

FUNDAMENTAL FRIDAY - CANOLA

NOVEMBER 8TH, 2013 EDITION 6 VOLUME 2.1 PAGE 1



Fundamentals are Supply & Demand, It is Just that Simple

Fundamentals are the real deal. There is nothing fake about fundamentals. A producer can have a solid and correct opinion on them, and often times, well before the market can.

However, there are many challenges to utilizing a crop's Fundamentals when marketing it. The old adage,

"The Market can remain irrational for longer than you can remain solvent."

... comes into play much too often as there are more than just Fundamentals driving any market.

Technicals determine short-term trends and the position of Funds can trump. Fundamentals act best as a base upon which Technicals and other marketing tools enact. We let this report open the J-MAS Execution Cycle for that reason.

Below is the Supply & Demand table for Canadian Canola.

You are seeing 17 lines of the nearly 700-line spreadsheet we run for this one crop.

Today's
Best Price
is **\$10.34**

\$10.34 Nov Delivery
- \$0.00 carry costs

The Market
is pricing in a

13.2%

Stocks to Use
Ratio (SUR).

J-MAS is
pricing in an

9.0%

Stocks to Use
Ratio (SUR).

A 9.0% SUR
should give
an **\$11.49**
price
average

See Page 2 to take
a deeper look into
the many moving
parts of the
Canola S&D

Canola	Weighted	AgCan	What the Market Thinks		What J-MAS Thinks	
	10-Year Average	Oct-13 13/14	Nov-13 13/14	Δ	% Δ	Nov-13 13/14
carryover (mmt)	1.27	0.61	0.61	0.00	-0.3%	0.61
Seeded Acres	19.34	19.74	19.74	0.00	0.0%	19.74
Harvested	18.87	19.17	19.17	0.00	0.0%	19.17
Percentage Harvested	97.5%	97.1%	97.1%	0.0%	0.0%	97.1%
Yield (bu / acre)	33.5	36.9	38.8	-0.2	-0.5%	38.6
Production	14.25	16.03	16.87	-0.09	-0.5%	16.78
Imports	0.14	0.13	0.13	-0.03	-24.0%	0.10
Total Supply	15.66	16.76	17.61	-0.12	-0.7%	17.49
Exports	7.63	8.00	8.15	0.45	5.6%	8.60
Domestic Use	6.81	7.36	7.40	0.05	0.7%	7.45
Total Demand	14.45	15.36	15.55	0.50	3.3%	16.05
Carry-Out Stocks	1.28	1.40	2.06	-0.62	-44.2%	1.44
Stocks to Use Ratio	9.2%	9.1%	13.2%	-4.3%	-46.8%	9.0%
Average Price	\$12.37	\$11.79	\$11.35	\$0.80	6.8%	\$12.15
Ave Basis	\$19.36	\$30.90	\$36.00	-\$7.10	-23.0%	\$28.90
Ave Net Price	\$11.89	\$11.09	\$10.53	\$0.96	8.7%	\$11.49
Demand/Supply Use	92.1%	91.6%	88.3%	3.5%	3.8%	91.8%

Look for the corresponding notes on page 2 for more on "The Grey Area"



Supply & Demand Debates

(The Problem with Fundamentals is they are 80% Opinion until it's too late)

Carry-In Debate (uncontested)

- **610,000** tonnes is baked in.
- *There may be revisions down the road but we currently see little reason for a market moving change to manifest itself and likely thrown into a future report as an offset to an opposing metric anyhow.*

Production Debate

- **16.6-17.3** mmt with **37-40.5** bu yield on **19.74m** acres.
- *Acres nearly locked in with yield determining what final product will be. At this point, there are not many yield estimates that will surprise the market more than it has been already.*

Supply Debate (contested)

- **17 vs. 18.1** mmt is a wide range – **J-MAS 17.49**.
- *Production variance coupled with odd acreage estimates outside of 19.74 provides a wide range here.*
- *our estimate is 17.5 so we are taking no sides yet on this debate but we feel it will be close to slightly low.*

Demand Debate (hotly contested)

