

## Oilseeds

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c Europe rapeseed, fob Hamburg

### Oilseeds

Canola prices to rise in tandem with demand for vegetable oils.

### Weak soybean demand leading to lower prices

World soybean prices are forecast to remain low in 2020–21. The US soybean indicator price is forecast to average US\$352 per tonne in 2020–21, 10% below the 5-year average of US\$393 per tonne.

Demand for soybean meal in China has fallen because African swine fever (ASF) has dramatically reduced pig numbers. Prices of all soybean products (seed, oil and meal) are expected to fall as supply recovers in 2020–21 while demand remains weak.

Canadian canola prices (including ABARES indicator price) have fallen as a result of the Chinese Government's decision in March 2019 to impose restrictions on imports of Canadian canola. ABARES world canola indicator price (fob Vancouver) is forecast to be US\$379 per tonne in 2020–21, 5% below the 5-year average of US\$398 per tonne. ABARES has assumed these restrictions will be lifted in 2022–23, and trade between Canada and China will resume. If realised, the Vancouver price is forecast to rise strongly and equalise with other export prices.

Soybean production is estimated to have fallen in 2019–20 to its lowest point since 2015–16. The decrease from historically high levels occurred almost entirely in the United States as a result of poor seasonal conditions, trade uncertainties and falling global demand from the ASF outbreaks. The signing of the phase one trade deal between the United States and China is expected to reinforce the partial recovery in Chinese import demand observed in 2019–20, and provide an incentive for US soybean production to partially recover in 2020–21.

Exports of soybeans from the United States to China grew in 2019–20, partially recovering from the trade dispute. However, Chinese consumption remains low due to ASF. This has led to record high levels of soybean closing stocks within China. Chinese consumption of soybeans in 2020–21 is expected to fall, and supplies will be primarily sourced from domestic stocks.

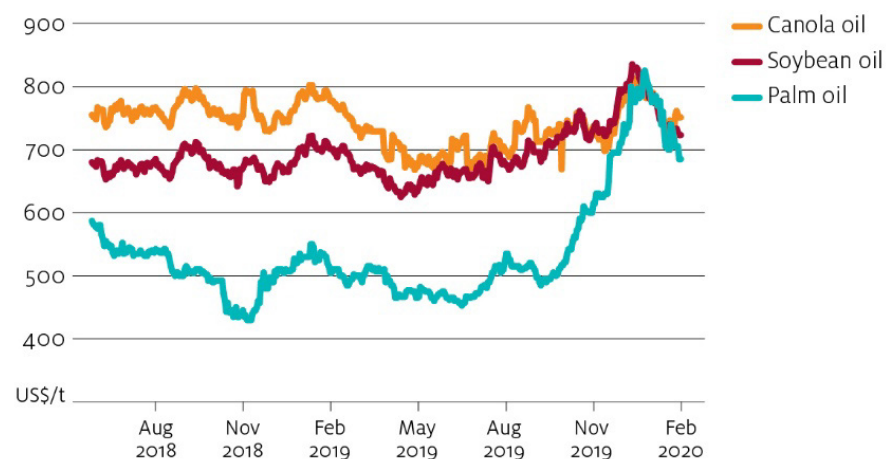
### Vegetable oil prices to remain strong

Within the oilseed complex, prices are diverging. Low demand for meal means that oils have become the primary return from crushing. Demand for vegetable oils is forecast to grow steadily over the medium term, driven by growing populations and incomes, and changes in diet associated with urbanisation. A shorter-term ASF related decrease in the production of animal fats in China is likely to reinforce these longer-term drivers of demand. Falling canola oil production in China is likely to increase import demand and favour non-Canadian producers such as Australia.

Vegetable oil prices are forecast to remain high over the medium term to 2024–25. Soybean oil prices rose strongly between December 2018 and January 2020 as global crush fell. This drove up the prices of other

vegetable oils, including canola and palm oil. Prices for all 3 oils dipped sharply in January 2020, most likely reflecting short-term concerns around the effect of coronavirus (COVID-19) on demand for vegetable oils.

**Figure 1 Vegetable oil export prices July 2018 to February 2020**



Source: IGC

Global production of vegetable oils is expected to fall over the medium term to 2024–25. Soybean oil production is expected to remain below recent historical levels as meal demand and crush gradually recover. Palm oil production is unable to expand rapidly in response to high prices. This is because environmental concerns limit growth in the area planted, and new plantations take 5 to 7 years to begin producing. Canola oil production is projected to fall by 3% in 2019–20 on the previous year. Production will respond to high oil prices over the medium term and increase by 9% by 2024–25, but this will not fully offset the reduction in soybean crush.

### Meal prices expected to decline sharply

Oilseed meal prices are forecast to remain low over the medium term to 2024–25. This is due to the lingering effects that ASF will have on demand. According to the Chinese Government, [breeding sow numbers were stabilising](#) by October 2019. However, ASF is unlikely to be eradicated and China is likely to struggle with outbreaks until a vaccine can be found, or until the industry can develop effective biosecurity systems. FAO estimates that the [Chinese pig herd has declined](#) by at least 40% since August 2018, causing production to fall by over 20% year-on-year.

