



CANADA: GRAINS AND OILSEEDS OUTLOOK

August 4, 2006

AFC forecasts that total production of grains and oilseeds in Canada will decline by 8% from 2005-06, to 61 million tonnes (Mt), slightly above the 10-year average. While crops got off to a good start in the spring because of the early seeding and good soil moisture, the weather subsequently turned hot and dry across most of the Prairies. Crop development is generally ahead of normal. Yields are expected to be at trend to slightly below trend in western Canada. Quality of all crops is expected to be above average, with a better than normal grade distribution. Protein levels in wheat and barley are expected to be higher than average, while canola and flaxseed oil content may be below normal. In eastern Canada, the weather has been hot but moisture has generally been adequate, and yield prospects are good.

In western Canada, production is forecast to decline by 10%, to 46 Mt, with eastern Canadian production down by 3%, at 15 Mt. Domestic use is expected to increase in 2006-07 due to increased ethanol production. Exports are also expected to increase by 10%, due mainly to higher exports of non-durum wheat. Prices for all crops are expected to be similar to or higher than in 2005-06, except for flaxseed. Prices will continue to be pressured by the strong Canadian dollar. The major factors to watch are: US and Canadian crop development and harvest conditions, the bio-fuel market, ocean freight rates and the Canada/US exchange rate.

DURUM

Production is forecast to fall by over 40% due to lower area and yields. This is partly offset by the record 3.3 Mt carry-in stocks, but supply is expected to decline by 19%. Exports are forecast to decrease by 10% due to lower demand from North Africa and the EU, which will be partly offset by increased imports from the US. Carry-out stocks are forecast to fall by 36%, but remain slightly above the 10-year average. The Canadian Wheat Board (CWB) Pool Return Outlook (PRO) is rising due to the declining production prospects for North America, and is now slightly higher than for 2005-06. The discount of No.1 CWAD 11.5 to No.1 CWRS 11.5 is projected at a record \$18/t.

WHEAT (excluding durum)

For 2006-07, production is forecast to increase by 4%, with the 17% larger harvested area largely offset by lower expected yields. Supply is expected to rise by 7%, however, due to higher carry-in stocks. Exports are forecast to increase by 30% due to record Ontario production of 2.4 Mt, increased supplies of good quality wheat in western Canada and reduced competition from other exporters. Domestic use is expected to decline, with reduced feed use partly offset by sharply higher industrial use for ethanol production. Carry-out stocks are expected to decline by 20%. The CWB PRO is now \$10 to \$25/t above 2005-06 for all milling grades. The increases are smallest for No.1 CWRS, as quality and protein premiums are forecast to decrease due to the expected better quality of the 2006 Canadian and US hard red spring wheat crops.

BARLEY

Production is forecast to decrease by 15%, due to lower area and yields. Supply is expected to fall by 13%. Exports are forecast to decrease by 8%, as lower feed barley exports are only partially offset by higher exports of malting barley. Despite lower exports and domestic feed use, carry-out stocks are forecast to fall significantly. The average off-Board feed

barley price (No.1 CW, in-store Lethbridge) is forecast to increase by \$20/t from 2005-06. The CWB PRO for No. 1 CW feed barley for Pool A in 2006-07 is \$124/t, vs. \$125/t for Pool A in 2005-06. The CWB PRO for SS2R malting barley is \$174/t vs. \$171/t for 2005-06, due to lower expected exportable supply in Australia and strong import demand from the US.

CORN

Production is forecast to decrease by 8%, due to lower yields. Imports are forecast to increase significantly from 2005-06, as a result of lower domestic supply, and strong demand for animal feed and ethanol. Carry-out stocks are forecast to drop by 22%. The average price at Chatham elevator is forecast to increase by \$25/t due to higher US corn prices.

