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Report Highlights:

Production in marketing year (MY) 2019/20 is forecast down due to an expectation of slightly below-average yields and a marginal increase in harvest-time abandonment. Unfavorable moisture conditions have resulted in a delayed harvest and significant quality downgrades, particularly on wheat still standing in mid-October.

WHEAT UPDATE

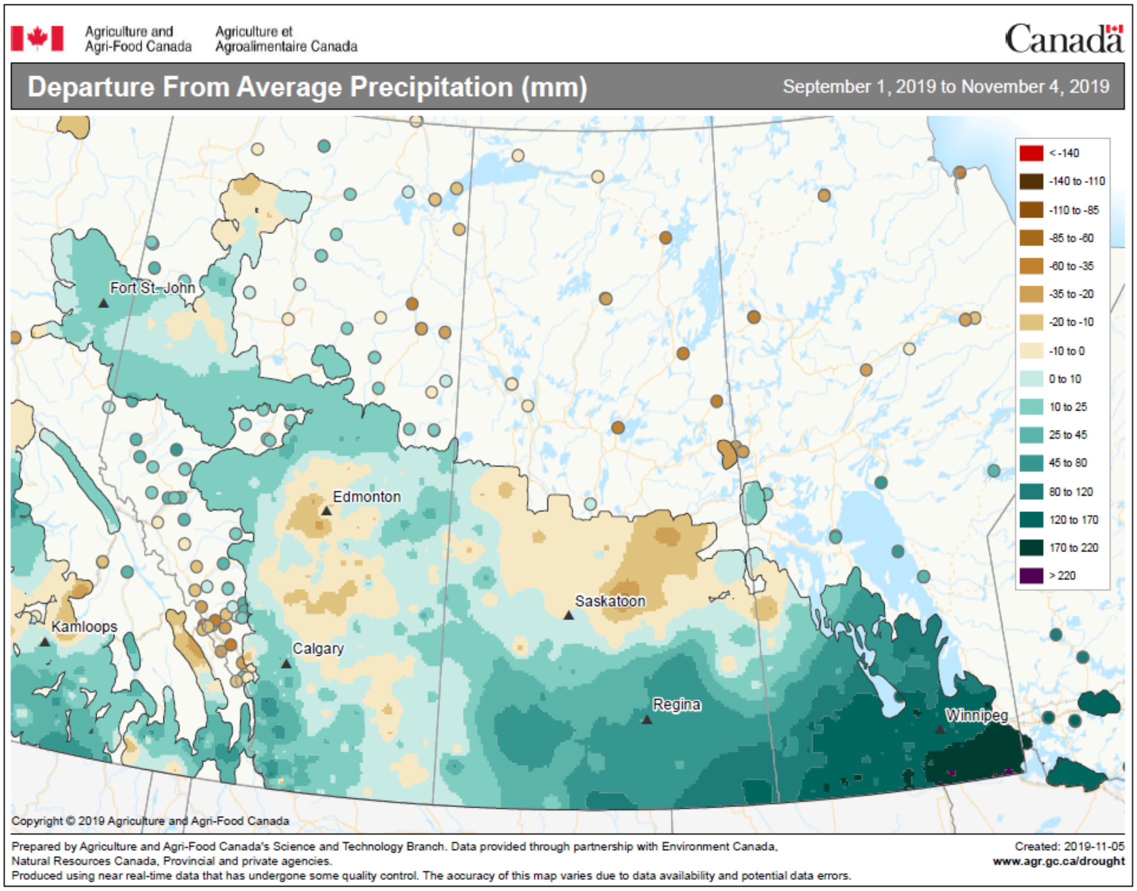
Production

Wheat	2017/2018		2018/2019		2019/2020	
Market Begin Year	**Aug 2017**		**Aug 2018**		**Aug 2019**	
Canada	**USDA Official**	**New Post**	**USDA Official**	**New Post**	**USDA Official**	**New Post**
Area Harvested	8,983	8,983	9,881	9,881	9,700	9,750
Beginning Stocks	6,856	6,856	6,479	6,479	5,916	5,916
Production	29,984	30,377	32,201	32,201	33,000	32,000
MY Imports	450	443	481	482	450	450
TY Imports	445	445	450	473	450	450
TY Imp. from U.S.	260	260	290	290	0	0
Total Supply	37,290	37,676	39,161	39,162	39,366	38,366
MY Exports	21,954	22,000	24,406	24,405	24,500	22,200
TY Exports	21,989	22,019	24,477	24,476	24,500	22,200
Feed and Residual	4,516	4,114	3,939	3,534	4,500	5,000
FSI Consumption	4,900	5,083	4,900	5,307	5,000	5,000
Total Consumption	9,416	9,197	8,839	8,841	9,500	10,000
Ending Stocks	5,920	6,479	5,916	5,916	5,366	6,166
Total Distribution	37,290	37,676	39,161	39,162	39,366	38,366
Yield	3.338	3.382	3.259	3.259	3.433	3.282
TS=TD	0	0	0	0	0	0

In marketing year (MY) 2019/20, FAS/Ottawa is forecasting 96 percent of area planted is expected to be harvested due to significant precipitation in the form of rain and snow at harvest time. This is expected to result in slightly above average abandonment in the spring wheat growing areas of North and Central Alberta and sections of Saskatchewan. The rate of abandonment is expected to be less in Manitoba as 95 percent of the province's harvest was complete before heavy precipitation occurred.

