

Wheat Market Outlook and Price Report: August 8, 2023

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

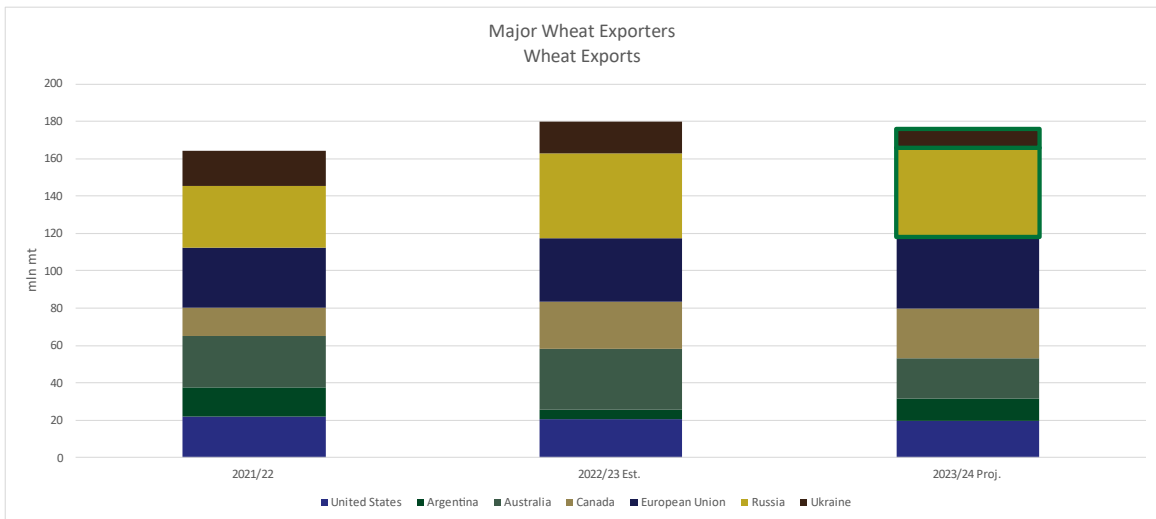
i) Background and Rationale for the Report

