South African Agricultural Commodities Weekly Wrap

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

@WandileSihlobo

Following a week of dryness in most parts of South Africa, the weather conditions improved significantly over the past three days. The country's summer crop growing areas have already received over 20 millimetres of rainfall which should improve soil moisture and benefit the new season crops. These developments support the National Crop Estimates Committee's view of a fairly good summer grain and oilseed harvest in the 2017/18 production season (albeit lower than the last), compared to expectations at the start of the season. The week ahead is data packed, but the most anticipated release is the Committee's second crop estimates. Meanwhile, the grain and oilseed market ended this week on a mixed footing. Maize contract month prices experienced losses compared to last week, whereas wheat, soybean and sunflower seed prices recorded notable increases.

Maize market

The weather is the primary focus in the maize market at this stage of the season as the crop is still in its growing phase, which requires moisture. The recent rainfall across the maize-belt should help ease the heat stress concerns that were starting to emerge due to dryness in parts of the country's maize growing areas, particularly in the western sections of the Free State and North West provinces. Also encouraging to observe is that the next two weeks promise continuous rainfall over the maize-belt, which further improves soil moisture and possibly boost yields.

With that said, this year's maize harvest will still be well below the previous season's one. Last month, the National Crop Estimates Committee estimated South Africa's 2017/18 commercial maize production at 12.2 million tonnes, down by 27% from the previous production season. Overall, the maize market was mostly under pressure this week. Yellow and white maize spot prices averaged R2 006 and R1 931 per tonne, down by 2% and 1% from last week, respectively (Chart 1). Chicago maize spot price fell by 3% from last week, averaging US$185 per tonne (Chart 2).

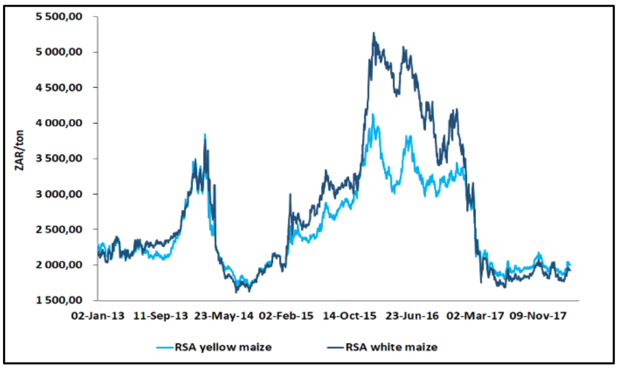

Chart 1: South African maize prices
Source: JSE, Agbiz Research

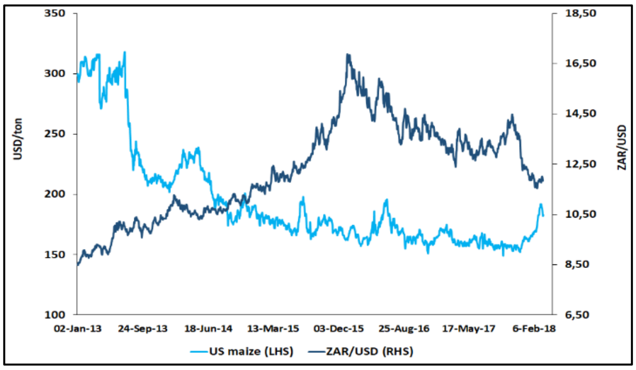

Chart 2: US maize prices and ZAR/USD exchange
Source: IGC, Bloomberg, and Agbiz Research

Wheat market

The South African wheat prices had a good run in the past few weeks, underpinned by bullish sentiment in the global wheat market, slightly weaker domestic currency and commercial buying interest, amongst other factors. The bullish sentiment in the Chicago wheat market, however, was short-lived as the global market remained well supplied. The USDA forecasts 2017/18 global wheat production at 759 million tonnes, up by 1% from the previous season. In fact, the Chicago wheat prices experienced losses in the past three days and this trend could prevail for some time (Chart 3). This will essentially influence the price movements in the domestic market as well.

