LeftField COMMODITY RESEARCH

Farm Market Letter

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Market Context – Ocean Freight Issues Getting Bigger

News stories about shipping and ocean freight can sometimes feel distant or more a problem for someone else, but this year's situation is hitting closer to home. Since the middle of February, bulk ocean freight from the West Coast to Japan has gone from US$27.00 to $36.00 per tonne, a 33% increase. Shipping by container is even worse with rates up 45% since January and up 250% from last summer.

And the cost increase for ocean freight (which reduces farmgate prices accordingly) isn't the only problem. The supply of containers has been severely reduced as empty cans are shipped back to Asia rather than being filled with Canadian crops. In some cases, this lack of containers actually seems to be restricting export sales which keeps supplies stuck on farms and weighs on prices.

Restricted sales are especially an issue for special crops, and some more than others. Crops like green peas, green lentils, chickpeas, Canary seed and mustard are mostly shipped by container. The constricted flow means sales have been reduced and the heavier supplies have depressed prices for green peas and chickpeas. For others like green lentils, Canary seed and mustard, more competition from export buyers would have boosted prices even higher.

Spring Wheat

Bullish

- ✓ Increasing focus on smaller hard red spring wheat acres and dryness concerns in both Canada and the US.
- ✓ While most global regions are in fairly good condition, the key weather months are still ahead, and most exporters are coming into the year with stocks on the tighter side.
- ✓ The corn market is supporting grain markets in general.

Bearish

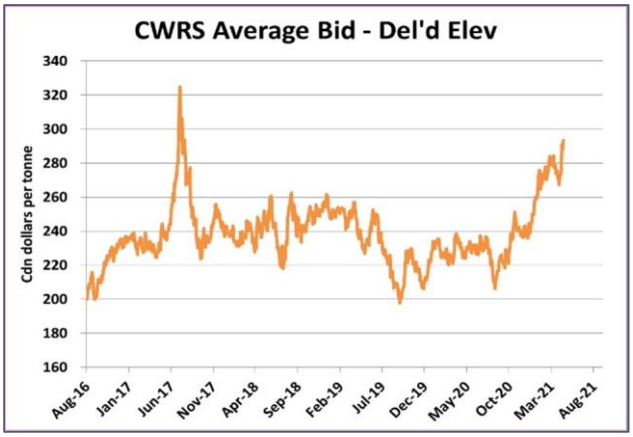
- ✓ Most of the Northern Hemisphere growing regions are generally in good shape.
- ✓ The wheat S&D has more cushion than many other crops.

Market Stance

- ✓ Prairie CWRS bids will remain supported by increasing concerns over hard red spring wheat supplies. Smaller acres and dryness are coming into increasing focus.
- ✓ Hard red spring wheat may see limited outright gains if weather cooperates in the Black Sea, EU and US winter wheat growing areas, even if there is room to increase in relative value.
- ✓ The broader outlook is largely range-bound, although a bit more 'upside nervousness' could be creeping in.

Chart of the Week

- ✓ CWRS bids strengthened to their highest level in a decade aside from a few weeks in the summer of 2017. Several factors have pushed the market higher - basis levels holding firm; Minneapolis futures rallying on growing hard red spring wheat supply concerns and a strong corn market; firm feed wheat prices giving milling wheat bids a push from underneath. Growing conditions are mostly favorable across the key Northern Hemisphere growing regions, which may limit the potential for further gains. At the same time, increased attention on the supply risk specifically for hard red spring wheat should also keep downside risk limited.



Canola

Bullish

- ✓ Farmer deliveries and visible supplies are unsustainably high given remaining inventories. A slowdown is inevitable.
- ✓ The new crop balance sheet for Canada is almost insolvably tight, and that's before any potential reduction in yields due to dryness concerns.

