

SA agriculture exports showed resilience in 2022 despite headwinds

Despite various headwinds throughout the year, South Africa's agriculture exports for 2022 did not decline as much as some feared. Data for the first eleven months of the year show exports at a cumulative US\$11,9 billion, up by 3% from the same period in 2021. Moreover, US\$11,9 billion is the second largest agriculture exports value on record. When we receive the December exports figure in the coming weeks, it is possible that the 2022 agricultural exports could be just under 2021 levels of US\$12,4 billion or even exceed them.

This data is particularly encouraging since 2022 presented various challenges to South Africa's agriculture. At the start of the year, logistical challenges in the ports of Cape Town disrupted the exports of table grapes and other deciduous fruits. Thankfully, the cooperation between Transnet and organized agriculture helped to lessen the constraints and opened up channels of communication that were critical for managing the flow of exports and attending to pressing problems. Meanwhile, the port of Durban faced fewer challenges than the previous year, with citrus exporters facing a relatively better export season from a logistics perspective. This was also brought through increased cooperation between organized agriculture and Transnet. Indeed, there are still many challenges within logistics, but Transnet's willingness to cooperate closely with the industry has helped.

In key export markets such as China for wool and the EU for citrus, South Africa faced non-tariff barriers. China temporarily blocked South African wool in response to the outbreak of the foot-and-mouth disease in South Africa. But this was a misstep on China's part as there is already a framework to manage wool exports in periods when there is a foot-and-mouth disease to ensure the safety of the wool exported. Notably, the outbreak was on cattle, not sheep, which should have provided further comfort about the safety of the wool exports. Positively, after a few months, China lifted the ban, although it had already had a notable financial impact on South African wool farmers and exporting businesses. China is an important market for South African wool, accounting for just over 70% of the wool exports.

Similarly, the EU imposed protectionist measures on SA agriculture by changing its regulations on plant safety for citrus without notifying its trading partners within a reasonable time. The new regulation purports to protect the EU from a quarantine organism, "False Codling Moth", by introducing stringent new cold treatment requirements, particularly on citrus imports from Africa, mainly impacting South Africa, Zimbabwe and the Kingdom of Eswatini. These are the largest suppliers of citrus to the EU region. For example, over the past five years, South Africa has constantly been the leading supplier of citrus to the EU region, accounting for an average of 12% in value terms. This was a contentious issue, mainly as South Africa had already put rigorous measures to control the False Codling Moth, which the EU used as a pretext to restrict citrus imports from Africa. It appeared that the EU used the new regulations to protect citrus-growing countries like Spain, which had to compete with products from Southern Africa.

Also worth noting is that the spread of foot-and-mouth disease in the cattle industry was vast and, for the first time, in six of South Africa's nine provinces. This resulted in a decline in slaughtering activity in some major feedlots. Subsequently, beef exports were also limited as some key markets had imposed a ban on livestock products from South Africa.

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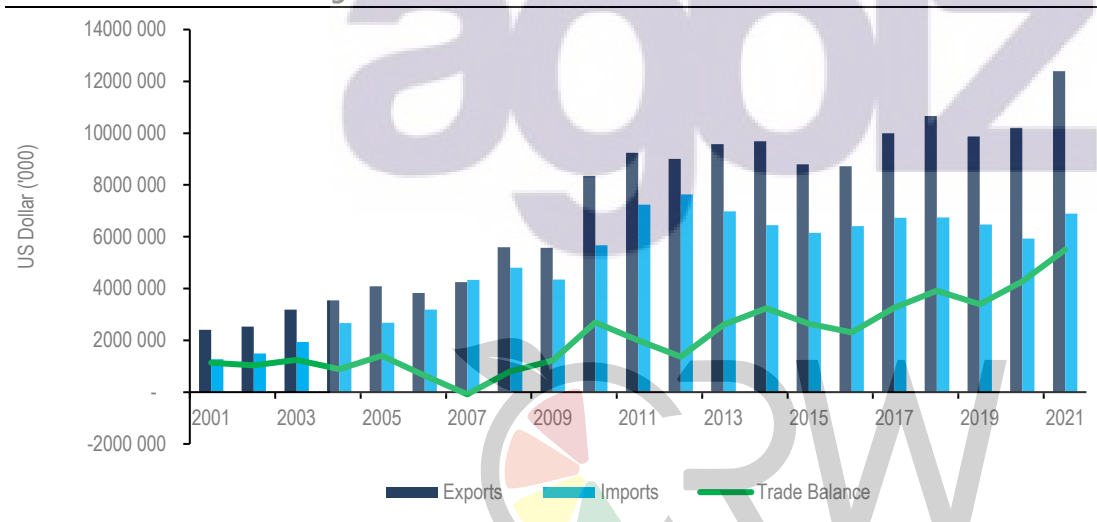
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Regarding field crops, the production of key crops, such as maize, was not as robust as the previous year. The maize harvest was 15,5 million tonnes, down by 5% from the prior season. This meant that the export volume would also decline somewhat. But other crops such as soybeans reached a record level of 2,2 million tonnes and thus led to an increase in exports. At the core, the generally higher commodity prices, specifically grains and oilseeds, helped boost the export values, compensating for a slight volume decline.

