

**Wheat Market Outlook and Price Report: Dec. 11, 2023**  
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Mercantile Consulting Venture Inc.

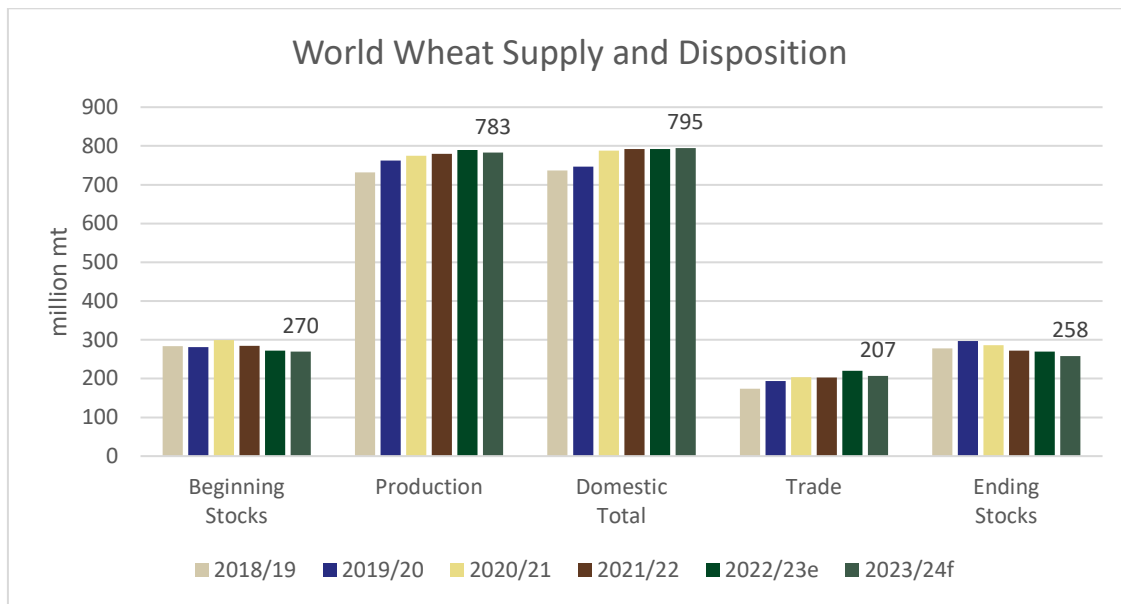
**i) Background and Rationale for the Report**

