

## Wheat Market Outlook and Price Report: July 31, 2023

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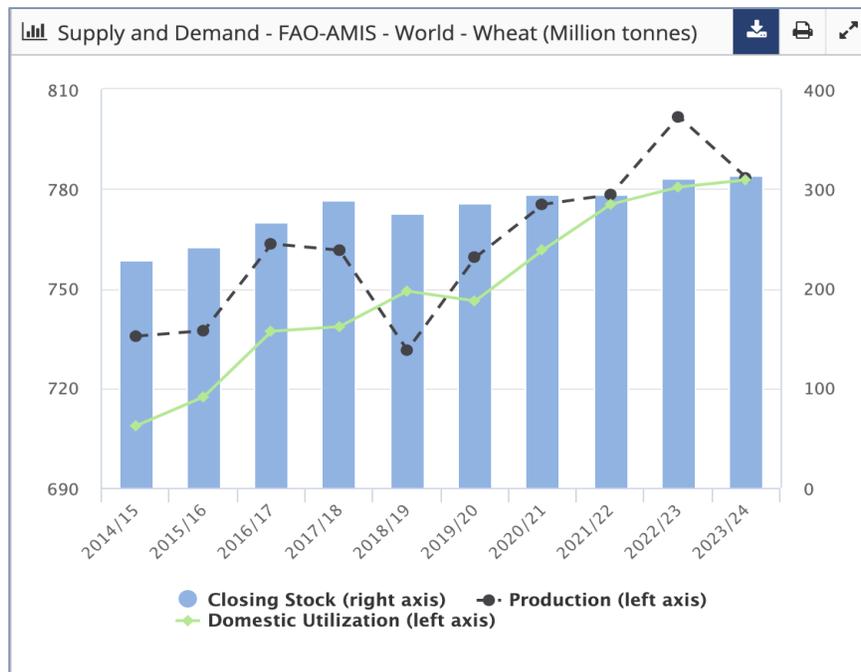
### **i) Background and Rationale for the Report**

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 31, 2023**

#### **FAO-AMIS World Wheat Supply and Demand Overview as of July 2023:**

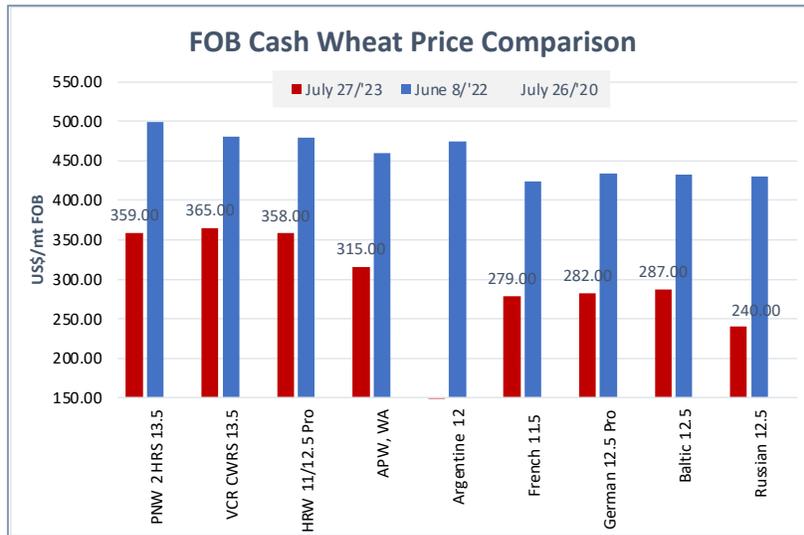


Source: FAO-AMIS

- According to the FAO-AMIS database, global 2023/2024 wheat production will come in at 783.3 million mt, 2.3 million mt smaller than last year's.
- Global domestic utilization of wheat will reach 782.7 million mt, just a fraction below total production.

- Global ending stocks will increase fractionally by 920k mt to 313.9 million mt (311.1 million mt last crop year).

**FOB Wheat Price Developments:**



- FOB wheat prices increased by \$18-30/mt following the renunciation of the grain corridor in the Black Sea. Prices have eased again since as traders are trying to anticipate the logistic outfall from the latest events.

