

## Wheat Market Outlook and Price Report: November 7, 2022

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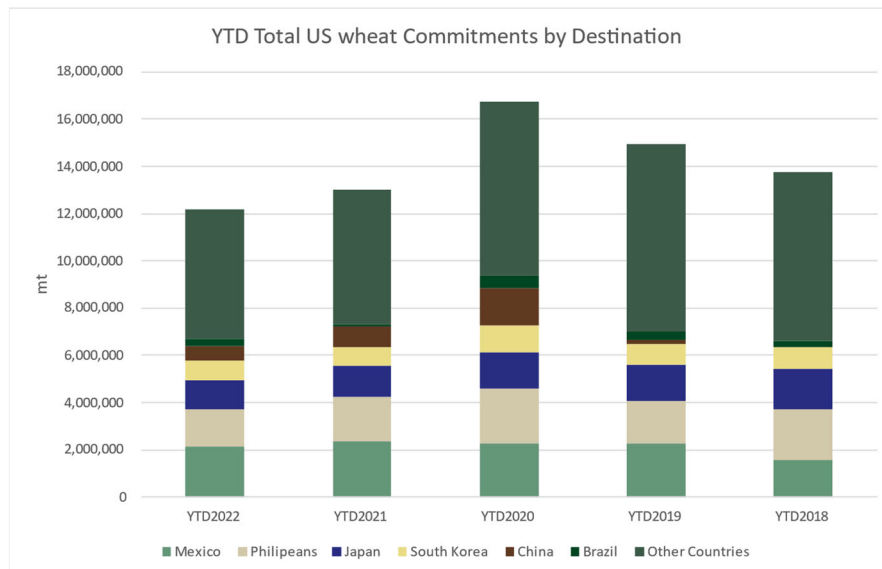
### **i) Background and Rationale for the Report**

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 November 7, 2022**

#### **US Year-to-Date Total Wheat Commitments by Destination**



Source: USDA/FAS

- There has been lots of talk about changes to the trade matrix this year as Russia has a massive crop, Ukraine's exports are restricted, and the strong US dollar and drought in the US are causing US wheat to be expensive. The graph above depicts total US wheat commitments to date compared to those during the same period in previous years.
- Total wheat commitments to date are 12.2 million mt, down 6% from last year and the slowest pace in over 5 years.
- Mexico is the largest customer of US wheat, buying 2.1 million mt so far this season, down 10% from last year. Although the US has a strong freight advantage, very cheap Russian FOB values have been allowing Russian wheat to work into Mexico.

**Developments in Wheat Demand:**

Brazil and Mexico bought ten cargoes of Russian wheat, highlighting the shrinking share of US wheat in the world trade matrix and the fact that money seems to speak louder than any violation of human rights.

➤ **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 of last week's market events in the major wheat origins.

**Futures:**

- Dec '22 contract **Chicago winter wheat** closed at \$847-6, up 7-6 cents on Friday, *up 18-4 cents on the week.*
- Dec '22 contract **Kansas hard red winter wheat** closed at \$953-2, up 12-0 cents on Friday, *up 28-2 cents on the week.*
- Dec '22 **Minneapolis hard red spring wheat** closed at \$954-4, up 11-4 cents on Friday, *up 9-4 cents on the week.*
- *Wheat futures are currently trading 6-12 cents higher Monday morning at the time of writing.*

