

South African Agricultural Commodities Weekly Wrap

Apart from the United States Department of Agriculture's World Agricultural Supply and Demand Estimates report, and domestic weekly grain trade and producer deliveries data, this was a fairly quiet week in the South African agricultural commodities markets. The uptick in grain and oilseed prices was mainly supported by commercial buying interest, as well as the bullish sentiment from the Chicago grain market. The notable improvements were on soybeans and sunflower seed with the spot price up by 3% and 2%, respectively, compared to the previous week. The maize and wheat prices were each up by 1% from last week, respectively. The week ahead could present more of the same as the data calendar is quite light with only weekly grain trade and deliveries data due for release. For fruits and vegetables, the week has again been volatile with lower daily stocks underpinning the market.

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Maize market

The North West and Free State provinces received good showers on Wednesday evening which should slightly boost soil moisture and benefit the new season crop. The eastern sections of the country experienced cool and drier weather conditions this week, but that is not much of a concern due to healthier soil moisture levels. Also worth noting this week is the report from World Weather Inc. which showed that soil moisture has slightly improved in the western regions of the South African maize belt, thanks to recent rainfall

Another key highlight this week is that the United States Department of Agriculture (USDA) placed South Africa's 2017/18 maize production estimates at 12.5 million tonnes, well below the previous season's record crop of 17.4 million tonnes due to a decline in area planted, as well as expected lower yields in some regions. This is roughly in line with the long-term production trend and it is above annual maize consumption of 10.5 million tonnes. In terms of pricing, white and yellow maize spot prices averaged R1 808 and R1 898 per tonne, respectively, each up by 1% from the previous week (Chart 1). Chicago maize spot price also gained 1%, averaging US\$168 per tonne (Chart 2).

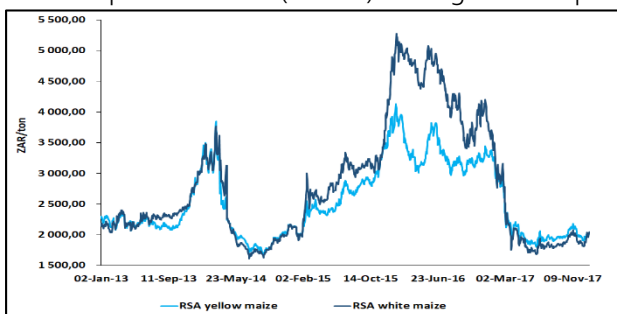


Chart 1: South African maize prices

Source: JSE, Agbiz Research

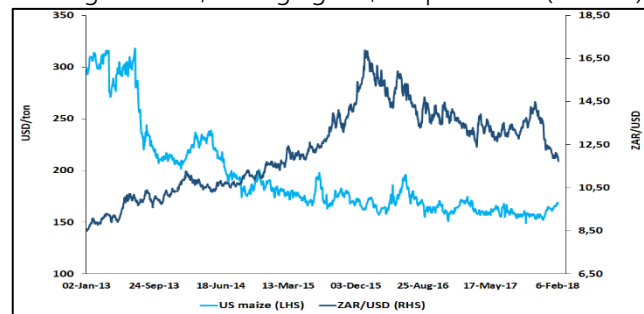


Chart 2: US maize prices and ZAR/USD exchange

Source: IGC, Bloomberg, and Agbiz Research

Wheat market

The winter wheat producer deliveries have declined significantly from levels seen in the past few weeks. About 9 885 tonnes of wheat were delivered to commercial silos in the week ending 09 February 2018, compared to levels of over 50 000 tonnes in the past few weeks. This mirrors the reduction in activity in the farms after the completion of the harvest process. This placed South Africa’s winter wheat producer deliveries for “week 1 to 19” of the 2017/18 marketing year at 1.42 million tonnes.