➤ **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 \$704-2, down 8-4 cents on Friday, *up 6-8 cents on the week*.
- Sept. 2023 contract Kansas hard red winter wheat closed at \$856-2, down 10-2 cents on Friday, *down four cents on the week*.
- Sept. 2023 Minneapolis hard red spring wheat closed at \$896-0, down 8-2 cents on Friday, *up 8 cents on the week*.
- *Marché à Terme International de France (MATIF)* milling wheat futures is down €6.50-8.50/mt this Monday morning.
- CBOT wheat futures are currently also down 38 cents at the time of writing.

**CBOT Sept 2023 Wheat (1 yr.)**



**KC Sept 2023 Wheat**



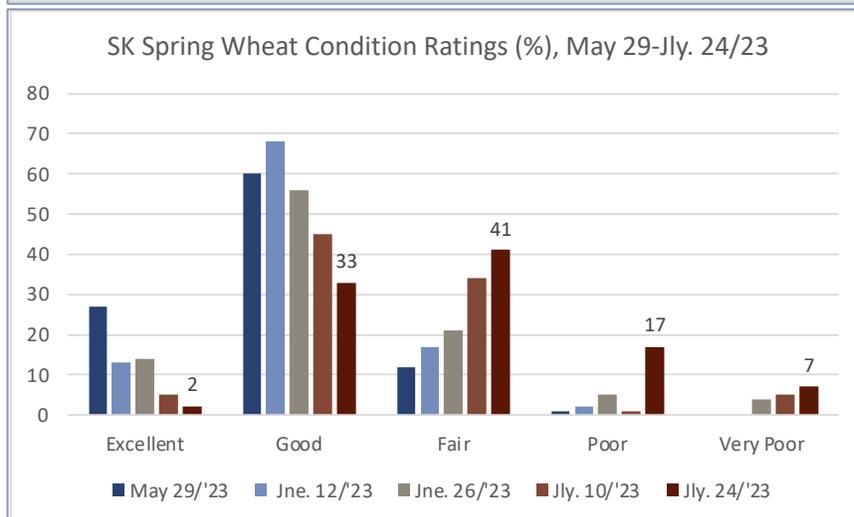
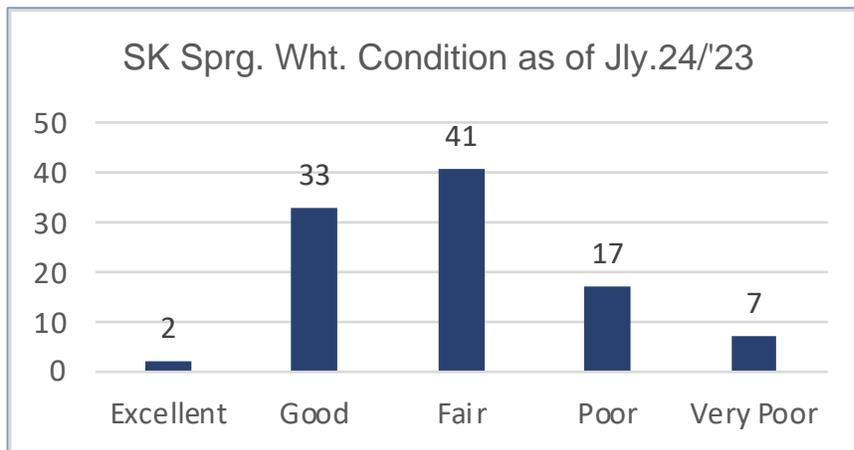
**Mpls. Sept 2023 Wheat**



### Canadian Wheat

- Topsoil moisture in Saskatchewan (SK) continues to decrease and is rated as 15 per cent adequate, 48 per cent short and 37 per cent very short. See the durum section for comments about our recent drive across the prairies.
- According to SK AG on Thursday, spring wheat ratings fell another 15 points to 35 per cent Gd./Exc., 41 per cent fair, and 24 per cent poor to very poor.

