

Why April is a critical month for SA winter and summer crops

April is an important month in South Africa's agricultural sector, especially for field crops. Later this month, farmers in the Western and Northern Cape, Free State, Limpopo and other winter crop growing regions will start preparing the land for 2023/24 winter wheat, canola, barley and oats production. For now, it is unclear how much area will be planted for each crop. The Crop Estimates Committee (CEC) will release the farmers' intentions to plant data, and key figures for the potential area plantings, on 26 April. We expect most crops' plantings to exceed the five-year average area. For example, the wheat five-year average area planted is 528 690 hectares, which is 7% lower than the area plantings for the 2022/23 production season. Therefore, we doubt that the 2023/24 season will see an area below the five-year average. Wheat prices, although having softened somewhat in recent months, remain relatively attractive for farmers.

Moreover, the demand for the crop domestically remains strong. Notably, the input prices have come off from the highs we saw last year. For example, in February 2023, essential agrochemicals such as glyphosate, acetochlor, and atrazine were down by 32% y/y, 18% y/y and 2% y/y, respectively, in rand terms. Had the South African Rand not weakened during this period, the gains from the price declines would have been significant. In US Dollar terms, the above-, mentioned input prices were down by roughly 30% and atrazine by 17% from February 2022. Prices of insecticides and fungicides have also declined notably from last year's levels. Also worth noting is that in February 2023, essential fertilizers such as ammonia, urea, di-ammonium phosphate and potassium chloride are down 6%, 36%, 28% and 14% in rand terms, respectively. Again, in US Dollar terms, the price decline was more notable, which speaks to the impact of the relatively weaker South African Rand on imported products.

These price changes in inputs are vital as they impact vast components of the grain input costs. Fertiliser accounts for a third of grain farmers' input costs, while other agrochemicals account for roughly 13%. This means that a decline in the prices of these inputs will make a notable saving on farmers' input costs. This partially compensates for the decline in commodity prices over the past few months.

Importantly, the weather conditions for the winter crops also remain positive. In its Seasonal Climate Watch update published on 03 April 2023, the South African Weather Service noted that while the weather conditions are transitioning into an El Nino state, which typically brings below-normal rains in much of the country, the winter crop-growing regions of South Africa will receive rains. This is positive for the season. In addition, the areas that produce under irrigation in Limpopo, Free State, Northern Cape and other provinces of South Africa should also thrive, benefiting from the 2022/23 soil moisture and improved dam levels.

We will, however, need to keep a close eye on the irrigation regions. About half of South Africa's winter wheat is produced under irrigation. Therefore, the energy crisis remains a risk in such areas, although the Department of Agriculture, Land Reform and Rural Development, along with Eskom, is assessing possibilities of load curtailment and scheduled load shedding to minimize disruption in food production.

Aside from these developments in winter crops, the summer crop-growing regions of South Africa are also nearing the harvest process. In the early planted regions, we should see a start

11 April 2023

Wandile Sihlobo
Chief Economist
+27 12 807 6686
wandile@agbiz.co.za

www.agbiz.co.za

Disclaimer:

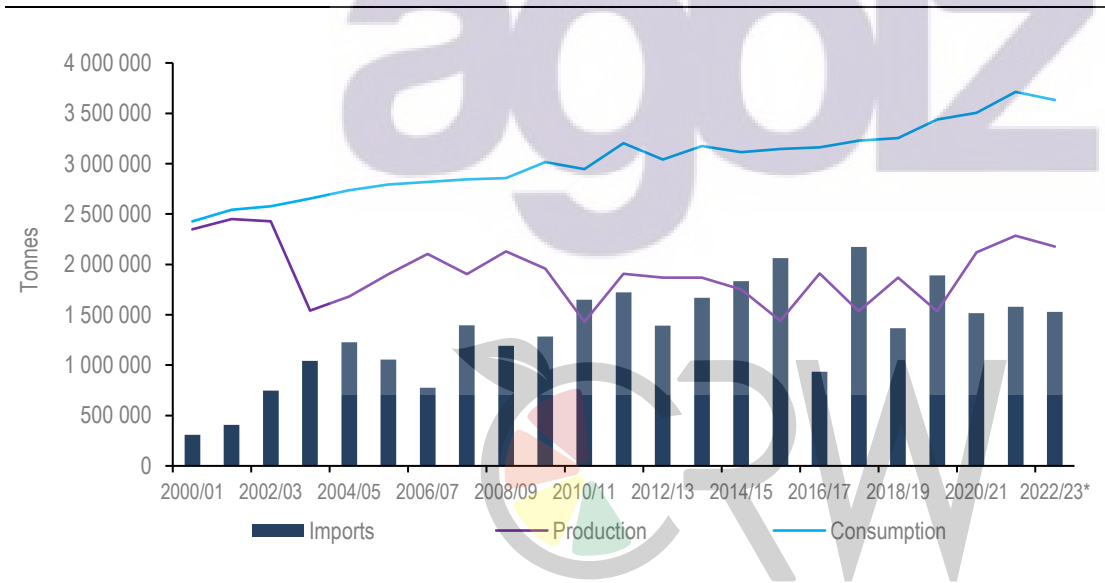
Everything has been done to ensure the accuracy of this information, however, Agbiz takes no responsibility for any loss or damage incurred due to the usage of this information.

