

Wheat Market Outlook and Price Report: Dec. 4, 2023
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 Mercantile Consulting Venture Inc.

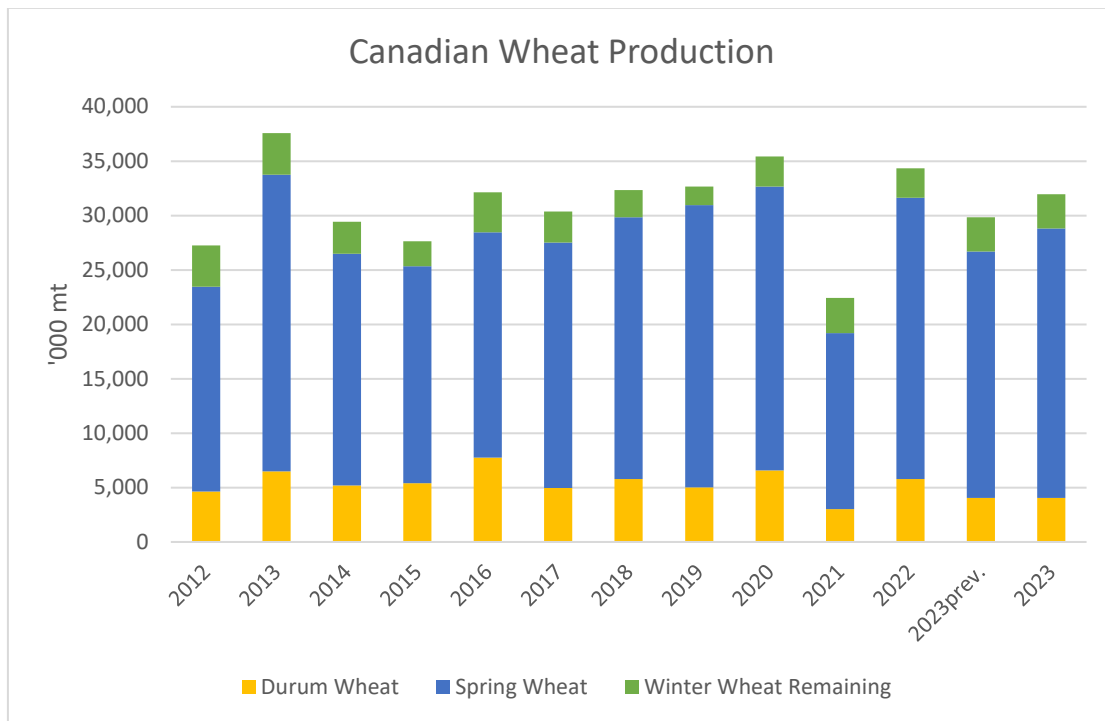
i) Background and Rationale for the Report

