

Wheat Market Outlook and Price Report: Mar. 25, 2024
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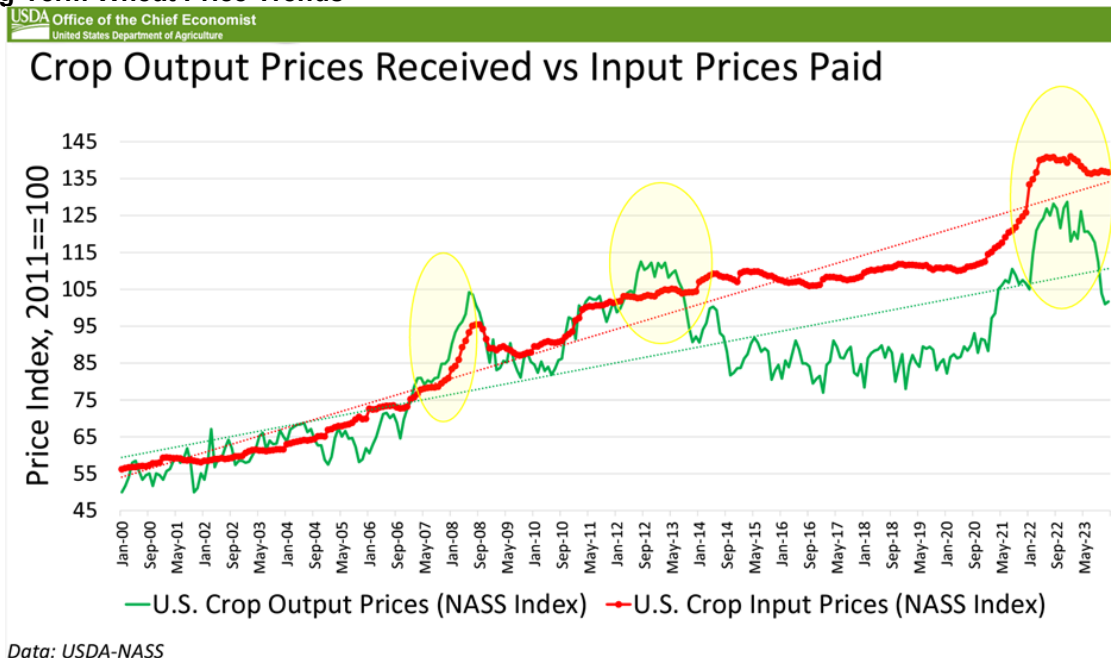
i) Background and Rationale for the Report

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 March 25, 2024

Long-Term Wheat Price Trends



- Since the start of 2024, global wheat prices have fallen by an average of \$32/mt. Global wheat prices are now in the pre-war range of \$200-\$300/mt on an FOB basis.
- Before the war, global wheat consumption was rising above supply. According to the International Grains Council (IGC), global wheat consumption in 2020/2021 was a record 787 million mt and 14 million mt more than production. Similarly, the March WASDE report has global consumption in 2023/2024 surpassing production by 11 million mt causing non-China stocks-to-use to be the lowest level in 16 years.

- According to the IGC, the trend of tightening stocks is expected to continue in the upcoming year. Meanwhile, the price of wheat has fallen at a faster rate than input prices which is tightening profit margins and causing growers to look at other crops. The USDA Prospective Plantings Report is out on Thursday and that trade is expecting all wheat seeded area in the US will shrink by 2.25 million acres to 47.33 million acres.

➤ **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.

