Rising costs to keep farmers on their toes

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Amid an abundant harvest, high agricultural commodity prices have been an unexpected windfall for SA farmers, particularly grain and oilseed growers.

However, they will have to manage their portfolios well as input costs have also been rising, especially fuel, herbicides and fertiliser. Such higher costs can erode these price gains when farmers embark on the 2021/2022 production campaign starting in October.

At the end of the first week of July, the Brent crude oil price was up 72% year on year, trading at about $74 a barrel. The oil price has a close correlation with the prices of fertiliser and various other agrochemical inputs, as well as fuel. Herbicide prices show similar increases in dollar terms, with glyphosate up 144% year on year in June. Importantly, SA imports all of its agrochemicals consumption.

This means it is not only the rise in prices that is a concern but also the logistics of landing the inputs on the back of disruptions to supply chains and continuous reports of container shortages. The same is true for fertiliser, with potash, urea, monoammonium phosphate and diammonium phosphate prices up 32%, 52%, 67% and 69%, respectively, year on year.

Tight global supplies, strong demand and geopolitical uncertainties in crucial producing countries have been the primary driver of prices in all of these commodities.

Recently, the failure of oil cartel Opec to reach a deal to increase oil production has caused tight oil supplies in the global market and driven up prices. The expectation from analysts globally is that fertiliser prices could remain elevated for some time. SA is just three months away from the new season's planting period, which means farmers are unlikely to be spared the higher input costs.

Fuel generally accounts for 11%-13% of production costs for grain and oilseed farmers. The consumption of fuel takes place throughout the year, but the most intense periods are when they are planting and harvesting. It is also worth noting that SA transports about 81% of maize, 76% of wheat and 69% of soya beans by road. On average, 75% of national grains and oilseeds are transported by road. This means farm managers and agribusinesses will have to plan well for an environment that will be much different from last year, when input costs were relatively lower.

SA imports about 80% of its annual fertiliser requirements and is a minor player globally, accounting for a mere 0.5% of total global consumption. Local prices tend to be influenced by developments in the major producing and consuming countries, such as India, Russia, the US and Canada. Hence, the higher global fertiliser prices will be experienced in SA as well. Much of the fertiliser imported by SA is used in maize production, accounting for 41% of total fertiliser consumption in the country, with the second-largest consumer being sugar cane at 18%. Fertiliser constitutes about 35% of grain farmers' input costs and a substantial share in other agricultural commodities and crops.

In essence, the higher grain prices and harvest might look good on the books in the near term, but farmers and agribusinesses will have to manoeuvre well to tide them over this challenging environment of rising input costs in the coming months. Worse, if the grain prices soften somewhat from the current relatively high level (likely, given the expected sizeable global harvests in the 2021/2022 season), farming margins could be further squeezed in the coming months.

Another critical factor for SA farmers will be the performance of the rand against the dollar, which is key in determining the prices of production inputs when planting begins in October.

Though the prevailing higher grain and oilseed prices are a welcome development from a farmer's perspective, they will need to shrewdly mitigate the primary and knock-on effects of potentially higher input costs in the weeks to come.

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