

South African Agricultural Commodities Weekly Wrap

While the recent upward revision of South African grain and oilseed production estimates underscored the view that the country's supplies are in good shape, the weaker Rand against the US Dollar and higher Chicago grain prices provided support to the market this week. The largest gains were on white maize with the spot price up by 3 percent from last week. Yellow maize, wheat and soybeans were up by 2 percent compared to last week's average prices. Meanwhile, sunflower seed was the only crop that closed the week on a negative footing. Aside from this, there is not much happening in the grain and oilseed market. The harvest process has started in some areas and should gain momentum in the coming weeks as weather conditions are expected to be favourable. The week ahead could be quiet as the calendar is light with only weekly grain trade and deliveries data due for release.

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Maize market

South Africa is in for a fairly good harvest in 2017/18 production season. This was confirmed by the third production forecasts released by the National Crop Estimate Committee (CEC) and emphasized by the International Grains Council in their April 2018 report. The CEC and IGC forecast South Africa's 2017/18 maize production at 12.8 million and 12.9 million tonnes, respectively. While lower than last season's record harvest, this is well above annual maize consumption of 10.5 million tonnes. This expected harvest, coupled with the carryover stock of 3.9 million tonnes from the 2017/18 marketing year will boost supplies in the 2018/19 marketing year which started on 01 May 2018.

Apart from these supply dynamics, the focus is on the weather as the harvest period approaches. The forecast for the next eight days is quite favourable, with a possibility of dry and cool conditions over the maize-belt. Overall, white and yellow maize spot prices averaged R2 048 and R2 154 per tonne, respectively, up by 3% and 2% from last week (Chart 1). Meanwhile, the Chicago maize spot price gained 1%, averaging US\$195 per tonne (Chart 2).

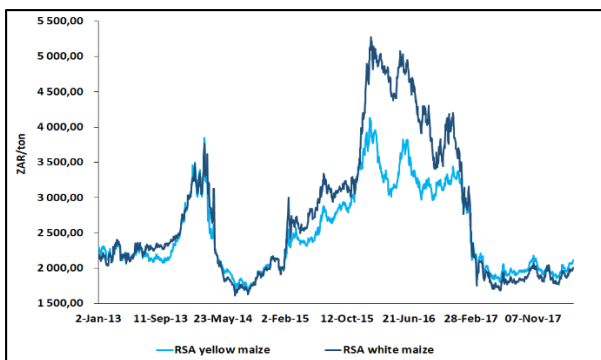


Chart 1: South African maize prices
Source: JSE, Agbiz Research

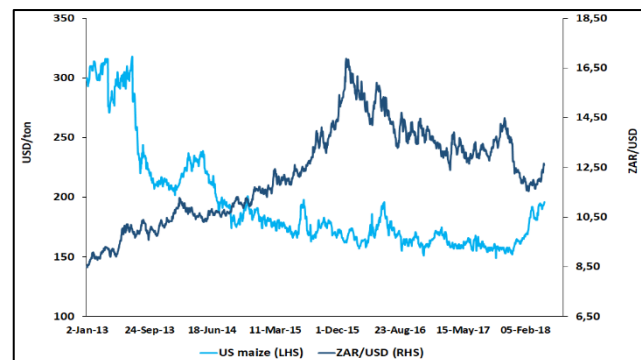


Chart 2: US maize prices and ZAR/USD exchange
Source: IGC, Bloomberg, and Agbiz Research

Wheat market

South African farmers intend to increase the area plantings for winter wheat by 2 percent from the 2017/18 production season to 500 500 hectares. The uptick will possibly be in the Free State, Eastern Cape, Limpopo and North West provinces. Meanwhile, the Western Cape’s area plantings could decline by 2 percent from the previous season to 320 000 hectares, albeit remaining a leading producer of wheat with 64 percent share in the total area.

The planting has commenced in the Western Cape province, but still at initial stages. This means that the weather will be a primary focus over the coming weeks. The province received light showers over the past long weekend, which is an encouraging development, although not enough to replenish soil moisture. The rainfall was mainly concentrated in Swartland region, varying between 20 and 25 millimetres, whereas Overberg and Southern Cape regions received light showers of between 10 and 20 millimetres.

With that said, the near-term weather forecasts currently show a possibility of cool and dry conditions across most areas of the Western Cape province with the exception of the coastal regions. This could possibly slow the planting activity in the near term as soil moisture is extremely low. But, there is generally some optimism amongst farmers that the 2018/19 production season could receive better rainfall than the previous one. Their optimism is somewhat in line with the South African Weather Service view that parts of the south-western cape regions of the country could receive above-normal rainfall between this month and June 2018.

