

Wheat Market Outlook and Price Report: Dec. 18, 2023

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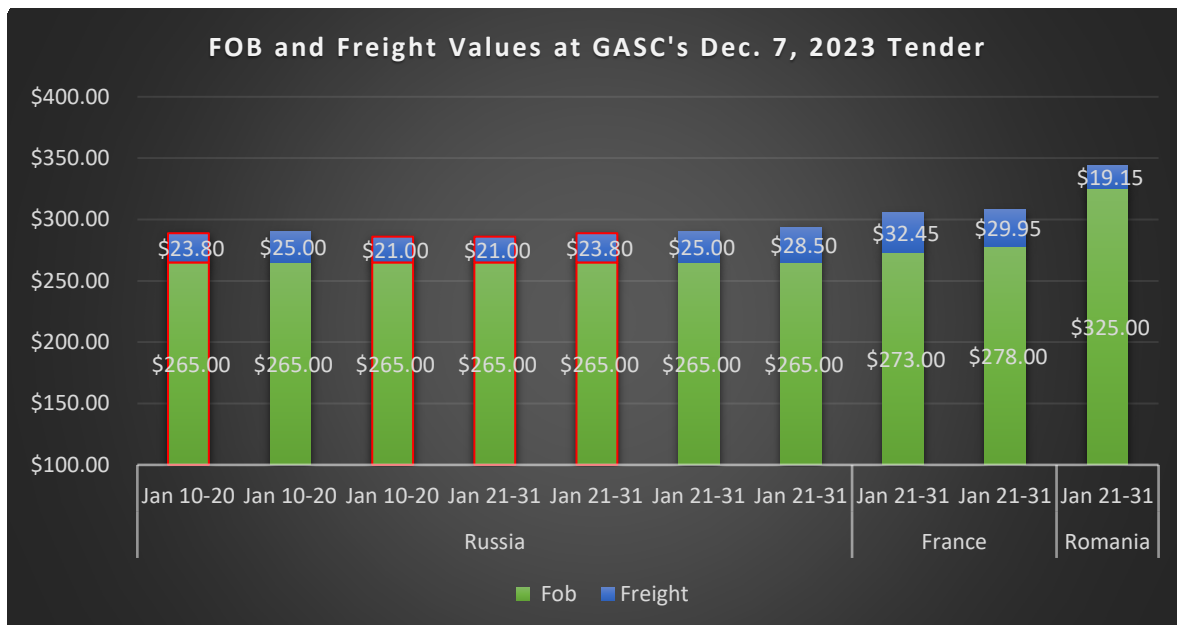
i) Background and Rationale for the Report

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 December 18, 2023

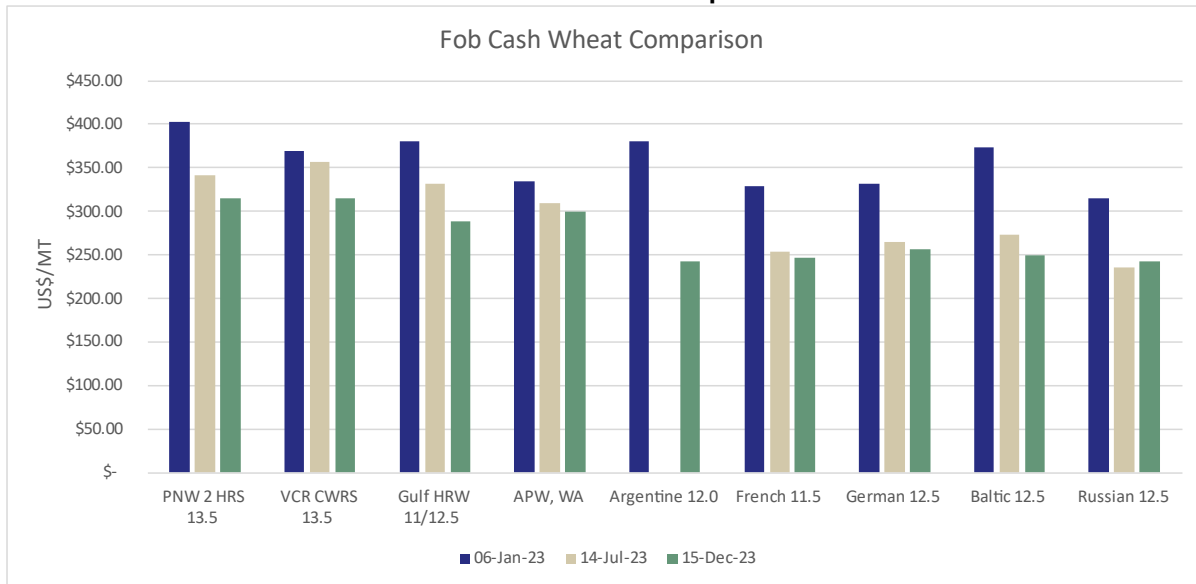
Egypt's (GASC) Dec. 7, 2023 Wheat Tender