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



**KC Dec. '22 Wheat**

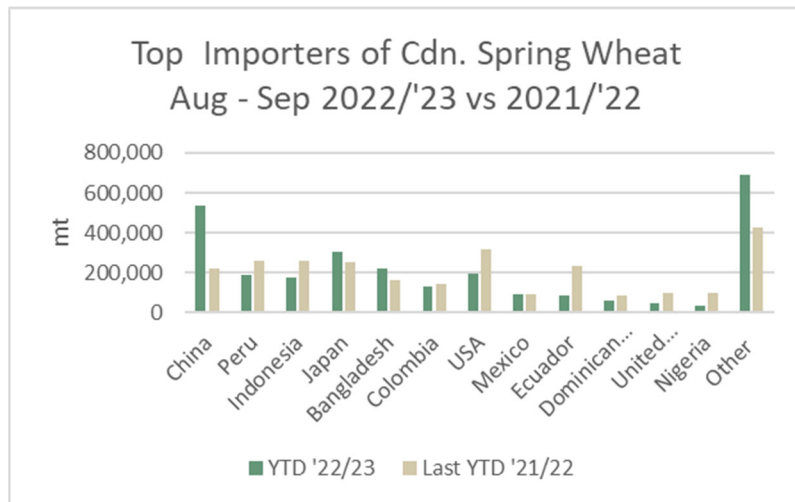


**Minneapolis. Dec. '22 Wheat**

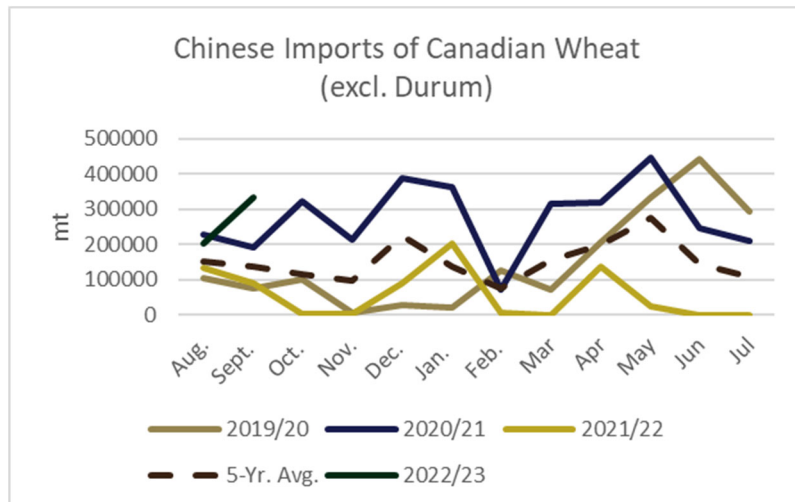


**Canadian Wheat**

- Canada had the lowest price (on a cost and freight (C&F) basis) in Iraq's 150k mt wheat tender last week. Canadian wheat traded at \$489.80/mt C&F. Traders think that Canadian wheat accounted for 50-100k mt of the tender while Lithuania and Australia supplied the rest. Lithuania's wheat was worth ~\$499.00/mt C&F.
  - The events in the Black Sea are driving additional demand to Canada. Iraq has been excluding Russian wheat in their tenders, and the commerce minister in Bangladesh said they are increasing purchases of wheat from Canada and other countries while exports from their main supplier, Ukraine, are restricted.
- According to Stats Canada, Canada exported 1.6 million mt of non-durum wheat in September. The main customer was China, which bought 333k mt during the month for an Aug-Sep total of 535k mt. This is a 139% (311.5k mt) increase from last year. While sales to the top importing countries have been strong, there also have been strong exports to "other" countries as nations in the EU and the Middle East have increased purchases of Canadian wheat.



Source: Stats Canada

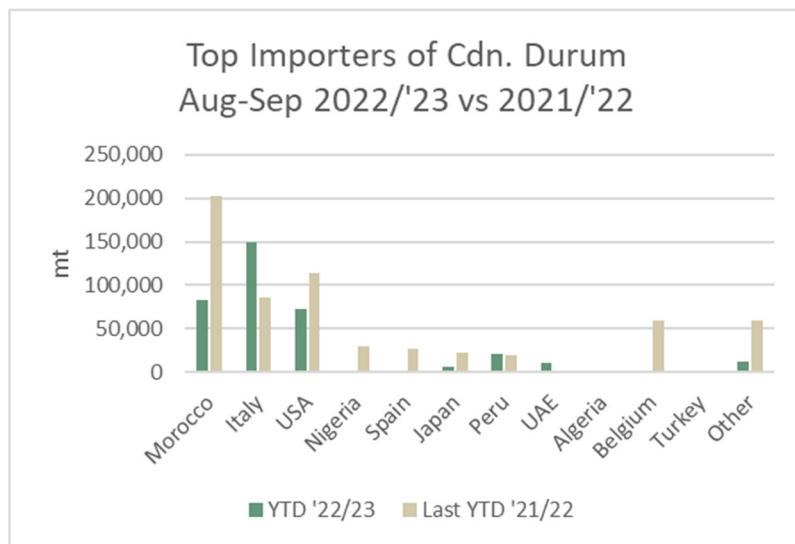


Source: Stats Canada

- Canadian wheat exports for week 13 were 424.4k mt, for a season total of 4.6 million mt. At week 13, we are now 25% through the shipping year and have exported 25% of the 18.3 million mt of non-durum wheat that the AAFC is predicting. Average weekly exports for the remainder of the year need to be ~351k mt per week to meet the AAFC's crop year number.

