

Wheat Market Outlook and Price Report: April 3, 2023

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

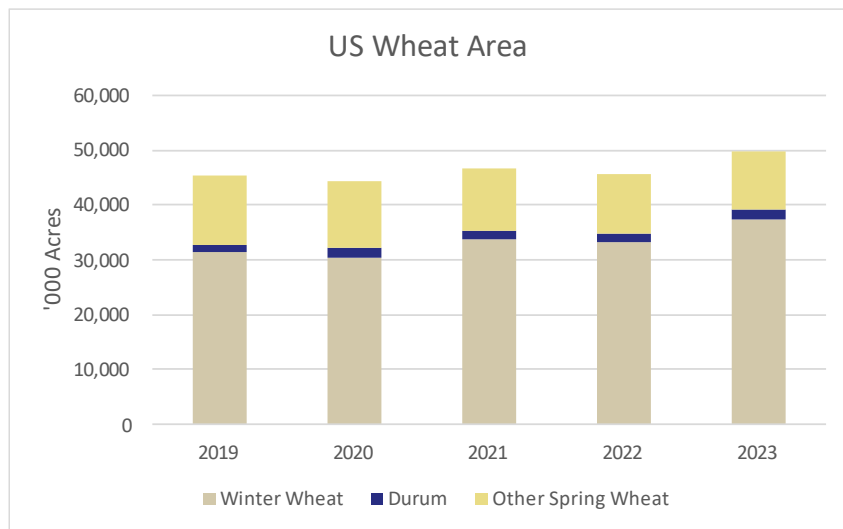
i) Background and Rationale for the Report

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 3, 2023

United States Department of Agriculture Prospective Plantings Report



Source: Based on USDA data

- The United States Department of Agriculture (USDA) Prospective Plantings Report was released on Friday. The report put all wheat seeded area at 49.9 million acres. This was 1 million acres above what the trade was expecting and reflects a 9 per cent increase (up 4.1 million acres) from last year.
- The bulk of the increase in wheat area was in winter wheat, where the USDA raised their estimate by 550k acres from their January estimate to 37.5 million acres. This is now 13 per cent more than last year.
- The USDA put durum area up nine per cent from last year to 1.8 million acres.
- Other spring wheat area was down two per cent to just 10.6 million acres.

➤ **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 \$692-2, unchanged on Friday, *up 3-6 cents on the week.*
- May 2023 contract **Kansas hard red winter wheat** closed at \$877-6, up 6-2 cents on Friday, *up 29-6 cents on the week.*
- May 2023 **Minneapolis hard red spring wheat** closed at \$895-6, up 16-0 cents on Friday, *up 38-4 cents on the week.*
- *US wheat futures are currently trading 9 to 15 cents higher at the time of writing this Monday morning.*

Chicago May 2023 Wheat (1 yr.)



Kansas May 2023 Wheat



Minneapolis May 2023 Wheat



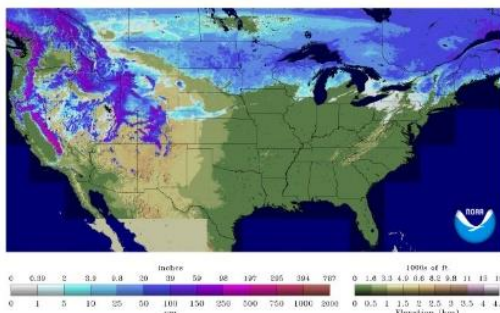
Canadian Wheat

- Cold and snowy weather will likely delay seeding in the spring wheat areas of the US and parts of the Canadian prairies. We have heard there are record levels of snow in parts of Montana for this time of year. Another system is expected to bring 10 to 20 inches of snow to the Dakotas and Southern Manitoba this week.