Bearish

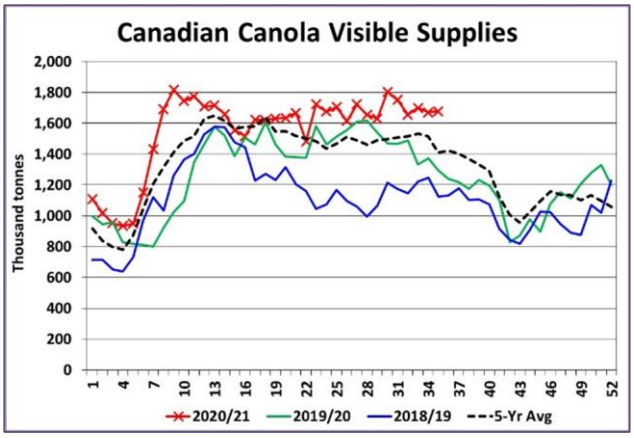
- ✓ More buyers are moving into deferred windows, with the risk of going 'no bid' once they have their needs covered.
- ✓ South American crop estimates are rising and palm oil has weakened, which may reflect weakness in the broader complex.

Market Stance

- ✓ Even though the market is psychologically transitioning to new crop, the outlook continues to be extremely tight for the next season as well.
- ✓ Weather will be even more in focus given the lack of supply going into the growing season and dry Prairie conditions.
- ✓ The trend towards rising biofuel mandates is long-term supportive, although there is unpredictability within policy decisions as well.

Chart of the Week

- ✓ CGC reported visible canola supplies are staying elevated at 1.68 mln tonnes, and not yet showing the typical seasonal decline despite extremely tight inventories overall. Farmer deliveries in week 35 were just 313,000 tonnes, the second lowest figure since before harvest. At this point deliveries have reached 75% of available supplies, compared to more normal 60% for this point in the year. When considering a good portion of undelivered inventory is already committed, this means as little as 10% or less of canola is available for commercials.



Soybeans

Bullish

- ✓ US ending stocks were left unchanged in last week's USDA report at extremely tight levels, something that will carry into next season.
- ✓ Soyoil prices remain relatively firm.
- ✓ Chinese imports are running well ahead of last year.

Bearish

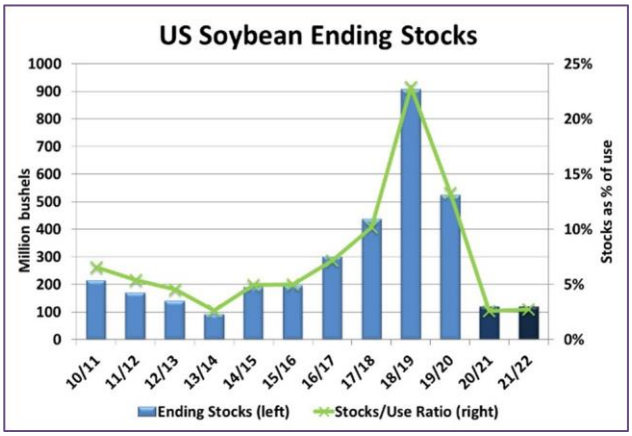
- ✓ South American production estimates remain high.
- ✓ Meal prices continue to be lackluster.
- ✓ US acres will likely be higher than the initial USDA estimate.
- ✓ More reports of ASF in China could reduce their demand.

Market Stance

- ✓ Old crop prices have been stuck in a range, reflecting the shift to South America for exports. New crop prices are better reflecting the need for big US yields.
- ✓ Oil prices continue to support crush margins, but the market is vulnerable to a break if meal doesn't improve.
- ✓ The known fundamentals support sideways trade, but the price risk is skewed to the upside, particularly for new crop, on any risk to US yields given how tight the balance sheet is for 2021/22.

Chart of the Week

- ✓ USDA made only minor tweaks to the S&D in last Friday's report, with the net result being no change to US ending stocks at just 120 mln bushels. At this point expectations are for little supply relief next season. While there are some potential bearish risks to monitor, the fact stocks are projected to be extremely tight before the crop even gets planted means the market will be highly sensitive to any weather concerns in the coming months, keeping price scenarios skewed to the upside.



