

El Niño is showing its head again and presents risks for the 2023/24 season

As the deepening energy crisis continues to present problems for different parts of the agricultural sector, another major challenge that could confront South Africa's agricultural sector in a few months is a change in weather conditions from favourable rains to drier and hot conditions. This would be a switch from a prolonged period of La Niña to El Niño.

South Africa has had a good four seasons of La Niña induced heavy rains from 2019/20 to 2022/23. These above-normal rains supported agriculture leading to higher yields across various field crops, fruits and vegetables. The livestock industry also benefitted from improved grazing pasture. Importantly, having four consecutive La Niña seasons was an unusual occurrence. The typical cycles are two seasons of higher rainfall followed by normal-drier seasons. Excluding the current trend, the only other period in the recent past with three successive years of conducive weather conditions and a large crop harvest ran through 2007/08, 2008/09, and 2009/10 production seasons. This period brought a sizeable agricultural yield to the country.

But the scientists at the International Research Institute for Climate and Society at Columbia University see a protentional occurrence of an El Niño later in the year. In its recent update of January 19, the International Research Institute for Climate and Society stated, "The likelihood of El Niño remains low through May-Jul 2023 (44% chance), but becomes the dominant category after that with probabilities in the 53-57% range."

Such a weather phenomenon would bring below-normal rainfall and hotter temperatures in South Africa. If it is intense, this could resemble the bleak agricultural conditions we witnessed during the last El Niño drought in the 2015/16 season, where staple crops such as maize dropped to 8,2 million tonnes, well below South Africa's consumption levels of 11,8 million tonnes. This shortfall necessitated imports of maize to supplement domestic needs. Other field crops, fruits, vegetables and livestock also experienced severe losses. But if the El Niño is mild, crop declines could resemble the 2018-19 episodes, where the reduction in staple crops such as maize was not aggressive. The total maize harvest that year was 11,8 million tonnes, in line with the annual consumption level. For comparison, in the past three seasons (excluding the current 2022/23), South Africa's maize harvest averaged 16,8 million tonnes and ensured that South Africa remains a net exporter of maize.

South Africa's agriculture is mainly rainfed, meaning it is not under irrigation, particularly in the field crops. For example, roughly 20% of maize, 15% of soybean, 34% of sugarcane and nearly half of the wheat production are produced under irrigation. The rest is rainfed. Under a possible drought season, a large share of the country's agriculture would be strained. In fruits and vegetables, however, a sizable area relies on irrigation. In the livestock sector, specifically dairy, irrigation is just as necessary. This shows that a possible drought would present major risks to food security.

Even more worrying now is that the agricultural regions that irrigate face continuous interruptions because of load-shedding. The organized agriculture groups, the department of agriculture, land reform and rural development are working on near-term and long-term interventions to assist the sector. The one option that should receive serious consideration is

