

Wheat Market Outlook and Price Report: July 10, 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 July 10, 2023

AMIS¹ view of the 2022/23 Global Wheat Market, July 2023

Wheat	FAO-AMIS		USDA		IGC		IN MILLION TONNES
	2022/23 est	2023/24 f'cast	2022/23 est	2023/24 f'cast	2022/23 est	2023/24 f'cast	
		1 Jun		12 May		18 May	
Wheat Prod.	800.8	776.7	788.3	789.8	803.0	782.7	
	663.1	638.2	650.5	649.8	665.3	643.7	
Supply	1095.9	1087.4	1060.9	1056.0	1077.4	1065.6	
	824.2	808.1	786.5	777.0	807.8	787.5	
Utiliz.	779.7	780.3	794.7	791.7	794.5	794.5	
	637.5	638.8	646.7	642.7	653.0	652.2	
Trade	199.6	193.7	212.9	212.5	199.6	194.0	
	188.1	186.7	199.4	202.0	187.4	186.3	
Stocks	310.7	308.5	266.3	264.3	282.9	271.0	
	169.9	164.2	127.2	124.7	142.7	127.5	

Data shown in the second rows refer to world aggregates without China.

Source: AMIS

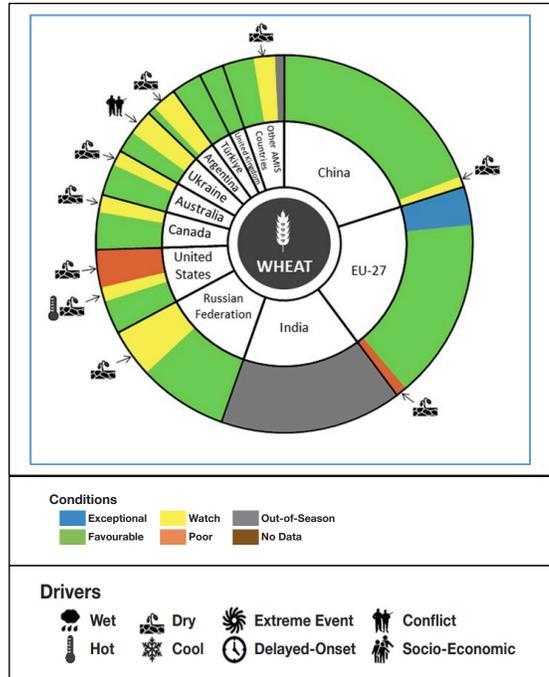
- AMIS has raised the global wheat production forecast for 2023 on improved production prospects in several countries, including Canada, Kazakhstan, and Turkey.
- **Wheat utilization** in 2023/24 was scaled up slightly month-over-month on higher feed use, now rising marginally above 2022/23 solely on growth in food consumption while feed and other use are set to contract.
- **Wheat trade in 2023/24** (July/June) was raised this month on larger expected sales from Canada and stronger demand by China but is still forecast to fall from the 2022/23 record level.

¹ AMIS: Agricultural Market Information System. Input comes from the ten organizations that form the AMIS Secretariat: FAO, IFAD, IFPRI, IGC, OECD, UNCTAD, World Bank Group, WFP, WTO, GLAM.

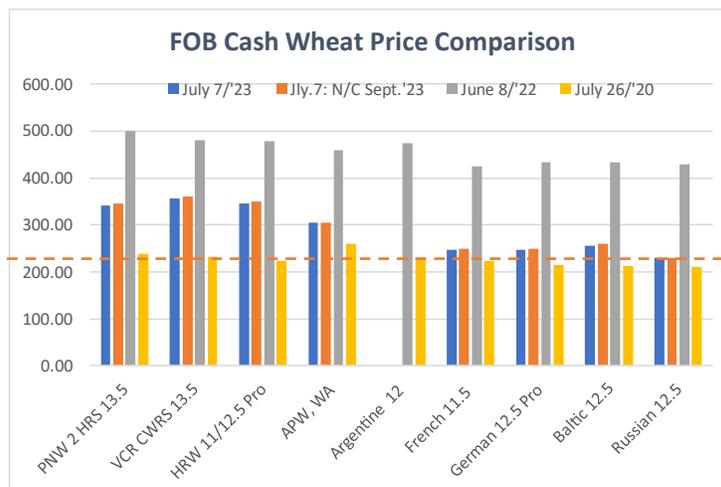
- **Wheat stocks** (ending in 2024) are now forecast to rise slightly above opening levels following an upwards revision this month, mostly concerning stocks in China, the EU, and Kazakhstan.

