

Wheat Market Outlook and Price Report: Apr. 8, 2024
By Marlene Boersch/ A.P. Temple/ Michael Wilton
Mercantile Consulting Venture Inc.

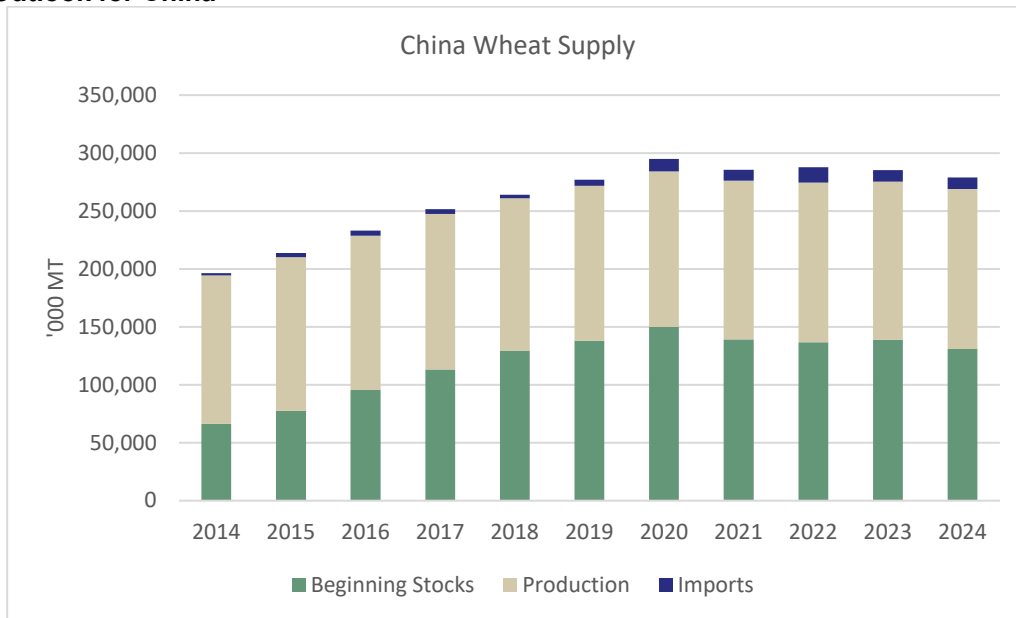
i) Background and Rationale for the Report

