.11	\$371.48
1 CWAD 13.0	\$11.79	\$433.21	1 CWAD 13.0	\$11.73	\$431.01
1 CPSR 11.5	\$9.72	\$357.15	1 CPSR 11.5	\$9.72	\$357.15

Data source: PDQ, Apr. 24/'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. 24/'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 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% in Vancouver
 - HRS in the Pacific Northwest (PNW) ≈ 2 CWRS 13.0% 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, U.S. & Canadian Dollars per MT

Relevant FOB Prices and Export Basis				April 24, 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	\$471.29	\$9.27		
HRS	\$465.03			
HRW 11.5	\$478.25			
SWW 12.0	\$372.36			
1 CWRS 13.5 ³	\$471.29		\$382.14	\$89.16
2 CWRS 13.0 ³	\$465.03		\$371.11	\$93.91
3 CWRS ³	\$478.25		\$358.25	\$120.00
CPS ³	\$365.40		\$303.87	\$61.53
1 CWAD ⁴		\$10.34	\$437.25	\$76.79
Competing wheat:				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$275.00		May	
French 11.5 (Rouen)	\$282.80		May	
APW 10.5 (W Coast)	\$310.00		May	
Argentine 12.5	\$335.00		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