Global Wheat Condition Assessment (AMIS):

- The EU's conditions are favourable, except for the Iberian Peninsula due to a catastrophic drought. A wet spring has supported conditions in the UK through a dry May and June.
- In **Turley**, conditions are favourable thanks to ample spring rainfall.
- In **Ukraine**, harvesting begins in the south under favourable conditions away from the war zones.
- In the **Russian Federation**, winter wheat harvesting begins under favourable conditions. Spring wheat sowing is wrapping up under dry conditions.
- In **China**, winter wheat harvesting wraps up after record rainfall during the harvest that has likely degraded grain quality and localized yields. Spring wheat is under developing dryness in the north.
- In the **US**, winter wheat harvesting is underway with poor conditions in the central and southern Great Plains due to prolonged drought. Due to recent hot and dry weather, spring wheat is under mixed conditions in parts of the Dakotas.
- In **Canada**, winter and spring wheat conditions are mixed due to expanding drought across the western Prairies.
- In **Australia**, average to above-average June rainfall has benefited crop establishment and growth across most of the country; however, dry conditions persist across the east.
- In **Argentina**, sowing is beginning under mixed conditions as soil moisture levels begin to recover.



FOB Wheat Price Comparison



- Russian cash wheat prices remain cheap when compared to North American prices.

- We have added new crop September quotes, which are slightly higher than old crop, except for Russian wheat at US\$230.00/mt FOB for both old and new crop wheat.

➤ **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 '23 contract Chicago winter wheat closed at \$649-4, down 8-4 cents on Friday, *down 18-0 cents on the week.*
- Sept '23 contract Kansas hard red winter wheat closed at \$818-2, down 25-4 on Friday, *up 18-2 cents on the week.*
- Sept '23 Minneapolis hard red spring wheat closed at \$847-6, down 10-2 cents on Friday, *up 22-2 cents on the week.*
- In the US, CBOT wheat futures are currently down by 2c/bu, KC is unchanged, while spring wheat is up by 8c/bu cent this Monday morning. Matif milling wheat is down by €3.25/mt this Monday.

CBOT Sept. 2023 Wheat (1 yr.)



KC Sept. 2023 Wheat

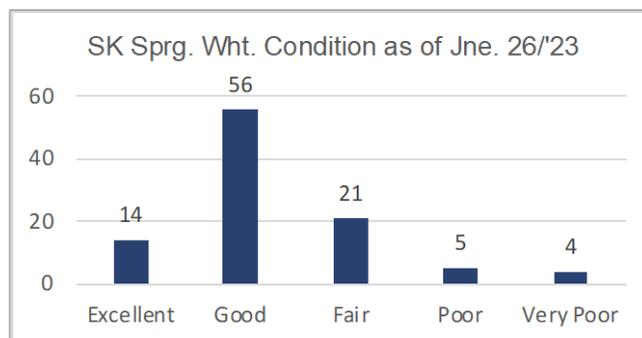


Mpls. Sept. 2023 Wheat



Canadian Wheat

- Canadian crop conditions: In their latest crop assessment, the Saskatchewan Ministry of Agriculture reduced their spring wheat crop ratings by 11% from June 26th to 70% Gd/Exc. Alberta Agriculture and Irrigation did not publish updated crop ratings. There has been a steady decline in soil moisture over the week. In Saskatchewan, cropland moisture rated as having "adequate" soil moisture fell by 11% from last week to 42%.



