

April 2 2024

A critical period for SA winter crop-growing regions

- We are starting another critical period for South Africa's field crops, this time for winter crops. Farmers in the Western Cape will likely begin to prepare the soil for the 2024/25 winter crop production season by the end of April into May. Other major winter crop-producing provinces, such as Free State, Limpopo and the Northern Cape, will likely start around the end of May. The production of winter crops outside the Western Cape has sizable irrigation support. These regions should benefit from the relatively higher dam levels from the early summer rainfall. In major winter grains such as wheat, nearly half of the production in South Africa is produced under irrigation. The irrigation share in overall wheat production is essential in an environment where drier weather conditions and heat waves are causing significant damage to summer grains and oilseed regions.
- Admittedly, the weather forecasts for the Western Cape's winter season remain uncertain. We know the El Niño state is expected to end and return to neutral by early winter. This is according to the latest Seasonal Climate Watch from the South African Weather Service. The assumption is that at an El Niño neutral state, the Western Cape region could receive the average rainfall, which would support the winter crop season. Still, the farmers must regularly check the weather forecast and adjust their planting decisions with the latest data in their regions. The intensity of the current El Niño was also not obvious in the weather forecasts late last year.
- The past winter crop season had its fair share of challenges. The heavy floods in September 2023 damaged barley and canola crop quality. There were also reduced yields in winter wheat. The 2023/24 winter crop season had started on a positive footing, and we expected a decent harvest. The production conditions took a negative turn after the September 2023 floods. This is why the 2023/24 winter wheat harvest was down 2% year-on-year, at 2,08 million tonnes. The barley harvest was 376 195 tonnes (up 25%), and canola was 237 450 tonnes (up 13%). Still, the ample barley harvest had quality concerns that weighed on farmers' income. There were also infrastructure damages, such as roads and on-farm facilities, which increased costs for farmers in the Western Cape.
- Outside the Western Cape, the Free State is usually the third largest producer of winter crops, specifically wheat. With a harsh summer crop season that devastated summer grains and oilseed in the province, it is unclear if farmers will pull back on the usual area planting until they are confident about the weather. That decision is critical for the overall wheat harvest.
- Another possibility is that farmers may grow even more winter wheat areas to compensate for the lost harvest and time with summer crop regions. The Crop Estimates Committee will release the farmers' intentions to plant data on April 25. This data will give us a sense of the South African winter crop potential harvest and the farmers' decisions after a challenging summer grains and oilseed season.

- Aside from the weather conditions, input costs are another important consideration ahead of the winter crop planting season. Positively, the input prices have come off from the levels we saw last year. For example, in February 2024, essential herbicides such as glyphosate, acetochlor, and atrazine were down by 38% y/y, 20% y/y and 5% y/y, respectively. The prices of insecticide and fungicide have also declined notably from last year. Also worth noting is that in February 2024, essential fertilizers such as ammonia, urea, di-ammonium phosphate and potassium chloride are down 37%, 11%, 2% and 36%, respectively. Had the South African Rand not weakened during this period, the gains from the price decline would have been more significant.
- These price changes in inputs are important as they impact vast components of the grain input costs. For example, fertilizer accounts for a third of grain farmers' input costs, while other agrochemicals account for roughly 13%. This means that a decline in the prices of these inputs will result in a notable reduction in farmers' input costs. This partially compensates for the decline in crop prices over the past year. Over the past two years, the high wheat prices have helped farmers cope with elevated input costs. Fortunately, the input costs environment has now improved.
- In sum, we are in another crucial month for winter crops, with great uncertainty about the weather outlook. We should all keep an eye on the data on farmers' intentions figures, which are due for release at the end of this month.

WEEKLY HIGHLIGHT

South Africa's summer crop production prospects remain bleak

- Since the release of the previous report of South Africa's Crop Estimate Committee (CEC) at the end of February 2024, the weather conditions across the country have remained unfavourable. Thus, we are not surprised that the CEC further lowered its production forecasts for South Africa's summer grain and oilseeds this afternoon.
- The CEC now forecasts South Africa's 2023/24 total grain and oilseeds production at 15,8 million tonnes, down 9% from last month and 21% lower than last season's harvest. This year's overall decline in production prospects is primarily due to poor yields, not the area reduction, as farmers tilled more land than in the 2022/23 season.

Maize

- A closer look at the data shows that white and yellow maize harvest could be 6,3 million tonnes (down 25% y/y) and 6,9 million tonnes (down 13% y/y). This places the total maize production estimate at 13,2 million tonnes (down 20% y/y). This is the lowest maize harvest in five years. As with other crops, the challenge for maize is the possible poor yield in some regions, as the area plantings are higher than in the 2022/23 season.
- While this expected harvest could still meet South Africa's annual maize consumption of roughly 12,00 million tonnes, leaving the country with a small export volume, the figure remains tentative. The weather conditions have not improved in most regions of South Africa. We worry that there could be

a further downward revision of the crop forecasts in the coming months as farmers and analysts continue to assess the extent of the heatwave damage.

