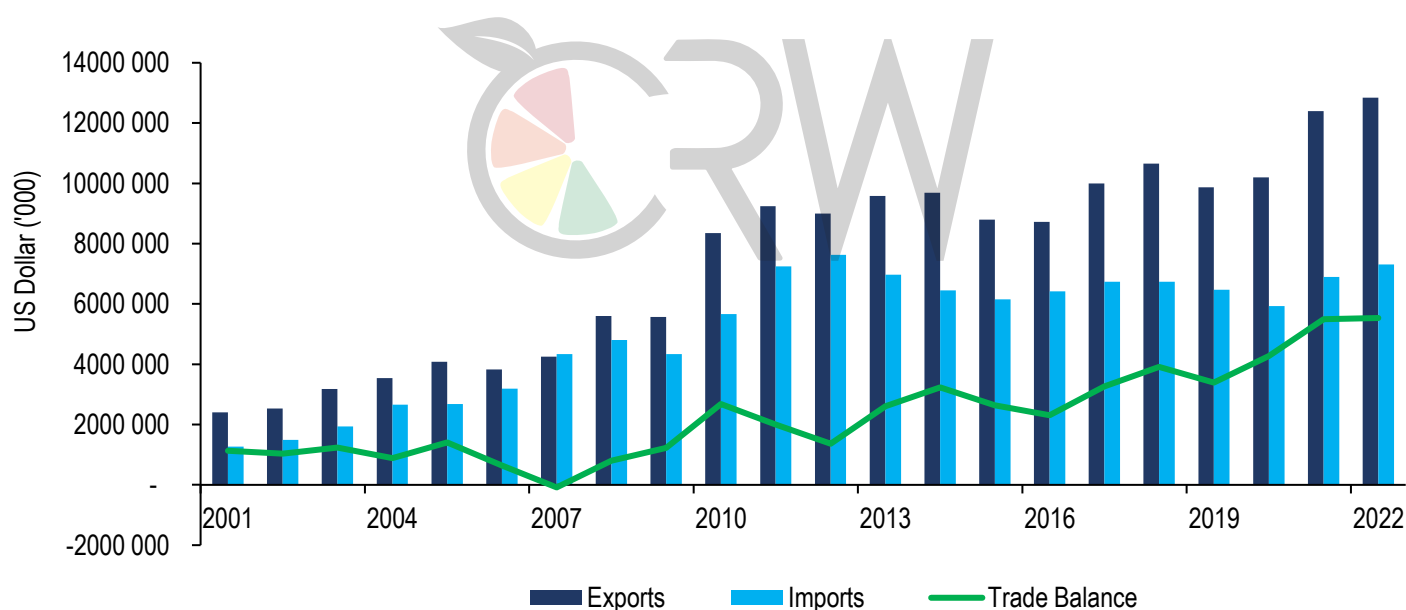


Trade is the lifeblood of SA's agricultural growth

- International trade is at the heart of South Africa's agricultural success. For this reason, any disruptive legislative and logistical constraints to exports are set to constrain the sector's growth and, as such, a deep cause for concern. Equally, the differences in the interpretation of various export-related legislation by industry leaders versus regulators could have adverse effects on the sector or dent sentiment. Therefore, it is critical that the meaning and intent of regulation and policy be clearly articulated and communicated in a way that is commonly understood.
- A case in point was the [weekend papers](#) that misinterpreted the export legislation in the E.U. market and, thus caused panic in the sector. The regulations outlined a procedure for exports from SACU and Mozambique to the E.U. and the U.K., respectively, to take advantage of preferential Tariff Rate Quotas (TRQs) for certain agricultural and agro-processed products contained in an annexure to the agreement. However, they were reported as though they are new stringent BEE regulations for exports.
- The reality is that these requirements are not new and mirror the previous years' requirements. There is no new BEE threshold or level that an applicant must reach to be awarded an export permit.
- The critical nature of trade in South Africa's agricultural sector is evident from the fact that the sector has more than doubled since 1994, in both value and volume terms. Admittedly, trade wasn't the only catalyst for growth. The improvement in seed varieties, genetics and farming techniques have been a key role in the success of improving farm productivity. But equally important is the expansion of the export markets that enabled and sustained growth of the South African farming sector, ensuring that output derived from productivity gains has a wider reach to a range of export markets.
- As highlighted in the past, in 2022, South Africa's agricultural exports reached a record US\$12.8 billion, up 4% from the previous year. This considerable success in a year of logistical challenges is commendable. The relatively higher commodity prices, and large harvest were at the heart of the success. Maize, wine, grapes, citrus, berries, nuts, apples and pears, sugar, avocados, and wool were some of the top exportable products in 2022.
- The exports were spread across various key markets. The African continent remained a leading market, accounting for 37% of South Africa's agricultural exports in 2022. Asia was the second largest agricultural market, accounting for 27% of exports, followed by the E.U., the third largest market, accounting for 19%. The Americas region was the fourth largest, accounting for 7%, and the remaining 10% went to the rest of the world. The U.K. was one of the leading markets within the 'rest of the world' category.

