

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

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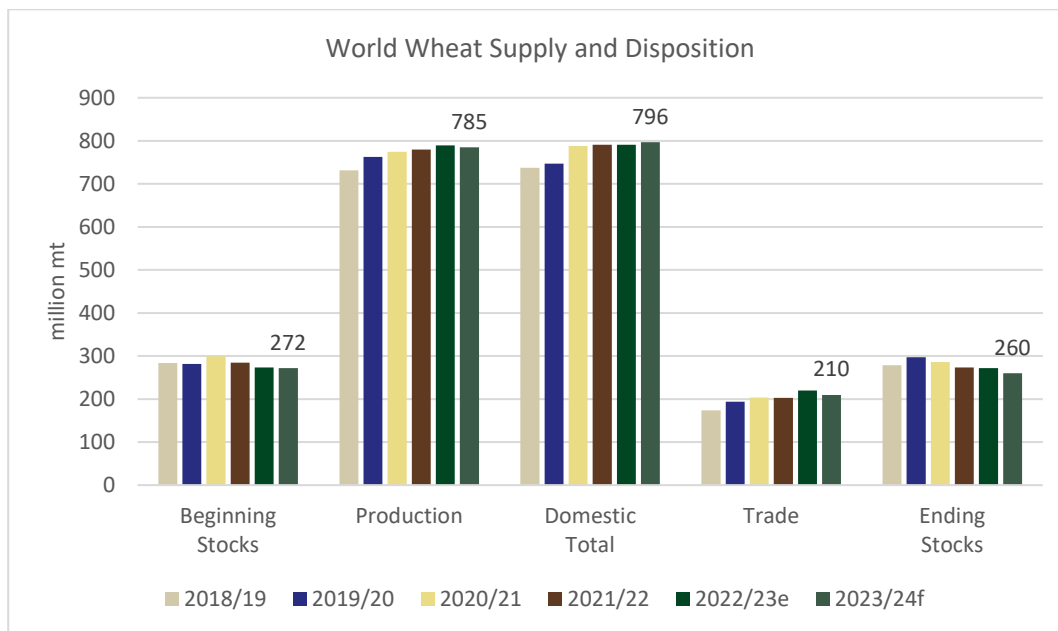
i) Background and Rationale for the Report

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 15, 2024

USDA: January 2024 World Grain Supply and Demand Estimates (WASDE)

