

South Africa's agriculture exports up 5% in Q2, 2022

Trade is at the core of South Africa's agricultural progress. The expansion on the ground has to be followed by improvements in market access to various markets and logistical efficiency for the agricultural sector to remain sustainable. Recent challenges regarding the market access of wool into China have now been resolved. But the losses from when the ban was in place are clear in the trade data. Wool exports fell by 42% in the second quarter of 2022 compared with the corresponding period in 2021. For citrus, which continues to experience market access challenges in the EU after changes in plant regulations, the impact could show more pointedly in the third quarter of the year. Still, a lot will depend on the engagements between the South African and EU authorities on the new plant safety regulations, which involve stringent new cold treatment requirements. The EU argues that these were introduced to protect them from a quarantine organism, i.e., "false codling moth". Ironically, South Africa has rigorous measures to control this organism. In the second quarter of this year, citrus was still the top exportable agricultural product by value in South Africa, although down by 22% from the second quarter of 2021. The loss of the Black Sea market since the start of the Ukraine war might have also contributed to the slowing of citrus exports. Before the war, Russia accounted, on average, for 7% of South Africa's citrus exports in value terms. And it accounted for 12% of South Africa's apples and pears exports.

The other challenge we continue to monitor and engage with critical stakeholders about is logistics. Transnet showed great agility in rebuilding the Port of Durban after the destructive floods in April this year. Similar energy and focus are necessary going forward to improve the ports and rail functioning. The road network is another pillar of the network industries that is despairing across numerous agricultural towns in South Africa and risks slowing export activity if not properly improved. This is one of the points we are engaging on with Infrastructure South Africa and the relevant government departments.

Still, in the second half of this year, South Africa's agricultural exports lifted by 5% y/y, reaching US\$3,4 billion. The top exportable products were citrus, maize; apples and pears; wine; grapes; figs, dates and avocados, nuts; fruit juices; wheat; wool and sugar, amongst others. We expect some of these products to have continued to dominate the export list in the third quarter. The significant factors underpinning this robust export value are the sizeable agricultural output in the 2021/22 production season and general solid global demand, even at higher commodity prices for maize. Maize, apples and pears, grapes, and sunflower oil saw a significant uptick from the first quarter of 2021, and thus overshadowed the decline in the citrus exports during the period under review. There are still ample agricultural and beverage exports ongoing, which should support the activity in the third and last quarter of the year.

From a destination point of view, the African continent remained the largest agricultural exports market for South Africa in the first quarter of this year, accounting for 35% in value terms. Asia was the second largest region accounting for 28% of the exports, with the EU holding the third position with a 21% share in the total exports in value terms. The United Kingdom is one of the most important agricultural markets for South Africa and accounted for 7% of overall exports in the second quarter. The balance of 9% value constitutes the Americas and other regions of the world.

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Wandile Sihlobo

Chief Economist

+27 12 807 6686

wandile@agbiz.co.za

www.agbiz.co.za

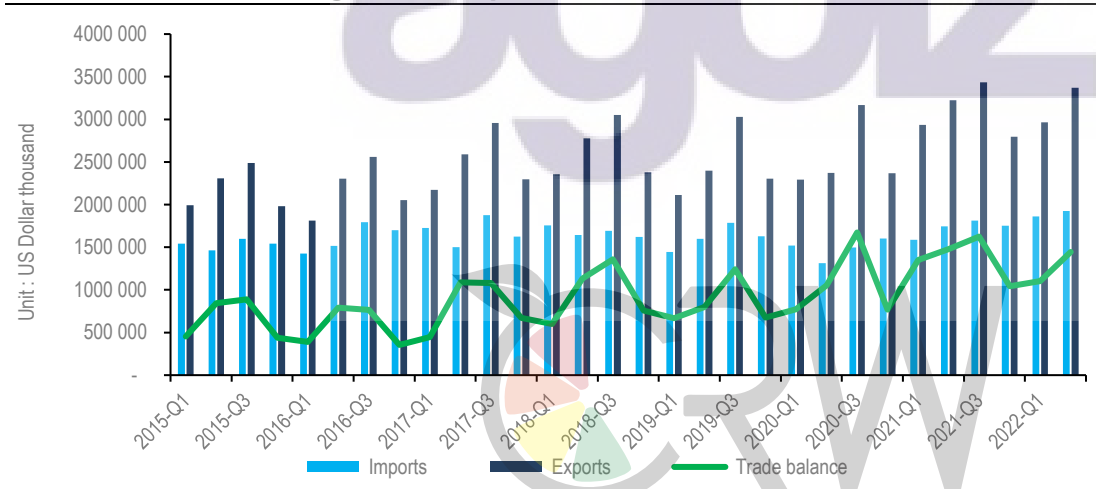
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Our trade policy and activity are of course not one-directional. South Africa is also a significant importer of agricultural products. South Africa relies on other countries for crucial food products such as wheat, rice, palm oil, sunflower oil, and poultry. These products dominated the food import bill in the second quarter. Some, such as rice, and palm oil, cannot be sustainably produced at scale in South Africa because of unfavourable climatic conditions. As such, in the second quarter of 2022, agricultural imports increased by 10% y/y to US\$1,9 billion. Aside from the increase in volumes of imports, the higher agricultural commodity prices also contributed to the high import bill. We believe rice, wheat, and palm oil will continue leading the agricultural import product list throughout the year. South Africa recorded an agricultural trade surplus of US\$1,4 billion in the second quarter of 2022, down by 2% from the corresponding period last year. Modest exports not only cause the narrowing of the trade surplus, as noted above, but rather the increase in import value and higher commodity prices.

