

Wheat Market Outlook and Price Report: June 26, 2023
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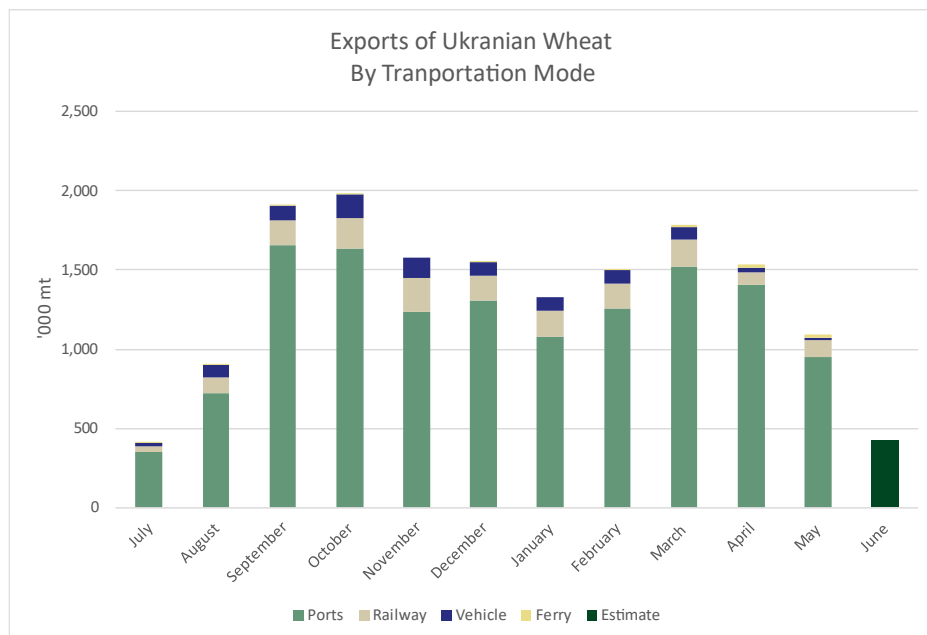
i) Background and Rationale for the Report

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 June 26, 2023

Ukrainian Wheat Exports

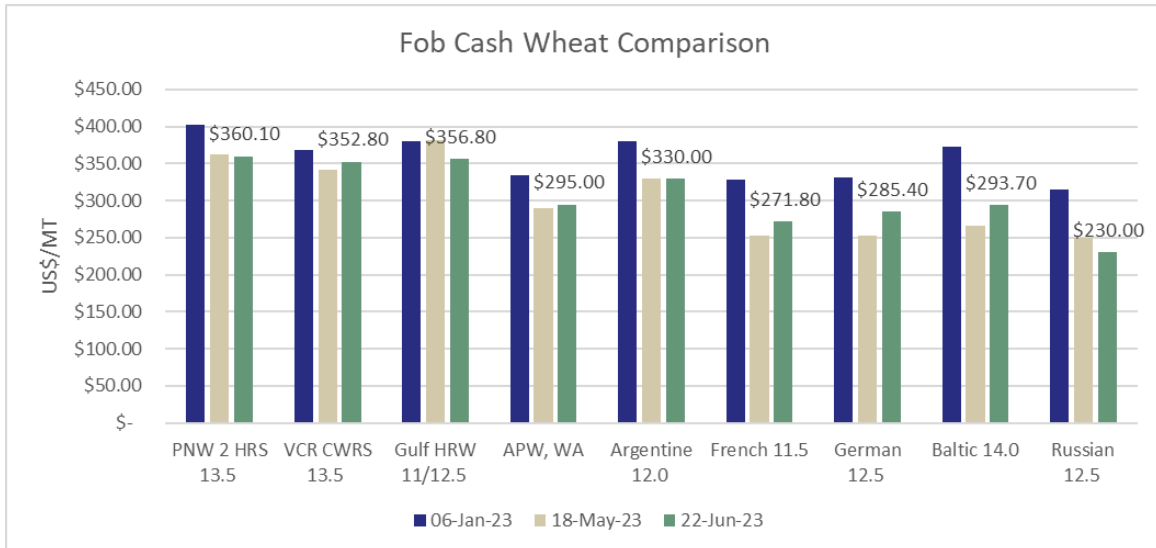


Source: Based on MAPFU data

- Ukraine has exported a July-May total of 15.6 million mt of wheat via all transportation modes this year. The USDA is forecasting that the country will export a total of 16.0 million mt of wheat in the 2022/2023 season, which means Ukraine only needs to ship 400k mt of wheat in June, the remaining month of the marketing year.

- There is growing uncertainty that the Black Sea Trade Corridor will be renewed when it expires in mid-July. With most of Ukraine’s old crop already shipped, the risk to Ukraine’s exports is on new crop.
- The USDA is forecasting that Ukraine will export 10.5 million mt of wheat in 2023/2024. Although Ukraine has been working at several alternative routes to move grain out of the country, Ukraine’s new crop exports will struggle to get to market if the corridor is not renewed.