- **15.5-15.8** mmt is the range – **J-MAS 16.05**.
- *Our problem is mainly with Export estimates. The market is looking too closely at Export numbers when there was no extra Canola to move and a \$14 price. Logistics are indeed a concern but manageable.*

Stocks Debate (contested)

- **9-17%** is a wide, impactful range - **J-MAS at 9.0%**.
- *Given previous debated numbers, the all-important SUR comes in with a wide range. We are confident in at least a percentage of our Export estimated coming in more accurately than the market and remain Bullish.*

Price Debate (uncontested)

- **13.2%SUR** = a **\$10.53** price – **J-MAS 9.0%** = **\$11.49**.
- *Price is ultimate a function of SUR (stocks to use ratio) but can take it's time getting there via Logistics, Technicals and Perception. We are confident in a SUR below 13% but are managing risk in case we are wrong.*

Fundamental Watch-Outs

There are two key watch-outs for Canola right now – Yield & Exports.

Yield: range mid-point is **38.8bu/ac**. If the high-end is right, it means **18% SUR = \$8.83** Canola.

Demand: range mid-point is **15.7mmt**. If the low-end is right, it means **15% SUR = \$9.55** Canola.

The Bull Case

Carry-In – 0.61 mmt uncontested
Acres – 19.17 million uncontested
Yield – 38.6 bu/ac uncontested
TOTAL SUPPLY = 17.39 mmt

Exports – 8.70 mmt **Debatable** – Demand thru US
Domestic – 7.50 mmt **Debatable** – Pace quickening
TOTAL DEMAND = 16.20 mmt

Carry-Out – 1.19 mmt
STOCKS TO USE RATIO = 7.3% = \$12.15 Price

The Bear Case

Carry-In – 0.61 mmt uncontested
Acres – 19.17 million uncontested
Yield – 41.0 bu/ac **Debatable** – *increase is possible*
TOTAL SUPPLY = 18.44 mmt

Exports – 8.10 mmt **Debatable** – *logistics & ↓demand*
Domestic – 7.40 mmt uncontested
TOTAL DEMAND = 15.50 mmt

Carry-Out – 2.94 mmt
STOCKS TO USE RATIO = 19% = \$8.58 Price

FUNDAMENTAL FRIDAY - DURUM

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However, there are many challenges to utilizing a crop's Fundamentals when marketing it. The old adage,

"The Market can remain irrational for longer than you can remain solvent."

... comes into play much too often as there are more than just Fundamentals driving any market.

Technicals determine short-term trends and the position of Funds can trump. Fundamentals act best as a base upon which Technicals and other marketing tools enact. We let this report open the J-MAS Execution Cycle for that reason.

Below is the Supply & Demand table for Canadian Durum.

You are seeing 17 lines of the nearly 700-line spreadsheet we run for this one crop.

Today's **2AD**
Best Price
is **\$5.92**

\$5.92 Nov Delivery
- \$0.00 carry costs

The Market
is pricing in a
32.6%
Stocks to Use
Ratio (SUR).

J-MAS is
pricing in an
28.4%
Stocks to Use
Ratio (SUR).

