

**Wheat Market Outlook and Price Report: Jan. 8, 2024**

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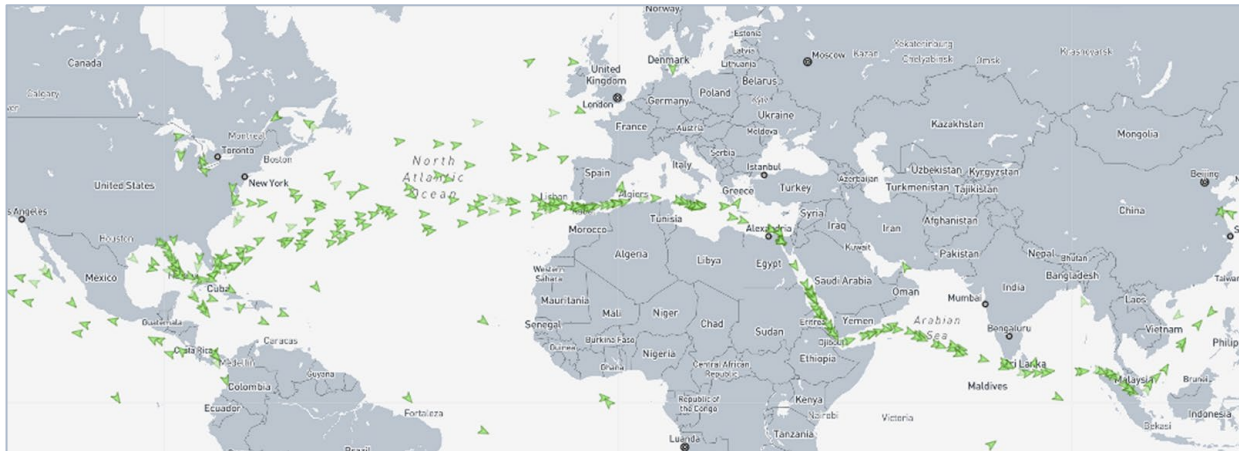
**i) Background and Rationale for the Report**

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 8, 2024**

**Issues in the Panama Canal and Red Sea Restricting Grain Movement**



Vessels with 90,000 DWT capacity or less carrying bulk U.S. cargo (November). Source: Marine Traffic

- Drought conditions have restricted vessel movement through the Panama Canal since October 2023. Low water levels have decreased the number of vessels moving through the canal from approximately 36 ships per day to 24. This has increased wait times and had caused many shippers to choose to travel through the Suez Canal and Red Sea to move goods from the U.S. Gulf to Asia.
- Meanwhile, the Houthi attacks in the Red Sea have spiked insurance premiums and has made shippers nervous to use that route. The alternative is to send cargo around the Cape of Good Hope (South Africa) which adds another 10-15 days of travel time and costs upwards of \$1 million more in fuel alone.

➤ **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:**

- March 2024 contract Chicago winter wheat closed at \$616-0, up 2-4 cents on Friday, *down 15-4 cents on the week.*
- March 2024 contract Kansas hard red winter wheat closed at \$628-0, up 2-2 cents on Friday, *down 15-6 cents on the week.*
- March 2024 Minneapolis hard red spring wheat closed at \$712-0, up 0-6 cents on Friday, *down 13-4 cents on the week.*
- U.S. wheat futures are currently trading 8-17 cents lower this Monday morning.

