SA agricultural exports are likely to fall this year from the robust US$12,4bn of 2021

15 August 2022

Wandile Sihlobo
Chief Economist
+27 12 807 6686
wandile@agbiz.co.za

www.agbiz.co.za

South Africa's agricultural export activity will likely soften this year from the 2021 record of US$12,4 billion. Lower production of key crops, animal disease spread and changes in phytosanitary regulations in key markets such as the EU will all weigh on the export activity this year. The changes in export volumes and values might not show in the year's first half but will likely reflect in the second half of the year. South Africa's agricultural exports for the first five months of this year amounted to US$5,06 Billion, up just 2% from the corresponding period in 2021. Over this period, the European Union, United Kingdom, Japan, United Arab Emirates and several African countries were still the primary markets. Citrus, maize, apples and pears, wine, dates, figs, nuts, fruit juices, and wool were amongst the most dominant exportable products.

We had worried that exports would deteriorate in April following the severe floods that damaged infrastructure in KwaZulu-Natal and the Port of Durban. Surprisingly, the data paints a positive picture of continued export activity. Admittedly, Transnet and other logistics role-players worked tirelessly to restore the functioning of the Port of Durban after the floods. These export data partially reflect how soon the activity was restored in the major exporting route. The other ports in the country also assisted in facilitating exports during the challenging times in KwaZulu-Natal.

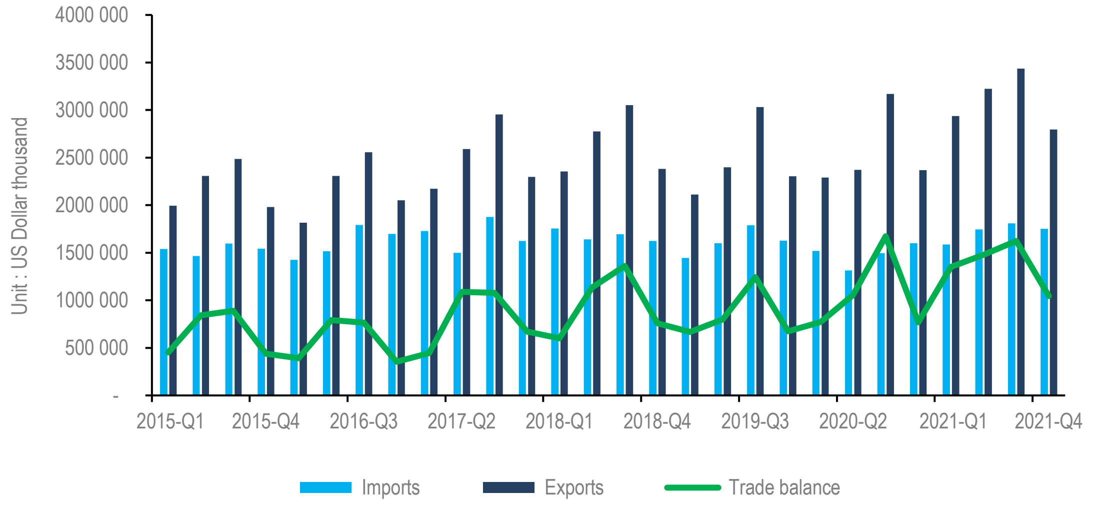
The spread of foot-and-mouth disease in the livestock industry intensified from the end of April. This outbreak meant that the export of wool, beef and other livestock products would face restrictions in key markets such as China, mainly from May. The discussions between the South African and Chinese authorities are still underway. In the meantime, exports of wool have declined significantly since the announcement of the temporary ban by China. We expect the impact to reflect largely in the third quarter of the year trade data. The same is true for beef exports, although the wool and beef export regulations differ. Wool has a unique protocol with China to handle the exports of wool even when there is a foot-and-mouth disease outbreak in South Africa. However, beef exports have no such protocol and are mainly exposed to such outbreaks, compared to the sheep and goat industries. At the time of writing, the South African wool industry hadn't received a clear direction about China's adherence to the agreement reached between the two countries to facilitate wool exports during foot-and-mouth disease outbreaks. The South African government is the only avenue to assist in resolving this impasse and should thus deepen its engagements with China.

