

Wheat Market Outlook and Price Report: November 27th, 2023

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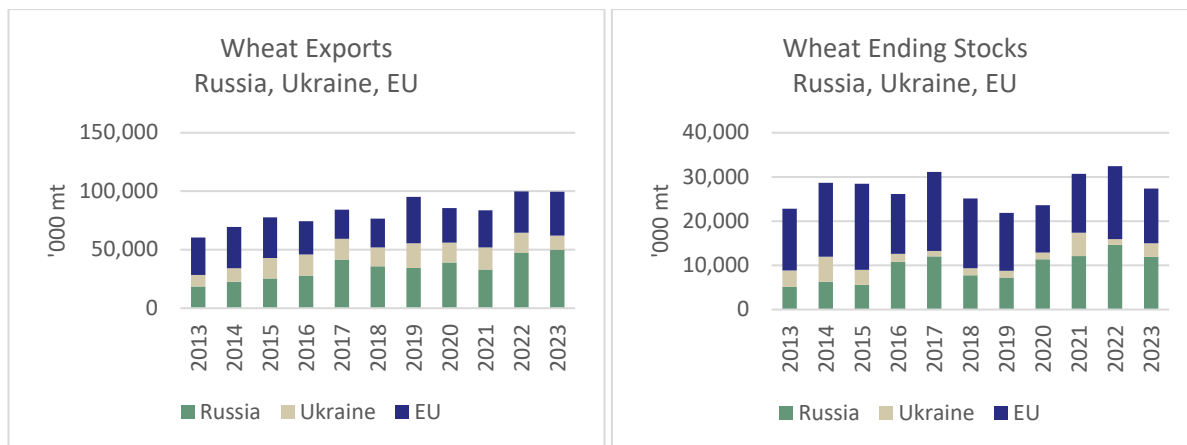
i) Background and Rationale for the Report

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 November 27, 2023

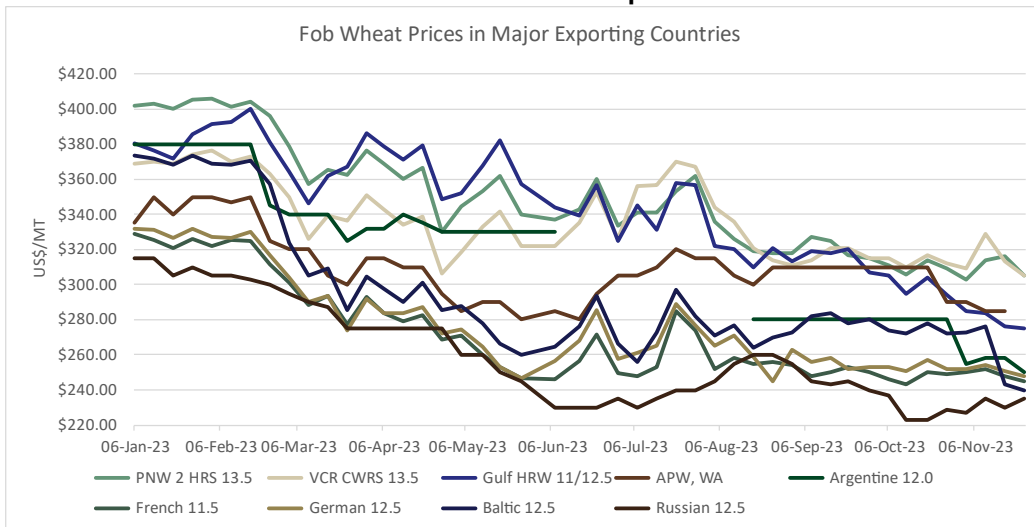
The Wheat Situation in Russia, Ukraine, and the EU



Source: Based on USDA data

- The global wheat market continues to be heavily influenced by the volume of supply and the pace of exports from European countries. The combined total supply in Russia, Ukraine and the EU is said to be 286.4 million mt which is only slightly (3.4 million mt) less than record volume set in 2022/23.
- Total 2023/24 exports from the region are expected to reach a combined 99.5 million mt, down by just 200k mt from the record set in the previous year. Russia is expected to account for 50 million mt of the total exports from the region, surpassing the record it set last year by 2.5 million mt.
- The strong export performance will allow ending stocks in Russia, Ukraine, and the EU to decrease by 5.1 million mt from the previous year, but at an estimated 27.3 million mt, they will still be over 600k mt more than the five-year average.

