

Coronavirus causes distortion in the oilseeds market

By Dr Dirk Strydom, Grain SA

The outbreak of the novel coronavirus has given rise to market concerns in China, the world's largest consumer of oilseeds and oilseeds products. This came as logistical constraints start emerging and large cities slow down. The question is whether this will be a short-term consequence, or whether the effect will persist.

Soya beans

The international soya bean market also came under pressure at the beginning of February this year following the outbreak of the novel coronavirus in China. Although provisional trade agreements had been signed between the United States (US) and China, the Chinese market had not yet purchased significant quantities of US soya beans at the time of writing this article.

The processing of soya beans in the US reached new record levels between October and December 2019, which helped diminish large carry-over stocks in the US. There is currently a high demand for soya bean oil and meal in the international market, which supports the processing of soya beans in the US.

Soya bean production conditions in South America are reported to be favourable. Although the beginning of the season was challenging and plantings were delayed, good rain during January favoured production conditions in Argentina.

Soya bean exports from the five largest exporting countries decreased seasonally during January 2020 and were lower than the total exports of January 2019.

Another major focus is the South American market. Despite the difficult planting conditions in Brazil, the expectation is that Brazil will have a good soya bean crop this season; its total production is estimated

at 125 million tons. Brazilian soya bean exports also picked up, with total February exports estimated at between 6 and 7 million tons. This is significantly higher than the 5,27 million tons exported during February 2019.

Sunflower seed

In Russia, sunflower seed processing reached a record 12,5 million tons during 2019. This is approximately 2 million

tons more than last season's processing. The sharp increase in the volume of sunflower seed processed in the country during 2019 can be attributed to good production, as well as the high worldwide demand for sunflower oil and meal.

In the Ukraine, total oilseeds processing reached approximately 18 million tons during 2019, of which approximately 86% was sunflower seed.

Table 1: South African soya bean scenarios based on planted hectares.
(Source: Grain SA)

	2020/21	2020/21	2020/21
Marketing year	Scenario 1	Scenario 2	Scenario 3
Area planted	757 000ha	757 000ha	757 000ha
Yield	1,48tons/ha	1,84tons/ha	2,3tons/ha
Scenario estimate	1,12 million tons	1,39 million tons	1,74 million tons
Commercial supply			
Opening stocks (1 March)	285 000 tons	285 000 tons	285 000 tons
Commercial deliveries	1,09 million tons	1,36 million tons	1,71 million tons
Imports	0	0	0
Surplus			
Total commercial supply	1,37 million tons	1,65 million tons	1,99 million tons
Commercial demand			
Commercial consumption			
Food	25 000 tons	25 000 tons	25 000 tons
Feed (Full-fat soya)	200 000 tons	200 000 tons	200 000 tons
Crushed for oil and oilcake	1,1 million tons	1,2 million tons	1,3 million tons
Total	1,32 million tons	1,43 million tons	1,53 million tons
Other consumption	9 000 tons	9 000 tons	9 000 tons
Total South African soya bean demand	1,33 million tons	1,43 million tons	1,53 million tons
Exports	4 000 tons	4 000 tons	4 000 tons
Total commercial demand	1,34 million tons	1,44 million tons	1,54 million tons
Carry-out (28 February)	37 000 tons	210 000 tons	458 000 tons
Pipeline requirements	166 000 tons	178 000 tons	191 000 tons
Surplus above pipeline	-128 000 tons	32 000 tons	268 000 tons
Carry-out as a % of total commercial demand	3%	15%	30%

It is expected that Turkey's sunflower seed imports could increase sharply between February and June with the discount on the import levy in effect. Most of the sunflower seed is expected to be imported from Russia.

Imports of sunflower oil into Ethiopia almost tripled to 149 000 tons in 2019 due to the decline in palm oil imports to that country. There is an international shortage of palm oil, which has strongly supported the palm oil price. Sunflower seed oil is cheaper than other vegetable oils, which explains the imports shift from palm oil to sunflower seed oil.

Canola and groundnuts

In Canada, canola plantings have remained mostly unchanged for the season. A build-up of supply due to lower exports has put the Canadian canola market under pressure for some time. Canada-China trade disputes hampered Canadian canola exports this past season and canola supply began to build up. At the end of December 2019, Canada's canola stocks stood at 14,3 million tons.

Although the available stocks for the season are lower than the previous season's 14,6 million, it is still high given

that all of Canada's canola had not been harvested at the time of writing this article. Short-term weather conditions will still largely determine the success of plantings.

