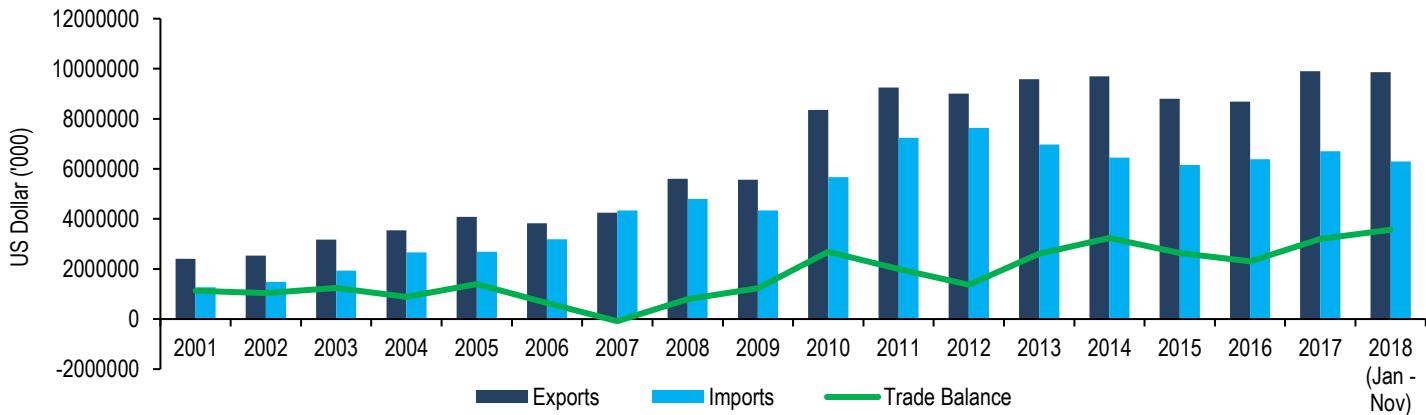




Western Cape drought had minimal impact on SA agricultural exports value

- The impact of the recent Western Cape drought to South Africa's 2018 agricultural exports is marginal when viewed in value terms. South Africa's agricultural exports for the first 11 months of 2018 amounted to US\$9.9 billion, which is 0.5% lower than 2017 exports. This is according to data from Trade Map. We are yet to see what the overall 2018 agricultural exports value will be when December 2018 trade statistics are released, but the available data shows minimal impact. The top export products were edible fruits, beverages, spirits, vegetables and wool, amongst others. In terms of beverages, particularly wine, the spillover of higher global prices was a key factor in boosting the value.
- Over the same period, the first 11 months of 2018, South Africa's agricultural imports fell by 6.2% from 2017 to US\$6.3 billion. The top imported products by value were rice, wheat, palm oil, sunflower oil and offal, amongst others. But, a closer look at the trade statistics shows that South Africa's agricultural sector recorded a positive trade balance of US\$3.6 billion in the first 11 months of 2018, which is a record level in a dataset dating back to 2001.
- From a destination point of view, the African continent and Europe continued to be the largest markets for South Africa's agricultural exports, collectively absorbing 65% of total exports in the first 11 months of 2018, measured in value terms. In more detail, Africa remained South Africa's largest market, accounting for 38% of agricultural exports. The leading products to these markets were beverages, fruit, wool, sugar and grains.
- Asia is also an important market for South Africa's agricultural exports, demanding a 25% export share in the first 11 months of 2018. Wool, fruit, grains, beverages, vegetables and meat were the leading products exported to this particular region. The Americas and the rest of the world accounted for 5% and 4% shares. Exports to these regions were also dominated by fruits, beverages, vegetables, tea, sugar and grains.
- Clearly, while the volume of the Western Cape agricultural harvest declined for most commodities, the increase in global prices helped to boost the value which, in turn, supported the South African agricultural exports. There is still one-month data point to be released, but from the available evidence, it is fair to say that the sector performed well.

