

## Wheat Market Outlook and Price Report: Jan. 2, 2024

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

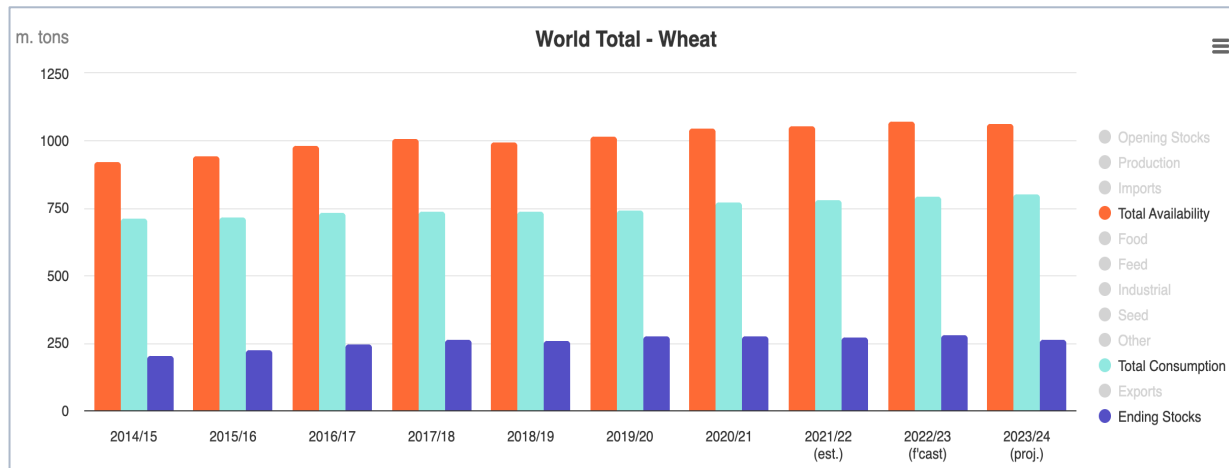
### i) Background and Rationale for the Report

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 January 2, 2024

#### International Grains Council (IGC) Year-End Global Wheat Summary:



Source: IGC

To set the stage for this 2024, the above graph depicts the IGC view of global wheat availability versus total consumption:

- Total wheat availability: 1,068,000 mt for 2023/2024 (1,077,000 mt in 2022/2023)
- Total wheat consumption: 804 million mt for 2023/2024 (795 million mt in 2022/2023)
- Total wheat ending stocks: 264 million mt for 2023/2024 (281 million mt in 2022/2023)

*The big question for the second half of the crop year is if demand will continue as projected, or if the inflationary/foreign exchange pressures in some of the major buying countries will curtail expected demand.*

➤ **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:**

A futures year in review:

- U.S. wheat futures are down sharply on this time last year, led by HRW (Kansas) that fell \$2.09/bu (\$77/mt).
  - Chicago wheat fell by 1.71/bu on this time last year (\$63/mt).
  - Minneapolis wheat (red spring wheat) fell by 1.68/bu on this time last year (\$62/mt).
  - U.S. wheat futures are currently trading 8-12 cents lower this Monday morning.
- 
- The world wheat market responded to (Russian) war induced high prices and panic buying in 2022/2023, only to ration demand through much of 2023. 2024 may still require lower prices to rebuild demand and consumer confidence in the face of inflationary and foreign exchange rate pressures.

