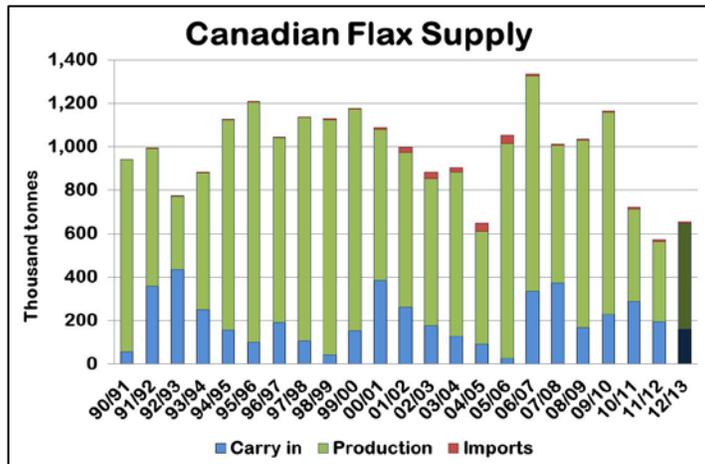
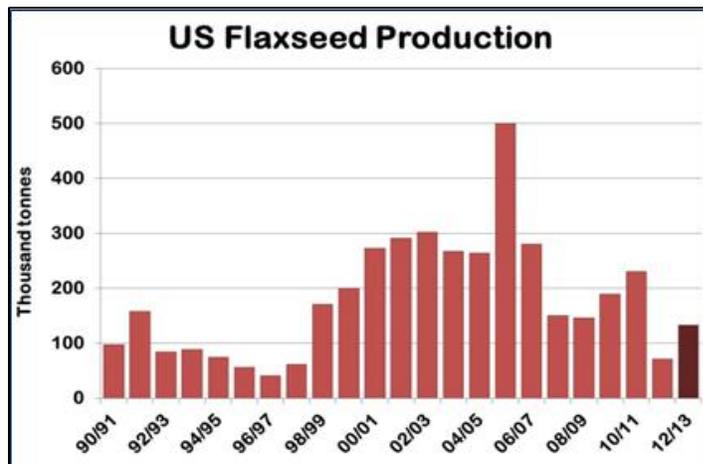


