

Oilseeds Industry Review

Summary

The global oilseed industry is one of the most dynamic in agriculture. Oilseeds encompass a vast range of commodities that are produced throughout the world, traded actively, transformed into a multitude of products, and consumed in an endless list of applications. This report outlines the size, structure and dynamics within the global oilseed industry.

Basically, an 'oilseed' is any seed from which oil is expressed. Oilseed meal is co-product of the process. Although a huge number of plant seeds contain oil, the commercial production of oilseeds is confined to a relatively small list. The most dominant, in order of importance, are soybeans, oil palm and rapeseed (including canola).

The vegetable oil produced during the crushing process is most commonly used for human culinary purposes such as cooking oil. However oil is also increasingly used for industrial applications, including biofuel production. Vegetable meal is an extremely important high-value additive for livestock feed rations.

Global oilseed consumption has expanded at a faster rate than observed in many other agricultural commodity classes. This is due to the westernisation of diets, the substitution away from animal fats to vegetable oils; the expansion of the biodiesel industry; and the increased intensification of livestock production. Global vegetable oil consumption has grown by over 5% pa since the mid 1970's, much faster than the 1.8% pa rate of growth observed in wheat consumption.

The US and South America dominate global soybean production and exports, while Indonesia and Malaysia are the most significant oil palm producers and exporters. China is the most significant consumer and importer of vegetable oils and meal, with insatiable Chinese growth a key factor underpinning global oilseed prices. Australia is a small relative producer of oilseeds; however Australia is still ranked third in terms of canola exports.

Marketing arrangements for oilseeds are becoming increasingly sophisticated. The Chicago Board of Trade is the dominant oilseed futures market, with a focus on soybeans, soybean oil and soybean meal.

Industry overview

Industry definition

The oilseed industry encompasses a vast range of commodities/products, and can be used for a multitude of applications. In simple terms the industry includes the production of any seed from which oil is expressed. This "crush" produces two main products, vegetable oil and meal. Both have specific end uses depending on the original seed type.

Industry segmentation

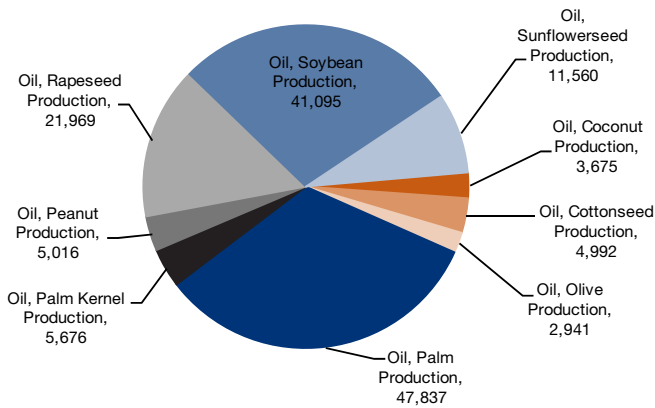
Although most plants contain some oil, the commercial production of oilseeds is confined to a relatively select list. The primary oilseed plants commercially produced today include:

- | | | |
|----------------------------|------------------|--------------|
| ■ Soybeans | ■ Peanut | ■ Olive |
| ■ Rapeseed (Canola) | ■ Sunflower seed | ■ Coconut |
| ■ Oil Palm and Palm Kernel | ■ Copra | ■ Safflower |
| ■ Cottonseed | ■ Linseed | ■ Sesame oil |

Oil palm (including palm kernel) is the most significant oil plant when assessed in terms of share of world vegetable oil production, followed by soybeans, rapeseed and sunflower seed. But in terms of the production of protein meal, soybeans are the most significant, accounting for over two thirds of global production, followed by rapeseed and sunflower seed. Each oilseed often has specific oil and meal characteristics which result in various end-use applications. Furthermore the relative oil vs meal content of each oilseed varies considerably, which influences applications.

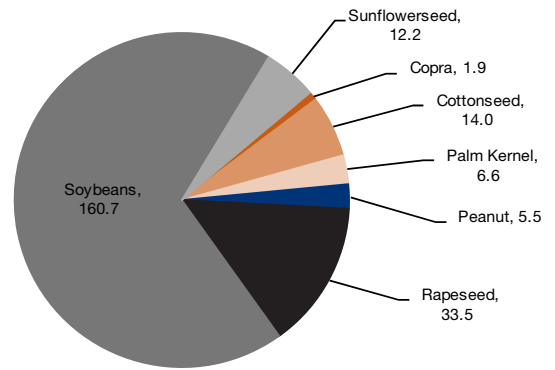


Figure 1: Global vegetable oil production 2010/11 (kt)



Source: USDA and CBA

Figure 2: Global protein meal production 2009/10 (mt)



Source: USDA and CBA

Product/application segmentation

Human consumption is the most common use of oilseeds, however vegetable oils and meal produced from the oilseed crushing process may or may not be edible. Applications for oilseeds include:

- Culinary uses
 - Cooking oil
 - Spreads and shortening
 - Flavour
 - Direct consumption
- Cosmetic & Industrial uses
 - Cosmetics
 - Lubricants
 - Fuels
 - Paints
- High protein meal for dairy, poultry and other livestock feed rations

Geographical segmentation

The diverse range of oilseed plant species, and the diverse climates in which they are suited, results in the production of oilseeds being spread throughout the globe. The most significant vegetable oil / oilseed producers are Indonesia, Malaysia, China, EU27, US, Brazil and Argentina. The Indonesian and Malaysian industry is palm oil dominated, the Chinese and US industry is driven by soybeans with a smaller rapeseed influence, while the EU is rapeseed/soybean dominant. The South American industry is soybean based.

Fig 3: Oilseed production by country

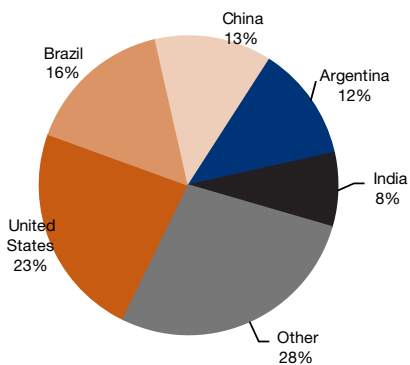


Fig 4: Veg oil production by country

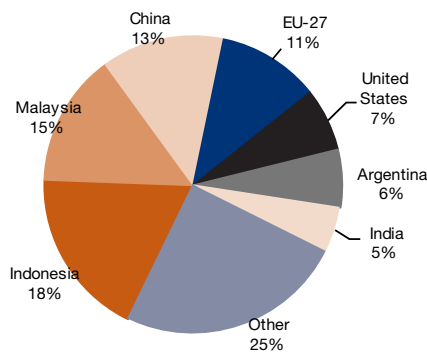
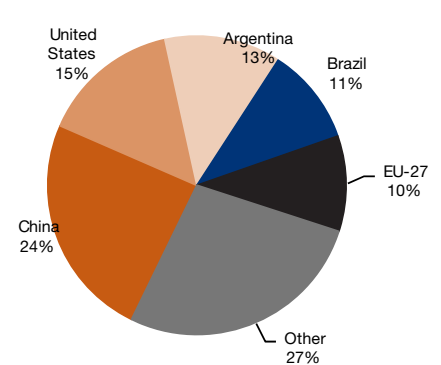


Fig 5: Meal production by country





The consumption of oilseeds is influenced by factors such as population density and presence of intensive livestock industries. Unsurprisingly, China dominates consumption, followed by the EU27, India and the US.

The trade in oilseeds and products is dominated on the export side by US, Argentina, Brazil, Indonesia, Malaysia and Canada. Key importers are China, India, EU27, Mexico, Japan and Korea.

Market performance

The oilseed industry has grown significantly over the past few decades, with the rate of growth in production and consumption exceeding that of many other agricultural industries.

The global consumption of vegetable oils has grown by around 5% pa from 1975 to 2011. This easily exceeds the 1.8% per annum consumption growth observed in world wheat market over the comparable period. The strong growth in vegetable oil consumption has been influenced by strong growth in both human food consumption and industrial consumption. The growth in human food consumption is linked to the westernisation of diets in developing nations and the replacement of animal fats with vegetable oils in the developed world. The extremely strong growth in industrial uses, ~13% pa over the past decade, is directly linked to the explosive growth of the biodiesel industry

Figure 6: Production and use of global vegetable oils

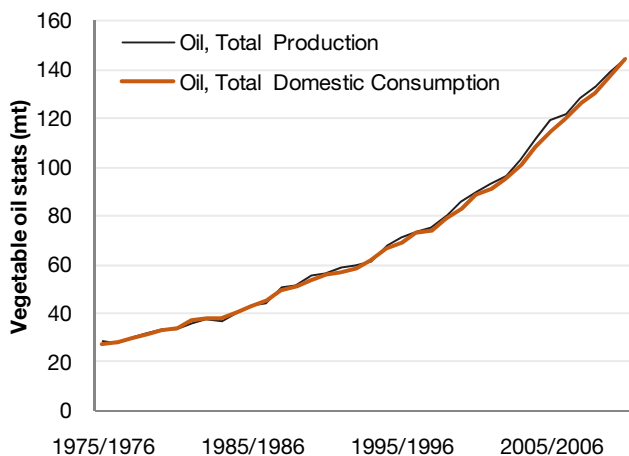
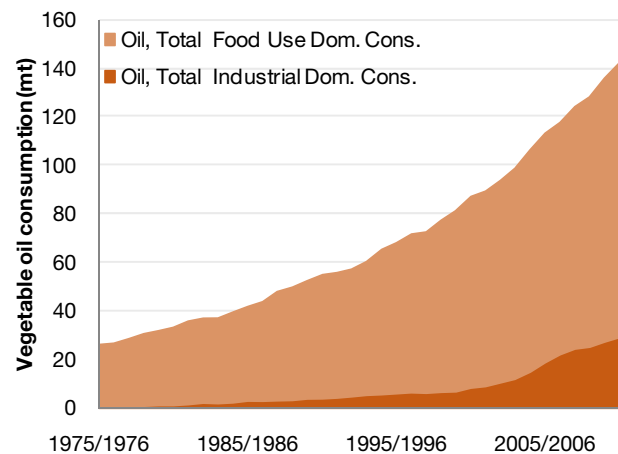


