

South African Agricultural Commodities Weekly Wrap

This was a fairly quiet week in the South African agricultural market, with maize and soybean prices closing on in negative territory, whereas wheat and sunflower seed prices maintained the previous week's gains. The price movements can partly be explained by variation in production expectations. Maize and soybean production forecasts have been revised up from levels seen in May 2018, hence boosting local supplies and subsequently adding pressure to the market. Meanwhile, sunflower seed production estimates were left unchanged in the latest revision. Aside from price movements, the harvest process is in full swing across the country and the yield reports from farmers have largely been positive. Looking ahead, the weather will be a key focus within the next couple of weeks as it continues to influence the harvest activity of summer crops and growing conditions of new season winter crops.

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Maize market

This week the International Grains Council kept its forecast for South Africa's 2017/18 maize production unchanged from last month, at 13.4 million tonnes. This is 3 percent lower than the local Crop Estimate Committee's forecast of 13.8 million tonnes for commercial and non-commercial maize production. The estimates are well above South Africa's long-term average maize production of 12.5 million tonnes, albeit being lower than the 2016/17 harvest of 17.6 million tonnes.

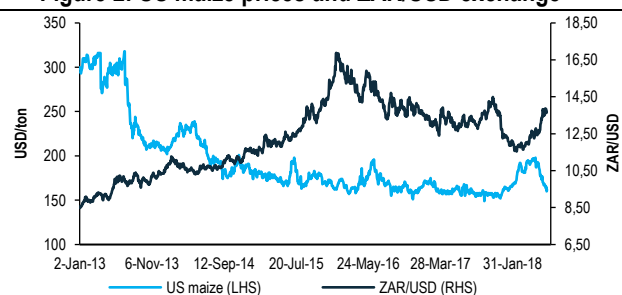
More importantly, the expected production, combined with the stocks from the previous season implies that South Africa's maize supplies will be higher than annual consumption of 10.8 million tonnes. Therefore, maize exports could potentially exceed the estimated 2.5 million tonnes in the 2018/19 marketing year which ends in April 2019. Against this backdrop, white and yellow maize spot prices were down marginally by a percentage point each from levels seen last week, averaging R2 049 and R2 149 per tonne, respectively (Figure 1).

Figure 1: South African maize prices



Source: JSE, Agbiz Research

Figure 2: US maize prices and ZAR/USD exchange



Source: IGC, Bloomberg, and Agbiz Research

Wheat market

The weather remains a key focus in the South African wheat market as the crop is still in its early stages of development. Over the past couple of weeks, the discussion on this subject has largely focused on the Western Cape province because of its 64 percent contribution to the intended area of 500 500 hectares of wheat in the 2018/19 production season.

The season started on a mixed footing, with Swartland and Overberg's regions receiving a fair amount of rainfall, while other regions such as the Southern Cape received very little moisture. This past weekend and the beginning of this week, however, seem to have been a game changer. Although the rainfall in the province was not evenly distributed, almost all wheat growing regions of the province received a fair amount, which should improve winter wheat growing conditions. The areas around Swartland and Overberg regions received higher rainfall, whilst the Southern Cape received moderate showers.

Moreover, the recent rainfall did not only benefit crops but also improved dam levels. The Western Cape provincial dam levels averaged 42 percent in the week of 02 July 2018, up by 6 percentage points from the previous week and 19 percentage points from the corresponding period last year. The province could receive more rainfall in the coming weeks as the South African Weather Service forecasts a possibility of above-normal rainfall in the province between July and September 2018.¹

