

Wheat Market Outlook and Price Report: Nov. 20, 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 November 20, 2023

The International Grains Council (IGC) November Grain Market Report.

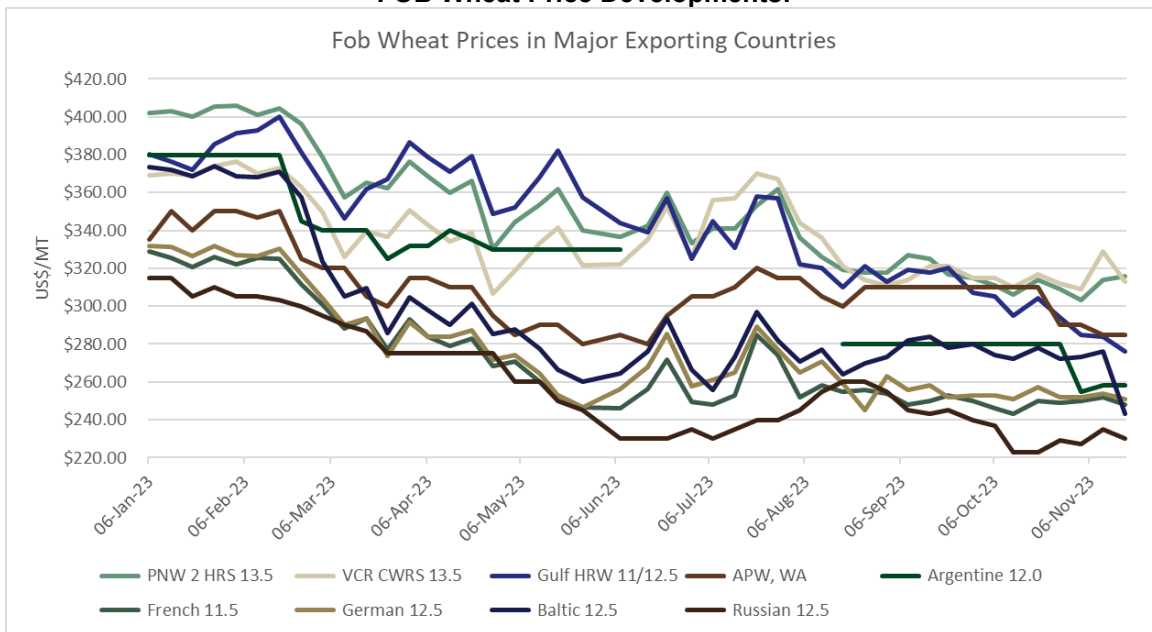
	20/21	21/22	22/23 est.	23/24 f cast	
million tons				19.10	16.11
WHEAT					
Production	774	780	804	785	787
Trade	191	198	208	197	196
Consumption	773	784	795	804	804
Carryover stocks	277	273	281	263	264
year/year change	0	-4	8		-17
Major exporters ^{b)}	59	61	65	56	58

Source: IGC

- The International Grains Council (IGC) lifted wheat production by two million mt in its November Grain Market Report to 787 million mt.
- Production was said to be higher in the EU, Ukraine, Russia and Turkey which off-set smaller crops in Argentina. Australia's crop was left unchanged at 24.4 million mt.
- Global trade was reduced by one million mt as larger exports from Ukraine and Russia were countered by smaller exports from the EU and Argentina.

- Global ending stocks were raised by one million mt from last month driven by higher supplies in the EU and the U.S. U.S. imports were raised 300k mt while use was reduced by 100k mt.

FOB Wheat Price Developments:



- Global cash wheat prices were mostly lower last week as new crop supply in the Southern Hemisphere gets added to the export market and EU wheat continues to struggle for against Russian prices.

➤ **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 \$550-6, down 2-6 cents on Friday, *down 24-4 cents on the week.*
- Dec. 2023 contract Kansas hard red winter wheat closed at \$618-0, down 9-2 cents on Friday, *down 22-0 cents on the week.*
- Dec. 2023 Minneapolis hard red spring wheat closed at \$715-4, down 10-4 cents on Friday, *down 15-0 cents on the week.*
- U.S. wheat futures are currently trading 4-6 cents lower, while EU milling wheat is 1.50-2.75 euros lower this Monday morning.

