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July 08 2024

La Niña prospects in the upcoming 2024/25 season are a welcome development

- We are two months away from the start of the 2024/25 summer crop season. Early indications of weather prospects are encouraging, showing a firm likelihood of a La Niña occurrence. The International Research Institute for Climate Change and Society at Columbia University places the probability of a La Niña occurrence at over 50% between now and April 2025. Such weather events typically bring above-average rainfall across South Africa and the entire Southern region. There is hope that after a challenging 2023/24 summer production season, South Africa could transition into a favourable agricultural season, similar to what we experienced four seasons before the 2023/24 season. Given that South Africa had one of the most prolonged periods of La Niña induced rains, from the 2019/20 season to the 2022/23 season, the news of an end to the 2023/24 season El Niño is a welcome development.

- Notably, the South African Weather Service (SAWS) has maintained a cautious view and not yet declared the start of the La Niña event, as we see with the International Research Institute for Climate Change and Society's latest reports. In its update on July 5, the SAWS stated that "The El Niño-Southern Oscillation (ENSO) is currently still in a Neutral state and is predicted to weaken further. However, predictions are mixed in whether it will weaken towards a La Niña state during our next summer season." We see a similar view by the Australian Bureau of Meteorology, as they highlight in their update of June 25 that "The ENSO Outlook is currently at 'La Niña Watch', meaning there are some signs that a La Niña might form in the Pacific Ocean later in 2024. A La Niña Watch does not guarantee a La Niña will develop."

- Given that we are early in the season, such cautious optimism is understandable from the South African and the Australian weather authorities. Still, this does not take away from the fact that the El Niño weather event has at least ended, and we are now moving towards a favourable agricultural production environment. Moreover, these reports mirror the pattern we have seen in the past, where only in September does one get a clearer view of the possible weather outlook. With the summer grains and oilseed season only intensifying from mid-October in the eastern regions of South Africa and around mid-November in the western areas, a firm view of the weather outlook in September is still a valuable insight for farmers to plan their planting appropriately.

- Indeed, South Africa's 2023/24 summer grains and oilseed were devasted by the El Niño induced mid-summer drought, particularly from February to March. This is at a time when farmers had planted slightly bigger areas for summer grains and oilseeds from the previous season. The impact was severe in various regions because roughly 20% of maize, 15% of soybean, and 34% of sugarcane are under irrigation. The majority of the crop areas are rainfed and exposed to drought stress. Thus, it is unsurprising that South Africa's 2023/24 summer grains and oilseed production is projected to be down 20% year-on-year, at

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16 million tonnes. This comprises white maize, yellow maize, sunflower seed, soybeans, groundnuts, sorghum and dry beans.

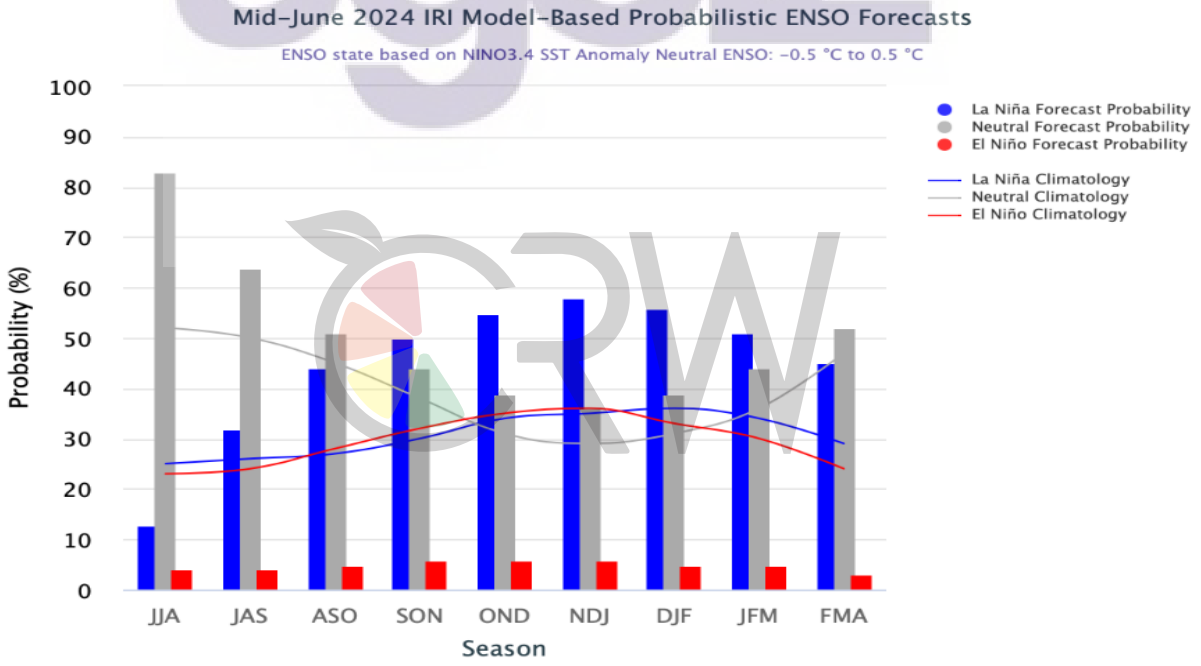
- Still, South Africa is in far better condition than much of the South African region. Zambia and Zimbabwe, among others, lost over half of their grain harvest because of the 2023/24 mid-summer drought. The possibility of a La Niña, provided it brings sufficient and favourable rains, would help improve the agricultural outlook and food security conditions in 2025 the Southern Africa region.

