

South African Agricultural Commodities Weekly Wrap

The weather remains a key focus in the South African grains and oilseeds market as the crop is still in its early stages of development. The season started on a mixed footing with the western and central regions of the country experiencing dry and warm conditions, whereas the eastern regions received a fair amount of rainfall. Fortunately, conditions have now improved, after recent rainfall in most summer crop growing areas. Moreover, the weather outlook for the rest of the production season shows a possibility of above-normal rainfall across the summer crop growing areas. This will further improve soil moisture and subsequently, benefit the crops. Against this backdrop, the grains and oilseeds prices lost ground and settled lower compared to the previous week. The notable losses were on maize, which was not only pressured by favourable weather conditions, but also a large carryover stock.

Wandile Sihlobo
+27(0)12 807 6686
wandile@agbiz.co.za

[@WandileSihlobo](https://twitter.com/WandileSihlobo)

Maize market

The improvement in weather conditions will not lead to any additional plantings, as the optimal window closed at the end of December 2017. Crop conditions have generally improved across the country, even in the central and western regions where maize crops experienced heat stress at the start of January 2018. The South African Weather Service, in its recent Seasonal Climate Watch, indicated that the summer crop growing areas of the country could receive above-normal rainfall between February and April 2018. This will support crops from current stages of development to pollination, which increases a possibility of fairly good yields this season.

Given the aforementioned weather developments and the preliminary maize area plantings of 2.3 million hectares, we estimate that South Africa's 2017/18 maize production could at least reach 11.2 million tonnes. This would be a 33% y/y decline, but still above the annual consumption of 10.5 million tonnes. The carryover stock of 4.2 million tonnes in the 2017/18 marketing year will also provide a buffer. In terms of pricing, white and yellow maize spot prices averaged R1 790 and R1 894 per tonne, respectively down by 3% and 2% from the previous week (Chart 1).

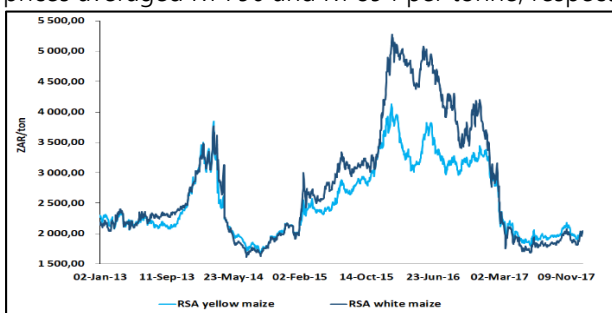


Chart 1: South African maize prices

Source: JSE, Agbiz Research

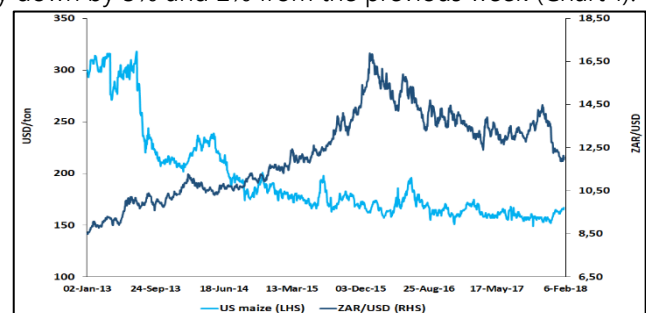


Chart 2: US maize prices and ZAR/USD exchange

Source: IGC, Bloomberg, and Agbiz Research

Wheat market

The winter wheat harvest process is totally over in South Africa. The current estimates suggest that overall production declined by 23% from the 2016 crop to 1.48 million tonnes. Given that the opening stocks¹ at the beginning of the season were fairly low, the focus in the coming months will be on trade, as South Africa will have to import a substantial amount of wheat to fulfil the local needs.

South Africa is a generally a net importer of wheat, but the 2017/18 marketing year is different as imports could reach 1.9 million tonnes. This is a second largest import volume on record in a dataset starting from 1936/37 season. A record level was in 2015/16 marketing year, with wheat imports at 2.1 million tonnes.

