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Canada

Grain and Feed Annual

2018

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Report Highlights:
FAS/Ottawa is forecasting MY 2018/19 wheat production to remain similar to the MY 2017/18 level, as additional spring wheat area and improvements in durum yields offset lower spring wheat yields. Tight domestic feed barley supplies have supported increased shipments of corn from the United States; however, this is not expected to continue in MY 2018/19, based on a forecast of increased domestic feed barley production. Canada's corn exports are also expected to decline in MY 2018/19, as global exportable supplies rise.

Keywords: CA18027, Canada, grain, wheat, corn, barley, oats

Executive Summary

FAS/Ottawa anticipates MY 2018/19 total wheat production to remain flat as an increase in area seeded to spring wheat and improvements in durum yields offset lower spring wheat yields. Spring wheat area will receive a boost from limited crop rotation options due to concerns over soil moisture conditions and lower lentil prices following trade restricting measures in India, traditionally Canada's largest export market for pulses. Stable export demand, good quality and low feed grain prices are expected to push wheat exports higher in MY 2017/18.

In MY 2018/19, FAS/Ottawa expects barley production to be higher, with area seeded up from the MY 2017/18 record-low as soil moisture concerns and the malting premium improve expected returns for barley. Barley exports are forecast slightly lower on less malt-grade barley in MY 2018/19, following the remarkably high percentage graded for malt in MY 2017/18. FAS/Ottawa is forecasting MY 2017/18 barley imports significantly higher than the USDA official forecast, based on tight Canadian feed barley supplies, a strong import pace to-date, and continued demand from livestock feeders. Increased barley production and more feed quality barley are expected to reduce Canadian imports of U.S. barley in MY 2018/19.

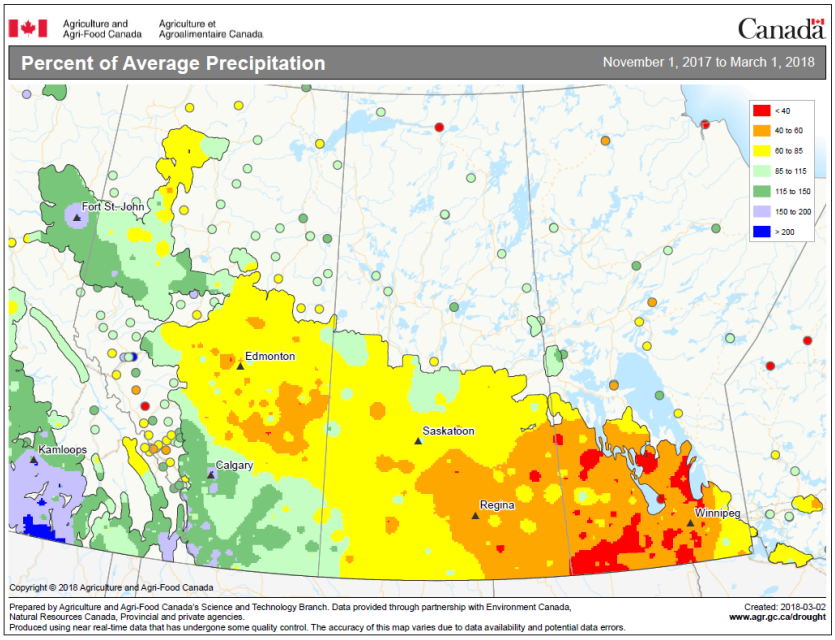
MY 2018/19 corn production is expected to be unchanged with slightly lower yields offsetting marginal increases in area seeded. With greater feed barley volumes projected, FAS/Ottawa forecasts Canadian corn imports down in MY 2018/19. Canada's corn exports are also expected to decline in MY 2018/19, as global exportable supplies rise.

All Grains

Significantly lower lentil prices and arid soil condition concerns in Saskatchewan and Manitoba are expected to give area seeded to wheat and barley a small boost, pushing Prairie Province grain area 265,500 hectares higher (+2 percent) in MY 2018/19.

