

Additional evidence points to a good agricultural season for SA in 2022/23

We continue to see convincing signals pointing to yet another favourable agricultural season for South Africa, and the broader southern Africa region, in 2022/23. In their Seasonal Climate Watch report last week, the South African Weather Service (SAWS) highlighted that "the El Niño-Southern Oscillation is currently in a La Niña state, and forecasts indicate that it will likely remain in this state during the remainder of 2022 and early 2023. A La Niña event usually has the strongest impact on rainfall during the mid-summer months. With the continued strengthening of the La Niña event, there is a high chance that it will have its usual effect on South Africa, generally for above-normal rainfall and below-normal temperatures over the summer rainfall areas." This suggests a move from the weak La Niña state we anticipated a few months ago to a more normal state in the country and the region. The likely improvement in soil moisture from now until February 2023 is a welcome development as this period covers the cultivation to the pollination stages of the crop.

Still, we continue to call for vigilance amongst farmers and agribusinesses over the next three months, which will likely be a high rainfall period. The 2021/22 summer season showed us that the environment has changed, and the La Niña rains could be more intense at times, negatively affecting agricultural activity. Therefore, attentiveness during the planting season is vital. Over the past few weeks, we have already seen encouraging momentum in planting activity in the eastern regions of South Africa, mainly in the yellow maize and soybeans growing regions. From mid-November, we could see the planting activity increasing in central and western regions of South Africa, which predominantly plants white maize and sunflower seed.

The farmers we engaged thus far also sounded positive about the upcoming season, although rising input costs, especially for fuel, fertilizer and agrochemicals, were consistently flagged as a major challenge for farmers. The general optimism is undeniably clear from the Crop Estimates Committee's intentions-to-plant data, where farmers noted that they could plant 4,35 million hectares for summer grains and oilseeds in 2022/23, up by 0,2% from the previous season. The improvement in the area plantings is expected to primarily be on soybeans, while other crops, such as maize, maintain a generally normal area above the 10-year average. Over the coming weeks, we will closely monitor planting activity to assess if it meets or exceeds expectations. It will only be on 26 January 2023 when the Crop Estimates Committee will release the preliminary area planted estimates and its first production forecast data towards the end of February that we will have a better indication. Until that period, various surveys by farmer groupings and rainfall intensity will be important guides of the on-the-ground activity.

With that said, the higher input costs are a challenge for farmers. For example, the herbicide prices, such as glyphosate, atrazine, and metolachlor, were up by 7%, 34% and 51% in September 2022, compared with the same month last year, respectively. The same trend persists in major fertilizers such as ammonium nitrate, urea, and potassium chloride, whose prices were up by 64%, 23% and 17% on a y/y basis in September, respectively. These overall increases are on the back of supply constraints and disruptions in production lines because of the Russia-Ukraine war and the pre-existing production challenges in the major global

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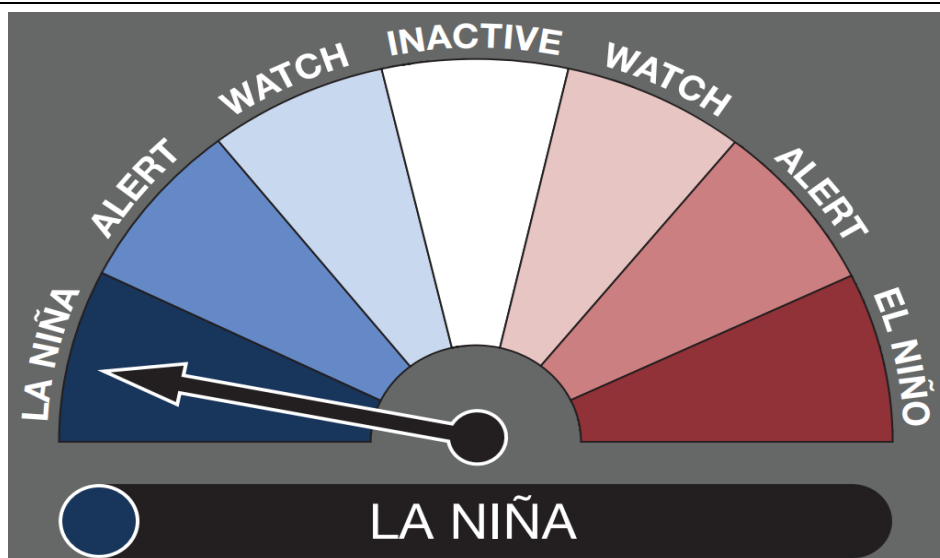
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fertilizer and agrochemical-producing countries like China, India, the United States, Russia, and Canada. South Africa is more exposed to these shocks as it imports about 80% of its annual fertilizer consumption. Local prices tend to be influenced by developments in the major producing and consuming countries mentioned above. Much of the fertilizer imported by South Africa is utilized in summer grain and oilseed production. Fertilizer constitutes about 35% of grain farmers' input costs and a substantial share in other agricultural commodities and crops. Moreover, the higher fuel prices also remain a challenge for farmers, and this is a significant share of the production costs. For example, fuel accounts for 11% of South Africa's grain production costs. The majority of it is used during planting and harvesting time. This is the planting period for summer grain and oilseeds, while the winter grain farmers will also start harvesting in the coming months. What's more, the agribusinesses that are focused on logistics matters, directly involved in transporting their produce, will also feel the impact of higher fuel prices. For example, about 80% of South Africa's grain is transported by road.

Still, the higher commodity prices, if sustained at the current levels for some time, could help offset the challenge. For example, on 03 November 2023, yellow and white maize spot prices were up by 46% and 60% from last year, trading around R5 219 and R5 412 per tonne, respectively. Numerous global developments have underpinned these price increases. These include Russia's termination of the Black Sea grain deal (which has now been reversed, and Russia re-joined), general uncertainty about the grain trade in the Black Sea region, expectations of a slightly lower global grain harvest in the 2022/23 season, and the relatively weaker domestic currency. This means that the prices of grains and oilseeds will likely remain volatile for some time as the war persists between Russia and Ukraine. Other environmental challenges, such as the possible drought in South America, during this La Niña event, will be additional risks. For now, however, the crop production forecasts for Brazil and Argentina have remained relatively optimistic, pointing to the possibility of a larger crop. Still, one will need to keep a close eye on this region as the 2022/23 crop season is still in its early stages, just like in South Africa.

Considering the above factors, we are still inclined to believe that South Africa could have another favourable agricultural season in 2022/23. However, delivering good performance in the current environment will require careful planning by farmers and agribusinesses, both on financial planning and planting times. The weather will require careful monitoring until February 2023, which will be pollination for planted areas, and the time when the La Niña induced rains will likely start to ease. Importantly, while these weather prospects are positive for crops, one will also have to keep a close eye on the livestock industry, which could yet again experience disease in the wet conditions.

Exhibit 1: The ENSO Outlook remains at LA NIÑA



Source: Australian Bureau of Meteorology