

Wheat Market Outlook and Price Report: Oct. 16, 2023

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i) Background and Rationale for the Report

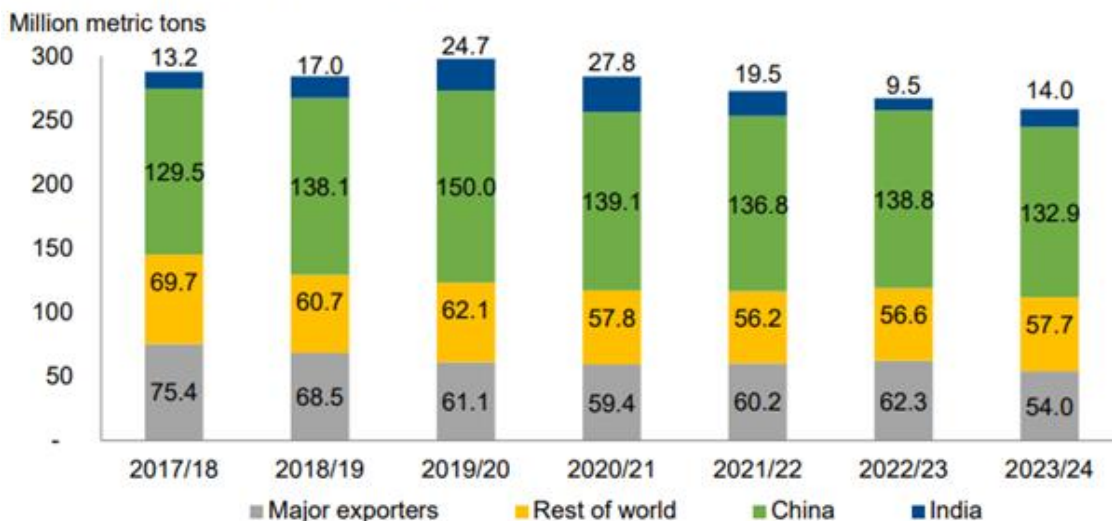
The following wheat market outlook and price report will be published on a weekly basis on the Sask Wheat Website. The report provides producers with an overview of world wheat markets, a market forecast, and benchmark prices at both the primary elevator and export positions (FOB Vancouver or elsewhere).

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 October 16, 2023

USDA October WASDE Report

Global ending stocks, 2017/18–2023/24

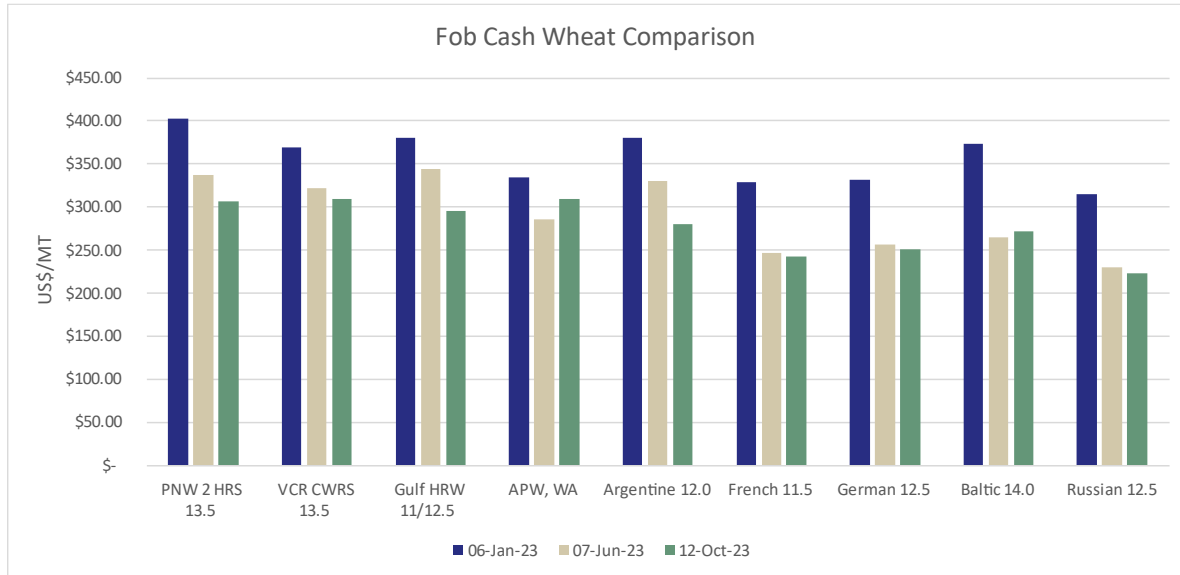


Note: 2023/24 data are forecasts. Major exporters include Argentina, Australia, Canada, the European Union, Kazakhstan, Russia, Ukraine, and the United States.
Source: USDA, Economic Research Service; USDA, Foreign Agricultural Service, *Production, Supply and Distribution* database.