Figure 7: Vegetable oil consumption



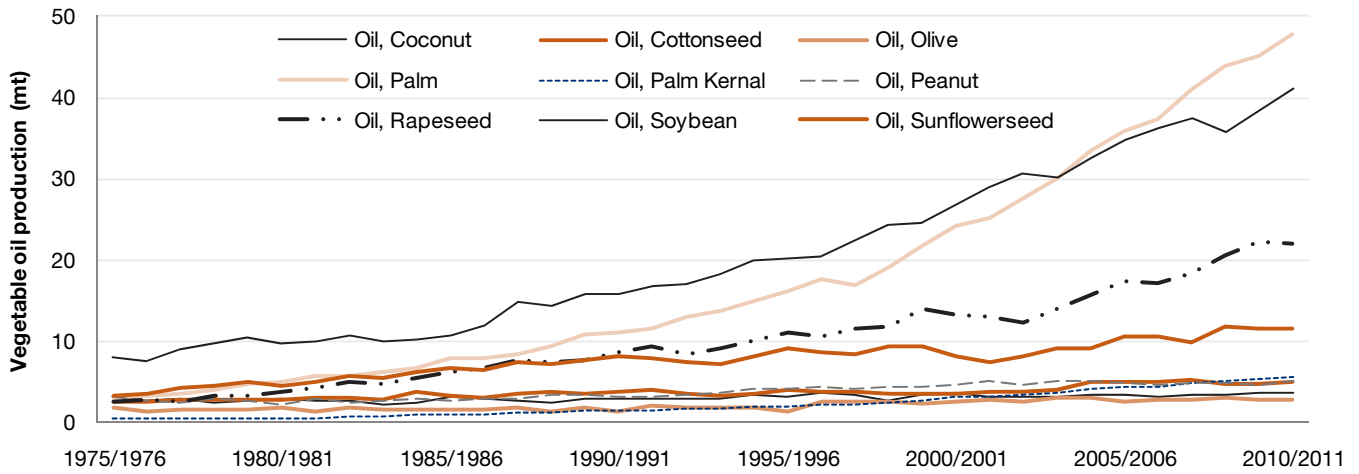
Source: USDA and CBA

Growth within the vegetable oil segment has been driven by the palm oil industry (8% pa), followed by soybean oil (4.8% pa) and rapeseed oil (6.3% pa). The most significant avenue for consumption growth has been in the industrial space rather than for human food consumption.

- In the case of soybeans, industrial consumption has grown by 23% pa over the past decade while food consumption has grown 3%.
- For palm oil, industrial consumption growth has been 12% pa while food consumption has grown 6%.
- And for rapeseed, industrial consumption growth has been 19% pa with food consumption of 2.5%.



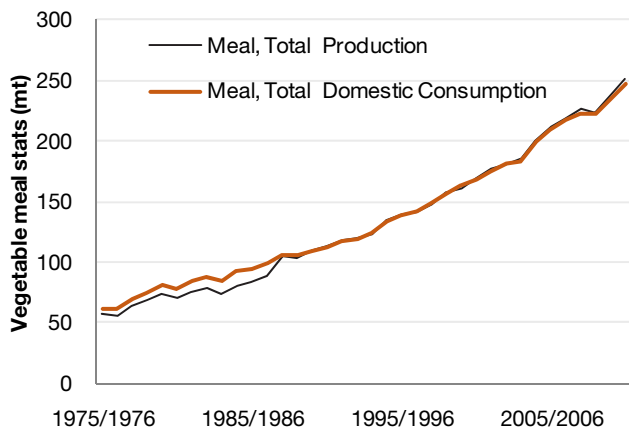
Figure 8: Vegetable oil production by source