- Aside from field crops, South Africa saw better production conditions in horticulture because of better water levels in the dams. All of South Africa's fruit and vegetables are produced under irrigation.

- The financial impact of the drought on the farming enterprises will be evident in the coming months. Still, given that the country had four consecutive seasons of good rains and ample harvest when commodity prices were also elevated, the financial stress may not be as severe as in previous droughts. Thus, we remain optimistic that South African farmers may be eager to plant, yet again, a sizable area in the 2024/5 summer grains and oilseed season, especially with promising weather prospects.

- While the South African and Australian weather authorities have not officially declared a La Niña occurrence, there is growing evidence of its possibility. This is welcome news in South Africa and, indeed, in much of the Southern Africa region, where the 2024 mid-summer drought has been intense, leading to significant crop failures and rising worries of shortages and higher prices.

Exhibit 1: La Niña occurrence prospects are at over 50%



Source: International Research Institute for Climate Change and Society

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WEEKLY HIGHLIGHT

South Africa's agricultural machinery sales were down in June 2024

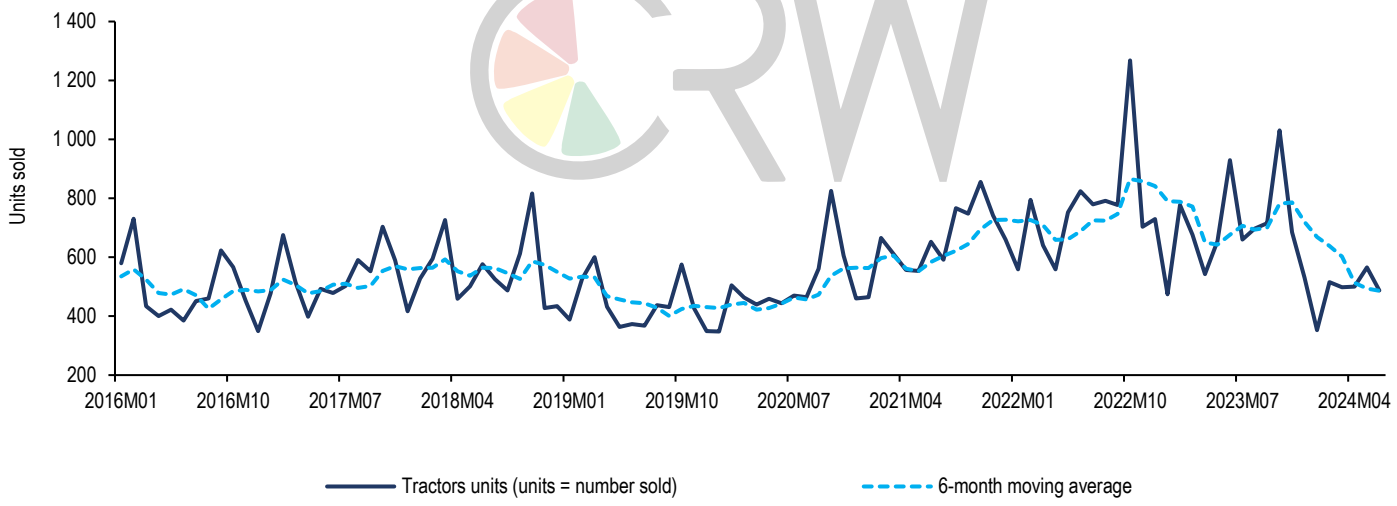
- After a slight monthly uptick in May following the NAMPO harvest sales induced optimism, South Africa's agricultural machinery sales slowed notably in June 2024. Tractor sales are down 48% year-on-year, with 487 units. The combine harvester sales are down 67% year-on-year, with 21 units. Admittedly, this is unsurprising, and in line with muted sales we have observed since the start of the year, except for May's slight monthly uptick.

