

Weather is key to monitor as the 2022/23 summer crop season approaches

We are about a month away from the start of the 2022/23 summer crop season. Farmers in the eastern regions of South Africa, which includes the eastern Free State, Mpumalanga, KwaZulu-Natal and Eastern Cape, will start planting by mid-October. This will primarily be summer grains and oilseed plantings. The Northern Hemisphere has experienced extreme heat and drought these past few months, prompting us to wonder if the Southern Hemisphere could experience similar extremes in the upcoming 2022/23 summer season. We are in a La Niña cycle, which means the typical weather conditions would be higher rainfall for Southern Africa, and drought for East Africa and South America. Therefore, extreme weather events could mean excessive rains in Southern Africa, while other regions would remain dry. This remains a concern for us as South Africa experienced episodes of excessive rains at the start of the 2021/22 summer season, which proved disastrous for crop plantings and vegetables in some places. The livestock industry also saw increased disease incidences due to wet weather conditions. Fortunately, to our knowledge, there are no clear signs pointing to yet another season of dangerous rains, but this is a risk that cannot be ruled out.

The South African Weather Service (SAWS) sees a strong likelihood of a weak La Niña state, which we suspect would bring moderate rains favourable for agricultural production. The weather agency states that the forecasts indicate that a weak La Niña state will likely remain during the remainder of 2022 and return to a neutral state in early 2023. We view such forecasts as somewhat comforting and pointing to a season of above-average rainfall but within the levels at which agricultural activity could continue. The SAWS states that "rainfall conditions are predicted to improve further during the early-summer (Oct-Nov-Dec) into the start of the mid-summer months (Nov-Dec-Jan)." This is a favourable time for summer grains and oilseed planting, as these crops typically need high moisture between October to February of the following year. After that, the warmer weather conditions naturally aid crop maturation. These are also ideal and favourable conditions for the livestock industry that depends on natural grazing.

The prospects of a La Niña are not only reported by the domestic weather agency. In its most recent update, the Australian Bureau of Meteorology estimates that "the chance of La Niña forming in the coming months is at least 70%. This is around three times the normal likelihood of an event forming in any year". The only aspect we are all watching is the intensity of this weather phenomenon. And to this end, the South African Weather Service provides comfort that we could have moderate rain. Importantly, if we have a harsh La Niña weather event, the global agricultural community would also feel the impact, specifically through a potential poor crop in South America, which would be under drought. Brazil and Argentina collectively account for 14% and 50% of global maize and soybean production, respectively.

The current 2022/23 maize production estimates from the International Grains Council suggest that Brazil and Argentina maize production could increase by 7% and 6% from the 2021/22 season to 123 million tonnes and 61 million tonnes, respectively. Moreover, Brazil and Argentina's 2022/23 soybeans production is estimated at 145 million tonnes and 48 million tonnes, up by 17% and 14% from the previous season, respectively. This crop improvement is on the back of an expected expansion in area plantings and favourable rains.

