

Wheat Market Outlook and Price Report: Oct. 10, 2023

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 Oct. 10, 2023

AMIS Market Monitor, October 2023

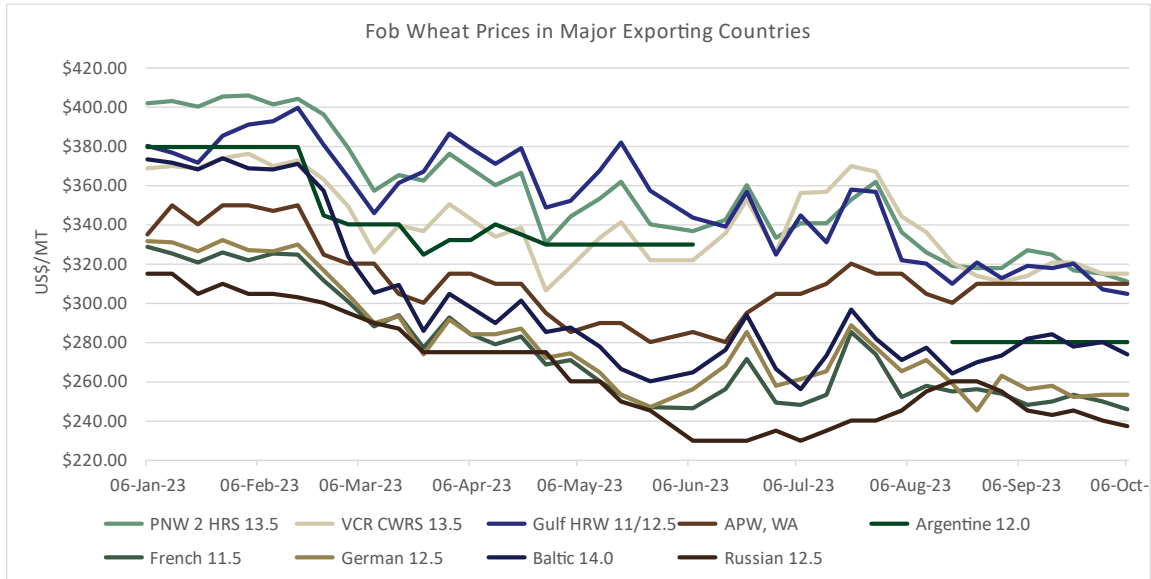
Wheat	FAO-AMIS			USDA		IGC		IN MILLION TONNES
	2022/23 est	2023/24 f'cast		2022/23 est	2023/24 f'cast	2022/23 est	2023/24 f'cast	
		7 Sep	5 Oct					
Prod.	802.8	781.1	784.7	790.6	787.3	804.6	783.5	
	665.1	644.5	648.2	652.9	650.3	666.9	647.0	
Supply	1098.5	1095.5	1098.2	1063.3	1054.5	1077.9	1066.0	
	826.8	817.4	820.1	788.8	778.7	808.4	790.3	
Utiliz.	779.5	784.9	783.3	796.1	795.9	795.4	803.4	
	636.8	641.9	640.3	648.1	642.9	652.6	653.9	
Trade	200.3	193.3	193.3	215.4	209.8	207.8	195.9	
	186.8	183.3	183.3	202.1	198.8	194.2	184.2	
Stocks	313.7	315.2	319.3	267.1	258.6	282.5	262.6	
	172.2	170.6	174.8	128.3	125.7	142.2	124.7	

Source: AMIS

- In the October Market Monitor, the Agricultural Market Information System (AMIS) raised 2023 global wheat production by 3.6 million mt. The increase was because of higher yields in Ukraine and Russia. AMIS is estimating global wheat production in 2023 is 784.7 million mt, 2.3 per cent less than the previous crop year.

- Global wheat use was lowered from last month, but at 783.3 million mt, is still expected to be higher than last year as greater food use offsets smaller feed use.
- Higher production and less use caused AMIS to raise global wheat stocks by 4.1 million mt from last month to 319.3 million mt. This reflects a 5.6 million mt (1.7 per cent) increase from last year.

