

Canola Market Commentary

July 19, 2021

I. Key Points for the Week:

- **Soybeans** – Soybeans are getting close to all-time highs.
- Soybeans ended the week with a 593 contract stronger net long on the week, as short covering outweighed long liquidation.
- **Canola** – Through week 49, canola usage is 377 thousand MT (+5%) greater than in the previous year to week 49. – The export volume gains over last year have been dwindling due to tightening supplies.
- In the markets, Matif rapeseed rose to its highest intra-day close for 2 months, and Canadian canola rallied back above C\$900/MT
- If canola yields fall below a 38 bu/acre average, we will have to ration export demand next crop year.

II. Oilseed Market Backdrop

Soybeans

Current market situation:

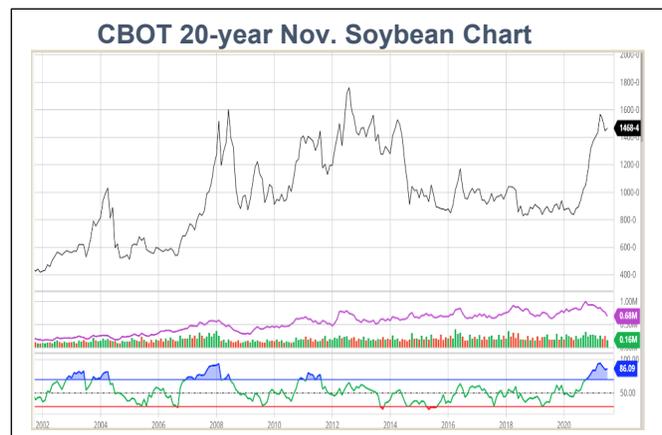
After trading the Friday session with double digit gains leading November to a 2-week high, soybeans faded into the close. According to the Commitment of Traders report, managed money soybean traders were 82,773 contracts net long as of July 13th. That was a 593 contract stronger net long on the week, as short covering outweighed long liquidation.

Market outlook:

We are getting close to all-time highs. We could go higher, but if we were a grower, we would like to be 20 percent sold at current levels provided my crop looked okay. The soybean chart looks overbought.

Last week's USDA-WASDE report was conservative as we expected. We think that the USDA will make more significant changes in their August report, which we expect to show lower yields that reflect the weather conditions and reduced carry-in supplies.

Yields in the USA are likely already below the last USDA forecasts of 50.8 for soybeans and going lower if the dryness/heat continues.



III. Canola Market

Canola:

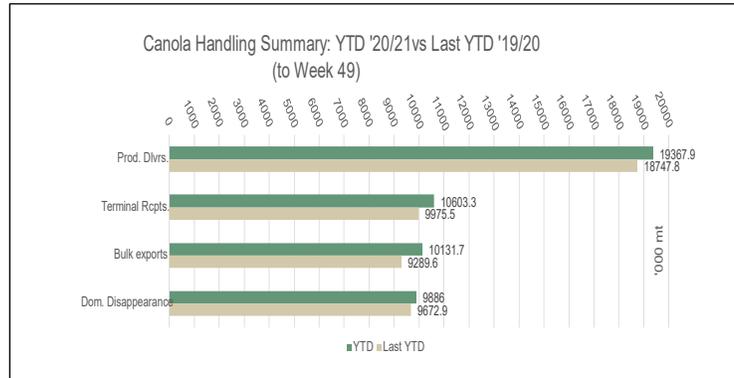
Canola usage: The Canadian Grain Commission reported that during week 49 of the crop year, growers delivered 188 thousand MT of canola into primary elevators, exports were at a small 20 thousand MT, and the domestic disappearance was at 159 thousand MT.

Total canola disappearance amounted to 179 thousand MT for the week.

Visible stocks lowered to 1 million MT.

Through week 49, canola usage is 377

thousand MT (+5%) greater than in the previous year to week 49. – The export volume gains over last year have been dwindling due to tightening supplies.



Current market situation:

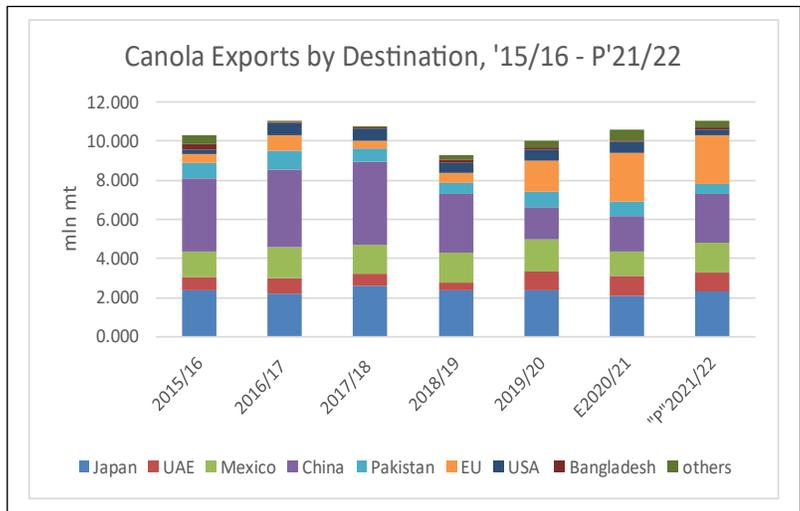
It has become painfully obvious that the Statistics Canada/ AAFC production and supply numbers for 2020 canola (18.7 million MT and 21.95 million MT, respectively) are too small given the offtake witnessed year to date. We continue to use our higher numbers of 20.2 and 22.4 million MT for the '20/21 season. We anticipate ending stocks to tight, at 1-1.1 million MT for '20/21.

