AGRIBUSINESS RESEARCH

01 June 2018

South African Agricultural Commodities Weekly Wrap

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This was a data-packed week for grain and oilseed markets, with the most notable release being the Crop Estimates Committee's fourth production estimates for 2017/18 summer crops. The commercial maize production estimate was lifted by a percentage point from last month to 12.8 million tonnes. The soybean and sunflower seed production estimates were left unchanged from last month at 1.4 million tonnes and 792 255 tonnes, respectively. The yields received thus far in the summer crop areas that have already harvested vary between average and above average, which is supportive of the aforementioned estimates. In terms of winter crops, the first production estimate will only be released at the end of August. The planting activity is almost complete in the Western Cape province. The newly emerged crops are in good shape but need rainfall to improve soil moisture and crop conditions.

Maize market

The recent production estimates data implies that South Africa's maize market will be well supplied in the 2018/19 marketing year. In other words, the expected harvest, combined with a large opening stock at the beginning of this marketing year could amount 16.4 million tonnes, well above the local maize demand of 10.7 million tonnes.[1]

Therefore, South Africa's 2018/19 marketing year maize exports could, at least, amount to 2.3 million tonnes, down by 4 percent from the previous year. As set out in our note on Wednesday morning, South Africa exported 75 392 tonnes of maize last week. This placed the 2018/19 maize exports at 127 774 tonnes, which equates to 6 percent of the seasonal export forecast of 2.3 million tonnes. In terms of pricing, white and yellow maize spot prices averaged R2 134 and R2 234 per tonne, roughly unchanged from the previous week (Chart 1). The upward revision of production estimates didn't cause a notable reaction in the market as it was roughly in line with expectations.

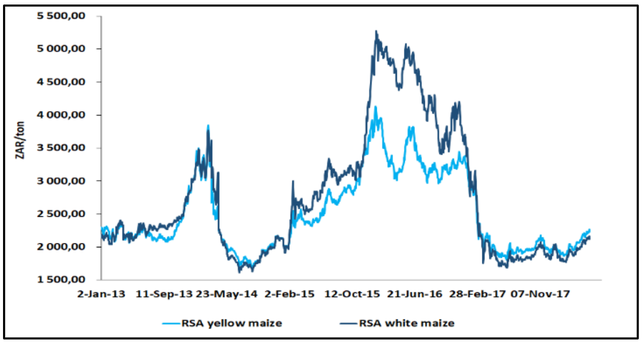

Chart 1: South African maize prices
Source: JSE, Agbiz Research

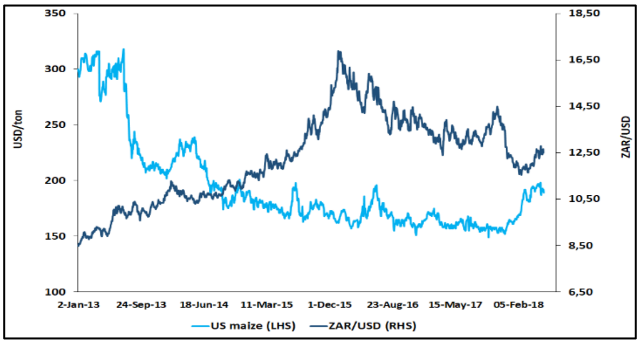

Chart 2: US maize prices and ZAR/USD exchange
Source: IGC, Bloomberg, and Agbiz Research

[1] The 2018/19 marketing year corresponds with 2017/18 production season.

Wheat market

Last week we highlighted a possibility of above-normal rainfall in the winter wheat growing areas of the country within between June and October 2018, basing our view on the recent estimates from the South African Weather Service. [2] However, this is not yet been reflected in the near-term weather outlook for the province. The forecast for the next weeks shows a possibility of light showers in areas around the Swartland, Helderberg and Overberg regions of the Western Cape province.

The winter wheat planting has already been completed in regions around Swartland and Overberg. The newly emerged crop in these particular regions is in good shape, thanks to light showers received in the past few weeks, although rainfall was not sufficient to improve subsoil moisture levels. The area that has not yet made notable progress regarding planting is Southern Cape due to persistent dryness.

The increased chance for above normal rainfall in the Western Cape province within the next four month is exactly what is needed in order to improve sub-soil moisture, which would subsequently support the new season crop over the coming months. This province is of importance because it accounts for 64 percent of South Africa's intended 500 500 hectares for winter wheat in the 2018/19 production season.

