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

Published 6 May 2022

Aneeka Gupta
Director, Macroeconomic Research

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 producer1.

….. 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 Date2) 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 years1. 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

Important Risks Related to this Article

Important Information

Marketing communications issued in the European Economic Area ("EEA"): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

Marketing communications issued in jurisdictions outside of the EEA: This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as "WisdomTree" (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

For professional clients only. The information contained in this document is for your general information only and is neither an offer for sale nor a solicitation of an offer to buy securities or shares. This document should not be used as the basis for any investment decision. Investments may go up or down in value and you may lose some or all of the amount invested. Past performance is not necessarily a guide to future performance. Any decision to invest should be based on the information contained in the appropriate prospectus and affer seeking independent investment, tax and legal advice.

The application of regulations and tax laws can offen lead to a number of different interpretations. Any views or opinions expressed in this communication represent the views of WisdomTree and should not be construed as regulatory, tax or legal advice. WisdomTree makes no warranty or representation as to the accuracy of any of the views or opinions expressed in this communication. Any decision to invest should be based on the information contained in the appropriate prospectus and affer seeking independent investment, tax and legal advice.

This document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares or securities in the United States or any province or territory thereof. Neither this document nor any copy hereof should be taken, transmitted or distributed (directly or indirectly) into the United States.

Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.