South Africa's agricultural exports maintain solid growth momentum in Q3, 2022

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South Africa's agricultural trade data paint an encouraging picture, although the sector continues to struggle with poor roads network and inefficiencies in rail networks and ports. In the third quarter of this year, the value of South Africa's exports of agriculture, i.e., food, fibre and beverages amounted to US$3,7 billion, up 10% year-on-year (y/y). The main factors underpinning this are the sizeable agricultural output in the 2021/22 production season and higher commodity prices.

Citrus, maize, nuts, wine, apples and pears, sugar, fruit juices, berries, soybeans and wool were among the most critical products exported in the third quarter. We had feared that the citrus market access challenges South Africa faced in the EU after plant regulations changes would make a significant dent in export values in the third quarter of the year. Fortunately, the temporary solution that industry and the government advocated helped to ease trade flows, and its outcome is evident in these trade data. However, there are ongoing engagements between South Africa and the EU authorities for the long term on the new citrus 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, which the EU should ideally recognize so that the trade can continue. The outcome of the government's engagements will be critical. The EU is a sizable market for South Africa's citrus industry and the whole agricultural sector. In the third quarter of this year, citrus was still the top exportable agricultural product by value in South Africa with roughly the same value as the third quarter in 2021, just over US$1,06 billion. Wool is another key product that faced export restrictions in China earlier this year. The bounce back on exports we observed in the third quarter values also signals the resumption of trade with China. This is an important market for South Africa's wool, accounting for over two-thirds of exports.

From a destination point of view, the African continent remained the largest agricultural export market for South Africa in the third quarter of this year, accounting for 32% in value terms. Asia and the Middle East collectively were the second largest region accounting for 31% of the exports, with the EU holding the third position with a 19% 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 6% of overall agricultural exports in the third quarter. The balance of 12% value constitutes the Americas and other regions of the world.

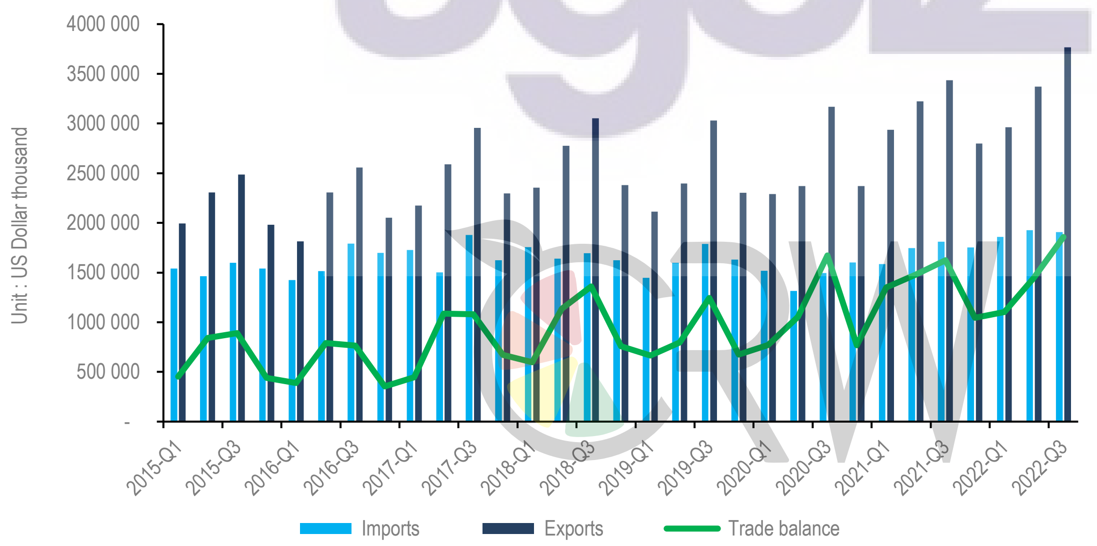
South Africa's trade policy and activity are, of course, not one-directional. South Africa is also a significant importer of agricultural products. South Africa relies on other countries for crucial food products such as wheat, rice, palm oil, sunflower oil, poultry and whiskeys. These products dominated the food import bill in the third 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 third quarter of 2022, agricultural imports increased by 5% 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 when data for the remainder of the year are published.

Overall, South Africa recorded an agricultural trade surplus of US$1,9 billion in the third quarter of 2022, up by 14% from last year's corresponding period. The robust exports and a modest increase in imports contributed to this strong trade surplus.

