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## **Report Name:** Grain and Feed Update

**Country:** Canada

**Post:** Ottawa

**Report Category:** Grain and Feed

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### **Report Highlights:**

Poor weather conditions have diminished wheat quality and resulted in an increase in the share of production going into feed wheat, compared to the previous marketing year. Trade year 2019/20 wheat exports are behind last year and are forecast to fall nine percent due to strong global competition. Italy has re-emerged as the top market for Canadian durum driven by a shortage of high protein durum available domestically.

## MY 2019/20 WHEAT UPDATE SUMMARY

2019 was an exceptionally difficult year for the Canadian wheat industry as it was forced to deal with unfavorable weather conditions, a rail strike during harvest season, and an abundance of wheat on the global market. On the production front, Canadian wheat farmers had a wet planting season, a dry growing season, and a wet and snowy harvest season.

Seven percent of area seeded to spring wheat and three percent of area seeded to durum went unharvested due to snow and excessive moisture at harvest time. The remainder will be harvested in the spring and will go to feed and waste. FAS/Ottawa is holding production at 32 million metric tons (MT) for MY 2019/20, less than official Statistics Canada figures, until further harvest progress is made and yields can be determined. As a result of poor weather conditions, only 74 percent of Canadian Western Red Spring (CWRS) are in the top two grades<sup>1</sup>.

In the first five months of the trade year, wheat exports to the United States, China and Indonesia have decreased from the previous period while exports to Japan, Turkey and Italy have increased. Durum exports are up 19 percent over the previous period, driven by stronger exports to Italy and Turkey. Australia emerged as a wheat buyer in May 2019.

Except where otherwise noted, this report uses Statistics Canada data for historic trade figures. This report refers to trade years and marketing years, which for wheat run from August to July and July to June, respectively.

Canada: Wheat	2017/2018		2018/2019		2019/2020	
	Market Year Begin: Aug 2017		Market Year Begin: Aug 2018		Market Year Begin: Aug 2019	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	8,983	8,983	9,881	9,877	9,660	9,614
Beginning Stocks	6,856	6,856	6,479	6,479	5,916	5,916
Production	29,984	30,377	32,201	32,187	32,350	32,000
MY Imports	450	451	482	482	450	450
TY Imports	445	450	477	478	450	450
Total Supply	37,290	37,684	39,162	39,148	38,716	38,366
MY Exports	21,954	22,000	24,384	24,392	24,000	22,200
TY Exports	21,989	22,019	24,455	24,463	24,000	22,200
Feed and Residual	4,516	4,122	3,555	3,534	4,350	5,000
FSI Consumption	4,900	5,083	5,307	5,307	5,000	5,000
Total Consumption	9,416	9,205	8,862	8,841	9,350	10,000
Ending Stocks	5,920	6,479	5,916	5,915	5,366	6,166
Total Distribution	37,290	37,684	39,162	39,148	38,716	38,366

