

Wheat Market Outlook and Price Report: February 13, 2023

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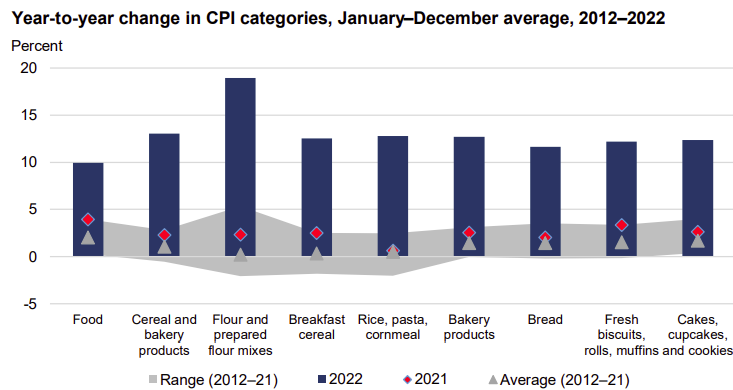
i) Background and Rationale for the Report

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 13, 2023

Economic Research Service Wheat Outlook: February 2023



Source: USDA Feb. 2023, Wheat Outlook

- According to the USDA, increases in the price of wheat-based products outstripped the average increase in food prices in 2022. The price of wheat products in 2022 was up well over 10% from 2021, compared to the average increase in food prices of 9.9%.
- The price of cereal and baked goods rose by 13% in 2022. This was three times larger than the highest price increase that was experienced in that category over the past ten years.
- The price of flour and prepared mixes rose by 19% in 2022, compared to the ten-year average price increase of 0.2%.
- Because processors tend to buy their raw materials in advance, consumer prices tend to lag the rise in commodity prices which were elevated in 2021 and 2022. High costs of other inputs such as labour, eggs, and butter also contributed to the rising cost of wheat-based products.

➤ **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 \$786-0, up 28-6 cents Friday, *up 29-2 cents on the week.*
- March 2023 contract **Kansas hard red winter wheat** closed at \$909-0, up 30-0 cents on Friday, *up 36-0 cents on the week.*
- March 2023 **Minneapolis hard red spring wheat** closed at \$930-2, up 13-0 cents on Friday, *up 8-6 cents on the week.*
- *US wheat futures are trading 6 cents lower to a penny higher on Monday morning at the time of writing.*

CBOT Mch. 2023 Wheat (1 yr.)



KC Mch. 2023 Wheat

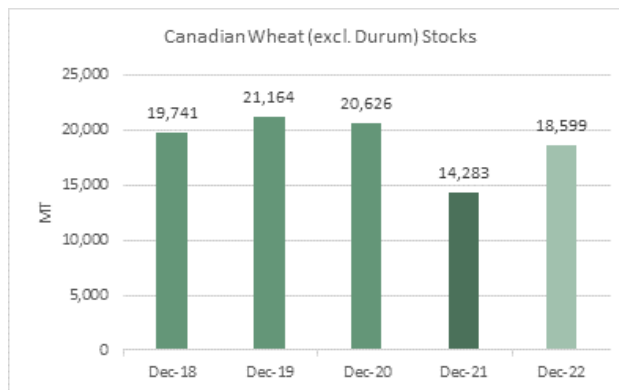


Mpls. Mch. 2023 Wheat



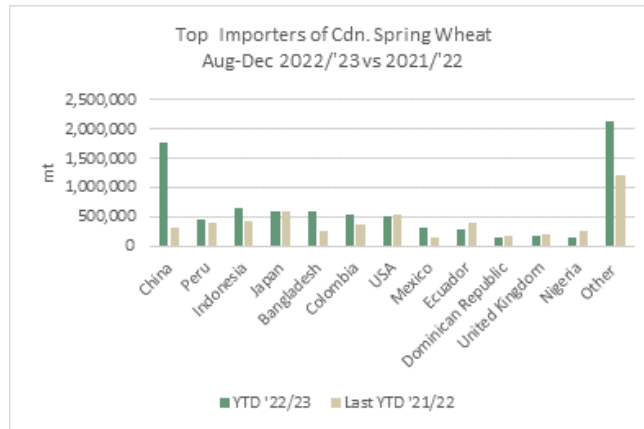
Canadian Wheat

- According to Stats Canada, December 2022 non-durum wheat stocks were 18.6 million mt. This is a 30% (4.3 million mt) increase from last year but 10% less than December 2020. Lower carry-in and strong export performance are underpinning the relatively low stock number.