of the harvest later this month. The crop across the country is in reasonably good condition, maturing and drying in some regions. We generally expect an ample harvest in most summer crops, which is aligned with the view of the CEC. In its March update, the CEC projected South Africa's 2022/23 summer grains and oilseed production estimate at 19,6 million tonnes, 5% higher than the previous season. This is primarily on the back of expected higher yields as the overall planted area for summer grains and oilseeds are 4,4 million hectares, roughly unchanged from the previous season. If we consider the large crops like maize, soybeans and sunflower seed, production is forecast at 15,9 million tonnes (up 3% y/y), 2,7 million tonnes (up 22% y/y), and 797 610 tonnes (down 6% y/y), respectively.

In sum, this is a crucial month in South Africa's field crops, and the outlook by all key indicators is broadly positive. We are likely heading to a favourable winter crop season. At the same time, we are finishing a promising summer crop season. While farmers are currently in an environment of lower commodity prices than last year, softening input prices provide a necessary financial cushion.

From a consumer perspective, these developments are broadly positive and bode well for some moderation in consumer food price inflation in the second half of the year when the decline in commodity prices could begin to filter into the retail prices. The one major risk is electricity stability. This is as much a risk for farmers as it is for consumers. However, we are hopeful that the government's interventions to limit the damage of the electricity crisis to food production will help. If the government's proposed interventions for the electricity crisis assist during irrigation periods – afternoons and evenings – then we should have a favourable season. The load curtailment is particularly beneficial for food processors.

Exhibit 1: South Africa's wheat market



Source: SAGIS, CEC and Agbiz Research

Weekly highlights

Global agricultural commodity prices continue to moderate

The global grains and oilseeds prices continue to soften following the United Nations representatives, the Turkish government, and the Russian and Ukrainian governments' interventions to ease grain exports out of the Black Sea region through the "Black Sea Grain Deal". In March 2023, the Food and Agriculture Organization of the United Nations Global Food Price Index, a measure of the monthly change in international prices of a basket of agricultural commodities, was at 126.9 points, down by 2.1% from February. This marked the twelfth consecutive monthly decline since reaching its peak one year ago. Notably, the index is down 21% from March 2022, which shows the improvement in the affordability of various agricultural commodity prices since the peak in the month after Russia had invaded Ukraine. The decline is in most commodities prices, which are meat, dairy, cereals and vegetable oils, except for sugar prices which are up marginally from March 2022.

While the downward trend in most global agricultural commodity prices will likely persist over the near term, they will probably not return to pre-covid 19 levels. The global grains stocks are tight as some commodities' production has declined while consumption increases. This will support agricultural commodity prices to remain well above long-term levels. For example, earlier this month, the United States Department of Agriculture (USDA) indicated in its *World Agricultural Supply and Demand Estimates* report that 2022/23 global wheat production could reach 788 million tonnes, up by 1% from February estimates and the previous season's harvest. The ample harvest is on the back of expected large yields in Russia, the US, Canada, Kazakhstan, China, Australia, and the UK. That said, the 2022/23 global wheat stocks could decline by 1% from the previous season to 267 million tonnes because of solid consumption.

