

March 25 2024

Will the slow pace of structural reform in agriculture persist?

- Despite all the commendable government work in opening up export markets, helping to control the spread of animal diseases, and supporting smallholder farmers over the recent past, South Africa's agriculture has been operating from one crisis to another. This has limited the sector's full potential growth. Last year, the big challenge was load-shedding and its effects on agricultural production. Later in the year, there were widespread animal diseases and crises at ports, railway lines, and roads. This means many government programmes aimed at addressing the sector's long-term growth remain on the periphery as government officials and the private sector throw their weight on the present issues. For example, the interventions needed for the long-term expansion of the sector contained in the Agriculture and Agro-processing Master Plan have seen limited implementation thus far.
- Moreover, the launch of the Land Reform Agency, aimed at releasing government-owned land to carefully selected beneficiaries with title deeds, has been delayed. We believe that this Agency, and the deliberate release of land, is a vital catalyst to the expansion of South Africa's agricultural sector. The government has roughly 2,5 million hectares under its Proactive Land Acquisition Strategy (PLAS) that could be transferred to new entrant farmers and boost production in various value chains. President Cyril Ramaphosa has spoken in the past about setting up this Agency in various State of the Nation Addresses. Still, there has been limited progress in delivering these promises to the nation.
- We have also observed a slow delivery of crucial aspects, such as the reforming and modernization of the registrar's office and the efficient registration of new agrochemicals. These are some of the challenges that have caused a profound sense of unhappiness amongst the various sector stakeholders. This unhappiness is illustrated by the various sentiment indicators in the sector, such as the Agbiz/IDC Agribusiness Confidence Index.
- We now fear the months ahead may show very little delivery because of two major challenges, amongst other hindrances. First, the elections are two months away, and the political leadership of various government departments that are crucial for the cross-cutting aspects of the master plans are likely to be focused on reelection. In an ideal situation, the election cycle should not be an issue, and government officials should continue implementing already adopted programmes.
- Another challenge this year is the change in agricultural conditions, whose real financial impact on farmers and consumers will likely show only in the coming months. Parts of South Africa have been dry and extremely hot. This week marks nearly two months since some regions of South Africa last received adequate rainfall. Throughout February and March, the rainfall has been scant across South Africa, with an intense heatwave that made the summer crop growing conditions difficult. These months are also critical for crop pollination, a growth stage that typically requires higher moisture levels. We have now gone through pollination with limited moisture, reinforcing fears of a potentially bad summer crop in

South Africa this year. Another challenge of the 2023/24 season is the difficulty of forecasting the size of the summer crop as we face a moving target and continuous unfavourable weather conditions. The crop forecasts for later in the year will likely show a more realistic picture of the crop conditions.

Policy consideration

- While there is profound uncertainty, the Department of Agriculture, Land Reform, and Rural Development (DALRRD) would do well by focusing on a few aspects that would still uplift the mood in the sector and illustrate the government's commitment to its programmes to stakeholders. These would include the following:
 - A clear communication about modernizing the Fertilizers, Farm Feeds, Seeds and Remedies Act 36 of 1947, intended to provide for the registration of fertilizers, farm feeds, and sterilizing plants. This issue perpetually comes up in various farmers' meetings, and the government must provide direction.
 - The DALRRD should also urgently address the assignees' issue, as one often hears much unfavourable talk about the LEAF programme, which should be reviewed.
 - Clarity about the Land Reform Agency is also essential.
 - The Director General must call a meeting and guide the sector about the status of the Agriculture and Agro-processing Master Plan and the direction for the implementation process now and post-elections.