1000 HA, 1000 MT

<sup>1</sup> based on Canadian Grain Commission sample results

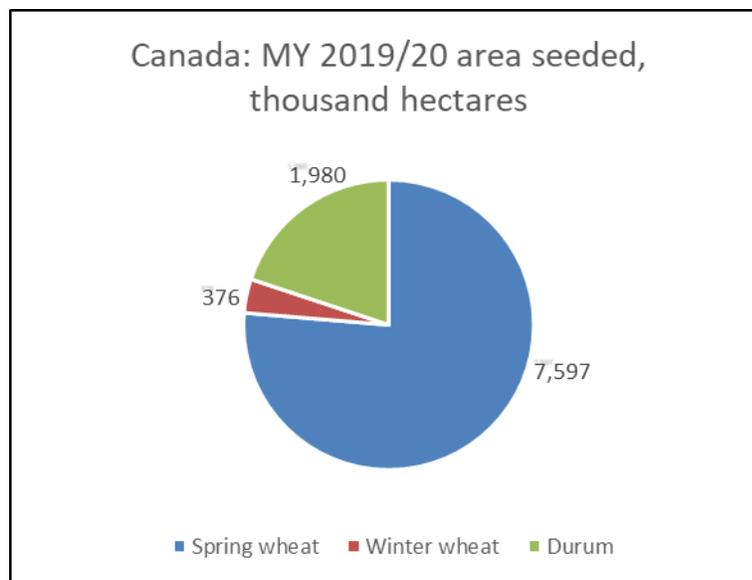
## PRODUCTION

FAS/Ottawa's production estimate remains lower than the official figure from Statistics Canada, owing to a disconnect between harvest progress conveyed in Statistics Canada's farmer survey, and actual progress reported by provincial governments.

The last provincial harvest progress reports (from the provincial governments of Alberta, Saskatchewan and Manitoba) covered the week ending December 3rd, at which point 93 percent of area seeded to spring wheat and 97 percent of area seeded to durum were harvested in the prairie provinces. The remaining area will be harvested in the spring, but large sections of spring wheat and durum have been knocked flat by snow and will be difficult to pick up. While some of it may qualify as feed, a portion of it will likely be considered waste.

Statistics Canada's estimates are based on a survey of 26,000 farmers, conducted between October 9 and November 17. During this period, 33 percent of spring wheat was harvested at the start of this period, and 92 percent by the end of the survey. Sixty-four percent of durum was harvested at the start of the survey period, and 97 percent at the end of the period. Snow and rain slowed or halted harvest in parts of the prairies throughout the survey period, in mid-October and throughout November and December.

Statistics Canada's final production figures for MY 2019/20, based on its survey results, were released on December 19. Area seeded to all wheat was reduced by 40,000 hectares, area harvested reduced by 162,000 hectares, and production revised down by 144,000 MT to 32.35 million MT. Statistics Canada is reporting spring wheat and durum yields at above the five-year average, and durum yields at their highest rate in five years. FAS/Ottawa expects these yield figures to be reduced slightly in future reports, due to dry growing conditions in some parts of the prairies.



Source: Statistics Canada; calculations by FAS/Ottawa

## QUALITY

Based on 5,000 samples graded in late November, quality reports from Canadian Grain Commission (CGC) indicate that 2019 crop quality was less than the historic average. The data shows that 74 percent of Canadian Western Red Spring (CWRS) are in the top two grades.

In addition to having a lower grade than the historic average, a significant amount of spring wheat was impacted by low [falling number](#). Low falling number does not currently affect the grade, but it can lead to market discounts. A low falling number can be tolerated in the production of some high fat and sugar doughs, but flour mills produce flour for many different types of products from a single mill run so grain low with a low falling number is difficult to use. The CGC is currently assessing whether falling number should be used as an official grading factor.

<b>CWRS in Western Canada, percent of samples by grade</b>				
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
<b>No. 1</b>	19	78	56	32
<b>No. 2</b>	39	14	18	42
<b>No. 3</b>	20	4	15	16
<b>Feed</b>	22	4	11	10
<b>Total number samples</b>	4,325	5,276	6,230	5,085

Source: Canadian Grain Commission, calculations by FAS/Ottawa

<b>Durum in Western Canada, percent of samples by grade</b>				
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
<b>No. 1</b>	11	76	67	26
<b>No. 2</b>	12	15	18	24
<b>No. 3</b>	39	5	10	29
<b>No. 4</b>	10	1	3	12
<b>No. 5</b>	28	3	2	9
<b>Total number samples</b>	1,298	1,539	1,556	1,186

Source: Canadian Grain Commission, calculations by FAS/Ottawa

## FOOD, SEED AND INDUSTRIAL

Wheat for food, seed, and industrial use is forecast near MY 2018/19 levels. No increase in wheat for biofuel usage is expected at this time as there are no new wheat-feedstock biofuel plants scheduled to go on-line in MY 2019/20, nor any expectation of expansions.

