



Rabobank

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'Canola contraction' – Australian plantings to drop in 2013

The bullish price outlook for oilseeds is expected to drive the increase in Australian canola production over the long term, however plantings are set to drop this coming season, according to agribusiness banking specialist, Rabobank.

In a recently-released report, '**Canola Contraction**', Rabobank highlights the increasing competitiveness of grain crops combined with a significantly drier soil moisture profile is signalling a slowdown in canola production next year.

Report author, Rabobank senior analyst grains & oilseeds, Graydon Chong says Australia's planted canola area is expected to decline by up to 10 per cent in 2013/14, to between two and 2.1 million hectares.

"This is in contrast to the dramatic increase in canola plantings over the past two seasons, as gross margin returns and favourable planting conditions for canola have taken some acreage from wheat and barley," Mr Chong says.

Canola area set to shrink

Mr Chong says the spike in grain prices since mid-2012 has narrowed the spread between wheat and canola prices, with wheat increasing in competitiveness on a gross margin basis.

"While farmers will delay next year's planting decisions for as long as possible, they will be starting to look at how the numbers stack up for different crops, particularly those looking to forward market their 2013/14 crop," he says.

"The tight balance sheet for oilseeds will also ensure the canola price is very responsive to production shocks, with the market especially driven by the status of the South American soybean crop and the availability of exports."

Dry weather during winter and spring is also playing on farmers minds in Australia, with sub-soil moisture levels in deficit across much of the cropping regions, says Mr Chong.

"Without significant rains before the critical decision-making period in March/April, farmers will likely look towards planting wheat and barley in favour of canola," he says.

Rising demand drives long-term outlook

The Rabobank report says that despite the anticipated pullback in area planted to canola this coming season, production is expected to increase in the longer term on the back of strong demand fundamentals – driven by rising food consumption in developing countries and the biofuel industry.



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“The biggest driver of the oilseed market is the increasing demand for edible oils. This is what we are seeing in developing economies, as incomes rise and their affordability for a higher calorie diet increases,” Mr Chong says.

“Much of this demand will be driven by emerging economies in Asia – the geographical proximity to these markets poses opportunities for Australian canola.”

The biofuel industry underpins demand for oilseeds however, with this market having the potential to dramatically affect canola demand and subsequently Australian domestic prices in the future.

“Currently, over 50 per cent of our canola exports end up in the EU to be crushed and used in biofuel, as we help bridge the gap between EU supply and demand,” Mr Chong says.

“In the longer-term, the influence of the biofuel industry on Australian canola prices will be largely determined by renewable energy mandates, with targets in the EU and US set out until 2020. Given such a large percentage of canola is exported to Europe, any changes in biofuel legislation there will be particularly important, which is why Australia needs to continue to access alternate growth markets to drive sustained demand for our canola.”

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Rabobank Australia is a part of the international Rabobank Group, the world’s leading specialist in food and agribusiness banking. Rabobank has more than 110 years’ experience providing customised banking and finance solutions to businesses involved in all aspects of food and agribusiness. Rabobank is structured as a cooperative and operates in 47 countries, servicing the needs of approximately 10 million clients worldwide through a network of close to 1600 offices and branches. Rabobank Australia is one of the country’s leading rural lenders and a significant provider of business and corporate banking and financial services to the Australian food and agribusiness sector. The bank has 61 branches throughout Australia.

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