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Bearish oilseed outlook due to LARGE GLOBAL STOCK

Since most of the South African oilseed crop has already been harvested, it is crucial to monitor the international market. As of mid-June, international traders expect that the total global production for the ten primary oilseeds will decline for the 2015/16 production season. Oil World (an independent German forecasting service for oilseeds, oils and meals) has presented a tentative forecast of 522 million tons. This represents a decrease of six million tons.

However, it must be kept in mind that the season started with a record high of 104 million tons. Another important factor to keep in mind is the 16 million ton increase in the consumption of all oilseeds. However, the record opening stock will easily offset the expected decline in production and increase in consumption, and production will yet again be greater than consumption. This means that the expected global ending stock of the ten principal oilseeds would increase by three million tons to 107,4 million tons *(Table 1)*.

Table 1: World supply and demand – ten oilseeds.

	Forecast	Change
	2015/16	From 2014/15
Opening stocks	104,4	+24,8
Production	522,4	-6,4
Soya beans	314,9	-3,7
Sunflower seed	41,5	+0,4
Rapeseed	67,0	-2,0
Cottonseed	41,0	-3,7
Groundnuts	28,6	+1,6
Total supplies	626,8	+18,4
Ending stocks	107,4	+3,0
Soya beans	95,3	+4,3
Sunflower seed	2,8	+0,1

Source: Oil World

El Niño effect and the global market

In terms of soya beans, the United States (US) has ample stock from the 2014/15 season. According to the World Agricultural Supply and Demand Estimates (WASDE) June report, the stock-to-usage ratio is well above 11%, the highest since the 2006/07 production season. In mid-June, the planting conditions looked promising for the US and more than 80% of the intended hectares were already planted. The expectations are that the Chicago Board of Trade (CBOT) prices will come under pressure in the short to medium term. However, the weather conditions require some monitoring and will have an impact on the prices if there are severe crop failure conditions.

Currently, there are discussions regarding the El Niño effect, which is normally associated with above-average rainfall in the US Midwest and South America, with below-average rainfall conditions in countries such as South Africa and Australia. According to the US Climate Prediction Centre's May report, the chances of El Niño to continuing through the Northern Hemisphere summer is 90%.

In terms of canola, the Canadian prices experienced a rally in early June. This is mainly due to black frost, which destroyed enormous parts of the crop in that country. According to various sources, Canada would need to replant approximately 4-5% of the intended canola fields. This, according to Oil World, is 400 000ha. Placing further pressure on the situation is that there is insufficient soil moisture and farmers desperately need rain in mid-June to successfully complete replanting. This progress needs to be monitored in the last two weeks of June.

In terms of groundnuts, the Argentine crop is favourable with very high production levels. The expected ending stocks for the 2014/15 production season is at 152 000 tons, which is 17 000 tons more than the previous year.

Thus if one would investigate the international market, it is clear that there are currently favourable production conditions for most of the oilseeds. If the current conditions continue as is expected, the world will once again have a high ending stock level, meaning that the prices will come under pressure. This is the main reason for international traders having a bearish outlook on prices.

South African market

One of the key factors that will have an impact on local prices, is the exchange rate. In the last year, the exchange rate has weakened by 15% and 4% relative to the American dollar and the British pound. This was mostly due to electricity shortages, account deficits, slow economic growth and poor employment rates.

However, the weakening of the rand and the drought conditions in South Africa supported local prices. This is reflected in *Table 2* and *Table 3*. Most of our oilseed crop prices declined with smaller percentages than the international prices did. Brazilian soya bean prices decreased by 30%, against a South African decrease of only 15%.

