

Risks to South Africa's agricultural sector amid rising geopolitical tension

Geopolitical risks are back in the South African agricultural agenda. Over the past year, South Africa has indirectly felt the effects of Russia's invasion of Ukraine through the disruption of various commodity supply chains and the subsequent price surge, specifically of grains, vegetable oils, fertilizer, Brent crude oil and natural gases. This time around, the United States' accusation that South Africa has supplied military equipment to Russia has raised diplomatic tensions between the two countries, leaving a great deal of uncertainty about political and trade relations between the two countries.

The matter will likely be ventilated through diplomatic channels over the coming days and weeks, and it remains unclear where this will settle. While this unfolds, it is worth briefly looking at South Africa's economic ties with the rest of the world. South Africa benefits immensely more from trade with the United States than Russia. Therefore, from a purely economic standpoint, the reasonable step to take in a world of uncertainty is nurturing relationships with countries with which a country has strong economic ties. The United States was South Africa's second-largest export market in 2022, accounting for 9% of South Africa's total exports, according to data from Trade Map. China was the leading export market, accounting for 10% of South Africa's total exports. South Africa's other important export markets include Germany, Japan, the United Kingdom, the Netherlands, Mozambique, India, Botswana, Belgium, Namibia, Zimbabwe and Zambia. Russia is one of the least important export markets for South Africa's total merchandise, accounting for a mere 0,2% of South Africa's exports in 2022. Over the past five years, South Africa's total exports to Russia averaged 0,4% of the total per annum.

In the current uncertainty in the global geopolitical environment, South Africa should ideally deepen relationships with countries that serve the country's economic interests and, by extension, support employment domestically. Tensions with the United States could present a significant economic downside for South Africa. The first channel is the negative sentiment against a country allegedly arming an invader and the loss of credibility on the view that South Africa is non-aligned in the Russia-Ukraine war. There are already anecdotal stories about specific companies delaying investments in fear of rising geopolitical tension and South Africa's position in the war. The country's political leadership should build on the work of the President's annual investment conferences on attracting foreign direct investment to drive manufacturing and other sectors and job creation in South Africa.

From an agricultural perspective, trade is as important. South Africa's agriculture exports roughly half of its products in value terms, totalling a record US\$12,8 billion in 2022. Maize, wine, grapes, citrus, berries, nuts, apples and pears, sugar, avocados, and wool were some of the top exportable products in 2022. Russia is a small market for these, accounting for just 2% of South Africa's agricultural exports over the past five years.

The African continent remained a leading market, accounting for 37% of South Africa's agricultural exports in 2022. Asia was the second largest agricultural market, accounting for 27% of exports, followed by the E.U., the third largest market, accounting for 19%. The Americas region was the fourth largest, accounting for 7%, and the remaining 10% went to the rest of the world. The U.K. was one of the leading markets within the 'rest of the world'

