

Wheat Market Outlook and Price Report: Apr. 15, 2024

By Marlene Boersch/ A.P. Temple/ Michael Wilton
Mercantile Consulting Venture Inc.

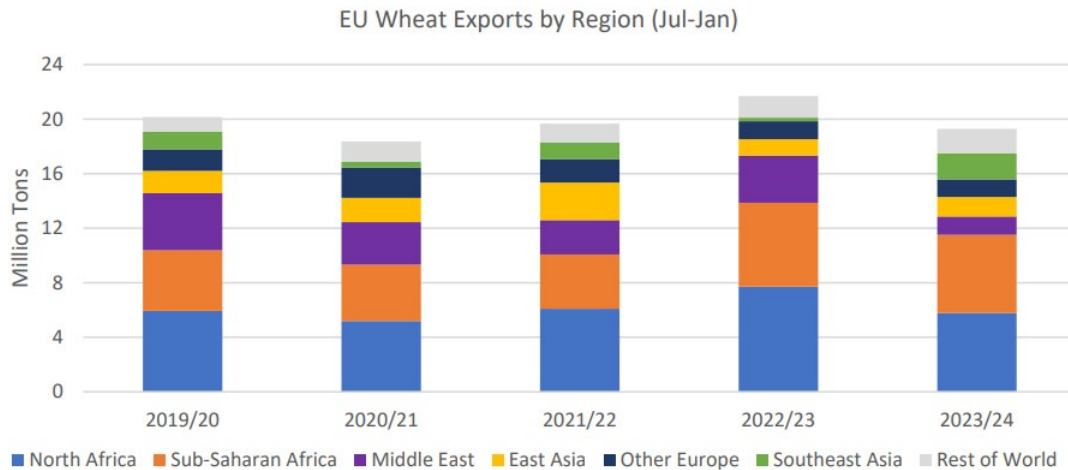
i) Background and Rationale for the Report

