



## Recent trends and medium-term prospects in the global vegetable oil market

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### Overview

1. International prices
2. Global oilseed supply
3. Vegetable oil
  - ❖ global production
  - ❖ global demand (incl. biofuel)
4. Trade in oilseeds and vegetable oils
5. Sources of uncertainty



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### OECD-FAO projections – features & assumptions

#### main features:

- prepared jointly by OECD and FAO
- projections - not forecasts
- based on a comprehensive dynamic model & expert judgment
- 10-year horizon 2011-2020
- global coverage
- consistent scenario for entire agricultural sector (including biofuels)
- selected oilcrops (& derived products)

#### exogenous assumptions:

- macroeconomic conditions
- population
- crude oil price
- technology parameters and elasticities

#### projection conventions:

- normal climatic conditions
- trended yield development
- current policies/laws to remain in effect

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#### Projection vs. forecast:

- **forecasts:** best-guess estimates of a situation in the near future, taking into account latest changes
- **projection:** conditional long-run scenario about what would be expected to happen under a given scenario/fix assumptions

#### Main exogenous assumptions:

- globally, gradual recovery from 2009 financial & economic crisis
- in dev.pg countries, economic growth resuming a quicker pace
- population growth continues to slow down
- Inflation to remain at moderate levels
- US dollar to stay weak
- energy prices to trend upward

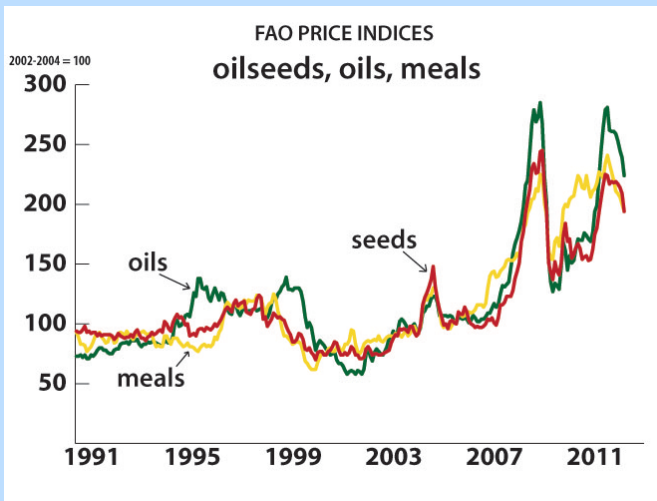
#### Product coverage:

- rape, soy, sunflower, coconut, cottonseed, palm, palmkernel and groundnut complex

#### Policies:

- all current policies assumed to remain in effect (production, trade, bio-energy policies)

## Prices – recent trends



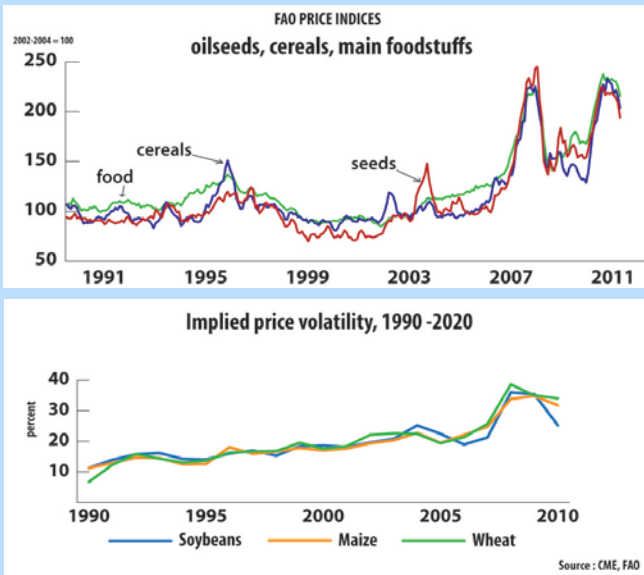
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## Prices – recent trends

