

Oilseed focus

moves to the south

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In early November 2017, international soya bean prices showed good gains, which led to a slight upward trend despite expectations that world soya bean stock levels could increase sharply in the 2018/19 season.

Some of the reasons for the higher prices, include the declining yield in the United States (US) and expectations that the United States Department of Agriculture (USDA) could revise US production to a slightly lower number as harvesting progresses. The completion of soya bean harvesting might also be hindered by expected rain in the eastern parts of the US soya bean belt.

Another factor that influences international soya bean prices, is the weather and production uncertainties in South America. Favoured by good rainfall, the planting of soya beans in Brazil has gained some momentum, but various forecasts show that the central parts of the country might experience below normal rainfall in November, which will be the third consecutive month.

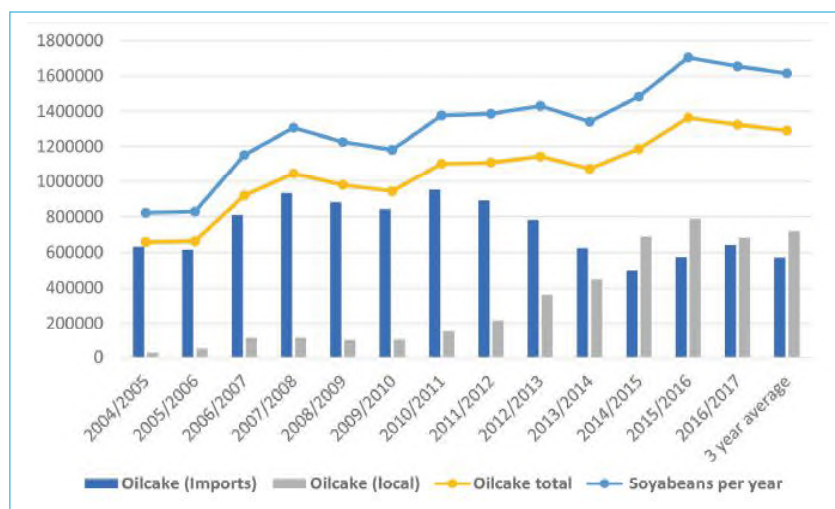
International market prices

Soya bean exports from Brazil during October was only slightly lower than last year's exports, but cumulative exports for the year reached record levels at the beginning of November. Harvesting in the US is nearing completion, and the focus for the coming months will mostly be on the South American production prospects, which would determine the movement of prices within the international market.

International sunflower seed prices are under pressure and traded at a discount to other oilseeds, such as rapeseed and soya beans, despite the smaller crops in the Commonwealth of Independent States (CIS) countries. The higher than expected production in the European Union (EU) and the poor world import demand, are keeping

Figure 1: Soya bean oilcake imports and local production.

(Source: Sars, Sagis)



international prices under pressure.

The combined setback in sunflower seed crushing in Ukraine and Russia, is likely to be moderated by the reduced import demand from the EU and Turkey, which absorbed more than 70% of sunflower seed exports last season. The international export prices of sunflower seeds hovered near recent lows – with the Black Sea prices still unusually low.

Everyone in the local market is looking forward to a new planting season and, according to the new planting intentions published in October 2017, the expectation is that there will be an increase in production of soya beans. As stated by the

Table 1: Supply and demand for current marketing season.

	2016/17	2017/18
Opening stock	89 128	84 792
Supply	985 880	1 315 370
Demand	990 216	1 140 700
Ending stock	84 792	259 462
Months stock	1	2,8

Crop Estimates Committee (CEC), there will be an increase of 25,4% in terms of hectares.

Accommodate the increase

The question on everyone's lips is whether the market will be able to accommodate the expected increase. In the current marketing season, the National Agricultural Marketing Council (NAMC) expects a 259 462 ton carry-over soya bean stock. This raises a few concerns. It is, however, important to look at the season in a holistic way, which would include the production and products from soya beans.