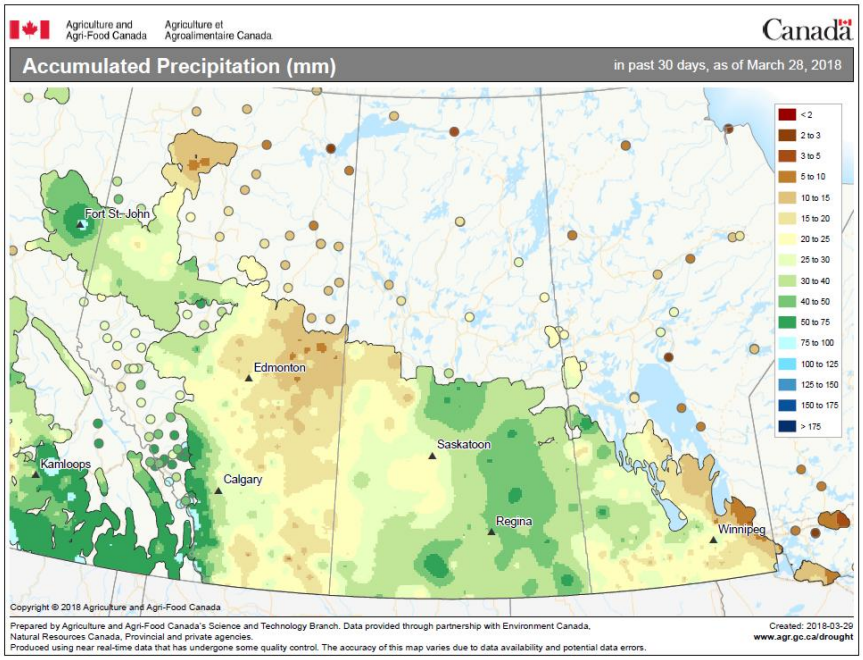
Indian tariffs on Canadian lentils have driven prices lower since November 2017. With barriers limiting exports to Canada's largest pulses export market, a portion of area seeded to dry peas and lentils in MY 2017/18 is expected to move into wheat, barley or other pulses in MY 2018/19.

Prior to March, large crop-growing areas of the prairies received only 40-60 percent of average winter precipitation. The impact of this shortfall could amplify the effects of below average precipitation carried in from the 2017 growing season, particularly in central Saskatchewan. Achieving average yields for all crops covered in this report would depend on moisture condition improvements.



Source: [Agriculture and Agri-Food Canada]

While March brought significant snowfall to Saskatchewan and parts of Manitoba – as much as 75 mm in some areas of Saskatchewan – it is still too early to ascertain what soil moisture conditions will be at planting time. If the snow melts too quickly, then water will run off the frozen ground, whereas a slow melt would add moisture back to the soil. Spring rains would also improve soil moisture and confer the added benefit of recharging dugouts and ponds used for irrigation, which typically don't benefit from slow snowmelt.



Source: [Agriculture and Agri-Food Canada]

WHEAT

Wheat	2016/2017		2017/2018		2018/2019	
Market Begin Year	Aug 2016		Aug 2017		Aug 2018	
Canada	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	8878	8976	9000	8983	0	9100
Beginning Stocks	5178	5178	6835	6835	0	6719
Production	31729	32140	30000	29984	0	29900
MY Imports	502	499	500	500	0	500
TY Imports	506	503	500	500	0	500
Total Supply	37409	37817	37335	37319	0	37119
MY Exports	20157	20211	22500	22100	0	22200
TY Exports	20235	20269	22500	22100	0	22200
Feed and Residual	5435	5765	3500	3500	0	4100
FSI Consumption	4982	5006	5200	5000	0	5100
Total Consumption	10417	10771	8700	8500	0	9200
Ending Stocks	6835	6835	6135	6719	0	5719
Total Distribution	37409	37817	37335	37319	0	37119
Yield	3.5739	3.5805	3.3333	3.3378	0	3.2857
(1000 HA), (1000 MT), (MT/HA)						

Production

Total MY 2017/18 wheat production was down seven percent to 29.98 million metric tons (MMT), on lower durum yields and reduced area seeded to spring wheat (down less than a percent), to durum (down 15 percent) and to winter wheat (down 20 percent). In line with historical rates, 98 percent of all wheat seeded was harvested.

