

Wheat Market Outlook and Price Report: Oct. 30, 2023

By Marlene Boersch/ A.P. Temple/ Michael Wilton
Mercantile Consulting Venture Inc.

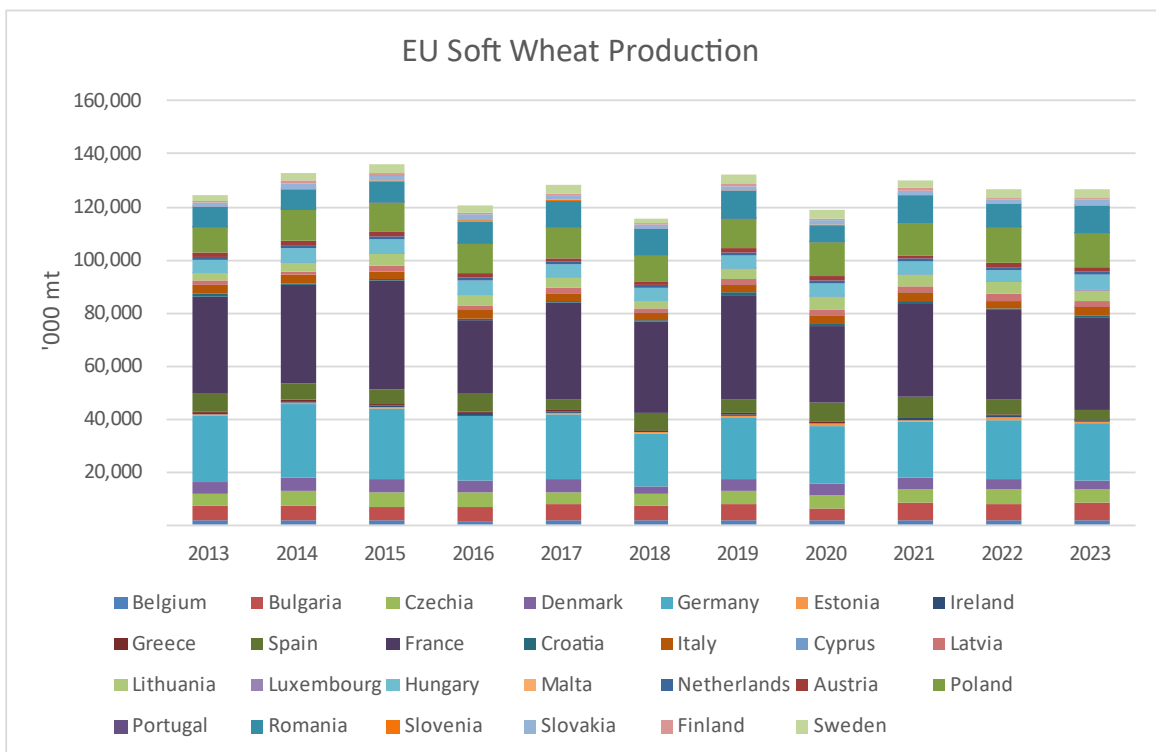
i) Background and Rationale for the Report

