

Risks to feed prices for the SA livestock and poultry industry

The livestock and poultry industry has had a difficult last few years. Various external shocks including animal diseases and rising input costs – yellow maize and soybean prices – made for a challenging operating environment for many farmers and agribusinesses. While the spread of diseases may be slowing, and organized agriculture and government continued to collaborate to address biosecurity risks, concerns about renewed increases in animal feed prices persist. This is particularly the case in the El Niño period, which might result in a lower harvest compared to recent seasons of bumper crops.

The livestock and poultry sector hardly enjoyed the gains of a large domestic harvest of the past two seasons because this did not bring any meaningful reduction in feed prices. For example, since December 2020, yellow maize prices have broadly traded over R3 000 per tonne, while soybeans have generally been over R5000 per tonne. This has been a different experience compared with prior seasons, where a large harvest would have led to a substantial price decline to much lower levels than we observed in the past two years. The major reason for this were higher global maize and soybean prices on the back of drought in South America, rising demand in China, Covid-19-related supply chain disruptions and the Russia-Ukraine war. As a small open economy, South Africa is interlinked with the global grains and oilseeds market, and domestic prices tend to follow the global price movements, and this is what we observed.

With global maize and soybean prices declining notably since the start of the year, South Africa's maize and soybean prices have followed a similar trend and are roughly 15% lower than the levels we observed in 2022. This benefits the livestock and poultry industry, which is currently struggling with more domestic-related costs such as load shedding and failing municipalities where various businesses have had to use their resource to maintain basic services. This has added to their cost of doing business. In addition to mainly following global price trends, large grains and oilseed supplies are in the market, which adds downward pressure on animal feed prices. For example, the Crop Estimates Committee forecasts 2022/23 maize production at 16,35 million tonnes. This crop is 6% more than the 2021/22 season and the second-largest harvest on record. The 2022/23 soybeans harvest is forecast at a record estimate of 2,76 million tonnes (up 24% year-on-year).

Still, there are fears that harvest could decline notably as we transition into an El Niño weather phenomenon, which may result in below-average rainfall in Southern Africa. Such a scenario would increase maize and soybean prices and further strain the livestock and poultry sector. However, the expected El Niño weather phenomenon might not be as harsh as the 2015/16 season, where grains and oilseed harvest fell below long-term averages, necessitating imports. In that year, livestock suffered, and they have reported cases of livestock death across the country, particularly in new-entrant farming regions. There is good soil moisture from the past few seasons' higher rainfall, which should support natural grazing veld and crops during planting season, which starts in October.

Moreover, the recent crop estimates from the International Grains Council (IGC) also paint a good picture of global grains and oilseed supplies in the upcoming 2023/24 season, which points to moderate price movements. For example, the 2023/24 global maize harvest is forecast at 1,2 billion tonnes, up 5% year-on-year. Subsequently, the 2023/24 global maize

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stocks are estimated at 276 million tonnes, up 2% from the previous season. Such stock levels signal an environment of a slight decline in global prices. Still, this is early in the season, and these data could change. For example, the IGC boldly forecasted South Africa's 2023/24 maize production at 15,6 million tonnes, down marginally from the current crop of 16,4 million tonnes. While positive about the upcoming season, we doubt the crop could be this large and see 13-14 million tonnes as a more likely range.

Regarding soybeans, the IGC forecasts 2023/24 global production at 402 million tonnes, up 9% from the previous season. This is mainly supported by the expected recovery in South America's production after a prolonged drought that devastated crops. Under such a harvest, the stocks would amount to 65 million tonnes, up by 24% year-on-year.

All else being equal, the 2023/24 summer season may not be as harsh to the livestock industry. The global grains and oilseed prices would likely be under pressure. If El Niño does not badly hit the domestic harvest as expected, the benefits of the potentially lower global prices will filter into our domestic environment. The upside risk that needs constant monitoring is the rand/dollar exchange, as the excessive weakness would lead to higher domestic maize and oilseeds prices for local livestock and poultry producers and, in the event of feed imports, even lift that higher. The additional risk is the severity of El Niño. We assume a moderate impact, but if severe, crop yields would take a substantial loss, and such a scenario would have price implications. There will be clarity on both these risks towards the end of the year when the 2023/24 season starts. For now, we maintain a generally positive view of the outlook for the livestock and poultry industries from a feed price perspective.

