Where Do We Go From Here?

TRANS-PACIFIC PARTNERSHIP

TPP: NAFTA ON STEROIDS

CANADA
UNITED STATES OF AMERICA
JAPAN
SINGAPORE
BRUNEI
PERU
MALAYSIA
AUSTRALIA
NEW ZEALAND
Agenda

• Global Economic Outlook – Effects on Agriculture
  – Impact of China
  – Us & Canadian Economy
  – Oil & Gas
  – Carbon Tax
Impact of Global Economics on Markets
Commodity Markets

Graph 1: Commodity prices are cyclical and move in unison
Commodities by category, data 1795 to 2015, 10-year moving average

Source: Stifel Nicolaus & Co, Stifel Nicolaus format, data Historical Statistics of the United States, a U.S Census publication, EIA, USDA. 2008E data point incorporated into the last 10-year moving average was March 2008 over March 2007.
Canola

RS - Canola - Monthly Nearest OHLC Chart

Open: $14.40, High: $34.00, Low: $497.30, Close: $519.60

Vol: 7,690 Open interest: 95,712
2. Headline Inflation (Dashed lines are 6- to 10-year inflation expectations)

3. Commodity Prices (Index, 2005 = 100)
Global Economic Outlook

• U.S. election results
  – Increased protectionism could effect export oriented economies such as emerging markets.
  – Increasing US dollar could effect US exports

• Uncertainties from Brexit will increase risk to the global economy.
  – Immigration of Migrants & Refugees

• China moving from manufacturing economy to consumer based economy.
Global Economic Outlook

- 2013: 3.3
- 2014: 3.4
- 2015: 3.1
- 2016: 3.6
- 2017 (P): 3.8

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GDP BY County 2016 – 2017 (P)

Source: IMF & MCG
Global Trade Growth

Year-on-year growth in volume of global goods trade (%)

Very Low Global Growth

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Impact of China
China: Agricultural Output

- China produces over 20% of the world’s cereal grains, 25% of the world’s meat, and 50% of the world’s vegetables.
- China is the world’s largest agricultural economy, and it ranks as the top global producer of pork, wheat, rice, tea, cotton, tomatoes, potatoes, eggs, wool, apples, walnuts, and fish, etc.
- In fact, the annual value of China’s agricultural output is about two and one-half times the U.S. total.
China: Agricultural Output

• China was the fourth largest exporter and second largest importer of agricultural

• Its import growth has been driven by a shift in its domestic production mix, and changing consumer diets with rising incomes and urbanization.
China: Agricultural Imports

• Today cotton and soybeans account for over 40% of China’s agricultural imports, a very concentrated portfolio.

• China is the world’s largest importer of soybeans and cotton, accounting for over 60% of global soybean imports and approximately 40% of cotton imports.

• China’s agricultural exports have increased by more than 12% annually.

• Import growth has averaged 19% per annum, while total agricultural trade has grown by more than 16% per annum from 2002 to 2011.

• These are truly impressive annual growth rates.
China: GDP & Trade Growth

(percentage change, year –over –year)

Expansion of Import & Export Volume & boosted commodity prices

Rebalancing & Transitioning to a more Consumer Based Economy

Source: IMF staff calculations.
China: Global Clout & Rebalancing
Second Largest Economy in the World

China’s Share of Global GDP & Imports

Since 2000 - GDP has Averaged 9.6%
Global trade: Wheat, coarse grains, and soybeans and soybean products

Million metric tons

Soybeans and soybean products

Impact of China

Relatively Flat

Wheat

Coarse grains

1 Total of soybeans, soybean meal, and soybean oil.

Source: USDA & Magnusson Consulting Group
U.S. farm-level prices: Corn, wheat, and soybeans

Dollars per bushel

Source: USDA & Magnusson Consulting Group
Nominal U.S. livestock prices

Dollars per hundredweight

Source: USDA & Magnusson Consulting Group
Figure 1. U.S. Soybean Exports

Source: USDA, FGIS & FAS
*Marketing year to date (March 19, 2015)
Canadian Canola Exports

• China is the biggest market for Canadian canola seed, taking 45 per cent of seed exports in 2014-15 and 39 per cent in 2015-16.