Source: Based on Statistics Canada data

- Monthly export data from Stats Canada shows that Canada exported another 1.6 million mt of non-durum wheat during December. China was the major buyer again, importing 379k mt during December for an August-December total of 1.8 million mt – almost 5.5 times (1.4 million mt) more than the tonnage China imported by the same time last year. The other major increase is in “other” countries. Customers from the Middle East, Africa, and South America are all buying strong volumes. The “other countries” category is up by 74% (900.4k mt) from last year.



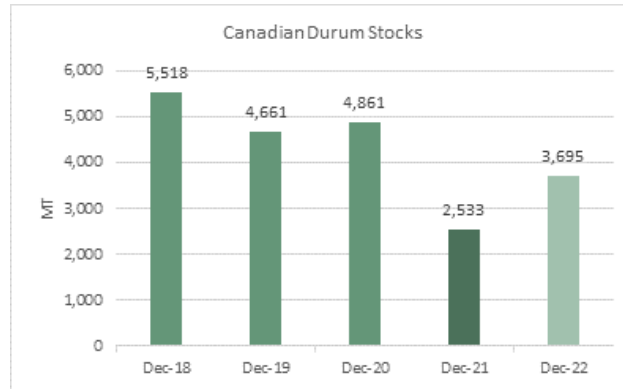
Source: Based on CIMT data

- Canada shipping week 27 wheat exports were lower again at 354.7k mt for a season total of 10.3 million mt. This was the lowest level of exports since harvest but still above the average number of sales needed to meet AAFC's 19.1 million mt.

(CGC) Grain Handling Summary Wheat			Week 27	(Feb. 5'23)
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	('000 mt)
Week 27	412.8	291.5	354.7	Week 27
Week ago	432.4	317.2	395.7	Week ago
YTD	12,749.9	12,453.8	10,278.5	YTD
Last YTD	8,303.5	8,068.8	6,065.8	Last YTD
YTD less Last YTD	4,446.4	4,385.0	4,212.7	YTD less Last YTD
YTD over Last YTD	154%	154%	169%	YTD over Last YTD

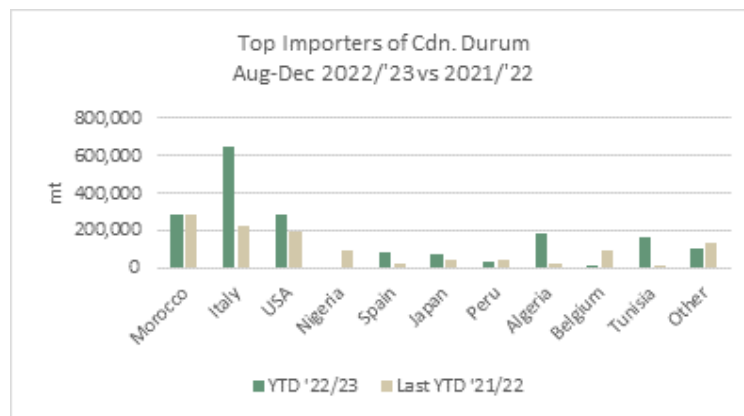
Source: Based on CGC data

- **Durum:** The Stats Canada stocks report showed that Canadian durum stocks as of December 2022 were 3.7 million mt. This is 1.1 million mt more than last year but still a robust decrease from previous levels, down 24% from December 2020.



Source: Based on Statistics Canada data

- December exports were 343.6k mt for an August-December total of 1.9 million mt. Morocco was the top buyer in December at 87.5k mt for a season total of 285.1k mt (essentially unchanged from last year). A close second was Italy, which imported 82.2k mt of durum in December for an August-December total of 650.6k mt, which is almost triple last year's volume. Algeria was absent in December, although we expect them to be good buyers in the new year. Tunisia bought 62.3k mt in December and we also expect them to be back in the new year as well.



