

**Wheat Market Outlook and Price Report: January 22<sup>nd</sup>, 2024**  
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Mercantile Consulting Venture Inc.

**i) Background and Rationale for the Report**

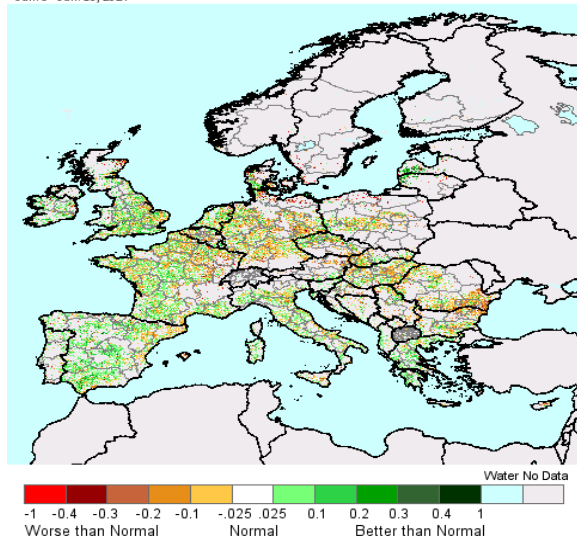
The following wheat market outlook and price report will be published on a weekly basis on the Sask Wheat Website. The report provides producers with an overview of world wheat markets, a market forecast, and benchmark prices at both the primary elevator and export positions (FOB Vancouver or elsewhere).

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 January 22, 2024**

**European Cropland Vegetation and Winter Wheat Area Maps**

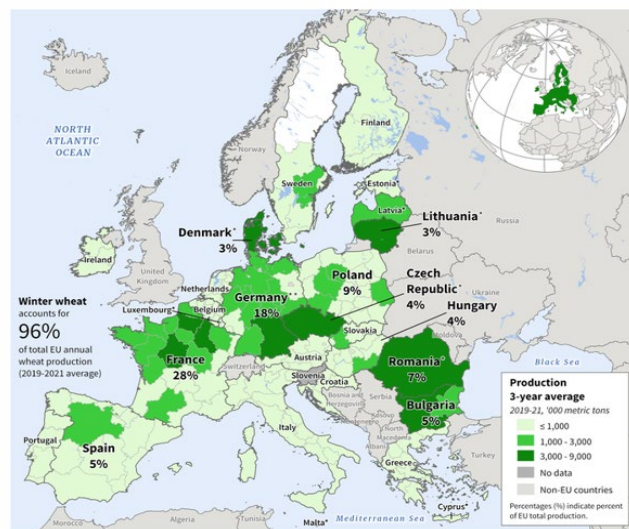
Cropland NDVI Departure from Average (VIIRS)  
Jan. 9 - Jan. 16, 2024



USDA Foreign Agricultural Service  
U.S. DEPARTMENT OF AGRICULTURE  
Source: NDVI VIIRS at 500-m

