

# HIGH SOYA BEAN STOCKS and low vegetable oil supplies:

## A recipe for price volatility

International soya bean and maize prices came under pressure with high volatility in mid-August 2015. The main reason for this is the higher than expected American crops and stocks predicted by the United States Department of Agriculture (USDA).

The USDA's *World Agricultural Supply and Demand Estimates (WASDE) Report* for August indicates that in 2015/16, US soya bean supplies and ending stock are at 470 bushels. This represents almost double on a year-on-year basis.

Global oilseed production for 2015/16 is projected at 529,1 million tons. However, there is still considerable scepticism among global traders about the reality of the report. On the contrary, the devaluation of the Chinese yuan has created new concern that Chinese imports of soya beans and other commodities could be reduced in the months ahead.

Given the high volatility and the large USDA crop revision, the market conditions are a reminder that global soya bean supplies are high and likely to remain as such in 2015/16.

### Soya bean prospects

South American soya bean planting prospects are generally favourable. Brazilian soya bean plantings are expected to be further expanded to a new high of 32,8 million ha, representing a 3% increase, and benefitting from the decline in grain plantings and the devaluation of the Brazilian real, something which is making soya bean

exports more attractive.

The Brazilian currency is down more than 23% against the dollar since the start of the year, representing a 12-year low. Argentinian soya beans are likely to benefit from the sharply reduced plantings of wheat and maize in the major production areas.

Table 1 indicates the world soya bean production as estimated by international traders at 316 million tons. This value is lower than the previous production season. However,

there are still ample supplies available due to high opening stocks. The opening stock of 87 million tons, combined with production, provides the world with a total supply of 403 million tons against the previous production year's supply of 384 million tons.

Given the strong supply figures of soya beans, the world will depend on soya beans in terms of oilseed supplies. This is mainly due to the lower production figures of various other oilseed commodities.

Table 1: World oilseed and soya bean prices (million ton).

	15/16*	14/15	13/14
<b>World oilseed stocks</b>			
<b>Opening stock</b>	<b>99,7</b>	<b>79,4</b>	<b>71,6</b>
Production	509,6	519,7	487,3
<b>Total supplies</b>	<b>609,3</b>	<b>599</b>	<b>558,9</b>
Usage	509,3	499,4*	479,6
<b>Ending stock</b>	<b>100</b>	<b>99,7*</b>	<b>79,4</b>
<b>Soya beans</b>			
<b>Opening stock</b>	<b>87,24</b>	<b>65,21</b>	<b>59,54</b>
Production	315,78*	318,56	281,92
<b>Total supplies</b>	<b>403,02*</b>	<b>383,77</b>	<b>341,46</b>
Usage	313,8	296,53	276,25
<b>Ending stock</b>	<b>89,22</b>	<b>87,24</b>	<b>65,21</b>

Source: Oil World



### Rapeseed

The world production of rapeseed and canola has decreased with 5,1 million tons for the current production season. The current Canadian canola crop estimate is at 13,3 million tons against the previous season's 15,75 million tons.

In terms of world supply and demand of rapeseed and canola, the expected production for the 2015/16 season is 63,38 million tons against the previous season of 68,47 million tons. This has resulted in an ending stock of 4,4 million tons, which is 1,46 million tons lower than in 2014/15.

### Sunflower

The expected global production of sunflower seed is decreasing in countries such as Romania, Spain and France. This is due to adverse weather conditions, which has reduced yield in many countries. However, a large impact on this is mainly that producers are moving away from crops such as sunflower and rapeseed to soya beans and other crops. The shift in planting is due to vegetable oil prices being relatively weaker than oil meal prices in the last two years.

Due to the fact that soya beans are primarily a meal seed, the increase in soya bean crushing to substitute vegetable oil supply decreases, will create an oversupply of soya meal. The oversupply of meal will have a bearish impact in terms of soya meal prices.

The current expected global sunflower seed production is at 41,23 million tons. This will provide an ending stock of 2,6 million tons as opposed to last season's 2,71 million tons.

### Groundnuts

Groundnut prices have come under pressure in the last year, among others due to a drop in vegetable oil prices. The main reason, however, is the abundant supply of groundnuts. World production of shelled groundnuts is forecast by international traders to increase by 5% in 2015/16 to a total of 28,4 million tons.

A large contributor to this increase is the United States, with an increase of 0,3 million tons, which represents a growth of 19%. Argentina is expecting a record crop of probably above 800 000 tons. However, China and India are struggling with poor production figures, which will assist in terms of the large supplies.

The fundamentals are also reflected in the international prices as indicated in *Table 2*. Soya bean prices decreased on a year-on-year basis, while sunflower seed

increased. Soya meal prices decreased by 25% from \$509/ton to \$384/ton year-on-year.

### Local oilseed markets

The new planting season of summer crops in South Africa is at hand and various questions are being raised in terms of planting intentions and the distribution among crops. Global weather models are currently suggesting a strong El Niño scenario.

