

Wheat Market Outlook and Price Report: Oct. 2, 2023
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 Mercantile Consulting Venture Inc.

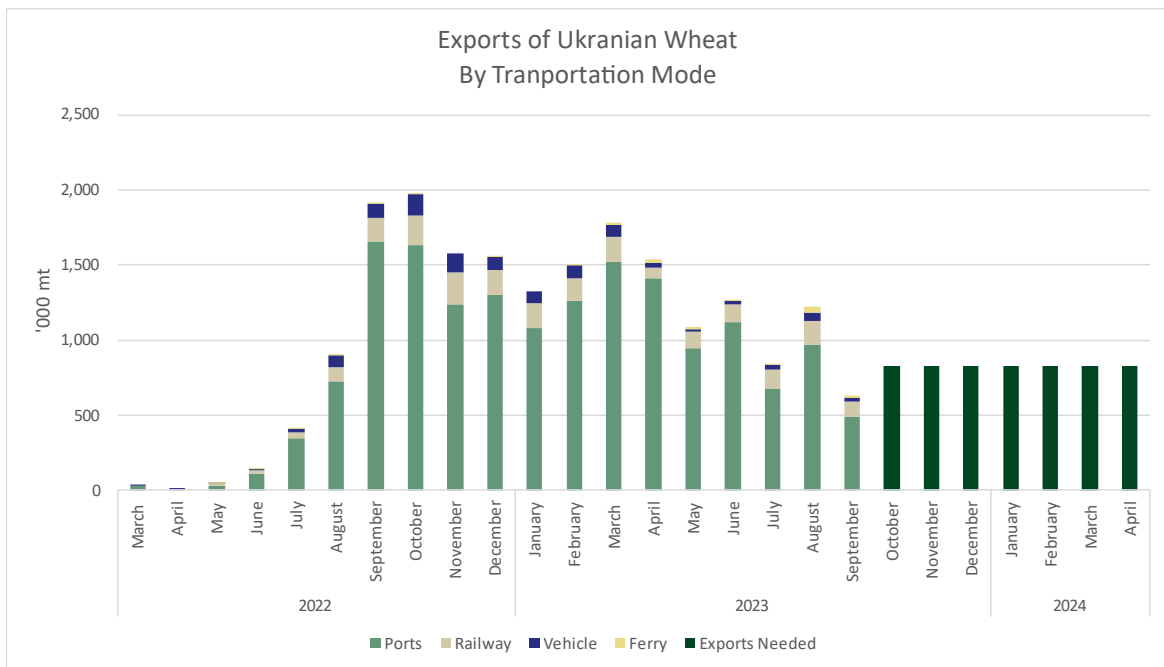
i) Background and Rationale for the Report

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 October 2, 2023

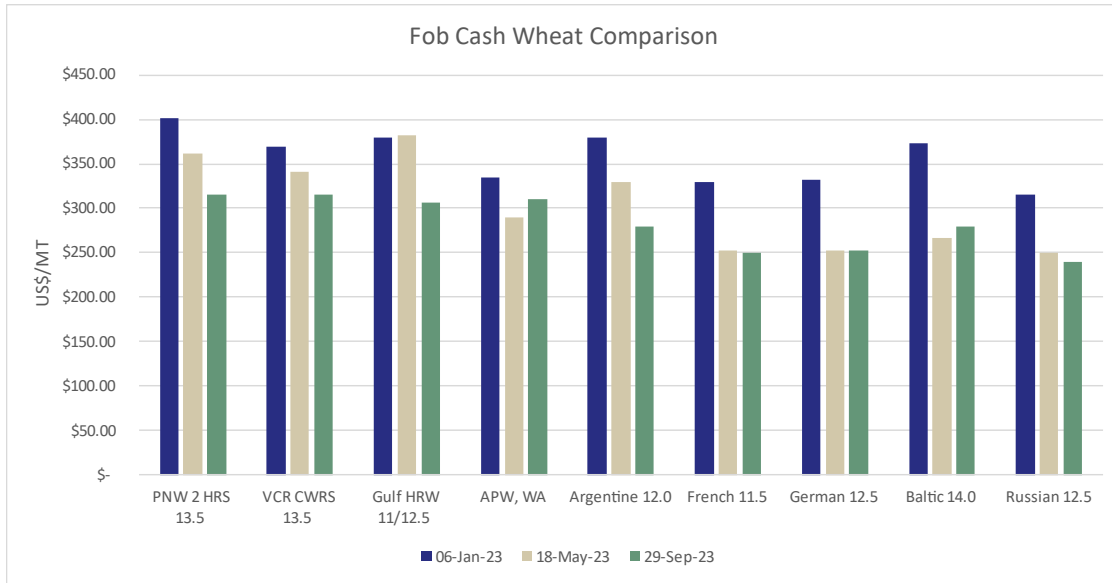
Exports of Ukrainian Wheat Since the Russian Invasion



