

Wheat Market Outlook and Price Report: September 18, 2023

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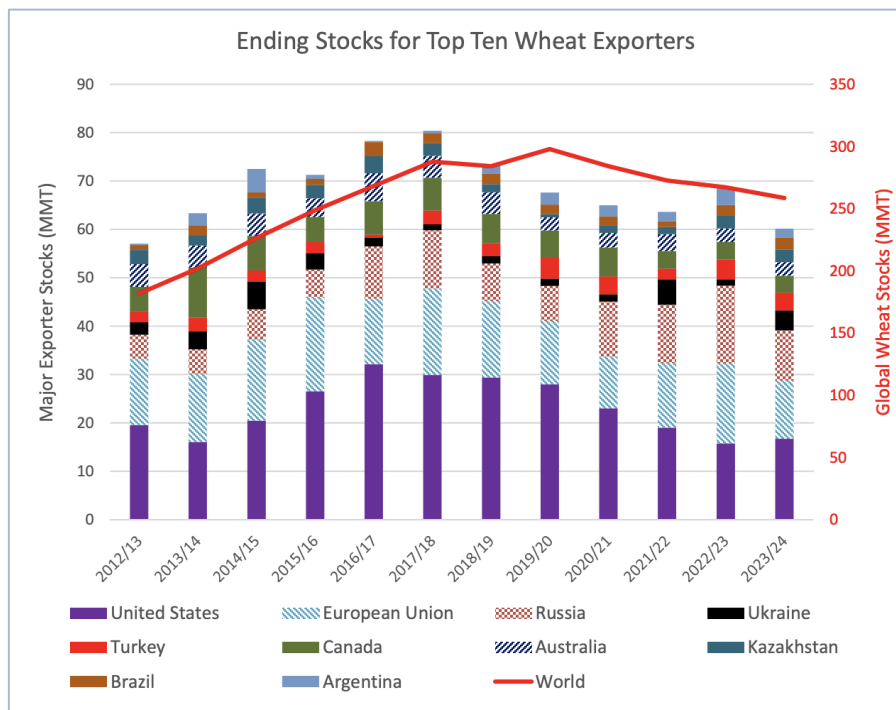
i) Background and Rationale for the Report

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 September 18, 2023

United States Department of Agriculture (USDA) September World Agricultural Supply and Demand Estimates (WASDE) Update on Wheat:

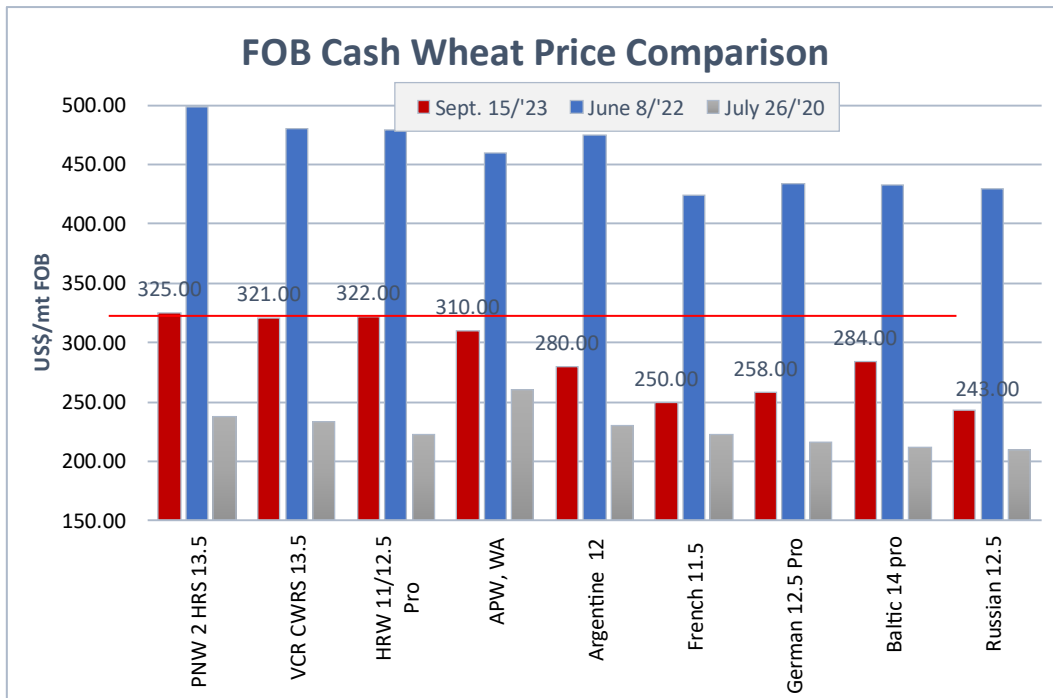


Source: USDA-FAS, Global Market Analysis Sept. 2023

- Following three years of record production, USDA is now forecasting **2023/2024 global wheat production** to drop as crops are trimmed in several key exporting countries.

