AGRIBUSINESS RESEARCH

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South African Agricultural Commodities Weekly Wrap

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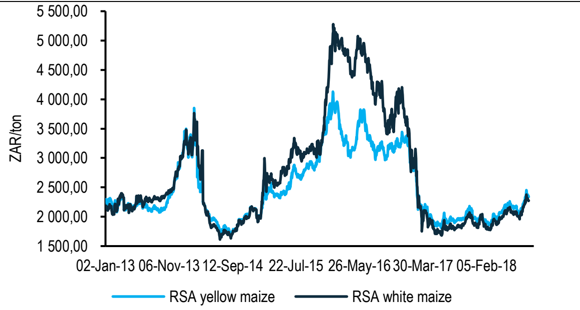
At risk of sounding like a broken record, the latest data from the national Crop Estimate Committee reinforced the view that South Africa's summer grain and oilseed supplies are in good shape in the 2018/19 marketing year. Most of the crop forecasts were left unchanged from last month with the exception of sorghum and sunflower seed which were revised up by 29 percent and 8 percent. Another welcome development was on winter crops, with wheat first production forecasts showing an 18 percent uptick from last year's harvest. Although South Africa is not a net exporter of all the grains, the import requirements for crops which the country imports will be reduced significantly in the 2018/19 season. The price movements somewhat mirrored the aforementioned developments, with all grains and oilseed closing in negative territory compared to last week's average prices.

Maize market

Although South Africa's expected maize harvest of 13.8 million tonnes 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.[1]

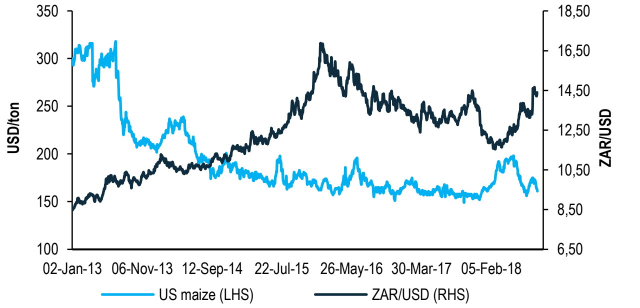
The drier weather conditions in most parts of South Africa provided support to the harvest process over the past couple of weeks. In the week of 24 August, South Africa's 2018/19 maize marketing year producer deliveries were at 10.3 million tonnes, which equates to 78 percent of the estimated crop. These developments, coupled with the recovery of the domestic currency added pressure to the market. The SAFEX white and yellow maize spot prices respectively declined by 2 percent from the previous week, averaging R2 278 per tonne and R2 352 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.

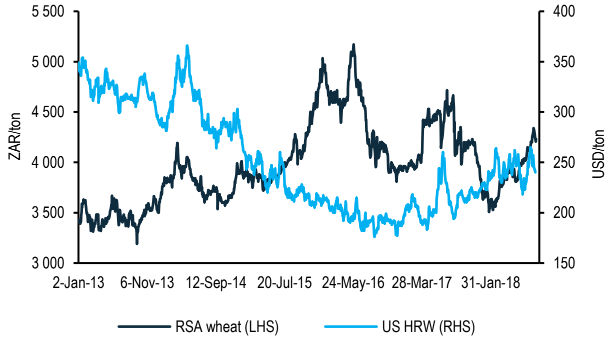
Wheat market

As indicated in our previous notes, South Africa's wheat production could increase by 18 percent from the 2017/18 production season to 1.8 million tonnes. This is on the back of an expansion in area planted and improvement in yield prospects, particularly in the Western Cape province. This is also in line with the International Grains Council estimate for this season. This improvement, however, was not widespread across the country. Most provinces registered an uptick with the exception of the Northern Cape, KwaZulu Natal, Mpumalanga and Limpopo provinces. Most importantly, this is still the first estimate for the season, the national Crop Estimates Committee will provide further updates over the coming months. This generally means the import requirements in the 2018/19 season could soften to levels around 1.6 million tonnes, from the estimated level of 1.9 million tonnes in the 2017/18 season.

