

Wheat Market Outlook and Price Report: June 19, 2023

By Marlene Boersch/ A.P. Temple/ Michael Wilton
Mercantile Consulting Venture Inc.

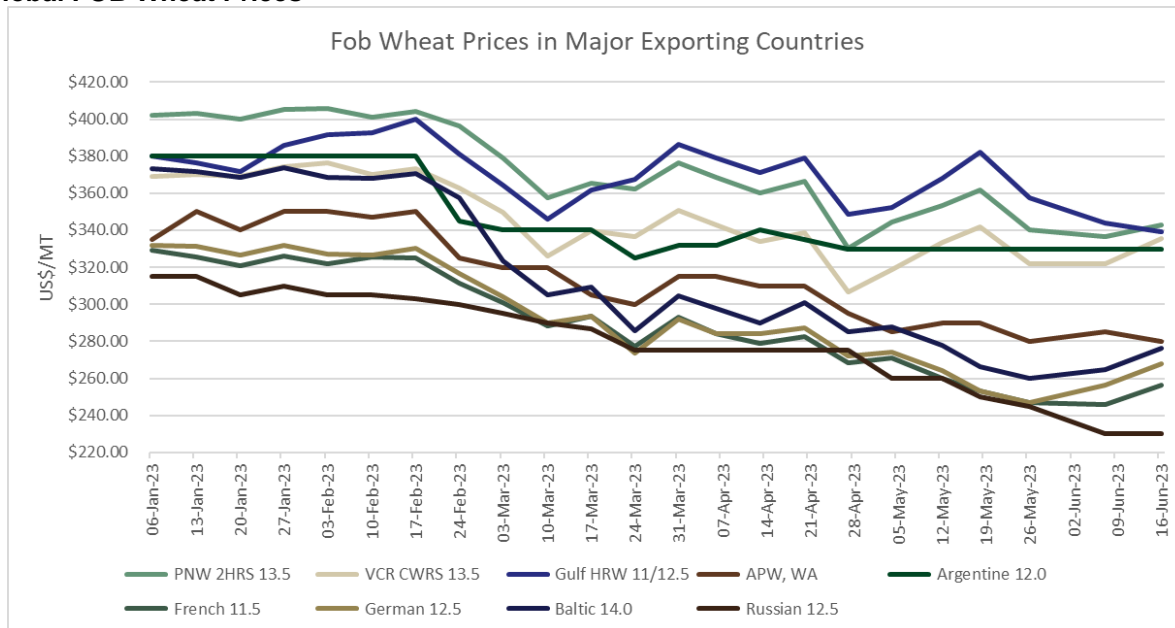
i) Background and Rationale for the Report

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 June 19, 2023

Global FOB Wheat Prices



- Global wheat FOB prices have seen a general move higher in most of the major wheat exporting countries. The recent rise in prices have largely recovered the loss in value experienced since the end of May.
- An important exception to this general move higher is Russia, where the floor price for wheat was confirmed to have been reduced by another \$10/mt to \$230/mt last week. This is now below the farmer's variable costs. A glut of old crop supplies and a fast-approaching harvest has caused a squeeze on storage.

- Russian wheat for July shipment is now \$27/mt cheaper than French wheat, \$38 cheaper than German wheat, and \$109/mt cheaper than U.S. HRW on a Fob basis.
- Cheap Russian wheat will continue to dominate the limited global wheat demand.

➤ **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 \$688-0, up 26-4 cents on Friday, *up 57-6 cents on the week.*
- July 2023 contract Kansas hard red winter wheat closed at \$842-0, up 29-2 cents on Friday, *up 44-2 cents on the week.*
- July 2023 Minneapolis hard red spring wheat closed at \$853-4, up 20-6 cents on Friday, *up 41-6 cents on the week.*
- U.S. futures markets are closed today for the long weekend and Marché à Terme International de France (MATIF) milling wheat is up by €0.75-€1.25/mt this Monday.

CBOT July 2023 Wheat (1 yr.)