**SK spring wheat condition ratings: Current conditions and rating progress since May 29.**



- Alberta (Alta.) condition ratings: Alta. spring wheat ratings fell another one point one per cent over the past two weeks to 45.3 per cent Gd./Exc.
- U.S. spring wheat condition ratings: The NASS July 23 ratings showed U.S. spring wheat at 49 per cent Gd./Exc., 35 per cent Fair, and 16 per cent poor to very poor condition. The Gd./Exc. rating fell by two points from last week and is 19 points lower than last year's 68 per cent Gd./Exc. rating.
- Dakota Wheat Tour: The North Dakota wheat crop tour landed with an above average yield forecasts after day one covering the southern and east-central region of the state. They estimated yields at 48.1bu/acre, an average of 40.2bu/acre and 48.9bu/acre last season for the same date/region.
- Spring wheat areas in Russia: heat and dryness persist in the spring wheat regions.

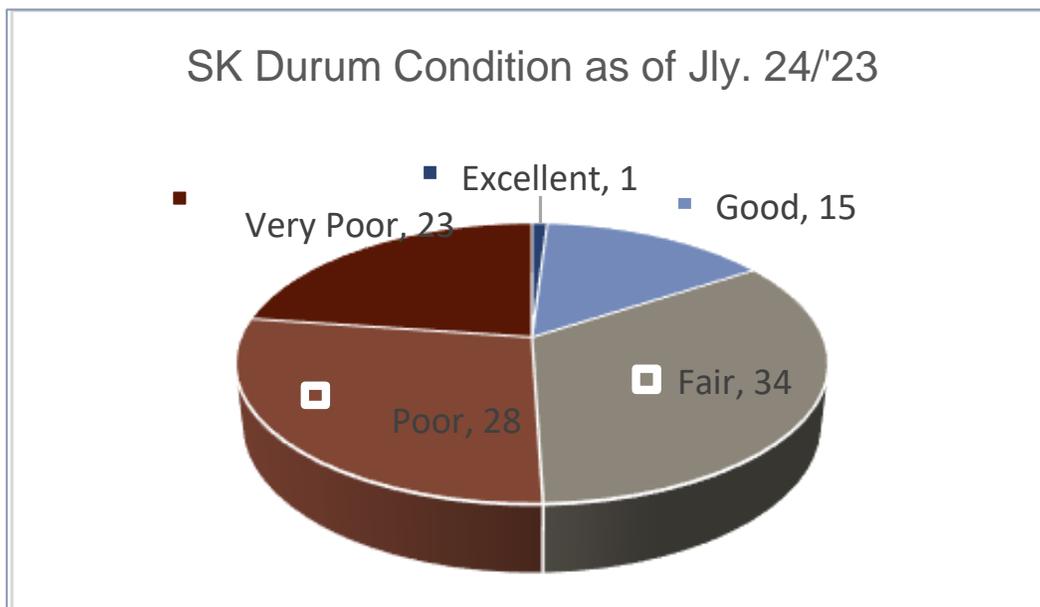
- Canadian wheat exports in week 51 were 250k mt for a season total of 19.2 million mt. Canada may just reach the AAFC's export target of 19.65 million mt for 2022/2023.

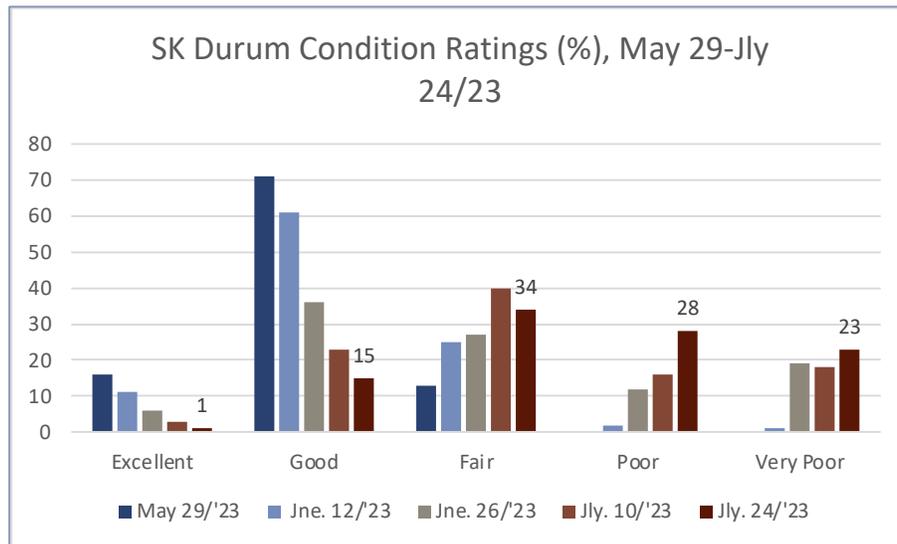
(CGC) Grain Handling Summary Wheat		Week 51			(to July 23/'23)
(000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance	
Week 51	323.5	490.0	<b>250.0</b>	<b>52.4</b>	
Week ago	389.8	424.7	408.3	64.1	
YTD	22,173.3	23,196.1	19,162.2	4,495.6	
Last YTD	14,428.3	14,521.3	11,098.8	3,993.9	
<b>YTD less Last YTD</b>	<b>7,745.0</b>	<b>19,500.2</b>	<b>8,063.4</b>	<b>501.7</b>	
<b>YTD over Last YTD</b>	<b>154%</b>	<b>160%</b>	<b>173%</b>	<b>113%</b>	

