

South African Agricultural Commodities Weekly Wrap

The South African agricultural markets had a good run this week with support mainly emanating from higher Chicago grain prices and the relatively weaker Rand against the US Dollar. The notable gains were on maize (white and yellow) with spot price up by 4%, compared to last week. Soybean and wheat also had a good run this week with spot prices respectively up by 3% and 2% from last week. In the fields, the summer crops are in good condition. The areas that planted on time are approaching the harvest period, whereas the late-planted areas are still at growing stages which could benefit from rainfall. There are expectations of light showers in the next two weeks which should benefit the late planted crops, which are not expected to pose a risk to areas with crops already maturing. The calendar for the week ahead is quite light with only weekly grain trade and deliveries data due for release.

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Maize market

There is generally some optimism in the South African maize market following good rainfall received in the past couple of weeks. This week, the United States Department of Agriculture (USDA) lifted its estimate for South Africa's 2017/18 maize production by 200 000 tonnes from last month to 13.2 million tonnes (well below the record level of 17.5 million tonnes achieved in the 2016/17 season, but better than market expectations at the start of the year). The output from the subsistence farming sector accounts for 6 percent share of this estimate. The overall optimism is on the back of expected higher yields in some parts of the country.

As set out on Wednesday, the key takeaway from these estimates is that South Africa's maize market will be well supplied in the 2018/19 marketing year which starts on 01 May 2018. This marketing year will open with a large carryover stock of about 4.1 million tonnes, which will add to the expected large harvest noted above. Overall, South Africa could remain a net exporter of maize in the 2018/19 marketing year, estimated at 2.2 million tonnes.

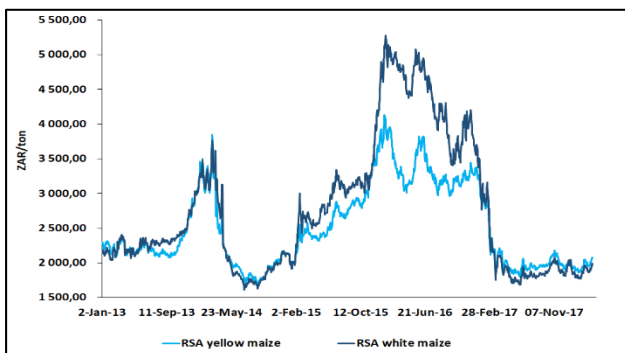


Chart 1: South African maize prices
Source: JSE, Agbiz Research

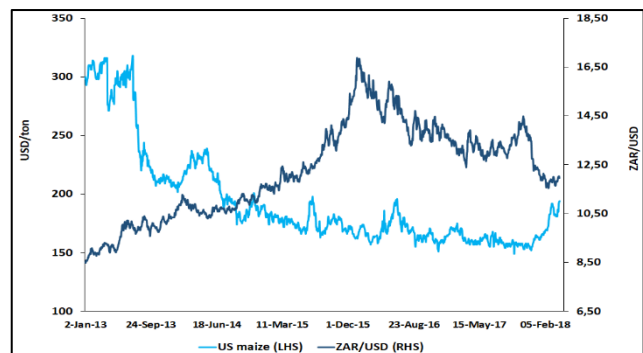


Chart 2: US maize prices and ZAR/USD exchange
Source: IGC, Bloomberg, and Agbiz Research

Wheat market

The planting time for the new season’s winter wheat crop is fast-approaching. Fortunately, this year promises some improvements in weather conditions as the rainy season, which starts at the end of this month, could be relatively better than the previous ones. In its recent Seasonal Climate Watch, the local weather bureau indicated that between April and June 2018, the south-western cape regions of the country could receive above-normal rainfall.

The prospects of above-normal rainfall are just what the major wheat producing province, the Western Cape, needs. This rainfall will be critical for improving soil moisture content ahead of planting. Already, the USDA, forecast South Africa’s 2018/19 wheat production at 1.65 million tonnes, up by 8% from the previous season.

The USDA’s optimism is based on expectations of higher yields supported by favourable weather conditions. The yields are forecast at 3.4 tonnes per hectare, up by 10% from the previous season. The USDA expects these higher yields to offset lower area plantings of 480 000 hectares, down by 2% year-on-year.

