

A mixed production outlook for the SA wine and maize industries in 2023

The food security risk from the severe load-shedding is evident across the agricultural sector and the broader food, fibre and beverages value chain cases, as we have discussed in a recent note. The Ministerial Task Team assessing the impact of the load-shedding in the sector and crafting response mechanisms to lessen the blow in the sector need to move speedily as the challenge in the farms and food processing facilities worsens each day.

Aside from the challenges presented by the power crisis, the latest harvest news in wine grapes and maize paints a mixed outlook for these two subsectors. In this week's note, we explore the production conditions in these separate subsectors, and the outlook for the harvest.

First, South Africa's wine grapes for this year are projected to be lower than the 2022 harvest because of unfavourable weather conditions earlier in the season. The South African Wine Industry Statistics will release its production estimates later in February but has already indicated the prospects of lower yields. This means the wine production could also be lower than 2022 levels, with preliminary estimates pointing at an output of around 800 million litres. This will add pressure to an industry still recovering from the slump through the worst of the Covid-19 pandemic, where the ban on sales at various intervals had a severe negative financial impact. Importantly, this industry is labour-intensive. Therefore, any additional financial strain in an already low-profit environment could negatively influence employment conditions, particularly seasonal labour. One effective response measure to assist the wine industry, especially through this tough year, would be for the National Treasury to review the excise tax burdens for wine. These are currently at 11% and this is well above the other emerging markets' duties on wine producers.

Second, in the maize subsector, the near-term outlook is somewhat better. The season started with excessive rains, which slowed some regions' planting by roughly a month. But this proved beneficial when we confronted the heatwave in the past two weeks as the soil moisture was reasonably high and cushioned the crop. This is the case for roughly 80% of rainfed regions of maize. As such, the preliminary production estimates from organizations such as the United States Department of Agriculture (USDA) paint a positive picture, forecasting South Africa's 2022/23 maize crop at 15,6 million tonnes, down only 3% from the previous season. Importantly, this includes commercial and non-commercial maize. In the 2022/23 maize production estimate of 15,6 million tonnes, the non-commercial estimate is 600 000 tonnes (down from 667 000 tonnes in the previous season). The minor decline in harvest reflects reduced area plantings and slightly lower yields.

With that said, it is worth noting that we are still early in the season, and these estimates could change. The Crop Estimates Committee (CEC) holds a somewhat cautious view of estimating the area plantings for commercial maize to be 2,5 million hectares, which is down by 4% from the area estimate of the USDA for commercial maize. Still, these are tentative figures. The CEC will release its revised area planting and the first production estimates on 28 February 2023. If the area planted remained unchanged at 2,5 million hectares, with an average yield of 5,6 tonnes per hectare (lower than the USDA's yield estimate of 5,7), then the 2022/23 commercial maize crop could be around 14,0 million tonnes. This would be well

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below the CEC's estimate of the 2021/22 commercial maize harvest of 15,4 million tonnes (when the yield was 5,9 tonnes per hectare). Still, this harvest would be well above the annual consumption of around 11,8 million tonnes and keep South Africa's status as a net exporter of maize.

Such a harvest could still contribute towards softening maize prices from levels we saw in previous years. The critical drivers of maize prices in the past season were global, such as drought in South America, rising demand in China, and the Russia-Ukraine war. With the global grain prices having softened in the past few months, that trend will likely filter into the South African market, even if this is to a more limited extent than what we see if the world market. Both white and yellow spot maize prices and the July contract months are below R5000 per tonne. These price levels benefit consumers and the poultry and livestock industries which have faced higher feed costs over the past few years. These two industries face unique challenges from load-shedding and its associated costs; thus, any minor relief in feed prices would be a welcome development.

In sum, the agricultural sector and the entire food, fibre and beverages value chain remain on shaky ground because of its dependency on a consistent energy supply. Government interventions to ease this burden are crucial as there are serious food security risks. Beyond the challenges presented by the power crisis, weather conditions have created varying outlooks across different subsectors. The wine industry is on a recovery path, but lower wine grape harvest and the excise tax will continue to weigh on the sector. Thus, the National Treasury must review the excise tax to ease the pressure in this critical and labour-intensive industry. The picture of maize production remains positive and supportive of staple food availability and the livestock and poultry sector.

