Oilseeds

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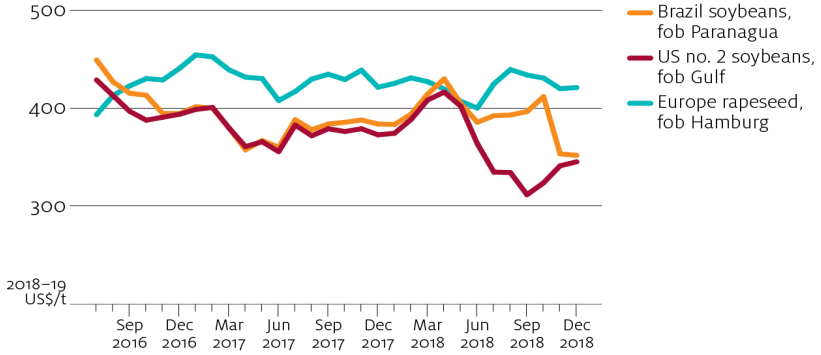
Oilseed prices to remain relatively low

In 2019–20 growth in the world supply of canola is expected to broadly align with demand. As a result, world canola prices are forecast to remain largely unchanged. Higher production is forecast in Australia, Canada and the European Union due to an expected expansion in area planted and some improvement in yields following hot and dry weather in 2018–19. Over the medium term, canola prices are projected to fall until 2021–22 before rising moderately to US$430 per tonne (in real terms) in 2023–24. Despite the slight increase, prices remain lower than the 2018–19 forecast and well below the 10 year average to 2017–18 of US$535 per tonne (in real terms).

The world soybean indicator price (US no. 2 soybeans, fob Gulf) is forecast to fall by 8% in 2018–19. This is due to the drop in Chinese demand resulting from the US–China trade dispute. The price is forecast to recover slightly in 2019–20, but projected record production in South America over the medium term will put downward pressure on prices. By 2023–24 the soybean price is expected to fall to US$347 per tonne (in real terms). If realised, this would be the lowest price since 2006–07.

Soybean and canola export prices, July 2016 to December 2018



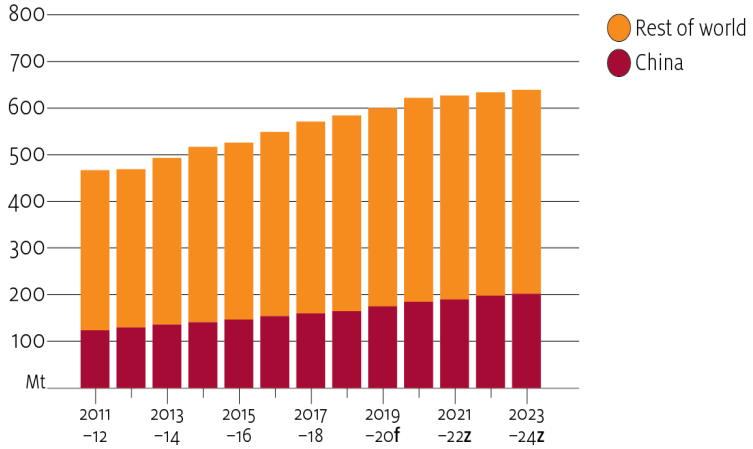
Source: International Grains Council

Demand driven by Chinese growth

World oilseed consumption is forecast to rise, largely due to growing Chinese demand. Rising per capita income continues to lift Chinese demand for meat, resulting in increased demand for high-protein animal feed such as soybean meal. In the short term to 2019–20, a higher proportion of Chinese soybean consumption is expected to be sourced from ample domestic stocks rather than from increased imports. At the beginning of 2018–19 China held around 25% of world soybean stocks. Over the medium term, Chinese soybean consumption is projected to grow at 3.2% per year to reach 128 million tonnes in 2023–24. Domestic supply is not projected to meet demand growth over this period, increasing demand for imports.

Population growth and rising incomes in other emerging and developing economies, particularly in the rest of Asia, Eastern Europe and the Middle East, will add to global demand growth.

World oilseed consumption, 2011–12 to 2023–24



f ABARES forecast. **z** ABARES projection.

