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SELL OR STICK?

What are the prospects for oilseed rape prices in 2017?

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With agricultural markets exposed to the free play of supply and demand, oilseed rape prices are increasingly volatile. When planning a marketing strategy, the key question for farmers is: How do I know whether to sell or to stick? To answer this, you have to read the signs in the oilseed rape market and pay close attention to market trends.

With mid-February's peak price now behind us, the question is whether prices will return to coincide with the typical May boom or whether this peak was in fact pre-empted in January/February by general expectations of low EU oilseed rape stocks and will not be seen again this year. Then there is also the question as to whether the unexpectedly large advance payment on the new harvest of almost 40 euros is justified or will shrink within the next few weeks. This will ultimately be determined by supply, demand and biofuel energy policies.

Record harvest in Australia eases EU supply situation

After a disappointing harvest last year of just 4.6 million tonnes, oilseed rape stocks are particularly low in Germany. Even with levels of commodity processing likely to be reduced to 8.1 million tonnes, the carry-over to the forthcoming harvest will be very low at 250 to 350 tonnes, which is the equivalent to just two weeks' levels. The EU as a whole has fared no better, with the last harvest yielding just over 20 million tonnes; although the refining capacity has been reduced to 23 million tonnes, a minimum import of 3.5 million tonnes is still needed to go into the new harvest with a carry-over of just two weeks' worth of refining. This supply deficit will bolster expectations of a return to last season's peak prices. On a global level, this year's record Australian harvest of 4.14 million tonnes will provide welcome relief, although Europe will have to import at least 2.5 million tonnes of it to sustain the carry-over of one million tonnes or two weeks. If these volumes fail to arrive on time or in sufficient quantities for logistical reasons, supplies will be tight until the end of the season. With the oilseed rape crop in Germany showing signs of varied growth, we can expect only an average harvest this year. Estimates are between 4.8 and 5.2 million tonnes. In view of this season's already reduced refining capacity, this is too little to have a noticeable impact on prices. The outlook for the rest of Europe is significantly better, especially in Poland, the Czech Republic, the UK and the Ukraine. It is estimated that an extra 2 million tonnes will be available overall. In contrast, the Australian harvest is expected to fall by 0.5 million tonnes, as there will be no repeat of last year's extremely good weather caused by the strong effects of El Niño. So in brief, supplies from the new harvest will be slightly better than expected overall, but since the refining capacity still has some catching up to do compared with this year, stocks will remain at a similarly low level. Recent record soya harvests are still having an adverse effect on oilseed rape prices. Record yields are expected in the USA year on year and the South American harvest this year has surpassed all expectations;

at just under 110 million tonnes in Brazil and 56 million tonnes in Argentina, it significantly outstrips growth in demand. So despite a record demand, especially from China, soya stocks remain at 83 million tonnes at the end of the season, equivalent to a stock-to-demand ratio of 25 %. The crop area in the US is expected to increase again this year by 2 million hectares to 35.77 million hectares. In South America, too, soybean cultivation is set to expand at the expense of corn, putting pressure on global oilseed prices.

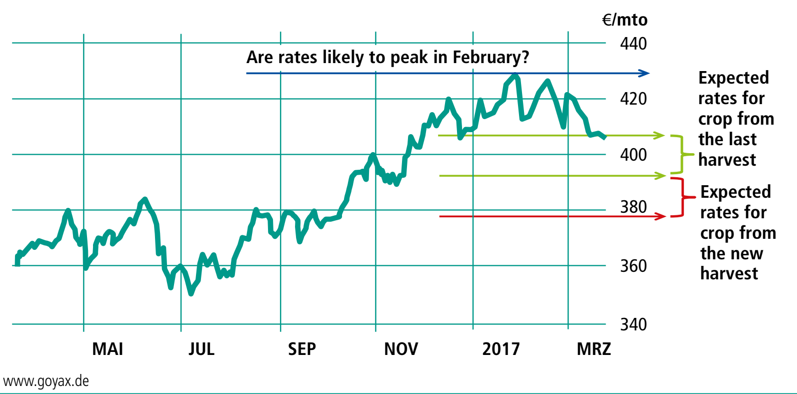
China still driving global oilseed demand

