

South African Agricultural Commodities Weekly Wrap

The weather was a key focus this week, not only because the 2018/19 summer grain planting window has recently opened in the eastern and central parts of South Africa, but also because of the mixed weather prospects for the season. The local weather agency forecast a likelihood of above-normal rainfall between November 2018 and January 2019, with dryness later in summer. Meanwhile, the Australian Bureau of Meteorology placed the chances of an El Niño event developing this year at 70 percent, up from the previous estimate of 55 percent. This means that even if the summer crops could have a good start of the season, the pollination stages could fall under the dry spell which might negatively affect the yields. At the moment, it is unclear how farmers will react to this. We will have a better view when the Crop Estimate Committee releases the plantings intentions data on 25 October.

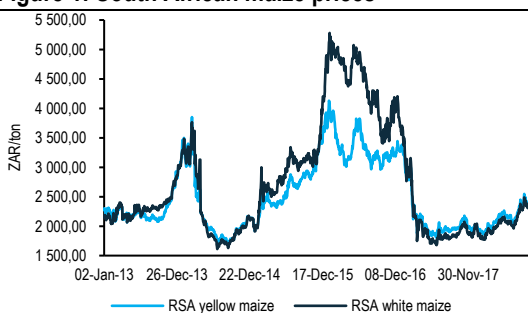
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Maize market

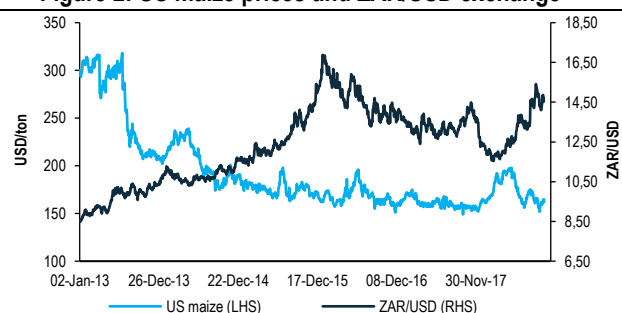
Although the weather forecasters paint a worrying picture of possible dryness over most parts of South Africa later in summer, the global agricultural observers are still fairly optimistic about the next season's crop. Last night, the United States Department of Agriculture (USDA) left its estimate for South Africa's 2018/19 commercial and non-commercial maize production unchanged from the previous month at 13.0 million tonnes. This is well above the long-term average production. Moreover, the International Grains Council forecasts South Africa's new season maize production at 12.3 million tonnes. However, the planting activity has not yet commenced in many provinces, the aforementioned estimates are largely based on historical data. Key to look out for going forward is the 'farmers' intentions' to plant figures which will be released on 25 October and the weather outlook. Overall, the SAFEX white and yellow maize spot prices were each up by 4 percent from last week, averaging R2 414 per tonne and R2 455 per tonne due to the weaker rand against the US dollar, as well as spillover from higher Chicago maize prices.

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

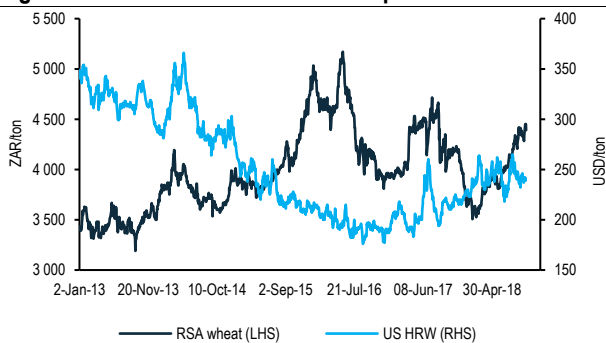
Wheat market

South Africa’s winter wheat crop is currently in good shape in most parts of the country, following favourable rainfall in the past couple of weeks. In the major producing province, Western Cape, the harvest process could start towards the end of this month. In most regions within the province, there are general expectations of higher yields. The past few weeks’ showers in the province did not only improve crop conditions, but it boosted dam levels as well. The data from the Department of Water and Sanitation shows that the Western Cape provincial dam levels averaged 66 percent in the week of 08 October 2018, up by 30 percentage points from the corresponding period last year.

