

April 22 2024

South Africa's agricultural policy after the elections

- Recent electoral polls continue to suggest that no single political party will win an outright majority in South Africa's 2024 national elections due to take place on 29 May. This creates uncertainty regarding the national government, which will emerge from any possible coalition discussions. Regardless of its composition, the seventh administration of democratic South Africa may have to refresh its economic policies when it assumes office. For some sectors of the economy, such a review may be necessary. The global environment in which we operate has changed significantly in recent months, partly because of the rising geopolitical tensions and their associated economic risks.
- In our view, agricultural policy does not require a review. The sector needs a sharper focus on implementing the existing programmes. The focus should be primarily on the execution of responsibilities of the various directorates at the national and provincial levels of the Department of Agriculture, Land Reform and Rural Development.
- The agricultural sector has an ambitious and unifying vision through the Agriculture and Agro-processing Master Plan (AAMP) launched in May 2022. Indeed, the AAMP is imperfect, and some aspects were contested during its drafting stages. This is expected given the breadth of social partners involved in crafting it. Still, most social partners, such as the business community, government, and labour, agreed that the AAMP offers a framework to grow the agriculture and agro-processing sector, build competitiveness, attract more investment, improve inclusion, and create jobs. These prospects would help to address South Africa's socioeconomic challenges, particularly in rural areas and small towns.
- Moreover, the Department of Agriculture, Land Reform and Rural Development (DALRRD) has signalled its intention to release the roughly 2,5 million hectares of land that is under the Proactive Land Acquisition Strategy (PLAS) to beneficiaries with title deeds. This land release will be through the yet-to-be-launched Land Reform and Agricultural Development Agency. The launch of this agency has taken longer than we anticipated. However, after informal discussions with the current leadership of the DALRRD, we believe that there is a commitment to the land release with title deeds to beneficiaries.
- This land will help increase South Africa's agricultural output across various commodities. Through the promise of this land release, the Bureau for Food and Agriculture Policy (BFAP) and ourselves continue to believe that South Africa's agriculture could continue to grow and expand employment in the coming years.
- Admittedly, amongst the industry and organized agriculture stakeholders, there has been growing anxiety about the slow pace of implementing the AAMP. The government and social partners finished the plan at a tricky time. As the implementation process was set to start, various challenges took focus away from the AAMP. These include the persistent load-shedding in recent years, logistical constraints at

ports, protectionism in export markets such as China (wool), EU (citrus), and Africa (vegetables), and the spread of animal disease (foot and mouth disease in cattle, African swine fever in pigs, and avian influenza in poultry). These events meant that the government and various industry stakeholders moved into "crisis" mode, and the attention shifted from the AAMP. Indeed, there has also been a lack of focus and interest in collaborating with businesses at a provincial level of the government, contributing to the slow implementation of the policies.

- As is the case in South Africa with engagements between government and private sector engagements, political economy tensions often arise while resolving urgent and near-term issues, as we listed above. These tensions in political economy tend to strain trust and the collaborative vision, even temporarily. Such an environment is a rich breeding ground for slow action towards implementing the AAMP. Moreover, we often hear from agribusiness leaders about the cold experience they receive from some provincial and local government offices that are instrumental to the success of the AAMP implementation. This is an area that the national government should focus on to ensure the alignment of vision and urgency with the adopted policies and programmes.
- While we present the view that the appropriate policies and programmes for the next administration in South Africa's agriculture need not change drastically, additional matters require nations' focus that has weighed on sentiments in farming and agribusiness. These include the ongoing El Niño induced drought that devastates the summer grains and oilseed regions, persistent port inefficiencies, poor rail and road infrastructure, and worsening municipal service delivery. Rising incidents of crime, lingering animal disease challenges, security of electricity supply and increased geopolitical uncertainty remain top-of-mind challenges for agribusinesses. In a survey we conducted in March 2024, covering businesses operating in all agricultural subsectors across South Africa, the respondents raised these are the most troubling issues they face.
- Moreover, the one area that the South African government, working collaboratively with businesses, has seen success in opening the export markets for various products. The latest successes are the avocados in China, beef exports to Saudi Arabia, and grain exports to Egypt. The effort of the government and industry to deal with the EU's citrus export challenges through the WTO is another commendable step. From now on, widening the export markets should remain a priority for the South African government and organized agriculture. This is even more important in the current environment of the increasingly protectionist world, while South Africa is seeing an increase in production volumes of various products.
- Exports would not be a success without an increased focus on logistics. The ongoing collaborative effort at the ports and rail should continue and extend to road infrastructure in the small towns where deteriorating roads have presented major costs and inefficiencies to agribusinesses.
- Overall, we believe South Africa's agricultural policy does not require a drastic change from now on, but it is better to focus on implementing current policies and programmes. The one aspect that should be an addition to the toolkit of the Department of Agriculture, Land Reform and Rural Development is continuous engagement and fruitful collaboration with industry stakeholders and organized agriculture.