Source: Based on Statistics Canada data

- Week 27 Canadian durum exports were 97.1k mt for a season total of 2.8 million mt. Average exports needed to meet the AAFC's 4.8 million mt number is 80.3k mt per week which should be met and surpassed.

(CGC) Grain Handling Summary Durum			Week 27	(Feb. 5'23)
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 27	106.5	103.4	97.1	2.7
Week ago	141.5	114.5	192.6	6.3
YTD	3,193.3	3,303.1	2,793.0	353.0
Last YTD	1,660.1	2,006.5	1,342.7	253.5
YTD less Last YTD	1,533.2	1,296.6	1,450.3	99.5
YTD over Last YTD	192%	165%	208%	139%

- *Producers are advised to finish old crop durum sales and would sell 20% of new crop at \$12.00/bu.*

US Wheat:

- The USDA left the US wheat balance sheet essentially unchanged. Less use and fewer exports in the SRW class were offset by larger exports of white wheat. Total use was reduced by 1 million bushels resulting in a respective increase in ending stocks. US wheat ending stocks of 567 million bushels are 14% smaller than last year.
- US weekly export sales were at the low end of expectations at 131k mt for a season total of 599 million bushels. This is down 6% from last year compared to the USDA's (unchanged) expected decline of 3%.
- Fifty-eight percent of the US winter wheat crop is under drought conditions as of February 7th. This was unchanged from the previous week. There is no rain in this week's forecast for the US winter wheat belt.
- US HRS for March 2023 was valued at \$401.30/mt FOB PNW (*down \$4.60/mt from last week*), FOB Gulf HRW 11/12.5 pro is valued at \$392.80/mt (*down \$1.40/mt from last week*).

Australian wheat:

- Australian wheat futures ended the week at the highest level in 6 weeks. This was despite the USDA raising their production number by 1.4 million mt to 38.0 million mt.
- FOB values in Australia were lower last week with AWP WA at 347.00/mt.

Argentine wheat:

- There was little fresh news for wheat in Argentina. Farmer sales remain slow while mills and exporters struggle to fill commitments.
- The USDA left Argentina's balance sheet entirely unchanged with a production of 12.5 million mt and exports of 7.5 million mt.

EU wheat:

- The USDA increased EU imports by 1.0 million mt. Larger domestic use and 500k mt more exports caused ending stocks to be 250k mt lower than last month at 11.06 million mt. Ending stocks of 11.06 million mt amounts to roughly four weeks of use which is too low.
- The forecast has no rain in Europe for the next two weeks. Although conditions have improved from last month, a significant portion of the EU remains dry. Last week there were reports that dry conditions in France are hindering fertilizer uptake as the crop comes out of dormancy.
- FOB prices in the EU: March 2023 French 11.5 pro wheat closed at \$325.30/mt (*down \$3.20/mt from last week*); Mar. '23 German 12.5 pro wheat closed at \$326.40 (*down \$0.60/mt from last week*); Mar. '23 Baltic 14.0 pro wheat closed at \$368.20/mt (*down \$0.50/mt from last week*).

Black Sea wheat:

- Most of the support in what futures last week came from the further escalation of the war in Ukraine and complaints from Moscow that very little Russian grain has been moved through the trade corridor. Russia is likely positioning itself for the upcoming negotiations for the trade corridor which expires on March 19th.
- The USDA raised Russian production by 1 million mt to 92 million mt. The increase was from higher spring wheat production. Russian feed use and exports were both raised by 500k mt for an unchanged ending stocks number of 14.39 million mt. Ukraine's exports were raised by 500k mt to 13.5 million mt for a respective 500k mt decrease in ending stocks to 4.21 million mt.
- From February 15th to June 30th, Russia will have a 25.5 million mt all grain export quota which is not expected to have a significant impact on the flow of grain.
- March shipment Russian wheat prices are around \$305.00/mt FOB (*unchanged from last week*).

