

Factors currently underpinning SA grain and oilseed market

By Wandile Sihlobo, 15 November 2018, Agbiz

After experiencing a good run at the beginning of the week, yesterday almost all SAFEX grain and oilseed contract month prices pulled back and settled in negative territory. This was underpinned by a broad range of factors, but the most notable ones were the recovery in the domestic currency, as well as prospects of higher rainfall within the next two weeks. This morning the near term weather forecasts suggest that most parts of the country (with the exception of the Northern Cape and northern parts of Limpopo) could receive as much as 20 to 80 millimetres of rainfall. This is good for both areas that are yet to plant as it will improve soil moisture ahead of the process, and also bode well for recently planted areas as it will support the germination process of the crop.

The weather and ZAR/USD exchange are fundamental factors that will continue to underpin the domestic grain and oilseed market for months to come. In the case of the weather, however, the critical months are October to February, which is typically planting to pollination.

As set out in our previous notes, there is general optimism in the farming community regarding the 2018/19 summer grain and oilseed production. This is evident from the recent tractor sales data, and also farmers' intentions to plant data. The data showed that summer grain and oilseed area plantings could increase by 5 percent year-on-year to 4.03 million tonnes in the 2018/19 production season. Most summer crops are expected to increase, with the exception of sunflower seed and groundnuts. While these farmer's intentions are promising they are just that: farmers' intentions. The actual summer crop planting estimates will be released on 29 January 2019.

The key risk on the path ahead, which we have emphasised in our previous notes, is the possibility of a weak El Niño. The South African Weather Service has indicated that this weather phenomenon could lead to drier weather condition in a period between the end of January and March 2019. This is a crucial period for most grain and oilseed because it coincides with pollination, which requires moisture. The global agricultural agencies such as the International Grains Council and the United States Department of Agriculture, amongst others, painted a somewhat positive picture of South Africa's 2018/19 summer grain and oilseed production outlook, albeit the estimates lower than the previous production year. For example, maize production estimates currently range between 12.3 and 13.0 million tonnes, which is well above the long-term average of 12.0 million tonnes. Going forward, however, the weather will be a key determinant of whether any of the aforementioned data points materialise and this will be a central theme in the market for the next three months.

Winter Crops

Winter wheat harvest process is in full swing in the Western Cape. In the first six weeks of the 2018/19 marketing year, the producer deliveries amounted to 449 888 tonnes, which equates to 50 percent of the Western Cape's expected harvest for the current season. While the upcoming deliveries figure for 16 November 2018 could show a further uptick from volumes delivered the previous weeks, the weeks of November 23 and 30 shows prospects of rainfall over the Western Cape, which could slow the process and might also negatively affect the quality of the crop in areas that have not yet harvested. Above all, South Africa's wheat production is estimated at 1.86 million tonnes, up by 21 percent year-on-year. The improvement is on the back of higher yields and an expansion in overall area planted.

We are on the road again today, we will be back with the usual Agbiz Morning Market Viewpoint tomorrow, 16 November 2018.