

**Wheat Market Outlook and Price Report: June 12, 2023**  
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Mercantile Consulting Venture Inc.

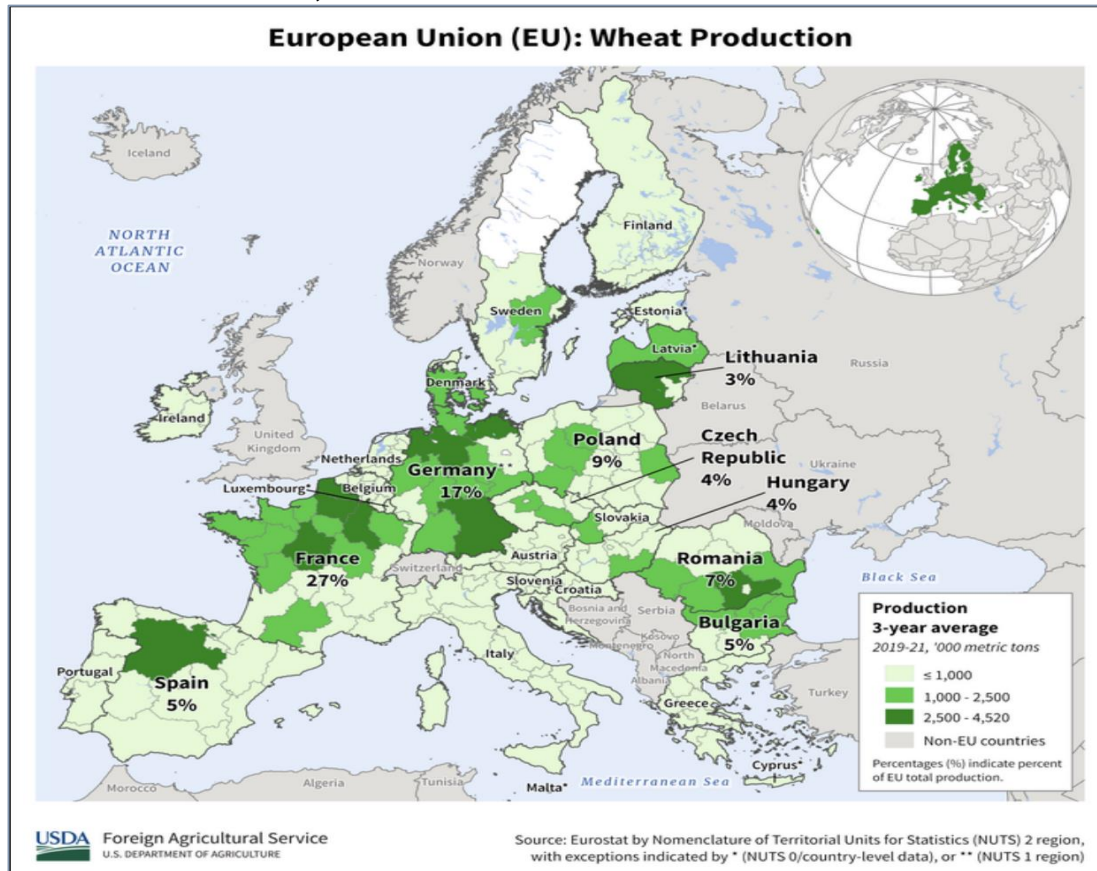
**i) Background and Rationale for the Report**

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.