- We have spoken at length about the dominance of Russian wheat on the global market. The last Egyptian (GASC) wheat tender on Dec. 7, 2023 is a good illustration of the scope of this.
- There was a total of 700k mt of wheat offered at the tender. Russian wheat accounted for 520k mt of the total volume while French and Romanian wheat made up the remaining 180k mt. The average price of the Russian offers was \$289/mt CIF which was almost \$17/mt less than the cheapest French offer.

- GASC bought 420k mt of January shipment wheat. The entirety of the purchase was from Russia (the successful offers are outlined in red).
- Russian wheat is also expected to have won most of last week's purchases by Algeria and Tunisia. We will be watching for the execution of these sales as Russian logistics often get restricted by weather in the winter months.

FOB Wheat Price Developments:



Source: Mercantile

- Global wheat prices were generally lower last week led by falling values in North America which lost \$7-\$10/mt over the week. European values were \$1-\$5/mt lower except for Russia which we have up by \$1/mt from last week.

➤ 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.

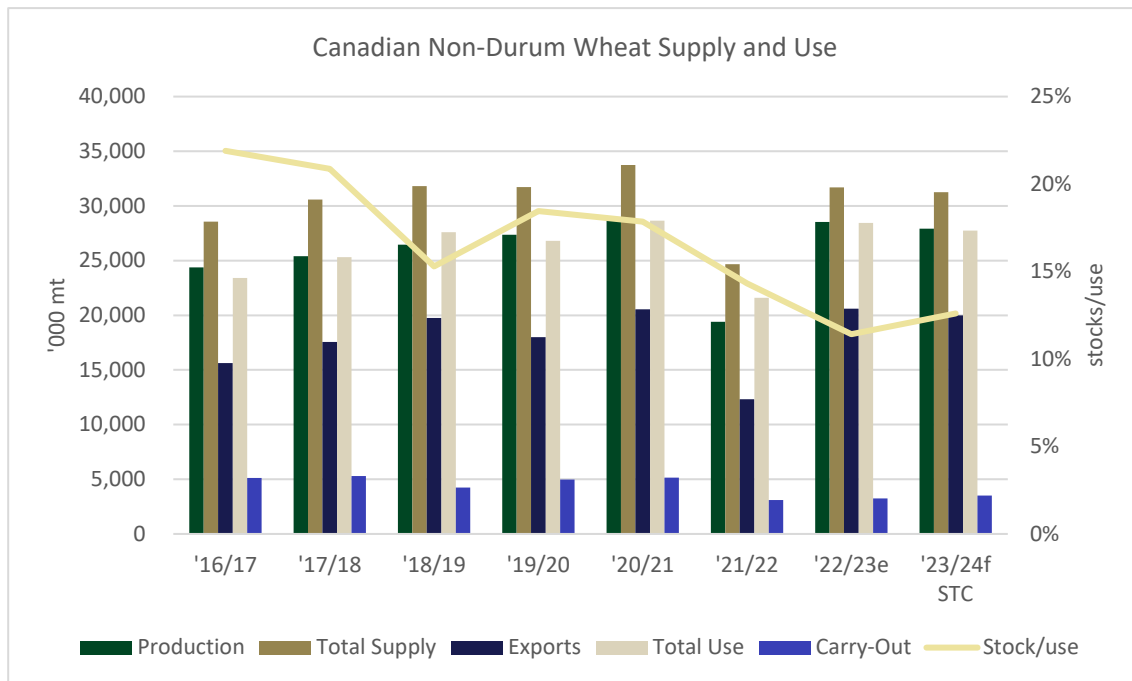
Futures:

- Mar. 2024 contract Chicago winter wheat closed at \$629-2, up 13-4 cents on Friday, *down 2-4 cents on the week*.
- Mar. 2024 contract Kansas hard red winter wheat closed at \$642-6, up 6-2 cents on Friday, *down 18-2 cents on the week*.
- Mar. 2024 Minneapolis hard red spring wheat closed at \$730-6, up 13-4 cents on Friday, *up 1-2 cents on the week*.
- U.S. wheat futures are currently trading 5-7 cents lower, while EU milling wheat is 0.25-1.25 euros higher this Monday morning.



Canadian Wheat

- The Agriculture and Agri-Food Canada (AAFC) allocated two million mt of StatsCan's (STC's) two point one million mt increase in non-durum wheat production to exports. Exports are now expected to be 20 million mt. The AAFC reduced feed use by 200k mt for a 300k mt increase in ending stocks at three point five million mt, up eight per cent from last year. This happens to be inline with our ending stocks number despite our smaller production and export numbers.



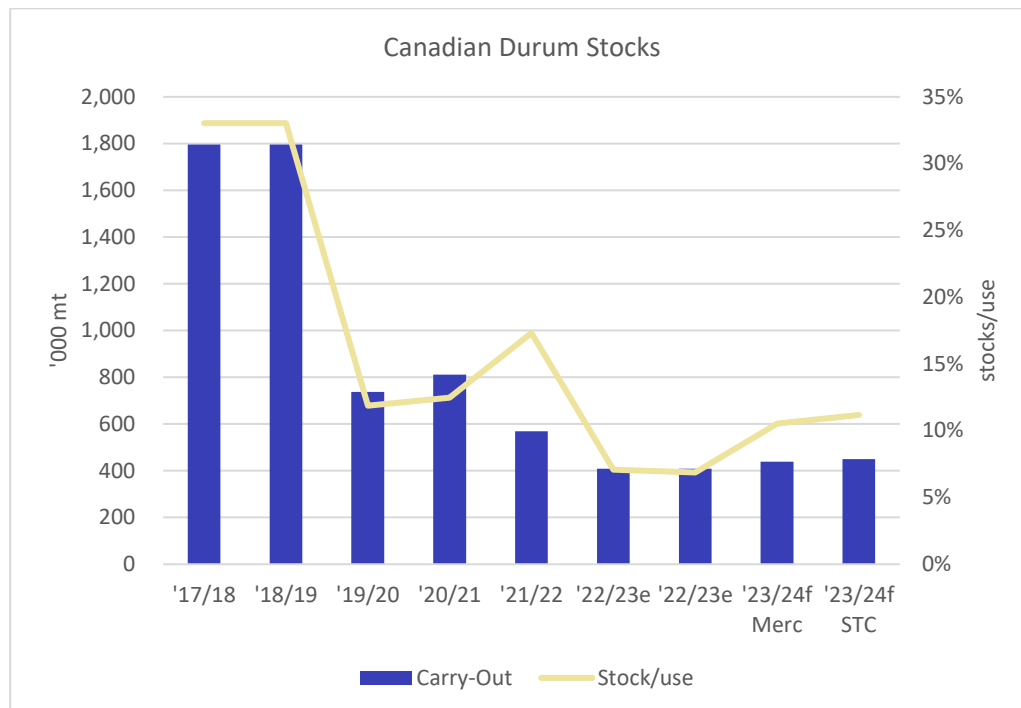
Source: Mercantile, based on STC data

- Weekly Canadian wheat exports:** Weekly wheat exports were smaller in week 19 at 357.8k mt but remain 12 per cent ahead of last year. This remains ahead of the AAFC's new export number that is 3 per cent less than last year. Average weekly exports for the remaining 33 weeks of the year would need to be 370k mt to meet the AAFC's 20 million mt estimate. The current pace is 416k mt per week.

