



THIS ISSUE

Wheat: Situation and Outlook
— Page 3

U.S. Cattle Market Situation and
Outlook — Page 7

VOLUME 11 • ISSUE 6 • JULY 2008

Canada Grains & Oilseeds Outlook Summer 2008

Production of grains and oilseeds (G&O) for 2008-09 in Canada is forecast to increase to about 64 million tonnes (Mt) from 60 Mt in 2007-08. It is assumed that precipitation will be normal for the remainder of the growing and harvest periods, and that the abandonment rate and crop quality will be normal. Slightly above trend yields are now expected for most crops in Western Canada, due to improved moisture and warmer weather. Normal yields are expected for Eastern Canada.

Supply is forecast to decline marginally because of significantly lower carry-in stocks. Total G&O exports are forecast to decrease, with lower exports of coarse grains more than offsetting increased durum wheat and canola exports. Carry-out stocks are expected to increase slightly but remain at a historically low level. World and Canadian prices for G&O are expected to remain historically high due to strong demand and low world carry-in stocks. The main factors to watch are: expected yields and quality in Western Canada, harvest conditions, volatility of commodity markets and crop prospects for U.S. corn and soybeans.

Durum

Production is forecast to rise by 41 per cent, but the low carry-in stocks will limit the increase in supply to 22 per cent. Exports are forecast to recover by 22 per cent because of increased supply and strong demand. Carry-out stocks are forecast to increase from the very low 2007-08 level. The CWB Pool Return Outlook (PRO) is lower than for 2007-08 due to higher Canadian and world supply.

Wheat (ex-durum)

Production is forecast to increase by 22 per cent, but lower carry-in stocks will limit the increase in supply to 5.0 per cent. Domestic use and exports are forecast to increase due to the higher supply and strong demand. Carry-out stocks are forecast to increase from the very

low 2007-08 level. The CWB PRO is lower than for 2007-08 and the discounts for lower quality wheat are projected to increase because of higher Canadian and world supply.

Barley

Production is forecast to decrease by 4.0 per cent, as the decline in area is partly offset by higher yields. Supply is expected to fall by 7.0 per cent due to lower carry-in stocks. Total exports are expected to decrease significantly due to lower exports of feed barley while exports of malting barley are forecast to remain stable. Carry-out stocks are forecast to remain stable at near record low levels. The average off-Board feed barley price (No. 1 CW I/S Lethbridge) is forecast to increase from 2007-08 due to lower supply and higher U.S. feed grain prices.

Corn

Seeded area decreased by 14 per cent. Production is forecast to decrease by 17 per cent due to lower seeded area and lower yields. Domestic supply is forecast to decrease significantly despite slightly higher carry-in stocks. Imports are forecast to decrease marginally due to lower feed use.

Corn use for ethanol production is forecast to increase by 14 per cent. Carry-out stocks are forecast to fall by 25 per cent. The average price at Chatham elevator is forecast to increase, due to higher U.S. corn prices and a return to normal crop quality.

Production is forecast to decrease by 17 per cent due to combined lower seeded area and yields. As a result, domestic supply is forecast to decrease significantly. Imports are forecast to decrease marginally due to lower feed use. Corn use for ethanol production is forecast to increase by 14 per cent. Carry-out stocks are forecast to fall by 25 per cent. The average price at Chatham elevator is forecast to increase, due to higher U.S. corn prices.

Oats

Production is forecast to fall significantly largely due to the decrease in area. Supply is expected to decrease by 14 per cent as the lower production more than offsets higher carry-in stocks. Exports are also forecast to decline by 14 per cent from the record high expected for 2007-08. Feed use is expected to fall slightly while carry-out stocks are forecast to decrease by 30 per cent. The average nearby Chicago Board of Trade futures price for oats is forecast to increase from 2007-08 due to higher U.S. corn prices and lower supply in North America.

Canola

Canola production for 2008 is forecast to rise by over 20 per cent due to higher seeded area and above-trend yields. Total supply is expected to increase by only 12 per cent, due to lower carry-in stocks. Exports and domestic crush are forecast to increase slightly, because of the increased supply and strong world food and biofuel demand. Average canola prices in Canada are expected to increase from 2007-08 as a result of higher world vegetable oil prices.

Flaxseed (excluding solin)

Production is forecast to increase by 15 per cent, but total supply is forecast to fall due to significantly lower carry-in stocks. Exports are forecast to decline slightly due to the lower supply. Carry-out stocks are expected to decline further, supporting average prices above those in 2007-08.

