

What would President Trump's trade policy mean for agriculture?

- Geopolitical tensions and restrictive trade policies constitute a significant risk factor in global agriculture. Trade tensions have escalated since 2018, when the US introduced import tariffs on Chinese products, and China retaliated with import tariffs on agricultural products. In the years after, trade disruptions intensified with Russia invading Ukraine. The recent escalation of tensions in the Middle East has made for an even more geopolitically fragmented world. These events have created an environment where more and more countries are looking inward in terms of trade policies, and others prefer "friend-shoring", which relies more on countries they have geopolitical alliances with or in the same trade bloc.
- With President Donald Trump's return to office and his statement regarding import tariffs to a range of countries, and more specifically on China, we believe that trade fragmentation may be a big theme in the next few years. Amid all the uncertainty, agriculture trade is at risk. In 2018, when President Donald Trump imposed tariffs on China, US soybean and maize farmers and pork producers were amongst the most negatively affected. China switched some orders to Brazil and Argentina, which became some of the significant soybean suppliers in China.
- President Trump has indicated in his campaign trail that the US may impose up to 20% tariff on all imports and 60% on goods from China. We don't know how China would react to such tariffs. However, if China retaliates as it did the last time, the US soybean and maize farmers and pork producers would again be negatively affected. We could see this through disruptions in global grains and oilseed prices. The US is a significant producer, and when its grain market activity is disrupted, the impact tends to be felt globally. Moreover, US farmers could also start exploring other export markets they have not been as present to hedge against China's risks.
- Still, avoiding China on any global agricultural product will be hard. China is a dominant player in the export and import of agricultural products. In 2023, China was a leading agricultural importer, accounting for 11% of global agricultural imports. The US, Germany, Netherlands, the UK, France and Japan were trailing China. According to Trade Map data, China spends just over US\$200 billion a year on the imports of agricultural products. The US is the second largest agricultural supplier to China after Brazil. Other suppliers include Thailand, Australia, New Zealand, Indonesia, Canada, Vietnam, France, Russia, Argentina, Chile, Ukraine, the Netherlands, and Malaysia. Indeed, if one looks at China's agricultural imports, the top products include oilseeds, meat, grains, fruits and nuts, cotton, beverages and spirits, sugar, wool, and vegetables. The US has significant exposure to oilseeds and meat.
- Similarly, China is a major exporter of agricultural products, and it was the fifth-largest agricultural exporter in the world in 2023. The leading countries ahead of China were the US, Brazil, Netherlands, and Germany.

Implications

- This means that global agricultural trade has one additional factor that increases uncertainty. South African farmers must closely follow the formal trade policy developments in the US beyond President Trump's campaign promises. If he follows through with the promises of high import tariffs on China, and China retaliates, then there will be volatility in the global oilseeds and grain prices. US farmers will likely feel more pressure than other regions. The South American farmers stand to benefit as an alternative source for China to procure soybeans.
- South Africa is a small player in global grains and has undoubtedly not been a participant in the US grains and oilseed markets. The only risk is when the US farmers divert their products to South Africa's traditional markets in the Far East, further recreating more competition and downward price pressures. This, too, is something we will have to monitor closely.
- We remain convinced that there is a minimal direct impact on South Africa. Whether the US imposes any other import tariffs that could directly affect the South African farming community remains to be seen. At the moment, we are inclined to believe the risks may still be minimal.
- Beyond the US, the trade fragmentation further solidifies the view we have previously shared that South Africa must work to diversify its agricultural export markets. In a fragmented world like today, an export-oriented sector should spend more time and resources on broadening export markets and diversifying the risk. South Africa's agriculture growth hinges on the country's success in creating as many export markets as possible. In addition to retaining the existing export markets, BRICS remain one such avenue.

