AGRIBUSINESS RESEARCH

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# South African Agricultural Commodities Weekly Wrap


**Wandile Sihlobo**
+27(0)12 807 6686
wandile@agbiz.co.za
@WandileSihlobo

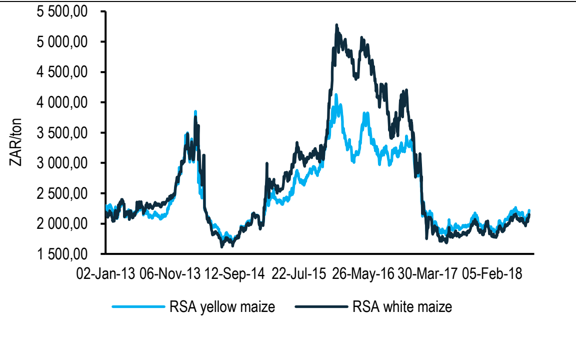

Last week we painted an optimistic picture of possible above-normal rainfall over the Western Cape province between this month and October, leaning on the local Weather Service forecasts. However, it seems that by the time this materialises some winter wheat growing areas would have already been negatively affected by the current dryness. A case in point is the southern Cape region, which has not received good rainfall since the start of the season, with crops already showing signs of damage, particularly in early-planted areas. The other regions such as Swartland and Overberg are, however, still in good shape following higher rainfall in the past few weeks. The impact of this in overall wheat production remains unclear, the official estimates will be released on 28 August. Aside from that, the local agricultural commodities prices were up this week, supported by higher Chicago grain prices.

## Maize market

The International Grains Council recently took a similar path as the local Crop Estimate Committee and revised its 2017/18 maize production estimate up by 3 percent from the June 2018 estimate to 13.8 million tonnes. This includes both commercial and non-commercial maize production. The expected production, combined with the stocks from the previous season implies that South Africa's maize supply for the 2018/19 marketing year could amount to 16.7 million tonnes, which is higher than annual consumption of 10.8 million tonnes. This essentially means that South Africa could see maize exports exceeding 2.5 million tonnes in the 2018/19 marketing year which ends in April 2019.

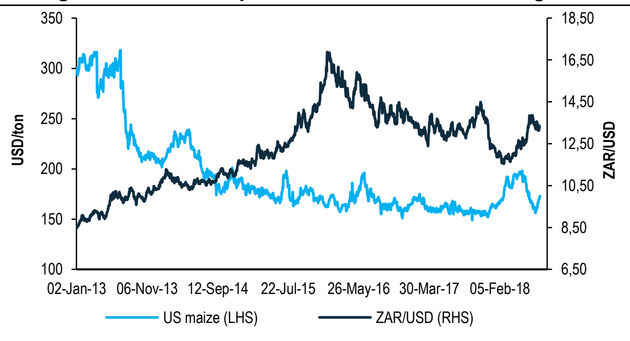
While domestic maize prices inched up a bit this week, the bottom line is that maize prices could remain at relatively lower levels in the near term due to large supplies (Figure 1). The marginal uptick in maize prices this week was somewhat driven by currency movements, higher Chicago grain prices, as well as commercial buying interest.

**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

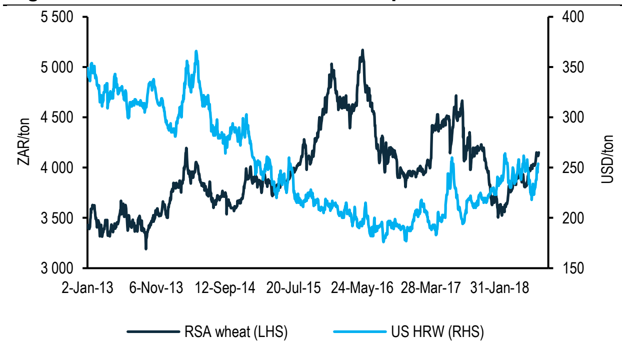
The Western Cape, Free State, Northern Cape and Limpopo collectively account for 95 percent of the estimated area of 505 000 hectares of winter wheat in the 2018/19 production season. The planting window in the Free State, Northern Cape and Limpopo provinces typically runs between June and July of each year, while the Western Cape starts planting towards the end of April.

