

South African Agricultural Commodities Weekly Wrap

The stronger domestic currency, coupled with prospects of rainfall across the summer crop growing areas, and large carryover stocks in the 2017/18 marketing year led to widespread losses in the South African grain and oilseed markets this week. The notable losses were on white maize, with the spot price down by 2%, from last week. All other crops recorded marginal declines of roughly 1% from the previous week. The week ahead is data-packed, but the most anticipated release is the National Crop Estimate Committee's first production estimate for 2017/18 summer crops. The sentiment in the market is fairly positive following good rainfall in the past few weeks. That said, major grains such as maize could decline by a third from the 2016/17 production season due to a reduction in area planted. The fruit and vegetable prices were volatile this week with large daily stock levels underpinning the market.

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

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

Maize market

South Africa's 2017/18 maize production season started on a bad footing, with extreme dryness in the western sections of the Free State and North West provinces, particularly in the last few weeks of 2017 and the beginning of this year. Fortunately, crop growing conditions have since improved, thanks to recent rainfall. In the week of 15 February 2018, World Weather Inc. data showed that soil moisture has improved throughout the maize belt.

With that said, we believe that the 2017/18 commercial maize production could decline by 33% from last season to 11.2 million tonnes due to a reduction in area planted, as well as expected lower yields in some areas. From a supply point of view, this is not a much of an issue as the expected crop is well above annual consumption and there will also be large a carryover stock to boost supplies. The production estimates will be released on Tuesday. Overall, white and yellow maize spot prices averaged R1 779 and R1 874 per tonne, respectively down by 2% and 1% from last week (Chart 1). Meanwhile, the Chicago maize spot price gained 1%, averaging US\$169 per tonne (Chart 2).

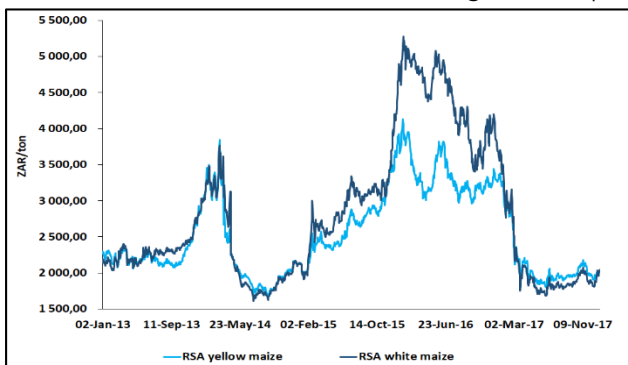


Chart 1: South African maize prices

Source: JSE, Agbiz Research

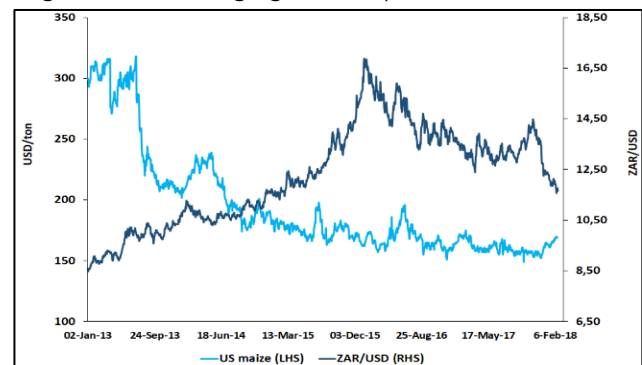


Chart 2: US maize prices and ZAR/USD exchange

Source: IGC, Bloomberg, and Agbiz Research

Wheat market

As highlighted in our note yesterday, the volumes of wheat recently delivered to commercial silos declined significantly from levels seen the previous weeks. This mirrors the reduction in activity in the farms after the completion of the harvest process. About 6 535 tonnes of wheat were delivered to commercial silos in the week ending 16 February 2018. This is 34% lower than the volume delivered the previous week, and well below the volumes delivered in the past few months when the harvest process was at its peak. This placed South Africa’s winter wheat producer deliveries for “week 1 to 20” of the 2017/18 marketing year at 1.43 million tonnes.

