Canola Market Outlook

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We have seen extraordinary strength in canola values starting in mid-August, after lingering between $430 to $460/mt for 15 months. What has caused the turnaround in this market, and what does it mean for future developments?

To answer this question, we will first look at global oilseed and soybean fundamentals, and then narrow it down to rapeseed/ canola.

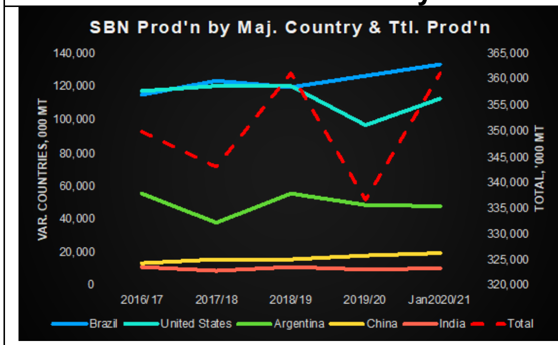
We are writing this article in the wake of the January USDA-WASDE report, which provided the market with additional updated bullish numbers for oilseeds. The main point of developments in the **global oilseed markets** since late August is that while combined oilseed production in 2020/21 actually increased by 3%, supply (production plus carry-in) decreased by 1%, and the improved production has been outstripped by increased export demand (+1% over last year) and increased crush levels (+5%). In consequence, global oilseed ending stocks are forecast to drop significantly by 12%, led by an even larger 21% drop in global soybean stocks. These changes in ending stocks have not emerged suddenly but have been progressing month by month driven by weather induced changes in production numbers, and importantly by demand and crush numbers, which have exceeded expectations every month this fall and early winter. Remember, we are operating in the ongoing Covid-19 environment, where good demand numbers, never mind record demand numbers, were not a foregone conclusion in the summer.

Soybeans represent about 60% of total oilseed production, so this is the lead commodity to follow in the oilseed complex. Global soybean production in '20/21 actually increased by 7% and supply (production plus carry-in) by about 1.5%. However, exports and crush will increase by an estimated 2.7% and 4.1%, respectively. Moreover, weather induced problems in S America and political problems (strikes in Argentina) have pushed S American new crop soybean supplies back and have left the United States as the only major supplier into March this year. The consequence of big US soybean sales, particularly into China, over the fall and early winter is that the recent USDA report put US soybean ending stocks at only 140 mln bu (down from 525 mln bu last crop year), a tiny 3% stock-use ratio. To convert what is happening in soybean trade into numbers: US soybean export sales this year are forecast to be up by 33% to 60.7 mln mt (45.8 mln mt last year), while Brazilian exports are forecast to drop by 7.7% to 85 mln mt (92.1 mln mt last year). This is important, because the recent price in CBOT soybean rally has been about trying to find a level that rations US demand - it has not yet been about S American crop losses. The fact that ending stocks are particularly low in the US is important to US futures and has an amplified effect on soybean and oilseed values across the world.

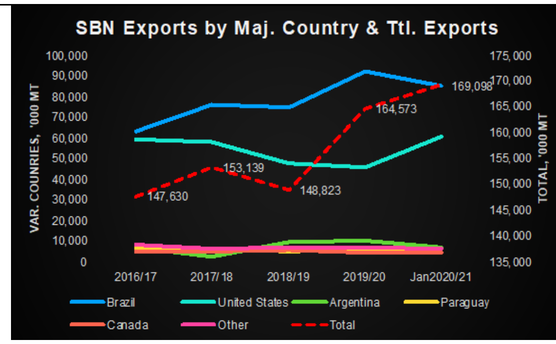
On the demand side, the single big driver is China, with a projected import demand of 100 mln mt, up 1.5 mln mt from the previous year. The increased Chinese imports are driven by the recovery in their swine herd from African Swine Fever (ASF).

The shortage of global vegetable oil stocks has primarily been fuelled by shortages in palm oil. CBOT soybean oil futures have actually not increased as much as most of the oilseed complex.