In the markets, Matif rapeseed rose to its highest intra-day close for 2 months, and Canadian canola rallied back above C\$900/MT. Record heat returns to Canada next week with little precipitation in the forecast, and this will remove any remaining soil moisture. Asian markets were mostly higher led by cash palm oil and ended the week with 2-8% gains.

Market outlook:

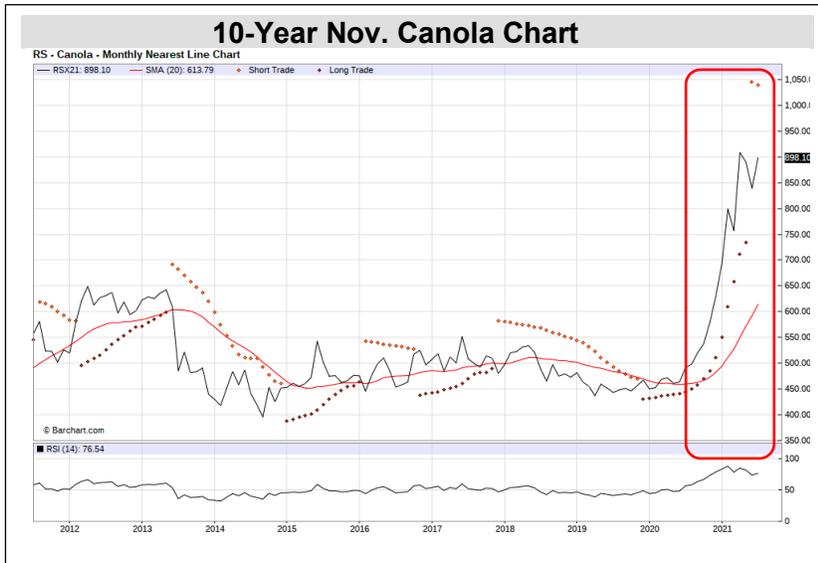
For the '21/22 crop year, most traders seem to have settled on 22-22.4 million acres Canadian canola, but given the dry and hot conditions, pegging yields will be the biggest challenge. AAFC is still using a 41.4 bu/acre average yield, with production exceeding 20 million MT. However, we expect yields to definitely end up at or below the 39 bu/acre mark. 22.2 million acres at 38.5 bu/acre would reduce the 2021 canola production to 19.4 million MT, which may still be too optimistic.

The drought reduced production means that -given the anticipated supply-, Canada would be unable to fulfill the expected export demand of ~11 million MT. – So, if we are to cover the crush capacity, we would need to cut exports by 2-2.5 million MT.



Action:

We assume all crop canola is now sold. Given the problems with yield, we see no reason to make additional new crop canola sales at this time.



LDC (crush)			
	Basis	Cash Price	Converted Price
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Jul 21	35.00	933.10	21.16
Aug 16-31	5.00	903.10	20.48
Sep 21	-10.00	888.10	20.14
Oct 21	-10.00	888.10	20.14
Nov 21	-5.00	893.10	20.26
Dec 21	-5.00	874.70	19.84
Jan 22	-5.00	874.70	19.84
Feb 22	-5.00	855.70	19.41
Mar 22	-5.00	855.70	19.41

Viterra (Moose Jaw) is posting \$19.82/bu for Jly and \$19.81 for Nov.

- Sample prices July 19/'21 -

Canola - Topics of Interest:

Canola yields:

As the graph shows, Canadian canola yields have improved significantly over the past 20 years from a 20-yr average of 33.8 bu/acres, to a 10-year average of 38.2 bu/acre, to a 5-year average of 41.14 bu/acres. And we have seen that the newer hybrid varieties have been remarkable resilient over the past 5 years in adverse conditions. This makes yield forecasting for this year challenging. There is no doubt that the dryness and heat are taking a serious toll, but how much of the canola will pull through in spite of it is hard to say. We think we will end up below the recent 5-year average, and likely even below the recent 10-yr average yield. To fall below the 30 bu/acre average like happened in 2012 would be catastrophic for both farmers and industry.

