International market overview

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The 2018/19 season will be known as one marked by difficulties in trade due to the trade war. Demand did not rise to soya bean supply levels, causing world soya bean stocks to rise as production outstripped consumption.

High soya bean stock levels

Most of the global soya bean stocks can be found in the United States (US). The trade war between the US and China depressed soya bean exports from the US during the 2018/19 season. China's soya bean meal consumption dropped this season along with the country's imports. This brought South American and American soya bean prices closer. Recent adverse weather conditions in Brazil led to a slight premium between Brazilian and American prices.

At the beginning of February, China started buying American soya beans for the first time in a while, which is a positive sign for trade between the two countries. However, trade agreements have not been settled and discussions are ongoing. This will continue to be a key issue in the international soya bean market over the next few months.

The USDA released the *World Agricultural Supply and Demand Estimates (WASDE)* report in February (the first time since last December). In this report, the global soya bean stocks were revised downwards to 106 million tons from the December forecast of 115 million tons. Global production is down by 9 million tons, with the largest declines reported in Brazil and the US. Despite the reduction in global production and closing stocks, it is still at record high levels of stock, ending at 115 million tons.

Sunflower seed

Global sunflower seed oil exports are on the rise, mainly due to record sunflower seed production and processing in the largest producing countries. Sunflower seed oil exports from Russia were very limited until November last year, but have since started to pick up, contributing to the increase in global exports. The Ukraine has the largest export share of sunflower seed oil among the three biggest exporters, accounting for 72% of total exports from October to December last year.

Table 1: Stock to usage ratio given different scenarios.

		Area planted (ha)						
		-20%	-15%	-10%	CEC estimate	+10%	+15%	+20%
		594 880	632 060	669 240	743 600	817 960	855 140	892 320
Yield (ton/ha)	1,40	11%	15%	19%	27%	35%	39%	43%
	1,55	18%	22%	27%	36%	45%	49%	54%
	1,70	25%	30%	35%	45%	54%	59%	64%
	1,85	32%	37%	43%	53%	64%	69%	75%
	2,00	39%	45%	50%	62%	74%	79%	85%
	2,15	46%	52%	58%	71%	83%	89%	96%
	2,30	53%	59%	66%	79%	93%	100%	106%
	2,45	60%	67%	74%	88%	102%	110%	117%

Canola

Canola stocks in Canada were 680 000 tons more than expected in December, and total stocks increased to a new high of 14,55 million tons. This was mainly due to an upward adjustment in the old season's stocks, announced in the latest report. Canadian canola prices are under pressure due to the huge inventory, and prospects for processing and exporting are poor. Australian canola stocks are around a third lower than the previous season's stock. This is due to the sharp decline in production for the season.

Groundnuts

There are currently many uncertainties in the international groundnut market, and stakeholders in international markets are struggling to make informed decisions. The major role-players, mainly international traders, are reported to be buying mostly from hand to mouth rather than taking up large quantities.

There is still plenty of stock available in the world market at present, although carry-over stock for the season should be lower than that of the previous season. It is also expected that US production for the season will be lower than initially expected. The last 20% of the US harvest was subjected to wet conditions that caused quality problems.

Local market

The soya bean industry made excellent progress during the last five years. Local production doubled and local soya bean processing increased materially, which led to an improvement in the trade balance, with less imports of oilcake into South Africa. Currently, the soya bean industry is in a situation where there are substantial amounts of local supply and yet oilcake is still imported.

The Soya Bean Forum called an industry meeting in December last year between key stakeholders, including crushing plants, the Animal Feed Manufacturers' Association (AFMA), the South African Cereals and Oilseeds Trade Association (Sacota), Grain SA, the Protein Research Foundation, the Department of

Trade and Industry and the Department of Agriculture, Forestry and Fisheries (DAFF), to discuss some industry bottlenecks and to strategise the industry's future.

Local sector maturing

Under discussion were five categories: supply and demand balance, pricing structures, quality, infrastructure, and imports and exports. All those present acknowledged that despite the industry's significant growth during the last five years, it is still a relatively young industry in a maturing phase. However, the industry has been identified as one that can expand with ample future opportunities.

In terms of supply and demand, processing capacity was confirmed at 2,1 million tons that can, at 80% utilisation, provide 1,68 million tons of crushing capacity. Full-fat capacity is at 450 000 tons with 360 000 tons at 80% utilisation. Given the increase in production of the last few years, this is sufficient for the next two to three years. During the past two seasons crushers experienced numerous breakages and hold-ups, which severely affected crushing capacity.

