Roads and ports efficiency should be a priority in supporting agricultural growth

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One of the downsides of the heavy rains during the 2021/22 summer season was the destruction of already poorly maintained rural roads in South Africa. These road networks are at the heart of the farming value chain, especially for transporting the produce from farms to storage areas and various markets for consumption and exports. Several farmer associations have highlighted this challenge and called for local and national government intervention to improve the roads. For the Free State, which is a key region for South Africa's grains and oilseeds production, the deteriorating roads infrastructure challenge was also raised over the past weekend at the Presidential Imbizo in Mangaung Metropolitan Municipality, which President Ramaphosa led. While the media coverage was mainly in this particular province in the past few days, this is a challenge across all provinces of South Africa. Other provinces that have thus far not been as vocal will likely also speak up in the coming months as South Africa approaches a busy period of harvesting summer grains, oilseeds and major horticulture such as citrus and other vegetables.

The deteriorating road infrastructure increases the transaction costs for established farmers and agribusinesses, which shift some of their resources towards maintaining stretches of roads – a public sector duty – instead of investing time and capital in their businesses. Emerging commercial farmers in particular are hard hit because they lack such resources. Importantly, with the decline in rail usage over time in the agricultural sector, roads have become the main mode of transporting staple foods across the country and the ports (see Exhibit 1). As a result, South Africa cannot speak about increasing agricultural production through various partnership programmes if the infrastructure challenges are not at the centre of any growth plan. This is also not the main task of the Department of Agriculture, Land Reform and Rural Development (DALRRD), which is the main interface of farmers, agribusinesses and government, but mainly falls under the Department of Public Works and Infrastructure as well as provincial and municipal government. However, the DALRRD, can elevate this challenge within the government structures as it will hinder the very same plans the department has for boosting growth and employment in agriculture and the rural economy.

Admittedly, the 2021/22 summer crop harvest period, which begins this month, will likely not escape the transport glitches, as the continuous rains will likely exacerbate the challenge. Still, going into the 2022/23 production season, this should be the major focus and will have positive spin-offs in terms of temporary employment in various rural towns that require roads upgrades and maintenance. Sequencing this infrastructure need, along with the implementation of the Agriculture, Agro-processing Master Plan, could improve the sentiment in the sector. Moreover, this would allow the agribusinesses and farming enterprises to shift resources they are spending on roads into production and partnerships with new entrants in the sector, and ultimately drive inclusive growth. If interventions are not done to improve road infrastructure, the other government interventions and intentions to boost the sector risk being viewed half-heartedly in the sector.

While we make this point from an agricultural perspective, the improvement in road networks would have positive spin-offs for various sectors of the economy and industries. For example, the domestic tourism industry also suffers from poorly maintained roads as do the

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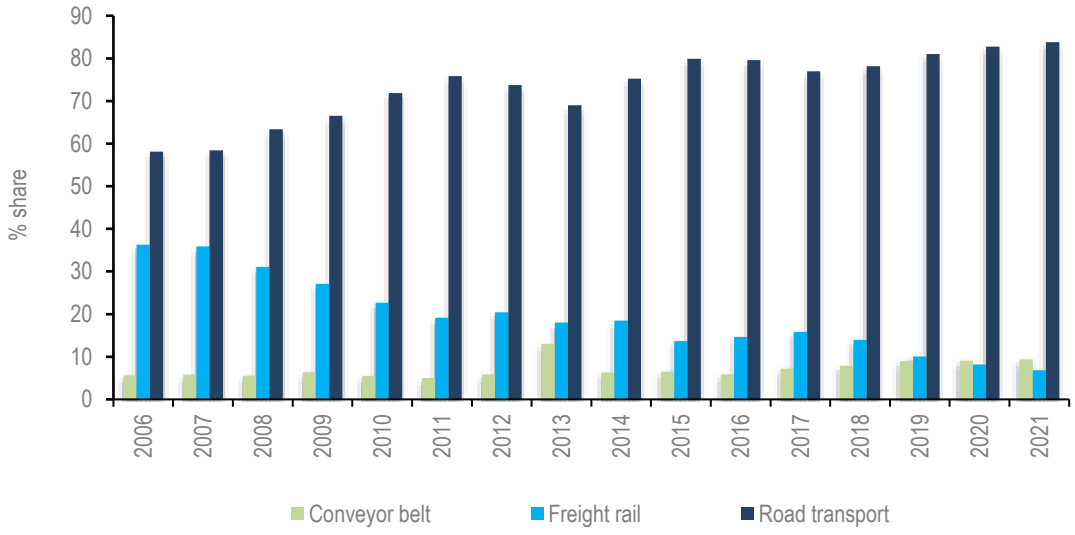
mining industry, automobile production and other areas of manufacturing. These are also critical sectors of the economy, and mining, tourism, and agriculture, in particular, are at the core of the rural economy, which relies heavily on the primary industries of the economy. Another important aspect is that the better-maintained roads lower transaction costs of transporting food products from production to consumption. Over time, that has beneficial effects on the prices of some products at the retail level.