FOB Wheat Price Comparison



Source: Based on Merc data

- Wheat prices in most exporting regions rose over the week over a growing number of weather concerns. A notable exception to this was Russia, where prices were flat, causing the spread between Russian values and other origins to widen.
- U.S. wheat remains the most expensive compared to all other major exporters.

➤ 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 \$733-2, down 5-6 cents on Friday, *up 71-6 cents on the week.*
- July 2023 contract Kansas hard red winter wheat closed at \$859-0, down 12-0 cents on Friday, *up 46-2 cents on the week.*
- July 2023 Minneapolis hard red spring wheat closed at \$864-6, down 15-2 cents on Friday, *up 32-0 cents on the week.*
- U.S. wheat futures are 15-25 cents higher this Monday morning as the market reacts to the unrest within Russia. Matif milling wheat futures are also trading €5.00-€5.50 higher this morning.

CBOT July 2023 Wheat (1 yr.)



KC July 2023 Wheat



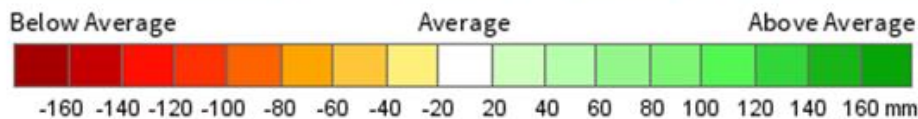
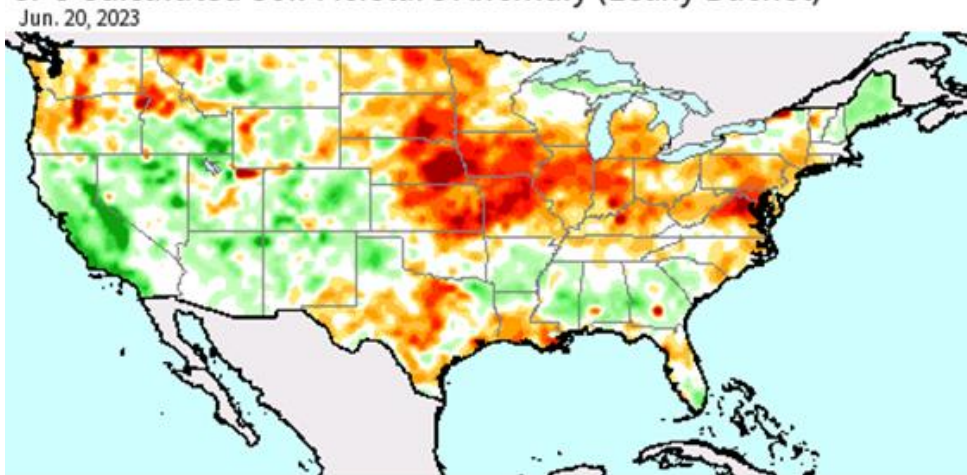
Mpls. July 2023 Wheat



Canadian Wheat

- The Canadian wheat crop continues to be in variable condition:
 - Dryness in Manitoba has spread across the entire province. Wheat crops in Western Manitoba are generally ok, while crop insurance claims will be common across the South-Central region. End-of-week rain in Manitoba will improve soil moisture, but this is largely too late.
 - In Saskatchewan, Sask Ag did not update the crop conditions which were last reported as 81 per cent Gd/Ex. Rain across the Northwest and Central Region improved soil moisture conditions by three points to 69 per cent adequate.
 - The condition of Alberta spring wheat crop rose by nine points over the week to 51 per cent Gd/Ex. Rain in Alberta's Northern regions improved soil moisture conditions, while the South remains dry. Provincial soil moisture conditions improved from 28 per cent Gd/Ex to 57 per cent Gd/Ex.

CPC Calculated Soil Moisture Anomaly (Leaky Bucket)



Source: NOAA/CPC
<http://www.cpc.ncep.noaa.gov/>

- Canadian week 46 wheat exports were 384.1k mt for a season total of 17.4 million mt. Average weekly exports need to be around 360k mt per week for the remaining six weeks of the marketing year to meet the AAFC's 19.6 million mt number. Almost all the wheat stocks needed to meet the AAFC's number have already been delivered into the elevator system as visible supplies has grown to two million mt.

