AGRIBUSINESS RESEARCH

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South African Agricultural Commodities Weekly Wrap

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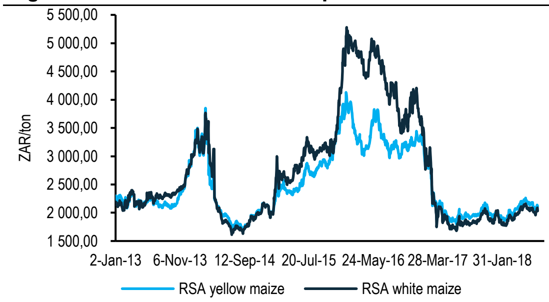
The weather was again a key focus this week after the South African Weather Service's seasonal climate watch presented a mixed picture for the next couple of months. On the one hand, the agency noted that the western coastal regions of the country, which include the Western Cape, could receive above-normal rainfall between August and October. This is a welcome development for winter crop growing areas, following a drought season. On the other hand, the agency indicated a likelihood of El Niño occurrence in the 2018/19 summer crop production season, which commences in October. These, however, are still preliminary estimates; we will get clear guidance within the next two months. In the near term, this will have minimal impact on grain prices as the market is well supplied on the back of a large harvest. Looking ahead, the data calendar for next week is fairly light with no major releases.

Maize market

Yesterday the Crop Estimate Committee kept its forecast for South Africa's 2017/18 commercial maize production unchanged from last month at 13.2 million tonnes, against market expectations of a percentage point uptick to 13.3 million tonnes. The non-commercial maize or smallholder farmer maize production estimate also remained unchanged at 593 975 tonnes. This placed South Africa's total maize production at 13.8 million tonnes.

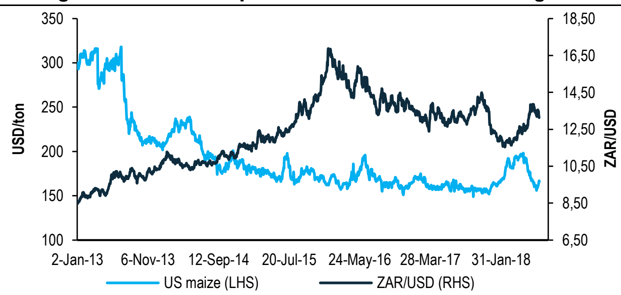
While this is less than last season's record harvest of 17.6 million tonnes, it is well above the long-term average production of 12.5 million tonnes. Furthermore, the expected harvest, combined with carryover stock from last season boosted South Africa's 2018/19 marketing year maize supplies to 16.7 million tonnes, which is higher than the local demand of 10.8 million tonnes. Although domestic maize prices gained ground this week, compared to last week (Figure 1).The bottom line is that maize prices could remain at relatively lower levels in the near term due to large supplies. The marginal uptick in maize prices this week was somewhat driven by currency movements.

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

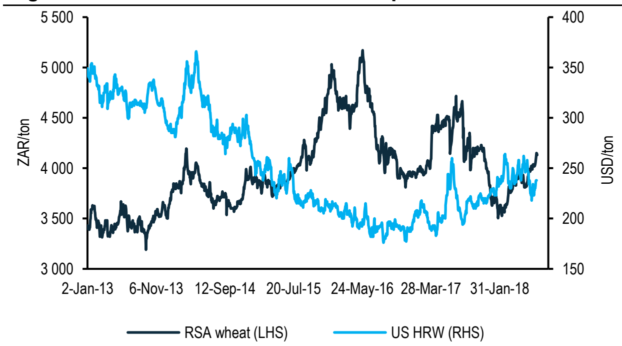
The Crop Estimate Committee placed South Africa's 2018 winter wheat preliminary planting estimate at 505 000 hectares, up by 3 percent from last year. The uptick was mainly in the Free State and Limpopo provinces. This managed to offset the 2 percent annual decline in Western Cape's winter wheat area plantings. Nonetheless, the province remains a leading winter wheat producer accounting for 63 percent of the overall hectares.

The preliminary indications suggest that South Africa could have a far better season compared to 2017. This will be boosted by both the uptick in area planted, as well as the favourable weather forecast. At the beginning of the week, there were concerns of dryness over the winter wheat producing provinces of the Western Cape, particularly the southern regions. However, the latest weather updates show some levels of improvement, with prospects of light showers in the province within the next two weeks.

