SA WEEKLY
AGRICULTURAL VIEWPOINT

South Africa is on track for a good winter crop season

The global wheat market has been in focus since Russia invaded Ukraine in February last year. Many countries feared that they would not meet domestic needs because of supply constraints brought by the war in one of the major producing regions. The price surge after the invasion was also a significant challenge for importing countries such as South Africa. The Black Sea Grain Deal brokered between the United Nations representatives, the Turkish government, and the Russian and Ukrainian governments to allow the movement of grains out of the Black Sea region has brought much-needed relief from possible wheat shortages. Wheat prices have since moderated markedly. For example, at the end of April 2023, South Africa's wheat spot price traded around R6 650 per tonne, down 10% y/y.

For producers, however, the decline in wheat prices has raised concerns about a potential reduction in plantings. But this past week, we learned that South African farmers are reasonably optimistic about the 2023/24 season. In its recent data, the Crop Estimates Committee indicated that farmers intend to plant 542 600 hectares of wheat in the 2023/24 season, which is 3% up from the five-year average area planted (although down 4% y/y). In our view, such an area planted, combined with favourable weather conditions, would yield a solid harvest of 2,03 million tonnes. We assumed an average yield of 3,75 tonnes per hectare, which is a possibility if the weather conditions remain favourable throughout the season, as the forecasts suggest.

Moreover, farmers intend to plant 109 100 hectares of barley, up 8% y/y (but below the five-year average planting). If we apply the same logic here of a five-year average yield of 3,38 tonnes per hectare in an area planting of 109 100 hectares, South Africa could have a barley crop of 368 758 tonnes in the 2023/24 season (up 19% y/y). The canola planting intentions are at 127 500 hectares, up by 3%, and a record area planting. Combined with an average yield of 1,71 tonnes per hectare, such an area suggests 218 025 tonnes of harvest this season, 4% higher than the previous year.

Also worth noting is that South Africa has been progressively growing its oats crop. In the 2023/24 season, farmers intend to plant 29 600 hectares, up 10% y/y and well above the long-term average. In this crop, the average yield is 1,41 tonnes per hectare, and applying this to the area mentioned above of 29 600 hectares implies a harvest of 42 032 tonnes (up 41% y/y).

We are still early in the season. The planting activity and weather conditions of the next two months are crucial in determining whether the intended area is successfully planted or even exceeded. We will have an update on the area plantings when the Crop Estimates Committee releases the preliminary area planted data on 26 July. The first actual production forecast will be released on 29 August.

A point worth underscoring is that input prices have come off from the highs we saw last year, and this balances for the decline in wheat prices and other winter crop prices. For example, in March 2023, essential agrochemicals such as glyphosate and acetochlor were down by 36% y/y and 18% 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 larger. In US Dollar terms, the above-mentioned glyphosate was down by 47%, with acetochlor down by

