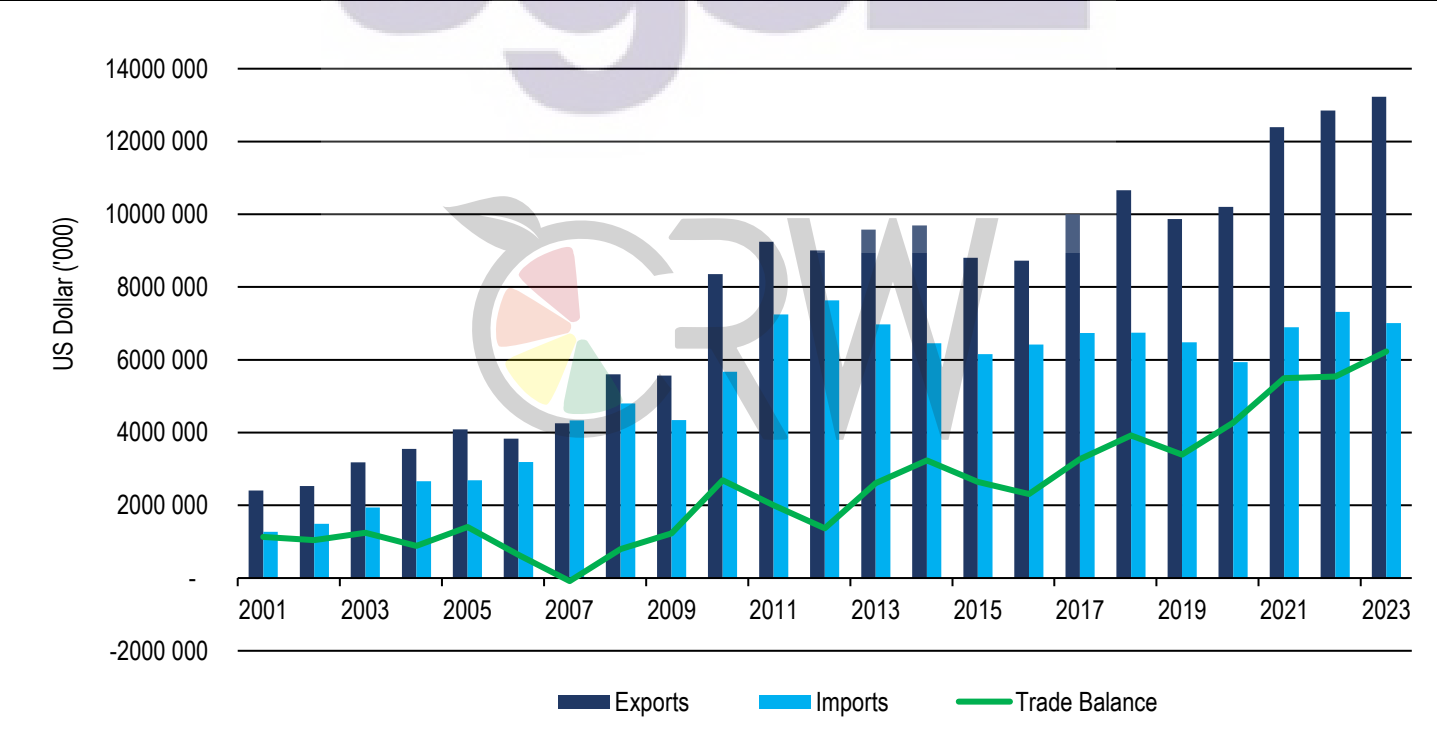


Growth through exports

- There is consensus amongst South African agribusinesses, farmers, and the government that the path to growing South Africa's agricultural sector must include a strong focus on exports. Creating an environment where the agricultural sector continues to attract investment and grows sustainably in the long run will be difficult to achieve without opening up the export markets. Thus, the government and private sector's efforts in boosting agricultural production in various regions of South Africa must be matched with the same drive to expand export markets.
- South Africa is not an insignificant player in global agriculture. The country ranked 32nd among the world's top agricultural exporters in 2023 and the only African country in the top 40, according to data from Trade Map (exports amounted to US\$13,2 billion in 2023). This was made possible by a range of trading agreements South Africa secured over the past decades, the most important being with some African, European, American, and Asian countries. The African continent and Europe now account for about two-thirds of South Africa's agricultural exports.
- With ongoing geopolitical risks, South Africa must have a renewed focus on agricultural trade through retaining the existing export markets and searching for new ones. Retaining existing export markets also means continuous engagements with our major trading partners, not only when there are challenges. The engagements can be at the government and organized business levels to ensure continuous collaboration on matters of shared interest.. Organized businesses and commodity associations can achieve this role through consistent engagements with the various embassies in Pretoria. Another intervention could be the occasional information sessions between various embassies' technical staff and the Departments of Agriculture to maintain warm relations.
- The Department of International Relations and Cooperation must support the Department of Agriculture in this effort of relationship maintenance, and perhaps as observers also in technical information sessions about commodities and agricultural conditions, amongst other things that could be discussed. This would not be a new initiative, as South Africa's Department of Agriculture has a forum with the US Embassy staff in agriculture, which is purely for sharing technical information about agricultural developments. This initiative helps to keep open lines of communication and warm relationships.