As we have indicated several times in these notes, the critical point from a policy perspective 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. China, South Korea, Japan, the USA, Vietnam, Taiwan, India, Saudi Arabia, Mexico, the Philippines, and Bangladesh are key markets in which South African agribusinesses and farmers are interested in expanding their presence. These countries have a sizable population and large imports of agricultural products, specifically fruits, wine, beef and grains. These countries are already on the radar of the South African authorities.

At the same time, South Africa should not neglect the continuous constructive engagements with Europe and the African continent as we search for new markets. All this should happen while the domestic efforts to improve the functioning of the network industries (road, rail and ports) are underway. In this respect, there are promising discussions between Transnet and the agricultural industry focused on improving efficiencies and exploring co-investment options in some areas at ports. This will be a long-term endeavour, but its success will be meaningful for the export-oriented South African agricultural sector. There also needs to be increased security within the logistics as we see increased reported cases of criminality against South Africa's infrastructure. 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

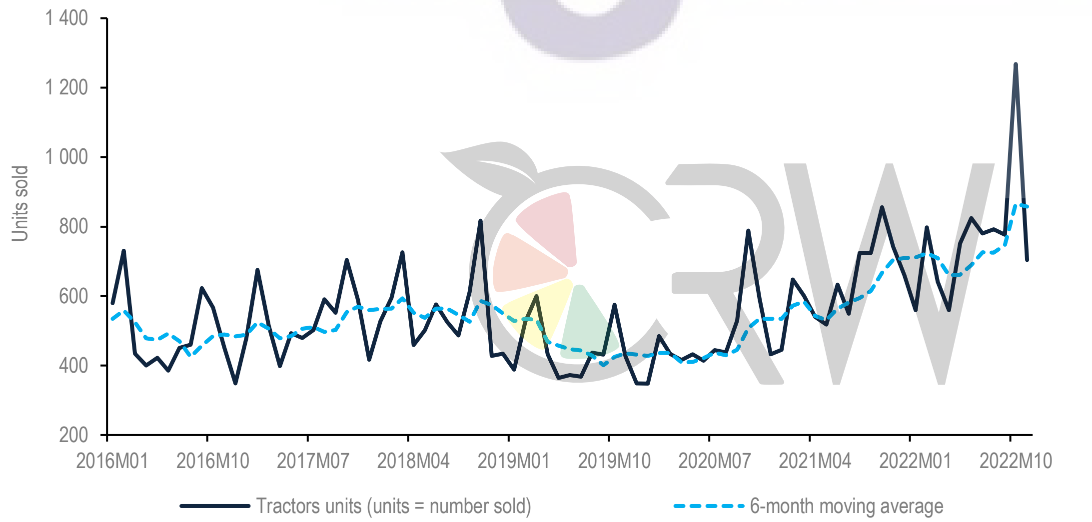
South Africa's monthly tractor sales decline for the first time since early 2020

After registering positive growth since May 2020, South Africa's tractor sales fell by 5% year-on-year in November 2022, with 704 units sold. Still, the current sales are well above the long-term monthly average of 565 units, and reflect an environment where farmers were financially secured and confident about the seasons ahead, and thus increased investment in movable assets. Essentially, 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 greater part of 2022. During the same period, combine harvest sales amounted to 23 units, significantly up from 8 units sold in November 2021.

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, and that would have weighed down the profitability. Therefore, these past few 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.

Importantly, this year the reasonably higher input costs and rising interest rates did not reduce farmers' spending on machinery as we initially anticipated. In a way, this speaks also to the farmers' confidence about the 2022/23 production season which has recently started. With that said, the monthly decline in tractor sales in November may be a start of a change in sales trajectory after many months of positive momentum. We suspect that the rate of replacement in the coming months may be low as farmers have acquired new machinery for some time. Also, the rising interest rates will continue to add pressure on farmers. These factors could be the underpinning factors for a decline in tractor sales in the coming months. Still, we are cognizant not to draw conclusions on one monthly data point. We will continue to monitor the activity in the coming months.

Exhibit 2: South Africa's tractor sales



Source: South African Agricultural Machinery Association and Agbiz Research

South Africa's agriculture gross value-added rebounds in Q3

After contracting for two consecutive quarters, South Africa's agricultural gross value added expanded by 19,2% quarter-on-quarter (seasonally adjusted) in the third quarter of this year. The better yields of some field crops (mainly summer grains and oilseeds) and horticulture, combined with relatively higher prices, specifically grains and oilseeds, underpin this improvement. Also worth noting is that the summer grains harvest, typically in the year's second quarter, was delayed by roughly a month and fell into the third quarter this year. In a slightly more technical sense, the weak growth in the last quarter also created a lower base, setting the ground for a recovery in the third quarter.

