Resilient Grain and Oilseed Market Analysis September 5, 2023

Accurately assessing the market environment for timely sales recommendations

Commercial Demand Supports Canola but Harvest Selling Limits Upside

Canola futures had a strong close on Friday due to export and domestic demand. Talk in the trade is that China is stepping forward for their winter and early spring requirements. Marginal buying from Japan has also been evident. Secondly, stronger meal and vegetable oil values are underpinning the domestic crush margin structure. Malaysia, Indonesia and Australia are contending with El Nino. The dryer forecast for September has supported palm oil futures. Australian rapeseed production will drop to about 5.0 million tonnes, down from 8.3 million tonnes last year. Argentina is the world's largest soymeal exporter and production was down sharply from last year. We're now seeing an increase in U.S. soymeal export demand. There is a spillover benefit here as the U.S. is the largest home for Canadian canola meal.

Longer term, the canola and soybean markets will need to encourage acreage next spring given the lower carryout projections for the 2023/24 crop year. The soybean complex is now in a situation where it cannot afford a crop problem in South America this winter. Recent rains have improved seeding conditions in Brazil and Argentina which may have weighed on the oilseed complex Monday.

The Canadian canola harvest is progressing under favorable conditions. Producers appear to be willing to sell canola and store their cereal grains given the current price relationships. Notice the November/January futures spread is trading at a $7.00 carry. However, the March/May futures spread is at a $1 inverse. This is a bullish signal. The tight fundamentals will occur in the months of April and May as available supplies dwindle. The market is telling producers to sell now for March delivery.

Conclusion: Canola prices have been supported by commercial buying. Export and domestic demand is stepping forward for the winter timeframe. Harvest selling has limited the upside.

Recommendation: We're advised farmers to sell 40% of their 2023 canola production. Last week's recommendation was to sell now for winter or spring delivery.

November canola futures made a lower high on the latest rally and has now broken the secondary upward trendline. The $820 level is now resistance. The stochastics have turned over and we're now expecting canola to trade down to the $760 level.

If the market breaks below $760, the downside objective would be the $700 level. A close above $820 would be needed to sustain the upward trend.

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Spring Wheat Harvest Pressure Weighs on Wheat Complex

As of September 5, we estimate that the Saskatchewan spring wheat harvest is 45% complete. We estimate that Alberta farmers have taken off 38% of the wheat crop while Manitoba producers are in the final stages of the spring wheat harvest. Yield reports from Manitoba and Saskatchewan are in line with Statistics Canada's yield forecast. We agree with Statistics Canada's non-durum spring wheat production estimate of 22.1 million tonnes, down from the 2022 crop size of 25.8 million tonnes and down from the five-year average output of 23.6 million tonnes. Producer deliveries into the elevator system for the week ending August 27 were 402,800 tonnes. The Minneapolis September/December futures spread closed at 26 cents/bu on Friday. Exporters appear to be well covered for their nearby export requirements as commercials are preparing for larger deliveries in September.

The Commitment of Traders Report shows that the commercials were net long 4,730 contracts in Minneapolis wheat as of August 29. This is the first time they have been long since September 2020. The managed money was short 8,856 contracts which is the largest short since early June when the market turned. We also see the commercials buying net buyers of Kansas wheat.

At the end of the 2023/24 crop year, combined ending stocks from the U.S., Europe, Australia, Argentina, Canada, Russia and Ukraine are expected to drop to 16-year lows according to Reuters. The market needs to encourage acreage this fall when the Northern Hemisphere countries seed winter wheat. The wheat market is in a situation where it cannot afford a crop problem in 2024.

Conclusion: Commercial traders have been net buyers in all three wheat futures markets over the past couple of weeks. We believe the wheat complex is in the process of making seasonal lows.

Recommendation: We've advised farmers to be 20% sold on their Hard Red Spring wheat and Canada Prairie Spring wheat.

Major support is in the range of $7.50-$7.60. The stochastics are at lower levels suggesting that sellers are backing away from the market. Resistance is at the $8.00 level. We need to see a close above $8.00 to suggest the lows are in place.