Snow Depth in the US and Southern Canada

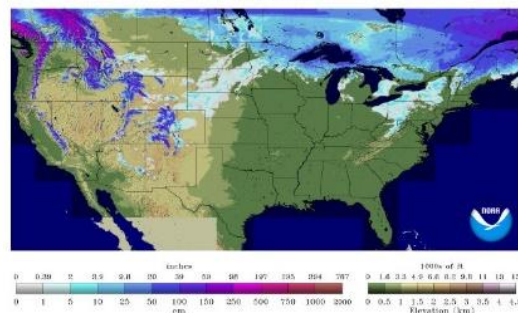
May 30, 2023

Snow Depth
2023-05-30 06 UTC



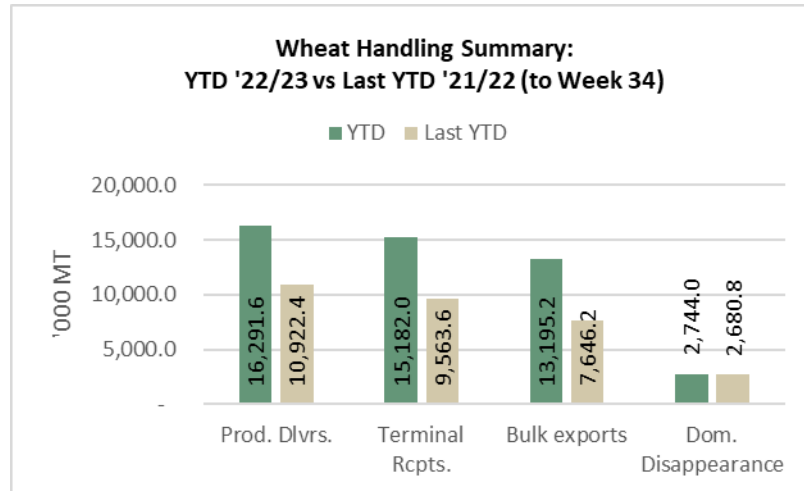
May 30, 2022

Snow Depth
2022-05-30 06 UTC



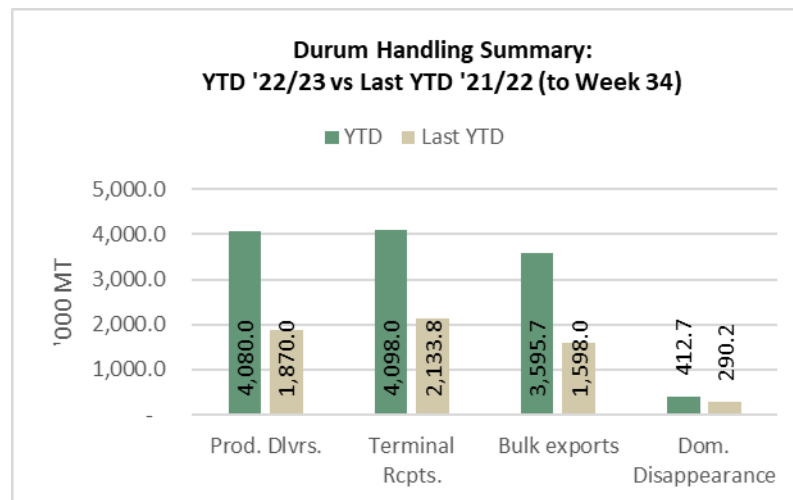
- Canadian wheat exports continue to slow. Despite this, week 34 exports of 392.7k mt were still above the average weekly pace needed to meet the Agriculture and Agri-Food's (AAFC) export number. If maintained, the current pace suggests Canadian exports could surpass 19.5 million mt compared to the AAFC's current export number of 19.3 million mt.

- Canadian producer deliveries were 558.9k mt during the week, causing stocks to grow to 2.9 million mt. Most of the stocks are in primary elevators. Visible stocks in Thunder Bay grew by 66.7k mt over the week as exporters prepared for the opening of the Great Lakes. The Great Lakes saw its first ships of the season on Saturday March 25th.



Source: Based on CGC data

- Durum:** Just 53.0k mt of durum was shipped in week 34 as exporters build stocks in both Vancouver, (for exports to North Africa), and in Thunder Bay (for exports to Europe). The Great Lakes are now open, and we expect to see shipments out of Thunder Bay over the next few weeks.