Source: USDA and CBA

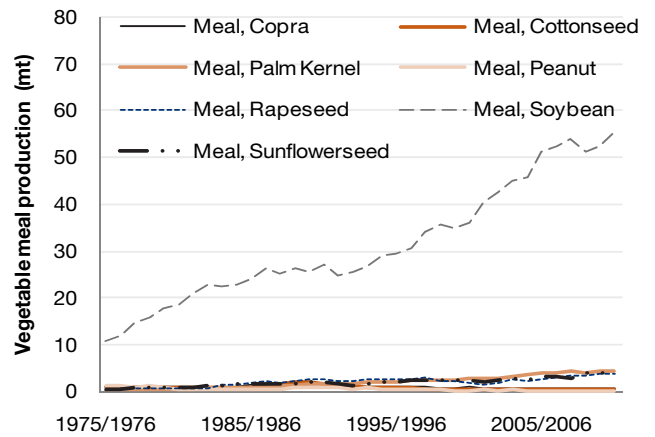
The vegetable meal segment has also grown strongly with production and consumption growth of 4% pa since the mid 1970s. Nearly 100% of meal is used in livestock feed rations as a high protein additive, particularly in the intensive poultry and pork industries. Soybean meal is the most common source of vegetable protein meals, accounting for around 70% of total consumption and production. This is followed by rapeseed meal (14% market share), cottonseed meal and sunflower seed meal (6% and 5% market share respectively). World trade in meals has expanded at 4.8% pa over the past decade.

Figure 9: Production and use of global vegetable meal



Source: USDA and CBA

Figure 10: Vegetable meal production by source



Source Summary

Palm oil and Palm Kernel

Oil Palm (*Elaeis guineensis*) originated in the tropical rain forest region of West Africa. According to the FAO, the oil palm is now grown as a plantation crop in most countries with high rainfall in tropical climates. The palm bears its fruit in bunches varying in weight from 10 to 40 kg, while the individual fruit, ranging from 6 to 20 gm, is made up of an outer skin, a pulp containing the palm oil in a fibrous matrix; a central nut consisting of a shell; and the kernel.

The processing of oil palm fruits produces palm oil (main product) and a palm kernel. The kernel is then processed to produce palm kernel oil and palm kernel meal. The two respective oil types are quite distinct. The oil palm gives the highest yield of oil per unit area compared to any other crop.



Global palm oil production has expanded by 7% pa over the past decade and is now the most important source of vegetable oil with 33% market share. Around 21% of palm oil is used for industrial applications, with the remainder used in food preparation. The global trade in palm oil as a proportion of total consumption is 79%, more than any other vegetable oil.

The most significant palm oil producers are Indonesia and Malaysia, which combined account for 87% of global production and over 91% of exports. The Indonesian sector has displayed rapid expansion over the past 5 years, with total output exploding from 15 ½ million tonnes in 2005/06 to 23 million tonnes in 2010/11 (8% pa).

The most significant consumers of palm oil are India, China, EU27 and Indonesia. Consumption in India has ballooned by 18.7% pa over the past 5 years, with 7% pa growth observed in China and 5.5% pa growth in the EU27. Other important countries to monitor include Thailand, which has had 15.5% pa consumption growth, and Egypt with 13.5% pa growth.

China, India and the EU are the most important importers of palm oil.

Figure 11: Palm oil producers

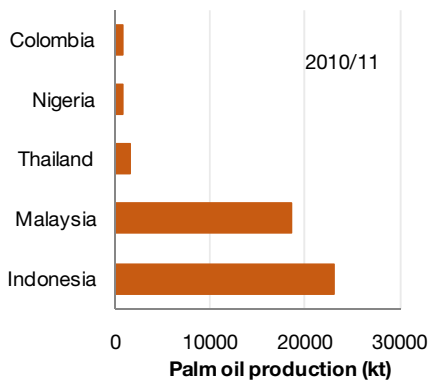


Figure 12: Palm oil consumers

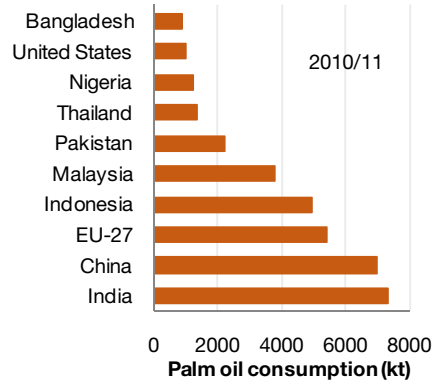
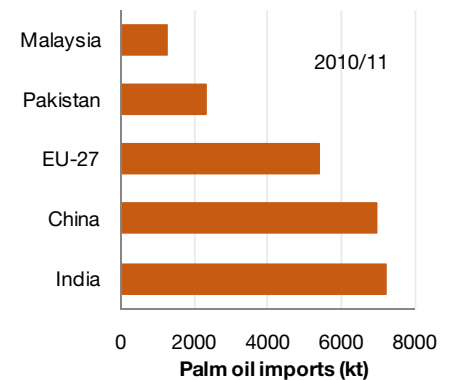


Figure 13: Palm oil importers



Source: USDA and CBA

Soybeans

Soybean plants are a high protein legume native to East Asia; now grown commercially throughout the world. Soybeans are cultivated successfully in climates with hot summers and ample moisture availability, and most commercial varieties today are genetically modified.

