

## Wheat Market Outlook and Price Report: November 21, 2022

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 November 21, 2022**

#### The International Grains Council (ICG) November Grain Market Report

	19/20	20/21	21/22 est.	22/23 f'cast	
million tons				20.10	17.11
<b>TOTAL GRAINS <sup>a)</sup></b>					
<b>Production</b>	2192	2227	2289	2256	2255
<b>Trade</b>	397	426	424	408	405
<b>Consumption</b>	2199	2239	2295	2271	2272
<b>Carryover stocks</b>	616	603	597	584	580
<b>year/year change</b>	-7	-13	-6	-15	-16
<b>Major exporters <sup>b)</sup></b>	153	132	137	142	138
<b>WHEAT</b>					
<b>Production</b>	761	773	781	792	791
<b>Trade</b>	185	190	197	192	192
<b>Consumption</b>	745	770	784	784	784
<b>Carryover stocks</b>	275	278	275	286	282
<b>year/year change</b>	16	3	-3		7
<b>Major exporters <sup>b)</sup></b>	61	59	60	70	66

Source: ICG

- The International Grains Council (ICG) released their November estimates of global wheat supply and demand.
- Global wheat supply was decreased by 4.4 million mt from last month due to 3.0 million mt fewer beginning stocks and 1.4 million mt less production.
- Production was reduced by 1.4 million mt from last month to 791 million mt. The decrease was led by a 4.5 million mt reduction in Argentina's wheat crop (to 13.0 million mt) which was only partially offset by increases in Australia (up 1.2 million mt) and the EU (up 0.5 million mt).

- Global wheat use and trade were essentially unchanged, but there was some shifting in the wheat trade matrix. The ICG added more exports from Russia and decreased exports from Argentina and the EU.
- Overall, ending stocks were seen 4.1 million mt lower than last month at 281.7 million mt, up 2% from last year.

### Developments in Wheat Demand:

Russian wheat continues to dominate the nearby market with sales to Saudi, Brazil, Mexico, and Egypt. Polish wheat reportedly traded into the US east coast. There were reports of more French sales to China and Morocco. As we approach the Christmas holidays, there will be mostly cash covering by Eastern buyers of Black Sea wheat, which is cheap compared the US origin.

### ➤ 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:

- Dec '22 contract **Chicago winter wheat** closed at \$803-2, down 3-4 cents on Friday, down 10-4 cents on the week.
- Dec '22 contract **Kansas hard red winter wheat** closed at \$934-2, down 3-6 cents on Friday, down 9-2 cents on the week.
- Dec '22 **Minneapolis hard red spring wheat** closed at \$951-4, down 2-2 cents on Friday, up 5-6 cents on the week.
- *Wheat futures are currently trading 2-14 cents lower this Monday morning at the time of writing.*

