

South African Agricultural Commodities Weekly Wrap

This week there were no major data releases in the South African grain and oilseed market. The weaker domestic currency against the US Dollar, coupled with higher Chicago grain prices provided support to the grain and oilseed market. The notable gains were on white and yellow maize, as well as soybean spot prices, with each respectively up by 3 percent from last week. Sunflower seed and wheat prices were up by 2 percent and a percentage point from last week's average prices. Next week, the national Crop Estimate Committee will release an update of the 2017/18 summer grain and oilseed production forecasts, as well as the first 2018/19 winter wheat production forecast. There is generally some optimism in the market that this season's wheat production could recover due to expansion in area planted and favourable weather conditions in some parts of the Western Cape and inland regions.

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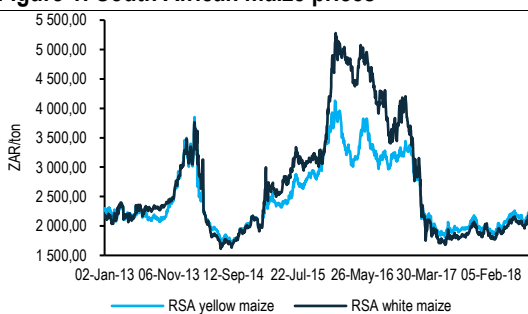
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Maize market

The International Grains Council left its estimates for South Africa's 2017/18 and 2018/19 production seasons unchanged from last month, at 13.8 million and 12.3 million tonnes, respectively. The 2017/18 season's estimate is in line with the Crop Estimate Committee's view when considering both commercial and non-commercial harvest. This means that South Africa's maize stocks will be good shape in the 2018/19 marketing year which ends in April 2019, with supplies estimated at 16.7 million tonnes, well above the annual consumption of 10.8 million tonnes.¹

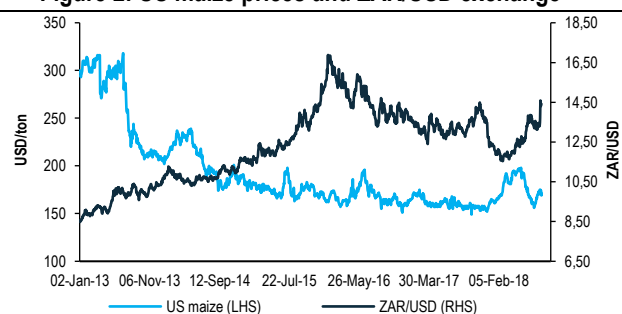
The 2018/19 production forecast seem plausible, but we do not attach much weight on it at this stage, at least, until there is clarity on the weather expectations, particularly the possibility of an El Niño event. Overall, these estimates should have minimal impact on the market. In terms of pricing, the SAFEX white and yellow maize spot prices were respectively up by 3 percent from the previous week, averaging R2 336 per tonne and R2 406 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

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

Wheat market

Our general observations of the current winter wheat crop conditions in the Western Cape province suggest that the 2018/19 season’s recovery could somewhat be subdued. While the Swartland and Overberg regions received good rainfall in the past couple of weeks and the crop is in good condition, the opposite is true for the southern Cape region. There are already reports of crop damage in some areas, although the scale is unclear at this point. Other winter wheat producing provinces such as the Free State, Northern Cape and Limpopo have recently completed the planting process and will possibly have a good harvest this season due to favourable weather outlook and higher dam levels in the irrigation areas. The aforementioned provinces collectively account for 95 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 on 28 August 2018. The global observers such as the International Grains Council forecasts South Africa’s 2018/19 wheat production at 1.8 million tonnes, up by 6 percent from the previous month and 20 percent higher than the previous season. This is largely on the back of improved weather conditions.