With imports set to reach the second highest level on record in the 2017/18 marketing year, wheat import tariff matters will continue to dominate the market. On 12 February 2018, we indicated that the wheat import tariff could possibly remain at the current level of R716.33 for some time. This view was based on expectations that the Chicago wheat prices could slightly decline after the USDA’s monthly report showed that there are large global wheat supplies in the market. At the time, the international wheat prices had consistently traded higher than the base price of US\$218.00 per tonne by more than US\$10 per tonne and our belief was that this price trend would be broken. However, unfavourable weather conditions in the southern Plains of the US, kept Chicago wheat prices at relatively higher levels for a third consecutive week, thus triggering a new wheat import tariff rate at R394.85. This has not yet been published on the government gazette, and will only be applicable after its publication.

Apart from that, the wheat import activity is underway. Recent data shows that South Africa imported 65 268 tonnes in the week ending 09 February 2018, up by 11% from the previous week. About 79% from Latvia, 20% from Germany and 1% from Argentina. Overall, this placed 2017/18 marketing year’s wheat imports at 826 184 tonnes, which equates to 43% of the seasonal import forecast of 1.9 million tonnes¹ (Chart 4). Although a net importer of wheat, South Africa continues to export wheat to regional markets. The 16th batch of exports this season was recorded at 542 tonnes last week, well below the previous week’s exports of 1 324 tonnes. This placed total wheat exports for 2017/18 marketing year at 9 274 tonnes. Overall, the domestic wheat spot price averaged R3 620 per tonne this week, up by 1% from levels seen the previous week. Meanwhile, the Chicago wheat price was marginally up by 0.4% from last week, averaging US\$237 per tonne (Chart 3).

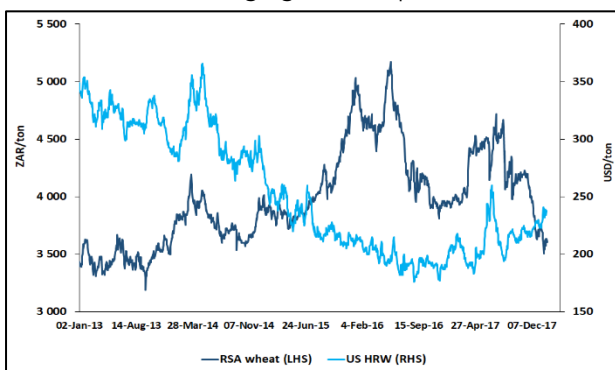


Chart 3: South Africa and US wheat prices
Source: JSE, IGC, and Agbiz Research

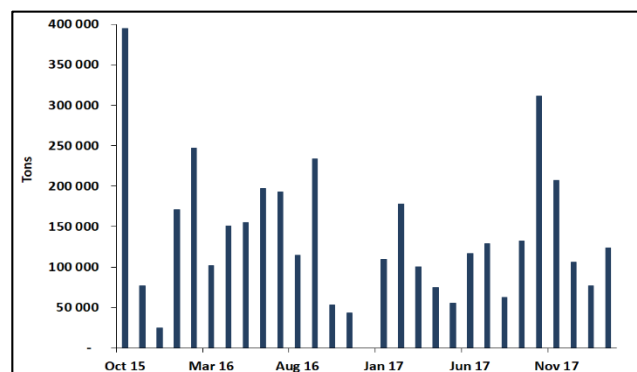


Chart 4: South Africa's monthly wheat imports
Source: SAGIS and Agbiz Research

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



Soybean market

The soybean growing areas of the Free State province received a fair amount of rainfall this week, whereas Mpumalanga and other provinces remained cool and dry. Overall, South Africa’s soybean crop is in good condition and expected rainfall within the next couple of weeks increases a possibility of yet another good crop. As highlighted in the previous notes, we forecast South Africa’s 2017/18 soybean production at 1.2 million tonnes². The official estimates by the National Crop Estimates Committee will be released on 27 February 2018.

