Mercantile Consulting Venture

SASK MUSTARD INFO MEETING 2017

MUSTARD MARKET OUTLOOK 2016/'17

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Outline

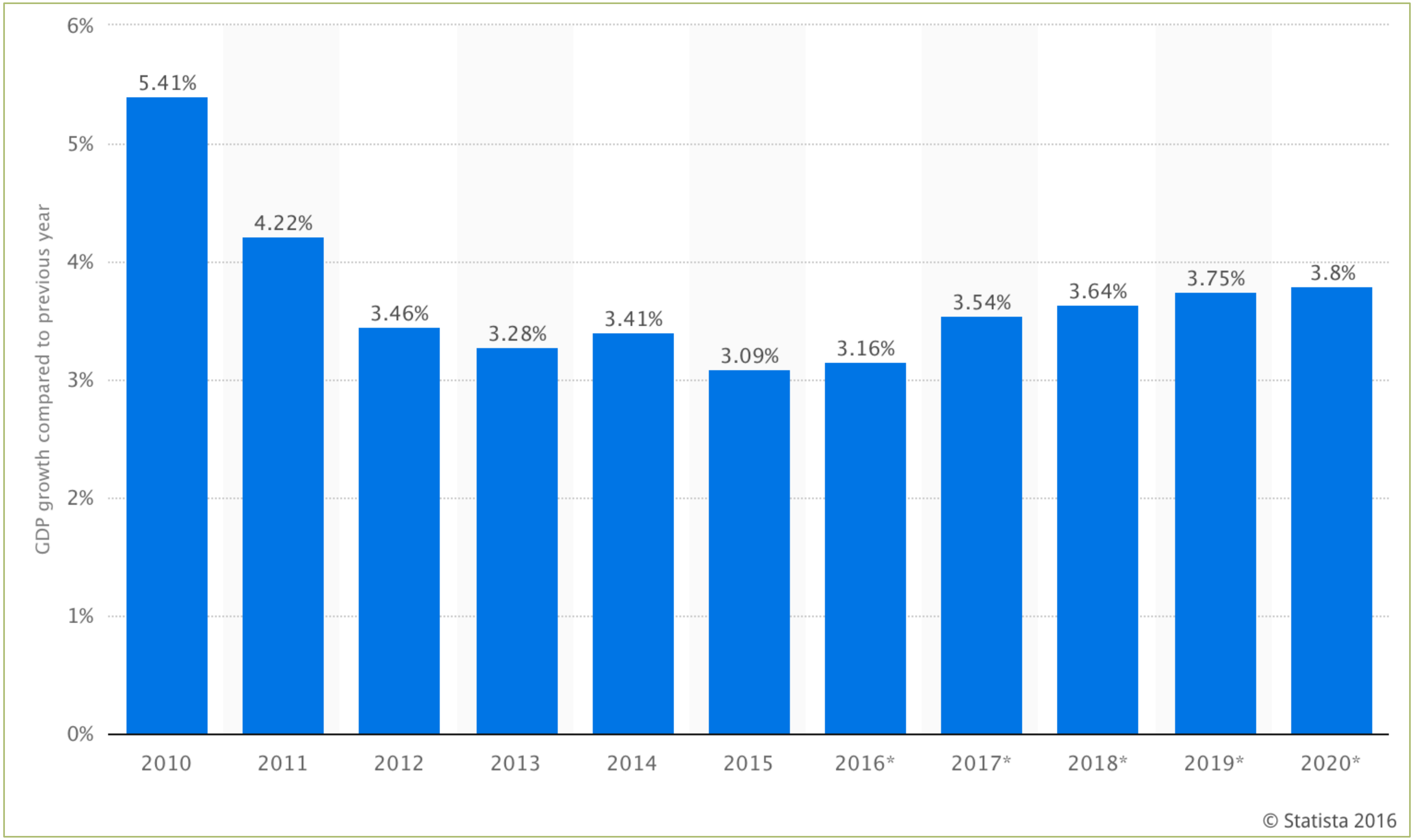
- Ag Market Environment – Macros
- **2016/’17 Canadian mustard balance sheet**
- Where are our markets?
- **2017/’18 Canadian mustard balance sheet**
- Early outlook ’17/’18
- Questions / Discussion

Broad Ag Market Environment

- Global growth
- The threat of debt – increase in interest rates?
- Political events
  - Brexit, Trump policies?, Turkey, Middle East
- Major policy changes?
- Foreign Exchange

  - Add uncertainty/ risk;
  - Influence exchange rates
  - Determine financial stability/ ability to pay (ex. Egypt)
  - Influence trade Patterns (Trade Agreements; Brexit; CETA)

Global GDP Growth – "tepid", not like 5 yrs ago; slower demand creation



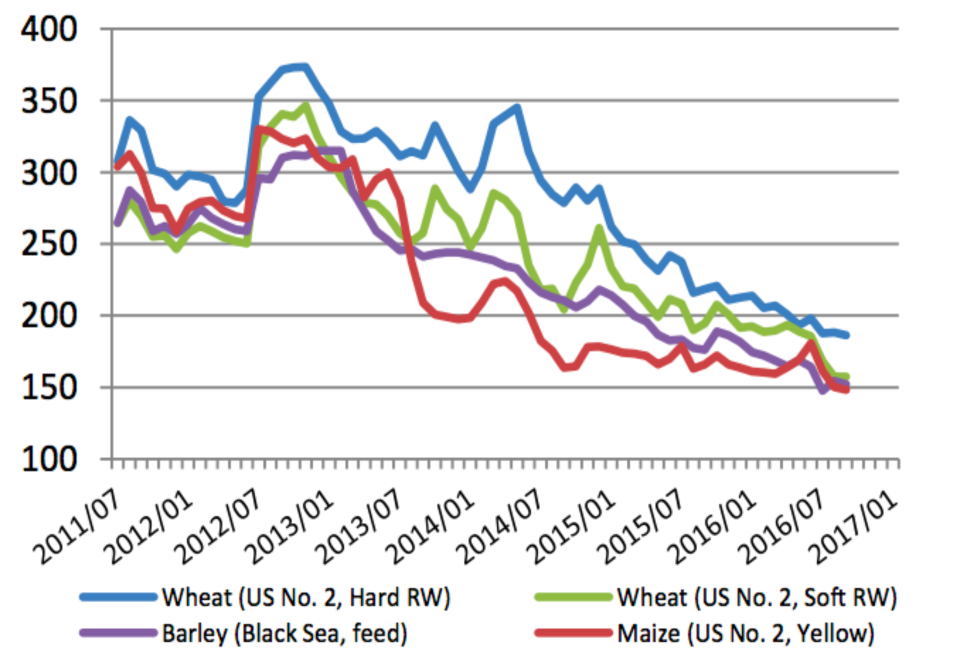
Changes in agriculture price environment

- *Ag prices were strong from* ***2003- 2013****.*

- *Ag prices became weaker* ***2013-2016.***

- What next?

Graph 7 World prices for cereals (USD/t)



Source: DG Agriculture and Rural Development, based on FAO-GIEWS

Ag prices 2003 – 2013

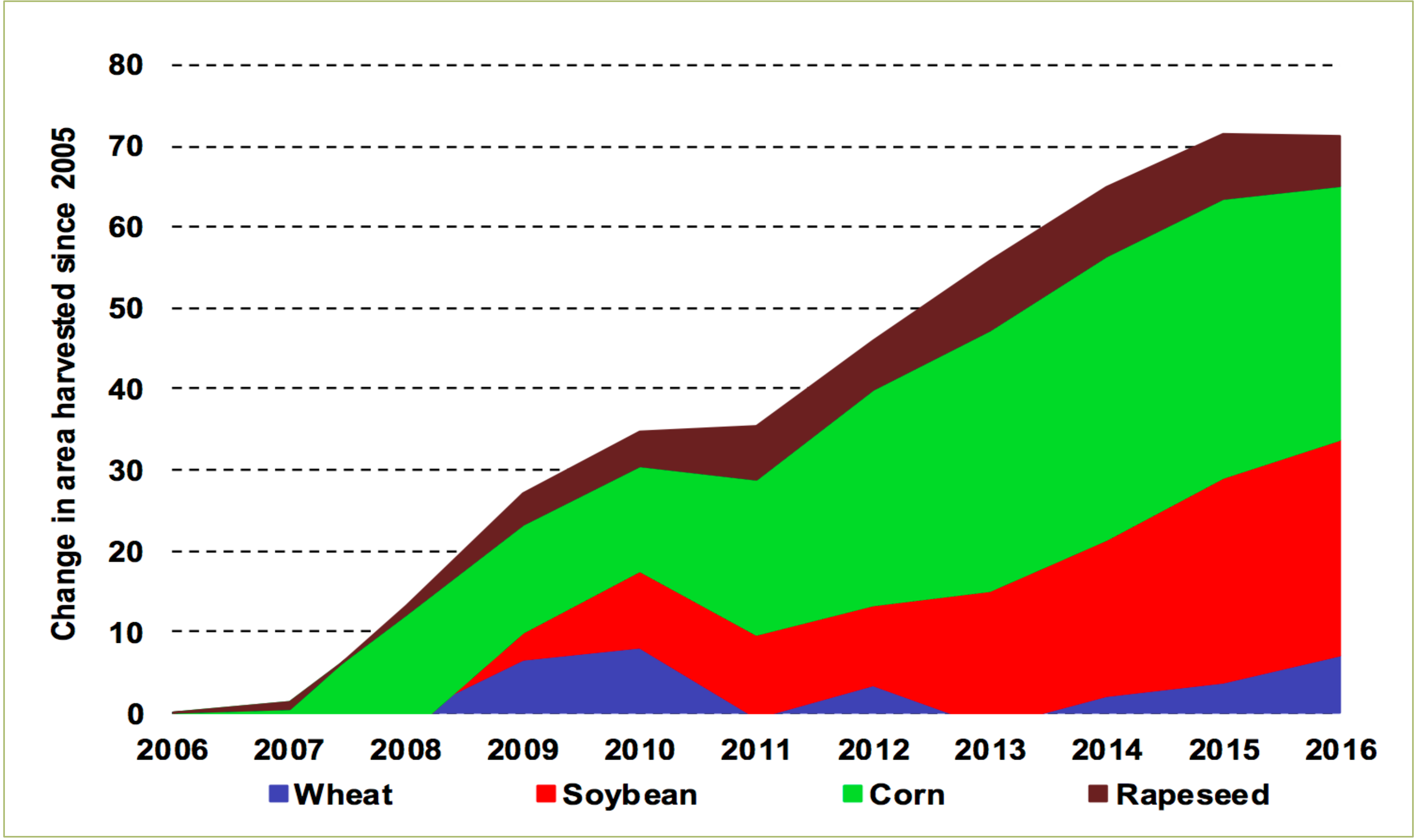
- Why did prices rise decisively?