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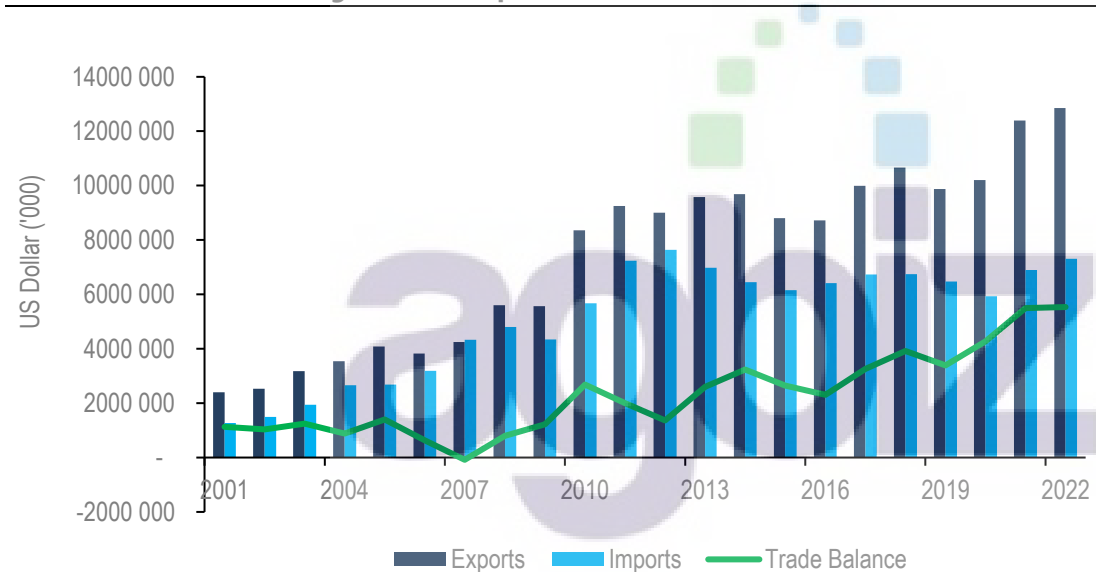
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category. The products of exports to these markets were primarily the same, with the African continent and Asia importing a reasonably large volume or value of maize. Meanwhile, exports to other regions were mainly fruits and wine.

The U.S. is also an important agricultural trading partner, accounting for an average of 4% of South Africa's agricultural exports over the past five years. Fruits, nuts, processed vegetables, wine, dairy products, industrial alcohol, and fruit and vegetable juices are some of the agricultural products that South Africa exports to the United States. These products benefit from duty-free access to the United States under the African Growth and Opportunity Act (AGOA). This is due for renewal in 2024. Other industries, such as automobiles, benefit more than the agricultural sector through AGOA market access.

Overall, South Africa is a small open economy highly integrated with the global economy through many complex channels. This means that the political leadership should position the country in an attractive way for investments and gaining market access to the world's growing economies.

Exhibit 1: South Africa's agricultural exports



Source: Trade Map and Agbiz Research

Weekly highlights

South Africa's maize exports to China are not a political posture

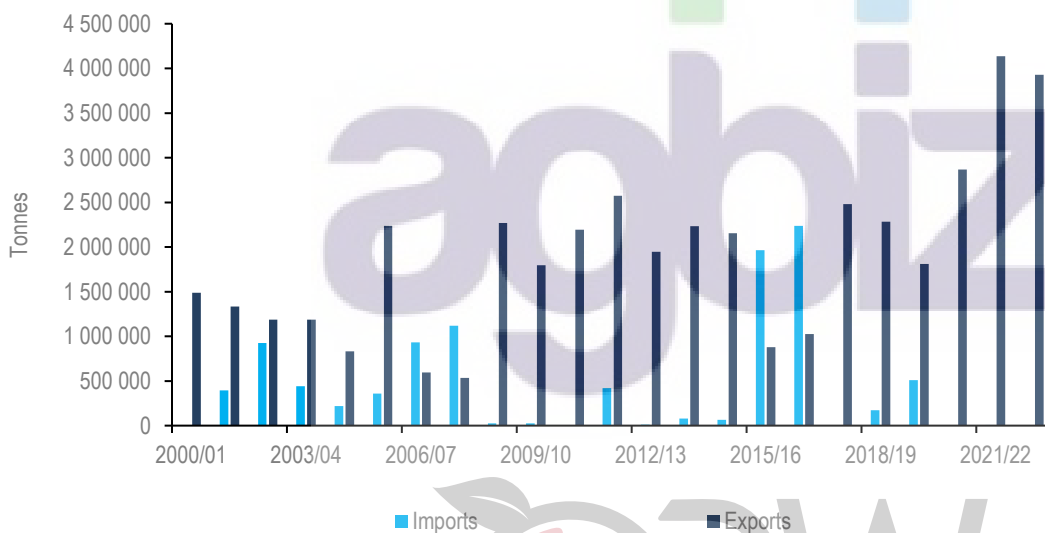
The geopolitical matters this past week also extended to the maize market. China cancelled U.S. maize orders and purchased South African maize. This volume was 108 104 tonnes of maize in the last week of March and the first few weeks of April 2023. This activity formed part of South Africa's maize exports in the 2022/23 marketing year. Some interpreted this market activity as China replacing the United States with South African maize as part of the broader geopolitical matter. We think such a view may be an overstatement. First, South African maize is currently competitively priced and of good quality, which might have influenced China's decision. Second, this was not the first time China bought South African maize, but the volumes were always small in the past. For example, China's maize imports from South Africa averaged 3 780 tonnes per annum over the past ten years. This was only the first time China imported large volumes in recent memory.