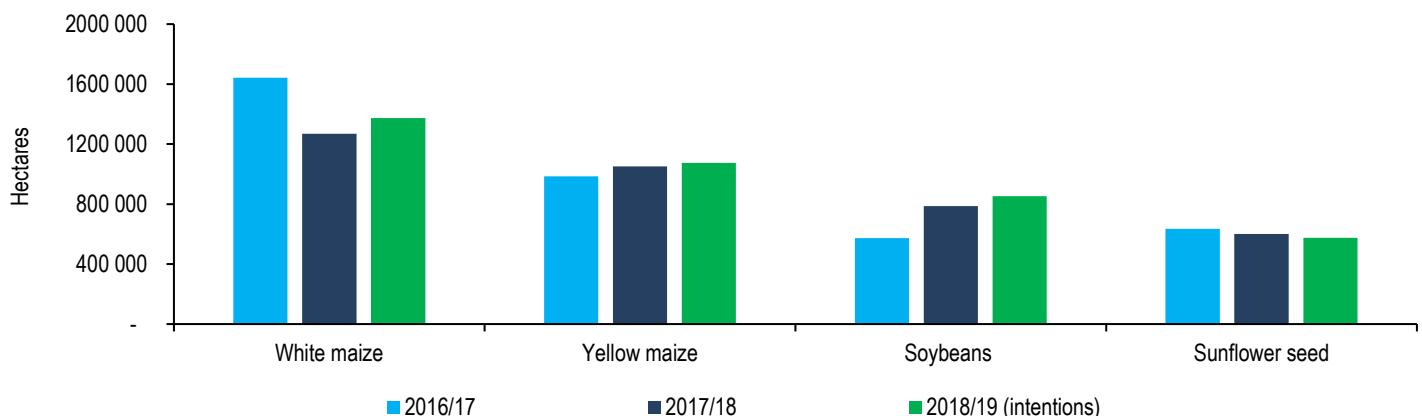
Figure 1: South Africa's agricultural trade balance



SA summer grains and oilseeds production data will be a key focus this week

- On Tuesday, 29 January 2019, the national Crop Estimate Committee will release its preliminary area planted estimate for 2018/19 summer grains and oilseeds. This will be the first official data since the release of the planting intentions data on 25 October 2018 (see Figure 2). At the time, South African farmers intended to increase the area planting for summer grains and oilseeds by 5% from 2017/18 season to 4.03 million hectares. Most summer crops showed an uptick, with the exception of sunflower seed and groundnuts.