In terms of replacing imported oilcake, animal feed manufacturers confirmed their commitment to local consumption and to self-sufficiency in the inland market. However, the coastal areas will always be a challenge due to logistics and import competition. South Africa has good quality beans and oilcake, but this quality should be combined with reliable and consistent supply to build confidence in the product.

In terms of supply, exports that will provide relief is deemed important. DAFF has had bilateral meetings with China and is in the process of applying for market access to that country. Entry to China's protocol market takes time. However, it is important to ensure that local quality provided to export markets is above the required minima. Although local quality is in place, systems must be developed to provide guarantees and consistency.

It is expected that high ending stocks will decrease this season. The planting season was very late, and the majority of the soya bean crop was planted outside optimal window periods. According to the Crop Estimates Committee, 743 600ha are expected, which is 5,5% lower than the previous season. Based on four year averages the expected stock to usage ratio is 55%. Nevertheless, a yield decrease has a large impact, and at a national yield average of 1,4 ton/ha the ratio is 27%.

Crushing increased considerably at the end of last year; total monthly processing figures from June last year were more than 100 000 tons. Crushing figures for oil and oilcake also increased, with figures above 100 000 tons for October, November and December. This is always good news for the local industry, but it should be asked whether these numbers can be maintained.

Eskom's load shedding will certainly put pressure on processing plants and may affect expected figures for the next few months. Crushing margins are still at relatively superior levels, which can contribute to good prospects for crushing figures.

In terms of prices, the soya bean market is currently trading above export parity prices. The market reacted positively in terms of the increase in processing figures. However, local prices are still R1 300/ton below the derived price levels.

This season is going to be an interesting one. It will be important to monitor developments in the trade war between the US and China. On the local front, expected yield and oilcake imports will be key variables to monitor in terms of possible new ending stock levels.

Figure 1: Soya bean crushing margins. (Source: Grain SA)

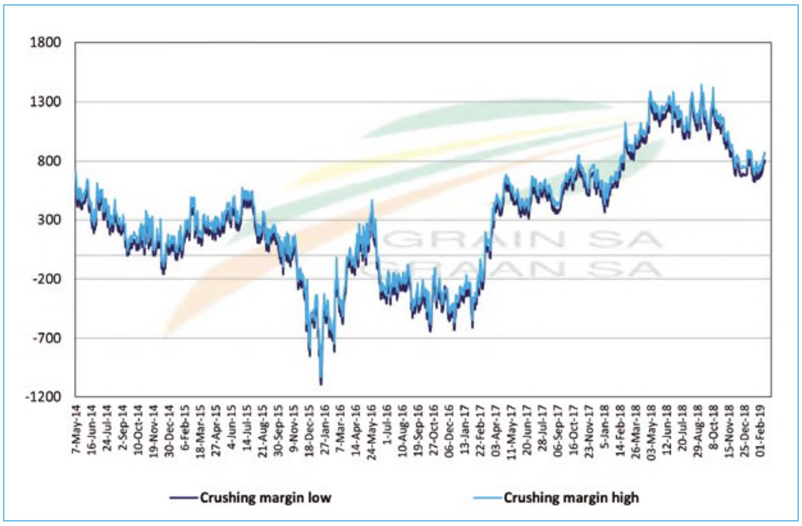
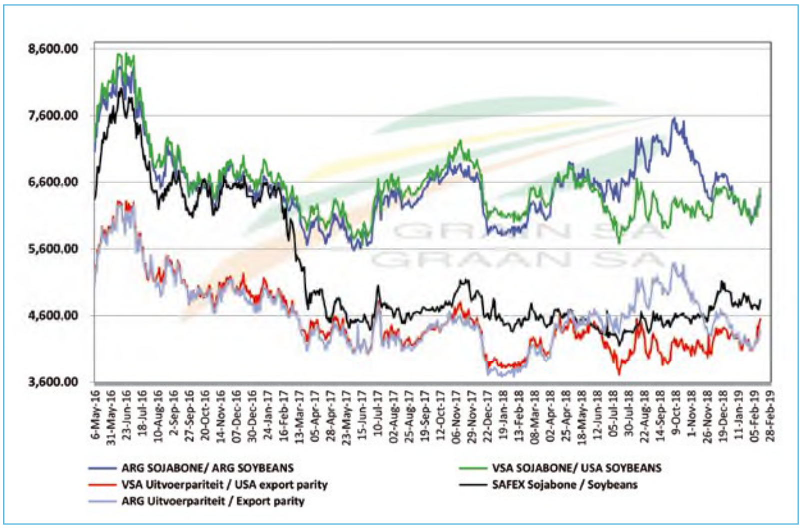


Figure 2: SAFEX import and export parity prices. (Source: Grain SA)



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