SaskWheat DEVELOPMENT COMMISSION

Wheat Market Outlook and Price Report: Oct. 7, 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 October 7, 2024

AMIS October 2024 Market Monitor:

Wheat	FAO-AMIS			USDA		IGC	
	2023/24 est	2024/25 f'cast		2023/24 est	2024/25 f'cast	2023/24 est	2024/25 f'cast
		6 Sep	4 Oct		12 Sep		19 Sep
Prod.	**789.0**	**791.4**	**792.9**	**790.5**	**796.9**	**795.0**	**798.0**
	652.4	651.3	652.8	653.9	656.9	658.4	658.0
Supply	**1112.7**	**1106.5**	**1108.3**	**1064.2**	**1062.1**	**1078.9**	**1070.2**
	832.2	819.3	821.2	788.8	787.6	803.2	791.2
Utiliz.	**798.6**	**793.3**	**793.7**	**801.0**	**798.4**	**806.8**	**803.2**
	652.4	652.2	652.6	647.5	647.4	657.0	656.4
Trade	**207.0**	**199.4**	**198.4**	**224.4**	**216.5**	**214.7**	**197.8**
	193.6	189.4	188.4	210.7	204.5	200.5	187.1
Stocks	**315.5**	**314.5**	**316.2**	**265.2**	**257.2**	**272.2**	**267.0**
	168.4	158.7	160.5	130.7	122.7	132.1	124.1