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 April 15, 2024

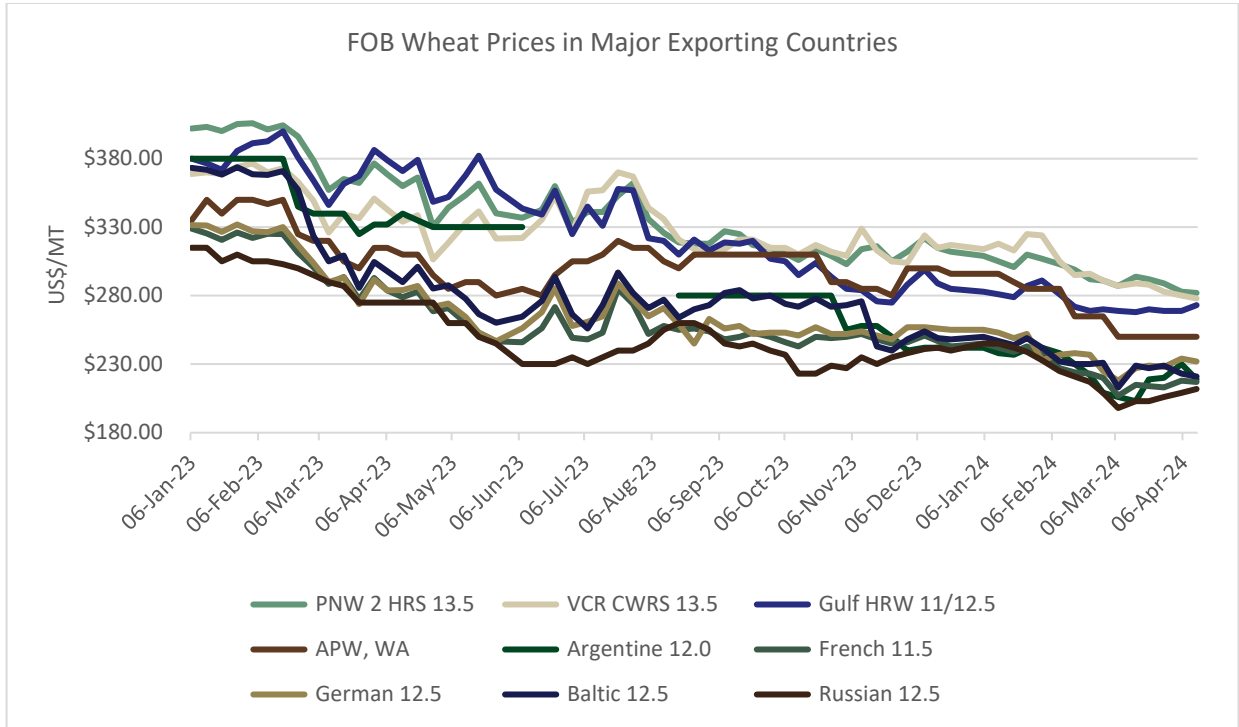
USDA Grain: World Markets and Trade



- Wheat from the European Union continues to struggle to compete on the global market. Large crops in Russia have allowed Russian wheat to dominate in markets that are traditionally filled with EU wheat.
- North Africa, Sub-Saharan Africa, and the Middle East are usually strong markets for EU wheat, but according to the USDA, July to January exports from the EU to the North Africa are down 25 per cent from last year. EU wheat exports to the Middle East are down 60 per cent year-over-year.
- Until the 2020/2021 marketing year, EU wheat commanded a 95 per cent share of the Saudi Arabia wheat market. Over the past two years, the share of EU wheat exported to Saudi Arabia has ranged from just over 15 per cent to under 35 per cent of all wheat imports.
- Similarly, EU wheat used to command 85 per cent of the market share in Algeria. In 2021/2022, the market share held by the EU fell to around 65 per cent. It was lower again in 2022/2023 at

around 60 per cent. Meanwhile, just 50 per cent of July to January wheat imports this marketing year have been comprised of EU wheat.

➤ **Global Cash Wheat:**



Source: Mercantile

- Global cash wheat prices in North America were lower while European values were lower in the EU, but stronger in the Black Sea. Stronger Black Sea values were driven by Russian execution problems.

➤ **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 2024 contract **Chicago winter wheat** closed at \$556-0, up 4-2 cents on Friday, *down 11-2 cents on the week.*
- May 2024 contract **Kansas hard red winter wheat** closed at \$589-6, up 6-4 cents on Friday, *up 7-4 cents on the week.*
- May 2024 **Minneapolis hard red spring wheat** closed at \$642-6, up 5-6 cents on Friday, *down 5-2 cents on the week.*
- U.S. wheat futures are currently trading 5-8 cents lower at the time of writing this Monday morning.

