

South Africa is on track for a good winter crop season

The global wheat market has been in focus since Russia invaded Ukraine in February last year. Many countries feared that they would not meet domestic needs because of supply constraints brought by the war in one of the major producing regions. The price surge after the invasion was also a significant challenge for importing countries such as South Africa. The Black Sea Grain Deal brokered between the United Nations representatives, the Turkish government, and the Russian and Ukrainian governments to allow the movement of grains out of the Black Sea region has brought much-needed relief from possible wheat shortages. Wheat prices have since moderated markedly. For example, at the end of April 2023, South Africa's wheat spot price traded around R6 650 per tonne, down 10% y/y.

For producers, however, the decline in wheat prices has raised concerns about a potential reduction in plantings. But this past week, we learned that South African farmers are reasonably optimistic about the 2023/24 season. In its recent data, the Crop Estimates Committee indicated that farmers intend to plant 542 600 hectares of wheat in the 2023/24 season, which is 3% up from the five-year average area planted (although down 4% y/y). In our view, such an area planted, combined with favourable weather conditions, would yield a solid harvest of 2,03 million tonnes. We assumed an average yield of 3,75 tonnes per hectare, which is a possibility if the weather conditions remain favourable throughout the season, as the forecasts suggest.

Moreover, farmers intend to plant 109 100 hectares of barley, up 8% y/y (but below the five-year average planting). If we apply the same logic here of a five-year average yield of 3,38 tonnes per hectare in an area planting of 109 100 hectares, South Africa could have a barley crop of 368 758 tonnes in the 2023/24 season (up 19% y/y). The canola planting intentions are at 127 500 hectares, up by 3%, and a record area planting. Combined with an average yield of 1,71 tonnes per hectare, such an area suggests 218 025 tonnes of harvest this season, 4% higher than the previous year.

Also worth noting is that South Africa has been progressively growing its oats crop. In the 2023/24 season, farmers intend to plant 29 600 hectares, up 10% y/y and well above the long-term average. In this crop, the average yield is 1,41 tonnes per hectare, and applying this to the area mentioned above of 29 600 hectares implies a harvest of 42 032 tonnes (up 41% y/y).

We are still early in the season. The planting activity and weather conditions of the next two months are crucial in determining whether the intended area is successfully planted or even exceeded. We will have an update on the area plantings when the Crop Estimates Committee releases the preliminary area planted data on 26 July. The first actual production forecast will be released on 29 August.

A point worth underscoring is that input prices have come off from the highs we saw last year, and this balances for the decline in wheat prices and other winter crop prices. For example, in March 2023, essential agrochemicals such as glyphosate and acetochlor were down by 36% y/y and 18% y/y, respectively, in rand terms. Had the South African Rand not weakened during this period, the gains from the price declines would have been larger. In US

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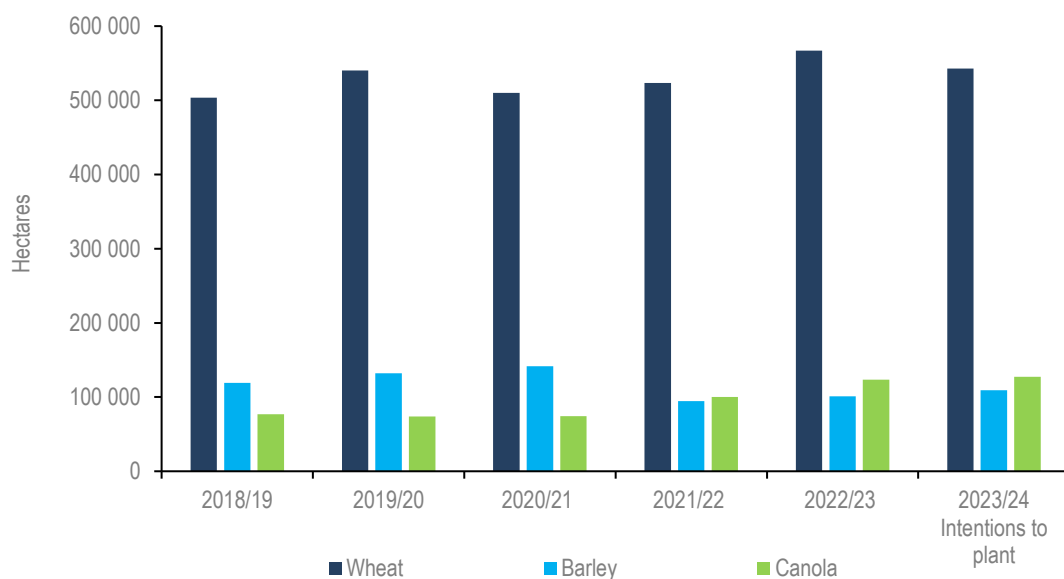
Dollar terms, the above-mentioned glyphosate was down by 47%, with acetochlor down by 33% from March 2022. Prices of insecticides and fungicides have also declined notably from last year's levels. Also worth noting is that in March 2023, essential fertilizers such as ammonia, urea, di-ammonium phosphate and potassium chloride are down 45%, 54%, 18% and 28% in rand terms, respectively. Again, in US Dollar terms, the price decline was more notable, which speaks to the impact of the relatively weaker South African Rand on imported products.

These price changes in inputs are vital as they impact vast components of the grain input costs. Fertiliser accounts for a third of grain farmers' input costs, while other agrochemicals account for roughly 13%. This means that a decline in the prices of these inputs will make a considerable saving on farmers' input costs.

As we highlighted in our previous notes, the weather conditions for the winter crops also remain positive. In its Seasonal Climate Watch update published on 03 April 2023, the South African Weather Service noted that while the weather conditions are transitioning into an El Niño state, which typically brings below-normal rains in much of the country, the winter crop-growing regions of South Africa will receive rains. This is positive for the season. In addition, the areas that produce under irrigation in Limpopo, Free State, Northern Cape and other provinces of South Africa should also thrive, benefiting from the good 2022/23 soil moisture and improved dam levels.

Overall, the planting intentions data and the favourable weather outlook suggest South Africa could have a decent winter crop harvest. The next few months are crucial in assessing if the optimistic view we paint here materializes.

Exhibit 1: South Africa's winter crop plantings



Source: Crop Estimates Committee and Agbiz Research