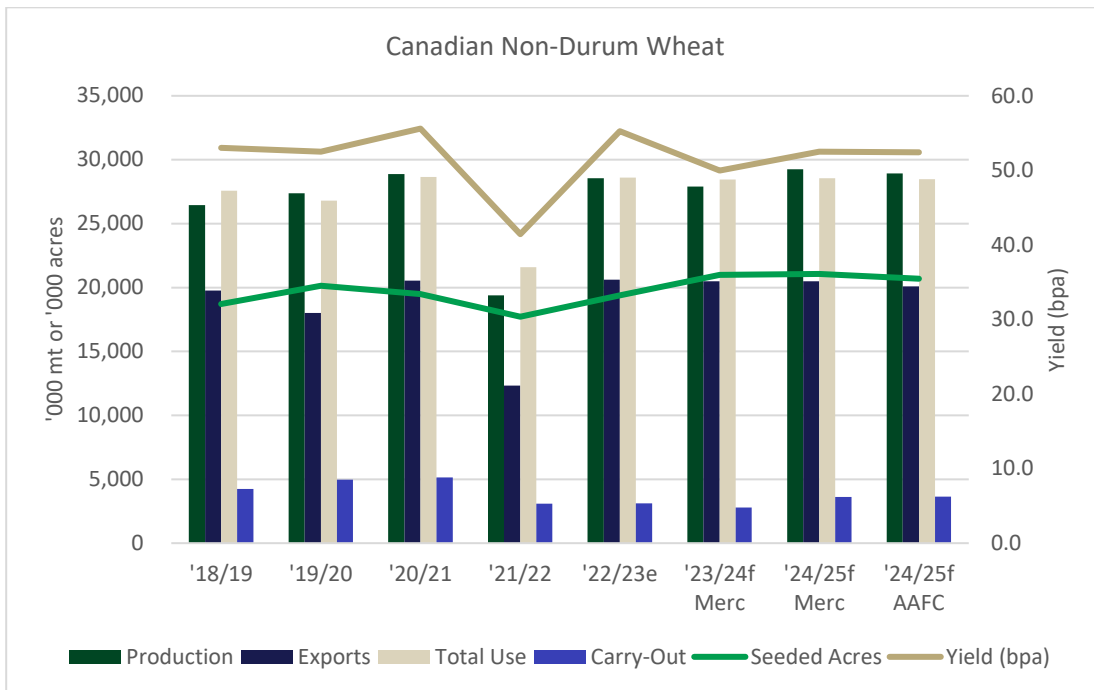
Futures:

- May 2024 contract **Chicago winter wheat** closed at \$554-6, up 8-0 cents on Friday, *up 26-2 cents on the week.*
- May 2024 contract **Kansas hard red winter wheat** closed at \$590-4, up 8-6 cents on Friday, *up 24-2 cent on the week.*
- May 2024 **Minneapolis hard red spring wheat** closed at \$661-0, up 4-4 cents on Friday, *up 14-4 cents on the week.*
- U.S. wheat futures are currently trading 2-5 cents higher at the time of writing.



Canadian Wheat

- Agriculture and Agri-Food Canada (AAFC) incorporated Stats Canada's 20.7 million acre seeded area estimate which resulted in a 450k mt increase in expected production to 28.9 million mt, up four per cent from last year. Our current production estimate is 29.3 million mt given our larger seeded area forecast. We are expecting larger 2023/2024 exports, which decreases our carry-in number. So, AAFC and our total supply numbers are very similar at 32.1 million mt, which is three per cent more than in 2023/2024.
- AAFC agrees with our total use estimate of 28.5 million mt, but they think feed use will be higher while we are calling for more exports. Our ending stock numbers are similar at 3.6 million mt which reflects a 30 per cent increase from our 2023/2024 number while the AAFC's estimate is just 18 per cent larger year-over-year.