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 December 11, 2023**

**USDA: December World Agriculture Supply and Demand Estimates**

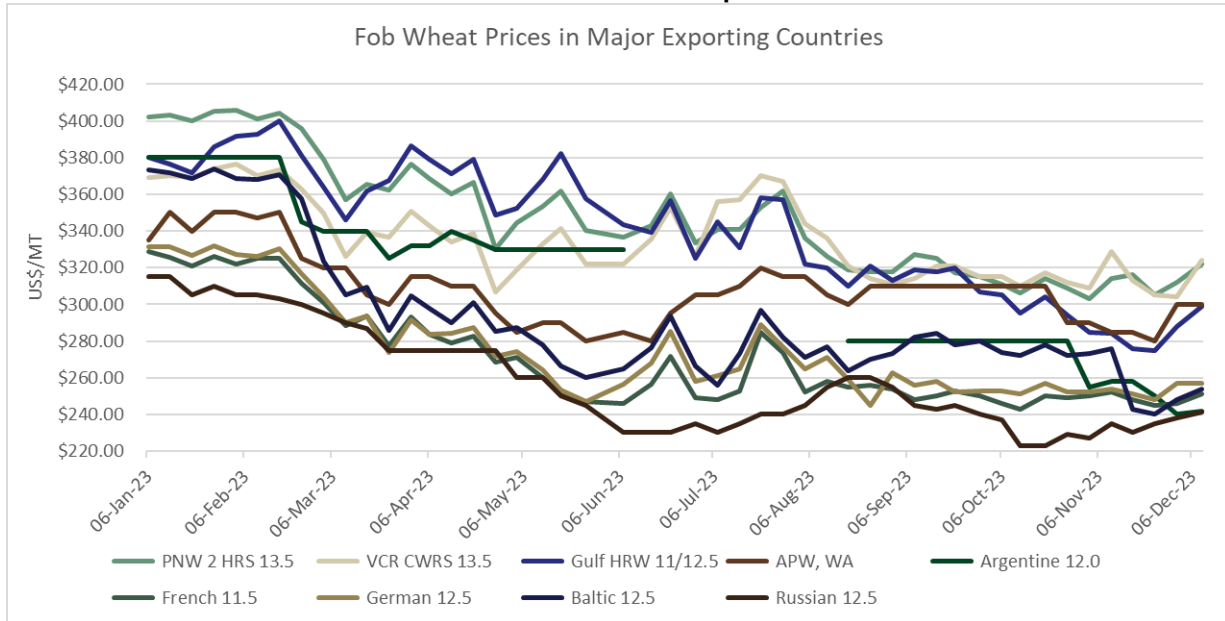


- The United States Department of Agriculture (USDA) increased global wheat production by one million mt from last month to 783 million mt. The increase in production came as a one million mt increase in both Australia and Canada were offset by a one million mt decrease in Brazil. Argentina’s production was left unchanged at 15 million mt.
- Global wheat trade was raised by two million mt as imports to the EU and China grew by one million mt and 0.5 million mt respectively. China is now expected to import 12.5 million mt this season making it the largest wheat importer for a second year in a row. Meanwhile, the USDA

reduced Egypt's import number by 0.5 million mt to 11 million mt given the ongoing currency and financing issues.

- Global use was raised by 1.8 million mt for a 0.5 million mt decrease in ending stocks to 258 million mt, down four per cent from last year and the lowest level in eight years. The decrease in stocks was in importing countries however, as stocks in exporting countries rose by 1.3 million mt from last month.

### FOB Wheat Price Developments:



- Cash wheat prices were stronger over the week with large purchases by China and Egypt (GASC). China bought over one point one million mt of U.S. SRW in a series of transactions last week, while Egypt bought 600k mt of wheat in two separate tenders. Russian wheat won most of the Egyptian demand, but there was clear evidence of Moscow raising the Russian floor price, at least for public sales.

#### ➤ 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:

- Mar. 2024 contract Chicago winter wheat closed at \$631-6, down 10-4 cents on Friday, *up 29-0 cents on the week*.
- Mar. 2024 contract Kansas hard red winter wheat closed at \$661-0, down five cents on Friday, *up 14-2 cents on the week*.
- Mar. 2024 Minneapolis hard red spring wheat closed at \$729-4, down 7-6 cents on Friday, *down 0-6 cents on the week*.
- U.S. wheat futures are currently trading 14-26 cents lower, while EU milling wheat is 1.50-1.75 euros lower this Monday morning.