CBOT 1-Yr. May 2023 Wheat



KC May 2023 Wheat

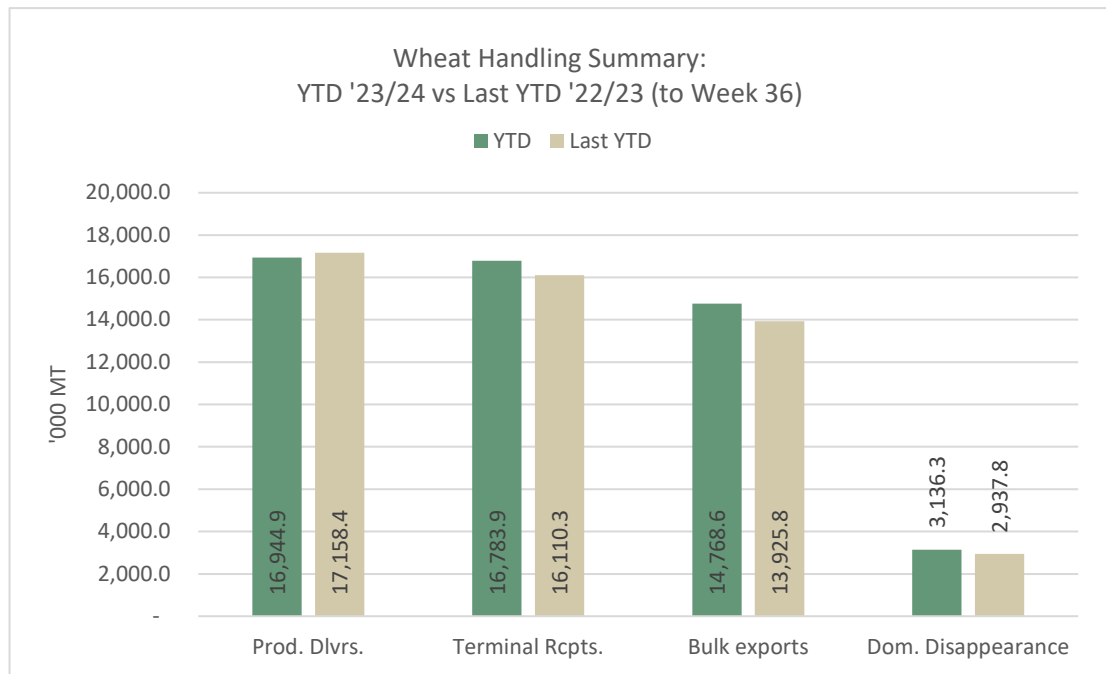


Mpls. May 2023 Wheat



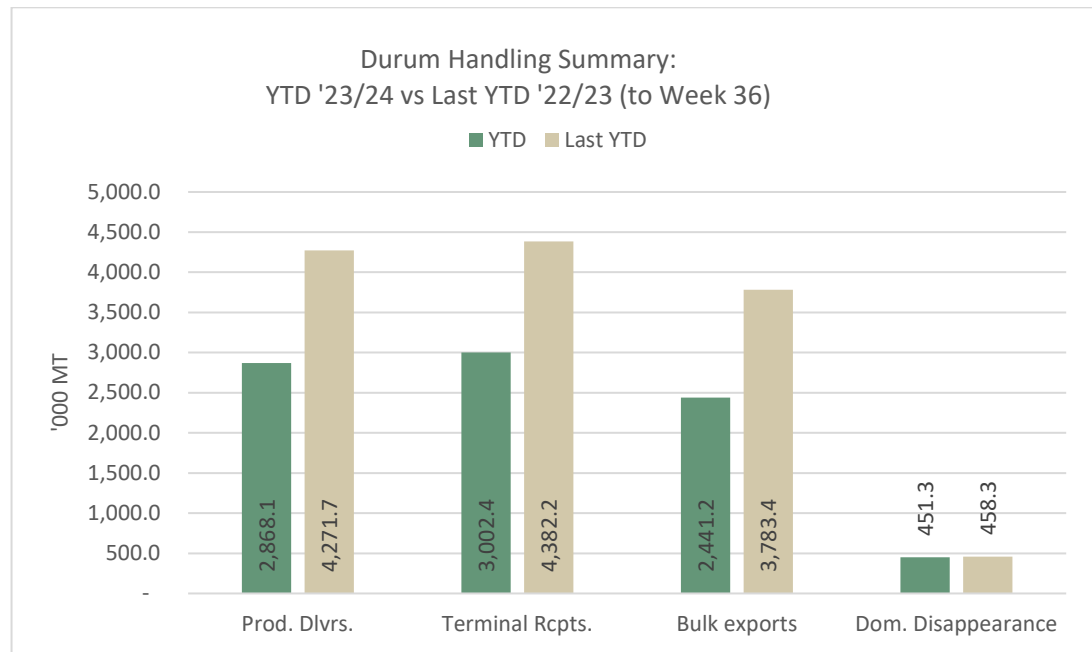
Canadian Wheat

- Canadian weekly exports:** Week 36 wheat exports were excellent at 505.7k mt. The strong performance was partially due to the opening of the Great Lakes. The first ship of the season arrived at the Richardson International's Port in Thunder Bay on Mar. 24, 2024, beating last year's first ship of the season by two days, and tying the 2008 record for the earliest opening date for the port. Exports from the eastern ports accounted for 146.8k mt of the total week 36 volume. Year-to-date exports are now 14.8 million mt, which is six per cent above last year compared to the AAFC's forecast for a two per cent decrease, and our estimate for a four per cent increase from last year.