Figure 1: **Rand exchange rate.** *(Source: South African Reserve Bank)*

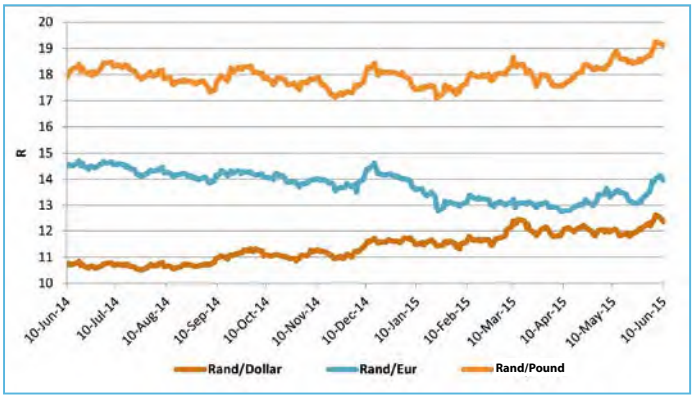

Figure 2: Local sunflower and soya bean prices. *(Source: Safex)*

Table 2: Principal oilseed prices (US$/ton and R/ton).

Product	4 June 2015	June 2014	% change
Soya beans (US CIF Rotterdam)	388	516	-25
Soya beans (Brazil)	400	571	-30
Sunflower seed (EU)	415	449	-8
Groundnuts (US 40/50)	1 280	1 128	13
Palm oil (Malaysia)	650	793	-18
Soya oil (US)	805	912	-12
Sunflower oil (Argentina)	850	975	-13
Soya meal (Argentina)	380	553	-31
Fishmeal (Peru)	1 950	1 673	17
Rand/$	12,35	10,7	15

Sources: South African Reserve Bank and Oil World

Table 3: Local oilseed prices.

Crop	10 June 2015	10 June 2014	% change
Sunflower	5 838	4 560	28
Derived sunflower	5 645	5 583	1
Soya beans	4 819	5 650	-15
Derived sunflower	5 925	6 474	-8
Soil canola	4 300	4 650	-8

Source: Safex and Grain SA

According to the latest Crop Estimates Committee (CEC) report (26 May 2015), the production of soya beans will be 942 850 tons on 687 300ha. This represents a yield decrease from 1,88 to 1,37t/ha year-on-year. According to the National Agricultural Marketing Council (NAMC) supply and demand estimate reports, South Africa will have an ending stock of 89 254 ton for soya beans in the 2015/16 marketing year, 25 550 tons more than the previous marketing season. In terms of sunflower seed, the production projection for 2015/16 is low (612), and this will result in increased imports from countries such as Romania and decreased local processing.

Table 4: Soya beans and sunflower supply and demand figures – South Africa.

Marketing season	Soya beans	Soya beans	Sunflower seed	Sunflower seed
	Projection for 2014/15	Projection for 2015/16	Projection for 2014/15	Projection for 2015/16
	Tons		Tons	
CEC (Crop estimate)	948 000	942 850	832 000	612 400
Retention	30 000	30 000		
Supply				
Opening stock (1 March)	61 806	63 704	47 116	92 927
Product deliveries	918 000	912 850	833 165	612 400
Imports	110 000	150 000	63 180	70 000
Surplus	0	2 500	5 948	5 000
Total supply	**1 089 806**	**1 129 054**	**949 409**	**780 327**
Demand				
Processed	1 005 548	1 026 000	847 682	683 500
Withdrawn by producers	1 975	3 000	467	500
Released to end-consumers	2 886	3 000	2 799	3 000
Seed for planting purposes	5 111	5 300	3 804	3 000
Net receipts (-)/disp(+)	1 924	2 000	1 081	1 000
Deficit	2 782	0	0	0
Exports	576	500	48	100
Total demand	**1 020 802**	**1 039 800**	**862 850**	**692 800**
Closing stock (28 February)	**63 704**	**89 254**	**92 927**	**87 527**
Processed p/month	83 796	85 500	70 640	56 958
Months' stock	0,8	1,1	1,3	1,5
Days' stock	**23**	**32**	**40**	**47**

Source: NAMC

In terms of local prices, harvest pressure will start to decrease as some of the stock is being processed. Traditionally, according to standard price seasonality (*Figure 2*), the price will spike towards the end of the year. However, the magnitude of the price fluctuation is highly dependable on the global market and the exchange rate.

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