

South African Agricultural Commodities Weekly Wrap

This week ended with some positive news in terms of production. South African farmers intend to increase the area planted to summer grain and oilseed by 5 percent from the 2017/18 production season to 4.03 million tonnes. The planting activity has recently begun in the eastern and central regions of South Africa and likely to gain momentum following good rainfall in the past couple of days. Looking ahead, the weather, as a major determinant if the planned plantings materialises, will be a key focus in the market. In terms of winter crops, wheat, barley and canola production estimates were lifted from the previous month due to expected higher yields. Nonetheless, these estimates, specifically wheat could be revised down marginally in the coming month owing to reports of recent crop damage in the Swartland area following heavy winds and rainfall at the beginning of this week.

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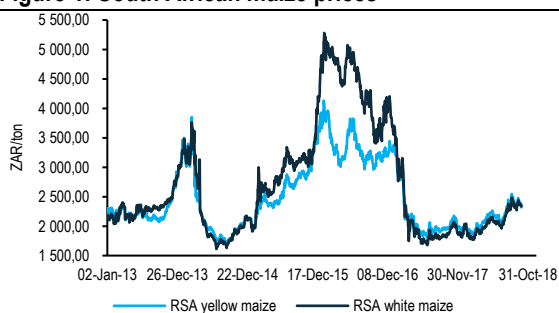


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Maize market

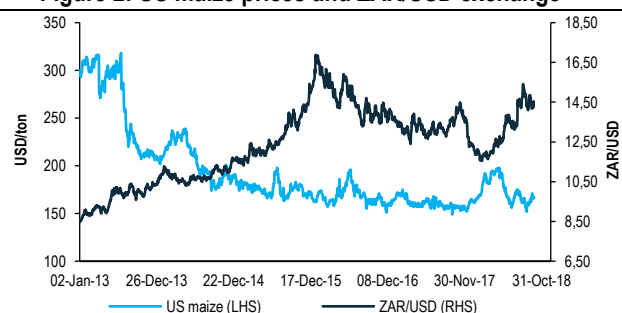
As set out in yesterday note, South African farmers intend to plant 2.44 million hectares of maize, up by 6% from the 2017/18 production estimate. This was in line with our and Bloomberg's consensus forecast of 6% y/y uptick in area plantings. About 1.37 million hectares is white maize with 1.07 million hectares being yellow maize, both up from levels planted in the 2017/18 production season. The planting activity has begun in the eastern and central parts of South Africa following recent rainfall which somewhat improved soil moisture (Figure 12). The local Weather Service forecasts higher rainfall over summer crop growing areas in the period between November 2018 and January 2019, which bodes well with the new season crop. However, the period thereafter could experience dryness associated with expected El Niño, albeit some weather forecasters arguing that it could be fairly weaker. We will closely monitor this in order ascertain its potential impact on crops as it could coincide with pollination in some areas. In terms of pricing, the SAFEX market (white and yellow) lost ground this week and settled in negative territory.

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



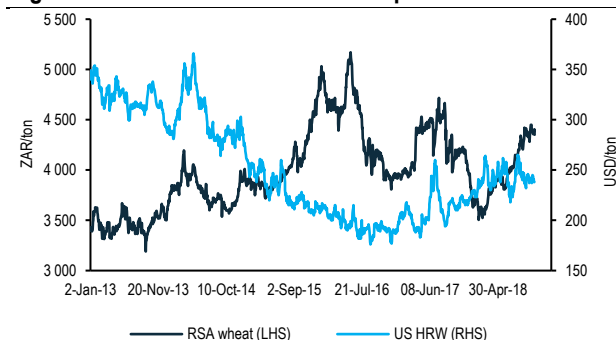
Wheat market

This month's Crop Estimate Committee's data update underscored the view that this will be one of the good seasons in the South African wheat market. The Committee lifted its production estimate by a percentage point from last month to 1.86 million tonnes, which is contrary to Bloomberg's consensus forecasts of a 2 percent potential decline. This is up by 21 percent from the 2017/18 production season. The uptick is on the back of an expansion in area planted and expected higher yields in key producing provinces. With that said, the reports of crop damage in parts of Swartland area due to heavy wind and rainfall at the start of this week could result to a slight downward revision of the production estimate next month when the Committee releases its update. Given that the crop damage occurred earlier this week, we doubt if it was accounted in the recent data. The extent of a damage is still unclear, hence we cannot point out a figure at this stage. We will get more clarity over the coming days.

