

14 August 2023

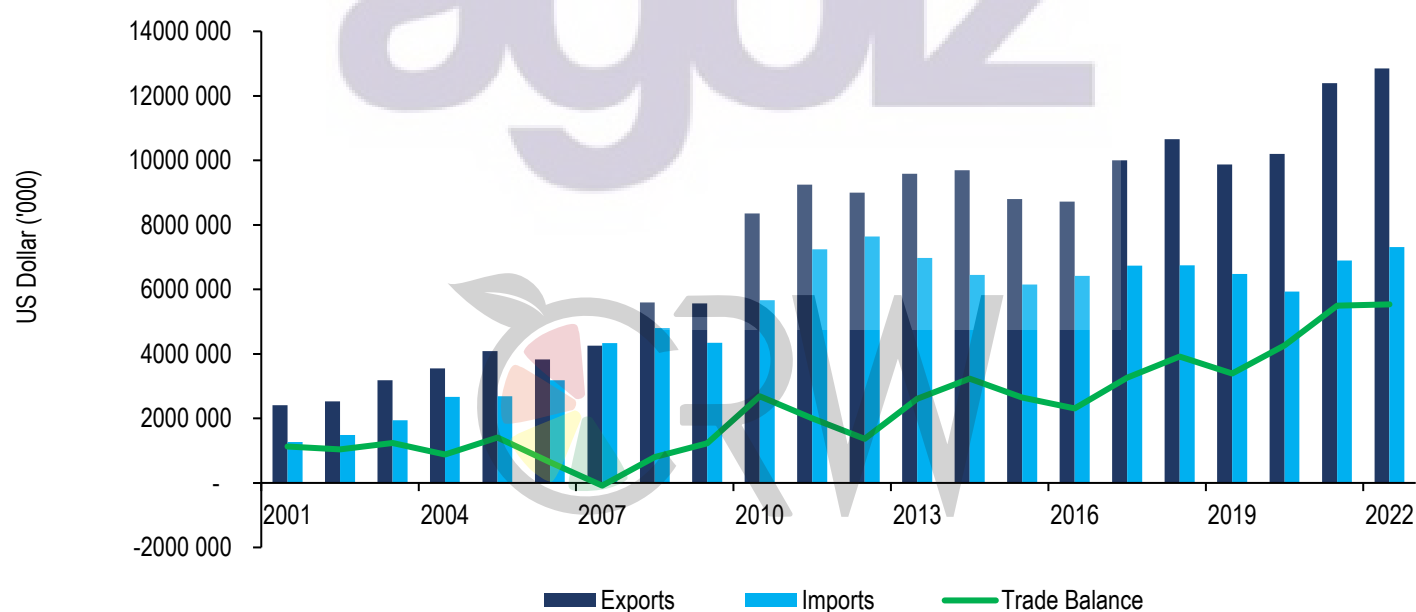
SA's agricultural exports may soften this year from the record US\$12,8bn in 2022

- South Africa's agricultural export earnings will likely soften this year from the 2022 record. The lower commodity prices, ongoing restrictions to exports of some livestock products because of the foot-and-mouth disease and the stringent regulations of the citrus black spot disease in the EU market are among some of the factors likely to result in lower export earnings. While SA's agricultural exports have remained relatively solid in the first few months of the year, we are expecting the effects of these challenges to be more evident in the second half. South Africa's agricultural exports for the first five months of this year were still robust, amounting to US\$5,06bn, roughly unchanged from the corresponding period in 2022.
- The export destinations remained the same as the previous years, with the African continent as a leading market, followed by the EU and selected Asian and Middle-East markets. Outside these regions, the US was also a prominent export market. With the citrus industry and nuts benefiting from AGOA in the US market, its continuation is vital for these industries. In terms of products, citrus, maize, apples and pears, soybeans, wine, wool, sugar, flour meals, fruit juices, and various nuts were the leading products in the exports.
- The citrus challenges in the EU are not new. In the 2022 export season, South Africa experienced another challenge in that market, where the EU proposed changes to its plant safety regulations for citrus without notifying its trading partners within a reasonable time. These changes purported to protect the EU from a quarantine organism, the false codling moth, by introducing stringent new cold treatment requirements, particularly on citrus imports from Africa, mainly impacting South Africa, Zimbabwe and the Kingdom of Eswatini. But South Africa had already put rigorous measures to control false codling moth. As such, we viewed this as a measure to protect the EU's citrus-growing countries like Spain.
- The engagements on this issue between South Africa and the EU are ongoing, and the citrus black spot disease issue adds to this challenging environment. The appropriate channel for resolving the matter is through the continuous engagement of the South African government with the EU authorities. From a South African perspective, the EU is a crucial export market for the citrus industry. A speedy resolution of these matters and clarity for long-term rules is important beyond the near-term dissatisfactions on both sides.
- Regarding foot-and-mouth, the livestock industry continues to struggle with the tail-end challenges of last year's outbreaks. As we stated in a previous note, the South African government, organized agriculture, and industry bodies should closely work together to address biosecurity challenges in the

