

## Wheat Market Outlook and Price Report: September 25, 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 September 25, 2023**

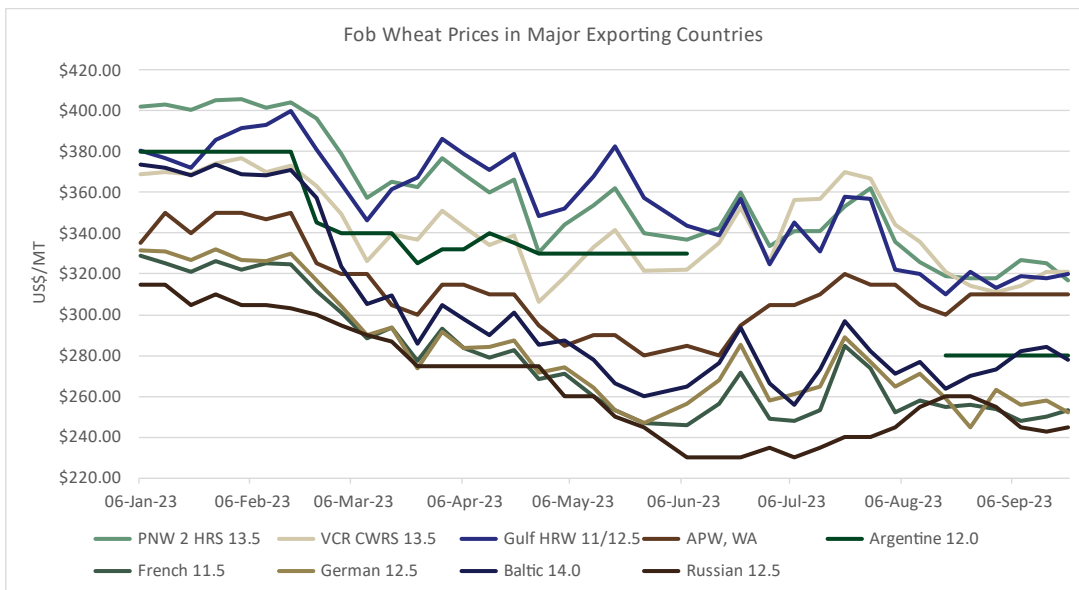
#### **IGC September Grain Market Report on Wheat:**

	20/21	21/22	22/23 est.	23/24 f cast	
million tons				17.08	21.09
<b>TOTAL GRAINS <sup>a)</sup></b>					
<b>Production</b>	2227	2296	2266	2294	2294
<b>Trade</b>	427	426	428	411	410
<b>Consumption</b>	2243	2297	2268	2307	2305
<b>Carryover stocks</b>	602	600	599	584	588
<i>year/year change</i>	-15	-1	-2		-11
<b>Major exporters <sup>b)</sup></b>	132	144	145	149	154
<b>WHEAT</b>					
<b>Production</b>	774	780	805	784	783
<b>Trade</b>	191	198	208	197	196
<b>Consumption</b>	773	784	795	805	803
<b>Carryover stocks</b>	277	273	283	261	263
<i>year/year change</i>	0	-3	9		-20
<b>Major exporters <sup>b)</sup></b>	59	61	66	52	55

Source: IGC, GMR Sept. 21, 2023

- **The International Grain Council (IGC)** increased global wheat supply and decreased use in the September Grain Market Report.
- **Global wheat production** was seen 600k mt lower than last month at 783.5 million mt. This is down three per cent from last year. Decreases were primarily in exporting countries with Australia and Canada seeing the largest decreases from last month, down 2.5 million mt and 1.7 million mt respectively. Larger crops in the Black Sea partially off-set these decreases as production in Russia and Ukraine were raised by 3.0 million mt and 1.3 million mt respectively.
- Lower production was entirely off set by 1.0 million mt more **beginning stocks**.
- **Global wheat use** was revised lower by 1.3 million mt as estimated feed use off-set higher food and industrial use.
- Total **ending stocks** were put 1.7 million mt higher than last month at 262.6 million mt. This reflects a seven per cent decrease in global stocks from last year.