FAS/Ottawa also lowered the MY 2019/20 wheat production forecast due to a forecast of slightly lower yield and above average abandonment. Decreased yield is expected due to both wet and dry conditions during the growing season. During the growing season (April 1 to September 2), below average precipitation was received south of Stettler, Alberta extending west to the Calgary area. In addition, about 80 percent of the growing area in Manitoba, and sections along Saskatchewan's west and east provincial borders, received below average precipitation.

In MY 2019/20, 97 percent of area planted to wheat was of durum and spring wheat varieties, which are harvested in the fall and highly susceptible to heavy autumn precipitation and early frost.



Source: Agriculture and Agri-Food Canada

The combination of delayed harvest, moisture, and frost is causing grain quality concerns in North and Central Alberta and sections of Saskatchewan. There have been reports of significant downgrading for crops harvested after about October 12 due to sprouted kernels, which decreases the falling number, and mildew. Wheat harvested before mid-October received average grades, according to preliminary data available from the Canadian Grain Commission. Overall though, wheat quality remains uncertain as very few samples were available from the Canadian Grain Commission at the time of publication. The grain quality and harvest progress information detailed below was obtained from industry and provincial governments.

Alberta spring wheat harvest progress was 76.5 percent as of October 22, up from just 63 percent a week earlier. Quality ranges widely across the province. Downgrading is expected in a significant portion of the crop that remains standing. Sprouted kernels were found in mid-September and this is an important factor in determining wheat quality.

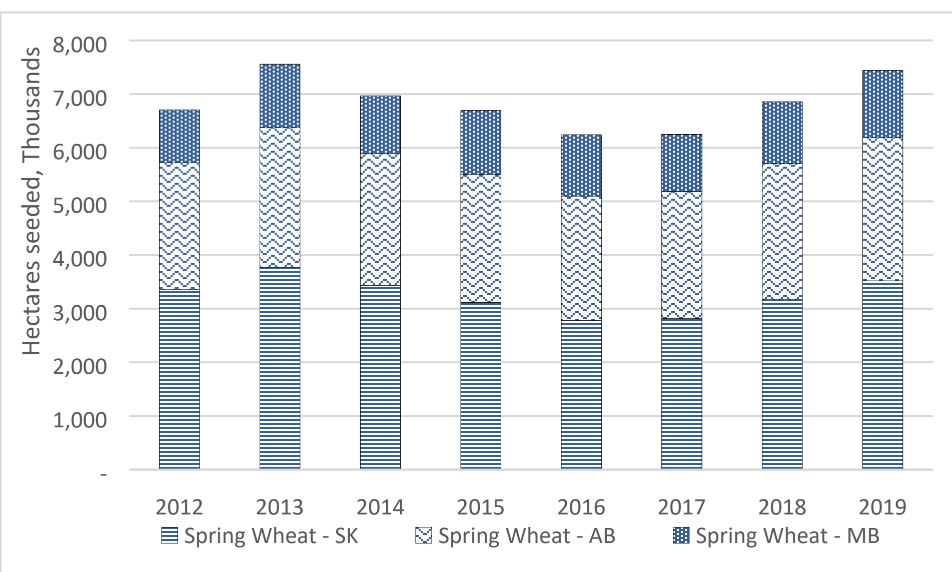
Alberta Spring Wheat		
	% in top two grades	% progress, Oct 22
Southern	86	88.3
Central	83	74.1
North East	75	77.1
North West	77	79
Peace River Region	64	53.9

