Another narrow escape for soya

Fears of a recessionary hit to world demand have dominated the oilseed complex in the first quarter of 2009, eclipsing drought and political problems in South America and the potential for slower growth of oil production in the year ahead. John Buckley writes.

Despite the reduced weather risk to the US crop, soya has been more reluctant to give up on the speculative bull run than grains, which recently saw massive drops to seven-month lows (maize nudging three-year lows). Chicago’s soya industry shed about US$2.13/US$3/bushel in July but put half of that back on again in early August as China stepped up new crop purchases and funds sensed another opportunity for quick profits. However, the prospect of sky-high prices as US old crop stocks run out altogether appeared to have been delayed by crushers shutting early for summer plant maintenance, amid the less attractive margins.

Some analysts have predicted a further break to US$7 by the autumn if the US crop hits target and South American producers actually sow the larger areas forecast. Brazilian consultancy Galore recently estimated that its next crop could rise over 13% to 64.7m tonnes due to the now highly favourable price ratio between soya and maize. Argentine sources forecast a 15-20% rise in sowings and a 50-60% crop rebound if yields recover from this year’s drought-reduced levels. All of this is a long way off and subject to weather and other factors but clearly points to potential for far looser soya supplies.

The forecast 1.38 oil balance for the season ahead has something for bulls and bears. Biodiesel remains a disappointment for the former, with the USDA cutting its forecast for soya use in this sector again from almost 1m to 900,000 tonnes – better than last season’s 750,000 tonnes but nowhere near the 1.47m tonnes of 2007/08. With food sector use flaccid as well, US soya oil demand is expected to stay at almost one million tonnes under the 2007/08 peak level – important for world demand as the USA is the second largest consumer of this oil.

However, oil exports were expected to perform better with the USDA forecasting a near 50% rise amid tighter Latin American supplies in the first half of 2009/10 and a recovery in global consumption of 1.44m tonnes or 4%, led by top consumer China (up 500,000 tonnes to almost 10m tonnes). Even so, at just over 37m tonnes, world demand would still be lower than in 2007/08, before last year’s record prices and the recession began to cramp demand.

China remains a bullish, but ambivalent factor for soyabees and the vegetable oil complex as a whole. Despite a 2m tonnes jump in its own soya crop, it has continued to raise imports by a further 1-1.5m tonnes in the 2008/09 season while tucking away 6m tonnes of its domestic harvest in a strategic reserve stock to support producer prices and encourage domestic output (see Figure 2, left). However, the past month or so has seen a raft of conflicting signals on what will happen next. For many weeks, officials have been
indicating that the record level of soybean imports in June and July would be scaled back due to congestion at ports, while some of the reserve stock has been offered back to the domestic market — although at prices that have drawn little interest so far. Some officials, meanwhile, put next season’s soybean imports at 2-2.5 million tonnes higher than the record 4.5 million tonnes (accounting for well over half of the world soy oil trade). The outcome partly depends on China’s own soy oil, which many analysts expect to contract this year after various weather problems. China is also reported to be suffering from a glut of meat amid swine flu and recessionary demand reducing feed demand and encouraging surplus soy meal exports to neighbouring countries. However, while the primary reason for China’s emphasis on meal-rich soya beans is its large domestic food deficit, the oil side of the equation needs to be watched closely too. Soya dominates Chinese oil consumption — accounting for 10 million tonnes next season out of total vegetable oil demand of 23 million tonnes and demand for it is expected to grow at least as fast as that of palm oil in the coming year. To date, China has kept up brisk buying of old and new crop US and Latin American soya beans and as well as palm oil and rapeseed. However, recent bouts of weakness in its domestic oil markets and ongoing reports of declining crush margins suggest it may remain a wild card in both oilseed and oil imports.

Dip in output for rapeseed

Although EU rapeseed farmers planted more than expected this year — about 3% over 2008 — early forecasts were for a dip in output of about 700,000 tonnes (to 18.3 million tonnes) based on yields retreating from last year’s above-average levels. This might turn out too pessimistic while large 2008/09 ending stocks will also supplement next season’s crush. However, biodiesel consumption appears to be on the rise again and total industrial use may account for any extra oil produced, taking over two-thirds of the projected 9 million tonnes supply and capping food demand close to the past year’s level of about 2.7 million tonnes.

Rapeseed production is seen more sharply down in the Ukraine due to a cut in area and a more significant drop in yields, which could reduce output by 1.5 million tonnes from last year’s 2.9 million (see Figure 3, above). Lower exports may show up in a significant drop in imports by the EU, as the main outlet for Ukraine.

