

Wheat Market Outlook and Price Report: Feb. 20, 2024

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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 February 20, 2024

International Grains Council: February Grain Market Report

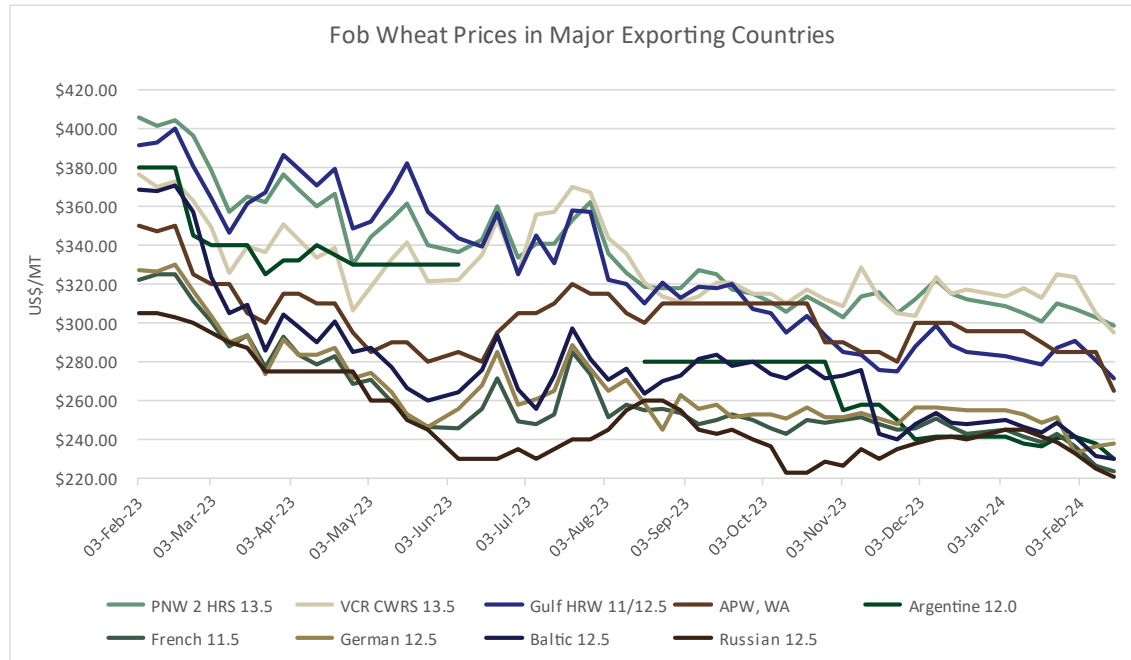
	20/21	21/22	22/23 est.	23/24 f'cast	
million tons				11.01	15.02
WHEAT					
Production	773	780	803	788	788
Trade	191	198	208	198	200
Consumption	773	784	795	804	803
Carryover stocks	277	272	280	266	265
year/year change	0	-5	8		-15
Major exporters ^{b)}	59	60	65	60	60

Source: IGC

- The International Grains Council (IGC) made slight changes to the global wheat balance sheet in its February Grain Market Report.
- Global 2023/2024 production was revised slightly (300k mt) lower as a one million mt decrease in Russia's production was offset by more production in the EU (up 100k mt) and other countries.
- Global wheat trade was raised by 1.7 million mt, led by more imports by the EU and more exports from Australia and Ukraine.
- Total wheat supply was reduced by 1.9 million mt given the decrease in production and 1.6 million mt fewer beginning stocks.
- Reductions in food feed and industrial use amounted to a 1.3 million mt decrease in global wheat use to 804 million mt which would still be a record.

- A slightly smaller reduction in use than supply caused the IGC to decrease ending stocks by 600k mt from last month to 265 million mt, down 15 million mt from last year and the lowest level in five years.

FOB Cash Values:



Source: Mercantile

- Cash wheat markets were all lower last week with GASC buying wheat for \$30/mt less than its previous tender and Russia making moves to become a more aggressive exporter before harvest starts.

