

The Black Sea Grain Deal extension is positive for consumers

Most observers of the global agricultural market have probably been focused on the Black Sea this past weekend, where United Nations representatives and the Turkish government engaged with the Russian and Ukrainian governments to extend the Black Sea Grain Deal, which would have expired this past weekend. Positively, the deal has been extended for another 120 days and will be reviewed after this period. This initiative started in July 2022, and its primary goal is to allow grain movement from Ukraine to the world market without military attack by the Russians. Since the deal started, Ukraine has exported roughly 25 million tonnes of grains and vegetable oils. Notably, global food prices have also moderated considerably over time, partly due to increased shipments of grains and vegetable oils from the Black Sea region to the world market. In February 2023, the FAO Global Food Price Index was at 130 points, down by 8% from July 2022, when the deal was reached.

While the intention was to increase grain exports out of Ukraine, Russia has arguably also benefited from the grain deal through increasing wheat exports. Russia typically exports, on average, about 35 million tonnes of wheat a year. Its largest markets include Türkiye, Egypt, Azerbaijan, Kazakhstan, Nigeria, Bangladesh, Sudan, Latvia, Saudi Arabia, Yemen, Cameroon and Israel. We believe Russia also had more incentive to continue with the "Black Sea Grain Deal" as the country had about 44 million tonnes of wheat for exports in the 2022/23 marketing year, up 34% from the previous year. This is according to data from the International Grains Council (IGC). Notably, IGC's preliminary projections for the 2023/24 marketing year suggest that Russia will remain with ample supplies on the back of strong production. Thus exports could be at 42 million tonnes. The Black Sea Grain Deal, initially set to assist Ukraine, must remain in place for these exports to continue out of Russia with minimal interruption.

Ukraine will also remain a critical player in the global wheat market, although its production has declined significantly because of the disruptions caused by the war. IGC forecasts Ukraine's 2022/23 wheat exports at 14,5 million tonnes, down by 23% from the previous season. The preliminary projections for the 2023/24 marketing year paint an even bleaker picture of a decline in Ukraine's wheat exports to 11 million tonnes. This reflects the harsh production conditions in Ukraine because of the invasion by Russia and shortages of some farm inputs, all of which have led to a decline in the area farmed and yields.

Still, the sharp decline in Ukraine's wheat exports will not mean the world will face a shortage of wheat supplies. IGC forecasts 2022/23 global wheat exports at 199 million tonnes, up 1% from the previous season. Australia, Canada, the EU, Kazakhstan, and Russia are expected to boost the available supplies for the world market. This improvement in export supplies means that global wheat prices could continue to moderate over the medium term. The significant risk market players worried about was the outcome of the Black Sea Grain Deal, which has turned out positively for now. Still, the Black Sea geopolitical tone and war remain a major risk to the global grains and vegetable oils market as the uncertainty is with us over the foreseeable future. The extension of the grain deal is a welcome development, but the period is relatively short. Market players would have preferred a more extended timeframe to clear uncertainty about shipments for a prolonged period.

20 March 2023

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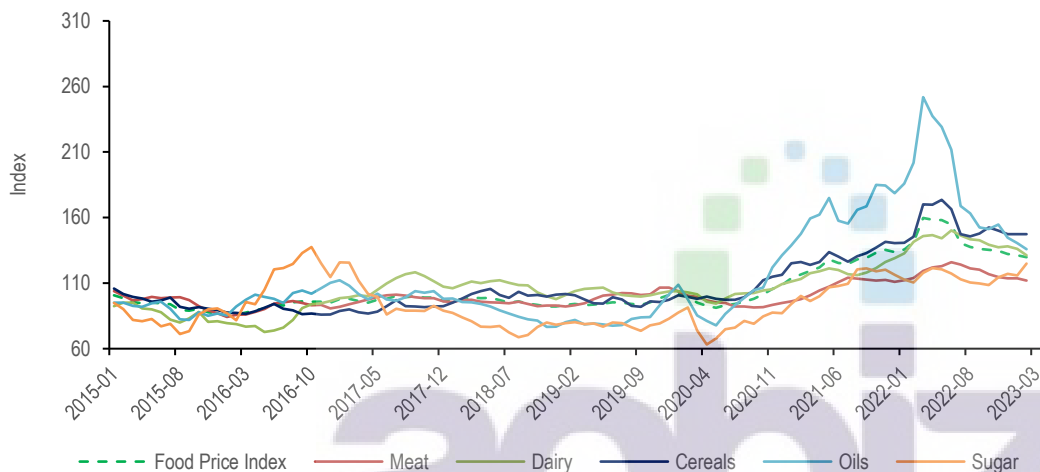
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Notably, the reprieve we got this past weekend benefits all wheat and vegetable importing countries and users of the products, as it would add downward pressure on prices. South Africa is one of the wheat importers that stands to benefit from softer global wheat prices. Moreover, the animal feed industry will also benefit from general downward pressure on grain prices, which have been elevated in the past year, and added price pressures to their businesses. Ultimately, the events of this past weekend are positive for global food prices, notwithstanding the ongoing uncertainty about what happens after the end of the current extension. We think it will be in Russia's interest to extend the deal further when the current term expires, given that the country has ample wheat supplies that need to be exported to create space for yet another large production to be harvested soon. Hence, we remain optimistic that Black Sea grains exports will continue to supply the world market.