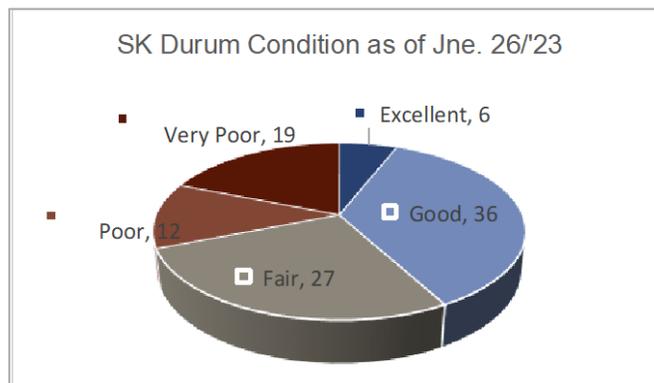
- The condition of the US spring wheat crop is 48% Gd/Ex. Drought conditions increased by 4% from last week as 19% of the US spring wheat crop is under drought conditions.
- Canadian wheat exports remain strong, with another 396.4k mt of wheat being exported in week 48. Total wheat exports are now 18.2 million mt. With just four weeks remaining in the marketing year, exports needed to average 358k mt per week to meet the AAFC's 19.6 million mt

estimate. Producers continue to deliver wheat into the elevator system rapidly, with another 455.5k mt of wheat being delivered over the week. Visible supplies were down only slightly from last week at 2.1 million mt.

- 7,400 dock and warehouse ort workers in BC continue to strike (since July 1), worsening concerns about Canada’s supply chain.
- *Wheat will continue to follow corn. Mercantile expects additional pressure on the wheat complex as harvest in the Northern Hemisphere is well underway. Traders will be watching the Black Sea Trade Deal, which expires on the 17th.*

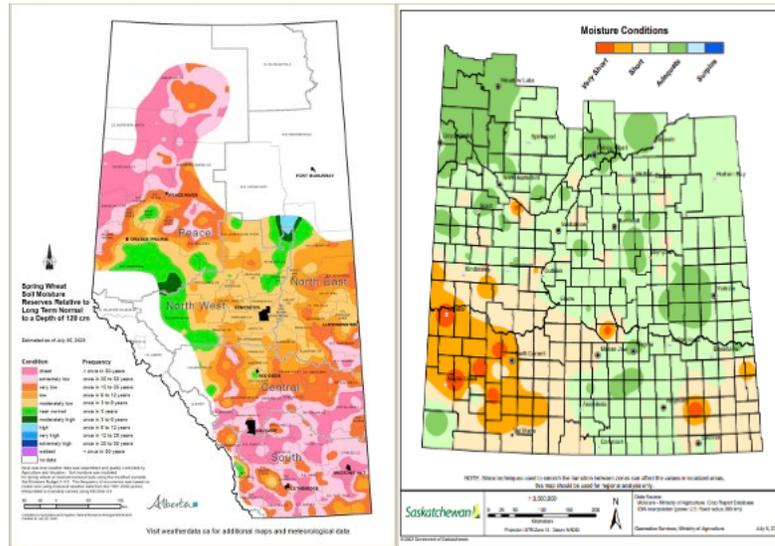
(CGC) Grain Handling Summary Wheat			Week 48	(Jul. 2'23)
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 48	455.5	480.8	396.4	173.9
Week ago	534.4	542.9	357.7	114.3
YTD	21,143.8	21,670.5	18,168.2	4,314.0
Last YTD	13,740.9	13,496.8	10,404.5	3,727.3
YTD less Last YTD	7,402.9	8,173.7	7,763.7	586.7
YTD over Last YTD	154%	161%	175%	116%

- **Durum:** Crop condition - The Canadian durum-producing regions continue to suffer under dry conditions. Soil moisture maps in Alberta’s south and Saskatchewan’s southwest showed dry conditions expanding. In their latest crop assessment, Saskatchewan Agriculture reduced their durum wheat crop ratings by a significant 30% from June 12th to 42% Gd/Ex on June 26th. Last year, Alberta’s durum crop was 64% Gd/Ex and Saskatchewan’s crop was 58% Gd/Ex (as of July 11th). Alberta Agriculture and Irrigation does not publish updated crop ratings until next Friday and their numbers will need to be watched!

