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Brief thoughts ahead of the start of SA's 2023/24 summer crop season

- We are three weeks into the start of South Africa's 2023/24 summer crop production season. The uncertainty regarding the intensity of the El Niño weather event as well as the, possible higher temperatures and lower-than-normal rainfall that this could bring is still a concern. However, the latest message from the South African Weather Service (SAWS) through their Seasonal Climate Watch on 28 August 2023 was encouraging, stating that "the multi-model rainfall forecast indicates above-normal rainfall for most of the country during mid-spring (Sep-Oct-Nov) and late-spring (Oct-Nov-Dec)." The Weather Service added that "the early-summer (Nov-Dec-Jan), however, indicates below-normal rainfall over the central parts of the country and above-normal rainfall for the north-east." This means that some regions of the country, mainly central to western, may not have a similar start of the season to the eastern areas. Still, the broad sentiment is that showers will likely support crop germination during the beginning of the 2023/24 production season. This is also an encouraging message for horticulture and livestock, as the rains will help production conditions in these subsectors.

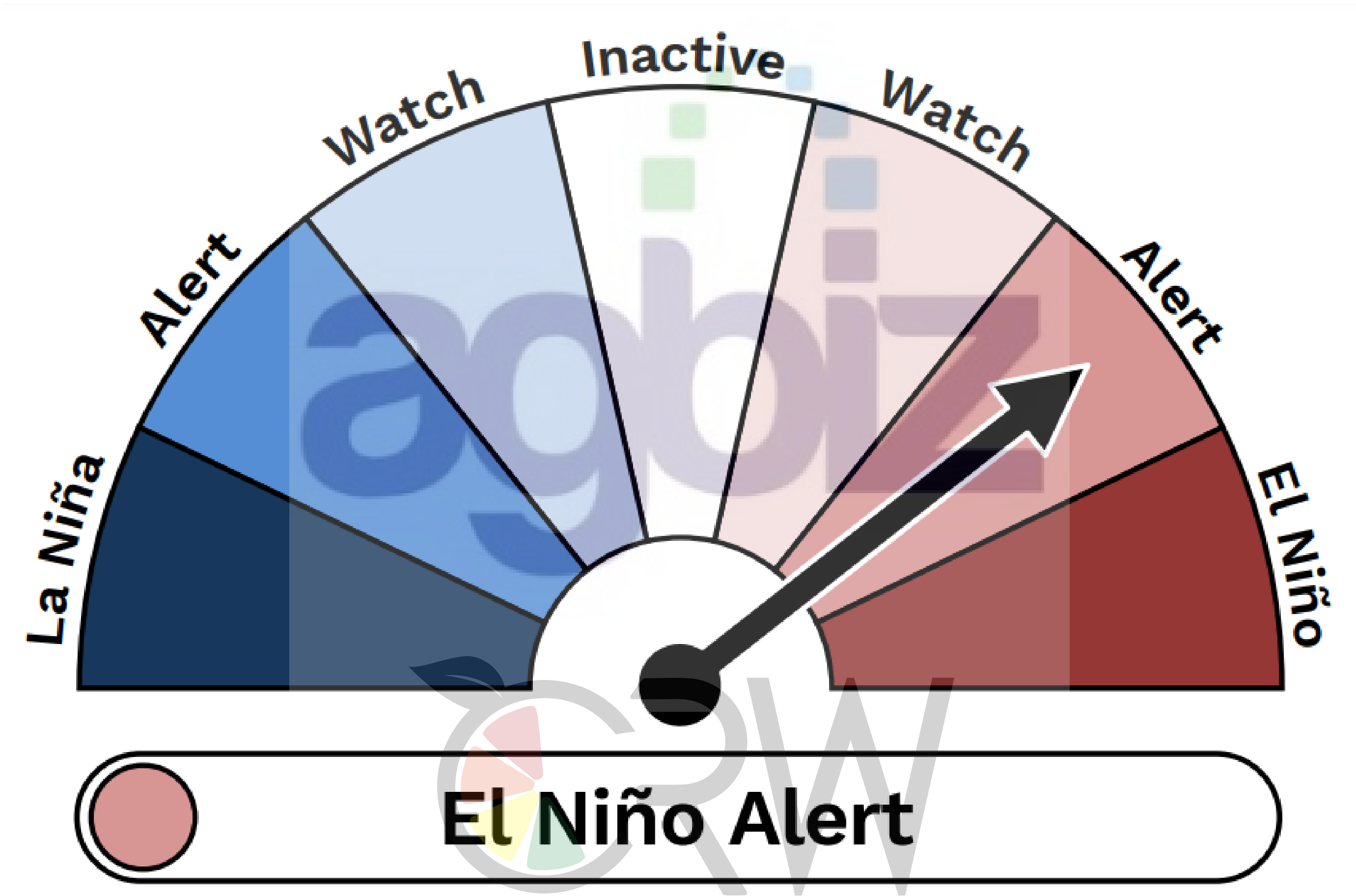
- The central message from the SAWS report is that there are concerns about potentially below-normal rainfall, mainly from the start of 2024, while the current year could have showers in most regions. Aside from the planting and germination, the other critical point of crop development is pollination, which requires moisture and is typically around February if farmers plant crops from mid-October in the eastern regions and mid-November in the country's western areas. Importantly, with improved soil moisture from the last rainy seasons, mainly in east and central South Africa, the expected El Niño will likely have minimal impact on the agricultural conditions. With that said, we remain concerned about the far western regions of South Africa. Firstly, there is anecdotal evidence that soil moisture in these regions is not as conducive as in the other regions of South Africa because of drier weather conditions towards the end of the 2022/23 production season. Secondly, the SAWS indicates stronger prospects of rainfall in the coming months in the northern and eastern regions of South Africa, with less emphasis on the far western areas. The production conditions in these regions requires constant monitoring.