Exhibit 1: Global Food Price Index



Source: FAO and Agbiz Research

Weekly highlights

South Africa's agricultural machinery sales likely to moderate in 2023

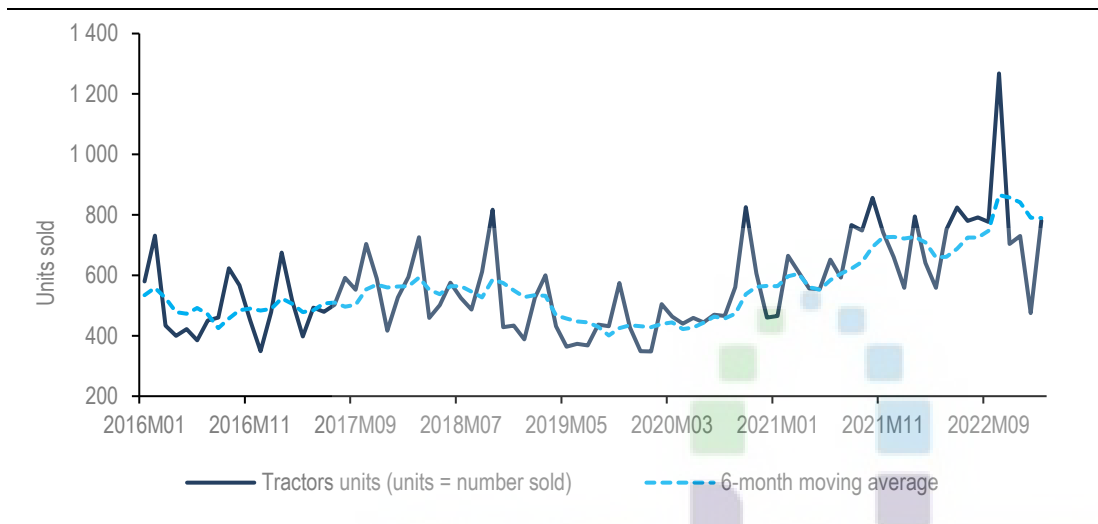
We are emerging from years of exceptionally higher agricultural machinery sales in South Africa. For example, South Africa's tractor sales for 2022 amounted to 9 184 units, up 17% from the previous year and the highest annual sales for the past 40 years. The combine harvester sales amounted to 373 in the same period, up 38% from 2021 and the highest yearly sales figure since 1985. This year will likely be a pause from this robust sales period, for several reasons. Chief amongst them is that the possible replacement rate of older machinery will likely be lower this year as the past three years saw increased new machinery sales. Moreover, the rising interest rates will continue to pressure farmers' finances. While other input cost prices, such as fertilizer and agrochemicals, have softened in recent months, the current price levels are still well above long-term levels, thus adding pressure on farmers' finances.

The data for the first two months of 2023 already signal this moderation, with January tractor sales down by 16% y/y and February sales down by 2% y/y, with 781 units sold. That said, the combine harvester sales have remained positive for this year's first two months. There were 16 units sold in January 2023, from four in the same month a year ago. In February, there were 39 units sold, from 19 units in the same period in 2022. This could partly be explained by the fact that there are expectations of large summer grains and oilseeds in the 2022/23 season, which farmers are likely preparing for. The Crop Estimates Committee

forecasts South Africa's 2022/23 summer crop production at 19,3 million tonnes, up 3% from the previous season.

Still, the factors we highlighted as risks to tractor sales apply in the combine harvester market and could weigh on sales in the coming months. Admittedly, one shouldn't conclude on two months' data points. Still, given the broad factors we note above, which will underpin the market conditions this year, we continue to see softening in the momentum of tractor sales in 2023. With time, the combine harvester sales will likely follow the same path.

