SA should seek increased market access to major agricultural importers such as Saudi Arabia

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One of the South African agriculture sector's long-term objectives, which should not be neglected amid the current geopolitical strife, is the need for government and industry to widen and deepen export markets. The products that most urgently need broader export markets are not the focus of the current geopolitics-led food crisis concerns. It is mainly fruits, wine and beef. The products whose supply is most at risk from the ongoing Russia-Ukraine war are wheat, maize, and vegetable oils. For wheat and vegetable oils, South Africa is a net importer and, therefore, not in a quest to widen export markets but instead boost local production. Maize, however, is the opposite and ranked third in exportable products by value in 2021. The difference between the international trade experience in maize and fruits is that South Africa has in the case of the former established markets outside of the African continent, mainly Asia. Therefore, it has not struggled to find export markets whenever there is maize surplus as is the case in the 2021/22 marketing year, the largest exportable volume since the 1994/95 marketing year.

In fruits, wine, and beef, the growing competition in destinations that South Africa already have access to in the European Union, the US, multiple countries in Asia and the Middle East have prompted the country to seek market access in several other countries. Moreover, the growth in domestic production and volumes in citrus, deciduous fruit, avocados, nuts, wine, berries, and beef, amongst other products, are expected to increase in the coming years. Notably, even the government policies that aim to bring underutilised land into full production of various commodities will require a market for the produce.

The South African farmers and agribusinesses have long identified some key markets to prioritise in addition to the existing markets. Such markets include Japan, Bangladesh, China, India, and Saudi Arabia. This selection is based on the growing population and potential increase in demand based on economic prospects. India, Saudi Arabia and Japan are amongst the top 20 importers of agricultural products globally. Of the three countries, Saudi Arabia is one of the countries where South Africa's agricultural sector currently has minimal access. Over the past decade, South Africa's agricultural exports have been on an upward trajectory, both in volume and value terms. However, Saudi Arabia accounted for a relatively small share. In value terms, Saudi Arabia accounted for a mere 1% share in South Africa's agricultural exports of an average of US$10 billion during this past decade (see Exhibit 1).

The countries that have dominated Saudi Arabia's nearly US$20 billion worth of agricultural imports are Brazil, India, the US, UAE, Argentina, Egypt, Spain, Netherlands, Turkey and Poland. The presence of some of these countries is unavoidable because of their dominance in the global production of the agricultural products that Saudi Arabia mostly imports. The imported agricultural products include rice, poultry meat, milk, cheese, malt, bread and pastries, maize, barley, sugar, live goats, citrus, berries, and palm oil.

Some of these products are already on the list of products South Africa exports to Saudi Arabia. For instance, South Africa currently exports to Saudi Arabia citrus, apples and pears, grapes, berries, cheese and a range of other fruits and products. But these are in small volumes compared to the countries we listed above. Notably, some products such as oranges and apples currently face zero duties in Saudi Arabia. In such cases, the marketing of

