

Wheat Market Outlook and Price Report: Feb. 26, 2024
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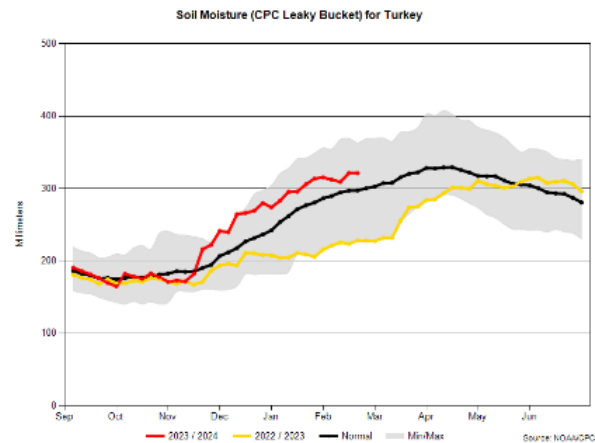
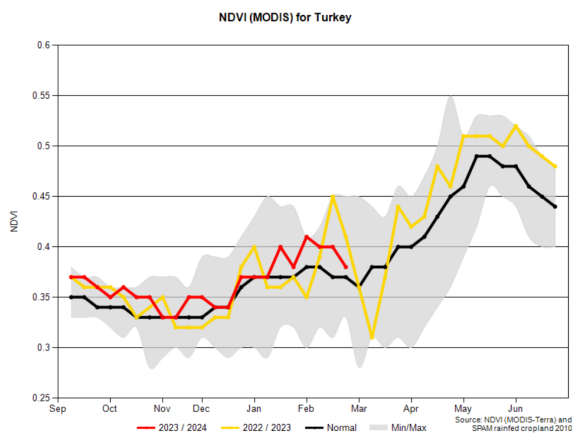
i) Background and Rationale for the Report

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.

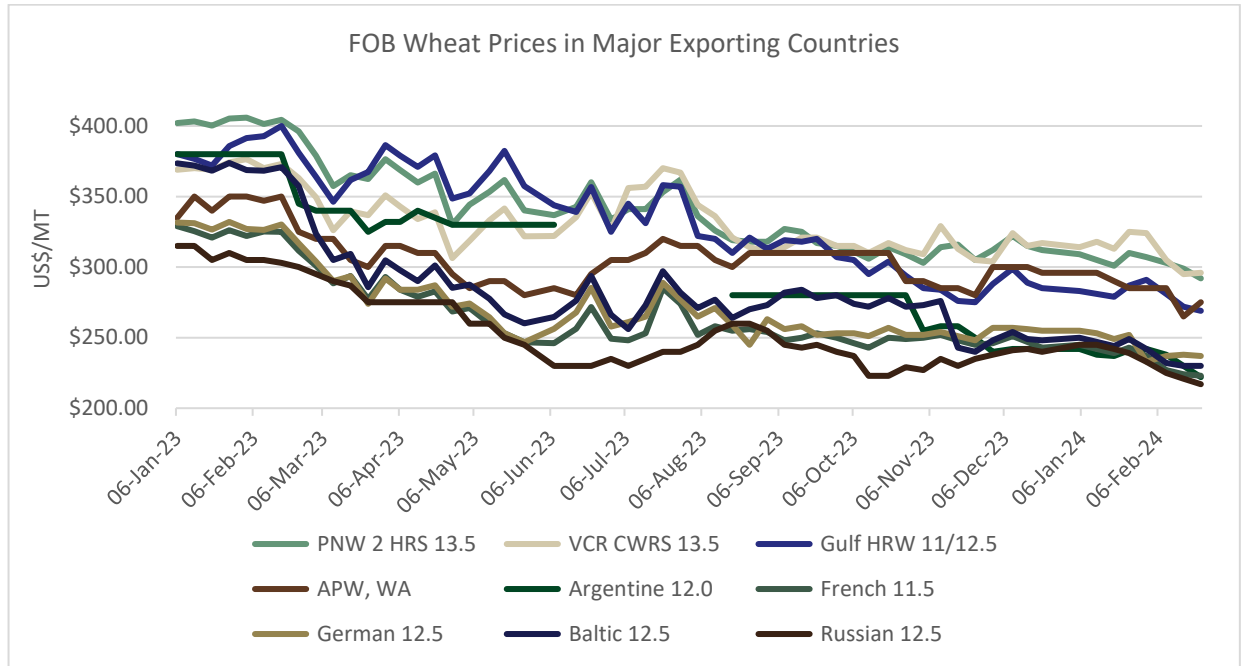
ii) Wheat Market Outlook February 26, 2024

