Canola Outlook

30th September 2022

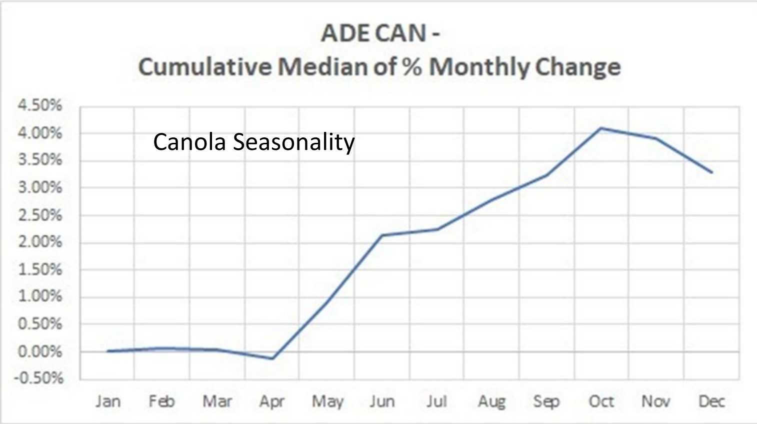
Colossal Canola Crop Blooms

- Forecast large Australian canola crop for 22/23
- Shipping Stem for SA allocated
- Canadian canola harvest nears completion
- US soybean harvest commences
- South American soybean planting program underway

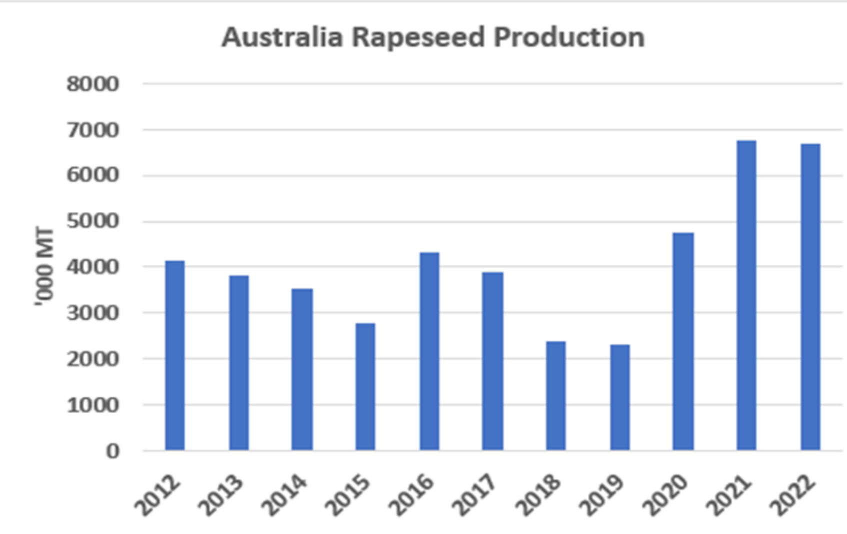
Outlook

Locally canola prices were $786/t Outer Harbour today up $26/t on Thursday's prices. Basis remains relatively weak at -€83/t Matif which has been the level since harvest last season. Basis against ICE canola futures has been weakening and is at -C$142/t. The USDA forecast for Australian canola production is pegged at 6.7MMT for 22/23 season just short of the record harvest last year of 6.762MMT and 2MMt more than the previous record in 20/21. Grower selling, high carry in stocks and limited export capacity in Australia versus geopolitical uncertainty in Europe and low carry in stock in Canada after the 21/22 drought partly explains the difference in the relative markets.

Basis levels in South Australia are expected to improve in October as the allocation of the Viterra Shipping Stem is finalised and Exporters have more certainty of export slot location, timing, and volume to accumulate for. There are three active buyers of canola in South Australia and seasonally canola prices firm through October and then decline as harvesting commences and export programs are finalised. Growers should look to make further sales in the lead up to harvest whilst there is competition between buyers and prior to anticipated harvest selling pressure. Cloudbreak recommends growers to be 40% forward sold of conservative production prior to harvest.



Rapeseed and canola futures have been falling since the highs reached in mid-May. The pace of the decline has eased since August however, Matif Nov 22 rapeseed futures continue to trade in a downward channel with prices this week trying to push higher. Falls on Canadian futures were much more rapid than on Matif as the market in Canada readjusted the significant increase in production forecasts from the drought impacted 21/22 season to an average 20MMT crop this season. ICE Nov22 canola futures look to have made a seasonal low in early September and are trying to move higher. Fund managers continue to increase their short position in ICE Canadian canola futures with a next short position at around 42,000 contracts. This along with Canadian growers selling as they harvest has been one of the forces behind lower prices. Supporting Matif and ICE canola futures are favourable currency moves (weakness) in their respective markets relative to the US Dollar.

