Some observations as we approach South Africa's 2023/24 summer crop season

As South Africa's 2022/23 summer cop season draws to a close, the focus is shifting towards the 2023/24 production season, which commences in October. As we stated in our previous notes, the preliminary insights suggest that an El Niño could bring below-normal rainfall, but South Africa could still have a decent season. The improved soil moisture following four consecutive seasons of rain will help support crop and horticulture production as well as grazing conditions. Although there is no evidence of its occurrence in South Africa this coming summer, one factor that concerns us is the possibility of extreme heat. Various countries in Europe and regions of the US have experienced extreme heat this summer, which has proved challenging for agriculture at certain times. When the 2023/24 summer crop season starts in South Africa, monitoring temperatures and the impact on crops after that will be necessary.

The weather outlook is a downside risk to production for the upcoming summer crop season, although not severe for the reasons we have outlined above. These include better soil moisture following a rare consecutive four years of heavy rains. The favourable soil moisture conditions will be a natural cushion for agricultural activity even if the rains are below the average (typically around 500 mm) in South Africa. What will be necessary, however, is for the showers to fall in critical periods, such as seed germination and pollination stages of growth, which are all essential for crop growing. It would not be South Africa's first time in such a fortunate position. The summer of 2018/19 had an El Niño weather event. Still, the rains fell in critical periods, and South Africa attained a decent crop harvest, with commercial maize at 11,2 million tonnes. Other field crops and horticulture also achieved decent yields that year. Notably, the 2018/19 season was not preceded with favourable four years of favourable rainfall that improved soil moisture. Therefore, the current position is better for crops and the livestock industry than the most recent El Niño periods.

Notably, we are not the only ones holding this optimistic view. In the past few weeks, the International Grains Council (IGC) forecasted South Africa's 2023/24 maize production at 15,6 million tonnes, down marginally from the current crop of 16,4 million tonnes. Moreover, the United States Department of Agriculture's Pretoria office recently released their forecast placing South Africa's 2023/24 maize production forecast at 15,8 million tonnes, marginally above the IGC's figures. These institutions have assumed a mild El Niño, and soil moisture is currently good. Still, while we are optimistic about the upcoming season, we doubt the crop could be this large and see 13-14 million tonnes as more likely.

Beyond the weather outlook, the farmers are also ready as they continue to receive high volumes of tractors ordered in the past few months on the back of incomes of the favourable seasons. For example, in the first six months of this year, South Africa's tractors sales amounted to 4 061 units, down marginally by 2% from the corresponding period in 2022. Given that the past few years saw solid sales, one wouldn't have assumed to continue seeing numbers like this in 2023. Admittedly, these orders were made in the past few months when farmers were still enjoying the gains of the past few seasons' ample harvests combined with higher prices, thus improving farm profitability. But they also signal farmers' confidence about the sector's outlook beyond the El Niño worries.