Kansas July 2023 Wheat

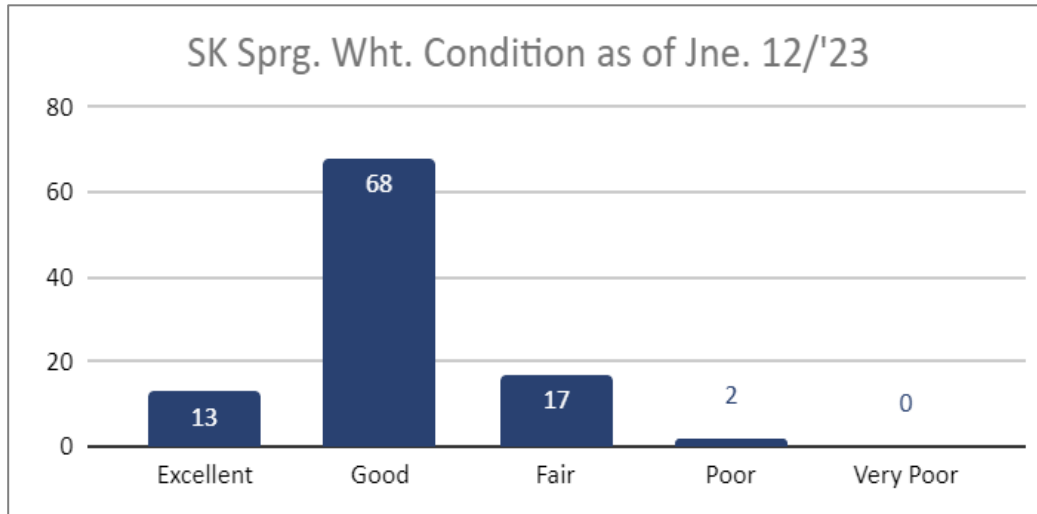


Minneapolis July 2023 Wheat



Canadian Wheat

- The Canadian spring wheat crop is in mixed condition. Manitoba's crop is ok overall, although dryness in the South-Central region has a growing number of farmers there expecting crop insurance claims. In Saskatchewan, Gd/Ex ratings fell six points to 81 per cent Gd/Ex. Alberta's crop is just 42 per cent Gd/Ex.

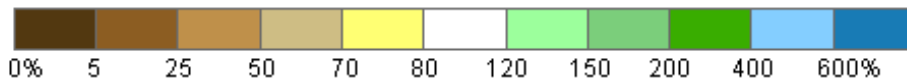
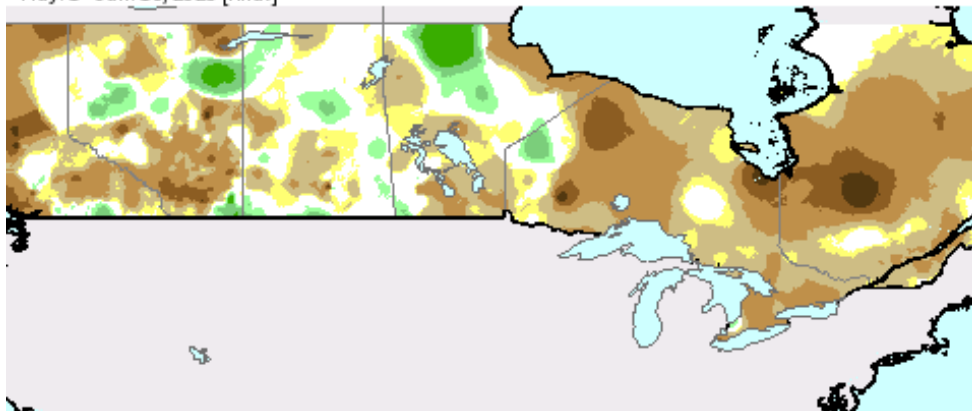


Source: Based on Sask Ag data

- Canadian soil moisture conditions generally deteriorated over the week. In Saskatchewan, areas with “adequate” soil moisture fell by 10 per cent to 66 per cent. Moisture conditions in Alberta fell by two points to 28 per cent Gd/Ex.