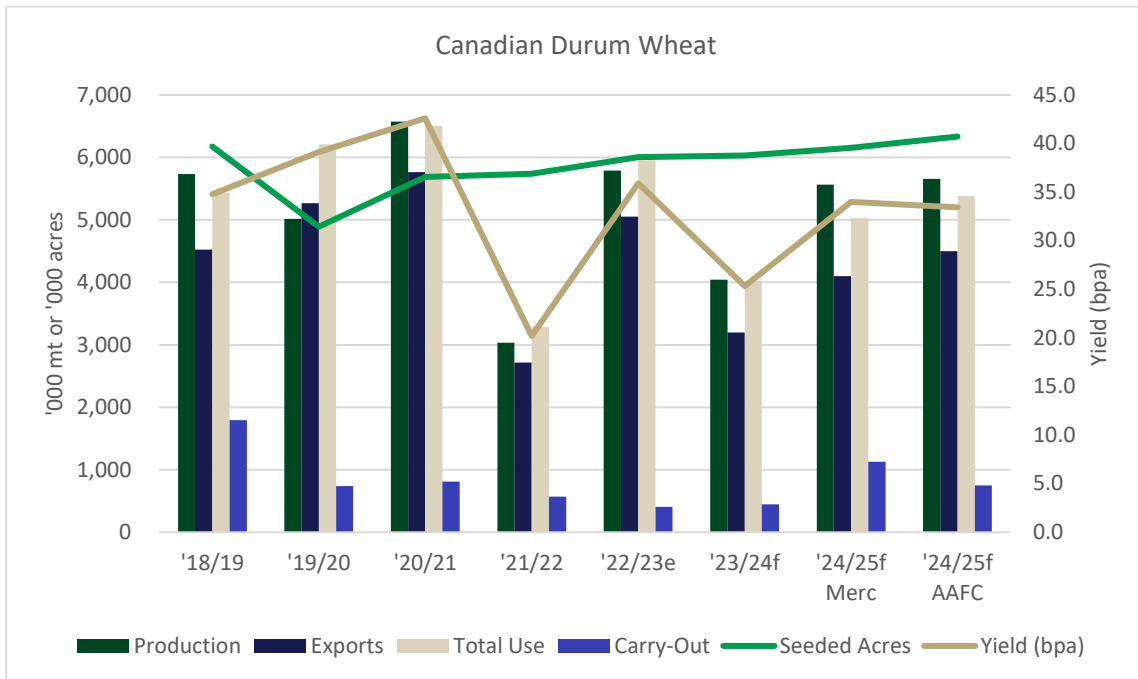
Source: Mercantile, based on STC, AAFC, and MCV data

- Canadian weekly exports:** Canadian exports in week 33 were big at 515.1k mt. Most of the exports were from the West Coast, but there was also a vessel shipped from the St. Lawrence. Wheat exports will need to slow eventually as the current pace is an annualized 21.3 million mt compared to the AAFC and our export estimates of 20.25 and 20.5 million mt respectively. Our current ending stock estimate is 2.6 million mt which is the lowest in recent history. Producer deliveries were 565.9 million mt last week, so visible supply grew to 2.5 million mt, which will support strong exports in the near future.

| (CGC) Grain Handling Summary | | | | |
|------------------------------|---------------------|-------------------|--------------|------------------------|
| Wheat | | | | |
| | Week 33 | | | (Mar. 17, 2024) |
| ('000 mt) | Producer Deliveries | Terminal Receipts | Bulk Exports | Domestic Disappearance |
| Week 33 | 565.9 | 381.5 | 515.1 | 49.7 |
| Week ago | 406.5 | 315.1 | 241.8 | 44.0 |
| YTD | 15,578.2 | 15,285.5 | 13,520.8 | 2,871.4 |
| Last YTD | 15,732.9 | 14,734.0 | 12,802.5 | 2,705.0 |
| YTD less Last YTD | -154.7 | 551.5 | 718.3 | 166.4 |
| YTD over Last YTD | 99% | 104% | 106% | 106% |

