CloudBreak Grain Marketing

Canola Outlook

29th July 2022

Canola — Market Refocuses on Fundamentals

- Oilseed futures look to be forming seasonal lows early?
- Crude oil and palm oil prices directly influence oilseed prices
- Weather risk is replacing macroeconomic drivers in price direction

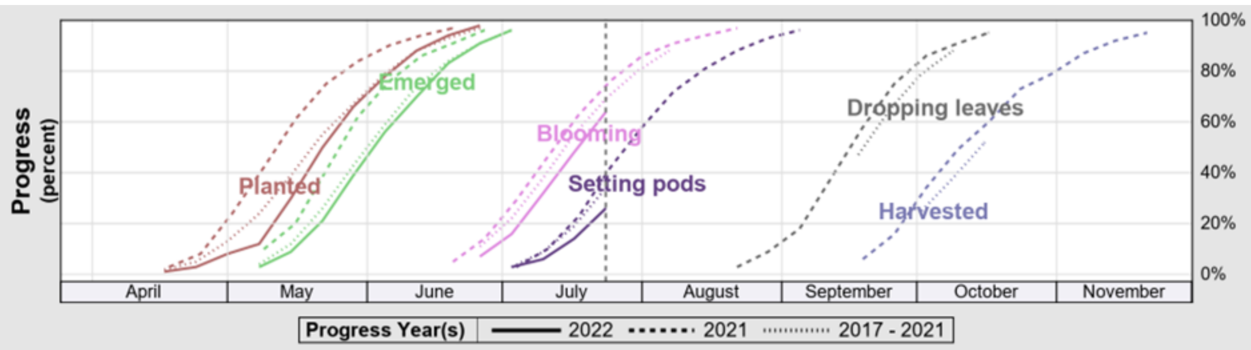
Canola and rapeseed markets look to be trying to form a seasonal low through last half of July as prices have moved higher every day this week. Weather forecasts for Europe and North America continue to be bullish for canola and rapeseed. Below average rainfall and hot conditions continue in Europe and are expected to return across the Canadian prairies in early August. The Saskatchewan crop report for the period July 12 to July 18 rated oilseed crop development as 6% ahead of average, 61% normal and 33% behind average. Seasonal weakness attached to the European winter rapeseed harvest should be tapering as harvest will be largely finished by mid-August. Whereas the Canadian canola crop harvest should be commencing in late August. The USDA forecast for Canadian canola production is 20.0MMT which is in line with the 5-year average (2021 excluded) but other analysts are forecasting closer to 19MMT which is still well up on the drought affected 12.6MMt in 2021.

US soybean crop conditions were lowered again last week, with the 'good to excellent' rating dropping 2 points to 59%, which is 3% below the 5-year average. Forecast dry and extremely hot weather for the US western Mid-West is likely to see further crop condition downgrades. US Soybean plantings were hindered by very wet conditions in May/June and that has led to a delay in pod set, currently at 26% which is behind the 5-year average of 34%. The USDA forecast for US soybean production sits at 128.9MMT on par with last season, however if weather remains hot and dry this forecast is likely to be lowered. Hot weather in Europe has had less of an impact on canola production which was further advanced when the heat arrived as it is a winter crop. The USDA is still forecasting European rapeseed production higher at 18.25MMT up 1MMT on the previous year, due to an increase in planted acres. The EU rapeseed harvest was conducted through the hot dry conditions experienced there. The July MARS report has reduced is EU 2022 summer crop yield forecasts by 8% for sunflower and 9% for soybeans which are now 6.7% and 5.7% down on the 5-year average respectively. EU imports of canola are forecast to remain at 6MMT. 2022 Ukraine sunflower production has been savaged and is forecast to be 9.5MMT down 5.8 MMT against the 5-year average due to the war with Russia.

Over the last couple of months there have been a number of factors weighing on oilseeds prices, including weakness in crude oil prices, managed funds liquidating long positions and falling palm oil prices.

Crude oil - Global crude oil futures have been sold off on recessionary fears created by surging inflation and Central Banks around the world aggressively lifting interest rates to bring inflation back under control. Around 14% of global oilseed production is crushed to biofuel production with many producing countries having biofuel mandates in place. WTI Crude oil has dropped below US$100/barrel on the back of waning market sentiment as US recession fears grow and globally we will see lower economic activity and reduced energy demand. However economic sanctions on Russia have seen energy supply to Europe from Russia curtailed and energy prices including gas are expected to remain buoyant exacerbated by OPEC holding off on any meaningful increase to oil output.