Figure 2: South Africa's summer crop intentions to plant for 2018/19 season



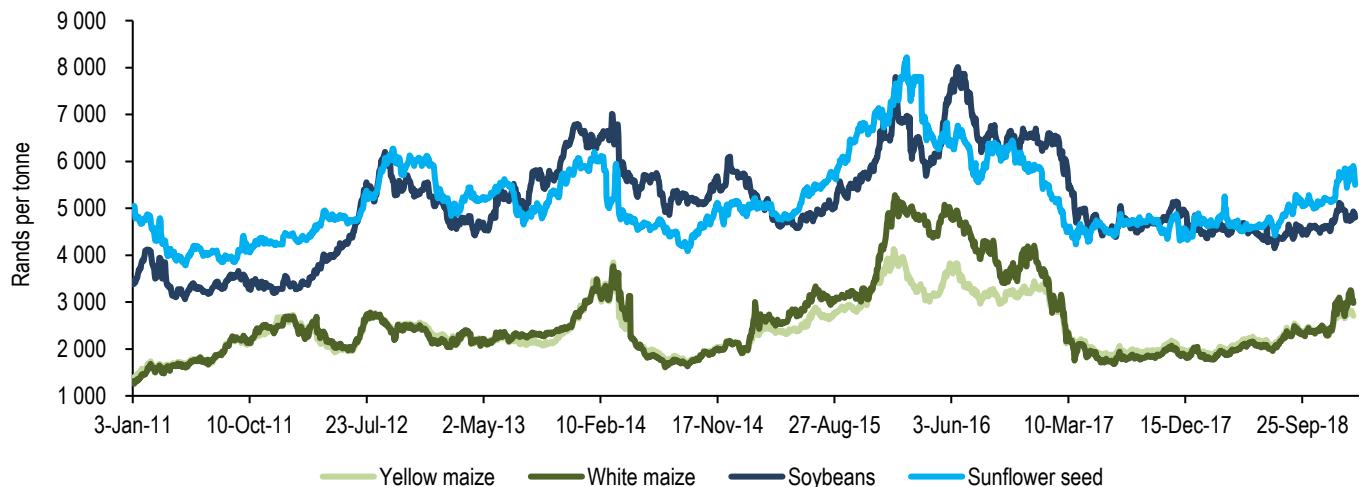
Source: CEC, Agbiz Research

- As set out in our note on 14 January 2019, the above-mentioned planting intentions were followed by actions, as tractor sales surged by 4% y/y to 6 680 units in 2018. At the time, good rainfall in the eastern parts of the country enabled farmers to start planting, albeit rainfall turning erratic and not widespread in some weeks. Meanwhile, the central and western parts of South Africa received minimal rainfall all the way to Christmas, which resulted in a delay in white maize and sunflower plantings. It was only in the last days of December that western parts of the Free State and North West received good rainfall.
- In terms of maize area plantings (white and yellow), we have always maintained that intended area of 2.44 million hectares for maize in the 2018/19 season could fall by 19% to 1.98 million hectares. This is slightly above Bloomberg's consensus of 1.97 million hectares, and almost in line with the area planted during the drought period of the 2015/16 production season. At that time, South African maize production amounted to 7.8 million tonnes, turning the country into a net importer, as annual maize consumption is roughly 10.8 million tonnes. During that year, there were relatively lower stocks as it was a second successive drier season. But, this time is different. South Africa's maize ending stocks, which will be carried over to the 2019/20 marketing year at the start of May 2019 is estimated at 3.4 million tonnes. This will provide a buffer for the country's supplies. Therefore, if South Africa's 2018/19 maize production could amount to at least 8.0 million tonnes, the country would have sufficient supplies for the whole 2019/20 marketing year, assuming there will be limited exports.
- The Crop Estimate Committee's data which is due for release on 29 January 2019 will only be summer crop area plantings. We will then use the planting data in our analysis to update the production forecasts, which will be published during the week. Also worth noting is that the International Grains Council recently revised its estimate for South Africa's 2018/19 maize production down to 10.7 million tonnes, from 12.3 million tonnes in November 2018.

Implications of the aforementioned production dynamics on SAFEX maize prices

- Prices in South African grains and oilseeds have rallied over the past few weeks (see Figure 3), supported by the aforementioned dryness which has caused fears of a poor harvest, specifically on maize, as well as spillover from higher Chicago grains and oilseeds prices.
- In the case of Chicago maize prices, it has been a challenging time for market participants in the global agricultural markets without the United States Department of Agriculture (USDA)'s services which were affected by the partial government shutdown. Fortunately, the government has reopened and the USDA will resume with its functions, which will include a good flow of global agricultural data and information.¹
- This week the national Crop Estimate Committee's planting data, weather conditions, domestic currency movements, and international grains and oilseed prices will be amongst the key factors that will underpin the South African grains and oilseeds price movements. Broadly speaking, we expect white and yellow maize prices to remain at fairly higher levels for some time.
- But, we do not expect a notable uptick in soybeans and sunflower seed prices for two reasons. First, soybeans are largely produced in the eastern regions of South Africa which have a fair amount of soil moisture that should support the crop. Second, the delays in maize plantings in the western regions of the country meant that the late plantings could largely be sunflower seed.