Source: FAS

European Union (EU): Winter Wheat Production

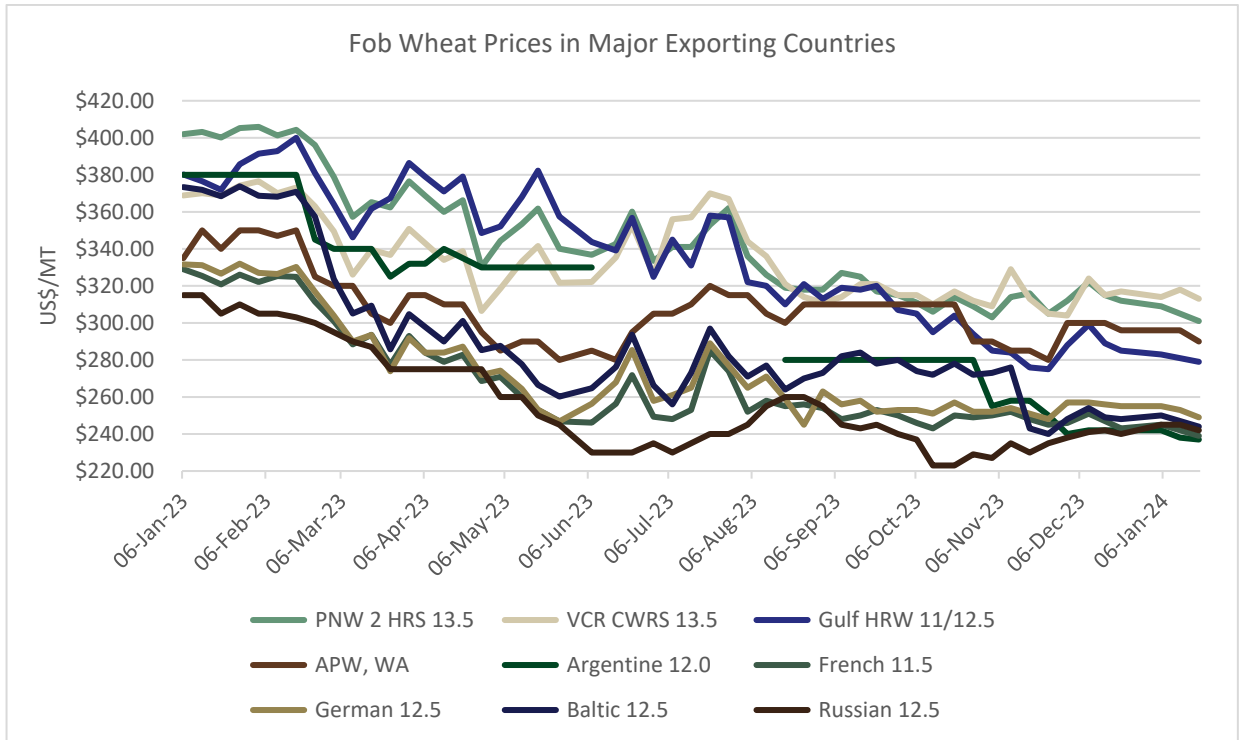


USDA Foreign Agricultural Service  
U.S. DEPARTMENT OF AGRICULTURE

Source: Eurostat by Nomenclature of Territorial Units for Statistics (NUTS) 2 region, with exceptions indicated by \* (NUTS 0/country-level data), or \*\* (NUTS 1 region)

- Wet conditions hampered the seeding and seeding conditions of the EU winter wheat crop. In some areas, wet conditions prevented farmers from sowing all the planned winter wheat area.
- It is too early to draw any final conclusions about the impact this will have on the overall yield, but the trade will gradually start turning its attention to the Northern Hemisphere crops.
- Current vegetation indices in France, Germany and Italy show cropland vegetation is trending towards average which reflects a decline in vegetative health from last year. A notable exception to this is the Spanish crop where vegetative health is much improved from last year's drought.
- Vegetative health in Romania, Bulgaria and Hungary are either average, or slightly below average.

➤ **Global Cash Wheat**



Source: Mercantile

- Wheat prices on a free-on-board (FOB) basis were lower in all major origins last week. Wheat from the EU has become competitive with Black Sea prices which should attract more demand.
- Egypt's GASC bought 360k mt of wheat for an average price that was \$2.50/mt cheaper on a cost and freight basis than their previous tender on Jan. 9<sup>th</sup>.

➤ **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 of last week's market events in the major wheat origins.

**Futures:**

- Mar. '24 contract Chicago winter wheat closed at \$593-2, up 7-6 cents on Friday, *down 10-4 cents on the week*.
- Mar. '24 contract Kansas hard red winter wheat closed at \$608-0, up 2-6 cents on Friday, *down 8-0 cents on the week*.
- Mar. '24 Minneapolis hard red spring wheat closed at \$695-4, up 7-4 cents on Friday, *down 4-4 cents on the week*.
- US wheat futures are currently trading 2-6 cents higher at the time of writing.