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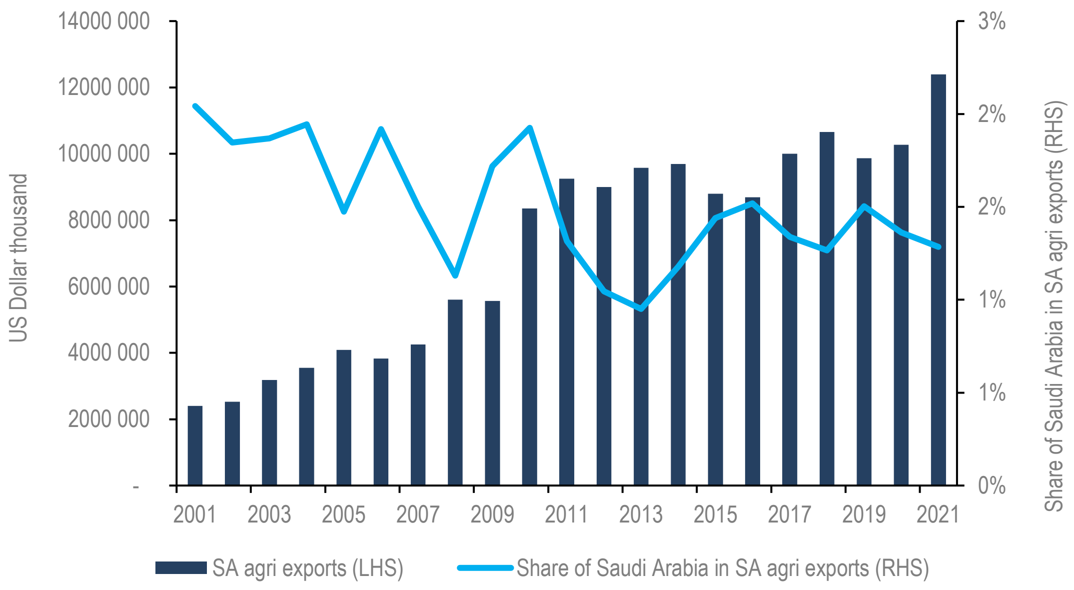
South African products by both industry and government during trade fairs is an important step. Such marketing activities will also assist in the identification of any non-tariff barriers that currently lead to low volumes of exports even at zero duties. For products where some duties currently apply, both industry and government can work collaboratively to open the market and promote the South African products.

The current geopolitical problems are disruptive to the global agricultural markets, but this is not a uniform picture across all subsectors of agriculture. The products most affected are staple grains. Critically, an environment of geopolitical uncertainty should not detract from the important work of growing the domestic agricultural sector and expanding export opportunities. For fruits, South Africa already exports more than half of the production of many fruits. The increase in production that is expected for various plantations, and the need to diversify somewhat from the EU market requires that South Africa actively engages the world's leading agricultural importers and promote the products the country produces in surplus such as various fruits, beef and maize. This should be an ongoing exercise and should be a government and industry collective effort.

