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Canada

Grain and Feed Update

January 2018 Wheat Update

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Report Highlights:

Despite lower precipitation in summer 2017, the high quality of the Canadian 2017/18 wheat crop has contributed to short supplies of wheat for feeding, as wheat growers hold their crop in expectation of better prices later in the marketing year. Winter wheat planted area across the prairie provinces tumbled, on poor planting conditions and low price offers, and could push red spring wheat planting higher in 2018.

Keywords: Canada, CA18003, Wheat, Grain, Feed

Post:

Ottawa

Production

Wheat	2015/2016		2016/2017		2017/2018	
Market Begin Year	Aug 2015		Aug 2016		Aug 2017	
Canada	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	9,577	9,577	8,878	8,878	9,000	8,983
Beginning Stocks	7,101	7,101	5,178	5,178	6,835	6,865
Production	27,594	27,594	31,729	31,729	30,000	29,984
MY Imports	518	512	505	502	500	500
TY Imports	519	514	510	506	500	500
TY Imp. from U.S.	345	345	332	332	0	0
Total Supply	35,213	35,207	37,412	37,409	37,365	37,349
MY Exports	22,111	22,110	20,177	20,157	22,000	22,100
TY Exports	22,119	22,118	20,256	20,235	22,000	22,100
Feed and Residual	2,756	2,750	5,418	5,404	3,500	2,900
FSI Consumption	5,168	5,168	4,982	4,982	5,200	5,200
Total Consumption	7,924	7,918	10,400	10,386	8,700	8,100
Ending Stocks	5,178	5,178	6,835	6,865	6,635	7,149
Total Distribution	35,213	35,206	37,412	37,408	37,335	37,349
Yield	2.8813	2.8812	3.5739	3.5739	3.0000	3.3377
TS=TD	0	0	0	0	0	0

In marketing year (MY) 2017/18, production of all wheat decreased five percent from the previous marketing year to 29,984 metric tons (MT), according to Statistics Canada. Despite dry prairie conditions for much of the growing season, the prairies experienced good quality crops and solid spring wheat yields, due to sufficient soil moisture remaining from the winter months and improved genetics. The quality of all wheat was better than the MY 2016/2017 crop, which suffered from wet growing conditions in the prairies.

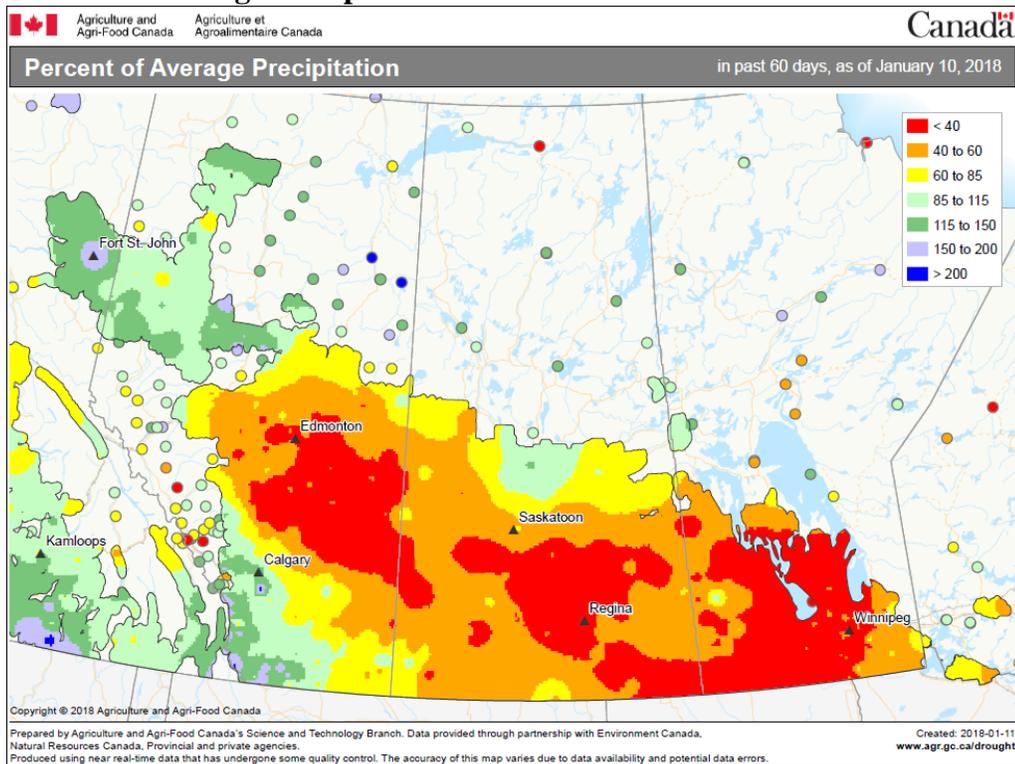
Approximately 90 percent of the MY 2017/18 Canadian wheat crop will grade in the top two milling categories. According to press reports, the average Canadian Western Red Spring (CWRS) protein level in the Canadian Grain Commission's (CGC) 2017 harvest sample program was 13.1 percent, which was below the ten-year average of 13.4 percent. CWRS accounts for more than 75 percent of annual wheat production in Canada. The 2017 average durum protein level was 13.6 percent, well above the ten-year average of 12.9 percent, and the 2017 Canada Prairie Red Spring (CPRS) crop exactly matched the ten-year average of 12.1 percent.

