South African soya beans in abundance!

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According to the Crop Estimates Committee's (CEC) final estimate of the year, South Africa produced a record soya bean crop of 1,55 million tons. The ten-year average for soya bean production in South Africa is almost half of this at 758 487 tons.

Almost five years ago the soya bean industry and various government departments developed a strategy to further develop and expand the local soya bean industry. The increase in local processing capacity coincided with an increase in production. Now the local soya bean industry is yet again at a stage were new markets are needed due to an oversupply.

According to the National Agricultural Marketing Council's (NAMC) supply and demand estimate, an ending stock of more than 600 000 tons is expected at the end of the 2018/19 marketing season. This represents six months of available stock for the new season.

In terms of the planting intentions published by the CEC at the end of October, expectations are that soya bean hectares will increase. The estimate is currently 851 800 hectares, which represents a year-on-year increase of 8,2%. This means that according to a three-year average yield and consumption, South Africa could have a stock to usage ratio of 82% at the end of the 2019/20 marketing season.

Bear in mind though that these are intentions and that weather conditions can still affect the actual planting figures (*Table 1*).

Table 1: A sensitivity measure of possible scenarios with yield and hectare variance.

		Area planted (ha)						
		-20%	-15%	-10%	CEC Intention	+10%	+15%	+20%
		681 440	724 030	766 620	851 800	936 980	979 570	1 022 160
Yield (ton/ha)	1,40	31%	36%	40%	50%	60%	65%	70%
	1,55	39%	44%	50%	61%	72%	77%	82%
	1,70	47%	53%	59%	71%	83%	89%	95%
	1,85	56%	62%	69%	82%	95%	101%	107%
	2,00	64%	71%	78%	92%	106%	113%	120%
	2,15	73%	80%	88%	103%	118%	125%	133%
	2,30	81%	89%	97%	113%	129%	137%	145%
	2,45	89%	98%	106%	124%	141%	149%	158%

On a longer-term basis it is expected that more soya beans will be produced in South Africa. The new breeding and technology levy on soya beans will attract new technology and hopes are that this will increase yields.

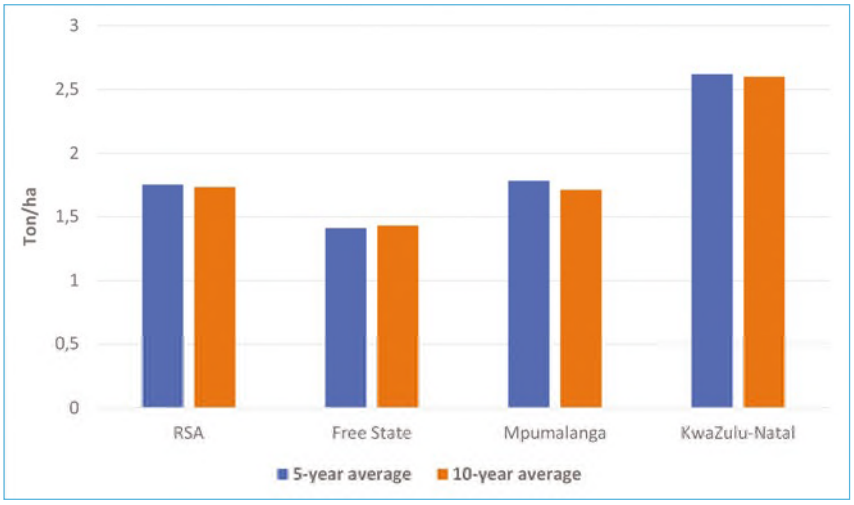
As illustrated in the five-year and ten-year yield averages in *Figure 1*, South Africa did not experience substantial improvements in yield. Given the increase in costs and the price cost squeeze, increases in yield are important for maintaining sustainable production. However, these increases in production need to be facilitated with an increase in demand.

New markets and local demand

It is clear that new markets are needed for South Africa in order to sustain production going foward. Demand for soya beans must increase at two different levels in order to have a large impact: Exports are needed in a bid to decrease stock levels, and growth in local soya bean processing is needed.