**FOB Wheat Price Developments:**



- FOB wheat prices were mixed last week. Values in Vancouver and the PNW were unchanged to lower, while FOB prices in Europe were anywhere from \$4.00/mt higher to \$6.00/mt lower.

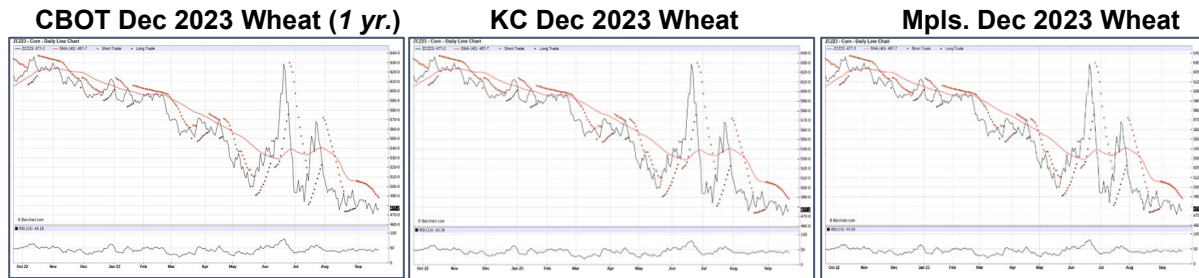
➤ **Global wheat production and trade:**

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 \$579-4, up 3-6 cents on Friday, *down 24-6 cents on the week.*
- Dec. 2023 contract Kansas hard red winter wheat closed at \$711-2, up 0-6 cents on Friday, *down 35-2 cents on the week.*
- Dec. 2023 Minneapolis hard red spring wheat closed at \$770-4, up 3-0 cents on Friday, *down 18-4 cents on the week.*

- Monday morning U.S. wheat futures are mixed at the time of writing: trading two cents higher to four cents lower.



### Canadian Wheat

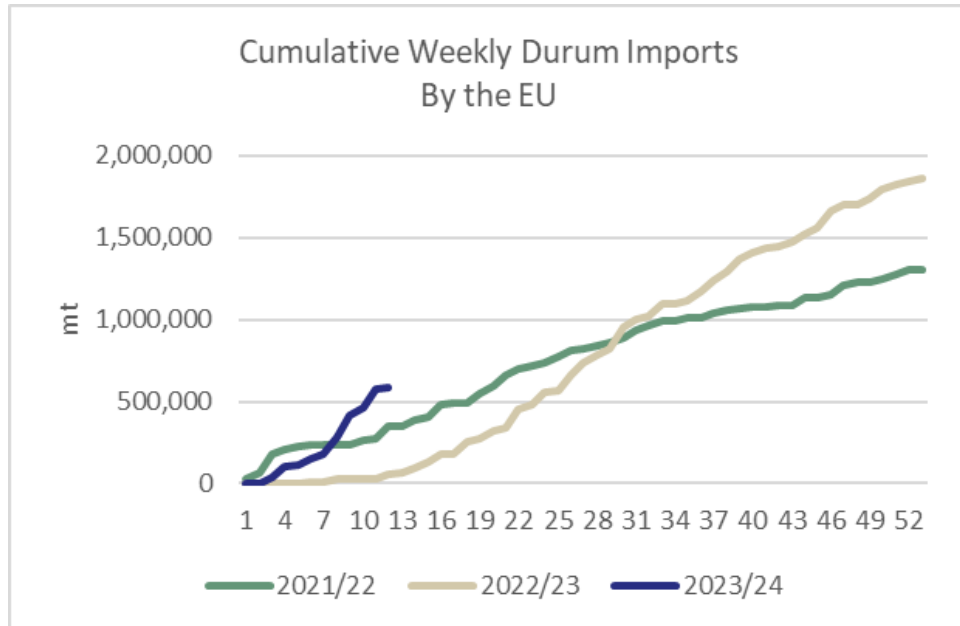
- Spring wheat harvest is 93 per cent complete in Manitoba, 88 per cent complete in Saskatchewan, and 79 per cent finished in Alberta. Alberta Ag increased its projected provincial yield by over a bushel to 40.8 bushels per acre.
- Canadian wheat exports for the first weeks of the marketing year continue to be strong. Exports in week seven were 447.7k mt for a season total of 2.4 million mt, up 41 per cent from last year. Producer deliveries also remain strong, causing visible supply to grow to 3.0 million mt.
- China imported 820k mt of wheat in August for a season total of 2.37 million mt, up 30 per cent from last year. Over half of the supplies was from Australia while Canada supplied about 240k mt of the total volume. Rain has impacted the size and quality of China’s crop which could make them a strong importer of high-quality wheat again this year.

