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South African Agricultural Commodities Weekly Wrap

The highlight in the domestic agricultural market this week was the USDA's estimate for South Africa's 2017/18 maize production, which was placed at 12.5 million tonnes, down 28% year-on-year. While this estimate is in line with the long-term production trend, it will be difficult to achieve given that the North West and Free State provinces were unable to plant the overall intended area. More concerning is that the expected rainfall during the week did not materialise in most regions, and soil moisture remains very low in the central and western parts. This does not bode well for summer crops. With that said, summer crops in the eastern parts of the country are in good shape, despite the recent warm temperatures. Overall, it is not all lost, if the expected rainfall within the next two weeks materialises and lasts for a sustained period, crop conditions and prospects of a better harvest will improve.

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Maize market

At the beginning of the season, South African farmers intended to plant 2.47 million hectares of maize, down by 6% from the 2016/17 production season. About 57% was set to be white maize, with 43% being yellow maize. Clearly, this will not be achieved as incoming data shows that the North West and Free State provinces were unable to complete the intended area due to persistent dryness and heatwave[1]. The National Crop estimate Committee will give a view in about this when it releases its preliminary planting estimates data on 30 January 2018.

Maize prices have not shown any meaningful increases, as it would typically be the case when weather conditions are unfavourable. The key reason for this is that South Africa has a relatively large stock from the 2016/17 production season, and crops are in a fair condition in the eastern regions. Overall, white and yellow maize spot prices marginally declined by 0.4% and 0.1% from last week and settled at R1 988 per tonne and R2001 per tonne, respectively (Chart 1). Meanwhile, the Chicago maize price declined by 1%, averaging US$163 per tonne (Chart 2).

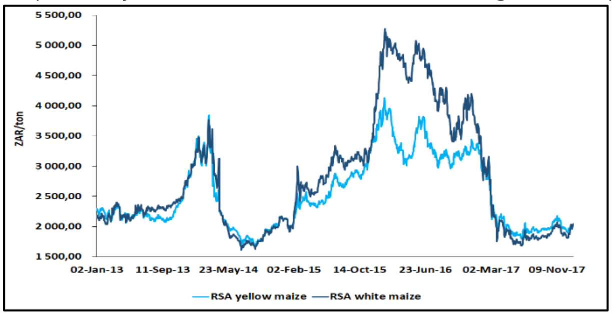

Chart 1: South African maize prices
Source: JSE, Agbiz Research

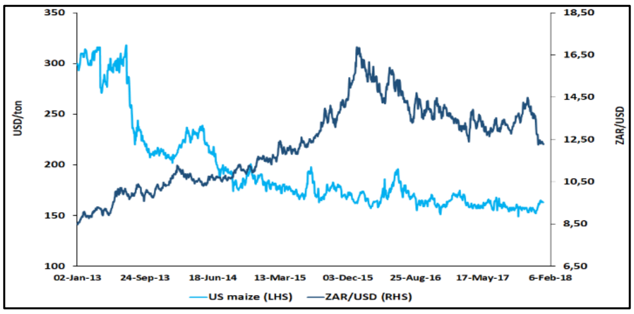

Chart 2: US maize prices and ZAR/USD exchange
Source: IGC, Bloomberg, and Agbiz Research

[1] Farmers in the North West and north-western Free State provinces had planted roughly 70% and 75% of the intended maize area, respectively.

Wheat market

The areas that are still harvesting wheat in South Africa are the VKB and OVK regions in the eastern Free State province. The yields received thus far in both regions are well below average due to unfavourable weather conditions earlier in the season. The Western Cape province had a similar experience of below average yields, but at a much bigger scale. The impact of lower harvest in these particular provinces is mirrored in the national production estimate, which currently stands at 1.48 million tonnes, down by 23% from 2016 harvest.

