

Trade war and supplies put pressure on oilseeds prices

By Dr Dirk Strydom

Internationally the ongoing trade war between China and the United States (US) is still creating volatility and uncertainty in the oilseeds industry.

Soya beans

The trade war between the US and China has had a significant negative impact on the global trade flow of soya beans in the international context since last year, when initial tariffs were introduced. This caused US soya bean stocks to increase significantly, which put US soya bean prices under pressure. Expectations are that these prices will remain somewhat under pressure for the rest of the season, as large quantities of soya beans are still available in the US.

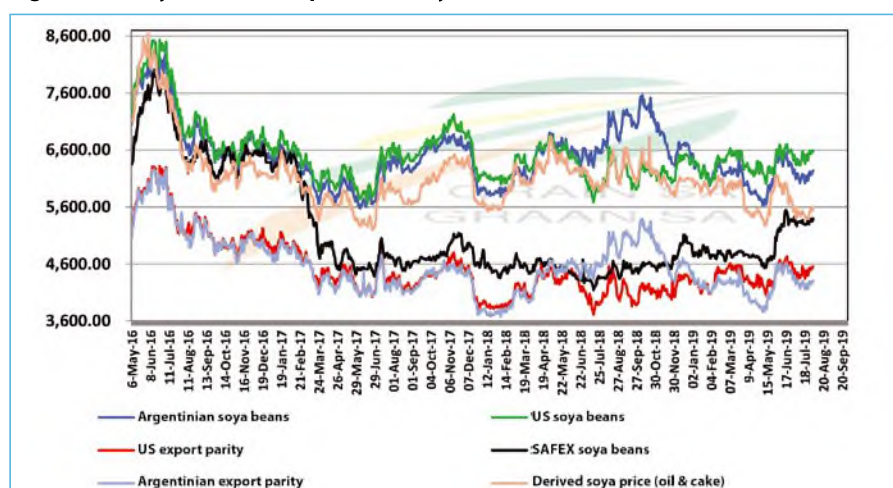
Although soya bean planting in the US could not occur optimally due to excessive rainfall, improving weather conditions in major soya bean-producing areas is favourable for the season's production expectations.

In Argentina, soya bean processing for June was approximately 31% more than a year ago, reaching a 23-month high. The greater processing of soya beans in Argentina has sharply increased exports of soya bean meal and oil.

Sunflower seed

The sunflower seed plantings in Russia exceeded expectations this season, with the area planted greater than initially expected. The larger expected production, together with the reasonably large supplies still available, will probably increase the processing of sunflower seeds in Russia. It is expected that 12 million tons of sunflower seed will be processed in Russia during the 2019/20 season. This will be the second consecutive year-on-year increase in Russian sunflower seed processing.

Figure 1: Parity and derived prices for soya beans. (Source: Grain SA)



In the Ukraine production for the season should be slightly lower than initially expected and the processing of sunflower seed should therefore be slightly lower this season. In the southern hemisphere, Argentinian sunflower oil is still reasonably affordable and still accounts for a large volume of exports.

Canola

The Canadian canola market remains under pressure due to production conditions in Canada improving, and

processing and distribution occurring at a slow pace. There are currently large quantities of canola available in the country, which keeps prices under pressure.

In Australia, canola production for the season is estimated at 2,4 million tons, which is lower than last season's production due to lower plantings and drier production conditions.

Groundnuts

The expectation in the international groundnuts market is that the new season's production will recover slightly from the previous season's production. This is mainly due to the better production expected in China and India for the season. The world groundnut production for the 2019/20 season is estimated at 29,7 million tons, compared to the previous season's 29,3 million tons.

Global market

In terms of prices in the global market, most of the dollar prices showed a small downward trend year-on-year. However, groundnuts and palm oil increased mainly due to a decrease in supply.

Table 1: Most essential oilseeds products (US\$/ton). (Source: Oilworld)

Product	1 Aug 2019	July 2018	Percentage change
Soya beans (US CIF Rotterdam)	363	370	-2%
Soya beans (Brazil)	374	380	-2%
Sunflower seed (EU)	368	370	-1%
Groundnuts (US 40/50)	1365	1313	4%
Palm oil (Malaysia)	515	494	4%
Soya bean oil (US)	668	669	0%
Sunflower oil (Argentina)	740	729	2%
Soya meal (Argentina)	348	353	-1%
Fishmeal (Peru)	1340	1380	-3%
Rand/US\$	14,67	13,4	9%

Figure 2: Parity and derived prices for sunflower. (Source: Grain SA)

