

Brazil Soybean Planting – Larger Acres - Larger Crop

In 2018, Brazil became the largest soybean producer in the world surpassing the United States for the first time in history. Already the world's largest soybean exporter, Brazil is expected to expand this lead in the coming years thanks to its unique ability to expand planted area by simply clearing and braking new areas of the country. Each year it has been growing its planted area at a pace between 1.2 million-1.7 million acres. By growing 1.2 million acres, it can add up to 2 million tonnes of soybeans to the market per season.

For the 2018/19 winter soybean crop - the Brazilian soybean planting is expected to reach a record level of 89.0 million acres. Timely rains at the start of the crop year has helped planting to advance quickly and is on pace to be the fastest in years. Good weather and large seeded acres could result in another bumper crop, with some analysts expecting a harvest of upwards of 120.00 million tonnes.

The additional acres of soybeans and large crop is concerning for Manitoba and Saskatchewan canola and soybean farmers who are already under price pressure due to lack of increasing demand and trade disputes. If the Brazilian soybean crop is close or above 120.00 million tonnes, winter prices for Canadian canola and soybean will continue come under pressure.

In this issue:

Brazil Soybean Planting – Larger Acres – Larger Crop - Page 1
Agricultural Outlook – Long Term Outlook 2018 – 2027 - Page 1, 2 & 3

Implications of US Trade War on Canadian Producers - Page 4
Continued US China Tension Affecting Soybean Trade in 2018 – 2019 - Page 5 & 6

Agricultural Outlook – Long Term Outlook 2018 – 2027

A decade after the food price spikes of 2007-8, conditions on world agricultural markets are very different. Production has grown strongly across commodities, and in 2017 reached record levels for most cereals, types of meat, dairy products, and fish, while cereal stock levels climbed to all-time highs. At the same time, demand growth has started to weaken. Much of the impetus to demand over the past decade came from rising per capita incomes in the People's Republic of China (hereafter "China"), which stimulated the country's demand for meat, fish and animal feed. This source of demand growth is decelerating, yet new sources of global demand are not sufficient to maintain overall growth. As a result, prices of agricultural commodities are expected to remain low. Current high cereal stock levels also make a rebound unlikely within the next few years.

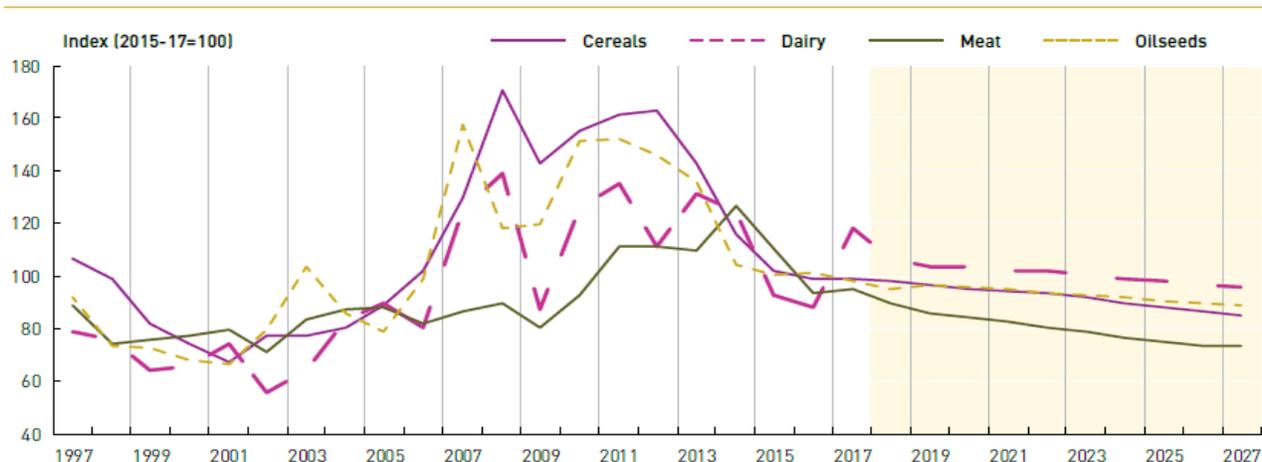
The weakening of demand growth is expected to persist over the coming decade. Population growth will be the main driver of consumption growth for most commodities, even though the rate of growth is forecast to decline further. Moreover, per capita consumption of many commodities is expected to be flat at a global level. This is notable for staple foods such as cereals as well as roots and tubers, where consumption levels are close to saturation levels in many countries. By contrast, demand growth for meat products is slowing due to regional variation in preferences and disposable income constraints, while demand for animal products such as dairy is set to expand faster in the coming decade.

