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Canada

Grain and Feed Update

January 2019 Wheat Update

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Report Highlights:
Record high exports to China helped drive total Canadian wheat exports through December 2018 up roughly 1.5 million metric tons higher than the same period in marketing year 2017/18. FAS/Ottawa projects marketing year 2018/19 ending stocks to be the lowest in 10 years. Relatively higher feed, wheat, and barley prices and continued recovery in the number of cattle on feed supported monthly record imports of U.S. corn in 2018.

Keywords: Canada, CA19002, grain, feed, wheat

MY 2018/19 Production

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	8976	8976	8983	8983	9900	9881
Beginning Stocks	5178	5178	6856	6856	6180	6173
Production	32140	32140	29984	29984	31800	31769
MY Imports	498	499	450	444	450	458
TY Imports	503	503	445	446	450	458
TY Imp. from U.S.	334	337	260	290	0	0
Total Supply	37816	37817	37290	37284	38430	38400
MY Exports	20157	20211	21954	21955	24000	24200
TY Exports	20235	20269	21989	21966	24000	24200
Feed and Residual	5821	5757	4256	4256	4300	5000
FSI Consumption	4982	4993	4900	4900	5000	5000
Total Consumption	10803	10750	9156	9156	9300	10000
Ending Stocks	6856	6856	6180	6173	5130	4200
Total Distribution	37816	37817	37290	37284	38430	38400
Yield	3.5807	3.5807	3.3379	3.3379	3.2121	3.2152
(1000 HA) ,(1000 MT) ,(MT/HA)						

In marketing year (MY) 2018/19, production of all wheat increased 6 percent from MY 2017/18 to 31.8 million metric tons (MMT), about 1 percent above the five-year average. Data from the Canadian Grain Commission (CGC) show that top-grade No. 1 wheat protein levels were up across the board in MY 2018/19 (Table 1), while yields dropped to 3.22 MT/hectare.

Table 1: MY 2018/19 Canadian Wheat Protein Levels

Wheat type	Grade	Protein Content (%)	Percent change from MY 2017/18
Canada Western Amber Durum (CWAD)	No. 1	14.4	5%
Canada Prairie Spring Red (CPSR)	No. 1	13.8	12%
Canada Western Red Spring (CWRS)	No. 1	13.7	5%
Canada Eastern Soft Red Winter (CESRW)	No. 1	10.0	9%

Source: Canadian Grain Commission

While protein levels were up for all major wheat varieties grown in Canada, the quality of the MY 2018/19 wheat crop was not necessarily better than MY 2017/18. Cold, wet harvest conditions and reported delays in drying off grain, on significant increased propane demand across the prairies to run driers, resulted some wheat remaining wet in the bin and in wheat quality downgrades, with moisture content at 18 to 20 percent. For an overview of harvest conditions see GAIN report CA18058. The CGC does not provide statistics on the percentage of total wheat production at each grade.

Area planted to winter wheat continued to decline in MY 2019/20. Winter wheat varieties traditionally sustained a nearly 40 percent yield premium over common spring wheat varieties. However, interest in planting winter has fallen off, as yields for some spring wheat varieties (notably, Faller and Prosper) have improved to within 15 percent of winter wheat yields. Winter wheat varieties also tend to flower earlier in Western Canada, due to the shorter growing season, making them more susceptible to fusarium and reinforcing the decline in area planted.

Total area planted to winter wheat in MY 2019/20 was down 18 percent from the five-year average. In MY 2019/20, winter wheat area planted in Ontario rose by 3 percent, while area planted across the Prairie Provinces and Quebec fell by an average of 28 percent. Industry sources indicate that dry weather throughout July and August 2018 led producers to delay planting, only to have the conditions become too wet and cold in September to get all the seed in the ground. Weather-related harvest delays in MY 2018/19 meant fewer operators were able to get the MY 2019/20 winter wheat crop in the ground before September 15, the typical the crop insurance cutoff date for winter wheat in the Prairie Provinces.