There are no new developments on the wheat import tariff front. The newly calculated rate is R394.84 per tonne, down by 45% from the current level¹. This new rate will only be applicable after its publication on the government gazette. The timeframe for this process is unclear, but previous adjustments took more than three weeks.

With that said, the import activity has not slowed. South Africa imported 97 392 tonnes in the week ending 16 February 2018, up by 49% from the previous week. About 61% from Germany, 30% from Lithuania and 9% from the United States. This placed 2017/18 marketing year’s wheat imports at 923 576 tonnes, which equates to 49% of the seasonal import forecast of 1.90 million tonnes (Chart 4)².

While a net importer of wheat, South Africa continues to export to regional markets. The 17th batch of wheat exports this season was recorded at 1 822 tonnes, which is treble the volume exported in the week ending 09 February 2017. About 46% of wheat went to Lesotho, 41% to Swaziland, 11% to Botswana and 2% to Namibia. This placed South Africa’s 2017/18 wheat imports at 11 906 tonnes. In terms of pricing, the domestic wheat spot price averaged R3 562 per tonne this week, down by 1% from levels seen the previous week due to the stronger domestic currency. Meanwhile, the Chicago wheat price was up by 2% from last week, averaging US\$240 per tonne (Chart 3).

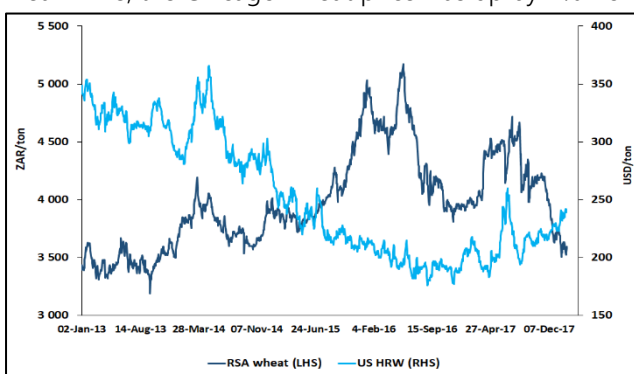


Chart 3: South Africa and US wheat prices

Source: JSE, IGC, and Agbiz Research

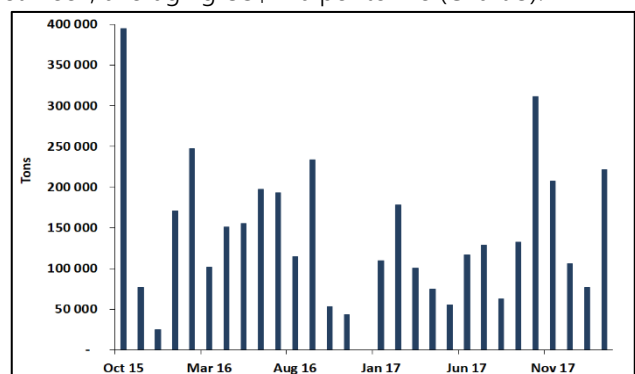


Chart 4: South Africa's monthly wheat imports

Source: SAGIS and Agbiz Research

¹ In brief, the downward revision of the wheat import tariff was mainly underpinned by higher Chicago wheat prices. The international wheat prices traded higher than the base price of US\$218.00 per tonne by more than US\$10 per tonne for three consecutive weeks, thus triggered the new wheat import tariff.

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



Soybean market

South Africa’s soybean crop is generally in good shape owing to favourable weather conditions in the eastern parts of the country. While the area planted increased by 22% from the 2016/17 production season, South Africa’s 2017/18 soybean production could decline by 8% y/y to 1.2 million tonnes owing to expectations of relatively lower yields. We forecast soybean yields at 1.7 tonnes per hectare, compared to a yield of 2.3 tonnes per hectare obtained in the 2016/17 production season. Looking ahead, the soybean growing areas could receive above-normal rainfall in the coming weeks, which should further improve soil moisture and benefit the crop.

