

09 October 2023

A brief view of the current avian influenza and its likely food inflation effects

- The topical issue in South Africa's agriculture currently is the avian influenza spreading across South Africa. The most dominant strains are the highly pathogenic H5 and H7. The most affected provinces so far are Gauteng, Mpumalanga, Free State, Limpopo and North West. We understand that over a hundred mostly commercial facilities have reported avian influenza cases so far. Notably, there are reported losses in parental stock for breeders of layers and in broilers. For this reason, there are now constraints to egg supplies, as evident in various retail shelves across South Africa.
- Over the past week, we participated in two critical meetings addressing the immediate challenge. First, the Department of Agriculture, Land Reform and Rural Development (DALRRD) met with the retailers. The aim was to assess the severity of the egg supplies at the retail level and assess various response measures. Second, the DALRRD met with the poultry industry to receive an update on the spread of the disease and for the industry to obtain insights into the state's veterinary services.
- The significant steps following these engagements are the containment measures currently being implemented by industry and government to control the spread of the disease. This is an ongoing process and we will likely receive an update this week. Regarding the egg supply constraints, the stakeholders and government agreed on the assessment of the possibility of importing fertilized eggs to rebuild the parental stock lost from this disease and also to import table eggs (powder and liquid eggs that would help in the baking process and free the whole eggs for human consumption). These processes will take a few weeks because of the logistics around them and for individual businesses to make decisions without the government interfering with what strategies companies should follow. Therefore, in the near term, one can still expect supply constraints of eggs at the retail level to persist.
- Beyond these interventions, there are also discussions about possible vaccinations to curb the spread of the disease. We understand from various conversations with DALRRD colleagues that this issue is being considered, as well as protocols that will guide vaccination should these be agreed upon by industry and regulators. We suspect the regulators will be assessing the efficacy, quality and safety of such vaccines before providing a view on the path forward.
- Furthermore, Minister Patel in the Department of Trade, Industry, and Competition through the International Trade Administration Commission of South Africa (ITAC) and Minister Didiza of the Department of Agriculture, Land Reform and Rural Development are reviewing the possibility of a rebate for imports of poultry products. ITAC will communicate a view on this matter in the coming weeks. The intention is to have measures in place to increase poultry imports in case of domestic supply constraints and to avoid possible significant price pressures to consumers.

- Notably, such trade measures must be considered with an appreciation that the South African poultry industry has endured challenging years of higher feed costs (maize and soybeans), combined with intense load-shedding, which has increased production costs and constrained businesses. The current avian influenza is an additional challenge to an industry that has been under financial pressure for some time. Thus, any trade policy instrument will have to maintain a balance between consumer welfare and the sustainability of the domestic poultry industry.
- Regarding price pressures on consumers, there is anecdotal evidence of various retailers that have adjusted egg prices significantly to manage the demand. Such price adjustments in a short period have raised concerns about the possible impact of the current avian influenza on food inflation. What will matter a lot is the duration of these higher prices, which we doubt will persist for a long period if the interventions of imports and control of the spread of the disease we listed above are a success. The current increases could be a temporary blip, which will likely show on one-monthly inflation figures, and the trend would then continue to the expected path we were on before, which is deceleration or sideways. Also worth noting is that eggs have a lower weighting within the food inflation basket, at 0.4%, which means its impact may not be as pronounced in an overall inflation figure. Poultry products, which have a slightly higher weighting of 2.09%, have not increased at the retail level as significantly as eggs. Given that the poultry products supply is still relatively good and there are various trade measures under consideration, there should not be supply constraints over the foreseeable future.
- Ultimately, this is a challenging time for the South African poultry sector, and the exact financial impact of these dominant, highly pathogenic strains -- H5 and H7 -- will be evident over the coming weeks. The consumers will continue to see a constrained supply of eggs in the near term. Still, we suspect the various interventions under evaluation will make a positive impact and that the current price levels of eggs at multiple retailers will not be for the long term and could adjust downwards as the supplies become more available.



