

Wheat Market Outlook and Price Report: January 16, 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 January 16, 2023

International Grains Council (ICG) January Grain Market Report.

	19/20	20/21	21/22 est.	22/23 Fcast	
				17.11	12.01
million tons					
TOTAL GRAINS ^{a)}					
Production	2193	2227	2290	2255	2256
Trade	397	426	424	405	407
Consumption	2200	2241	2296	2272	2275
Carryover stocks	616	602	596	580	577
year/year change	-7	-14	-6		-19
Major exporters ^{b)}	153	131	136	138	135
WHEAT					
Production	761	773	781	791	796
Trade	185	190	197	192	194
Consumption	745	771	784	784	789
Carryover stocks	275	277	274	282	281
year/year change	16	2	-3		7
Major exporters ^{b)}	61	58	58	66	65

Source: ICG

- The IGC is expecting a 796 million mt global wheat crop for the 2022/'23 season. That is 5 million mt higher than their December estimate, reflecting an increase to both Australia and Ukraine offset slightly by trims to Argentina and Canada.
- The IGC's wheat carryout was down by 1 million mt to 281 million mt.
- For the 2023/'24 season, the IGC is expecting a similar planted area, but a pullback in yield would produce a 788 million mt wheat crop, down 1% from the previous year.
- Food consumption is expected to return to trend growth, but less feed demand would cause demand to grow by less than the 1% average increase.
- Global stocks in 2023/'24 are forecast to tighten, due to shrinking carry-out in exporting countries.

➤ **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:

- March '23 contract **Chicago winter wheat** closed at \$743-6 up a penny on Friday, *up 0-2 cents on the week.*
- March '23 contract **Kansas hard red winter wheat** closed at \$843-6, up 8-6 cents on Friday, *up 11-6 cents on the week.*
- March '23 **Minneapolis hard red spring wheat** closed at \$912-2, unchanged on Friday, *up 10-4 cents on the week.*
- *US grain futures are closed today for Martin Luther King Day.*

CBOT Mch. 2023 Wheat (1 yr.)



KC Mch. 2023 Wheat



Mpls. Mch. 2023 Wheat



Canadian Wheat

- Canadian exporters shipped another 477k mt of wheat during shipping week 23. This makes for a season total of 8.6 million mt, 66% more than last year. Weekly exports need to average around 356k mt for the remainder of the year to meet AAFC's 18.9 million mt number. This should be met and surpassed.

(CGC) Grain Handling Summary Wheat		Week 23		(Jan.8'23)
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk exports	Domestic Disappearance
Week 23	526.7	470.2	477.3	92.1
Week ago	506.5	627.9	552.3	188.4
YTD	10,861.0	10,827.2	8,585.3	2,048.7
Last YTD	7,024.0	7,107.5	5,179.0	2,034.8
YTD less Last YTD	3,837.0	3,719.7	3,406.3	13.9
YTD over Last YTD	155%	152%	166%	101%

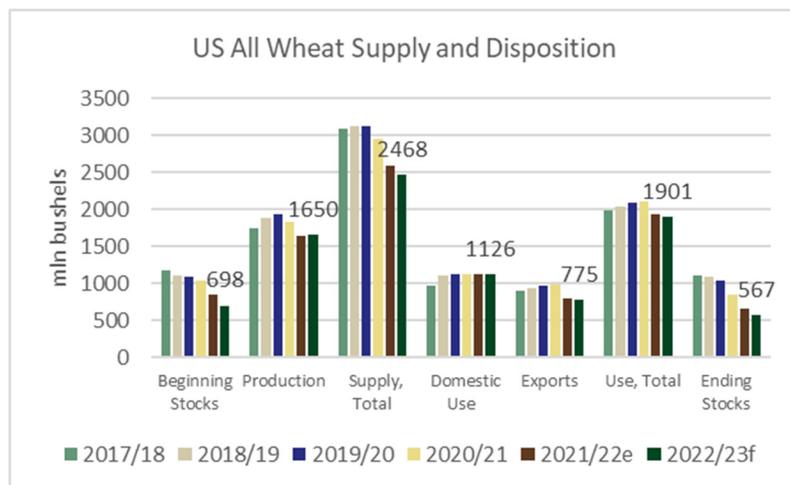
- *Producers should 50% sold and should look at selling an additional 25% at \$12.00/bu or better.*
- **Durum:** Durum bids were unchanged overall from last week at \$13.70/bu.
- **Canadian durum exports:** Another 174.0k mt of Canadian durum was shipped in week 23 for a year-to-date total of 2.1 million mt, 76% more than last year.