(CGC) Grain Handling Summary Wheat		Week 19 (Dec. 10, 2023)		
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 19	490.5	326.6	357.8	61.0
Week ago	474.0	564.2	641.5	111.9
YTD	9,377.2	9,971.3	7,900.0	1,990.7
Last YTD	9,234.1	9,104.1	7,041.1	1,630.1
YTD less Last YTD	143.1	867.2	858.9	360.6
YTD over Last YTD	102 %	110 %	112 %	122 %

Source: Mercantile, based on CGC data

- Durum:** Following STC's 14k mt decrease in durum production, the AAFC reduced durum exports in its December update by 100k mt to three point two million mt. This reflects a 37 per cent decrease from last year. The current export pace is 35 per cent behind last years. Feed use was raised by 36k for a 50k mt increase in ending stocks to 450k mt, which is slightly higher than our number.



Source: Mercantile, based on STC data

- Durum exports in week 19 were 74.7k mt for a season total of one point one million mt, down 35 per cent from last year. Exports over the week were split between Vancouver, Prince Rupert, St. Lawrence.
- Tunisia bought 75k mt of durum at 437-\$438/mt C&F. This is \$25/mt less than Algeria's purchase last week. Viterra had the lowest price at the tender, but it seems doubtful that it will be executed with Canadian durum. The price calculates to about CA\$11.50/bu at the elevator in Saskatchewan, compared to Viterra's active bid at \$12.50/bu.

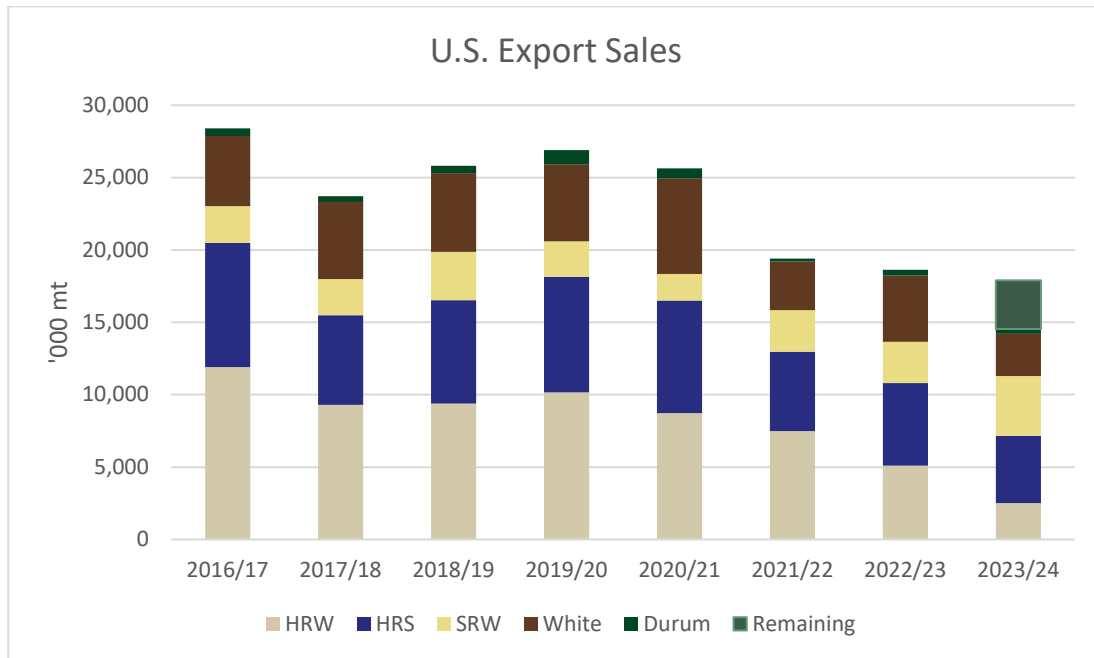
(CGC) Grain Handling Summary Durum		Week 19 (Dec. 10, 2023)		
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 19	85.6	119.1	74.7	14.0
Week ago	107.2	124.5	118.0	11.2
YTD	1,513.2	1,540.8	1,118.4	206.0
Last YTD	2,223.2	2,260.9	1,725.1	286.7
YTD less Last YTD	-710.0	-720.1	-606.7	-80.7
YTD over Last YTD	68 %	68 %	65 %	72 %

