

SMALLER HARVESTS RAISE HOPE FOR HIGHER OILSEED RAPE PRICES

Thomas Mielke · Hamburg

This year's oilseed rape harvest is considerably smaller due to the weather and the damage caused by the cabbage stem flea beetle and the cabbage root fly. The following article shows how the market will develop within the next few months, considering global developments of supply and demand.

Less oilseed rape

The EU oilseed rape production will be reduced this year to between 21.4 to 21.7 million t. This is 2.7 to 3.0 million t less than the record harvest of 24 million t in the summer of 2014. When this article was written, (10 July 2015), the harvest in many countries was still in its initial stages and therefore there were still many uncertainties. But it was already taken as certain that reduced grow-

ing areas and partly clearly reduced harvests would lead to a clear reduction in production amounts. Thus, here at Oil World, we calculated at the beginning of July a reduction in production of approx. 1.0 to 1.1 million t in Germany, while the French harvests would be reduced by approx 0.4 to 0.5, the Polish by 0.3 to 0.4, the Rumanian by 0.3, the English by 0.2 and the Czech oilseed rape harvest by 0.2 to 0.3 million t.

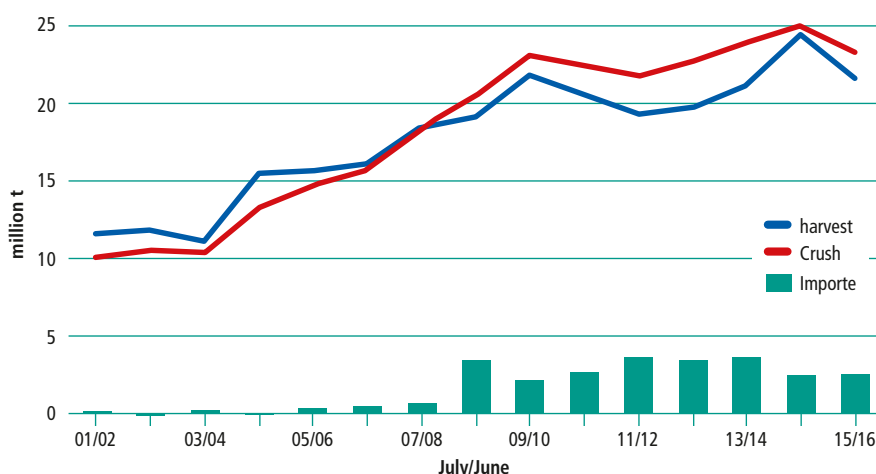
Due to this, the supply situation in the European Union is clearly tense, especially since the change-over reserves (by 1 July 2015) from the last harvests were lower than expected – not only in Germany but also in other EU-countries.

A respective increase of European imports is not readily possible, as nearly all the important exporting countries this year had smaller harvests themselves or will have smaller harvests. This is true for Russia and the Ukraine, where a production drop of 0.7 million t is expected. Furthermore, the Australian harvest at the end of 2015 and beginning of 2016 will be at least slightly reduced. Accordingly, the oilseed rape exports of these countries will be reduced.

In Canada, it is expected that due to the weather there will also be large reductions in the oilseed rape harvest and other cultures. It is possible, that this year's harvest will be reduced by 1.5 to 2.0 million t due to the damage caused by frost shortly after seeding and the severe drought in June and at the beginning of July.

Many market observers calculate that this year's Canadian oilseed rape harvest (canola) will drop to a five year low.

Fig. 1: EU-28 Oilseed rape Supply and Demand (in million t)



Source: Thomas Mielke, Oilworld



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Extract from the German magazine „Innovation“



The reduction of the global production of oilseed rape will lead to a shortage.

Even if the reserves are reduced to a minimum, it has to be expected that the Canadian exports will drop by 1.1 to 1.6 million t in comparison to the previous year in the 12 month period August / July 2015/116.

The global production of oilseed rape (including canola) will drop in the economic year 2015/16 by approx. 5 million t. This is a preliminary estimate of Oil World dating 10 July 2015, taking into consideration the information and assessments available at this point of time. This strong decline will lead to a world-wide restriction in

the supply of oilseed rape in the course of the season, in particular in January/June 2016. The world exports of oilseed rape and canola will drop by 1.8 to 2.4 million t.

The prices for oilseed rape seed will have to rise in comparison to soy bean and sunflower seed to reach the necessary rationing of consumption. In particular if the European Union would increase their imports, this would lead to a more restricted supply for the rest of the world due to larger price increases. However, one has to wait and see at what prices traditional oilseed rape import countries - such as China, Mexico, Pakistan and the United Arab Emirates - will restrict buying and importing and substitute with other oil seeds and oils.

Sunflower seeds

A predicted increase of the world production of sunflower seeds by approx. 1.0 t in the season 2015/16 could absorb the scarcity of oilseed rape a little. If the predicted increases of the yields in Russia and the Ukraine come true, the world production of sunflower seeds will rise to 42 million t (in comparison to 41 million t in 2014/15).

However, this would still mean that the production of both soft seeds would drop by a combined 4 million t. This would be the second consecutive drop in production and, as a result, also in processing, and would lead to a reverse trend in pro-

duction of both vegetable oils. This is one reason as to why Oil World expects prices for vegetable oils to rise moderately in the 2015/16 season. This in turn should have a positive effect on the prices for oilseed rape and sunflower seeds in the next 12 months.

Soy bean plentiful

There is a plentiful worldwide supply of soy beans. The world-wide supplies will probably be at 90 million t in September 2015 – a record volume and 25 million t more than in the previous year. Even if the soy bean production in the US drops (which is to be expected) and there will be a further production decline in China and possibly some other countries, the world-wide soy bean supply will be quite broad based due to the supplies from the 2015/16 season. This will restrict the tolerance for rising oilseed rape prices.

Below average palm oil production

The further development of the production and export supplies will be important in the next few months. Already in January / June 2015, conditions of El Niño lead to drought in some areas of Malaysia and Indonesia, and have caused damage which will have an impact on palm oil production with a delay of 8 to 10 months. At the moment, it must be assumed that the world production of palm oil will see a below average increase in the season 2015/16. If this expectation is realised, it will lead to at least a moderate increase in palm oil prices. This in turn will lead to increasing prices for soya bean oil and oilseed rape oil.

Final remark

We expect a rise in oilseed rape prices within the coming months, in particular during 2016. The farmers must use their imagination now, as the decision about how much area to use for winter oilseed rape must already be taken this year at times of comparatively low oilseed rape prices.

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ISTA Mielke GmbH
 Langenberg 25
 21077 Hamburg
 Telephone: +49 (0)40 7610500
www.oilworld.de



Thomas Mielke
 Phone +49 40 76105 021