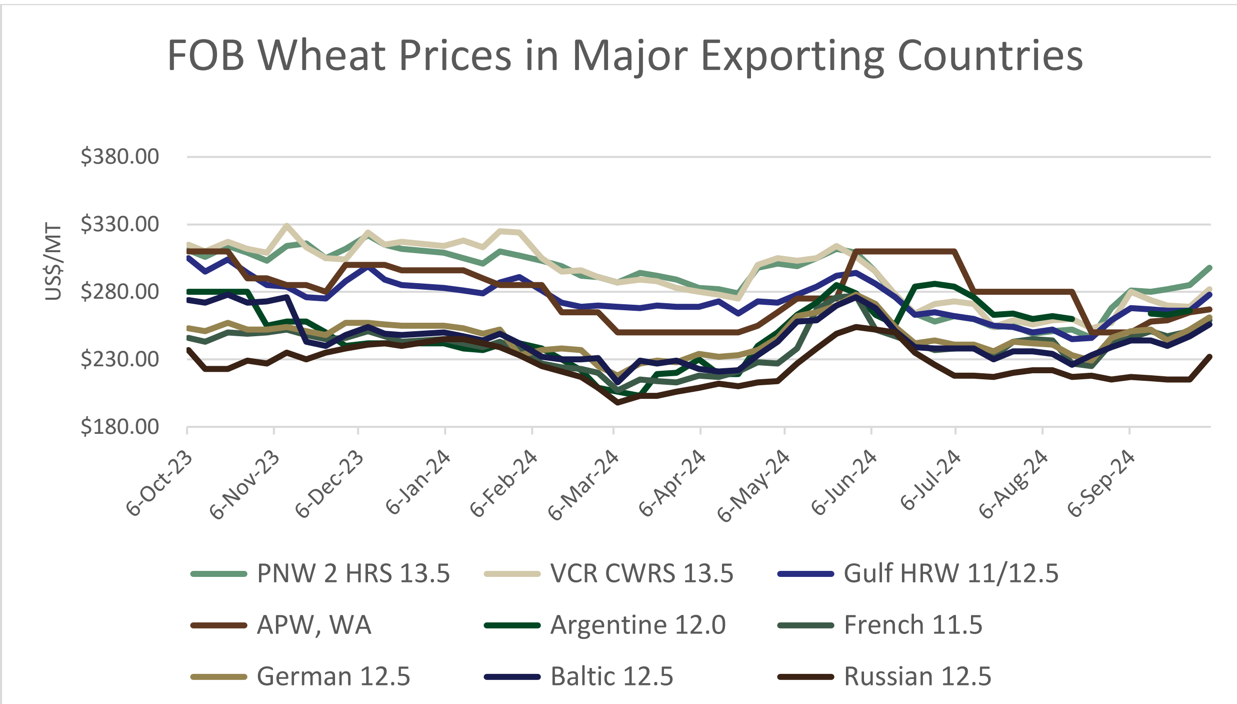
IN MILLION TONNES

Source: AMIS

- In its October Market Monitor, AMIS increased **global wheat production** by 1.5 million mt from its September forecast. The increase in production was the result of larger production in Australia and Ukraine offsetting smaller crops in the EU.
- **Wheat use** was raised to a fresh record of 535.6 million mt, driven by large use for both food and industrial purposes.

- **Global trade** was reduced by 1 million mt. Egypt is expected to import 0.5 million mt less wheat than last month and exports from the EU were reduced by another 2 million mt.
- **Ending stocks** were raised by 1.7 million mt from last month. More stocks in Australia, the EU and Ukraine are expected to offset smaller stocks in Russia. Global ending stocks of 316.2 million mt are now expected to be 0.7 million mt more than last year.

FOB Cash Values:



Source: Mercantile

- Global cash wheat prices continued to follow Russian prices higher last week. We have Russian FOB wheat at $225/mt, up $9/mt from last week.

➢ **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. 2024 contract **Chicago winter wheat** closed at $589-6, down 13-6 cents on Friday, *up 9-6 cents on the week*.
- Dec. 2024 contract **Kansas winter wheat** closed at $598-0, down 13-4 cents on Friday, *up 21-2 cents on the week*.
- Dec. 2024 **Minneapolis hard red spring wheat** closed at $638-4, down 7-6 cents on Friday, up 30-2 cents on the week.
- **U.S. wheat futures** are currently trading 2-3 cents higher at the time of writing.

CBOT 1-Yr. Dec. 2024 Wheat

KC Dec. 2024 Wheat

Mpls. Dec 2024 Wheat

Canadian Wheat

- Sask Ag raised its average provincial spring wheat yield estimate to 46 bushels per acre (bpa) vs 45 bpa previously. Meanwhile, Alberta Agriculture lowered its provincial yield estimate by almost a bushel to 45.4 bpa. We calculate that the combined changes lifted the average yield of the Canadian spring wheat crop to ~49.3 bpa which is slightly below Statistics Canada's estimate.
- **Canadian exports** were strong in week eight at 422.0k mt, but total exports are now 11 per cent behind last year at 2.7 million mt. The average seasonal pace to date is 334.8k mt per week compared to the average pace of 406.2k mt per week needed to meet the AAFC's 20.55 million mt export estimate.

