

19 February 2024

The current heat and scant rains are worrying for S.A. agriculture

- The excessive heat across South Africa currently is a significant concern for the farming sector. The 2023/24 summer crop season started on favourable footing. We received widespread rains, which was unusual in an El Niño season, which would typically start with drier weather conditions. According to data from the Crop Estimates Committee, the farmers managed to plant a sizable summer grain and oilseed area of 4,4 million hectares, up by 0,4% from the 2022/23 season. For a while, it appeared as though South Africa was on track for yet another excellent harvest. But since the start of February, the rain has been scant across the summer crop-growing regions of South Africa, thus raising concerns about the yield potential of the crops. Perhaps we should not have been completely surprised by the current difficulty. At the end of January 2024, the South African Weather Service warned about such a possibility, stating that its " multi-model rainfall forecast indicates mostly below-normal rainfall over most of the country during February to June, except for some central parts of South Africa during March to May where enhanced probabilities for above-normal rainfall is predicted."
- The significance of February cannot be overemphasized in South Africa's agriculture. This month, significant summer grains such as maize, sunflower seed, and soybeans are in pollination stages. During this pollination stage, the crop should ideally have higher moisture levels to boost yields. The crop is entering this growth stage with limited moisture across the major growing regions in Free State, North West, and Mpumalanga, amongst other provinces. These current weather conditions have raised fears about the possible yields loss. Indeed, in various regions we visited these past few weeks, the crops were visibly strained.
- In conversations with farmers and agricultural analysts, the consensus is that the last two weeks of February are critical for the crop. This means South Africa must receive widespread rains this week or next week for the crop to recover from its current worrying state. Also making the challenge worse for South Africa's farming sector is the excessive heat. Even areas that receive frequent patchy rains suddenly evaporate with the high temperatures.
- While the immediate concern is mainly for summer grains and oilseeds, the higher temperatures and limited rain is also a challenge for other subsectors of agriculture, such as horticulture and livestock. The vegetable and fruit areas are primarily saved because nearly all production is under irrigation and can thrive even with frequent load-shedding. Notably, the dam levels in various regions of the country are healthy, having improved from the past few years' heavy rains and the good showers at the start of the current season. The irrigation regions of summer crops certainly will also benefit from the better dam levels. Still only about 20% of maize, 15% of soybean, 34% of sugarcane are under irrigation, with majority rainfed. The livestock industry, over time, could also feel the impact of the current harsh temperatures if there is no relief from rain to help boost the grazing veld. Still, the conditions are

manageable so far, with the veld benefitting from the last few years of rains and a favourable start to the season.

- At the end of this month, the Crop Estimate Committee will release its revised 2023/24 area and first production forecast for summer crops. So far, it is unclear how much of the current heat strain on crops the Crop Estimate Committee will factor into their estimates. Even our initially optimistic crop forecast of above-average yields in maize, soybeans, and sunflower seed is now highly uncertain because of rainfall scarcity. Perhaps the key figures that will provide a better sense of the summer crop harvest is the March 2024 release, when the Committee has fully considered the weather events and how much of the crop would have successfully pollinated.
- In essence, while we started the 2023/24 summer crop season with optimism and even estimated that harvest would be decent at above-average levels, the outlook is now challenged by the excessive heat and limited rainfall across the major crop-growing regions. Still, it is not too late, but the next two weeks are vital for the crop. The season's outcome will not only affect the farming output but also have implications for food price inflation, for which we had generally held a positive view of possible moderation because of potential supply recovery and base effects, amongst other factors. The next two weeks are critical for the crop outlook.

WEEKLY HIGHLIGHT

Farmers' discontent and threats to trade

- There is a growing sense of unhappiness amongst farmers globally. In Europe, protests against stringent environmental laws, calls for protectionism against imports, and increased producer support are some of the issues farmers continue to highlight.¹ We now see news of protests in India where farmers demand guaranteed crop prices and increased government producer support.²
- These events are far from us in South Africa but have relevance. For example, the big win for farmers in the E.U. so far was the agreement by lawmakers to review the environmental policy -- with the "Farm to Fork Strategy" -- aimed at reducing the use of chemicals and fertilizers, threatening agricultural productivity.³
- The chemical and fertilizer use reduction that the E.U. lawmakers proposed would not apply only to the region but also to trading partners such as South Africa. The E.U. is the second most important market for South Africa's agricultural products, accounting for 27% of the country's total agricultural

¹ Sihlobo, W. "Why the EU farmers' protests have relevance in South Africa", February 4, 2024. Read more here: <https://www.dailymaverick.co.za/opinionista/2024-02-04-why-the-eu-farmers-protests-have-relevance-in-south-africa/>