Soybeans

Production is forecast to increase by 12 per cent from 2007 but domestic supply is forecast to remain unchanged due to lower carry-in stocks. Exports are forecast to fall while domestic crush rises. Carry-out stocks are forecast to be unchanged. The average Chatham price is expected to increase due to support from higher U.S. prices. ■

Wheat: Situation and Outlook

Wheat prices reached record levels in 2007-2008, due to a combination of tight supplies in major exporting countries, increased demand for grains and weakness in the United States (U.S.) dollar. For 2008-2009, wheat prices are expected to remain near the historically high levels of 2007-2008 due to continuing tight world and major exporter stocks, as well as spill over support from higher feed grain prices.

Production and Supply

2007-2008

In 2007-2008, world wheat production recovered from 2006-2007, but supply decreased as lower carry-in stocks more than offset the higher production. More significantly, supplies decreased by 8.0 per cent in the five major exporting countries, with only the U.S. and Argentina having an increase in supply. In the other traditional "major exporting countries", total supply was down by 23 per cent in Canada, 10 per cent in the European Union (EU)-27 and 15 per cent in Australia. In Russia, Ukraine and Kazakhstan (RUK), newly emerging major exporters, production increased and supply rose slightly, although low supplies resulted in the imposition of export taxes in Russia. In India, production has increased significantly, but supply remains below the 10-year average. China has achieved steady growth in wheat production in recent years, following sharp declines in the early years of this century. In Canada, non-durum wheat production fell by 25 per cent due to lower seeded area. However, the grade distribution and protein content of the crop was above average.

2008-2009

For 2008-2009, the world supply of wheat is forecast by the United States Department of Agriculture (USDA) to increase by 6.0 per cent due to a projected record production of 664 million tonnes (Mt). In the U.S., sharply higher wheat prices in the fall of 2007 resulted in a 6.0 per cent increase in seeded area of winter wheat for harvest in 2008. However, only the areas of soft red winter (SRW) and white winter wheat increased, while the hard red winter (HRW) wheat area declined slightly due to dryness in the southern Plains at planting time. Spring wheat and durum areas are also expected to rise for 2008. Production of all classes of wheat in the U.S. is forecast by USDA to increase by 18 per cent, to 67 Mt (2.46 billion bushels), the highest since 1998. Production in the EU-27 is forecast by USDA to increase by 19 per cent to the highest level in four years, with supply only rising by 14 per cent due to the lower carry-in stocks. Precipitation in Australia is expected to return to normal for 2008, and the wheat crop is projected to recover by over 90 per cent to an above-average 25 Mt. This forecast is more tentative than those for northern hemisphere countries, as the wheat has just been sown, with harvest not beginning until November. Production in the RUK is forecast to increase by 10 per cent from 2007-2008, with the larger production in Russia and Ukraine more than offsetting the smaller production in Kazakhstan crop. Indian production is forecast to rise only marginally, remaining below expected consumption of about 78 Mt. For 2008-2009, China's production is expected to rise slightly to 114 Mt, the highest since

1997 and about 7.0 Mt greater than projected utilization.

In Canada, farmers have increased wheat seeded area by 16 per cent, with non-durum area rising by 13 per cent, mainly due to increased winter wheat seeding, which reached a record 1.06 million hectares. Durum area is up by 27 per cent. Assuming normal abandonment and trend yields, all wheat production is forecast to increase by 21 per cent to 24.2 Mt. However, the increase in high quality Canada Western Red Spring (CWRS) production is only expected to be slightly over 5.0 per cent, as area shifts into winter wheat due to strong prices offered by the feed and ethanol industries. Assuming a normal grade distribution, with about 70 per cent grading No. 2 CWRS or better, supplies of high quality CWRS wheat may therefore be no higher than in 2007-2008.

Consumption

2007-2008

World wheat consumption continued to increase in most regions in 2007-2008, despite the lower supply and record-high prices. The major exceptions were the U.S. and EU, where reduced feed use was a major factor in reduced total consumption. Wheat use in China may have begun to recover from a decline that began in 2001-2002, after reaching a record 110 Mt the previous year.

2008-2009

World wheat utilization is forecast by USDA to reach a new record level. Increases are expected in all regions, with a sharp increase in feed use being the major factor in the U.S. and EU. In the U.S., the increased feed use is attributed to expected large supplies of SRW wheat and high corn prices.

Trade

2007-2008

World trade is expected to decline for 2007-2008, mainly as a result of high prices and reduced supplies in the major exporting countries, but is expected to remain above the 10-year average.

Imports

The impact on imports varies widely by region. A sharp decline in Indian imports is partly offset by a significant rise in North African demand. The EU-27 is experiencing a sharp increase in imports and a decline in exports as a result of tight supply, dropping its net exports to only 4.5 Mt, about half of the 10-year average.