Against this backdrop, South Africa's wheat imports are set to reach 1.9 million tonnes in the 2017/18 marketing year. This is double the volume imported in 2016/17 marketing year due to relatively lower domestic supplies (production and opening stock). Therefore, it is key to observe the international wheat prices in the short to medium term as that will have implications on domestic wheat import tariff. The tariff rate is currently at R716.33 per tonne, down from R910.00 per tonne in October 2017. The downward revision was linked to the higher global wheat prices.

Apart from that, the weather continues to dominate the headlines in wheat growing provinces, but not from a crop production perspective but from household needs and other agricultural activities. Fortunately, the forecasts show a possibility of between 20 and 50 millimetres of rainfall in the week to 26 January 2018. If this materialises, it will improve the province's dam levels which are critically low, estimated at 27%, down by one percentage point from last week, and 15 percentage points lower than levels seen on 15 January 2017.

In terms of trade, South Africa imported 10 007 tonnes of wheat in the week ending 12 January 2018, all from Argentina. This is the first consignment this year, following a large volume of 48 728 tonnes in the weeks of 09 to 29 December 2017. This placed 2017/18 marketing year's wheat imports at 635 376 tonnes, which equates to 33% of the seasonal import forecast of 1.9 million tonnes[2] (Chart 4).

Overall, the domestic wheat spot price was up by 1% from last week, averaging R3 721 per tonne, mainly supported by strong commercial buying. Meanwhile, the Chicago wheat price declined by 1% this week, averaging US$226 per tonne. These losses were mainly linked to expectations of large global wheat production (Chart 3).

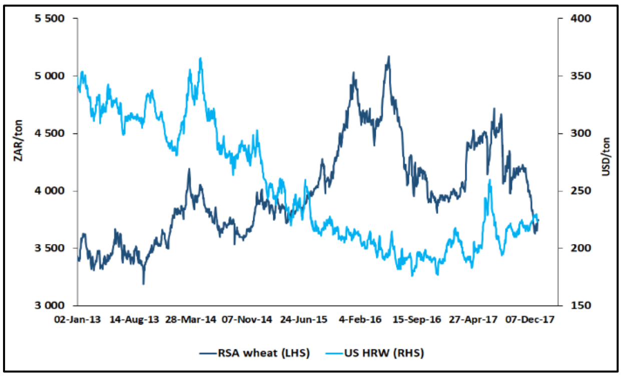

Chart 3: South Africa and US wheat prices
Source: JSE, IGC, and Agbiz Research

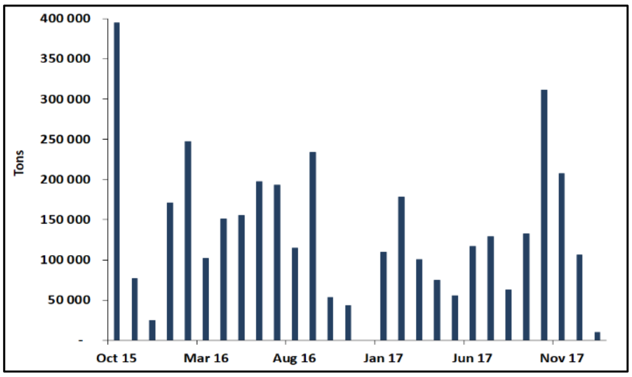

Chart 4: South Africa's monthly wheat imports
Source: SAGIS and Agbiz Research

[2] This estimate is under the assumption that domestic production will reach 1.48 million tonnes.

Soybean market

As indicated in our note yesterday, the weather remains a main focus in the domestic soybean market. The excess rain and hail experienced in the past few weeks have damaged soybean crops in some parts of Mpumalanga and KwaZulu-Natal provinces. Meanwhile, other soybean growing areas within these particular provinces and eastern Free State received very little precipitation, thus experiencing heat stress. Rainfall is urgently needed in order to improve soil moisture and subsequently crop conditions.

