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Contact: **Dante Manocchio**
Richardson International

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Grain & Oilseed Market Update

Dante Manocchio

Winter 2015

Jigsaw Puzzle

- **Step 1 – What Are We Looking At?**
- **Step 2 – Find the Corners (Stones)**
- **Step 3 – Look at the Individual Pieces**
- **Step 4 – Put the Pieces Together**

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Agenda

- **Grain Market Overview**
  - Corn & Wheat

- **Oilseed Market Overview**
  - Canola & Soybeans

- **Goal**
  - Better Understanding of Price Movements
  - World View of Market Sentiment
  - Understand How The Pieces Fit Together

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Big Picture - Global Grains

- **Record World Corn 990 MMT & Record Wheat 720 MMT**
  - Measuring the Giant – Gulliver's Travel
  - 370 MMT Corn Production Outweighs Storage ($1.85/bu ~ $72/mt)
  - South America Still Loaded – Brazil Subsiding Transportation

- **World Winter Wheat**
  - Northern Hemisphere – 90%
  - Aus, Bra, Arg = 24/6/12 = 42

- **Quality Concerns in Wheat**
  - France, Canada, US
  - Protein, Quality, Basis

Big Crop: Supply Outstrips Demand

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Big Picture – Canada

- **Return to Average Yields (Grains & Oilseeds)**
  - 70 MMT Production vs 90 MMT Last Year
  - Order In Council – Good Spring, Summer, Fall Movement

- **Quality Concerns**
  - Late Aug/Early Sep Rains
  - Grade & Protein Premiums

- **Weaker CDN Dollar – Supportive**
  - Stronger US Economy, Lower Unemployment, Good GDP Growth

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Corners – North America

	2012-13	2013-14	2014-15
Production (MMT)	387	478	472
US - Corn	273.8	353.7	367.7
US - Wheat	61.7	58.1	55.4
CDN - Wheat Ex-Durum	22.6	31.0	22.7
CDN - Corn	13.1	14.2	11.4
CDN - Barley	8.0	10.2	7.1
CDN - Durum	4.6	6.5	4.8
CDN - Oats	2.8	3.9	2.7
CDN - Rye	0.3	0.2	0.2

US Corn 70-75%, Feed Is the Base, Food is Premium

Source – Agriculture & Agri-Food Canada

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Corners – Canada

	2012-13	2013-14	2014-15
Area Seeded (kha)	26,455	26,847	25,741
Area Harvested (kha)	25,694	26,115	24,350
Yield (t/ha)	2.76	3.46	2.87
Production (kmt)	71,040	90,293	69,959
Imports (kmt)	1,018	1,001	1,773
Carry-In Stocks (kmt)	10,397	8,951	17,074
Total Supply (kmt)	82,455	100,245	88,806
Domestic Use (kmt)	36,570	39,750	38,601
Exports (kmt)	36,935	43,421	41,810
Total Demand (kmt)	73,505	83,171	80,411
Carry-Out Stocks	8,951	17,074	8,395

Source – Agriculture & Agri-Food Canada

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Individual Pieces – Wheat

	2012-13	2013-14	2014-15
Area Seeded (kha)	7,736	8,616	7,886
Area Harvested (kha)	7,619	8,444	7,478
Yield (t/ha)	2.96	3.67	3.04
Production (kt)	22,579	31,025	22,731
Imports (kt)	38	50	50
Total Supply (kt)	27,063	34,975	30,763
Exports (kt)	15,333	18,401	18,500
Food & Industrial Use (kt)	3,224	3,341	3,350
Feed, Waste & Dockage (kt)	3,724	4,442	4,087
Total Domestic Use (kt)	7,830	8,592	8,263
Carry-out Stocks (kt)	3,900	7,982	4,000
Average Price ($/t)	285	205	205
On Farm Revenue ($CDN B)	6.44	6.36	4.66

Source – Agriculture & Agri-Food Canada

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Wheat Futures – Snapshot

- **World Production 720 MMT – Up 6 MMT**
  - Record World Crop (Lower Pro)
  - Heavy Black Sea Shipments in July – Oct
  - Argentina Opens up 1.5 MMT Dec-Mar Exports (HRW Bear)