Source: Alberta Ministry of Agriculture

Spring wheat harvest in Saskatchewan was 84 percent complete as of October 21, up from just 66 percent a week prior, and there are many reports of downgrading due to sprouting, with more downgrading expected for the crops still on the field.

Manitoba experienced the most progress as 95 percent of spring wheat was in the bin just a week before the temperature fell within the -2C to -5C range and snowstorms occurred during the weekend of October 12th. In the province, 70 percent of total spring wheat harvested as of October 15 was graded in the top two grades, with protein levels of 13 and 14. As of October 22, five percent of the crop remained standing, primarily in the southwest region, and nearly all of what remains standing is expected to be feed quality due to sprouting and mildew. Some wheat (and barley) began sprouting in September.

Area Planted to Spring Wheat

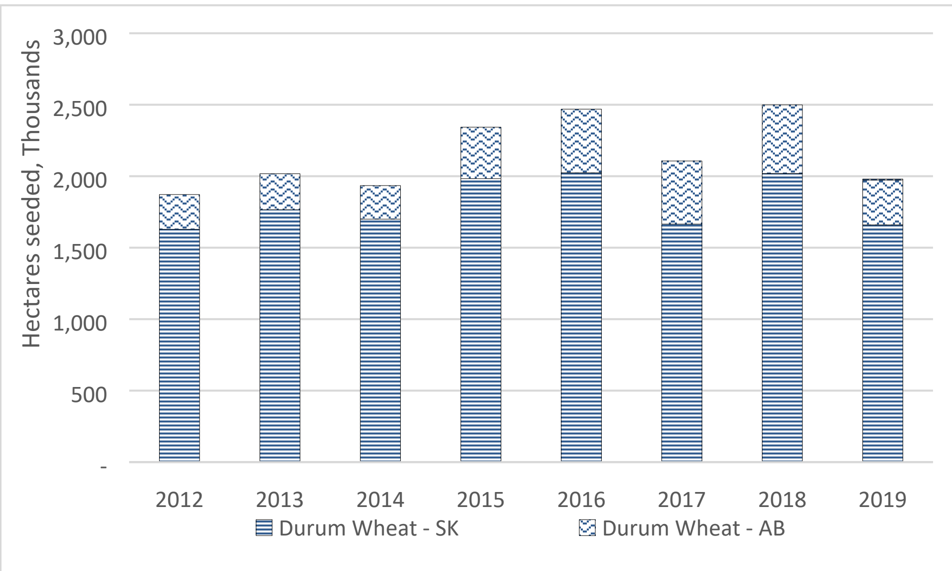


SOURCE: Statistics Canada; FAS/Ottawa

Saskatchewan and Alberta produce more than 99 percent of the country's durum wheat. Saskatchewan harvest progress on durum wheat was 83 percent complete by October 21, up from just 66 percent a week earlier. There are reports of downgrading at the elevator due to crops sprouting, and significant downgrading is expected for the remainder of the crop left standing.

Alberta harvest progress on durum was 97.1 percent complete as of October 22, and 91.5 percent complete a week earlier. Eighty-three percent of durum wheat harvested by October 15 is within the top two grades.