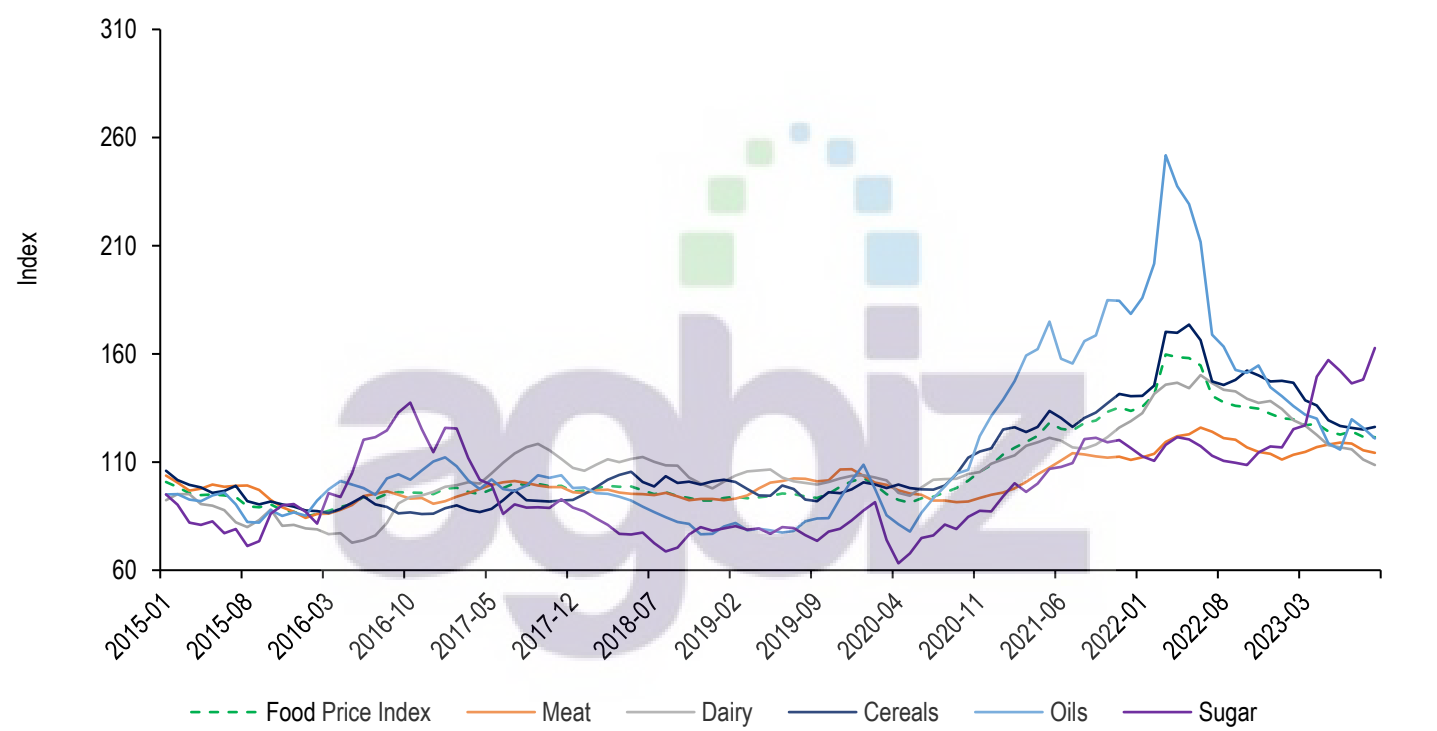
WEEKLY HIGHLIGHT

Global Food Price Index roughly unchanged from the previous month in September 2023