Source: MAPFU, MIU Oct. 2, 2023

Ukraine shipped 632.5k mt of wheat in the month of September. This is slightly more than half of the shipments in August, as exports are restricted since Russia's cancellation of the Black Sea Trade Corridor. Ukraine's ports accounted for 485k mt of the grain shipped over the month, while rail, truck, and ferry moved the remaining 147k mt. Ukraine must ship approximately 830k mt of wheat per month to meet the USDA's 11 million mt export projection.

FOB Wheat Price Developments:



- FOB wheat prices finished the week lower in North America and the Black Sea while prices in the EU were mixed. It seems that Russia is allowing exporters to sell for less than the official \$270/mt floor prices. There have been private sales of Russian wheat for around \$240/mt.

➤ **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 \$541-4, down 378-2 cents on Friday, *down 38-0 cents on the week.*
- Dec. 2023 contract Kansas hard red winter wheat closed at \$663-6, down 21-2 cents on Friday, *down 47-4 cents on the week.*
- Dec. 2023 Minneapolis hard red spring wheat closed at \$709-2, down 37-6 cents on Friday, *down 61-2 cents on the week.*
- U.S. wheat futures are 12-18 cents higher Monday morning as the market rebounds slightly from Friday’s losses. In the EU, MATIF milling wheat futures are trading on either side of unchanged at the time of writing.

CBOT Dec 2023 Wheat (1 yr.)



