

SA soybeans and its by-product imports set to decline in 2018/19

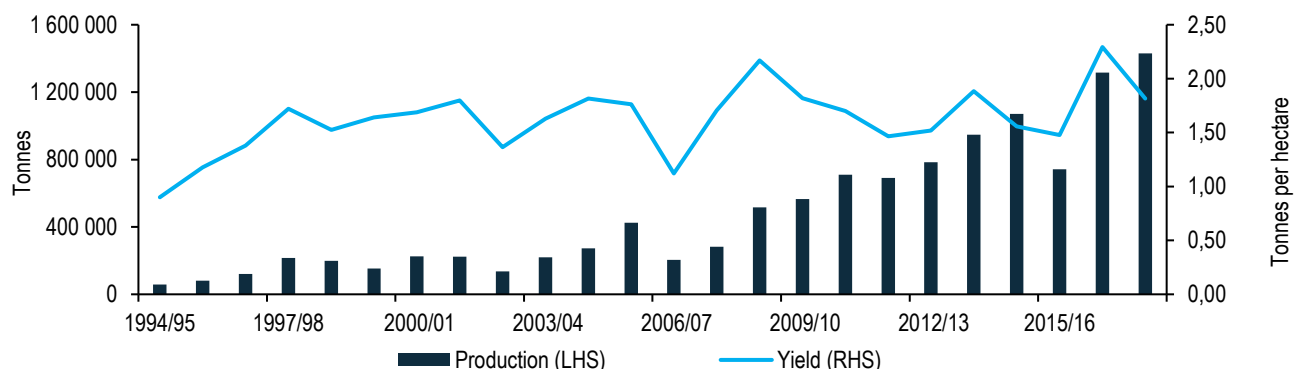
South Africa's soybean and oilcake (meal) imports could decline by 27 percent and 17 percent year-on-year in the 2018/19 marketing year, to 20 000 tonnes and 458 992 tonnes, respectively. This is underpinned by an expected harvest of 1.4 million tonnes of soybeans in the 2017/18 production season¹. The expected decline in imports is driven by strong local production and favourable domestic prices, particularly for soybean processors. There has been an increase in demand for locally produced soybean to meet increasing animal feed demand, which in turn has been stimulated by increases in the demand for high protein food, particularly poultry products. South Africa's per capita consumption of poultry meat almost doubled over the past 17-years, currently estimated at 41 kilograms, according to data from Department of Agriculture, Forestry and Fisheries.

Local soybean production has grown significantly over the years

While South Africa is set to remain a net importer of soybeans and oilcake in the current marketing, the production has grown significantly over the past couple of years (Chart 1). Production grew from levels 58 500 tonnes in 1994/95 production season to an estimated 1.4 million tonnes in the 2017/18 due to expansion in plantings and higher yields.

This is a demand-led growth. In other words, South Africa made significant investments to increase domestic soybean crushing capacity from roughly 860 000 tonnes in 2012 to a level in excess of 2.2 million tonnes. The investment towards soybean crushing capacity was aimed at stimulating domestic soybean production, as part of an import substitution strategy. Local soybean producers responded positively to these demand changes, and for the first time, the country's production could reach a record level of 1.4 million tonnes, as previously noted.