- This export drive and maintenance of relationships would be vital to provide market for the potential expansion of over two million hectares of underutilized government land that is yet to be distributed with title deeds.. The export promotion is also vital for the long-term growth of various South African farming businesses and, ultimately, job creation.

- Beyond maintaining the existing trade relations, South Africa must keep a constant eye on widening the export markets. South Africa should expand market access to some key BRICS countries, such as China, India, Egypt and Saudia Arabia. Other strategic export markets for South Africa's agricultural sector include South Korea, Japan, Vietnam, Taiwan, Mexico, the Philippines and Bangladesh.
- The significant challenges in these markets are high import tariffs and phytosanitary barriers. This means the Department of Trade, Industry and Competition must keep agriculture at the top of its agenda in its interactions with foreign governments, particularly the countries we list above. The intention should be to argue for lowering import tariffs and, therefore, involve the Department of Agriculture in addressing the phytosanitary issues for various products. South Africa's export drive is for most of the country's commodities: multiple fruits, wine, red meat, wool, abalone, grains and oilseeds, amongst other products. These products can also expand in the underutilized land and are labour intensive, specifically the fruits and wine. Vegetables should undoubtedly be on the agenda when engaging with the African government, as there is currently some trade friction.
- This message of the agricultural exports drive is also the one South Africa carries this week in Russia at the BRICS Business Council meetings and will again be a key theme later in the month at the political leaders BRICS Summit in Kazan. The core messaging of South Africa is a call for lower tariffs amongst the BRICS members and the address of the non-tariff barriers and phytosanitary issues. South Africa has a broad interest across the BRICS grouping, with a particular focus on China, India, and Saudi Arabia, the major agricultural importers. Notably, the products these countries import from the world market are similar, to an extent, to what South Africa exports to the world.

