

July 15 2024

Three major challenges that confronted South Africa's agriculture this past week

- Through the past 30 years of exceptional progress, South Africa's agriculture has confronted numerous challenges with varying impacts across subsectors. This past week presented three challenges whose impact will become clearer in the weeks ahead.
- Firstly, in the northern regions of South Africa, particularly in Limpopo, the potato crop has suffered losses because of frost after an unusually cold spell in the region. The most affected crops are the ones planted from May onwards. The scale and impact of the damage at the national level are yet to be clear. However, rough estimates and anecdotes from various industry players suggest that we are unlikely to experience a national crisis regarding supplies. Still, the farmers in the affected regions will suffer financial losses.
- Secondly, the various regions of the Western Cape were affected by heavy storms. There are reports of infrastructure damage. Whether agricultural activities in the province experienced damage and what the degree of such damage could be remains unclear. We suspect the impact will mainly be on public infrastructure rather than agricultural activities. For this region, this is a busy citrus harvesting period, and the bad weather conditions have delayed activities in some fields. Moreover, the winter crop season (i.e., wheat, canola, barley and oats) is at its early stages, which would have also spared the fields from major damage, given there was no heavy erosion.
- Thirdly, in the Eastern Cape, the rains in the southern regions also slowed the citrus harvest. At this early stage, we have not heard of any damage to the harvest. The field and agricultural logistics activity should gain momentum during the week as weather conditions improve. But not all things are well in the province. Foot and mouth disease remains a challenge in the dairy industry. The dairy industry and government regulators are currently engaged in possible pathways to address this challenge in the province.
- Even more concerning is that animal disease tends to have a much broader impact, even in industries not particularly affected by the disease. For example, in 2022, when South Africa suffered a foot and mouth disease in various provinces, key trading partners such as China temporarily banned wool imports from South Africa. This happened while foot and mouth disease did not affect the sheep industry. China lifted the ban months later after having engaged with the senior government engagements of South Africa.
- Since foot and mouth disease is now mainly concentrated in the Eastern Cape, unlike in 2022, and even closer to the sheep industry, trading partners may have some concerns. Therefore, South African authorities should proactively communicate with trading partners and assure them of the safety and

handling methods of other livestock products. Such an approach would help rather than South Africa communicating at a time when the trading partners may be presenting challenges to the South African exporting businesses.

- These challenges, which all hit the sector in just one week, will not be the last to affect South African agriculture. Moreover, these challenges will likely have a lasting negative impact on the areas affected. Therefore, the effective collaboration between the government and organized agriculture will become even more critical in planning the resilience strategies for the South African agricultural sector. The response and structuring of engagements should not always be at the national level but at the provincial and local levels. As such, the ground engagements could help the agricultural sector build better and impactful partnerships. The regulators, particularly in the cases of animal disease, will have to continuously work at speed in assessing the possibilities of vaccination. Still, such measures should be explored with input from organized agriculture.
- Overall, it will be a few weeks before we have a better view of the impact of these recent events on agricultural performance or food prices. Still, the preliminary views and anecdotal insights suggest there shouldn't be a panic, as impacts are regionalized. That said, the financial impact on affected businesses by all the events will likely be notable.

