Agri Trends

19 May 2017

Crushing margins on the recovery!

The crushing margins of soybean crushers have experienced severe pressure since November 2015. This was due to the increases in the domestic producer prices of soybeans. During March we reported (Report dated 7 March 2016) that crushers crush at a loss of about R1000 per ton and more. Since then the market conditions for crushing recovered to such an extent that crushers are realizing an indicative positive crush margin of up to R225/ton.

Expectations are that the Rand may weaken further to R14.50 to the USA $ by end of June and to R15 to the US-$ by end of December 2017. This may lead to an increase of 11% on the landed cost for oil and oilcake. The expected increase on the bean cost is only 6% indicating that the crush margin is likely to increasingly recover until the end of 2017.

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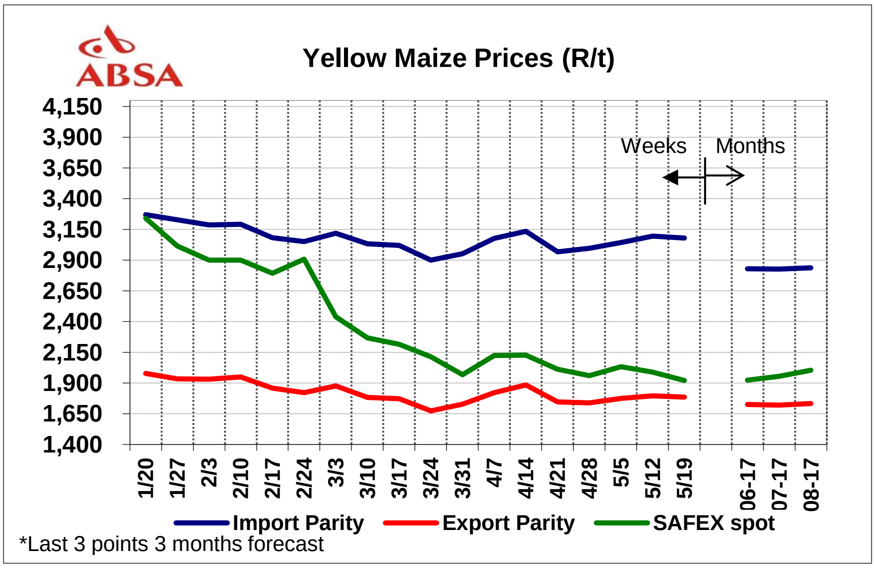
Maize market trends

International

The weekly average prices for yellow corn in the Gulf traded higher this week due to bullish maize export sales. Week-on-week increases of 1.01% from $158.09/ton to $159.80/ton were reported. The rand strengthened on average week on week from R13.50 to R13.27.

Bullish factors



- The possible Federal Rate hike in the US may have a depreciating effect on the Rand. A weaker Rand will provide SA with a competitive advantage in the export market.

Bearish factors

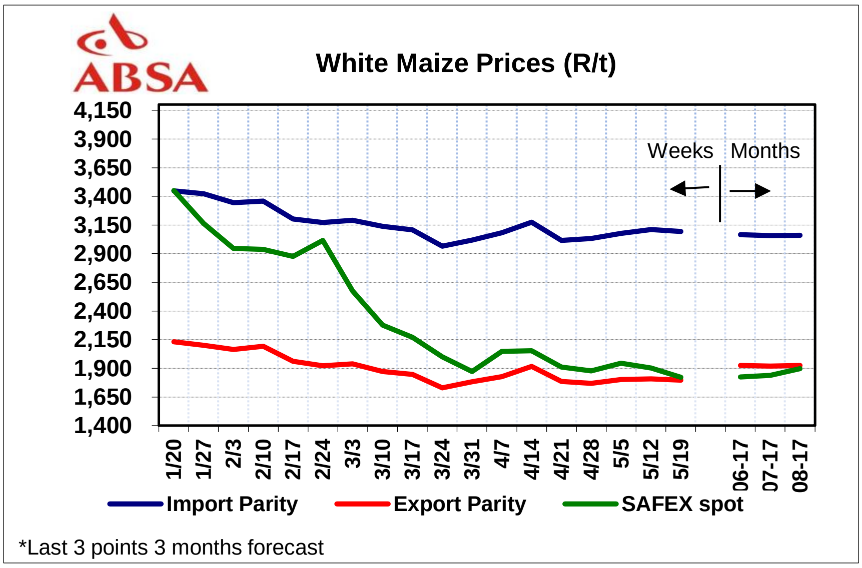
- US planting delays due to bad weather have been lifted. Leading to price declines.
- Mexico imported more affordable yellow corn from Brazil, while NAFTA talks still looming.
- Global corn prices dropped amidst political crisis in Brazil. The slip in the Brazilian currency provides farmers with competitive advantage.