➤ **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. 2024 contract **Chicago winter wheat** closed at \$560-4, down 6-4 cents on Friday, *down 36-2 cents on the week.*
- Mar. 2024 contract **Kansas hard red winter wheat** closed at \$567-2, down 8-4 cents on Friday, *down 34-2 cents on the week.*
- Mar. 2024 **Minneapolis hard red spring wheat** closed at \$654-6, down 3-2 cents on Friday, *down 29-4 cents on the week.*
- U.S. wheat futures are trading 1-13 cents higher at the time of writing.

CBOT 1-Yr. Mar 2023 Wheat



KC Mar 2023 Wheat

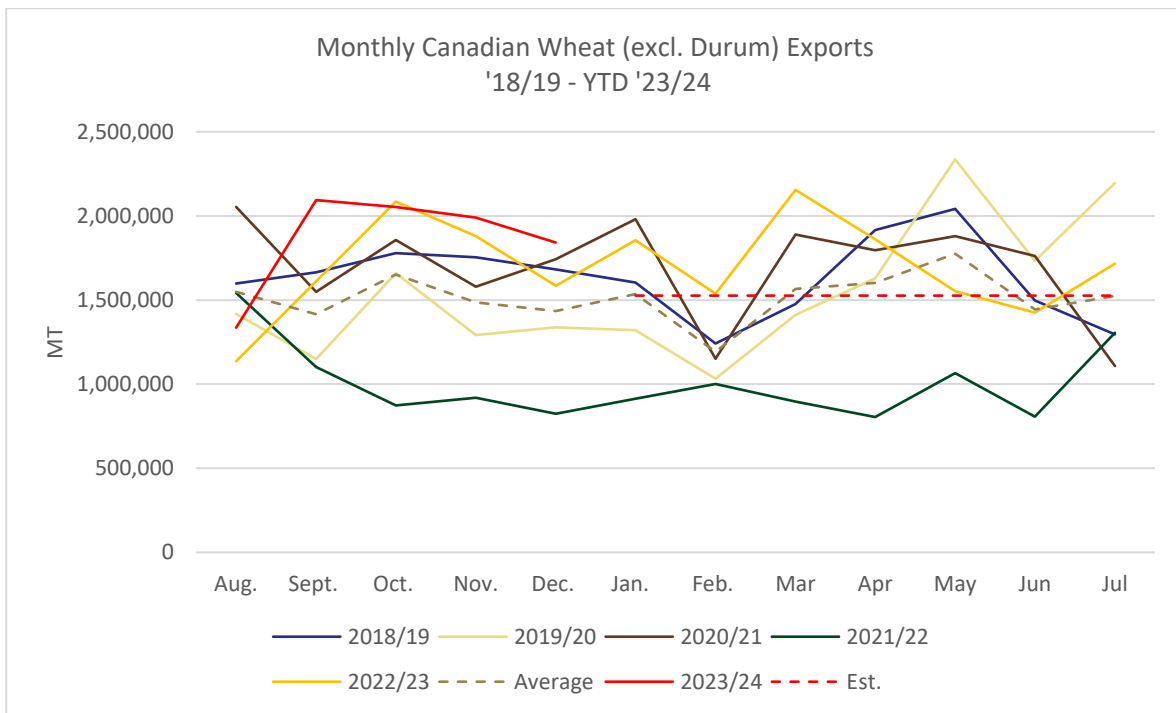


Mpls. Mar 2023 Wheat



Canadian Wheat

- The AAFC raised Canadian use and exports in the 2023/2024 season for a 400k mt decrease in ending stocks to 3.1 million mt. Exports were raised 250k mt which reflects a two per cent decrease from last year. For the 2024/2025 season, an increase in harvested area caused the AAFC to increase production by 629k mt to 28.5 million mt, up two per cent from the previous year. Food and feed use were raised 229k mt for an unchanged ending stock number of 3.5 million mt, up 13 per cent from the 2023/2024 season.
- Canadian wheat exports in December were 1.8 million mt. The largest customer during the month was Indonesia, which imported 253k mt of the monthly volume. Aug.-Dec. exports to Indonesia are now 963k mt which is 50 per cent more than last year's volume to date. Exports to China were still strong at 228k mt, but this was just over half of the November volume. China's imports of Canadian wheat are 1.2 million mt YTD, which is 33 per cent behind last year's pace. Exports to the U.S. remains strong. At a YTD total of 760k mt, the U.S. is Canada's third largest customer this year and is currently importing at a pace that is 49 per cent ahead of last year.