Meat-producing countries are forecast to respond to rising pork prices by increasing production and exports. However, the effect of this on oilseed prices will be muted by capacity constraints and the use of alternative sources of protein. Limited growth in European pork production is projected due to environmental regulations. The USDA forecast is for US pork exports to increase by 21% in 2019–20. Over the medium term, US exports are expected to continue growing, which will support US domestic soybean meal demand.

### Australia outlook

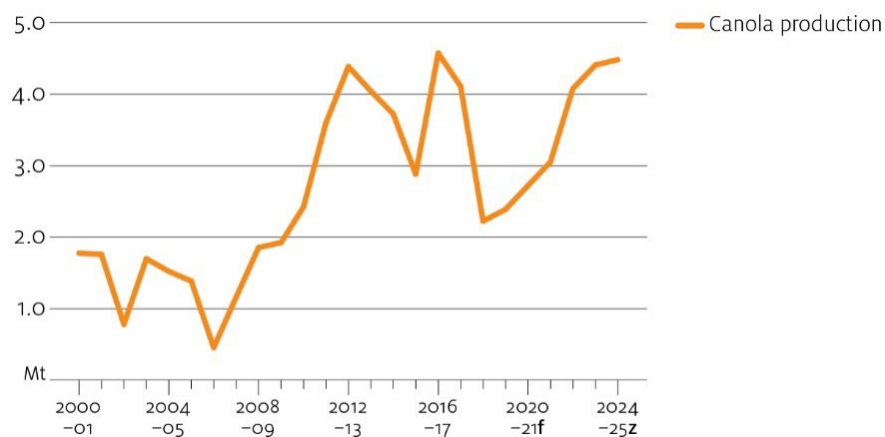
Poor seasonal conditions across most growing regions will result in Australian canola production 30% below the 5-year average, at an estimated 2.3 million tonnes in 2019–20.

ABARES forecasts for canola production over the medium term are based on a scenario that reflects climatic conditions similar to those experienced over the last 20 years (see [Agricultural overview](#)). This scenario assumes conditions that reflect recent patterns of climate variability, including an assumption of more favourable conditions in 2022–23. An alternative scenario assumes drought conditions return

in 2022–23. The choice of 2022–23 for better or less favourable seasonal conditions is arbitrary and is designed to illustrate the type and magnitude of impacts climate variability can be expected to have on production and export outcomes over the medium term.

The area planted to canola is expected to increase, and production will rebound to 2.9 million tonnes in 2021–22. Under favourable conditions, production in 2022–23 is expected to be 3.9 million tonnes, and will continue growing across the projection period to 4.2 million tonnes in 2024–25. Under the alternative scenario of drought conditions, production in 2022–23 is forecast to fall to 2.4 million tonnes as yields decline and then increase as conditions improve but to remain below production in the forecast scenario. Under both scenarios, production is forecast to grow strongly over the projection period in response to strong international demand.

#### Australian canola production, 2000–01 to 2024–25 under favourable conditions



f ABARES forecasts. z ABARES projection.

#### Price premium for Australian canola projected to continue until 2022–23

In January 2019–20 Australian canola traded at a premium of 19% over Canadian canola. This will encourage planting in 2020–21 if seasonal conditions improve as expected.

The ongoing trade dispute between Canada and China has led Canadian exporters to re-examine the possibility of exporting to the European Union. Exports of Canada's GM canola to Europe have historically been low due to policies around biodiesel production (see [Oilseeds note in Agricultural commodities: September 2018](#)). However, industrial demand for canola has increased as a result of a poor European crop in 2019–20. Exports from Canada to the European Union increased substantially in 2019–20, supported by the heavy discounting of Canadian canola following the trade dispute with China.

Despite this increased competition for canola imports into the European market, Australian canola is projected to maintain its price premium. The market for non-GM canola in the European food manufacturing industry means continued strong demand for Australian canola. Prices for GM canola, or canola that otherwise falls below European standards, will be supported by demand from China as consumers substitute away from Canadian canola.

Chinese imports of canola declined sharply to an 8-year low in 2019–20. This is due to Australia's small 2019–20 crop and restrictions on canola imports from Canada. China's demand for canola oil is projected to increase as soybean oil production decreases. In the short term, this demand will be met predominantly by Australian exports. Chinese demand is projected to outpace Australian canola production, resulting in strong prices for Australian canola exports.

ABARES assumes trade will resume between Canada and China in 2022–23, causing Canadian exports of canola to grow strongly. Prices received for Australian canola are projected to fall once this occurs.

**Figure 2 Canola export prices, July 2018 to February 2020**



Source: IGC

## Opportunities and challenges

### Global trade

The phase one trade deal between China and the United States could influence global soybean prices. China's agreement to buy between US\$40 and US\$50 billion dollars of agriculture products is being treated as an aspirational target by the market. To the extent that it does increase China's imports of soybeans, the price received for US soybeans can be expected to rise.