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 August 8, 2023

Wheat Exports from the Major Wheat Exporting Countries



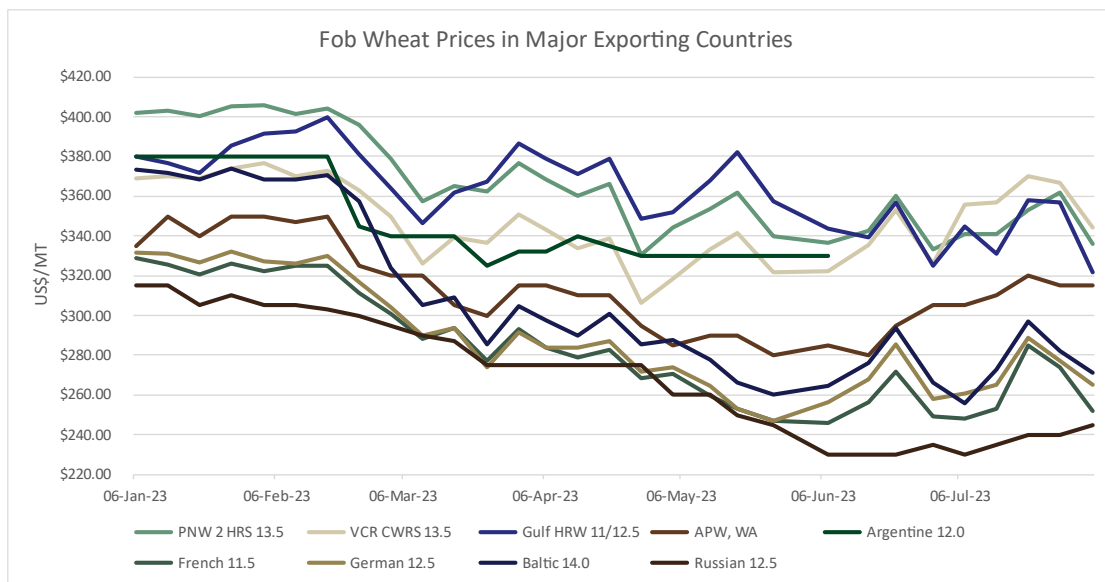
Source: USDA

- Wheat supplies in many of the world's top wheat exporting countries are depleting. This is heightening the importance of Black Sea wheat, and its ability to reach the market.
- Last week, Russian drones attacked Ismail, one of Ukraine's ports along the Danube River. Ukrainian drones also attacked a Russian naval port in Novorossiysk, temporarily halting export loading at the port nearby.
- While Ukraine's Danube ports have since resumed near-normal operations, Ukraine's ability to use the Danube River has become important. With the closure of the Black Sea trade deal, the Danube is now a main export route to move Ukraine's grain. Ukraine can ship ~2-2.5 million mt of grain per month through the Danube and another ~2 million mt by rail. The combination of these would allow the country to export all the ~40 million mt of grain exports that are expected from Ukraine this year. The inability to use the Danube River would cut Ukraine's export capacity by

almost half. Russia's continued attacks on Ukraine's grain infrastructure appears to be a deliberate attempt to prevent the country from exporting grain.

- Russia's ability to export is even more important to the wheat market. Ukraine's attack on the Russian naval base was close to grain terminals as Novorossiysk is Russia's main grain export terminal. Similarly, attacks on the Crimean bridge affect imports on the Kerch Strait which accounts for roughly one third of Russia's grain exports.
- While Ukraine and Russia are both currently able to export grain, recent attacks on and around key export infrastructure are concerning. Major disruptions in the Black Sea will be especially important to the wheat market.

FOB Wheat Price Comparison



Source: based on Merc data

- Global wheat prices saw steep declines last week as recent cash business showed just how cheap Black Sea wheat is compared to EU and U.S. origins.
- Russian wheat was offered at prices that reflect the rumored \$250/mt price floor.

➤ 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:

- Sept. 2023 contract Chicago winter wheat closed at \$633-0, up 6-0 cents on Friday, *down 71-2 cents on the week.*
- Sept. 2023 contract Kansas hard red winter wheat closed at \$752-4, down 15-0 cents on Friday, *down 103-6 cents on the week.*
- Sept. 2023 Minneapolis hard red spring wheat closed at \$822-2, down 11-2 cents on Friday, *down 73-6 cents on the week.*
- Marché à Terme International de France (MATIF) milling wheat futures rose €7.75 over the week.
- After small gains on Monday, U.S. wheat futures are currently trading unchanged to five cents higher at the time of writing.

Chicago Sept 2023 Wheat (1 yr.)