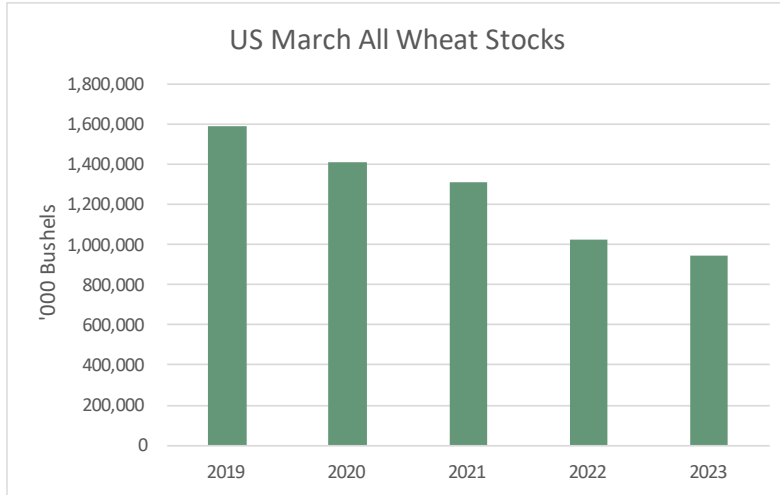


Source: Based on CGC data

- Mercantile is now done old crop sales and are 40 per cent sold new crop at an average price of \$12.35/bu for a #1CWAD.*

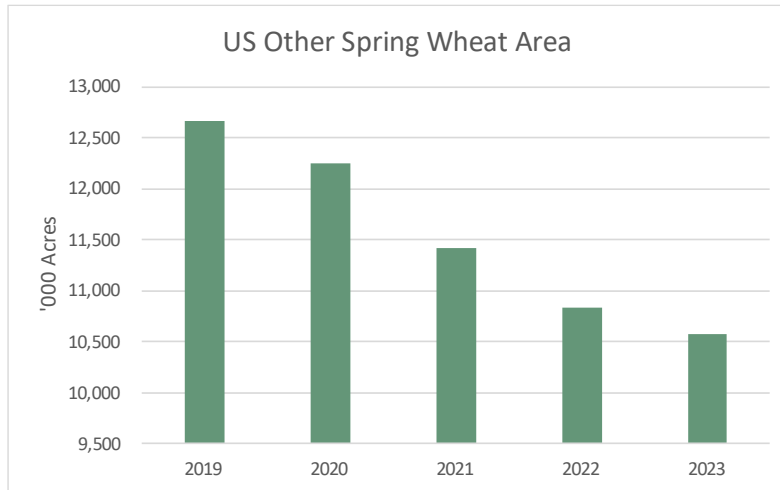
US Wheat:

- The USDA Stocks Report was neutral for wheat. March 1, 2023, wheat stocks were 12 million bushels above what the trade was guessing at 946 million bushels. This is an eight per cent decrease (down 83 million bushels) from last year. On farm stocks were 53 million bushels higher than last year, while off farm stocks were 136 million bushels lower.