There are no new developments on the trade front. As set out in the previous note, the wheat import tariff has triggered again on 10 April 2018 to R437.24 per tonne. The previous trigger was on 20 March 2018, which then, was calculated at R293.74 per tonne, after an uptick in international wheat prices (No2 HRW). However, these rates are not yet applicable. The current import tariff is R394.85 per tonnes (Chart 4). The newly calculated rates will be applicable after publication in a government gazette, of which the timeframe is unclear. The import tariff will expectedly decline to R293.74 per tonne first and then increase to R437.25 per tonne. Overall, the SAFEX wheat spot price averaged R3 903 per tonne, up by 2 percent from last week. This was in line with the Chicago wheat prices which gained 3% from last week, averaging US\$248 per tonne (Chart 3).

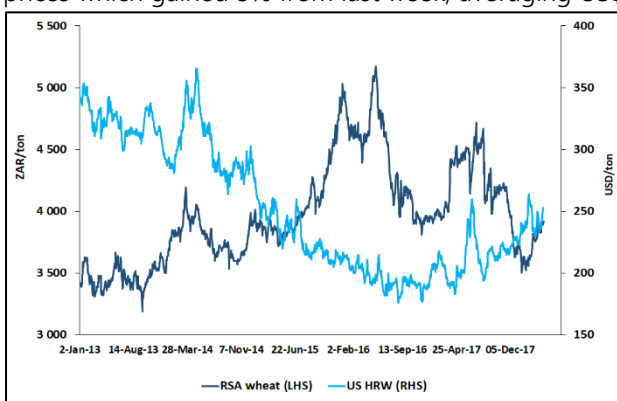


Chart 3: South Africa and US wheat prices
Source: JSE, IGC, and Agbiz Research

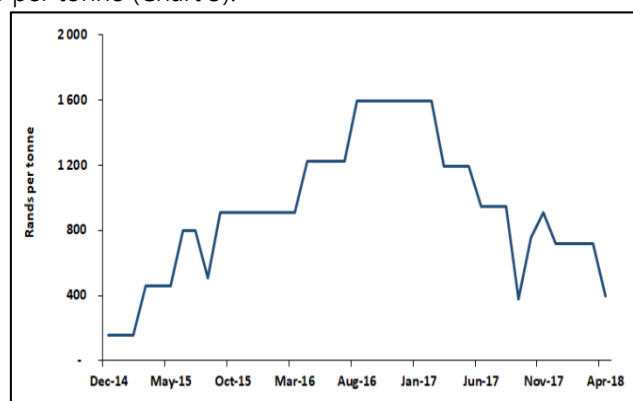


Chart 4: South Africa's wheat import tariff
Source: SAGIS and Agbiz Research

Soybean market

This week is ending on a positive note for soybean market as harvest process could gain momentum on the back of expected dry and cool conditions over summer crop growing areas within the next eight days. The areas that have harvested received average yields, which supports the National Crop Estimates Committee’s production forecasts of a record 1.4 million tonnes in the 2017/18 production season. The key soybean-growing provinces are Free State, Mpumalanga and KwaZulu Natal making up a combined share of 87 percent. The other notable soybean-producing provinces are Gauteng and North West with a combined share of 8 percent.

Overall, this expected large crop implies that South Africa’s soybean market will be well-supplied in the 2018/19 marketing year. The seasonal imports could decline by 27 percent year-on-year to 20 000 tonnes. This is a notable improvement following imports of 271 098 tonnes in the 2016/17 marketing year. Moreover, we estimate that in 2018, soybean oilcake imports could decline by 17 percent from last year to 458 992 tonnes. This too is a remarkable improvement from imports of close to a million tonnes in 2010.

In terms of pricing, the domestic soybean spot price gained 2% from last week, averaging R4 683 per tonne this week. This was partially supported by higher Chicago soybean prices, which averaged US\$415 per tonne, up by 0.2 percent from last week (Chart 5). The weaker Rand against the US Dollar also added support to the market.

Sunflower seed market

Similar to other crops, the sunflower seed harvest process, which is at initial stages, could gain momentum from the expected dry and cool weather conditions over the next eight days. Meanwhile, the crop in late-planted areas might not be negatively affected as soil moisture has improved following rainfall received in the past couple weeks. This supports the National Crop Estimates Committee’s view of a fairly good crop of 792 255 tonnes in the 2017/18 production season (-9% y/y), well above market expectations at the beginning of the season.