Durum

Bullish

- ✓ The seasonal index for Canadian durum bids tends to run sideways with a possible bump prior to harvest.

Bearish

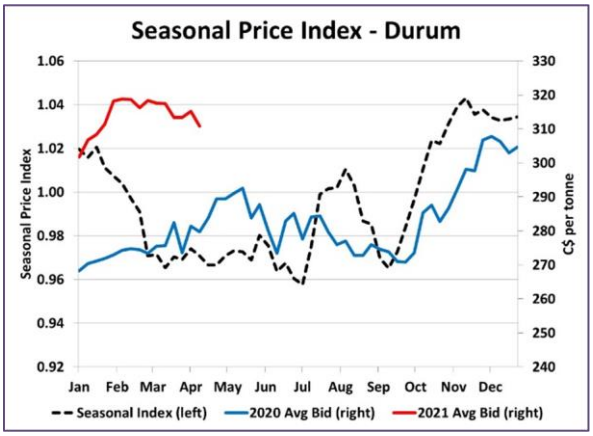
- ✓ We've trimmed our 2021/22 export forecast to 5.4 mln tonnes due to larger crops elsewhere.
- ✓ North African durum production could be up more than 30% from last year's extremely low levels.
- ✓ Mexican durum prices are starting to tip over from the recent peak as the 2021 crop is harvested.

Market Stance

- ✓ With only three months left in 2020/21, the possibility of a bullish development for old-crop durum is fading. It's possible that a bit more coverage will be needed for late export shipments but that won't be enough to trigger a broad-based old-crop rally.
- ✓ Prospects for export demand are lower in 2021/22 but whether that weighs on the market largely depends on North American crop prospects, with plenty of question marks due to acreage and dryness.

Chart of the Week

- ✓ Canadian durum bids are starting to drift lower. The seasonal index (based on seven years of data) tends to work sideways for the next couple of months. The index also shows the possibility of a bump late in the marketing year, but it doesn't happen every year. As importers are becoming more comfortable with 2021 global crops, this price response could be muted, with the main seasonal strength only showing up after the Canadian harvest. Of course, the likelihood of durum bids following the seasonal pattern depends on decent growing conditions.



Barley

Bullish

- ✓ Heavy elevator shipments and farm deliveries lately are drawing down on-farm stocks to minimal levels.
- ✓ Barley prices in France had been dropping sharply but have rebounded due to weather concerns.

Bearish

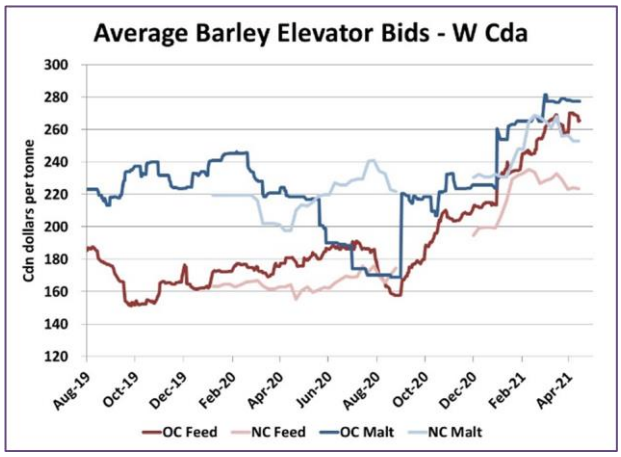
- ✓ Commercial inventories have been climbing in recent weeks as farmer deliveries have surged again.
- ✓ Old-crop bids in western Canada are mostly steady for now but new-crop is slipping lower.