The crop growing conditions also remain favourable in provinces such as the Northern Cape, Free State, Eastern Cape and Limpopo, amongst others, although the crop is at relatively early stages of development compared to the Western Cape due to a difference in planting periods. The winter wheat planting period typically starts at the end of April in the Western Cape, whereas other provinces only start around mid-year. This is partly caused by variation in rainfall patterns. This is all supportive of the Crop Estimate Committee’s view of a potential 18 percent annual increase in South Africa’s wheat production to 1.85 million tonnes following an expansion in area planted and expected higher yields. On 25 October 2018, the Committee will release an update of this estimate, but we don’t foresee downward revisions as crop conditions have been quite positive since the last assessment. Furthermore, the expected rainfall over most parts of the country within the next two weeks could further improve crop growing conditions in the aforementioned provinces. The irrigation areas will also benefit from improved dam levels, currently over 60 percent full in all winter wheat producing provinces.

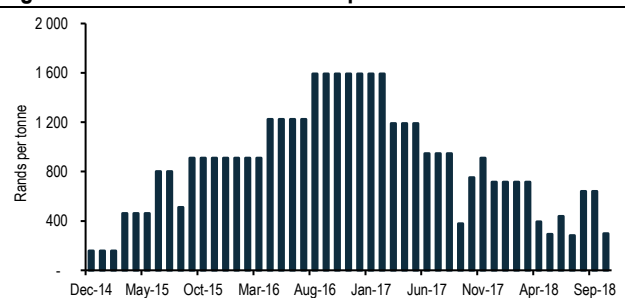
There are no new developments on the import tariff front. The newly calculated rate is R490.72 per tonne, which is 64 percent higher than the current rate (Figure 4). It will only be applicable after its publication on the government gazette. The timeframe for this process is unclear, but previous adjustments took more than three weeks. These are important developments as South Africa is expected to import 1.4 million tonnes of wheat in the 2018/19 marketing year. While this is 33 percent lower than the previous season’s volume due to a potential uptick in local production, it is still a notable volume. Against this backdrop, and the weaker rand against the US dollar, amongst other factors, the SAFEX wheat spot price averaged R4 435 per tonne this week, up 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

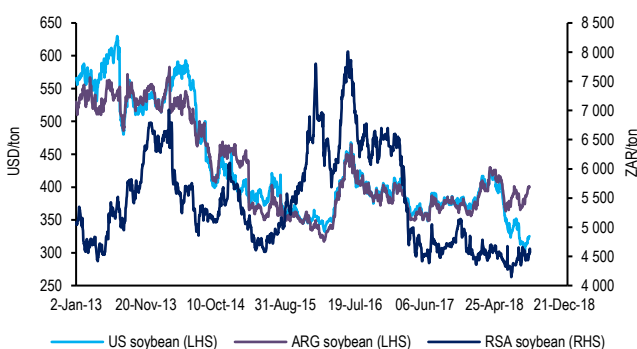
Soybean market

South Africa's key object behind the expansion of the soybean crushing plants was import substitution of soybean oil and oilcake and there has been good progress over the past few years. South Africa's soybean oilcake imports declined by 42 percent to 553 003 tonnes between 2010 and 2017. We estimate that 2018 oilcake imports could decline further by 17 percent from last year to 458 992 tonnes due to large domestic soybean supplies that are currently estimated at 1.86 million tonnes. This is up by 32 percent from the previous year, as it combines the production figure and imports, as well as opening stock. In the first half of this year, the soybean oilcake imports were at 271 913 tonnes, down by 3 percent from the corresponding period last year. The leading supplier was Argentina with a share of 74 percent. The rest was supplied by Zambia, Malawi and Zimbabwe, Mozambique and Netherlands, amongst others. In terms of pricing, the SAFEX soybean spot price was up by 2 percent from last week, averaging R4 585 per tonne (Figure 5). The gains were partly on the back of the weaker rand against the US dollar, as well as spillover from higher Chicago wheat prices.

