

April 15 2024

South Africa should continuously improve its capacity for animal disease control

- With South Africa focused on expanding its red meat and livestock product exports, strengthening biosecurity is essential to this ambition. In part, the weaknesses in surveillance and control of the disease contributed to the spread of various animal diseases that South African farming businesses suffered in the past few years. The temporary closure of certain export markets was costly to beef farmers and wool growers. The upside of the difficulty was the realization that the government and private sector must work collaboratively to enhance the country's biosecurity system – the measures aimed at preventing disease spread. This effort is now underway, and exports are also recovering. As we recently stated, in 2023, beef exports lifted by 3% year-on-year to 27 675 tonnes. In addition, South Africa's wool exports increased by 18% year-on-year to 49 715 tonnes. The opening of export markets is evidence of the country's efforts to address animal health concerns. The deliberate marketing of livestock products to various growing export markets, such as China and Saudi Arabia, also added to this progress.
- South Africa must apply more resources to strengthen livestock health in the coming years. This is vital for South Africa to remain a reliable supplier of red meat, wool, and other livestock products in the world market. What makes this more urgent is the frequent occurrences of animal diseases worldwide and the increased complexity of the diseases. An April 12 report indicated that the United States Department of Agriculture (USDA), the Food and Drug Administration, Centers for Disease Control and Prevention, and State veterinary and public health officials are studying an illness among dairy cows in various States¹. This comes after the H5N1 strain of avian influenza (bird flu), which commonly affects poultry farms, was discovered in dairy cows and the subsequent infection of a dairy farm employee. The recent reports suggest that the virus has now spread to 16 herds in six States². There are rising concerns in the US about the subsequent transmission to humans and the two cases of human transmissions that have been detected. The scientists are currently studying this outbreak and have urged for calm amongst the consumers.
- But outside the US, we don't know of any cases where bird flu has transitioned into livestock and people. After noticing the news of this outbreak on April 12, we communicated with the leadership at South Africa's Department of Agriculture, Land Reform and Rural Development to understand if this matter is under monitoring and the country remains safe. Indeed, South Africa remains secure, and this issue is primarily in a couple of states in the US.

¹ Read more about the USDA report here: <https://www.aphis.usda.gov/livestock-poultry-disease/avian/avian-influenza/hpai-detections/livestock>

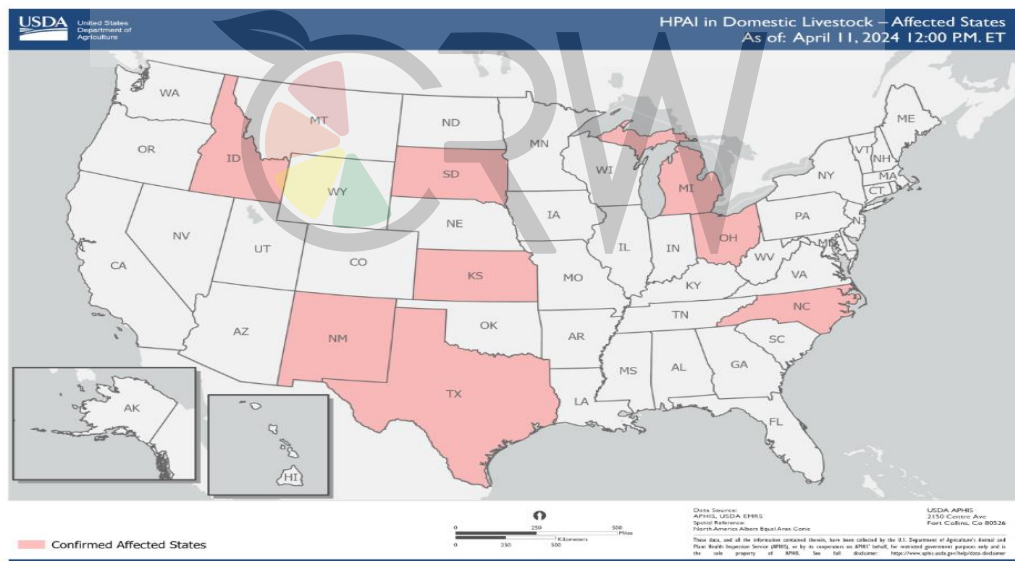
² The Johns Hopkins Bloomberg School of Public Health recently published a note on this issue here: <https://publichealth.jhu.edu/2024/whats-happening-with-dairy-cows-and-bird-flu>

