



CANADA: GRAINS AND OILSEEDS (G&O) OUTLOOK: 2010-11

December 15, 2010

Total production of G&O in Canada for 2010-11 is estimated by Statistics Canada at 62 million tonnes (Mt), a 7% decrease from last year. Supply is estimated by AAFC to decrease by 4% despite slightly higher carry-in stocks. Average crop quality in western Canada is expected to be lower than normal because of the late harvest, while normal quality is generally expected in eastern Canada. Total exports are forecast to decrease due to lower exports of wheat (ex-durum), canola, oats and flaxseed. Total domestic use is forecast to increase due to higher feed use of corn in eastern Canada, higher feed wheat use in western Canada and increased canola crush in western Canada. Total carry-out stocks are expected to be well below the 10 year average. Grain prices are expected to average significantly higher than the 2009-10 level, partly due to the market reaction to the weather-related production problems in the Black Sea region and the ban on exports of cereal grains in Russia. The Canadian dollar is assumed to remain near par, vis-à-vis the US dollar, albeit slightly stronger than last year. The main factors to watch are exchange rates and the condition of the world crops.

DURUM

Production decreased to 3 Mt, 44% below last year and the lowest since 1988-89, because of a 44% decrease in seeded area. The average quality, in terms of grades, is estimated to be much lower than in 2009-10 and much lower than normal because of a very wet growing season and a late harvest. However, this will be partly offset by the high carry-in stocks from the exceptionally high quality 2009-10 crop, as carry-in stocks account for 47% of the 2010-11 supply. The average protein content for durum is lower than normal and slightly lower than last year. The supply of durum decreased by 22% to 5.73 Mt as higher carry-in stocks partly offset the decrease in production.

Exports are forecast to decrease marginally to 3.8 Mt, due to a slight decrease in expected world trade. For 2009-10, world trade was unusually high because relatively low prices increased demand for durum in non-traditional markets. Carry-out stocks are forecast to decrease by 59% to a historically low level. The CWB PRO is 40% higher than for 2009-10 because of the lower Canadian and world production of durum. World durum production is estimated at 34.4 Mt, 6.6 Mt lower than for 2009-10.

WHEAT (ex durum)

Production decreased to 20.1 Mt, 6% below last year because of lower seeded area and lower yields. Production decreased for winter, Canada Western Red Spring and Canada Western Extra Strong wheat, but increased for Canada Western Soft White Spring and Canada Prairie Spring wheat. Canada Western Red Spring wheat is estimated to account for 75% of the total wheat production, the same proportion as in 2009-10. The average grade quality of wheat in western Canada is estimated to be

much lower than in 2009-10 and much lower than normal because of the very wet growing season and a late harvest. However, this will be slightly offset by the carry-in stocks from the exceptionally high quality 2009-10 crop, as the carry-in stocks account for 20% of the 2010-11 supply. The average protein content of wheat in western Canada is lower than normal, but slightly higher than last year. The average quality of the wheat crop in eastern Canada is normal. It accounts for 11% of Canadian wheat production. The supply of wheat decreased by 3% to 25.3 Mt as higher carry-in stocks partly offset the decrease in production.

Exports are forecast to decrease by 7% to 13.7 Mt because of the lower supply and expected lower world trade. Domestic use is expected to increase because of increased demand for food, industrial and seed uses and the increased supply of feed wheat resulting from the late harvest. Carry-out stocks are forecast to fall to a historically low level. The CWB PRO is 33% higher than for 2009-10 due to support from the lower Canadian and world production, the export ban by Russia and the tight supply of high protein hard wheat. The world production of wheat is estimated to decrease by 35.5 Mt from 2009-10 to 646.5 Mt.

BARLEY

Production decreased to 7.6 Mt, 20% below last year due to lower area. This is Canada's second lowest barley output in the past 30 years. The supply of barley is about 18% lower than last year due to lower production.