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 April 8, 2024

Wheat Outlook for China



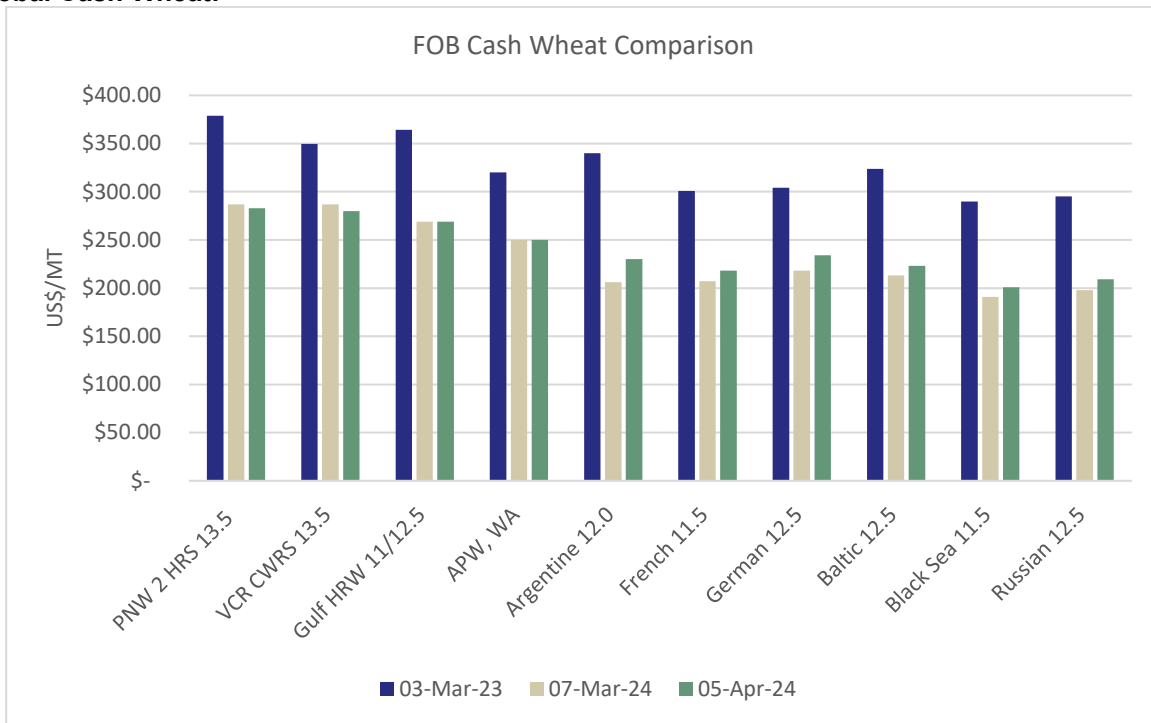
Source: Mercantile, based on USDA data

- The USDA Post in China is forecasting that wheat production in the country will be one per cent higher than last year at 138.0 million mt. This increase in production is expected to be a result of steady area and stronger yields.
- Low winter kill and strong soil moisture allowed 88 per cent of China’s winter wheat crop to receive the first and second-class quality ratings. This is almost one per cent better than last year and 1.7 per cent better than average.
- Wheat consumption in China is expected to fall by seven million mt in 2024/2025. Corn will widely replace wheat in feed rations as corn prices are at historic lows. Additionally, China’s

wheat crop is expected to avoid the late-season rains that widely impacted the quality of last year's crop.

- The USDA Post reduced China's 2023/2024 imports by one million mt to 10 million mt given the recent 1.5 million mt worth of Chinese wheat cancellations. Imports in the upcoming season are expected to be the same. Year 2024 will be the first year that China is allowing wheat imports from Argentina.
- China is the largest customer of Canadian wheat. In the 2022/2023 season, China accounted for three million mt (26 per cent) of all Canadian wheat exports. In the current year, exports to China are running 15 per cent behind last year (August to February) and are on pace to be around 2.75 million mt.

➤ **Global Cash Wheat:**



Source: Mercantile

- Global cash wheat prices were stronger in most origins outside of North America last week. This continues to be the general trend that started in March.
- Black Sea wheat continues to drive the market, but wheat prices there have also been rising. We have Russian FOB values up around \$209/mt, which is \$11/mt above the low that was established at the beginning of March.

➤ **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:

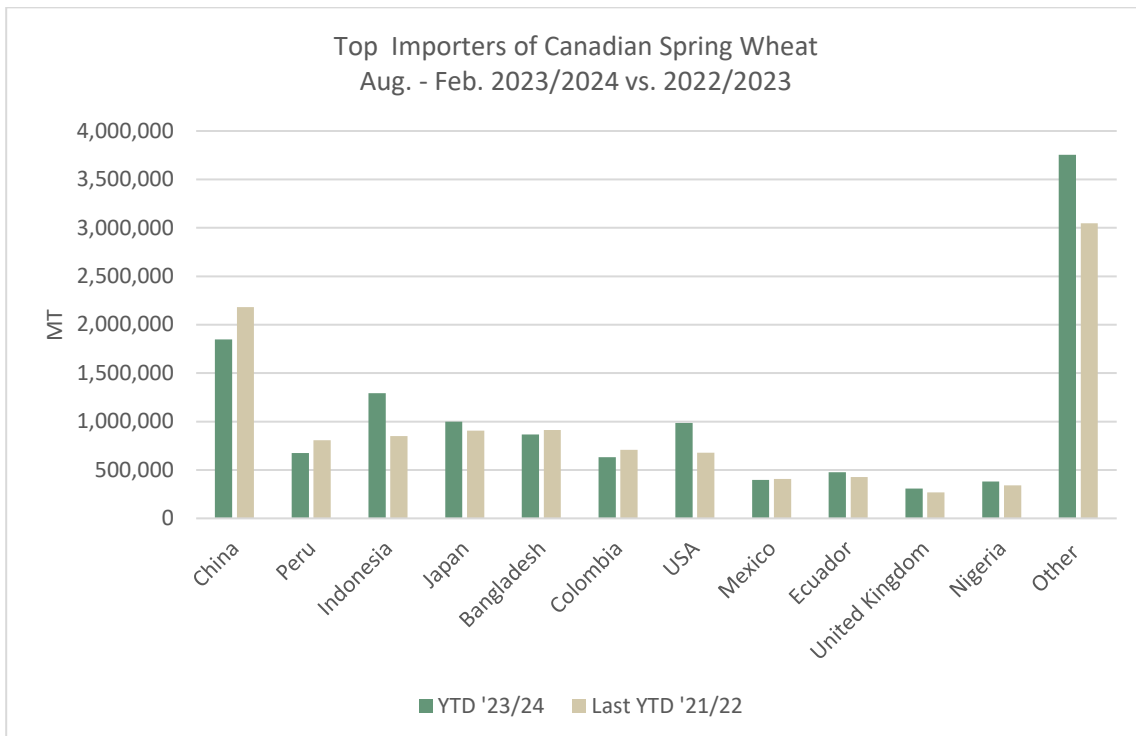
- May 2024 contract **Chicago winter wheat** closed at \$567-2, up 11-0 cents on Friday, *up 7-0 cents on the week.*
- May 2024 contract **Kansas hard red winter wheat** closed at \$582-2, up 4-6 cents on Friday, *down 3-0 cent on the week.*