WEEKLY HIGHLIGHT

South Africa's consumer food inflation decelerated in February 2024

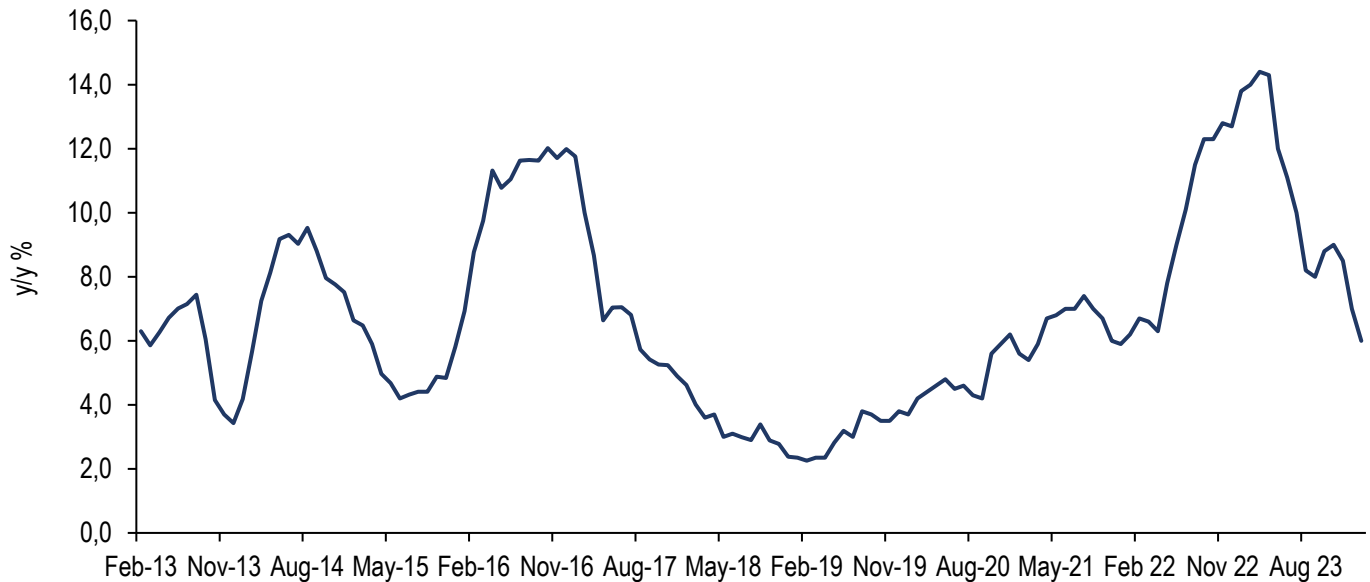
- South Africa's consumer food inflation slowed to 6,0% in February 2024, from 7,0% in the previous month. This was underpinned by the deceleration across most food products, except for "sugar, sweets and desserts", which remained roughly unchanged from the last months.
- We expect this broad moderation path to continue for most of the products within the food basket over the near-to-medium term. However, there are significant upside risks for the "bread and cereal products" in the food basket because of the potentially poor white maize harvest on the back of the current heatwave and dryness.
- There are notable crop failures in the western regions of South Africa, which are primarily white maize-producing regions. It is unclear what the white maize harvest will be as the weather conditions remain challenging. At the end of February, the estimates from the Crop Estimates Committee placed South Africa's 2023/24 white maize harvest at 7,0 million tonnes, down 17% year-on-year. This

estimate will likely be lowered over the coming months. We have gone through March with virtually no rains in the white maize regions.

