

The weather is again the main focus in SA agriculture

The weather is yet again a top-of-mind issue in South Africa's agriculture. Warmer or drier weather conditions are needed to complete the harvests of the summer crops and citrus, as well as the transportation of products across most regions of the country. Simultaneously, we need rains for the winter crops, which are currently in the middle of its planting season, and various horticulture products, mainly in the Western Cape and various regions of the Northern Cape. Ordinarily, the Western Cape would by this time have received moderate rainfall that helps with winter crop planting and germination in early planted areas and improves growing conditions in the horticulture fields. But this year, we have had a relatively dry spell in May. It was only in the third week of June that the province received the much-needed rains for winter crops, grapevines and various fruits. These were welcome rains, but farmers indicate that more is needed. Fortunately, the week ending on 27 June promises further showers in the province before clearing in the first week of July. While this might still not be sufficient, it will improve soil moisture following the dryness experienced in May.

The improved soil moisture from these rains will allow farmers to complete the winter crops planting activity, mainly wheat, canola, barley and oats, whilst also improving the growing conditions in the fruit fields and grapevines. The 2022/23 winter crop season is more crucial than other seasons as the Russia-Ukraine war has negatively affected global wheat supplies, forcing some countries to look for ways to improve domestic production. South Africa is also counting on prospects of improvement in the domestic wheat plantings, which will partially depend on the weather conditions and the rising input costs. Fortunately, farmers have responded positively, as the Crop Estimates Committee's intentions to plant report noted that farmers aimed to increase the total winter crop plantings by 6% from the 2020/21 season. Wheat plantings could lift by 3% from the 2021/22 season to 538 350 hectares, which is well above the five-year average area of 513 650 hectares.

While the Western Cape is an important area to monitor for wheat, accounting for two-thirds of South Africa's plantings, we will likely see a jump in plantings within the Free State this year. The current estimates suggest that the Free State could account for 18% of South Africa's wheat plantings in the 2022/23 season. While the Free State didn't receive as much rain as the Western Cape in the past week, the province could receive showers in the week ending on 27 June. Notably, the heavy rains in the 2021/22 summer season, which caused damage in some crop fields at the time, helped improve soil moisture, which will now be beneficial to the planting season of winter wheat. For the horticulture subsector, improving moisture and production conditions in the Western Cape are also helpful for employment. This specific subsector is labour intensive.

An important date to keep in mind is the 27th of July – the day the Crop Estimates Committee will release the preliminary estimate for area plantings of winter crops for the 2022/23 season. The month of August will also see the release of the Bureau for Food and Agricultural Policy (BFAP) 's 2022 Baseline report. This particular report will provide a crop forecast and a detailed long-term view not only for wheat, but all winter crops, wine grapes, and various horticulture products, livestock and summer crops. These reports will help us determine how South Africa's wheat supplies will fare in the 2022/23 production season, as we believe that global wheat supplies will remain constrained for some time. For example, earlier this month, the United States Department of Agriculture estimated the 2022/23 global

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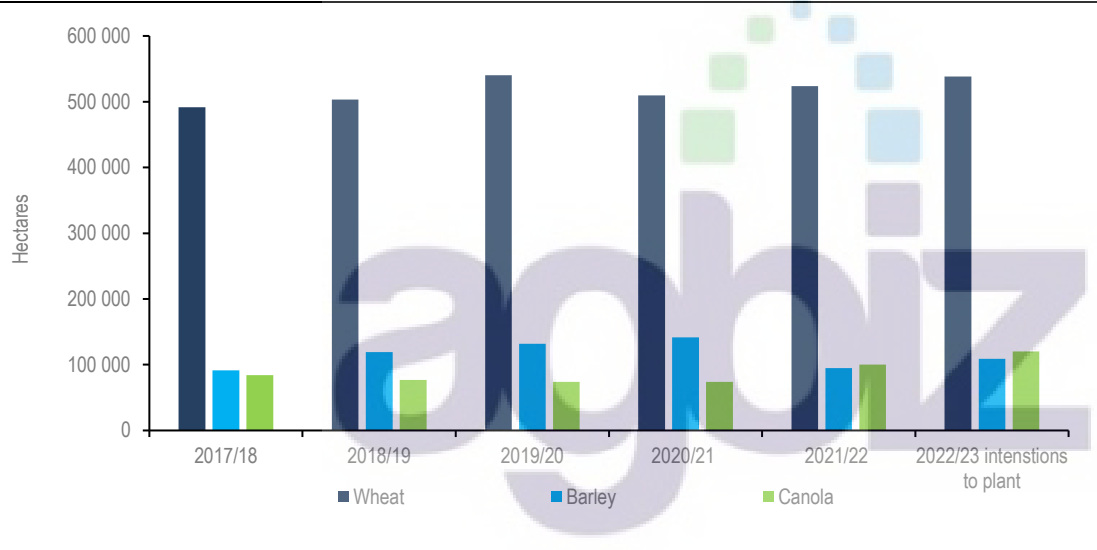
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wheat production at 773 million tonnes, down by 1% y/y. Subsequently, the 2022/23 global wheat stocks are down by 4% y/y, estimated at 266 million tonnes. These estimates are supportive of prices globally and in the domestic market. And thus, we believe prices will stay at their current higher levels in the foreseeable future.

