

The Keystone Report

December 1, 2003

Maximize Profits by Managing Market Risks

Export Sales Reports Confirming Strengthening Demand Base

The most recent Canadian and U.S. export sales data confirm the strengthening demand base in grains and oilseeds markets.

On the U.S. side of the border recent data indicates wheat export sales are up 24% from year ago levels, with corn and soybean sales up 25% and 24% respectively.

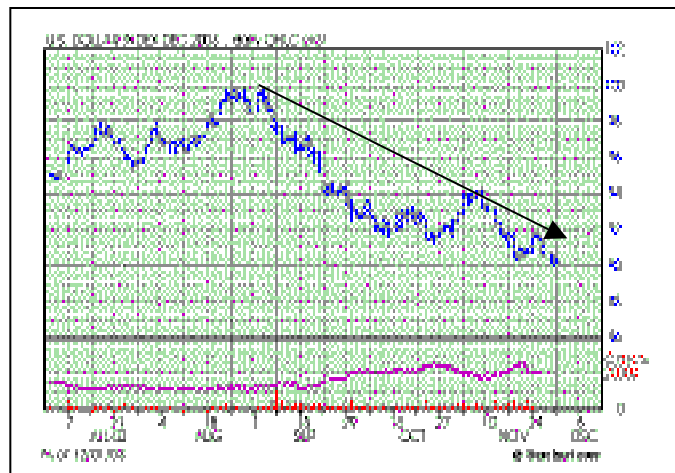
U.S. Export Sales report for the week ended Nov 20/2003

	wk's net change in commitments		total commitments		undlvd sales	
	this year	next year	this yr	last yr	this yr	next yr
wheat	1095.1	0.0	18294.5	15357.0	5050.0	41.0
corn	917.1	0.0	19217.8	15441.0	10243.0	0.0
soybeans	714.1	0.0	17884.8	14185.5	10419.5	180.0
soymeal	74.8	0.0	2679.0	2426.4	2058.4	5.3
soyoil	13.0	0.0	138.9	212.7	101.3	4.4
upld cott	527.0	20.5	7207.8	5254.9	5148.4	268.2
sorghum	156.5	0.0	2790.8	2203.9	1537.9	0.0
barley	5.9	0.0	483.5	279.6	271.7	0.0
rice	73.0	0.0	1626.1	1756.6	711.2	0.0

The latest report from the Canadian Grain Commission (CGC) summarized weekly product movement through licensed primary and terminal facilities for the week ending November 23.

Export clearances of all grains and oilseeds shipped from Canada total 7,449,300 metric tons (MT) so far this marketing year up 3,165,900 MT from the 4,283,400 moved last year. While the dramatic increase in export sales can be somewhat attributed to a larger supply of marketable product, shifting economic fundamentals have had much to do with

trade performance. In particular shrinking global grain reserves and a steep decline in the U.S. dollar have improved demand and the prospects for higher grain prices as we move into 2004.



Canadian grain exports so far during the 2003-04 season total 3,390,600 MT wheat up 1,444,900 from 1,945,700 MT last year and 1,432,500 MT durum up 372,000 from 1,060,500 MT last year.

Coarse grain export clearances so far this season total 509,900 MT oats up 212,900 from 297,000 MT last year; 259,200 MT barley up 115,400 from 143,800 MT last year and 273,300 MT peas up 240,700 from 32,600 MT last year

Oilseed exports now total 1,419,600 MT canola up 833,500 from 586,100 MT last year while flaxseed exports at 161,100 MT are down 40,500 from 201,600 MT last year.