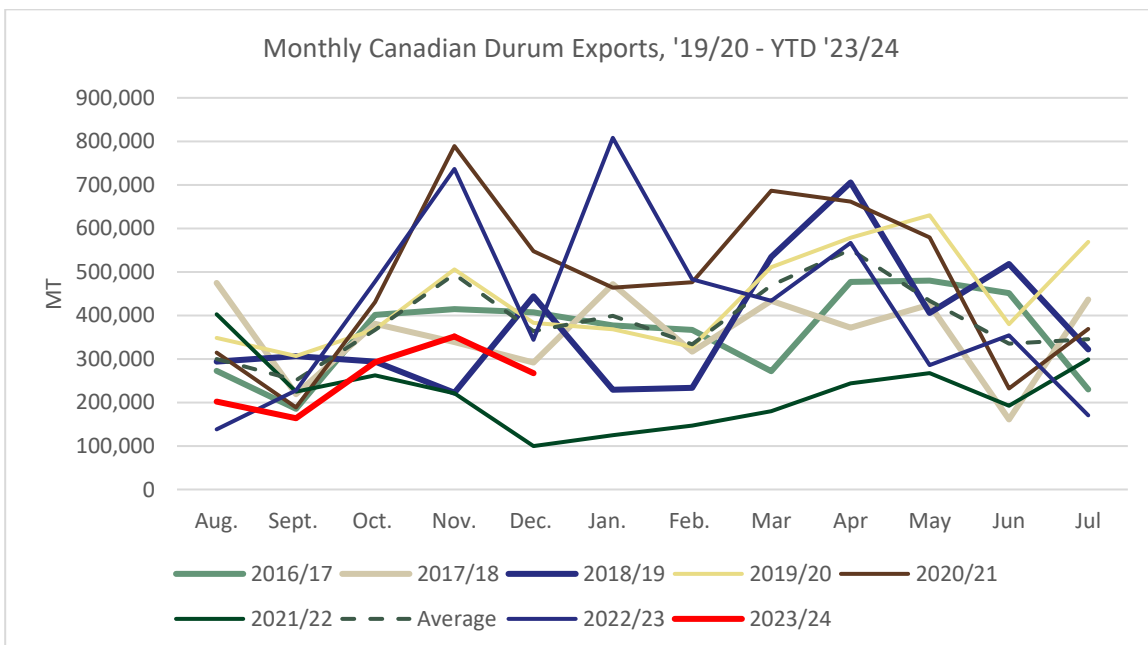
Source: Mercantile, based on STC data and Mercantile estimates

- **Canadian weekly exports:** In the weekly data, Canadian exporters shipped another 571.4k mt in week 28 which is a very good volume. Total exports to date are running eight per cent ahead

of last year despite the AAFC's 20.25 million mt number which reflects a two per cent decrease in exports.