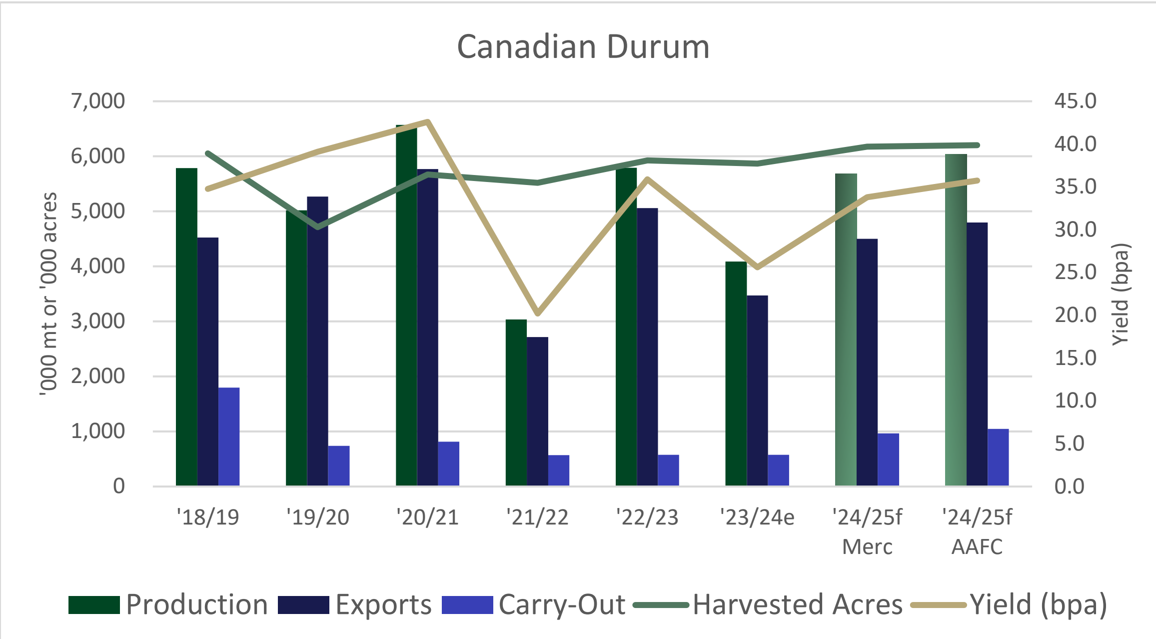
(CGC) Grain Handling Summary Wheat			Week 8	(Sept. 29, 2024)
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 8	494.3	517.9	422.0	116.6
Week ago	537.0	742.9	306.3	85.6
YTD	3,925.2	3,982.5	2,678.2	952.2
Last YTD	4,014.2	4,443.0	3,019.6	1,188.9
YTD less Last YTD	-89.0	-460.5	-341.4	-236.7
YTD over Last YTD	98%	90%	89%	80%

Source: Mercantile, based on CGC data

Canadian Durum

- Sask Ag lowered its durum yield estimate by a bushel to 32 bushels per acre.
- We talked last week about the AAFC's revisions to the durum balance sheet. Ironically, the changes largely brought the AAFC's numbers closer to our estimates. However, this does not solve the problem of the erroneous early signals given to growers by AAFC.

- The AAFC carry-in is now 576k mt compared to our estimate of 589k mt. Our numbers diverge regarding this year's production. The AAFC is using an average yield of 35.7 bpa which, we believe, is too high. Given the provincial yield estimates, we calculate the average yield will be closer to 34 bpa. So, we are expecting a 5.7 million mt crop, while the AAFC is expecting a 6 million mt crop. The differences in production are resolved in the demand numbers as both Mercantile and the AAFC are expecting a carry-out of around 1 million mt, up ~65 per cent from last year.



Source: Mercantile, based on AAFC, STC, SK Ag, AB Ag, and Mercantile data

- **Canadian durum exports** in week eight were 55.1k mt for a season total of 359.7k mt, up 25 per cent from last year. Most of the durum exports in week eight were through the St. Lawrence and through land ports (to the U.S. and/or Mexico).

(CGC) Grain Handling Summary Durum			Week 8	(Sept. 29, 2024)
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 8	111.5	105.8	55.1	3.9
Week ago	89.9	84.9	71.9	3.4
YTD	654.2	438.6	359.7	91.8
Last YTD	621.7	282.1	287.2	55.3
YTD less Last YTD	32.5	156.5	72.5	36.5
YTD over Last YTD	105%	155%	125%	166%