Apart from production developments, the 2017/18 soybean marketing year will end on 28 February 2018, but in far better shape than the previous year. 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. Against this backdrop, the domestic soybean spot price declined by 0.4% from the previous week, averaging R4 494 per tonne. Meanwhile, the Chicago soybean price gained 2% this week, averaging US\$393 per tonne (Chart 5).

Sunflower seed market

The additional planting that started at the end of January 2018 in the western sections of Free State and North West provinces has been completed in most areas. Therefore, the weather will be a key focus in the next few months as the crop is still in its early stages of development. The recent rainfall has already improved soil moisture throughout the sunflower seed growing areas, which should benefit the crop. Also worth noting is that next week, the National Crop Estimates Committee could possibly lift its sunflower seed planting estimate from the current level of 560 100 hectares due to additional plantings at the end of January 2018 and the start of this month.

Apart from production developments, the 2017/18 sunflower seed marketing year will end on 28 February 2018, but in relatively better shape than the previous year. The ending stock is estimated at 183 081 tonnes, which is 12% higher than the 2016/17 marketing year. This will essentially boost the country’s supplies in the 2018/19 marketing year, which starts on 01 March 2018. Overall, the sunflower seed spot price declined 1% from last week, averaging R4 643 per tonne. Meanwhile, the EU’s sunflower seed price gained 0.3%, averaging US\$396 per tonne (Chart 6).

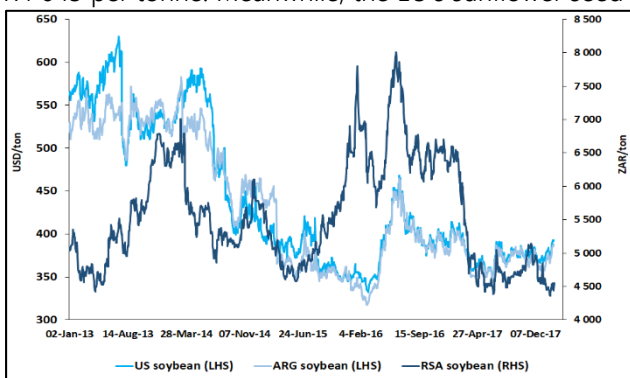


Chart 5: Soybean prices
Source: JSE, IGC, and Agbiz Research

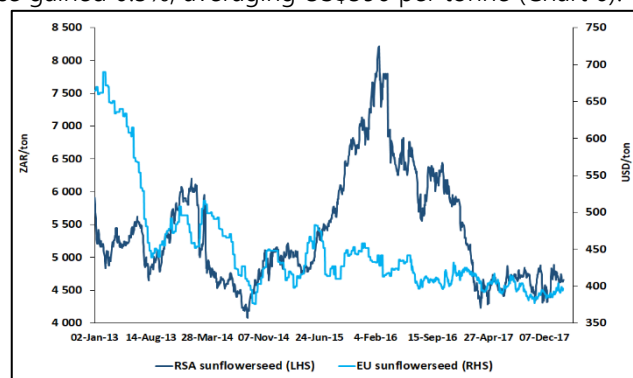


Chart 6: Sunflower seed prices
Source: JSE, IGC, and Agbiz Research

Beef market

After months of experiencing limited activity with almost no movements in prices, the SAFEX beef carcass price gained 1% this week and averaged R44.25 per kilogram. This was mainly on the back of a slight increase in commercial buying interest. With that said, the SAFEX beef carcass prices might not be a true reflection of the activity in the physical market, which continues to show solid activity.

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 down by 7% and 4%, respectively, this week, averaging R8.71 and R5.56 per kilogram (Chart 8). These losses were mainly on the back of relatively large stocks of 137 750 tonnes of apples and 293 250 tonnes of bananas.

