

Canola Market Commentary

September 9, 2019

I. Key Points for the Week:

- Last week the Government of Canada formally requested consultations with China on canola under the **WTO agreement**. This formal request is pursuant to the WTO Sanitary and Phytosanitary (SPS) agreement that prescribes the rights and obligations of all WTO members.
 - Under WTO rules, Canada and China should meet within 30 days, and if these talks fail, Canada can request adjudication by a panel.
- Acc. to StatsCan Friday morning, **canola stocks as of July 31, 2019**, totalled 3.9 mln mt, up a significant 55% from July 31, 2018. *Note that we are using a smaller 2.8 mln mt for 2018/19 canola ending stocks.*
- Both **weekly canola usage numbers** (for export and for crush) were excellent during shipping week 4. In fact, export shipments for the first full month of the new crop year are 51% (+255k mt), and domestic use/ crush is 41% (+247k mt) ahead of last year's August pace. Even visible stocks have shrunk somewhat to 955k mt
- The US Ag Attaché for China estimated **Chinese '19/20 soybean imports** (from all origins) at only 80 mln mt, while USDA is still using 85 mln mt. We think they could drop as low as 75 mln mt.
- **China** announced it will permit imports of soybean meal, rapeseed meal, sunflower meal and sugar beet pulp from Russia this year.

II. Oilseed Market Backdrop

Soybeans

The weekly US crop update showed ratings unchanged at 55% Gd./Exc. (66% last yr). But while 86% of the crop was setting pods (+7% from last week), this is still well behind last year's 98% and the 5- year avg of 96%. It leaves a sizeable acreage at risk to frost, though there is no frost in the forecast.

The latest soybean yield projections are creeping higher again; IEG Vantage pegged the '19 US soybean yield at 48.4 bu/ac., FC Stone estimated yields at 48.3 bu/ac last Thursday, while USDA is still using 48.5 bu/ac.. - ProFarmer suggested yields of 46.1 bu/ac awhile ago.

On the demand side, the US Chinese Ag Attaché estimated Chinese '19/20 soybean imports at only 80 mln mt, while USDA is still using 85 mln mt. The attaché also used 82 mln mt of '18/19 imports vs. the USDA's 83 mln mt. China announced it will allow imports of soybean meal, rapeseed meal, sunflower meal and sugar beet pulp from Russia this year.

The overall oilseed picture has not changed: Record US soybean stocks, declining Chinese demand due to ASF and the likely further expansion of S American acreage due to weak currencies and deforestation are making it hard for the market to find sustained positives.

Nov soybeans 5-year chart



Soybean market topics:

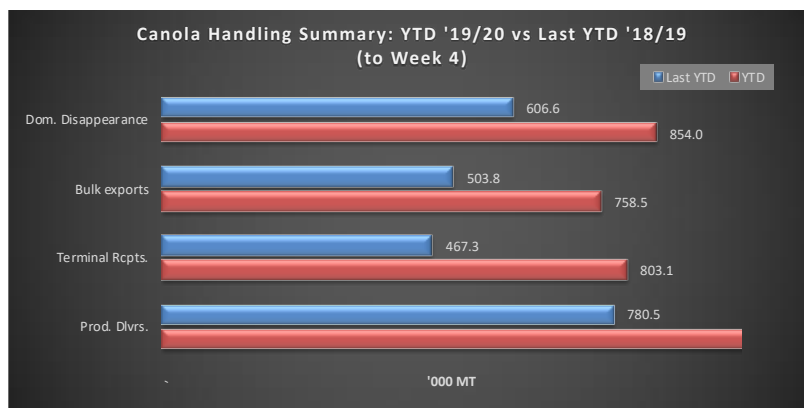
- **US export sales for N/C soybeans** were good at 788k mt vs. 600k mt expected, but cumulative US N/C soybean sales are quite poor.
- The monthly **USDA Fats & Oils report** showed a July record of 179.5 mln bu of soybeans crushed; this was 13.9% larger than June. Total soy oil stocks rose to 2.039 bln lbs., above expectations.

III. Canola Market

Canola:

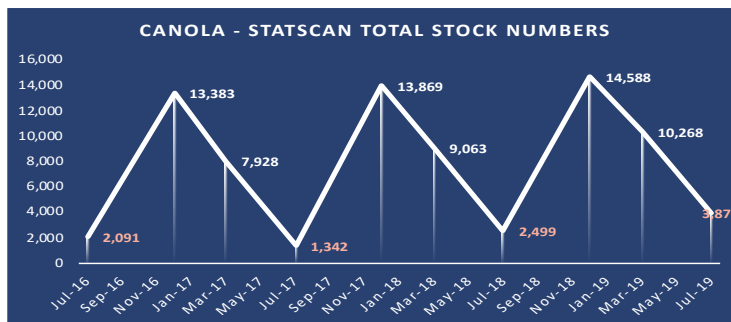
Acc. to SAF Friday morning, only 1% of SK canola had been harvested as of Sept. 2nd, with another 3% ready to be combined and 17% sitting in swath. Alberta also showed only 1.5% of AB canola combined as of Sept. 3rd. The weather forecast for this next week shows additional shower activity across SK and MB, and cool temperatures across the Prairies.

During week 4, growers delivered 263,400 mt of canola, Canada exported 216k mt, and the domestic usage was 199k mt. Both weekly usage numbers (exports and crush) were excellent. *Shipments during the first full month of the new crop year are 51% (+255k mt), and crush is 41% (+247k mt) ahead of last year's pace.* Even visible stocks have shrunk somewhat to 955k mt. If both the pace of usage is sustained while harvest continues to be slow, we could see improvements in basis/ price.