  The world decided to use ag products for fuel → biofuel

  (ethanol & biodiesel)

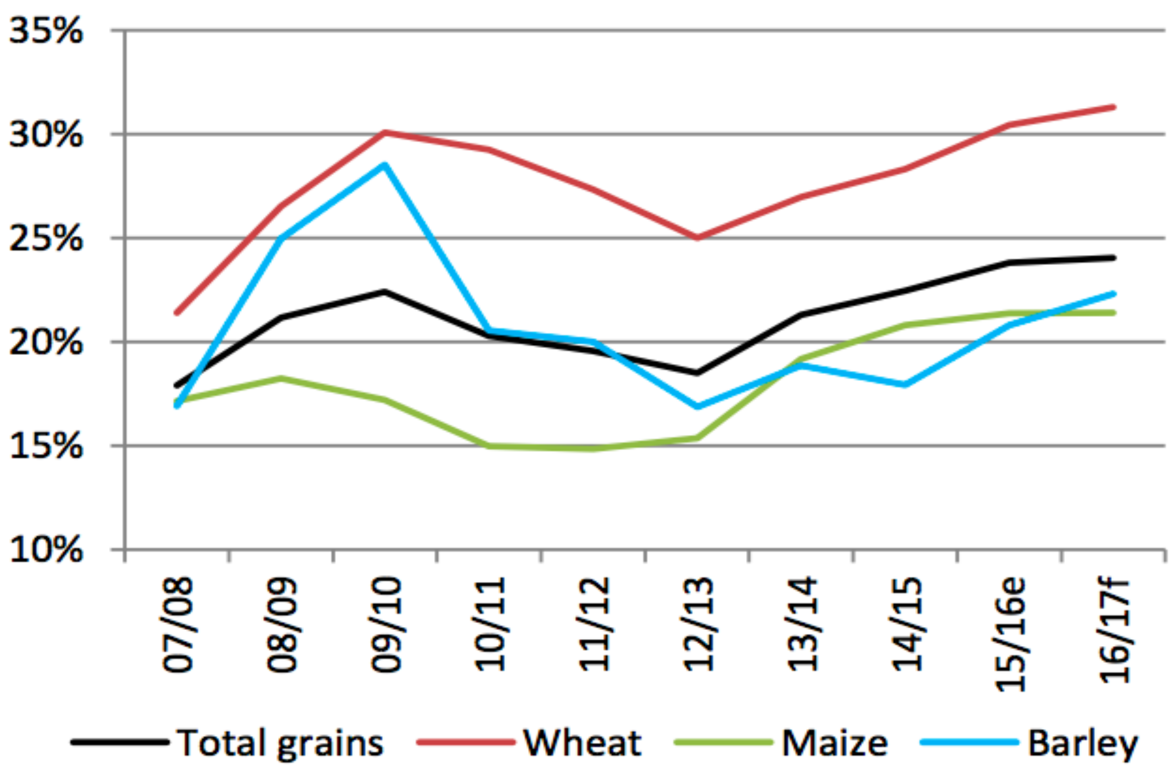
  - **Food** & **feed** demand for major crops increased more in the 2000's than in the 1990's (high GDP growth BRIC)
  - On top of increasing food/ feed demand the world added demand for **biofuel** (a third demand element)
  - This necessitated more acres of oilseeds and of grains – px signals
    - ~20% of world corn is used for fuel (ethanol)
    - ~ 25% of vegetable oils are used for fuel (biodiesel)

And – we found enough land to cover demand: change in acres has leveled off



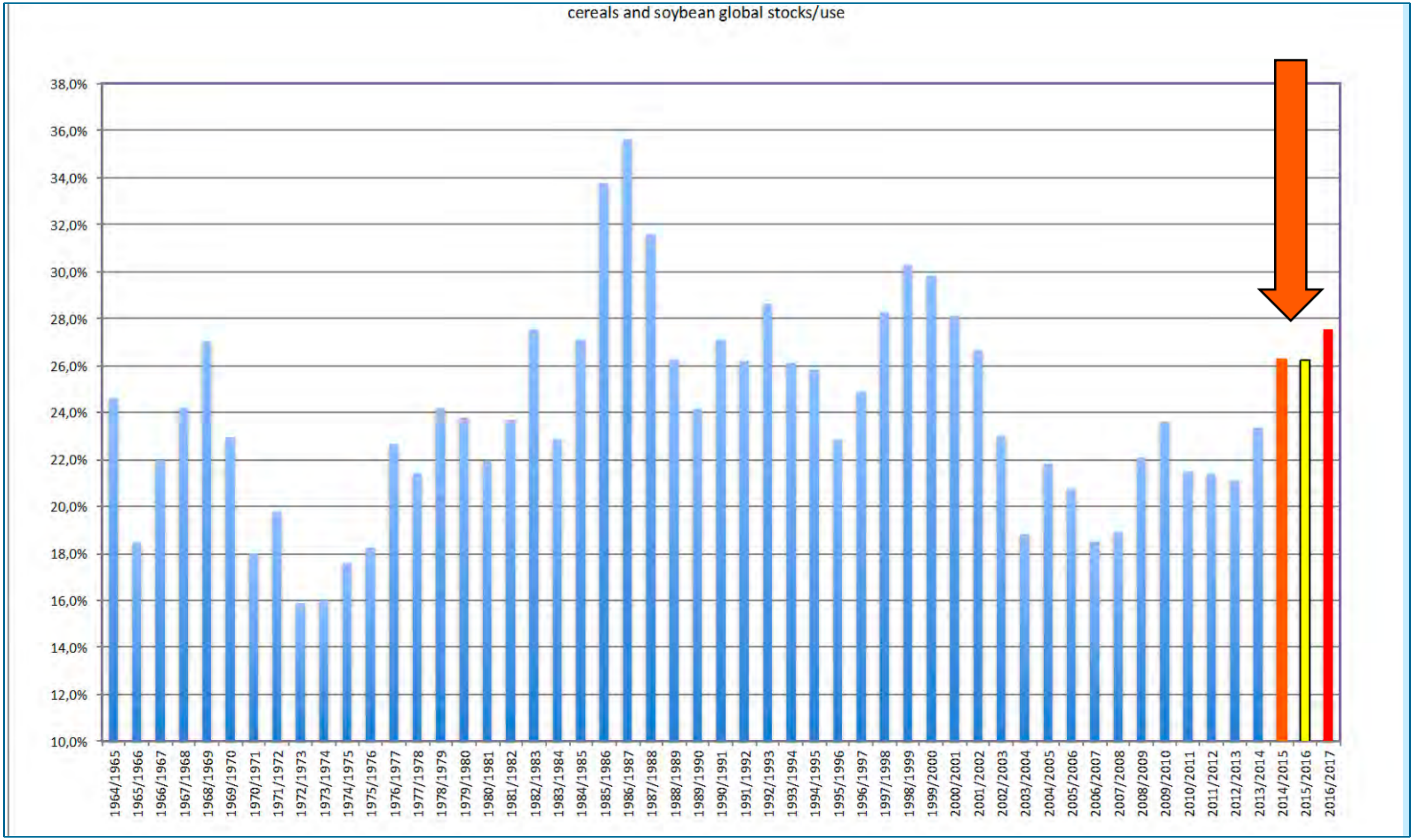
… and grain stocks started rising again

Graph 6 World stock-to-use ratios



Source: DG Agriculture and Rural Development, based on IGC

Stock-use ratio cereals & SBN’s combined



A couple of *'what if's*: (Trump policies?)

The U.S. changes their biofuel policies??

- Effect on corn market & prices
- Effect on oil market & prices

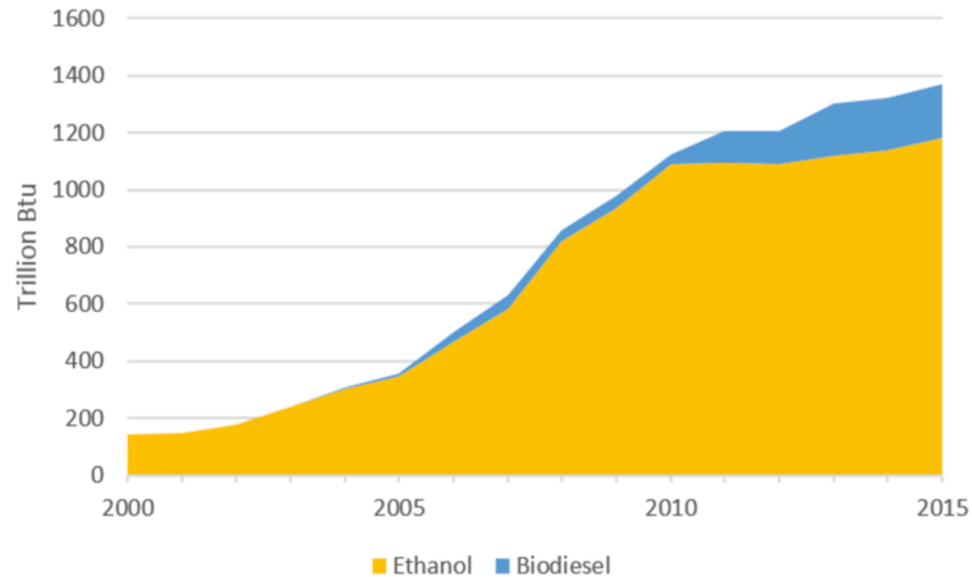


Figure 2: Production of ethanol and biodiesel (Source EIA Monthly Energy Review)