Table 2: Winter Wheat Area Planted

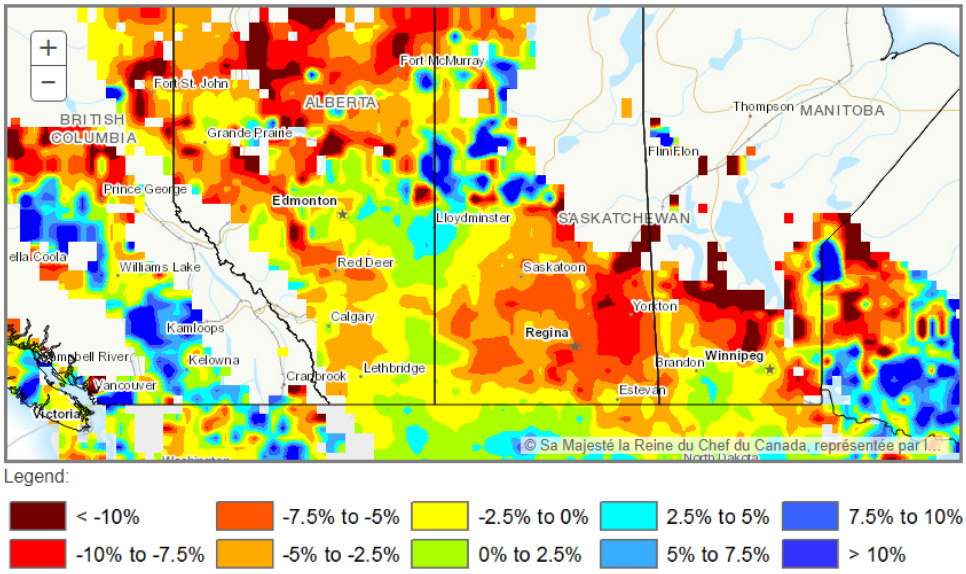
	Thousand Hectares			
Location	5-year avg	MY 2018/2019	MY 2019/2020	Percent change from 5-yr avg
Canada	665	565	545	-18%
Quebec	16	21	18	-18%
Ontario	374	393	406	9%
Manitoba	85	28	18	-78%
Saskatchewan	117	69	45	-62%
Alberta	65	38	41	-38%

Source: Statistics Canada

MY 2019/20 Production

Similar to MY 2018/19 planting conditions, many farmers will be planting MY 2019/20 crops into soil with lower residual moisture levels (Figure 1).

Figure 1: Soil Moisture Difference from Average (December 2018)



Source: Agriculture and Agri-food Canada

Note: level of moisture in the top five centimeters of soil

Until MY 2017/18, soybean area planted had been slowly increasing and spreading westward from Manitoba into Saskatchewan and even Alberta, drawing area away from spring wheat (Table 3). However, soybean area planted in Saskatchewan and Manitoba fell by 52 percent and 18 percent, respectively, in MY 2018/19.

Table 3: Soybean Area Planted (hectares)

Marketing Year (MY)	Manitoba	Saskatchewan	Alberta
MY 2012/13	333,900	..	..
MY 2013/14	424,900	68,800	..
MY 2014/15	526,100	109,300	..
MY 2015/16	570,600	109,300	..
MY 2016/17	665,900	97,100	..
MY 2017/18	926,700	344,000	..
MY 2018/19	764,900	164,900	7,400

Source: Statistics Canada

Industry sources suggest that soybean area planted across the prairies could continue declining in MY 2019/20, as multiple factors, including higher seed costs, lower market prices, and lower soil moisture levels driving lower yields, push farmers back to spring wheat, barley, canola and to some extent pulses. More information on how genetically engineered traits have impacted Prairie Province area planted is in FAS/Canada's 2018 Biotechnology Annual Report CA18055.

Area planted to canola, by far Canada's most valuable cash crop, has grown sharply over the last 20 years and surpassed wheat area planted for the first, and thus far only, time in MY 2017/18. The continued spread of clubroot and blackleg, diseases that can significantly reduce canola yields, could keep wheat area planted high again in MY 2019/20, as farmers rotate affected area into wheat or barley. Farmers can also plant disease resistant varietals to try to control clubroot and blackleg, but this is not always effective and it comes at a cost to yield over non-resistant varieties. However, China, Canada's largest market for canola, recently approved two long-awaited biotech traits that could help growers address the agronomic challenges of clubroot and blackleg and help put canola back on top of the area planted ranks in MY 2020/21 and beyond.