- Last week, the Food and Agriculture Organization of the United Nations (FAO) released its monthly Food Price Index for September 2023, averaging 121.5 points. The Index primarily measures the monthly change in international prices of a basket of agricultural commodities. The current price level is roughly unchanged from August 2023. The declines in the price indices of vegetable oils, dairy and meat offset increases in the sugar and grains price indices. Favourably, the Index is 11% below its corresponding period in 2022 and 24% below the all-time high reached in March 2022 following the invasion of Ukraine by Russia.
- If we focus on grains, the major upside driver of prices, according to the FAO, is "a confluence of factors, including strong demand for Brazil's supplies, slower farmer selling in Argentina and increased barge freight rates due to low water levels on the Mississippi River in the United States of America." In addition to these factors, the lingering concerns about rice exports after India banned non-basmati rice exports on July 20 remain a potential upside risk to grain prices. After the news of the rice export ban, we saw cases of panic buying (in the United States and Canada), additional export restrictions (such as export licensing requirements in Myanmar), and price controls (retailers in the Philippines), which further adds upside risk to prices.
- While these restrictions are worrying, it's worth highlighting that there are generally sizeable global rice supplies in the world market. Thus, we were disappointed by India's actions and the resultant steps by other countries. For example, in September 2023, the United States Department of Agriculture (USDA) estimated the 2023/23 global rice harvest at 518 million tonnes. This is up by 1% from the previous season. Vietnam, Thailand, the US, Pakistan, China, Indonesia, Bangladesh, the Philippines, and Brazil are the key drivers of this increase in the global rice harvest. Because of the solid consumption, the global stocks could decline somewhat from the previous season to about 168 million tonnes. With such supplies, one wouldn't have expected the export restrictions.
- As we stated a few weeks ago, South Africa is one of the rice-importing countries, the world's eleventh-largest rice importer, with a typical import volume of about a million tonnes a calendar year. The International Grains Council forecasts South Africa's rice imports at 1.1 million in 2023 and a similar volume for the next year.
- Roughly 90% of the imported rice is for the domestic market, and the balance is typically exported to neighbouring countries. Thailand is the leading rice supplier to South Africa, accounting, on average, for 74% of South Africa's rice import volume a year in the past five years. India is the second largest rice supplier to South Africa, boasting an average annual share of 21% over the past five years. Other rice suppliers to South Africa include Pakistan, Vietnam, China, Australia, the US, and Brazil. Thus, we continue to pay closer attention to the global rice dynamics and potential impact on prices.

- Regarding sugar price increases, the FAO states that they "stemmed from increasing concerns over a tighter global supply outlook in the upcoming 2023/24 season. This mainly reflects early forecasts pointing to production declines in key sugar producers, Thailand and India, due to drier-than-normal weather conditions associated with the prevailing El Niño event."
- Overall, the broad global agricultural prices are roughly sideways, which is a positive development that bodes well for domestic food prices. The one aspect that one should keep an eye on for the near term is rice, and wheat prices on the back of continuous Black Sea war and trade disruptions following Russia's non-renewal of the Black Sea Grain Deal.

