

## Some positive indications about South Africa's upcoming 2022/23 summer season

As the harvest for the 2021/22 summer crop season draws to a close, the focus is shifting towards the 2022/23 production season, which commences in October. The preliminary insights suggest that South Africa could have another good season. However, we fear the extreme rains and heat observed in the northern hemisphere summer season could be a reality here as home too. Still, the three critical indicators we have thus far, i.e., (1) the tractor sales, (2) the weather outlook for the next five months, and (3) grains and oilseed prices, paint a positive outlook for the 2022/23 season.

First, South Africa's tractor sales for the first half of 2022 are up 18% year on year (y/y), at 4 133 units. At the same time, combine harvester sales amounted to 213 units, up by 37%. The improved farmers' finances on the back of the solid production performance of the sector in the past two years, when commodity prices, specifically for grains and oilseeds, were elevated, are the primary driver of the sales in the first half of the year. Still, the positive sentiment about the upcoming 2022/23 production season is an essential factor that might have encouraged farmers to increase investments in movable assets such as tractors. The generally positive sentiment in the sector is also reflected on the Agbiz/IDC Agribusiness Confidence Index, a measure of the sentiment amongst agribusinesses and major farming entities, which was at 60 points in the second quarter (having deteriorated though since the start of the year as the rising input costs, biosecurity concerns, hikes in interest rates, intensified geopolitical risks weighed on sentiment). This general optimism doesn't mean there aren't many challenges facing the sector. The interruption of citrus exports in the EU, temporary closure of wool exports to China, foot-and-mouth disease in the cattle industry, relatively higher input costs, and rising interest rates are some of the problems that farmers have to contend with.

Second, the weather outlook for the upcoming 2022/23 production season shows encouraging signs. Last week, the Australian Bureau of Meteorology noted that "The ENSO Outlook continues at La Niña WATCH. This is due to the persistence of some La Niña-like signals in the atmosphere and ocean and the potential for the Pacific Ocean to cool back to La Niña levels in some model outlooks. La Niña WATCH means there is around a 50% chance of La Niña forming later in 2022. This is approximately double the normal likelihood." The South African Weather Service also shared a similar sentiment in its Seasonal Climate Watch for July to November 2022, released on 06 July. With that said, the weather conditions require close monitoring. The extreme weather events in the northern hemisphere worry us about the possibility of such occurrence in the southern hemisphere during the summer.

Third, while we expect South Africa's maize, soybeans and sunflower seed prices to soften somewhat in the second half of the year compared to the previous one, these are still attractive levels which should incentivize farmers to maintain sizable plantings in the 2022/23 season. For example, on 04 August 2022, yellow and maize prices were up 26% and 32% y/y, trading at R4 156 per tonne and R4 161 per tonne, respectively. On the same day, sunflower seed and soybean spot prices were 12% y/y and 16% y/y up, trading around R10 200 per tonne and R8 454 per tonne, respectively.