Aside from the production dynamics, the wheat import tariff rate of R437.24 per tonne that triggered on 10 April 2018 was finally published in a government gazette on 25 May 2018, making it an official rate. This is a 45 percent increase from the previous rate. The delays and uncertainty of wheat tariff adjustments partly resulted in a decline in imports in the past couple of weeks, but all triggered tariffs have now been gazetted. Therefore, the import activity could continue smoothly in the coming months (Chart 4).

Last week, South Africa imported 21 401 tonnes of wheat in the week of 25 May 2018. About 70 percent of this from Germany, with the rest from Lithuania. This brought South Africa's 2017/18 wheat imports to 1.3 million tonnes, which equates to 68 percent of the season's import forecast of 1.9 million tonnes (Chart 3).

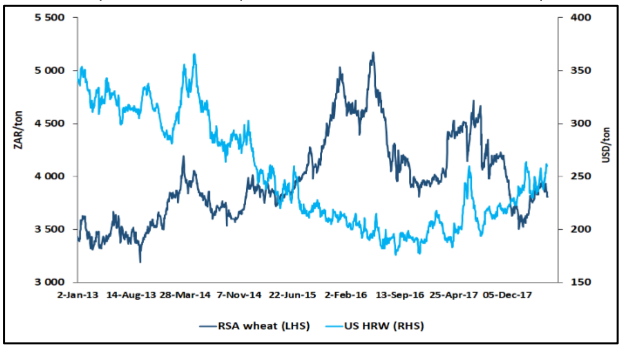

Chart 3: South Africa and US wheat prices
Source: JSE, IGC, and Agbiz Research

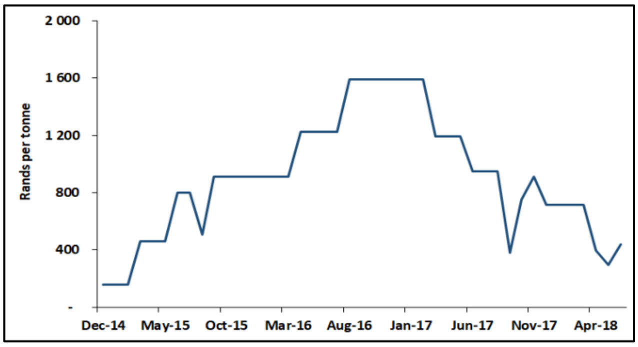

Chart 4: South Africa's wheat import tariff
Source: SAGIS and Agbiz Research

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

Soybean market

As set out in our previous notes, the National Crop Estimates Committee lefts its 2017/18 soybean production estimate unchanged from last month, at 1.4 million tonnes, which is the largest soybean crop produced in the history of South Africa. This is driven by a combination of higher yields and expansion in area planted. The key contributing provinces are Mpumalanga, Free State and KwaZulu Natal. These provinces collectively account for 87 percent share in the expected crop of 1.4 million tonnes.

At the beginning of the week, we highlighted a possibility of harvest delays in the eastern parts of the country due to expectations of light showers. However, the weather forecast has slightly improved and currently showing clear skies over most provinces. This means the soybean harvest activity could continue with minimal interruptions within the next two weeks. If we take into account the expected harvest of 1.4 million tonnes, an opening stock, as well as a relatively small volume of imports, South Africa's 2018/19 marketing year supplies could amount to 1.8 million tonnes, up by 28 percent from the previous year. Against this backdrop, the SAFEX soybean price declined marginally this week compared to the previous one, averaging R4 532 per tonne (Chart 5).

Sunflower seed market

As indicated earlier, the National Crop Estimates Committee left its 2017/18 sunflower seed production estimate unchanged from last month, at 792 255 tonnes (down by 9 percent from the previous season). The Free State, North West and Limpopo provinces are the leading producers, accounting for 99 percent share in the expected crop of 792 255 tonnes. The harvest activity is currently underway across all these provinces, particularly in areas that planted earlier in the season or in the optimal window. The yields delivered thus far largely vary between average and above-average, which supports the aforementioned production estimate.

Looking ahead, the weather forecasts present a likelihood of drier weather conditions over the next two weeks in sunflower seed growing areas of the country, which should add momentum to the harvest activity. Overall, South Africa's 2018/19 sunflower seed supplies could amount to 955 596 tonnes, down by 10 percent from the previous season. This figure includes an opening stock, the expected harvest, as well as imports. In terms of pricing, the SAFEX sunflower seed price averaged R4 595 per tonne this week, up by 0.2 percent the previous week (Chart 6).