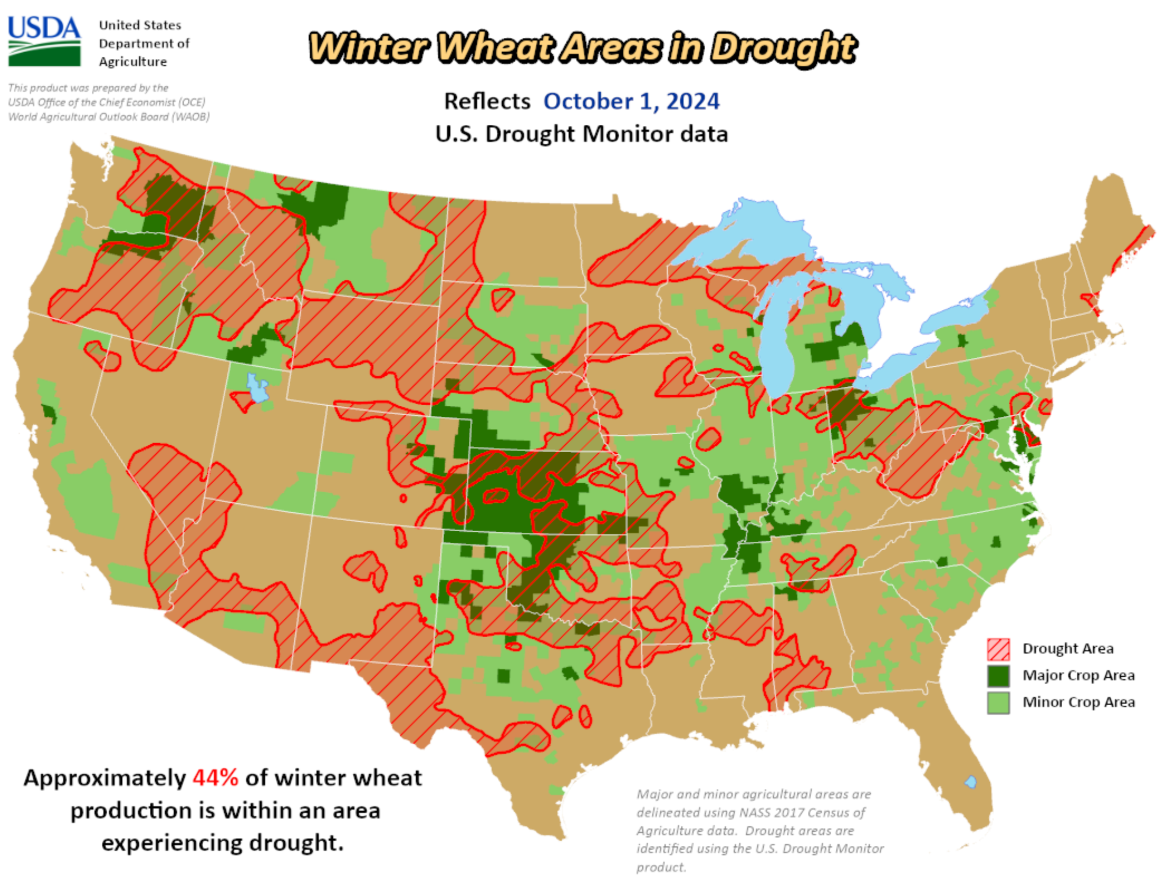
Source: Mercantile, based on CGC data

Global Durum

- CIF prices of durum wheat in Spain and Greece were 10-15 Euros/mt higher over the past two weeks to 310-320 Euros/mt. Despite this, Spain and Greece remain the cheapest origins into Southern Italy.
- The durum market will be better supplied this year and there will be strong competition in the export market.

U.S. Wheat

- U.S. wheat futures moved higher on the week. Dryness in the Black Sea and the U.S. winter wheat belt, as well as tensions in the Middle East supported prices.
- Weekly U.S. wheat sales were above trade expectations at 443.7k mt. Total commitments are now 14.7 million mt. This is 17 per cent ahead of last year and over half of the USDA's total export estimate.
- Winter wheat seeding advanced 14 points over the week to 39 per cent complete. The winter wheat belt remains dry. Approximately 44 per cent of the total U.S. winter wheat area is under drought conditions. Fourteen per cent of the crop has emerged, which is slightly ahead of average. USDA has not begun condition ratings yet.



- U.S. Hard Red Spring (HRS) for Nov. 2024 is valued at $298.00mt FOB Pacific Northwest (PNW) (*up $13.00/mt from last week*), FOB Gulf Hard Red Winter (HRW) 12/13.5 pro is valued at $295.00/mt (*up $22.00/mt from last week*); Gulf HRW 11/12.5 pro is at $278.00/mt (*up $12.00/mt from last week*).

