

Higher global rice prices do not materially affect our SA food inflation view

In recent notes, we expressed a view of potential moderation in the consumer food inflation in the second half of the year. We believe that the products that will underpin this softening are grains-related products, vegetable oils, meat and fruit. But within the grains category, South Africa is exposed to imports, particularly for wheat and rice. Global grain prices have declined over the past few months, except rice, which has surged. However, this does not change our view on domestic food inflation. This note explains our thinking on global rice prices.

In April 2022, rice from various origins, such as Thailand, Vietnam, India, and Pakistan, traded below US\$400 per tonne. This month, except for India, these rice price origins traded over US\$470 per tonne. This is notable considering that for much of 2022, when other grains such as wheat and maize surged following the invasion of Ukraine by Russia and drought in South America, rice prices remained steady and even softened in some months (see Exhibit 1). The reasonably steadier rice prices at the time benefitted the importing countries that needed to boost their supplies and partially substitute expensive wheat with rice. At the time, large stocks from the 2021/22 season helped to improve supplies for importing countries.

Over time, as the demand firmed and the large stocks from the 2021/22 season depleted, the impact of the high consumption levels translated into increasing prices. Moreover, according to data from the International Grains Council, the 2022/23 global rice harvest was down by 1% from the previous season at 509 million tonnes. The production was mainly down in Vietnam, the US, Pakistan, China, the Philippines, and Brazil. Due to the lower production volume and an uptick in consumption, the 2022/23 global rice stocks fell by 3% year-on-year to 172 million tonnes. These developments are the underpinning drivers of the surge in prices.

Importing countries now face increasing pressure. Sub-Saharan Africa is one such region, with imports of 19,4 million tonnes in the 2022/23 season, which equates to 37% of global rice imports. The major rice-importing countries within the region are Benin, Côte d'Ivoire, Nigeria, Senegal, South Africa, and Mozambique.

From a volume perspective, South Africa imports roughly 1,1 million tonnes of rice annually, and the 2022/23 volume remains unchanged from the previous season. The current global rice price trend and the rand/dollar exchange remain vital variables to monitor in the coming months. Still, with the prices of maize and wheat products set to moderate in the second half of the year, consumers may reduce their rice consumption if its prices remain elevated this year.

Critically, the global rice price increase should be temporary in our view. The International Grains Council forecasts a 2% recovery in global rice production in the 2023/24 season to 521 million tonnes. The increase in expected is predicted across all key producing countries such as India, Vietnam, Thailand, the US, Pakistan, China, Indonesia, Bangladesh and the Philippines. The production recovery is due to anticipated favourable weather conditions and yield improvement. With consumption in the same season set to improve moderately by 1%

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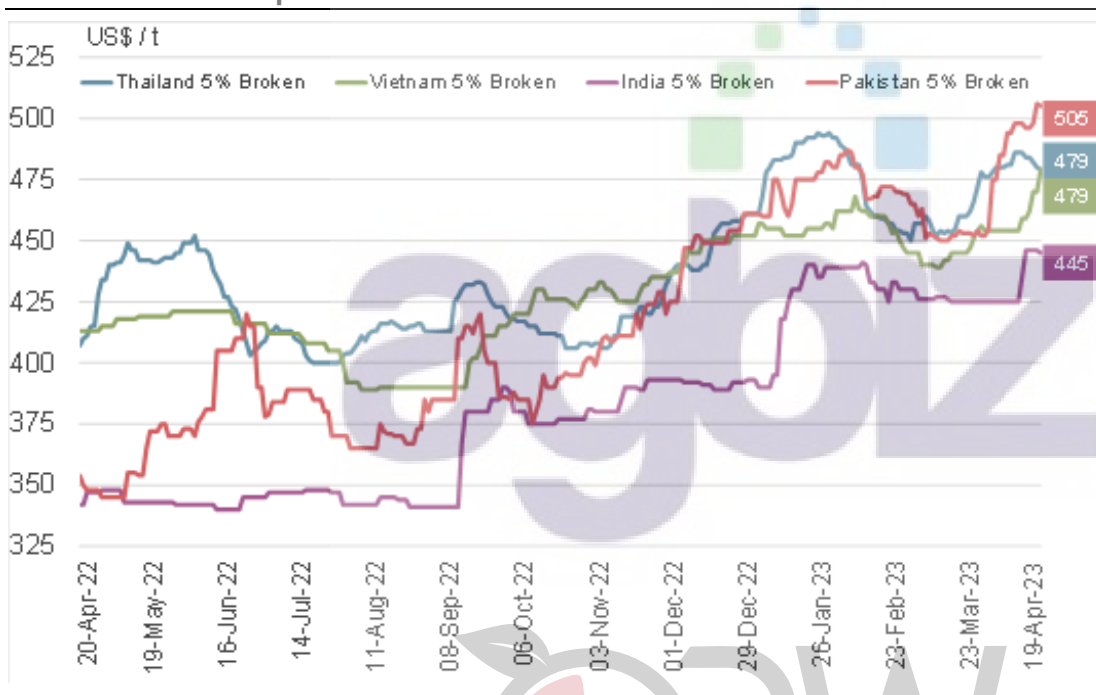
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to 519 million tonnes, the global rice stocks could increase. These factors should support some moderation in global rice prices in 2024.