Groundnut exports from Senegal to China reached a record level of 94 000 tons during December 2019, leaving the exporter concerned that China would buy most of its supply. This led to the Senegalese government placing a ban on groundnut exports in order to maintain domestic stocks and prevent too many groundnuts from being exported, leaving domestic processors without stock.

India's groundnut oil exports reached a new high of 11 000 tons during December 2019, with most of the exports destined for China.

China's groundnut oil imports increased by 52% during 2019, most of which were from South America and Africa. China's groundnut and groundnut product imports have increased sharply over the past two to three months, supporting international groundnut prices.

Local market

During the 2019 season the increase in demand depleted high carry-over stocks. Early in 2020 the National Agricultural Marketing Council's Supply and Demand Estimates Committee estimated the closing stock level at 285 586 tons. At an average

processed quantity of 117 500 tons per month, this represents available stock levels for 2,4 months, which is almost half the stocks of the previous season.

According to the Crop Estimates Committee (CEC) report of preliminary area planted, a total of 757 000ha of soya beans were planted for the current season. This is 1,5% more than the intention to plant. However, the question is what the effect on the local supply and demand will be. *Table 1* reflects three possible scenarios in the South African soya bean industry. Scenario 1 is based on a low-yield average, scenario 2 on a four-year average and scenario 3 on high yield.

Within the average scenario, the stock-to-usage ratio is at 15% with a 2010 carry-out stock level, which is lower than the expected levels for the 2019/20 marketing season. Based on market reviews and surveys, crop expectations are similar to that of scenario 2.

In terms of prices, with the high demand and the decrease in stocks, local soya bean prices moved from closer to export parity levels towards derived prices. This represents a year-on-year increase of 25% up to a level of R5 977/ton.

According to the CEC's preliminary area planted, 551 500ha of sunflower seed was planted for the season. This is 2,4% more than the intention to plant. In terms of groundnuts, 37 100ha were planted for the season, which is 85% more than last season's plantings, but 23% less than the intention to plant. This was mainly due to late summer rains, which prevented some areas from planting.

All the oilseeds mentioned will be somewhat constrained in terms of sufficiently supplying the local market. 🌱

Figure 1: Soya bean import and export parity prices. (Source: Grain SA)

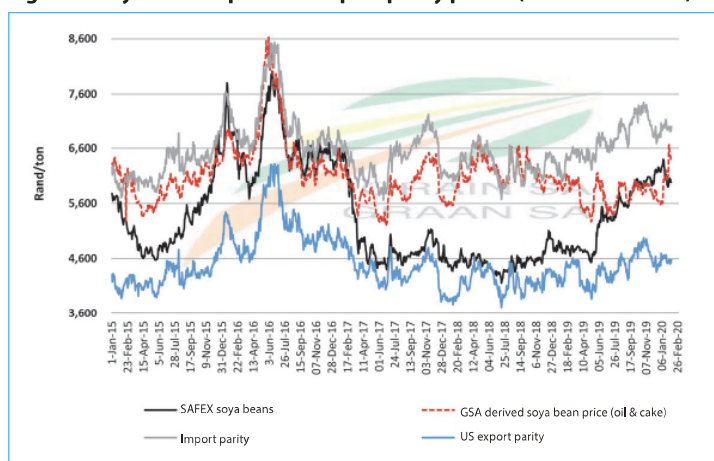
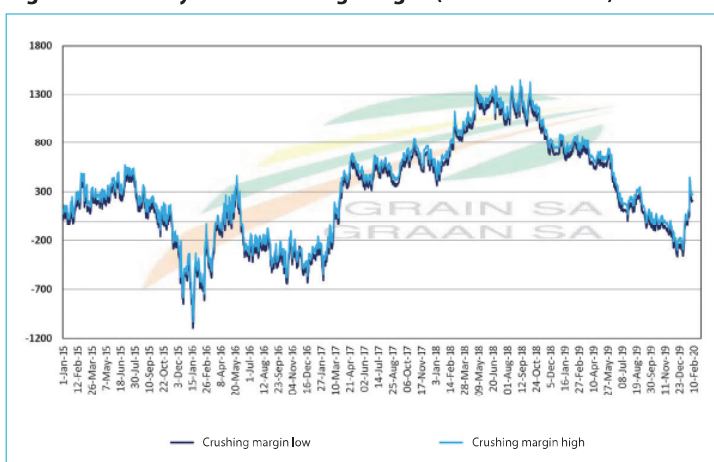


Figure 2: Local soya bean crushing margin. (Source: Grain SA)



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