Regarding products and destinations, the export mix is not as different from the previous year. For example, citrus, maize, apples, pears, wine, grapes, figs, dates, avocados, nuts, fruit juices, wheat, wool, and sugar were still among the top exportable products in 2022. From a destination point of view, the African continent remained the largest agricultural export market for South Africa, followed by Asia as the second largest market, and the EU held the third position. Notably, the United Kingdom remains one of the most important agricultural markets for South Africa, and there was also a flow of exports to the Americas region.

Ultimately, while we are yet to have full-year data, the available figures for the first eleven months show that South Africa's agricultural exports far surpassed some expectations. The reasonably higher commodity prices were at the core of this solid export activity. For 2023, the drive to expand export markets while maintaining the above existing ones should remain a priority for government and organized agriculture. The priority countries should be China, South Korea, Japan, the USA, Vietnam, Taiwan, India, Saudi Arabia, Mexico, the Philippines and Bangladesh. All have sizeable populations and large imports of agricultural products, specifically fruits, wine, beef and grains.

Exhibit 1: South Africa's agricultural trade



Source: Trade Map and Agbiz Research

Note: 2022 export figure has not yet been inserted; it stands at US\$11,9 billion for the first 11 months

South Africa's agricultural machinery sales are likely to moderate in 2023 compared to the robust levels of 2022

After solid activity in 2022¹, South Africa's agricultural machinery sales will likely soften this year. We outlined several reasons for this view in our previous update. For example, we think the possible replacement rate of older machinery will likely be lower this year as the past three years saw increased new machinery sales. The rising interest rates will also continue to

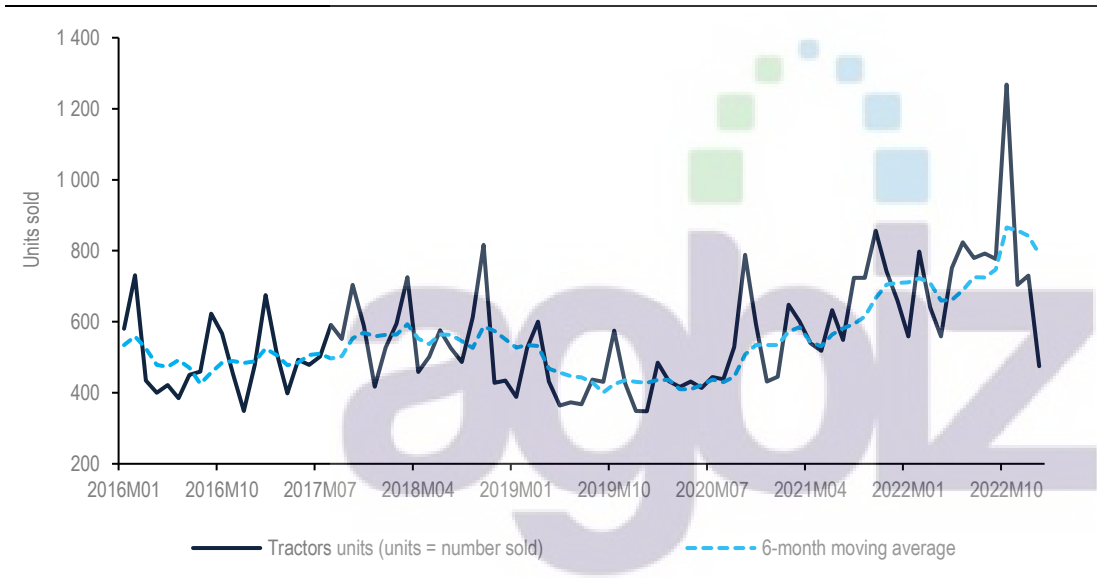
¹ South Africa's tractor sales for 2022 amounted to 9 184 units, up 17% from the previous year and the highest annual sales for the past 40 years. The combine harvester sales amounted to 373 units in the same period, up 38% from 2021 and the highest yearly sales figure since 1985. The ample crop harvest of the 2021/22 production season (and the 2020/21 and 2019/20 seasons), combined with generally higher commodity prices, specifically grains and oilseeds, helped boost farmers' incomes and, after that, their ability to procure new machinery.

pressure farmers' finances. Moreover, while the agricultural sector, specifically rain-fed areas, will likely perform well, the harvest could still be less than the 2021/22 season due to prospects of lower yields and reduced planted area. This lowers the farmers' financial muscle to spend on agricultural equipment.

