

**Wheat Market Outlook and Price Report: May 1, 2023**  
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 Mercantile Consulting Venture Inc.

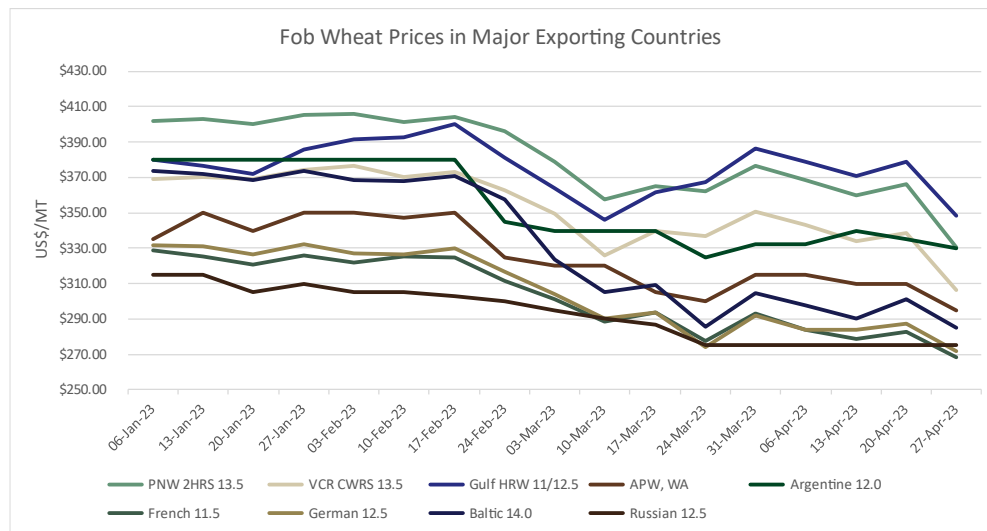
**i) Background and Rationale for the Report**

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 May 1, 2023**

**FOB Wheat Prices for Near-By Delivery**



Source: based on IGC data

- Global importer demand continues to fade ahead of the arrival of new crop. For the old crop demand that remains, the decline in cash prices over the month of April has caused some interested changes to the trade matrix.
- Spring wheat prices suffered the steepest losses over the month as FOB prices for 13.5 pro HRS in the PNW and Vancouver fell \$46/mt and \$44/mt respectively. The decline in Canadian spring wheat prices have narrowed the spread between Canadian and Australian wheat which only lost \$20/mt over the month.
- Russian export sales are declining as falling prices in the EU has caused EU wheat values to descend below the \$275/mt price floor of Russian wheat.

- For new crop, U.S. SRW is currently the world's cheapest wheat on a FOB basis by some \$10/mt.

➤ **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:**

- July 2023 contract **Chicago winter wheat** closed at \$633-6, up 4-4 cents on Friday, *down 39-2 cents on the week.*
- July 2023 contract **Kansas hard red winter wheat** closed at \$776-2, up 11-0 cents on Friday, *down 49-2 cents on the week.*
- July 2023 **Minneapolis hard red spring wheat** closed at \$803-6, up 18-6 cents on Friday, *down 42-0 cents on the week.*
- *U.S. wheat futures are currently trading 15 to 20 cents lower at the time of writing.*