Aside from the aforementioned crop damage in parts of the Swartland area, the Western Cape's winter wheat has matured and generally in good shape with expectations of higher. Moreover, the general commentary from wheat farmers in various parts of the country has been quite encouraging in the past couple of weeks, pointing to the possibility of higher yields in most areas. Evidently, the crop growing conditions are favourable in provinces such as the Northern Cape, Free State, Eastern Cape and Limpopo, amongst others, albeit at relatively early stages of development compared to the Western Cape due to a difference in planting periods.¹ The crop in these particular provinces is supported by recent showers and improved water levels in the dams for irrigation following good summer and winter rainfall. Assuming that the aforementioned harvest projection materialises, South Africa's wheat imports could fall by a third from last year's volume to 1.4 million tonnes.

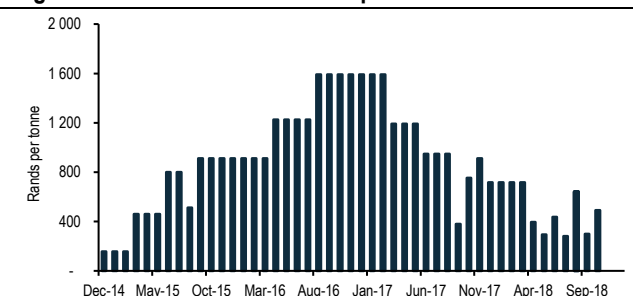
In terms of trade policy, South Africa's wheat import tariff rate of R490.72 per tonne that triggered on 11 September 2018 was finally published in a government gazette on 19 October 2018, making it an official rate. This is a 64 percent increase from a previous rate of R298.45 per tonne. Against this backdrop, the SAFEX spot wheat price was roughly unchanged from last week, up by 0.14 percent and averaging R4 379 per tonne (Figure 4)

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 winter wheat planting period typically starts at the end of April in the Western Cape, whereas other provinces only start mid-year and continue until August. The variation is partly caused by rainfall patterns.



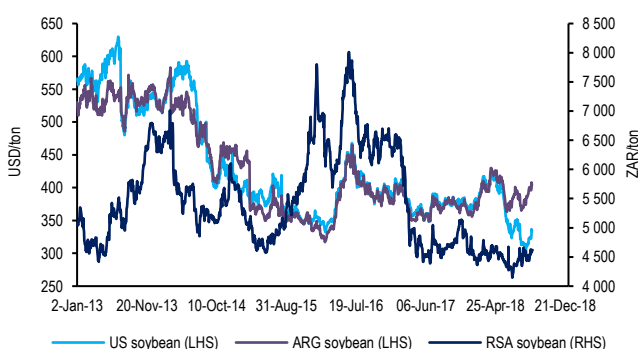
Soybean market

Soybeans continue to surprise us, pleasantly, as farmers intend to lift the area planting to a new record of 851 800 hectares, up by 8% from the 2017/18 production season. This is supported by growing demand in the domestic animal feed market, and also generally higher prices. The key contributing provinces to the expected increase in plantings are Free State, Mpumalanga, KwaZulu Natal and North West. The planting activity has commenced in the eastern parts of the country – all thanks to recent rainfall. Similar to the maize production, the first half of the production season could experience cool and drier weather conditions which should be supportive of new season crop. However, the possible El Niño late in the season remains the key risk that could negatively affect the crop. With that said, the recent updates which suggest that the forecast El Niño could be weak and delayed which offers hope that the crop could thrive well in the 2018/19 harvest. Apart from the production prospects, the SAFEX soybean spot price was down by a percentage point from last week, averaging R4 601 per tonne (Figure 5).