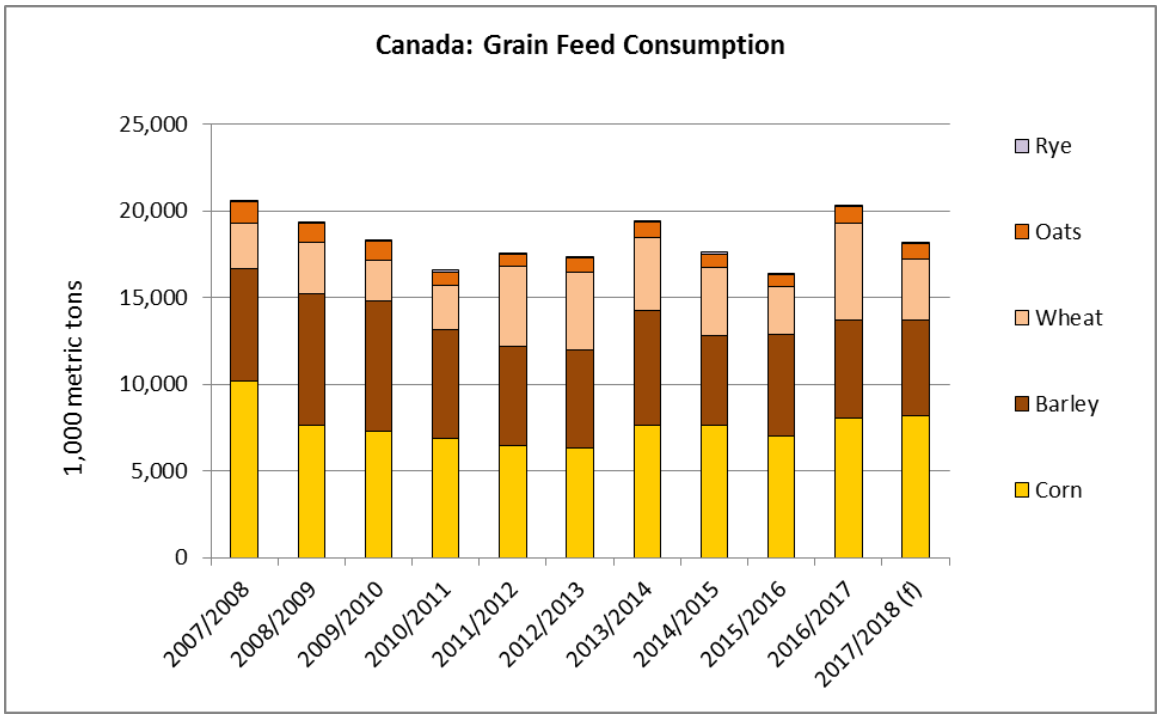
Total wheat, spring wheat and durum area seeded in MY 2018/19 are expected to remain below five-year averages, but total wheat area is forecast higher, led by a three percent increase in area seeded to spring wheat. Dry conditions in the prairies and lower anticipated returns for lentils and dry peas are expected to drive spring wheat area higher in MY 2018/19, while durum area is forecast flat on weak export demand and relatively soft prices.

In MY 2018/19, total wheat production is expected to remain similar to the MY 2017/18 level, as additional spring wheat area and better durum yields offset lower spring wheat yields. While improved wheat genetics helped boost MY 2017/18 yields in regions that received minimal rain during the growing season, high subsoil moisture at planting was critical to realizing superior water use efficiency yield gains. Unless soil moisture conditions improve by planting, MY 2018/19 yields would drop, regardless of genetic improvements in water use efficiency.

Approximately 95 percent of the MY 2017/18 Canadian Western Red Spring (CWRS) crop was graded in the top two milling categories. The average CWRS protein level (all grades) was 13.0 percent, slightly below the 13.4 percent ten-year average. CWRS accounts for more than 75 percent of total wheat production in Canada. The Canadian Prairie Spring Red (CPSR) crop exactly matched the 12.1 percent ten-year average. The MY 2017/18 average durum protein level was 13.6 percent, well above the ten-year average of 12.9 percent, with 95 percent of the Saskatchewan crop within the top two grades (well above the ten-year average of 57 percent) and 85 percent of the Alberta crop within the top two grades (up from the five-year average of 71 percent).

Feed

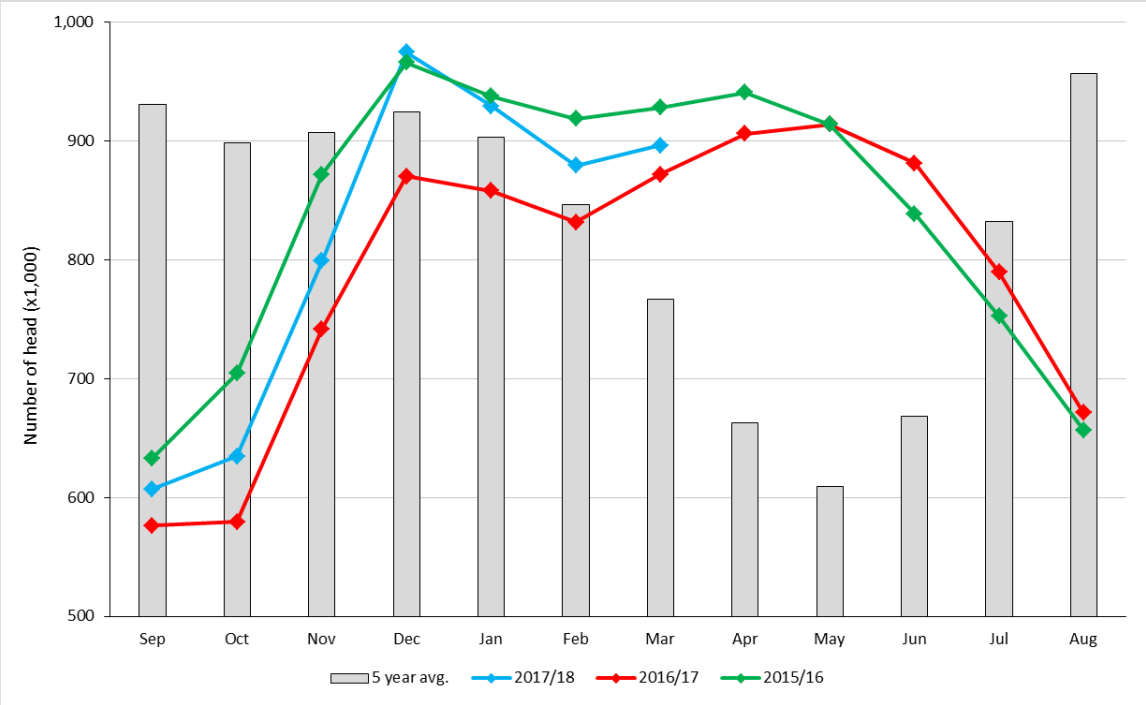
Strong prices for wheat for feeding, which has been on par with barley prices in parts of Alberta, and increased demand for U.S. corn point to broader tightness in Canadian feed grain supplies. From September 2017 through February 2018, imports of U.S. corn were 52 percent higher than the five-year average over that span. With U.S. corn trading relatively low at $215 - $220 CAD per metric ton (MT) in southern Alberta, prairie producers will look to export quality MY 2017/18 wheat, rather than sell to feed markets.