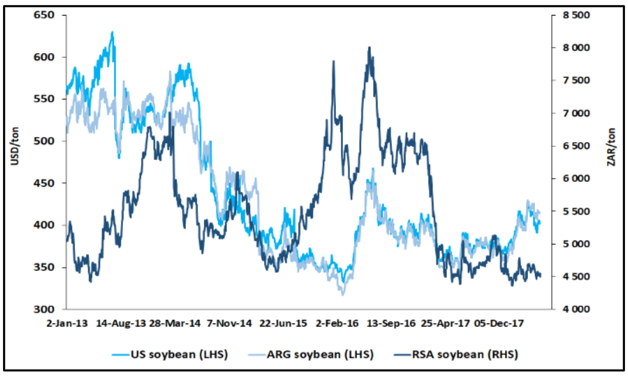

Chart 5: Soybean prices
Source: JSE, IGC, and Agbiz Research

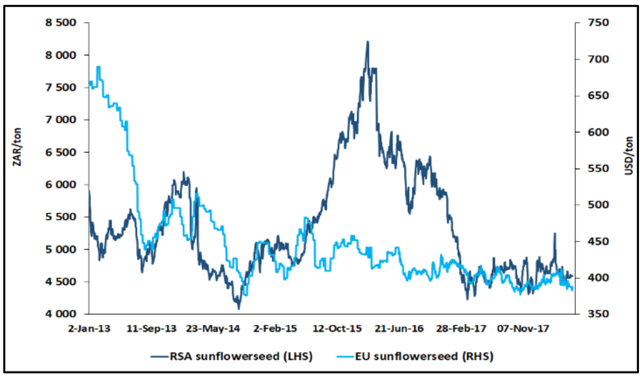

Chart 6: Sunflower seed prices
Source: JSE, IGC, and Agbiz Research

Beef market

It was again another quiet week in the SAFEX beef carcass market with the price unchanged from the previous one, averaging R39.50 per kilogram due to thinly traded volumes. That said, the SAFEX beef carcass price might not be a true reflection of the physical market which continues to show solid activity. In terms of the meat supply, 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. 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).

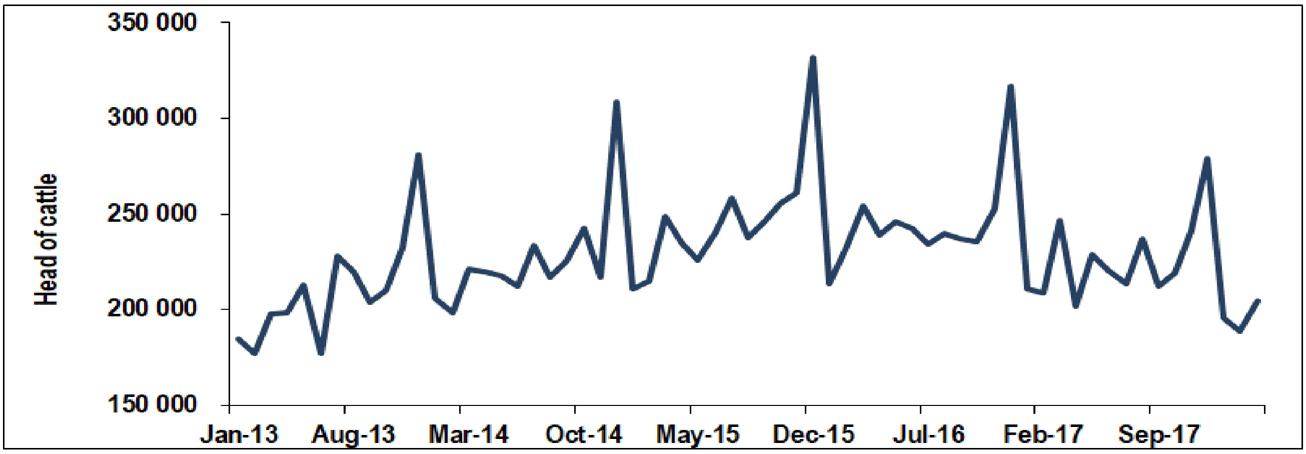

Chart 7: Monthly cattle slaughtering activity
Source: Red Meat Levy Admin, Agbiz Research

Potato market

The potato market ended the week on a negative footing, with the price down by 7% from the previous week, closing at R31.54 per pocket/10kg bag (Chart 8). These losses were mainly on the back of large producer deliveries, supported by the ongoing harvest activity, which then led to an uptick in stocks to 1.48 million pockets (10kg bag).

