The export price of canola at port is worth tracking

A lot of different factors beyond futures prices determine what you will be paid for your crop

BY DAVID DERWIN
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When I talk to farmers about canola prices, typically we're referring to the front month futures or deferred months or even the new crop futures price. Often it's the local elevator price or sometimes the basis level, occasionally the nearby crush plant bid, but rarely the export price at the Vancouver ports.

While we usually focus on futures prices as well as local elevator cash bid and basis levels, there is another important level of pricing we need to monitor as well. When it comes to the cash market for canola, both canola crush margins as well as Vancouver port prices will have a significant impact on the canola prices growers see across the Prairies.

Canola board crush margin

While canola crushers don't disclose their margins, an estimated canola board crush margin is published on the ICE Futures Canada website.

It is calculated using canola, soybean oil and meal futures prices. It is based on a 40 per cent oil and 60 per cent meal contribution per tonne of canola seed crushed, expressed in Canadian dollars. It also includes a 0.75 price adjustment factor to account for canola meal containing approximately 75 per cent of the protein in soybean meal. Overall, it provides a good gauge of the trend in core processing returns.

Over the past 10 years, its typical range is roughly between $50 to $100/tonne; sometimes reaching as high as $150 or $200, and as low as $0. This gives an indication of crush plant profit margins and potential impact on canola demand and prices.

Crush margins in late March were around $95/tonne, up almost 25 per cent from a month earlier when it was near $75, helping to partially explain the recent canola futures rally.

Similar to the soybean futures crush margin, which is followed extensively by traders, farmers and commercials in the U.S., the canola board crush margin provides a sense of what a main buyer in the canola market is doing. Ultimately, it gives a better understanding of the overall marketing picture for Canadian canola producers.

Track Vancouver canola

In the grand scheme of things, while canola is a major crop in Canada, global canola/rapeseed oil production is only about 50 per cent of soybean oil production and 40 per cent of palm oil production. When you combine all the top 10 largest oils (like sunflower, palm, peanut, and coconut), rapeseed oil production worldwide is about 15 per cent of the global edible oil market.

While Canada is the second-largest canola/rapeseed producer, it only represents about 25 per cent of global production. At the end of the day, our canola supplies around five per cent of this global consumable oil market, based on USDA figures.

Given Canada exports 90 per cent of its canola as seed, oil or meal to 50 markets around the world, domestic consumption doesn't have much impact on our canola prices. Foreign oilseed production and worldwide demand have a big effect on our prices here at home. The track Vancouver price and basis provide a window to that world.

Essentially, the track Vancouver cash bid is the price at which elevators and inland terminals sell their canola. The port basis is simply the level they sell at above the futures price.

Since 2014, track Vancouver canola prices have been in a $100/tonne trading range, roughly between $450 and $550/tonne.

The track Vancouver basis above the futures price has averaged $35/tonne and typically varies $15 either side of that, between $20 to $50/tonne since 2014.

While other factors can have an effect, the global oilseed demand from export markets drives port prices and, in turn, the inland prices as well. With 35 per cent of our canola seed going to China, 18 per cent to Japan and 13 per cent to Mexico, overseas purchases will have the biggest influence on demand so track Vancouver basis levels need to be a key part of your price analysis.

Commercial activity will always push, pull, and drag canola prices all over the charts. The current rail transportation issues are having an even greater than usual effect on commercial activity and therefore your selling price. We're seeing track Vancouver export basis levels increasing since exporters aren't able to source the canola they need. Meanwhile, buyers in the elevator system have been dropping their prices, i.e. their basis, since they can't ship what they already have so they're bidding less on new purchases.

Bottom line, the next time you're talking about the price of canola, think about both nearby as well as deferred futures, look at new crop futures and stay up to date on local basis levels. Keep an eye on what crush margins are doing and where track Vancouver levels are at as well. The more insights you have into what prices, all prices, are doing and where they have been trending, the more understanding you'll have of the farm gate prices you receive for your production.

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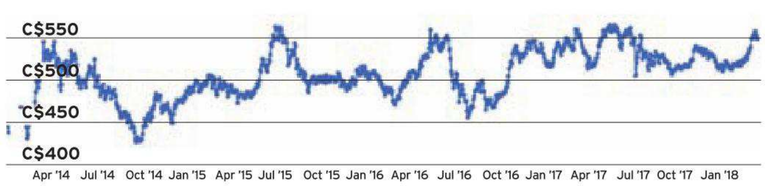
CANOLA CASH BIDS – TRACK VANCOUVER 2014-2018



CANOLA BASIS – TRACK VANCOUVER 2014 - 2018

Average	C$35/tonne
Typical Range	C$20-C$50/tonne

Source: albertacanola.com

CANOLA BOARD CRUSH MARGIN (PER TONNE)

	Today		Month Ago	
	March 15/18		February 15/18	
CONTRACTS	Cdn$	U.S.$	Cdn$	U.S.$
May 18	86.27	66.2	78.99	63.16
July 18	84.26	64.66	74.66	59.69
November/Oct 2018	94.06	72.17	75.14	60.08
November/Dec 2018	96.12	73.76	77.27	61.78
Jan 19	92.92	71.3	72.71	58.14

Source: www.theice.com

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