Source: Statistics Canada, FAS/Ottawa

Wheat producers are not alone, as barley producers have also been reluctant to sell their MY 2017/18 crop at feed grade prices, since such a high percentage was graded at malting quality. Exacerbating these tight supplies of Canadian feed grains, livestock industry demand has grown, with December 2017 cattle-on-feed numbers in Alberta and Saskatchewan reaching five-year highs. In response to strong cattle basis levels, less feeder cattle have been exported south and greater numbers were being fed in Canada in March 2018 than at that time in 2017.

Cattle on Feed
Alberta and Saskatchewan feedlots with >1,000 head capacity



Source: Canfax, FAS/Ottawa

Trade

MY 2017/18 total wheat exports through February were 14 percent higher year-on-year, as Canadian producers looked to market their high-quality wheat crop overseas, with little retention of wheat for domestic feeding.

In February 2018, wheat export volumes dropped 43 percent from the previous month, representing the lowest monthly level of total wheat exports since February 2011. The decrease coincided with the peak of accumulated, backlogged export shipments following a months-long rail transportation disruption. The backlog in shipments began to improve in March, and industry is expected to have worked through the backlog of shipments by the end of April 2018.

Anticipating delayed and/or lost exports, Canadian producers have been voicing their concerns about the rail disruption since September 2017. Despite recent improvements, producers claim foreign buyers are replacing imports of Canadian wheat with wheat from Australia and elsewhere. Though the impact of the rail service disruption has not been quantified, it is not expected to be as costly as the 2013/14 rail disruption, damages from which were estimated from $6.5 - $8 billion CAD. More information on the 2017/18 rail service disruption can be found in FAS/Ottawa GAIN report CA18020.

Only two years ago, Italy was Canada's top export market for durum, purchasing 27 percent of MY 2016/17exports. However, Canada's shipments of durum to Italy through February 2018 were down 36

percent marketing year-to-date. The decline in durum exports to Italy has been more than offset by an additional 335,000 MT of exports to the United States over the same period.

Durum Exports, Aug-Feb (metric tons)					
	5-yr avg	2016/17	2017/18	% Change	Difference
World Exports	2,807,194	2,427,407	2,494,899	3%	67,492
Algeria	503,289	644,876	568,248	-12%	-76,628
Italy	635,890	447,172	284,386	-36%	-162,786
Morocco	380,980	434,418	477,557	10%	43,139
United States	320,213	181,933	516,843	184%	334,910

Source: Global Trade Atlas

Storage Stocks

Stocks at the end of MY 2017/18 are forecast to fall from MY 2016/17 levels, dropping to three percent below the five-year average. With lower production, strong year-to-date exports, and producers looking to send good quality wheat to export markets rather than Canadian feedlots, FAS/Ottawa expects ending stocks to shrink to 6.7 MMT.

