

Wheat Market Outlook and Price Report: February 12th, 2024

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

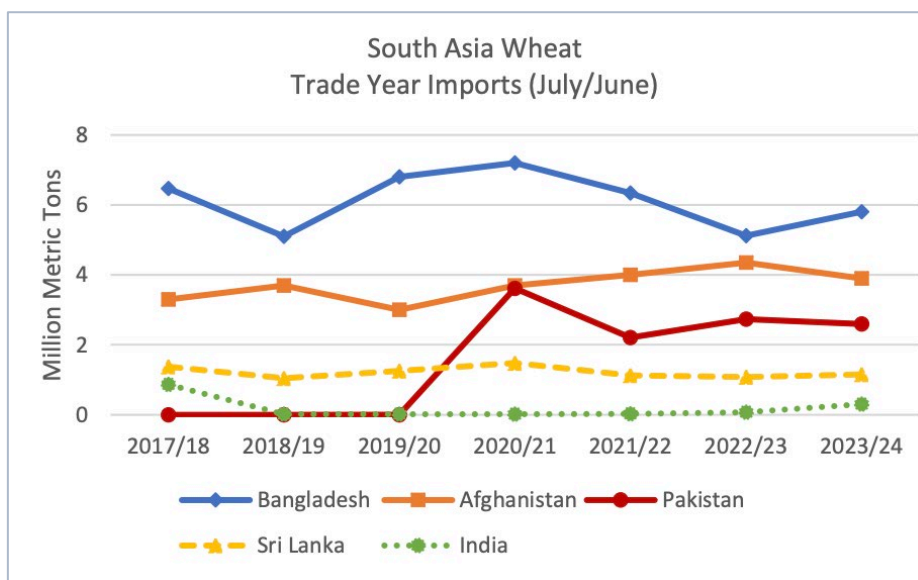
i) Background and Rationale for the Report

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 February 12, 2024

USDA-FAS: South Asia Wheat Overview, Feb. 2024

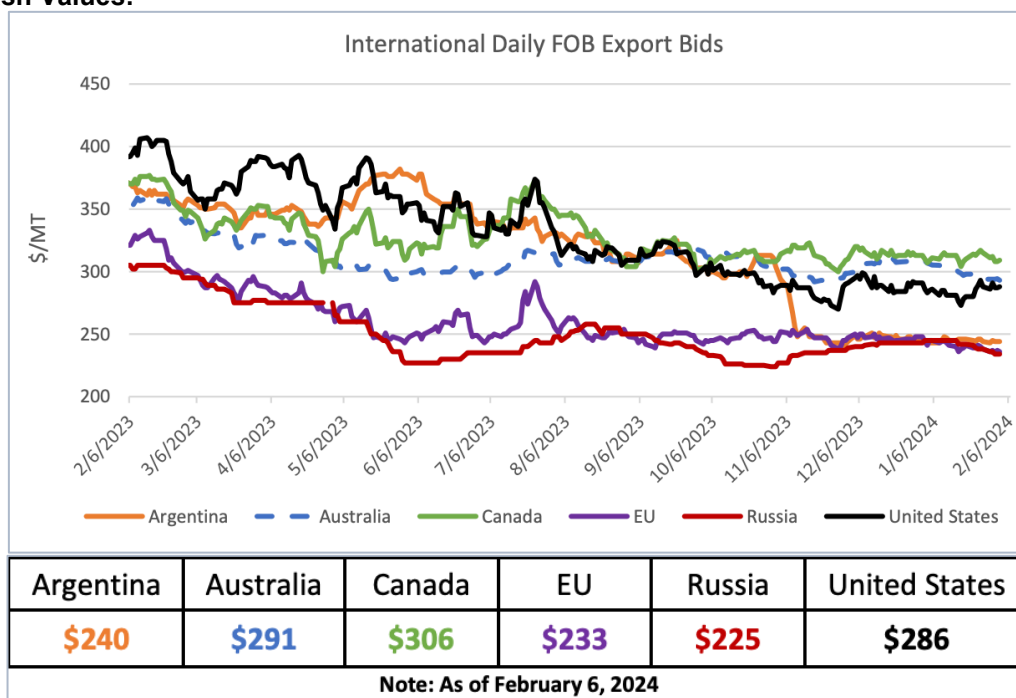


Source: USDA-FAS, Global Market Analysis

- **Overview:** South Asia is a net importing region for wheat that is anticipated to import nearly 14 million tons in 2023/24. The region accounts for approximately 20 per cent of global production and consumption. *In general, this region seeks lower-cost imports and has become largely dependent on Black Sea wheat exports.*
- **Bangladesh** is the largest importer in the region, with domestic production accounting for only 15 per cent of consumption. Wheat imports and consumption fell in both 2021/22 and 2022/23 as prices soared but have risen in 2023/24 as wheat prices have become more competitive with rice.