Vegetation and Soil Moisture Indices for Turkey



- While turkey is a leading producer of durum wheat, until this past year, they have largely been an importer of durum and re-exporter of durum products. This year, a combination of a large wheat crop, the weak Turkish lira and changes in government policy allowed them to export large volumes of durum wheat into Italy and North Africa which replaced upwards of 1.5 million mt of durum demand that would otherwise have been available to Canada.
- Although it is still early in the season, vegetation and moisture data indicate the Turkish wheat crop, which was planted in October to December, is off to a strong start.
- Vegetation imagery in Central Anatolia and Southeast Anatolia which are some of the key provinces for durum cultivation in Turkey are both well above last year and average.
- Harvest of the Turkish wheat crop happens in June to July.

FOB Cash Values:



Source: Mercantile

- Global cash wheat prices finished the week lower in most origins. Russian wheat is now being offered below \$220/mt of a FOB basis. Jordan bought Romanian wheat last week at a price that reflects \$210/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:

- May 2024 contract **Chicago winter wheat** closed at \$569-0, down 10-2 cents on Friday, *up 1-6 cents on the week*.
- May 2024 contract **Kansas hard red winter wheat** closed at \$565-4, down 6-0 cents on Friday, *down 4-4 cents on the week*.
- May 2024 **Minneapolis hard red spring wheat** closed at \$646-6, down 8-6 cents on Friday, *down 12-0 cents on the week*.
- U.S. wheat futures are trading 2-11 cents higher at the time of writing.

CBOT 1-Yr. May 2023 Wheat



KC May 2023 Wheat

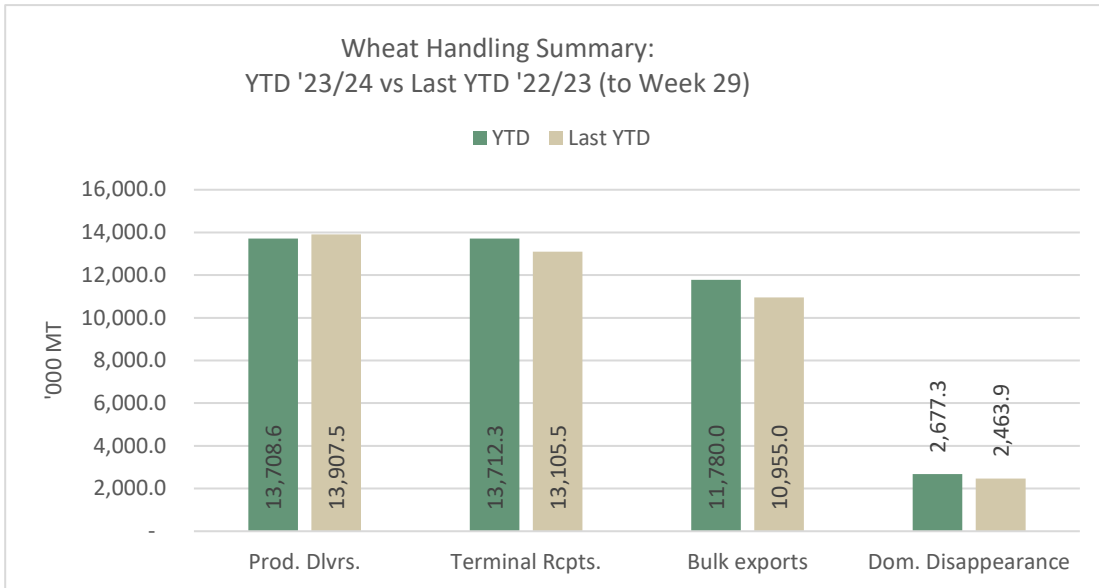


Mpls. May 2023 Wheat



Canadian Wheat

- Canadian weekly exports:** Week 29 exports were relatively small at 288.2k mt. The season total of 11.8 million mt is still eight per cent ahead of last year. Deliveries in week 29 were large, with producers adding 552.3k mt of wheat into the Canadian elevator system. Visible supplies rose to 2.6 million mt.