Weekly highlights

South Africa's 2022/23 summer grains and oilseeds plantings remain at decent levels

Since the start of the 2022/23 summer grains and oilseeds production season, we have maintained a positive view of the production conditions. The robust tractor sales, the La Niña-induced rains, and the relatively higher commodity prices were some of the factors that pointed to a decent area for summer crops in the 2022/23 season.

The data released by the Crop Estimates Committee (CEC) this past week broadly mirrors our optimism, placing the 2022/23 total area plantings for summer crops at 4,31 million hectares of summer grains and oilseeds in the 2022/23 season. This is down by 0,7% from the previous season, and 0,9% from the intentions to plant data released earlier in the season.

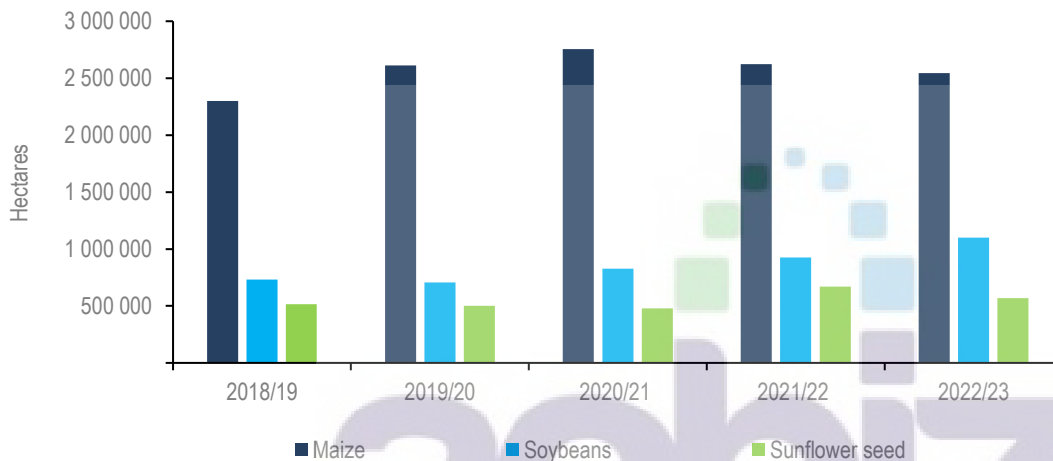
A deep dive into the numbers show a mixed picture. For example, the 2022/23 maize planting intention is 2,54 million hectares, down by 3% y/y (but well above the 10-year average area of 2,53 million hectares). About 1,47 million hectares is white maize (down by 6% y/y), and 1,07 million hectares is yellow maize (up 2% y/y).

The sorghum area is down by 9% y/y to 34 000 hectares (well below the 10-year average of 51 102 hectares). The groundnut area declined by 28% from the 2021/22 production season to 31 200 hectares (lower than the 10-year average of 43 143 hectares). The sunflower seed planting estimate is 15% lower than the 2021/22 season, estimated at 568 550 hectares (slightly above the 10-year average of 579 955 hectares). Moreover, the dry bean plantings are at 34 500 hectares, down 20% y/y. Meanwhile, soybeans area plantings are set to increase by 19% from the 2021/22 production season to 1,09 million hectares, a record area.

While the picture is mixed, with most crops showing a decline, these are still welcome developments. Some feared that the rising input costs – fertilizer and agrochemicals – would potentially discourage plantings, and these data point to the opposite. Admittedly, as promising as the planting data are, the higher input costs will cut the farmers' profits this new season. Notably, prolonged load-shedding will likely reduce yields in the irrigation areas.

Regarding the size of the crop, the CEC will release a revised area planting and first production estimates on 28 February 2023. Given that the weather conditions have generally been favourable although excessive rains delayed plantings at the start of the season, we believe that yields of most crops will be at decent levels, above the long-term average, which could compensate for the decline in area plantings of most crops.