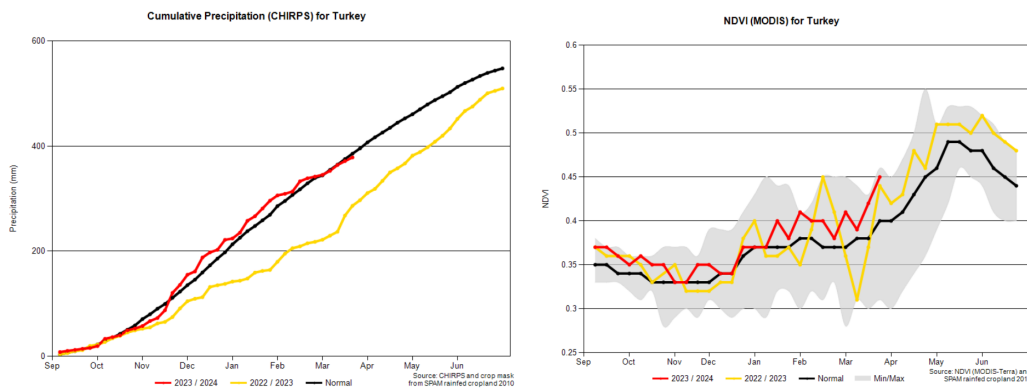
Source: Mercantile, based on CGC data

- Durum:** The AAFC is estimating Canadian durum production in 2024/2025 will be 40 per cent larger than the current year due to better yields and a five per cent increase in seeded area. Although we are forecasting a two per cent increase in seeded area, our production estimate is similar to the AAFC's number given our slightly higher yield estimate of 34 bushels per acre. Both the AAFC and Mercantile have total supply around 6.1 million mt which is 37 per cent larger year over year. Exports would need to be around 4.5 million mt to keep ending stocks from becoming burdensome. While this has been done often enough in the past, the wild card next crop year will be Turkey and whether they have a similar export program in the upcoming year.



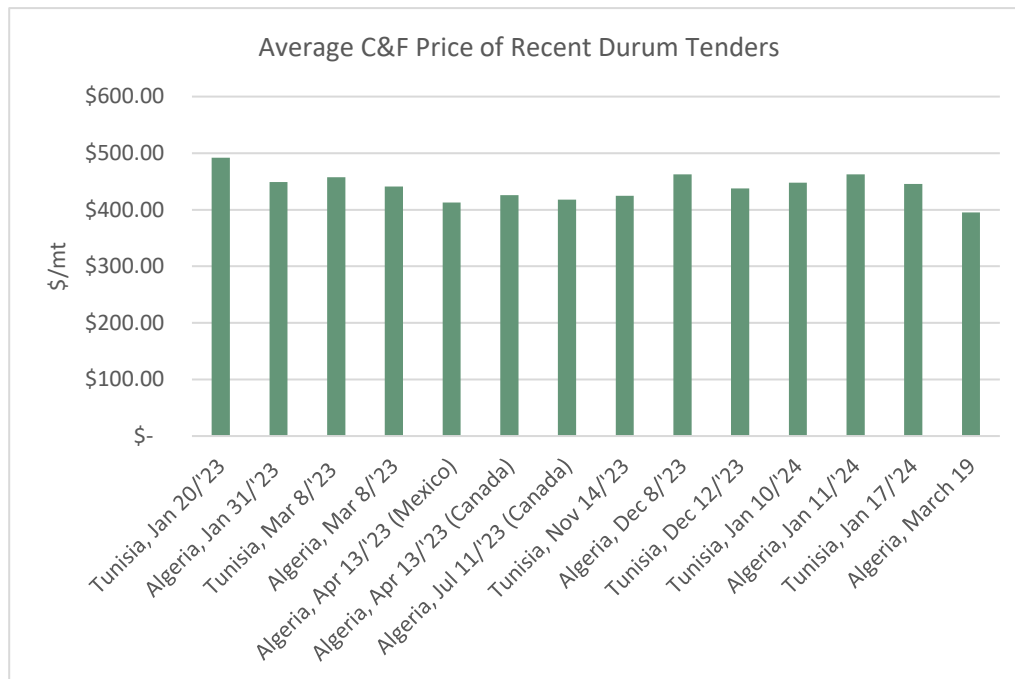
Source: Mercantile, based on STC, AAFC, and MCV data

- Moisture conditions remain good in Turkey.** The country received just 58 per cent of normal rainfall in February, but cumulative rainfall from October to February is 42-100 per cent higher than last year depending on the region. Vegetation maps for Turkey also show an improvement from last year. Wheat harvest in Turkey starts in July.