- Of the top 10 exporters, year-over-year crop reductions are forecasted in the EU, Russia, Canada, Australia, Kazakhstan and Brazil.
- *With tightening supplies in these major exporters, global trade is now forecast down six million tons from last year, but still the second highest on record.*
- Meanwhile, **global wheat consumption** is forecasted to beat records in 2023/2024, exceeding global production.
 - To satisfy this demand amidst tightening supplies, many major exporters will dip into wheat stocks, with the largest year-to-year declines in the EU and Russia.
 - *The 2023/2024 global wheat ending stocks are forecast to reach the lowest level since 2015/2016 due to consistent global demand with reduced production from major exporters.*
- For the top 10 wheat exporters highlighted in the graph, **combined ending stocks** are forecasted at the lowest level since 2012/2013. Exporter stocks are a key metric in determining availability of supplies for the global market.

FOB Wheat Price Developments:



- FOB wheat prices in most origins rose around \$2/mt, while Russian wheat dropped ~\$2/mt. Russian wheat remains the cheapest available wheat and their grower prices are still at a satisfactory U.S. \$210.00 /mt FOB.

➤ **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.

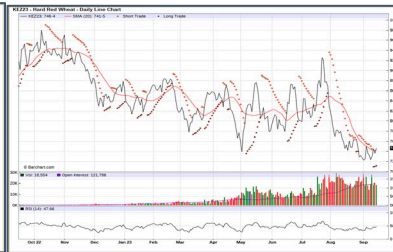
Futures:

- Dec. 2023 CBOT SRW futures were up seven cents for the week, closing at \$6.03/bu.
- KCBT HRW futures were up 13 cents to \$7.44/bu.
- Dec. 2023 Minneapolis hard red spring wheat closed at 789-0, up 5-4 cents on Friday, *up 18-20 cents on the week.*
- This Monday, CBOT wheat futures are currently down 11-16 cents/bu.

CBOT Dec 2023 Wheat (1 yr.)



KC Dec 2023 Wheat



Mpls. Dec 2023 Wheat



Canadian Wheat

- Saskatchewan (SK) spring wheat is ~75 per cent harvested as of Sept. 11, 2023. Alberta (Alta.) wheat is 53 per cent harvested.
- In their latest production report, StatsCan put Canadian all-wheat production at 29.835 million mt. That compares to the Tuesday WASDE estimate of 30 million mt. Last year StatsCan had wheat output at 34.335 million mt, but lack of moisture hurt production in the prairies this year. Spring wheat was forecast at 22.6 million mt; a significant 536k mt higher than in the first StatsCan report a couple weeks ago.

StatsCan: Model Based Estimates of production of principal field crops, Canada (Sept. 14/'23)

Type of crop	2020	2021	2022	2023	% of last yr.	Sept. 8 STC report for '23	Diff. S14 to S8
Wheat, all	35,437,200	22,422,100	34,334,787	29,834,836	86.9%	29,472,148	362,688
Wheat, durum	6,571,200	3,032,490	5,789,579	4,058,800	70.1%	4,258,632	-199,832
Wheat, spring	26,092,100	16,161,901	25,844,133	22,637,217	87.6%	22,101,532	535,685
Wheat, winter remain	2,773,900	3,227,759	2,701,075	3,138,819	116.2%	3,111,984	26,835