The activity is already underway. Recent data shows that South Africa imported 58 598 tonnes of wheat in the week ending 02 February 2018, which is double the volume imported the previous week. About 66% from Lithuania, 18% from Argentina and 16% from the United States. Overall, this placed 2017/18 marketing year's wheat imports at 760 916 tonnes, which equates to 40% of the seasonal import forecast of 1.9 million tonnes² (Chart 4).

Also worth noting is that South Africa is not the only wheat importing country in Sub-Saharan Africa. Countries such as Nigeria, Sudan, Kenya and Ethiopia are amongst the key importers of wheat in the region. Actually, the International Grains Council forecasts Sub-Saharan Africa's 2017/18 wheat imports at 22.6 million tonnes, up by 10% y/y due decline in the region's production, as well as an uptick in consumption.

Encouragingly, the global market is well supplied to cater for the needs of Southern Africa. Yesterday, the United States Department of Agriculture revised its 2017/18 global wheat production estimate up by 0.2% from the previous month to 758 million tonnes. This is 1% higher than the 2016/17 production season. Overall, domestic wheat spot price averaged R3 584 per tonne this week, unchanged from levels seen the previous week. Meanwhile, the Chicago wheat price was marginally up by 0.4% from last week, averaging US\$236 per tonne (Chart 3).

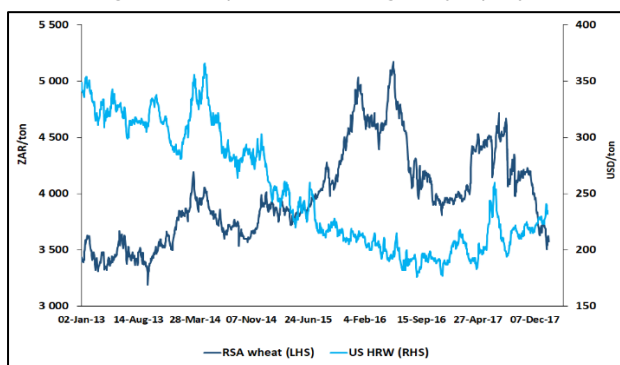


Chart 3: South Africa and US wheat prices

Source: JSE, IGC, and Agbiz Research

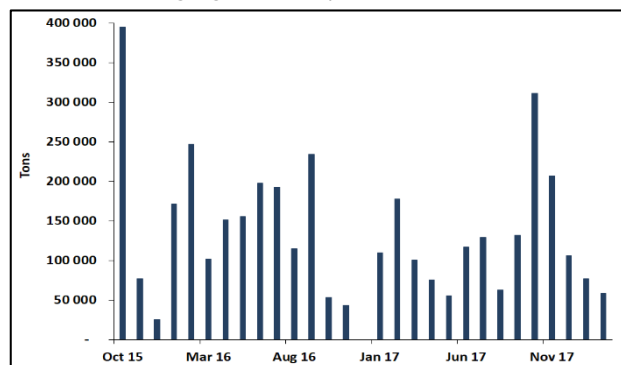


Chart 4: South Africa's monthly wheat imports

Source: SAGIS and Agbiz Research

¹ There were relatively lower opening stocks at the beginning of the current marketing year, estimated at 341 424 tonnes, which is well below the 2016/17 marketing year's opening stock of 827 232 tonnes.

² This is under the assumption that domestic production will reach 1.48 million tonnes



Soybean market

The current soybean marketing year will end on the good footing on 28 February 2018. The ending stock is estimated at 340 862 tonnes, which is treble the volume seen in the 2016/17 marketing year. This will boost South Africa’s soybean supplies in the 2018/19 marketing year, which starts on 01 March 2018.

In the fields, the new season soybean crop is in good condition, thanks to good rainfall in the eastern parts of the country. The recent widespread showers have further improved conditions which increases a likelihood of yet another big crop. With that said, our production estimate is a bit more conservative. We forecast South Africa’s 2017/18 soybean production at 1.2 million tonnes in an area of 701 000 hectares³. The official estimates by the National Crop Estimates Committee will be released on 27 February 2018.

