

Oilseeds

Nathan Pitts



© Canada canola, fob Vancouver

Oilseeds

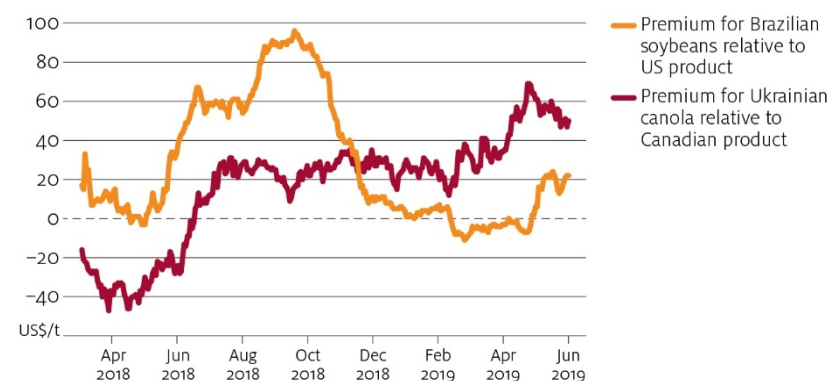
Oilseed prices to fall, reflecting constrained Chinese demand and higher production in Australia and Ukraine.

Prices to diverge due to Chinese trade disputes

In 2019–20 oilseed prices are forecast to fall. This follows the outbreak of African swine fever in China and a resulting fall in domestic consumption of oilseeds for pig feed. US soybean prices (including the ABARES indicator price) will also be affected by ongoing Chinese tariffs on US products. As a result, US soybean prices are expected to be lower than South American prices during the South American marketing season—as was the case for much of 2018–19.

Global canola prices are forecast to fall due to higher production in major exporting countries and lower global import demand. Canadian canola prices (including the new ABARES indicator price) have fallen following the Chinese Government's decision in March 2019 to impose restrictions on several Canadian canola exporters. These restrictions are assumed to continue throughout 2019–20. Canadian canola prices are expected to be significantly lower than Australian and Ukrainian canola prices. This is because China is the largest global canola importer and Canada's largest export market.

Oilseed price premiums, April 2018 to June 2019



Source: International Grains Council

Plentiful South American harvests to continue

Global oilseed production is forecast to remain historically high in 2019–20. Near-record South American soybean harvests are expected as producers respond to strong Chinese demand. This strong demand is due to tariffs on US product. Production in major canola exporting countries is also forecast to remain high, with increased production in Australia and Ukraine—assuming average seasonal conditions—more than offsetting lower Canadian production.

Global oilseed imports to fall

Global oilseed imports are forecast to fall significantly due to lower Chinese demand.

Global oilseed consumption is forecast to increase, with reductions in China being more than offset by increased consumption in major exporting countries. In China, the impact of African swine fever will determine the extent of a forecast fall in consumption of canola and soybeans for feed. Reduced Chinese demand is expected to result in

major exporters consuming more oilseeds domestically at lower prices.

Australian canola production to remain below average

Australian canola production is forecast to rise in 2019–20. This is due to better forecast growing conditions than last year, when significant abandonment occurred. However, production is still expected to remain well below the 5-year average to 2017–18. This is due to below average planted area, reflecting lower expected returns for canola relative to wheat and barley. Export volumes are forecast to increase in line with production.

Challenges and opportunities

African swine fever presenting risks to global import demand

Feed consumption in the Chinese pig sector is a major determinant of global oilseed demand. The uncertain impact of African swine fever in China risks sudden reductions in global demand. Greater than expected impacts from the disease could decrease oilseed prices and increase global stocks at a time when production is historically high.

