

Wheat Market Outlook and Price Report: February 6, 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 6, 2023

Agricultural Market Information System (AMIS) February 2023, Market Monitor

Wheat	FAO-AMIS			USDA		IGC	
	2021/22 est	2022/23 f'cast		2021/22 est	2022/23 f'cast	2021/22 est	2022/23 f'cast
		8 Dec	2 Feb		12 Jan		12 Jan
Prod.	778.0	781.1	793.7	779.3	781.3	781.0	795.6
	641.0	642.7	655.9	642.4	643.6	644.0	657.9
Supply	1070.6	1074.2	1087.3	1069.3	1058.1	1057.9	1069.5
	803.3	801.8	815.7	788.2	778.6	793.7	799.9
Utiliz.	773.0	774.7	777.6	792.5	789.7	784.0	789.0
	630.2	636.0	637.9	644.5	645.7	642.9	649.4
Trade	195.7	194.0	197.3	205.1	209.6	196.7	194.1
	186.0	186.0	188.3	195.6	200.1	186.8	185.9
Stocks	293.7	300.1	305.4	276.8	268.4	273.9	280.6
	159.7	158.8	164.0	135.1	124.3	140.9	142.4

Source: AMIS

- AMIS released the February edition of their Market Monitor last week. In the report, global wheat production for 2022/'23 was raised by 12.6 million mt from December. The increase was driven by a 4.3 million mt increase in Australian production, and a 10.7 million mt increase in Russian production. Global wheat production of 793.7 million mt would be 2% higher than the previous year.
- Global wheat use was raised by 2.9 million mt driven by larger wheat feeding use in China and the EU.
- Ending stocks were raised by 5.3 million mt from December. Most of the increase was in Australia (up 1.2 million mt), and Russia (up 4.7 million mt). Stocks in Canada were reduced by 1.2 million mt. Global ending stocks of 305.4 million mt are 4% larger than last year.
- For crop conditions, AMIS has the majority of the 2023/'24 Russian winter wheat crop under "watch" conditions due to dry weather. Over half of the US winter wheat crop is similarly rated, because of dry conditions. Meanwhile, conditions in China, the EU, and India are all favorable.

➤ **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 '23 contract **Chicago winter wheat** closed at \$756-6, down 4-2 cents Friday, *up 6-6 cents on the week.*
- March. '23 contract **Kansas hard red winter wheat** closed at \$873-0, down 7-6 cents on Friday, *up 3-6 cents on the week.*
- March. '23 **Minneapolis hard red spring wheat** closed at \$921-4, down 3-2 cents on Friday, *unchanged on the week.*
- *Wheat is 1 cent lower to 6 cents higher at the time of writing this (Monday) morning.*

CBOT Mch. 2023 Wheat (1 yr.)



KC Mch. 2023 Wheat



Mpls. Mch. 2023 Wheat

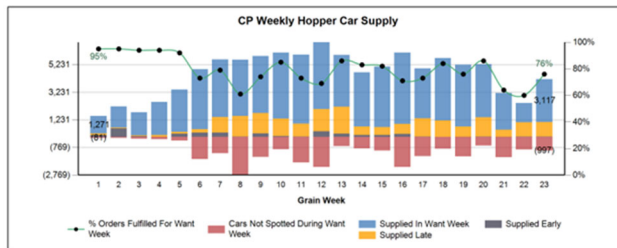
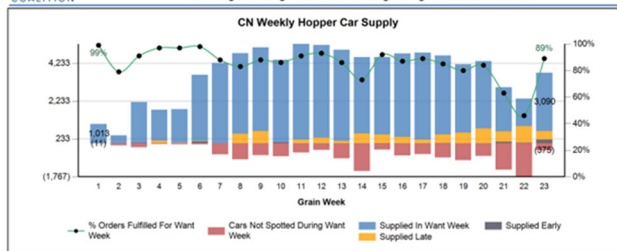


Canadian Wheat

- We have been pleasantly surprised by the pace of exports that Canadian shippers have been able to maintain. This is largely thanks to the strong performance of the rail lines. With that said, rail car fulfillment still frequently falls below the 90% threshold. According to the Ag Transport Coalition, CN hopper car fulfillment has fallen short of 90% in 10 of the past 11 weeks. Similarly, CP's performance has fallen below 90% for the 18th week in a row. Rail companies supplied 82% of the ordered hopper cars in week 23 which was a strong improvement from the seasonal low set in week 22 of 52%.