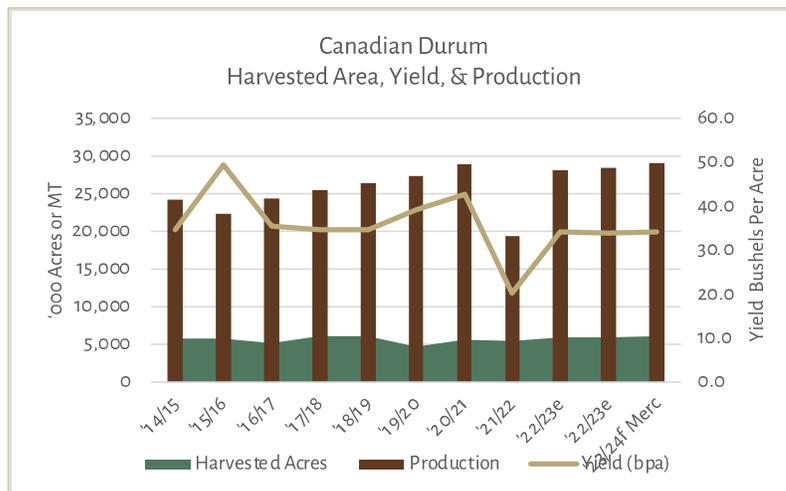


- The condition ratings of the durum crops in North Dakota and Montana each fell by 9% last week to 64% Gd/Ex and 28% Gd/Ex, respectively. Last year Montana’s crop was 65% Gd/Ex.

Current Soil Moisture Conditions in Alberta and Saskatchewan



- The decline in crop conditions has us looking at the yield assumptions in our balance sheets. A return to trend yield (up 7%) from last year looks less likely. Decreasing yields to last year's 34 bushels per acre reduces our production number by almost 400k mt to a similar level as last year's 5.6 million mt.



- Canadian exports in week 48 were 87.6k mt for a season total of 4.9 million mt, now 100k mt more than what the AAFC was thinking and well on the way of surpassing 5.0 million mt. Visible supplies are currently 278.1k mt. Most of this is sitting in country elevators and could take a while to be shipped. Higher exports will reduce feed use as ending stocks do not have much room to shrink further.
- Algeria bought 200k mt of durum from Mexico at \$385-\$390/mt and a cargo of Canadian durum at \$418/mt. Tunisia bought 100k mt of durum at \$418.50/mt. We calculate that the durum that Algeria purchased from Mexico compares to about \$11/bu at the elevator, while the Canadian purchase is worth up to \$12/bu at the elevator in Saskatchewan.

- Domestic durum stocks are fairly tight, global demand in the coming year should be decent, and the Canadian crop is not yet made. Mercantile recommends being sold out of old crop and would wait before selling additional new crop.