Going forward we will continue to monitor the weather developments in the winter wheat growing areas of the country as the crop is still at stages of development that requires moisture. The next eight days could bring good showers over most parts of the Western Cape, Eastern Cape, KwaZulu Natal and Free State provinces, which should slightly improve soil moisture and subsequently benefit the crop. These provinces collectively account for 71 percent share in the expected harvest of 1.8 million tonnes this season. The forecast showers will not only improve crop conditions but also dam levels. One of the provinces that still need improvement in dam levels is the Western Cape, following the 2017/18 drought period. The most recent data from the Department of Water and Sanitation shows that the Western Cape provincial dam levels averaged 55 percent in the week of 27 August 2018, up by a percentage point from the previous week and 22 percentage points higher than the same period last year (Figure 12).

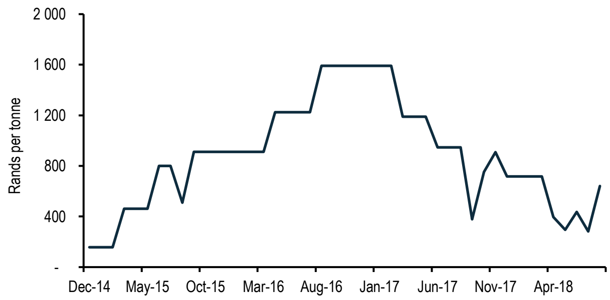
In terms of trade policy, the wheat import tariff rate of R640.54 per tonne that triggered on 10 July 2018 was finally published in a government gazette on 24 August 2018, making it an official rate. Nonetheless, this could be short-lived, the wheat import tariff triggered again on 16 August 2018 to R298.45 per tonne due to an uptick in international wheat prices (No2 HRW) on the back of an expected decline in production. This newly calculated rate will also be effective only after publication in a government gazette, of which the timeframe is unclear. Against this backdrop, the SAFEX wheat spot price averaged R4 226 per tonne this week, down by 2 percent from levels seen the previous week. The spillover from lower Chicago wheat prices also added bearish pressure to the market.

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

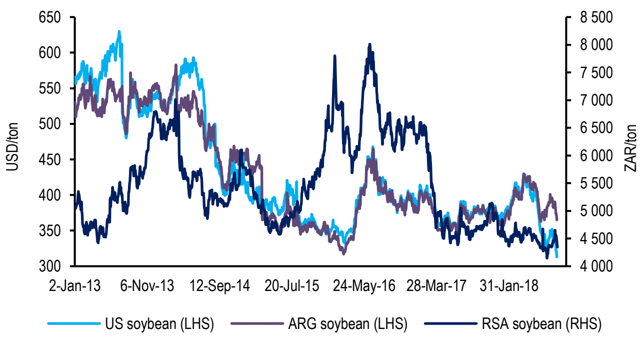
Soybean market

This week the Crop Estimate Committee left its forecast for South Africa's 2017/18 soybean production unchanged from last month at 1.55 million tonnes. This is 18 percent higher than the previous season due to an expansion in area planted, as well as fairly higher yields. The Committee's decision was usurping as the harvest process ended with reports of average and above average yields in a number of areas. In the week of 24 August 2018, South Africa's 2018/19 marketing year soybean producer deliveries were at 1.47 million tonnes, which equates to 95 percent of the expected harvest. An additional volume could be delivered over the coming weeks as weather outlook is quite favourable for logistics from farms to silos, with the exception of the second week of September which could bring light showers in some parts of the country. Overall, this could lead to a decline in imports as processors become 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 down by 4 percent from last week, averaging R4 414 per (Figure 5).