FOB Wheat Price Developments:



- FOB wheat prices were mostly lower over the week. We continue to hear of Russian wheat trading below \$240/mt which is undercutting the rest of the market.

➤ **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:

- Dec. 2023 contract Chicago winter wheat closed at \$568-2, down 10-0 cents on Friday, *up 26-6 cents on the week.*
- Dec. 2023 contract Kansas hard red winter wheat closed at \$673-6, down 16-6 cents on Friday, *up 10-0 cents on the week.*
- Dec. 2023 Minneapolis hard red spring wheat closed at \$720-4, down 11-0 cents on Friday, *up 11-2 cents on the week.*
- U.S. wheat futures are 5-11 cents lower and Marché à Terme International de France (MATIF) milling wheat futures are down by €2.75-€3.25 at the time of writing this Tuesday morning.

CBOT Dec 2023 Wheat (1 yr.)

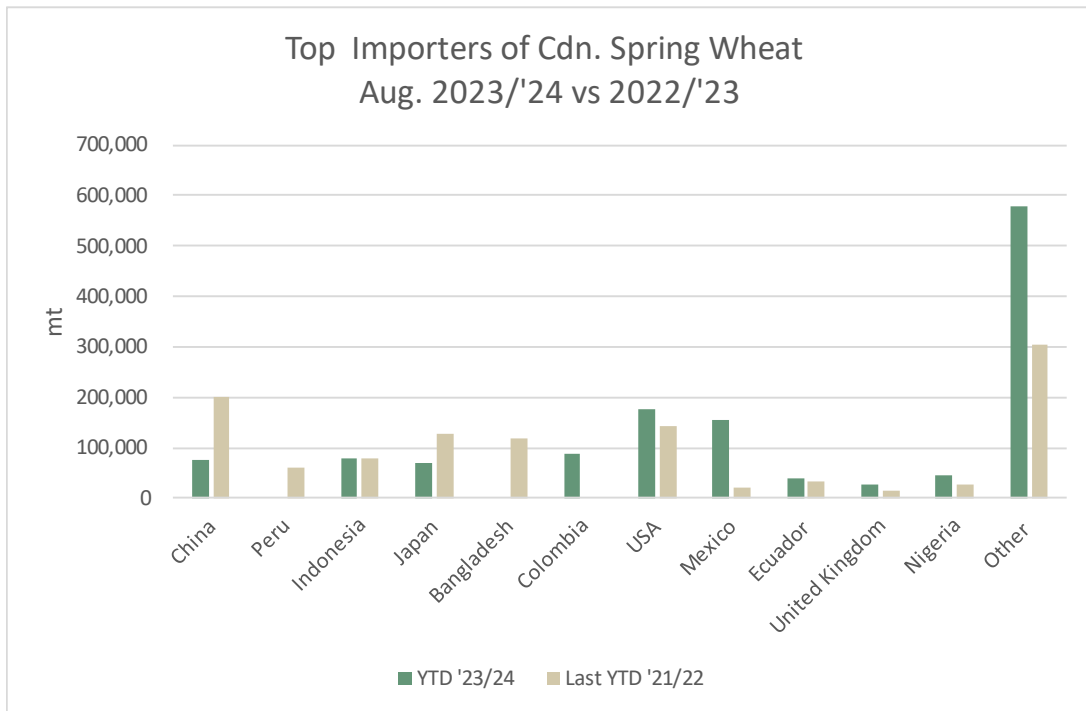
KC Dec 2023 Wheat

Mpls. Dec 2023 Wheat



Canadian Wheat

- Spring wheat harvest is reported to have reached completion in Saskatchewan. Sask. Ag is estimating that the provincial yield is 39 bushels per acre compared to Stats Canada's 37.6 bushels per acre estimate for Saskatchewan.
- Canadian non-durum wheat exports were robust in August with 1.3 million mt of wheat being exported in the first month of the marketing year. This is up 18 per cent from last year, despite China taking just 37 per cent (75.2k mt) of the tonnage they did in August 2022. The strong export volume was driven by large sales to the U.S. (176.6k mt, up 22 per cent from last year) and Mexico (154.2k mt, up 629 per cent from last year). Exports to "other countries" of 578.7k mt is also 91 per cent more than the same time last year.