Chart 1: SA soybean production

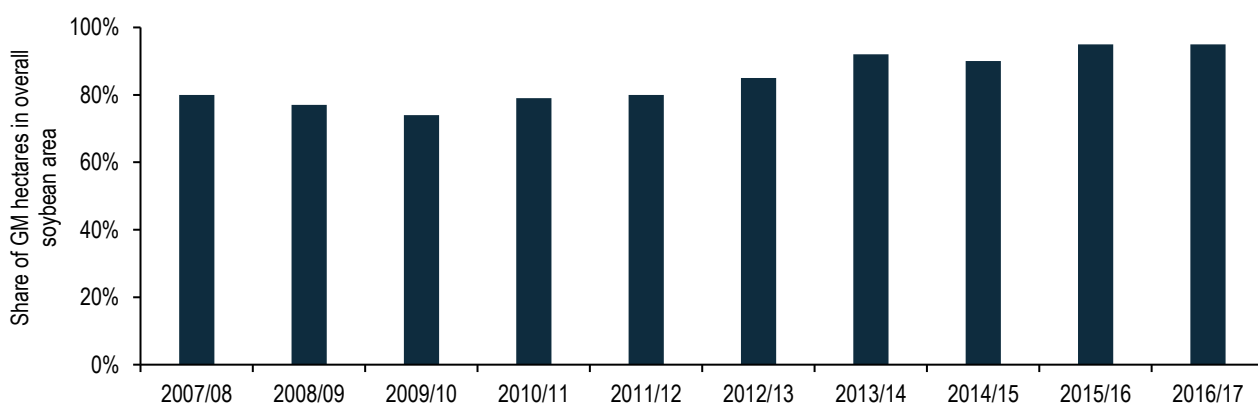


Source: SAGIS, CEC and Agbiz Research

¹ Please note that the 2017/18 production season, correlates with the 2018/19 marketing year.

Underpinning this positive production response was an increase in area planted, technological improvements in forms of seeds, fertilizers and better farming practices, amongst others. A large number of farmers are increasingly planting genetically modified (GM) soybean crops. In 2016/17 production season, roughly 95 percent of South Africa’s soybean plantings were under GM seeds (Chart 2). Worth noting is that this is the only country in the African continent that produces GM soybeans. Therefore, it is no coincidence that South Africa continues to enjoy tremendous growth in soybean output, while production in other African countries remains negligible. The closest to South Africa’s production level is Nigeria, where output averaged 640 000 tonnes over the past 5-seasons.

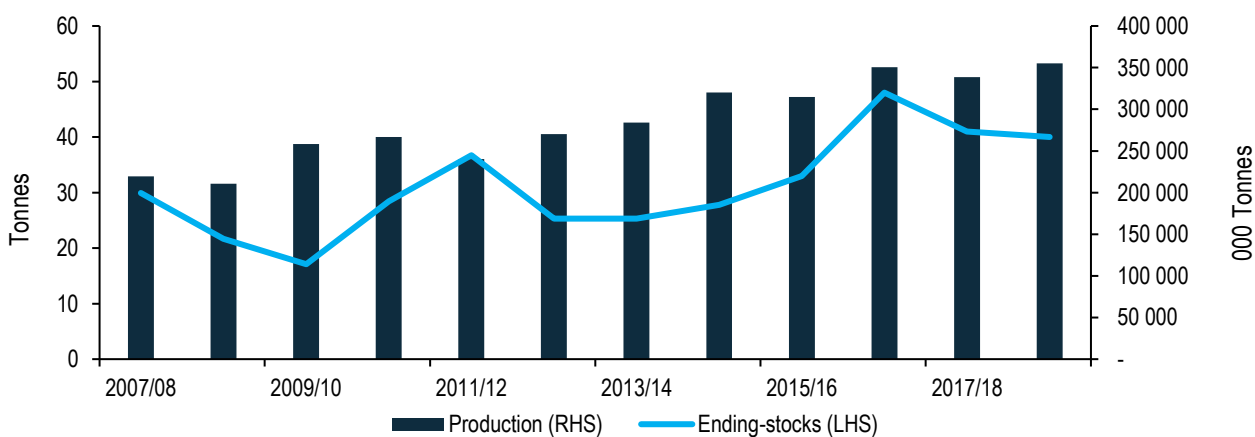
Chart 2: SA soybean area under GM seeds



Source: IGC and Agbiz Research

The world’s leading soybean producers also grow GM crops. Globally, the area planted to GM soybeans grew by 13 percentage points over the past 10-years, from 62 percent in 2007/08 to 75 percent in the 2016/17 production season. The key producing countries are the US, Argentina, Brazil, Paraguay, Canada and Uruguay, amongst others. In Argentina and Uruguay, almost all the soybean grown is GM. Meanwhile, in Brazil and Paraguay, roughly 95 percent of the area planted is GM. In the US and Canada, the area planted with GM soybean is 94 percent and 75 percent, respectively. These countries collectively produce over 80 percent of global soybean crop (Chart 3).