Exhibit 2: South Africa's tractor sales



Source: South African Agricultural Machinery Association and Agbiz Research

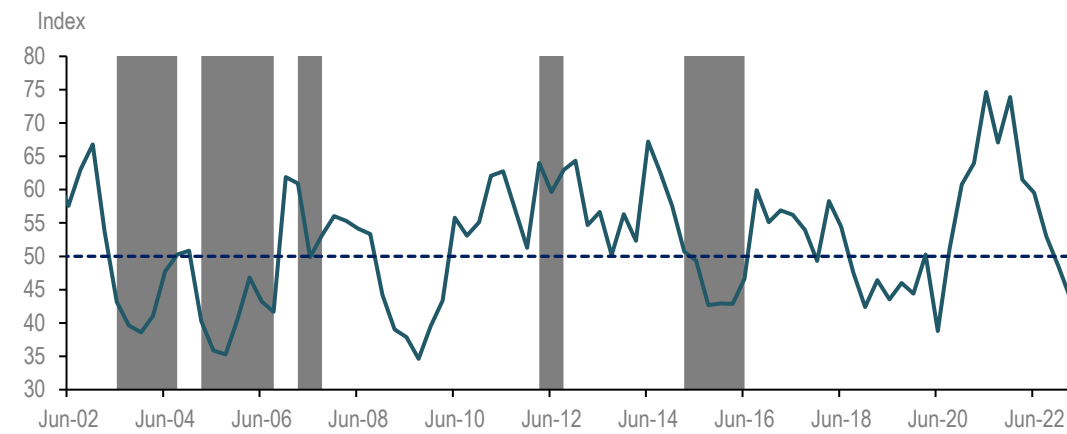
Agbiz/IDC Agribusiness Confidence Index deteriorated further in Q1 2023

After a 4-point decline in Q4 2022, the Agbiz/IDC Agribusiness Confidence Index (ACI) deteriorated further by 5 points in Q1 2023 to 44. The current reading is the lowest since Q2 2020, when Covid-19 lockdown restrictions were first implemented. Notably, the first quarter reading is below the neutral 50-point level, implying that agribusinesses are downbeat about business conditions.

The persistent and intense episodes of load-shedding, higher input costs, rising protection in some export markets, rising interest rates, intensified geopolitical tensions which disrupted supply chains, and ongoing weaknesses in municipal service delivery and network industries were again the key factors survey respondents cited as their primary concerns. This survey was conducted in the final two weeks of February, covering businesses operating in all agricultural subsectors across South Africa.

Essentially, the Agbiz/IDC ACI's Q1 results show growing concerns amongst the agriculture and agribusiness role players about the economic conditions of this sector. Addressing the electricity crisis and sector-focused issues such as biosecurity, opening up more export markets and dealing with inefficiencies in municipality service delivery are critical issues that will help improve sentiment and the fortunes of our agriculture and agribusiness sectors.

Exhibit 3: Agbiz/IDC Agribusiness Confidence Index¹



Source: Agbiz Research, South African Weather Service

(Shaded areas indicate periods when rainfall across South Africa was below the average level of 500 millimetres)

Data releases this week

As always, we start the week with a global focus. The calendar is reasonably quiet, with only one major release, the **U.S. Weekly Grains and Oilseeds Exports**, by the United States Department of Agriculture (USDA) on Thursday.

On the domestic front, Statistics South Africa will release the **Consumer Price Index (CPI)** data for February 2023 on Wednesday. To recap, consumer food price inflation accelerated to 13,8% y/y in January from 12,7% in the previous month. The food product prices that increased notably were bread and cereals, meat, fish, fruit and vegetables.

On Friday, SAGIS will release the **Weekly Producer Deliveries** data for 17 March on Wednesday. In the previous release of 10 March, the 2022/23 wheat producer deliveries amounted to 1,9 million tonnes in the same week, out of the expected harvest of 2,1 million tonnes. We will report on the 2022/23 summer grains and oilseeds when the harvest gains momentum in the coming months.

