

South Africa's 2023/24 winter crop production prospects remain favourable

The recent rains across South Africa have been favourable for the 2023/24 winter crops. The crops are mostly in good condition in the Western Cape, a province that accounts for over two-thirds of the winter wheat, barley, canola and oats plantings. The heavy rains in June in the region, which damaged infrastructure, had a minimal adverse effect on the overall winter crops. Admittedly, certain areas received excessive moisture that may have stunted crops in some fields.

Still, the broad feedback from various conversations with producers in the province suggests that we could receive above-average yields in winter crops. Other notable winter crop-producing provinces such as Northern Cape, Free State, and Limpopo also have good soil moisture from the summer rainfall, which is now beneficial for winter crop growing conditions. Notably, the weather conditions have also been much colder this winter, supporting crop conditions.

Also worth noting is that South Africa's winter crop production conditions this 2023/24 season were better than the previous one regarding input costs. For example, when farmers started to prepare for the season in March 2023, the essential agrochemicals such as glyphosate and acetochlor were down by 36% y/y and 18% y/y, respectively, in rand terms. In the same month, March 2023, the essential fertilizers such as ammonia, urea, di-ammonium phosphate and potassium chloride were down 45%, 54%, 18% and 28% in rand terms, respectively.

These price changes in agrochemicals and fertilizers 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 considerably improved the production conditions in terms of costs for farmers in the 2023/24 winter crop season.

This coming Wednesday, July 26, the South African Crop Estimates Committee (CEC) will release the preliminary area estimate of winter crops. We think the area will be roughly unchanged, if not having improved, from the intentions to plan data released at the end of April 2023. At the time, the CEC noted that farmers intended to plant 542 600 hectares of wheat in the 2023/24 season, 3% up from the five-year average area tilled (although down 4% y/y). In our view, such an area planted, combined with favourable weather conditions as we have observed, would yield a solid harvest of 2,03 million tonnes (down 4% y/y). We assumed an average yield of 3,75 tonnes per hectare, which is a possibility if the weather conditions remain favourable throughout the season. The decline in the overall yield is linked to a possible area reduction in the Free State and Northern Cape, while the Western Cape will likely have solid output.

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. If we combine it with an

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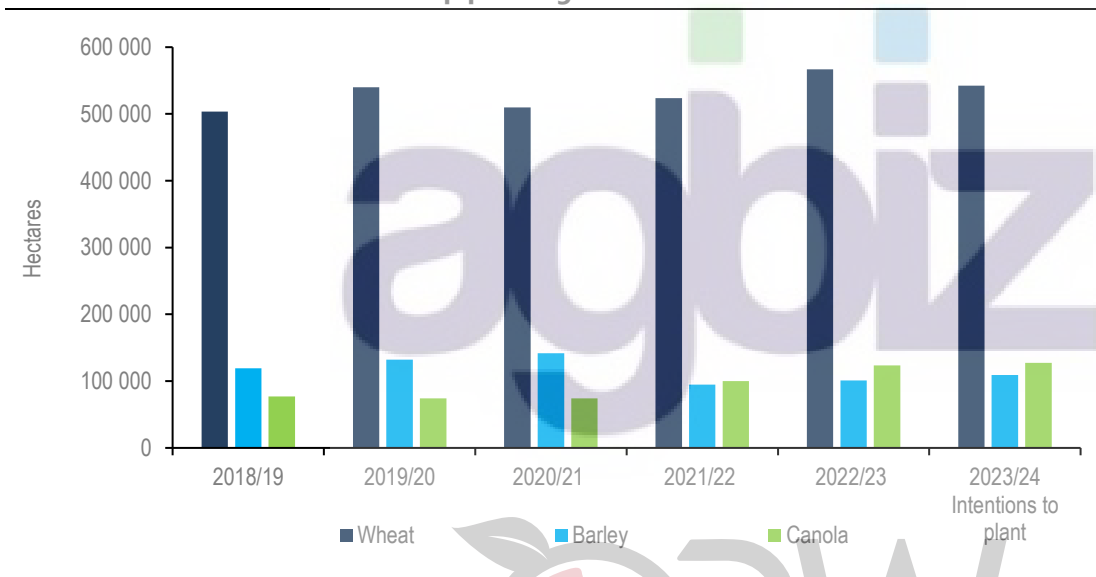
average yield of 1,71 tonnes per hectare, then such an area suggests 218 025 tonnes of harvest this season is possible. This is 4% higher than the previous year.

