

Expected El Niño in 2023/24 summer does not necessarily foretell a bad harvest.

Forecasts of an El Niño occurrence in the 2023/24 summer season do not necessarily equate to a bad agricultural season. The upcoming season of possible below-normal rainfall, i.e., El Niño, follows a rare consecutive four years of heavy rains that have improved soil moisture and natural grazing veld. This means there is a natural cushion for agricultural activity even if the rains are below the average (typically around 500 mm) in South Africa. What will be necessary, however, is for the showers to fall in critical periods, such as seed germination and pollination stages of growth, which are all essential for crop growing.

It would not be South Africa's first time in such a fortunate position. The summer of 2018/19 had a weather El Niño event. Still, the rains fell in critical periods, and South Africa attained a decent crop harvest, with commercial maize at 11,2 million tonnes, soybeans at 1,2 million tonnes and sunflower seed at 678 000 tonnes. Other field crops and horticulture also achieved decent yields that year. Notably, the 2018/19 season was not preceded with favourable four years of favourable rainfall that improved soil moisture. Therefore, the current position is better than the most recent El Niño period.

Various weather forecasters all share the same view in terms of the likelihood of the occurrence of an El Niño. In the past few months, we reflected on forecasts by the South African Weather Service and Columbia University's International Research Institute for Climate and Society, which all point to a higher probability of El Niño occurrence towards the end of this year. The latter has placed its possibility at over 80% at the start of this month. Also, the Australian Bureau of Meteorology recently said that "The ENSO outlook has been shifted to El Niño ALERT. This means that while the El Niño–Southern Oscillation (ENSO) is currently neutral, there is approximately a 70% chance of El Niño forming in 2023." And "this is roughly three times the normal chance of an El Niño."

Under such conditions, the agricultural sector and agribusinesses must plan for this changing operational environment from the conducive four years that supported growth in the sector. Still, this weather outlook should not necessarily imply less investment in agriculture or elevated risk. Such fears are likely as some people still remember the harsh drought of the 2015/16 production season, where maize output fell to 7,8 million tonnes, soybeans at 742 000 tonnes, and sunflower seed fared better at 755 000 tonnes as farmers switched white maize hectares to sunflower seed and cotton in the western regions of South Africa. That season, the livestock industry, various field crops and horticulture also suffered major losses across the country. Importantly, the 2015/16 season was preceded by a drier production period in 2014/15, and soil moisture was too low in various regions. Thus, the fall in yields was notable.

Moreover, the years before were also not exceptionally wet, and production conditions were generally challenging. This means that for teams in agricultural credit desks at various organizations, using the recent drought periods as a reference for what could transpire in the coming season would be misguided and could result in a far more risk-averse approach than production conditions on the ground warrant. The financiers and service providers in the sector could, perhaps, start to worry if we get another drought in the 2024/25 season. Such a scenario would then be on the back of a less wet season, and soil moisture reserves would

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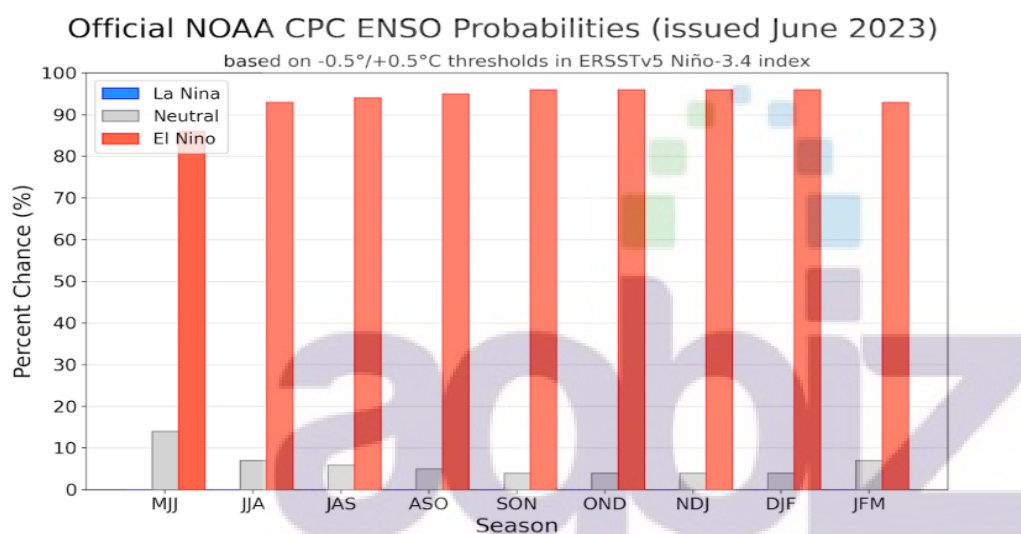
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have been used in the 2023/24 season. But this is not in the forecasts at this point. The communication from all major weather forecasters has focused on the upcoming season. Also worth noting is that farmers' production methods have changed over the past few years with the adoption of no-till farming and other climate friend practices, which all aim to conserve soil moisture and support production.