Market Stance

- ✓ Canadian old-crop barley prices are remaining steady but are vulnerable to weakness in export markets. The downside will be limited though by ongoing demand from domestic feeders, as supplies are running on fumes.
- ✓ Anecdotal reports suggest the potential for a massive 2021 Canadian barley crop but those extremes are unlikely, especially if dry conditions don't improve. That said, most domestic and global signs are pointing toward a lower new-crop price outlook.

Chart of the Week

- ✓ The rally in old-crop barley bids at Canadian elevators has leveled off again or slipped slightly. An occasional bump in bids is possible if someone needs a bit more coverage for remaining old-crop sales but otherwise, values are flat. At the same time, new-crop barley bids have come off the earlier highs, both for malt and feed. The large increase expected in Canadian barley plantings is the main reason buyers are more comfortable with the supply outlook and are more patient with their purchases.



Corn

Bullish

- ✓ USDA further reduced the US carryout, with little relief projected for 2021/22.
- ✓ Global supplies also remain tight.
- ✓ Prairie feed grain prices remain fairly well supported.

Bearish

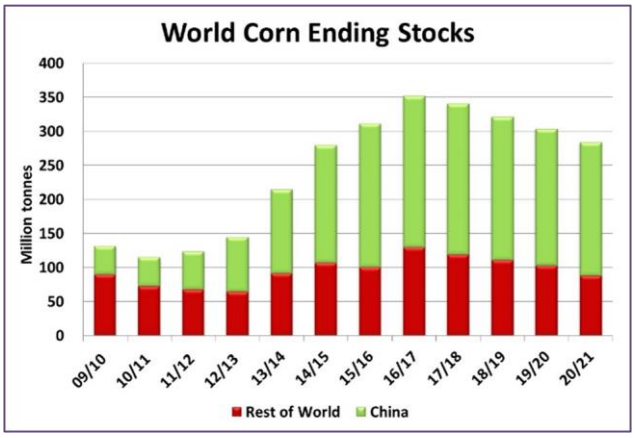
- ✓ US acres are likely higher than the initial USDA estimate. If combined with big yields, production estimates have upside.
- ✓ There is much bullish news already factored into prices, and speculative funds hold a huge long position.

Market Stance

- ✓ Momentum is pointed higher as the market is nervous about the longer term supply situation.
- ✓ There are potential bearish factors to keep in mind, particularly relative to the current high prices (upside potential to US production, large demand expectations built into estimates, big speculative positions, potential favorable weather in other key growing regions). While these need to be monitored, at this point the onus is on the bears to prove their case.

Chart of the Week

- ✓ USDA shows the world corn carryout shrinking. However, the official data shows China holding an unrealistic 70% of world corn stocks, despite their domestic prices being record-high and suddenly becoming the world's largest importer. Despite the questions around the aggregate number, of interest is non-Chinese stocks are at their tightest since 2012/13. This places even greater focus on Brazil's Safrinha crop and Ukraine's yield potential, and the possibility of even more export demand getting pushed back to the US over the coming year.



Oats

Bullish

- ✓ Nearby oat futures moved up through the top side of a pennant Wednesday and maintained that strength Thursday.
- ✓ We've forecast a 5% decline in 2021 Canadian oat plantings but a larger drop is certainly possible.
- ✓ The inverse between old-crop and new-crop cash oat bids has narrowed further on different supply situations.

Bearish

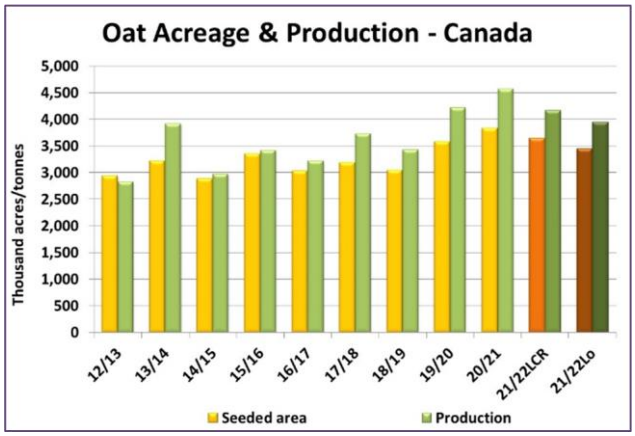
- ✓ Oat exports in recent weeks have mostly been below average and the quieter shipping season is still coming up.