Area Planted to Durum Wheat

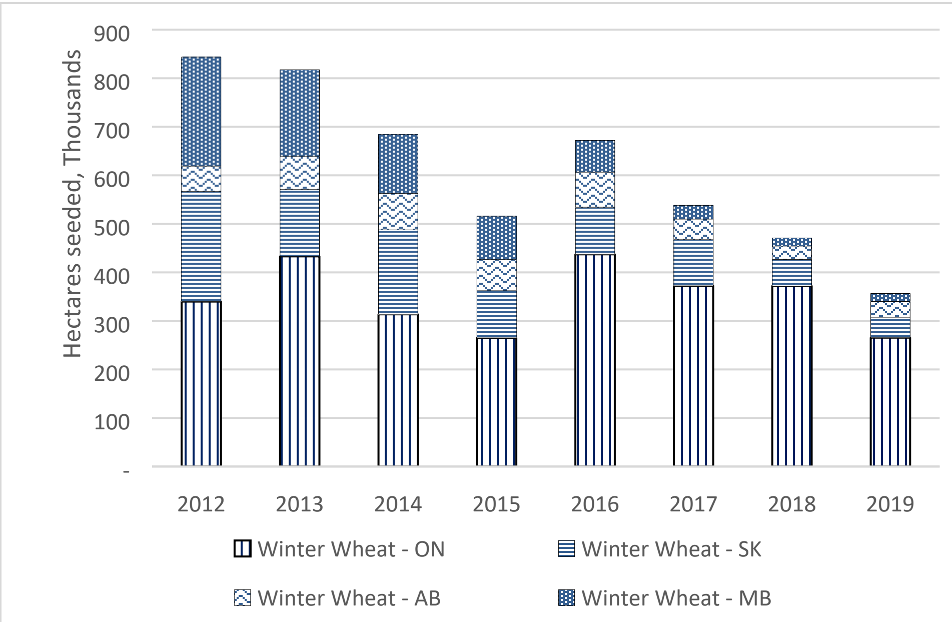


Source: Statistics Canada; FAS/Ottawa

Area planted to winter wheat in the fall of 2019 (MY 2020/21) is expected to be up from the previous year, due to crop rotations in Ontario (it's the primary cereal grown in this province) and the abandonment of winter wheat that occurred in MY 2019/20.

In Ontario, where about 80 percent of Canada's winter wheat is produced, weather conditions led to a late harvest for the MY 2019/20 crop harvest and the winter wheat wasn't in the bin until August 18, 2019. Production was down from the previous marketing year due to decreased area planted, largely due to weather-induced abandonment of 29 percent of area (76,995 hectares), primarily in the southwest region of the province. Quality was excellent, with very little downgrade. According to industry sources, yields averaged from 77 to 80 bushels per acre, a decrease from the 83 to 85 bushels per acre the previous year.

Area Planted to Winter Wheat



Source: Statistics Canada; FAS/Ottawa

The Canadian Crop Hail Association received 53 claims due to hail damage in Manitoba and Saskatchewan between September 28th to 30th, and October 14th and 19th. The hail caused damage to wheat, but also to canola, barley flax and soybeans.