Also worth noting is that a large part of the intended hectares for soybean was successfully planted in the eastern parts of the country. This is with the exception of the North West province – a relatively small soybean producer - which planted roughly 85% of the intended area due to drier weather conditions. A clearer picture of South Africa's 2017/18 soybean production will unravel later this month when the National Crop Estimate Committee releases its preliminary planting estimates data. At the beginning of the season, farmers intended to plant 720 000 hectares of soybean, which is the largest area on record.

Above all, South Africa has sufficient soybean supplies for short to medium term. The country's soybean ending stocks were estimated at 589 106 tonnes in November 2017, double the volume seen the previous year due to a large harvest in 2016/17 production season. SAGIS will release stocks levels data for December 2017 on 25 January 2018. In terms of pricing, the soybean spot price declined by 2% from the previous week, averaging R4 577 per tonne. At the same time, the Chicago soybean price fell by 1% this week, averaging US$369 per tonne (Chart 5).

Sunflower seed market

The few drops of rainfall that materialised this week were scattered across few towns of North West and western Free State provinces and did not lead to any improvement in soil moisture. As a result, there were almost no additional hectares planted this week. The recent survey shows that farmers have thus far planted roughly 40% of their intentions in the North West province. In the north-western parts of the Free State province, the progress is much slower, with only 20% of the intended area planted. These provinces collectively account for 86% share of the 665 500 hectares intended for sunflower seed production in the 2017/18 season. Against this background, the sunflower seed spot price increased by 1% from the previous week, averaging R4 788 per tonne. At the same time, the EU's sunflower seed price also increased by 1% from the previous week, averaging US$391 per tonne (Chart 6).

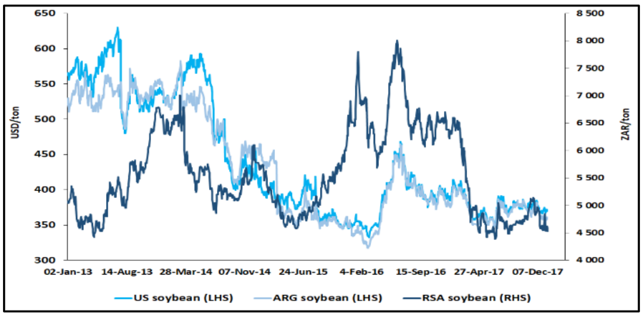

Chart 5: Soybean prices
Source: JSE, IGC, and Agbiz Research

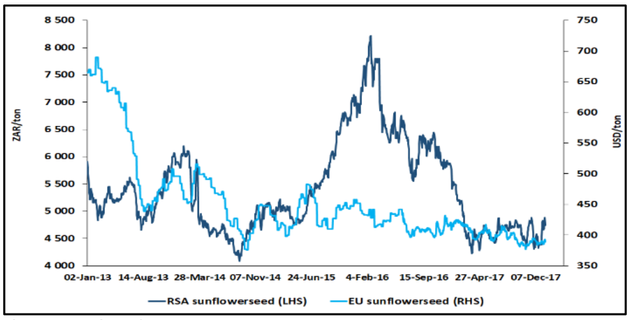

Chart 6: Sunflower seed prices
Source: JSE, IGC, and Agbiz Research

Beef market

This week the SAFEX beef carcass market presented more of the same. The price remained flat throughout the week, settling at R44.00 per kilogram due to thinly traded volumes. It is worth noting that the SAFEX beef carcass price could differ from the physical market which continues to enjoy solid activity and volumes.

South African farmers slaughtered 219 393 head of cattle in October 2017, up by 3% from the previous month, but 7% lower compared to October 2016. The Red Meat Levy Admin will soon release an update for November and December 2017 slaughtering data.

Fruit market

The fruit market was once again on a mixed footing this week. The prices of bananas and oranges were down by 15% and 3%, respectively, this week, averaging R6.28 and R5.90 per kilogram (Chart 8). These losses were mainly on the back of commercial selling, as well as relatively large stocks compared to the previous weeks. The bananas stocks averaged 261 000 tonnes this week, with oranges averaging 31 000 tonnes.