Sunflower seed market

At the start of the 2018/19 marketing year, South Africa's sunflower seed imports were expected to be marginal, roughly below 500 tonnes, down from 554 tonnes the previous season. But in August 2018, imports exceeded the expectations due to increased volume from Malawi, which was supported by the fact that South Africa's 2017/18 sunflower seed production was marginally lower than the previous production season. An additional volume was supplied by Argentina, Botswana and Egypt. The import estimate has since been revised up to 800 tonnes, which presents a room for additional imports between this month and February 2019 – a closing month of the 2018/19 marketing year. With that said, the story is a bit different when it comes to sunflower seed by-products. For example, the import pace of sunflower oil has slowed compared to last year. In the first half of this year, South Africa's sunflower oil imports amounted to 54 887 tonnes, down by 28 percent from the corresponding period last year. In terms of pricing, the SAFEX sunflower seed spot price was up by percentage point from the last week, averaged R5 193 per tonne, as the weaker domestic currency against the US dollar continued to support the market (Figure 6).

Figure 5: Soybean prices



Source: JSE, IGC, and Agbiz Research

Figure 6: Sunflower seed prices



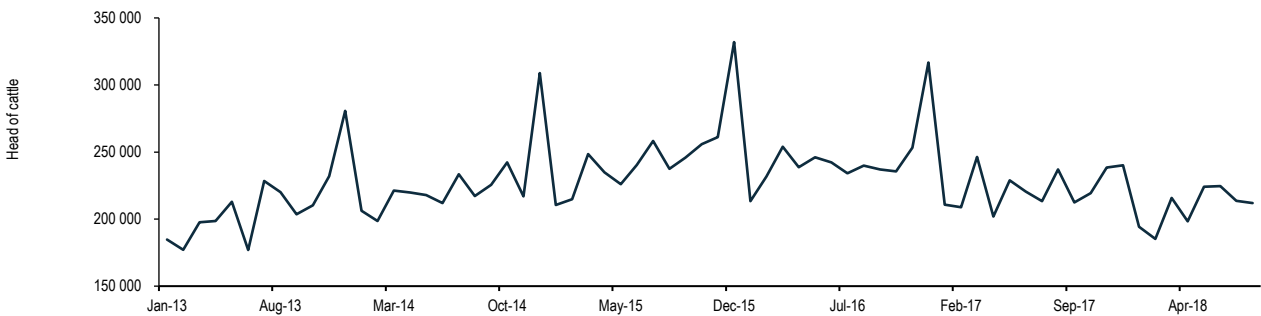
Source: JSE, IGC, and Agbiz Research



Beef market

The SAFEX beef carcass prices have not moved in months due to thinly traded volumes. This week's trading session was no different, the price remained unchanged from last week, averaging R47.50 per kilogram. Therefore, the SAFEX beef carcass price is not a true reflection of the physical market which continues to show solid activity. In terms of the supply, the South African farmers slaughtered 211 951 head of cattle in August 2018, down by 11 percent from August 2017 due to the herd rebuilding process after a reduction during the 2015-16 drought.