Weekly Performance Update - To Grain Week 2022/2023 - 23 (Jan 1 - Jan 8)
Covering 90% of grain movement originating in Western Canada



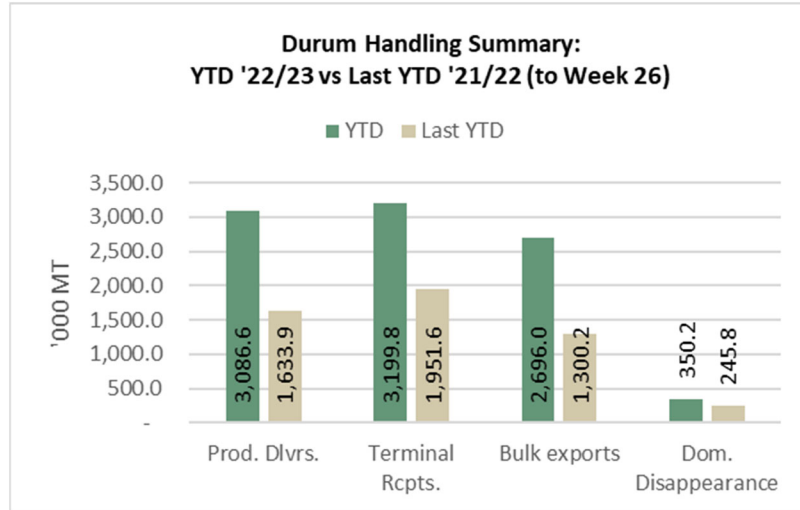
Source: CIMT

- Canada exported another 395.7k mt of wheat in shipping week 26. Weekly exports have been steadily declining over the past weeks, but this is still more than the average weekly pace of 381.7k mt. Wheat exports often slow in January and February before picking up into springtime.
- The Stats Canada's stocks report is out on Tuesday. Traders will be looking to see how the strong export performance has affected stock numbers.

(CCC) Grain Handling Summary Wheat		Week 26 (Jan. 29'23)		
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 26	432.4	317.2	395.7	49.5
Week ago	503.1	357.9	443.9	47.8
YTD	12,337.3	12,140.2	9,923.9	2,269.4
Last YTD	8,097.1	7,797.3	5,825.9	2,173.4
YTD less Last YTD	4,240.2	4,342.9	4,098.0	96.0
YTD over Last YTD	152%	156%	170%	104%

Source: CGC

- **Durum:** Algeria tendered for 50k mt of durum last Tuesday but was reported to have bought a much bigger 250-300k mt volume for US\$448-450/mt, instead. The shipments are for the February to March timeframe. We hear that Richardson sold some of this wheat, so Canadian durum was involved, but we are unsure of the amount. If the price is correct, we calculate that this is about CA\$13.50/bu at the elevator in Saskatchewan. *This is a surprisingly steep discount to the approximately US\$492.00/mt that Tunisia paid on December 20th, which calculated to about CA\$15.30/bu at the time. We are not sure what precipitated the steep drop in price. Some of our international sources believe that the decline in price was largely driven by Canada bidding aggressively.*
- In view of the Algerian tender, durum prices in Italy fell €22/mt over the week and are now €438/mt. We figure that this calculates to about CA\$13.75/bu at the elevator in Saskatchewan.
- Winter is often a slower shipping season for durum with the Lakes closed, but current ocean freight rates are channelling Canadian durum via the West Coast. With that said, exports should pick up again once the Lakes open with alternative access to the European market.
- Week 26 durum exports were 192.6k mt for a season total of 2.7 million mt. Durum exports remain on pace to surpass 5 million mt compared to the AAFC's 4.8 million mt estimate. It seems like the pace will remain strong with another 462.7k mt of visible supplies in the system (138.4k mt of which are in Vancouver), and Canadian durum being included in the recent purchases by Tunisia and Algeria.