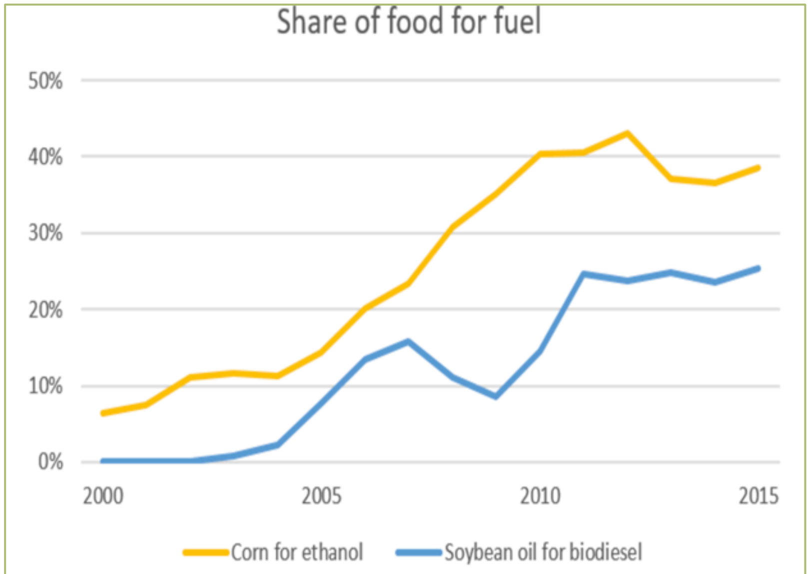
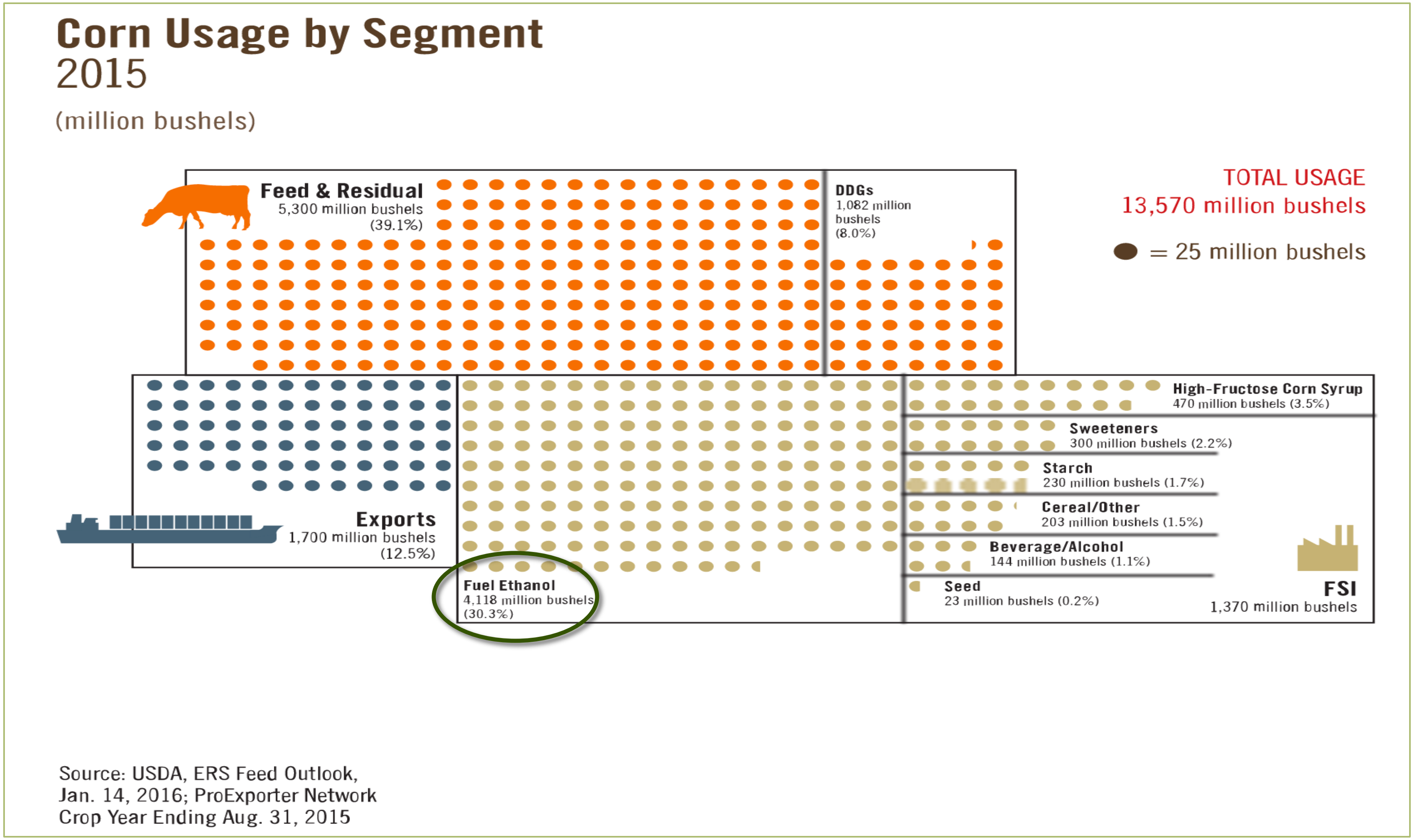


Figure 4: Share of U.S. corn used for ethanol and U.S. soybean oil production used for biodiesel (Source USDA ERS Feed Grains Yearbook and Oil Crops Yearbook)

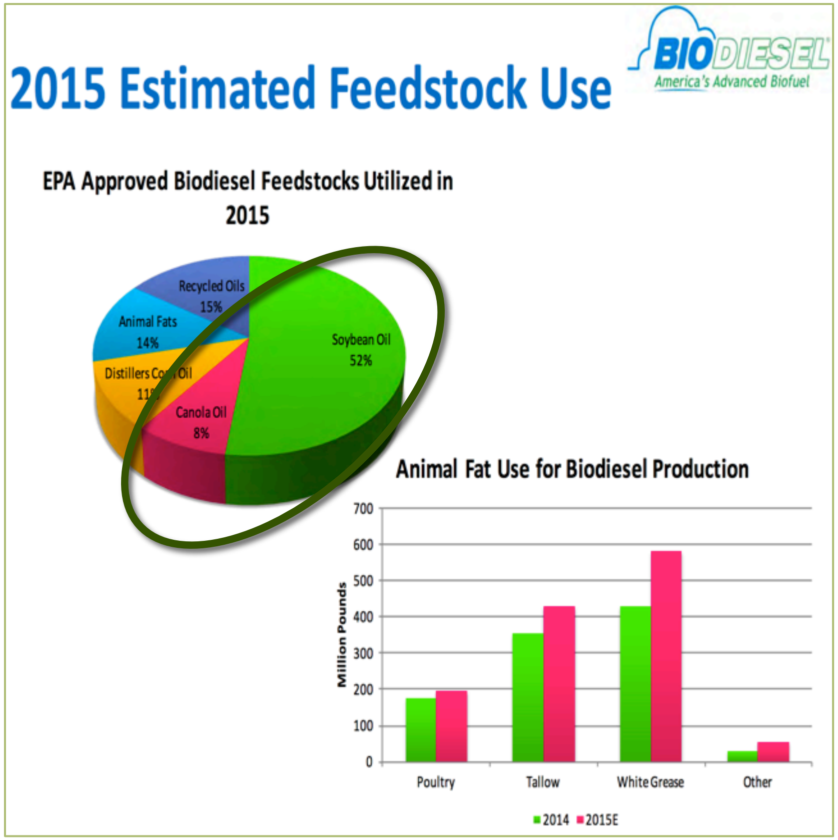
US corn usage by segment

Source: USDA

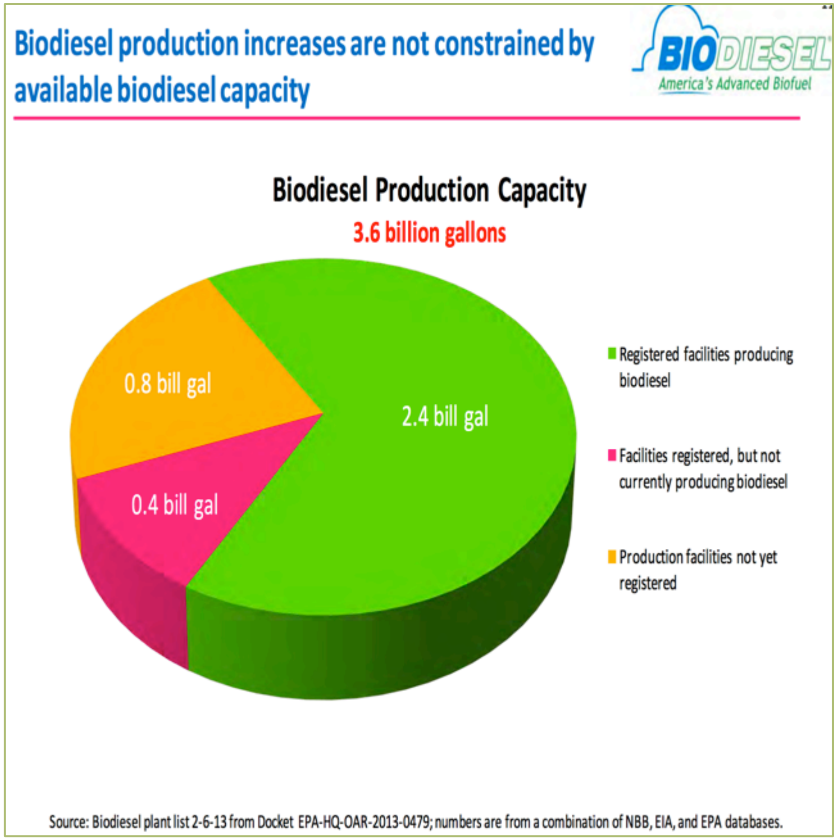


US Biodiesel

Feedstocks



Capacity



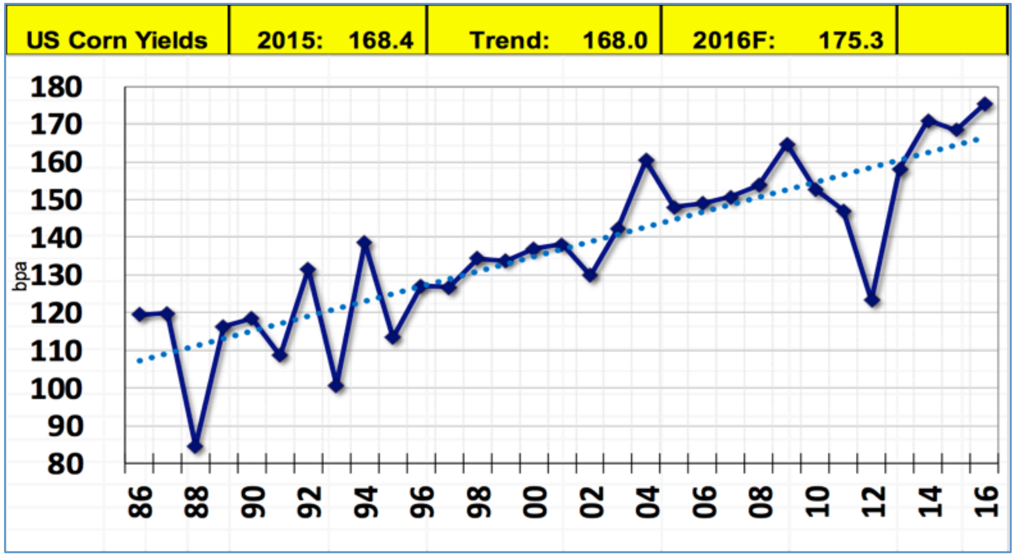
‘If’ the bio-energy PGM were tempered with…

- Would lose min. 4.1 bln bu corn usage; 30.3% of total US corn usage
- Would lose ~25% of total US SBN usage
- Biofuel via corn-ethanol & SBO does not make environmental sense, espec. at $45-60/b (was better at$100/b +)

What if??