WEEKLY HIGHLIGHT

South Africa's consumer food inflation falls to the lowest level since September 2020

- South Africa's consumer food inflation decelerated to 4,9% in March 2024 (from 6,0% in the previous month). This is the lowest level since September 2020 and was underpinned by the deceleration across most food products, except for "fish", which lifted mildly from the previous month. While it has been quite dry across the country, vegetable and fruit production has not taken a significant strain because all commercial production in South Africa is under irrigation, and load-shedding has been mild.
- Moreover, meat prices rose at the end of 2023 due to supply constraints of poultry products on the back of avian influenza. But there is now anecdotal evidence that the restocking process is underway and there is improvement in the poultry products supplies. Therefore, the risks of further price increases have subsided somewhat.
- The prices of wheat, rice, and vegetable oils have moderated due to increased global supplies, and South Africa is a significant importer of these products.

Risks

- Still, we believe this broad moderation path will continue for some food basket products only for the next few months. Significant upside risks remain for the "bread and cereal products" in the food basket because of the potentially poor white maize harvest from the recent heatwave and dryness.
- There are notable crop failures in South Africa's western regions, primarily white maize-producing regions (We see similar challenges in some yellow maize, other grains and oilseed regions). At the end of March, the estimates from the Crop Estimates Committee placed South Africa's 2023/24 white maize harvest at 6,3 million tonnes, down 25% year-on-year. This has led to a surge in white maize prices. At the start of this week, white maize spot price was up 36% year-on-year, trading at R5 450 per tonne. In addition, the higher demand for white maize in the broader Southern African region due to crop failure also adds to the price increases. Over the coming months, part of the maize price increase will reflect on the "bread and cereal products" of the inflation basket.

