Oilseeds

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Oilseed prices to diverge

Soybean and canola prices are expected to diverge in 2018–19. Reduced supplies of canola in Australia and the European Union are expected to result in increased world canola prices. World demand for canola is forecast to outpace supply, leading to reductions in stocks and upward pressure on prices.

Soybean prices are forecast to fall due to faster growth in supply than demand, leading to a significant increase in stocks. US export volumes are expected to fall due to a significant decrease in Chinese import demand. Higher tariffs provide an incentive for China to substitute away from US soybeans towards alternative sources. This is expected to put downward pressure on US prices but to support South American soybean prices.

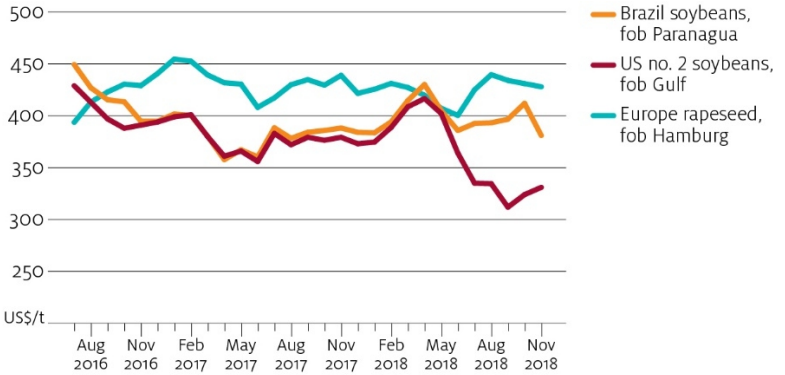
China to lead world demand

World oilseed consumption is forecast to increase, largely because of rising incomes in China. Higher soybean consumption in China is forecast to come from a drawdown in stocks rather than higher imports. China is expected to reduce imports from the US and increase imports from South America, leaving overall imports largely unchanged year-on-year.

Falling US soybean prices will encourage imports in other countries. World trade in soybeans is forecast to increase in 2018–19.

Global imports of canola and rapeseed are expected to rise slightly in 2018–19, mainly in response to a shift in Chinese demand from US soybeans to canola from Australia and Canada. Chinese canola import growth is being partially offset by declining demand in the European Union, where demand is being displaced by imports of relatively cheap US soybeans.

Soybean and canola export prices, July 2017 to November 2018



Source: International Grains Council

Soybeans to increase global oilseed supplies

Global oilseed production is forecast to reach record volumes, largely due to Argentine, Brazilian and US soybean production. Global rapeseed and canola production is forecast to decrease by around 5% from the record of 2017–18. Lower Australian, Canadian and EU production will more than offset increases in India and Ukraine.

Challenges and opportunities

US–China trade dispute and oilseed markets

The additional import duties that China has imposed on US soybeans have affected world oilseed markets. A fall in Chinese import demand for US soybeans has been accompanied by well above average demand for South American soybeans. According to the Brazilian Ministry of Agriculture, from January to August 2018 Brazilian soybean exports to China increased by around 15% compared with the same period in 2017. Chinese food and meal processors have also been substituting for soybeans with other protein sources, including canola meal and dried distillers grains with solubles.

Due to counter-seasonal production the United States has started to account for an increased share of Chinese imports since the beginning of the US marketing season in September.

Argentine export taxes a potential upside for prices

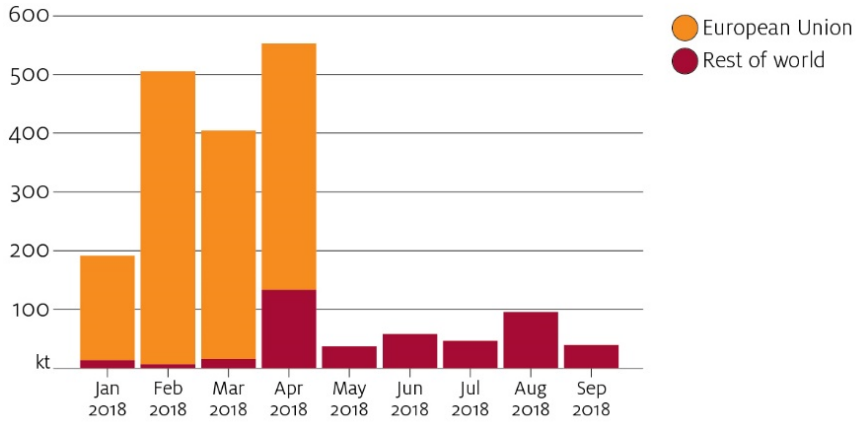
In June 2018 Argentina received a US$50 billion loan from the International Monetary Fund. This loan came with stringent conditions, including a commitment to maintain government revenue sources. As a result, in August 2018 the Argentine Government temporarily suspended the scheduled reductions in export taxes on soybean products. Additional export taxes are being considered for corn, soybeans and wheat. If these taxes are enacted, the profitability of producing soybeans and other alternative crops will fall. This may discourage soybean production in Argentina, presenting an upside for world oilseed prices.

Global policy change reducing demand for Australian canola

The European Union is a significant importer of Australian canola for industrial use. Industrial consumption of canola and rapeseed oil is expected to face increased competition from Argentine soybean oil following the removal of EU anti-dumping tariffs. Competition from used cooking oil is also expected to continue. Used cooking oil is a waste product that EU member states can count twice towards renewable fuel targets, on the basis that its use reduces greenhouse gas emissions without diverting land from food production. Any increase in substitution is likely to reduce EU import demand and Australian canola exports.

State-based moratoriums on growing GM products within Australia have been justified on higher returns for exporting GM-free canola to the European Union. In 2018 EU livestock producers are taking advantage of relatively cheap US soybeans for protein feed by substituting towards GM soybean meal, showing there is a relative price threshold beyond which EU consumers will substitute away from GM-free canola. If these trends in EU imports continue, Australian GM-free canola is likely to lose market share to low-priced GM soybeans.

Canola exports, Australia, January to September 2018



Source: Australian Bureau of Statistics

Outlook for oilseeds

Category	unit	2016–17	2017–18 s	2018–19 f	*% change*
World					
Production	Mt	568	574	596	*3.8*
Consumption	Mt	549	568	585	*3.0*
oilseed meal	Mt	311	333	340	*2.0*
vegetable oil	Mt	185	192	199	*3.6*
Exports	Mt	170	177	180	*1.5*
Closing stocks	Mt	111	116	124	*7.5*
Stocks-to-use ratio	%	20.3	20.3	21.2	–
Soybean indicator price **a**	US$/t	389	385	355	*– 7.8*
Canola indicator price **b**	US$/t	427	424	435	*2.7*
Australia					
Total production	kt	5,648	5,205	3,162	*– 39.2*
winter	kt	4,324	3,675	2,243	*– 39.0*
summer	kt	1,325	1,530	920	*– 39.9*
Canola					
Production	kt	4,313	3,669	2,241	*– 38.9*
Exports **c**	kt	3,599	2,252	1,438	*– 36.2*
value	A$m	2,128	1,306	838	*– 35.8*
Price **d**	A$/t	530	512	553	*8.1*

a US no. 2 soybeans, fob Gulf, July-June. **b** Rapeseed, Europe, fob Hamburg, July–June. **c** July–June years. **d** Delivered Melbourne, July-June**. f** ABARES forecast. **s** ABARES estime.

Sources: ABARES; Australian Bureau of Statistics; US Department of Agriculture