Aside from the production dynamics, trade aspects remain a key focus in the South African wheat market due to uncertainties on wheat import tariff adjustments. To reiterate a point made in our previous notes, 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). This newly calculated rate will also be effective only 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.²

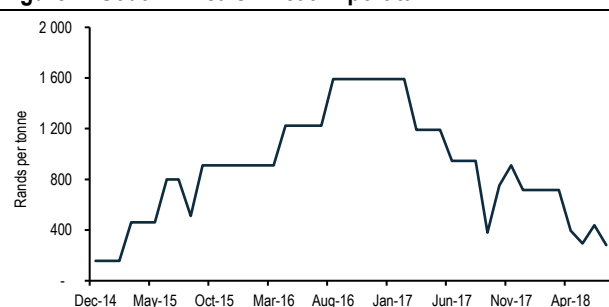
Last week South Africa imported 37 530 tonnes of wheat, all from Canada. This is a 64 percent uptick from the volume imported in the week of 10 August 2018. This brought South Africa’s 2017/18 wheat imports to 1.8 million tonnes, which equates to 95 percent of the seasonal import forecast of 1.9 million tonnes. Above all, the SAFEX wheat spot price averaged R4 320 per tonne, up by a percentage point from levels seen the previous 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

² Discussion on wheat import tariff: <https://wandilesihlobo.com/2018/08/17/delays-in-south-africas-wheat-tariff-publication-not-helpfulsee-below/>

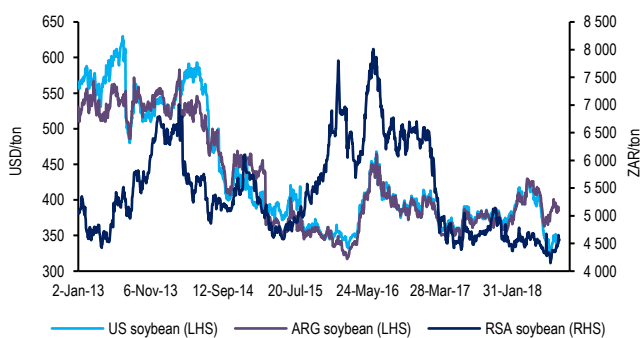
Soybean market

South Africa’s soybean production has grown significantly over the past couple of years, from 784 500 tonnes in the 2012/13 production season to an expected 1.6 million tonnes in the 2017/18. This has mainly been on the back of an expansion in area planted, as well as higher yields. The expansion was stimulated by growing demand for soybean meal by the animal feed industry, which in turn, was driven by an increase in the demand for high protein foods, particularly poultry products. South Africa’s per capita consumption of poultry meat increased by 5 percent over the past 5-years, currently estimated at 41.2 kilograms. Over the same period, South Africa’s per capita consumption of beef increased by 22 percent to 21.3 kilograms. This improvement in production has made South Africa a leading soybean producer in Africa, accounting for two-thirds of the expected harvest of 2.6 million tonnes in the 2017/18 season. Most importantly, this could lead to a decline in imports as the country is increasingly becoming reliant on domestic produce. We forecast South Africa’s 2018/19 soybean and meal imports at 10 000 tonnes and 458 992 tonnes, respectively down by 64 percent and 17 percent from last season. In terms of pricing, the SAFEX soybean spot price was up by 3 percent from the previous week, averaging R4 592 per (Figure 5).

Sunflower seed market

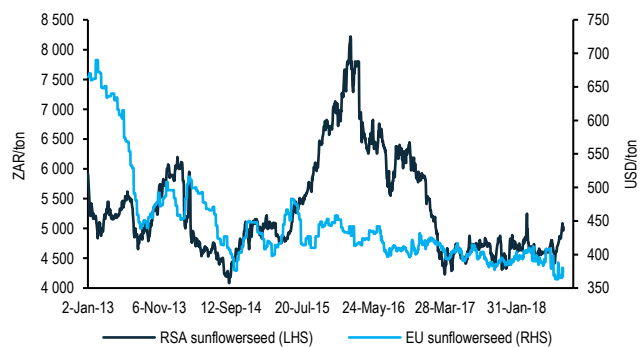
Although South Africa’s production of major oilseeds such as soybeans and canola has grown significantly over the past couple of years, sunflower seed has remained sideways, averaging 736 200 tonnes in the past five seasons. The growth in soybeans and canola production has largely been driven by an expansion in area planted, which in turn, was driven by an increase in demand. Interestingly, South Africa’s sunflower oil consumption has been on the decline in the past five years. The per capita consumption declined by 17 percent between 2013 and 2017 to 5.14 kilogram per year, according to data from the Department of Agriculture, Forestry and Fisheries. This is partially due to the growing production and imports of substitutes such as olive, canola and palm oil. Overall, in the week of 17 August 2018, South Africa’s 2018/19 marketing year sunflower seed producer deliveries amounted to 837 294 tonnes, which is 6 percent higher than the official production estimate. With that said, the SAFEX sunflower seed spot price was up by 2 percent from last week, averaged R5 022 per tonne (Figure 6).

