

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

Agriculture Market Information System (AMIS) Market Monitor: March 2023

	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
		2 Feb	2 Mar				
Wheat Prod.	778.0	793.7	794.6	779.3	783.8	781.1	796.0
	641.1	655.9	656.9	642.4	646.1	644.1	658.4
Supply	1070.7	1087.3	1088.4	1069.4	1060.5	1058.1	1070.9
	803.4	815.7	816.7	788.3	781.0	793.9	801.3
Utiliz.	773.0	777.6	779.5	792.7	791.2	783.2	789.2
	630.2	637.9	639.8	644.7	647.2	642.1	649.6
Trade	195.7	197.3	197.8	205.3	211.4	196.7	196.6
	186.0	188.3	188.8	195.8	201.4	186.8	187.9
Stocks	293.8	305.4	305.7	276.7	269.3	274.8	281.7
	159.8	164.0	164.3	134.9	124.8	141.9	143.0

IN MILLION TONNES

Source: AMIS

- AMIS released their Market Monitor for March 2023 last week. The report indicated a 900k mt rise in global wheat production from last month. Production in Brazil accounted for most of the increase. Global production is now expected to be 795 million mt, up 2% from last year.
- Higher wheat feeding caused AMIS to increase utilization by 1.9 million mt as feed wheat has been competitively priced with corn.
- Global wheat trade saw a slight, 500k mt increase from last month as larger exports from Australia and Brazil were only partially offset by smaller exports from the EU. Total trade is now expected to be 197.8 million mt, which is 1% above last year.
- Global ending stocks were raised 300k mt from last month to 305.7 million mt, up 4% from last year. The increase in stocks were driven by larger carry-out volumes in the EU and Brazil being only partially offset by a 500k mt decrease in Canada.

➤ **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 \$708-6, down 4-0 cents Friday, *down 13-0 cents on the week.*
- March. '23 contract **Kansas hard red winter wheat** closed at \$816-2, down 9-6 cents on Friday, *down 19-0 cents on the week.*
- March. '23 **Minneapolis hard red spring wheat** closed at \$872-6, down 3-4 cents on Friday, *down 9-6 on the week.*
- *US wheat futures are currently trading 6 to 12 cents lower at the time of writing.*

CBOT May 2023 Wheat (1 yr.)



KC May 2023 Wheat



Mpls. May 2023 Wheat



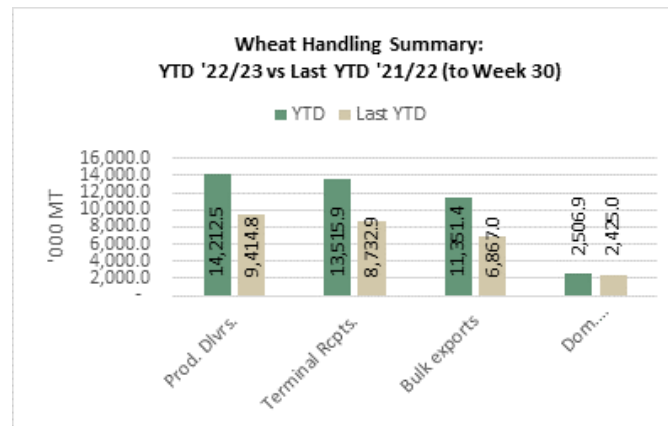
- **Canadian Wheat**
- Minneapolis spring wheat failed at the 880-0 resistance level and closed below it.
- The Canadian dollar moved sideways last week allowing the futures to dictate most of the price movement.

March 2023 Canadian Dollar (1 yr.)



