17 August 2018

South African Agricultural Commodities Weekly Wrap

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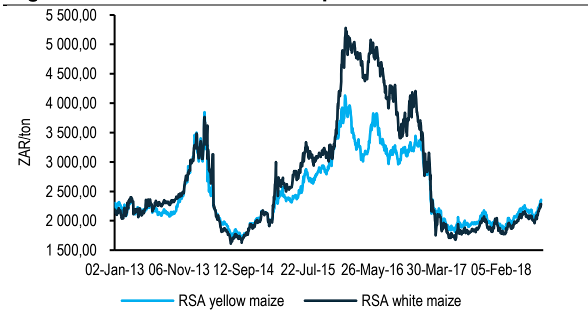
In two months' time, farmers in the eastern parts of South Africa will commence with field preparation for the 2018/19 production season. It is still too early to tell what the potential size of the new season summer grain and oilseed crop will be. At this stage, we are closely monitoring the weather developments regarding the possible El Niño event. We will receive a clearer indication from weather forecasters on this matter in the coming month. Aside from this, the weaker rand against the US dollar provided support to the domestic grain and oilseed market this week. The notable gains were on white and yellow maize with spot prices, each up by 3 percent respectively from last week. Soybean and sunflower seed prices were up by 2 percent and a percentage point from last week's average prices. Meanwhile, wheat spot price settled in negative territory compared to last week's average price.

Maize market

There is a general understanding in the market that South Africa's maize supplies are in good shape in the 2018/19 marketing year which ends in April 2019, thanks to large production and the carryover stock from the previous year. The supplies are estimated at 16.7 million tonnes, well above the annual maize consumption of 10.8 million tonnes. About 2.5 million tonnes will probably be exported and the rest be carried over to the next marketing year.

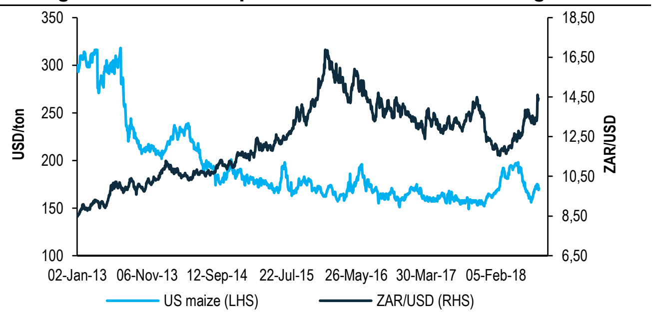
The focus is now shifting towards the 2018/19 production season which will commence in October 2018, with global observers such as the International Grains Council forecasting South Africa's 2018/19 maize production at 12.3 million tonnes, down by 11 percent from the previous season. While this is a plausible estimate, we generally do not attach much weight on it at this stage, at least, until there is clarity on the weather expectations, particularly the possibility of an El Niño event. In terms of pricing, the SAFEX white and yellow maize spot prices were each respectively up by 3 percent from the previous day, averaging R2 269 per tonne and R2 329 per tonne.

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

As indicated in our previous note, the winter wheat crop is approaching pollination in the Western Cape province, which means rainfall is critically needed in order to boost yields. The expected light showers of roughly 10 to 16 millimetres within the next eight days might not sufficiently improve soil moisture, but could somewhat ease concerns of a potential deterioration in cop conditions, particularly in the southern Cape region. The crop in Swartland and Overberg region is in fairly good shape following good rainfall in the past couple of weeks.

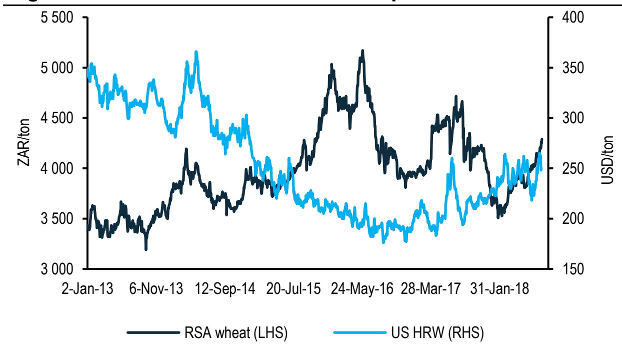
In the Northern Cape province, the winter wheat planting process has been completed, whereas the Free State province is at final stages of the planting process. The planting window in the Free State and Northern Cape provinces typically runs between June and July of each year (and in certain cases like this year, it runs into early August), while the Western Cape starts planting towards the end of April.