KC Dec 2023 Wheat

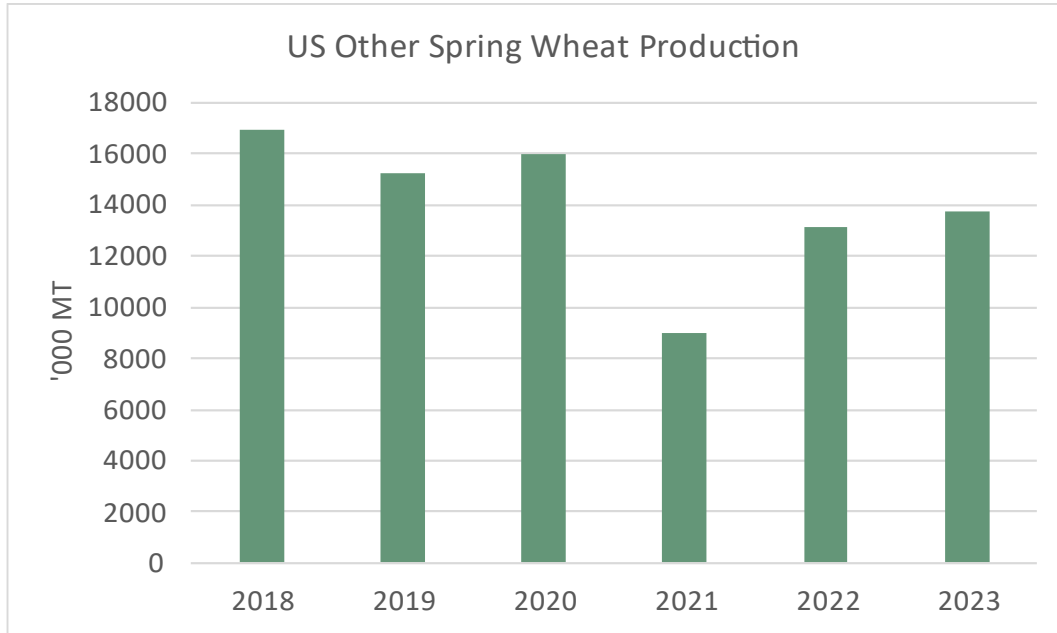


Mpls. Dec 2023 Wheat



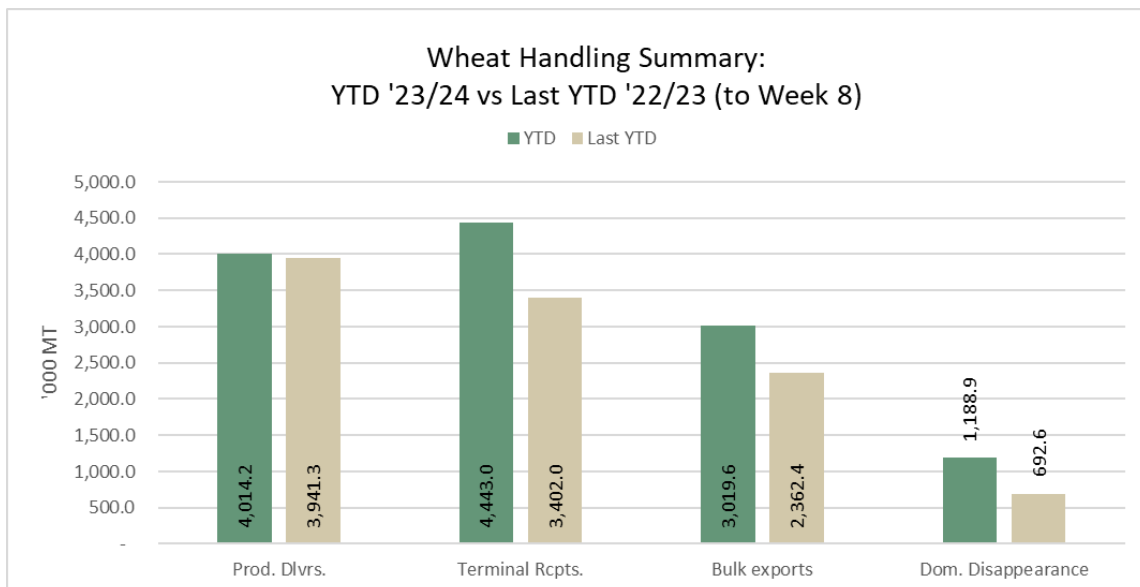
Canadian Wheat

- Some of the most important news regarding spring wheat was the USDA Small Grains Report indicating that U.S. other spring wheat production was 1.6 million mt larger than what the trade was expecting at 13.7 million mt, up 605k mt from last year.



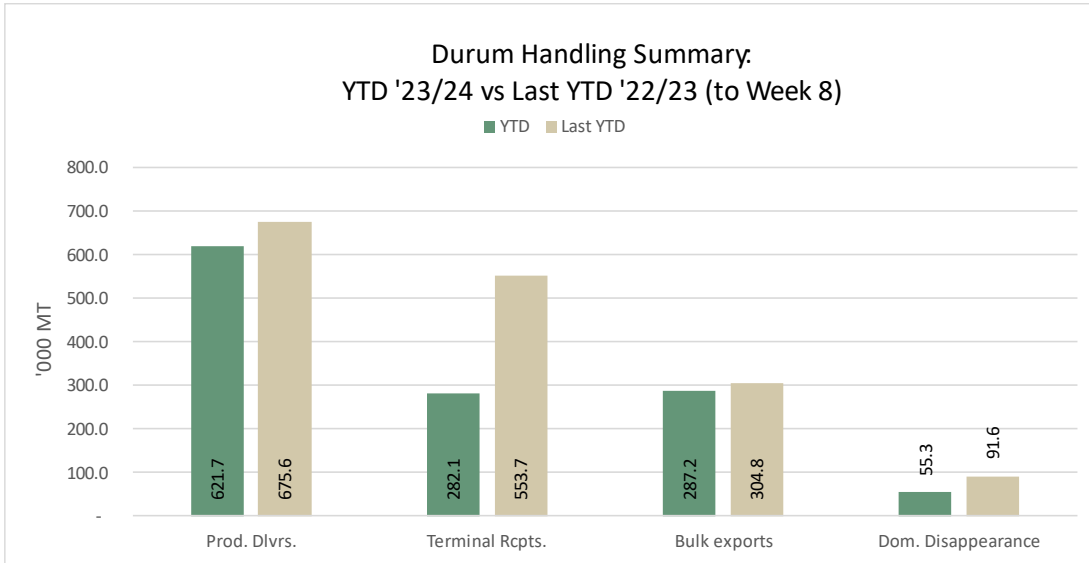
Source: Based on USDA Data

- Spring wheat harvest is 96 per cent complete in Saskatchewan and 89 per cent done in Alberta.
- Canadian wheat exports** continue to be strong. Week eight exports were up to 524.6k mt, creating a season total of 3.0 million mt, up by 28 per cent over this time last year. The visible supply is 3.1 million mt.