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



**KC Mar 2023 Wheat**

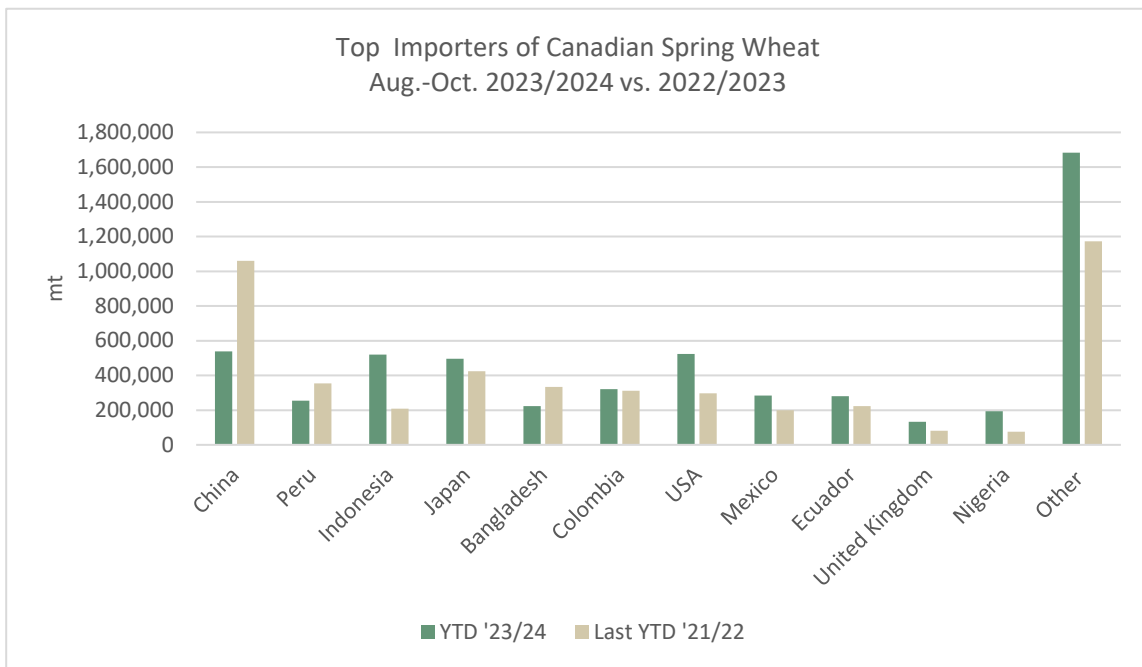


**Mpls. Mar 2023 Wheat**



**Canadian Wheat**

- Stats Canada’s monthly export numbers show non-durum wheat exports in October were 2.1 million mt compared to the average October export volume of 1.7 million mt. Japan and Indonesia were the top customers, both taking over 240k mt during the month. Exports to Indonesia from Aug.-Oct. are almost 250 per cent of last year’s volume at 519k mt. Exports to the U.S. are also 77 per cent more than last year year-to-date. China remains the largest customer for Canadian wheat, but at 539k mt, exports to China are just 51 per cent (-521k mt) of last year’s volume year-to-date. Meanwhile, countries outside of the top importers have increased demand for Canadian wheat. Exports to “other” countries are up by 44 per cent (511k mt) with notable increases to several African nations.



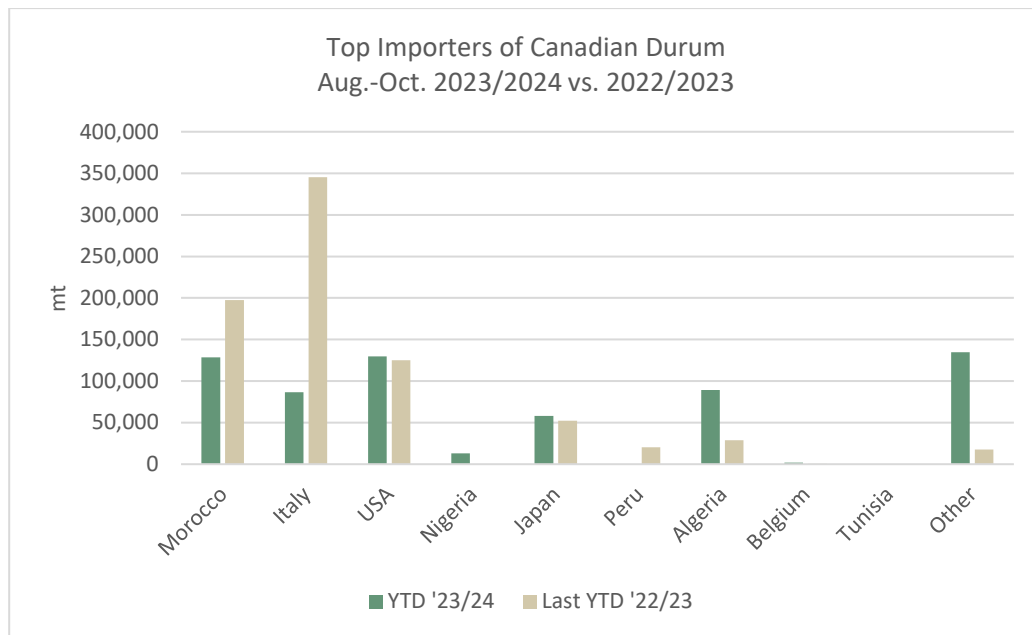
Source: Mercantile, based on STC data

- **Weekly Canadian wheat exports:** Weekly Canadian exports remain strong. Another 641.5k mt of wheat was shipped during week 18. Total exports are now 7.5 million mt which is 12 per cent ahead of last year. Annualizing the current export gets us 21.7 million mt which would be impossible, so exports will need to slow as stocks tighten.
- There must have been some data corrections in domestic disappearance as year-to-date use shrank from 1.99 to 1.98 million mt last week despite weekly use of 112k mt. With that said, the 27 per cent increase over last year is still questionable.