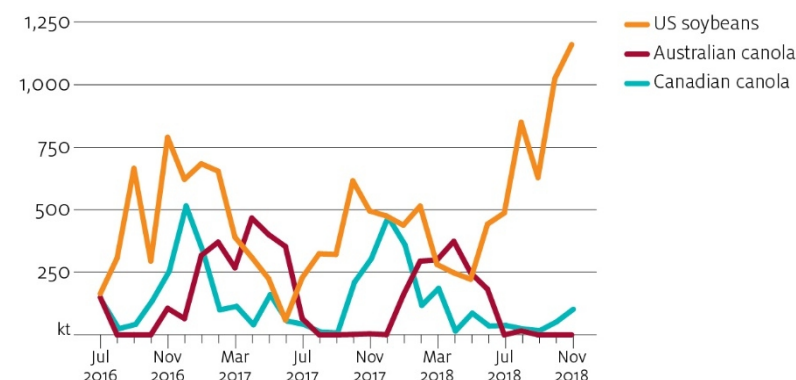
Australian exports to face stronger competition

Between 2015–16 and 2017–18, 88% of largely GM-free Australian exports were sent to the European Union. These exports have attracted a slight price premium because consumers have shown a preference for GM-free oilseeds. However, in 2018–19 the European Union began substituting towards low-cost US soybeans, which are mostly genetically modified.

In 2019–20 Australian canola is likely to face strong price competition in the EU market from GM oilseeds, particularly US soybeans and Canadian canola. This will likely reduce Australian canola exports to

the European Union and erode the premium for GM-free product that Australia has previously received.

EU oilseed imports, July 2016 to November 2018



Source: UN Comtrade

North American support policies

In 2017–18 Canada was the world's largest canola exporter, and the United States was the second-largest soybean exporter. Current Chinese restrictions have significantly reduced demand for Canadian and US oilseeds because China is usually the largest export market for both countries. To help producers affected by trade restrictions, the Canadian and US governments recently announced support packages. In May 2019 the Canadian Government increased the maximum support for canola producers under the Advance Payments Program, a low-interest cash advance program. This won't have an impact on 2018–19 Canadian canola production because harvest was already complete when the program was announced. The program may influence future canola plantings, as financing is relatively cheaper for canola than other crops.

In May 2019 the US Government announced it will allocate up to \$14.5 billion for direct payments to support farmers affected by trade disruptions. These payments are based on each farm's total cropping area, independent of which crop is planted. This will provide additional incentives to plant a crop, and may lead to more soybeans sown in the areas affected by heavy flooding during the planting window. Higher volumes of US soybeans will likely increase competition faced by other oilseed exporting countries, including Australia.

Change in canola indicator price

ABARES has previously used a Hamburg fob rapeseed price as the global canola indicator price. However, the European Union relies on canola imports and only exports small volumes. To more accurately reflect global export prices, ABARES is switching to a Vancouver fob canola price because Canada accounts for over half of global canola exports. Prices for Canadian canola are currently lower than those of other exporters. This is due to Chinese restrictions on Canadian imports.



Australian Government
Department of Agriculture
ABARES

Outlook for oilseeds

Category	unit	2017–18	2018–19s	2019-20f	% change
World					
Production	Mt	575	589	586	−0.6
Consumption	Mt	565	580	587	1.1
oilseed meal	Mt	333	332	337	1.2
vegetable oil	Mt	189	197	202	2.8
Exports	Mt	168	171	171	−0.1
Closing stocks	Mt	117	109	105	−3.6
Stocks-to-use ratio	%	20.7	18.7	17.8	–
Soybean indicator price a	US\$/t	385	335	320	−4.5
Canola indicator price b	US\$/t	433	388	365	−5.9
Australia					
Total production	kt	5,487	2,950	3,096	5.0
winter	kt	3,898	2,182	2,576	18.1
summer	kt	1,589	768	520	−32.3
Canola					
Production	kt	3,893	2,180	2,571	18.0
Exports c	kt	2,336	1,471	1,659	12.8
value	A\$m	1,532	835	1,004	20.2
Price d	A\$/t	524	591	603	2.0

a US no. 2 soybeans, fob Gulf, July–June. **b** Canola, Canada, fob Vancouver, July–June. **c** July–June years. **d** Delivered Melbourne, July–June. **f** ABARES forecast. **s** ABARES estimate.

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