

Soya bean market overview

By Ikageng Maluleke, agricultural economist, Grain SA

Prospects are looking good for the 2020/21 soya bean production season, although a robust recovery in world economic growth seems necessary to meet higher consumption demand. This against the backdrop of the COVID-19 pandemic, which has had a significant impact on various economies – it is still unknown how long the world will continue to battle this health crisis.

Although the world is still ‘under siege’, many economies are trying to adapt to this new situation. One highlight is that the Chinese seem committed to honouring their phase one trade agreement with the United States (US) before the end of the year.

Global soya bean production

It is anticipated that world soya bean production for 2020/21 will recover strongly when compared to the 2019/20 season (Table 1). This is due to improved production prospects in the US, which emphasises demand over the next year. Potential gains are also expected in the southern hemisphere.

Brazil is expected to increase production above the five-year trend. The incentive comes from the economic downturn caused by the COVID-19 pandemic, which led to a sharp depreciation of the Brazilian real, pushing domestic soya bean prices to record levels. This allowed producers to be well capitalised from the 2019/20 revenue, and they are eager to reinvest those profits.

China’s domestic production is expected to increase by 0,7 million tons to 18 million tons in 2020/21 in response to a stable government subsidy rate and higher soya bean prices during the sowing months of 2020.

Global soya bean consumption

The COVID-19 pandemic affected global soya bean consumption, which was evident in a dip in processing for countries such as Argentina. Despite declining consumption in the 2019/20 marketing year, it is expected that global consumption will expand by 3% to reach a new peak in 2020/21 (Table 1). The anticipated increase will come from

Asia, and especially China, due to the expected expansion of meat production.

The Chinese lost approximately 40% of their swine herd to the African swine fever outbreak, and production has not recovered since the outbreak was detected in 2018. Recent updates from the World Organisation for Animal Health (OIE) indicate that the disease continues to appear in Asia and parts of Eastern Europe, and a vaccine seems unlikely in the near future – recent cause for concern was a report of a resurgence in infections in parts of Southern China due to flooding.

Slaughter rates in the US livestock sector continue to improve, meeting crush projections. However, weak livestock prices have a serious impact on herd levels, and ample vegetable oil supplies may inhibit crush demand for the new marketing year.

Global soya bean trade

Projections for the last few weeks of 2019/20 show that US soya bean exports remain in pace with the United States Department of Agriculture (USDA) estimates. The

Table 1: Global soya bean supply and demand in million tons. (Source: IGC)

| Million tons | 2017/18 | 2018/19 (estimates) | 2019/20 (forecast) | 2020/21 (projected) | Year-on-year change |
|---|---------|---------------------|--------------------|---------------------|---------------------|
| Opening stocks | 47 | 48 | 61 | 47 | -23% |
| Production | 344 | 363 | 339 | 365 | +8% |
| Total supply | 392 | 411 | 400 | 412 | +3% |
| Total use | 344 | 349 | 353 | 364 | +3% |
| of which: Crush | 302 | 307 | 311 | 319 | +3% |
| Food | 19 | 19 | 20 | 21 | +5% |
| Feed | 14 | 14 | 12 | 15 | +25% |
| Closing stocks | 48 | 61 | 47 | 48 | +2% |
| Major exporters (Argentina, Brazil, US) | 17 | 32 | 20 | 16 | -20% |
| Trade (October/September) | 153 | 152 | 158 | 161 | +2% |

strong pace of the new marketing year's sales is on par with levels seen before the trade war with China. Chinese buying under the phase one trade deal remains crucial to realising this forecast.

It seems that soya bean demand will rely on China over the next year. According to the USDA, China's projected 2020/21 imports from the US stand at 9,6 million tons. However, this figure depends on the country's ability to recover its pig and poultry numbers. The potential for an increase in China's soya bean imports from the US looks certain, but the size remains the question.

Although this is a positive sign, geopolitical tensions between the US and China persist, which creates uncertainty for potential trade flows over the next year. In addition, South American production is expected to increase by 4,7% in 2021 to 196 million tons. China's continued purchases of Brazilian soya beans will create a highly competitive export environment for the US in 2021.