**CBOT Mar 2023 Wheat**



**KC Mar 2023 Wheat**

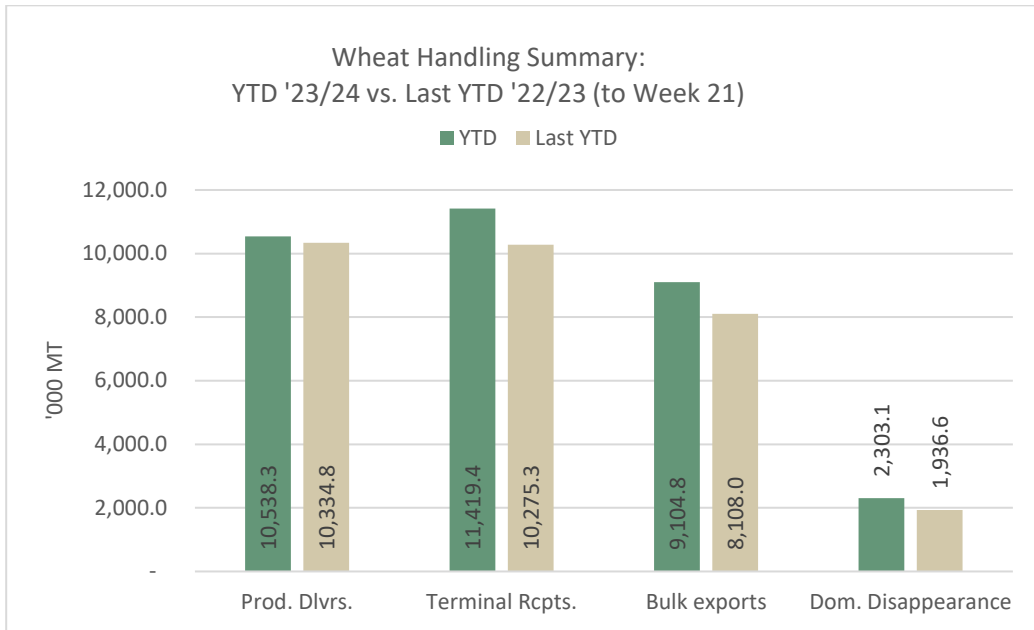


**Mpls. Mar 2023 Wheat**



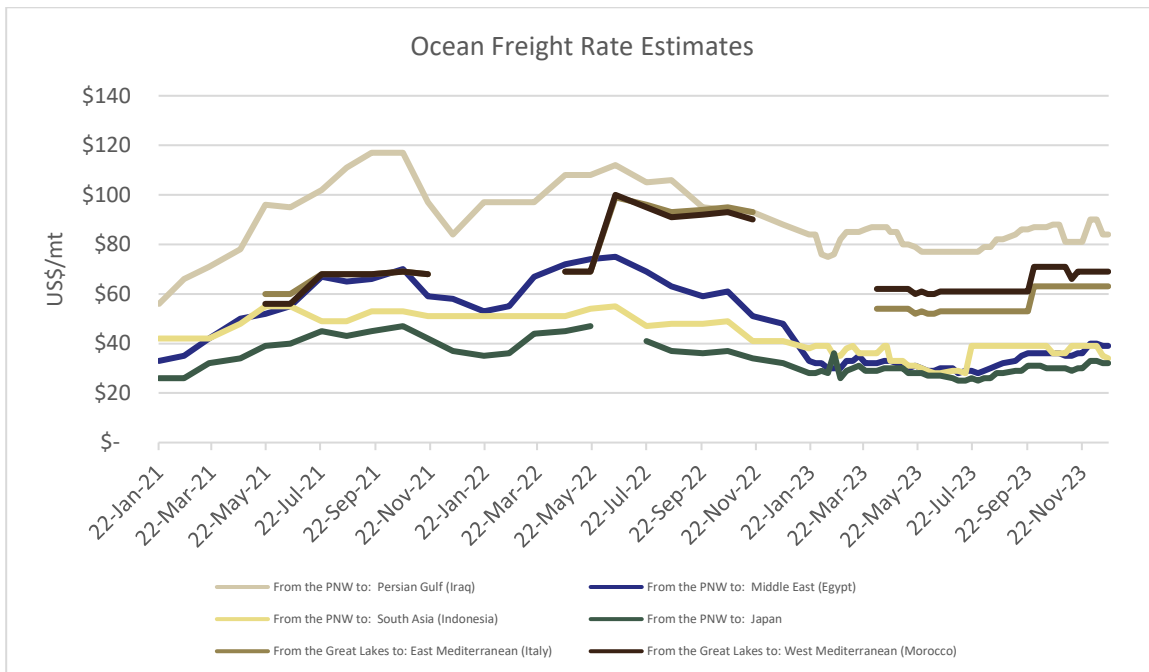
**Canadian Wheat**

- Canadian exports: Canadian wheat exports were strong over the holidays with 839k mt of wheat being exported in week 20 and 21. Total exports are now nine point one million mt which is a full one million mt (12 per cent) ahead of last year's pace. Weekly exports need to be just 350k mt for the remaining 31 weeks of the marketing year to meet the Agriculture and Agri-Food Canada's (AAFC) 20 million mt export number. As far as we can tell, demand for Canadian wheat remains strong, with many elevators across the prairies offering "specials" 20-30 cents above posted bids.



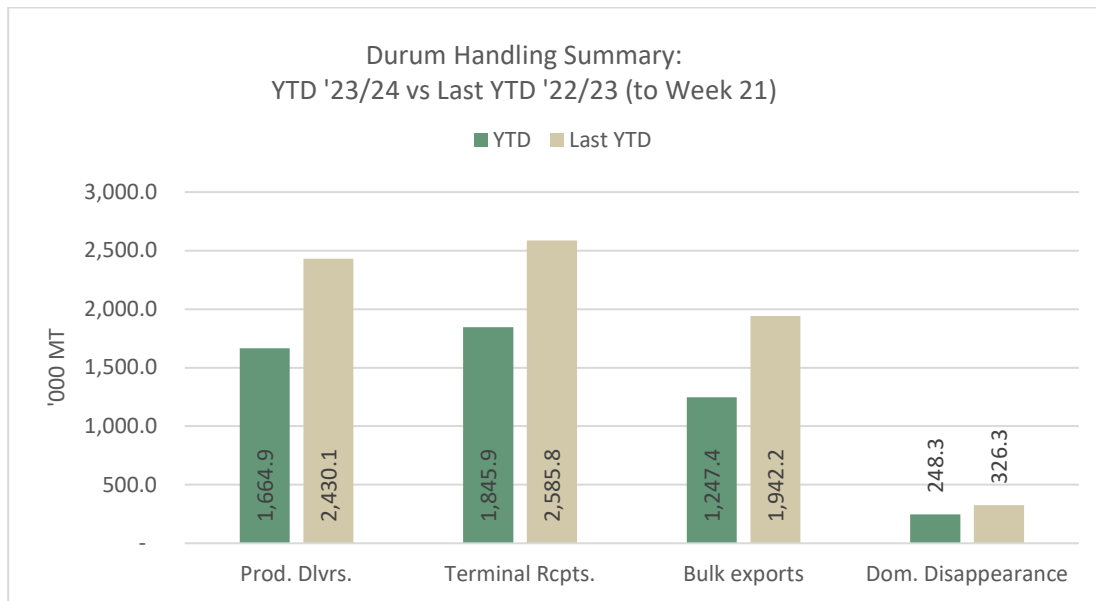
Source: Mercantile, based on CGC data

- Durum:** Canadian durum is being affected by the low-capacity issues at the Panama Canal. The first shipment of durum from Vancouver to Algeria that took the longer alternative route through the Strait of Magellan (avoiding the Panama Canal) took 55 days compared to the 40-45 days that it usually takes to make that journey. With the St. Lawrence Seaway now closed, the West Coast is the only outlet for Canadian durum to Europe and North Africa until the spring. Mild temperatures allowed the St. Lawrence Seaway to remain open a month longer than normal. Despite the issues with the Panama Canal, the shipping cost data that we are getting shows freight rates from the PNW (West Coast) to the Middle East has been in a \$4/mt range (blue line) since the fall.



Source: Mercantile, based on U.S. Wheat Associates data

- The Middle East conflict spilling into the Red Sea is also restricting durum movement from other regions as well. A load of durum from Australia was forced to travel through the Cape of Good Hope (South Africa) instead of the much more direct route up the Red Sea.
- Canadian durum exports in weeks 20 and 21 were a combined 86.1k mt for a season total of one point two million mt, down 36 per cent from last year. Most of the exports were from Thunder Bay and St. Lawrence. Week 22 will be the final week with the St. Lawrence Seaway open.