Looking ahead, the weather forecast is favourable which should support the crop. Against this backdrop, the soybean spot price marginally declined by 1% from the previous week, averaging R4 398 per tonne. At the same time, the Chicago soybean price lost 1% this week, averaging US\$376 per tonne (Chart 5).

Sunflower seed market

The recent rainfall in the western parts of South Africa has brought a bit of optimism. Some farmers in the western parts of the Free State and North West provinces went back to the fields for additional planting following improved soil moisture. However, there is uncertainty about the yield potential given that the optimal planting window closed on 20 January 2018. Planting outside the ‘optimal window’ typically implies that crops could be negatively affected by frost later in the season, which could, in turn, lower the yields. That said, if the shifts in weather patterns could perhaps delay the cold conditions later in the season, then the late planted crops could present a better harvest.

This ongoing planting activity also implies that the National Crop Estimates Committee could potentially revise its preliminary planting estimate up from the current level of 560 100 hectares when they release the revised area estimate at end of this month. Overall, the sunflower seed spot price declined by 2% from last week, averaging R4 632 per tonne. Meanwhile, EU’s sunflower seed price was up by 0.3%, averaging US\$397 per tonne (Chart 6).

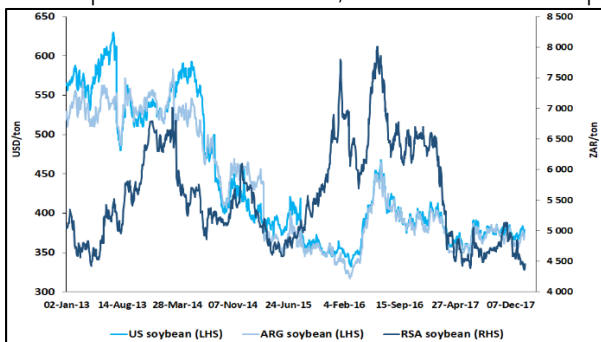


Chart 5: Soybean prices
Source: JSE, IGC, and Agbiz Research

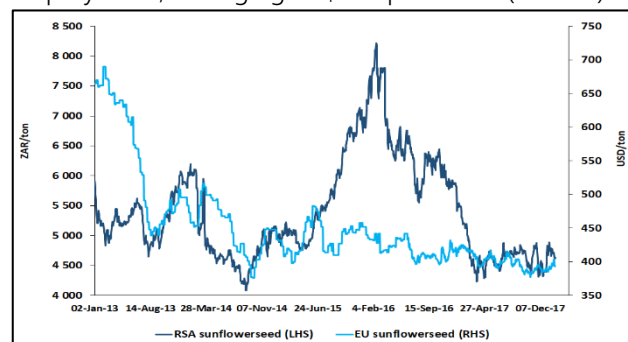


Chart 6: Sunflower seed prices
Source: JSE, IGC, and Agbiz Research

³ 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.

Beef market

It was again another quiet week in the SAFEX beef carcass market. Prices remained flat throughout the week, averaging R44.00 per kilogram, due to limited participation at the stock exchange. Given the aforementioned, it is worth noting that the SAFEX beef carcass prices could differ from the physical market which continues to enjoy solid activity and volumes.

From a meat supply perspective, South African farmers slaughtered 262 727 head of cattle in December 2017, up by 10% from the previous month. However, this is down by 17% when compared to the corresponding period the previous year, as the restocking process still continues (but will soon normalise) after the recent drought (Chart 7).

Fruit market

The fruit market ended the week on a bearish footing, owing to large stocks. The price of apples averaged R9.18 per kilogram, down by 4% from last week, due to a large stock of 171 500 tonnes (Chart 8).