- The northern hemisphere countries experienced excessive heat during their summer season. Thus, we remain concerned about whether this could be a reality for South Africa in the coming season. There is no clarity about this thus far, but it will need constant monitoring. The SAWS's view is also unclear, stating that "minimum and maximum temperatures are expected to be mostly above-normal countrywide for the forecast period." The possibility of maximum temperatures in an environment where moisture is already constrained would not be ideal for crop production.

- On balance, this could still be a decent agricultural season, with above average harvest on key crops. The upcoming season will likely not be as harsh as the 2015/16 production season, which may still be fresh in people's memory. Agricultural input prices are much better than the last season, although not fully back to pre-COVID-19 levels. For example, South African farmers this year will likely plant with fertilizer prices that are down, on average, by roughly 52% from a year ago. Given that fertilizer accounts for about a third of grain farmers input costs, such price declines will positively impact their finances. Moreover, the fungicides and insecticides prices are down, on average, by roughly 30% from a year ago. We see similar price declines in herbicides prices.

- Admittedly, the commodity prices have also declined from levels we saw a year ago, which means there aren't necessarily large profits to be made in crop farming. Still, this input cost environment is more forgiving than a year ago. It underscores the enthusiasm we see in some regions of the country that are already preparing for the start of the season in three weeks.

Exhibit 1: El Niño forecasts



Source: The Australian Bureau of Meteorology

WEEKLY HIGHLIGHT

Global grain supplies remain solid

- There were two essential data releases in the global agricultural environment these past two weeks -- the Food and Agriculture Organization of the United Nations's Global Food Price Index and the World Agricultural Supply and Demand Estimates report published by the United States Department of Agriculture. Both these reports painted a promising picture of global agricultural supplies and prices.

- The Global Food Price Index averaged 121.4 points in August 2023, down 2% from July, reversing the rebound registered last month. The Index is now 24% below its peak reached in March 2022. The drop reflected declines in the price indices for dairy products, vegetable oils, meat and cereals. While Russia's refusal to renew the Black Sea Grain Deal and India's decision to ban the exports of some rice categories are disruptive, these price movements reflect an environment of abundant supplies globally. This time, the problem is the movement of supplies, not the limited harvest.

