

Wheat Market Outlook and Price Report: July 24, 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 July 24, 2023

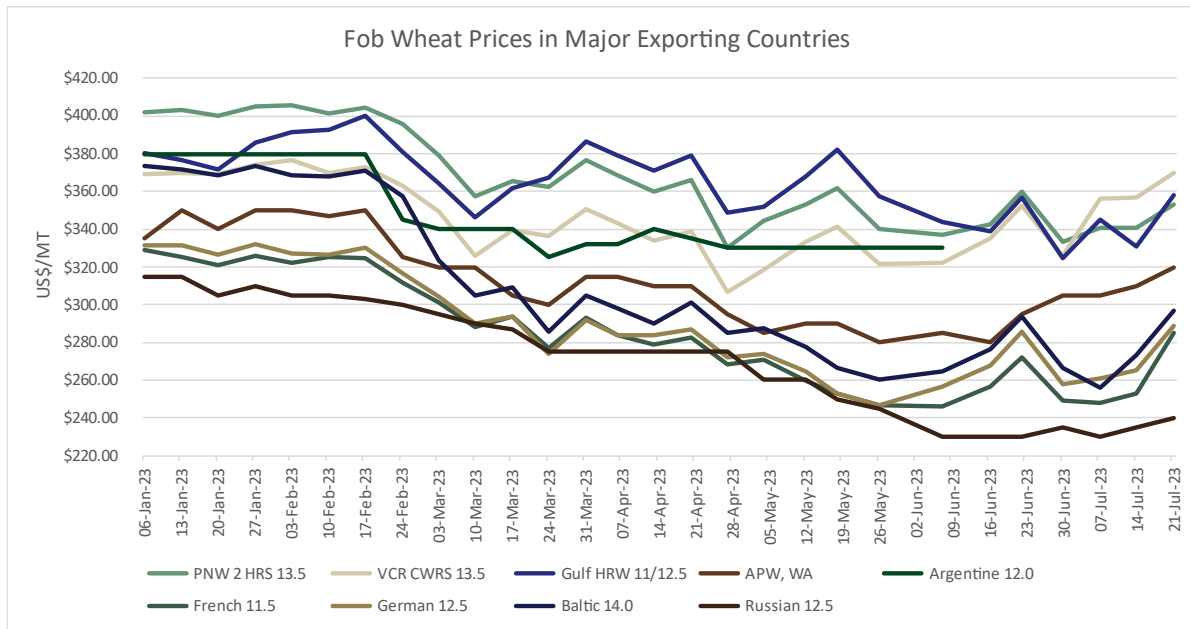
International Grains Council Grain Market Report: July 2023

	20/21	21/22	22/23 est.	23/24 f' cast	29.06	20.07
million tons						
TOTAL GRAINS ^{a)}						
Production	2227	2295	2259	2292	2292	2297
Trade	426	424	422	408	408	408
Consumption	2242	2297	2269	2306	2306	2306
Carryover stocks	603	601	591	577	577	581
<i>year/year change</i>	-14	-2	-11			-10
Major exporters ^{b)}	132	144	143	141	141	147
WHEAT						
Production	774	780	803	786	786	784
Trade	190	196	206	197	197	197
Consumption	772	783	796	803	803	804
Carryover stocks	278	275	283	264	264	263
<i>year/year change</i>	2	-3	8			-20
Major exporters ^{b)}	59	62	65	52	52	52

Source: IGC

- In the July Grain Market Report, the International Grains Council (IGC) reduced 2023/2024 global wheat production by 1.9 million mt from last month to 784.2 million mt. This is now over 19 million mt less production than the 2022/2023 crop year.
- Most of the decrease in production from last month was from smaller crops in Argentina (-1.5 million mt), the EU (-1.3 million mt), and China (-2.5 million mt) being only partially offset by a 2.2 million mt increase in U.S. production.
- Slow demand in the 2022/2023 season caused ending stocks to rise by 1.4 million mt, offsetting some of the decrease in 2023/2024 production.
- Global wheat use was raised by 700k mt from last month led by strong food use.
- Ending stocks for the 2023/2024 season were reduced by 1.2 million mt from last month to 263.2 million mt. This is 19.6 million mt less than the previous year. Almost 6 million mt of the decrease in stocks is in Russia.