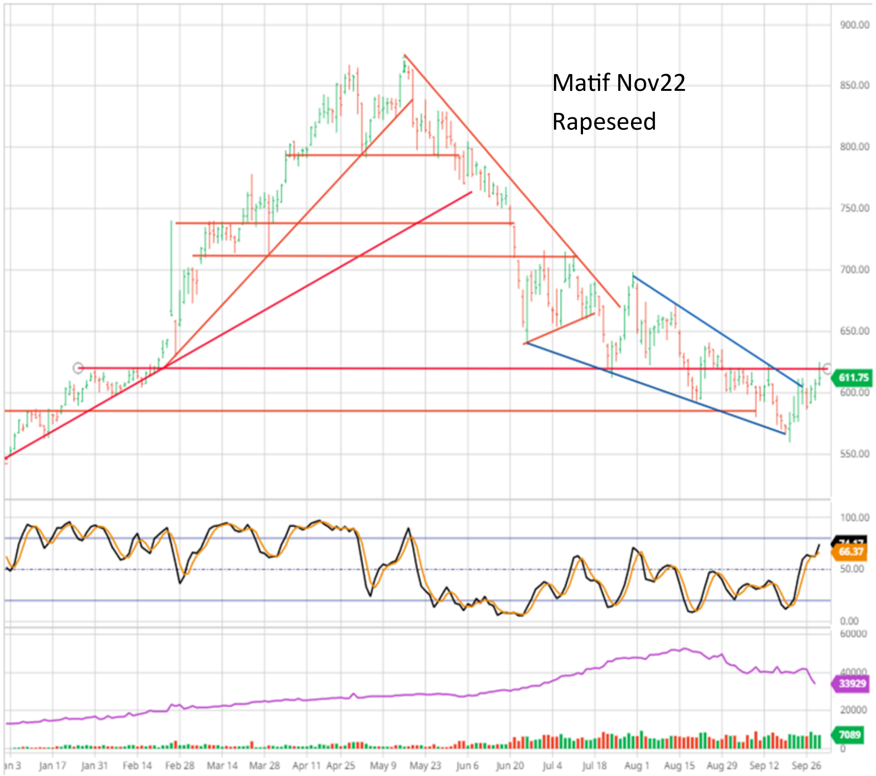


Macroeconomic factors are affecting all commodity prices with falls across metals, energy, and ag futures. Concerns over a slowdown in the global economy due to rapidly rising interest rates is seeing a sell off, as investors reduce exposure to risk assets and move towards US cash and safe assets. Vegetable oil futures are strongly corelated to crude oil futures that have experienced a significant sell off in recent trading sessions with WTI crude prices breaking support of U$85/barrel and then next level of support at U$80/barrel.

The soybean harvest in the USA has commenced with NASS reporting harvest progress at 8% complete compared to the long-term average of 11% and the crop rating index remained at 55% Good/Ex as of Tuesday. Soy-

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

bean futures have been the most resilient of the veg oil products, and prices have been supported through August by strong demand for soybean oil for biodiesel production. US crush margins did decline through August but have improved through September. Conversely in Brazil, crush margins have been negative recently due to high internal prices for soybean due to poor production in season 21/22 and strong exports due to a favourable currency.



Brazilian soybean planting is underway with an estimate of 10% of the crop to be planted by the 1st of October. Favourable soil moisture conditions are present through most of the soybean area in Brazil with a record 42.0 million ha to be planted up 2.5% on 21/22. In Argentina, the dry conditions that have affected the wheat crop have soil moisture levels well below average and is likely to make soybean planting more difficult. USDA forecast for South American soybean production for22/23 is forecast at a record 210MMT, up from 174.2MMT in the La Nina affected 21/22 season and the previous record of 195.6MMt in 20/21. If this record production is achieved, it would be bearish for oilseed prices. There is potential for the La Nina forecast for this early summer period, to reduce rainfall for South America and therefore production, which would be bullish for soybean prices.

Palm oil futures have also been under pressure due to slow export sales as the Indonesia government policy of Domestic Market Obligation (DMO), works to keep domestic prices of cooking oil low for the local population. The DMO effectively limits palm oil exports to ensure reliable supply and low prices for domestic consumption are covered first. This has led to an increase in palm oil stock levels which have weighed on Palm oil prices. Analysts expect the Indonesian government to maintain the DMO but increase the ratio of exports to domestic supply, with increased exports to compete with other vegetable oils on the global market likely to weigh on prices. Palm oil accounts for the largest segment of globally traded vegoils.