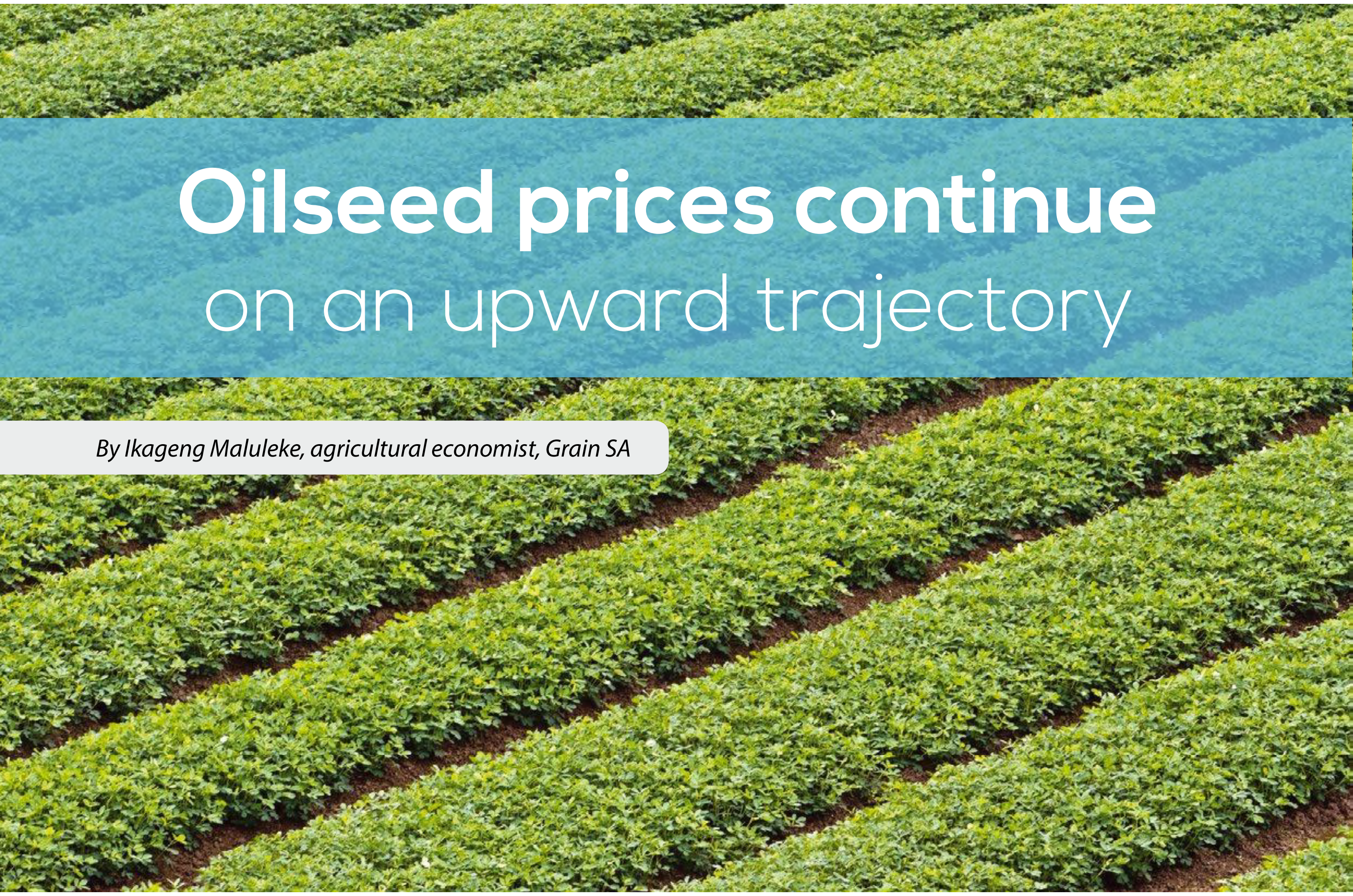


Oilseed prices continue on an upward trajectory

By Ikageng Maluleke, agricultural economist, Grain SA

Global oilseeds production for 2020/21 is currently estimated at 595 million tons, which is more than 600 000 tons higher than the January estimate. This is due to slightly higher sunflower and soya bean production, among others, offsetting small declines in groundnut production.