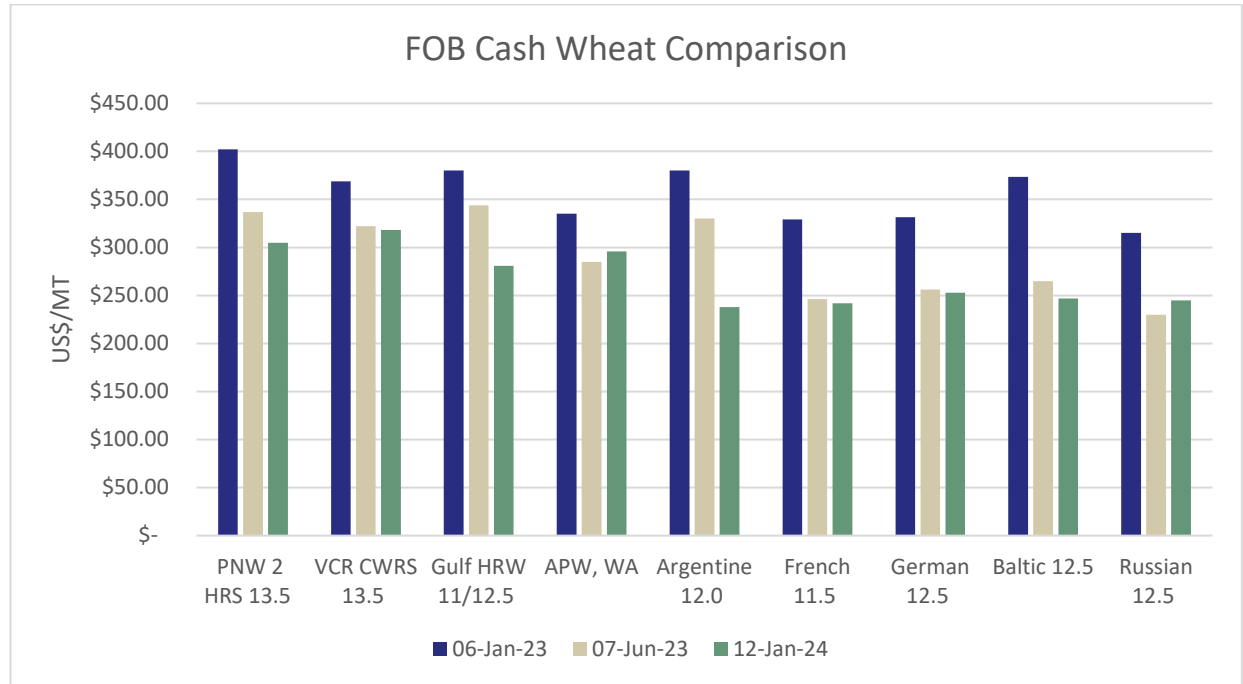


Source: Mercantile, based on USDA data

- Most of the news last week centered around Friday's USDA reports.
- Global wheat beginning stocks were raised by 1.7 million mt from last month.
- Production was lifted by an additional 1.9 mt. Higher production was led by a one million mt increase in Russia and a 900k mt increase in Ukraine. China's production was seen 410k mt lower.
- Global wheat use was raised by 1.8 million mt led by a one million mt increase in EU feed use.

- With supply rising by 3.6 million mt and use up just 1.8 million mt, global ending stocks were raised by 1.8 million mt to 260 million mt which reflects a 4.2 per cent decrease from last year.

Global Cash Wheat



Source: Mercantile

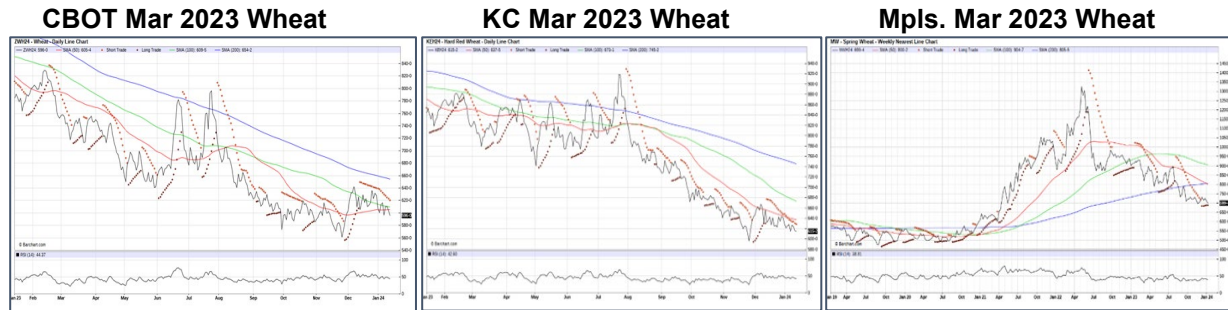
- Global cash wheat prices are down from the same time last year by \$39-\$142/mt on a FOB basis depending on the origin.
- Argentina's wheat prices saw the largest year over year decrease as the 2023 wheat crop was much improved from the drought-stricken crop of the previous year.
- Australian wheat prices experienced the smallest fall over the year as their crop size was reduced by a dry growing season and wet harvest.

➤ 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.

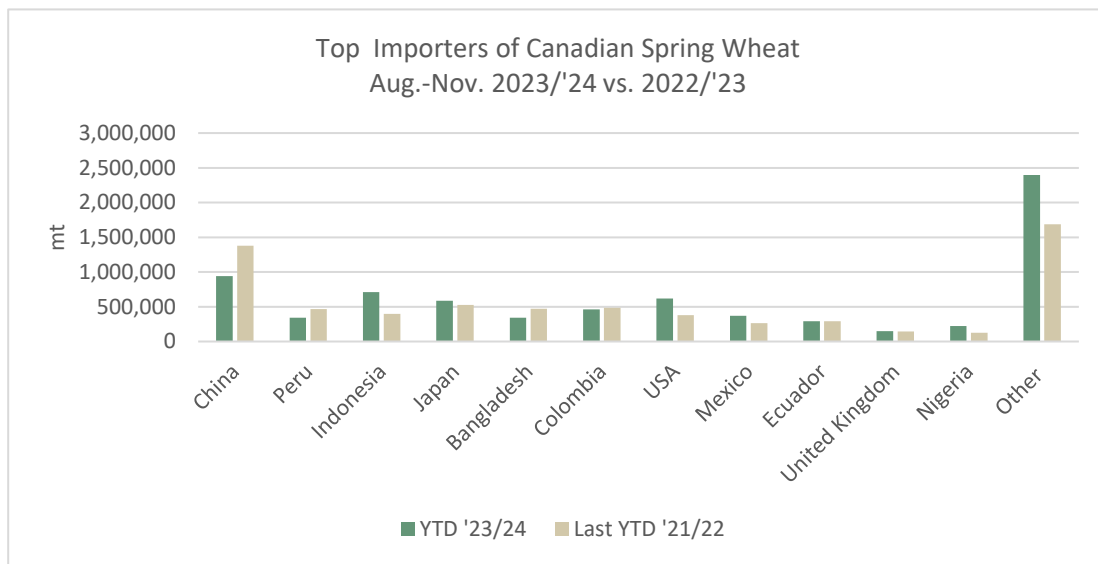
Futures:

- Mar. 2024 contract Chicago winter wheat closed at \$596-0, down 7-6 cents on Friday, *down 20-0 cents on the week.*
- Mar. 2024 contract Kansas hard red winter wheat closed at \$615-2, down 0-6 cents on Friday, *down 12-6 cents on the week.*
- Mar. 2024 Minneapolis hard red spring wheat closed at \$699-4, down 0-4 cents on Friday, *down 12-4 cents on the week.*
- U.S. wheat futures are closed today for the Martin Luther King Jr. Holiday.



Canadian Wheat

- Canada exported two million mt of wheat in November. China continues to be the largest customer, importing 403.0k mt of wheat over the month. This was the largest monthly volume since October 2022. Despite this, August to November exports to China remain 32 per cent (-435.7k mt) behind last year. Wheat exports to Indonesia, the U.S. and Mexico remain strong as well as exports to “other countries” which is 42 per cent higher than last year.



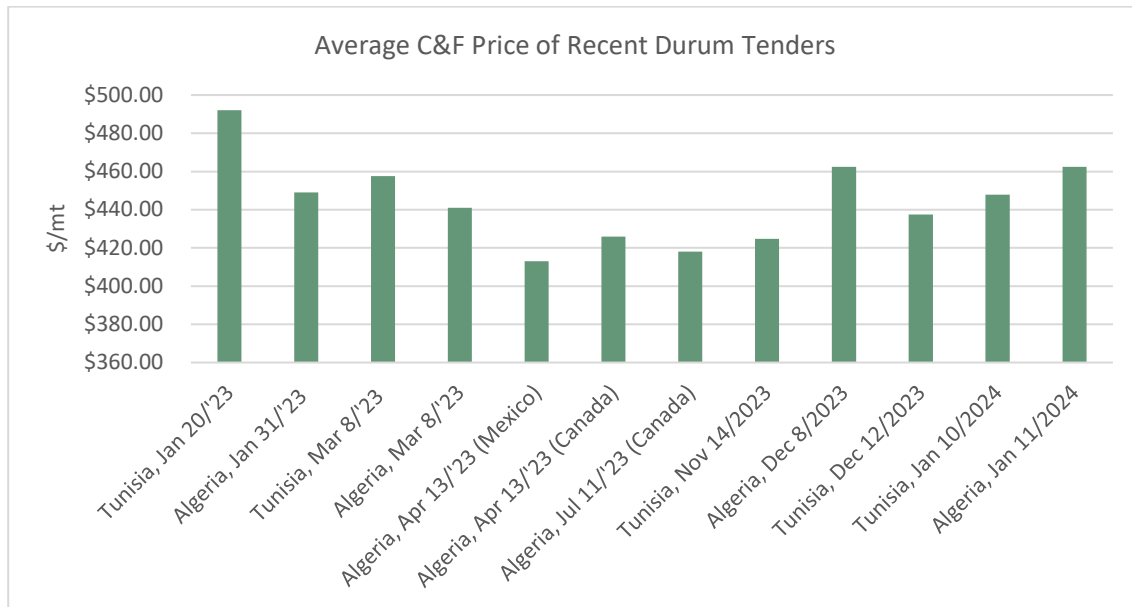
Source: Mercantile, based on STC data

- In the weekly export data, Canadian wheat exports in week 22 were slower at 288.5k mt. Total exports are now 9.4 million mt which is nine per cent ahead of last year compared to the AAFC’s 20 million mt export number which reflects a three per cent decrease from last year. The simple truth is that Canadian exports will eventually need to slow. The current pace of 447.3k mt of exports per week annualizes to a season total of 23.3 million mt which is impossible this year. With that said, visible supply is 2.7 million mt which should allow the export pace to remain strong for now.