FOB Wheat Price Developments:



- Global cash wheat prices continued to trend lower in most major export origins last week. There has been a slight recovery in Russian values as their currency improves, but EU exporters will still need to be aggressive as they are way behind on movement.

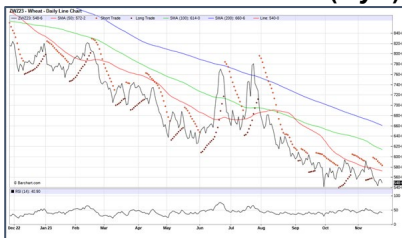
➤ Global wheat production and trade:

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 '23 contract Chicago winter wheat closed at \$548-6, down 7-0 cents on Friday, *down 4-6 cents on the week*.
- Dec '23 contract Kansas hard red winter wheat closed at \$602-0, down 12-4 cents on Friday, *down 25-2 cents on the week*.
- Dec '23 Minneapolis hard red spring wheat closed at \$696-6, down 14-0 cents on Friday, *down 29-2 cents on the week*.
- US wheat futures are currently trading 10-16 cents lower, while EU milling wheat is 3.00-5.75 euros lower this Monday morning.

CBOT Dec. 2023 Wheat (1 yr.)



KC Dec. 2023 Wheat

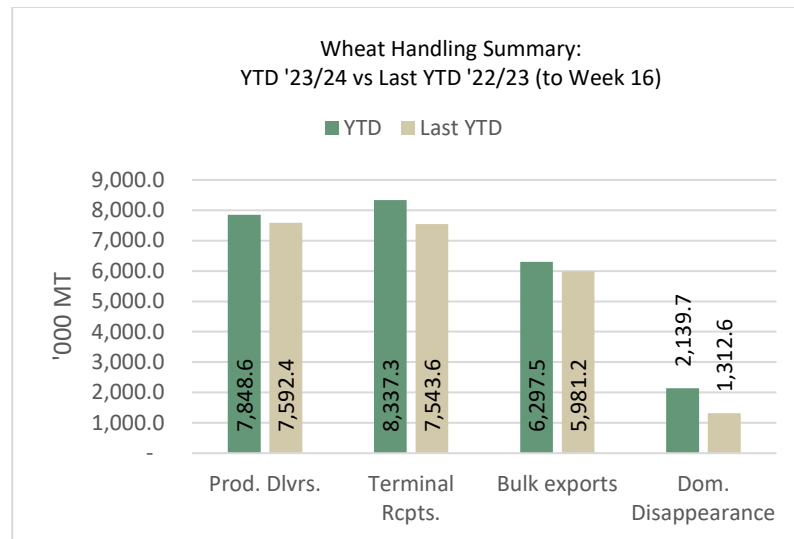


Mpls. Dec. 2023 Wheat



Canadian Wheat

- Agriculture and Agri-Food Canada (AAFC) left the Canadian wheat balance sheet entirely unchanged. They left exports at 18.0 million mt, down 13 per cent from last year which is 500k mt less than our estimate. Ending stocks are expected to fall by 12 per cent to 3.2 million mt.
- **Weekly Canadian wheat exports:** Exports in shipping for week 16 were strong again at 472.1k mt for a season total of 6.3 million mt. This continues to be five per cent ahead of last year, despite our expectation for a nine per cent decrease. (AAFC is projecting a 13 per cent decrease in wheat exports). Average exports needed to meet our 18.5 million mt number are 340k mt per week. Deliveries continue to be big with another 582.1k mt of wheat being delivered into the elevator system, but strong domestic use prevented a significant increase in visible supplies. Total domestic use is 2.1 million mt, up 63 per cent from last year. Mercantile will have to check if this number is correct.



