Agricultural input costs are still elevated

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The higher input costs, which have been the dominant feature of South Africa's agricultural sector over the past year, will likely prevail in the coming months, with negative effects on farmers' financial conditions. First, for the crop farming subsector, prices of fertilizer, herbicides and insecticides were up by more than 50% during the planting period of the 2021/22 season. Hence, the crop losses in various regions of the country caused by floods proved so costly for farmers who had to replant or forego extremely wet areas this season. Second, the poultry and, to an extent, the livestock sector also had to contend with higher grains and soybeans prices since 2020, which have squeezed farmers' profitability. Admittedly, improved grazing veld conditions resulting from heavy rains will, to some degree, be beneficial to the livestock industry.

Crop inputs

In January 2022, the fertilizer prices remained elevated. For example, KAN/LAN (28), urea (46), and potassium chloride prices were up by 127% year-on-year (y/y), 182% y/y, and 114% y/y in January 2022, selling at around R13 933, R19 876 and R13 816 per tonne, respectively. Herbicides show a similar price trend. For example, glyphosate, acetochlor and atrazine prices were up by 211% y/y, 139% y/y and 143% y/y in December 2021, respectively. Regarding insecticides, imidacloprid, lambda-cyhalothrin, and acetamiprid prices were, respectively, up by 124% y/y, 45% y/y and 121% y/y in December 2021. There are many factors behind these sharp input cost increases, such as the supply constraints in critical fertilizer-producing countries, mainly China, India, the US, Russia and Canada. Rising shipping costs, oil and gas prices are also contributing factors to the price increases, along with firmer global demand from the growing global agriculture. The ongoing tension between Russia and Ukraine has added to the upside price pressures of these agricultural input costs.[1]

Summer crop producers have already incurred these costs as the crops are now growing. The primary focus for the coming month is the winter crop growers, mainly for wheat, canola, barley and oats, where planting for the new season crop will begin at the end of April. This means that some of the input orders are already in process currently. Thus, even though the 2021/22 winter crops, such as wheat, were the largest since 2002 and canola a record harvest, the profits will be squeezed by the high input costs in the new upcoming production season.

For the summer crops, mainly maize, soybeans, sunflower seed, groundnuts, sorghum and dry beans, it will be a while before farmers embark on the 2022/23 production season, which will only begin in October. There is uncertainty about how the fertilizer and agrochemicals (herbicides and insecticides) prices will be in the coming months. The global supply of critical inputs is likely to have recovered by then, even if partially so, thus providing some price relief. Such optimism is the outlook of some analysts in the global fertilizer market.[2]

We have focused on the global developments because South Africa imports about 80% of its annual fertilizer consumption and is a minor player globally, accounting for a mere 0.5% of total global consumption. Therefore, local prices tend to be influenced by developments in

[1] Luke Harding, "*Russia has enough troops ready to take Kyiv, says former Ukraine defence chief*", 06 February 2022.
[2] Russ Quinn, "*Global Fertilizer Outlook*", 17 December 2021.

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the major producing and consuming countries mentioned above. From a usage perspective, much of the fertilizer imported by South Africa is utilized in maize production, accounting for roughly 41% of total fertilizer consumption. The second-largest consumer is sugar cane farming, at 18%. Fertilizer constitutes about 35% of grain farmers' input costs and a substantial share in other agricultural commodities and crops. In terms of agrochemicals (herbicides and insecticides), South Africa also imports a significant volume of over 90% of annual usage. This global dependency on critical agricultural inputs is because South Africa lacks the primary minerals or natural resources fundamental for fertilizer and agrochemicals production.

