Soybean prices propped up by surplus processing capacity

SA soybean production has increased markedly over the past couple of years. As drought hits our western production regions, farmers expect to harvest marginally less of the oil seed than last year. Jaco Visser analyses the domestic and world outlook for soybean production and prices.

Soybean production in South Africa has shown a steady increase over the past nine years. Production increased from 205 000t during the drought of 2007 to an estimated 942 000t in the current marketing season, according to the Crop Estimates Committee (see Graph 1).

In anticipation of the increased availability of locally-grown soybean, companies have set up plants to crush the oilseed, which is used as animal feed, especially in the poultry sector.

“The major driver behind soybean production has been the additional demand from the newly established soybean crushing plants, the profitability of soybean production in relation to other crops and conservation agriculture practices,” said Wandile Sihlobo, an economist at Grain SA.

The local price of the beans has tracked the Chicago Board of Trade (CBOT) prices, adjusted for the rand-dollar exchange rate. The soybean contract for delivery this month reached a weekly high of R5 264/t in November and is currently trading at around R4 800/t (see Graph 3).

This compares with a similar movement in the generic futures contract in Chicago, which reached a six-month weekly high of US$386/t (R4 648/t) and is currently sold at US$359/t (R4 323/t) (see Graph 4).

“Internationally, soybean prices have been moving sideways in the past few months,” Sihlobo said. “The reason for this has been the large supplies from South America as well as the US.

“Nonetheless, China has been showing steady demand, which continues to provide slight support to soybean prices. The increasing soybean demand in China has been driven by increasing appetite from their poultry feed industry.”

In South Africa, the soybean price is still derived from the soybean oil cake price, according to him.

In 2012, the domestic soybean processing capacity was around 600 000t, Sihlobo said. In 2013/2014 the additional crushing capacity was around 1.5 million tons. Together, this makes up an estimated crushing capacity of 2.1 million tons.

“This clearly shows that additional demand has been the major driver of prices,” Sihlobo said. “It’s important to note that domestic commercial production is still around 940 000t.”

Imports steadily decreasing
South Africa's imports of soybean cake and oil have been declining over the past few years. Soybean oil imports declined to about 171 000t in 2014 from 272 952t in 2010, according to Trade Map data. The major exporters to South Africa have been Spain, Argentina, Netherlands, Romania and Brazil.
SOYA OIL SLIDES

The price of soya bean oil, a derivative of the beans, has been trading lower for the fourth year on an average basis and is forecast to trade between US$66 139/t (R796 232/t) and US$72 752/t (R876 005/t) during the 2014/2015 marketing year, according to the US Department of Agriculture (USDA). Soya bean oil has been following a similar trend as sunflower seed oil and peanut oil over the past four years, according to USDA data. Sunflower seed oil is the only exception, with an increase forecast for this season (see Graph 5).

Fast Facts

- SA’s imports of soya bean oilcake and oil have been declining.
- Local soya bean crushing capacity has increased to 2.1 million tons.
- Domestic soya bean production is forecast at 942 000t in 2015/2016.

Worldwide, soya bean production is forecast to increase to 317 million tons in 2015/2016 from 285 million tons the previous season, according to the International Grains Council’s latest dataset. The major producers of the crop are Brazil, Argentina and the US. Thanks to greater profitability, soya bean production remains an attractive activity to South African summer grain producers.

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Source: ABSA Agribusiness

Graph 4: CBOT soya beans (US$/t)

Graph 5: Oil prices

Source: USDA