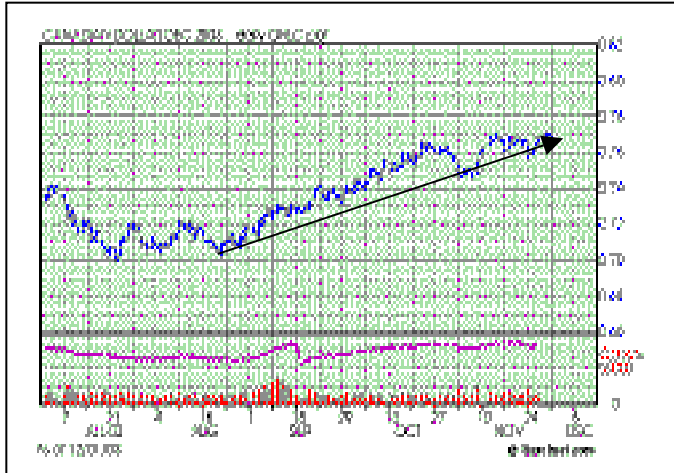
So far this year domestic buyers have taken 1,162,900 MT wheat up 292,600 from 870,300 MT last year; 167,300 MT durum up 94,100 from

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73,200 MT last year; and 164,800 MT oats down 72,400 from 237,200 MT last year.

Other grains sales to domestic buyers include 53,700 MT barley; 400 MT flax; and 200 MT corn. Domestic purchases for the 2003-03 marketing year now total: 803,600 MT barley up 54,200 from 749,400 MT last year; 18,600 MT flax up 14,100 from 4,500 MT last year; and 17,800 MT corn down 35,100 from 52,900 MT last year.



In addition, Statistics Canada indicates exports to the United States: 275 600 (218 600) MT of Oats, 40 500 (32 000) MT of Flaxseed, 49 600 (22 400) MT of Canola, and 261 300 (178 100) MT of Corn between August 2002 and June 2003.

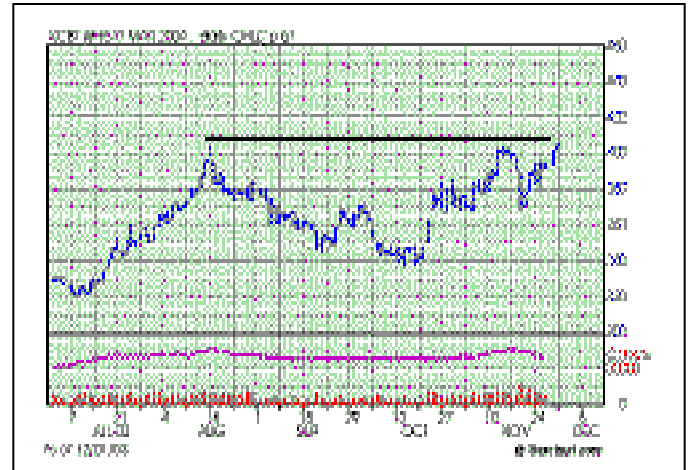
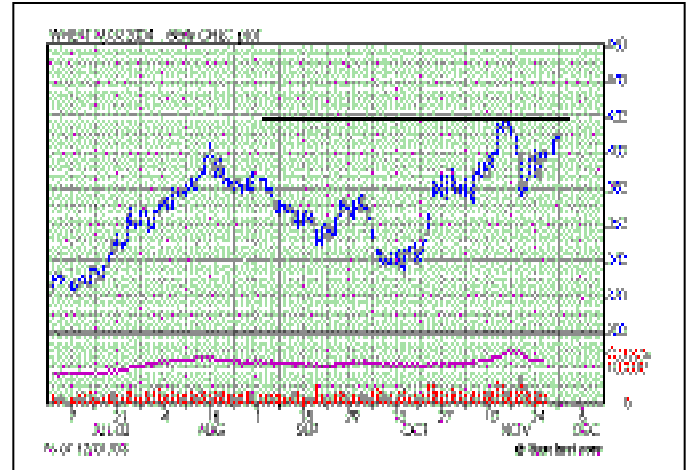
Year ago figures are shown in brackets.

The above figures would refute the argument that the strong Canadian dollar has had a negative impact on the Canadian grain economy. While the conversion rate from U.S. funds to Canadian has had a negative impact on U.S. dollar returns, the strong pace of sales resulting from an improved North American competitive position on world markets has provided a significantly improved demand base which will benefit the entire grains and oilseeds industry.

Wheat Markets

U.S. wheat futures markets are poised to challenge this year's market highs with continued strong

export sales pace and European wheat markets establishing new contract highs.