For cereals and oilseeds, demand growth will come from feed, closely followed by food. A large share of additional feed demand will continue to come from China.

continued on page 2

Agricultural Outlook – Long Term Outlook 2018 – 2027

Figure 1. Medium-term evolution of commodity prices in real terms



Note: Price indices for commodity groups calculated using a constant weighting of commodities within each aggregate, using the average 2015-2017 production value as weights.

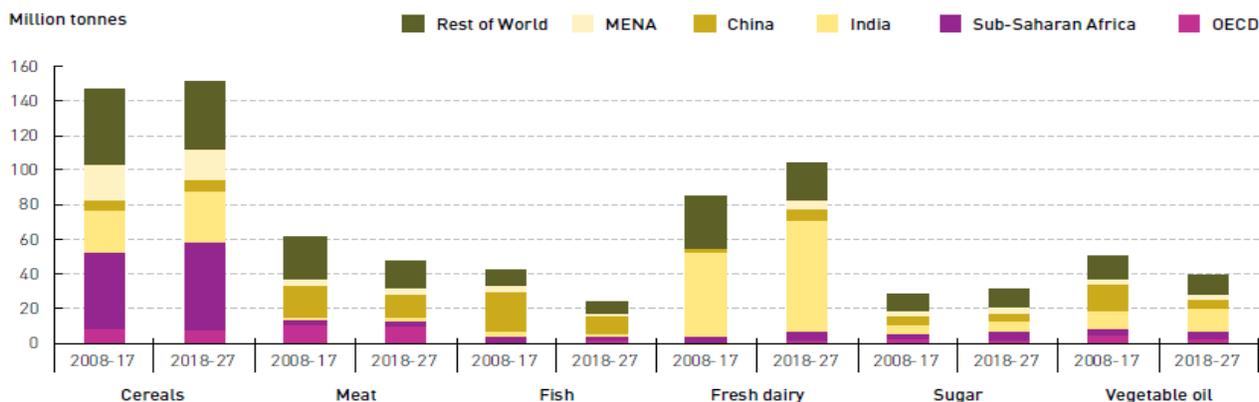
Feed demand growth is nevertheless projected to slow globally, despite livestock production intensification. Much of the additional food demand will originate in regions with high population growth such as Sub-Saharan Africa, India, and the Middle East and North Africa.

The demand for cereals, vegetable oil and sugar cane as inputs into the production of biofuels is expected to grow much more modestly than in the last decade. Whereas in the past decade the expansion of biofuels led to more than 120 Mt of additional cereals demand, predominately maize, this growth is expected to be essentially zero over the Outlook period. In developed countries, existing policies are not likely to support much further expansion.

Future demand growth will therefore come predominantly from developing countries, several of which have introduced policies favouring biofuels use.

The exceptions to the broad pattern of slowing per capita demand growth come from sugar and vegetable oils. The per capita intake of sugar and vegetable oil is expected to increase in the developing world, as urbanisation leads to a rising demand for processed and convenience foods. Changes in levels of food consumption and the composition of diets imply that the “triple burden” of undernourishment, over-nourishment and malnutrition will persist in developing countries.