- Positively, because South Africa has recently suffered the spread of animal disease, farming businesses and government officials arguably remain on high alert, which helps with surveillance in times of such high risk of animal diseases globally. The frequent occurrences of animal diseases also imply that some countries, like South Africa in 2021 and 2022, will occasionally lose access to export markets while they work to clear the disease. During such times, the disease-free countries would potentially increase their volume of exports to markets. South African red meat and livestock product exporters should always be alert to opportunistic export gaps. This is not a unique practice in South Africa; competitors typically increase their market presence when other suppliers are constrained.
- In essence, animal diseases are increasingly a significant challenge globally. South Africa has undergone various cycles of foot and mouth disease in the cattle industry, multiple strains of avian influenza in poultry, and the African swine fever in the pig industry. All these episodes were costly to farming businesses and distracted South Africa from its export ambition.
- We will likely continue seeing animal disease outbreak reports. Europe, Asia, and the Americas are some regions that typically report disease outbreaks. Therefore, South Africa must strengthen surveillance to ensure an agile response from regulators when there are outbreaks. As part of the long-term planning, South Africa's Department of Agriculture, Land Reform and Rural Development should also increase its spending on animal health-related matters and build local capacity. This is essential to support the subsector, making up nearly half of South Africa's agricultural economy.
- The news of the US bird flu transmission to dairy and humans reminds us of animal disease risks and uncertainty. Fortunately, South Africa remains safe. Still, the farmers, feedlots, and regulators should remain vigilant. The consumer should not be concerned and should continue with typical purchases.

Exhibit I: Highly Pathogenic Avian Influenza (HPAI) Detections in Livestock in the US

Confirmed Cases of HPAI in Domestic Livestock

*Data updated weekdays by 4 pm ET.



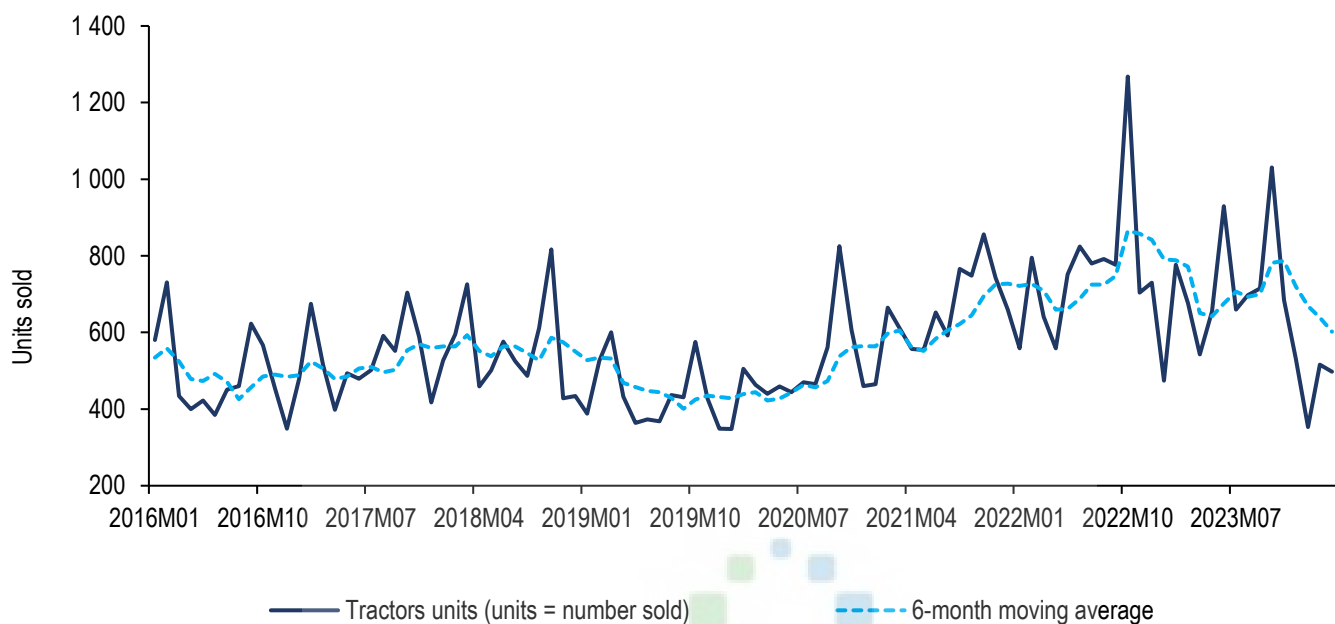
Source: United States Department of Agriculture