CBOT Dec 2023 Wheat (1 yr.)



KC Dec 2023 Wheat



Mpls. Dec 2023 Wheat



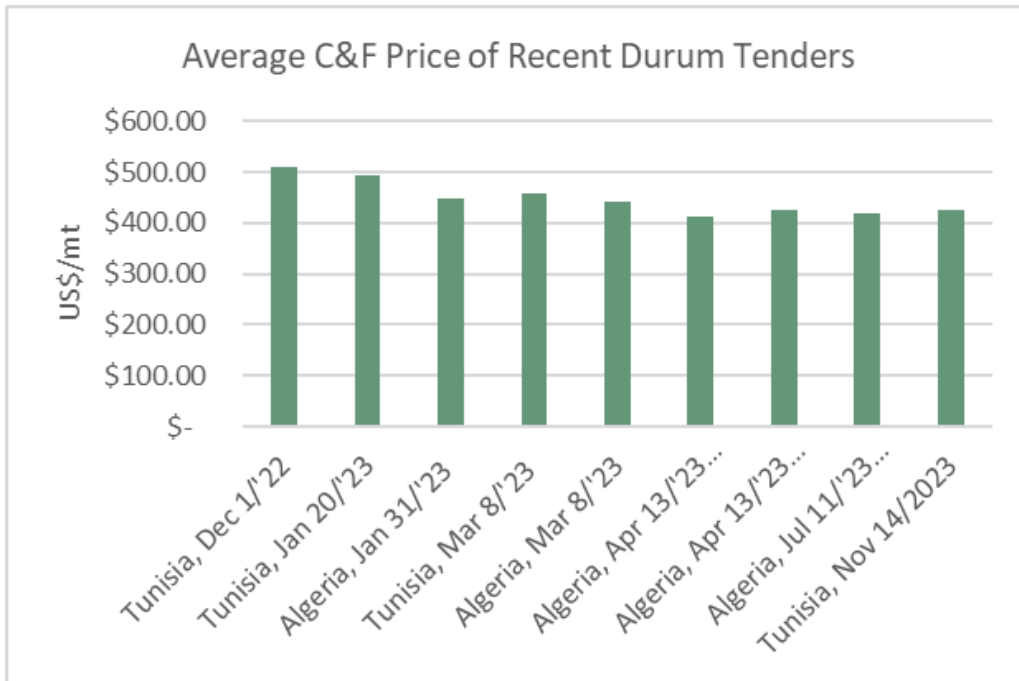
Canadian Wheat

- **Weekly Canadian wheat exports:** Exports in shipping week 15 were slower at 312.6k mt. Total exports are now 5.8 million mt which is five per cent ahead of last year compared to our expectation for a nine per cent decrease from last year.
- Producer deliveries continue to be rapid with another 508.9k mt of wheat being delivered into the elevator system. Domestic use was reported to be big as well at 160.5k mt in the week, which brings the season total to 2.0 million mt, up 60 per cent over last year. Ending stocks, although only slightly bigger than last week, remain big at 2.8 million mt

(CGC) Grain Handling Summary Wheat		Week 15 (Nov. 12, 2023)		
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 15	508.9	454.1	312.6	160.5
Week ago	643.2	368.0	374.4	135.1
YTD	7,267.0	7,722.5	5,825.4	2,008.0
Last YTD	7,000.4	7,037.4	5,533.4	1,255.2
YTD less Last YTD	266.6	685.1	292.0	752.8
YTD over Last YTD	104%	110%	105%	160%