Source: CGC

- *Algeria's durum purchase took the market by surprise with reference to both size and price. Durum buyers will take this as a bearish signal and will drop their price ideas. We would look at finishing old crop durum sales and would sell 25% of new crop at \$12.00/bu.*

US Wheat:

- There will be more rain in the US Central Plains over the weekend, but most of the winter wheat belt continues to be dry. As of January 31st, 58% of the US winter wheat crop was under drought conditions - a 1% improvement from last week. The Kansas crop is the most affected with 70% of their crop considered to be under "extreme" to "exceptional" drought conditions. The Pro Farmer tour showed an overall deterioration of the US winter wheat crop. Oklahoma's crop lost 21 points from December to 17% Gd/Ex. Similarly, Colorado's crop was down 12% to 38% Gd/Ex. Meanwhile the HRW crops in Kansas gained 2 points to 21% Gd/Ex, while Nebraska's ratings were up 4% at 22% Gd/Ex.
- US HRS for March 2023 was valued at \$405.90/mt FOB PNW (*up \$0.60/mt from last week*), FOB Gulf HRW 11/12.5 pro is valued at \$391.40/mt (*up \$5.70/mt from last week*).

Australian wheat:

- Australian wheat futures ended the week almost A\$10/mt higher on the week at a 4-week high.
- FOB values in Australia were unchanged from last week. APW WA is being bid at \$350.00/mt.

Argentine wheat:

- In Argentina, farmer sales were 100k mt. Domestic mills and exporters are scrambling to cover their commitments. Exports from Argentina have been slow as the wheat crop was impacted by severe drought and the corn crop was off to a slow start. Total grain exports in January were down 25% from December and were just 61% of last year's amount.

EU wheat:

- EU exports are up 8% from last year at a year-to-date total of 18.8 million mt. Non-durum wheat exports from the EU have reached 18.1 million mt, up 6% from last year.
- FOB prices in the EU: March 2023 French 11.5 pro wheat closed at \$322.10/mt (*down \$ 4.00/mt from last week*); March 2023 German 12.5 pro wheat closed at \$327.00 (*down \$5.00/mt from last week*); March 2023 Baltic 14.0 pro wheat closed at \$368.70/mt (*0/mt from last week*).

Black Sea wheat:

- Exports from Ukraine are becoming increasingly difficult as the line-up in the Bosphorus continues to get bigger. There were no Ukrainian offers for the first (February 26 - March 10) position at the GASC tender and only one offer for the second (March 11-20) position.
- Initial estimates from IKAR are for Russia's 2023/24 wheat crop to be 84.0-87.0 million mt. This would be a significant drop from the 91.0-104.4 million mt crop they had this past year. The decrease is largely from dryness in the southern region and frosts in the central and Volga regions.
- The combined production decreases that are expected for Ukraine and Russia in the 2023/24 season amount to ~20.0 million mt. Production in the Black Sea will become increasingly important when the crop comes out of dormancy in the spring.
- March 2023 12.5% Pro Russian wheat is quoted at \$305.00/mt FOB (*down \$5.00/mt from last week*).

➤ **Significant purchases/ trades:**

- **Egypt** (GASC) purchased a total of 535k mt of Russian wheat for February - March at \$323.40-325.80/mt.
- **Algeria** bought 250-300k mt of durum wheat, likely from several origins at \$450/mt, significantly lower than the previous durum sale!
- **US** export sales of 136k mt were well below expectations and left the season total at 595 million bu, down 6% from last year.