• China is 2nd largest (20%) market for canola Oil.

• The U.S. is the biggest market for Canadian canola oil, taking 67 per cent in 2014-15 and 64 per cent in 2015-16.

• The U.S. also takes most of our canola meal, importing 95 per cent in 2014-15 and 89 per cent in 2015-16.

Source: Stats Can
United states
1 in 3 exports to Canada or Mexico
U.S. Canada Agriculture and Agri-Food Trade = $47B

• Exports to Canada $25 Billion
  – Top 5 U.S. Exports to Canada
    • Fruits and Nuts $3.5B
    • Vegetables $2.7B
    • Prepared Vegetables, Fruit and Nuts $1.9B
    • Meat $1.6B
    • Beverages $1.0B

• Imports from Canada $22 Billion
  – Top 5 U.S. Imports from Canada
    • Meat $2.4B
    • Animal Feed $1.7B
    • Baked Goods, Pasta, Mixes, Doughs $1.6B
    • Vegetables $1.5B
    • Cereal Grains $1.4B
U.S. Economy Outlook

• New Republican President - Donald Trump
  – Uncharted Waters
  – Protectionism
  – Lower Taxes

• Growth 2 - 3%

• Inflation is contained
  – Strong dollar
  – Unfavourable demographics
US GDP

3rd Quarter of 2016

SOURCE: WWW.TRADINGECONOMICS.COM | U.S. BUREAU OF ECONOMIC ANALYSIS

Magnusson Consulting Group
Canadian Economy Outlook

• U.S. election result:
  – Energy & Keystone Pipeline (Keystone may be announced with first 30 days – announced Jan 24, 2017)
  – TPP
  – NAFTA
  – Cattle/Hogs/Dairy

• Canada’s GDP to grow 2.1% in 2017 and 2.3% in 2018

• Impact of Carbon Tax

• But we acknowledge downside risks to those forecasts should U.S.-Canada trade relations or the global economy take a turn for the worse.

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CDN/US Exchange Rate and WTI Price

Source: EIA, Bank of Canada
Canada: Household Debt to Disposable Income
Saskatchewan
Annual % change in farmland values

2006  2.1%
2007  11.0%
2008  14.9%
2009  6.9%
2010  5.7%
2011  22.9%
2012  19.7%
2013  28.5%
2014  18.7%
2015  9.4%

2016 – 6.2%
World Potash Demand

Source: PotashCorp & Magnusson Consulting Group
KCI (Spot)
US$/MT STD Grade

Source: Fertecon, Green Markets
Ammonia (Spot)

US$/MT

Source: Fertecon, Green Markets
Urea (Spot)

US$/MT

- FOB NOLA Barge $/ST
- FOB Middle East (prills)
- FOB Yuzhnyy (prills)
Oil
Global Oil Demand
2016/2017 mbd

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Source: IEA
If OPEC & Non OPEC Producers Do Not Cheat

Note: For scenario purposes only, IEA assumes OPEC/non-OPEC output cuts implemented as announced.
OPEC - Production Cuts are to be reviewed at the next OPEC ministerial meeting at the end of May.

Once production cuts are factored into global supply, additional production will limit upside price movement.
Carbon Tax

• Under the Paris climate change accord Canada will cut its greenhouse gas emissions by 30 per cent from 2005 levels by 2030.

• To meet Canada’s target Prime Minister Justin Trudeau announced Oct. 3 a $10-a-tonne floor price on carbon emissions starting in 2018, increasing annually by $10 a tonne to $50 in 2022.

• Each province must implement its own pricing system or the federal government will do it for them.