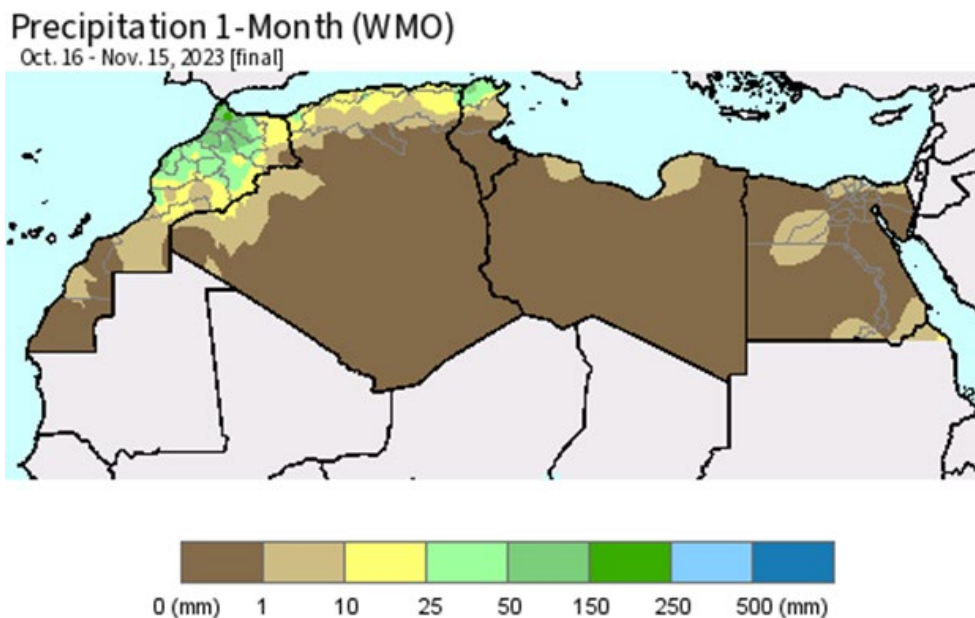
Source: based on CGC data

- **Durum:** Tunisia bought 50k mt of durum at \$424.69/mt and issued a second tender for Friday, buying 25k mt of durum. Offers were said to be \$425.79-\$429.00/mt. The purchases were financed through the African Development Bank (ADB) and excluded non-ADB members (i.e., Russia, Ukraine and Kazakhstan).
- At \$424.69/mt CIF, we calculate this is about \$12.50-\$13.00/bu at the elevator in Saskatchewan, depending on direction of shipment. Traded prices were ~ U.S.\$7.00/mt higher on a C&F basis than Algeria's July tender. If Canada made the sale, more expensive ocean freight (+U.S.\$10/mt) but a weaker Canadian dollar would mean that the price was ~CA\$523/mt FOB Vancouver, up CA\$15.00/mt from the last public tender Canada sold in July.



Source: Mercantile Consulting

- North Africa is benefitting from some of the rain that is plaguing parts of Europe. Rain is falling on some of the durum growing regions of Morocco, Tunisia and Algeria where drought conditions have largely persisted over the past two growing seasons. Planting in northwest Africa usually happens in October through January (depending on when the rain comes).



Source: World Meteorological Organization

- Weekly Canadian durum exports in week 15 were better at 104.4k mt. This makes for a season total of 821.3k mt, down 24 per cent from last year. In Italy, vessel data is showing durum imports from Turkey are slowing while imports from Canada are growing. The first Panamax with durum from Vancouver is scheduled to arrive next week.

(CGC) Grain Handling Summary Durum			Week 15	(Nov. 12, 2023)
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 15	39.1	80.9	104.4	28.6
Week ago	61.0	115.1	60.6	16.3
YTD	1,152.1	1,089.1	821.3	204.5
Last YTD	1,586.1	1,486.3	1,077.9	217.2
YTD less Last YTD	-434.0	-397.2	-256.6	-12.7
YTD over Last YTD	73%	73%	76%	94%

Source: based on CGC data

- The export market is showing some signs of life with two recent tenders for durum. This seems to confirm that Russia and Turkey are slowing exports. We heard of some “specials” at some elevators last week. We would prefer to be 80 per cent sold at \$13.

U.S. Wheat:

- U.S. wheat futures were lower last week on poor export sales and weakness in the rest of the grain complex.
- The U.S. winter wheat crop is 93 per cent planted as of last Monday. Eighty-one percent of the crop has emerged. Condition ratings fell three points from last week to 47 per cent Gd/Ex as Kansas and the surrounding states were drier. Current crop conditions are 14 points better than last year.
- U.S. export sales were disappointing at 176k mt (6.5 million bushels). Total commitments are now 437 million bushels, down seven per cent from last year and slightly ahead of the USDA’s expected eight per cent decline. Sales will need to be approximately 6.8 bushels per week for the remainder of the season to meet the USDA’s number.
- U.S. exports were improving as water levels on the Mississippi have risen, and barge movement improved by 26 per cent last week. The U.S. has missed its peak wheat export window and now low water levels at the Panama Canal will cause issues for U.S. wheat bound for Asian markets.
- U.S. HRS for Dec. 2023 was valued at \$316.00/mt FOB PNW (*up \$2.00/mt from last week*), FOB Gulf HRW 11/12.5 pro is valued at \$276.00/mt (*down \$8.00/mt from last week*).

