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Grow with the Flow

2016 G&O Trade Developments

RaboResearch

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Global trade of all grains & oilseeds has grown by about 150m tonnes in the last five years, thereby exceeding the growth of the previous five years by more than 50%. However, given the significant decline in prices, the value of these flows has dropped by more than 15% in the same period, to around USD 200bn in 2014/15.

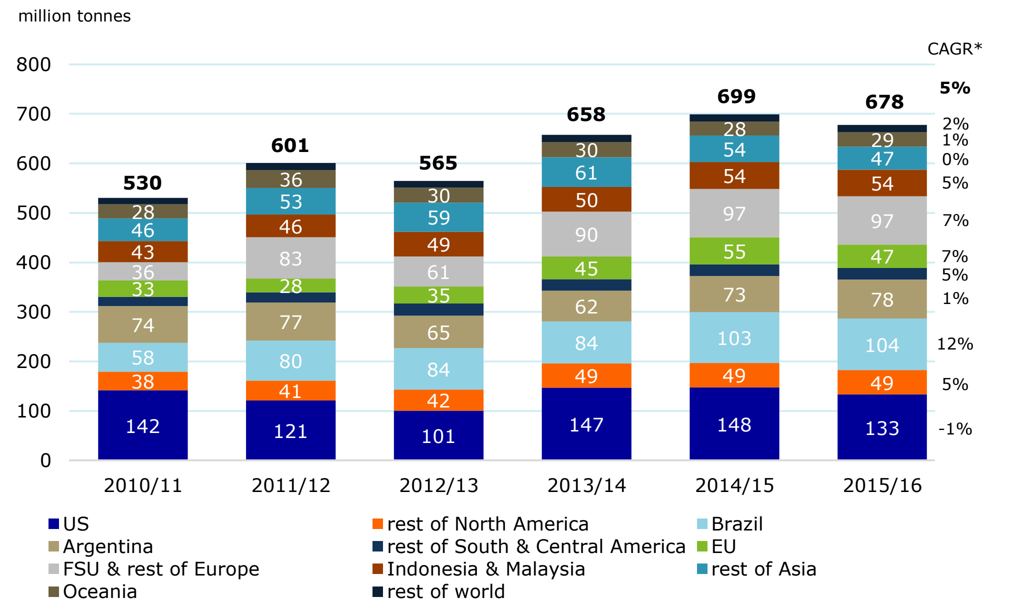
While US exports have been struggling lately, due to the strong US dollar, exports of emerging regions with weak currencies continue to boom. This includes Brazil—which has overtaken the US as the largest soybean exporter in the world and whose corn exports have tripled in the last five years—as well as the Black Sea Region, which continues to show strong export growth rates. The EU has also, due to very good crops in recent years, grown its grain exports by about 50% in the last five years.

Global imports are dominated, both in absolute and in growth terms, by Asia (43% of all imports), followed by the EU (12%), as well as North Africa, Sub-Saharan Africa, the Middle East, and South America and Central America, which each account for about 8% to 11% of imports, with Sub-Saharan Africa showing the strongest growth rates.

Key changes in trade origins

South American exports are growing faster than those of North America. Brazil has raised its exports by an impressive 41m tonnes, or 73%, in the last five years. Soybeans and corn were the two major exported commodities, driven by strong Asian demand and, respectively, showing a doubling, as well as a tripling, in trade. The Black Sea Region also continued its production and export growth. Ukraine, Russia and the eastern EU member states each increased their grain & oilseed (G&O) exports by about 50% *(see Figure 1)*.

Figure 1: Global growth of G&O exports by region, 2010/11-2015/16*



* Note: CAGR 2010/11-2015/16, for FSU 2009/10-2015/16 (due to drought reduced 2010/11 exports)