Within China, an increase in soybean imports is likely to lead to higher crush rates. Supply of soybean oil and soybean meal to the market will increase, and the prices of both products will fall along with demand for substitutes.

### Potential impact of biodiesel mandates

Brazil, Indonesia and Malaysia are all considering increasing blend rates for biodiesel in the next 5 years. Brazil will predominantly use soybeans for biodiesel production. Brazilian soybean production is forecast to reach record levels in 2019–20, and to continue growing across the projection period. The increase in soybean production is forecast to fulfil biodiesel production, and will not have a large effect on global soybean prices.

Indonesia and Malaysia's biodiesel production will be sourced from palm oil. Full implementation of these policies is forecast to reduce palm oil exports in 2019–20 by 13.7%. This will increase the price of palm oil. It will also drive up prices of substitute products, which have already risen as a result of falling supplies of soybean oil. ABARES has assumed all biodiesel production targets are met, but a risk remains that the schemes will not be fully implemented.

### Taxes and tariffs in South America

Argentina's newly elected government has announced an increase in taxes on selected agricultural exports, including soybean products (seed, oil and meal). The area planted to soybeans will be influenced by the relative profitability of different crops.

Brazil is considering changing relative tax rates for exporting soybeans versus processed soybean products (oil and meal). The new taxes are designed to stimulate the domestic crushing industry, and to decrease exports of unprocessed soybeans. However, it is unclear whether Brazil will adopt this new tax regime.

The implementation of these new tax regimes will drive up prices for soybeans from South America. This will decrease their competitiveness against US soybeans. Increased domestic crushing is

likely to reduce exports to China, because Chinese industry favours domestic crushing. Additional exports of meal and oil are likely to depress meal prices further, and limit increases in vegetable oil prices.



## Outlook for oilseeds

	unit	2017–18	2018–19 s	2019–20 s	2020–21 f	2021–22 z	2022–23 z	2023–24 z	2024–25 z
<b>World</b>									
<b>Oilseeds</b>									
Production	Mt	581	597	568	576	579	573	565	571
Consumption	Mt	565	579	583	597	594	592	597	600
Exports	Mt	176	171	170	158	158	160	162	162
Closing stocks	Mt	117	126	114	97.2	86.6	71.6	44.8	20.5
Oilseed indicator price <b>a</b>	US\$/t	385	337	352	347	342	337	332	327
real <b>b</b>	US\$/t	401	343	352	339	327	315	303	292
Canola indicator price <b>c</b>	US\$/t	433	388	368	379	389	399	412	418
real <b>b</b>	US\$/t	450	396	368	371	372	372	376	373
<b>Protein meals</b>									
Production	Mt	327	332	335	334	333	333	336	336
Consumption	Mt	324	326	331	322	321	323	326	330
Exports	Mt	89.1	93.4	93.5	88.7	89.3	90.7	91.5	90.1
Closing stocks	Mt	16.8	22.9	22.8	30.3	37.1	42.3	47.9	49.3
Indicator price <b>d</b>	US\$/t	373	367	321	311	306	301	296	291
real <b>b</b>	US\$/t	389	374	321	304	293	282	271	260
<b>Vegetables oils</b>									
Production	Mt	194	201	203	202	204	204	208	211
Consumption	Mt	190	197	205	212	214	217	219	223
Exports	Mt	79.9	81.3	82.0	74.5	76.8	78.4	81.7	84.0
Closing stocks	Mt	23.9	24.0	19.8	11.3	8.5	5.3	3.2	1.6
Indicator price <b>e</b>	US\$/t	844	765	785	771	784	808	842	880
real <b>b</b>	US\$/t	879	780	785	754	750	755	769	786
<b>Australia</b>									
Production	kt	5,456	2,950	2,581	3,254	3,987	5,214	5,551	5,375
Exports	kt	2,587	1,654	1,488	1,854	2,136	2,966	3,188	3,211
<b>Canola</b>									
Area	'000 ha	3,171	1,893	1,798	2,023	2,078	2,413	2,973	3,022
Production	kt	3,893	2,180	2,329	2,631	2,931	3,862	4,162	4,231
Export volume	kt	2,336	1,569	1,476	1,789	2,022	2,819	3,038	3,088
Export value									
nominal	A\$m	1,532	953	944	1,252	1,395	1,917	2,035	2,038
real <b>g</b>	A\$m	1,587	972	944	1,225	1,333	1,787	1,851	1,809
Price <b>h</b>	A\$/t	523	589	581	589	573	557	540	524
real <b>g</b>	A\$/t	542	601	581	576	547	519	491	465

**a** US no.2 soybeans, fob. **b** In 2019–20 US dollars. **c** Canola, Canada, fob Vancouver. **d** Soybean meal, cif, Rotterdam, 45 per cent protein. **e** Soybean oil, Dutch, fob ex-mill. **f** ABARES forecast. **g** In 2019–20 Australian dollars. **h** Delivered Melbourne. **s** ABARES estimate. **z** ABARES projection.

Sources: ABARES; ABS; USDA