Figure 2. Regional contributions to food demand growth, 2008-17 and 2018-27



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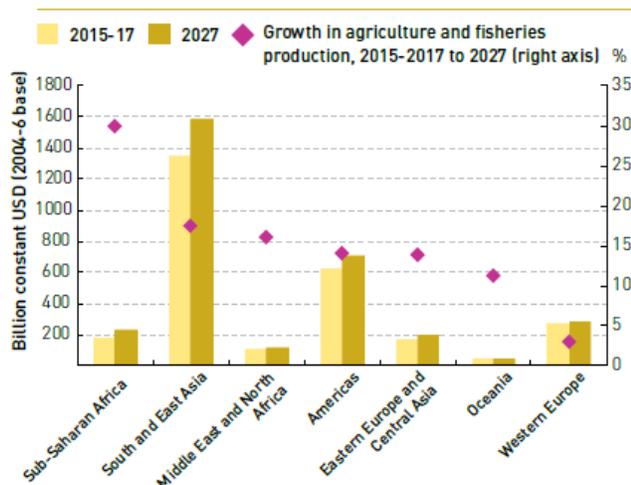
Global agricultural and fish production is projected to grow by around 20% over the coming decade, but with considerable variation across regions. Strong growth is expected in Sub-Saharan Africa, South and East Asia, as well as the Middle East and North Africa. By contrast, production growth in the developed world is expected to be much lower, especially in Western Europe. The growth in production will be achieved primarily through intensification and efficiency gains and partially through an enlargement of the production base via herd expansion and the conversion of pasture to cropland.

With slower consumption and production growth, agriculture and fish trade is projected to grow at about half the rate of the previous decade. Net exports will tend to increase from land abundant countries and regions, notably in the Americas. Countries with high population densities or high population growth, in particular in the Middle East and North Africa, Sub-Saharan Africa and in Asia, will see rising net imports.

For nearly all agricultural products, exports are projected to remain concentrated among stable groups of key supplying countries. A notable change is the emerging presence of the Russian Federation and Ukraine on world cereal markets, which is expected to persist. The high concentration of export markets may increase the susceptibility of world markets to supply shocks, stemming from natural and policy factors.

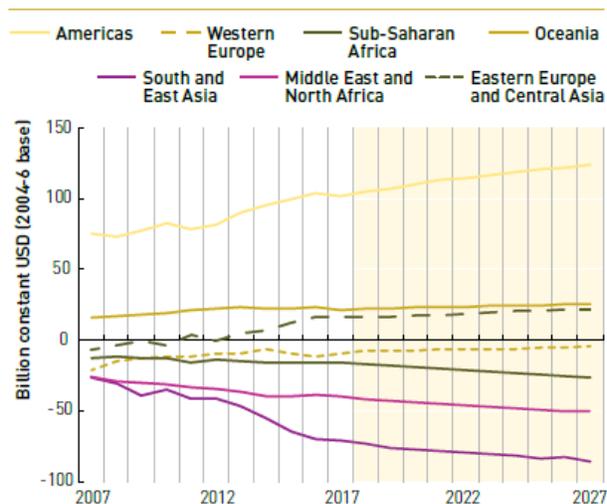
As a baseline projection, the *Agricultural Outlook 2018-2027* assumes policies currently in place will continue into the future. Beyond the traditional risks that affect agricultural markets, there are increasing uncertainties with respect to agricultural trade policies and concerns about the possibility of rising protectionism globally. Agricultural trade plays an important role in ensuring food security, underscoring the need for an enabling trade policy environment.

Figure 3. Regional trends in production



Note: The figure includes commodities covered in the Outlook as well as projections for the value of other agricultural commodities included in FAO estimates of net-value production (FAOSTAT)

Figure 4. Regional net trade in agricultural products



Note: The figure only includes commodities covered in the Outlook

Implications of U.S. Trade War on Canadian Producers

Canadian producers have become victims in the on-going trade war between United States and China as tariffs undermine commodity prices, eating into Canadian producers profits. The trade war has highlighted the impact of protectionism and could realign global agricultural supply chains.

China is the world's largest soybean consumer and remains heavily reliant on imports to satisfy demand. Subsequently, China's buying habits do have an enormous influence on global prices. The oilseed, used to make cooking oil and animal feed, accounts for about 60 percent of the U.S.'s \$20 billion of agricultural exports to China.