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Wandile Sihlobo

Chief Economist

+27 12 807 6686

wandile@agbiz.co.za

www.agbiz.co.za

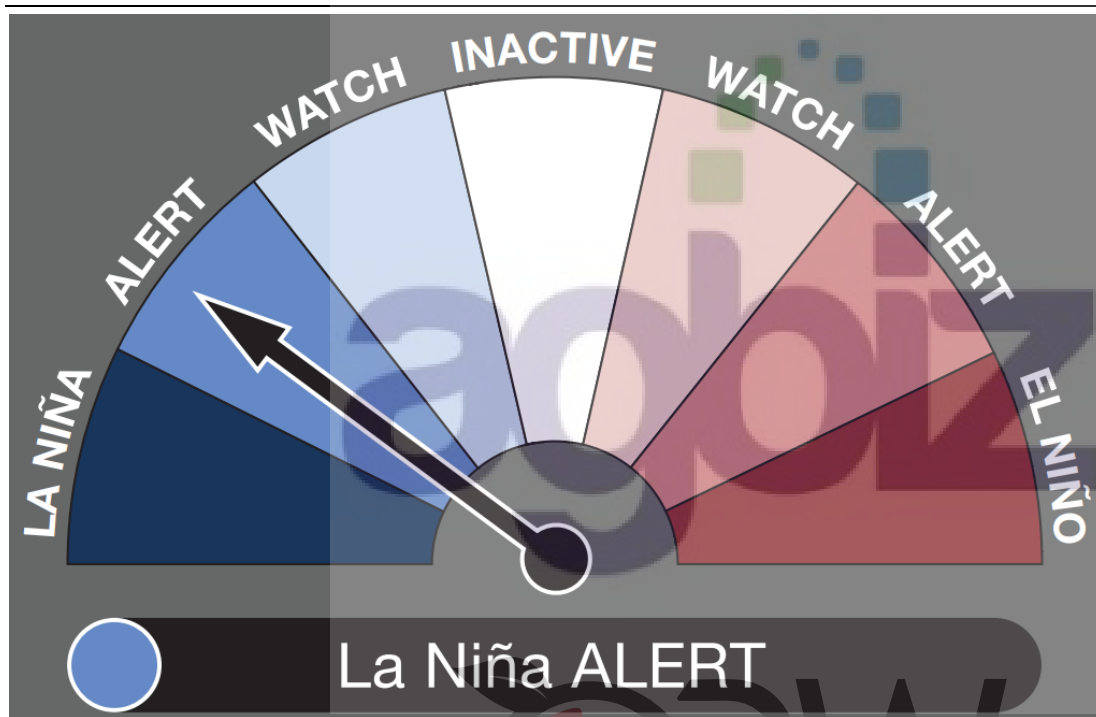
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Importantly, these countries will also start planting around the same time as South Africa. Therefore, if the weather conditions prove more extreme than currently expected, the challenge won't only be felt in South Africa, but also globally. The expected improvement in global soybeans production, and stability in maize production, largely depends on the outcome of South America's production in the upcoming 2022/23 season.

In essence, the Southern Hemisphere is a month away from entering the "weather market", a period where weather conditions matter a lot for farmers' planting decisions and market prices of agricultural products. So far, the weather forecasts broadly point to a more forgiving summer season than we initially feared. Still, this will require close monitoring, especially during the crop and veld-growing periods between October and February of next year. We will get a clearer picture of how much area farmers planted on the 26th of October 2022, when the Crop Estimates Committee releases its farmers' intentions to plant data. We think the area will roughly remain unchanged from the previous seasons, which is around 4,1 million hectares for all summer crops.

Exhibit 1: La Niña ALERT



Source: Australia's Bureau of Meteorology

Weekly highlights

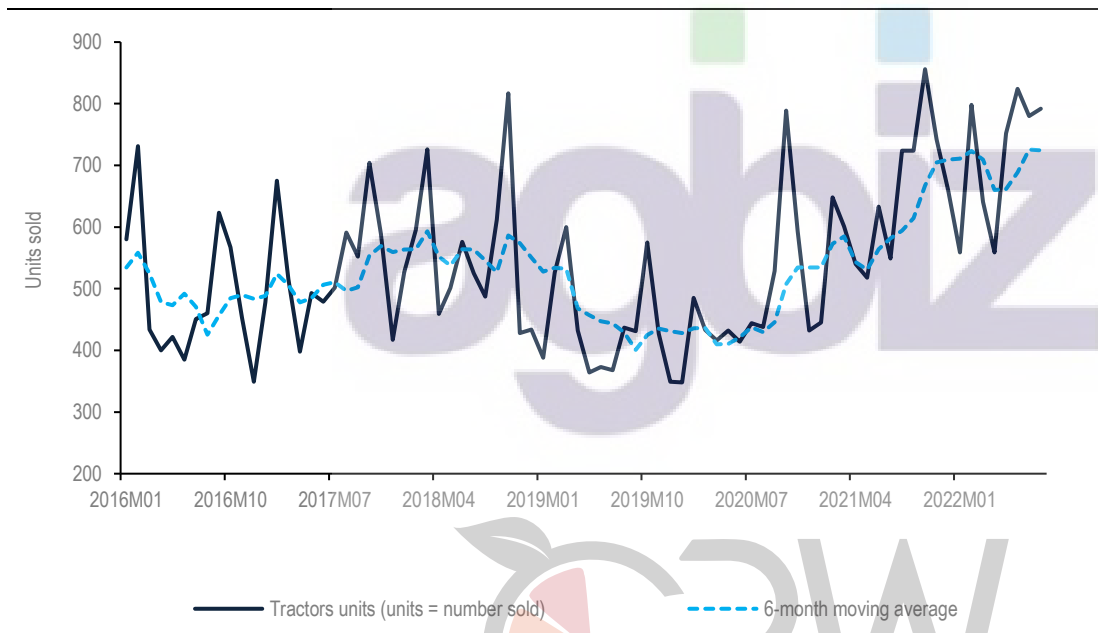
SA agriculture machinery sales registered solid growth in August

