



Price volatility expected in global oilseeds market

By Dr Dirk Strydom

The oilseeds world stock is still on the rise. According to an analysis by Oil World, the expected ending stocks for 2018/19 will be 127,4 million tons, which represents an increase of 15,6 million tons or 14%. This should result in a 3% increase in the stock to usage ratio, from 20% in 2017/18 to 23% in the 2018/19 forecast.

Soya bean stock levels

In terms of soya beans, which is the largest oilseeds crop, the ending stock

Figure 1: Final planting dates for corn in the US.

(Source: Farmdocdaily)

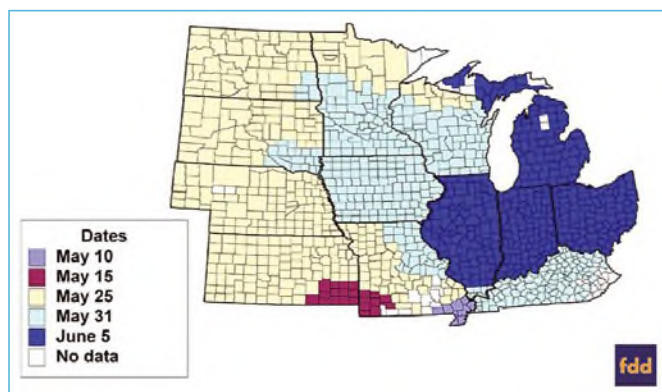


Table 1: World supply and demand of seven major oilseeds.

(Source: Oilworld)

	2018/19 F	2017/18	2016/17	% YOY
Opening stock	111,8	109,4	91,8	2%
Production	573,4	556,1	548,6	3%
Demand	557,8	553,7	531,1	1%
Ending stock	127,4	111,8	109,4	14%
Stock to usage	23%	20%	21%	13%

increased from 94,3 million tons to 110,1 million tons; a 4,4% increase in the stock to usage ratio. Although market stocks were high, there were various uncertainties at the end of May 2019.

Trade negotiations did not progress

as expected, which resulted in a decrease in demand in China, rising stock levels in the United States (US), and more trade taking place in South America. The expectation in the market is that the US soya bean ending stock will be 28,5 million tons at the end of August – a record high.

This expectation resulted in an overall bearish market, with prices at a ten-year low in the middle of May. The reduction of exports from the US to China contributed towards price pressure.

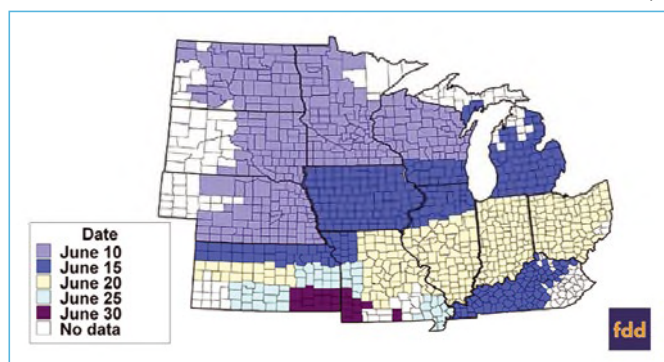
The low prices in the market created an environment for an increase in long positions to benefit from the prices. However, the increase in buying was also supported by concerns regarding the planting progress of crops in the US.

US crop uncertainty

At the end of May, the US was still struggling to plant due to wet conditions. The United States Department of Agriculture (USDA) released its crop progress report on 19 May 2019, which showed that only 19% of soya beans had been planted – the five-year average is 47%. According to the report, there was a possibility that some of the corn hectares could shift to soya bean hectares. As such a shift can only take place within a two-week window, depending on the geographical area, there was a risk of reduced soya bean plantings after mid-June.

This uncertainty created volatility in the market. However, the majority

Figure 2: Final planting dates for soya beans in the US.
(Source: Farmdocdaily)



of international traders still believe that the carryover stock and the slowdown in trade, will facilitate a bearish outlook. There will be a close review of the market in June, especially in terms of weather conditions.

Sunflower seed

Global sunflower seed processing is expected to continue to grow from April to September 2019, exceeding that of the previous season. The large amount of sunflower seed available internationally, together with the large import demand for sunflower oil, contributes to the processing of sunflower seed in especially the Black Sea countries.

The biggest processing is expected in Ukraine and Russia this season. In Argentina, sunflower seed processing was lower than expected, despite good sunflower seed production for the season. It was, however, expected to improve.

Canola

In Canada, the canola ending stock for the season is expected to reach a new record level of at least 4,2 million tons, which is 1,7 million tons more than last season's closing stock. The sharp increase in Canadian stocks is due to trade restrictions between China and Canada, which means that Canadian exports for the season have been much lower. In the EU, the production outlook for the season does not look too good and production is expected to be lower for the season.

Groundnuts

The groundnut plantings in the US are progressing fairly well and are more in line

with the previous season's plantings than most of the other crops. The groundnut plantings are reported at 40% complete, compared to the previous season's 42% for the same period. The five-year average peanut planting completion rate at this

point in the season is 36%.

Local market

In terms of local production, it was a very difficult season. The planting season was very late and in some areas

the follow-up rain was insufficient. Several of the production areas also struggled with hail damage. However, as processing figures improved since October last year, the soya bean industry expected a very large carryover stock level, which provided relief.

According to the Supply and Demand Estimates Committee (S&DEC) the opening stock for the current marketing season was 502 241 tons, with the Crop Estimates Committee (CEC) estimating the local production at 1 295 845 tons. The S&DEC estimated an increase in demand of 11,2%, predominantly in crushing, due to local production displacing some imports of meal. This means that the expected carryover stock for the season is at 314 036 tons, which is a stock to usage ratio of 21%.

Record processing figures for soya beans were achieved in the previous marketing season – monthly processing was more than 100 000 tons per month since September 2018, with the highest processing rate ever for soya beans in November at 137 633 tons. The three-year average is 88 000 tons per month.

According to South African Grain Information Service (SAGIS) figures, 1 308 441 tons were processed in the 2018/19 marketing season, which is a new record. This is remarkable when compared to the 260 300 tons processed in 2008/09.

Given this increase in processing figures and the difficult crop experienced, there is space for price movement within the local market. However, this is subject to local processing figures and is highly dependent on the international market. It is going to be important to monitor the planting conditions in the US as well as the trade war between China and the US.

South Africa is still competing in the US market and will therefore follow market movements similar to the US. In order to receive the premiums obtained by South America, South Africa must be able to export soya beans to China. There are talks between South Africa and China to open new market possibilities, but this will take time. 📍



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