Apart from price movements, South Africa's wheat market is currently off-season, but the weather developments in the major winter wheat production province, Western Cape, are worth mentioning. Weather charts for the next eight days show a possibility of rainfall of between 16 and 25 millimetres over the province. Although a welcome development, this will nonetheless not make a meaningful improvement on dam levels which are critically low, estimated at 19% in the week of 19 March 2018, down by a percentage point from the previous week and eight percentage points from the corresponding period last year.

From a trade perspective, there have not been any new developments on the wheat import tariff since the calculations of the new rate on 13 February 2018. The newly calculated trigger rate is R394.84 per tonne, down by 45% from the current active level. This new rate will only be applicable after its publication in a government gazette. The timeframe for this process is unclear, but previous adjustments took more than three weeks.

As indicated in yesterday's note, the wheat import activity has slowed. South Africa imported 30 635 tonnes of wheat in the week ending 16 March 2018, down by 45% from the previous week. All of this originated from Latvia. This placed 2017/18 marketing year's wheat imports at 1.17 million tonnes, which equates to 63% of the seasonal import forecast of 1.85 million tonnes (Chart 4). While a net importer of wheat, South Africa continues to export wheat to regional markets. The 22nd batch of exports this season was recorded at 663 tonnes, well above the previous week's exports of 67 tonnes. This was destined to Lesotho, Namibia and Swaziland. Overall, this placed South Africa's 2017/18 wheat exports at 17 521 tonnes. In terms of pricing, the domestic wheat spot price averaged R3 793 per tonne this week, up by 4% from levels seen last week. Meanwhile, the Chicago wheat price declined by 7% from last week, averaging US$242 per tonne this week (Chart 3).

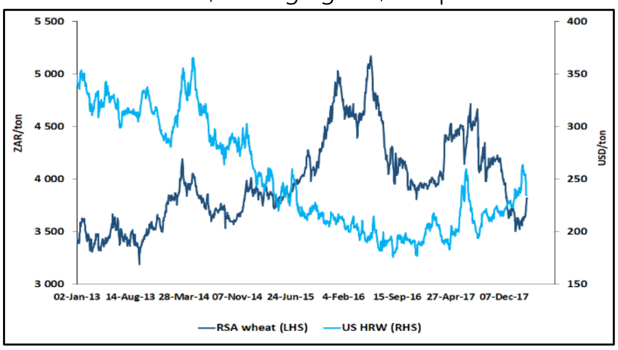

Chart 3: South Africa and US wheat prices
Source: JSE, IGC, and Agbiz Research

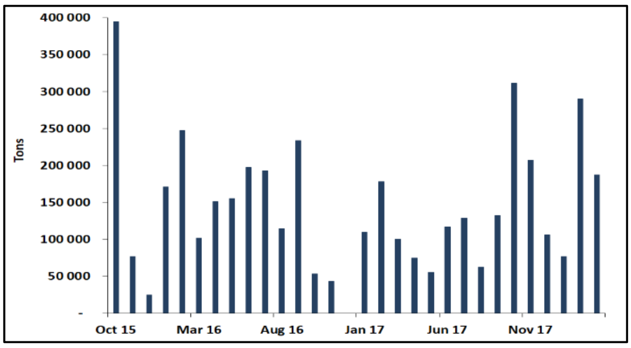

Chart 4: South Africa's monthly wheat imports
Source: SAGIS and Agbiz Research

Soybean market

The current favourable weather conditions in soybean growing areas support the National Crop Estimates Committee's view of a new record harvest of 1.4 million tonnes. The Committee will provide further crop assessment on Wednesday. We don't foresee major changes in this estimate as weather conditions have been fairly favourable since the last assessment. As indicated in yesterday's note, the week of 30 March 2018 promises rainfall of between 60 and 100 millimetres in soybean growing areas, which could cause crop damage if accompanied by hail and wind.

