

South Africa's agricultural exports hit a new record high of US\$12,4 billion in 2021

The need to improve logistics efficiency and curb the deterioration of infrastructure remains a topical issue in South Africa's agriculture. Farming communities and agribusinesses might work to improve productivity on the farms, but the ultimate goal for some agricultural commodities producers is to reach export markets. However, achieving this is not only a function of output, but also the various trade agreements that South Africa has with other countries and the efficiency of logistical infrastructure locally. In 2021, the cyberattacks at Transnet, vandalism of rail infrastructure, poor road networks across the country, which the heavy rains have now exacerbated, and inefficiencies at the ports at various periods were the key risks to South Africa's agricultural export drive.

The agriculture and agribusiness industry has since firmed its relationship with Transnet to focus on the short-term challenges of ensuring that the perishable products already harvested are exported efficiently while also not forgetting the long-term collaboration for improving the port efficiencies. The latter aligns well with the agriculture expansion strategies, aimed at boosting production, destined for the export market as the sector is already export-oriented.

The close collaboration since the unrests and cyberattacks at the ports has also paid off if one assesses this from an export volume and value perspective. For example, in the last quarter of 2021, the value of agriculture, food, and beverages exports increased by 18% y/y to US\$2,8 billion, according to data from Trade Map. This puts South Africa's agriculture, food and beverages exports for 2021 at a record US\$12,4 billion. The top exportable products include wine, maize, citrus, nuts, berries, grapes, wool, fruit juices, and apples and pears. The significant factors underpinning this total export value are the sizeable agricultural output in the 2020/21 production season, combined with general solid global demand, and generally higher agricultural commodity prices and large export volumes, specifically in maize which reached the highest volume since 1994/95, and citrus which reached a record export volume.

From a destination point of view, the African continent and Asia were the largest markets for South Africa's agricultural exports in the fourth quarter of 2021, accounting for 45% and 23% in value terms, respectively. The European Union was the third-largest market, taking up 16% of South Africa's agricultural exports. Trailing these regions was the United Kingdom with about 6% of South Africa's agricultural exports, and the fourth largest destination if we rank the export destinations by country, not as regions. The balance of 10% value constitutes the Americas and other regions of the world.

As with the third quarter of 2021, at the core of this success lies the continued coordination that agribusiness and organised agriculture, Transnet, and various ports operating and truckers' groups have had since the July unrests. Through meetings organised by Business Unity South Africa (BUSA), the regular interactions amongst these groups have been a pivotal platform to share information about various glitches encountered in the logistics and ease the flow of information to parties that can assist. The logistical challenges have had financial implications, but the coordination has ensured a flow of products and export earnings.

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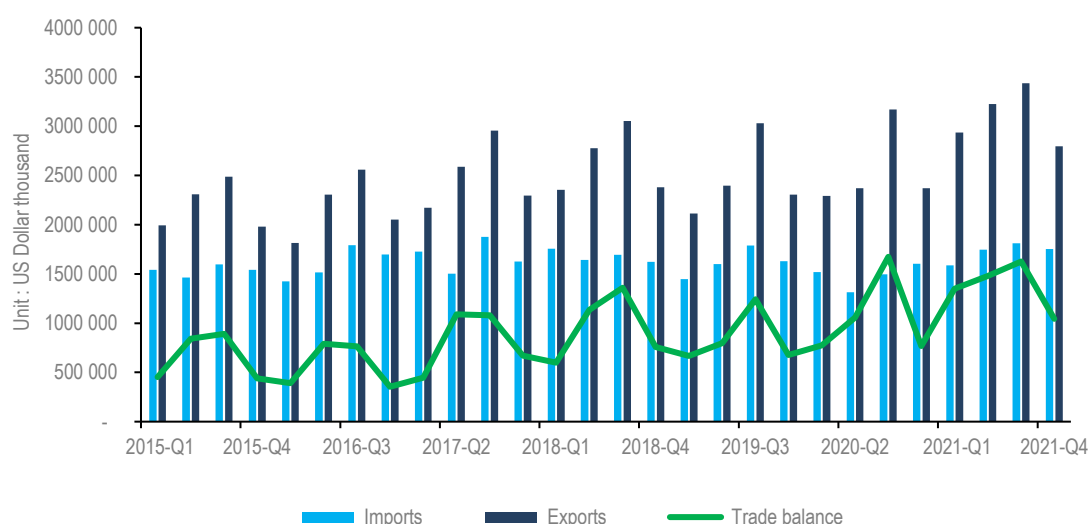
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Efficient logistics are also vital for imports as South Africa still relies on other countries for crucial food products such as wheat, rice, poultry, palm oil, and sunflower oil. These products dominated the food import bill in the fourth quarter of 2021, as they cannot be sustainably produced at scale in South Africa because of unfavourable climatic conditions. As such, in the fourth quarter of 2021, agricultural imports increased by 9% y/y to US\$1,8 billion. We believe rice, wheat, sunflower oil, and palm oil will continue leading the agricultural import product list in 2022. In sum, South Africa recorded a trade surplus of US\$1,0 billion in the fourth quarter of 2021, which is up by 36% from the corresponding period in 2020, primarily underpinned by robust exports.