In the case of citrus, the EU imposed protectionist measures on agriculture in July 2022 by changing its plant safety regulations for citrus without notifying its trading partners within a reasonable time. The new regulation purports to protect the EU from a quarantine organism, false codling moth, by introducing stringent new cold treatment requirements, particularly on citrus imports from Africa, mainly impacting South Africa, Zimbabwe and the Kingdom of Eswatini. South Africa has put rigorous measures in place to control false codling moth, which the EU uses as a pretext to restrict citrus imports from Africa. Hence, we view this as a cover to protect the EU's citrus-growing countries like Spain and will increase costs to the Southern African citrus growers. In the last couple of weeks of July into August, South African citrus growers struggled to gain access to the EU market because of these changes in regulations. The breakthrough for the shipments stranded in the EU waters came in the second week of August. Still, the challenge of the new regulations remains for export activity in the months ahead. The solution to this challenge requires a continuous and intensified engagement by the South African government with the EU authorities.

Away from the challenges presented by animal disease and regulatory constraints, lower domestic output of key crops may also dampen export performance. The decline in crop output doesn't risk domestic food security. But it reduces the available supplies for the export market. The most notable decline in key exportable crops is maize, down by 10% from the 2020/21 season at an estimated14,7 million tonnes. As a result, we expect maize exports to amount to 3,0 million tonnes, down from roughly 4,0 million tonnes in the previous season. This deterioration in export volumes will show in the third and last quarter of the year.

In sum, South Africa's agricultural sector will remain a net exporter in 2022. But the value will not be as robust as in 2021 when the sector reached a record US$12,4 billion. At the time, the increase in volume and value of exports was the key driver of activity. However, internal and external conditions have made for a relatively more challenging 2022. The reduction in production volume, biosecurity challenges and changes in export regulations in some of our key markets are the challenges that confront us this year.

Exhibit 1: South Africa's agricultural trade



Source: Trade Map and Agbiz Research

Weekly highlights

Reflections on the recent developments in the global grains market

We had two important data releases in the global environment these past two weeks; the FAO Global Food Price index for July 2022 and the USDA's World Agricultural Supply and Demand Estimates report. The former paints an encouraging picture of a continuous softening of prices, having deteriorated by 9% in July from June to 141 points. This marked the fourth consecutive monthly decline, undermined by softening in the prices of vegetable oils and grains. These are the products that were behind the significant uptick in prices in the weeks and months after the Russia Federation's invasion of Ukraine. The seasonal availability of grain supplies in South America following the harvest season, combined with the agreement reached between Ukraine and the Russian Federation to unblock Ukraine's main Black Sea ports, thus leading to a resumption of grain exports from Ukraine. Nevertheless, the global food prices are nowhere close to the pre-war levels. The FAO's Global Food Price is still 13% higher compared to July 2021. Other factors such as the reduced grains stocks in South America, rising demand for grains in China are also underlying drivers of relatively higher grains prices, in addition to the spillover of the Black Sea war.

While the coming months could continue to show a relative decline in prices compared to levels seen in months after the start of the war, the price environment is unlikely to get to pre-war levels over the medium term. There are risks to the 2022/23 season. The reports of yet another La Niña, could weigh on South America's harvest, as this weather phenomenon typically leads to a drier season in the region. Moreover, the reports of dryness in much of Europe and the US could also lead to a poor harvest in various regions.

Admittedly though, the global crop forecasters such as the International Grains Council and the United States Department of Agriculture (USDA) have not yet fully accounted in their estimates for these weather changes. For example, in its August update, the USDA estimated 2022/23 global wheat production at 779 million tonnes. This is up by 1% from the previous month and roughly on par with the 2021/22 season harvest. With that said, the stocks could fall by 3% from the previous season to 267 million tonnes because of an uptick in consumption. Broadly, these data support generally higher commodity prices; hence we think the current decline in prices will likely be limited or not be a complete reversal to the pre-war levels.

