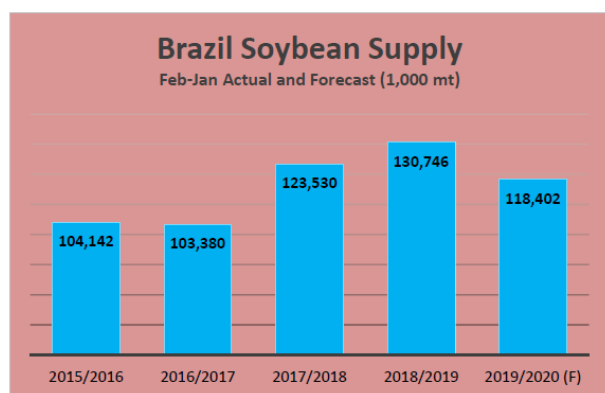


Smaller Supplies to Limit Brazil's 2018/19 Soybean Exports

Record soybean exports in 2017/18, coupled with a reduction in the 2018/19 harvest, will significantly reduce Brazil's exportable supplies in the coming year. Local year (Feb/Jan) exports last year reached a record 84.2 million tons, 15.4 million above the previous record volume of 68.8 million recorded in 2016/17.

This has reduced carryout stocks to 1.2 million tons, equivalent to a stocks/use ratio of less than 1 percent. It has also required a significant adjustment in stock levels back to 2000 in order to account for the record distribution in 2017/18.



continued on page 2

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©

Canadian Wheat Update

Record high exports to China helped drive total Canadian wheat exports through December 2018 up roughly 1.5 million metric tons higher than the same period in marketing year 2017/18. FAS/Ottawa projects marketing year 2018/19 ending stocks to be the lowest in 10 years. Relatively higher feed, wheat, and barley prices and continued recovery in the number of cattle on feed supported monthly record imports of U.S. corn in 2018.

In marketing year 2018/19, production of all wheat increased 6 percent from 2017/18 to 31.8 million metric tons (MMT), about 1 percent above the five-year average. Data from the Canadian Grain Commission (CGC) show that top-grade No. 1 wheat protein levels were up across the board in 2018/19 (Table 1), while yields dropped to 3.22 MT/hectare.

While protein levels were up for all major wheat varieties grown in Canada, the quality of the 2018/19 wheat crop was not necessarily better than 2017/18. Cold, wet harvest conditions and reported delays in drying off grain, on significant increased propane demand across the prairies to run driers, resulted some wheat remaining wet in the bin and in wheat quality downgrades, with moisture content at 18 to 20 percent. The CGC does not provide statistics on the percentage of total wheat production at each grade.

Table 1: MY 2018/19 Canadian Wheat Protein Levels

Wheat type	Grade	Protein Content (%)	Percent change from MY 2017/18
Canada Western Amber Durum (CWAD)	No. 1	14.4	5%
Canada Prairie Spring Red (CPSR)	No. 1	13.8	12%
Canada Western Red Spring (CWRS)	No. 1	13.7	5%
Canada Eastern Soft Red Winter (CESRW)	No. 1	10.0	9%

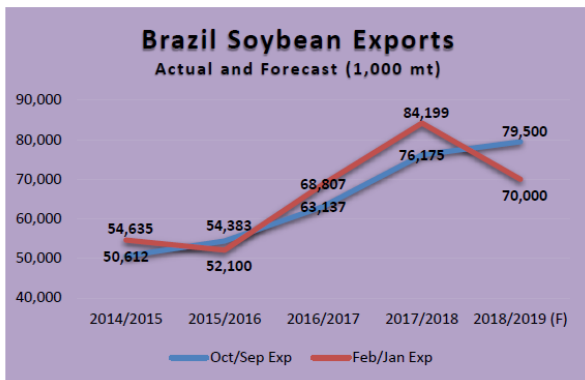
Source: Canadian Grain Commission

Area planted to winter wheat continued to decline in 2019/20. Winter wheat varieties traditionally sustained a nearly 40 percent yield premium over common spring wheat varieties. continued on page 3

Brazil's 2018/19 Soybean Exports

Compounding the reduced carryout is the lower production forecast in response to dry conditions in portions of the soybean production area. The 2018/19 soybean production forecast is lowered 5.0 million tons to 117.0 million. Combined, this results in a 12.3 million ton reduction in available supply compared to 2017/18 (nearly 10 percent). With local year crush forecast to remain near the 2017/18 level, and with some necessary rebuilding of stocks, local year exports are forecast down 14.0 million tons to 70.0 million tons.