Kansas Sept 2023 Wheat



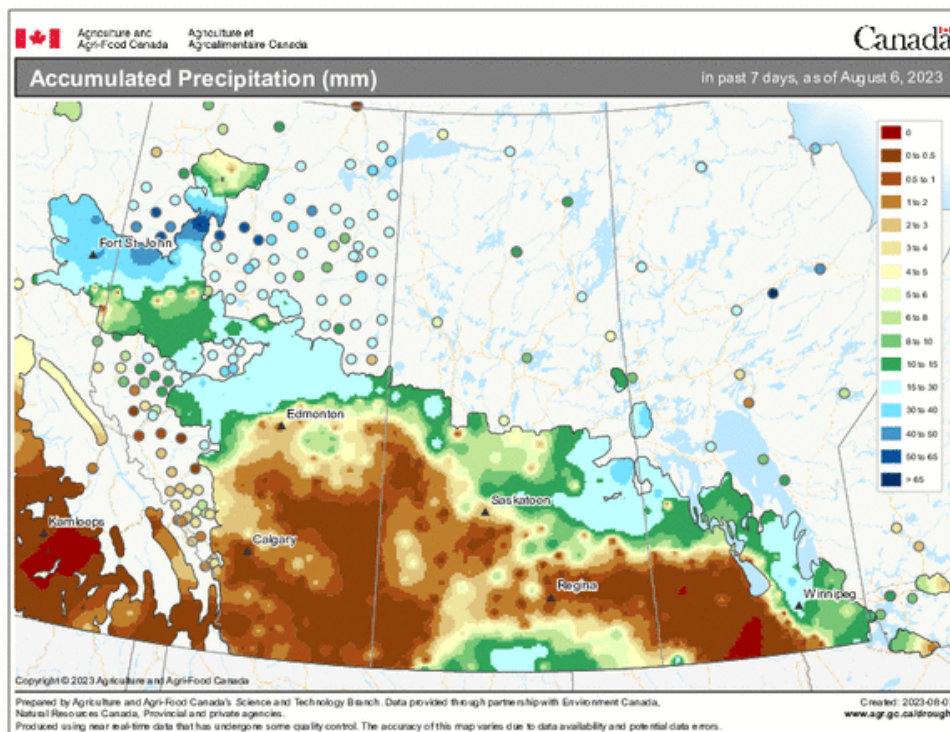
Minneapolis Sept. 2023 Wheat



Canadian Wheat

- Rain in the Canadian Prairies last week was largely confined to the northern regions as the drought in most of the cropping areas deepened. Topsoil moisture conditions in Saskatchewan fell two per cent over the week to 13 per cent “adequate”.

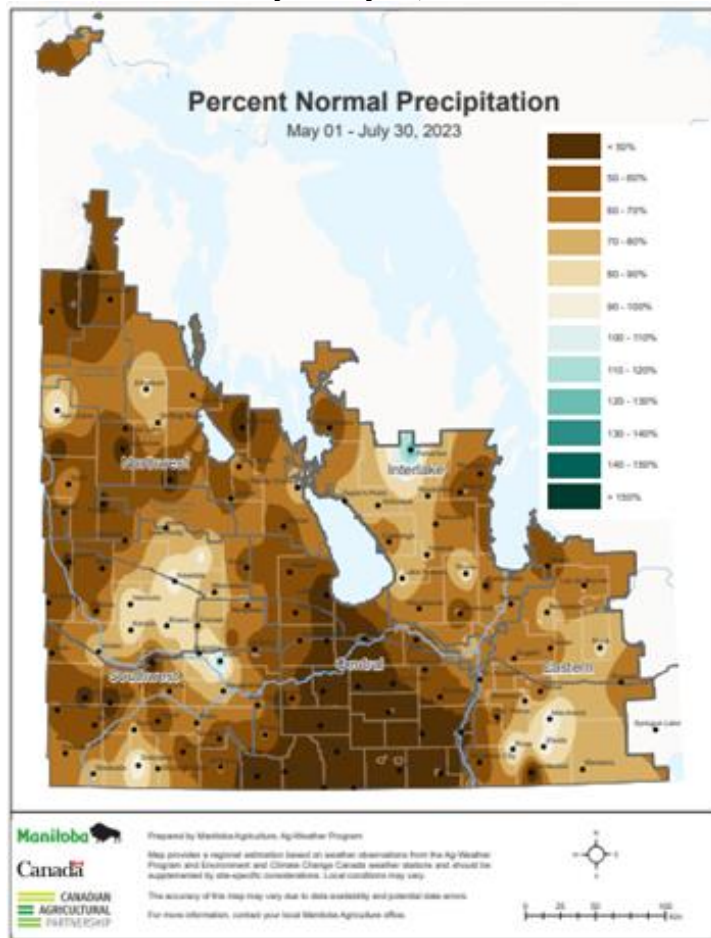
Seven-Day Accumulated Precipitation as of July 21



Source: MB Ag

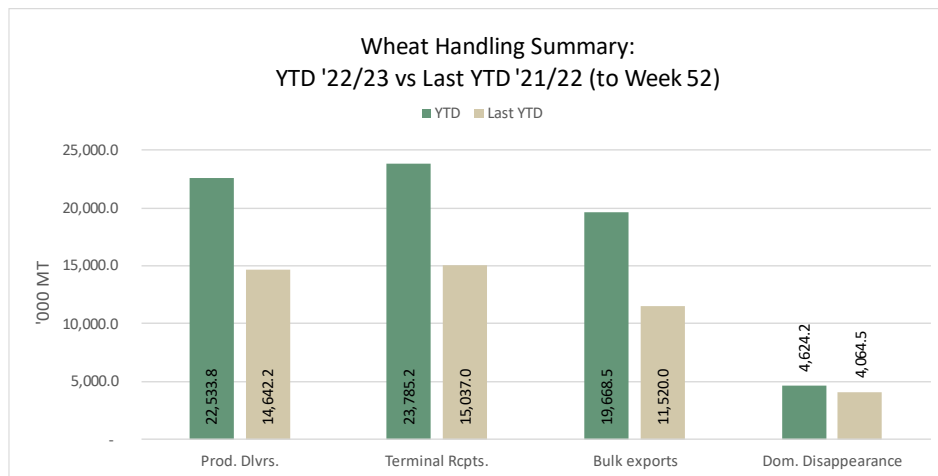
- Wheat harvest began in the central region of Manitoba. Some initial yields we have heard are in the 35-40 bushels per acre range. This is about half of last year’s yield. Yields will improve from here but will remain well below last year as most of the crop growing regions received less than 70 per cent of average moisture. Manitoba Agriculture says that spring wheat crop conditions range from 40 per cent “good” in the Southwest and Central regions to 80 per cent Gd/Ex in the Northwest, Eastern, and Interlake regions.