Meanwhile, the price of oranges increased by 39% compared to the previous week, averaged R8.66 per kilogram. This was mainly on the back of lower stock of 14 000 tonnes, compared to levels of over 50 000 tonnes in December 2017 (Chart 8).

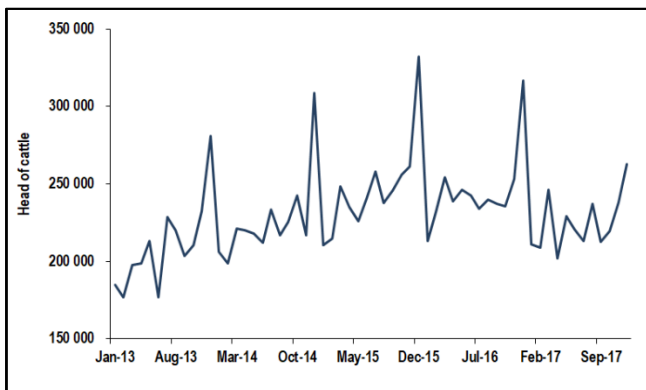


Chart 7: Monthly cattle slaughtering activity

Source: Red Meat Levy Admin, Agbiz Research

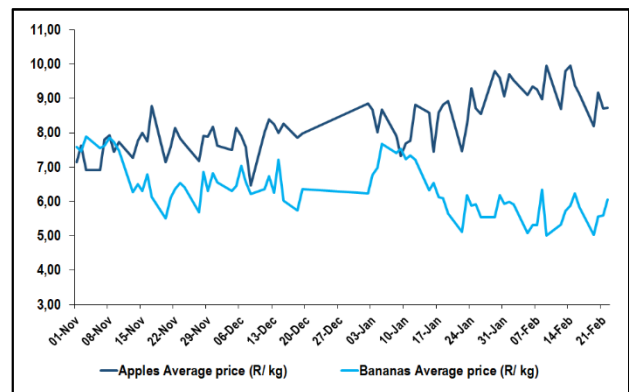


Chart 8: Apple and Banana prices

Source: Johannesburg Fresh Produce Market, Agbiz Research

Potato market

The South African potato market ended the week on a negative footing, with the price slightly down by 0.2% from the previous week, closing at R33.89 per pocket/10kg bag (Chart 9). These losses were mainly on the back of large producer deliveries, which kept daily stocks at fairly higher levels of 1.1 million pockets (10kg bag).