- There are ample global grains and oilseed supplies, regardless of the worries about the effect of the extreme weather in the US, Canada and parts of Asia. For example, the US Department of Agriculture (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 increase by 6% to 314 million tonnes in the 2023-24 season because of the expected robust harvest.

- Another vital staple crop is rice, whose 2023-24 global harvest is estimated at 518 million tonnes. This is up by 1% 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 decline somewhat from the previous season to about 168 million tonnes.

- The 2023-24 global soybean crop is estimated at 401 million tonnes, up 8% 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 sizeable global soybean crop. Notably, the 2023-24 global soybean stocks could increase by 16% from the previous season to 119 million tonnes.

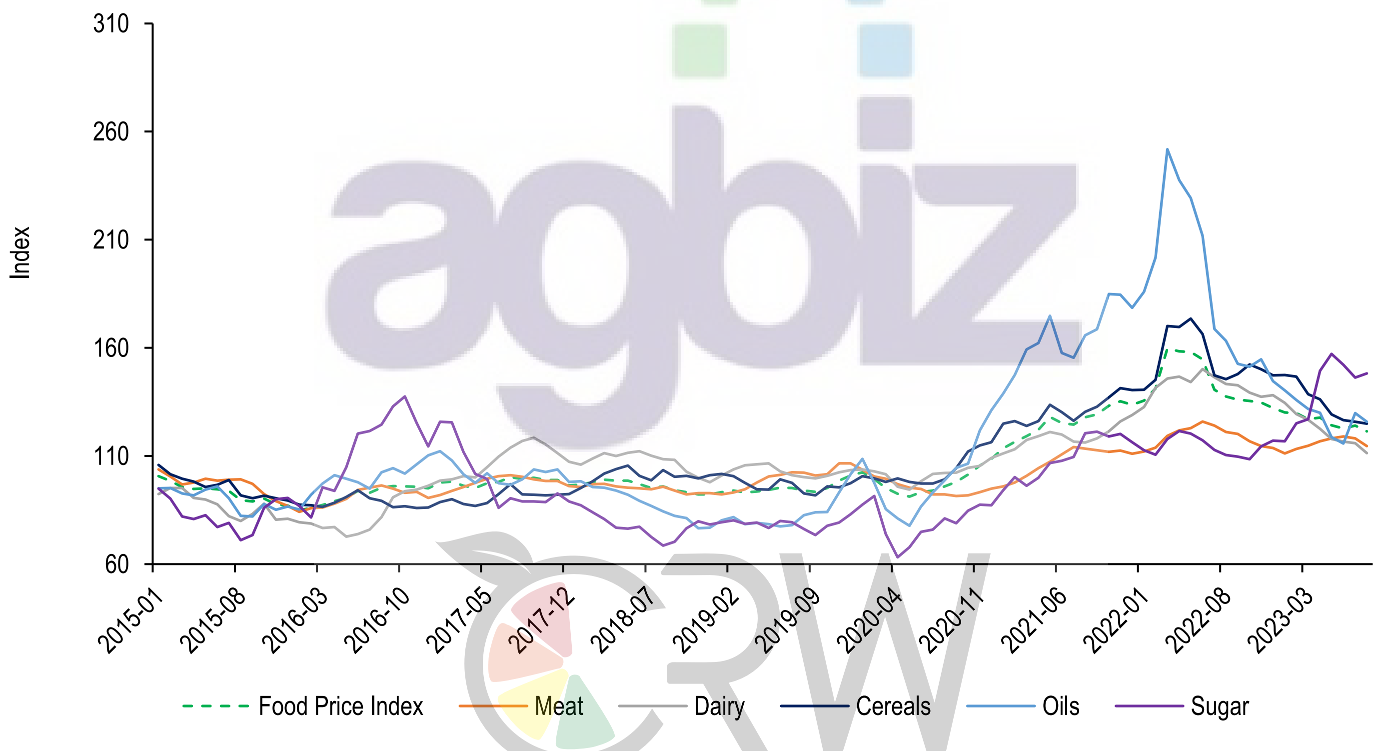
- Unlike other major grains, the USDA forecasts the 2023-24 global wheat production at 787 million tonnes, down marginally (-0,4%) from the previous season. Still, this harvest is far better and well above the long-term average. A decent harvest is anticipated in the European Union region, the US, Canada, China, India, and Turkey. As a result of the expected minor decline in production and strong consumption, the 2023-24 season's global wheat stocks could fall by 3% y/y to 267 million tonnes. This stock decline could increase prices in the coming months, but not dramatically.