While various regions of the world have struggled with excessive heat, such as in Europe, the winter wheat regions of South Africa have had favourable production conditions thus far, and the benefit of all this will be apparent in the crop size. Although we will receive the planting data this week, it will be a month before we have the first production forecast that the CEC will release on August 29.

With renewed worried about the wheat supplies and a potential uptick in prices because of the non-renewal of the Black Sea Grain Deal, a decent domestic wheat harvest provides a much-needed buffer in terms of supplies. South Africa will remain a net importer of roughly half of its domestic wheat consumption, a volume of around 1,5 million tonnes; still having a sizable domestic supply helps for the near-term wheat usage in fragile grain trade times as we witness worldwide. Therefore, the favourable rains and farmers' efforts may have provided a much-needed buffer through the 2023/24 season wheat supplies.

Overall, we will likely review the production estimate we provided in this note, depending on the adjustments in the production data that the CEC releases this coming Wednesday.

Exhibit 1: South Africa's winter crop plantings



Source: Crop Estimates Committee and Agbiz Research

Weekly highlights

Russia's decision to halt the Black Sea Grain Deal presents risks to global food security

This past week was eventful in global agriculture. The focus was on the Black Sea, an essential region for grain supplies, although engulfed in the Russia-Ukraine war. The grain exports, specifically from Ukraine, were disrupted when Russia invaded the country in February 2022. But the rising concerns about global food security resulted in the United Nations and Turkey brokering a deal in July 2022 between Russia and Ukraine to allow a safe grain movement from Ukraine to the world market while the war continued.

But this past week, Russia halted the Black Sea Grain Deal. The reasons are unclear, but the attack on the Kerch bridge connecting the Crimea peninsula to the Russian mainland angered Russia. But this is possibly not the only reason. Before this week's events, Russia

wanted to increase the exports of ammonia and other fertilizer material to the world market, and this required the EU to reconnect the Russian Agriculture Bank to the global electronic payment network, SWIFT. Russia demanded that this be done for them to renew the Black Sea Grain Deal, which had not happened.

Regardless of Russia's genuine reasons, this is a noteworthy event in global agriculture, whose implications will be apparent over the coming days and weeks. Still, we can appreciate that one of the major contributors to the current slowing global agricultural commodities prices (food prices) is the Black Sea Grain Deal, which allowed for a safe grain movement from Ukraine and Russia since July 2022.

Therefore, Russia's refusal to renew the Black Sea Grain Deal presents an upside risk to global grain prices, which may undermine the gains we were all starting to enjoy from the slowing grain prices, specifically in the major importing regions. While the majority of grain from Ukraine was primarily exported to Europe, the Middle East, and North Africa, the availability of grain and the decline in prices indirectly benefited the global community.

Impact on South Africa

Regarding South Africa, we are not directly at risk as we have large domestic grain supplies. South Africa's 2022/23 maize harvest is at 16,35 million tonnes. This crop is 6% more than the 2021/22 season and the second-largest harvest on record. This means South Africa will have over 3,0 million tonnes of maize for exports in the 2023/24 marketing year.

We also have a record soybean harvest of 2,8 million tonnes in the same season. The ample soybeans harvest means South Africa could meet its domestic demand and remain with over 300 000 tonnes of soybeans for export markets. Our sunflower seed harvest is also decent, estimated at 758 610 tonnes.