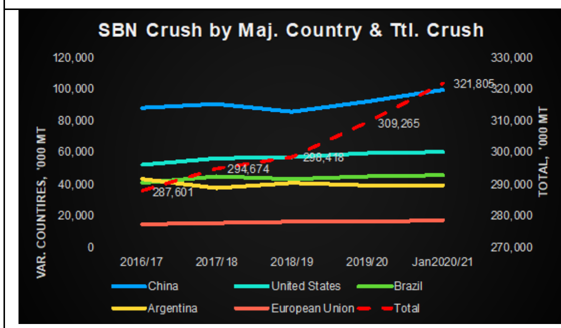
Soybean Market Fundamentals



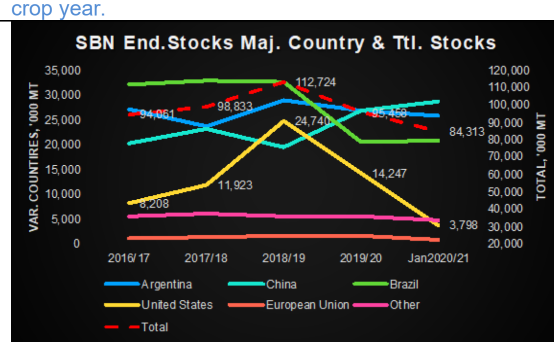
Note swings in total production levels.



See swing between US and Brazilian export volumes this crop year.



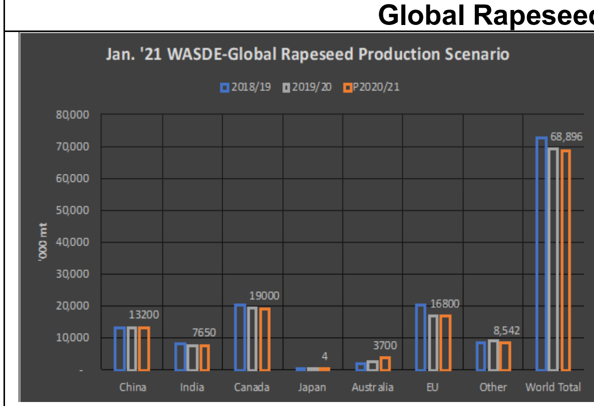
Total crush is projected up 4.1%.

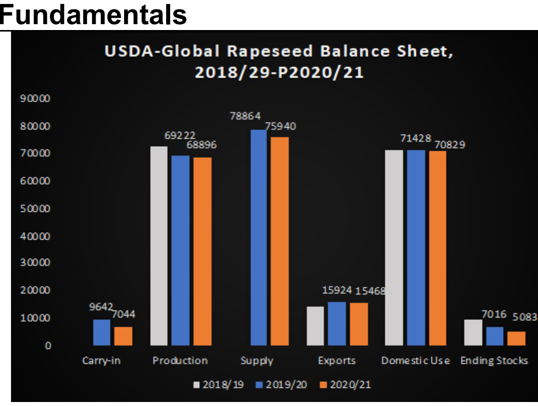


Note the sharply declining US soybean stocks (in yellow).

The summary of developments in the oilseed markets provide the backdrop to the very strong canola market, which has doubtlessly been heavily supported by events in the soybean and vegetable oil markets. But **global rapeseed** fundamentals have also tightened over the past three years, driven by a short crop in the EU and the FSU, with a projected 28% drop in global ending stocks to 5.1 mln mt.

Global Rapeseed Fundamentals





Note declining ending stocks.

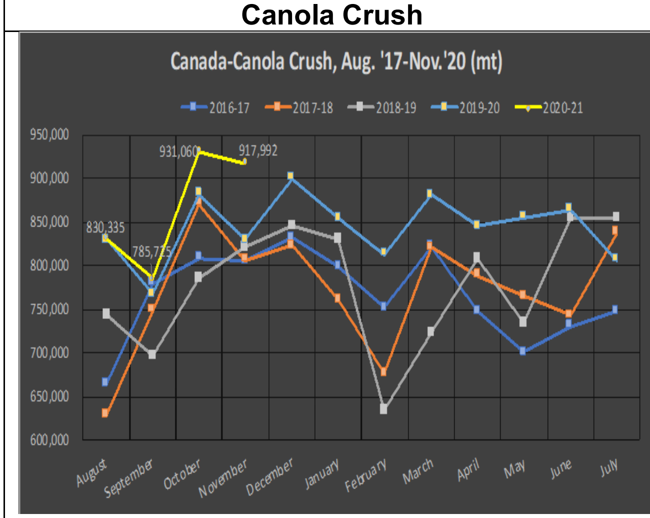
Canadian canola comprises roughly 28% of global production, and about 65% of global trade in the crop. It is therefore quite important to the global rapeseed scene. Other important rapeseed producers are the EU and China. Important exporters besides Canada are Australia and the Ukraine.