Exports for the trade year (Oct/Sep) ending September 2019 are expected up despite the smaller crop because of record exports observed for the October to January period. Exports for the period totaled 16.6 million tons, nearly double last year's level. However, the current trade year forecast assumes a 6 percent decline in export volume for the remainder of the 2018/19 year and, with a smaller crop, results in a 7.3 million ton decline in October 1, 2019 stocks relative to last year.



While a reduced supply of Brazilian soybeans available for export could enhance prospects for U.S. exports for the rest of the year and into 2019/20, a rebound in the Argentina crop will more than offset reductions in Brazil.

In addition, demand in China, both in general and for U.S. soybeans in particular, will also weigh heavily on global export demand.

US Cattle Herd Up 1%

January 1 Cattle Inventory Up Slightly All cattle and calves in the United States as of January 1, 2019 totaled 94.8 million head, slightly above the 94.3 million head on January 1, 2018.

All cows and heifers that have calved, at 41.1 million head, were 1 percent above the 40.9 million head on January 1, 2018. Beef cows, at 31.8 million head, were up 1 percent from a year ago. Milk cows, at 9.35 million head, were down 1 percent from the previous year.

All heifers 500 pounds and over as of January 1, 2019 totaled 20.2 million head, slightly above the 20.2 million head on January 1, 2018.

Beef replacement heifers, at 5.92 million head, were down 3 percent from a year ago. Milk replacement heifers, at 4.70 million head, were down 1 percent from the previous year. Other heifers, at 9.60 million head, were 3 percent above a year earlier. Steers weighing 500 pounds and over as of January 1, 2019 totaled 16.6 million head, up 1 percent from January 1, 2018. Bulls weighing 500 pounds and over as of January 1, 2019 totaled 2.26 million head, up slightly from January 1, 2018.

Calves under 500 pounds as of January 1, 2019 totaled 14.5 million head, up 1 percent from January 1, 2018. Cattle and calves on feed for the slaughter market in the United States for all feedlots totaled 14.4 million head on January 1, 2019.

The inventory is up 2 percent from the January 1, 2018 total of 14.1 million head. Cattle on feed in feedlots with capacity of 1,000 or more head accounted for 81.3 percent of the total cattle on feed on January 1, 2019, up slightly from the previous year.

The combined total of calves under 500 pounds and other heifers and steers over 500 pounds (outside of feedlots) is 26.4 million head. This is 1 percent above January 1, 2018.

The 2018 calf crop in the United States was estimated at 36.4 million head, up 2 percent from last year's calf crop. Calves born during the first half of 2018 were estimated at 26.6 million head, up 3 percent from the first half of 2017. Calves born during the second half of 2018 were estimated at 9.80 million head, 27 percent of the total 2018 calf crop.

Canadian Wheat Update

2019/20 Canadian Crop Production

However, interest in planting winter has fallen off, as yields for some spring wheat varieties (notably, Faller and Prosper) have improved to within 15 percent of winter wheat yields. Winter wheat varieties also tend to flower earlier in Western Canada, due to the shorter growing season, making them more susceptible to fusarium and reinforcing the decline in area planted.

Total area planted to winter wheat in 2019/20 was down 18 percent from the five-year average. In 2019/20, winter wheat area planted in Ontario rose by 3 percent, while area planted across the Prairie Provinces and Quebec fell by an average of 28 percent. Industry sources indicate that dry weather throughout July and August 2018 led producers to delay planting, only to have the conditions become too wet and cold in September to get all the seed in the ground. Weather-related harvest delays in 2018/19 meant fewer operators were able to get the 2019/20 winter wheat crop in the ground before September 15, the typical the crop insurance cutoff date for winter wheat in the Prairie Provinces.