Exhibit I: South Africa's agricultural trade



Source: Trade Map and Agbiz Research

WEEKLY HIGHLIGHT

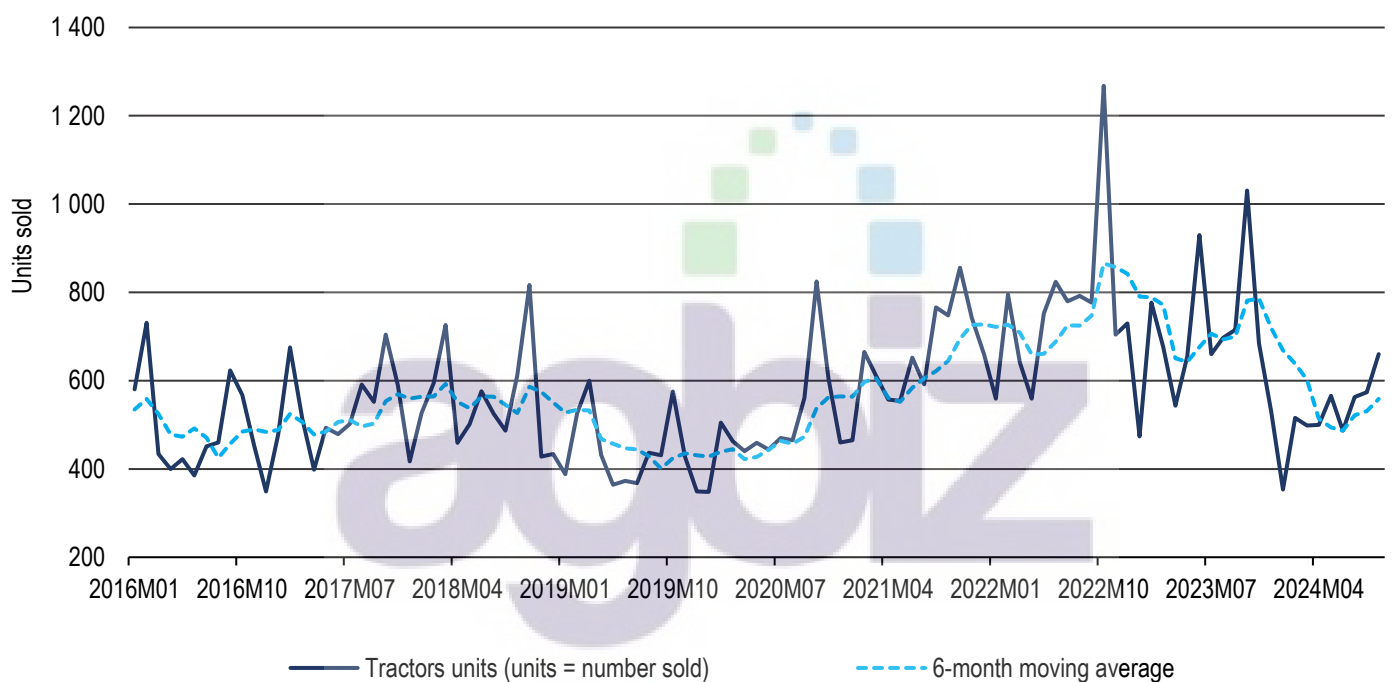
South Africa's weak agricultural machinery sales are not the best indicator for the upcoming 2024-25 season

- Ordinarily, we use agricultural machinery sales to gauge farmers' intentions for the season ahead. When the sales are robust, we are typically positive that farmers are eager for the new season. Equally, we worry about the poor machinery sales. But we are in no ordinary period. The recent months' sales cannot be a guide for the season ahead for various reasons.
- First, the agricultural sector has had a few seasons of higher machinery sales, supported by improved farmers' incomes due to ample harvest and higher commodity prices. Thus, there was bound to be some correction period, leading to moderation in sales. Since the start of 2024, we have been in this "market correction" period for both tractors and combine harvesters' sales. After a few years of higher sales, the replacement rate of the old machines is justifiably down.
- Second, the fact that we also struggled with an intense mid-summer drought did not help. Farmers are under financial pressure because of the crop losses. For example, the 2023-24 mid-summer drought has led to a projected 23% decline in South Africa's summer grains and oilseed production to 15,45 million tonnes. Lastly, the relatively higher interest rates for much of this year also added to the financial pressures in the sector, where farm debt is hovering over R200 billion.
- Thus, the latest South African Agricultural Machinery Association data is not necessarily an ideal guide for the season ahead. As expected, the data shows that in September 2023, tractors and combine harvester sales were down by 8% year-on-year and 6% year-on-year to 660 units and 17 units, respectively. This continues the declining trend we have observed since the start of the year.
- We believe the agricultural season ahead may be favourable and offer a recovery path from a devastating 2023-24 El Niño induced mid-summer drought. There are signs that the weather is shifting towards the La Niña weather phenomenon, which typically brings above-normal rainfall in the country.
- Moreover, the fact that the input costs for farmers ahead of the 2024-25 season are relatively affordable this time adds optimism about the season ahead. For example, in rands terms, most fertilizer product prices were down by roughly 10% year-on-year in September 2024 compared with the previous year. Since fertilizer accounts for approximately a third of the grain farmers' input costs in South Africa, such a price decline significantly improves farmers' finances.
- Also worth noting is that in rands terms, herbicide prices were down by around 20% in August 2024 compared with the same period last year. The prices of insecticides were down by roughly 15% year-on-year in August 2024. Since herbicides and insecticides comprise about 10% of grain farmers' input costs, declining prices help with operational costs. The stronger domestic currency, combined with the decline of these prices in the international market, is a significant factor behind the decrease in domestic prices. While we highlight the proportion of these products in the grain farmers' costs, they also make a considerable share of the production costs in the horticulture sub-sector. The recent easing in fuel