The expected rainfall will not only improve crop conditions but also dam levels. The most recent data from the Department of Water and Sanitation shows that the Western Cape provincial dam levels averaged 50 percent in the week of 23 July 2018, up by a percentage point from the previous week and 24 percentage points from the same period last year. Furthermore, the South African Weather Service also presented a positive message this week, forecasting a likelihood of above-normal rainfall over the western coastal regions of the country, which include the Western Cape province, during early spring (a period between August and October 2018).

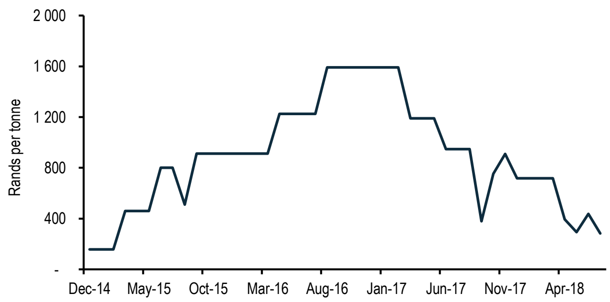
There are no new developments on the wheat import tariff front. The newly calculated rate is R640.54 per tonne, well above the current rate of R281.74 per tonne. This new rate will only be applicable after its publication on the government gazette. The timeframe for this process is unclear, but previous adjustments took more than three weeks (Figure 4). This is of importance as South Africa's 2017/18 wheat imports are estimated at 1.9 million tonnes, second highest level on record. About 89 percent of this has already been imported, the rest could reach our shores before the end of September, which is the end of the marking year. Aside from this, the local wheat market had a good run, with the SAFEX spot price averaging R4 136 per tonne, up by 2 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

Soybean market

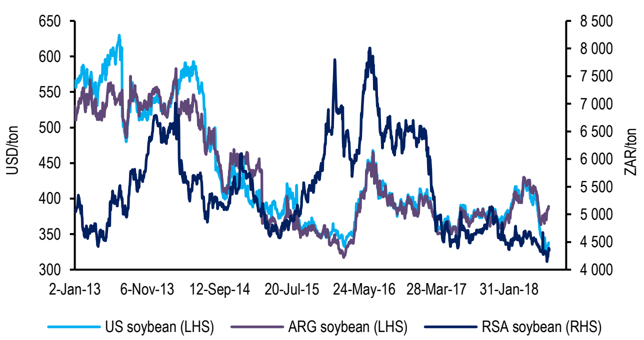
Similar to maize, the Crop Estimate Committee left its estimate for South Africa's 2017/18 soybean production forecast unchanged from last month at 1.6 million tonnes. This is 23 percent higher than the previous season due to an expansion in area planted, as well as higher yields. The Committee's decision is usurping as the harvest process ended, with good yields in a number of areas. While the soybean harvest process has been completed, farmers continue to deliver the crop to commercial silos. In the first 21-weeks of the 2018/19 marketing year, soybean producer deliveries amounted to 1.47 million tonnes, which equates to 95 percent of the expected crop.

This essentially means that South Africa's 2018/19 soybean supplies are in good shape, estimated at 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. The improvement in local supplies could lead to a decline in imports as the country is increasingly reliant on domestic supplies. Asa a result, 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. With that said, the weaker domestic currency and higher Chicago soybean prices provided good support to the local market this week. The SAFEX soybean spot price increased by 4 percent from the previous week, averaging R4 352 per tonne (Figure 5).