Chart 3: Global soybean production and stocks



Source: IGC and Agbiz Research

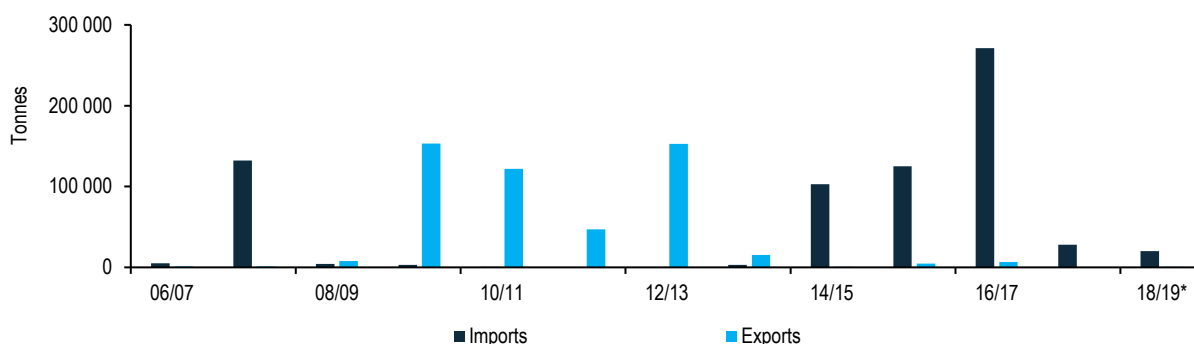
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Local soybean and its by-products imports set to decline

South Africa received minimal imports of soybeans in the 2017/18 marketing year following peak imports of 271 098 tonnes in the previous year (Chart 4). The decline was due to an increase in domestic production. The country imported 28 000 tonnes of soybean in the 2017/18 season.

South Africa’s soybean imports could decline further in the 2018/19 marketing year to 20 000 tonnes, down by 27 percent from the 2017/18 marketing year (Chart 4). This too is, to some extent, underpinned by an uptick in domestic production, while consumption is expected to remain solid.