Global soya bean stocks

According to the International Grains Council (IGC), the outlook for global stocks in 2020/21 is expected to be marginally higher year-on-year. This is partly due to high carry-ins from the previous season and prospects for larger purchases (Table 1).

Global soya bean price movements

Soya bean crop potential continues to be a significant factor in soya bean price

movements. Higher soya bean prices rely on demand prospects over the next year, while increased demand is linked to economic recovery. Nevertheless, recent developments have provided limited support for economic growth prospects.

The potential for higher yields in the US and growth in South American production might put pressure on soya bean prices.

The 2020 soya bean crop is off to a good start, but the yield will depend on weather conditions, while demand depends on global economic recovery.

Soya bean prices thus need projected consumption levels to be fulfilled in order to remain higher. A continuation of the recent strength in soya bean prices remains focused on the export potential for the next marketing year.

Local soya bean market

According to the Crop Estimates Committee, the sixth production forecast for soya beans remained unchanged from the previous forecast at 1,261 million tons. This represents a 7,7% increase compared to 2019. The estimated area planted to soya beans is 705 000ha and the expected yield is 1,79 tons/ha.

Soya bean processing for the 2020/21 season is looking good and trailing higher than the previous season by approximately 10%. At this rate it could put pressure on stock levels, which will support prices. Compared to the previous season, the total projected demand for processing is expected to decrease by approximately 3%. The amount of processed soya bean thus far for 2020/21, compared to the total demand for processing, is trailing at 35% compared to 25% last year.

Figure 1 illustrates domestic supply from imports and demand for exports for soya bean to date. The majority of soya beans were imported in March, mainly from Brazil, due to a late local harvest, which led to late deliveries. Soya bean oilcake imports are trailing by 26% compared to the same period last year, while exports are trailing higher by 26%, mainly due to the increase in demand and availability of stock.

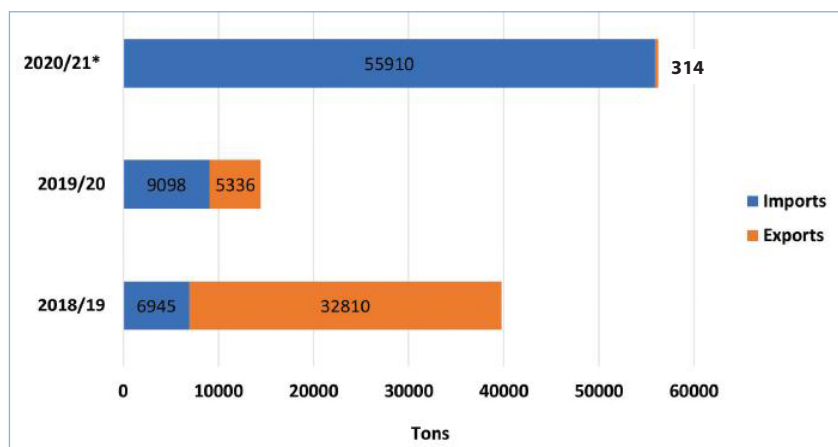
Since the beginning of the 2020/21 season, local soya bean prices have increased considerably due to the depreciation in the rand caused by COVID-19. Compared to the past two years, September futures prices increased by approximately 22 and 33% y/y, while December futures prices increased by 20 and 32% y/y.

A parting thought

The 2020 soya bean crop is off to a good start, but the yield will depend on weather conditions, while demand depends on global economic recovery. The recent sales of US soya beans to China provide some hope for a robust demand recovery in the new marketing year.

However, US-China relations and uncertainties associated with the pandemic are likely to linger over the markets for the remainder of the year. In the short term, prices are expected to remain steady unless there is a significant event. Local demand is faring well, with prices supported by the depreciating rand.

Figure 1: Local soya bean imports and exports. (Source: South African Grain Information Service)



*March to July 2020.

For more information, send an email to the author at ikageng@grainsa.co.za.