AGRIBUSINESS RESEARCH

07 September 2018

South African Agricultural Commodities Weekly Wrap

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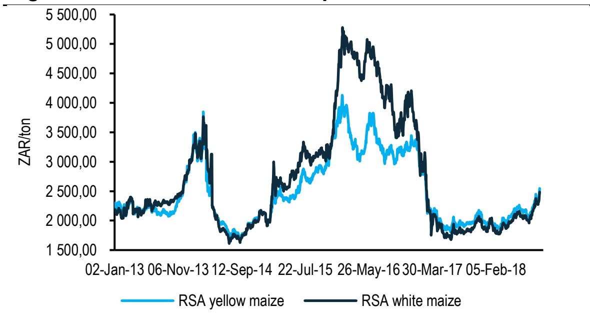
This week the weaker domestic currency against the US dollar, coupled with higher Chicago grain prices provided support to the grain and oilseed market, thus overshadowing the bearish sentiment that stemmed from large supplies in the 2018/19 marketing year. The notable gains were on white maize and sunflower seed spot prices, with each up by 5 percent from last week's average prices. Aside from price movements, the focus in the market has somewhat shifted towards the 2018/19 summer crop production season which commences next month. There is uncertainty regarding the weather outlook. The local weather agency recently indicated a probability of an El Niño occurrence in the early stages of the 2018-19 summer season, which could negatively affect the crop as it coincides with the planting period. More information about this will be available towards the end of the month.

Maize market

With the 2018/19 maize production season fast approaching, the weather will be a key focus in the summer crop growing areas of South Africa. The early indications from weather forecasters show a possibility of a drier start of the season due to potential effects of the El Niño weather phenomenon. It is worth stressing that at this point there is no conclusive view of this weather event, the estimates will get a bit more accurate as the summer season approaches. Hence, we believe that the month end estimates from both the local and global weather forecasters could carry worthwhile insight about the next season.

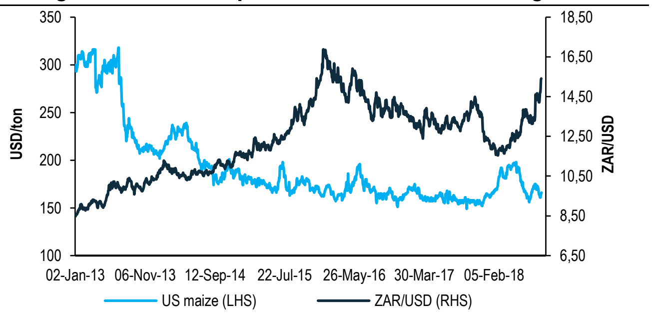
The local market will remain well supplied throughout the 2018/19 marketing year which ends in April 2019, with about 16.7 million tonnes. This is well above South Africa's 10.8 million tonnes annual consumption, which means the country will remain a net exporter of maize. Overall The SAFEX white and yellow maize spot prices were respectively up by 5 and 4 percent from the previous week, averaging R2 396 per tonne and R2 447per 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

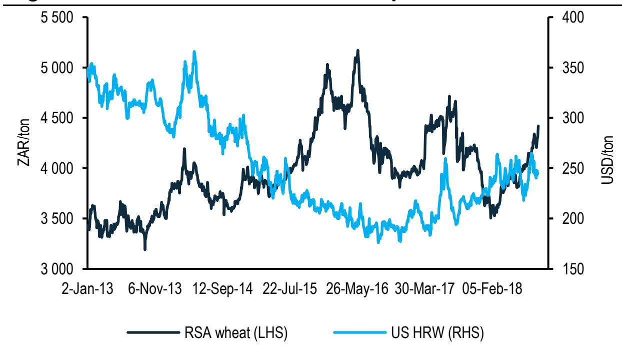
Wheat market

We continue to keep a close eye on weather developments over the winter wheat growing areas of the country as the crop is still at the stages of development that requires moisture. The next eight days could bring rainfall which should improve soil moisture and subsequently benefit the crop. This follows good showers in parts of the Western Cape province over the past few days, which also improved dam levels. The most recent data from the Department of Water and Sanitation shows that the Western Cape provincial dam levels averaged 58 percent in the week of 03 September 2018, up by 3 percent from the previous week and 24 percentage points higher than the same period last year. As set out in the previous notes, South Africa's wheat production could increase by 18% y/y to 1.8 million tonnes in 2018/19 production season. This is on the back of an expansion in area planted and general improvement in the Western Cape weather conditions.

