

What Ukraine-Russia tension means for South Africa's agriculture and agribusiness

While we have started the year focusing on domestic factors affecting South Africa's agriculture and agribusiness, especially given the recent excessive rains that have worried some farmers, geopolitics factors have now also come to the fore. Specifically, the rising tensions between Ukraine and Russia are worth monitoring, given the role of these two countries in global agricultural output. Both countries are key players in global agriculture, and thus disruption in production or export activity could impact global agricultural commodity prices.

For example, Russia produces about 10% of global wheat while Ukraine accounts for 4%. Combined, this is nearly the size of the European Union's wheat production, according to the latest data from the International Grains Council. This wheat is not just for domestic consumption but for export markets. In 2020, Russia accounted for 18% of global wheat exports and Ukraine 8%. Together, this is just over a quarter of global wheat exports from just two countries.

Moreover, these countries are also notable players in maize, responsible for a combined maize production of 4%. In terms of exports, however, Ukraine and Russia's contribution is even more significant, accounting for 14% of global maize exports in 2020, according to data from Trade Map. Ukraine and Russia are also amongst the leading producers and exporters of sunflower oil. In 2020, Ukraine's sunflower oil exports accounted for 40% of global exports, with Russia accounting for 18% of global sunflower oil exports.

We don't know how the tensions between Russia and Ukraine will unfold in the coming days and possibly longer. There are reports of 100 000 Russian troops along the Ukraine-Russia border.¹ This has also caused panic amongst some analysts that an intensifying conflict between these two countries and the potential trade disruption would have significant consequences for global food stability.² We share this view, especially concerning global grains and oilseeds prices. These agricultural commodities have also been amongst the key drivers of global food prices since 2020, primarily because of dryness in South America, poor harvest in Indonesia, and the rising demand in China and India. Hence, a disruption in trade in this significant producing region of the Black Sea would add to elevated global agricultural commodity prices and potentially be consequential to global food prices. However, the scale of the potential upswing in the global grains and oilseeds prices would primarily depend on the disruption and the time trade would be affected. For now, this can be viewed as an upside risk to global agricultural commodity prices.

From South Africa's agriculture and agribusiness perspective, the impact of potentially rising tensions in Russia-Ukraine would be felt in the near term through the global agriculture commodity prices channel. There is direct agricultural trade between the two countries, but we view it as minimal. South Africa typically imports wheat from Russia and Ukraine in terms of imports. For example, Russia is the 17th largest agricultural products supplier to South Africa, and Ukraine is the 44th. But in exports, Russia is a notable market – the 13th largest.

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Wandile Sihlobo

Chief Economist

+27 12 807 6686

wandile@agbiz.co.za

www.agbiz.co.za

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¹ Iurii Mykhailov, "On the ground in Ukraine: what it means for agriculture", January 28, 2022.

² Alex Smith, "A Russia-Ukraine War Could Ripple Across Africa and Asia", January 22, 2022

South Africa's products to Russia and Ukraine are mainly citrus, nuts, vegetables and tobacco. South Africa has stronger agricultural ties with Africa, Asia, the United Kingdom, and the European Union. For example, in the third quarter of 2021, the African continent and Asia were the largest markets for South Africa's agricultural exports, accounting for 35% and 33% in value terms, respectively. The European Union was the third-largest market, taking up 23% of South Africa's agricultural exports. The balance of 9% value constitutes the Americas and other regions of the world.

The African countries that would perhaps be more exposed to worsening tension between Russia and Ukraine are the Maghreb regions, specifically Egypt, Morocco, and Tunisia. Within the Sub-Saharan Africa region, Nigeria, Sudan and Tanzania would be the most exposed countries because of the large volumes of wheat they import from Russia and Ukraine. Other areas such as the Middle East and Asia import a substantial volume of grains and oilseeds from Ukraine and Russia, which can also be directly affected by the disruption in trade.

In sum, Russia and Ukraine are both key producers and exporters of global agricultural products. Although our domestic challenges are vital for the sustainability and growth of primary agriculture and agribusiness, the international events will indirectly affect the business conditions here at home. We would likely experience the impact of the Russia-Ukraine tensions through global price channels in the near term. Still, the situation remains fluid and uncertain but will require close monitoring.

Weekly highlights

SA summer crop plantings data paint a more positive picture than many initially feared

The excessive rains since the start of South Africa's 2021/22 summer crop production season in October 2021 raised concerns that farmers might not have been able to till the initially planned area of 4,34 million hectares (up by 3% from the 2020/21 production season). The preliminary plantings data released last week by the Crop Estimates Committee proved this point to be accurate. Still, the actual plantings are a relief as many analysts, with ourselves included, thought we would see a much smaller area. Farmers are estimated to have planted 4,21 million hectares, which is 3% less than their intentions at the start of the season. The slight declines are in maize, soybeans, groundnuts, sorghum and dry beans. Meanwhile, sunflower seed plantings are up from the initial intentions.