# Flax Market Snapshot

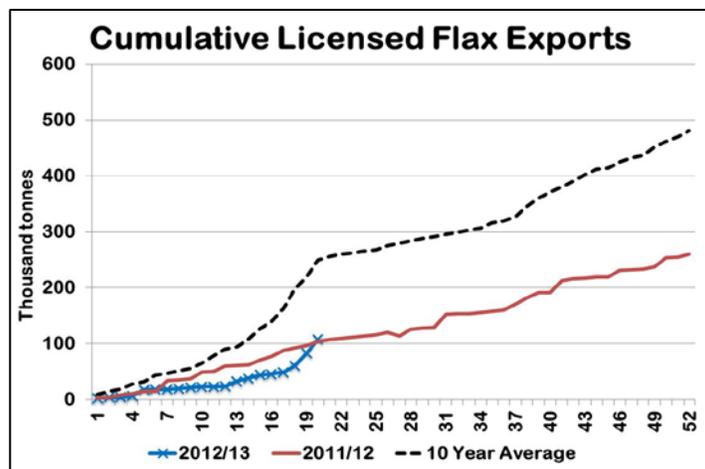
December 28, 2012



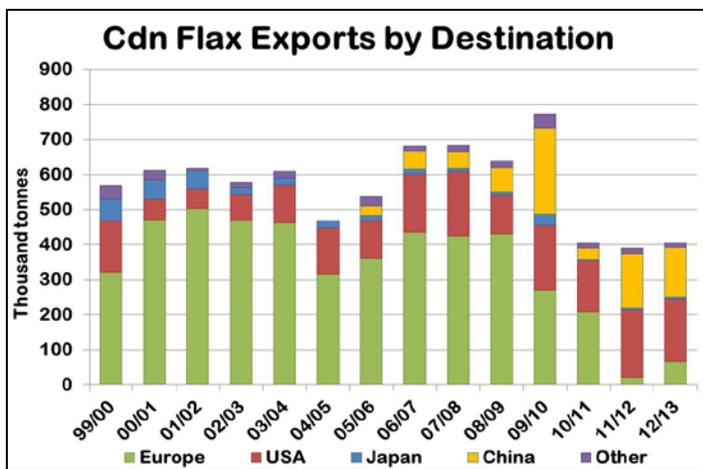
In its December report, StatsCan pegged the 2012 crop at 489,000 tonnes, down from 512,000 tonnes in its previous report. Even though the crop is bigger than last year, total supplies are still small because the carry-over from 2011/12 is shrinking. The outlook for 2012/13 flax supplies was already looking fairly tight before the report. The smaller crop estimate from StatsCan only makes it more so.



The US flax crop could end up nearly twice as large as last year, but the 2011 crop severely limited by a wet spring in the Dakotas. Even though 2012 is an improvement, the crop is still at the low end of recent history. The US crush industry will need sizable volumes of Canadian flax to maintain a typical annual crush of 250-300,000 tonnes.

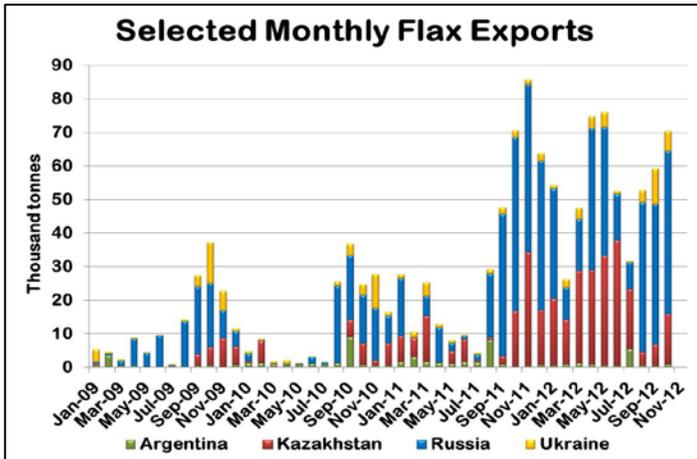


Year-to-date flax exports had been running well below average and even less than 2011/12, which was already a small export year. But volumes have picked up with exports to China and Europe increasing. While the China exports were mostly expected, the revival of shipments to western Europe are a bit of a surprise, caused by reduced competition from Black Sea origins. These late fall exports are a return to the more traditional shipping pattern.

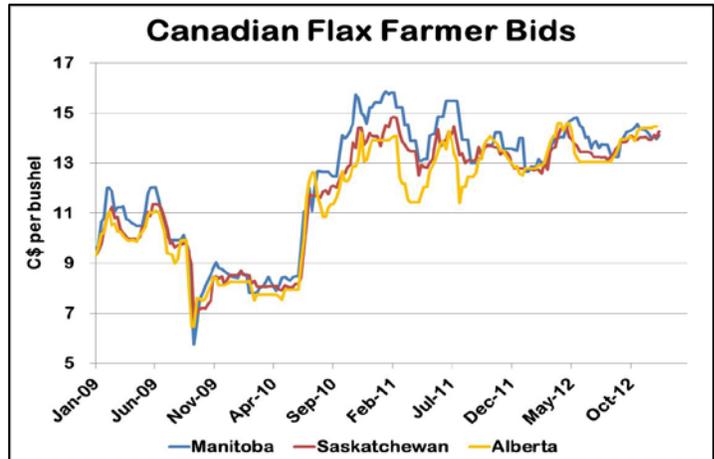


The total size of the 2012/13 export program is expected to remain similar to the last two years. For the most part, this is because of limited supplies. The chart shows that the mix of customers has changed significantly. The US remains a solid customer but China has replaced much of the European demand. Some European demand is returning in 2012/13 with volumes depending on the size of the crop losses in the Black Sea region.