FOB Wheat Price Comparison



Source: based on Merc data

- Global wheat values saw a general appreciation over the week as the market reacted to the news coming out of Ukraine.
- Russian wheat continues to be the cheapest in the world. Russian FOB values have reportedly appreciated by \$10/mt over the past two weeks, but the rise in Russian prices has been slower than the rise in EU and U.S. values which has further widened the spread between Russian wheat and other origins.

➤ **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 \$697-4, down 29-4 cents on Friday, *up 36-0 cents on the week.*
- Sept. 2023 contract Kansas hard red winter wheat closed at \$860-2, down 14-4 cents on Friday, *up 31-2 cents on the week.*
- Sept. 2023 Minneapolis hard red spring wheat closed at \$887-0, down 15-0 cents on Friday, *up 2-6 cents on the week.*
- *Marché à Terme International de France (MATIF) milling wheat futures rose €29 over the week.*
- U.S. wheat futures are currently 38-51 cents higher at the time of writing as the market is beginning to realize that Ukraine may be done exporting grain for the time being.

Chicago Sept 2023 Wheat (1 yr.)



Kansas Sept 2023 Wheat



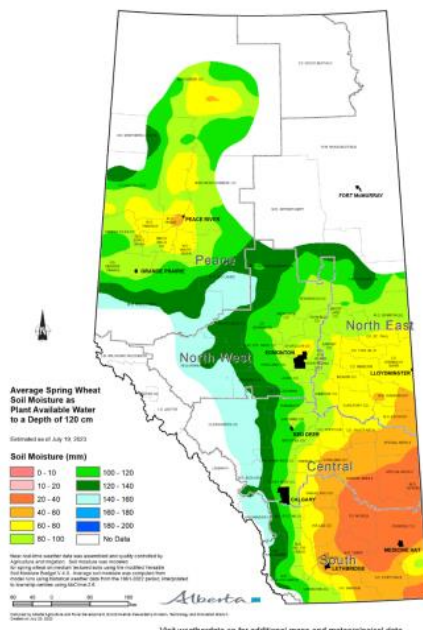
Minneapolis Sept 2023 Wheat



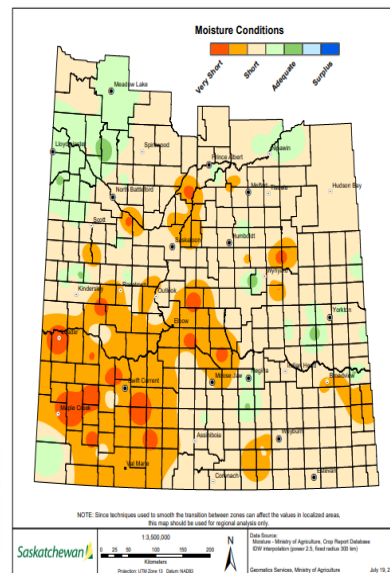
Canadian Wheat

- Cropland soil moisture in Saskatchewan fell over the week and is now just 15 per cent “adequate”. The condition of the SK wheat crop was last reported as 50 per cent Gd/Ex on July 10. Alberta Ag did not release a crop report this week. Crop conditions were last reported as 46 per cent Gd/Ex, but soil moisture maps showed a continued deterioration of moisture levels. Manitoba Ag says that spring wheat conditions in the province range from 100 per cent Gd/Ex in the Northwest to 60 per cent Gd/Ex in the Southwest and Central regions.

