

South African Agricultural Commodities Weekly Wrap

This was a data-packed week for grains and oilseeds market, with the most notable release being the National Crop Estimates Committee's preliminary area planting estimates for 2017/18 summer crop production season, and winter wheat sixth production estimates. From a summer crop perspective, the 2017/18 initial planting estimates show a 7% y/y decline to 3.70 million hectares. White maize and sunflower seed plantings are the key reason for this overall downswing. Meanwhile, winter wheat production estimate was left unchanged from the previous month, at 1.48 million tonnes, which is 23% lower than the 2016 harvest. Overall, this data was slightly better than market expectations and had limited impact on this week's prices. The market ended the week on a mixed footing, with maize and sunflower seed prices on a positive territory, whereas wheat and soybean recorded losses.

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Maize market

As highlighted in our previous notes, South Africa's preliminary area estimate for total maize planting is 2.30 million hectares, which is 12% lower than the 2016/17 production season. This decline is mainly skewed towards white maize plantings, which show a 22% drop from the 2016/17 production season to 1.28 million hectares. Meanwhile, yellow maize plantings show a 4% uptick from the previous season to 1.02 million hectares.

The disparity in rainfall amount across the South African maize belt at the start of the season is a key factor behind the aforementioned production trends. The western areas experienced persistent dryness in the last few weeks of 2017 and the beginning of 2018, which explains the decline in area plantings. Meanwhile, the eastern regions received a fair amount of rainfall, hence the uptick in plantings. In terms of pricing, white and yellow maize spot prices averaged R1 858 and R1 941 per tonne, which is a marginal increase of 0.1% and 0.4% from the previous week (Chart 1). At the same time, the Chicago maize price was up by 2%, averaging US\$165 per tonne (Chart 2).

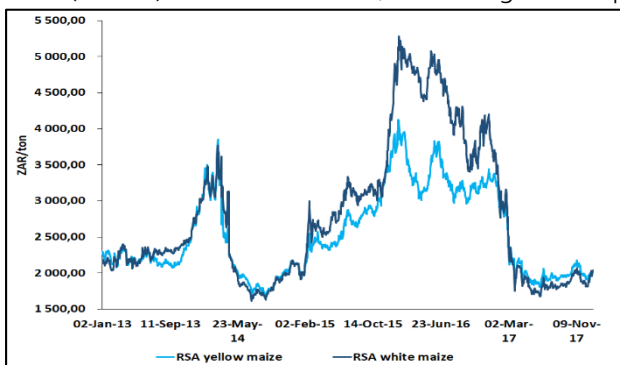


Chart 1: South African maize prices

Source: JSE, Agbiz Research

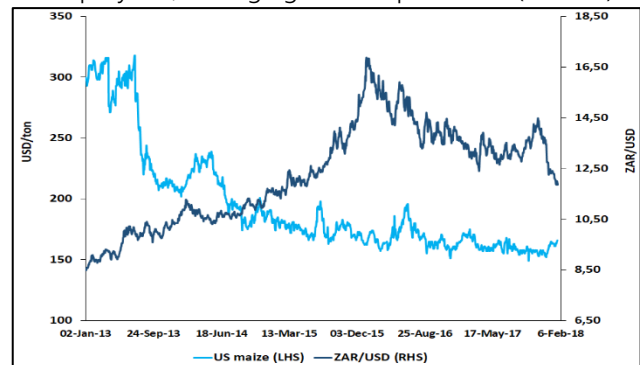


Chart 2: US maize prices and ZAR/USD exchange

Source: IGC, Bloomberg, and Agbiz Research

Wheat market

With the winter wheat harvest complete across South Africa, the producer deliveries will also decline in the coming weeks. The most recent data already point to this direction. About 11 105 tonnes of wheat were delivered to commercial silos in the week ending 26 January 2018, down by 28% from the volume delivered the previous week. This placed South Africa’s wheat producer deliveries for “week 1 to 17” of the 2017/18 marketing year at 1.37 million tonnes.