Managed Funds - Managed funds continue to unwind their net long position in soybeans with the weekly Commitment of Traders report showing funds sold a net 8k contracts to be 87.8k contacts net long, the lowest level since December 2022. The funds increased their net short position in ICE canola by around 6k contracts to be at 16k net short the largest net short position since July 2020.



Source: National Agricultural Statistics Service (NASS), Crop Progress Report

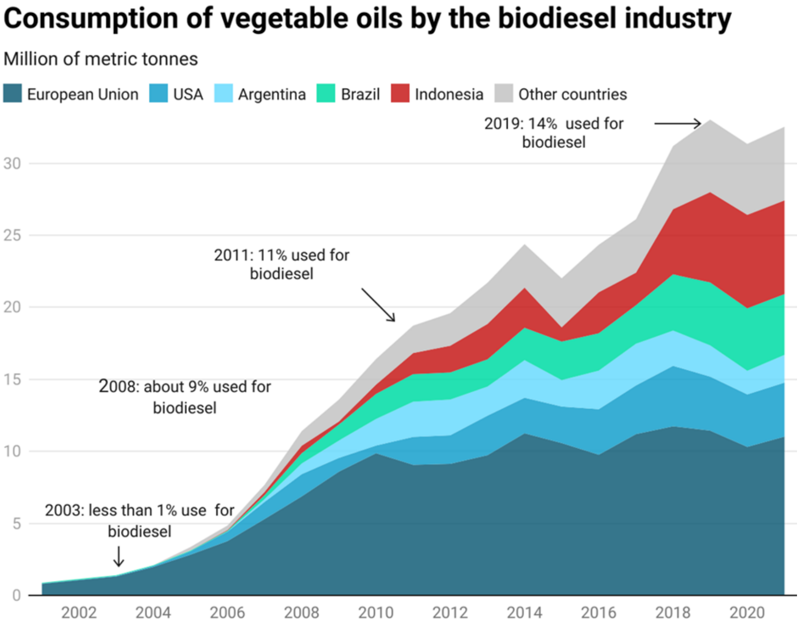
www.cloudbreak.com.au (08) 8388 8084 info@cloudbreak.com.au

Canola — Market Refocuses on Fundamentals

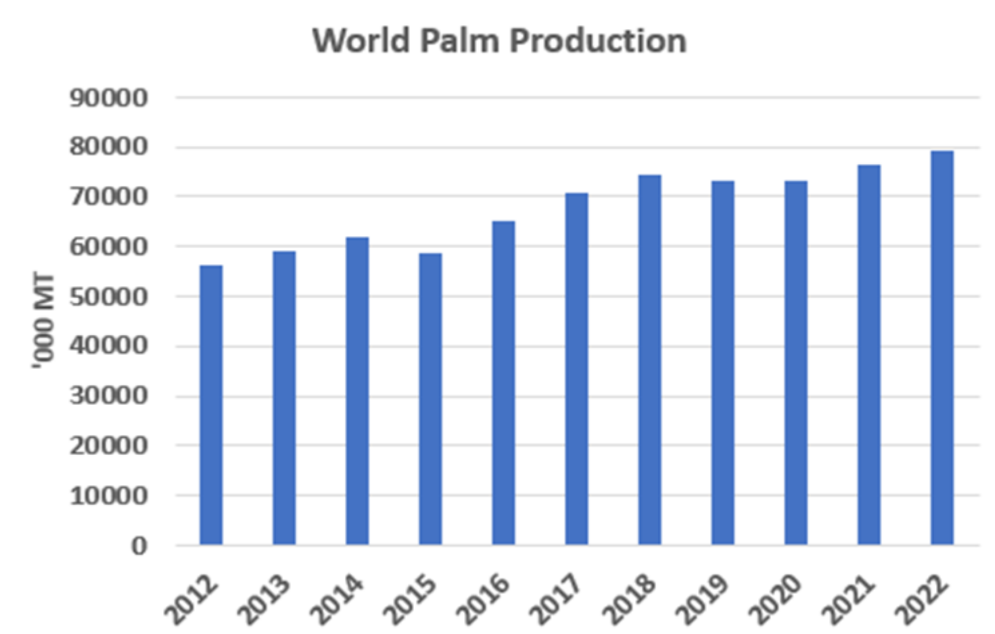
Palm oil - Palm oil futures have tumbled significantly since the Indonesian export ban was lifted in June. Indonesia, a major palm oil producer introduced the ban in April 2022 to curb high internal prices. With the lifting of the ban, we have seen palm oil futures fall around 40% since May. Palm oil accounts for around 58% of global vegetable oil export markets and given vegetable oils are readily interchangeable, has a significant influence on other vegoil prices. Palm oil futures after peaking in May 22, are now back to levels traded prior to the Russia / Ukraine conflict.