Figure 3: South Africa's maize, soybean and sunflower seed prices



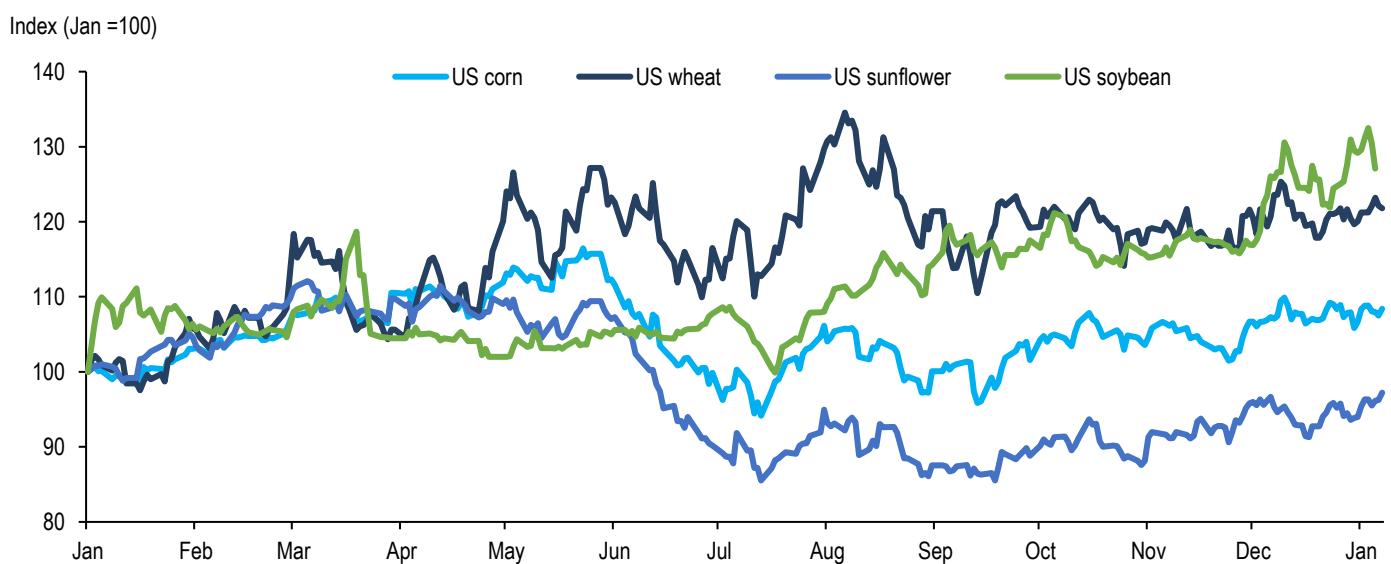
Source: Bloomberg, Agbiz Research

¹ For more information see US Agricultural Secretary's statement: <https://www.usda.gov/media/press-releases/2019/01/25/secretary-perdue-statement-reopening-federal-government>

Global focus – large global production, but stocks will still remain tight

- The 2018/19 global maize harvest could be the second largest on record, up by 3% y/y at 1.08 billion tonnes. This is according to recent data from the International Grains Council. The potential increase in production is underpinned by expected large harvests in the US, Brazil, Argentina, Ukraine and China. Nevertheless, the global maize stocks will remain tight due to a rise in consumption, particularly animal feed as traditional buyers of wheat are shifting to maize due to price competitiveness. The global maize stocks could fall by 11% y/y to 271 million tonnes.
- The results of drier weather conditions that affected the wheat crop earlier in the season in Russia, Ukraine, Australia, and the European Union region are reflected in the International Grains Council's 2018/19 global wheat production estimate of 737 million tonnes, down by 4% y/y. As a result, this could then lead to a 3% y/y decline in stocks to 263 million tonnes.
- The 2018/19 global soybean production is set to increase by 6% y/y to 363 million tonnes on the back of expected large harvests in the US, Argentina, China, India, Ukraine, Russia and Uruguay, amongst others. As a result of this improvement in production, the 2018/19 global soybean stocks could be up by 22% y/y to 54 million tonnes, despite the expected uptick in consumption over the corresponding period. Similar to soybeans, the 2018/19 sunflower seed production is projected to increase by 5% y/y to 52 million tonnes boosted by an expected large harvest in the Black Sea region.
- From a South African perspective, the aforementioned developments will have an impact on the SAFEX market, specifically for a commodity which South Africa is a net importer of, such as wheat, soybeans and sunflower seed by-products. The price dynamics presented in Figure 4 below are somewhat a result of the aforementioned fundamental factors, and the price movements in the near term are likely to maintain a similar trend, except soybeans which continue to be affected by unfavourable weather conditions in parts of Brazil, as well as the US-China trade dispute.