- The United States Department of Agriculture (USDA) World Agricultural Supply and Demand Estimates (WASDE) report put global wheat production down 3.9 million mt from last month at 783.4 million mt. This is now a 6.1 million mt decrease from last year. If true, this would be the first global decline in wheat production since the 2018/2019 season. World wheat consumption was lowered by 3.0 million mt.

- The USDA has global consumption outstripping supply by 9.4 million mt this year as ending stocks are expected to fall to 258.1 million mt.

FOB Wheat Price Developments:



- Global wheat prices continued to fall over the week. Egypt bought large volumes of Russian wheat in a private deal. It seems Russian exporters can offer better prices in private deals that face less scrutiny. The low cost of production and falling Russian ruble allows producers there to be profitable while selling at cheap prices.

➤ **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 \$579-6, up 8-2 cents on Friday, *up 11-4 cents on the week.*
- Dec. 2023 contract Kansas hard red winter wheat closed at \$669-0, down 6-0 cents on Friday, *down 4-6 cents on the week.*
- Dec. 2023 Minneapolis hard red spring wheat closed at \$722-0 down 1-4 cents on Friday, *up 1-4 cents on the week.*
- U.S. wheat futures are trading 1-2 cents lower in the winter wheat contracts and 3-4 cents higher in Minneapolis. Marché à Terme International de France (MATIF) milling wheat futures are down by €2.25-€3.00 at the time of writing this Monday morning.

CBOT Dec 2023 Wheat (1 yr.)