(CGC) Grain Handling Summary Wheat			Week 13	(Oct. 23'22)
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 13	441.4	483.4	424.4	100.5
Week ago	491.5	546.0	533.9	54.3
YTD	6,291.5	6,059.6	4,628.1	1,081.4
Last YTD	4,431.7	4,550.2	3,291.9	1,229.0
YTD less Last YTD	1,859.8	1,509.4	1,336.2	-147.6
YTD over Last YTD	142%	133%	141%	88%

- Both CN and CP set grain movement records in October. CP moved 3.1 million mt of grain, which surpassed their previous record set in October 2020 by over 100k mt. Meanwhile, CN moved 3.2 million mt of grain, exceeding their previous October 2020 record by over 50,000 mt. We only have performance data for two of the four shipping weeks in October, during which CP's hopper car fulfillment ranged from 73-85%, while CN's hopper car fulfillment ranged from 86-91%
- **Durum:** Canadian durum bids have fallen off, but we think this is because exporters are focusing on moving very profitable oil seeds rather than durum.
- Durum prices in the EU were unchanged from last week, but the stronger Canadian dollar changes the conversion to ~C\$13.20/bu at the elevator in Saskatchewan.
- Week 13 durum exports were 101.5 k mt for a season total of 823.4 k mt. Stats Canada says that 228.1k mt of durum wheat was exported in September. The largest customer was Italy, which imported 79.4k mt of the total amount. Italy is already showing itself to be a strong customer of Canadian durum, and we expect this to remain the case throughout the year.



Source: Stats Canada

### US Wheat:

- The first US winter wheat crop ratings out on Monday were the lowest for this time of year ever at just 28% Gd/Ex (45% last year).
- North and South Dakota, northern Minnesota, Nebraska, and northern Kansas all recorded above-normal temperatures for the week. Dry weather and windy conditions expanded severe drought conditions in the Dakotas. Dry conditions were widespread in Kansas where the southwest region recorded the driest October on record. Moderate drought continued to expand in Colorado. Rain was welcomed in Texas and southern Oklahoma.
- U.S. wheat exports were 3.048 million mt in September according to Census data. That was a market year high and was up 32% from the September 2021 market year to date. Wheat shipments totaled 8.67 million mt but are down 4% from last year's pace with the slowest 4-month start since '18/19.
- US HRS for Nov. '22 was valued at \$410.80/ mt FOB PNW (down \$12.00/mt from last week), FOB Gulf HRW 11/12.5 pro is valued at \$423.00/mt (down \$4.10/mt from last week).

**Australian wheat:**

- The Australian wheat harvest has started in some of the drier areas, but many regions remain too wet having received additional rain over the week. Farmers are reluctant sellers until they know what kind of quality they will have. Local traders say that milling grades will fetch a strong premium this year as they are “running out of areas with prospects of good-quality milling wheat.” Upwards of half of Australia’s large wheat crop will likely have quality issues.

**Argentine wheat:**

- Buenos Aires Grain Exchange (BAGE) lowered their crop forecast by another 1 million mt last week to 14.0 million mt as widespread frosts adds additional stress to their already drought stricken crop.
- Gd/Ex condition ratings fell from 11% Gd/Ex to a fresh all-time low of 9% Gd/Ex.
- Argentina’s crop will only allow for 7.5 million mt of exports. The government has already said that exporters will be allowed to defer 8.4 million mt of Dec-Feb export licences for 360 days without penalty.

**EU wheat:**

- EU wheat is expensive compared to Russian wheat and continues to be tossed around by the news coming from the Black Sea Corridor. Matif closed at the low end of the Euro\$22 trading range following Russia’s renewal of the deal.
- Fob prices in the EU: Nov. ‘22 French 11.5 pro wheat closed at \$337.40/mt (*down \$6.00/mt from last week*); Nov. ‘22 German 12.5 pro wheat closed at \$342.80/mt (*down \$4.00/mt from last week*); Nov. ‘22 Baltic 14.0 pro wheat closed at \$385.30/mt (*down \$4.50/mt from last week*).

**Black Sea wheat:**

- After saying they were backing away from the Black Sea Grain Initiative, Russia was back on Wednesday saying that they would allow grain ships to sail unhindered. There is still a large amount of uncertainty surrounding the renewal of the deal which expires on November 19<sup>th</sup>. The renewal, or lack thereof, will be closely watched.
- Russian wheat is by far the cheapest in the world and is attracting large amounts of additional demand.

➤ **Significant purchases/ trades:**

- **Iraq** bought 150k mt of Australian, Canadian, and Lithuanian hard wheat.
- **Brazil** and **Mexico** bought 10 cargos Russian wheat.
- **Algeria** bought 600k mt of Russian wheat
  - Unfortunately, we don’t have price details except we do know it was well below North American prices
- **U.S. wheat commercial sales** were 348.1k mt, within trade expectations of 200k – 600k mt. Year-to-date commercial sales total 12.1 million mt. The USDA expects 2022/23 U.S. wheat exports to total 21.09 million mt.