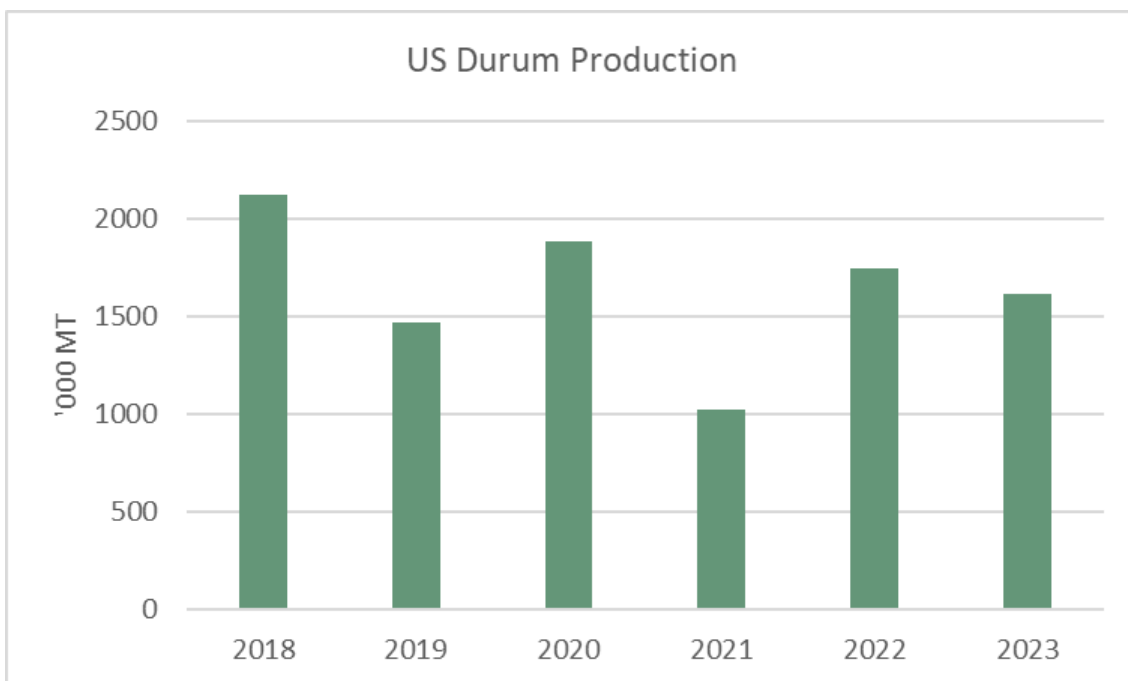
Source: Based on CGC Data

- **Durum:** Durum harvest is essentially complete across North America.
- Canadian **durum exports** were 53.8k mt in week eight for a season total of 287.2k mt. This is just 17.6k mt less than the same time last year. Most of the exports last week were out of the St. Lawrence.



Source: Based on CGC Data

- The USDA increased their number for durum production by 54k mt to 1.6 million mt. This is 54k mt more than the trade was expecting, but 126k mt less than last year's production.