KC Dec 2023 Wheat

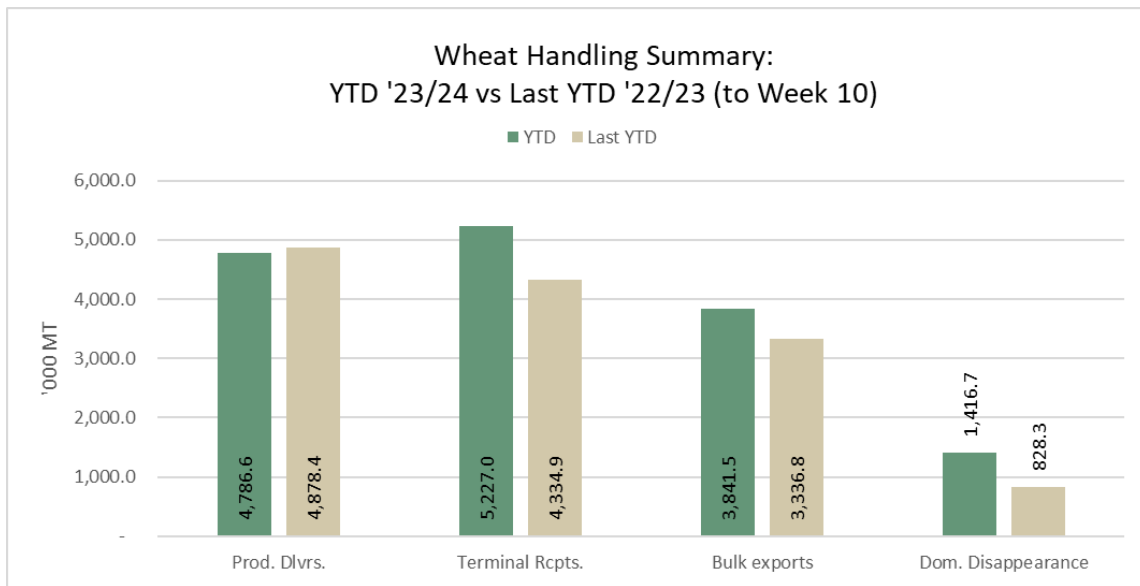


Mpls. Dec 2023 Wheat



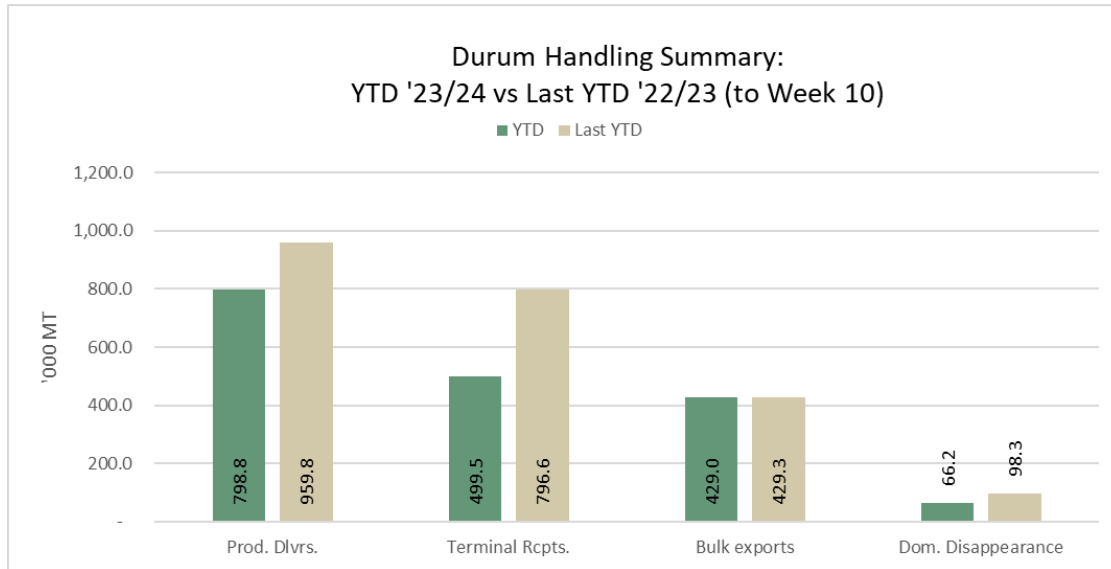
Canadian Wheat

- Weekly Canadian wheat exports** were large again at 549.4k mt, for a season total of 3.8 million mt, over half a million tonnes ahead of last year's volume. Producer deliveries have slowed and are now behind last year's pace.



Source: based on CGC data

- Durum:** Weekly Canadian **durum exports** in week 10 were 92.2k mt for a season total of 429.0k mt. This is exactly in-line with last year. Producer deliveries continue to fall behind last year.

