

Feedback from our SA agribusiness roadshow

We spent most of July on the road, engaging with Agbiz members and sector role-players in various regions of the country. The feedback about the near-term outlook was reasonably positive in all our engagements, with many attributing their optimism to the favourable 2022/23 summer crop and 2023/24 winter crop seasons. The feedback from the horticulture and wine industries also remained encouraging as various stakeholders forecast growth and expansion prospects in the coming years. The outlook was less optimistic when we engaged the livestock and poultry industries that struggled with higher feed costs and persistent animal disease outbreaks.

Beyond this, what all meetings agreed on was that the persistent load-shedding, rising protectionism in key export markets, rising interest rates, intensified geopolitical tensions, ongoing weakness of municipality service delivery and network industries (water, rail and ports) and deterioration of rural roads remain a significant threat to the sustainability of their businesses. While these are not necessarily new issues, the extent of weakness this year has reached worrying levels in some. Not all these issues are within the government's control, but many are, and in such cases, the government should urgently assist. Here are a few of such cases.

First, the summer rainfall, which has supported agricultural production, has also had the downside of exacerbating the damage to neglected rural roads. This is not a challenge faced only by large commercial farmers that serve a broader clientele but all farmers. The emerging or new-entrant black farmers with limited financial resources face this challenge more acutely. The roads across the rural towns of the Eastern Cape, Free State, North West, Limpopo and KwaZulu-Natal, to name a few provinces, are poorly maintained in some instances in an unusable state. Compounding this challenge is the reality that South Africa now transports over two-thirds of its agricultural produce by roads, as rail transport has faced its fair share of challenges over the years. This means the higher agricultural output without functional roads does not yield full financial benefit to farmers and agribusinesses, as some have to fund private construction at their costs to maintain some roads. This happens while the municipalities often have the allocated financial budget to cover their infrastructure needs but mismanage the funds, as so often reported by the Auditor General.

Secondly, the rising protectionism in crucial export markets remains a major challenge, as we see with the citrus export non-tariff barriers in the EU. This area requires the South African government to take the lead and help engage with our trading partners to resolve this issue. Moreover, the need for expanding export opportunities has become even more urgent as the agricultural output consistently improves and the country has limited capacity to absorb new produce. South Africa already exports half of its produce; hence, the efforts of the Agriculture and Agro-processing Master Plan to boost production have to emphasize the expansion of the export markets. Japan, China, India, Saudi Arabia, Bangladesh, Philippines and South Korea are key markets in which South African agriculture and agribusinesses are interested in expanding their presence. While working on new markets, we must maintain access to existing markets such as the EU, Africa, the US, and various Asian markets.

Third, biosecurity remains a challenge as we see through various outbreaks of Foot-and-Mouth disease, African Swine Fever and Avian Influenza. All these outbreaks worsen the

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operating conditions in industries that have also felt higher costs of inputs. As a result of these outbreaks, exports of livestock products have also been negatively affected. Therefore, the South African government, along with organized agriculture and industry bodies, should closely work together to address the biosecurity challenges in the country. Notably, the government needs to lead the way in assisting at such times to ensure the sustainability of businesses and keep up with the promise of the Agriculture and Agro-processing Master Plan, which seeks to boost collaboration amongst social partners to improve inclusive growth in the sector.

As climate change intensifies, animal diseases are likely to be more prevalent. As such, the Department of Agriculture, Land Reform and Rural Development should consider earmarking a share of their annual budgets for emergency purposes to deal with animal disease outbreaks. These funds should be utilized under strict rules and in concurrence with the National Treasury only in the case of notifiable animal disease outbreaks. This is necessary to control animal movements, buy vaccines, employ additional staff, and compensate producers when animals must be culled, according to the World Organisation for Animal Health (OIE) guidelines. Veterinarians and animal health technicians are critical for continued surveillance, monitoring, and advice to farmers. The process of authorizing veterinarians in the private sector to deliver services on behalf of the State's needs should be a priority. Moreover, the uncontrolled movement of animals and animal products from disease-control areas has, in almost all recent severe outbreaks of diseases, caused their spread to areas in the country where they have never occurred before. Therefore, the veterinary services at the provincial level should thus be accompanied by practical livestock movement control functions.