country. Notably, the government must assist at such times to ensure the sustainability of farming businesses and jobs in rural South Africa. Fortunately, this year, wool exports have not been interrupted, as was the case in 2022 when China temporarily banned wool from South Africa because of fears of foot-and-mouth disease. Hence, wool was amongst South Africa's top ten agricultural export products in the first five months of this year.

- Beyond these industry challenges, another constant matter worth continuous engagement is the effectiveness of the ports. This year is arguably better than last year regarding delays the agricultural sector faces. The ongoing engagements between Transnet and the industry help ensure effective communication and that glitches in logistics are resolved quickly. Still, more work is needed to improve the logistics and, by extension, lower the cost of exporting. There is no alternative for South Africa's agriculture, as the sector is export-oriented, and therefore efficient logistics are necessary for the sustainability of farming businesses.
- South Africa's agricultural sector will remain a net exporter in 2023. But the value may not be as robust as in 2022 when the sector reached a record US\$12,8bn. At the time, the increase in the volume and value of exports was the key driver. This stemmed from a good agricultural season and higher global prices. We have yet another good agricultural season this year, but commodity prices have, on average, declined by roughly 11% from a year ago. Moreover, the biosecurity challenges and ongoing constraints in key fruit export markets such as the EU remain a constant worry.

Exhibit I: South Africa's agricultural exports



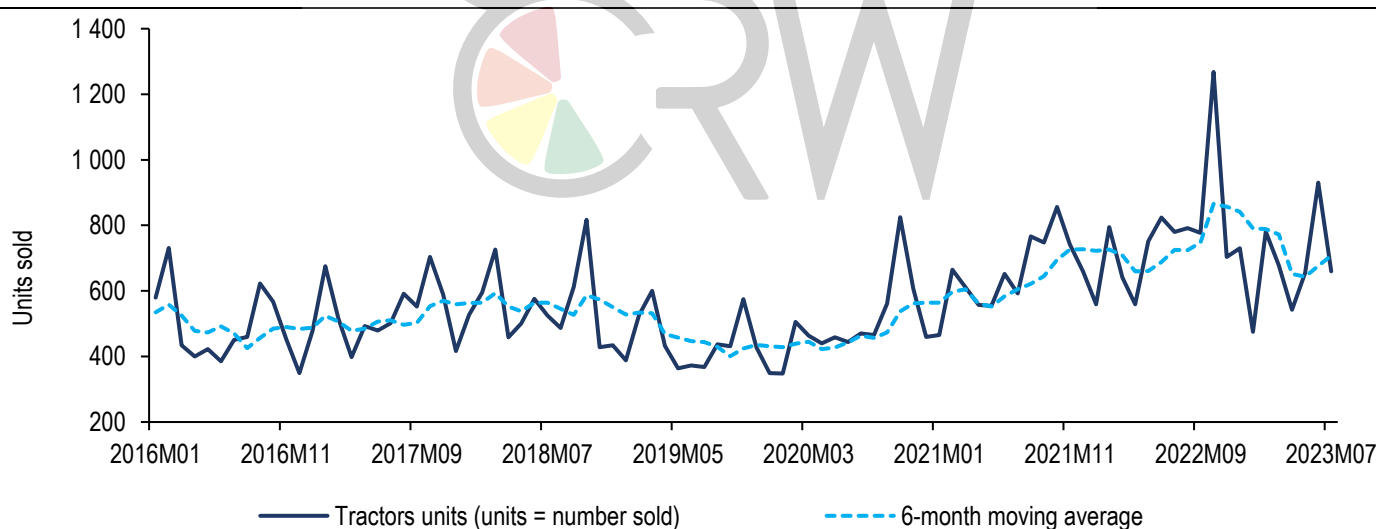
Source: Trade Map and Agbiz Research

WEEKLY HIGHLIGHT

SA's agricultural machinery sales declined in July 2023

- South Africa's relatively more robust agricultural machinery sales of the first half of this year are a tail-end benefit of the past season when large harvests and higher commodity prices boosted grain farmers' finances. Thus, we suspect that the delivery delays of the orders of the past months boosted the sales report for recent months.
- July 2023 tractor sales were the sharpest annual decline this year, down 15,4% y/y, with 660 units. The combine harvester sales were down by 11% y/y, with 32 units sold. Still, one will have to watch the sales of the next few months to understand whether we are now on a downturn in machinery sales or there will still be a continuation of the past few months delayed orders.
- Our baseline view is that South African farmers have probably slowed agricultural machinery purchases for several reasons. First, 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 13% y/y. This softening of commodity prices has reduced farmers' profits somewhat.
- Second, agricultural machinery sales have been robust in the past few years, so the replacement rate will be reasonably low for the next season. Third, as we approach the 2023/24 summer crop production season, which starts in October, the farmers' focus will be the input costs. Although various input cost 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 in an environment where commodity prices have declined slightly. Lastly, the higher interest rates also continue to pressure farmers' finances, thus adding to our downbeat view that agricultural machinery sales will likely continue to decline in the coming months.