Third, if one considers South Africa's 2022/23 total maize exports of 3,64 million tonnes, China's recent purchase of 108 104 tonnes is a relatively small volume. South Africa's leading export markets for maize include Taiwan, Japan, Vietnam, Mexico, Italy, South Korea, Botswana, Zimbabwe, and various markets within the African continent. One should also remember that China is a large maize producer, accounting for 22% of global maize production, an average of 277 million tonnes. Still, because of their significant usage, China imports maize from the world market.

Over the past three seasons, China's maize imports averaged 25 million tonnes a year. The leading suppliers of maize to China included the United States, Ukraine, Bulgaria, Russia and Kazakhstan, and South Africa. Therefore, we doubt that South Africa's recent maize exports to China are an attempt to replace the U.S., as some media houses have argued.

One has to appreciate that the U.S. maize exports to China averaged 17 million tonnes yearly in the past two seasons. This far exceeds South Africa's total maize production of 15,9 million tonnes this year. In good seasons, South Africa's maize exports are usually just over 3 million tonnes to various markets. Hence, we believe China's recent maize imports from South Africa were a general market activity, i.e., supply diversification, and one shouldn't read too much into it.

Exhibit 2: South Africa's maize trade



Source: NAMC, SAGIS and Agbiz Research

South Africa's agricultural machinery sales remained reasonably strong in April 2023 but will likely soften in the second half of the year

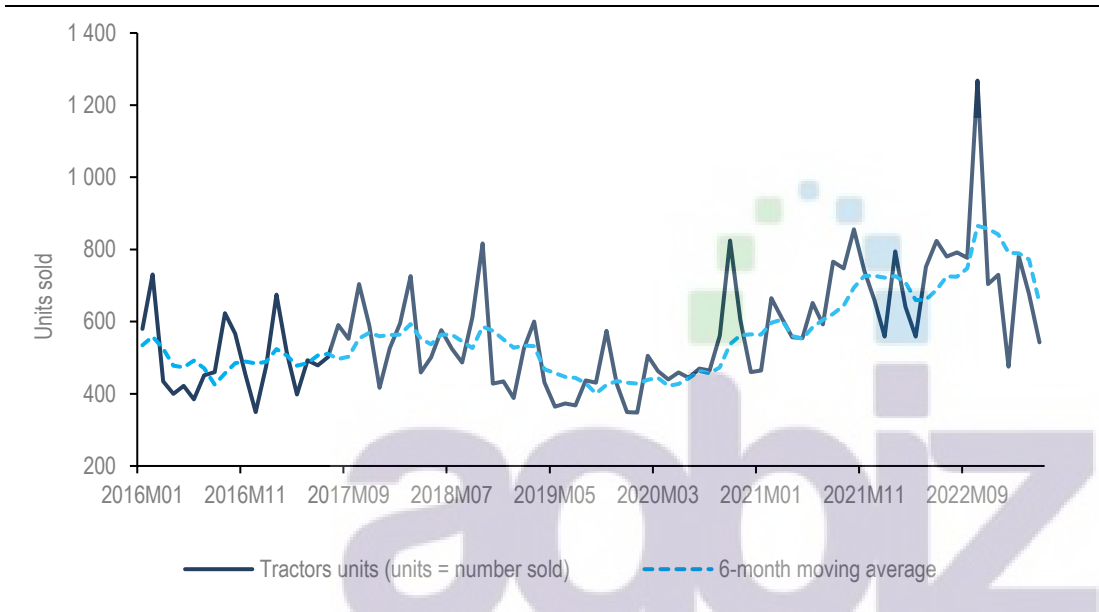
We continue to see a mixed picture in South Africa's agricultural machinery sales. For example, tractor sales were down by 3% y/y in April 2023, with 543 units sold. Meanwhile, combine harvester sales were at 104 units, up significantly from the 44 units sold in April last year. The robust combine harvester sales are surprising, as we thought by now there would be a general moderation in the agricultural equipment sales from last year's intense levels. In addition to varied farmers' financial reasons, part of the reason for these strong combine harvester sales is that we have a large summer grain and oilseed crop in the 202/23 season, and the harvest will gain momentum later this month.