Carryover stocks of lentils, and to a lesser extent peas, heading into MY 2018/19 were substantial, as India, Canada's largest buyer, significantly reduced imports in MY 2017/18. Indian tariffs of 50 percent on peas and 30 percent on lentils imposed in late 2017 drove down Canadian pulse prices and resulted in Canadian farmers holding 876,000 MT of lentils and 650,000 MT of peas at the start of MY 2018/19. The pea stockpile has been thinned by record exports to China over the first four months of MY 2018/19 (August to November). Despite a poorer Indian lentil crop in MY 2018/19, stakeholders anticipate Canadian lentil stocks could remain high if India keeps tariffs in place ahead of national elections in April or May 2019. The combination of the tariff and the large carryover in MY 2018/19 will discourage area planted to lentils in MY 2019/20 and potentially encourage wheat and other cereal crops instead.

Pulses, such as peas, chickpeas, and red and green lentils are other crops that compete with wheat for agricultural land, particularly in Saskatchewan. There was considerable reporting in the media about the Government of Canada investing in innovation to support the growth of the pulse sector, through providing up to $950 million CAD towards the sector in what has been called the "Protein Supercluster". However, this is more of a long-term investment towards supporting research institutes by providing funds to improve productivity of new pulse crops, addressing threats to the value chain, exploring the health benefits of pulses and developing innovations in pulse ingredient processing and food product development. This is will affect crop production longer term in the prairies, but it is unlikely to affect the area planted in MY 2019/20.

Trade

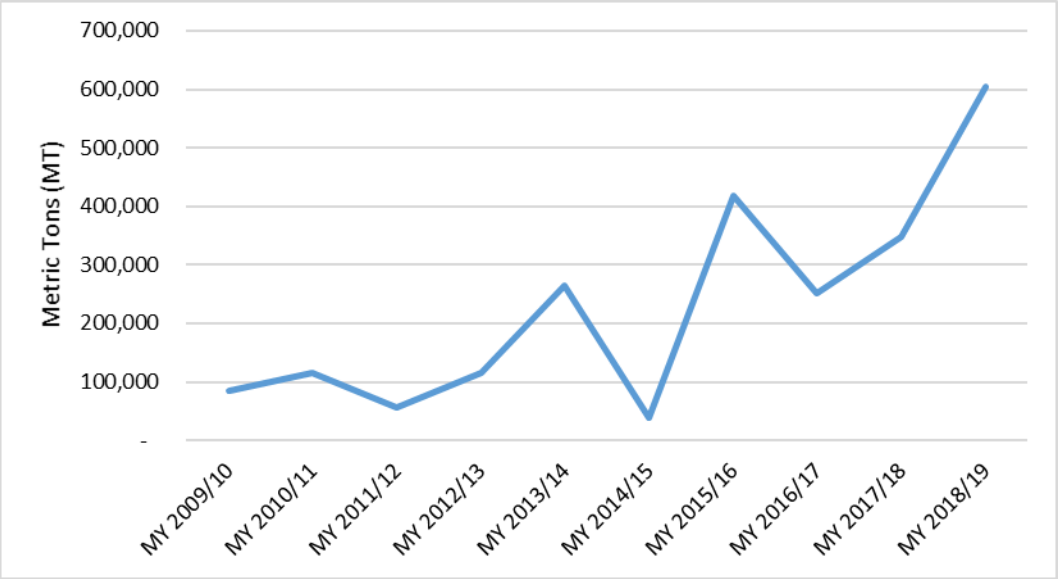
Canadian wheat exports through January 6, 2019, were up 1.46 MMT marketing year-to-date, 22 percent more than the same period last year and 19 percent more than the five-year average. For the first four months of MY 2018/19, Indonesia, China and Japan were three largest export destinations for Canadian wheat. Wheat exports to China were 74 percent ahead of the three-year average for the start of MY 2018/19, setting a new export record to China for this period (Figure 2). Chinese imports of U.S. wheat over that same period were nil (
Table **4**).