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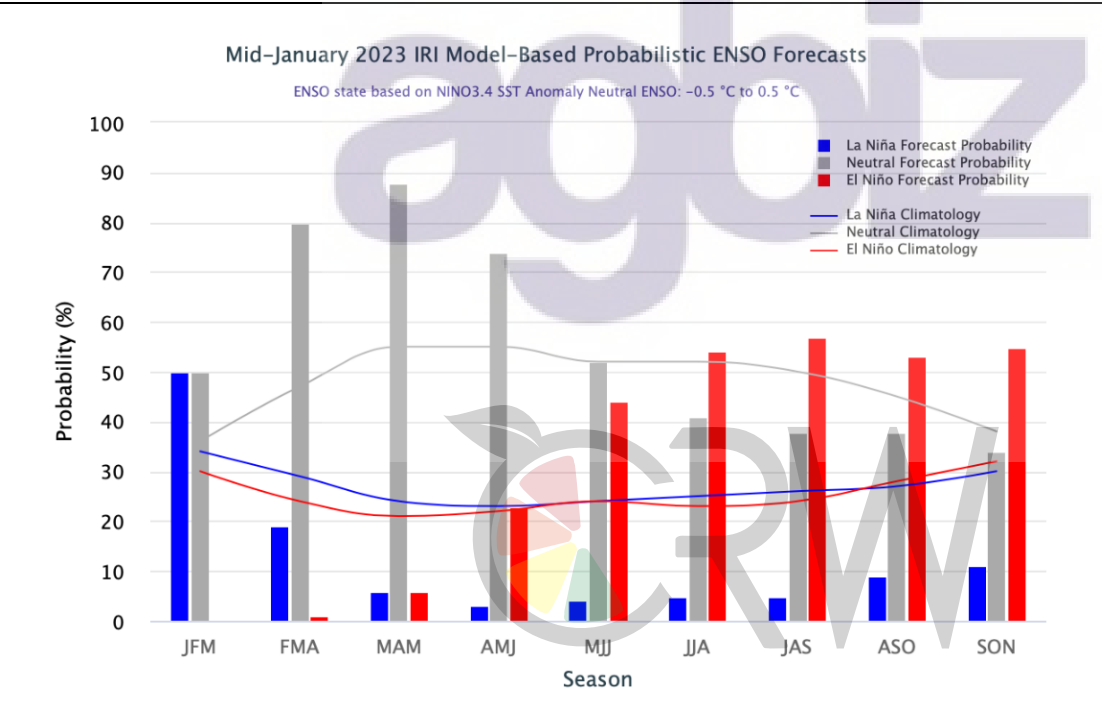
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incentives for self-generation, even if covering a few critical parts of each business. The window for this option is limited, about eight months before we see the potential intensification of El Niño. But for regions that already irrigate, reducing load-shedding is the only option as farmers see losses by the day. The same extends to livestock, aquaculture (mainly the abalone farms), dairy and poultry businesses, and various food, fibre and beverages value chain businesses.

Notably, the challenge of El Niño induced-drought will not be limited to South Africa but across the Southern Africa region. The last intense drought cycles led to increased food insecurity in the region. This is a risk if the upcoming 2023/24 summer season is dominated by drought or below-normal rainfall in Southern Africa. This is a challenge that policymakers in the region should be aware of and plan accordingly to support communities that heavily rely on agriculture.

In sum, we see some worrying signs that the period of higher rainfall, which has supported agriculture in South Africa, and the broader Southern Africa region in the past four seasons, could soon be over. At a time when there are rolling blackouts in South Africa, this presents an even bigger challenge as irrigation regions also face water shortages while dams, at least for now, are overflowing. If this materialises, this scenario presents a negative picture for South Africa's food security (and the broader region) and farming businesses' financial conditions. The long-term planning of the agribusiness should factor this change in climatic conditions as a possible risk for the next season.

Exhibit 1: El Niño occurrence possibilities (red bar)



Source: International Research Institute for Climate and Society at Columbia University

Weekly highlights

South Africa's consumer food price inflation path is uncertain as load-shedding presents risks to irrigation and processing

The data released by Statistics South Africa this past week showed that consumer food price inflation slowed marginally to 12,7% in December 2022 from 12,8% in November. The product prices underpinning this moderation include meat, oils, and fats. For the whole of 2022, the consumer food price inflation averaged 9,5% (compared with 6,5% y/y in 2021 and 4,8% in 2020). Broadly, the high prices of grains, vegetable oils, and meat for much of 2022 were the primary drivers of consumer food price inflation. This was not a unique occurrence to South Africa, but a global challenge mirrored the surge in agricultural commodity prices in the first three quarters of 2022 and the year before. The agricultural commodities price increase emanated from various factors such as the drought in South America, higher shipping costs, strong agricultural product demand in China, and the Russia-Ukraine war.

The higher global grains and oilseeds prices for much of 2022 were the core drivers of the costs of "bread and cereals" and "oils and fats" in the consumer food price inflation basket. Notably, these are also products with a relatively higher weighting within the food basket. For example, within the food basket, the essential products are meat (35%); bread and cereals (21%); milk, cheese and eggs (17%); vegetables (8%); sugar, sweets and desserts (4%); oils and fats (3%); and fruit (2%).