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 October 30, 2023

European Union (EU) Soft Wheat Production 2013-2023

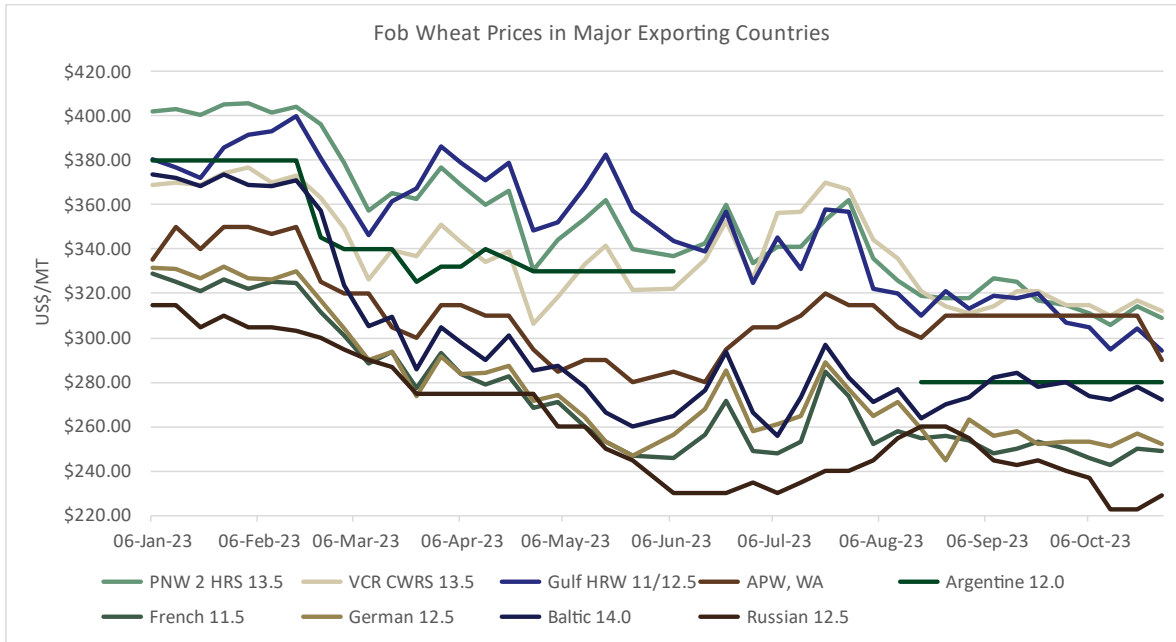


Source: based on EUC data

- In it's latest update, the EU Commission raised EU soft wheat production by 200k mt from its last report to 125.5 million mt. This is 700k mt less than last year.

- Exports were reduced by one million mt to 31 million mt as EU countries continue to struggle against cheap Black Sea exports. Exports are expected to fall by 2.5 million mt from last year.
- Ending stocks were seen growing by an additional 1.3 million mt to 19.1 million mt.

FOB Wheat Price Developments:



- Global wheat prices were generally lower last week as FOB markets retest recent lows that were set in the second week of October. Prices in Australia were sharply lower as new crop supplies from a bigger than expected crop, hit the export market. There were signs last week that values in the Black Sea have found a bottom.

➤ **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 \$575-4, down 4-0 cents on Friday, *down 10-4 cents on the week.*
- Dec. 2023 contract Kansas hard red winter wheat closed at \$643-0, down 11-6 cents on Friday, *down 27-0 cents on the week.*
- Dec. 2023 Minneapolis hard red spring wheat closed at \$719-6, down 4-4 cents on Friday, *down 11-0 cents on the week.*
- At the time of writing, U.S. wheat futures are trading 4 cents lower to 5 cents higher while MATIF milling wheat futures are unchanged this Monday morning.

CBOT Dec 2023 Wheat (1 yr.)



KC Dec 2023 Wheat



Mpls. Dec 2023 Wheat



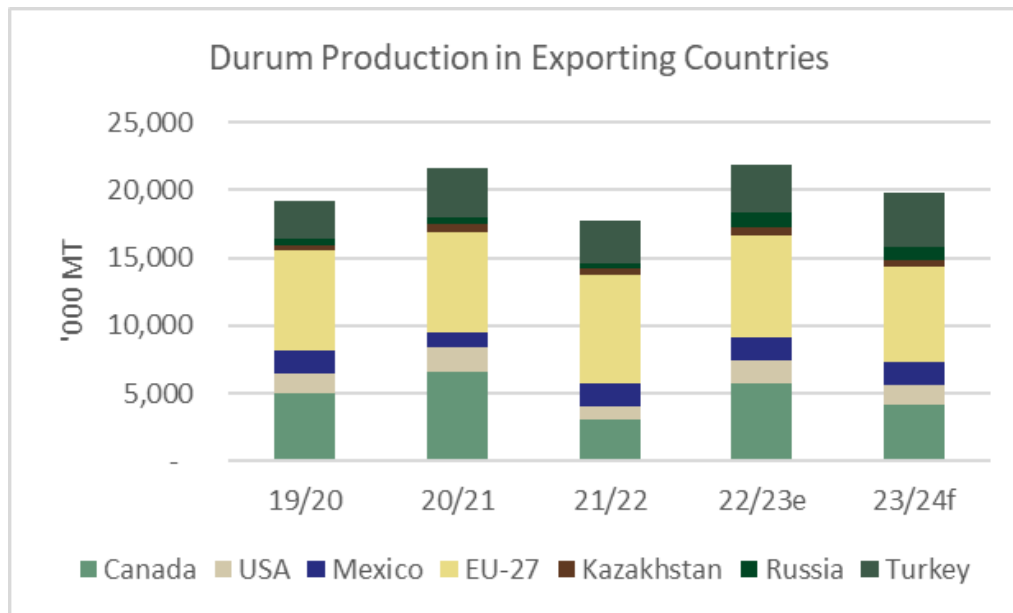
Canadian Wheat

- In last week’s update, the Agriculture and Agri-Food Canada (AAFC) added 61k mt to the carry-in. AAFC raised feed use by a respective amount for an unchanged ending stocks number of 3.2 million mt.
- **Weekly Canadian wheat exports:** In shipping week 12, exports were 443.9k mt, for a season total of 4.6 million mt. This remains 10 per cent ahead of last year’s pace, but the gap narrowed by another four per cent over the week. Deliveries were in-line with exports allowing visible stocks to remain steady. The export pace will continue to slow. We expect Canadian exports will be nine per cent lower than last year.