Market Stance

- ✓ It looks like there's not much life left in the old-crop oat market, which is increasingly dependent on US demand. If dry conditions across parts of the prairies don't improve, it could trigger a bit more buying late in 2020/21, but that's far from a sure thing.
- ✓ The new-crop market is looking a little friendlier due to a combination of reduced acreage and weather concerns. The next shoe to drop will be StatsCan's acreage estimate on April 27 with the crop condition story unfolding in May and beyond.

Chart of the Week

- ✓ Because oats are a more established part of Canadian crop rotations, we think it's unlikely that 2021 seeded area in Canada would follow the 17% drop in US plantings reported earlier by the USDA. That said, we may be overly optimistic with our forecast of only a 5% decline in Canadian plantings and it's quite possible seeded area could show a decline somewhere in the 5-10% range. Under a scenario of a 10% acreage decline (with average yields), production would dip to 3.95 mln tonnes, 600,000 tonnes less than last year, which would set the stage for a much tighter supply outlook.



Peas

Bullish

- ✓ The USDA estimated an 11% decline in 2021 US pea plantings, which could support demand for Canadian peas.
- ✓ Canadian pea exports were 308,000 tonnes in February, above average once again.

Bearish

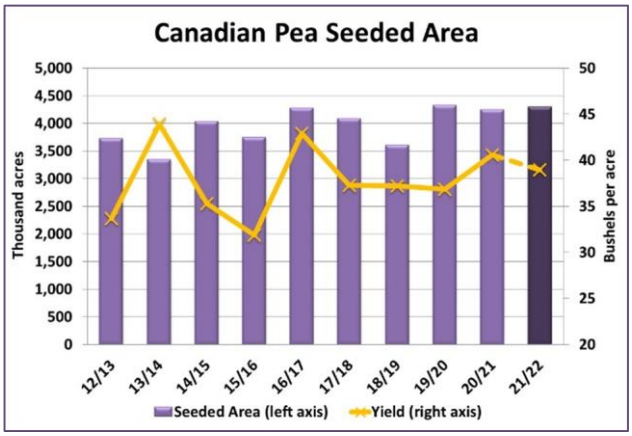
- ✓ Shipments from country elevators and farmer deliveries are both slowing, suggesting quieter export movement.
- ✓ Seeded area of peas in Russia and Ukraine will be up considerably from last year.

Market Stance

- ✓ Short term direction for yellow peas will be determined almost entirely by the possibility of additional Chinese purchases. Currently, we're hearing demand is quiet and even some fresh buying would only result in short-term localized bumps in bids.
- ✓ The new-crop market is steadier but also depends on Chinese buying, on top of the normal weather factors. Green peas are facing short-term headwinds but the drop in 2021 acres will ultimately lift the new-crop market back into a premium position.

Chart of the Week

- ✓ We don't expect the decline in US pea acreage is a strong indicator of what will happen in western Canada this spring. The first StatsCan seeding intentions estimates will be issued April 27. Recently, we've trimmed our forecast to 4.30 mln acres, now only 1% more than a year ago. This includes green pea plantings declining by 19%, offset by a 6% increase in yellow pea acreage. The main question is whether the increase in barley and canola acres will displace peas or if those acres will be taken from other crops such as spring wheat and oats.



Dry Beans

Bullish

- ✓ The USDA estimated an 11% decline in 2021 dry bean plantings and some regard that as still too high.
- ✓ We've trimmed our forecast of Canadian plantings to 380,000 acres, 17% less than last year's high water mark.