The prices of bananas and oranges were down by 7% and 13% respectively, this week, averaging R5.51 and R6.94 per kilogram (Chart 8). These losses were on the back of large stocks following an uptick in deliveries. Bananas stock averaged 342 000 tonnes this week, up by 31% from the previous week. Meanwhile, oranges stock was still at the fairly lower level, estimated at 21 500 tonnes.

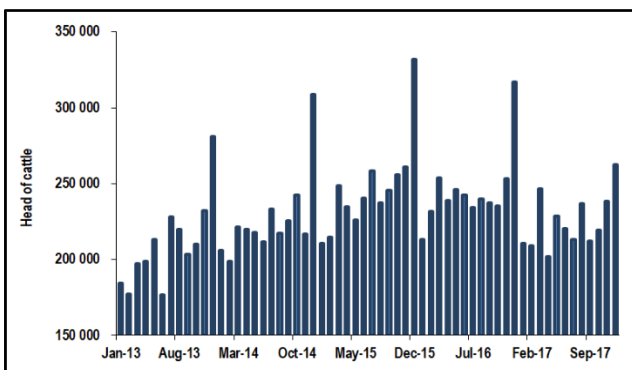


Chart 7: Monthly cattle slaughtering activity

Source: Red Meat Levy Admin, Agbiz Research

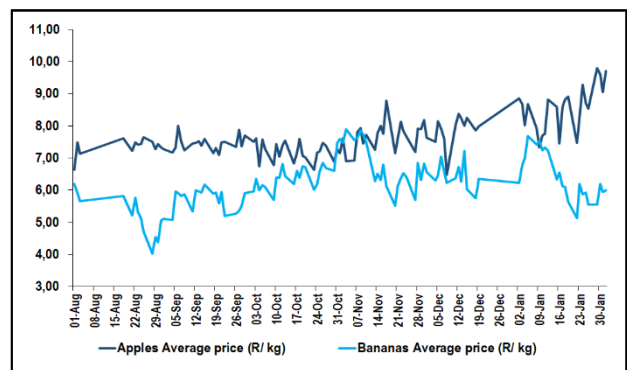


Chart 8: Apple and Banana prices

Source: Johannesburg Fresh Produce Market, Agbiz Research

Potato market

The South African potato market had a good run around midweek, with the price up by 2% from last Wednesday, closing at R41.51 per pocket/10kg bag (Chart 9). These gains were mainly on the back of commercial buying interest. However, this could be short-lived owing to large daily stocks of 816 903 pockets (10kg bag).

