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LARGE INTERNATIONAL STOCK vs local drought pressure

International oilseed markets were in a difficult space over the last year. This was to due to the low availability of vegetable oils. A global production deficit is subsequently developing for vegetable oils in the current production season. According to international traders, the production growth of vegetable oils changed from 4,1 million tons last year to 2,1 million tons in the current production year.

Palm oil and palm kernel oil have the slowest growth, however, various other vegetables such as rapeseed oil, cotton oil and coconut oil also showed slow growth. This changes the demand to seed oils such as soya and sunflowers. However, this additional demand is still not enough to decrease the high supplies in the oilseeds markets.

Soya beans

Expectations are that the current South American crop will move close to the previous year's levels. The overall world supplies of soya beans are abundant and will cover prospective demand, and even have record-ending stocks. However, there are still concerns regarding wet conditions in Brazil which are delaying harvesting. Argentina is experiencing dry conditions, which can lead to reduced yields.

The expected high-ending stocks are overshadowing the last few constraints within the South American market and prices are expected to come under additional pressure in the near to medium term, once these supplies start to move into the export market.

Table 1: World supply and demand of soya beans (million tons).

	Jan/Aug		
	2015/16	2014/15	Apr 13
Opening stock	87,11	64,75	59,54
Production	317,08	320,2	282,02
Total supply	404,19	384,95	341,56
Crush	273,92	257,6	238,81
Other usage	42,05	40,24	38,00
Ending stock	88,22	87,11	64,75

Source: Oil World

Sunflower seeds

World sunflower seed supplies are ample and the lower levels of vegetables oils created a spike in the demand for sunflower oil. This in turn led to increased levels of crushing within the sunflower market. However, these levels are still not high enough to put pressure on supplies.

The forecast for the current world production season (Jan/Aug) in terms of ending stocks is 2,63 million tons, which is similar to the 2,62 million tons of the previous seasons. Total supplies were very high, but the high supplies were dampened by an increase in crushing, which balanced total supplies at 2,63 million tons. Crushing increased from 22,57 million tons to 23,33 million tons during the same production period.

Table 2: World supply and demand of sunflowers (million tons).

	Jan/Aug		
	2016	2015	2014
Opening stock	25,1	24,35	26,69
Production	3,89	3,82	3,81
Total supply	28,99	28,17	30,5
Crush	23,33	28,17	30,5
Other usage	3,03	2,98	2,91
Ending stock	2,63	2,62	2,81

Source: Oil World

Canola stocks

Global end stocks of canola decreased to 5,2 million tons, which is almost a million tons lower than the previous production season and almost 2,5 million tons less than the 2013/14 production season. Important variables to monitor over the short term are Canadian crushing volumes and farm sales. Canada is expected to crush more, which means that farmers will have an incentive to sell more.

In short, the international market for the most popular oilseeds is currently in a very good ending stock position. This increase in supply will cause some price pressure on oilseeds prices and more specifically on meal prices, since the demand for oil is currently very high.

A decreasing trend in meal prices will also put pressure on soya bean crushing margins, necessitating oil to shoulder an increasing share of the joint product value. Thus it would be very important to evaluate the derived prices in the current production season.

Table 3: Most important oilseed prices (US$/ton).

Product	Jan 16	Jan 15	% change
Soya beans (US CIF Rotterdam)	367	436	-16
Soya beans (Brazil)	374	436	-14
Sunflower seed (EU)	465	438	6
Groundnuts (US 40/50)	1 175	1 350	-13
Palm oil (Malaysia)	550	652	-16
Soya oil (US)	674	794	-15
Sunflower oil (Argentina)	746	852	-12
Soya meal (Argentina)	333	451	-26
Fishmeal (Peru)	1 508	1 933	-22
Rand/$	16,39	11,57	42