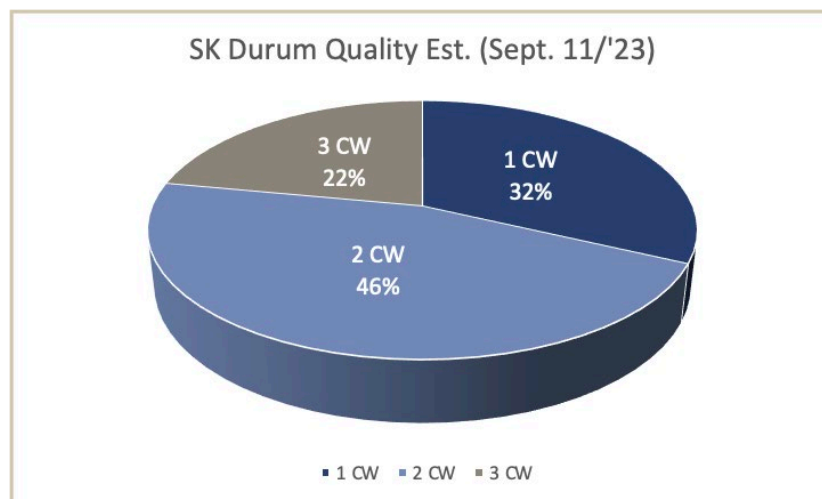
Blue: revised from prev. reports

- The WASDE report had no changes for the U.S. balance sheet, though 10 million bushels of HRW exports were shifted to HRS.
- Meanwhile, **Canadian wheat exports** for week six were relatively good at 341k mt, advancing YTD wheat exports to two million mt, 542k mt higher than last year-to-date.

(CGC) Grain Handling Summary Wheat Week 6 (To Sept. 10, 2023)

('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 6	725.1	593.2	340.7	175.6
Week ago	882.5	531.3	410.0	179.1
YTD	2,720.3	3,100.2	1,997.5	999.8
Last YTD	2,624.2	2,093.8	1,456.0	495.3
YTD less Last YTD	96.1	1,006.4	541.5	504.5
YTD over Last YTD	104%	148%	137%	202%

- The Canadian export pace for wheat seems to be holding up so far. Mercantile thinks exporters are spending more time and effort marketing wheat because the canola export market is not as lively as it was in previous years. This makes it more important to move other grains to keep commodity assets fully utilized.
- Mercantile is worried about the aggressiveness by Russia into the export markets despite reports of problems with their spring wheat crop. However, Mercantile still expects markets to move higher in the New Year. Mercantile does not suggest additional sales at this time.
- **Durum:** SK durum is about 90 per cent harvested. There was no report on Alta.'s durum harvest progress.
- SK Ag assessed durum quality as follows: 32 per cent 1 CW, 46 per cent two CW and 22 per cent three CW, compared to the 10-year average of 34 per cent 1 CW, 27 per cent 2 CW and 22 per cent 3 CW. This puts this year's SK quality ahead of last year's (78 per cent, the number is half this year vs. 61 per cent on average).
- However, independently we heard about some problems with test weight.



- In the U.S., farmers are making progress with 88 per cent of the crop now harvested in Montana and 68 per cent in North Dakota. Overall, U.S. producers are reporting average yields and protein.
- Regarding production volume, the StatsCan Model Based Production Report last week pegged durum production at 4.059 million mt. This was another 200k mt lower than in their earlier estimate. This is quite close to Mercantile’s production estimate of 3.95 million mt, and does not change their outlook. Adding last week’s carry-in stocks would give Canada a durum supply of ~4.4 million mt, compared to six million mt last crop year. - *This means that exports will have to be rationed to about 3.3 million mt (5.12 million mt last crop year).*
- **Durum exports** for week six were modest at 26k mt, for a YTD total of 223k mt, slightly ahead of last year’s. Producer deliveries into the handling system are running 10 per cent behind last year’s, which makes sense given the smaller crop.

(CGC) Grain Handling Summary Durum		Week 6 (To Sept. 10, 2023)		
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 6	109.1	26.4	25.9	2.6
Week ago	134.7	9.8	49.7	5.8
YTD	416.2	158.3	223.1	48.4
Last YTD	462.7	356.2	199.9	62.7
YTD less Last YTD	-46.5	-197.9	23.2	-14.3
YTD over Last YTD	90%	44%	112%	77%

- Mercantile expects prices to improve once the harvest pressure from Turkey and the Black Sea exporters passes. Also, when additional good quality durum is needed in the EU (and potentially North Africa).

