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Canada

Grain and Feed Update

Summer 2018 Wheat Update

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Report Highlights:
Canadian durum and spring wheat area planted grew in 2018 as low soil moisture levels at planting, disease pressures on canola, and planting cost comparisons helped drive the first gains in total Canadian wheat area planted in since 2013. FAS/Ottawa has revised its projection for marketing year 2018/19 total Canadian wheat production higher on greater area planted, though yields may be lower on limited moisture.

Keywords: Canada, CA18049, grain, feed, wheat

Post:
Ottawa

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	9000	8983	9700	9766
Beginning Stocks	5178	5178	6906	6906	5606	6000
Production	32140	32140	30000	29984	32500	32150
MY Imports	498	499	500	450	500	450
TY Imports	503	503	500	450	500	450
TY Imp. from U.S.	332	337	0	300	0	300
Total Supply	37816	37817	37406	37340	38606	38600
MY Exports	20157	20211	22800	22000	24500	23300
TY Exports	20235	20269	22600	22000	24500	23300
Feed and Residual	5771	5707	3800	4440	4000	4800
FSI Consumption	4982	4993	5200	4900	5100	5000
Total Consumption	10753	10771	9000	9340	9100	9800
Ending Stocks	6906	6906	5606	6000	5006	5500
Total Distribution	37816	37817	37406	37340	38606	38600
Yield	3.5807	3.5805	3.3333	3.3378	3.3505	3.2922
(1000 HA) ,(1000 MT) ,(MT/HA)						

Production:

Wheat

Marketing year (MY) 2018/19 wheat area planted grew for the first time in five years, growing by 940,000 hectares to 10 million hectares (up 9 percent from MY 2017/18).

Table 1. Total Wheat Area Planted (hectares)

Area Planted	2017/2018	2018/2019	Percent change
Durum	2,106,000	2,503,000	16%
Spring wheat	6,395,000	7,000,000	9%
Winter wheat	560,000	497,000	-13%
All wheat	9,126,000	10,068,000	9%

Source: Statistics Canada

The prairie provinces dominate durum and spring wheat area, producing approximately 95 percent of Canada's total wheat; Ontario produces the vast majority of Canada's relatively small volume of winter wheat (5 percent of total wheat production). Prairie farmers planted more durum, spring wheat and barley in the spring of 2018, as area planted to lentils, soybeans, and canola dropped.

Table 2. Total Area Planted (hectares)

Area Planted	2017/2018	2018/2019	Percent change
Barley	2,333,500	2,630,100	11%
Canola	9,306,500	9,202,600	-1%
Chickpeas	64,700	189,800	66%
Corn	1,447,000	1,470,400	2%
Lentils	1,782,600	1,524,500	-17%
Soybeans	2,946,900	2,557,700	-15%
All wheat	9,126,000	10,068,000	9%

Source: Statistics Canada

The start of the growing season saw an unusually rapid transition from winter to summer, which caused snowpack to runoff into drainage ditches rather than being absorbed into the soil. Lower soil moisture carryover from MY 2017/18 and lower planting seed costs (see below) contributed to changing area allocations in MY 2018/19.

Table 3. Planting Seed Costs in 2018

Type of crop	Seed costs per hectare (2018)
Wheat (Hard Red Spring)	$ 59.31
Canola	$ 148.26
Soybean	$ 234.10

Source: Manitoba Agriculture office

Competing Crops

Farmers across the prairies noted that the MY 2018/19 canola area reductions were partly driven by alternate crop rotations to combat the spread of pathogens, such as blackleg, following years of continuous canola planting. The strong increase in chickpea area planted, despite high-profile tariffs imposed by India (7 percent of Canada's chickpea exports in MY 2017/18), was partly driven by the importance of legumes in crop rotations as well as relatively successful yields relative to lentils and steady demand from the United States, Canada's primary export market. Saskatchewan produces nearly 90 percent of Canada's chickpeas.

