Additional evidence points to a good agricultural season for SA in 2022/23

07 November 2022

Wandile Sihlobo
Chief Economist
+27 12 807 6686
wandile@agbiz.co.za

www.agbiz.co.za

We continue to see convincing signals pointing to yet another favourable agricultural season for South Africa, and the broader southern Africa region, in 2022/23. In their Seasonal Climate Watch report last week, the South African Weather Service (SAWS) highlighted that "the El Niño-Southern Oscillation is currently in a La Niña state, and forecasts indicate that it will likely remain in this state during the remainder of 2022 and early 2023. A La Niña event usually has the strongest impact on rainfall during the mid-summer months. With the continued strengthening of the La Niña event, there is a high chance that it will have its usual effect on South Africa, generally for above-normal rainfall and below-normal temperatures over the summer rainfall areas." This suggests a move from the weak La Niña state we anticipated a few months ago to a more normal state in the country and the region. The likely improvement in soil moisture from now until February 2023 is a welcome development as this period covers the cultivation to the pollination stages of the crop.

Still, we continue to call for vigilance amongst farmers and agribusinesses over the next three months, which will likely be a high rainfall period. The 2021/22 summer season showed us that the environment has changed, and the La Niña rains could be more intense at times, negatively affecting agricultural activity. Therefore, attentiveness during the planting season is vital. Over the past few weeks, we have already seen encouraging momentum in planting activity in the eastern regions of South Africa, mainly in the yellow maize and soybeans growing regions. From mid-November, we could see the planting activity increasing in central and western regions of South Africa, which predominantly plants white maize and sunflower seed.

The farmers we engaged thus far also sounded positive about the upcoming season, although rising input costs, especially for fuel, fertilizer and agrochemicals, were consistently flagged as a major challenge for farmers. The general optimism is undeniably clear from the Crop Estimates Committee's intentions-to-plant data, where farmers noted that they could plant 4,35 million hectares for summer grains and oilseeds in 2022/23, up by 0,2% from the previous season. The improvement in the area plantings is expected to primarily be on soybeans, while other crops, such as maize, maintain a generally normal area above the 10-year average. Over the coming weeks, we will closely monitor planting activity to assess if it meets or exceeds expectations. It will only be on 26 January 2023 when the Crop Estimates Committee will release the preliminary area planted estimates and its first production forecast data towards the end of February that we will have a better indication. Until that period, various surveys by farmer groupings and rainfall intensity will be important guides of the on-the-ground activity.

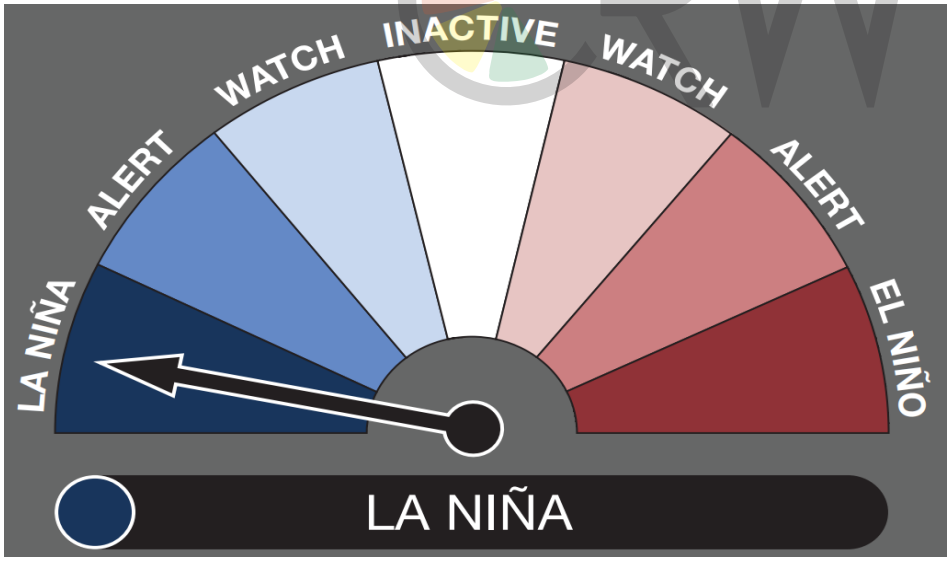
With that said, the higher input costs are a challenge for farmers. For example, the herbicide prices, such as glyphosate, atrazine, and metolachlor, were up by 7%, 34% and 51%in September 2022, compared with the same month last year, respectively. The same trend persists in major fertilizers such as ammonium nitrate, urea, and potassium chloride, whose prices were up by 64%, 23% and 17% on a y/y basis in September, respectively. These overall increases are on the back of supply constraints and disruptions in production lines because of the Russia-Ukraine war and the pre-existing production challenges in the major global fertilizer and agrochemical-producing countries like China, India, the United States, Russia,