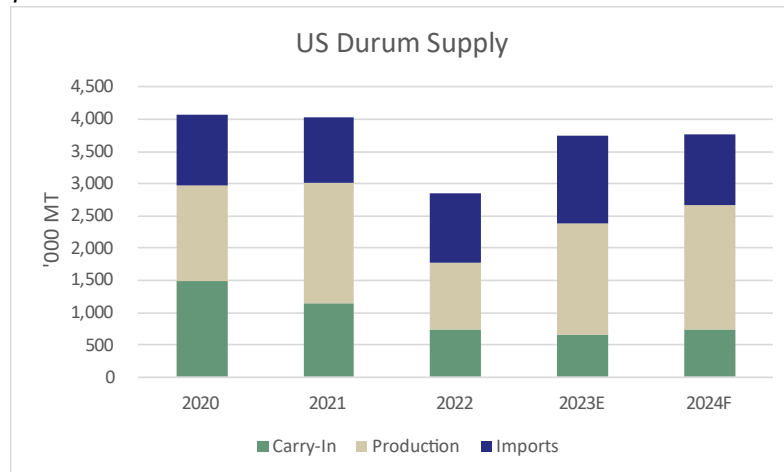
Source: Based on USDA data

- The USDA Prospective Plantings Report put all wheat seeded area one million acres above what the trade was expecting at 49.9 million acres. Winter wheat area is expected to be 37.5 million acres, up 13 per cent from last year.
- US spring wheat area was put at just 10.6 million acres, which reflects a two per cent decrease from last year compared to the trade's forecast for a one per cent increase in seeded area. This number was bullish for spring wheat, but is likely to low.



Source: Based on USDA data

- The USDA put durum area up nine per cent from last year to 1.8 million acres. A return to trend yield would result in a 10 per cent production increase from last year to 1.9 million mt. We have US imports down 200k mt for a total supply like last year at 3.8 million mt. We estimate smaller animal feed use will allow US durum exports to increase by 75k mt to 625k mt. - *This is not helpful to Canadian prices.*



Source: Based on USDA data

- The US winter wheat crop saw some additional moisture relief. Forty-eight percent of the US winter wheat crop is experiencing drought conditions which is a three per cent improvement from last week. Kansas, Nebraska and Colorado continue to be the most impacted. Winter wheat crop conditions in Kansas are 19 per cent Gd/Ex and 52 per cent poor/very poor. The first Crop Progress Report for the season is out this (Monday) afternoon.
- United States HRS for April 2023 was valued at \$376.50/mt FOB PNW (*Up \$14.10/mt from last week*), FOB Gulf HRW 11/12.5 pro is valued at \$386.40/mt (*up \$19.00/mt from last week*).

Australian wheat:

- News was limited out of Australia. Conditions have turned slightly drier, but soil moisture is strong overall. Seeding in Australia will start in the next few weeks.
- FOB values in Australia: April 2023 AWP, WA is valued at \$315.00/mt (*up \$15.00/mt from last week*).

Argentine wheat:

- After some beneficial rain, Argentina’s forecast is dry again for the next two weeks.
- Argentina’s grain inspectors’ union has launched an indefinite strike. Strikes in Argentina have become common place and the markets have largely stopped paying attention to them.

EU wheat:

- The EU Commission updated their 2022/2023 wheat balance sheet and released their initial estimates for the upcoming 2023/2024 crop. For old crop, imports were raised by 1.0 million mt which went directly into ending stocks. New crop production is expected to rise by four per cent from last year. Higher production and beginning stocks, but smaller imports are expected to cause total supply to grow by two per cent year-over-year. Unchanged demand from the previous year will cause the entire increase in supply to go into ending stocks which are expected to grow by 19 per cent to 22.0 million mt.
- Poland says they want to start curbing imports from Ukraine as the country has been inundated with cheap Ukrainian grain. The EU Ag Commissioner (who is Polish) has said he would support such measures, but we do not think they are possible.

- FOB prices in the EU: April 2023 French 11.5 pro wheat closed at \$293.00/mt (*up \$15.70/mt from last week*); April 2023 German 12.5 pro wheat closed at \$291.80 (*up \$17.90/mt from last week*); April 2023 Baltic 14.0 pro wheat closed at \$304.70/mt (*up \$19.00/mt from last week*).

Black Sea wheat:

- Russia has been making some interesting moves. Cargill, Viterro, and now ADM announced they are exiting the Russian export market. Cargill later clarified they are only going to stop elevating Russian grain and will continue to export Russian grain. These announcements come three weeks after rumours that the Russian government has asked multinational grain companies to leave. *These moves are largely cosmetic. Russian grain will continue to be exported regardless of what company name is on the paperwork.*
- There were a lack of Russian offers at the TMO (Turkey) tender. This could have resulted from confusion surrounding the recent exit announcements of multinational grain companies, or simply the Russian government preferred to do a private deal.
- Black Sea prices are nominal. Russian FOB prices are officially at the \$275 floor, but we have heard rumors of \$260/mt offers.