Bearish

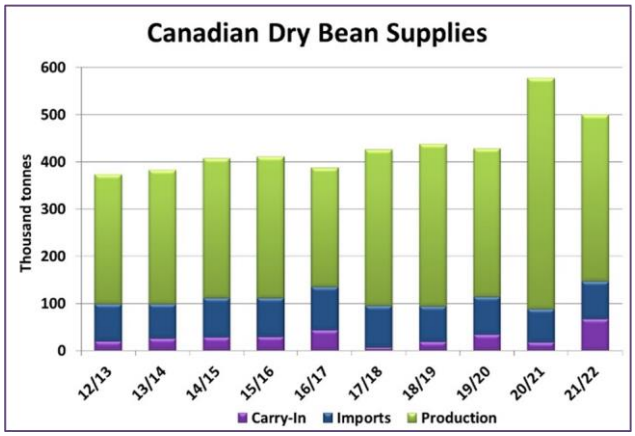
- ✓ Dry bean exports in Canada and the US both declined in February, which could point to quieter demand ahead.
- ✓ Black and carioca bean prices in Brazil have come off the highs, suggesting an improved production outlook.

Market Stance

- ✓ As the heavy buying pace from the first half of 2020/21 starts to slow down, the market is coming to grips with the idea that old-crop supplies are actually fairly comfortable. Some of the concerns about South American crops have also started to fade, allowing buyers to be more patient. This suggests some downside is possible, although farmers will be reluctant sellers at lower levels.
- ✓ The USDA 2021 acreage estimate seems a little too high but if it's accurate, the new-crop market could soften too as long as yields hold up.

Chart of the Week

- ✓ The size of the USDA acreage decline fits with our previous forecast of Canadian plantings at 400,000 acres, 12% less than last year's high. We suspect though that since our last acreage forecast, the further strength in soybean markets may have stolen a few more acres from dry bean plantings, both in Ontario and Manitoba. As a result, we've trimmed another 20,000 acres from seeded area, now at 380,000 acres, now 17% less than a year ago. We're still forecasting a comfortable old-crop carryover, so this drop in production would still leave 2021/22 supplies close to 500,000 tonnes.



Mustard

Bullish

- ✓ Mustard plantings in the US aren't reported by the USDA but will likely slip slightly in 2021.
- ✓ Both old-crop and new-crop mustard bids have been showing more late-season strength.

Bearish

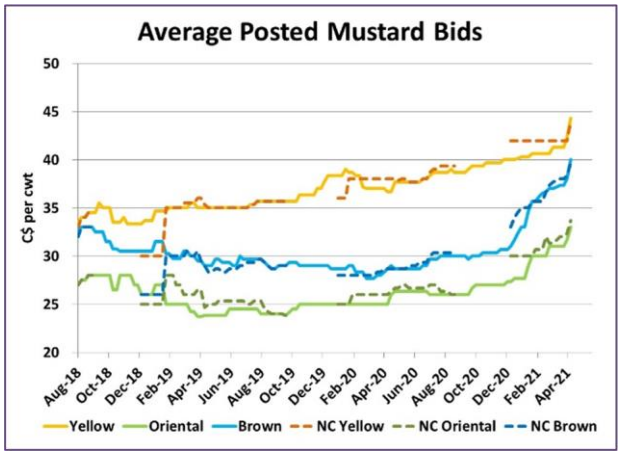
- ✓ Canadian mustard exports dropped to only 8,300 tonnes in February and the pace is well below average.
- ✓ Imports of mustard by the EU have been weaker in 2020/21, with Russia accounting for most of the declines.

Market Stance

- ✓ The quiet mustard market early in 2020/21 was related to soft demand but even so, inventories of all three classes have now been drawn down to very low levels. This is adding more urgency for buyers to maintain coverage for the rest of 2020/21 and even more importantly, to ensure adequate supplies for 2021/22 in the face of heavy acreage competition. Even if export demand doesn't pick up next year, tight supplies and bullish farmers will tend to keep prices supported.