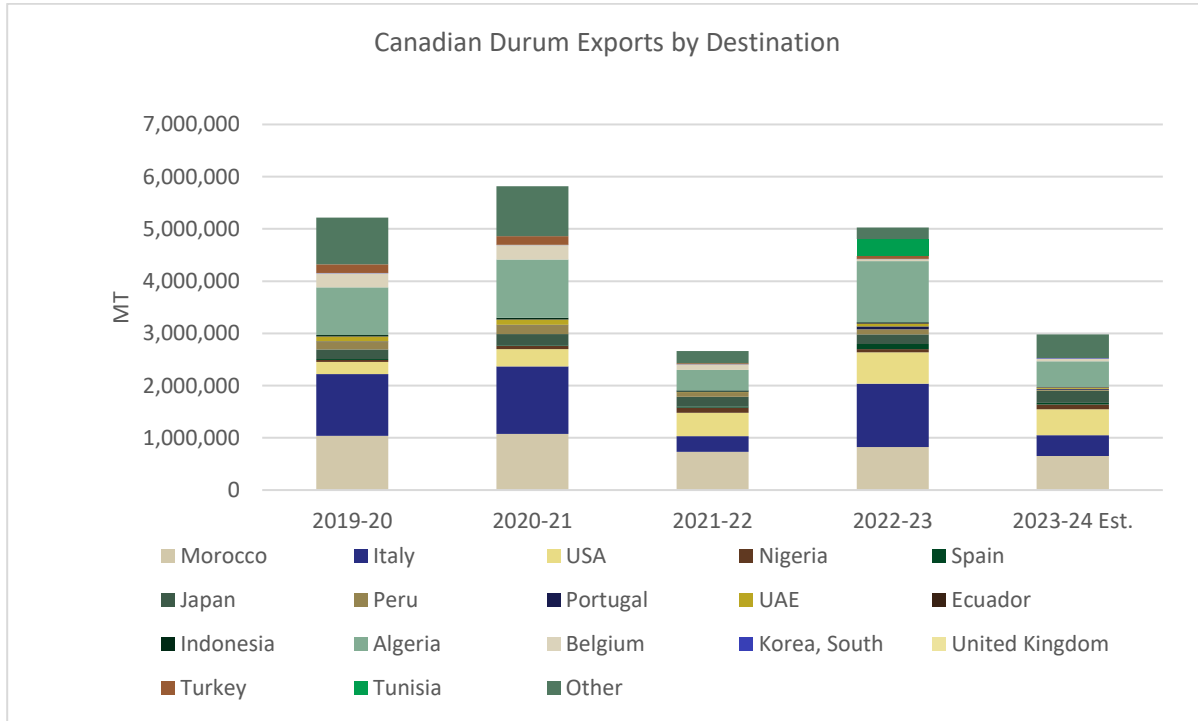
(CGC) Grain Handling Summary Wheat		Week 28 (Feb. 11, 2024)		
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 27	391.1	407.1	571.4	53.6
Week ago	597.1	370.2	429.6	63.2
YTD	13,154.0	13,390.9	11,492.0	2,623.8
Last YTD	13,341.2	12,799.6	10,643.1	2,399.3
YTD less Last YTD	-187.2	591.3	848.9	224.5
YTD over Last YTD	99%	105%	108%	109%

- Durum:** Canadian durum exports in December were 267.2k mt, resulting in an Aug.- Dec. season total of 1.3 million mt. Morocco was the largest importer of Canadian durum in December at 50.2k mt. Exports are lower to most of the major Canadian durum markets with large decreases in Italy (down 75 per cent) and Tunisia as these countries have bought significant volumes of Turkish durum.



Source: Mercantile, based on STC data and Mercantile estimates

- Breaking down Canadian exports by destination, it looks like it will be difficult for Canada to ship much more than three million mt of durum compared to the AAFC’s guess of 3.2 million mt. Turkish durum has satisfied approximately 1.5 million mt of demand that would have otherwise been available to Canada.



Source: Mercantile, based on STC data and Mercantile estimates

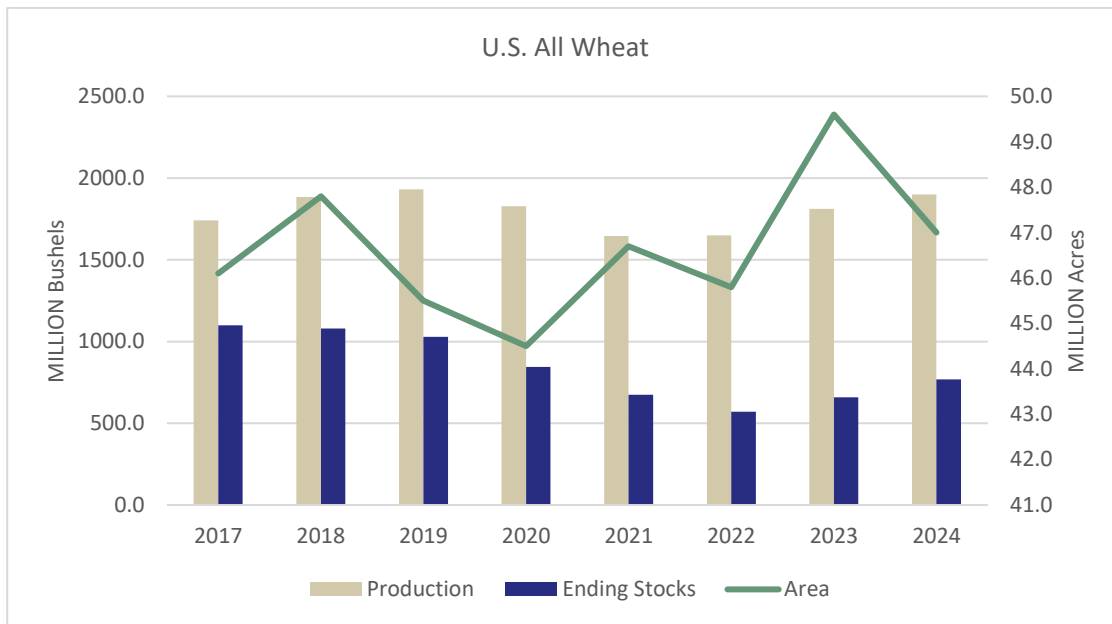
- Weekly export data: Week 28 exports were strong at 134.6k mt for a season total of 1.7 million mt. We are now 54 per cent through the marketing year and have shipped 60 per cent of the total expected export volume.