(CGC) Grain Handling Summary Wheat			Week 46	(June 18, 2023)
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 46	444.7	373.3	384.1	134.5
Week ago	423.6	386.4	292.2	102.5
YTD	20,154.0	20,641.2	17,414.1	4,025.1
Last YTD	13,248.1	12,928.6	9,949.0	3,632.2
YTD less Last YTD	6,905.9	7,712.6	7,465.1	392.9
YTD over Last YTD	152%	160%	175%	111%

Source: Based on CGC data

- **Durum:** Alberta Ag did not give an update on the condition of the durum crop, but soil moisture conditions in Alberta's Southern region improved by another six points to 36 per cent Gd/Ex.
- Durum exports in week 46 were strong at 137.3k mt which makes a season total of 4.7 million mt. Just 100k mt more durum needs to be shipped to meet the AAFC's (too low) 4.8 million mt estimate. Visible supplies are 259k mt, but most (193k mt) if this is in primary elevators, so it could take a few weeks before it is exported.

(CGC) Grain Handling Summary Durum			Week 46	(June 18, 2023)
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 46	111.5	56.0	137.3	3.0
Week ago	89.2	86.8	35.9	3.0
YTD	4,796.8	5,480.1	4,747.3	593.6
Last YTD	2,254.4	2,695.8	2,288.1	394.1
YTD less Last YTD	2,542.4	2,784.3	2,459.2	199.5
YTD over Last YTD	213%	203%	207%	151%

Source: Based on CGC data

- *Domestic durum stocks are tight, global demand in the coming year will be strong, and the Canadian crop is not made yet. Mercantile is sold out of old crop and would wait before selling additional new crop.*

U.S. Wheat:

- The U.S. winter wheat harvest is 15 per cent complete and five points behind last year. Record hot temperatures in Texas spurred harvest there. The SRW harvest is 32 per cent complete.
- The condition of the U.S. spring wheat crop fell nine per cent from last week to 51 per cent Gd/Ex. The area of the U.S. spring wheat crop that is experiencing drought conditions rose 31 per cent

over the week to 80 per cent. Fifteen per cent of the spring wheat crop is under drought conditions, which is up 11 per cent from last week. Soil moisture maps show dry areas in North Dakota are spreading, but end-of-week rains last week may have helped this.

- The durum crop in North Dakota is 76 per cent Gd/Ex while Montana's crop is considered 88 per cent Gd/Ex.
- U.S. new crop wheat sales were small at 110k mt (4.0 million bushels) and at the low end of expectations. Total commitments are down 23 per cent from last year at 149 million bushels. Weekly exports need to match last year's weekly average of 9.9 million bushels per week for the rest of the season to meet the USDA's 725-million-bushel number.
- U.S. HRS for July 2023 was valued at \$360.10/mt FOB PNW (*up \$17.40/mt from last week*), FOB Gulf HRW 11/12.5 pro is valued at \$356.80/mt (*up \$17.70/mt from last week*).

Australian Wheat:

- Australia saw decent rains over the week. The country continues to get abnormal amounts of precipitation for an El Nino year. September is the most important month for the country's wheat production.
- FOB values in Australia: July 2023 AWP, WA is valued at \$295.00/mt (*up \$15.00/mt from last week*).

Argentine Wheat:

- Dryness in Argentina prompted BAGE to decrease wheat seeded area by 200k hectares to 6.1 million hectares. This is unchanged from last year.
- Seeding is 58 per cent complete vs. 67 per cent last year. There is no rain in the forecast for the next 14 days.
- The Argentine wheat market is thin, and prices are nominal.

Indian Wheat

- India's Flour Mill Association says wheat output in the country will fall 10 per cent to 101-103 million mt compared to the government's record 113 million mt estimate. The decrease in production will turn the country into a net wheat importer (rather than exporter) as prices in the country continue to rise.

Chinese Wheat

- Harvest of China's winter wheat crop is wrapping up. China says a "bumper crop" of 137 million mt was produced, however, heavy rain and wind just before harvest damaged the quality of the crop. There are reports that 15 per cent (20 million mt) of the crop is not fit for human consumption. The feed market is buying up this sprouted wheat which is being offered at a steep discount to corn.

EU Wheat:

- *Marché à Terme International de France* (MATIF) wheat futures rose €8.25 over the week. Most of this was in sympathy to U.S. markets. But EU values continued to rise on Thursday even though U.S. values were flat. There are a growing number of reports that the EU crop has been impacted by adverse weather. The EU crop monitor, MARS, cut their soft wheat yield forecast from 6.01 mt per hectare to 5.92 mt per hectare. This is still above last year's yield of 5.79 mt per hectare.
- The German Farmer's Coop lowered their wheat crop estimate by 2.9 per cent from last year to 21.9 million mt as hot and dry conditions have prevailed in the country since mid-May.
- Wheat harvest in France is two per cent complete. Crop ratings fell two per cent to 83 per cent Gd/Ex.

- EU FOB prices: July 2023 French 11.5 pro wheat closed at \$271.80/mt (*up \$15.50/mt from last week*); July 2023 German 12.5 pro wheat closed at \$285.40 (*up \$17.50/mt from last week*); July 2023 Baltic 14.0 pro wheat closed at \$293.70/mt (*up \$17.50/mt from last week*).