Figure 4: Global grains and oilseed prices

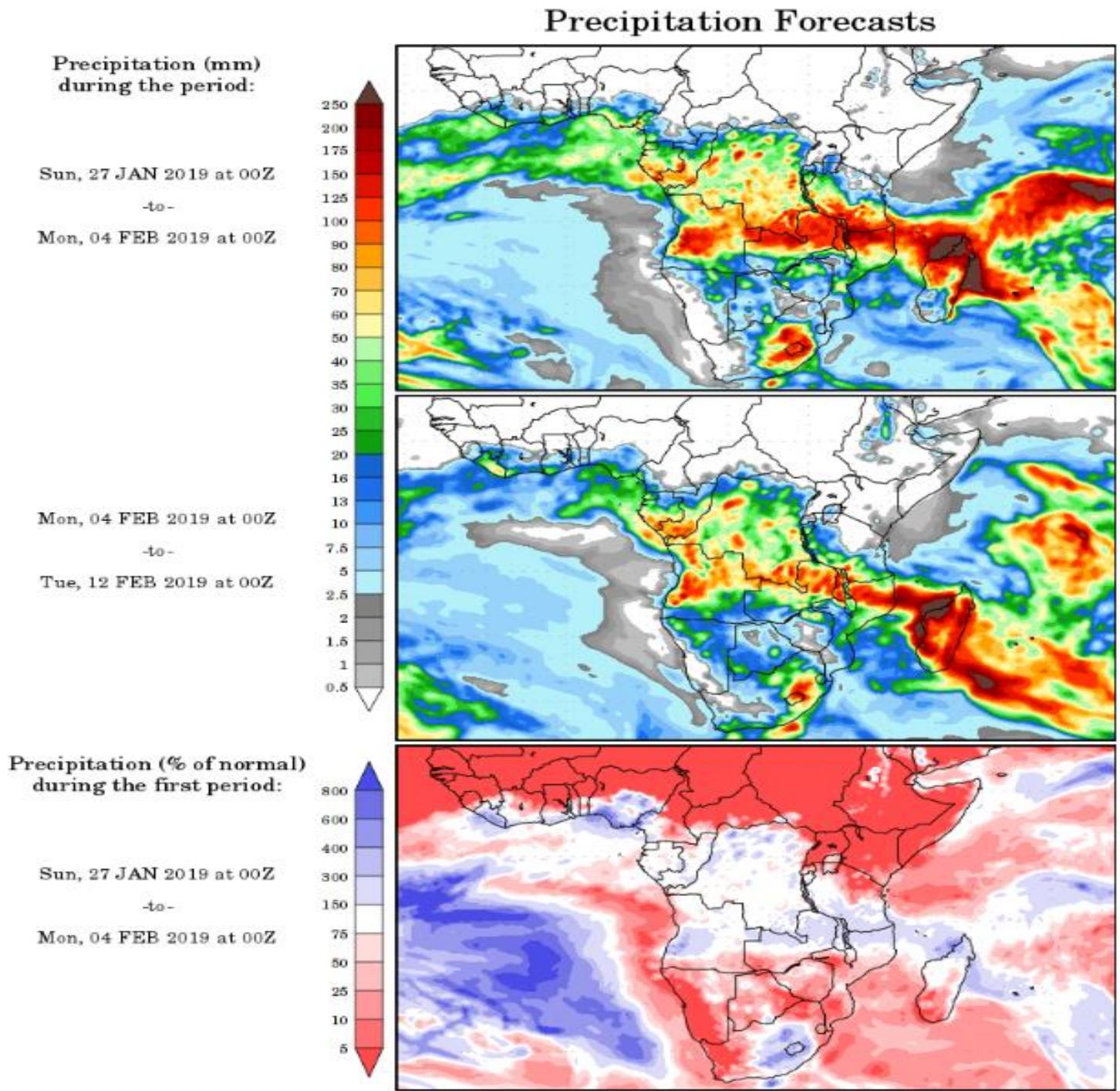


Source: Bloomberg, Agbiz Research

Our takeaway messages this week

- The impact of the recent Western Cape drought to South Africa's 2018 agricultural exports is marginal when viewed in value terms. South Africa's agricultural exports for the first 11 months of 2018 amounted to US\$9.9 billion, which is 0.5% lower than 2017 exports.
- The African continent and Europe continued to be the largest markets for South Africa's agricultural exports, collectively absorbing 65% of total exports in the first 11 months of 2018, measured in value terms.
- On Tuesday, 16 January 2019, the national Crop Estimate Committee will release its preliminary area planted estimate for 2018/19 summer grains and oilseeds. This will be the first official data since the release of the planting intentions data on 25 October 2018.
- As indicated in our previous notes, we believe that the intended area of 2.44 million hectares for maize in the 2018/19 season could fall by 19% to 1.98 million hectares. This is slightly above Bloomberg's consensus of 1.97 million hectares.
- The International Grains Council recently revised its estimate for South Africa's 2018/19 maize production down to 10.7 million tonnes, from 12.3 million tonnes in November 2018 (and 12.9 million tonnes in the 2017/18 production season).
- From a global front, the 2018/19 global maize harvest could be the second largest on record, up by 3% y/y at 1.08 billion tonnes. This is according to recent data from the International Grains Council.
- The 2018/19 global soybean production is set to increase by 6% y/y to 363 million tonnes on the back of expected large harvests in the US, Argentina, China, India, Ukraine, Russia and Uruguay, amongst others.

Figure 5: South Africa's precipitation forecast



Source: wxmaps

Key Data Releases in the Agricultural Market:

- National Crop Estimates Committee's monthly data: 29/01/2019
- SAGIS producer deliveries data: 30/01/2019
- SAGIS weekly grain trade data: 31/01/2019

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