… we had a 15% yield hit next crop year?

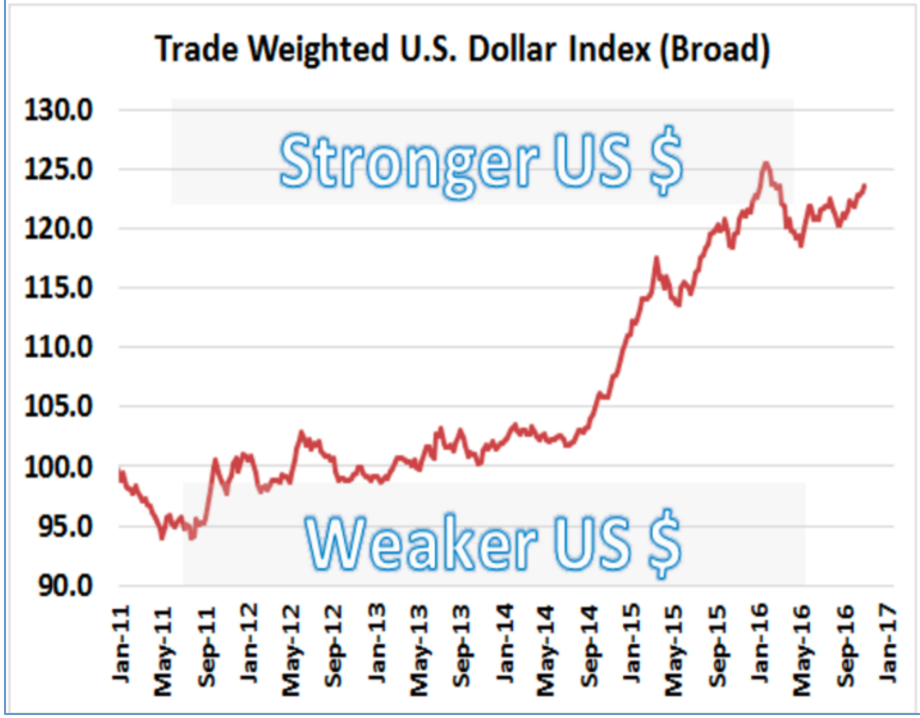
- Brazil SBN's: -15% is ~14.9 mln mt; 19% world ending stocks
- US SBN's: -15% is ~17.5 mln mt; 23% world stocks
- US corn: -15% is 54.1 mln mt; 25% of world ending stocks
- Chinese corn: -15% is ~29.5 mln mt; 14% world ending stocks



Foreign Exchange

Rising US$ ➔ A negative for commodity prices

- Which direction will Trump priorities and cabinet choices lead us?

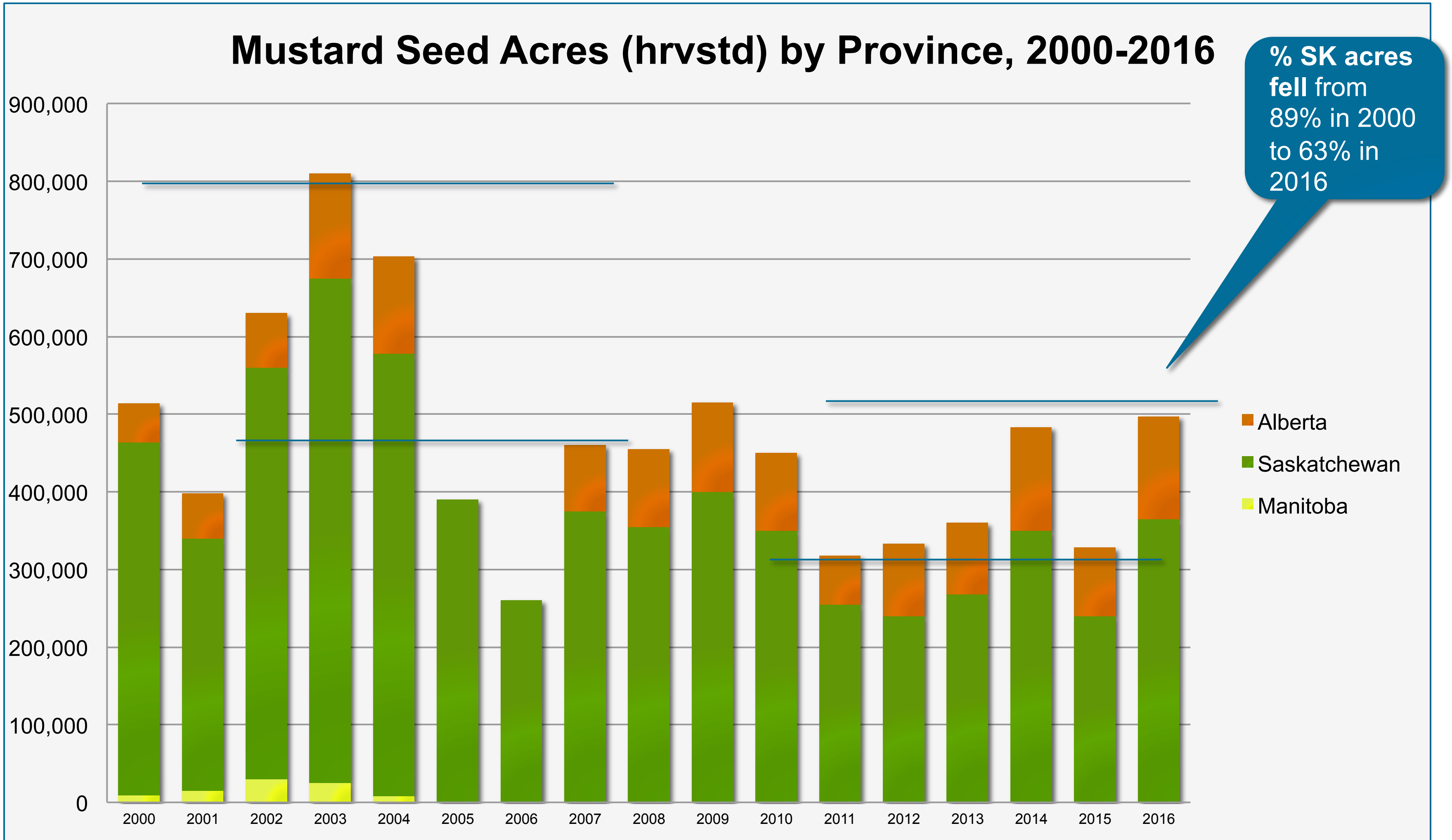


Strong US$ Economic Implications:

- US export competitiveness reduced
- Negative impact upon nearly all commodity prices
- Competing exporters see favorable returns and are adding acreage
- Trade war risks heightened

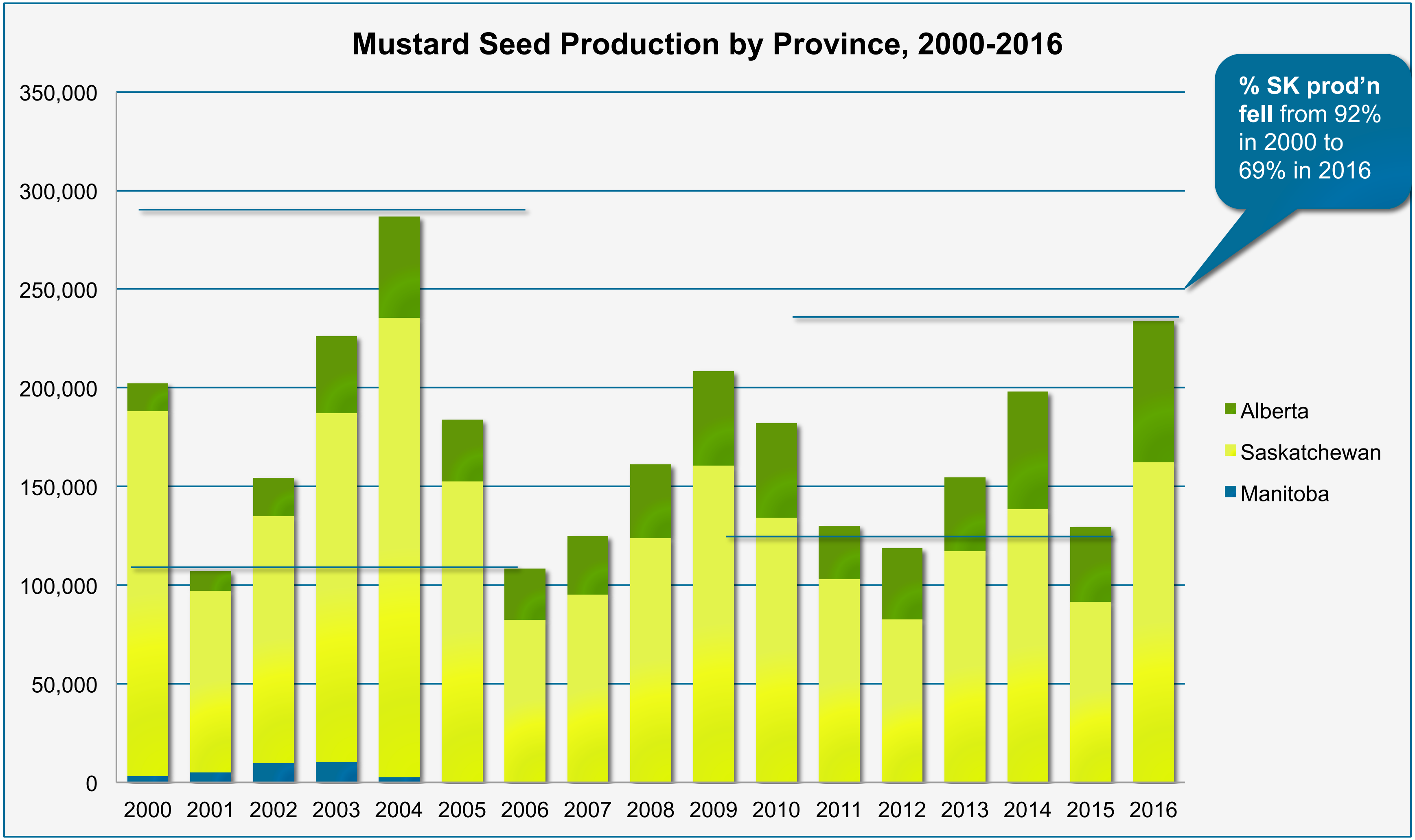
Canadian Mustard Seed Acres

Overall acreage down 3% from '2000; 39% from 2003



Canadian Mustard Seed Production

Overall prod'n up 16% from '2000; down 18% from 2004



Breakdown by type of mustard seed grown

Mustard Seed by type (basis levy payments)