In sum, the weather is again a primary focus in the South African agriculture market, specifically on rains for winter crops and various horticulture fields. The near-term favourable weather forecasts and optimistic farmers' intentions to increase winter crop plantings provide comfort that South Africa could have good supplies in the 2022/23 season. Still, the country will remain a net importer of wheat in a region of 1,4 million tonnes, which is roughly the same as the current season. We had feared that the higher input costs would discourage plantings, but the intentions to plant data suggest that farmers could push through and take advantage of the higher commodity prices. The past season's large harvest and relatively higher prices also helped improve farmers' financial conditions. Therefore, they are in a relatively better position than in the past to absorb, to some extent, the current higher fertilizer, agrochemicals and fuel costs.

Exhibit 1: South Africa's selected winter crop area plantings



Source: Crop Estimates Committee and Agbiz Research



Weekly highlights

Agbiz/IDC Agribusiness Confidence Index moderates further in Q2, 2022

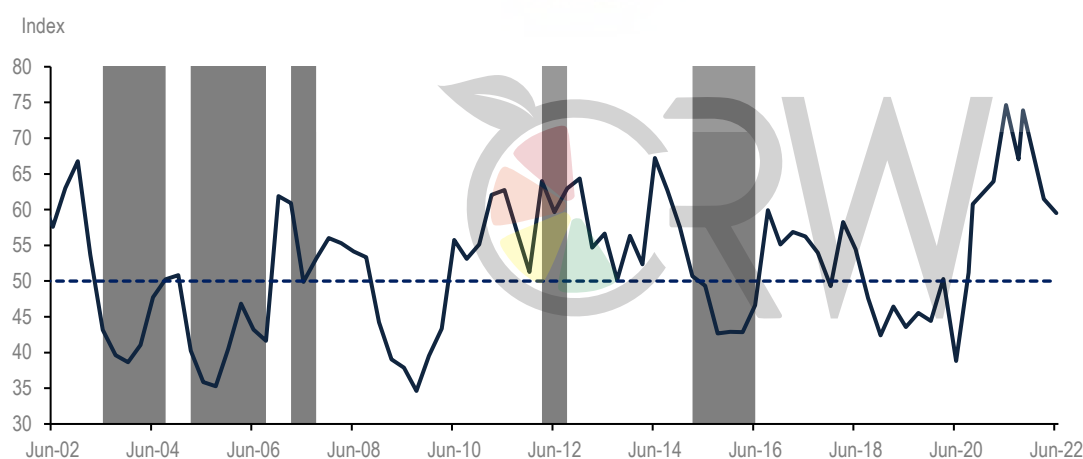
The Agbiz/IDC Agribusiness Confidence Index (ACI) moderated further by 2 points to 60 in the second quarter following a 12-point decline in Q1, 2022. This fall in sentiment is on the back of a range of factors including rising input costs, biosecurity concerns, hikes in interest rates, intensified geopolitical risks, as well as ongoing weakness in municipal service delivery and network industries.

Still, a level above the neutral 50-point mark implies that agribusinesses remain broadly optimistic about operating conditions in South Africa. Therefore, Q2, 2022 results still reflect favourable conditions, albeit not as strong as the recent quarters. This survey was conducted in the first ten days of June 2022 and covered agribusinesses operating in all agricultural subsectors across South Africa.