In the fields, the crops are mostly in good condition in the province, with the exception of some areas in the southern Cape which experienced damages due to persistent dryness in the past couple of weeks. While the expected rainfall is a welcome development, it will not make a meaningful improvement in areas that have already seen damages. We place more emphasis on this particular province because it accounts for more than two-thirds of the 508 350 hectares of planted winter wheat. The crop in other provinces is in good shape and will be sustained in such conditions by the expected rainfall. The irrigation areas will also benefit from improved in dams.

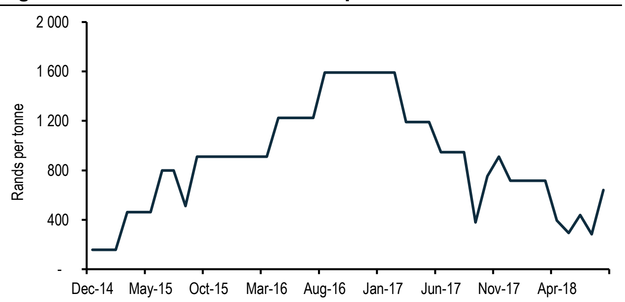
There are no new developments on the wheat import tariff front. The newly calculated rate is R298.45 per tonne, well below the current rate of R640.55 per tonne[1]. This newly calculated rate will also be effective only after publication in a government gazette, of which the timeframe is unclear. The wheat imports continued with minimal interruptions in the past couple of months. South Africa's 2017/18 wheat imports currently stand at 1.96 million tonnes, which equates to 93 percent of the seasonal imports. In terms of pricing, the SAFEX wheat spot price averaged R4 351 per tonne this week, up by 3 percent 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

[1] The downward revision of the wheat import tariff was mainly underpinned by higher Chicago wheat prices. The international wheat prices traded higher than the base price of US$226.33 per tonne by more than US$10 per tonne for three consecutive weeks, thus triggered the new wheat import tariff.

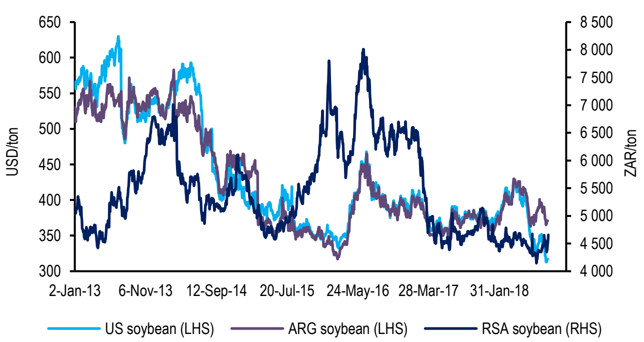
Soybean market

The Supply and Demand Estimates Committee kept its estimate for South Africa's soybean supplies unchanged from last month, at 1.86 million tonnes, up by 32 percent from the 2017/18 marketing year. This includes the expected production and imports, as well as opening stock. These expected large supplies have mainly been boosted by the record soybean production of 1.55 million tonnes. In the week of 31 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. The improvement in production 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. While the fundamentals are quite bearish, the SAFEX soybean spot price was up by 4 percent from last week, averaging R4 351 per (Figure 5).