Figure 5: Soybean prices



Source: JSE, IGC, and Agbiz Research

Figure 6: Sunflower seed prices



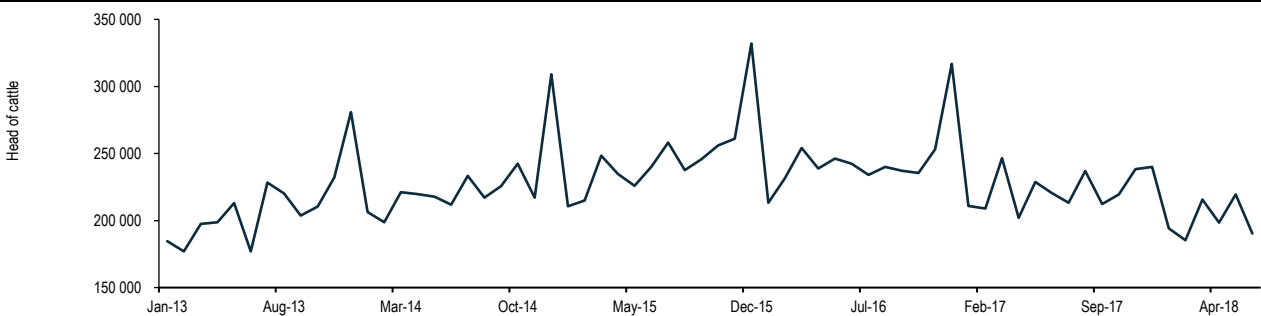
Source: JSE, IGC, and Agbiz Research



Beef market

This week the SAFEX beef carcass price remains unchanged from the previous week, averaging R47.50 per kilogram due to thinly traded volumes. As indicated in the previous notes, 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 later this year and a recovery in the industry performance.