We continue to be surprised by the solid agricultural machinery sales. In August 2022, tractor sales were up by 3% year-on-year (y/y), with 792 units sold. Combine harvester sales were at 24 units, significantly up from 14 units sold in the same month a year ago. The generally healthy sales are a welcome development, as they indicate a primary agricultural sector still in a reasonably better financial condition and continues to invest in movable assets. Importantly, the machinery sales have maintained a positive trajectory since the start of the year and built on the solid momentum of the past two years.

When farmers have a good year, allied industries benefit from spending the financial gains or the produce of the farming businesses. Agricultural machinery is one such industry that benefited from farmers' spending in 2020, 2021 and the first eight months of 2022. The farmers, specifically grain and oilseed producers, expanded their area planted in the past two years and maintained a decent area in 2022. Weather conditions were favourable, specifically in the past two seasons, 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. These years' financial gains went to agricultural equipment improvement, among other farm activities. This year, the factors above continued to support grain and oilseed prices, along with the Russia-Ukraine war, which disrupted the supplies.

We had initially thought the agricultural machinery sales this year would be softer than in 2021. But the data we have thus far show that we were wrong. We anticipated that higher input costs and rising interest rates would put financial pressure on farmers, forcing them to reduce spending. Moreover, we thought the solid machinery sales of the past two years would ensure that the rate of replacement of machinery this year would be low. But as the data shows, thus far, the momentum in sales has continued and points to a solid year.

Exhibit 2: South Africa's tractor sales



Source: South African Agricultural Machinery Association and Agbiz Research

SA agriculture gross value-added contracts in Q2

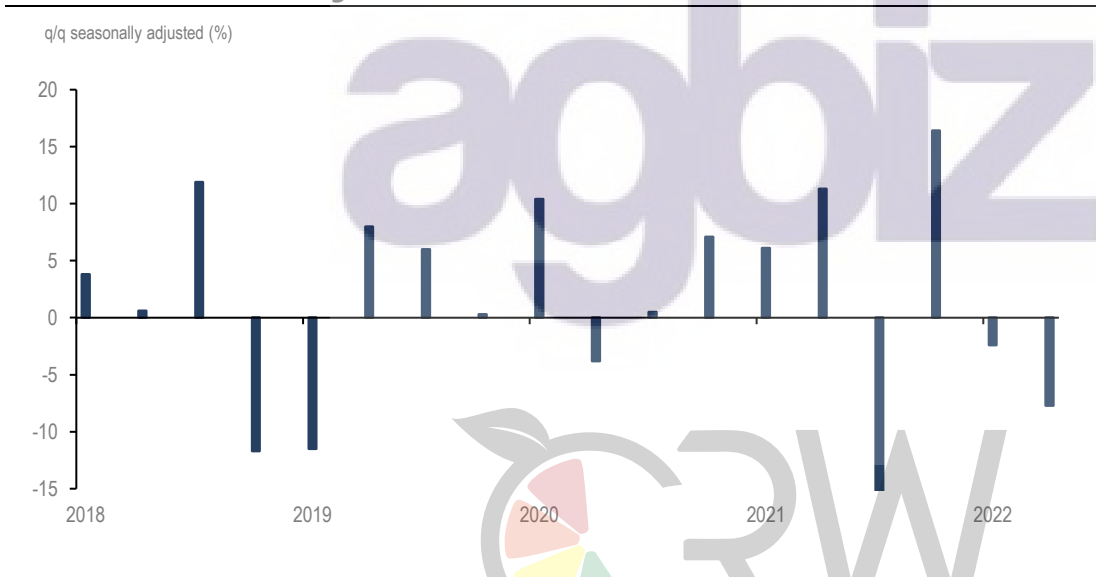
The rough start of the 2021/22 agricultural season has been muted in several sectoral economic indicators. But the data released last week by Statistics South Africa put the picture in perspective. The agricultural gross value added contracted by 7,7% quarter-on-quarter (seasonally adjusted) in the second quarter of this year. This follows a revised contraction of 2,4% in the first quarter of the year. These results are unsurprising as various subsectors of agriculture face varied challenges. For example, the livestock industry, which accounts for roughly half of the sector's gross value added, continues to suffer from foot-and-mouth disease outbreaks and rising feed costs. Moreover, some field crops' harvests aren't as robust as the 2020/21 season due to heavy rains at the start of the season, albeit well above the long-term harvest levels. These constraints have undermined the robust activity we saw in

field crops such as soybeans, sunflower seeds, and various fruits, which promised to provide some activity at the start of the year.