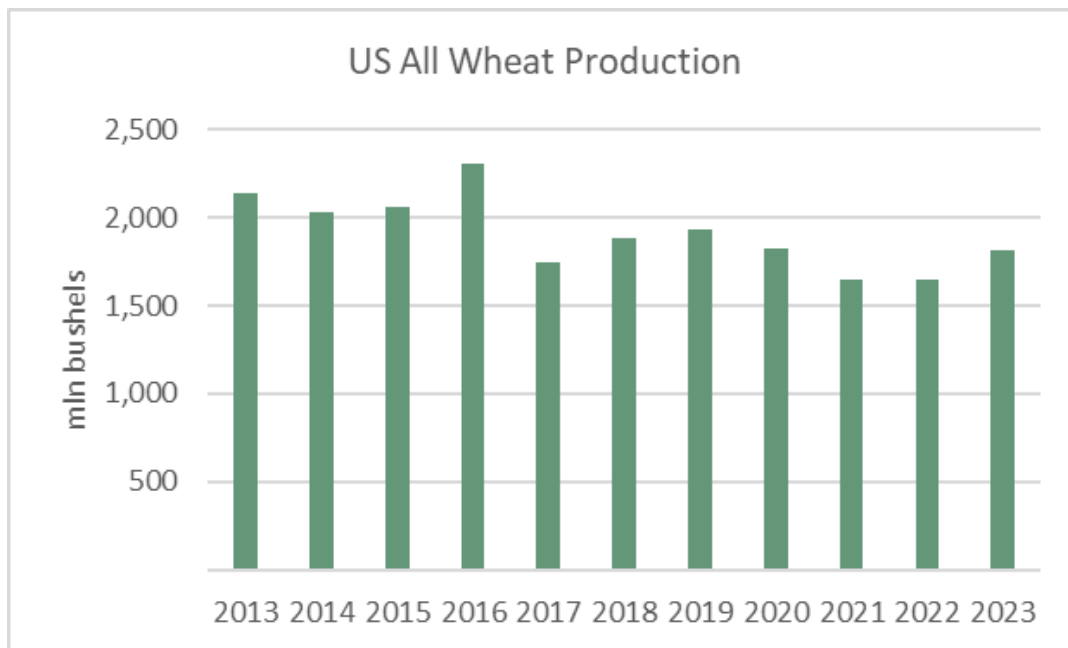


Source: Based on USDA Data

- Strong growing conditions in Turkey has yields higher than average. MARS is estimating the average durum yield in Turkey will be 3.36 tph compared to last year's 3.14 tph and the average of 2.95 tph.
- We expect prices to improve once the harvest pressure from Turkey and the Black Sea passes, and when additional good quality durum is needed in the EU (and N Africa).

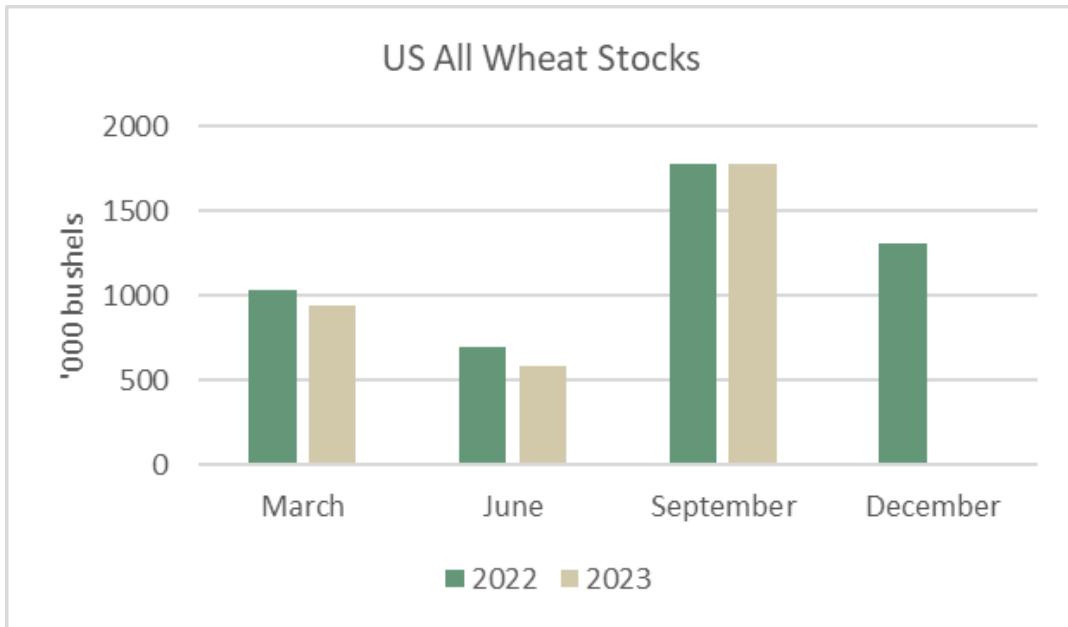
U.S. Wheat:

- U.S. wheat prices slid over the week, and then plummeted on Friday after a bearish USDA production report.
- The USDA Small Grains Summary saw wheat production jump by 80 million bushels to 1.8 billion bushels compared to last year's production and the trade's guess of 1.7 billion bushels.



Source: Based on USDA Data

- The USDA stocks report for wheat was largely as expected at 1.8 billion bushels, unchanged from last year.