Sunflower seed market

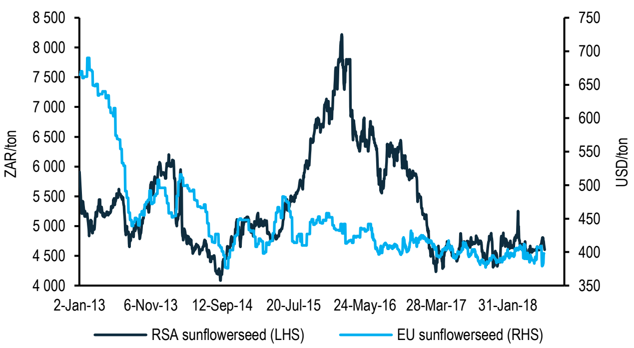
As indicated in yesterday's note, the sunflower seed harvest process is towards completion, thanks to favourable weather conditions experienced in the past couple of weeks. This is reflected in the producer deliveries data, which are slowing as a large share of the crop has already been delivered to commercial silos. The reports of lower yields in the late-planted areas of the country have also contributed to the decline in deliveries. In the week of 20 July 2018, sunflower seed producer deliveries amounted to 35 087 tonnes, down by 29 percent from the previous week. This placed South Africa's 2018/19 sunflower seed producer deliveries at 756 891 tonnes, which equates to 96 percent of the estimated harvest of 792 255 tonnes (unchanged from last month's estimate). In terms of pricing, the SAFEX sunflower seed spot price was up by 3 percent this week, averaged R4 610 per tonne (Figure 6).

Figure 5: Soybean prices



Source: JSE, IGC, and Agbiz Research

Figure 6: Sunflower seed prices

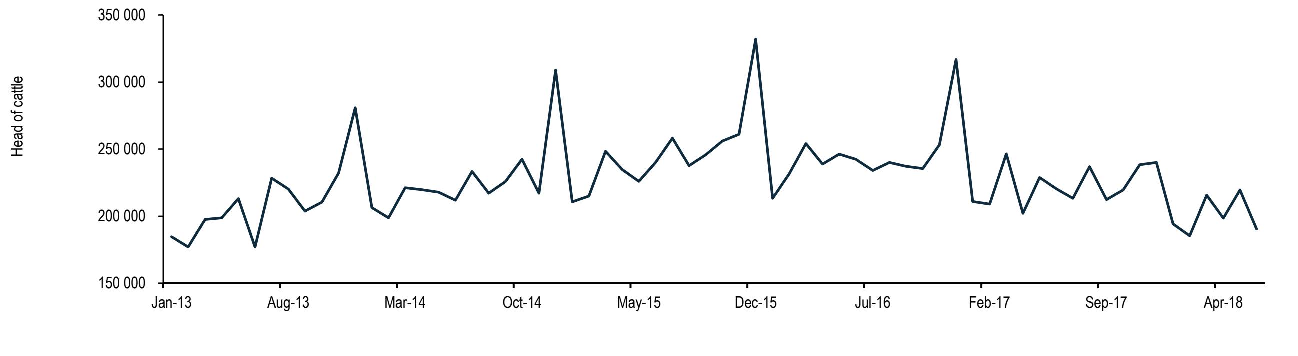


Source: JSE, IGC, and Agbiz Research

Beef market

It was again a quiet week in the SAFEX beef carcass market with the price unchanged from the previous week, averaging R47.50 per kilogram. As indicated in the previous note, 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 190 454 head of cattle in June 2018, down by 14 percent from June 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