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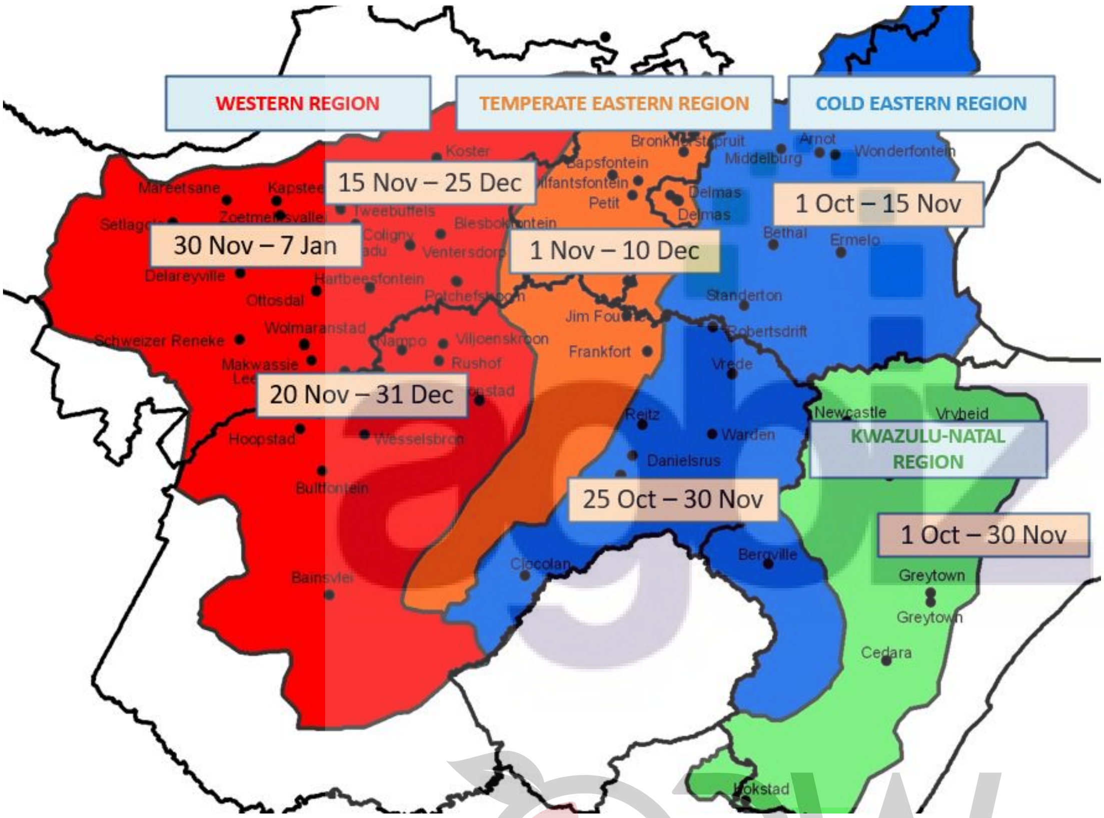
Also worth noting is that farmers will be on the fields with much better input costs this year than in the past season. For example, most agrochemicals prices are down by roughly 15% year-on-year. In addition, fertilizer prices are down by about 50% compared to 2022. This softening of input costs makes production conditions far better for farmers if we consider that fertilizer accounts for a third of grain farmers' input costs, and other agrochemicals account for roughly 13%.

In conclusion, we are transitioning into the 2023/24 summer crop season, which starts in two months. There is a lot of uncertainty about the outlook. Still, gauging all these factors together, one could be optimistic that the upcoming season will be decent for South Africa. In the coming weeks, we will have more regular temperature updates, allowing us to assess the evolution of the El Niño risk and its likely impact.

Exhibit 1: South Africa's optimal planting dates for maize



Source: Grain SA and Agbiz Research

Weekly highlights

South Africa has a favourable summer and winter crop season

With the sixth summer crop production estimates for the 2022/23 season out, one can take these data with confidence that there will likely be no further significant adjustments. The upcoming four updates will likely reinforce our optimistic view, as farmers are completing the harvest activity, and yields remain high.

This past week, the South African Crop Estimates Committee maintained the 2022/23 maize crop estimate at 16,4 million tonnes, unchanged from last month. This crop is 6% more than the 2021/22 season and the second-largest harvest on record. The expected ample harvest is primarily on the back of large yields, as the area planted is slightly down from the 2021/22 season. A crop of 16,4 million tonnes implies South Africa will have sufficient supplies to meet domestic maize needs of roughly 11,4 million tonnes and have over 3,0 million tonnes for export markets in the 2023/24 marketing year.

Moreover, the soybeans harvest was unchanged from June's record estimate of 2,8 million tonnes (up 24% y/y). The annual crop improvement is due to an expansion in the area planted and higher yields. The ample soybeans harvest means South Africa could meet its domestic demand and remain with over 300 000 tonnes of soybeans for export markets. After a few downward revisions, the sunflower seed production estimate remained unchanged at 758 610 tonnes (down 10% y/y). The annual decline in the sunflower seed production forecast mirrors the reduced planted area and yields in some areas.