In sum, South Africa's rural roads have been poorly maintained for some time, especially over the past decade. The farming community and, to an extent, the tourism industry have long felt the impact. But the recent rains of the 2021/22 summer season worsened the conditions. The government infrastructure programme, national and local, should prioritize roads. Provinces such as the Free State, North West, Eastern Cape, Northern Cape, and Limpopo could benefit immensely from improved road networks and better municipality service delivery.

Another aspect that will surface in the coming months is the efficiency of the ports. The close collaboration with Transnet, various truckers' groups and logistics businesses, and farming groups, could help ensure the movement of products in the coming months. Still, the problems that agriculture products exporters experienced in 2021 will likely persist this year. However, the progressively improving communication channels will probably help resolve the glitches swiftly and hopefully lead to another year of strong exports. In 2021, South Africa's agricultural exports reached a record US$12,4 billion. The close collaboration of the stakeholders above with Transnet played a notable role in the movement of the products, notwithstanding various challenges experienced at the time.

Exhibit 1: South Africa's grains transport modes



Source: SAGIS and Agbiz Research

Weekly highlights

SA agriculture machinery industry saw robust sales in March 2022, but the outlook remains uncertain

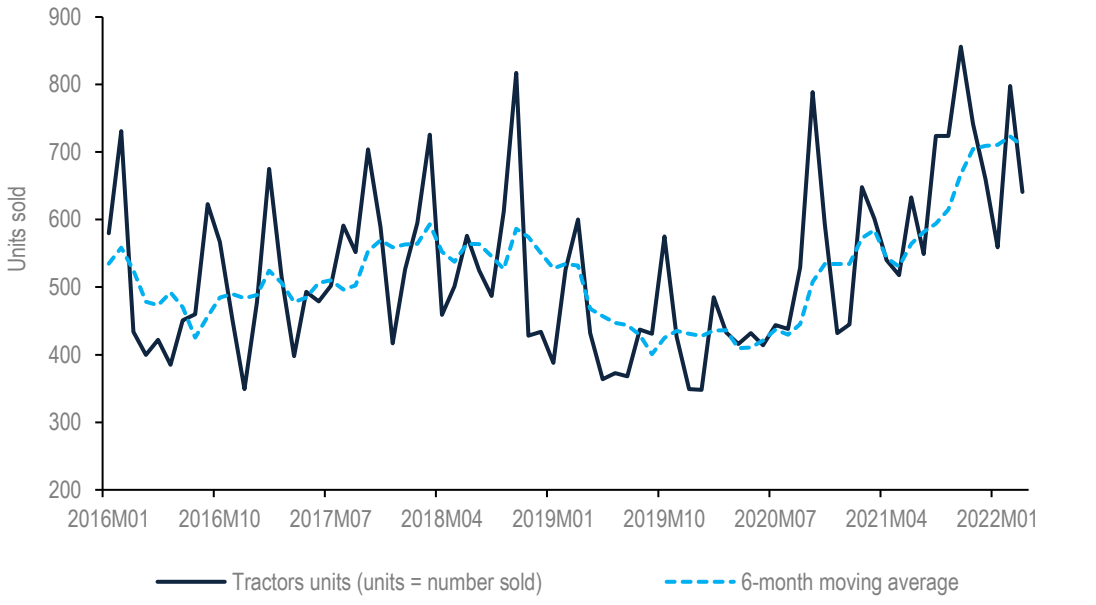
While we maintain a cautious view of the South African agricultural machinery sales outlook in 2022, the high-frequency data confirm that the sales remained robust in the first three months of the year. The tractor sales were up by 5% y/y in March 2022, with 641 units sold. At the same time, the combine harvester sales were up 48% y/y, with 43 units sold.

