AGRI-News

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Growing Communities

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Wheat Output Projected Higher

On Sept 14, 2018, USDA released the World Wheat Supply & Demand report outlining inventory and dispositions.

Global wheat production in 2018/19 is projected to be 733.0mmt, 25.27mmt below last year. Reduced wheat planting combined with low precipitation and heat lowered wheat production prospects in many countries, with the lion's share of the decline coming from major wheat exporters.

The combined wheat output of the eight major exporting countries/regions—Argentina, Australia, Canada, European Union, Kazakhstan, Russia, Ukraine, and the United States— are projected down 24.0 million tons relative to a year ago.

As 80 percent of world wheat is used for food, demand for which is very inelastic and grows steadily because of rising population, a decline in wheat output for major exporters puts pressure on their stocks and drives wheat prices higher. ***Currently, the year-to-year drop in combined ending wheat stocks for major wheat exporters is projected to be almost 24 percent.***

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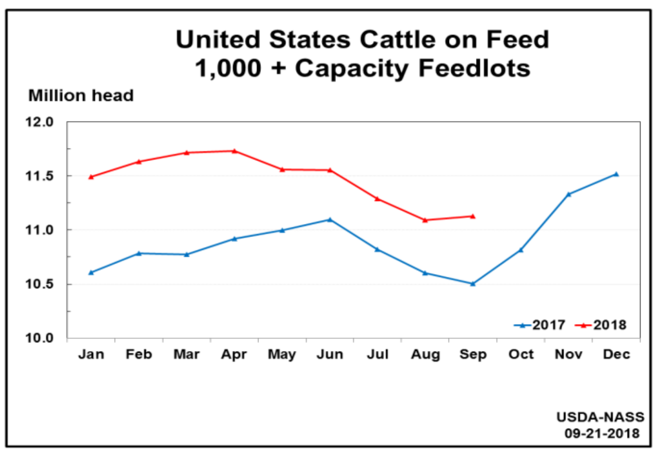
United States Cattle on Feed Up 6 Percent

Cattle and calves on feed for the slaughter market in the United States for feedlots with capacity of 1,000 or more head totaled 11.1 million head on September 1, 2018. The inventory was 6 percent above September 1, 2017. This is the highest September 1 inventory since the series began in 1996.

Placements in feedlots during August totaled 2.07 million head, 7 percent above 2017. Net placements were 2.02 million head. During August, placements of cattle and calves weighing less than 600 pounds were 430,000 head, 600-699 pounds were 335,000 head, 700-799 pounds were 460,000 head, 800-899 pounds were 475,000 head, 900-999 pounds were 240,000 head, and 1,000 pounds and greater were 130,000 head.

Marketings of fed cattle during August totaled 1.98 million head, slightly above 2017. Other disappearance totaled 55,000 head during August, 12 percent above 2017.



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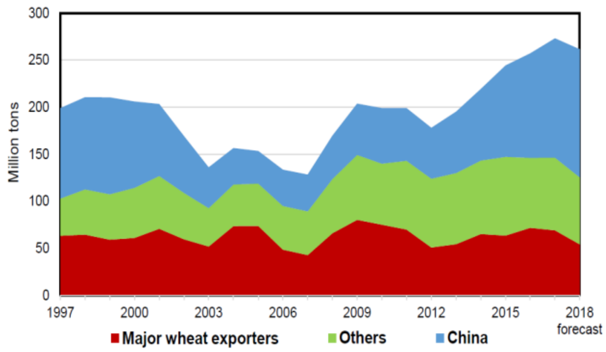
Wheat Output Projected Higher

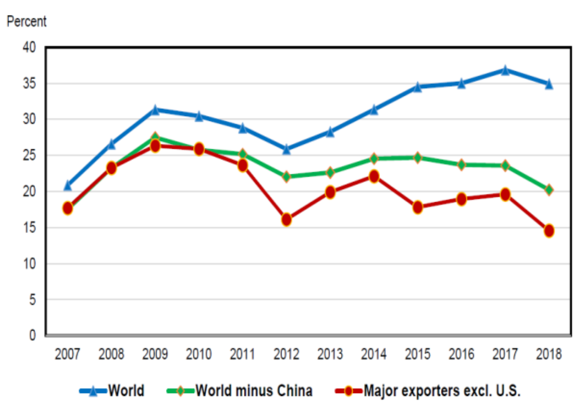
Figure 1 – Major Wheat exporters are Stocks are "Tight"



Source: USDA, Foreign Agricultural Service, Production, Supply and Distribution online database.