Chart of the Week

- ✓ Both old-crop and new-crop bids for all three classes of mustard have turned higher again in the last week or two. There's still a move among buyers to try to encourage more mustard plantings, even with seeding well underway, which suggests our 2021 seeded area forecast of 385,000 acres is overly optimistic. Besides the more attractive new-crop bids, the latest gains in spot prices indicate that some additional coverage is needed to fill the remainder of old-crop sales and/or build new-crop inventories.



Canary Seed

Bullish

- ✓ Canary seed exports in February were an above-average 14,000 tonnes, causing supplies to tighten further.
- ✓ Bids for both old-crop and new-crop Canary seed have continued to firm up, reflecting a low supply situation.

Bearish

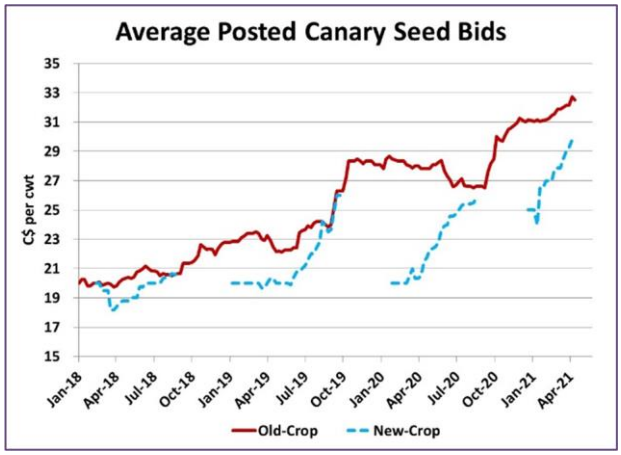
- ✓ We're still forecasting a 10% increase in Canary seed plantings, which will be needed to keep supplies steady.
- ✓ There are still no signs of the usual spring shipment of Canary seed out of Thunder Bay to the EU.

Market Stance

- ✓ The gains in old-crop Canary seed bids are a better indicator than StatsCan production or stocks estimates and confirm that on-farm supplies are the tightest in years.
- ✓ Even once remaining export sales are filled, there's not a lot of downside in the market as new-crop bids are also the strongest in years. This suggests 2021 seeded area will have a hard time meeting new-crop demand, which means a strong price outlook for 2021/22.

Chart of the Week

- ✓ The average old-crop Canary seed bid has been gradually working its way higher and saw a slightly larger bump in the last week or two. This clearly reflects the need for a little extra coverage to fill remaining old-crop sales from low on-farm inventories and bullish farmers. New-crop bids are also working their way higher to attract a few more last minute 2021 acres.