That said, South Africa's agricultural machinery sales will likely cool off this year, following a few years of excellent activity. For example, South Africa's tractor sales for 2022 amounted to

9 184 units, up 17% y/y and the highest annual sales for the past 40 years. The combine harvester sales amounted to 373 in the same period, up 38% y/y 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. This will possibly be a reality in the second half of the year. Moreover, the rising interest rates will continue to pressure farmers' finances. While other input costs 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.

Exhibit 3: South Africa's tractor sales



Source: South African Agricultural Machinery Association and Agbiz Research

Data releases this week

We start the week with a global focus, and today, the Department of Agriculture (USDA) will release its weekly **U.S. Crop Progress** report. The U.S. farmers have advanced with summer crop planting. For example, on 07 May, about 49% of the maize intended area had been planted compared with 21% in the corresponding period a year ago. Moreover, about 35% of the soybean intended area had been planted compared with 11% on 07 May 2022. This impressive progress speaks to favourable weather conditions that have enabled U.S. farmers to proceed with plantings with minimal interruptions. The USDA will release its weekly **U.S. Grains and Oilseeds Exports** data on Thursday.

On the domestic front, on Wednesday, SAGIS will release its weekly **South Africa's Grain Producer Deliveries** data for 12 May 2023. This is increasingly essential data to monitor as the summer crop harvest gains momentum in the early planted areas. In the previous release on 05 May, South Africa's 2023/24 maize producer deliveries were about 218 668 tonnes out of the expected harvest of 15,9 million tonnes. The soybean harvest activity has progressed more than maize. On 05 May, about 1,7 million tonnes of soybeans had already been delivered to commercial silos out of the expected harvest of 2,8 million tonnes. On the same day, sunflower seed producer deliveries amounted to 321 044 tonnes out of the expected harvest of 797 610 tonnes.