This builds on the solid momentum of the past two years. As we set out in the previous month, when farmers have a good year, allied industries benefit from farmers' spending the financial gains or the produce of the farming businesses. Agricultural machinery is one such industry that benefited from farmers' spending in 2020 and 2021. The farmers, specifically grain and oilseed producers, expanded their area planted in the past two years.

Weather conditions were favourable, resulting in a large harvest for two consecutive seasons. This was also when commodity prices remained elevated, supported by global events such as dryness in South America and Indonesia and rising demand for grains and oilseeds in China. Had it not been for higher global agricultural prices, the local grain and oilseed prices would have softened due to large harvests. The financial gains of these years went to improvement in agricultural equipment and servicing farm debt, among other activities on the farms.[1]

Looking ahead, however, we still believe that 2022 will likely change the trend and show moderate agricultural machinery sales compared to the past year, as the new machinery replacement rate will probably be weak. Moreover, the crop harvest, especially grains and oilseeds, which were the primary drivers of sales in the past few years, will mainly be lower than in the past two seasons. South Africa's summer grains second production estimates already show a 7% y/y decline with an expected harvest of 17,8 million tonnes in the 2021/22 season. Additionally, the Russia-Ukraine war has led to a notable rise in other farming input costs, such as fertilizers, fuel and agrochemicals, which will strain the farmers' finances.

Exhibit 2: South Africa's tractor sales



Source: South African Agricultural Machinery Association and Agbiz Research

Global grains and soybeans supply and food price developments

Since the Russia-Ukraine war started, the global grains and oilseed supplies have remained a major focus for countries across the globe. The prices of essential commodities such as maize, wheat, palm oil, sunflower seed, and soybeans have increased notably over the past few months. The price increases are due to ongoing worries about supply constraints and rising demand from countries that would have typically imported products from the war-

[1] For example, South Africa's tractor sales for 2021 amounted to 7 680 units, up by 26% from the previous year. Combine harvester sales amounted to 268 units in the same period, up by 46% from 2020. Notably, 2020 was also an excellent year in South Africa's agricultural machinery sales, so surpassing it means 2021 was indeed an exceptional year. In 2020, tractor sales were up by 9% from 2019. Combine harvester sales increased by 29% from 2019.

ridden Black Sea region. One organization that helps to get a sense of the size of the global grains and supplies is the United States Department of Agriculture (USDA) through its monthly report of the World Agricultural Supply and Demand Estimates. In the April 2022 update, the USDA left the 2021/22 global wheat production roughly unchanged from the previous month, at 779 million tonnes, which is marginally up from the last season.

As we stated last month, about 14% of this harvest is from Russia and Ukraine. While part of wheat from this region had already been exported by the time the war started in February, there were still supplies that weren't exported yet, which cannot be easily accessible by the global buyers currently. The destruction of infrastructure in Ukraine, the sanctions on Russia and higher shipment insurance premiums in moving grains to various export destinations are some of the limitations in importing grains from the Black Sea.

Because of the increase in global consumption, both in the human and animal feed industry, the 2021/22 global wheat stocks are forecast to decline further from March to 278 million tonnes, which is down 3% from the 2020/21 season. This decline in global stocks, combined with challenges facing shipments in the Black Sea region, means that international wheat prices could remain elevated over the medium term, as has been the case since the days leading up to the invasion of Ukraine by Russia.

Maize is also an important grain for human consumption and animal feed and has been a major focus since the Russia-Ukraine war started. Similarly, to wheat, the USDA has left the maize production estimate roughly unchanged from March 2022, at 1,2 billion tonnes. When compared with the 2020/21 season, this is up by 7%. The expansion in area plantings in Brazil and Argentina has compensated for the yield's loss. Thus, both countries are set to have a larger harvest than the 2020/21 season despite the drier weather conditions experienced in the past few months.

