

## An update on global grains and oilseeds production conditions for 2022/23

As the 2022/23 summer crop season commences in the Southern Hemisphere, the grains and oilseeds production estimates released by the International Grains Council (IGC) and the United States Department of Agriculture (USDA) will increasingly incorporate more information on underlying developments at farms. As usual, these organizations will update their monthly projections to mirror conditions on the ground, compared to the past few months, when the forecasts relied on historical production figures. Against this, it is worth briefly reflecting on the recent forecasts the IGC released this past week and its implications for South Africa.

The IGC maintained a broadly optimistic view of the 2022/23 global grains and oilseeds production, estimated at 2,26 billion tonnes. This harvest is **only** 1% lower **than** the 2021/22 season but still the second-largest crop on record. Notably, production conditions differ amongst various crops. For example, the 2022/23 global maize production is estimated at 1,17 billion tonnes, down by 4% year-on-year. This decline is on the back of an expected smaller crop in the US, Ukraine, EU and India. The US and the EU experienced drought and heatwaves during the summer, damaging crops in some regions.

Meanwhile, India received heavy rains these past few months, leading to poor yields in some regions. Ukraine is still at war with Russia, which has reduced activity in the fields. The decline in these countries overshadows the relatively good crop in China, Brazil, Russia, Argentina and South Africa. The IGC forecasts South Africa's 2022/23 maize harvest at 15,7 million tonnes, which is unchanged from their previous season estimate.

This expected decline in global maize production is at a time when consumption is also falling mildly. Consequently, the 2022/23 global maize stocks were estimated at 258 million tonnes, down by 8% y/y. Such data will likely keep global maize prices at relatively elevated levels in the coming months, although lower **than** in the months following Russia's invasion of Ukraine. South Africa is interlinked with the global market and will likely also see higher maize prices in the foreseeable future, **despite** the optimistic forecasts of the domestic harvest. This means that consumers and the livestock industry may not receive much relief on maize prices as some might have anticipated. These are still early days, and the data will be reviewed as the season unfolds in the Southern Hemisphere.

Another prominent grain worth looking at is wheat, whose 2022/23 global harvest is estimated at a new high of 792 million tonnes, up by 1% y/y. This improvement is supported by expected large yields in Russia, the US, Canada, Kazakhstan, China, Turkey and the UK. The large harvest in these countries overshadowed the expected decline in the harvest in the EU, Australia, Ukraine, Argentina, and India. Except for Ukraine, which continues to defend its land against the Russian assault, the forecast wheat production decline in other countries is primarily caused by poor weather conditions. Still, the overall higher production, when consumption is relatively stable at 784 million tonnes, means an improvement in stocks. The IGC forecasts 2022/23 global wheat stocks at 286 million tonnes, up by 3% y/y. The increase in stocks should add mild downward pressure on prices, which will benefit wheat-importing countries such as South Africa and its consumers.

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Regarding soybeans, the 2022/23 global harvest is estimated at 386 million tonnes, up by 9% y/y. The anticipated large harvest in Brazil, Argentina, China, Paraguay, Canada, Russia and Ukraine compensates for the expected decline in the US, India and Uruguay's harvests. These deviations in crop expectations are a function of weather and area plantings variations. While global soybean consumption will increase to support the growing global livestock sector, the stocks will remain significant. The 2022/23 global soybeans stock estimate is 54 million tonnes, up 16% y/y. Such an improvement in stocks should help keep global soybeans prices in check over the foreseeable future and thus benefit the livestock industry. As with maize, South Africa is interlinked to the worldwide market and will likely also see softening soybean prices.

Rice has become more prominent, with increased demand, especially as some started to substitute wheat products with rice in the wake of the Russia-Ukraine war, which interrupted the global wheat trade. However, the 2022/23 global rice harvest could fall by 2% y/y, estimated at 505 million tonnes. The unfavourable weather forecasts in much of Asia, mainly in India, Vietnam, Bangladesh, and the Philippines, are the major reason for the lower harvest. With consumption reasonably high, this means that global stocks will take a knock. IGC currently forecasts 2022/23 global rice stocks at 169 million tonnes, down by 5% y/y.

Overall, the 2022/23 global grain and oilseed season presents an encouraging picture of supplies. Still, the price moves of the commodities will likely differ in the coming months because of the variations in the production levels compared with the 2021/22 season. The current forecasts will probably be sufficient to provide relief from the levels the prices were at in the weeks after the start of the Russia-Ukraine war. With that said, the current production levels also mean that global grains and oilseeds prices are unlikely to return to the pre-covid and pre-war levels soon.