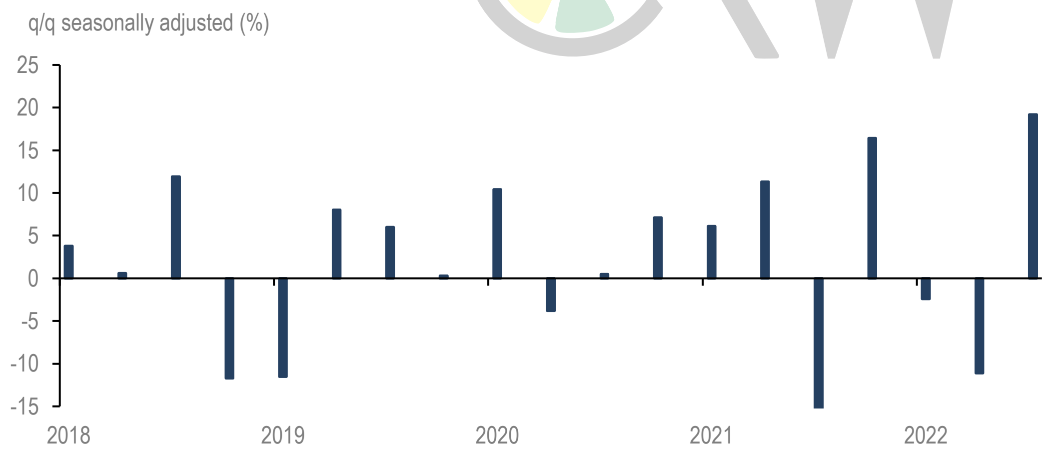
Notably, South Africa's agriculture quarterly gross value-added figures tend to be quite volatile; hence our communication over the past few months focused on the annual performance. As such, we still expect a mild contraction in the gross value of the sector in 2022. This is mainly because of a decline in some field crop harvests, such as maize, which is down 6% y/y, estimated at 15,4 million tonnes, possible poor performance in sugar cane, and challenges in the livestock industry which struggles with biosecurity weaknesses. 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, will also be an additional factor to the potential annual contraction.

The Agbiz/IDC Agribusiness Confidence Index (ACI), which we view as a lead indicator of the sector's performance, fell by 4 points in the fourth quarter of this year to 49. This deterioration below the neutral 50-point implies that agribusinesses are slightly downbeat about business conditions in South Africa. If this gloomy path continues, there could be negative implications for the long-term growth of the sector. Persistent episodes of load-shedding, higher input costs, rising protection in some export markets, animal disease outbreaks, rising interest rates, intensified geopolitical tensions which disrupted supply chains, and ongoing weaknesses in municipal service delivery and network industries remained the key factors survey respondents cited as their primary concerns.

Overall, 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 livestock diseases are controlled, and we get a favourable rainy season in 2022/23 summer.

From the factors mentioned above that weigh on the sentiment, 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. Admittedly, 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

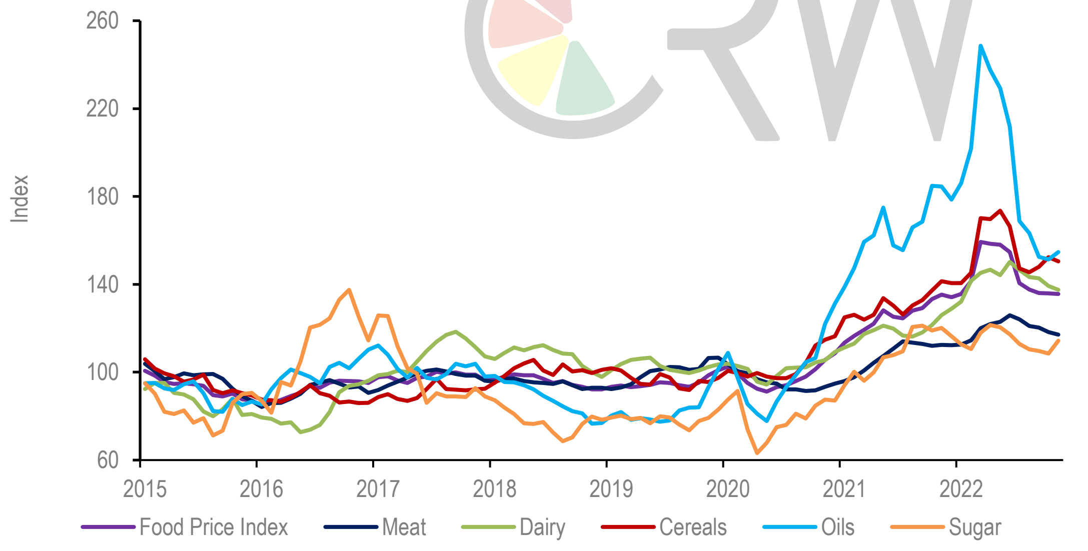
The USDA marginally lowered 2022/23 global wheat and maize production estimates, while lifting soybeans