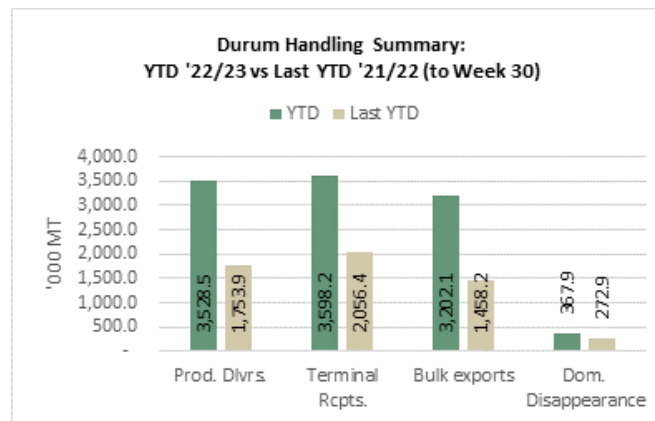
Source: Barchart

- Week 30 wheat exports were 396.2k mt which remains ahead of the pace needed to meet the AAFC's 19.3 million mt export projection. Exports have been slower in recent weeks, but this is not uncommon for this time of year.



Source: Based on CGC data

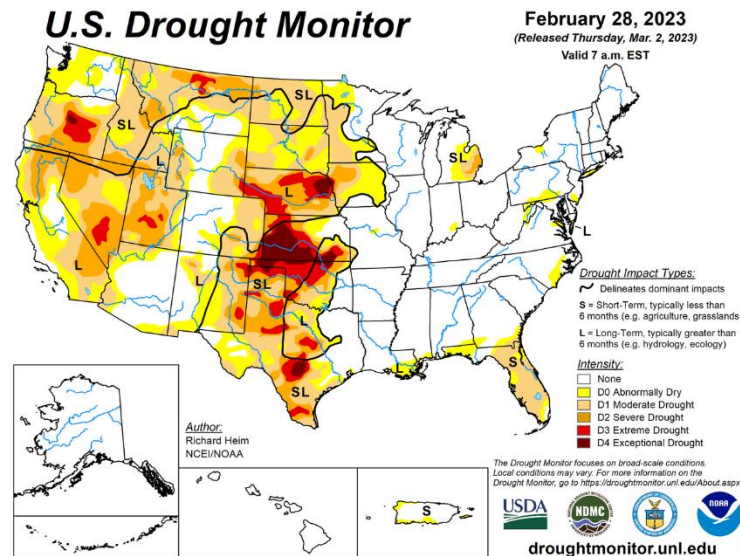
- **Durum:** Weekly durum shipments continue to be unseasonably strong. There was an additional 137.3k mt of durum shipped in week 30. February is seasonally the slowest month for Canadian durum exports except for September when the new crop has not come on-line yet. Despite this, average weekly exports over the past 4 weeks have been 102.3k mt per week compared to the pre-2021/'22 average of 86k mt of exports per week. The strong export pace has drawn visible supplies down to 545.7k mt at a time when durum exports seasonally begin to pick up when the lakes open in the spring.



Source: Based on CGC data

- Ninety-two per cent of the French durum crop is in Gd/Ex condition. This is a strong improvement from last year's 79% Gd/Ex rating. The 5-year average condition of the French durum crop is 81% Gd/Ex. Above normal temperatures and below normal moisture could challenge these ratings if there is no rain.
- Prices in Europe remain relatively flat. Durum in Italy is still worth about €408/mt, which calculates to about C\$12.15/bu at the elevator in Saskatchewan. This is about C\$0.40/bu less than two weeks ago. Approximately C\$0.30 of the decrease was driven by the changes in currieres. The remainder of the decrease is from higher freight costs. This change has not necessarily been seen at the elevator, where bids have appreciated over the past two weeks. The strong export pace has depleted the supplies in the pipeline and exporters are paying more to replenish this.