	Levy payers		Percent	
	2014/15	**2015/16**	**2014/15**	**2015/16**
Yellow mustard	1014	669	56%	55%
Brown mustard	497	337	27%	28%
Oriental mustard	305	218	17%	18%
Total	1816	1224	100%	100%
Reg'std	1562	1080	86%	88%

2016/17 Balance Sheet

- **acreage** seeded to mustard seed increased by 51% over last crop year (+?)
- **yield** is ~ 21% better, and at 233,000 mt
- **production** is almost 90% higher than it was for 2015/'16
- *due to the small ending stocks, **supply** this year is 'only' 32% higher than last year*
- **Exports** up
- **Ending stocks** this crop year could be up > 2.5 times

Canadian Mustardseed Balance Sheet	2013/14	2014/15	2015/16	F2016/17	
Area Seeded ('000 ac.)	366	499	346	524	151%
Area Harvested	361	482	329	497	
Yield (bu/aca)	21.98	18.02	16.59	20.70	
Production ('000 mt)	180	197	124	233	188%
Imports	2	1	2	2	
Total Supply	**240**	**255**	**205**	**270**	132%
Exports	**138**	**126**	**115**	**125**	
Total Domestic Use	45	50	55	50	
Carry-out Stocks	57	79	35	**95**	274%
Stock-Use Ratio	5.5%	19.5%	**20.3%**	**54.2%**	

Merc., Jan. '17

2016/17 Cdn. mustard crop

- Canada grew ~ 500,000 acres of mustard in 2016
- Cda. also had a record average yield of over 20 bu/acre (1000 lbs) for yellow and 24 bu/acre (1200 lbs) for brown/ oriental [> 37 bu/ac S Sk]

- US: Montana and North Dakota had higher losses due to hail, but yellow yields average ~900 lb/acre (~18k mt)

- C/O Cda.: 80-90k mt (mine are higher than Ag Cda's), but not historically high
- Stock-use ratio *high*; up more than double

Industry usage

- Due to very low yellow mustard inventory last year, processors started using 2016 mustard at harvest; earlier than usual
- 2016 crop brown mustard processing started in November ’16

Quality

- **#1 grade** mustard seed pool is 14% smaller than 'normal'
- most of that shortfall shows up in **the # 2 grade category**
- **93% of this year's mustard seed still grades in the top 2** grades compared to the 96% 10 year average
- *There will be more than sufficient supply to meet the anticipated mustard seed export demand*

SK Mustardseed Quality

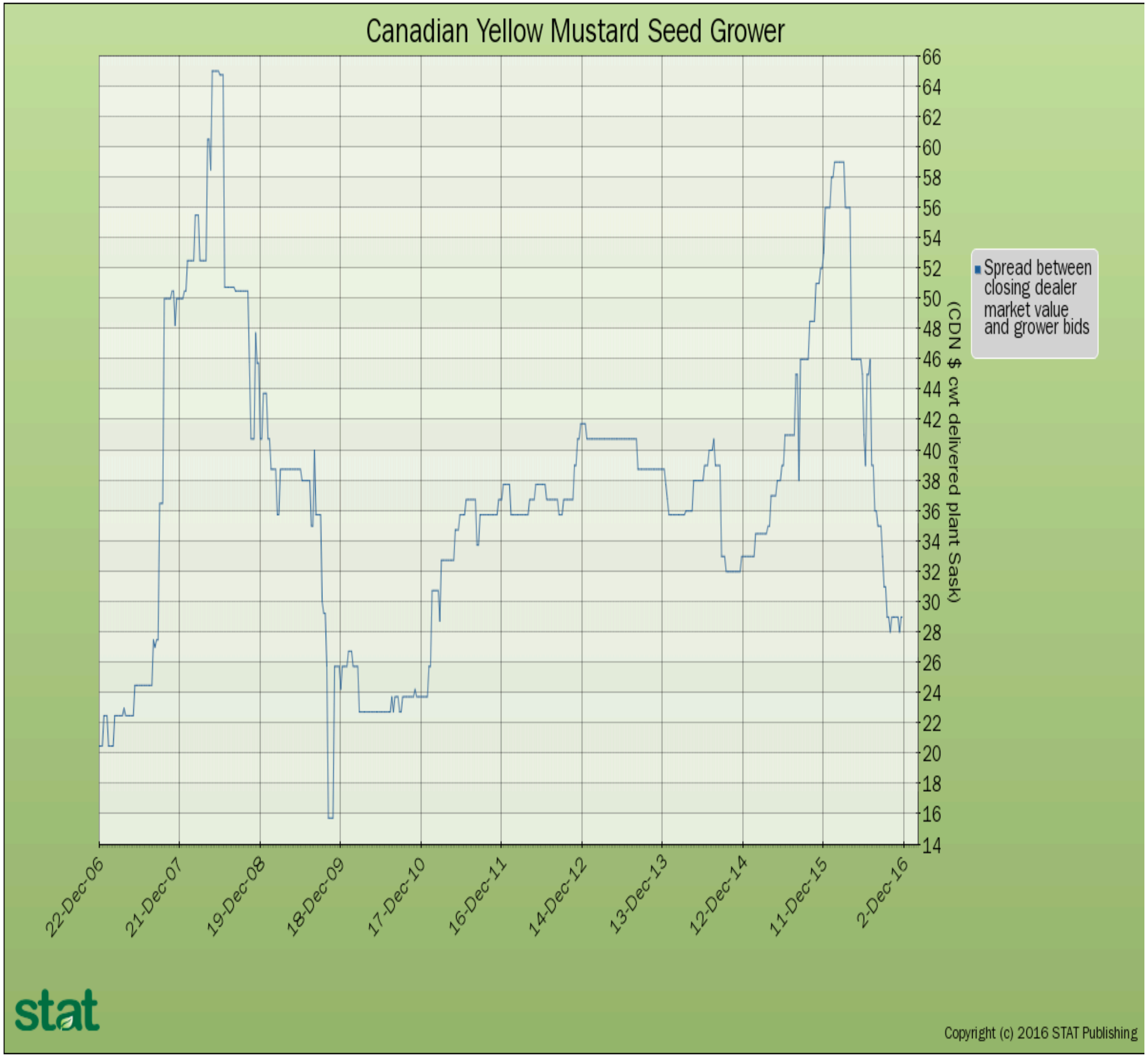
	#1 CAN	#2 CAN	#3CAN	Sample
2006	84	15	1	0
2007	73	25	2	0
2008	83	14	3	0
2009	88	10	2	0
2010	64	23	8	5
2011	82	16	2	0
2012	84	12	3	1
2013	86	13	1	0
2014	56	30	12	2
2015	80	18	2	0
10 yr avg.	78	18	4	1
2016	**64**	**29**	**6**	**1**

Source: SAF, Nov. 21/'16

Price developments – Grower pxs dlvd plant (Stat)

10 years history

- **High** of $65/cwt
- **Low** of $15.50/cwt
- **Range** past year: $52-$29/cwt
- Current px: ~$30/cwt Jan/Feb/'17
- New crop Bid:
- Up to $35/cwt
- **- inelastic D**



Grower prices delivered plant (Stat: 10 yr history)

Top 10 Importers - Exporters

Ukr: 79k mt; Russ: 93k mt

World's Top 10 Mustard Seed Trade

(5-year average trading volume in metri tons)

Exporters	Quantity	Importers	Quantity
Canada	141,660	United States	64,812
Ukraine	26,977	Germany	45,973
Germany	15,224	Bangladesh	31,685
Czech Republic	14,412	France	23,796
Russia	13,949	Netherlands	16,366
Netherlands	11,075	Nepal	14,904
Belgium	7,067	Poland	10,043
Hungary	3,279	Belgium	9,093
India	2,598	Japan	5,933
Romania	2,552	United Kingdom	3,648

Source: United Nations Food and Agriculture Organization (FAO). This table shows the average annual trading volume for the period between 2006 and 2010.