(CGC) Grain Handling Summary		Week 22		
Wheat		(Jan. 7, 2024)		
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 22	332.3	319.1	288.5	38.2
Week ago	586.2	791.7	839.0	203.8
YTD	10,870.5	11,772.8	9,393.3	2,341.2
Last YTD	10,861.0	10,827.2	8,585.3	2,048.7
YTD less Last YTD	9.5	945.6	808.0	292.5
YTD over Last YTD	100 %	109 %	109 %	114 %

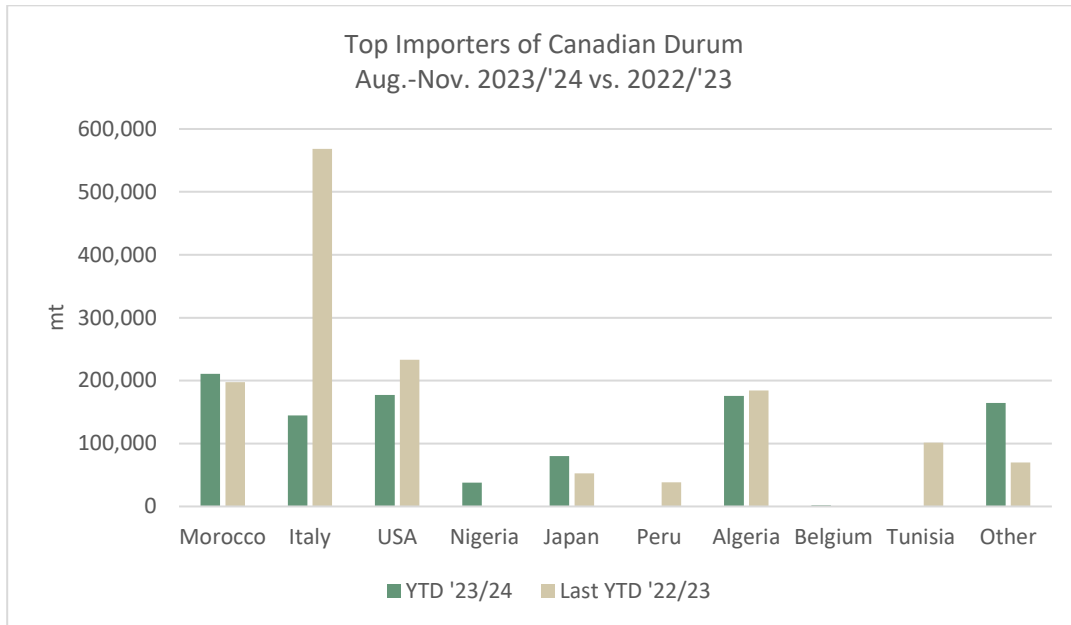
Source: Mercantile, based on CGC data

- Durum:** Tunisia bought two amounts of 25k mt of January to February shipment durum at \$446.97/mt and \$448.73/mt. Algeria bought 250-350k mt of February to March durum at \$450-\$475/mt. Algeria's tender is expected to have been fulfilled by Canada, Mexico and Australia. Tunisia's tender calculates to ~\$12.75/bu at the elevator in Saskatchewan while Algeria's purchase is at ~\$13.25/bu.



Source: Mercantile

- Canadian durum exports in November were a season high at 351.7k mt. Algeria was the largest buyer at 86.4k mt, followed by Morocco at 82.3k mt. Of the top importers of Canadian durum, Morocco is the only country whose imports are greater than last year-to-date. Italy's imports are just one quarter of last year's volume, down 423.8k mt from last year as the country satisfied much of its early demand with Turkish durum.



Source: Mercantile, based on STC data

- According to the CGC, durum exports in weeks 22 were strong at 99.9k mt for a season total of 1.6 million mt, down 43 per cent from last year, compared to the AAFC's predicted decline of 37 per cent. Canada needs to ship an average of 67.8k mt of durum per week to meet the AAFC's export number. This should be possible as the current pace is 64.2k mt per week and rising.