U.S. Wheat:

- The **WASDE report** had no changes for the U.S. wheat balance sheet, although 10 million bushels of HRW exports were moved into HRS wheat. As a whole, domestic wheat output was left at 1.734 billion bushels and carryout was maintained at 615 million bushels.
- Changes to global wheat numbers last week included a six million mt cut in estimated production (-3 million mt Australia, -2 million mt Canada, -1 million mt for each Argentina and the EU, and +1.5 million mt for Ukraine).
- Wheat carryout was seven million tonnes tighter, to 267 million tonnes - the tightest in eight years and the stocks/use ratio would be a nine-year low. [See also graph on page 1]. However, many traders think that the Russian crop is five million tonnes larger than the USDA estimate.
- North American growers remain stubborn sellers in a very light trade. Due to higher costs and inflation, North American margins are poor.
- U.S. export sales at 438k mt were in the middle of trade expectations and the gap on last year of 19 per cent is slowly closing. The relative weakness of U.S. wheat futures should be making U.S. wheat generally more attractive, but firm basis here against weak basis in other origins (Black Sea) hampers the pace at which the U.S. export program gets back on track.

- U.S. HRS for Sept. 2023 was valued at \$325.00/mt FOB PNW (*down 2.00/mt from last week*), FOB Gulf HRW 11/12.5 pro is valued at \$322.00/mt (*unchanged from last week*).

Australian Wheat:

- Australia looks increasingly dry.
- FOB values in Australia: Sept. 2023 AWP, WA is valued at \$310.00/mt (*unchanged from last week*).

Argentine Wheat:

- There still is debate about the Argentine crop with conditions in some areas improving, but much of the country remains in drought conditions.
- BAGE left the Argentine crop at 16.5 million mt, in line with the USDA number, despite a sharp jump in ratings from 18 per cent to 24 per cent Gd/Exc.
- FOB Argentine wheat (12 per cent pro) for Oct. was quoted at \$280.00/mt (*unchanged from last week*), with no trade activity.

EU Wheat:

- Marché à Terme International de France (MATIF) had its highest weekly close in five weeks, although EU all-wheat shipments still running 27 per cent behind last year.
- FranceAgriMer reduced their export forecast by 300k mt to 17.2 million mt.
- The European Commission reported 5.84 million mt have been shipped from EU to non-EU destinations as of Sept. 8. That is down from eight million mt last year.
- Last Friday was the official last day of the EU import ban on Ukrainian grains. Some negotiations are continuing regarding its extension or otherwise, but we are told that Poland and Hungary are talking about imposing their own bans, while Bulgaria and Romania decided not to prolong the restrictions.
- EU FOB prices: Sept. 2023 French 11.5 pro wheat closed at \$250.00/mt (*up \$2.00/mt from last week*); Sept. 2023 German 12.5 pro wheat closed at \$258.00 (*up \$2.00/mt from last week*); Sept. 2023 Baltic 14.0 pro wheat closed at \$284.00/mt (*up \$2.00/mt from last week*).

Black Sea Wheat:

- Early updates from contacts in the Black Sea put more substance to the possibility Ukraine is close to shipping corn to China again from its main ports.
- Ukraine's Ag Minister reported 5.4 million tonnes of grains have been shipped for the season through Sept. 13. That is 7.5 per cent behind last year's pace.
- Russian wheat remains the cheapest in the markets, but grower prices are still at a satisfactory U.S. \$210.00 /mt FOB and likely to continue even though crude oil is higher.
- We would put effective Russian FOB values for 12.5 per cent protein wheat for Oct. at \$243/mt. (*Down \$2/mt from last week*).

➤ **Significant purchases/ trades:**

We did not see confirmations of major trades over the past week.

- **South Korea** purchased about 55k mt feed wheat from optional origins in an international tender at an estimated \$269.48/mt C&F.
- The **Iranian** state agency is believed to have purchased about 240k mt of milling wheat likely to be sourced from Russia at between 292 euros/mt (\$314.00) C&F Iranian ports for 120,000 tons to 323 euros/mt C&F for two consignments each of 60k mt.
- **Japan's** Ministry of Agriculture, Forestry and Fisheries bought a total of 118k mt of food-quality wheat from the United States, Canada and Australia in their regular tender.

- **U.S. export sales** at 438k mt were in the middle of trade expectations and the gap on last year of 19 per cent is slowly closing.