Overall, the South African, and indeed Southern African agricultural sector, faces a slightly drier 2023/24 summer season. But this should not ring the alarm about the sector's prospects or scare investors and financiers away. The current conditions are different from recent droughts. There is good soil moisture, and grazing veld has improved for livestock. The key will be planting at the correct times when the rains can support the germination of the crop and pollination around February. The South African farmers have the machinery and weather forecasting capabilities to achieve such timing.

Exhibit 1: El Niño occurrence forecasts



Source: Columbia University's International Research Institute for Climate and Society

Weekly highlights

South Africa's agriculture registers a sharp quarterly contraction

The numbers released by Statistics South Africa this past week show that in the first quarter of 2023, agriculture gross value added sharply contracted by -12,3% quarter-on-quarter (seasonally adjusted). There are a few elements that explain this sharp contraction. First, the field crops had a tough start to the season because of excessive rains, which disrupted and delayed plantings by over a month in some areas. Second, the cattle industry still feels the adverse effects of foot and mouth disease, leading to a decline in slaughtering activity. We see similar issues of animal disease challenges also in the pork industry. Third, the logistics issues at our ports, although having improved as Transnet works collaboratively with the private sector, also weighed on the table grapes activity at the start of the year. Lastly, one can not underestimate the impact of load-shedding disruptions on poultry production. However, the government has since introduced various measures to ease the load-shedding burden on farmers, such as load curtailment, expansion of the diesel rebate to the food value chain, and, most recently, the launch of the Agro-Energy Fund.

Also worth noting is that South Africa's agriculture quarterly gross value-added figures tend to be quite volatile; hence our communication always focuses on the annual performance.

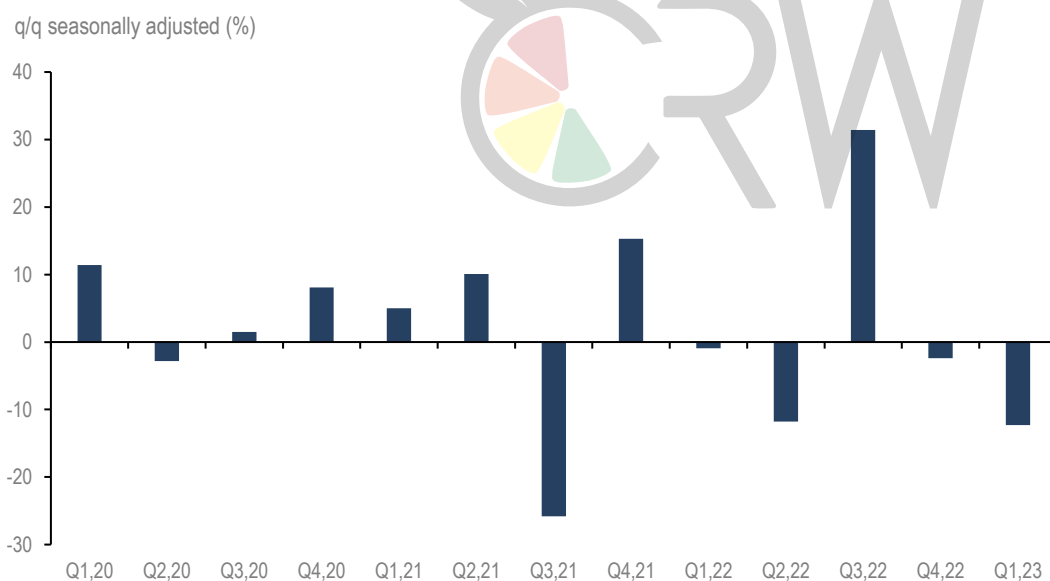
Importantly, we expect the coming quarters in the sector to show a robust performance and boost the annual growth figure to around 3% (from a revised 0,9% in 2022). While the summer crop season started on bad footing, and the planting of some crops was delayed by roughly a month, the weather conditions improved in January and allowed for the completion of the planting. Moreover, the load-shedding interventions we mentioned above assisted some farming entities. However, the effectiveness of these energy support measures differs across farming enterprises, and the costs are high mainly for those not fully benefiting from the above efforts and have had to rely on diesel generators to maintain production.