Canadian Exports

Mustard Seed Exports by Destination

Country (MT)	2013	2014	2015	YTD Oct. 31, 2016	2016 prorated	2016 ovr 2015	16/'13
World	133,374	129,425	120,225	93,102	111,722	93%	70%
United States	60,868	62,552	67,553	56,588	**67,906**	101%	93%
Belgium	18,394	17,942	20,102	12,483	**14,980**	75%	68%
France	4,727	4,873	2,443	5,078	**6,094**	249%	107%
Japan	5,903	5,187	5,586	4,187	**5,024**	90%	71%
Senegal	1,942	3,049	3,282	2,416	2,899	88%	124%
Thailand	757	1,785	2,034	2,332	2,798	138%	308%
Korea, South	1,487	1,661	2,390	784	940	39%	53%
Brazil	1,040	1,470	789	727	872	111%	70%
Netherlands	8,005	7,582	2,906	1,059	1,271	44%	13%
Ecuador	295	581	893	593	712	80%	201%
Australia	820	1,158	946	758	910	96%	92%
Peru	479	635	668	447	536	80%	93%
Germany	17,447	11,417	2,099	612	734	35%	4%
Guatemala	261	395	310	428	514	166%	164%
Morocco	408	515	497	576	691	139%	141%
Bolivia	600	420	700	751	901	129%	125%
Greece	766	556	464	397	476	103%	52%
Venezuela	1,714	768	250	470	564	226%	27%
Switzerland	1,952	948	1,598	570	684	43%	29%
United Kingdom	696	494	474	412	494	104%	59%
El Salvador	133	133	152	133	160	105%	100%
Poland	1,663	906	540	322	387	72%	19%
South Africa	129	318	255	145	174	68%	112%
Finland	425	280	121	89	107	89%	21%
Chile	66	290	212	84	101	48%	128%
Other	2,395	3,510	2,961	661	793	27%	28%
% exports to USA	0.46	0.48	0.56		0.61		
% exports to N. Eur.	0.38	0.33	0.25		0.22		
% exports to Japan	0.04	0.04	0.05		0.04		

Source: based on StatsCan data; note thet data is based on calendar year, not crop year

Canadian exports

- Mercantile is projecting total mustard seed exports of 125,000 mt ‘16/17, up 9% from last crop year(AAFC: 115k mt)
- Total 2016 exports (prorated calendar year; latest data available) were 7% below those in 2015 and a full 30% below 2013 exports.
  - Exports to U.S.: + 1% higher in 2016 than in 2015, but 7% lower than in 2013.
  - Exports Northern Europe: down 33% in 2016 relative to 2015, and down 61% relative to 2013.
    - Especially some of the more recent drop is related to supply problems from Canada, but the other side of the story is increasing mustard seed production and supply from Black Sea countries, and especially Russia.
    - Russian mustard seed production is very variable, but it increased by 26,000 mt (or 55%) from 2000 to 2015.
    - Ukrainian mustard seed production is even more variable, but increased by 71,000 mt, or nine-fold.
    - This means that in years of low supply, we are giving openings to Eastern European suppliers into our ‘traditional’ markets in northern Europe.

Markets

- Canadian market ranked by importance: (2016 data)
  - **USA**: ~68k mt
  - **EU** (Belgium, France, Netherlands, Germany, miscell.): ~24k mt
  - **Japan**: ~5k mt
  - → ~ 87% of the total market

- Total exports: ~112k mt cal. Yr. 2016; est. 125k mt for crop yr. ‘15/17.

Competitors: Int'l mustard seed production

Up 100k since '10

Canada steady; but ttl prod'n up by 51%

Mustard Seed Production (mt)	Canada	France	Germany	Kazaksthan	Russia	Ukraine	Total
2000	202,200	1,164	10,418	1,680	46,440	8,000	269,902
2001	104,800	1,435	4,369	2,000	28,080	8,200	148,884
2002	154,300	2,033	4,593	1,327	35,040	27,100	224,393
2003	226,100	1,754	5,180	2,938	85,610	68,700	390,282
2004	286,700	2,042	4,060	1,312	55,300	148,100	497,514
2005	183,800	1,549	8,400	1,500	62,900	46,800	304,949
2006	108,200	2,300	9,522	1,060	63,990	21,100	206,172
2007	123,400	3,000	5,825	1,040	11,001	9,700	153,966
2008	161,000	3,500	5,489	610	29,050	38,800	238,449
2009	208,300	9,500	8,849	2,030	23,690	118,200	370,569
2010	186,400	16,016	9,750	1,170	36,408	64,400	314,144
2011	130,000	13,586	11,300	2,200	88,096	30,300	275,482
2012	118,600	13,959	10,500	2,310	41,506	30,980	217,855
2013	154,500	13,999	10,500	8,420	50,414	30,170	268,003
2014	198,000	13,824	8,157	16,198	93,159	79,440	408,778

Competitors into Europe

(FAO data)

Russian Federation

Mustard Seed- Russian Federation

Year	Area harvested (ha)	Yield (kg/ha)	Production (mt)
2000	126,280	3,678	46,440
2001	53,170	5,281	28,080
2002	67,210	5,214	35,040
2003	121,350	7,055	85,610
2004	93,390	5,921	55,300
2005	96,810	6,497	62,900
2006	84,180	7,602	63,990
2007	25,650	4,289	11,001
2008	51,310	5,662	29,050
2009	50,800	4,663	23,690
2010	76,100	4,784	36,408
2011	110,800	7,951	88,096
2012	77,500	5,356	41,506
2013	109,789	4,981	54,682
2014	156,266	6,608	103,255

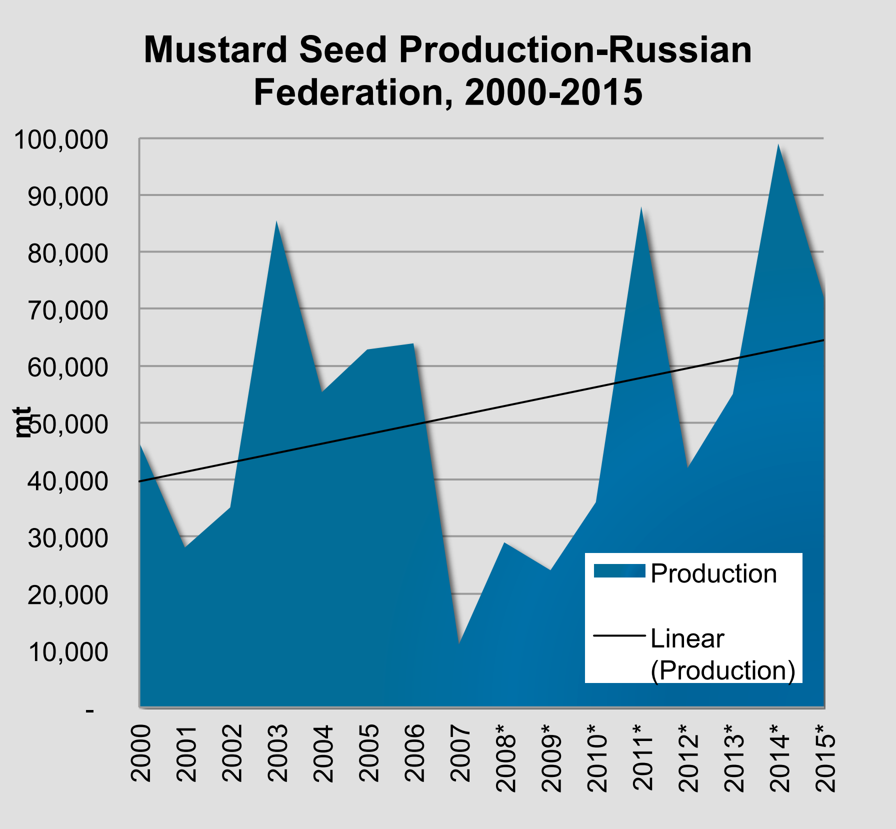
Ukraine

Mustard Seed- Ukraine

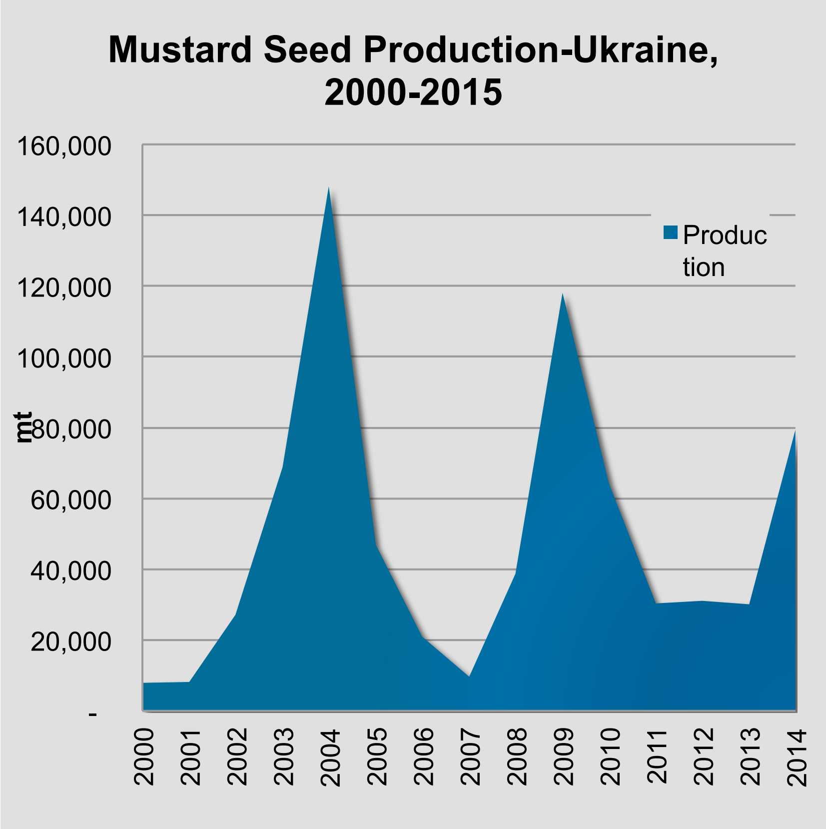
Year	Area harvested (ha)	Yield (kg/ha)	Production (mt)
2000	18,000	4,444	8,000
2001	15,000	5,467	8,200
2002	51,000	5,314	27,100
2003	134,000	5,127	68,700
2004	181,000	8,182	148,100
2005	81,300	5,756	46,800
2006	41,700	5,060	21,100
2007	29,200	3,322	9,700
2008	54,800	7,080	38,800
2009	173,600	6,809	118,200
2010	106,400	6,053	64,400
2011	46,900	6,461	30,300
2012	49,320	6,281	30,980
2013	54,070	5,580	30,170
2014	96,300	8,249	79,440