Table 4: China's Imports of Wheat (Metric Tons)

	MY 2015/16 (Aug-Dec)	MY 2016/17 (Aug-Dec)	MY 2017/18 (Aug-Dec)	MY 2018/19 (Aug-Dec)	Percent Δ (2018/17)
World	1,276,846	1,293,128	1,432,794	938,521	-34%
Canada	419,083	251,352	347,271	604,921	74%
Kazakhstan	52,793	48,203	92,338	263,809	186%
Australia	392,296	444,467	502,511	28,284	-94%
United States	412,673	549,086	474,707	0	-100%

Source: Global Trade Atlas
Note: Table includes top four wheat exporters to China.

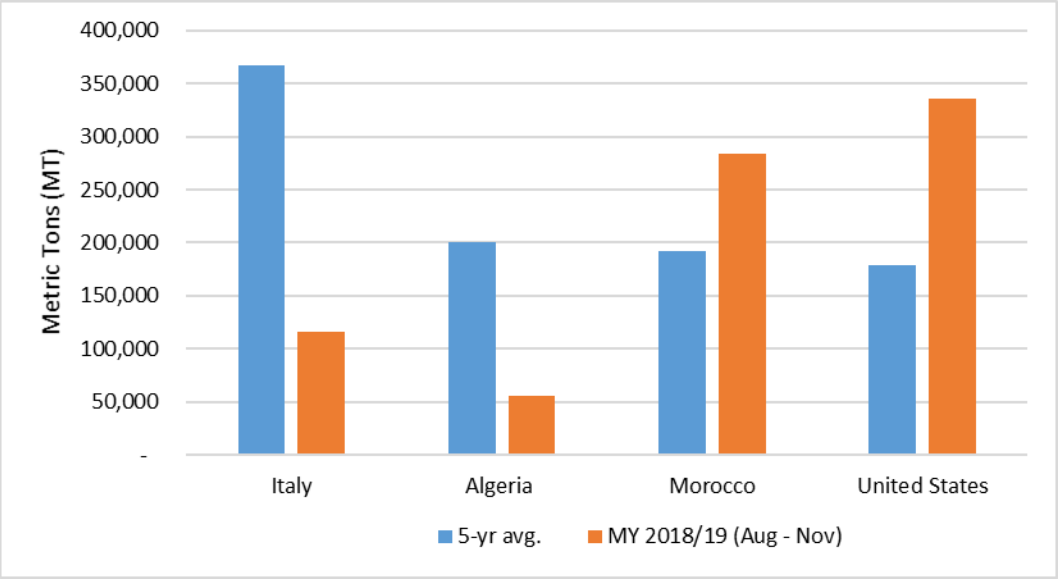
Figure 2: Canadian Wheat Exports to China (August-December)



Source: Global Trade Atlas

Canada exported 1.1 MMT of durum in the first four months of MY 2018/19 (August-November), which was 25 percent behind the five-year average (Figure 3). Durum exports to Italy have not recovered from Italian country-of-origin labelling measures imposed in July 2017, falling to 116,000 MT in the 2018/19 marketing year-to-date. More information on Canadian durum exports to Italy is available in GAIN Report CA18049. Exports to Algeria were down due to record Algerian durum production in MY 2018/19. Higher Canadian exports to Morocco through the first four months of MY 2018/19, nearly 50 percent above the five-year average, may have been due in part to lower Moroccan imports in May 2018, ahead of the June/July Moroccan durum harvest.

Figure 3: Canadian Durum Exports (August to November)

