

Wheat Market Outlook and Price Report: March 27, 2023

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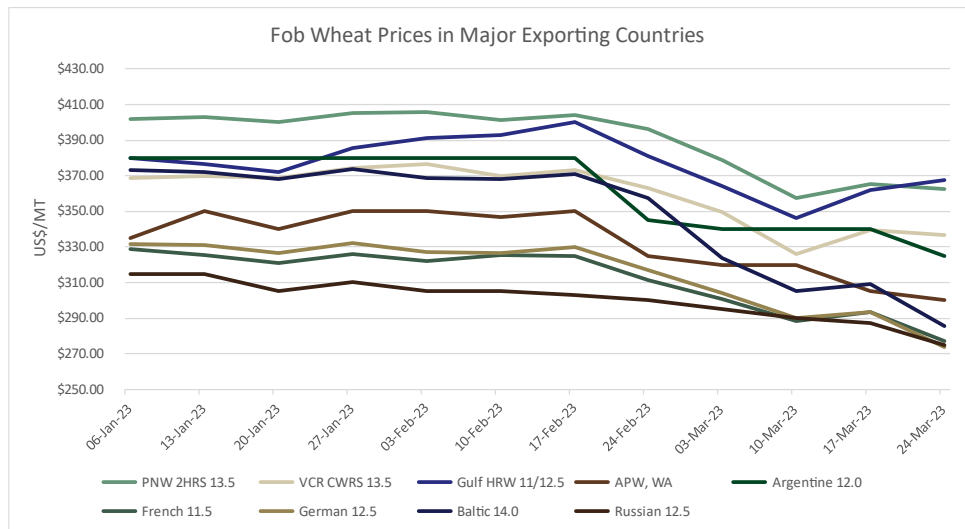
i) Background and Rationale for the Report

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 March 27, 2023

Global Wheat Prices on an FOB Basis



Source: Based on Merc data

- The decline in global wheat prices since the start of the calendar year was caused by a variety of factors. The main driver was the abundance of cheap Russian wheat that is flooding the export market.
- Russian wheat remains the cheapest in the world on an FOB basis. Wheat prices in Russia have fallen \$40.00/mt since the beginning of the year which has allowed them to take the lions share of most of the major wheat tenders.
- The rapid pace of Russian exports caused rumors to circulate last week that the Russian government might put a halt on exports. These rumors were false. Russia needs the money generated from its wheat sales to finance the war.
- The Russian government has allegedly asked exporters to pay farmers at least the average cost of production. This could cause Russian FOB prices to find a floor at ~\$275/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:

- May 2023 contract **Chicago winter wheat** closed at \$688-4, up 26-4 cents Friday, *down 22-0 cents on the week.*
- May 2023 contract **Kansas hard red winter wheat** closed at \$848-0, up 28-2 cents on Friday, *up 12-2 cents on the week.*
- May 2023 **Minneapolis hard red spring wheat** closed at \$857-4, up 16-2 cents on Friday, *down 3-2 on the week.*
- *US wheat futures are currently trading 2 to 11 cents higher at the time of writing this Monday morning.*

CBOT May 2023 Wheat (1 yr.)