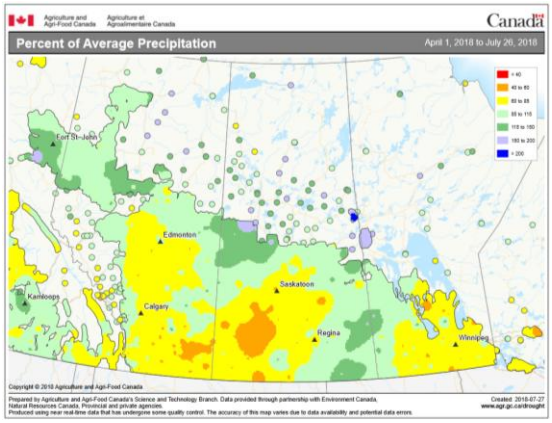
In a reversal of recent trends, MY 2018/19 soybean area planted fell by five percent as prairie farmers responded to disappointing MY 2017/18 yields as well as lower MY 2018/19 moisture levels and weaker international market price signals. Unlike in the United States or in Eastern Canada, prairie farmers have not reached an agronomic equilibrium with consistently predictable yields. While industry investment into creating soybean varieties for the prairie region is strong, farmers are still in the process of calibrating which varieties under which conditions will provide consistently high yields. Despite MY 2018/19 soybean area reductions, FAS/Ottawa predicts continued future growth in prairie area planted to soybeans.

Weather

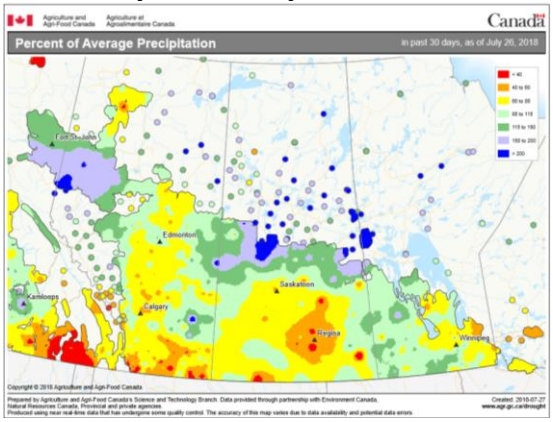
The MY 2018/19 growing season began with one of the coldest Aprils on record transitioning into one of the warmest Mays. Early dryness concerns were alleviated with moisture in early June, which helped wheat crops through seed germination and sprouting; the last week of May and first half of June account for a significant amount of annual prairie rainfall. Combined with warm conditions, the early moisture led to advanced crop development across the prairies.

Figure 1. Percent of average precipitation

April to July 26, 2018



Last 30 days, as of July 26, 2018



< 40 | 40 to 60 | 60 to 85 | 85 to 115 | 115 to 150 | 150 to 200 | > 200

Source: Agriculture and Agri-Food Canada

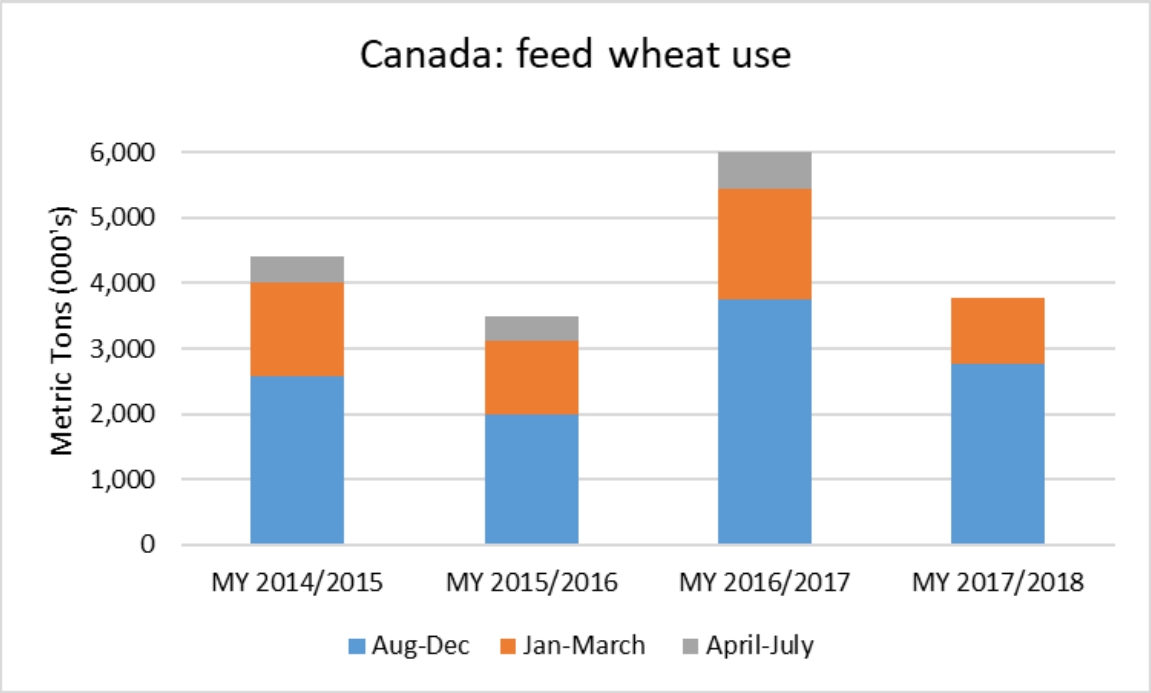
Wheat crops were at close to their normal stages of development for the end of July. However, prolonged dryness following initial moisture in early June as well as forecasts for dry weather into August led FAS/Ottawa to reduce yield forecasts to 3.29 MT per hectare, slightly lower than MY 2017/18 but in line with the 5-year average of 3.3 MT per hectare. While wheat plant counts across the prairies in late July were similar to MY 2017/18, the lack of carryover moisture as well as a later planting date and dryness through July have led to shorter wheat stalks and heads in some areas of southern Saskatchewan and Alberta, pointing to lower yields. The wheat crop looked excellent in Manitoba for this time of year. Out of the three prairie provinces the crops in Saskatchewan show the most variation, with conditions in the central and southern regions in need of moisture, while the crops in the north are in better condition. Some regions of Saskatchewan near the Manitoba border have experienced crop damage from excess moisture. While moisture in Manitoba has been largely sufficient, the broader story across the prairies is a need for more rain.