Figure 7: Monthly cattle slaughtering activity

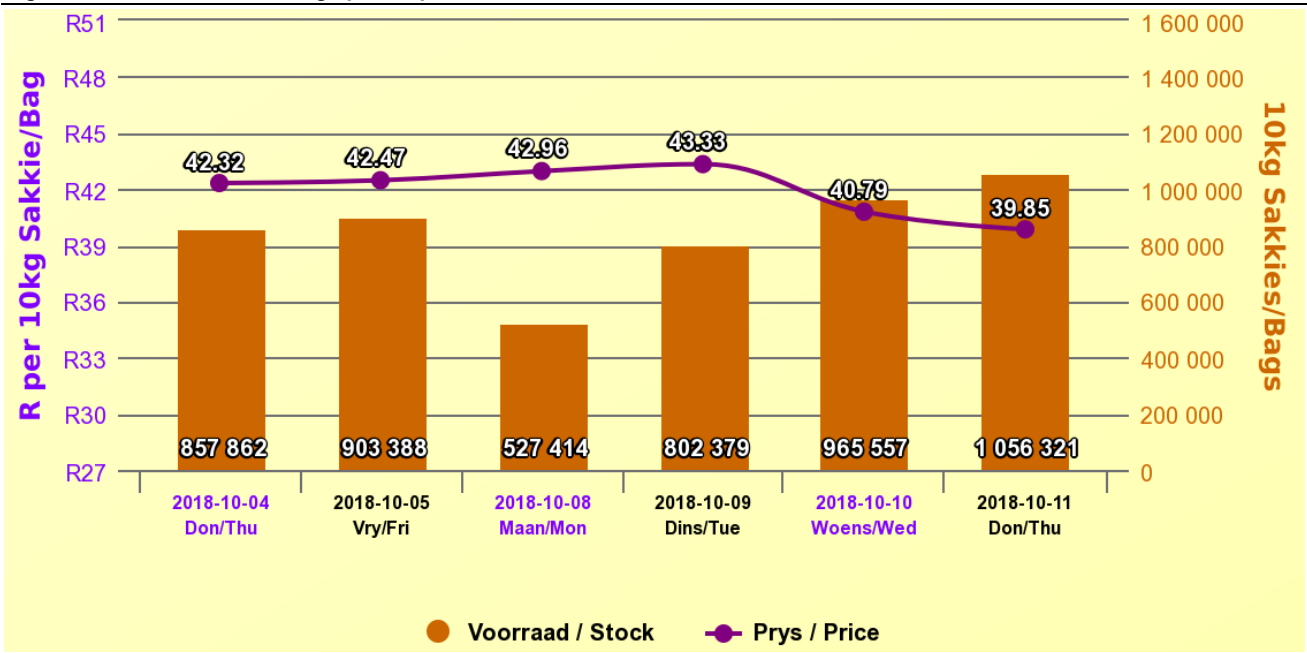


Source: Red Meat Levy Admin, Agbiz Research

Potato market

The potato market ended the week in negative territory, with the price down by 6 percent from the corresponding period last week, closing at R39.85 per pocket bag (Figure 8). These losses were mainly on the back of increased harvest activity in some regions of the country, which led to an uptick in stocks to 1.06 million pockets (10kg bag).

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



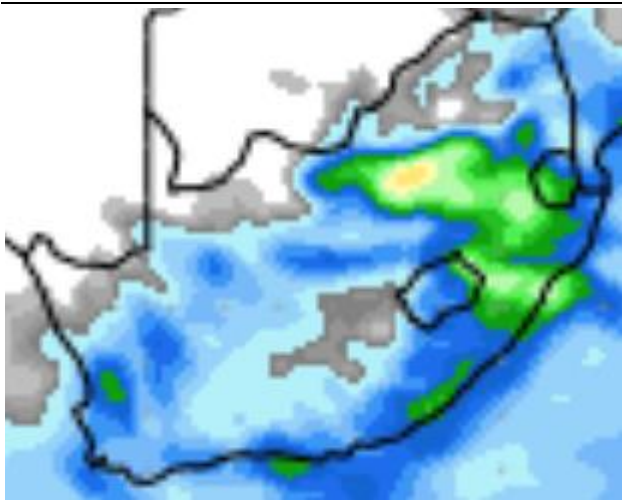
Source: Potato SA

Weather conditions ahead of the weekend

While the medium-term weather forecasts are concerning, with prospects of drier weather conditions, the next eight days could bring widespread light showers over most parts of South Africa. This could slightly improve soil moisture and subsequently benefit the 2018/19 summer crop planting activity (Figure 9).

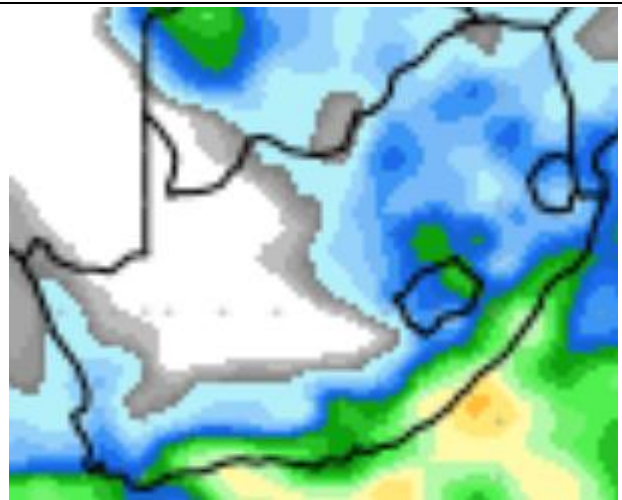
Furthermore, the weather forecast for the week of 27 October shows a likelihood of continuous rainfall over most parts of the country, with the exception of the Northern Cape, the north-western parts of the Eastern Cape (figure 2). Overall, this will not only benefit the upcoming summer crop planting process but also winter crops that are still growing stages that require moisture (Figure 10).