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Source: Mercantile, based on CGC data

U.S. Wheat:

- U.S. wheat futures were lower last week with the rising U.S. dollar, falling global cash wheat prices, and forecasts for strong U.S. wheat production in the 2024/2025 season.
- The USDA Ag Outlook Forum puts U.S. all wheat area at 47 million acres. This is down five per cent from last year, but still above the five-year average. A return to average abandonment is expected to cause harvested area to surpass last year by 1.1 million acres. All wheat yield is expected to be 49.5 bushels per acre which is a two per cent improvement from last year causing total production to rise five per cent from last year to 1.9 billion bushels. Higher supply and only slightly larger use caused the USDA to increase the expected 2024/2025 carry-out by 111 million bushels from the current year to 769 million bushels. This would be the largest volume in four years.



Source: Mercantile, based on USDA data

- U.S. HRS for March 2024 was valued at \$399.00/mt FOB PNW (down \$4.00/mt from last week), FOB Gulf HRW 11/12.5 pro is valued at \$272.00/mt (down \$9.00/mt from last week).

Australian Wheat:

- Wheat prices in Australia were sharply lower last week as the slow start to the export program has not improved.
- With planting approaching, West Australia is dry while the southeast has strong soil moisture.
- FOB values in Australia: March 2024 APW, WA is valued at \$265.00/mt (down \$20/mt from last week).

Argentine Wheat:

- Argentina is returning from Carnival. Wheat there continues to be offered around \$230/mt, but it seems like demand has been slow at a time when exporters are stalling on unused licences.
- Export data was not out at the time of writing because of the holidays.

- FOB Argentine wheat (12 per cent pro) for March 2024 was quoted at \$230.00/mt (*down \$8.00/mt from last week*).

EU Wheat:

- MATIF wheat futures continued to slide last week with the May contract falling below €200/mt.
- The FranceAgriMer increased French ending stocks by another 100k mt to a 19-year high of 3.5 million mt. French wheat exports continue to struggle against Black Sea competition.
- The first crop report of the season conducted by the FranceAgriMer showed the French winter wheat crop is in the poorest condition in four years.
- Official data shows EU wheat exports at eight per cent behind last year.
- EU FPB prices: March 2024 French 11 pro wheat closed at \$224.00/mt (*down \$3.00/mt from last week*); March 2024 German 12.5 pro wheat closed at \$238.00 (*up \$1.00/mt from last week*); March 2024 Baltic 12.5 pro wheat closed at \$230.00/mt (*down \$2.00/mt from last week*).

Black Sea Wheat:

- Following the decrease in the floor price, the Russian government increased the all-grain export quota by four million mt to 28 million mt. Russia seems to be making a concerted effort to ship out the old crop as the new crop harvest is just over three months away.
- The decrease in the floor price and the larger export quota did not allow Russia to win the GASC tender, however which went to Ukraine and Romania. Romania's wheat was \$19/mt more expensive on a FOB basis than Ukraine's, but this was made up for in the wide freight spread. This last purchase by GASC is back to the pre-war price, but the devaluation of the Egyptian pound means that wheat is still extremely expensive in the local currency.
- Winter kill of Ukraine's winter wheat crop is estimates to be just one-to-two per cent. The mild winter there has allowed for less heavy frosts and ice crusts which often causes winter kill to be as high as seven per cent of the winter wheat crop.
- We have Russian FOB values for 12.5 per cent protein wheat for March 2024 at \$221.00/mt (*down \$4.00/mt from last week*).

