

South African Agricultural Commodities Weekly Wrap

The favourable weather conditions have brought a bit of optimism in summer and winter crop producing areas of South Africa. From a summer crop perspective, the National Crop Estimates Committee has recently reaffirmed its view that South Africa is in for a good grain and oilseed harvest this season (albeit being less than the record achieved in 2016/17 season). The Committee revised its production estimates upwards by 2% from February 2018 to 14.8 million tonnes. In terms of winter crops, the rainy season, which starts at the end of this month, promises to be much better than the previous one. The local weather bureau indicated that between April and June 2018, parts of the south-western cape regions could receive above-normal rainfall. Subsequent to this development, the USDA forecasts an 8% y/y increase in South Africa's 2018/19 wheat production to 1.65 million tonnes.

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Maize market

In March 2018, SAFEX yellow and white maize prices averaged R1 990 and R1 909 per tonne, respectively down by 7% and 9% from the corresponding period last year. This occurred despite the expected 26% y/y decline in maize production to 12.42 million tonnes. This is because the expected harvest is well above South Africa's annual maize consumption of roughly 10.5 million tonnes. Importantly, there is a large carryover stock of roughly 4.2 million tonnes from the current marketing year, which should boost the supplies in the 2018/19 marketing year which starts on 01 May 2018. This also means that the SAFEX maize prices could remain at fairly lower levels for some time.

The production season is not yet over. Therefore, the weather remains an important factor in the market, particularly in late planted areas of North West and Free State. With that said, the forecasts paint a constructive picture of good rainfall which supports the aforementioned estimates of a fairly good harvest. Overall, this week was quiet following a long Easter weekend. The weekly gains in maize prices were mainly supported by the weaker domestic currency.

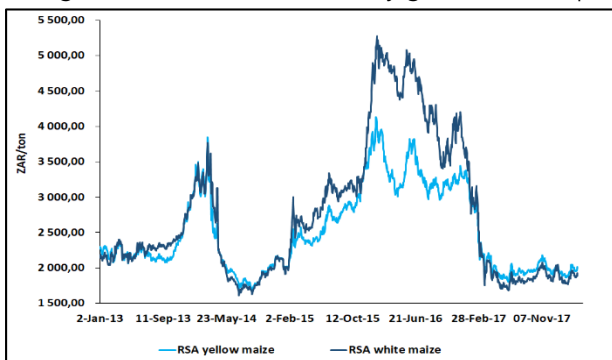


Chart 1: South African maize prices

Source: JSE, Agbiz Research

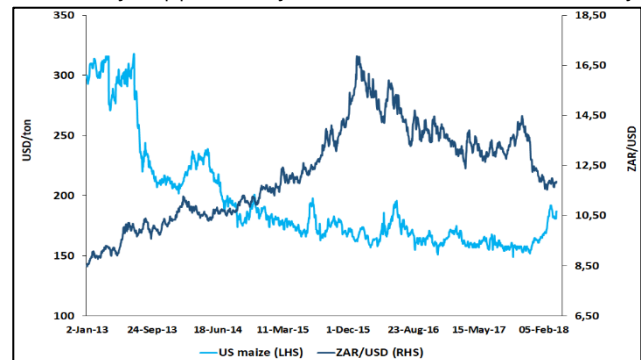


Chart 2: US maize prices and ZAR/USD exchange

Source: IGC, Bloomberg, and Agbiz Research

Wheat market

As highlighted in our previous note, the South African wheat market is currently at the tail-end of the off-season and is now entering the new production season as planting is set to commence next month. The rainy season, which starts at the end of this month, promises to be much better than the previous one, as rainfall is expected to be above average across the Western Cape province in the first couple of months of the production season¹.

The National Crop Estimates Committee will release the farmers' intention to plant data on 25 April 2018. This will give an indication of the potential size of the crop. With that said, the global observers such as the United States Department of Agriculture (USDA) are already more optimistic about South Africa's 2018/19 wheat production. The agency forecasts an 8% increase in production from the 2017/18 season to 1.65 million tonnes.