Livestock and poultry inputs

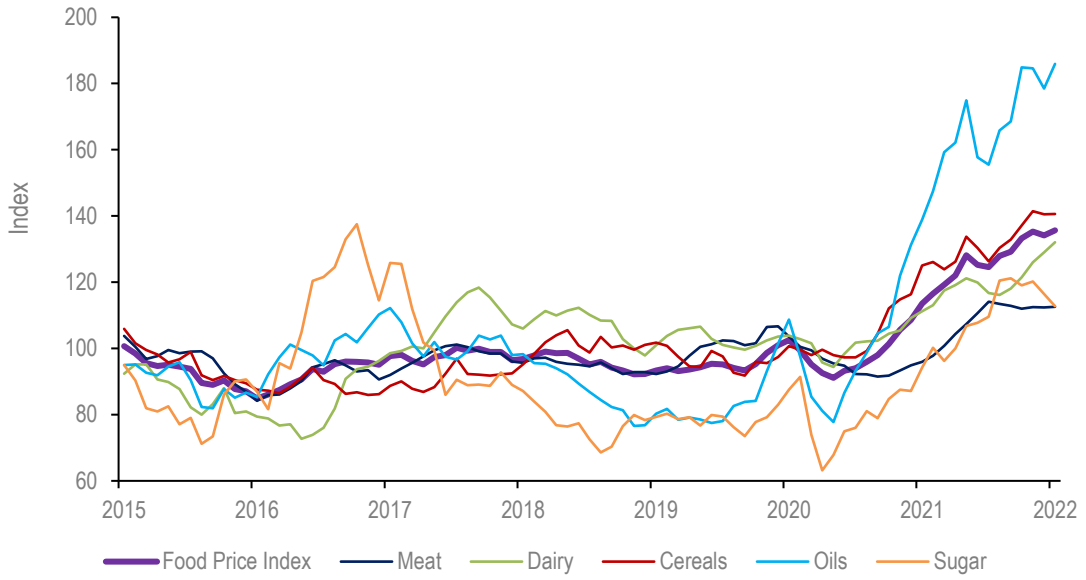
We see similar cost pressures for the livestock and the poultry industry. While the heavy rainfall of the past few months has improved the grazing conditions in South Africa, oilseeds and grains prices have remained elevated, thus boosting input costs for farmers, specifically poultry producers. As we have argued in the previous notes, the higher grains and oilseeds prices were not a factor in the domestic market conditions but underpinned by the global dynamics. The poor crop conditions in South America, strong demand for oilseeds in China and India, poor palm oil harvest in Indonesia, and recently the Russia-Ukraine tension have been amongst the major upside drivers of prices in the past few months. This has, in turn, influenced the price dynamics in South Africa and the costs of feed for the livestock and poultry sector.

We have held a favourable view that the global grains and oilseed prices could soften somewhat in the coming months because of the expected improvement in the global supplies and stock levels. The International Grains Council and the United States Department of Agriculture expect this recovery in global grains stocks despite the possible poor crop in South America.[3] But the recent data show that global grains and oilseeds prices are still at firmer levels. For example, the FAO Food Price Index averaged 136 points in January 2022, up by 1% from December 2021 and at its highest since April 2011 (see Exhibit 1). The recent increases in the Food Price Index were mainly underpinned by vegetable oils and dairy products. The grains prices, which we are closely monitoring, were roughly unchanged from December 2021 and up by 13% from January 2021. Only a downward price change in vegetables oils and grains would provide much-needed relief in the livestock and the poultry industry. The interplay of a potential recovery in stocks and consumption levels and ultimate harvest size in South America will be the main determinants of these prices in the coming months.

Overall, the higher inputs costs environment of 2021 has not changed much at the start of this year. The year's livestock and poultry farmers' input costs direction will be more precise over the coming months. Still, there is hope that a potential recovery in stocks could add a slight downward pressure on global grains prices, which will affect prices here in South Africa. In the case of fertilizer and agrochemicals, there is talk of replenishment in stocks or an increase in the production of major minerals, but this will only be clearer over time. At the moment, we fear that the winter crop producers of South Africa could experience higher input costs as was the case for the 2021/22 summer crop planting season. Such conditions would overshadow the profits of the 2021/22 large crop.

[3] Wandile Sihlobo, "*What should we watch in the global grains and oilseeds market?*", 17 January 2022.