A **28.4%** SUR
should give
a **\$6.79**
price
average

See Page 2 to take
a deeper look into
the many moving
parts of the
Durum S&D

<i>Durum</i>	Weighted	AgCan	What the Market Thinks		What J-MAS Thinks	
	10-Year Average	Oct-13 13/'14	Nov-13 13/'14	Δ	% Δ	Nov-13 13/'14
carryover (mmt)	1.60	1.15	1.15	0.00	0.0%	1.15
Seeded (million acres)	4.71	4.97	4.97	0.00	0.0%	4.97
Harvested	4.60	4.86	4.86	0.00	0.0%	4.86
Percentage Harvested	97.5%	97.8%	97.1%	0.0%	0.0%	97.1%
Yield (bu / acre)	37.2	42.2	46.5	0.5	1.2%	47.0
Production (mmt)	4.67	5.58	6.15	0.07	1.2%	6.22
Imports (mmt)	0.02	0.03	0.03	0.00	0.0%	0.03
Total Supply (mmt)	6.26	6.76	7.33	0.07	1.0%	7.40
Exports	4.05	4.50	4.65	0.23	5.1%	4.88
Domestic Use	0.82	0.86	0.88	0.00	0.0%	0.88
Total Demand (mmt)	4.87	5.36	5.53	0.23	4.3%	5.76
Carry-Out Stocks	1.39	1.40	1.80	-0.16	-11.7%	1.64
Stocks to Use Ratio	28.7%	26.1%	32.6%	-4.1%	-15.9%	28.4%
Average Price	\$7.09	\$5.79	\$6.50	\$0.54	9.3%	\$7.04
Discount to #2(13Pro)	-\$0.23	-\$0.25	-\$0.25	\$0.00	0.0%	-\$0.25
Ave Net Price	\$6.84	\$5.54	\$6.25	\$0.54	9.7%	\$6.79
Demand/Supply	78.1%	79.3%	75.4%	2.4%	3.1%	77.9%

Look for the corresponding notes on page 2 for more on "The Grey Area"



Supply & Demand Debates

(The Problem with Fundamentals is they are 80% Opinion until it's too late)

Carry-In Debate (uncontested)

- **1.15 mmt** is a stable estimate.
- *There may be revisions down the road but we currently see little reason for a market moving change to manifest itself and likely thrown into a future report as an offset to an opposing metric anyhow.*

Production Debate

- **5.45-5.00 mmt** with **45-51 bu** yield on **4.86m** acres.
- *Acres nearly locked in with yield determining what final product will be. At this point, there are not many yield estimates that will surprise the market more than it has been already.*

Supply Debate (uncontested)

- **7.3 vs. 7.5 mmt** range – **J-MAS 7.40**.
- *Production variance coupled with odd acreage estimates could push final supply the range.*
- *Our estimate is 7.4 so we are taking no sides yet on this debate but we feel it will be close to slightly low.*

Demand Debate (contested)

- **5.4-5.8 mmt** is the range – **J-MAS 5.76**.
- *Globally there is not a Durum surplus in the rest of the world compared to Canada so while it's supply push here there will be opportunities to move Canadian Durum if we can get the logistics right.*

Stocks Debate (contested)

- **28-35%** is a wide, impactful range - **J-MAS at 28.4%**.
- *Given previous debated numbers, the all-important SUR comes in with a wide range but with Durum a little less on the radar than Canola and Wheat, new data will be hard to come by before report days.*

Price Debate (uncontested)

- **32% SUR** = a **\$6.25 #2** price – **J-MAS 28%** = **\$6.79**.
- *Price is ultimate a function of SUR (stocks to use ratio) but can take it's time getting there via Logistics, Technicals and Perception. We are confident in a SUR below 30% but are managing risk in case we are wrong.*

Fundamental Watch-Outs

*There are two key watch-outs for Canola right now – **Yield & Exports**.*

Yield: range mid-point is **46.0bu/ac**. If the high-end is right, it means **44% SUR = \$5.49** Canola.

Demand: range mid-point is **5.55mmt**. If the low-end is right, it means **37% SUR = \$5.79** Canola.

The Bull Case

Carry-In – 1.15 mmt uncontested
Acres – 4.86 million uncontested
Yield – 46.5 bu/ac uncontested
TOTAL SUPPLY = 7.30 mmt

Exports – 4.95 mmt **Debatable – extra US Demand**
Domestic – .90 mmt uncontested
TOTAL DEMAND = 5.85 mmt

Carry-Out – 1.45 mmt
STOCKS TO USE RATIO = 25% = \$8.02 Price

The Bear Case

Carry-In – 1.15 mmt uncontested
Acres – 4.86 million uncontested
Yield – 51.5 bu/ac **Debatable – increase is possible**
TOTAL SUPPLY = 7.96 mmt

Exports – 4.50 mmt **Debatable – logistics & ↓demand**
Domestic – .86 mmt uncontested
TOTAL DEMAND = 5.36 mmt

Carry-Out – 2.60 mmt
STOCKS TO USE RATIO = 49% = \$5.11 Price