

What do global wheat production dynamics mean for SA?

When we look at South Africa's agricultural and food import data for the past five years, wheat ranks as the second most valuable product after rice. It accounted for 6% (or US\$417 million) of the annual average agricultural imports of US\$6,6 billion during this period. This is equivalent to approximately 1,5 million tonnes in volume terms over this five-year period, which is about half of South Africa's annual average wheat consumption needs. This time around, with the Russia-Ukraine war and drought in parts of the Northern Hemisphere still a major concern, there is some worry about the general global wheat supplies and South Africa's domestic wheat production prospects.

From a global perspective, recent data from the International Grains Council (IGC) provides some comfort. The IGC forecasts production at 792 million tonnes for the 2022/23 season, which would be up 1% year-on-year (y/y) if achieved. With industrial use of wheat expected to slow this year, while feed and food use might increase marginally, the global stocks are projected at 286 million tonnes. This is up 2% y/y and suggests that prices could remain at current levels and sideways from now on. Currently, wheat prices globally are at levels below US\$450 per tonne, which is a far better place than during the months just after Russia invaded Ukraine when prices surged to levels over US\$500 per tonne between April and June.

The improvement in global wheat production is mainly supported by the expected large harvests in Russia (up 25% y/y), the US (up 8% y/y), Canada (up 56% y/y), Kazakhstan (up 16% y/y), China (up 1% y/y), Turkey (up 5% y/y) and the UK (up 4% y/y). In the case of Russia, there remains uncertainty about whether the country will be able to efficiently export wheat to key consuming regions in the climate of the ongoing war and the country's aggression against Ukraine and the global community. Nevertheless, the expected improvement in the harvest in the countries above has helped to overshadow the decline in the harvest in the EU, Argentina, Australia, Ukraine, and India.

With everything considered, these global production estimates suggest that South Africa will be in a better place to procure the required imports in the 2022/23 marketing year, which started this month. South Africa's wheat imports for this new marketing year are forecast at 1,5 million tonnes, roughly unchanged from the previous year.

This import forecast is underpinned by the belief that South Africa could have another decent wheat harvest in the 2022/23 season. Farmers lifted the area plantings to 566 800 hectares, from 523 500 hectares in the previous year. This was on the back of attractive prices following a surge in wheat prices after Russia invaded Ukraine, as well as good soil moisture in various wheat-growing regions of the country. As such, current production estimates are also comforting, pointing to a harvest of 2,2 million tonnes. Again, this is roughly the same as the 2021/22 season, which was the largest harvest in two decades. These figures show that most of South Africa's wheat needs will be produced domestically this year. In that order, the Western Cape, Free State, Northern Cape and Limpopo are the largest producing provinces of this season's crop. Outside the Western Cape, the crop in other provinces will benefit from irrigation. Importantly, we still see a possible upward revision of the domestic wheat harvest if the Western Cape, which produces nearly half of the domestic wheat, receives good rains

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over the coming weeks and if the weather conditions remain favourable in other producing provinces.

Overall, the global wheat supplies are in a better position than many had feared, especially when there were prospects of fertilizer shortage in some regions. The world has managed to adjust, and countries with capacities have improved domestic production to stabilize global supplies. Still, Russia remains a significant producer, making up 12% of the expected 792 million tonnes of the global harvest. This means the events in the Black Sea will continue to matter for the global wheat market and price dynamics.

Importantly, we expect South Africa to remain comfortable regarding wheat supplies and import activity during this new 2022/23 marketing year which ends in September 2023. As we expect, the import estimate of 1,5 million tonnes mentioned above could be revised if production increases, benefiting from good weather in the coming weeks. The sideways price movements we expect in the global environment could also be a reality here in South Africa. The domestic wheat price ended September 2022 at R7 120 per tonne. This is significantly lower than the levels over R8 000 per tonne we saw a few months ago. Still, the current spot price of around R7 120 per tonne is 21% up from the end of September 2021. This means that wheat prices are likely to stabilize at relatively higher levels than last year, which helps the farmers that procured inputs at higher levels. But the opposite is true for the consumer, whose position is also worsened by higher fuel prices and rising interest rates.

Weekly highlights

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

While our attention is shifting towards the 2022/23 summer crop season for South Africa which starts this month, the updates from the 2021/22 season are worth monitoring as they give us indications of the grains and oilseed supplies. 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 15,3 million tonnes. About 7,8 million are white maize, with 7,5 million being yellow maize. A harvest of 15,3 million tonnes is down by 6% 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 3,5 million tonnes in the 2022/23 marketing season (note: this marketing year corresponds with the 2021/22 production season). 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.