In the past nine seasons, South Africa’s soybean production doubled, from half a million tonnes in 2008/09 production season to 1.32 million tonnes in 2016/17 season. This was due to an increase in area planted, which was underpinned by growing domestic demand from the animal feed industry. However, this significant growth in production has been unable to satisfy the local market. The most recent data from the International Grains Council shows that South Africa’s 2017/18 marketing year soybean oilcake imports could reach 600 000 tonnes, up 20% y/y.

In terms of pricing, the soybean spot price posted gains of 3% from the previous week, averaging R4 525 per tonne. At the same time, the Chicago soybean price gained 2% this week, averaging US\$383 per tonne (Chart 5).

Sunflower seed market

The sunflower seed growing areas of South Africa experienced cool and drier weather conditions at the beginning of the week. This presented an opportunity for farmers to accelerate the planting activity in some parts of the north-western Free State and North West provinces³. It is worth highlighting that the optimal planting window closed on 20 January 2018. Any planting activity outside this window risks being exposed to frost later in the season, which would then lower the yields.

The rainfall returned on Wednesday evening in most areas and that was a welcome development as it would boost soil moisture and benefit the crops. Overall, the sunflower seed spot price was up by 2% from last week, averaging R4 710 per tonne. Meanwhile, EU’s sunflower seed price declined by 1%, averaging US\$394 per tonne (Chart 6).

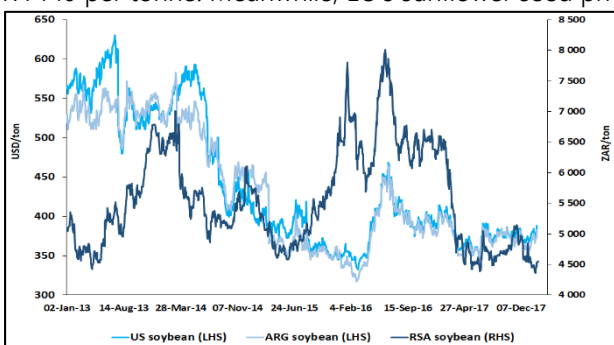


Chart 5: Soybean prices
Source: JSE, IGC, and Agbiz Research

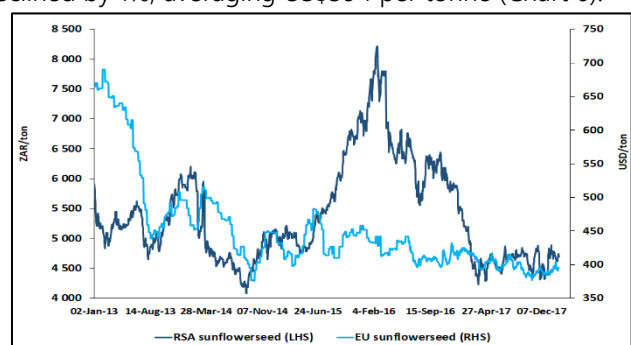


Chart 6: Sunflower seed prices
Source: JSE, IGC, and Agbiz Research

² 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.

³ The ongoing planting activities implies that the National Crop Estimates Committee will possibly revise its preliminary planting estimate up from the current level of 560 100 hectares. An update will be released on 27 February 2018.

Beef market

The SAFEX beef carcass prices have not moved in months due to thinly traded volumes. This week the price was unchanged from last week's level, closing at R44.00 per kilogram. As previously highlighted, the SAFEX beef carcass prices might not be a true reflection of the activity in the physical market, which continues to show solid 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 after the recent drought (but will soon normalise) (Chart 7).

Fruit market

The fruit market ended the week on a mixed footing. The prices of apples and bananas were up by 1% and 7%, respectively, this week, averaging R9.46 and R5.79 per kilogram (Chart 8). These gains were mainly on the back of relatively lower stocks of 167 250 tonnes of apples and 296 000 tonnes of bananas.