**CBOT Dec. 2022 Wheat (1 yr.)**



**KC Dec. '22 Wheat**

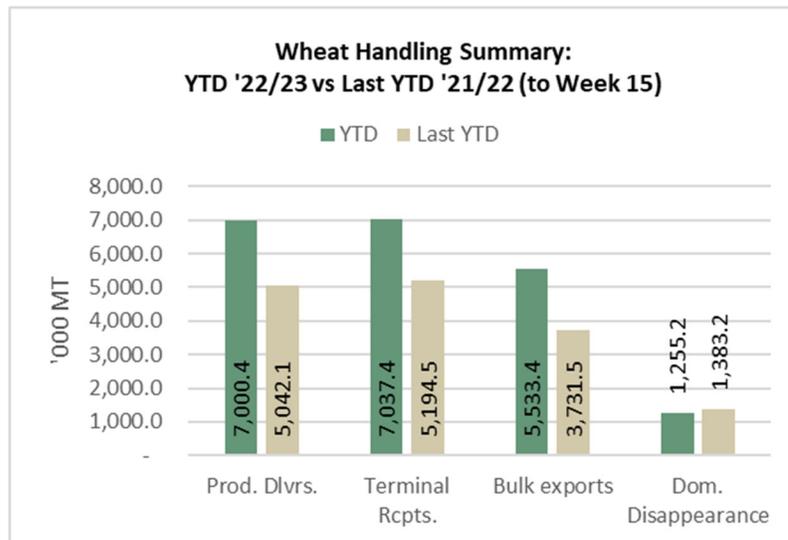


**Minneapolis. Dec. '22 Wheat**



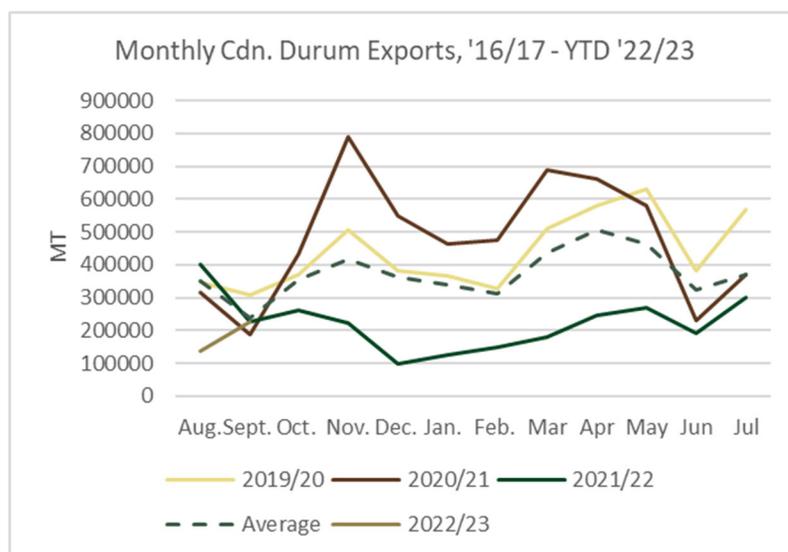
### Canadian Wheat

- Canadian wheat exports for week 15 were 416.6k mt for a season total of 5.5 million mt, now 48% more than last year. After a slow start, exports are averaging 368.9k mt per week which is higher than the average amount needed to meet the AAFC's 18.3 million mt. In 2019/'20, average exports were 356.0k mt per week for a total export number of 18.5 million mt.



Data source: CGC

- Adding support to the spring wheat market is the flooding in Australia. Analysts believe that upwards of 1 million mt of wheat has been lost due to flooding but say it will be impossible to know for sure until waters recede. The crop is still going to be a large one, but quality downgrades will be large and widespread. This will be positive for Canadian wheat as Australia is a strong competitor of high-quality wheat into the Asian market.
- **Durum:** There were stronger bids for durum last week which could be a result of Tunisia's purchase in the previous week. Posted cash bids in Canada are ~\$13.70, but the actual price is often higher.
- The weaker US dollar caused US bids to rise slightly to CA\$10.40-\$13.00. Bids in Italy fell €5/mt over the week to €488/mt which calculates to about \$13.00/bu.
- After a strong week 14 performance, durum exports in week 15 were lower at 75.2k mt for a season total of 1.1 million mt. Seasonally, durum exports are strong in November and trail off into the winter months before peaking in springtime.



Data source: CMIT

- Seasonally, durum prices rise from September before peaking in November. Afterwards, they are relatively flat before turning lower in February.
- Consider selling additional tonnes \$14.50/bu for a #1CWAD which is ~\$14.35/bu for a #3CWAD.

#### **US Wheat:**

- US winter wheat planting is 96% complete having covered another 4% over the week. Eighty-one percent of the crop has emerged.
- Gd/Ex ratings for the US winter wheat crop rose another 2% from last week to 32% Gd/Ex.
- There was some rain in the southeast and far Southern Plains, but most of the winter wheat belt remained dry and the forecast has little to no rain for the next two weeks.
- Commercial US wheat sales for the week were at the low end of expectations at 290,300 mt for a season total of 12.8 million mt. US wheat is expensive compared to European origin to the extent that there are rumours that Polish wheat traded into the US east coast and Russian wheat was sold to Mexico and Brazil last week. At the time, Russian FOB wheat was \$315 compared to Argentina at \$380 and US HRW at \$410-\$415.
- US HRS for Dec. '22 was valued at \$418.40/ mt FOB PNW (*up \$11.80/mt from last week*), FOB Gulf HRW 11/12.5 pro is valued at \$412.70/mt (*down \$4.60/mt from last week*).

#### **Australian wheat:**

- Australia has drier conditions in the forecast which are welcome. Harvest has progressed rapidly in the country's west, but has been very slow in the east. In the west, there have been very strong yields. The full extent of the flood damage in the east will not be known for a while, but some think that upwards of 1 million mt of wheat production has been lost entirely and upwards of one-third of the country's crop will have quality issues.
- The ICG increased their production number for Australia by 1.2 million mt to 34.7 million mt which is similar to the USDA's estimate, but below most trade estimates that range from 37-40 million mt.

#### **Argentine wheat:**

- Argentina received rain over the weekend, but will otherwise be dry until week two of the forecast.
- Harvest started, and is now 10% complete against the 20% average. Crop ratings were unchanged from last week at 8% Gd/Ex compared to 59% Gd/Ex last year.
- There were no changes in farmer sales or export licences.
- Argentina's Government is expecting its wheat crop will be 13.4 million mt while the ICG put their number down to 13.0 million mt. These estimates can be added to the current range of guesses from 11.8 million mt to 15.5 million mt.
- Through the end of October 2022, Argentina exported 7.87 million mt of wheat – a 2.6% lighter volume than the same time in 2021.

#### **EU wheat:**

- Marché à Terme International de France (Matif) wheat futures fell €13 on confirmation that the Black Sea Trade Corridor was extended. They then rallied €11 on rumours of French wheat sales to China and Morocco and Polish wheat being sold to the US.
- Fob prices in the EU: Dec. '22 French 11.5 pro wheat closed at \$345.50/mt (*up \$7.10/mt from last week*); Dec. '22 German 12.5 pro wheat closed at \$353.30/mt (*up \$3.70/mt from last week*); Dec. '22 Baltic 14.0 pro wheat closed at \$395.20/mt (*unchanged from last week*).