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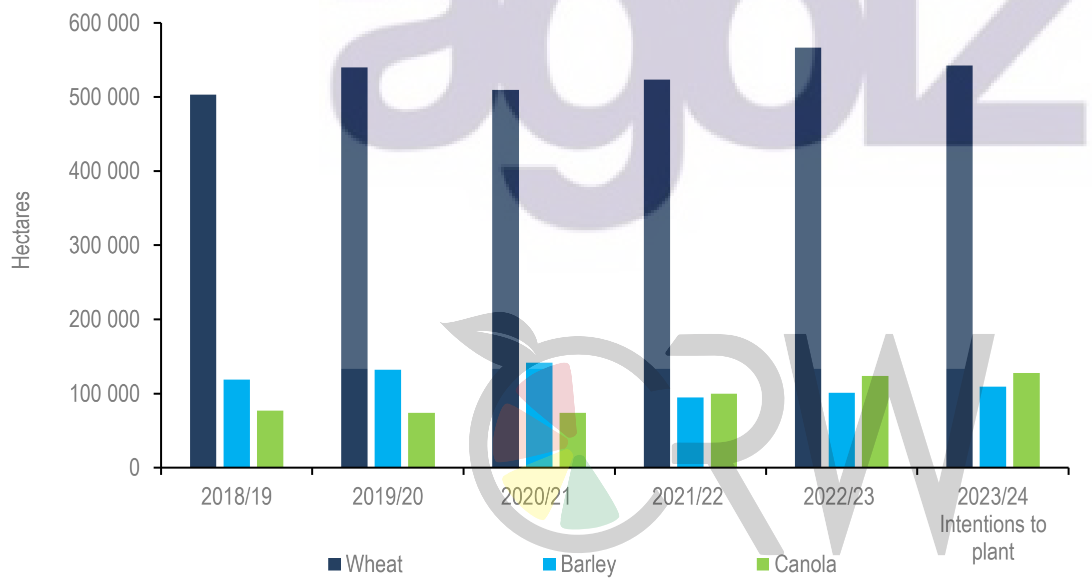
33% from March 2022. Prices of insecticides and fungicides have also declined notably from last year's levels. Also worth noting is that in March 2023, essential fertilizers such as ammonia, urea, di-ammonium phosphate and potassium chloride are down 45%, 54%, 18% and 28% in rand terms, respectively. 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 considerable saving on farmers' input costs.

As we highlighted in our previous notes, 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 Niño 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 good 2022/23 soil moisture and improved dam levels.

Overall, the planting intentions data and the favourable weather outlook suggest South Africa could have a decent winter crop harvest. The next few months are crucial in assessing if the optimistic view we paint here materializes.

Exhibit 1: South Africa's winter crop plantings



Source: Crop Estimates Committee and Agbiz Research

Weekly highlights

SA expects ample summer grains and oilseeds harvest in the 2022/23 season

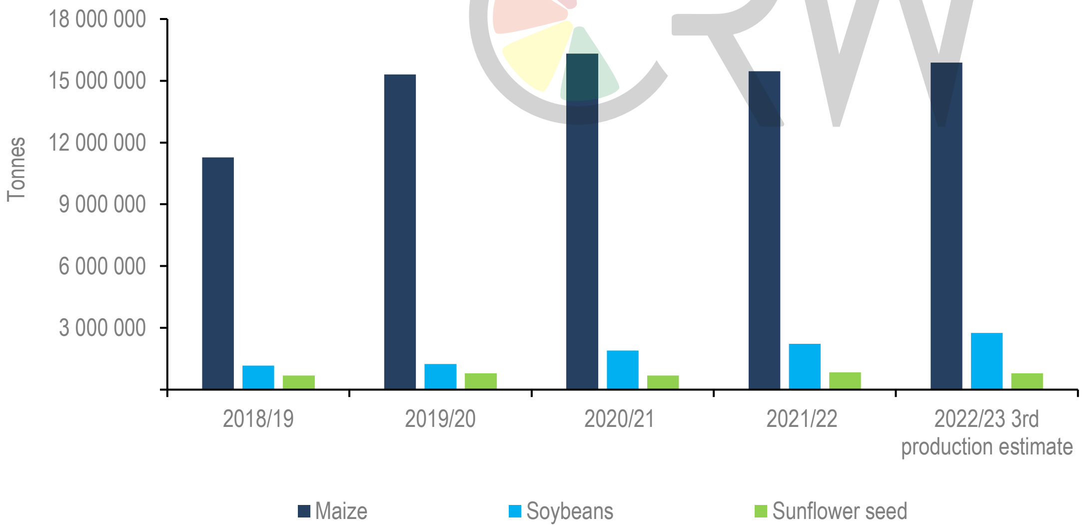
Last week, the Crop Estimates Committee's data reaffirmed our optimism about South Africa's 2022/23 summer grains and oilseeds production season. Maize production is estimated at 15,9 million tonnes, up mildly from last month's estimate and 3% higher than the 2021/22 season's harvest. The current harvest is the third-largest harvest on record. The harvest improvement is primarily on the back of expected large yields, as the area planted is slightly down from the 2021/22 season. About 8,4 million tonnes is white maize, with 7,5 million tonnes being yellow maize. A crop of 15,9 million tonnes implies that South Africa will have sufficient supplies to meet domestic needs of roughly 11,4 million tonnes and remain with about 3,0 million tonnes for export markets in the 2023/24 marketing year that starts in May.