(CGC) Grain Handling Summary Wheat			Week 7	(Sept. 17, 2023)
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 7	766.3	670.7	447.7	113.3
Week ago	725.1	593.2	340.7	175.6
YTD	3,485.5	3,778.2	2,445.0	1,112.7
Last YTD	3,394.5	2,721.2	1,734.5	590.5
<b>YTD less Last YTD</b>	<b>91.0</b>	<b>1,057.0</b>	<b>710.5</b>	<b>522.2</b>
<b>YTD over Last YTD</b>	<b>103%</b>	<b>139%</b>	<b>141%</b>	<b>188%</b>

Source: CGC

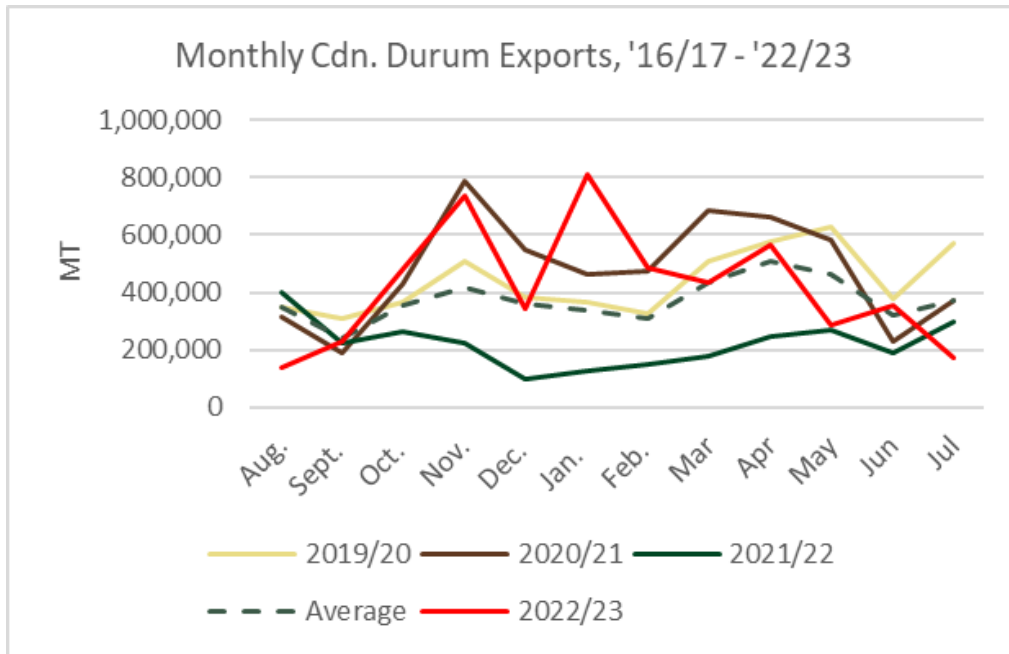
- Russian wheat continues to dominate the export market, but China is proving to be a large wheat buyer again this year. This is positive for Canadian wheat. Slow canola exports have shippers focusing on exporting wheat. Mercantile expects the market will move higher in the New Year and would hold additional sales for now.

- **Durum:** Durum harvest is 94 per cent complete in Saskatchewan and 95 per cent done in Alberta.
- In the U.S., durum harvest in North Dakota and Montana is 83 per cent and 93 per cent complete, respectively. The quality of the crop is average according to the U.S. Wheat Associates, but recent rain has impacted the colour of the later harvested production. With approximately 60 per cent of the samples tested, the overall grade of the U.S. crop remains as a number one HAD.
- The EU has been importing good volumes of durum. As of shipping week 12, it imported almost 600k mt of durum compared to the average volume of just over 300k mt. EU exports meanwhile have been very slow. Most of the durum being imported into the EU is from Turkey and Russia, while Canada has only supplied 15 per cent of the total volume.