World ending stocks are projected to be 261.29mmt or 4.67% below 2017/18. Forecast 2018/19 wheat domestic consumption is estimated at 746.06mmt similar to 2017/18 of 741.01mmt. Wheat stocks excluding China are still running low (see figures 1 and 2). Higher wheat supplies in Russia and Kazakhstan, as well as lower projected exports and feeding in Australia, contribute to a certain improvement in the wheat stocks-to-use ratios, which had become critically low for some countries.

Wheat stocks—excluding China with its artificially high stocks—are still running very low, with the stocks-to use ratio the lowest since 2007/08. And for the major wheat exporters excluding the United States (where stocks are comfortable this year and the stocks-to-use ratio runs above 80 percent), the ratio is at the record-low level of 15 percent.



(source – USDA)

Russian ending 2018/19 wheat stocks are projected 6.87 mmt with the stocks-to-use ratio at 17 percent.

Australia and Canada Drive Wheat Exports Down

World wheat trade for the 2018/19 international trade year (July-June) is forecast down moving from a record high to the third-highest export amount at 181.39mmt.

Significant reductions in production and export prospects for Australia and Canada drive global wheat exports down and provide additional support for foreign exports. Projected wheat exports by Australia are expected to be 14.0mmt the lowest level in 9 years. This is due to reduced production due to drought. The country is using more wheat domestically rather than exporting it and is even moving wheat across the continent from Western Australia to the eastern States that are affected by a severe drought. Lower supplies reduce exports by Canada to 24.0mmt.

In Russia, exports are estimated at 35.0mmt despite higher projected wheat output, exports are left unchanged, mainly because additional wheat is expected to come from the eastern part of the country far away from ports.

Wheat in **Australia** was planted into "dust" in the eastern States of Queensland and New South Wales, which together produce almost 40 percent of the country's wheat. The dryness has been very pronounced along the border between these two States, an area that alone produces about 20 percent of Australia's wheat. Dry planting reduced wheat area prospects to 11.0 million hectares, in line with updated estimates from ABARES (the Australian Bureau of Agricultural and Resource Economics and Sciences). In contrast, on the other Australian coast, crop conditions in the main wheat-producing state of Western Australia are very favorable for crop development, Yields there are expected to balance out reduced yields in the east. With lower wheat area, projected wheat production for Australia is down 2.0 million tons this month to 20.0 million.

Oil Outlook

Slower Use of Soybeans in China is Anticipated

Global soybean production for 2018/19 is forecast to be 369.3 million tons. Also, higher 2018/19 soybean output is forecast for China—of 15 million. The crop gain is based on official data indicating a moderately larger expansion of soybean area this year of 8.4 million hectares. Growing conditions for soybeans in China were generally good this year.

At the same time, soybean use by China's crushing industry is projected lower for both 2017/18 and 2018/19 to 90 million for 2017/18 and by 1.5 million tons for 2018/19 to 93.5 million. All the shipments by exporters to China that are likely arrive in August and September have moderated. Consequently, USDA forecasts soybean imports by China to slow to 94 million tons for 2017/18 and could remain steady at 94 million through 2018/19. Next year's carryout stocks in China may also tighten modestly to 20.8 million tons from 22.5 million at the end of 2017/18.

The consumption of soybean meal in China is forecast down for both 2017/18 (to 70.4 million tons) and 2018/19 (to 73.2 million tons). Aside from the higher costs, there are other factors going forward that could potentially influence feed demand in China. In August, the country had an isolated outbreak of African swine fever (ASF), which is a highly infectious and typically lethal disease in hogs that has no treatment. ***China raises more than half of the world's hogs, making its pork industry the global leader.*** The country's massive soybean imports are largely destined to supply the hog sector with protein in the form of soybean meal. ASF was initially discovered in northern provinces. Thousands of infected pigs from affected regions have been culled and the movement of feeder pigs to other regions is now being restricted to prevent further transmission. If the outbreak is not brought under control quickly, shortages of pigs could start to develop in the major production regions farther south.

In contrast, Indian production of soybeans for 2018/19 is expected 300,000 tons lower this month to 10.5 million. At 11.2 million hectares, the area sown by Indian farmers this year was less than anticipated. Domestic crush is forecast unchanged, though, so the crop reduction may repeat a low level of season-ending stocks in India.

Soybean yields in Canada for 2018/19 may be trimmed by drier than usual summer weather. Coupled with a 13-percent decline in Canadian soybean area this year, 2018/19 production is forecast down to 7 million—compared to 7.7 million in 2017/18. A smaller harvest—and a better chance that U.S. exports will gain a larger share of the European import market—could constrain new-crop soybean exports from Canada to 5 million tons compared to 4.9 million in 2017/18.