Seasonal Percent of Normal Precipitation (WMO)

May. 1 - Jun. 10, 2023 [final]



USDA Foreign Agricultural Service
U.S. DEPARTMENT OF AGRICULTURE

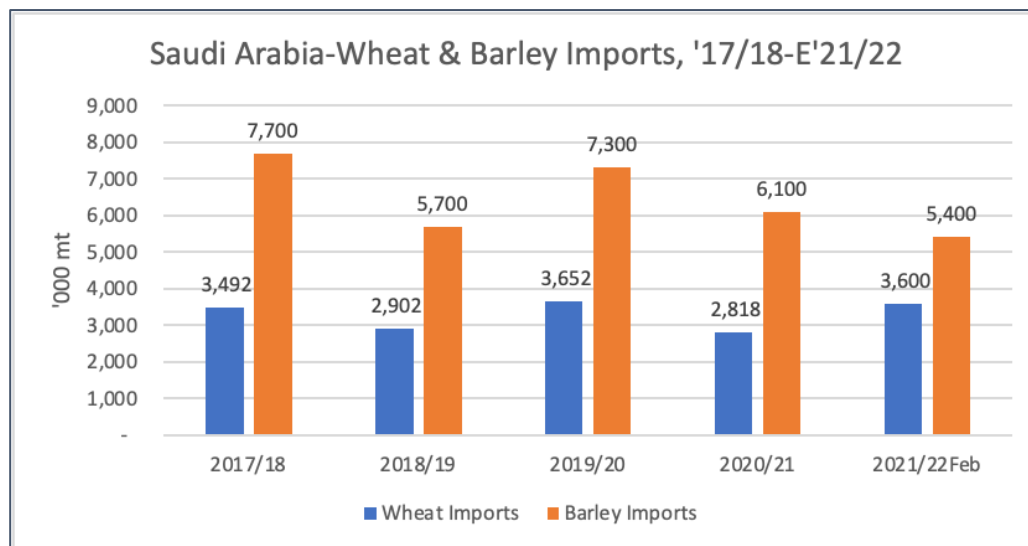
Source: World Meteorological Organization
<http://www.nws.noaa.gov/iscs/nwsgtfs.html>

- Canadian week 45 wheat exports were a bit better at 292.2k mt for a season total of 17.0 million mt. There was another 423.6k mt of wheat delivered into the system indicating that exports will pick up in the coming weeks.

(CGC) Grain Handling Summary Wheat			Week 45	(June 11, 2023)
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 45	423.6	386.4	292.2	102.5
Week ago	404.6	362.7	271.4	73.7
YTD	19,709.7	20,268.0	17,030.1	3,890.6
Last YTD	13,014.0	12,664.2	9,842.7	3,564.8
YTD less Last YTD	6,695.7	7,603.8	7,187.4	325.8
YTD over Last YTD	151%	160%	173%	109%

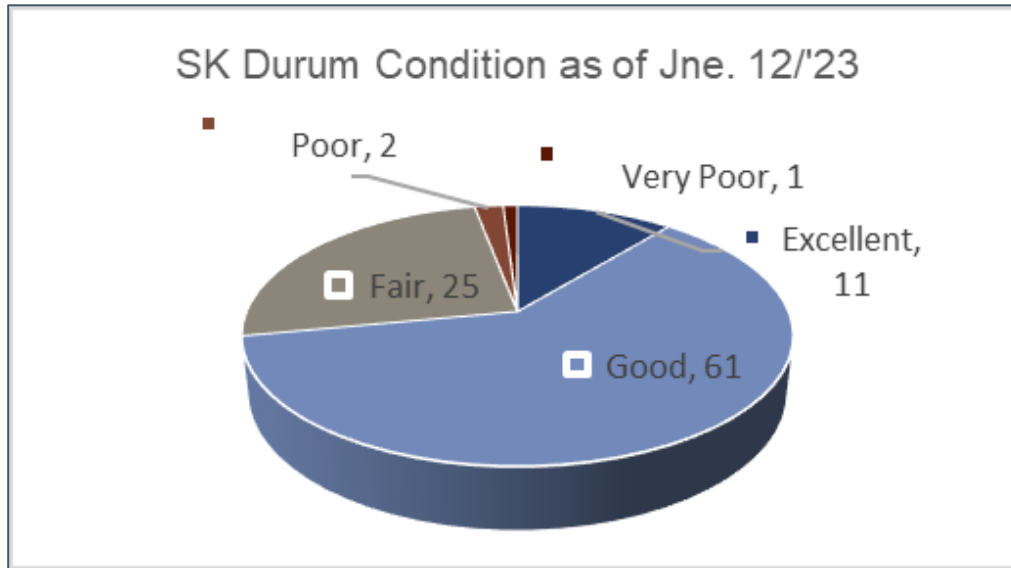
Source: Based on CGC data

- Although the opening of the Saudi Arabian market to Canada is more important for barley, prior to the ban, the Saudi market was also a good outlet for Canadian wheat. Saudi Arabia bought an average of 3.3 million mt of Canadian wheat in the five years leading up to the ban.