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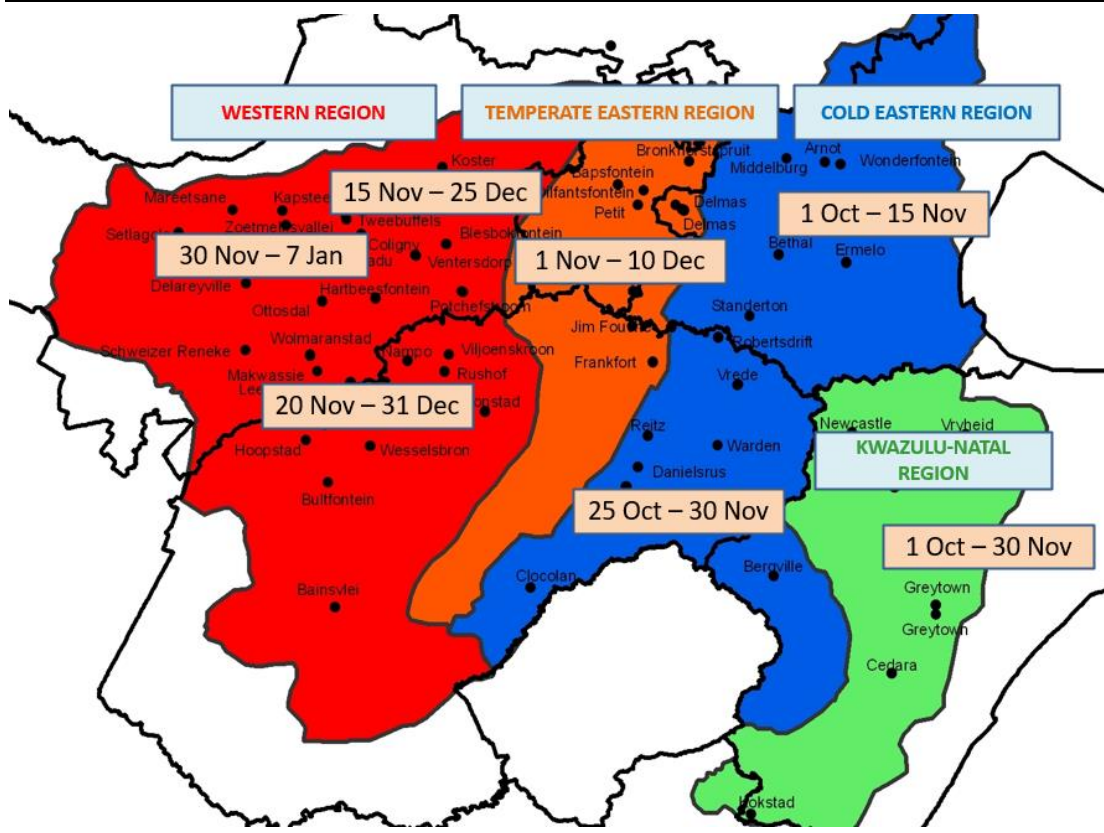
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For summer crops, we will only know the farmers' intentions to plant for the 2022/23 season on 26 October 2022, when South Africa's Crop Estimates Committee is scheduled to release the data. Moreover, we will have more data about the upcoming season when the Bureau for Food and Agricultural Policy (BFAP) releases the 2022 Baseline on 17 August 2022. The outlook from various analysts is encouraging. For example, the preliminary estimates from the United States Department of Agriculture (USDA) forecast South Africa's 2022/23 maize area plantings at 2,6 million hectares, which is well above the 10-year average of 2,5 million hectares. The yield estimate is forecast at 5,7 tonnes per hectare because of anticipated favourable weather conditions. This means that there is a chance that the maize harvest could be at 14,8 million tonnes, which would be slightly above the 2021/22 season harvest of 14,7 million tonnes. Other summer crops such as soybeans, sunflower seed, sorghum, dry beans, and various horticulture crops and fruits could also have a good season. Again, we caution that the weather seems to be in a period of extremes, which could change this roughly optimistic outlook for the 2022/23 season.

In sum, the higher tractor sales, attractive prices and favourable weather forecasts suggest that South Africa could have another favourable agricultural season in 2022/23. It is still early, and we are waiting for more data, especially weather-related data, to formulate a firm view. South Africa will need favourable rains, not excessive, primarily between October 2022 and February 2023 for this upcoming season, not only for field crops but also for livestock and horticulture. For now, the available indications are encouraging.

Against this backdrop, we are inclined to believe that South Africa's consumer food price inflation could moderate in the second half of the year from the higher levels of 9,0% y/y in June 2022 and remain contained at relatively lower levels in 2023. The global price movements and fuel prices remain the key upsides risks. Still, we foresee a better outlook, provided the conditions we spelt out above hold.

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



Source: Grain SA and Agbiz Research

## Weekly highlights

### **A fall in Zambia's 2021/22 maize production is unlikely to cause shortages in the Southern Africa region**

There are two significant maize-producing countries in the Southern Africa region: South Africa and Zambia. South Africa's 2021/22 maize harvest is down by 10% from the previous season, estimated at 14,7 million tonnes. The decline in harvest is mainly caused by the reduced area planted and poor yields in some regions following excessive rains at the start of the season. Still, this harvest will be sufficient to meet the domestic maize consumption of 11,8 million tonnes and keep the country a net exporter of maize.

In the case of Zambia, the 2021/22 season maize harvest is down sharply by 25% from the prior season to 2,7 million tonnes. These estimates are from the country's Ministry of Agriculture. Unlike South Africa, which struggled with excessive rains, Zambia faced the opposite. There were delayed rains at the start of the season and later prolonged dryness, which weighed on the yields and caused farmers to plant less area than in the 2020/21 season. With that said, Zambia's 2,7 million tonnes harvest will be sufficient to meet the domestic consumption of roughly 2,0 million tonnes. This means that the country could also remain a net exporter of maize.