and Canada. South Africa is more exposed to these shocks as it imports about 80% of its annual fertilizer consumption. Local prices tend to be influenced by developments in the major producing and consuming countries mentioned above. Much of the fertilizer imported by South Africa is utilized in summer grain and oilseed production. Fertilizer constitutes about 35% of grain farmers' input costs and a substantial share in other agricultural commodities and crops. Moreover, the higher fuel prices also remain a challenge for farmers, and this is a significant share of the production costs. For example, fuel accounts for 11% of South Africa's grain production costs. The majority of it is used during planting and harvesting time. This is the planting period for summer grain and oilseeds, while the winter grain farmers will also start harvesting in the coming months. What's more, the agribusinesses that are focused on logistics matters, directly involved in transporting their produce, will also feel the impact of higher fuel prices. For example, about 80% of South Africa's grain is transported by road.

Still, the higher commodity prices, if sustained at the current levels for some time, could help offset the challenge. For example, on 03 November 2023, yellow and white maize spot prices were up by 46% and 60% from last year, trading around R5 219 and R5 412 per tonne, respectively. Numerous global developments have underpinned these price increases. These include Russia's termination of the Black Sea grain deal (which has now been reversed, and Russia re-joined), general uncertainty about the grain trade in the Black Sea region, expectations of a slightly lower global grain harvest in the 2022/23 season, and the relatively weaker domestic currency. This means that the prices of grains and oilseeds will likely remain volatile for some time as the war persists between Russia and Ukraine. Other environmental challenges, such as the possible drought in South America, during this La Niña event, will be additional risks. For now, however, the crop production forecasts for Brazil and Argentina have remained relatively optimistic, pointing to the possibility of a larger crop. Still, one will need to keep a close eye on this region as the 2022/23 crop season is still in its early stages, just like in South Africa.

Considering the above factors, we are still inclined to believe that South Africa could have another favourable agricultural season in 2022/23. However, delivering good performance in the current environment will require careful planning by farmers and agribusinesses, both on financial planning and planting times. The weather will require careful monitoring until February 2023, which will be pollination for planted areas, and the time when the La Niña induced rains will likely start to ease. Importantly, while these weather prospects are positive for crops, one will also have to keep a close eye on the livestock industry, which could yet again experience disease in the wet conditions.

Exhibit 1: The ENSO Outlook remains at LA NIÑA



Source: Australian Bureau of Meteorology

Weekly highlights

The USDA maintained a fairly positive outlook on SA's 2022/23 maize production for both commercial and subsistence farmers

The United States Department of Agriculture (USDA) 's Pretoria office is a key institution and it is worthwhile to keep an eye on their views. This past week they released an updated view of South Africa's 2022/23 maize production season, leaning strongly towards the views of South Africa's Crop Estimates Committee (CEC). They forecast the country's commercial maize plantings at 2,60 million hectares in the 2022/23 season, broadly aligned with the CEC, whose data points to a possible area of 2,59 million hectares. This area is slightly below the 2021/22 season of 2,62 million hectares. Still, it is well above the long-term average. Considering the USDA's yield forecast of 5,70 tonnes per hectare, South Africa's maize harvest could amount to 15,00 million tonnes in the 2022/23 season, marginally down from 15,33 million tonnes of the 2021/22 season. Still, this will be well above the annual consumption of 11,80 million tonnes and maintains South Africa as a net exporter of maize. Under such conditions, South Africa's maize exports could be above 3,00 million tonnes.

The usual export destinations for South Africa include Taiwan, Japan, Vietnam, South Korea, Botswana, Italy, Namibia, Eswatini, Mozambique, Spain, Lesotho, Angola and Zimbabwe, amongst others. These markets, especially the offshore ones, will likely remain dominant in South Africa's export list. The countries whose imports could decline, depending on how widespread the favourable rains are, are the southern African countries. In the La Niña years, the whole region receives higher rainfall which should support crop production. The major issue that farmers in some southern African countries could struggle with is the higher input costs. In the 20221/22 season, the likes of Tanzania saw a decline in fertilizer usage because of higher prices, which reflected in lower yields in some regions. With the fertilizer prices still over 20% higher than last year, although having softened from the months after Russia invaded Ukraine, the current levels are still relatively high and costly to farmers.

Regarding the subsistence farmers, the USDA forecasts an area of 300 000 hectares, down from 379 000 hectares in the previous season. With a yield expectation of 2,00 tonnes per hectare, subsistence farmers' production could amount to 600 000 tonnes in the 2022/23 season. This is also down from 657 000 tonnes in the previous season. Still, this is a decent harvest and will help cover the household needs in various communities.