Wheat futures on the London International Financial Futures and Options Exchange ended

sharply higher and French wheat futures on the Matif were firmer as well, with nearby Liffe wheat futures establishing a new contract high on lower production forecasts for wheat in England. U.K.'s Department of the Environment, Food and Rural Affairs revised England's wheat planting figures down to 8% below last year compared to the 4.2% reported previously.

Other bullish news for the wheat markets included new estimates for Argentina's 2003-04 wheat crop, U.S. soft red winter wheat stocks and the International Grains Council estimates that this season's world wheat production will end up lower than initially expected, contributing to tighter ending stocks than first thought.

At 11.89 million metric tons, according to the Buenos Aires Cereals Exchange, the Argentine wheat crop is below the current U.S. Department of Agriculture estimate of 13.0 million tons. The IGC estimates world wheat production in 2003 at 552 million metric tons (MT), down 4 million from last month's estimate and 15 million MT below 2002. This compares to the USDA's most recent estimate of world wheat production at 549 million metric tonnes.

IGC World Wheat Estimates
(million metric tonnes)

	00-01	01-02	02-03	03-04 Forecast
Production	582	582	567	552
Trade	102	107	104	96
Consumption	584	586	601	586
Stocks	201	197	163	129
% Change	-2	-4	-34	-34
5 Major Exporters	53	49	39	39

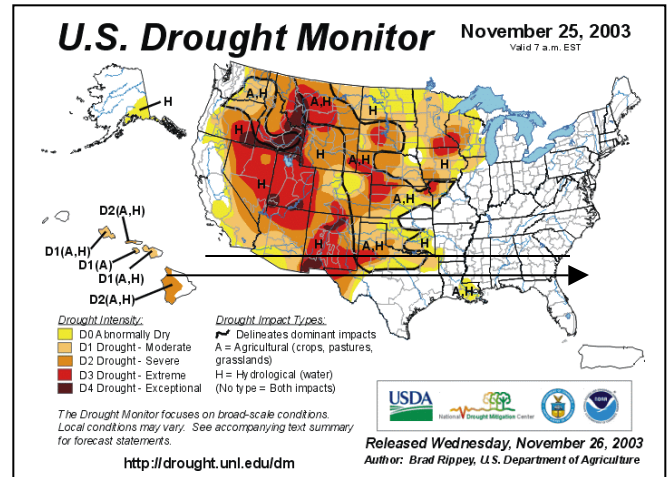
* 5 Major Exporters: Argentina, Australia, Canada, EC, United States

The world trade forecast remains at 96 million MT, compared with 104 million MT in 2002-03. After very poor crops, many countries in central and

eastern Europe are expected to import more wheat than usual while Ukraine's imports are now put at 3.5 million MT as compared to last year's export program of 6.6 million tonnes.

Because of very tight supplies, 1.5 million MT reduces the EU export forecast to 8.5 million MT, little more than half last year's levels.

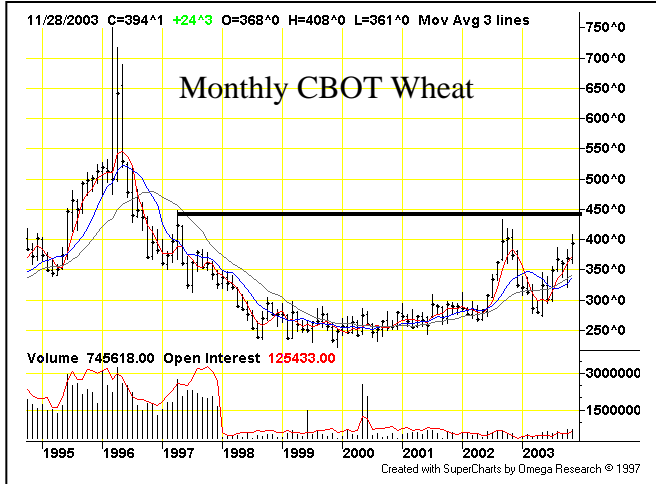
Stocks of Soft Red Winter wheat in the US are projected at only 800,000 MT, the lowest since 1979. Winter wheat plantings in the US are estimated 2% greater than last year, but more rain is needed, especially in the west, to maintain crop conditions.