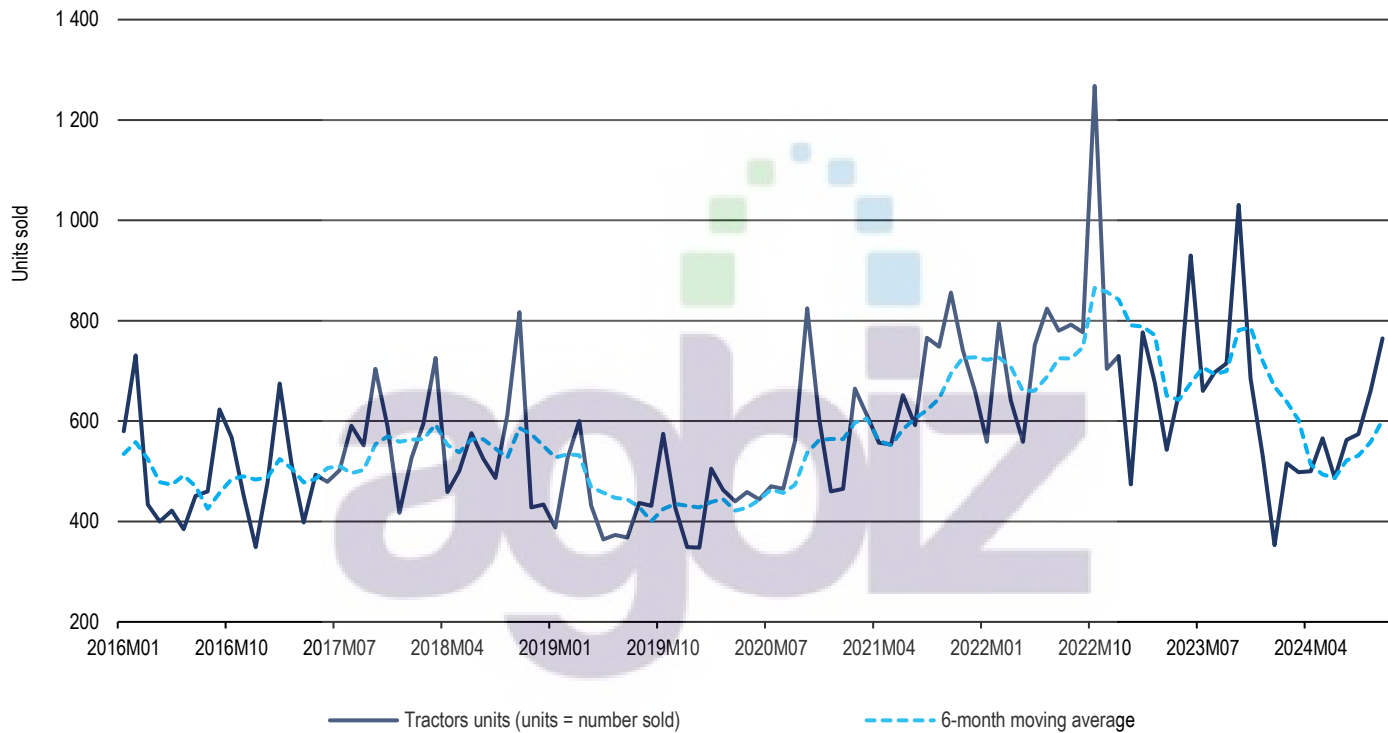
WEEKLY HIGHLIGHT

SA's agricultural machinery sales remained weak in October 2024

- The latest data from the South African Agricultural Machinery Association shows that in October 2024, tractors and combine harvester sales were down by 26% year-on-year and 28% year-on-year to 765 units and 28 units, respectively. This continues the declining trend we have observed since the start of the year, and there are several reasons behind the weak sales.
- First, the agricultural sector has had higher machinery sales in the past three years, 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. Second, after a few good agricultural years, we struggled with a mid-summer drought in the 2023-24 season, changing the farmers' fortunes and worsening sales performance. 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 15,39 million tonnes. Lastly, the relatively higher interest rates for much of this year added to the financial pressures in the sector, where farm debt is hovering over R200 billion.

- Thus, the latest agricultural machinery sales data is not necessarily a guide for the season ahead but a reflection of the constraining factors in the previous season. There is optimism about the new 2024-25 season. South African farmers intend to plant 4,47 million hectares of summer grains and oilseeds in the 2024-25 season, up by 1% year-on-year. Indeed, most regions of the country have not received any meaningful rains, but it is still early. We believe there could be a late start to the season. The comforting observation is that the major weather forecasters continue to see the active likelihood of the La Niña event this season, and even if the weather shifts to a neutral state, there is still a chance for decent rains.