While the growth in soybean production is commendable, South Africa is still far from being self-sufficient in soybean products. The country remains a net importer of soybean oil-cake, although having declined from levels close to a million tonnes in 2010. Last year, South Africa imported 553 003 tonnes of soybean oilcake, down by 15% from volumes imported in 2016. This decline was partly linked to improvement in soybean production in the 2016/17 production season, where the harvest reached a record level of 1.3 million tonnes. More than two-thirds of the supplies originated from Argentina.

Overall, the domestic soybean spot price gained 0.4% from last week, averaging R4 591 per tonne this week. Meanwhile, the Chicago soybean price declined by a percentage point, averaging US$407 per tonne (Chart 5).

Sunflower seed market

After experiencing dryness last week, the sunflower seed growing areas of South Africa received a fair amount of rainfall this week. This should improve crop condition as it was already moisture-stressed in the western sections of the Free State and North West provinces. Fortunately, the next two weeks could bring more showers as the forecast show a possibility of over 30 millimetres of rainfall across the sunflower seed growing areas. As indicated in yesterday's note, the favourable weather outlook presents a constructive picture for a late planted crop which is still at early stages of development that requires more moisture.

Last month, the National Crop Estimates Committee estimated South Africa's sunflower seed production at 731 505 tonnes, down by 16% from the 2016/17 production season owing to a decline in area planted. The Committee will release an update on 28 March 2018. This week the sunflower seed spot price was up by 5%, averaging R5 081 per tonne. Meanwhile, the EU's sunflower seed price declined by 0.2%, averaging US$403 per tonne (Chart 6).

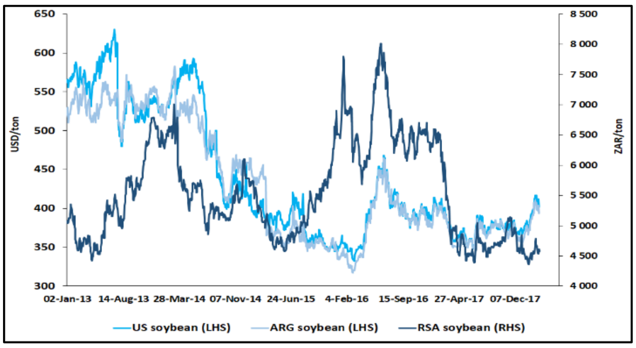

Chart 5: Soybean prices
Source: JSE, IGC, and Agbiz Research

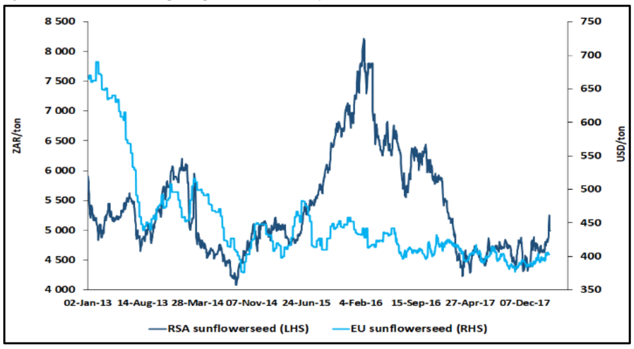

Chart 6: Sunflower seed prices
Source: JSE, IGC, and Agbiz Research

Beef market

It was again another quiet week in the SAFEX beef carcass market with the price flat at R39.50 per kilogram, due to thinly traded volumes. It is also worth noting that this price might not be a true reflection of the physical market, which continues to show solid activity.

From a meat supply point of view, data from the Red Meat Levy shows that South African farmers slaughtered 188 737 head of cattle in January 2018, down by 21% from the previous month and 10% from the corresponding period last year (Chart 7). This was largely on the back of a cattle herd rebuilding process after a reduction during the 2015-16 drought. The relatively lower maize prices and a recovery in pastures have somewhat provided a conducive environment for the cattle stock rebuilding process.

Fruit market

The fruit market ended the week on the negative footing. The prices of apples and bananas were down by 2% and 7%, respectively, this week, averaging R7.46 and R7.03 per kilogram (Chart 8). These losses were mainly on the back of large stocks of 250 000 tonnes of apples and 349 000 tonnes of bananas.