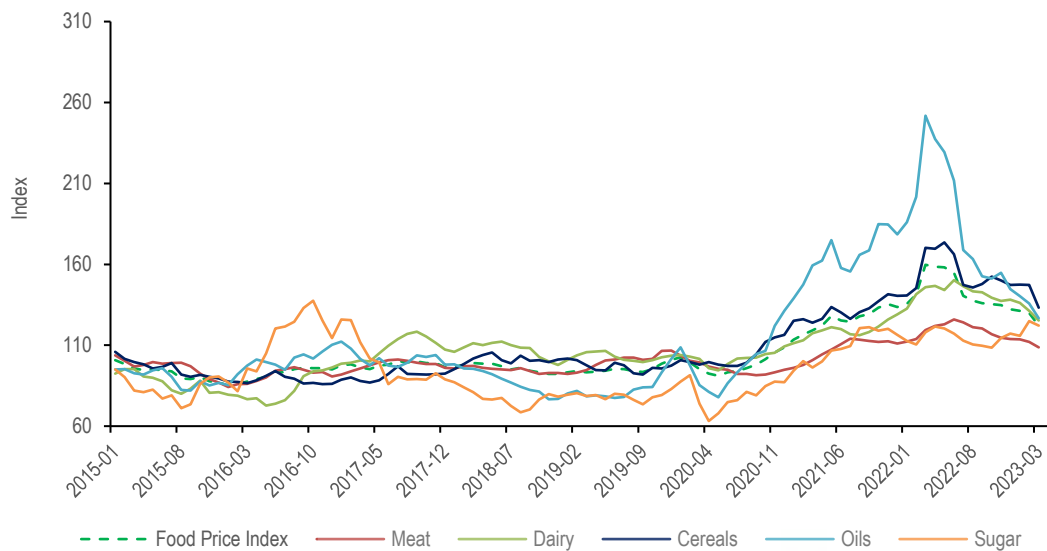
Moreover, the 2022/23 global rice production is estimated at 509 million tonnes, up by 1% from the February estimates and roughly the same level as the 2021/22 harvest. Because of solid consumption levels, the USDA currently forecasts an 8% annual decline in global rice stocks, estimated at 173 million tonnes.

However, the maize and soybeans' monthly production picture is different. For example, the 2022/23 global maize production is forecast at 1,15 billion tonnes, down by 0,3% from the February estimate and 6% less than the 2021/22 season crop. This is mainly due to an expected smaller crop in the US, Ukraine, and the EU. Subsequently, the 2022/23 global maize stocks are down by 3% from the prior season, estimated at 296 million tonnes.

Moreover, the 2022/23 soybeans production forecast was slashed by 2% from February due to a poor harvest in Argentina. Still, this is 5% up from the previous season. The anticipated large yield in Brazil, Russia and China compensates for the expected decline in the US, India, Argentina, and Uruguay. These deviations in crop expectations are a function of weather and area plantings variations.

We view the 2022/23 global grains and oilseeds season positively. The expected global production will be sufficient to provide relief from the prices levels grains and oilseeds reached in the weeks after the start of the Russia-Ukraine war. Still, the tighter maize and rice stocks will likely keep prices at reasonably higher levels than the long-term averages. South Africa is part of the global agricultural market. Therefore, this anticipated price behaviour will likely be a reality also in the domestic market. In essence, this means that agricultural commodity prices will likely continue to soften from last year's levels, although not to the extent that we are back at pre-covid-19 levels. Still, this will be sufficient to moderate consumer food price inflation.

Exhibit 2: Global Food Price Index



Source: FAO and Agbiz Research

Data releases this week

As always, we start the week with a global focus. Today the United States Department of Agriculture (USDA) will release its monthly **World's Oilseed Market and Trade** report. This monthly report includes data on US and global trade, production, consumption and stocks, and an analysis of developments affecting world trade in oilseeds. Moreover, the USDA will release its **US Weekly Grains and Oilseeds Exports** on Thursday.