Figure 9: Next 8-days precipitation forecast



Source: wxmaps

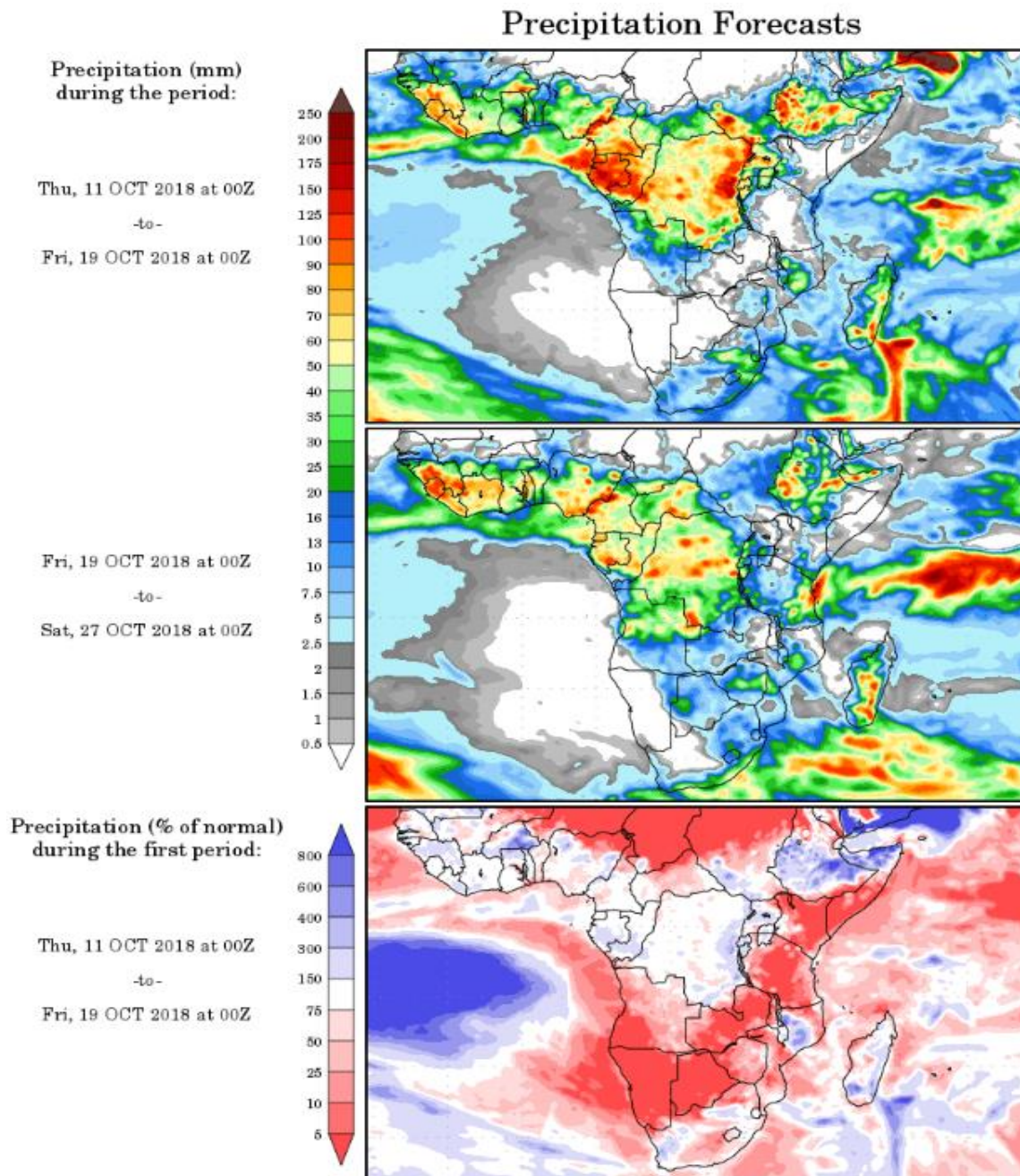
Figure 10: Next 16-days precipitation forecast



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: 17/10/2018
- SAGIS weekly grain trade data: 18/10/2018
- SAGIS monthly data: 25/10/2018
- National Crop Estimates Committee's data: 25/10/2018

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