Sunflower seed market

Figures released yesterday by the Crop Estimate Committee show that South African farmers plan to reduce the area planted to sunflower seed by 4 percent from the 2017/18 production season to 575 000 hectares. This far exceeds the market expectations of 600 000 hectares. The planting activity hasn't commenced in a number of areas, as the optimal planting window will only open towards the end of this month. We will keep a close eye on this as the crops develop over the course of the year. In the same trend as the Crop Estimate Committee, although at a lesser extent, the USDA forecast a 0.2 percent year-on-year decline in South Africa's 2018/19 sunflower seed plantings. This could subsequently lead to a percentage point decline in production to 850 000 tonnes. Above all, this is under the assumption that weather conditions could be favourable during the summer season. Therefore, the expected El Nino could put a spin in this production figure, specifically if its occurrence coincides with pollination period. In terms of pricing, the SAFEX sunflower seed spot price was up by 2 percent from the last week, averaged R5 032 per tonne, as the relatively weaker domestic currency against the US dollar continued to support the market (Figure 6). Moreover, the increased commercial buying interest also added a bullish sentiment to the market.

Figure 5: Soybean prices



Source: JSE, IGC, and Agbiz Research

Figure 6: Sunflower seed prices



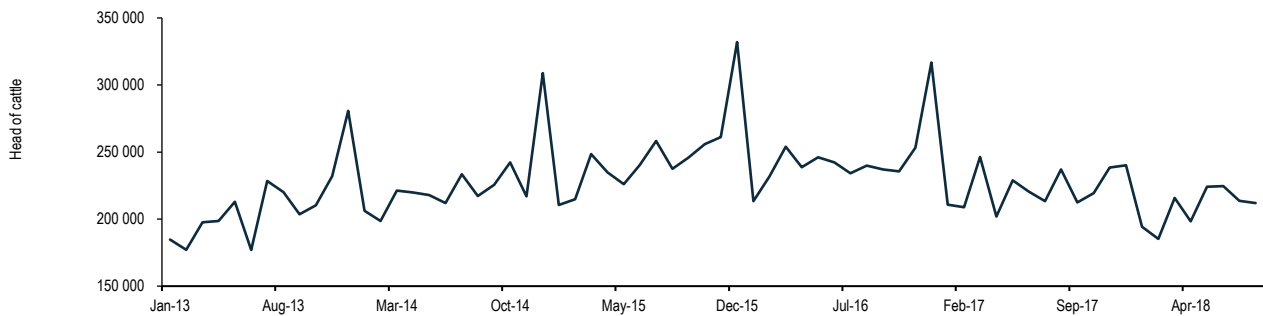
Source: JSE, IGC, and Agbiz Research



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).