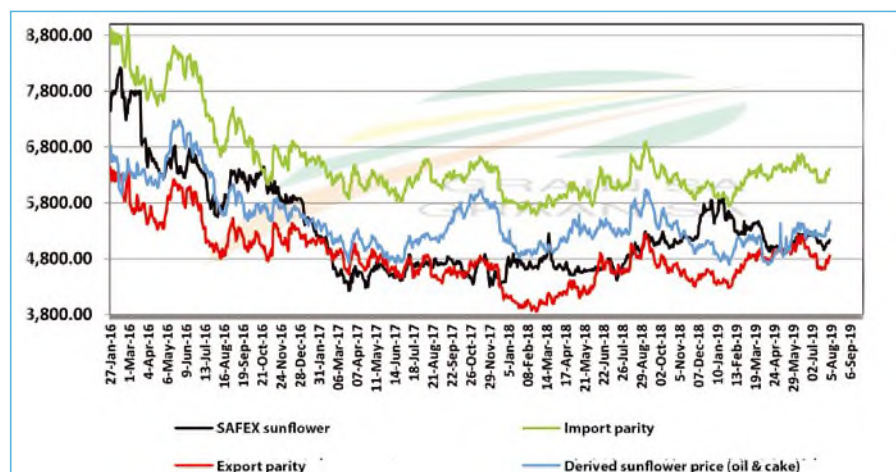


Table 2: Supply and demand estimates in tons. (Source: Grain SA)

Commodity	Supply	Demand	Surplus/shortage
Soya bean	1 655 586	1 597 790	57 796
Sunflower	782 805	826 140	-43 335
Groundnuts	44 000	80 640	-36 640

Note: Including normal African exports and a pipeline of 1,5 months.

Figure 3: Soya bean crushing margins. (Source: Grain SA)

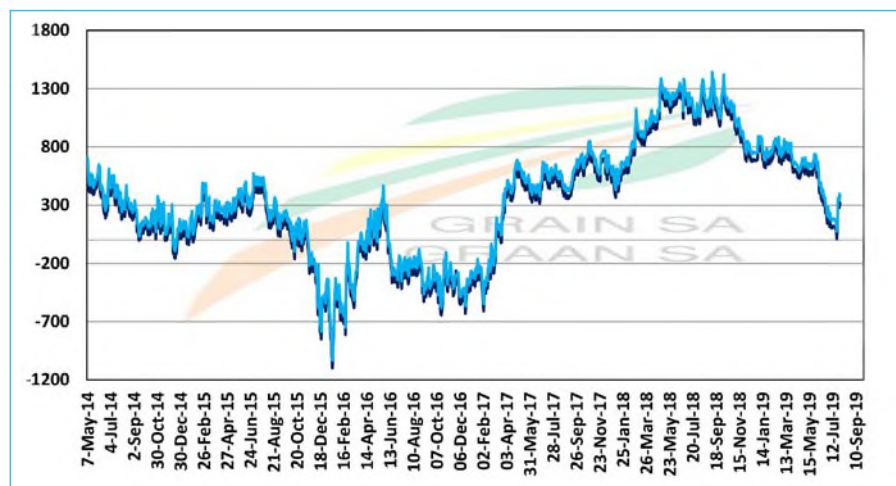


Figure 4: Sunflower crushing figures. (Source: SAGIS)



The rand/dollar exchange weakened by 9%, from R13,40 to R14,67.

Local market

In the local market, oilseeds production was less than expected. In the July Crop Estimates Committee report, estimates were 1,17 million tons for soya beans and 655 640 tons for sunflower. This decrease in production figures created a more balanced supply and demand for soya beans. At the beginning of the season it was clear that there would not be enough sunflower seed to meet demand. However, given world vegetable oil prices, it was unclear whether the shortage would be covered by sunflower seed or byproduct imports.

When evaluating the prices of oilseeds in South Africa (Figure 1 and Figure 2), it is clear that prices moved away from an export parity level and closer to a derived price as it became clear that production would be limited and global byproducts grew more affordable due to high supplies.

A decline was also recorded for oilseeds crushing margins. This led to a seven-year high of sunflower oil imports (April to June) and a slowdown in local crushing. Also, the South African Grain Information Service’s (SAGIS) monthly figures indicated that sunflower crushing figures across the production season only recently increased, as the harvest or delivery of the new season’s crop commenced.

Estimates of soya bean supply and demand stock levels are more balanced, given the high opening stock levels at the beginning of the season. However, if one considers sunflower and groundnuts, there is a shortage in the marketing year. A concerning factor is that groundnut seed availability is correlated with supply, which means that the supply of groundnut seeds may be under pressure in the new planting season.

In terms of prices, most of the local commodity prices are close to the derived prices, which means that the market will be more correlated and influenced by the international market. At these levels it is also essential to monitor sunflower oil and soya oilcake prices in the global market. This means the exchange rate and the increased conflict in the China/US trade war must be evaluated in the short term. 🌱

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