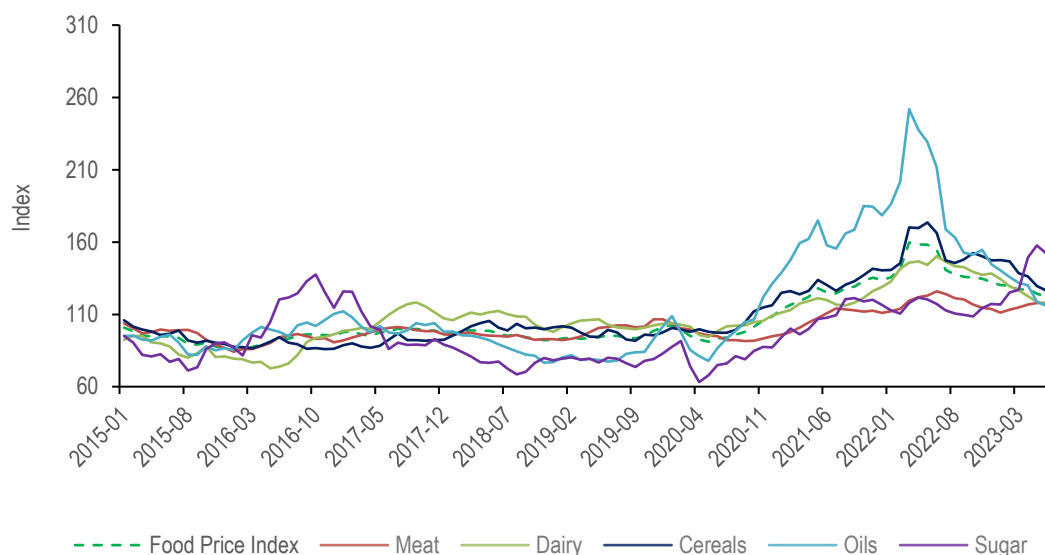
With that said South Africa is quite exposed to global shocks in its wheat value chain, which is a commodity that was primarily facilitated for exports through the Black Sea Grain Deal. South Africa imports roughly half of its annual wheat usage, but most of this for the 2022/23 season is already on our shores. For example, On July 14, South Africa's 2022/23 wheat imports were at 1,1 million tonnes out of the seasonal import forecast is 1,6 million tonnes.

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.

Still, this doesn't mean South Africa will be insulated from this disruption. The price reaction to the news of Russia's refusal is worth monitoring and could impact South African consumers if no solution is found in the near term regarding the grain movement from this region. But the extent of that will depend on how global grain markets react to this current glitch caused by Russia.

Importantly, Russia has large wheat supplies that must be exported in the 2023/24 season, so monitoring if those shipments won't face any issues will be important. There will likely be more to say on this issue in the coming days; we are confident that South Africa is not at risk regarding physical supplies over the foreseeable. The price shocks, however, are something that will be apparent in the coming days and weeks.

Exhibit 2: Global Food Price Index



Source: FAO and Agbiz Research

South Africa's consumer food inflation slowed in June 2023

South Africa's consumer food inflation slowed in June 2023, recorded at 11,1% from 12,0% in the previous month. The product prices underpinning this deceleration are mainly bread and cereals; meat; fish; milk, eggs and cheese; and oils and fats. While there are renewed risks in global agriculture, such as India's ban the exports of rice and the Black Sea Grain Deal Initiative that facilitated grains and oilseeds exports from Ukraine terminated, we are still optimistic that South Africa's consumer food inflation will continue to slow during this second half of the year.

The products that could underpin the slowing food inflation trend will be similar to those in June. Notably, red meat prices, which have softened at the farm level, should continue on this trend at the retail level in the coming months. Fruit prices, although no longer in deflation, should remain affordable because of improved domestic supplies. The decline in "oils and fats" products is in line with a softening price trend we are seeing in the global environment, as South Africa still imports its palm oil usage. For example, in June 2023, the FAO's vegetable oil price index was at 117 points, down 22% y/y.