That said, South Africa's agriculture quarterly gross value-added figures tend to be quite volatile; hence our communication over the past few months focused on the annual performance. We still expect a mild contraction of between 3-5% in 2022, mainly on the back of a decline in some field crop harvests, such as maize, which is down 8% y/y, an estimated 15,0 million tonnes, as well as challenges in the livestock industry. Moreover, the base effects after two years of solid growth, where the sector expanded by 14,9% y/y in 2020 and 8,8% y/y in 2021 (revised figures), will also be an additional factor to the potential annual contraction.

In sum, while we are downbeat about South Africa's agriculture growth prospects this year, we are not suggesting that the sector is in bad shape per se. The output in a range of commodities is well above the long-term levels, which speaks to the exceptional performance of the past two years rather than the current production conditions. Notably, the sector can return to the growth path if the livestock disease is controlled and if we get a favourable rainy season in 2022/23 summer. From a policy position, the sector recently launched an Agriculture and Agro-processing Master Plan that should help drive long-term inclusive growth and unlock barriers that constrain performance, if implemented fully. Some barriers require collaboration with the line departments, specifically concerning the efficiency of municipalities and the network industries (roads, rail, ports, water, and electricity).

Exhibit 3: South Africa's agriculture GVA



Source: Stats SA and Agbiz Research

Data releases this week

We start with a global focus. On Monday, 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 04 September 2022, about 53% 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 equals the previous year's rating in the same week.

On the same day, the USDA will release its flagship monthly report, the **World Agricultural Supply and Demand Estimates**. This report will help us get a sense of the global production

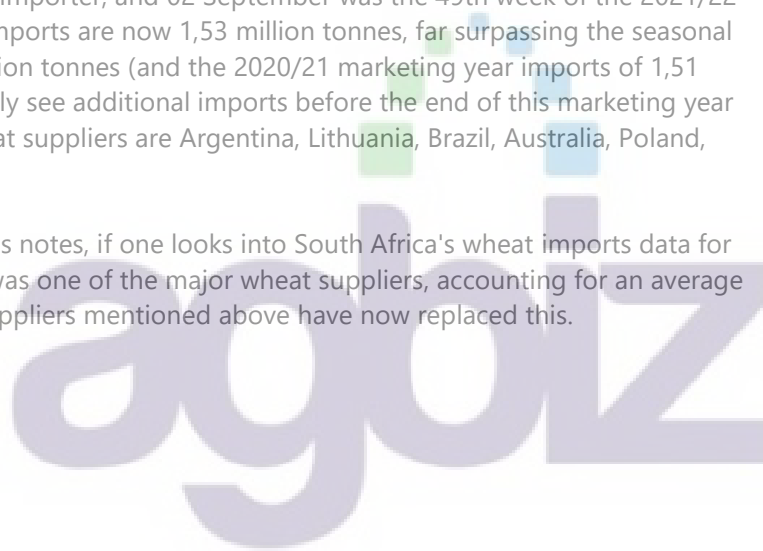
estimates for major crops in the 2022/23 season. Moreover, the USDA will release the **US Weekly Export Sales** data on Thursday.

On Wednesday, SAGIS will release the **Weekly Producer Deliveries** data for 09 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 02 September, about 12,9 million tonnes of maize had already been delivered to commercial silos, out of the expected harvest of 15,0 million tonnes. The soybean and sunflower seed harvests have also advanced.