Australian Wheat

- Dry conditions and frost damage have some analysts decreasing their forecasts for Australia's wheat crop. Crop estimates are ranging from 27-33 million mt. Some of the lower estimates in that range came out last week. The official estimate from the Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) is 31.8 million mt.
- FOB values in Australia: Nov. 2024 Australian Premium White Wheat (APW), Western Australia was valued at $267.00/mt (*up $2.00/mt from last week*).

Argentine Wheat

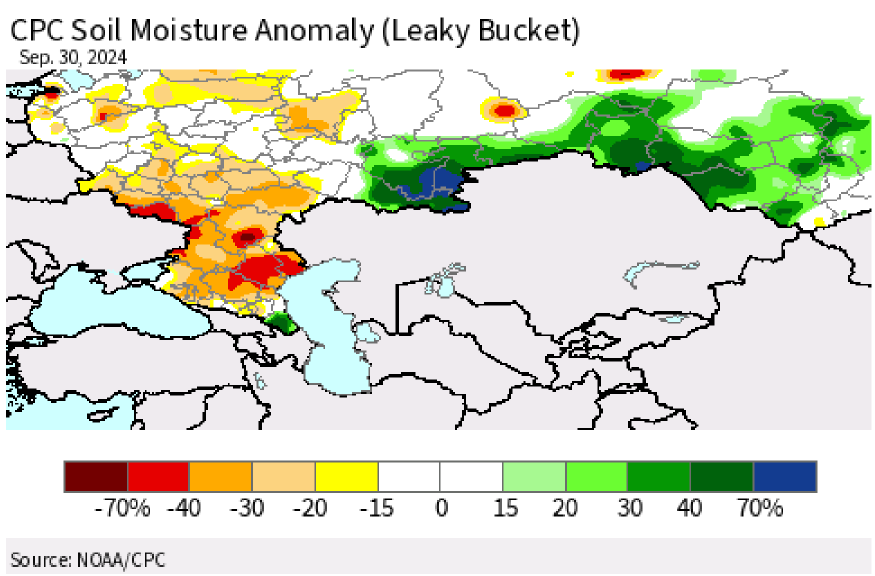
- Condition ratings were unchanged in Argentina at 36 per cent Gd/Ex. Buenos Aires Grain Exchange (BAGE) is expecting an 18.6 million mt crop. The crop continues to suffer under dry conditions, but there might be some relief in the coming weeks.
- FOB Argentine 12 pro wheat upriver for Dec. 2024 is $239.00/mt.