Source: Mercantile, based on CGC data

- Durum:** Week 36 durum exports were 90.2k mt and remain above the weekly pace needed to meet the AAFC's 3.2 million mt export estimate. Exports for the remainder of the season need to average ~47.5k mt per week. Terminal receipts were split between the East and West coasts. There is 456.6k mt of visible supply in the elevator system. Most of this is in primary elevators and needs to make its way to export positions. There are however, 106.3k mt of durum sitting in the St. Lawrence.

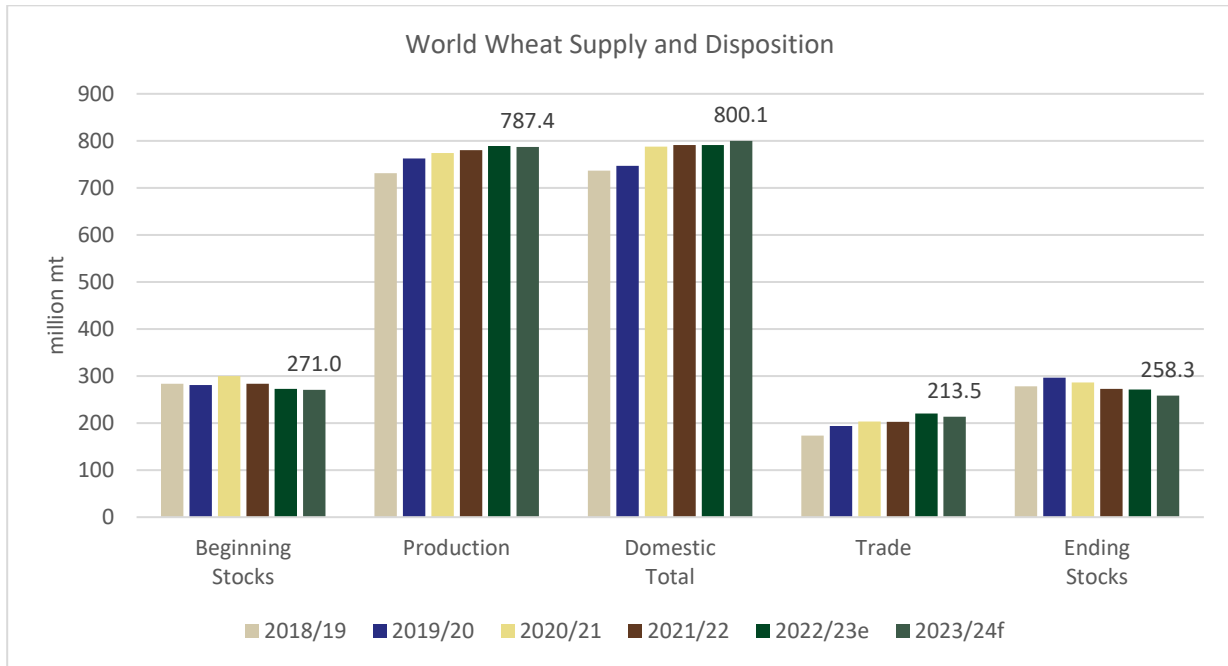


Source: Mercantile, based on CGC data

- **Focus on Turkey:** Given that Turkish durum exports had a huge effect on the durum export markets this crop year, how this year's (2024) Turkish durum crop is shaping up will be very important to the markets in the new crop year.
- According to a recent report by the U.S. ag attaché to Turkey, total Turkish 2024/2025 wheat production is forecast to remain unchanged from last year's at 19.8 million mt. While acreage is up by ~50k ha (7.25 million ha), yields are expected to be down slightly in line with more normal weather. Of this total projected amount, nearly 4.4 million mt will be durum wheat, up 10 per cent on last year, as farmers seek to export a larger share of production to take advantage of relatively strong global prices for durum wheat.
- Importantly, 2024/2025 durum wheat exports are put at two million mt, assuming the government will again authorize the export of excess durum wheat. (2023/2024 durum exports are estimated at 1.5 million mt).
- Meanwhile, wheat imports this year by Turkey are only being used by the pasta and flour re-export business, because of the trade prohibitive tariff of 130 per cent on imported wheat, which has been in place since last May.
- *We are sold out of old crop durum. We recommend selling 30 per cent of expected new crop durum at the current price.*