Regarding policy perspective, the industry collaboration on logistics has yielded positive results, but the challenges that confronted the country in the ports and rail lines in 2021 persist. This means that the collaborative efforts with Transnet should continue to resolve near-term challenges while also exploring collaboration for co-investing in long-term infrastructure needs. Additionally, the South African government and industry also need to maintain relations in existing export markets while widening access to new markets that will accommodate the expected harvest from a range of commodities in the coming years. China, Japan, India, Saudi Arabia and Bangladesh are some of the key markets that stakeholders in all subsectors of agriculture agree would benefit them.

Exhibit 1: South Africa's agricultural trade



Source: Trade Map and Agbiz Research

Weekly highlights

Global maize harvest is still at decent levels

The dominant news out of South America has been of drier weather conditions and frequent downward revision of crop estimates, mainly by the local forecasters. However, global forecasters such as the International Grains Council (IGC) and the United States Department of Agriculture (USDA) have maintained a somewhat optimistic view of South 'America's crop conditions, specifically maize production. This optimism has implications for global maize supplies. For example, Brazil and Argentina collectively account for 14% and 50% of global maize and soybean production, respectively, hence the concerns about crop conditions in this region have implications on global supplies and prices.

In the recent monthly updates, the IGC and USDA left the 2021/22 global maize production at 1,2 billion tonnes, up by 6% year-on-year. This is supported by an expected large harvest in the US, Brazil, Ukraine, China, the EU, and Russia. The IGC forecasts the global maize stocks for the 2021/22 season at 281 million tonnes, up by 1% year-on-year. Nevertheless, this is slightly lower than the 'USDA's 'stock's forecast of 302 million tonnes, up by 4% y/y, partly due to differences in consumption forecasts.

Still, we think the USDA and IGC's latest 2021/22 maize production estimates might not have fully accounted for poor yields in parts of Brazil following the drier weather conditions. We make this point through observations of these institutions view of South 'Africa's 2021/22 maize crop, which the IGC placed at 15,8 million tonnes (down 6% y/y). Meanwhile, the South African observers believe that the crop could be somewhat smaller than this estimate because of possible lower yields in some regions following the heavy rains. The 'country's official production forecast will be released on 28 February.

Unlike maize, the IGC currently forecasts Brazil's 2021/22 soybeans production at 127 million tonnes (down 8% y/y), Argentina's harvest at 42 million tonnes (down by 10% y/y), and Paraguay's 2021/22 soybean harvest at 6 million tonnes (down by 34% y/y). Consequently, the 2021/22 global soybeans production is at 353 million tonnes, down by 4% from the previous season. Consequently, the 2021/22 global soybeans stocks are down 19% y/y, estimated at 43 million tonnes.

Rice and wheat production are not in a similar spotlight as soybeans as production forecasts have remained relatively stable since last year. The 2021/22 global rice and wheat production is estimated at 510 million tonnes (up by 1% y/y) and 781 million tonnes (up by 1% y/y).

Regarding the price direction of these major grains and oilseeds, we think maize prices could trade sideways in the near term as the stock levels are still expected to be at comfortable levels. We will consistently monitor the crop conditions in the region as downward revisions of the crop forecast would influence the stock levels and after that, price direction.

In soybeans, the downward revision of the production estimates will add upward pressure on prices. Additionally, there is already upward pressure in the vegetable oils prices, which emanated from prospects of a lower palm oil harvest in Asia and the generally strong global demand for vegetable oils. In terms of rice, the price direction has trended sideways to downwards in the recent months; we expect the trend to continue in the near term. For wheat, the rise in global consumption has provided upward support to prices in the recent months. Still, the wheat prices shouldn't be as volatile as what we could see in soybeans and maize, where the weather conditions matter a lot for the near-term price direction.

Data releases this week

We start this week focusing on the domestic agricultural market; on Tuesday, Statistics South Africa will release the **Quarterly Labour Force Survey (QLFS)** data for the fourth quarter of 2021. The agricultural labour market has generally been healthy, in line with broader agricultural conditions in 2021. For example, in the third quarter of 2021, agricultural employment increased by 3% y/y to 829 000. This is well above the long-term agricultural employment of 780 000.