Exhibit 1: South Africa's agricultural trade, and share of exports to Saudi Arabia



Source: Trade Map and Agbiz Research

Weekly highlights

Winter crop season to start soon

South Africa had a fairly good production season in 2021/22 with wheat at 2,3 million tonnes, which is the largest harvest in 20 years and record yield in some crops such as canola and oats. The large harvest was on the back of an expansion in area plantings and favourable weather conditions that supported the yields. The winter crop season will now commence at the end of April, mainly in the Western Cape, and the following months in other provinces. The major concerns for producers ahead of the season are the rising inputs costs; fuel, fertiliser and agrochemicals. This view was also echoed by grain farmers' representatives in our engagement this past Friday.

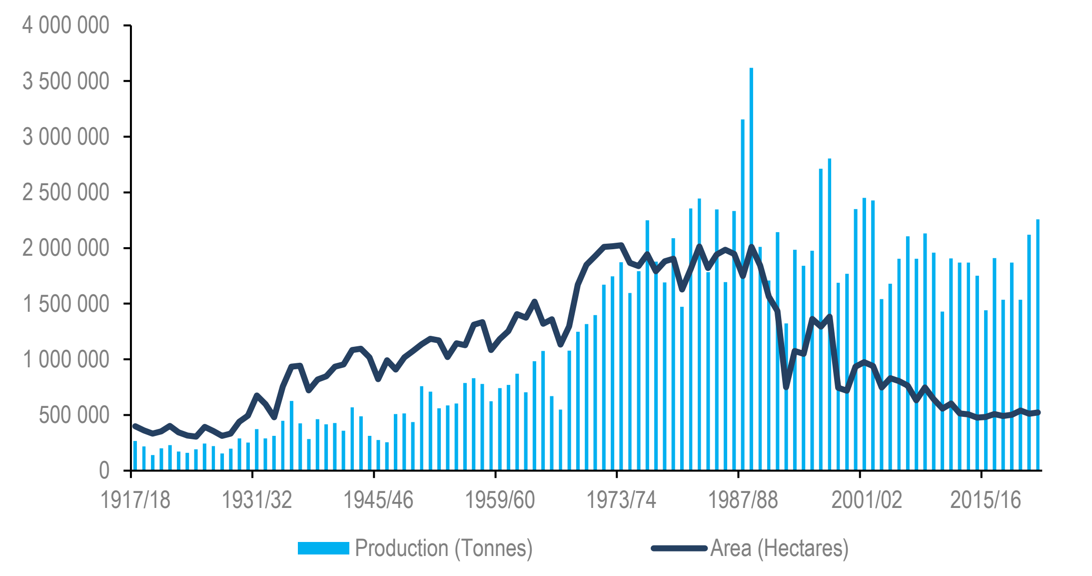
Still, they remained optimistic that the plantings won't decline from levels of the past season. The view is that the relatively higher agricultural commodities prices, which are partially supported by the current Russa-Ukraine war, will incentivise farmers to maintain fairly large plantings in the 2022/23 production season starting next month. Moreover, we believe that the excessive summer rainfalls in most regions of South Africa helped improve soil moisture.