Sunflower seed market

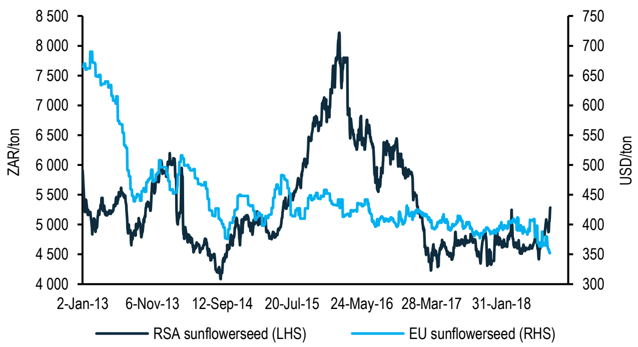
South Africa's sunflower seed supplies are in good shape, thanks to recent improvement in production forecast. The most recent data from the Supply and Demand Estimates Committee shows that 2018/19 sunflower seed supplies could amount to 1.02 million tonnes, well above July 2018 expectations. This, however, is 3 percent lower than the 2017/18 marketing year supplies. The supplies figure combined expected production and imports, as well as carryover stock from the previous season. The Committee forecasts 2018/19 sunflower seed imports at 500 tonnes, which is 10 percent lower than the previous season. This decline in imports is due to large domestic supplies which, aside from expected large harvest, are supported by large stocks from the 2017/18 marketing year. In July, South Africa had already imported 469 tonnes of sunflower seed in the 2018/19 marketing year, which equates to 94 percent of the seasonal expectations. From a consumption perspective, the demand from sunflower seed processors could remain solid in the 2018/19 marketing year, estimated at 913 600 tonnes. This is by 2 percent from the 2017/18 marketing year. About 99 percent of this could be utilised in oil and meal processing. The SAFEX sunflower seed spot price was up by 5 percent from the previous week, averaged R5 180 per tonne (Figure 6).