Meanwhile, the price of apples was up by 6% from the previous week, averaging R8.36 per kilogram owing to commercial buying, as well as relatively lower stocks of 176 000 tonnes (Chart 8).

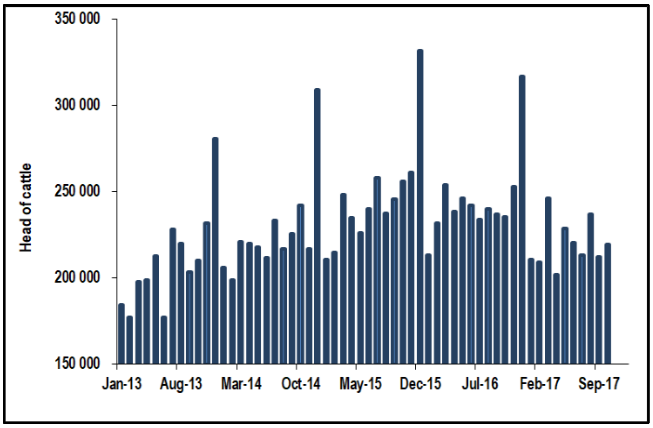

Chart 7: Monthly cattle slaughtering activity
Source: Red Meat Levy Admin, Agbiz Research

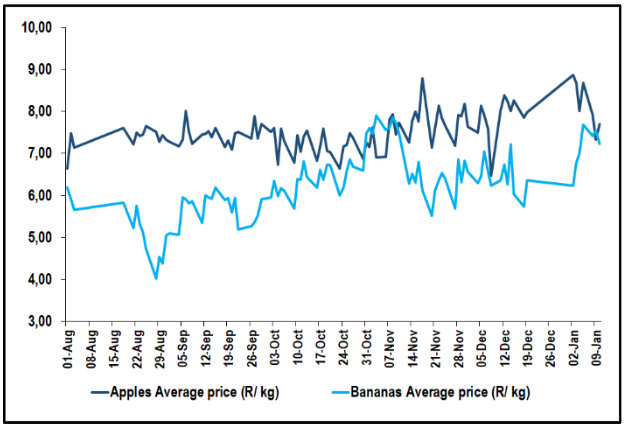

Chart 8: Apple and Banana prices
Source: Johannesburg Fresh Produce Market, Agbiz Research

Potato market

The South African potato market ended the week in negative territory, with the price down by 9% from last Thursday, closing at R37.52 per pocket/10kg bag (Chart 9). These losses were mainly on the back of relatively large stock of 823 122 pockets/10kg bags, as well as commercial selling pressure.