Sunflower seed market

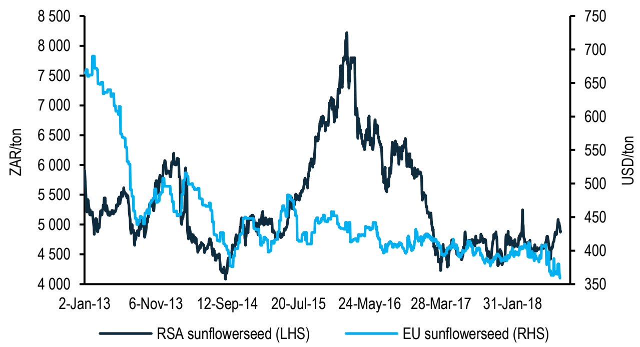
The Crop Estimates Committee lifted its forecasts for 2017/18 sunflower seed production by 8 percent from last month to 858 605 tonnes. This was underpinned by higher than initially expected yields in the late-planted areas of the Free State and North West provinces. These provinces collectively account for 95 percent share of the expected harvest. In the week of 24 August 2018, sunflower seed producer deliveries were at 837 301 tonnes, which equates to 98 percent of the estimated harvest. The recent upward revision of the production estimate has boosted South Africa's 2018/19 marketing year sunflower seed supplies, which are now estimated at 955 596 tonnes. This coincides with the expected decline in domestic sunflower seed consumption to 845 000 tonnes from 885 039 tonnes in the 2017/18 marketing year owing to increasing imports of substitute oils. The improvement in production prospects implies that South Africa's sunflower seed imports could decline in the coming month as processors will potentially rely on local supplies. Overall, the SAFEX sunflower seed spot price declined by 2 percent from the previous week, averaged R4 915 per tonne (Figure 6).

Figure 5: Soybean prices



Source: JSE, IGC, and Agbiz Research

Figure 6: Sunflower seed prices

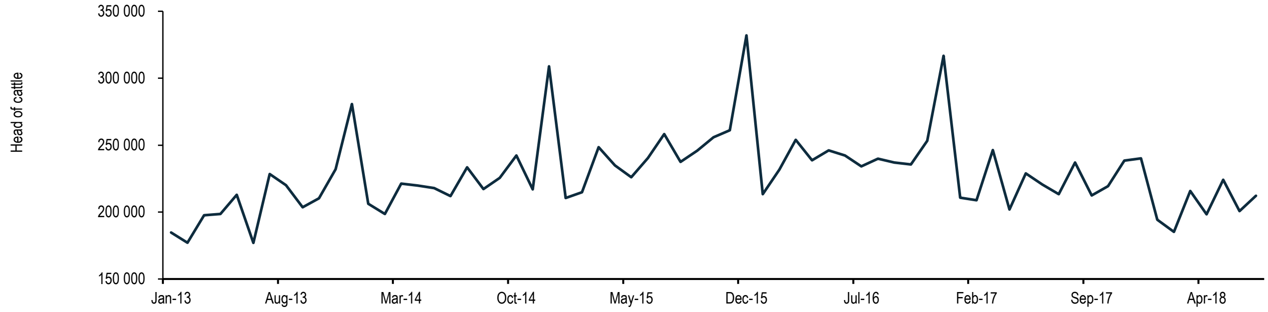


Source: JSE, IGC, and Agbiz Research

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 212 060 head of cattle in July 2018, down by a percentage point from July 2017 due to the herd rebuilding process after a reduction during the 2015-16 drought.