- from 2006: upward pressure & increased variability
- reversal of rel. flat historical trend
- two successive peaks: 2007/08 and 2010/11
- recent trend reflects: progressive tightening in global S/D balance, with stock- to-use ratios falling below historical level

### 2010/11 peak – main drivers:

- resumption of demand growth (following 2008/09 depression)
- robust buying interest by main importing countries
- spill-over effect from 'neighbouring' markets (esp. grains)



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## Prices – recent trends (cont'd)

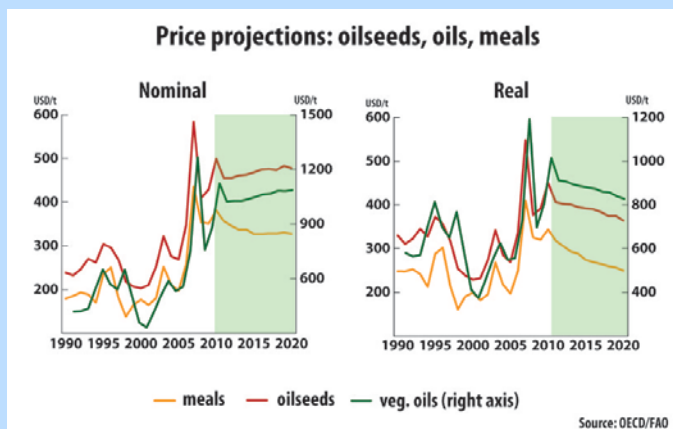
### Across basic foodstuffs:

- price upward pressure and increased variability after 2006
- implied price volatility for major crops increased gradually

### common drivers:

- natural factors (adverse weather; climate change/extreme events; high yield variability)
- resource pressure (arable land base; productivity)
- robust demand growth (incl. biofuels)
- lower stock levels and falling stock-to-use ratios
- energy prices (prolonged firmness)
- exchange rates (continued USD weakness)
- trade policies (restrictions)
- financialization of agric. markets (speculation)

## Prices – projections



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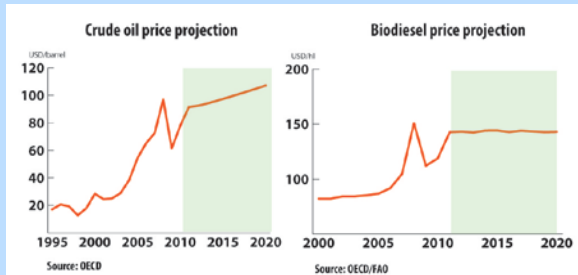
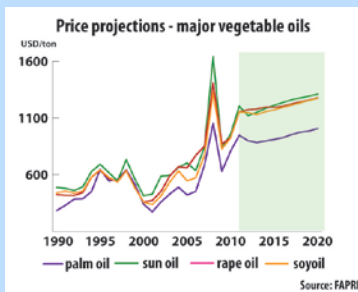
## Price projections oilseeds, oils and oilmeals

### Nominal

- overall to remain firm; higher plateau – compared to pre-2007/08 (food crisis)
- oilseed & oils: rising throughout (after initial dip – area expands in response to price hike; yields recover)
- oilmeals: weakening in 1<sup>st</sup> half, stabilization in 2<sup>nd</sup> half (meal demand to grow less fast than oil demand)

### Real

- gradual fall in all three product groups, but prices remain strong compared to pre-2007/08



