

CANOLA MARKETS – Week of June 3, 2019

- Oilseed meals rallied last week, but the corn shortage did little to resolve the oversupply of oilseeds.
- Canola exporters are keeping export FOB premiums high to defer export buying while they cover their crush needs.
- New crop 'basis' levels in the country are too low for new crop and the low levels are not reflected in export prices. As a result, current offers for export are not competitive with soybeans, assuming the Chinese continue to avoid Canadian canola.
- For cash flow purposes, \$10.50 may be available at some crush plants for November/December. Exporter bids of \$44.00 under futures should be avoided.

Soybean Backdrop

Traders bought soymeal when they thought it was too cheap when December corn futures went through \$4.50/bushel. There were few first-hand sellers as funds were already short on soybeans. Meals rallied, but soybeans closed slightly lower on Friday because the corn shortage has not been able to resolve the oilseed oversupply.



Soybean Market Headlines

- **US Crop Progress Report (NASS):** last week, US soybean acres at 29% planted as of May 26, versus 74% last year and 66% on the five-year average. This is the slowest progress reported ever and there is still rain in the forecast for most states, but improvement for Illinois (currently at 14%). Insurance cut-off dates are still a week or more away at June 10-20, depending on the region. Emergence as been poor at 11% (compared to 44% in 2018 and 35% average for this time of year). Some analysts have started to include a five bushel yield drag for soybeans for an average estimate of 45 bushels/acre. While the market has been responding to the US soybean situation for 2019 crop year, ending stocks and demand questions have not disappeared.

- **US (old crop) Soybean Sales:** for the week ending May 23, sales were expected to be 250 to 450 thousand MT, with new crop at 0 to 200 thousand MT. Sales were reported at 456 thousand MT for old crop and 22 thousand MT for new crop. Year to date, China has shipped 6.5 million MT of US soybeans, leaving 6.9 million MT unshipped. The market is wondering whether China will lift their purchases or not. Soybean meal sales were on track at 184 thousand MT, with oil sales coming in behind pace at 35 thousand MT.
- **Fall Armyworm in South China:** A USDA report last week indicated that the fall armyworm (FAW) is now impacting 90 thousand hectares of grain production in South China and continues to spread. Its presence may result in lower production and crop quality of corn, rice, wheat, sorghum, sugarcane, cotton, soybean, and peanuts, among other cash crops for Chinese farmers. An estimated 37% of soybeans are in South China.

Canola Market

During week 43, growers delivered 304,200 MT, exports were said to be 85,100 MT, and domestic usage 198,400 MT. The visible was about 900 thousand MT. YTD exports are now at 11% below last year's and domestic use 1% ahead, netting TYD usage 6% behind 2018.



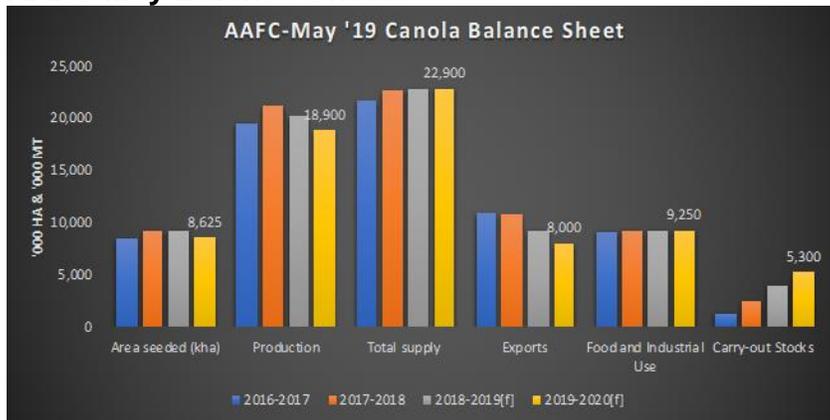
Exporters are keeping FOB export premiums high to defer buying while they cover their crush needs. New crop 'basis' levels in the country are too low for new crop and the low levels are not reflected in export prices. As a result, current offers for export are not competitive with soybeans, assuming the Chinese continue to avoid buying Canadian canola.

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Canola Market Headlines

- **Global rapeseed production:** May Coceral numbers have been publicly estimating EU rapeseed production at 17.9 million MT, AAFC has Canada at 18.9 million MT (likely about 800 thousand too high). With the world numbers reported at 70.8 million MT (2.8% lower than last year). USDA has predicted total 2019/20 consumption of 72 million MT, so global rapeseed ending stocks should fall by almost 2 million MT to 5.5 million MT. USDA is still using 10.1 million MT of exports for Canadian canola for 2019/20 (versus AAFC at 8 million MT).

- **AAFC May Balance Sheets**



The agency made major changes to the 2019/20 canola numbers compared to the numbers released in April:

- Seeded acres down 375 thousand hectares
- Production down 850 thousand MT
- Supply down 450 thousand MT
- Exports down 2.5 million MT
- Domestic use up 50 thousand MT
- Ending stocks up 2 million MT (to 5.3 million MT)

These numbers represent a 7% change in production, 18% change in exports, and 51% change in the ending stocks from one month ago. Production number may still be too high, and the export number is too low (by upwards of a million metric tonnes).

Weather Watch

November canola is trading at the highest level since mid-April. Much of that is resulting of the CBOT soybean complex, however there are increasing concerns about the extreme dryness across the Prairies. The Prairie drought index estimates the departure of the moisture supply from average conditions by solving a water balance equation

(10% state of moisture of current month and 90% state of moisture of previous month). The yellow, orange, and red areas show varying degrees of emerging deficits. Large swaths of the Prairies have had less than 40% normal precipitation since April 1, and 60-85% of normal since September 2018. *There is legitimate concern for the lack of moisture and the impact on germination and crop development stress unless more rain occurs.*