Source: IGC, USDA, OIL WORLD, Rabobank estimates, 2016

Corn

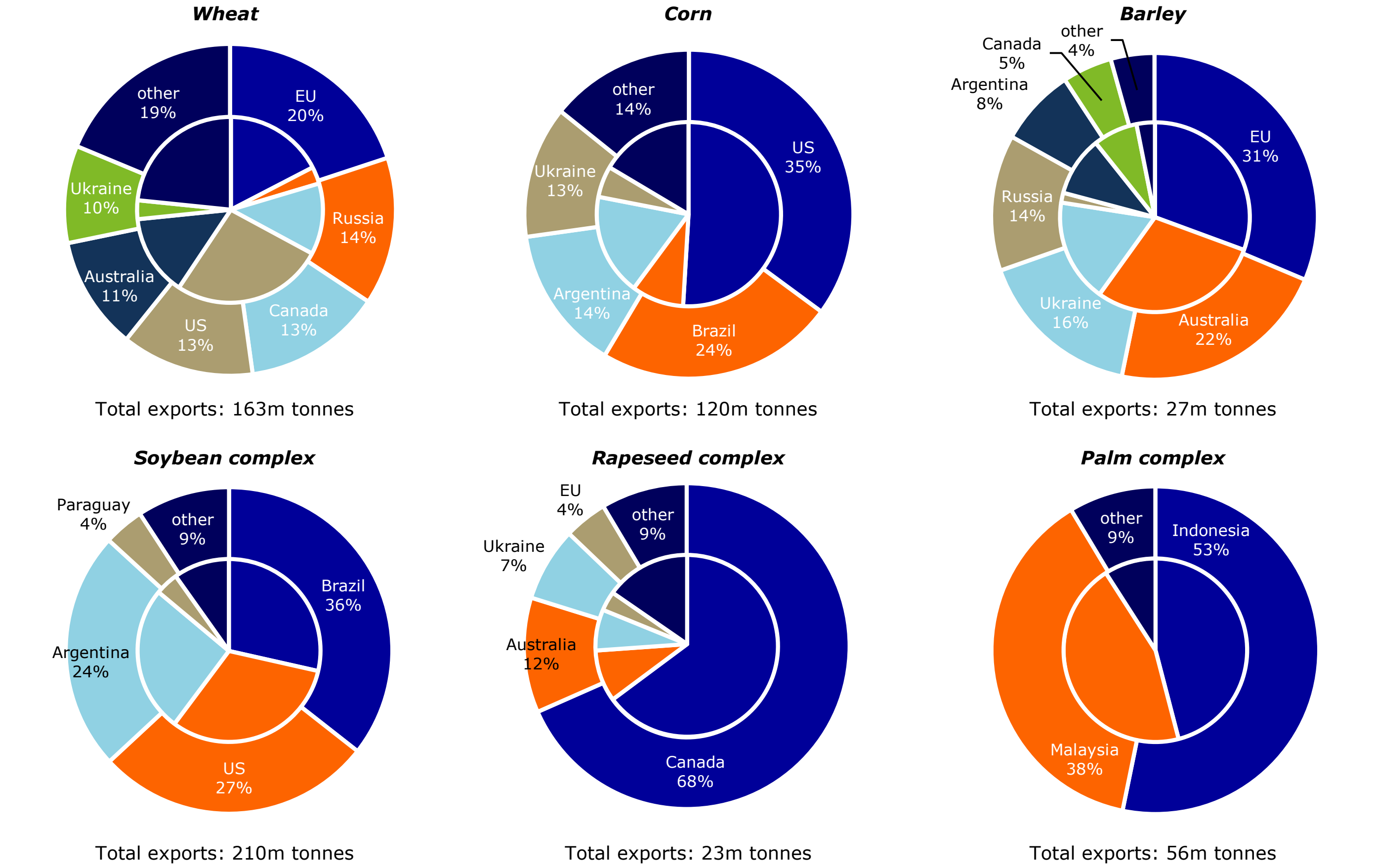
Global corn trade rose by about 43%, or roughly 40m tonnes. Ukraine substantially drove up its production and exports of corn, becoming the third-largest exporter worldwide; however, exports seem to be levelling off again recently. Still, Ukraine is now a key supplier of corn to the EU and Egypt, and it has also increased its share into East Asia. Despite the country's political turmoil, trade has not been impacted a lot. Brazil has massively expanded its safrinha corn production, by 140%. Only five years ago, safrinha corn—which is planted from January to March after soybeans are harvested—was still far smaller than the summer corn crop, while today it accounts for about two-thirds of Brazil's corn output. Supported by the weak Brazilian real, Brazil has tripled its annual corn exports, to more than 30m tonnes.

Wheat

Global wheat trade has only grown by about 20%, or roughly 30m tonnes. The US export share has also substantially declined, and the EU has taken over the top wheat exporter role, with exports in excess of 30m tonnes. Meanwhile, Russia, Canada and the US, each with 23m to 25m tonnes of exports, hold ranks two to four. Germany and France account for about 60% of EU wheat exports, but eastern EU member states in the Baltics and in the Danube region have emerged as key contributors to the growth of EU exports. These countries have increased grain exports to around 20m tonnes, with half going to non-EU countries and half to other EU member states. Rabobank predicts that these countries will continue to see further growth potential in the medium term. Australian exports have been relatively stable within the last five years, but, since 2010/11, surpassed those of the previous five years by about 50%, requiring supply chain improvements as outlined in our industry note *Australian Grains: The Next Hunger Games* *(see Figure 2)*.

