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UPDATE: SA's wheat import tariff to be revised down

- **Recent data from the South African Grain Information Services indicates that the newly calculated wheat import tariff is R1 190.19 per ton, which is 25% lower than the current level of R1 591.40 per ton. This newly calculated duty will not be active until published in the Government Gazette.**
- The wheat import tariff has triggered six times over the past 29 months. Over the same period, the tariff has only been revised down once – in August 2015, from R800.10 per ton to R510.60 per ton (see **Chart 1**).
- The trigger conditions are satisfied when the international wheat price (US No.2 HRW) deviates from the base price by more than US\$10 per ton for three consecutive weeks.
- Over the past three weeks, the international wheat prices consistently deviated from the base price of US\$193.33 per ton by more than US\$10 per ton and thus triggering a downward revision of a tariff.
- The two variables that determine the import tariff level are the international wheat prices (US No2 HRW) and exchange rate (ZAR/USD). In this latest trigger, the exchange rate is 18% stronger compared to the current one, and the new base price will potentially be 6% higher than the current one. The net effect is a 25% downward revision of the import tariff.
- The key driver of the adjustment has been the international prices, which have since mid-January 2017, gained ground on the back of unfavourable weather conditions – namely, the extreme cold in most parts of Europe and the Black Sea region. In the previous three weeks, prices have averaged US\$205 per ton, up from the prior levels of around US\$180 per ton (see **Chart 2**).
- **Looking ahead** – the upsurge in international wheat prices could be short-lived due to an expected 2% annual increase in global wheat production to levels of 752 million tons in the 2016/17 season. In addition, the global ending stocks are forecast at 235 million tons, which is a 6.3% annual increase. Meanwhile, there is an ongoing review of import tariffs by the National Treasury, with the outcome expected later this quarter.

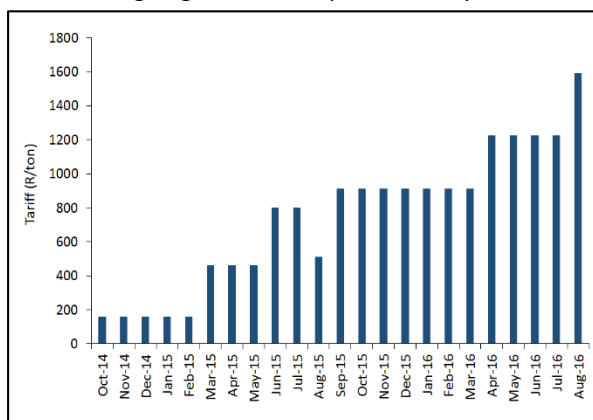


Chart 1: RSA: Historic wheat import tariffs

Source: SAGIS, Agbiz Research

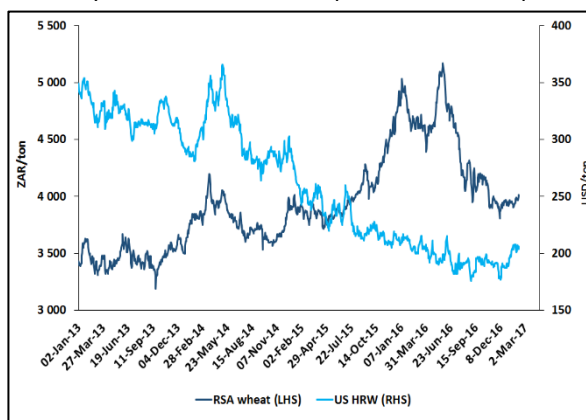


Chart 2: US wheat prices and ZAR/USD Exchange

Source: JSE, IGC and Agbiz Research

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