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 4, 2023

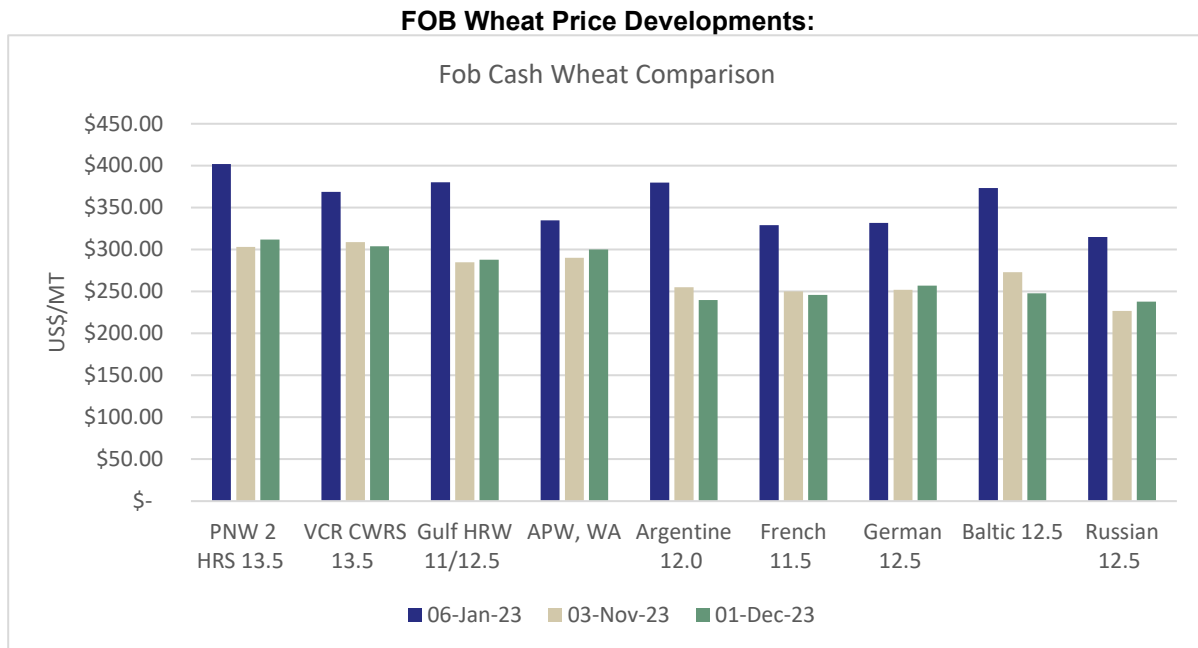
Stats Canada: December Crop Production Report



Source: Mercantile, based on STC data

- Stats Canada (STC) released its latest crop production report today (Monday). Total Canadian wheat production was said to be 31.95 million mt (down seven per cent from last year). This is up 2.1 million mt from the previous estimate and slightly higher than the 31.1 million mt that the Reuters survey said the trade was expecting.

- Spring wheat was put at 24.8 million mt, down four per cent from last year, but 800k mt above the average trade guess.
- Durum wheat production was lowered by 14k mt from STC's previous estimate to 4.05 million mt, down 30 per cent from last year. The average trade guess was at 4.1 million mt.
- Winter wheat remaining was essentially unchanged at 3.15 million mt.



- Cash wheat prices were higher in most major exporting countries over the week. One exception to this is Argentina where harvest pressure has lowered their wheat price to be competitive into Asian markets. Prices in Australia were sharply higher as rain last week is causing quality concerns for some of the unharvested crop. From last month, cash prices are largely stronger. Notably, prices in the Black Sea have risen \$11.00/mt since the beginning of November.

➤ **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 \$602-6, up 4-6 cents on Friday, *up 25-4 cents on the week.*
- Mar. 2024 contract Kansas hard red winter wheat closed at \$646-6, up 3-6 cents on Friday, *up 35-2 cents on the week.*
- Mar. 2024 Minneapolis hard red spring wheat closed at \$730-2, up 0-6 cents on Friday, *up 15-6 cents on the week.*
- U.S. wheat futures are currently trading 7-22 cents higher, while EU milling wheat is 2.50-3.50 euros higher this Monday morning as the USDA reported another flash sale, this time of 440k mt of SRW to China.

CBOT Mar 2023 Wheat (1 yr.)