The price of oranges has been quite volatile due to changes in stock levels and commercial selling. This week the price averaged R4.47 per kilogram, down by 29% from the previous week. This was due to a fairly large stock of 76 000 tonnes compared to levels of about 50 000 tonnes in the last few days.

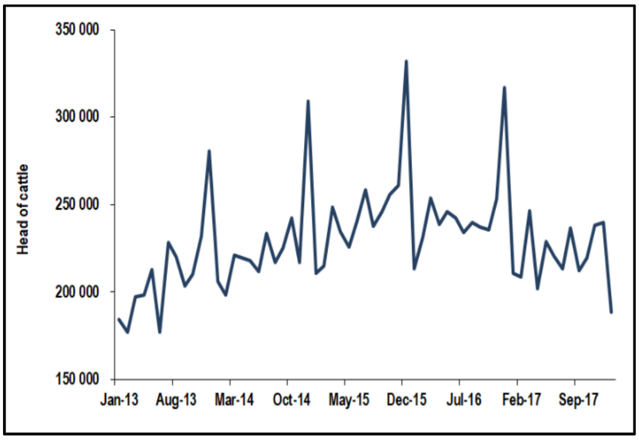

Chart 7: Monthly cattle slaughtering activity
Source: Red Meat Levy Admin, Agbiz Research

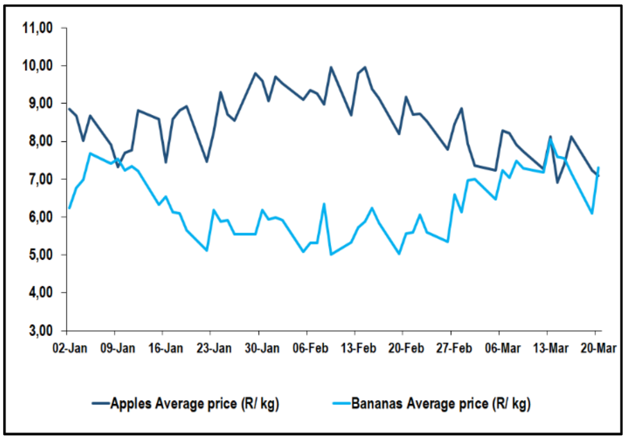

Chart 8: Apple and Banana prices
Source: Johannesburg Fresh Produce Market, Agbiz Research

Potato market

The South African potato market ended the week in positive territory, with the price up by 19% from the previous week, closing at R38.11 per pocket/10kg bag (Chart 9). This is mainly due to commercial buying interest and lower deliveries which led to the relatively lower stock of 1.02 million pockets (10kg bag) at the end of Thursday's session.

