

SA agricultural exports remained robust in Q2, 2023

- South Africa's agricultural exports amounted to US\$3.4 billion in the second quarter of this year, up by 0,1% y/y (According to data from Trade Map). Despite challenges in key export markets such as the EU in the case of citrus, the products that dominated the export list this quarter were citrus, maize, apples and pears, wine, sugar, soybeans, wool, avocados, pineapples, fruit juices, nuts, and grapes. Importantly, this good export performance was not only a function of price but also improved volumes. The prices of some agricultural products have declined notably from the 2022 levels.
- The improvement in agricultural exports also partly demonstrates the results of continued collaboration between the industry and Transnet to improve the logistics at the ports. However, more work is needed to improve the efficiencies. The South African agricultural industry has established forums to continuously engage with Transnet and enhance communication about problems at the ports so that the response could be swift to drive the exports of high-value and perishable products.
- From a regional perspective, the African continent remained the largest market for South Africa's agricultural exports, accounting for 36% of the exports in the second quarter of 2023. Asia and the Middle East were the second largest region, with a 30% share. The EU was the third largest region, accounting for 18% of the agricultural exports, with the Americas region at 6%. The UK remained one of the largest single markets for South Africa's agricultural exports, accounting for 7% of the exports in the second quarter. The remaining 3% was spread to other various regions of the world.
- Regarding imports, South Africa's agricultural imports fell by 6% y/y in the second quarter of this year to US\$1,8 billion (This is according to data from Trade Map). The products that still dominate the import list are rice, wheat, palm oil, whiskeys, and poultry. The whiskeys, wheat and poultry products were the main drivers of the decline in the value of imports in the first half of the year. Overall, South Africa had an agricultural trade surplus of US\$1,6 billion in the first half of 2023, up 9% y/y.