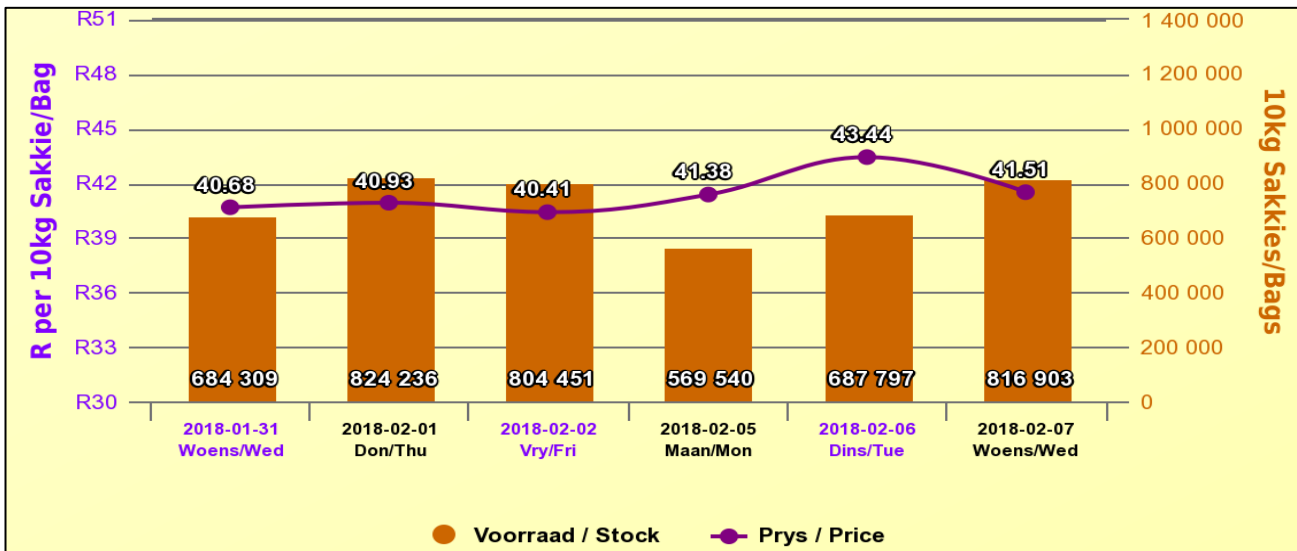


Chart 9: South Africa's average potato prices and stocks

Source: Potato SA

Weather conditions ahead of the weekend

The next eight days could bring rainfall of between 16 and 90 millimetres across South Africa (Chart 10). This should improve soil moisture and therefore benefit summer crops. Moreover, the Western Cape province, which is currently dry and warm, could also get a relief if the forecast rainfall materialises.

The long-term weather forecasts show a possibility of heavy rainfall across many parts of the country, which should benefit summer crops and the Western Cape province, following months of dryness (Chart 11).