The general decline in area plantings on commercial and subsistence farmers is due to a possible switch in the area to soybeans because of profitability. The CEC already signalled a possible 16% increase in soybean planting to a record 1,08 million hectares. In the process, the white maize area will likely take the knock, while yellow maize could hold a generally large area. This is not a worry as the possible decent maize harvest in southern Africa also means that the demand for white maize could fall somewhat. The exports to various offshore countries are primarily yellow maize, whose area plantings are set to increase this new season.

Ultimately, when aggregating the commercial and substance farmers' efforts, the USDA forecasts South Africa's total maize area plantings at 2,90 million hectares, down by 3% from the 2021/22 season. The production could amount to 15,6 million tonnes, also 3% down from the previous season. This decent harvest keeps South Africa firmly in the export markets.

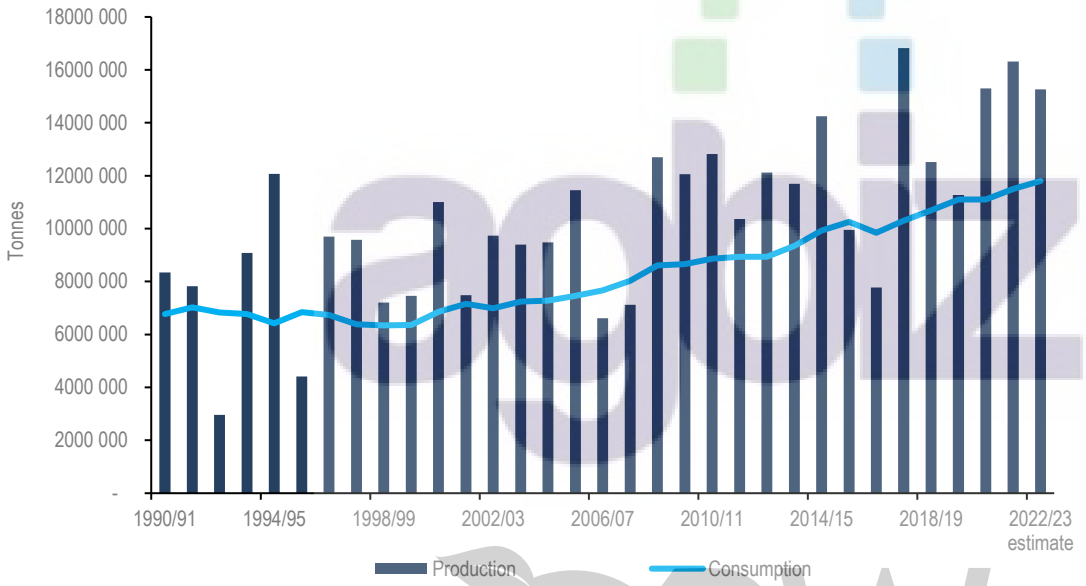
Admittedly, it is still early in the season to make a firm view on the size of the harvest for the coming season. Still, these data from the USDA are plausible, and the planting data is aligned

with the farmers' intentions-to-plant data shared by the CEC. We will know if there will be any significant changes when the CEC releases its preliminary plantings data on 26 January 2023. We believe the numbers will possibly show minor upgrades from the expected area.

The favourable weather forecasts and possibilities of La Niña rains through to early 2023 and somewhat higher maize prices are incentives for farmers to increase maize planting even in the current environment of higher input costs. On 28 February 2023, the CEC will release its first production forecast, enabling us to compare it with the views recently released by the USDA.

Broadly, these data will continue to have a minimal impact on prices. While South Africa is in a weather market, where domestic weather conditions tend to influence prices, global events will likely continue to dominate the market. The instability in the Black Sea region due to the Russia-Ukraine war, combined with possible dryness in South America and currency fluctuations, will continue to underpin the price movements. The comforting part for the consumers and the maize users, mainly the livestock industry, is that there will likely be sufficient supplies domestically to meet the needs.

Exhibit 2: South Africa's maize market



Source: CEC and Agbiz Research

Data releases this week

As always, 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 grains, and oilseeds harvest progress, specifically maize and soybeans. In the previous release, in the week of 30 October 2022, about 76% of the maize crop had already been harvested. This is slightly ahead of last year's pace of 73% in the same week. At the same time, soybeans harvest has progressed, with 88% of the crop already collected on 30 October 2022. This is way ahead of last year's pace of 78% in the same week.

