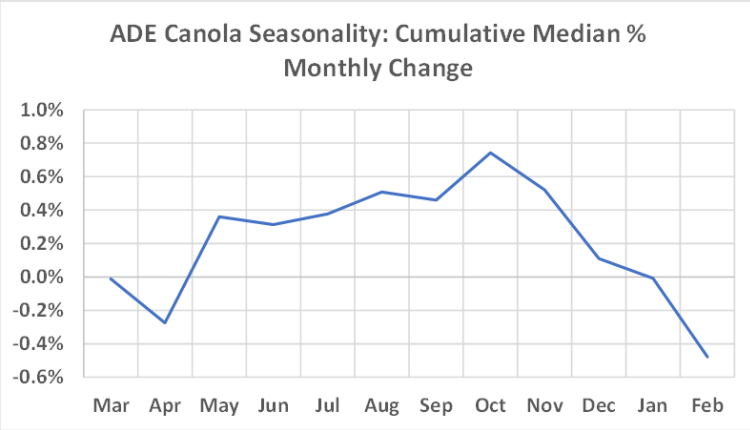
CANOLA OUTLOOK

23rd of January 2023

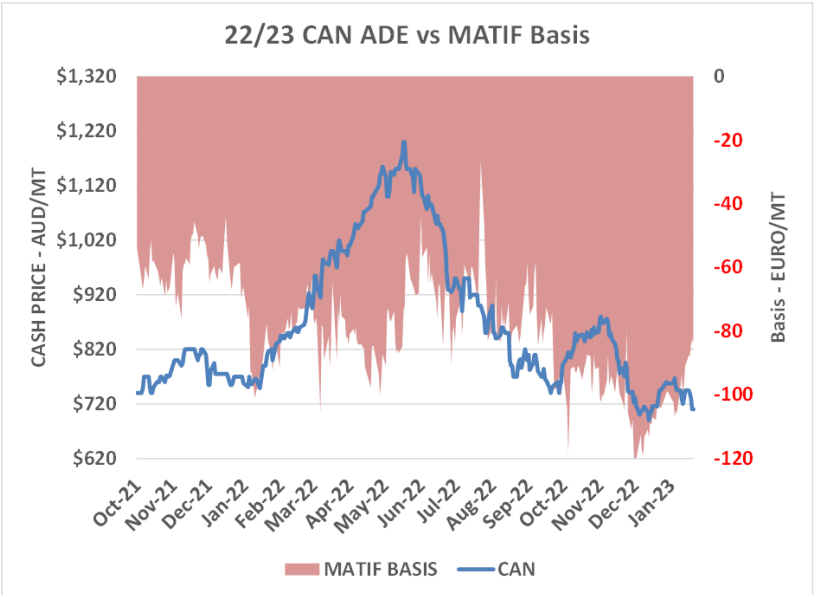
Canola in the Black

- Back-to-back record canola production in SA and Australia
- Exportable canola stock high resulting in weaker basis
- Seasonally canola prices continue decline in South Australia post-harvest
- Europe increases rapeseed imports and reduces palm oil imports
- Biofuels derived from food-crops in Germany likely to decline over time
- US soybean crush margins profitable even with high soybean prices
- Markets watch Argentina soybean production



Cloudbreak recommends that grower sell their remaining canola over the next 4 to 6 weeks. Seasonally canola prices in South Australia decline through and post-harvest and given the record canola production in 22/23 this trend is expected to be reflected this year. 22/23 canola production has exceeded shipping capacity in SA and WA which will make accumulation relatively easy for exporters and high ending stocks are likely to be the case. GM canola should first look to the domestic market as feed mills are agnostic to the type of canola in feed rations. For GM canola in season 2023/24, sales should consider feed mills delivered ex-farm as the domestic market does not discount GM canola as significantly as export markets. However, feed mills do not forward price canola with purchases made during harvest and therefore price risk management still needs to be considered.