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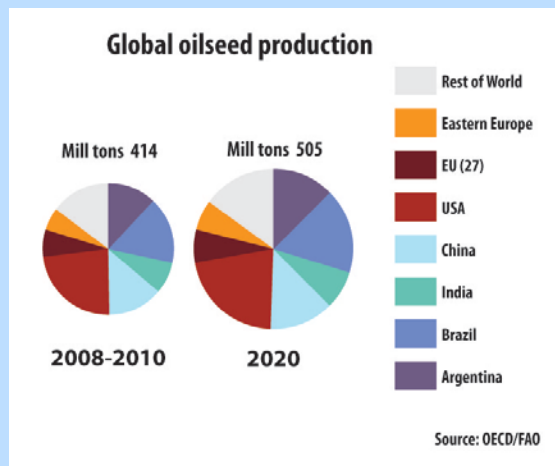
## Vegetable oils price projections (in nominal terms)

overall price pattern: unchanged

main drivers:

- robust demand growth – for food and industrial (biodiesel) uses
- supply expansion not keeping pace
- continued strengthening of crude oil price
- firm biodiesel price

## Oilseed supply projections



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## Oilseed supply projections

Expansion:

- up 23% in abs. terms
- marked slowdown (compared to previous decade)
- growth led by soy; followed by rape, sun, groundnut

Country pattern:

- US to remain top producer
- followed by Brazil, China, Argentina, India, EU
- share of Lat.Am. and East.Europe could increase

Area planted & yield levels:

- both contributing about equally
- both slowing down

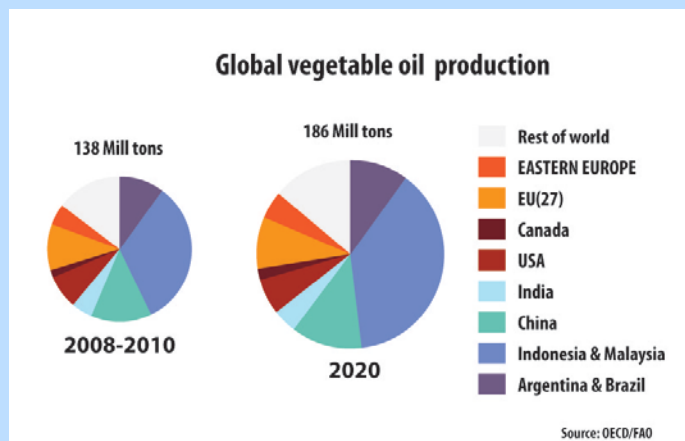
Plantings:

- reduced growth (compared to previous decade)
- growth concentrated in dev.pg countries
- .... but in China & India limits expected to emerge
- among dev.pd contries, growth only in Canada, Australia, East.Europe

Crushing:

- to expand less than before
- above average growth in Canada, Russ.Fed., Ukraine, Argentina, Brazil

## Veg. oil – global production projections

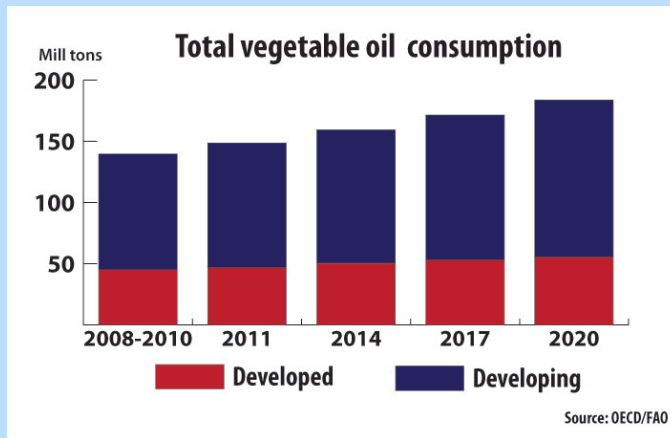


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## Veg. oil – global production projections

- total output up 30%
- growth led by dev.pg countries
- Malaysia + Indonesia (palm oil): up 45% notwithstanding land restrictions & environmental regulations; share in global output to climb to 36%
- other centers of growth: China, Argentina, Brazil, EU
- growth also in Canada, Russ.Fed. and Ukraine
- only modest increase in US, India