**CBOT Mar 2023 Wheat (1 yr.)**



**KC Mar 2023 Wheat**

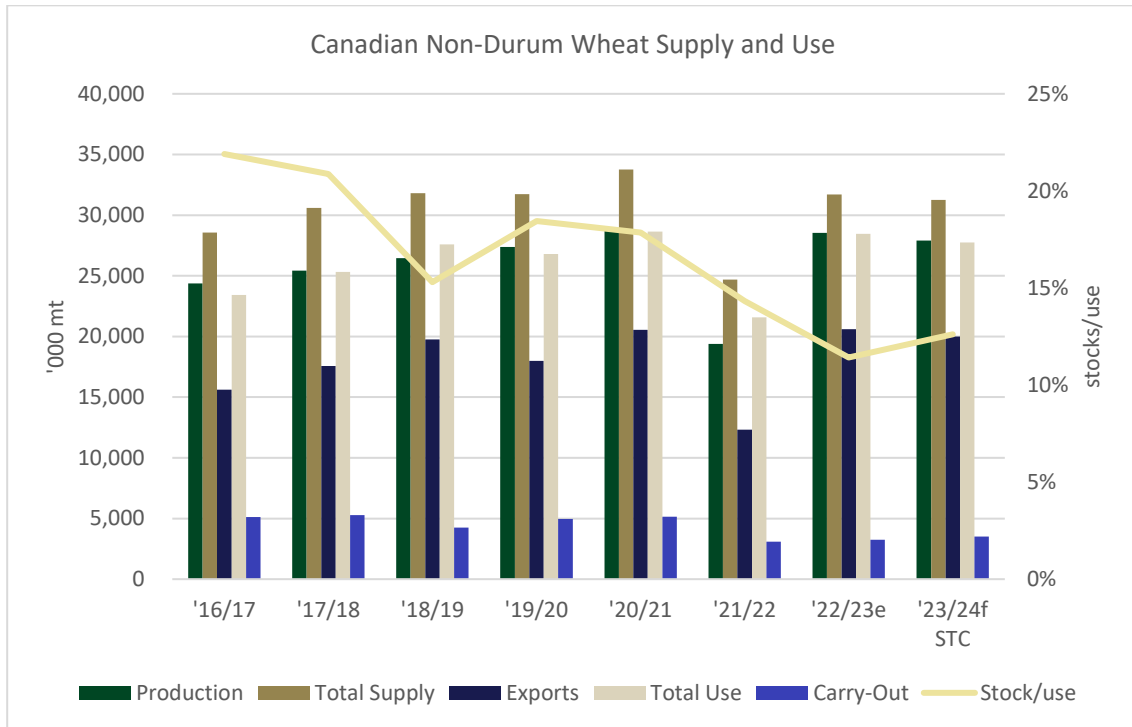


**Mpls. Mar 2023 Wheat**



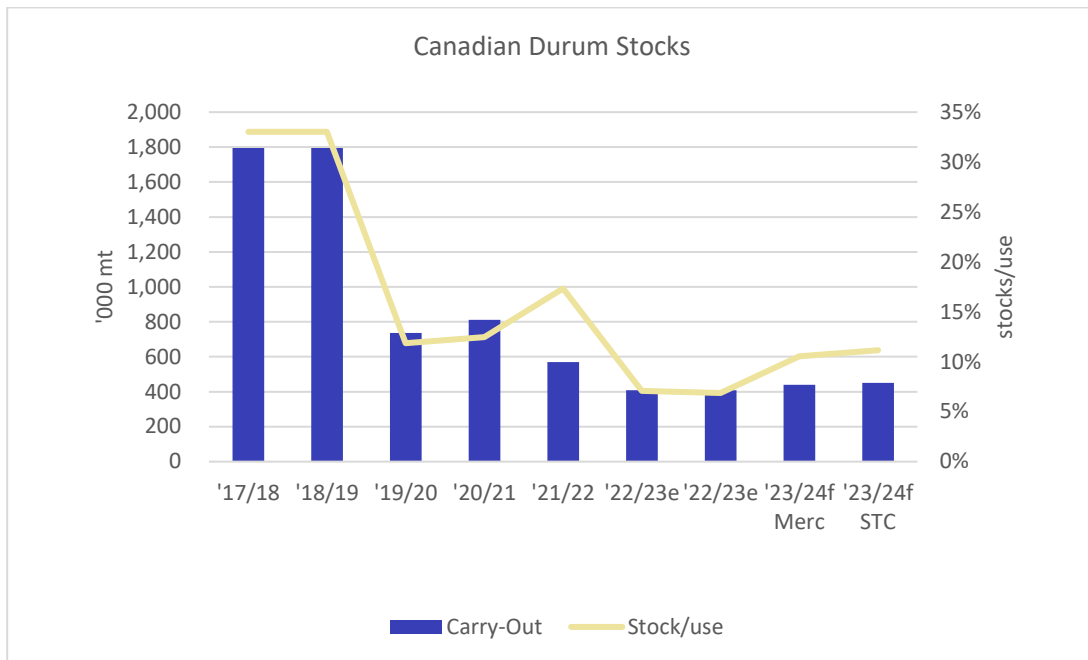
**Canadian Wheat**

- The U.S. wheat harvest was an improvement on the previous year and Canada weathered some difficult growing conditions to eventually post a solid 32 million mt wheat crop.
- Combined, the U.S. and Canada produced two million mt more wheat in than the prior year.
- Canadian wheat exports have been quite good (8.27 million mt wheat plus one point one million mt durum for a total of nine point four million mt all wheat), and the U.S. export outlook improved lately with recent large sales to China.
- In their last report in December, Agriculture and Agri-Food Canada (AAFC) projected Canadian wheat ending stocks at three point five million mt, up eight per cent from last year. This was roughly in line with our expectations for wheat ending stocks.