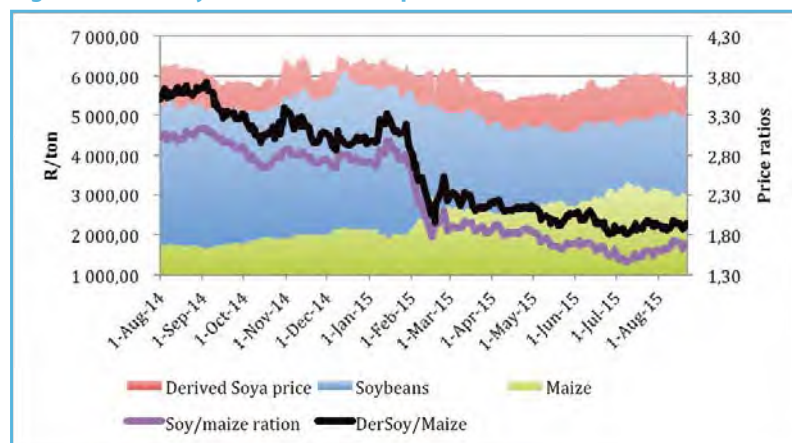
Given the low production of the previous season, the local maize price is relatively high and can be attractive for producers. This can place pressure on local soya bean production. *Figure 1* illustrates that the soya-maize price ratio has decreased in the last year. Normally, a ratio of above 1,8 would be favourable for soya bean production. The current ratio, however, is 1,68.

**Table 2: Key oilseed prices (US\$/ton and R/ton).**

Product	13 Aug 2015	Aug 2014	% change
Soya beans (US CIF Rotterdam)	373	460	-19
Soya beans (Brazil)	401	535	-25
Sunflower seed (EU)	435	401	8
Groundnuts (US 40/50)	1 150	1 260	-9
Palm oil (Malaysia)	534	701	-24
Soya oil (US)	694	840	-17
Sunflower oil (Argentina)	790	939	-16
Soya meal (Argentina)	384	509	-25
Fishmeal (Peru)	1 380	1 748	-21
Rand/\$	13,17	10,59	24

Sources: Reserve Bank and Oil World

Figure 1: Local soya bean and maize prices.



Sources: Grain SA and Safex

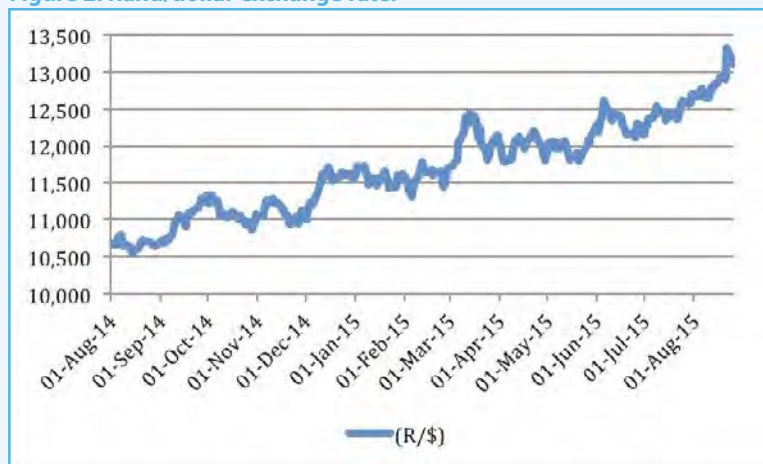
The main question for the new production season is whether this price ratio will be high enough in order for producers to sustain the year-on-year growth in soya bean production.

With the extensive expansion of the South African crushing capacity, price structures have moved towards a derived soya bean price. The ratio with a derived soya bean price is higher and currently at 1,94. The main question for the new production season is whether this price ratio will be high enough in order for producers to sustain the year-on-year growth in soya bean production.

In terms of sunflower seed production, the current relatively low global supply scenario and increase in prices will provide an incentive for producers to produce more sunflower seeds this coming season. An additional contributing factor is also that sunflower seed production has lower production costs, and given the previous dry season and financial risks, producers would move towards sunflower seed production in order to obtain easier credit.

A key factor to monitor over the next few months in terms of prices, is the exchange rate. The rand is under constant pressure due to the slow growth of global emerging markets and local uncertainties such as the power crisis. The weakening of the rand supports local oilseed prices in terms of the increase in import parity levels. The support of the weakening rand in terms of local against international prices, is reflected in Tables 1 and 2.

Figure 2: Rand/dollar exchange rate.



Source: SA Reserve Bank

Table 3: Local oilseed prices.

Crop	25 Aug 2015	25 Aug 2014	% change
Sunflower	5 650	4 245	33
Derived sunflower	5 631	5 583	1
Soya beans	5 008	5 320	-6
Derived soya beans	5 935	6 187	-4
Soil canola	4 300	4 300	0

Sources: Safex and Grain SA

Given the global and local scenario, we can expect pressure on soya bean prices in the coming season. It would, however, be of value to monitor the exchange rate and local planting intentions. In terms of sunflowers, the international market is currently in a bull market trend due to low stock levels. ●