**Chicago July 2023 Wheat (1 yr.)**



**Kansas July 2023 Wheat**

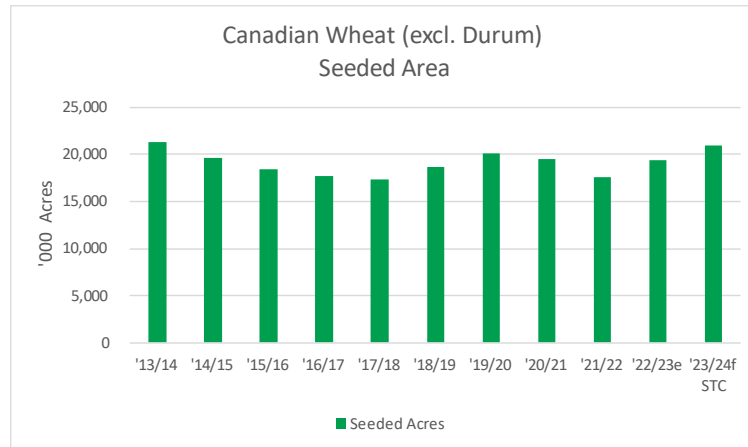


**Minneapolis July 2023 Wheat**



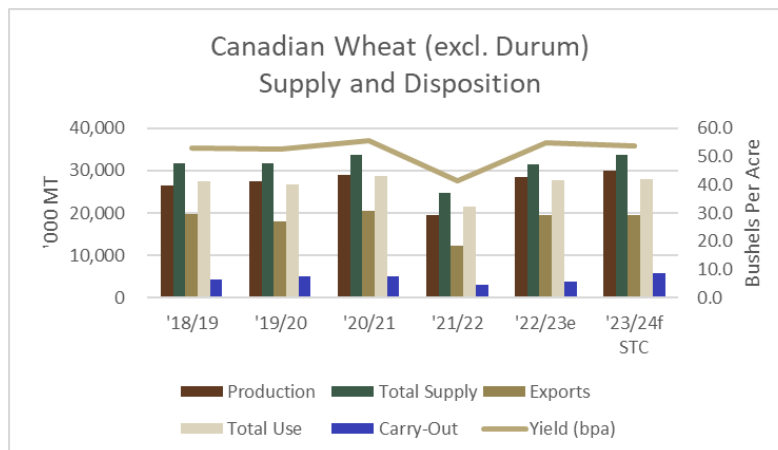
**Canadian Wheat**

- The big news item in last week's market was the Statistics Canada (StatsCan) projected acreage report. The report was disappointingly based on a Dec. 15 - Jan. 14 survey, instead of the traditional March grower survey. We are concerned that the timing of the survey impacted the quality and reliability of the projections.
- StatsCan put Canadian total wheat area at 27.0 million acres. This would be a six per cent increase from last year and the largest all wheat area since 2001. Spring wheat area was put at 19.4 million acres, up eight per cent from last year. Winter wheat area was up at 1.5 million acres which is 13 per cent more than last year.
- StatsCan's seeded area number for spring wheat is close to our estimate, but we are skeptical that winter wheat area will be up by 13 per cent. If realized, higher seeded area and a return to trend yields would increase non-durum wheat production in Canada by six per cent (~1.5 million mt) to just under 30 million mt.



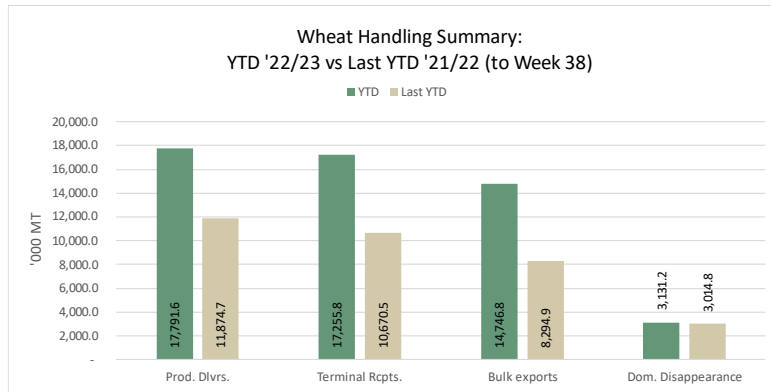
Source: Based on Stats Canada data

- A 30 million mt crop would cause total supply in Canada to rise to 33.8 million mt. This is five per cent more volume than last year, and the largest level since the 2020/2021 season. Agriculture and Agri-Food Canada (AAFC) is currently thinking that exports next year will be unchanged at 19.6 million mt, and domestic use will be three per cent higher at 8.1 million mt. If true, ending stocks would grow by over 40 per cent to a large 5.7 million mt.



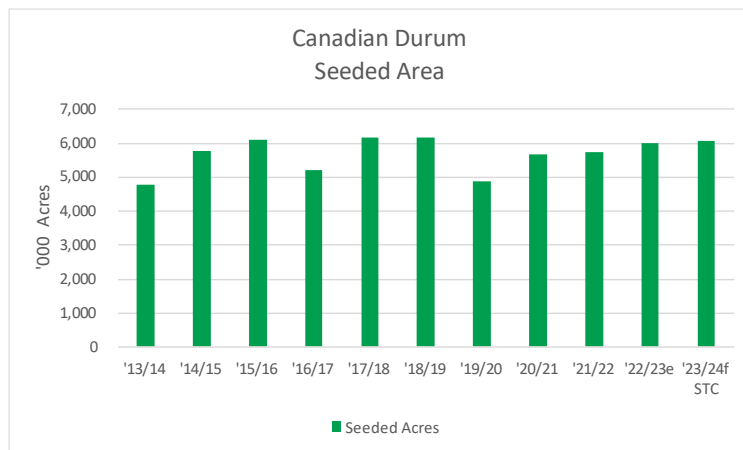
Source: Based on Stats Canada, AAFC, and Merc data

- Exports in week 38 were large at 499.1k mt. This makes for a season total of 14.7 million mt which is 76 per cent more than last year. Canada needs to export an average of ~340k mt of wheat per week for the remainder of the marketing year to meet the AAFC's 19.6 million mt export number.