From a policy perspective, the key point is that South Africa's agricultural sector is export-oriented. Thus, any improvements in production through various development plans, such as the Agriculture and Agro-processing Master Plan, should be anchored on expanding export markets beyond the existing ones. Japan, China, India, Saudi Arabia, Bangladesh, the Philippines and South Korea are key markets in which South African agribusinesses and farmers are interested in expanding their presence. The effort to expand to new markets should also not neglect to maintain a relationship with the existing key markets such as the EU, and various countries in Asia, which was the largest export partner for agriculture in the second quarter of this year. All this should happen while the domestic efforts to improve the functioning of the network industries are underway. This will be the only realistic path to maintaining the growth of this sector and, with that, job creation and vibrancy of the rural towns.

Exhibit 1: South Africa's agriculture exports



Source: Trade Map and Agbiz Research

Weekly highlights

CEC lifts South Africa's 2021/22 maize and soybeans harvest estimate further

While our attention is shifting towards the upcoming 2022/23 summer crop season for South Africa, monthly updates from the 2021/22 season are worth monitoring. For example, last week, the Crop Estimates Committee (CEC) lifted its estimates for South Africa's 2021/22 maize production by 2% from July to 15,0 million tonnes. About 7,6 million are white maize, with 7,4 million being yellow maize. A harvest of 15,0 million tonnes is down by 8% from the 2020/21 season crop but well above the 10-year average maize harvest of 12,80 million

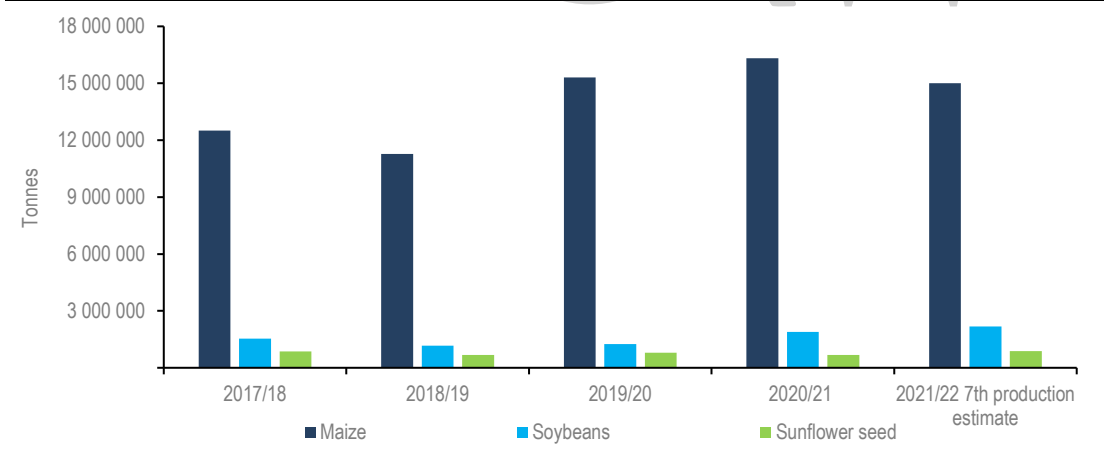
tonnes and annual domestic consumption of 11,80 million tonnes. And thus, this implies that South Africa will remain a net exporter of maize, which we anticipate to be about 3,0 million tonnes in the 2022/23 marketing season (note: this marketing year corresponds with the 2021/22 production season). On 19 August 2022, about 12,0 million tonnes of the expected 15,0 million tonnes harvest had already been delivered to commercial silos. We expect further deliveries to continue in the coming weeks. The weather is favourable, with clear skies over South Africa over the next two weeks. Another significant and most welcome adjustment in the data was the 1% increase in South Africa's soybeans harvest from July, estimated to a new record of 2,2 million tonnes. This large soybean harvest will help lessen South Africa's reliance on soybean oilcake imports. On 19 August 2022, about 95% had already been delivered to commercial silos.