WEEKLY HIGHLIGHT

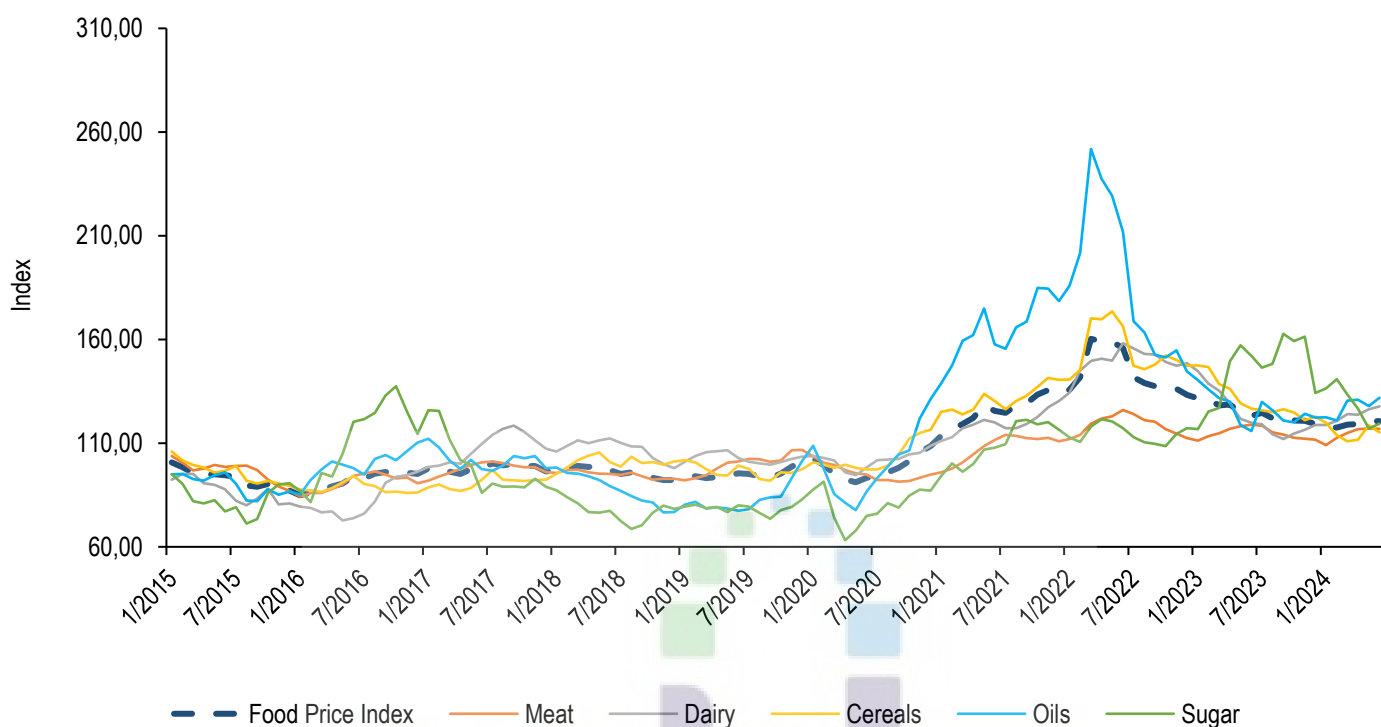
Early indications point to possible ample global grains and oilseed harvest in the 2024/25 season

- While we are still at the start of the 2024/25 global grains and oilseed production season, the International Grains Council (IGC) forecasts a decent harvest. For example, in their latest update, the IGC placed the 2024/25 global grains and oilseed production forecast at 2,3 billion tonnes, up mildly from the previous season. The stocks are expected to be healthy, around 582 million tonnes, although having declined somewhat from the 2023/24 season because of the expected increase in the industrial use of grains.
- A closer look at the figures shows that the IGC forecasts a 1% year-on-year increase in the 2024/25 global rice production to 528 million tonnes. This is based on an anticipated large crop in all the major rice-producing regions, such as India, Vietnam, Thailand, the US, China, Pakistan, Indonesia, Bangladesh and the Philippines. Subsequently, the stocks could also increase by 1% to 175 million tonnes.
- The production prospects for 2024/25 global soybeans are also positive, estimated at 415 million tonnes, up by 6% year-on-year. This is based on the expected large harvest in the US, Brazil, Argentina, India, and Paraguay. Still, given that nearly half of the production is by the southern hemisphere producers, specifically South America, we view these data as tentative until the start of the season in the region in about two months. Assuming the current estimates materialize, the 2024/25 global soybean stocks would lift by 16% year-on-year to 79 million tonnes. Such an increase in the harvest

and supplies would add downward pressure on worldwide soybean prices, which is favourable for the animal feed industry.