• Provinces can craft a cap-and-trade system or put a direct price on carbon pollution — but it must meet the federal benchmark or "floor price."
Total World Greenhouse Gas Emissions: 2012

- China: 24%
- United States: 14%
- EU-28: 10%
- India: 7%
- Rest of World: 25%
- Russia Federation: 5%
- Japan: 3%
- Brazil: 2%
- Mexico: 2%
- Indonesia: 2%
- South Korea: 1%
- Australia: 1%
- Canada: 2%

Sources: World Resources Institute 2015, CAIT database

Climate Change
Ministry of Environment
Provincial and Territorial GHG Emissions & Targets

GHG Emissions (Mt CO₂ equivalent)

2.5% per year (starting in 2018)

CDN Total
2005 747
2014 732
2030 Target 523

Magnusson Consulting Group
Canada's Emissions Breakdown by Economic Sector (2014)

- Oil and Gas - 192 Mt CO2, 26.23%
- Transportation - 171 Mt CO2, 23.36%
- Buildings - 87 Mt CO2, 11.89%
- Agriculture - 73 Mt CO2, 9.97%
- Emissions-Intensive and Trade-Exposed Industries - 76 Mt CO2, 10.38%
- Electricity - 78 Mt CO2, 10.66%
- Waste & Others - 76 Mt CO2, 10.38%
Saskatchewan's GHG Emissions Breakdown by Economic Sector (2014)

- Agriculture: 22%
- Oil and Gas: 34%
- Transportation: 14%
- Electricity: 19%
- Buildings: 4%
- Mining & Manufacturing: 4%
- Waste & Others: 3%

Sask Total (2014) = 75.5 Mt CO2e

Sources: Canada NIR 1990-2014, 2016
Effect of Federal Carbon Price Policy

• Saskatchewan had 75.5 million tonnes of greenhouse gases in 2014
  – 70% taxed at $50 per tonne totals $2.6 billion/year

• $50/tonne carbon tax means:
  – $0.09 per cubic metre of natural gas
  – $0.03 per kilowatt hour of electricity
  – $0.12 per liter of gasoline
  – $0.13 per liter of diesel fuel
  – cost to average family of $1,250/year
    • Electricity – lighting and appliances - $285/year
    • Natural Gas – space and water heating - $365/year
    • Transportation – family vehicles - $600/year
  – cost to a grain farmer of $10 to $12 an acre
Impacts on Industry

• Differing impacts on Canadian industries & provinces.
• Significant impact on the energy-intensive sectors, comprised of fossil-fuel electric utilities, natural gas distributors, and petroleum refiners.
• These sectors of Canadian economy account for approximately one-quarter of all Canadian emissions.
• One quarter of Canadian emissions come directly from oil and gas production – concentrated in Alberta, Saskatchewan, and Newfoundland and Labrador.
• Agricultural activities, concentrated in Saskatchewan and Manitoba, comprise about one-tenth of Canadian emissions but represent significant contribution to provincial economies.
Impacts on Industry

- EITE (Emission-Intensive and Trade Exposed Industries) represent another 10 percent
  - Mining
  - Manufacturing (particularly energy intensive)
  - Chemical manufacturing
    - Basic Chemicals
    - Fertilizers
    - Synthetic Material
  - Metals
  - Pulp & paper,
  - non-metallic minerals.
    - Particularly hard hit will be primary metals manufacturers:
      - Iron, steel, zinc, and aluminium smelting in Manitoba, Ontario, Quebec, producing nearly 90% of the national output.
  - Chemical manufacturers particularly vulnerable are those that produce basic chemicals, fertilizers, and synthetic fibres — industries most prevalent in Alberta, Saskatchewan and Ontario which together account for three quarters of national output.
Impacts on Industry

• EITE industries typically account for less than 5% of GDP, they make up as much as 20% of industrial production in some provinces, with spillover impacts that could extend further upstream.

• Farmers, for instance, will likely feel the effects indirectly through suppliers, such as Potash & Nitrogen fertilizers.

• Provinces such as Saskatchewan could see considerable negative economic impacts as the province has a high percentage of industries that will be adversely effected by the carbon tax.

• Most of the remaining emissions are related to service sector activities, including air and truck transportation, which can typically pass on the higher costs to customers and are not very mobile.
# Provincial Charges on Gasoline and Diesel, 2017

![Table showing provincial charges on gasoline and diesel for different provinces.]

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- Carbon charges include Alberta's carbon levy and BC’s carbon tax.
- Ontario & Quebec also impose a charge on fuel through their cap-trade systems, which is not included in this chart.
- Sales tax on fuel is based on average retail prices of gasoline and diesel for the week ending March 8, 2016.
- Based on provincial tax rates known as March 24, 2016.