**Per cent of Normal Precipitation in Manitoba
May 1- July 30, 2023**



Source: Manitoba Ag

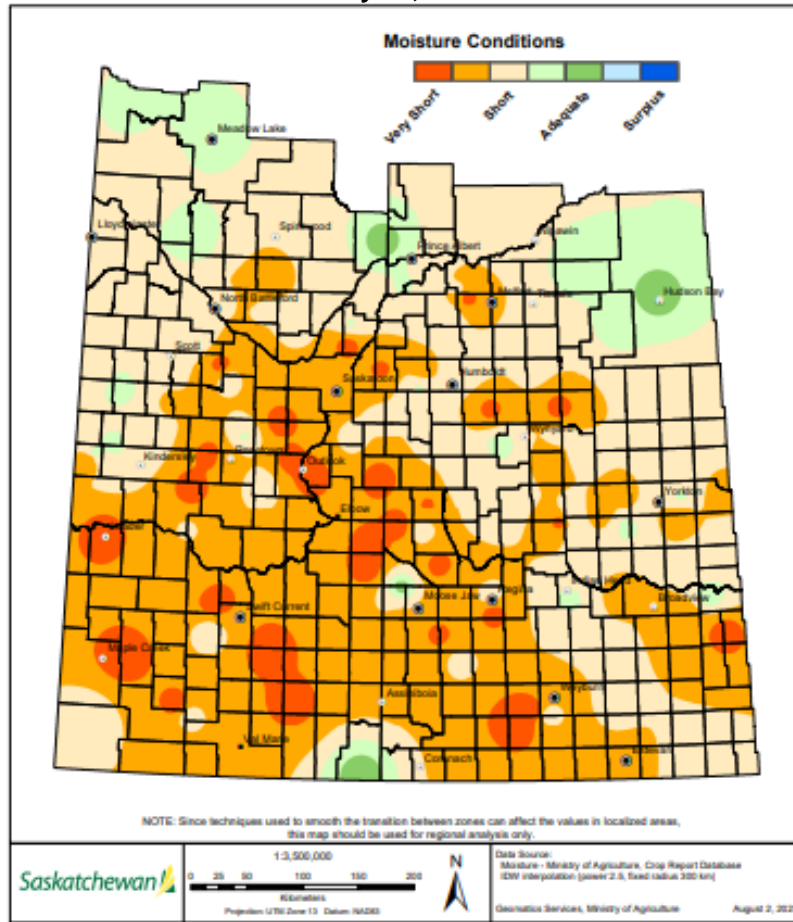
- Canadian wheat exports in the final week of the shipping season were large at 506.5k mt for a season total of 19.7 million mt. There is still 2.0 million mt of wheat in the elevator system which means there is ~1.2 million mt of wheat remaining on farm.