Black Sea Mustard Seed Production

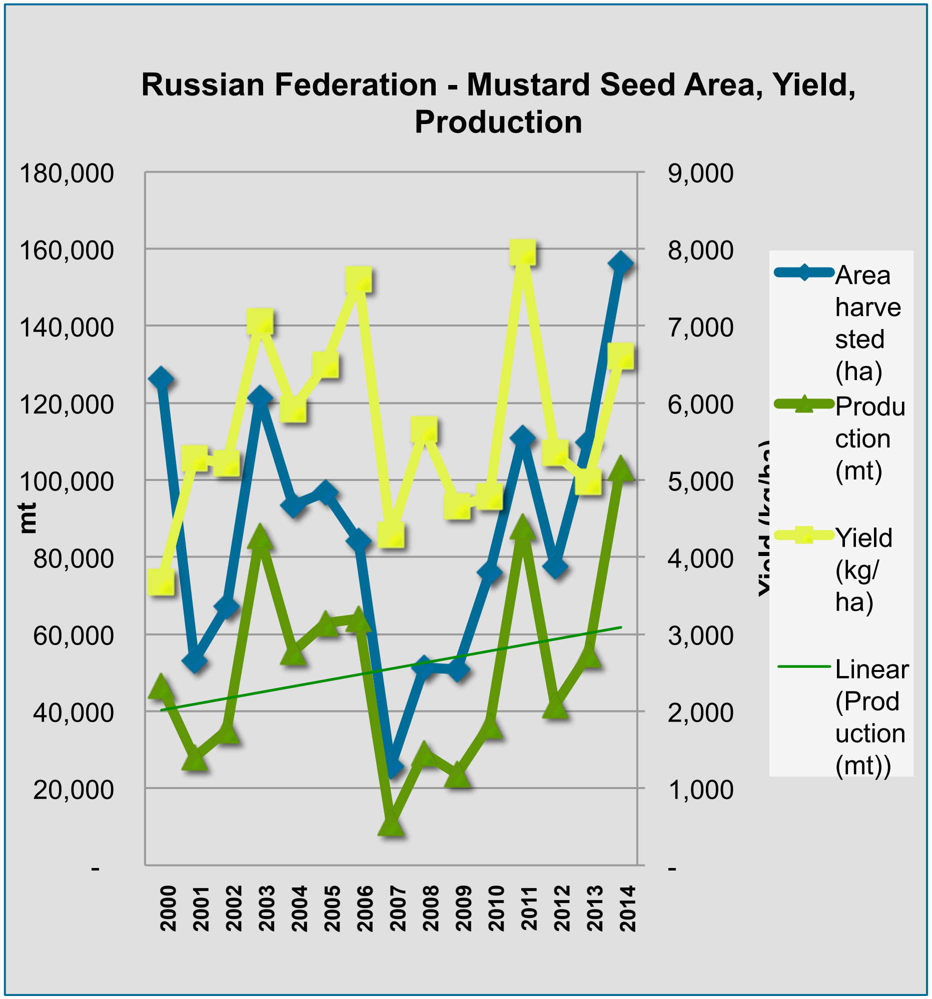
Russian prod'n

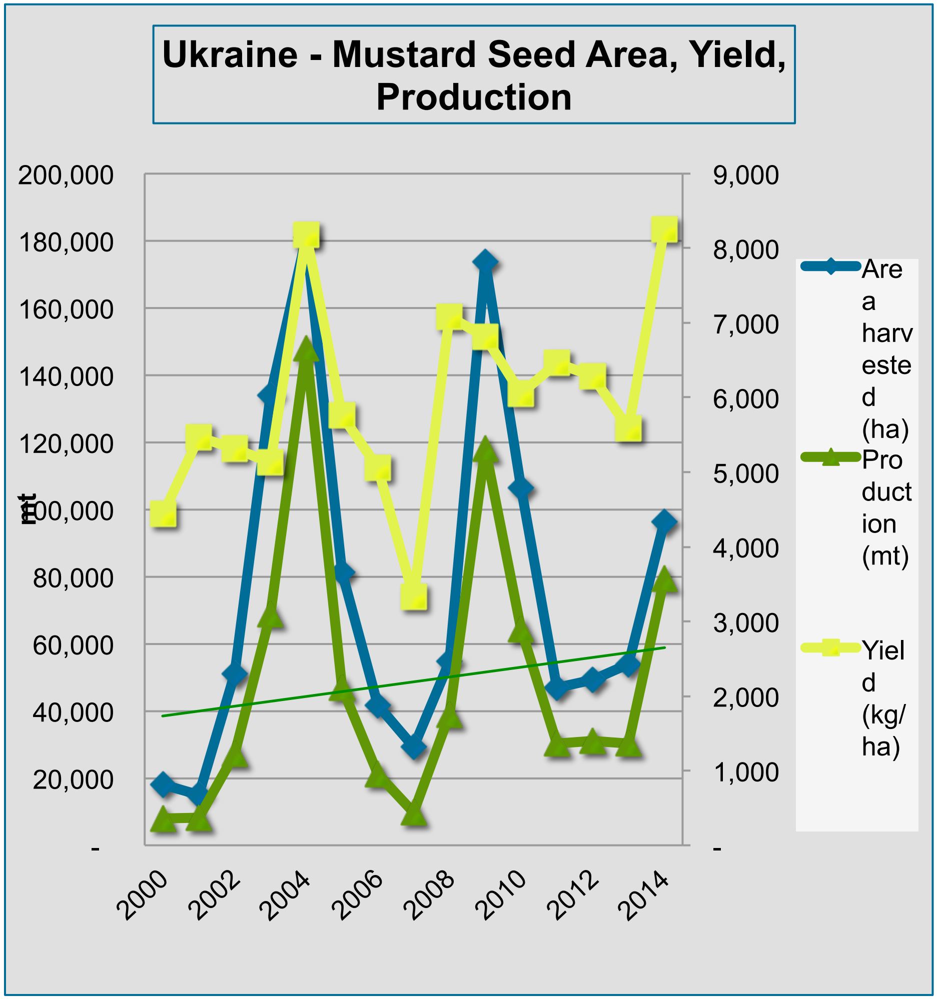


Ukraine prod'n



Russia & Ukraine



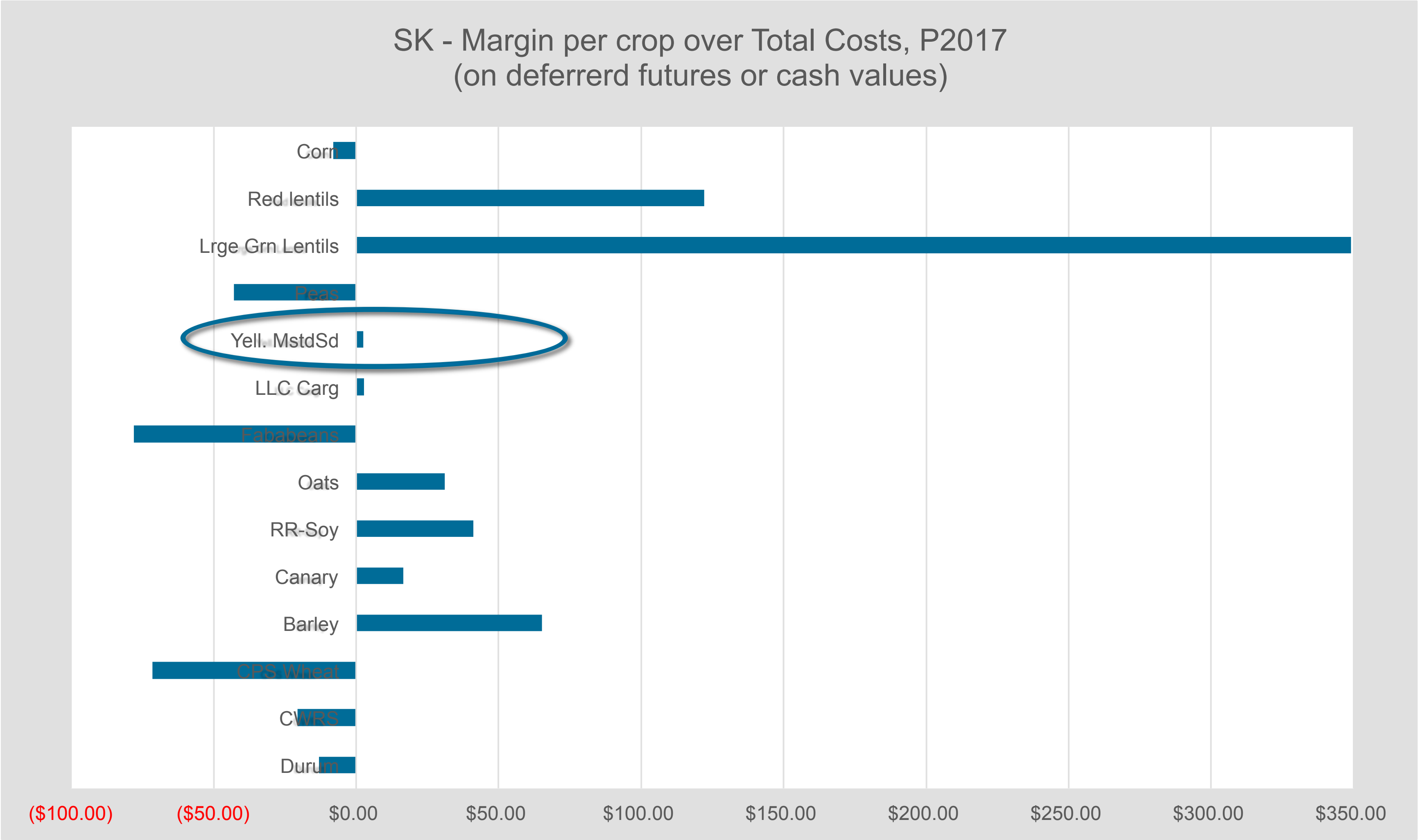


What about next year?