Fourth, another aspect that emerged in discussions was the challenge of waning trust between organized agriculture and government. The issue of "trust" and "accountability" are vital to building credibility. When stakeholders collaborated for months to design the Agriculture and Agro-processing Master Plan, the process demonstrated trust. There needs to be a revitalization of that spirit, which can come through a clear implementation process of the Master Plan. The Department of Agriculture, Land Reform and Rural Development should lead. The pressing challenges outlined in this note can partly inform the prioritization of interventions.

Overall, the issues discussed in this note are not exhaustive, but we believe highlighting the key intervention areas that could move the needle in terms of translating the ideas on paper in various plans into tangible projects. Regarding the operating conditions, the near-term outlook for South Africa's agriculture remains positive following favourable rainfall. The coming year is uncertain because of the forecast for El Nino and worries about heat waves. Still, better soil moisture from the previous season should provide a cushion to the sector. Regarding the fundamental issues, South Africa's agricultural sector faces numerous challenges, which are now well understood by the government and various industry stakeholders. We now need a plan of action, particularly on the four areas of interventions we outlined in this note.

Weekly highlights

The global food price index increased slightly in July

On 04 August 2023, the Food and Agricultural Organisation of the United Nations (FAO) released its July update of the Global Food Price Index, registering a 1,3% increase from June to 124 points (still, the prices are down 12% y/y). This marginal monthly rebound was due to an uptick in the vegetable oils price index, mainly sunflower, palm, soybean, and rapeseed oils, which offset the decline in other products prices. Russia's decision not to renew the Black Sea Grain Deal has contributed to the increase in sunflower oil prices. Regarding palm

oil prices, the surge reflects worries about the reduced supplies in leading producing countries because of unfavourable weather conditions. The soybeans and rapeseed price uptick reflect the concerns that the heatwave in parts of the US and Canada could reduce the harvest.

The two crucial events of the past month, which are the non-renewal of the Black Sea Grain Deal and India's ban on exports of non-basmati and broken rice, are not fully reflected in the prices of July as the events occurred towards the end of the month. We think the August 2023 price data will better reflect this challenge. Still, we doubt the price increases will be as sharp as we saw in the month after the war started because of the abundance of global supplies. This time, the challenge is the movement of supplies, not the limited harvest. There are ample global grains and oilseed supplies, regardless of the worries about the weather impact in the US, Canada and parts of Asia.

For example, on 12 July 2023, the United States Department of Agriculture (USDA) released its monthly flagship report, the *World Agricultural Supply and Demand Estimates* report focusing on the 2023/24 season, currently underway in the northern hemisphere and starting around October in the southern hemisphere.

The USDA forecasts the 2023/24 global wheat production at 797 million tonnes, up 1% from the previous season. The larger harvest is anticipated in the EU region, the US, Canada, China, India, and Turkey. As a result of the expected large harvest, the 2023/24 season's global wheat stocks could increase by 1% year-on-year to 270 million tonnes.

Moreover, the USDA forecasts 2023/24 global maize production at 1,2 billion tonnes, up 6% from the previous season. The countries underpinning this improvement in production are the US, Brazil, Argentina, China and the EU region. The ending stocks could also increase by 6% to 314 million tonnes in the 2023/24 season because of the expected robust harvest.

Another important staple crop is rice, whose 2023/24 global harvest is estimated at 521 million tonnes. This is up by 2% from the previous season. Vietnam, Thailand, the US, Pakistan, China, Indonesia, Bangladesh, the Philippines, and Brazil are the key drivers of this increase in the global rice harvest. Because of the solid consumption, the global stocks could remain roughly unchanged from the previous season at around 170 million tonnes.

Moreover, the 2023/24 global soybean crop is estimated at 405 million tonnes, up 10% from the previous season. The significant recovery in South America's soybean harvest after a few years of drought and an expected large harvest in the US, Brazil, Argentina, China, Russia, Ukraine and Uruguay are the maize drivers of the expected large global soybean crop. Notably, the 2023/24 global soybean stocks could increase by 18% from the previous season to 121 million tonnes.