Source: Mercantile based on CGC data

- Durum:** Mercantile drove about 3,300 km across the three prairie provinces over the previous two weekends. The common theme was huge variability in crop conditions, even within small areas depending on where the 'showers' landed. However, the southern areas in SK and Alta. were generally depleted and looked poor (even where the crop enjoyed a good start in the spring) and were lacking any remnants of subsoil moisture. So, while some crops still looked good, there was little left in the soil to sustain them. Since then, it has been hot, and precipitation remained local, with no widespread, sustained rains. SK AG came out with new crop ratings on Thursday, and Mercantile cannot disagree with their ratings. Durum ratings fell another 10 points since July 10 to 16 per cent Gd./Exc., 34 per cent fair, and 51 per cent poor to very poor as of July 24.

### SK durum condition ratings: Current conditions and rating progress since May 29





- Alta. durum condition ratings: Alta. Ag rated durum conditions as of July 25 at 30.3 per cent gd./Exc. down four points over the past two weeks.
- There have been some private yield estimates for the 2023 crop that point towards a significant ~24 per cent yield loss from the average (34.14 bu/acre past five years), which would work out to only ~26 bu/acre - Mercantile thinks it is too early to make this judgement and tend to think the number currently is too low. - FWIW, AAFC was using a yield of 35.3 bu/acre on July 21.
- Regarding prices, of particular note is the high durum-milling wheat spread in some areas in Europe (up to \$140/mt). On the Prairies as well, the premium (cash bids) of durum to spring wheat has risen to around \$2.20/bu (~\$81/mt). With some current private estimates taking the Canadian durum crop below four million mt, the question is if it can it widen more, or will it narrow to more normal levels (C\$25-40/mt to spring wheat in Canada)? Average yields in Canada and the U.S. will have to be watched.
- Canadian durum exports in week 51 were 43k mln mt for a season total of 5.0 million mt, up by just under 200 per cent from last year. The struggling Canadian crop, and expectation for higher prices will make farmers reluctant sellers. – Mercantile would not sell more durum at present.

(CGC) Grain Handling Summary Durum		Week51 (to July 23/'23)		
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Week51	<b>36.6</b>	69.4	<b>43.1</b>	8.1
Weekago	42.3	63.8	43.3	16.1
YTD	5,099.7	5,945.3	<b>5,011.1</b>	638.0
Last YTD	2,559.3	3,003.5	2,551.9	470.3
<b>YTD less Last YTD</b>	<b>2,540.4</b>	<b>2,941.8</b>	<b>2,459.2</b>	<b>167.7</b>
<b>YTD over Last YTD</b>	<b>199%</b>	<b>198%</b>	<b>196%</b>	<b>136%</b>

#### **U.S. Wheat:**

- U.S. export sales remain weak, down cumulatively by 32 per cent against last season against the USDA's projected 4.5 per cent decline.
- The North Dakota wheat crop tour landed with an above average yield forecasts after day one of the tour covering the southern and east-central region of the state. They estimated yields at 48.1 bu/acre compared to an average of 40.2 bu/acre and 48.9 bu/acre last season for the same date/region.
- U.S. HRS for Aug. 2023 was valued at \$362.00/mt FOB PNW (*up \$9.00/mt from last week*), FOB Gulf HRW 11/12.5 pro is valued at \$357.00/mt (*down \$1.00/mt from last week*).