Regarding meat, the 2022 outbreaks of foot-and-mouth disease were vast, to the extent that we observed a slight decline in slaughtering in some feedlots, which ultimately kept red meat prices at higher levels, the opposite of what we initially anticipated. For example, in October 2022, cattle and sheep slaughtering was down by 10% y/y and 7% y/y, with 190 052 head and 335 531 head slaughtered, respectively.

Looking ahead, the global grains and oilseeds prices, which have been the major drivers of the surge in inflation, have softened somewhat. For example, the FAO's Global Food Price Index dropped by 2% in December from the previous month, a ninth consecutive monthly decline. The Index is down 1% lower than in December 2021. Ordinarily, these global developments would, with time, also reflect in South Africa and ultimately in the consumer food price inflation data in the coming months. Importantly, the domestic agricultural season is also broadly positive and benefitted from higher summer rains.

But there are now new risks, such as the intensified load-shedding, which has disrupted the irrigation regions and presents risks to crops. Moreover, the disruptions in some food processing companies and the associated cost increase all present upside risks to consumer food price inflation. Before this intensified load-shedding period, we thought South Africa's consumer food price inflation would slow to 5,5% - 6,0% in 2023 (down from 9,5% in 2022). But these estimates may require revisions once we have a clear sense of the scale of disruption in the agriculture and the broader food, fibre and beverages value chains. We are currently running a survey to gauge the scale of this impact and possible response measures by various firms.

Exhibit 2: South Africa's consumer food price inflation



Source: Stats SA and Agbiz Research

Data releases this week

As always, we start the week's note with a global focus, and the data point worth keeping an eye on is the **US Weekly Grains and Oilseeds Exports**, which will be released by the United States Department of Agriculture (USDA) on Thursday.

On the domestic front, on Wednesday, SAGIS will release the **Weekly Producer Deliveries** data for January 20 2023. In the previous release of January 13 2023, about 14,2 million tonnes of maize had already been delivered to commercial silos, out of the harvest of 15,4 million tonnes. In the same week, about 2,2 million tonnes of soybeans had already been delivered to commercial silos, roughly the same size as the harvest for the season. Moreover, 839 136 tonnes of sunflower seed had already been delivered on the same day out of the harvest of 845 550 tonnes. The 2022/23 wheat producer deliveries amounted to 1,8 million tonnes in the same week, out of the expected harvest of 2,2 million tonnes.