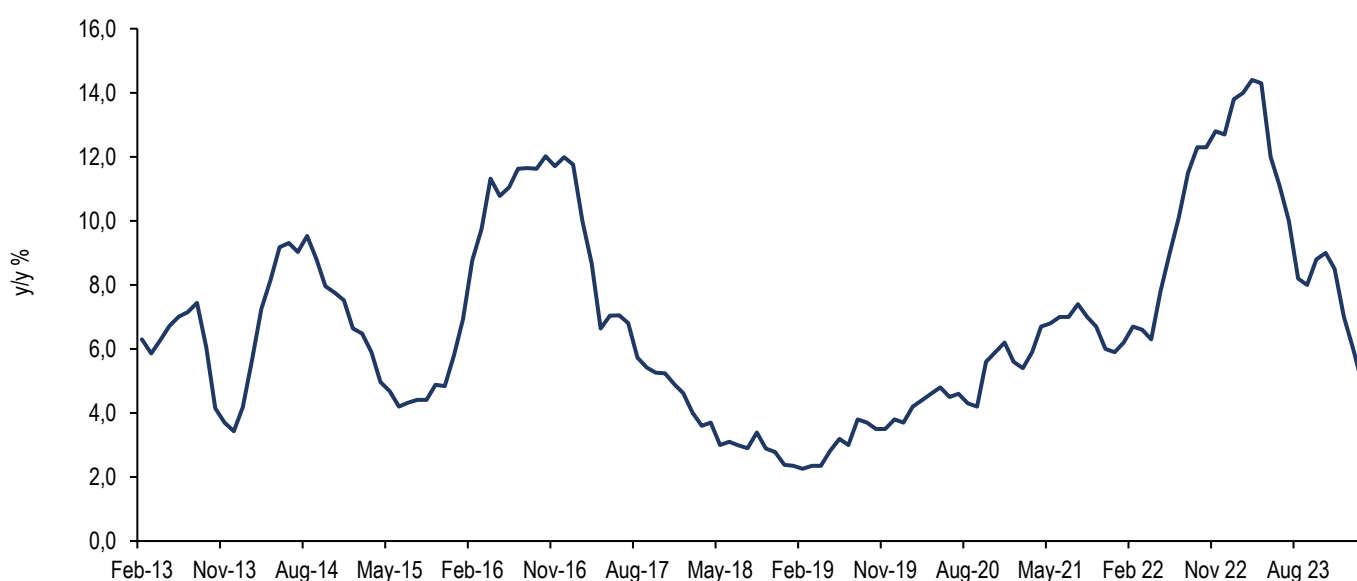
Global developments

- Aside from the domestic white maize supply challenges, there is ample wheat, rice, and vegetable oils supply on the world market. The IGC forecasts the 2023/24 global wheat harvest at 789 million tonnes, well above the long-term average. There is a lot of rice globally, with the 2023/24 global harvest forecast at 511 million tonnes, well above the long-term average. The 2023/24 global sunflower seed harvest is forecast at 57,9 million tonnes, well above average.
- The stocks of these commodities are at comfortable levels; thus, the international grain prices have continued to moderate. For example, the Food and Agriculture Organization of the United Nations (FAO) 's Food Price Index, which measures the monthly change in international prices of agricultural

commodities, averaged 118.3 points in March 2024, down 8% from last year's corresponding period. The broad decline in grains and oilseed prices underpinned this moderation, again underscoring the importance of improved supplies in the 2023/24 season.

- The exchange rate will also matter much, as South Africa imports roughly half of its annual wheat and rice consumption.
- Overall, the recent food inflation data release is a welcome development. Still, there is increased uncertainty about South Africa's consumer food inflation path for 2024, with some upside risks in various products. The underlying factors are not all one-sided, and one has to reflect on the price movements and weighting of multiple products when considering their food price forecast.

Exhibit I: South Africa's consumer food inflation



Source: Stats SA and Agbiz Research

WEEK AHEAD

What we are watching this week

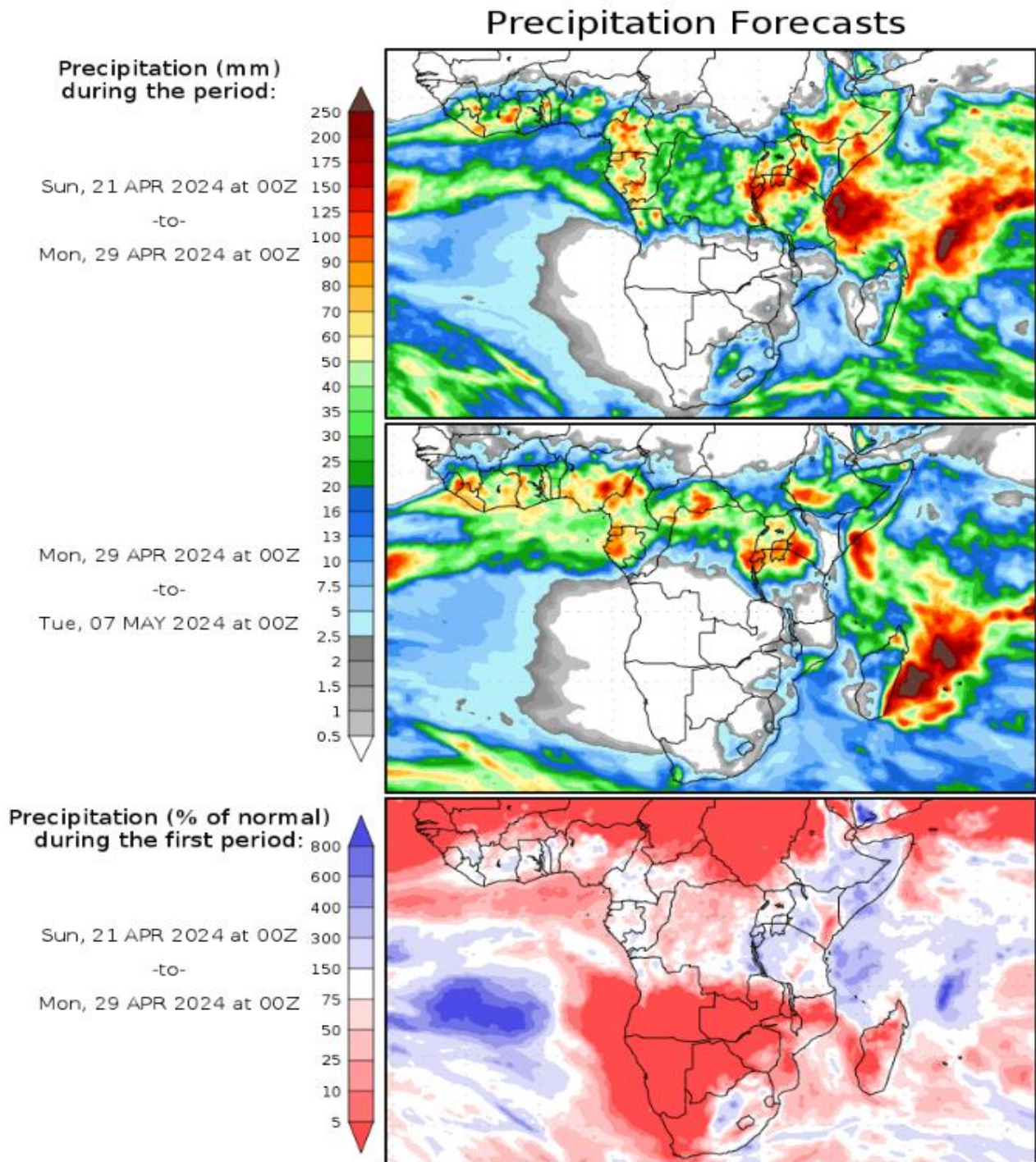
- We start the week with a global focus, and today, the United States Department of Agriculture (USDA) releases its **weekly US Crop Progress report**. This report provides insight into the planting progress in the US as the 2024/25 season has recently started. The planting activity across the US is still in its preliminary stages. For example, on April 14, US maize plantings were at 7% of the intended area, with soybeans at 3% of the intended area.