Table 2: Winter Wheat Area Planted

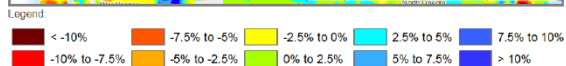
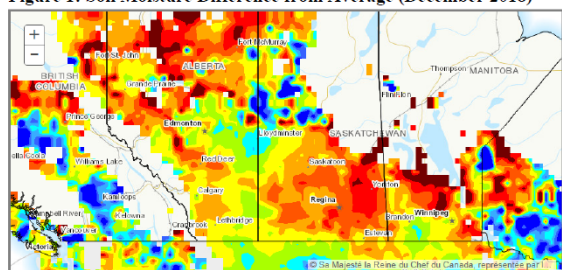
Location	Thousand Hectares			
	5-year avg	MY 2018/2019	MY 2019/2020	Percent change from 5-yr avg
Canada	665	565	545	-18%
Quebec	16	21	18	-18%
Ontario	374	393	406	9%
Manitoba	85	28	18	-78%
Saskatchewan	117	69	45	-62%
Alberta	65	38	41	-38%

Source: Statistics Canada

2019/20 Canadian Crop Production

Similar to 2018/19 planting conditions, many farmers will be planting 2019/20 crops into soil with lower residual moisture levels (Figure 1).

Figure 1: Soil Moisture Difference from Average (December 2018)



Source: Agriculture and Agri-food Canada

Note: level of moisture in the top five centimeters of soil

Until 2017/18, soybean area planted had been slowly increasing and spreading westward from Manitoba into Saskatchewan and even Alberta, drawing area away from spring wheat (Table 3). However, soybean area planted in Saskatchewan and Manitoba fell by 52 percent and 18 percent, respectively, in 2018/19.

Table 3: Soybean Area Planted (hectares)

Marketing Year (MY)	Manitoba	Saskatchewan	Alberta
MY 2012/13	333,900
MY 2013/14	424,900	68,800	..
MY 2014/15	526,100	109,300	..
MY 2015/16	570,600	109,300	..
MY 2016/17	665,900	97,100	..
MY 2017/18	926,700	344,000	..
MY 2018/19	764,900	164,900	7,400

Source: Statistics Canada

Industry sources suggest that soybean area planted across the prairies could continue declining in 2019/20, as multiple factors, including higher seed costs, lower market prices, and lower soil moisture levels driving lower yields, push farmers back to spring wheat, barley, canola and to some extent pulses.

Area planted to canola, by far Canada's most valuable cash crop, has grown sharply over the last 20 years and surpassed wheat area planted for the first, and thus far only, time in 2017/18. The continued spread of clubroot and blackleg, diseases that can significantly reduce canola yields, could keep wheat area planted high again in 2019/20, as farmers rotate affected area into wheat or barley. Farmers can also plant disease resistant varieties to try to control clubroot and blackleg, but this is not always effective and it comes at a cost to yield over non-resistant varieties. However, China, Canada's largest market for canola, recently approved two long-awaited biotech traits that could help growers address the agronomic challenges of clubroot and blackleg and help put canola back on top of the area planted ranks in 2020/21 and beyond.

Carryover stocks of lentils, and to a lesser extent peas, heading into 2018/19 were substantial, as India, Canada's largest buyer, significantly reduced imports in 2017/18. Indian tariffs of 50 percent on peas and 30 percent on lentils imposed in late 2017 drove down Canadian pulse prices and resulted in Canadian farmers holding 876,000 MT of lentils and 650,000

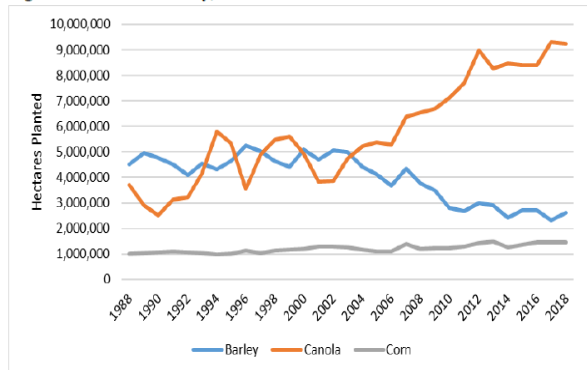
MT of peas at the start of 2018/19.