- In **Pakistan**, domestic production of wheat accounts for over 90 percent of consumption. Imports exceeded 2.2 million tons during the past two years and are forecast to rise to 2.7 million this year.
- **Afghanistan** is heavily dependent upon imports from neighbours such as Kazakhstan and Uzbekistan and, to a lesser extent, Pakistan. Afghanistan primarily imports wheat flour given its very limited milling capacity.

FOB Cash Values:



*Note on FOB prices: Argentina- 12.0 per cent, up river; Australia- average of APW; Kwinana, Newcastle, and Port Adelaide; Russia - Black Sea- milling; EU- France grade 1, Rouen; US- HRW 11.5 per cent Gulf; Canada- CWRS (13.5 per cent), Vancouver
Source: IGC

➤ **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:

- Mar. '24 contract **Chicago winter wheat** closed at \$596-6, up 8-2 cents on Friday, *down three cents on the week*.
- Mar. '24 contract **Kansas hard red winter wheat** closed at \$601-4, up 0-4 cents on Friday, *down 23-6 cents on the week*.
- Mar. '24 **Minneapolis hard red spring wheat** closed at \$684-2, up 0-4 cents on Friday, *down 15-4 cents on the week*.
- US wheat futures are currently trading two to four cents/bu higher this Monday morning at the time of writing. Over the weekend, there were reports of Russia and Ukraine attacking transport ships in the Black Sea, which could slow exports out of the region.

CBOT 1-Yr. Mar. 2023 Wheat



KC Mar. 2023 Wheat

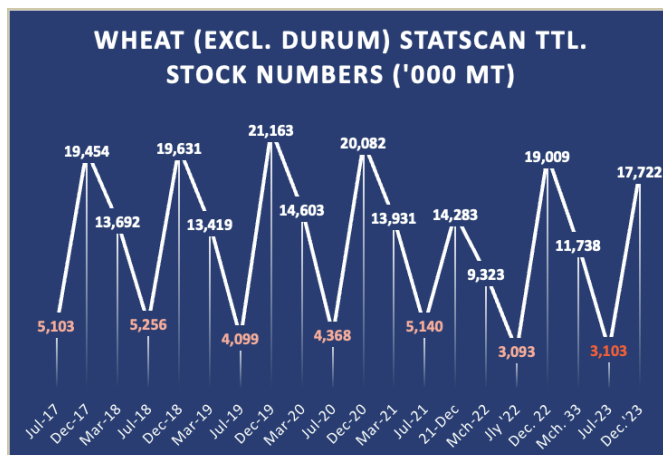


Mpls. Mar. 2023 Wheat



Canadian Wheat

- The Statistics Canada (StatsCan) Dec. 31, 2023 Grain Stocks report last week showed **all wheat stocks** at 20.68 million mt. That was on par with the average trade guess of 20.7 million mt of wheat and down 10.3 per cent vs. last year.
- **Wheat excl. durum stocks** were shown at 17.2 million mt, 6.8 per cent below last year's. On-farm stocks at 14.3 million mt were down 8.1 per cent from last year's, while commercial stocks at 3.4 million mt were down only 0.7 per cent.