Besides being a key winter wheat producer with 63 percent share in the aforementioned area, the Western Cape is the only province where the crop growth stages have advanced. The crop conditions in the province, however, are somewhat mixed, as the previous week's rainfall was not evenly distributed. The Swartland and Overberg regions received higher rainfall, but in the southern Cape, it was fairly moderate. Hence, we highlight in the introduction of this note that crops in the southern Cape region of the Western Cape are already showing signs of damage, particularly in the early-planted areas. The other regions such as Swartland and Overberg are still in good shape following higher rainfall in the past few weeks.

The winter wheat planting process is almost complete in other provinces and could benefit from improved soil moisture in the coming weeks, following good summer rainfall in the 2017/18 season. It is also worth noting that a share of the Free State, Limpopo and the Northern Cape province's winter wheat crop is under irrigation, which should benefit from improved dam levels that are currently over 70 percent full in each province. Looking ahead, the weather will remain a primary focus in the South African wheat market. While the medium-term prospects are positive for the Western Cape, with a possibility of above-normal rainfall, the near term forecasts show that rainfall could be concentrated in the western parts of Swartland, Helderberg, Winelands, Overberg and Garden Route, while other regions of the province could experience the drier condition.

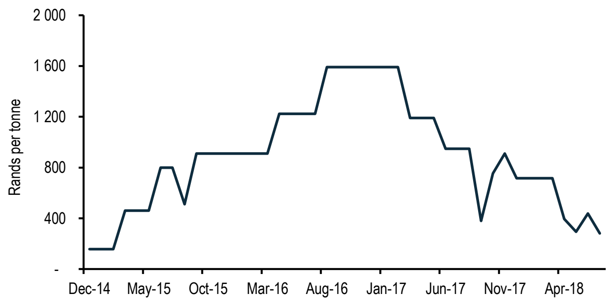
The newly calculated wheat tariff is R640.54 per tonne, well above the current rate of R281.74 per tonne. This will only be applicable after its publication on the government gazette. The timeframe for this process is unclear, but previous adjustments took more than three weeks (Figure 4). Aside from this, the local wheat market lost ground this week with the SAFEX spot price averaging R4 131 per tonne, down by 0.12 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

As set out in yesterday's note, farmers continue to deliver the crop to commercial silos, although the harvest process has been completed. In the week of 27 July 2018, the 2018/19 marketing year soybean producer deliveries amounted to 1.47 million tonnes, which equates to 95 percent of the expected harvest of 1.55 million tonnes. The yields generally varied between average and above-average, which is in line with market expectations. More soybeans could be delivered over the coming weeks as weather outlook is quite favourable for logistics from farms to silos.

The deliveries received thus far have boosted domestic soybean stocks, which were estimated at 1.40 million tonnes in June 2018, up by 2 percent from the previous month and 37 percent from the corresponding period last year. Moreover, the expected production of 1.55 million tonnes, coupled with large stocks from the previous season and an expected small volume of imports could put South Africa's 2018/19 soybean supplies at 1.86 million tonnes, up by 32 percent from the previous year. This could lead to a decline in imports as the country is increasingly becoming reliant on domestic produce. For example, South Africa's soybean and oilcake imports could decline by 64 percent and 17 percent year-on-year in the 2018/19 marketing year to 10 000 tonnes and 458 992 tonnes, respectively. In terms of pricing, the SAFEX soybean spot price was marginally up by 0.2 percent from the previous week, averaging R4 363 per tonne due to spillover support from higher Chicago soybean prices (Figure 5).

