CANOLA UPDATE

2nd June 2022

Market Could Slip on Oilseeds

Overview

Canola prices have fallen less than what we've seen for wheat and corn over the past several weeks, with more muted relative moves so far this week; despite the overall slip in all ag markets.

Wheat and corn prices have come off around talks of an export corridor for Ukraine grain which would require sanctions lifted on Russia. In essence, "the Market's" view has changed; wheat that was previously considered isolated from making it into the pipelines in the short term, now may have the capacity to be delivered.

This is not exactly the case for canola and oilseeds in general. Russia and Ukraine are not main exporters of bulk oilseed to the world. Ukraine's market presence primarily comes in the form of sunflower oil to Europe. Whilst both canola and sunflower production/export logistics have been disrupted by the war, the cereal market has garnered a stronger global focus in recent weeks.

Market chat surrounding the potential for an export corridor has caused both wheat and corn prices to break support levels, whereas oilseeds have maintained a more tempered approach.

Technical Review

Matif rapeseed futures have fallen in line with the overarching market sentiment regarding Black Sea exports alongside improved weather conditions in Europe. Canola prices in Winnipeg have has also come off due to the same and improved weather in Canada. In contrast to wheat markets, technical support on each exchange has not yet broken, however, it is being tested at current levels. For Nov 22 contracts on both exchanges; a close below €790 Matif or $1,040 on Winnipeg is seen as bearish.

Soybean prices have been trending upward and the long-term uptrend for Nov 22 beans is approaching 1500c/bu. Short term support has also built at this number. A close below 1,500c/bu for Nov 22 beans would be seen as bearish.

Fundamental

Soybean prices have been support by:

- Tight global stocks on the back of poor crop yields in South America due to drought caused by La Nina and steady demand from domestic crushers and global importers. Vegetable oil prices including Soybean, Canola, Palm and Sunflower oil are all high historically and can be substituted for each other for human consumption.
- Crude oil prices have risen significantly this calendar year. Biofuel prices in US, Canada and EU compete with fuel refined from crude oil. Good crush margins for biofuel in both North and South America continue to see crushers purchase high volume of oilseeds due both to the current profit margin and maintain optimal throughput requirements.
- Continued purchases by China for both old and new crop soybeans albeit at lower tonnages due to current high prices.
- A forecast third La Nina year and potential lower South American soybean production, compared to average, due to dry weather.

Outlook & Recommendation

SA growers will need to review current production estimates for Canola following the laggard start to the season. Seasonally, the best canola prices are seen in May-June, a period in which CloudBreak have been targeting forward sales. We continue to recommend forward sales of 22/23 canola of 20 - 25% production. If Canola futures break below support on Matif and Winnipeg a more aggressive strategy of forward sales of 25 - 30% of conservative production should be considered.

Canola 22/23 prices Pt Adelaide and Pt Lincoln $1,110/t today, a decile 10 price.