Source: based on CGC data

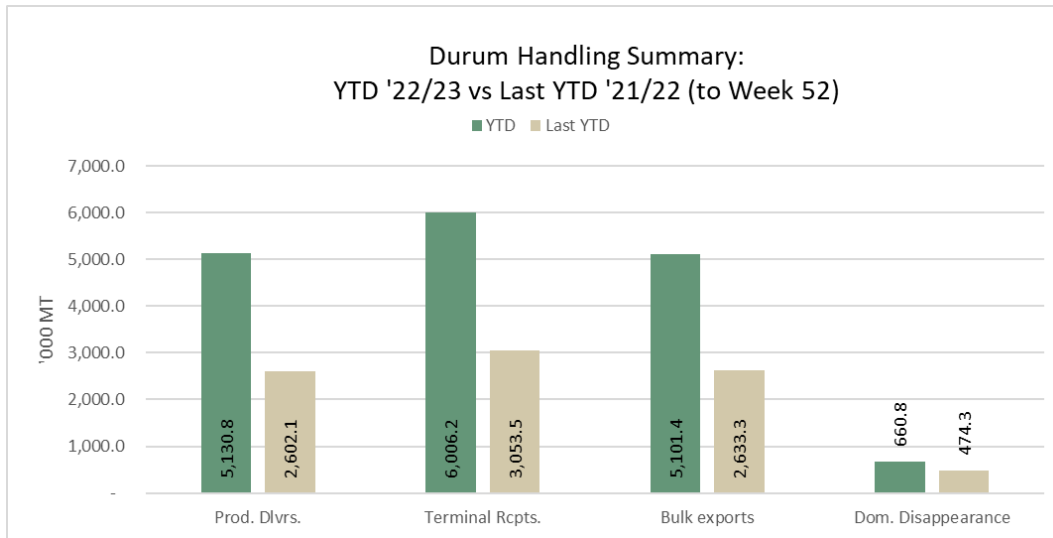
- **Durum:** Sask Ag did not update crop conditions, which were last reported as 16 per cent Gd/Ex. This is now only slightly better than the 11 per cent “good” rating in 2021. Soil moisture conditions in Saskatchewan fell two per cent to 13 per cent adequate on July 31. The southeastern region, where most of the SK durum crop is grown is experiencing some of the worst soil moisture levels in the province.

**Topsoil Moisture Conditions in Saskatchewan
July 31, 2023**



Source: Sask Ag

- Algeria cancelled its 50k mt durum tender on Wednesday because of high prices. Canadian durum was offered at \$590-\$595 CFR and Mexican durum was offered at \$545-\$550 CFR. Algeria’s last purchase of Canadian durum on July 11 was at \$418/mt.
- Canadian exports in week 52 were 90.2k mt for a season total of 5.1 million mt. The AAFC is still calling for 5.0 million mt of exports. Visible supplies are very low at 220.5k mt which supports our sub 300k mt carry-out estimate.



Source: based on CGC data

- Carry-out stocks are low, and production is going to be greatly impacted. This all in a year when we are expecting global durum demand to be stronger than usual. Canadian durum will be in high demand, and the supply will not be there to meet all of it. We would hold additional durum sales.

U.S. Wheat:

- The U.S. winter wheat harvest is 80 per cent complete.
- The condition of the U.S. spring wheat crop fell by one per cent over the week to 41 per cent Gd/Ex. The U.S. spring wheat harvest is 11 per cent complete.
- Durum conditions in North Dakota improved by three per cent from last week to 58 per cent Gd/Ex. Durum conditions in Montana fell by four per cent to 23 per cent Gd/Ex. Durum harvest in Montana is 13 per cent complete.
- Commercial U.S. weekly wheat sales were 421,300k mt for a season total of 5.8 million mt, down 29 per cent from last year. China was the biggest buyer accounting for 138,500 mt of the total amount (most of this was switched from unknown origins).
- U.S. HRS for Aug. 2023 was valued at \$336.00/mt FOB PNW (down \$24.00/mt from last week), FOB Gulf HRW 11/12.5 pro is valued at \$322.00/mt (down \$35.00/mt from last week).

Australian Wheat:

- Australia's Bureau of Meteorology says there is a 70 per cent chance of an El Nino weather event forming.
- FOB values in Australia: Aug. 2023 AWP, WA is valued at \$315.00/mt (unchanged from last week).