- A less optimistic view is in the major grains such as wheat and maize, although their supplies will still remain at levels above average. For example, the IGC forecasts the 2024/25 global wheat production at 793 million tonnes, slightly lower than the 2023/24 season's crop of 804 million tonnes. This is due to the expected production declines in the EU, UK, Ukraine and Russia. These overly wet weather conditions in these countries during the season are the reason for the anticipated poor yields.
- With food and industrial use of wheat expected to remain strong, the IGC placed the 2024/25 global wheat stocks at 261 million tonnes, down 3% year-on-year. Be that as it may, international wheat prices have not reacted to these expectations and have remained on a moderating path in recent weeks, which is a welcome development from a consumer perspective.
- Moreover, while the southern hemisphere major maize producers will only start the season in October, the IGC's preliminary estimates point to possible large harvests. For example, the 2024/25 global maize production is forecast at 1,2 billion tonnes, down by 0,2% from the previous season and well above the long-term average production levels. The slight crop decline is due to an expected slight harvest decline in the US, Argentina, Ukraine, and Russia.
- Meanwhile, the harvest for other major maize producers will likely increase. Favourably, South Africa is amongst the countries that will likely have a favourable season and a large harvest. The IGC forecasts a 20% annual increase in South Africa's maize harvest next season to 16,5 million tonnes.
- Subsequently, after considering the slight decline in global maize production and strong usage, the IGC forecasts the 2024/25 global maize stocks to be at 281 million tonnes, down 2% year-on-year. Still, we doubt this would lead to a price surge and that the current moderation may continue.
- Overall, while we are still in the early stages of the 2024/25 global grains and oilseed season, with some weather-related risks ahead, the data from the IGC and the United States Department of Agriculture, which we didn't explore in this write-up, paint an optimistic view of the harvest. Assuming the expected harvest materializes, we can expect global grains and oilseed prices to remain on the moderating path, which is positive for importing countries like South Africa. The moderating global food price path is precisely what we continue to observe in the FAO's Global Food Price Index.
- Notably, South Africa imports nearly half of its annual wheat consumption, about 1,5 million tonnes yearly. Furthermore, South Africa imports about a million tonnes of rice each year. Therefore, favourable global grain and oilseed production conditions and subsequent softening in prices would welcome developments. Still, a lot is yet to unfold in the coming months. We will monitor the monthly updates to ascertain our view of prices and the food inflation path in South Africa. For now, the indications remain reasonably optimistic.
- The risk fact to remember is the impact of the possible La Niña in the 2024/25 summer season on South America's crop. This weather phenomenon, while it brings rain in Southern Africa, typically leads to below-average rains in South America.

Exhibit I: Global food prices



Source: FAO and Agbiz Research

WEEK AHEAD

What we are watching this week

- We start the week with a global focus, and today, the United States Department of Agriculture (USDA) releases its weekly **US Crop Progress** report. The maize planting across the US is complete, and now our focus is on the growing conditions of the 2024/25 crop. In the week of July 7, about 68% of the US maize crop was rated **good/excellent** (compared with 55% rating at the same time last year). On the same day, the US soybean crop was also rated at 68%, and this 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 Thursday.
- Within 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 eleventh week of the new marketing year, 2024/25. In the previous release on July 5, South Africa's weekly maize producer deliveries were about 534 966 tonnes. This placed the 2024/25 maize producer deliveries at 8,0 million tonnes out of the expected harvest of 13,4 million tonnes.

