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Soy Complex Driven by Weather Concerns

Kunal Shah
Head - Commodity Research
Ravi D'souza
Research Associate

Market Recap

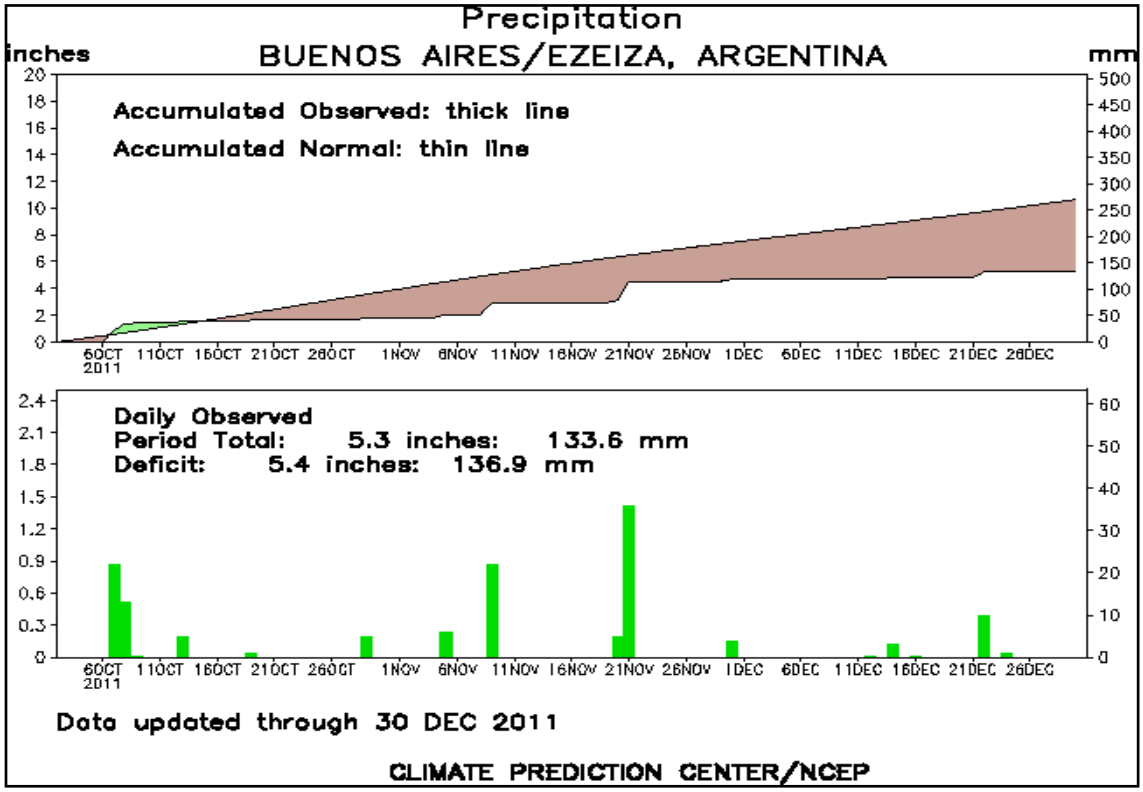
Uncertainties have been at the forefront of the Edible oil market this season. Beginning with the US crop, pressurised by dry weather in the Midwest resulting in crop damage that reduced yields and lower production forecast. The focus has now shifted to the South American crops that were forecasted to be higher in Argentina and Brazil. The world soybean industry has been keeping a close watch on the progress of the South American crops to satisfy the world soybean demand. The South America crop has faced a lot of weather uncertainties over the past couple of months as most of the key growing areas have seen 60 to 75 percent of normal rainfall raising concerns if South America will be able to meet the world demand. The dry weather in Brazil and Argentina has led many industry experts to relook at the forecasted soy production for South America.

La Nina posing a threat to the South American Crop

South America has emerged as the dominant player in the world Soy trade. Soybean production has risen year on year in South America as compared with United States that has seen a stable to declining soy production over the past few years. South America accounts for approximately 50% of the world's Soybean production. The South American crop this year has been facing uncertainties caused by the La Nina.

La Nina is the global weather phenomenon caused by a speed-up of equatorial winds, provokes heavy rains in India, China, Australia and the southern part of Africa while it tends to cause dryness in Argentina, Uruguay and Southern Brazil. Weather uncertainties have been experienced in most areas of South America. December rainfall has been well below seasonal normal with the total rainfall in Buenos Aires province, a major Argentina grain producer, at 5.7 inches, nearly half normal or a deficit of nearly 5 inches for the month. The Buenos Aires Grains Exchange said on 15th December that "initial signs of drought" were already showing in key producing regions of the country, including northern Santa Fe and northern Buenos Aires province.