The aforementioned provinces collectively account for 90 percent of the estimated area of 505 000 hectares of winter wheat in the 2018/19 production season. The official production estimate will be released later this month. The global observers such as the International Grains Council forecasts South Africa's 2018/19 wheat production at 1.7 million tonnes, up by 13 percent from the previous season's harvest due to improved weather conditions.

In terms of trade, last week South Africa imported 22 900 tonnes of wheat, all from Russia. This is down by 64 percent from the volume imported in the week of 03 August 2018. This brought South Africa's 2017/18 wheat imports to 1.8 million tonnes, which equates to 95 percent of the seasonal import forecast of 1.9 million tonnes.

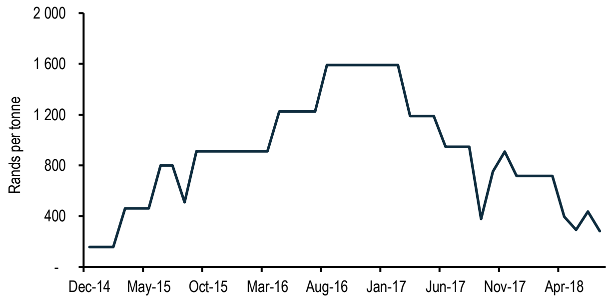
The wheat import tariff triggered again on 16 August 2018 to R298.45 per tonne due to an uptick in International wheat prices (No2 HRW) on the back of an expected decline in production. The previous trigger was on 10 July 2018, which then, was calculated at R640.45 per tonne, following a decline in international wheat prices. However, these rates are not yet applicable. The current import tariff is R281.74 per tonnes (Figure 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 increase to R640.54 per tonne first and then decline to R298.45 per tonne. Overall, the SAFEX wheat spot price averaged R4 251 per tonne, down by 2 percent from last week.

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

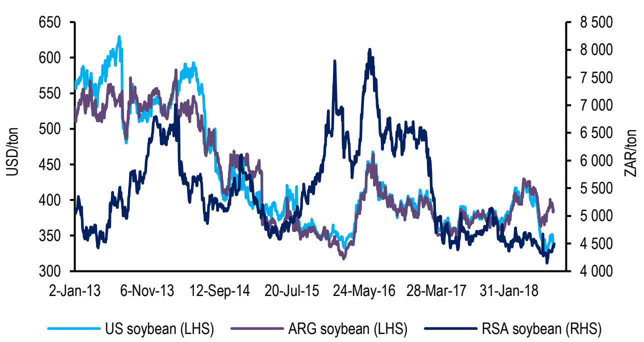
Soybean market

In the week of 10 August 2018, about 1 503 tonnes of soybeans was delivered to commercial silos, up by 18 percent from the previous week. This placed South Africa's 2018/19 marketing year soybean producer deliveries at 1.46 million tonnes, which equates to 94 percent of the expected harvest of 1.55 million tonnes. An additional volume could be delivered over the coming weeks as the harvest process has been completed. The volume of soybeans delivered thus far has 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. As indicated in our previous notes, the general expectations of a large harvest this season could lead to a decline in imports as the country is increasingly becoming reliant on domestic produce. We estimate that 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 up by 2 percent from the previous week, averaging R4 464 per tonne due to the weaker rand against the US dollars (Figure 5).