Exhibit I: Global Food Price Index



Source: FAO and Agbiz Research

WEEK AHEAD

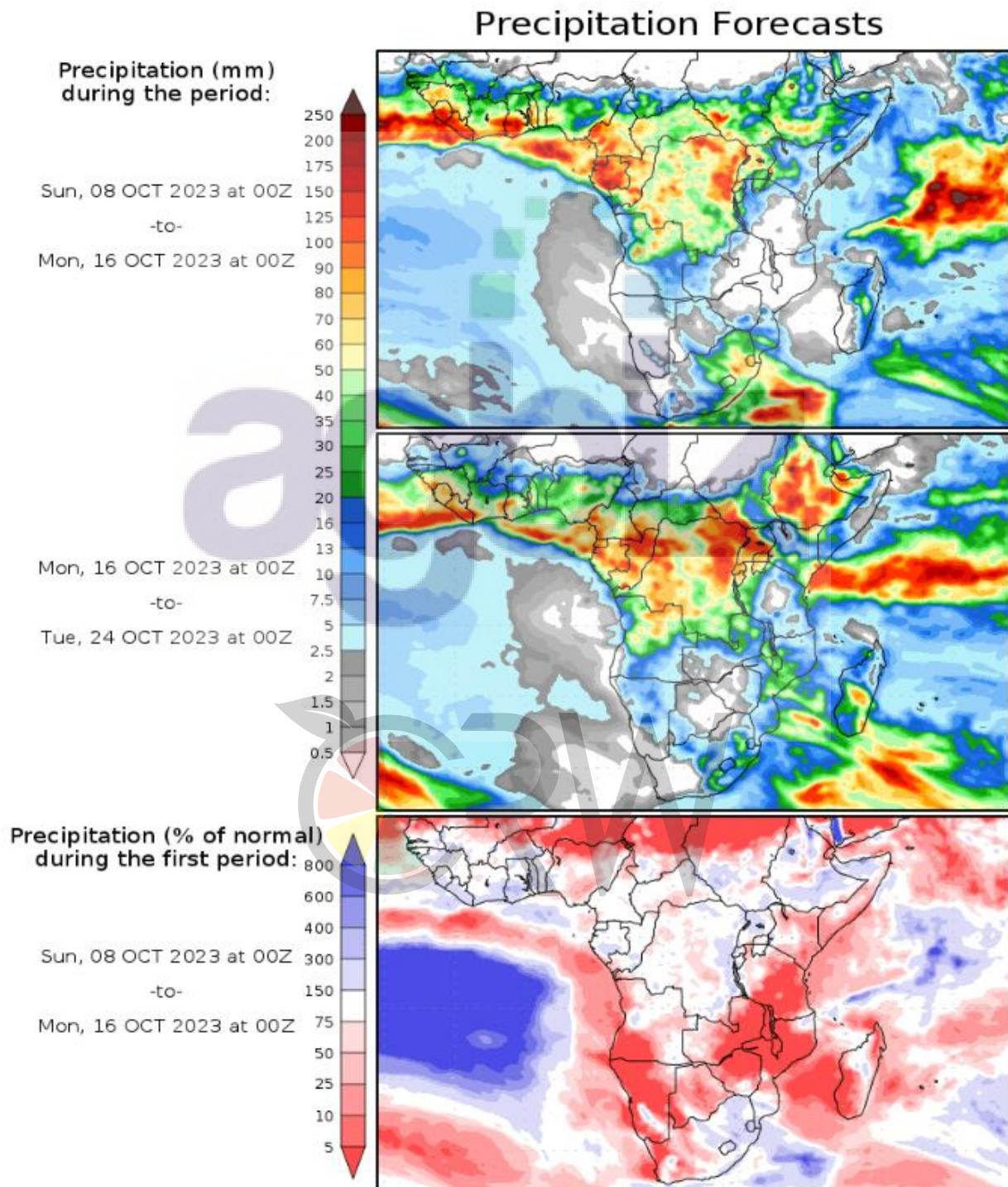
What we are watching this week

- As always, we start the week with a global focus, and on Tuesday, the United States Department of Agriculture (USDA) will release its weekly update of the **US Crop Progress Report**. The harvest of maize and soybeans is underway in some States that were planted earlier in the season. Regarding crop conditions, on October 01, about 53% of the planted maize crop was rated good/excellent, slightly above 52% in the same week in 2022. In addition, about 52% of the soybean crop was rated good/excellent, down from 55% in the same week in 2022. Moreover, USDA will release the **Grains and Oilseeds World Trade** data on Thursday. The USDA will also release its weekly **US Grains and Oilseeds Exports** data on Friday.
- On the domestic front, on Wednesday, SAGIS will release its weekly **South Africa's Grains and Oilseeds Producer Deliveries** data for October 06. In the previous release on September 29, South Africa's 2023/24 maize producer deliveries were about 51 460 tonnes. This placed the 2023/24 deliveries at 14,2 million tonnes out of the expected harvest of 16,4 million.
- On September 29, the soybean deliveries were about 2,7 million tonnes of soybeans out of the expected crop of 2,8 million tonnes. On the same day, sunflower seed producer deliveries amounted to 710 903 tonnes out of the expected harvest of 729 110 tonnes.
- On Thursday, SAGIS will publish its weekly **South Africa's Grains and Oilseeds Trade** data for October 06 2023. In the previous release on September 29, the 22nd week of the 2023/24 marketing year, South Africa exported 20 634 tonnes of maize. Of this volume, all were exported to the neighbouring African countries. This placed South Africa's 2023/24 maize exports at 1,89 million tonnes out of the seasonal export forecast of 3,33 million.
- South Africa is a net wheat importer, and September 29 was the 52nd week of the 2022/23 marketing year, with a weekly import volume of 13 264 tonnes from Poland. This placed South Africa's 2022/23 wheat imports at 1,69 million tonnes, roughly in line with our seasonal import forecast of 1,70 million tonnes. From next week, our focus will shift to the new marketing year of 2023/24.

South Africa's Precipitation forecast

- After a week of reasonably warm weather across South Africa, this week could bring showers across the summer crop-growing areas of the country. This is favourable for the upcoming 2023/24 production season. The rain will help improve soil moisture and support the planting process. The Western Cape could see warm weather, which is much needed after the recent floods.

Exhibit 2: South Africa's precipitation forecast



Source: George Mason University (wxmaps)