In terms of production, the impact of lower yields in the Free State and the Western Cape provinces is clear from the national production estimate which is currently at 1.48 million tonnes, but down by 23% from 2016 production. The poor wheat harvest comes on the hills of relatively lower opening stock at the beginning of the current marketing year, estimated at 341 424 tonnes. This is well below the 2016/17 marketing year’s opening stock of 827 232 tonnes. This implies that South Africa’s wheat imports could increase to 1.90 million tonnes in the 2017/18 marketing year in order to fulfil domestic needs, which is double the volume imported the previous marketing year.

South Africa imported 22 419 tonnes of wheat in the week ending 26 January 2018, down by 50% from the previous week’s imports. About 64% from Argentina and 36% from Lithuania. This placed 2017/18 marketing year’s wheat imports at 702 491 tonnes, which equates to 37% of the seasonal import forecast of 1.9 million tonnes¹ (Chart 4). Overall, the domestic wheat market ended in negative territory despite the aforementioned developments. The wheat spot price declined by 3% from last week, averaging R3 583 per tonne due to stronger domestic currency, as well as commercial selling. Meanwhile, the Chicago wheat price was up by 4% from the previous week, averaging US\$234 per tonne due to unfavourable weather conditions in the southern Plains of the United States (Chart 3).

Wheat market developments aside, the persistent dryness in the Western Cape province continues to weigh on households and other agricultural activities such as horticulture and livestock. An update for the week ending 29 January 2018 shows that provincial dams averaged 25%, unchanged from the previous week, but down by 13 percentage points from the corresponding period last year.

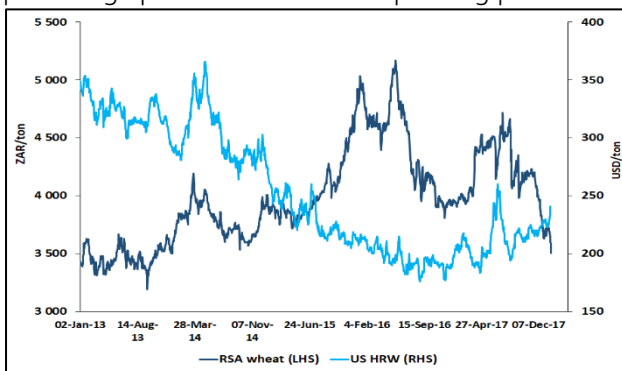


Chart 3: South Africa and US wheat prices
Source: JSE, IGC, and Agbiz Research

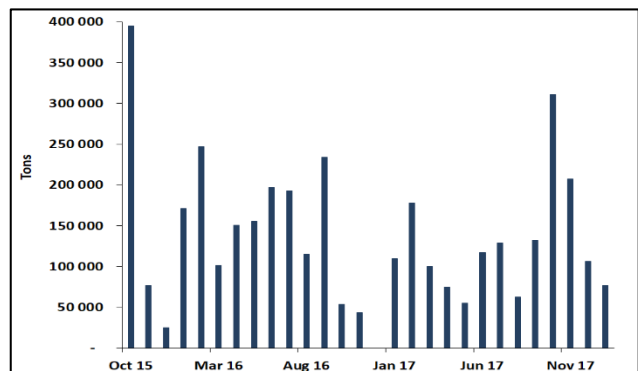


Chart 4: South Africa's monthly wheat imports
Source: SAGIS and Agbiz Research

¹ This estimate is under the assumption that domestic production will reach 1.48 million tonnes.

Soybean market

The weather will remain a primary focus in the South African soybean market for at least until March 2018. The past few weeks brought fairly good rainfall for most soybean growing areas of the country. Thus, the crop is in a fair condition in most regions. Moreover, the South African Weather Service forecasts a possibility of above-normal rainfall in the next two months, which should benefit the crop, especially the areas that planted late in the season².

The preliminary soybean planting estimates that came out earlier this week mirrored this optimism, showing that farmers planted 701 000 hectares, which is the biggest area on record. If one applies an average yield of 1.7 tonnes per hectare from the past five seasons, South Africa’s soybean production could reach 1.19 million tonnes in the 2017/18 production season, down by 9% y/y.