- In the event of a further downward revision of the crop forecasts in the coming months, South Africa would be most vulnerable to white maize supplies, which are also scarce in the world market. Yellow maize could be reliably imported if needs were to arise. There are ample maize supplies (yellow) in the world market. The International Grains Council forecasts the 2023/24 global maize harvest to be 1,2 billion tonnes, which is up 6% year-on-year. The stocks are also robust, thus adding downward pressure on international yellow maize prices.
- For this reason, there is a large spread between yellow maize and white maize prices in South Africa. For example, today, South Africa's white maize spot price closed at R5 260 per tonne, while yellow maize was R4 192 per tonne. This signifies the challenge with white maize supplies and the fact that drought has been more severe in the western regions.

Oilseeds

- The 2023/24 soybean harvest is estimated at 1,8 million tonnes, down 35% y/y. This decline results from a decline in yield in various regions of South Africa. We now believe South Africa may not play a robust position in soybean exports like the previous season. If anything, soybean oilcake imports this new season are now a possibility.
- The sunflower seed harvest estimate is 589 000 tonnes, down 18% y/y. The area plantings are moderately down from the previous year, which means the major concern is the poor yields, especially as most of South Africa's sunflower seed is planted in the western regions that have remained dry for some time.

Other grains

- The 2023/24 groundnut harvest estimate is 57 610 (up 9% y/y), sorghum is at 89 630 tonnes (down 5%), and dry beans are at 54 120 tonnes (up 8%).

Concluding remarks

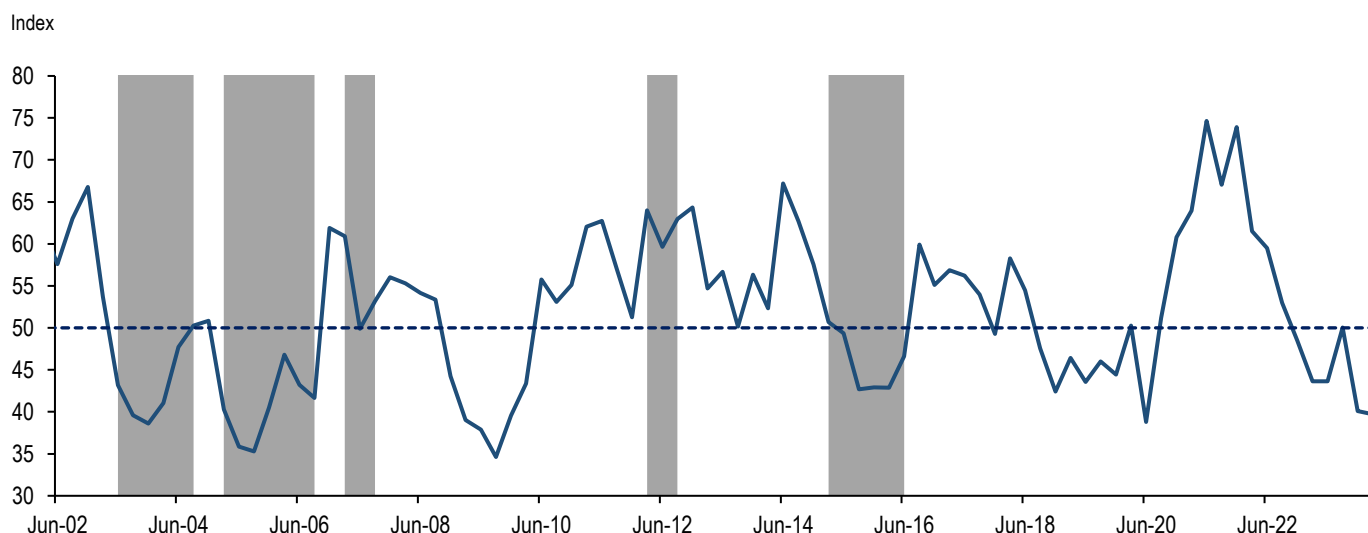
- In essence, while we started the 2023/24 summer crop season with optimism and even estimated that harvest would be decent at above-average levels, the outlook is now challenged by the excessive heat and limited rainfall across the major crop-growing regions.
- Notably, this week marks nearly two months since some regions of South Africa last received adequate rainfall. Throughout February and March, the rainfall has been scant across South Africa, with an intense heatwave that made the summer crop growing conditions difficult. These months are also critical for crop pollination, a growth stage that typically requires higher moisture levels. We have gone through pollination with limited moisture, reinforcing fears of a potentially bad summer crop in South Africa this year.

