
Canola Weekly

Informa Economics 13th Annual Canadian Fall Outlook Conference

"Emerging Ag and Food Trends"

December 3 and 4 in Calgary, Alberta!

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Hurry!

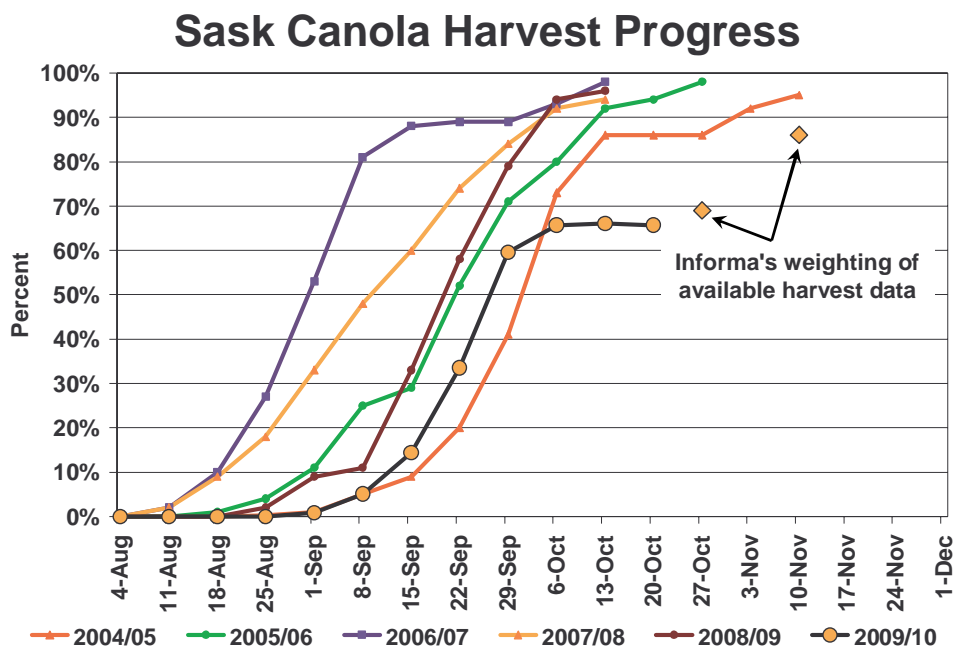
***Conference rates at the Hyatt Regency Hotel
must be booked by
November 18!***

Please Join Us!

1) Harvest/China Pressure Canola

After enduring one of the worst Octobers in memory, Canadian farmers have experienced fantastic harvest conditions so far in November. This has allowed a much larger chunk of the canola crop to be collected, easing the supply fears that existed just a few weeks ago. The forecast calls for more good weather well into this week in most regions, so harvest should continue at a rapid rate. While there are still many questions regarding the quality of the crop that was harvested in the last few weeks, so far reports from most locations don't suggest that there has been major loss of quality.

The brisk harvest pace has led to increased selling in canola over the last week, from specs, commercials and farmers. Specs and commercials are selling canola on the psychologically bearish news about harvest progress. Now that production is not threatened to the extent it was, these traders are dumping longs or even building modest short positions.



Of course, farm selling is on the rise as producers move as much canola as possible in the short period of time they have available. The CGC reported weekly farm deliveries of 323,700 tonnes in the week ending November 5th, and we'd suspect that pace hasn't cool off much since.

The reasons for this are numerous. First, yields for most crops were good this year, meaning bin space on many farms is tight. Because of the damp harvest conditions, many crops need to be run through dryers before they can be put into long term storage. All of this increases the motivation to move crops as quickly as possible, before they go out of condition in storage. Finally, the opportunities to move many other crops are limited, forcing producers to sell canola now. Spot demand is good, so growers might as well move canola right off the combine.

The other bearish development this week was what appeared to be a breakdown in talks between officials in China and Canada regarding the export movement of canola. As we expected from the beginning of this issue, China is sticking to its guns and refusing to grant any extensions on canola shipments, or easing of the zero-tolerance policy toward blackleg contamination.