Brazil has been facing a similar situation with lower rainfall and dry weather conditions. Planting of soybean in Brazil has reached almost 75%, since weather was favourable at the beginning of the planting season. However some regions of Mato Grosso, Goias and Minas Gerais are lagging behind when compared to the recent years. This is because of these regions having received irregular rainfall, thus affecting the water levels in the soil and thereby affecting the germination and plant development. The irregular rainfall in these regions is likely to cause a loss in the productivity. The southern regions of Brazil i.e. Rio Grande do sul, Santa Catarina and Parana have faced a cold wave conditions affecting germination of crops and in some case total loss of the seed. These affected areas face a potential loss of production as weather forecast are not conducive in the near future. Agricultural meteorologists expected hot and dry weather conditions to linger across major soybean-growing regions in the southern part of Brazil through the first week of January.



Monthly rainfall over Brazil's soy belt

STATE	DEC 1-29	5 Year Dec 1-31 Avg	AVG %
North-west Rio Grande do Sul	31mm	131mm	-76
Northern Rio Grande do Sul	67mm	105mm	-35
Parana	57mm	147mm	-61
Mato Grosso do Sul	86mm	192mm	-54
Central Mato Grosso	192mm	239mm	-19
Southern Mato Grosso	113mm	266mm	-57
Goias	153mm	264mm	-42
Federal District	310mm	258mm	20
Maranhao	168mm	141mm	19
Bahia	233mm	205mm	13

Source: Somar

Weekly Brazil Soy belt Rain Forecast

STATE	3rd JAN	4th JAN	5th JAN	6th JAN	7th JAN
North-west Rio Grande do Sul	0mm	0mm	0mm	0mm	0mm
Northern Rio Grande do Sul	0mm	0mm	0mm	0mm	2mm
Parana	0mm	0mm	0mm	5mm	2mm
Mato Grosso do Sul	2mm	0mm	0mm	0mm	0mm
Central Mato Grosso	0mm	0mm	2mm	9mm	6mm
Southern Mato Grosso	3mm	2mm	4mm	8mm	15mm
Goias	0mm	7mm	3mm	13mm	27mm
Federal District	13mm	10mm	7mm	12mm	13mm
Maranhao	1mm	19mm	3mm	0mm	0mm
Bahia	4mm	12mm	10mm	2mm	0mm

Source: Somar

During the last couple of months hot and dry weather has been experienced in major growing areas of Brazil and Argentina. Rainfall has been a major cause of concern in key growing areas. In December North-West Rio Grande Do Sul and Northern Rio Grande Do Sul have received as less as 31mm and 67mm of rainfall compared to 131mm and 105 mm the five year average. Parana another key growing area contributing almost 22 percent of Brazil's output has received only 57mm of rainfall which is 61 percent lower than the five year average of 147. As per the weekly weather forecast by Somar most of the Soy producing regions are not expected to receive sufficient rainfall in the coming weeks leaving the standing crops under further stress.

Outlook

The unfavourable weather of South America has raised concerns on the production figures that were forecasted at the beginning of the sowing season. Many independent forecast agencies and government agencies considered revising their forecast of the South America crops. Brazilian government forecaster Conab on 8th December trimmed its outlook for the 2011-12 soybean crop to 71.29 a fall of 5.4% from its previous estimates. Conab has reduced its forecast on concerns that the unfavourable weather condition would reduce the yields. On the 27th of December the Paraguay export chambers said that Soybean production could fall as much as 40 percent compared to the previous season's crop on concerns that the dry weather would continue to damage the crops. Argentina's dry weather mainly on account of strengthening La Nina is one of the major reason for the ongoing bull run in Soya complex, robust demand from Bio fuels sector for the rest of the year and expectation of sharp drop in production is supporting Soybean complex, after humongous rise in prices we still believe any correction of 3-4% would again represent good buying opportunity in Soybean and Soy oil which has potential to test **Rs 2800** and **Rs.800 respectively.**

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Research Team

Name	Designation	Email Id
Kunal Shah	Head- Commodity Research	kunal.shah@nirmalbang.com
Ravi Dsouza	Research Associate	ravi.dsouza@nirmalbang.com