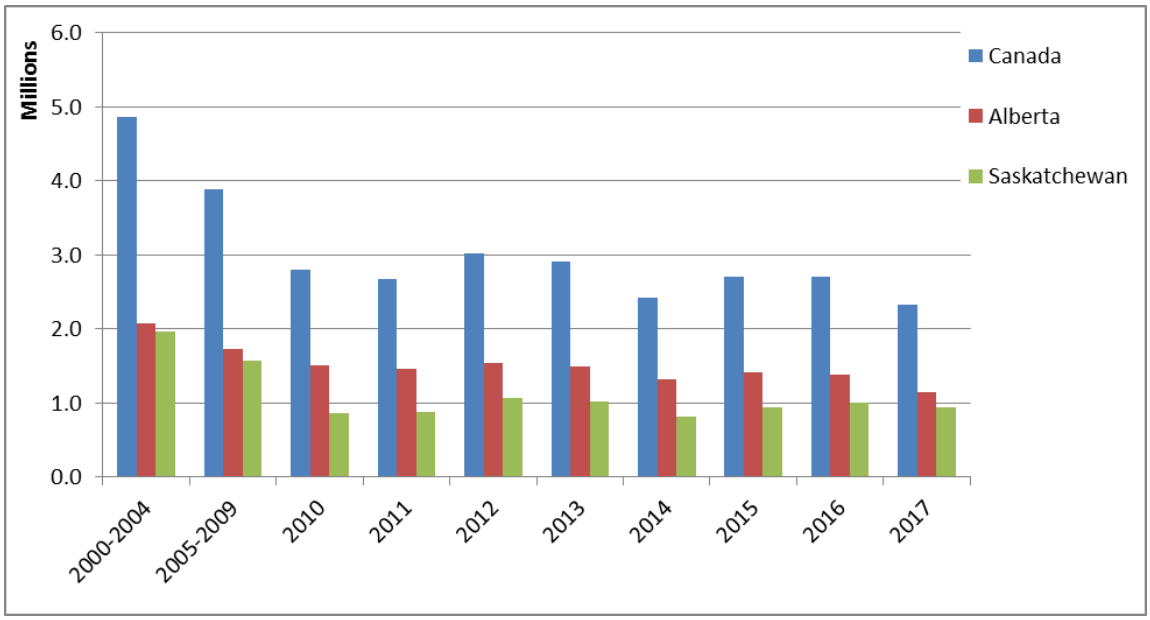
BARLEY

Barley	2016/2017		2017/2018		2018/2019	
Market Begin Year	Aug 2016		Aug 2017		Aug 2018	
Canada	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	2223	2266	2100	2114	0	2150
Beginning Stocks	1449	1449	2028	2122	0	1433
Production	8784	8839	7900	7891	0	8000
MY Imports	64	64	50	120	0	100
TY Imports	74	74	50	120	0	100
Total Supply	10297	10352	9978	10133	0	9533
MY Exports	1507	1546	1500	2000	0	1300
TY Exports	1770	1809	1500	2000	0	1300
Feed and Residual	5500	5615	5800	5500	0	5700
FSI Consumption	1262	1069	1200	1200	0	1200
Total Consumption	6762	6684	7000	6700	0	6900
Ending Stocks	2028	2122	1478	1433	0	1333
Total Distribution	10297	10352	9978	10133	0	9533
Yield	3.9514	3.9007	3.7619	3.7327	0	3.7209
(1000 HA), (1000 MT), (MT/HA)						

Production

Barley production was down 11 percent in MY 2017/18 on record-low area seeded and reduced yields (although yields were above the five-year average). MY 2017/18 area seeded to barley was 23 percent below the ten-year average, as more profitable canola and soybeans continued to sap area from barley.

Area Seeded to Barley (Hectares)



Source: Statistics Canada, FAS/Ottawa

Despite a dry growing season and a smaller overall crop due to lower area seeded, Canada produced a high percentage of malting quality barley in MY 2017/18. In Alberta, where 49 percent of total barley area was seeded, 50 percent was seeded to malting varieties. In Saskatchewan, where 40 percent of the country's barley was seeded, 77 percent of total barley area was seeded to malting varieties.

In MY 2018/19, FAS/Ottawa expects production to increase on additional area seeded. Area seeded is expected higher than the MY 2017/18 record-low, but still ten percent below the five-year average.

Feed

Successful producers of barley for malt generally receive a significant price premium over feed barley when selling into the malting market, however, the premium has shrunk in MY 2017/18. In March 2018, tight feed barley supplies drove monthly feed barley prices 13 percent higher than a year earlier, while ample malt-grade supplies drove down the domestic price premium. Since September 2017, feed barley prices have been near malting barley bids in some areas. In MY 2018/19, barley for feeding is expected to increase as feed barley supplies recover.

Trade

Through February 2018, marketing year-to-date barley imports from the United States have increased 36 percent due to low barley production in the prairie provinces, tight feed barley supplies and strong export demand for malting barley.

FAS/Ottawa is forecasting MY 2017/18 barley imports significantly higher than the USDA official forecast, based on tight domestic supplies of feed barley, a strong import pace year-to-date, and expected continued strong demand from livestock feeders during the second half of the marketing year. Import pace is expected to ease in the final four months of MY 2017/18, as warmer temperatures bring a decline

in feed requirements for cattle and mark the start of springtime weight restrictions along trucking corridors.[1]

MY 2018/19 imports of barley for feed from the United States are forecast to be lower than MY 2017/18, based on FAS/Ottawa's forecast of higher Canadian production and greater feed quality barley supplies.