Thus, key wheat-producing provinces such as the Free State could see plantings improve from the previous season. This is all speculative for now, and we will have farmers' intentions to plant winter crops data released by the Crop Estimates Committee on 26 April 2022.

Importantly, wheat is now of major interest since the Russia-Ukraine war started. South Africa currently imports about half of its annual wheat usage. The improvement in 2021/22 harvest to 2,3 million tonnes led to a slight reduction in imports to 1,48 million tonnes, from 1,52 million tonnes in 2020/21 marketing year. Fortunately for the near term, South African millers and food processors have now brought 704 050 tonnes of the expected imports into our shores as of the week of 11 March 2022. The 2021/22 marketing year will end in September.

Even if production is to increase in the 2022/23 production season, we doubt that South Africa would be self-sufficient in wheat production in the near term. There are limitations in production because of unfavourable climatic conditions for wheat production in some provinces and profitability challenges. The latter led to the decline in wheat production in some areas of the Free State over the past couple of years as farmers switched to other crops. The changing climate also played a part to an extent. Therefore, an increase in production would help lessen the import dependency but won't change the reality of South Africa being a net importer of wheat. If anything, the change could come in future through improvements in breeding.

Exhibit 2: South Africa's long-term wheat production



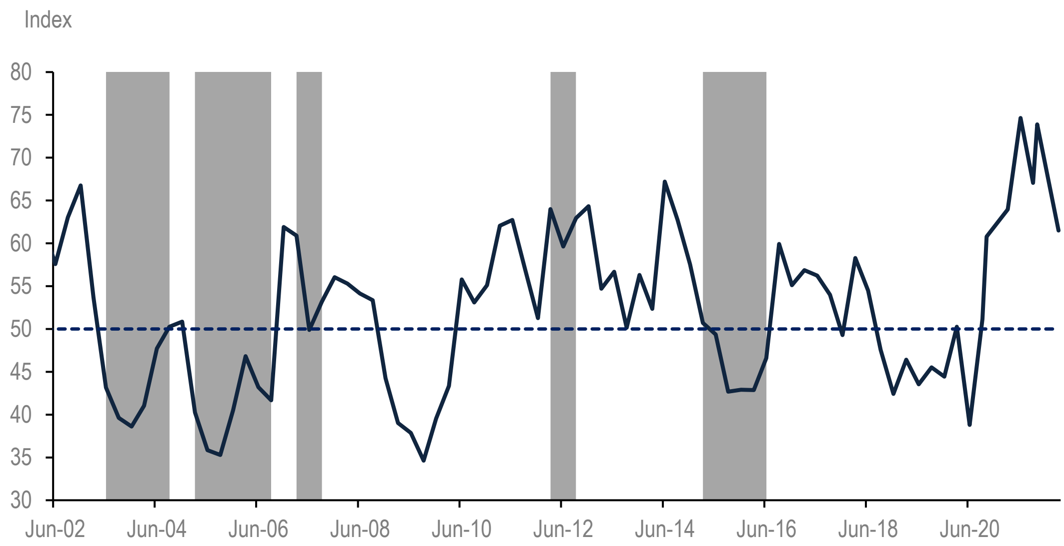
Source: SAGIS, CEC and Agbiz Research

Agbiz/IDC Agribusiness Confidence Index moderates in Q1,2022

Following a heightened optimism supported by favourable agricultural production conditions, the Agbiz/IDC Agribusiness Confidence Index (ACI) moderated by 12 points to 62 in Q1 2022 after reaching its second-highest level on record in Q4 2021. A level above the neutral 50-point mark implies that agribusinesses remain optimistic about operating conditions in the country. Therefore, the first-quarter results still reflect favourable conditions, albeit not as strong as the recent quarters. This is due to several factors, including the excessive rains at the start of the season, which caused crop damage in some areas, higher input costs, logistics challenges and the geopolitical tensions that negatively affect the agriculture and agribusiness sectors. The latter is noteworthy as nearly half of the responses to the survey came after 24 February, the day Russia invaded Ukraine. This survey was conducted from the last week of February into the first week of March and covered agribusinesses operating in all agricultural subsectors across South Africa.

Essentially, the Agbiz/IDC ACI's first-quarter results present a picture of a sector that is still on solid footing, despite the uncertainty generated by geopolitical events and the damages caused by the excessive rains in various regions of the country. The issues we are most concerned about right now are the rising fuel, fertilizer and agrochemicals costs, which could negatively impact farmers' planting decisions in the coming season. This is all a result of the Russia-Ukraine war and pre-existing supply and logistical constraints caused by the COVID-19 pandemic. We doubt that the higher commodity prices will be sufficient to offset the rising costs fully. This is one area we will keep monitoring and engaging with farmers and agribusinesses about in the coming months.

Exhibit 3: Agbiz/IDC Agribusiness Confidence Index[1]



Source: Agbiz Research, South African Weather Service
(Shaded areas indicate periods when rainfall across South Africa was below the average level of 500 millimetres)

Data releases this week

We start this week focusing on domestic data release; On Wednesday, SAGIS will release the **Weekly Grain Producer Deliveries** data for 18 March. This data cover summer and winter crops. But our focus is on winter crops that have recently completed the harvest activity. The summer crops' new season is still at its early stages. Thus, we will focus on the summer crop data closer to harvest time, around mid-April. In the previous release of the week of 11 March, about 2,2 million tonnes of wheat had already been delivered to commercial silos. This covered the first 24 weeks of the 2021/22 production season and equated 96% of the revised harvest estimate of 2,3 million tonnes.