Soybean Production Soars on Record Yield and Acreage

USDA's *Crop Production* report this month indicated an increase in 2018/19 soybean production of 107 million bushels to 4.693 billion. A higher U.S. yield forecast was responsible, which climbed to a record 52.8 bushels per acre from 51.6 bushels last month. The 2018/19 demand outlook for soybeans, however, is changed minimally due solely to a 10-million-bushel increase for the crush forecast to 2.07 billion. Production gains would swell USDA's forecast of 2018/19 ending stocks to an all-time high 845 million bushels versus 785 million last month. USDA lowered its 2018/19 forecast range for the U.S. season-average farm price by 30 cents to $7.35-$9.85 per bushel.

Expanding Surplus of New-Crop Soybeans Weighs on Prices

In July, domestic soybean processors turned in a record pace for the month at 179 million bushels—exceeding the previous high for July by 15 percent. The robust performance prompted USDA this month to boost its forecast of the 2017/18 crush by 15 million bushels to 2.055 billion. A record level of soybean meal exports—which were forecast higher by 300,000

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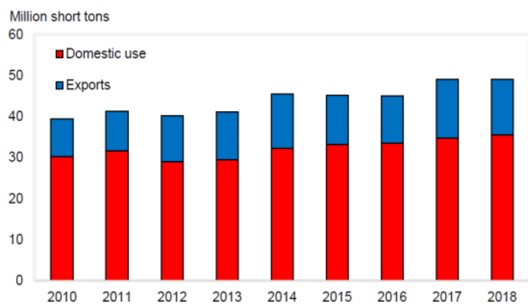
Oil Outlook

short tons to 14.4 million—is propelling processor demand for soybeans. U.S. soybean exports also finished the crop year strongly. With the exception of two years ago, export shipments for August 2018 were the largest ever for the month. The forecast of 2017/18 soybean exports is raised by 20 million bushels this month to 2.13 billion.

Surge in U.S. soybean meal exports leads a strong 2017/18 crush rate



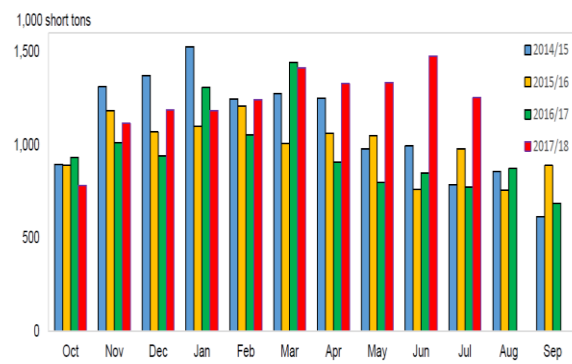
Sources: USDA, Economic Research Service, *Oil Crops Yearbook* and World Agriculutral Outlook Board, *World Agricultural Supply and Demand Estimates.*

For 2018/19, higher old-crop soybean demand trimmed the expected beginning stocks to 395 million. ***Nevertheless, expected total supplies for 2018/19 may expand 72 million bushels due to higher forecast production.*** This month's *Crop Production* report, published by the National Agricultural Statistics Service, indicated an increase in 2018/19 soybean production of 107 million bushels to 4.693 billion. A higher U.S. yield forecast was responsible, which climbed to 52.8 bushels per acre from 51.6 bushels last month. If realized, the new forecast yield would top a 2-year-old record of 52 bushels per acre. States with higher forecast yields this month include Kansas, Illinois, and Indiana, which more than offset reductions for North Dakota and South Carolina. Summer weather for the Midwest was generally beneficial to soybeans with a lack of extreme temperatures during pod development in August. Crop conditions also improved over the second half of the month following a resurgence in rainfall. Soybean crops are rapidly approaching maturity throughout the Midwest, while harvesting is now well underway in Louisiana, Mississippi, and Texas.

The 2018/19 demand outlook for soybeans, however, is changed minimally due solely to a 10-million-bushel increase for the crush forecast to 2.07 billion. ***Thus, production gains would swell USDA's forecast of 2018/19 ending stocks to an all-time high 845 million bushels versus 785 million last month.***

The outlook for a growing surplus of soybeans led USDA to lower its 2018/19 forecast range for the U.S. season-average farm price by 30 cents to \$7.35-\$9.85 per bushel. By early September, cash market soybean prices in most parts of the country had fallen below \$8.00 per bushel. Last month, USDA published details of its Market Facilitation Program (MFP), which will compensate commodity producers adversely affected by retaliatory tariffs imposed by foreign countries. As of September 4, eligible U.S. soybean producers can apply for a \$1.65 per bushel cash payment on half of their 2018/19 certified production. Based on USDA's current production estimate, the initial soybean payments could total at least \$3.6 billion. At a future date, USDA will announce a MFP payment rate for the second half of the crop if circumstances have not changed.

