CloudBreak Grain Marketing

Barley & Canola

6th September 2022

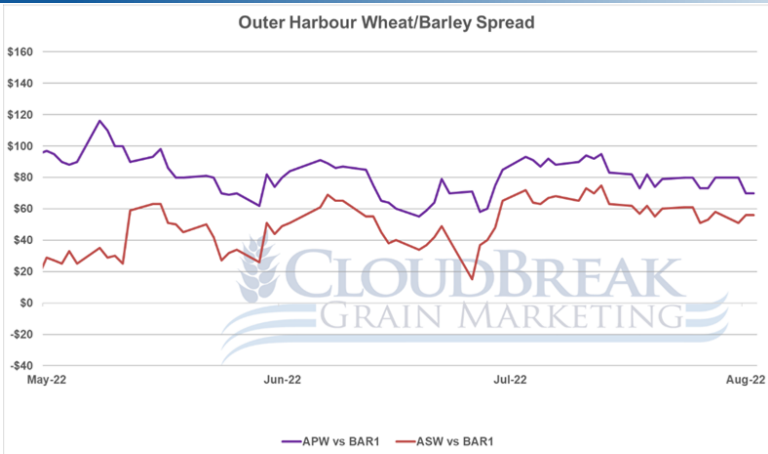
# US and EU Corn Harvest Looms

- US corn conditions worst since 2013
- European corn suffering in hot and dry weather
- Potential for Record grain production in Australia
- Export capacity to weight on basis

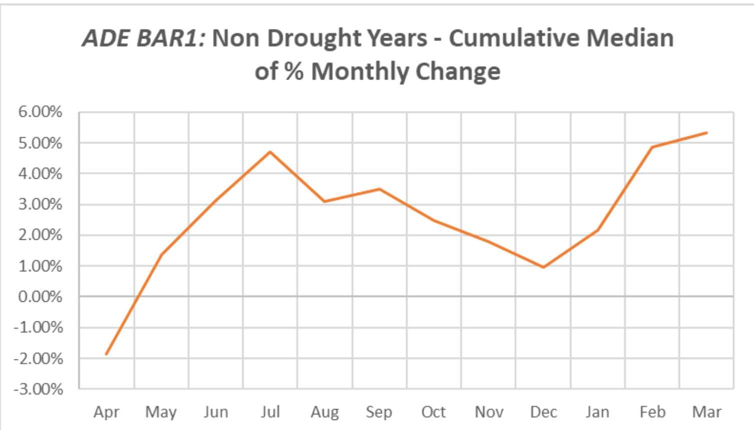
**Recommendation** – With both the US and EU corn harvests about to ramp up, look to advance forward sales by 5% to get up to 30% sold of conservative production. Aim to make these sales over the next two weeks to get ahead of any harvest pressure as new crop supplies hit the market and targeting a potential rally from likely corn production cuts in the September WASDE which will be released on the 12th. However, with the APW1/BAR1 spread is currently at an unattractive $95, if you are comfortable with your barley position consider advancing sales on wheat as an alternative, looking at your total cereal hedge.

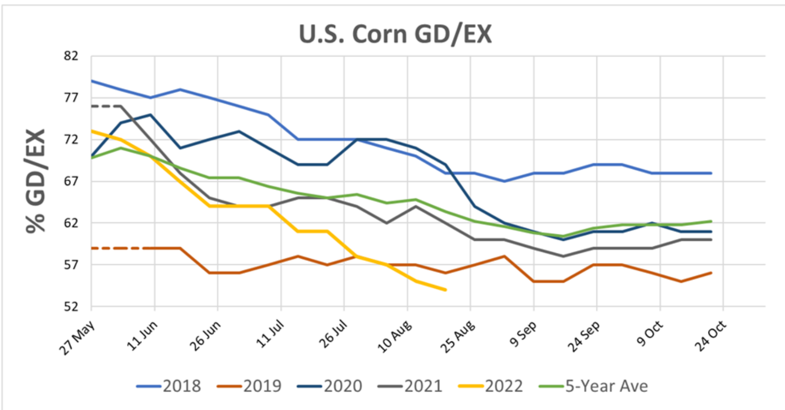
With the potential for record production of total grain in Australia, growers should be looking to get ahead of the curve with sales to ensure adequate cash flow is coming in at harvest from forward sales to avoid being forced to sell at seasonal lows. With the current rainfall outlook there is a higher chance for shipping shorts leading up to harvest, but betting everything on potential shipping shorts is a very risky strategy. The rainfall outlook will also increase the abundance of feed quality wheat which competes directly with barley in the domestic market and may interfere with export demand as well.