(CGC) Grain Handling Summary Durum		Week 23			(Jan.8'23)
(000 mt)	Producer Deliveries	Terminal Receipts	Bulk exports	Domestic Disappearance	
Week 23	127.6	184.1	174.0	4.2	
Week ago	79.4	115.5	97.4	25.9	
YTD	2,557.6	2,802.0	2,116.1	330.6	
Last YTD	1,468.8	1,877.2	1,201.1	215.2	
YTD less Last YTD	1,088.8	924.8	915.0	115.4	
YTD over Last YTD	174%	149%	176%	154%	

- *Producers should be 50% sold durum and are recommended to finish durum sales at \$14.00/bu.*

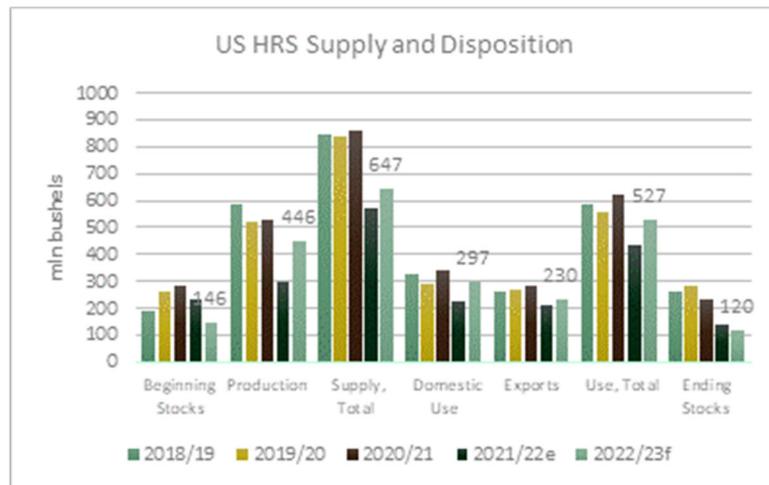
US Wheat:

- Most of the news last week was from the “data dump” by the USDA on Thursday. The USDA released the January WASDE report as well as the winter wheat seeded area report and the grain stocks report.
- For US wheat, the USDA increased beginning stocks by 29 million bushels. Use was raised by 33 million bushels for a 4 million bushel decrease in ending stocks to 567 million bushels, down 14% from last year. Exports were left unchanged at 775 million bushels. This is 3% less than last year but is likely too high.



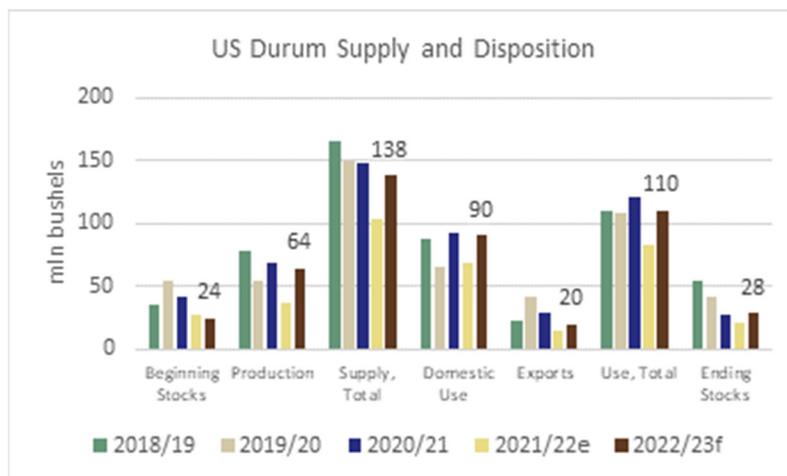
Source: USDA

- For the spring wheat class, the USDA increased US spring wheat beginning stocks by 6 million bushels. Total supply was only 1 million bushels higher, so with production unchanged, it is likely that spring wheat imports were lowered by 5 million bushels. Use was unchanged, for a 1 million bushel increase in ending stocks to 120 million bushels, down 14% (20 million bushels) from last year.



Source: USDA

- For durum, the USDA raised carry-in by 1 million bushels which increased imports by 4 million bushels for a 5-million-bushel increase in the US durum supply. Domestic use was raised by 10 million bushels for a 5-million-bushel decrease in ending stocks to 28 million bushels, up 33% from last year.