As the canola harvest for 2022/23 season looks to wind up, South Australian growers are set to produce back-to-back record canola crops. Estimates place the 2022/23 SA crop at over 650,000 tonnes, an increase of 140,000 tonnes (27%) on last season's record. The increase in production can be attributed to an increased area planted to canola in SA along with favourable spring conditions that have leveraged good agronomic practises to increase yield. An additional and welcome bonus has been the high oil content of the canola crop which has been well above average with readings of 48-49% not unusual this year and adding a healthy oil bonification to the price received.

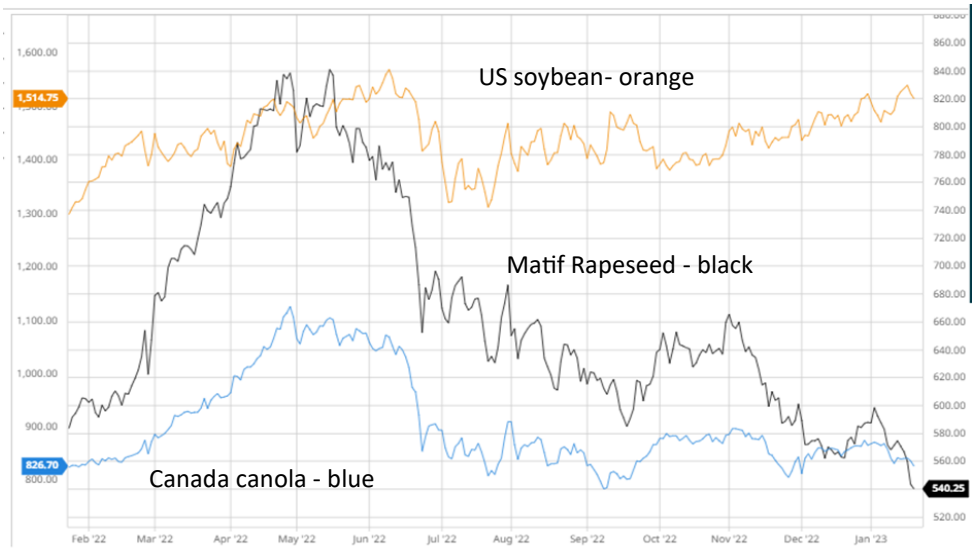


Australian canola production is set to be a record this season with Western Australia also having a stellar year. ABARE have forecast Australian canola production at 7.3 million tonnes which is up 4% on the previous season whilst the Australian Oilseed Federation estimate is 7.62MMT. Both WA and SA are significant exporters of canola with the primary market being the European Union for biofuel production. Canola prices in the Outer Harbour zone have traded in a range of $700 to $760 per tonne through harvest with the high occurring at the end of December to cover shipping requirements. The large exportable surplus in Australia this season has resulted in weak basis through harvest of more than –€100/t against Matif (European) rapeseed prices, which is our market destination. Basis has improved this week to –€76/t as grower selling has slowed and Matif futures have declined €30/t during the week.

Over the past six months there has been a major divergence in the prices of the different types of oilseeds and their relative geographic markets. The comparative futures chart shows since Au-