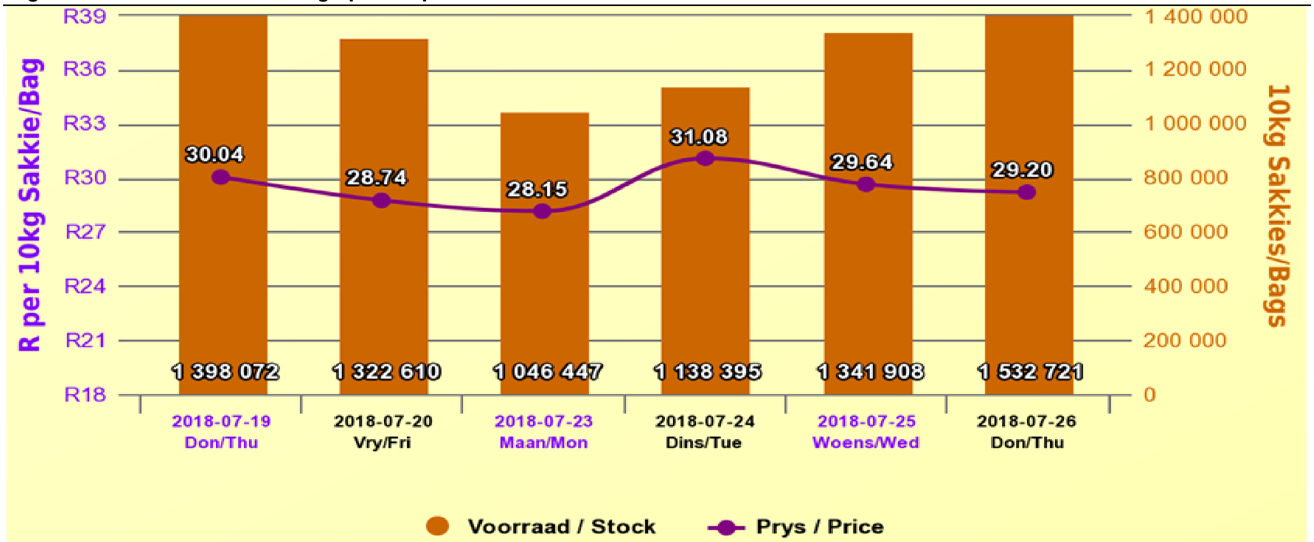


Source: Red Meat Levy Admin, Agbiz Research

Potato market

The potato market ended the week on a negative footing, with the price down by 3 percent from the previous week, closing at R29.20 per pocket/10kg bag (Figure 8). These losses were mainly on the back of fairly large stocks of 1.53 million pockets (10kg bag), which was supported by ongoing harvest activity in the country.

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



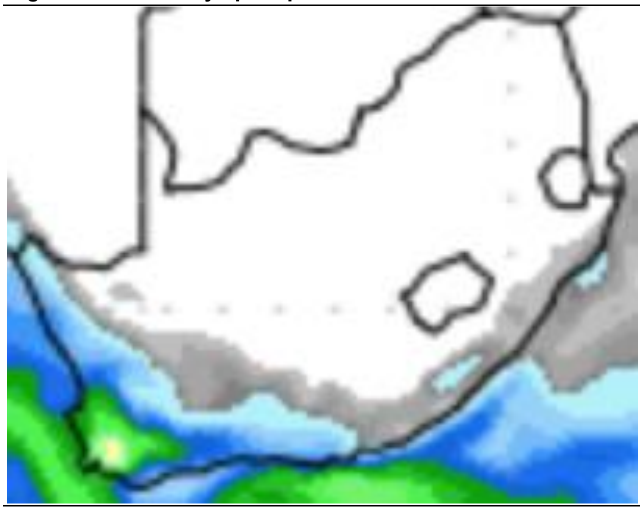
Source: Potato SA

Weather conditions ahead of the weekend

The weather forecast for the next eight days is favourable over most parts of the Western Cape province, which bodes well with the winter crop. The summer crop regions could experience cool and drier weather conditions, which is supportive of the harvest process (Figure 9).

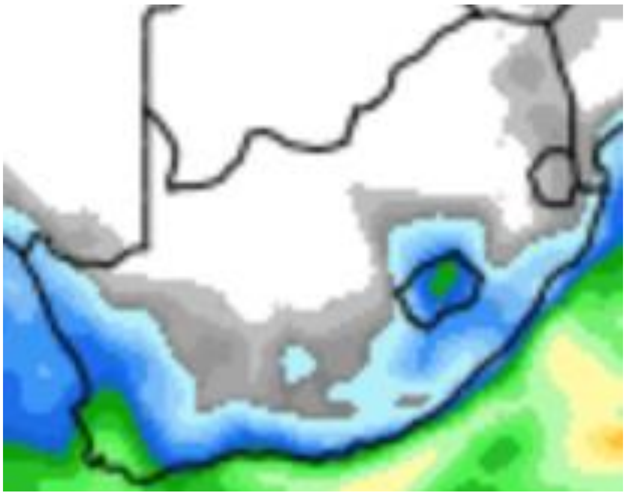
Furthermore, the week of 11 August 2018 could bring rainfall of over the Western Cape province, as well as the coastal areas of the Eastern Cape and KwaZulu Natal provinces, which could improve soil moisture and winter crop conditions. This is a welcome development, given that the past couple of weeks have been relatively drier, particularly the southern regions of the Western Cape (Figure 10).

