

Canola Weekly

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1) Export Demand Underpins Canola

Last week, we mentioned that May canola had key support at a previous low of \$368.70. We worried that if that support was broken, heavy fund selling would be triggered. At the same time, we pointed out that substantial export demand was lingering just below that price level, and that a speculative sell off could be a buying opportunity for end users.

Well, May canola did break that support earlier this week and some sell stops were triggered. However, those sell stops were not nearly as large as we had anticipated, and they were easily absorbed by that much-anticipated export buying. If the export demand wasn't enough, a significant rally in bean oil, combined with a break in the Canadian dollar brought the domestic crushers back into the game. Even though COPA members have been running at a very slow pace in the last few weeks, crushers did appear to be locking in board margins during the earlier part of this week's trade. (A sharp rally in the Canadian dollar on Friday cooled crusher buying however.)

WCE May/07 Canola

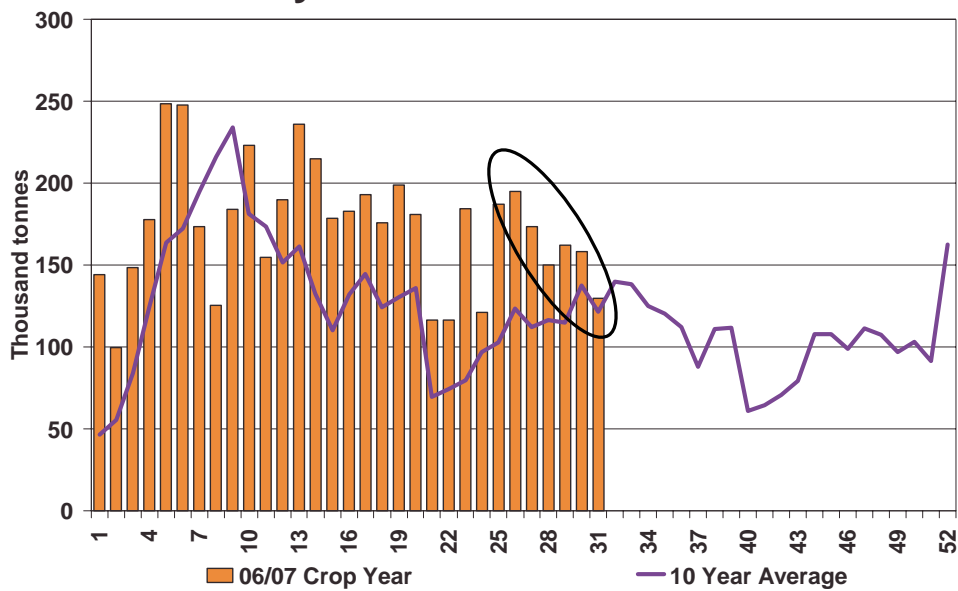


It is interesting to note that funds were not major sellers on the break. They appear to have liquidated more than two-thirds of their previous long positions earlier. As such, they may be getting to the point where further selling is going to be limited. For the time being at least, they also don't appear to be ready to establish a short position in canola.

Country basis levels had been weakening in canola, with the recent rail strike exacerbating the situation. Country stocks of canola were on the rise, and futures were under pressure from fund selling. The combined effect has taken street prices down below most producers' target ranges. As you can see on the chart below, farm deliveries have been gradually easing lower with the market declines.

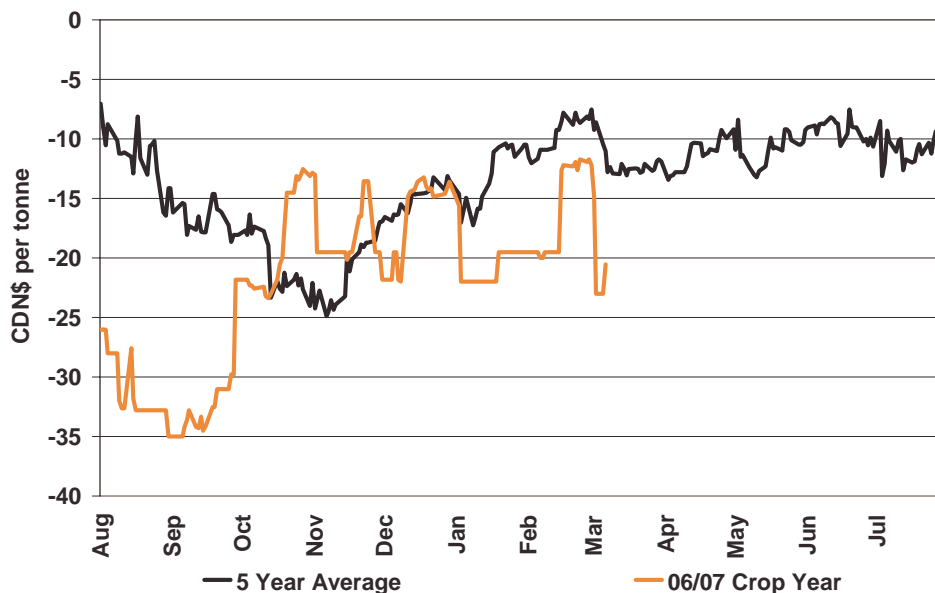
While we expect to see some steady farm deliveries in the next couple of weeks, it is important to remember that country movement of canola tends to ease up from late March, as road bans and then seeding limits deliveries into the system.