Domestic feed use is projected to decline due to lower availability and lower livestock numbers. Total exports of barley are forecast to decrease due to very poor

malt barley selection rates but higher international feed barley prices and increased exports of feed barley to Saudi Arabia and Japan will offset some of this decline. The increase in feed barley exports is related to the drought in Russia, Ukraine and production problems in the EU which reduced their exportable surplus. Carry-out stocks in Canada are forecast to decrease significantly to a record low level.

The 11% decrease in the world supply of barley is expected to provide strong support for barley prices throughout 2010-11. The average Lethbridge barley price is forecast to increase by \$10-20/t from 2009-10 to \$170/t. The CWB November PRO for barley Pool A is \$232/t, significantly higher than normal. For Select Two Row malting barley the PRO is \$253/t, more than 20% higher than last year, mostly due to support lower production in Canada and the EU.

CORN

Production, dominated by Ontario, increased to a record 11.7 Mt, 23% above last year because of better yields. Although seeded area was similar to last year, harvested area increased by 5% due to good weather.

The domestic supply of corn increased by about 18% and imports are expected to decrease because of the large production and may help offset tight barley supplies in western Canada. Total domestic use is forecast to increase by 3% from 2009-10. Carry-out stocks are expected to increase by 60% due to the higher production. Despite the strong Canadian dollar, the average Chatham elevator price is forecast to increase due to the higher corn prices in the US.

The US is expecting a near-record corn crop but strong demand in the US and

lower world coarse grain supplies have raised corn prices. The strong demand is coming from an increase in ethanol production and US exports, as corn replaces high priced wheat and barley in world feed rations. Chicago corn futures have made large gains in the last four months and are nearing the record levels of 2008. The CBOT corn price is forecast to average US\$5.15-5.95/bu, 46% above last year.

OATS

Production decreased 2.3 Mt, 21% below last year, due to lower area and yields. This is Canada's second lowest oat output in the past 30 years. The supply of oats decreased by 22% relative to last year due to the lower production and lower carry-in stocks.

Exports, mostly to the US, are forecast to decrease by 13% due to the lower supply. Carry-out stocks are expected to decrease significantly due to low supply. Prices are forecast to increase by \$15-25/t from 2009-10.

The 2010 oat crop in the US is projected to have both the lowest harvested area and production on record. Lower milling demand and displacement of oats by corn in feed rations has reduced the forecast for US oat imports by 16% from 2009-10. CBOT oat prices are forecast to average US\$2.75/bu, about 10% above the 2009-10 average. Oat prices have benefited from the recent gains in prices for corn, wheat and soybeans. On a per tonne basis, the premium for US oats relative to US corn is expected to decrease due to reduced demand, despite the lower supply of oats in North America. World oat production is forecast to be 14% lower than 2009-10 based mostly on smaller crops in Canada, the EU and Russia.

RYE

Production decreased to 0.22 Mt, 23% below last year due to lower seeded and harvested area. This is Canada's second lowest rye output in the past 30 years. The supply of rye decreased by 12% and total domestic use is estimated to increase by 5%.

Exports are forecast to decrease due to lower supply. Carry-out stocks are expected to decrease by 28% due to the large production drop. As was the case with winter wheat, seeding conditions during the fall of 2009 were not advantageous for rye.

Prices are forecast to increase by \$15-25/t from 2009-10. World production in 2010-11 is forecast to decrease by 11% due mainly to poor weather in the EU and Russia. World rye consumption is projected to decrease by 13% due to lower feed use in the EU and Russia and reduced human consumption.

CANOLA

Production decreased to 11.9 Mt, 4% below last year, as a 10% decline in yields, due to adverse growing conditions, more-than offset the rise in harvested area. Production was the third highest on record. Supplies are forecast to increase marginally due to the sharply higher carry-in stocks and a slight increase in imports.

Exports, mostly to China, Japan, the US and Mexico, are expected to decline by about 6%, to 6.7 Mt, because of the forecasted strong domestic crush. This is expected to limit exportable Canadian supplies. Domestic crush is forecast to rise by 25% as newly constructed processing plants take advantage of expanded capacity, attractive crush margins and strong markets for canola oil and canola meal. Canola oil prices are being supported by the rally in world vegetable oil prices underpinned by the EU and US biofuel mandates and strong Chinese buying.