Figure 9: Next 8-days precipitation forecast



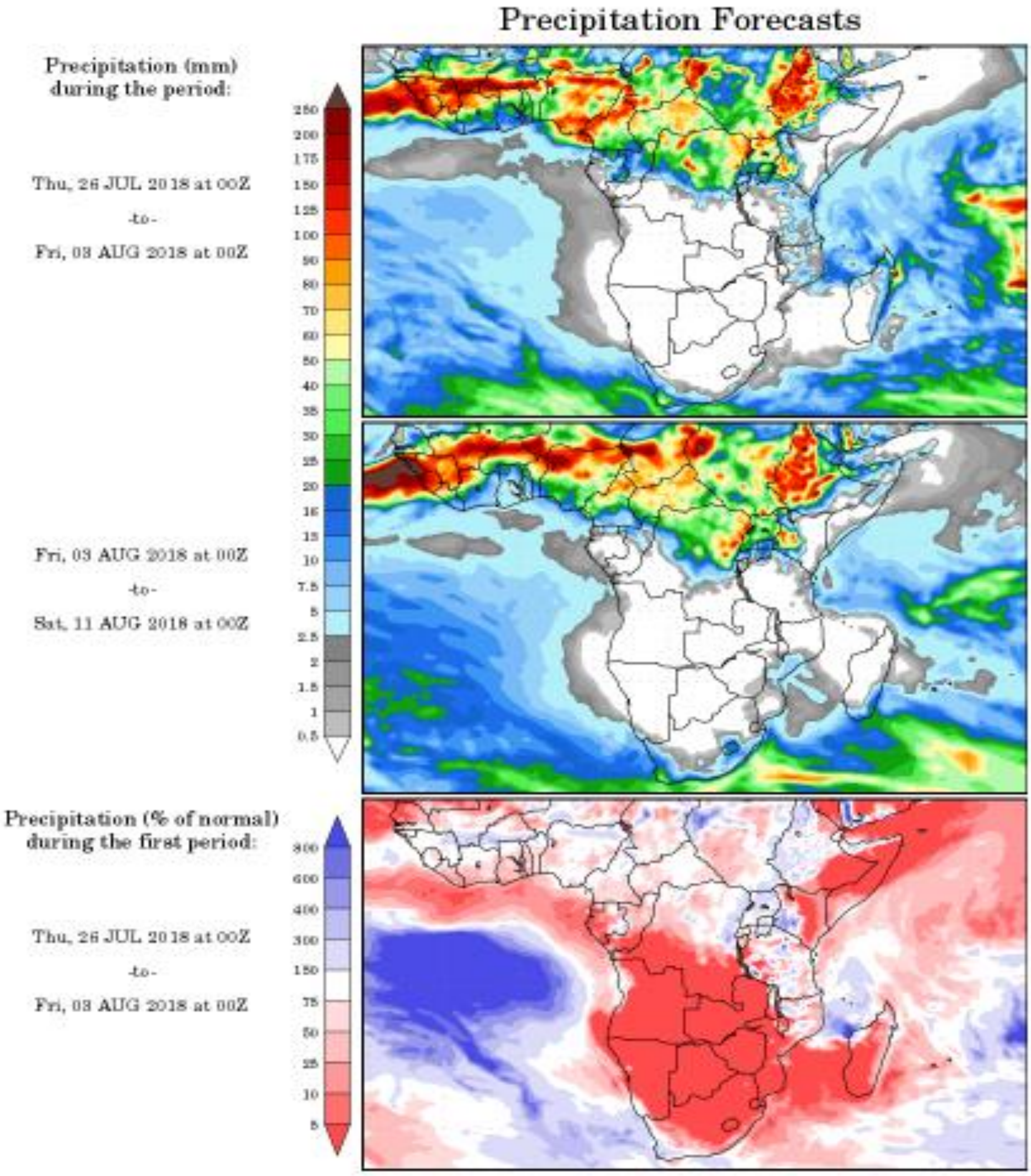
Source: wxmaps

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 producer deliveries data: 01/08/2018
- SAGIS weekly grain trade data: 02/08/2018
- SAGIS monthly data: 27/07/2018
- National Crop Estimates Committee's data: 28/08/2018

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