KC Mar 2023 Wheat

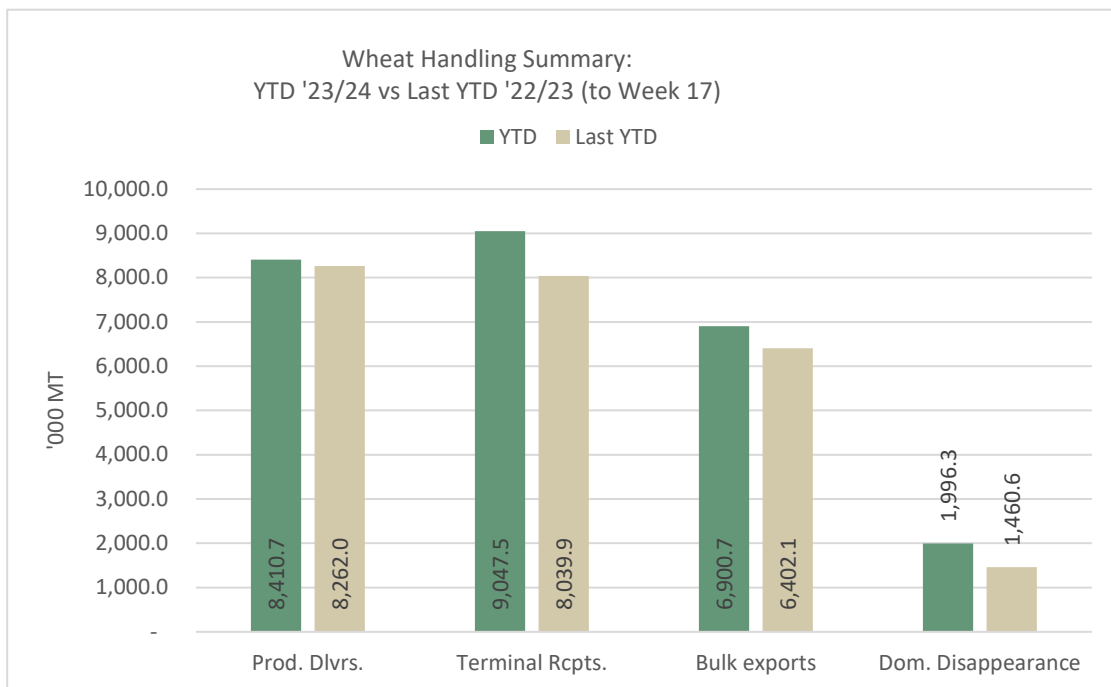


Mpls. Mar 2023 Wheat



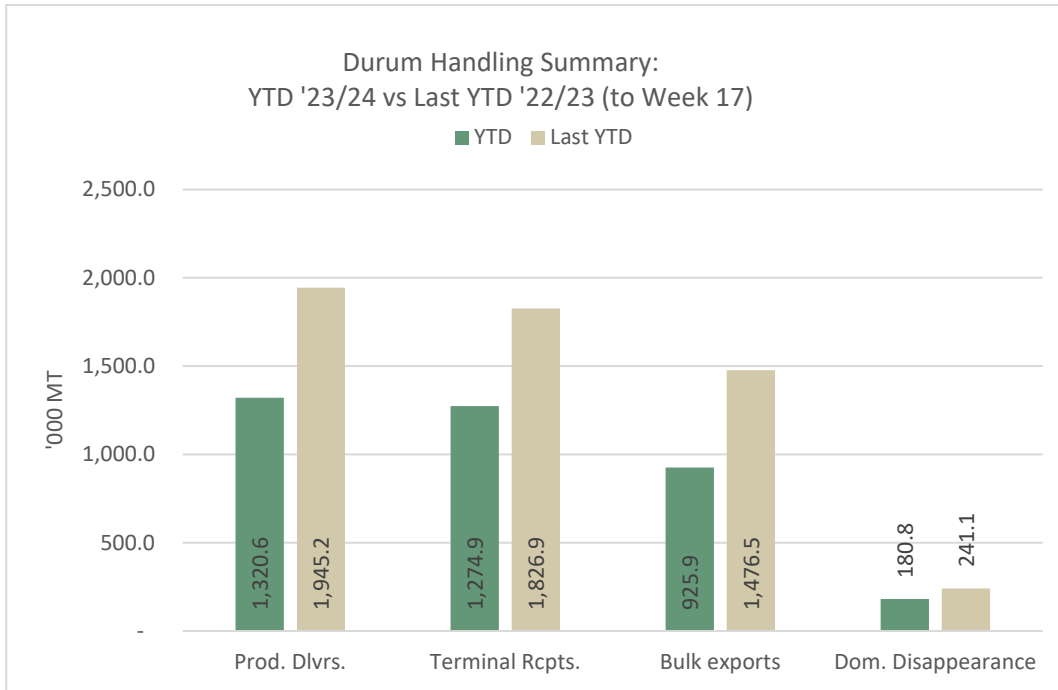
Canadian Wheat

- Weekly Canadian wheat exports:** Exports in shipping week 17 were fantastic at 603.3k mt for a season total of 6.9 million mt. Total shipments are now running eight per cent ahead of last year compared to our expectation for a nine per cent decrease year-over-year.