- While some may argue that ample maize supplies in the global market could cushion South Africa, the challenge with white maize is that it is not as widely traded. The bulk of global maize supplies is yellow maize. Indeed, there is a lot of maize in the world, with the International Grains Council (IGC) forecasting the 2023/24 global maize harvest at 1,2 billion tonnes, up 6% year-on-year. However, this will primarily be yellow maize, and the demand for white maize will likely increase.
- In addition, the demand for white maize will be a South African challenge and a Southern African regional challenge. Therefore, there could be a disconnect between the domestic white maize prices and the general global maize prices, which are likely to continue softening due to improved supplies. For example, a large spread exists between South Africa's futures prices of yellow and white maize following reports of bad crop conditions. At the end of the week of March 22, South Africa's white maize spot price closed at R5 159 per tonne, while yellow maize was R4 258 per tonne. This signifies the challenge with white maize supplies.
- The products that play favourably for South Africa are wheat and rice, which South Africa remains a significant importer of. There are large supplies of these products in the global market. The IGC forecasts the 2023/24 global wheat harvest at 789 million tonnes, well above the long-term average. There is a lot of rice globally, with the 2023/24 global harvest forecast at 511 million tonnes, well above the long-term average.
- The stocks of these commodities are at comfortable levels; thus, the international grain prices have continued to moderate. For example, the Food and Agriculture Organization of the United Nations (FAO) 's Food Price Index, which measures the monthly change in international prices of agricultural commodities, averaged 117.3 points in February 2024, down 1% from its revised January level and 11% from last year's corresponding period. The broad decline in grains and oilseed prices underpinned this moderation, again underscoring the importance of improved supplies in the 2023/24 season.
- The exchange rate will also matter much, as South Africa imports roughly half of its annual wheat and rice consumption.
- Another major factor driving South Africa's food inflation this past year was the increase in prices of vegetable and poultry products. The poor harvest caused the vegetable price increases after load-shedding at the start of the year, undermining crop quality. Things have changed this year. While it has been quite dry across the country since the beginning of February 2024, vegetable production has not taken a strain because all commercial production in South Africa is under irrigation, and load-shedding has not been intense.
- Moreover, meat prices rose at the end of 2023 due to supply constraints of poultry products on the back of avian influenza. But there is now anecdotal evidence that the restocking process is underway and there is improvement in the poultry products supplies. Therefore, the risks of further price increases have subsided somewhat.

- Overall, there is increased uncertainty about South Africa's consumer food inflation path for 2024. However, the underlying factors are not all one-sided, and one has to reflect on the price movements and weighting of various products when considering their food price forecast for the year.

Exhibit I: South Africa's consumer food inflation



Source: Stats SA and Agbiz Research

WEEK AHEAD

What we are watching this week

- This is a fairly quiet week on the global front, with only one data release this week. On Thursday, the United States Department of Agriculture (USDA) releases **weekly US grain and oilseed export sales** data.
- Within the domestic front, today, Agbiz releases the first quarter results of the **Agbiz/IDC Agribusiness Index**, a sentiment indicator in the South African agriculture and agribusiness sector.
- On Tuesday, the Crop Estimate Committee releases the **second production forecast for summer grains and oilseed 2024**. Given the harsh weather conditions since the last production update at the end of February, this data interests us. This month's figures will likely show a further downward revision.
- On Wednesday, SAGIS will release its **weekly South Africa's Grains and Oilseeds Producer Deliveries** data for March 22. In the previous release on March 15, South Africa's 2023/24 maize