Weekly highlights

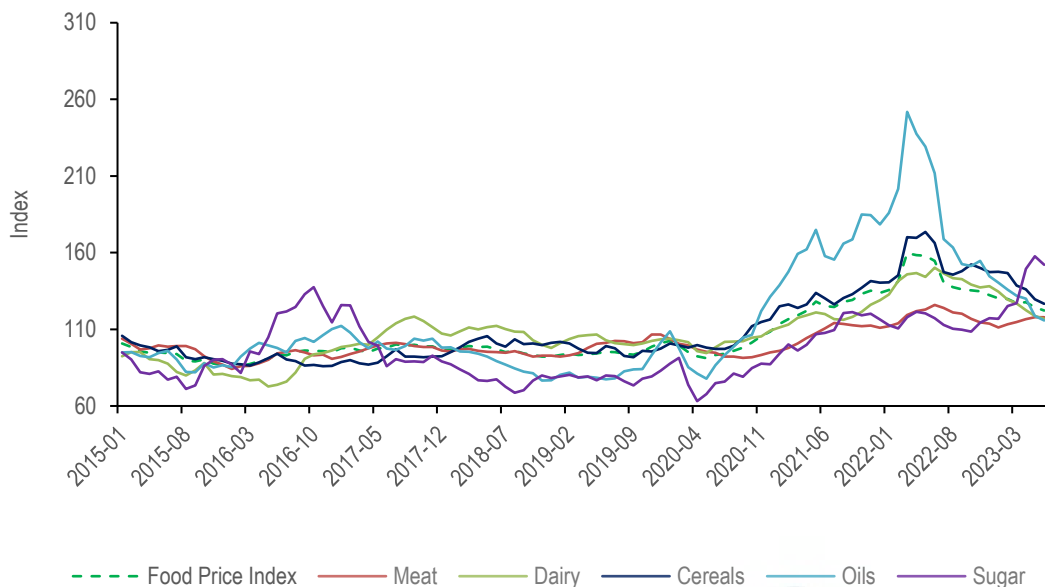
Global Food Price Index continued to moderate in June 2023

The FAO Food Price Index, a measure of the monthly change in international prices of a basket of food commodities, averaged 122 points in June 2023, down by 1% from the previous month and as much as 23% below the peak it reached in March 2022. The month-on-month decline in the index in June reflected drops in the indices for sugar, vegetable oils, grains and dairy products.

Essentially, these commodities' price decline reflects large global supplies and the expected good crop in the upcoming 2023/24 season. In the near term, specifically on grains and vegetable oils, the increased seasonal supplies from ongoing harvests in Argentina, Brazil and South Africa have been the major factor behind the decline in prices, and the long-term production prospects for the 2023/24 season are positive and supportive of a declining trend in prices. Moreover, the large grain supplies in Russia, where the wheat export tax decreased in June, continued to weigh on prices. Regarding vegetable oils, the relatively lower global prices of palm and sunflower oils were the major drivers of the continued decline in this price index. The major driver behind the price direction of these commodities is the large global supply and the subdued demand from the specific importing regions.

These global price dynamics imply South Africa, as part of the global agricultural market, will also have a similar experience with a lag. Therefore, this continued moderation in global agricultural prices will likely persist in the domestic market, as has been the case in the past few months. 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. We will monitor the global meat price direction, which in June remained flat, and its impact on South Africa, as this would influence the current food inflation view.