(CGC) Grain Handling Summary Durum	Week 48			(Jul. 2'23)
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 48	81.2	94.4	87.6	14.8
Week ago	78.8	69.2	66.7	3.3
YTD	4,956.8	5,643.5	4,901.6	611.7
Last YTD	2,375.9	2,786.0	2,345.8	422.9
YTD less Last YTD	2,580.9	2,857.5	2,555.8	188.8
YTD over Last YTD	209%	203%	209%	145%

US Wheat:

- Wheat futures markets diverged last week as harvest continues with the US winter wheat crop, while there were reports that Brazil bought US HRW and Canada became drier.
- Rain fell on the winter wheat belt, but this will do more to hurt quality than improve the crop. Having to deal with a wetter-than-ideal harvest is creating another quality conversation about wheat, and while the market has good blending/sorting capabilities, it is still another difficulty.
- Spring wheat ratings fell to 48% Gd/Exc, well below last year's 66%, and overall US winter wheat is too wet, spring wheat is too dry,
- The US winter wheat harvest is 37% complete.
- US wheat export sales were better at 405.8k mt (14.9 million bushels) for a season total of 169.8 million bushels, down 24% from last year. Reports of Brazil buying US HRW are not uncommon, but HRW supplies are tight.
- US HRS for August '23 was valued at \$341/mt FOB PNW (*up \$7.50/mt from last week*), FOB Gulf HRW 11/12.5 pro is valued at \$338.00/mt (*up \$13.10/mt from last week*).

Australian wheat:

- Australian old-crop wheat continues to trade into Asia.
- Light rains keep crops developing nicely, especially in the southern parts.
- FOB values in Australia: August '23 AWP from WA is valued at \$285.00/mt (*unchanged from last week*).

Argentine wheat:

- Seeding in Argentina is still hampered by sporadic rains. Consequently, sales of new crop wheat by farmers remain minimal.
- Nevertheless, seeding is now 81% complete against 87% on average.
- Old crop wheat sales in Argentina are just 9.9 million mt which is essentially half of last year's volume. Very little (600k mt) new crop has been committed compared to 5 million mt this time last year.
- We saw no quotes of 12% pro Argentine wheat last week.

EU wheat:

- Matif traded in a €12/mt range, closing €8/mt off the lows fuelled by quality concerns in France, a pickup in tender activity, and Black Sea corridor pessimism.
- MENA countries (Middle East - North African countries) are back after the Eid holiday, and this is helping to improve the cash market liquidity.
- Harvest in Europe started as far north as Austria, but farmers generally are hesitant sellers. Few are willing to commit especially to the higher milling grades.
- The German Farm Association is estimating Germany's wheat crop at 20.6 million mt compared to 22.3 million mt last year.
- EU Fob prices: Aug. '23 French 11.5 pro wheat closed at \$248.00/mt (*down \$1.30/mt from last week*); Aug. '23 German 12.5 pro wheat closed at \$248 (*down \$9.90/mt from last week*); July '23 Baltic 14.0 pro wheat closed at \$256/mt (*down 10/mt from last week*).

Black Sea wheat:

- Russia was reported trading \$230/mt.
- Data on Russian '22/23 wheat exports is expected to be 2-3 million mt above the USDA's current 44.5 million mt. Mercantile believes the USDA will either have to raise their number on last year's Russian crop or lower ending stocks in next week's report.
- How the USDA will reconcile the Russian and EU balance sheets against recent end-of-season export totals will be interesting to watch in next Wednesday's report.
- Grain quality, Ukrainian production and the Black Sea corridor decisions are the big variables in this week's market.
- Estimated FOB prices for Aug. 12.5 protein Russian wheat: US\$230/mt (*unchanged from last week*).

➤ Significant purchases/ trades:

MENA countries are back after the Eid holiday, and this is helping to improve the cash market liquidity.

- **Algeria** bought 200k mt of durum from Mexico at \$385-\$390/mt and a load of Canadian durum at \$418/mt.
- **Tunisia** bought 100k mt of durum at \$418.50/mt.
- **Tunisia** also bought 100k mt soft wheat at \$260/mt from Russia or the Balkans.
- **Thailand** reportedly bought 60k mt September Balkan feed wheat at \$260.50/mt Liner Out.
- US wheat sales were improved at 405.8k mt (14.9 million bushels) for a season total of 169.8 million bushels, down 24% from last year.