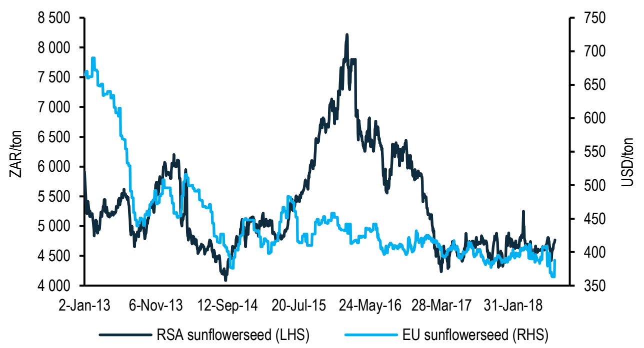
## Sunflower seed market

It is almost a downtime in the sunflower seed market as the harvest process is towards completion. The few patches that are left are in the western parts of North West and Free State provinces but should be finished soon, as the weather forecast for the next two weeks shows clear skies over these provinces. The progress in the harvest progress is reflected in the producer deliveries data, which are slowing as a large share of the crop has already been delivered to commercial silos. In the week of 27 July 2018, sunflower seed producer deliveries amounted to 25 465 tonnes, down by 27 percent from the previous week. This placed South Africa's 2018/19 marketing year sunflower seed producer deliveries at 782 527 tonnes, which equates to 99 percent of the estimated harvest of 792 255 tonnes. Overall, the SAFEX sunflower seed spot price was up by 2 percent this week, averaged R4 729 per tonne (Figure 6).

**Figure 5: Soybean prices**


Source: JSE, IGC, and Agbiz Research

**Figure 6: Sunflower seed prices**

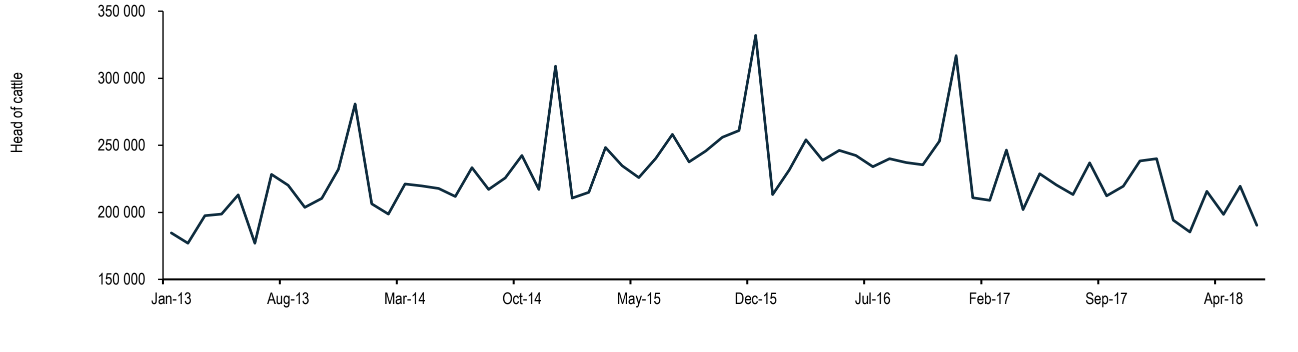



Source: JSE, IGC, and Agbiz Research

## Beef market

This week the SAFEX beef carcass price remained unchanged from the previous week, averaging R47.50 per kilogram due to thinly traded volumes. 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**