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



Source: CEC and Agbiz Research

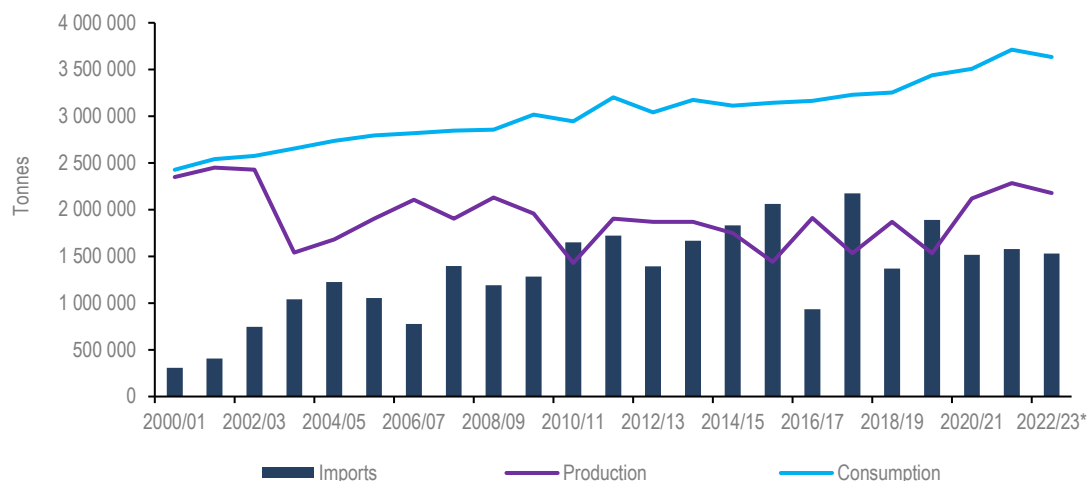
South Africa's wheat production estimates lowered amid poor yields in parts of the Western Cape

The drier weather conditions in the Western Cape, a major wheat producer in South Africa, have weighed on the 2022/23 wheat harvest. The impact of lower yields in parts of the province is evident in the recent Crop Estimates Committee's wheat production update, which placed the province's crop at 954 000 tonnes, down from 1,26 million tonnes in the 2021/22 season.

From a national perspective, South Africa's 2022/23 wheat harvest is at 2,18 million tonnes, down by 3% from December 2022 forecast and 2021/22 harvest. The challenge is poor yields in the Western Cape, not a reduced area planting. 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. Notably, the decline in the Western Cape's crop was somewhat compensated by the increase in the harvest in the Northern Cape, Free State and Limpopo, amongst other provinces.

Overall, South Africa will remain a net importer of wheat. We expect the country to import 1,60 million tonnes, roughly unchanged from the previous year. The major wheat suppliers will likely remain 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 replaced this volume. But we are now seeing a return of Russia in the wheat suppliers for South Africa. Notably, Russia is one of the leading suppliers of wheat to South Africa in the current 2022/23 season.

