Should South Africa explore the cannabis market?

- The growing emphasis that agriculture should be amongst the key sectors driving the South African economy and job creation has mainly leaned on potential expansion in hectares of labour-intensive, and globally sought-after horticulture products, as well as traditional grains and oilseeds. The provinces that could assist in realising this goal are KwaZulu-Natal, the Eastern Cape and Limpopo. There are about 1.6 million to 1.8 million hectares of underutilised land in these provinces which could be put into full production.¹

- In addition to the aforementioned crops, the changing perceptions about cannabis around the globe, and its growing value raises a question of whether South Africa should put concerted effort into research on this crop so that policymakers can better assess if its production benefits could be balanced by measures to mitigate unintended consequences. In a recent Constitutional Court ruling, the private use of cannabis has been decriminalised in South Africa, but the conditions and boundaries still need to be considered and legislated. Furthermore, the decriminalisation for private use might not be where the commercial value lies. The focus should rather be on exploring the possible benefits for the country through the controlled, international trade in cannabis and its products, and also medicinal use purposes in the domestic market.

- For international trade, the export markets would include the US, Canada, and China, as some regions within these countries have decriminalised cannabis. In the state of California within the US, the value of the cannabis industry was estimated at US$3 billion in 2017. Colorado, and Florida were also valued at more than a US$1 billion.² In the same year, Canada spent over US$5 billion on cannabis for medical and non-medical purposes.³ In China - a grower of nearly half the world’s legal hemp - the sales of textile fibre made from the plant’s stalk, totalled US$1.2 billion.⁴

- South Africa already trades agricultural commodities with the aforementioned countries. Hence, their increasing desire for cannabis and its product is interesting as it would offer extra value if South Africa was to follow the route of producing the crop for international trade, and medicinal use within a clearly regulated environment.

- Overall, we are not arguing for any particular policy position regarding cannabis, but rather for increased research which would assist policymakers in evaluating the benefits, and possible unintended consequences of growing and trading cannabis. This should take stock of the changing perceptions surrounding this crop globally, and its growing demand and commercial value. In the coming years, depending on whether South Africa’s policy position on cannabis follows the global development, the ideal provinces would be Eastern Cape, KwaZulu-Natal and Limpopo due to favourable climatic conditions.⁵

---

¹ McKinsey Global Institute, 2015, South Africa’s bold priorities for inclusive growth.
² Speights, 2018, Seven States That Should Have Billion-Dollar Marijuana Markets by 2022.
³ Peters, 2018, How Big Will Canada’s Legal Cannabis Market Be?
⁴ The Economist, 2019, Industrial cannabis is booming in China.
⁵ Gerwel, 2018, Institutional innovation and pro-poor agricultural growth: cannabis cultivation in the Eastern Cape province of South Africa as fertile opportunity
Aside from the cannabis market developments, we continue to monitor developments in the local grains market

- In its March 2019 update, the International Grains Council (IGC) kept its estimate for South Africa’s 2018/19 maize production unchanged from the previous month at 10.7 million tonnes. This is down by 14% from the 2017/18 harvest due to a reduction in area planted and expected poor yields in some areas, but marginally higher than the Crop Estimates Committee’s (CEC) estimate for 2018/19 production season. While IGC’s data is encouraging and affirms the CEC’s views, we remain concerned about maize yield expectations in the western parts of South Africa owing to dryness experienced in February and March. Last week’s rainfall in these particular areas will not lead to an improvement in crop conditions as crops have already matured, and some damage, although not a bigger scale. Aside from dryness, another risk that could weigh on maize yields in the coming weeks over the western areas of South Africa is possible frost. Although this is not a usual risk, this year is distinct as some crops in the western regions were planted nearly a month later than the optimal period due to delayed rainfall.

- To make sense of all the aforementioned risks, we will get a clearer picture of the size of South Africa’s harvest on 25 April 2019, when the CEC will release an update of its production estimate. If South Africa harvests at least 10.0 million tonnes of maize this season, which will be added to an opening stock of 3.0 million tonnes when the 2019/20 marketing year starts on 01 May 2019, then there could be sufficient supplies in the domestic market, to cover the country’s annual consumption of about 10.8 million tonnes. Under this scenario, as highlighted in our note on 01 April 2019, we forecast South Africa’s maize exports at 1.1 million tonnes in the 2019/20 marketing year which starts on 01 May 2019 (the 2019/20 marketing year corresponds with 2018/19 production year). These exports will largely be destined for Botswana, Namibia, Lesotho, and Eswatini. There might also be exports to Zimbabwe, Mozambique, and Malawi, which had a share of their maize fields damaged by the recent cyclone. Mozambique, Malawi and Zimbabwe will collectively have to import more than 1 million tonnes of maize in the 2019/2020 marketing year. Aside from South Africa; Argentina, Mexico, Ukraine, Russia and the US will most likely be amongst the key suppliers as they will possibly have relatively large surpluses of yellow maize.