Sunflower seed, unsurprisingly, was lowered for the third consecutive month by 5% from July estimates to 876 050 tonnes. Still, this is the third largest sunflower seed harvest on record. We suspected there would be a further monthly downward revision of the sunflower seed estimate because of the relatively lower (weekly) producer deliveries over the past few weeks. On 19 August, about 94% of the expected harvest was delivered. Aside from these major summer crops, the sorghum harvest is estimated at 123 700 (-9% m/m), dry beans harvest at 52 590 tonnes (+2% m/m), and groundnuts are at 49 000 tonnes (unchanged m/m).

In sum, as with the previous releases, these domestic production data will have minimal impact on prices. Global events and currency movements mainly influence domestic grains and oilseeds prices. Global agricultural prices have come off the higher levels we saw following the invasion of Ukraine by Russia. Moreover, the resumption of grain exports in Ukraine has also added downward pressure on global agricultural prices, although marginal. Still, grain prices are unlikely to return to the pre-war levels as various risks in the market remain. For example, we still see the lingering effects of the disruptions caused by the war on grain supply chains and markets. Additionally, the concerns about the impact of the drought in the Northern Hemisphere on the 2022/23 global grains and oilseed harvest, along with continued demand for grains in Asian markets, remain critical factors in sustaining prices at relatively higher levels than in the pre-war period.

These developments for South Africa imply that farmers who manage to get good yields will be in a somewhat better financial position. Meanwhile, the grain users -- consumers and the livestock and poultry industries -- will likely experience increased costs over the foreseeable future (although better than the level we saw during the first half of the year). For the livestock industry, the higher feed costs come at a time when the industry also faces the effects of foot-and-mouth disease, which has led to a ban on the movement of cattle domestically and also exports to various markets, all additional financial pressure on the industry.

Exhibit 2: South Africa's major summer grain and oilseeds production



Source: Crop Estimates Committee and Agbiz Research

Data releases this week

We start with a global focus. On Tuesday, the United States Department of Agriculture (USDA) will publish its weekly **US Crop Progress** data. In these data, our focus is on the US crop-growing conditions as the season progresses. In the previous release, in the week of 28 August 2022, about 54% of the maize crop was rated good/excellent, which is down by 6% from the same week a year ago. This decline is mainly explained by the drier weather conditions over a few couple of weeks. Meanwhile, about 57% of the soybean crop was rated good/excellent, which is up by 1% from the previous year's rating in the same week. It appears that soybeans haven't experienced as much impact of dryness as the maize regions of the US. Moreover, the USDA will release the **US Weekly Export Sales** data on Friday.