## Weekly highlights

### South Africa's consumer food price inflation accelerated further in September 2022

South Africa's consumer food price inflation accelerated further to 12,3% year-on-year (y/y) in September 2022, from 11,5% y/y in the previous month. The products behind this monthly increase were mainly "bread and cereals", "meat", "milk, eggs and cheese", and "vegetables".

The general consumer food price increase mirrors the surge in agricultural commodity prices over the past few months. The agricultural commodities price increase emanates from various factors such as the drought in South America, higher shipping costs, strong agricultural product demand in China, and, most recently, the Russia-Ukraine war. Moreover, the higher fuel price inflation since the start of the war is an additional cost driver of food prices.

More specifically, the higher global grain and oilseed prices for much of this year have been the core drivers of the costs of "bread and cereals" and "oils and fats" in the consumer food price inflation basket. "Bread and cereals" are also amongst the key drivers of the price inflation in September. Notably, these are also products with a relatively higher weighting within the food basket. For example, within the food basket, the essential products are meat (35%); bread and cereals (21%); milk, cheese and eggs (17%); vegetables (8%); sugar, sweets and desserts (4%); oils and fats (3%); and fruit (2%).

In the case of vegetables, the uptick registered in September is likely to be a temporary blip and is due to seasonality which caused a decline in volumes in the fresh produce markets across the country. We expect to recover in the coming months, especially as the weather conditions are set to improve and boost agricultural production.

The one essential product whose price trend remains uncertain is meat, although its prices increased mildly in September. The outbreaks of foot-and-mouth disease have led to the temporary closure of some key export markets for the red meat industry. Ordinarily, this would add downward pressure on prices as it implies that we would see an increase in domestic meat supplies. But this time around, the spread of the outbreak is vast, to the extent that we are observing a slight decline in slaughtering in some feedlots, which has ultimately kept red meat prices at relatively higher levels; the opposite of what we initially anticipated. For example, in August 2022, cattle slaughtering was down by 2% y/y, with 206 052 head of cattle slaughtered.

In sum, the global grain and oilseed prices, which have been the major drivers of the surge in inflation, are starting to soften, which shows in the global indices. The FAO's Global Food Price Index was 136 points in September 2022, down by 1% from August and registering its sixth consecutive monthly decline.<sup>1</sup> These global developments will, with time, also reflect in South Africa, and this could also be mirrored in the consumer food price inflation data in the coming months. Therefore, we expect the domestic consumer food price inflation to start moderating towards the end of 2022 and into 2023.

Admittedly, the current levels far surpassed our initial expectations that July was a peak month for consumer food price inflation.

#### Exhibit 1: South Africa's consumer food price inflation



Source: Stats SA 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 crop conditions as the harvest progresses. In the previous release, in the week of 16 October 2022, about 53% of the maize crop was rated good/excellent, which is down by 7% from the same week a year ago. This general decline is mainly explained by the drier weather conditions in some States over a few couple of months.

Moreover, about 45% of the crop had already been harvested, slightly behind last year's pace of 50% in the same week. Meanwhile, about 57% of the soybean crop was rated good/excellent, also unchanged from the previous week. This is down by 2% from the previous year's rating in the same week. In terms of the harvest, about 63% of the crop had

<sup>1</sup> More information is available here:  
<https://www.fao.org/worldfoodsituation/foodpricesindex/en/>

already been harvested, compared with 58% in the same week last year. In addition, 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 21 October 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 14 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, 833 033 tonnes of sunflower seed had already been delivered on the same day out of the expected harvest of 845 550 tonnes.