Soybean trade diversion boosts canola exports

The 25% additional tariff imposed by China on imports of US soybeans as part of the US–China trade dispute resulted in a significant drop in Chinese imports of US soybeans. This shortfall was only partially offset by increased imports from Argentina and Brazil. As a result, total Chinese soybean imports fell by 8% in 2018. The fall in the world price of soybeans triggered by the trade dispute stimulated demand for US soybeans from the European Union and other countries.

To make up the shortfall of imported protein meal, China increased its imports of canola from Australia and Canada. In 2018–19 China's imports of canola are expected to rise by 19% to 5.6 million tonnes. This stronger demand is expected to boost global imports of canola and rapeseed.

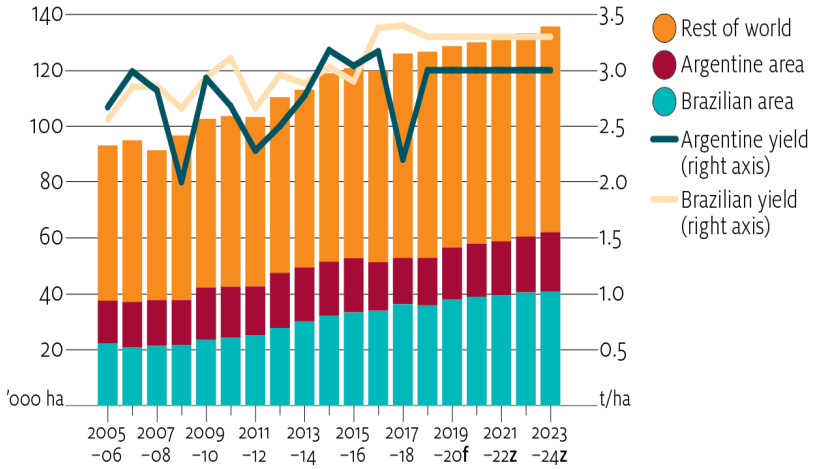
Oilseed production to grow in medium term

Global oilseed production is forecast to rise in 2018–19 to a record 585 million tonnes and a further 603 million tonnes in 2019–20. This increase will be dominated by expected increases in production in Argentina and Brazil. In contrast, world canola and rapeseed production are forecast to fall in 2018–19, following record production in 2017–18. Falling production is expected in Australia, Canada and the European Union because of reduced planted area and lower yields resulting from hot and dry conditions. In 2019–20 oilseed production is expected to rise due to area expansion and yield improvements. Yields are assumed to return to more average levels provided growing conditions improve in Australia, Canada and the European Union.

Although the world soybean price is projected to fall over the medium term, global oilseed production is projected to grow at an average of around 2% per year to reach 638 million tonnes by 2023–24. Increased soybean production in Argentina and Brazil will continue to drive this trend. Production increases are projected to occur largely through expanded planted area. This is because soybeans will remain relatively more profitable compared with alternatives such as corn. This is despite the Argentine Government imposing an additional export tax of 28.5% on soybeans and 25.8% on both soybean meal and soybean oil until 2020.

Soybean yields in Argentina and Brazil are forecast to remain largely unchanged over the medium term because the uptake of the current generation of genetically modified soybean varieties is largely complete. Relatively low prices and agronomic constraints are expected to result in limited growth in canola and rapeseed production in Canada, the European Union and India.

Soybean harvested area and average yield, Brazil and Argentina, 2005–06 to 2023–24



f ABARES forecast. **z** ABARES projection.

Australian outlook

Canola production to remain relatively low

In 2018–19 canola production is estimated to have fallen by 41% to 2.2 million tonnes. The fall is largely driven by an estimated 31% reduction in area planted, to 1.9 million hectares. In Western Australia, relatively stronger prices for barley resulted in farmers shifting from canola to barley. In New South Wales and Victoria, unfavourable seasonal conditions constrained plantings.

In 2019–20 canola production is forecast to increase to around 3.7 million tonnes because area planted and yields are expected to return to more average levels. Australian canola exports are forecast to increase in line with production. Over the medium term, Australian production is projected to remain at roughly 3.7 million tonnes.

Challenges and opportunities

African swine fever poses downside risk to consumption

African swine fever has been spreading through China since August 2018. In the short term, the disease poses a high risk to forecast Chinese demand for animal feed. According to China's Ministry of Agriculture and Rural Affairs, at 14 January 2019 the disease had been recorded in pigs and wild boars in 24 provinces. The speed of the spread has slowed following restrictions on pig movements, but eradication of the disease in an industry comprised of around 26 million small-scale farmers presents a significant challenge for the Chinese Government.