The pea stockpile has been thinned by record exports to China over the first four months of 2018/19 (August to November). Despite a poorer Indian lentil crop in 2018/19, stakeholders anticipate Canadian lentil stocks could remain high if India keeps tariffs in place ahead of national elections in April or May 2019. The combination of the tariff and the large carryover in 2018/19 will discourage area planted to lentils in 2019/20 and potentially encourage wheat and other cereal crops instead.

Pulses, such as peas, chickpeas, and red and green lentils are other crops that compete with wheat for agricultural land, particularly in Saskatchewan. There was considerable reporting in the media about the Government of Canada investing in innovation to support the growth of the pulse sector, through providing up to \$950 million CAD towards the sector in what has been called the “Protein Supercluster”.

However, this is more of a long-term investment towards supporting research institutes by providing funds to improve productivity of new pulse crops, addressing threats to the value chain, exploring the health benefits of pulses and developing innovations in pulse ingredient processing and food product development. This is will affect crop production longer term in the prairies, but it is unlikely to affect the area planted in 2019/20.

Figure 7: Canadian Barley, Canola and Corn Area Planted

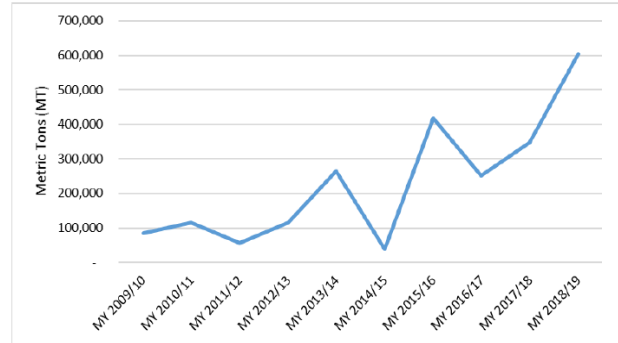


Source: Statistics Canada

Canadian Wheat Trade

Canadian wheat exports through January 6, 2019, were up 1.46 MMT marketing year-to-date, 22 percent more than the same period last year and 19 percent more than the five-year average. For the first four months of 2018/19, Indonesia, China and Japan were three largest export destinations for Canadian wheat. Wheat exports to China were 74 percent ahead of the three-year average for the start of 2018/19, setting a new export record to China for this period (Figure 2). Chinese imports of U.S. wheat over that same period were nil (Table 4).

Figure 2: Canadian Wheat Exports to China (August-December)



Source: Global Trade Atlas

Table 4: China’s Imports of Wheat (Metric Tons)

	MY 2015/16 (Aug-Dec)	MY 2016/17 (Aug-Dec)	MY 2017/18 (Aug-Dec)	MY 2018/19 (Aug-Dec)	Percent Δ (2018/17)
World	1,276,846	1,293,128	1,432,794	938,521	-34%
Canada	419,083	251,352	347,271	604,921	74%
Kazakhstan	52,793	48,203	92,338	263,809	186%
Australia	392,296	444,467	502,511	28,284	-94%
United States	412,673	549,086	474,707	0	-100%

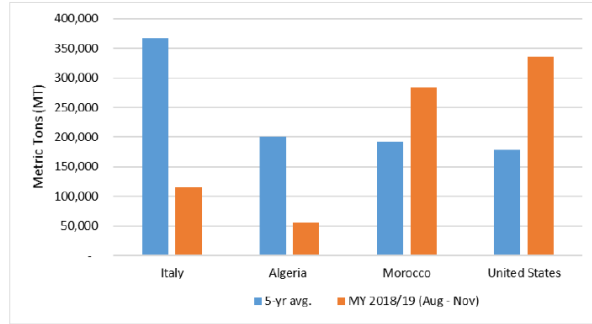
Source: Global Trade Atlas

Note: Table includes top four wheat exporters to China.