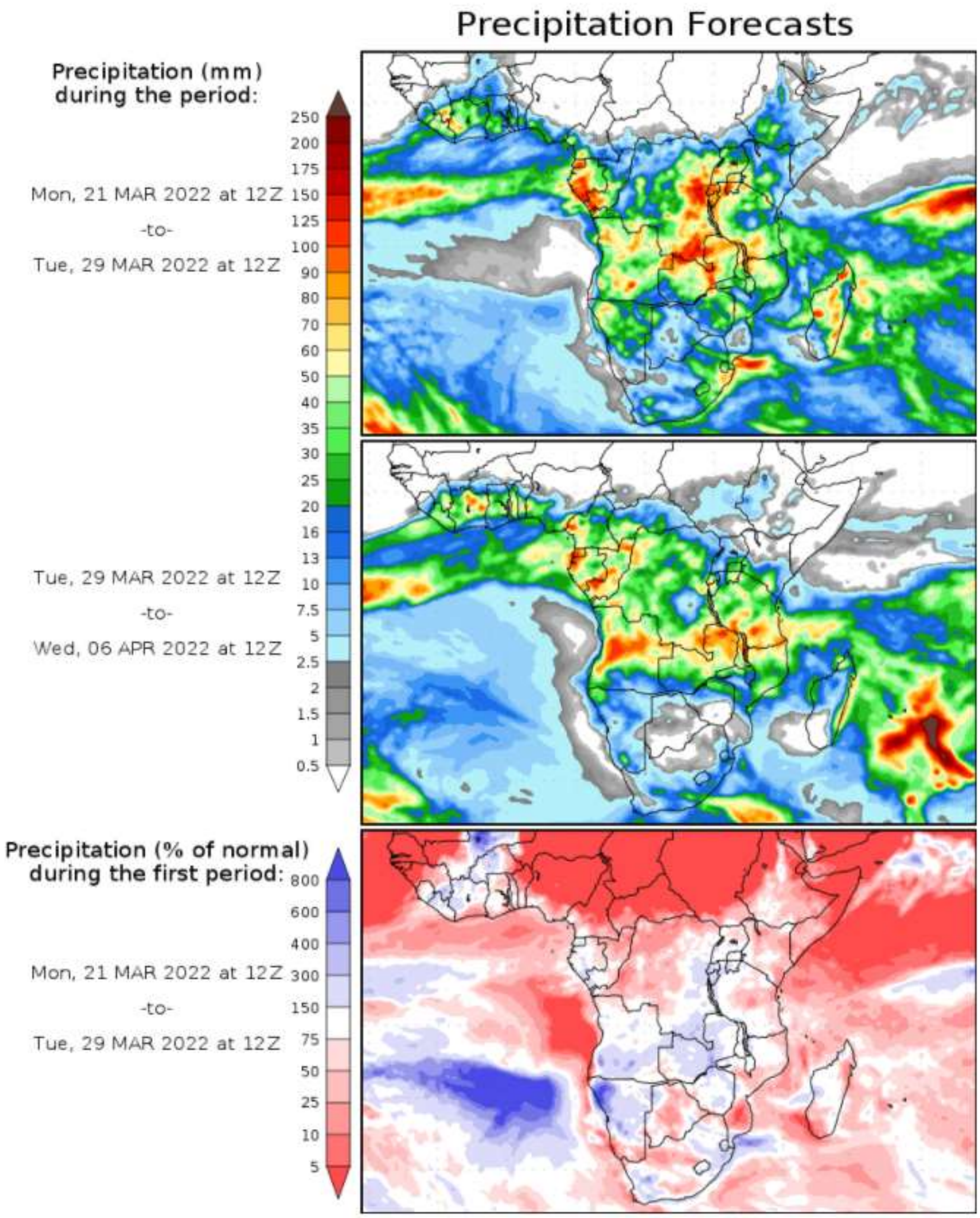
Also, on Wednesday, Stats SA will release the **Consumer Price Index (CPI)** data for February 2022. Our focus will be on the food category. In January, the consumer food price inflation accelerated to 6,2% y/y, from 5,9% y/y in the previous month. Fish, oils and fats, and vegetables were the primary products underpinning this uptick in the overall consumer food price inflation.

[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.

On Thursday, SAGIS will release the **Weekly Grain Trade** data for the week of 18 March. On 11 March, which was the 45th week of South Africa's 2021/22 maize marketing year, total maize exports amounted to 3,2 million tonnes, equating to 82% of the revised seasonal forecast of 3,9 million tonnes (up by 36% y/y). South Africa is a net importer of wheat, and 11 March was the 24th week of the 2021/22 marketing year. The total imports are now at 704 050 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).

Globally, the United States Department of Agriculture (USDA) will release the **US Weekly Export Sales** data on Thursday. We will particularly monitor the destinations of the US grains given the current blockage on the Black Sea's grains exports because of the disruptions in infrastructure due to the war and the sanctions that have complicated Russia's payments system.

Exhibit 4: South Africa's precipitation forecast



Source: George Mason University (wxmaps)

Similarly, to last week, this week shows prospects of rains in most regions of the country. This is not conducive for summer crop growing areas where there are still higher soil moisture levels.

The week thereafter shows clear skies over most regions of South Africa, which bodes well for summer crops which now require relatively warm weather conditions as the crop finishes the pollination stage.

There are only prospects of rains over the eastern regions of the country.