Meanwhile, the price of oranges declined by 3% compared to the previous week, owing to commercial selling. With that said, these losses could soon be reversed due to a lower stock of 12 250 tonnes, compared to levels of over 30 000 tonnes the previous weeks (Chart 8).

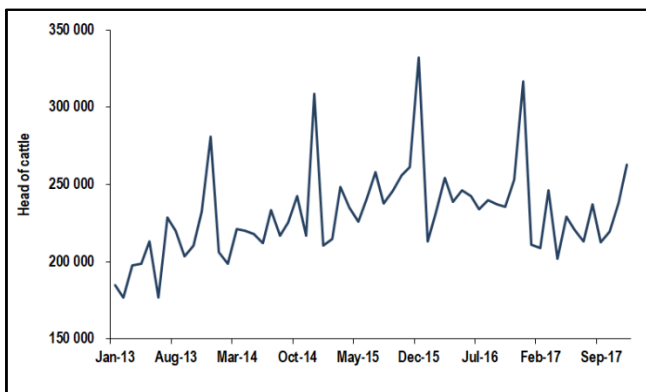


Chart 7: Monthly cattle slaughtering activity

Source: Red Meat Levy Admin, Agbiz Research

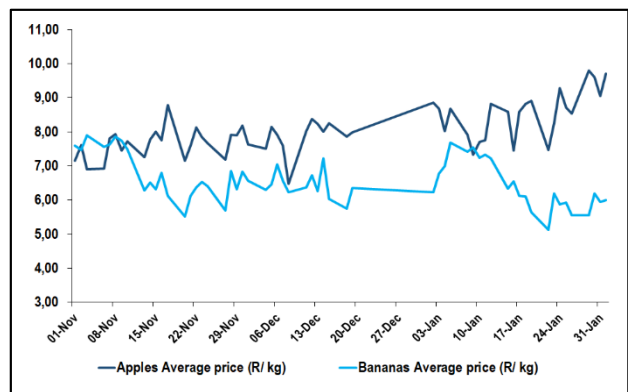


Chart 8: Apple and Banana prices

Source: Johannesburg Fresh Produce Market, Agbiz Research

Potato market

The South African potato market ended the week on a negative footing, with the price down by 14% from last the previous week, closing at R33.99 per pocket/10kg bag (Chart 9). These losses were mainly on the back of large producer deliveries, which boosted daily stocks to 1.2 million pockets (10kg bag).