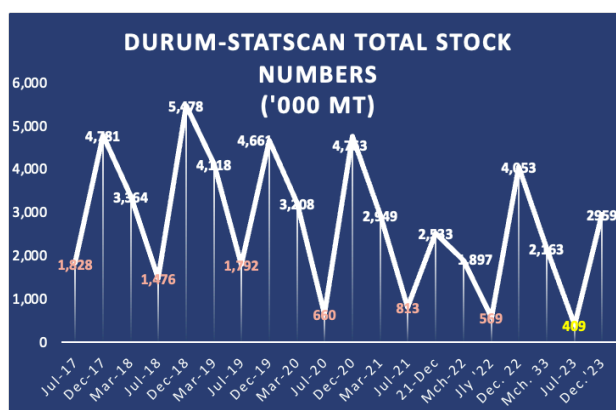


- According to StatsCan, **Dec. 2023 wheat exports** amounted to 1.85 million mt, compared to two million mt the previous month. Year-to-date exports (Aug.-Dec. 2023) added to 9.25 million mt compared to 8.29 million mt the previous year (+12 per cent). The biggest buyer from Canada in December was Indonesia (253k mt), followed by China (228k mt), and Bangladesh (169k mt).
- At 430k mt, **Canadian wheat exports in week 27** were again quite good, advancing year-to-date weekly wheat exports to 10.9 million mt compared to 10.3 million mt last year-to-date. If this pace can be sustained, it would mean 21 million mt of exports for this crop year, which would bring ending stocks close to 2.5 million mt (3.2 million mt in 2022/23). AAFC is forecasting a 20 million mt export program for both 2023/24 and 2024/25. Mercantile believes these exports should be at least 250k mt higher.

(CGC) Grain Handling Summary - Wheat Week 27 (to Feb. 4, 2024)

('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 27	597.1	370.2	429.6	63.2
Week ago	662.9	301.6	340.8	46.6
YTD	12,763.6	12,971.2	10,920.6	2,570.1
Last YTD	12,749.9	12,453.8	10,278.5	2,336.1
YTD less Last YTD	13.7	517.4	642.1	234.0
YTD over Last YTD	100 per cent	104 per cent	106 per cent	110 per cent

- USDA left their Canadian supply and demand unchanged.
- Spring wheat did not see a spark last week and the market will be mostly sideways, but look for opportunities to sell another 20 per cent at~ \$8.75-9.00/bu, depending on your location. With markets technically over-sold, there could be some short covering to help keep prices steady.
- **Durum: 2023/24 crop year:** The export situation and competition this year by Turkey was covered at length in last week's report. In essence, it is evident that Canada lost 1-1.3 million mt of export potential to Turkey this year, and this volume is not recoverable for this season.
- There is a potential opportunity for additional sales to Europe/ N Africa, although last week's aggressive Turkish sales might have negated the opportunity for a decent price increase into the EU.
- In last week's **stocks as of the Dec. 31, 2023 report**, StatsCan showed total **durum stocks** at 2.96 million mt, 27 per cent below last year's (-1.1 million mt). On-farm stocks at 2.35 million mt were down 28.6 per cent from last year's (-940k mt), while commercial stocks at 610k mt were down 19.8 per cent (-151k mt). Almost 80 per cent of all durum stocks remain on farm. The trade had expected durum stocks at 2.9 million mt, so there was no surprise here.



- Also per StatsCan last week, **Dec. 2023 durum exports by destination** amounted to 267k mt, advancing year-to-date wheat exports to 1.28 million mt compared to 1.92 million mt last year-to-date. The biggest buyer from Canada in December was the US (55k mt), followed by Morocco (50k mt), and Algeria (32k mt).

- If exports do not speed up, then Canada should have just under 3.1 million mt of durum exports for the crop year, compared to five million mt last crop year. *Given Mercantile's export projection of 3.2 million mt, they see durum ending stocks increasing to 630k mt this crop year (from 450k mt last year). Historically, this is not too bad [see pink & yellow ending stock numbers in the graph above], but nevertheless, it is higher than expected.*
- **Durum exports:** for week 27, 68k mt was not enough to start catching up on the previous year's exports. Year-to-date, the total exports of 1.6 million mt trail last year's by 1.2 million mt!
- Producers will want to be 100 per cent sold on old crop durum and watch for any opportunities to sell the remaining 20 per cent.

(CGC) Grain Handling Summary - Durum		Week 27 (to Feb. 4, 2024)		
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 27	112.1	66.8	68.2	5.2
Week ago	173.1	38.5	39.9	6.9
YTD	2,142.0	2,146.1	1,627.3	295.4
Last YTD	3,193.3	3,303.1	2,793.0	353.0
YTD less Last YTD	-1,051.3	-1,157.0	-1,165.7	-57.6
YTD over Last YTD	67 per cent	65 per cent	58 per cent	84 per cent

US Wheat:

- Wheat futures were weighed down by a strong US dollar, an improved crop outlook, and a basically bearish WASDE report. HRW had the most significant weekly losses at 24 cents on the week.
- Weekly US export sales of 378k mt were within trade expectations of 275–550k mt. The season total of 17.25 million mt is up six per cent on last year against the USDA's 4.5 per cent expected decline.
- **Feb. USDA-WASDE reports:** For the US, the USDA showed a decrease in domestic consumption (usage) by 270k mt, and ending stocks increased by the same amount.
- The USDA increased **global wheat production** by just under 1 million mt, primarily due to an increase in Argentine wheat to 15.5 million mt. On the consumption side, global feed demand was lowered by 600k mt. Global exports were raised by 1.15 million mt with increases for Argentina (due to a bigger crop) and Australia. Global stocks fell by 590k mt.
- There were no major/ significant changes to the overall balance sheet in this report, but EU wheat ending stocks keep increasing, and the EU and Black Sea will have to keep fighting for markets. (USDA increased Ukrainian wheat exports by one million mt due to a one million mt reduction in domestic feeding.)
- Trade estimates for this week's **USDA Ag Outlook Forum** are expected to be out later today and we could see some producer selling ahead of what is expected to be a bearish forum. Nevertheless, with markets technically over-sold we could see some short covering to help keep prices steady.
- US HRS for Mar. 2024 was valued at \$303.00/mt FOB PNW (*down \$4.00/mt from last week*), FOB Gulf HRW 11/12.5 pro is valued at \$281.00/mt (*down \$10.00/mt from last week*).

Australian wheat:

- Australian Mar. wheat futures ended the week down A\$12/mt to settle near contract lows in very quiet trade ahead of the Chinese Lunar New Year holidays.
- The USDA left the Australian production unchanged but switched 500k mt out of domestic feed demand into exports.
- FOB values in Australia: Mar. 2024 APW, WA is valued at \$285.00/mt (*unchanged from last week*).

Argentine wheat:

- Weather models are calling for Argentina to be hot and dry for the next week.
- USDA raised Argentine wheat production by 500k mt to 15.5 million mt while Brazilian production was lowered to 8.1 million mt.
- USDA lowered Brazilian production to 8.1 million mt, while CONAB increased it by two million mt to 10.2 million mt!
- Argentine wheat remains well offered in the mid to high \$230's, but like most origins, exporters would prefer to see more active demand. Official data suggests that exporters are sitting on a lot of wheat with licenses taken but against limited demand.
- FOB Argentine wheat (12 per cent pro) for Mar. 2024 was quoted at \$238.00/mt (*down \$4.00/mt from last week*).

EU wheat:

- Matif wheat lost €5/mt last week, primarily after the Russian government reduced the 'recommended' export floor price from \$250 to \$235/mt.
- Following that, the USDA increased EU imports to 12 million mt, lowered production 300k mt and surprisingly increased domestic feeding to raise ending stocks by a small 200k mt. The 200k mt increase in ending stocks was negligible, but it did continue the trend of rising stocks for the fifth USDA report running.
- UK wheat production was lowered to 14 million mt and exports were lowered to 800k mt.
- EU Fob prices: Mar. 2024 French 11 pro wheat closed at \$227.00/mt (*down \$10.00/mt from last week*); Mar. 2024 German 12.5 pro wheat closed at \$237.00 (*down \$10.00/mt from last week*); Mar. 2024 Baltic 12.5 pro wheat closed at \$232.00/mt (*down \$10.00/mt from last week*).

Black Sea wheat:

- USDA left the Russian supply and demand unchanged.
- *The main news this week from the Black Sea was the reduction of the Russian floor price from \$250 to \$235/mt. This took Russian FOB prices down to the mid \$220's.*
- Reuters issued unconfirmed reports from Russia over the weekend that Ukrainian seaborne drones targeted a civilian vessel.
- We have Russian FOB values for 12.5 per cent protein wheat for Mar. 2024 at \$225.00/mt (*down \$8.00/mt from last week*).

➤ Significant purchases/ trades:

There was little volume business to speak of.

- **Japan** bought 136k mt of milling wheat in their weekly tender front the US, Canada and Australia.
- **Tunisia's** state grains agency is said to have purchased about 100k mt of durum wheat in a tender on Wednesday.
- **Jordan** is tendering for 120k mt milling wheat for a reply next Wednesday.
- **Weekly US export sales** were up 17 per cent for old crop wheat with 378.4k MT sold along with 8.1k MT of new crop wheat.