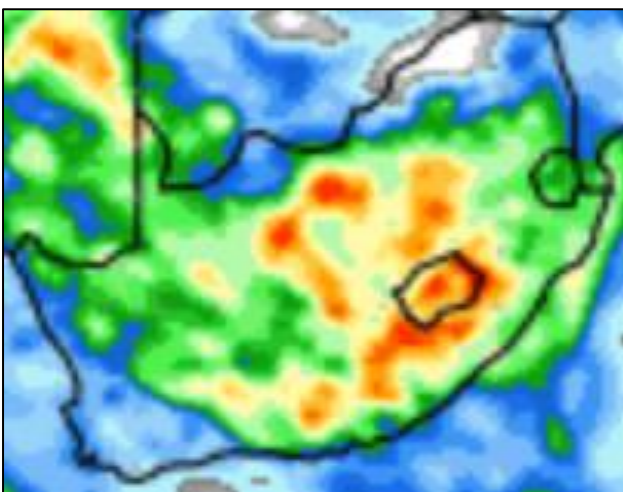


Chart 10: Next 8-days precipitation forecast

Source: wxmaps

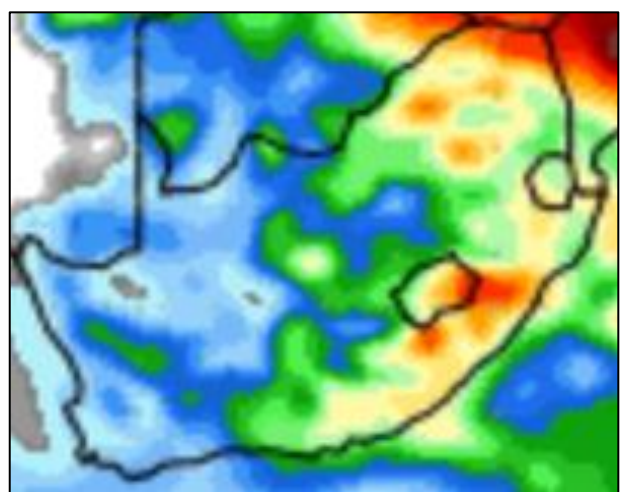


Chart 11: Next 16-days precipitation forecast

Source: wxmaps



Precipitation Forecasts

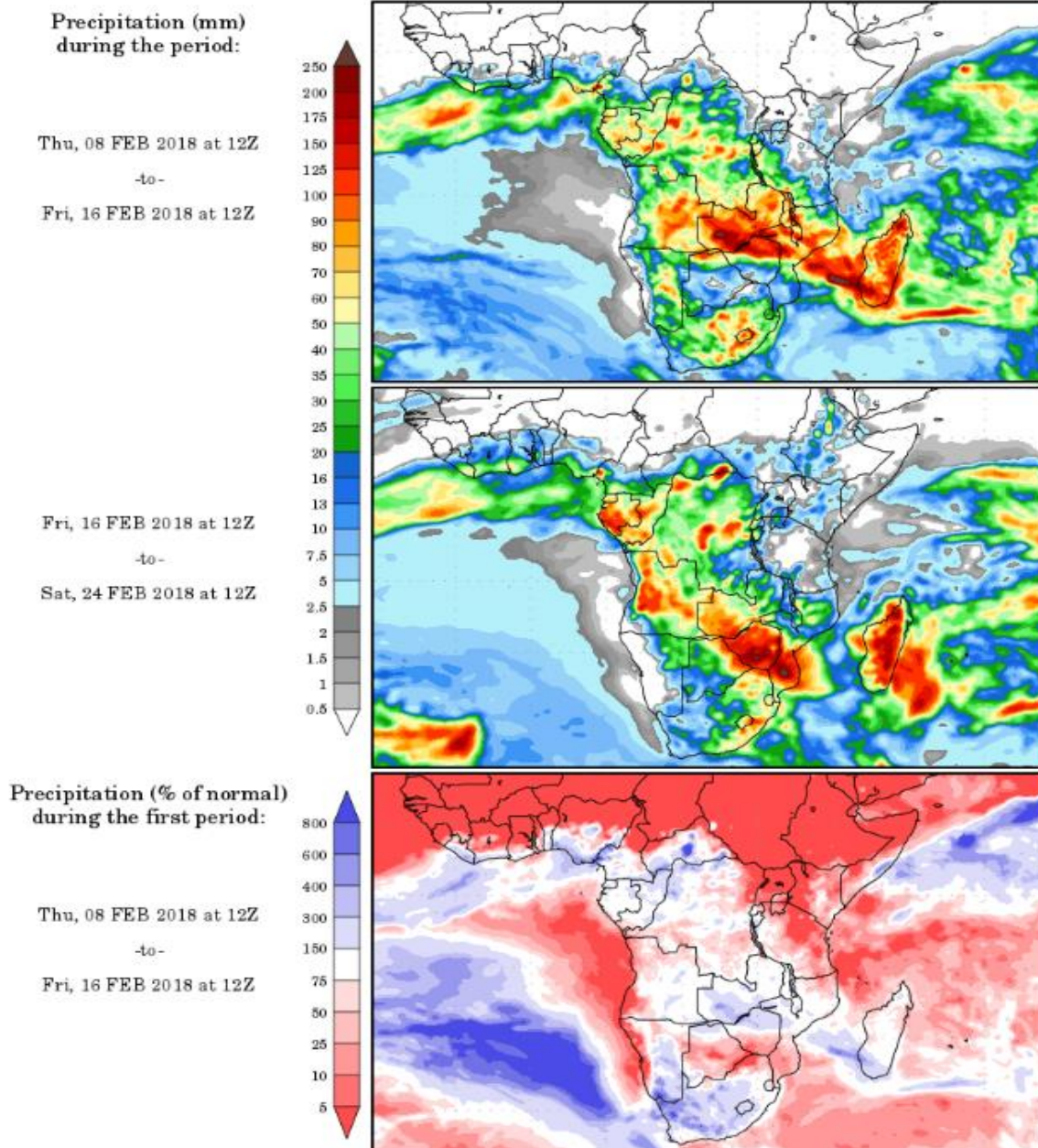


Chart 12: Precipitation forecast

Source: wxmaps

Key data releases in the South African agricultural market

- SAGIS weekly grain trade data: 13/02/2018
- SAGIS producer deliveries data: 14/02/2018
- SAGIS monthly data: 26/02/2018
- National Crop Estimates Committee's data: 27/02/2018

Disclaimer:

Everything has been done to ensure the accuracy of this information, however, Agbiz takes no responsibility for any losses or damage incurred due to the usage of this information.