Carry-out stocks are forecast to fall by almost one half, to 1.1 Mt, the lowest since 2003-04. This is considered tight given the expansion in the canola sector. Canola prices are forecast to rise by about 20% to a range of \$490-530 a tonne.

FLAXSEED (excluding solin)

Production decreased to 0.42 Mt, 55% below last year due to a sharp drop in seeded area and yields. The supply of flaxseed is about 38% lower than last year as the lower production more than offset the rise in carry-in stocks.

Exports are forecast to decline by 22% due to limited supplies. Total domestic use is forecast to decline significantly while carry-out stocks fall to a tight 0.05 Mt.

Due to changes in data availability, the location for flaxseed prices has been changed to i/s Saskatoon from i/s Thunder Bay with this release of the S&D. Prices are expected to be sharply higher on tight Canadian supplies and strong world usage.

SOYBEANS

Soybean production increased to a record 4.3 Mt, 24% above last year because of higher harvested area and record yields. Production of genetically modified soybeans is estimated at 2.05 Mt, mostly in Ontario. Supplies are forecast to rise by about 22% due to higher carry-in stocks and continued strong imports.

Exports are forecast to rise to a record 2.6 Mt on support from strong world demand for commercial and Identity Preserved soybeans. Total crush is forecast to rise by 16%, to 1.5 Mt, due to ample seed supplies, attractive crush margins and strong demand for soybean oil and soybean meal. Total domestic use is also forecast to rise by 15% because of a slight increase in feed, waste and dockage. Carry-out stocks are forecast to rise by 50%, to 0.45 Mt, the highest level since 2006-07. Soybean prices are forecast to increase by 14% to a range of \$390-430 a tonne on support from higher US soybean prices with further price gains being limited by the strong Canadian dollar which is trading at near-par with the US dollar.

