

Canola Market Commentary

September 14, 2020

I. Key Points for the Week:

- **Soybeans** – USDA – WASDE report: US soybean supply and use changes for 2020/21 included lower beginning stocks, production, and ending stocks. Global soybean ending stocks were reduced by 1.8 million MTs to 93.6 million MT as lower US stocks are partly offset by higher foreign stocks, particularly for Argentina and Brazil.
- Continued buying by China and by the Funds have rallied soybeans into unprecedented values.
- In our view the market is too high, but if China continues buying, we could go higher.
- **Canola** – Through week 5, canola usage is already 150,000 tonnes greater than in the previous year to week 5.
- Canadian canola soared to contract highs following the rally in CBOT soybeans, and helped by a weaker currency and reports of frost damage.
- However, Matif rapeseed in Europe continued to fall last week on lower palm oil values and a 6% drop in crude oil prices.

II. Oilseed Market Backdrop

Soybeans

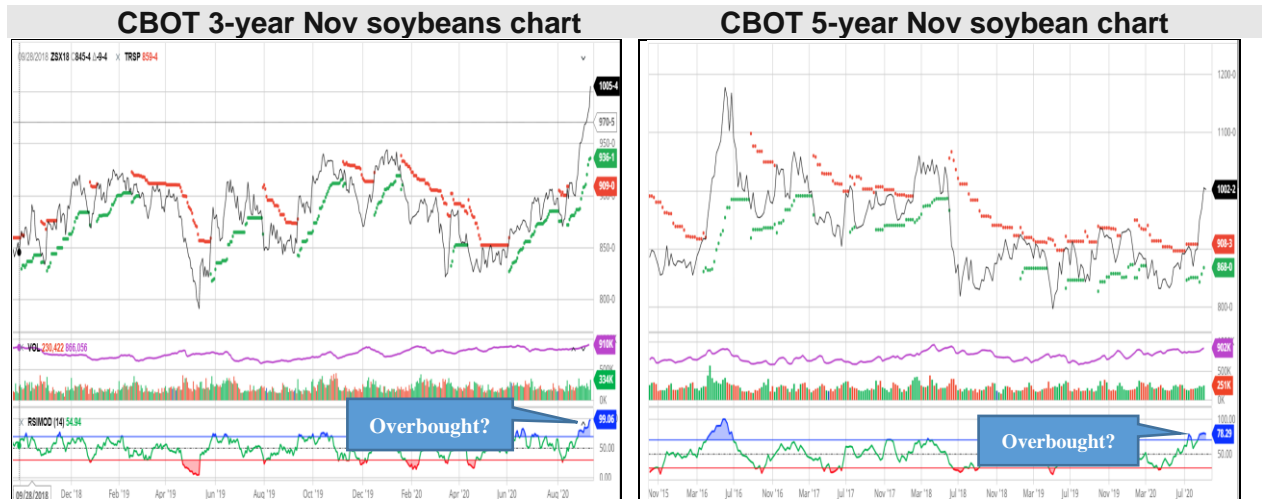
Current market situation:

In the WASDE report last Friday, USDA lowered U.S. soybean yields and left the door open for demand increases and supply cuts, acknowledging the full impact of August's dry weather and the derecho storm may not be in the numbers yet. In global numbers, soybean exports were raised to 166.3 million MT (+900k MT), with higher exports for Brazil and lower exports for Ukraine based on available supplies. Crush is reduced for Argentina in line with the prior year's reduction. Global ending stocks are reduced 1.8 million MT to 93.6M million MT as lower U.S. stocks are partly offset by higher foreign stocks, particularly for Argentina and Brazil.

In the market, continued buying by China and by the Funds have rallied soybeans into extraordinary values as can be seen on the 3-year chart below: A combination of stop losses, Chinese and Fund buying caused soybeans to fly through resistance to new highs.

Market outlook:

In our view the soybean market is too high, but if China continues buying, we could go higher. We recommend growers to take this opportunity to make some sales at these levels. The last time we saw soybeans this high was in May 2018, but by Sept 2018 the market had dropped by \$1.50 per bushel. Traders will continue to monitor US yields, weather and seeding in Brazil, and the level of buying by China.