➤ Wheat Market Outlook:

Significant events over the past week:

- Wheat will continue to follow **corn**. We expect the USDA in their WASDE report to reduce new crop corn yield in the Wednesday USDA-WASDE reports.
- We expect additional pressure on the wheat complex as **harvest in the Northern Hemisphere** is well underway.
- Traders will be watching the **Black Sea Trade Deal** which expires on the 17th.
- We will be watching wheat **crop rating developments across SK, AB & MB**, especially for durum wheat.
- There are again **quality concerns** about French N/C wheat.
- **Tender activity** by MENA countries has picked up following the Eid holiday.
- **Russian cash wheat prices** remain cheap when compared to North American prices.

Outlook:

There is not much fresh news to drive the markets. We will see if there is a reaction to reports that Russia will no longer support the Black Sea corridor and weather continues to be an issue as well. The markets will study Monday's crop ratings and will wait to see the new WASDE report (due on Wednesday), before making any moves.

Russian cash prices remain cheap when compared to North American prices. In Mercantile's view, expect the USDA in their WASDE report to reduce new crop corn yields, which would be supportive to the markets.

Wait to see the WASDE report before making any new sales.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: 10-07-2023					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Sept. '23 (bu.)	Sept.'23 (mt)
1 CWRS 13.5	\$10.61	\$389.85	1 CWRS 13.5	\$9.87	\$362.66
1 CWAD 13.0	\$10.68	\$392.43	1 CWAD 13.0	\$9.86	\$362.30
1 CPSR 11.5	\$90.96	\$3,342.23	1 CPSR 11.5	\$9.13	\$335.47
SW Sask			SW Sask		
1 CWRS 13.5	\$10.36	\$380.67	1 CWRS 13.5	\$9.79	\$359.72
1 CWAD 13.0	\$10.65	\$391.32	1 CWAD 13.0	\$9.85	\$361.93
1 CPSR 11.5	\$9.69	\$356.05	1 CPSR 11.5	\$9.07	\$333.27
NE Sask			NE Sask		
1 CWRS 13.5	\$10.34	\$379.93	1 CWRS 13.5	\$9.58	\$352.01
1 CWAD 13.0	\$10.80	\$396.84	1 CWAD 13.0	\$9.81	\$360.46
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	
SE Sask			SE Sask		
1 CWRS 13.5	\$10.27	\$377.36	1 CWRS 13.5	\$9.60	\$352.74
1 CWAD 13.0	\$10.69	\$392.79	1 CWAD 13.0	\$9.70	\$356.42
1 CPSR 11.5	\$9.51	\$349.44	1 CPSR 11.5	\$8.79	\$322.98

Data source: PDQ, July 10'23

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, July 10/23

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 Basis² (see *Export Basis* in Table 3) defined as Cdn. FOB Prices minus primary elevator bids, the FOB prices are translated into Cdn. 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
 - 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

² 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.”

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				10-07-2023
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	\$454.03	\$497.92		
HRS	\$445.74			
HRW 11.5	\$422.82			
SWW 12.0	\$338.45			
1 CWRS 13.5³	\$454.03		\$386.55	\$67.48
2 CWRS 13.0³	\$445.74		\$375.16	\$70.58
3 CWRS³	\$422.82		\$365.97	\$56.85
CPS³	\$331.62		\$336.58	-\$4.95
1 CWAD⁴		\$491.09	\$364.87	\$126.22
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$230.00	Aug. '23		
French 11.5 (Rouen)	\$248.00	Aug. '23		
APW 10.5 (W Coast)	\$285.00	Aug. '23		
Argentine 12.0	n/a	Aug. '23		

¹ FOB Prices CDA = FOB US\$ converted into Canadian Currency

² Export Basis = FOB Prices CDA minus Cdn. Street Price

³ DNS 14% ≈ 1 CRWS 13.5%; HRS ≈ 2 CWRS 13.0%; HRW ≈ 3CWRS; SWW ≈ CPS

⁴ Values derived to Lakehead FOB