(CGC) Grain Handling Summary Wheat		Week 18 (Dec. 3, 2023)		
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 18	474.0	564.2	641.5	112.0
Week ago	557.4	564.3	603.3	70.3
YTD	8,884.1	9,644.4	7,542.3	1,984.2
Last YTD	8,708.5	8,607.9	6,704.6	1,558.2
<b>YTD less Last YTD</b>	<b>175.6</b>	<b>1,036.5</b>	<b>837.7</b>	<b>426.0</b>
<b>YTD over Last YTD</b>	<b>102 %</b>	<b>112 %</b>	<b>112 %</b>	<b>127 %</b>

Source: Mercantile, based on CGC data

- Durum:** Canadian durum exports in October improved to 292.8k mt but remain well below the average pace. More than half of the exports in October went to Morocco and Algeria. While YTD exports to Morocco are down by 69k mt, exports to Algeria are up by 60k mt. The main reason for the slow pace of exports is that at 86.6k mt Italy has only imported 25 per cent of last year's volume to date, replacing its early durum needs with Turkish supplies. Stats Canada says that China bought 99 mt of durum in October. If correct, this would be China's first import of Canadian durum since December 2018.



Source: Mercantile, based on STC data

- Algeria is believed to have bought up to 500k mt of durum at \$440-470/mt from Mexico, Canada, the U.S. and Australia. We figure that this works back to about ~CA\$12.70/bu at the elevator in Saskatchewan.
- Durum exports in week 18 were large at 118k mt for a season total of one million mt, down 36 per cent from last year. This is just slightly behind our estimated decrease. Most of the exports in week 18 were through Thunder Bay, ON and the St. Lawrence – likely a sign Italy is returning for Canadian supplies.

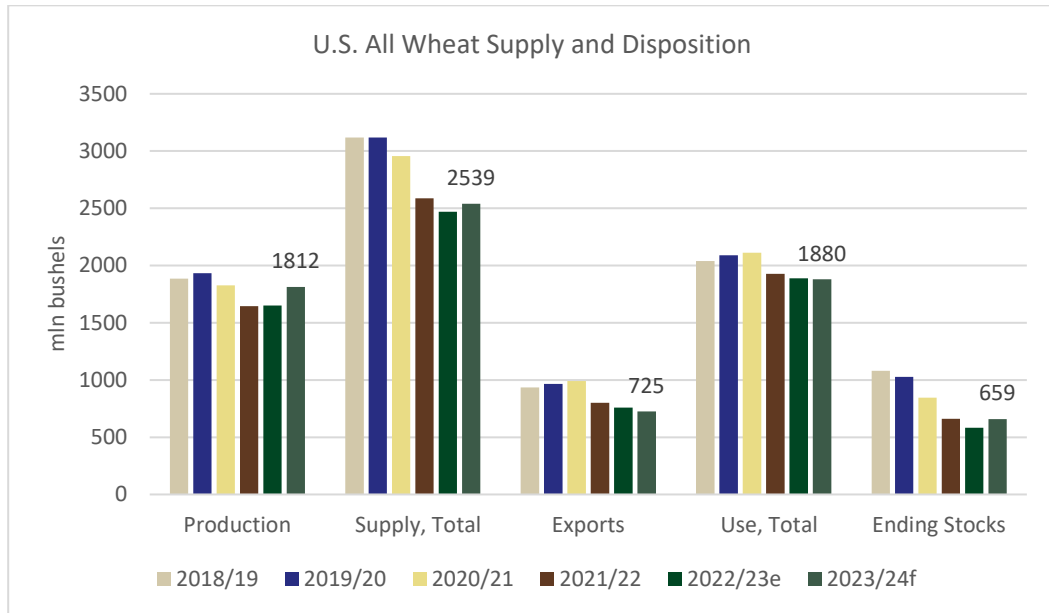
(CGC) Grain Handling Summary Durum		Week 18 (Dec. 3, 2023)		
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 18	107.2	124.5	118.0	11.2
Week ago	92.9	78.1	43.3	5.9
YTD	1,427.8	1,421.9	1,043.7	192.1
Last YTD	2,050.4	2,061.1	1,628.8	266.7
<b>YTD less Last YTD</b>	<b>-622.6</b>	<b>-639.2</b>	<b>-585.1</b>	<b>-74.6</b>
<b>YTD over Last YTD</b>	<b>70 %</b>	<b>69 %</b>	<b>64 %</b>	<b>72 %</b>