Exhibit 1: FAO's Global Food Price Index



Source: FAO and Agbiz Research

Weekly highlights

Erratic weather conditions in Southern Africa disrupt agricultural activity

The typical feature of the La Niña weather event is above-normal rainfall in Southern Africa and dryness in the East Africa region. The East Africa region has been drying to the extent that there are fears of increased hunger in this continent region, specifically in Somalia, Kenya, and Ethiopia.[4] Within the Southern Africa region, the picture has somewhat been mixed. For example, although South Africa usually receives higher rains that are not as destructive to crops, the 2021/22 season has been notably different from other La Niña years. This season is characterized by heavy rains that were unusually disruptive in provinces such as the Free State, North West, parts of KwaZulu-Natal and the Eastern Cape.

Meanwhile, much of the Southern Africa region started the year with less destructive rains and even dryness in Namibia[5], Tanzania, and Angola.[6] However, the Southern Africa picture seems to be changing. Zimbabwe has recently experienced floods in 16 districts across six provinces — Manicaland, Mashonaland Central, Mashonaland West, Mashonaland East, Midlands and Matabeleland North.[7] The Zimbabwe Meteorological Services Department currently forecasts more rains in the coming weeks. However, it is unclear how much damage the heavy rains have caused in the agricultural sector, and specifically the staple grains.

Similarly, in the drier regions of Namibia, Tanzania, and Angola, agricultural activity was most likely interrupted. It will be a few weeks before we receive reliable on-the-ground agriculture situation analysis in these countries. Such insights will help understand the regional staple grains needs in the 2022/23 marketing year (corresponds with the 2021/22 production season).

As we stated in our note last week, South Africa's maize (and other grains and oilseeds) area plantings for the 2021/22 production season are promising. The focus now is on the yields

[4] Michael Carlowicz, "*Failed Rainy Seasons Create Massive Food Emergency in Eastern Africa*", 09 January 2022.
[5] Hileni Nembwaya, "Namibia: Northern Farmers Fear Impending Drought", 06 January 2022.
[6] FEWS NET, "*Global Weather Hazards Summary*" 02 February 2022.
[7] OCHA, "ZIMBABWE: Floods and Storms", 03 February 2022.

estimate, and this insight will be more precise at the end of February. Notably, for staple grains such as maize, South Africa will need a yield of over 4,6 tonnes per hectare, in the currently estimated area of 2,61 million hectares, to meet the domestic needs and have an excess volume for exports to the neighbouring countries. Due to weather disruptions, the neighbouring countries' maize production conditions also remain tentative. We will closely monitor the agricultural conditions and crop forecasts in the broader Southern Africa over the coming weeks. This is critical to assessing the potential demand for the 2022/23 marketing year, which starts in May for South Africa's maize industry.