Source: Mercantile, based on CGC data

- Current Canadian durum bids are at ~\$12.50/bu for January delivery to SK elevators.

#### U.S. Wheat:

- U.S. wheat futures were pressured last week by weakness in the corn market, the stronger U.S. dollar, and good winter wheat conditions.
- U.S. winter wheat conditions in Kansas were reported to be 43 per cent Gd/Ex. This is an 11 per cent improvement from the late time conditions were reported on Nov. 27, 2023. Improved conditions resulted from a mid-December rain.
- Weekly U.S. commercial wheat sales were below expectations at 131.6k mt for a year-to-date total of 15.2 million mt, up two per cent from last year. Total commitments are now 78 per cent of the USDA's total export estimate. There were rumours that China bought more U.S. wheat late last week.
- U.S. HRS for February 2024 was valued at \$309.00/mt FOB PNW (*down \$3.00/mt from last week*), FOB Gulf HRW 11/12.5 pro is valued at \$283.00/mt (*down \$2.00/mt from last week*).

#### Australian Wheat:

- Australian wheat futures made fresh contract lows last week despite a weaker Australian dollar and some late harvest rain.
- Rain in Australia is affecting harvest progress of what little crop they have remaining.
- FOB values in Australia: January 2024 AWP, WA is valued at \$296.00/mt (*unchanged from last week*).

#### **Argentine Wheat:**

- Harvest in Argentina is 84 per cent complete up 12 per cent from last week. BAGE increased its estimate for the crop by 400k mt to 15.1 million mt which is in line with the USDA's number. This requires an average yield of 2.65 tonnes per hectare.
- Brazil's wheat harvest is just 49 per cent complete (vs. 80 per cent average).
- FOB Argentine wheat (12 per cent pro) for January 2024 was quoted at \$242.00/mt (*unchanged from last week*).

#### **Indian Wheat:**

- On-going sales from India's state reserves have drawn the country's wheat stocks to the lowest level in seven years at 16.5 million mt (as of Jan. 1, 2024). The trade thinks Apr. 1, 2024 stocks, at the end of the marketing year, will be six million mt compared to the average "buffer norm" of seven point five million mt. Indian farmers have seeded 98 per cent of the country's wheat crop. Wheat area is expected to be similar to last year, but expectations are that better yields will cause production to be 114 million mt compared to the approximate 102 million mt that was produced this year.

#### **EU Wheat:**

- Heavy rain is causing flooding in parts of France and Germany. Meanwhile, temperatures in the Baltic are falling while snow cover is low.
- EU FOB prices: February 2024 French 11.5 pro wheat closed at \$245.00/mt (*up \$2.00/mt from last week*); February 2024 German 12.5 pro wheat closed at \$255.00 (*unchanged from last week*); February 2024 Baltic 14.0 pro wheat closed at \$250.00/mt (*unchanged from last week*).

#### **Black Sea Wheat:**

- Russia is experiencing extreme cold conditions, but adequate snow cover is protecting the winter wheat crop.
- Russian exports are back to normal after winter weather conditions slowed exports in December. Russian wheat exports have surpassed 26 million mt which is 15 per cent more than last year.
- We have Russian FOB values for 12.5 per cent protein wheat for January 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.

- **Jordan** bought 120k mt of what was likely Romanian wheat at \$276.75 C&F.
- **South Korea** bought 50k mt of U.S. White, HRW and HRS wheat.

#### ➤ **Wheat Market Outlook:**

##### **Significant events over the past week:**

- The U.S. and dozens of other nations warned there would be "consequences" should the Houthis continue to attack shipping vessels. The warnings come as Houthi mercenaries continue to attack commercial shipping vessels in the Red Sea.
- Issues in the Red Sea and the Panama Canal are restricting grain movement. The inability to use the Red Sea hampers movement from The Black Sea to the Asian market as well as movement from Australia to North Africa. Long wait times at the Panama Canal is restricting grain movement from North America's West Coast to Europe, North Africa, and the Middle East and U.S. exports from the Gulf of Mexico to Asia.
- The Baltic Dry Index rose one point two per cent over the week from issues in the Panama Canal and the Red Sea. Business from China will be slow until they return from their New Year celebrations later in the month.