In MY 2017/18, FAS/Ottawa is forecasting barley exports to rise 29 percent on increased demand. Strong Chinese demand for malting and feed barley have buoyed exports of Canada's high-quality MY 2017/18 crop, more than offsetting an anticipated decline in exports to the United States, Canada's second largest market. Through February 2018, Canada's MY 2017/18 barley exports to China were more than double the same-period average for the three previous years.

Barley Exports to China (MT)

MY	MY (Aug - July)	MY YTD (Aug -Feb)	MY YTD Percent of Canadian Barley Exports to the World
2011/12	319,598	202,592	26%
2012/13	248,775	129,476	12%
2013/14	480,665	180,931	22%
2014/15	836,218	467,425	51%
2015/16	687,219	528,576	65%
2016/17	992,344	476,703	73%
2017/18	-	1,020,732	85%

Source: Global Trade Atlas, Statistics Canada; calculations by FAS/Ottawa

In MY 2018/2019, FAS/Ottawa forecasts Canadian barley exports to fall due to ample global supplies and smaller Canadian malt grade barley volumes.

[1] In order to reduce the amount of road damage, Canadian provinces issue annual "Spring Thaw" policies. Enforced by the province, the policies restrict loads carried across at-risk highways for a fixed period.

CORN

Corn	2016/2017		2017/2018		2018/2019	
Market Begin Year	Sep 2016		Sep 2017		Sep 2018	
Canada	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	1325	1414	1405	1406	0	1430
Beginning Stocks	2213	2242	2041	2187	0	2202
Production	13193	13889	14100	14095	0	14100
MY Imports	851	830	1200	1220	0	1000
TY Imports	827	805	1200	1220	0	1000
Total Supply	16257	16932	17341	17502	0	17302
MY Exports	1516	1517	1300	1800	0	1550
TY Exports	1538	1538	1300	1800	0	1550
Feed and Residual	7100	8055	8600	8200	0	8100
FSI Consumption	5600	5203	5600	5300	0	5400
Total Consumption	12700	13258	14200	13500	0	13500
Ending Stocks	2041	2187	1841	2202	0	2252
Total Distribution	16257	16962	17341	17502	0	17302
Yield	9.957	9.8225	10.0356	10.0249	0	9.8601
(1000 HA), (1000 MT), (MT/HA)						

Production

In MY 2017/18, corn production increased one percent from the previous crop year due to an increase in area seeded and improved yields. Ninety percent of the area seeded to corn in Canada is seeded in Ontario (60 percent) and Quebec (30 percent).

In MY 2018/19, corn production levels are expected to remain unchanged as a marginal increase in area seeded is offset by lower yields that are expected to fall back to the five-year average. In MY 2018/19, area seeded is expected to increase with area seeded up marginally in Ontario, as crop rotations are expected to remain fairly fixed in both Ontario and Quebec.

Feed

In MY 2017/18, corn for feed is forecast up two percent due to increased production in Manitoba and strong demand from Alberta feedlots as corn prices have been competing favorably with feed barley prices and feed wheat prices. As previously discussed, demand is also increasing due to higher levels of cattle on feed compared to a year ago.

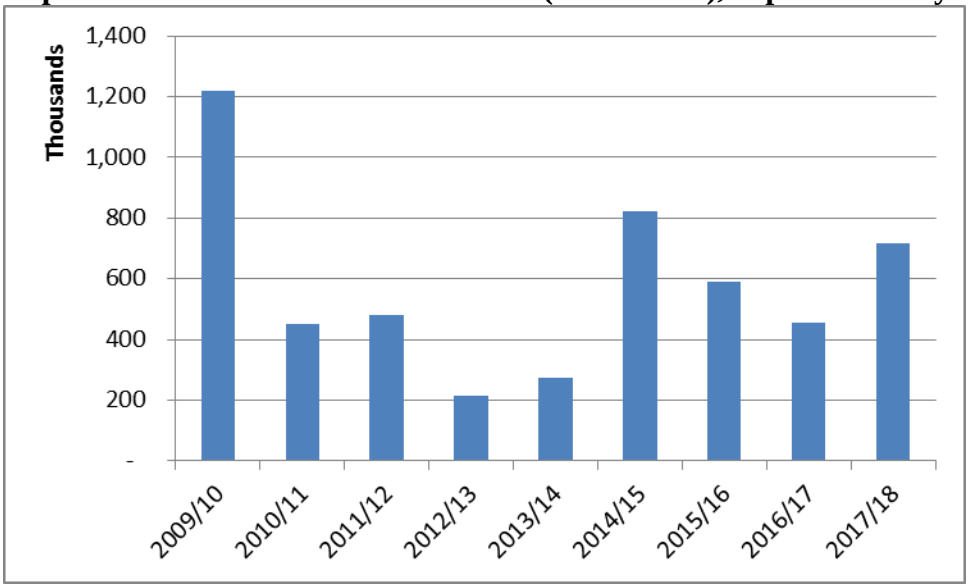
In MY 2018/19, domestic corn for feed is expected to increase with continued demand from the livestock sector. Imports of corn for feed are expected to ease as feed barley prices fall on increased supply.