Source: Mercantile, based on CGC data

- *If 80 per cent sold, we would hold additional sales for now.*

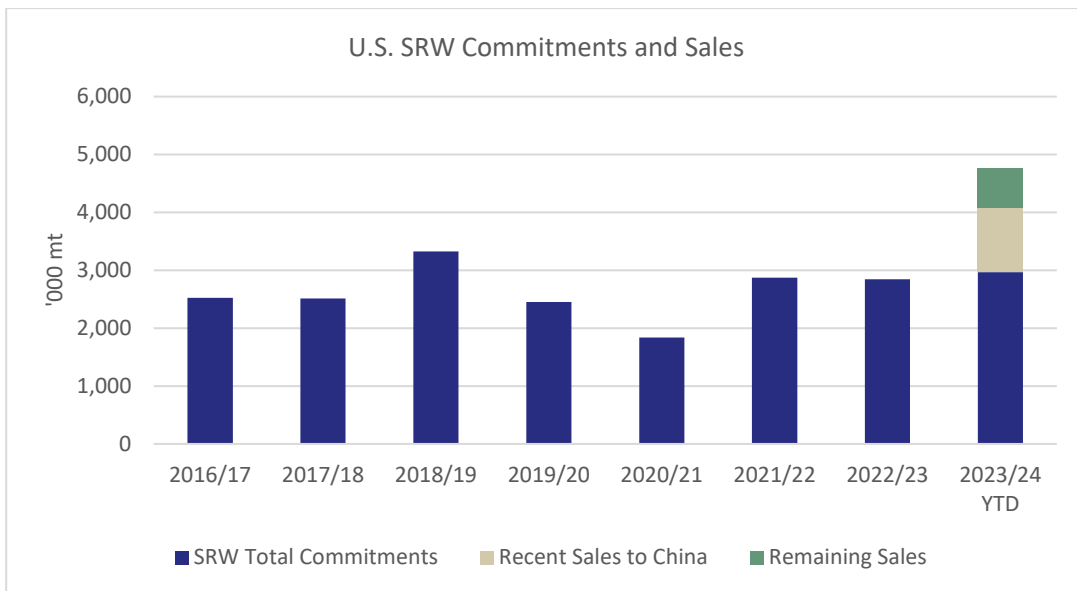
#### U.S. Wheat:

- U.S. wheat futures were supported by large Chinese purchases over the week. Meanwhile, Russia's dominance at the GASC tender and an unsupportive USDA report put pressure on the market.
- For U.S. wheat, the USDA increased exports by 25 million bushels as a 30 million bushel increase in SRW exports was slightly offset by smaller white wheat exports. All wheat exports are now expected to be 725 million bushels, down four per cent from last year. Ending stocks were 25 million bushels lower than last month at 659 million bushels, up 13 per cent from last year and in line with 2021/2022 ending stocks.



Source: Mercantile, based on USDA data

- U.S. export sales were at the low end of expectations at 356k mt (13.1 million bushels) for a total commitment number of 479 million bushels, down four per cent from last year and is in-line with the USDA's new projection.
- China was a major buyer of U.S. SRW last week. China bought a combined one point 12 million mt of U.S. SRW in flash sales over the week. These sales will be included in next week's sales numbers and will bring China's total purchases to approximately two point two million mt for this marketing year. The sales will bring U.S. SRW total commitments to ~150 million bushels (four point one million mt) which is just 25 million bushels (680k mt) less than the USDA's new export projection for that wheat class.



