

South African Agricultural Commodities Weekly Wrap

The weather remains a primary focus in the South African grain and oilseed market as it continues to influence the harvest activity of summer crops and planting progress in winter crop areas. The drier weather conditions in the past couple of days benefitted summer crop harvest activity, whereas somewhat slowing the planting in the winter areas that needed rainfall. The forecasts for the next eight days paint a slightly troubling picture for both summer and winter crop areas. Summer crops might receive rainfall which could slow the harvest activity. Meanwhile, winter crop areas of the Western Cape province, which urgently need moisture, could experience continued dryness which might further slow the planting activity. Aside from that, this was a quiet week, with most commodities prices in positive territory with the exception of soybeans which lost ground, in line with the Chicago market.

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Maize market

The dryland maize crop is approaching the harvest stages but could experience slight delays if the forecast rainfall in the next eight days materialises. In the irrigation areas of the country, the maize harvest process has commenced. The general expectation is that yields will vary between average and above average in most parts of the country, which supports the National Crop Estimates Committee's view of a record harvest of 12.8 million tonnes.

This expected crop, coupled with large carryover stock from the 2017/18 marketing year boosted the 2018/19 maize supplies estimate to 16.4 million tonnes, well above the local demand of 10.7 million tonnes. Therefore, South Africa could remain a net exporter of maize. The 2018/19 total maize exports could at least reach 2.3 million tonnes, down by 4 percent from the volume exported in the previous year. In terms of pricing, white and yellow maize spot prices averaged R2 101 and R2 196 per tonne, each respectively up by 2% from last week (Chart 1). At the same time, the Chicago maize spot price gained a percentage point, averaging US\$197 per tonne (Chart 2).

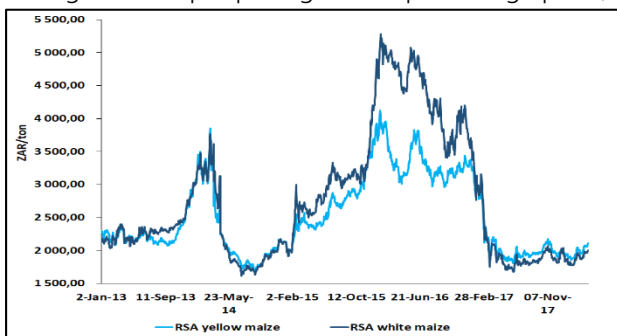


Chart 1: South African maize prices

Source: JSE, Agbiz Research

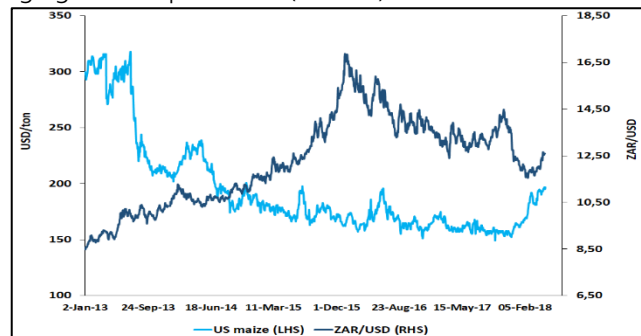


Chart 2: US maize prices and ZAR/USD exchange

Source: IGC, Bloomberg, and Agbiz Research



Wheat market

The winter wheat planting process is still at initial stages across the country and could potentially gain momentum when soil moisture improves. Unfortunately, that might take more than two weeks as the weather forecasts for the next 16-days show a possibility of continued dryness across the leading winter wheat producing province, Western Cape. The only signs of light showers appear in coastal areas which does not mean much for wheat fields.

This is in stark contrast to the South African Weather Service's expectations that were highlighted in a report released on 23 March 2018. In that report, the local weather agency painted a possibility of above-normal rainfall in the south-western cape regions of the country between April and June 2018¹. This has not yet materialised and it is unclear whether the forecasts will change drastically in this month's update or will possibly show a delay, but maintain the same theme of higher rainfall.

We place more emphasis on the Western Cape province because of its share contribution on South Africa's wheat production. The province accounts for 64 percent of South Africa's intended 500 500 hectares for winter wheat in the 2018/19 production season. Aside from the planting activity, the expected drier weather conditions also imply that the provincial dam levels could remain at fairly lower levels for some time. In the week of 07 May 2018, the dams averaged 17 percent, down by 3 percentage points from the corresponding period last year.

There are no new developments on the trade front. To recap, the wheat import tariff 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 932 per tonne, up by a percentage point from last week. This was in line with the Chicago wheat prices which also gained a percentage point from last week, averaging US\$253 per tonne (Chart 3).

