

## Wheat Market Outlook and Price Report: January 23, 2023

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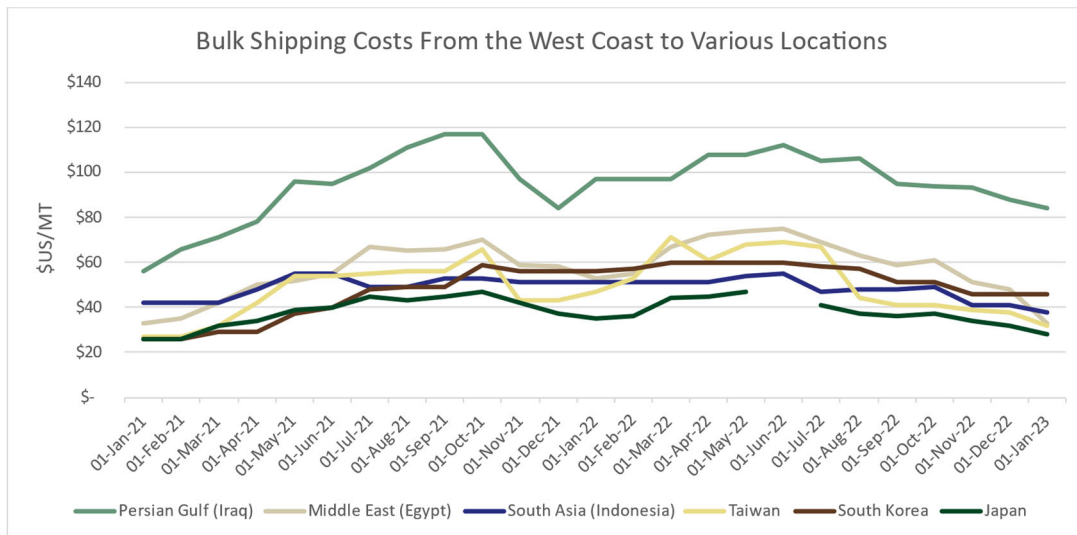
### **i) Background and Rationale for the Report**

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 23, 2023**

#### **Bulk Shipping Costs from the West Coast to Various Locations for Panamax Sized Vessels**



Source: US Wheat Associates

- Bulk shipping costs have reduced dramatically since their peak in June.
- It now costs approximately \$US84/mt to ship grain from the West coast to the Persian Gulf (Iraq) in panamax-sized (54+ mt) vessels. This is down 5% from last month and 25% less from the annual peak in June when it cost \$US112/mt.
- Similarly, it costs \$US33/MT to ship from the West Coast to the Middle East (Egypt). This is down 31% from last month and 56% down from June when the same trip cost \$US75/mt.
- The decrease in shipping costs is helping both Canadian and US wheat be more competitive in the world market. Last week, Viterro won 25k mt of Tunisia's 125k mt durum tender.

➤ **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:**

- March '23 contract **Chicago winter wheat** closed at \$741-4 up a penny on Friday, *down 1-2 cents on the week.*
- March. '23 contract **Kansas hard red winter wheat** closed at \$848-0, up 16-0 cents on Friday, *up 13-0 cents on the week.*
- March. '23 **Minneapolis hard red spring wheat** closed at \$912-6, up 8-6 cents on Friday, *up 0-4 cents on the week.*