On Wednesday, SAGIS will release the **Weekly Grain Producer Deliveries** data for 18 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 time in the coming months. In the previous release of the week of 11 February, about 2,12 million

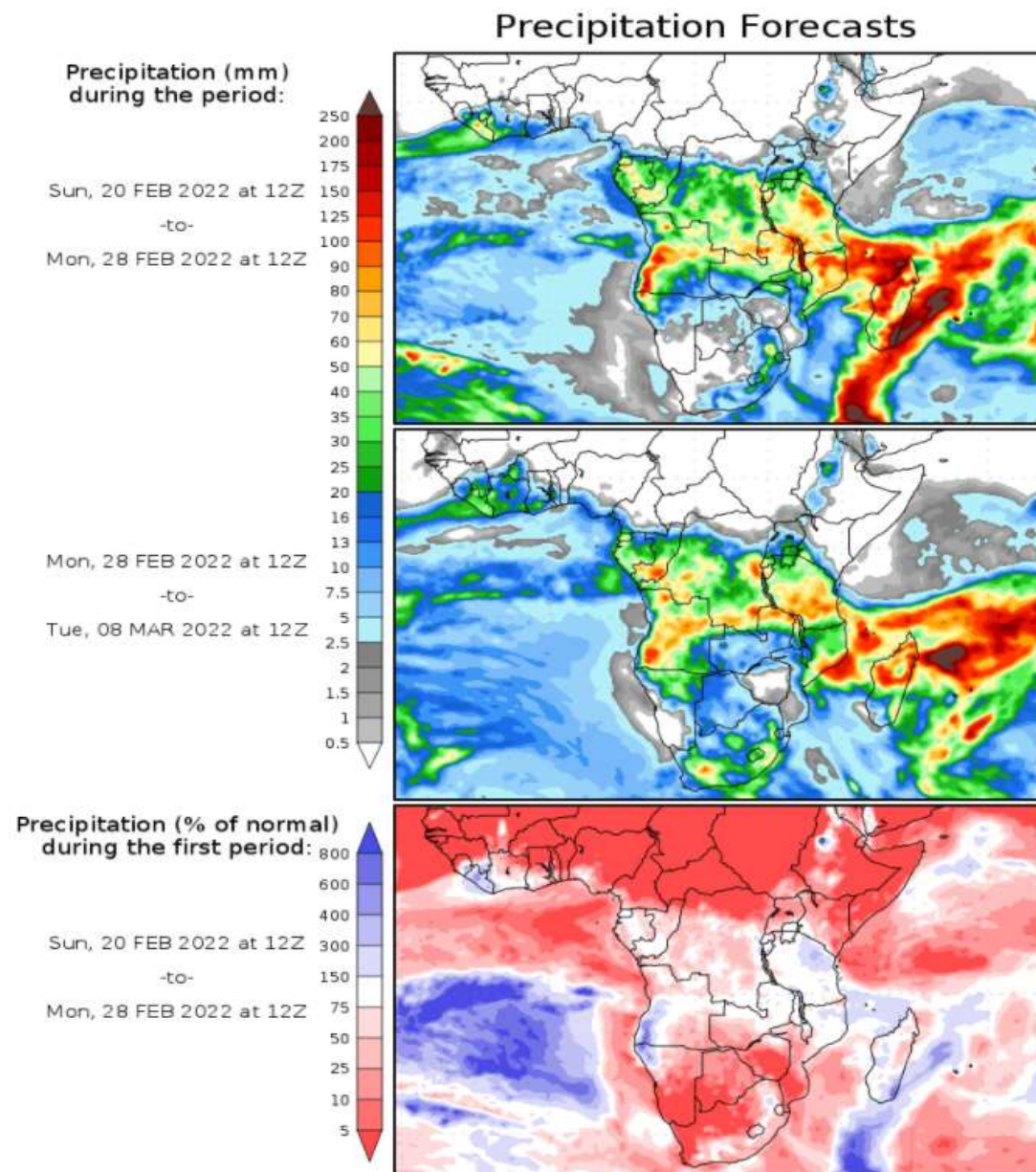
tonnes of wheat had already been delivered to commercial silos. This covered the first 20 weeks of the 2021/22 production season and equated 96% of the revised harvest estimate of 2,21 million tonnes.

On Thursday, SAGIS will release the **Weekly Grain Trade** data for the week of 11 February. On 04 February, which was the 40th week of South 'Africa's 2021/22 maize marketing year, total maize exports amounted to 2,89 million tonnes, equating to 85% of the seasonal forecast of 3,42 million tonnes (up by 16% y/y). South Africa is a net importer of wheat, and 11 February, was the 20th week of the 2021/22 marketing year. The total imports are now at 466 823 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).

Also, on Thursday, Statistics South Africa will release the **Producer Price Index (PPI)** data for January 2022. Here we will focus on the food category of the index and the PPI for agriculture, forestry and fishing.

Globally, the USDA releases the **US Weekly Export Sales** data on Thursday.

Exhibit 2: South Africa's precipitation forecast



The weather forecast for this week shows prospects of warm weather in the central and western regions of South Africa, which is conducive for agriculture following weeks of heavy rains. Meanwhile, the eastern regions of the country could receive rains.

However, the week after promises a return of countrywide rains, with overcast clouds across South Africa. This is not conducive for crops in areas that still experience excessive soil moisture.