Apart from the production aspects, the key highlight this week were developments on trade. South Africa’s wheat import tariff was revised down to R394.85 per tonne, which is a 45% decline from the previous rate of R716.33 per tonne. This new duty was calculated on the 13 February 2017 following an upsurge of the international wheat prices but was only published in the Government Gazette on 06 April 2018 (Chart 4).

The adjustments in the wheat import tariff are satisfied when the international wheat price (US No.2 HRW) deviates from the base price by more than US\$10 per tonne for three consecutive weeks. From the week ending 30 January to 13 February, the international wheat prices consistently traded above US\$235 per tonne, making a deviation of US\$10 per tonne above the base price of then US\$218 per tonne. Thus, leading to a downward revision of the import tariff. The prices were partly supported by concerns that drier weather conditions in parts of the US could negatively affect the harvest. This proved to be the case, as the International Grains Council forecasts US 2017/18 wheat production at 47.4 million tonnes, down by 25 percent year-on-year.

In terms of pricing, the SAFEX wheat spot price averaged R3 858 per tonne, up by 2% from last week tonne. This was on the back of spillover support from the Chicago wheat prices, which were up by 6% from last week, averaging US\$247 per tonne. These gains emanated from concerns of over slow spring wheat plantings in the US (Chart 3).

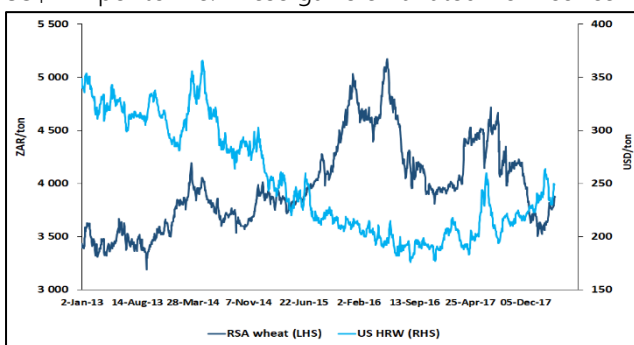


Chart 3: South Africa and US wheat prices
Source: JSE, IGC, and Agbiz Research

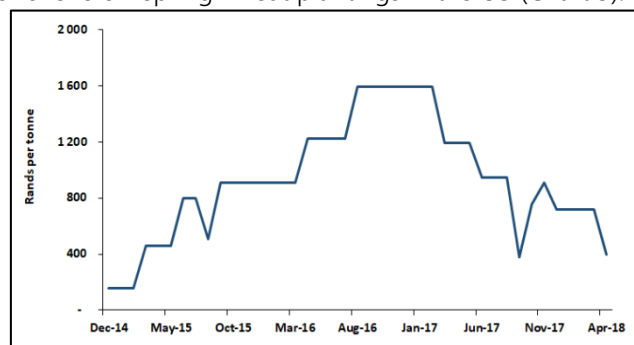


Chart 4: South Africa's wheat import tariff
Source: SAGIS and Agbiz Research

Soybean market

As highlighted in yesterday’s note, the soybean crop is in good condition across the country, which supports the National Crop Estimates Committee’s (CEC) view of a possible record crop of 1.39 million tonnes in the 2017/18 production season. The yields could vary across the country, mainly ranging from average and above average yields. The CEC’s yield estimate is 1.77 tonnes per hectare, which is 23 percent lower than the previous season. With that said, this is slightly higher than the average yield of the past five production seasons (1.75 tonnes per hectare). Above all, the expected large harvest is boosted by an increase in area planted, as well as expected higher yields.

Although this is a notable improvement, from levels of just half a million tonnes in the 2009/10 production season, it will not satisfy South Africa’s consumption levels. The country will remain a net importer of soybeans, estimated at 20 000 tonnes. This, of course, is an improvement from higher levels of 27 508 tonnes in 2017/18 and 271 098 tonnes in 2016/17 marketing year. All soybeans imported in the 2017/18 marketing year originated from the African countries, namely Zambia, Zimbabwe, Malawi, and Ethiopia. Underpinning this is a solid demand from the soybean crushing plants, which in turn is driven by growing demand from the animal feed industry.