Overall, there are many challenges hovering over South Africa's agricultural sector. Still, these Agbiz/IDC ACI's second-quarter results present a picture of a sector that remains on a sound footing. Nevertheless, the current good position that South Africa's agriculture enjoys should not be taken for granted, as we see numerous risks ahead. These include the rising prices of critical inputs such as fertiliser, agro-chemicals, and fuel, which will pressure farmers and agribusinesses in the coming months. The ongoing war between Russia and Ukraine and the disruptions this has caused on some of our key fruit export markets and supply chains are also a major concern for the sector.

However, some of our long-term challenges are within our reach as South Africans. These include the need to improve the efficiency of ports, electricity supply and water, quality of roads, curbing crime that devastates the rail network, and improving biosecurity. Addressing these aspects would have a far more positive impact on the long-term growth of this sector and, subsequently, job creation.

Exhibit 2: Agbiz/IDC Agribusiness Confidence Index¹



Source: Agbiz Research, South African Weather Service
(Shaded areas indicate periods when rainfall across South Africa was below the average level of 500 millimetres)

¹ The Agbiz/IDC Agribusiness Confidence Index reflects the perceptions of at least 25 agribusiness decision-makers on the 10 most important aspects influencing a business in the agricultural sector (i.e. *turnover, net operating income, market share, employment, capital investment, export volumes, economic growth, general agricultural conditions, debtor provision for bad debt and financing cost*). It is used by agribusiness executives, policymakers and economists to understand the perceptions of the agribusiness sector, and also serves as a leading indicator of the value of the agricultural output while providing a basis for agribusinesses to support their business decisions. The full statement of the ACI and data are available here: <https://www.agbiz.co.za/content/economic-research?page=agribusiness-confidence>

Data releases this week

As always, we start the week with a global focus, where on Tuesday the United States Department of Agriculture (USDA) will publish its weekly **US Crop Progress** data. In the previous release, in the week of 12 June 2022, maize and soybean plantings were nearly complete, although still behind the 2021 pace because of dryness in some regions of the US. For example, about 97% of the US maize hectares had been planted compared with 100% on 12 June 2021. Moreover, 88% of the soybeans had been planted compared with 93% in the corresponding period last year. Going forward, we will focus on the crop conditions, rather than the planting. For example, the US maize and soybean fields were rated at a fairly good/excellent condition in the week of 12 June 2022 compared with the corresponding period last year, despite the concerns of dryness. On Friday, the USDA will release the **US Weekly Export Sales** data.

On the domestic front, Wednesday, Statistics South Africa will release the **Consumer Price Index (CPI)** data for May 2022. Our focus in these data will be on the food category. In the previous release for April, the country's consumer food price inflation decelerated to 6,3% y/y from 6,6% y/y in March 2022. This was on the back of relatively softer price increases in meat; milk, eggs and cheese; and vegetables. The food products price variation will likely persist in the coming months. In other words, fruit; vegetables; milk, eggs and cheese; and to a lesser extent, meat, could see softer price increases in the coming months. Meanwhile, grain-related products and oils and fats could register notable price increases. This will mirror the price movements we are currently observing in the agricultural markets.

Also on Wednesday, SAGIS will release the maize **Weekly Producer Deliveries** data for the week of 17 June 2022. This data will help us get insight into the progress of the maize harvest activity. In the previous release of the week of 10 June, 1,7 million tonnes of maize had already been delivered to commercial silos, out of the expected harvest of 14,7 million tonnes.