- Moreover, the USDA releases its **weekly US Grains and Oilseed Export Sales** data on Thursday. With growing logistical challenges due to droughts and the rising geopolitical tension, watching the export activity will be key going forward.
- Within the domestic front, on Wednesday, SAGIS will release its **weekly South Africa's Grains and Oilseeds Producer Deliveries** data for April 19. In the previous release on April 12, South Africa's 2023/24 maize producer deliveries were about 89 711 tonnes. This placed the 2023/24 marketing year's maize producer deliveries at 15,6 million tonnes out of the overall harvest of 16,4 million.
- The focus on oilseeds is now shifting to the new 2024/25 marketing year. Still, so far, there have been no significant volumes delivered to commercial silos. For example, the 2024/25 soybean deliveries in the first seven weeks of this new marketing year amounted to 344 178 tonnes out of the expected harvest of 1,8 million tonnes. At the same time, the sunflower seed deliveries amounted to 89 225 tonnes out of the expected harvest of 589 000 tonnes.
- In the case of wheat, last week, 5 331 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 Thursday, the Crop Estimates Committee will release its **third production forecast for South Africa's 2023/24 summer field crops**. Given the harsh weather conditions throughout March 2024, these data will be a primary focus for market participants to understand the South African food inflation dynamics. Moreover, the Crop Estimates Committee will also release its **intention to plant data for winter cereals for 2024**. The soil preparation has already started in some areas of the Western Cape.
- Also on Thursday, SAGIS will publish its **weekly South Africa's Grains and Oilseeds Trade** data for April 19. In the previous release on April 12, the 50th week of the 2023/24 marketing year, South Africa exported 46 958 tonnes of maize. Of this volume, 56% 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 3,33 million tonnes, which surpasses the seasonal export forecast of 3,30 million. The 2023/24 marketing year ends this month.
- South Africa is a net wheat importer, and April 12 was the 28th week of the 2023/24 marketing year; South Africa's 2023/24 wheat imports totalled 959 989 tonnes out of the seasonal forecast of 1,6 million tonnes.

South Africa's Precipitation forecast

- This week may bring light showers over most regions of South Africa. This will help improve soil moisture ahead of the winter crop season. The summer crops are nearing harvest and won't benefit from the forecast rain. It is already too late to make any improvements in crop conditions.

Exhibit 2: South Africa's precipitation forecast



Source: George Mason University (wxmaps)