UPS AND DOWNS ON THE OILSEED RAPE MARKET

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Only a few weeks ago the situation facing the European oilseed rape market seemed hopeless. But this has now changed. Since hitting a low point on 17 January in Paris, oilseed rape futures for May delivery then rose by 15 €/t to 360 €/t, only to fall again to 348 €/t by mid-April. The positive signs stem from price developments on the soya bean market. Since the start of the year, May soya bean prices in Chicago have risen by 30 $/t to 385 $/t. The price of soya meal soared from 350 $/t to 420 $/t. At the same time, oilseed rape prices are being held back by the downturn in the vegetable oil market. The price of rapeseed oil has fallen by 90 €/t to 640 €/t since the start of the year. The trend reversal in the soya bean oil market is driven by the weather in South America, which has disrupted the growing season and harvest in Argentina and Brazil, and the possible trade dispute with China. The latest market factors and their impact on future price developments are discussed below.

Drought in Argentina

Some regions in Argentina have received only 30% of their annual rainfall since the start of the growing season in November through to mid-March. In total, 50% of the soya bean crop is thought to be affected by this latest drought, which also extends into Uruguay and Brazil. As a result, Argentinian corn and soya bean crops are expected to be hit by heavy losses. The crop forecast for April issued by the United States Department of Agriculture (USDA) is down by 7 million tonnes to 40 million tonnes compared with the previous month's forecast (previous year 58 million tonnes). Argentinian market analysts predict that the harvest will come in below 40 million tonnes. Initial enquiries suggest that Brazil will produce a bumper harvest again this year. Due to the generally good growing season in Brazil, the USDA has increased its forecast by 1 million tonnes to 115 million tonnes. Brazilian analysts

The oilseed rape area is expected to increase, especially in Canada.

have even set a figure of 116 million tonnes. The USDA meanwhile predicts that global soya bean stocks will fall by 6 million tonnes. However, according to USDA estimates, a decline in the 2018 South American harvest will be offset by high global stocks – 91 million tonnes as of 31 August 2017. After the record 2016/17 harvest, stocks in the previous marketing year rose by 18 million tonnes. This glut will help bolster supply gaps in the current year.

US trade policy

At its annual Agricultural Outlook Forum in February the USDA issued a preliminary forecast for the projected planted acreage in the USA. The forecast is based on a survey of farmers. The USDA predicts soya bean plantings in 2018 to total 36 million hectares, 470,000 hectares down on the previous year. Corn plantings are expected to fall by 800,000 hectares to 35.6 million hectares. According to latest estimates, the coming harvest at just under 119 million tonnes is projected to be 1 million tonnes below the previous year. US trade policy is currently generating plenty of interest: The Trump Administration has imposed tough new tariffs of 25% on steel and 10% on aluminium. The Chinese government has already indicated their intention to implement retaliatory tariffs on imports from the US. With a market share of 65%, China is the world's leading importer of soya beans, importing 97 million tonnes (previous year 93 million tonnes). According to the American Soybean Association, last year the US alone exported soya beans to the value of 14 billion US dollars. China is already considering levying a 25% tariff on imports of US soya beans. If the conflict escalates, China will turn to South America to cover its demand for soya beans. This would lead to a shift in the global soya bean trade. Changes made for political reasons generally lead to rising costs and associated rising prices. However, in view of its very high demand for imports and the anticipated smaller South American harvest, China could well be the biggest loser in this political dispute.

Vegetable oils in plentiful supply

With a continuing good palm oil harvest forecast in the coming months for Malaysia and Indonesia, global stocks are predicted to increase further. The USDA expects stocks to rise by 1.8 million tonnes to just under 10.7 million tonnes by the end of the marketing year. Despite plentiful supplies, palm oil in Europe will be traded with an advanced payment of only 90 €/t compared with oilseed rape. In mid-April palm oil was trading in Rotterdam for CIF 550 €/t. Oilseed rape has been heavily hit by imports of Argentinian biodiesel. However, the drought in Argentina is not expected to trigger a fall in biodiesel imports. With the World Trade Organisation ruling that EU import tariffs levied on Indonesia are also discriminatory, Indonesian biodiesel is likely to flood in in the coming months as import tariffs of 9 to 21% are cut to the Argentinian levels of 5 to 8%. No changes are generally expected in the coming months for oil components since pricing pressures will be sustained by high global vegetable oil stocks and increasing competition on the domestic biodiesel market. Some biodiesel producers have already temporarily shut down their production plants.

Overnight frosts in Europe

With European oilseed rape cultivation up slightly by 16,000 hectares to 6.66 million hectares compared with the previous year, Coceral predicts the 2018 harvest to be on a par with the 22-million tonne 2017 harvest. Despite the area under cultivation having fallen by 60,000 hectares to 1.25 million hectares, production in Germany is expected to rise by just under 0.3 million tonnes to 4.6 million tonnes. Following the disappointing harvest in 2017, this year Germany is expected to harvest 3.65 t/ha (previous year 3.27 t/ha). The International Grains Council (IGC) in London predicts the oilseed rape acreage worldwide to rise by 500,000 hectares to 37 million hectares. Oilseed rape plantings in Canada are expected to be particularly high again this year due to continuing weak grain prices. With 9.3 million hectares under cultivation, the oilseed rape crop area last year already exceeded that of wheat. The arctic weather affecting Europe in February/March has given cause for concern. In the last week of February large parts of Europe recorded frosts of between –10 and –20 °C. Initial estimates indicate slight winter losses. However, it was too early to give a conclusive assessment at the time this article was going to print.

Conclusion

The drought in Argentina has stirred up the global oil seed market. Price developments have intensified, especially in the protein meal market. Oilseed rape is not expected to undergo a trend reversal, with plentiful oil supplies suppressing the vegetable oil market. Furthermore, plantings of soya bean in the US and oilseed rape in Canada are expected to be high. It would be wise to make use of short-term upward trends to sell oilseed rape stocks and negotiate forward contracts for the 2018 harvest. Overall however, the oilseed market remains well supplied due to high stocks.

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