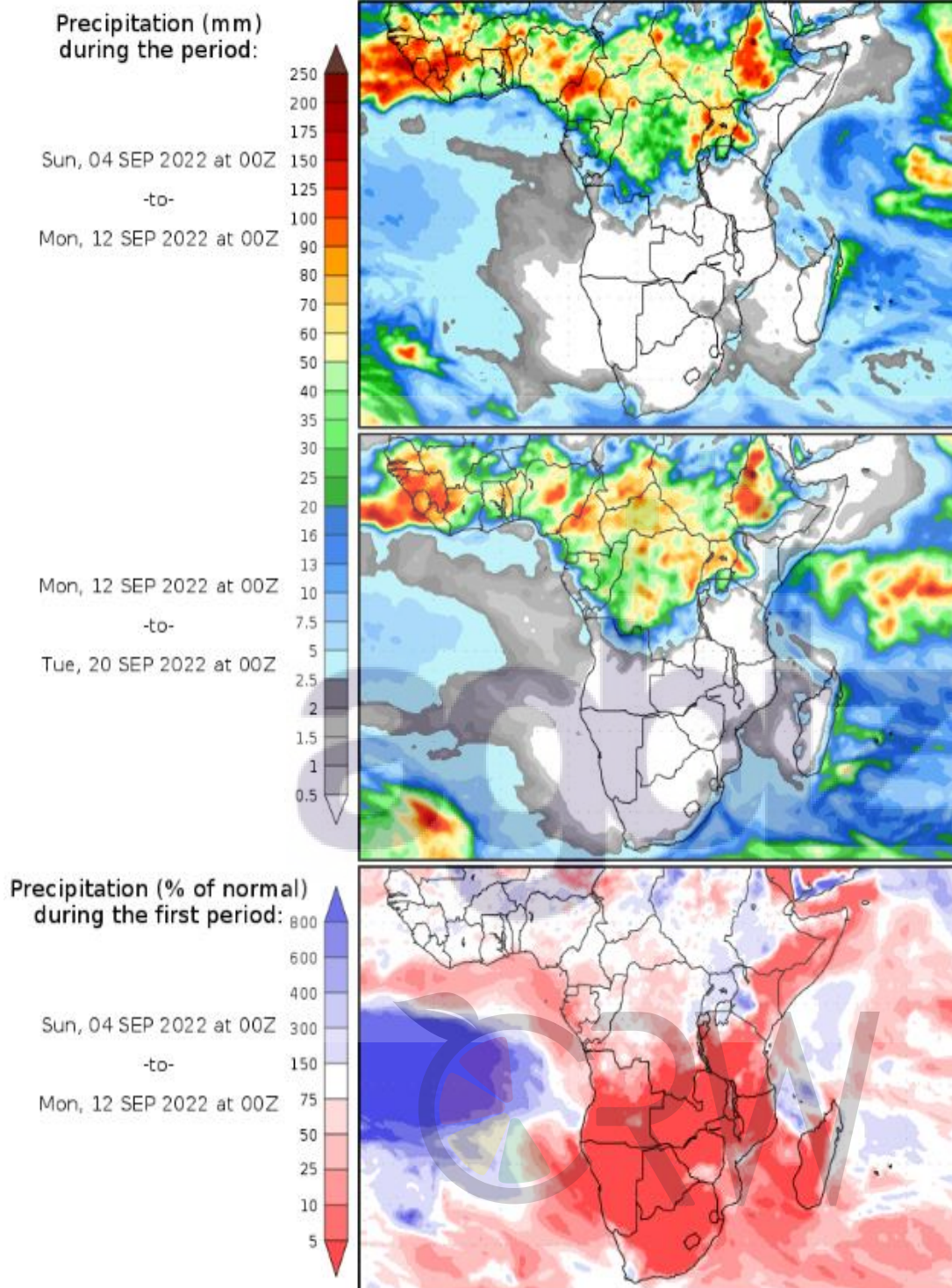
On the domestic front, on Tuesday, Statistics South Africa will release the second quarter results of the **Gross Domestic Product (GDP)**. To recap, in the first quarter of 2022, agriculture gross value added grew by 0,8% quarter-on-quarter (seasonally adjusted). This was partly on the back of improved activity in the horticulture industry and some field crops such as soybeans and sunflower seeds, amongst others.

On Wednesday, SAGIS will release the **Weekly Producer Deliveries** data for 02 September 2022. This data will help us get insight into the progress of the maize harvesting activity, which is at the tail end across the country as we approach the new season. In the previous release of the week of 29 August, about 12,6 million tonnes of maize had already been delivered to commercial silos, out of the expected harvest of 15,0 million tonnes. The soybeans and sunflower seed harvest have also advanced.

On Thursday, SAGIS will publish the **Weekly Grain Trade** data for 02 September 2022. In the previous release on 26 August 2022, which was the 17th week of South Africa's 2022/23 maize marketing year, the weekly exports amounted to 9 735 tonnes. The key markets were within the Southern Africa region. This brought the total 2022/23 exports to 1,5 million tonnes out of the seasonal export forecast of 3,2 million. 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 wheat importer, and 26 August was the 48th week of the 2021/22 marketing year. The total imports are now 1,45 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). We will likely see additional imports before the end of this marketing year this month. The major wheat suppliers are Argentina, Lithuania, Brazil, Australia, Poland, Latvia and the US. As we stated in our previous notes, 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% yearly. The suppliers mentioned above have now replaced this.

Precipitation Forecasts



Source: George Mason University (wxmaps)

Similarly, to the previous week, there are clear skies over much of South Africa this week.

This forecast weather will support the harvesting activity that is at its tail end in the western regions of South Africa.

This is important as the 2022/23 production season is set to start next month, and so, any harvest should be completed this month.

Positively, the west coastal regions of the Western Cape could receive showers which bodes well for winter crops in the province.