(CGC) Grain Handling Summary Durum		Week 22 (Jan. 7, 2024)		
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 22	63.3	67.8	99.9	26.5
Week ago	91.9	157.9	86.1	38.7
YTD	1,728.0	1,930.2	1,347.2	274.8
Last YTD	2,557.6	2,802.0	2,116.1	330.6
YTD less Last YTD	-829.6	-871.8	-768.9	-55.8
YTD over Last YTD	68 %	69 %	64 %	83 %

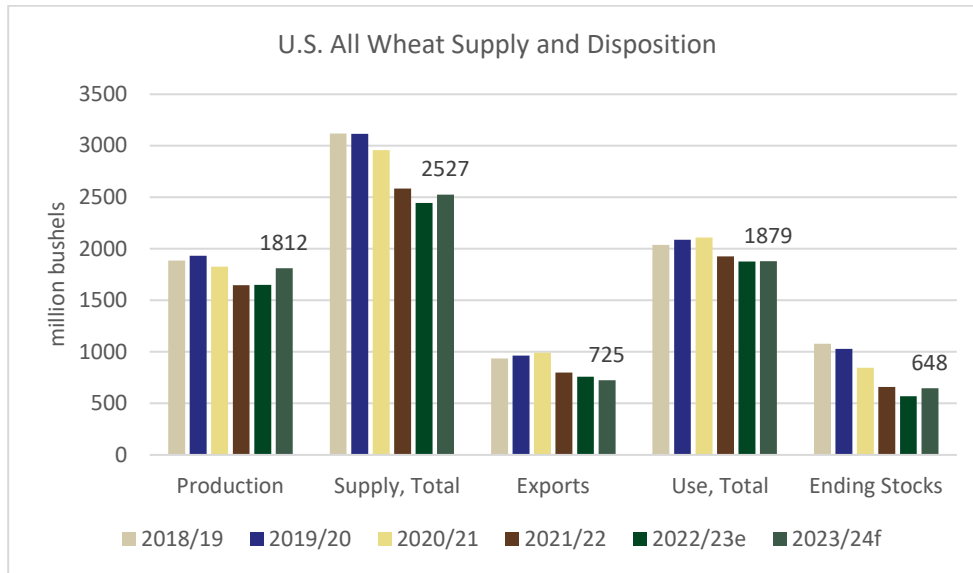
Source: Mercantile, based on CGC data

- There is still demand for durum, and importers are turning towards Canada for supplies. We are 80 per cent sold durum and would wait to see the impact of these recent durum tenders before selling more.

U.S. Wheat:

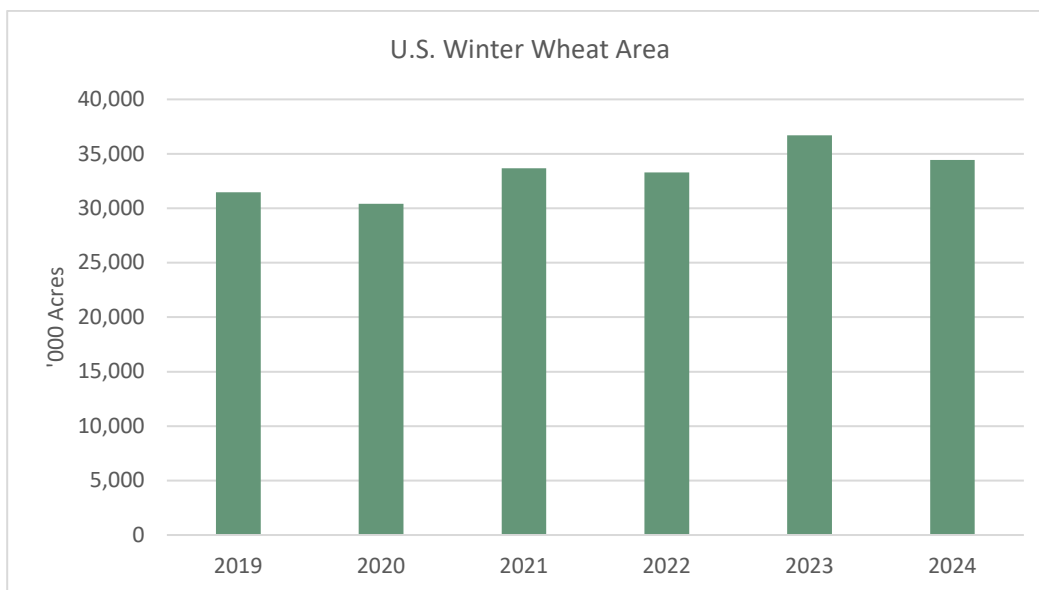
- U.S. wheat futures were pressured last week on poor export sales and spillover selling on Friday from a bearish USDA report for corn.