Exhibit 2: South Africa's tractor sales



Source: South African Agricultural Machinery Association and Agbiz Research

WEEK AHEAD

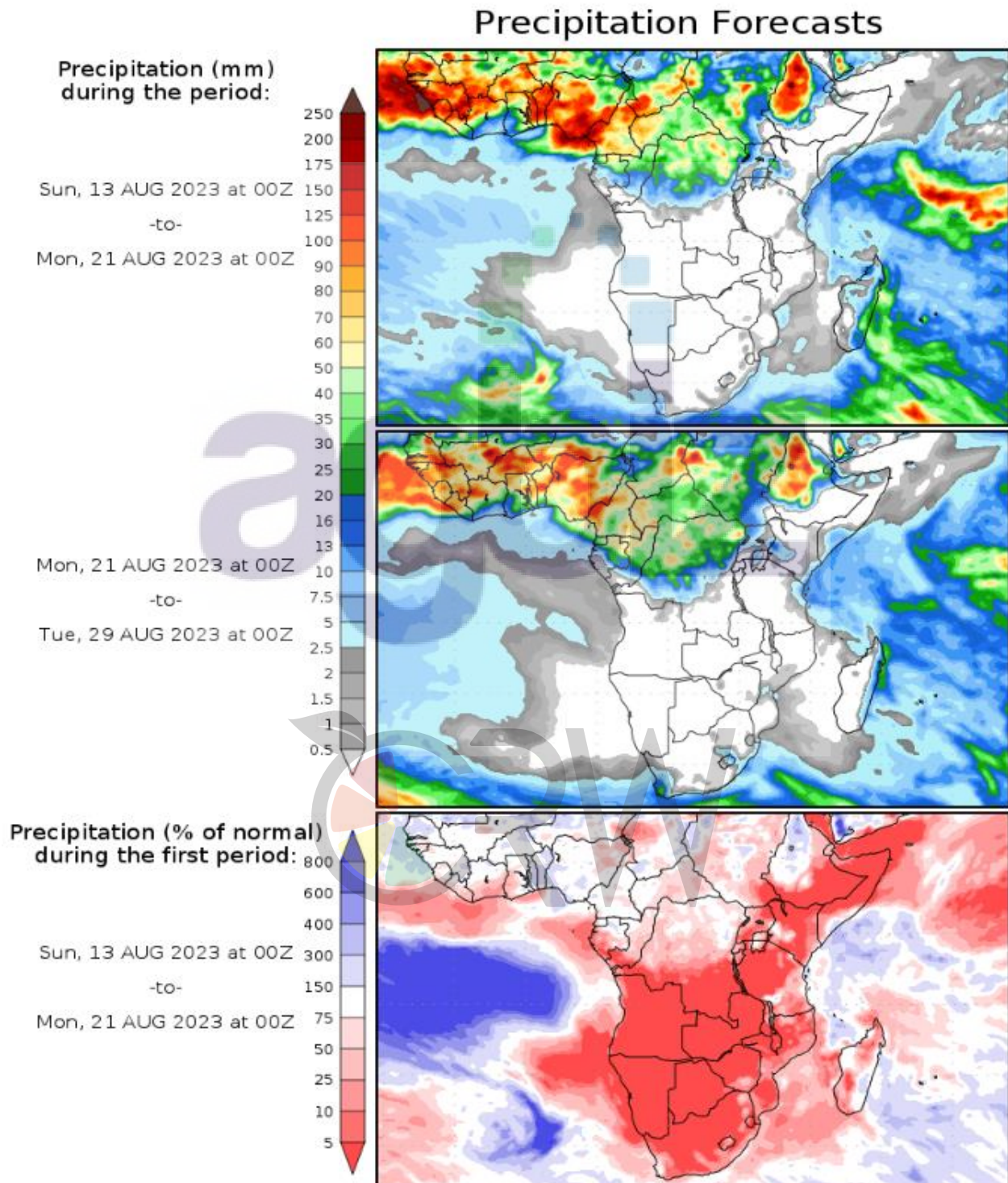
What we are watching this week

- As always, we start the week with a global focus, and today, the USDA will release its weekly update of the **US Crop Progress Report**. The US crops experienced excessive heat these past few weeks, negatively affecting the crop in some regions. Still, the harvest forecasts remain encouraging, as we witnessed from the recent WASDE report (released last week), which still signals are reasonably large harvest. Regarding the crop conditions, on 06 August, about 57% of the planted maize crop was rated good/excellent, slightly down from 58% in the same week in 2022. In addition, about 54% of the soybean crop was rated good/excellent, also slightly significantly from the 59% rating in the same week in July 2022. The USDA will release its weekly **US Grains and Oilseeds Exports** data on Thursday.
- On the domestic front, Statistics South Africa will release the **Quarterly Labour Force Survey** data for the second quarter of 2023 on Tuesday. In the first quarter of 2023, about 888 000 people were employed in primary agriculture, up 3% q/q and 5% y/y. This is well above the long-term agricultural employment of 780 000.