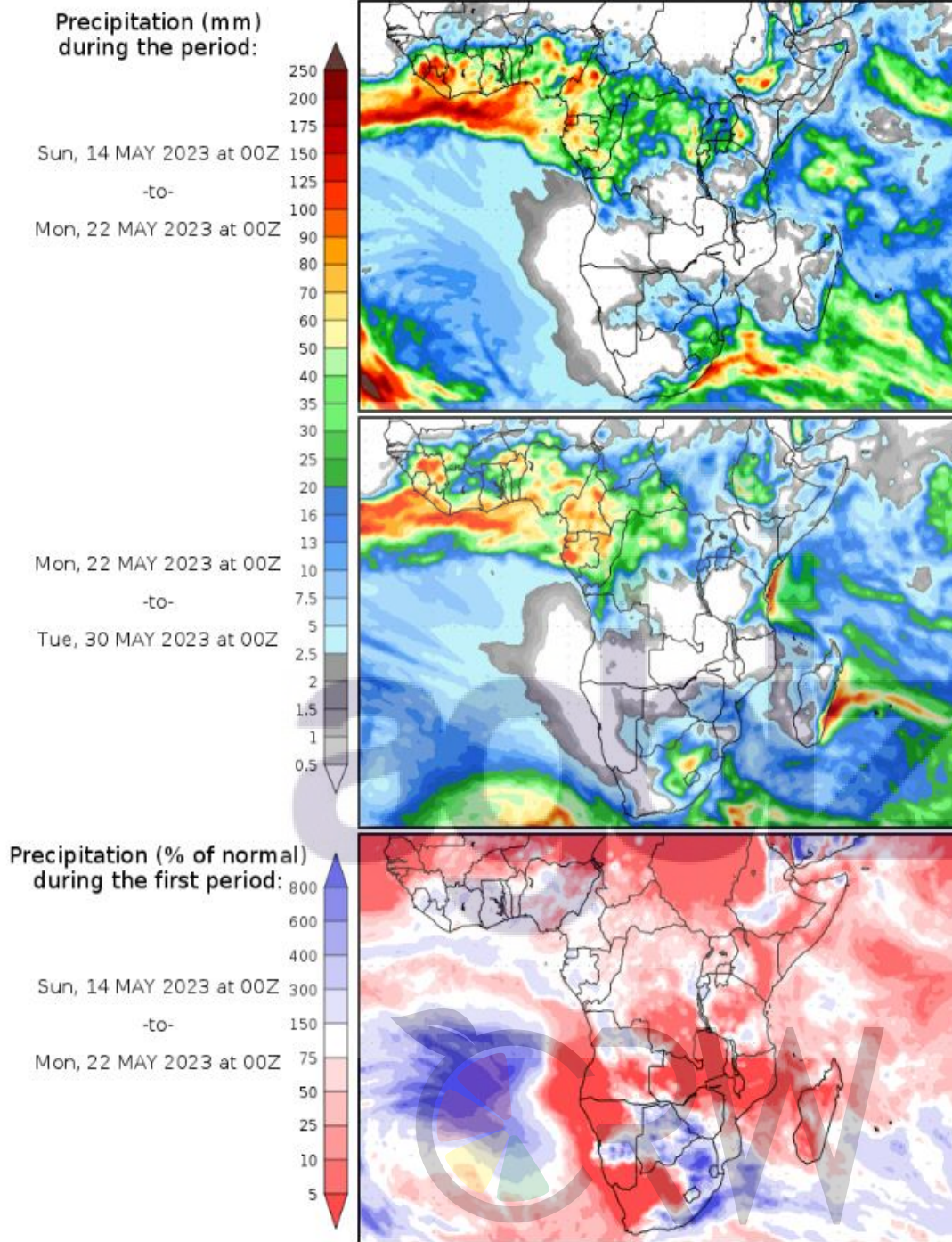
On Thursday, SAGIS will publish its weekly **South Africa's Grain Trade** data for 12 May. In the previous release on 05 May, the first week of the 2023/24 marketing year, South Africa exported 47 204 tonnes of maize, out of the seasonal export forecast of 3,0 million tonnes (down from 3,64 million tonnes exports in the 2022/23 season). The week's exports are about 71% to Taiwan and the balance to the neighbouring countries.

South Africa is a net wheat importer, and 05 May was the 31st week of the 2022/23 marketing year, with 48 759 tonnes, all from Poland. South Africa's 2022/23 wheat imports currently stand at 867 201 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 U.S. 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)

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

Such weather conditions will likely slow the harvest activity, but we don't think the crop quality will be negatively affected.

Notably, farmers will likely be at NAMPO this week, and there will be limited activity on the fields.

Positively, the expected rainfall will be beneficial to the winter crop growing regions. Increased soil moisture will benefit the seed germination as the planting has recently started.