- May 2024 Minneapolis hard red spring wheat closed at \$648-0, up 1-6 cents on Friday, *up 3-0 cents on the week.*
- U.S. wheat futures are currently trading 2-6 cents higher at the time of writing this Monday morning.



Canadian Wheat

- Canada shipped 1.8 million mt of non-durum wheat in February. China took 20 per cent (358.8k mt) of the total monthly volume and continues to be the largest customer of Canadian wheat. At a YTD total of 1.8 million mt, exports to China account for 15 per cent of all of Canada's August - February wheat exports. Exports to Indonesia are running 52 per cent ahead of last year at 1.3 million mt. Exports to the U.S. also remain strong; up 45 per cent from last year. Otherwise, most of the remaining export strength is coming from the combined growth of several of the smaller markets. Exports to countries outside of the top 10 are up 23 per cent (705.6k mt) from last year.



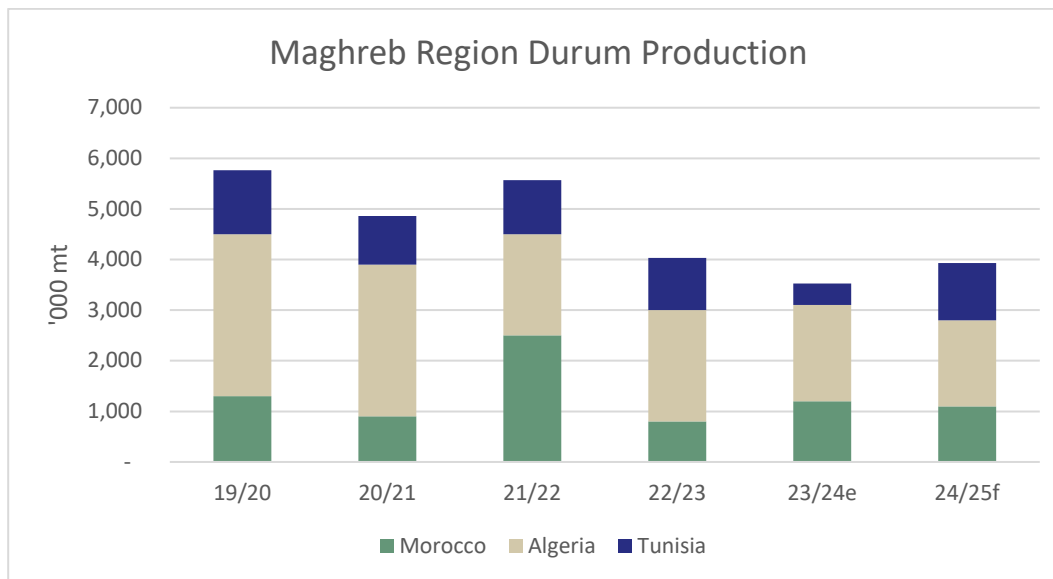
Source: Mercantile, based on CGC data

- Canadian weekly exports:** Week 35 exports were 396k mt which was just below the average pace and remains well ahead of the 352k mt per week needed to meet the AAFC's too low 20.25 million mt export number. The CGC made a large revision in domestic disappearance this week.

