

## **The Weather will remain a Key Driver of SA Grains and Oilseed Market until February 2019**

*By Wandile Sihlobo, 31 October 2018, Agbiz*

Between October and February, which is typically planting to pollination, the weather becomes an important factor in the South African grains and oilseeds market and, to some extent, a major driver of prices. While there are concerns about a possible El Niño later in summer, the season started on sound footing with widespread rainfall in the eastern and central parts of the country. Moreover, farmers have also shown some optimism as the summer grains and oilseed area plantings are set to increase by 5 percent year-on-year to 4.03 million tonnes in the 2018/19 production season.

So far, the planting activity has been fairly good in the eastern parts of the country. These good conditions could gain momentum over the coming weeks, not only because the optimal planting window will narrow around mid-month, but also due to a largely favourable weather outlook.

The weather charts this morning currently show prospects of between 20 and 90 millimetres of rainfall over the summer crop growing provinces within the next two weeks. Admittedly, higher rainfall could potentially slow the planting activity in some areas, but potential improvement in soil moisture will have far enriching benefits to the crops later in the season. Possible planting delays will not be much of an issue as some areas could still plant outside of the optimal period, although yield levels could be slightly affected.

The impact of the favourable near-term weather prospects on prices has been muted. For example, yellow maize is up by over 15% y/y at R2 401 per tonne on 30 October 2018. At the same time, white maize price up by roughly 21% y/y at R2 411 per tonne. This looks as if the market is somewhat pricing in the potential decline in production on the grounds of a possible El Niño.

Be that as it may, other institutions such as the International Grains Council are fairly optimistic about South Africa's 2018/19 maize production at 12.3 million tonnes, down 9% year-on-year (commercial and non-commercial maize) from anticipated lower yields on the back of the forecast El Niño weather phenomenon later in the summer.

To be clear, with a harvest of 12.3 million tonnes, South Africa would remain a net exporter of maize until April 2020. By and large, as a country, we consume about 10.8 million tonnes of maize a year and we will probably have about 3.3 million tonnes of stocks when the 2019/20 marketing year starts in May 2019.

If we add the expected production of 12.3 million tonnes to the potential 3.3 million tonnes of stocks, South Africa's maize supplies will be in good shape over the next two years, all else being equal.

Aside from maize, the planting activity is underway in other summer crops such as soybean and the farmers are expected to plant a record level of 851 800 hectares. Similar to other crops, the weather will be a key determinant of the overall production. Worth noting, however, the soybean pollination stage could fall in within the rainy period (before El Niño), especially the areas that planted early, which increases a chance of higher yields.

### **Winter Crops**

The weather outlook over the winter crop growing areas of the Western Cape province shows clear skies for the next two weeks, which is a good window for the harvest process that is

currently underway. As set out in our previous notes, South Africa's winter wheat production is estimated at 1.86 million tonnes, well above the previous season's area of 1.54 million tonnes. The improvement is on the back of higher yields and an expansion in overall area planted. But some areas of Swartland were hard hit by heavy winds and rainfall in the past few days, which negatively affected the quality and the volume of the crop. Hence, we believe that the Crop Estimate Committee will release its production estimate down next month from the current estimate of 1.86 million tonnes. In terms of prices, the South African wheat prices are up marginally from last year, with the spot price closing at R4 422 per tonnes on 30 October 2018.

We are on the road today, we will be back with the usual Agbiz Morning Market Viewpoint tomorrow, 01 November 2018.

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