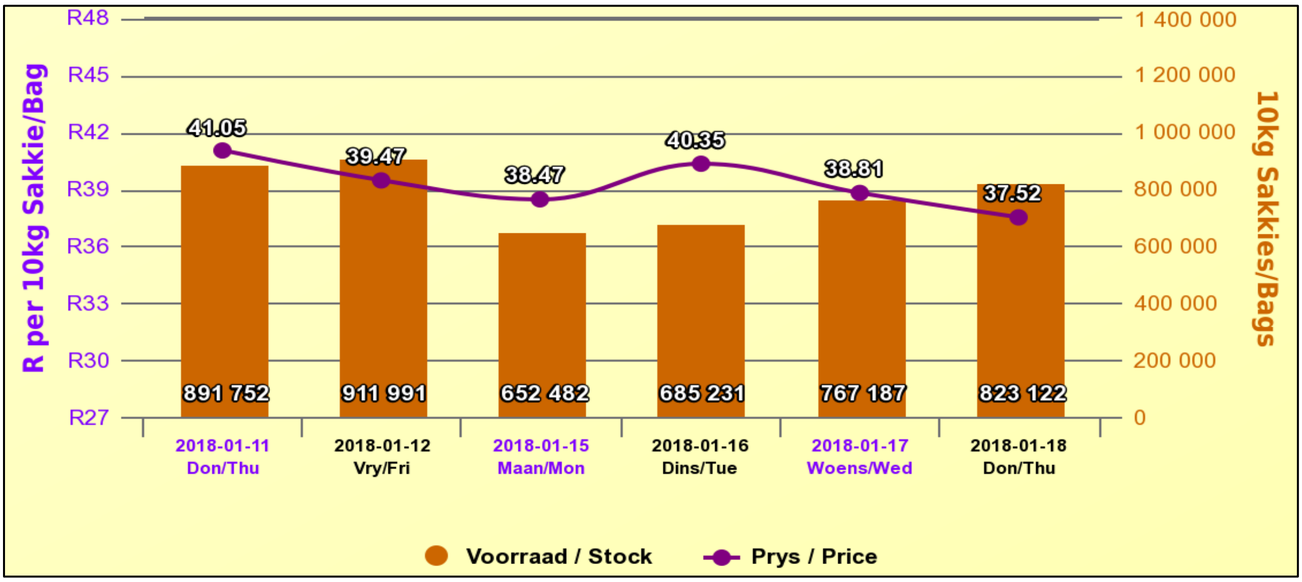

Chart 9: South Africa's average potato prices and stocks
Source: Potato SA

Weather conditions ahead of the weekend

South Africa could receive rainfall of between 16 and 60 millimetres within the next eight days, which is conducive for summer crops (Chart 10). The Western Cape province, which has been experiencing persistent dryness for some time, could also receive showers and potentially see an improvement in dam levels.

The long-term weather forecasts paint a similar picture of widespread rainfall across the country, which should improve soil moisture and subsequently benefit the summer crops (Chart 11). With that said, the Western Cape and Northern Cape provinces could see much lighter showers in the week of 27 January 2018.