But the best way to view this data is by comparing it with the area planted in the 2020/21 production season, and from this perspective, farmers planted 0,4% more hectares. The increase is on sunflower seed (up 21% y/y with 580 000 hectares) and soybeans (up 10% y/y, with 910 000 hectares). For these crops, the estimated area is well above the 10-year average plantings, and in fact, a record area for soybeans.

Other crops area declined, specifically maize whose plantings fell by 5% y/y with 2,61 million hectares. Still, this is well above the 10-year average area planting of 2,53 million hectares. Moreover, the groundnuts area is down by 12% y/y, with 34 000 hectares, which is well below the 10-year average of 43 348 hectares. Sorghum and dry beans plantings are down 29% y/y and 10% y/y, with 35 000 hectares and 42 450 hectares planted, well below the 10-year average.

Now that we have the plantings data, the discussion will likely shift to yields, a crop tonnage per hectare. Considering the major grains and oilseeds, such as maize, soybeans, and sunflower seed, the yields in the past 10-years averaged 5,02 tonnes per hectare (t/ha), 1,78 t/ha and 1,30 t/ha, respectively. The 2014/15 production season was one of the lowest yields, especially maize, as this was a drought year. The yield was 3,75 t/ha. It is unclear where the

yields will be in the 2021/22 production season. Still, various industry surveys and our general observations suggest that the areas such as the western regions of the Free State, North West, and parts of the KwaZulu Natal and the Eastern Cape, which received heavy flooding, could realize lower yields than the previous season.

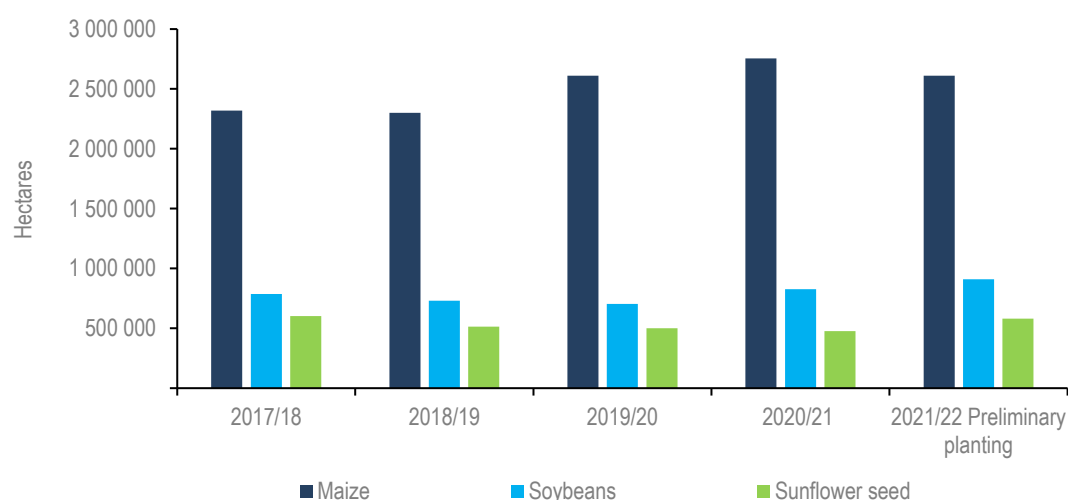
South Africa will need at least an average national yield of 4,60 t/ha to have a maize harvest of 12,01 million tonnes in the current area planting if we have sufficient maize supplies for domestic consumption. Such a yield estimate is possible given that the floods that caused the damage were not a nationwide challenge but certain regions of some provinces. Still, it will be a month until we have official first production estimates from the Crop Estimates Committee. The current plantings data provides some comfort that plantings didn't decline as notably as some might have feared and are marginally above the 2020/21 production season.

Notably, while this data is comforting, and we base our views on this note on it, we caution the reader that on February 28, when the Crop Estimates Committee releases its first production estimates, there might be some revisions on it.

For now, we doubt that the planting information will have a notable impact on the domestic grains and oilseeds prices. First, the grain market participants will now focus on possible yields and weather conditions; this will be more evident over time. Secondly, the domestic grains and oilseeds market is still primarily influenced by global events such as crop conditions in South America, a significant producer in the global market, grains and oilseed demand in China, and most recently, the geopolitics in the Russia-Ukraine region, as we discussed above. All these global factors present a temporary upside pressure on prices.