- **US SRW Paradox**
  - Cheapest Wheat, But No Buyers
  - Ontario SRW in Late

- **Exports (US 45%, CDN 80%)**
  - US Lags on Shipments & Sales
  - Winter Wheat Lags
  - Spring Wheat Normal

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- **Seasonally – Weak Winter, Strong Spring**

Corn Futures – Snapshot

- **Mixed Bag of Demand Drivers**
  - Ethanol Margins on very low-end, Crude Oil Weighing Down
  - Record Feed Margins
  - Elastic Exports – US & Canada Uncompetitive
- **Northern Hemisphere Crop**
  - Market Switches to Demand Mentality
- **Funds/Money Flow - Long**
  - Adding to Longs, Grinding Range vs Local Markets
- **Back of Mind**
  - Next Year's Acreage, Deep Carries

Putting the Pieces Together

- **Grains**
  - Seasonally Weak into Winter, Stronger in Spring
  - End Use Customers Sitting on Strong Margins
  - Steady to Weaker, Quality Gets Premium
  - Not Much to Feed Bulls Structurally

Big Picture - Global Oilseeds

- **South America Beans**
  - Late Plant, but BIG Acres for a total production of 150MMT
  - Arg Farmer Sell Rate, Later Harvest

- **US Soybeans – 107 MMT**
  - Measuring the Giant
  - ***All Roads Lead to Meal***

- **China**
  - Soybeans 2/3 World Exports
  - Rapeseed 1/4 World Exports

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Corners – World Canola

2013/2014				Canola	2014/2015			
Supply	Demand				Supply	Demand		
Production	Crush	Exports	Ending Stocks		Production	Crush	Exports	Ending Stocks
14.4	19.0	-	0.8	China	14.7	17.9	-	0.7
7.3	6.9	-	0.5	India	7.5	7.6	-	0.4
-	2.3	-	0.1	Japan	-	2.5	-	0.1
21.2	24.0	0.3	1.8	EU	23.5	24.8	8.0	2.6
17.9	7.0	9.1	2.4	Canada	14.4	7.4	0.5	1.4
71.0	68.3	15.1	6.2	World	70.3	69.5	13.2	6.5

Source – USDA FAS – Office of Global Analysis
http://apps.fas.usda.gov/psdonline/circulars/grain.pdf

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Corners – World Soybean

2013/2014				Soybean	2014/2015			
Supply	Demand				Supply	Demand		
Production	Crush	Exports	Ending Stocks		Production	Crush	Exports	Ending Stocks
91	47	45	3	United States	107	48	46	12
87	36	47	17	Brazil	94	38	47	24
54	36	9	30	Argentina	55	39	9	35
12	69	-	13	China	12	74	-	14
5	2	3	-	Canada	6	2	4	-
285	239	113	66	World	311	251	115	91

Source – USDA FAS – Office of Global Analysis
http://apps.fas.usda.gov/psdonline/circulars/grain.pdf

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Individual Pieces – Canola

	2012-13	2013-14	2014-15
Area Seeded (kha)	8,912	8,070	8,095
Area Harvested (kha)	8,799	8,009	7,817
Yield (t/ha)	1.58	2.24	1.8
Production (kt)	13,869	17,966	14,080
Imports (kt)	128	66	125
Total Supply (kt)	14,704	18,620	16,568
Exports (kt)	7,305	9,094	8,400
Food & Industrial Use (kt)	6,717	6,979	7,100
Feed, Waste & Dockage (kt)	35	124	117
Total Domestic Use (kt)	6,810	7,162	7,268
Carry-out Stocks (kt)	588	2,363	900
Average Price ($/t)	650	503	450
On Farm Revenue ($CDN B)	9.01	9.04	6.34

Source – Agriculture & Agri-Food Canada

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Individual Pieces - Soybeans