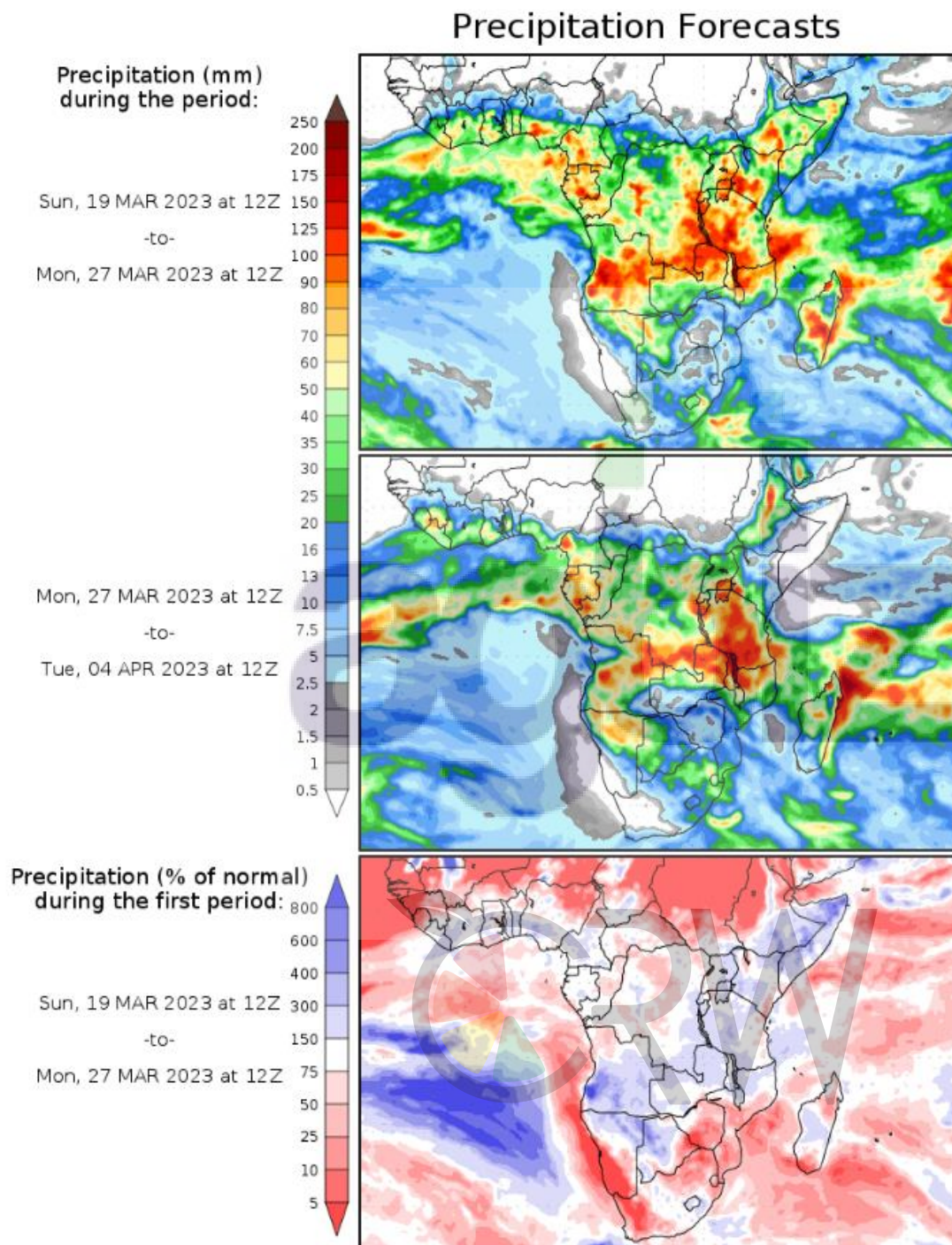
Also, on Friday, SAGIS will publish the **Weekly Grain Trade** data for 17 March. In the previous release on 10 March, the 45th week of South Africa's 2022/23 maize marketing year, the weekly exports amounted to 97 170 tonnes. About 37% to Mexico, 32% to Italy, 5% to Guatemala, 2% to Honduras, and the rest to Africa. This brought the total 2022/23 exports to 3,0 million tonnes out of the seasonal export forecast of 3,3 million (slightly down from 3,7 million tonnes in the past season due to an expected reduction in the harvest).

South Africa is a net wheat importer, and 10 March was the 23rd week of the 2022/23 marketing year, with 46 851 tonnes from Poland and Russia. South Africa's 2022/23 wheat imports currently stand at 616 881 tonnes. The seasonal import forecast is 1,6 million tonnes, roughly unchanged from the previous season. The major wheat suppliers in the 2021/22 season are Argentina, Lithuania, Brazil, Australia, Poland, Latvia and the U.S. If one looks into South Africa's wheat import data for the past five years, Russia was one of the major wheat

¹ The Agbiz/IDC Agribusiness Confidence Index reflects the perceptions of at least 25 agribusiness decision-makers on the 10 most important aspects influencing a business in the agricultural sector (i.e. *turnover, net operating income, market share, employment, capital investment, export volumes, economic growth, general agricultural conditions, debtor provision for bad debt and financing cost*). It is used by agribusiness executives, policymakers and economists to understand the perceptions of the agribusiness sector, and also serves as a leading indicator of the value of the agricultural output while providing a basis for agribusinesses to support their business decisions.

suppliers, accounting for an average share of 26% yearly. Argentina and Brazil replaced this in the 2021/22 season. However, Russia is back on the suppliers' list in the 2022/23 season and is again one of the significant wheat suppliers to South Africa thus far.

Exhibit 4: South Africa's precipitation forecast



After fairly drier and warm weeks in South Africa, the eastern and central regions of the country could receive light showers this week.

While not ideal for summer grains and oilseeds at this time of the season, the forecast rains are unlikely to cause damage to crop conditions, if anything, soil moisture may improve, which is positive.

Source: George Mason University (wxmaps)