Australian Wheat:

- Drought and then dry conditions have allowed harvest in western Australia to progress rapidly. Expectations are the harvest in the region will be largely finished by December which is well

ahead of normal. Total grain production estimates are down 44 per cent from last year's record 26 million mt crop at 15.5 million mt. Wheat production is expected to account for 7.9 million mt of this compared to the previous estimate of 8.1 million mt. It seems like production estimates Australia's wheat crop are returning to the USDA's 24.5 million mt estimate.

- FOB values in Australia: Dec. 2023 AWP, WA is valued at \$285.00/mt (*unchanged from last week*).

Argentine Wheat:

- Harvest progress in Argentina is running well ahead of last year. As harvest in Argentina reached the 20 per cent mark, BAGE trimmed its wheat production forecast for Argentina by another 600k mt to 14.7 million mt. Average yields rose from 1.25 tph to 1.6 tph. This means, to make the BAGE production estimate, the average yield of the remaining crop will need to be double (~3.2 tph) the current average yield.
- FOB Argentine wheat (12 per cent pro) for December was quoted at \$258.00/mt (*up \$3.00/mt from last week*).

Indian Wheat:

- Farmers in India are said to have planted 8.6 million hectares of wheat so far. This is down by about 5.5 per cent from last year as the late rice harvest delayed wheat seeding.

EU wheat:

- The French Ag. Ministry (FAM) is estimating that French wheat ending stocks will be large at 3.1 million mt. This is the highest level since 2017/2018. In previous years with similar stock levels, EU wheat values tend to trend lower from September through February.
- Rain seems to be moving out of France which will aid seeding progress. Just 71 per cent of the winter wheat crop has been seeded against 89 per cent average. Gd/Ex conditions fell five points to 86 per cent (vs. 98 per cent last year). There are already estimates that the crop will fall short of last year by five million mt (14 per cent) or more. Similarly, estimates have wheat area in the UK down by 13 per cent from last year. Smaller production in France and the UK will come against large ending stocks and strong conditions in Central/Eastern Europe.
- Rain has prevented French farmers from planting durum crops. Just 21 per cent of the French durum crop has been planted compared to 70 per cent last year and the average of 51 per cent. Excessive rain in parts of Europe is delaying durum seeding, but there are thoughts that durum seeded area might increase as farmers switch to durum from other crops because of its shorter growing season.
- EU FOB prices: Dec. 2023 French 11.5 pro wheat closed at \$248.00/mt (*down \$4.00/mt from last week*); Dec. 2023 German 12.5 pro wheat closed at \$251.00 (*down \$1.00/mt from last week*); Dec. 2023 Baltic 14.0 pro wheat closed at \$243.00/mt (*down \$33.00/mt from last week*).

Black Sea Wheat:

- Ukraine has planted 91 per cent of the expected 4.4 million hectare wheat area (vs. 4.5 million hectares last year).
- Russia is essentially done winter crop seeding. Officials say Russian farmers seeded winter crops on 3.7 million acres more land than last year, but this estimate includes about 3.7 million acres of occupied Ukrainian land. Winter wheat area was said to have risen the most. At 41.5 million acres, winter wheat area would be nine per cent more than last year.
- We have Russian FOB values for 12.5 per cent protein wheat for November at \$230/mt (*down \$5.00/mt from last week*).

➤ **Significant purchases/ trades:**

- **South Korea** bought 50k mt of Black Sea feed wheat at \$270/mt and were said to have bought another 115k mt of feed wheat in a private deal on Friday.
- **Japan** bought 105k mt of North American wheat.
- **The Philippines** bought 40k mt of Australian feed wheat at around \$300/mt CFR.
- **Tunisia** bought 50k mt of durum at \$424.69/mt and issued a second tender for Friday, buying 25k mt of durum. Bids were said to be \$425.79-\$429/mt.
- **Jordan** passed on its tender last week but is expected to tender for 120k mt on Tuesday.
- **U.S.** weekly export sales were small at 176k mt (6.5 million bushels) for a season total of 437 million bushels, down seven per cent from last year.