Protein spreads for MY 2017/18 spring wheat varieties are reportedly wider than normal, with a Canadian Grain Commission representative quoted observing that, "40 percent of the CWRS crop is above 13.5 percent protein and 40 percent is below 13 percent." The discount for 12 percent protein is about CAD \$1 per bushel below the price paid for 13.5 percent.

Through mid-January, winter wheat conditions have been less than ideal in Saskatchewan and Manitoba. Seeding was done in dry soil, and snow cover in January remains worryingly thin in the majority of

wheat producing regions of the prairies. Precipitation levels were between 0 to 60 percent of average in the 60 days leading up to January 12, with pockets of sufficient snow cover in the northern growing regions and in southern Alberta.

Percent of Average Precipitation in the Prairie Provinces



Source: [Agriculture and Agri-Food Canada](http://www.agr.gc.ca/drought)

Winter wheat seeding conditions in Ontario were good, albeit somewhat delayed in areas due to a late soybean harvest in the fall. Mid-January rains put winter wheat at risk of winter kill, but it appears that most major winter wheat growing areas of Ontario withstood the rainfall with at least a centimeter of snow remaining before the freeze returned.

Area seeded to winter wheat in the prairie provinces declined sharply, due to the dry seeding conditions as well as to low price offers from local grain elevators. According to industry sources, producers in the southern regions have indicated that good quality winter wheat price offers have been similar to prices offered for feed grade CWRS. As a result, lower 2017 winter wheat planting area could translate into additional red spring wheat area in 2018.

Statistics Canada estimated that area seeded to winter wheat nationally was 556,600 hectares, 23 percent below the five-year average. Area seeded was higher in Ontario and Quebec, as winter wheat offers an agronomic benefit as a rotation crop for corn and soybeans.

Table 2: Area Seeded to Winter Wheat

(,000 hectares)	5-year avg	2017	2018*	% chg difference from 5-yr avg
Canada	720	625	557	-23%
Quebec	13	17	21	63%
Ontario	368	385	393	7%
Manitoba	128	57	28	-78%
Saskatchewan	135	107	69	-49%
Alberta	70	53	38	-45%

Source: Statistics Canada, CANSIM Table 001-0017

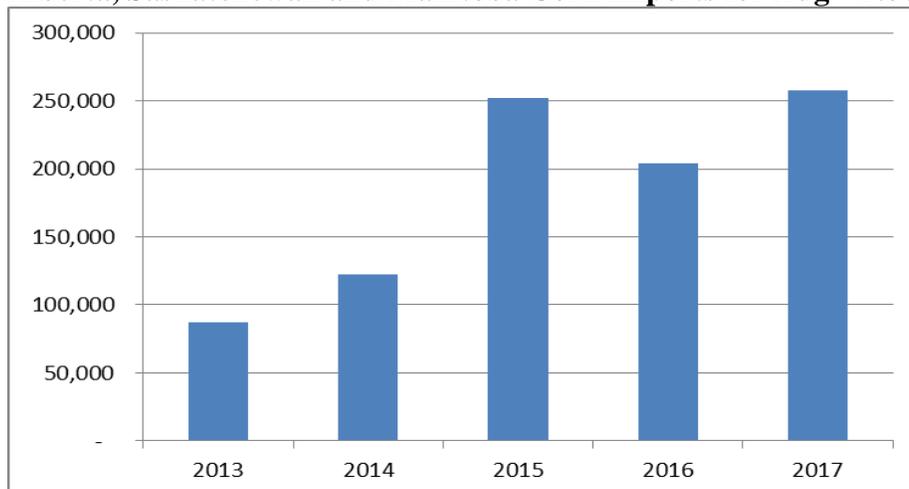
* Note: Area planted in fall of 2017

Feed

Feed wheat supplies dwindled from national record highs in June 2017 to fairly tight levels in December, as replenishment rates plummeted and demand edged upwards. Statistics Canada has not released its thrice annual feed wheat supply data since June 2017 (the next scheduled release is early February 2018), however, industry sources anticipate tight feed wheat supplies continuing in January.