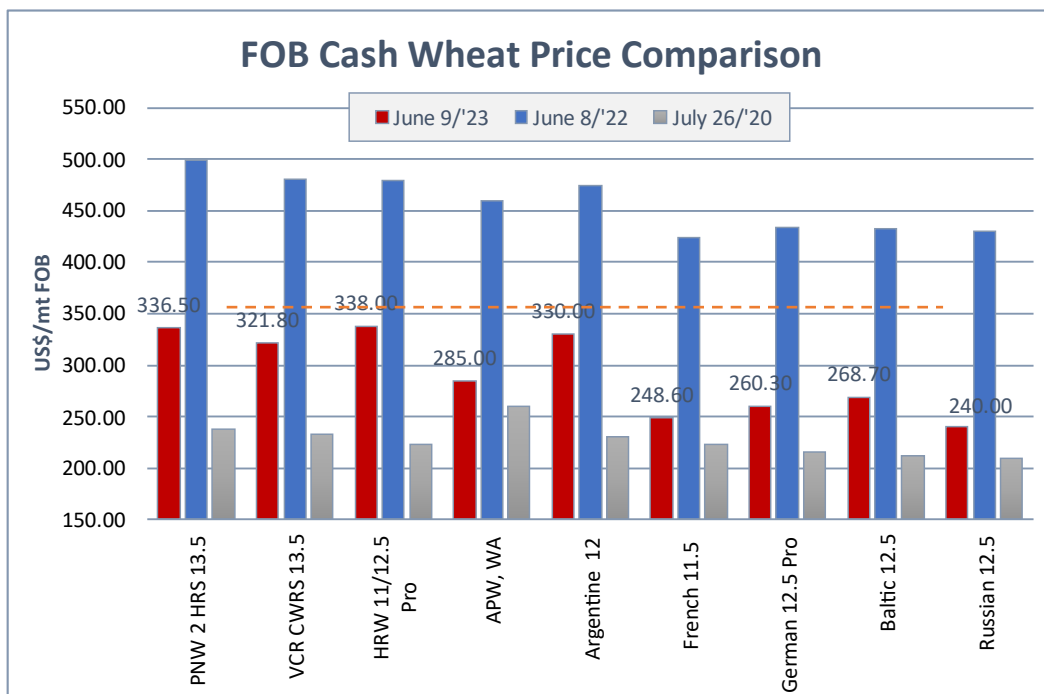
**ii) Wheat Market Outlook June 12, 2023**

**USDA-FAS on EU Wheat, June 2023**



- The USDA estimated wheat production in the European Union (EU) for marketing year 2023/2024 at 140.5 million mt, up 1.5 million mt (1 per cent) from last month, up 6.2 million mt (5 per cent) from last year, and 6 per cent above the five-year average.
- The USDA made upward production revisions to a number of countries this month:
  - The largest revisions include an increase in France by 600k mt to 37.2 million mt, a 300k mt increase to Italy, as well as 200k mt increases to Hungary, Spain and Germany.
- Conditions during May continued to be favourable across most of Europe for flowering and grain fill of winter crops. The exception was in Spain and Portugal.

### FOB Wheat price Comparison



- FOB wheat prices stabilized/recovered slightly. The Russian Floor price is said to be at \$240.00/mt FOB. French & German wheat are at U.S. \$248.60 and 260.30/mt FOB, respectively, up \$8-10/mt.
- U.S. wheat remains uncompetitive internationally with HRW at \$338.00/mt FOB Gulf.

### ➤ 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 \$630-2, up 4-0 cents on Friday, *up 11-2 cents on the week.*
- July 2023 contract Kansas hard red winter wheat closed at \$797-6, down 7-0 cents on Friday, *down 14-4 cents on the week.*

- July 2023 Minneapolis hard red spring wheat closed at \$811-6, down 4-0 cents on Friday, *up 4-0 cents on the week*.
- In the U.S., CBOT and KC wheat futures are up by 1-3 cents/bu, while spring wheat is down 0.5 cent this Monday morning. Marché à Terme International de France (MATIF) milling wheat is up by €3.52-\$4.50/mt this Monday.