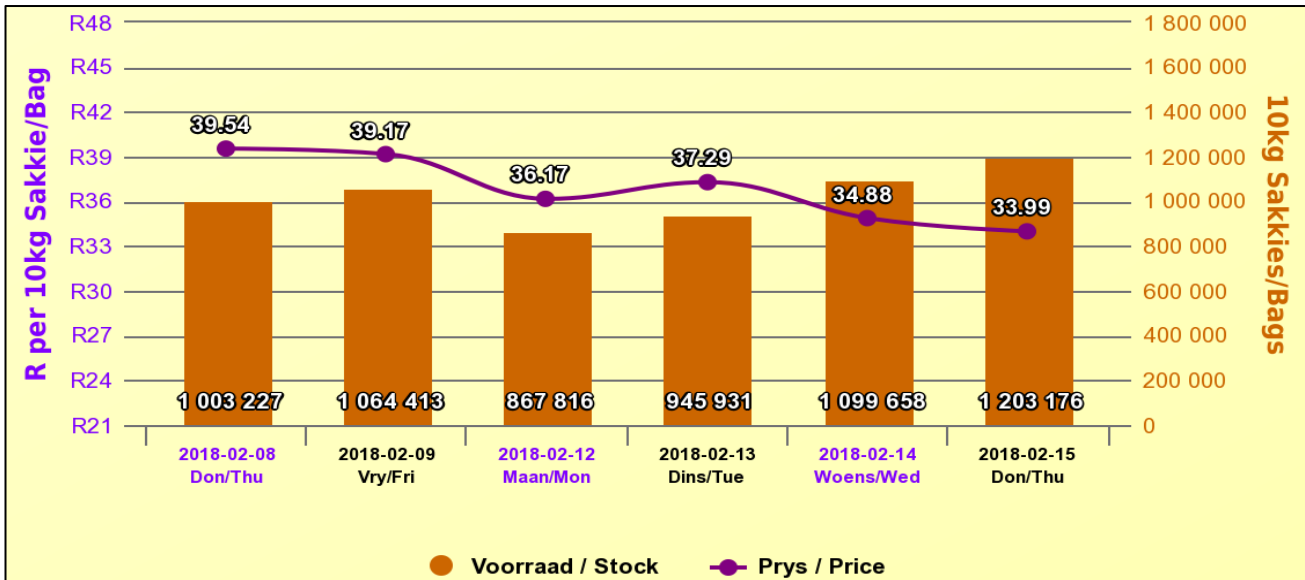


Chart 9: South Africa's average potato prices and stocks

Source: Potato SA

Weather conditions ahead of the weekend

The next eight days could bring rainfall of between 16 and 90 millimetres in the summer crop growing areas of South Africa (Chart 10). This should improve soil moisture and therefore benefit summer crops. Meanwhile, the western sections of the Western Cape and Northern Cape provinces could dry and warm.

The long-term weather forecasts show a possibility of scattered showers across many parts of the country, which should benefit summer crops (Chart 11).