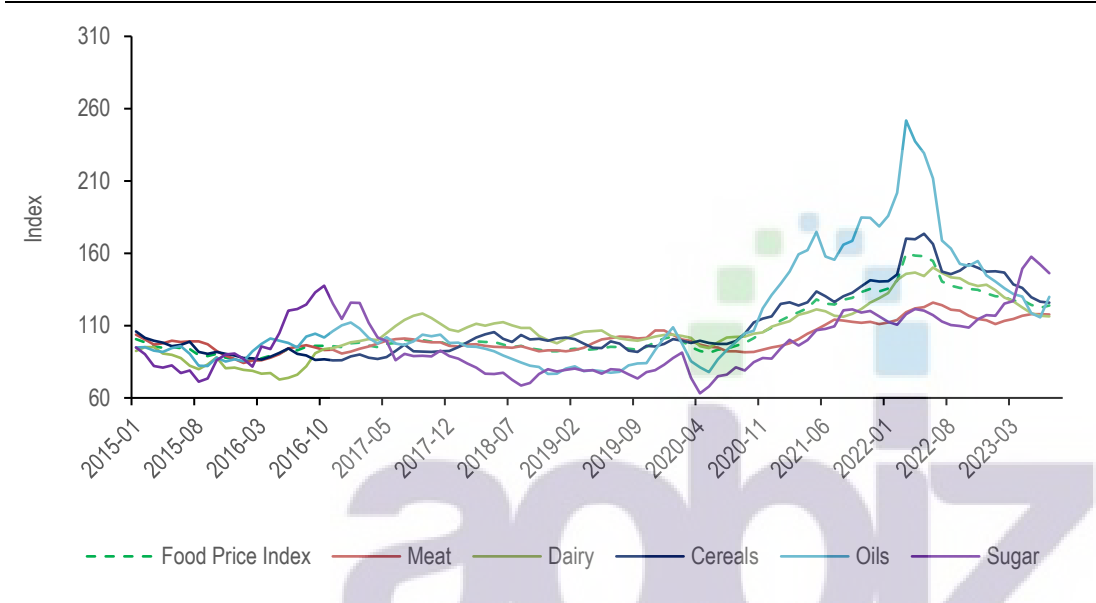
While we are still early in the season, and a lot could change depending on the weather conditions over the coming weeks and months and crop development in the southern hemisphere when the season starts, the current prospects are positive. If this optimistic crop production materializes, we could see a recovery in the global grains and oilseeds stocks, adding downward pressure on the prices.

The significant upside risk currently is the ban on India's rice exports. India is an essential global agriculture player; the affected non-basmati white and broken rice accounts for 18% of global rice exports. Therefore a ban on such export volume adds upside pressure on prices and limits the gains of the sizeable global harvest by slowing prices to a consumer. Another challenge is Russia's decision to halt the Black Sea grain deal, brokered by the United Nations and Turkey to combat a global food crisis. Russia's refusal to renew the Black Sea Grain Deal presents an upside risk to global grain prices, which may undermine the gains the world

started to enjoy from the slowing grain prices (currently down 12% y/y in July 2023), specifically in the major importing regions.

Overall, we need to consistently monitor the crop conditions in the southern hemisphere when the season starts in October. A big part of the optimistic global crop production forecast assumes a recovery in South America's crop conditions. In essence, the recent USDA's *World Agricultural Supply and Demand Estimates* presented a comforting picture of global food price direction and the risks we outlined in India, Russia and weather aspects in South America that will need consistent monitoring. All else being equal, the world is far better than last season regarding food supplies.

Exhibit 1: Global Food Price Index



Source: FAO and Agbiz Research

Data releases this week

We start the week with a global focus, and today, the USDA will release its weekly update of the **US Crop Progress Report**. Over the past few weeks, the US crops continued to experience excessive heat, which negatively affected crop growing conditions in some regions. For example, on 30 July, only 55% of the planted maize crop was rated good/excellent, down significantly from 61% in the same week in 2022. In addition, about 52% of the soybean crop was rated good/excellent, also down significantly from the 60% rating in the same week in July 2022. The USDA will release its weekly **US Grains and Oilseeds Exports** data on Thursday.