Forecasts by the USDA

According to the United States Department of Agriculture (USDA), global supply and demand forecasts for soya bean include higher exports at 169,7 million tons and lower ending stocks at 83,4 million tons. The higher exports are expected from the United States (US) and Russia, while Argentina is expected to import considerably. The US and Brazil will therefore have lower carryover stocks at the end of the season, which would offset Argentina's higher stocks.

In the US, market incentives since late 2020 have been in favour of planting soya bean over maize. The soya bean to maize ratio for new crop futures has been above 2,5 for some time, compared with a break-even ratio of 2,3. This potentially sets up a very volatile scenario for 2020/21.

Even with production at projected levels, the current size of the demand base for soya beans implies that it will be difficult for ending stocks to increase substantially in 2020/21. For stocks to be replenished to more normal levels, either prices will have to rise further to reduce the size of the demand base, or good weather will be needed first in South America this winter, and then in the US in the summer of 2021.

Global sunflower production

Sunflower seed production is expected to decrease by about 4,75 million tons in 2020/21 to 50,1 million tons compared with the previous season, although hectares planted are

Table 1: Global oilseeds supply and demand. (Source: USDA)

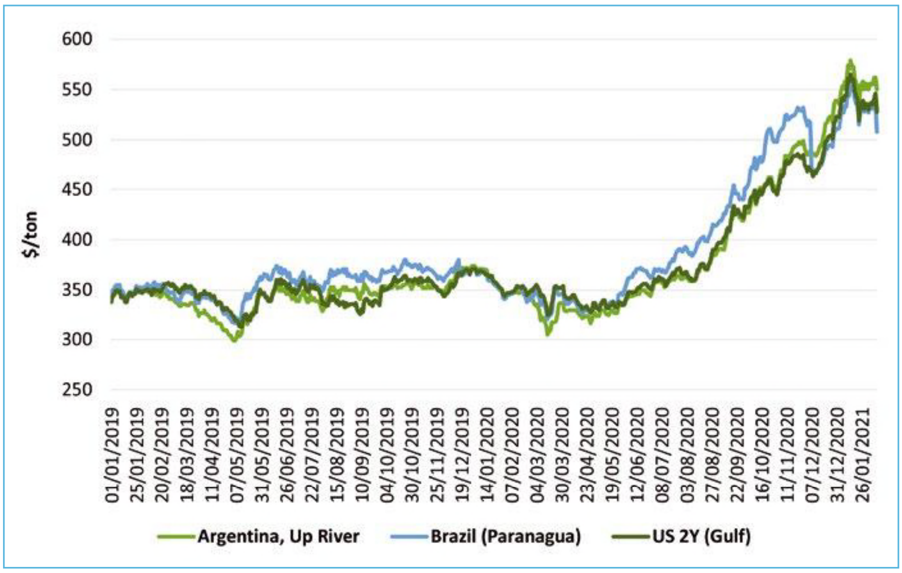
	2018/19	2019/20 estimate	2020/21 projections (Jan)	2020/21 projections (Feb)*
	Million tons			
Production	600,03	576,29	594,48	595,09
Total supply	717,12	708,69	705,27	705,45
Trade	170,94	190,15	192,65	193,87
Consumption	488,98	506,15	512,28	512,99
Ending Stocks	132,40	110,36	96,50	95,64

**Data as at 10 February 2021.*

expected to increase marginally from 26,34 to 26,84 million ha. Production is expected to decrease for all major producers namely Argentina, Russia, the Ukraine, European Union (EU), and Turkey, with lower domestic consumption in all these countries.

The production of meal and oil is only expected to increase marginally compared with the previous season. As part of measures to reduce food prices, Russia issued a decree to restrict exports of sunflower and other crops for the first half of 2021. This will have an impact on trade flows.

Figure 1: International sunflower seed prices. (Source: IGC)