➤ **Wheat Market Outlook:**

**Significant events over the past week:**

- **Russia**, on October 29, suspended for an "indefinite term" its participation in the United Nations-backed **Black Sea Grain Initiative** that it signed in July. The deal was set to expire this month, and Russian President Vladimir Putin had previously threatened to withdraw from the multiparty agreement. Chicago Board of Trade (CBOT) wheat futures were up 6% Monday following the news. On Wednesday, Russia reversed course and said it would rejoin the agreement while leaving open the opportunity to withdraw "if provoked."
- Lloyds of London is again **underwriting insurance for the cargo vessels included in the Black Sea grain corridor** following Russia's rejoining the grain deal. The insurer had announced Monday that it was suspending coverage in the area, effectively cutting off trade from the Black Sea.
- **Heavy rain and flooding in Australia's wheat-growing areas** is threatening wheat milling quality just before harvest. Despite a third consecutive year of impressive wheat production, heavy rain may affect as much as half the crop in the eastern grain belt, reported Reuters. The rain will lead to quality issues and likely decrease the amount of quality milling wheat while increasing the amount destined as animal feed.
- **Brazil's Paranagua Port** was re-opened after protesters blocked access following President Bolsonaro's loss to rival Luiz Ignacio Lula da Silva. The protests cut port activity to a fraction of its daily activity. Roads across the country were blocked in protest of da Silva's narrow defeat of Bolsonaro.

**Outlook:**

The markets will remain cautious before seeing the new WASDE report on Wednesday. Don't expect to get much from the new WASDE report. Pre-report estimates show the trade expects the USDA to lift the US wheat carryout by 500k bushels to 576.5 million bushels. Global wheat stocks are only expected to tighten by 600k mt. Otherwise, the fate of the Black Sea Corridor remains important as well as longer-term weather in South America and record-low US winter wheat crop ratings. – *It is not recommended to extend wheat sales 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: 07/11/2022

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Jan '23 (bu.)	Jan '23 (mt.)
1 CWRS 13.5	\$11.93	\$438.36	1 CWRS 13.5	\$12.06	\$443.13
1 CWAD 13.0	\$13.56	\$498.25	1 CWAD 13.0	\$13.54	\$497.51
1 CPSR 11.5	\$11.50	\$422.56	1 CPSR 11.5	\$11.59	\$425.86
<b>SW Sask</b>			<b>SW Sask</b>		
1 CWRS 13.5	\$11.70	\$429.90	1 CWRS 13.5	\$11.87	\$436.15
1 CWAD 13.0	\$13.55	\$497.88	1 CWAD 13.0	\$13.58	\$498.98
1 CPSR 11.5	\$11.30	\$415.21	1 CPSR 11.5	\$11.45	\$420.72
<b>NE Sask</b>			<b>NE Sask</b>		
1 CWRS 13.5	\$11.54	\$424.03	1 CWRS 13.5	\$11.67	\$428.80
1 CWAD 13.0	\$13.54	\$497.51	1 CWAD 13.0	\$13.54	\$497.51
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a
<b>SE Sask</b>			<b>SE Sask</b>		
1 CWRS 13.5	\$11.55	\$424.39	1 CWRS 13.5	\$11.69	\$429.54
1 CWAD 13.0	\$13.50	\$496.04	1 CWAD 13.0	\$13.53	\$497.15
1 CPSR 11.5	\$11.11	\$408.23	1 CPSR 11.5	\$11.22	\$412.27

Data source: PDQ, Nov. 7/22

**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 7/22

### 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
  - 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)

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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.”



- 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 7, 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	\$523.75	\$856.66		
HRS	\$517.51			
HRW 11.5	\$542.08			
SWW 12.0	\$452.89			
1 CWRS 13.5 <sup>3</sup>	\$523.75		\$431.37	\$92.37
2 CWRS 13.0 <sup>3</sup>	\$517.51		\$418.51	\$99.00
3 CWRS <sup>3</sup>	\$542.08		\$413.00	\$129.08
CPS <sup>3</sup>	\$445.95		\$413.74	\$32.21
1 CWAD <sup>4</sup>		\$419.98	\$496.04	\$70.32
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$325.00		December	
French 11.5 (Rouen)	\$337.40		December	
APW 10.5 (W Coast)	\$390.00		December	
Argentine 12.5	\$375.00		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				