Interestingly, a closer look at the USDA's data shows that this optimism is driven by expectations of higher yields, which in turn could be supported by favourable weather condition. The yields are estimated at 3.4 tonnes per hectare, up by 10% from the previous season. Meanwhile, the area plantings are set to decline by 2% from the 2017/18 and ease at 480 000 hectares.

Aside from the production developments. Trade aspects remain an important factor in the market as South Africa is a net importer of wheat. The wheat import tariff has triggered again on 20 March 2018 to R293.74 per tonne. The previous trigger was on 13 February 2018, which then, was calculated at R394.85 per tonne. One of the key reasons behind this downward revision is the increase in international wheat prices (No2 HRW), which was supported by unfavourable weather conditions in the US wheat growing regions.

However, these rates are not yet applicable. The current import tariff is R716.33 per tonnes (Chart 4). The newly calculated rates will only be applicable after publication in a government gazette. The timeframe for this process is unclear. The import tariff will expectedly decline to R394.85 per tonne first, and then go down further to R293.74 per tonne. In terms of pricing, the SAFEX wheat spot price averaged R3 780 per tonne, up by 0.4% from last week. The Chicago wheat price saw similar gains and averaged US\$232 per tonne (Chart 3).

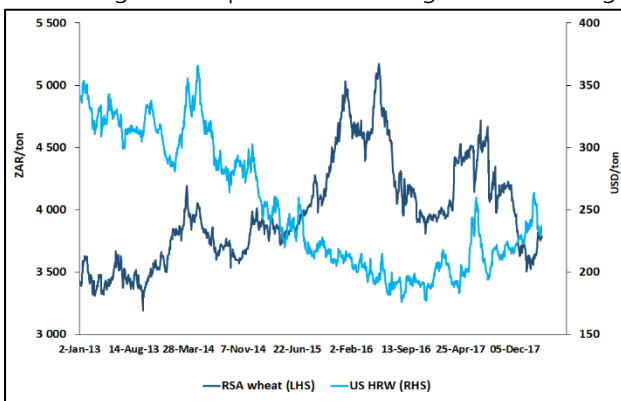


Chart 3: South Africa and US wheat prices
Source: JSE, IGC, and Agbiz Research

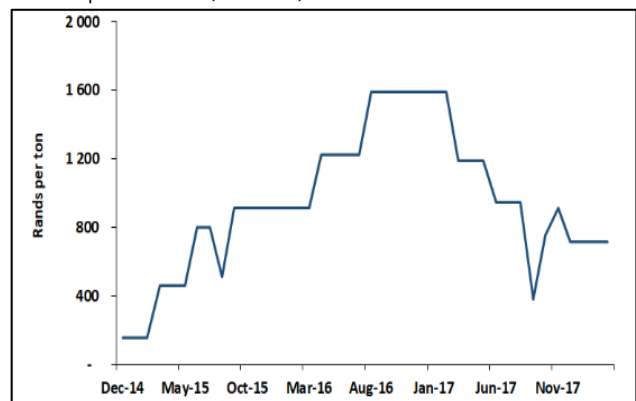


Chart 4: South Africa's wheat import tariff
Source: SAGIS and Agbiz Research

¹ The SA Weather Service indicated that between April and June 2018, the Western Cape could receive above-normal rainfall.

Soybean market

South Africa’s soybean crop is in good shape across the country, thanks to recent rainfall. This supports the National Crop Estimates Committee’s view that South Africa’s soybean production could reach a new record level of 1.39 million tonnes. This is 6 percent higher than the harvest in the 2016/17 production season, mainly underpinned by an increase in area planted and expectations of fairly good yields, about 1.77 tonnes per hectare. This increase in area plantings is largely driven by strong demand from the crushing plants, which were recently increased, in capacity, in the past few years.