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



**KC July 2023 Wheat**

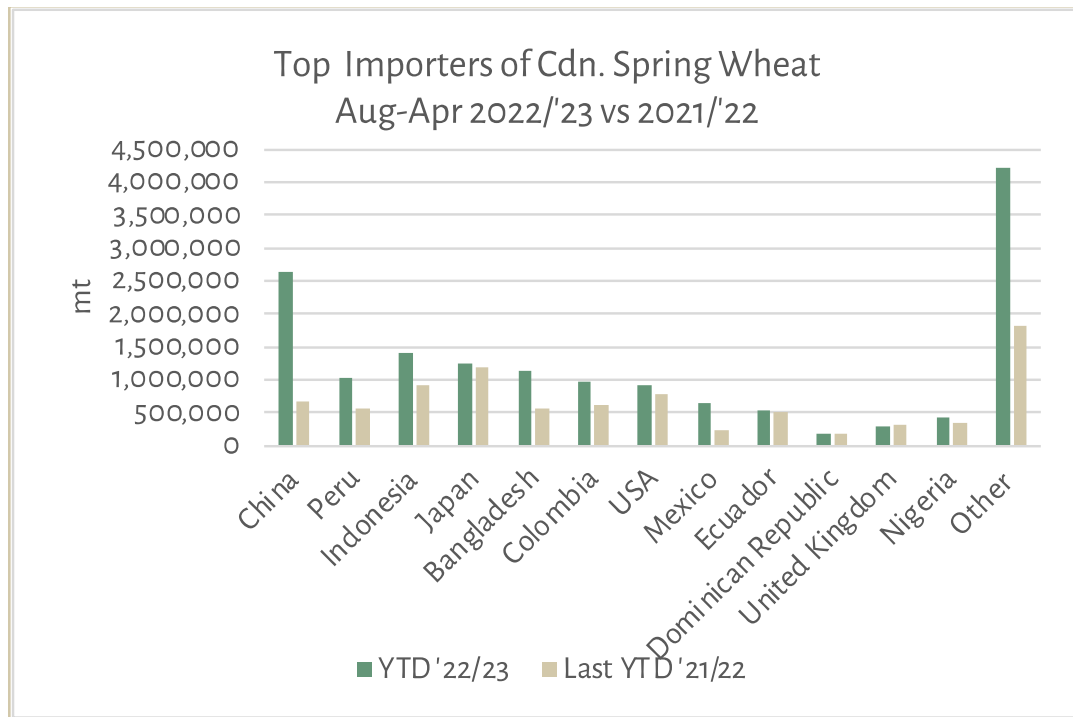


**Mpls. July 2023 Wheat**



### Canadian Wheat

- Canadian crop conditions: Alberta's wheat crop is seeded and 97 per cent emerged as of June 6. Soil moisture conditions continued to deteriorate over the week with the areas experiencing "poor" soil moisture growing by 9 per cent over the week to 31 per cent. In Saskatchewan, spring wheat seeding is 91 per cent complete. Soil moisture conditions generally improved from last week and warm weather has supported crop growth. In Manitoba, thunderstorms have dropped large amounts of rain on some areas while leaving other areas dry. Overall, conditions are good.
- U.S. spring wheat planting is up 8 per cent from last week at 93 per cent complete. Seventy-six percent of the crop has emerged, and the USDA said the crop is considered to be 64 per cent Gd/Ex.
  - The USDA does not have by-class estimates for 2023/2024 wheat yet, and they made no changes to the 2022/2023 HRS balance sheet.
- Stats Canada showed non-durum exports in April were good, but at 1.9 million mt, were down from the March high of 2.2 million mt.
  - Indonesia was the top importer of Canadian wheat in April at 283k mt, followed by China at 195k mt. China has imported an Aug.-Apr. total of 2.6 million mt which is four times more than last year.
  - The USDA raised Chinese wheat purchases in 2023/2024 by 1.5 million mt from last month to 12 million mt, this is down by 2 million mt from the 2022/2023 season.