Domestic

At week ending 18th May 2017, week on week new season white maize prices for delivery in July 2017 decreased by 2.4% from R1 883/ton to R1 838/ton.

Bullish factors

- The possibility of a Federal (US) rate hike and South African credit rating downgrade may result in a weaker Rand.



Bearish factors

- The Zambian government lifted all restrictions last week (week ending 12th May 2017). The Zambian minister of Finance is still deciding whether the export levy will be waived, due to pressure calling for it to be removed. The Zambian export market will likely head for Kenya, Tanzania and Rwanda as the main destinations.
- The strengthening Rand

Outlook

The Zambian government lifted all restrictions last week; this combined with a possible strengthening Rand may add bearish pressure on the price of maize.
Ample global supply, expected record harvest and sluggish international grain market, have contributed to low grain prices.

Table 1: Weekly average yellow maize futures and estimated option prices

Yellow Maize Futures: 18 May 2017	July-17	Sep-17	Dec-17	Mar-18
CBOT ($/t)	144.09	147.14	151.17	155.11
SAFEX (R/t)	1955	2005	2071	2117
SAFEX (R/t) *Change week on week (w/w)*	-38	-38	-42	-36

Jul-17			Sep-17			Dec-17		
Ask	Put	Call	Ask	Put	Call	Ask	Put	Call
2,000	80	35	2,050	132	87	2,120	181	132
1,960	57	52	2,010	110	105	2,080	159	150
1,920	38	73	1,970	90	125	2,040	138	169

Table 2: Weekly average white maize futures and estimated option prices

White Maize Futures 18 May 2017	July-17	Sep-17	Dec-17	Mar-18
SAFEX (R/t)	1838	1897	1971	2009
SAFEX (R/t) *Change w/w*	-45	-37	-36	-41

Jul-17			Sep-17			Dec-17		
Ask	Put	Call	Ask	Put	Call	Ask	Put	Call

1,880	99	57	1,940	130	87	2,020	189	140
1,840	77	75	1,900	108	105	1,980	167	158
1,800	57	95	1,860	88	125	1,940	146	177

Wheat market trends

International

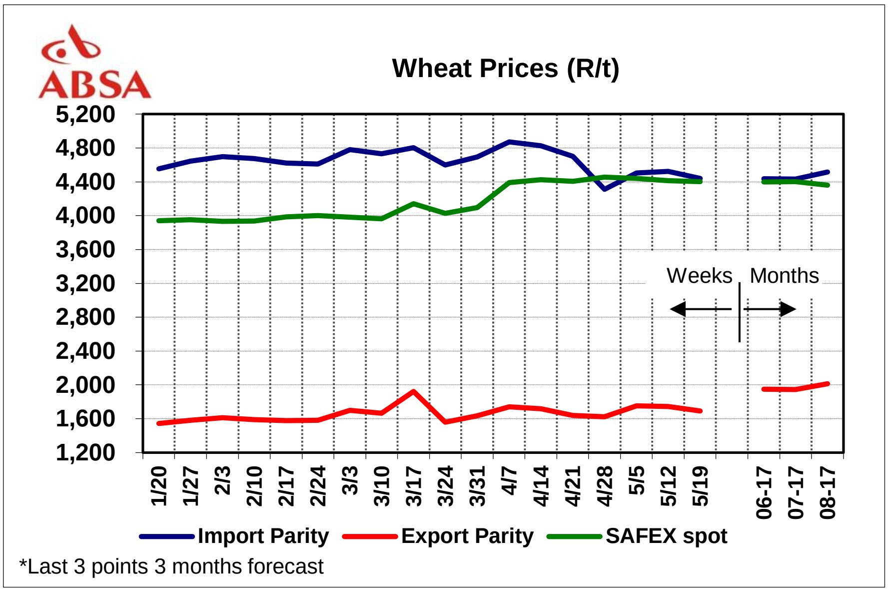
The weekly average old season HRW wheat Gulf decreased price week on week from US$186.75/ton to reach a weekly average of US$176/ton on the 18th May 2017.

