



NON-BOARD GRAIN ABSTRACT

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as of Dec 20, 2005

CANOLA: If Manitoba didn't harvest a sub-par 2005 crop and had reaped similar yields as Saskatchewan, Canadian canola production likely would've been 10.75 MMT. A record 9.67 MMT production number with Manitoba only producing 1.25 MMT is a testament to powerful plant-genetics, but leaves the 05/06 canola balance table oversupply.

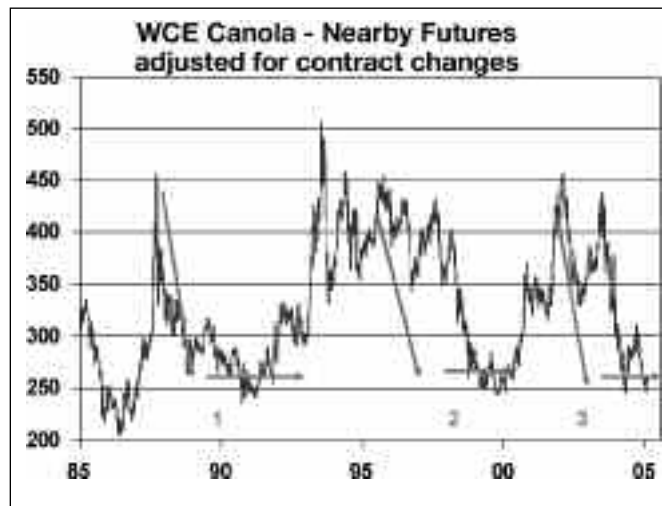
Consumptive destinations that allow for a minimal crop year demand surprise include the domestic-crush, residual, and exports to the following three destinations: Japan, Mexico and the US. Known price-sensitive demand outlets that have the capacity to buy larger tonnage "if the price is right" include China and Pakistan. The reality is that current logistical capacity will only allow for about 0.25 MMT per month of extra price-sensitive off-shore business to destinations other than Mexico & Japan; assuming economics work all the time.

In a broad sense, until surplus is moderated, prices have to stay relatively cheap to

- a) encourage the grain handling system to move greater canola tonnage offshore either outright (medium term) or at the expense of another commodity (short term)
- b) encourage the market to find unexpected new demand. Examples may involve exporting more canola to the US beyond Northern Plain states (medium term) or create economic incentives to build another crush facility on prairie soil (long term).
- c) discourage seeded acreage before 2006 growing season

A supply shock in a subsequent canola growing cycle is always a possibility but if demand is to resolve the situation, this could take over a year. Therefore, canola is relegated into being a follower and will need help from outside forces such as soybeans and vegoil in order for the existing trend to change.

With the exception of relatively higher input costs and absolute supply numbers that are much larger, the current canola situation has similarity to other price negative cycles, most recently being the 2000 & 2001 era. At that time, China emerged as the new unexpected demand base. Resolution this time will involve a few surprises, but this takes time.