prices at a time of high usage during planting is another positive factor regarding the operating conditions in the farming sector.

- While the agricultural machinery sales data typically indicates the prospects for the season ahead, and the poor sales would be a concern, this time is different. There are distinct factors underpinning poor agricultural machinery sales. These are by no means an indication of the season ahead.
- We remain optimistic that South Africa could recover if favourable rains materialize and support production in the 2024-25 summer crop season.

Exhibit 2: South Africa's tractor sales



Source: South African Agricultural Machinery Association and Agbiz Research

WEEK AHEAD

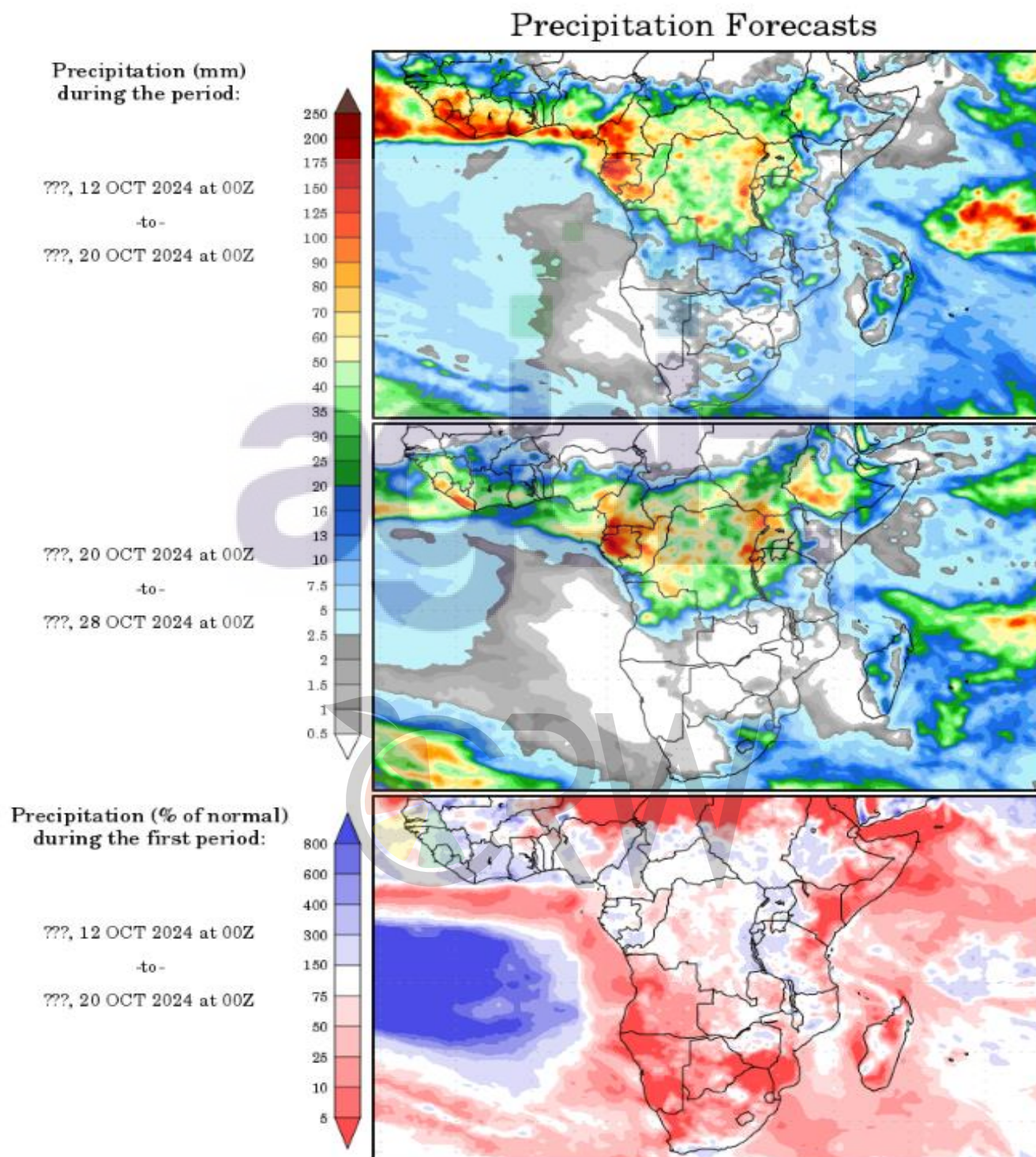
What we are watching this week

- We start the week with a global focus, and on Tuesday, the United States Department of Agriculture (USDA) releases its weekly **US Crop Progress** report. The US's 2024-25 maize harvest process is underway in some States, with 30% of the crop harvested as of October 6, 2024. This is slightly behind last season's pace, where 31% of the crop had been harvested by this time. We also continue monitoring crop conditions in the US, which will inform the yield prospects. In the week of October 6, about 64% of the US maize crop was rated good/excellent (compared with 53% rating at the same time last year). Also worth noting is that 47% of the US soybeans had been harvested on October 6, 2024, compared with 37% at the same time last year. Regarding the soybean growing conditions, about 63% of the US soybean crop was rated good/excellent (compared with the 51% rating at the same time last year).
- Moreover, the USDA will release its **weekly US Grains and Oilseed Export Sales** data on Friday.
- On the domestic front, on Wednesday, SAGIS will release its **weekly South Africa's Grains and Oilseeds Producer Deliveries** data. In the case of maize, this week, we will see a release of the data for the 24th week of the new marketing year, 2024-25. In the previous release on October 4, South Africa's weekly maize producer