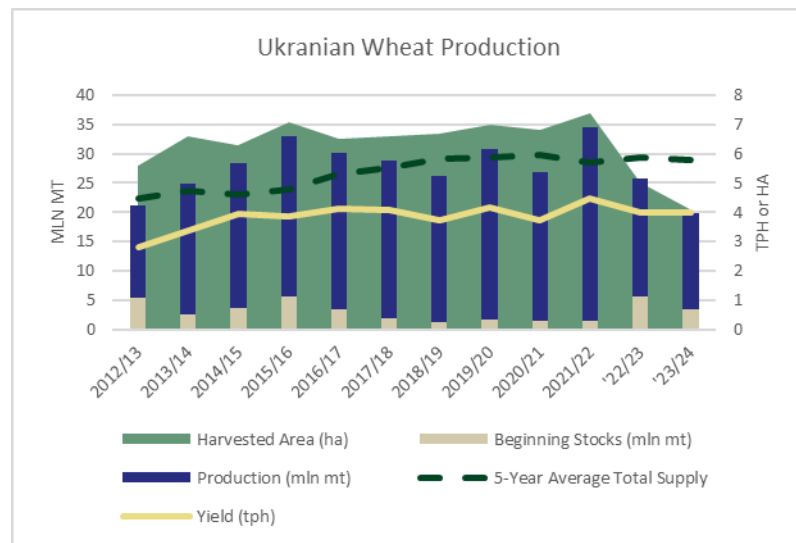
- There was an uptick in durum bids last week. If not sold, Mercantile would use this opportunity to finish sales. The seasonal trend is for prices to decrease from here until late spring. Mercantile would sell 20% of new crop at \$12.00/bu.
- **US Wheat:**
- As of last Sunday, the winter wheat crop in Kansas was rated 19% Gd/Ex, down from 21% last month and 25% last year. The winter wheat crop in Oklahoma is 36% Gd/Ex which is a *strong improvement from the 17% Gd/Ex rating last month and the 31% of last year*. Texas Gd/Ex conditions rose to 19% compared to 14% last month and 21% last year. There was additional rain which will help improve crop conditions further.



Source: US Drought Monitor

- Weekly US export sales were at the low end of expectations at 284k mt for a season total of 628 million bushels. The year-over-year decline from last year's pace has grown to 6.5% compared to the 3% decrease that the USDA is projecting.
- US HRS for Apr. '23 was valued at \$378.9/mt FOB PNW (down \$17.20/mt from last week), FOB Gulf HRW 11/12.5 pro is valued at \$364.10/mt (down \$16.90/mt from last week).
- **Australian wheat:**
- In Australia, traders are estimating wheat production in the upcoming year will be around 25 million mt (28 million mt last year). The decrease is because of the forecasted La Nino as the area planted and trend yields would promote a 28-29 million mt number.
- FOB values in Australia: Apr. '23 AWP WA is valued at \$320.00/mt (down \$5.00/mt from last week).
- **Argentine wheat:**
- There have been farmer protests in Argentina against the export tax, but Mercantile does not think the government will pay attention as it is an important revenue stream for them.
- Farmer sales in Argentina rose to 7.4 million mt compared to 15.7 million mt this time last year. There were no export licences. Exports from Argentina are no where near the USDA's 7.5 million mt estimate.

- **EU wheat:**
 - There are reports that farmer sales in the EU are falling behind average pace for both old and new crop as farmers worry about the potential impact of the current dryness. Despite this, MATIF wheat futures continued to fall as traders sold contracts to maintain the spread between MATIF and the CBOT.
 - FOB prices in the EU: Apr. '23 French 11.5 pro wheat closed at \$300.90/mt (*down \$10.60/mt from last week*); Apr. '23 German 12.5 pro wheat closed at \$304.00 (*down \$12.80/mt from last week*); Apr. '23 Baltic 14.0 pro wheat closed at \$323.70/mt (*down \$33.80/mt from last week*).
- **Black Sea wheat:**
 - An Ag official in Ukraine raised their wheat area slightly to 4.1k hectares. Early estimates of Ukraine's wheat balance sheet only have an exportable surplus of about 8 million mt.



Source: Based on USDA and Merc data

- Russia continues to posture as the deadline for the Trade Corridor approaches. Russia's Foreign Secretary is issuing complaints that Russian grain is not benefitting from the corridor. The trade, confident that the corridor will be renewed (despite the fact not negotiations have been scheduled yet), have been ignoring these comments.
- The Russian wheat that was sold to Turkey calculates to ~\$290/mt FOB, or ~\$10/mt less than EU FOB wheat prices. Russian traders continue to sell aggressively as they each try to gain as big a share of the export quota as possible.