The key reason for a potential decline in output while the area has increased is because we used a relatively lower yield of 1.7 tonnes per hectare in our estimates, compared to a yield of 2.3 tonnes per hectare obtained in the 2016/17 production season. Above all, the soybean spot price marginally declined by 0.1% from the previous week, averaging R4 468 per tonne. Meanwhile, the Chicago soybean price gained 1% this week, averaging US\$381 per tonne (Chart 5).

Sunflower seed market

As we set out in our note on 31 January 2018, the National Crop Estimates Committee placed its preliminary estimate for 2017/18 sunflower seed plantings at 560 100 hectares, down by 12% y/y. The Free State, Limpopo and North West provinces, which account for 99% of South Africa’s sunflower seed area plantings recorded the most notable decline. However, this is unsurprising given that these particular provinces received very little rainfall in the last few weeks of 2017 and they also had a drier start to 2018. With that said, the weather outlook has improved somewhat and the forecasts for the rest of the season paint a promising picture of good rainfall, which should support the new season crops. Overall, the sunflower seed spot price declined by 1% from the previous week, averaging R4 742 per tonne. Meanwhile, the EU’s sunflower seed price was up by 1%, averaging US\$396 per tonne (Chart 6).

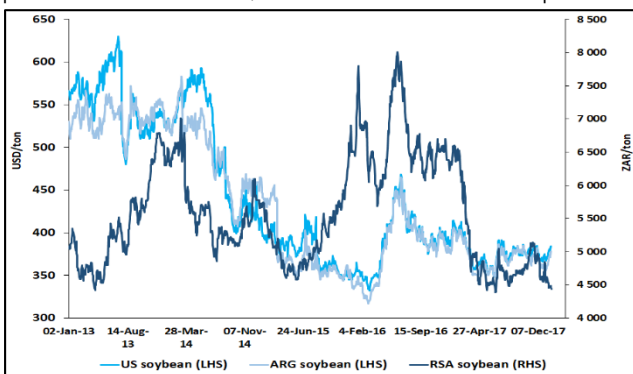


Chart 5: Soybean prices
Source: JSE, IGC, and Agbiz Research

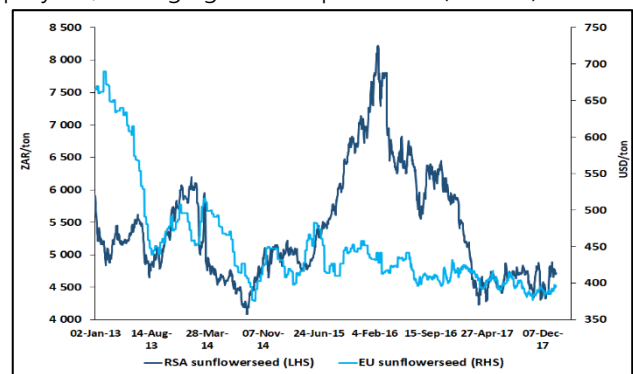


Chart 6: Sunflower seed prices
Source: JSE, IGC, and Agbiz Research

² Hail is a key concern for the eastern parts of the country, especially when there are expectations of heavy rainfall. The past few weeks brought a bit of it in regions of Mpumalanga and KwaZulu Natal province, but the crop damage was somewhat limited.

Beef market

The SAFEX beef carcass prices have been at same levels for months, around R44.00 per kilogram, due to limited participation at the stock exchange. Therefore, it is worth noting that these prices could differ from the physical market which continues to enjoy solid activity and volumes.

South African farmers slaughtered 238 369 head of cattle in November 2017, up by 9% from the previous month, but 6% lower compared to November 2016 (Chart 7). The Red Meat Levy Admin will soon release an update for December 2017 slaughtering data.