Bullish factors

- Reduced plantings in the UK and heavy rains have cut UK wheat production to a 3-year low. If the current UK monthly importing pace continues, the country could end the season as a net buyer.

- According to the WASDE Report, US wheat supply and demand estimates report significantly lower production than last year.

- United States is expected to produce only 6.7% of the world wheat.



Bearish factor

- The abundant global supplies still weighed on prices.

Domestic

On 18th May 2017, wheat prices for delivery in July 2017 increased by 0.4% from R 4382/ton to R4401/ton week on week.

Bullish factors

- The latest import duty is R1 190.19, compared to the expected import duty of R1 371.75 to be published probably in June 2017.

Bearish factors

- The possible review of the existing wheat import tariff formulae may create further uncertainty in the market.

- South Africa imported about 7 888 tons of wheat during the week ending 05 May 2017 from Germany. No further imports were reported for the week ending 12th May 2017.

Outlook

Dry domestic conditions are affecting the progress of wheat planting. Expect prices to move sideways for the next 3 months.
The reason for excessive global stocks is good weather which supported wheat production and lead to almost record yields.

Wheat Futures 18 May 2017	**May-17**	**July-17**	**Sep-17**	**Dec-17**
CME ($/t)	156.44	161.58	169.57	176.09
SAFEX (R/t)	4401	4360	4230	4295
SAFEX (R/t) *Change w/w*	19	40	31	15

Jul-17			**Sep-17**			**Dec-17**		
Ask	Put	Call	Ask	Put	Call	Ask	Put	Call
4,480	189	110	4,400	252	212	4,280	338	288
4,440	165	126	4,360	231	231	4,240	316	306
4,400	144	145	4,320	210	250	4,200	295	325

