



Lows and highs

of oil and seed markets

Currently the various stock levels of plant oil resources in the world differ tremendously. These differences create some opportunities but also certain concerns, which ultimately also create uncertainty.

International market

The production of the seven largest oilseed markets is expected at 524,6 million tons for 2016/17. However, due to greater demand for oilseeds, the ending stock will most probably decrease to 90,2 million tons from 94,2 million tons in 2015/16 (Table 1).

The global sunflower seed crop level is currently very favourable. This is in particular the case in Eastern European countries. International traders are expecting the world's sunflower seed production to be at an all-time high of 46 million tons.

In terms of soya bean production, it is expected that global production would realise at 328 million tons, which is 14,7 million tons more than the previous year. A record crop of 110 million tons is expected from the United States (US). However, it is anticipated that South America will plant less in the next planting season.

Although the current crop supply appears favourable as of middle August, the risk of a La Niña weather pattern damaging the crops at a later stage still exists.

Table 1: Seven oilseeds: World supply and demand (million tons). (Source: Oilworld)

	14/15	15/16	16/17*
Opening stock	77,9	97,7	94,2
Production	521,8	503,1	524,6
Soya beans	320,5	313,2	327,9
Sunflower seed	41,1	42,1	46
Groundnuts	27,6	29	29
Other	132,6	118,8	121,7
Total supplies	599,7	600,8	618,8
Disappearance	500	506,5	528,6
Soya beans	299	315,7	332
Sunflower seed	41	42,3	45,8
Other	160	63,5	63,5
Ending stock	99,7	94,3	90,2
Soya beans	84,9	82,3	78,2

*Forecast

Global dependence on oilseeds will continue, mainly due to shortages in vegetable oils, canola and rapeseed, creating additional on top of the normal demand growth prospects. World rapeseed production is at a five-year low of 61,7 million tons. Global production of eight vegetable oils has declined by 1,3 million tons, while consumption is expected to increase by more than 4,7 million tons. This means that the world is set to look at oilseeds to satisfy this oil demand.

According to Oilworld, the worldwide crushing of seven oilseeds are likely to increase to 447,1 million tons for the 2016/17 season. This represents an increase of 18,2 million tons, the greatest of which entails soya beans, sunflower seed and palm kernels. Worldwide soya bean crushing is expected at 287,3 million tons, which is 14 million tons higher than the previous season.

Increase in crushing

In the US it is expected that crushing will increase to record levels of 53 million tons. As of the middle of August, the demand for US soya beans was very strong as well, as

American export figures more than doubled on a year-on-year basis. This consisted predominantly of China taking advantage of the bearish market outlook.

In summary, prices should experience pressure in the short term due to higher supply levels of oilseeds (Table 2). The increase in demand due to lower vegetable oil levels will, however, buffer this price pressure, and in the medium to longer term it is foreseen that the oilseed market of soya beans in particular may move toward exhibiting a bullish tendency.

Table 2: Global and local oilseed prices. (Source: Grain SA, South African Reserve Bank and Oilworld)

Product	04/08/2016	July 2015	% change
Soya beans (US CIF Rotterdam)	403	429	-6,06
Soya beans (Brazil)	430	429	0,23
Sunflower seed (EU)	395	432	-8,56
Groundnuts (US 40/50)	1 550	1 280	21,09
Palm oil (Malaysia)	645	610	5,74
Soya bean oil (US)	736	732	0,55
Sunflower oil (Argentina)	775	817	-5,14
Soya meal (Argentina)	379	384	-1,30
Fishmeal (Peru)	2 250	1 994	12,84
Rand/\$	13,7	12,67	8,13
Sunflower seed	5 550	5 541	0,16
Derived sunflower	5 754	5 630	2,20
Soya beans	6 438	5 003	28,68
Derived soya beans	6 419	5 855	9,63

In respect of oil meals, it is projected that significant growth in stock levels will occur due to the greater crushing figures as explained above. It is expected that the total oil meal production will be at 316,7 million tons, which is a 4,4% increase on a year-on-year basis.

The total soya meal production will increase by 5,2%, resulting in production of 225,8 million tons with an ending stock level of 8,2 million tons. In terms of pricing, this means that oil meal prices should remain under pressure due to increased production and stock levels.

Local market

Most of the oilseeds in South Africa have already been harvested, and the yields differ vastly between regions and planting dates. Most of the oilseeds planted later than the optimal planting dates performed considerably well. The sunflower seed crop has taken the market by surprise with higher than expected yields, while soya beans mostly underperformed due to extremely high temperatures and the severe drought experienced.

According to the South African Supply and Demand Estimates Committee (SASDEC) (27 July 2016), the 2016/17 sunflower seed will result

in an ending stock level of 77 367 tons, which is 31 500 tons higher than the previous marketing season. This is mainly due to higher production and import figures.

Soya bean production was 250 000 tons lower than the previous season, resulting in 300 000 tons worth of imports. The main question is whether crushing plants in South Africa will run at high utilisation percentages, or whether it will be more economically viable to import oil meal and keep utilisation levels lower. If the crushing margin does not improve, this will certainly be a marketing option for crushing plants.

Global conditions

In terms of prices, both sunflower seed and soya beans are trading close to derived prices due to the high demand and low supplies. Until the time of the new planting season, prices should closely follow the international market. Therefore, it would be vital to monitor global weather conditions and the exchange rate in the medium term.

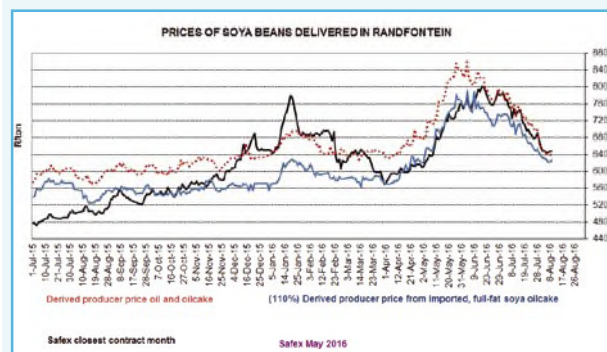
Considering the new production season, the maize-soya price ratio is currently favouring maize according to current price levels. However, if the La Niña is favourable in terms of rain at the right time for production, this ratio can easily alter in favour of soya beans.

The crushing margins of soya beans delivered in Randfontein are indicated in Figure 1, while Figure 2 provides an outline of the derived producer price of oil and oilcake and that of imported, full-fat soya oilcake.

Figure 1: The crushing margins of soya beans. (Source: Grain SA)



Figure 2: Derived producer prices of oil and oilcake and that of imported, full-fat soya oilcake. (Source: Grain SA)



In summary, the monitor points for the coming season consist of the following:

- Northern hemisphere weather and crop conditions.
- Southern hemisphere planting intentions and conditions.
- Crushing margins and oil meal prices/ imports.
- Exchange rate movements.
- Maize-soya bean price ratio for new production season.

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