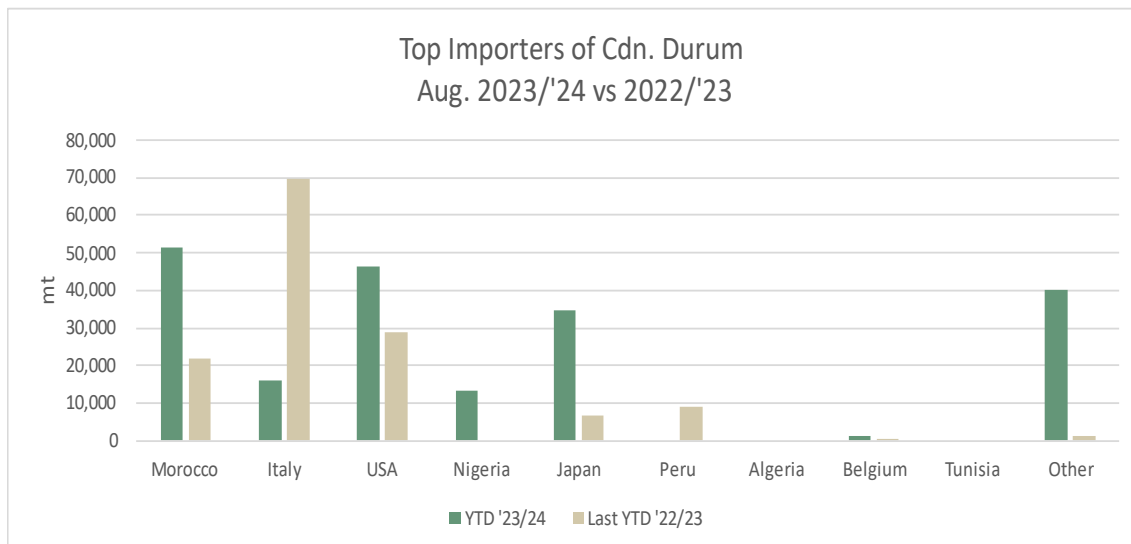
Source: based on STC data

- **Weekly Canadian wheat exports** were lower in week nine at 272.6k mt. Deliveries were 407.0k mt as visible supplies grew to 3.1 million mt. Total exports of 3.3 million mt are up 20 per cent on last year, but the gap declined by 8 per cent over the week. The AAFC is expecting wheat exports to fall by 12 per cent from last year to 18.0 million mt. This would require an average export pace of 342.0k mt per week compared to the current pace of 365.8k mt.

(CGC) Grain Handling Summary		Week 9 (Oct. 1, 2023)		
Wheat				
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 9	407.0	389.7	272.6	87.9
Week ago	529.6	664.8	574.6	76.2
YTD	4,422.0	4,832.8	3,292.2	1,278.1
Last YTD	4,400.8	3,996.4	2,742.8	766.1
YTD less Last YTD	21.2	836.4	549.4	512.0
YTD over Last YTD	100%	121%	120%	167%