Cereal grain and oilseeds are priced based on a North American market, thus wheat or a soybean grown on the prairies is priced directly off the United States futures market. Canadian canola and barley is priced off of U.S. soybeans and corn futures respectfully. As the demand for cereals and oilseeds diminish, supply has increased reducing prices.

Large soybean crops in Brazil and the U.S. has ballooned global stock at a time when demand is being disrupted. The result is that the cash soybean price has fallen 25% and cash canola have decreased 12% since June 2018. The lack of demand has also affected the wheat market with wheat futures lingering at multi year lows.

Canadian producers could see an increase in market share as Canadian soybeans and canola are shipped to China, but at much lower prices which creates a net negative situation. In 2017, Canada's total exports of soybeans reached 5 million tonnes with nearly 40% of that amount going to China. By comparison, the U.S. sold more than 30 million tons of soybeans to China.

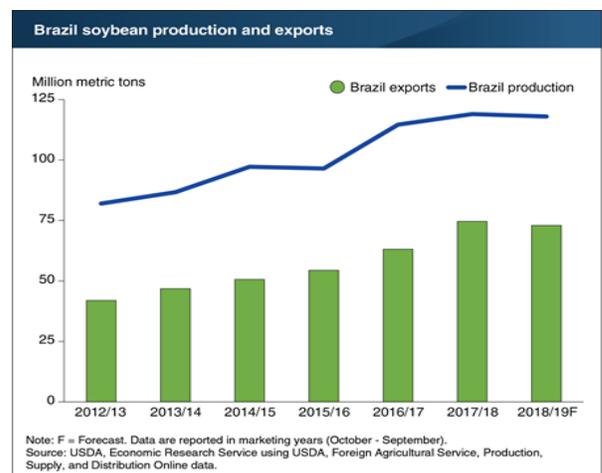
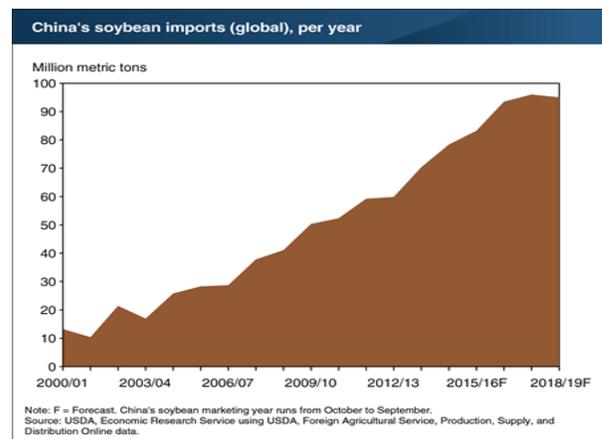
China is encouraging the use of alternative animal feeds which could benefit Canadian canola producers over time. China already is the largest customer of Canadian raw canola seed.

Brazil maybe the winner in this battle of goliaths. Brazil has been the world's largest exporter since 2012-13. And China's tariffs may serve to accelerate Brazilian demand.

A boom in global prices in the mid -1970's encouraged the government to invest in technology to adapt the crop to the country weather and soil. That created successful seeds that allowed planting in the Cerrado region, including what is the top producer state Monto Grosso.