Canada exported 1.1 MMT of durum in the first four months of 2018/19 (August-November), which was 25 percent behind the five-year average (Figure 3). Durum exports to Italy have not recovered from Italian country-of-origin labelling measures imposed in July 2017, falling to 116,000 MT in the 2018/19 marketing year-to-date. More information on Canadian durum exports to Italy is available in GAIN Report CA18049. Exports to Algeria were down due to record Algerian durum production in 2018/19. Higher Canadian exports to Morocco through the first four months of 2018/19, nearly 50 percent above the five-

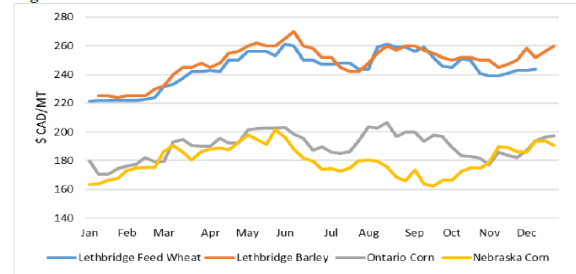
Canadian Wheat Trade

Figure 3: Canadian Durum Exports (August to November)



Source: Global Trade Atlas

Figure 4: Selected Feed Grain Prices



Source: Canfax, [Alberta Agriculture and Forestry](#)

Note: Exchange rates calculated using Bank of Canada monthly rates.

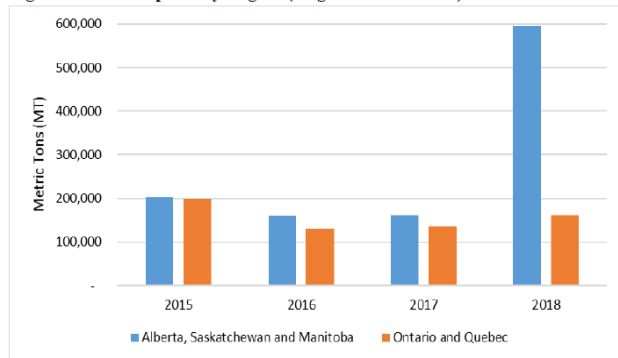
year average, may have been due in part to lower Moroccan imports in May 2018, ahead of the June/July Moroccan durum harvest.

Feed

Prices for feed wheat and barley (Figure 4) have both hovered around \$60.00 CAD/MT higher than the average cash price for corn in Lethbridge, Alberta – home to Canada’s largest cattle feeding operations. Even though MY 2018/19 Ontario corn has been priced very low due to the high levels of vomitoxin, the economics of shipping corn have favored U.S. origin over Ontario corn. Given the large price difference relative to feed wheat and to barley, FAS/Ottawa expects U.S. corn will continue to be fed at a high rate well into 2019 (Figure 4).

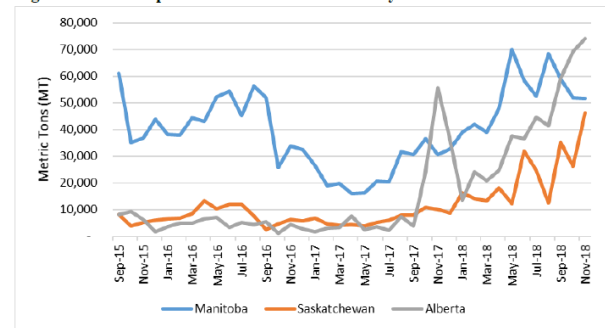
Corn imports into the Prairie Provinces from August to November 2018 were more than triple the three-year average for the same period (Figure 5). Following a rapid increase in imports of U.S. feeder cattle in late 2017, feedlots across the prairies began importing corn at the start of 2018, rapidly increasing the rate of import in March 2018 (Figure 6). Alberta imported just shy of 75,000 MT of corn in the month of November 2018, and the province has already imported over 200,000 MT in MY 2018/19.

Figure 5: Corn Imports by Region (August to November)



Source: Global Trade Atlas

Figure 6: Corn Imports from the United States by Province



Source: Global Trade Atlas