(CGC) Grain Handling Summary Wheat			Week 12	(Oct. 22'23)
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Week 12	443.4	480.2	443.9	111.5
Week ago	397.7	499.4	326.9	75.9
YTD	5,629.2	6,347.9	4,612.2	1,608.1
Last YTD	5,848.1	5,562.8	4,203.8	978.0
YTD less Last YTD	-218.9	785.1	408.4	630.1
YTD over Last YTD	96%	114%	110%	164%

Source: based on CGC data

- **Durum:** In their October report, the AAFC raised the 2023/2024 carry-in by 12k mt while increasing feed use by 13k mt for a 1k mt decrease in carry-out to 400k mt, down two per cent from last year. The AAFC has durum production at 4.06 million mt which is almost 120k mt less than our estimate.
- At the world level, we estimate that durum production in exporting countries will fall by upwards of two million mt from last year to around 19.8 million mt (down nine per cent from last year). Most (1.6 million mt) of the decrease in production is from Canada, but crops were also somewhat smaller in the U.S., Mexico, the EU, Kazakhstan, and Russia. Additionally, while crops in North America were generally of good quality, significant volumes of the crops in the EU, Kazakhstan and Russia were impacted by rain at harvest time causing sprouting. This increases the need to high quality imports to be blended with the sprouted grain.



Source: based on STC, USDA, and Merc data

- Although production in Turkey is just ~500k mt more than last year, we estimate they will export between 1.2-1.4 million mt of durum this year compared to the 'usual' export volume of ~200k mt. The dramatic change in exports is driven by a combination of factors including a good crop, weak currency, aggressive selling at harvest and government policy. Turkey has already exported ~1.0 million mt of durum.
- **Canadian durum exports** in week 12 were strong at 116.1k mt, but the pace continues to fall behind last year (which is expected). Total durum exports are now 641.3k mt which is 80.7k mt less than last year.

(CGC) Grain Handling Summary Durum		Week 12		(Oct. 22'23)
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Week 12	103.6	118.8	116.1	15.4
Week ago	93.5	115.9	84.6	72.9
YTD	999.0	775.4	641.3	154.6
Last YTD	1,236.2	1,116.6	722.0	132.5
YTD less Last YTD	-237.2	-341.2	-80.7	22.1
YTD over Last YTD	81%	69%	89%	117%

Source: based on CGC data

- We expect Turkey to be out of exports in Dec.-Jan., which should have buyers looking for additional Canadian durum.

U.S. Wheat:

- U.S. wheat was lower last week as the rising U.S. dollar and rain in the U.S. winter wheat belt put pressure on the market.
- Rain in Eastern Kansas, Oklahoma and Texas helped alleviate the drought conditions there.
- U.S. winter wheat planting rose nine per cent over the week to 77 per cent complete. This is inline with the five-year average. Fifty-three percent of the crop has emerged.

- Weekly U.S. wheat sales were at the low end of the 300k-600k mt that was expected at 363,700 mt. Total commitments are now 11.1 million mt, down six per cent from last year compared to the USDA's expectation for a five per cent decline.
- U.S. HRS for Nov. 2023 was valued at \$309.00/mt FOB PNW (*down \$5.00/mt from last week*), FOB Gulf HRW 11/12.5 pro is valued at \$294.00/mt (*down \$10.00/mt from last week*).

Australian Wheat:

- Harvest continues in Australia and yields remain "better than expected". A late rain has made local analysts more optimistic about the size of the wheat crop. We have heard of estimates ranging from 25 million mt to 28 million mt. These are well above the USDA's current 24.5 million mt estimate.
- FOB values in Australia: Nov. 2023 AWP, WA is valued at \$290.00/mt (*down \$20.00/mt from last week*).

Argentine Wheat:

- Crop ratings in Argentina were unchanged from last week at 53 per cent Gd/Ex. The crop in "excellent" condition rose by two per cent.
- Argentina's National Meteorological Service says 30-75 millimetres of rain fell in some of the wheat growing regions of the country. This will stop the crop from deteriorating further, but we think it is too late to reverse much of the yield damage that has been done.
- Harvest in Argentina is seven per cent complete and yields are currently just 1.3 tonnes per hectare, but this will improve as more of the crop comes off.
- FOB Argentine wheat (12 per cent pro) for Nov. was quoted at \$280.00/mt (*unchanged from last week*).