Overall, the domestic soybean spot price gained 3% from last week, averaging R4 664 per tonne this week. This was partially supported by higher Chicago soybean prices, which averaged US\$419 per tonne, up by 4% from last week (Chart 5). The relatively weaker Rand against the US Dollar also added support to the market.

Sunflower seed market

This week, the weather was again the centre of attention in the domestic sunflower seed market, as this is one of the few factors that could still influence the crop production outlook. The week started with good showers in parts of the Free State and North West, which is conducive for crop development, especially the late planted areas where the crop could still experience yield improvement. In the fields, the crops are in good condition, in both optimally-planted and late-planted regions. This supports the National Crop Estimates Committee’s estimate of 749 205 tonnes of production in the 2017/18 season (down by 14 percent from the previous season). In terms of pricing, it was a fairly quiet week in the SAFEX sunflower seed market, characterised by thinly traded volumes. The spot price was marginally up by 0.04% from last week, averaging R4 657 per tonne (Chart 6).

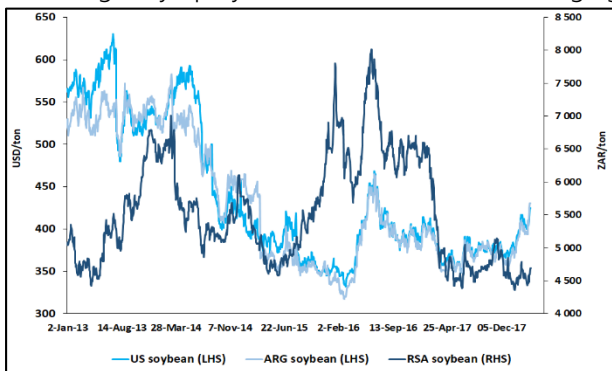


Chart 5: Soybean prices
Source: JSE, IGC, and Agbiz Research

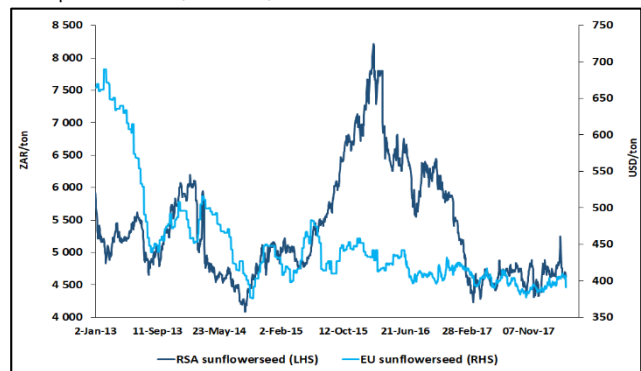


Chart 6: Sunflower seed prices
Source: JSE, IGC, and Agbiz Research

Beef, sheep and pigs market

The 2015-16 drought led to higher slaughtering activity in livestock industry (cattle, pigs and sheep) as farmers struggled to feed their stock amid higher feed costs, coupled with drier pastures. With the drought now behind us (with the exception of the Western Cape province), farmers have started rebuilding their herds. Moreover, the relatively lower maize and soybean prices, as well as a good recovery in pastures have provided a conducive environment for the livestock rebuilding process. This, however, has led to a decline in slaughtering activity in almost all the aforementioned subsectors (Chart 7).

Data from the Red Meat Levy shows that cattle slaughtering activity softened by 5% month-on-month (m/m) and 11% year-on-year (y/y) in February 2018, with 185 262 head of cattle slaughtered. In the same month, sheep slaughtering activity declined by 10% m/m and 23% y/y, with 286 564 head of sheep. Moreover, pigs slaughtering also softened by 13% m/m and 3% y/y, with 208 118 head slaughtered.

Above all, these slaughtering dynamics partially explain why meat inflation remained stickier in 2017. This year's meat price inflation will again partially be influenced by the path of this slaughtering activity. We will monitor the developments over the coming months in order to see if the current trend persists for longer or shows improvement, and thereafter ascertain the impact on prices.

