Loading up on Uncertainty – Soy Crush Perspectives in Importing Regions

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Cheap US soybeans (compared to other origins) and elevated global soymeal prices have changed the economics for soybean prosessors in soymeal-importing regions like the EU, Mexico, North Africa, and South-East Asia. However, soymeal consumers do not always benefit.

Slowing EU soymeal imports from South America

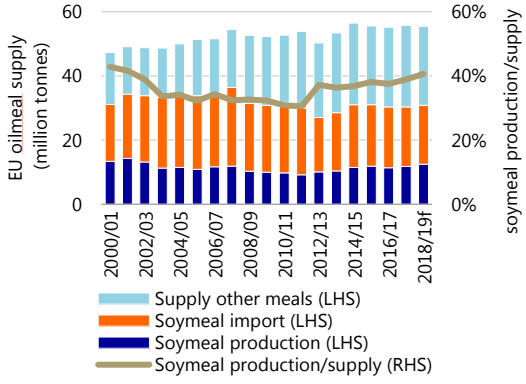
EU soymeal imports in 2017/18 have reached the third-lowest level in the past ten years, at 18.5m tonnes, as EU soybean processing will come in just shy of a record high. For several months, soybean crushing margins in the EU have already been very strong, driven by both elevated soymeal prices resulting from the Argentine drought, as well as a fall of US soybean prices after China's introduction of 25% duties on imports of US soybeans. EU soybean crushers are therefore running at strong crush rates and are largely buying cheap US soybeans to supply their needs.

In the past five years, the EU consistently used 55m tonnes of oilmeals per year, with the share of soymeal at 30m to 31m tonnes. However, the origin of the soymeal has changed as soymeal produced in the EU from imported and domestic soybeans has slightly increased towards 12m tonnes and imports of soymeal have shrunk to 18m tonnes.

The EU is feeling the impact of the Argentine drought, but also that of the US-China trade war. If the Chinese duty on US soybean imports and thus the price differential on the world market for US soybeans versus soybeans from other origins (like South America and the Black Sea region) prevails, the processing of US soybeans in the EU will most likely remain a profitable alternative compared to imports of South American soybean meal. This is because crushers in South America will be impacted by higher local soybean prices.

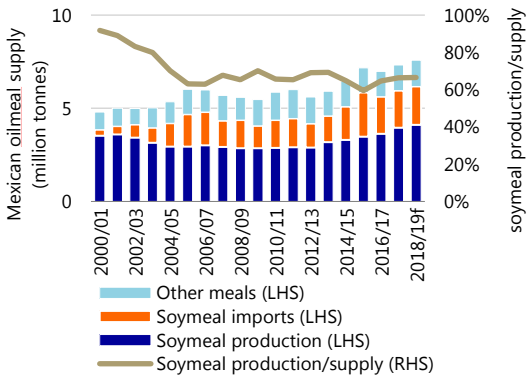
The EU will definitely not be able to produce domestically all of the soymeal it requires – in 2017/18 the EU soybean harvest was able to meet 7% of EU soymeal needs. But considering EU crushing capacities and ongoing strong crush margins, the EU is likely to expand soybean processing. Besides this margin-driven switching of some of the imported soymeal with domestically processed soybeans, Rabobank does not expect an immediate expansion or new construction of additional soybean processing capacities in the EU.

Figure 1: Soymeal in the EU accounts for more than half of protein supply, 2000/01-2018/19f



Source: USDA, Rabobank 2018

Figure 2: Rising Mexican demand drives higher crush and soymeal imports, 2000/01-2018/19f



Source: USDA, Rabobank 2018

Mexico is loading up on US soybeans for crushing

Mexico's protein meal demand is rising quickly. Two-thirds of the 6m tonnes of soymeal needed come from domestic crushers, with the remainder being imported almost exclusively from the US. Mexico's crushers are relying for 90% on soybean imports, and 90% thereof coming from the US. Mexican oilseed crushers over recent years have expanded and modernized their capacity to an estimated 8m tonnes and operate at an utilization rate of 80%. Leaving still some room for crush of imported US soybeans to gain some market shares from imported meals.