Posted Bids from Western Canadian Buyers

C$ Del'd Elevator/Plant

	----------This week----------					Last week	Wkly	4 Weeks
	Min	Max	Avg	Avg	NC Avg	Avg	Chg	Ago
Price	$/t	$/t	$/t	$/bu	$/bu	$/bu	$/bu	$/bu
Canola	686.20	820.55	754.36	17.11	14.00	17.27	-0.16	17.06
Soybeans	551.16	575.04	562.10	15.30	13.65	15.49	-0.19	14.98
Wheat, CWRS	278.88	307.84	293.34	7.98	7.46	7.65	0.33	7.53
Wheat, CWRW	190.73	259.04	219.02	5.96	5.43	5.59	0.37	5.86
Wheat, CPS	259.56	336.25	279.53	7.61	6.41	7.12	0.49	7.11
Durum	276.31	321.51	310.87	8.46	7.77	8.58	-0.12	8.64
Wheat, Feed	183.72	293.35	248.55	6.76	5.57	6.77	-0.01	6.69
Barley, Feed	178.25	287.88	265.66	5.78	4.86	5.86	-0.07	5.83
Barley, Malt	260.88	282.88	277.35	6.04	5.51	6.04	0.00	6.03
Corn	170.07	301.17	256.71	6.52	5.57	6.46	0.06	6.42
Oats	204.15	275.58	236.99	3.65	3.61	3.66	0.00	3.88
Rye	148.96	242.11	187.56	4.76	5.27	4.76	0.00	4.46
Peas, Yellow	330.69	389.49	363.11	9.88	9.03	9.94	-0.05	10.59
Peas, Green	321.50	385.81	346.43	9.43	8.87	9.52	-0.09	9.61
Feed Peas	275.00	312.32	293.76	7.99	n/a	7.99	0.00	7.99
Peas, Maple	330.69	394.99	359.40	9.78	9.70	10.13	-0.34	10.41
Fababean	266.39	293.95	280.17	7.63	n/a	7.58	0.04	7.58
Flax, Brown	730.47	925.15	832.09	21.14	16.25	21.13	0.00	21.00
Flax, Yellow	826.73	925.15	872.66	22.17	17.00	22.25	-0.08	21.88
Basis *	$/t	$/t	$/t		$/t	$/t	$/t	$/t
Canola	-141.00	-6.65	-72.84		-15.30	-38.84	-34.00	-27.06
Soybeans	-97.75	-73.87	-86.81		-74.53	-84.41	-2.40	-96.45
Wheat, CWRS	-25.32	3.64	-10.86		-34.69	-8.55	-2.31	-12.37
Wheat, CWRW	-87.01	-18.70	-58.72		-80.86	-55.86	-2.86	-58.92
Wheat, CPS	-18.18	58.51	1.79		-44.65	0.36	1.42	-12.96
Corn	-122.82	8.28	-36.18		-29.54	-24.32	-11.86	-20.04
Oats	-125.91	-54.48	-93.07		-47.85	-86.08	-6.98	-66.22
Price	$/t	$/t	$/t	$/cwt	$/cwt	$/cwt	$/cwt	$/cwt
Lentils, Lg Green	727.53	815.71	763.35	34.63	32.41	35.18	-0.55	36.28
Lentils, Med Green	529.11	727.52	628.32	28.50	n/a	28.50	0.00	28.46
Lentils, Sm Green	595.25	749.57	680.98	30.89	27.33	31.18	-0.29	31.32
Lentils, Fr Green	529.11	705.48	633.83	28.75	28.00	29.20	-0.45	27.10
Lentils, Sm Red	617.29	683.43	648.08	29.40	28.85	29.19	0.21	29.35
Beans, Pinto	881.85	881.85	881.85	40.00	40.00	40.00	0.00	40.00
Beans, Black	881.85	881.85	881.85	40.00	40.00	40.00	0.00	40.00
Beans, Navy	925.94	925.94	925.94	42.00	40.00	42.00	0.00	925.94
Chickpeas, Kabuli	617.29	727.52	694.46	31.50	31.00	31.75	-0.25	31.38
Chickpeas, Desi	529.11	617.29	573.20	26.00	n/a	26.00	0.00	25.67
Sunflower, Oil	661.39	661.39	661.39	30.00	25.00	29.00	1.00	27.00
Sunflower, Confection	n/a	n/a	n/a	n/a	35.00	n/a	n/a	30.00
Mustard, Yellow	947.99	992.08	977.38	44.33	44.00	42.33	2.00	41.33
Mustard, Brown	881.85	881.85	881.85	40.00	39.67	38.00	2.00	37.17
Mustard, Oriental	683.43	771.62	727.52	33.00	33.67	31.67	1.33	31.00
Canaryseed	705.48	749.57	716.50	32.50	29.67	32.72	-0.22	32.00

*** Basis on crops other than canola is calculated by subtracting Cdn cash price from US futures converted to Cdn dollars.**
Nearby futures month is rolled 10 business days before contract expiry.