Figure 7: Monthly cattle slaughtering activity

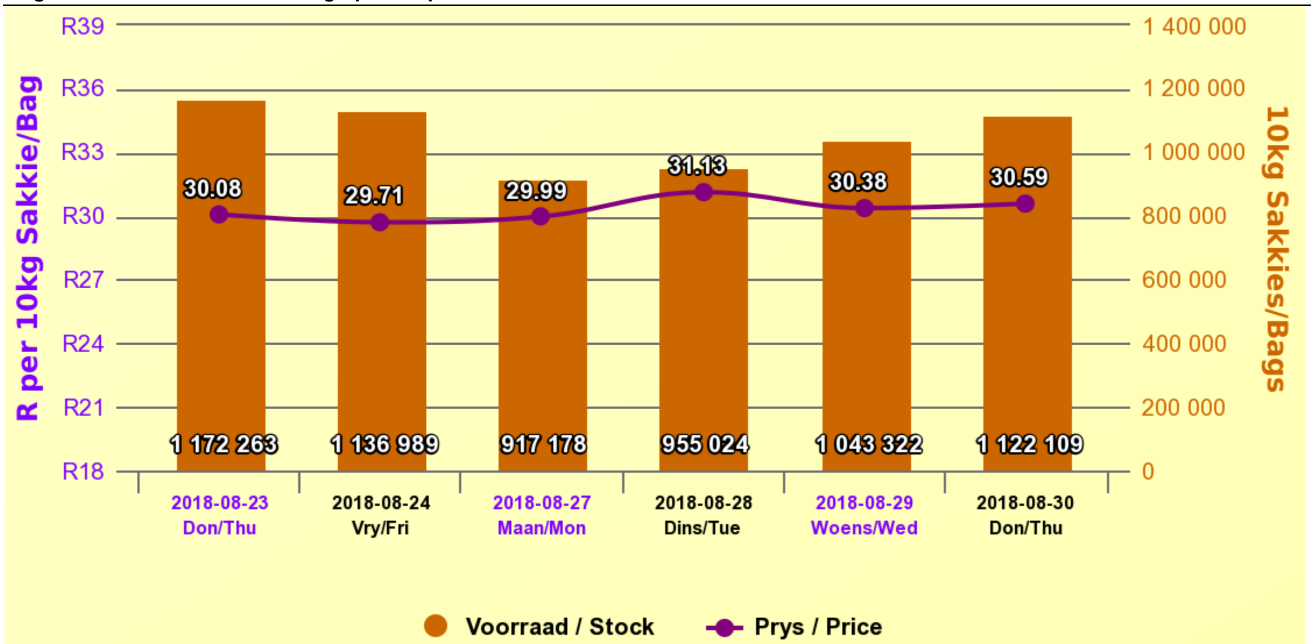


Source: Red Meat Levy Admin, Agbiz Research

Potato market

The potato market ended the week in positive territory, with the price up by 2 percent from the corresponding period last week, closing at R30.59 per pocket bag (Figure 8). These gains were mainly on the back of a slight decline in stocks to 1.12 million pockets (10kg bag), due to strong commercial buying interest.

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



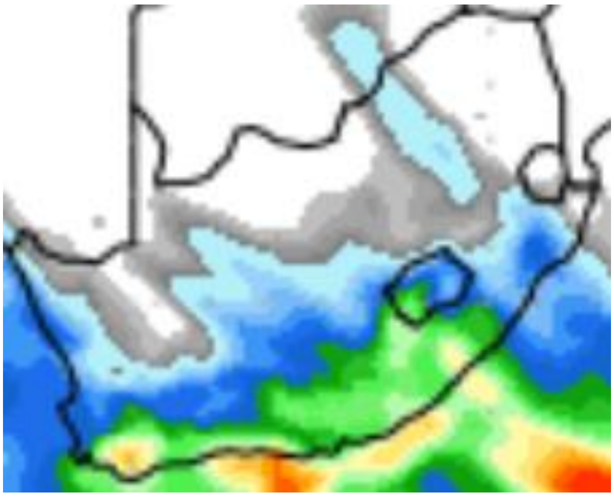
Source: Potato SA

Weather conditions ahead of the weekend

The Western Cape, Eastern Cape, KwaZulu Natal and parts of the Free State provinces could receive good showers within the next eight days (Figure 9). This bodes well for winter crops which are still at stages of development that requires moisture.

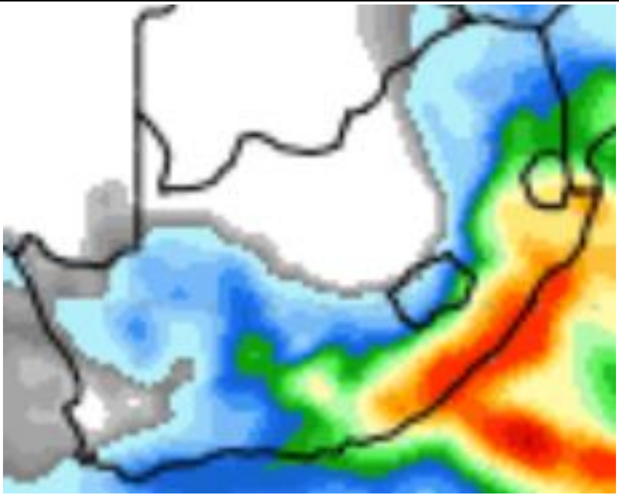
The forecast for the week of 15 September 2018 could bring showers in areas around Eastern Cape, Limpopo, Mpumalanga, Gauteng and KwaZulu Natal provinces, while the rest of the country might experience cool and drier conditions (Figure 10). The expected showers will benefit the winter wheat areas within these respective provinces.