Source: EUC

- Canadian **durum exports** remain slow. Just 10.3k mt was shipped in week seven for a year-to-date total of 233.4k mt. Durum exports seasonally pick up in Oct.-Nov.



Source: CIMT

(CGC) Grain Handling Summary Durum		Week 7 (Sept. 17, 2023)		
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 7	112.2	35.6	10.3	3.3
Week ago	109.1	26.4	25.9	2.6
YTD	527.8	193.7	233.4	51.7
Last YTD	578.6	437.6	277.1	77.7
<b>YTD less Last YTD</b>	<b>-50.8</b>	<b>-243.9</b>	<b>-43.7</b>	<b>-26.0</b>
<b>YTD over Last YTD</b>	<b>91%</b>	<b>44%</b>	<b>84%</b>	<b>67%</b>

Source: CGC

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

#### U.S. Wheat:

- U.S. wheat prices fell last week as supplies from the Northern Hemisphere enter the market, vessels of Ukrainian wheat traveled safely through the Black Sea, and Russia continues to dominate exports.

- U.S. wheat exports remain slow but caught up slightly with last year. Weekly sales were 11.3 million bushels for a season total of 316 million bushels, down 17 per cent from last year compared to the USDA's three per cent projected decline.
- U.S. HRS for Oct. 2023 was valued at \$317.00/mt FOB PNW (*down \$8.00/mt from last week*), FOB Gulf HRW 11/12.5 pro is valued at \$320.00/mt (*down \$2.00/mt from last week*).

#### **Australian Wheat:**

- Australia's Bureau of Meteorology declared an El Nino event as the forecast for the grain filling period becomes concerningly hot and dry. Private estimates for Australia's crop are falling to 24-25 million mt (vs USDA's 26 million mt). There was some rain in western Australia late last week which should help slow the deterioration of some of the crops.
- FOB values in Australia: Sept. 2023 AWP, WA is valued at \$310.00/mt (*unchanged from last week*).

#### **Argentine Wheat:**

- The condition of Argentina's wheat crop improved by one point to 25 per cent Gd/Ex. (vs. 14 per cent last year). Confidence in the crop seems to be low as farmers have sold just 1.5 million mt of wheat against 5.3 million mt last year.
- 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:**

- The EU officially lifted the ban on Ukrainian agriculture imports. Romania and Bulgaria have said they will comply, while Hungary, Slovakia and Poland remain belligerent.
- 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 \$252.00 (*down \$6.00/mt from last week*); Sept. 2023 Baltic 14.0 pro wheat closed at \$278.00/mt (*down \$6.00/mt from last week*).

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

- At least two ships have successfully sailed to a Ukrainian port, loaded, and crossed the Black Sea carrying Ukrainian wheat. These are the first vessels to have made such a journey since Russia pulled out of the Black Sea Trade Deal.
- Ukraine's Danube shipping company has requested the port of Constanta to allow ship-to-ship transfers which would almost double the current 700k mt per month capacity.
- Wheat quality is low in Ukraine where just 40 per cent of Ukraine's wheat is reported to meet milling specifications compared the normal 70 per cent.
- Harvest in Russia is 70 per cent complete.
- Russia and Ukraine are both dry ahead of the fall winter wheat seeding. There is no rain in the forecast.
- We would put effective Russian FOB values for 12.5 per cent protein wheat for Oct. at \$245/mt (*up \$2.00/mt from last week*).

#### ➤ **Significant purchases/ trades:**

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

- **Algeria** reportedly bought 600k mt of wheat at \$272-\$275/mt C&F. There were likely multiple origins at the tender, but the prices look like Russia was the only one selling above replacement costs.
- **Egypt** (GASC) bought two cargoes of Romanian wheat at \$272/mt C&F.
- **Korea** bought 50k mt of Australian wheat at \$290-\$330/mt

- **U.S. export sales** were 11.3 million bushels creating a season total of 316 million bushels, down 17 per cent from last year.