- On Wednesday, SAGIS will release its weekly **South Africa Grains and Oilseeds Producer Deliveries** data for 11 August. In the previous release on 04 August, South Africa's 2023/24 maize producer deliveries were about 473 644 tonnes. This placed the 2023/24 deliveries at 12,9 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 04 August, 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 706 075 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 04 August. In the previous release on 04 August, the 14th week of the 2023/24 marketing year, South Africa exported 110 815 tonnes of maize. Of this volume, about 59% was exported to South Korea, 29% to Taiwan, 4% to Kenya, and the balance to the neighbouring countries. This placed South Africa's 2023/24 maize exports at 1,4 million tonnes out of the seasonal export forecast of 3,0 million tonnes.
- South Africa is a net wheat importer, and 04 August was the 44th week of the 2022/23 marketing year, with a weekly import volume of 14 563 tonnes from Poland. This placed South Africa's 2022/23 wheat imports at 1,2 million tonnes. The seasonal import forecast is 1,6 million tonnes, roughly unchanged from the previous season.

South Africa's Precipitation forecast

- As with the previous week, there are clear skies over South Africa, which benefits the summer crop harvest process at the final stages in some areas of the country. The Western Cape received higher rainfall these past few weeks. Thus, the clearer skies continue to provide a much-needed breather.

Exhibit 3: South Africa's precipitation forecast



Source: George Mason University (wxmaps)