- The USDA made small changes to the U.S. wheat balance sheet. Beginning stocks were reduced by 12 million bushels causing total supply to fall to 2.5 billion bushels, up three per cent from last year. The decrease in carry-in was led by a 11 million bushel decrease in the HRW class. Seed use was reduced by one million bushels as ending stocks fell by 11 million bushels from last month to 648 million bushels. This is now a 14 per cent (+78 million bushels) increase from last year. The USDA left exports unchanged at 725 million bushels which reflects a four per cent decrease from last year.



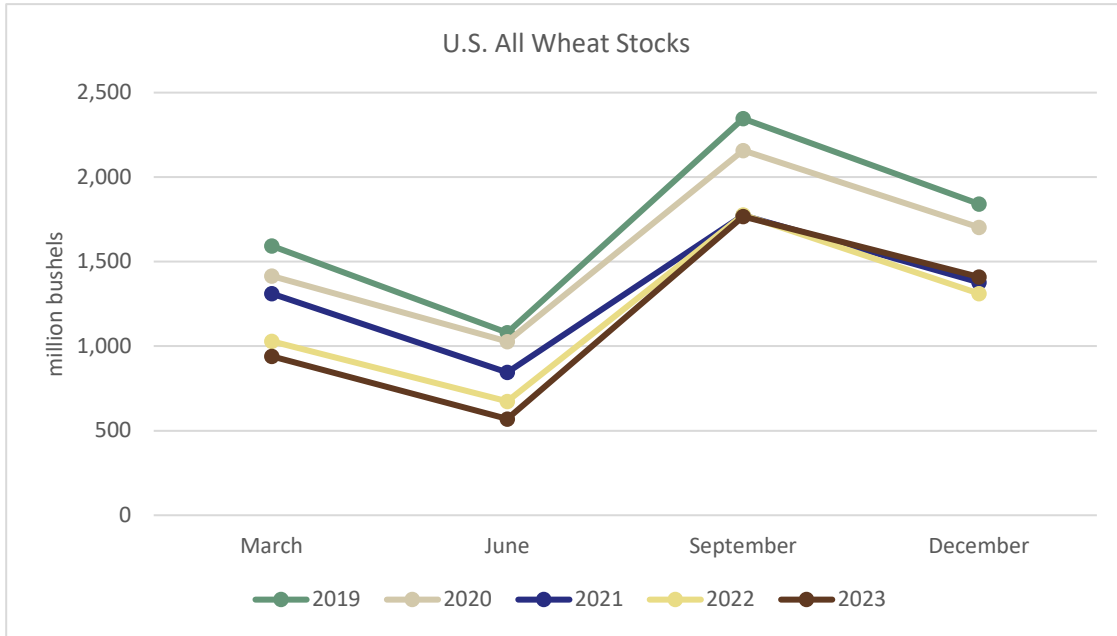
Source: Mercantile, based on USDA data

- The USDA decreased U.S. HRS ending stocks by two million bushels to 177 million bushels, up four per cent from last year.
- The only bullish news from the USDA reports on Friday was the smaller than expected winter wheat seeded area. The USDA put winter wheat area at 34.4 million acres which is six per cent less than last year. The trade was expecting 35.8 million acres.