Source: Mercantile, based on STC data

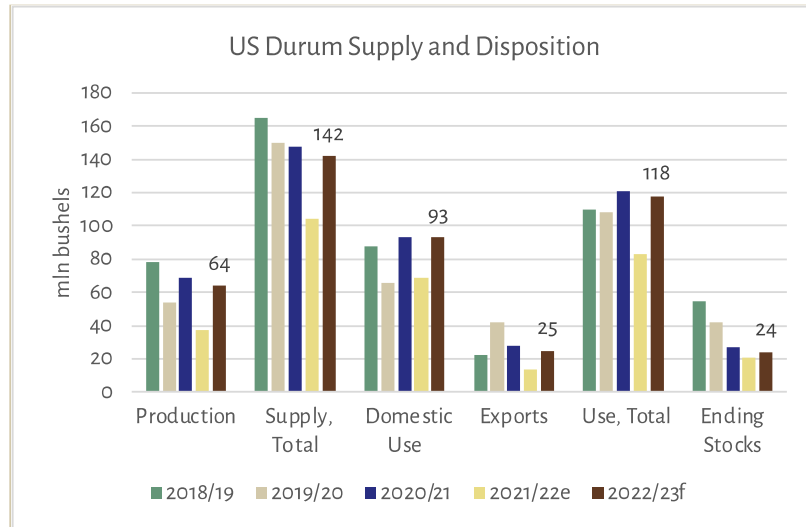
- Canadian week 44 wheat exports were lower at 271.4k mt, but as farmers return from seeding, deliveries into the elevator system were large at 404.6k mt, growing the visible supplies to 2.1 million mt.

(CGC) Grain Handling Summary Wheat		Week 44	(June 4, 2023)	
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 44	404.6	362.7	<b>271.4</b>	73.7
Week ago	278.4	334.0	340.9	164.9
YTD	19,286.2	19,867.9	<b>16,737.9</b>	3,787.9
Last YTD	12,826.7	12,441.0	9,749.8	3,500.8
YTD less Last YTD	6,459.5	7,426.9	<b>6,988.1</b>	287.1
YTD over Last YTD	150%	160%	172%	108%

- Large wheat stocks in the EU and Russia will keep the market supplied into new crop. There are no major weather concerns in wheat producing areas to prompt a sustained rally, so moves higher

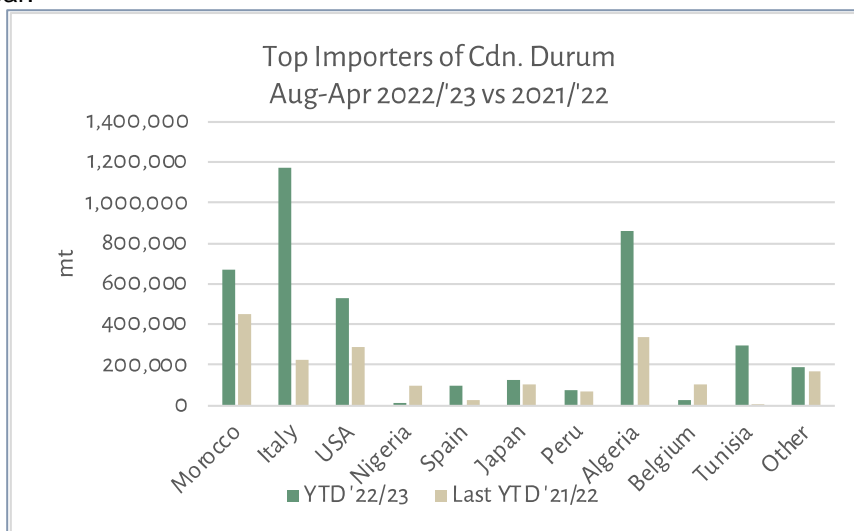
should be viewed as selling opportunities. – Mercantile sold Kansas Dec. Futures at \$8.00 for 30 per cent of expected production last week.

- **Durum:** The USDA increased **U.S.** domestic durum use and exports by 2 million bushels and 5 million bushels respectively. 2022/2023 ending stocks fell by 7 million bushels to 24 million bushels. This is just 3 million bushels more than last year's record low.



