High South African stock levels due to oilcake imports

By Dr Dirk Strydom, Grain SA

Drastic changes recently took place on the international soya bean market. So far this year, the soya bean exports of the five largest export countries decreased by approximately three million tons, which mainly reflects the decline in Chinese imports.

Processing and pressing of soya beans in the US and Brazil showed a sharp increase between January and April 2018, while there was also a sharp increase in the exports of soya bean oilcake from these countries. Despite the annual increase of soya bean oilcake production and its exports in April, the worldwide oilcake stocks are still under pressure. This is mainly due to the problems with soya bean production in Argentina this year, which is around 18 million tons less than the previous season.

The soya bean harvesting process in Argentina is underway and the reported yields at the writing of this article was approximately 32% lower than the average of the past season. The rest of the production season's expected yields will probably also be lower, with these areas under pressure as a result of the unfavourable weather conditions during the season.

Lower production in Argentina for the season and the weakening of the local currency supported soya bean prices, which increased by 14% from mid-April. The expectations in the market are that Argentine soya bean imports for the season could reach a record of four million tons. It will mainly be imported from Paraguay.

Global production and exports

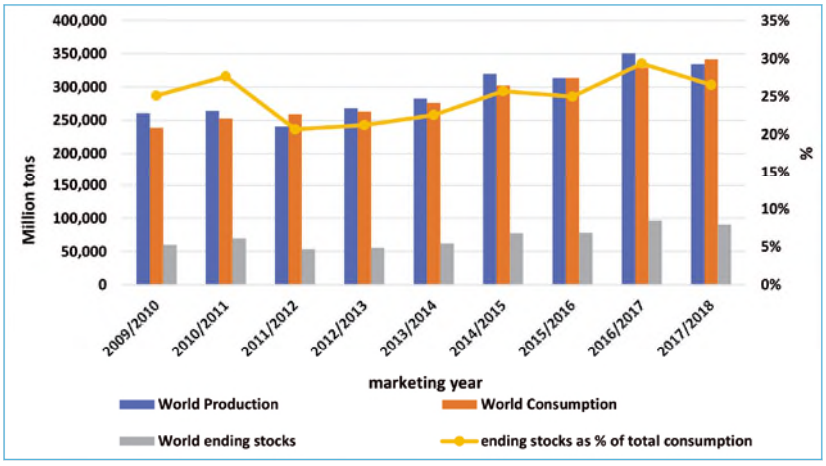
In Brazil, soya bean production for the season is favourable and the expectations are that the country could have another record soya bean crop. US plantings of soya beans are progressing well, and the plantings are well in line with the five-year average rate.

In the Ukraine, sunflower seed plantings are well ahead of last season's rate (for the same period) and expectations should be favourable for the plantings to continue. Plantings in Russia were behind the average rate of last year, but have progressed well despite delays.

Canadian exports of canola oil reached a new monthly high in March, bringing the cumulative canola oil exports from October 2017 to March 2018 to 1,6 million tons. The Canadian canola futures price decreased since the intention to plant report for the season was released, stating that canola plantings may be lower than last year's levels.

Australian canola exports in March were much lower than the year-on-year levels, which will cause large stock levels in Australia that will keep the exportable amount extremely high. According to the latest ASDA production progress report, 9% of the groundnut plantings in the US is completed, which is better than the five-year average of 8% for this time of the season. It is, however, slightly behind last season's 11% measured at the same time of the year.

Figure 1: World soya bean stocks. (Source: USDA)



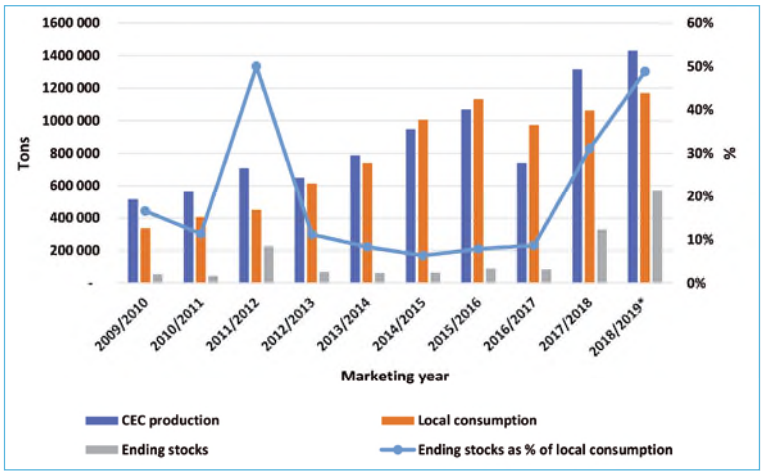
The local challenge

The challenge this year is targeted at the local market. Locally the stock levels of soya beans are slowly increasing with every season. According to the Crop Estimates Committee's third estimate, the plantings of soya beans are 787 200ha, with an expected crop of 1 430 300 tons.