For its part, the Chinese government did come up with a mild compromise this week. Officials stated that canola that is found to contain blackleg spores (likely every shipment) will not be allowed to unload at ports which are located in major Chinese rapeseed production regions. Right now, virtually all canola/rapeseed is imported into such regions.

The Chinese government has stated that any shipments that contain blackleg can be diverted to other ports in China that are not considered major rapeseed production zones. The problem is that these regions have few crush facilities capable of producing canola. Many are actually geared toward soybean processing. Although we recently heard reports of a major rapeseed crush plant being built in Guangdong province, we have not been able to ascertain whether that plant is up and running at this time.



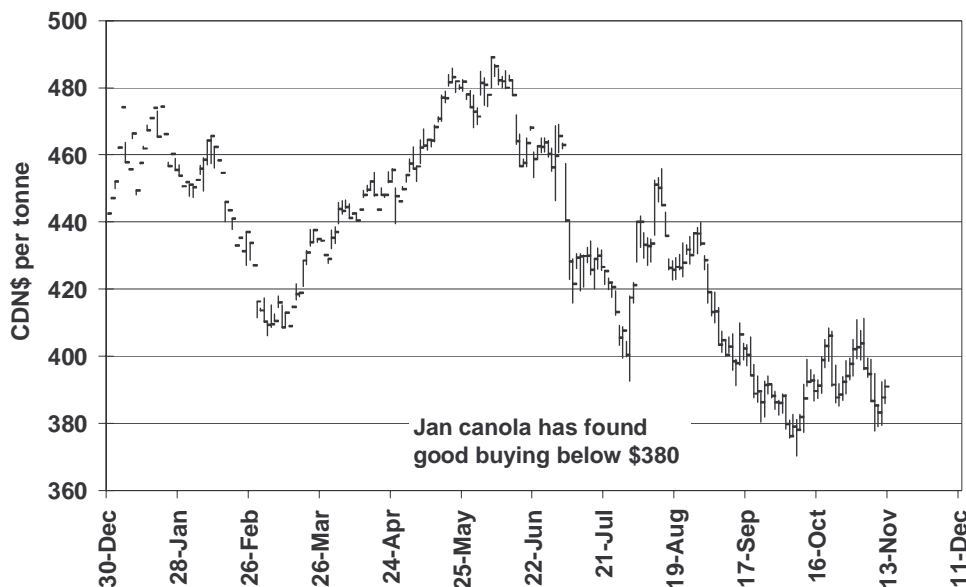
The Chinese protocol on importing blackleg requires that the seed be processed in the province that the shipment is unloaded. In theory, this will allow the oil and meal to then be shipped elsewhere in the country. In reality, this will add significant transportation costs to the products, even if they can be crushed locally. Of course, there will also be additional costs for all of the testing, to prove that the shipments actually do contain blackleg spores (which everyone already knows are there.)

Even with the additional freight costs to move the products, Chinese rapeseed crush margins are likely good enough on imported seed to motivate some soybean processors to switch their equipment over in order to crush canola. The question is whether anyone would bother to incur the expenses to do that, if the import restrictions are simply going to be lifted in the next few months. Many of these crushers already make a good living processing imported soybeans. Our sources in China indicate that the government will re-evaluate the import policy sometime next April or May.

All of that said, the canola market actually appeared to be quite resilient this week. With all of the selling pressure mentioned above, the market did break lower. However, when futures prices slipped below \$380 in the Jan contract, export demand appeared to increase. We have heard

rumours of Mexican and/or Pakistani demand, but have been unable to confirm any such business. Either way, the commercial demand was enough to absorb farm and spec selling, pushing the market back up. Eventually, some speculative buy stops were triggered.