Soybeans are produced for their oil and protein characteristics, and have a diverse range of applications. Oil content of the soybean seed is roughly 20% while the protein content is a high 38-45%. Uses of soybeans include high protein (50%) soy meal feed supplement for intensive livestock production, soymilk and tofu, whole seed human consumption (edamame), textured vegetable protein (meat substitute in vegetarian diets), soy sauce, and soybean oil. The soybean oil can be used directly for human consumption or in a wide range of processed foods. The oil is also used extensively for industrial purposes such as biofuels, soap, cosmetics, resins and plastics. In the US, around 80% of the biodiesel industry is reliant on soybeans.

Global soybean production has grown by around 4% pa over the past decade and soybeans account for nearly 60% of world oilseed production (excluding oil palm). Soy oil accounts for nearly 30% of total vegetable oil production and soymeal makes up 70% of world vegetable meal production. Roughly 84% of soybean oil is used for human, rather than industrial, purposes.

North and South America are the most significant soybean production regions. The US accounts for 38% of world production, followed by Brazil (28%) and Argentina (21%). China is ranked 4th with 6% market share. The US, Brazil and Argentina account for 90% of global exports. China is the most significant oilseed consumer, accounting for ¼ of the total world soybean crush. Over the past 5 years the rate of growth in Chinese consumption has been a staggering 10.5% pa. To facilitate such strong consumption, Chinese soybean imports have been growing at over 14% pa, and China now accounts for nearly 60% of world soybean imports.



Figure 14: Soybean producers

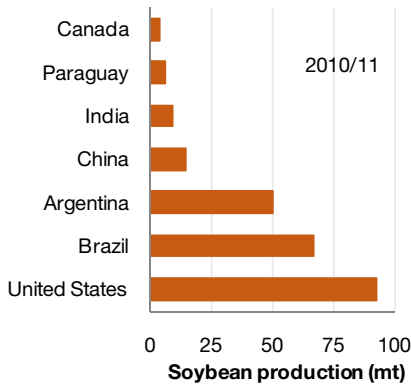


Figure 15: Soybean consumers

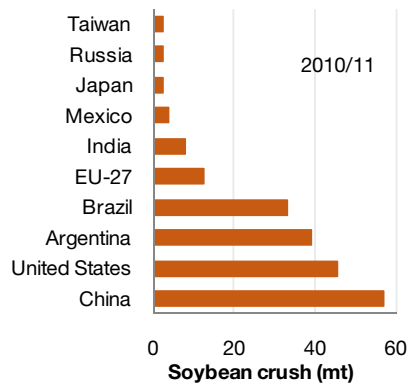
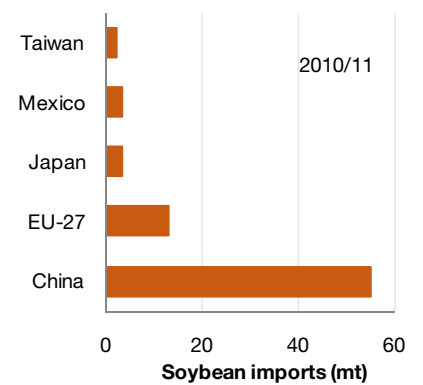


Figure 16: Soybean importers



Source: USDA and CBA

Rapeseed/Canola

Rapeseed (otherwise known as canola or rape) is a winter/spring growing member of the mustard family. Canola is widely produced throughout the world, with increasing prevalence of GM varieties (particularly in North America).

Canola is produced primarily for its oil content, ~42% of the seed is oil, which is in turn widely used as a cooking vegetable oil and as an input for many processed foods. The oil is also used widely for industrial applications ranging from lubricants to biofuels to cosmetics.

Rapeseed/canola oil is the primary feedstock for the European biodiesel industry. The meal is used as a high protein animal feed.

Global canola production has expanded by more than 4½% pa over the past 15 years, with current the world crop at of 57-60mt. The majority of the world’s canola is now produced in the EU27 block of nations (46% market share) followed by Canada (26% share) and India (15%). The EU27 accounts for half of global consumption, followed by India and Canada (16% and 12% respectively).

Trade over the period has also grown significantly with a rate of 6.5%pa. Japan and EU27 are the world’s most important importers, followed by Mexico and Pakistan. Canada dominates the export market with a massive 69% market share, followed by Ukraine (16%) and Australia (10%).