The International Grains Council estimates the sub-Saharan region's rice imports in the 2023/24 season at 20,5 million tonnes, up 6% from the previous season. Benin, Côte d'Ivoire, Nigeria and Senegal will be the primary drivers of the increase in regional rice imports. South Africa's rice imports will likely remain flat at 1,1 million tonnes in the 2023/24 season. The likely surge in supplies means that prices could soften going to 2024, which will benefit the consumers, assuming the rand/dollar exchange remains firm.

In sum, in the near term, the global rice market will not follow the moderating price trend that we see in other grains. That said, the current price surge will likely be temporary, with prices set to soften when the supplies improve in 2024. As a result, we still do not see the rice price increase changing our view of potential moderation in grain-related products within South Africa's inflation consumer food basket this year. Lower maize and wheat prices are likely to be more dominant.

Exhibit 1: Global rice prices



Source: International Grains Council

Weekly highlights

SA consumer inflation food prices closer to the peak

The data released by Statistics South Africa this past week shows that consumer food price increases accelerated by 14,4% in March 2023 from 14,0% in the previous month. The food product prices that increased notably were milk, eggs, and cheese; fruit; vegetables; and sugar, sweets and desserts.

We expect consumer food price increases to remain sticky at relatively higher levels for the coming month, which will likely be a peak. There could be some moderation from around May and into the year's second half.

For April, we will likely see the continuation of the tail-end effects of the high grain prices of last year. If sustained, the current relatively cheaper grain prices will filter mainly in the year's second half. There is a lag between three and five months between farm and retail prices of some products. Other product prices that could remain elevated in the near term are fruits and vegetables. The unfavourable weather conditions over the past few months disrupted production; hence there was a pick-up in some vegetable product prices in recent months. But this will be a temporary blip and should also soften in the year's second half.

The impact of load-shedding may also influence prices for the next few months. The mitigating measures businesses are currently making to improve power supplies, along with the diesel rebate announced by the Finance Minister, should bear fruits later in the year. Positively, global agricultural commodity prices are softening. If the rand/dollar exchange rate remains relatively strong, this will soon be a reality in South Africa, with a lag at the retail level. Notably, South Africa had a favourable agricultural season following adequate rainfall. The 2022/23 summer grains and oilseeds production is estimated at 19,6 million tonnes, up 5% year-on-year. Red meat prices, which have started to soften, should continue to moderate in the coming months, as we already see that continuous trend at the farm level.

In essence, South Africa's consumer inflation food price outlook for the year's second half is reasonably better. The key drivers of the expected moderation will be meat, grain-related products, vegetable oils and fruits, which comprise roughly two-thirds of the consumer inflation food price basket. The base effects also support a view of a softening pace to levels around 7- 8% y/y in 2023 (from 9,5% in 2022).

Exhibit 2: South Africa's consumer inflation food price



Source: Statistics South Africa 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 weekly **US Crop Progress Report**. This report will monitor the grains and oilseeds planting progress across the US. So far, the maize and soybeans planting has started in a few States. Moreover, the USDA will release its **US Weekly Grains and Oilseeds Exports** data on Thursday.

On the domestic front, on Wednesday, Statistics South Africa will release the **Producer Price Index (PPI)** data for March 2023. Our focus in this release will mainly be on the food and agriculture categories.

On the same day, SAGIS will release South Africa's **Weekly Grain Producer Deliveries** data for 21 April. In the previous release of 14 April, the deliveries were about 5 674 tonnes. This placed South Africa's 2022/23 wheat producer deliveries at 1,99 million tonnes, out of the expected harvest of 2,1 million tonnes. We will report on the 2023/24 summer grains and oilseeds when the harvest gains momentum in May, which will be the start of the new marketing year.