Fruit market

The fruit market ended the week in positive territory due to lower stocks. The prices of apples and bananas were up by 13% and 3% respectively, this week, averaging R9.54 and R5.92 per kilogram (Chart 8). These gains were on the back of commercial buying interest, as well as relatively lower stocks compared to the previous weeks. Apple's stock averaged 166 000 tonnes this week, with bananas averaging 276 000 tonnes.

The price of oranges was significantly up by 50% from the previous week, averaging R8.05 per kilogram, also supported by commercial buying, as well as relatively lower stocks of 29 750 tonnes.

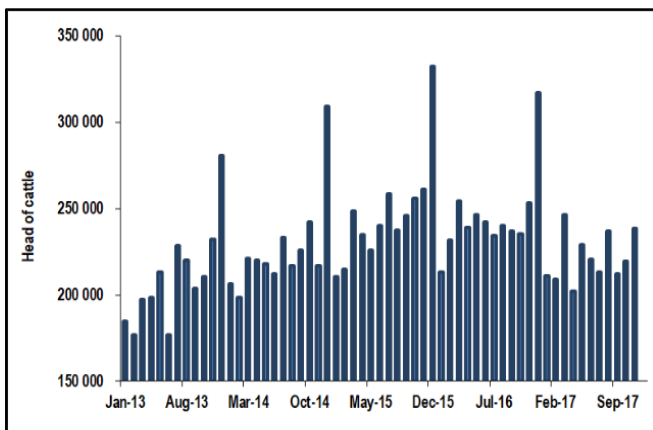


Chart 7: Monthly cattle slaughtering activity

Source: Red Meat Levy Admin, Agbiz Research

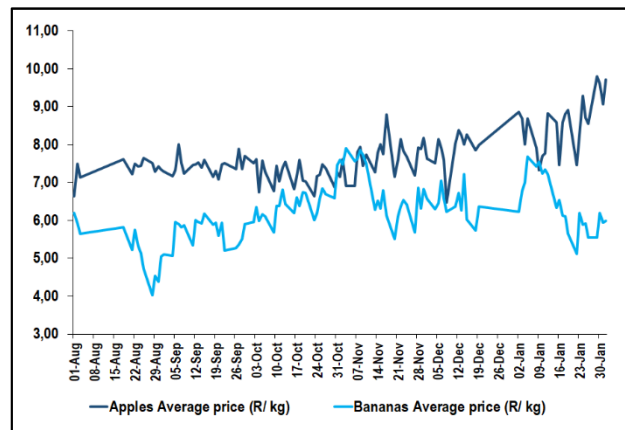


Chart 8: Apple and Banana prices

Source: Johannesburg Fresh Produce Market, Agbiz Research

Potato market

The South African potato market ended the week in positive territory, with the price up by 7% from last Thursday, closing at R40.93 per pocket/10kg bag (Chart 9). These gains were mainly on the back of commercial buying interest, which subsequently led to a 9% decline in daily stock to 824 236 pockets (10kg bag).