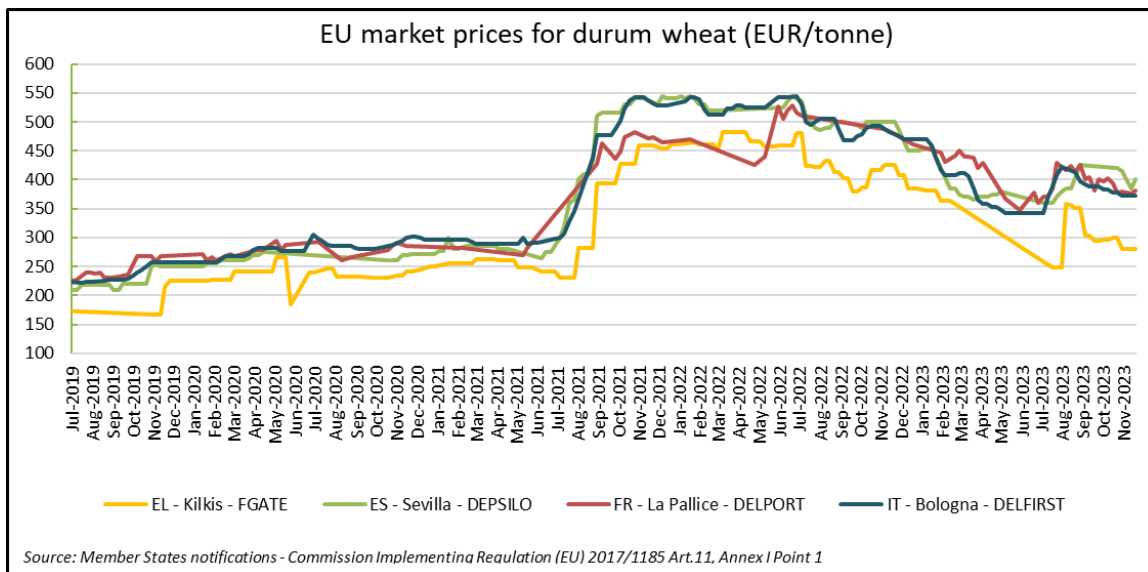
Source: Mercantile, based on CGC data

- Durum:** Durum exports in week 17 were just 43.3k mt for a season total of 925.9k mt. This is 37 per cent behind last year, which slightly behind our expectation for a 32 per cent decrease in exports.