➤ **Significant purchases/ trades:**

- **Turkey** bought 395k mt of wheat from Ukraine last week. Initial reports indicated 695k mt was purchased, but this was later decreased by 300k mt. We are not sure about the reason for the decrease. There is speculation that Turkey was upset by the lack of Russian offers, or maybe Russia supplied the 300k mt in a government-to-government deal.
- **Jordan** tenders tomorrow (Tuesday).
- **US weekly wheat sales** were within the trade's expectation at 151.7k mt (5.6 million bushels). This is still well ahead of the approximately 2.0 million bushels of weekly sales needed to meet the USDA's 775 million bushel export estimate.

➤ **Wheat Market Outlook:**

Significant events over the past week:

- **OPEC announced a surprise, 500,000 bpd, cut in oil production this Monday morning.**
- **The USDA March Stocks and Prospective Plantings Report** was seen as supportive to the markets. The USDA put US corn and soybean stocks as of March 1st below the trade's expectations. Corn area was higher than trade guesses, but soybean area was smaller.
- **The USDA March US soybean stocks and acreage** came in well below the trade's expectations.

Outlook:

Mercantile believes the market will center more on weather and what happens to the Black Sea corridor after the 60-day extension. It will be a short week in Europe because of Good Friday. However, weather, Trump's surrender in New York, and more on the banking crisis could keep markets volatile. Mercantile believes futures could gain a bit. – *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 3, 2023					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		June '23 (bu.)	June '23 (mt.)
1 CWRS 13.5	\$11.23	\$412.64	1 CWRS 13.5	\$11.26	\$413.74
1 CWAD 13.0	\$12.27	\$450.85	1 CWAD 13.0	\$12.23	\$449.38
1 CPSR 11.5	\$10.74	\$394.63	1 CPSR 11.5	\$10.75	\$395.00
SW Sask			SW Sask		
1 CWRS 13.5	\$11.07	\$406.76	1 CWRS 13.5	\$10.96	\$402.71
1 CWAD 13.0	\$10.23	\$375.89	1 CWAD 13.0	\$12.22	\$449.01
1 CPSR 11.5	\$10.55	\$387.65	1 CPSR 11.5	\$10.53	\$386.91
NE Sask			NE Sask		
1 CWRS 13.5	\$10.93	\$401.61	1 CWRS 13.5	\$10.97	\$403.08
1 CWAD 13.0	\$12.11	\$444.97	1 CWAD 13.0	\$12.09	\$444.23
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a
SE Sask			SE Sask		
1 CWRS 13.5	\$10.84	\$398.30	1 CWRS 13.5	\$10.81	\$397.20
1 CWAD 13.0	\$12.21	\$448.64	1 CWAD 13.0	\$12.17	\$447.17
1 CPSR 11.5	\$10.43	\$383.24	1 CPSR 11.5	\$10.41	\$382.51

Data source: PDQ, Apr. 3/23

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. 3/23

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)
- 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).

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.”

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 3, 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	\$490.81	Closed		
HRS	\$484.63			
HRW 11.5	\$505.10			
SWW 12.0	\$383.87			
1 CWRS 13.5 ³	\$490.81		\$401.61	\$89.20
2 CWRS 13.0 ³	\$484.63		\$390.59	\$94.04
3 CWRS ³	\$505.10		\$377.73	\$127.37
CPS ³	\$376.98		\$303.87	\$73.10
1 CWAD ⁴		\$11.85	\$455.63	\$128.32
Competing wheat: US\$/mt				
Russia 12.5 (Black Sea, 25k mt)	\$275.00		April	
French 11.5 (Rouen)	\$293.00		April	
APW 10.5 (W Coast)	\$315.00		April	
Argentine 12.5	\$332.00		April	
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				