The Canadian Wheat Board boosted projected returns for durum and feed barley, while leaving wheat unchanged in its latest Pool Return Outlook. Discussing the latest numbers, the CWB said world wheat prices continue to move higher in response to strong U.S. export sales and tight wheat and feed grain supplies in Europe and the former Soviet Union. However, strong competition from Australia, relatively weak import demand in North Africa and the Middle East, and record/near record ocean freight rates are expected to keep pressure on this market.

The current trend in international wheat prices would appear to run counter to this assessment with new contract highs appearing imminent prior to the New Year. A review of the longer term monthly price charts indicates the \$4.50 price level as the

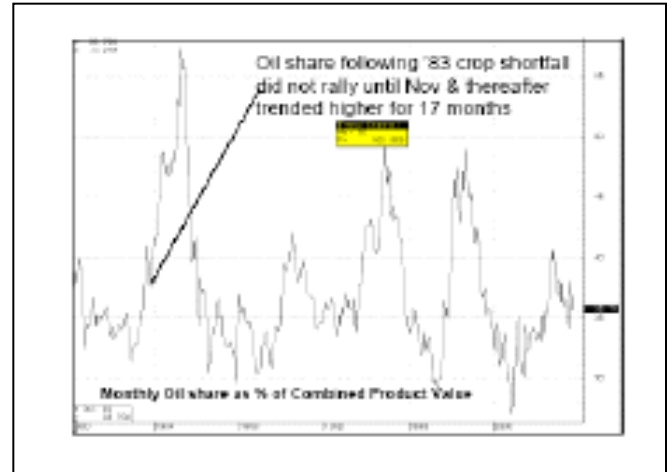
next significant upside price target on the CBOT soft red winter wheat market, with the \$5.00 per bushel price level a significant near term target for Minneapolis Spring Wheat.



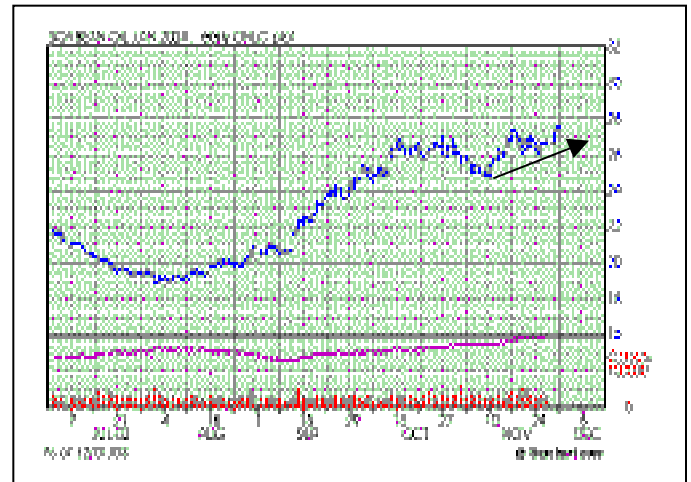
Oilseeds

Chicago Board of Trade soyoil futures have assumed price leadership in the oilseed complex, scoring new contract highs amid concerns over tight edible oil supplies. The move higher is consistent with seasonal trends, which suggest soybean oil will gain a greater percentage of the oilseed crush moving into the early winter. This will provide Canadian canola producers with a firm base of price support prior to the onset of the Brazilian soybean harvest this spring.

The following graphic illustrates historical monthly oil share of the crush dating to the 1983 soybean short crop, which is similar to the current marketing year.



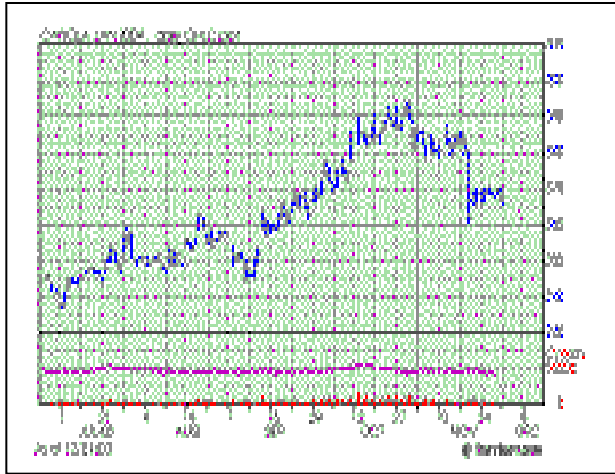
The graphic indicates that the monthly oil share as a % of combined meal and oil product value commenced a strong 17-month upward price rally in November of that year.



