Soya bean scenarios for the new season

By Ikageng Maluleke, agricultural economist, Grain SA

The situation in the global soya bean market since 2020 has been supportive of prices, leading to an expansion in the area planted in 2020/21, with expectations of an increased area for 2021/22. According to the International Grains Council (IGC), it is expected that global production will be at a record 380 million tons, mainly owing to increases in Argentina, Brazil and the United States.

Demand is also expected to grow with increased crushing capacity in Brazil and increased demand in China's feed sector. Stock levels, which have been a price driver in the past seasons given the low stocks-to-usage ratios in major producing countries, are expected to recover somewhat in 2022, even though they will remain below average.

Local prospects

The significant investment in the soya bean sector is starting to show potential with increased hectares planted, yield increases – coupled with good growing conditions, especially in the past season – and potentially good prospects for the coming season. The outcome is an increase in oilcake and oil production, which is assisting in gradual import replacements. Furthermore, investment policy was developed to attract new seed technology to South Africa for soya beans.

The breeding and technology levy was introduced into the market to incentivise the development of new cultivars and technology. Yield increases are expected as new cultivars will be more adapted to local growing conditions and producers' knowledge in terms of local production practices will increase.

Figure 1 indicates long-term trends in soya bean production, yield, area planted and commercial demand. There is an upward trajectory in all aspects. Over the years, soya bean oilcake production has increased, with imports slowly declining. Import substitution has gained momentum since 2014, and the amount of soya bean demanded for crushing to fulfil current oilcake usage, remains relatively high.

Figure 1: South African soya bean area planted, production, demand and yield. (Source: Grain SA)

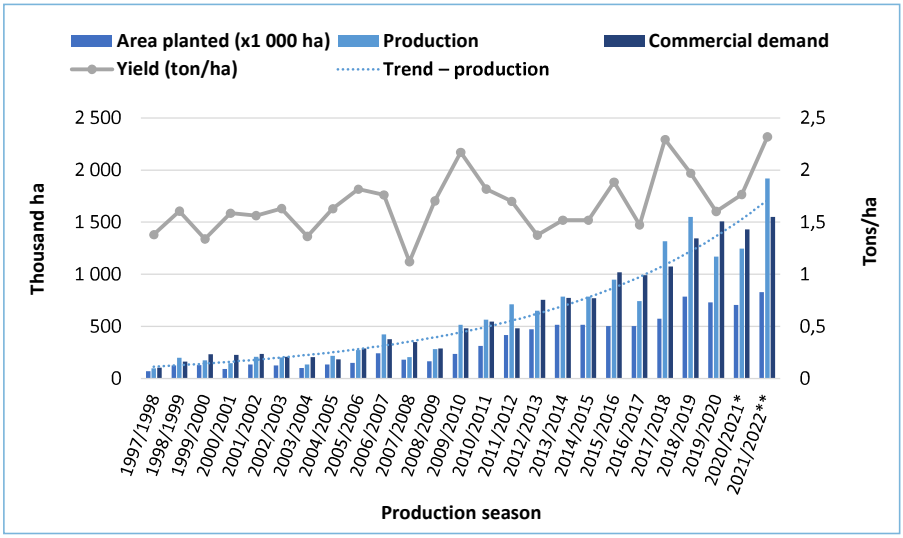

Table 1: The supply and demand for soya bean in South Africa.

28 October 2021	CEC 9th est. 28 Oct 2021	Low yield 2022/2023**	Avg yield 2022/2023**	High yield 2022/2023**
Marketing year	**2021/2022***	**Scenario 1**	**Scenario 2**	**Scenario 3**
Area planted (x1 000ha)	827	925	925	925
Yield (ton/ha)	2,29	1,6	2	2,3
CEC crop estimate ('000 ton)	1 890	1 480	1 850	2 127
Commercial supply				
Opening stocks (1 March)	46	267	267	267
Commercial deliveries	1 860	1 450	1 820	2 097
Imports	0	0	0	0
TOTAL COMMERCIAL SUPPLY	**1 907**	**1 717**	**2 087**	**2 364**
Commercial demand				
Commercial consumption				
• Food	22	25	25	25
• Feed (full-fat soya)	160	160	160	160
• Crushed for oil and oilcake	1 420	1 400	1 420	1 420
Total soya bean demand in SA	**1 614**	**1 585**	**1 616**	**1 616**
Exports	25	0	0	0
TOTAL COMMERCIAL DEMAND	**1 639**	**1 585**	**1 616**	**1 616**
Carry-out (28 February)	**267**	**121**	**471**	**749**
Pipeline requirements	200	198	201	201
Surplus above pipeline	67	-77	271	548
Carry-out as % of consumption in SA	17%	8%	29%	46%
Carry-out as % of total commercial demand	16%	8%	29%	46%

South Africa is slowly closing the gap with surplus soya bean production, while expansion of local crushing capacity is currently sufficient to service the current and additional demand.

According to a recent report of the Crop Estimates Committee (CEC) regarding intentions to plant, expectations are that the intended plantings of soya beans will increase by 11,81% or 97 700ha compared to the previous season (from 827 100 to 924 800ha).

This comes as no surprise, given the price incentive for soya bean as well as the excessive increases in fertiliser and agrochemical costs in the market, which do not bode too well for maize production and rather favour oilseeds, given the lower input costs. However, it is not advised that producers plant oilseeds without applying fertiliser, especially if long-term effects are considered.

Given the CEC report, *Table 1* shows different scenarios that might occur in the new season, based on low, average or high yields. The most likely scenario is that of an average yield (*Scenario 2*). Based on this scenario, production will be around 1,8 million tons and given local demand of approximately 1,6 million tons, there will be a surplus on the market. Therefore, export markets will be required to take the pressure off local prices and to stabilise the market, keeping in mind that there is already a carryover stock of 267 000 tons.

Reducing carryover stocks

There has been a positive response from producers with regard to increasing production, while crushing capacity has also been ramped up. It is imperative that we find lucrative markets for our surplus soya beans to maintain a good balance on the market. One of the target markets for South African soya bean exports is China.

The protocol initiated in 2019 is in the final stages of ratification, and hopefully trade will start in the new season. Various other markets, such as Southern Africa, already exist and can be capitalised upon, while other markets, namely the Middle East, European Union and Eastern Africa, require derivatives such as oil and oilcake. These are great markets to focus on in future, competitiveness considered.

Exporting opportunities will help prices remain competitive and will increase job creation and export earnings for the sector. Although South Africa has sufficient average quality for exports, the importance for the export market is to have a consistent supply of quality product, thus storage and selection of production areas will be crucial.

For more information, email the author at ikageng@grainsa.co.za.