U.S. soybean meal exports maintain a torrid pace



Source: USDA, National Agricultural Statistics Service, *Crop Production.*

Canola Outlook

Canadian Canola

For 2017-18, Canadian disposition of canola held steady with last year on a total usage of 20.4 million tonnes (Mt). Total exports of canola were 10.9 Mt, representing a slight decrease from the 11.0 Mt shipped in 2016-17 while the industrial use of canola increased by about 0.1Mt, to record 9.3 Mt, as the processing industry continued to operate at near full capacity despite pressured crush margins towards the end of the crop year.

Carry-out stocks are estimated at 2.4 Mt, up sharply from the 1.3 Mt in 2016-17. Of this, 1.4 Mt was carry-out on-farm while 0.95 Mt was in commercial handling facilities. Canola prices, track Vancouver, averaged $539/t, up $10/t from 2016-17, and similar to the previous 5 year average.

For 2018-19, canola production is estimated by Statistics Canada at 19.1Mt. Over the past 10 years, the pre-harvest survey has underestimated the final production by 2.4Mt, ranging from an overestimation of 1.5 Mt during the drought year of 2012-13 to an underestimation of 5.0 Mt in 2015-16. The production estimate is based on a seeded area of 9.2 million hectares (mln ha), a harvested area of 9.19 mln ha and yields of 2.09 t/ha.

Total supplies of canola are estimated at 21.7 Mt, a drop of about 1.1 Mt from 2017-18, as the sharp drop in output is partly offset by higher carry-in stocks of 2.4 Mt and steady imports of 0.1 Mt. Total disposition of canola is forecast to remain stable despite increased pressure from burdensome world oilseed and vegetable oil supplies. Canadian exports of canola are forecast to increase by 6%, to 11.5 Mt, as world demand for Canadian canola remains strong. Meanwhile domestic crushing is forecast to increase slightly to 9.2 Mt as the processing industry is expected to continue operating at near full capacity. Canadian production of canola oil and meal are forecast at 4.1 Mt and slightly over 5.0 Mt, respectively.

Carry-out stocks are forecast at 1.3 Mt for a stocks-to-use ratio of 6%. Canola prices are forecast to decline marginally, to $500-540/t, as pressure from lower world soybean and soyoil prices is mostly offset by support from the lower Canadian dollar against its American counter-part. AAFC's price forecast for canola is a combination of crop year prices to-date combined with anticipated price movements for the remainder of the crop year. The spillover impact of the China-US trade dispute, complete with tariffs on US soybeans, has largely been captured by the crop year-to-date component of the price estimate.

Canola Futures Chart - Jan 2019 as of Oct 3, 2018

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Canadian Canola

Canola [a]: September 17, 2018			
	2016-2017	**2017-2018[f]**	**2018-2019[f]**
Area seeded (kha)	8,411	9,307	9,203
Area harvested (kha)	8,263	9,266	9,189
Yield (t/ha)	2.37	2.3	2.09
Production (kt)	**19,599**	**21,328**	**19,162**
Imports (kt) [b]	95	103	100
Total supply (kt)	**21,785**	**22,773**	**21,653**
Exports (kt) [c]	11,016	10,909	11,000
Food and Industrial Use (kt) [d]	9,191	9,269	9,200
Feed, Waste & Dockage (kt)	167	138	152
Total Domestic Use (kt) [e]	9,426	9,474	9,403
Carry-out Stocks (kt)	**1,342**	**2,391**	**1,250**
Average Price ($/t) [g]	529	539	500-540
[a] Crop year is August-July.			
[b] Imports exclude products.			
[c] Exports include grain products, while excluding oilseed products.			
[d] Food and Industrial Use for soybeans is based on data from the Canadian Oilseed Processors Association. Total number excludes flaxseed food and industrial use due to data confidentiality.			
[e] Total domestic use equals Food and industrial use plus Feed waste and dockage plus Seed use plus Loss in handling			
[g] Specification of crops for crop year average prices: Canola (No.1 Canada, cash, Track Vancouver)			
f: forecasts by AAFC. For 2018-19, area, yield and production are from the STC survey but imports and dispositions are forecast by AAFC.			
Source: Statistics Canada (STC) and Agriculture and Agri-Food Canada (AAFC)			