KC May 2023 Wheat

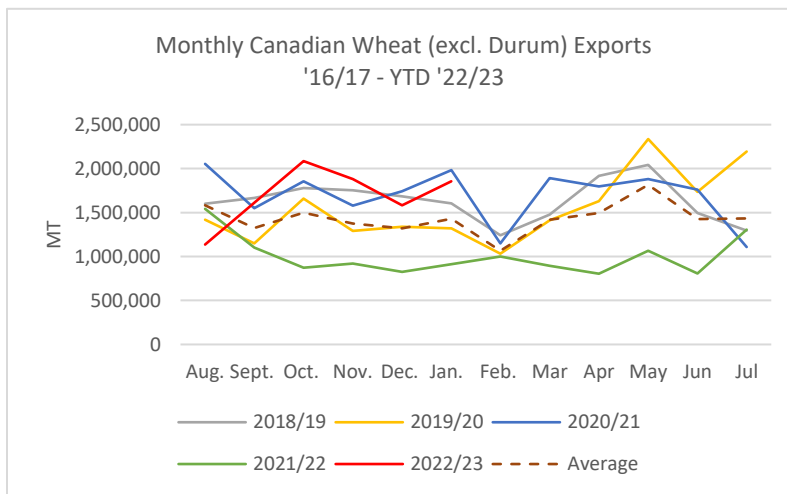


Minneapolis May 2023 Wheat



Canadian Wheat

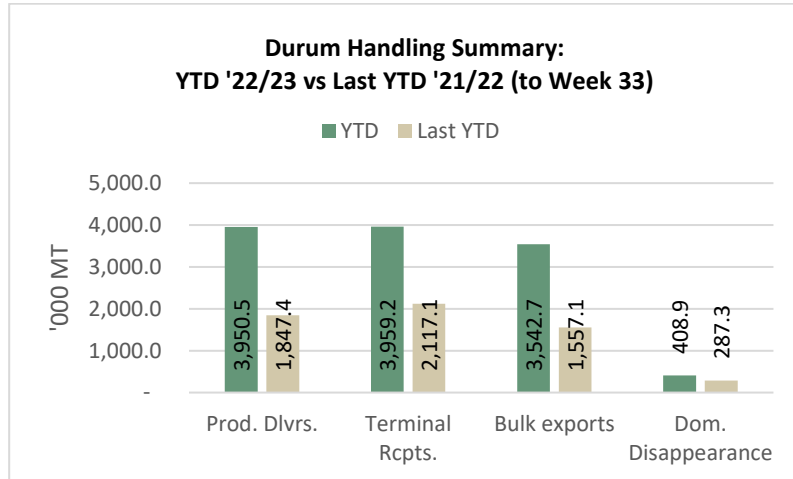
- Canadian exporters shipped another 465.6k mt of wheat in shipping week 33 for a season total of 12.8 million mt. The average weekly export pace to date is 388.0k mt per week which is almost 50k mt per week more than what is needed to meet the Agriculture and Agri-Food Canada's (AAFC) 19.3 million mt estimate. Canadian wheat exports tend to seasonally pick up into springtime and peak in May before slowing into harvest time.



Source: Based on Stats Canada data

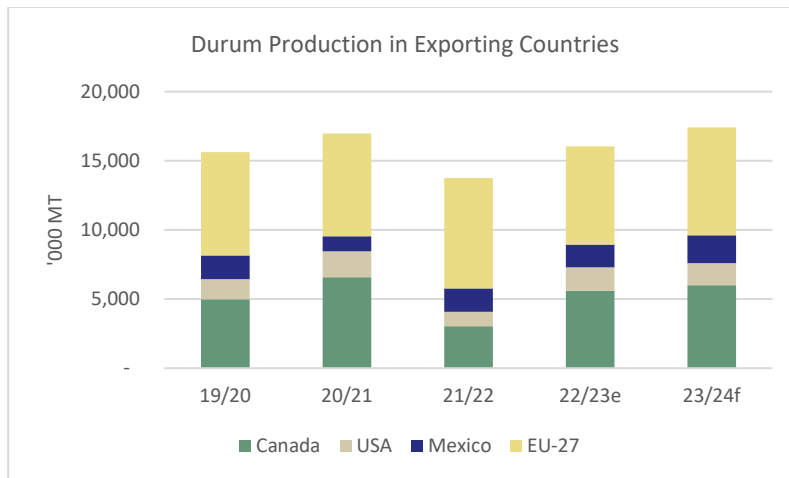
- **Durum:** Durum exports in week 33 were strong at 196.3k mt for a season total of 3.5 million mt which is 2.0 million mt more than last year to date. Now, 63 per cent through the marketing year,

Canada has exported 74 per cent of the AAFC's total estimated export number. Producer deliveries were also strong at 120.8k mt for a total of 4.0 million mt. This means that farmers have delivered approximately 73 per cent of their production and farmers still have about 1.5 million mt on hand.



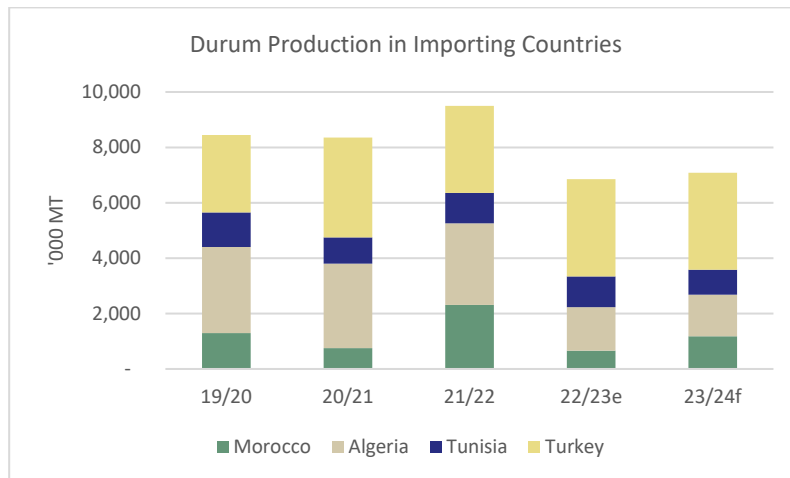
Source: Based on CGC data

- We calculate that durum production in major exporting counties in the upcoming year will rise by 8.5 per cent from last year to 17.4 million mt. Most of the increase in production is from a 10 per cent increase in the EU from the drought impacted crop of last year. Mexico is forecasting its crop will be 2.1 million mt which is too high. Production in the US and Canada will be steady to slightly higher.