- The products of exports to these markets were primarily the same, with the African continent and Asia importing a reasonably large volume and value of maize. Meanwhile, exports to other regions were mainly fruits and wine.
- Considering the share and the composition of the exports to the E.U. market, it is unsurprising that farmers and agribusinesses in the horticulture and wine industry were the ones most surprised by the talks of changes in export regulations to the E.U. But in our interpretation, there are no material changes, but rather a misinterpretation of the regulations by various sections of the media.
- Appreciating the importance of trade as a catalyst of growth in agriculture, South Africa's strategic focus should be on broadening the export markets even further in the coming years. Crucially, the broadening of the export markets should happen while simultaneously focusing on maintaining smooth relations with these critical export markets, such as the E.U., U.S., and African continent, amongst other markets. Furthermore, the drive to export markets should be in the form of "South Africa Inc" and not to the exclusion of any stakeholder.
- Provided that there is room for expansion of agricultural production in the underutilized land currently in government books and the former homelands, the export drive will become even more vital to accommodate further growth of South Africa's agricultural sector in the coming years.
- The markets ideal for expansion, which both the South African government and private sector favour, are China, South Korea, Japan, the USA, Vietnam, Taiwan, India, Saudi Arabia, Mexico, the Philippines, and Bangladesh. All have sizeable populations and large imports of agricultural products. Some of these countries are within the BRICS+ grouping, where the deepening of agricultural trade is already a priority, with the agribusiness working group and various trade and agricultural departments of BRICS+ members setting steps to realize this goal. There is political support from all member countries.