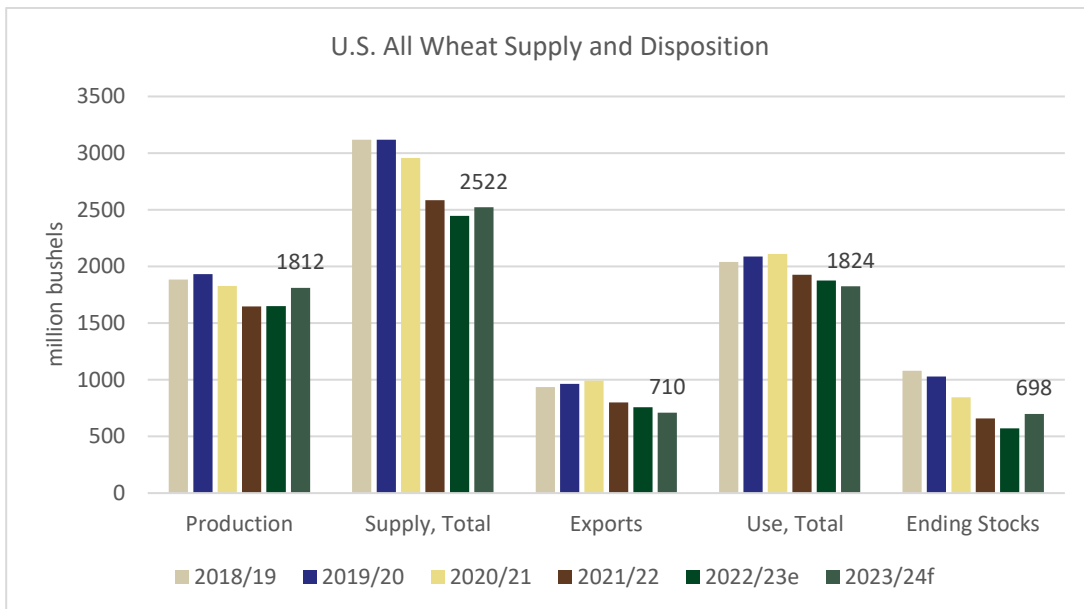
U.S. Wheat:

- USDA-WASDE report: For the global wheat balance sheet, the USDA decreased ending stocks by 600k mt as a 700k mt increase in production was offset by lower beginning stocks (-100k mt) and more use (+1.1 million mt). Most of the increase in production from last month was in the EU, where production was lifted by 500k mt. Global ending stocks at the end of 2023/2024 are now expected to be 258.3 million mt, which is five per cent less than last year and smaller than the average trade guess. Most of the decrease in stocks from last month were in the Black Sea, while ending stocks in the EU and U.S. were increased.



Source: Mercantile, based on CGC data

- U.S. wheat: The USDA left exports unchanged while decreases in feed use added 25 million bushels to ending stocks. The largest decrease in use was said to be in HRS where feed use was reduced by 20 million bushels. HRS ending stocks were said to be 20 million bushels higher at 197 million bushels, up 27 per cent from last year. U.S. wheat imports were reduced by five million bushels given lower imports, primarily of HRW. Ending stocks are now expected to be 698 million bushels which is 22 per cent more than last year and seven million bushels more than the average trade guess.



Source: Mercantile, based on CGC data

- Old crop U.S. wheat sales were within trade expectations at 81k mt. Total commitments are now 692 million bushels, up three per cent from last year (compared to the USDA's unchanged estimate for a 4.5 per cent decline). There are eight weeks remaining in the U.S. wheat marketing year. There were 56k mt loaded for China last week, which leaves 555k mt of unshipped sales to China. New crop wheat sales were 274k mt, for a total commitment number of 57 million bushels. This is more than double last year's volume to-date.
- Spring wheat planting in the U.S. is in-line with the average pace at three per cent complete. Farmers in Western Canada are slowly getting started this week (which is about a week early), and we expect seeding will be fairly widespread by the week of the 21st.
- The condition of the U.S. winter wheat crop was largely unchanged from last week at 56 per cent Gd/Ex.
- U.S. HRS for May 2024 was valued at \$282.00/mt FOB PNW (*down \$1.00/mt from last week*), FOB Gulf HRW 11/12.5 pro is valued at \$273.00/mt (*up \$4.00/mt from last week*).