Source: Mercantile, based on USDA data

- In **Spain**, prolonged drought is impacting Spain's durum crop. Production forecasts for the country's durum crop range from 677k mt to only 216k mt.
- According to Stats Canada data, Canadian durum exports in April were good at 567.1k mt for a season total of 4.2 million mt. Algeria was the major buyer in April, importing 215.5k mt during the month. Algeria has imported an Aug.-Apr. total of 527.7k mt which is two and a half times more than last year. Italy remains the top customer for Canadian durum. The country imported 83.0k mt during April for a season total of 1.2 million mt, compared to the 223k mt it had imported this time last year.



Source: Mercantile, based on Stats Canada data

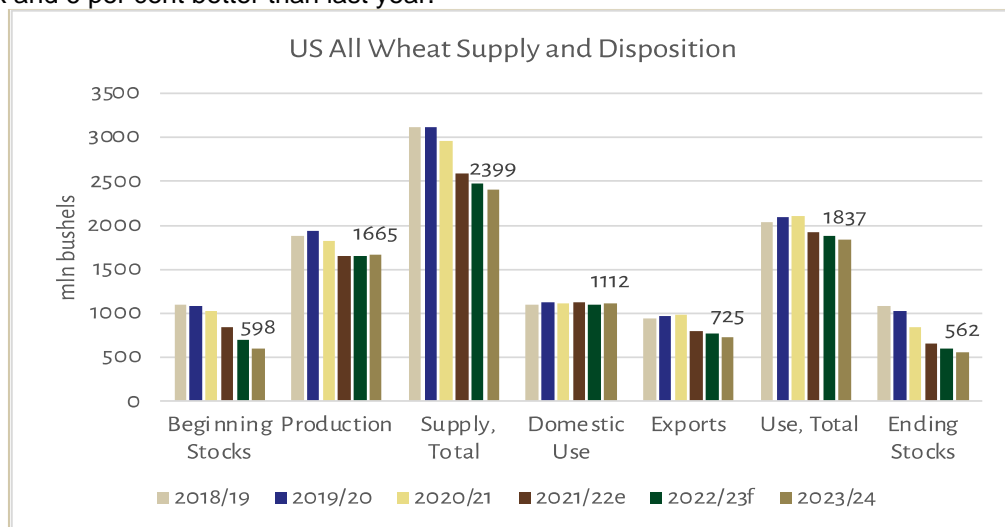
- Durum exports in week 44 were 75.9k mt for a season total of 4.6 million mt. Weekly exports need to be 28k mt per week to meet the AAFC's 4.8 million mt export estimate.

(CGC) Grain Handling Summary Durum			Week 44	(June 4/2023)
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 44	58.9	54.7	<b>75.9</b>	3.8
Week ago	38.0	48.2	14.5	7.1
YTD	4,596.0	5,337.0	<b>4,574.1</b>	587.5
Last YTD	2,140.8	2,606.8	2,222.6	380.9
YTD less Last YTD	2,455.2	2,730.2	<b>2,351.5</b>	206.6
YTD over Last YTD	215%	205%	206%	154%

- *Mercantile is sold out of old crop and would wait before selling additional new crop.*