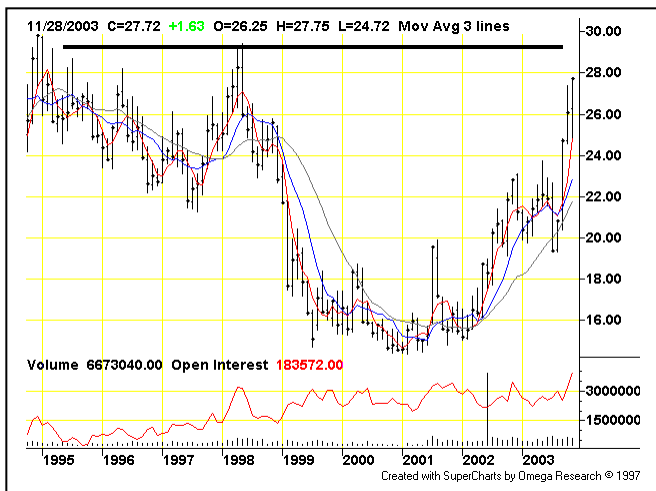
Current soybean oil futures prices are demonstrating a similar pattern, with the most recent advance into new contract highs beginning on November 10.

Since late August nearby canola futures have appreciated approximately \$24.00 per metric tonne while soyoil futures have gained 7 cents per lb. which is the equivalent of \$80/metric tonne Canadian seed equivalent in \$Canadian currency.

While the strong upward price trend in soybean oil futures prices would suggest improved canola prices, it is the writer's belief that foreign exchange rate movements in the U.S. dollar vs. its Canadian counterpart will favour the soyoil market in future price potential.



The near term outlook would suggest further strengthening in edible oil futures with a 29-30 cent upside price target.



Soybean futures prices have recently declined on speculation that Chinese purchases will subside after an extremely fast pace early in the marketing year. Trade tensions with the U.S. are beginning to mount after China delayed until further notice a much-anticipated trade mission to the U.S., which was expected to result in substantial sales of U.S. soybeans (the No. 1 U.S. market for soybean

exports), wheat and other commodities, prior to the U.S. Thanksgiving long weekend. The cancellation is in response to U.S. demands for China to remove its currency peg to the U.S. dollar in order to stimulate U.S. export sales to that country and correct a widening trade deficit.

The U.S. is currently facing a trade deficit with China that could reach a record \$130 billion this year. U.S. Treasury Secretary John Snow has stopped short of charging China with outright currency manipulation, but he has repeatedly argued the exchange rate, which was remained essentially stable around 8.3 to the U.S. dollar since 1994 hasn't kept pace with the country's fast growth and accumulation of investment. The Bush administration has moved to impose some retaliatory tariffs on Chinese goods.

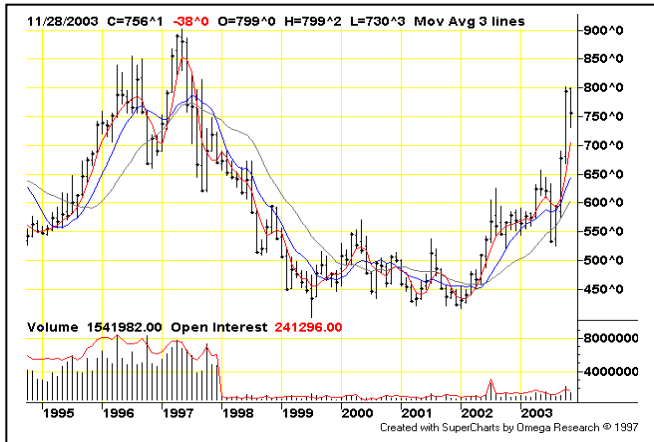
China's intake of foreign currency is expected to soar this year by \$133.5 billion to \$427.7 billion and that much of the money is seen coming from currency speculators. Investing money in China is viewed as a good "two-way bet," where some interest rates are higher than in the U.S. and where Chinese yuan currency holders hope to benefit from a revaluation (strengthening of the yuan)