Australian Wheat:

- Australian futures prices were lower last week. The USDA left Australia's production number at 26 million mt, but increased its exports by 500k mt. These resulted in a respective decrease in ending stocks to 3.1 million mt, down 30 per cent from last year.
- ABARES projects that Australia's wheat area will rise by one-to-three per cent from last year given the La Nina and strong demand for China.
- FOB values in Australia: May 2024 APW, WA is valued at \$250.00/mt (*unchanged from last week*).

Argentine Wheat:

- The only change the USDA made to Argentina's wheat balance sheet was a 500k mt reduction to exports, resulting in a 500k mt increase in ending stocks. At 3.3 million mt, Argentina's ending stocks are expected to shrink by just 18 per cent from last year.
- FOB Argentine wheat (12 per cent pro) for May 2024 was quoted at \$219.00/mt (*down \$11.00/mt from last week*).

Indian Wheat:

- The developing situation in India will be important to watch. The USDA increased 2023/2024 wheat consumption there by two million mt, and decreased imports by 130k mt. These revisions tightened India's wheat balance sheet by another 2.1 million mt from last month. Ending stocks in India are expected to be 6.9 million mt, which is 27 per cent (-2.6 million mt) tighter than last year, and the lowest volume since 2007.
- The USDA Post in India is estimating that the current wheat harvest will produce a two per cent larger crop than the previous year of 112.5 million mt. Despite the record production, low beginning stocks will force the country to import what we believe will be upwards of two million mt of wheat in 2024/2025. India is estimated to have only imported 120k mt of wheat in 2023/2024. Unchanged use would mean ending stocks would grow slightly to 7.6 million mt which would be the second lowest volume in 17 years. Meanwhile, Indian millers think the crop will only be 105 million mt. This is too low from what we have heard.

EU Wheat:

- Wheat futures in the EU did not like the USDA increasing the EU ending stock number by another 1.5 million mt. Ending stocks in the EU are now expected to be 16.7 million mt, which is four per cent more than last year. The USDA's ending stock estimate is still well below the EU Commission's estimate of 21.1 million mt.
- Higher ending stocks in the EU were the result of offsetting changes in beginning stocks and production. Meanwhile, imports were raised by 0.5 million mt, feed use was up one million mt, but exports were down by two million mt.

- The condition of the French winter wheat crop fell another point over the week to 64 per cent Gd/Ex.
- EU FOB prices: May 2024 French 11 pro wheat closed at \$217.00/mt (*down \$1.00/mt from last week*); May 2024 German 12.5 pro wheat closed at \$232.00 (*down \$2.00/mt from last week*); May 2024 Baltic 12.5 pro wheat closed at \$221.00/mt (*down \$2.00/mt from last week*).

Black Sea Wheat:

- According to the USDA, Ukraine's beginning stocks were decreased by 600k mt along with a 400k mt reduction in use. Exports were up by 1.5 million mt for a 1.7 million mt decrease in ending stocks.
- The USDA decreased Russian feed use by one million mt while increasing exports by one million mt. Ending stocks were left unchanged.
- Russian exporter, RIF Trading House, is suspending operations at its Azov Sea terminal due to disputes surrounding phytosanitary certifications.
- The Russian government increased the wheat export tax by 1.3 per cent to 95 cents per bushel for the period from Apr. 17-23.
- We have Russian FOB values for 12.5 per cent protein wheat for May 2024 at \$212.00/mt (*up \$3.00/mt from last week*).

➤ **Significant purchases/ trades:**

- We did not hear of any trades last week. Buyers seem to be largely covered for old crop. There has been no new crop business done as traders are concerned about the weather and farmers do not like the prices.
- **Weekly U.S. commercial sales** for the 2023/2024 marketing year were 81,000 mt. Sales for the 2024/2025 marketing year were 274,000 mt.