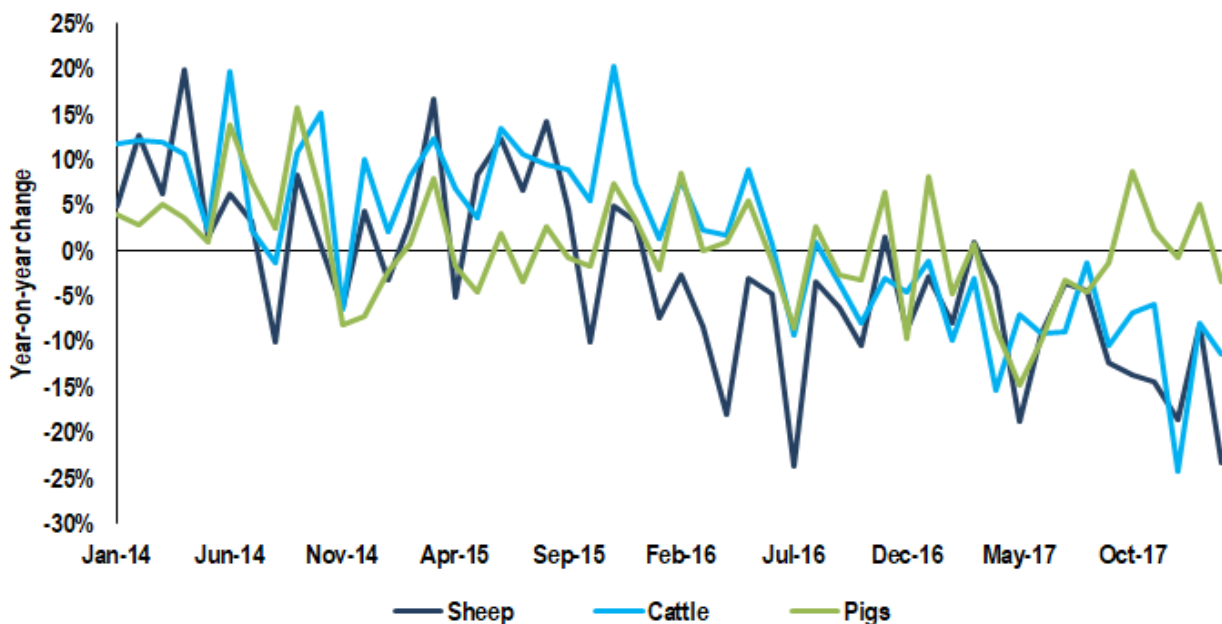


Chart 7: Year-on-year change in cattle, sheep and pigs slaughtering activity

Source: Red Meat Levy Admin, Agbiz Research

Potato market

The potato market ended the week in negative territory, with the price down by 26% from the previous week, closing at R38.46 per pocket/10kg bag (Chart 8). This is due to large deliveries on the back of ongoing harvest activity, which subsequently led to a large stock of 1.05 million pockets (10kg bag) at the end of Thursday's session.