➤ **Wheat Market Outlook:**

Significant events over the past week:

- **The funds reduced their shorts in MGE wheat**, lightening their net short by 3,300 to 27,726 contracts.
- The **International Grains Council (IGC) raised estimated world wheat production** two million mt, citing bigger Russian and Turkish crops. Carryout was one million mt looser at 264 million mt compared to 281 million mt last season.
- **The Brazilian wheat crop** was said to be 9.28 million mt, down from 10.53 million mt in the prior outlook. Hot and dry conditions were the reasons behind the decrease.
- The USDA Attache' in Egypt is forecasting that **wheat stocks in Egypt will fall to their lowest level in 20 years** as the country suffers the impact of a smaller crop, higher local demand, and restricted exports due to the war. **Egyptian imports are expected to rise by seven per cent** from last year to 12 million mt. Cumulative GASC tenders to date amount to 5-5.5 million mt. - *They will need more credit to be an acceptable buyer.*
- Ukraine says that **151 ships have used the Black Sea corridor** since its inception in August. The "humanitarian corridor" travels along the western coast of the Black Sea near Romania and Bulgaria.

Outlook:

It is a short week in the U.S. due to the Thanksgiving holidays. Mercantile believes wheat may go lower while the EU needs to sell against the Russian competition. Mercantile does not expect to see much from the funds, although they say it was interesting to see them short cover some last week. The disputes in the Ukraine and Gaza remain and may affect the markets. – *We do not expect to extend cash wheat sales until the New Year.*

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: November 20, 2023

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Jan '24 (bu.)	Jan '24 (mt.)
1 CWRS 13.5	\$9.10	\$334.37	1 CWRS 13.5	\$9.04	\$332.17
1 CWAD 13.0	\$12.72	\$467.38	1 CWAD 13.0	\$12.76	\$468.85
1 CPSR 11.5	\$7.61	\$279.62	1 CPSR 11.5	\$7.85	\$288.44
SW Sask			SW Sask		
1 CWRS 13.5	\$9.10	\$334.37	1 CWRS 13.5	\$9.08	\$333.64
1 CWAD 13.0	\$12.70	\$466.65	1 CWAD 13.0	\$12.74	\$468.12
1 CPSR 11.5	\$7.49	\$275.21	1 CPSR 11.5	\$7.60	\$279.25
NE Sask			NE Sask		
1 CWRS 13.5	\$8.87	\$325.92	1 CWRS 13.5	\$8.78	\$322.61
1 CWAD 13.0	\$12.52	\$460.03	1 CWAD 13.0	\$12.52	\$460.03
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a
SE Sask			SE Sask		
1 CWRS 13.5	\$8.86	\$325.55	1 CWRS 13.5	\$8.79	\$322.98
1 CWAD 13.0	\$12.61	\$463.34	1 CWAD 13.0	\$12.59	\$462.61
1 CPSR 11.5	\$7.43	\$273.01	1 CPSR 11.5	\$7.54	\$277.05

Data source: PDQ, Nov. 20, 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	0.01	0.38
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, Nov. 20, 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 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.

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				November 20, 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	\$412.53	\$396.39		
HRS	\$407.40			
HRW 11.5	\$345.96			
SWW 12.0	\$349.99			
1 CWRS 13.5 ³	\$412.53		\$328.49	\$84.03
2 CWRS 13.0 ³	\$407.40		\$317.47	\$89.93
3 CWRS ³	\$345.96		\$296.89	\$49.06
CPS ³	\$342.93		\$288.07	\$54.86
1 CWAD ⁴		\$641.48	\$477.67	\$163.81
Competing wheat: US\$/mt				
Russia 12.5 (Black Sea, 25k mt)	\$230.00		December	
French 11.5 (Rouen)	\$248.00		December	
APW 10.5 (W Coast)	\$285.00		December	
Argentine 12.5	\$258.00		December	
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				