➤ **Wheat Market Outlook:**

Significant events over the past week:

- **USDA-WASDE reports:** We think the WASDE report was constructive for wheat. Changes to global wheat numbers last week included a six million tonne cut in estimated production, and wheat carryout was seven million tonnes tighter at 267 million mt.
- However, **exports year to date** remain disappointing and some will question the USDA's export forecast as being too high.
- The **European Commission** reported 5.84 million mt have been shipped from EU to non-EU destinations, down from eight million mt last year.
- In their latest production report, **StatsCan** put Canadian all wheat production at 29.835 million mt, compared to the Tuesday WASDE estimate of 30 million mt. Spring wheat was forecast at 22.6 million mt, a significant 536k mt higher than in the first StatsCan report a couple weeks ago. Durum production was pegged at 4.059 million mt, another 200k mt lower than in their earlier estimate.
- Early updates from contacts in the Black Sea put more substance to the possibility that the Ukraine is close to shipping corn to China again from its main ports.
- **Russian wheat** remains the cheapest wheat, and grower prices are still at a satisfactory U.S. \$210.00 /mt fob, so Russian sales are likely to continue.
- According to rumours today, **China** bought a substantial amount of wheat from France last week. They might also be interested in some PNW grain, however, we have seen no confirmation of this.

Outlook:

In Mercantile's view, the WASDE report was constructive for wheat. However, exports year-to-date are disappointing and some will question the USDA's export forecast as being too high. Nevertheless, we 'might be' at a tipping point in the wheat markets. Over much of the summer, consumers have taken advantage of declining spot prices to lower their buying average. Seasonal upswings from this point in the year are typical, says Mercantile, and while consumers seem to be generally well covered for the fall positions (O/N/D), they are still mostly open for 2024. Russia is still the cheapest source of wheat by far but does not offer far forward. So, consumers will have to choose to stay open/uncovered, or else to cover from more expensive origins says Mercantile.

Mercantile would not suggest additional sales at this time.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: 18-09-2023					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Dec. '23 (bu.)	Dec.'23 (mt)
1 CWRS 13.5	\$9.39	\$345.03	1 CWRS 13.5	\$9.33	\$342.82
1 CWAD 13.0	\$13.79	\$506.70	1 CWAD 13.0	\$13.86	\$509.27
1 CPSR 11.5	\$8.52	\$313.06	1 CPSR 11.5	\$8.77	\$322.24
SW Sask			SW Sask		
1 CWRS 13.5	\$9.36	\$343.92	1 CWRS 13.5	\$9.35	\$343.56
1 CWAD 13.0	\$13.90	\$510.74	1 CWAD 13.0	\$13.91	\$511.11
1 CPSR 11.5	\$8.43	\$309.75	1 CPSR 11.5	\$8.70	\$319.67
NE Sask			NE Sask		
1 CWRS 13.5	\$9.17	\$336.94	1 CWRS 13.5	\$9.12	\$335.11
1 CWAD 13.0	\$13.69	\$503.03	1 CWAD 13.0	\$13.69	\$503.03
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	
SE Sask			SE Sask		
1 CWRS 13.5	\$9.23	\$339.15	1 CWRS 13.5	\$9.29	\$341.35
1 CWAD 13.0	\$13.70	\$503.39	1 CWAD 13.0	\$13.71	\$503.76
1 CPSR 11.5	\$8.37	\$307.55	1 CPSR 11.5	\$8.59	\$315.63

Data source: PDQ, Sept. 18/23

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, Sept. 18/23

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/mln mt. During the 2013/14 crop year the export basis for wheat widened to approximately C\$250/mln 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/mln 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% in the Pacific Northwest (PNW) ≈ 1 CWRS 13.5% in Vancouver
 - HRS in the Pacific Northwest (PNW) ≈ 2 CWRS 13.0% 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% of total export volume crop year to date.
 - Italy is the single biggest buyer of Canadian durum wheat with 27% 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				18-09-2023
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	\$416.13	\$434.44		
HRS	\$402.77			
HRW 11.5	\$384.96			
SWW 12.0	\$343.39			
1 CWRS 13.5³	\$416.13		\$334.74	\$81.39
2 CWRS 13.0³	\$402.77		\$324.08	\$78.69
3 CWRS³	\$384.96		\$286.60	\$98.35
CPS³	\$336.47		\$309.38	\$27.08
1 CWAD⁴		\$629.39	\$514.78	\$114.60
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$243.00	Sept. '23		
French 11.5 (Rouen)	\$250.00	Sept. '23		
APW 10.5 (W Coast)	\$310.00	Sept. '23		
Argentine 12.0	\$280.00	Sept. '23		

¹ FOB Prices CDA = FOB US\$ converted into Canadian Currency

² Export Basis = FOB Prices CDA minus Cdn. Street Price

³ DNS 14% ≈ 1 CRWS 13.5%; HRS ≈ 2 CWRS 13.0%; HRW ≈ 3CWRS; SWW ≈ CPS

⁴ Values derived to Lakehead FOB