FEED

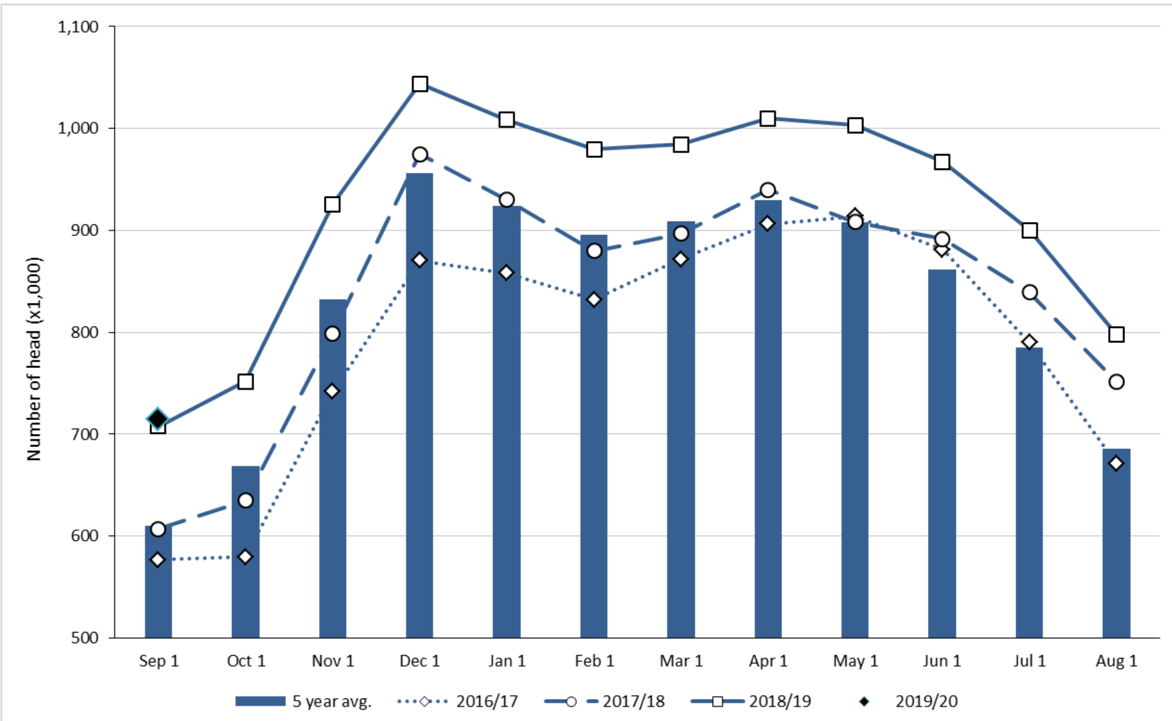
For MY 2019/20, FAS/Ottawa has revised feed wheat usage up on an expectation of increased supply, competitive prices, and demand from a moderating but still high level of cattle on feed.

Barley and corn continue to be the feed of choice in Alberta and Saskatchewan, where demand for feed in Canada is greatest. Uptake of wheat feed is dependent on prices relative to competing grain feed, as well as on supply (which does not always correlate with price) and demand. Uptake is limited by the potential for digestive upset in livestock. Nutritionists often recommend no more than 40 percent wheat in cattle rations.

On the supply side, variable weather is adding risk to grain quality, increasing the supply of feed quality wheat. Alberta (Lethbridge) feed wheat prices have dropped 22 percent from the June peak at CAD 277.5/ton to CAD 217.5/ton in October, while barley feed has dropped 30 percent.

On the demand side, cattle on feed numbers at Alberta and Saskatchewan feedlots are at levels not seen since 2015, leading to increased demand for feed grains. FAS/Ottawa's forecast for cattle on feed suggests numbers are moderating but remain at high levels relative to previous years. Stories are beginning to circulate of increased culling in Manitoba and areas of Alberta due to a significant shortage of hay and grazing pasture in some parts of the province, although availability varies. Other parts of the province are reporting adequate supplies of hay until December or January.

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



Source: CANFAX; FAS/Ottawa

In Saskatchewan, livestock producers have reported adequate supplies of feed grain heading into winter, according to the Saskatchewan Ministry of Agriculture's crop reports.

Manitoba provincial government analysts forecast that 30 percent of the province's spring wheat production will be feed grade, while about half of the barley crop is expected to be feed quality and half malt quality.

FOOD, SEED and INDUSTRIAL

Wheat for food, seed, and industrial use is forecast near MY 2018/2019 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.

TRADE - EXPORTS

In trade year (TY) 2019/20 (July to June), Canada's ability to market its wheat will be challenged by market access issues in Italy (see section below) and will depend on quality and desired end uses in export markets. Other marketing challenges include Canada's ability to contend with wheat production in the Black Sea Region, as well as a competitive U.S. market. Its capacity to develop new varieties (see "Policy" section of this report) will impact the long-term marketing of Canadian wheat.

Canada's top three wheat grain, product and flour markets by trade year (July - June), metric tons							
Destination		2017/18	2018/19	% Change	Difference	Share of total exports
	World	22,019,046	24,475,874	11%	2,456,829	100%
1	United States	3,661,944	2,776,041	-24%	(885,903)	11%
2	Indonesia	1,718,075	2,387,400	39%	669,325	10%
3	China	1,117,103	2,095,041	88%	977,939	9%

Source: Trade Data Monitor, LLC; FAS/Ottawa

FAS/Ottawa is forecasting significant downgrading, particularly of spring wheat. There is greater quality variability in the lower grade wheat, which may make it difficult to market. Different downgrading factors impact quality differently, meaning that downgrades in a No. 3 wheat or lower could change between shipments. This difference would be minimized in a No. 2 wheat due to the level of downgrade allowed to meet that grade. In a No. 2 or better the overall quality impact is less. Even if the downgrade changes between shipments it wouldn't be as noticeable.