² BBC, "India farmers' protest: Tear gas fired as thousands march on fortress Delhi", February 13, 2024. Read more here: <https://www.bbc.com/news/world-asia-india-68271356>

³ More information about the EU's Farm to Fork Strategy is here: https://food.ec.europa.eu/system/files/2020-05/f2f_action-plan_2020_strategy-info_en.pdf

exports, according to data from Trade Map. Thus, the positive outcome of E.U. lawmakers' willingness to review the environmental laws is a welcome development for South Africa.⁴

- Still, the rising talk about a need for protectionism in crucial agricultural export markets for South Africa is worrying. We see this reality in the E.U. through recent stringent plant health measures that aim to reduce South Africa's citrus exports to the region.⁵ With India, South Africa is not deeply integrated in its export markets with the country yet, as is the case with the E.U. India is the 24th largest export market for South Africa. According to data from Trade Map, the country accounts for only 1% of South Africa's agricultural exports of US\$12,8 billion in 2022. With that said, we continue to watch the farmers' protests in India and the government's response to their calls for increased farmers' support and the minimum crop price.
- With India being among the countries South Africa aims to expand its agricultural footprint to within the BRICS+ grouping, its food and agricultural policy environment is vital to South Africa. South Africa's desire would be for the trade policy in India to remain relatively open and flexible so that the exchange of goods between the countries could be deepened over time. South Africa primarily focuses on India, China and Saudi Arabia within the BRICS+ countries to advance its agricultural export strategy.
- It is unclear if the farmers' discomfort in India is mainly linked to the looming elections or the continuation of the discomfort from the previous year's protests. Whatever the broader goal, this area is worth monitoring from the perspective of South African agribusinesses and trade authorities.
- The fundamental agricultural export drive for South Africa also stems from the fact that the country has the potential to expand production in the underutilized government and communal land. But this produce will have to be for export markets as the country already exports roughly half its agricultural produce in value terms. This time, the export drive will occur in an increasingly hostile environment with farmers demanding protection across the major export markets, such as the E.U., and potentially large markets, such as India.
- Closer to home, the farmers' discomfort shows through increasingly inward-looking government policies. For example, Botswana and Namibia have banned the imports of vegetables from South Africa for an extended period, as they claim to be under pressure to build their industries.⁶ The African continent is a vital market for South Africa, with roughly 40% of the country's agricultural exports going to the continent. While there is no widespread hostility to South Africa's agricultural exports to the region, the aspects of growing farmers' protests and protectionism are worth continuous monitoring.

⁴ BBC, "Europe farmers protests: EU scraps plans to halve pesticide use", February 6, 2024. Read more here: <https://www.bbc.com/news/world-europe-68218907>

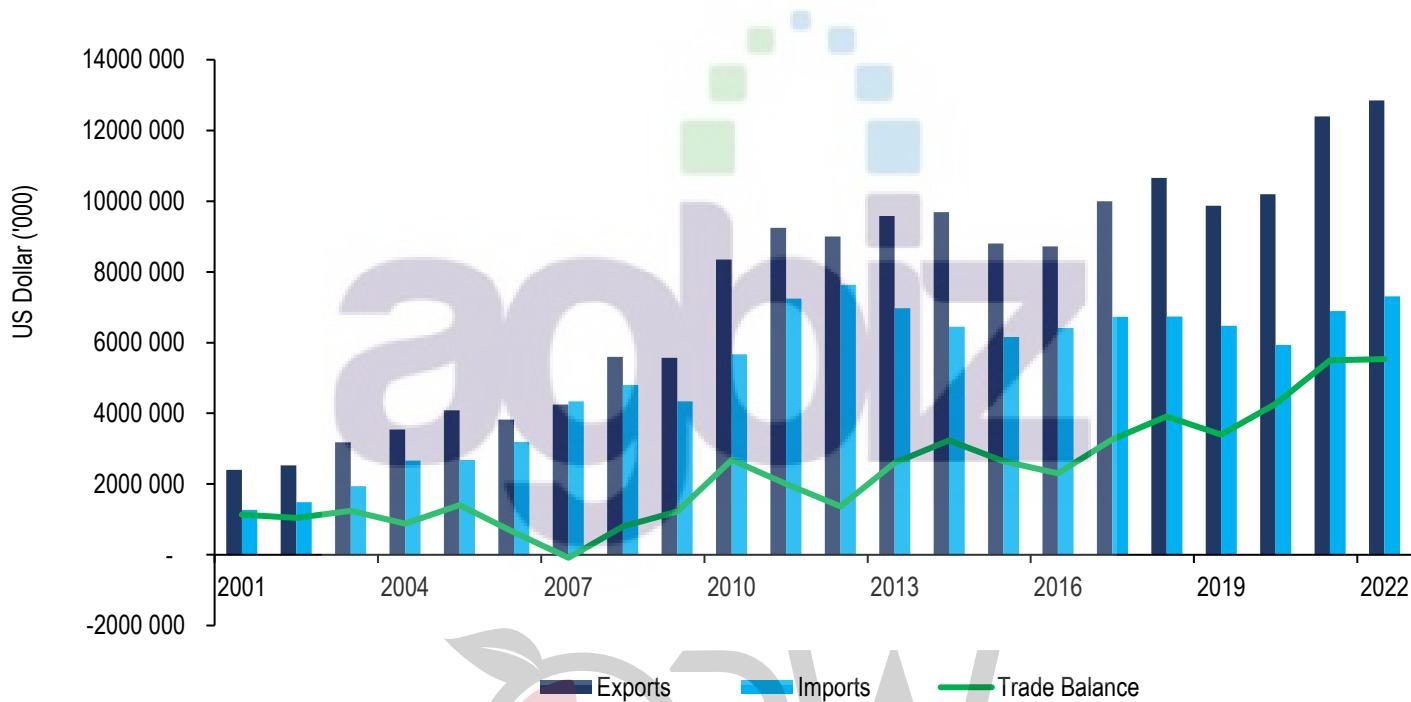
⁵ EU Parliament, "Imports of citrus fruit from South Africa are breaching the EU's plant health rules", September 14, 2023. Read more here: https://www.europarl.europa.eu/doceo/document/E-9-2023-002658_EN.html#:~:text=European%20Parliament-.Imports%20of%20citrus%20fruit%20from%20South%20Africa,the%20EU's%20plant%20health%20rules&text=Agricultural%20organisations%20in%20the%20EU,organisms%20have%20tripled%20since%202022.