Source: Based on EUC, MARS, USDA, and Merc data

- Drought in North Africa is causing production in importing countries to be essentially unchanged from last year's drought-impacted crop. Production is expected to recover somewhat in Morocco, but this will be entirely offset by the failing crop in Tunisia.



Source: Based on EUC, MARS, USDA, and Merc data

- Mercantile thinks that imports in 2023/2024 will be down slightly. Offsetting changes in North Africa should keep imports there relatively steady, but we are estimating that imports from the EU will be down ~200k mt as it produces a larger share of its needs domestically.
- *Average bids were slightly lower on both old and new crop. Mercantile is 40 per cent sold new crop at an average price of \$12.35/bu for a #1CWAD.*

US Wheat:

- US exports were just 126k mt (4.6 million bushels) over the week for a season total of 658 million bushels, down five per cent from last year compared to the USDA's three per cent decline. Average weekly sales need to be 2.0 million bushel per week to meet the USDA's 775 million bushel projection. Although this is larger than last year's pace of 1.7 million bushels per week, Mercantile thinks it is possible.
- Dry conditions persist in the SW plains and a large amount of snow in the northern plains and lake states are causing concerns about HRW production and delayed HRS planting.
- The USDA will release its first ideas for seeded area on Friday. Farm Futures estimates wheat area will total 45.7 million acres for 2023/2024. That would be a 5.6k acre shift from last year, with a six point three per cent lower spring wheat total and a three point four per cent increase in winter wheat. The average of 33 analyst estimates compiled by Bloomberg is much larger at 48.9 million acres. Mercantile believes that wheat acres will be higher. With that said, snowpack and cold temperatures are starting to cause some to think that prevent plant acres could be larger.
- US HRS for April 2023 was valued at \$362.4/mt FOB PNW (*down \$2.80/mt from last week*), FOB Gulf HRW 11/12.5 pro is valued at \$361.70/mt (*up \$5.70/mt from last week*).

Australian wheat:

- Wheat futures in Australia closed at eight month lows on Friday.
- Soil moisture conditions are good in Australia. Seeding will begin in April there, but the El Nino is expected to hurt crop production.
- FOB values in Australia: April 2023 AWP WA is valued at \$303.00/mt (*down \$5.00/mt from last week*).

Argentine wheat:

- Exporters in Argentina have shipped almost 40 per cent of what we estimate to be their total exportable surplus. Argentine 12 per cent pro wheat is about \$325/ mt on an FOB basis which is too far too high to attract demand. The wheat growing region in Argentina has received some rain, but more will be needed before planting time in May.

EU wheat:

- Marché à Terme International de France (MATIF) wheat futures saw a strong bounce at the end of the week following the rumors from Russia. The rally was not enough to cause EU wheat from closing lower on the week because of earlier losses due to the seven-week-high price of the Euro.
- Crop conditions in France continue to be excellent at 95 per cent Gd/Ex.
- FOB prices in the EU: April 2023 French 11.5 pro wheat closed at \$277.30/mt (*down \$16.30/mt from last week*); April 2023 German 12.5 pro wheat closed at \$273.90 (*down \$19.60/mt from last week*); April 2023 Baltic 14.0 pro wheat closed at \$285.70/mt (*down \$23.60/mt from last week*).

Black Sea wheat:

- There were some rumblings about plans to slow down exports from Russia. These rumours were false, but the Russian government has told exporters that they need to keep export prices high enough to pay farmers at least average production costs. To accomplish this, we estimate Russian exporters will need to charge a minimum of ~\$275/mt on an FOB basis.
- The Russian government will buy 10 million mt of wheat for their strategic reserves which is seven million mt more than they bought last year.
- No one knows how long the trade corridor has been extended for. Ukrainian officials say it has been extended by 120 days, while Russian officials say it has been extended for 60 days.
- Russian wheat prices for April are around \$275/mt on an FOB basis (*down \$12.00/mt from last week*).

