By Dr Dirk Strydom

Large oilseed stocks

supported by Chinese demand

Table 1: World supply of the seven main oilseeds. (Source: Oil world)

Global supply and demand (million tons)			
	Forecast 2016/17	2015/16	2014/15
Opening stocks	93,1	97,2	77,5
Production	546,4	501,9	521,7
Total supplies	**639,5**	**599,1**	**599,2**
Disappearance	528,9	506	502
Ending stocks	**110,6**	**93,1**	**97,2**
Stocks/usage (%)	20,9	18,4	19,4

The global oilseeds supply is expected to reach a record level of 546,4 million tons for the seven main oilseeds. This high supply means that the production surplus will be at 111 million tons. The world supply of soya beans is ample and global production is estimated to reach a new high of 345,4 million tons, 33,6 million tons higher than last year's production levels. It is expected that production in the northern hemisphere will reach 161 million tons and the southern hemisphere 184 million tons.

Global soya markets

The estimated soya bean crops in the United States (US) and Brazil have reached levels of 117,2 million tons and 111,5 million tons respectively. Global traders expect that the Argentine crop will likely be below potential at around 55 million tons, mainly due to detrimental weather conditions during the season.

The global trade in soya beans is increasing, with China being the main destination. More than 80% of the anticipated growth in world soya bean imports is destined for that country. In the last decade, growth in terms of imports to China has created additional demand and supported prices. The largest contributor to this increase in demand within the Asian nation, is the substitution of dried distiller's grain with solubles (DDGS) with soya meal.

Global soya bean crushing is estimated to reach levels of approximately 282,4 million tons, which is roughly 10,9 million tons higher than the previous year's figures. In the medium term, the rest of the world's focus will mainly be on US soya bean, with unfavourable weather conditions in certain states possibly slowing down the planting progress.

Table 2: World soya bean supply and demand. (Source: Oil world)

Global supply and demand (million tons)			
	Forecast 2016/17	2015/16	2014/15
Opening stocks	80,23	83,98	62,76
Production	**345,4**	**311,75**	**320**
N. hemisphere*	161,38	145,09	146,89
S. hemisphere**	184,02	166,66	173,11
Total supply	**425,63**	**395,73**	**382,76**
Crush (Sept/Aug)	282,4	271,54	257,33
Other use	46,09	43,96	41,45
Ending stocks	**97,14**	**80,23**	**83,98**
Stocks/usage (%)	29,6	25,4	28,1

*EU/Russia and Ukraine/Canada/US/China/India
**Argentina/Brazil/Paraguay

Sunflower figures

The world sunflower seed production forecast is estimated at a record of 48,3 million tons. This is 5,3 million tons higher than the previous high in the 2015/16 season. International traders expected the global crushing of sunflower seed to decline to 18,8 million tons for the period from April to September.

The crushing of sunflower seed in Black Sea countries is projected to slow down somewhat over the next six months, but it is likely to be offset by more crushing in other regions such as Argentina, the European Union (EU) and on the local front. The world sunflower seed balance is expected to be significantly less in the second half of this season than at the same time last year, as a result of the consumption from Ukraine and Russia.

World production is, however, still expected to exceed demand during this season. Assuming normal weather conditions this year, a large crop may be seen in Black Sea countries, as sunflower seed is one of the most viable crops for producers in the Ukraine and Russia with its low production cost and adaptability to harsh weather conditions.

Table 3: World sunflower seed supply and demand. (Source: Oil world)

Global supply and demand (million tons)			
	Forecast 2016/17	2015/16	2014/15
Opening stocks	3,27	3,07	2,94
Production	**48,28**	**42,85**	**41,33**
Total supplies	51,55	45,92	44,27
Ending stocks	**3,57**	**3,27**	**3,07**
Stocks/usage (%)	7,4	7,7	7,5

Canola prices

Canola prices have appreciated due to weather and crop concerns in the EU and Canada, which account for approximately 63% of the world supply. In Canada, the canola futures appreciated more sharply than prices in the EU. Snowfall and wet fields are currently delaying the spring plantings of canola, which could make it challenging to complete this year's large plant intentions.

In Canada, the leading canola producer, it is expected that production will be at 19,4 million tons, which is higher than the previous year. However, with higher export and crushing figures, the ending stock is 700 000 tons lower than the previous season.

The world supply of soya beans is ample and global production is estimated to reach a new high of 345,4 million tons.

Groundnut crop

The Argentine groundnut crop is likely to reach record levels of one million tons (shelled) this season, provided that major losses due to excessive rainfall or frost can be avoided during completion of the harvesting in the short term. The Argentine crop for the year is expected to increase by 20 to 25% compared to the previous production season.