Winter crops

Regarding the winter crops, this past week, we received the area plantings data for the 2023/24 season. Wheat plantings are down by 6% y/y, estimated at 532 300 hectares. The notable decline is in the Northern Cape, Free State and Limpopo. Meanwhile, the Western Cape is marginally up from the previous season. In our view, such an area planted, combined with favourable weather conditions as we have observed, would result in a decent harvest of 2,0 million tonnes (down 4% y/y). We assumed an average yield of 3,8 tonnes per hectare, which is a possibility if the weather conditions remain favourable throughout the season. With a wheat harvest of this size, South Africa will likely need to import about 1,5 million tonnes of wheat to meet domestic consumption in the 2023/24 season.

Moreover, farmers are estimated to have planted 109 600 hectares of barley, up 9% y/y. If we apply the same logic here of a five-year average yield of 3,4 tonnes per hectare in an area planting of 109 100 hectares, South Africa could have a barley crop of 372 640 tonnes in the 2023/24 season (up 23% y/y). The canola planting is estimated at 128 100 hectares, up by 4%, and a record area planting. If we combine it with an average yield of 1,7 tonnes per hectare, then such an area suggests 217 770 tonnes of harvest this season is possible. This is 4% higher than the previous year.

Overall, the winter crop is in good condition, and we will keep a close eye on weather conditions in the coming weeks and months. Another important date is August 29, when the Crop Estimates Committee will release the first production forecast. Regarding the summer crop, the focus will soon shift to the new season that starts in October. The current season is towards completion as few areas are still busy with the harvest, and yields are solid.

Data releases this week

On the global front, there are two important data releases this week. First, the United States Department of Agriculture (USDA) will release its weekly **US Grains and Oilseeds Exports** data on Thursday. Second, the Food and Agriculture Organisation of the United Nations (FAO) releases its monthly **Global Food Price Index** on Friday. This will be a July 2023 update and could show a slight uptick, a change from the declining trend of the past months. There has been an uptick in wheat and rice prices after Russia decided to halt the Black Sea Grain Deal and India's decision to ban non-basmati and broken rice exports. Still, the full impact of these challenges will be apparent in the August 2023 update, as they were announced towards the end of July.

On the domestic front, on Wednesday, SAGIS will release its weekly **South Africa Grains and Oilseeds Producer Deliveries** data for July 28. In the previous release on July 21, South Africa's 2023/24 maize producer deliveries were about 981 934 tonnes. This placed the 2023/24 deliveries at 11,7 million tonnes out of the expected harvest of 16,4 million. The soybean harvest activity has progressed more than maize because it was planted earlier in the season. The harvest is now close to completion, and on July 21, about 2,6 million tonnes of soybeans had already been delivered to commercial silos out of the expected crop of 2,8 million tonnes. On the same day, sunflower seed producer deliveries amounted to 687 126 tonnes out of the expected harvest of 758 610 tonnes.