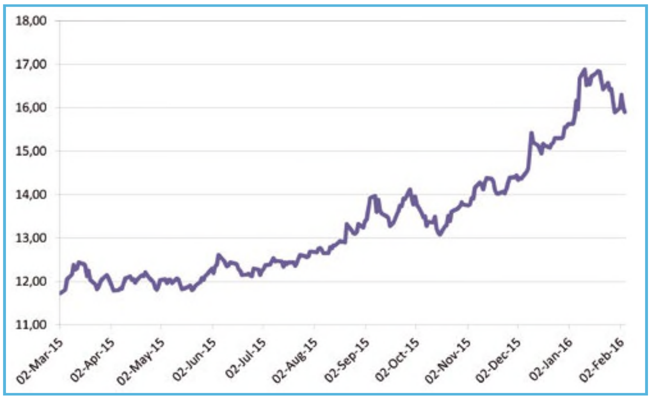
Source: Reserve Bank and Oil World

South African market

The current production season is a difficult one due to drought conditions. The drought caused numerous uncertainties within the marketplace and these uncertainties, in turn, are creating volatile price movements. This is further exacerbated by the current volatile South African economy.

Despite slow growth, there was a drastic devaluation of the exchange rate due to various factors such as the restructuring of global markets, political concerns in South Africa, the local investment environment and the possibility of a downgrading to credit junk status (*Figure 1*). These changes in the financial market also have an effect on commodity prices due to changes in import and export parity prices.

Figure 1: The increase in the exhange rate (R/$).



Source: SA Reserve Bank

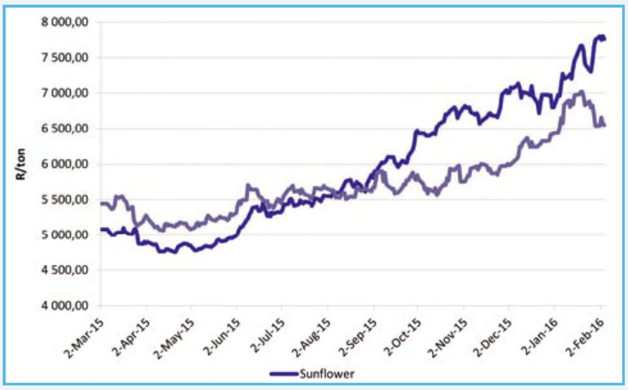
According to a preliminary crop estimate, South Africa will produce 27% less soya beans, 6% less sunflower seeds and 48% less groundnuts in the coming season. This is mainly due to the drought.

The majority of farmers were unable to plant maize or soya beans, and therefore opted to plant alternative crops such as sunflowers. Hectares under sunflowers increased from 576 000ha to 617 000ha. However, yields are expected to be lower due to the drought, hence the decrease in production.

Stock levels in the South African oilseeds market will be under pressure. Higher imports will therefore be a reality. However, the possibility of a decrease in international meal prices and high local seed prices, could see local processors switching from seed imports to meal imports, as this will enable better crushing margins.

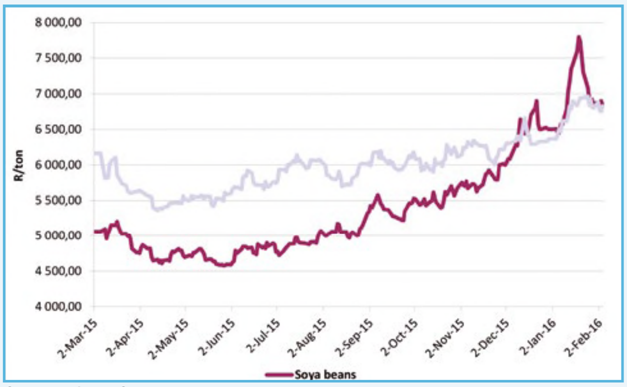
The effect of the price movements between derived and seed prices are illustrated in *Figures 2* and *3*. It is still early in the season and yields can easily change over the next few months. These changes will have a direct impact on prices.

Figure 2: South African sunflower and derived sunflower prices.



Source: GrainSA

Figure 3: South African soya bean and derived soya bean prices.



Source: GrainSA

In a nutshell

While international oilseed prices are under pressure due to high stock levels and good production figures, the opposite is true for South Africa. The drought has led to limited production and pressure on stocks.

In the next two months it will be very important to monitor the following:

- International production, more specifically in the southern hemisphere.
- The local economy, more specifically the exchange rate.
- Rain and frost predictions in South Africa.
- Meal and seed import figures.
- Derived prices vs Safex prices.