With that said, South Africa will nonetheless remain a net importer of sunflower seed in the 2018/19 marketing year. The imports are estimated at 500 tonnes, down by 10 percent from the previous season, partly due to large opening stock. 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 down by 0.3% from last week, averaging R4 512 per tonne (Chart 6).

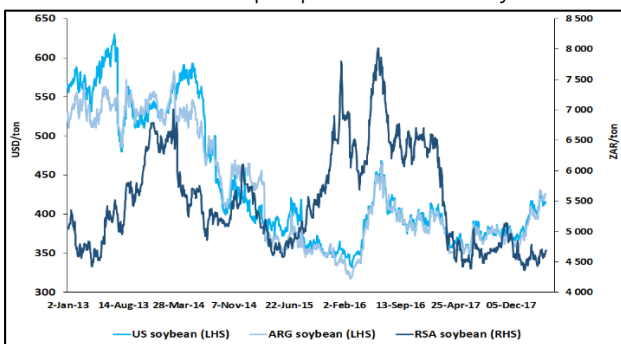


Chart 5: Soybean prices
Source: JSE, IGC, and Agbiz Research

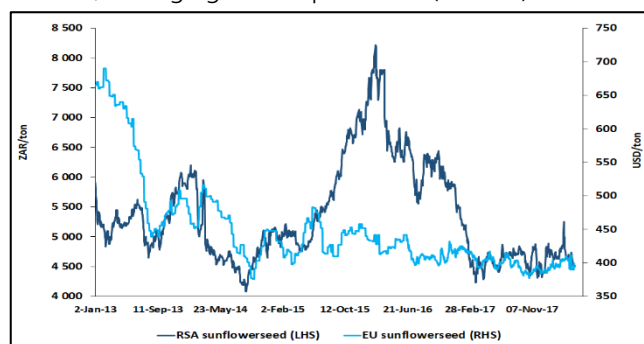


Chart 6: Sunflower seed prices
Source: JSE, IGC, and Agbiz Research



Beef market

This week there was not much happening in the SAFEX beef market, the price remained flat at R39.50 per kilogram, due to thinly traded volumes. Nonetheless, 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% 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).

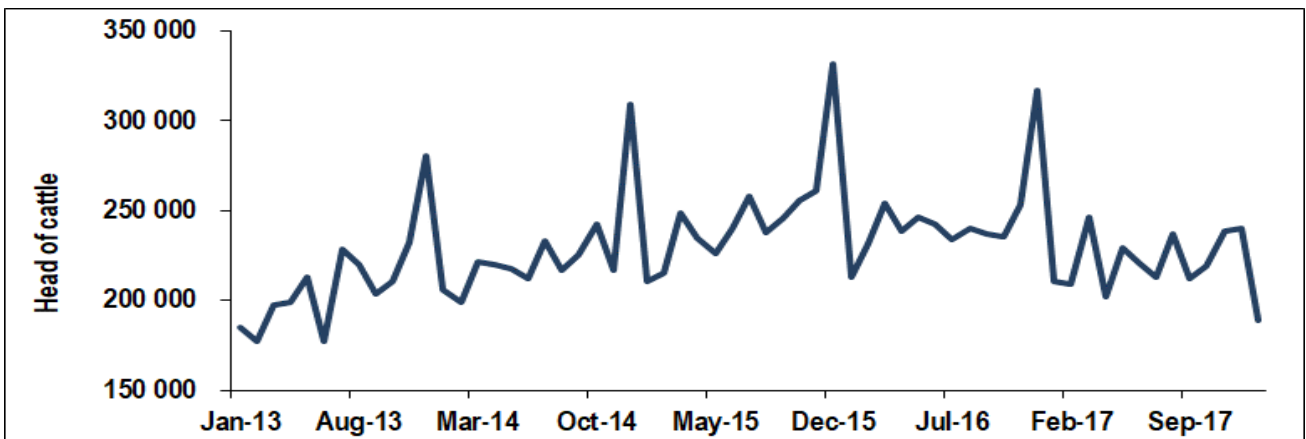


Chart 7: Monthly cattle slaughtering activity

Source: Red Meat Levy Admin, Agbiz Research

Potato market

The potato market ended the week in positive territory, with the price up by 34% from the previous week, closing at R42.16 per pocket/10kg bag (Chart 8). This is due to lower deliveries on the back of slow harvest activity after a long weekend, which then led to a 4 percent week-on-week decline in stocks to 799 774 pockets (10kg bag).