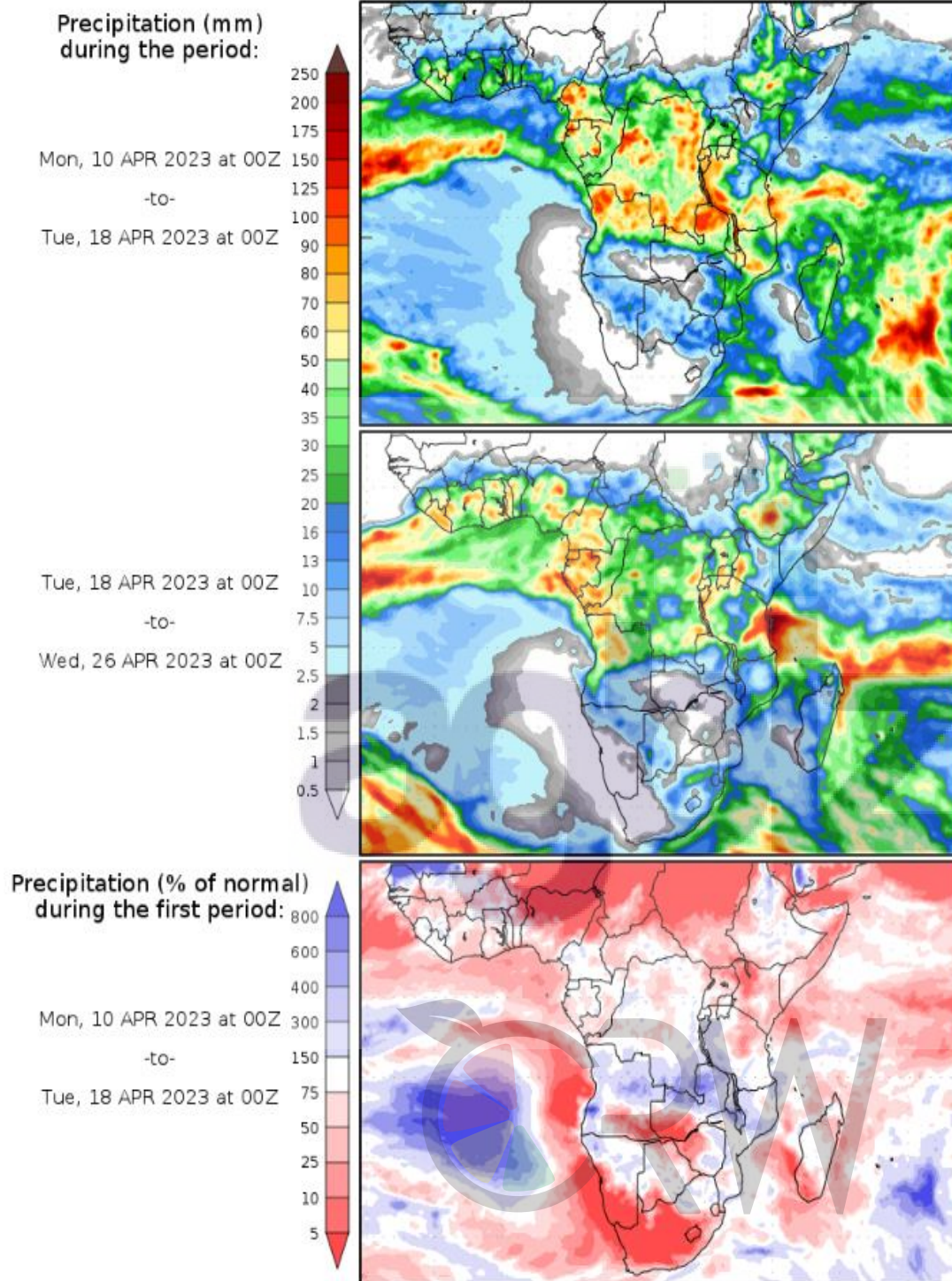
On the domestic front, on Thursday, SAGIS will release the **Weekly Producer Deliveries** data for 07 April. In the previous release of 31 March, the 2022/23 wheat producer deliveries amounted to 1,98 million tonnes, out of the expected harvest of 2,1 million tonnes. We will report on the 2022/23 summer grains and oilseeds when the harvest gains momentum in May.

On Friday, SAGIS will publish the **Weekly Grain Trade** data for 07 April. In the previous release on 31 March, the 48th week of South Africa's 2022/23 maize marketing year, the weekly exports amounted to 92 168 tonnes. About 52% went to Kenya, 21% to South Korea and the remainder to the neighbouring countries. This brought the total 2022/23 exports to 3,25 million tonnes out of the seasonal export forecast of 3,30 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 31 March was the 26th week of the 2022/23 marketing year, with 59 014 tonnes, all from Australia and Lithuania. South Africa's 2022/23 wheat imports currently stand at 758 794 tonnes. The seasonal import forecast is 1,6 million tonnes, roughly unchanged from the previous season.

As we stated in our earlier notes, the major wheat suppliers in the 2021/22 season were Argentina, Lithuania, Brazil, Australia, Poland, Latvia and the US. If one looks into South Africa's wheat import data for the past five years, Russia was one of the significant wheat 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.

Precipitation Forecasts



After light showers this past weekend, most regions of South Africa will see drier weather conditions over the next seven days, which is supportive of the summer grains and oilseeds that are maturing and some regions approaching the harvest period.