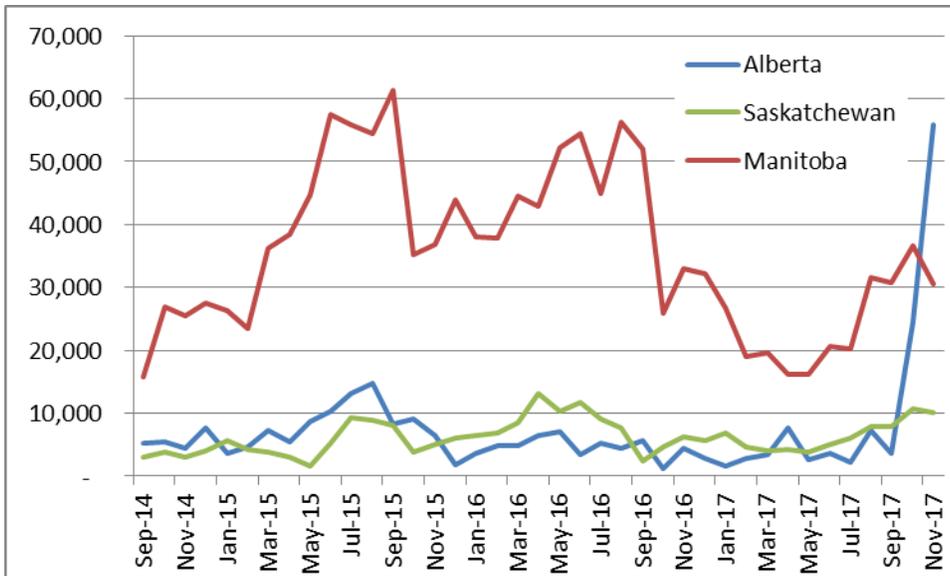
Strong selling prices for feed wheat, which is on par with barley in parts of Alberta, and increased demand for U.S. corn in October and November 2017 point to broader tightness in Canadian feed grain supplies. According to Statistics Canada, U.S. corn exports to Canada in November 2017 were up 135 percent over the five-year November average; October exports were 55 percent above the five-year October average. With U.S. corn trading between CAD \$215/MT to CAD \$220/MT in southern Alberta, supplies of wheat offered for feed could continue to remain limited. While Canadian imports of U.S. corn were up, when evaluated over the August to November span, recent prairie province imports of U.S. corn align with a sustained upward trend.

Alberta, Saskatchewan and Manitoba Corn Imports for Aug – Nov (metric tons)



Source: Statistics Canada; FAS/Ottawa

Alberta, Saskatchewan, Manitoba Monthly Corn Imports (metric tons)

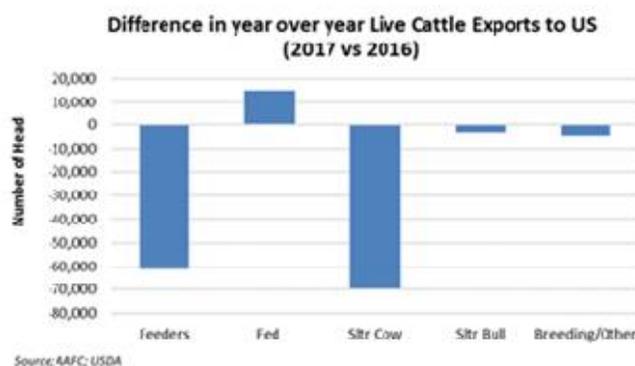
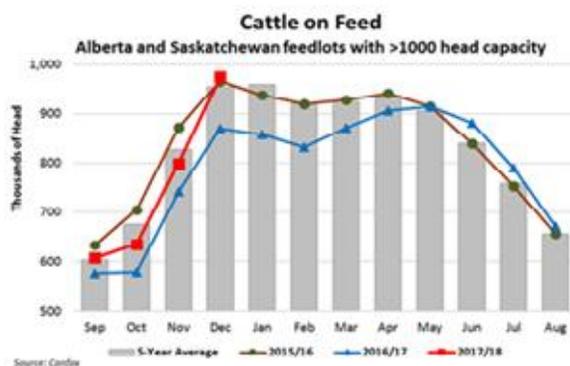


Source: Statistics Canada; FAS/Ottawa

Note: the volume of corn imported into Alberta in the month of November (55,837 MT) was roughly equivalent to the national average monthly import level between January and July.