#### **Australian Wheat:**

- Australia remained quiet, but wheat futures have climbed to their highest weekly close in five months.
- Asian buyers are still largely absent.
- FOB values in Australia: Aug. 2023 AWP, WA is valued at \$315.00/mt (*down \$5.00/mt from last week*).

#### **Argentine Wheat:**

- Argentina remained very quiet; BAGE's planting update showed around 96 per cent complete, with a surprisingly high 72 per cent said to be in good or optimal condition.
- The Argentine government is launching a corn dollar that extends to several grains, but not to wheat.

#### **Indian Wheat**

- Based on the latest market reports reflecting tighter than earlier expected domestic supplies, the U.S. Ag Attaché to India Post lowered his MY 2023/2024 wheat production forecast by 5.5 million mt to 108 million mt, compared to the earlier official USDA number of 113.5 million mt.
- Domestic prices remain well above Min. Support Prices (MSP's). - The government intervention by means of stock limits imposed on traders and processors on June 12, 2023, failed to arrest rising domestic prices. This suggests lower than initially expected domestic production.

#### **EU wheat:**

- The European Commission (EC) cut its forecast for soft wheat production to 126.4 million mt from 128.9 million mt last month, and lowered ending stocks by 3.1 million mt to 17.4 million mt.
- Rainy conditions are forecast for much of northern EU, which might create challenging harvest conditions and support quality concerns.
- The EU Ag Minister wants the EU to cover the transport costs of moving Ukraine's exportable surplus through "solidarity lanes" while at the same time the Polish agriculture minister reiterated that Poland would not allow Ukrainian grain to flow to Poland. Baltic states have suggested that their ports could be used for export (with an expected smaller Baltic crop, they should have the capacity).
- The market noted the largest level of weekly fund buying on MATIF on record: 45k contracts (2.2 million mt equivalent). This was a major move by funds to cover their shorts, square their books and reduce their overall exposure. Their total positions fell by 16 per cent.
- Meanwhile, commercials went from net long to net short implying that there was more farmer selling and subsequent hedging.
- EU FOB prices: Aug. 2023 French 11.5 pro wheat closed at \$274.00/mt (*down \$11/mt from last week*); Aug. 2023 German 12.5 pro wheat closed at \$289.00 (*down \$12/mt from last week*); Aug. 2023 Baltic 14.0 pro wheat closed at \$297.00/mt (*down \$15.00/mt from last week*).

**Black Sea Wheat:**

- The Russian wheat harvest is around 20 per cent complete and running slower than normal with protein, sprout and moisture issues.
- The Black Sea remains about geo-politics: according to Ukraine's Deputy PM, Russian air strikes have damaged 26 port facilities and five civilian vessels over the last nine days, with videos last week showing the destruction of a Nebulin facility.
- The bid-offer in the Black Sea on nearby Russian 12.5 pro was put at ~\$240-245/mt. However, it is now ~90 days since Egypt's (GASC) last significant purchase, the longest stretch of absence from the market in a decade.
- Russian FOB values for 11.5 per cent protein were reportedly offered at \$237/mt last week (*down \$3.00/mt from last week*) and feed wheat at \$220/mt.

➤ **Significant purchases/ trades:**

There are very few significant purchases.

- **Taiwan** bought 108k mt various types of U.S. wheat for Sept. and Oct. shipment.
- **Bangladesh** is tendering for 50k mt of milling wheat (closes Aug. 1).
- U.S. export sales remain weak, down cumulatively by 32 per cent against last season against the USDA's projected 4.5 per cent decline.

➤ **Wheat Market Outlook:**

**Significant events over the past week:**

- There was another two-point drop in U.S. spring wheat ratings (49 per cent Gd./Exc. against 68 per cent last year) and private estimates of Canada's all-wheat crop are dipping towards 31 million mt (compared to USDA's 35 million mt).
- There are very few significant wheat purchases. In fact, it has been ~90 days since Egypt's (GASC) last significant purchase, the longest stretch without GASC purchases in a decade.
- U.S. export sales were still down 32 per cent against the USDA's five per cent.
- The wheat market seems paralyzed by two opposing anxieties: the fear of the next limit down move because of some real or perceived progress on the corridor, or the next move up because of a disruption to the Danube and/or Kerch strait.
- Neither cash markets in either Europe nor the U.S. fully followed the futures gains and weak/cheap basis is a common theme.