Source: USDA

- For the seeded area report, the USDA put US winter wheat seeding at 14.9 million hectares, up 11% from last year. HRW area is forecast up by 10% to 10.2 million hectares, and SRW area is forecast up by 3% to 1.5 million hectares.
- For the stock report, the USDA lowered December 1st stocks by 100 million bushels from last year, and 80 million bushels below the trades guess.
- US weekly wheat sales of 91k (3.3 million bushels) mt were at the low end of the 75k-450k mt range that the trade was expecting. Total commitments are now 553 million bushels, down 7% from last year compared to the USDA's (unchanged) 775-million-bushel number which reflects a 3% decline in exports.
- US HRS for February 2023 was valued at \$403.20/mt FOB PNW (up \$1.20/mt from last week), FOB Gulf HRW 11/12.5 pro is valued at \$376.60/mt (down \$3.600/mt from last week).

Australian wheat:

- The USDA left Australia's wheat numbers entirely unchanged. The USDA is likely waiting for ABARES numbers before making any adjustments. The trade thinks that Australia's production will be in the 39 to 42 million mt range compared to the USDA's current 36.6 million mt estimate.
- FOB values in Australia rose \$15.00/mt over the week. APW WA is being bid at \$350.00/mt.

Argentine wheat:

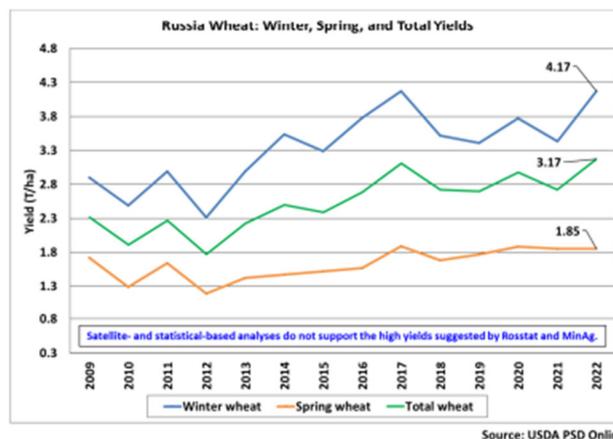
- The USDA decreased wheat exports from Argentina by 250k mt which was added directly to their carry-out. BAGE is expecting a 12.4 million mt crop which is in line with the USDA's 12.5 million mt number, but these estimates are well above Rosario GE's 11.5 million mt production estimate.
- Farmers in Argentina sold another ~100k mt of wheat last week for a total of 6.7 million mt.

EU wheat:

- The USDA increased EU wheat production by 400k mt. The USDA also increased EU imports by 1 million mt and increased exports by 500k mt. Ending stocks were 900k mt higher, but at 11.3 million mt, they still only amount to about 4 weeks of demand.
- FOB prices in the EU: February 2023 French 11.5 pro wheat closed at \$325.40/mt (*down \$3.60/mt from last week*); Feb. '23 German 12.5 pro wheat closed at \$331.20 (*down \$0.40/mt from last week*); Feb. '23 Baltic 14.0 pro wheat closed at \$371.90/mt (*down \$1.50/mt from last week*).

Black Sea wheat:

- There is still little to no snow in Russia or Ukraine, but the cold temperatures are easing and are no longer a concern for their winter wheat crop.
- The USDA left Russian wheat production and exports at 91 million mt and 43 million mt, respectively. Ninety-one million tonnes of wheat are 21% more than last year and are composed of 68.0 million mt of winter wheat and 23.0 million mt of spring wheat. The record wheat crop was produced on 28.7 million hectares of land with a record average yield of 3.17 mt per hectare. The USDA's production number is almost 10 million mt less than Russia's own 101.9 million mt production estimate which would mean a yield of 3.5 mt per hectare. The USDA says that this estimate is not justified.



- The USDA increased Ukraine's production and exports by 500k mt each to 21 million mt and 13 million mt respectively. Exports from the Black Sea will depend on the ability of shippers to get insurance. This is growing increasingly difficult as insurers are no longer offering war insurance for vessels in the Black Sea.

- UkrAgroConsult says 2023/'24 winter wheat planted area in Ukraine is 3.76 million hectares, down 40% from last year. They are expecting production to be down 16% from last year at 15.8 million mt.
- February 2023 12.5% Pro Russian wheat is quoted at \$315.00/mt FOB (unchanged from last week).

➤ **Significant purchases/ trades:**

- **Egypt** (GASC) bought 60k mt of Russian wheat last Tuesday at \$337/mt, and then added another 60k mt later at the same price of \$337/mt.
- **Turkey** (TMO) bought for 565k mt of wheat for February-March 2023 at a range of prices to 8 different ports at levels that seemed to reflect close to \$300/mt FOB.
- **Korea** bought 130kt April-May feed wheat at \$343-344/mt. This is roughly what corn is worth in Korea
- **US** export sales amounted to just 91k mt, leaving the season total of 555 million bu, down 6% on last year.