Soil Moisture Condition in Alberta and Saskatchewan



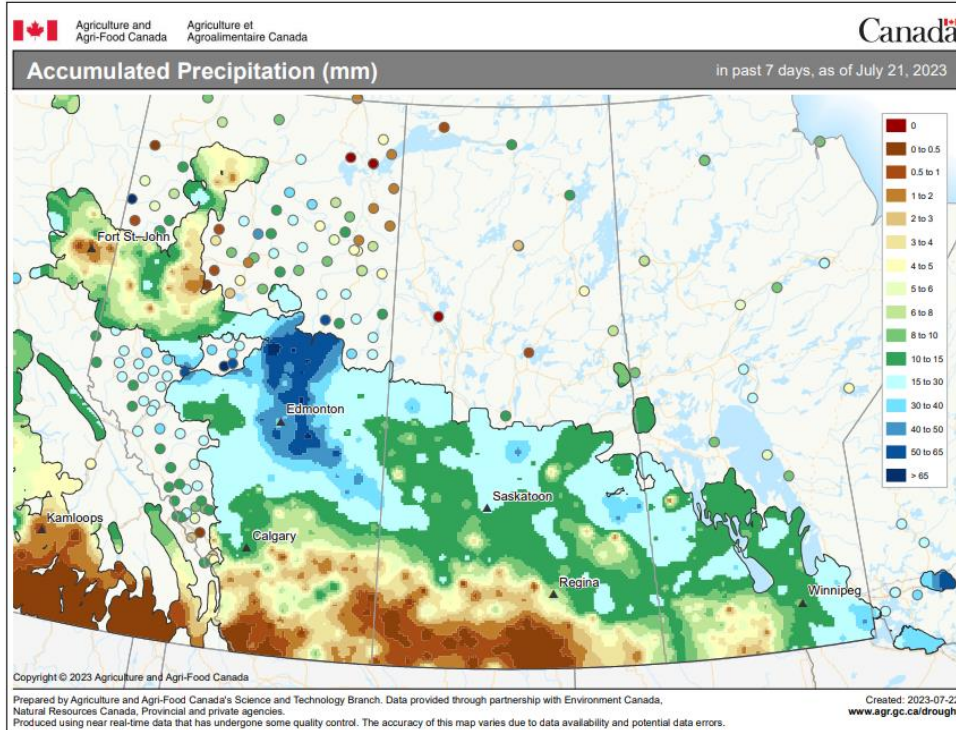
Cropland Topsoil Moisture Conditions July 17, 2023



Source: Alta. Ag, and Sask Ag

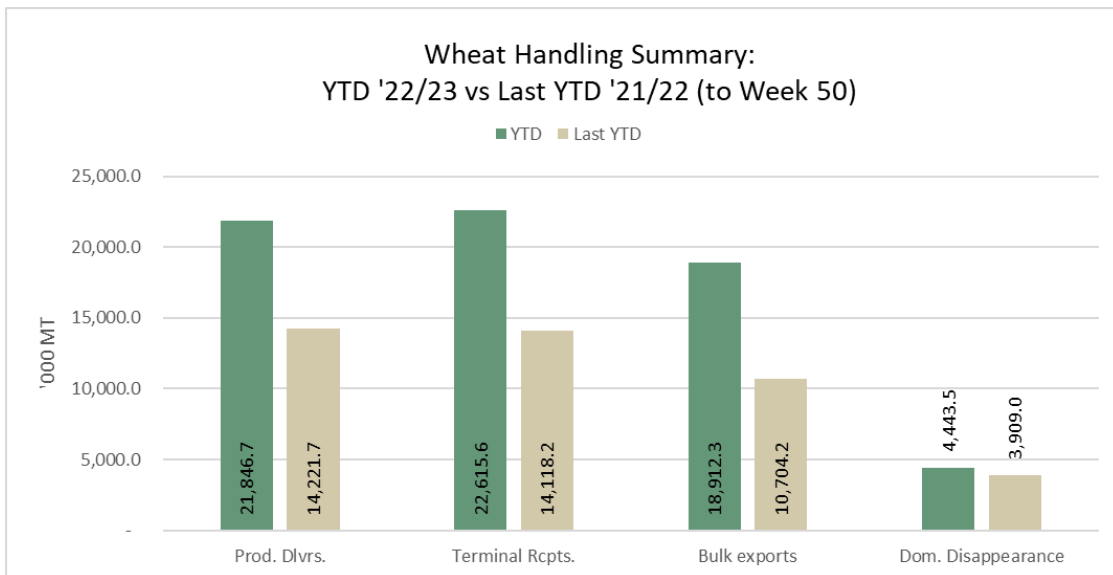
- There was some beneficial rain across the Northern regions of the Canadian Prairies last week, but precipitation was largely absent in the driest Southern Regions.