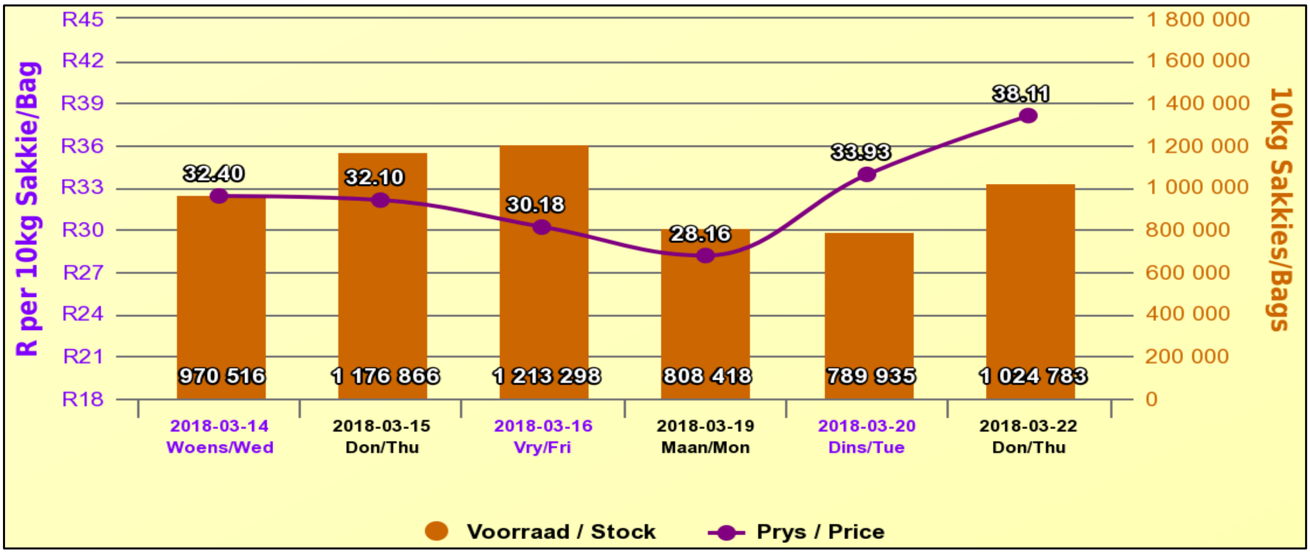

Chart 9: South Africa's average potato prices and stocks
Source: Potato SA

Weather conditions ahead of the weekend

The next eight days could bring widespread rainfall across the country, which should improve soil moisture and benefit summer crops. The north-western parts of the Northern Cape provinces will, however, remain dry and warm over the observed period (Chart 10).

The long-term weather forecasts present a similar outlook of continuous rainfall across the summer crop growing areas of South Africa, with the far western areas of the Western Cape and central Free State province remaining dry and warm (Chart 11).