Sunflower seed market

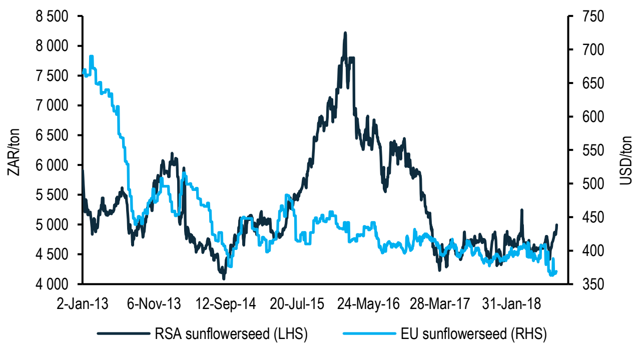
The producer deliveries, which are slowing, show that a large share of the crop has already been delivered to commercial silos as the harvest process is complete. In the week of 10 August, sunflower seed producer deliveries amounted to 8 246 tonnes, down by 5 percent from the previous week. This placed South Africa's 2018/19 marketing year sunflower seed producer deliveries at 824 788 tonnes, which is 4 percent higher than the official production estimate. This will boost South Africa's sunflower seed supplies in the 2018/19 marketing year and perhaps lead to a decline in potential imports. The Supply and Demand Estimates Committee forecasts South Africa's 2018/19 sunflower seed imports at 500 tonnes, down by 10 percent from the previous season due to expectations of a slight decline in consumption. Last month, about 151 tonnes of the expected volume had already been imported. However, with the crop delivered in commercial silos already 32 533 tonnes higher than initial production expectations, we could potentially see South Africa's sunflower seed imports falling well below the initial expectations. With that said, the SAFEX sunflower seed spot price was up by a percentage point this week, averaged R4 915 per (Figure 6).