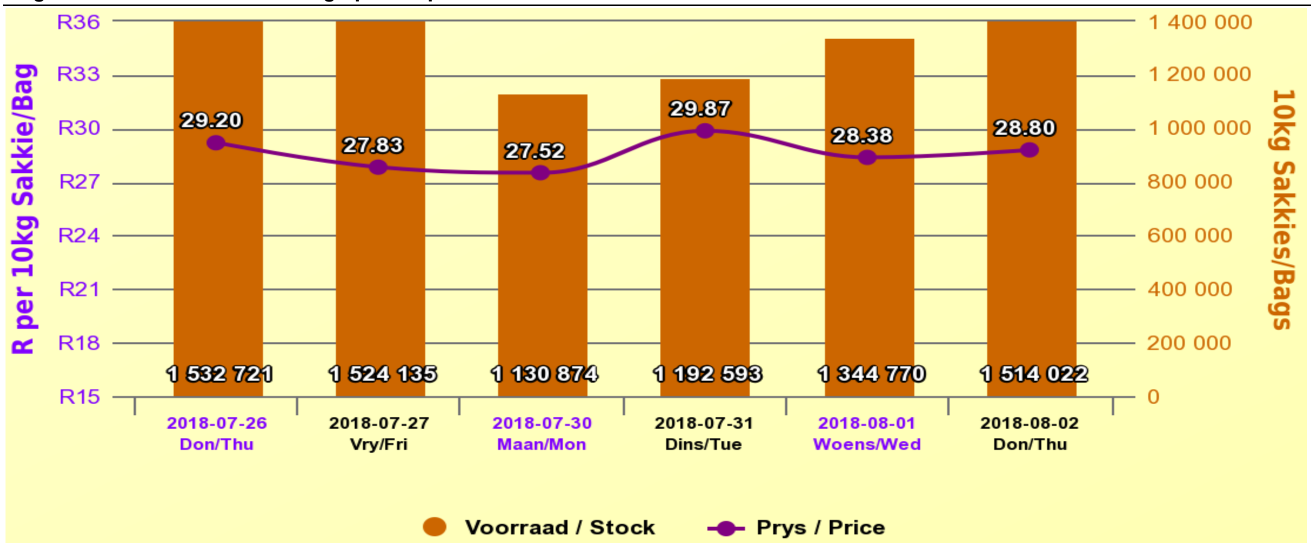



Source: Red Meat Levy Admin, Agbiz Research

## Potato market

The potato market ended the week on a negative footing, with the price down by a percentage point from the previous week, closing at R28.80 per pocket/10kg bag (Figure 8). These losses were mainly on the back of fairly large stocks of 1.51 million pockets (10kg bag), which was supported by ongoing harvest activity in the country.

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



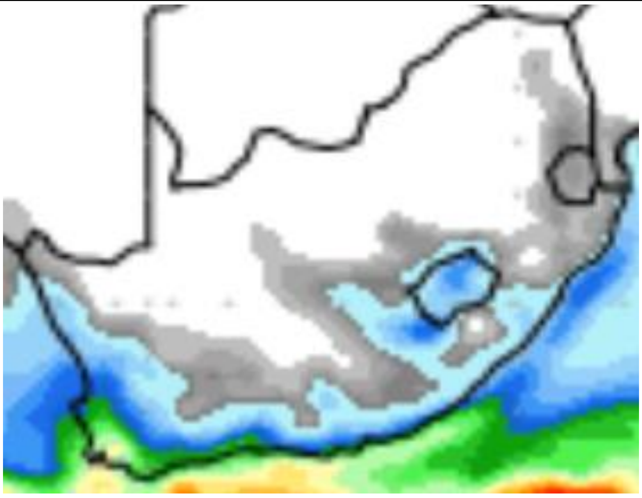

Source: Potato SA

## Weather conditions ahead of the weekend

The weather forecast continues to paint a mixed picture over the Western Cape province. Helderberg, Winelands, Overberg and Garden Route regions could receive light showers of between 16 and 25 millimetres within the next eight days, while most parts of the country could experience drier weather conditions which are not conducive for winter crops. The summer crop regions could experience cool and drier weather conditions, which is supportive of the harvest process (Figure 9).

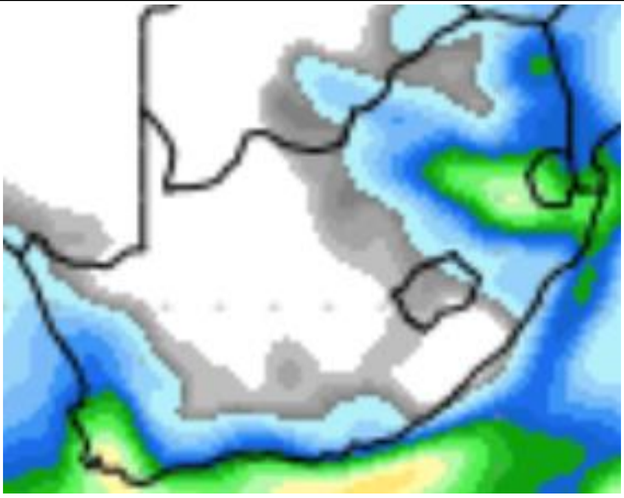
Furthermore, the week of 18 August 2018 promises more of the same in the Western Cape province, which means a share of the crop could be strained for some time due to dryness. The expected rainfall in parts of Mpumalanga, Gauteng and Limpopo provinces is not much of an issue as a summer crop in these respective provinces has already been harvested (Figure 10).