With that said, the global production estimates remain relatively robust, which signals that the medium-term price trend of global grains could be sideways, which could be a reality here in South Africa. The International Grains Council and the United States Department of Agriculture forecast 2021/22 global maize production at 1,2 billion tonnes, up by 7% y/y. Subsequently, the 2021/22 global maize stocks at 287 million tonnes, up by 3% y/y. This bodes well for a sideways to slight downward price trend over the coming months.

Exhibit 1: South Africa's major summer grains and oilseeds plantings



Source: CEC and Agbiz Research

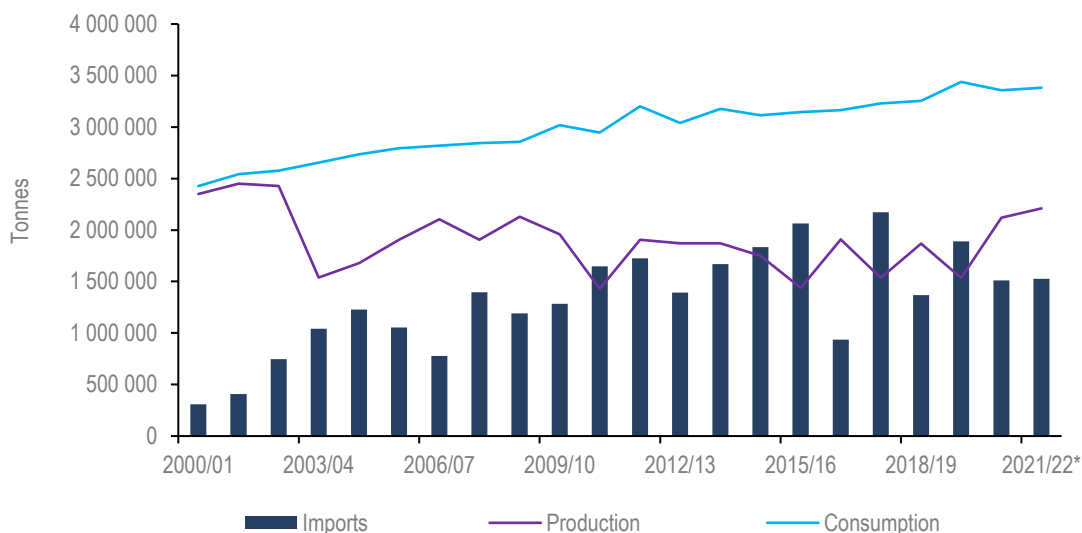
SA could have the largest wheat harvest since 2022

Last week, the Crop Estimates Committee (CEC) released its sixth production forecast for 2021/22 winter crops. There were notable changes from the previous update of the end of December 2021, with wheat production forecast up by 3% to 2,21 million tonnes, which is the largest expected wheat crop produced since 2002, when it was 2,43 million tonnes. Canola production forecast was also lifted by 4% from December to 197 000 tonnes, the largest canola crop on record. Meanwhile, barley and oats production forecasts were cut by 3% and 13% from December to 331 100 tonnes and 69 950 tonnes.

The Western Cape, the region that grows more than two-thirds of South Africa's winter crops, received favourable rainfall since the start of the 2021/22 season, which boosted the yields and encouraged farmers to lift the area plantings for wheat and canola. This increase in the Western Cape's wheat production overshadowed the annual decline in the Northern Cape, Free State, and the Eastern Cape. The other province that registered a yearly uptick in production is Limpopo and Gauteng. Still, there are reports of relatively poor quality in some regions of the country because of the heavy rains during the harvest period.

While this is the largest harvest since 2002, South Africa will remain the importer of wheat (see Exhibit 2). The import requirements for the 2021/22 marketing year, which started on October 01 2021, is 1,53 million tonnes. This is up by 1% from the 2020/21 marketing year because of a marginal increase in domestic consumption.

Exhibit 2: South Africa's wheat market



Source: CEC, SAGIS and Agbiz Research

Data releases this week

We start the week with a domestic focus. Today, Statistics South Africa will release the **Consumer Price Index (CPI) new weights** (based on 2019).