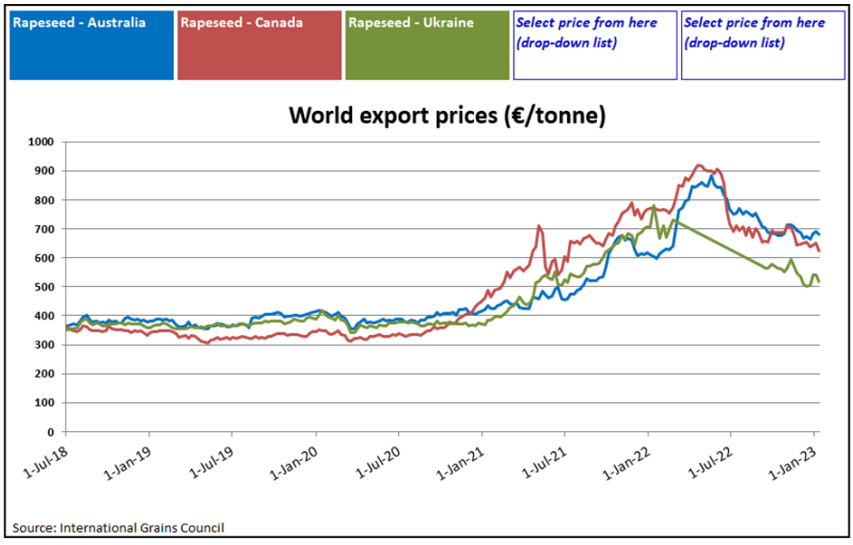
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gust 23, Matif rapeseed has declined, Canadian canola has traded sideways and US soybean has firmed in price.



Rapeseed prices in Europe have been impacted by an increase in rapeseed production in Europe from 17.07MT in 2021/22 to 19.6MT in 22/23 an increase of 2.53MT (15%) due to a 10% increase in plantings. Europe has also turned to Ukraine as a source of cheap rapeseed and sunflower oil with imports of rapeseed for 22/23 at 2.542MMT v 1.590MMT in 21/22. The International Grains Council estimates Ukraine has exported canola to the EU at €150/t under Canadian and Australian prices. Imports from Australia have also increased to 1.376MMT for 22/23 compared to 594KT in 21/22 due to high production years in Australia and a wind back in palm oil imports. 22/23 palm oil imports to the EU are down 1.118MMT (41%) from 2.73MMT in 21/22 to 1.633MMT in 22/23 due to a ban in Germany on biodiesel produced from palm oil.

Also weighing on European rapeseed prices is the German government's plan to reduce the food-based component of biofuel production and use in Germany. Germany has implemented a ban on palm oil in biodiesel production for 2023 and the Federal Environment Minister on Tuesday announced plans to reduce crop-based biofuels in the country's fuel pool to 2.5% in 2023 down from a share of 4.4% forecast for this year. The plan also calls for a phasing out of food-based biofuel used as part of Germany's green house gas (GHG) quota by 2030. Biodiesel included in the GHG quota was 2.29 million tonnes of which just over 70% was crop based. Germany is the EU's largest member state in terms of fuel consumption and a major producer of biodiesel and ethanol. If enacted this would be bearish for rapeseed prices in Europe and canola in South Australia as Europe is the primary destination for SA canola. Also weighing on Matif rapeseed prices has been the strengthening Euro against the US dollar.



Canadian canola futures have declined relative to Matif rapeseed futures due to the scheduled imports of Australian canola to Europe, high Canadian crush demand due to increased capacity with new processing facilities coming on stream, and the resumption of Canadian canola exports to China after bans on two major Canadian canola exporters were lifted in May22. China's November canola purchases from Canada were reported at 477,000 tonnes which compares to an average monthly purchase rate of 100,000 tonne for the previous 9 months.

Stats Canada December estimate for 22 season Canadian canola production was revised lower to 18.2 MMT down from the previous estimate of 19MMT whilst the USDA left their estimate unchanged at 19MMT in the January WASDE. Internal Canadian domestic canola prices have held steady as crush pipeline have had to rebuild from the 22/22 season drought and significant exports to China have resumed.

US soybean crush margins remain strong with soy meal at near record levels at US$460/ton (A$730/tonne) and soy oil 63c/pound giving a crush margin of US$2.83/bu. Managed funds have a very large net long position soymeal and soy oil has been following crude oil prices due to biofuel mandate in producing countries including the US and Brazil. This has underpinned domestic soybean demand and combined with strong export demand to China, due to low production in Brazil in 21/23, which has seen US soybean prices firm.