Acc. to StatsCan Friday morning, canola stocks as of July 31, 2019, totalled 3.9 mln mt, up a significant 55% from July 31, 2018. (July stocks levels are highlighted in red below.) The trade's average pre-report estimate for canola stocks was 3.8 mln mt, with a high-low range of 4.1 to 3.0 mln mt. Both on-farm and commercial stocks are up, with on-farm stocks up 60% to 2.6 mln mt and commercial stocks up 45.6% to 1.3 mln mt.

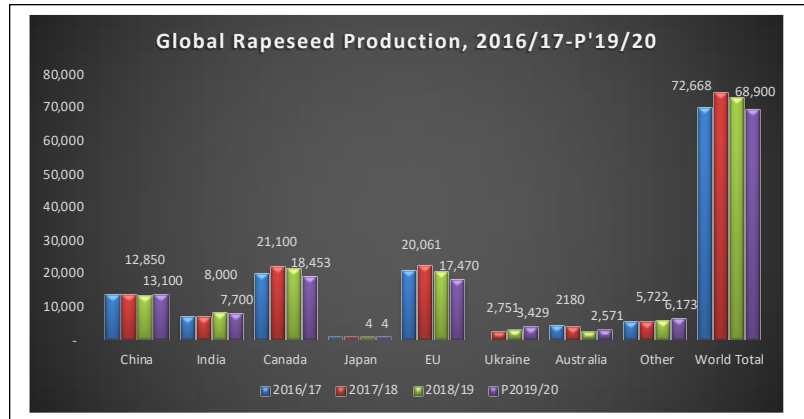
If correct, this would be the highest July canola stock levels recorded. Only in July 2014 did stocks surpass the 3 mln mt level (3.008 mln mt in '14). *Note that we are using a smaller 2.8 mln mt for 2018/19 canola ending stocks.*



We have adjusted our 2019/20 global rapeseed production estimates using the August StatsCan number for Canada of 18.45 mln mt, and the Aug. 28/19 EC number for the EU of only 17.5 mln mt. This reduces our July number for global 2019/20 rapeseed production of 71.8 mln mt by 4% to 68.9 mln mt. In 2018/19, 72.7 mln mt were produced, so global rapeseed production is projected to fall by a full 5% from last year.

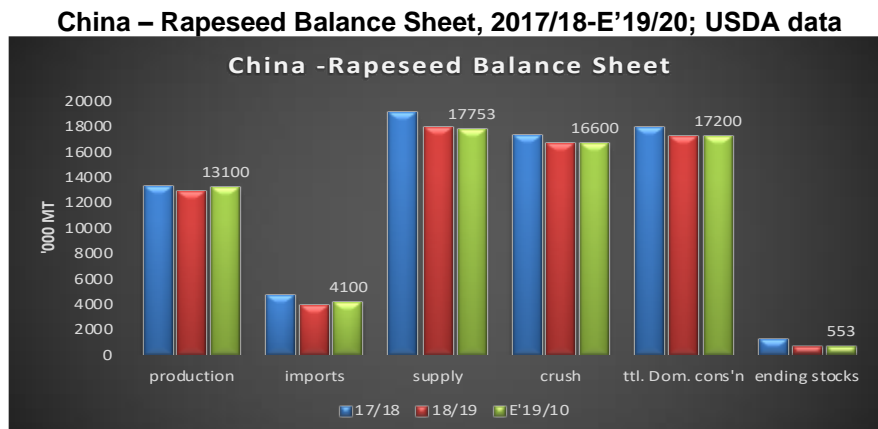
USDA is projecting global ending stocks to fall from 7.6 mln mt in '18/19 to 6.7 mln mt in '19/20, (a relatively small 10.5% and 9.3% stock-use ratio, respectively). But USDA is still using 18.7 mln mt rapeseed production for the EU, and is using 3.4 mln mt ending stocks in Canada for both 2018/19 and 2019/20, which we think is overstated.

We don't recommend sales at this stage. We would like to see what the Sept. USDA-Wasde reports have to tell us.



Canola Topics of Interest:

The most recent **US Attaché report on China** included numbers on a Chinese rapeseed balance sheet. The Attaché left their '19/20 rapeseed production estimate for China unchanged at 13.1 mln mt. But importantly, the Attaché estimated '19/20 rapeseed/ canola imports at 4.1 mln mt, which is 500k mt higher than the 'official' USDA estimate of 3.6 mln mt imports, and 300k mt higher than last year's imports. '19/20 crush was estimated at 16.6 mln tm, 400k mt higher than the official USDA estimate. Ending stocks in China are seen to drop to 553k mt, the same small stock level as in '18/19.



Futures closes

Today's Comments:

Nov. soybeans closed at \$857-6, down 0-2 from yesterday. Oct. soymeal closed at \$290-4, up 1-1 from yesterday. Oct. soybean oil closed at \$28-26, down 0-20 from yesterday. Nov. canola closed at \$439.80, down 3.00, while Jan. canola closed \$447.70, down \$3.00. First resistance for Nov canola is at \$444.00, and the first level of support is at \$436.80. Matif rapeseed closed mixed tdy.

Canola spreads:

RSX9/RSF0, last -\$7.90, unchanged from yesterday, range -\$7.70/-8.20 volume 2,273; other spreads include RSF0/RSH0, last -\$7.20, down 0.10 from yesterday, range -\$6.90 -\$7.30 volume 594.