Figure 2: Change of global export markets, 2010/11 vs. 2015/16

outer circle = 2015/16, inner circle = 2010/11, Total exports = 2015/16



Source: IGC, USDA, OIL WORLD, Rabobank estimates, 2016

Soy complex

The global soy complex (soybeans, soymeal and soy oil) trade has shown about 30% growth, equivalent to roughly 50m tonnes. Brazil accounts for more than half of this increase, and its soybean production will, for the first time ever, exceed 100m tonnes in 2016. Brazil thus soon threatens to overtake the US (107m tonnes in 2015/16) as the largest soybean producer in the world. Despite the drought-reduced US output in 2012/13, which tightened the US and global balance sheets, the US still continued its export growth of soybeans and soy products. The 2012 drought-reduced production in the US resulted, for the first time ever, in noteworthy imports of soybeans from Brazil into the US, of 1.1m tonnes, including about 30% from Brazil. In 2013/14, US imports reached almost 2m tonnes, including more than half from Brazil. However, in the last two years, US supplies have improved, and thus US imports have substantially declined again. Argentina, as well as Paraguay, Canada and Uruguay, were responsible for the remainder of the export growth.

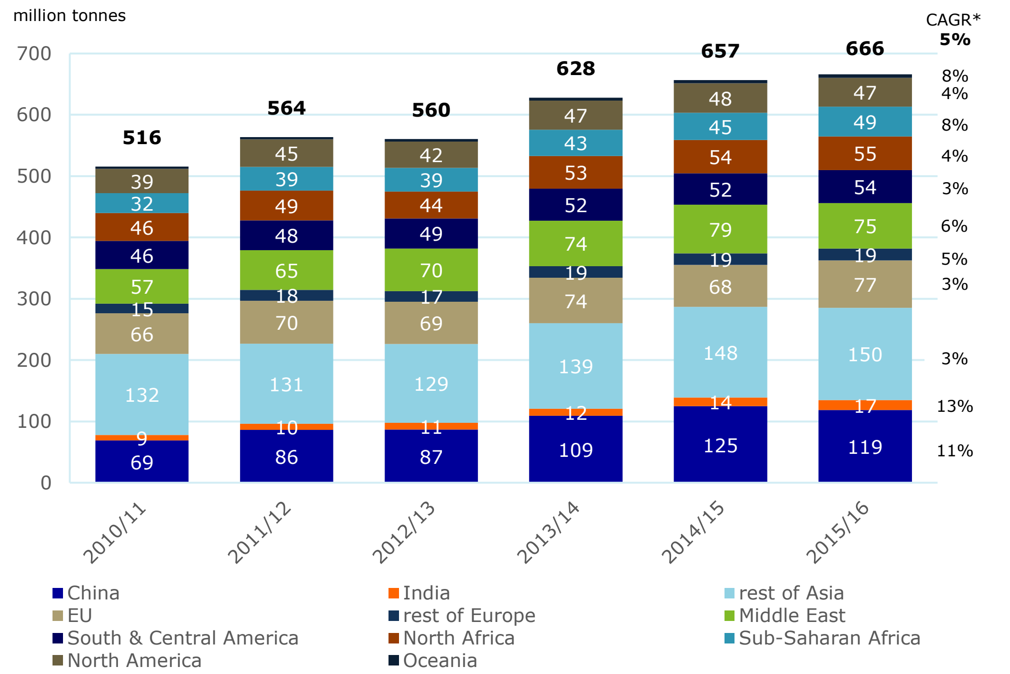
Palm oil

Global trade of palm oil has grown by about 25% in the last five years, with Indonesia and Malaysia accounting for 90% of the exports. Even though Indonesia was already the largest producer in 2010, it has, in the meantime, increased its exports by 45%. Therefore, it is by far the most important exporter, accounting for 53% of global exports, followed by Malaysia, with 38%. The demand for sustainable palm oil is also growing rapidly, and about 12% of the globally-traded palm oil is certified under a sustainability scheme. (Please also see our *Many Flavours of Sustainable Palm Oil* industry note.)

Key changes in major importers

While the Americas-to-Asia (especially China) trade is the key driving factor of G&O trade flows worldwide, other destination areas like the Middle East, South-East Asia and Sub-Saharan Africa (SSA) have increased their role in the last five years *(see Figure 3)*.