**Mercantile's Outlook:**

The next USDA report is out on Friday, Jan. 12, 2024. Mercantile says the trade is expecting a smaller winter wheat seeded area. Cold temperatures in parts of Europe, and excessive moisture in parts of the EU are giving rise to some production questions, but harvest in the Northern Hemisphere is still over five months away. Consumers are buying as needed and see no reason to extend coverage beyond that. – *We would hold sales for now.*

**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 8, 2024					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Mar '24 (bu.)	Mar '24 (mt.)
1 CWRS 13.5	\$8.71	\$320.04	1 CWRS 13.5	\$8.88	\$326.29
1 CWAD 13.0	\$12.19	\$447.91	1 CWAD 13.0	\$12.05	\$442.77
1 CPSR 11.5	-	-	1 CPSR 11.5	-	-
SW Sask			SW Sask		
1 CWRS 13.5	\$8.69	\$319.31	1 CWRS 13.5	\$8.84	\$324.82
1 CWAD 13.0	\$12.21	\$448.64	1 CWAD 13.0	\$11.99	\$440.56
1 CPSR 11.5	\$7.36	\$270.44	1 CPSR 11.5	\$7.36	\$270.44
NE Sask			NE Sask		
1 CWRS 13.5	\$8.45	\$310.49	1 CWRS 13.5	\$8.63	\$317.10
1 CWAD 13.0	\$12.02	\$441.66	1 CWAD 13.0	\$11.78	\$432.84
1 CPSR 11.5	-	-	1 CPSR 11.5	-	-
SE Sask			SE Sask		
1 CWRS 13.5	\$8.47	\$311.22	1 CWRS 13.5	\$8.56	\$314.53
1 CWAD 13.0	\$12.03	\$442.03	1 CWAD 13.0	\$11.78	\$432.84
1 CPSR 11.5	\$7.17	\$263.45	1 CPSR 11.5	\$7.22	\$265.29

Data source: PDQ, Jan. 8, 2024

**Table 2: Grade Spreads, in Canadian Dollars per Bu and per MILLION MT**

Avg. Grade Spread/ Pro Discounts	Cdn\$/bu.	Cdn.\$/mt
<b>1 CWRS 14.0</b>	0.01	0.38
<b>1 CWRS 13.5</b>	Base Grade	Base Grade
<b>2 CWRS 13.5</b>	(0.08)	-2.94
<b>1 CWRS 12.5</b>	(0.13)	-4.78
<b>1 CWAD 13.0</b>	Base Grade	Base Grade
<b>1 CWAD 13.5</b>	0.01	0.37
<b>2 CWAD 13.0</b>	(0.13)	-4.78
<b>2 CWAD 12.5</b>	(0.16)	-5.88

Data source: PDQ, Jan. 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 Basis<sup>1</sup> (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
  - 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:

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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.”



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 8, 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	\$393.29	Closed		
HRS	\$388.37			
HRW 11.5	\$336.83			
SWW 12.0	\$338.30			
1 CWRS 13.5 <sup>3</sup>	\$393.29		\$311.59	\$81.70
2 CWRS 13.0 <sup>3</sup>	\$388.37		\$300.57	\$87.81
3 CWRS <sup>3</sup>	\$336.83		\$276.68	\$60.14
CPS <sup>3</sup>	\$331.43		\$265.29	\$66.13
1 CWAD <sup>4</sup>		Closed	\$459.30	
Competing wheat:				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$240.00		Feb. '24	
French 11.5 (Rouen)	\$245.00		Feb. '24	
APW 10.5 (W Coast)	\$296.00		Feb. '24	
Argentine 12.5	\$242.00		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				