Figure 7: Monthly cattle slaughtering activity

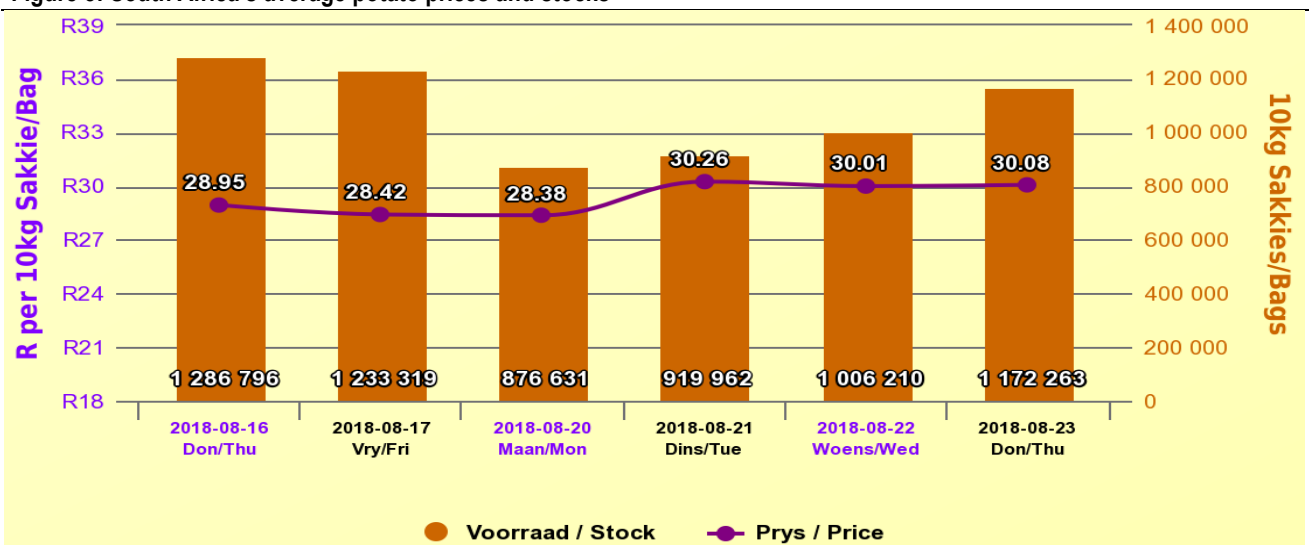


Source: Red Meat Levy Admin, Agbiz Research

Potato market

The potato market ended the week in positive territory, with the price up by 4 percent from the corresponding period last week, closing at R30.08 per pocket bag (Figure 8). These gains were mainly on the back of a slight decline in stocks to 1.17 million pockets (10kg bag), due to strong commercial buying interest.

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



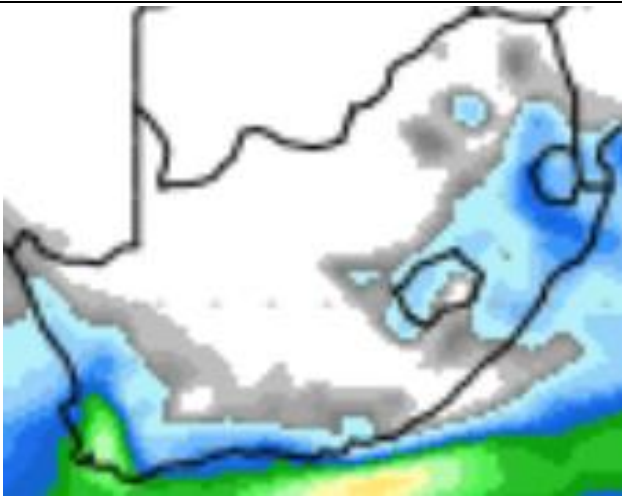
Source: Potato SA

Weather conditions ahead of the weekend

The weather forecast continues to paint a mixed picture over the Western Cape province. Swartland, Helderberg, Winelands and Overberg regions could receive light showers within the next eight days, while most parts of the province could experience cool and drier weather conditions which are not conducive for winter crops (Figure 9).

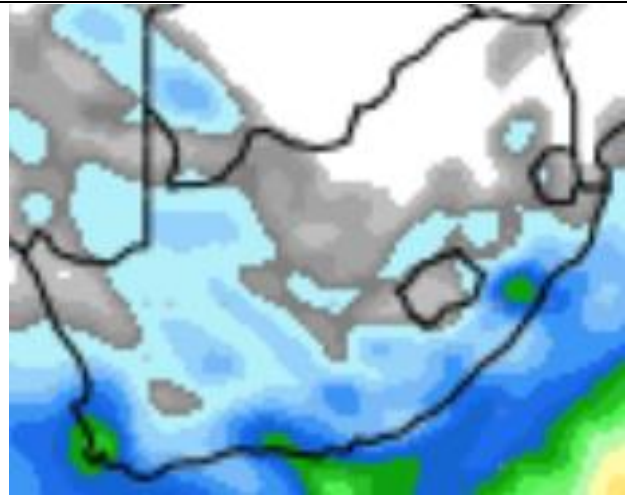
The forecast for the week of 08 September 2018 shows prospects of widespread light showers over most parts of the Western Cape, Northern Cape and Eastern Cape provinces. However, this will have minimal impact on the winter crop growing areas as it is expected to be light, varying between 7 and 20 millimetres (Figure 10).