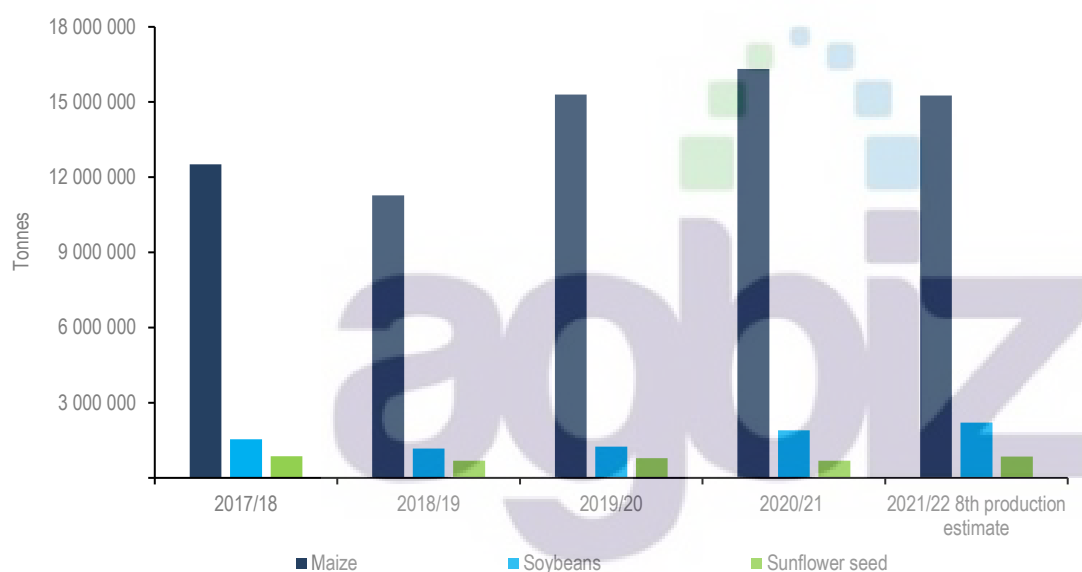
Sunflower seed, unsurprisingly, was lowered for the fourth consecutive month by 3% from July estimates to 845 550 tonnes. Still, this is 25% up from the previous season, owing to both good yields in some regions and the expansion in area plantings. Aside from these major summer crops, other crop forecasts remained unchanged from last month. For example, the sorghum harvest is estimated at 123 700 tonnes, dry beans harvest at 52 590 tonnes, and groundnuts are at 49 000 tonnes.

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 oilseeds 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, and reduced trade activity, and thus additional financial pressure on the livestock industry.

Exhibit 1: South Africa's major summer grain and oilseeds production



Source: Crop Estimates Committee and Agbiz Research

Data releases this week

We start the week with a global focus, and today, 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, and some States have started with the harvest process. In the previous release, in the week of 25 September 2022, about 52% of the maize crop was rated good/excellent, which is down by 7% from the same week a year ago. This decline is mainly explained by the drier weather conditions in some States over a few couple of months. Meanwhile, about 55% of the soybean crop was rated good/excellent, which was down by 3% from the previous year's rating in the same week. Similarly, to maize, the soybean harvest has started in some States. Moreover, the USDA will release the **US Weekly Export Sales** data on Thursday.

On the domestic front, on Wednesday, SAGIS will release the **Weekly Producer Deliveries** data for 30 September 2022. This data will help us get insight into the size of the crop as harvesting has been recently completed in most regions of the country. In the previous release of the week of 23 September, about 13,5 million tonnes of maize had already been delivered to commercial silos, out of the expected harvest of 15,3 million tonnes. In the same