One of South Africa’s key objectives behind the expansion of the soybean crushing plants was import substitution of soybean oil and oilcake. The country has made notable progress on both products as imports have been on a decline in the past few years due to increasing domestic production. Between 2010 and 2017, South Africa’s soybean oilcake imports declined by 42% to 553 003 tonnes. We estimate that 2018 soybean oilcake imports could decline further by 17 percent from last year to 458 992 tonnes due to expected large soybean production. Similar to oilcake imports, South Africa’s soybean oil import declined by 30% between 2010 and 2017 to 191 255 tonnes. We believe that 2018 soybean oil imports could decline by a percentage point from last year to 189 342 tonnes. Overall, the domestic soybean spot price gained 1% from last week, averaging R4 509 per tonne this week. The Chicago soybean price also increased by a percentage point this week, averaging US\$406 per tonne (Chart 5).

Sunflower seed market

This week the sunflower seed growing regions experienced cool and dry weather conditions, which is a much-needed breather following heavy rainfall before the Easter weekend. With that said, we continue to monitor the weather as it could still affect the crop especially in the late-planted areas of the North West and the eastern Free State provinces. The near-term outlook shows a possibility of between 20 and 50 millimetres, which should improve soil moisture and benefit the crop. To recap, the National Crop Estimated Committee forecasts South Africa’s 2017/18 sunflower seed production at 749 205 tonnes, down by 14 percent lower than the previous season’s harvest due to a reduction in area planted. In terms of pricing, the sunflower seed spot price was marginally up by 0.3% from last week, averaging R4 652 per tonne (Chart 6).

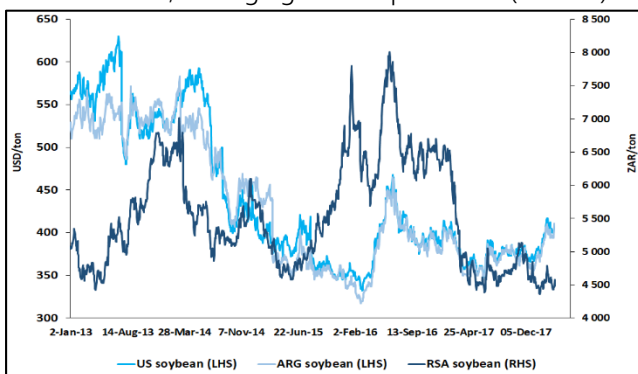


Chart 5: Soybean prices
Source: JSE, IGC, and Agbiz Research

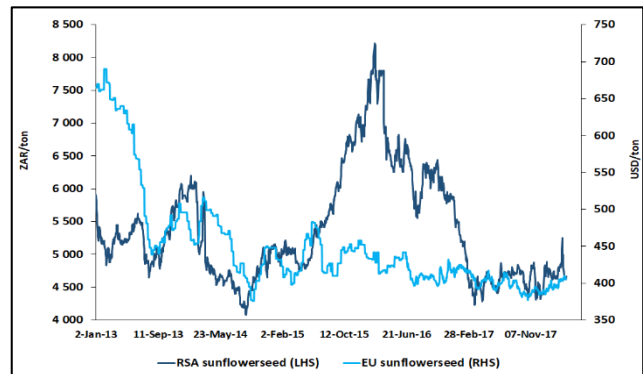


Chart 6: Sunflower seed prices
Source: JSE, IGC, and Agbiz Research

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. 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, South African farmers slaughtered 185 262 head of cattle in February 2018, down by 11 percent from the corresponding period last year. This was largely on the back of a cattle herd rebuilding process after a reduction during the 2015-16 drought. Lower maize prices and a good recovery in pastures have provided a conducive environment for the cattle stock rebuilding process (Chart 7).