- The CGC has not yet updated their handling stats beyond Dec. 17, 2023.



Source: Mercantile, based on STC data

- **Durum:** As of week 20, the CGC reported durum exports at one point one million mt, down 37 per cent from last year. This is primarily because of a reduction in exports to Italy, which bought much increased volumes from Turkey early in the season.
- In their December report, the AAFC increased Canadian durum ending stocks by a 50k mt to 450k mt, which is slightly higher than the Mercantile number.

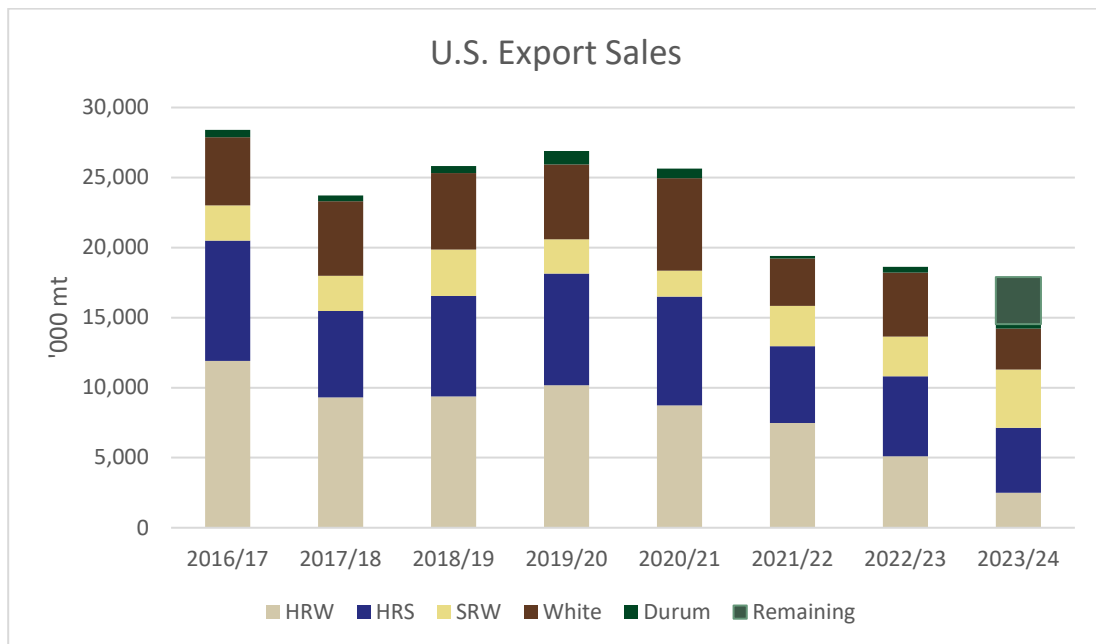


Source: Mercantile, based on STC data

- Again, the CGC has not yet updated their handling stats beyond Dec.17, 2023.
- Current bids are at ~\$12.50/bu for January delivery to Saskatchewan (SK) elevators.