ICE Jan 10 Canola



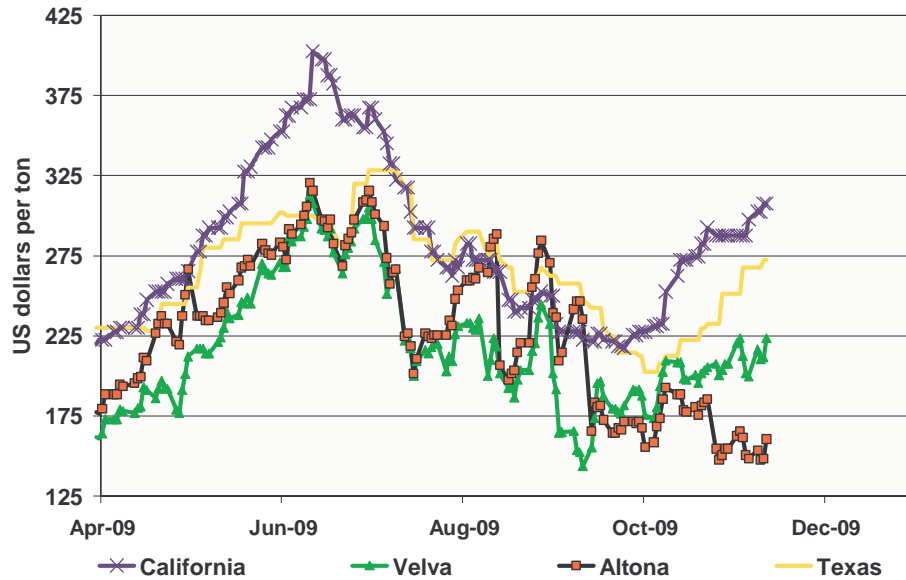
We think that the harvest pressure in canola is a diminishing factor. With harvest likely to be all but complete by this time next week, selling pressure is going to gradually ease. Once farmers have finished moving the canola stocks that they “must move” due to all of the storage issues mentioned above, they are likely to back away from the market to some degree. As such, if canola is going to break significantly below \$380 in the near future, the bearish input is going to have to come from elsewhere, perhaps a steep rise in the Canadian dollar or a collapse of outside markets such as crude oil. Without such a bearish development, canola will have a hard time moving considerably lower.

Producers who are 50% on 2009 canola can afford to hang back for now. Anyone not at that level should use any available rallies to catch up. End users were advised to use harvest dips to maintain at least 90 days worth of coverage. That advice still stands and any dips toward \$380 should be seen as good opportunities to extend that coverage.

Recent quality concerns in corn have had a bullish impact on meal markets, as traders anticipate a switch in feed demand for cattle rations. US producers are reporting numerous cases of fusarium in harvested corn crops, rendering that corn useless in many beef and dairy cattle feed rations.

Cash soymeal has generally been rallying since the news of fusarium made its way through the corn market, which is going to be bullish for canola meal by default. Although several Canadian crushers are still unable to ship canola meal to the US to cash in on any increase in meal demand, the ones that still can are expected to take advantage of increased prices in the US markets.