Figure 9: Next 8-days precipitation forecast



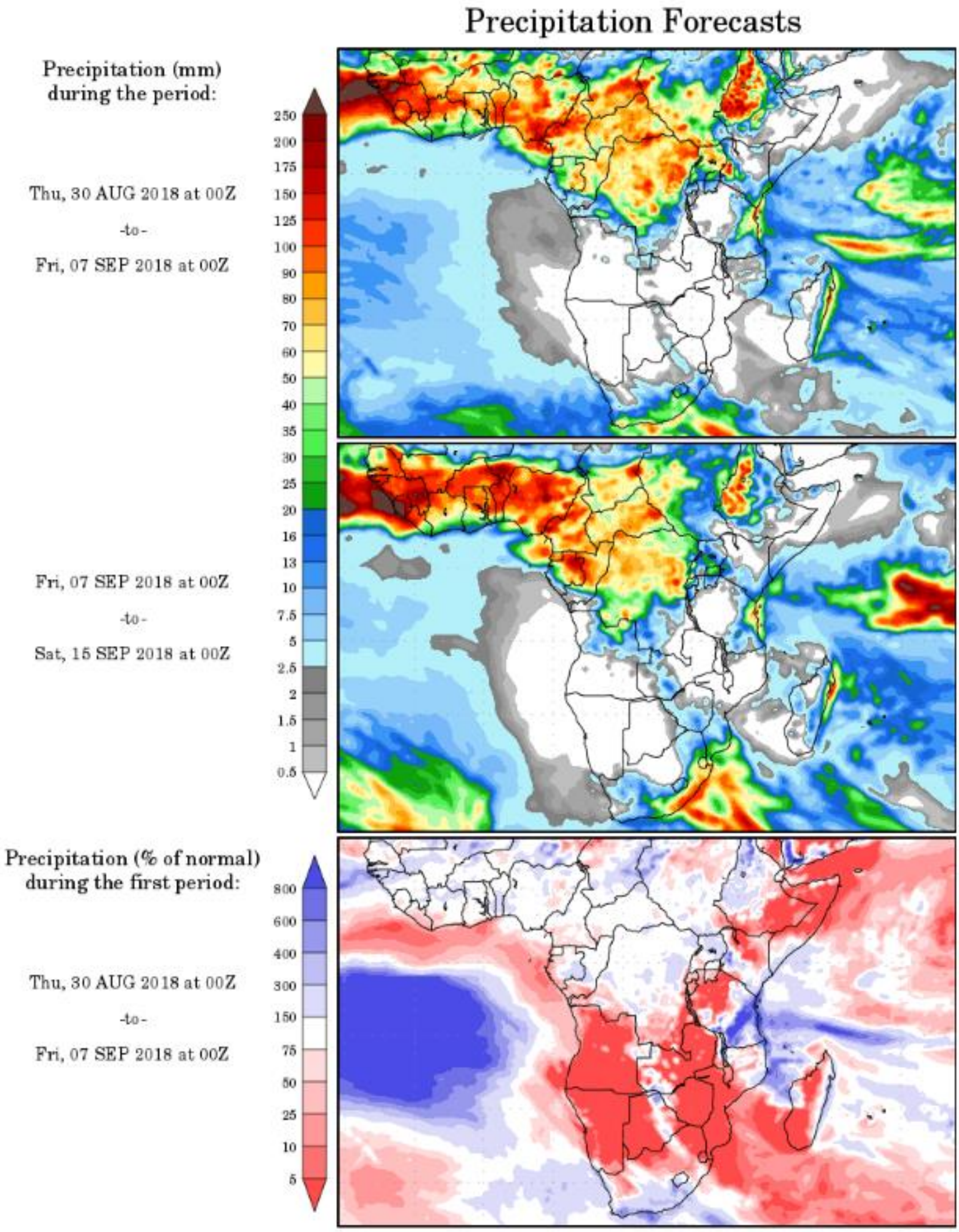
Source: wxmaps

Figure 10: Next 16-days precipitation forecast



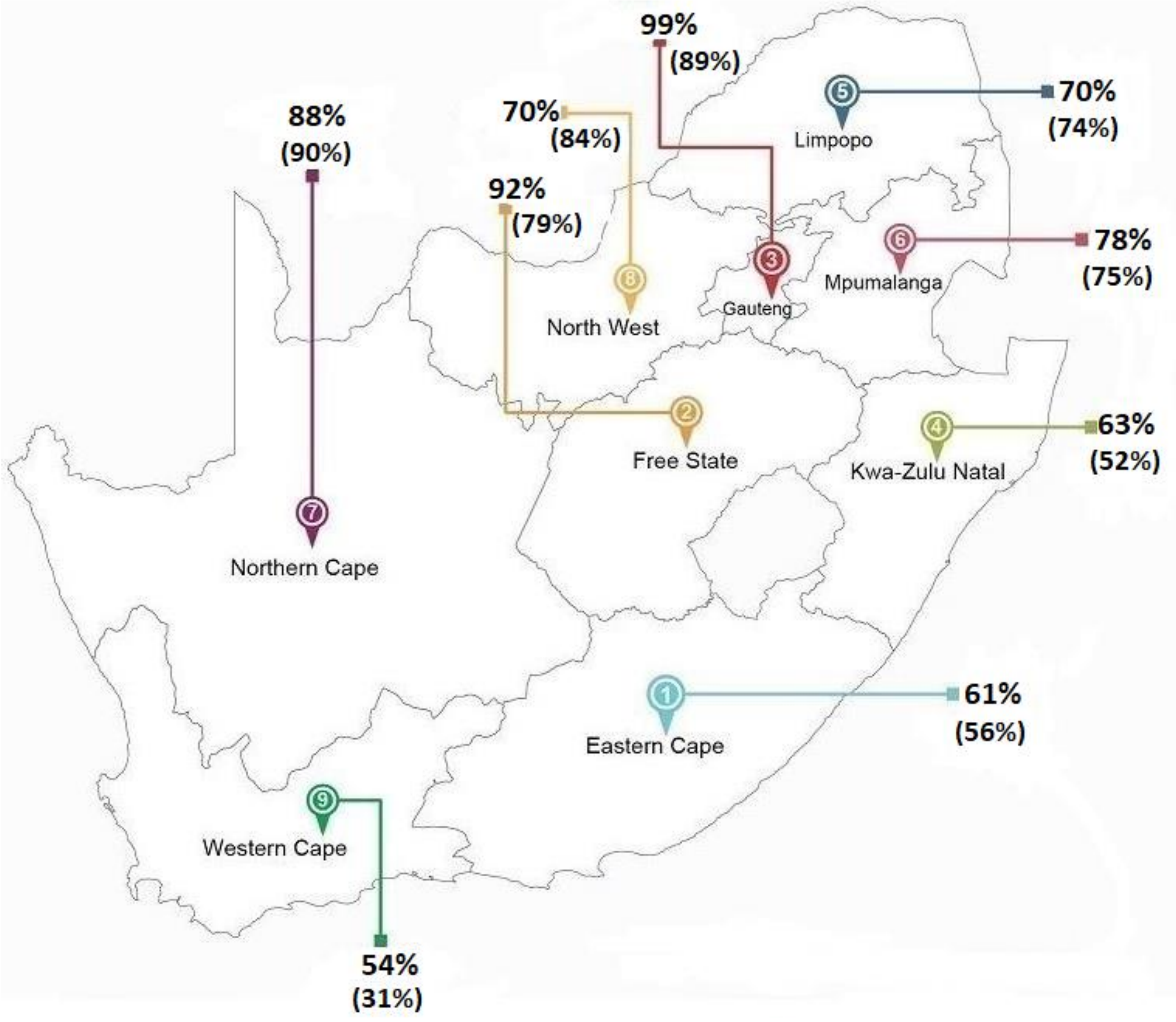
Source: wxmaps

Figure 11: Precipitation forecast for the next two weeks



Source: wxmaps

Figure 12: South Africa's average dam levels: week ended 20 August 2018, with the same week last year in brackets



Source: Department of Water and Sanitation and Agbiz Research

Key data releases in the South African agricultural market

- SAGIS producer deliveries data: 05/09/2018
- SAGIS weekly grain trade data: 06/09/2018
- SAGIS monthly data: 25/09/2018
- National Crop Estimates Committee's data: 26/09/2018