➤ **Wheat Market Outlook:**

Significant events over the past week:

- **Russian wheat dominated the GASC (Egyptian) tender** and won the entirety of the 535k mt purchase. There was large participation in the tender with over 20 offers and 13 suppliers. Most of the offers were Russian origin. There were no US offers and the one French offer was \$30/mt higher than Russian prices. Russia obviously is not done exporting wheat as lower oil prices are causing the country to rely on other commodities like wheat to finance their war. The World Bank must approve the purchase as they are providing the financing, but this is not expected to be an issue.
- We are **close to the one-year anniversary of Russia's war**. This time last year, GASC bought Romanian wheat at \$338.50/mt which was roughly worth 5,300 Egyptian pounds. Last week, GASC paid \$323.90/mt which equates to roughly 9,800 Egyptian pounds. So, *wheat in Egypt costs ~85% more than it did last year*. While year-to-date GASC purchases are higher than last year, they are well behind average.
- **Korea's feed wheat purchase** at \$340/mt is just \$2.50/mt more than what they paid for corn but was \$4.00/mt more than what Jordan paid for hard wheat.
- **India's FCI sold 920,000 mt of wheat reserves on Wednesday**. The sales caused domestic prices to fall by almost 13% to US\$347.11/mt which is still higher than the minimum support price. The government was only about to source 18.8 million mt of wheat for their subsidized feeding program which is 53% of last year's amount.
- **The ECB raised interest rates by another 0.5% last week** which sent the Euro to a 10-month high of 1.104.

Outlook:

Russia continues to drive the nearby market, and time is running short for a sustained old crop rally. We think wheat remains supported by the fundamentals, but politics, inflation, and economic uncertainty are adding a substantial amount of risk. The funds are short in all wheat markets and there is nothing new in the mix to prompt them to cover this in the short-term. The condition of the winter crop coming out of dormancy will be the next major piece of news. Until then, Russia looks poised to dominate the export market with prices \$30-\$60/mt below US values. We have a new USDA report out on Wednesday (February 8th). The trade is expecting larger ending stocks in the US, and unchanged world stocks. Producers should use the rally in wheat prices to finish wheat sales at ~\$12.00/bu.

iii) Primary Elevator Price Tables and Grade Spreads

Table 1: Canadian Primary Elevator Bids, in Canadian Dollars per Bu and per MILLION MT

Date: February 6, 2023

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Apr '23 (bu.)	Apr '23 (mt.)
1 CWRS 13.5	\$11.51	\$422.92	1 CWRS 13.5	\$11.55	\$424.39
1 CWAD 13.0	\$12.21	\$448.64	1 CWAD 13.0	\$12.22	\$449.01
1 CPSR 11.5	\$10.99	\$403.82	1 CPSR 11.5	\$11.04	\$405.65
SW Sask			SW Sask		
1 CWRS 13.5	\$11.43	\$419.98	1 CWRS 13.5	\$11.30	\$415.21
1 CWAD 13.0	\$12.14	\$446.07	1 CWAD 13.0	\$12.17	\$447.17
1 CPSR 11.5	\$10.91	\$400.88	1 CPSR 11.5	\$10.91	\$400.88
NE Sask			NE Sask		
1 CWRS 13.5	\$11.20	\$411.53	1 CWRS 13.5	\$11.28	\$414.47
1 CWAD 13.0	\$11.99	\$440.56	1 CWAD 13.0	\$12.04	\$442.40
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a
SE Sask			SE Sask		
1 CWRS 13.5	\$11.18	\$410.80	1 CWRS 13.5	\$11.20	\$411.53
1 CWAD 13.0	\$12.00	\$440.93	1 CWAD 13.0	\$12.06	\$443.13
1 CPSR 11.5	\$10.73	\$394.26	1 CPSR 11.5	\$10.79	\$396.47

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. 6/23

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

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.”

- HRW in the Pacific North West (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). 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 6, 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	\$500.39	Closed		
HRS	\$494.19			
HRW 11.5	\$503.85			
SWW 12.0	\$421.85			
1 CWRS 13.5 ³	\$500.39		\$413.00	\$87.39
2 CWRS 13.0 ³	\$494.19		\$401.98	\$92.21
3 CWRS ³	\$503.85		\$387.28	\$116.57
CPS ³	\$414.94		\$303.87	\$111.06
1 CWAD ⁴		Closed	\$440.93	
Competing wheat:				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$305.00		March	
French 11.5 (Rouen)	\$322.70		March	
APW 10.5 (W Coast)	\$350.00		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				