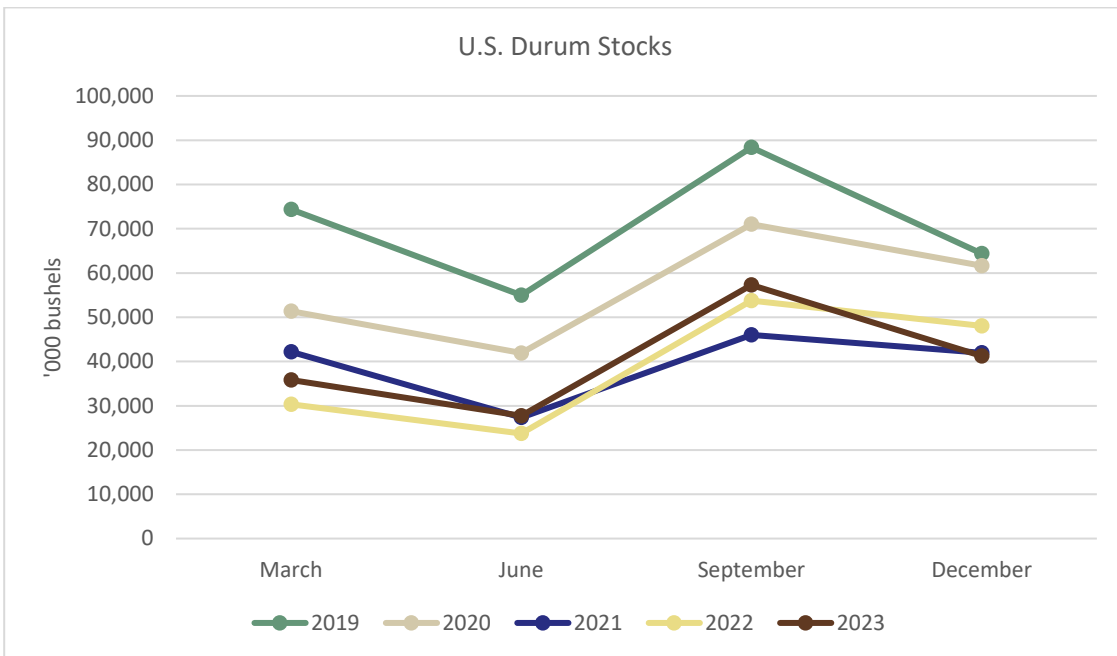
Source: Mercantile, based on USDA data

- U.S. Dec. 1, 2023 wheat stocks were slightly higher than the trade was expecting at 1.4 billion bushels, up one million bushels from last year.



Source: Mercantile, based on USDA data

- U.S. durum stocks are significantly tighter than last year. The USDA put Dec. 1, 2023, durum stocks at 41.3 million bushels, down 6.8 million bushels from last year.



Source: Mercantile, based on USDA data

- U.S. export sales last week were below trade expectations at 128.1k mt. Total commitments are now 15.4 million mt which is up two per cent on last year compared to the USDA's unchanged forecast for a four per cent decrease.
- U.S. HRS for February 2024 was valued at \$305.00/mt FOB PNW (*down \$4.00/mt from last week*), FOB Gulf HRW 11/12.5 pro is valued at \$281.00/mt (*down \$2.00/mt from last week*).

Australian Wheat:

- The USDA lifted Australian wheat exports by 500k mt to 19 million mt (down 40 per cent from last year). Ending stocks were respectively lowered to 3.6 million mt, down 18 per cent from last year.
- FOB values in Australia: January 2024 AWP, WA is valued at \$296.00/mt (*unchanged from last week*).

Argentine Wheat:

- Harvest in Argentina is 95 per cent wet conditions have been slowing the last leg of harvest.
- The USDA left Argentina's wheat production at 15 million mt which is in line with BAGE's 15.1 million mt number. The only adjustment was a slight increase in feed use.
- FOB Argentine wheat (12 per cent pro) for January 2024 was quoted at \$238.00/mt (*down \$4.00/mt from last week*).

Indian Wheat:

- The USDA reduced India's wheat ending stocks by another one million mt to 10 million mt. This is still 500k mt more than its number for last year, but well below 2021/22 stocks of 19.5 million mt.

EU Wheat:

- EU imports were raised 2.5 million mt as wheat from Ukraine continues to flood into the region. Feed use was raised one million mt, but exports were similarly reduced. Exports are now expected to be 36.5 million mt, up four per cent from last year compared to the current pace that trailing last year by 11 per cent. Ending stocks were seen 2.5 million mt higher at 15.3 million mt.
- There is still lots of questions about how much of an area was able to be seeded to winter wheat and whether the crop will be able to germinate.
- EU FOB prices: February 2024 French 11.5 pro wheat closed at \$242.00/mt (*down \$3.00/mt from last week*); February 2024 German 12.5 pro wheat closed at \$253.00 (*down \$2.00/mt from last week*); February 2024 Baltic 14.0 pro wheat closed at \$247.00/mt (*down \$3.00/mt from last week*).

Black Sea Wheat:

- Russia and Ukraine were largely off for the holidays last week, but Russia still won the bulk of the GASC tender.
- Supply in Ukraine was said to be 3.1 million mt higher driven by larger beginning stocks and production. The on-going success of Ukraine's export program prompted a 1.5 million mt increase to 14 million mt (17 million mt last year). Ending stocks were raised 1.8 million mt to 4.4 million mt (vs. 3.5 million mt last year).
- Russian production was raised by another one million mt to 91 million mt. This is still lower than most other estimates that are on either side of 100 million mt. The increase in production was put towards exports which are now expected to be 51 million mt.
- We have Russian FOB values for 12.5 per cent protein wheat for February 2024 at \$245.00/mt (*up \$5.00/mt from last week*).