Exports

Every major exporter other than the United States is expected to have a decline in shipments. Increased U.S. exports have largely made up for tight supplies in other regions, rising by 38 per cent to the highest level since 1992-1993, accounting for 30 per cent of world trade, well above the normal 25 per cent. Canadian wheat exports are forecast to fall by more than 20 per cent, due to reduced supply and increased domestic non-feed demand; Canada's share of world trade is projected to fall slightly to 14 per cent, from the average of 15 per cent.

2008-2009

World wheat trade is projected to recover sharply from 2007-2008, reach-

ing a record 120.2 Mt, surpassing the previous record set in 2006-2007.

Imports

Virtually all major importing regions are expected to increase purchases in 2008-2009, with India and the EU being notable exceptions. North African imports are forecast to reach a record level, despite increased production, due to low carry-in stocks and the expected lower price. Imports into Southeast Asia are also expected to set a new record high level.

Exports

U.S. exports are projected to decline sharply, falling slightly below the 10-year average, as a result of increased supplies being available in the EU, RUK, Canada and Australia. Canadian exports are forecast to rise by 7.0 per cent, to the second-highest level since 2000-2001 but will be constrained by strong domestic demand, including increased use for ethanol production.

Stocks

2007-2008

World carry-out stocks at the end of 2007-2008 are projected to fall to the lowest level since 1981-1982, with the stock-to-use ratio a record low 19 per cent. In the U.S., the stock level is the lowest recorded in modern times; the previous low was 9.3 Mt back in 1973-1974. Of major exporting regions, only the RUK is expected to see a growth in stocks over the year, and even here the level remains below-normal. Canadian carry-out stocks are projected at a modern-day record-low of only 4.1 Mt. For the five major wheat exporting countries (excluding the RUK), the combined stock level is expected to also be a modern-day record low, slightly below the previous low set in 1995-1996. The stock-to-use level is significantly lower than the 14 per cent seen that year, and this has been the major factor in record-high world prices in 2007-2008.

2008-2009

World stock levels are expected to rebuild in 2008-2009, more than offsetting the losses of 2007-2008. However, the stock-to-use ratio is forecast to remain the second-lowest on record. Major exporter stocks are forecast to rise proportionately more than those of the world as a whole, mainly as a result of a sharp projected recovery in U.S. stocks, but here too, the stock-to-use ratio remains at an historically very tight level. This should support prices for the coming year at levels second only to those seen in 2007-2008.

Prices: 2008-2009

The U.S. weighted average farm price for wheat is forecast by USDA at a new record of US\$7.50 per/bu (midpoint of range). However, this apparent increase from 2007-2008 is due to this being a weighted average price. For 2007-08, the majority of sales by U.S. farmers were made during the first half of the crop year prior to the sharp increase in prices later in the crop year. However, for 2008-2009 the average price during the first half of the crop year is not expected to be significantly different from the average price during the second half of the crop year so that the timing of sales will not affect the weighted average price. Straight average prices are projected by Agriculture and Agri-Food Canada (AAFC) to be somewhat lower than in 2007-2008. SRW prices on the Chicago Board of Trade are expected to

face the greatest pressure, due to the sharply higher SRW stock projections, and are forecast to fall by more than 10 per cent, to US\$7.50/bu (midpoint of range). HRW prices on the Kansas City Board of Trade and HRS prices on the Minneapolis Grain Exchange are expected to be supported by the continuing tight supplies of HRW and HRS wheat in 2008-2009, as well as a return to normal crop quality and protein content. The Minneapolis/Duluth cash price for Dark Northern Spring wheat with 14 per cent protein (DNS 14) is forecast to decline by about 9.0 per cent, to a midpoint of US\$9.75/bu. Durum prices are projected to decline the most, with the No. 2 Hard Amber Durum Gulf price forecast to fall by 35 per cent.

World wheat prices will be pressured by increased supplies in the major exporting countries, but major exporter stocks are projected to remain well below normal, maintaining prices well above any year previous to 2007-2008. AAFC forecasts that the U.S. Hard Winter Ordinary (HWO) Gulf price will decrease by about 10 per cent for 2008-2009, to about US\$300-350 per tonne (/t) (August-July). Higher quality wheat prices will be supported by lower than normal supplies in Canada and Australia (until the 2008-2009 harvest commences in December 2008).

For Canada, the July Canadian Wheat Board Pool Return Outlook (CWB PRO) for non-durum wheat is down by about 9.0 per cent from 2007-2008, in line with the U.S. prices. Pooled returns for high protein Nos. 1 and 2 CWRS wheat are expected to decline by about 8 per cent, with the returns for No. 3 CWRS and other lower quality wheat expected to fall by up to 12 per cent. This is consistent with the AAFC projections for HRS prices in the U.S. to be slightly stronger than those for lower quality wheat. The CWB durum PRO is down by about 20 per cent for 2008-2009. However, this is not inconsistent with the 35 per cent decline in the U.S. export price, for two reasons. The U.S. price is a straight average, while CWB pool sales may be weighted toward the earlier part of the crop year prior to the sharp price rally. And secondly, the U.S. price quotes for part of the 2007-2008 crop year are not indicative of world prices, as the U.S. was essentially out of the durum export market due to short supplies.