Source: Mercantile, based on CGC data

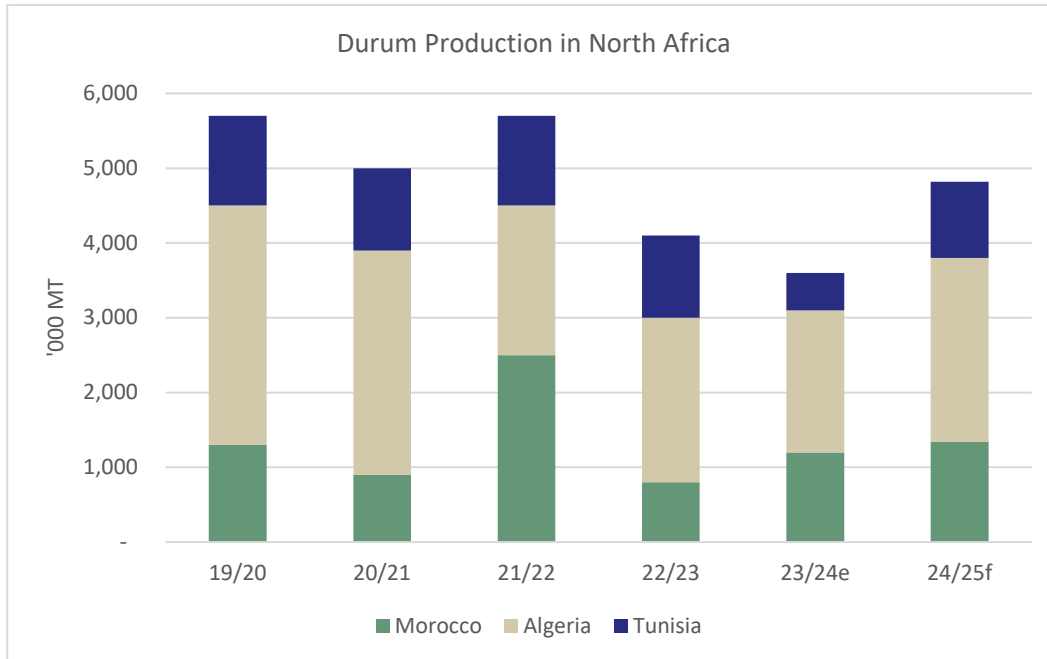
- Durum prices in the EU were unchanged to slightly higher last week. Price quotes in Italy and Greece were unchanged while prices France and Spain were €2-5/mt higher over the week.



Source: Member States notifications - Commission Implementing Regulation (EU) 2017/1185 Art.11, Annex I Point 1

Source: EUC

- Durum planting in France added another 12 per cent to 44 per cent complete (compared to 75 per cent last year).
- Rain in North Africa helped alleviate the drought but was not enough to reverse it. The long-term forecast has more consistent rain in Jan.-Feb. The recent rain will allow for planting and the Jan.-Feb. rain will help crop development. With that said, water reserves in Morocco are low and they will likely be able to produce an average crop at best.



Source: Mercantile

- Russia's AgMin is banning the export of durum as of Dec. 1, 2023. Russia has shipped lots of durum into the EU, but we think they have shipped their exportable surplus and the ban will not have a large impact on durum available in surplus. *If 80 per cent sold, we would hold additional sales for now.*

U.S. Wheat:

- U.S. wheat markets were higher last week on better-than-expected export sales. There was some fund buying in the corn markets, but the Commitment of Traders report showed the Funds extended its all wheat short by 29k contracts.
- U.S. export sales were 623k mt for a season total of 467 million bushels, down 11 per cent on last year against the USDA's eight per cent decline. Sales to China were confirmed and SRW sales have reached 75 per cent of the USDA's expectations. This morning (Monday), China was reported to have bought an additional 440k mt of SRW from the U.S.
- U.S. winter wheat conditions rose two points over the week to 50 per cent Gd/Ex (vs 34 per cent last year). Emergence is 91 per cent complete.
- U.S. HRS for Dec. 2023 was valued at \$312.00/mt FOB PNW (*up \$7.00/mt from last week*), FOB Gulf HRW 11/12.5 pro is valued at \$288.00/mt (*up \$13.00/mt from last week*).

Australian Wheat:

- Quality issues driven by a late season rain in NSW and Victoria caused futures prices in Australia to jump to a five-week high. Sources say that most of the grain harvested after the rain will need to be tested for low falling numbers. Estimates of the volume of damaged grain range from 100k mt to 1.0 million mt, or .4 per cent to four per cent of Australia's total expected wheat crop. Farmers have stopped selling as they assess the damage. Meanwhile feed markets dropped \$5-\$10/mt.
- FOB values in Australia: Dec. 2023 AWP, WA is valued at \$300.00/mt (*up \$20.00/mt from last week*).