III. Canola Market

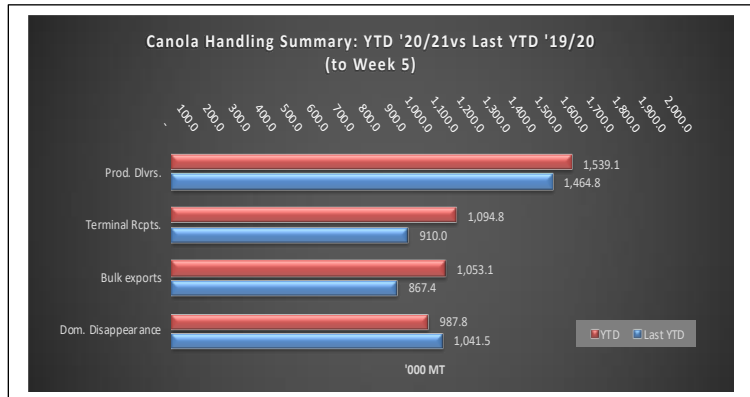
Canola:

Canola usage: The Canadian Grain Commission reported that during week 5 of the new crop year, growers delivered 411 thousand MT of canola, exports were 169 thousand MT, and the domestic usage was 164 thousand MT.

Total canola consumption amounted to 333 thousand MT for the week.

Visible stocks at 917k MT, still below 1 million MT.

Through week 5, canola usage is already 150,000 tonnes greater than in the previous year to week 5.



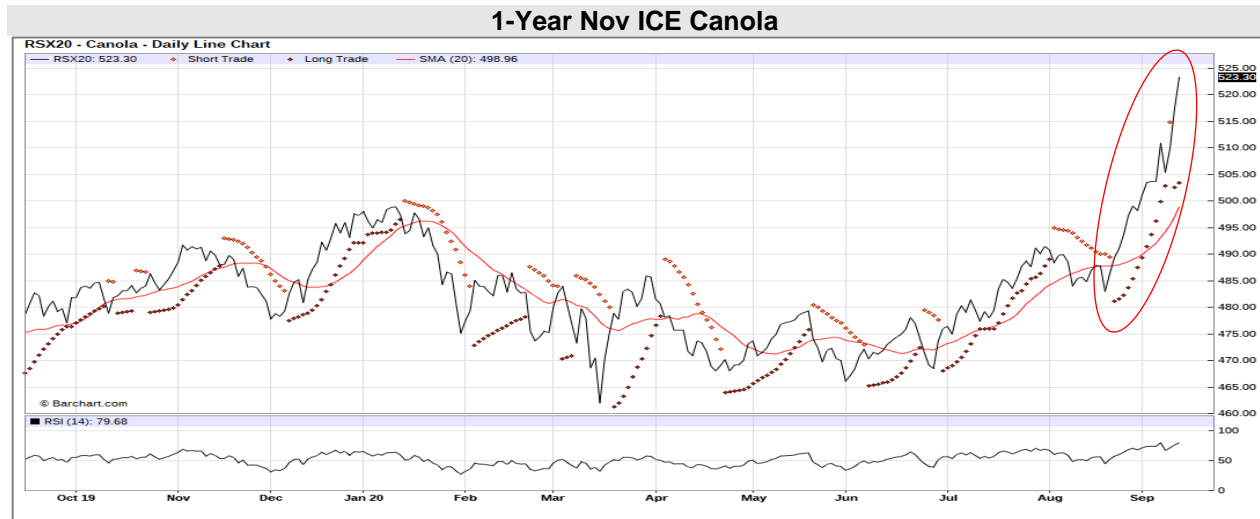
Current market situation: The weekly CGC data on export terminal elevator stocks shows that exporters are rebuilding stocks on the Eastern Seaboard. These stocks are intended for export to the EU. This makes good sense because canola bought in Manitoba and exported to the EU provides wide crush margins compared to EU rapeseed bought domestically as explained previously. This will keep the incentive by EU crushers to purchase Canadian canola high. In international news, ABARES put the Aussie canola crop at 3.4 million MT compared to 3.2 million mt previously.

Market outlook: Canola oil in the EU is worth US\$948.00/MT. Manitoba growers should be getting at least \$12.00 per bushel at the elevator. We expect canola exports into the EU to remain strong thanks to the high rapeseed oil values in the EU.

With soybean oil futures at US\$34.00, domestic crushers in Canada are making very big margins as well, maintaining the incentive to maximize domestic crush capacity.

Long-term however, we do not see a fundamental shortage of oilseeds and worry that the market could drop from the current high values.

Action: We see no reason to sell additional canola below \$11.50 per bushel, particularly in the eastern catchment region. But overall, we would like to be 60 percent sold.



Canola - Topics of Interest:

Global rapeseed/canola balance sheet: Using the most recent USDA and ABARES numbers show that global rapeseed/ canola production is expected to be about unchanged from last years at 68.4 mln mt. However, because of the smaller carry-in, supply will be down ~ 4% to 75.3 million MT. Exports are projected to be down by 5% to 15 million MT. Ending stocks should fall again to 5.2 million MT from 6.8 million MT last crop year.