The main grey area for rapeseed supply is Canada, where a late spring drought in some areas and too much rain in others has seen trade and official figures diverge widely over crop potential. The USDA’s July forecast of a 2.5 million tonnes drop to 10.5 million tonnes output assumes sown area of 6.2 million ha (vs 6.5 million ha last year and 6.7 million ha in 2007) and yields down about 13%. Local observers sit both sides of this forecast and appear to disagree considerably over yield potential too, leaving crop estimates in a wide 3.5-11 million tonnes range. If Canada maintains exports of around 6.5-7 million tonnes and domestic needs of over 5 million tonnes, that could mean a current crop deficit. However, around 2.2 million tonnes carried in from the past bumper crop can be drawn on to supply additional supply. Whether Canadian exports come anywhere near 2008/09’s peak level of 7 million tonnes depends heavily on top importer China — which bought actively earlier this year but is currently forecast by the USDA to import only 700,000 tonnes against 2.35 million tonnes in the past season. This estimate appears too low, however, especially amid China’s uncertain oilseed crop prospects and its supposed oil demand growth.

Recently, the large 2009 supply of rapeseed has been weighing on the market with rapeseed oil prices in Europe (built, ex-tank London) about 15% below their late May peak of US$70/tonne.

Sunflower and palm oil prospects

The past year’s good EUCIS supply has also seen sunflower oil prices tumble about 18% from their highs, despite forecasts that this year’s world sunflowerseed crop will drop by almost 1 million tonnes as recovery from last year’s poor crop in Argentina is outweighed by smaller Russian, Ukrainian and EU harvests. The CIS countries’ smaller supplies will be felt in Europe, which has become a major destination for their exports in recent years. Dry weather has taken a toll in Spain and Eastern Europe and while the French crop looked promising, a return to lower autumn yields is expected to outweigh larger planted area, cutting total EU output by about 500,000 tonnes from 2008’s bumper 7 million tonnes. However, while EU crush rose sharply in the past season, starting stocks are still larger this year and can supplement 2009/10 supply.

Thanks to last year’s big CIS crops, world sunflower oil supply rose by about 1.9 million tonnes or almost 20% this past season but current crop estimates suggest a levelling off or declining in 2009/10. Although oil supplies should remain higher than the average level of recent years, demand for this oil has inched sharply with the contraction in its former big price premium over other food oils. EU, South Asian and Middle East consumers have all responded, adding about 2 million tonnes to world oilskate. Prices of sunflower oil may therefore get less competitive as 2009/10 wears on and the market attempts to ration supply amongst these competing buyers.

Palm oil prices saw the biggest drop over the past two months (27% at one stage) as the earlier peak in prices and more competitive soy oil cut import demand from some of the key buyers. The most notable fall in second quarter 2009 trade was in Malaysian shipments to South Asia, with second largest palm oil buyer India’s intake declining from over 200,000 tonnes at the start of the year to just over 57,000 tonnes by June. Pakistan’s imports also fell from over 225,000 tonnes in January to 66,000 tonnes in June, although both still took considerably more in the first half of 2009 overall than in January-June 2008. Malaysian sales to top buyer China, meanwhile, stayed robust, gradually rising through the April-June period after a slow start to the year and leaving January-June shipments overall up 9% on the year at 7.5 million tonnes.

The USDA forecasts world palm oil output in 2009/10 of just 45 million tonnes — about 2.2 million or 5% more than last year, based on gains in Malaysia (9.6 million tonnes), Indonesia (1.25 million tonnes), Thailand (1.1 million tonnes) and Argentina (800,000 tonnes). Malaysian officials, on the other hand, expect a possible 700,000 tonnes or 4% decline for calendar 2009 based on performance to date, and held out of production by the replanting programme and smallholders cutting back fertiliser use. First half of 2009 figures bear this out with output running below the levels expected earlier in the year, whereas this time last year, output exceeded forecasts by around 5% and ended up 12.5% over. Indonesian officials are only looking at a 300,000 tonnes rise to 2 million tonnes next year although some local traders put the figure higher (see Figure 4). Demand for palm oil has sent mixed messages recently. Earlier, port stocks in India and China were reportedly building up to burdensome levels, raising concerns that these top buyers would have to cut stocks in third quarter 2009. However, the export figures from Malaysia have improved considerably in response to lower prices and the emergent recovery in Malaysia tank stocks which, at a 1.3 million tonnes in second quarter 2009, appeared to be selling off. Other top buyers — China, Europe, Pakistan and the USA — also appeared to be buying more, although origin suppliers must be aware that too rapid a price response to this trade might kill the goose. Much depends on India’s coming oilseed crops, currently in question amid a late and faltering monsoon, as palm usually supplies almost 40% of India’s huge vegetable oil import requirement.

![Figure 3: Indonesian Palm Oil Output (M Tonnes)](www.oilsandflatsinternational.com)