Source: FAS

- Algeria tendered for 50k mt of durum and instead bought 100-200k mt. The price was not reported but was rumoured to be \$390-\$400/mt C&F. This calculates to about CA\$10.50/bushel at the elevator in Saskatchewan from either coast (Vancouver or the Lakes). The tender was timed such that Mexico's new crop durum harvest might help lower prices. There was also some speculation that Turkey might sell some more durum.
 - Rumours are that 90-120k mt of Algeria's tender will be Canadian durum (60k mt from Vancouver and 30-60k mt from the St. Lawrence), while another 60k mt will be shared by Australia and Mexico. The shipping windows are the first half and last half of April. There is currently 49k mt of durum in terminals on the St. Lawrence and 17.2k mt of durum in Vancouver. Algeria's last tender was on Jan. 10, 2024, when they bought durum from Canada, Mexico and Australia at \$446.97-\$448.73/ mt. At the time, this was worth about CA\$13.00/bu at the elevator in Saskatchewan.



Source: Mercantile

- The EU Commission is formalizing a proposal to implement a €148/mt duty on durum wheat imported from Russia. If executed, this would be positive for Canadian exports into the EU and the Middle East. The Russian crop was estimated at 500k mt last year. Some of it might have been included in the Turkish durum sales.
- Week 33 saw another strong durum export program with 135.7k mt shipped. Most (95.6k mt) of the volume was through Vancouver, but there was some (26.2k mt) shipped from the St. Lawrence. Total exports are now 2.2 million mt which means Canada needs to ship another one million mt, or 54k mt per week, to meet the AAFC's export estimate.

| (CGC) Grain Handling Summary Durum | | Week 33 (Mar. 17, 2024) | | |
|------------------------------------|---------------------|-------------------------|-----------------|------------------------|
| ('000 mt) | Producer Deliveries | Terminal Receipts | Bulk Exports | Domestic Disappearance |
| Week 33 | 63.3 | 80.3 | 135.7 | 16.0 |
| Week ago | 103.7 | 98.2 | 115.8 | 5.9 |
| YTD | 2,690.9 | 2,614.3 | 2,183.5 | 367.6 |
| Last YTD | 3,950.5 | 3,959.2 | 3,542.7 | 408.9 |
| YTD less Last YTD | -1,259.6 | -1,344.9 | -1,359.2 | -41.3 |
| YTD over Last YTD | 68% | 66% | 62% | 90% |

Source: Mercantile, based on CGC data

- You should be done old crop sales. If not, there could be some opportunities from the recent sales to Algeria. Continue to watch for new crop opportunities. There is no rush to sell, but the balance sheet does start to look heavy if competition with Turkish durum next year limits Canadian exports.

U.S. Wheat:

- U.S. wheat futures bounced off the previous week's lows as Russia bombed port infrastructure in Ukraine and is forcing the sale of the major Russian exporter: RIF Trading House.
- U.S. wheat sales were net reductions of 109.6k mt and within the trade estimates. Most of the reduction was to China, which was shown to have cancelled 262.7k mt worth of wheat. There were also reductions to the Philippines (34.0k mt) and South Korea (13.4k mt). Total commitments are now 18.4 million mt, which is three per cent ahead of last year. U.S. sales for the 2024/2025 marketing year have been strong. So far, total new crop sales are 1.6 million mt which is 45 per cent more than last year. The Philippines is showing strong early demand as the country has already spoken for 332k mt of new crop wheat.
- U.S. HRS for Apr. 2024 was valued at \$292.00/mt FOB PNW (*down \$2.00/mt from last week*), FOB Gulf HRW 11/12.5 pro is valued at \$270.00/mt (*up \$2.00/mt from last week*).

Australian Wheat:

- Australian wheat futures were supported by dry conditions and deteriorating soil moisture. Seeding in the NSW, Queensland, and SA begins in April while seeding in WA usually starts in May. The forecast is dry apart from some showers in the south as the La Nina builds.
- FOB values in Australia: Apr. 2024 APW, WA is valued at \$250.00/mt (*unchanged from last week*).

Argentine Wheat:

- Soil moisture conditions are deteriorating in some key wheat growing regions of Argentina. Wheat seeding in Argentina begins in May.