Seven-Day Accumulated Precipitation as of July 21



Source: AAFC

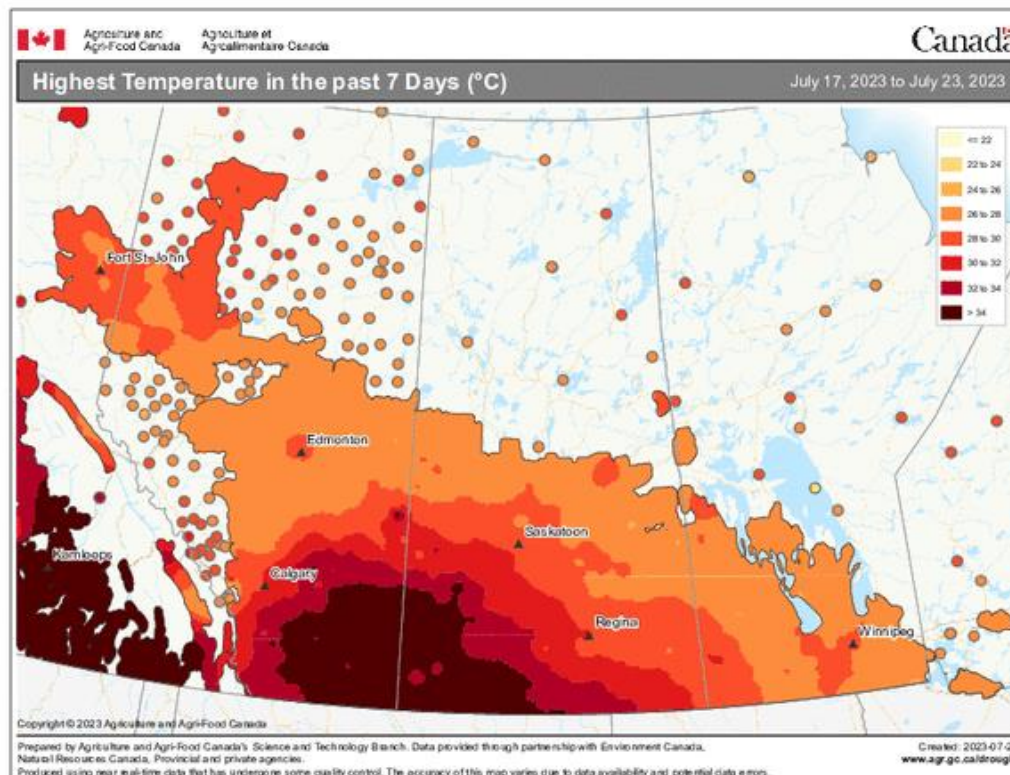
- Canadian wheat exports in week 50 were large at 408.3k mt for a season total of 18.9 million mt. Exports in the remaining two weeks of the marketing year need to be ~340k mt each to meet the AAFC's 19.6 million mt number. This should be possible given there is over two million mt of visible supplies in the Canadian elevator system.



Source: based on CGC data

- **Durum:** Rain remained largely absent in the durum producing areas of Alta. and Sask. last week. Environment Canada has issued heat warnings for southern Alta. and southeastern Sask. as extreme heat fell over the regions this weekend and is expected to last into the week.