Source: Mercantile, based on CGC data

- *We are 80 per cent sold at \$13.00/bu.*

U.S. Wheat:

- U.S. export sales were within expectations at one point five million mt (54.8 million bushels). Sales to China accounted for one point one million mt of the total. At two point two million mt, sales to China are over one and a half times higher than last year's volume to date. Total U.S. wheat commitments are now 14.5 million mt (534 million bushels), up three per cent from last year compared to the USDA's estimated four per cent decline. Total commitments-to-date have reached 81 per cent of the USDA's total export projection.



Source: Mercantile, based on USDA data

- U.S. HRS for January 2023 was valued at \$315.00/mt FOB PNW (*down \$7.00/mt from last week*), FOB Gulf HRW 11/12.5 pro is valued at \$289.00/mt (*down \$10.00/mt from last week*).

Australian Wheat:

- Australian wheat futures closed at six-week lows on Friday. The cash wheat market has been quiet as China has been preferring U.S. wheat.
- FOB values in Australia: January 2023 AWP, WA is valued at \$300.00/mt (*unchanged from last week*).

Argentine Wheat:

- Harvest in Argentina is 55 per cent complete. The average yield rose slightly to two point four tph which remains behind the two point six tph needed to achieve BAGE's 14.7 million mt production number. Rosario GE increased its production estimate to 14.5 million mt. This narrows the range of estimates from 14.5 million mt (Rosario GE) to 15.0 million mt (USDA).
- Argentina re-instated its export registration program. The government is working to increase the export tax from 12 per cent to 15 per cent. The potential tax increase will likely cause exporters to take out licences sooner rather than later. The peso was devaluated by 54 per cent and the central bank has implemented policies to weaken the peso by two per cent each month. Import taxes were raised 10 per cent to 17.5 per cent and appears to include imports of ag goods like machinery and fertilizer. The policies are an attempt to decrease the country's trade deficit.
- The market was talking about an elimination of Argentina's export taxes. Last time this happened seeded area rose by 52 per cent. Although the elimination of export taxes was one of Milei's talking points on the campaign trail, it seems the government is firstly concerned about raising cash.
- FOB Argentine wheat (12 per cent pro) for January was quoted at \$242.00/mt (*unchanged from last week*).

Indian Wheat:

- There was no fresh news from India where there have been rumor circulating of decreased import taxes on limited quantities of Russian wheat and/or controls on wheat exports.

EU Wheat:

- The French Ag ministry (FAM) raised wheat ending stocks to just over three million mt which is now 26 per cent above last year and the highest level in eight years. FAM's export number of 10.2 million mt looks high and stocks could rise further.
- French planting is 89 per cent complete. Waterlogged fields caused crop ratings to fall by three points over the week to 77 per cent Gd/Ex (vs. 97 per cent Gd/Ex last year). FAM put wheat area down by five per cent, and this number could rise further.
- The United Kingdom confirmed their 2022/2023 wheat crop was under 14 million mt, down 10 per cent from the previous year. Seeding of the 2023/2024 crop has been hampered by wet conditions.
- EU FOB prices: December 2023 French 11.5 pro wheat closed at \$247.00/mt (*down \$4.00/mt from last week*); January 2023 German 12.5 pro wheat closed at \$256.00 (*down \$1.00/mt from last week*); January 2023 Baltic 14.0 pro wheat closed at \$249.00/mt (*down \$5.00/mt from last week*).

Black Sea Wheat:

- Black Sea wheat is thought to have won most of Algeria and Tunisia's wheat tenders. As winter conditions usually cause logistics in the Black Sea to slow in the winter months, we will be watching to see if they can execute all the sales they have on the books.
- We have Russian FOB values for 12.5 per cent protein wheat for January at \$242/mt (*up \$1.00/mt from last week*).