## FEED

Of the over 5,000 samples of CWRS that have been graded by the CGC as of November 27, 2019, 11 percent have been assigned a feed grade, marking a second consecutive year of relatively high percentage of CWRS graded as feed. In 2017, four percent of samples were graded as feed quality.

As much as seven percent of the area seeded to spring wheat crop remains unharvested, nearly all of which is expected to produce additional feed wheat, although some of it will likely be categorized as waste.

## TRADE - EXPORTS

Canada: Top five markets for wheat grain (incl durum), product and flour by trade year to date (July - Nov, 2019), metric tons						
Destination	2017/18	2018/19	2019/20	% Change	Difference	Share of total exports
World	9,064,727	9,744,970	8,792,040	-10%	(952,930)	100%
1 Indonesia	703,704	1,007,368	889,231	-12%	(118,137)	10%
2 Japan	634,185	599,384	840,471	40%	241,087	10%
3 United States	1,504,947	1,284,052	695,420	-46%	(588,631)	8%
4 Italy	358,364	261,306	501,001	92%	239,695	6%
5 China	334,600	656,718	301,568	-54%	(355,149)	3%

Source: Trade Data Monitor, LLC; FAS/Ottawa

Canada: Durum Exports, trade year to date, July - Nov 2019 (metric tons)					
	2017/18	2018/19	2019/20	Difference	5-yr avg
World	1,644,025	1,554,425	1,850,743	296,318	1,795,155
Italy	311,130	176,241	426,913	250,672	414,704
Turkey	49,523	14,858	376,420	361,562	12,876
Morocco	223,792	377,304	337,263	-40,041	249,154
United States	322,020	444,932	138,367	-306,565	254,754

Source: Trade Data Monitor, LLC; FAS/Ottawa

Based on the current trade pace, FAS/Ottawa forecasts a nine percent decline in wheat exports (including durum) in TY 2019/20 over the previous trade year. Data available shows that exports of wheat and wheat products have declined ten percent from the previous period because of competition from large global supplies. Exports will continue to benefit from increased diversification but, thus far into the trade year, it has not been enough to offset the declines from some of Canada's biggest markets including the United States, China, and Indonesia. The lower grade (grade three) discounted wheat may present opportunities in some of the more price sensitive export markets.

Five months into TY 2019/20, exports of durum to the United States, the leading buyer of Canadian wheat, have fallen 306,600 MT to 138,400 MT due to large U.S. stocks at the end of MY 2018/19.

Exports of wheat grains and products to China increased 47 percent to 2.1 million MT in TY 2018/19 due to China reducing its purchases from the United States. Canada's exports to China thus far into TY 2019/20 are down but this is simply a return to a more typical trade pace.

Five months into TY 2019/20 (July to November), eight of Canada's top 12 wheat importers have reduced their purchases from the same period in TY 2018/19. The top twelve markets represent about 70 percent of total wheat exports during the current period. Of the top twelve, only Japan, Italy, Turkey and Australia have increased purchases.

Canada is exporting spring wheat to Australia for the first time in 21 years, due severe droughts that have devastated production in that country. Canada exported a total of 181,184 MT in TY 2018/19 and 304,929 MT in the first five months of TY 2019/20 (July to November).

Exports of durum are up 19 percent in the first five months of the trade year, compared to the same period a year ago. The increase is led by additional purchases from Turkey and Italy of 361,562 MT and 250,672 MT, respectively.

Canada's exports of durum wheat to Italy are experiencing a pace of growth not seen since TY 2015/16, despite Italy's mandatory country-of-origin labelling (MCOOL) on durum being implemented in July 2017. The increase is due to a shortage of high-protein durum wheat in Italy. While export levels increased in TY 2018/19, compared to the previous period, Canada's market share in Italy is less than it was prior to pre-MCOOL based on competition from other durum producing countries. Italy will likely remain an irregular market for durum until MCOOL is reversed, and there is currently no indication of that happening.