There are still strong malt premiums in the central and eastern growing regions in SA. If you are growing a malting variety, assess previous seasons to see if you consistently get some level of malt quality barley. If you are willing to take some risk, selling malt barley with a floating spread back to BAR1 can net you a premium of $95 over selling it as straight feed depending on the variety. Also look into segregation availability with Viterra and GrainFlow as some varieties have limited delivery points. The new season delivered barley market has been mostly illiquid as many feedlots have a preference to only buy during harvest and others don't like to buy too far ahead. The buyers that do forward price have been positioning around $330-$340 for harvest or post-harvest delivery, about $10-$20 over the Outer Harbour price.




**US Corn futures** broke through the 640USc/bu resistance after forming an ascending triangle pattern in late August. An ascending triangle is a bullish breakout pattern that forms when prices make near identical highs, forming the resistance and higher lows forming the lower trendline. The pattern is confirmed when prices breach the topside resistance on a high volume rally. The upper resistance then becomes a support, and the uptrend continues. Corn has been rallying on the back of deteriorating crop conditions which, as of the 30th of August good/excellent conditions were 54%, their lowest level since 2013. The next WASDE report on the 12th of September will be the last update from the USDA before the US corn harvest ramps up and will factor in additional yield losses from the hot and dry weather. The recent ProFarmer crop tour pegged final US yields at 10.55T/ha compared to NASS's August estimate of 11.01T/ha further raising the likelihood of production cuts in the next WASDE.



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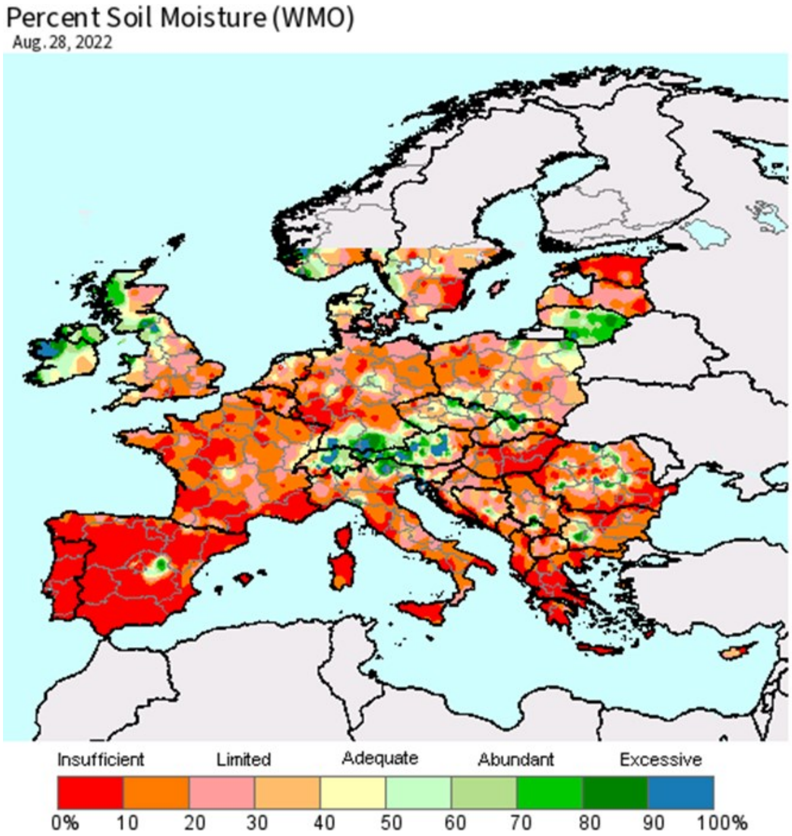
# US and EU Corn Harvest Looms

**European Corn** has been in even worse condition as intense heat and dryness over spring and summer reduced soil moisture levels to near zero. The French farm office, FranceAgriMer, has cut French corn quality ratings again to just 45% Gd/Ex, compared to last years 91%. Harvest has begun and the USDA currently has EU corn production forecast at 60MMT down 15% YoY. The current forecast does show heavy rainfall across most of Europe which may provide a good finish for later harvested corn, but for the most part this rainfall is coming too late to meaningfully improve conditions.

**Domestic Production** is looking highly optimistic due to rainfall both received and forecast. With the potential for a record crop of total grain, export capacity is shaping up to become a significant issue. Last season, significant quantities of grain from Victoria and NSW was flowing into SA to both service our domestic market and to be exported. With this in mind and significant carry in on the east coast, if futures do rally, we may see basis continue to erode. With the current ENSO outlook for a 70% chance of LA NINA returning in spring and a negative IOD remaining in place until December, odds are higher for above median rainfall overharvest. As such we may be in for a repeat of last season where rainfall during the harvest window resulted in systemic quality issues for wheat. The availability of feed wheat saw a lot of substitution over barley in the domestic market. Thankfully, significant demand for feed wheat in Southeast Asia prevented too much competition between wheat and barley. However, with that market currently enjoying cheap south American corn and the north American corn harvest about to start there are no guarantees this happens again. As such there is now the added risk of a surplus of feed wheat competing with barley in the domestic market and for limited export capacity where buyers will follow the greatest margins.