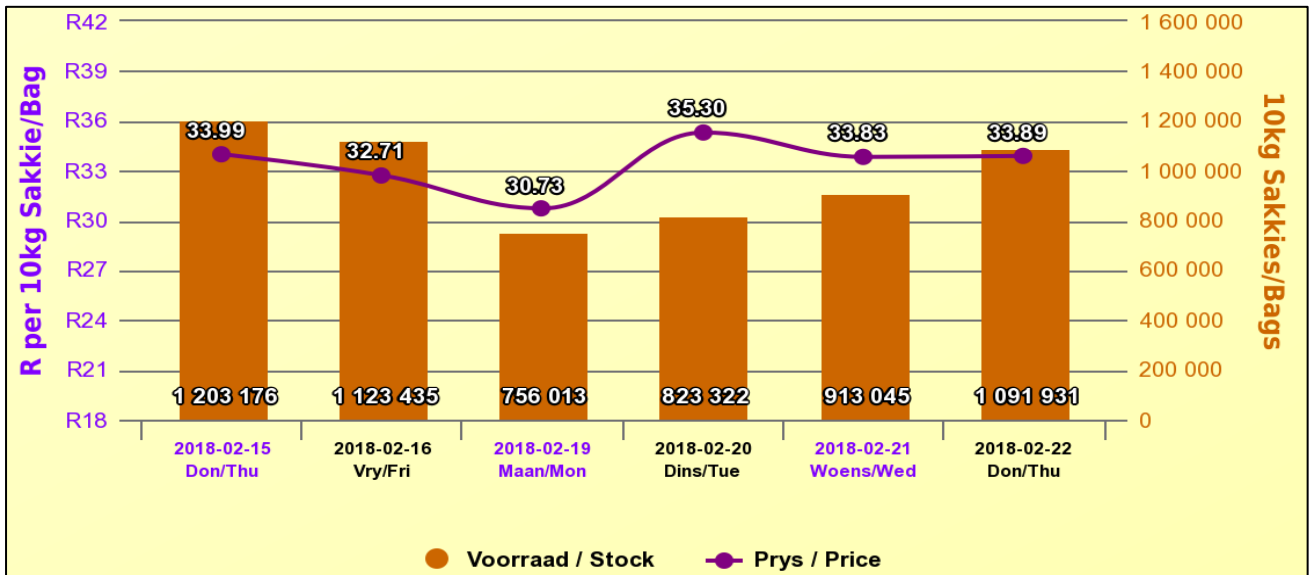


Chart 9: South Africa's average potato prices and stocks

Source: Potato SA

Weather conditions ahead of the weekend

The next eight days could bring widespread rainfall across most parts of South Africa (Chart 10). This should improve soil moisture and therefore benefit summer crops. Unfortunately, the Western Cape and Northern Cape provinces could dry and warm over the observed period.

The long-term weather forecasts show a possibility of over 50 millimetres of rainfall throughout the summer crop growing areas of the country, whilst the Western Cape and Northern Cape could remain dry and warm (Chart 11).