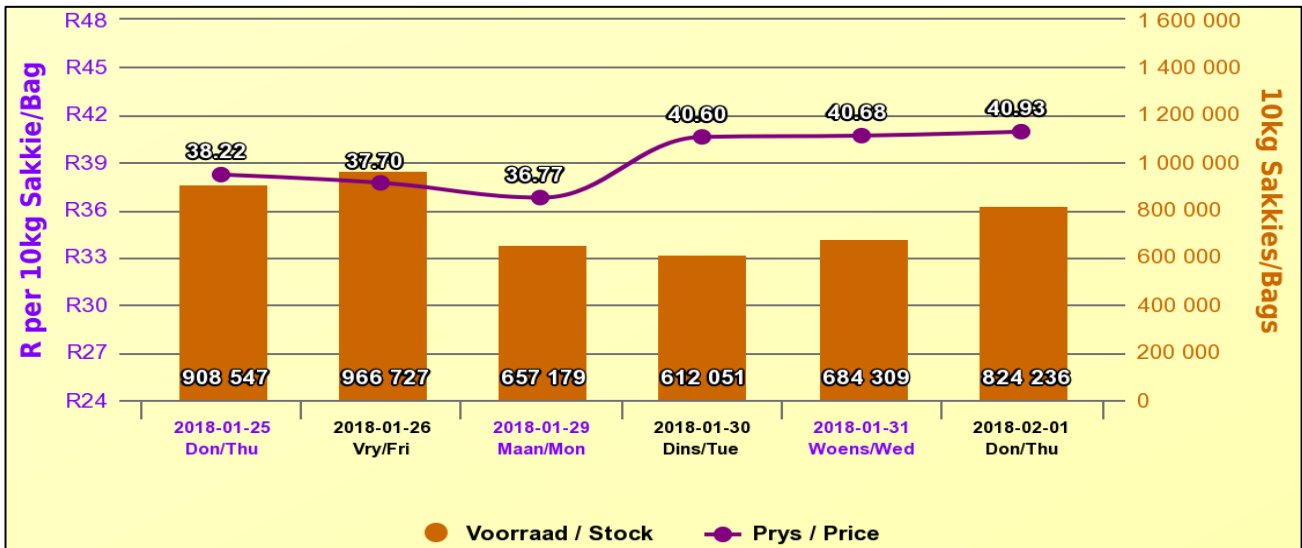


Chart 9: South Africa's average potato prices and stocks

Source: Potato SA

Weather conditions ahead of the weekend

South Africa's summer crop growing areas could receive light showers within the next eight days, which bodes well for new season summer crops (Chart 10). Meanwhile, the western parts of the Western Cape and Northern Cape provinces might experience dry and warm weather conditions.

The long-term weather forecasts show a possibility of heavy rainfall across the country (Chart 11). This would benefit the new season summer crops. More importantly, the Western Cape province, which is currently dry and warm could also get a relief if the forecast rainfall materialises.