➤ **Significant purchases/ trades:**

There was little volume business to speak of.

- **Jordan** bought 60k mt of optional origin hard wheat at \$253 C&F.
- **Egypt** (GASC) bought 180k mt of milling wheat from Ukraine and Romania at \$255/mt C&F.
- **U.S.** weekly wheat sales were 349.3k mt for a season total of 17.6 million mt, up seven per cent from last year compared to the USDA's forecast for a 4.5 per cent decline.

➤ **Wheat Market Outlook:**

Significant events over the past week:

- **Water levels on the Mississippi River** have returned to normal and are no longer restricting barge movement.
- **The USDA Ag Outlook Forum** was not supportive to the market. For wheat, the Forum hiked 2024/2025 ending stocks by 111 million bushels to 769 million bushels.
- **MATIF wheat prices** reached a contract low of €199.75/mt as the low-priced Ukrainian wheat erodes the EU market share.
- **The U.S. Dollar index** rose to 104.28 by the end of the week. The rise was largely because of the higher-than-expected consumer price index which rose by 3.1 per cent in January.

Mercantile's Weekly Outlook:

The opportunity for an old crop wheat rally is dwindling, according to Mercantile. Every major wheat exporter still has wheat to ship, and exporters will be competing for shipping windows in the next three months before the new crop harvest starts. Mercantile says more questions remain as to if there is demand for all the available wheat. Currency devaluations in many importing nations means that wheat continues to be very expensive, according to Mercantile, even though wheat prices in U.S. dollars are approaching pre-war levels.

Mercantile recommends producers 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: February 20, 2024					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Apr '24 (bu.)	Apr '24 (mt.)
1 CWRS 13.5	\$8.26	\$303.51	1 CWRS 13.5	\$8.17	\$300.20
1 CWAD 13.0	\$10.85	\$398.67	1 CWAD 13.0	\$10.74	\$394.63
1 CPSR 11.5	\$7.12	\$261.62	1 CPSR 11.5	\$7.18	\$263.82
SW Sask			SW Sask		
1 CWRS 13.5	\$8.17	\$300.20	1 CWRS 13.5	\$8.10	\$297.63
1 CWAD 13.0	\$10.81	\$397.20	1 CWAD 13.0	\$10.73	\$394.26
1 CPSR 11.5	\$7.03	\$258.31	1 CPSR 11.5	\$7.06	\$259.41
NE Sask			NE Sask		
1 CWRS 13.5	\$7.99	\$293.58	1 CWRS 13.5	\$8.01	\$294.32
1 CWAD 13.0	\$10.67	\$392.06	1 CWAD 13.0	\$10.59	\$389.12
1 CPSR 11.5	-	-	1 CPSR 11.5	-	-
SE Sask			SE Sask		
1 CWRS 13.5	\$7.92	\$291.01	1 CWRS 13.5	\$7.88	\$289.54
1 CWAD 13.0	\$10.78	\$396.10	1 CWAD 13.0	\$10.70	\$393.16
1 CPSR 11.5	\$6.76	\$248.39	1 CPSR 11.5	\$6.79	\$249.49

Data source: PDQ, Feb. 20, 2024

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	0.00	0.00
2 CWAD 13.0	(0.13)	-4.78
2 CWAD 12.5	(0.16)	-5.88

Data source: PDQ, Feb. 20, 2024

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 Canadian FOB Prices minus primary elevator bids, the FOB prices are translated into Canadian dollars from U.S. 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:

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.”

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				February 20, 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	\$377.57	Closed		
HRS	\$372.57			
HRW 11.5	\$326.40			
SWW 12.0	\$314.98			
1 CWRS 13.5 ³	\$377.57		\$298.73	\$78.85
2 CWRS 13.0 ³	\$372.57		\$288.44	\$84.13
3 CWRS ³	\$326.40		\$264.56	\$61.85
CPS ³	\$308.02		\$262.72	\$45.30
1 CWAD ⁴		Closed	\$404.18	
Competing wheat:				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$221.00		Mar. '24	
French 11.5 (Rouen)	\$224.00		Mar. '24	
APW 10.5 (W Coast)	\$265.00		Mar. '24	
Argentine 12.5	\$230.00		Mar. '24	
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				