Figure 9: Next 8-days precipitation forecast



Source: wxmaps

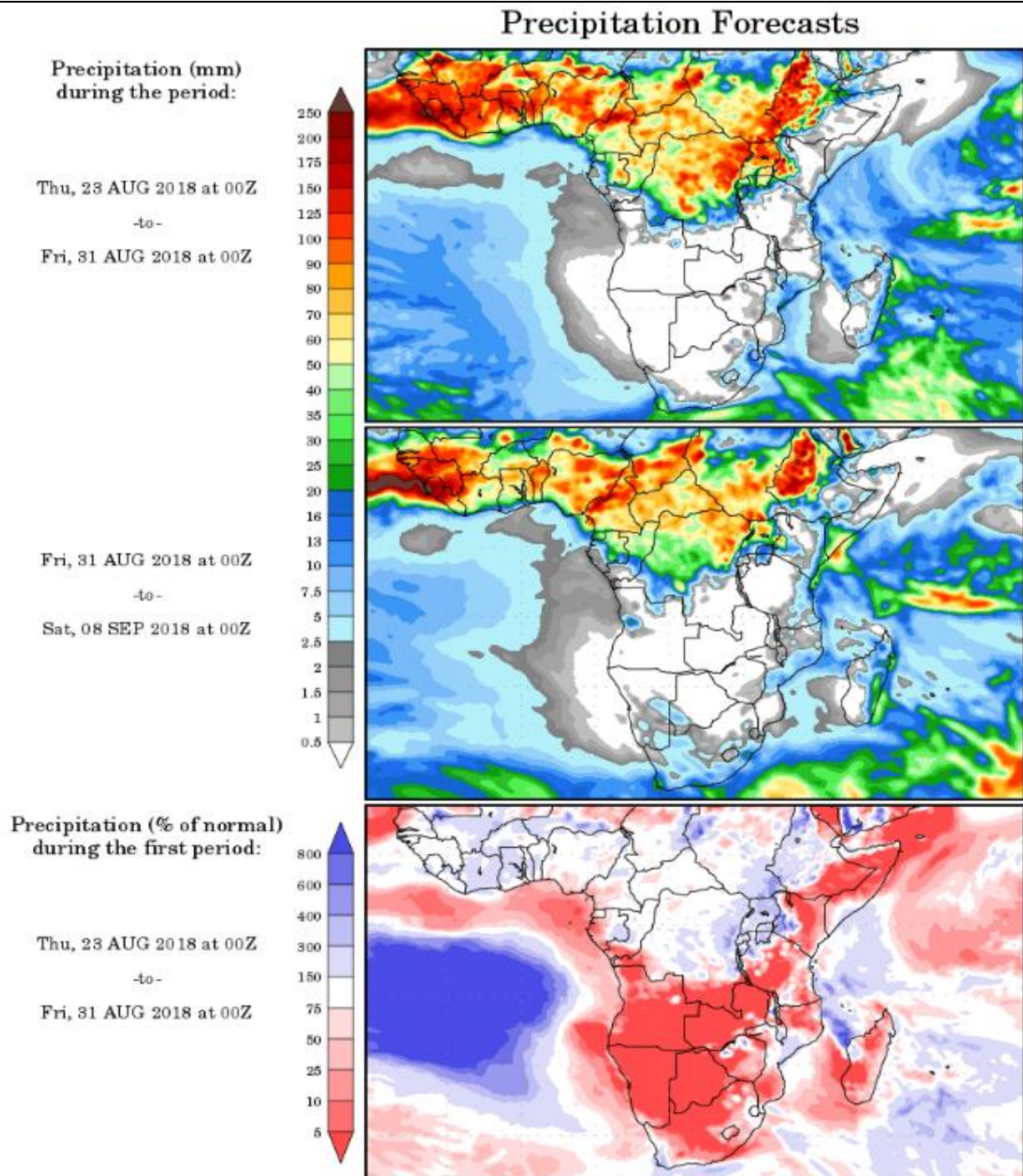
Figure 10: Next 16-days precipitation forecast



Source: wxmaps



Figure 11: Precipitation forecast for the next two weeks



Source: wxmaps

Key data releases in the South African agricultural market

- SAGIS monthly data: 27/08/2018
- National Crop Estimates Committee's data: 28/08/2018
- SAGIS producer deliveries data: 29/08/2018
- SAGIS weekly grain trade data: 30/08/2018

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