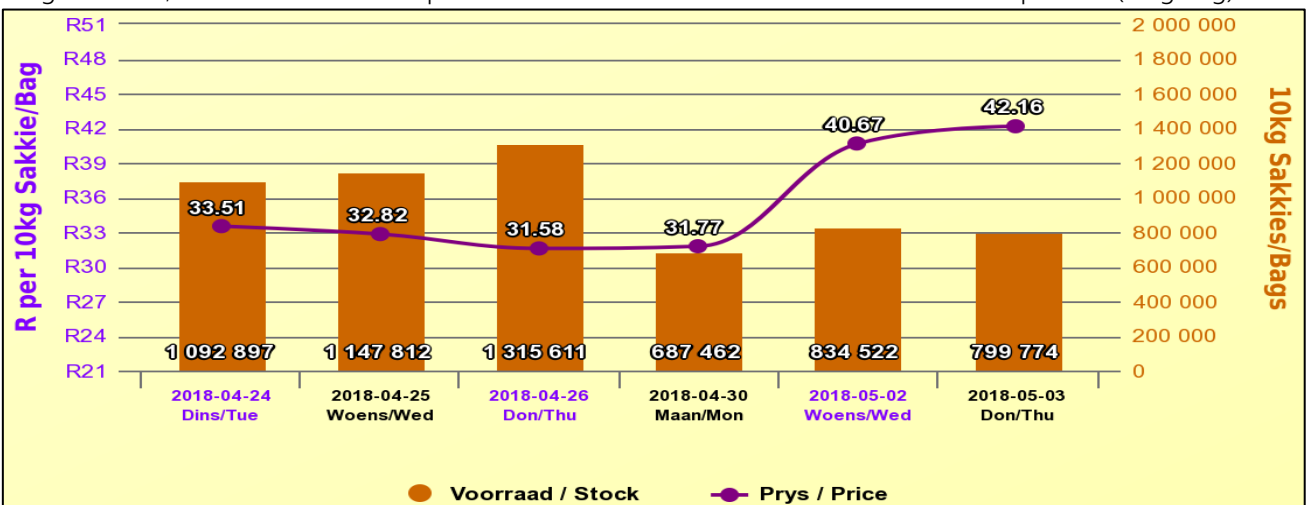


Chart 8: South Africa's average potato prices and stocks

Source: Potato SA

Weather conditions ahead of the weekend

The weather charts currently show clear skies in most parts of the country, which implies a possibility for cool and dry within the next eight days. This supports the harvest process in summer crop growing areas. Meanwhile, the winter crop planting activity could be slowed in the near term as soil moisture is extremely low in the Western Cape province (Chart 9).

The long-term weather forecasts show a notable transformation, a likelihood of light showers over summer crops growing areas in the week of 19 May 2018. This could slow the harvest process, especially around Free State, Mpumalanga and KwaZulu Natal provinces (Chart 10). Unfortunately, the prospects for the Western Cape province, which urgently needs moisture, remain unfavourable.

