

High supply amid troublesome weather conditions

Supplies on the global market is still very high and prices are determined by overall weather conditions. According to the International Grains Council (IGC), the world will produce 334,2 million tons of soya beans which is 19 million tons more than last season.

The larger supply, however, is also supported by a greater demand. The growth in demand is from 319,2 million tons in 2015/16 to 332,6 million tons in 2016/17. All of this generates an ending stock increasing by 1,5 million tons to 35,4 million tons (Table 1).

Table 1: World supply and demand of oilseeds. (Source: IGC)

	2014/15	2015/16	2016/17
Opening stock	28	37,3	33,9
Production	320,5	315,7	334,2
Consumption	311,8	319,2	332,6
Ending stock	37,3	33,9	35,4

On the global front, the South American market, in particular Brazil, has started harvesting their crop. Increased rainfall is putting pressure on the harvesting of soya beans and there is some concern regarding the occurrence of diseases and deterioration of quality. The crop expectation in Brazil remains favourable at 103 million tons.

In Argentina, floods have been a huge problem, with losses of as much as 500 000ha recorded. However, the country has seen drier weather patterns in the last two weeks of January. These weather conditions supported prices on the international market and the current crop expectation is 52,3 million tons, representing a three-year low. Therefore, there are still a few uncertainties regarding the current season. However, looking at the current expectations, supply will still be higher than demand.

Pressure on the maize price

In the Northern Hemisphere the United States (US) will start planting in April, begging the question whether more soya beans will be planted at the expense of maize hectares. The expected global maize ending stock is 225 million tons. These high stock levels have put pressure on the international maize price.

With the more stable soya bean price and the latest increases due to weather conditions, the price ratio of soya bean and maize favoured soya. A year ago, the soya/maize price ratio was at around two. Currently it is 2,3, as indicated in Figure 1. The expectation is that more soya bean hectares will be planted in the US. This means that soya bean prices may be under pressure in the longer term. However, this still depends on weather conditions and the adjustment in vegetable production, which is currently supporting the demand.

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Prices on the local front are highly dependent on international prices and are a good indicator of derived prices. In the last two weeks of January, the two prices – namely the South African Futures Exchange (Safex) and derived – diverged from one another (Figure 2). This means that either the local price must decrease toward the derived price, or the international prices need to increase. This emphasises the importance of closely monitoring the South American market.

Figure 1: US soya-maize price ratio. (Source: Grain SA)

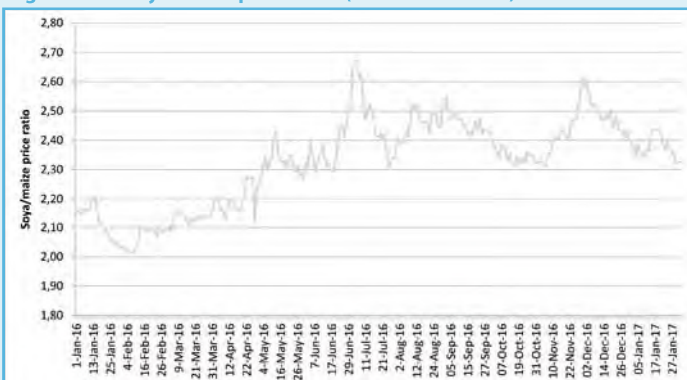


Figure 2: Prices of derived soya bean delivered in Randfontein. (Source: Grain SA)



Table 2: Supply and demand of soya beans in South Africa.

Updated 27 January 2017	Grain SA projection			
	27 January 2017	2017/18**	2017/18**	2017/18**
Marketing year	2016/17*	Scenario 1	Scenario 2	Scenario 3
Area planted (x1 000ha)	503	542,2	542,2	542,2
Yield (t/ha)	1,47	1,5	1,65	1,8
CEC crop estimate ('000 ton)	742	813,3	894,63	975,96
Retentions and production of seed	30	30	30	30
Early deliveries 2012				
Plus: Early deliveries 2013				
Available for commercial deliveries	712	783,3	864,63	945,96
	Grain SA	Grain SA	Grain SA	Grain SA
	('000 ton)	('000 ton)	('000 ton)	('000 ton)
Commercial supply				
Opening stocks (1 March)	89,1	146,8	146,8	146,8
Commercial deliveries	711,6	783,3	864,63	945,96
Imports	450	230	150	70
Total commercial supply	1 250,7	1 160,132	1 161,462	1 162,792
Commercial demand				
Commercial consumption				
Food	23,8	25	25	25
Feed (full-fat soya)	103,1	132	132	132
Crushed for oil and oilcake	960	850	850	850
Total	1 086,9	1 007	1 007	1 007
Other consumption				
Withdrawn by producers	0,6	3	3	3
Released to end consumers	1,3	3	3	3
Seed for planting purposes	7,0	6	6	6
Sagis (Note eight sundries)	0			
Total	8,9	11	11	11
Total RSA soya bean demand	1 095,8	1 018	1 018	1 018
Exports	8	9	9	9
Total commercial demand	1 103,8	1 027	1 027	1 027
Carry-out (28 February)	146,8	133	135	136
Pipeline requirements	135,9	126	126	126
Surplus above pipeline	11	7	9	10
Carry-out as a % of RSA consumption	13,4%	13,10%	13,23%	13,36%
Carry-out as a % of total commercial demand	13,3%	12,99%	13,11%	13,24%

Domestic market

On the local front the Crop Estimates Committee's (CEC) final report indicated that the soya bean crop was adjusted slightly upward from its previous report, from 741 550 tons to 742 000 tons, which represents 0,06% or 450 tons. *Table 2* illustrates the various scenarios that could realise locally.

Another key factor is the exchange rate which poses a huge risk for the current soya bean price, mainly due to its high volatility and unpredictability. If economic growth takes place in the first quarter, the rand with strengthen, albeit gradually. If political uncertainty were to remain intact and no to little economic growth is realised, there would be a more aggressive weakening of the rand.

Aspects that should be closely monitored in the short term, include the production conditions in South America and the exchange rate. Over the longer term, though, the more pressing issues will be the crushing margins of processing plants, the exchange rate, American plantings and vegetable oil production levels.

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