**U.S. Wheat:**

- The U.S. wheat production in 2023 was a big improvement on the previous year: 49.3 million mt in 2023 versus 44.9 million mt in 2022.
- USDA projects the U.S. to export 20 million mt of wheat in 2023/2024 compared to 20.3 million mt in 2022/2023.
- USDA expects U.S. wheat ending stocks to reach 17.9 million mt in 2023/2024, compared to 15.8 million mt in 2022/2023. If so, this will be a 13 per cent increase in ending stocks.



Source: Mercantile, based on USDA data

- U.S. HRS for January 2024 was valued at \$313.00/mt FOB PNW (*down \$2.00/mt from last week*), FOB Gulf HRW 11/12.5 pro is valued at \$289.00/mt (*unchanged from last week*).

**Australian Wheat:**

- Australian wheat markets were mostly inactive, and levels were mostly unchanged.
- However, Australian wheat production is much smaller this year compared to last year's at 25-28 million mt versus 40.5 million mt.
- FOB values in Australia: January 2024 AWP, WA is valued at \$296.00/mt (*down ~\$4 from last week*).

**Argentine Wheat:**

- The Argentine wheat harvest is making steady progress and should be around 75 per cent complete at this point, well ahead of average progress.
- The blue rate peso continues to hold around 950 to the U.S. dollar.
- Argentine new crop farmer sales of wheat as of Dec. 21, 2023 show a season total to around four point eight million mt versus approximately six point four million mt last year.

- Argentine wheat should feature more prominently in the markets in Q1 and Q2.
- FOB Argentine wheat (12 per cent pro) for January 2024 was quoted at \$242.00/mt (*unchanged from last week*).

#### **EU Wheat:**

- MATIF wheat ended the week little changed. It seems to be avoiding reacting to the commotion in U.S. wheat futures markets.
- There has been a widening of old crop-new crop spreads that now shows a €9/mt carry between May and December. There are more than adequate old crop stocks against new crop anxieties due to overly wet Western EU crops.
- Looking back on the year, Matif wheat is ~€87/mt cheaper than this time last year. Combined EU and Black Sea wheat production is similar to 2023, but the carry-in stocks are higher in Russia and the EU to increase overall supply.
- Exports from the EU have been intermittent, depending on weather and the functioning of the Ukraine corridor. However, overall demand has been weak.
- EU FOB prices: December 2024 French 11.5 pro wheat closed at \$246.00/mt (*down \$1.00/mt from last week*); January 2024 German 12.5 pro wheat closed at \$257.00 (*up \$1.00/mt from last week*); January 2024 Baltic 14.0 pro wheat closed at \$250.00/mt (*up \$1.00/mt from last week*).

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

- Russian wheat exports for December look to improve slightly on November but fall behind December last year. The slow second quarter of the marketing year has left cumulative exports below last season's figure for the first time.
- Orthodox Christmas will keep the Black Sea quiet until the January WASDE report on Jan. 12, 2024.
- We have Russian FOB values for 12.5 per cent protein wheat for January 2024 at \$240/mt (*down \$1.00/mt from last week*).

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

Not much during the holiday season.

- **Egypt/ GASC** tendered last week for the FH March position. Russian offers again lined up at the same levels: 180-day LC offers at \$265 and the 270 day LC offers \$5/mt higher at \$270/mt. GASC asked for a discount, but none ventured low enough for a trade and GASC pulled the plug.
- Egypt/GASC is back to regularly asking for deferred payment basis 180 and 270 day LC's.
- **Jordan** will tender on Jan. 4, 2024 for 120k mt of wheat.

#### ➤ **Wheat Market Outlook:**

##### **Significant events over the past week:**

- As expected, it has been quiet over the holiday season.
- The Red Sea remains very vulnerable because of increasing tensions in the Middle East. So far, shipping companies seem to be prepared to use the route for now.
- More focus on EU and Black Sea weather will add to volatility.

##### **Outlook:**

Mercantile says, towards the end of 2023, the market saw a list of tenders that give hope for improved demand in the latter half of the crop year, but they need to see more consistent follow through in the New Year.

According to Mercantile, Argentina should feature more prominently in the markets in Q1 and Q2, but Australian wheat will be quieter. Mercantile believes the market will be defined by how successfully exporters find demand in Q1. There will be some focus on EU and Black Sea weather over the next couple of months, which Mercantile believes could add to the volatility.