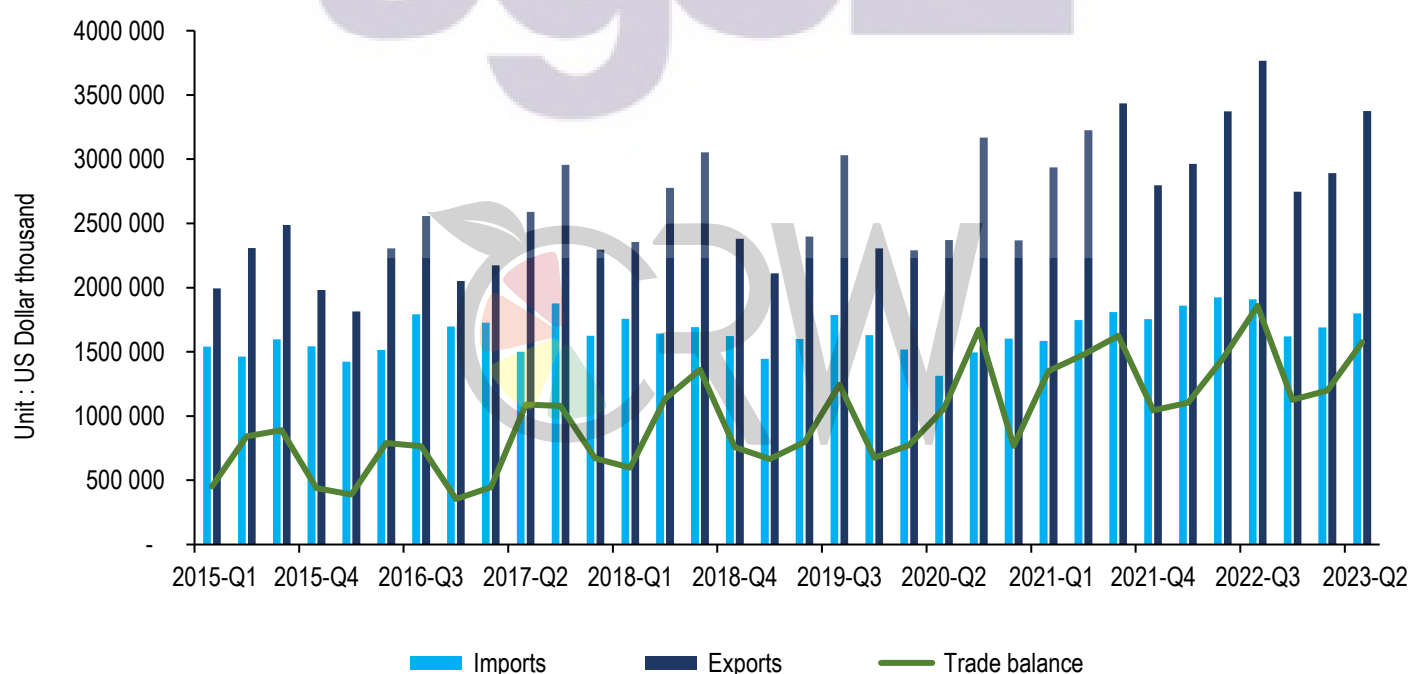
Looking ahead

- While South Africa's agricultural exports in the first half of the year have been encouraging, we think export earnings will likely soften this year from the 2022 record. The lower commodity prices and the stringent regulations of the citrus black spot disease in the EU market are among the factors likely to result in lower export earnings. We expect the effects of these challenges to be more evident in the second half.
- As we stated recently in one of our notes, 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. 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.
- Beyond these near-term challenges, South Africa is on an export market expansion mission for the agricultural sector. This means there is a need to work hard to retain the existing markets in the EU, African continent, Asia, Middle East, and the Americas. Notably, South Africa should expand market access to some of the key BRICS+ countries, such as China, India, and Saudi Arabia. Other strategic export markets for South Africa's agricultural sector include South Korea, Japan, Vietnam, Taiwan, Mexico, the Philippines and Bangladesh. This export market expansion ambition is shared by both the private sector and the South African government. The Department of Trade, Industry and Competition and the Department of Agriculture, Land Reform and Rural Development should lead the way for export expansion in these agricultural strategic markets.