Canadian wheat prices will continue to be pressured by the strong Canadian dollar. Wheat is traded on world markets in U.S. dollars, and a stronger Canadian dollar reduces returns in Canadian dollar terms. For 2008-2009, the dollar is forecast to average close to par with the U.S. dollar, similar to 2007-2008, so that the exchange rate will not have a major impact on the year-over-year comparison of prices. ■

U.S. Cattle Market Situation and Outlook

The USDA mid-year cattle report estimated that there were 104.3 million cattle in the U.S. on July 1, 2008. This figure is a half a million head fewer than July 2007 or about 0.5 per cent smaller inventory. This smaller inventory coupled with fewer cows and heifers retained indicate that the herd liquidation is continuing.

The number of cows and heifers that have calved also decreased slightly, down 100,000 from the year before. Beef cow numbers were off 200,000 (-0.6 per cent) while there were 100,000 (+1.1 per cent) more dairy cows. The number of heifers kept as beef replacements decreased 100,000 head or 2.1 per cent. Table 1 contains a summary of the cattle report.

Table 1: July Cattle Report Summary

US	Million Hd.	% chg.
All cattle	104.3	-0.5%
Cows	42.4	-0.2%
Beef Cows	33.15	-0.6%
Dairy Cows	9.25	1.1%
Heifers	16.5	-0.6%
Beef Replacement Heifers	4.6	-2.1%
Dairy Replacement Heifers	3.9	0.0%
Other heifers	8	0.0%
Steers	14.7	-1.3%
Calves under 500 lbs	28.6	-0.3%
2008 calf crop	37.25	-0.3%
Cattle on feed	11.7	-4.9%

The once predictable U.S. cattle cycle appears to have changed. U.S. July total cattle inventory reached a low of 103.4 million head in 2004 after a steady decline from its recent peak of 113.0 million in 1995. This nine year liquidation was followed by a two year expansion to 105.2 million head in 2006 before declining in 2007 and 2008. Higher beef cow slaughter and lower heifer retention points to a continued decline in cattle inventory for a least another year. Given the higher cost of gain pressuring calf prices and higher hay and grazing costs pushing cowherd costs higher, the liquidation will likely continue for several years.

Near term, then number of cattle on feed in all feed lots was down 5.0 per cent from the year before. The decrease is due mostly to delayed placements. The number of feeder cattle weighing over 500 pounds that are outside feedlots was up 400,000 head or 3.8 per cent from last July. This was the lowest July cattle on feed inventory since 1999 when there were 11.5 million compared 11.7 million this year. The number of feeder cattle available for placement was identical to 1999 at 11 million head.

In 1999 prices averaged \$64 on July 1st, reached a fall high of \$71 (+11 per

cent) on December 1st and a spring high April 21st of \$74 (+16 per cent). The first week of July, 2008 prices averaged over \$101. The same percentage change would have a fall high of \$112 and a spring high of \$117. December futures have traded as high as \$115 and returned to \$108 by late July. April 2009 futures were as high as \$118, but fell back to \$110.

Based on fundamental analysis, fed cattle prices are expected to average near \$100 in the 4th quarter, mid-\$90s in the 1st quarter, low \$100s in the 2nd and mid \$90s in the third. As noted, futures are currently trading higher than the fundamentals would indicate.

The trade appears to be anticipating lower carcass weights, lower imports and stronger exports, and less competing meats to push the market higher. Carcass weights that have been higher than a year ago have returned to the record high set in 2007 but are moving lower. Through the first five months of 2008, beef imports were down 18 per cent and exports were up 30 per cent and these trends are expected to continue through the second half of the year. Poultry supplies are expected to decrease, but only modestly as egg sets and chick placements were down 1-2 per cent. Pork supplies are expected to remain larger than 2007 levels until late in the year. There is also an anticipation that the supply of market ready cattle will decline sharply. However, the July Cattle on Feed report indicated that the number of cattle on feed 120 days and 90 days is the same as last year.

Feeder cattle prices will depend largely on fed cattle and corn prices and there is expected to be considerable volatility in both through the remainder of the fall. Fed cattle prices issues were discussed earlier. Corn prices retreated from their peak in late June, but will be sensitive to weather for pollination and an early frost. The feeder cattle market will also be influenced by winter grazing conditions with higher prices resulting from better wheat grazing. ■