- Another challenge of the 2023/24 season is the difficulty of forecasting the size of the summer crop as we face a moving target and continuous unfavourable weather conditions. The crop forecasts for later in the year will likely show a more realistic picture of the crop conditions.
- From a consumer perspective, the current drought presents upside risks to food price inflation. But the major issue is white maize. The favourable supplies of other grains in the world market, mainly yellow maize (also rice and wheat), and the moderating prices mean South Africa could be slightly cushioned in these commodities.
- Still, the exchange rate will be an important consideration when assessing the possible imports of wheat and rice (and possibly yellow maize) into South Africa, assuming we see further downward revision of the crop forecasts.
- The Southern African maize-producing countries such as Zambia, Zimbabwe and Malawi are also under pressure because of the drought. This means tight white maize supplies in South Africa could also face regional demand, further presenting upside price risks.

Agbiz/IDC Agribusiness Confidence Index remained downbeat in Q1 2024

- After deteriorating by 10 points to 40 in Q4 2023, its lowest level since Q2 2020 at the height of the pandemic, the Agbiz/IDC Agribusiness Confidence Index (ACI) was unchanged in Q1 2024. The Q1 2024 reading is below the neutral 50-point mark, implying that South African agribusinesses remain downbeat about business conditions.
- This pessimism emanates from mostly the same factors as in recent surveys, which are yet to be addressed, and new challenges on the weather front. These include the ongoing El Niño induced drought that is devastating the summer grains and oilseed regions, persistent inefficiencies at the ports, poor rail and road infrastructure, and the worsening municipal service delivery. The rising crime, lingering animal disease challenges, uncertain policy environment ahead of the elections, persistent episodes of load-shedding and increased geopolitical uncertainty also remain top of mind challenges for agribusinesses. This survey was conducted in the first three weeks of March, covering businesses operating in all agricultural subsectors across South Africa.
- In essence, after a few years of solid activity, South Africa's agricultural sector faces a daunting year ahead, and the Agbiz/IDC ACI's Q1 results reflect this challenging outlook. Although weather-related risks are a major concern for this year, there remain aspects that policymakers, collaboratively with the private sector, could tackle to unlock the long-term growth potential of South Africa's agriculture. These include addressing the aforementioned weakening municipalities, deteriorating roads, animal diseases, efficiency in the registration of new agrochemicals and seeds, rising crime, inefficient logistics, and persistent load-shedding. Still, with the elections ahead of us, it is unclear if there will be a strong focus on policy matters in the months ahead.

Exhibit I: Agbiz/IDC Agribusiness Confidence Index¹



Source: Agbiz Research, South African Weather Service

(Shaded areas indicate periods when rainfall across South Africa was below the average level of 500 millimetres.)

WEEK AHEAD

What we are watching this week

- We start the week with a global focus, and on Thursday, the United States Department of Agriculture (USDA) releases its **weekly US grains and oilseed export sales** data. On Friday, the Food and Agriculture Organization of the United Nations releases its March 2024 data of the monthly **FAO Food Price Index**.
- Within the domestic front, on Thursday, SAGIS will release its **weekly South Africa's Grains and Oilseeds Producer Deliveries** data for March 29. In the previous release on March 22, South Africa's 2023/24 maize producer deliveries were about 102 096 tonnes. This placed the 2023/24 marketing year's maize producer deliveries at 15,4 million tonnes out of the overall harvest of 16,4 million.
- The focus on oilseeds is now shifting to the new marketing year. Still, so far, there have been no significant volumes delivered to commercial silos, and the crop is taking a strain from the excessive heat and dryness nationwide. For example, the 2024/25 soybean deliveries in the first four weeks of

¹ The Agbiz/IDC Agribusiness Confidence Index reflects the perceptions of at least 25 agribusiness decision-makers on the 10 most important aspects influencing a business in the agricultural sector (i.e. *turnover, net operating income, market share, employment, capital investment, export volumes, economic growth, general agricultural conditions, debtor provision for bad debt and financing cost*). It is used by agribusiness executives, policymakers and economists to understand the perceptions of the agribusiness sector, and also serves as a leading indicator of the value of the agricultural output while providing a basis for agribusinesses to support their business decisions.