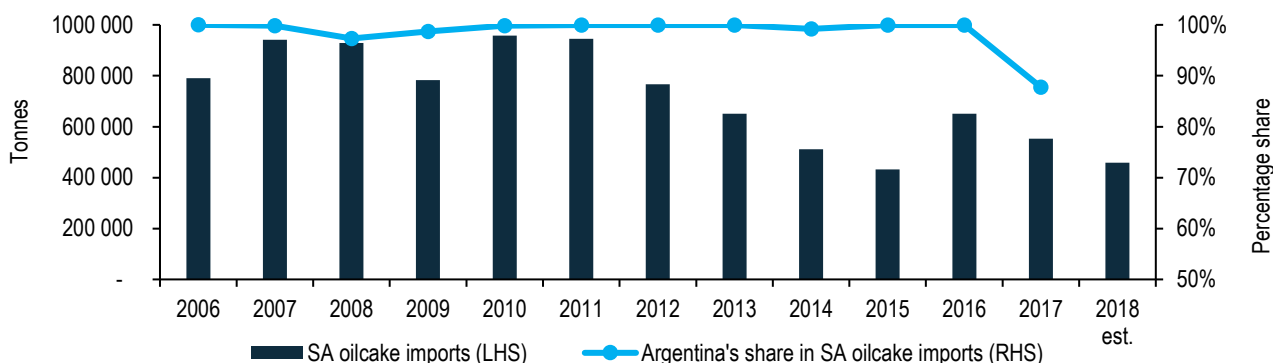
Chart 4: SA soybean imports and exports



Source: SASDE and Agbiz Research

Moreover, increased local soybean supplies could also lead to a decline in oilcake imports. We estimate that soybean oilcake imports could reach 458 992 tonnes in 2018, down by 17 percent from last year. This is a remarkable improvement from imports of close to a million tonnes in 2010 (Chart 5). Over the past 12-years, Argentina was the leading supplier of soybean oilcake to South Africa, accounting for roughly 99 percent of the market share. This year will most likely present similar dynamics, albeit Argentina having recorded a decline in its soybean production².

Chart 5: SA soybean oilcake (meal) imports



Source: ITC and Agbiz Research

² Data from IGC shows that Argentina’s 2017/18 soybean production could reach 38 million tonnes, down by 31% percent from the previous season. This is due to unfavorable weather conditions experienced earlier in the season.

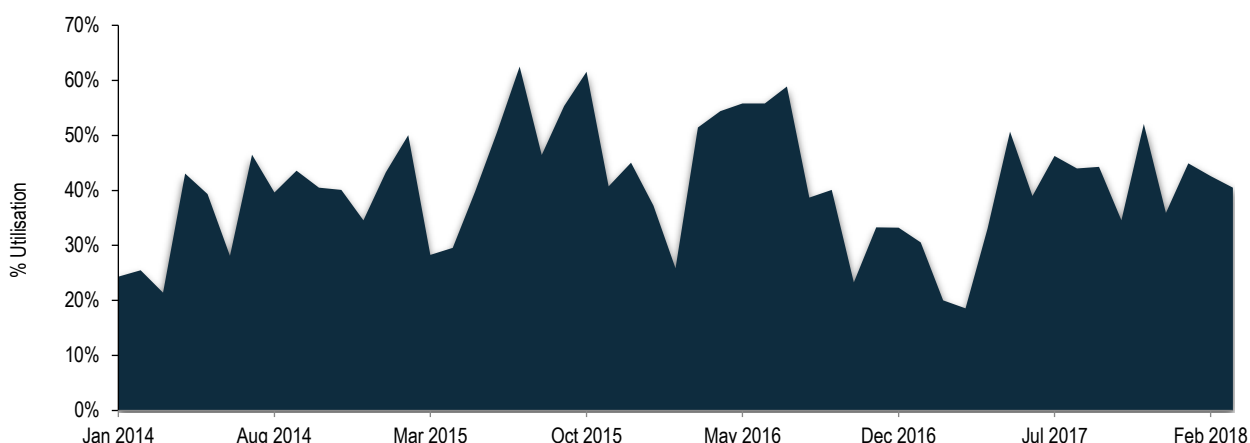
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There was somewhat a structural shift in soybean oilcake imports in 2017, with new entrants in the market on the processing side of the value chain. Thus, leading to a decline in Argentina’s share in South Africa’s soybean oilcake import market (Chart 5). The new suppliers were Zambia, Malawi and Zimbabwe. These collectively accounted for 12 percent of South Africa’s soybean oilcake imports in 2017. With that said, South Africa’s soybean oilcake imports are on the decline, despite the aforementioned structural shifts.

Local soybean crushing plants not yet functioning at full capacity

With all the aforementioned production improvements, the industry hasn’t fully utilised its soybean crushing capacity (Chart 6). Using an estimate of 2.2 million tonnes of South Africa’s soybean crushing capacity, which equates to 183 333 tonnes per month, the country utilised 41% of its monthly soybean processing capacity in March 2018, down by 2 percentage points from the previous month and 10 percentage points from the same period last year. Moreover, in the past two years, the sector has utilised, on average, about 40 percent of its monthly crushing capacity due to a combination of factors, which include relatively lower domestic soybean supplies, amongst others.