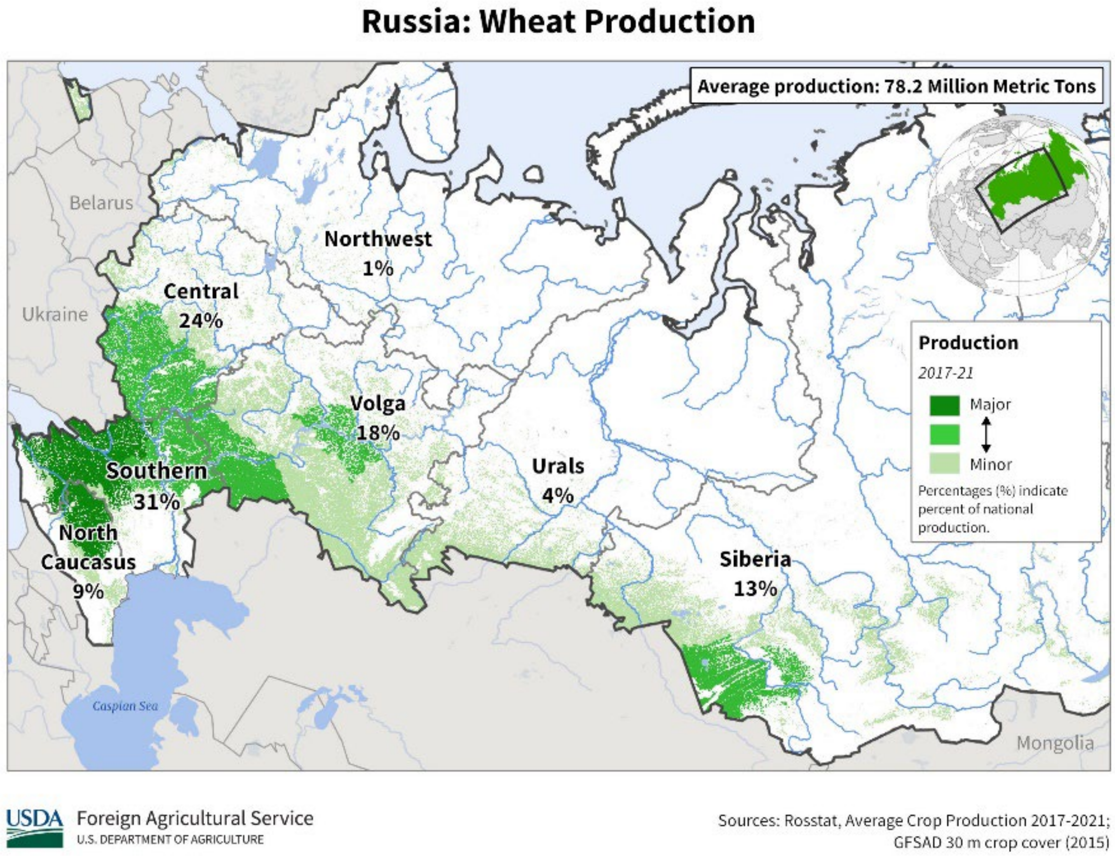
EU Wheat

- French wheat futures rose to an 11-week high last week. Rising prices in Russia caused funds to cover short positions.
- Farmers continue to be reluctance sellers. The rising prices have not convinced them to sell after what is estimated to be the smallest wheat harvest in 11 years.
- EU FOB prices: Nov. 2024 French 11 pro wheat closed at $259.00/mt (*up $8.00/mt from last week*); Nov. 2024 German 12.5 pro wheat closed at $261.00 (*up $8.00/mt from last week);* Nov. 2024 Baltic 12.5 pro wheat closed at $256.00/mt (*up $9.00/mt from last week).*

Black Sea Wheat:

- Russia exported 9.5 million mt of wheat in July-Aug. This is only 200k mt less than the record export volume set in the same period last year. Despite this, SovEcon reduced its forecast for Russian exports by 0.5 million mt. The smaller export estimate may stem from calls for the Russian government to restrict exports as dryness is hurting production of the upcoming crop.
- Russian wheat prices rose to a three-month high last week as dryness in Russia's main winter wheat growing region continues to cause concern. September was the seventh consecutive month with below average rain fall.
- We have Russian FOB values for 12.5 per cent protein wheat for Nov. 2024 at $232.00/mt (*up $9.00/mt from last week*).





- **Significant purchases/ trades:**
    - The much-anticipated **Saudi Arabia** wheat tender results were released today. Preliminary results indicate Saudi Arabia bought 307k mt of Dec.-Jan. wheat at $265.78/ cost and freight (CFR).
    - **U.S. export sales** were 443.7k mt for a season total of 14.7 million mt.

- **Wheat Market Outlook:**
  Significant events over the past week:
    - **Turkey will reportedly replace its current wheat import ban** with a formula-based system. Turkish mills must buy 85 per cent of its wheat from the Turkish Grain Board (TMO) and will be allowed to import the remining 15 per cent. This means that Turkey will likely import 2-5 million mt compared to the USDA's current 7 million mt estimate.
    - **The Egyptian government** has reportedly made a deal with an entity ("JV") to make it responsible for sourcing of the country's wheat. This is seemingly a step away from the General Authority for Supply Commodities (GASC) tender model.
    - **Egypt is looking at adding corn and sorghum into the flour used in its subsidized bread program**. The proposal comes as the cash strapped country tries to find cheaper options for its bread program. If successful, sources say that upwards of one million mt of wheat could be substituted.
    - **A cargo of Ukrainian corn destined to Italy was hit by a Russian missile** over the weekend. The vessel was in Ukraine's port of Pivdennyi when it was hit.