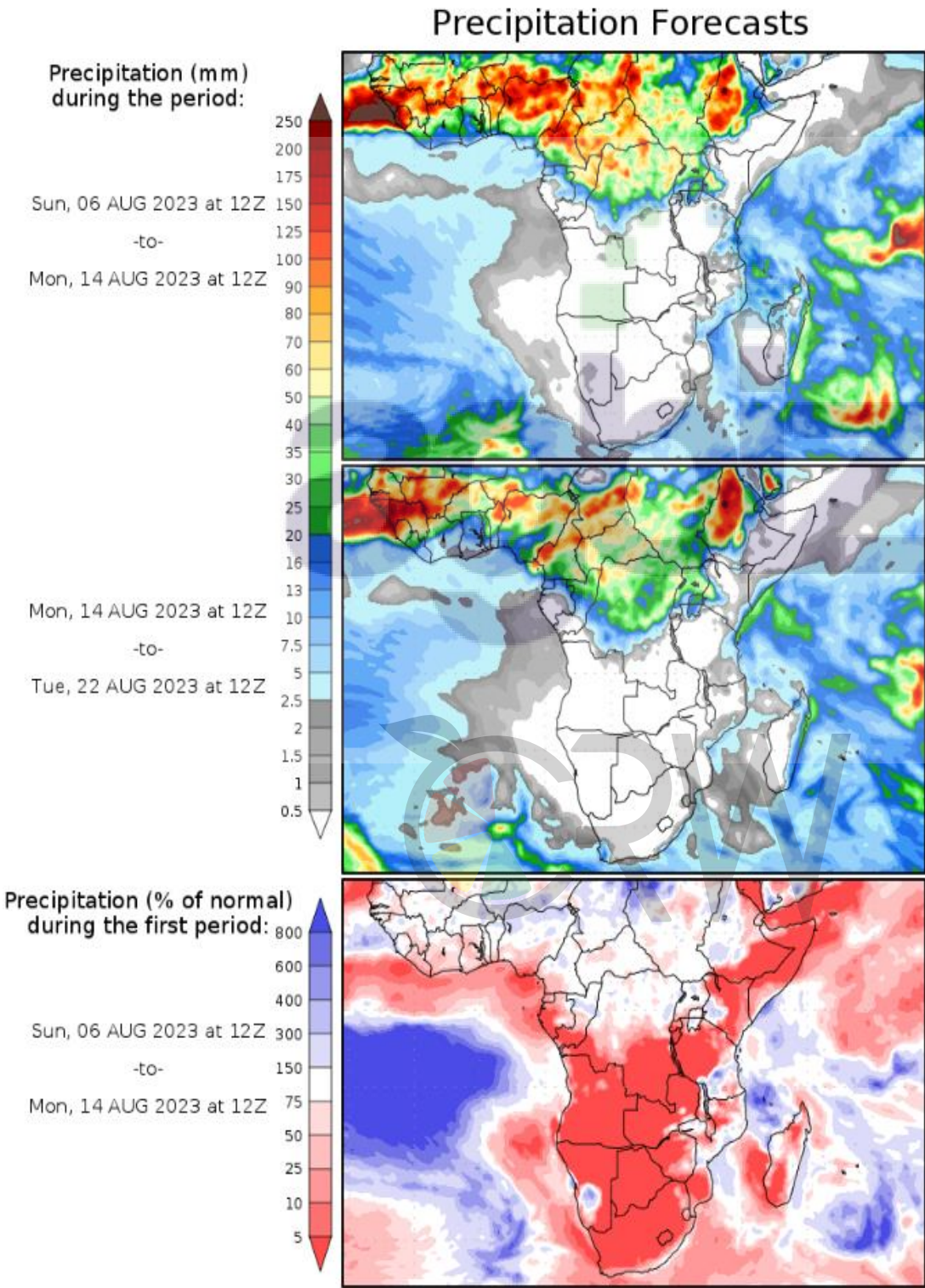
On the domestic front, given the public holiday on Friday, SAGIS will release its weekly **South Africa Grains and Oilseeds Producer Deliveries** data for 04 August on Friday. In the previous release on 28 July, South Africa's 2023/24 maize producer deliveries were about 695 163 tonnes. This placed the 2023/24 deliveries at 12,5 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 28 July, 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 699 350 tonnes out of the expected harvest of 758 610 tonnes.

Also on Friday, SAGIS will publish its weekly **South Africa's Grains and Oilseeds Trade** data for 04 August. In the previous release on 28 July, the 13th week of the 2023/24 marketing

year, South Africa exported 156 256 tonnes of maize. Of this volume, about 88% was exported to Japan, 3% to Kenya, 3% to South Korea, and the balance to the neighbouring countries. This placed South Africa's 2023/24 maize exports at 1,2 million tonnes out of the seasonal export forecast of 3,0 million tonnes.

South Africa is a net wheat importer, and 28 July was the 43rd week of the 2022/23 marketing year, with a weekly import volume of 45 047 tonnes from Poland (96%) and Australia (4%). 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.

Exhibit 2: South Africa's precipitation forecast



There are clear skies over South Africa this week, 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 continue to provide a much-needed breather.

Source: George Mason University (wxmaps)