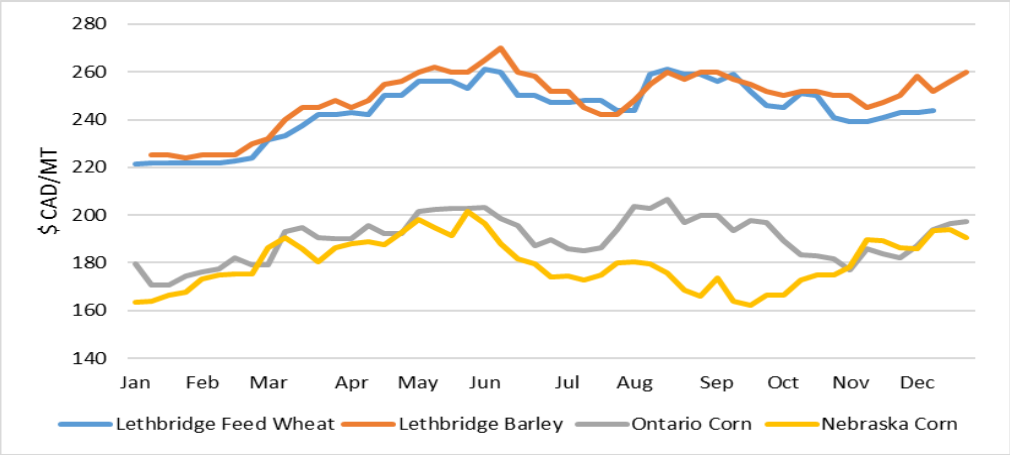


Source: Global Trade Atlas

Feed

Prices for feed wheat and barley (Figure 4) have both hovered around $60.00 CAD/MT higher than the average cash price for corn in Lethbridge, Alberta – home to Canada's largest cattle feeding operations. Even though MY 2018/19 Ontario corn has been priced very low due to the high levels of vomitoxin, the economics of shipping corn have favored U.S. origin over Ontario corn. Given the large price difference relative to feed wheat and to barley, FAS/Ottawa expects U.S. corn will continue to be fed at a high rate well into 2019 (Figure 4).

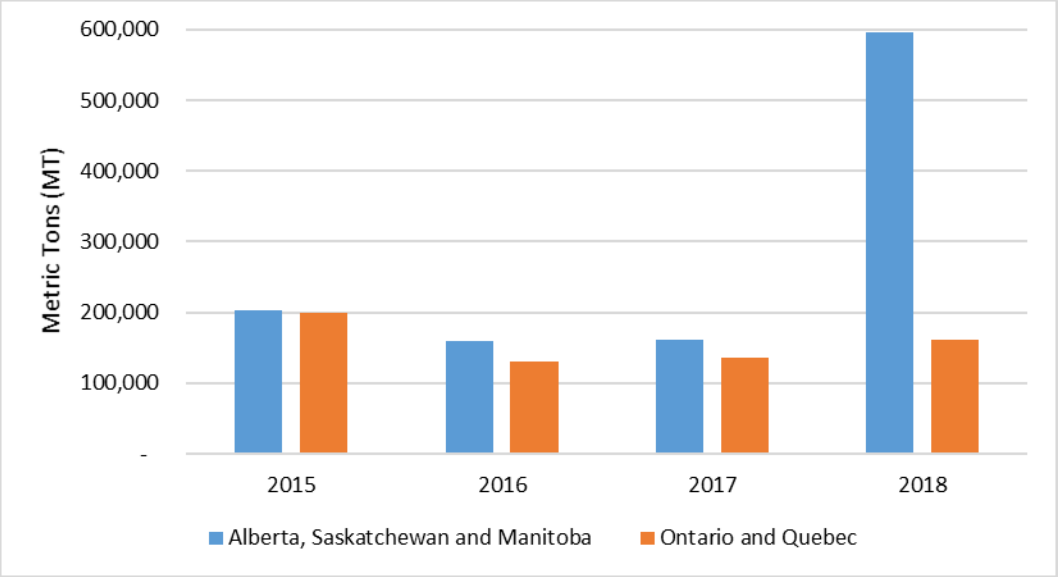
Figure 4: Selected Feed Grain Prices



Source: Canfax, Alberta Agriculture and Forestry
Note: Exchange rates calculated using Bank of Canada monthly rates.