Mercantile's Weekly Outlook:
Mercantile expects wheat futures will be mostly flat this week as the trade waits for the USDA report this Friday. Higher Russian wheat prices are supportive, but according to Mercantile, prices in competing origins were also higher which means Russia remains the cheapest wheat origin. Egypt's attempts to reduce its reliance on wheat is not a demand issue, but rather a financing one. Mercantile would continue to hold sales for now.

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 7, 2024
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Dec. '24 (bu.)	Dec. '24 (mt.)
1 CWRS 13.5	$7.90	$290.28	1 CWRS 13.5	$8.00	$293.95
1 CWAD 13.0	$8.24	$302.77	1 CWAD 13.0	$8.39	$308.28
1 CPSR 11.5	$7.01	$257.58	1 CPSR 11.5	$7.11	$261.25
SW Sask			SW Sask		
1 CWRS 13.5	$7.46	$274.11	1 CWRS 13.5	$7.54	$277.05
1 CWAD 13.0	$8.39	$308.28	1 CWAD 13.0	$8.51	$312.69
1 CPSR 11.5	$6.91	$253.90	1 CPSR 11.5	$7.08	$260.15
NE Sask			NE Sask		
1 CWRS 13.5	$7.62	$279.99	1 CWRS 13.5	$7.71	$283.30
1 CWAD 13.0	$8.34	$306.44	1 CWAD 13.0	$8.42	$309.38
1 CPSR 11.5	n/q		1 CPSR 11.5	n/q	
SE Sask			SE Sask		
1 CWRS 13.5	$7.40	$271.91	1 CWRS 13.5	$7.51	$275.95
1 CWAD 13.0	$8.46	$310.85	1 CWAD 13.0	$8.57	$314.90
1 CPSR 11.5	$6.64	$243.98	1 CPSR 11.5	$6.73	$247.29

Data source: PDQ, Oct. 7, 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 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 13.5	(0.12)	(4.41)
2 CWAD 12.5	(0.16)	(5.88)

Data source: PDQ, Oct. 7, 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[1] (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
  - HRS in the Pacific North West (PNW) ≈ 2 CWRS 13.0 per cent in Vancouver
  - HRW in the Pacific North West (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)

- <u>Hard wheat price calculations:</u>
  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.

- <u>Durum wheat price calculations</u>:
  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).

- <u>Optional origin grain sales</u>:
  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

---

[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.”

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 7, 2024
	FOB Prices CDA[1] (calculated)		Street Prices	Export Basis[2]
Type of Wheat	West Coast (Cdn./mt$)	Great Lakes (Cdn.$/mt)	Rosetown (Cdn.$/mt)	Basis: West Coast-Centr. SK (Cdn$/mt)
DNS 14.0	$347.38	$375.82		
HRS	$342.33			
HRW 11.5	$322.42			
SWW 12.0	$303.95			
1 CWRS 13.5[3]	$347.38		$277.78	$69.59
2 CWRS 13.0[3]	$342.33		$270.44	$71.89
3 CWRS[3]	$322.42		$255.74	$66.68
CPS[3]	$296.97		$254.27	$42.70
1 CWAD[4]		$414.26	$303.51	$110.75
Competing wheat:	US$/mt			
Russia 12.5 (Black Sea, 25k mt)	$225.00		Oct '24	
French 11.5 (Rouen)	$259.00		Oct '24	
APW 10.5 (W Coast)	$267.00		Oct '24	
Argentine 12.5	$239.00		Nov '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