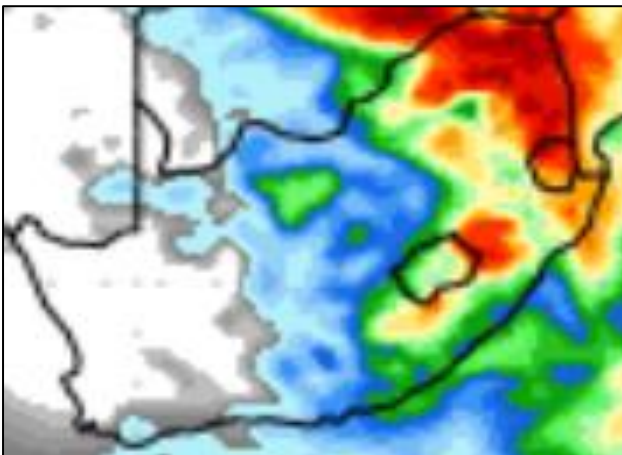


Chart 10: Next 8-days precipitation forecast

Source: wxmaps

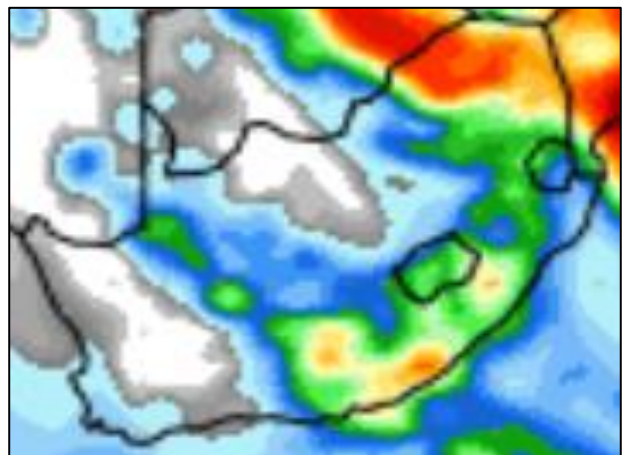


Chart 11: Next 16-days precipitation forecast

Source: wxmaps



Precipitation Forecasts

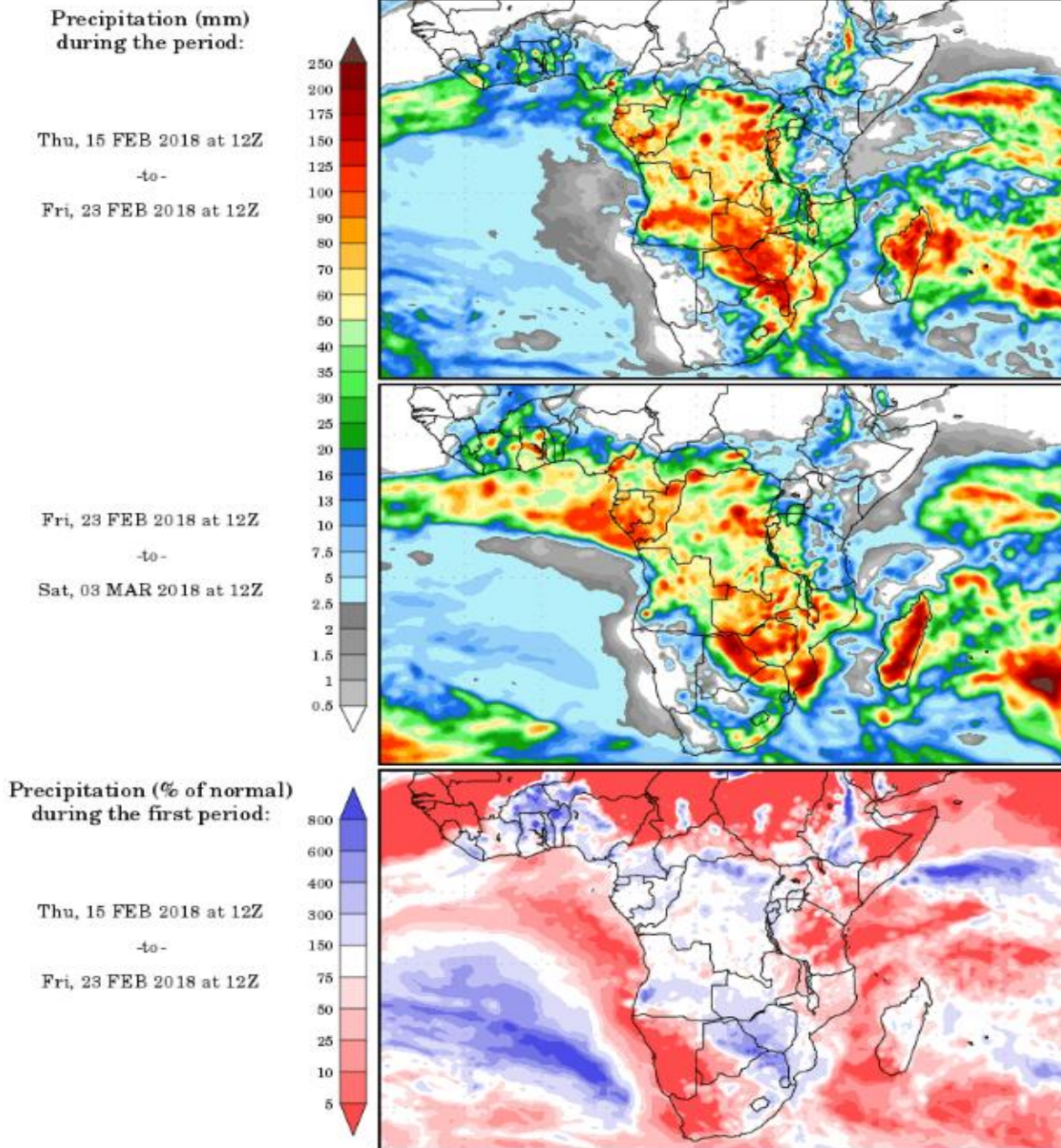


Chart 12: Precipitation forecast

Source: wxmaps

Key data releases in the South African agricultural market

- SAGIS weekly grain trade data: 20/02/2018
- SAGIS producer deliveries data: 21/02/2018
- SAGIS monthly data: 26/02/2018
- National Crop Estimates Committee's data: 27/02/2018

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