(CGC) Grain Handling Summary Wheat		Week 35 (Mar. 31, 2024)		
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 35	437.4	420.2	396.1	128.7
Week ago	563.4	400.5	346.0	46.5
YTD	16,578.8	16,121.1	14,262.9	3,047.3
Last YTD	16,771.4	15,617.3	13,584.1	2,865.8
YTD less Last YTD	-192.6	503.8	678.8	181.5
YTD over Last YTD	99%	103%	105%	106%

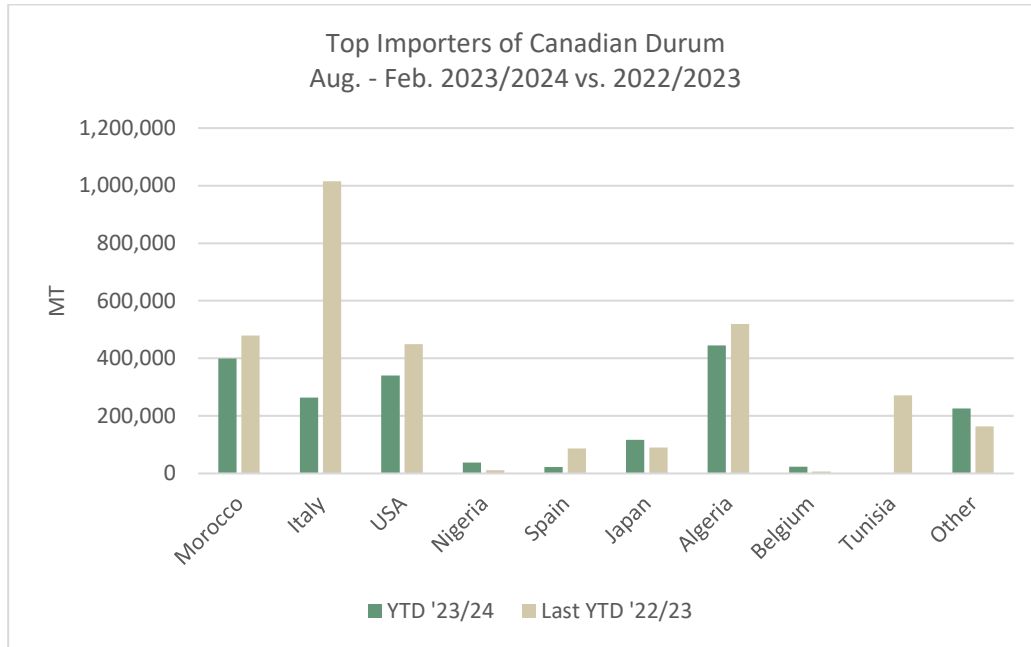
Source: Mercantile, based on CGC data

- Durum:** Tunisia's crop appears to have fully recovered from the inclement weather at the beginning of the growing season and is now in strong condition. Meanwhile, conditions in Algeria and Morocco are much more variable. In Algeria, the eastern and central wheat growing regions (which is roughly 61 per cent of the wheat area) is in good condition, while the Western region is in rough shape. Morocco is faring the worst, with most of the wheat growing regions showing crop growth at or below last year's drought-impacted crop. We have adjusted some of our production estimates to match the changing conditions in North Africa. Our total production number rose to just under 3.9 million mt which is 400k mt higher than last year's and similar to the 2022/2023 season.



Source: Mercantile, based on CGC data

- Canada exported 297.2k mt of durum in February. Algeria bought a large, 143.3k mt of durum, which was 48 per cent of the total monthly volume. Exports to most of the major Canadian durum customers are lower than last year's, especially to Italy where exports are trailing behind last year by 74 per cent (751.5k mt).



Source: Mercantile, based on CGC data

- Week 35 Canadian durum exports were 105.5k mt for a season total of 2.4 million mt, down 36 per cent from last year. Durum exports remain on pace to meet the AAFC's export number. Note the large revision in domestic disappearance this week.