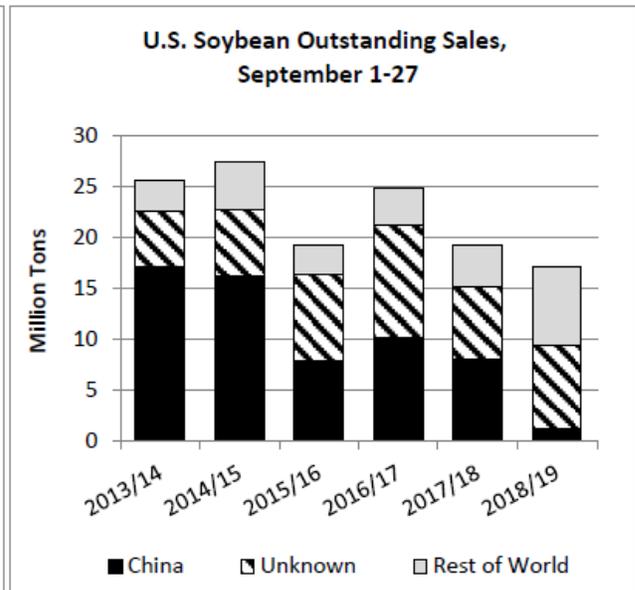
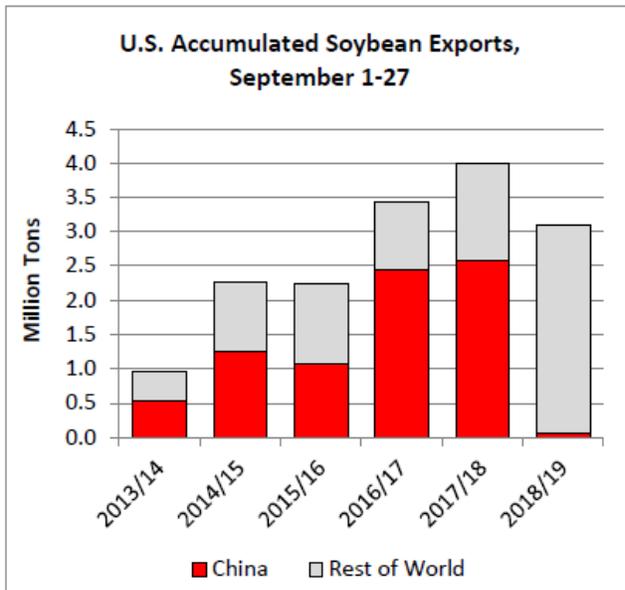
The longer term impact is less certain. Brazil does not have enough soybeans to meet China's demand alone, and there are few other major shippers besides the U.S. Argentina is a significant grower but is more commonly exports meals and oil.

One thing that is becoming evident is that the U.S. is providing American farmers with a \$12 billion aid program to limit the damage from the lost purchase. The Canadian government however has announced no such aid package even though producers groups have voiced their concern.



Continued U.S. - China Tension Affecting Soybean Trade in 2018/19

As of the October 4 U.S. Exports Sales, U.S. soybean outstanding sales are below last year owing to fewer sales to China, which are currently 85 percent below last season. Anemic weekly sales and significantly lower outstanding sales indicate that there is not much interest in purchasing U.S. soybeans by China, primarily due to its decision to include soybeans on the list of key U.S. commodities that are subject to retaliatory tariffs. U.S. soybean exports to China typically reach their lowest levels in summer and then build strength as harvest progresses. However, a large pullback in Chinese demand for U.S. soybeans appears likely to continue well into 2018/19.