Chart 6: Monthly utilisation of South Africa’s soybean crushing plants



*Annual Crushing Capacity = ±2.2 Million tons
 *Monthly Crushing Capacity = ±183 333 tons

Source: SAGIS and Agbiz Research

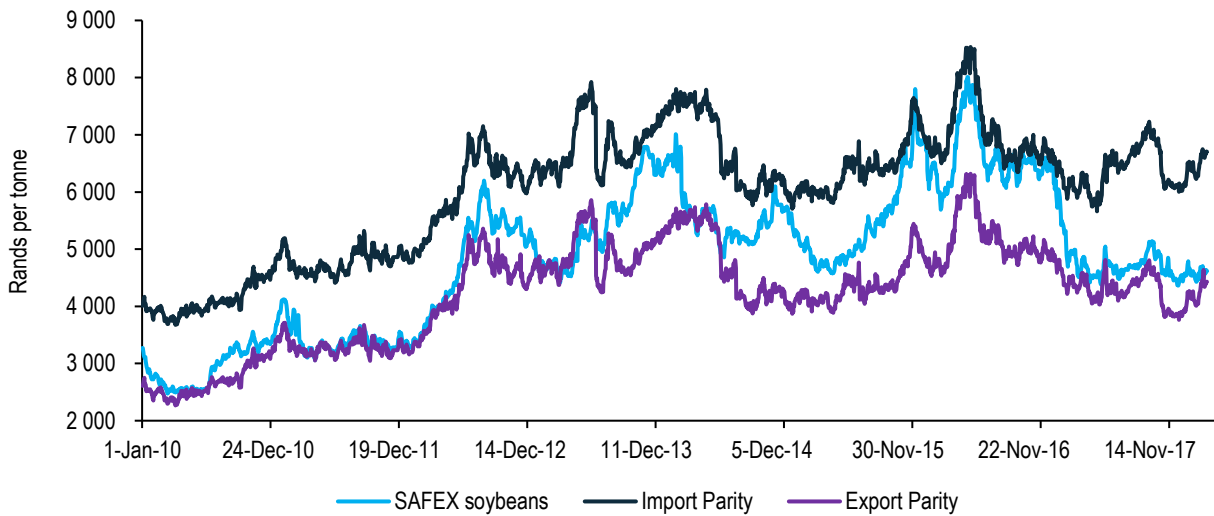
SAFEX soybean prices could trade sideways in the short-to-medium term

The SAFEX soybean prices have been trading along import parity levels for some time due to relatively large domestic supplies (Chart 7). The next few months could present more of the same as it is the harvest period, currently at initial stages in areas around Mpumalanga province. There will, however, be marginal day-to-day price movements, which will most likely be underpinned by developments in Chicago soybean market, as well as the exchange rate dynamics. Overall, in April 2018, the SAFEX soybean spot price averaged R4 613 per tonne, which is 4% lower than the corresponding period last year.

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Chart 7: Monthly utilisation of South Africa’s soybean crushing plants



Source: Grain SA, JSE and Agbiz Research

Conclusion

One of South Africa’s key objectives behind the expansion of soybean production, as well as investments in crushing plants, was import substitution of soybean by-products (oil and oilcake). The country has made notable progress on this as imports have been on a decline in the past few years due to increasing domestic production, which is now set reach a record harvest of 1.4 million tonnes.

With that said, the industry hasn’t fully utilised its soybean crushing capacity, which implies that there is still room for expansion in soybean production. Supporting this view are the expectations of growing demand for soybean products from the animal feed industry.

The difficulty though is ‘competition’ for the area. Soybean is typically grown in the eastern areas of South Africa which also produces yellow maize. Therefore, expansion going forward could possibly come at the expense of yellow maize area. The farmers’ decisions in this regard are usually informed by ‘price’ competitiveness of each commodity.

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