Figure 17: Canola producers

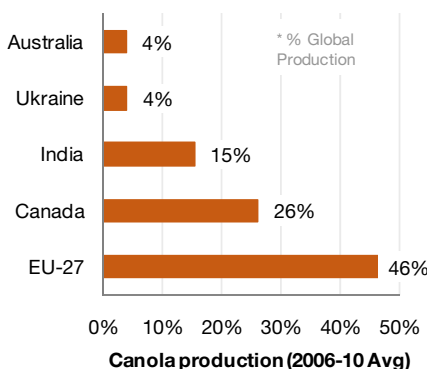


Figure 18: Canola consumers

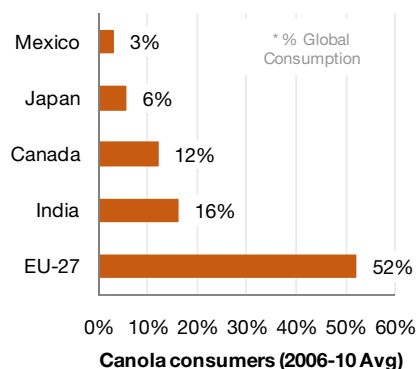
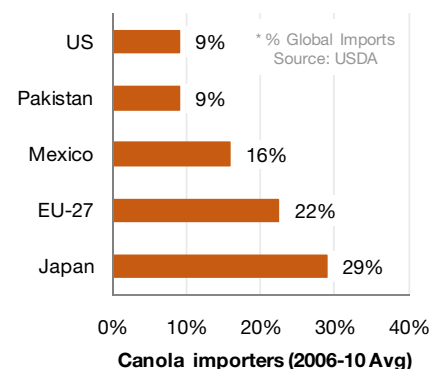


Figure 19: Canola importers



Source: USDA and CBA

Australian oilseed sector

Australia is a relatively small oilseed producing nation, with an annual crop of 2 to 3 million tonnes. Canola is the dominant crop, accounting for 70% of production, followed by cottonseed at 20%. Sunflower seed and soybeans contribute around 3% each to domestic production. Canola is



produced in the winter grain cropping belt, primarily from central NSW through to WA. The most significant factor adversely affecting Australian oilseed production is climate variability.

Figure 20: Australian oilseed production (thousand tonnes)

	Canola	Cottonseed	Sunflowerseed	Peanut	Safflower	Soybeans	Total
2002/03	871	546	25	28	26	18	1,523
2003/04	1,703	494	58	44	28	74	2,409
2004/05	1,542	912	62	32	28	54	2,641
2005/06	1,419	844	98	25	29	55	2,480
2006/07	573	388	18	18	20	32	1,056
2007/08	1,214	188	73	41	19	35	1,577
2008/09	1,861	466	72	37	21	102	2,566
3yr average	1,216	347	54	32	20	56	1,733
Proportion of total	70%	20%	3%	2%	1%	3%	100%

Source: ABARE and CBA

Despite contributing only a small amount to world output, Australia is the 3rd largest canola exporter with 10% market share. Typically 55%-60% of Australia's annual production is exported. Japan and Pakistan are traditionally the most important canola export markets, taking around 55% of supplies. The largest growth avenues have been in non-traditional markets such as China.

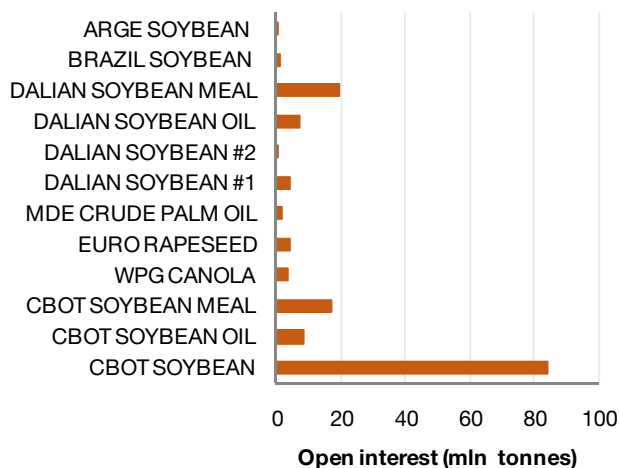
Oilseed price performance

In addition to a sophisticated cash market, oilseeds are actively traded and hedged on various commodity exchanges around the world. The most actively trade futures markets include the Chicago Board of Trade (for soybeans, soybean meal and soybean oil), the Dalian Commodity Exchange (soybeans, soybean oil and soybean meal), the Intercontinental Exchange in Winnipeg (Canola), NYSE LIFFE Paris (Rapeseed), and the Malaysia Derivatives Exchange (crude palm oil).

The CBOT soybean market is the deepest oilseed futures market, with a total open interest over of around 85 million tonnes followed by Dalian soybean meal market with 19.4mt open interest and CBOT soybean meal market with 17.3mt.