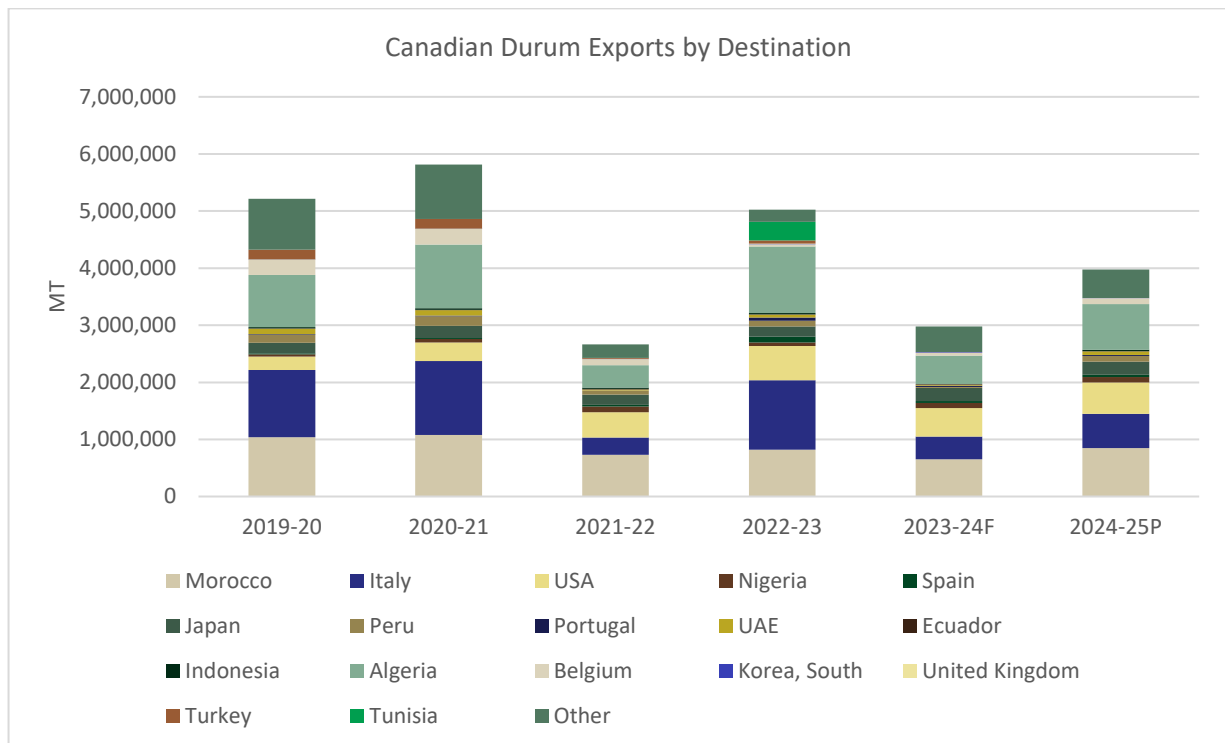
Source: Mercantile, based on CGC data

- Durum:** Durum exports in week 29 were lower than last week's at 68.7k m. This yields a season total of 1.8 million mt, down 40 per cent from last year which is inline with the pace expected by the AAFC.

(CGC) Grain Handling Summary Durum		Week 29 (Feb. 18, 2024)		
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 29	141.6	59.2	68.7	3.7
Week ago	57.6	54.9	134.6	14.9
YTD	2,341.0	2,285.8	1,830.6	314.1
Last YTD	3,453.7	3,459.6	3,064.7	362.6
YTD less Last YTD	-1,112.7	-1,173.8	-1,234.1	-48.5
YTD over Last YTD	68%	66%	60%	87%

Source: Mercantile, based on CGC data

- We looked at the expected exports for the upcoming 2024/2025 season. The AAFC projects exports at 4.3 million mt. While this is in line with average exports, breaking the exports down by destination shows that we will be hard pressed to reach that volume. The big unknown is Turkey and whether they will have a similar export program as last year and take a portion of Italian and Tunisian demand.