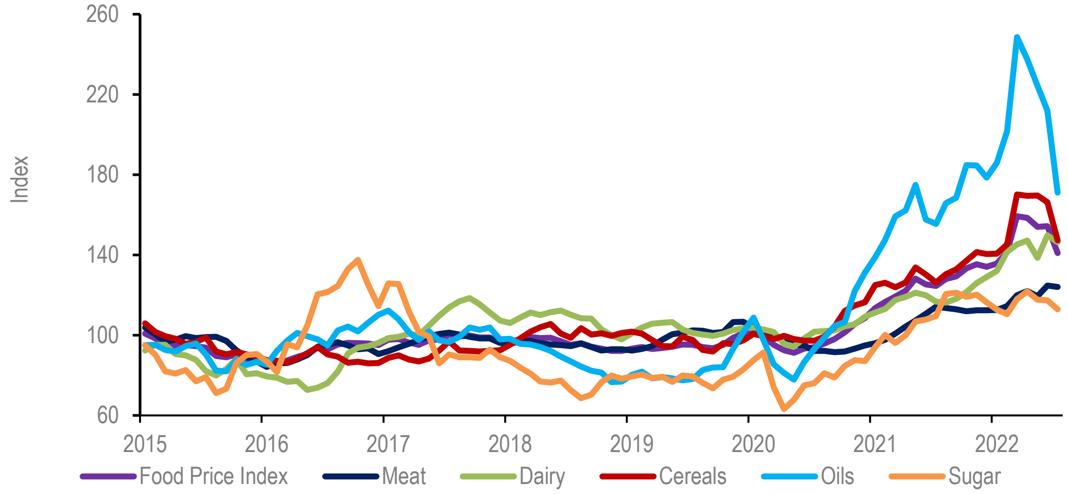
In the case of maize, the picture is different. The USDA already forecasts a 3% annual decline in the 2022/23 global production, to 1,18 billion tonnes. The IGC sees a decline in harvests primarily in the US, Ukraine, EU, and China. Consequently, the 2022/23 global maize stocks are currently forecast at 306 million tonnes, down 1% y/y.

Similarly, the 2022/23 rice global harvest is forecast to fall marginally by 0,3% from the previous season to 512 million tonnes. The US is primarily behind this decline in the global rice harvest. This could be explained by the heatwaves in various regions of the country that have negatively affected agricultural activity over the past couple of months. The stocks will likely fall by 3% from the 2021/22 season to 178 million tonnes. This is reflective of both the potential increase in rice consumption and the fall in the harvest. For rice-importing countries such as South Africa, the potential decline in harvest means prices could move sideways over the next couple of months and that there could be limited room for a further decline in the rice prices.

Soybean is the only crop whose production forecasts are quite robust. For example, the 2022/23 global soybean harvest is set to reach a new peak of 393 million tonnes, up 11% year on year. The expansion in plantings in the US, combined with an expected increase in area plantings when the season starts in Brazil, Uruguay, and Argentina, are behind this expected large crop. Notably, one should keep in mind the points we made earlier about the potential La Niña-induced dryness in South America and the heatwave in the US. These are important weather events that could undermine these positive harvest forecasts. If we apply the current data, the 2022/23 soybeans global stocks would amount to 101 million tonnes, up by 13% from the previous season. Such an improvement would add pressure not only on soybeans and their product prices but also across the vegetable oils market. The next couple of months will be vital for assessing whether this optimistic picture will hold or change.

Overall, the FAO's Global Food Price Index presents a welcome picture of decelerating global prices from the peaks we saw in the days and weeks after the Russian Federation invaded Ukraine and disrupted production and trade. Still, various risks on the horizon need closer monitoring as they could impact the price direction. South Africa is interlinked to the global markets and thus will experience similar price shocks as the world market.