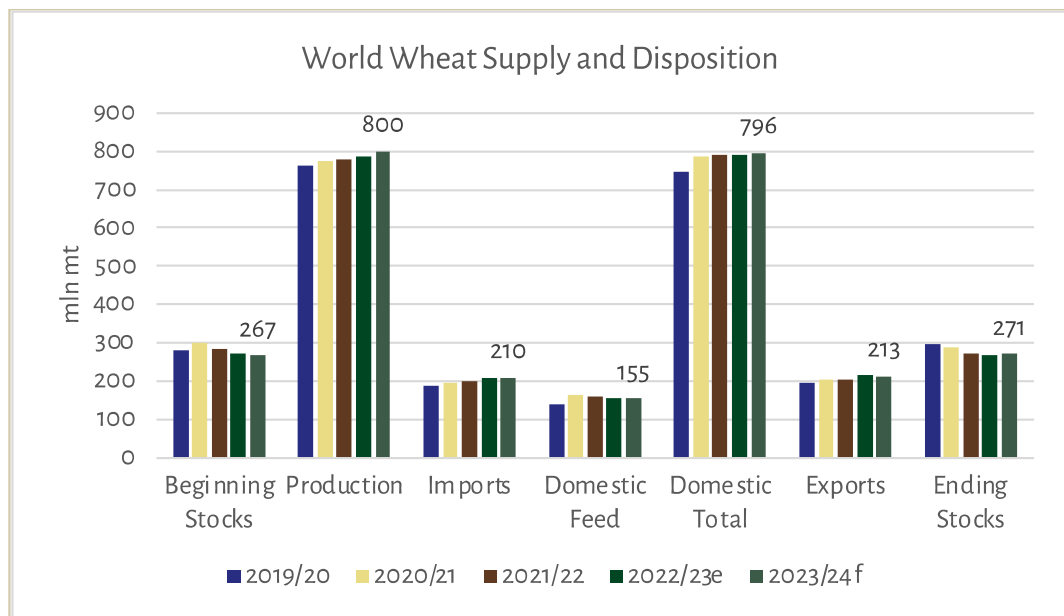
### U.S. Wheat:

- U.S. wheat futures were mixed last week. Prices were supported mid-week because of tensions in the Black Sea and strength in corn. Wheat values fell leading into the USDA report which was somewhat bearish for wheat.
- For **U.S. wheat**, the USDA raised yield by 0.2 bushels/acre which brought production up by 6 million bushels. The increase in production went directly into ending stocks which rose to 562 million bushels, down 6 per cent from last year.
- U.S. winter wheat conditions were 36 per cent Gd/Ex which is a 2 per cent improvement from last week and 6 per cent better than last year.



Source: Mercantile, based on USDA data

- The USDA raised **global wheat production** in the 2023/2024 season by 10.4 million mt from the May report to 800 million mt, up 1.5 per cent from last year. The increase was led by larger production in India, Russia, the EU, and Ukraine.
  - Growing conditions in Russia and the Ukraine have been strong, pushing vegetation indices above five-year averages. Production in Russia was increased by 3.5 million mt to 85 million mt, while Ukraine's wheat crop was raised by 1.0 million mt to 17.5 million mt. While the flooding caused by the destroyed dam in Ukraine is damaging crops, the USDA says their estimates do not include wheat being grown in conflict areas, so the flood damage will have little impact on its estimate for Ukraine's crop.
  - Favourable conditions prompted a 1.5 million mt increase in the EU wheat crop.
  - The USDA is forecasting a record 113.5 million mt crop in India, up 9 per cent from last year. The strong crop is expected to come from record seeded area (32 million hectares) and yield (3.55 tph) driven by higher minimum support prices and ideal weather during the vegetative and reproductive stages.
- **Global wheat use** was raised by 4.4 million mt for a 6.4 million mt increase in global ending stocks at 270.7 million mt. Until this latest report, the USDA had been expecting global wheat stocks would shrink year-over-year. Stocks are now expected to rise by 4.0 million mt.



Source: Mercantile, based on USDA data

- *There are areas of the USDA report that may be subject to criticism (i.e., has Russia's crop really improved by 3.5 million mt from last month?), but the report is a reminder that despite the various weather "issues" that the bulls point out, conditions in the major wheat producing areas are generally good. Strong supplies and aggressive sales from the Black Sea will continue to pressure markets.*
- U.S. HRS for July 2023 was valued at \$336.50/mt FOB PNW (up \$11.70/mt from last week), FOB Gulf HRW 11/12.5 pro is valued at \$338.00/mt (down \$10.20/mt from last week).