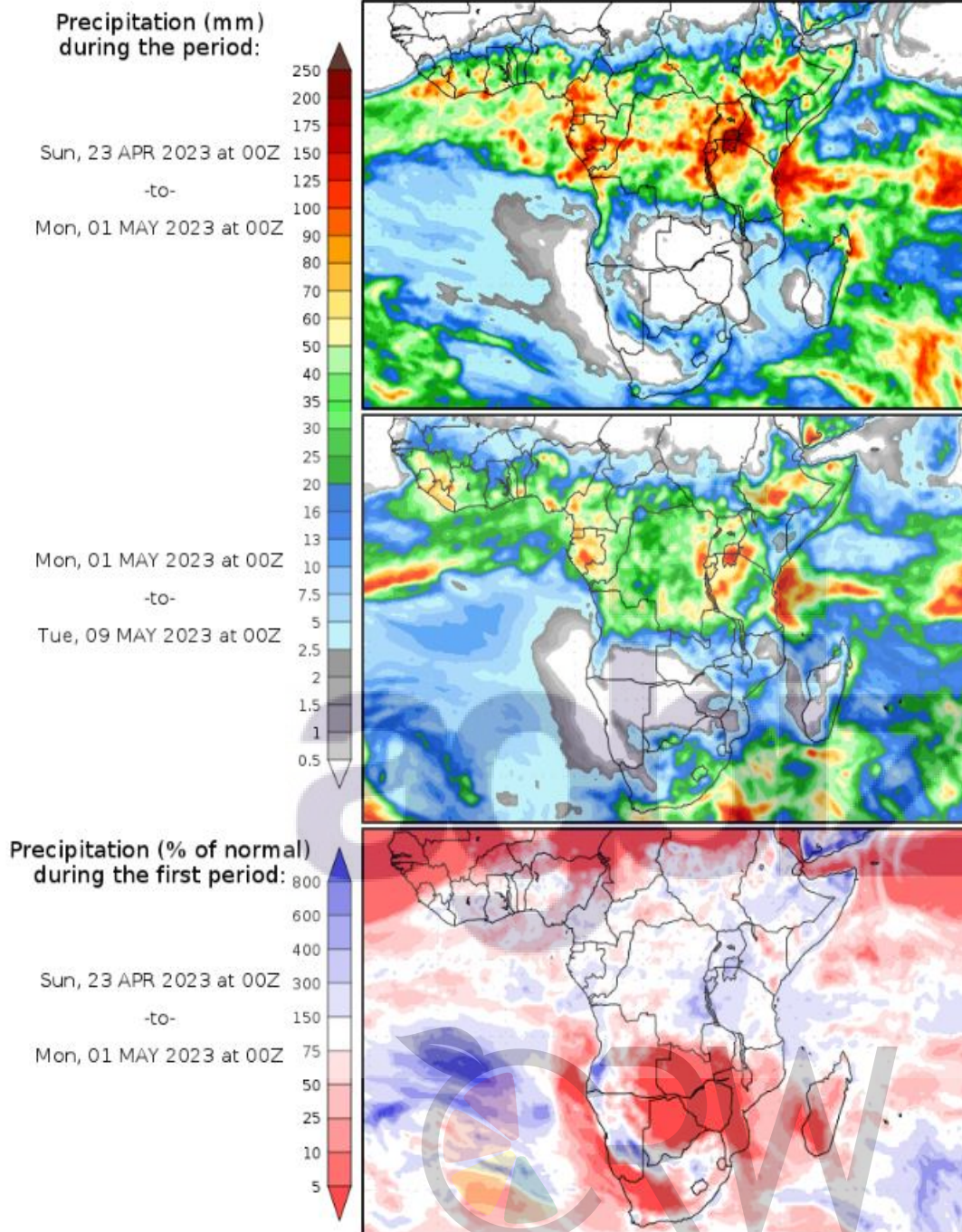
Moreover, the Crop Estimates Committee will release its **summer crop third production forecast** for the 2022/23 production season (which corresponds with the 2023/24 marketing year). We expect the estimates to be robust as the weather conditions have remained favourable since the last release in March. The data released by the Crop Estimates Committee in March placed South Africa's 2022/23 summer grains and oilseeds production at 19,6 million tonnes, up 2% from the February figure and 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. The Crop Estimates Committee will also release South Africa's 2023/24 **winter crop planting intentions** on the same day.

On Thursday, SAGIS will publish South Africa's **Weekly Grain Trade** data for 21 April. In the previous release on 14 April, the 50th week of South Africa's 2022/23 maize marketing year, the weekly exports amounted to 46 131 tonnes. About 58% to China, and the balance to the neighbouring countries. This brought the total 2022/23 exports to 3,42 million tonnes out of the revised seasonal export forecast of 3,54 million (slightly below 3,73 million tonnes in the past season because of a lower harvest than the previous season).

South Africa is a net wheat importer, and 14 April was the 28th week of the 2022/23 marketing year, with 21 388 tonnes, all from Australia. South Africa's 2022/23 wheat imports currently stand at 786 854 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



Source: George Mason University (wxmaps)

Similarly with the previous week, the weather forecast for this week shows prospects of light showers over most regions of South Africa.

In the summer crop regions, the forecast showers could slightly slow the harvest where the process is about to start. Still, we do not anticipate possible damages on the crop.

Meanwhile for winter crop regions, the forecast showers will help improve soil moisture ahead of planting, specifically the Western Cape province.