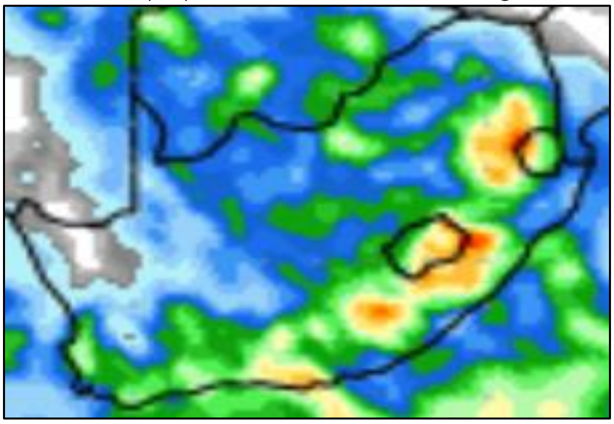

Chart 10: Next 8-days precipitation forecast
Source: wxmaps

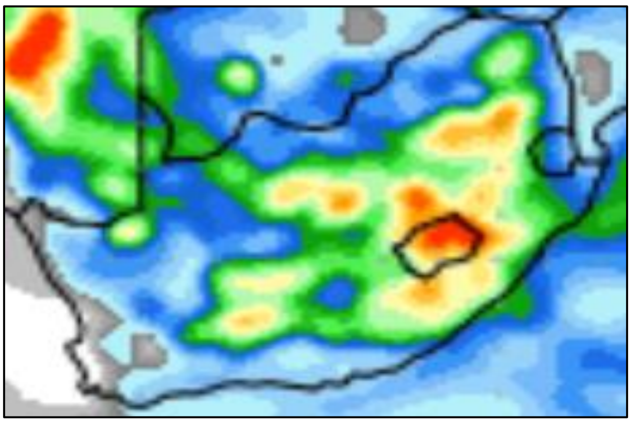

Chart 11: Next 16-days precipitation forecast
Source: wxmaps

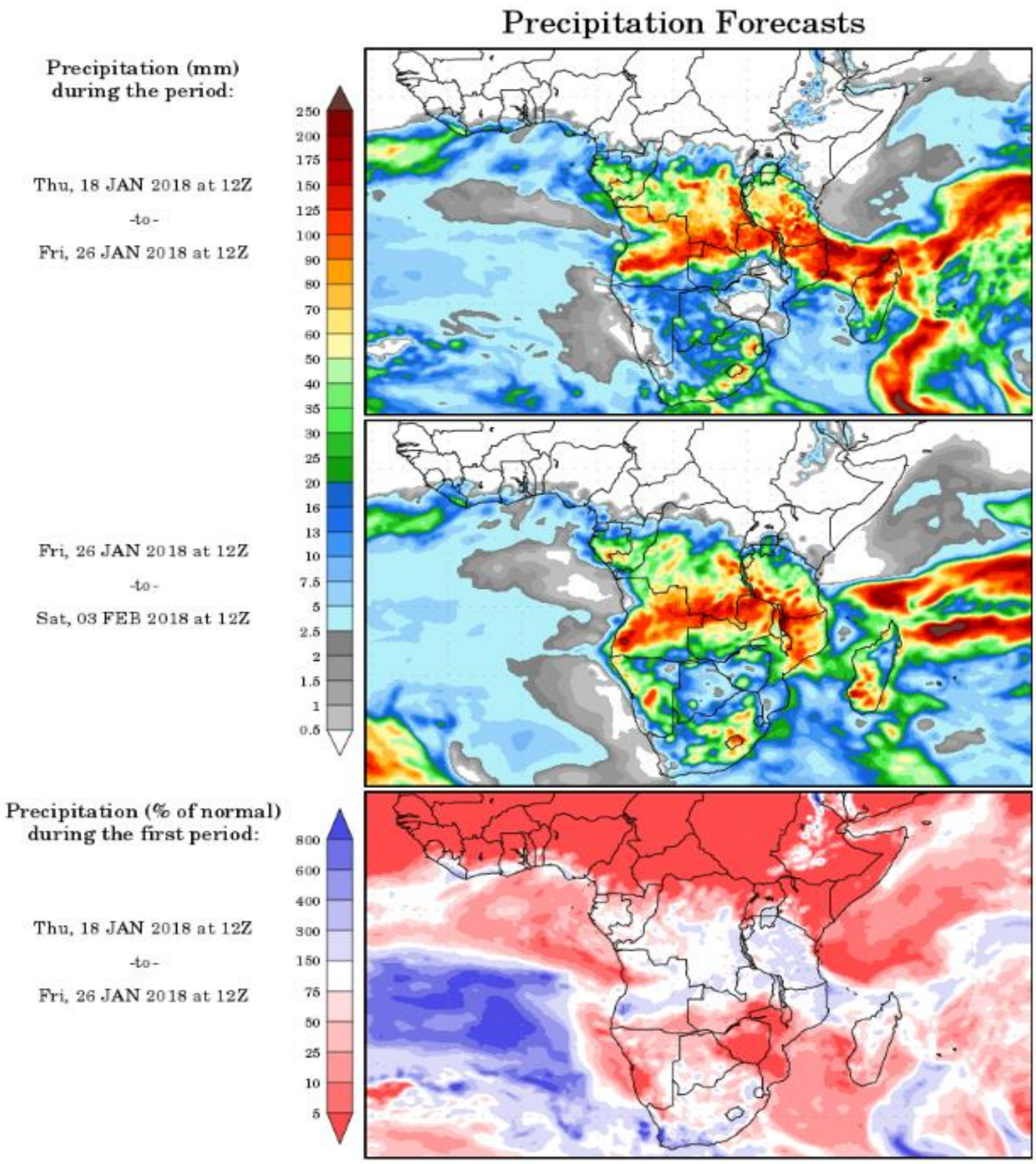

Chart 12: Precipitation forecast
Source: wxmaps

Key data releases in the South African agricultural market

- SAGIS weekly grain trade data: 23/01/2018
- SAGIS producer deliveries data: 24/01/2018
- SAGIS monthly data: 25/01/2018
- National Crop Estimates Committee's data: 30/01/2018

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