- FOB Argentine wheat (12 per cent pro) for Apr. 2024 was quoted at \$219.00/mt (*up \$16.00/mt from last week*).

EU Wheat:

- MATIF wheat futures were higher on the stand-off between Moscow and the owner of the major shipping firm RIF trading house.
- Farmers in the EU continue to protest the cheap grain coming from Ukraine. Cheap Ukrainian grain is replacing EU supplies which is increasingly struggling to compete on the global market because of domestic climate policies.
- The EU Commission is implementing tariffs on grain imports from Russia and Belarus. Imported wheat and durum from these countries will be subject to a €95/mt and €148/mt tax respectively. These tariffs will mostly impact high protein and durum shipments to Italy and Greece but will otherwise have limited impact. Imports of Russian wheat into the EU have spiked since the beginning of the Russian invasion of Ukraine.
- EU FOB prices: Apr. 2024 French 11 pro wheat closed at \$214.00/mt (*down \$1.00/mt from last week*); Apr. 2024 German 12.5 pro wheat closed at \$229.00 (*up \$2.00/mt from last week*); Apr. 2024 Baltic 12.5 pro wheat closed at \$227.00/mt (*down \$2.00/mt from last week*).

Black Sea Wheat:

- The owner of the major Russian exporter, RIF Trading House, is being forced to sell its assets for a price that would not even cover the company's debts. There is little known on why the owner is being forced to sell RIF, but RIF ships with Russian wheat are being blocked from leaving ports. Reports say that three to four RIF ships are not being granted phyto certifications, which is keeping them docked.
- The Russian government is decreasing, but not eliminating, the export tax on grains. Farmers have been increasingly critical of the tax as prices fall, squeezing their margins.
- Russia's upcoming wheat crop is in strong condition. It is too early to know what the spring crop will produce (since it is not planted yet), but the current range of estimates for Russia's total wheat crop is 90-100 million mt. Sovecon raised its forecast by 400k mt last week to 94 million mt.
- Russia has been attacking the important port city of Odessa. Russia also launched its largest attack on Ukraine's energy infrastructure over the weekend. Meanwhile Ukraine attacked two Russian naval vessels and communication facilities at the Crimean port of Sevastopol. In the past, the trade would have reacted strongly to this news but has since experienced the resiliency of Black Sea shipping despite the conflict.
- The GASC tender highlights one of the issues facing Ukrainian farmers. While freight prices for Russian and Romanian wheat were ~\$21/mt and ~\$25/mt respectively, Ukraine's freight price was \$50/mt. This extra expense will need to come out of Ukraine's FOB price and ultimately the price the farmer receives.
- We have Russian FOB values for 12.5 per cent protein wheat for Apr. 2024 at \$203.00/mt (*unchanged from last week*).

➤ **Significant purchases/ trades:**

There was little volume business to speak of.

- **GASC (Egypt)** bought 50k mt of Bulgarian wheat at \$251.25 C&F and 60k mt of Romanian at \$255.28 C&F.
- **Japan** booked 221,000 tonnes of wheat via a regular tender, with 113,000 tonnes of U.S. origin.
- **U.S.** commercial sales were net reductions of 109,600 as the previous Chinese cancellations show in the sales data.

➤ **Wheat Market Outlook:**

Significant events over the past week:

- Brazil continues to see moisture while Argentina is dry. **Weather in South America will cause grain markets to be volatile** as the range of estimate for Brazil and Argentina’s corn crops are wide. If official estimates are true, the South American corn crop will be a record, but the weather is causing some uncertainty.
- Following the announcement of possible **tariffs on Russian grain shipped to the EU**, Moscow says there are lots of other places to ship its grain. Exports to the EU account for about two per cent of Russian grain exports.
- **GASC (Egypt) bought 50k mt of Bulgarian wheat at \$251.25 C&F and 60k mt of Romanian at \$255.28 C&F.** These prices translate to about \$215/mt which is above the nominal market. There was 1.3 million mt of Russian wheat offered, but none of it traded. Russian traders stuck to the \$235/mt FOB floor price (the nominal market is about \$203/mt). Romanian, Bulgarian, and French wheat was cheaper than Russian wheat on a C&F basis. *Since Egypt devaluated and floated its pound, this was the most expensive wheat purchase (in Egyptian pounds) ever.*