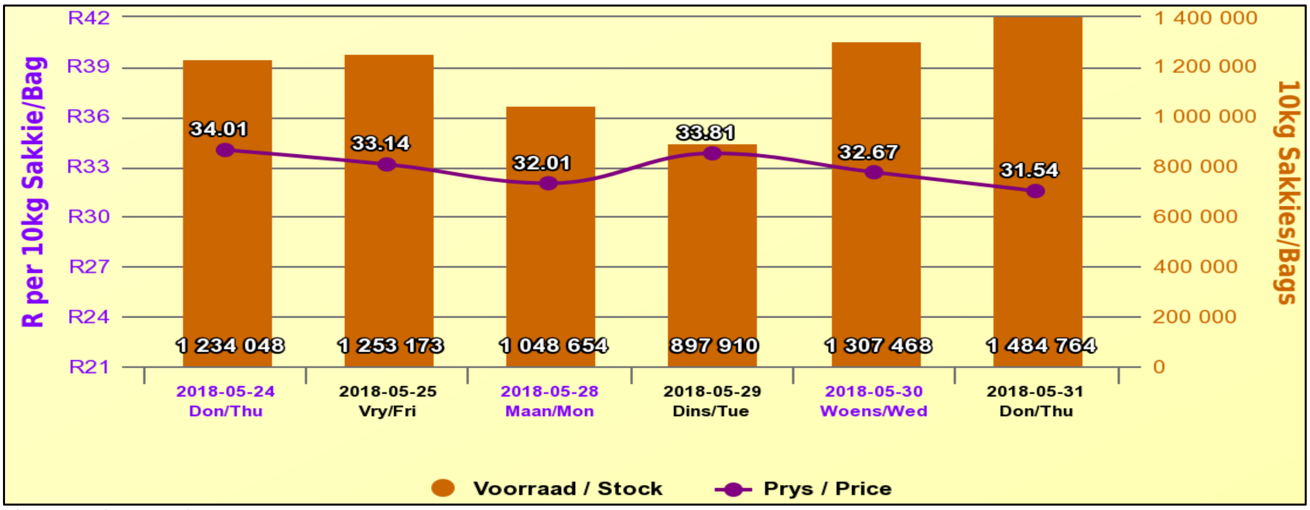

Chart 8: South Africa's average potato prices and stocks
Source: Potato SA

Weather conditions ahead of the weekend

The next eight days could bring light showers around the Swartland, Helderberg and Winelands regions of the Western Cape province. However, this will not make a meaningful improvement on soil moisture as it is expected to be light and scattered, varying between 16 and 20 millimetres (Chart 9).

Furthermore, the southern parts of Mpumalanga province could also receive scattered showers, but that might not stall the harvest activity. It is expected to be light, between 5 and 10 millimetres.

The precipitation forecast for the week of 16 June 2018 presents more of the same, light showers over a few parts of the Western Cape province. The new season crop could be strained because soil moisture is quite low in most areas of the province. The recent showers only improved topsoil moisture levels, not subsoil (Chart 10).