(CGC) Grain Handling Summary Durum		Week 35	(Mar. 31, 2024)	
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 35	59.5	131.5	105.5	68.8
Week ago	78.6	91.3	62.0	2.7
YTD	2,829.0	2,847.2	2,350.9	438.9
Last YTD	4,197.4	4,191.3	3,684.4	424.3
YTD less Last YTD	-1,368.4	-1,344.1	-1,333.5	14.6
YTD over Last YTD	67%	68%	64%	103%

Source: Mercantile, based on CGC data

- *We are sold out of old crop durum. We recommend selling 30 per cent of expected new crop durum at the current price.*

U.S. Wheat:

- U.S. wheat futures finished the week mixed. Strong U.S. crop conditions reported at the beginning of the week pressured the markets along with weak export sales reported on Thursday. The lower U.S. dollar was supportive.
- In the first crop condition report of the season, the USDA showed 56 per cent of the U.S. winter wheat crop is in Gd/Ex condition. This is 28 per cent better than the first crop condition rating of last year.
- U.S. commercial sales were below trade expectations at just 16,100 mt. Total commitments are now 18.7 million mt which is three per cent ahead of last year compared to the USDA's projected 4.5 per cent decline. South Korea reportedly cancelled 64.9k mt of the white wheat they had on the books, while China bought 74.8k mt of SRW over the week. HRW sales were small at 12.5k mt. The largest buyer of HRS was the EU, which bought 5.5k mt during the week. Net new crop sales continue to be strong with another 262,000 mt of wheat being sold. Total new crop commitments are now 1.3 million mt, which is 84 per cent ahead of last year's pace to-date. The primary buyer for new crop was South Korea at 82.0k mt.
- U.S. HRS for May 2024 was valued at \$283.00/mt FOB PNW (*down \$6.00/mt from last week*), FOB Gulf HRW 11/12.5 pro is valued at \$269.00/mt (*unchanged from last week*).

Australian Wheat:

- Futures prices ender higher in Australia as farmers are increasingly turning their attention towards seeding. Western Australia was dry while there were some beneficial rains in the East.
- FOB values in Australia: May 2024 APW, WA is valued at \$250.00/mt (*unchanged from last week*).

Argentine Wheat:

- Cash wheat prices were higher in Argentina. The focus there is shifting to Brazilian demand rather than the destination markets.
- FOB Argentine wheat (12 per cent pro) for May 2024 was quoted at \$230.00/mt (*up \$10.00/mt from last week*).

Indian Wheat:

- India's government has asked traders to delay purchase of new crop wheat. The government has asked domestic traders to postpone buying new crop at least until the end of April as it does not want private traders to get in the way of what it hopes will be a 30 million mt wheat procurement program. They have also asked rail companies to not supply cars to local traders until the end of April. The last time India's government made a similar move was in 2007. Despite low wheat stocks, the government has resisted calls to allow imported wheat which tends to anger rural voters. India's election is on Apr. 19, 2024.

EU Wheat:

- The farmer protests seem to be having some policy impact across the EU. EU policy makers have scaled back on climate policy, made movements towards limiting imports from Ukraine, and have backed away from legislation on some pesticide use.
- French winter wheat crop ratings fell one per cent from last week to 65 per cent Gd/Ex.
- EU FOB prices: May 2024 French 11 pro wheat closed at \$218.00/mt (*up \$5.00/mt from last week*); May 2024 German 12.5 pro wheat closed at \$234.00 (*up \$6.00/mt from last week*); May 2024 Baltic 12.5 pro wheat closed at \$223.00/mt (*down \$6.00/mt from last week*).

Black Sea Wheat:

- Russian authorities withheld phytosanitary certificates from two ships belonging to the shipping company Aston. Aston denies there are any delays and say that the vessels will be shipped according to plans. The Russian agricultural watchdog, Rosselkhoznadzor, says that the tightening of phytosanitary controls is a response to an increase in complaints from importing countries about non-compliance of Russian grain quality. This could be the case, but we are not certain, it seems like Russia is moving towards additional government control in grain exports. Sources say there were seven grain ships in Russian ports that were unable to leave as of Thursday. Two RIF Trading House vessels, which had been delayed for the same issue were given phytosanitary certificates at the end of the week.
- The “phyto issues” will likely cause Russia to miss the five million mt March wheat export target that we had set for them.
- We have Russian FOB values for 12.5 per cent protein wheat for May 2024 at \$209.00/mt (*up \$3.00/mt from last week*).