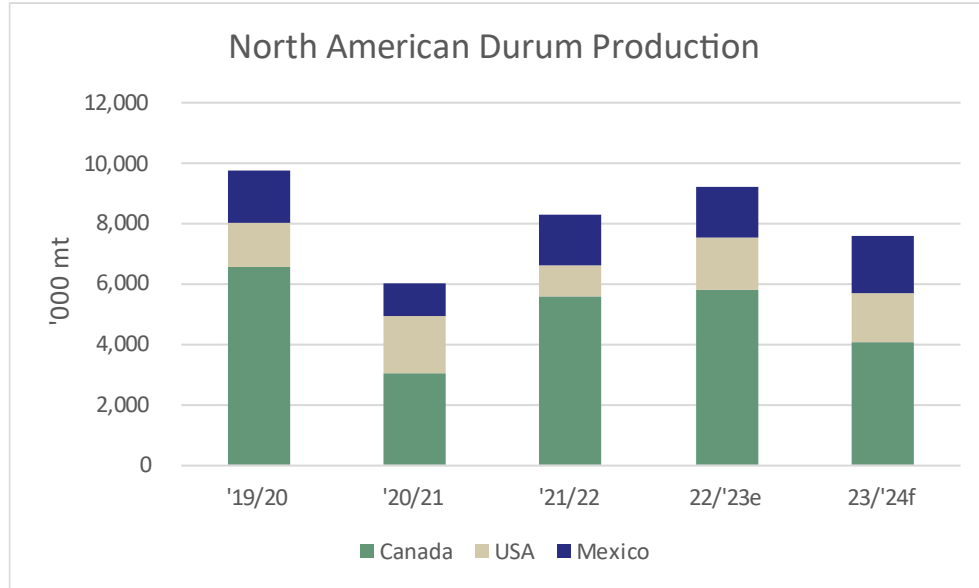
Source: based on CGC data

- Strong demand for high quality wheat is supportive for Canadian values. Canadian elevators are shipping wheat quickly but are having trouble sourcing additional tonnes with the depressed prices. We have heard of elevators taking delivery of Nov.-Dec. contract wheat.
- **Durum:** Sask. Ag is estimating that the provincial durum yield is 33 bushels per acre compared the Stats Canada's estimate for Saskatchewan of 25.4 bushels per acre. This is a 30 per cent yield difference.
- Stats Canada reported 202.3k mt of durum exports in August. Although this is almost 50 per cent more than last year, it is still 126k mt less than the average August volume. Durum exports were strong to Morocco, the U.S., and "other countries" which do not usually import large volumes of Canadian durum. These countries include Saudi Arabia, Venezuela, Costa Rica and Nigeria.



Source: based on STC data

- Official estimates show durum production in North America is set to decline by 1.7 million mt in 2023/2024 as a 1.9 million mt decrease in production in the U.S. and Canada is only slightly offset by a 200k mt larger production in Mexico.



Source: based on USDA and STC data

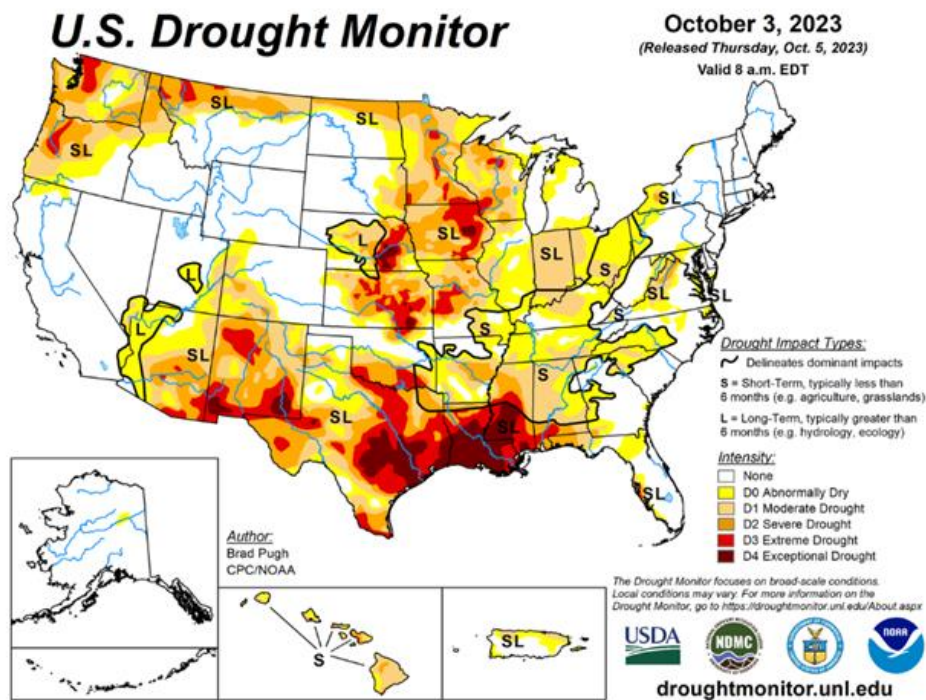
- Durum exports in 2023/2024 are expected to shrink by a respective 1.7 million mt as greater exports in the U.S. (+51k mt) and Mexico (+36k mt) are offset by 1.8 million mt fewer exports from Canada.
- Current U.S. durum commitments are running 43 per cent ahead of last year at 110.8k mt.
- Weekly Canadian **durum exports** total 336.8k mt as of week nine, down 12per cent (44k mt) from last year.