Table 4: Canola supply and demand. (Source: Oil world)

Canadian supply and demand (million tons)			
	Forecast 2016/17	2015/16	2014/15
Opening stocks	2,02	2,54	0,59
Production	**19,4**	**18,38**	**16,41**
Imports	0,08	0,1	0,08
Exports	10,65	10,3	9,14
Crushing	9,16	8,32	7,36
Other use	0,39	0,38	0,26
Ending stocks	**1,3**	**2,02**	**2,54**

Global prices of the majority of oilseeds decreased by small margins on a year-on-year (y/y) basis. However, groundnut prices increased by 42%, which was mainly due to production constraints. International traders are of the view that global groundnut prices are likely to come under some pressure in the near future if the expected crop size is confirmed. If expected production realises in the northern hemisphere and vegetable oil production recovers, it can be expected that oilseed prices will be under pressure.

Table 5: Main oilseed products (US$/ton and R/ton). (Sources: Grain SA and Oil world)

Product	Apr 2017	Apr 2016	% change
Soya beans (US CIF Rotterdam)	388	396	-2
Soya beans (Brazil)	388	396	-2
Sunflower seed (EU)	400	427	-6
Groundnuts (US 40/50)	1 650	1 163	42
Palm oil (Malaysia)	681	707	-4
Soya bean oil (US)	737	758	-3
Sunflower oil (Arg)	720	771	-7
Soya meal (Arg)	352	355	-1
Fishmeal (Peru)	1 250	1 408	-11
Rand/dollar	**13,44**	**14,6**	**-8**
Sunflower seed	4 610	6 455	-29
Derived sunflower	5 233	6 126	-15
Soya beans	4 945	5 734	-14
Derived soya beans	5 749	6 317	-9
Soil canola	5 543	6 030	-8

Local production

The local production of soya beans is also favourable, with the National Crop Estimates Committee (NCEC) expecting a production of 1 233 130 million tons of soya beans (742 000 – 2016), 853 470 tons of sunflower seed (755 000 – 2016) and 86 600 tons of groundnuts (17 680 – 2016).

In the NCEC's first intentions-to-plant report for winter grains, the canola plantings for the season are expected to be 32,21% more than last year's. The estimated area for the season is 90 000ha, while last year's area planted was 68 075ha. The prices on the local market followed normal seasonal trends, with prices under pressure at harvesting time due to larger supplies within the market.

The soya bean crop fared better than most expectations, which led to increased pressure on prices. This means that prices move below derived prices, increasing the crushing margins of processors (*Figures 1* and *2*). Soya beans should therefore remain under pressure in the short term, and will most probably recover in the second half of the year closer to derived prices.

Figure 1: Safex soya bean prices and the derived soya bean price. (Source: Grain SA)

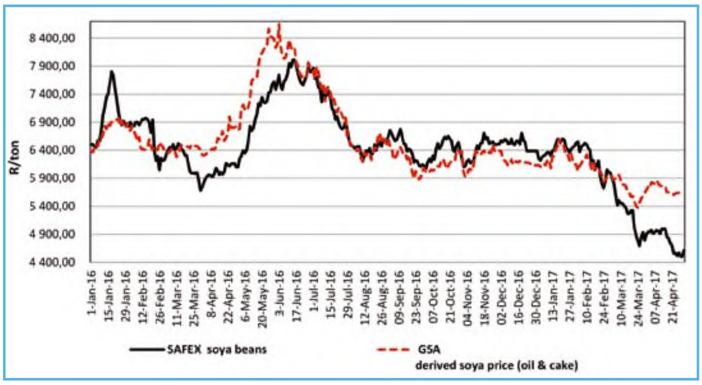
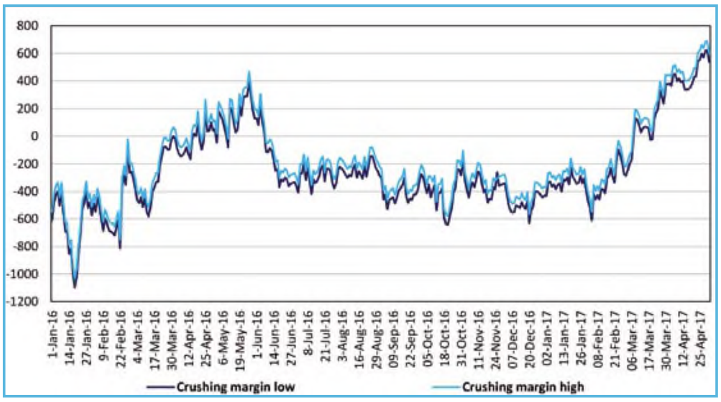


Figure 2: Crushing margins of soya beans. (Source: Grain SA)



Soya bean prices are sensitive to the exchange rate in times of a balanced supply and demand. However, in terms of a macroeconomic environment, the exchange rate is extremely volatile and sensitive to political instability. From *Figure 3*, it is clear that soya bean prices follow the exchange rate, with the exception of times when supply and demand are not in balance. In the previous season, this was due to limited available supply and in 2017 it is as a result of large supplies.

Over the next six months, it will be crucial to monitor the exchange rate and use the high volatile movements to the advantage of buyers and sellers, depending on the direction of such movement.

Figure 3: Soya bean price and rand-dollar exchange rate. (Source: Grain SA)