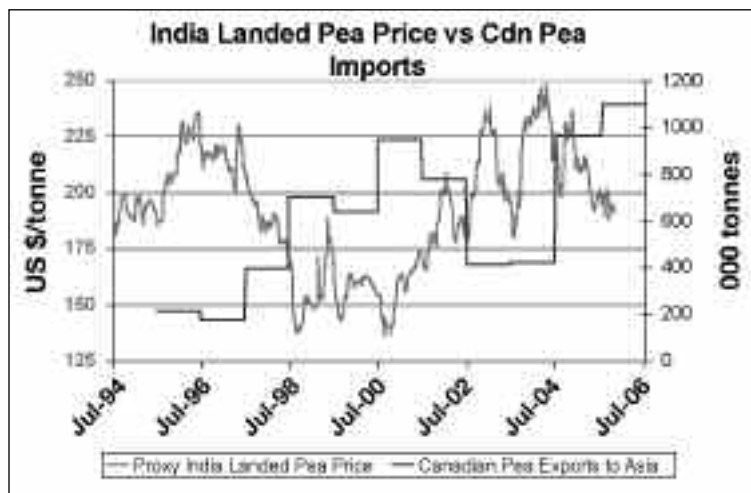


GREEN LENTILS: In short, 05/06 is about finding a price that will increase demand. With record Canadian supply prospects predicated on record carry-in and record production, a feat of such magnitude has never occurred. The best visual to show "how oversupply" the lentil situation is the adjacent chart. The best analogue year is the 2000 era, a timeframe where Canadian lentil area doubled to 1.7 mil ac. The resultant supply increase forced prices to levels that eventually stimulated more demand, peaking at just under 500,000t then. With record 05/06 supply prospects topping 1.5 MMT, the job of the market is to go find unexpected demand and find a way to export a record amount of lentils so that the new export plateau is upwards of 750,000t.



RED LENTILS: Red lentil movement is fluid which is in part being able to export a product in bulk to exploit excess processing capacity in places like Turkey. With red lentils, the most prevalent Mid-East lentil staple type, prices in the 13 cts/lb range are viewed to be cheap enough even with supply increase; although the challenge into 2006/07 will be whether Canadian production growth will exceed logistical handling capacity or willingness of processors to tackle increased volume in timely fashion. When entering such unprecedented times (possibility that prairie Red lentil production swells from around 0.3-0.35 MMT this year towards 0.5 MMT in 2006), it's a risk.

YELLOW PEAS: While farmers may not be enthused about price, peas are one of the few Canadian commodities that are moving very well; in fact it can be argued at a rate equivalent to logistical capacity and/or willingness of trade to endure logistical risk. It's really been about farmers getting used to current prices and more willing to sell at a competitive equivalent that can make demand happen. Helpful has been Spanish 2005 crop problems and a mediocre but stable price landed in India; the latter influenced by a retrenchment of record high ocean freight.



While Indian subcontinent growing conditions are currently favorable at writing, we have learnt that price is more important to actual consumption than level of production, the latter mattering in context of ability to substitute. For instance, a crop problem would slow consumption but force overall prices higher. However, if one assumes a normal crop outcome from the upcoming Indian subcontinent growing season, world importers cannot be counted on to raise bids much. That's because extensive substitutability exists, which in part reflects the 1.5 year flat world price trend. The strength in the Canadian dollar versus all global currencies has undermined price discovery.

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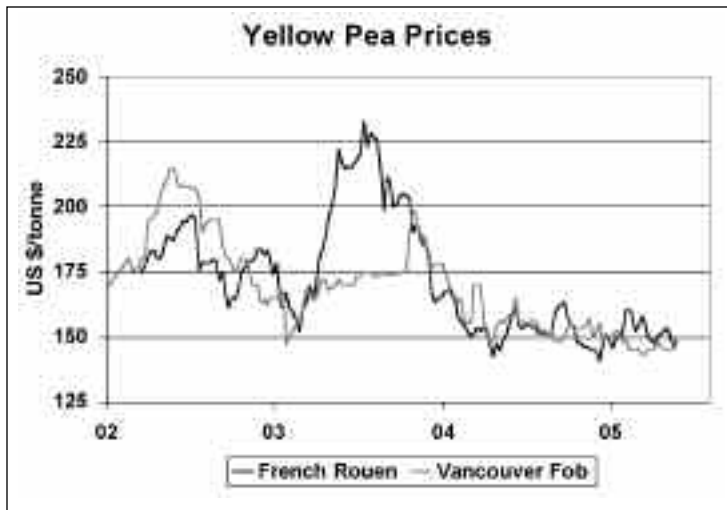
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GREEN PEAS: Expanding green pea production in the US combined with a higher overall Canadian pea production threshold around 3 MMT (of which 30% is typically of green varieties) has led to over-production of green variety. Furthermore, recent years of quality/quantity deficits forced users into buying off-grade at discounts, a trait still present today. Unless North America runs into a modest production or quality problem, traditional premiums of green to yellow of \$1+/bu are unlikely to be replicated.