Source: based on CGC data

- **Durum:** AAFC left the Canadian durum balance sheet entirely unchanged. They have the total supply at 4.5 million mt, exports at 3.3 million mt, and use at 4.1 million mt. Ending stocks are expected to shrink slightly (2 per cent) from last year to 400k mt.
- There was much speculation over Chinese customs data which reported China having imported two million mt of Canadian durum. This is impossible. Canada only has an exportable surplus of ~3.3 million mt, and two million mt of extra demand would have shocked the market. The number is likely a difference in wheat class reporting.
- Durum exports in week 16 were 60.6k mt for a season total of 882k mt, down 24 per cent from last year.

(CGC) Grain Handling Summary - Durum			Week 16		(Nov. 19'23)
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance	
Week 16	582.1	589.8	472.1	131.9	
Week ago	508.9	454.1	312.6	160.5	
YTD	7,848.6	8,337.3	6,297.5	2,139.7	
Last YTD	7,592.4	7,543.6	5,981.2	1,312.6	
YTD less Last YTD	256.2	793.7	316.3	827.1	
YTD over Last YTD	103%	111%	105%	163%	

Source: based on CGC data

- There was additional rain in North Africa which will continue to improve the drought situation there.
- Mercantile suggests moving to being 80 per cent sold on durum at \$13.00/bu.

US Wheat:

- US markets were thinly traded last week ahead of the US holidays. Poor export sales were negative.
- US weekly wheat sales were just 171.8k mt (6.3 million bushels) for a season total of 443 million bushels, down nine per cent from last year. This is now below the USDA's expected decline of eight per cent. Weekly sales need to average around 7 million bushels per week for the remainder of the season (end of May) to meet the USDA's number, which is essentially the same pace as last year during this time. The USDA announced a flash sale of 110k mt of SRW to China which will show up in next week's sales data.
- US winter wheat conditions gained a point over the week at 48 per cent Gd/Ex compared to 32 per cent Gd/Ex last year. Emergence is 87 per cent complete.
- US HRS for Dec. '23 was valued at \$305.00/mt FOB PNW (*down \$11.00/mt from last week*), FOB Gulf HRW 11/12.5 pro is valued at \$275.00/mt (*down \$1.00/mt from last week*).

Australian wheat:

- Harvest in Australia is 50 per cent complete. Estimates are ranging from The USDA's 24.5 million mt to 28 million mt. Our opinion is that it will be 25-26 million mt. The smaller crop is going to be higher quality with 60 per cent of the crop having protein levels above 10 per cent compared to 40 per cent last year.
- FOB values in Australia: Dec. '23 AWP, WA is valued at \$280.00/mt (*down \$5.00/mt from last week*).

Argentine wheat:

- Harvest in Argentina is 26 per cent complete. Average yields rose from 1.6 tph to 1.8 tph. BAGE left its crop estimate at 14.7 million mt. Farmers in Argentina are not selling grain as they expect further currency devaluations and hope for the elimination of the export taxes.
- FOB Argentine wheat (12 per cent pro) for Dec. was quoted at \$250.00/mt (*down \$8.00/mt from last week*).

EU wheat:

- The euro rose to a three-month high last week. This will be negative to exports which are running 20 per cent behind last year.
- France is turning drier. Seventy-four percent of the French winter wheat crop has been planted, up three points from last week, compared to 98 per cent last year. Condition ratings fell another three points over the week to 83 per cent Gd/Ex.
- EU FOB prices: Dec. '23 French 11.5 pro wheat closed at \$245.00/mt (*down \$3.00/mt from last week*); Dec. '23 German 12.5 pro wheat closed at \$248.00 (*down \$3.00/mt from last week*); Dec. '23 Baltic 14.0 pro wheat closed at \$240.00/mt (*down \$3.00/mt from last week*).