This past week the United States Department of Agriculture (USDA) released its monthly flagship report, the *World Agricultural Supply and Demand Estimates* report. This report provides insight into the production conditions of the major grains and oilseeds. While there have been some changes in production conditions in various countries, the overall estimates continue to paint a broadly positive picture, with slight downward revisions in maize and wheat harvests. For example, the USDA forecasts 2022/23 global wheat production at 780 million tonnes, down by 0,3% from November 2022. This is mainly on the back of a downward revision of Argentina's 2022/23 wheat crop on the back of drier weather conditions. Still, the 2022/23 wheat production forecast is 0,2% higher than the previous season supported by expected large yields in Russia, the US, Canada, Kazakhstan, China, Turkey, and the UK, amongst others.

Moreover, the USDA forecasts 2022/23 global maize harvest at 1,16 billion tonnes, down by 1% from the previous month, mainly on expectations of a lower crop in the Black Sea region. This is down by 5% from the previous season, mainly due to an expected smaller crop in the US, Ukraine, EU, and India. Moreover, the 2022/23 global rice production is estimated at 503 million tonnes, marginally down by a tonne from November estimates. The current estimate is down by 2% from the 2021/22 season due to anticipated poor yields in parts of rice-producing regions of Asia.

Unlike the other crops, the 2022/23 soybeans production prospects remain positive, at 391 million tonnes. This is slightly up from November figures and 10% higher than the 2021/22 season. The anticipated large harvest in Brazil, Argentina, China, Paraguay, Canada, Russia, and Ukraine compensates for the expected decline in the US, India, and Uruguay. These deviations in crop expectations are a function of weather and area plantings variations. As we stated in our previous notes, the 2022/2023 global grains and oilseeds season presents an encouraging picture of supplies. These forecasts will probably be sufficient to provide relief from the levels the grains and oilseeds prices were at in the weeks after the start of the Russia-Ukraine war. Still, one will have to keep a close eye on the South American crop conditions over the coming months as the season is still at inception, and there are growing fears of drought because of the La Niña weather event. We will also keep monitoring the impact of these developments on food prices (see Exhibit 4).

Exhibit 4: Global Food Price Index



Source: FAO and Agbiz Research

Data releases this week

As always, we start the week's note with a global focus, the United States Department of Agriculture (USDA) will publish the **US Weekly Export Sales** data on Thursday.