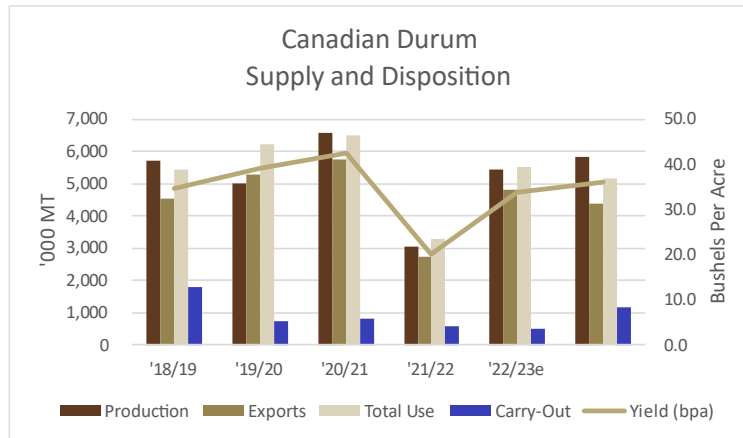
Source: Based on CGC data

- We have heard of some seeding progress in Alberta, and some fieldwork will likely begin in localised areas of Manitoba and Saskatchewan this week. It seems like seeding will only begin in earnest in the second week of May.
- **Durum:** StatsCan is expecting that seeded area in Canada will increase by one per cent from last year to 6.1 million acres. This is largely in line with our expectations. STC thinks that a five per cent decline in seeded area in Alberta will be offset by a three per cent increase in seeded area in Saskatchewan. Trend yields would result in durum production in Canada to increase by seven per cent from last year to 5.8 million mt.



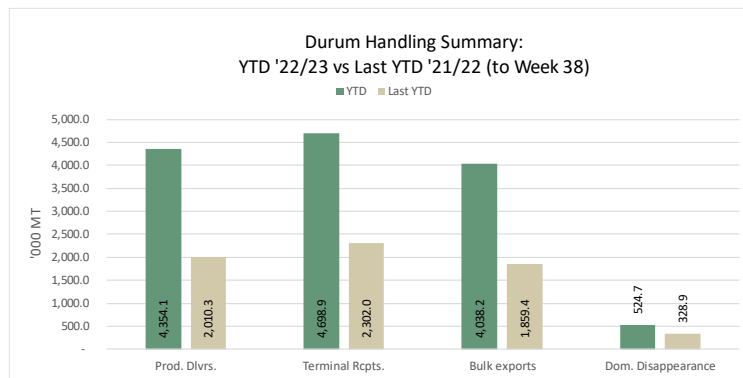
Source: Based on Stats Canada data

- A 5.8 million mt crop would cause durum supply in 2023/2024 to be five per cent higher year-over-year at 6.3 million mt. This is not burdensome but would require exports to be higher than the AAFC's current 4.4 million mt projection which reflects an eight per cent decrease in exports from the current year.



Source: Based on Stats Canada, AAFC, and Merc data

- Durum exports in week 38 were 185.1k mt for a season total of 4.0 million mt. The AAFC did not raise their 2022/2023 export projection for durum in their recent update, which we think was a miss. To meet the AAFC's 4.8 million mt export number, Canada only needs to ship 800k mt of durum in the remaining 14 weeks of the marketing year. Almost 500k mt of this has already been delivered into the Canadian elevator system.



Source: Based on CGC data

- *Mercantile is sold out of old crop durum and have sold 40 per cent of expected new crop production.*