Highest Temperatures from July 17- 23, 2023



Source: AAFC

- Canadian durum exports in week 50 were 43.3 million mt for a season total of 5.0 million mt, up by just under 200 per cent from last year. There is another 309.6k mt of visible supplies. Of this, 113k mt of this is in Eastern ports, and 33k mt is in Vancouver. The struggling Canadian crop, and expectation for higher prices will make farmers reluctant sellers.
- *Smaller production in Canada is going to ration export demand in a year that we are expecting stronger demand for Canadian durum. Where the limited supplies go will largely be a function of who has the most inelastic demand.*

U.S. Wheat:

- U.S. winter wheat harvest advanced another 10 per cent from last week to 56 per cent complete.
- Rain in the northern states improved the condition of the U.S. spring wheat crop by four per cent to 51 per cent Gd/Ex (vs. 71 per cent last year and 11 per cent in 2021). Thirty-five percent of the crop is "fair" while 14 per cent of the crop is in poor or very poor condition. Dry conditions returned last week causing the drought in North Dakota and Montana to expand.
- The condition of the North Dakota durum crop fell another three points over the week to 61 per cent Gd/Ex. Crop conditions in Montana fell four per cent from last week to just 17 per cent Gd/Ex.
- Weekly U.S. wheat sales were below trade expectations at 170,700 mt for a year-to-date total of 5.2 million mt, down 26 per cent from last year.
- U.S. HRS for August 2023 was valued at \$353.00/mt FOB PNW (up \$12.00/mt from last week), FOB Gulf HRW 11/12.5 pro is valued at \$358.00/mt (up \$27.00/mt from last week).

Australian Wheat:

- Australian wheat futures followed the rest of the global wheat complex finishing the week at a five-month high.
- Australian wheat exports to China remain strong. Australian wheat exports to China in June were 79.2k mt which was 10 per cent of the total amount of Chinese wheat imports that month.
- FOB values in Australia: Aug. 2023 AWP, WA is valued at \$320.00/mt (*up \$10.00/mt from last week*).

Argentine Wheat:

- Soil moisture levels in Argentina improved slightly but are still historically low. Planting is 92 per cent complete (vs. 97 per cent average). The crop condition was unchanged from last week at 26 per cent Gd/Ex.

Indian Wheat

- India announced an export ban on non-Basmati rice effective immediately. India accounts for more than 40 per cent of global rice exports. There continues to be speculation that India could import large volumes of wheat in the upcoming year. There were rumors that India bought (or will soon buy) Black Sea wheat.

EU Wheat:

- MATIF milling wheat futures closed at a three-week high as the market reacted to the bombing of the Odessa port.
- Rain in the EU is delaying harvest progress which is causing farmer selling to be slow.
- As harvest in the EU continues north, both yield and quality results have been variable.
- EU FOB prices: Aug. 2023 French 11.5 pro wheat closed at \$285.00/mt (*up \$32.00/mt from last week*); Aug. 2023 German 12.5 pro wheat closed at \$289.00 (*up \$24.00/mt from last week*); Aug. 2023 Baltic 14.0 pro wheat closed at \$297.00/mt (*up \$24.00/mt from last week*).

Black Sea Wheat:

- Less than 48 hours after the expiration of the Black Sea Trade Corridor, Russia began a series of attacks on the Ukrainian port of Odessa. The attack was said to have destroyed approximately 60,00-120,000 mt of grain. Moscow warned that it will consider any ship sailing to Ukrainian ports as a threat, and thus, a legitimate target. Ukraine responded with a similar threat. (Russia has since said they do not intend to shoot at civilian ships.) There were reports that the marine insurance company, Ascot, is pausing insurance for ships using the Black Sea Corridor.
- Five countries have asked the EU to extend bans on Ukrainian grain imports at least until the end of the year. Poland says it will maintain its ban regardless of whether the EU extends the ban or not. The current ban imposed by the EU expires on September 15.
- Russian FOB values were reportedly offered at \$240/mt last week (*up \$5.00/mt from last week*).