**Outlook:**

Mercantile says they have rarely seen the world in such a disarray. There are wars/disputes in various regions and strange weather conditions all making price forecasts extremely challenging, according to Mercantile. Futures markets are extremely volatile, but also thin. Meanwhile, there is a heightened sense of awareness in the market regarding the risks to Russian and Ukrainian exports, but there also is cognizance that harvest has arrived in Europe. With grain to be distributed, the market cannot stay paralyzed indefinitely. What is surprising to Mercantile is that buyers have been absent when Black Sea wheat is still cheap (Russian wheat is ~\$237/mt FOB) and given the uncertainties regarding forward logistics. Mercantile worries that financial problems are affecting overall demand, and this might render higher priced north American wheat hard to place. However, as far as Canada is concerned, Mercantile doesn't suggest any cash sales while current weather conditions prevail.

**iii) Primary Elevator Price Tables and Grade Spreads**

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

					Date:	31-07-2023
NW Sask	Spot		NW Sask	Deferred		
	(bu.)	(mt)		Sept. '23 (bu.)	Sept.'23 (mt)	
1 CWRS 13.5	\$10.87	\$399.41	1 CWRS 13.5	\$10.59	\$389.12	
1 CWAD 13.0	\$12.93	\$475.10	1 CWAD 13.0	\$12.97	\$476.57	
1 CPSR 11.5	\$10.22	\$375.52	1 CPSR 11.5	\$9.85	\$361.93	
<b>SW Sask</b>			<b>SW Sask</b>			
1 CWRS 13.5	\$10.62	\$390.22	1 CWRS 13.5	\$10.51	\$386.18	
1 CWAD 13.0	\$12.95	\$475.83	1 CWAD 13.0	\$13.04	\$479.14	
1 CPSR 11.5	\$10.00	\$367.44	1 CPSR 11.5	\$9.77	\$358.99	
<b>NE Sask</b>			<b>NE Sask</b>			
1 CWRS 13.5	\$10.54	\$387.28	1 CWRS 13.5	\$10.35	\$380.30	
1 CWAD 13.0	\$13.18	\$484.29	1 CWAD 13.0	\$13.07	\$480.24	
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a		
<b>SE Sask</b>			<b>SE Sask</b>			
1 CWRS 13.5	\$10.45	\$383.97	1 CWRS 13.5	\$10.29	\$378.10	
1 CWAD 13.0	\$13.02	\$478.41	1 CWAD 13.0	\$13.01	\$478.04	
1 CPSR 11.5	\$9.73	\$357.52	1 CPSR 11.5	\$9.50	\$349.07	

Data source: PDQ, July 31, 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 31, 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 Basis<sup>1</sup> (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 per cent in the Pacific North West (PNW) ≈ 1 CWRS 13.5 per cent in Vancouver

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<sup>1</sup> 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.”

- 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				31-07-2023
Type of Wheat	FOB Prices CDA <sup>1</sup> (calculated)		Street Prices	Export Basis <sup>2</sup>
	West Coast (Cdn./mt\$)	Great Lakes (Cdn./mt)	Rosetown (Cdn./mt)	Basis: West Coast-Centr. SK (Cdn\$/mt)
DNS 14.0	\$444.77	\$533.24		
HRS	\$437.03			
HRW 11.5	\$408.02			
SWW 12.0	\$345.18			
1 CWRS 13.5 <sup>3</sup>	\$444.77		\$371.48	\$73.28
2 CWRS 13.0 <sup>3</sup>	\$437.03		\$360.46	\$76.57
3 CWRS <sup>3</sup>	\$408.02		\$351.27	\$56.75
CPS <sup>3</sup>	\$338.41		\$327.76	\$10.65
1 CWAD <sup>4</sup>		\$526.47	\$477.67	\$48.80
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$237.00	Aug. '23		
French 11.5 (Rouen)	\$274.00	Aug. '23		
APW 10.5 (W Coast)	\$315.00	Aug. '23		
Argentine 12.0	n/a	Aug. '23		

<sup>1</sup> FOB Prices CDA = FOB US\$ converted into Canadian Currency

<sup>2</sup> Export Basis = FOB Prices CDA minus Cdn. Street Price

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

<sup>4</sup> Values derived to Lakehead FOB