➤ **Significant purchases/ trades:**

- **Tunisia** bought 75k mt of soft wheat at \$232.93-\$239.90/mt and 50k mt of durum wheat at \$383.93 and \$384.48 C&F.
- **U.S.** commercial sales were for the 2023/2024 marketing year were 161,000 mt. Sales for the 2024/2025 marketing year were 262,000 mt.

➤ **Wheat Market Outlook:**

Significant events over the past week:

- **The Panama Canal Authority** raised the daily number of ships from 24 to 27. This is still well below the normal capacity of 36 ships per day. May rains are expected to further increase the capacity of the Canal.
- **The USDA Attaché in China** estimates that Chinese wheat production in 2024/2025 will be one per cent higher than last year at 138 million mt. Chinese old crop wheat imports were reduced by 10 million mt, while new crop imports were estimated at 10 million mt as well.
- **Execution problems in Russia** were supportive to European wheat values. The Russian government is restriction phyto-sanitary certifications allegedly over complaints of poor compliance from importing nations.

Mercantile’s Weekly Outlook:

Mercantile will have a new WASDE report on Thursday. Mercantile expects the USDA to lower wheat exports because of the Chinese cancellations a few weeks ago. According to Mercantile, the USDA will leave wheat production estimates alone and still expects slightly stronger wheat futures while the politics in the Black Sea area remains unclear. There were rumours of more Chinese cancelation of some wheat and corn, Mercantile said. The Funds’ combined corn, beans and wheat positions are at a record net short for this time of year, which should keep the volume of trade low until the WASDE report is absorbed. Weather and politics will keep trade at a minimum. – *Watch for opportunities to sell remaining old crop wheat. Mercantile would not touch new crop sales yet.*

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: April 8, 2024					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Jun '24 (bu.)	Jun '24 (mt.)
1 CWRS 13.5	\$8.46	\$310.85	1 CWRS 13.5	\$8.37	\$307.55
1 CWAD 13.0	\$10.69	\$392.79	1 CWAD 13.0	\$10.13	\$372.22
1 CPSR 11.5	\$7.66	\$281.46	1 CPSR 11.5	\$7.55	\$277.42
SW Sask			SW Sask		
1 CWRS 13.5	\$8.35	\$306.81	1 CWRS 13.5	\$8.27	\$303.87
1 CWAD 13.0	\$10.79	\$396.47	1 CWAD 13.0	\$10.19	\$374.42
1 CPSR 11.5	\$7.40	\$271.91	1 CPSR 11.5	\$7.23	\$265.66
NE Sask			NE Sask		
1 CWRS 13.5	\$8.25	\$303.14	1 CWRS 13.5	\$8.15	\$299.46
1 CWAD 13.0	\$10.79	\$396.47	1 CWAD 13.0	\$10.15	\$372.95
1 CPSR 11.5	-	-	1 CPSR 11.5	-	-
SE Sask			SE Sask		
1 CWRS 13.5	\$8.13	\$298.73	1 CWRS 13.5	\$8.08	\$296.89
1 CWAD 13.0	\$10.86	\$399.04	1 CWAD 13.0	\$10.23	\$375.89
1 CPSR 11.5	\$7.26	\$266.76	1 CPSR 11.5	\$7.06	\$259.41

Data source: PDQ, Apr. 8, 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	0.05	1.89
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	0.00	0.00
2 CWAD 13.0	(0.13)	-4.78
2 CWAD 12.5	(0.16)	-5.88

Data source: PDQ, Apr. 8, 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.

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.”

- 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
 - 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				April 8, 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	\$376.94	\$364.97		
HRS	\$371.90			
HRW 11.5	\$334.06			
SWW 12.0	\$298.66			
1 CWRS 13.5 ³	\$376.94		\$303.51	\$73.43
2 CWRS 13.0 ³	\$371.90		\$292.48	\$79.42
3 CWRS ³	\$334.06		\$268.60	\$65.46
CPS ³	\$291.68		\$276.68	\$15.00
1 CWAD ⁴		\$476.16	\$385.81	\$90.35
Competing wheat:				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$209.00		May '24	
French 11.5 (Rouen)	\$218.00		May '24	
APW 10.5 (W Coast)	\$250.00		May '24	
Argentine 12.5	\$230.00		May '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				