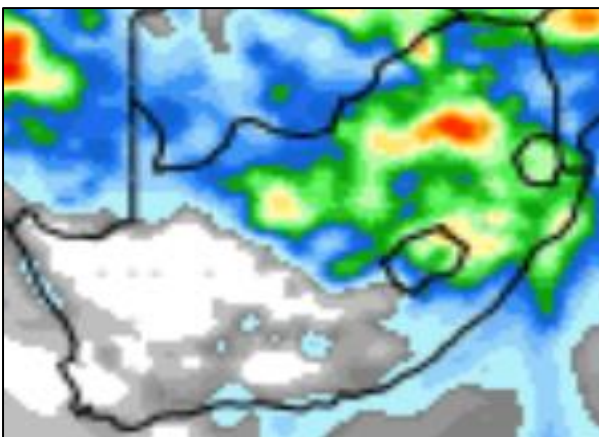


Chart 10: Next 8-days precipitation forecast

Source: wxmaps

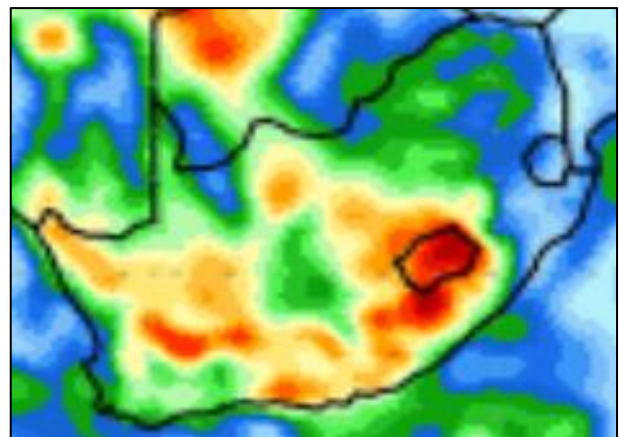


Chart 11: Next 16-days precipitation forecast

Source: wxmaps

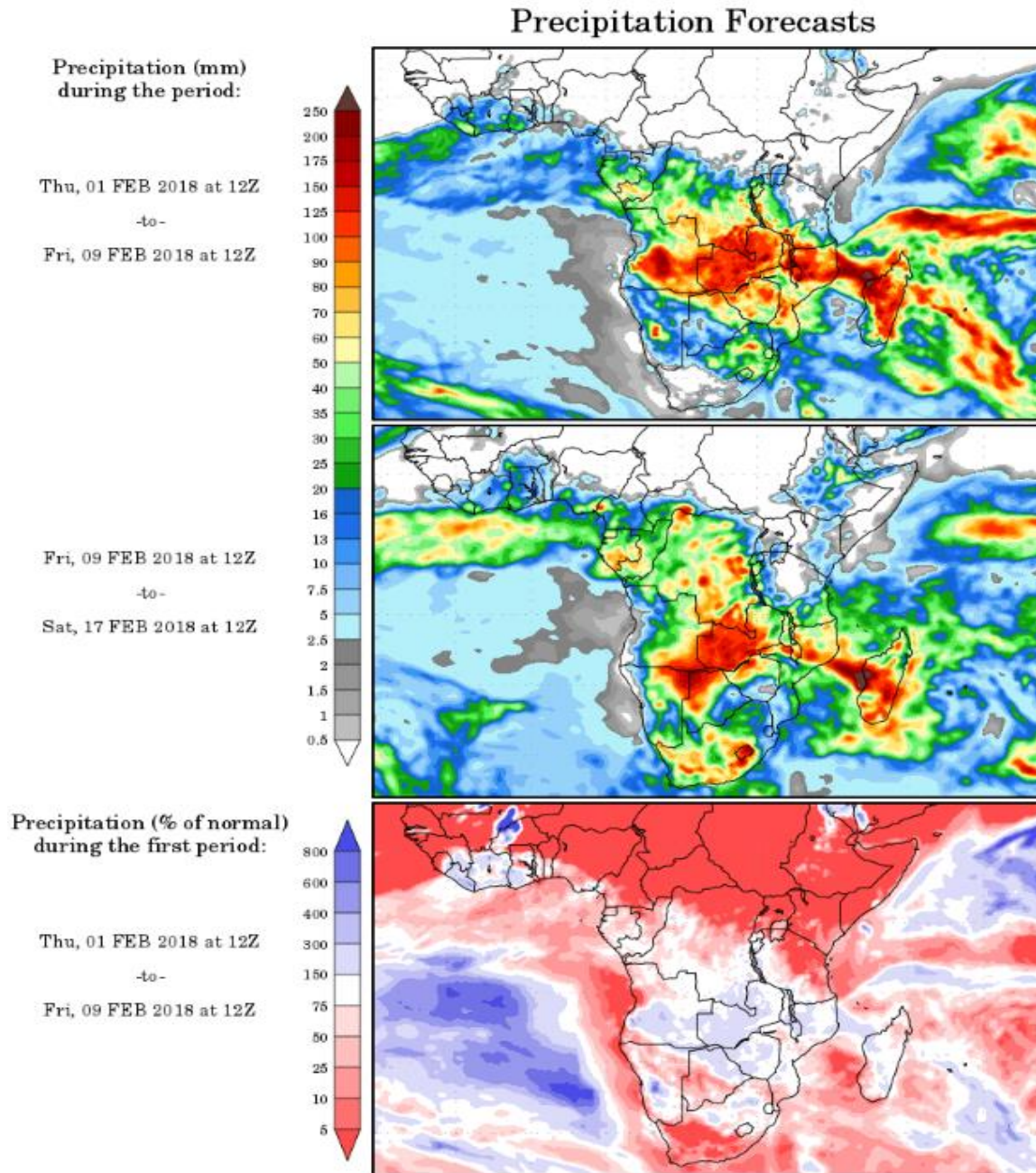


Chart 12: Precipitation forecast
Source: wxmaps

Key data releases in the South African agricultural market

- SAGIS weekly grain trade data: 06/02/2018
- SAGIS producer deliveries data: 07/02/2018
- SAGIS monthly data: 24/02/2018
- National Crop Estimates Committee's data: 28/02/2018

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