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Grain & Oilseed Market Update



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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**



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



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

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

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



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

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

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
- **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



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>

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>

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

Individual Pieces - Soybeans



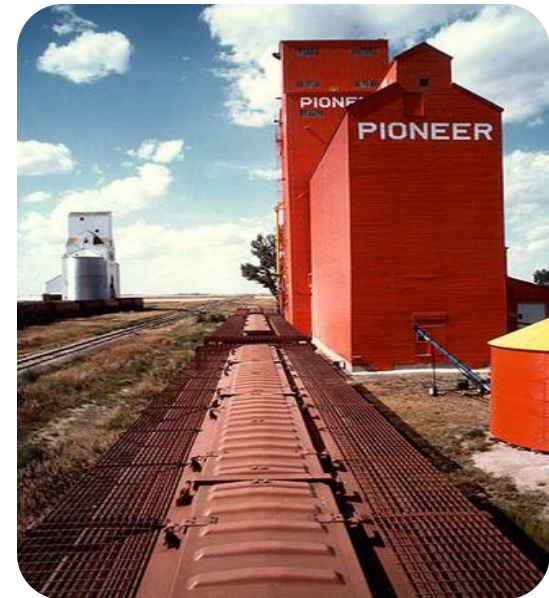
	2012-13	2013-14	2014-15
Area Seeded (kha)	1,680	1,869	2,231
Area Harvested (kha)	1,679	1,860	2,208
Yield (t/ha)	3.03	2.88	2.7
Production (kt)	5,086	5,359	5,961
Imports (kt)	258	353	350
Total Supply (kt)	5,575	5,867	6,528
Exports (kt)	3,332	3,600	4,200
Food & Industrial Use (kt)	1,541	1,527	1,600
Feed, 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)



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**

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



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