Figure 5: Soybean prices



Source: JSE, IGC, and Agbiz Research

Figure 6: Sunflower seed prices

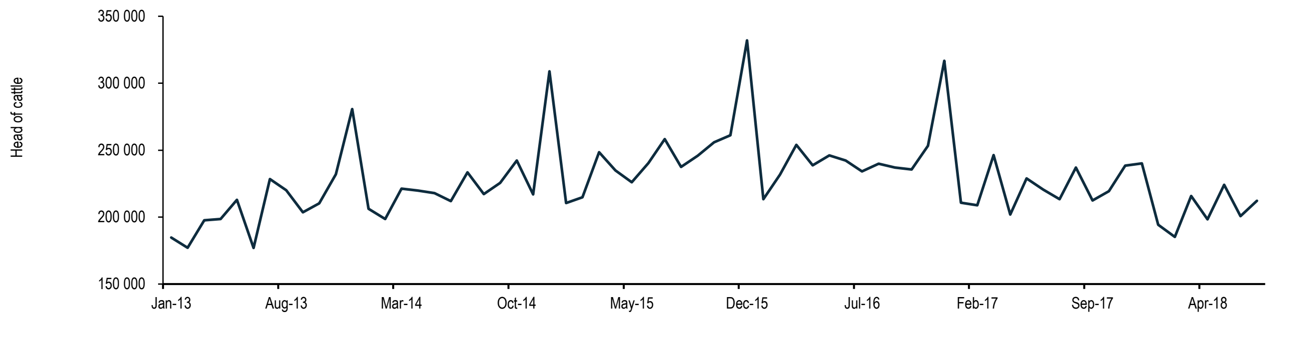


Source: JSE, IGC, and Agbiz Research

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

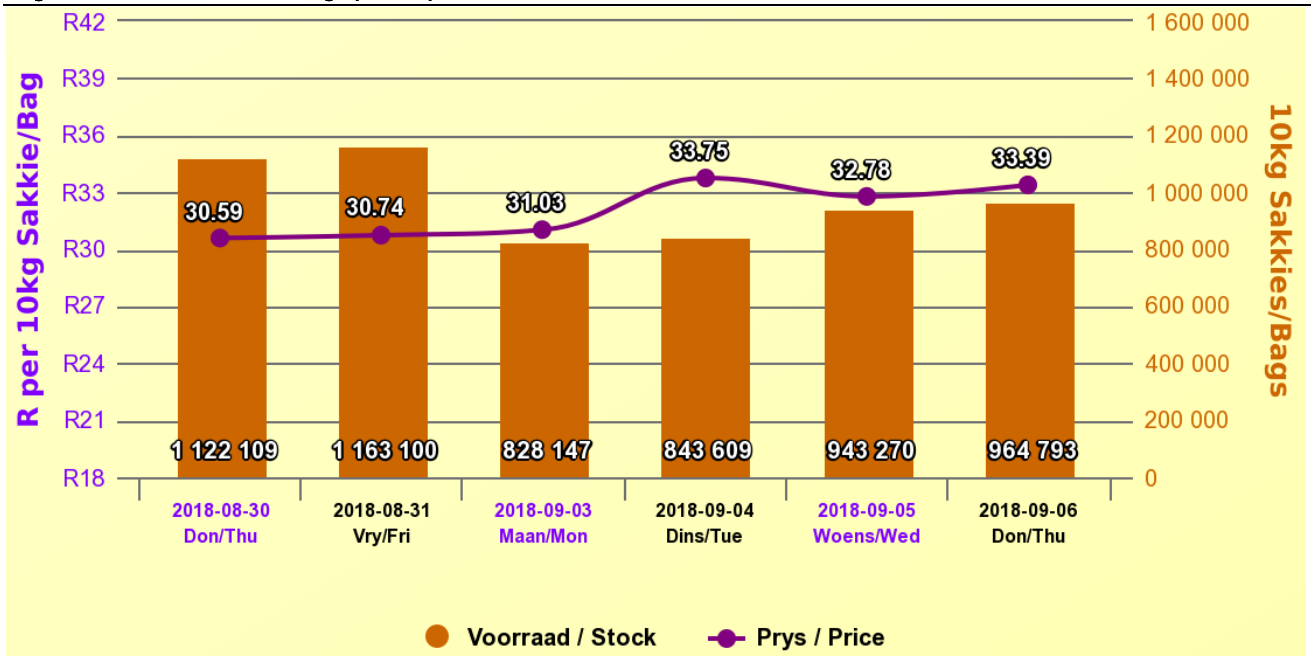


Source: Red Meat Levy Admin, Agbiz Research

Potato market

The potato market ended the week in positive territory, with the price up by 9 percent from the corresponding period last week, closing at R33.39 per pocket bag (Figure 8). These gains were mainly on the back of a 14 percent decline in stocks to 964 793 pockets (10kg bag), due to strong commercial buying interest and decline in deliveries.

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



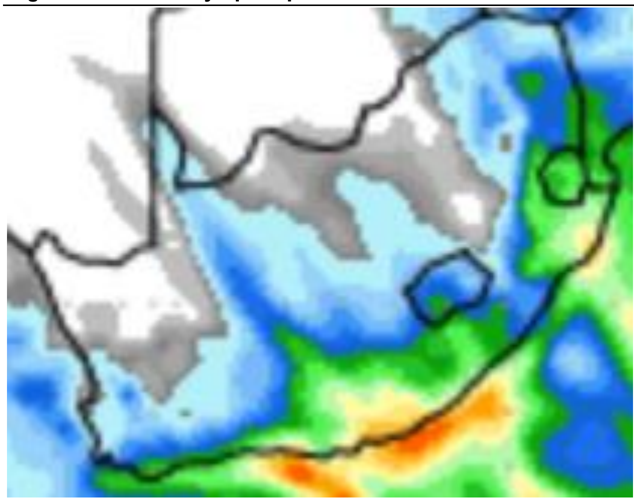
Source: Potato SA

Weather conditions ahead of the weekend

The weather charts show prospects of good rainfall over most parts of the country within the next eight days. This could vary between 16 and 40 millimetres and will potentially improve soil moisture and subsequently winter crop growing conditions (Figure 9).

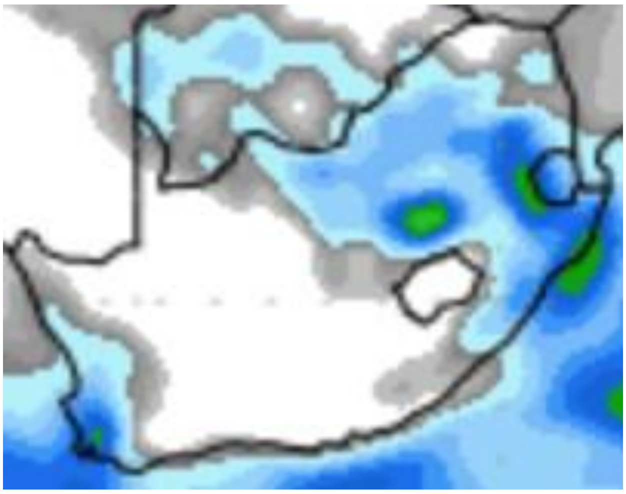
Nonetheless, the week of 22 September 2018 could provide a breather, assuming the expected rainfall in the near term will materialise, as weather charts show clear skies over most parts of the country. This is with the exception of the coastal parts of Gauteng, Mpumalanga and northern parts of the North West and Free State provinces which could receive light showers (Figure 10).