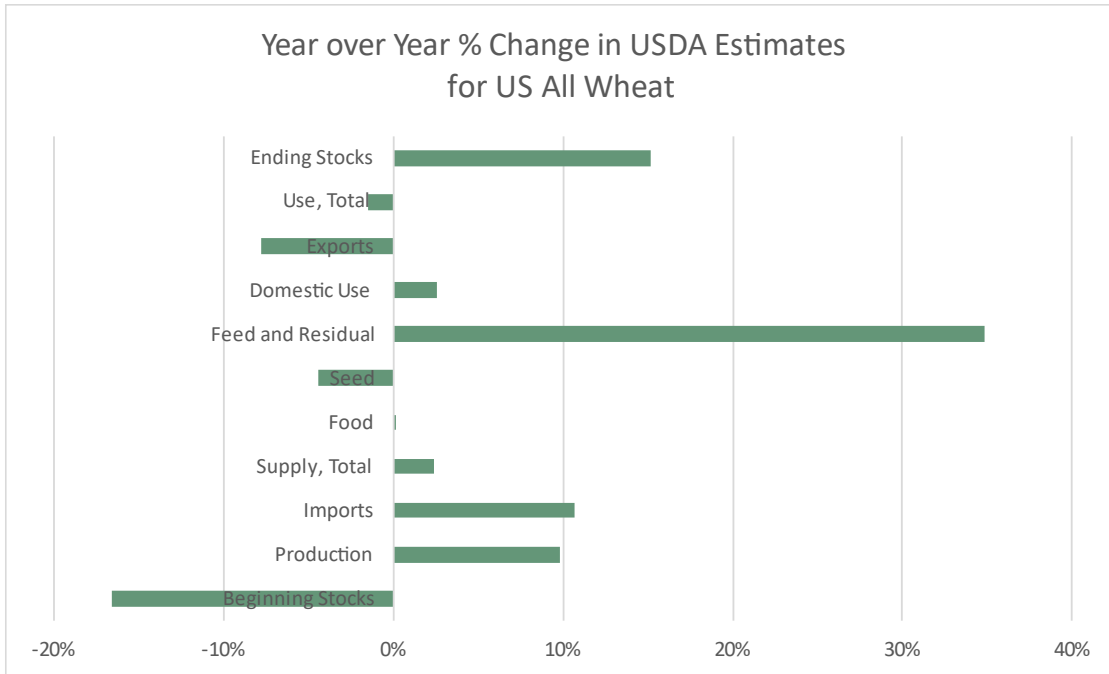


Source: based on CGC data

- Tunisia purchased 100k mt of durum at \$415-\$419/mt CIF. The origins are believed to be Turkey and Russia. The last tender in August went for \$429/mt CIF.
- As reported last week, Turkey is emerging as a more significant factor in the durum export market than previously seen. The 2023/2024 Turkish durum production is estimated at 4.0 million mt, up 1.0 million mt (Up 33 per cent) from the prior year. Normally, the Turkish durum crop is consumed domestically by pasta processors, but increased demand for durum and favourable prices have resulted in much higher export volumes. Indeed, Turkey has already shipped over 1.0 million mt of durum, mostly to Italy and to Canada.
- Canadian durum values will continue to struggle until demand returns to Canada in the second half of the marketing year.

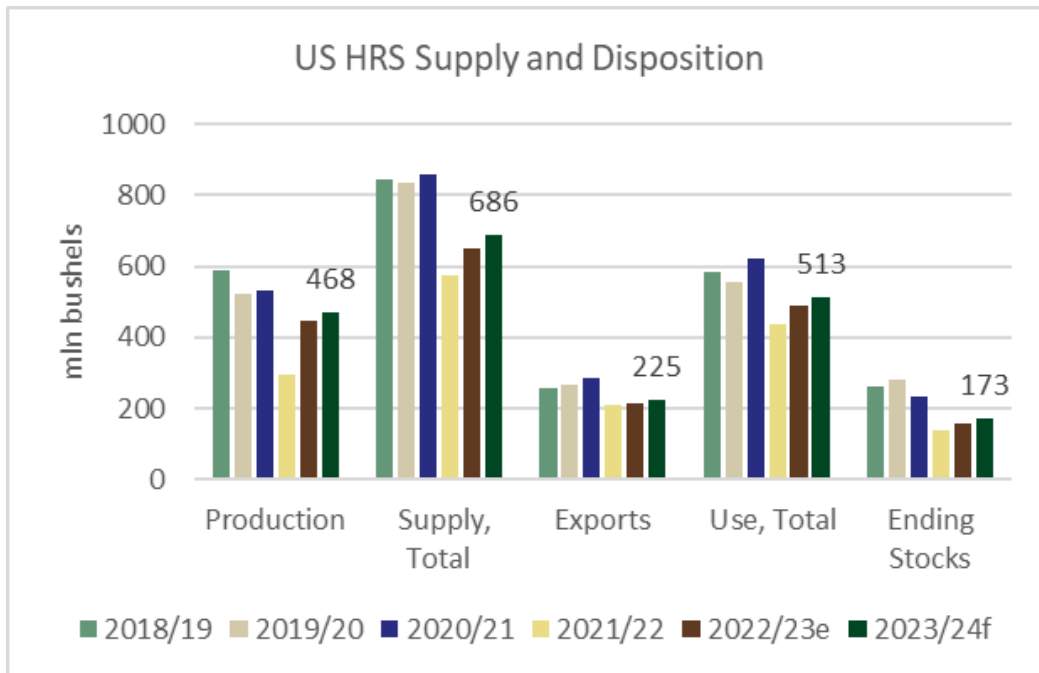
U.S. Wheat:

- U.S. wheat futures finished the week on either side of unchanged after a mixed reaction to what was largely a neutral WASDE report for wheat.
- The USDA raised U.S. wheat production by 2.1 million mt. Ending stocks increased by 1.5 million mt from September to 18.2 million mt. Most of the increase in ending stocks was in HRW and HRS classes.