(CGC) Grain Handling Summary Durum			Week 9	(Oct. 1, 2023)
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 9	109.5	88.5	49.4	1.0
Week ago	93.9	88.5	53.8	3.6
YTD	731.1	370.8	336.8	56.3
Last YTD	810.1	670.3	380.7	94.8
YTD less Last YTD	-79.0	-299.5	-43.9	-38.5
YTD over Last YTD	90%	55%	88%	59%

- The EU has imported a record, 735k mt of durum wheat in the first 14 weeks of their marketing year. Turkey and Russia have been the main suppliers at 327k mt and 231k mt respectively.
- The Turkish government changed its policy to allow exports of pasta made from non-durum wheat. This decreases Turkey's need for durum, causing the country to export its durum supplies at a discount to other origins. Total export commitments of Turkish durum have surpassed one million mt as importing countries take advantage of the cheaper supplies in a year when stocks in importing countries is low. Turkey should run out of exportable supplies in the later half of the marketing year.

U.S. Wheat:

- U.S. wheat futures finished the week higher as weather concerns in the southern hemisphere led the funds to cover some of its very large short position.
- U.S. weekly wheat export sales were 273,100 mt for a season total of 9.4 million mt, down 14 per cent from last year compared to the USDA's 8 per cent decline. U.S. winter wheat planting is 40 per cent complete, up 14 per cent from last week. Drought conditions expanded in Kansas, Nebraska, and Colorado, but improved in Montana.



- U.S. HRS for Nov. 2023 was valued at \$311.00/mt FOB PNW (down \$4.00/mt from last week), FOB Gulf HRW 11/12.5 pro is valued at \$305.00/mt (down \$2.00/mt from last week).

Australian Wheat:

- Australia had its driest September on record, and the forecast maintains below average precipitation for the remainder of the growing season. The critical grain-fill period is in October.
- FOB values in Australia: Nov. 2023 AWP, WA is valued at \$310.00/mt (unchanged from last week).

Argentine Wheat:

- Argentina remains dry. Buenos Aires Grain Exchange (BAGE) left their production number at 16.5 million mt, but said more losses were likely if rain stays absent.
- Harvest in Brazil is 35 per cent complete. The wettest September in over 100 years has caused disease issues and quality concerns.
- FOB Argentine wheat (12 per cent pro) for November was quoted at \$280.00/mt (*unchanged from last week*).

EU Wheat:

- Cocal lowered its estimate for the EU wheat crop by 600k mt to 134.3k mt. This is still larger than both Brussel's and the USDA's estimates.
- There are four French vessels in the line-up for Egypt. At least one of these vessels was originally Russian origin that was switched to France.
- EU FOB prices: Nov. 2023 French 11.5 pro wheat closed at \$246.00/mt (*down \$4.00/mt from last week*); Nov. 2023 German 12.5 pro wheat closed at \$253.00 (*unchanged from last week*); Nov. 2023 Baltic 14.0 pro wheat closed at \$274.00/mt (*down \$6.00/mt from last week*).

Black Sea Wheat:

- There are about 20 vessels in/leaving Ukraine's ports, and more are being booked. There were rumors of a Russian-backed Ukrainian vessel corridor, but these seem to be false.
- The UK says Russia is putting mines in the Black Sea to deter vessels from sailing to Ukrainian ports.
- Record exports and a smaller harvest caused Sept. 1 wheat stocks in Russia to fall by 9 per cent from last year to 28.8 million mt. SovEcon is estimating 2023/2024 Russian exports will be 48.9 million mt, up two million mt from last year. They forecast the Russian harvest will be 91.6 million mt compared to 104.2 million mt last year.
- Russian wheat exports remain at a record pace, but there are rumors export sales are declining. The Russia ruble has fallen to the lowest level since the start of the war.
- Southern Russia and Ukraine remain dry as winter wheat seeding begins. Ukrainian officials say their wheat area will be lower but did not say by how much.
- We would put effective Russian FOB values for 12.5 per cent protein wheat for November at \$237/mt (*down \$3.00/mt from last week*).