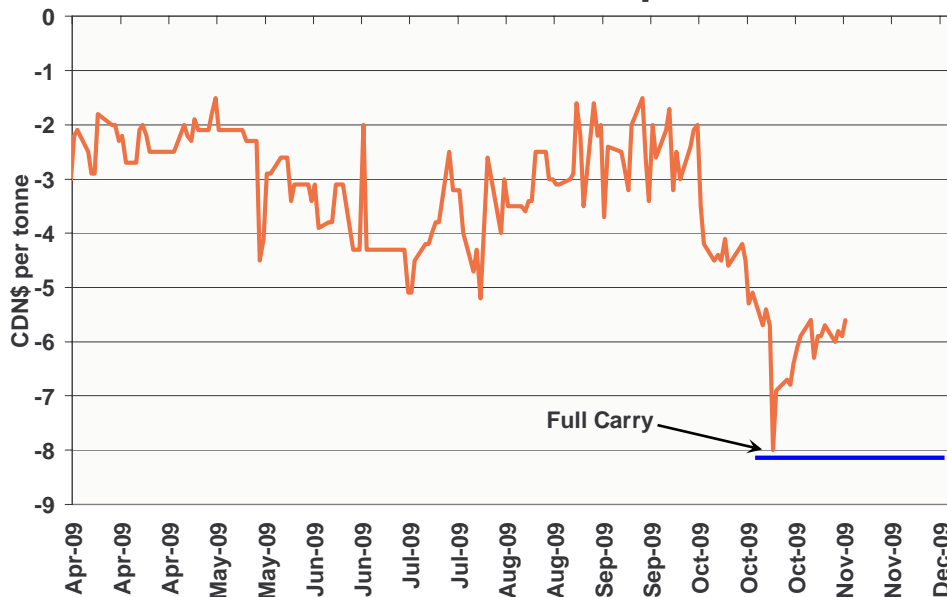
North American Canola Meal



A spike in US soymeal values will also limit imports of US meal into Canadian markets. That should support markets for crushers who are forced to sell meal domestically. As the chart above shows, even Canadian canola meal values managed a small bounce this week.

Last week, we were asked to comment on trading ideas for the Jan/Mar canola spread. A lot of the pressure on that spread had come from harvest selling, which was expected to only be a short term issue. From a longer term perspective, we have been advocates of buying dips in the Jan/Mar canola, as that harvest selling will inevitably slow down.

Jan/Mar 10 Canola Spread



In fact, we think that selling is already showing signs of letting up, and will definitely be less of an issue within the next two weeks. Once that happens, the market is vulnerable to extreme winter weather which can cause serious reductions in farm selling and movement of canola.

From 75% of carry or lower, the downside risk of owning the spread is quite small, while potential gains could be significant if Mother Nature gets involved. On that idea alone, we'd consider buying the Jan/Mar canola spread on any available dips in the next couple of weeks. In fact, the market has provided several opportunities to purchase the spread on such dips over the last week, with Jan/Mar trading as wide as -\$6.70 at once point. We aren't expecting to make big profits on this trade, but rather hope to capture some extra revenue for the trading account.

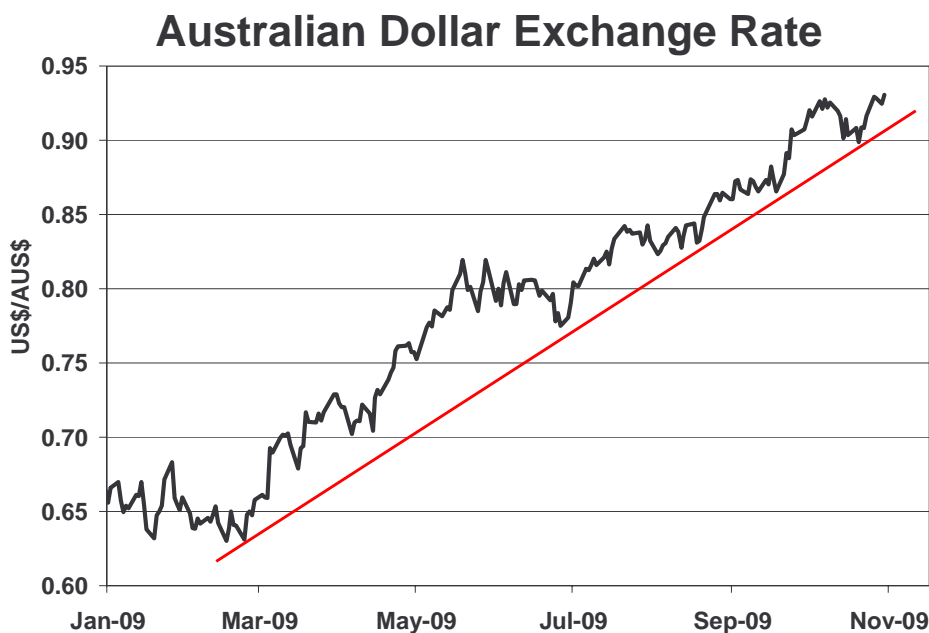
2) Canadian Dollar

The Canadian dollar managed to recover from a mild sell off in the last week, eventually taking out chart resistance at 94.00 and triggering some buy stops. Although most economic data including trade deficit numbers came in within analysts' expectations, traders continue to fulfill our expectations and buy the Canadian dollar.

