

# What's Hot: Russia's war in Ukraine heats up Soybean oil prices

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Protectionism is on the rise. Driven in part by the disruptions from the war in Ukraine, countries have been more tempted to withhold flows of locally grown crops to the global market. Russia and Ukraine account for 80% of sunflower oil shipments, so disruptions to the sunflower oil trade are prompting buyers to seek alternative oils such as palm oil and soybean oil.

### **But Indonesia's export ban raises palm oil prices ....**

Last week, Indonesia announced an export ban on crude and refined palm oil. Palm oil is the world's most consumed edible oil. Previously, it had indicated that the export ban would be imposed only on higher-value products, including RBD Palm Olein. However, Indonesia decided to go a step further and restrict exports of all forms of palm oil to ensure greater security for its domestic market at a time when the edible oil sector was extremely vulnerable. This move is likely to squeeze the edible oil markets further as Indonesia accounts for more than a third of global vegetable oil exports and is the largest palm oil producer<sup>1</sup>.

### **..... Higher palm oil prices are stoking demand for soybean oil**

At the same time, soybean oil, the second most-produced edible oil, is also being impacted by restricted exports from South America owing to the ongoing drought conditions. Global markets had been counting on Argentina, the world's largest exporter of soybean oil, to help offset shortfalls in edible oil supplies from other countries. Net speculative positioning (illustrated in figure 1) in soybean oil futures is now more than 1-standard deviation above the five-year average underscoring the improvement in sentiment. Soybean oil futures (up 53.6% Year to Date<sup>2</sup>) continue to hit fresh records, putting pressure on the US to prevent crops from being diverted for biodiesel production, which will exacerbate the global energy crisis.

### **Figure 1 – Net speculative positioning in soybean oil futures rose 28% over the past month**

Source: Commodity & Futures Trading Commission (CFTC), Bloomberg, WisdomTree as of 26 April 2022

### **Biofuel blending mandate could swing the balance**

The Environmental Protection Agency, which administers the US Renewable Fuel Standard (RFS), released a proposed rule in December on the blending volumes, covering 2020, 2021 and 2022. Both the 2020 and 2021 figures mark a reduction from 2019, when the EPA had required refiners to blend 19.92bn gallons of biofuels in the nation's fuel mix, but the 2022 proposal marks an increase. The EPA sent the long-awaited 2020-2022 biofuel blending mandates to the White House on the 2nd May for final review. Biodiesel production accounts for 30% of soybean oil demand in the US. If the biofuel blending

mandates for 2022 do increase, it is likely to lend a tailwind to soybean oil prices. However, rising food versus fuel tensions could cause the US EPA to allow more soybean oil stocks to shift back into food instead of diverting to biodiesel production.

### **Demand outpacing supply in soybean oil market**

India, the world's second-largest consumer of vegetable oils, is highly dependent on imports to meet domestic demand as imports accounted for 2/3rds of food use consumption over the past five years<sup>1</sup>. However, over the past four months, the combined forecast for palm and sunflower oil imports have been cut by nearly 1.5mn tons owing to high edible oil prices, restrictive Indonesia palm oil trade policies and disruptions to the sunflower oil trade from the war in Ukraine. To meet domestic demand, India has been purchasing soybean oil at the highest rate since 2015/16. Brazil and the US have seen the biggest jump in soybean oil exports to India. In fact, the United States has shipped more soybean oil to India over the past four months than in the previous eight years combined.

Soybean oil consumption is rising faster than production and thus drawing on stocks. Stocks relative to use are therefore declining, indicating a tightening market. The front end of the soybean oil futures curve remains in backwardation yielding a positive roll yield of 5.9%, underscoring the tightness in the market.

### **Figure 2 – Soybean oil stocks-to-use ratio**

*Source: USDA, Bloomberg as of 26 April 2022*

1 USDA – United States Department of Agriculture

2 Bloomberg from 31 December 2021 to 5 May 2022

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