➤ **Wheat Market Outlook:**

Significant events over the past week:

- **US wheat futures** were weighed down by a strong US dollar, an improved crop outlook, and a basically bearish WASDE report. HRW had the most significant weekly losses at 24 cents on the week.
- The **StatsCan Dec. 31, 2023 Grain Stocks report** last week showed *all wheat stocks* at 20.68 million mt. That was on par with the average trade guess of 20.7 million mt of wheat and down 10.3 per cent vs. last year.
- **Canadian wheat exports** to week 27 are six per cent ahead of last year's.
- **Canadian durum exports** to week 27 are 42 per cent below last year's. We think that Canada lost 1-1.3 million mt of export potential to Turkey this year.
- **Feb. USDA-WASDE:** For the **US**, USDA showed a decrease in domestic consumption (usage) by 270k mt, and ending stocks increased by the same amount.
- **Global numbers:** There were no major/ significant changes to the overall balance sheet in this report, but EU wheat ending stocks keep increasing, and the EU and Black Sea will have to keep fighting for markets.
- **Australian Mar. wheat futures** ended the week down A\$12/mt to settle near contract lows, and **Matif wheat** lost €5/mt last week, primarily after the Russian government reduced the 'recommended' export floor price from \$250 to \$235/mt.

Outlook:

The EU, Russia and Ukraine need to see record export demand for Feb. through June to meet USDA projections, and there seems to be little evidence at the moment that demand will come close to those numbers.

At the same time, traders are concerned about the developments in the Middle East and about geopolitical disputes in general. This environment will keep markets steady, but as the cheapest food grain, it could support wheat rather than corn. However, the Russian government's action last week to drop the 'recommended' export floor price shows they are ready to continue fighting for markets.

Mercantile recommends to be fully sold on durum and look for opportunities in spring wheat.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: 12-02-2024					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		May '24 (bu)	May' 24 (mt)
1 CWRS 13.5	\$8.55	\$314.16	1 CWRS 13.5	\$8.52	\$313.06
1 CWAD 13.0	\$11.20	\$411.53	1 CWAD 13.0	\$11.10	\$407.86
1 CPSR 11.5	\$7.49	\$275.21	1 CPSR 11.5	\$7.56	\$277.78
SW Sask					
1 CWRS 13.5	\$8.50	\$312.32	1 CWRS 13.5	\$8.47	\$311.22
1 CWAD 13.0	\$11.15	\$409.70	1 CWAD 13.0	\$11.04	\$405.65
1 CPSR 11.5	\$7.23	\$265.66	1 CPSR 11.5	\$7.47	\$274.48
NE Sask					
1 CWRS 13.5	\$8.31	\$305.34	1 CWRS 13.5	\$8.26	\$303.51
1 CWAD 13.0	\$10.97	\$403.08	1 CWAD 13.0	\$10.90	\$400.51
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	
SE Sask					
1 CWRS 13.5	\$8.24	\$302.77	1 CWRS 13.5	\$8.24	\$302.77
1 CWAD 13.0	\$11.06	\$406.39	1 CWAD 13.0	\$10.97	\$403.08
1 CPSR 11.5	\$7.01	\$257.58	1 CPSR 11.5	\$6.88	\$252.80

Data source: PDQ, Feb. 12/24

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, Feb. 12/24

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 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 North West (PNW) ≈ 1 CWRS 13.5 per cent in Vancouver
 - HRS in the Pacific North West (PNW) ≈ 2 CWRS 13.0 per cent in Vancouver

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.”

- 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 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, US & Canadian Dollars per MT

Relevant FOB Prices and Export Basis				12-02-2024
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	\$387.48	\$384.03		
HRS	\$379.58			
HRW 11.5	\$338.12			
SWW 12.0	\$320.35			
1 CWRS 13.5 ³	\$387.48		\$308.65	\$78.83
2 CWRS 13.0 ³	\$379.58		\$304.98	\$74.61
3 CWRS ³	\$338.12		\$282.93	\$55.19
CPS ³	\$313.44		\$266.39	\$47.05
1 CWAD ⁴		\$530.63	\$377.73	\$152.90
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$225.00	March '24		
French 11.5 (Rouen)	\$227.00	March '24		
APW 10.5 (W Coast)	\$285.00	March '24		
Argentine 12.0	\$238.00	March '24		

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