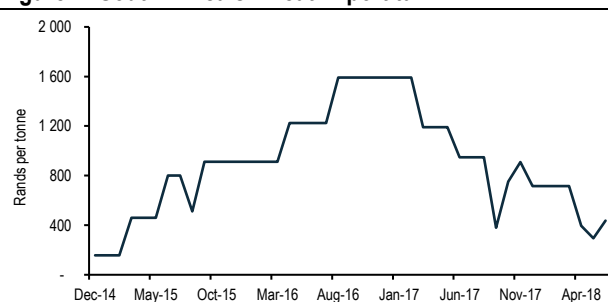
There are no new developments on the import tariff front. The newly calculated rate is R281.74 per tonne, which is 36 percent lower than the current rate.² This new rate will only be applicable after its publication on the government gazette. The timeframe for this process is unclear, but previous adjustments took more than three weeks (Figure 4). South Africa has already imported 84 percent of the estimated volume of 1.9 million tonnes for 2017/18 marketing year. Overall, the SAFEX wheat spot price averaged R4 009 per tonne, up by 0.4 percent from last week (Figure 3).

Figure 3: South Africa and US wheat prices



Source: JSE, IGC, and Agbiz Research

Figure 4: South Africa's wheat import tariff



Source: SAGIS and Agbiz Research

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

² In brief, this adjustment followed an uptick in global wheat prices in the past couple of weeks, due to unfavourable weather conditions in parts of the Black Sea and the EU regions.

Soybean market

The domestic soybean market is well supplied compared to the previous years. The 2018/19 soybean supplies could reach 1.87 million tonnes, up by 33 percent from the previous year, according to data from the National Supply and Demand Estimates Committee. This includes the expected production and imports, as well as opening stock.³

On 29 June 2018, about 1.46 million tonnes of soybeans had already been delivered to commercial silos, thanks to drier weather conditions experienced in the past few weeks and a favourable weather earlier in the season. The deliveries account for 94 percent of the estimated harvest of 1.55 million tonnes. The yields largely varied between average and above-average, which is in line with the Crop Estimate Committee’s view. Against this backdrop, we estimate that South Africa’s soybean and oilcake imports could decline by 27 percent and 17 percent year-on-year in the 2018/19 marketing year to 20 000 tonnes and 458 992 tonnes, respectively. In terms of pricing, the SAFEX soybean price declined by 2 percent compared to the previous week, averaging R4 315 per tonne (Figure 5).

Sunflower seed market

As set out in yesterday’s note, the cool and drier weather conditions experienced in the past couple of weeks have provided conducive conditions for sunflower seed harvest activity. This is evident from volumes delivered to commercial silos in the past couple of weeks. In the week of 29 June 2018, about 558 194 tonnes of sunflower seed had already been delivered to commercial silos. This equates to 70 percent of the estimated harvest of 792 255 tonnes. The yields in areas that planted early in the season varied between average and above-average, which supports the national Crop Estimate Committee’s view of higher yields of about 1.32 tonnes per hectare.

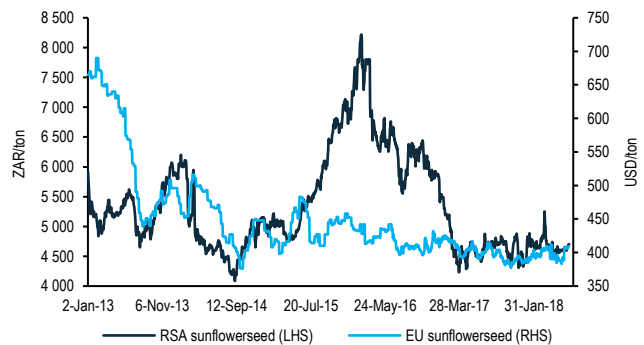
The harvest process could slow in the near term as weather forecast show a possibility of light showers over sunflower seed growing areas of the North West province in the week of 13 July 2018. This partially contributed to the 2 percent uptick in the SAFEX sunflower seed prices this week, which averaged R4 790 per tonne (Figure 6).