	2012-13	2013-14	2014-15
Area Seeded (kha)	1,680	1,869	2,231
Area Harvested (kha)	1,679	1,860	2,208
Yield (t/ha)	3.03	2.88	2.7
Production (kt)	5,086	5,359	5,961
Imports (kt)	258	353	350
Total Supply (kt)	5,575	5,867	6,528
Exports (kt)	3,332	3,600	4,200
Food & Industrial Use (kt)	1,541	1,527	1,600
Feed, Waste & Dockage (kt)	351	292	278
Total Domestic Use (kt)	2,088	2,049	2,078
Carry-out Stocks (kt)	156	218	250
Average Price ($/t)	532	530	370
On Farm Revenue ($CDN B)	2.71	2.84	2.21

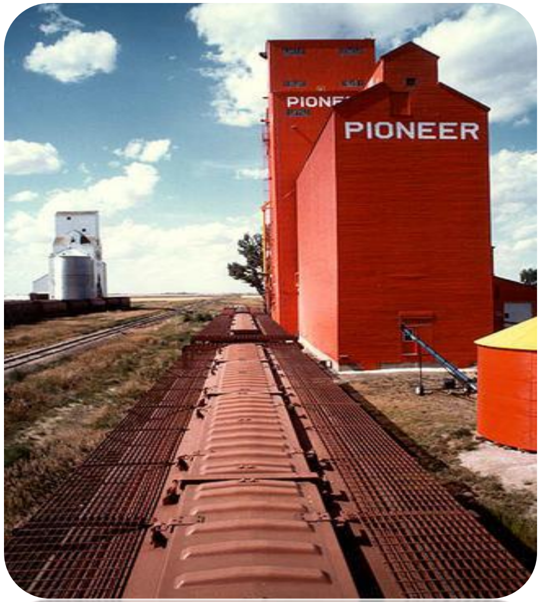
Source – Agriculture & Agri-Food Canada

Prairie Oilseeds

- **Prairie Soybeans**
  - 1.4 MMT Production, Surprisingly Resilient
  - Good Movement Early – China Export
  - Strong Competition: 1 M+ Acres in North Dakota

- **Prairie Canola**
  - 14 MMT Crop, 700K Acres Abandoned
  - Strong Commercial Ownership
  - 44% Oil/ 56% **Meal** Firming Quickly

- **Crush**
  - Crush Margins Favor Beans
  - Only Swing Plants (East)



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Soy Futures – Snapshot

- **Strong North American Production – Up 17 MMT**
  - US 107MMT vs 91 MMT LY (Up 16)
  - Canada 5.9 MMT vs 5.2 LY
  - **Strong** OND Export Program

- **All Roads – (80% Meal, 20% Oil)**
  - Cars Not Turning/Structural
  - Expensive Barge Freight

- **Seasonally – October Bottoms, Strength in Spring**

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Putting the Pieces Together

- **Oilseeds**
  - Huge World Crop, Farmer Sell Rate, Logistics
  - Something is Going On Here; Historically Cheap
  - All Roads Lead to Meal, Structural Issues
  - China Swing Factor, Dancing with Dragon
  - Lot of Bears Chewing Their Paws

Lingering Questions

- **Logistics**
  - Winter well under way, Order in Council, Eastern US
- **Farmer Sell Rate vs End Use Customer**
  - Storage vs Margin
  - Game of Chicken
- **South American Supply**
  - Crop in Late
  - Wacky Weather
  - US/CDN Export Season

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Jigsaw Puzzle

- **Step 1 – What Are We Looking At?**
  - Record World Corn & Wheat Crops, Supply Outstrips Demand
- **Step 2 – Find the Corners (Stones)**
  - US Corn Crop Weighs on Values
  - CDN Normalizes but Quality Concern
- **Step 3 – Look at the Individual Pieces**
  - Grains – Nothing to Feed Bull Near Term
  - Oilseeds – Oddly Firm, Listen to Market

- **Step 4 – Put the Pieces Together**
  - Grains Near Fair Value, Strength in Spring
  - Oilseeds Could Firm, Depends on Meal/South AM

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