➤ **Wheat Market Outlook:**

Significant events over the past week:

- **The funds** bought back some of its short position in wheat but remain short wheat futures.
- There were no great surprises in **the WASDE report**, and it was a bit of a disappointment to the bulls which were expecting larger decreases, especially in South American corn production.
- **Russia continues to bombard Ukraine with missiles and drones.** Russia has moved its attention to key power plants, but also attacked the major port city of Odesa again last week.
- The breadth of countries exchanging rockets/drones has extended to destination grain markets. **Iran launched a barrage of drones and missiles at Israel** in response to their strike on the Iranian consulate in Syria.

Mercantile's Weekly Outlook:

Mercantile says the international climate remains fractious, particularly in the Middle East. Mercantile is slowly seeing energy prices increasing and inflation starting to rise. In their view, world buyers are largely finished with old crop purchases. Futures will be moved by whatever Funds or farmers need to do. Mercantile sees the old crop going lower as carrying charges increase, while there will be little trade in new crop while traders remain concerned about weather and growers don't like the values. – *Mercantile would target remaining old crop spring wheat at \$0.10 above current values, but would not sell new crop wheat 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: April 15, 2024

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Jun '24 (bu.)	Jun '24 (mt.)
1 CWRS 13.5	\$8.51	\$312.69	1 CWRS 13.5	\$8.40	\$308.65
1 CWAD 13.0	\$10.63	\$390.59	1 CWAD 13.0	\$10.20	\$374.79
1 CPSR 11.5	\$7.78	\$285.87	1 CPSR 11.5	\$7.65	\$281.09
SW Sask			SW Sask		
1 CWRS 13.5	\$8.43	\$309.75	1 CWRS 13.5	\$8.34	\$306.44
1 CWAD 13.0	\$10.73	\$394.26	1 CWAD 13.0	\$10.27	\$377.36
1 CPSR 11.5	\$7.67	\$281.83	1 CPSR 11.5	\$7.53	\$276.68
NE Sask			NE Sask		
1 CWRS 13.5	\$8.30	\$304.98	1 CWRS 13.5	\$8.18	\$300.57
1 CWAD 13.0	\$10.69	\$392.79	1 CWAD 13.0	\$10.28	\$377.73
1 CPSR 11.5	-	-	1 CPSR 11.5	-	-
SE Sask			SE Sask		
1 CWRS 13.5	\$8.20	\$301.30	1 CWRS 13.5	\$8.14	\$299.10
1 CWAD 13.0	\$10.78	\$396.10	1 CWAD 13.0	\$10.34	\$379.93
1 CPSR 11.5	\$7.47	\$274.48	1 CPSR 11.5	\$7.31	\$268.60

Data source: PDQ, Apr. 15, 2024

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	(0.08)	-2.94
1 CWRS 12.5	(0.13)	-4.78
1 CWAD 13.0	Base Grade	Base Grade
1 CWAD 13.5	0.00	0.00
2 CWAD 13.0	(0.13)	-4.78
2 CWAD 12.5	(0.16)	-5.88

Data source: PDQ, Apr. 15, 2024

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 Cdn. FOB Prices minus primary elevator bids, the FOB prices are translated into Cdn. dollars from U.S. 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:

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.”

- 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				April 15, 2024
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	\$375.42	\$367.34		
HRS	\$370.28			
HRW 11.5	\$337.02			
SWW 12.0	\$302.66			
1 CWRS 13.5 ³	\$375.42		\$302.40	\$73.02
2 CWRS 13.0 ³	\$370.28		\$291.38	\$78.90
3 CWRS ³	\$337.02		\$267.50	\$69.53
CPS ³	\$295.59		\$277.42	\$18.17
1 CWAD ⁴		\$482.54	\$386.18	\$96.36
Competing wheat:				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$212.00		May '24	
French 11.5 (Rouen)	\$217.00		May '24	
APW 10.5 (W Coast)	\$250.00		May '24	
Argentine 12.5	\$219.00		May '24	
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				