Figure 5: Soybean prices



Source: JSE, IGC, and Agbiz Research

Figure 6: Sunflower seed prices



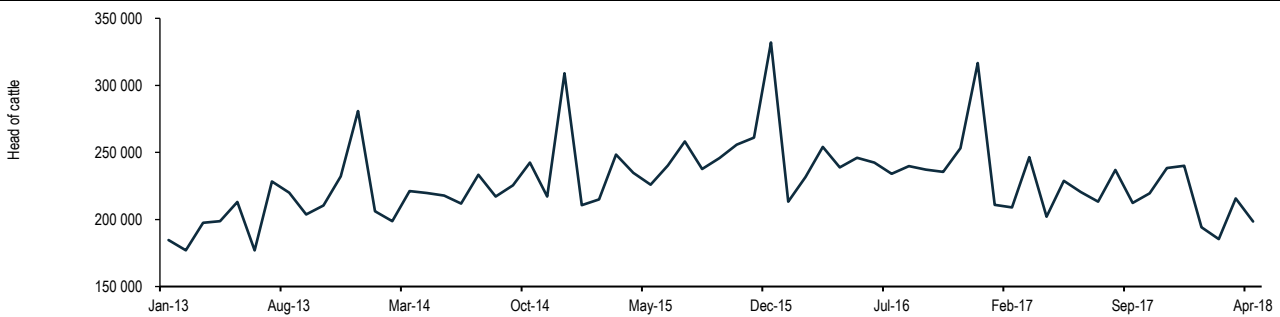
Source: JSE, IGC, and Agbiz Research

³The key driver of the uptick in supplies is the expected large harvest, which in turn, is underpinned by higher yields and an expansion in area planted.

Beef market

This was again another quiet week in the SAFEX beef carcass market, with the price unchanged from the previous week, averaging R47.50 per kilogram due to thinly traded volumes. With that said, the SAFEX beef price might not be a true reflection of the physical market which continues to show solid activity. In terms of the supply, the South African farmers slaughtered 219 434 head of cattle in May 2018, down by 4 percent from May 2017 due to the herd rebuilding process after a reduction during the 2015-16 drought (Figure 7). However, the trend could soon change as the USDA forecasts a 4 percent annual 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.