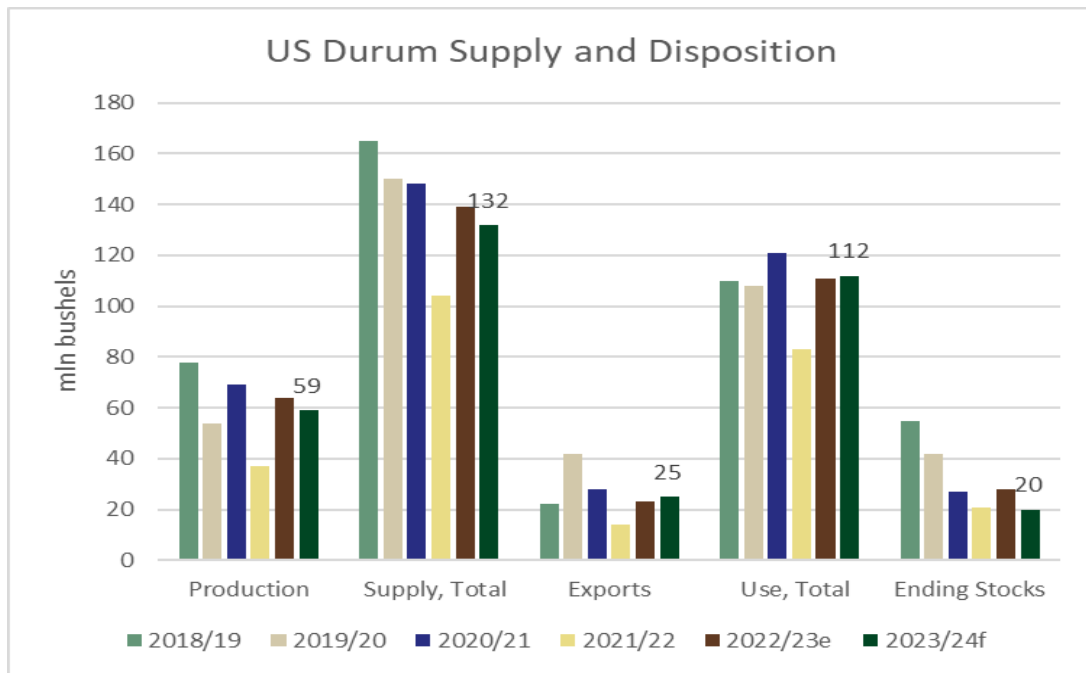
Source: based on USDA data

- Higher production in the HRS class was the main driver behind the USDA's increase in U.S. wheat production. HRS production in the U.S. was raised by 55 million bushels from last month to 468 million bushels, up five per cent over last year. Imports were also five million bushels higher (now seven per cent more than last year) for a 60 million bushel increase in HRS supply. Feed use and exports were raised by 15 million bushels and 10 million bushels respectively for a 35 million bushel increase in ending stocks to 173 million bushels, up nine per cent (15 million bushels) from last year.



Source: based on USDA data

- For the U.S. durum crop, the USDA increased production by two million bushels while reducing imports by 5 million bushels. Ending stocks were thus three million bushels lower at 20 million bushels, down 29 per cent from last year, and lower than 2021 levels.