Barley Prices Grinding Lower as Harvest Progresses

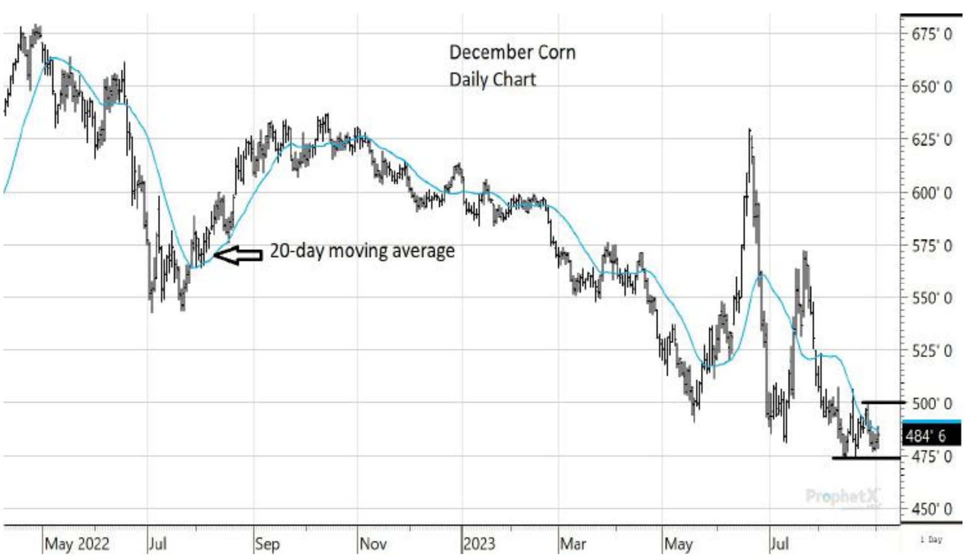
Lethbridge area feedlots were buying feed barley in the range of $340-$350/tonne delivered last week. Central Alberta operations were making purchases of $315-$330/tonne delivered. Farmers have been active sellers over the past couple of weeks. The harvest in Alberta is advancing in Central and Northern regions of Alberta and Saskatchewan weighing on values outside the major feeding regions of Alberta. Cattle on feed inventories in Western Canada are at seasonal lows. Export demand is quiet. Last year, offshore movement was 300,000 to 400,000 tonnes per month during the fall period. This year, exports will be around 100,000 to 200,000 tonnes per month in the first half of the crop year. Despite the lower production estimate, the market is lacking demand. Talk in the trade is that nearly 50% of the feedlots in the Lethbridge area are using corn. U.S. corn is quoted at $350/tonne delivered Southern Alberta for October.

Last week, Australia shipped the first vessel in three years to China. Secondly, Tunisia tendered for feed barley last week and the price was US$230/tonne C&F (price of barley delivered to Tunisia). Weaker wheat prices in Europe have pressured the barley market. French barley is offered at US$225/tonne fob Rouen or La Pallice. Canadian barley is quoted at US$290/tonne fob the West Coast for October. The Canadian domestic market is premium to world values.

U.S. corn export sales last week were near one million tonnes for the 2023/24 crop year. U.S. corn is competitive with Brazilian origin for the fall period. We believe the corn market is in the process of making seasonal lows. Higher corn prices later in fall will support the Canadian barley market.

Conclusion : Harvest pressure is weighing on domestic barley prices. Domestic barley prices will move in tandem with imported U.S. corn values for the 2023/24 crop year.

Recommendation: We've advised farmers to be 30% sold on their 2023 barley production.



December corn has support at $4.75 and resistance at $5.00. Two closes above $5.00 would suggest upside potential to the $5.25 area. This would be a signal that the market has made seasonal lows. A stronger corn market will be supportive for Alberta barley prices.

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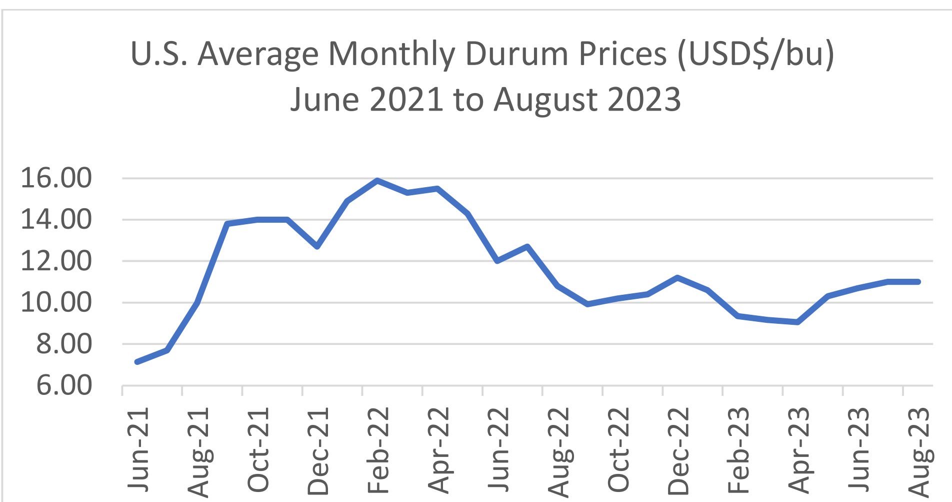
Tunisia and Algeria buy Durum

Tunisa bought 100,000 tonnes of durum last week in the price range of US$428-US$432/tonne C&F (cost and freight). This is an equivalent of No.3 CWAD quality and works back to a price of $11.50/bu in Southwest Saskatchewan. This tender was completed with durum from Greece, Sicily and other origins besides Canada. Algeria bought up to 600,000 tonnes of durum last week. The quality was equivalent to No.1 and No.2 CWAD. The tender was filled with Turkish, Mexican and other origins. Prices ranged from US$465 to US$500/tonne CIF. <u>Approximately 100,000 tonnes of Canadian origin may have traded on this Algerian tender near US$500/tonne but it is not confirmed.</u>