Palm oil production has continued to increase year on year, despite land clearing for new palm oil plantations having virtually ceased across Southeast Asia. In 2019 Europe and other markets introduced new requirements for sustainability certification. Palm oil production has been able to increase due to improved yields, driven by better plantation agronomy / management coupled with previously established plantations coming online as they reach maturity. Palm trees typically take around 3 to 4 years to reach productivity and many are now reaching maturity.

USDA's global 22/23 palm oil production forecast is 79.1MMT up 6.0MMT (8%) on 20/21. For comparative purposes, 6.0MMT of palm oil is equivalent in volume to 14MMT of canola seed (at 43% oil) or 30MMt of soybeans at (20% oil). For the same period, global world palm oil stocks are forecast to rise from 14.5MMT to 16.9MMT up 2.4MMT (16% increase) with 'stocks to use' ratio pegged at 22/23 of 13.3% (up from 12.81%).



USDA's forecast for **Brazilian 22/23** soybean production is pegged at a record large 149MMT (on increased acres and trend yields). This early forecast is up significantly from the 21/22 La Nina drought impacted crop of 126MMT and 139.5MMT in 20/21. This crop is still to be planted and will go in later this year and will be harvested from March to May 2023. Climate models are currently forecasting a strong chance that we could see La Nina for the third year in a row, as a result this crop still has a long way to go before we can have confidence with this USDA production forecast. High crush margins for biofuel production and low supply have seen closing stocks in Brazil reduced to 22.5MMT (lowest since 2019). China has been cancelling some old crop soybean purchases from the US and replacing with Brazilian beans due to favourable currency improvements. However new crop sales of US soybean have been very strong with total commitments sitting at 16.25MMT which is the highest since 2014.



Major vegetable oil importers are relatively inelastic in their demand requirements, this was highlighted last year as end users aggressively pushed Canola futures to extreme levels on the back of the Canadian drought. Increased domestic crush to meet biofuel

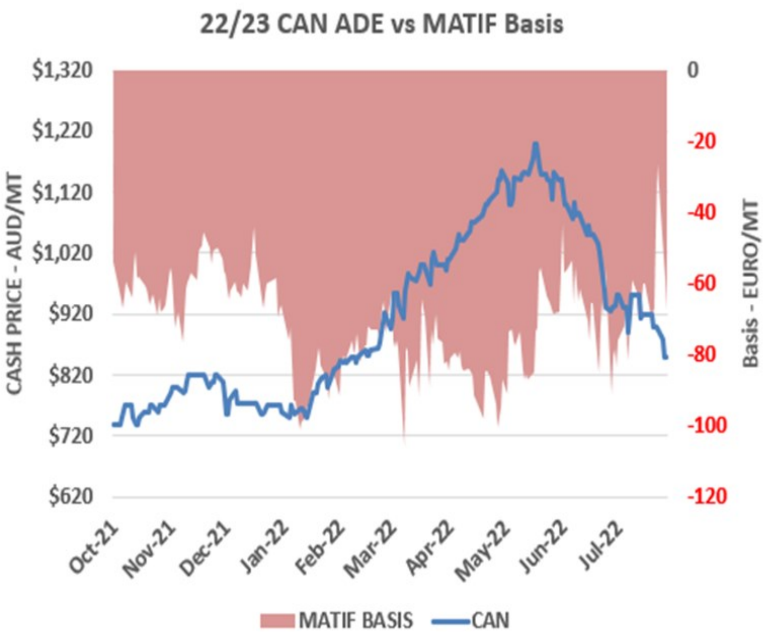
Canola — Market Refocuses on Fundamentals