Argentine Wheat:

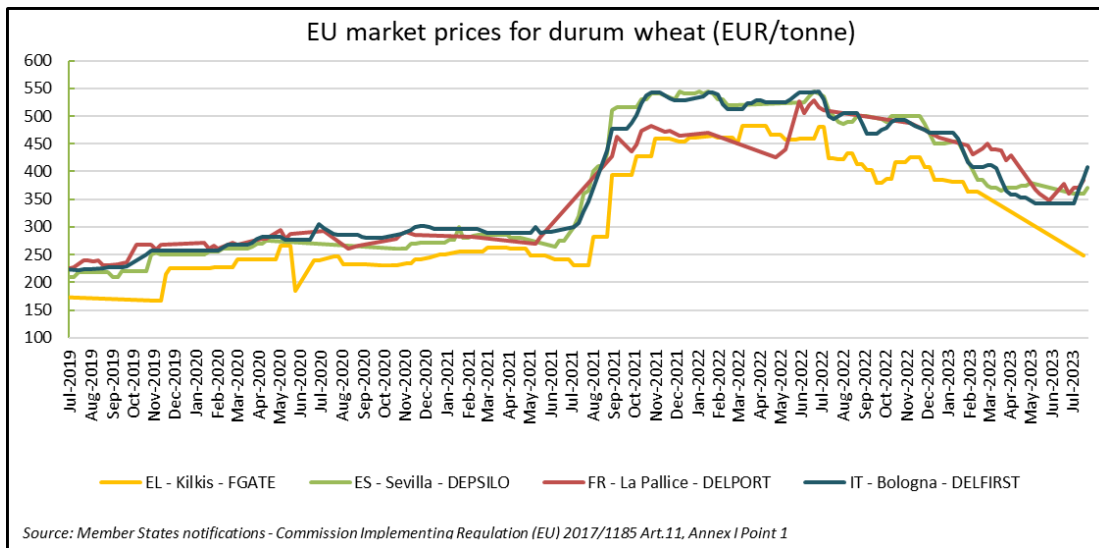
- Warm dry weather aided planting of Argentina's wheat crop which was previously restricted by rain.
- The USDA Attaché decreased their estimate for Argentina's wheat crop to 17 million mt, down 500k mt from the USDA's official number.
- Argentina sold another 140k mt of wheat for a season total of 900k mt. This is just 18 per cent of last year's amount.

Indian Wheat

- India is considering abolishing the current 40 per cent import duty on imported wheat. There are rumors that the Russia and India's governments are brokering a deal to send nine million mt of Russian wheat to India. This large volume would be very important for the wheat market, but the trade wants confirmation before reacting. The trade is expecting India will import 2-4 million mt. The USDA's current number is zero.

EU Wheat:

- Rain and cool temperatures in the EU are hindering harvest progress and impacting the quality of the crop. This will likely have little effect to the overall market but is important for durum.
 - Excessive rain in May-June has hurt the quality of Italy's durum crop. Yields were relatively strong, but the low carry-out and poor quality of the crop will increase their reliance on high-quality imports.
 - Poor quality, low ending stocks and the deteriorating Canadian crop, caused durum prices in Italy to jump, especially for better quality supplies.



Source: EUC

- EU FOB prices: Aug. 2023 French 11.5 pro wheat closed at \$252.00/mt (down \$22.00/mt from last week); Aug. 2023 German 12.5 pro wheat closed at \$265.00 (down \$12.00/mt from last week); Aug. 2023 Baltic 14.0 pro wheat closed at \$271.00/mt (down \$11.00/mt from last week).

Black Sea Wheat:

- Despite recent attacks, operations of Ukraine's Danube ports: Reni and Ismail are close to normal during the daytime. Water levels in the Danube River improved which will aid shipments.
- Ukraine's July wheat exports were 758k mt compared to 361k mt in July 2022.
- The Russian wheat harvest is over 31 per cent complete as of July 31, up 12 per cent from last year. Government data shows that 37.4 million mt of wheat has been harvested with an average yield of four mt/ha, seven per cent below the same time last year.
- Russian FOB values were \$245-\$250. There are unconfirmed rumors that Russia has implemented a \$250/mt price floor. Recent cash trades seem to support this.

➤ **Significant purchases/ trades:**

- **Algeria** bought 590-800k mt at \$276/mt for October delivery.
- **Tunisia** bought 125k mt of wheat at \$272-\$278/mt.
- **GASC (Egypt)** bought 360k mt of wheat from Russia and Romanian wheat at \$262-\$264/mt.
- There are rumors that **Morocco** bought large supplies of Russian wheat.
- **U.S. weekly wheat sales** were 421,300k mt for a season total of 5.8 million mt, down 29 per cent from last year. China was the biggest buyer accounting for 138,500 mt of the total amount (most of this was switched from unknown origins).

