

South Africa's winter crops and horticulture fields are likely to be spared of dryness this winter

There is a generally held view that South Africa will likely transition into an El Niño state in the upcoming 2023/24 summer season. However, the intensity of it, its duration, and its impact on crop production remain uncertain. Still, South Africa can be expected to have a smaller harvest compared with the past four years of consecutive ample harvests of field crops and horticulture. A critical factor to note is that the expected El Niño comes after four straight seasons of solid rainfall and good soil moisture. Therefore, in the event of a weak El Niño state, the current soil moisture conditions could support crop conditions and ensure another reasonably decent harvest as in 2018/19, which was also an El Niño period. Notably, the season before 2018/19 was not even as favourably wet as the past four seasons. We will have a much better view of the expected El Niño intensity in two to three months, which will also be closer to the summer crop planting. This past week, the South African Weather Service (SAWS) noted that " ENSO predictions during this time are less skilful than other times of the year" and that the "forecasts be monitored until we reach August/September when ENSO forecasts have significantly higher skill levels."

Positively, with all the fears about the prospects of the upcoming drought, the winter crop-growing regions across the country have received reasonably good moisture, which will support the crop. As the winter season continues, there is likely to be additional rainfall in the Western Cape and coastal regions, all of which will support winter crops, wine grapes, and various horticulture. This is a view held by the SAWS. In its recent release, the weather bureau stated that "the multi-model rainfall forecast indicates above-normal rainfall for most of the country during winter (Jun-Jul-Aug) through to early-spring (Aug-Sep-Oct). This is still only relevant for the south-western parts of the country during winter but also for the eastern coastal areas during spring."

This weather outlook reinforces our optimism about the South African 2023/24 winter crop season. At the end of April, the Crop Estimates Committee indicated that farmers intend to plant 542 600 hectares of wheat in the 2023/24 season, 3% up from the five-year average area planted (although down 4% y/y). We view such an area planted, combined with favourable weather conditions, as a catalyst for a solid harvest of around 2 million tonnes. We assumed an average yield of 3,75 tonnes per hectare, which is a possibility if the weather conditions remain favourable throughout the season, as the forecasts suggest.

Moreover, farmers intend to plant 109 100 hectares of barley, up 8% y/y (but below the five-year average planting). If we apply the same logic here of a five-year average yield of 3,38 tonnes per hectare in an area planting of 109 100 hectares, South Africa could have a barley crop of 368 758 tonnes in the 2023/24 season (up 19% y/y). The canola planting intentions are at 127 500 hectares, up by 3%, and a record area planting. Combined with an average yield of 1,71 tonnes per hectare, such an area suggests 218 025 tonnes of harvest this season, 4% higher than the previous year.

Also worth noting is that South Africa has been progressively growing its oats crop. In the 2023/24 season, farmers intend to plant 29 600 hectares, up 10% y/y and well above the long-term average. In this crop, the average yield is 1,41 tonnes per hectare, and applying this to the intended planting area implies a harvest of 42 032 tonnes (up 41% y/y).

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Still, the completion of planting activity in the intended area and weather conditions of the next two to three months are crucial in determining whether the intended area is successfully planted or even exceeded. We will have an update on the area plantings when the Crop Estimates Committee releases the preliminary area planted data on 26 July. The first actual production forecast will be released on 29 August. We generally hold a positive view of these expected data releases. Importantly, the broader horticulture subsector will also benefit from favourable weather conditions.

Overall, while there generally is some fear about the impact of the expected El Niño phenomenon on South Africa's agriculture, the winter crops could be spared the dryness. Notably, the effect of the Niño on the 2023/24 season remains highly uncertain at this stage. A lot of it will depend on the intensity, which in our view, is not clear so far. It will be two to three months before we better understand the weather outlook and impact on the next season's crop.

Weekly highlights

The weaker rand/dollar exchange and high global rice prices present near-term challenges for the South African consumers