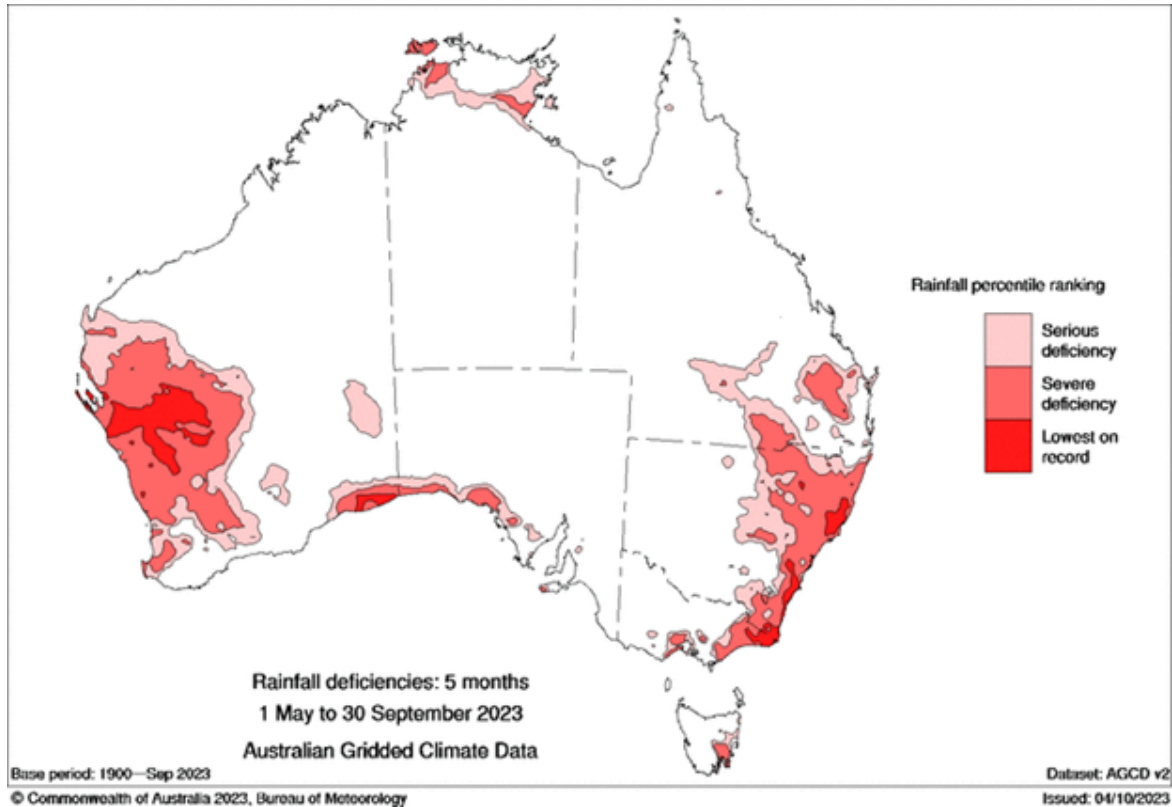


Source: based on USDA data

- Weekly U.S. export sales were above trade expectations at 652k mt. Total commitments are now at 10.1 million mt which is 53 per cent of the total 19.1 million mt export number that the USDA is expecting. There was another sale of 181k mt of SRW to China. This comes a week after the 220k mt that we reported previously.
- U.S. farmers planted another 17 per cent of the winter wheat crop over the week which is now 57 per cent complete. Emergence is average at 29 per cent. Rain is expected in the winter wheat belt which will alleviate dry conditions but could slow planting progress.
- U.S. HRS for Nov. '23 was valued at \$306.00/mt FOB PNW (*down \$5.00/mt from last week*), FOB Gulf HRW 11/12.5 pro is valued at \$295.00/mt (*down \$10.00/mt from last week*).

Australian Wheat:

- Australia had the driest September on record having received just 71 per cent of average rainfall amounts. The USDA decreased their estimate for Australia's wheat crop by 1.5 million mt to 24.5 million mt. This 15.2 million mt (38 per cent) less than the previous year's record crop.



- FOB values in Australia: Nov. 2023 AWP, WA is valued at \$310.00/mt (*unchanged from last week*).

Argentine Wheat:

- The USDA left Argentina's crop at 16.5 million mt. This is what Buenos Aires Grains Exchange (BAGE) had been estimating, but last week they put their estimate to 16.2 million mt. Meanwhile Rosario GE lowered their estimate to 14.3 million mt.
- FOB Argentine wheat (12 per cent pro) for Nov. was quoted at \$280.00/mt (*unchanged from last week*).

EU Wheat:

- MATIF wheat futures ended higher of the week with rumors of additional Chinese buying.
- The USDA left its balance sheet for the EU unchanged, which includes unrealistically high exports and too low ending stocks.
- EU FOB prices: Nov. 2023 French 11.5 pro wheat closed at \$243.00/mt (*down \$3.00/mt from last week*); Nov. 2023 German 12.5 pro wheat closed at \$251.00 (*down \$2.00/mt from last week*); Nov. 2023 Baltic 14.0 pro wheat closed at \$272.00/mt (*down \$2.00/mt from last week*).

Black Sea Wheat:

- The USDA left Russia's production number unchanged, which is too low. It did increase exports to a record 50 million mt. Ending stocks were put unrealistically too low, but this will be solved with the higher production that USDA is not accounting for.
- Ukraine's balance sheet was left unchanged.
- We would put effective Russian FOB values for 12.5 per cent protein wheat for Nov. at \$237/mt (*down \$3.00/mt from last week*).