Argentine Wheat:

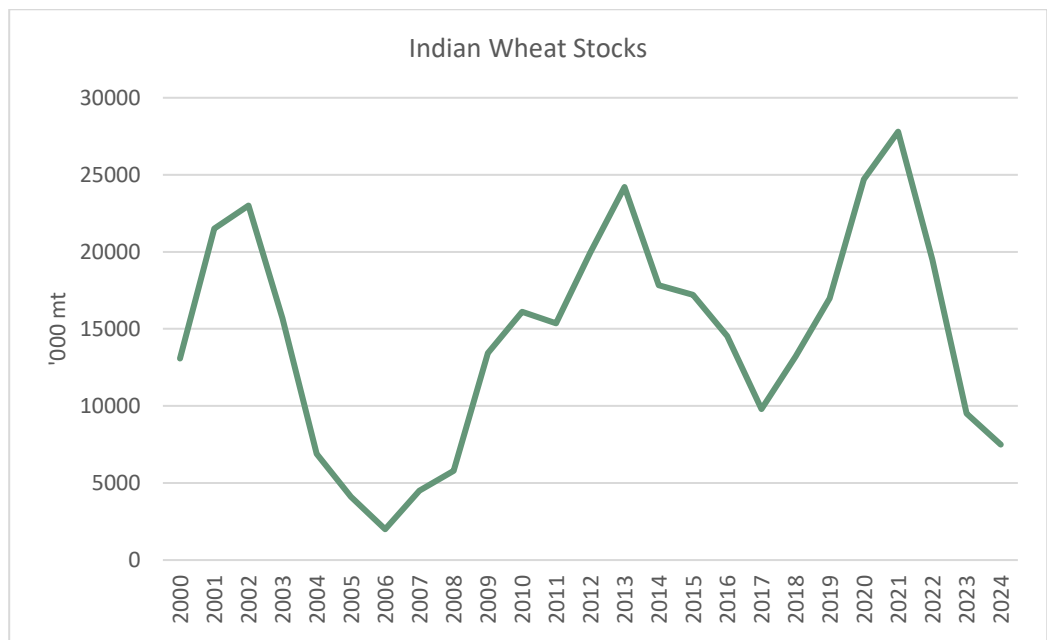
- Harvest in Argentina is up 10 per cent from last week at 36 per cent complete (vs. 23 per cent last year). BAGE left its production number at 14.7 million mt but says the crop could be bigger as

frost damage does not look as bad as expected. Yield data could support an increase. The average yield rose from 1.8 tph to 2.16 tph over the week. This means the average yield of the crop harvested last week was 3.1 tph. The remaining crop would need to average 2.85 tph to make BAGE's 2.6 tph yield estimate. Rain in Argentina's north and eastern regions could downgrade the quality of the crop.

- Farmers in Argentina are reluctant sellers, but it seems like there is some appetite to lock in some margins. Harvest pressure has allowed Argentine wheat to be competitive in Asian markets.
- FOB Argentine wheat (12 per cent pro) for December was quoted at \$240.00/mt (*down \$10.00/mt from last week*).

Indian Wheat:

- There are rumours that India will implement an export quota on wheat. Soil moisture levels are low which will likely cause wheat area to remain stagnant despite near-record high prices. Wheat stocks in the 2024/2025 season are expected to fall to the lowest level in 15 years.



Source: Mercantile, based on USDA data and Mercantile estimates

EU wheat:

- The EU Commission's update left production and exports in the EU unchanged while feed use was higher causing an 800k mt decrease in ending stocks. The EU commission's ending stocks number is seven million mt larger than the USDA's because of the difference in expected exports.
- French farmers planted another eight per cent of the soft wheat crop over the week to 82 per cent complete. Cold and snow may put a halt to seeding in many regions. The remaining area, which represents approximately seven million mt of production, is at risk of not being seeded until spring. The condition of the French winter wheat crop lost another three points over the week to 80 per cent Gd/Ex (vs. 98 per cent Gd/Ex last year).
- A December shipment vessel for China is being loaded in France indicating that not all December shipments were deferred.
- EU FOB prices: Dec. 2023 French 11.5 pro wheat closed at \$246.00/mt (*up \$1.00/mt from last week*); Dec. 2023 German 12.5 pro wheat closed at \$257.00 (*up \$9.00/mt from last week*); Dec. 2023 Baltic 14.0 pro wheat closed at \$248.00/mt (*up \$8.00/mt from last week*).