In the past, whenever Zambia's maize production declined notably, even if it would still be sufficient to meet the annual demand, the government would institute export bans to drop the price in the interest of domestic consumers. However, the unintended consequence of such policies is the cost to farmers and the agribusiness that typically miss out on higher global prices that would improve their profitability. Nevertheless, in the current season, the Zambian government has signalled that it would follow the calls of multinationals such as the WTO, WFP, IMF, WBG and FAO. These multinationals have urged countries not to apply export bans in the current environment of elevated global food prices and the rising need for supplies in the emerging countries.

Within the Southern and East Africa region, Zimbabwe, Botswana, Mozambique and Namibia are likely to require maize imports to meet their domestic needs later this year and into 2023. South Africa could have as much as 3 million tonnes for exports, which is even above Zambia's overall maize production. This will help boost supplies for countries in need in the region. But some countries are reluctant to import genetically modified maize, mainly Kenya. This limits South Africa's participation in markets as our maize production is about 80% genetically modified.

South Africa has embraced this technology since the early 2000s. It has helped improve the yields. Before its introduction, average maize yields were around 2,4 tonnes per hectare. This has increased to an average of 5,6 tonnes per hectare as of the 2020/21 production season. Meanwhile, the sub-Saharan African maize yields remain low, averaging below 2,0 tonnes per hectare. Admittedly, yields are also influenced by improved germplasm (enabled by non-genetically modified biotechnology) and improved low and no-till production methods (facilitated through herbicide-tolerant genetically modified technology); other benefits include labour savings and reduced insecticide use as well as enhanced weed and pest control.

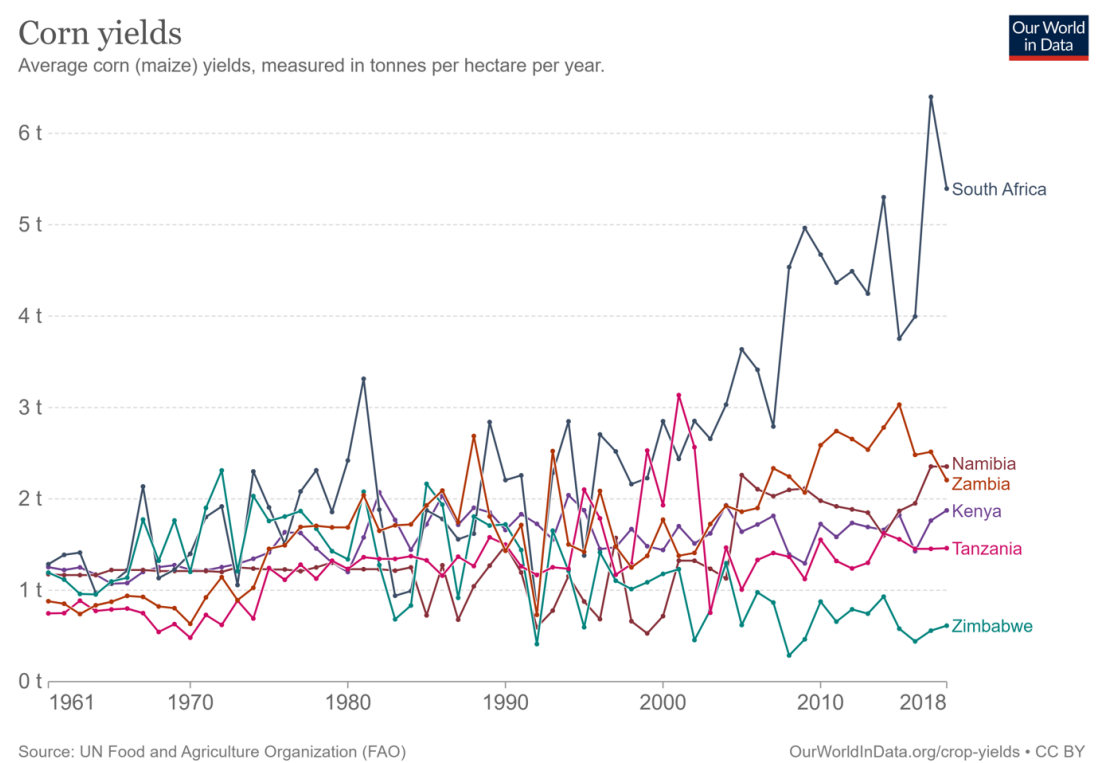
In such cases, Zambia benefits from the markets that import non-genetically modified maize. For example, Kenya currently faces a shortfall in the current season. This is about 700 000 tonnes, according to United States Department of Agriculture estimates. According to data from the International Grains Council, Kenya's expected 700 000 tonnes of maize imports