Dec 09 Canadian Dollar



As we have stated for several weeks now, we still think that the Canadian dollar is in a long term uptrend. This week's failure of the Canadian dollar to seriously challenge chart support confirms that thought. Commodity demand is still very much alive, and other currencies such as the Australian dollar have actually punched through to new highs this week.



Readers do not need to take immediate action with a currency hedge, but should be advised that a close above 96.00 in the spot Canadian dollar opens the door to a quick challenge of the 98.00 region. Closing above 98.00 will be required if Canadian dollar bulls want to maintain enough momentum to reach parity with the US dollar in the near future.

3) General News

- COPA members reported crush of 78,423 tonnes in the latest week, up from 76,066 tonnes crushed the week before.
- Superdegummed canola oil basis in Vancouver was quoted at +C\$325 points per pound this week, down C\$25 points from last week. Spot prices in Vancouver were quoted at 41.86 cents per pound, up from 40.27 cents last week.
- As we suspected, China's import ban on Canadian canola has had no lasting impact on RBD canola oil basis levels in Vancouver. We hope readers were able to take advantage of the dip in basis over the last few weeks to lock in some contracts. Basis levels for RBD canola oil in Vancouver were quoted at +C\$1100 points on Friday, up sharply from the +C\$820 points reported last week. Trades were reported at 49.61 cents per pound on Friday, up strongly from the 44.97 cents per pound one week ago.
- Basis for RBD canola oil in Toronto was quoted at +C\$1,300 points on Friday, up from +C\$1,180 points last week. Cash trades were reported at 49.02 cents per pound to end the week, up from 45.33 cents last week.
- In the US market, basis levels for RBD canola oil were steady, with Los Angeles quoted at +US\$975, and New York RBD basis at +US\$950.

- Cash prices for RBD canola oil in New York were 48.11 cents per pound on Friday, up from 46.27 cents per pound last week.
- RBD canola oil in Los Angeles was quoted at 48.36 cents per pound, up from 46.52 cents one week ago.
- RBD canola oil in Chicago was quoted at 46.61 cents per pound, up from 44.27 cents at the end of last week.
- RME in central Europe was trading at EUR\$705 per tonne, down EUR\$5 from last week.
- RME in Northwest Europe was quoted at EUR\$695 per tonne, down by EUR\$5 from the previous week.
- RME in US West Coast markets was slightly easier this week, at US\$3.50 per gallon, down US\$0.05 per gallon.
- Crude rapeseed oil in Rotterdam was trading at EUR\$605 per tonne, down EUR\$10 on the week.

Bumper west European rapeseed plantings expected - HAMBURG, Nov 12 (Reuters) - Large rapeseed plantings for the 2010 crop are expected in Germany, France and the UK, which together produce about 80 percent of the European Union's rapeseed harvest, analysts and oilseed industry bodies said on Thursday. The EU had a bumper rapeseed crop of around 20.3 million tonnes in summer 2009, up from 18.9 million tonnes in 2008, and early plantings give a positive indication for the 2010 crop. Observers in Germany, France and the UK - which together produced about 17 million tonnes of the 2009 EU crop - expect rapeseed sowings to be around last year's high levels or to be slightly expanded. In Germany, the EU's largest rapeseed producer with a 2009 crop of 6.3 million tonnes, rapeseed plantings are forecast to be down 0.4 percent on the year at 1.45 million hectares, German oilseeds industry association UFOP forecasts. Farmers were taking an overall positive view of rapeseed because of low prices for rival cereals, said UFOP Chairman Klaus Kliem. But falling sales of German biodiesel, largely made from rapeseed, caused by taxes on green fuels had dampened farmers' enthusiasm for rapeseed, he said. About 70 percent of the German rapeseed crop is now used for biofuels. In France, the EU's second largest producer with a 2009 crop of 5.6 million tonnes, sowing intentions indicated a 5 percent increase in the rapeseed area for the 2010 harvest, said French oilseeds institute Cetiom. Harvest gains may be curbed by unfavourable sowing weather with some areas needing replanting although plants still had time to recover, said Cetiom's development director Fabien Lagarde. "If replanting occurs, it should only affect a few thousand hectares," he said. "Last year conditions were just as bad and the rapeseed recovered well." French analyst Strategie Grains said on Thursday that France's 2010 rapeseed area was likely to remain stable on the year, although it estimated the total European Union area could rise by 400,000 hectares to 6.8 million hectares.