Figure 7: Monthly cattle slaughtering activity

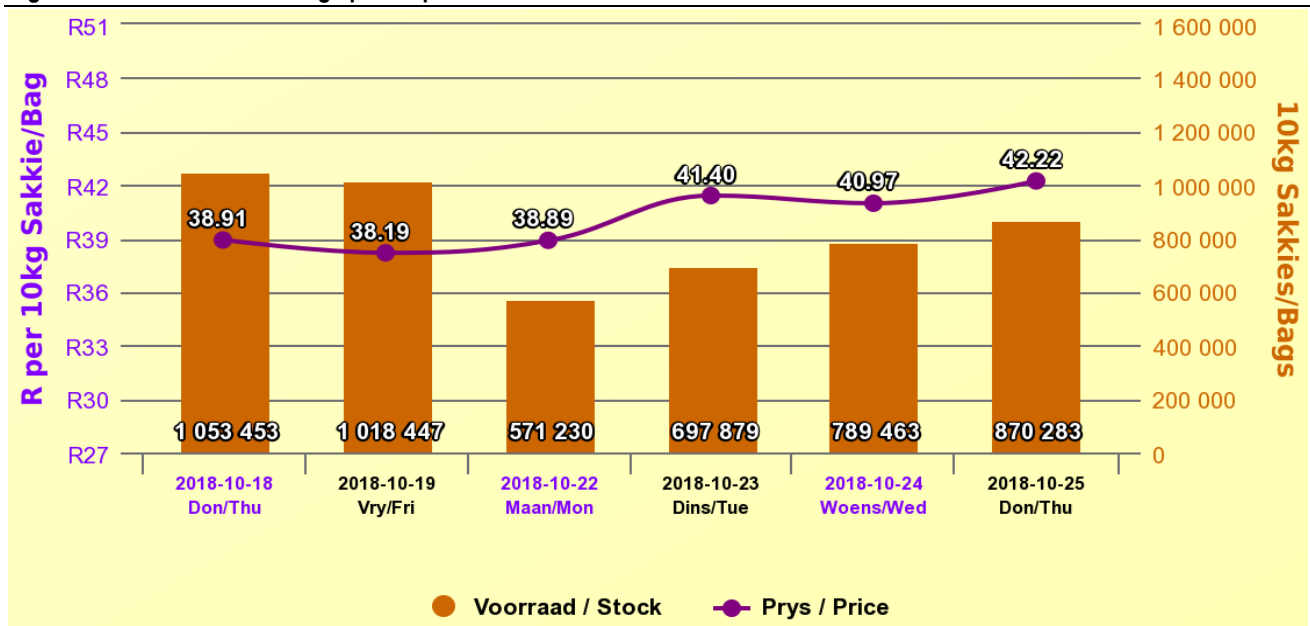


Source: Red Meat Levy Admin, Agbiz Research

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 R42.22 per pocket bag (Figure 8). These gains were mainly on the back of lower producer deliveries and increased commercial buying which led to low stocks of 870 283 pockets (10kg bag).

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



Source: Potato SA

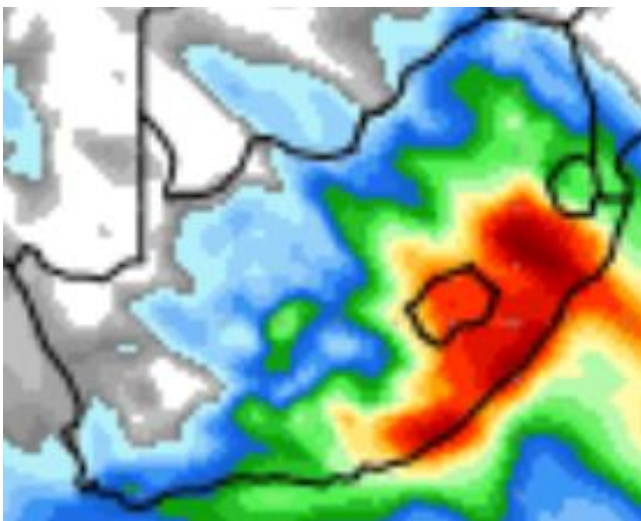


Weather conditions ahead of the weekend

The next eight days could bring widespread rainfall of roughly 16 to 90 millimetres over the summer crop growing areas of the country (Figure 9). This will further improve soil moisture, which will thereafter boost the planting activity and support the germination process in areas that have planted.

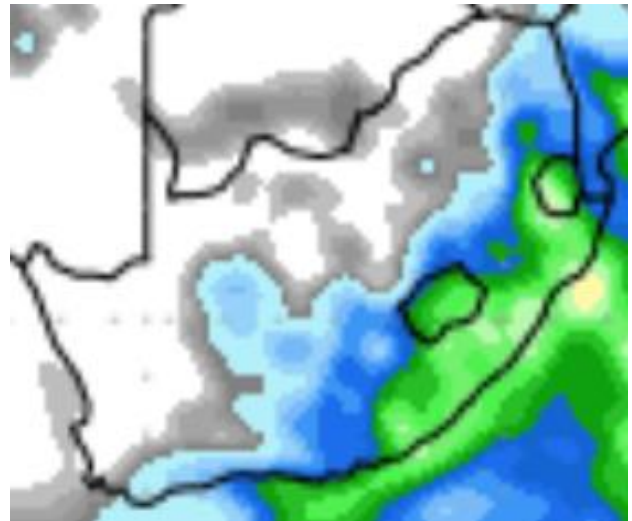
Furthermore, the weather forecast for the week of 10 November 2018 shows a likelihood of widespread rainfall over the eastern and central parts of South Africa, which will also boost soil moisture and benefit the summer crop areas (Figure 10). Also worth noting is that the expected cool and drier weather conditions in the Western Cape province could enhance the winter crop harvest process.