EU Wheat:

- The EU commission raised EU wheat production by 200k mt to 125.5 million mt (705k mt less than last year) while reducing exports by one million mt to 31 million mt. The combined impact was for ending stocks to grow from 17.8 million mt to 19.1 million mt (which is similar to last year).
- EU FOB prices: Nov. 2023 French 11.5 pro wheat closed at \$249.00/mt (*down \$1.00/mt from last week*); Nov. 2023 German 12.5 pro wheat closed at \$252.00 (*down \$5.00/mt from last week*); Nov. 2023 Baltic 14.0 pro wheat closed at \$272.00/mt (*down \$6.00/mt from last week*).

Black Sea Wheat:

- Winter wheat regions in Ukraine received some much-needed rain last week.
- There were reports that Ukraine has halted shipments because of risks from Russian warplanes and mines. These were contradicted by Ukraine's Deputy Prime Minister, but vessel movement has slowed in an around Ukraine's major ports.
- The market is maintaining that the size of the Russian crop is 93 million mt which is way above the USDA's number, and there were rumors the Russian government was considering removing the floor price.
- We have Russian FOB values for 12.5 per cent protein wheat for Nov. at \$229/mt (*up \$6.00/mt from last week*).

➤ **Significant purchases/ trades:**

- There were no significant trades reported last week.
- Commercial U.S. wheat sales were 363,700 mt for a season total of 11.1 million mt, down six per cent from last year.

➤ **Wheat Market Outlook:**

Significant events over the past week:

- **The weekly Commitment of Traders data** had Chicago wheat speculative traders on a 92,254 contract net short for 10/24.
- **Egypt, Turkey, Pakistan, and Nigeria became the latest of the world's major wheat importers to suffer massive depreciation of their currencies**, hitting 900 against the USA dollar last week, compared to 460 in June.

Outlook:

According to Mercantile, the Funds are carrying a large short position in wheat, but there is nothing currently in the mix to push them to reverse this. Mercantile expects prices to be lower as pressure continues from the U.S. corn harvest. Further forward, Mercantile sees firmer levels when the harvest is in the bin. Weak local currencies will keep prices low for the present while the Russians continue to be aggressive sellers of wheat. Mercantile notes, world events are extremely volatile at present and suggest a degree of caution. It should be kept in mind that there is a short crop in Canada and prices don't carry any war risk premium according to Mercantile. - *We are 60 per cent sold and would hold additional 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: October 30, 2023

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Jan '24 (bu.)	Jan '24 (mt.)
1 CWRS 13.5	\$9.18	\$337.31	1 CWRS 13.5	\$9.12	\$335.11
1 CWAD 13.0	\$12.52	\$460.03	1 CWAD 13.0	\$12.59	\$462.61
1 CPSR 11.5	\$7.75	\$284.77	1 CPSR 11.5	\$8.18	\$300.57
SW Sask			SW Sask		
1 CWRS 13.5	\$9.22	\$338.78	1 CWRS 13.5	\$9.19	\$337.68
1 CWAD 13.0	\$12.53	\$460.40	1 CWAD 13.0	\$12.58	\$462.24
1 CPSR 11.5	\$7.60	\$279.25	1 CPSR 11.5	\$8.05	\$295.79
NE Sask			NE Sask		
1 CWRS 13.5	\$8.94	\$328.49	1 CWRS 13.5	\$8.87	\$325.92
1 CWAD 13.0	\$12.20	\$448.28	1 CWAD 13.0	\$12.20	\$448.28
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a
SE Sask			SE Sask		
1 CWRS 13.5	\$8.96	\$329.23	1 CWRS 13.5	\$8.90	\$327.02
1 CWAD 13.0	\$12.17	\$447.17	1 CWAD 13.0	\$12.23	\$449.38
1 CPSR 11.5	\$7.53	\$276.68	1 CPSR 11.5	\$7.73	\$284.03

Data source: PDQ, Oct. 30/23

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. 30/23

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/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.
- 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.

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.”

- 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				October 30, 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	\$411.53	\$396.96		
HRS	\$405.16			
HRW 11.5	\$355.76			
SWW 12.0	\$351.23			
1 CWRS 13.5 ³	\$411.53		\$331.47	\$80.07
2 CWRS 13.0 ³	\$405.16		\$320.41	\$84.75
3 CWRS ³	\$355.76		\$296.52	\$59.23
CPS ³	\$344.20		\$272.27	\$71.93
1 CWAD ⁴		\$639.16	\$473.63	\$165.53
Competing wheat:				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$229.00		November	
French 11.5 (Rouen)	\$249.00		November	
APW 10.5 (W Coast)	\$290.00		November	
Argentine 12.5	\$280.00		November	
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				