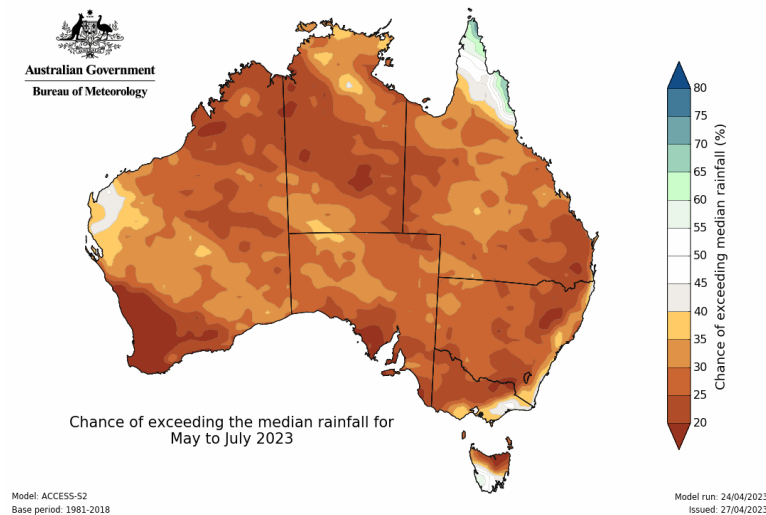
### U.S. Wheat:

- The condition of the U.S. winter wheat crop fell by another percentage point over the week to 26 per cent Gd/Ex. Eighteen percent of the crop has headed.
- Substantial rain fell on a large swath of the U.S. winter wheat belt. The rain was likely too late to make a significant impact on the condition of the crop. On the contrary, some think the rain could increase abandonment as soil moisture conditions are conducive to replant another crop.
- United States wheat sales were small at 156k mt (5.7 million bushels) compared to the 75k-400k mt that the trade was expecting. Total commitments are now 687 million bushels which, considering the usual ~100-million-bushel discrepancy between sales data and Census Bureau data, means that the U.S. has effectively committed the 775 million bushels of total wheat exports that the USDA is predicting. There are still six weeks remaining in the U.S. wheat marketing year. Total new crop sales are just 37 million bushels compared to 83 million bushels this time last year.

- United States HRS for May 2023 was valued at \$330.30/mt FOB PNW (down \$36.00/mt from last week), FOB Gulf HRW 11/12.5 pro is valued at \$348.60/mt (down \$30.50/mt from last week).

#### Australian Wheat:

- The USDA Attaché in Australia is forecasting that wheat production in the country will be 29 million mt, down by over 10 million mt from last year's record wheat crop. The decrease is mostly from a 25 per cent increase in yield (to 2.27 tph) as seeded area is only expected to be two per cent lower than last year.
- Soil moisture conditions in the wheat growing areas are strong, but the critical rainfall period is from August - September. The Australian government is predicting limited rains in late autumn and early winter.



Source: Australian Bureau of Meteorology

- The USDA Attaché in Australia has exports in 2023/2024 at 24.0 million mt compared to 30.5 million mt in the previous year. Ending stocks were put to 2.1 million mt compared to 4.3 million mt last year.
- FOB values in Australia: May 2023 AWP, WA is valued at \$295.00/mt (down \$15.00 from last week).

#### Argentine Wheat:

- Rain remains absent in Argentina. The USDA Attaché is forecasting wheat harvested area will be 6.5 million hectares and will produce a 19.5 million mt crop. They note however, that if rain does not come, seeded area could fall by one million hectares, and yield would be less than the three tph that is currently being forecasted.

#### EU Wheat:

- The EU Commission increased their estimate for EU wheat ending stocks by 1.5 million mt to a large 20.1 million mt (vs the USDA's 12 million mt) on poor export performance and higher imports.
- The EU Commission lowered their estimate for EU 2023/2024 soft wheat production by 700k mt to 130.2 million mt (up three per cent from last year) because of lower production in drought-stricken Spain.
- Aside from Spain, most of the EU wheat crop is in excellent condition. French wheat crop ratings improved by another point to 94 per cent Gd/Ex. (91 per cent last year). This is the strongest

condition rating for this time of year since 2011. The French wheat harvest is expected to be two per cent larger than last year at 34.3 million mt.

- The EU Commission is expecting exports in 2023/2024 will be 32 million mt which is one million mt more than the current year.
- FOB prices in the EU: May 2023 French 11.5 pro wheat closed at \$268.60/mt (*down \$14.20/mt from last week*); May 2023 German 12.5 pro wheat closed at \$271.90 (*down \$15.30/mt from last week*); May 2023 Baltic 14.0 pro wheat closed at \$285.30/mt (*down 15.80/mt from last week*).

#### **Black Sea Wheat:**

- Analysts have Ukraine's 2023/2024 wheat crop at 16-20 million mt which would reflect a 15-20 per cent decrease in production. Exports are seen falling 25-35 per cent to 9-12 million mt.
- Ukraine's export potential beyond the summer is unknown with the possible closure of the Black Sea Trade Corridor and Eastern EU countries becoming increasingly hostile to Ukrainian imports. However, the European Commission said on Friday it had reached a deal in principle to allow the transit of Ukrainian grain to resume through the five EU countries that had imposed restrictions.