Black Sea Wheat:

- A Ukrainian diplomat says they are “99.9 per cent” certain that Russia will not renew the Black Sea Grain Deal when it expires in mid-July.
- Russia’s rapid export pace for the month of June has analyst’s increasing their monthly export estimate from 3.3 million mt to 3.6 million mt.
- While the price for wheat rose in all other major origins last week, Russian wheat prices remained flat which widened the discount to other origins. Official prices for Russian wheat are \$230-\$240 FOB, but we hear there are even cheaper offers being made.

➤ **Significant purchases/ trades:**

- There was a snap tender by **Algeria** who bought 400k mt at \$265.50/mt.
- **Saudi Arabia** was also rumored to have bought \$355k mt at \$302.90/mt from their “overseas investments”.
- **U.S. export sales** were at the low end of expectations at 110k mt for a year-to-date total of 4.0 million mt, down 23 per cent from last year.
- The **Baltic Dry Index** (BDI) increased by 15 per cent over the week, ending at 1,250. The bulk market remains slow.

➤ **Wheat Market Outlook:**

Significant events over the past week:

- **Dryness in the U.S. corn belt** is supporting U.S. wheat prices. The condition of the U.S. corn crop fell by six points from last week to 55 per cent Gd/Ex. This is 15 points behind last year. The area of the U.S. corn crop under drought conditions expanded by seven per cent to 64 per cent.
- The EPA in the U.S. released its **Renewable Fuel Standard** which saw biofuel volumes lower than expected which was seen as bearish.
- Reports surfaced from **Russia over the weekend of what some are calling a coup**. On Friday, the Wagner mercenary group was reported to have captured a Russian military base and were marching towards Moscow. A deal was reportedly struck on Saturday where the leader of the Wagner group will go to Belarus while the rest of the Wagner mercenaries will have the option to sign contracts with the Russian military.
- Reports from Russia indicate **the Black Sea Grain Initiative** will not be renewed after July 17.

Outlook:

It’s going to be all about weather, and how the market interprets events in Russia, according to Mercantile. In Mercantile’s view, such abnormal events will cause the futures markets to initially start a little stronger, then fade as the conflict will have no real impact on the overall wheat complex. Global wheat buyers remain uncovered. They are buying hand to mouth and using local crops where possible. Mercantile doesn’t think this will change. Stats Canada’s planting report is out this week. We expect Stats Canada to predict a small increase in wheat plantings.

The rally caused by the unrest in Russia should be seen as a selling opportunity. We recommend going to 60 per cent sold new crop production.

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 26, 2023

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Sept '23 (bu.)	Sept '23 (mt.)
1 CWRS 13.5	\$10.84	\$398.30	1 CWRS 13.5	\$10.08	\$370.38
1 CWAD 13.0	\$10.78	\$396.10	1 CWAD 13.0	\$9.53	\$350.17
1 CPSR 11.5	\$10.35	\$380.30	1 CPSR 11.5	\$9.46	\$347.60
SW Sask			SW Sask		
1 CWRS 13.5	\$10.59	\$389.12	1 CWRS 13.5	\$9.99	\$367.07
1 CWAD 13.0	\$10.73	\$394.26	1 CWAD 13.0	\$9.68	\$355.68
1 CPSR 11.5	\$10.09	\$370.75	1 CPSR 11.5	\$9.38	\$344.66
NE Sask			NE Sask		
1 CWRS 13.5	\$10.57	\$388.38	1 CWRS 13.5	\$9.81	\$360.46
1 CWAD 13.0	\$10.68	\$392.43	1 CWAD 13.0	\$9.53	\$350.17
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a
SE Sask			SE Sask		
1 CWRS 13.5	\$10.49	\$385.44	1 CWRS 13.5	\$9.78	\$359.36
1 CWAD 13.0	\$10.65	\$391.32	1 CWAD 13.0	\$9.84	\$361.56
1 CPSR 11.5	\$9.86	\$362.30	1 CPSR 11.5	\$9.10	\$334.37

Data source: PDQ, June 26/'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 26/'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 2013/14 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.

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.”

- 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.
 - 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 26, 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	\$458.49	\$9.50		
HRS	\$452.51			
HRW 11.5	\$435.80			
SWW 12.0	\$373.55			
1 CWRS 13.5 ³	\$458.49		\$391.32	\$67.16
2 CWRS 13.0 ³	\$452.51		\$380.30	\$72.21
3 CWRS ³	\$435.80		\$365.60	\$70.20
CPS ³	\$366.79		\$359.72	\$7.06
1 CWAD ⁴		\$9.93	\$396.84	\$82.40
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$230.00		July	
French 11.5 (Rouen)	\$271.80		July	
APW 10.5 (W Coast)	\$295.00		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				