Figure 5: Soybean prices



Source: JSE, IGC, and Agbiz Research

Figure 6: Sunflower seed prices

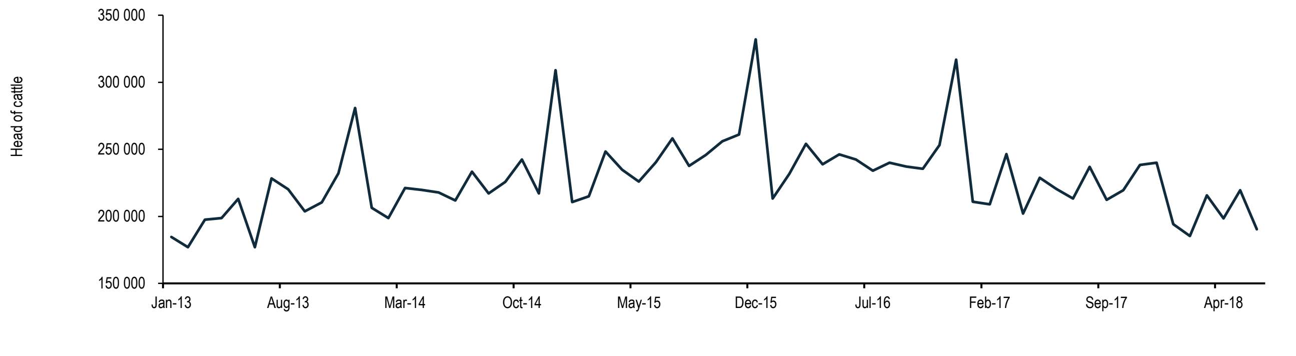


Source: JSE, IGC, and Agbiz Research

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

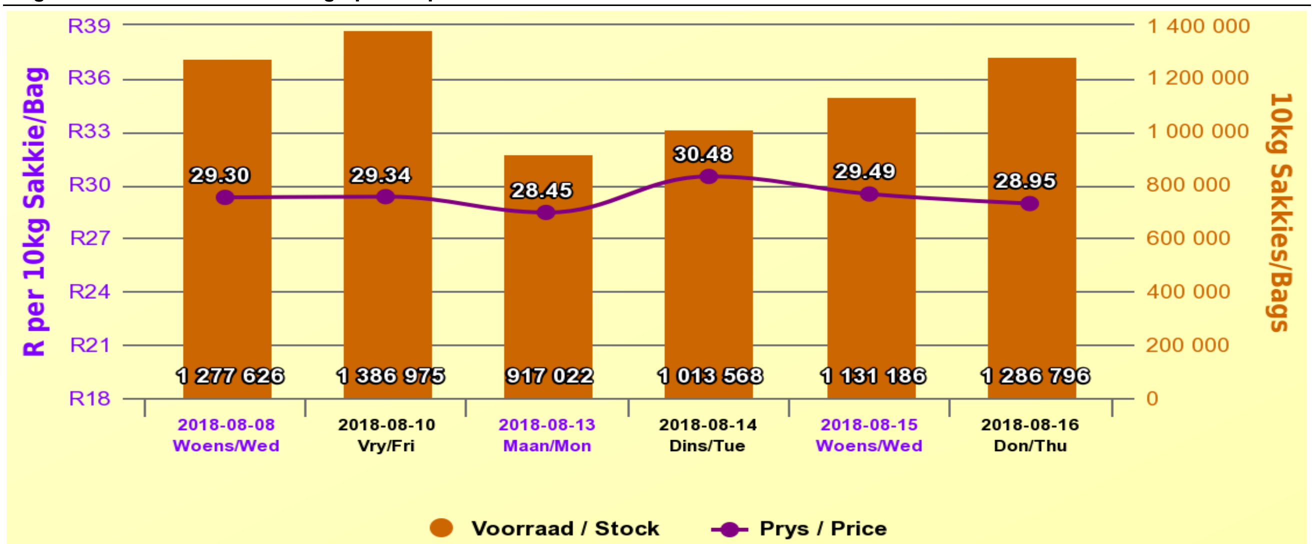


Source: Red Meat Levy Admin, Agbiz Research

Potato market

The potato market ended the week in negative territory, with the price down by a percentage point from the corresponding period last week, closing at R28.95 per pocket bag (Figure 8). These losses were mainly on the back of an uptick in stocks to 1.29 million pockets (10kg bag), due to an ongoing harvest process in the country.

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



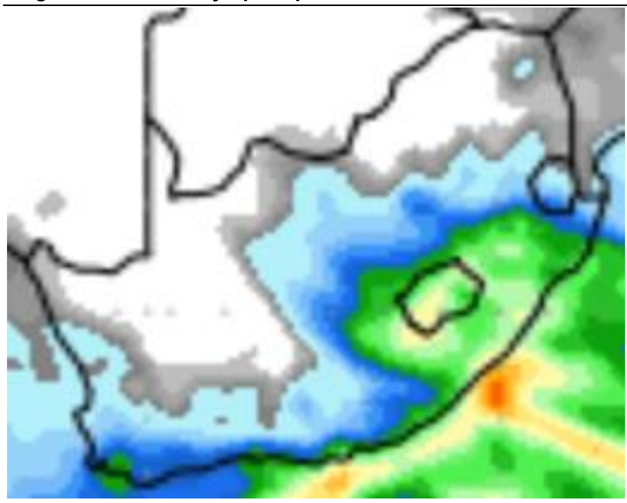
Source: Potato SA

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 10 and 16 millimetres within the next eight days, while most parts of the province could experience drier weather conditions which are not conducive for winter crops (Figure 9).

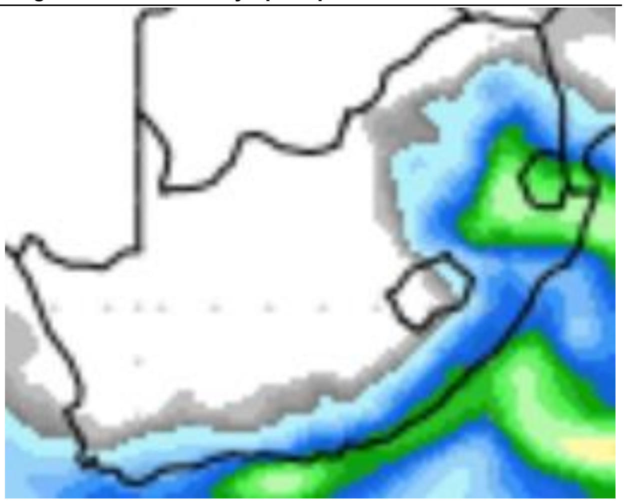
Furthermore, the weather forecast for the last week of this month shows clear skies over most parts of the Western Cape province, which means the winter crops could be strained for some time due to dryness, particularly the southern Cape. The expected rainfall in parts of KwaZulu Natal, Mpumalanga, Gauteng 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