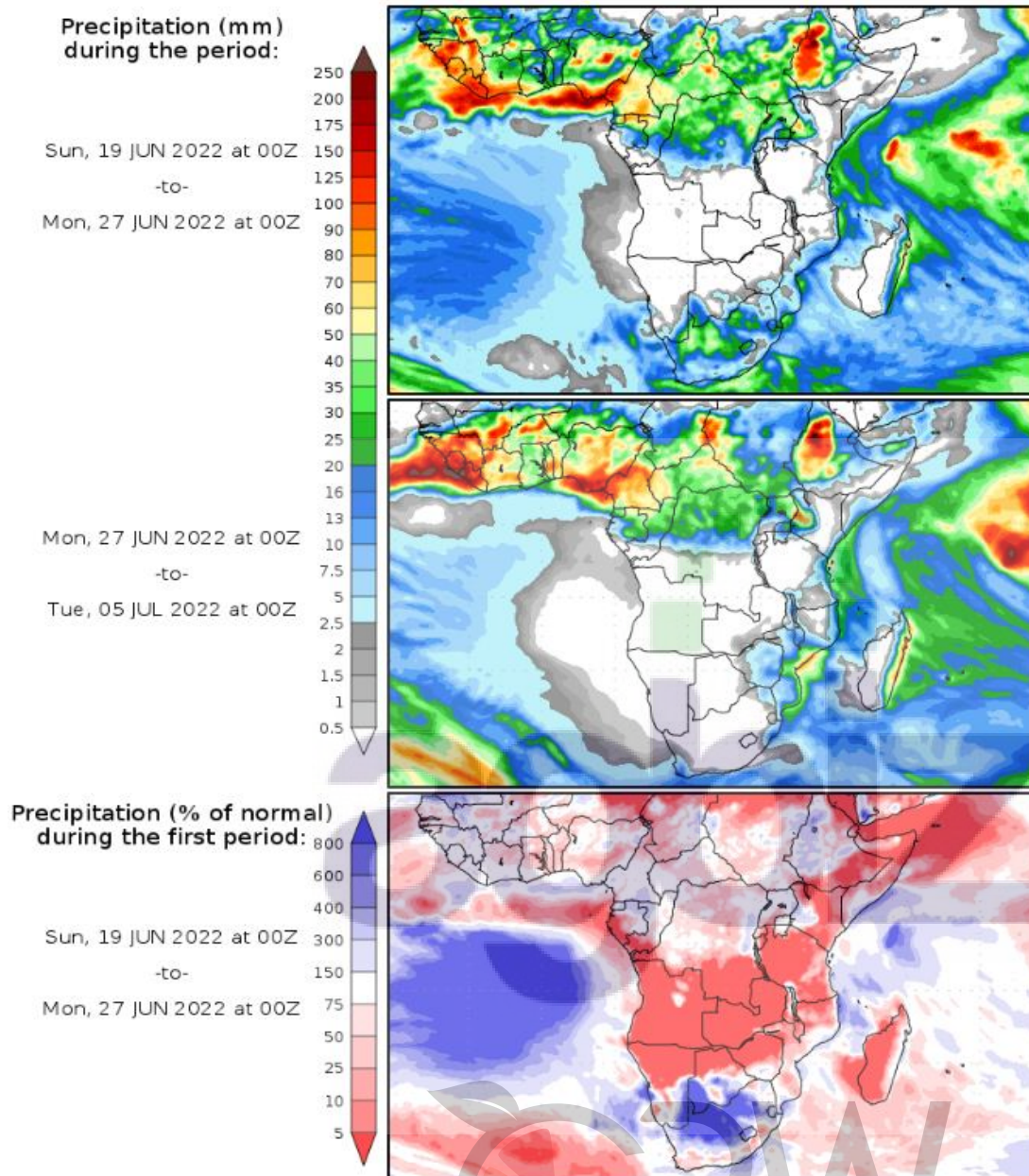
On Thursday, SAGIS will publish the **Weekly Grain Trade** data for the week of 17 June 2022. In the previous release on 10 June 2022, which was the sixth week of South Africa's 2022/23 maize marketing year, the weekly exports amounted to 132 543 tonnes. The key markets were Taiwan, Vietnam and the Southern Africa region. This brought the total 2022/23 exports to 464 777 tonnes out of the seasonal export forecast of 3,2 million tonnes. This is slightly down from 4,1 million tonnes in the past season due to an expected reduction in the harvest.

South Africa is a net importer of wheat, and 10 June was the 37th week of the 2021/22 marketing year. The total imports are now at 1,15 million 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). About 25% is from Argentina, 23% from Lithuania, 18% from Brazil, 14% from Australia, 13% from Poland, 4% from Latvia and 3% from the US.

If one looks into South Africa's wheat imports data for the past five years, Russia was one of the major wheat suppliers, accounting for an average share of 26% a year. This has now been replaced by the above-mentioned suppliers.

Also on Thursday, Statistics South Africa will release the 2021 results of the **General Household Survey (GHS)**.

Precipitation Forecasts



Source: George Mason University (wxmaps)

After a week of much needed rains in the Western Cape, this week will likely bring additional showers in the province, and much of the country.

This will help improve soil moisture and supportive of the winter crops.

Nevertheless, the showers in most provinces could slow the summer crop harvest.