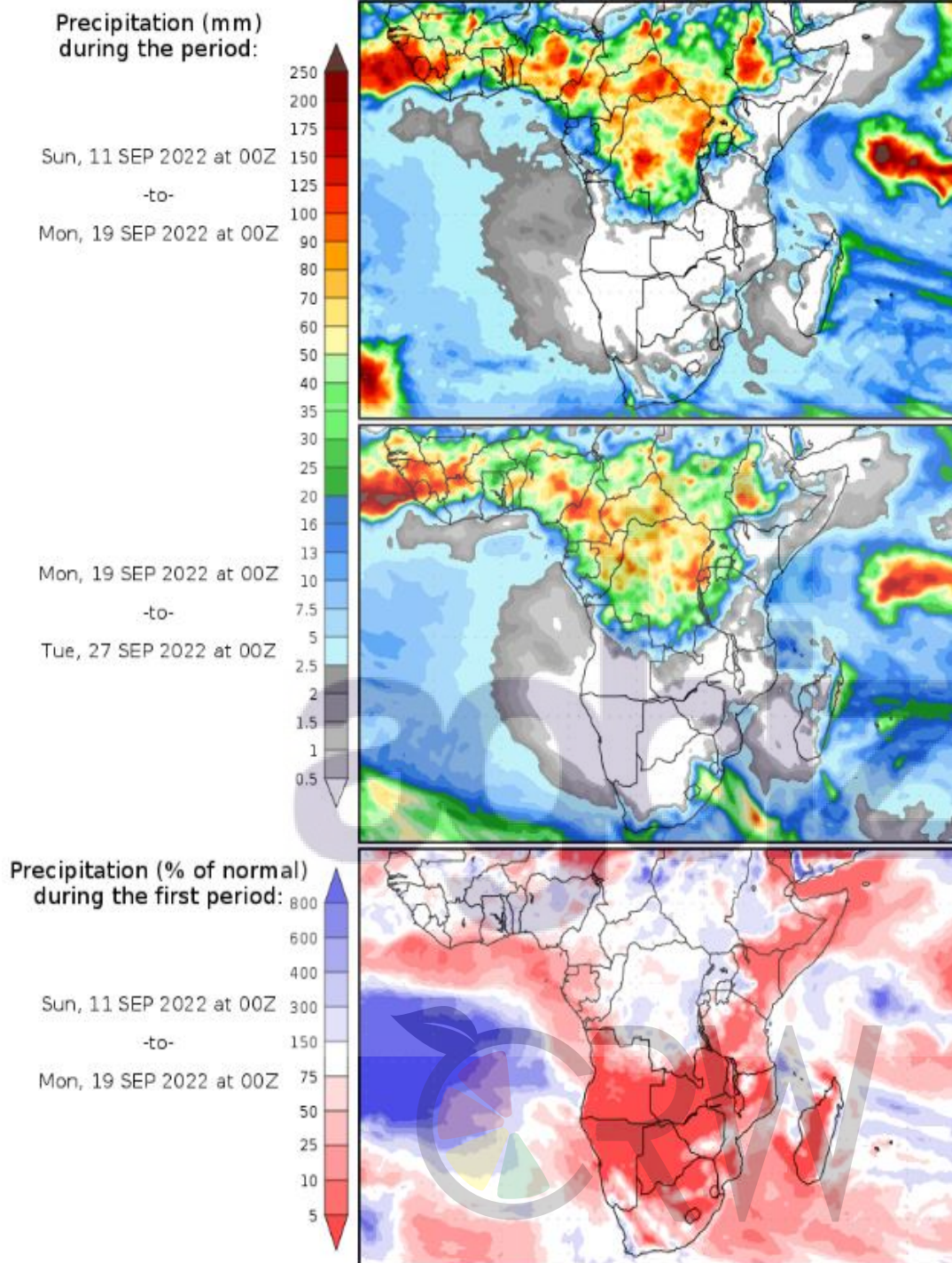
On Thursday, SAGIS will publish the **Weekly Grain Trade** data for 09 September 2022. In the previous release on 02 September 2022, which was the 18th week of South Africa's 2022/23 maize marketing year, the weekly exports amounted to 10 542 tonnes. The key markets were within the Southern Africa region. 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 02 September was the 49th week of the 2021/22 marketing year. The total imports are now 1,53 million tonnes, far surpassing the seasonal import forecast of 1,48 million tonnes (and the 2020/21 marketing year imports of 1,51 million tonnes). 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)

We are in a relatively quiet period in the agricultural sector as farmers get ready to start the upcoming 2022/23 season. Thus, the expected clear-skies weather conditions over much of South Africa this week will have minimal impact on the sector.

Positively, parts of the Western Cape, Eastern Cape and southern Free State could receive light showers, which is conducive for the winter crops.