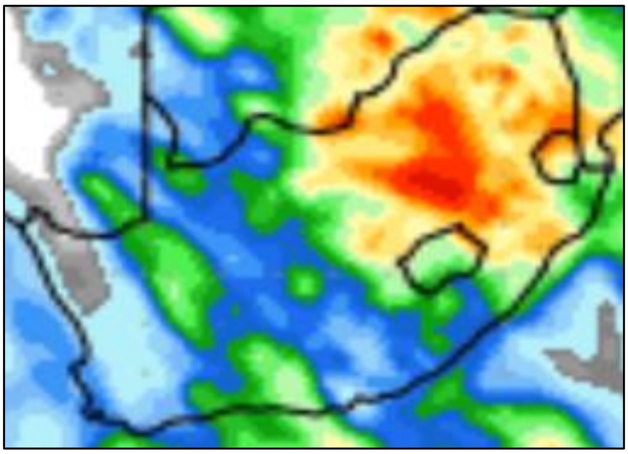

Chart 10: Next 8-days precipitation forecast
Source: wxmaps

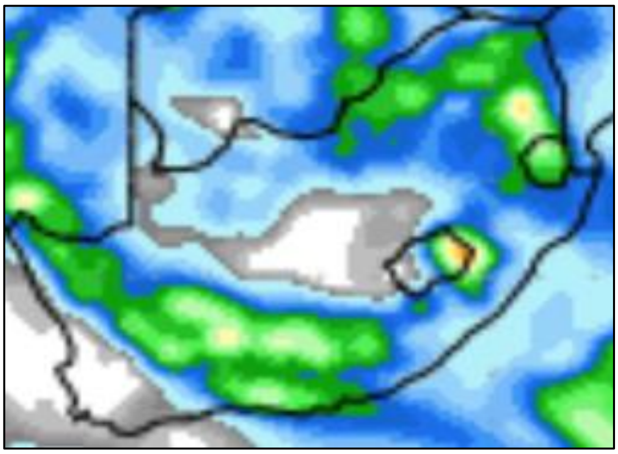

Chart 11: Next 16-days precipitation forecast
Source: wxmaps

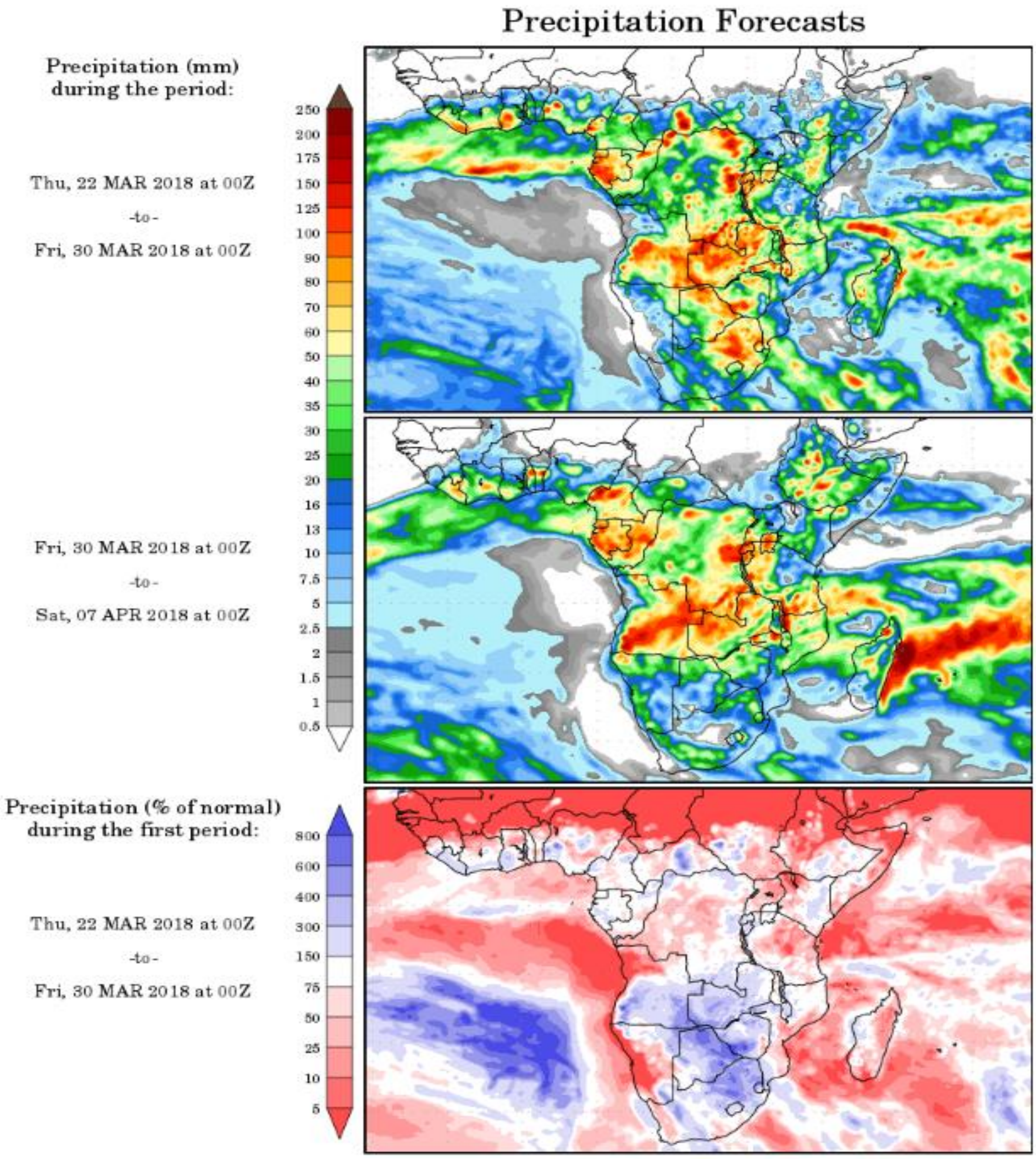

Chart 12: Precipitation forecast
Source: wxmaps

Key data releases in the South African agricultural market

- SAGIS monthly data: 27/03/2018
- SAGIS weekly grain trade data: 27/03/2018
- SAGIS producer deliveries data: 28/03/2018
- National Crop Estimates Committee's data: 28/03/2018