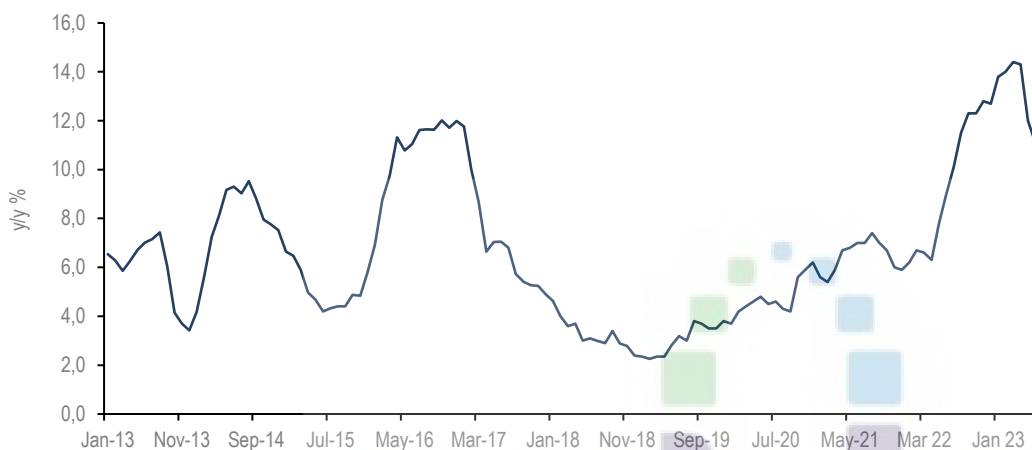
Admittedly, there are renewed risks on "bread and cereals" product prices. With South Africa importing a million tonnes of rice and similarly exposed to wheat imports, the disruption in trade of these commodities and the length of it could have implications on global price and, ultimately, South Africa's "bread and cereals" component of the food inflation basket.

Still, we should not be alarmed; what is essential to monitor is the extent of price changes and their duration. So far, we have seen notable gains in international and domestic maize and wheat prices. Whether these price gains are sustained will depend on the Black Sea Grain Deal developments and India's rice exports. Importantly, there is roughly a lag between three to five months between the price changes at farm and retail levels. Hence, we expect the prices of grain-related products in the inflation basket to maintain a softening path regardless of the recent disruption in grain prices.

Beyond the global dynamics, South Africa has a favourable agricultural season. For example, the 2022/23 maize harvest is estimated at 16,4 million, 6% higher than the 2021/22 season's harvest and the second-largest harvest on record. Soybeans harvest could reach a record 2,8 million tonnes. Be that as it may, the prices of these products are influenced by global

developments as we are an open economy interlinked to the world markets. Other field crops and fruits also show prospects for decent harvest this season. These increased supplies support the slowing food inflation view we expressed, along with the global agricultural prices, which had declined notably in months before the termination of the Black Sea Grain Deal and a ban on India's rice exports, whose impact is yet to transpire fully. For example, the FAO global food price index, which measures price changes of international agricultural prices, averaged 122.3 points in June 2023, down by 23% from its peak in March 2022. It will be useful to monitor this index's July 2023 reading.

Exhibit 3: South Africa's consumer inflation food price



Source: Statistics South Africa 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**. Over the past few weeks, the US crops were strained by excessive heat. For example, on July 16, only 55% of the planted maize crop was rated good/excellent, down significantly from the 64% rating in the same week in 2022. In addition, about 55% of the soybean crop was rated good/excellent, also down significantly from the 61% 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 July 21, 2023. In the previous release on July 14, South Africa's 2023/24 maize producer deliveries were about 1,2 million tonnes. This placed the 2023/24 deliveries at 10,7 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 July 14, 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 668 999 tonnes out of the expected harvest of 758 610 tonnes.