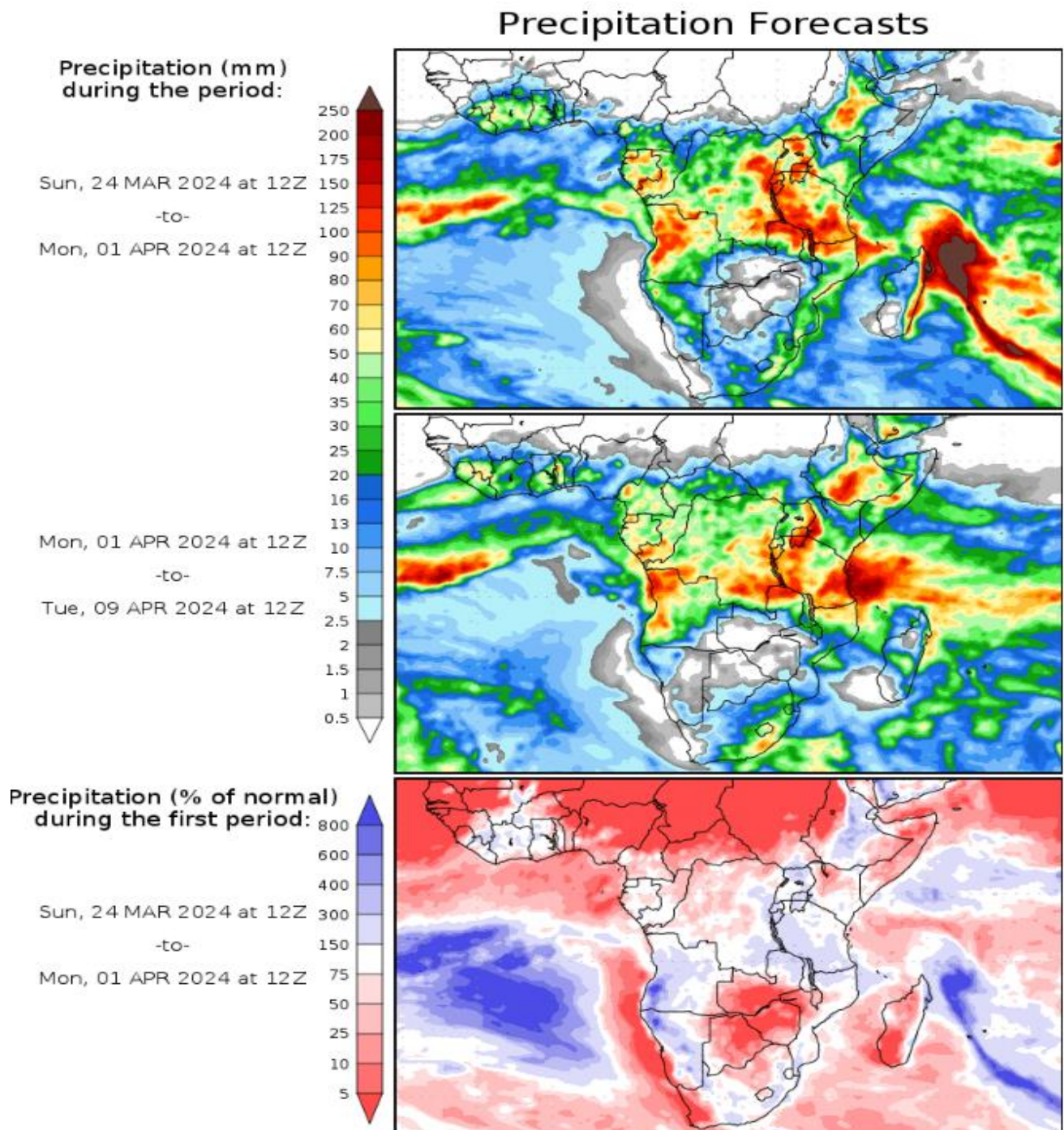
producer deliveries were about 73 345 tonnes. This placed the 2023/24 marketing year's maize producer deliveries at 15,2 million tonnes out of the overall harvest of 16,4 million.

- The focus on oilseeds is now shifting to the new marketing year. Still, so far, there have been no significant volumes delivered to commercial silos, and the crop is taking a strain from the excessive heat and dryness nationwide. For example, the 2024/25 soybean deliveries in the first three weeks of this new marketing year amounted to 67 345 tonnes, while the sunflower seed deliveries amounted to 25 882 tonnes.
- In the case of wheat, last week, 6 022 tonnes of wheat were delivered to commercial silos. This placed the 2023/24 wheat producer deliveries at 1,9 million tonnes out of the expected harvest of 2,1 million tonnes.
- On Thursday, SAGIS will publish its **weekly South Africa's Grains and Oilseeds Trade** data for March 22. In the previous release on March 15, the 46th week of the 2023/24 marketing year, South Africa exported 47 156 tonnes of maize. Of this volume, 59% was exported to Zimbabwe, and the balance to the rest of the neighbouring African countries. This placed South Africa's 2023/24 maize exports at 3,15 million tonnes out of the seasonal export forecast of 3,30 million.
- South Africa is a net wheat importer, and March 15 was the 24th week of the new 2023/24 marketing year, with 118 683 tonnes of imports from Australia, Poland, and Lithuania. This placed South Africa's 2023/24 wheat imports at 925 431 tonnes out of the seasonal forecast of 1,6 million tonnes.

South Africa's Precipitation forecast

- After weeks of scant showers, South Africa's summer crop growing areas might receive light rainfall this week. The past few weeks have been scorching, and the crops are drying up in various regions of the country. Notably, there are areas where some crops may not recover even with the forecast rain.

Exhibit 2: South Africa's precipitation forecast



Source: George Mason University (wxmaps)