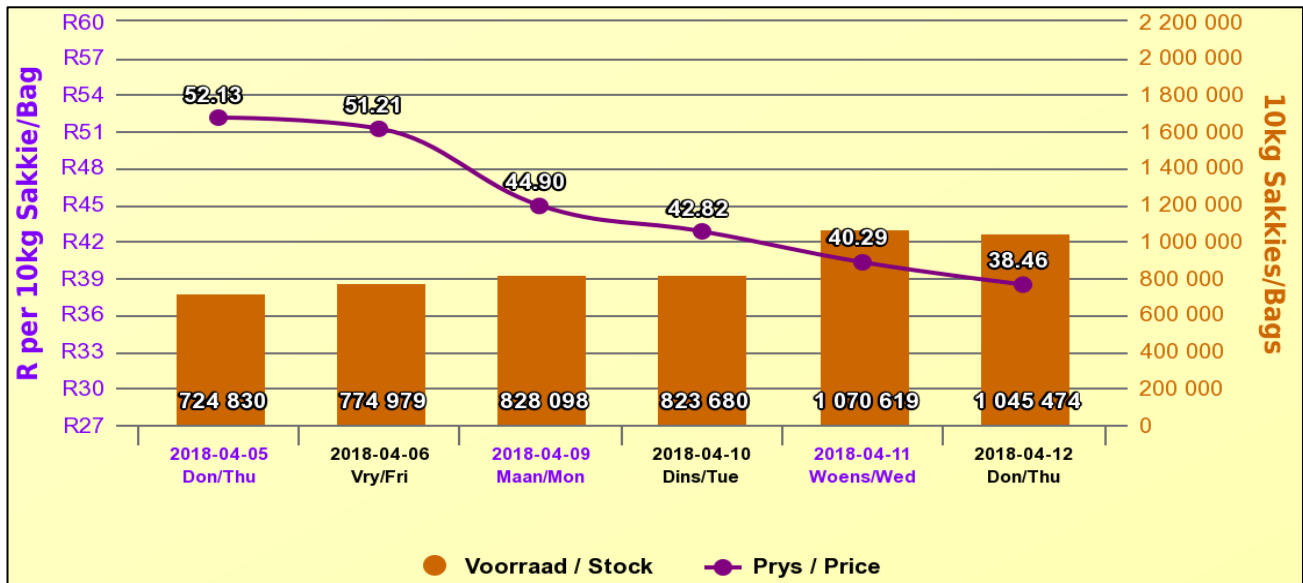


Chart 8: South Africa's average potato prices and stocks

Source: Potato SA

Weather conditions ahead of the weekend

The next eight days could bring widespread light showers across the country, which should improve soil moisture and benefit summer crops. The Western Cape province might also receive light showers, which will be a welcome development following months of persistent dryness (Chart 9). With that said, the forecast rainfall will not make a meaningful improvement in soil moisture, the province will have to receive intense rainfall in order to realise notable improvement. The forecasts for the week of 28 April 2018 show clear skies across most summer crop growing areas which is a good development for crops that are approaching the harvest period (Chart 10).