Mercantile’s Weekly Outlook:

Mercantile believes Russian and Black Sea politics will likely dominate conversation in the coming week. If the dispute between RIF and Moscow continues, Mercantile says it could be bullish the current crop wheat. The USDA seeded area and quarterly stocks reports are out on Thursday. The trade is expecting larger wheat stocks (one billion bushels) and smaller seeded area (47.3 million acres). All this is combined with a short trading week given the Good Friday holiday. *Mercantile does not recommend cash sales at this time.*

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: March 25, 2024

| NW Sask | Spot | | NW Sask | Deferred | |
|----------------|---------|----------|----------------|---------------|---------------|
| | (bu.) | (mt) | | Jun '24 (bu.) | Jun '24 (mt.) |
| 1 CWRS 13.5 | \$8.52 | \$313.06 | 1 CWRS 13.5 | \$8.47 | \$311.22 |
| 1 CWAD 13.0 | \$10.80 | \$396.84 | 1 CWAD 13.0 | \$10.32 | \$379.20 |
| 1 CPSR 11.5 | \$7.63 | \$280.36 | 1 CPSR 11.5 | \$7.59 | \$278.89 |
| SW Sask | | | SW Sask | | |
| 1 CWRS 13.5 | \$8.41 | \$309.02 | 1 CWRS 13.5 | \$8.37 | \$307.55 |
| 1 CWAD 13.0 | \$10.86 | \$399.04 | 1 CWAD 13.0 | \$10.37 | \$381.04 |
| 1 CPSR 11.5 | \$7.33 | \$269.33 | 1 CPSR 11.5 | \$7.22 | \$265.29 |
| NE Sask | | | NE Sask | | |
| 1 CWRS 13.5 | \$8.30 | \$304.98 | 1 CWRS 13.5 | \$8.26 | \$303.51 |
| 1 CWAD 13.0 | \$10.89 | \$400.14 | 1 CWAD 13.0 | \$10.33 | \$379.57 |
| 1 CPSR 11.5 | - | - | 1 CPSR 11.5 | - | - |
| SE Sask | | | SE Sask | | |
| 1 CWRS 13.5 | \$8.19 | \$300.93 | 1 CWRS 13.5 | \$8.16 | \$299.83 |
| 1 CWAD 13.0 | \$10.96 | \$402.71 | 1 CWAD 13.0 | \$10.42 | \$382.87 |
| 1 CPSR 11.5 | \$7.13 | \$261.98 | 1 CPSR 11.5 | \$7.06 | \$259.41 |

Data source: PDQ, Mar. 25, 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, Mar. 25, 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 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
 - 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:

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.”

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 | | | | March 25, 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 | \$383.26 | Closed | | |
| HRS | \$378.23 | | | |
| HRW 11.5 | \$338.41 | | | |
| SWW 12.0 | \$291.06 | | | |
| 1 CWRS 13.5 ³ | \$383.26 | | \$316.73 | \$66.53 |
| 2 CWRS 13.0 ³ | \$378.23 | | \$292.11 | \$86.11 |
| 3 CWRS ³ | \$338.41 | | \$268.23 | \$70.18 |
| CPS ³ | \$284.08 | | \$271.17 | \$12.91 |
| 1 CWAD ⁴ | | Closed | \$396.84 | |
| Competing wheat: | | | | |
| | US\$/mt | | | |
| Russia 12.5 (Black Sea, 25k mt) | \$203.00 | | Apr. '24 | |
| French 11.5 (Rouen) | \$214.00 | | Apr. '24 | |
| APW 10.5 (W Coast) | \$250.00 | | Apr. '24 | |
| Argentine 12.5 | \$219.00 | | Apr. '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 | | | | |