## Veg. oil – global consumption projections

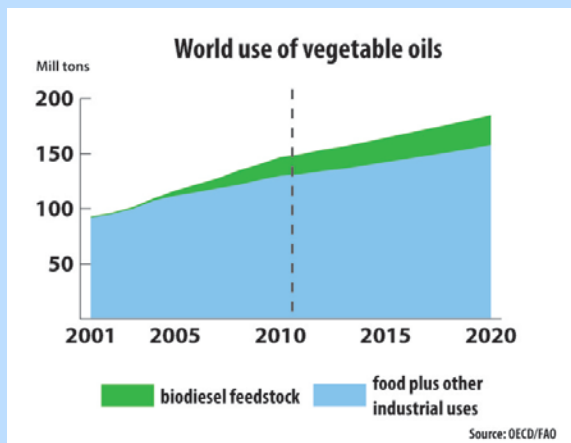


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## Veg. oil – global consumption projections

- further expansion
- annual average increase 2.2% (lower than before due, inter alia, to projected price firmness and relatively slower income growth)
- growth concentration again in dev.pg countries
  - due to solid economic performance in dev.pg and emerging economies; continued population growth and urbanization esp. Asia, notably China, India
  - mostly for food purposes
- dev.pd countries:
  - weaker growth due to rel. slow economic recovery
  - expansion mainly in EU, US
  - mainly non-food uses, notably for biofuel production

## Veg. oils use as biodiesel feedstock

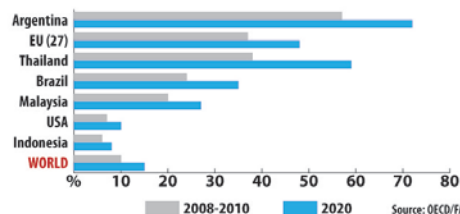


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## Demand for veg. oils used as feedstock for biodiesel (BD) production

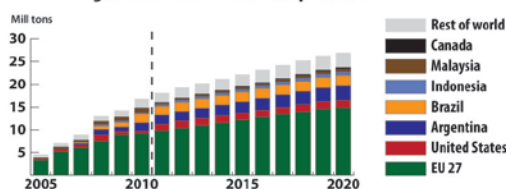
- increase by about 60% (2020 over 2010)
- growth slowdown (compared to past decade)
- but remains significant source of growth during outlook period: to account for approx. 1/3<sup>rd</sup> of projected rise in global consumption
- growth reflects:
  - further rises in BD consumption/mandates among dev.pd countries
  - rising BD production in selected dev.pg countries - for domestic consumption or export

## Share of vegetable oil consumption used for biodiesel production \*



\* Limited to: rape, soy, sunflower, coconut, cottonseed, palm, palmkernel and groundnut oil.

## Vegetable oil use for biodiesel production \*



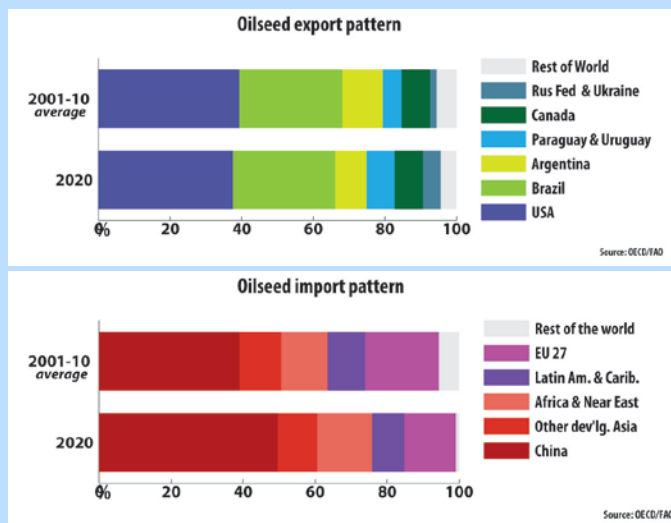
## Demand for veg. oils used as feedstock for biodiesel production – cont'd

globally, weight of veg.oil demand for BD production in total consumption to increase from 10% to 16%

main players:

- EU: demand nearly doubles; share climbing to close to 50%
- USA, Canada: demand grows, but share remains low/negligible
- dev.pg countries: overall, impact of BD demand on total use remains negligible (max 3-4% on average)
- exception Argentina: share to exceed 70% (export oriented BD industry)
- exception Brazil: share reaches 35% (domestic BD market)
- selected smaller dev.pg countries in Lat. Am. and Asia: demand could grow (domestic BD market)

## Trade projections – oilseeds



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## Trade projections – oilseeds

- overall expansion: 10-15%
- annual growth rate: markedly lower than last decade

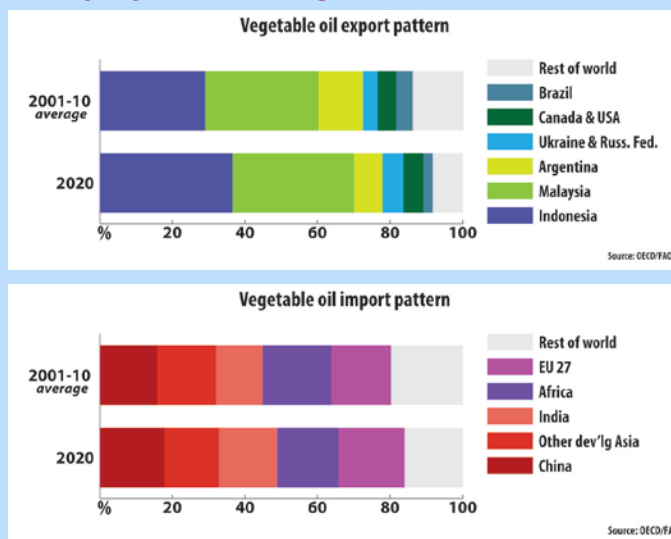
### Exports:

- further increase in market concentration
- market shares of main players about unchanged
- USA, Brazil remain key suppliers
- Argentina, Canada: modest expansion
- further emerging exporters - stimulated by firm internat. prices
  - Paraguay, Uruguay
  - Ukraine (soy, rape) and Russ.Fed. (sun)

### Imports:

- growth slowdown among dev.pg countries
- China dominance to continue: to account for nearly 60% of projected global growth; share in global market to reach 50%
- EU imports about unchanged

## Trade projections – vegetable oils



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## Trade projections – vegetable oils

- overall expansion: 35%
- slowdown in annual growth rate (compared to past)
- palm oil to remain most traded veg. oil

### Exports:

- Malaysia +Indonesia (palm oil) to consolidate lead position: to account for 68% of total exports
- Argentina remains 3<sup>rd</sup> largest supplier and leading soyoil exporter - though market share decreases
- Ukraine and Russ.Fed. (sunflower) to keep expanding, gaining market share

### Imports:

- growth driven by rising veg. oil demand for food and as BD feedstock
- market remains dominated by dev.pg Asia (India, China): 50% share in dev.pg Asia, 45% of consumption covered by imports
- India: import grows 50%, import reliance reaches 62%
- China: import grows 35%, import reliance reaches 36% (NB: demand also covered via oilseed imports)
- EU: remains single biggest buyer; imports up 42%; market share reaches 18%

## Sources of uncertainty

- Market repercussions of policy interventions
- Supply response uncertainties
- Unknowns in future biodiesel growth
- Instability resulting from high supply and demand concentration



## FAO Trade and Markets Division:

<http://www.fao.org/economic/est/en/>

## Oilcrops desk:

<http://www.fao.org/economic/est/est-commodities/oilcrops/en/>

- ❖ short-term market assessments
- ❖ monthly price and policy updates
- ❖ medium-term projections
- ❖ price statistics



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