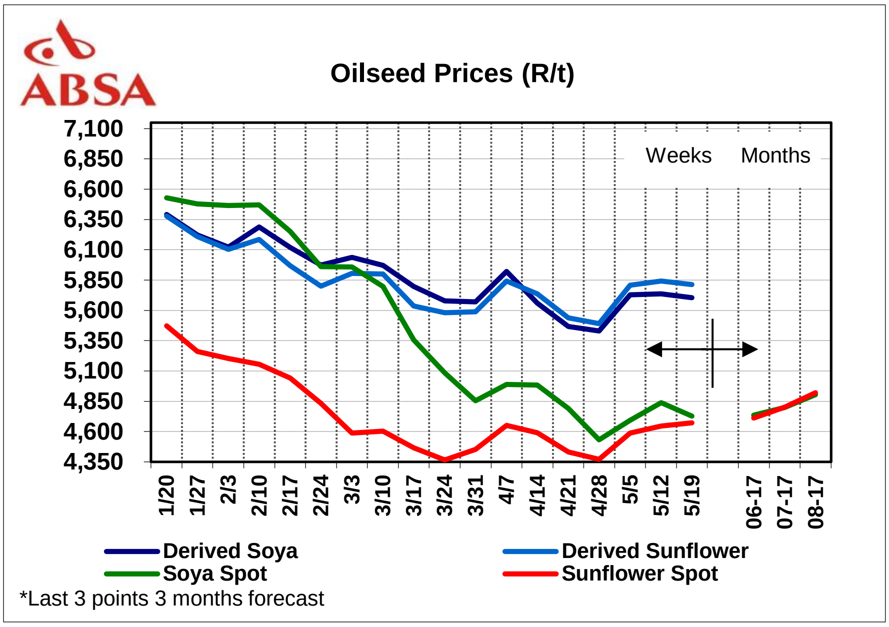
Oilseed market trends

International

The weekly average USA soybean price increased week on week from US$368.63/ton to US$372.3/ton. US soya oil prices decreased from US$32.60/ton to US$32.40/ton and soymeal prices traded lower from US$ 309.7 /ton to US$ 307.5 /ton.

Bullish factors

- Unfavourable weather in the key planting regions in the US has limited field work and hindered crop development during the week ending 7 May 2017. Soybean planting progressed only at 4% of area sown compared to 14% at the same time last year.
- Exports of sunflower meal from Tanzania have improved considerably year-on-year. Increased demand from Kenya plus the rising import requirements from India added to the increase in demand.



- Strong demand is bound to curb the recovery in Malaysian Palm oil stocks during May/June.

Bearish factors

- Brazilian soy oil production and export supplies exceed earlier expectations. CONAB has raised its crop to 113 million tons, up 2.85 million tons from last months' figures. The increase is due to higher yields.
- Brazilian soy oil exports increased by 10 % in March and 14% in April. China and India took advantage of fair prices.
- Brazil sunflower seed harvest is completed standing at 3.3 million tons, only up by 0.5 million tons. Exports were minimal.

- Expect Argentinian sunflower seed crushing to reach a 5 year high of 3.1 million ton in 2017. Argentinian sunflower seed exports are seen plummeting.

Domestic

On 18 May 2017, sunflower seed prices (Jul17) decreased week on week by 0.9% from R 4849/ton to R 4803/ton while soybean (May 2017) prices decreased by 3% from R 4945/ton to R4 799/ton.

Bullish factors

- Crush margins are positive, providing support to the soybean price.
- Domestic sunflower crushing demand is higher. (We anticipate lower sunflower seed crop than previously reported by the CEC due to the occurrence of Sclerotinia and Alternaria fungal diseases)

	May 2017	Oct 2016	Feb 2016
Landed cost of oilcake (Durban R/ton)	5442 (-4,4%)	5693	5875
Exchange rate	13.46 (+2,3%)	13.85	15.77
Oil Arg FOB ($/ton)	723.00 (-8%)	787.00	682.00
Landed cost of oil Durban (R/ton)	11274 (-10,7%)	12621	12445
Bean cost	5233 (-24,4%)	6922	6944
Crushing margin before tax	225	-1050	-853

Bearish factors

- South Africa may be sitting on a larger soybean crop than was estimated for the third CEC's estimates. The new report will be published on 26 May 2017.

Outlook

Expectations are that the Rand may weaken further by the end of December 2017. This may lead to an increase of 11% on the landed cost for oil and oilcake. The expected increase on the bean cost is only 6% indicating that the crush margin is likely to increasingly recover until the end of 2017.

Oilseeds Futures 18 May 2017	July-17	Sep-17	Dec-17	Mar-18
CBOT Soybeans (US$/t)**	3279.57	3281.31	3331.85	3331.85
CBOT Soy oil (US c/lb)	32.44	32.65	32.89	33.16
CBOT Soy cake meal (US$/t)*	337.91	339.89	340.77	341.65
SAFEX Soybean seed (R/t)	4799	4906	5010	5071

SAFEX Soybean seed (R/t) change w/w	-146	-136	-138	-99
SAFEX Sunflower seed (R/t)	4803	4920	5064	5044
SAFEX Sunflower seed (R/t) change w/w	-46	-41	-30	0