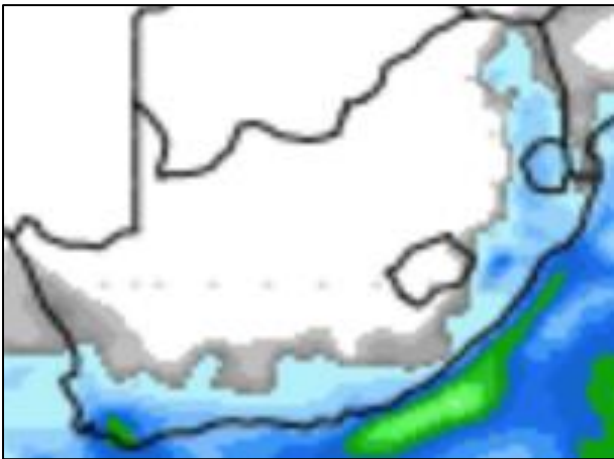


Chart 9: Next 8-days precipitation forecast
Source: wxmaps

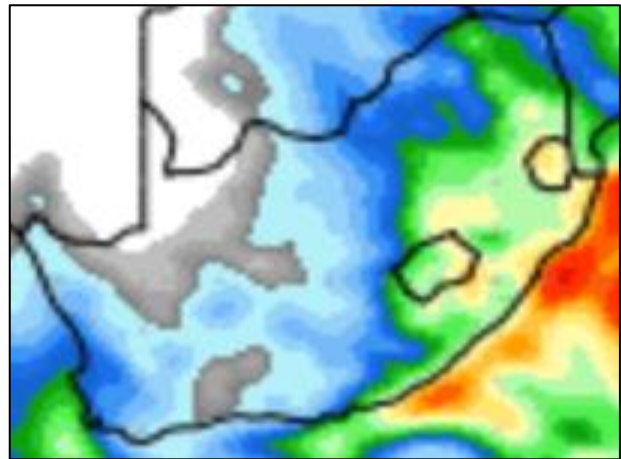


Chart 10: Next 16-days precipitation forecast
Source: wxmaps



Precipitation Forecasts

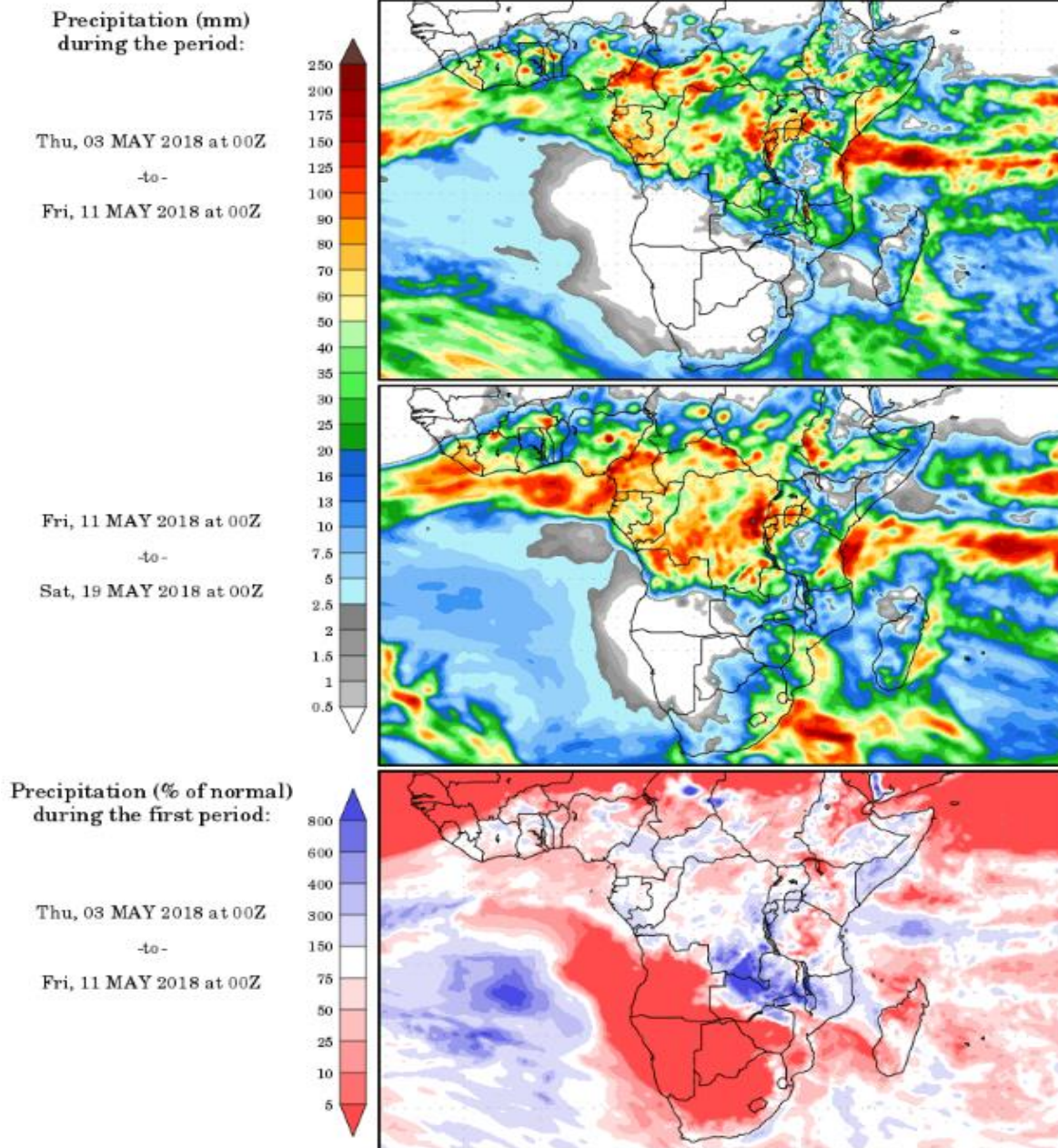


Chart 11: Precipitation forecast

Source: wxmaps

Key data releases in the South African agricultural market

- SAGIS weekly grain trade data: 08/05/2018
- SAGIS producer deliveries data: 09/05/2018
- SAGIS monthly data: 25/05/2018
- National Crop Estimates Committee’s data: 29/05/2018

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