# Canola Outlook

6th September 2022

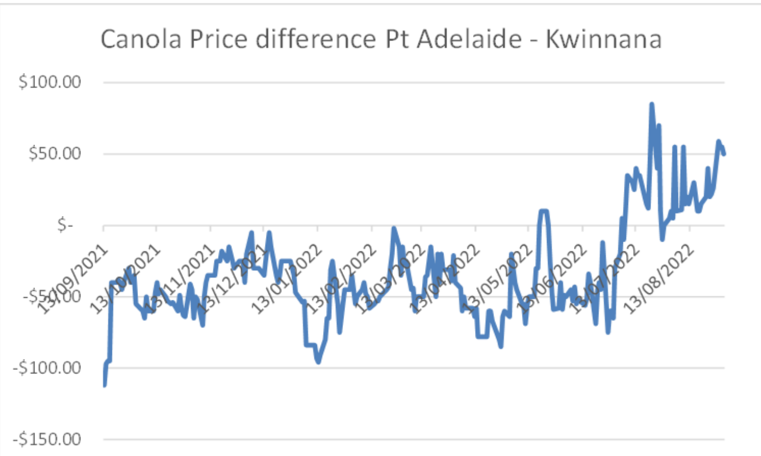
## Canola Prices Decline as Harvest Approaches

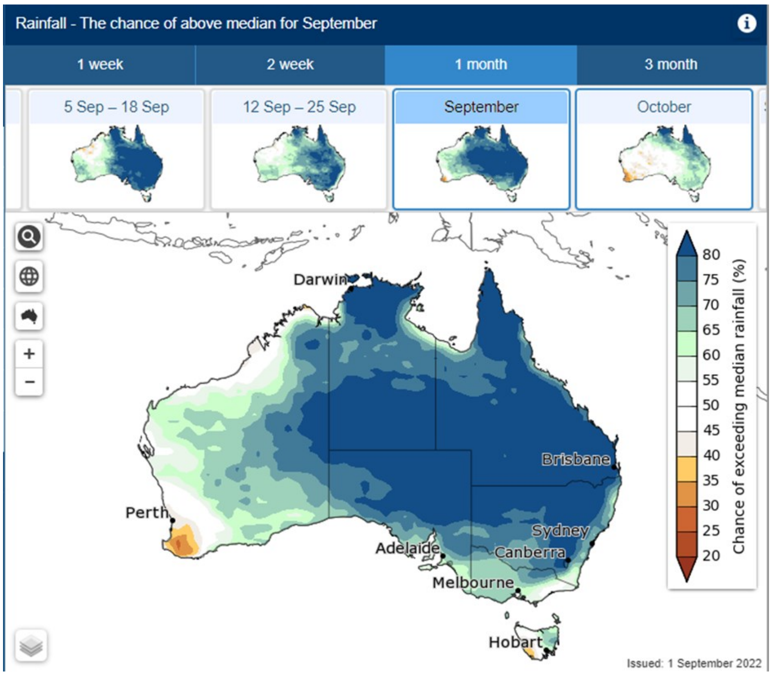
- Target total forward sales of 25 – 30% of conservative production prior to harvest
- Harvest selling pressure likely in Canada, USA and Australian over the next few months
- South Australia prices higher than WA, Vic – will this continue?
- USDA forecast global oilseed production to rebound to 646MMT on return to trend yield for South American soybean and Canadian canola

**Canola Recommendation** - We maintain our recommendation of 22/23 canola forward sales of 25 to 30% of conservative production. Seasonally South Australian canola prices move higher into early October and then fall during harvest. With the season shaping up well in South Australian canola growing areas and in Australia in general, growers who are undersold may look to make additional catch-up sales at this time. It is difficult to be bullish on prices with an average Canadian canola and US Soybean crops and a big Australian canola crop all to be harvested in the next three months.

Last week canola prices for Port Adelaide declined by $38/t to trade on Friday at $782/t. Declines in Canadian canola futures and US soybean prices dragged Australian canola prices lower. Global oilseed prices have ben tracking crude oil prices, which have declined on the back of macroeconomic views of a slowing global economy due to central banks raising interest rates to stem inflation. Oilseed price movements are strongly correlated to oil prices as 14% of global oilseed consumption is for biofuel production.