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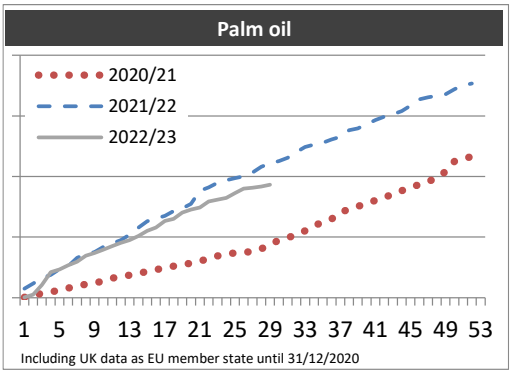
The other major factor that markets have been watching is the **South American soybean** crop. The USDA has estimated a record 42.9Mha of soybean has been planted in Brazil and a record 152MMT of soybean to be harvested with harvest due to commence in late January / early February. This is 25MMT more than 2021/22 drought affected season and likely to be achieved with good growing conditions to date. On the other hand, the drought in Argentina which cruelled their wheat crop this season has also adversely affected soybean crop establishment which has added a "weather premium" to global soybean prices. Argentina produces on average 49.5MMT of soybean and is the world's third largest soybean exporter. The current WASDE forecast is for a crop of 45.5MMT with some analysts forecasting a sub 40MMT crop. Argentine growers have been active sellers of 2021/22 season crop into the export market due to incentives by the Argentinian government to generate export tax revenue which has reduced soybean carry in. Rain has been forecast for Argentina which has seen CBOT soybean retract from contract highs set earlier in the week. However even with a decline of 5MMT in Argentinian soybean production, global soybean production is forecast to be a record large 645MMT which is 30MMT greater than 21/22 season. World stocks to use is forecast to be relatively unchanged at 18.9% compared to 19% last season.

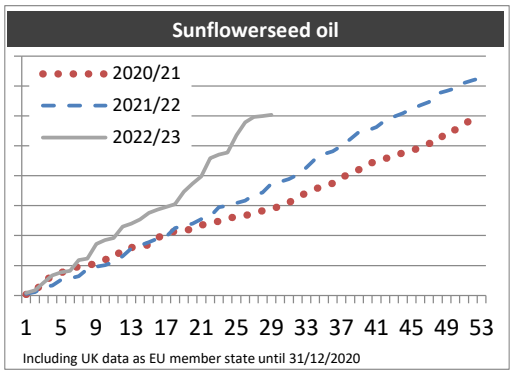
Other factors affecting canola prices has been the decline in global crude oil prices which are seen as a barometer of global economic activity. Biofuel accounts for 15% of vegetable oil consumption and this is likely to increase as countries such as Brazil and Indonesia increase the percentage biofuel mandates. Brazil is due to increase the biodiesel mandate from 10% to 14% in January then 15% in March of this year. This increase in consumption of oilseed for Biofuel is likely to offset Germany and potentially the EU reducing food-based biofuel consumption.

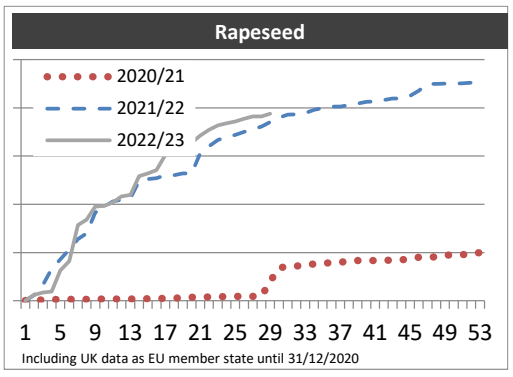
US Soybean Crush Margin

Output		Price	Conversion to $/bu	$/bu	
Soybean meal	US$/ton	460	x 48 / 2000	11.04	a
Soybean oil	Usc/pound	63	x 11 / 100	6.93	b
			Gross Crush Value (a+b)	**17.97**	c
			Soybean price	15.14	d
			Crush Margin (c-d)	**2.83**	

Weekly changes in European Union oilseed imports by product by marketing year







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