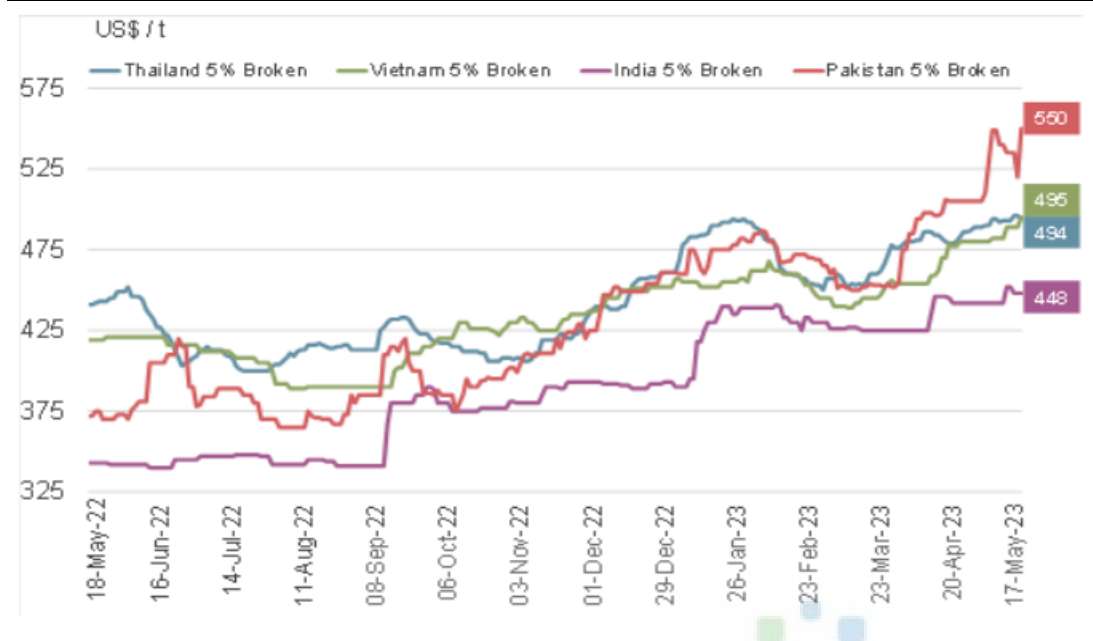
If the weaker rand/dollar exchange persists, we could see noticeable upside pressure on the prices of imported food products. One such product whose prices are already high in US dollar terms and South Africa imports large volumes of it is rice. Global rice prices have continued to surge because of constrained supplies in the 2022/23 production season and robust consumption levels. In May 2022, rice from various origins, such as Thailand, Vietnam, India, and Pakistan, traded below US\$400 per tonne. But in May 2023, except for India, these rice price origins traded over US\$500 per tonne (see Exhibit 1).

Importing countries now face increasing pressure. South Africa imports roughly 1,1 million tonnes of rice annually, and the 2022/23 volume remains unchanged from the last season. The current global rice price trend and the rand/dollar exchange remain vital variables to monitor in the coming months. Still, with the prices of maize and wheat products expected to moderate in the second half of the year, consumers may reduce their rice consumption if its prices remain elevated this year.

With that said, we still believe the global rice price increase should be temporary. The International Grains Council forecasts a 2% recovery in global rice production in the 2023/24 season to 521 million tonnes. The increase in expected is predicted across all key producing countries such as India, Vietnam, Thailand, the US, Pakistan, China, Indonesia, and the Philippines. The production recovery is due to anticipated favourable weather conditions and yield improvement. With stocks in the same season set to improve by 1% to 173 million tonnes, the prices moderation in global rice prices at the end of 2023 and into 2024.

The likely supply surge means prices could soften going to 2024, which will benefit South African consumers, assuming the rand/dollar exchange improves from its weaker levels.