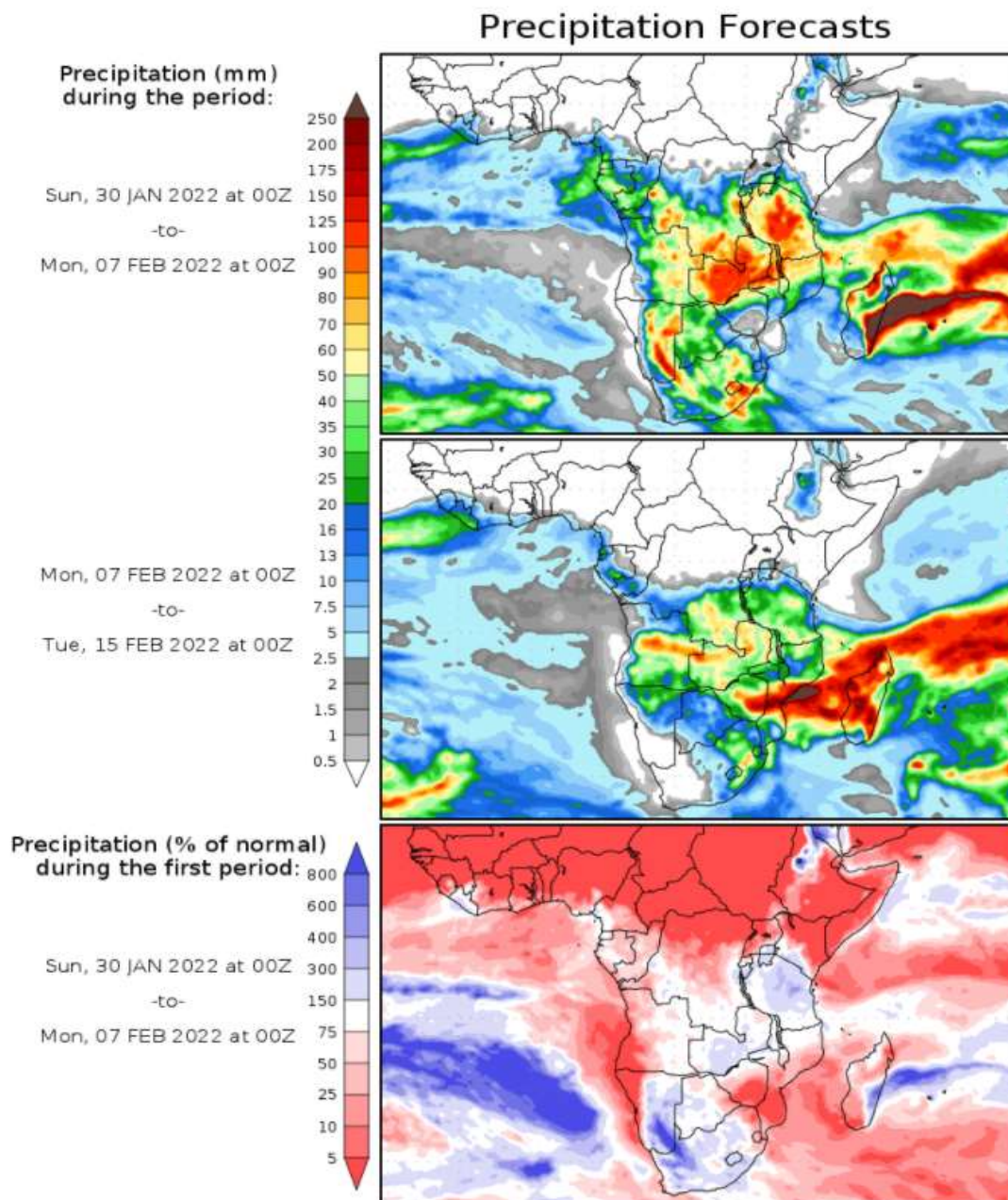
On Wednesday, SAGIS will release the **Weekly Grain Producer Deliveries** data for January 28. This data cover summer and winter crops. But our focus is on winter crops that have recently completed the harvest activity. The summer crops' new season is still at its early stages. Thus, we will focus on the summer crop data closer to harvest in the coming months. In the previous release of the week of January 21, about 2,05 million tonnes of wheat had already been delivered to commercial silos. This covered the first seventeen weeks of the

2021/22 production season and equated 93% of the revised harvest estimate of 2,21 million tonnes.

On Thursday, SAGIS will release the **Weekly Grain Trade** data for the week of January 28. On January 21, which was the 38th week of South Africa's 2021/22 maize marketing year, total maize exports amounted to 2,66 million tonnes, equating to 78% of the seasonal forecast of 3,42 million tonnes (up by 16% y/y). South Africa is a net importer of wheat, and January 21, was the 17th week of the 2021/22 marketing year. The total imports are now at 348 064 tonnes out of the seasonal import forecast of 1,53 million tonnes (slightly above the 2020/21 marketing year imports of 1,51 million tonnes).

Globally, the United States Department of Agriculture (USDA) will release the **US weekly agricultural export sales** data on Thursday.

Exhibit 3: South Africa's precipitation forecast



After a couple of days of a breather, South Africa could again receive widespread rains this week.

This is not conducive for crop-growing regions which currently need sunshine following weeks of heavy showers since the summer season started.

Source: George Mason University (wxmaps)