Trade

MY 2017/18 corn imports through February 2018 were up 57 percent over the previous marketing year to 268,801 MT, reaching the highest monthly level in eight years in November 2017 and again in

February 2018. The increase in demand is due to tight supplies of feed barley and comparatively high feed barley prices. Ninety-five percent of Canada's corn imports come from the United States.

Imports of corn from the United States (metric tons), Sept - February



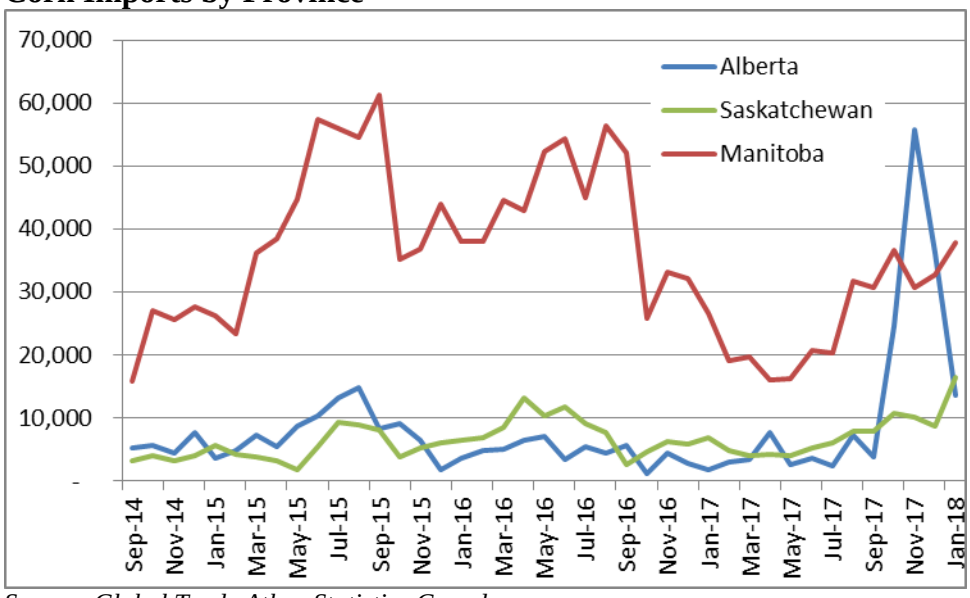
Source: Statistics Canada, Global Trade Atlas, FAS/Ottawa

In October and November 2017, 38 and 30 percent of corn imported into Canada came by rail, the highest monthly rates of corn delivery by rail since December 2014. Rail delivered 22 percent of corn from 2013 to 2016, with the majority of the rest delivered by truck. However, Alberta feedlots' increased demand for feed corn, feed grain price spreads and north-south rail pricing have made greater volumes of rail shipments financially feasible since October 2017.

U.S.-to-Canada Corn Shipments by Rail		
	Metric tons	**Percent of Total U.S.-to-Canada Corn Shipments**
2014	310,919	32%
2015	313,646	22%
2016	222,255	22%
2017	202,043	21%

Source: Statistics Canada, Global Trade Atlas

Corn Imports by Province



Source: Global Trade Atlas, Statistics Canada

At recent corn and rail freight prices, 100 rail cars per shipment have been required to make rail shipments preferable to trucking in Southern Alberta, leading feedlots to place large orders of about 10,000 tons at a time. Industry sources indicate that feedlots are continuing to bid on 10,000-ton orders for delivery up to the summer of 2018.

The rail disruption has slowed down east-west rail movements of export crops to ports and reduced the availability of rail cars on those corridors. However, incoming U.S. grains moving north-south have not been significantly impacted by the availability of space at elevators or at transloading facilities, and FAS/Canada is not aware of any Canadian feedlots being short of corn due to delayed delivery.

MY 2017/18 exports are forecast to increase 19 percent over the previous crop year based on higher domestic supplies, a stronger export pace to-date and the expectation of continued demand from Portugal and Spain due to tight supplies in Western Europe. Through January 2018, Canadian MY 2017/18 corn exports year-to-date were up 18 percent to 79,620 MT.

MY 2018/2019 exports are expected to contract based on expectations of higher global supplies.

