Canola Market Commentary

November 16, 2020

I. Key Points for the Week:

- In their WASDE report which was released on Tuesday the USDA reduced their yield estimate for soybeans to 50.7 bpa from 51.9 bpa which reduced ending stocks to 190 million bushels instead of 290 million in October. The big surprize was in corn where the USDA reduced the yield by 2.6 bushels per acre forecasting a corn carry over of 1.7 billion bushels instead of the 2.17 billion bushels they forecast in October.
- Brazilian planting is now 67.7% complete, running ahead of the 5-year average of 64.7%. The Mato Grosso at 94% done. USDA is expected to put US soybean harvesting at 95-96% complete in the weekly Crop Progress report.
- Soybean futures and soyoil have risen to five-year highs.
- It remains dry in parts of the Southern Hemisphere, so weather concerns continue.
- Canola continues to follow soybeans higher and has independent strength as Canada has record usage through week 14.
- Crush margins for Canadian canola exceed $100.00 per tonne in Canada and in the EU.
- Current economics would suggest it a better deal for a Multi-National to build or increase the crush capacity in the EU rather than in Canada.
- Rapeseed values in the EU followed the global rally in oilseeds, with May-21 Paris rapeseed futures closing on Friday at €407.00/t, a rise of €10.25/t on the week.

II. Oilseed Market Backdrop

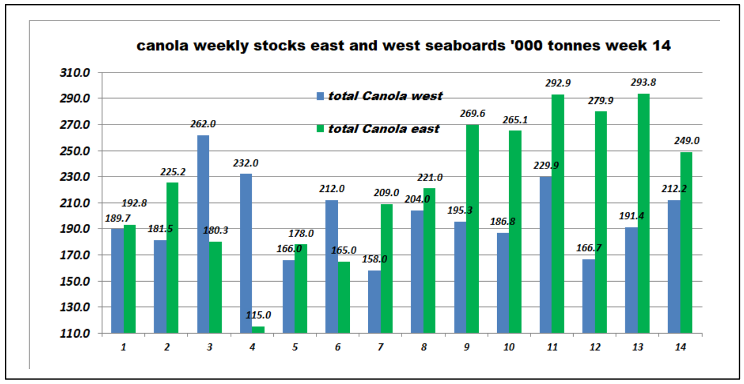
Soybeans
Current market situation:
As the market expected, the USDA reduced their yield estimate in the WASDE report. They now forecast the USA carry in to be 190 million bushels, which is extremely low and supportive of current prices. The USDA also reduced production forecasts for Argentina. In light of the cuts to USA and Argentinian production, world ending stocks of soybeans in 2020/21 were reduced by 2.2 million tonnes to 86.5 million tonnes, the lowest level since 2015/16.

Market outlook:

We see no reason for the market in soybeans to break in the short term. It should be noted that the Funds long on soybean futures in terms of bushels is larger than the USDA's estimate of the USA's carry in of soybeans.

III. Canola Market

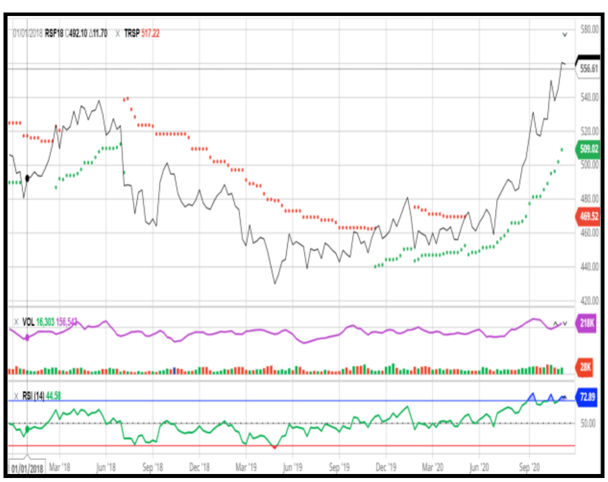
Canola:
Usage continues to be good for Canola in Canada and the EU. We continue to keep large stocks of seed on the Eastern Seaboard which are destined for the EU. In the EU, returns per acre are better on wheat than canola, so we don't expect the EU to increase their rapeseed production, which should allow for the continuance of canola exports to the EU.



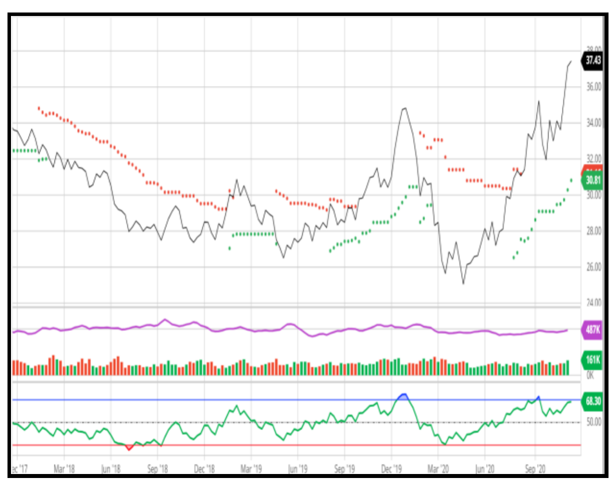
Current market situation:
In week 14 growers are said to have delivered 426,000 tonnes, the domestic disappearance was 206,000 tonnes, and exports were 286,000 tonnes. Through week 14 total usages is 6.21 million tonnes, which is a record. We see no reason for the demand to slacken whilst crush margins in Canada are excellent (over $100.00 per tonnes) and the crush in the EU is equal to $100.00 usfmt on seed sourced in Canada. Vegoil continues in short supply and prices continue to climb – rape oil in the EU is $960.00 usfmt and Palmoil is $728.00 usfmt. Visible stocks on the Eastern Seaboard remain high, which confirms EU demand continues.

Market outlook:
Demand for canola continues at record levels and we see no reason for it to decrease, in fact, cash prices should improve. We can see that canola seed has closely followed soyoil higher from the charts below...

3-year Jan canola chart



CBOT 3-yeat Dec soyoil



Action: in our view canola is worth at least $12.50 per bushel in SK and more in Alberta and Manitoba. We would retain 25 percent of production in case there is a weather problem in South America and the premium for seed with a high oil content increases in value to soybeans

Winnipeg 1-Year Jan Canola