

## INTERNATIONAL MILLING DIRECTORY 2006

### FEED INGREDIENTS - PROTEINS/OILMEALS

#### *Cheaper costs boosting demand*

The 2003/04 season was the most expensive in seven years for consumers of oilseed meals. In terms of the Rotterdam benchmark market, (41% protein), the average cost of soyabean meal worked out at about \$273 per tonne, with the monthly average peaking at one point at \$332. In the previous season, costs had averaged only \$197 and in the late nineties, as little as \$150. The main factors behind this rise were the disappointing US and South American soyabean crops of 2003. Although this was slightly more than offset by an improvement in combined production of alternative oilseed meals, like rapeseed, cottonseed and sunflowerseed, the gain in world total production of oilmeals only amounted to about 2.5m tonnes. Demand on the other hand grew almost twice as fast.

Clearly demand for oilmeals would have grown at an even faster pace than this, had supplies been looser and prices lower. It was not surprising, therefore, that as these two latter factors turned far more favourable in 2004/05, much of this lost ground was eventually made up, leading to well-above-trend consumption growth of 13m tonnes or almost 7%.

By far the lion's share of supply recovery in 2004/05 was in soyabean meal, production of which increased by 14m tonnes. This was largely down to a record US soyabean crop, which rose by a staggering 19m tonnes following possibly the most favourable weather year on modern record - a long cool spring and summer followed by optimal warm ripening conditions prior to and during harvest, bringing almost unbelievably high yields.

Argentina also achieved a handsome 6m tonnes increase in its 2004/05 soyabean crop but the main LatAm producer, Brazil, had a second dismal year running of droughts, floods and ongoing crop health problems caused by the yield-crippling Asian rust disease. Among other major, non-exporting producers, China also added about 2.6m tonnes to its production, helping to tot up a world total bean crop of a record 214m (+26m tonnes).

Those countries that reaped crop success naturally reflected this in far bigger 2004/05 crushings, especially the US, Argentina and China. Chinese crush was also rose by 4.7m tonnes.

Export supplies of soya rose both in terms of raw beans and meal with the US leading the way for beans (+5.7m tonnes), followed by Argentina (+2.3m). Meal exports also rose by 2m tonnes from the US and by 800,000 tonnes for Argentina.

These larger 2004/05 soyabean meal supplies were complimented by increased output of cottonseed meal (+2.7m tonnes), rapeseed meal (+2.5m) and smaller increases in supplies of groundnut and palm kernel meal. As markets came into looser balance, prices turned easier again under soya's lead, with the average Rotterdam quite dropping to a monthly low of just \$210 during the first full flush of US supplies in

In terms of additional soya meal demand, by far the biggest country-wide increase was seen in China, which boosted offtake by 3.6m tonnes, largely focused on its rapidly expanding poultry industry. Other notable consumption gains included the USA (+2.8m) and the EU (+1.2m). Growth was also seen in Brazil and Mexico, again derived from robust poultry demand and, despite its own smaller soyabean crop that year, in India, where stocks were taken down to sustain this growth.

Despite this massive growth in soyabean meal demand in 2004/05, supply was larger still and the season ended with mammoth soyabean stocks of some 44.5m tonnes - a record level and probably also the highest ever stock increase (+9.5m) seen in one year. This placed supply in a promising position at the start of 2005/06 (on September 1) - despite the crop setback in Brazil and what appeared to be a fairly large reduction in US soyabean plantings earlier in 2005. The latter shift in acreage, mainly from soya to maize mainly reflected fears that farmers would have to raise soya growing costs to spray for Asian rust disease. This had turned up in the US for the first time ever last autumn, having previously been confined to South America and parts of Africa and Asia.

As well as worrying about a major rust outbreak, most analysts were also resigned to the likelihood that the US would not repeat the freak high yields of 2004. With some worrying periods of intense drought in second largest producing state Illinois, there were periods when some feared output might not just ease back a little but plummet. In the event, even Illinois seems to be escaping the worst effects and the national crop gathered to late September (less than 20%) seemed to be yielding surprisingly well - not at record levels - but well enough to for us to forecast 81/82m tonnes - only 3-5m below last year's record.

The Latin American soya supply outlook for 2004/05 is far more opaque than usual. Farmers in Brazil face huge financial problems, including the steep drop in the value of their produce. This is partly down to a descent in world, dollar-quoted, soyabean price, partly due to Brazil's strong Real currency. There has also been a huge hike in input costs (partly due to rust spraying, partly to other, dearer agro-chemicals -and, of course - fuel, partly to the need for some farmers to pay royalties for the first time to Monsanto for Roundup Ready GM seed. On top of that farmers - already facing huge losses from drought ruined crops last year - were finding it hard to obtain credit to buy seed and inputs. USDA and others started out forecasting Brazilian acreage slightly higher this autumn (for harvest next spring). Latterly however, estimates are ranging from 2% to 20% down.

If Brazil scraped through with a mere 2-5% cut, or less, and if yields recovered from the lows of the last two years, its crop could indeed rise from the 50-odd mn tonnes level to something closer to 60m, as USDA currently forecasts. On the other hand, if acreage hits the lowest forecast levels - and yields are affected by lack of inputs (or even another weather problem for a third year - climate change?) then output might not even get to 50m.

This 10m tonne swing factor will make all the difference to the value of soyabean meal - and due to its dominant role - the value of all oilmeals/proteins on world markets in the coming year. However, even if the crop hit the bottom end of the range and world demand growth hit, say 10m tonnes again, world ending stocks of soyabeans would only be down to the mid-30m tonnes. That is more or less

the normal level prior to that bumper supply year of 2004/05 and enough of a cushion to demand some price restraint. On the other hand, if Brazil or Argentina got a weather problem between October and February, prices might react nervously.

Aggregate production of other oilmeals appears to be backtracking somewhat in 2005/06 with declines in world production of rapeseed and cottonseed outweighing improved peanut and sunflower meal potential. On balance, world output of all oilseeds, including soya could be similar to last season's or lower to the extent of any Brazilian decline from the 60m tonne start point used by USDA.

At this stage, oilmeal demand is seen growing by about 8m tonnes or almost 4% in 2005/06 - quite a healthy rate, led by another year of strong growth in China (+3m tonnes or 7%, mostly focused on soya meal). Demand will also increase, again mainly for soya, in the EU (+600,000); India (+500,000); Brazil (+600,000); the Middle East (+600,000). Outside of China - and to some extent within that country - the spectre of avian influenza continues to haunt future demand prospects and will probably do so for some time yet. Clearly, while there is an ongoing danger of the disease flaring up again, flock culls etc, there remains a possibility that our outlooks for world demand for oilmeals could be revised lower.

Assuming supply and demand is more or less on track, though, the average price of soya and its follower meals, should have limited upside potential, which is of course, welcome news for users in Europe and overseas.