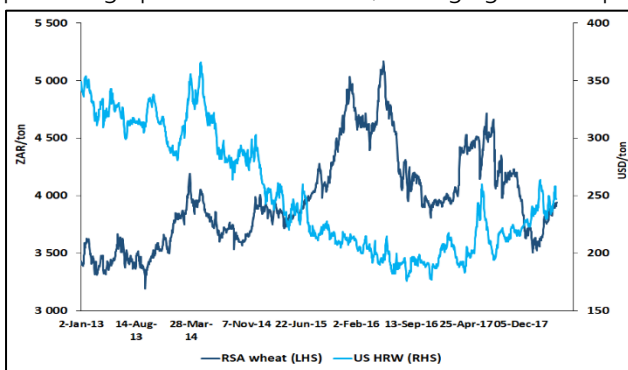


Chart 3: South Africa and US wheat prices

Source: JSE, IGC, and Agbiz Research

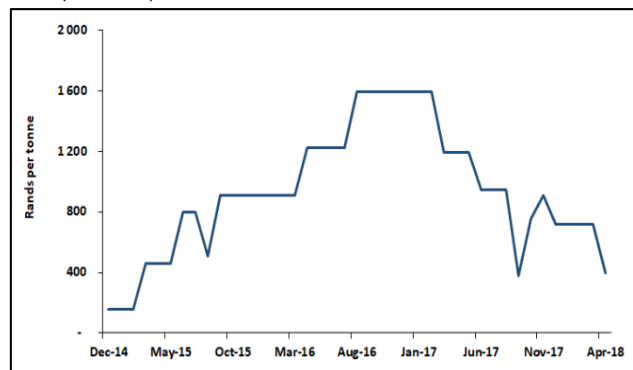


Chart 4: South Africa's wheat import tariff

Source: SAGIS and Agbiz Research

¹South African Weather Service, 2018. *Seasonal Climate Watch*. [Online] Available on: <http://www.weathersa.co.za/media/data/longrange/gfcsa/scw.pdf>



Soybean market

Over the past couple of days, the weather conditions were quite favourable for the soybean harvest activity. The areas that have harvested received yields that mostly vary between average and above-average, which supports the National Crop Estimates Committee's production estimate of a record soybean harvest of 1.4 million tonnes.

With that said, the harvest process could slow in the week of 26 May 2018 owing to expectations of rainfall, particularly in Mpumalanga, Free State, North West, Limpopo and KwaZulu Natal provinces. The rainfall in these respective provinces is expected to be above 25 millimetres.

Above all, the South African soybean market will be well supplied in the 2018/19 marketing year relative to the previous years. The South African Supply and Demand Estimates Committee forecasts soybean supplies at 1.8 million tonnes, up by 29 percent from the previous year due to an expected record harvest. This includes an opening stock, local commercial deliveries and imports. From a usage perspective, the total soybean demand (domestic plus exports) is projected at 1.2 million tonnes in 2018/19 marketing year. Against this backdrop, the SAFEX soybean prices averaged R4 605 per tonne, down by 2% from last week. This was in line with the Chicago soybean prices, which declined by a percentage point from last week, averaging US\$409 per tonne (Chart 5).

Sunflower seed market

The South African Supply and Demand Estimates Committee forecasts sunflower seed supplies for the 2018/19 marketing year at 955 596 tonnes, down by 9 percent from the previous year. This includes an opening stock, local commercial deliveries and imports. The decline is essentially underpinned by an expected lower harvest this production season. The National Crop Estimates Committee placed the harvest estimate at 792 255 tonnes, down by 9 percent from the previous season, but well above market expectations at the beginning of the season.

In terms of usage, the demand (domestic and exports) for sunflower seed is projected at 856 000 tonnes, down by 4 percent from the previous year due to an expected reduction in exports and usage for oil and oilcake. In terms of pricing, the SAFEX sunflower seed market had a good run this week, up by 2% from the previous week, averaging R4 606 per tonne, supported by the weaker domestic currency against the US Dollar (Chart 6).