deliveries were about 54k tonnes. This placed the 2024-25 maize producer deliveries at 10,1 million tonnes out of the expected harvest of 12,80 million tonnes. The 2024-25 soybean deliveries in the first 32 weeks of this new marketing year amounted to 1,73 million tonnes out of the expected harvest of 1,81 million tonnes. At the same time, the sunflower seed deliveries amounted to 623k tonnes out of the expected harvest of 636k tonnes.
- On Thursday, SAGIS will publish its **weekly South Africa's Grains and Oilseeds Trade** data for the 24th week of the 2024-25 marketing year. In the previous release on October 4, the 23rd week of the 2024-25 marketing year, South Africa exported 42k tonnes of maize. Of this volume, 52% was exported to Zimbabwe, 17% to Botswana, 17% to Namibia, and the balance to the neighbouring African countries. This places South Africa's total maize exports in the 2024-25 marketing year at 971k tonnes out of the expected 1,90 million tonnes (down from 3,44 million tonnes in the 2023-24 marketing year because of the mid-summer drought).
- Moreover, while South Africa will likely remain the net exporter of maize in the 2024-25 marketing year, the coastal regions will import small volumes of yellow maize for animal feed because of price advantage. We have recently seen the imports of yellow maize from Argentina through Cape Town. South Africa's 2024-25 maize imports currently stand at 221k tonnes.
- South Africa is a net wheat importer, and the week of 04 October 2024 was the first week in the new 2024-25 marketing year. The imports amounted to 5k tonnes. The seasonal import forecast is 1,9 million tonnes, which is in line with the previous year.

South Africa's Precipitation forecast

- The weather forecast for this week shows clear skies over most regions of South Africa, with the exception of the eastern regions, which may receive light showers. This will help improve soil moisture as the optimal planting season for maize begins in the eastern regions this week.

Exhibit 3: South Africa's precipitation forecast



Source: George Mason University (wxmaps)