**Figure 9: Next 8-days precipitation forecast**



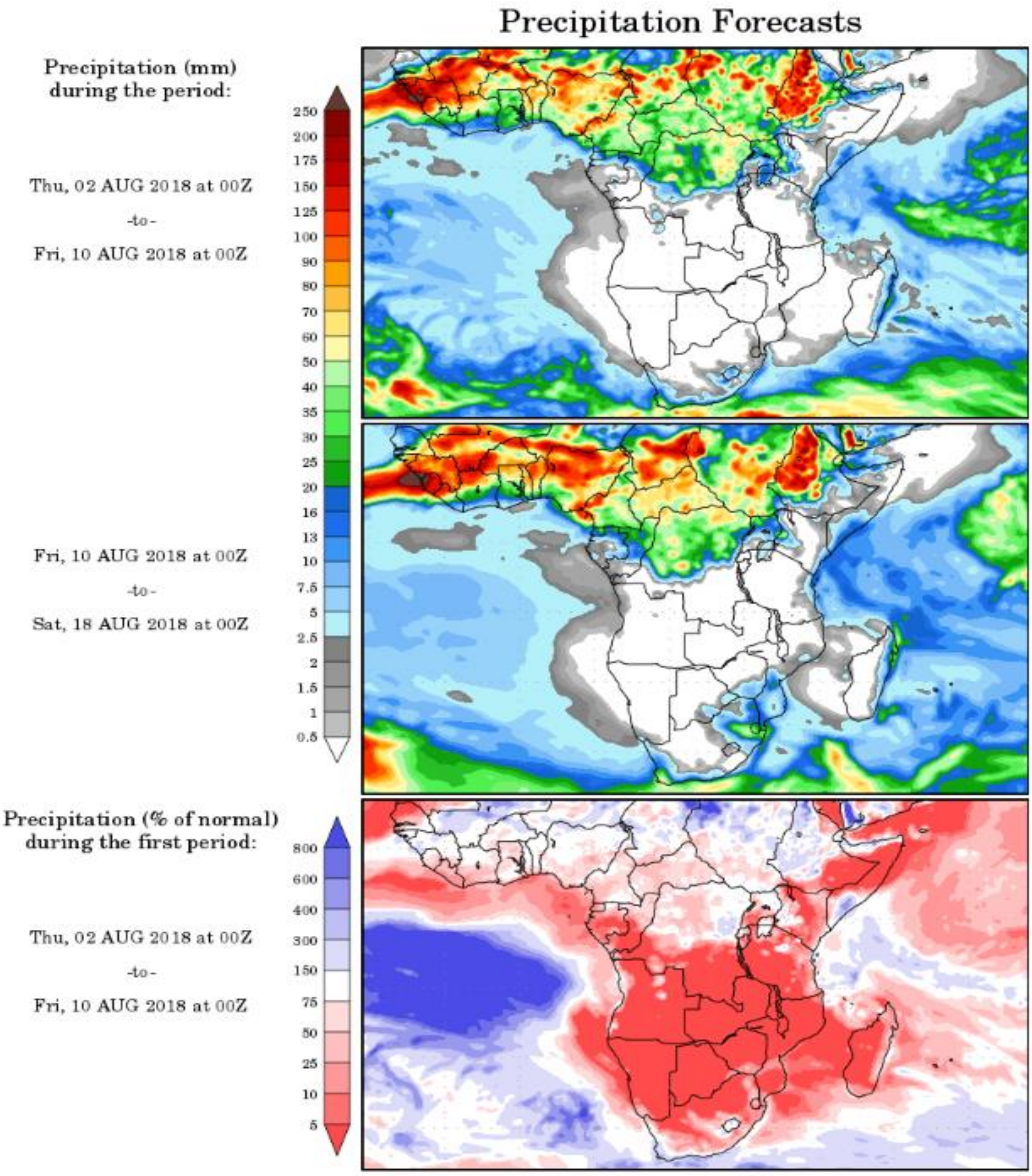
Source: wxmaps

**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: 08/08/2018
- SAGIS weekly grain trade data: 09/08/2018
- SAGIS monthly data: 27/08/2018
- National Crop Estimates Committee's data: 28/08/2018