Sunflower Calculated Option Prices (R/t)								
Jul-17			**Sep-17**			**Dec-17**		
Ask	Put	Call	Ask	Put	Call	Ask	Put	Call
4,840	162	125	4,960	231	191	5,100	319	283
4,800	141	144	4,920	209	209	5,060	297	301
4,760	121	164	4,880	189	229	5,020	277	321

***short ton**

**** Dec 2017 = Jan 2018**

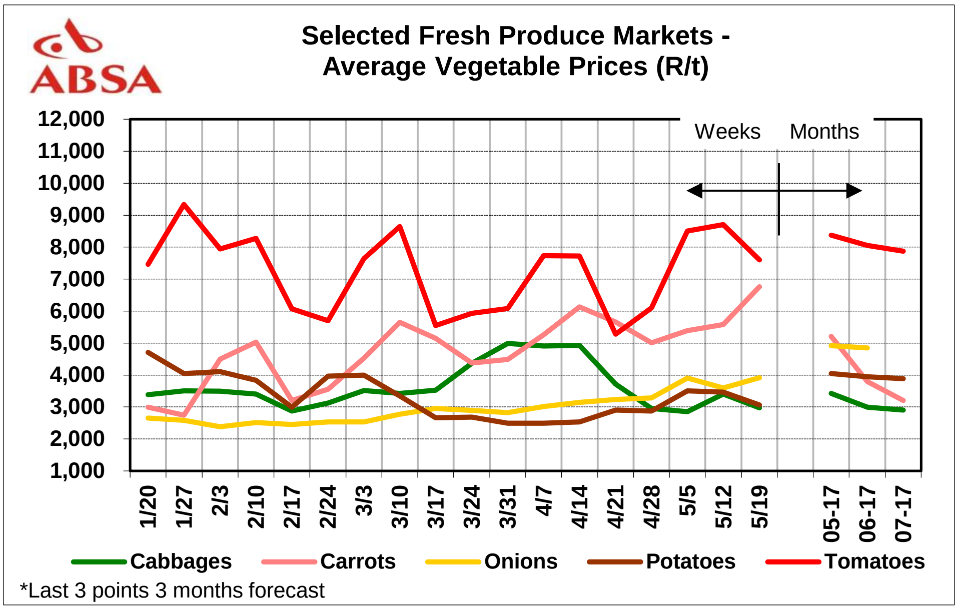
Vegetable market trends

Onions

Demand from has picked up from Zambia and domestic consumers. The R30 – R40/7kg bag increased to R40 – R50/7kg. The expectation is for the prices to remain at this level for the upcoming 2 months.

Carrots & Peppers

Carrot and pepper prices moved sideways for the week ending 19th May 2017. Prices are expected to normalize due to expected moderate to sufficient production during the next 2 months.



Tomatoes

Prices were seen increasing strongly by approximately R4/kg as volumes declined last week. The differences in production cycles in different areas supported the price increase, as some areas were coming to the end of their season while others were starting, regulating supply volume. The volumes were moderate and

Potatoes

Price was seen averaging around R22-25/7kg and R26-R30/10kg. Limpopo, Western Free State and Eastern Free State as well as Natal production has started, and deliveries are increasing at the markets. Volumes slightly picked up, as demand was limited during the mid-month.

Vegetable Prices: Fresh Produce Market
(Averages for the Pretoria, Bloemfontein, Johannesburg, Cape Town and Durban markets)

Week ending 18 May 2017	Difference in weekly prices	This week's Average Price (R/t)	Previous week's Average Price (R/t)	Difference in weekly volumes	This week's Total Volumes (t)	Previous week's Total Volumes (t)
Cabbages	10.9%	2972	2680	-36.6%	1423	2246
Carrots	25.5%	6766	5390	-35.1%	1594	2457
Onions	0.2%	3917	3910	-41.6%	5587	9565
Potatoes	-12.5%	3063	3500	-32.5%	15839	23456
Tomatoes	-8.7%	7604	8330	-18.3%	3900	4773

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