Russia and Ukraine's production prospects are largely positive compared with the 2020/21 production season, and the data is unchanged from March 2022. Thus, the available maize for exports in both countries collectively accounts for 16% of the global maize export forecast of 200 million tonnes in the 2021/22 production season. As with wheat, the limitations on exports of such a large volume of maize will continue to add upward pressure on prices as buyers continue to place higher bids for maize from other origins such as South America, the US and South Africa, amongst other vital exporters. Prices could remain slightly elevated despite the maize stocks having improved further from March to now estimated 305 million tonnes, up 5% from the 2020/21 season.

Rice is another key crop to watch, which countries could use to substitute maize and other grains. Interestingly, while other grains prices have remained volatile the past few weeks, rice prices have been reasonably stable. The global production conditions for this crop are favourable, with the 2021/22 harvest estimated at 513 million tonnes, marginally down by a million tonnes from March 2022 but still up by 1% from the previous season. This is supported by an expected large production in various parts of Asia. Consequently, the 2021/22 global rice stocks are forecast at 189 million tonnes, up by 1% from the previous season.

Moreover, Brazil and Argentina typically account for 50% of global soybeans production. As such, the reports of dryness in these countries since the season started and the frequent downward revision of the crop by the local analysts raised fears of the potentially lower global soybeans harvest and kept vegetable prices at higher levels since the start of the season. Fortunately, there was no significant adjustment from March estimates of these countries' harvest estimates in April. As such, the 2021/22 global soybeans harvest is at 350 million tonnes, down by four million from last month, a decline of 5% y/y. The firmer consumption level and this decline in production have led to a 12% decline in the ending stocks to a now estimated 90 million tonnes.

These poor soybean production conditions, combined with expectations of lower exports of sunflower seed from Russia and Ukraine, which typically account for nearly 60% of global sunflower oil exports, will keep the global vegetable products prices elevated over the near future to medium term. Even if the war were to cease soon, the damage to Ukraine's infrastructure and disruption in society and business would still hinder the production and exports resumption of sunflower oil from this region over the foreseeable future.

Overall, the global grains and oilseeds market conditions haven't changed much from the picture we painted last month. The Russia-Ukraine war is an added upside risk to prices; the pre-existing dryness challenges in South America and Asia and strong demand were the upside drivers of prices. These supply and exports dynamics are mirrored in the surge in prices these past few months, with the FAO's Global Food Price Index averaging 159 points in March, up by 13% from February and at a new highest level since its inception in 1990. This increase reflects new all-time highs for vegetable oils, grains and meat sub-indices, while those of sugar and dairy products also rose significantly. These developments are a global occurrence and are reflected in the South African market, which is interlinked to the world's food market. Hence, we continue to keep a close eye on such developments.