Top 5 World Imports (source USDA)			
	2022/23	2021/22	2020/21
Canola (1,000,000MT)			
EU	5.6	5.519	5.797
China	2.5	2.17	2.795
Japan	2.375	1.8	2.421
Mexico	1.45	1.22	1.469
UAE	1.25	1	1.206
Palm Oil (1,00,000MT)			
India	8.13	8.3	8.411
China	7.2	5.8	6.818
EU	6	4.5	5.97
Pakistan	3.6	3.5	3.5
Other	1.8	1.7	1.625
Soybean (1,000,000MT)			
China	98	90	99.759
EU	15	14.7	14.789
Mexico	6.35	6	6.101
Argentina	4.8	2.9	4.816
Egypt	4.3	3.8	3.703
Sunflower (1,000,000MT)			
EU	1.6	1.9	1.601
India	1.8	1.5	1.958
Turkey	0.75	1.2	0.778
China	1.1	0.8	1.64
Iran	0.7	0.575	0.83

mandates are absorbing year on year increased production. Cargill has recently announced a third canola processing plant in Canada with an annual capacity to crush 1.0MMT, commencing in 2024. Canadian crush has been forecast to return to average of 9.9MMT for 2022. Currently biodiesel accounts for 14% of veg-oil consumption this is likely to rise further as Indonesia & the US are looking to increase domestic consumption by increasing biofuel mandates. Indonesia is moving from BO30 to BO35% and the USA BO10 to BO15%. India have indicated they will buy sunflower oil from the Ukraine if / when the grain export corridor through the Black Sea is established and operating effectively. Typically, India buys 1.8MMT of oil annually.

Australian 22/23 canola production is forecast 5.4MMT down from a record 6.35MMT in 21/22 due to a return to trend yield. Rainfall for WA, SA and Victoria has been lower than average for the July period. Despite this, the market is not too concerned as the BOM is forecasting above average rainfall for spring through most of Australia. Crop development is varied with early sown crops budding while later sown crops have had to contend with cold temperatures slowing vigour.

Looking at the Matif Rapeseed chart, which has a very good correlation with Aussie cash prices, the market has been in a strong downward trend since May. We are seeing signs that prices are starting to catch some demand and are consolidating. This is potentially signalling that the 2 month sell off may be nearing an end. Medium term support of €620 was tested in mid-July and is currently holding. If this support is broken to the downside the next level of long-term support of €585.



Outlook—Canola prices have seen a dramatic decline since the highs set back in May 2022. Matif 22 Rapeseed futures have fallen from €860/mt to €680/mt (21%), ICE canola futures have fallen from CAD$1,120/t to CAD$860/t (23%) and Port Adelaide canola cash $1,200/t to $850/t (30%). Canola basis against

CLOUDBREAK GRAIN MARKETING

CANOLA OUTLOOK

29th July 2022

Canola — Market Refocuses on Fundamentals

Matif rapeseed remains relatively weak at –€60/t. Matif futures is holding a war premium which has not translated to Aussie cash values.

However, oilseed prices firmed this week as the market's focus shifted to the fundamental supply concerns attached to adverse weather forecasts rather than the macroeconomic global growth outlook. Supply concerns remain as adverse weather issues have been developing around the US soybean crop, Canadian canola and row crops in Europe. Supply of Ukraine sunflower, and row crops have been impacted by war and the grain export corridor, although agreed to in principle, is still to be tested. These are seen to be supportive of prices. On the flipside increased palm oil production and ending stocks and a very large forecast Brazilian soybean crops (which is still 8 months away) would be seen as bearish for prices.

Combined global palm, soybean and canola seed production is expected to reach a record high for 2022/23. Although global ending stocks are also forecast higher y/y, it remains slightly under the 5-year average with record combined consumption drawing down the increased supply. As the global balance sheet begins to loosen its belt, oilseed prices could begin to normalise from the extreme levels seen over the last 12 months.

We maintain our recommendation of 25 to 30% forward sales of conservative production. Growers who are underweight against their usual hedging program may look to add to sales on the recent uptick in prices which are still at decile 9.56. Otherwise, Australian canola prices seasonally reach a low through July / August and rise into October where further sales should be targeted.