#### Australian Wheat:

- USDA left the Australian crop unchanged at 37 million mt, 3 million mt above Australian Bureau of Agricultural and Resource Economics' (ABARES) earlier revision.
- Trade in Australia is quiet and is expected to stay quiet for a while.

- Recent rain has been welcome, but the forecast is now much drier weather, and northern NSW is reportedly becoming an issue.
- FOB values in Australia: July 2023 AWP, WA is valued at \$285.00/mt (*unchanged* from last week).

#### **Argentine Wheat:**

- USDA left their Argentine 2023/2024 wheat crop estimate at 19.5 million mt.
- BAGE put plantings up 14 per cent on the week at 20 per cent complete, against 30 per cent a year ago and 36 per cent average. Planting progress is generally better in the north where there is surface moisture, but very slow in the south where the soil is just too hard. However, BAGE maintained their planted acreage projection of 6.3 million ha, which is lower than the USDA's 6.5 million ha harvested number.
- July 12 per cent pro Argentine wheat is quoted at U.S. \$330/mt FOB (*unchanged* from last week).

#### **China Wheat:**

- End-of-harvest rain in China's Henan, Shandon and Hebei provinces is causing quality concerns. These provinces grow approximately 60 per cent of China's winter wheat crop.
- Quality issues could keep China as a large customer for Canadian wheat next year.

#### **EU Wheat:**

- Marché à Terme International de France (MATIF) wheat opened lower but closed the week up €4-5/mt.
- The USDA estimated wheat production in the EU for marketing year 2023/2024 at 140.5 million mt, up 1.5 million mt (1 per cent) from last month, up 6.2 million mt (5 per cent) from last year, and 6 per cent above the five-year average.
- However, concern is building over production potential in the northern half of the continent, and next week's wetter forecast needs to perform as the outlook beyond that goes dry again. The forecast especially for France has turned drier.
- EU FOB prices: July 2023 French 11.5 pro wheat closed at \$248.60/mt (*up \$8.80/mt from last week*); July 2023 German 12.5 pro wheat closed at \$260.30 (*up \$10.40/mt from last week*); July 2023 Baltic 14.0 pro wheat closed at \$268.70/mt (*up \$10.40/mt from last week*).

#### **Black Sea wheat:**

- The USDA increased wheat production in Russia by 3.5 million mt to 85 million mt.
- Ukraine's wheat crop was raised by 1.0 million mt to 17.5 million mt.
  - While the flooding caused by the destroyed dam in Ukraine is damaging crops, the USDA says their estimates do not include wheat being grown in conflict areas, so the flood damage will have little impact on its estimate for Ukraine's crop.
- Russian wheat continues to be offered at FOB parities of \$230/mt (or lower). The Tunisian tender is expected to come from the Black Sea.
  - At \$230/mt, exporters of Russian wheat are still making significant margins, and it seems that only a significant crop problem can slow farmer selling and support prices.
- Estimated FOB prices for July 12.5 protein Russian wheat: U.S. \$230-240.00/mt (*up \$0-10/mt from last week*).

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

- **Tunisia** tendered today for 100k mt of wheat for July-Aug. 15. The Tunisian tender is expected be covered by Black Sea wheat.
- **U.S. export sales** of 235k mt took the 2023/2024 season total to 139 million bu, down 17 per cent on last year, versus the USDA's current projection of a 6.5 per cent decline.



- The **Baltic Dry Index** (BDI) increased by 15 per cent during the week, ending at 1055, its highest level in nearly two weeks. After weeks of slow demand, the market may be bottoming out with some optimism that Chinese vessel demand will begin to materialize.