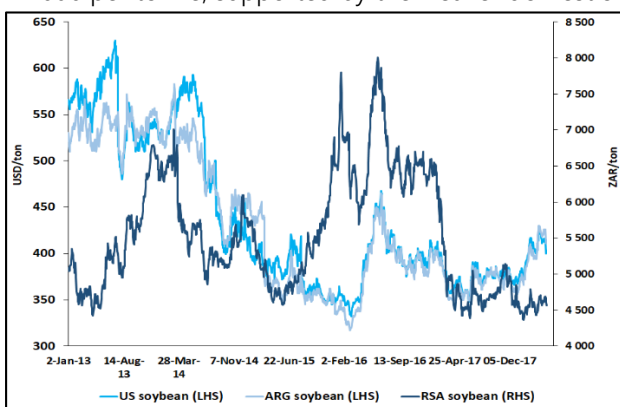


Chart 5: Soybean prices

Source: JSE, IGC, and Agbiz Research

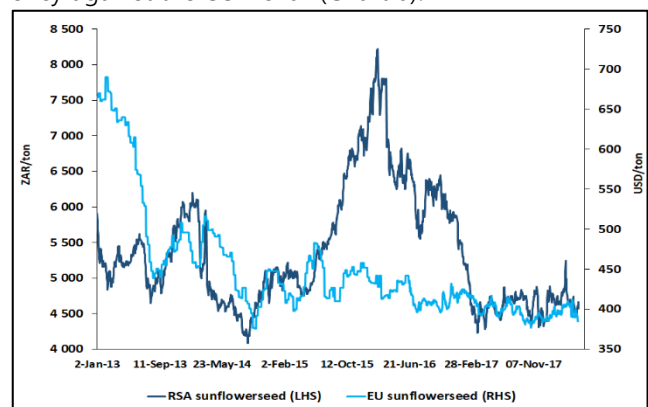


Chart 6: Sunflower seed prices

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. From a meat supply perspective, South African farmers slaughtered 204 613 head of cattle in March 2018, up by 9% from the previous month, but down by 17% from the same period last year. The annual decline in slaughtering is largely on the back of a cattle herd rebuilding process after a reduction during the 2015-16 drought. With that said, the trend in slaughtering activity could soon change as the USDA forecasts a 4% year-on-year increase in the number of cattle to be slaughtered in South Africa in 2018 to 3.5 million cattle, due to the anticipated uptick in demand and a general recovery in the industry performance (Chart 7).

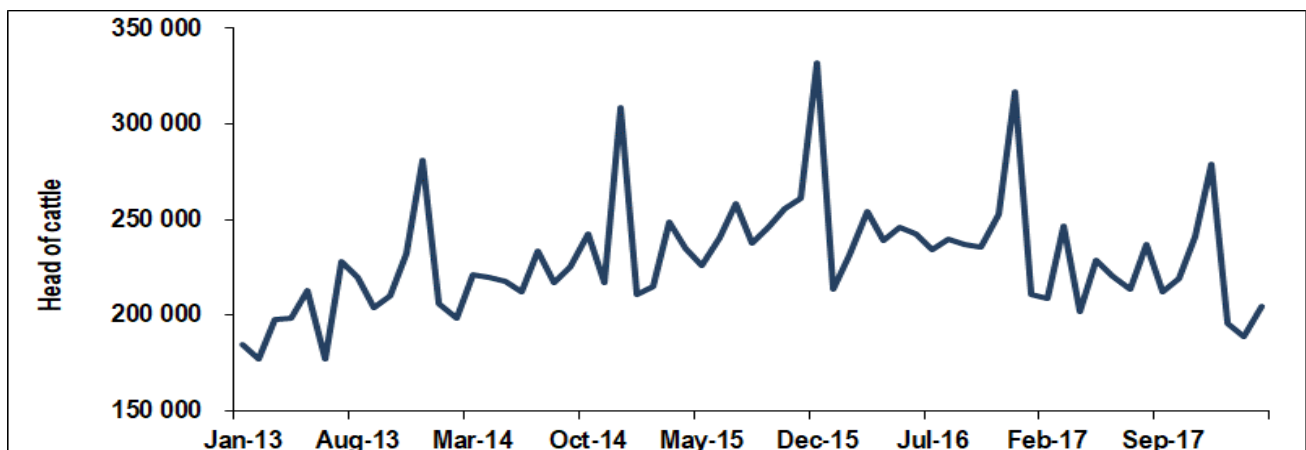


Chart 7: Monthly cattle slaughtering activity

Source: Red Meat Levy Admin, Agbiz Research

Potato market

The potato market ended the week in negative territory, with the price down by 15% from the previous week, closing at R36.03 per pocket/10kg bag (Chart 8). This is due to large deliveries on the back of ongoing harvest activity in most areas, which then lifted stocks by 41% week-on-week to 1.13 million pockets (10kg bag).