Figure 3: Development of global G&O import markets, 2010/11-2015/16



* Note: CAGR 2010/11-2015/16

Source: IGC, USDA, OIL WORLD, Rabobank estimates, 2016

China

By far, China remains the largest importer of G&O in the world, having increased its G&O imports by almost 90%, or roughly 60m tonnes, in the last five years. Aside from almost 80m tonnes of soybeans from North America and South America, China also imports another 4m to 5m tonnes of rapeseed, along with 5m to 6m tonnes of palm oil. In addition, a combined 38m tonnes of barley, sorghum, DDGS, corn, rice and wheat were imported last season, which is up from only 4m tonnes five years ago. Corn imports have clearly slowed since, in 2013, China enforced stricter monitoring for those GMO varieties not yet approved in the country. But China has a massive oversupply of corn as its price support policy makes it the second-largest producer of corn after the US, raising the question if: *China's Appetite for Sorghum and Feed Barley Set to Decline?*

Middle East

The Middle East has grown its imports by almost 30%, or 17m tonnes, with both the oilseed complex, as well as grains showing a strong growth. Key growth occurred in Saudi Arabia (40% of additional imports), Iran (33%) and Turkey (16%), who all have significantly strengthened trade with the EU and the Black Sea Region for barley, corn and wheat.

North Africa / Sub-Saharan Africa

North Africa's G&O imports have risen by about 25%, or 10m tonnes, with corn accounting for about half of the rise, while SSA's growth reached 44%, or 14m tonnes, with wheat making up half of the additional volumes. SSA will soon be the larger importing region on the continent. (Please also see our *African Wheat Imports Look South* industry note.)

European Union

The EU also has ramped up its G&O imports by about 10m tonnes, or 15%. The big swing factor is corn import, which, depending on the size of the EU grain crop, has shown strong volatility in recent years. Imports of the oilseed complex have been relatively stable, at about 53m tonnes, with the soy complex accounting for about 60%; however, influenced by economics, some substitution among imported soybeans and soymeal imports can be noted.

India

India has grown its G&O imports by 6m tonnes, or by two-thirds, with palm oil accounting for about half of this increase, and soy oil and sunflower oil for the majority of the remainder. India's fast-growing poultry sector and domestic demand for feed have reduced its soymeal exports, from almost 5m tonnes five years ago to virtually nothing anymore in 2015/16. Soon, India will become a net importer of soy complex. (See our *Losing Steam: India's Soymeal Exports Are Drying Out* industry note.) Finally, India's wheat crop will be significantly down this year, raising the potential for higher imports in the current season.

South-East Asia

Indonesia and the Philippines have increased their wheat imports of around 3m tonnes in the last five years, driven by the strong population growth and local demand. Canada and the US are the key trading partners, which resulted in these wheat trade flows in the region.

Outlook

Global G&O trade will continue to grow, as the demand regions with the highest growth rates (i.e. Asia, the Middle East and Africa) will rely even more on imported commodities. Trade into China will be crucial, but feed grain import might face challenges in the future, as the government in China has to deal with domestic corn stocks, which have risen to massive levels, while imported feed grains are taking on significant shares in feed.

Exporting countries are also facing challenges. While ethanol has provided an outlet for more than 130m tonnes of corn for US farmers, resulting in a one-third increase of US domestic corn use, ethanol mandates are levelling off, forcing the majority of the potential future production growth in the US onto the export market. However (as outlined in our *Making (Ex)Change* industry note), the strong US dollar is negatively impacting US exporters, while origins with weak currencies—including Brazil, Argentina, the EU, Ukraine and Russia—are benefiting and are gaining increased market share. Brazil has already surpassed the US as the top soybean exporter and has increased its G&O exports by 80% in just five years. Even though Brazil's G&O exports are still 30% lower than those of the US, the gap is quickly closing. Brazil continues to increase acreage and production, while over the next few years, US farmers will be forced to implement *Ch-ch-changes*: Low US dollar prices are threatening to dry up their operating capital, requiring US farmers to implement cost and planting discipline before profitability will return. The liberalisation of the export system in Argentina in late 2015—including lower or abolished export taxes—combined with the strong depreciation of the peso, has since resulted in aggressive exports of grains out of the region and is expected to continue to support Argentine exports of G&O. The Black Sea Region has shown strong export growth rates in the last five years, and, even though we forecast continued growth, the majority of the quick gains have already materialised (e.g. focusing on the production and export of corn instead of wheat or barley). We therefore predict lower production and export growth rates in the coming five years.

This report has been published in line with Rabobank's long-term commitment to international food and agribusiness. It is one of a series of publications undertaken by the global department of Food & Agribusiness Research and Advisory.