Exhibit 2: Global Food Price Index



Source: Our World in Data

Data releases this week

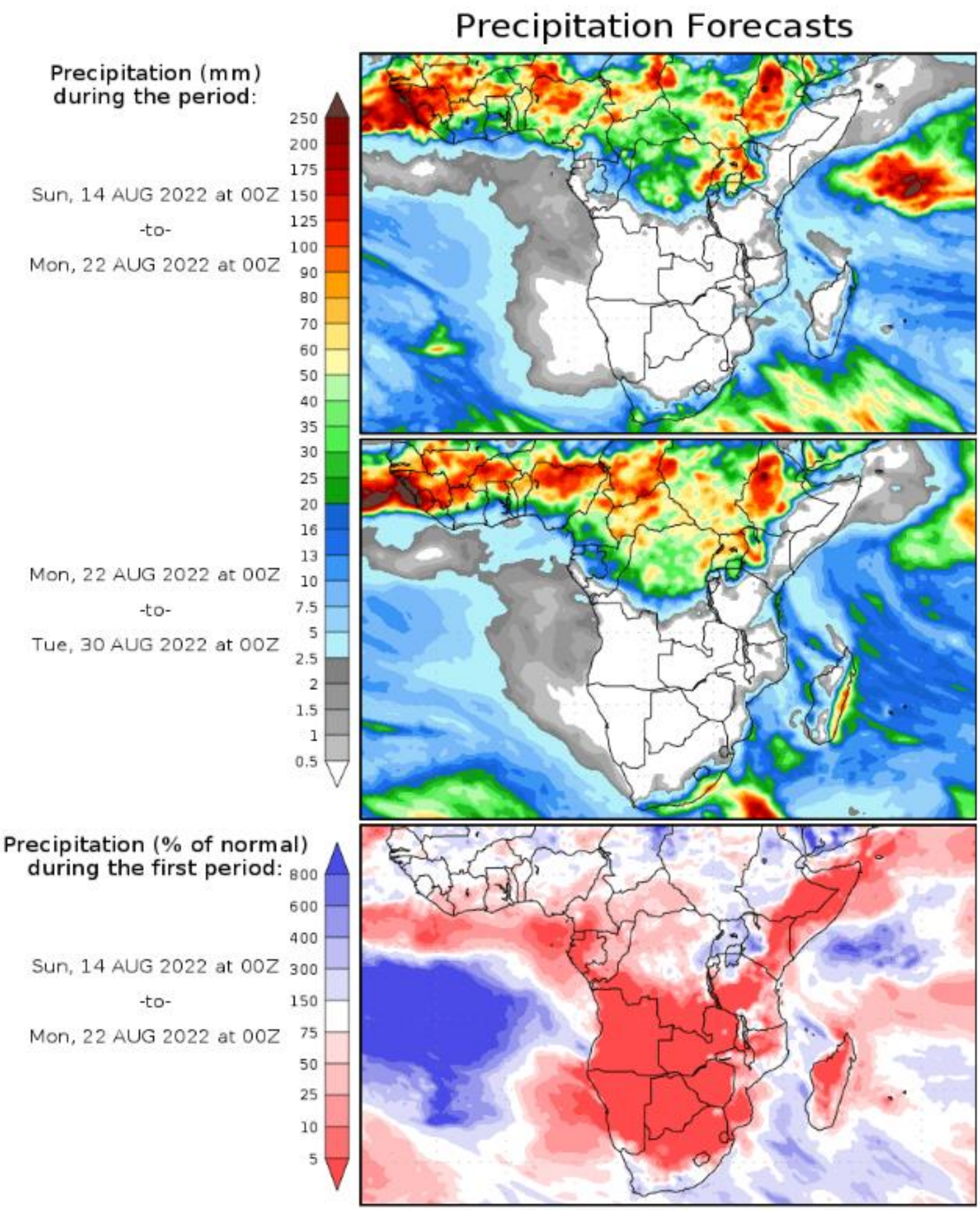
We start today with a global focus, where the United States Department of Agriculture (USDA) will publish its weekly **US Crop Progress** data. As always, in these data, our focus is on the crop-growing conditions as various regions of the US continue to experience a heatwave that is threatening the crop. In the previous release, in the week of 07 August 2022, about 58% of the maize crop was rated good/excellent, which is down by 4% from the same week a year ago. Moreover, about 59% of the soybean crop was rated good/excellent, down by 1% from the previous year's rating in the same week. The USDA will release the **US Weekly Export Sales** data on Thursday.

On the domestic front, on Wednesday, SAGIS will release the **Weekly Producer Deliveries** data for 12 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 05 August, about 10,2 million tonnes of maize had already been delivered to commercial silos, out of the expected harvest of 14,71 million tonnes. The soybeans and sunflower seed harvest have also advanced.

Also on Wednesday, The Bureau for Food and Agricultural Policy (BFAP) will release its flagship publication, the **2022 South African Agricultural Baseline** report. This will be available on the organization's website in the late afternoon.

On Thursday, SAGIS will publish the **Weekly Grain Trade** data for 12 August 2022. In the previous release on 05 August 2022, which was the 14th week of South Africa's 2022/23 maize marketing year, the weekly exports amounted to 40 838 tonnes. The key markets were Taiwan and the Southern Africa region. This brought the total 2022/23 exports to 1,26 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 receive light showers. This should benefit the winter crops in the areas of the Western and Eastern Cape.