Exhibit 1: Global Food Price Index



Source: FAO and Agbiz Research

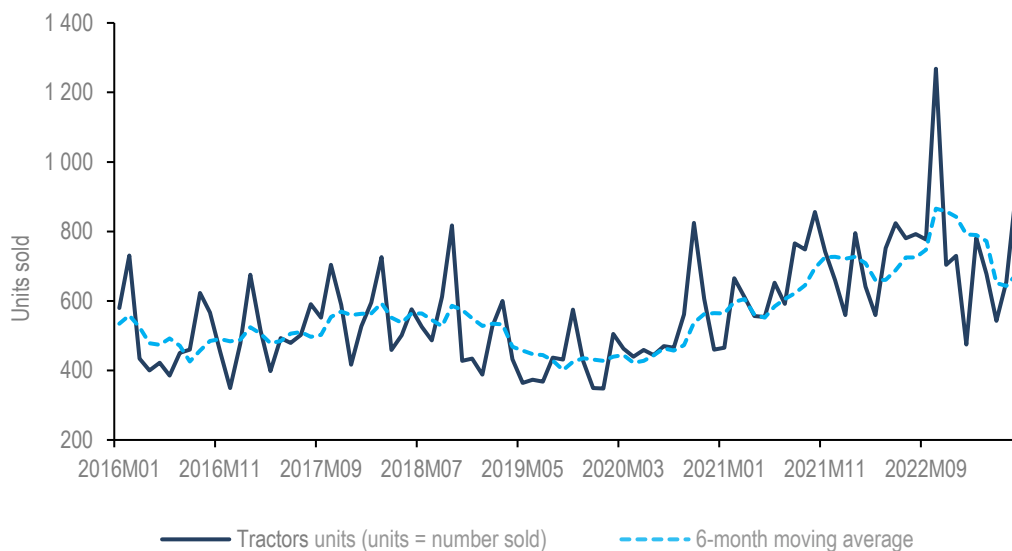
SA agricultural machinery sales remained reasonably strong in June 2023 but will likely soften in the coming months

Surprisingly, South Africa's agricultural machinery industry reported solid sales in June 2023. For example, tractor sales were up by 13% y/y, with 930 units sold – see the chart. Additionally, the combine harvester sales were at 64 units, up 28% y/y. We think these orders were made in the past few months when farmers were still enjoying the gains of the past few seasons' ample harvests combined with higher prices, thus improving farm profitability.

The environment currently has changed. While we have a large grain harvest on the horizon, with the 2022/23 maize harvest estimated at 16,4 million tonnes, the second largest on record, and soybeans at a record 2,8 million tonnes, the prices of these commodities have declined by roughly 15% y/y. Moreover, agricultural machinery sales have been robust in the past few years. Therefore, farmers will likely slow the purchases in the future as the need for replacements of older machinery may not be as high. Moreover, unlike the past few years, when interest rates were more accommodative, the rising interest rates will continue to pressure farmers' finances. Also worth noting is that the relatively weaker rand/dollar exchange rates will negatively influence the farmers' machinery buying decisions.

As we approach the 2023/24 summer crop production season, the farmers' focus will be the input costs. 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. These are all the factors we believe will slow agricultural machinery sales in the coming months. However, the purchases made earlier in the year may still appear in the recent month's sales, thus giving an impression of continued robust sales, which we think is not the case.