➤ **Significant purchases/ trades:**

- **Iran** bought "several hundred thousand tonnes" of Russian milling wheat.
- **Turkey** bought 790k mt of Russian and Ukrainian Mar-May wheat at \$308-\$311/mt C&F.
- **US** weekly export sales were 284k mt for a season total of 628 million bushels, down 6.5% from last year. The strong US dollar is keeping demand low for countries with weak currencies.

➤ **Wheat Market Outlook:**

Significant events over the past week:

- **Iran's purchase of Russian wheat** came as a bit of a surprise to the market as there are several ships of Russian goods bound for Iran that have been stuck in the Persian Gulf because

of payment issues. Some think that Iran will have a “guaranteed wheat supply” for as long as they supply Russia with weapon capable drones.

- **Weather in India has been hot and dry** and the country’s wheat crop will likely be less than the record 112.2 million mt that the government is expecting. The combination of low stocks and smaller production has prompted speculation that the current ban on wheat exports will be extended until mid-2024.
- **The March USDA report is out this week.** The trade is expecting wheat ending stocks in the US to be 5 million bushels higher than last month. Global ending stocks are expected to grow by 400k mt.

Outlook:

There seems to be plenty of wheat available to meet buyer’s needs. The Russian prices have fallen to a year low and yet there appears to be more for sale from Black Sea origins. All tenders that were called for were met successfully without the need for North American supplies. We expect the next WASDE report this week to increase the USA carryover. *-We are sold out on current crop and will wait on weather developments before selling additional new crop.*

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: March 6, 2023					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		May '23 (bu.)	May '23 (mt.)
1 CWRS 13.5	\$11.23	\$412.64	1 CWRS 13.5	\$11.20	\$411.53
1 CWAD 13.0	\$12.52	\$460.03	1 CWAD 13.0	\$12.46	\$457.83
1 CPSR 11.5	\$10.53	\$386.91	1 CPSR 11.5	\$10.57	\$388.38
SW Sask					
1 CWRS 13.5	\$11.06	\$406.39	1 CWRS 13.5	\$11.07	\$406.76
1 CWAD 13.0	\$12.47	\$458.20	1 CWAD 13.0	\$12.48	\$458.57
1 CPSR 11.5	\$10.30	\$378.46	1 CPSR 11.5	\$10.45	\$383.97
NE Sask					
1 CWRS 13.5	\$11.02	\$404.92	1 CWRS 13.5	\$10.97	\$403.08
1 CWAD 13.0	\$12.41	\$455.99	1 CWAD 13.0	\$12.39	\$455.26
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a
SE Sask					
1 CWRS 13.5	\$10.91	\$400.88	1 CWRS 13.5	\$10.89	\$400.14
1 CWAD 13.0	\$12.41	\$455.99	1 CWAD 13.0	\$12.39	\$455.26
1 CPSR 11.5	\$10.24	\$376.26	1 CPSR 11.5	\$10.33	\$379.57

Data source: PDQ, Mar. 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	(0.30)	-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, Mar. 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/mt. During the 2013/14 crop year the export basis for wheat widened to approximately C\$250/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 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/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:

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.”

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				March 6, 2023
	FOB Prices CDA ¹ (calculated)		Street Prices	Export Basis ²
Type of Wheat	West Coast (Cdn./mt\$)	Great Lakes (Cdn.\$/mt)	Rosetown (Cdn.\$/mt)	Basis: West Coast-Centr. SK (Cdn\$/mt)
DNS 14.0	\$481.78	Closed		
HRS	\$475.45			
HRW 11.5	\$477.28			
SWW 12.0	\$414.74			
1 CWRs 13.5 ³	\$481.78		\$404.18	\$77.60
2 CWRs 13.0 ³	\$475.45		\$393.16	\$82.29
3 CWRs ³	\$477.28		\$380.30	\$96.98
CPS ³	\$407.74		\$303.87	\$103.87
1 CWAD ⁴		Closed	\$459.30	
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$295.00		April	
French 11.5 (Rouen)	\$300.90		April	
APW 10.5 (W Coast)	\$320.00		April	
Argentine 12.5	\$340.00		April	

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