Weekly Canola Farm Deliveries



With the possibility of slower country movement in mind, traders should be aware that country basis levels may continue to strengthen in the weeks ahead, in order to encourage some additional movement. The current export line up shows almost 390,000 tonnes required in Vancouver alone over the new few weeks. There is also a vessel listed in Prince Rupert and some movement has even been seen out of the St. Lawrence. Feeding that movement means farm selling can not afford to drop off too far.

PAR Region - Daily Canola Basis



The threat of a major fund sell off has not disappeared altogether, but it does seem to have diminished to some degree this week. Export interest in canola remains high on any decline in prices. We expect canola to remain locked in its recent range in the short term, but still maintain a bullish bias in the longer term. It will likely take confirmation of very large acreage and good yield prospects to top the canola market. That's something that we don't see in the cards until at least the last half of April, if not later.

Producers are advised to be 50% sold on old crop and 20% sold on new crop canola. Anyone not at those levels should use current prices to get caught up. We continue to encourage end users to use any price declines as buying opportunities. There is risk of seasonal rallies in both basis and futures in the next few months.

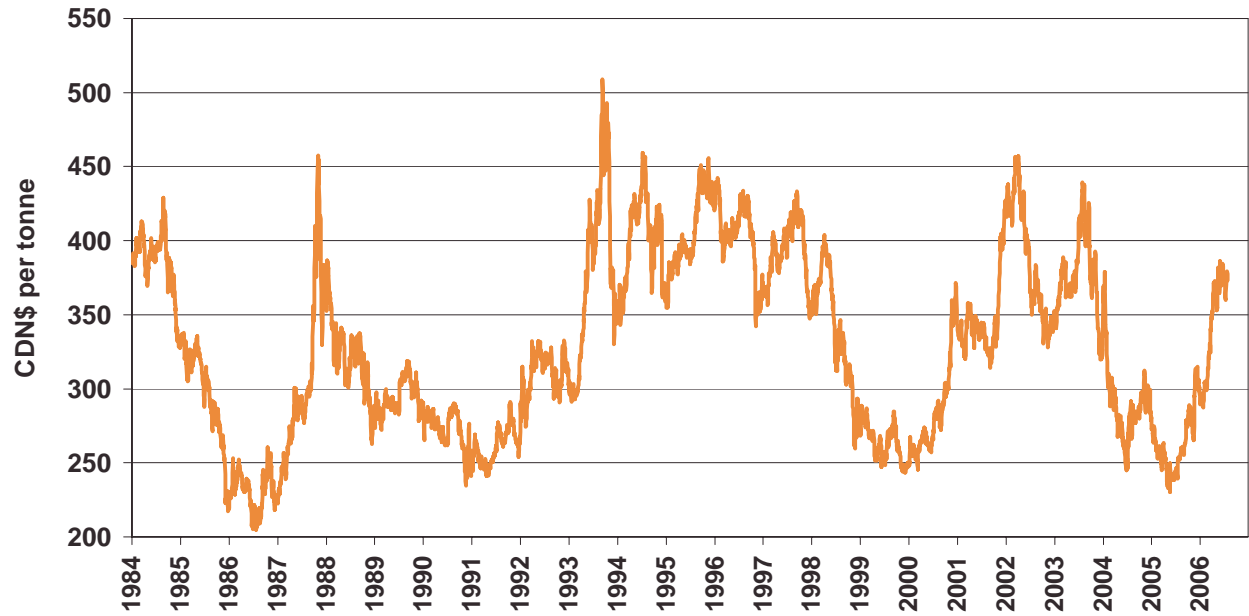
2) Slow Crush Improves Canola Oil Basis

Earlier, we mentioned that canola crush in Canada (as reported by COPA) had been running at a very slow pace over the last few weeks. While that factor is bearish for canola seed prices, it does appear to be having the desired effect on cash canola oil values. Firmer basis levels have been seen on the Canadian side of the border, as stocks of canola oil are finally beginning to tighten. For example, (all basis levels quoted in C\$) super-degummed canola oil was quoted at 280 points over in the Toronto area, which is up about 130 from week ago levels. Fully refined canola oil basis in the Toronto region was also up about 100 points this week, with traders offering 1680 over. Vancouver basis was quoted 1520 over. However, US canola oil basis was steady in both New York and the west coast, showing that tighter canola oil stocks have not yet become a major factor in American markets.

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WCE Canola - Nearby Futures



Canadian Canola Supply and Disposition

Thousand tonnes	<u>03/04</u>	<u>04/05</u>	<u>05/06</u>	<u>06/07</u>	<u>07/08</u>
Supply					
Harvested Acres, 000's	11,587	12,202	13,054	13,151	14,114
Yield (bu/acre)	25.8	27.9	32.6	30.5	30.6
Production	6,771	7,728	9,660	9,105	9,828
Imports	243	108	140	125	125
Total Supply	7,908	8,444	11,386	11,249	11,407
Disposition					
Crush	3,390	3,031	3,423	3,525	3,800
Feed, Seed & Waste	156	415	533	600	575
Exports	3,754	3,412	5,412	5,670	5,930
Total Disposition	7,299	6,858	9,367	9,795	10,305
Ending Stocks	609	1,587	2,019	1,454	1,102
Stocks/Use	8%	23%	22%	15%	11%