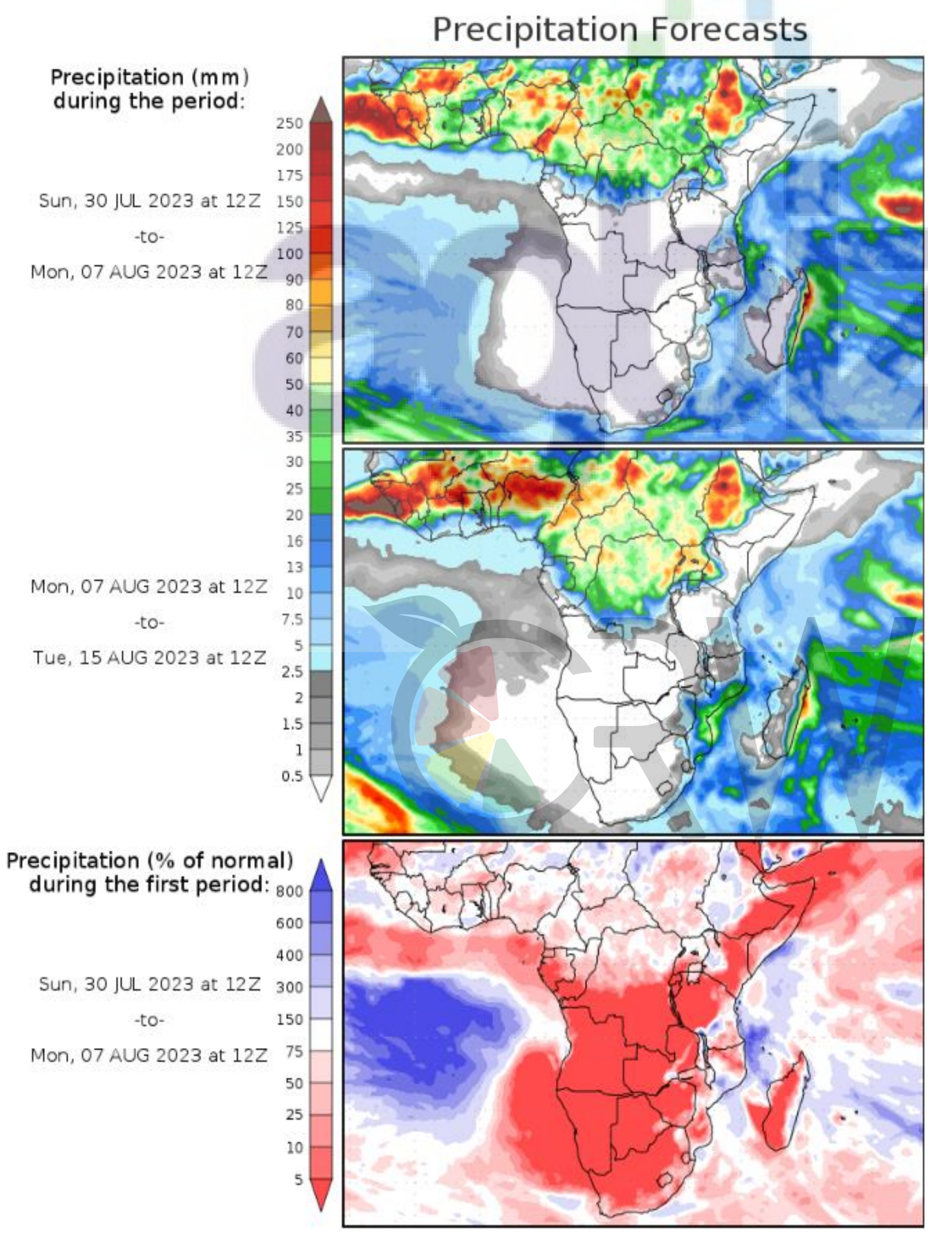
On Thursday, SAGIS will publish its weekly **South Africa's Grains and Oilseeds Trade** data for July 28. In the previous release on July 21, the 12th week of the 2023/24 marketing year, South Africa exported 99 891 tonnes of maize. Of this volume, about 75% was exported to Japan, 17% to Kenya, and the balance to the neighbouring countries. This placed South Africa's 2023/24 maize exports at 1,1 million tonnes out of the seasonal export forecast of 3,0 million tonnes.

South Africa is a net wheat importer, and July 21 was the 42nd week of the 2022/23 marketing year, with a weekly import volume of 53 129 tonnes from Poland and Australia. This placed South Africa's 2022/23 wheat imports at 1,2 million tonnes. The seasonal import forecast is 1,6 million tonnes, roughly unchanged from the previous season.

Although this will likely be a cold week in South Africa, there are clear skies over most regions, which benefits the summer crop harvest process still underway in some areas.

The Western Cape received higher rainfall these past few weeks. Thus, the clearer skies provide a much-needed breather.

Exhibit 2: South Africa's precipitation forecast



Source: George Mason University (wxmaps)