Exhibit 3: Global Food Price Index

Source: FAO and Agbiz Research

Data releases this week

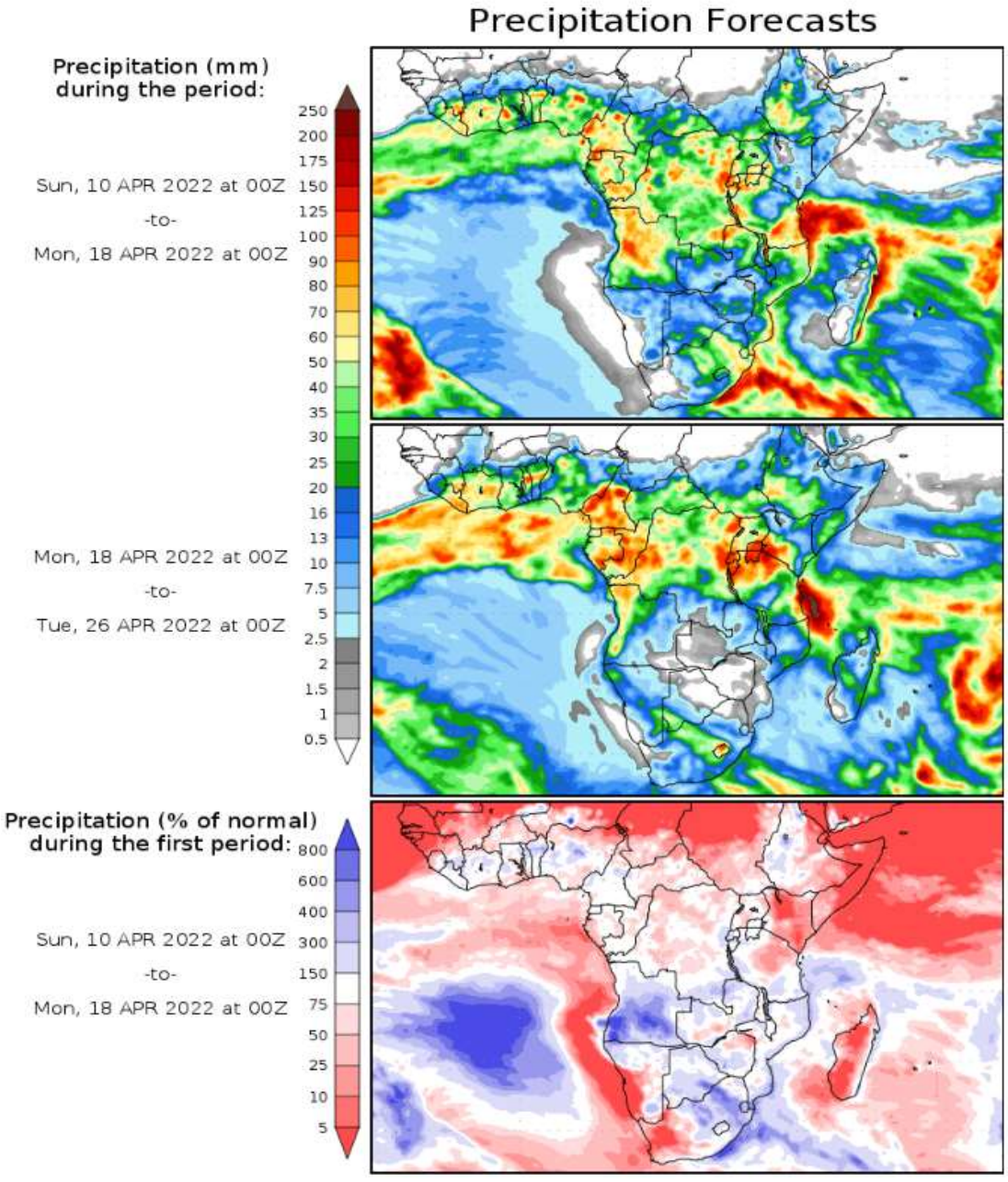
We start this week focusing on global data release; today, the United States Department of Agriculture (USDA) will release the **US Crop Progress** data. This will be the second release for the 2022/23 production season and will give us insight into the US grains planting progress on the back of the current geopolitics that has disrupted the global agriculture markets. In terms of the area the US farmers will plant, the USDA's May 2022 report on the 2022/23 production estimates is a key report to keep an eye on. On Thursday, the USDA will release the **US Weekly Export Sales** data.

Domestically, on Wednesday the SAGIS will release the **Weekly Grain Producer Deliveries** data for 08 April. This data cover summer and winter crops. But our focus is still on winter crops. The summer crops' new season is still at its maturing stages and will begin harvesting soon. Thus, we will focus on the summer crop data closer to harvesting time, towards the end of April. In the previous release of the week of 01 April, about 2,2 million tonnes of wheat had already been delivered to commercial silos. This covered the first 26 weeks of the

2021/22 production season and equated to 96% of the revised harvest estimate of 2,3 million tonnes.

On Thursday, SAGIS will release the **Weekly Grain Trade** data for the week of 08 April. On 01 April, which was the 48th week of South Africa's 2021/22 maize marketing year, total maize exports amounted to 3,5 million tonnes, equating to 90% of the revised seasonal forecast of 3,9 million tonnes (up by 36% y/y). South Africa is a net importer of wheat, and 01 April was the 27th week of the 2021/22 marketing year. The total imports are now at 823 220 tonnes out of the seasonal import forecast of 1,48 million tonnes (slightly below the 2020/21 marketing year imports of 1,51 million tonnes because of a large domestic harvest).

Exhibit 4: South Africa's precipitation forecast



Source: George Mason University (wxmaps)

The weather forecast for the next two weeks shows prospects of showers in most regions of South Africa.

The forecast rains don't bode well for summer crops.