

Effects of a trade war in the soya bean market

By Dr Dirk Strydom, Grain SA

In the global context of soya beans, the markets are still mainly focused on China and the US – two countries that are largely dependent on each other in terms of soya beans. China now imports much less soya beans from the US due to tariffs on imports following the trade war between these two countries. China imports most of its soya beans from other origins, especially from South America.

If we focus on some of the biggest exporters, it is clear that China will need to source soya beans from other non-traditional destinations in the market. If China imports nothing from the US, it means that a shortfall of 37 million tons must be imported. If China imports most of the six major exporters' exportable soya beans, they will still have a shortfall of about

13 million tons of soya beans for the season.

This means that it has to be imported from the US, non-traditional destinations or alternatively replaced with other sources of oilseed or oilseed meal. Another scenario would be that China changes the diets within animal feed, reverting back to low protein-based diets. It is believed that China has a sufficient amount of amino acid sources and maize available. This could decrease the importation of soya beans by an expected ten million tons.

US soya bean exports

A third scenario is that the US could start to export to multiple destinations, specifically South America, and that these countries will export to China, which could result in a costly logistics and tax exercise.

In the US, the old season's soya bean export sales have started to slow down, although soya bean exports continue to grow well. The sharp decline in soya bean prices has made the US an attractive source for other international importing countries.

The expectation in the market is that Argentina's soya bean imports from the

US – an estimated 1,5 million tons between September 2018 and February 2019 – will be higher this season than initially expected. In Brazil, the expected soya bean plantings in the coming season should be between 1,2 and 1,5 million hectares more than the current season's plantings. This is mainly due to the huge demand from China for Brazilian soya beans.

The effect of this trade war on the market is that prices decreased by 12% year-on-year within the US market; prices have decreased by 20% since mid-April (Figure 1).

Sunflower market

On the international sunflower market, the sunflower seed oilcake exportable stocks are relatively limited, leading to the increase in prices and consequently less world trade that has taken place in recent months. During June, sunflower seed oilcake exports from the three largest exporting countries, namely Russia, Ukraine and Argentina, decreased by 20% year-on-year, while it was 13% lower in April and 6% lower in May.

The decline in exports of sunflower oilcake is largely attributable to the strong local demand, especially in Russia. It is expected that the season's sunflower seed oilcake imports to China will increase sharply, which will mainly be obtained from the Ukraine.

Canola exports

Within the canola industry, the Australian production conditions of canola are under pressure this season due to insufficient rainfall in many of the major producing areas. As a result, not all the intended areas were planted for the season.

Figure 1: US soya bean prices. (Source: Grain SA)

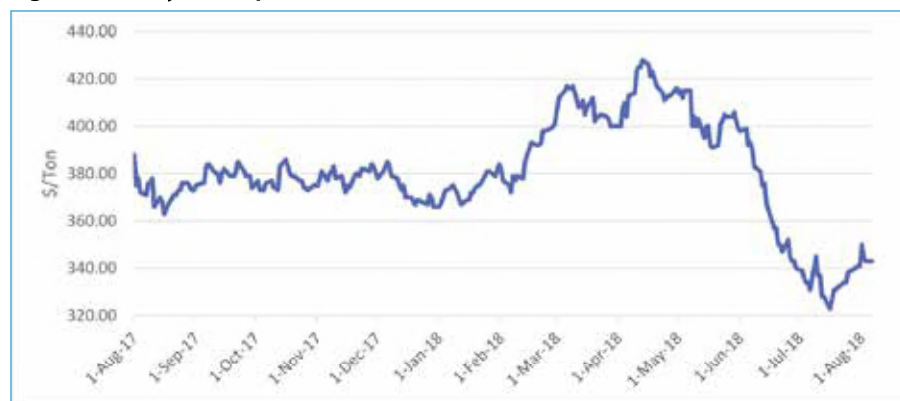


Table 1: Most important oilseed products (USD/ton and R/ton).

Product	Jul 2018	Jul 2017	% change
Soya beans (Brazil)	415	414	0
Sunflower seed (EU)	390	399	-2
Groundnuts (US 40/50)	1 380	1 450	-5
Palm oil (Malaysia)	580	658	-12
Soya bean oil (US)	670	787	-15
Sunflower oil (Argentina)	725	723	0
Soya meal (Argentina)	417	352	18
Fishmeal (Peru)	1 250	1 263	-1
Rand/\$	13,22	12,86	3
Sunflower seed	4 687	4 680	0
Derived sunflower	5 267	5 051	4
Soya beans	4 371	4 711	-7
Derived soya beans	5 969	6 029	-1
Soil canola	5 400	5 300	2

Australian canola exports during June had again been low, with the UAE the largest recipient of Australian canola for the month. The low exports from Australia means that the country still has large canola stocks. In Canada, problems are experienced with weather conditions in some areas that are in a critical phase of the production period.

New technology and cultivars

On the local market, the minister of agriculture, forestry and fisheries approved a statutory levy on soya beans on 22 June 2018, according to which seed companies can be compensated for their performance in the soya bean seed market. The collected levy will be paid to seed companies according to their market share.

The breeding and technology levy on soya beans has been approved for two years with effect from 1 March 2019. The levy is R65 per ton for the first year and R80 per ton for the second year. These values are calculated at 1,2% of the previous marketing

year's average soya bean price and will be payable when producers sell their soya beans.

The soya bean levy will be administered by the SA Cultivar and Technology Agency (SACTA). SACTA is a non-profit company established to administer seed levies for all open-pollinated crops. Levies on wheat and barley for this purpose have already been collected and paid by SACTA for a second year.

Local supply and demand

In terms of the current season's local soya bean supply and demand, the NAMC projects a supply of 1 864 335 tons for the 2018/19 marketing season.

Figure 3: Local soya bean price movement. (Source: Safex)

year's average soya bean price and will be payable when producers sell their soya beans.

This includes an opening stock level of 330 535 tons and local commercial deliveries of 1 520 800 tons.

The total demand for soya beans is projected at 1 207 100 tons. This includes 25 000 tons processed for human consumption, 170 000 tons processed for full-fat, and 1 000 000 tons for crushing, which leaves the market with an estimated 657 235 tons of soya beans at the end of the season. As explained in a previous article the crushing demand is still limited, even with a very positive crushing margin. The limitations are due to a large number of soya bean oilcake imports (Figure 2).

The trade war that led to a decrease in US soya bean prices, together with a low local demand and the strengthening of the rand, created a perfect environment for local soya bean prices to decrease over the last six months (Figure 3). The trade war can potentially provide South Africa with the opportunity to export soya beans; however, there are still administration issues between South Africa and other exporting countries that must be aligned.

In conclusion

It is important to note that the trade war can affect local prices and even put pressure on local prices if there is a decrease in global demand. To buffer this effect, it is important that South Africa substitute imported oilcake and increase the local soya bean demand for crushing purposes. The country also needs to capitalise on the opportunities to export the surplus production. 🌱

For more information, send an email to Dr Dirk Strydom at dirks@grainsa.co.za.

Figure 2: Local crushing margin. (Source: Grain SA)