**CBOT Mch. 2023 Wheat (1 yr.)**



**KC Mch. 2023 Wheat**



**Minneapolis. Mch. 2023 Wheat**

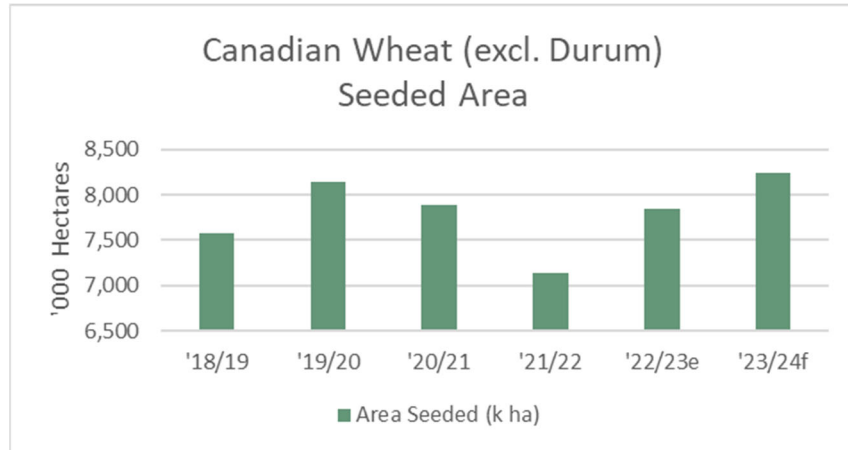


**Canadian Wheat**

- Canadian weekly exports continue to be strong. Exporters shipped another 499.0k mt of wheat last week for a year-to-date total of 9.1 million mt. Weekly export amounts continue to indicate that we will well surpass the AAFC's projected 18.9 million mt number. Most of the wheat exports were out of Vancouver where there is another 290k mt of visible supplies ready to be loaded.

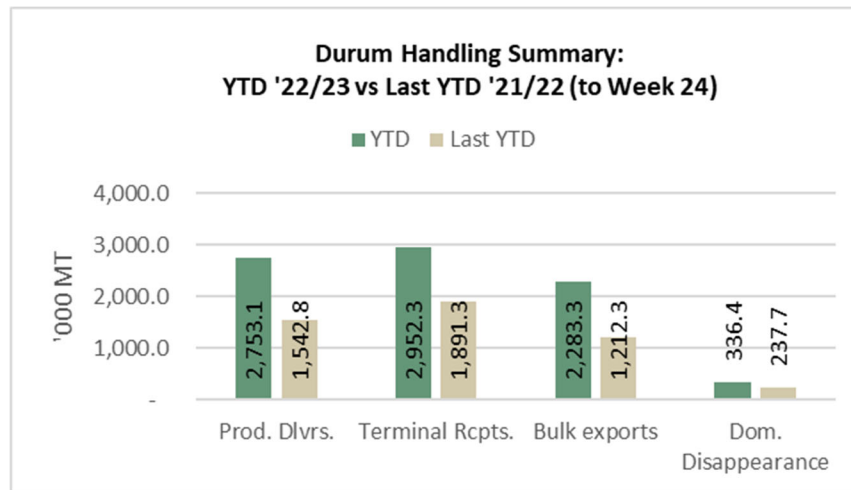
(CCG) Grain Handling Summary Wheat		Week 24		(Jan. 15'23)
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Week 24	533.7	405.3	499.0	116.8
Week ago	526.7	470.2	477.3	92.1
YTD	11,394.8	11,336.9	9,084.6	2,165.6
Last YTD	7,430.5	7,341.8	5,483.3	2,092.4
YTD less Last YTD	3,964.3	3,995.1	3,601.3	73.2
YTD over Last YTD	153%	154%	166%	103%

- The AAFC is predicting that Canadian non-durum wheat seeded area in 2023/'24 will expand by 4% from last year to 8.2 million hectares. This is essentially what we have been saying.



Source: US Wheat Associates

- *We are 50% sold and are looking at selling an additional 25% at \$12.00/bu or better.*
- **Durum:** Tunisia bought 125 k mt of Feb-Apr shipment durum on Friday for an average price of \$US492.00/mt. This was \$US17.40/mt less than their last purchase on December 16th. This most recent tender backs off to about \$CA14.45/bushel which is down by just 24 cents from what we estimate their last tender calculated back as. The small decrease in price is because of the 31% drop in freight values from last month. Viterra reportedly won 25k mt of this last tender. Durum bids were unchanged overall from last week at \$13.70/bu.
- **Canadian durum exports:** Weekly export sales were 167.3k mt which makes for a season total of 2.3 million mt, 88% (1.0 million mt) more than last year. While the Great Lakes are closed and exports to Europe are limited, the recent drop in freight values cause Canadian durum from the West coast work well into the Middle East/Northern Africa. With that said, there is 111.3k mt of durum supplies sitting in Vancouver ready for export.