⁶ DTIC, "Contextualizing The Ban On South African Vegetables By Namibia & Botswana Within The Prism Of Regional Integration". Available here: <https://www.thedtic.gov.za/wp-content/uploads/SACU-Opinion-Piece.pdf>

Policy considerations

- Given the rising discontent of farmers and protectionism worldwide, South African agribusinesses and governments should work to diversify their export markets for agriculture. Some key growing markets and higher populations are within BRICS+, such as China, India and Saudi Arabia.
- Still, South Africa must look broadly and deepen its agricultural trade with South Korea, Japan, the USA, Vietnam, Taiwan, India, Saudi Arabia, Mexico, the Philippines, and Bangladesh. This export expansion should happen while South Africa works to maintain its access to the existing critical markets in the EU, Africa and various countries in Asia and America.

Exhibit I: South Africa's agricultural exports



Source: Trade Map and Agbiz Research

WEEK AHEAD

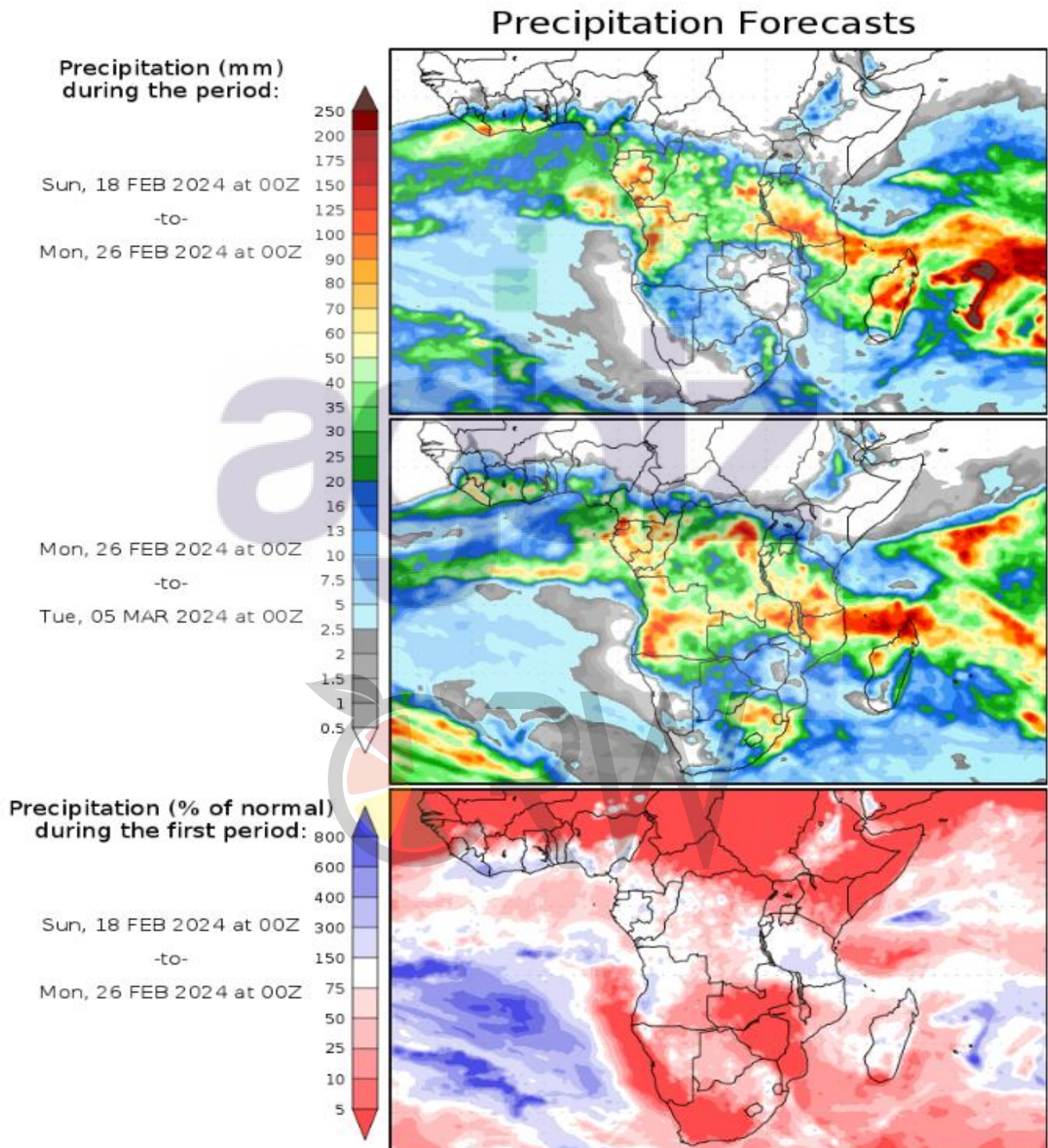
What we are watching this week

- We are again in another quiet week on the international agricultural front; we only have one major data release. On Thursday, the United States Department of Agriculture (USDA) releases **weekly U.S. grains and oilseeds export sales** data.
- Within the domestic front, there are also a few data releases this week. Statistics South Africa kicks off with Tuesday's **Quarterly Labour Force Survey (QLFS)** data for the fourth quarter of 2023. Our focus on this data will be on the agricultural sector. In the third quarter of 2023, about 956 000 people were employed in primary agriculture, up 10% y/y (and 7% q/q). This is well above the long-term agricultural employment of 793 000.
- On Wednesday, Statistics South Africa will release the **Consumer Price Index (CPI) data** for January 2024. Our focus on this data will be on the food category. To recap, South Africa's consumer food inflation slowed to 8,5% in December 2023, from 9,0% in the previous month (and against our expectations of a slight uptick to 9,3%). The product prices underpinning this deceleration were primarily bread and cereals; oils and fats; and vegetables.