While there has been a lot of discussion about the actual level of canola production in Canada this year, with little constructive help to farmers by StatsCan/ AAFC, we have settled on a supply of 22.5 million mt for the 2020/21 crop year. This is down at least 3% from last year's supply of ~23.2 mln mt. [Note that AAFC showed 2020 canola ending stocks at 2.7 million mt as late as mid-November, compared to 1.2 million mt in December.]
Having established a somewhat reduced level of supply for this year, the level of demand and the speed of shipments becomes important. We have been consistently reporting on this in the weekly updates on the SaskCanola website, so this should not come as a surprise. As of shipping week 23, year to date exports have reached 5.4 mln mt, which is 34% (1.4 mln mt) larger than last year to date. Domestic crush of canola is running 1% ahead of last years (+49k mt), and total usage is 1.4 mln mt (or 16%) higher than last years.
The much-improved availability of railcars this year for agriculture shipments due to reduced crude oil, coal and manufacture product shipments must be mentioned here as well. This has been crucial to improve overall Canadian ag exports by 6.5 mln mt crop year to date, a 34% improvement! The industry must take heed from this and ensure proper rail capacity for the future as well. This generates real income to the farm sector and to Canada from a *renewable resource*.

Crush margins in Canada continue to exceed $100/mt, and this will ensure that crushers will attempt to keep crushing as close to full capacity as supplies allow. The big demand by China for both seed and oilseed product imports has led to crush capacity running at maximum, especially with a short crop in Argentina. (Argentina has the biggest soybean crush capacity of any exporter.) On the canola seed export side, we note that the EU has become the leading export destination for Canadian canola this year (1 mln mt to the end of Nov. '21), surpassing the revived Chinese imports (932k mt). The combined EU-China effect amounts to an additional 855k MT shipped to those two destinations by the end of November '20. We estimate that the EU has purchased at least 1.4 mln tonnes of canola year to date and estimate that the current level of demand for Canadian canola will continue into next year.

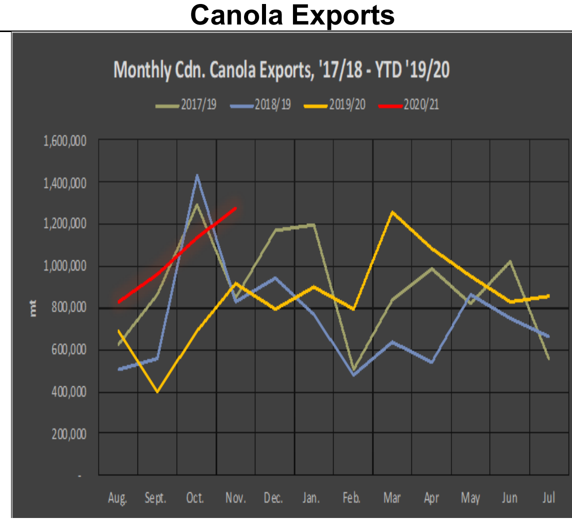
For the ongoing 2020/21 crop year, we expect Canada to export a total of 10 mln mt, and to crush 10.5 mln mt, leaving ending stocks at 1.7 mln mt, a small 8% stock-use ratio.
For next year, we think it would be possible to export in excess of 11 million mt of canola, if we can produce enough seed.

Canola Crush



Annualized '20/21 crush would amount to 10.4 mln mt.

Canola Exports



Annualized export calculates to 12.6 mln mt, which is not possible given supplies.

On the price front, this means that exporters and crushers have begun to stretch to buy seed. We know that $15.50 per bushel has been paid for canola in Saskatchewan, and we expect that even better values should be available in Alberta and Manitoba. Canada will need to ration exports into 2021, and with soybeans potentially reaching towards US$15/bu, we expect canola to remain strong as well. There will be up and downs to the market along the way, and we would be satisfied to target $16.00 per bushel to price out canola in Saskatchewan.

Meanwhile, 10 mln mt of canola have already been marketed at lower levels, and at some point, prices will actually start rationing demand. We consider sales at $15.75-16/bu fob farm very profitable sales levels and would be loath to miss out on this market. For next year, we expect continued strong oilseed markets, and the strong prices should attract some additional acres. There will be rotational restrictions, but in an ideal world we would like to see as much as 25 million acres of canola in 2021, because we think the markets could absorb 11.2 million mt of exports and 10.5 million mt of crush.

For now, we would target a $13/bu return to canola before starting to commit the first new crop canola.