- We suspect that a large share of these developments has been factored into the market as prices have generally been trading sideways over the past couple of weeks (Figure 1). With that said, the current price levels are reflective of a lower harvest than the 2017/18 season. On 04 April 2019, white and yellow maize spot prices were up by 45% and 32% from the corresponding period last year, closing at R2 747 per tonne, and R2 626 per tonne, respectively.

**Figure 1: South Africa’s maize prices traded sideways in the past few weeks**

---

**Source:** JSE, Agbiz Research
Data previews

USDA's World Agricultural Supply and Demand Estimates report

- Tomorrow evening, 09 April 2019, the United States Department of Agriculture (USDA) will release an update of its World Agricultural Supply and Demand Estimates’ report which will provide a clear picture of the global food supplies. For Southern Africa, it is important to keep an eye on global agricultural conditions this year as the region will need maize supplies in the 2019/20 marketing year following the damages due to the recent cyclone in maize fields in Mozambique, Zimbabwe, and Malawi.

- Last month, the USDA placed its estimate for 2018/19 global maize production at 1.1 billion tonnes, which is 2% higher than the previous season. The increases are mainly in South America and the Black Sea region. Moreover, the agency placed its 2018/19 global rice production at 501 million tonnes, up by a percentage point from the levels observed in 2017/18 production season.

- The 2018/19 global soybean production estimate was at 360 million tonnes, which is 6% higher than the 2018/19 production season. The uptick is mainly on the back of an expected large harvest in the United States, China, and Argentina. The data for 2018/19 global wheat production was at 735 million tonnes, which is a 4% decline from the 2017/18 production season. In tomorrow’s data, we don’t expect any major adjustments from the aforementioned numbers as the weather conditions haven’t changed much since the last assessment. There could, however, be a decline in US grains stocks following the floods in some states last month. In such a scenario, grain prices could be slightly up, as an increasingly global grains consumption will also provide support to the market. This does not bode well for maize-importing regions such as Southern Africa.

Weekly grain trade data

- South Africa’s weekly grain trade data is due for release on Thursday, 11 April 2019. This will mainly be maize and wheat. In terms of maize, we expect South Africa to be a net exporter in the 2018/19 marketing year, with about 2.3 million tonnes (white and yellow maize). About 2.0 million tonnes have thus far been exported, which equates to 87% of seasonal exports. The key buyers have been Vietnam, Japan, Italy, South Korea, Taiwan, and continental markets. Therefore, this week’s data which will reflect trade for the week of 05 April 2019, could show further exports.

- Looking ahead, South Africa is likely to remain a net exporter of maize in the 2019/20 marketing year which commences on 01 May 2019. The exports, however, could decline by half from the 2018/19 marketing year to about 1.1 million tonnes. This is under the assumption that maize production could amount to 10.6 million tonnes.

- In terms of wheat, South Africa is generally a net importer, although the recovery in the country’s 2018/19 domestic wheat production will lead to a decline in imports this season. South Africa’s 2018/19 wheat imports could fall by 36% from the previous season to about 1.4 million tonnes. So far, the country has imported about 33% of the seasonal forecast. The leading suppliers have been Russia, Germany, Latvia, Argentina, and Canada, amongst others. The data for the week of 05 April 2019, which is due for release on Thursday will most likely lead to an increase in imports.
Figure 2: South Africa’s precipitation forecast

**Key Data Releases in the Agricultural Market:**
- USDA’s Word Agricultural Supply and Demand Estimates report: 09/04/2019
- SAGIS producer deliveries data: 10/04/2019
- SAGIS weekly grain trade data: 11/04/2019
- National Crop Estimates Committee’s monthly data: 25/04/2019

**Disclaimer:**
Everything has been done to ensure the accuracy of this information, however, Agbiz takes no responsibility for any loss or damage incurred due to the usage of this information.