Figure 9: Next 8-days precipitation forecast



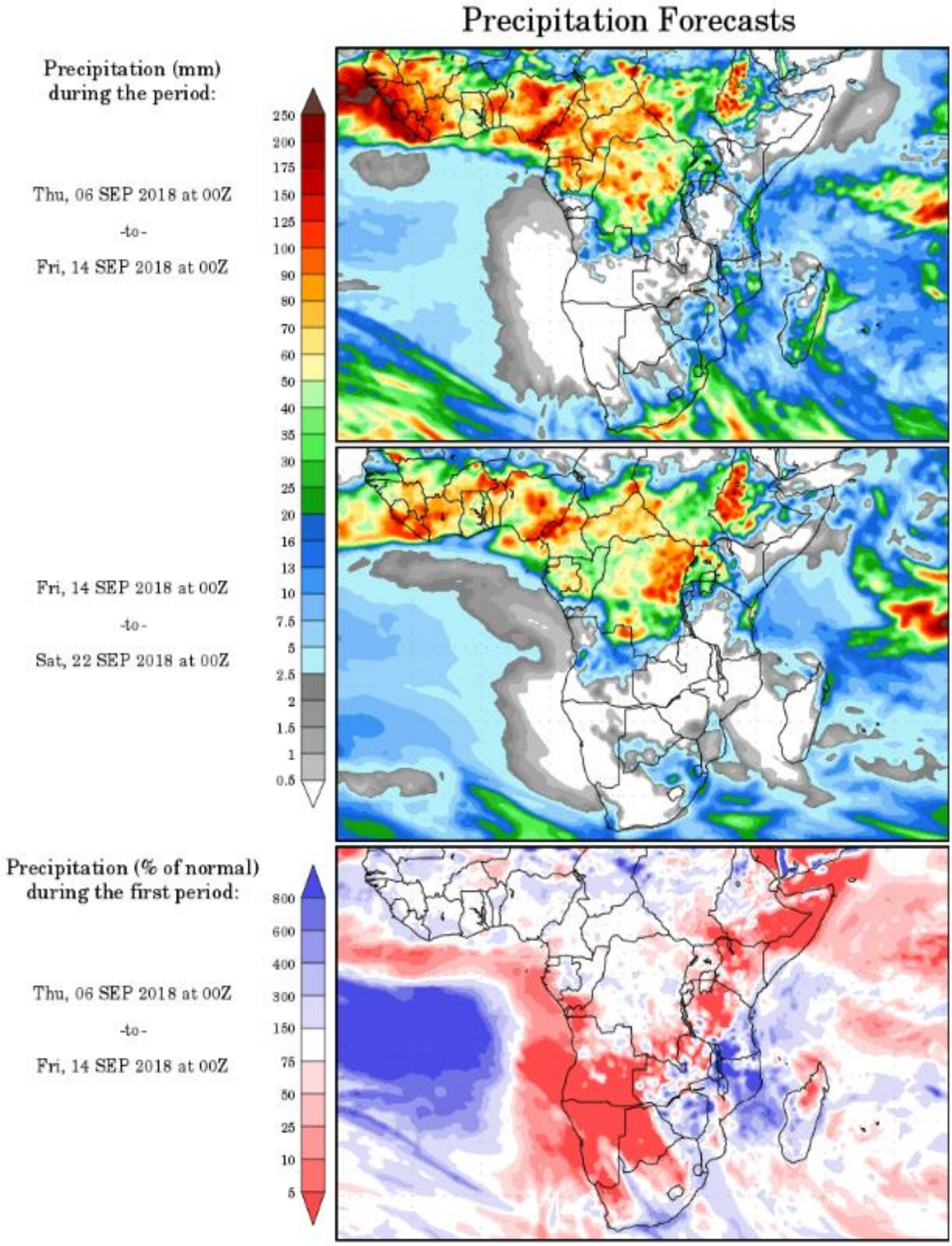
Source: wxmaps

Figure 10: Next 16-days precipitation forecast



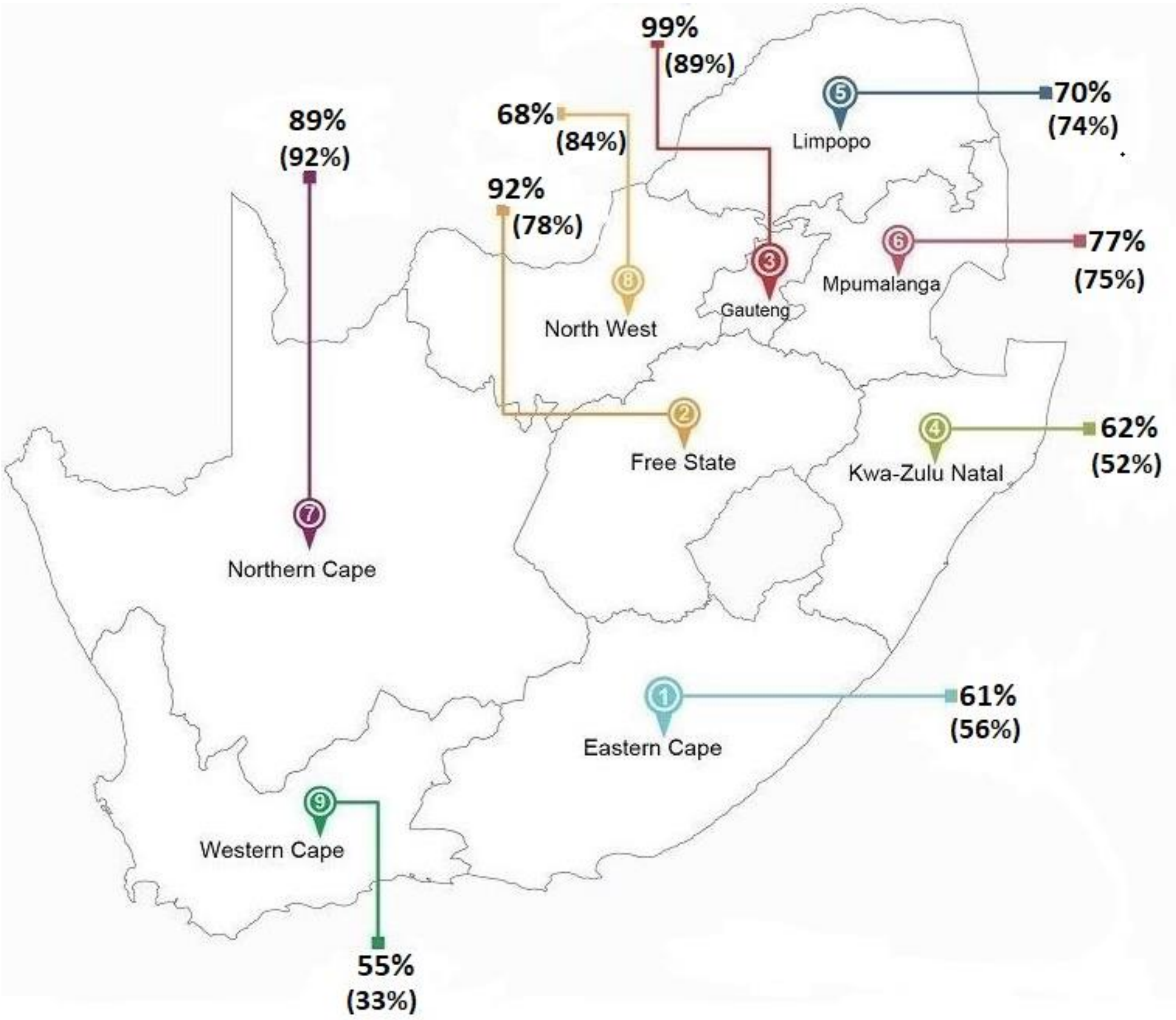
Source: wxmaps

Figure 11: Precipitation forecast for the next two weeks



Source: wxmaps

Figure 12: South Africa's average dam levels: week ended 27 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: 12/09/2018
- SAGIS weekly grain trade data: 13/09/2018
- SAGIS monthly data: 25/09/2018
- National Crop Estimates Committee's data: 26/09/2018