The effect of the drought on the oilseeds industry

The implications of the drought on the agricultural industry are already being felt, but the worst is yet to come. Higher interest rates and a deterioration in the exchange rate add to the devastating effect that the drought will have on food inflation. The impact of the drought will be felt both upstream and downstream, with input suppliers and processors severely affected.

Crop estimates
The government’s request for the Crop Estimates Committee (CEC) to produce an early preliminary production forecast due to the influence of the drought, was well received and at least has put some perspective on the impact of the drought. Not only did farmers lose hectares due to the impeded ability to plant in many cases, but also an anticipated major reduction in yield.

Sunflower, which can be planted later than soya beans and maize, benefitted from these late plantings. With anticipated hectares increasing by 7,11%, while production reduced by 5,89% due to lower yields, according to the CEC, it will be interesting to see just how much sunflower benefitted once the latest crop estimate is announced.

An estimated soya bean crop of 768 560 tons, a reduction of 27,48% from last season, will require approximately 200 000 tons of soya bean imports, should crush margins support the high imported soya bean prices.

Processors face higher prices
Oilseed processors are faced with not only a tight supply of oilseeds available to crush, but also the increase of oilseed prices to import parity levels, resulting in negative crush margins.

In order to utilise crush capacity, significant soya bean and some sunflower seed importation need to take place, adding to the already burdened logistics system which will be required to handle an estimated more than five million tons of grain imports.

On the positive side, global soya bean stocks are at record levels and international prices have reduced drastically over the last two years. High international prices in addition to the exchange rate deterioration would have proven even more challenging to our local industry.

The future
Livestock farmers are required to buy feed to maintain the condition of their animals. Feed prices have escalated drastically due to the drought, adding to this burden. Input financing for grain and oilseed producers next season will prove extremely challenging, as well as the fact that many farmers’ financial reserves will be depleted.

There will be a squeeze on all involved in the supply chain. The end-consumer of agricultural products will not have the resilience or means to absorb these major food price increases, inevitably resulting in reduced demand.

We hope that 2015 was an abnormal year with record low rainfall and record high temperatures, and that we have not entered into a hot, dry cycle that persists. Without support the already strained industry would be severely damaged if rainfall and temperatures do not normalise in 2016.

We trust that all will remain positive and put in the effort to make the industry as efficient and sustainable as possible, given the current external challenges.

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