OATS

Production is forecast to increase by 12%, due to larger area and a return to normal abandonment rates. Supply is expected to increase, as higher production more than offsets lower carry-in stocks. Exports are forecast to rise marginally from 2005-06, as a result of strong US import demand. Although feed use is expected to rise significantly, carry-out stocks are projected to rise by 11%. Chicago Board of Trade oat nearby futures prices are forecast to remain unchanged from 2005-06, narrowing the US price premium for oats over corn.

CANOLA

Production is forecast to decrease by 16% to 8.1 Mt, as yields are pressured by hot and dry weather. Supply is expected to decrease by 9%, but remain historically high, due to burdensome carry-in stocks. Exports are forecast to decline slightly from the record setting pace of 2005-06 as a result of tighter supplies. Domestic crush is forecast to rise slightly following the expansion of some processing plants, although the recently announced new plants are not expected to open until 2007-08. Carry-out stocks are forecast to fall, but will remain significantly above the 10

year average. Prices are expected to rise from the low of 2005-06, but remain under pressure from low US soybean prices and strong Canadian dollar.

FLAXSEED (excluding solin)

Production is forecast to decrease by 7%, due to lower yields. Supply is expected to rise sharply because of burdensome carry-in stocks resulting from high production in 2005-06 and low EU imports. Although exports and total domestic use are forecast to rise, carry-out stocks are expected to increase to a burdensome 0.73 Mt vs. the 10-year average of 0.2 Mt. As a result, prices are forecast to decline.

SOYBEANS

Production is forecast to decrease by 6%, as lower yields more than offset the rise in area. Supply is forecast to decrease, as reduced output more than offsets the projected rise in imports and carry-in stocks. Exports are forecast to increase to a record high, while domestic crush increases slightly from 2005-06. Although carry-out stocks are forecast to fall, prices are expected to be pressured by lower US soybean prices.