We expect demand for Canadian wheat to stay strong over the winter months.

### iii) Primary Elevator Price Tables and Grade Spreads

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

Date: 02-01-2023					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Mch. '24 (bu)	Mch.' 24 (mt)
<b>1 CWRS 13.5</b>	\$8.81	\$323.71	<b>1 CWRS 13.5</b>	\$8.96	\$329.23
<b>1 CWAD 13.0</b>	\$12.20	\$448.28	<b>1 CWAD 13.0</b>	\$12.09	\$444.23
<b>1 CPSR 11.5</b>	\$8.11	\$297.99	<b>1 CPSR 11.5</b>	\$7.92	\$291.01
<b>SW Sask</b>			<b>SW Sask</b>		
<b>1 CWRS 13.5</b>	\$8.80	\$323.35	<b>1 CWRS 13.5</b>	\$8.93	\$328.12
<b>1 CWAD 13.0</b>	\$12.20	\$448.28	<b>1 CWAD 13.0</b>	\$12.07	\$443.50
<b>1 CPSR 11.5</b>	\$7.70	\$282.93	<b>1 CPSR 11.5</b>	\$7.81	\$286.97
<b>NE Sask</b>			<b>NE Sask</b>		
<b>1 CWRS 13.5</b>	\$8.55	\$314.16	<b>1 CWRS 13.5</b>	\$8.71	\$320.04
<b>1 CWAD 13.0</b>	\$11.99	\$440.56	<b>1 CWAD 13.0</b>	\$11.75	\$431.74
<b>1 CPSR 11.5</b>	n/a		<b>1 CPSR 11.5</b>	n/a	
<b>SE Sask</b>			<b>SE Sask</b>		
<b>1 CWRS 13.5</b>	\$8.58	\$315.26	<b>1 CWRS 13.5</b>	\$8.65	\$317.84
<b>1 CWAD 13.0</b>	\$11.97	\$439.83	<b>1 CWAD 13.0</b>	\$11.75	\$431.74
<b>1 CPSR 11.5</b>	\$7.44	\$273.38	<b>1 CPSR 11.5</b>	\$7.58	\$278.52

Data source: PDQ, Jan. 2, 2024

**Table 2: Grade Spreads, in Canadian Dollars per Bu and per MILLION MT**

Avg. Grade Spread/ Pro Discounts	Cdn\$/bu.	Cdn.\$/mt
<b>1 CWRS 14.0</b>	0.01	0.38
<b>1 CWRS 13.5</b>	Base Grade	Base Grade
<b>2 CWRS 13.5</b>	(0.08)	-2.94
<b>1 CWRS 12.5</b>	(0.13)	-4.78
<b>1 CWAD 13.0</b>	Base Grade	Base Grade
<b>1 CWAD 13.5</b>	0.01	0.37
<b>2 CWAD 13.0</b>	(0.13)	-4.78
<b>2 CWAD 12.5</b>	(0.16)	-5.88

Data source: PDQ, Jan. 2, 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 Basis<sup>1</sup> (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:  
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

---

<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.”



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				02-01-2024
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	\$397.65	\$428.92		
HRS	\$390.33			
HRW 11.5	\$342.94			
SWW 12.0	\$331.70			
1 CWRS 13.5 <sup>3</sup>	\$397.65		\$319.31	\$78.35
2 CWRS 13.0 <sup>3</sup>	\$390.33		\$308.28	\$82.04
3 CWRS <sup>3</sup>	\$342.94		\$293.58	\$49.36
CPS <sup>3</sup>	\$324.87		\$272.64	\$52.23
1 CWAD <sup>4</sup>		\$621.40	\$459.30	\$162.10
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$240.00	Jan. '24		
French 11.5 (Rouen)	\$246.00	Jan. '24		
APW 10.5 (W Coast)	\$296.00	Jan. '24		
Argentina 12.0	\$242.00	Jan. '24		

<sup>1</sup> FOB Prices CDA = FOB US\$ converted into Canadian Currency

<sup>2</sup> Export Basis = FOB Prices CDA minus Cdn. 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