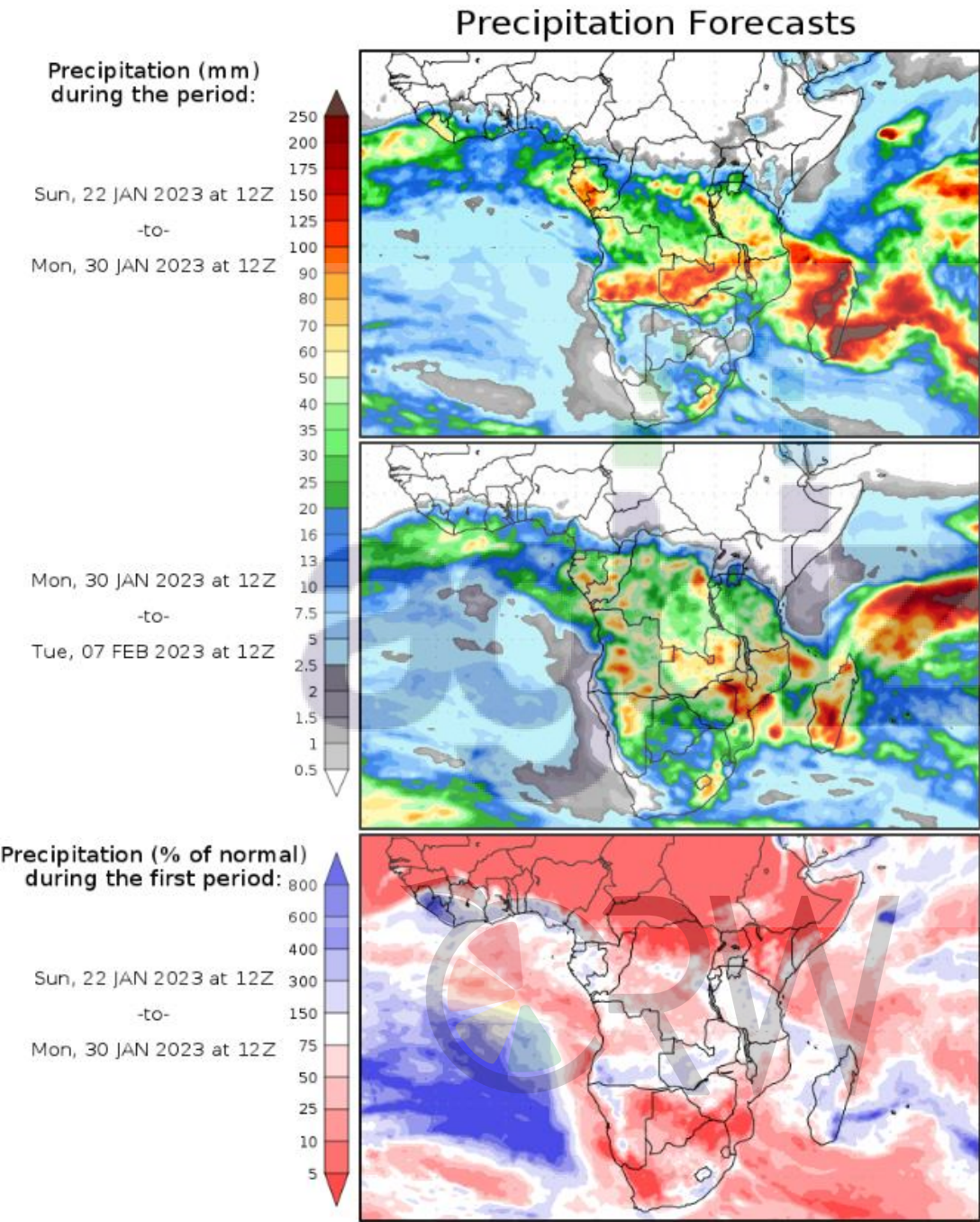
On Thursday, SAGIS will publish the **Weekly Grain Trade** data for January 20 2023. In the previous release on January 13 2023, which was the 37th week of South Africa's 2022/23 maize marketing year, the weekly exports amounted to 57 405 tonnes, about 63% to Mexico and the rest to Southern Africa region. This brought the total 2022/23 exports to 2,5 million tonnes out of the seasonal export forecast of 3,40 million. This is slightly down from 4,14 million tonnes in the past season due to an expected reduction in the harvest.

South Africa is a net wheat importer, and January 13 2023, was the fourteenth week of the 2022/23 marketing year. The weekly imports amounted to 64 522 tonnes from Brazil and Argentina. This puts the total imports for the 2022/23 season at 462 367 tonnes. The seasonal import forecast is 1,53 million tonnes, slightly down from 1,58 million tonnes in the previous season. The major wheat suppliers in the 2021/22 season are Argentina, Lithuania, Brazil, Australia, Poland, Latvia and the US. As we stated above and in the previous notes, if one looks into South Africa's wheat import data for the past five years, Russia was one of the major wheat suppliers, accounting for an average share of 26% yearly. Argentina and Brazil replaced this in the 2021/22 season. We will closely monitor Russia's presence in the 2022/23 season, as the country is again one of the major wheat suppliers to South Africa.

Also, on Thursday, Statistics South Africa will release the **Producer Price Index (PPI)** data for December 2022.

Moreover, the Crop Estimates Committee (CEC) will release the **sixth production estimate for 2022/23 winter crops**. They will also release the **preliminary area plantings for 2022/23 summer crops**. This is an important data to help us get a sense of the potential size of the summer crop, following heavy rains that delayed plantings in some areas.

Exhibit 3: South Africa's precipitation forecast



The weather forecast for this week shows prospects of light rainfall over the central and eastern regions of South Africa.

This is a welcome development after a week of a heatwave in the summer crop growing regions of the country.

Source: George Mason University (wxmaps)