Black Sea wheat:

- Grain exports from Ukraine on the Danube River have slowed as the success of the “humanitarian corridor” has exporters shifting their focus to ports in the Black Sea.
- Ukraine’s politicians are working on a bill that some have said will completely halt exports. The bill would change the structure of export taxes and effectively introduce a minimum export price. The bill seems to be another attempt for the government to collect its tax on grain exports.
- Ukraine’s winter wheat area is expected to be 4.4 million hectares, down 10 per cent from last year. APK-Information says Ukraine’s winter wheat crop is entering dormancy in good condition.
- We have Russian FOB values for 12.5 per cent protein wheat for Nov. at \$235/mt (*up \$5.00/mt from last week*). The rising Ruble is the main reason for the increase.

➤ Significant purchases/ trades:

- **South Korea** bought 55k mt of feed wheat at \$271/mt C&F.
- **Tunisia** bought 100k mt of milling wheat at \$279-\$279.50/mt.
- **Algeria** bought 90-100k mt of milling wheat at \$277/mt.
- **Jordan** tenders on Tuesday for 120k mt Feb-Mar optional origin milling wheat.
- **China** bought 110k mt of US SRW.
- **US** weekly wheat sales were just 171.8k mt. China’s purchase will be included in next week’s data.

➤ Wheat Market Outlook:

Significant events over the past week:

- **China has asked that December shipments be deferred to Jan-Feb.** Mercantile has not heard of a reason why.
- **North African importers** were more active last week as the success Ukraine’s humanitarian corridor grows, but recent policy proposals in Ukraine are throwing confusion into the market.

Outlook:

In Mercantile’s view, corn and wheat should be higher based on demand, unsettled politics, and weather in the Southern Hemisphere. – *They do not expect to extend cash wheat sales until the New Year.*

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: November 27, 2023

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Jan '24 (bu.)	Jan '24 (mt.)
1 CWRS 13.5	\$8.84	\$324.82	1 CWRS 13.5	\$8.78	\$322.61
1 CWAD 13.0	\$12.72	\$467.38	1 CWAD 13.0	\$12.73	\$467.75
1 CPSR 11.5	-	-	1 CPSR 11.5	-	-
SW Sask			SW Sask		
1 CWRS 13.5	\$8.87	\$325.92	1 CWRS 13.5	\$8.81	\$323.71
1 CWAD 13.0	\$12.67	\$465.55	1 CWAD 13.0	\$12.70	\$466.65
1 CPSR 11.5	-	-	1 CPSR 11.5	-	-
NE Sask			NE Sask		
1 CWRS 13.5	\$8.58	\$315.26	1 CWRS 13.5	\$8.52	\$313.06
1 CWAD 13.0	\$12.48	\$458.57	1 CWAD 13.0	\$12.49	\$458.93
1 CPSR 11.5	-	-	1 CPSR 11.5	-	-
SE Sask			SE Sask		
1 CWRS 13.5	\$8.63	\$317.10	1 CWRS 13.5	\$8.57	\$314.90
1 CWAD 13.0	\$12.57	\$461.87	1 CWAD 13.0	\$12.54	\$460.77
1 CPSR 11.5	-	-	1 CPSR 11.5	-	-

Data source: PDQ, Nov. 27/23

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	0.01	0.38
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, Nov. 27/23

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

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.”

- HRS in the Pacific North West (PNW) \approx 2 CWRS 13.0 per cent in Vancouver
 - HRW in the Pacific North West (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, US & Canadian Dollars per MT

Relevant FOB Prices and Export Basis				November 27, 2023
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	\$401.58	\$391.55		
HRS	\$396.50			
HRW 11.5	\$336.91			
SWW 12.0	\$350.44			
1 CWRS 13.5 ³	\$401.58		\$317.10	\$84.48
2 CWRS 13.0 ³	\$396.50		\$306.08	\$90.42
3 CWRS ³	\$336.91		\$282.19	\$54.71
CPS ³	\$343.43		\$249.49	\$93.93
1 CWAD ⁴		\$566.53	\$477.67	\$88.85
Competing wheat:				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$230.00		December	
French 11.5 (Rouen)	\$250.00		December	
APW 10.5 (W Coast)	\$280.00		December	
Argentine 12.5	\$250.00		December	
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				