- Also on Wednesday, SAGIS will release its weekly **South Africa's Grains and Oilseeds Producer Deliveries** data for 16 February on Wednesday. In the previous release on 09 February, South Africa's 2023/24 maize producer deliveries were about 43 241 tonnes. This placed the 2023/24 marketing year's maize producer deliveries at 14,9 million tonnes out of the overall harvest of 16,4 million. On the same day, the soybean deliveries were about 2,7 million tonnes of soybeans out of the harvest of 2,8 million tonnes. The sunflower seed producer deliveries amounted to 718 519 tonnes out of the harvest of 720 000 tonnes.
- Also worth noting is that South Africa's winter wheat harvest is almost complete. Last week, 9 879 tonnes of wheat were delivered to commercial silos. This placed the 2023/24 wheat producer deliveries at 1,8 million tonnes out of the expected harvest of 2,2 million tonnes.
- On Thursday, Statistics South Africa will release the **Producer Price Index (PPI) Weights data for 2024**.
- Also on Thursday, SAGIS will publish its weekly **South Africa's Grains and Oilseeds Trade** data for 16 February. In the previous release on 09 February, the 41st week of the 2023/24 marketing year, South Africa exported 48 747 tonnes of maize. Of this volume, 59% 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 2,9 million tonnes out of the seasonal export forecast of 3,3 million.
- South Africa is a net wheat importer, and 09 February was the 19th week of the new 2023/24 marketing year, with 36 111 tonnes of imports. About 62% originated from Lithuania and 38% from Estonia. This placed South Africa's 2023/24 wheat imports at 730 542 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

- The weather forecast for this week shows prospects of scattered showers over the summer crop-growing regions of South Africa. This is not ideal as crops currently need moisture. Positively, the forecasts for the following week show the possibility of widespread rain which would benefit agricultural activity in the country.

Exhibit 2: South Africa's precipitation forecast



Source: George Mason University (wxmaps)