Source: based on STC data

- Durum:** Alberta Ag says 63 per cent of its durum crop is in Gd/Ex condition. Southern Alberta was the only region in the province that had improved moisture from last week. Soil moisture conditions there were up seven per cent to 30 per cent Gd/Ex. Sask. Ag says 72 per cent of its durum crop is in Gd/Ex condition which is down 15 points from when they were last reported two weeks ago.



Source: Based on Sask Ag data

- Durum exports in week 45 were 35.9k mt which is still above the approximately 27k mt of exports per week that are needed to meet the AAFC's export number.

(CGC) Grain Handling Summary Durum		Week 45 (June 11, 2023)		
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 45	89.2	86.8	35.9	3.0
Week ago	58.9	54.7	75.9	3.8
YTD	4,685.2	5,423.8	4,610.0	590.6
Last YTD	2,200.5	2,630.4	2,254.2	389.9
YTD less Last YTD	2,484.7	2,793.4	2,355.8	200.7
YTD over Last YTD	213%	206%	205%	151%

Source: Based on CGC data

- *Durum prices saw a move higher last week. We are sold out of old crop and would wait before selling additional new crop.*

U.S. Wheat:

- U.S. wheat futures followed corn higher last week. Dry conditions in the EU lent additional underlying support.
- U.S. winter wheat conditions improved by two points from last week to 38 per cent Gd/ Ex. Eight percent of the winter wheat crop has been harvested.
- The condition of the U.S. spring wheat crop fell four per cent from last week to 60 per cent Gd/ Ex. This is still an improvement from last year's 54 per cent Gd/Ex. Ninety percent of the crop has emerged.

- U.S. wheat export sales were 204k mt for a season total of 145 million bushels, down 18 per cent from last year compared to the USDA's expectation of a six point five per cent decline.
- U.S. HRS for July 2023 was valued at \$342.70/mt FOB PNW (*up \$5.90/mt from last week*), FOB Gulf HRW 11/12.5 pro is valued at \$339.10/mt (*down \$4.60/mt from last week*).

Australian Wheat:

- Australian farms are essentially finished selling old crop, but new crop sales are thin. The El Nino is expected to peak during the important growing month of September.
- FOB values in Australia: July 2023 AWP, WA is valued at \$280.00/mt (*down \$5.00/mt from last week*).

Argentine Wheat:

- Dry conditions in Argentina are likely going to decrease seeded area. BAGE said seeding is 40 per cent complete and left the seeded area at 6.3 million hectares. Rosario GE decreased their seeded area to 5.6 million hectares.
- Rosario GE is expecting Argentina's crop will produce 16.2 million mt compared to the USDA's 19.5 million mt estimate.
- July 12 per cent pro Argentine wheat is quoted at U.S. \$330.00/mt FOB (unchanged from last week).

EU Wheat:

- MATIF wheat broke the eight-month downward trend over dryness in the EU and support from U.S. markets.
- Hot dry conditions in the EU caused the Strategy Grains to decrease their EU production forecast by 1.3 million mt to 128 million mt. This is three per cent more than last year.
- Despite the recent rise in EU wheat prices, slow demand, large old crop stocks in the EU and Russia, the upcoming harvest, and Russia reducing its floor price will pressure EU wheat prices.
- EU FOB prices: July 2023 French 11.5 pro wheat closed at \$256.30/mt (*up \$10.20/mt from last week*); July 2023 German 12.5 pro wheat closed at \$267.90 (*up \$11.60/mt from last week*); July 2023 Baltic 14.0 pro wheat closed at \$276.20/mt (*up \$11.50/mt from last week*).