➤ **Significant purchases/ trades:**

- **We did not hear of any cash trades.** We think credit is restricting demand. The Egyptians had to look for new credit from other Middle East origins to finance grain purchases.
- **U.S.** weekly export sales were poor at 171k mt.

➤ **Wheat Market Outlook:**

Significant events over the past week:

- **Chinese wheat imports in June** were 820k mt. This was the largest June amount in three years, albeit the smallest monthly volume since September 2022. Most of the supplies has been from Australia, but this will likely switch to the EU and Black Sea as their harvest gets underway.
- **Egypt will sign a \$100 million loan** with the Abu Dhabi Fund for Development to help finance its grain purchases. Inflation and the high cost of grain has already caused the country to start deferring payments for its wheat purchases.
- **The Baltic Dry Index (BDI)**, a freight cost measure, fell 10 per cent over the week to 978. The reason given was low shipping demand due to a lackluster Chinese recovery.

Outlook:

Mercantile says crops in Canada and Argentina are struggling. India is poised to be a large wheat buyer, and China has been buying significant volumes. According to Mercantile, with this in mind, there are large stocks of wheat in the EU and Russia, and it seems as if credit issues are impacting demand. This lack of demand is an issue and North American wheat is expensive compared to other origins. - *Spring wheat prices are getting attractive, says Mercantile. They would use this rally to get at least 60 per cent expected new crop production.*

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: July 24, 2023					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Sept '23 (bu.)	Sept '23 (mt.)
1 CWRS 13.5	\$10.81	\$397.20	1 CWRS 13.5	\$10.31	\$378.83
1 CWAD 13.0	\$11.94	\$438.72	1 CWAD 13.0	\$11.52	\$423.29
1 CPSR 11.5	\$10.40	\$382.14	1 CPSR 11.5	\$9.66	\$354.95
SW Sask			SW Sask		
1 CWRS 13.5	\$10.64	\$390.96	1 CWRS 13.5	\$10.21	\$375.16
1 CWAD 13.0	\$12.01	\$441.30	1 CWAD 13.0	\$11.50	\$422.56
1 CPSR 11.5	\$10.13	\$372.22	1 CPSR 11.5	\$9.59	\$352.37
NE Sask			NE Sask		
1 CWRS 13.5	\$10.51	\$386.18	1 CWRS 13.5	\$10.02	\$368.17
1 CWAD 13.0	\$12.04	\$442.40	1 CWAD 13.0	\$11.53	\$423.66
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a
SE Sask			SE Sask		
1 CWRS 13.5	\$10.48	\$385.08	1 CWRS 13.5	\$10.04	\$368.91
1 CWAD 13.0	\$12.01	\$441.30	1 CWAD 13.0	\$11.54	\$424.03
1 CPSR 11.5	\$9.85	\$361.93	1 CPSR 11.5	\$9.27	\$340.62

Data source: PDQ, July 24/2023

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, July 24/2023

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 2013/2014 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 U.S. 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 per cent in the Pacific Northwest (PNW) ≈ 1 CWRS 13.5 per cent in Vancouver
 - HRS in the Pacific Northwest (PNW) ≈ 2 CWRS 13 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). 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.

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.”

- 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				July 24, 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	\$459.87	\$9.62		
HRS	\$453.89			
HRW 11.5	\$417.85			
SWW 12.0	\$352.15			
1 CWRS 13.5 ³	\$459.87		\$419.98	\$39.89
2 CWRS 13.0 ³	\$453.89		\$408.96	\$44.93
3 CWRS ³	\$417.85		\$394.26	\$23.58
CPS ³	\$345.39		\$385.44	-\$40.06
1 CWAD ⁴		\$10.89	\$440.93	\$85.12
Competing wheat:				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$240.00		August	
French 11.5 (Rouen)	\$285.00		August	
APW 10.5 (W Coast)	\$320.00		August	
Argentine 12.5			August	
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				