WEEKLY HIGHLIGHT

South Africa's agricultural machinery sales remain weak

- We continue to see relatively weak sales in South Africa's agricultural machinery market. In March 2024, the tractor sales were down 26% y/y, with 498 units sold. The combine harvester sales were down 33% y/y, with 26 units sold. As we stated in our previous notes, the decline in sales since the start of the year probably reflects the normalization of sales after a few years of robust activity.
- For example, South Africa's tractor sales for 2022 amounted to 9,181 units, up 17% y/y. This was the highest annual sales figure in the past 40 years. The combine harvesters also had an excellent performance of 373 units in 2022, up 38% y/y. This was the highest yearly sales figure since 1985. In 2023, the tractor sales were down marginally from the previous year, while the combine harvester sales held the last year's momentum. These generally strong agricultural machinery sales these past few years were primarily based on ample grains and oilseed harvests when prices were also favourable.
- Against this backdrop, we think the agricultural machinery sales are now on the normalization path this year.
- Also worth noting is that while in the past, agricultural machinery sales would be read as one of the early indicators of the health of the farming sector, this time around, the sales should be read differently for the reasons we stated above.
- Still, the South African agricultural sector is not in good shape because of the persistent heatwave and dryness associated with the El Niño cycle. The Crop Estimates Committee, at the end of March 2024, placed South Africa's 2023/24 total grain and oilseeds production at 15,8 million tonnes, which is 21% lower than last season's harvest. This year's overall decline in production prospects is primarily due to poor yields, not the area reduction, as farmers tilled more land than in the 2022/23 season.
- We are yet another busy time of the year, with the winter crop planting season set to start at the end of this month. Still, the weak agricultural machinery sales data should not necessarily indicate what is to come when the Crop Estimates Committee releases the farmers' intentions to plant data on April 25.
- In addition to the general normalization of agricultural machinery sales, we think the relatively higher interest rates have added pressure to farmers' finances. Also worth noting is that while other input cost prices, such as fertilizer and agrochemicals, softened since 2023, the prices are still generally well above the pre-COVID levels, thus adding pressure on farmers' finances. Furthermore, the poor summer crop harvest of the 2023/24 production season will also be a constraining factor in the months ahead, as farmers' finances will be under pressure.

Exhibit 2: South Africa's tractor sales



Source: South African Agricultural Machinery Association and Agbiz Research

WEEK AHEAD

What we are watching this week

- As always, we start the week with a global focus, and today, the United States Department of Agriculture (USDA) releases its **weekly US Crop Progress report**. This report provides insight into the planting progress in the US as the 2024/25 season has recently started. So far, very minimal plantings have started in some States. For example, maize plantings are still at 3% of the intended area, and soybean planting has not started in most areas.
- Moreover, the USDA releases its **weekly US Grains and Oilseed Export Sales** data on Thursday. With growing logistical challenges due to droughts and the rising geopolitical tension, watching the export activity will be key going forward.
- Within the domestic front, on Wednesday, SAGIS will release its **weekly South Africa's Grains and Oilseeds Producer Deliveries** data for April 12. In the previous release on April 5, South Africa's 2023/24 maize producer deliveries were about 95 172 tonnes. This placed the 2023/24 marketing year's maize producer deliveries at 15,5 million tonnes out of the overall harvest of 16,4 million.
- The focus on oilseeds is now shifting to the new 2024/25 marketing year. Still, so far, there have been no significant volumes delivered to commercial silos. For example, the 2024/25 soybean deliveries in the first six weeks of this new marketing year amounted to 285 979 tonnes out of the expected

harvest of 1,8 million tonnes. At the same time, the sunflower seed deliveries amounted to 77 290 tonnes out of the expected harvest of 589 000 tonnes.