European demand for rapeseed oil and meal remains stable and is likely to have reached a minimum this year. Renewed demand for GMO-free protein and higher proportions of biodiesel in blended fuels are maintaining demand at a stable level. This year the biodiesel industry has responded promptly to the supply shortage and covered its requirements until May earlier than it would otherwise have done. Demand for rapeseed oil in the food sector is still disappointing; it seems that the nutritional benefits of rapeseed oil are still failing to generate greater demand. There is significant growth potential in this area. On a global level, China is still the main driver of demand for oilseeds, although the US biodiesel sector is also a key player, consuming 2.25 million tonnes of soybean oil and 500 tonnes of (Canadian) rapeseed oil. With the new government in the US, these volumes are subject to change and it is still not clear whether the quantities that were scheduled last year are still valid. Palm oil yields have been disappointing since last autumn due to the impact of El Niño; it brought rain to Australia and South America, but drought to palm-growing areas, leading to stock shortages. However, seasonal changes at the end of April/beginning of May are expected to result in a significant rise in production which should replenish stock levels once again. Demand for palm oil has fallen significantly due to recent high prices, so Asia's main importing countries in particular have a lot of catching up to do. This will stabilise palm oil prices at a lower level and prevent excessive price slumps, which is important since palm oil accounts for almost half of global vegetable oil.

Biodiesel still needs political support

Biodiesel is one of the key markets for vegetable oils worldwide, with an annual consumption of around 30 million tonnes. Since biodiesel cannot compete with mineral oil without support, it is reliant on political backing. Indeed, in the EU, numerous regulations support the use of biodiesel, initially until 2020. The most recent demand for oil companies to lower the greenhouse gas emissions of their fuels by 4 % has led to a reliable biodiesel consumption of 11 million tonnes, of which 6 million tonnes is derived from rapeseed oil. This consumption is buoyed by a sustained total diesel consumption and will continue to increase slightly. The reduction in greenhouse gas emissions in fuel rises to 6% from 2020, when other fuel production parameters will also have to be taken into account (UER- upstream emissions reductions) which cannot be accurately verified at this stage. The new US administration is considering repealing the current policy, denying biofuels any promotion at all. It all comes down to the lobbying power of interested parties. But the practical constraints of safeguarding jobs and the promise to develop rural regions make it likely that the past policy will be upheld. Nevertheless, due to uncertainties surrounding admixture subsidies of 22 ct/l only a minimum has been traded in the first three months of 2017. At this level, it is highly unlikely that the 2.8 million tonnes of soya oil currently expected will be reached. In Indonesia too, there is a lack of political backing. Although the government has been committed to a 20 % blend target for years, which currently equates to around 6 million tonnes, yet in practice, the figure has been only between 1 and 1.5 million tonnes. This has kept palm oil stocks at consistently stable levels. The mix of biofuel in fossil diesel is not expected to increase until mineral oil prices rise above $75/brl again (69 euros per barrel = 159 l). Although food consumption is very stable and increasing annually, harvests are growing faster than oil consumption, which is why the biodiesel industry plays a vital role in maintaining price stability by purchasing overproduction. The high availability of soya is reining in sharper price rises, which is particularly evident from the previous price drop and is also having an effect on the new harvest.

Fig.: Predicted oilseed rape price trend for 2017



Summary

To summarise, there are concerns that we may have pre-empted the traditional May peak prices in February and that now on the Matif the prices for commodities from the previous harvest will continue to track sideways between 390 and 410 euros/t due to high imports of GMO-free oilseed rape from Australia, in which case it would be advisable to sell from 410 euros/t rather than hold out. The current discount is too high for the 2017 harvest because, although it will be better than the previous year's harvest, the refining capacity still needs 1 to 1.5 million tonnes to catch up. Thus supplies remain fairly tight and ultimately justify prices of 380 to 390 euros/t on the Matif after the harvest, so it is worth waiting before selling the newly harvested oilseed rape.

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