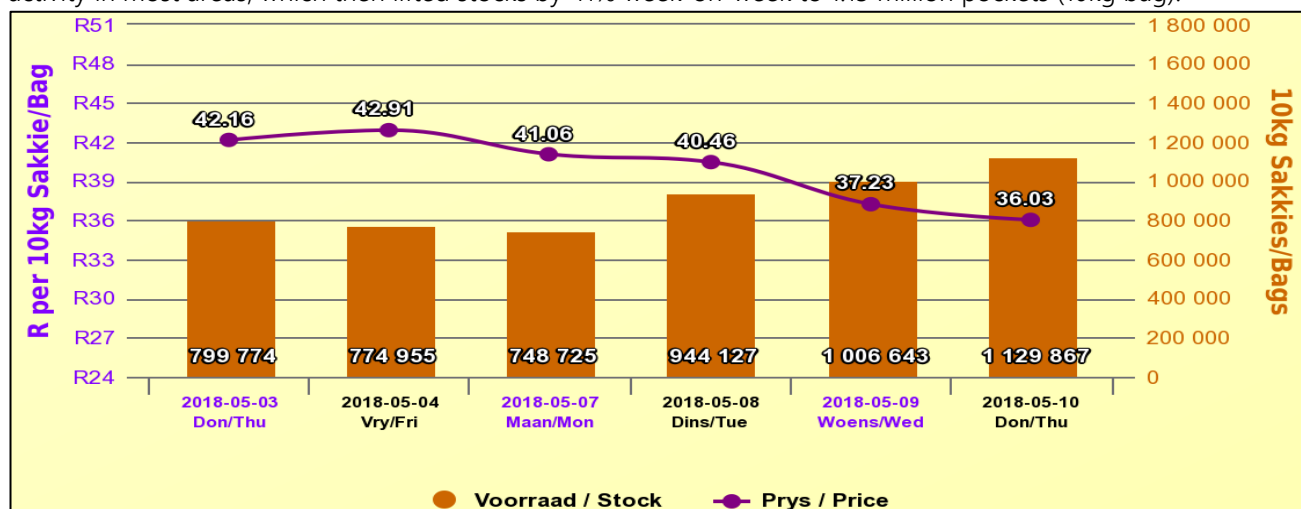


Chart 8: South Africa's average potato prices and stocks

Source: Potato SA



Weather conditions ahead of the weekend

The weather charts show a possibility of showers over most summer crop growing areas within the next eight day. This could potentially slow the harvest process in most areas, particularly in Limpopo, Mpumalanga, KwaZulu Natal and parts of the Free State province. Meanwhile, the winter crop growing areas of the Western Cape province, which urgently need moisture, could remain cool and dry over the observed period (Chart 9).

The summer crop harvest process could, however, recover in the week of 26 May 2018, as the weather forecast shows clear skies over most parts of the country, with the exception of the eastern parts of Mpumalanga and KwaZulu Natal which could receive light showers (Chart 10). The winter wheat growing areas of the Western Cape province could, unfortunately, remain dry and cool, with showers only in the coastal areas.