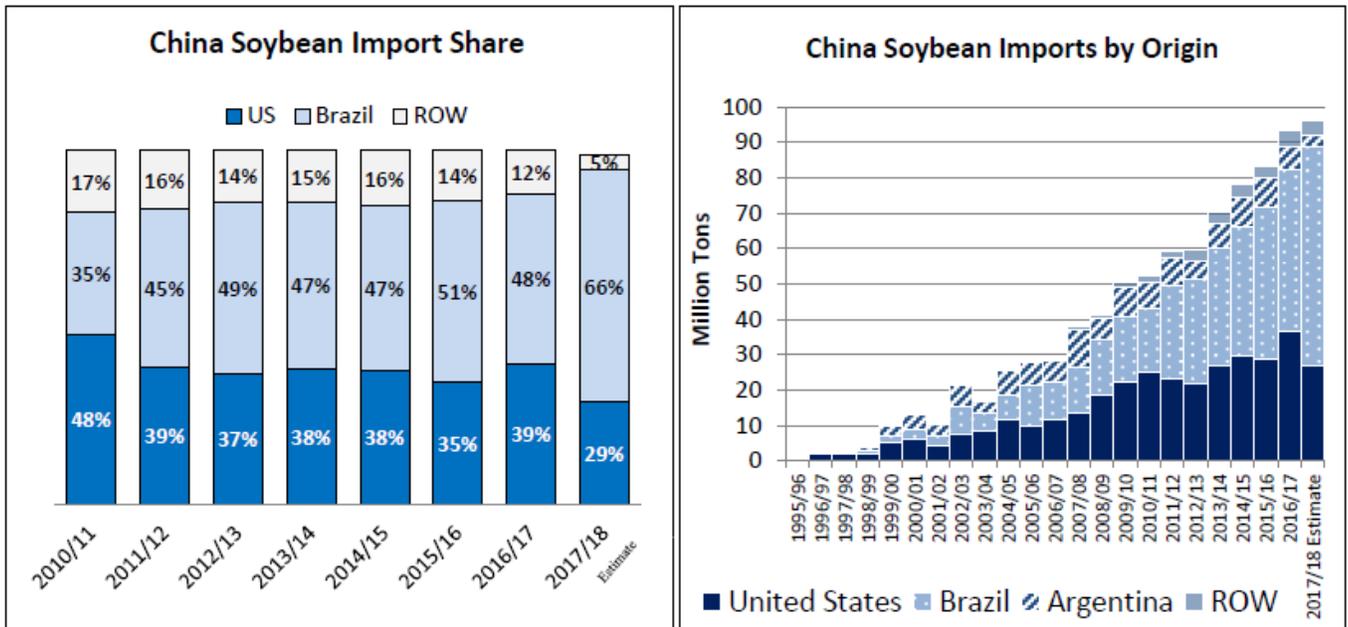


U.S. accumulated soybean exports were a little over 3.0 million tons or 23 percent below last year. Accumulated exports to China were only 67,000 tons, which is 2.5 million tons less compared to last year. Weekly shipments to the rest of the world were 1.6 million tons above last year; however, they did not fully offset reductions for China. U.S. soybean sales to the rest of the world (including unknown) are 42 percent above last year, though the ability for the rest of the world to make up for typical exports to China will be tested. The export sales are a good forward indicator of shipments; however, unlike China, many markets such as the European Union, the Middle East, and North Africa do not purchase soybeans in advance, so the report's usefulness as a predictor of future shipments is limited.

2017/18 U.S. Soybean Share in China Falls Based on available trade data, USDA estimates that 2017/18 U.S. soybean market share in China has fallen to 29 percent from 39 percent last year, while Brazil surged to 66 percent from 48 percent. According to U.S. Census Bureau trade data, U.S. soybean exports to China (Sep-Aug) were the lowest in volume since 2013/14 and the lowest in value since 2009/10.

The United States and Brazil are the primary soybean suppliers to China. With each supplier having alternate growing and harvesting seasons, China's imports have historically run in a cycle with high imports from the United States between September and February (Brazil's growing season) and then high imports from Brazil between March and August (U.S. growing season).

Continued U.S. - China Tension Affecting Soybean Trade in 2018/19



During September-December 2017, the United States shipped 18 percent less soybeans to China than in 2016. With record supplies available on September 1, Brazil exports to China rose more than three-fold in the final four months of 2017, and this increase more than offset lost trade from the United States. In the first months of 2018, with the start of the Brazilian soybean harvest, the prospects of an uptick in the pace of U.S. sales to China were limited. During January-February 2018, U.S. exports to China were 24 percent lower than over the same period in 2017. In the meantime, Brazil continued its soybean shipments to China at nearly the same pace as the previous year. U.S. soybean exports to China between January and July did relatively well in volume terms; however, the Calendar Year pace was the lowest since 2013.

The implementation of retaliatory tariffs led to an adjustment of trade flows in global soybean markets. An export price gap that opened between the United States and Brazil continued to widen towards the end of the marketing year, leading to fewer Brazilian sales outside of China and greater U.S. exports to other-than-China markets. Trade tensions between the United States and China will continue to affect soybean and soybean products trade in 2018/19.

