

# Crystal-balling oilseeds

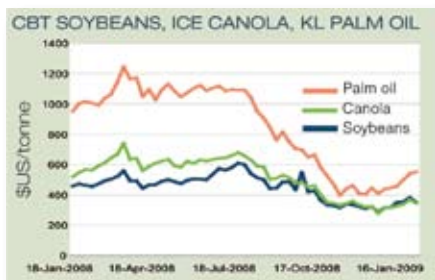
From **Profarmer Australia**

**W**orld oilseed prices have risen significantly off their lows in recent weeks, although the USDA reports on January 12 have somewhat taken the shine off values. Still, despite an unexpected increase in US production estimates from a world perspective, soybean production could well tighten up with weather issues in South America.

## THE CURRENT SITUATION

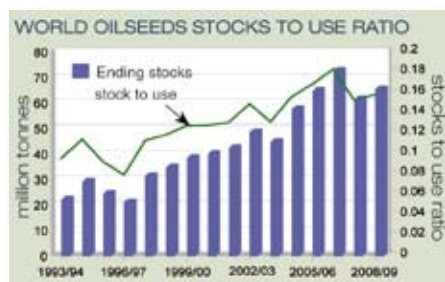
World oilseed prices fell significantly in the second half of 2008 as investors deserted commodities and concerns about the world economy set in. The chart below displays prices of the major oilseeds in US\$ terms.

Oilseed prices formed lows in late 2008, which we believe will now hold and may prove to be the low mark for several months to come.



While the Northern Hemisphere production of oilseeds was high, it is South America where the crop is now under some serious pressure. Over the past few months dryness in Argentina has developed, and spread through Paraguay and into Southern Brazil.

This dryness is cutting into production estimates although the USDA is yet to follow the private trade lower in their forecasts. While this week the USDA lowered its Argentine forecast by one million tonnes to 49.5 mt, it left Brazil unchanged at 59 mt.



In recent days there have been a number of analysts that have begun to lower their Brazil estimates below 58 mt and some even below 55 mt. Weather in South America will bear watching as it could have a significant effect on soybean availability in 2009 as the world relies heavily on the Southern American crop.

World oilseed stocks are currently expected to grow in 2008–09 (see chart), but this hides the fact that stocks of soybeans (the major oilseed crop) are not expected to grow and in fact may fall this year due to dryness in South America. So we do not expect world oilseed prices to fall significantly despite the rise in stocks and they do have room for upside should South America have a serious crop problem.

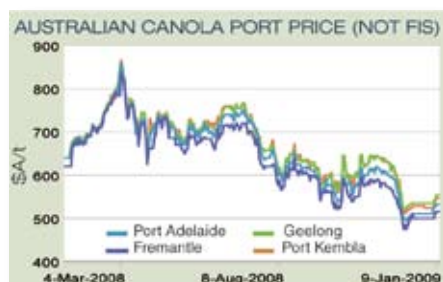
It will be rainfall over the remainder of January and February that will decide the future of the South American crop. The NOAA in the US see La Niña conditions existing in early 2009. The dryness extending in Southern Brazil and surrounding regions is consistent with the development of a La Niña which would suggest dryness persisting.

The demand side for oilseeds has been slowing in the past few months. Demand from the biodiesel sector has been weak on the back of (until recently) rapidly falling crude oil prices. The financial crisis in late 2008 and the current economic uncertainty is generally keeping demand hand to mouth. That said, China is adding to stocks as both a means of rebuilding stocks and providing domestic support.

## THE DOMESTIC SITUATION

### Canola

Of recent days local canola prices have firmed. Canola fell heavily into early December on the back of the crash in world oilseed prices and the confirmation of a record canola crop in Canada. The market



has now stabilised and should continue to hold as long as South American weather remains an issue. For growers holding canola, South American weather is the most likely bullish influence. If you do not believe this region to have a crop problem then you must question the merits of sitting on stocks.

### Soybeans

Soybean plantings are up 138 per cent this year to 33,500 hectares (AOF estimate) partly as a result of new area and partly as growers in traditional areas look for a sorghum alternative. This is expected to produce a record crop of 85,000 tonnes. Of the planted area it is believed a high proportion are edible varieties, although the eventual quality of the crop is unknown. Traditionally, edibles have made a \$50–70 per tonne premium and were as high as a \$100+ premium late last year.

Given the size of the plantings it is hard to find a forward contract given both a large amount of early business and the limited market space. The backup price is always for crushing.

### Sunflowers

One would have thought sunflowers to be a good alternative to sorghum, however, growers apparently do not agree. Despite good prices, sunflower area is down 15 per cent to 40,000 hectares with production expected to be 47,000 tonnes – well down on the 73,000 tonnes last year (boosted by irrigated crop).

A 40,000 tonnes crop is certainly not at the lower end – 2006–07 production of 18,000 tonnes takes that cake – but it is certainly shy of the 95,000 tonnes in 2005–06. In this case, one would expect sunflower prices to hold up reasonably well.

Information supplied January 15. ■