Source: Mercantile, based on USDA data

- The condition of the U.S. winter wheat crop improved by another two points over the week to 50 per cent Gd/Ex compared to 34 per cent Gd/Ex last year.
- U.S. HRS for January 2023 was valued at \$332.00/mt FOB PNW (*up \$10.00/mt from last week*), FOB Gulf HRW 11/12.5 pro is valued at \$299.00/mt (*up \$11.00/mt from last week*).

#### **Australian Wheat:**

- ABARES raised Australia's wheat production by just 100k mt to 25.5 million mt. This is 37 per cent (15 million mt) less than last year. The USDA increased its number for Australia's crop by one million mt to match ABARES' number.
- FOB values in Australia: January 2023 AWP, WA is valued at \$300.00/mt (*unchanged from last week*).

#### **Argentine Wheat:**

- Another 12 per cent of Argentina's wheat crop was harvested last week bringing wheat harvest there to 48 per cent complete. Condition ratings rose five per cent over the week to 20 per cent Gd/Ex. Average yields rose by another 20 points to 2.36 tph. BAGE left their production estimate at 14.7 million mt which requires an average yield of 2.6 tph. The USDA left its estimate at 15.0 million mt.
- Argentine farmer new crop wheat sales are three point four million mt against six million mt last year.
- FOB Argentine wheat (12 per cent pro) for January was quoted at \$242.00/mt (*up \$2.00/mt from last week*).

#### **Indian Wheat:**

- Officials in India say the country's state wheat stocks have dropped to seven-year lows at 19 million mt. The government has been selling wheat to calm domestic prices.
- News outlets in India say the country may allow one million mt of Russian wheat imports at a reduced duty to calm rising wheat prices. The duty is currently at 40 per cent and would reportedly drop to 15-20 per cent for the Russian wheat. The government is obviously struggling with low supplies as these reports come one week after rumors of an export quota on wheat.

#### **EU Wheat:**

- French wheat planting rose seven per cent over the week to 89 per cent complete. French farmers are reluctant sellers over concerns of the winter crop and wide premiums as the delays to Chinese shipments have caused a buildup of stocks at terminals.
- Official EU data says exports are 18 per cent behind last year, but data delays suggest the lag on last year is closer to 10 per cent.
- EU FOB prices: December 2023 French 11.5 pro wheat closed at \$251.00/mt (*up \$5.00/mt from last week*); January 2023 German 12.5 pro wheat closed at \$257.00 (*unchanged from last week*); January 2023 Baltic 14.0 pro wheat closed at \$254.00/mt (*up \$6.00/mt from last week*).

#### **Black Sea Wheat:**

- Russian wheat exports from July-Nov. are up 20 per cent from last year but are slowing. Russian exports are usually front loaded and slow into the winter months.
- The Russian winter wheat crop is in exceptional condition with just four per cent of the crop in "poor" condition compared to the eight per cent average.
- The Russian floor price at the first GASC tender was \$250/mt FOB while it was clear Moscow increased it to \$260/mt FOB at the second tender as all Russian offers were set at the same level. Remember, it seems like the floor price only applies to public tenders as we hear of private deals at much lower values.

- We have Russian FOB values for 12.5 per cent protein wheat for January at \$241/mt (*up \$3.00/mt from last week*).

➤ **Significant purchases/ trades:**

- **GASC** (Egypt) bought 60k mt of Ukrainian wheat at \$269 C&F and 120k mt of Russian wheat at \$278.25/mt C&F.
- **GASC** bought 420k mt of January shipment Russian wheat at \$286-288.80/mt C&F.
- **French** wheat was offered at \$280/mt FOB. Lebanon, using World Bank financing, bought 30k mt of Ukrainian wheat at \$253/mt.
- **Korea** bought 65k mt of May feed wheat at \$276/mt.
- **Algeria** is believed to have bought up to 500k mt of durum at \$440-470/mt from Mexico, Canada, the U.S. and Australia.