#### ➤ **Significant purchases/trades:**

- **Tunisia** bought 75k mt wheat for June-July at \$304.80/mt.
- Reports suggest **Iraq** bought 150k mt Australian wheat at around \$387/mt.
- **Algeria** bought an unknown volume of wheat to its small ports at around \$296/mt for various May-July positions.
- **U.S.** export sales of 156k mt left the season total of 687 million bushels, down three per cent on last year.

#### ➤ **Wheat Market Outlook:**

##### **Significant events over the past week:**

- **An oil depot in on fire in Sevastopol Crimea** after what was likely a Ukrainian drone attack. Ukraine is warning Crimean residents to stay away from Russian military facilities ahead of an anticipated counteroffensive.
- **The Indian government has procured 19.5 million mt of wheat** so far. This is up from the 18.8 million mt they had sourced this time last year. The government is hoping to buy 34.2 million mt of wheat, but some analysts think they are over estimating production and only 30 million mt will be procured.
- **Turkey added a 130 per cent tariff on grain imports.** The tariff comes into effect on May 1 and is a means to protect the local ag sector ahead of the upcoming election.

##### **Outlook:**

Mercantile believes the trade market will be watching for the impact of the rain in the Southern Plains. Questions about plantings and moisture in Argentina and Australia are offset by large wheat stocks in the EU and Russia that will carry into new crop and cushion potential weather problems though the year, says Mercantile. The Ukrainian export potential for the summer forward depends on the results of EU and Russian politics. Mercantile says the wheat market remains volatile and caught in politics. – *They are sold out of old crop and will wait before selling additional volumes of 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: May 1, 2023

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		July '23 (bu.)	July '23 (mt.)
1 CWRS 13.5	\$10.07	\$370.01	1 CWRS 13.5	\$10.01	\$367.81
1 CWAD 13.0	\$11.85	\$435.42	1 CWAD 13.0	\$11.64	\$427.70
1 CPSR 11.5	\$9.69	\$356.05	1 CPSR 11.5	\$9.61	\$353.11
SW Sask			SW Sask		
1 CWRS 13.5	\$9.94	\$365.24	1 CWRS 13.5	\$9.89	\$363.40
1 CWAD 13.0	\$11.79	\$433.21	1 CWAD 13.0	\$11.55	\$424.39
1 CPSR 11.5	\$9.56	\$351.27	1 CPSR 11.5	\$9.49	\$348.70
NE Sask			NE Sask		
1 CWRS 13.5	\$9.80	\$360.09	1 CWRS 13.5	\$9.77	\$358.99
1 CWAD 13.0	\$11.67	\$428.80	1 CWAD 13.0	\$11.51	\$422.92
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a
SE Sask			SE Sask		
1 CWRS 13.5	\$9.75	\$358.25	1 CWRS 13.5	\$9.72	\$357.15
1 CWAD 13.0	\$11.75	\$431.74	1 CWAD 13.0	\$11.60	\$426.23
1 CPSR 11.5	\$9.33	\$342.82	1 CPSR 11.5	\$9.26	\$340.25

Data source: PDQ, May 1/23

**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, May 1/23

### 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 2013/2014 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 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 Northwest (PNW) ≈ 1 CWRS 13.5 per cent in Vancouver
  - HRS in the Pacific Northwest (PNW) ≈ 2 CWRS 13.0 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).

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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.”

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, US & Canadian Dollars per MT**

Relevant FOB Prices and Export Basis				May 1, 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	\$440.97	\$8.89		
HRS	\$434.70			
HRW 11.5	\$441.46			
SWW 12.0	\$362.42			
1 CWRS 13.5 <sup>3</sup>	\$440.97		\$354.58	\$86.39
2 CWRS 13.0 <sup>3</sup>	\$434.70		\$343.56	\$91.14
3 CWRS <sup>3</sup>	\$441.46		\$330.70	\$110.77
CPS <sup>3</sup>	\$355.46		\$303.87	\$51.59
1 CWAD <sup>4</sup>		\$10.07	\$433.58	\$67.05
<b>Competing wheat:</b>				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$275.00		May	
French 11.5 (Rouen)	\$268.60		May	
APW 10.5 (W Coast)	\$295.00		May	
Argentine 12.5	\$330.00		May	

<sup>1</sup> FOB Prices CDA = FOB US\$ converted into Canadian Currency  
<sup>2</sup> Basis = FOB Prices CDA minus 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