The first month of this year's tractor sales already signals what we think will be a central theme for the year. January 2023 tractor sales amounted to 475 units, down by 16% from the corresponding month a year ago. Admittedly, one shouldn't conclude on one month's data point. Still, given the broad factors we note above, which will underpin the market conditions this year, we continue to see softening in the momentum of tractor sales in 2023.

Surprisingly, the combine harvester sales were firm, with 16 units sold in January 2023, from 4 in the same month a year ago. Broadly, our view of combine harvester sales is not different to tractors. The solid sales of January may be an exception, with much of the year likely to show muted sales, reflecting the challenging current operational conditions.

Exhibit 2: South Africa's tractor sales



Source: South African Agricultural Machinery Association and Agbiz Research

The USDA's latest views on the 2022/23 global grains and oilseeds harvest

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 global production conditions of the major grains and oilseeds. Although there have been some changes in production conditions in various countries, such as Argentina and Brazil, the overall estimates continue to paint a broadly positive picture, with slight downward revisions in maize and rice harvest estimates.

For example, the 2022/23 global maize production is forecast at 1,15 billion tonnes, down by 0,4% from January estimate and 5% less than the 2021/22 season crop. This is mainly due to an expected smaller crop in the US, Ukraine, and the EU. Subsequently, the 2022/23 global maize stocks are down by 4% from the prior season, estimated at 295 million tonnes.

Moreover, the 2022/23 global rice production is estimated at 503 million tonnes, roughly unchanged from January estimates, but this is down by 2% from the 2021/22 season due to anticipated poor yields in parts of rice-producing regions of Asia. Because of stable consumption and this decline in production, the USDA currently forecasts an 8% annual decline in global rice stocks, now estimated at 169 million tonnes.

Positively, the USDA forecasts 2022/23 global wheat production at 783 million tonnes, marginally up from January estimates and 1% higher than the previous season, supported by expected large yields in Russia, the US, Canada, Kazakhstan, China, Australia, and the UK, amongst others. However, because of strong consumption, the 2022/23 global wheat stocks are set to decline by 3% from the previous season to 269 million tonnes.

The 2022/23 soybeans production prospects remain favourable, although having slashed from the January estimates because of a poor crop in Argentina. The 2022/23 global soybean harvest is now estimated at 383 million tonnes, up 7% from the previous season. The anticipated large harvest in Brazil, Paraguay, Russia and China 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.

Overall, we positively view the 2022/23 global grains and oilseeds season. The expected global production will probably be sufficient to provide relief from the prices levels grains and oilseeds reached in the weeks after the start of the Russia-Ukraine war. Still, the tighter maize and rice stocks will likely keep prices at reasonably higher levels than the long-term averages. For example, the FAO's Cereal Price Index averaged 147 points in January, marginally up from December levels and 5% higher than the corresponding period a year ago (see Exhibit 3). This uptick in global grain prices is primarily underpinned by maize and rice, whose stocks are tight, while wheat prices continue to soften in response to improved global harvest.

Exhibit 3: Global Food Price Index



Source: FAO and Agbiz Research

Data releases this week

We start the week with a global focus, and the week looks relatively quiet with one major release, the USDA's **US Weekly Grains and Oilseeds Exports**, which is due for release on Thursday.

On the domestic front, on Wednesday, SAGIS will release the **Weekly Producer Deliveries** data for 10 February. In the previous release of 03 February, about 14,3 million tonnes of maize had already been delivered to commercial silos, out of the harvest of 15,5 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, 839 992 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 1,86 million tonnes in the same week, out of the expected harvest of 2,18 million tonnes.

Also, on Wednesday, Statistics South Africa will release the **Consumer Price Index (CPI)** data for January 2023. Our focus will be on the food category. To recap, the consumer food price inflation slowed marginally to 12,7% in December 2022 from 12,8% in November. The product prices underpinning this moderation include meat, oils, and fats.