Producer's considerations

- Carryout: up ~60k mt
- Yields lagging other commodities
- 2017 crop contract prices; lower than last year:
  - Yellow: $35/cwt fob farm Sept-July
  - Brown: $32/cwt fob farm Sept-July
  - Oriental: $32/cwt fob farm Sept-July
- Return per acre calculations/ ranking

Thoughts re. Return per acre 2017



L.T consideration for buyers

- There is considerable risk to growers to maintain quality & prevent contamination
  - As canola acres have increased to 18-19 million acres, risk of contamination has increased
  - As acres are lost to profitable pulses (lentils, peas), hard to recover this acreage for mustard seed
- Incentive for users of mustard seed to keep acreage for mustard seed production attractive to farmers farmers for longer term
  - Attractive one or multi-year contract options

Relative size mustard seed prod'n & market

Special Crops Availability and Export Dispostion Summary

Crop (MT)	2014/15			2015/16			F2016/17		
	Supply	Exports	Ending Stocks	Supply	Exports	Ending Stocks	Supply	Exports	Ending Stocks
Lentils	2,711,000	2,143,000	318,000	2,755,000	2,250,000	144,000	3,090,000	2,200,000	510,000
Peas	3,924,000	3,100,000	399,000	3,872,000	2,800,000	322,000	5,072,000	3,500,000	872,000
Chickpeas	269,372	80,068	125,304	229,304	149,000	3,960	95,784	33,000	2,784
Ed. Beans	368,000	307,000	35,000	364,000	315,000	20,000	355,000	310,000	20,000
Mustard Seed	208,000	126,000	34,000	160,000	115,000	5,000	279,000	125,000	95,000
Canaryseed	193,000	165,000	20,000	176,000	156,000	24,000	167,000	145,000	20,000
Total Exports		5,921,068			5,785,000			6,313,000	
% mstd sd.		2.1%			2.0%			2.0%	

2017/'18 Balance Sheet

- 23% decline in **acres**
  - Higher ending stocks/ on farm inventory
  - Lower Ct prices
- **Production** down 37%
  - Lower yields
- But: **Supply** only down 9%
  - Due high C/I
- Steady **exports**
- **Ending stocks**: down 21% from last year
- But **stock-use rat**io still almost 44%!
  - Because demand not increasing

→ **Modest price increases**; not a very exciting mkt.

Canadian Mustardseed Balance Sheet	2013/14	2014/15	2015/16	F2016/17	P2017/'18	
Area Seeded ('000 ac.)	366	499	346	524	350	66.8%
Area Harvested	361	482	329	497	343	
Yield (bu/aca)	21.98	18.02	16.59	20.70	19.00	
Production ('000 mt)	180	197	124	233	148	63.3%
Imports	2	1	2	2	2	
Total Supply	240	255	205	270	245	90.7%
Exports	138	126	115	125	120	
Total Domestic Use	45	50	55	50	50	
Carry-out Stocks	57	79	35	95	75	78.7%
Stock-Use Ratio	5.5%	19.5%	20.3%	54.2%	43.9%	

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Sales/ CT considerations growers

Price

- Do not aim to hit **top price;** deliberate **ROI**, not price
- Importance of covering **cash flow** well ahead of time: > reduces prod'n risk

Contracts

- Consider selling **volume** vs. percent expected production
- **Overproduction**: Try for option to sell to CT holder at '*competitive market price*' (not first right of refusal)
- **Carrying charges**: Try to incl. in CT terms
- **Timing**: While contracting Co. is eager for more volume, that is the time to fix: volume (vs. %), overproduction option/terms, carrying charges

New crop marketing

- If strong new crop prices, shows that good demand is anticipated into next summer and fall; or vice versa.
- Company perspective: Push contract acres by offering good prices for only the first 30% of the production. This creates a good surplus to be bought by the Co's at potentially better prices later.
- Farmers' perspective: Sell enough tonnage per acre to cover the COP!
  - Sell *a specific tonnage as opposed to lbs/ acre and then cover some of the production risk via crop insurance or other risk insurance*.
  - The more acres are being seeded, the bigger the potential price drop could be in the spring

Mustard Buyers List

1309497 AB Ltd O/A W A Grain & Pulse Solutions
PO Box 6345
Innisfail AB T4G 1T1
Tel: 204-582-2774
Fax: 306-582-2766

Agricom International Inc
213-828 Harbourside Drive
North Vancouver BC V7P 3R9
Tel: 604-983-6922
Fax: 604-983-6923

All Commodities (AC) Trading Ltd
1600 Two Mile Road
Winnipeg MB R2N 4K1
Tel: 204-339-8001
Fax: 204-339-8002

Alliance Pulse Processors Inc O/A A G T Foods
6200 E Primrose Green Dr
Regina SK S7V 3L7
Tel: 306-525-4490
Fax: 306-525-4463

Besco Grain Ltd
PO Box 1390
Carman MB R0G 0J0
Tel: 204-736-3570

Broadgrain Commodities Inc
900 - 18 King St E
Toronto ON M5C 1C4
Tel: 416-504-0070
Fax: 416-504-0080

Canadian Exotic Grains Ltd
PO Box 444
Eston SK S0L 1A0
Tel: 306-962-4751
Fax: 306-962-3251

Diefenbaker Seed Processors Ltd
PO Box 69
Elbow SK S0H 1J0
Tel: 306-644-4704
Fax: 306-644-4706

Farmer Direct Co-Operative Ltd
1024 Winnipeg St
Regina SK S4R 8P8
Tel: 306-352-2444
Fax: 306-352-2444

Grain Millers Inc
301 - 10400 Viking Drive
Eden Prairie MN 55344
Tel: 952-983-1289
Fax: 952-983-1339

Ilta Grain Inc
8427 160th St
Surrey BC V4N 0V6
Tel: 604-597-5060
Fax: 604-597-4933

Montana Specialty Mills L L C
701 2nd St S
Great Falls MT 59403
Tel: 406-761-2338
Fax: 406-761-2338

Mountain States Oilseeds
PO Box 428
American Falls ID 83211 0428
Tel: 208-226-2041
208-226-9916

Olds Products Company of Il
10700 88th Ave
Pleasant Prairie WI 53405
Tel: 800-233-8064
Fax: 262-947-3517

Paterson GlobalFoods Inc
22nd Floor 333 Main St
Winnipeg MB R3C 4E2
Tel: 204-956-2090
Fax: 204-947-2386

S S Johnston Seeds Ltd
Box 3000
Arborg MB R0C 0A0
Tel: 204-376-5228
Fax: 204-376-2201

Sakai Spice (Canada) Corp
4201 2nd Ave N
Lethbridge AB T1H 0C8
Tel: 403-320-9445
Fax: 403-320-9446

Schluter & Maack G M B H
PO Box 408
Pilot Butte SK S0G 3Z0
Tel: 306-771-4987
Fax: 306-771-4980

Seaboard Specialty Grains & Foods
201-2595 Quance St E
Regina SK S4V 2Y8
Tel: 306-565-3911
Fax: 306-565-3912

Sunrise Foods International Inc
200-306 Queen St
Saskatoon SK S7K 0W2
Tel: 306-931-4576
Fax: 306-931-6770

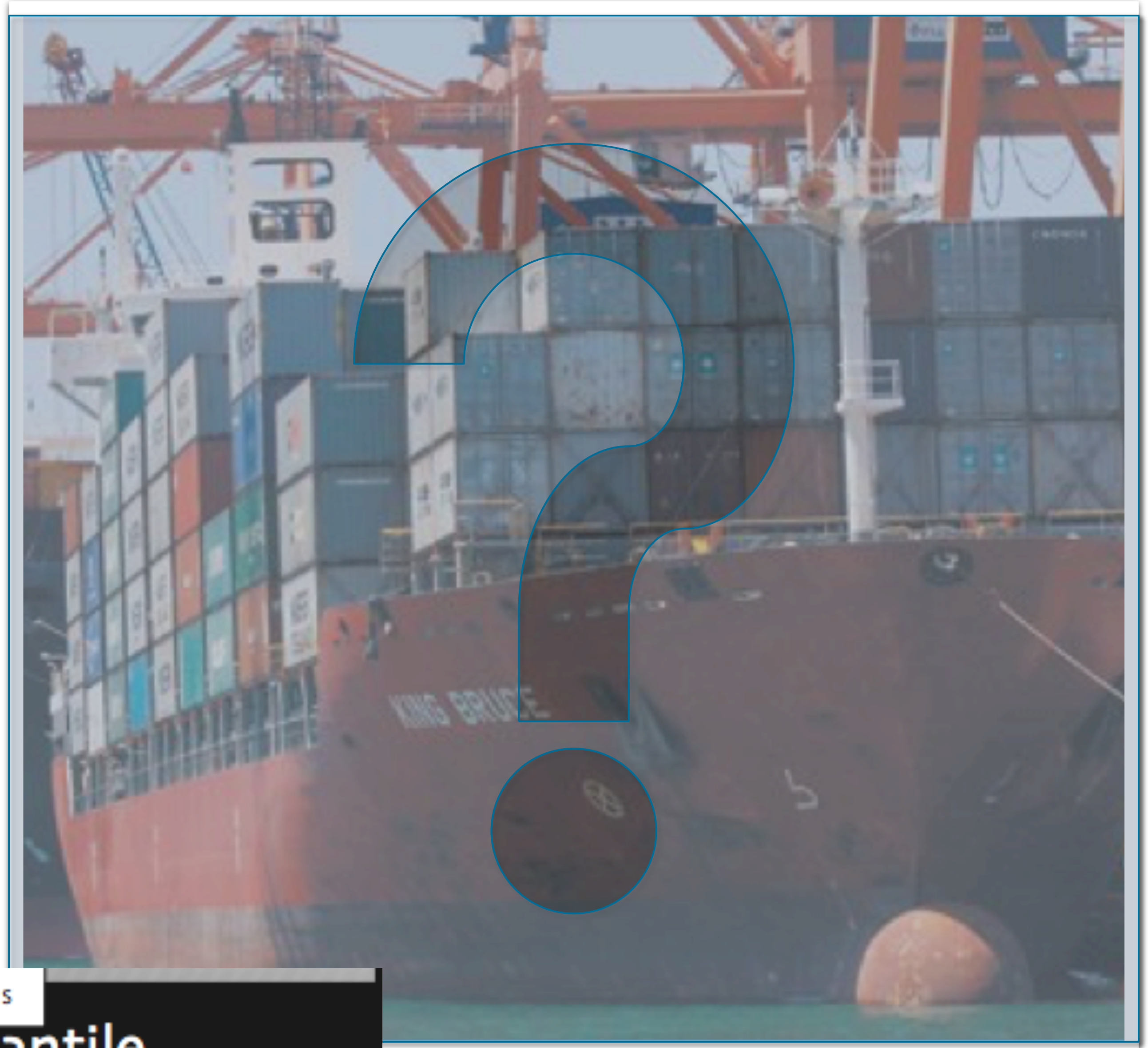
Victoria Pulse Trading Corp
600-850 West Hastings St
Vancouver BC V6C 1E1
Tel: 604-733-1094
Fax: 604-733-1097

Viterra Inc
2625 Victoria Ave
Regina SK S4T 7T9
Tel: 403-382-3418
Fax: 866-382-2243

Westland Agro Ltd
PO Box 551
Gravelbourg SK S0H 1X0
Tel: 306-648-3273
Fax: 306-648-3611

To check whether a buyer is licenced and bonded by the Canadian Grain Commission, go to www.grainscanada.gc.ca.

Questions?



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