- As we have stated previously, the persistent decline in sales since the start of the year reflects the normalization of sales after a few years of robust activity. For example, South Africa's tractor sales for 2022 amounted to 9,181 units, up 17% year-on-year. This was the highest annual sales figure in the past 40 years. The combine harvesters also had an excellent performance of 373 units in 2022, up 38% year-on-year. This was the highest yearly sales figure since 1985.

- In 2023, the tractor sales were down marginally from the previous year, while the combine harvester sales held the prior year's momentum. These past few years, solid machinery sales have been primarily supported by ample grain and oilseed harvests, when the prices of these commodities have also been favourable.

- But this year, the impact of the mid-summer drought on summer grain and oilseed has been severe, further weakening the farmers' financial position to procure machinery. South Africa's 2023/24 summer grains and oilseed harvest is estimated at 16,0 million tonnes, down 20% year-on-year. Beyond the historic strong sales and poor grain and oilseed harvest, the higher interest rates have added pressure to farmers' finances. Moreover, although various input costs, such as fertilizer and agrochemicals, have softened since 2023, the prices remain generally well above pre-COVID levels, further straining farmers' budgets.

Exhibit 2: South Africa's tractor sales



Source: South African Agricultural Machinery Association and Agbiz Research

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WEEK AHEAD

What we are watching this week

- We start the week with a global focus, and today, the United States Department of Agriculture (USDA) releases its **weekly US Crop Progress** report. The maize planting across the US is complete, and now our focus is on the growing conditions of the 2024/25 crop. In the week of June 30, about 67% of the US maize crop was rated good/excellent. While down from the previous week's rating, this rating remains well above the same week in 2023, which was at 51%. On the same day, the US soybean crop was also rated at 67% of this crop was rated good/excellent (compared 50% at the same time last year).

- Moreover, the United States Department of Agriculture will release its **weekly US Grains and Oilseed Export Sales** data on Thursday.

- Within the domestic front, on Wednesday, SAGIS will release its **weekly South Africa's Grains and Oilseeds Producer Deliveries** data. In the case of maize, this week, we will see a release of the data for the tenth week of the new marketing year, 2024/25. In the previous release on June 28, South Africa's weekly maize producer deliveries were about 718 834 tonnes. This placed the 2024/25 maize producer deliveries at 7,5 million tonnes out of the expected harvest of 13,4 million tonnes. So far, the quality of this harvest is mainly good.

- The 2024/25 soybean deliveries in the first 18 weeks of this new marketing year amounted to 1,67 million tonnes out of the expected harvest of 1,78 million tonnes. At the same time, the sunflower seed deliveries amounted to 576 689 tonnes out of the expected harvest of 649 250 tonnes. In the case of wheat, last week, 2 078 tonnes of wheat were delivered to commercial silos. This placed the 2023/24 wheat producer deliveries at 1,98 million tonnes out of the harvest of 2,10 million tonnes.

- On Thursday, SAGIS will publish its **weekly South Africa's Grains and Oilseeds Trade** data for the tenth week of the 2024/25 marketing year. In the previous release on June 28, the nineth week of the 2024/25 marketing year, South Africa exported 39 069 tonnes of maize. Of this volume, 59% was exported to Zimbabwe, and the balance to the rest of the neighbouring African countries. This places South Africa's total maize exports in the 2024/25 marketing year at 327 702 tonnes out of the expected exports of 1,4 million tonnes (down from 3,4 million tonnes in the 2023/24 season because of the mid-summer drought). Moreover, while South Africa will likely remain the net exporter of maize in the 2024/25 marketing year, the coastal regions will import small volumes of yellow maize for animal feed because of price advantage. We have recently seen the imports of yellow maize from Argentina through Cape Town. South Africa's 2024/25 maize imports currently stand at 92 491 tonnes.

- South Africa is a net wheat importer, and June 28 was the 39th week of the 2023/24 marketing year; South Africa's 2023/24 wheat imports totalled 1,5 tonnes out of the seasonal forecast of 1,6 million tonnes. The major wheat suppliers include Poland, Lithuania, Latvia, Russia, and Australia.