**Black Sea wheat:**

- The Black Sea corridor was extended for another 120 days. This will allow Ukraine to continue exporting large amounts of grain, but the movement is being restricted somewhat by inspection delays in Turkey. Ukraine exported roughly 2 million mt of wheat in both September and October. Ukraine has very limited shipping capacity without the use of its ports. The country can export a maximum of 2.7 million mt of (all) grain per month by rail/truck compared to the roughly 6 million mt per month that can be shipped via its ports.
- Ukraine's Ag Ministry said that the wheat harvest is complete and a total of 19.4 million mt of wheat was produced. This compares to the USDA's 20.5 million mt number and the ICG's 21.5 million mt estimate.

➤ **Significant purchases/ trades:**

- **Saudi Arabia** bought 1.0 million mt of wheat.
- **Iraq** bought 200k mt of US wheat.
- **Egypt** (GASC) bought 300k mt of Dec-Jan Russian wheat at \$362/mt in private sales.
- **USA** reportedly bought wheat from Poland
- **Mexico and Brazil** are thought to have purchased Russian wheat.
- **USA** weekly sales were at the low end of expectations at 290,300 mt.

➤ **Wheat Market Outlook:**

**Significant events over the past week:**

- Ukraine and Russia agreed to extend **the Black Sea Grain Agreement**. The deal, which Turkey and the United Nations (U.N.) brokered, allows grain exports from Ukraine's Black Sea ports. The deal is good for at least 120 days (4 months). Russia pulled out of the agreement in October before quickly reversing course.
- The **International Grains Council** lowered global wheat production by 1 million mt to 791 million mt in their latest report. The decrease was largely due to Argentina's smaller crop which they put at 13.0 million mt. The ICG decreased global ending stocks by 4.1 million mt, mostly from smaller beginning stocks and production.
- An early-season winter storm brought significant **snow and freezing rain** for both North and South Dakota, but with limited immediate impact on drought conditions. The USDA reported topsoil moisture rated very short to short is 65% in North Dakota and 87% in South Dakota.

**Outlook:**

It is a short week in the USA due to the Thanksgiving Holiday so we don't expect much trade, however, the futures could be thin and volatile with major traders away for Thanksgiving. We expect to see more cash covering by Eastern buyers of Black Sea wheat whilst it remains cheap compared to North American origin. Afterwards, traders will likely start to close the book on the 2022 season. There were rumours of French sales to China. If this is confirmed and is of significant volume, we could see a rally in European prices. *It is advisable to sell a bit more durum wheat (see Canadian wheat section), but producers should continue to hold milling wheat for now.*

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

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

Date: November 21, 2022

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Jan '23 (bu.)	Jan '23 (mt.)
1 CWRS 13.5	\$11.82	\$434.31	1 CWRS 13.5	\$11.84	\$435.05
1 CWAD 13.0	\$13.62	\$500.45	1 CWAD 13.0	\$16.61	\$610.32
1 CPSR 11.5	\$11.16	\$410.06	1 CPSR 11.5	\$11.15	\$409.70
SW Sask			SW Sask		
1 CWRS 13.5	\$11.61	\$426.60	1 CWRS 13.5	\$11.67	\$428.80
1 CWAD 13.0	\$13.59	\$499.35	1 CWAD 13.0	\$113.67	\$4,176.69
1 CPSR 11.5	\$11.03	\$405.29	1 CPSR 11.5	\$11.05	\$406.02
NE Sask			NE Sask		
1 CWRS 13.5	\$11.46	\$421.09	1 CWRS 13.5	\$11.49	\$422.19
1 CWAD 13.0	\$11.55	\$424.39	1 CWAD 13.0	\$13.57	\$498.62
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a
SE Sask			SE Sask		
1 CWRS 13.5	\$11.44	\$420.35	1 CWRS 13.5	\$11.51	\$422.92
1 CWAD 13.0	\$13.53	\$497.15	1 CWAD 13.0	\$13.56	\$498.25
1 CPSR 11.5	\$10.85	\$398.67	1 CPSR 11.5	\$10.92	\$401.24

Data source: PDQ, Nov. 21/22

**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, Nov 21/22

#### **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% in the Pacific Northwest (PNW) ≈ 1 CWRS 13.5% in Vancouver
  - HRS in the Pacific Northwest (PNW) ≈ 2 CWRS 13.0% 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.”

- 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% 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			November 21, 2022	
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	\$518.65	Closed		
HRS	\$512.42			
HRW 11.5	\$522.61			
SWW 12.0	\$445.34			
1 CWRS 13.5 <sup>3</sup>	\$518.65		\$429.17	\$89.48
2 CWRS 13.0 <sup>3</sup>	\$512.42		\$418.15	\$94.27
3 CWRS <sup>3</sup>	\$522.61		\$405.29	\$117.33
CPS <sup>3</sup>	\$438.40		\$402.71	\$35.69
1 CWAD <sup>4</sup>		\$449.75	\$503.39	\$102.94
<b>Competing wheat:</b>				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$315.00		December	
French 11.5 (Rouen)	\$345.50		December	
APW 10.5 (W Coast)	\$370.00		December	
Argentine 12.5	\$380.00		December	
<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				