➤ **Wheat Market Outlook:**

**Significant events over the past week:**

- **Russian drones attacked Uranian ports** on the Danube causing damage to storage and elevator facilities. The trade pays little attention to these sorts of stories these days.
- **The CFTC report** showed the funds sold another 19k wheat contracts for a 108k contract short on the CBOT. All wheat shorts grew 29k mt to 153k mt.
- **Recent rain in South America** is helping alleviate dryness as Brazil and Argentina plant corn and soybean crops. Northern and central Brazil is expected to return drier with below normal rainfall and above normal temperatures.
- **Water levels in the Panama Canal** are five per cent below average for November. As of Dec. 1, 2023, the Panama Canal Authority decreased the number of vessels permitted to travel through the locks from 24 to 22 ships per day. Additional reductions are scheduled for Jan.-Feb.
- **Shipping rates are rising aggressively.** The Balt Dry Index (BDI) spiked by 52 per cent from last week as China announced continuous efforts to stimulate the economy. Restrictions at the Panama Canal have caused Capesize vessel charter rates to grow to the highest level at this time of year since 2009. Additionally, shippers in the Black Sea are reporting difficulties securing vessels.

**Outlook:**

Mercantile says Russia continues to be the dominant force in the wheat market as shown by its performance at the GASC tenders. According to Mercantile, Chinese buying is supportive should it continue. Chinese holidays will have them away until Jan. 15, 2024. – *We would hold 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: December 11, 2023

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Feb '24 (bu.)	Feb '24 (mt.)
1 CWRS 13.5	\$9.02	\$331.43	1 CWRS 13.5	\$9.06	\$332.90
1 CWAD 13.0	\$12.46	\$457.83	1 CWAD 13.0	\$12.59	\$462.61
1 CPSR 11.5	\$7.93	\$291.38	1 CPSR 11.5	\$8.05	\$295.79
SW Sask			SW Sask		
1 CWRS 13.5	\$9.00	\$330.70	1 CWRS 13.5	\$9.01	\$331.06
1 CWAD 13.0	\$12.41	\$455.99	1 CWAD 13.0	\$12.53	\$460.40
1 CPSR 11.5	\$7.81	\$286.97	1 CPSR 11.5	\$7.97	\$292.85
NE Sask			NE Sask		
1 CWRS 13.5	\$8.77	\$322.24	1 CWRS 13.5	\$8.82	\$324.08
1 CWAD 13.0	\$12.26	\$450.48	1 CWAD 13.0	\$12.26	\$450.48
1 CPSR 11.5	-	-	1 CPSR 11.5	-	-
SE Sask			SE Sask		
1 CWRS 13.5	\$8.79	\$322.98	1 CWRS 13.5	\$8.76	\$321.88
1 CWAD 13.0	\$12.28	\$451.22	1 CWAD 13.0	\$12.39	\$455.26
1 CPSR 11.5	\$7.55	\$277.42	1 CPSR 11.5	\$7.69	\$282.56

Data source: PDQ, Dec. 11, 2023

**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	0.01	0.38
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	0.01	0.37
2 CWAD 13.0	(0.13)	-4.78
2 CWAD 12.5	(0.16)	-5.88

Data source: PDQ, Dec. 11, 2023

#### **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 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:

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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.”

- 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				December 11, 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	\$403.76	Closed		
HRS	\$398.73			
HRW 11.5	\$350.99			
SWW 12.0	\$350.49			
1 CWRS 13.5 <sup>3</sup>	\$403.76		\$318.20	\$85.56
2 CWRS 13.0 <sup>3</sup>	\$398.73		\$307.18	\$91.55
3 CWRS <sup>3</sup>	\$350.99		\$283.30	\$67.69
CPS <sup>3</sup>	\$343.52		\$262.35	\$81.17
1 CWAD <sup>4</sup>		Closed	\$477.67	
<b>Competing wheat:</b>				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$241.00		January	
French 11.5 (Rouen)	\$251.00		January	
APW 10.5 (W Coast)	\$300.00		January	
Argentine 12.5	\$242.00		January	
<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				