Snow and heavy rain have resulted in a staggered harvest in Saskatchewan and parts of Alberta. A more drawn out harvest may help avoid any bottlenecks with shipping.

Canada continues to be a competitive export market for wheat. In MY 2018/19, it achieved a significant annual market share increase of 70 percent in Columbia. However, the rising share of Canadian wheat has come at the expense of exports from the United States. Canada's success in Columbia is primarily due to its ability to maintain a competitive price, but also the Colombia-Canada Free Trade Agreement.

For the first time in 21 years, Canada exported wheat to Australia, amounting to a total of 181,187 MT in TY 2018/2019 and 206,049 MT in TY 2019/20 through September.

Canadian Wheat Exports to Australia, metric tons

Description	May '19	June '19	Jul '19	Aug '19	Sept '19
Wheat grain (incl durum)	120,337	60,850	61,140	60,509	84,400

Source: Statistics Canada (May through to Aug); Canadian Grain Commission (Sept)

Wheat production shortfalls in Argentina and Australia may increase opportunities in Asian markets such as Indonesia, Vietnam, South Korea, China and Thailand. Vietnam may look to Canada as it halts imports of wheat from Russia based on phytosanitary concerns. Other opportunities also exist in West Africa. While the wheat market has opened in Brazil, Canada is not expected to find significant market share there, due to Brazil's reliance on Argentina but also the Black Sea region.

All Wheat Exports by Trade Year (July - June), metric tons					
Destination	YTD Aug TY 2015/16	YTD Aug TY 2016/17	YTD Aug TY 2017/18	YTD Aug TY 2018/19	YTD Aug TY 2019/20
World	92,372	86,971	80,557	73,273	95,350
United States	66,431	59,041	56,415	49,014	65,346
U.S. percent of total	72%	68%	70%	67%	69%

Source: Trade Data Monitor, LLC; FAS/Ottawa

In TY 2018/19, durum exports were up 12 percent over the previous trade year, driven by an additional 261,000 MT to Turkey, 233,400 MT to Italy and 191,000 MT to Algeria. Durum wheat exports to the United States declined 12 percent. Durum wheat made up 15 percent of wheat production and 18 percent of total wheat exports.

Canadian Durum Exports by Trade Year (July - June), metric tons

	Pre-MCOOL 5-yr avg (TY 2012-2017)	2016/17	2017/18	2018/19	% change from TY 18/19 to pre-MCOOL 5-yr avg
Total exports	4,618,647	4,400,425	4,116,297	4,628,904	0%
Italy	928,412	700,659	355,451	588,893	-37%
Algeria	899,638	1,322,876	934,758	1,125,360	25%
Morocco	653,092	696,488	743,994	838,425	28%
United States	569,254	366,674	932,124	824,172	45%

SOURCE: Trade Data Monitor, LLC; FAS Ottawa

Italy

In July 2017, a mandatory country-of-origin labelling (MCOOL) regulation on durum wheat was announced by Italy which resulted in a 53 percent loss of market share in TY 2017/18 (July to June).[1] Italy's regulation was