Figure 9: Next 8-days precipitation forecast



Source: wxmaps

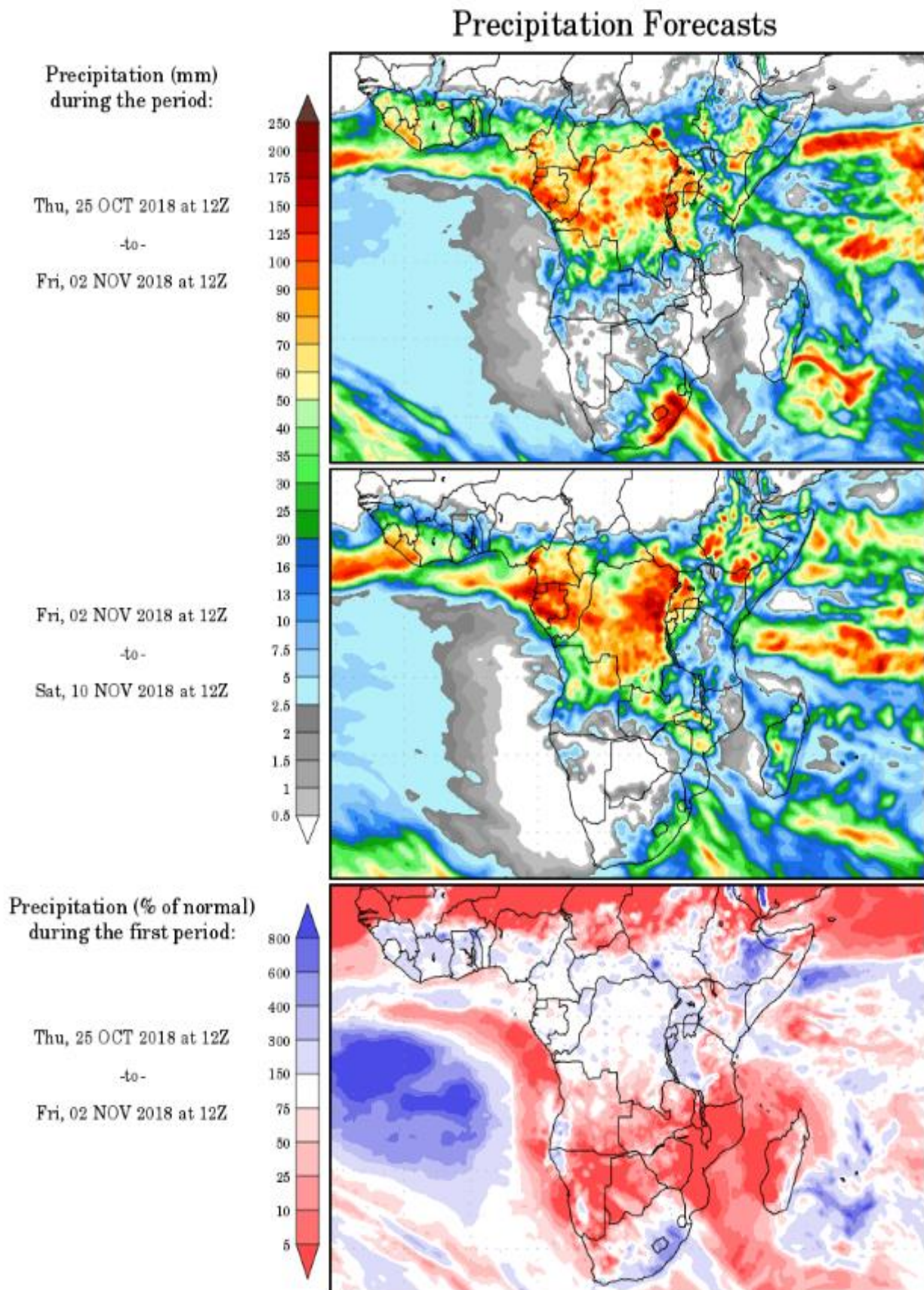
Figure 10: Next 16-days precipitation forecast