Source: Mercantile, based on STC data and Mercantile estimates

- We do not see much upside in the old crop market and would prefer to sell the remaining 20 per cent at around \$11.00/bu depending on your location. For the new crop, are around \$10.00/bu. We are not ready to make new crop commitments yet. Still, watch for opportunities if buyers start looking to get some early coverage.

U.S. Wheat:

- U.S. wheat futures were mixed to finish the week. Chicago was slightly higher while the hard wheat contracts were lower.
- U.S. weekly commercial sales were below trade guesses at 233.5k mt. Total commitments are now 17.8 million mt which is six per cent above last year and remains ahead of the USDA's forecast for a 4.5 per cent decline.
- Mild temperatures in the U.S. Central Plains are allowing the winter wheat crop to break dormancy earlier than normal. There were some showers, but the central plains were largely dry. There was some snowfall in the northern states which will add to water reserves.
- U.S. HRS for Mar. 2024 was valued at \$292.00/mt FOB PNW (*down \$7.00/mt from last week*), FOB Gulf HRW 11/12.5 pro is valued at \$269.00/mt (*down \$3.00/mt from last week*).

Australian Wheat:

- Australian exports remain slow even with the return of the Asian market from holidays.
- With planting just a few months away, the country has strong soil moisture in the east, but will need rain in the West.
- FOB values in Australia: Mar. 2024 APW, WA is valued at \$275.00/mt (*up \$10/mt from last week*).

Argentine Wheat:

- Farmer sales in Argentina now stand at 7.6 million mt. Exporters own 7.4 million mt of the total volume.
- FOB Argentine wheat (12 per cent pro) for Mar. 2024 was quoted at \$222.00/mt (*down \$8.00/mt from last week*).

Indian Wheat:

- Official data shows wheat stocks in India are at a seven-year low of 16.35 million mt as of Jan. 1, 2024. While global wheat prices were falling, wheat values in India rose prompting the Indian government to sell large volumes of state reserves to battle food inflation. With the country in an election year, the government will likely continue to sell state reserves (rather than allow an import program) causing stocks to shrink until the new crop harvest starts in March. The government begins its procurement program in May. India's government, which is prone to overestimating its wheat crop, is forecasting another record wheat crop in the coming season of 114 million mt.

EU wheat:

- There was some short covering in MATIF milling wheat at the start of the week, but this dried up. French wheat is being supported by a healthy export lineup.
- The French Prime Minister is looking to appease protesting French farmers with a new Egalim law. The new law is a price fixing scheme that is supposed to improve production cost indicators from the current law.
- EU wheat exports are 21.7 million mt, down five per cent from last year, but this gap has been closing. Imports of 7.7 million mt are eight per cent above last year.
- Western European winter crops continue to struggle from excess moisture. French crop ratings are 69 per cent Gd/Ex and crop growth is poor.
- EU FOB prices: Mar. 2024 French 11 pro wheat closed at \$223.00/mt (*down \$1.00/mt from last week*); Mar. 2024 German 12.5 pro wheat closed at \$237.00 (*down \$1.00/mt from last week*); Mar. 2024 Baltic 12.5 pro wheat closed at \$230.00/mt (*unchanged from last week*).

Black Sea Wheat:

- The Russian winter crop is in strong condition. Russian analysts raised their forecasts for the upcoming wheat crop by 1.4 million mt to 93.6 million mt.
- Russian wheat stocks as for Feb. 1, 2024 were reported to be 19.9 million mt which is the highest on record. The large stocks and large potential new crop are putting pressure on the market as the country has lots of old crop to move before harvest begins.
- We have Russian FOB values for 12.5 per cent protein wheat for Mar. 2024 at \$217.00/mt (down \$4.00/mt from last week).

➤ **Significant purchases/ trades:**

There was little volume business to speak of.