Exhibit 1: Global rice prices



Source: International Grains Council

Global Food Price Index declined notably in May 2023

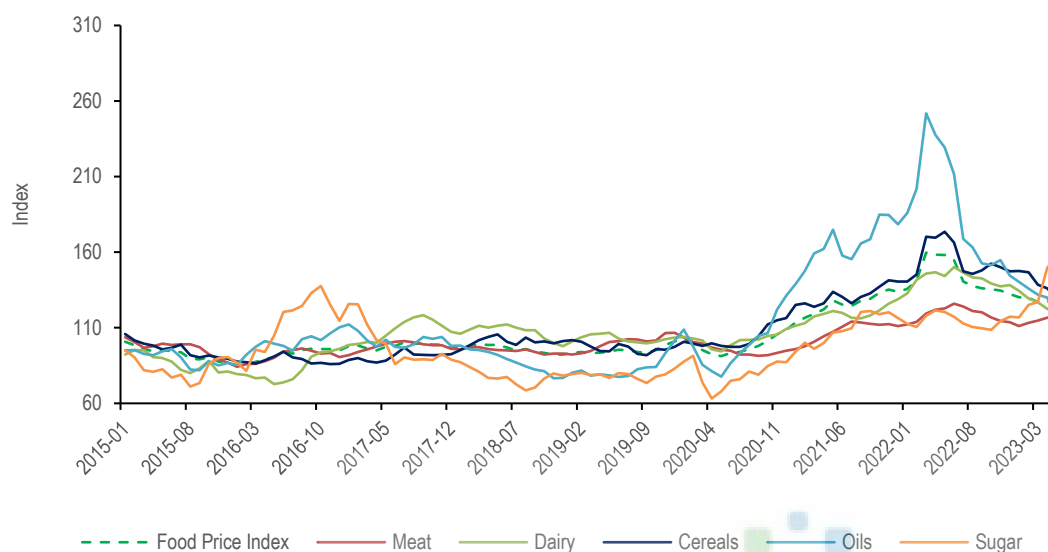
The FAO Food Price Index, a measure of the monthly change in international prices of a basket of food commodities, declined by 3% in May 2023 from the previous month to 124 points. Importantly, this is 22% lower than the all-time high reached in March 2022, primarily driven by the softening prices of the cereals, dairy and vegetable oil indices. These price trends will likely overshadow the impact of the rising sugar and meat prices in the near to medium term and thus keep the headline global food price index at relatively lower levels than a year ago. The price surge in sugar reflects the concerns about the tight global supplies in the 2022/23 season and the rising concerns over how the development of the El Niño phenomenon may affect the 2023/24 crops.

Moreover, the meat price index increase was underpinned by the firm demand in Asian countries for pork and supply constraints. The pork supply limitations in several leading producing countries were due to high production costs and animal health issues. Additionally, the solid Asian demand extended to poultry meat; hence the price rebounded following nine months of continuous declines. The supply limitations arising from widespread avian influenza outbreaks in various regions also increased the price.

South Africa is part of the global agricultural market. Therefore, this anticipated price trend, particularly in grains (other than rice, which is rising globally, and the is a rand/dollar exchange risk on its imports) and vegetable oils, will likely be a reality also in the domestic market. In essence, this means that agricultural commodity prices will likely continue to soften from last year's levels, although not to the extent that we are back at pre-covid-19 levels.

Importantly, this FAO Food Price Index measures commodity prices at the farm level, and there is a lag before such price trends are reflected at the retail level, and even there not to an equal extent because of the value costs such as processing, packaging, distribution, labour, etc. Still, this will be sufficient to somewhat moderate the consumer food price inflation from the current levels in the year's second half. Also, we will monitor the global meat price direction and its impact on South Africa, as this would influence the current food inflation view.

Exhibit 2: Global Food Price Index



Source: FAO and Agbiz Research

Data releases this week

On the global front, today, the Department of Agriculture (USDA) will release its weekly update of the **US Crop Progress Report**. The US farmers have advanced with summer crop planting because of favourable weather conditions. For example, on 28 May, about 92% of the maize intended area had been planted compared with 84% in the corresponding period a year ago. Notably, 72% of the planted crop had already emerged, compared with 58% on 21 May 2022. Moreover, about 83% of the soybean intended area had been planted compared with 64% on 28 May 2022. Of this, 56% of the soybean had already emerged, compared with 36% on 28 May 2022. The USDA will release its weekly **US Grains and Oilseeds Exports** data on Thursday.