➤ **Wheat Market Outlook:**

Significant events over the past week:

- **Russian drones attacked Ismail**, one of Ukraine's ports along the Danube River. **Ukrainian drones were also reported to have attacked a Russian naval port in Novorossiysk** and a tanker, temporarily halting export loading at the port of Novorossiysk.
- Each of the **wheat tenders were dominated by Black Sea wheat** in both volume and price. There was 1.7 million mt of wheat offered at the GASC tender, 1.2 million mt of which was Russian origin.
- According to the USDA Post, **Indonesia is expected to import 10.5 million mt of wheat in 2023/24**, up 17 per cent from last year. From July 2022 to May 2023 Indonesia imported 8.7 million mt of wheat. Australia accounted for 67 per cent of the total volume while Canada was the second largest supplier at 20 per cent. Indonesia is generally Canada's second largest non-durum wheat customer.
- **The Baltic Dry Index (BDI)**, rose by two per cent over the week to 1,136 on the outlook for a Chinese recovery.

Mercantile's Outlook:

Mercantile says North American cash and futures prices need to go lower to be competitive with other competing origins. The premium of spring wheat over lower grades remains too high and must go lower according to Mercantile. Weather will provide volatility in the markets and news services will carry stories of drought in North America and too much rain affecting quality in Europe. The conflict in the Black Sea needs to be watched. The ability of Black Sea wheat to be exported is important. Real developments in India need to be watched if the USDA confirms India needs to buy volume wheat it is bullish for wheat particularly Russian. – *We are 60 per cent sold new crop and would not sell additional volume 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: August 8, 2023

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Nov '23 (bu.)	Nov '23 (mt.)
1 CWRS 13.5	\$9.77	\$358.99	1 CWRS 13.5	\$9.84	\$361.56
1 CWAD 13.0	\$13.27	\$487.59	1 CWAD 13.0	\$13.35	\$490.53
1 CPSR 11.5	\$9.19	\$337.68	1 CPSR 11.5	\$9.14	\$335.84
SW Sask			SW Sask		
1 CWRS 13.5	\$9.71	\$356.78	1 CWRS 13.5	\$9.81	\$360.46
1 CWAD 13.0	\$13.29	\$488.33	1 CWAD 13.0	\$13.31	\$489.06
1 CPSR 11.5	\$9.10	\$334.37	1 CPSR 11.5	\$9.11	\$334.74
NE Sask			NE Sask		
1 CWRS 13.5	\$9.40	\$345.39	1 CWRS 13.5	\$9.59	\$352.37
1 CWAD 13.0	\$13.46	\$494.57	1 CWAD 13.0	\$13.50	\$496.04
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a
SE Sask			SE Sask		
1 CWRS 13.5	\$9.49	\$348.70	1 CWRS 13.5	\$9.61	\$353.11
1 CWAD 13.0	\$13.40	\$492.37	1 CWAD 13.0	\$13.43	\$493.47
1 CPSR 11.5	\$8.80	\$323.35	1 CPSR 11.5	\$8.78	\$322.61

Data source: PDQ, Aug. 8, 2023

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. 8, 2023

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, 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 14 per cent in the Pacific Northwest (PNW) \approx 1 CWRS 13.5 per cent in Vancouver
 - HRS in the Pacific Northwest (PNW) \approx 2 CWRS 13.0 per cent in Vancouver
 - HRW in the Pacific Northwest (PNW) \approx 3 CWRS in Vancouver
 - SW (lowest price wheat) \approx CPS red (mostly fed domestically)
 - HAD (Lakes) \approx 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 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				August 8, 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	\$443.53	\$8.97		
HRS	\$437.32			
HRW 11.5	\$398.09			
SWW 12.0	\$357.59			
1 CWRS 13.5 ³	\$443.53		\$360.46	\$83.07
2 CWRS 13.0 ³	\$437.32		\$347.60	\$89.72
3 CWRS ³	\$398.09		\$327.39	\$70.70
CPS ³	\$350.67		\$334.00	\$16.67
1 CWAD ⁴		\$10.89	\$505.60	\$32.26
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$245.00		September	
French 11.5 (Rouen)	\$252.00		September	
APW 10.5 (W Coast)	\$315.00		September	
Argentine 12.5			September	
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				