- **Jordan** bought 50k mt of optional origin grain at \$240.50 C&F which was \$12.50/mt less than what it paid last week.
- **Japan** bought 116k mt of wheat from the U.S., Canada and Australia in its weekly tender.
- **U.S.** commercial sales were 233.5k mt for a season total of 17.8 million mt.

➤ **Wheat Market Outlook:**

Significant events over the past week:

- **The futures market** opened a little better last week following the Chinese return to work after the Lunar Holiday but closed lower by week's end.
- **Minneapolis speculative traders** with a 24,200-contract net short in Minneapolis as of Feb. 20, 2024 versus a 24,800-contract net short the week prior.
- **Danish farmers** are concerned about the impact of the government's carbon tax. It is estimated that the tax would cause agricultural production in the country to fall by as much as 20 per cent. Danish agriculture is said to produce one third of the country's carbon emissions which has made the industry a lightning rod for climate policy.
- **Protesting polish farmers** have blocked most of the entry ports from Ukraine and have reportedly been opening cars of Ukrainian grain, spilling the contents onto the rail tracks. Polish farmers continue to be upset about cheap Ukrainian grain imports depressing local prices.

Mercantile's Weekly Outlook:

According to Mercantile, Russia still has wheat to sell, and this is lowering world price as the EU needs to reduce stocks. Wheat needs to fight for feed demand as well as milling demand. Meanwhile, Funds have a record short at a time when prices have fallen below the cost of production for growers in some areas. Either costs will need to go down, or markets higher.

Mercantile recommends they would be fully sold of old crop durum and recommend looking for selling opportunities in old crop 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 26, 2024

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Apr '24 (bu.)	Apr '24 (mt.)
1 CWRS 13.5	-	-	1 CWRS 13.5	-	-
1 CWAD 13.0	\$10.86	\$399.04	1 CWAD 13.0	\$10.77	\$395.73
1 CPSR 11.5	\$7.08	\$260.15	1 CPSR 11.5	\$7.11	\$261.25
SW Sask			SW Sask		
1 CWRS 13.5	\$7.97	\$292.85	1 CWRS 13.5	\$7.98	\$293.22
1 CWAD 13.0	\$10.80	\$396.84	1 CWAD 13.0	\$10.72	\$393.90
1 CPSR 11.5	\$6.81	\$250.23	1 CPSR 11.5	\$6.83	\$250.96
NE Sask			NE Sask		
1 CWRS 13.5	-	-	1 CWRS 13.5	-	-
1 CWAD 13.0	-	-	1 CWAD 13.0	-	-
1 CPSR 11.5	-	-	1 CPSR 11.5	-	-
SE Sask			SE Sask		
1 CWRS 13.5	\$7.70	\$282.93	1 CWRS 13.5	\$7.72	\$283.66
1 CWAD 13.0	\$10.76	\$395.37	1 CWAD 13.0	\$10.66	\$391.69
1 CPSR 11.5	\$6.59	\$242.14	1 CPSR 11.5	\$6.62	\$243.25

Data source: PDQ, Feb. 26, 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. 26, 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.

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 per cent in the Pacific Northwest (PNW) \approx 1 CWRS 13.5 per cent in Vancouver
 - HRS in the Pacific Northwest (PNW) \approx 2 CWRS 13.0 per cent in Vancouver
 - HRW in the Pacific Northwest (PNW) \approx 3 CWRS in Vancouver
 - SW (lowest price wheat) \approx CPS red (mostly fed domestically)
 - HAD (Lakes) \approx 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, U.S. & Canadian Dollars per MT

Relevant FOB Prices and Export Basis				February 26, 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	\$373.60	Closed		
HRS	\$368.59			
HRW 11.5	\$325.41			
SWW 12.0	\$310.01			
1 CWRS 13.5 ³	\$373.60		\$299.46	\$74.14
2 CWRS 13.0 ³	\$368.59		\$281.09	\$87.50
3 CWRS ³	\$325.41		\$257.21	\$68.20
CPS ³	\$303.05		\$258.31	\$44.74
1 CWAD ⁴		Closed	\$404.18	
Competing wheat:				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$217.00		Mar. '24	
French 11.5 (Rouen)	\$223.00		Mar. '24	
APW 10.5 (W Coast)	\$275.00		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				