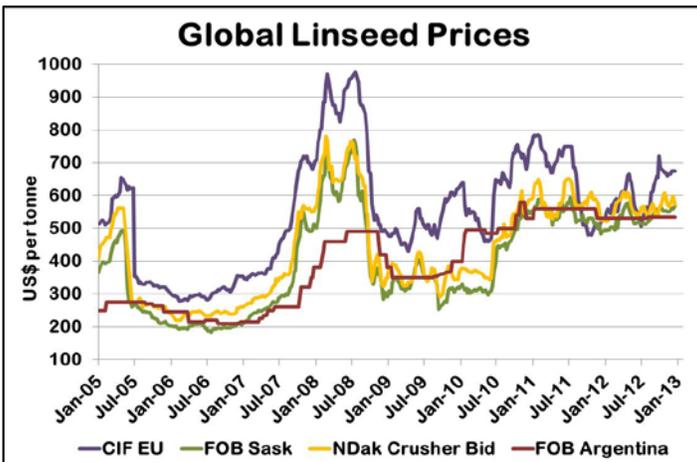
## Flax Market Snapshot - December 28, 2012



In the past two years, countries in the Black Sea region - Russia, Ukraine and Kazakhstan - have become major producers and exporters of flax. One of the key destinations is western Europe, which helps explain why Canadian exports have dropped off. The 2012 flax crop was reduced by drought, but official estimates are not available. Exports from this region tend to be heaviest in the months right after harvest.



Flax bids in western Canada have been locked in a sideways trend for a couple of years now. The upward movement within the range is related to periods of slightly heavier export movement. Farmers have been patient sellers which, along with regular export demand, has kept a floor under prices. The lack of movement can disguise the fact that prices are close to the high end of historical values.



In most global markets, flax prices have followed the sideways direction. In 2011, European prices dropped sharply in response to the surge in supplies from the Black Sea region. The spread shrunk between European and Canadian prices, which put the brakes on trade. Questions about the 2012 Black Sea crop have caused European values to jump and now seem to be high enough to encourage purchases from Canada.

	08/09	09/10	10/11	11/12	12/13
Seeded acres, 000's	1,560	1,710	925	740	980
Harvested acres, 000's	1,545	1,540	873	675	950
Yield (bu/acre)	21.9	23.8	19.1	21.5	20.3
<b>Supply ('000 tonnes)</b>					
Carry-In	167	228	289	194	160
Production	861	930	423	368	489
Imports	7	6	8	9	5
<b>Total Supply</b>	<b>1,035</b>	<b>1,165</b>	<b>720</b>	<b>571</b>	<b>654</b>
<b>Disposition ('000 tonnes)</b>					
Seed	29	16	12	17	20
Other Domestic	139	88	111	4	100
Exports	638	772	404	391	405
<b>Total Disposition</b>	<b>806</b>	<b>876</b>	<b>527</b>	<b>411</b>	<b>525</b>
<b>Ending Stocks</b>	<b>228</b>	<b>289</b>	<b>194</b>	<b>160</b>	<b>129</b>
<b>Stocks/Use</b>	<b>28%</b>	<b>33%</b>	<b>37%</b>	<b>39%</b>	<b>25%</b>

*Source: Statistics Canada with LeftField projections in bold*

Flax acreage jumped in 2012 but lower yields cut into the size of the crop. A smaller carryover from 2011/12 means that supplies are still quite limited. Domestic use is back to normal levels, mostly to meet omega-3 feed use. Exports could rise slightly due to increased European demand. Ending stocks are expected to drop further and will be at the low end of historical levels although, as a percent of use, will still be manageable.

### The Fine Print

At LeftField, we do our best to provide accurate information in this newsletter but we don't guarantee its accuracy nor accept liability for any errors. This newsletter provides market information and does not offer specific marketing recommendations.