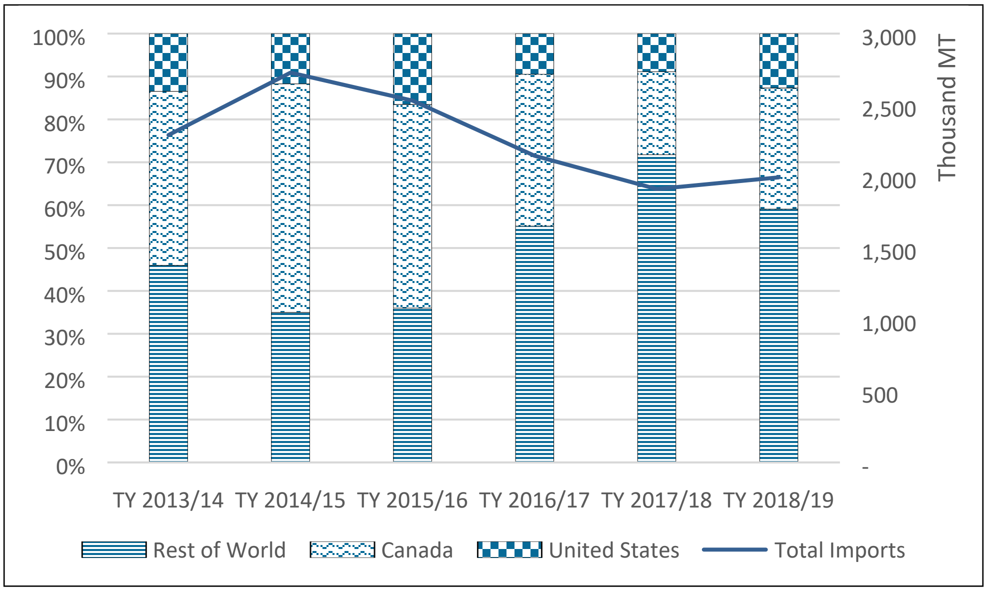
[1] FAS/Ottawa calculations are a comparison of the five-year average of trade years prior to the July 2017 announcement and trade year 2017/18 following the MCOOL announcement.

introduced due to concerns of intensive use of glyphosate on Canadian durum wheat at harvest time. Despite the regulation, total Canadian export levels of durum increased ten percent in TY 2017/18 on strong demand from the United States.

Two years after the MCOOL announcement, in TY 2018/19, Canada's export levels of durum wheat to Italy increased 66 percent from the previous year due to a shortage of high-protein durum wheat in Italy, but Canada's market share in Italy was still down 31 percent from the pre-MCOOL period.

In TY 2018/19, total durum wheat exports were up 12 percent year-over-year despite a 12 percent decline in exports to the United States. However, Canada's durum exports to the United States are up 45 percent since the announcement of Italy's mandatory country-of-origin labelling.

Italy's Durum Wheat Imports by Country, Percentage Market Share



Source: Trade Data Monitor, LLC; FAS/Ottawa

Note: Trade year (TY) for wheat is July to June

Saudi Arabia

On August 7, 2018, the Saudi Grains Organization (SAGO) announced that it can no longer accept milling wheat or feed barley cargoes of Canadian origin. As of publication of this report, the decision still stands. This decision has had minimal impact for Canada in terms of wheat exports, as little Canadian wheat is typically exported to Saudi Arabia. However, Canadian barley was negatively affected. In the five years leading up to the announcement, Canada exported an average of six percent of its total barley exports to Saudi Arabia.

The announcement followed a Saudi government directive from 2018 for Saudi government ministries and agencies to stop doing new business with Canadian companies and get out of arrangements they presently had.

Operations of the G3 grain company, which is partly owned by the Saudi Agricultural and Livestock Investment Company, have not been impacted.

TRADE – IMPORTS

In trade year (TY) 2019/20, imports are forecast to continue to make up just one percent of total supply. The pace of wheat imports two months into TY 2019/20 is relatively high, with levels 30 percent ahead of the same time last year and 16 percent ahead of the five-year average.

STORAGE STOCKS

In MY 2019/20, ending stocks are forecast 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 2018 to 6.0 MMT, in 2019. The decline was due to on-farm stocks, which fell 49 percent to 3.2 MMT, offsetting a 31 percent increase in commercial stocks.

POLICY: VARIETIES

Last winter, Agriculture and Agri-Food Canada and the Canadian Food Inspection Agency launched consultations on the future of crop breeding in Canada (sometimes referred to as "Value Creation" consultations and "seed royalty" consultations). A series of public meetings were held across Canada where federal officials sought feedback on new models to collect royalties on saved seed.

Agriculture and Agri-Food Canada has been seeking feedback from producers on two potential models for increased investment in plant breeding and varietal development. These models would apply mainly to cereal and specialty crops and would only apply to varieties registered after a specified date.

Attachments:

No Attachments