Source: CGC

*We are 50% sold durum and are inclined to finish durum sales at \$14.00/bu.*

**US Wheat:**

- The drought in the US Midwest continues to subside as additional snow in Kansas alleviated the intensity of the drought there. The US winter wheat crop under drought conditions fell to 59%.

- US basis levels for HRS decreased in both the Gulf and PNW as exporters anticipate strong demand for US spring wheat.
- US HRS for Feb. '23 was valued at \$400.20/mt FOB PNW (*down \$3.00/mt from last week*), FOB Gulf HRW 11/12.5 pro is valued at \$368.90/mt (*down \$1.20/mt from last week*).

#### **Australian wheat:**

Wheat futures in Australia ended the week just above the contract lows of last week. The cash market in Australia will be slow next week as many of their buyers will be celebrating the Lunar New Year.

The durum crop in Australia was quite strong. Some say that Australia has produced 400,000 mt of durum this year.

FOB values in Australia fell \$10.00/mt over the week. APW WA is being bid at \$340.00/mt.

#### **Argentine wheat:**

- Some private estimates for Argentina's wheat exports are dropping to 5 million mt compared the USDA's 7.5 million mt. The USDA's number is based on a 12.5 million mt which could be upwards of 1 million mt to high.

#### **EU wheat:**

- FranceAgriMer raised their forecast for French wheat exports outside of the EU by 300k mt to 10.6 million mt, up 21% from last year. Jul-Jan French wheat exports were 7.5 million mt. Strong exports to China and Morocco have prompted two of the last export forecast increases. Higher exports will help further decrease ending stocks to 2.8 million mt which is 16% less than last year. French durum exports to EU countries rose to 820k mt while durum exports to non-EU countries were unchanged at 110k mt.
- Fob prices in the EU: Feb. '23 French 11.5 pro wheat closed at \$320.80/mt (*down \$4.60/mt from last week*); Feb. '23 German 12.5 pro wheat closed at \$326.60 (*down \$4.60/mt from last week*); Feb. '23 Baltic 14.0 pro wheat closed at \$368.40/mt (*down \$3.50/mt from last week*).

#### **Black Sea wheat:**

- On Tuesday, Vladimir Putin alluded to the potential of restricting Russian exports to achieve "stable reserves." This was contradicted by Russia's Ag Minister saying they had no plans to cut export quotas. It is possible that inclement weather has hurt their current winter wheat crop and Russia is planning for that. They could also be using exports as leverage in the on-going war. Russia harvested a massive crop, and we doubt that restrictions will be implemented, but this will be closely watched.
- There are 121 ships waiting for inspection in Turkey. Twenty-eight of them are loaded with agricultural products and 93 are empty. Average wait times are between 2 and 5 weeks. The pace of shipments is slowing, but the number of ships indicate buyers obviously think the time and risk of buying Ukrainian grain is worth it.
- Feb. '23 12.5% Pro Russian wheat is quoted at \$305.00/mt FOB (*down \$10.00/mt from last week*).

#### ➤ **Significant purchases/ trades:**

- **Algeria** bought close to 600k mt at around \$334.50/mt. This is likely to Russia or the Balkans.
- **Thailand** bought 60k mt of Feb-Mar shipment feed wheat at \$340.00/mt, and 60k mt of July feed wheat at \$325.00/mt. Russia and Ukraine were excluded.
- The **Philippines** bought around 110k mt of Apr-Jun feed wheat from Australia.
- **Tunisia** bought 125k mt of durum at \$489.50-\$494.50/mt.

- **US** commercial wheat sales were above expectations at 473.1k mt. The trade was expecting 75-400k mt of sales. Total sales are now 15.5 million mt which is 6% less than last year's pace compared to the USDA's expected 3% decline.