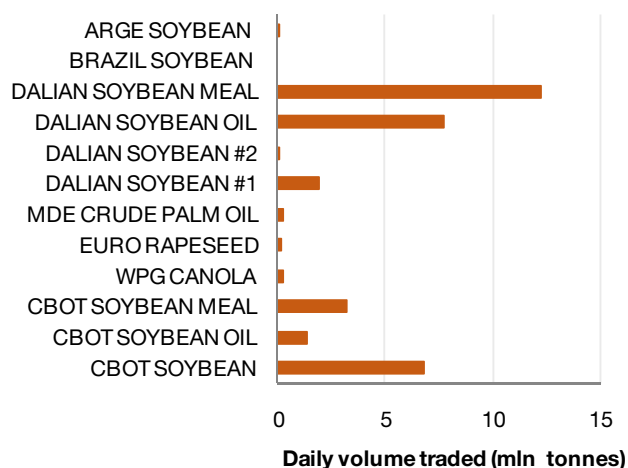
But the Dalian soybean meal and oil contracts are the most actively traded, followed by the CBOT soybean market. In the two weeks to 15th October, an average daily volume of 12.2mt of soybean meal was traded on the Dalian exchange, followed by 7.7mt of soybean oil per day on Dalian, and an average 6.8mt of soybeans on CBOT (nb - volumes refer to most active contract only).

Figure 21: Open interest in key oilseed futures markets, two week daily average 4th-15th Oct 2010 (million tonnes)



Source: Bloomberg and CBA (includes OI for entire futures strip)

Figure 22: Daily traded volume key oilseed futures markets, two week daily average 4th-15th Oct 2010 (million tonnes)



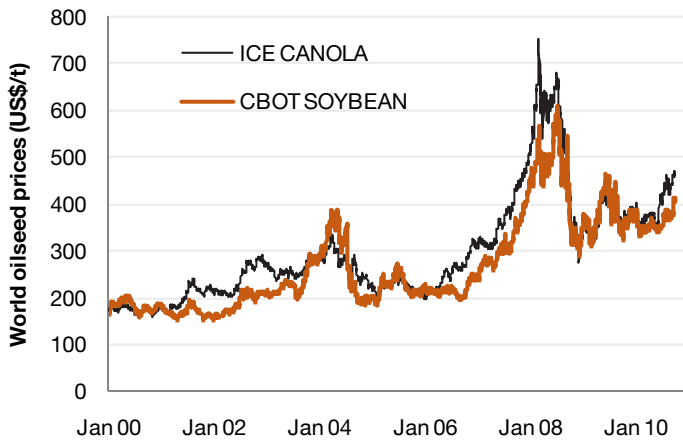
Source: Bloomberg and CBA (includes only most active contract)



In terms of recent price performance, international oilseed markets remain extremely buoyant relative to historic averages, although the markets do remain below their 2007/08 record highs. Very strong oilseed demand growth, particularly from Asia, remains a supportive influence on world oilseed markets.

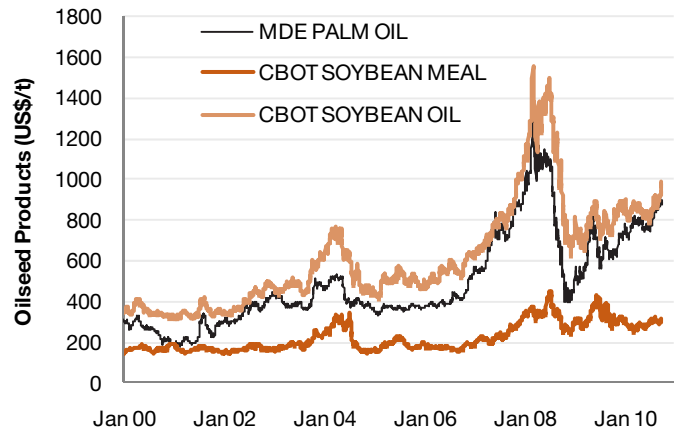
CBOT soybeans are currently trading around USD404/t, up 150% from the past decade average of USD270/t while ICE Canola is currently valued at USD465/t, up 156% from the past decade average. In terms of products, CBOT soybean oil is currently trading around USD958/t, up 160% from the past decade average, while meal is trading 134% above the decade average. Malaysian crude palm oil is nearly 80% above its decade average in USD terms.