➤ Significant purchases/ trades:

- **Algeria's** OAIC is believed to have bought another 400k mt of wheat on Thursday at \$329-\$332/mt CFR. The tender was optional origin, but it is expected that most of it will be supplied with Russian wheat. The average price of Algeria's previous tender was \$334.5/mt.
- **Thailand** bought 60k mt of feed wheat for April at \$337/mt.
- **India** is talking about extending its export ban on wheat into midsummer and the end of the '22/23 Jul-Jun year.
- **Taiwan** reportedly bought an estimated 48.1K mt of various classes of US wheat that will be shipped from the PNW in Mar-Apr.
- **US** export sales of just 131k mt left the season total at 599 million bu, down 6% on last year, against the USDA's projected 3% decline.
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➤ Wheat Market Outlook:

Significant events over the past week:

- **Tensions between the US and China** are back to the forefront due to the Chinese "spy balloon." China is the 5th largest market for US wheat having purchased 750k mt of wheat year-to-date.
- **India is expected to extend their ban on wheat exports** which expires in April. Wheat stocks in India have fallen to 17.2 million mt, down 49% from last year. The USDA left India's wheat export number at 5.9 million mt.
- **The Black Sea Trade Corridor Expires on March 19th**. As the expiry draws near, Russian officials have been positioning for the negotiations by voicing complaints about sanctions against Russian commodities creating barriers to their exports. Russia exported 3.5 million mt of wheat in January which was 120% more than last year.

Outlook:

The USDA Outlook Conference is on February 23-24. This will provide fresh ideas on the USDA's view on US corn and wheat acres for the upcoming year. Global supply and demand estimates from the USDA will not be released until May. Politics are playing an increasingly important roll in wheat. We think the trade corridor will be extended again, but there will be lots of talk and positioning leading up to the negotiations that will keep the market choppy. Fund shorts and positive charts should keep wheat supported. -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

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Apr '23 (bu.)	Apr '23 (mt.)
1 CWRS 13.5	\$11.52	\$423.29	1 CWRS 13.5	\$11.54	\$424.03
1 CWAD 13.0	\$12.25	\$450.11	1 CWAD 13.0	\$12.28	\$451.22
1 CPSR 11.5	\$11.06	\$406.39	1 CPSR 11.5	\$11.07	\$406.76
SW Sask			SW Sask		
1 CWRS 13.5	\$11.45	\$420.72	1 CWRS 13.5	\$11.45	\$420.72
1 CWAD 13.0	\$12.21	\$448.64	1 CWAD 13.0	\$12.23	\$449.38
1 CPSR 11.5	\$11.08	\$407.12	1 CPSR 11.5	\$10.90	\$400.51
NE Sask			NE Sask		
1 CWRS 13.5	\$11.17	\$410.43	1 CWRS 13.5	\$11.25	\$413.37
1 CWAD 13.0	\$12.05	\$442.77	1 CWAD 13.0	\$12.10	\$444.60
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a
SE Sask			SE Sask		
1 CWRS 13.5	\$11.20	\$411.53	1 CWRS 13.5	\$11.26	\$413.74
1 CWAD 13.0	\$12.07	\$443.50	1 CWAD 13.0	\$12.12	\$445.34
1 CPSR 11.5	\$10.82	\$397.57	1 CPSR 11.5	\$10.77	\$395.73

Data source: PDQ, Feb. 6/23

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. 13/23

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, 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

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.”

- 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). 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 13, 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	\$499.07	Closed		
HRS	\$492.94			
HRW 11.5	\$512.80			
SWW 12.0	\$428.48			
1 CWRS 13.5 ³	\$499.07		\$415.21	\$83.86
2 CWRS 13.0 ³	\$492.94		\$404.18	\$88.76
3 CWRS ³	\$512.80		\$389.49	\$123.31
CPS ³	\$421.61		\$303.87	\$117.74
1 CWAD ⁴		Closed	\$450.11	
Competing wheat:				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$305.00		March	
French 11.5 (Rouen)	\$325.30		March	
APW 10.5 (W Coast)	\$347.00		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				