Exhibit I: South Africa's agricultural exports



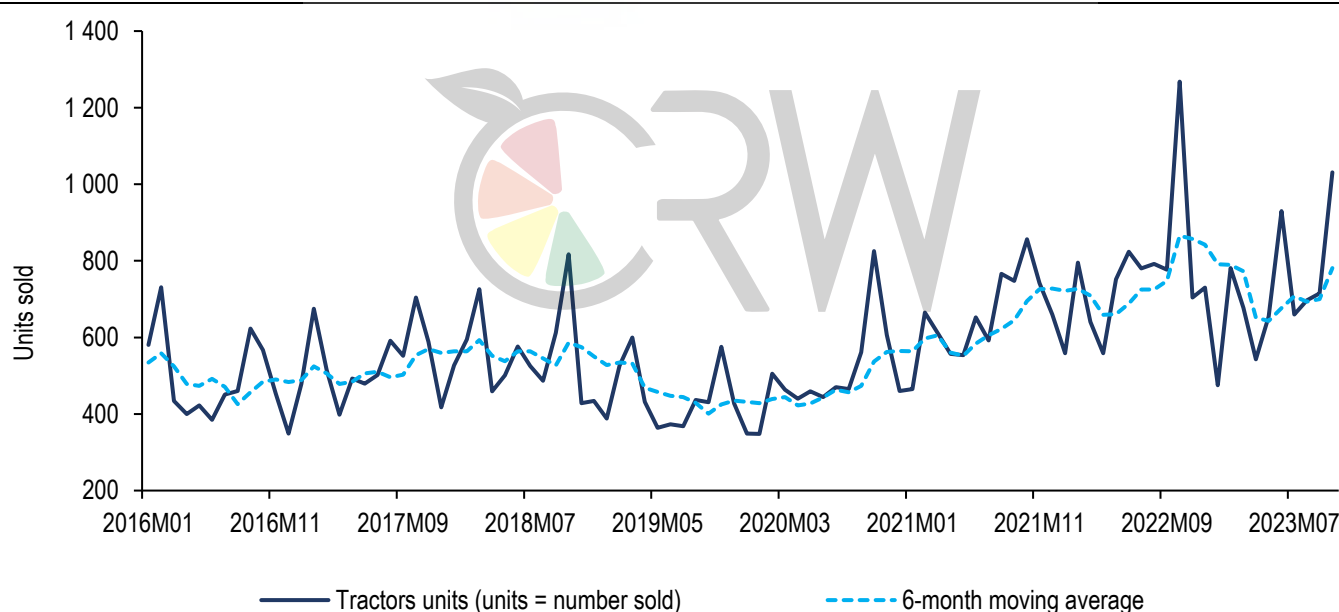
Source: Trade Map and Agbiz Research

WEEKLY HIGHLIGHT

SA tractor sales declined in October 2023

- With South African farmers signalling a 2% y/y increase in the summer crop and oilseeds planting in the 2023/24 season, one would be forgiven in thinking that the tractor sales would probably also show an upturn from the moderately downward path we have been signalling these past few months. Still, we are convinced that the tractor sales will continue to soften in the months ahead. In fact, with the robust expected area planting, the tractor sales in October 2023 were down 19% year-on-year, with 1 031 units sold.
- Notably, the decline in sales is not farmers' pessimism about the 2023/24 summer crop season or fears of the looming El Niño but an adjustment in the tractors market after a couple of years of higher sales. The moderating trend would have probably been shown earlier in the year but was shadowed by the delayed deliveries that were mainly reported in the first half of the year tractor sales. In essence, solid sales of the first half of 2023 were primarily a tail-end benefit of the past season when large harvests and higher commodity prices boosted grain and oilseed farmers' finances, and the deliveries occurred later than order period.
- Over the medium term, the sales will likely remain subdued despite the current 2022/23 large grain and oilseed harvest, but somewhat above long-term average levels. For example, the 2022/23 maize harvest was estimated at 16,4 million tonnes, the second largest on record, and soybeans at 2,8 million tonnes. Furthermore, the prices of these commodities have declined notably in recent months. Also worth highlighting is that the agricultural machinery sales have been robust in the past few years; therefore, the replacement rate will be reasonably low.