account for 21% of sub-Saharan Africa's expected maize imports of 3,4 million tonnes in the 2021/22 production season (2022/23 marketing year).

Zambia and Tanzania are likely to be the leading suppliers of maize to Kenya this season. With that said, Tanzania's role will be limited as the country expects its domestic maize harvest to fall by 16% this season to 5,9 million tonnes. This decline in harvest is due to drought at the start of the 2021/22 production season, combined with armyworm infestations and reduced fertilizer usage in some regions because of prohibitively higher prices. The consequence of the fall in production and firmer domestic consumption means that the country could have less maize for export markets. Data from the United States Department of Agriculture show that Tanzania's maize exports could decline from 800 000 tonnes last season to 100 000 tonnes this year. Such a drop would leave little for Kenya's maize needs, leaving Zambia as major regional suppliers. South Africa's role remains uncertain for the reasons outlined above about Kenya's genetically modified maize ban.

While Zambia's maize production could fall notably this year, the country will remain a significant player in export activity in the Southern Africa region. This country will join the leading exporter, South Africa, in fulfilling the regional maize needs. Broadly, the region will have to review its limits on growing and importing genetically modified maize. The likes of the EU region, which for roughly 25 years have opposed genetically modified maize, are slowly opening up for imports. Africa should take notice as such an embrace of technology would boost yields. Various considerations about seed ownership and other aspects are worth exploring to comfort African governments, but that is a discussion for another day.

Exhibit 2: Maize yields in selected African countries



Source: Our World in Data

## Data releases this week

We start the day with a global focus, where the United States Department of Agriculture (USDA) will publish its weekly **US Crop Progress** data. As always, in these data, our focus is on the crop-growing conditions as various regions of the US continue to experience a heatwave that is threatening the crop. In the previous release, in the week of 01 August 2022, about 61% of the maize crop was rated good/excellent, which is down by 1% from the same week a year ago. Moreover, about 60% of the soybean crop was rated good/excellent, the same as the previous year's rating in the same week.

The USDA will release the **US Weekly Export Sales** data on Thursday. On Friday, the USDA will publish its monthly flagship report, the **World Agricultural Supply and Demand Estimates** report. This will help insights into the global harvest of maize, wheat, soybeans and various crops.