**CBOT Mar. 2023 Wheat**



**KC Mar. 2023 Wheat**

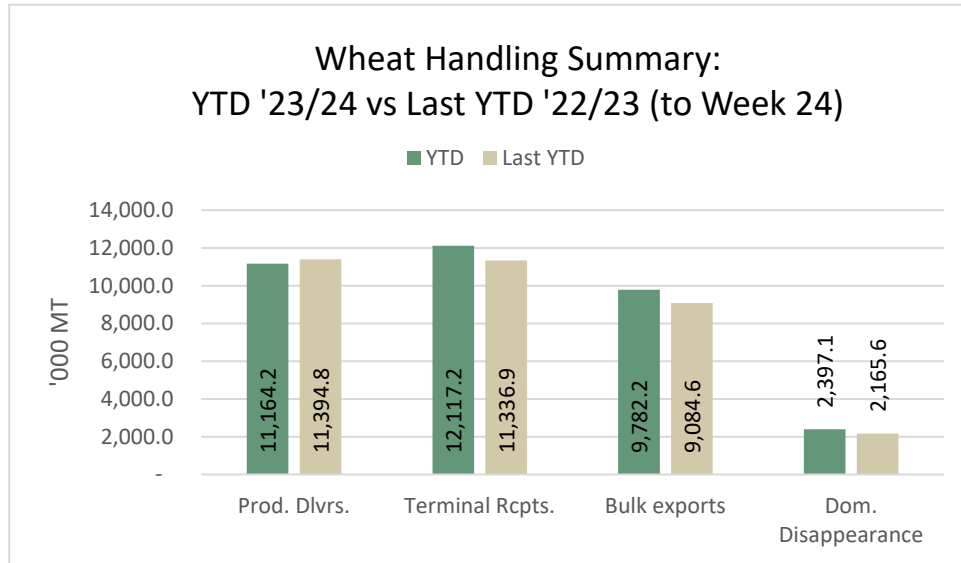


**Mpls. Mar. 2023 Wheat**

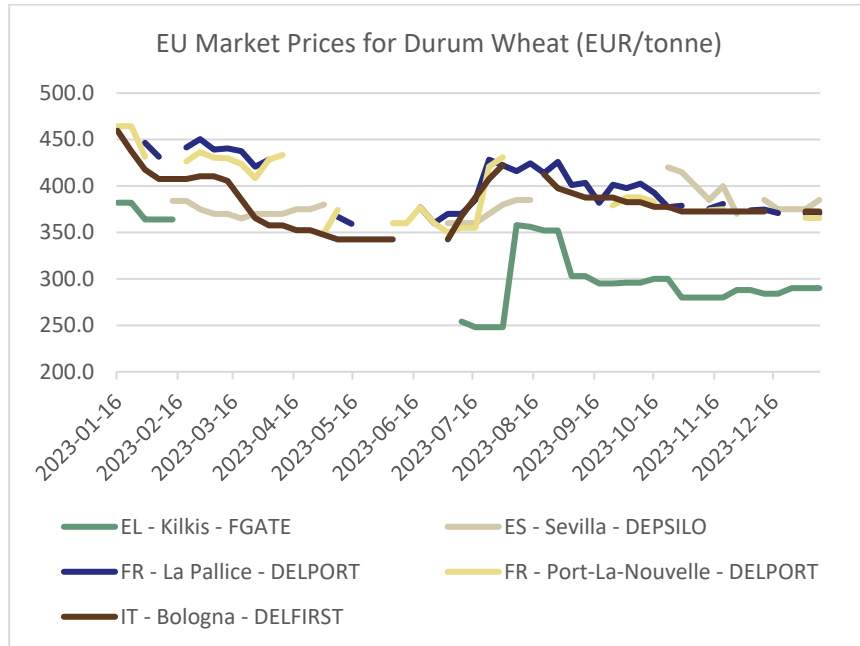


## Canadian Wheat

- Canadian exports: Canadian wheat exports in week 24 were 389k mt for a season total of 9.7 million mt, up eight percent from last year. Weekly exports were below the average pace of 408k mt/week but remain ahead of the 365k mt/week that is needed to meet the Agriculture and Agri-Food Canada's (AAFC) 20 million mt export number.