At 15 February 2019 more than 950,000 pigs had been culled through eradication programs. If the disease is not contained and the current rate of culling continues, China's pig population will be significantly reduced. This may lead to a fall in Chinese demand for animal feed.

US–China trade dispute distorting oilseed markets

US soybeans typically account for the majority of Chinese imports when the US marketing season commences in September. However, in 2018 the ongoing US–China trade dispute resulted in US soybean prices being relatively higher for Chinese importers. In October 2018 Chinese soybean imports from the United States fell by 96% to around 272,000 tonnes, compared with the same month in 2017. However, a significant increase in Chinese demand for South American soybeans has led to a rise in Argentine and Brazilian prices in 2018–19.

Chinese food and meal processors are substituting soybeans with other protein sources, including canola meal and dried distillers grains with solubles. As a result, China's canola imports are forecast to rise by 19% in 2018–19 to 5.6 million tonnes, raising world exports to

around 17 million tonnes. Any further escalation of the US–China trade dispute will negatively affect the price of and demand for soybeans.

Outlook for oilseeds

	unit	2016–17	2017–18 s	2018–19 f	2019–20 f	2020–21 z	2021–22 z	2022–23 z	2023–24 z
World									
Oilseeds									
Production	Mt	568	574	585	603	611	626	633	638
Consumption	Mt	549	571	584	600	622	627	634	639
Exports	Mt	170	168	169	170	171	172	173	174
Closing stocks	Mt	111	111	109	105	95.5	94.5	87.2	80.6
Oilseed indicator price **a**	US$/t	389	385	355	362	372	378	382	386
real **b**	US$/t	407	394	355	354	356	354	350	347
Canola indicator price **c**	US$/t	427	424	435	443	449	452	464	479
real **b**	US$/t	447	433	435	433	429	423	425	430
Protein meals									
Production	Mt	318	327	338	346	355	361	367	371
Consumption	Mt	311	333	332	341	350	356	363	367
Exports	Mt	88.0	88.0	90.0	92.4	94.5	98.5	101	103
Closing stocks	Mt	22.9	16.8	23.1	28.4	33.8	38.9	43.0	47.3
Indicator price **d**	US$/t	348	325	310	323	340	353	364	375
real **b**	US$/t	364	333	310	316	325	330	334	337
Vegetables oils									
Production	Mt	185	195	200	202	209	214	219	226
Consumption	Mt	184	191	198	204	209	213	217	221
Exports	Mt	77.7	80.7	84.2	87.1	86.3	87.8	91.3	95.0
Closing stocks	Mt	19.7	23.7	25.9	23.9	24.1	24.8	27.1	31.6
Indicator price **e**	US$/t	837	850	784	817	859	892	920	948
real **b**	US$/t	875	870	784	799	821	835	843	852
Australia									
Production	kt	5,648	5,205	3,085	4,958	5,019	5,121	5,113	5,062
Exports	kt	3,923	2,494	1,926	2,839	3,055	3,074	3,112	3,191
Canola									
Area	’000 ha	2,681	2,729	1,893	2,690	2,685	2,700	2,650	2,645
Production	kt	4,313	3,669	2,180	3,685	3,732	3,699	3,631	3,650
Export volume **g**	kt	3,599	2,252	1,647	2,643	2,791	2,766	2,691	2,700
Export value **g**									
nominal	A$m	2,128	1,306	952	1,638	1,674	1,676	1,639	1,732
real **h**	A$m	2,214	1,334	952	1,602	1,597	1,560	1,488	1,534
Price **i**	A$/t	530	512	553	569	569	573	588	607
real **h**	A$/t	552	523	553	556	543	533	534	537

a US no.2 soybeans, fob Gulf. **b** In 2018–19 US dollars. **c** Rapeseed, Europe, fob Hamburg, July–June. **d** Soybean meal, cif, Rotterdam, 45 per cent protein. **e** Soybean oil, Dutch, fob ex-mill. **f** ABARES forecast. **g** July–June. **h** In 2018–19 Australian dollars. **i** Delivered Melbourne, July–June. **s** ABARES estimate. **z** ABARES projection.

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