Black Sea Wheat:

- Strong winds and sea swells in the Black Sea hampered wheat exports for much of the week. Logistics in Russia's interior is still experiencing issues from heavy snowfall.
- Estimates for Russia's 2024 winter wheat crop range from 90-92 million mt compared to last year's crop that is thought to be 90 million mt.
- Ukraine's trade corridor remains operational. There is no further clarity on the minimum price scheme that is being proposed, but it seems like the country is moving towards more government controls.
- We have Russian FOB values for 12.5 per cent protein wheat for November at \$238/mt (*up \$3.00/mt from last week*).

➤ **Significant purchases/ trades:**

- **Morocco** bought four to seven cargoes of December shipment wheat.
- **Korea** bought 95k mt of various classes of U.S. and Canadian wheat.
- **China** bought another 440,000 mt of SRW wheat on Monday (Dec. 4, 2023) morning.
- **U.S.** export sales of 623,000 tonnes were above trade guesses.

➤ **Wheat Market Outlook:**

Significant events over the past week:

- **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 Capsize 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 there was evidence of Fund buying as they start to cover their short. Mercantile does not expect too many moves and the volume will be light as we move towards Christmas. Mercantile has several important reports coming in this week (Australian numbers, Stats Canada, USDA reports), and they do not expect these reports to be bearish. Wheat sales to China are supportive and if Funds continue to buy in their shorts, Mercantile says they could see strength in the futures markets. – *Mercantile 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 4, 2023

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Feb '24 (bu.)	Feb '24 (mt.)
1 CWRS 13.5	\$9.01	\$331.06	1 CWRS 13.5	\$8.89	\$326.65
1 CWAD 13.0	\$12.65	\$464.81	1 CWAD 13.0	\$12.80	\$470.32
1 CPSR 11.5	\$7.77	\$285.50	1 CPSR 11.5	\$7.85	\$288.44
SW Sask			SW Sask		
1 CWRS 13.5	\$8.99	\$330.33	1 CWRS 13.5	\$8.99	\$330.33
1 CWAD 13.0	\$12.61	\$463.34	1 CWAD 13.0	\$12.73	\$467.75
1 CPSR 11.5	\$7.66	\$281.46	1 CPSR 11.5	\$7.79	\$286.24
NE Sask			NE Sask		
1 CWRS 13.5	\$8.76	\$321.88	1 CWRS 13.5	\$8.73	\$320.78
1 CWAD 13.0	\$12.37	\$454.52	1 CWAD 13.0	\$12.37	\$454.52
1 CPSR 11.5	-	-	1 CPSR 11.5	-	-
SE Sask			SE Sask		
1 CWRS 13.5	\$8.79	\$322.98	1 CWRS 13.5	\$8.78	\$322.61
1 CWAD 13.0	\$12.47	\$458.20	1 CWAD 13.0	\$12.65	\$464.81
1 CPSR 11.5	\$7.51	\$275.95	1 CPSR 11.5	\$7.59	\$278.89

Data source: PDQ, Dec. 4, 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. 4, 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:

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				December 4, 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	\$416.62	Closed		
HRS	\$411.54			
HRW 11.5	\$363.98			
SWW 12.0	\$347.94			
1 CWRS 13.5 ³	\$416.62		\$328.12	\$88.50
2 CWRS 13.0 ³	\$411.54		\$317.10	\$94.44
3 CWRS ³	\$363.98		\$293.22	\$70.76
CPS ³	\$340.92		\$273.01	\$67.91
1 CWAD ⁴		Closed	\$477.67	
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$238.00		December	
French 11.5 (Rouen)	\$246.00		December	
APW 10.5 (W Coast)	\$300.00		December	
Argentine 12.5	\$240.00		December	
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				