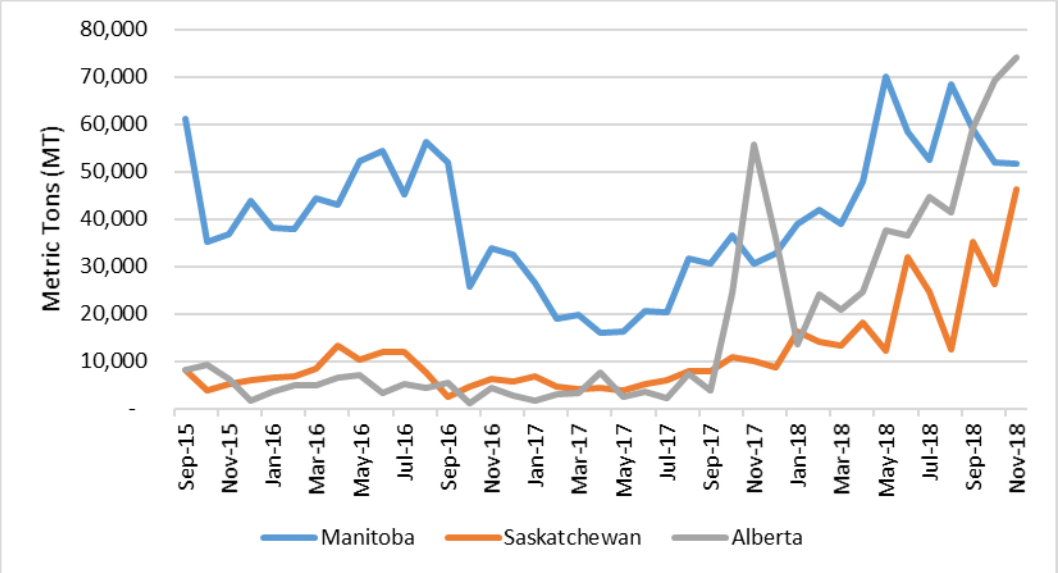
Corn imports into the Prairie Provinces from August to November 2018 were more than triple the three-year average for the same period (Figure 5). Following a rapid increase in imports of U.S. feeder cattle in late 2017, feedlots across the prairies began importing corn at the start of 2018, rapidly increasing the rate of import in March 2018 (Figure 6). Alberta imported just shy of 75,000 MT of corn in the month of November 2018, and the province has already imported over 200,000 MT in MY 2018/19.

Figure 5: Corn Imports by Region (August to November)



Source: Global Trade Atlas

Figure 6: Corn Imports from the United States by Province

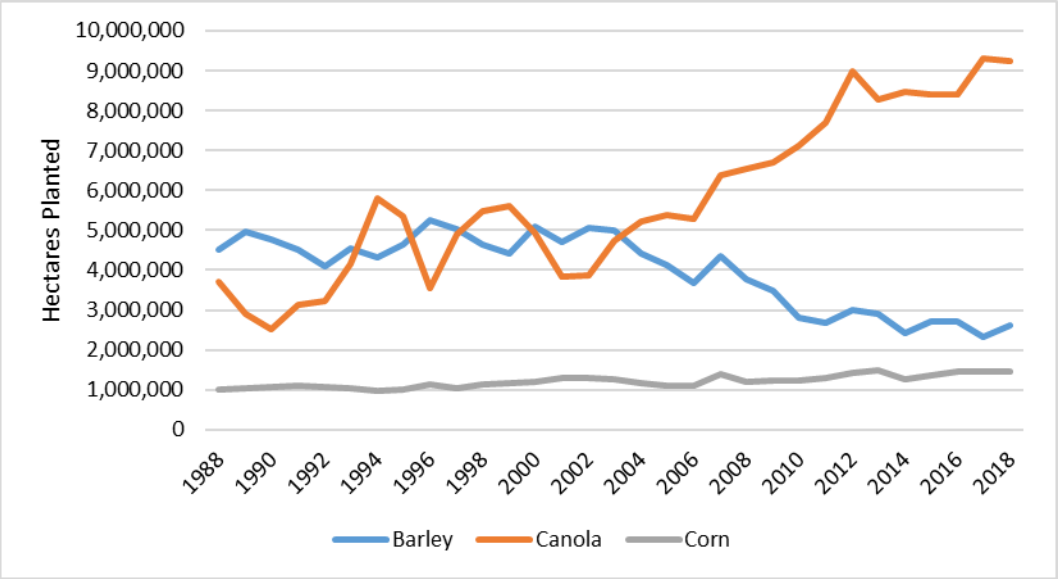


Source: Global Trade Atlas

Area planted to barley in western Canada was roughly equivalent to canola until 2003 (Figure 7). The decline in area planted to barley roughly coincides with the discovery of Bovine Spongiform

Encephalopathy (BSE) in Canada and the associated sharp decline in cattle numbers. Farmers rapidly increased canola area planted as barley area receded over the next 15 years.