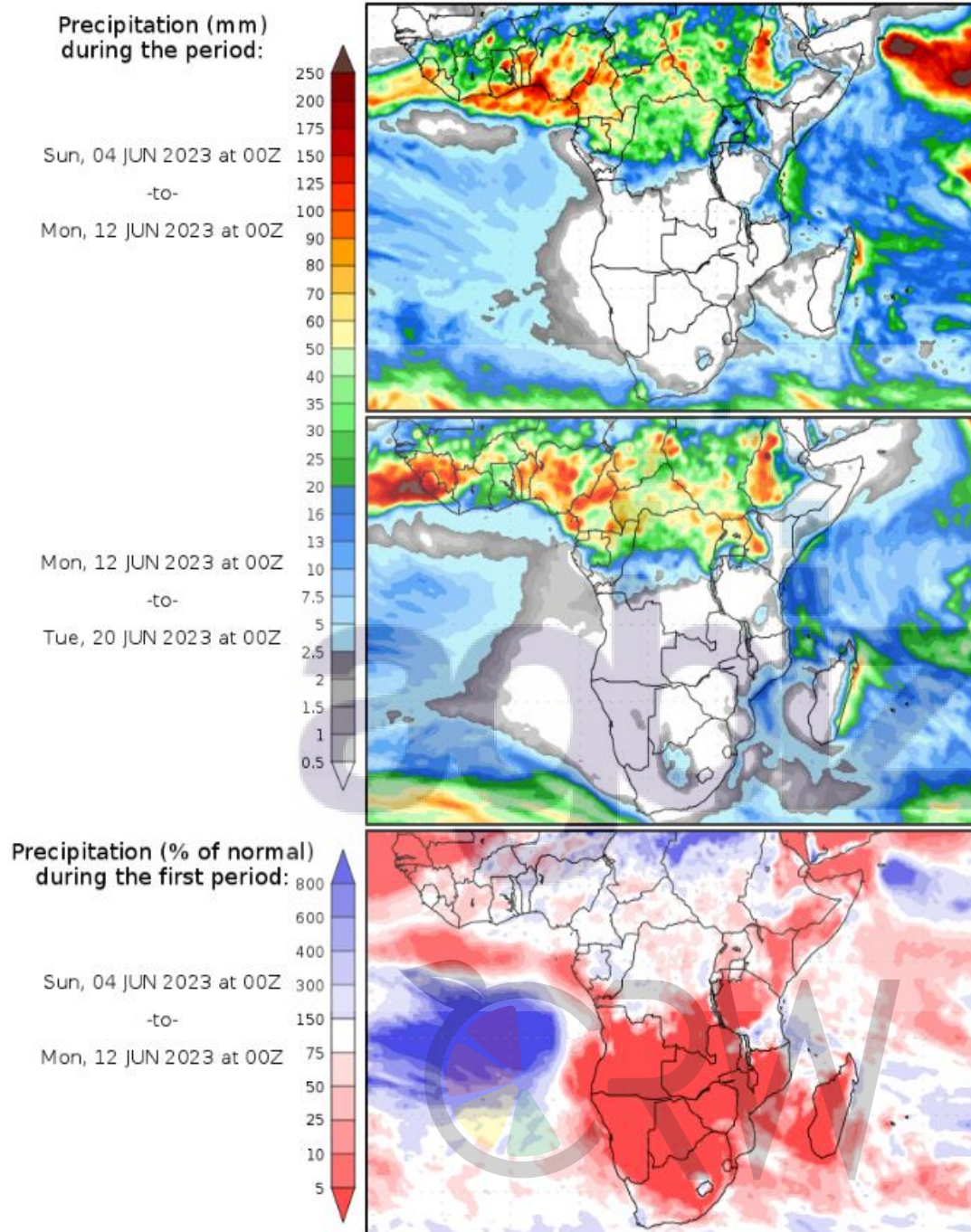
On the domestic front, on Wednesday, SAGIS will release its weekly **South Africa's Grain Producer Deliveries** data for 02 June 2023. In the previous release on 26 May, South Africa's 2023/24 maize producer deliveries were about 616 729 tonnes. This placed the 2023/24 deliveries at 1,3 tonnes out of the expected harvest of 16,1 million tonnes. The soybean harvest activity has progressed more than **maize** and is now close to completion. On 26 May, about 2,3 million tonnes of soybeans had **already been** delivered to commercial silos out of the expected harvest of 2,8 million tonnes. On the same day, sunflower seed producer deliveries amounted to 460 797 tonnes out of the expected harvest of 797 610 tonnes.

On Thursday, SAGIS will publish its weekly **South Africa's Grain Trade** data for 02 June. In the previous release on 26 May, the fourth week of the 2023/24 marketing year, South Africa exported 107 295 tonnes of maize. About 44% to Taiwan, 42% to Vietnam and the rest to the neighbouring countries. This placed South Africa's 2023/24 maize exports at 252 891 tonnes out of the seasonal export forecast of 3,0 million tonnes (down from 3,64 million tonnes of exports in the 2022/23 season).

South Africa is a net wheat importer, and 26 May was the 34th week of the 2022/23 marketing year, with 16 524 tonnes, from Lithuania, Poland and Russia. South Africa's 2022/23 wheat imports currently stand at 933 837 tonnes. The seasonal import forecast is 1,6 million tonnes, roughly unchanged from the previous season.

Exhibit 3: South Africa's precipitation forecast

Precipitation Forecasts



Source: George Mason University (wxmaps)

The weather forecast for the next two weeks show clear skies over most regions of South Africa.

This will help support the summer crop harvest process that is currently underway.

The winter crop planting could also progress well after a few days of rainy weather in the Western Cape.

Notably, certain regions of the southern Cape could continue receiving showers this week.