Exhibit 2: South Africa's tractor sales



Source: South African Agricultural Machinery Association and Agbiz Research

Data releases this week

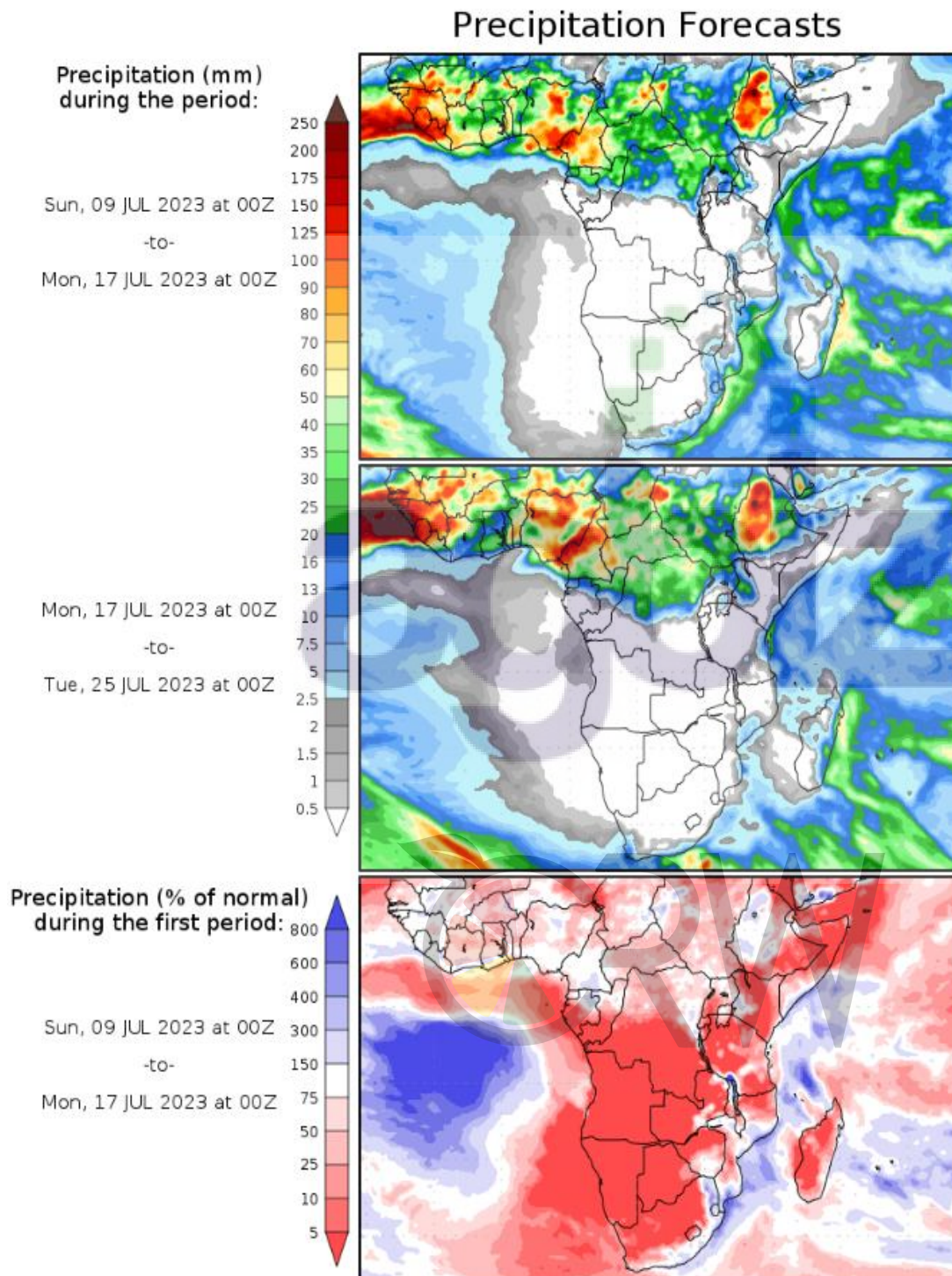
We start the week with a global focus, and today, the USDA will release its weekly update of the **US Crop Progress Report**. After weeks of dryness, the weather conditions are reportedly improving in some regions of the US, which should support the crop-growing conditions. In the previous weeks, the US crop conditions were taking a strain from the heat. For example, on 02 July, only 51% of the planted maize crop was rated good/excellent, down significantly from the 64% rating in the same week in 2022. In addition, about 50% of the soybean crop was rated good/excellent, also down significantly from the 63% rating in the same week in 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 Grains and Oilseeds Producer Deliveries** data for 07 July 2023. In the previous release on 30 June, South Africa's 2023/24 maize producer deliveries were about 1,5 million tonnes. This placed the 2023/24 deliveries at 7,8 million tonnes out of the expected harvest of 16,4 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 30 June, about 2,6 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 616 035 tonnes out of the expected harvest of 758 610 tonnes.

On Thursday, SAGIS will publish its weekly **South Africa's Grains and Oilseeds Trade** data for 07 July. In the previous release on 30 June, the ninth week of the 2023/24 marketing year, South Africa exported 90 775 tonnes of maize. Of this volume, about 57% was exported to South Korea, 21% to Japan, 7% to Taiwan, and the balance to the neighbouring countries. This placed South Africa's 2023/24 maize exports at 747 724 tonnes out of the seasonal export forecast of 3,0 million tonnes. South Africa is a net wheat importer, and 30 June was the 39th week of the 2022/23 marketing year, with a weekly import volume of 53 696 tonnes from Lithuania and Poland. This placed South Africa's 2022/23 wheat imports at 1,04 million 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.

Exhibit 3: South Africa's precipitation forecast



Source: George Mason University (wxmaps)

Similarly to 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.

Moreover, this is also supportive of the winter crop growing conditions that need a breather (sunshine) after heavy rains these past few weeks, especially in the Western Cape.

With that said, the coastal regions of South Africa could receive light showers this week.