Exhibit I: South Africa's agricultural exports



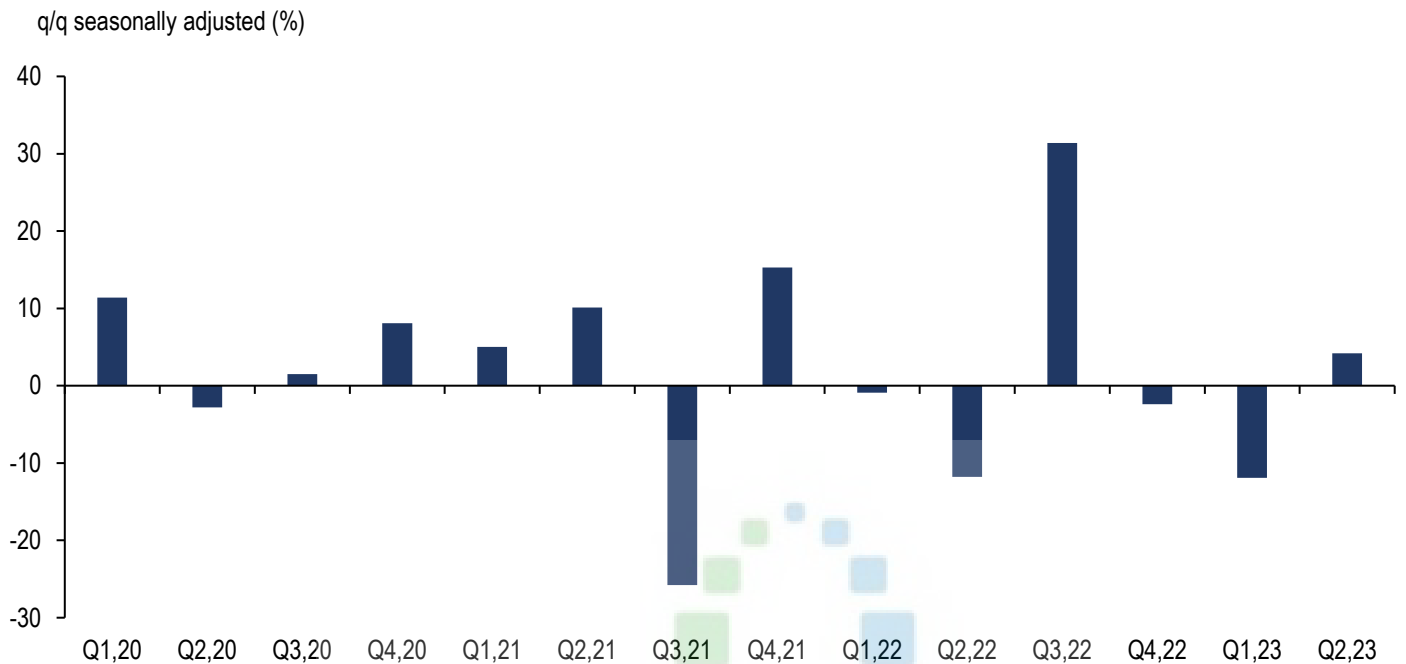
Source: Trade Map and Agbiz Research

WEEKLY HIGHLIGHT

South Africa's agricultural gross value added improved in Q2, 2023

- After a sharp contraction of -11,9% quarter-on-quarter (seasonally adjusted) in the first quarter of 2023, South Africa's agricultural gross value added grew by 4,2% in the second quarter. This improvement is based on the robust production conditions of various field crops and horticulture, which weren't reflected in the first quarter data because of a delayed start to the 2022/23 production season and the base effects.
- Also worth noting is that persistent load shedding threatened agricultural production at the start of the season. Still, the various interventions to ease the load-shedding burden on farmers, such as load curtailment, expansion of the diesel rebate to the food value chain, and private sector investment in alternative energy sources, all supported the production conditions. Notably, the rainy summer season also cushioned field crops and horticulture from the adverse effects of load-shedding. Although arguably small, the recently launched Agro-Energy Fund is also valuable in assisting the sector to install alternative energy sources in the future.
- Hence, 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. Soybean harvest could reach a record 2,8 million tonnes. South Africa's sugar cane crop will likely increase by 3% to 18,5 million tonnes in 2023/24. Other field crops and fruits also show prospects for decent harvest this season.
- 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). There will likely be a solid rebound in the year's third quarter. The delayed harvest will probably be reflected in the data for the third quarter.
- Aside from the quarterly growth figures, the sector's key challenges are rising geopolitical tensions, deteriorating infrastructure, weakening municipalities, crime, and energy supply, which all influence farm profitability. The South African government, collectively with the private sector, should address these issues to support long-term in the sector.
- Also crucial for the outlook of the agricultural sector is highlighting that El Nino's forecast in the upcoming 2023/24 summer season is another aspect to keep an eye on, although we remain optimistic that it will have a mild impact on the sector and thus keep production at decent levels and, by extension, sustain growth.
- Notably, the early start of the 2023/24 production season could be reasonably favourable. On August 28, 2023, the South African Weather Service stated that "the multi-model rainfall forecast indicates above-normal rainfall for most of the country during mid-spring (Sep-Oct-Nov) and late-spring (Oct-Nov-Dec). The early summer (Nov-Dec-Jan), however, indicates below-normal rainfall over the central parts of the country and above-normal rainfall for the northeast."