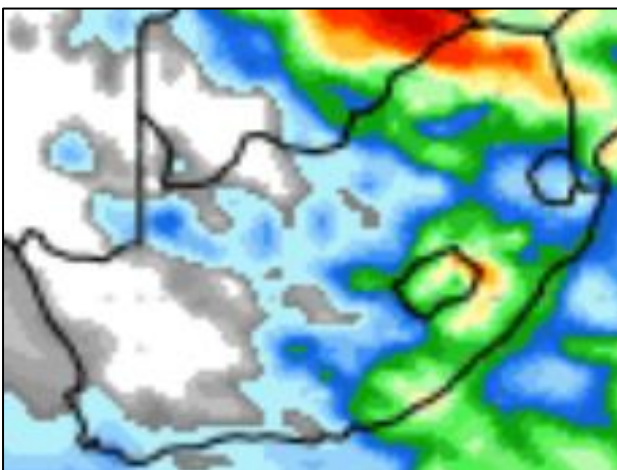


Chart 10: Next 8-days precipitation forecast

Source: wxmaps

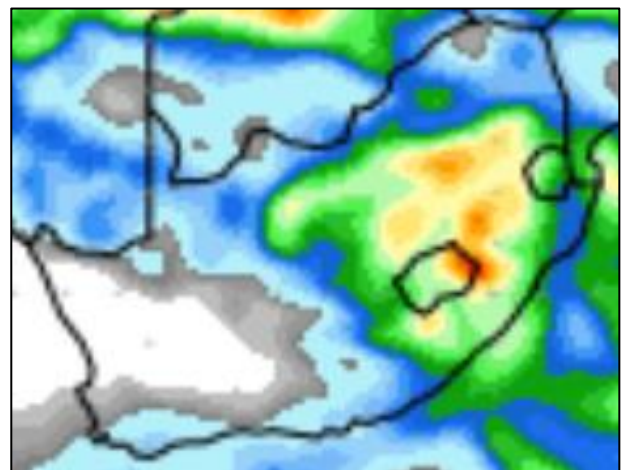


Chart 11: Next 16-days precipitation forecast

Source: wxmaps



Precipitation Forecasts

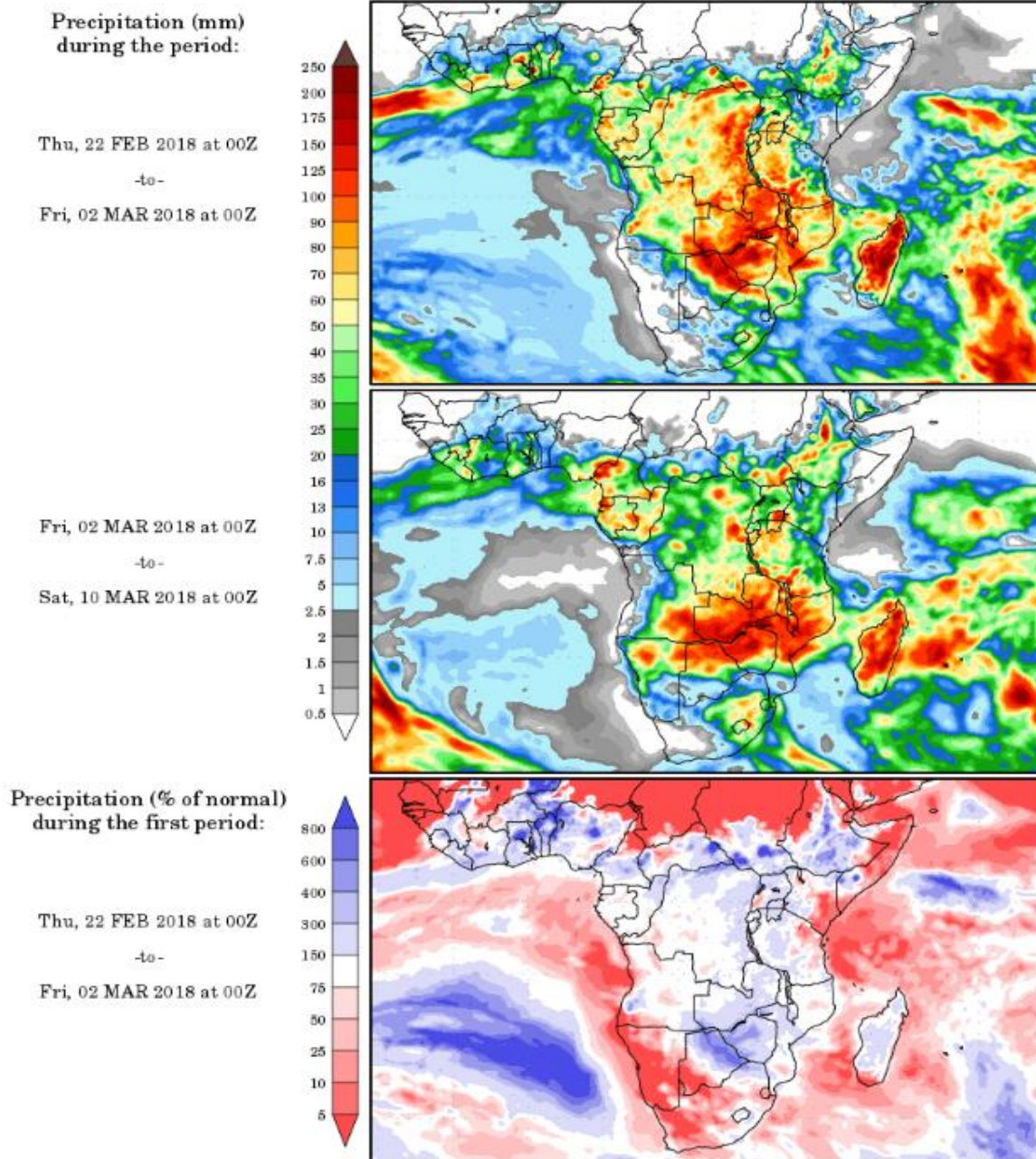


Chart 12: Precipitation forecast

Source: wxmaps

Key data releases in the South African agricultural market

- SAGIS monthly data: 26/02/2018
- SAGIS weekly grain trade data: 27/02/2018
- National Crop Estimates Committee's data: 27/02/2018
- SAGIS producer deliveries data: 28/02/2018

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