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South Africa's 2023/24 winter crop production prospects remain favourable

The recent rains across South Africa have been favourable for the 2023/24 winter crops. The crops are mostly in good condition in the Western Cape, a province that accounts for over two-thirds of the winter wheat, barley, canola and oats plantings. The heavy rains in June in the region, which damaged infrastructure, had a minimal adverse effect on the overall winter crops. Admittedly, certain areas received excessive moisture that may have stunted crops in some fields.

Still, the broad feedback from various conversations with producers in the province suggests that we could receive above-average yields in winter crops. Other notable winter crop-producing provinces such as Northern Cape, Free State, and Limpopo also have good soil moisture from the summer rainfall, which is now beneficial for winter crop growing conditions. Notably, the weather conditions have also been much colder this winter, supporting crop conditions.

Also worth noting is that South Africa's winter crop production conditions this 2023/24 season were better than the previous one regarding input costs. For example, when farmers started to prepare for the season in March 2023, the essential agrochemicals such as glyphosate and acetochlor were down by 36% y/y and 18% y/y, respectively, in rand terms. In the same month, March 2023, the essential fertilizers such as ammonia, urea, di-ammonium phosphate and potassium chloride were down 45%, 54%, 18% and 28% in rand terms, respectively.

These price changes in agrochemicals and fertilizers 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 considerably improved the production conditions in terms of costs for farmers in the 2023/24 winter crop season.

This coming Wednesday, July 26, the South African Crop Estimates Committee (CEC) will release the preliminary area estimate of winter crops. We think the area will be roughly unchanged, if not having improved, from the intentions to plan data released at the end of April 2023. At the time, the CEC noted that farmers intended to plant 542 600 hectares of wheat in the 2023/24 season, 3% up from the five-year average area tilled (although down 4% y/y). In our view, such an area planted, combined with favourable weather conditions as we have observed, would yield a solid harvest of 2,03 million tonnes (down 4% y/y). We assumed an average yield of 3,75 tonnes per hectare, which is a possibility if the weather conditions remain favourable throughout the season. The decline in the overall yield is linked to a possible area reduction in the Free State and Northern Cape, while the Western Cape will likely have solid output.

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

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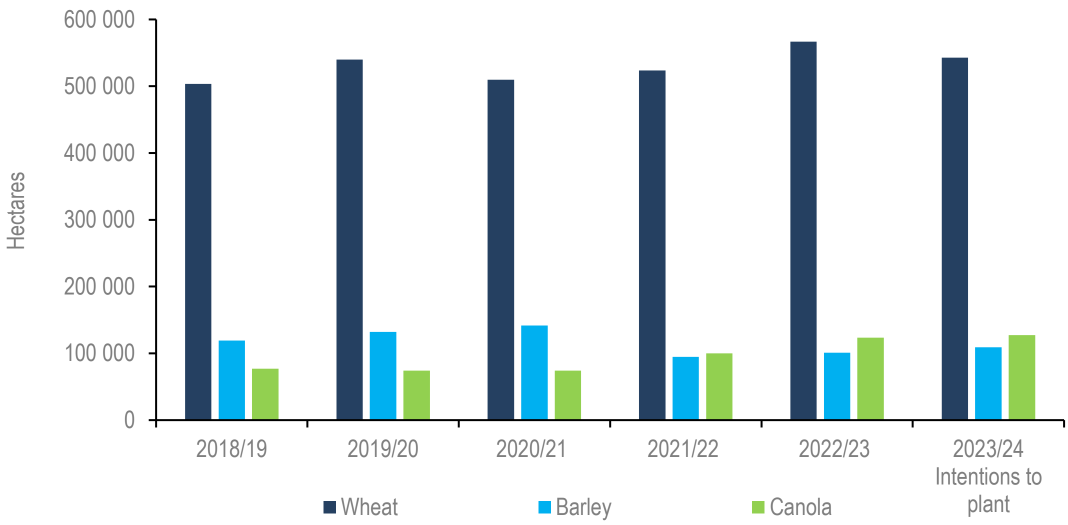
are at 127 500 hectares, up by 3%, and a record area planting. If we combine it with an average yield of 1,71 tonnes per hectare, then such an area suggests 218 025 tonnes of harvest this season is possible. This is 4% higher than the previous year.

While various regions of the world have struggled with excessive heat, such as in Europe, the winter wheat regions of South Africa have had favourable production conditions thus far, and the benefit of all this will be apparent in the crop size. Although we will receive the planting data this week, it will be a month before we have the first production forecast that the CEC will release on August 29.

With renewed worried about the wheat supplies and a potential uptick in prices because of the non-renewal of the Black Sea Grain Deal, a decent domestic wheat harvest provides a much-needed buffer in terms of supplies. South Africa will remain a net importer of roughly half of its domestic wheat consumption, a volume of around 1,5 million tonnes; still having a sizable domestic supply helps for the near-term wheat usage in fragile grain trade times as we witness worldwide. Therefore, the favourable rains and farmers' efforts may have provided a much-needed buffer through the 2023/24 season wheat supplies.

Overall, we will likely review the production estimate we provided in this note, depending on the adjustments in the production data that the CEC releases this coming Wednesday.

Exhibit 1: South Africa's winter crop plantings



Source: Crop Estimates Committee and Agbiz Research