Groundnut market looks firm

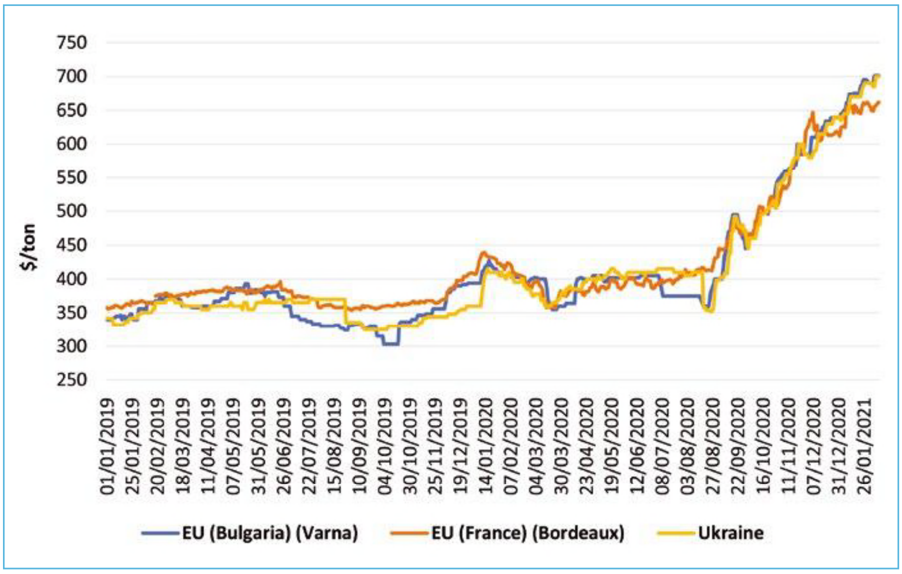
The international groundnut market is also looking firm, with Brazil out of old crop and Argentina with very little inventory available until harvest time. Chinese interest in US groundnuts continues to grow and only time will tell if it will be realised. Local consumption in the US continued to soar, as families spent more time at home. It seems that peanut butter and peanut snacks have been flying off grocery store shelves.

Changes in the US groundnut market are expected due to rising cotton and maize prices, giving the groundnut market a firm undertone. These prices offer competitive alternatives, which might lead to a decrease in hectares planted. Hence producers will require better incentives to plant groundnuts this year.

The EU has announced a 25% tariff on US groundnuts and other products. The tariff went into effect on 10 November 2020, as authorised by the World Trade Organization (WTO), but the market is still digesting the news and determining its potential impact. According to US sources, the direct tariff is another example of the EU taking steps to limit the ability of US groundnuts and agriculture to compete fairly in this key market.

After two seasons of consecutive declines in hectares planted towards groundnuts, producers in Argentina have returned hectares to groundnuts, with projections at 350 000ha, which could yield about 1,35 million tons. Export taxes for groundnuts and groundnut products were reduced in March 2020 as part of a decree to increase their profitability relative to soya beans and grains.

Figure 2: International sunflower seed prices. (Source: IGC)



Global price movements

The price rally over the past few months in the grain and oilseeds markets defied projections for lowered global agricultural trade and consumption trends as a result of the Covid-19 pandemic. Stronger markets for vegetable oils, coupled with gains in equities and crude oil, added to the positive tone at times.

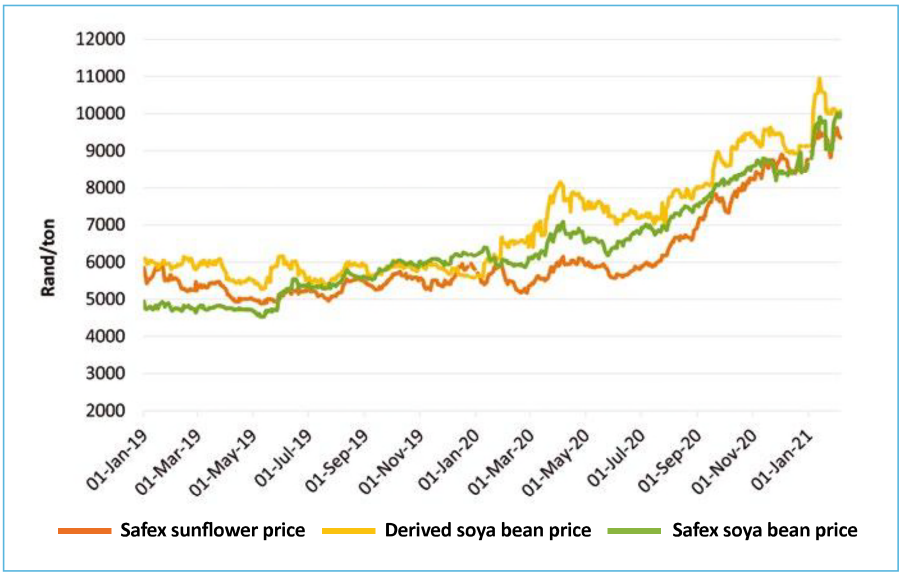
A rebound in exports and a continuation of export demand growth has led to a more optimistic price scenario for soya beans. Price gains were also underpinned by outlooks for much tighter US supplies, owing to good domestic demand and a record-breaking export campaign, led by China. US stocks are placed at a seven-year low.