Source: Based on USDA Data

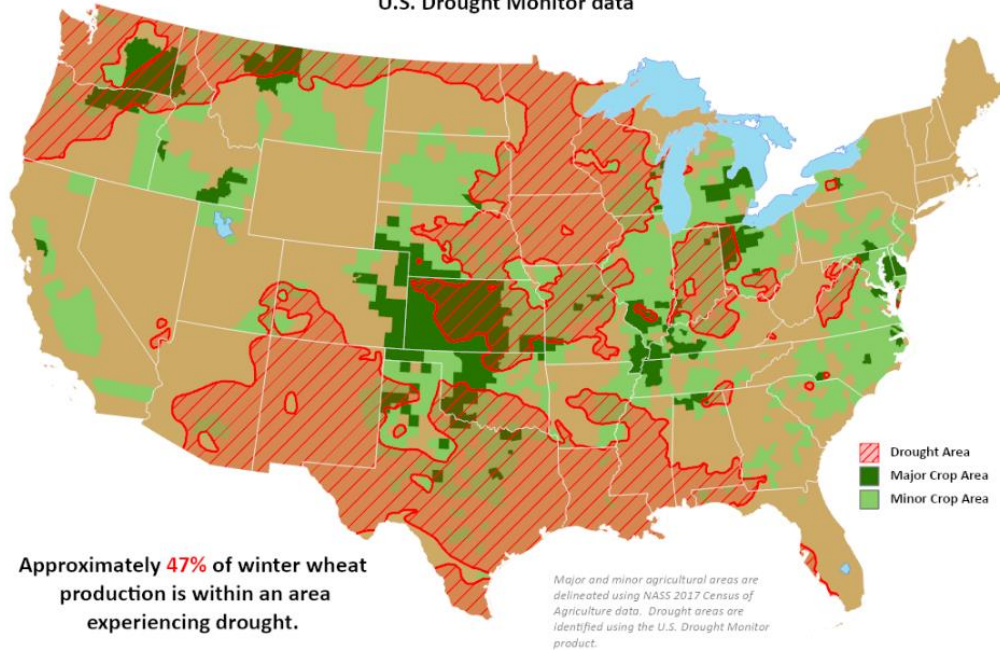
- U.S. winter wheat planting is 26 per cent complete compared to the 29 per cent average. Forty-seven per cent of the U.S. winter wheat area is under drought conditions.



This product was prepared by the
USDA Office of the Chief Economist (OCE)
World Agricultural Outlook Board (WAOB)

Winter Wheat Areas in Drought

Reflects **September 26, 2023**
U.S. Drought Monitor data

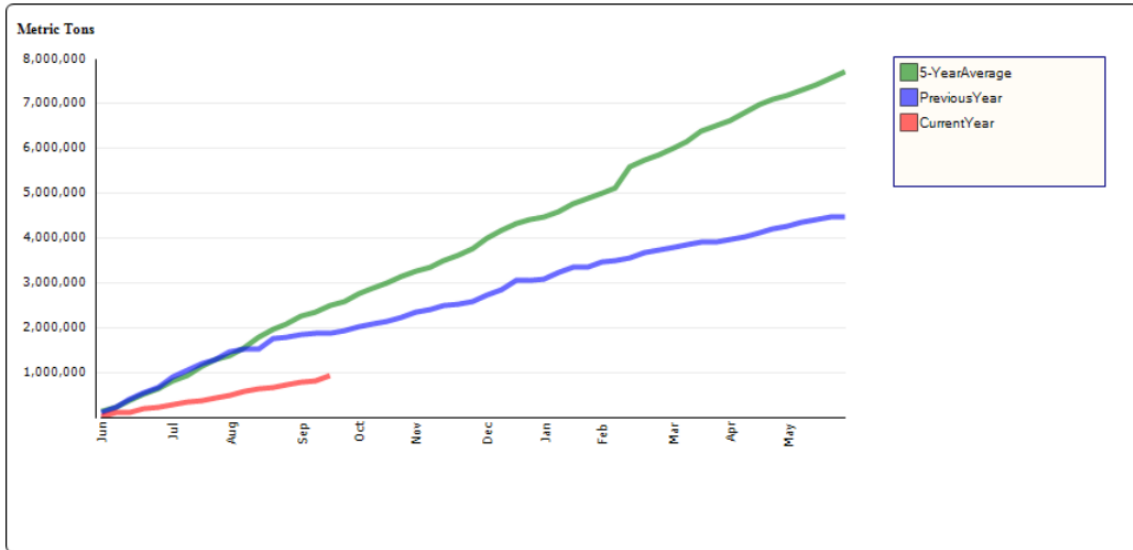


- U.S. wheat export sales were above expectations and a seven-week high of 545k mt (20.0 million bushels). Total commitments are now 14 per cent behind last year's pace against the USDA's expected decline of eight per cent. Weekly sales for the remainder of the marketing year need to

be around 8.5 million bushels per week. While exports in most U.S. wheat classes are lagging last year, spring wheat and durum sales are up by six per cent and 55 per cent respectively.