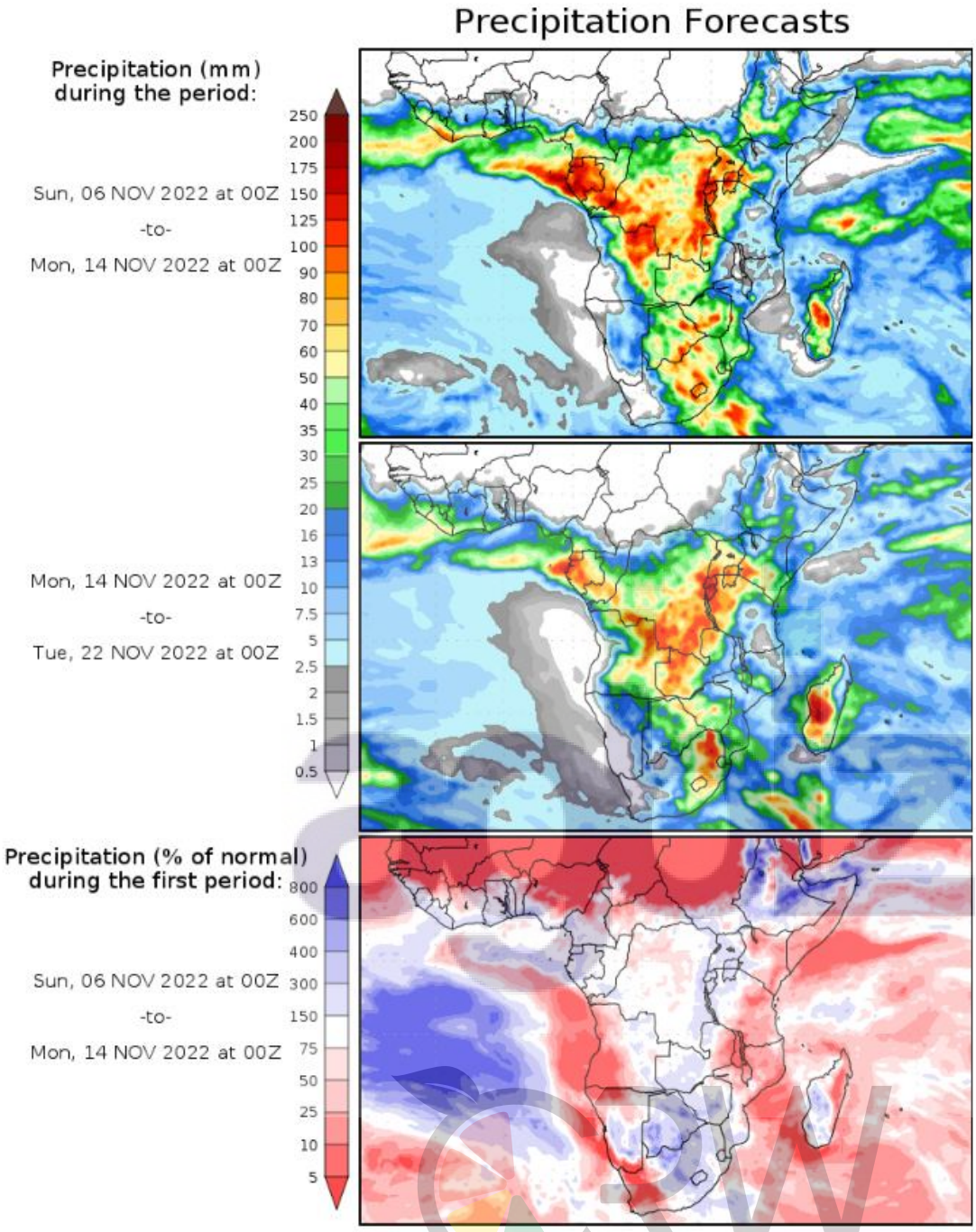
In addition, on Wednesday, the USDA will release its monthly flagship report, the **World Agricultural Supply and Demand Estimates** report. This report will provide an updated view of the world grains, oilseeds supply and demand conditions and notable adjustments that could be "market moving". The USDA 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 04 November 2022. This data will help us get insight into the crop size as harvesting has been recently completed in most regions of the country. In the previous release of the week of 28 October, about 13,8 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, 833 679 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 04 November 2022. In the previous release on 28 October 2022, which was the 26th week of South Africa's 2022/23 maize marketing year, the weekly exports amounted to 61 499 tonnes. About 84% of this went to Taiwan, and the rest to the Southern Africa region. This brought the total 2022/23 exports to 2,03 million tonnes out of the revised seasonal export forecast of 3,40 million. This is slightly down from 4,14 million tonnes in the past season due to an expected reduction in the harvest.

South Africa is a net wheat importer, and 04 November was the fourth week of the 2022/23 marketing year. The weekly imports amounted to 31 179 tonnes from Germany and Latvia. This puts the total imports for the 2022/23 season at 169 745 tonnes. The seasonal import forecast is 1,53 million tonnes, slightly down from 1,58 million tonnes in the previous season. In the 2021/22 season, 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.

Exhibit 3: South Africa's precipitation forecast



Source: George Mason University (wxmaps)

As with the previous note, the weather forecast for the next two weeks currently shows prospects of widespread rains across the summer crop growing regions of South Africa.

The rains will help improve soil moisture, and subsequently, enable farmers to continue with summer crop plantings.