The outlook for 22/23 Australian canola production is forecast at 6.1MMT just 0.25MMT shy of last season's record 6.35MMT. Favourable growing season rainfall in most canola cropping areas are behind the back-to-back large production. Canola prices in South Australia are higher relative to Western Australian canola prices, with SA prices $50/t ahead. Through the period July and August 2022, Pt Adelaide prices have gained over $100/t compared to Kwinana prices. The relative improvement in price can be attributed to multiple ship loading providers and capacity for canola exports from SA as well as more aggressive selling by WA growers recently.



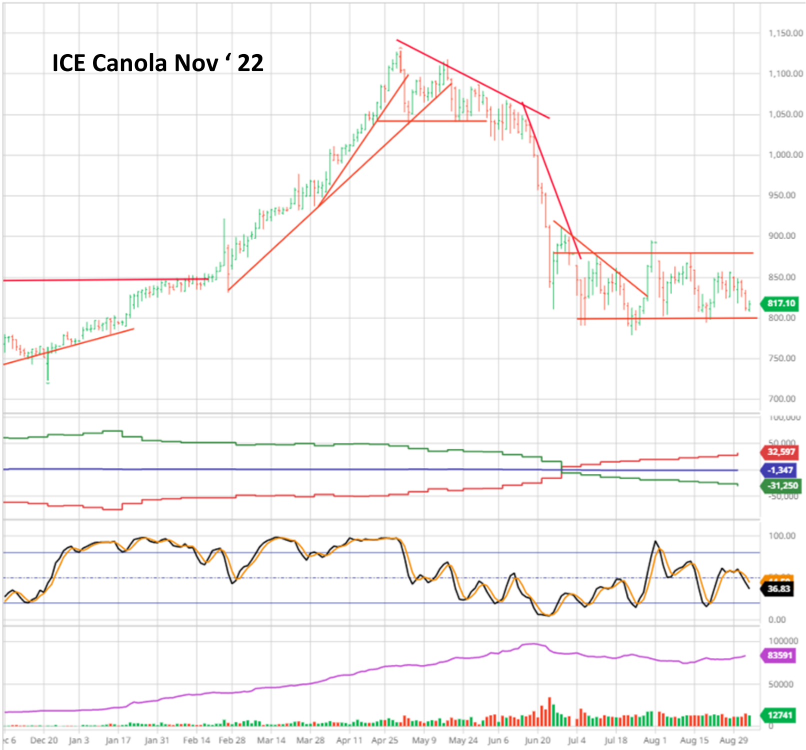




**Global oilseed prices** continue to decline on reduced concern for the US soybean crop. Last week the NASS kept the good to excellent crop rating unchanged at 57% on the week before, whereas traders were expecting conditions to further decline. Also, Profarmer reported a higher-than-expected US soybean yield with the dry hot summer in the US not reducing yield as was feared. Stats Canada has forecast Canadian canola production of 19.5 MMT on the back of a return to average yields with the warm season there reducing the risk of frost damage to crops.

**Harvest of the Canadian** canola crop is underway, and the US soybean harvest is due to commence soon. This is likely to keep prices deflated as farmers undertake harvest sales. The harvest of the large Australian canola crop is due to commence in mid-October which will also weigh on prices, particularly on the back of last seasons record which will see higher carry in going into harvest. Exporters should easily be able to accumulate new crop for export throughout Australia.

# Canola Prices Decline as Harvest Approaches

Also weighing on oilseed prices has been the continued unwinding of net long positions in soybeans (and increasing short positions in Canadian canola futures) by managed funds that has been a market theme for the past 3 months. Funds are now net long 100,000 soybean contracts, the lowest level since December 2020.




**The canola Nov 22 futures** chart shows prices continue to trade in a sideways band with support at C$800/t and resistance at C$880/t. With prices towards the lower end of the band, a break of support at $800/t would be bearish for canola prices.

**The USDA August WASDE** report lifted global oilseed production from its July forecast by 2.9MMT to 646MMT and up 45.5MMT on 21/22 due mainly to increased soybean production in South America after last year's La Nina inspired drought on a return to average rainfall and improved yields. The South American soybean crop is planted through October/November. The BOM has issued a La Nina watch for spring / early summer in Southern Hemisphere this year which may see a reduction in rainfall for South America soybean areas and therefore lower production. If South American soybean production declines due to La Nina it would be bullish for oilseed prices.

Attention will also turn to the outlook for the European winter rapeseed crop which is planted through August / September. Europe produces on average 17.23MMT of rapeseed annually. Poor soil moisture levels throughout most of Europe may impact plant establishment and early vigour which could impact yield, although it is very early days at this stage.