Figure 7: Monthly cattle slaughtering activity

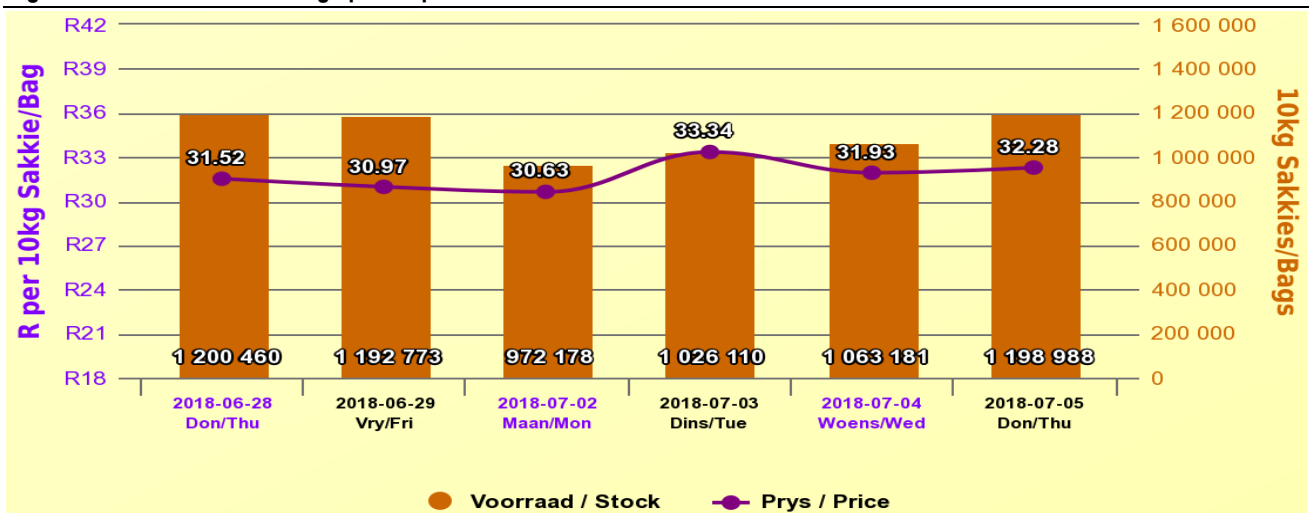


Source: Red Meat Levy Admin, Agbiz Research

Potato market

The potato market ended the week on a positive footing, with the price up by 2 percent from the previous week, closing at R32.28 per pocket/10kg bag (Chart 8). These gains were mainly on the back of a slight decline in stock levels to 1.19 million pockets (10kg bag), which in turn, were underpinned by strong commercial buying interest.

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



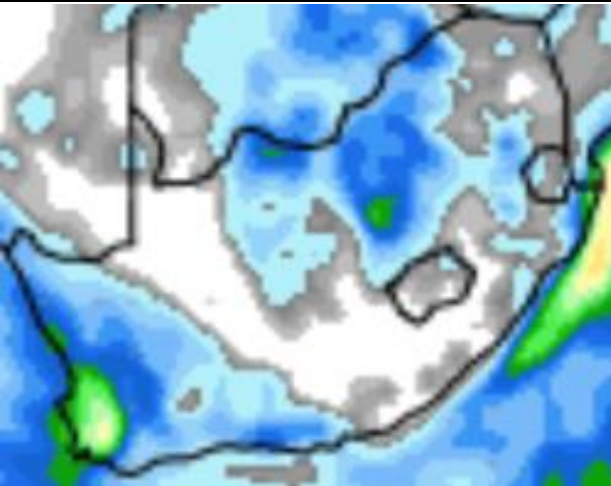
Source: Potato SA

Weather conditions ahead of the weekend

The next eight days could bring light showers in parts of the North West and also Western Cape province. In the case of the Western Cape, the expected rainfall bodes well for the new season crop, while the North West could experience slight delays in the summer crop harvest process, particularly white maize and sunflower seed growing regions (Figure 9).

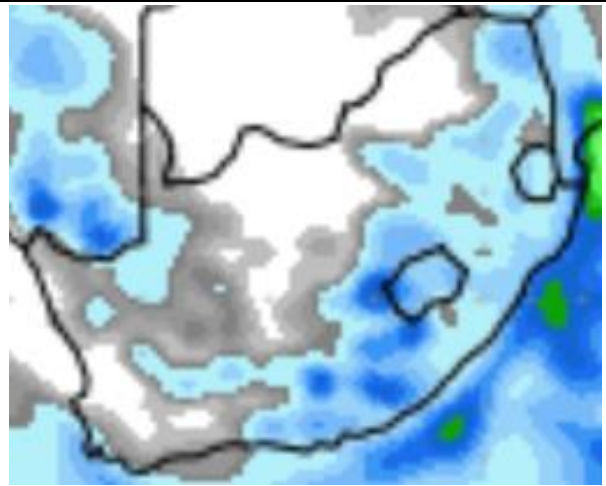
The week of 21 July 2018 shows a possibility of dry and cool weather conditions over the Western Cape province, while the eastern parts of the country could receive light showers (Figure 10). This does not bode well for both winter and summer crops. The forecast showers could delay the summer crop harvest process, whereas drier weather conditions could strain winter crops, which need moisture at its current stages of development.