➤ **Significant purchases/ trades:**

Cash business was slow last week given Orthodox Christmas and the Chinese New Year.

- **Tunisia** bought two amounts of 25k mt of January to February shipment durum at \$446.97/mt and \$448.73/mt.
- **Algeria** bought what is estimated to be 250-350k mt of February to March durum at \$450-\$475/mt. Algeria's tender is thought to have been fulfilled by Canada, Mexico and Australia.
- **Thailand** bought 60k mt of feed wheat at \$264 C&F.
- **Egypt (GASC)** bought 60k mt of Ukrainian and 360k mt of Russian February to March shipment wheat at \$245/mt FOB.
- **Algeria** tenders on Tuesday for April shipment soft wheat.

➤ **Wheat Market Outlook:**

Significant events over the past week:

- The WASDE report, did not supply any ammunition for the Bulls. Instead, it was a somewhat negative report. Global annual carry-in for total grains was put at 779 million mt compared to 767 million mt in December.
- Corn March futures ended the week on a net 13 and three quarters of a cent loss. Weekly CFTC data showed managed money funds were building their shorts in corn to 230,723 contracts.
- The USDA raised their average corn yield by 2.4 bushels per acre to 177.3 bpa, while the average trade guess was to see a 0.2 bushel per acre cut. Harvested area was cut by 600k acres to 86.5 million acres for a net 108-million-bushel larger production figure of 15.3 billion bushels.

Mercantile's Outlook This Week:

The markets are closed today for Martin Luther King Jr. Day. We do not expect much of a decline in wheat during the week. In fact, we expect wheat to show some strength. Funds will continue to buy in their short. But we don't expect a decline in Black Sea cash offers. Algeria tenders Tuesday for its April soft wheat requirements and it will be interesting to see what is offered. We suggest holding wheat until we see the offers against Algeria.

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 15, 2024

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Mar '24 (bu.)	Mar '24 (mt.)
1 CWRS 13.5	\$8.77	\$322.24	1 CWRS 13.5	\$8.75	\$321.51
1 CWAD 13.0	\$12.24	\$449.75	1 CWAD 13.0	\$12.13	\$445.70
1 CPSR 11.5	\$7.64	\$280.72	1 CPSR 11.5	\$7.80	\$286.60
SW Sask			SW Sask		
1 CWRS 13.5	\$8.70	\$319.67	1 CWRS 13.5	\$8.71	\$320.04
1 CWAD 13.0	\$12.24	\$449.75	1 CWAD 13.0	\$12.11	\$444.97
1 CPSR 11.5	\$7.42	\$272.64	1 CPSR 11.5	\$7.69	\$282.56
NE Sask			NE Sask		
1 CWRS 13.5	\$8.52	\$313.06	1 CWRS 13.5	\$8.49	\$311.96
1 CWAD 13.0	\$12.12	\$445.34	1 CWAD 13.0	\$11.88	\$436.52
1 CPSR 11.5	-	-	1 CPSR 11.5	-	-
SE Sask			SE Sask		
1 CWRS 13.5	\$8.44	\$310.12	1 CWRS 13.5	\$8.44	\$310.12
1 CWAD 13.0	\$12.11	\$444.97	1 CWAD 13.0	\$11.89	\$436.89
1 CPSR 11.5	\$7.17	\$263.45	1 CPSR 11.5	\$7.42	\$272.64

Data source: PDQ, Jan. 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	0.01	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, Jan. 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 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
 - HRS in the Pacific Northwest (PNW) ≈ 2 CWRS 13.0 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.”

- 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				January 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	\$393.58	Closed		
HRS	\$388.63			
HRW 11.5	\$339.82			
SWW 12.0	\$325.02			
1 CWRS 13.5 ³	\$393.58		\$323.71	\$69.87
2 CWRS 13.0 ³	\$388.63		\$307.18	\$81.45
3 CWRS ³	\$339.82		\$283.30	\$56.52
CPS ³	\$318.12		\$263.09	\$55.03
1 CWAD ⁴		Closed	\$459.30	
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$245.00		Feb. '24	
French 11.5 (Rouen)	\$242.00		Feb. '24	
APW 10.5 (W Coast)	\$296.00		Feb. '24	
Argentine 12.5	\$238.00		Feb. '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				