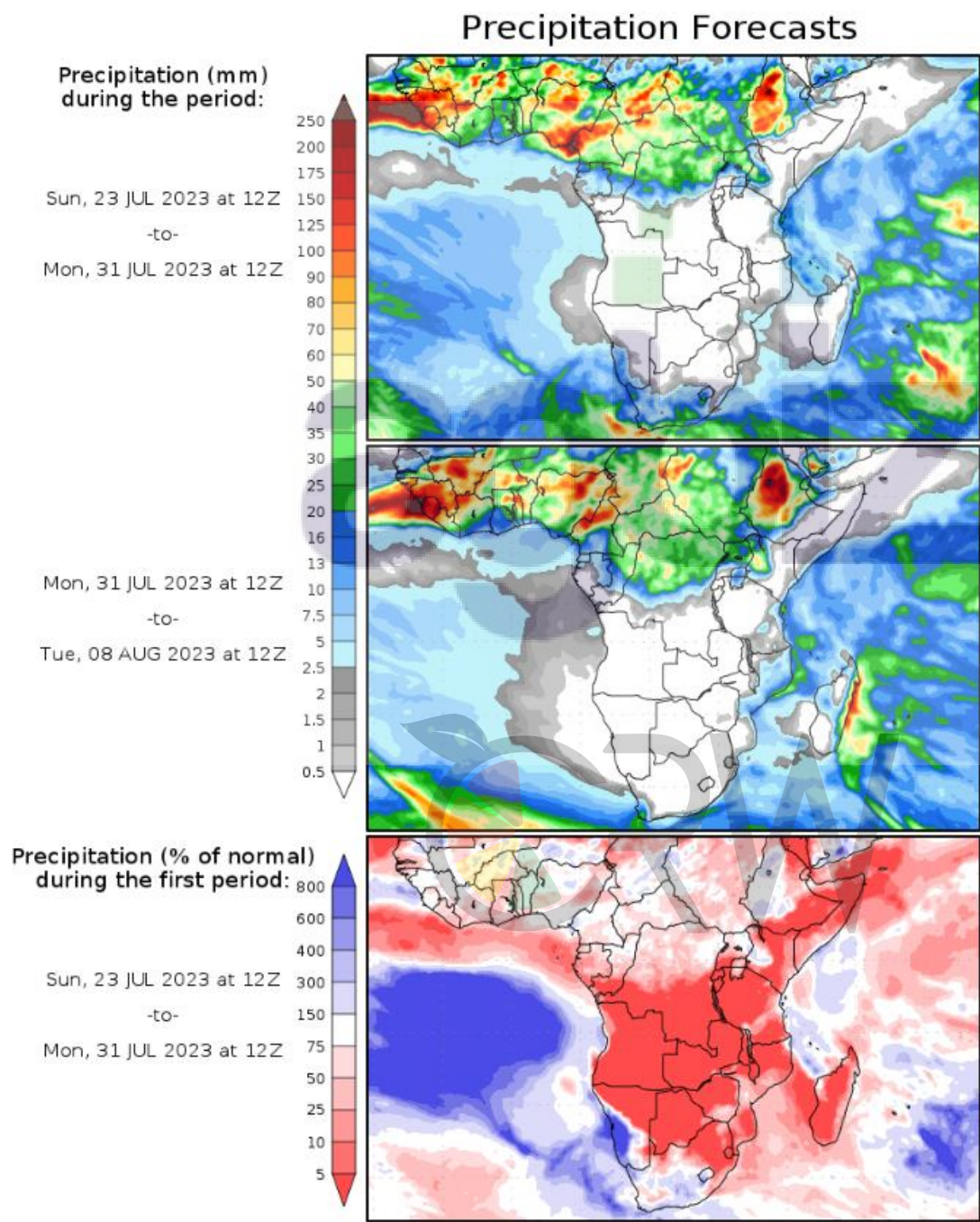
Also, the Crop Estimates Committee will release the **sixth production forecast for summer field crops** on Wednesday. We will also have the **2023/24 winter crop planting data** on the same day, which will likely be a primary focus for most analysts.

On Thursday, SAGIS will publish its **weekly South Africa's Grains and Oilseeds Trade data** for July 21. In the previous release on July 14, the 11th week of the 2023/24 marketing year,

South Africa exported 127 718 tonnes of maize. Of this volume, about 62% was exported to South Korea, 19% to Taiwan, 10% to Japan, and the balance to the neighbouring countries. This placed South Africa's 2023/24 maize exports at 977 974 tonnes out of the seasonal export forecast of 3,0 million tonnes.

South Africa is a net wheat importer, and July 14 was the 41st week of the 2022/23 marketing year, with a weekly import volume of 36 449 tonnes from Poland. This placed South Africa's 2022/23 wheat imports at 1,13 million tonnes. The seasonal import forecast is 1,6 million tonnes, roughly unchanged from the previous season.

Exhibit 4: South Africa's precipitation forecast



The weather forecast for the week shows clear skies over the northern regions of South Africa, which supports the summer crop harvest activity that is currently underway.

Meanwhile, the southern regions may region light showers, which could be beneficial to winter crops.

Source: George Mason University (wxmaps)