➤ **Wheat Market Outlook:**

**Significant events over the past week:**

- After the successful entry, loading, and departure of the 3k mt Resilient Africa vessel from the Ukrainian port of Chornomorsk, the Aroyat, carrying 17.6k mt of wheat for Egypt made a similar journey. These are the first of what is reported to be many ships scheduled to sail through what Ukraine is calling the “Humanitarian Corridor”. These are **the first ships to have loaded and departed from a Ukrainian port since Russia abandoned the Trade Corridor.**
- **The IGC** increased global wheat supply and decreased use in the September Grain Market Report.
- **China imported 820k mt of wheat in August** for a season total of 2.37 million mt, up 30 per cent from last year. Over half of the supplies was from Australia while Canada supplied about 240k mt of the total volume. Rain has impacted the size and quality of China’s crop which could make them a strong importer of high-quality wheat again this year.
- Strong spring conditions allowed **farmers in Kazakhstan** to increase wheat seeding by 6.4 per cent from last year. The crop was then hit with a hot and dry summer and rain at harvest time. The collective result has estimates for the country’s wheat crop at 12.5 million mt, down by almost 25 per cent from last year, and the quality of the crop is variable. Despite the decrease in production, carry-over stocks are expected to double from last year to three million mt.
  - **The first rail export of 1,300 mt of wheat was made to China – an emerging market for Kazakhstan.** Total wheat exports to China are expected to be 200k mt this year but are expected to grow to one million mt in future years.

**Outlook:**

Mercantile believes North American wheat remains too expensive except for special hard wheat buyers. The stock position will be important for future direction. Year to date usage remains low according to Mercantile. The Russian crop is large and storage problems will force sales there. Mercantile expects that futures will continue to fall in the short-term, and then improve in the New Year.

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: September 25, 2023

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Dec '23 (bu.)	Dec '23 (mt.)
1 CWRS 13.5	\$9.16	\$336.58	1 CWRS 13.5	\$9.12	\$335.11
1 CWAD 13.0	\$13.77	\$505.96	1 CWAD 13.0	\$13.86	\$509.27
1 CPSR 11.5	\$8.17	\$300.20	1 CPSR 11.5	\$8.47	\$311.22
SW Sask			SW Sask		
1 CWRS 13.5	\$9.11	\$334.74	1 CWRS 13.5	\$9.13	\$335.47
1 CWAD 13.0	\$13.87	\$509.64	1 CWAD 13.0	\$13.88	\$510.01
1 CPSR 11.5	\$8.07	\$296.52	1 CPSR 11.5	\$8.40	\$308.65
NE Sask			NE Sask		
1 CWRS 13.5	\$8.95	\$328.86	1 CWRS 13.5	\$8.94	\$328.49
1 CWAD 13.0	\$13.59	\$499.35	1 CWAD 13.0	\$13.61	\$500.09
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a
SE Sask			SE Sask		
1 CWRS 13.5	\$9.02	\$331.43	1 CWRS 13.5	\$9.10	\$334.37
1 CWAD 13.0	\$13.61	\$500.09	1 CWAD 13.0	\$13.64	\$501.19
1 CPSR 11.5	\$8.00	\$293.95	1 CPSR 11.5	\$8.31	\$305.34

Data source: PDQ, Sept. 25, 2023

Table 2: Grade Spreads, in Canadian Dollars per Bu and per MLN 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. 25, 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/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 Basis<sup>1</sup> (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.
  - 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

---

<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.”

(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				September 25, 2023
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	\$411.64	\$413.13		
HRS	\$405.43			
HRW 11.5	\$371.12			
SWW 12.0	\$342.95			
1 CWRS 13.5 <sup>3</sup>	\$411.64		\$331.43	\$80.21
2 CWRS 13.0 <sup>3</sup>	\$405.43		\$320.41	\$85.03
3 CWRS <sup>3</sup>	\$371.12		\$291.01	\$80.11
CPS <sup>3</sup>	\$336.04		\$289.18	\$46.86
1 CWAD <sup>4</sup>		\$630.07	\$514.42	\$115.65
Competing wheat: US\$/mt				
Russia 12.5 (Black Sea, 25k mt)	\$245.00		October	
French 11.5 (Rouen)	\$253.00		October	
APW 10.5 (W Coast)	\$310.00		October	
Argentine 12.5	\$280.00		October	
<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				