➤ **Significant purchases/ trades:**

- **GASC** bought 480k mt of Russian wheat at \$265 FOB in a private deal. They also tendered on Thursday, buying 170k mt of wheat from Romania and Bulgaria at \$271.80 - \$273.90 CIF.
- China bought 181k mt of SRW from the U.S. and were rumored to have bought more French wheat.

➤ **Wheat Market Outlook:**

Significant events over the past week:

- **Thursday's WASDE report** added some bullishness to the futures figures. The monthly **USDA data showed a 0.8 bushel per acre cut to national corn yield**, now at 173.0 bu/acre. The trade average guess was 173.5 bpa. With no acreage adjustments made, production was shown at 15.1 billion bushels. This is a 70-million-bushel loss from last month compared to the expected 16 million bushel cut.
- The USDA has **wheat production in Kazakhstan** down by 21 per cent from last year as dry growing conditions has reduced crop conditions. The decrease in production is despite a six per cent increase in harvested area. Wheat harvest is underway, but an unseasonably wet spell during harvest is causing additional issues with the size and quality of the crop.
- **Wheat production in Brazil** was reduced by 500k mt from last month to 9.8 million mt, down eight per cent from last year. Record rainfall was experienced in September caused disease and quality issues. Additional yield reductions could be experienced if the weather continues to be poor.
- **Tens of thousands of Israeli troops are at the border of Gaza** waiting for the order to begin the ground invasion in response to Hamas' terror attacks.

Outlook:

In the short term, Mercantile see futures trading in a narrow range and growers being reluctant sellers at current returns. According to Mercantile, Russia will continue to be the most aggressive seller as, in their opinion, the price is not too bad, and they need the dollars. It is difficult to forecast events for Mercantile when they do not know how the events over Hamas/Israel will develop. But Mercantile says to keep in mind that war zones do not create demand. Weather in the Southern Hemisphere, Chinese demand and Russian exports will be the main drivers moving forward. Mercantile would hold additional wheat sales for the new year.

<https://spotifyanchor-web.app.link/e/RyVAB11WWDdb>

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: October 16, 2023

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Dec '23 (bu.)	Dec '23 (mt.)
1 CWRS 13.5	\$9.01	\$331.06	1 CWRS 13.5	\$9.00	\$330.70
1 CWAD 13.0	\$13.31	\$489.06	1 CWAD 13.0	\$13.41	\$492.74
1 CPSR 11.5	\$8.01	\$294.32	1 CPSR 11.5	\$8.29	\$304.61
SW Sask			SW Sask		
1 CWRS 13.5	\$9.01	\$331.06	1 CWRS 13.5	\$9.03	\$331.80
1 CWAD 13.0	\$13.34	\$490.16	1 CWAD 13.0	\$13.41	\$492.74
1 CPSR 11.5	\$7.86	\$288.81	1 CPSR 11.5	\$8.23	\$302.40
NE Sask			NE Sask		
1 CWRS 13.5	\$8.77	\$322.24	1 CWRS 13.5	\$8.78	\$322.61
1 CWAD 13.0	\$13.02	\$478.41	1 CWAD 13.0	\$13.05	\$479.51
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a
SE Sask			SE Sask		
1 CWRS 13.5	\$8.77	\$322.24	1 CWRS 13.5	\$8.82	\$324.08
1 CWAD 13.0	\$13.14	\$482.82	1 CWAD 13.0	\$13.19	\$484.65
1 CPSR 11.5	\$7.68	\$282.19	1 CPSR 11.5	\$7.92	\$291.01

Data source: PDQ, Oct. 16, 2023

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	(0.10)	-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, Oct. 16, 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/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 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

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.”

- 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 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				October 16, 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	\$406.38	\$396.37		
HRS	\$400.04			
HRW 11.5	\$363.84			
SWW 12.0	\$347.32			
1 CWRS 13.5 ³	\$406.38		\$330.33	\$76.05
2 CWRS 13.0 ³	\$400.04		\$319.31	\$80.74
3 CWRS ³	\$363.84		\$289.91	\$73.93
CPS ³	\$340.31		\$275.95	\$64.37
1 CWAD ⁴		\$636.59	\$488.70	\$147.89
Competing wheat:				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$223.00		November	
French 11.5 (Rouen)	\$243.00		November	
APW 10.5 (W Coast)	\$310.00		November	
Argentine 12.5	\$280.00		November	
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				