Consumption:

FAS/Ottawa forecasts total wheat consumption declined by 13 percent in MY 2017/18. Even though this is an increase on earlier consumption predictions in GAIN Report CA18027, consumption is projected lower than the MY 2016/17 on lower utilization for industrial and feed purposes. On farm storage capacity has been steadily increasing across the prairies, and many farmers have held high quality wheat in anticipation of better prices, limiting supplies available for industrial use for most.

Consumption of feed wheat for MY 2017/18 has been adjusted upwards from GAIN Report CA18027, from 3.5 million metric tons (MMT) to 4.4 MMT, to account for strong demand in the livestock sector. Cattle on feed in western Canadian feedlots remained at full capacity throughout the spring, and discussions with industry in the southern Alberta region revealed that farmers have been clearing out bins, possibly as some rains in June created more optimism that room would be needed for a new crop. Therefore, FAS/Ottawa predicts similar feed wheat demand for the April to July period to what was experienced in MY 2017/18.

Figure 2. Canadian Feed Wheat Utilization



Source: Statistics Canada

FAS/Ottawa predicts that 4.9 MMT of wheat was used for food, seed and industrial (FSI) purposes in MY 2017/18, a slight decrease from MY 2016/17 and also down slightly from our earlier projection. Utilization of wheat as a feedstock in ethanol production was down 14 percent in MY 2017/18 resulting in lower throughput at some facilities. Increased production of corn in Manitoba and Saskatchewan over the past few years, with varieties suited to lower heat units and rising temperatures across the region, continued to displace wheat in Canadian ethanol production in MY 2017/18.

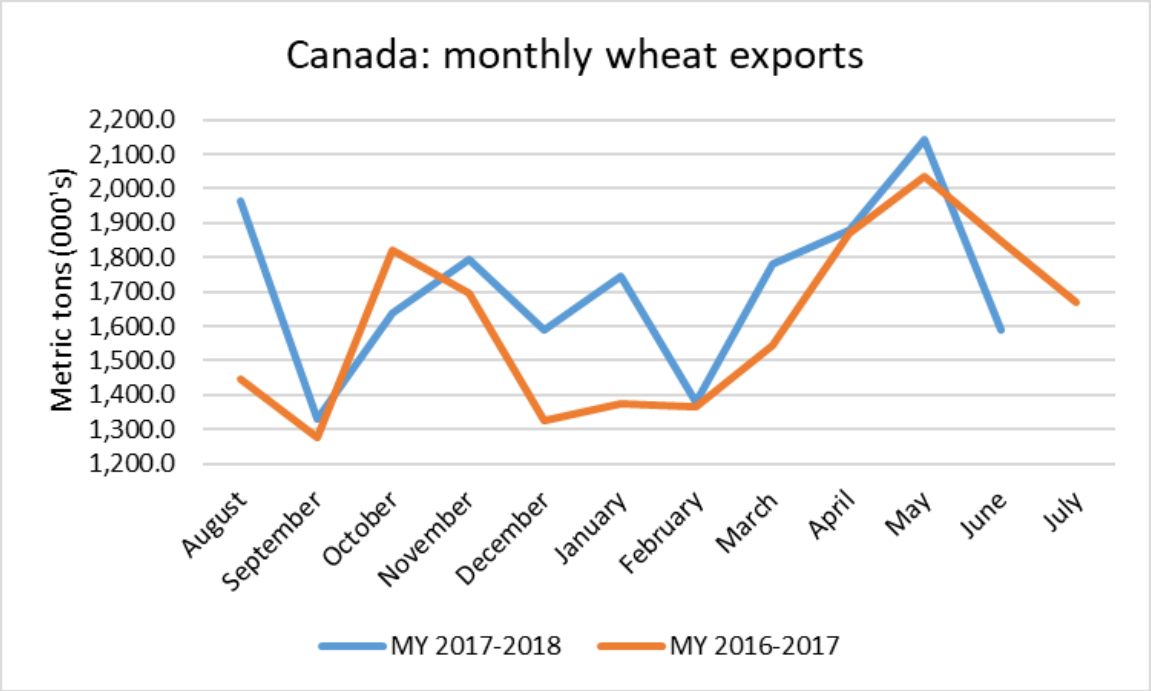
Wheat seed requirements increased by 50,000 MT in MY 2017/18, which is in line with the 942,000 hectare increase in area seeded this year.