Source: wxmaps



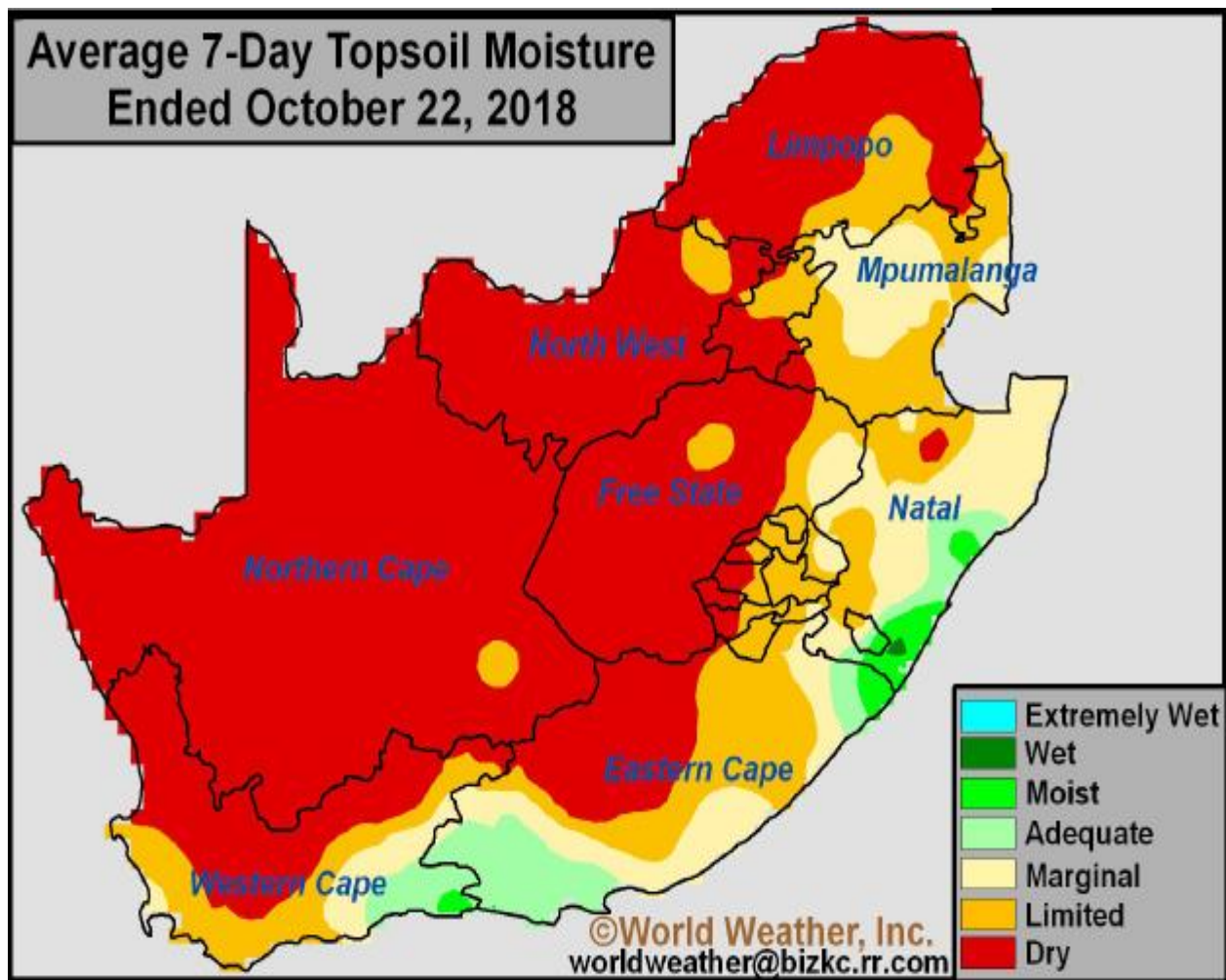
Figure 11: Precipitation forecast for the next two weeks



Source: wxmaps



Figure 12: South Africa's topsoil moisture in the week of 22 October 2018



Source: World Weather, Inc.

Key data releases in the South African agricultural market

- SAGIS producer deliveries data: 31/10/2018
- SAGIS weekly grain trade data: 01/11/2018
- SAGIS monthly data: 26/11/2018
- National Crop Estimates Committee's data: 27/11/2018

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