Exhibit I: South Africa's tractor sales



Source: South African Agricultural Machinery Association and Agbiz Research

WEEK AHEAD

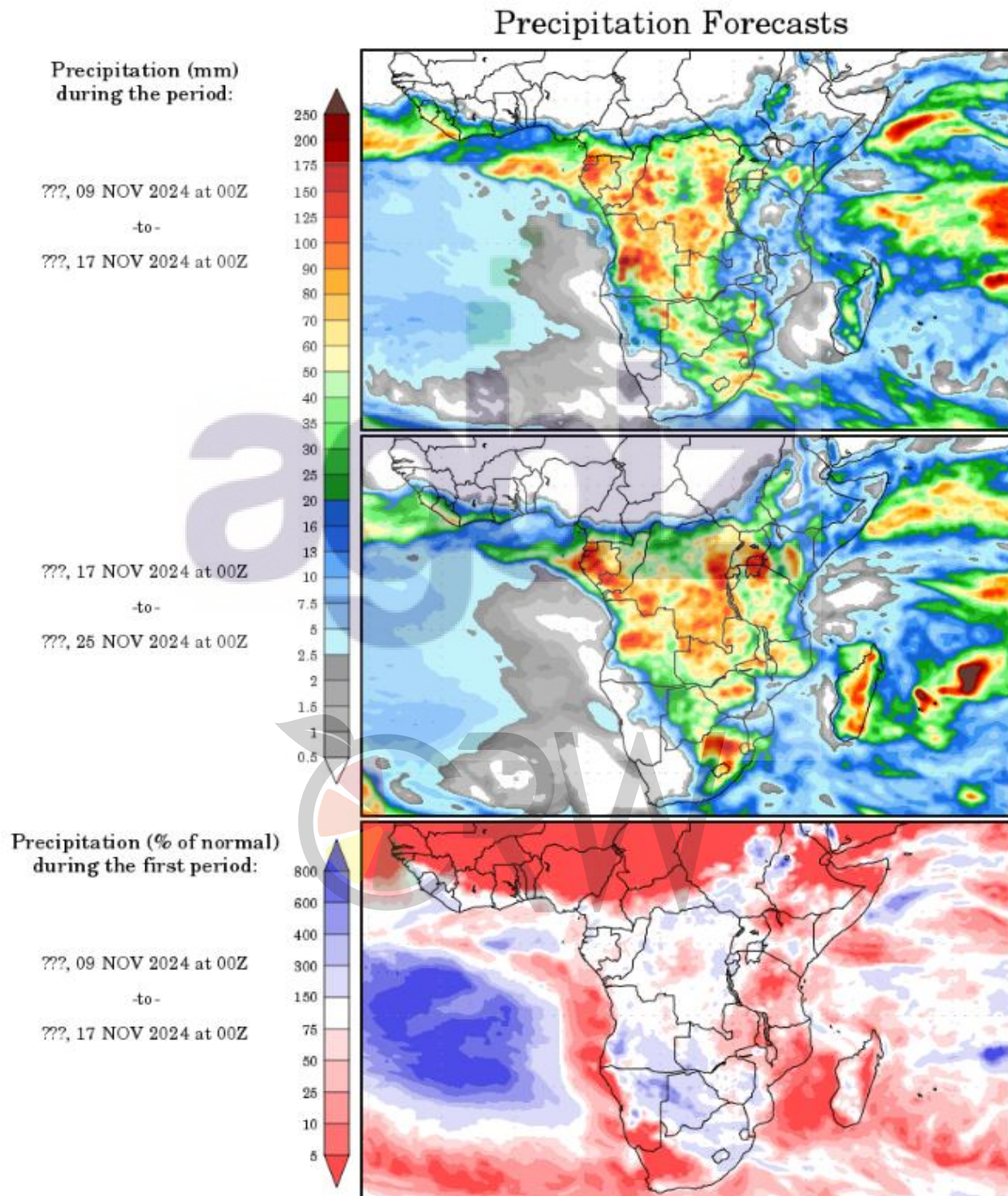
What we are watching this week

- 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, with 91% of the crop harvested as of November 3, 2024. This is ahead of last season's pace, where 78% of the crop had been harvested by this time. Also worth noting is that 94% of the US soybeans had been harvested on November 3, 2024, compared with 89% 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 Tuesday, Statistics South Africa will publish its **Quarterly Labour Force Survey** data for the third quarter of 2024. The employment in primary agriculture was down 5% quarter-on-quarter to 896k in the second quarter of 2024, generally reflecting the harsh summer season we are leaving behind. Still, the primary agricultural employment of 896k people remains well above the long-term jobs of 799k.
- 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 data release for the 28th week of the 2024-25 marketing year. In the previous release on November 1, South Africa's weekly maize producer deliveries were about 45k tonnes. This puts the 2024-25 maize producer deliveries at 10,31 million tonnes out of the expected harvest of 12,72 million tonnes.
- The 2024-25 soybean deliveries in the first 36 weeks of this new marketing year amounted to 1,75 million tonnes out of the expected harvest of 1,83 million tonnes. At the same time, the sunflower seed deliveries amounted to 627k 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 28th week of the 2024-25 marketing year. In the previous release on November 1, the 27th week of the 2024-25 marketing year, South Africa exported 35k tonnes of maize. Of this volume, 55% was exported to Zimbabwe, and the balance to the neighbouring African countries. This puts South Africa's total maize exports in the 2024-25 marketing year at 1,16 million 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 288k tonnes.
- South Africa is a net wheat importer, and the week of November 1 was the fifth week in the new 2024-25 marketing year. The imports so far amounted to 189k tonnes. The seasonal import forecast is 1,80 million tonnes, down from 1,93 million tonnes the past season.

South Africa's Precipitation forecast

- The weather prospects look promising for the next two weeks, with a better chance of heavy rains across the summer crop-growing areas of South Africa. The rains will help improve soil moisture and support the planting activity for the 2024-25 summer crops.

Exhibit 2: South Africa's precipitation forecast



Source: George Mason University (wxmaps)