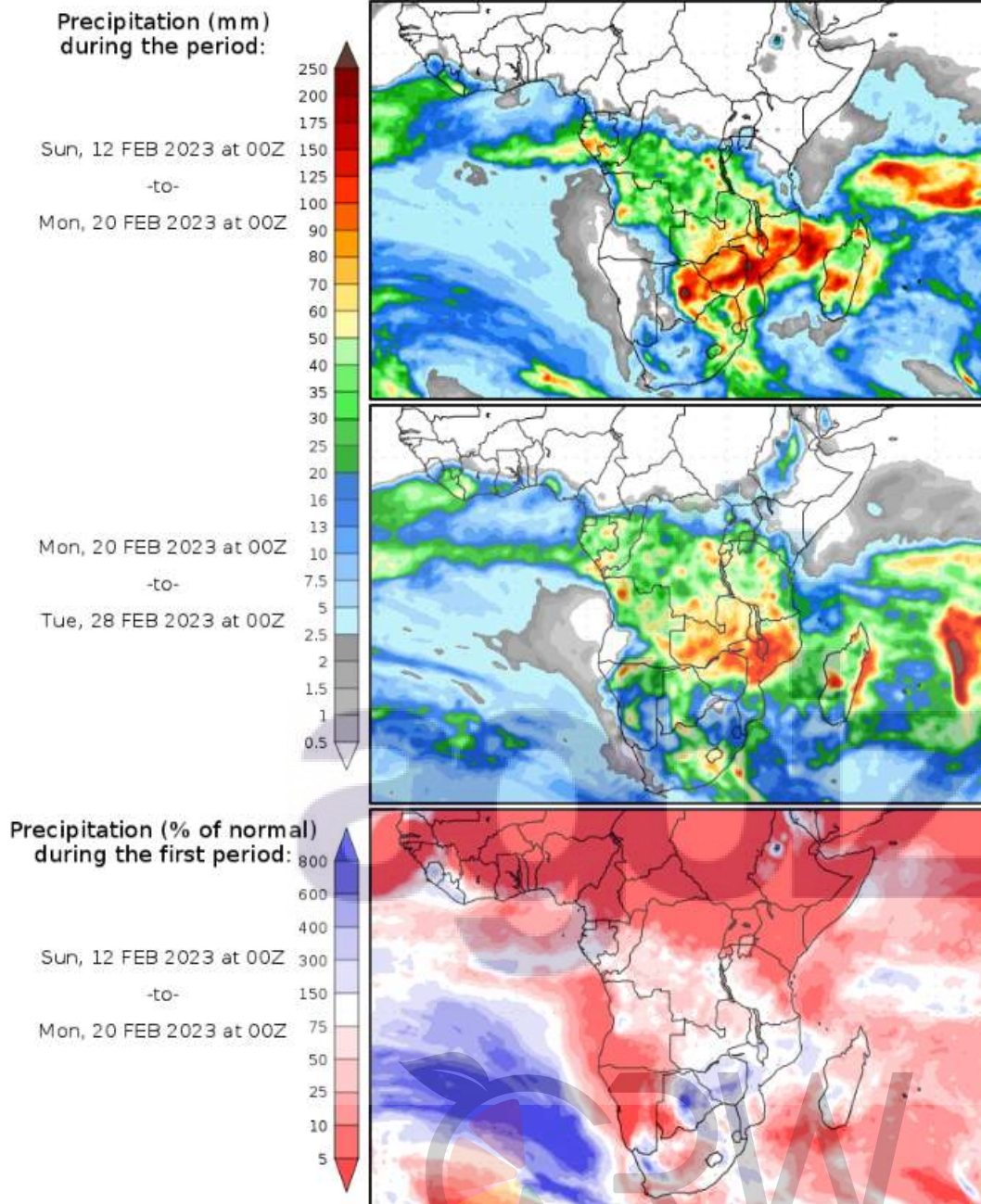
On Thursday, SAGIS will publish the **Weekly Grain Trade** data for 10 February. In the previous release on 03 February, which was the 40th week of South Africa's 2022/23 maize marketing year, the weekly exports amounted to 58 255 tonnes, about 71% to Italy and the rest to Southern Africa region. This brought the total 2022/23 exports to 2,63 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 03 February was the eighteenth week of the 2022/23 marketing year. The weekly imports amounted to 15 642 tonnes, all from Brazil. South Africa's 2022/23 wheat imports currently stand at 521 250 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. 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

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Precipitation Forecasts



Source: George Mason University (wxmaps)

South Africa continues to receive showers, which are favourable for summer crops after weeks of heat wave.

The forecast for the next two weeks shows prospects of continuous rainfall across the country.

However, in the Western Cape, the rains could slightly delay the wine grapes harvest activity.