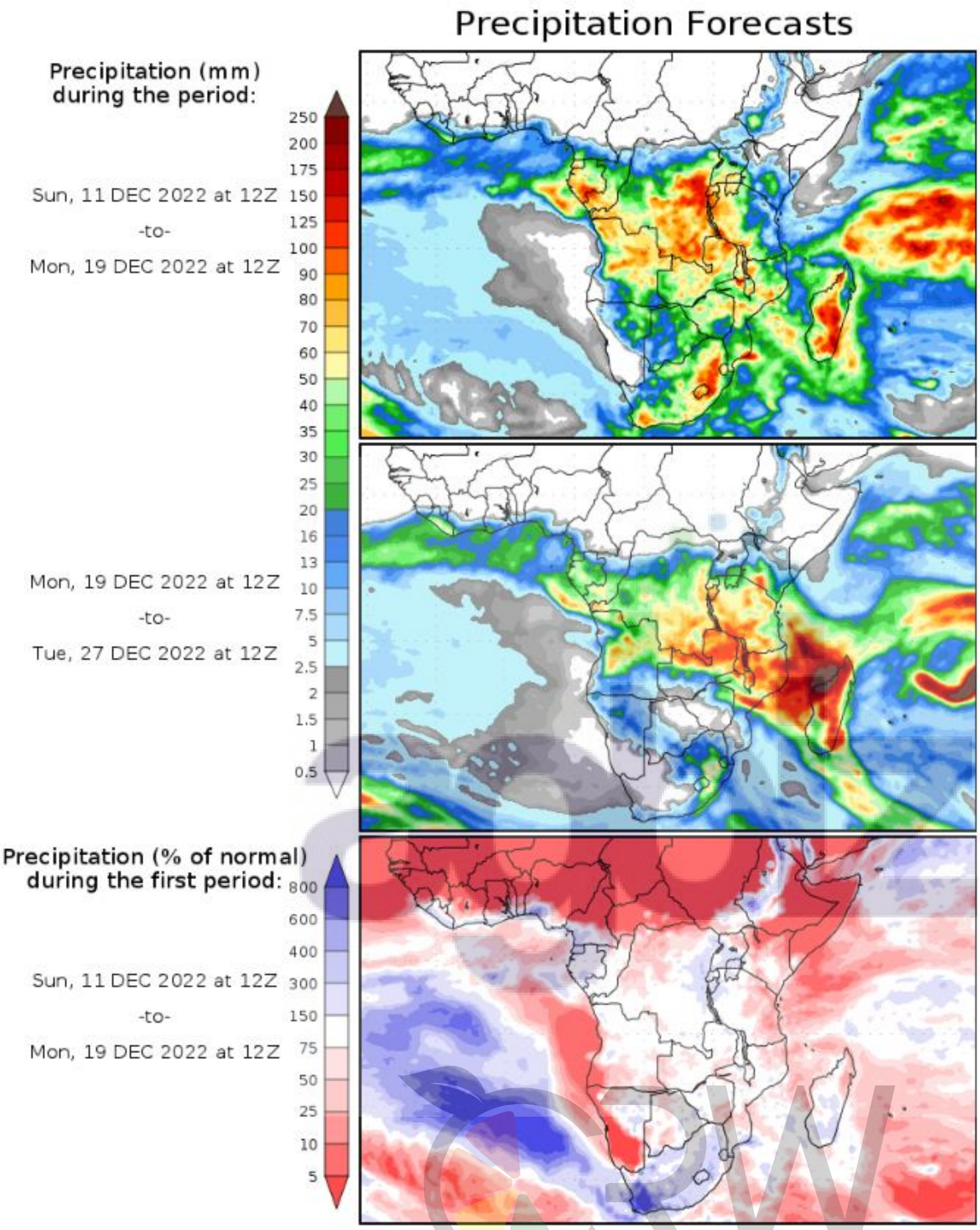
On the domestic front, on Wednesday, Statistics South Africa will release the **Consumer Price Index (CPI)** for November 2022. To recap, South Africa's consumer food price inflation was at 12,3% year-on-year in October 2022, roughly unchanged from the previous month. The products that continued to present upside price pressures were mainly "bread and cereals", "meat", and "milk, eggs, and cheese".

Also on Wednesday, SAGIS will release the **Weekly Producer Deliveries** data for 09 December 2022. In the previous release of the week of 02 December 2022, about 14,0 million tonnes of maize had already been delivered to commercial silos, out of the harvest of 15,4 million tonnes. In the same week, about 2,1 million tonnes of soybeans had already been delivered to commercial silos out of the harvest of 2,2 million tonnes. Moreover, 836 375 tonnes of sunflower seed had already been delivered on the same day out of the harvest of 845 550 tonnes. The 2022/23 wheat producer deliveries amounted to 1,3 million tonnes in the same week, out of the expected harvest of 2,2 million tonnes.

On Thursday, SAGIS will publish the **Weekly Grain Trade** data for 09 December 2022. In the previous release on 02 December 2022, which was the 31st week of South Africa's 2022/23 maize marketing year, the weekly exports amounted to 42 801 tonnes, about 68% to Mexico and the rest to the Southern Africa region. This brought the total 2022/23 exports to 2,2 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 02 December 2022 was the ninth week of the 2022/23 marketing year. The weekly imports amounted to 9 797 tonnes, all from Russia. This puts the total imports for the 2022/23 season at 350 182 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 above and in the 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. This was replaced by Argentina and Brazil in the 2021/22 season. We will closely monitor Russia's presence in the 2022/23 season.

Exhibit 5: South Africa's precipitation forecast



Source: George Mason University (wxmaps)

The weather forecast for this week shows prospects of rainfall over the summer crop growing areas of South Africa.

While the rains are generally a welcome development, an increase in moisture could delay plantings in areas where there are already high moisture levels.