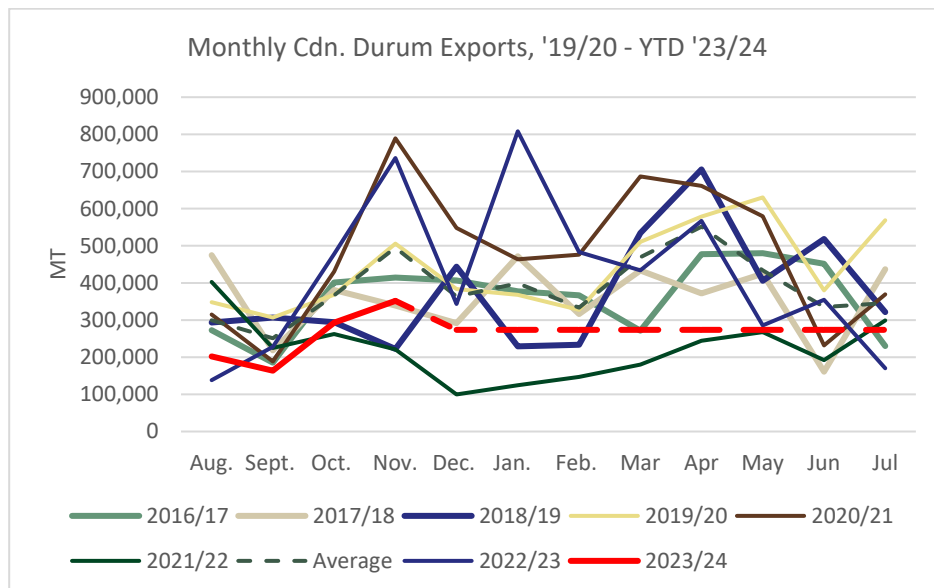


- Durum:** After buying 50k mt of durum last week, Tunisia was back for another 2x25k mt of Feb.-Mar. shipment durum. Tunisia paid an average price of \$445.70, which was just over US\$2.00/mt less than last week's purchase. The lower Canadian dollar means that this calculates back to ~CA\$12.70/bu, which is very similar to what we said last week's tender was worth.
- The trading company, Casillo, won the two shipments so the durum will not likely be sourced from Canada. EU countries are re-exporting some of the cheap durum they bought from Turkey. Spain, where production was severely reduced by an extreme drought last year, has shipped two (possibly three) vessels of durum to Tunisia. There are rumours that Italy will do the same.
- Durum prices in the EU were essentially flat over the week except for a slight uptick in Spain which could be because of the recent exports.



Source: Mercantile, based on EUC data

- A 60k mt shipment of Algeria-bound durum left Vancouver on Thursday. The trip is supposed to take 54 days, but it will be interesting to see if it gets re-routed through the Strait of Magellan.
- Durum exports in week 24 were 70.6k mt for a season total of 1.4 million mt, down 38 percent from last year. The average export pace of 59k mt per week is slightly behind the 64k mt per week needed to make the AAFC's 3.2 million mt export number. This should be possible (red dashed line).



Source: Mercantile, based on Mercantile and STC

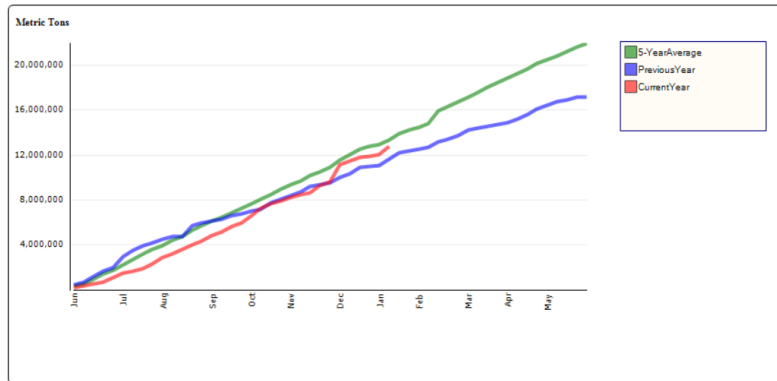
- Recent durum trades continue to support strong values at the elevator. Many of the elevator bids are now below \$12.50/bu, but we did hear of a "limited tonnes special" of \$12.90/bu last week as well. If not already, we would sell up to 80 percent targeting \$12.50/bu.