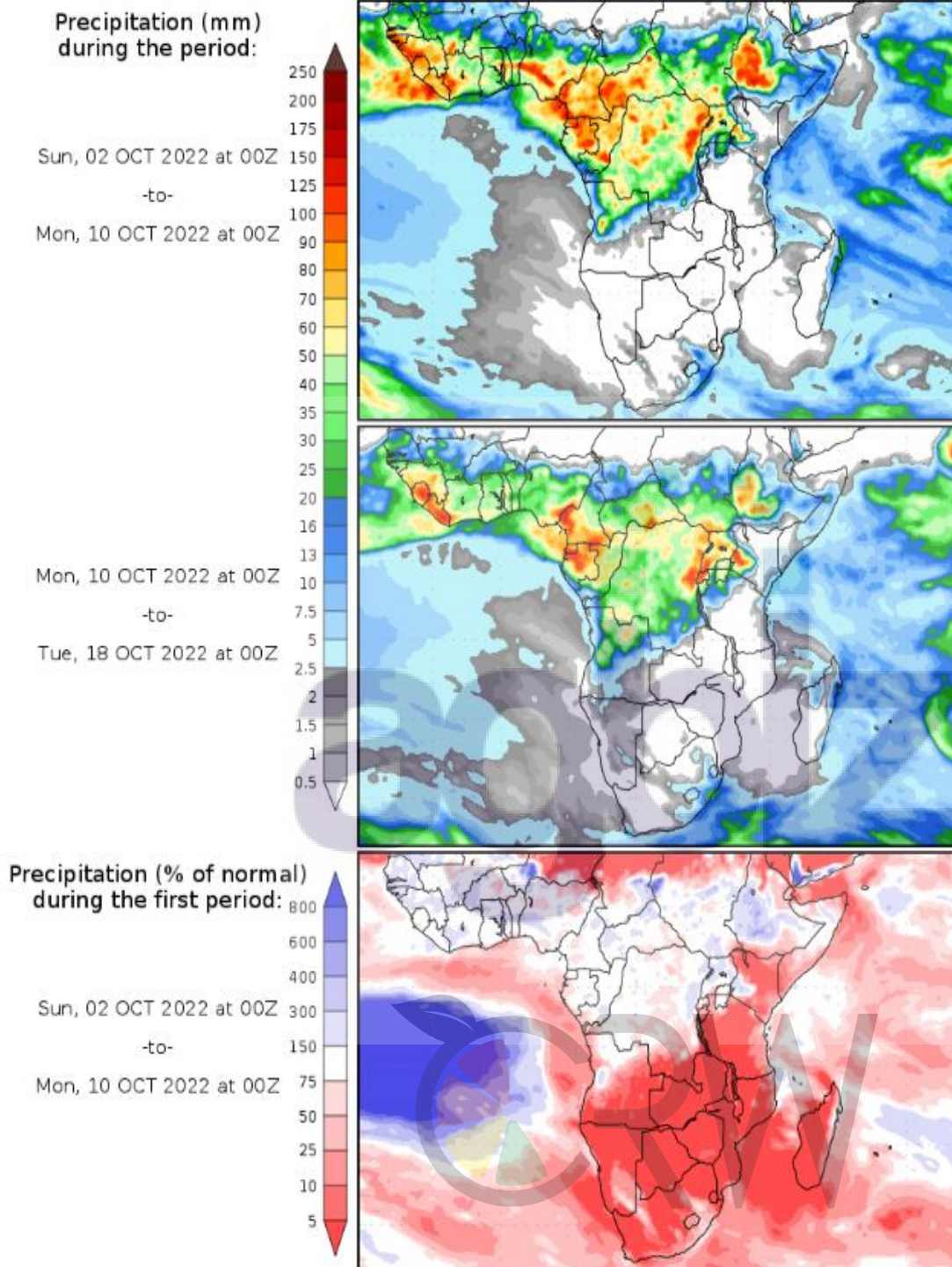
week, about 2,1 million tonnes of soybeans had already been delivered to commercial silos out of the expected harvest of 2,2 million tonnes. Moreover, 831 512 tonnes of sunflower seed had already been delivered on the same day out of the expected harvest of 845 550 tonnes.

On Thursday, SAGIS will publish the **Weekly Grain Trade** data for 30 September 2022. In the previous release on 23 September 2022, which was the 21st week of South Africa's 2022/23 maize marketing year, the weekly exports amounted to 52 836 tonnes. About 65% of this went to Japan, 9% to Taiwan, and the rest to the Southern Africa region. This brought the total 2022/23 exports to 1,7 million tonnes out of the seasonal export forecast of 3,5 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 23 September was the 52nd week of the 2021/22 marketing year. The total imports are now 1,58 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). This week we will have the last week's trade data for the 2021/22 marketing year. 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 remain in a relatively quiet period in the agricultural sector as farmers get ready to start planting summer crop for the upcoming 2022/23 season this month.

The weather forecasts for the next two weeks show clear skies over much of South Africa, with prospects of light showers in the eastern regions.

Still, we will likely start receiving frequent rains later this month, which should support the 2022/23 summer crop season.