➤ Significant purchases/ trades:

- **Algeria** bought 500-900k mt of Feb.-Mar. wheat at ~ \$273/mt.
- **Tunisia** bought 100k mt of soft wheat at \$279-283/mt.
- **Tunisia** bought 75k mt of Jan.-Feb. *durum* at \$437-438/mt. Korea bought 60k mt of feed wheat at \$273.70/mt.
- **Bangladesh** was offered \$318/mt at their 50k mt tender. We did not hear if a trade was made. **Saudi Arabia** tendered for 715k mt, but instead bought 1.35 million mt of 12.5 per cent pro Feb.-May shipment optional origin milling wheat at \$284.57/mt.
- **U.S.** wheat sales were one and a half million mt for a year-to-date total of 14.5 million mt.

➤ Wheat Market Outlook:

Significant events over the past week:

- **Farmers in Argentina are optimistic that the newly elected President, Javier Milei, will implement currency and export policies that will promote agriculture** and entice increased production. However, the government must first raise cash, so is looking to increase the export tax on wheat and grains by three per cent to accomplish this.
- **The U.S. dollar index** fell to the July low of 102.6 last week. The falling currency was in response to the Federal Reserve indicating that the hawkish trend is likely over and signaled possible future decreases in interest rates.
- **The Panama Canal Authority** said that it will have 24 slots available per day compared to the 18 slots it had announced earlier. The change was in response to better than expected water levels of the Gatun Lake which provides the water needed to operate the waterway.

Outlook:

From Mercantile’s perspective, Saudi Arabia’s tender was unexpectedly large, but the price does not support North American execution. Traders are going on holidays, so futures markets will be thin until after Christmas. *We would hold additional sales until the New Year.*

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 18, 2023					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Feb '24 (bu.)	Feb '24 (mt.)
1 CWRS 13.5	\$8.94	\$328.49	1 CWRS 13.5	\$9.05	\$332.53
1 CWAD 13.0	\$12.30	\$451.95	1 CWAD 13.0	\$12.06	\$443.13
1 CPSR 11.5	\$7.66	\$281.46	1 CPSR 11.5	\$7.82	\$287.34
SW Sask			SW Sask		
1 CWRS 13.5	\$8.94	\$328.49	1 CWRS 13.5	\$9.03	\$331.80
1 CWAD 13.0	\$12.30	\$451.95	1 CWAD 13.0	\$12.07	\$443.50
1 CPSR 11.5	\$7.53	\$276.68	1 CPSR 11.5	\$7.76	\$285.13
NE Sask			NE Sask		
1 CWRS 13.5	\$8.68	\$318.94	1 CWRS 13.5	\$8.78	\$322.61
1 CWAD 13.0	\$12.15	\$446.44	1 CWAD 13.0	\$11.65	\$428.07
1 CPSR 11.5	-	-	1 CPSR 11.5	-	-
SE Sask			SE Sask		
1 CWRS 13.5	\$8.71	\$320.04	1 CWRS 13.5	\$8.72	\$320.41
1 CWAD 13.0	\$12.22	\$449.01	1 CWAD 13.0	\$11.55	\$424.39
1 CPSR 11.5	\$7.32	\$268.97	1 CPSR 11.5	\$7.51	\$275.95

Data source: PDQ, Dec. 18, 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. 18, 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 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 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:
 - DNS 14 per cent in the Pacific Northwest (PNW) ≈ 1 CWRS 13.5 per cent 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.”

- 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 18, 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	\$407.74	Closed		
HRS	\$402.72			
HRW 11.5	\$350.99			
SWW 12.0	\$343.02			
1 CWRS 13.5 ³	\$407.74		\$316.37	\$91.38
2 CWRS 13.0 ³	\$402.72		\$305.34	\$97.37
3 CWRS ³	\$350.99		\$281.46	\$69.53
CPS ³	\$336.05		\$267.13	\$68.92
1 CWAD ⁴		Closed	\$459.30	
Competing wheat:				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$242.00		January	
French 11.5 (Rouen)	\$247.00		January	
APW 10.5 (W Coast)	\$300.00		January	
Argentine 12.5	\$242.00		January	
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				