Consequently, South Africa's 2022/23 summer crops are in good shape. For example, the 2022/23 maize harvest is estimated at 16,1 million, 5% higher than the 2021/22 season's harvest and the third-largest harvest on record. Soybeans harvest could reach a record 2,8 million tonnes. Other field crops and fruits also show prospects for decent harvest this season. These good agricultural conditions will support the fortunes of the sector. However, the possible slow recovery in the livestock subsector, which accounts for nearly half of agriculture's gross value added, remains a critical risk to this year's performance.

From a policy position, the Agriculture and Agro-processing Master Plan launched in May 2022 remains an essential guiding pillar for the long-term growth of the sector. This plan offers the government and the private sector framework to grow the sector, build competitiveness, attract more investment, improve inclusion, and create jobs. This year should mark the start of the implementation phase. But progress so far remains limited, as the focus shifted to energy security at the beginning of the year because of the intensified load-shedding. Still, the sector should now focus on the Agriculture and Agro-processing Masterplan and explore means of implementation.

The growth constraints such as biosecurity (animal diseases), infrastructure, widening of export markets, registration of new crop protection chemicals, and various commodity-specific and regionalized plans are some of the aspects that the Agriculture and Agro-processing Master Plan reflected on. Notably, the broad sector support behind the plan could wane over time if the implementation is slow, and we may again find ourselves with another "good on paper but not implemented plan". Getting out of this state of inertia requires the Department of Agriculture, Land Reform and Rural Development (DALRRD) to reconvene the social partners with an implementation proposal at hand to propose.

Exhibit 2: South Africa's Agriculture GVA



Source: Stats SA and Agbiz Research

Data releases this week

The agricultural data calendar this week is pretty quiet. On the global front, today, the US Department of Agriculture (USDA) will release its weekly update of the **US Crop Progress Report**. The US farmers have nearly completed summer crop planting. For example, on 04 June, about 96% of the maize intended area had been planted compared with 92% in the corresponding period a year ago. Notably, 85% of the planted crop had already emerged, compared with 76% on 04 June 2022. Moreover, farmers had already ploughed about 91% of the soybean intended area compared with 54% on 04 June 2022. The USDA will release its weekly **US 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 09 June 2023. In the previous release on 02 June, South Africa's 2023/24 maize producer deliveries were about 766 844 tonnes. This placed the 2023/24 deliveries at 2,1 million tonnes out of the expected harvest of 16,1 million. The soybean harvest activity has progressed more than maize because it was planted earlier in the season. The harvest is now close to completion, and on 02 June, about 2,4 million tonnes of soybeans had already been delivered to commercial silos out of the expected crop of 2,8 million tonnes. On the same day, sunflower seed producer deliveries amounted to 492 896 tonnes out of the expected harvest of 797 610 tonnes.