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CANADA: GRAINS AND OILSEEDS SUPPLY AND DISPOSITION

December 15, 2010

| Grain and Crop Year (a) | Area Seeded thousand ha | Area Harvested thousand ha | Yield t/ha | Production | Imports (b) | Total Supply | Exports (c) | Food & Industrial Use (e) | Feed, Waste & Dockage | Total Domestic Use (d) | Carry-out Stocks | Average Price (g) \$/t |
|----------------------------------|-------------------------------|----------------------------------|---------------|------------|----------------|-----------------|-------------|---------------------------------|-----------------------------|------------------------------|---------------------|------------------------------|
| -----thousand metric tonnes----- | | | | | | | | | | | | |
| Durum | | | | | | | | | | | | |
| 2008-2009 | 2,440 | 2,416 | 2.28 | 5,519 | 2 | 6,340 | 3,640 | 236 | 339 | 797 | 1,903 | 373 |
| 2009-2010 | 2,291 | 2,230 | 2.42 | 5,400 | 2 | 7,305 | 3,820 | 262 | 391 | 778 | 2,708 | 197* |
| 2010-2011f | 1,275 | 1,244 | 2.43 | 3,025 | 2 | 5,734 | 3,800 | 265 | 413 | 834 | 1,100 | 275* |
| Wheat Except Durum | | | | | | | | | | | | |
| 2008-2009 | 7,752 | 7,616 | 3.03 | 23,092 | 23 | 26,702 | 14,966 | 3,155 | 3,128 | 7,092 | 4,644 | 302 |
| 2009-2010 | 7,775 | 7,408 | 2.90 | 21,448 | 115 | 26,207 | 14,661 | 3,200 | 2,481 | 6,433 | 5,113 | 220* |
| 2010-2011f | 7,274 | 7,024 | 2.87 | 20,142 | 50 | 25,305 | 13,700 | 3,370 | 2,925 | 7,105 | 4,500 | 292* |
| All Wheat | | | | | | | | | | | | |
| 2008-2009 | 10,192 | 10,032 | 2.85 | 28,611 | 26 | 33,042 | 18,606 | 3,392 | 3,468 | 7,889 | 6,547 | |
| 2009-2010 | 10,065 | 9,638 | 2.79 | 26,848 | 117 | 33,512 | 18,481 | 3,463 | 2,871 | 7,210 | 7,820 | |
| 2010-2011f | 8,549 | 8,269 | 2.80 | 23,167 | 52 | 31,039 | 17,500 | 3,635 | 3,338 | 7,939 | 5,600 | |
| Barley | | | | | | | | | | | | |
| 2008-2009 | 3,787 | 3,502 | 3.36 | 11,781 | 42 | 13,392 | 2,398 | 160 | 7,684 | 8,150 | 2,843 | 179 |
| 2009-2010 | 3,506 | 2,918 | 3.26 | 9,517 | 42 | 12,402 | 2,149 | 141 | 7,284 | 7,671 | 2,583 | 153 |
| 2010-2011f | 2,797 | 2,387 | 3.19 | 7,605 | 35 | 10,223 | 1,800 | 115 | 7,028 | 7,423 | 1,000 | 155-185 |
| Corn | | | | | | | | | | | | |
| 2008-2009 | 1,204 | 1,169 | 9.06 | 10,592 | 1,863 | 13,912 | 327 | 4,120 | 7,594 | 11,728 | 1,857 | 167 |
| 2009-2010 | 1,204 | 1,142 | 8.37 | 9,561 | 2,125 | 13,544 | 110 | 3,940 | 7,722 | 11,675 | 1,758 | 144 |
| 2010-2011f | 1,214 | 1,203 | 9.74 | 11,715 | 1,900 | 15,373 | 500 | 4,200 | 7,859 | 12,073 | 2,800 | 160-190 |
| Oats | | | | | | | | | | | | |
| 2008-2009 | 1,758 | 1,448 | 2.95 | 4,273 | 17 | 5,240 | 2,430 | 69 | 1,086 | 1,282 | 1,527 | 191 |
| 2009-2010 | 1,510 | 948 | 3.07 | 2,906 | 17 | 4,450 | 2,075 | 56 | 1,048 | 1,205 | 1,170 | 167 |
| 2010-2011f | 1,179 | 841 | 2.73 | 2,298 | 15 | 3,482 | 1,800 | 65 | 917 | 1,132 | 550 | 180-210 |
| Rye | | | | | | | | | | | | |
| 2008-2009 | 168 | 132 | 2.40 | 316 | 1 | 352 | 78 | 42 | 97 | 152 | 123 | 155 |
| 2009-2010 | 115 | 115 | 2.43 | 281 | 1 | 404 | 128 | 40 | 86 | 137 | 139 | 143 |
| 2010-2011f | 93 | 89 | 2.43 | 216 | 1 | 356 | 112 | 37 | 97 | 144 | 100 | 150-180 |
| Mixed Grains | | | | | | | | | | | | |
| 2008-2009 | 143 | 80 | 2.79 | 222 | 0 | 222 | 0 | 0 | 222 | 222 | 0 | |