Exhibit 2: South Africa's consumer food inflation



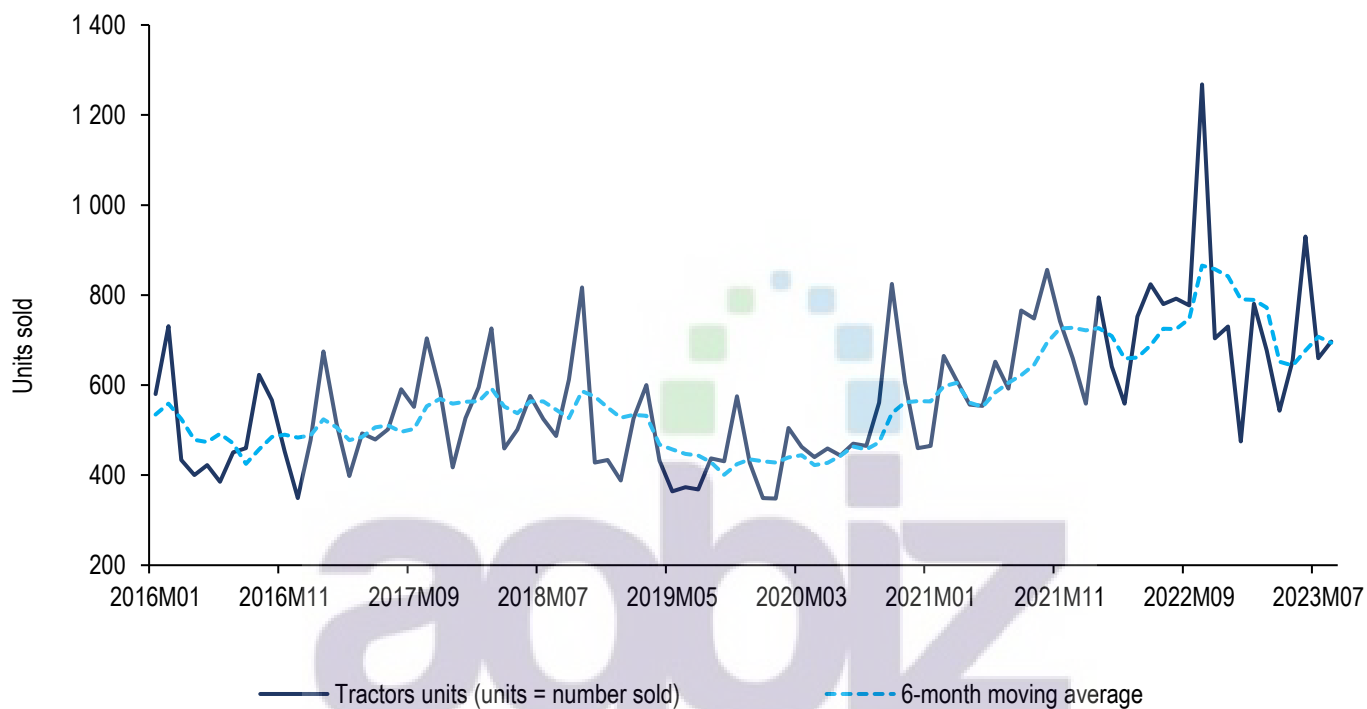
Source: Stats SA and Agbiz Research

SA agricultural machinery sales were down in August 2023

- We are now convinced that the relatively more robust agricultural machinery sales of the first half of this year were primarily a tail-end benefit of the past season when large harvests and higher commodity prices boosted grain farmers' finances. The delivery delays of the orders raised the sales figures for the first half of the year. Over the medium term, the sales will likely remain subdued despite the current 2022/23 solid grain harvest.
- The recent sales already paint this possible path. For example, South Africa's August 2023 tractor sales were down (-12% y/y), with 694 units sold. This follows the sharpest annual decline for the year in July (-15,4% y/y). At the same time, the combine harvester sales were flat from August 2022, with 24 units sold. This also comes after a notable decline in July 2023 sales (-11% y/y).
- While making a call in a few months' data is not always advisable, our baseline view is that South African farmers have probably slowed agricultural machinery purchases. Although we have a large grain and oilseed harvest, the prices of these commodities have declined by roughly 17% y/y, specifically maize. Moreover, agricultural machinery sales have been robust in the past few years; therefore, the replacement rate will be reasonably low.
- As we stated in recent comments, with the 2023/24 summer crop production season approaching, the farmers' focus is on 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 somewhat. Moreover, the higher interest rates continue to pressure farmers' finances, thus adding to our downbeat view of South Africa's agricultural machinery sales.