FAS/Ottawa anticipates continued strong demand for feed wheat in MY 2018/19. Despite an 11 percent increase in Canadian barley area planted in 2018, strong demand from China and the United States is expected to exert upward pressure on barley prices in MY 2018/19, as European demand for Canadian corn is expected to keep corn supplies tight. While the price differentials between U.S. corn, Canadian barley and Canadian feed wheat will ultimately drive purchasing decisions for feed grains in MY 2018/19, FAS/Ottawa anticipates strong cattle on feed numbers, supported by recovering herd numbers across wheat producing prairie regions, pushing utilization of wheat for feed to 4.8 MMT MY 2018/19.

Trade:

Total wheat exports are forecast to be higher in MY 2017/18.[1] As of the end of June 2018, exports were 1.2 MMT ahead of the same time in 2017. However, the month of June showed a 0.25 MMT reduction in exports from the three-year average for that month.

Figure 3. Canadian Monthly Wheat Exports



Source: Canadian Grain Commission
Note: Wheat exports includes durum and wheat flour

Japanese and Korean trade restrictions following Canada's announcement of a GE wheat plant discovery in Alberta (see GAIN report CA18042 for more information) were one factor that may have contributed to lower June exports. Japan was Canada's second largest market for wheat exports after the United States, accounting for just over eight percent of Canada's total wheat sales in MY 2017/18. Following the announcement, Japan suspended the sale of Canadian wheat for 35 days and Korea for 9 days.

[1] Official MY 2017/18 trade numbers were not available at the time of publication.

Falling sales of Canadian durum to Italy since early 2018 is another factor affecting Canadian wheat. FAS/Ottawa forecasts MY 2017/18 Canadian durum exports 300,000 MT lower than MY 2016/17 (13 percent lower than the three-year average), as major Italian buyers avoid Canadian durum on glyphosate-related concerns. Algeria and Morocco, traditionally both large importers of Canadian durum, have experienced good growing conditions and are not expected to absorb additional Canadian supplies. Therefore, much of the displaced durum has gone to the United States in MY 2017/18. FAS/Ottawa forecasts MY 2017/18 exports of Canadian durum to the United States increasing to roughly 900,000 MT, more than double the level of MY2016/17 and considerably higher than the three-year average.

MY 2017/18 wheat exports may also increase following the passage of Bill C-49 and potential improvements to grain shipments in the prairie provinces. While it remains to be seen whether the interswitching mechanism and reciprocal financial penalties included in the bill will improve grain rail transportation, Canada's two Class I rail lines have announced plans to purchase nearly 7,000 grain hopper cars since the measure passed. Grain handlers across the prairies have also made investments to improve infrastructure at inland grain terminals in recent years, improving hopper car loading efficiency, as sea port facilities continue to upgrade outdated equipment.

Stocks:

At the end of June 2018, exports were 1.2 MMT ahead of the same time last marketing year. Export shipments through June 2017 were 13 percent behind the 3-year average, partially as a result of the difficulty of hauling grain to export positions from the prairie provinces. Besides the temporary restriction on sales by Japan and South Korea, the strong wheat exports as well as continuous demand for feed wheat has lead FAS/Ottawa to predict ending stocks of 6.0 MMT for MY 2017/18. FAS/Ottawa predicts that Canadian wheat exports for MY 2018/2019 will rise above 23 million MT, driving ending stocks closer to 5.5 MMT.