Black Sea Wheat:

- Russian wheat exports remain steady with volumes of wheat moving to Egypt, Turkey and Algeria. A rare shipment of Russian wheat was exported to Spain last week. Russian wheat is being traded at \$230 on a FOB basis which is well below other origins and is keeping pressure on EU values.
- Dry conditions in Russia's spring wheat area are reportedly impacting the crop.
- Russia says they do not see "any particularly positive prospects" for renewing the trade deal next month. The trade is paying attention to this, but this sort of rhetoric has proved empty before.
- The floor price for Russian wheat was dropped by another \$10/mt to \$230/mt on a FOB basis. This allegedly does not cover farmer's cost of production, but harvest is fast approaching, and storage is tight.

➤ **Significant purchases/ trades:**

- We did not hear of any cash trade last week.
- **U.S. export sales** of 165k mt took the 2023/24 season total to 3.9 million mt which is 18 per cent behind last year's pace. The USDA is expecting that total wheat exports will be 19.73 million mt in 2023/24.
- The **Baltic Dry Index** (BDI) increased by two per cent over the week, ending at 1,076. The bulk market remains slow.

➤ **Wheat Market Outlook:**

Significant events over the past week:

- U.S. wheat futures followed **strength in the corn and soybean markets**. Dry conditions in the U.S. Midwest and Lakes States caused funds to buy in their short positions. Commitment of Traders report showed major short covering from corn spec funds during the week that ended June 13. Funds closed out 43,500 shorts and flipped back to 2,145 contracts net long.
- The **floor price for Russian wheat** was dropped by \$10.00/mt to \$230.00/mt. This is well below EU and North American origin.

Outlook:

Mercantile says demand remains slow as there is little (if any) new business. Black Sea prices remain at a considerable discount to North American future prices. Mercantile says, it is worth noting that funds were big buyers of new crop. The floor price for Russian wheat has dropped and as harvest approaches and storage is tight, we expect their low prices to continue for a few weeks.

We would go to 60 per cent sold on wheat.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: June 19, 2023

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Sept '23 (bu.)	Sept '23 (mt.)
1 CWRS 13.5	\$10.62	\$390.22	1 CWRS 13.5	\$9.88	\$363.03
1 CWAD 13.0	\$10.78	\$396.10	1 CWAD 13.0	\$9.50	\$349.07
1 CPSR 11.5	\$10.14	\$372.58	1 CPSR 11.5	\$9.24	\$339.51
SW Sask			SW Sask		
1 CWRS 13.5	\$10.39	\$381.77	1 CWRS 13.5	\$9.77	\$358.99
1 CWAD 13.0	\$10.73	\$394.26	1 CWAD 13.0	\$9.16	\$336.58
1 CPSR 11.5	\$9.87	\$362.66	1 CPSR 11.5	\$9.16	\$336.58
NE Sask			NE Sask		
1 CWRS 13.5	\$10.36	\$380.67	1 CWRS 13.5	\$9.61	\$353.11
1 CWAD 13.0	\$10.67	\$392.06	1 CWAD 13.0	\$9.47	\$347.97
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a
SE Sask			SE Sask		
1 CWRS 13.5	\$10.30	\$378.46	1 CWRS 13.5	\$9.62	\$353.48
1 CWAD 13.0	\$10.65	\$391.32	1 CWAD 13.0	\$9.79	\$359.72
1 CPSR 11.5	\$9.64	\$354.21	1 CPSR 11.5	\$8.86	\$325.55

Data source: PDQ, June 19, 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, June 19, 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 Basis¹ (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). 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.

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.”

- 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				June 19, 2023
Type of Wheat	FOB Prices CDA ¹ (calculated)		Street Prices	Export Basis ²
	West Coast (Cdn./mt\$)	Great Lakes (Cdn.\$/mt)	Rosetown (Cdn.\$/mt)	Basis: West Coast-Centr. SK (Cdn\$/mt)
DNS 14.0	\$460.30	\$9.39		
HRS	\$454.28			
HRW 11.5	\$437.53			
SWW 12.0	\$375.02			
1 CWRS 13.5 ³	\$460.30		\$386.91	\$73.39
2 CWRS 13.0 ³	\$454.28		\$375.89	\$78.39
3 CWRS ³	\$437.53		\$363.03	\$74.50
CPS ³	\$368.24		\$350.17	\$18.07
1 CWAD ⁴		\$10.07	\$396.47	\$91.45
Competing wheat:				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$230.00		July	
French 11.5 (Rouen)	\$256.30		July	
APW 10.5 (W Coast)	\$280.00		July	
Argentine 12.5	\$330.00		July	
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				