Figure 23: North American oilseed prices



Source: Bloomberg and CBA

Figure 24: Oilseed product prices

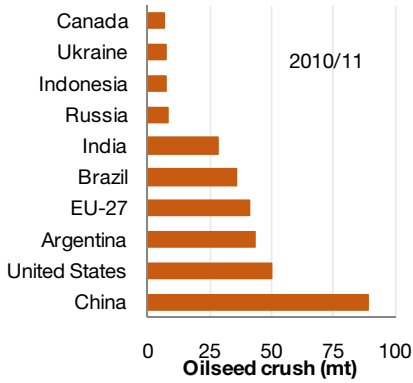


Source: Bloomberg and CBA



Appendix – Oilseed chart pack

Fig 25: Oilseed Crush by country



Source: USDA and CBA

Fig 26: Veg oil consumption by country

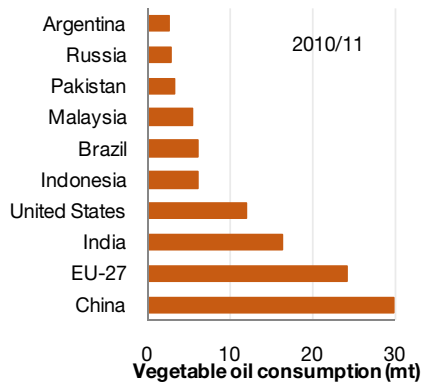


Fig 26: Meal consumption by country

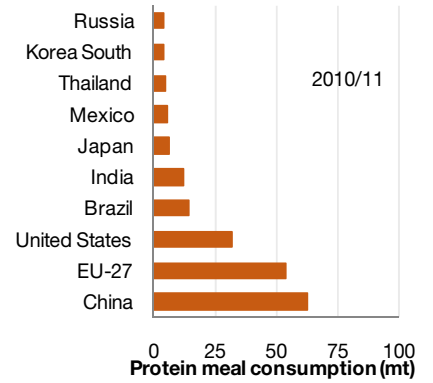
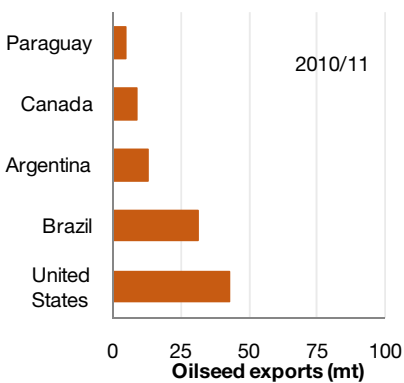


Fig 28: Oilseed exports by country



Source: USDA and CBA

Fig 29: Veg oil exports by country

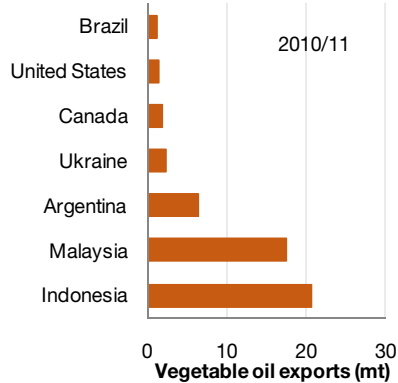


Fig 30: Meal exports by country

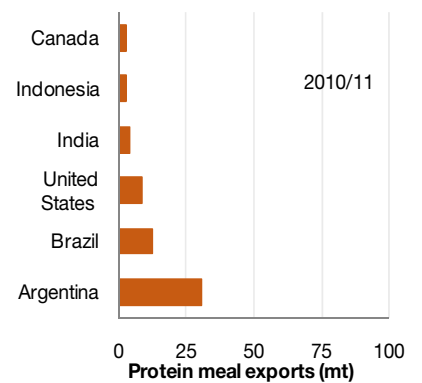
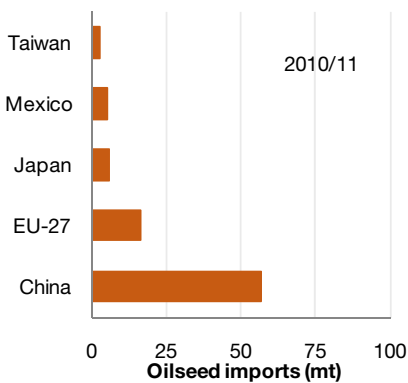


Fig 31: Oilseed imports by country



Source: USDA and CBA

Fig 32: Veg oil imports by country

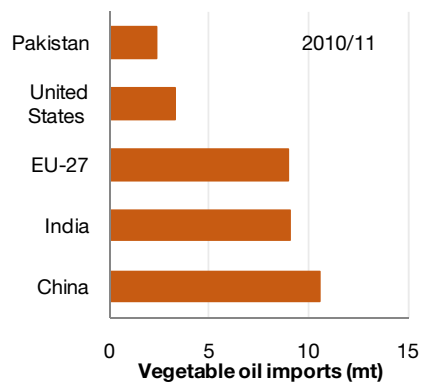
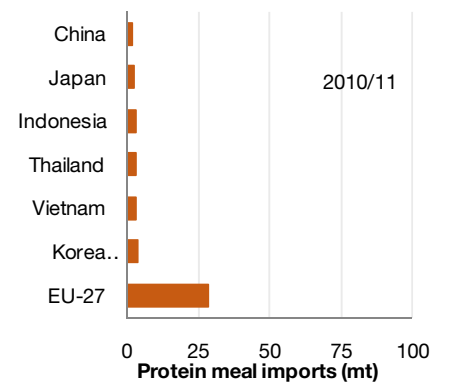


Fig 33: Meal imports by country





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Credit	+612 9117 0020	Lon/Eu	+44 20 7710 3573
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Melb	+613 9675 6815		
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Lon FX	+44 20 7329 6266	SA	+618 8206 4155
Debt & Derivatives	+44 20 7329 6444	WA	+618 9482 6044
Corporate	+44 20 7710 3905	QLD	+617 3015 4525
HK	+852 2844 7538	NZ	+64 9375 5738
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