➤ **Significant purchases/ trades:**

Exports were lower than expected.

- **China** bought 220,000 mt of SRW from the U.S.
- There were reports that **China** bought French wheat last week.

➤ **Wheat Market Outlook:**

Significant events over the past week:

- **The war between Hamas and Israel** is causing additional uncertainty. The energy markets being the most affected.
- In Europe, **Coceral dropped their estimate for EU grains** by 6.9 million mt to 289.8 million mt, citing early summer dryness.
- **Russia conducted another slew of attacks on Ukrainian port infrastructure** along the Danube River.
- **A Turkish cargo ship hit a mine** in the Black Sea off the coast of Romania. The vessel managed to complete its journey to a Danube port.
- **Fund traders were also adding new shorts in Minneapolis wheat**, taking their net short to 20,986 contracts, the largest since Aug. 2020.

Outlook:

According to Mercantile, traders are working through the several unusual dynamics in the markets. Mercantile does not expect much change during the week, especially since they have a new WASDE report coming on Thursday. Mercantile prefers to hold additional sales this week given the number of unusual occurrences happening, and a new WASDE report which could be slightly bullish. Mercantile would not suggest additional sales at this time.

iii) Primary Elevator Price Tables and Grade Spreads

Table 1: Canadian Primary Elevator Bids, in Canadian Dollars per Bu and per MILLION MT

Date: October 10, 2023					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Dec '23 (bu.)	Dec '23 (mt.)
1 CWRS 13.5	\$8.99	\$330.33	1 CWRS 13.5	\$8.94	\$328.49
1 CWAD 13.0	\$13.67	\$502.29	1 CWAD 13.0	\$13.72	\$504.13
1 CPSR 11.5	\$8.12	\$298.36	1 CPSR 11.5	\$8.39	\$308.28
SW Sask			SW Sask		
1 CWRS 13.5	\$9.00	\$330.70	1 CWRS 13.5	\$8.94	\$328.49
1 CWAD 13.0	\$13.66	\$501.92	1 CWAD 13.0	\$13.71	\$503.76
1 CPSR 11.5	\$8.04	\$295.42	1 CPSR 11.5	\$8.32	\$305.71
NE Sask			NE Sask		
1 CWRS 13.5	\$8.76	\$321.88	1 CWRS 13.5	\$8.71	\$320.04
1 CWAD 13.0	\$13.47	\$494.94	1 CWAD 13.0	\$13.50	\$496.04
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a
SE Sask			SE Sask		
1 CWRS 13.5	\$8.80	\$323.35	1 CWRS 13.5	\$8.77	\$322.24
1 CWAD 13.0	\$13.50	\$496.04	1 CWAD 13.0	\$13.53	\$497.15
1 CPSR 11.5	\$7.84	\$288.07	1 CPSR 11.5	\$8.03	\$295.05

Data source: PDQ, Oct. 10, 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	0.05	1.89
1 CWRS 13.5	Base Grade	Base Grade
2 CWRS 13.5	(0.10)	-3.67
1 CWRS 12.5	(0.30)	-11.02
1 CWAD 13.0	Base Grade	Base Grade
1 CWAD 13.5	0.00	0.00
2 CWAD 13.0	(0.10)	-3.67
2 CWAD 12.5	(0.15)	-5.51

Data source: PDQ, Oct. 10, 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 14per 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.

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.”

- 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				October 10, 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	\$407.40	\$394.36		
HRS	\$401.04			
HRW 11.5	\$364.76			
SWW 12.0	\$348.20			
1 CWRS 13.5 ³	\$407.40		\$322.24	\$85.16
2 CWRS 13.0 ³	\$401.04		\$311.22	\$89.82
3 CWRS ³	\$364.76		\$287.34	\$77.42
CPS ³	\$341.17		\$277.78	\$63.39
1 CWAD ⁴		\$638.20	\$496.04	\$142.15
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$337.00		November	
French 11.5 (Rouen)	\$246.00		November	
APW 10.5 (W Coast)	\$310.00		November	
Argentine 12.5	\$280.00		November	
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				