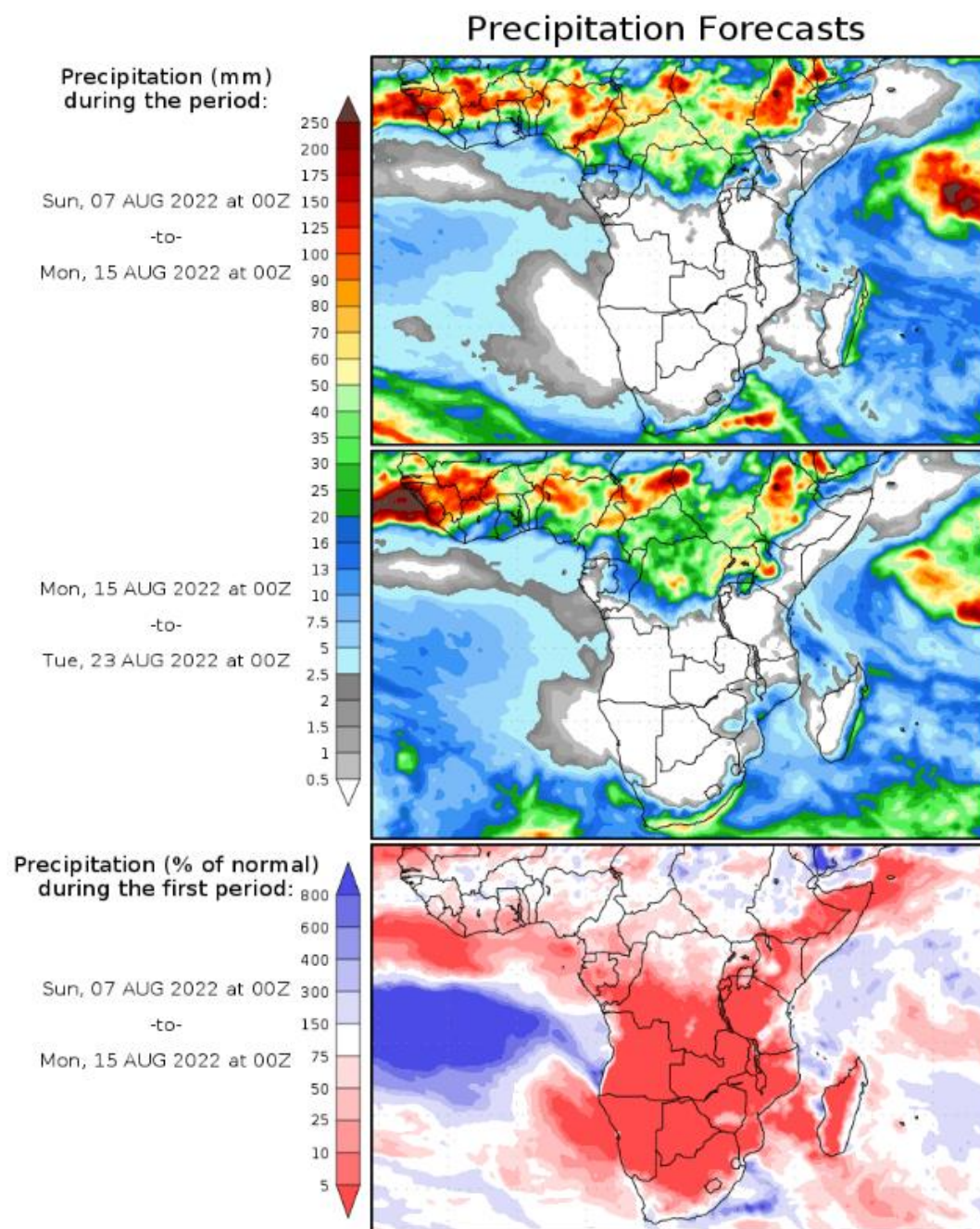
On the domestic front, on Thursday, SAGIS will release the **Weekly Producer Deliveries** data for 05 August 2022. This data will help us get insight into the progress of the maize harvesting activity. In the previous release of the week of 29 July, about 9,34 million tonnes of maize had already been delivered to commercial silos, out of the expected harvest of 14,71 million tonnes. Moreover, the soybeans and sunflower seed harvest have also advanced.

On Friday, SAGIS will publish the **Weekly Grain Trade** data for 05 August 2022. In the previous release on 29 July 2022, which was the 13th week of South Africa's 2022/23 maize marketing year, the weekly exports amounted to 96 632 tonnes. The key markets were Vietnam, Taiwan, Japan and the Southern Africa region. This brought the total 2022/23 exports to 1,22 million tonnes out of the seasonal export forecast of 3,20 million. This is slightly down from 4,10 million tonnes in the past season due to an expected reduction in the harvest.

South Africa is a net wheat importer, and 29 July was the 44th week of the 2021/22 marketing year. The total imports are now 1,38 million tonnes out of the seasonal import forecast of 1,48 million tonnes (slightly below the 2020/21 marketing year imports of 1,51 million tonnes because of a large domestic harvest). The major wheat suppliers are Argentina, Lithuania, Brazil, Australia, Poland, Latvia and the US. As we stated in our previous notes, if one looks into South Africa's wheat imports data for the past five years, Russia was one of the major wheat suppliers, accounting for an average share of 26% yearly. The suppliers mentioned above have now replaced this.



### Exhibit 3: South Africa's precipitation forecast



Source: George Mason University (wxmaps)

*We have another relatively good weather forecast this week, clear skies in the central and northern regions of South Africa.*

*These are areas where summer crop harvesting is still underway and there is a need for warm weather. So, the forecast for this week is favourable.*

*The southern and south-western regions of the country, however, could expect showers. This should benefit the winter crop in the areas of the Western and Eastern Cape.*