Likewise, the Argentine market also recorded a net gain of 15% on declining production prospects, while there were also labour issues at ports, slowing down the loading. Soya beans in Brazil remain tight, with increased imports supplementing limited domestic supplies since late 2020. Although much-needed rain alleviated some concerns earlier this year, total rainfall remains far below historical levels in many growing regions. This has created support for current price levels and prices are expected to remain strong.

Expectations are that prices may decline once the Brazil harvest commences. While this will ease any short-term supply issues, supply and demand factors still point to prices remaining well above the depressed levels observed prior to August 2020.

With weaker production estimates for sunflower seed and derivatives, international prices continued to track higher, mainly due to a marked reduction in sunflower product availabilities following poor Black Sea crops.

Figure 3: Historical Safex oilseeds prices. (Source: Grain SA)



Implications for the feed sector

The increase in oilseeds prices, especially those used in the feed sector, is bound to have a significant impact on an already depressed sector, which was starting to pick up after the first wave of Covid-19 and subsequent lockdowns.

Global production of livestock and poultry in the first quarter of the year is forecasted higher based on available preliminary data. Nonetheless, it is anticipated that production growth for the second half of the year will be slowed due to higher expected feed costs, which are likely to hamper production growth.

Domestic perspective

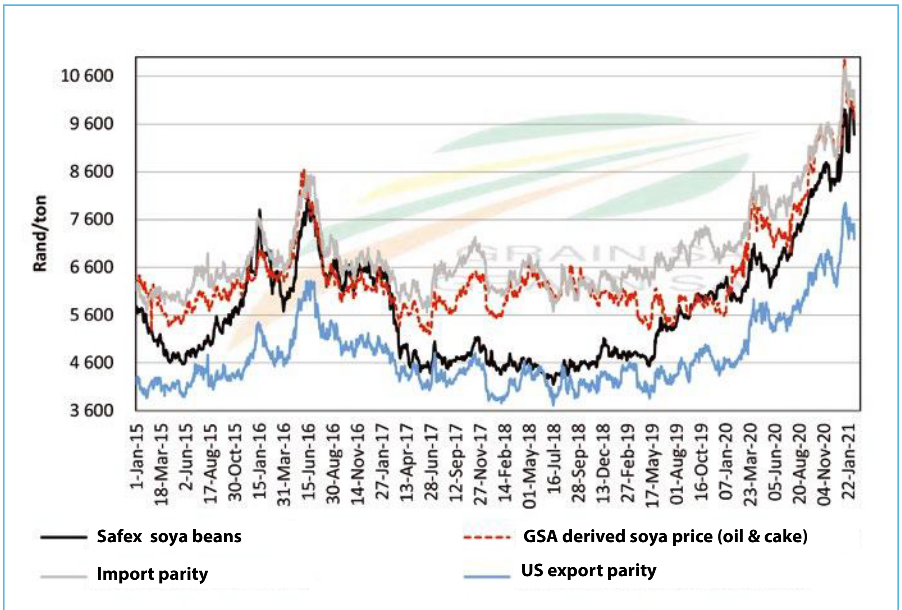
Against the backdrop of rising global oilseeds prices over the past few months, South African oilseeds prices have been tracking these prices higher, with local prices at an all-time high since 2016. Between January 2020 and January 2021, sunflower prices increased by 62% and soya bean prices by 53%.

According to the Crop Estimates Committee (CEC), the preliminary production area estimate for sunflower seed for 2021 is 473 300ha. This is 5,4% lower than the 500 300ha planted the previous season, and can help to support prices further. It is estimated that 806 000ha have been planted to soya beans, which represent an increase of 14,33% compared with the 705 000ha planted last season. This makes it the highest area planted to soya beans in South African history.

Essentially, record yields could lead to a dip in prices, but expectations are that international prices will be supportive in the short to medium term, given the global supply situation. This can affect the feed sector negatively, especially the poultry sector, if its prices do not increase on the same trajectory. The poultry industry is already in distress, with feed costs being one of its major concerns.

Notwithstanding minor changes in global production on a month-to-month basis, oilseed supplies are still considered adequate and trade flows remain strong. However, this is met by the reality of increased vulnerability in most disadvantaged economies, perpetuated by the Covid-19 pandemic. Purchasing power is constantly diminishing and increasing international oilseeds prices will create a burden for low-income countries that depend on imports.

Figure 4: Prices of derived soya bean delivered in Randfontein. (Source: Grain SA)



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