Elevator bids in Southwest Saskatchewan and Southern Alberta for No.1 CWAD were $14/bu this past week, down from $15/bu in mid-August. We estimate that the Canadian durum harvest was 65% complete as of September 4. The only farmers delivering durum into the system are those who sold earlier in May, June and July. We continue to forecast a Canadian crop of 3.7 million tonnes, down from Statistics Canada's estimate of 4.2 million tonnes and down from last year's crop of 5.8 million tonnes. U.S. elevator bids for choice milling durum are US$10.00/bu, down from US$11.00/bu two weeks ago. We agree with the USDA forecast of 1.56 million tonnes, down from last year's crop of 1.74 million tonnes. The world market needs to absorb the exportable surplus from Mexico, Turkey, and France before major buyers have to come to Canada or the U.S. for durum in November and December.



In the 2021/22 crop year, U.S. prices peaked in February. Canadian prices reached their highs in March.

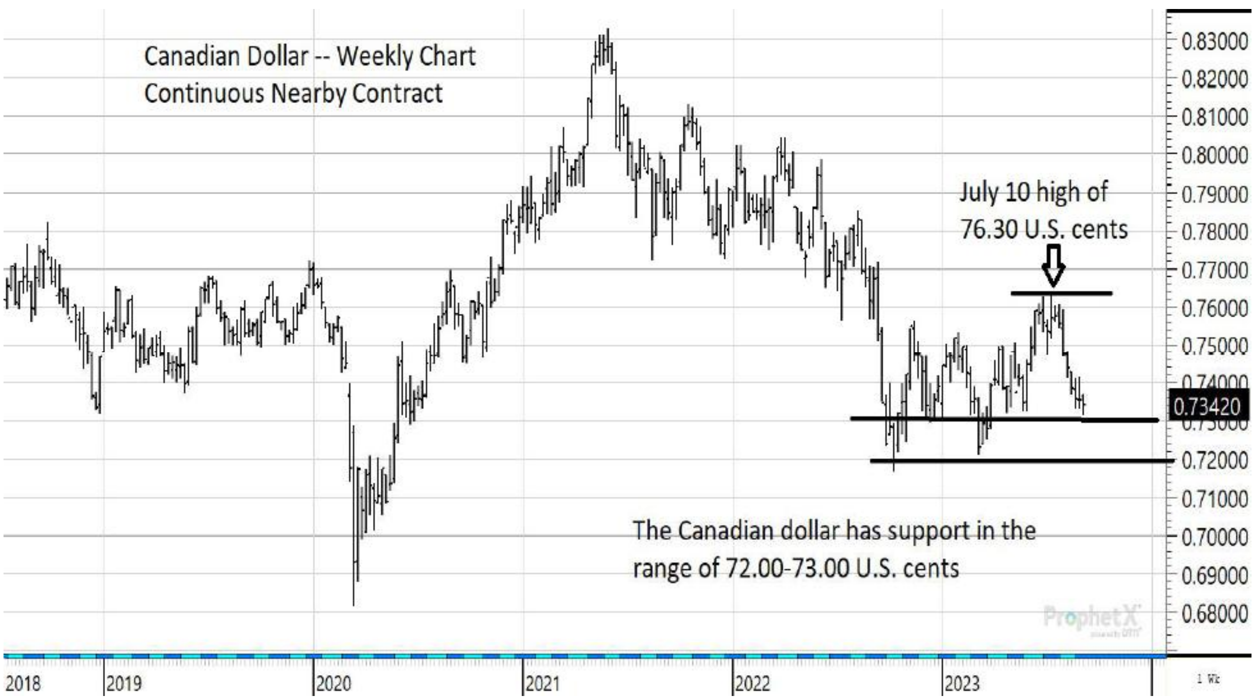
It will take three to four months for the world market to incorporate the lower production estimates from Canada and the U.S.

Conclusion: There remains a bullish case for Canadian durum prices based on our fundamental projection. The world market needs to absorb the exportable surplus from other exporters.

Recommendation/Strategy: We've advised producers to sell 20% of their durum crop off the combine. We're planning our next sale in November.

Feature: Canadian Dollar Weakens on Lower GDP

Canadian second quarter GDP came in at 0.2% according to Statistics Canada. This was below analysts' forecasts for growth of 1.5%. Canadian third quarter GDP forecasts are now hovering at 0.5%. This compares to U.S. second quarter GDP which finished at 2.4% and the third quarter forecast over 5.0%. The U.S. Federal Reserve has justification to increase rates at their next meeting on September 20. The Bank of Canada will likely pause interest rate hikes on September 6 due to slower economic growth. The widening of the interest rate spread between U.S. and Canada is bearish Canadian dollar against the U.S. greenback. Secondly, there is a risk averse sentiment in the financial markets which will keep the Canadian dollar under pressure. The weaker Canadian dollar is supportive for Canadian grain and oilseed prices.



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