OATS

Oats	2016/2017		2017/2018		2018/2019	
Market Begin Year	Aug 2016		Aug 2017		Aug 2018	
Canada	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	907	925	1050	1049	0	1050
Beginning Stocks	930	967	690	703	0	995
Production	3195	3231	3700	3724	0	3600
MY Imports	21	21	10	18	0	18
TY Imports	18	18	10	18	0	18
TY Imp. from U.S.	18	18	0	17	0	0
Total Supply	4146	4182	4400	4445	0	4613
MY Exports	1642	1642	1600	1600	0	1600
TY Exports	1557	1550	1600	1600	0	1600
Feed and Residual	894	932	1200	900	0	900
FSI Consumption	920	942	900	950	0	950
Total Consumption	1814	1874	2100	1850	0	1850
Ending Stocks	690	703	700	995	0	1163
Total Distribution	4146	4219	4400	4445	0	4613
Yield	3.5226	3.493	3.5238	3.55	0	3.4286
(1000 HA), (1000 MT), (MT/HA)						

MY 2017/18 production increased 493 MT over the previous marketing year on increased area seeded and improved yields of 3.55 tons per hectare, which was above the five-year average of 3.25 tons per hectare. MY 2017/18 oat crop quality was generally good.

MY 2018/19 production is forecast to fall 120,000 MT from the previous crop year, due to a return to average yields, but remain above the five-year production average.

Oat exports through January 2018 were down ten percent marketing year-to-date compared to the same period in the previous crop year, but above the five-year average. Continued tight supplies in the United States, increased supplies in Canada, and demand from the United States, Japan and Mexico are expected to bolster Canadian oat exports for the remainder of MY 2017/18.

In MY 2018/19, exports of oats are expected to remain similar to the previous crop year, due to incremental supply growth and sustained demand.

In MY 2018/19, domestic consumption is expected to be unchanged from the previous crop year.

Policy Issues

Variety Designation Changes

In January 2016, the Canadian Grain Commission (CGC) began implementing a plan to modernize Canada's wheat classes and announced the implementation of the Canada Northern Hard Red (CNHR) and Canada Western Special Purpose (CWSP) wheat classes. These classes came into effect on August 1, 2017, however, producers began adjusting their use of certain varieties in anticipation of the reclassifications.

The plan reflects feedback from consultations in early 2015, followed by discussions with stakeholders on a proposed plan, as well as an evaluation of international markets conducted by Cereals Canada and the Canadian International Grains Institute. The new wheat milling classes of CNHR and CWSP are intended to give Canadian producers more flexibility in what they grow.

American Dark Northern Spring varieties Faller, Prosper and Elgin ND, which were in the Canada Western Interim Wheat class, moved to the new CNHR class commencing August 1, 2017, and the interim class, which was created August 1, 2015, has been discontinued. The interim class was created when producers expressed interest in growing high yielding American wheat varieties that didn't fit CWRS class specifications. Manitoba is the largest producer of Faller, Prosper and Elgin ND in Canada, where it is grown primarily for feed. In 2017, 97 percent of all wheat grown for feed in Manitoba (87,000 hectares) were Faller, Prosper and Elgin-ND varieties.

The target quality of this class is for it to have sound kernels (good falling number), very good milling quality, with medium gluten strength (lower than both the CWRS and CPSR classes). Protein content of CNHR will be variable and span the protein content range of the CWRS and CPSR classes. There are three milling grades available.

The following 25 CWRS varieties will move to the CNHR class on August 1, 2018: AC Abbey, AC Cora, AC Eatonia, AC Majestic, AC Michael, AC Minto, Alvena, Alikat, CDC Makwa, CDC Osler, Columbus, Conway, Harvest, Kane, Katepwa, Leader, Lillian, McKenzie, Neepawa, Park, Pasqua, Pembina, Thatcher, Unity, 5603HR.

The following four Canada Prairie Spring Red (CPSR) varieties will move to the CNHR class on August 1, 2018: AC Foremost, AC Taber, Conquer, Oslo. On August 1, 2019, AC Crystal is expected to move from CPSR to the CNHR class.

CGC Lowers Fees

The Canadian Grain Commission (CGC) reduced fees for many of its services and licenses as of April 1, 2018. Several other fees will be streamlined or eliminated altogether. As a result of these changes, CGC states that Canada's grain sector is expected to save over $400,000 CAD this year. This is on top of the $15 million CAD in annual savings expected from fee reductions made in August 2017.

Highlights of the fee changes, which took effect April 1, 2018, include:

- Lowering fees for re-inspection of grain, fees for authorization of third parties to provide inspection or weighing services, supplementary fees for official inspection, and the cost of licenses for grain buyers;
- Eliminating the standby fee, which was charged for conducting inspection during off-duty hours;
- Simplifying the fees for inspection of submitted samples by setting one fee for these inspections, rather than having different fees for several different types of samples.

Starting with fiscal year 2019-2020, fees will be adjusted for inflation annually on April 1. A listing of all services and fees is available on the CGC website, www.grainscanada.gc.ca.