- Overall, 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 in October, the current prospects are broadly positive. If this optimistic crop production materializes, we could see a recovery in the global grains and oilseeds stocks, thus keeping global grain prices sideways over the medium term.

- As previously stated, the significant risk 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. A ban on such export volume adds upside pressure on prices and limits the gains of the sizable global harvest by slowing prices to consumers. Another problem is Russia's decision to halt the Black Sea Grain Deal, brokered by the UN and Turkey to combat a global food crisis. Russia's refusal to renew the deal risks global grain prices.

- 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.

Exhibit 2: Global Food Price Index



Source: FAO and Agbiz Research

WEEK AHEAD

What we are watching 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**. The US crop growing conditions have slightly deteriorated over the past week because of unfavourable weather conditions. On 10 September 2023, about 52% of the planted maize crop was rated good/excellent, below 53% in the same week in 2022. In addition, about 52% of the soybean crop was rated good/excellent, down from 56% in the same week in 2022. Moreover, the USDA will release its weekly **US Grains and Oilseeds Exports** data on Thursday.

- On the domestic front, Statistics South Africa will release the **Consumer Price Index (CPI)** data for August 2023 on Wednesday. Our focus on this data will be on the food category. To recap, South Africa's consumer food inflation slowed to 10,0% in July 2023 from 11,1% in the previous month. The product prices underpinning this deceleration are primarily bread and cereals; meat; fish; and oils and fats.

- Also, on Wednesday, SAGIS will release its weekly **South Africa's Grains and Oilseeds Producer Deliveries** data for 15 September 2023. In the previous release on 08 September, South Africa's 2023/24 maize producer deliveries were about 69 380 tonnes. This placed the 2023/24 deliveries at 13,9 million tonnes out of the expected harvest of 16,4 million.

- The soybean deliveries on 08 September 2023 were about 2,6 million tonnes of soybeans out of the expected crop of 2,8 million tonnes. On the same day, sunflower seed producer deliveries amounted to 715 874 tonnes out of the expected harvest of 743 610 tonnes.