➤ **Wheat Market Outlook:**

**Significant events over the past week:**

- The **Egyptian government said that they plan on importing 4.0 million mt of wheat in 2023** for its subsidized bread program. This is a 5% decrease from 2022. It is also planning to purchase 5.0 million mt of local production, up 40% from last year. The local procurement price was set at EGP 1,250, which is 44% more than last year, but is 25% down from last year in \$US because of the decrease in value of the Egyptian pound. The government also announced that they would raise the share of people who receives subsidized bread by 10% to 80% of the population. It was also said that GASC would hold weekly tenders using the \$380 million that was obtained from the World Bank. The money amounts to just under 1.0 million mt of wheat, and it was not mentioned when the tenders would start.
- **The Baltic Dry index fell another 8%** Thursday, mostly due to a 19% slump in the Capesize index which has fallen a massive 60% since Christmas, despite the opening of China.
- There was some **rain in Argentina**, and more is forecast to fall by the end of the week. This will be negative for corn. Despite this, **Argentina's BAGE decreased their corn production number** from 50 million mt to 44.5 million mt, this is some 7.5 million mt below what the USDA is expecting.

**Outlook:**

Black Sea wheat will likely continue to weigh on nearby cash prices. The funds have short positions in most major wheat contracts and a stimulus is needed for them to start covering these. At the moment, don't see where that will come from without a reversal in Russian politics or some significant risk to N Hemisphere crops. *We would watch wheat prices to look at finishing wheat sales at ~\$12.00/bu. While there is some upside potential to the wheat market, political uncertainty also poses a downside risk.*

### 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 23, 2023

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Mar '23 (bu.)	Mar '23 (mt.)
1 CWRS 13.5	\$11.59	\$425.86	1 CWRS 13.5	\$11.56	\$424.76
1 CWAD 13.0	\$12.95	\$475.83	1 CWAD 13.0	\$12.94	\$475.47
1 CPSR 11.5	\$10.95	\$402.35	1 CPSR 11.5	\$10.97	\$403.08
SW Sask			SW Sask		
1 CWRS 13.5	\$11.46	\$421.09	1 CWRS 13.5	\$11.50	\$422.56
1 CWAD 13.0	\$12.92	\$474.73	1 CWAD 13.0	\$12.89	\$473.63
1 CPSR 11.5	\$10.80	\$396.84	1 CPSR 11.5	\$10.91	\$400.88
NE Sask			NE Sask		
1 CWRS 13.5	\$11.27	\$414.10	1 CWRS 13.5	\$11.27	\$414.10
1 CWAD 13.0	\$12.73	\$467.75	1 CWAD 13.0	\$12.74	\$468.12
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a
SE Sask			SE Sask		
1 CWRS 13.5	\$11.18	\$410.80	1 CWRS 13.5	\$11.23	\$412.64
1 CWAD 13.0	\$12.72	\$467.38	1 CWAD 13.0	\$12.71	\$467.02
1 CPSR 11.5	\$10.62	\$390.22	1 CPSR 11.5	\$10.70	\$393.16

Data source: PDQ, Jan. 23/'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. 23/'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 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)
- Hard wheat price calculations:

<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.”

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 23, 2023
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	\$495.10	Closed		
HRS	\$488.94			
HRW 11.5	\$482.81			
SWW 12.0	\$419.88			
1 CWRS 13.5 <sup>3</sup>	\$495.10		\$421.09	\$74.01
2 CWRS 13.0 <sup>3</sup>	\$488.94		\$410.06	\$78.88
3 CWRS <sup>3</sup>	\$482.81		\$397.20	\$85.60
CPS <sup>3</sup>	\$412.99		\$303.87	\$109.12
1 CWAD <sup>4</sup>		Closed	\$503.39	
<b>Competing wheat:</b>				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$305.00		February	
French 11.5 (Rouen)	\$320.80		February	
APW 10.5 (W Coast)	\$340.00		February	
Argentine 12.5	\$380.00		February	
<sup>1</sup> FOB Prices CDA = FOB US\$ converted into Canadian Currency <sup>2</sup> Basis = FOB Prices CDA minus 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				