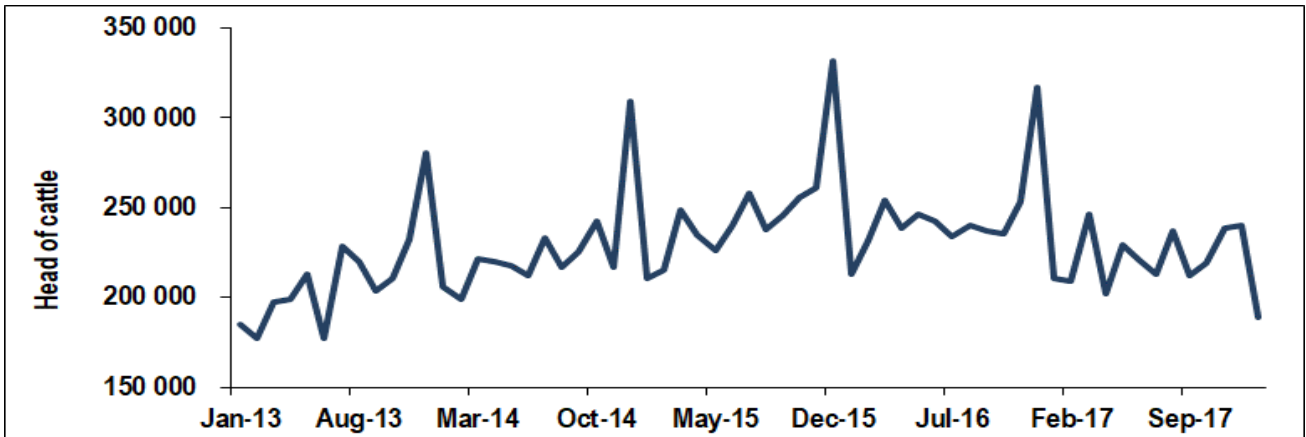


Chart 7: Monthly cattle slaughtering activity

Source: Red Meat Levy Admin, Agbiz Research

Potato market

The South African potato market ended the week in positive territory, with the price up by 14% from the previous week, closing at R52.13 per pocket/10kg bag (Chart 9). This is mainly due to commercial buying interest and relatively lower stock of 724 830 pockets (10kg bag) at the end of Thursday's session.