Exhibit 2: South Africa's wheat market



Source: SAGIS, CEC and Agbiz Research

Data releases this week

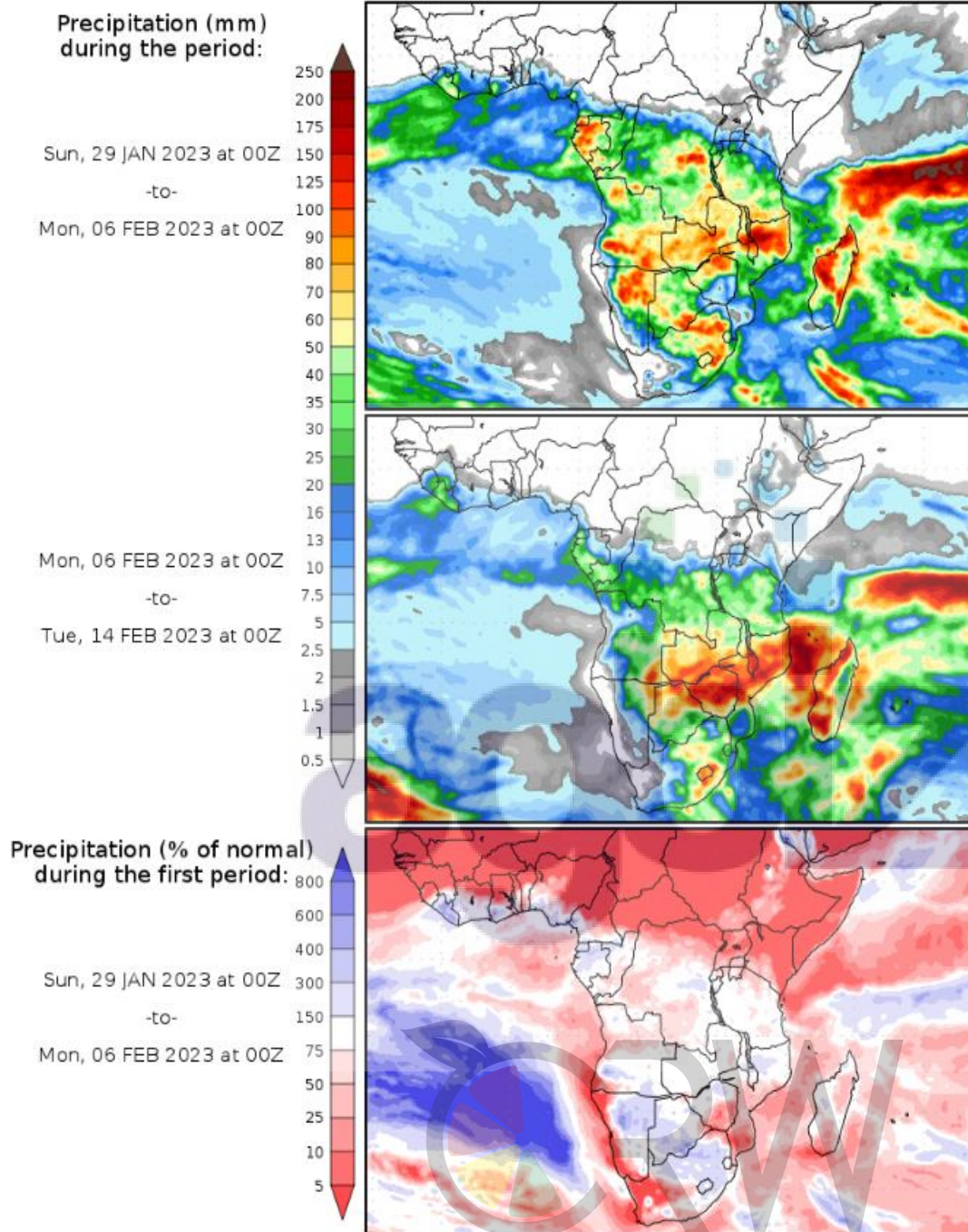
We start the week's note with a global focus, and on Thursday, the United States Department of Agriculture will release the **US Weekly Grains and Oilseeds Exports**.

On the domestic front, on Wednesday, SAGIS will release the **Weekly Producer Deliveries** data for 27 January. In the previous release of 20 January, about 14,2 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 2,2 million tonnes of soybeans had already been delivered to commercial silos, roughly the same size as the harvest for the season. Moreover, 839 566 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 1,81 million tonnes in the same week, out of the expected harvest of 2,18 million tonnes.

On Thursday, SAGIS will publish the **Weekly Grain Trade** data for 27 January. In the previous release on 20 January, which was the 38th week of South Africa's 2022/23 maize marketing year, the weekly exports amounted to 39 788 tonnes, about 46% to Mexico and the rest to Southern Africa region. This brought the total 2022/23 exports to 2,50 million tonnes out of the seasonal export forecast of 3,25 million. This is slightly down from 3,73 million tonnes in the past season due to an expected reduction in the harvest.

South Africa is a net wheat importer, and 20 January, was the sixteenth week of the 2022/23 marketing year. The weekly imports amounted to 43 416 tonnes from Brazil. This puts the total imports for the 2022/23 season at 504 210 tonnes. The seasonal import forecast is 1,60 million tonnes, roughly unchanged from the previous season. The major wheat suppliers in the 2021/22 season 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 import data for the past five years, Russia was one of the major wheat suppliers, accounting for an average share of 26% yearly. Argentina and Brazil replaced this in the 2021/22 season. We will closely monitor Russia's presence in the 2022/23 season, as the country is again one of the major wheat suppliers to South Africa.

Precipitation Forecasts



Source: George Mason University (wxmaps)

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

This is a welcome development after weeks of heatwave, that have weighed on the crop conditions.