**US Wheat:**

- US wheat prices were lower last week from continued weakness in the global wheat and corn complexes. Strong US sales on Friday were supportive.
- US wheat sales were above expectations at 707.4k mt. Total commitments are now 16.1 million mt, up four percent from last year compared to the USDA's 19.7 million mt estimate, which reflects a four percent decrease year-over-year.

Accumulated Net Sales - World Total  
All Wheat

Selected Year: 2023-2024 as of 01/11/2024

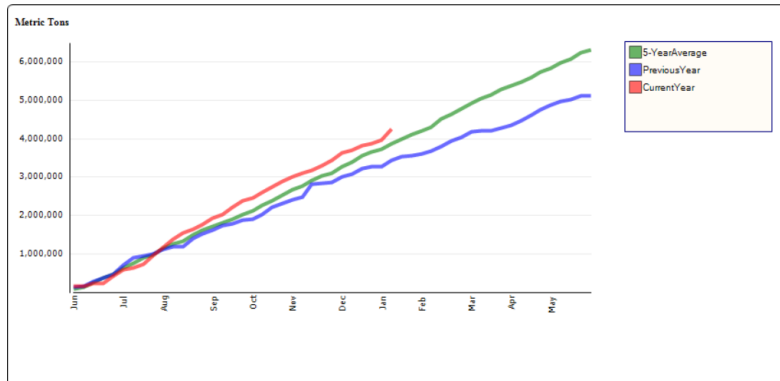


Source: FAS

- US HRS sales are strong, reaching five million mt last week, up 18 percent from last year compared to the USDA's estimate that reflects a five percent increase from last year.

Accumulated Net Sales - World Total  
Wheat - HRS

Selected Year: 2023-2024 as of 01/11/2024



Source: FAS

- US HRS for Feb. '24 was valued at \$301.00/mt FOB PNW (down \$3.00/mt from last week), FOB Gulf HRW 11/12.5 pro is valued at \$279.00/mt (down \$2.00/mt from last week).

**Australian wheat:**

- With the harvest now finished, wheat futures in Australia are bouncing off the AU\$370 contract low despite the rising Australian dollar.
- FOB values in Australia: Jan. '24 AWP, WA is valued at \$290.00/mt (down \$6.00/mt from last week).

### Argentine wheat:

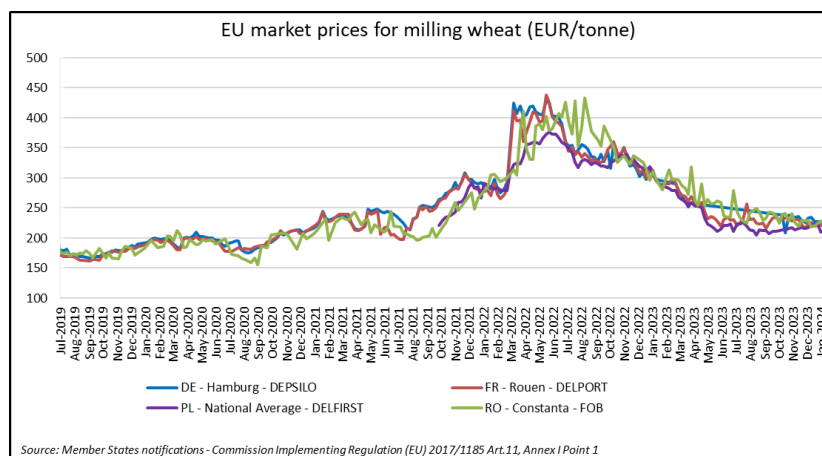
- Harvest in Argentina is 98 percent complete. The average yield is 2.82 tonnes per hectare and BAGE left the estimated crop size at 15.1 million mt.
- Argentine wheat has become competitive in West Africa, which is usually a French market.
- FOB Argentine wheat (12 percent pro) for Jan.'24 was quoted at \$237.00/mt (*down \$1.00/mt from last week*).