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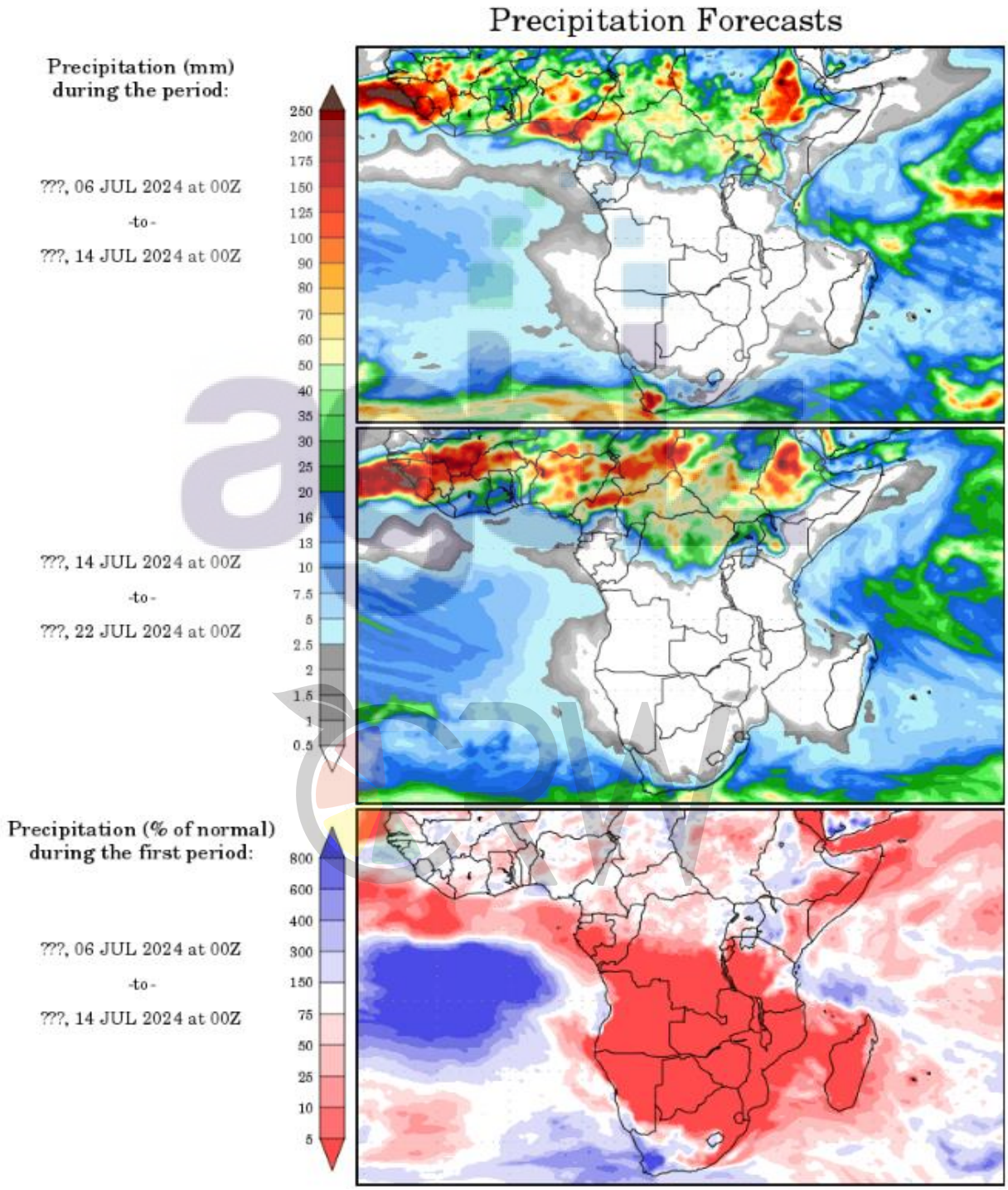
South Africa's Precipitation forecast

- Similarly to the previous week, the weather forecast for the next two shows clearer skies across the northern regions of South Africa, which is ideal for the remaining harvest process in the summer crop regions. Meanwhile, the winter crop growing areas may receive some light showers, which will enhance the winter crop growing regions.

Exhibit 3: South Africa's precipitation forecast



Source: George Mason University (wxmaps)

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