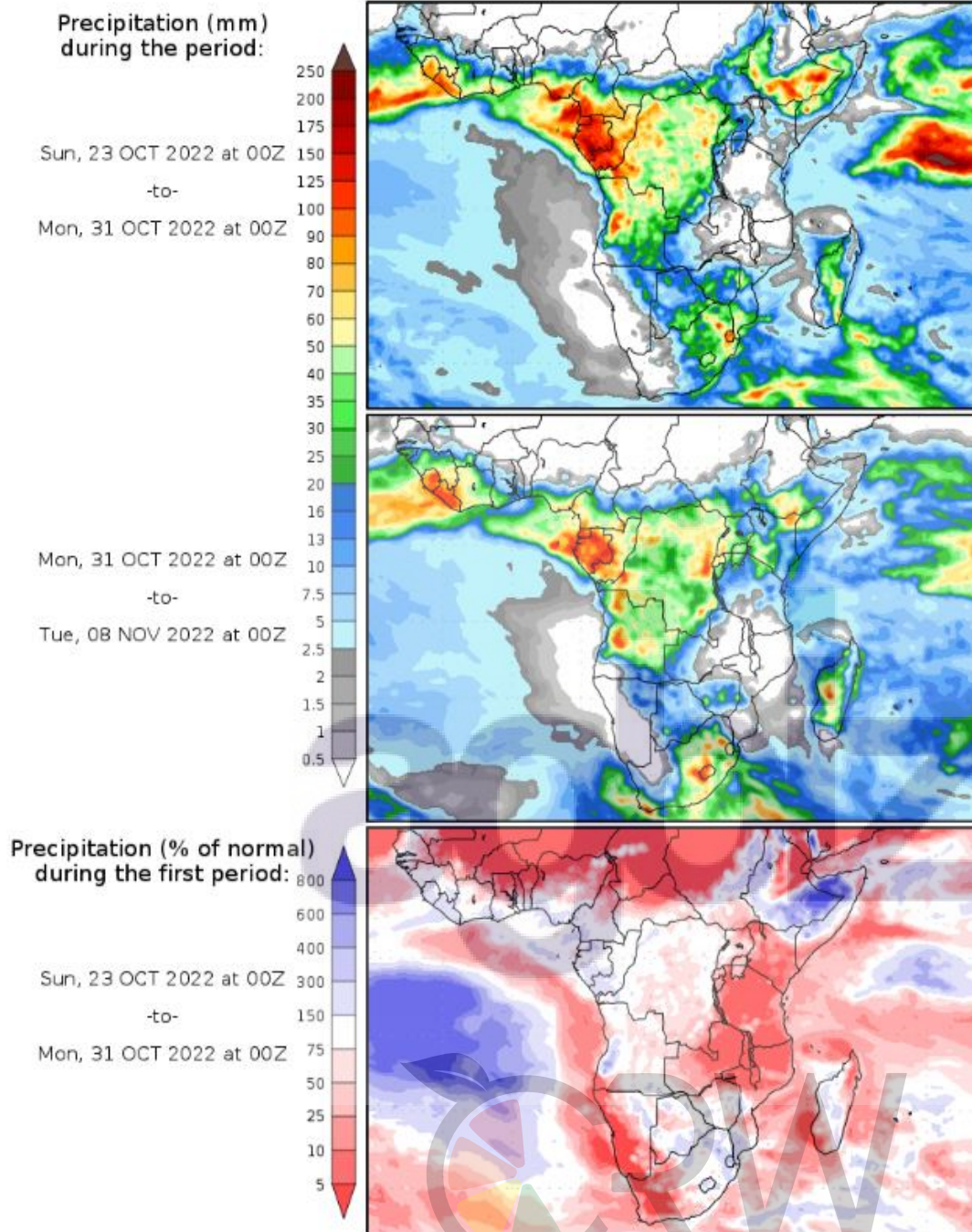
Also on Wednesday, the Crop Estimates Committee will release its **ninth production forecast for summer field crops** for 2022. On the same day, the Committee will release the 'intentions of farmers' to plant summer grain crops for 2023. This is important data in helping us formulate a view about the size of the 2022/23 season summer grains and oilseeds harvest. We will also have the **third production forecast for winter cereals** for 2022.

On Thursday, SAGIS will publish the **Weekly Grain Trade** data for 21 October 2022. In the previous release on 14 October 2022, which was the 24th week of South Africa's 2022/23 maize marketing year, the weekly exports amounted to 44 276 tonnes. About 71% of this went to Taiwan, and the rest to the Southern Africa region. This brought the total 2022/23 exports to 1,9 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 14 October was the second week of the 2022/23 marketing year. The weekly imports amounted to 81 451 tonnes. About 56% from Poland, 24% from Germany, 11% from Lithuania, and 9% from Australia. The total imports for the 2022/23 season are now 122 857 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.



## Precipitation Forecasts



Source: George Mason University (wxmaps)

*The weather forecast currently shows prospects of widespread rains across the summer crop growing regions of South Africa over the next two weeks.*

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