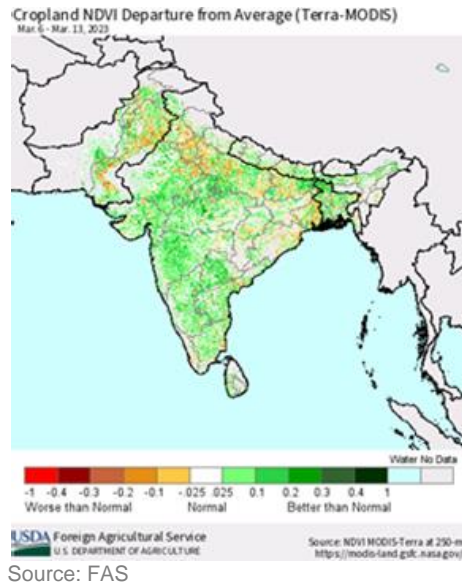
➤ **Significant purchases/ trades:**

- There was no reported tender business following the previous week's large trade volume. There will be more sales this week with **Jordan** and **Turkey** both tendering.
- **US weekly wheat sales** were 126k mt which make a season total of 658 million bushels, down five per cent from last year.

➤ **Wheat Market Outlook:**

Significant events over the past week:

- **Morocco reported having just three months worth of wheat stocks** compared to five months of stocks this time last year. Morocco's AgMin has said they will work on building stocks.
- **Heavy rain and hail have damaged some of India's wheat crop.** This comes after India's promising looking crop was scorched by extreme temperatures.



- **Politicians and bankers downplayed the financial crisis.** However, with countries' national debt at all-time highs, and in many cases the debt is higher than the countries GDP, in our view the financial crisis is far from over.
- **China bought at least another 640k mt more corn last week.** Total Chinese purchases over the past two weeks have been ~2.5 million mt. Strong sales to China are supportive to corn prices and wheat will follow corn's lead.

Outlook:

The USDA planting intentions report is out on Friday. In Mercantile's view, new crop values suggest more corn/spring wheat and fewer soybean acres. However, it remains to be seen what the USDA gives the market. Russian and its Black Sea politics will continue to play a major role as the Northern Hemisphere winter growing and spring planting seasons get underway. If China continues buying USA corn, Mercantile predicts futures will be higher. – *Mercantile is sold out of old crop and will wait before selling additional 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: March 27, 2023					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		May '23 (bu.)	May '23 (mt.)
1 CWRS 13.5	\$10.95	\$402.35	1 CWRS 13.5	\$10.99	\$403.82
1 CWAD 13.0	\$12.41	\$455.99	1 CWAD 13.0	\$12.36	\$454.16
1 CPSR 11.5	\$12.62	\$463.71	1 CPSR 11.5	\$12.70	\$466.65
SW Sask			SW Sask		
1 CWRS 13.5	\$10.82	\$397.57	1 CWRS 13.5	\$10.85	\$398.67
1 CWAD 13.0	\$12.37	\$454.52	1 CWAD 13.0	\$12.29	\$451.58
1 CPSR 11.5	\$10.48	\$385.08	1 CPSR 11.5	\$10.52	\$386.55
NE Sask			NE Sask		
1 CWRS 13.5	\$10.68	\$392.43	1 CWRS 13.5	\$10.70	\$393.16
1 CWAD 13.0	\$10.21	\$375.16	1 CWAD 13.0	\$12.21	\$448.64
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a
SE Sask			SE Sask		
1 CWRS 13.5	\$10.59	\$389.12	1 CWRS 13.5	\$10.64	\$390.96
1 CWAD 13.0	\$12.28	\$451.22	1 CWAD 13.0	\$12.26	\$450.48
1 CPSR 11.5	\$10.31	\$378.83	1 CPSR 11.5	\$10.37	\$381.04

Data source: PDQ, Mar. 27/'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, Mar. 27/'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 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 North West (PNW) ≈ 1 CWRS 13.5 per cent in Vancouver
 - HRS in the Pacific North West (PNW) ≈ 2 CWRS 13.0 per cent in Vancouver
 - HRW in the Pacific North West (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.

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.”

- 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				March 27, 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	\$488.24	Closed		
HRS	\$481.86			
HRW 11.5	\$509.87			
SWW 12.0	\$389.19			
1 CWRS 13.5 ³	\$488.24		\$406.39	\$81.86
2 CWRS 13.0 ³	\$481.86		\$395.37	\$86.50
3 CWRS ³	\$509.87		\$382.51	\$127.36
CPS ³	\$382.15		\$303.87	\$78.27
1 CWAD ⁴		Closed	\$455.63	
Competing wheat:				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$275.00		April	
French 11.5 (Rouen)	\$277.30		April	
APW 10.5 (W Coast)	\$300.00		April	
Argentine 12.5	\$325.00		April	
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				