Exhibit 2: South Africa's tractor sales



Source: South African Agricultural Machinery Association and Agbiz Research

WEEK AHEAD

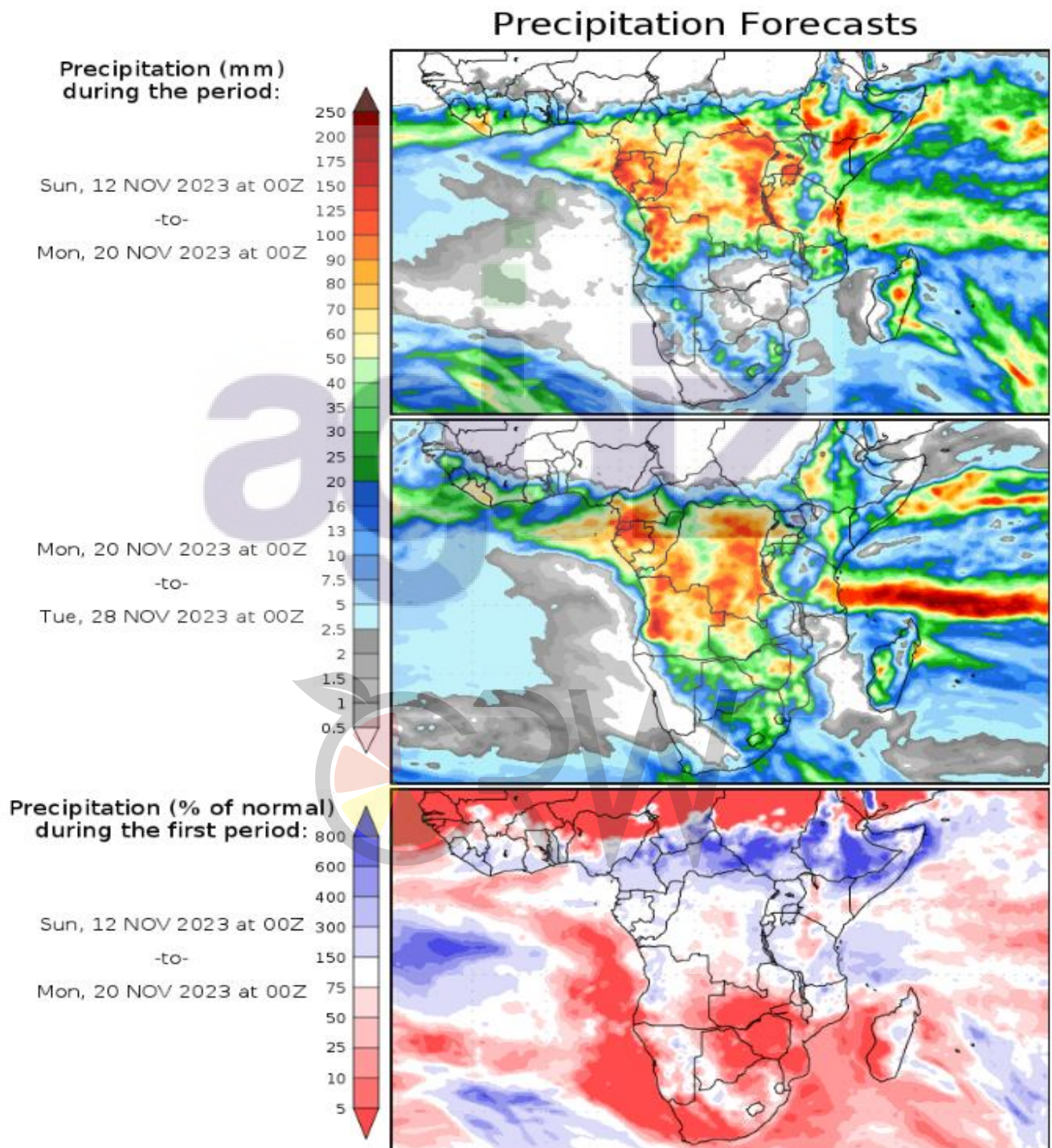
What we are watching this week

- We start a global focus, and today, the United States Department of Agriculture (USDA) will release its weekly update of the **U.S. Crop Progress Report**. The harvest of maize and soybeans is approaching completion across the U.S. Evidently, on November 5, about 85% of the maize crop had already been harvested, which is ahead of last season's pace of 81% and above the five-year average harvest pace of 77%. At the same time, 87% of the soybean crop had already been harvested, which was also slightly above last season's pace of 85% and well above the five-year average of 78%. Importantly, the harvest is mainly of good quality. Moreover, USDA will release its weekly **U.S. grains and oilseeds export sales** data on Thursday.
- On the domestic front, Statistics South Africa will release the **Quarterly Labour Force Survey (QLFS)** data for the third quarter of 2023 on Wednesday. Our focus on this data will be on the agricultural sector. In the second quarter of 2023, about 894 000 people were employed in primary agriculture, up 1% q/q and 2% y/y. This is the highest farm employment level since the last quarter of 2016 and is well above the long-term agricultural employment of 780 000. The third quarter figures will likely remain at levels above the long-term average.
- Also on Wednesday, SAGIS will release its weekly **South Africa's Grains and Oilseeds Producer Deliveries** data for November 10. In the previous release on November 3, South Africa's 2023/24 maize producer deliveries were about 48 593 tonnes. This placed the 2023/24 marketing year's maize producer deliveries at 14,5 million tonnes out of the expected harvest of 16,4 million. On the same day, the soybean deliveries were about 2,7 million tonnes of soybeans out of the expected crop of 2,8 million tonnes. The sunflower seed producer deliveries amounted to 712 365 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 November 10. In the previous release on November 3, the 27th week of the 2023/24 marketing year, South Africa exported 28 271 tonnes of maize. Of this volume, 43% was exported to Zimbabwe, and the balance to the rest of the neighbouring African countries. This placed South Africa's 2023/24 maize exports at 2,20 million tonnes out of the seasonal export forecast of 3,33 million.
- South Africa is a net wheat importer, and November 3 was the fifth week of the new 2023/24 marketing year. There were weekly import volumes of 56 611 tonnes from Lithuania and Poland. This placed South Africa's 2023/24 wheat import at 316 663 tonnes out of the seasonal forecast of 1,6 million tonnes (down from 1,7 million tonnes in the 2022/23 season).

South Africa's Precipitation forecast

- After some showers this past week, the weather forecast shows prospects of cool weather conditions across much of the country this week. This is a much-needed breather to support the planting activity across the country. Notably, the following week could bring rainfall supporting germination in planted areas.

Exhibit 3: South Africa's precipitation forecast



Source: George Mason University (wxmaps)