| 2009-2010 | 189 | 78 | 2.75 | 213 | 0 | 213 | 0 | 0 | 213 | 213 | 0 | |
| 2010-2011f | 172 | 80 | 2.92 | 233 | 0 | 233 | 0 | 0 | 233 | 233 | 0 | |
| Total Coarse Grains | | | | | | | | | | | | |
| 2008-2009 | 7,061 | 6,330 | 4.29 | 27,184 | 1,922 | 33,117 | 5,234 | 4,391 | 16,682 | 21,533 | 6,350 | |
| 2009-2010 | 6,524 | 5,201 | 4.32 | 22,478 | 2,184 | 31,013 | 4,462 | 4,177 | 16,354 | 20,901 | 5,650 | |
| 2010-2011f | 5,455 | 4,600 | 4.80 | 22,066 | 1,951 | 29,666 | 4,212 | 4,417 | 16,133 | 21,004 | 4,450 | |
| Canola | | | | | | | | | | | | |
| 2008-2009 | 6,540 | 6,494 | 1.95 | 12,643 | 121 | 14,225 | 7,908 | 4,280 | 329 | 4,657 | 1,661 | 467 |
| 2009-2010 | 6,556 | 6,105 | 2.03 | 12,417 | 128 | 14,206 | 7,163 | 4,788 | 83 | 4,921 | 2,123 | 426 |
| 2010-2011f | 6,806 | 6,514 | 1.82 | 11,866 | 250 | 14,239 | 6,700 | 6,000 | 391 | 6,439 | 1,100 | 490-530 |
| Flaxseed | | | | | | | | | | | | |
| 2008-2009 | 631 | 625 | 1.38 | 861 | 7 | 1,035 | 639 | n/a | n/a | 168 | 229 | 500 |
| 2009-2010 | 692 | 623 | 1.49 | 930 | 6 | 1,165 | 772 | n/a | n/a | 104 | 289 | 424 |
| 2010-2011f | 374 | 353 | 1.20 | 423 | 5 | 717 | 600 | n/a | n/a | 67 | 50 | 510-540 *** |
| Soybeans | | | | | | | | | | | | |
| 2008-2009 | 1,202 | 1,195 | 2.79 | 3,336 | 350 | 3,807 | 1,888 | 1,280 | 274 | 1,699 | 220 | 413 |
| 2009-2010 | 1,394 | 1,382 | 2.54 | 3,507 | 371 | 4,098 | 2,111 | 1,293 | 240 | 1,687 | 300 | 359 |
| 2010-2011f | 1,483 | 1,477 | 2.94 | 4,345 | 350 | 4,995 | 2,600 | 1,500 | 300 | 1,945 | 450 | 390-430 |
| Total Oilseeds | | | | | | | | | | | | |
| 2008-2009 | 8,373 | 8,315 | 2.03 | 16,840 | 477 | 19,067 | 10,435 | 5,560 | 603 | 6,524 | 2,109 | |
| 2009-2010 | 8,642 | 8,110 | 2.08 | 16,854 | 505 | 19,469 | 10,045 | 6,081 | 323 | 6,711 | 2,712 | |
| 2010-2011f | 8,663 | 8,345 | 1.99 | 16,635 | 605 | 19,952 | 9,900 | 7,500 | 691 | 8,452 | 1,600 | |
| Total Grains and Oilseeds | | | | | | | | | | | | |
| 2008-2009 | 25,626 | 24,677 | 2.94 | 72,635 | 2,425 | 85,226 | 34,275 | 13,343 | 20,752 | 35,946 | 15,006 | |
| 2009-2010 | 25,231 | 22,949 | 2.88 | 66,180 | 2,807 | 83,993 | 32,989 | 13,720 | 19,549 | 34,823 | 16,182 | |
| 2010-2011f | 22,667 | 21,214 | 2.92 | 61,868 | 2,608 | 80,657 | 31,612 | 15,552 | 20,163 | 37,395 | 11,650 | |

(a) Crop year is August-July except corn and soybeans which are September-August.

(b) Excludes imports of products. (c) Includes exports of products for wheat, durum, oats, barley, and rye. Excludes exports of oilseed products.

(d) Total Domestic Use = Food and Industrial Use + Feed Waste & Dockage + Seed Use

(e) Soybean food and industrial use is based on data from the Canadian Oilseed Processors Association. Total excludes flaxseed due to data confidentiality.

(g) Crop year average prices: No.1 CWRS 12.5% protein and No.1 CWAD 12.5% (CWB final price I/S St. Lawrence/Vancouver), Barley (No. 1 feed, ICE Futures Canada, cash, I/S Lethbridge), Corn (No.2 CE, cash, I/S Chatham), Oats (US No. 2 Heavy, CBoT nearby futures); Rye (No. 1 CW I/S Saskatoon); Canola (No. 1 Canada, ICE Futures Canada, cash, I/S Vancouver); Flaxseed (No. 1 CW, ICE Futures Canada, cash, I/S Saskatoon); Soybeans (No. 2 cash, I/S Chatham).

* Canadian Wheat Board - November 2010 Pool Return Outlook (PRO)

***Flaxseed price location changed to i/s Saskatoon from i/s Thunder Bay