➤ **Wheat Market Outlook:**

Significant events over the past week:

- **The USDA** increased **US corn** yield by 1 bushel per acre to 173.3 bushels per acre but reduced harvested area by 1.6 million acres. Production was thus reduced by 200 million bushels to 13.7 billion bushels. Use was reduced by 185 million bushels, led by a 150 million bushel decrease in exports. Overall, US ending stocks were seen 15 million bushels lower than last month at 1.2 billion bushels, down 18% from last year.
- The USDA lowered **Argentina's corn crop** by 3 million mt to 52 million mt. That same morning, Rosario GE put their production guess for Argentina's crop down 10 million mt to 45 million mt. Corn planting in Argentina is underway under some of the driest conditions in over three decades.
- **Wheat area in India** is expected to expand by 1% from last year. Farmers in India planted 33.2 million hectares since the beginning of October. Initial forecasts are for production to be upwards of 112 million mt.
- **Egypt is working on releasing 1.0 million mt of agricultural goods that are stuck in its ports.** The shipments, primarily composed of corn and soybeans, but also include some wheat and other commodities, are being held until payment is completed. The low value of the Egyptian pound and a lack of US dollars are making this difficult

Outlook:

Black Sea wheat will continue to drive nearby cash prices, but the Northern Hemisphere crops will need a near-perfect growing season to prevent a 4th straight year of declining world stocks. Korea's feed wheat purchase shows that wheat is cheap vs corn, so wheat prices either need to rise, or corn prices need to fall. We would take the boost by the USDA report to extend sales. – *It is suggested that producers be 50% sold and look at selling an additional 25% at \$12.00/bu or better.*

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: January 16, 2023

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Mar '23 (bu.)	Mar '23 (mt.)
1 CWRS 13.5	\$11.58	\$425.50	1 CWRS 13.5	\$11.51	\$422.92
1 CWAD 13.0	\$13.53	\$497.15	1 CWAD 13.0	\$13.46	\$494.57
1 CPSR 11.5	\$10.94	\$401.98	1 CPSR 11.5	\$10.95	\$402.35
SW Sask			SW Sask		
1 CWRS 13.5	\$11.46	\$421.09	1 CWRS 13.5	\$11.46	\$421.09
1 CWAD 13.0	\$13.50	\$496.04	1 CWAD 13.0	\$13.45	\$494.21
1 CPSR 11.5	\$10.79	\$396.47	1 CPSR 11.5	\$10.90	\$400.51
NE Sask			NE Sask		
1 CWRS 13.5	\$11.31	\$415.57	1 CWRS 13.5	\$11.29	\$414.84
1 CWAD 13.0	\$13.39	\$492.00	1 CWAD 13.0	\$13.39	\$492.00
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a
SE Sask			SE Sask		
1 CWRS 13.5	\$11.20	\$411.53	1 CWRS 13.5	\$11.23	\$412.64
1 CWAD 13.0	\$13.32	\$489.43	1 CWAD 13.0	\$13.30	\$488.70
1 CPSR 11.5	\$10.64	\$390.96	1 CPSR 11.5	\$10.73	\$394.26

Data source: PDQ, Jan. 16/23

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	(0.40)	-14.70
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, Jan. 16/23

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.
- Approximate relationship between U.S. wheat classes and Canadian wheat classes:
 - DNS 14% in the Pacific North West (PNW) ≈ 1 CWRS 13.5% in Vancouver
 - HRS in the Pacific North West (PNW) ≈ 2 CWRS 13.0% in Vancouver

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.”

- 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.
- 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				January 16, 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	\$494.91	Closed		
HRS	\$488.74			
HRW 11.5	\$481.13			
SWW 12.0	\$415.21			
1 CWRS 13.5 ³	\$494.91		\$415.57	\$79.33
2 CWRS 13.0 ³	\$488.74		\$404.55	\$84.19
3 CWRS ³	\$481.13		\$391.69	\$89.44
CPS ³	\$408.32		\$303.87	\$104.45
1 CWAD ⁴		Closed	\$503.39	
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$315.00		February	
French 11.5 (Rouen)	\$325.40		February	
APW 10.5 (W Coast)	\$350.00		February	
Argentine 12.5	\$380.00		February	
¹ FOB Prices CDA = FOB US\$ converted into Canadian Currency ² Export Basis = FOB Prices CDA minus Cdn. Street Price ³ DNS 14% ≈ 1 CRWS 13.5%; HRS ≈ 2 CWRS 13.0%; HRW ≈ 3CWRS; SWW ≈ CPS ⁴ Values derived to Lakehead FOB				