Accumulated Net Sales - World Total
Wheat - HRW

Selected Year: 2023-2024 as of 09/21/2023



Source: Based on USDA/FAS

- U.S. HRS for Oct. 2023 was valued at \$315.00/mt FOB PNW (down \$2.00/mt from last week), FOB Gulf HRW 11/12.5 pro is valued at \$307.00/mt (down \$13.00/mt from last week).

Australian Wheat:

- Australia is forecast to receive rain in some regions but likely not enough to reverse the overall dry trend.
- FOB values in Australia: Oct. 2023 AWP, WA is valued at \$310.00/mt (unchanged from last week).

Argentine Wheat:

- Crop ratings declined in Argentina with the area in “excellent” condition falling by three per cent to 22 per cent and the crop in “poor” condition rose by five per cent to 27 per cent. This is still a large improvement from the 45 per cent “poor” rating from this time last year.
- Farmers in Argentina remain reluctant sellers as crop concerns and potential export tax reductions has producers shuttering their bins. New crop wheat sales are just 1.6 million mt compared to 5.3 million mt last year.
- Parts of Brazil had the wettest September in over a century. Upwards of 47 per cent of Brazil’s total wheat area has been impacted and the bulk of the wheat produced will be feed grade. The remaining 43 per cent of the crop is expected to be milling quality.
- FOB Argentine wheat (12 per cent pro) for Oct. was quoted at \$280.00/mt (unchanged from last week), with no trade activity.

EU Wheat:

- Quality spreads in the EU are the widest they have been in over a decade. The region is over-supplied with feed wheat and is short on high protein wheat. Despite the abundance of feed wheat, corn is still a cheaper feed source which has domestic feed and industrial users switching to corn.

- EU exports are 27 per cent (2.6 million mt) behind last year's pace and net exports (exports minus imports) are down by 46 per cent (3.9 million mt) from last year. Brussels raised EU imports by 2.5 million mt to 6.5 million mt. The increase is from higher volumes of wheat being imported from Ukraine and the larger need for high quality wheat.
- The EU officially lifted the ban on Ukrainian agriculture imports. Romania and Bulgaria have said they will comply, while Hungary, Slovakia and Poland remain belligerent.
- EU FOB prices: Oct. 2023 French 11.5 pro wheat closed at \$250.00/mt (*down \$3.00/mt from last week*); Oct. 2023 German 12.5 pro wheat closed at \$253.00 (*up \$1.00/mt from last week*); Oct. 2023 Baltic 14.0 pro wheat closed at \$280.00/mt (*up \$2.00/mt from last week*).

Black Sea Wheat:

- Russian exports in the first quarter of the marketing year were a record high at 15 million mt.
- Russia conducted another attack on the Ukrainian port of Odessa last weekend, and despite "significant damage", there was little reaction in the grain market. It seems the trade has accepted that, barring any major attacks on Chornomorsk or a complete inability to ship grain on the Danube River, the country should be able to move their surplus grain.
- All of Ukraine and a large portion of the winter wheat area in Russia remain dry ahead of fall seeding.
- There was cheap Ukrainian wheat offered at the GASC tender. Although it did not trade or include freight costs, it caused the market to further realize the price spread between prices in the Black Sea and other origins.
- We would put effective Russian FOB values for 12.5 per cent protein wheat for Oct. at \$240/mt (*down \$5/mt from last week*).

➤ **Significant purchases/ trades:**

- **Morocco** approved a two million mt import program for Oct.-Dec. wheat.
- **Tunisia** bought 100k mt of Oct.-Nov. wheat at \$275-\$278 C&F (likely from Russia).
- There were rumors that five to six French wheat vessels sold to **China**.
- **GASC (Egypt)** bought 120k mt of November shipment wheat from Romania and 50k mt of wheat from Bulgaria at \$255/mt on a FOB basis.
 - Russian offers were originally at the \$270/mt floor price and then dropped to \$260/mt as GASC was offering \$255/mt. The decline in price was likely sanctioned by the government.
 - There was Ukrainian wheat offered at the tender, but no freight was included. This could mean that although there is at least one insurance company offering coverage to ships traveling to and from Ukrainian ports, the price of the insurance is prohibitive.
- **U.S.** weekly export sales were above the trade's expectation at 545k mt.