This season was a season of records – records that included not only a yield of 2,29 tons/ha, but also the second biggest area of production with 573 950ha. This was far above market expectations. In terms of the demand side of soya beans, there was an increase year-on-year of 150 484 tons.

However, there was still a decrease in total animal feed consumption from 11,7 million to 11,3 million tons within South Africa. This was mainly attributed to the

drought conditions of the previous year and farmers building new commercial herds. The outbreak of avian influenza (bird flu) also contributed to the decrease, since a large number of infections occurred.

Keep in mind that birds (more specifically layers) are the largest single consumer of soya bean feed products. The demand for soya beans thus increased because soya bean product imports were replaced and more local soya beans were processed. This happened even though some of the processing plants experienced difficulties.

Figure 1 indicates the amount of soya bean oilcake produced in South Africa as well as the imports of oilcake. The average soya bean oilcake consumption over the past three years was 1,3 million tons. Of this, 720 000 tons were locally produced and 580 000 tons were imported.

Imports are decreasing

When analysing Figure 1, it becomes clear that imports are decreasing because local feed manufacturers are starting to utilise more local production. As soon as there is a total replacement of imported oilcake, many hectares can be added to local production to satisfy demand. According to the Bureau for Food and Agricultural Policy (BFAP), if the country runs at an 80% processing capacity level, there is a soya bean market space of 1,4 million tons available in terms of dedicated soya bean processing capacity.

In respect of the new season's supply and demand figures, three scenarios are calculated in Table 2: Scenario 1 is the lowest average yields of the last five years, scenario 2 the average yield of the last five years and scenario 3 the highest yield of the last five years.

Table 2: Supply and demand scenarios for the new planting season.

Marketing year	2018/19**	2018/19**	2018/19**
	Scenario 1	Scenario 2	Scenario 3
Area planted (x1 000ha)	720	720	720
Yield (ton/ha)	1,48	1,75	2,3
Commercial supply			
Opening stocks (1 March)	259	259	259
Commercial deliveries	1 035,6	1 230	1 626
Imports	0	0	0
Total commercial supply	1 294,6	1 489	1 885
Commercial demand			
Commercial consumption			
Food	25	25	25
Feed (Full-fat soya)	120	120	120
*Crushed for oil and oilcake	1 050	1 250	1 640
Total	1 195	1 395	1 785
Other consumption			
Total	9	9	9
Total SA soya bean demand	1 204	1 404	1 794
Exports	4	4	4
Total commercial demand	1 208	1 408	1 798
Carry-out (28 February)	87	81	87

The demand is used to balance the supply and demand to levels of more or less 80 000 tons ending stock, which was the last three-year year norm. Prices were also traded at import parity levels. The need for soya bean processing under the different scenarios are the following: Scenario 1 – 1 050 000 tons; scenario 2 – 1 250 000 tons; and scenario 3 – 1 640 000 tons, which means even at scenario 2 there is still room for oilcake imports.

Other factors to keep in mind this coming season are crushing margins, the

exchange rate and local prices. Currently, crushing margins are positive as shown in Figure 2. This will also motivate local processors to crush more and will assist the competitiveness of local soya bean oilcake against imported oilcake.

With regard to the exchange rate, a lot of uncertainty still exists in the market following the mini budget speech, with slow economic growth still a major threat. There is yet again the possibility of a credit downgrade, and with the ruling party election in December, the exchange rate (as seen before) will be very sensitive to political changes in South Africa. In short this means that the exchange rate will be highly volatile.

Local soya bean prices are far lower than the derived prices, mainly due to expected ending stock levels. Local prices are likely to trade closer to derived prices in the new season, but this depends on local consumption and oilcake imports. The NAMC also expects some soya bean exports, which will assist with ending stock levels.

In production terms, local soya bean prices are still favourable compared to maize, with a current price ratio of 2,3. In South Africa, once the price ratio drops below two, producers start to revert to maize production. Thus, soya bean production is still more profitable, given current prices and assuming that average yields will realise. 🌱

Figure 2: Prices of derived soya bean delivered in Randfontein.