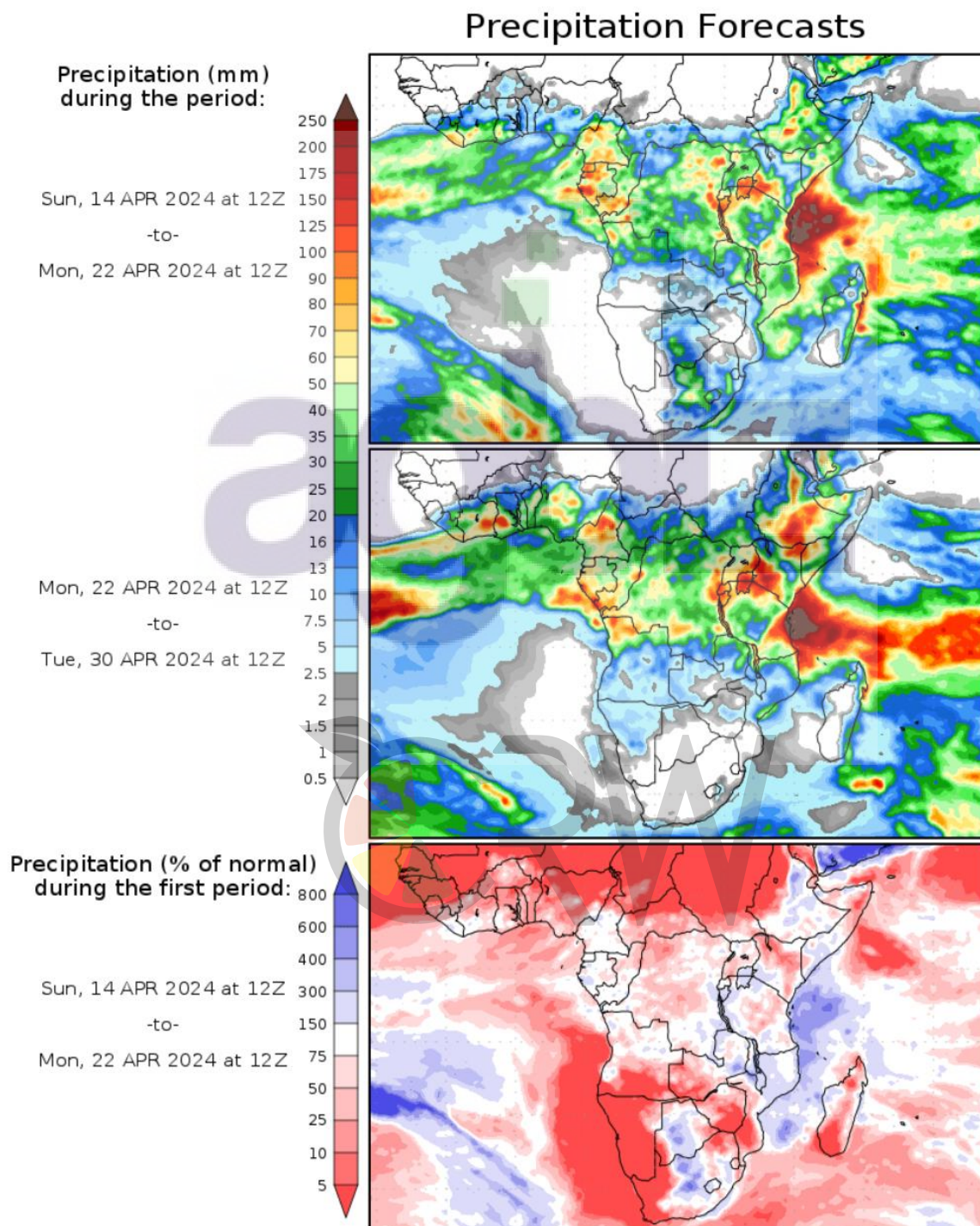
- In the case of wheat, last week, 3 461 tonnes of wheat were delivered to commercial silos. This placed the 2023/24 wheat producer deliveries at 1,9 million tonnes out of the harvest of 2,1 million tonnes.
- Also, Statistics South Africa will publish the **Consumer Price Index (CPI)** data for March 2024 on Wednesday. As a recap, South Africa's consumer food inflation slowed to 6,0% in February 2024 from 7,0% in the previous month. This was underpinned by the deceleration across most food products, except for "sugar, sweets and desserts", which remained roughly unchanged from the last months.
- On **Thursday**, SAGIS will publish its **weekly South Africa's Grains and Oilseeds Trade** data for April 12. In the previous release on April 5, the 49th week of the 2023/24 marketing year, South Africa exported 27 254 tonnes of maize. Of this volume, 82% 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 3,28 million tonnes out of the seasonal export forecast of 3,30 million. The 2023/24 marketing year ends this month.
- South Africa is a net wheat importer, and April 5 was the 27th week of the 2023/24 marketing year, with 5 972 tonnes of imports from Australia. This placed South Africa's 2023/24 wheat imports at 963 549 tonnes out of the seasonal forecast of 1,6 million tonnes.



South Africa's Precipitation forecast

- This week may bring light and scattered rains over most regions of South Africa. We welcome the chances of rain, but we doubt it will lead to a notable improvement in crop conditions. The excessive heat in February and March has already damaged crops in various regions. However, the rain will help improve soil moisture for the winter crop regions before the planting period starts this month.

Exhibit 3: South Africa's precipitation forecast



Source: George Mason University (wxmaps)