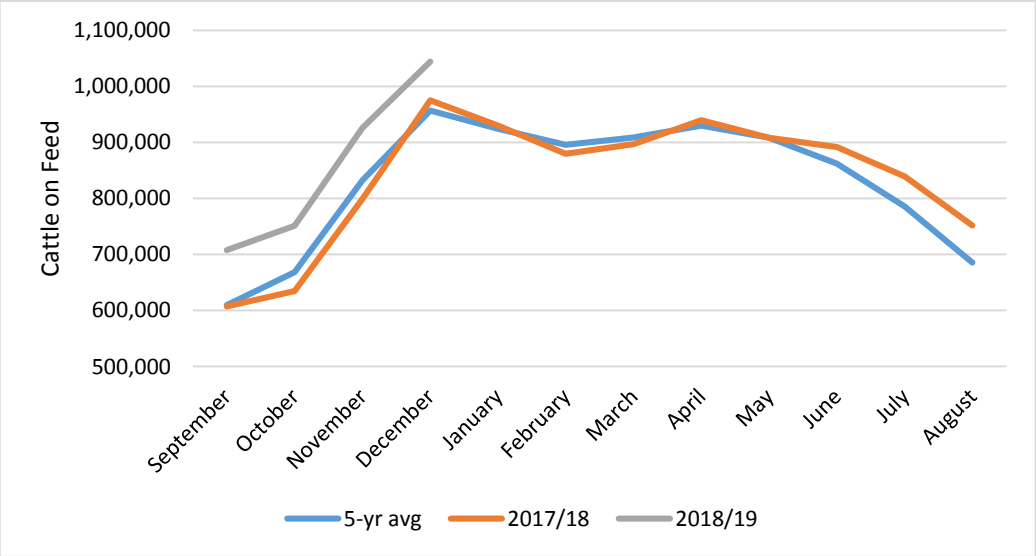
Figure 7: Canadian Barley, Canola and Corn Area Planted



Source: Statistics Canada

The Canadian cattle herd has fallen from peak numbers of roughly 15 million head in 2005-2006 down to about 12 million head today. Alberta and Saskatchewan contain 70 percent of Canada's beef cattle and the majority of the cattle feeding operations in the country. For comparison, as a combined region they would contain more cattle than all states in the United States except for Texas. The two provinces traditionally relied heavily on barley as a cattle feedstock, as barley area has declined and as corn prices have justified the necessary investments to switch feedstocks. Higher cattle on feed numbers (Figure 8) from steady imports of U.S. feeder cattle, as well as expanding cattle numbers in Canada, are expected to sustain higher imports of U.S. corn into the Prairies in MY 2018/19.

Figure 8: Cattle on Feed in Alberta and Saskatchewan



Source: Canfax

Policy

Transportation

Canadian wheat export shipments are typically high in November, and grain producers were cautiously optimistic that rail carrier performance in MY 2018/19 would improve following the difficulties faced in MY 2017/18 (see Gain Report CA18020). Despite delays in November and December, reports indicate that both rail lines were moving grain effectively in MY 2018/19.

The grain industry's transportation service concerns have grown in recent years as stalled pipeline projects have diverted more Alberta oil sands products to rail lines. Concerns about freight rail disruptions were exacerbated by the Alberta Government's late 2018 attempt to support oil prices by cutting back production and announcing plans to acquire enough rail cars and locomotives by the end of 2019 to significantly expand oil-by-rail shipments. For background on Canadian farmers' concerns over access to rail transportation for their 70 MMT of agricultural crops, please see GAIN Report CA18020.

However, the impact of the Alberta Government's plans on grain shipments, which largely move East-to-West, are expected to be limited. Industry sources indicate the majority of Canadian oil-by-rail is destined for the U.S. Gulf Coast, moving West-to-East. Minimal oil-by-rail is transported to the port of Vancouver and no oil-by-rail is planned for other West coast ports (Prince Rupert) following the federal government ban on oil tankers north of Vancouver Island (Oil Tanker Moratorium Act (Bill C-48)).