The large inflow of foreign capital and weakening U.S. dollar would allow for increased purchases of North American commodities by Chinese importers. Chinese soybean imports are currently projected at 20.0 MMT by the USDA for the 2003/04 marketing year vs. 10.38 MMT 2001/02 up 192% over the past two years. Private trade estimates indicate this figure to grow to 24 million metric tonnes on the basis of the current export pace which is 79 % of the marketing year's total projection of 23.68 million tonnes.

It would appear that further price rationing will be required to slow the pace of U.S. soybean exports prior to the onset of South American supplies in the April/May 2004 time period.

The immediate upside price target would be a re-test of the \$8.00 per bushel seasonal high

established on November 3, 2003, with the \$9.00 per bushel level last visited in May of 1997 achievable should Chinese imports continue at the current strong pace and/or indications of lower than expected South American 2004 soybean production.



Farm Profitability

Data from the Census of Population showed that the proportion of Canada's population in 2001 who were immigrants had reached 18.4%, its highest level in 70 years. Such was not the case within the nation's farm population. As a result of most of the recent waves of immigrants settling in large cities, during the past 30 years immigrants have accounted for a progressively smaller share of a farm population that is itself in decline.

The 2001 Census of Agriculture enumerated 346,200 farm operators, of which 9.4%, or 32,460, were immigrants. Nearly 8 out of 10 (77%) of these immigrant farm operators were born in Europe, while 7% were born in Asia. The farm population itself in 2001 was about half the level of nearly 1.6 million people in 1971.

In 1995, farm families received \$59,614 in average total income, just slightly above the average of \$59,515 received by all families in the general population. By 2000, the average income for families in the general population had reached \$66,263, about \$2,000 higher than the average of \$64,160 for farm families.

Average family income was highest for lifestyle farms, defined as small farms managed by families with off-farm income greater than \$50,000. In 2000, families on these farms had an average income of \$93,177. However, net farm income accounted for only 2% of this total.

Average operating revenues per farm increased 7.0% in 2002 from 2001 to \$202,389, according to taxation records. In the same period, average-operating expenses went up 7.0% to \$172,506. Operating margins rose 0.1 cents to 14.8 cents per dollar of revenue

Grain and oilseed farms had the highest average operating margins, at 23.9 cents per dollar of revenue, up 1.1 cents from 2001. Dairy farms ranked second at 23.6 cents, down 0.6 cents from 2001. These were the only two farms types with average operating margins above 20 cents per dollar

Average operating revenues and expenses per farm and operating margins 2002 (preliminary estimates)

	Average operating revenues	Average operating expenses	Operating margins ¹
	Dollars	Dollars	Cents
All farms	202,389	172,506	14.8
Poultry and eggs	751,595	663,151	11.8
Greenhouse, nursery and floriculture	725,370	669,689	7.7
Hogs and pigs	717,610	669,771	6.7
Potato	674,618	543,991	19.4
Other vegetable and melons	312,777	263,921	15.6
Dairy and milk production	295,786	226,097	23.6
Beef cattle and feedlots	186,243	170,124	8.7
Fruit and tree nut	146,334	125,946	13.9
Grain and oilseed	131,257	99,866	23.9
Other animal	102,770	96,945	5.7
Other crop	100,549	80,970	19.5

¹ Defined as one dollar less operating expenses (before depreciation) per dollar of revenue.

of revenue.

Source: Statistics Canada

On a sales-class basis, farms with operating revenues of between \$100,000 and \$249,999 had the highest operating margins, estimated at 21.3 cents, a decrease of 0.3 cents from 2001. Farms with sales of \$500,000 and over accounted for 2.9% of farming sales in 2002, according to taxation records.