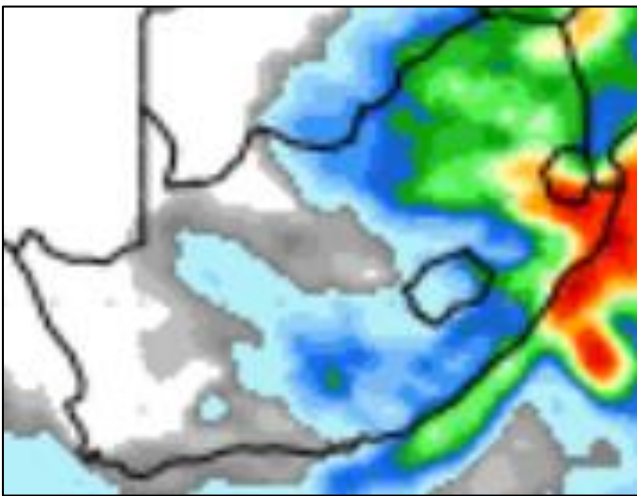


Chart 9: Next 8-days precipitation forecast
Source: wxmaps

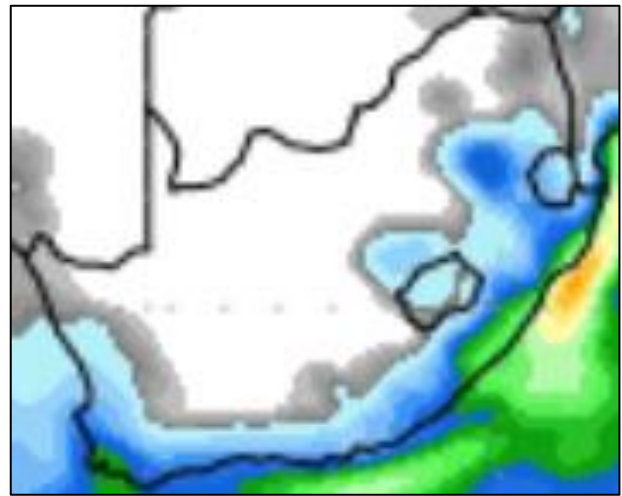


Chart 10: Next 16-days precipitation forecast
Source: wxmaps

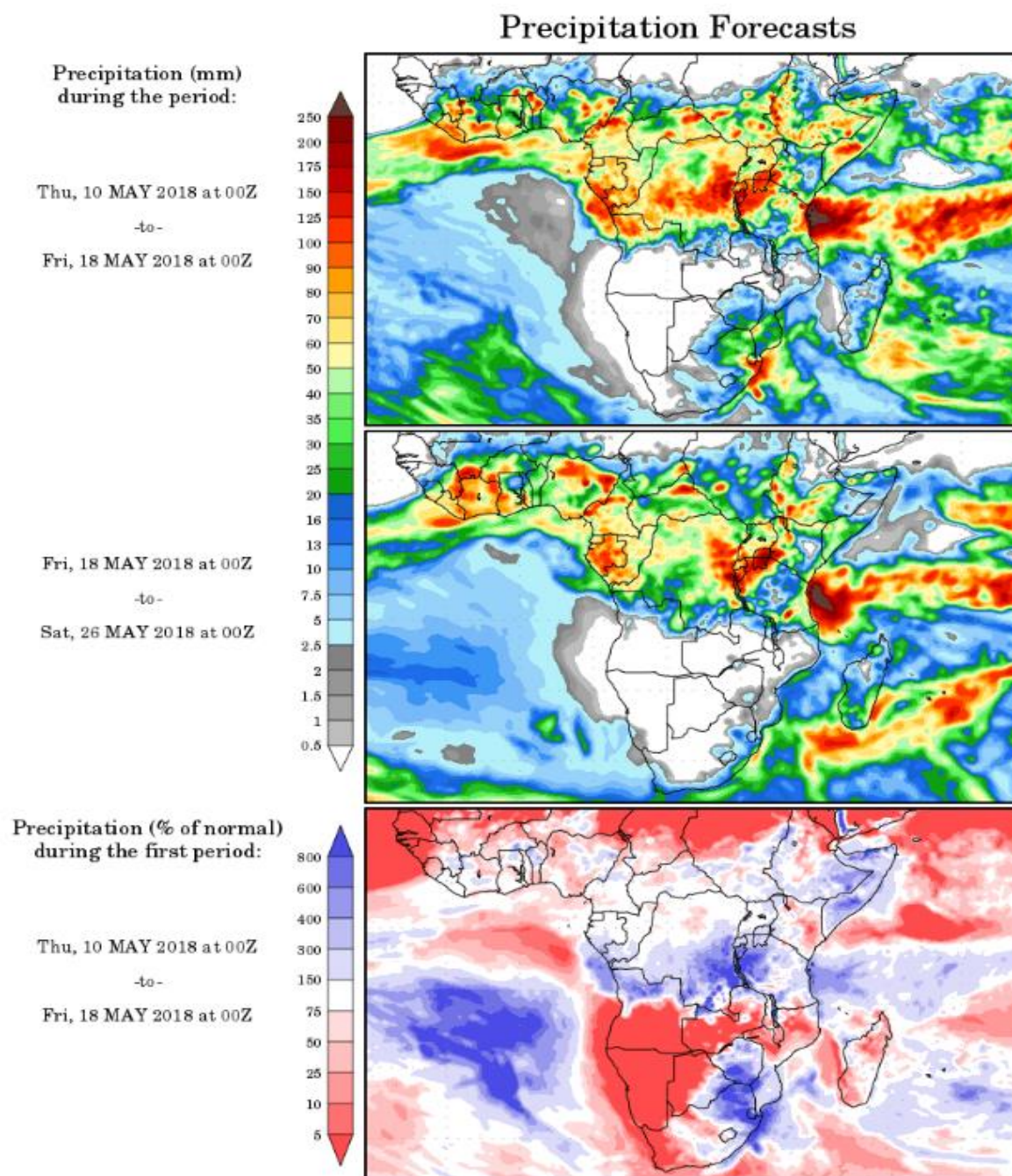


Chart 11: Precipitation forecast

Source: wxmaps

Key data releases in the South African agricultural market

- SAGIS weekly grain trade data: 15/05/2018
- SAGIS producer deliveries data: 16/05/2018
- SAGIS monthly data: 25/05/2018
- National Crop Estimates Committee's data: 29/05/2018

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