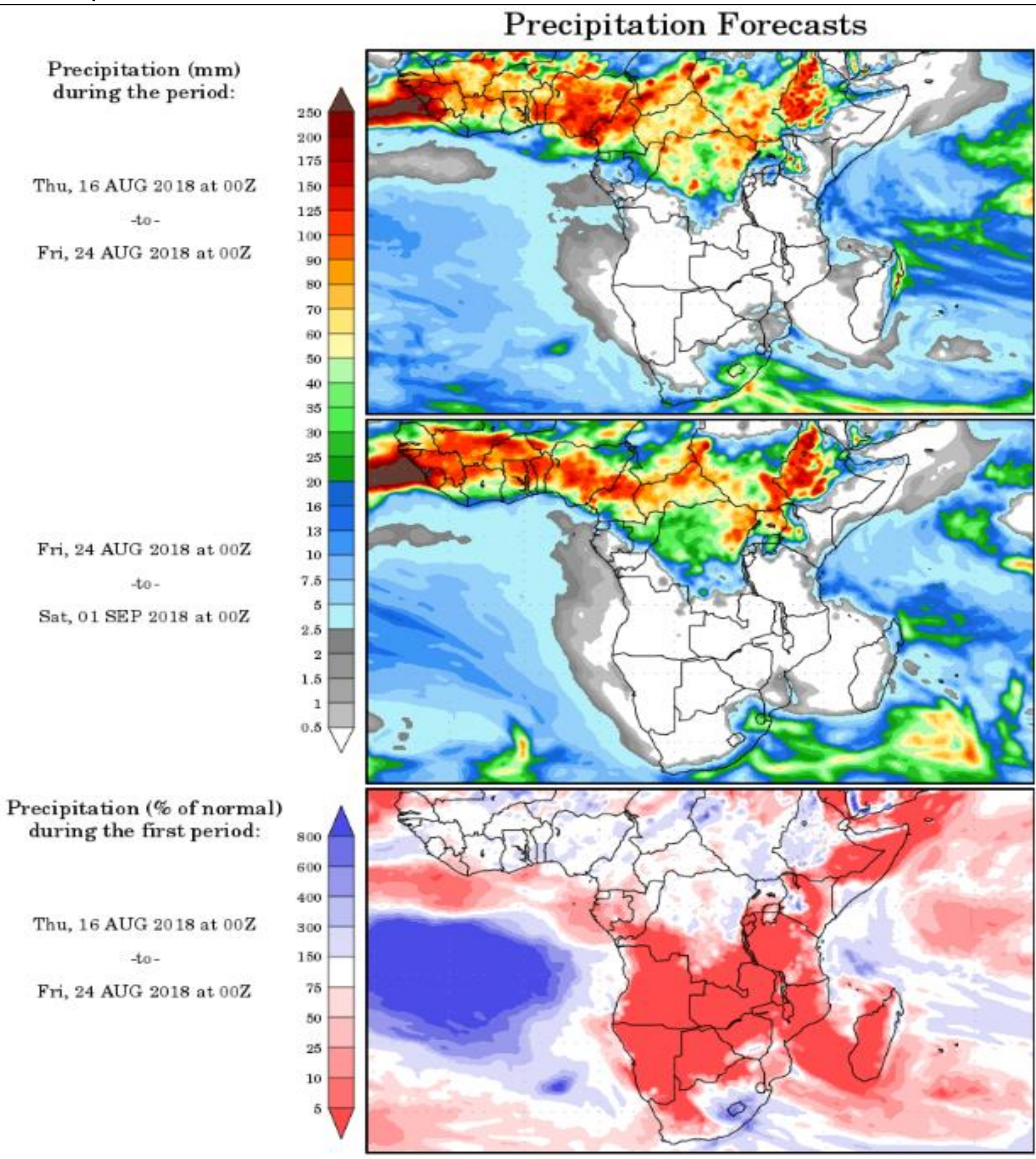
Source: wxmaps

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: 22/08/2018
- SAGIS weekly grain trade data: 23/08/2018
- SAGIS monthly data: 27/08/2018
- National Crop Estimates Committee's data: 28/08/2018