Britain's rapeseed area is expected to be increased after rain in autumn 2008 disrupted plantings for this summer's crop. "We would expect it to be back up to 2008 levels," analyst Susan Twining of crop consultants ADAS said. Britain's rapeseed area fell four percent to 572,000 hectares for the 2009 harvest, down from 598,000 hectares a year earlier, Britain's farm ministry said. "I think it is just back to normal," Twining said. "Last year was an unusual year. The crop (this year) has been drilled in good time into mainly good seedbeds with sufficient moisture. It all looks quite good," she said. Twining said rapeseed remained the most profitable option for many British farmers to rotate with winter wheat. "It is still the best economic performance of a combinable break crop so it is going to remain a popular choice," she said.

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Questions?

We value your feedback.
If you have any questions or comments regarding this report,
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This Week	Last Week	Last Year
13-Nov-09	06-Nov-09	13-Nov-08

CANOLA SEED

ICE Futures					
	November 2009	C\$/tonne	393.70	394.70	461.80
	January 2010	C\$/tonne	390.70	386.70	468.60
	March 2010	C\$/tonne	396.30	392.40	470.10
	May 2010	C\$/tonne	401.70	395.60	470.10
	July 2010	C\$/tonne	405.20	399.10	476.10
	November 2010	C\$/tonne	407.80	400.60	476.10

MATIF Futures					
	November 2009	EUR\$/tonne			325.50
	February 2010	EUR\$/tonne	274.00	269.75	324.00
	May 2010	EUR\$/tonne	278.50	274.00	
	August 2010	EUR\$/tonne	280.75	275.00	

CANOLA SEED CASH PRICE

	PAR REGION	C\$/tonne	363.7	376.9	406.7
	Vancouver, BC	C\$/tonne	416.7	412.7	429.7
	Thunder Bay, ON	C\$/tonne	390.7	386.7	424.7
	Velva, ND	US\$/tonne	357.8	342.4	327.6
	Rotterdam	US\$/tonne	395.0	400.0	403.0

CANOLA MEAL CASH PRICE

	Altona	US\$/ton	160.5	148.5	161.5
	Velva	US\$/ton	223.5	148.5	171.0
	California	US\$/ton	307.5	148.5	247.5
	Texas	US\$/ton	272.5	148.5	210.0
	Rotterdam	US\$/tonne	188.0	190.0	149.0