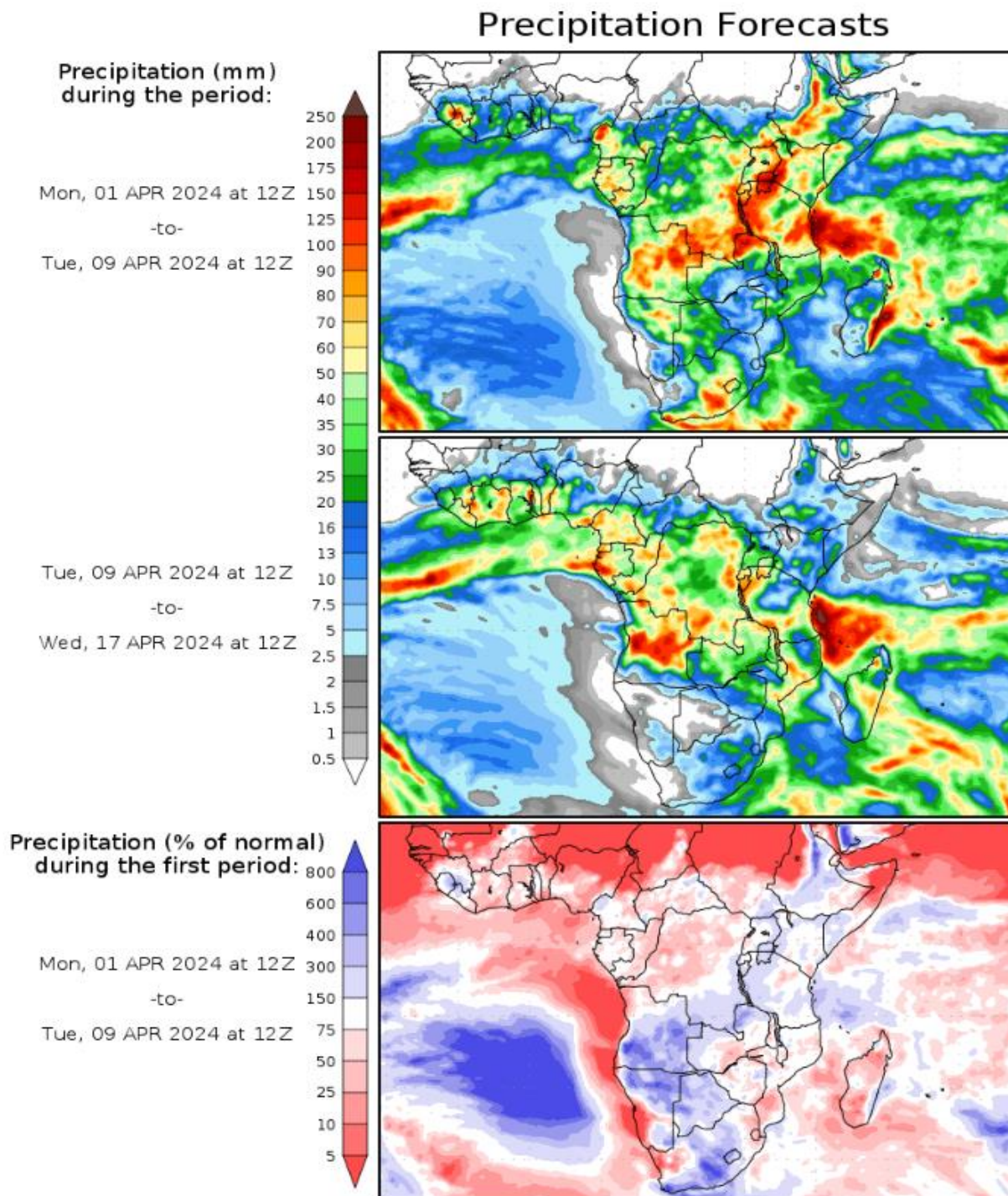
this new marketing year amounted to 142 837 tonnes, while the sunflower seed deliveries amounted to 44 898 tonnes.

- In the case of wheat, last week, 4 434 tonnes of wheat were delivered to commercial silos. This placed the 2023/24 wheat producer deliveries at 1,9 million tonnes out of the harvest of 2,1 million tonnes.
- On Friday, SAGIS will publish its **weekly South Africa's Grains and Oilseeds Trade** data for March 29. In the previous release on March 22, the 47th week of the 2023/24 marketing year, South Africa exported 47 457 tonnes of maize. Of this volume, 58% was exported to Zimbabwe, and the balance to the rest of the neighbouring African countries. This placed South Africa's 2023/24 maize exports at 3,2 million tonnes out of the seasonal export forecast of 3,3 million.
- South Africa is a net wheat importer, and March 22 was the 25th week of the new 2023/24 marketing year, with 19 666 tonnes of imports from Australia. This placed South Africa's 2023/24 wheat imports at 943 570 tonnes out of the seasonal forecast of 1,6 million tonnes.

South Africa's Precipitation forecast

- The weather forecast for this week shows prospects of widespread rain across the country. If this materialises, it will be positive for summer crop growing regions of the country, although it is already too late to make crop improvement in most regions. For the winter crop regions, the rain will help improve soil moisture ahead of the planting period that start at the end of this month.

Exhibit 2: South Africa's precipitation forecast



Source: George Mason University (wxmaps)