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SA's summer crop production forecasts were left roughly unchanged in June 2021's assessment

Last week, the South African Crop Estimates Committee (CEC) released its fifth production estimates for the 2020/21 season, which left most crop estimates roughly unchanged from the previous assessment in May. This is with the exception of commercial maize, whose forecast was lifted marginally by 0,3% from the previous month to 16,2 million tonnes. Meanwhile, the non-commercial maize saw a much larger revision of an 8% increase from the previous month to 586 650 tonnes. This placed South Africa's overall maize production for the 2020/21 season at 16,8 million tonnes. This is up by 6% from the 2019/20 production season, and the second-largest harvest on record. Moreover, the groundnuts production estimate was also lifted by 2% from May to 58 900 tonnes (up 18% y/y).

Soybean's production estimate was left unchanged at a record 1,9 million tonnes (up 54% y/y), sorghum at 195 035 tonnes (up 23% y/y) and dry beans at 56 577 tonnes (down 13% y/y). Whereas the sunflower seed is the only crop that was lowered from the May assessment, down by 5%, and currently estimated at 677 240 tonnes. This is down by 14% from the 2019/20 production season.

The broadly large summer grain and oilseeds production estimate this season is on the back of increased area plantings for summer crops and favourable rainfall since the start of the season. The harvesting process is at completion stages for oilseeds, with maize in full swing. We continue to receive reports of generally higher yields across the country from farmers.

If we focus on the major grains, the current maize production data essentially means South Africa would remain a net exporter in the 2021/22 marketing year. South Africa's annual maize consumption is roughly 11,5 million tonnes, which means there will likely be over 2,8 million tonnes of maize available for export markets, all else being equal (the official estimates, however, are that exports could amount to 2,6 million tonnes in 2021/22 marketing year, down 10% y/y because of expected weak demand in the Southern Africa region[1]). Importantly, the increased soybeans production also means there could be a decline in soybean oilcake imports, which in a typical year is just under half a million tonnes a year.

These developments, however, will have minimal impact on prices. South Africa's maize prices are at relatively higher levels compared to the previous year, not because of supply constraints in the domestic market, but the surge in global maize prices. South Africa has its second-largest grains harvest on record, and maize prices are at export parity levels. The second-largest maize harvest on record in the 2020/21 production season has not led to a decline in domestic maize prices. This is mainly because of the 56% increase in export parity prices in the 2020/21 production season. Export parity prices are derived from the global maize price multiplied by the exchange rate minus transaction costs and can be regarded as a "floor price" for domestic maize prices. As domestic prices trade closer to export parity levels, South African maize becomes more competitive in international export markets, triggering an increase in volumes of exports or demand by foreign buyers.

[1] These are estimates from the South African Grains and Oilseeds Supply and Demand Estimates Committee

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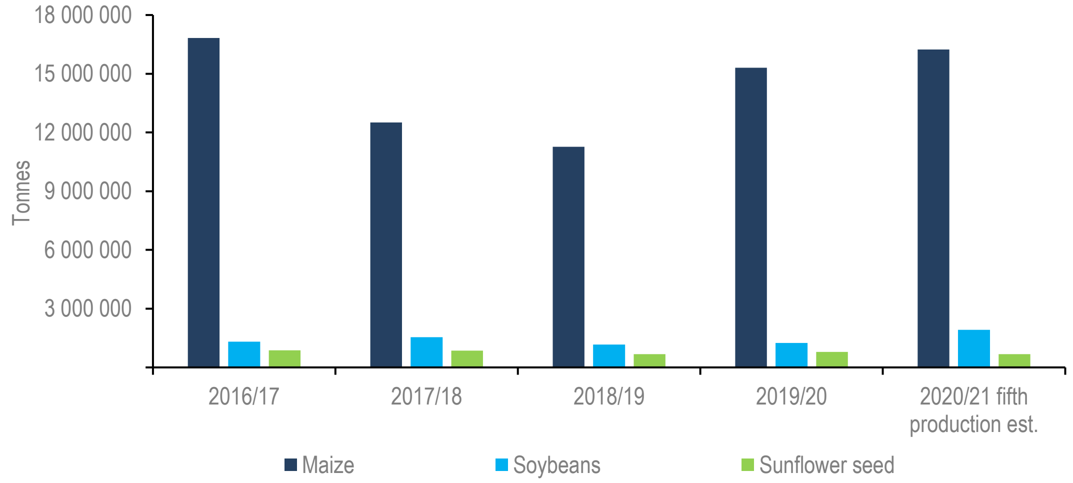
An important point to emphasize is that the global grains prices have rallied, reaching multi-year highs in the past few months because of supply concerns. Such concerns include the consistent downward revision of Brazil and Argentina's maize and soybean harvest because of dryness there and the drier weather conditions in Russia, Ukraine, and the United States at the start of the 2021/22 production season. The production conditions have since improved in Russia, Ukraine, and the United States, pointing to a reasonably good crop this season.

Perhaps, the central point to make here is that while production conditions for the 2021/22 global harvest are promising for all major crops, there are generally lower stocks. The lower stocks are a catalyst for the knee-jack reactions we have observed on prices whenever there is news of unfavourable weather conditions in major grains and oilseeds production countries. Such price fluctuations happen even if the weather-related news has minimal impact on actual crop conditions. These fluctuations tend to influence also the South African market; hence the prices haven’t softened in the face of a large domestic harvest.

A similar phenomenon is true for soybeans regardless of the recent uptick in domestic production. A key point on the global soybeans market is also the rising demand by China and also a potential increase in renewables energy users, which too is contributing to an increase in global prices. In sum, the domestic market is awash with grains supplies, but the prices are unlikely to ease notably. The guiding point for local prices is not what is happening in the fields domestically, instead it is the global events.

Exhibit 1: South Africa's major summer grain and oilseeds production



Source: CEC and Agbiz Research