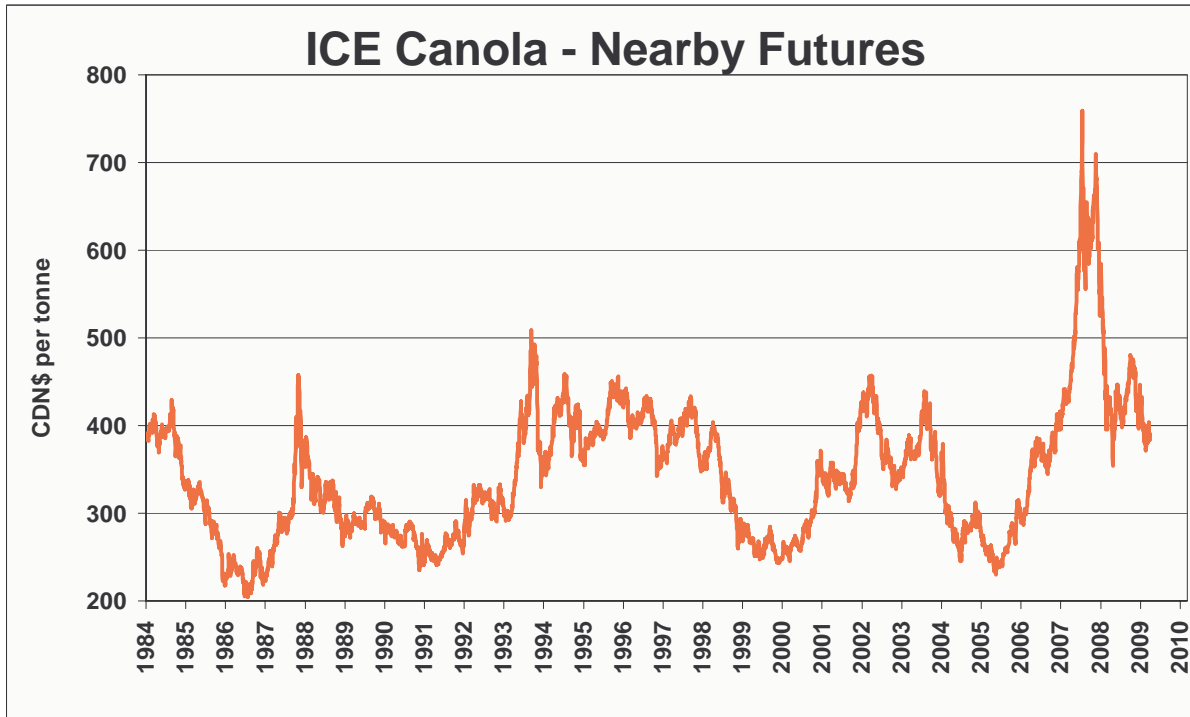
CANOLA OIL BASIS (Based upon CBOT Soybean Futures)

Superdegummed	Vancouver	C\$points	325	350	
RBD	Vancouver	C\$points	1100	820	
RBD	Toronto	US\$points	1300	1180	
RBD	Los Angeles	US\$points	975	975	
RBD	New York	US\$points	950	950	

CANOLA OIL / RME CASH PRICE

Superdegummed	Vancouver	\$/CWT	41.86	40.27	37.31
RBD	Vancouver	\$/CWT	49.61	44.97	50.01
RBD	Toronto	\$/CWT	49.02	45.33	41.92
RBD	Los Angeles	\$/CWT	48.36	46.52	44.31
RBD	New York	\$/CWT	48.11	46.27	42.31
Crude	Rotterdam	US\$/tonne	918	918	969
RME	Northwest Europe	EUR\$/tonne	695	700	845
RME	US West Coast	US\$/gallon	3.50	3.55	

COPA Crush		
	Current Week	78,423
	Crop Year Cumulative	1,055,495



Canadian Canola Supply & Disposition

Thousand tonnes	<u>2005/06</u>	<u>2006/07</u>	<u>2007/08</u>	<u>2008/09</u>	<u>2009/10</u>
Supply					
Seeded Acres, 000's	13,270	13,055	15,621	16,160	15,825
Harvested Acres, 000's	12,789	12,944	15,511	16,048	15,290
Yield (bu/acre)	32.7	30.7	27.3	34.7	29.6
Production	9,483	9,000	9,601	12,643	10,270
Imports	140	203	179	114	200
Total Supply	11,209	11,210	11,562	14,219	12,130
Disposition					
Crush	3,423	3,579	4,144	4,280	5,000
Feed, Seed & Waste	371	372	295	370	325
Exports	5,409	5,477	5,661	7,908	5,500
Total Disposition	9,202	9,428	10,101	12,558	10,825
Ending Stocks	2,007	1,783	1,462	1,661	1,305
Stocks/Use	22%	19%	14%	13%	12%

Source: Statistics Canada with Informa projections in bold