<b>Italy's Durum Wheat Imports by Country of Origin, Market Share</b>						
	<b>TY 2013/14</b>	<b>TY 2014/15</b>	<b>TY 2015/16</b>	<b>TY 2016/17</b>	<b>TY 2017/18</b>	<b>TY 2018/19</b>
<b>Canada</b>	41%	53%	47%	35%	19%	28%
<b>Rest of World</b>	46%	35%	36%	55%	72%	59%
<b>United States</b>	13%	12%	17%	9%	9%	13%
<b>Total Imports</b>	2,290,329	2,726,916	2,531,215	2,145,410	1,912,745	1,994,327

SOURCE: Trade Data Monitor, FAS/Ottawa

Notes: Trade year is July to June

Exports of durum to Turkey are expected to increase significantly in TY 2019/20 as it continues to grow its pasta exporting industry. Exports increased more than six-fold in TY 2018/19 (July 2018 to June 2019), reaching 310,473 MT. That amount was already surpassed five months into TY 2019/20. Five months of trade year data (July 2019 to November 2019) indicate that exports to Turkey have made up 20 percent of all durum exports, compared to just one percent during the same period a year ago. It allows duty-free wheat imports under its inward processing regime so long as the resulting products are exports.

Under the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), Canada has had greater access to Japan via a country specific annual quota for food wheat which started at 40,000 tons on December 30, 2018 and will grow to 53,000 tons within six years of entry into force.

## **TRADE - IMPORTS**

FAS/Ottawa has estimated imports values due to errors in the U.S. Census Bureau's reporting of U.S. durum exports to Canada for the months of October and November 2019. Statistics Canada relies on U.S. Census Bureau data for imports originating from the United States.

## **STORAGE STOCKS**

In MY 2019/20, ending stocks are forecast by FAS/Ottawa to increase, due to a moderation of Canada's wheat exports caused by quality variability in the lower grades of wheat and increased [global supplies](#), as forecasted by the USDA.

Ending stocks of all wheat decreased nine percent from MY2017/18 to 5.92 million MT, in MY 2018/19. The decline was due to on-farm stocks, which fell 49 percent to 3.2 million MT, offsetting a 31 percent increase in commercial stocks.

## **RAIL TRANSPORTATION**

On November 19, 2019, conductors and yard crews working at Canadian National (CN) Railway Co. went on strike. On the morning of November 26, CN announced that a tentative agreement had been reached with their 3,200 CN employees for a new collective agreement, ending the eight-day strike. As part of the agreement, it was agreed that there would be no organized strike during the ratification period. The results of the ratification votes are expected by January 21, 2020.

During the week of the strike more than 560,000 MT of grain and oilseed cargo, that is usually transported by rail, did not move. During the current shipping season, CN alone deploys about 5,600 rail cars a week for the purpose of moving grains with each car carrying 90-100 tons of grain.

Significant delays were experienced as backlogged traffic had to work its way through the 25 ships parked in the Port of Vancouver and the ten anchored at the Port of Prince Rupert. Both ports are serviced only by CN Rail. Ninety percent of Canada's wheat and wheat product exports move by water, primarily through these two ports.

## **RAILWAY GRAIN REVENUE CAP**

Despite moving more grain, CN and Canadian Pacific (CP) railways did not exceed their grain revenue caps in MY 2018/19. CN billed shippers \$371,116 CDN less than permitted and CP billed \$764,101 CDN less. CN collected \$933.4 CDN million grain revenue and CP collected \$862.7 CDN million. This is the first time in four years that both railways stayed within their government-imposed grain revenue caps.

According to the Canadian Transportation Agency (CTA), just over 46 million MT of Western grain were moved by the two railways in 2018-19, 13.4 percent more than the volume moved during the previous crop year. CN moved 24.06 MMT of western grain and CP moved 22.00 million MT.

### **Attachments:**

No Attachments