Moreover, the soybeans harvest was lifted by 2% from the March estimate to a record 2,8 million tonnes. The crop improvement is due to an expansion in the area planted and the expected higher yields. The expected large harvest means South Africa could meet its domestic demand and remain with just over 300 000 tonnes of soybeans for export markets. This soybean export expansion is a new territory for South Africa, which until recently, had been a net importer of soybeans and soybean products, and positive for the agricultural trade balance.

The sunflower seed production estimate remained unchanged from last month at 797 610 tonnes (down 6% y/y). The annual decline in the sunflower seed production forecast mirrors the reduced planted area and yields in some areas. Other small crops, such as sorghum and groundnuts, have a reasonably large expected harvest of 107 180 tonnes (up 4% y/y) and 49 080 tonnes (up by 1% y/y), respectively.

Overall, South Africa's 2022/23 summer grains and oilseeds are maturing, and some areas are nearing harvest. Notably, these data bode well with the already softening maize prices, now hovering around R3 600 per tonne, roughly down by 20% from a year ago. Sunflower seed and soybean prices have also softened at the same rate, and spot prices are currently trading around R8 442 per tonne and R7 424 per tonne, respectively.

Exhibit 2: South Africa's major summer grain and oilseeds production



Source: CEC and Agbiz Research

Data releases this week

The agricultural calendar this week is relatively light. On the global front, the United States Department of Agriculture (USDA) will release its **US Weekly Grains and Oilseeds Exports** data on Thursday. Notably, on Friday, the Food and Agriculture Organisation of the Union Nations (FAO) will release its **Global Food Price Index** for April 2023. This is one of the most watched data releases as it provides early signals of the direction of global food price inflation.

In the March 2023 update, the Global Food Price Index averaged 126.9 points, down 2% from February, marking the twelfth consecutive monthly decline since reaching its peak one year ago. The decline in the index in March was led by drops in the cereal, vegetable oil and dairy price indices, while those of sugar and meat increased. During the past twelve months since March 2022, the index has fallen by as much as 21%.