➤ **Wheat Market Outlook:**

**Significant events over the past week:**

- The USDA raised their **global wheat production** estimate for the 2023/2024 season by 10.4 million mt from the May report to 800 million mt, up 1.5 per cent from last year.
- Although some analysts think the USDA is optimistic on Black Sea and EU crops, the report is a reminder that despite the various weather “issues” that the bulls lean on, conditions in the major wheat producing areas are generally good. Good supplies and aggressive sales from the Black Sea will continue to pressure markets.
  - *Large wheat stocks in the EU and Russia will keep the market supplied into new crop.*
  - Global wheat use was raised by 4.4 million mt, but this still leaves a 6.4 million mt increase in global ending stocks at 270.7 million mt. Until this latest report, the USDA had been expecting global wheat stocks would shrink year-over-year. Stocks are now expected to rise by 4.0 million mt.
- To watch: Concern is building over **production potential** in the northern half of the European continent, and next week’s wetter forecast needs to perform as the outlook beyond that goes dry again. The forecast especially for France has turned drier.
- **Russian wheat** continues to be offered at FOB parities of \$230/mt (or lower).

**Outlook:**

According to Mercantile, it was the volume and price of Russian wheat offers to Saudi Arabia and to Egypt at \$100 below Hard Red Wheat which took the market lower. The USDA WASDE report added to the weakness with a 10 million tonnes increase in world wheat production and 6 million tonnes increase in world stocks says Mercantile.

With the weather forecasts looking benign, Mercantile expects markets to go slightly lower. They have two markets: Futures represent the USA market, where growers are holding looking for better prices, and cash markets, which are much lower. Eventually, they must meet, and Mercantile doesn’t see much that will lead cash markets higher for the present. The weather needs to be watched, but at the present weather futures look average to better than the previous year, particularly in Europe says Mercantile. Reports Mercantile receives from the country are generally good, but more rain would be liked on the Prairies.

Mercantile expects futures a little lower but would hold cash wheat sales for the present.

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

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

Date: **12-06-2023**

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Sept. '23 (bu.)	Sept. '23 (mt)
1 CWRS 13.5	\$10.19	\$374.42	1 CWRS 13.5	\$9.39	\$345.03
1 CWAD 13.0	\$10.77	\$395.73	1 CWAD 13.0	\$9.60	\$352.74
1 CPSR 11.5	\$9.55	\$350.91	1 CPSR 11.5	\$8.81	\$323.71
SW Sask			SW Sask		
1 CWRS 13.5	\$9.97	\$366.34	1 CWRS 13.5	\$9.30	\$341.72
1 CWAD 13.0	\$10.74	\$394.63	1 CWAD 13.0	\$9.57	\$351.64
1 CPSR 11.5	\$9.32	\$342.45	1 CPSR 11.5	\$8.73	\$320.78
NE Sask			NE Sask		
1 CWRS 13.5	\$9.96	\$365.97	1 CWRS 13.5	\$9.12	\$335.11
1 CWAD 13.0	\$10.66	\$391.69	1 CWAD 13.0	\$9.57	\$351.64
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	
SE Sask			SE Sask		
1 CWRS 13.5	\$9.88	\$363.03	1 CWRS 13.5	\$9.11	\$334.74
1 CWAD 13.0	\$10.69	\$392.79	1 CWAD 13.0	\$9.61	\$353.11
1 CPSR 11.5	\$9.15	\$336.21	1 CPSR 11.5	\$8.49	\$311.96

Data source: PDQ, June 12/23

**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, June 12/23

**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

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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.”

- 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.
  - 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				12-06-2023
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	\$445.96	\$500.91		
HRS	\$438.60			
HRW 11.5	\$420.45			
SWW 12.0	\$365.01			
1 CWRS 13.5 <sup>3</sup>	\$445.96		\$367.44	\$78.52
2 CWRS 13.0 <sup>3</sup>	\$438.60		\$356.42	\$82.19
3 CWRS <sup>3</sup>	\$420.45		\$347.23	\$73.22
CPS <sup>3</sup>	\$358.14		\$332.53	\$25.61
1 CWAD <sup>4</sup>		\$494.04	\$396.84	\$97.21
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$240.00	July '23		
French 11.5 (Rouen)	\$248.60	July '23		
APW 10.5 (W Coast)	\$285.00	July '23		
Argentina 12.0	\$330.00	July '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