Regarding the current marketing season, expectations are that there will be carry-over stocks from the previous favourable production season. According to the final Sagis figures for the 2017/18 season, the carry-over in the soya bean market is 332 442 tons. The high carry-over stock situation and possible new closing stock of 571 635 tons have moved the local Safex price of soya beans away from the derived soya bean price.

The initial expectations were that the total production of 1,3 million tons of the previous production year would be processed, but only an estimated 890 000 tons were pressed for soya bean oilcake. It begs the question of why only 890 000 tons of soya beans were processed for soya bean oilcake and additional oilcake imported, while the estimated pressing capacity for soya beans is between 1,8 million and 2,2 million tons.

Figure 2: South African soya bean stocks. (Source: Sagis and CEC)



No quality problems

If the quality of local oilcake is taken into account, experts such as Dr Erhard Briedenhann believes that there is no quality problem with local soya beans and oilcake, and that it is better or equal to the quality of Argentine soya beans.

The quality can be divided into two groupings, of which the first is the physical quality of the cake, including parameters such as protein (46% min), fat (2% max), fibre (4% max) and moisture (12%) with the particle size.

The second part is processing quality and includes the Protein Dispersibility Index (PDI), KOH Protein Solubility (KOH PS), Trypsin Inhibitor Activity (TIA-A) and reactive lysine. According to Dr Briedenhann, local oilcake meets the requirements. There is thus no reason why the local cake cannot be used. The main local consumer of oilcake remains the poultry industry.

In the processing market, the dedicated soya bean pressing capacity is 1,46 million tons, of which 890 000 is currently used. The processing capacity of full-fat soya is approximately 160 000 tons, of which 147 000 is currently used. Processing plants that can press both soya beans and sunflower offer an additional possible capacity of 462 000 tons. Currently, there is around 500 000 tons capacity for both sunflower and soya bean processing out of order. The potential processing capacity of soya beans is therefore more than two million tons.

Table 1: Soya bean consumption. (Source: NAMC and own calculations)

Consumer	Current soya bean (tons) consumption potential	Current soya bean consumption (tons)
Press (oil and oilcake)	1 668 000	890 000
Full-fat feed	147 000	147 000
Human consumption	27 000	25 000
Western and Eastern Cape	-420 000	
Domestic potential soya bean	1 422 000	1 062 000

Supply and demand

It is important to take the localities of the processing plants and locality of the demand for oilcake into account in the supply and demand of soya bean oilcake. In the Western and Eastern Cape, oilcake consumption is 21 and 8%, respectively, which means that the areas compete well with imported oilcake. The inefficient transport system, however, makes it difficult for domestic oilcake to compete with imported oilcake.

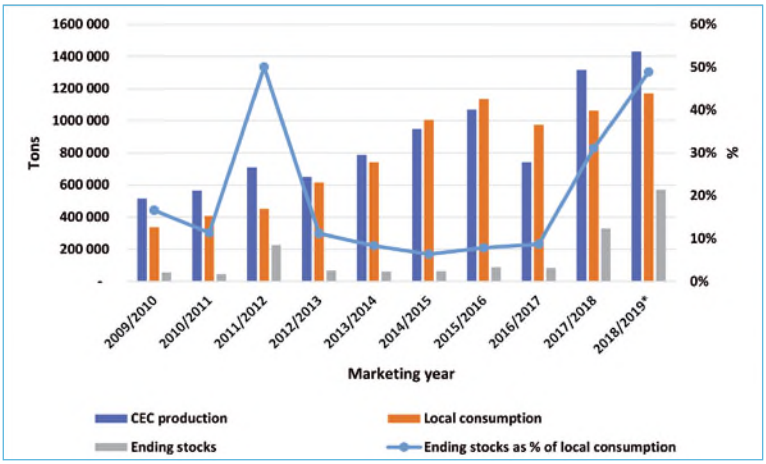
The current local demand for soya beans is reduced even further by one large livestock feed company that still uses imported soya bean oilcake. The total imports of soya bean oilcake the past season was 590 916 tons, which is equal to 777 521 tons of soya beans. Adding to this is the loss of demand for feed due to the amount of chicken imported annually.

If the consumption of the coastal regions is deducted due to the logistical challenges (and assuming that it will still be imported), the current domestic demand remains approximately 1,42 million tons of soya beans, while the current consumption of local soya beans is just more that 1 million tons.

It means that there is still space to produce an additional 360 000 tons of soya beans, even though the coastal areas are served by imports, which will also be enough to increase local production. If the coastal consumption is included, it means the growth potential for soya beans is 777 521 tons.

It is therefore crucial for local livestock feed manufacturers to start buying more local products, and for the transport economy between the inland and coastal areas to be utilised more efficiently. In doing so, the local demand for soya beans will receive a boost.

Figure 3: Soya bean production potential with replacement of imports. (Source: Sagis and Grain SA)



For more information, send an email to Dr Dirk Strydom at dirks@grainsa.co.za.