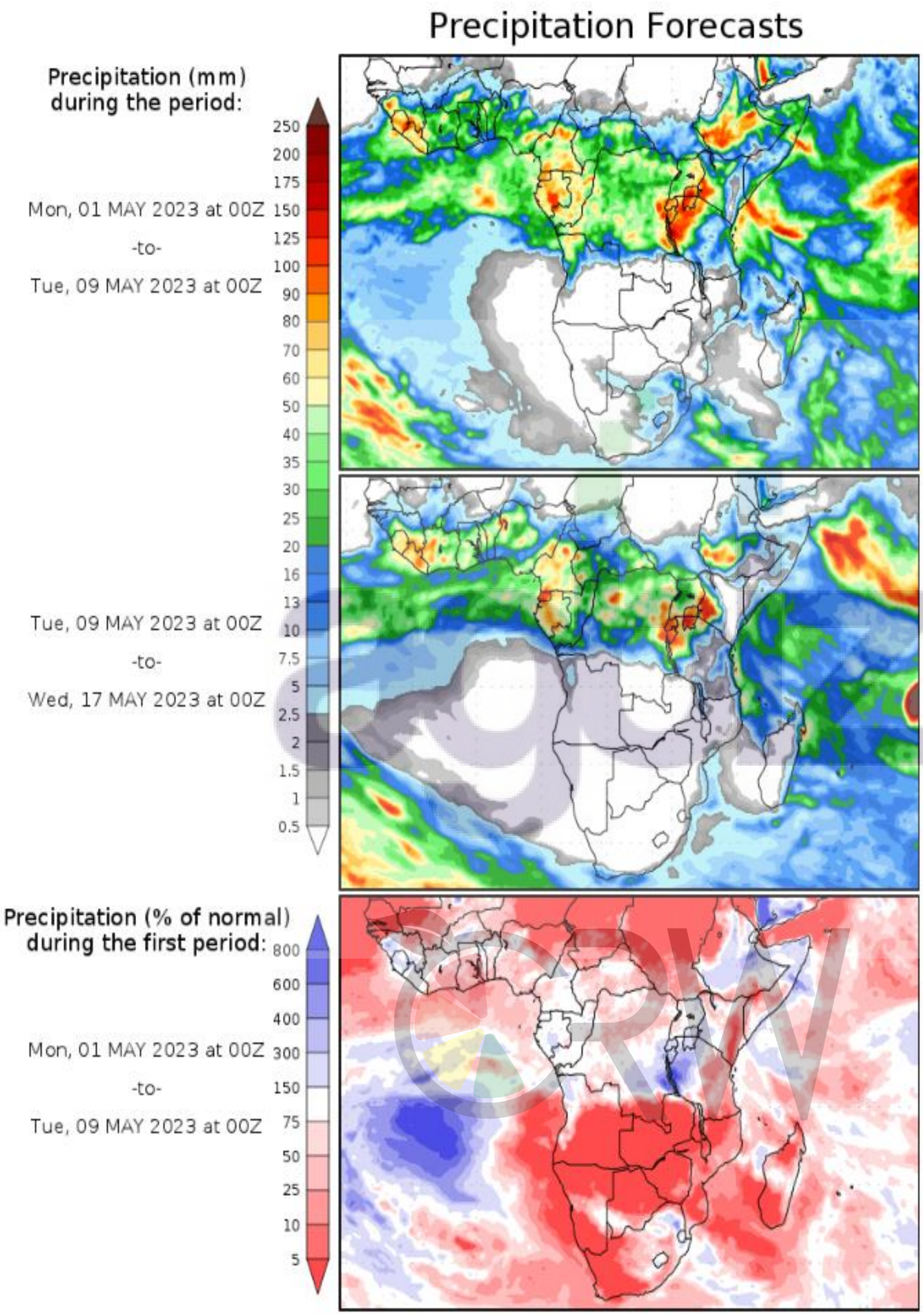
On the domestic front, on Thursday, SAGIS will release South Africa's **Weekly Grain Producer Deliveries** data for 28 April. In the previous release of 21 April, the deliveries were about 7 379 tonnes. This placed South Africa's 2022/23 wheat producer deliveries at 2,0 million tonnes, out of the expected harvest of 2,1 million tonnes. We will report on the 2023/24 summer grains and oilseeds when the harvest gains momentum later this month, which is also the start of the new marketing year.

On Friday, SAGIS will publish South Africa's **Weekly Grain Trade** data for 28 April. In the previous release on 21 April, the 51st week of South Africa's 2022/23 maize marketing year, the weekly exports amounted to 127 434 tonnes. About 79% to Taiwan, and the balance to the neighbouring countries. This brought the total 2022/23 exports to 3,6 million tonnes, which exceeds the seasonal export forecast of 3,5 million tonnes.

South Africa is a net wheat importer, and 21 April was the 29th week of the 2022/23 marketing year, with 30 740 tonnes, all from Australia. South Africa's 2022/23 wheat imports currently stand at 814 291 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 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.

Exhibit 3: South Africa's precipitation forecast



Source: George Mason University (wxmaps)

South Africa could experience cool weather conditions over the next two weeks.

Such weather conditions will be supportive of the summer grains and oilseeds harvest process, which has recently started in the regions that planted early.

Moreover, the cool weather conditions will allow the winter crop plantings to gain momentum in the Western Cape, and some regions of the Northern Cape.