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Grain and Crop Year (a)	Area Seeded thousand ha	Area Harvested	Yield t/ha	Production	Imports (b)	Total Supply thousand metric tonnes	Exports (c)	Food & Industrial Use (e)	Feed, Waste & Dockage	Total Domestic Use (d)	Carry-out Stocks	Average Price (f) \$/t
Durum												
2004-2005	2,230	2,141	2.32	4,962	1	6,752	3,218	254	536	1,013	2,521	201
2005-2006P	2,341	2,297	2.58	5,915	1	8,436	4,100	255	621	1,036	3,300	181*
2006-2007F	1,725	1,720	2.03	3,500	1	6,801	3,700	260	511	1,001	2,100	183*
Wheat Except Durum												
2004-2005	8,169	7,722	2.71	20,898	13	25,203	11,593	2,845	4,521	8,138	5,471	190
2005-2006P	7,753	7,530	2.77	20,860	20	26,352	11,500	2,870	4,585	8,352	6,500	183*
2006-2007F	9,025	8,800	2.45	21,600	14	28,114	15,000	3,100	3,950	7,914	5,200	201*
All Wheat												
2004-2005	10,399	9,862	2.62	25,860	14	31,955	14,812	3,099	5,056	9,151	7,992	
2005-2006P	10,094	9,826	2.72	26,775	21	34,788	15,600	3,125	5,206	9,388	9,800	
2006-2007F	10,750	10,520	2.39	25,100	15	34,915	18,700	3,360	4,461	8,915	7,300	
Barley												
2004-2005	4,678	4,050	3.26	13,186	83	15,371	1,863	268	9,358	10,019	3,489	112
2005-2006P	4,440	3,889	3.21	12,481	50	16,020	2,500	260	9,555	10,220	3,300	110
2006-2007F	4,090	3,510	3.03	10,630	30	13,960	2,300	270	9,185	9,860	1,800	120-140
Corn												
2004-2005	1,185	1,072	8.24	8,837	2,422	12,401	242	2,395	7,951	10,358	1,802	100
2005-2006P	1,124	1,096	8.63	9,461	1,600	12,862	300	2,500	8,247	10,762	1,800	90-100
2006-2007F	1,135	1,105	7.91	8,740	3,200	13,740	200	3,300	8,825	12,140	1,400	110-130
Oats												
2004-2005	1,995	1,315	2.80	3,683	26	4,497	1,675	118	1,560	1,834	988	131
2005-2006P	1,853	1,326	2.59	3,432	17	4,437	1,700	140	1,527	1,837	900	144
2006-2007F	2,205	1,555	2.47	3,845	10	4,755	1,750	140	1,690	2,005	1,000	135-155
Rye												
2004-2005	284	165	2.53	418	1	487	122	48	155	220	145	68
2005-2006P	226	148	2.42	359	1	505	123	48	157	222	160	81
2006-2007F	205	134	2.31	310	1	471	110	48	156	221	140	80-100
Mixed Grains												
2004-2005	220	111	2.87	318	0	318	0	0	318	318	0	
2005-2006P	209	109	2.78	303	0	303	0	0	303	303	0	
2006-2007F	230	121	2.81	340	0	340	0	0	340	340	0	
Total Coarse Grains												
2004-2005	8,362	6,713	3.94	26,442	2,531	33,074	3,902	2,828	19,342	22,749	6,424	
2005-2006P	7,852	6,568	3.96	26,036	1,668	34,128	4,623	2,948	19,790	23,345	6,160	
2006-2007F	7,865	6,425	3.71	23,865	3,241	33,266	4,360	3,758	20,196	24,566	4,340	
Canola												
2004-2005	5,319	4,938	1.57	7,728	108	8,444	3,412	3,031	328	3,403	1,629	309
2005-2006P	5,491	5,283	1.83	9,660	125	11,415	5,350	3,400	470	3,915	2,150	278
2006-2007F	5,420	5,156	1.58	8,125	150	10,425	5,000	3,450	480	3,975	1,450	295-325
Flaxseed												
2004-2005	728	528	0.98	517	39	648	468	n/a	n/a	151	30	n/a
2005-2006P	842	803	1.35	1,082	40	1,152	450	n/a	n/a	227	475	276
2006-2007F	858	800	1.26	1,010	20	1,505	550	n/a	n/a	230	725	225-265
Soybeans												
2004-2005	1,229	1,178	2.59	3,048	393	3,581	1,122	1,610	457	2,190	270	248
2005-2006P	1,176	1,169	2.70	3,161	300	3,731	1,250	1,600	461	2,181	300	215-225
2006-2007F	1,210	1,197	2.48	2,970	350	3,620	1,350	1,650	270	2,020	250	200-240
Total Oilseeds												
2004-2005	7,277	6,643	1.70	11,293	540	12,674	5,002	4,641	927	5,743	1,929	
2005-2006P	7,510	7,255	1.92	13,904	465	16,298	7,050	5,000	931	6,323	2,925	
2006-2007F	7,487	7,154	1.69	12,105	520	15,550	6,900	5,100	750	6,225	2,425	
Total Grains And Oilseeds												
2004-2005	26,038	23,219	2.74	63,596	3,085	77,703	23,715	10,568	25,325	37,643	16,345	
2005-2006P	25,456	23,650	2.82	66,715	2,154	85,214	27,273	11,073	25,927	39,055	18,885	
2006-2007F	26,103	24,099	2.53	61,070	3,776	83,731	29,960	12,218	25,407	39,706	14,065	

(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, 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. Totals excludes flaxseed due to data confidentiality.

(f) Crop year average prices: No.1 CWRS 11.5% protein and No.1 CWAD 11.5% (CWB final price I/S St. Lawrence/Vancouver), Barley (No. 1 feed, WCE, 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, WCE, cash, I/S Vancouver); Flaxseed (No. 1 CW, WCE, cash, I/S Thunder Bay); Soybeans (No. 2, I/S Chatham).

* Canadian Wheat Board Pool Return Outlook – July 27, 2006

P: Preliminary estimates

F: Forecast; Agriculture and Agri-Food Canada ---- August 4, 2006

Source: Statistics Canada, Cereals and Oilseeds Review Series, Cat. No. 22-007