Low supply of Canadian feed grain can be explained both by supply-side fundamentals and growth in demand. On the supply side, producers have been reluctant to sell wheat at feed grade prices, preferring to hold out for a price commensurate with the high quality of this year's crop. Further, a lot of the quality wheat doesn't have the higher protein level demanded by feeders.

In response to strong cattle basis levels, less feeder cattle have been exported south and greater numbers are being fed in Canada this winter than a year ago. Cattle-on-feed numbers in Alberta and Saskatchewan reached the five-year average high levels in December, rising sharply above 2016 levels.



Graphs republished with permission from the Alberta Ministry of Agriculture.

POLICY

Variety Designation Changes

In January 2016, the Canadian Grain Commission 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, 2016. The [plan](#) reflects feedback from consultations in early 2015, followed by discussions with stakeholders on a proposed plan, as well as a scan 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 ended. The interim class was created when producers expressed interest in growing high yielding American wheats that didn't fit Canadian Western Red Spring (CWRS) class specifications. Manitoba is the largest producer of Faller, Prosper and Elgin ND in Canada, where it is grown for feed. In 2017, 97 percent of all wheat grown for feed in Manitoba (87 thousand hectares) were Faller, Prosper and Elgin-ND varieties.

The following 25 CWRS varieties move to the CNHR class Aug. 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 move to the CNHR class Aug. 1, 2018: AC Foremost, AC Taber, Conquer, Oslo.

Bill C-49 and Extended Interswitching

Prior to the proposition of Bill C-49, Bill C-30 was introduced as a response to a severe backlog in the Canadian grain transportation system in the winter of 2013/2014, following a bumper crop. The Fair Rail for Grain Farmers Act expired in July 2017, after having been extended for one year to give Transport Minister Marc Garneau enough time to learn his new portfolio and devise a permanent plan.

As presently written, Bill C-49 would overhaul several aspects of the Canada Transportation Act and of the Fair Rail for Grain Farmers Act that could have a material impact on the cost of moving Canadian grain across the prairie provinces. Of primary importance to grains, Bill C-49 would impose new data reporting requirements on the rail industry to increase transparency, enable grain shippers to seek reciprocal financial penalties against railways, and replace the current regulated interswitching provisions with a Long-Haul Interswitching mechanism to ensure access to competitive rail options for "captive shippers" (e.g., remotely situated grain farmers). It would also mean the retention of the [maximum revenue entitlement](#) for western grain.

The Grain Monitoring Program¹ (GMP) collected (unaudited) data from grain companies and calculated what would have been paid had the 30-km interswitching radius remained unaltered. The data indicates that Canadian grain shippers avoided close to CAD \$5.3 million in conventional freight charges. Other [estimates](#) indicate that shippers saved CAD \$12.6 million since the interswitching provisions started to be monitored in August 2015. According to the 2015/2016 [annual report](#) of the GMP, “although shorter routing distances were a significant factor in the generation of these savings, many shippers claimed that a portion was also attributable to more aggressive pricing on the part of BNSF.”

However, the report also suggests that less than one percent of the country’s total grain movements were moved under Ottawa’s extended railway interswitching provisions in 2015-16. Of the 4,795 carloads of grain moved using interswitching, shippers engaged BNSF Railway to ship 3,638 carloads of traffic (76 percent) from CN and CP-served origins to destinations in the United States. The provisions of the Transportation Act allow the BNSF Railway, which is the only U.S.-based carrier with interchanges situated in the Prairie Provinces, to provide a competitive interswitching-based service to reach CN and CP served grain elevators. According to the GMP, “since there is no direct equivalent to the Canadian interswitching provisions under the laws of the United States, US-based shippers with facilities local to the BNSF cannot access alternative CN or CP services in the same way.”

The Transportation Modernization Act (also known as Bill C-49) had a first reading in the House of Commons on May 16, 2017 and didn’t pass third reading until October 31, more than five months later. It moved to the Standing Senate Committee on Transport and Communications for review in December, where it was last addressed on December 12. Minister of Transport Marc Garneau has indicated that he hopes Bill C-49 will be adopted in early 2018.

Additional information on Bill C-49’s progress through the Canadian Parliament can be found [here](#).

¹ The Grain Monitoring Program has been managed by Quorum Corporation for the last 17 years, under contract with the federal government. Quorum Corporation reports to the Minister of Agriculture and the Minister of Transport, and publishes a [monthly report](#) on the performance of the grain handling and transportation system in western Canada.