Figure 9: Next 8-days precipitation forecast



Source: wxmaps

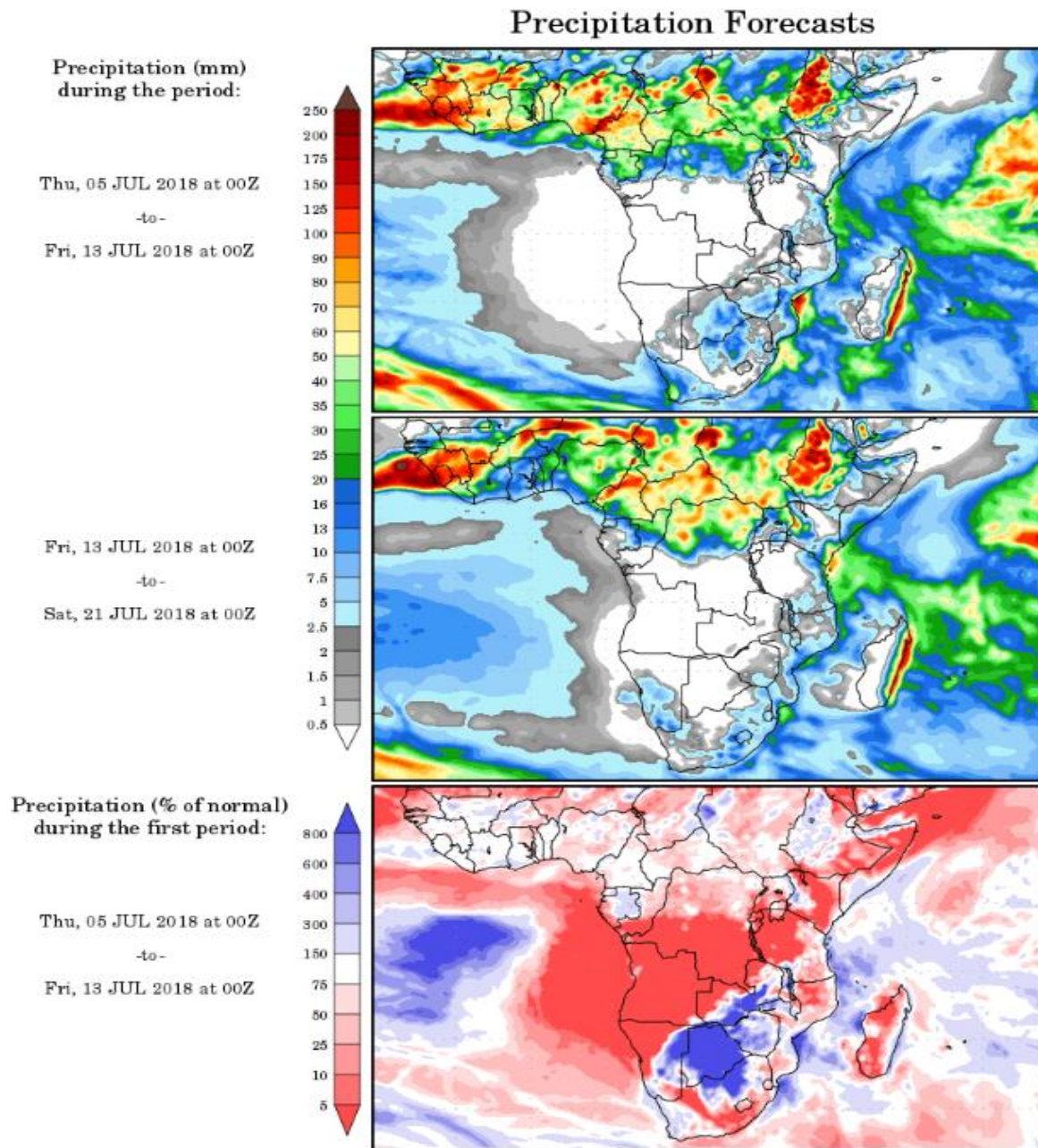
Figure 10: Next 16-days precipitation forecast



Source: wxmaps



Figure 11: Precipitation forecast for the next two weeks



Source: wxmaps

Key data releases in the South African agricultural market

- SAGIS weekly grain trade data: 10/07/2018
- SAGIS producer deliveries data: 11/07/2018
- SAGIS monthly data: 25/07/2018
- National Crop Estimates Committee's data: 26/07/2018

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