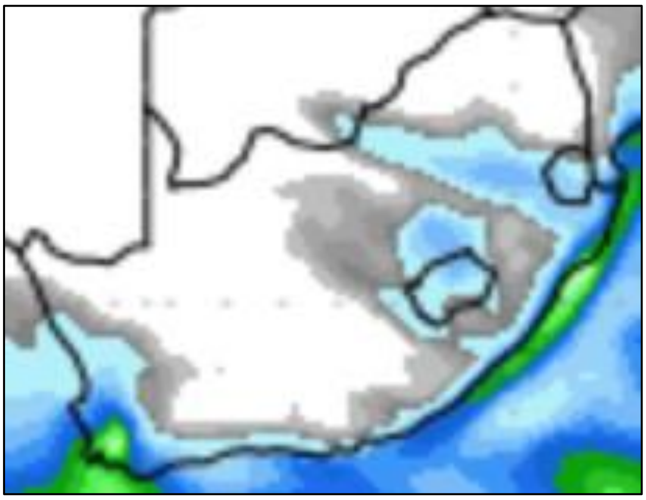

Chart 9: Next 8-days precipitation forecast
Source: wxmaps

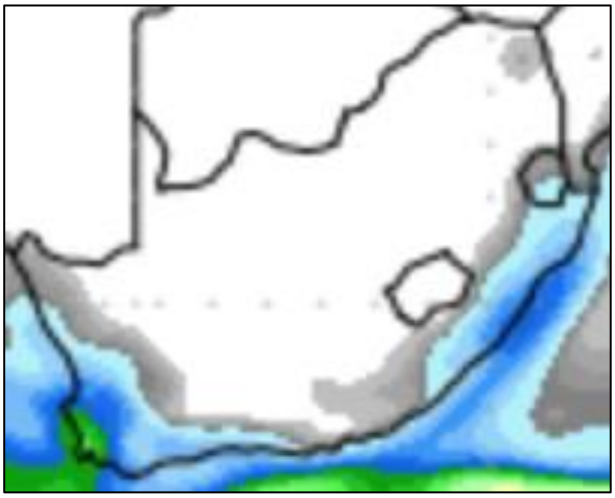

Chart 10: Next 16-days precipitation forecast
Source: wxmaps

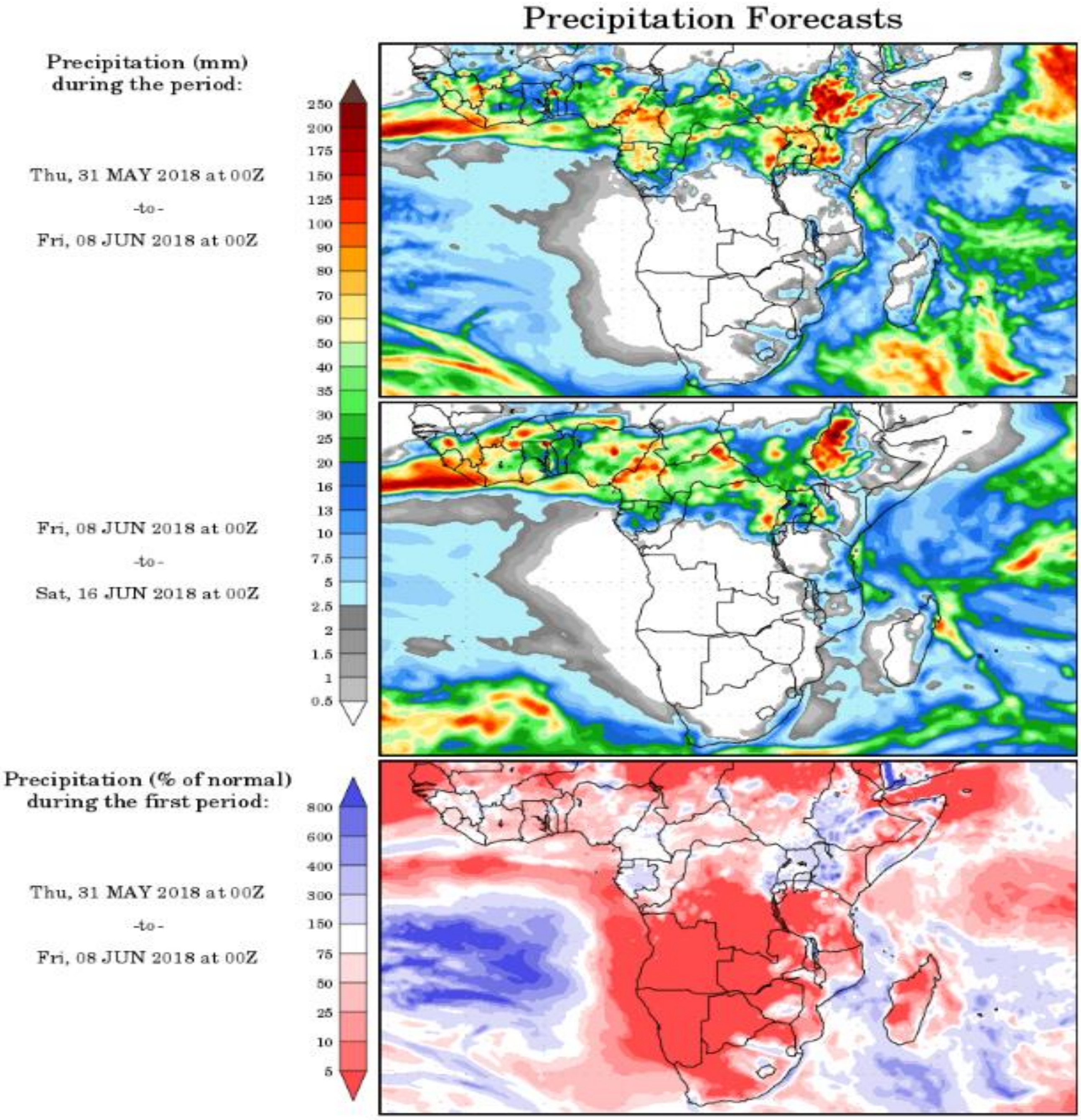

Chart 11: Precipitation forecast
Source: wxmaps

Key data releases in the South African agricultural market

- SAGIS weekly grain trade data: 05/06/2018
- SAGIS producer deliveries data: 06/06/2018
- SAGIS monthly data: 26/06/2018
- National Crop Estimates Committee's data: 27/06/2018