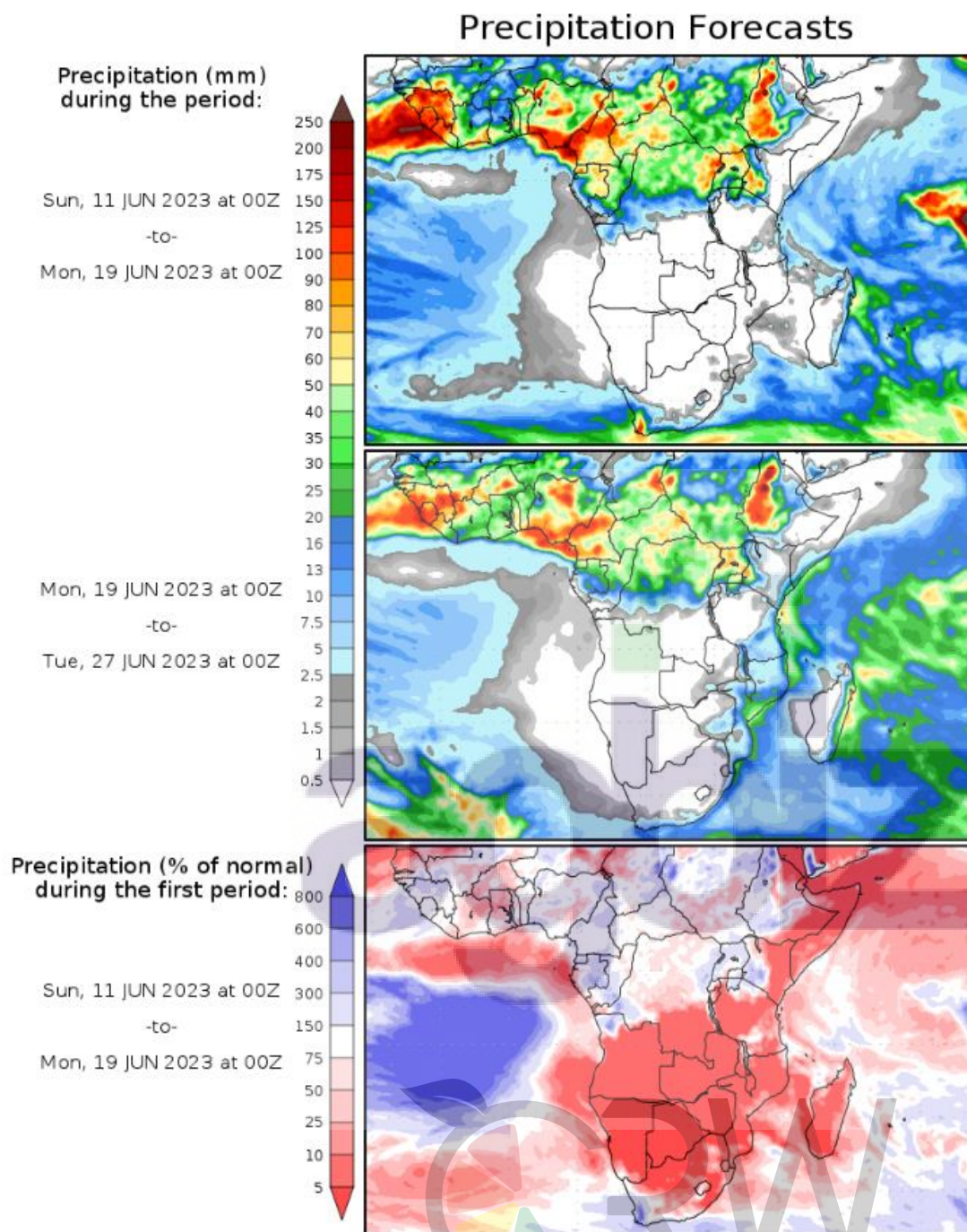
On Thursday, SAGIS will publish its weekly **South Africa's Grain Trade** data for 09 June. In the previous release on 02 June, the fifth week of the 2023/24 marketing year, South Africa exported 45 148 tonnes of maize. Of this volume, about 54% was exported to Taiwan, 13% to Vietnam, and the rest to the neighbouring countries. This placed South Africa's 2023/24 maize exports at 298 757 tonnes out of the seasonal export forecast of 3,0 million tonnes (down from 3,64 million tonnes of exports in the 2022/23 season).

South Africa is a net wheat importer, and 02 June was the 35th week of the 2022/23 marketing year, with 46 045 tonnes. About 94% of this was from Russia and 6% from Poland. South Africa's 2022/23 wheat imports currently stand at 976 304 tonnes. The seasonal import forecast is 1,6 million tonnes, roughly unchanged from the previous season.

South Africa's 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.

Also, Statistics South Africa will release the **wholesale trade sales** for April 2023 on Thursday.

Exhibit 3: South Africa's precipitation forecast



Source: George Mason University (wxmaps)

As with the previous week, the weather forecast for the next two weeks show clear skies over most regions of South Africa.

This will help support the summer crop harvest process that is currently underway across the country.

Meanwhile, the winter crop growing regions, specifically in the Western Cape, will benefit from the continuous rains this coming week.