➤ **Wheat Market Outlook:**

Significant events over the past week:

- **U.S. grain futures** were all lower on Friday after bearish USDA Stocks and Small Grains Reports.
 - **U.S. all wheat production** was put at 49.3 million mt, a 92k mt increase from the August estimates and notably higher than trade expectations of 47 mln mt.
- **U.S. basis levels** were mixed last week. HRS basis was lower in the Gulf and PNW. This is the first basis decline since the seasonal July lows as demand for HRS has been steady. HRW basis was higher in the Gulf and steady in the PNW.
- **Managed money investors** remain net short in CBOT wheat, hovering at a three-month high of 96,805 contracts, demonstrating a bearish sentiment for Chicago wheat.
- **The U.S. Dollar Index** was up at 105.9. The dollar continues to rise as the U.S. economy is outperforming other economies. The rising value of the U.S. dollar will not help U.S. export sales.

Outlook:

Mercantile says wheat markets crashed when the USDA's Small Grains Summary put wheat production much higher than the trade expected. Russian wheat is still talking most of the export demand. Although Russian export price schemes continue to create confusion in the market, it seems like the Russians have lowered their floor price according to Mercantile. Mercantile does not see much reason for better prices in the short term.

We 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 2, 2023

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Dec '23 (bu.)	Dec '23 (mt.)
1 CWRS 13.5	\$8.38	\$307.91	1 CWRS 13.5	\$8.39	\$308.28
1 CWAD 13.0	\$13.83	\$508.17	1 CWAD 13.0	\$13.90	\$510.74
1 CPSR 11.5	\$7.74	\$284.40	1 CPSR 11.5	\$8.02	\$294.69
SW Sask			SW Sask		
1 CWRS 13.5	\$8.39	\$308.28	1 CWRS 13.5	\$8.41	\$309.02
1 CWAD 13.0	\$13.90	\$510.74	1 CWAD 13.0	\$13.89	\$510.37
1 CPSR 11.5	\$7.66	\$281.46	1 CPSR 11.5	\$7.95	\$292.11
NE Sask			NE Sask		
1 CWRS 13.5	\$8.16	\$299.83	1 CWRS 13.5	\$8.21	\$301.67
1 CWAD 13.0	\$13.60	\$499.72	1 CWAD 13.0	\$13.64	\$501.19
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a
SE Sask			SE Sask		
1 CWRS 13.5	\$8.28	\$304.24	1 CWRS 13.5	\$8.37	\$307.55
1 CWAD 13.0	\$13.63	\$500.82	1 CWAD 13.0	\$13.66	\$501.92
1 CPSR 11.5	\$7.49	\$275.21	1 CPSR 11.5	\$7.76	\$285.13

Data source: PDQ, Oct. 2/'23

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. 2/23

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/mln mt. During the 2013/14 crop year the export basis for wheat widened to approximately C\$250/mln 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 Cdn. FOB Prices minus primary elevator bids, the FOB prices are translated into Cdn. dollars from US 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/mt, depending on number of cars moved and elevator used.
- Approximate relationship between U.S. wheat classes and Canadian wheat classes:
 - DNS 14% in the Pacific Northwest (PNW) ≈ 1 CWRS 13.5% in Vancouver
 - HRS in the Pacific Northwest (PNW) ≈ 2 CWRS 13.0% 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% of total export volume crop year to date.
 - Italy is the single biggest buyer of Canadian durum wheat with 27% of total Canadian durum exports YTD (East Coast shipments).
- Optional origin grain sales:

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.”

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 2, 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	\$401.88	\$388.34		
HRS	\$395.52			
HRW 11.5	\$365.26			
SWW 12.0	\$333.15			
1 CWRS 13.5 ³	\$401.88		\$306.81	\$95.07
2 CWRS 13.0 ³	\$395.52		\$296.89	\$98.63
3 CWRS ³	\$365.26		\$273.01	\$92.25
CPS ³	\$326.12		\$280.36	\$45.77
1 CWAD ⁴		\$639.70	\$514.42	\$125.29
Competing wheat:				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$240.00		October	
French 11.5 (Rouen)	\$250.00		October	
APW 10.5 (W Coast)	\$310.00		October	
Argentine 12.5	\$280.00		October	
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				