Most Asian soymeal users won't benefit from trade wars, but Indonesian Tempeh producers could

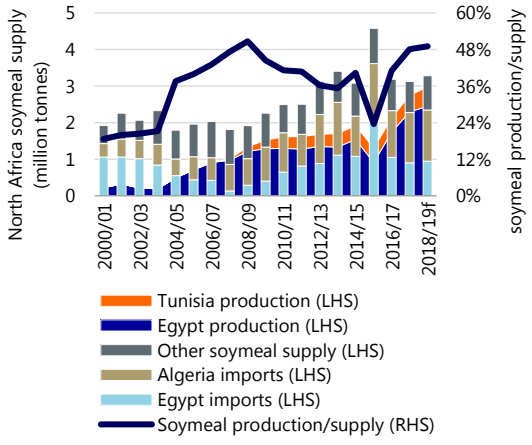
South East Asian soymeal imports account for 80% of the supply. Noteworthy soybean crush only exist in Thailand and Vietnam, leaving little room for the regions soymeal users to benefit from the existing cheaper supplies of US soybeans. Still, Thailand's crushers traditionally source the majority of their soybean needs from Brazil and might in the future switch to US supplies. In addition, Indonesia's processors of Tempeh, a traditional staple soy food can benefit, as they import 3m tonnes of soybeans from the US allowing them to benefit from recent cheaper US soybeans. However, the US recently threatened a review of tariffs for Indonesian products, bearing in case of an escalation, that Indonesia might retaliate by introducing duties on US soybeans.

Japan's 2.4m tonnes of soymeal production stem exclusively from imported soybeans (two-thirds of which come from the US) and compete with 1.6m tonnes of imported soymeal which largely stems from China, leaving potential for crushers to benefit from the US-China soybean trade war.

North Africa experiences a crushing boom

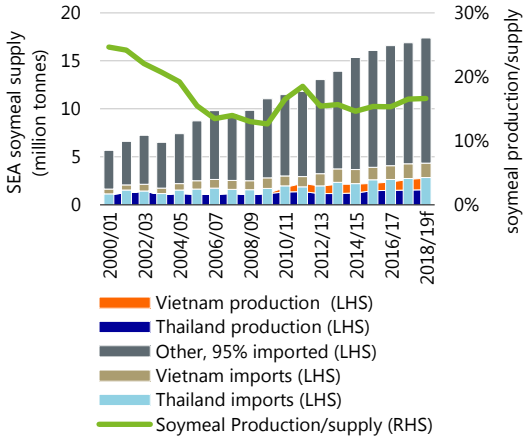
North Africa's demand for protein meal has almost tripled since 2000, and soymeal accounts for 90% of the supply. Soybean crushing in Egypt has shown strong growth and delivers more than one-third of the needed soymeal. According to the USDA, Egypt's crushing capacity stood at 11,000 tonnes per day in 2016/17, and, with recent expansion of several players, will soon reach 18,000 tonnes. The increasing availability of capacity and the pricing dynamics between soymeal produced locally from cheap US soybeans and imported South American soymeal (see EU chapter above for details) should further spur the North African crush and soymeal production growth. Soybean crush developments in other African countries are way behind those in Egypt, with Tunisia's small crush also able to benefit, while the remaining 1.5m tonnes of soybean processing in Sub-Saharan Africa (including South Africa) is solely based on domestic soybean harvests.

Figure 3: North Africa's soymeal production supplies half of needs, 2000/01-2018/19f



Source: USDA, Rabobank 2018

Figure 4: SEA soymeal supply dominated by imports rather than crush, 2000/01-2018/19f



Source: USDA, Rabobank 2018

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