### Chinese wheat:

- China's December wheat imports were 610k mt for a season total of 4.9 million mt and are running behind the pace needed to make the USDA's 12.5 million mt import estimate.

### EU wheat:

- France has seen an uptick in demand, and there are reports that, for the first time this season, vessels are having to wait before getting loaded. France won part of the GASC tender, selling 60k mt of the total 360k mt purchase. Despite the uptick in demand, EU prices were mostly flat last week which could help additional movement.



- EU FOB prices: Feb. '24 French 11.5 pro wheat closed at \$239.00/mt (*down \$3.00/mt from last week*); Feb. '24 German 12.5 pro wheat closed at \$249.00 (*down \$4.00/mt from last week*); Feb. '24 Baltic 14.0 pro wheat closed at \$244.00/mt (*down \$3.00/mt from last week*).

### Black Sea wheat:

- Issues in the Red Sea continue to hurt shipping traffic. Some have said that Ukraine's shipment may slow by 20 percent because of the on-going attacks. The Red Sea is a main corridor to move grain from Europe to the Asian market.
- We have Russian FOB values for 12.5 percent protein wheat for Feb.'24 at \$242.00/mt (*down \$3.00/mt from last week*).

### ➤ Significant purchases/ trades:

While it was a short week in the USA it was an active market with Algeria, Egypt, Tunisia, and Jordan buying 1.5 million tonnes last week. Whilst most will be Black Sea execution, the EU will also do a sizeable share.

- **Lebanon** bought 72k mt Ukrainian wheat for Jan-Feb shipment at \$251.50/mt.
- **GASC (Egypt)** bought 360k mt of wheat from Russia (300k mt) and France (60k mt) at \$262.50/mt. This was \$2.50/mt less than their last tender on Jan 9<sup>th</sup>.
- **Tunisia** bought 150k mt of soft wheat at \$270/mt COST AND FREIGHT and 50k mt of durum wheat at \$445.70/mt.
- **Jordan** bought 120k mt of Mar/Apr shipment wheat at \$269/mt.
- **Jordan** returns on the 24<sup>th</sup> for another 120k mt.
- **US** weekly wheat sales were 707.4k mt for a season total of 16.1 million mt, up 4 percent from last year.

➤ **Wheat Market Outlook:**

**Significant events over the past week:**

- Large sales of US SRW last week allowed Chicago and Kansas spreads to tighten.
- Egyptian wheat imports in the 2023 calendar year were 1.4 million mt larger given the lower price and easier logistics of sourcing Black Sea wheat. Total wheat imports in 2023 were 10.9 million mt compared to 9.5 million mt in 2022. GASC imports were up by 26 percent to around 5.6 million mt.
- Wheat shipments through the Suez Canal in the first half of January fell by 40 percent to 0.5 million mt. The decrease comes as attacks in the Red Sea cause traders to divert cargoes around the Cape of Good Hope. Before the attacks, just eight percent of wheat shipments from Europe were sent the longer route around South Africa. This is greatly affecting Black Sea wheat getting to Egypt.

**Outlook:**

Mercantile expects wheat futures to continue sideways. They think the wheat market is supported but will have difficulty moving higher while corn remains under pressure. Traders will watch the Southern Hemisphere weather, and the focus will be on the Northern Hemisphere for winter crop development and spring crop planting. If attacks continue in the Red Sea, cost and freight prices may move higher.