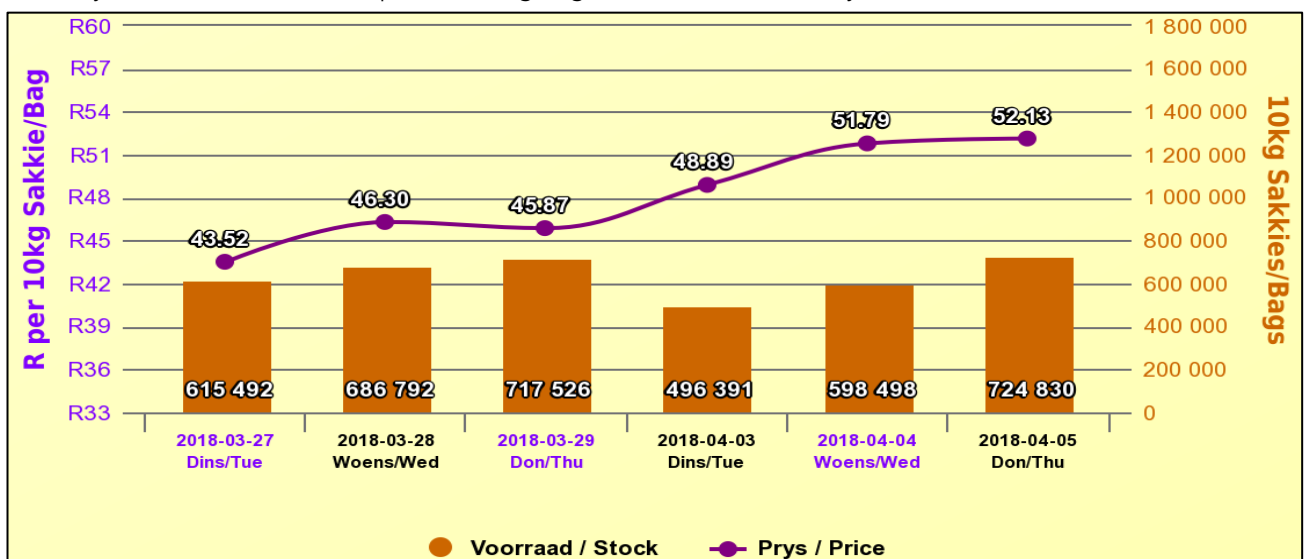


Chart 9: South Africa's average potato prices and stocks

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 Western Cape and western parts of the Northern Cape provinces might, however, remain dry and warm over the observed period (Chart 10).

The long-term weather forecasts present a similar outlook of continuous rainfall across South Africa, with the Western Cape province set to receive over 50 millimetres of rainfall. Meanwhile, the northern parts of Gauteng and Limpopo province could remain dry and warm (Chart 11).