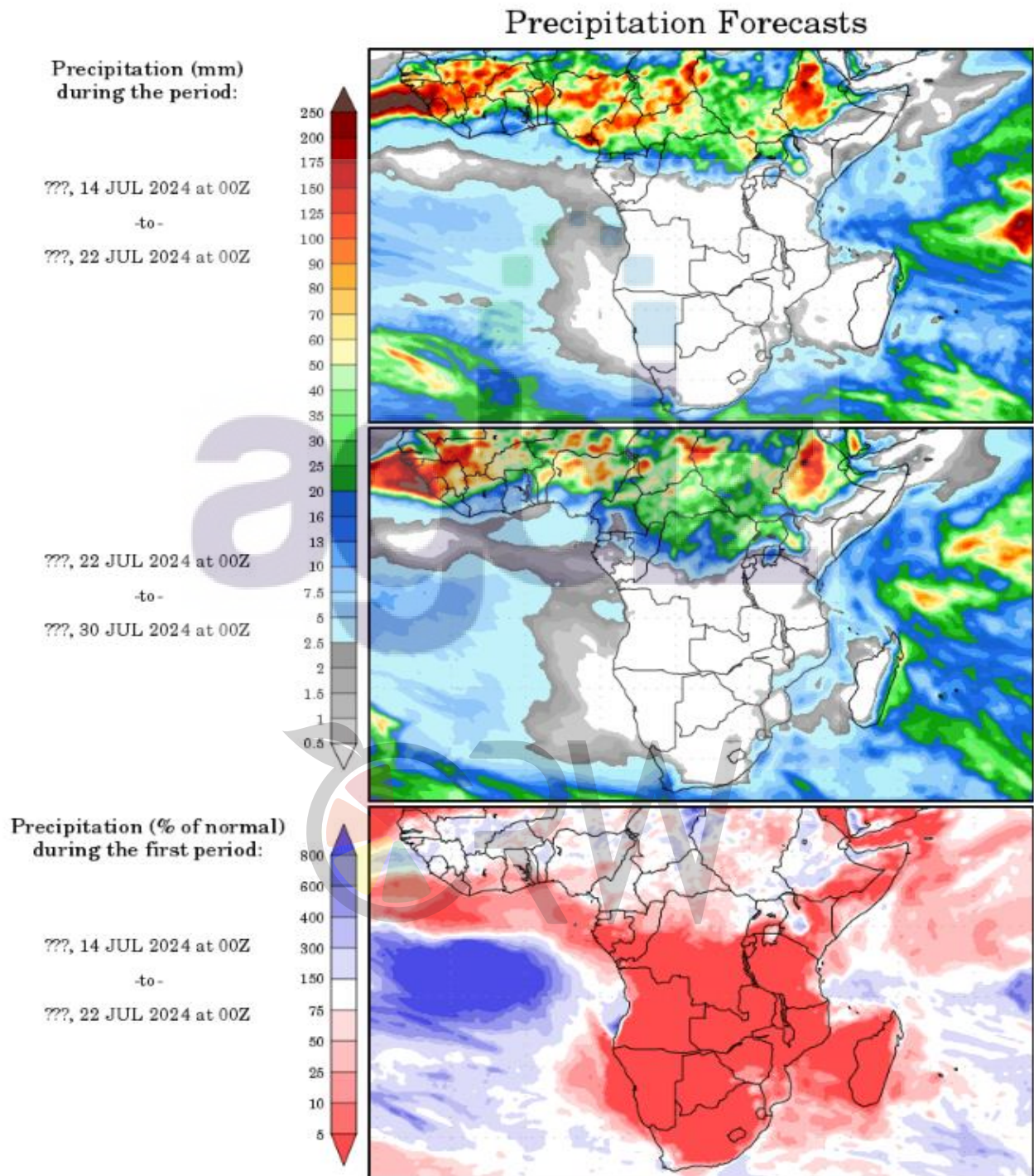
- The 2024/25 soybean deliveries in the first 19 weeks of this new marketing year amounted to 1,68 million tonnes out of the expected harvest of 1,78 million tonnes. At the same time, the sunflower seed deliveries amounted to 591 629 tonnes out of the expected harvest of 649 250 tonnes. In the case of wheat, last week, 933 tonnes of wheat were delivered to commercial silos. This placed the 2023/24 wheat producer deliveries at 1,98 million tonnes out of the harvest of 2,10 million tonnes.
- On Thursday, SAGIS will publish its **weekly South Africa's Grains and Oilseeds Trade** data for the eleventh week of the 2024/25 marketing year. In the previous release on July 5, the tenth week of the 2024/25 marketing year, South Africa exported 38 730 tonnes of maize. Of this volume, 60% was exported to Zimbabwe, and the balance to the rest of the neighbouring African countries. This places South Africa's total maize exports in the 2024/25 marketing year at 366 009 tonnes out of the expected exports of 1,4 million tonnes (down from 3,4 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 100 346 tonnes.
- South Africa is a net wheat importer, and July 5 was the 40th week of the 2023/24 marketing year; South Africa's 2023/24 wheat imports totalled 1,4 tonnes out of the seasonal forecast of 1,6 million tonnes. The major wheat suppliers include Poland, Lithuania, Latvia, Russia, and Australia.



South Africa's Precipitation forecast

- After a week of low temperatures in the northern regions of South Africa and rains in the southwestern regions, the week ahead promises some relief. The expected drier weather conditions are a welcome development for the winter and the summer grains-producing regions.

Exhibit 2: South Africa's precipitation forecast



Source: George Mason University (wxmaps)