**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 22, 2024

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Mar '24 (bu.)	Mar '24 (mt.)
<b>1 CWRS 13.5</b>	\$8.83	\$324.45	<b>1 CWRS 13.5</b>	\$8.81	\$323.71
<b>1 CWAD 13.0</b>	\$12.20	\$448.28	<b>1 CWAD 13.0</b>	\$12.08	\$443.87
<b>1 CPSR 11.5</b>	\$7.66	\$281.46	<b>1 CPSR 11.5</b>	\$7.81	\$286.97
<b>SW Sask</b>			<b>SW Sask</b>		
<b>1 CWRS 13.5</b>	\$8.74	\$321.14	<b>1 CWRS 13.5</b>	\$8.77	\$322.24
<b>1 CWAD 13.0</b>	\$12.19	\$447.91	<b>1 CWAD 13.0</b>	\$12.07	\$443.50
<b>1 CPSR 11.5</b>	\$7.43	\$273.01	<b>1 CPSR 11.5</b>	\$7.69	\$282.56
<b>NE Sask</b>			<b>NE Sask</b>		
<b>1 CWRS 13.5</b>	\$8.57	\$314.90	<b>1 CWRS 13.5</b>	\$8.55	\$314.16
<b>1 CWAD 13.0</b>	\$11.97	\$439.83	<b>1 CWAD 13.0</b>	\$11.74	\$431.37
<b>1 CPSR 11.5</b>	-	-	<b>1 CPSR 11.5</b>	-	-
<b>SE Sask</b>			<b>SE Sask</b>		
<b>1 CWRS 13.5</b>	\$8.48	\$311.59	<b>1 CWRS 13.5</b>	\$8.48	\$311.59
<b>1 CWAD 13.0</b>	\$12.01	\$441.30	<b>1 CWAD 13.0</b>	\$11.78	\$432.84
<b>1 CPSR 11.5</b>	\$7.17	\$263.45	<b>1 CPSR 11.5</b>	\$7.41	\$272.27

Data source: PDQ, Jan. 22/24

**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	0.01	0.37
2 CWAD 13.0	(0.13)	-4.78
2 CWAD 12.5	(0.16)	-5.88

Data source: PDQ, Jan. 22/24

#### **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 Basis<sup>1</sup> (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/million mt, depending on number of cars moved and elevator used.

- Approximate relationship between U.S. wheat classes and Canadian wheat classes:
  - DNS 14 percent in the Pacific North West (PNW) ≈ 1 CWRS 13.5 percent in Vancouver
  - HRS in the Pacific North West (PNW) ≈ 2 CWRS 13.0 percent in Vancouver
  - HRW in the Pacific North West (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 percent of total export volume crop year to date.
  - Italy is the single biggest buyer of Canadian durum wheat with 27 percent 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

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<sup>1</sup> 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.”

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, US & Canadian Dollars per MT**

Relevant FOB Prices and Export Basis				January 22, 2024
Type of Wheat	FOB Prices CDA <sup>1</sup> (calculated)		Street Prices	Export Basis <sup>2</sup>
	West Coast (Cdn./mt\$)	Great Lakes (Cdn.\$/mt)	Rosetown (Cdn.\$/mt)	Basis: West Coast-Centr. SK (Cdn\$/mt)
DNS 14.0	\$392.23	Closed		
HRS	\$387.28			
HRW 11.5	\$334.51			
SWW 12.0	\$325.13			
1 CWRS 13.5 <sup>3</sup>	\$392.23		\$317.47	\$74.76
2 CWRS 13.0 <sup>3</sup>	\$387.28		\$306.44	\$80.83
3 CWRS <sup>3</sup>	\$334.51		\$282.93	\$51.58
CPS <sup>3</sup>	\$318.23		\$257.58	\$60.65
1 CWAD <sup>4</sup>		Closed	\$459.30	
<b>Competing wheat:</b>				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$242.00		Feb. '24	
French 11.5 (Rouen)	\$239.00		Feb. '24	
APW 10.5 (W Coast)	\$290.00		Feb. '24	
Argentine 12.5	\$237.00		Feb. '24	
<sup>1</sup> FOB Prices CDA = FOB US\$ converted into Canadian Currency <sup>2</sup> Basis = FOB Prices CDA minus Street Price <sup>3</sup> DNS 14% ≈ 1 CRWS 13.5%; HRS ≈ 2 CWRS 13.0%; HRW ≈ 3CWRS; SWW ≈ CPS <sup>4</sup> Values derived to Lakehead FOB				