Before the strategy to increase processing capacity within South Africa was implemented, considerable volumes – 120 000 ton on average – were exported between 2009 and 2013. However, these markets need to be regained yet again and new markets need to be developed. The trade environment for soya beans is currently highly competitive due to the trade war between the US and China.

Figure 1: Five- and ten-year soya bean yield averages.



Many opportunities are available for South Africa, given our position within BRICS and the geographical position towards the east. Yet these exports will only become a reality if the necessary export regulations are in place, the quality of our soya beans is acceptable, and the global market price is competitive.

The global soya bean trade market has changed substantially over the past six months. It is clear from the import-export parity graph that the Safex prices are below South American prices, which is currently predominantly a Chinese market. However, the Safex prices are above the US export parity prices, which is servicing the rest of the world (*Figure 2*).

Figure 2: Soya bean parity prices. (Source: Grain SA)

Table 2: Most important oilseed products (US$/ton). (Source: Oil World and Reserve Bank)

Product	1 Nov 2018	Oct 2017	% change
Soya beans (US CIF Rotterdam)	359	368	-2%
Soya beans (Brazil)	404	385	5%
Sunflower seed (EU)	377	375	1%
Groundnuts (US 40/50)	1 250	1 315	-5%
Palm oil (Malaysia)	520	539	-4%
Soya bean oil (US)	674	691	-2%
Sunflower oil (Arg)	665	673	-1%
Soya meal (Arg)	362	375	-3%
Fishmeal (Peru)	1 380	1 380	0%
Rand/$	**13,7**	**14,19**	**-3%**

In terms of the local demand for soya beans, some processors had breakages this season, which meant that crushing capacity could not be utilised at maximum levels. However, there are also still large oilcake imports to consider. According to the South African Revenue Service, 208 000 tons of oilcake were imported from April until the end of August, amounting to R1 billion (five months of the marketing season).

Last year's oilcake imports totalled 519 071 tons with a value of R2,1 billion for the marketing year. If these imports can be replaced with local soya bean crushing, it means an additional market of approximately 650 000 tons.

In terms of the current South African economic and National Development Plan's (NDP) vision of creating jobs through agro-processing, soya beans are ideally positioned to accomplish these dreams – creating local high value produce and creating jobs with export markets. There is a large global demand for feed and more specifically oilcake.

International market

The US experienced challenges with its soya bean harvesting at the beginning of November, due to the adverse weather conditions over large parts of the country. Although the delay in harvesting led to yield losses, the US production will still set a new record this season.

US exports are significantly lower than usual since the loss of China's import market for US soya beans. Some of the last US exports that were supposed to be shipped to China were sold to other countries. The large American soya bean stocks along with lower exports are keeping US soya bean prices under pressure.

Soya bean plantings are progressing well in Brazil and the first stock of the new season will be available in the market earlier than usual. This is beneficial because China is buying large volumes of Brazilian soya beans and there are still good premiums available in the Brazilian market.

Ukraine sunflower production

In the Ukraine, the sunflower seed harvesting process stood at 96% completed by the first week of November. Production for the season looks good and the average yield is 14% higher than the previous season.

In Russia, the average yield of sunflower seed is 3% higher than the previous season.

Australian canola exports were significantly lower than the potential in September and the final figures for the month closed at a four-month low. Total Australian canola exports for the season were lower and this will cause the canola stocks in Australia to be unusually high at the end of the year.

Canadian canola prices are still trading at a discount against European canola, with Canadian prices mainly under pressure due to the large stock levels available as well as an overflow effect from low US soya bean prices.

In the US, the November production progress report showed that 66% of American groundnuts had already been harvested. This is lower than the five-year average rate of 70% completed at that time of year and lower than last season's 72% completed at the same time during the season.

In terms of price movement, most oilseeds and products decreased year-on-year, except for Brazil that is currently capitalising on the new Chinese market (*Table 2*).

In summary

South African soya beans need to source and unlock new local and international markets. The high estimated supply can put additional price pressure on soya bean prices. Internationally there is ample opportunity for trade due to the current trade war; however, this is accompanied by growing competition.

It is important to evaluate the new negotiations between China and the US, since this will have a large impact on global prices. The exchange rate is still very volatile and impacts export parity levels. The exchange rate is still very difficult to forecast with all the current uncertainties within the economic and political conditions of the country.

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