Data releases this week

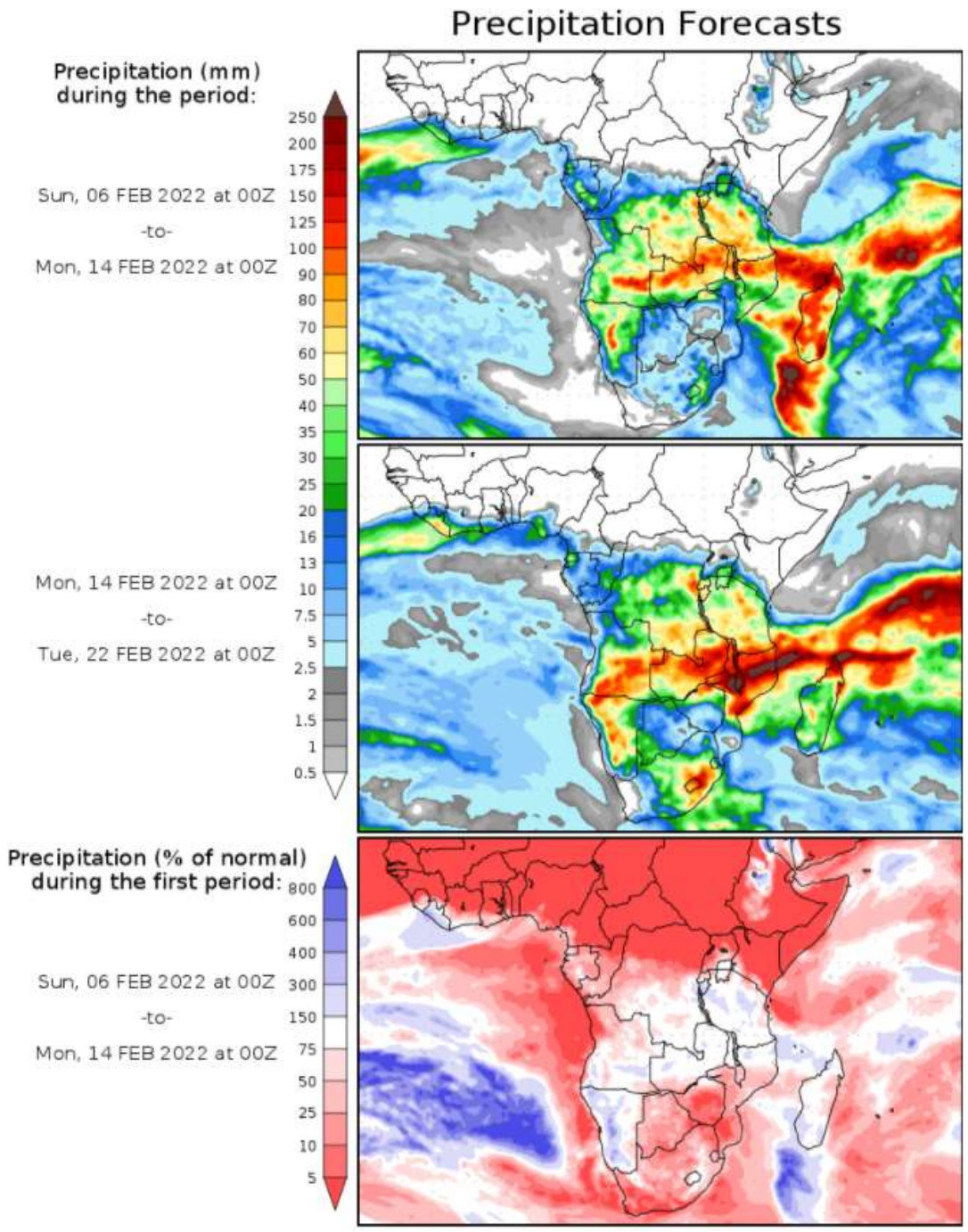
We start this week focusing on the global agricultural market, as the United States Department of Agriculture (USDA) will update its monthly **World Agricultural Supply and Demand Estimates** report on Wednesday. We look to see if there will be any significant revisions of South America's 2021/22 grains and oilseeds production estimates following reports of dryness in that region of the world. This insight will also help inform the global grains and oilseeds stock levels and, after that, the price direction of these critical commodities.

On Thursday, the USDA releases the **US Weekly Export Sales** data. Here we typically assess the Chinese demand for US grains and oilseeds.

Domestically, on Wednesday, SAGIS will release the **Weekly Grain Producer Deliveries** data for 04 February. 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 28 January, about 2,07 million tonnes of wheat had already been delivered to commercial silos. This covered the first eighteen weeks of the 2021/22 production season and equated 94% of the revised harvest estimate of 2,21 million tonnes.

On Thursday, SAGIS will release the **Weekly Grain Trade** data for the week of 04 February. On 28 January, which was the 39th week of South Africa's 2021/22 maize marketing year, total maize exports amounted to 2,71 million tonnes, equating to 79% of the seasonal forecast of 3,42 million tonnes (up by 16% y/y). South Africa is a net importer of wheat, and 21 January, was the 18th week of the 2021/22 marketing year. The total imports are now at 380 918 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).

Exhibit 2: South Africa's precipitation forecast



Source: George Mason University (wxmaps)

The weather forecast for the week shows prosects of light showers over most regions of South Africa, which is favourable following weeks of heavy rains.

The week after, however, could bring again heavy rains across the country, which is not conducive for summer crops.