Exhibit 3: South Africa's Tractor Sales



Source: South African Agricultural Machinery Association and Agbiz Research



WEEK AHEAD

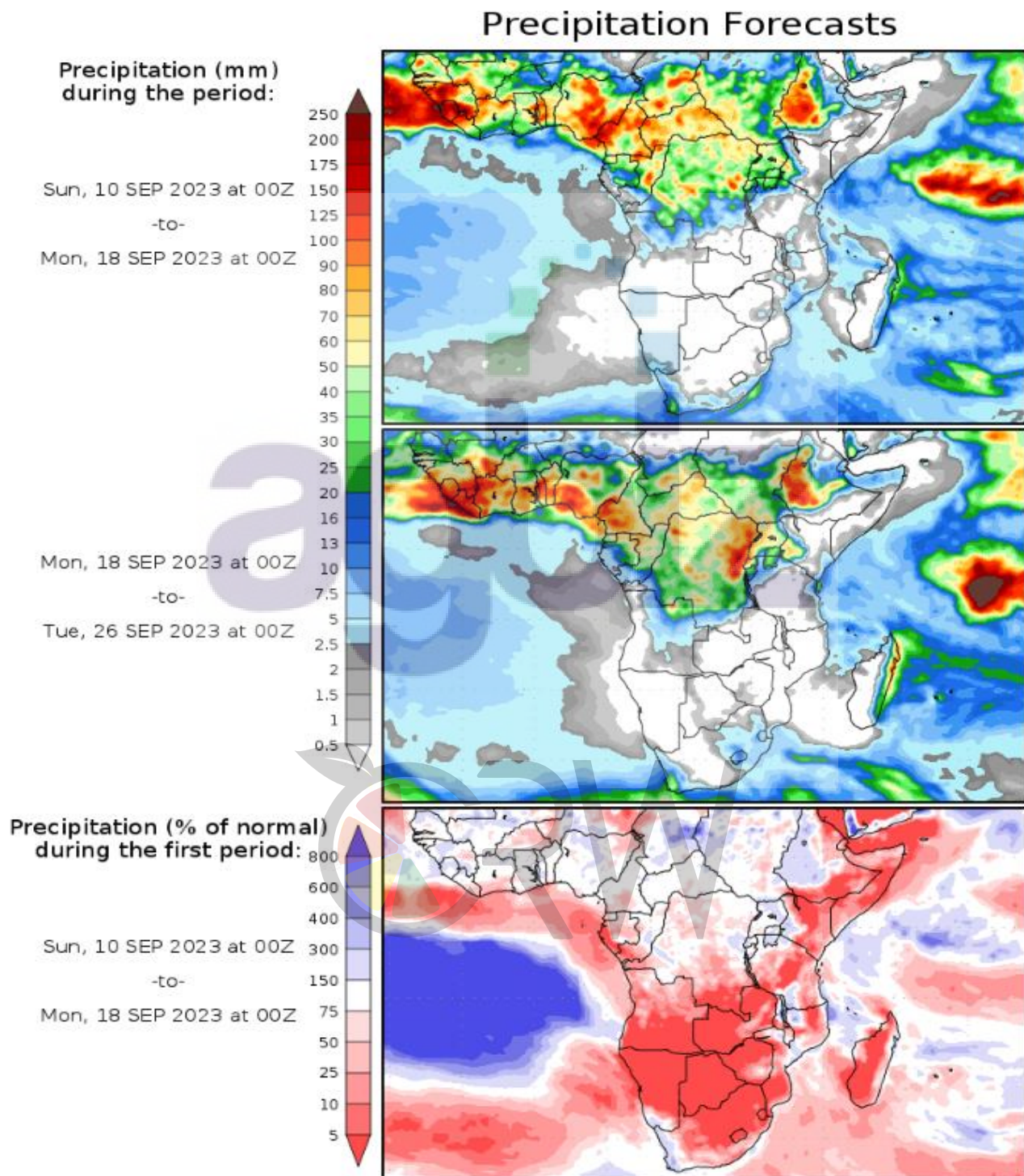
What we are watching this week

- 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 crop growing conditions have slightly deteriorated over the past week because of unfavourable weather conditions. On 03 September 2023, about 53% of the planted maize crop was rated good/excellent, below 54% in the same week in 2022. In addition, about 53% of the soybean crop was rated good/excellent, down from 57% in the same week in 2022. On Tuesday, the USDA will release the **World Agricultural Production** data. Moreover, 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 Grains and Oilseeds Producer Deliveries** data for 08 September 2023. In the previous release on 01 September, South Africa's 2023/24 maize producer deliveries were about 95 930 tonnes. This placed the 2023/24 deliveries at 13,9 million tonnes out of the expected harvest of 16,4 million.
- The soybean deliveries on 25 August were about 2,6 million tonnes of soybeans out of the expected crop of 2,8 million tonnes. On the same day, sunflower seed producer deliveries amounted to 713 621 tonnes out of the expected harvest of 743 610 tonnes.
- On Thursday, SAGIS will publish its weekly **South Africa's Grains and Oilseeds Trade** data for 08 September 2023. In the previous release on 01 September, the 18th week of the 2023/24 marketing year, South Africa exported 72 144 tonnes of maize. Of this volume, about 44% was exported to Taiwan, 34% to Japan, and the balance was to the neighbouring African countries. This placed South Africa's 2023/24 maize exports at 1,68 million tonnes out of the seasonal export forecast of 3,22 million tonnes.
- South Africa is a net wheat importer, and 01 September was the 48th week of the 2022/23 marketing year, with a weekly import volume of 69 352 tonnes from Australia, Lithuania, and Russia. This placed South Africa's 2022/23 wheat imports at 1,52 million tonnes. The seasonal import forecast is 1,60 million tonnes, roughly unchanged from the previous season.

South Africa's Precipitation forecast

- There are clear skies over most regions of South Africa this week, with prospects of light showers in the Western Cape, which is conducive for winter crops.

Exhibit 4: South Africa's precipitation forecast



Source: George Mason University (wxmaps)