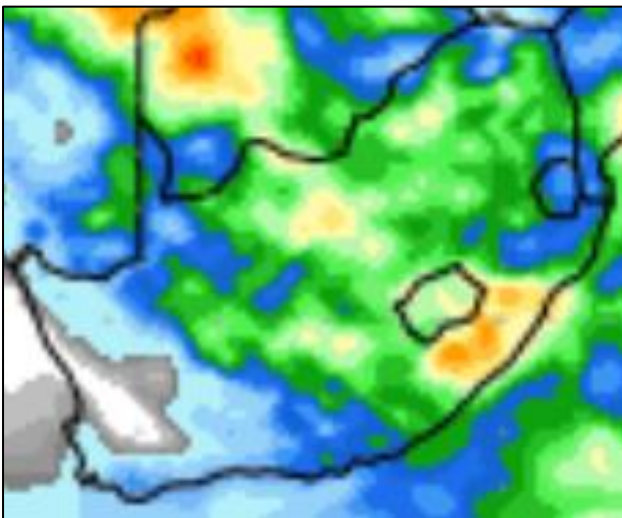


Chart 10: Next 8-days precipitation forecast
Source: wxmaps

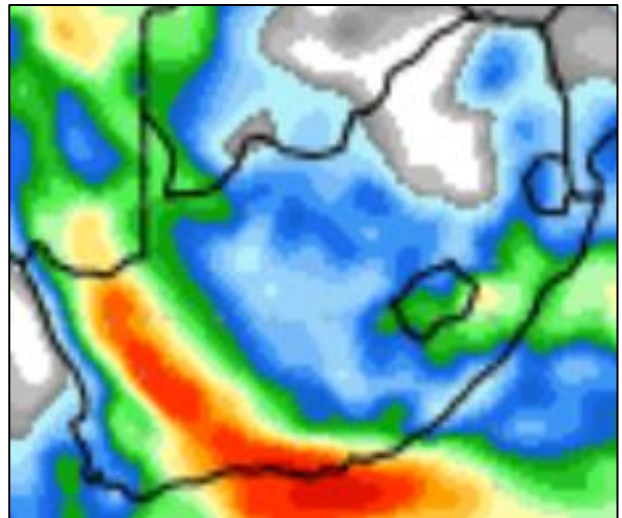


Chart 11: Next 16-days precipitation forecast
Source: wxmaps



Precipitation Forecasts

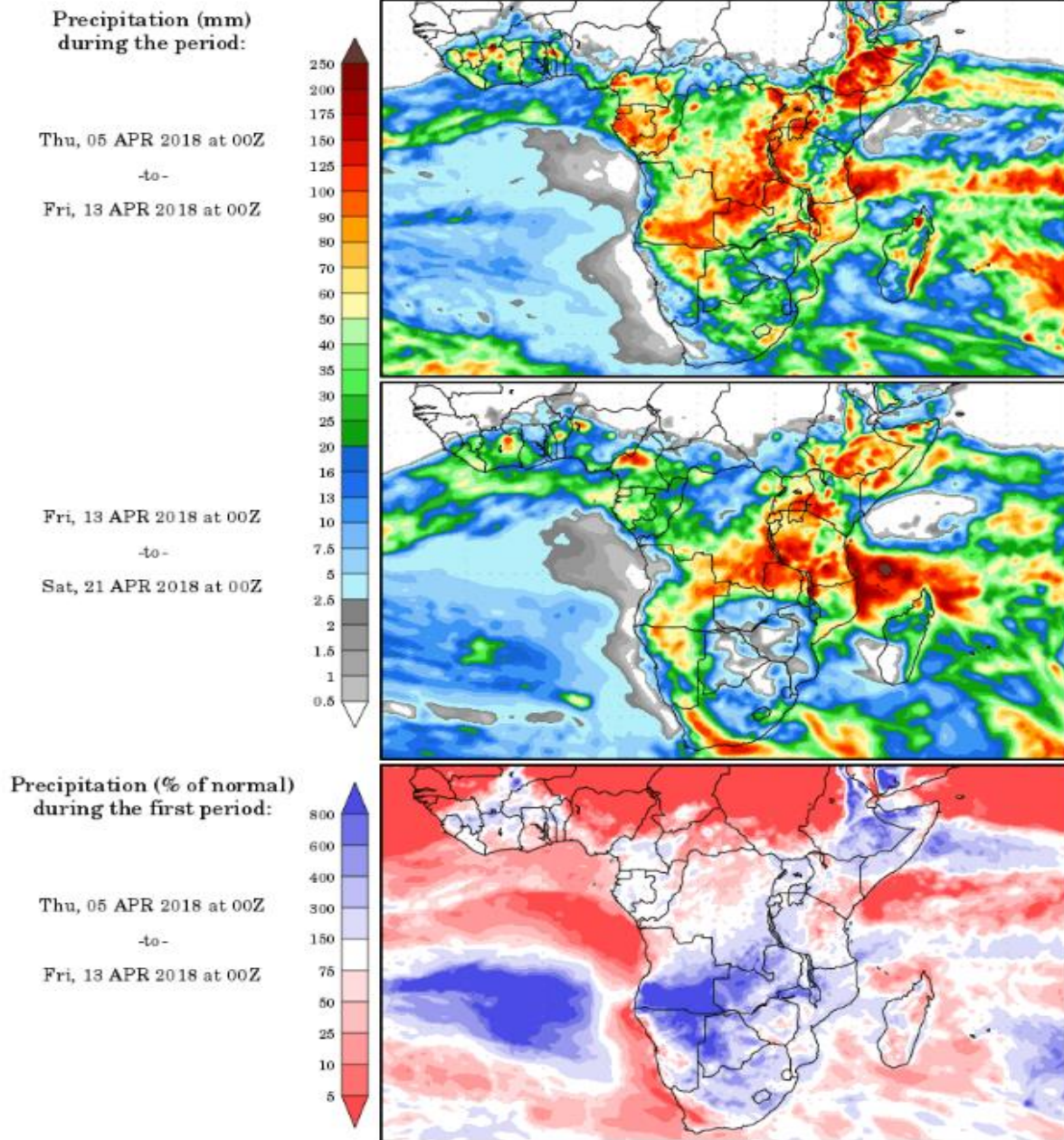


Chart 12: Precipitation forecast

Source: wxmaps

Key data releases in the South African agricultural market

- SAGIS weekly grain trade data: 10/04/2018
- SAGIS producer deliveries data: 11/04/2018
- SAGIS monthly data: 25/04/2018
- National Crop Estimates Committee's data: 25/04/2018

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