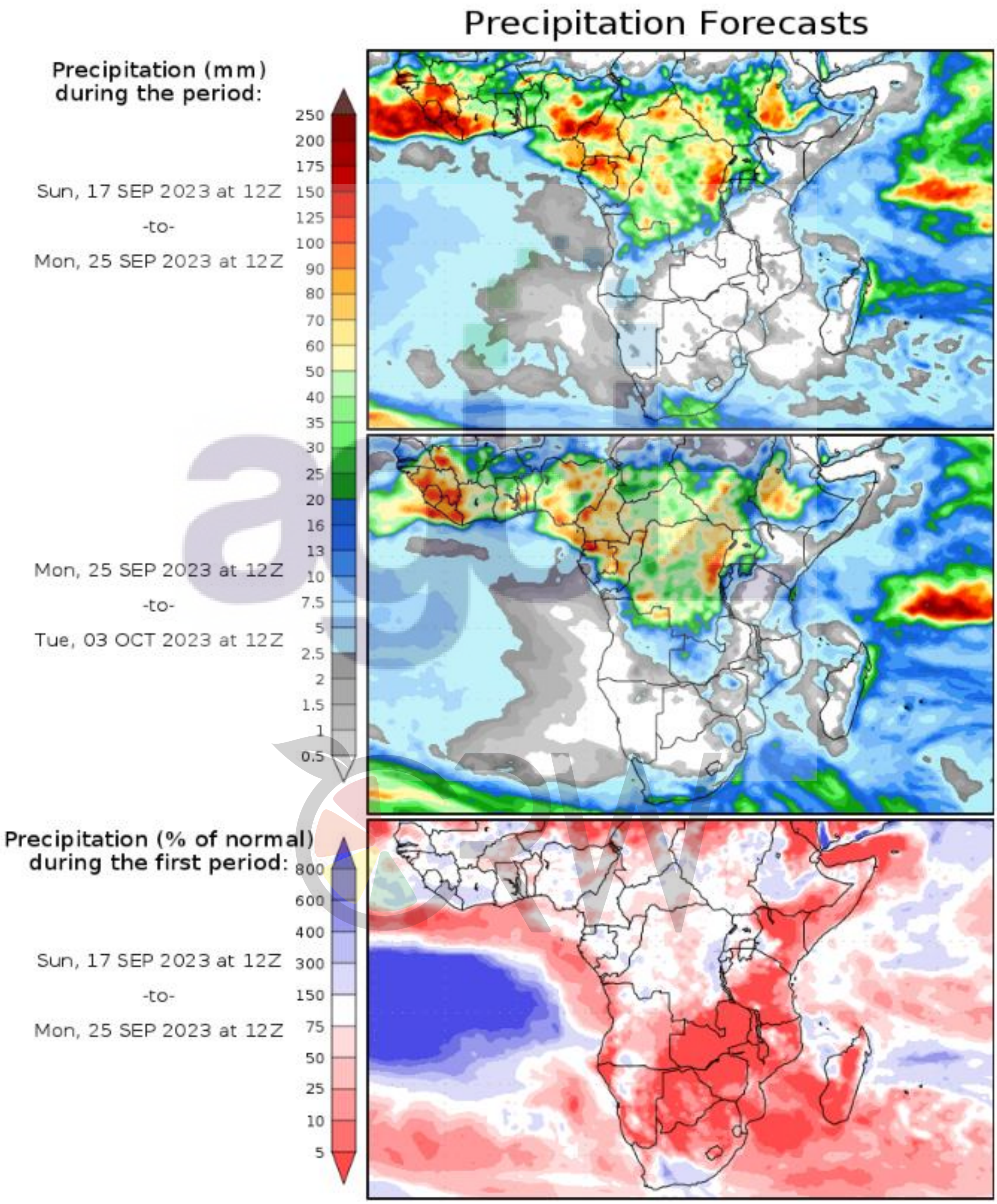
- On Thursday, SAGIS will publish its weekly **South Africa's Grains and Oilseeds Trade** data for 15 September 2023. In the previous release on 08 September, the 19th week of the 2023/24 marketing year, South Africa exported 63 195 tonnes of maize. Of this volume, about 32% was to Taiwan, 31% to Guatemala, 11% to Japan, and the balance was to the neighbouring African countries. This placed South Africa's 2023/24 maize exports at 1,75 million tonnes out of the seasonal export forecast of 3,22 million tonnes.

- South Africa is a net wheat importer, and 08 September was the 49th week of the 2022/23 marketing year, with a weekly import volume of 85 945 tonnes from Australia, the Czech Republic, Lithuania, Poland, and Russia. This placed South Africa's 2022/23 wheat imports at 1,61 million tonnes, above our seasonal import forecast of 1,60 million tonnes. The 2022/23 marketing year ends this month.

South Africa's Precipitation forecast

- There are clear skies over most regions of South Africa this week, with prospects of light showers in the Western and Eastern Cape, which is conducive for winter crops.

Exhibit 3: South Africa's precipitation forecast



Source: George Mason University (wxmaps)