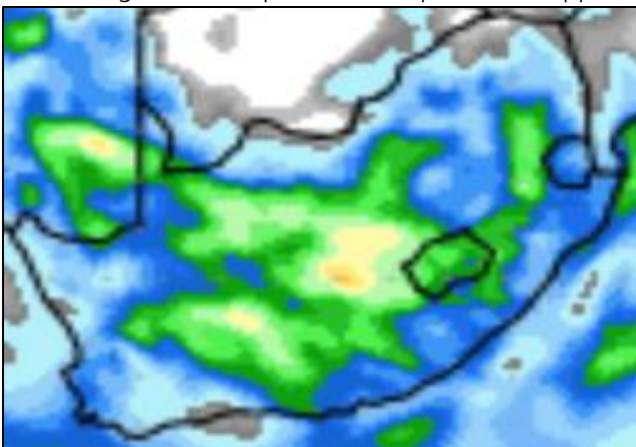


Chart 9: Next 8-days precipitation forecast

Source: wxmaps

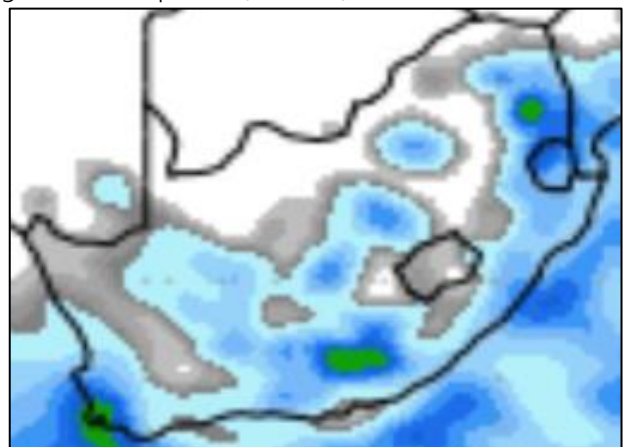


Chart 10: Next 16-days precipitation forecast

Source: wxmaps

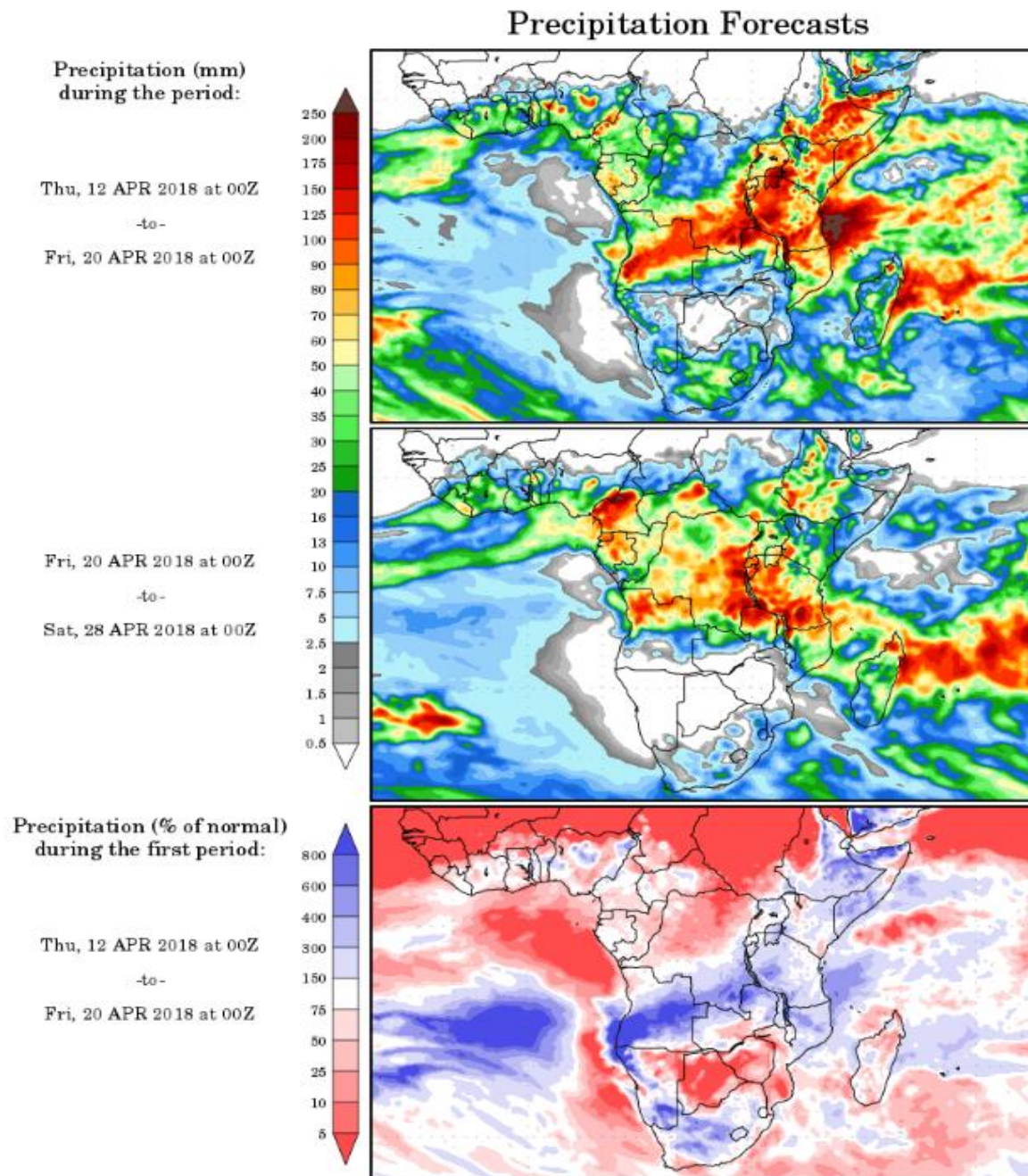


Chart 11: Precipitation forecast

Source: wxmaps

Key data releases in the South African agricultural market

- SAGIS weekly grain trade data: 17/04/2018
- SAGIS producer deliveries data: 18/04/2018
- SAGIS monthly data: 25/04/2018
- National Crop Estimates Committee's data: 25/04/2018

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