

SA could have yet another good season in 2021/22

As the harvest for the 2020/21 summer grains and oilseeds draws to a close, the focus is increasingly shifting towards the 2021/22 production season, which commences in October. The preliminary insights suggest that South Africa could have another good season, although rainfall might not be as abundant in the 2020/21 season. The three critical indicators we have thus far, i.e., (1) the tractor sales, (2) weather outlook for the next five months, and (3) grains and oilseed prices, paint a positive outlook.

First, South Africa's tractor sales for the first half of 2021 are up 27% year on year (y/y), at 3 385 units. Admittedly, the improved farmers' finances following a large harvest and higher commodity prices in 2020/21 have been a key support factor. Still, the positive sentiment about the upcoming 2021/22 production season is also an essential factor behind the higher levels of tractor sales. As we highlighted in our previous notes, the optimism in the sector is also clear from the results of the agribusiness confidence levels in the second quarter of the year. The Agbiz/IDC Agribusiness Confidence Index, which measures the sentiment amongst agribusinesses and major farming entities, reached a record high (since its inception in 2001) of 75 in the second quarter of this year from 64 in the first quarter of 2021. While these results reflected favourable conditions for all subsectors of agriculture, with various crops set to reach record output levels in the 2020/21 season, the next season will benefit from the positive momentum.

Second, the weather outlook for the upcoming 2021/22 production season shows encouraging signs. In its Seasonal Climate Watch for August to December 2021, the South African Weather Service noted that "the El Niño-Southern Oscillation (ENSO) is currently in a neutral state and the forecast indicates that it will most likely remain in a neutral state for spring, with a likely change to a weak La Niña during early-summer. As we move towards the spring and summer seasons, ENSO plays an important role in our summer rainfall. As such, the increased likelihood of a weak La Niña during early summer is expected to be favourable for above-normal rainfall in that period."¹

Importantly, the expected higher rainfall would most likely be a reality in the central to eastern regions of South Africa throughout December, while the country's western areas will most likely receive normal rains. The outlook from January onwards is unclear at this stage. Still, we think if the forecast weather outlook materializes, it could set favourable production conditions for yet another season. The 2020/21 summer season brought higher rainfall which improved soil moisture across the country. This sets a good starting point for sowing for the next season. This is conducive not only for the major grains and oilseeds, which are the primary focus in this note, but also for the entire agricultural sector.

Third, while we expect South Africa's maize, soybeans and sunflower seed prices to soften somewhat in the second half of the year compared to the previous one, these are still and will remain attractive levels which should incentivize farmers to maintain sizable plantings in 2021/22 season. For example, on 29 July 2021, yellow and maize prices were up 26% and 23% y/y, trading at R3 373 per tonne and R3 227 per tonne, respectively. On the same day, sunflower seed and soybeans spot prices were 50% y/y and 13% y/y up, trading around R9 285 per tonne and R7 727 per tonne, respectively.

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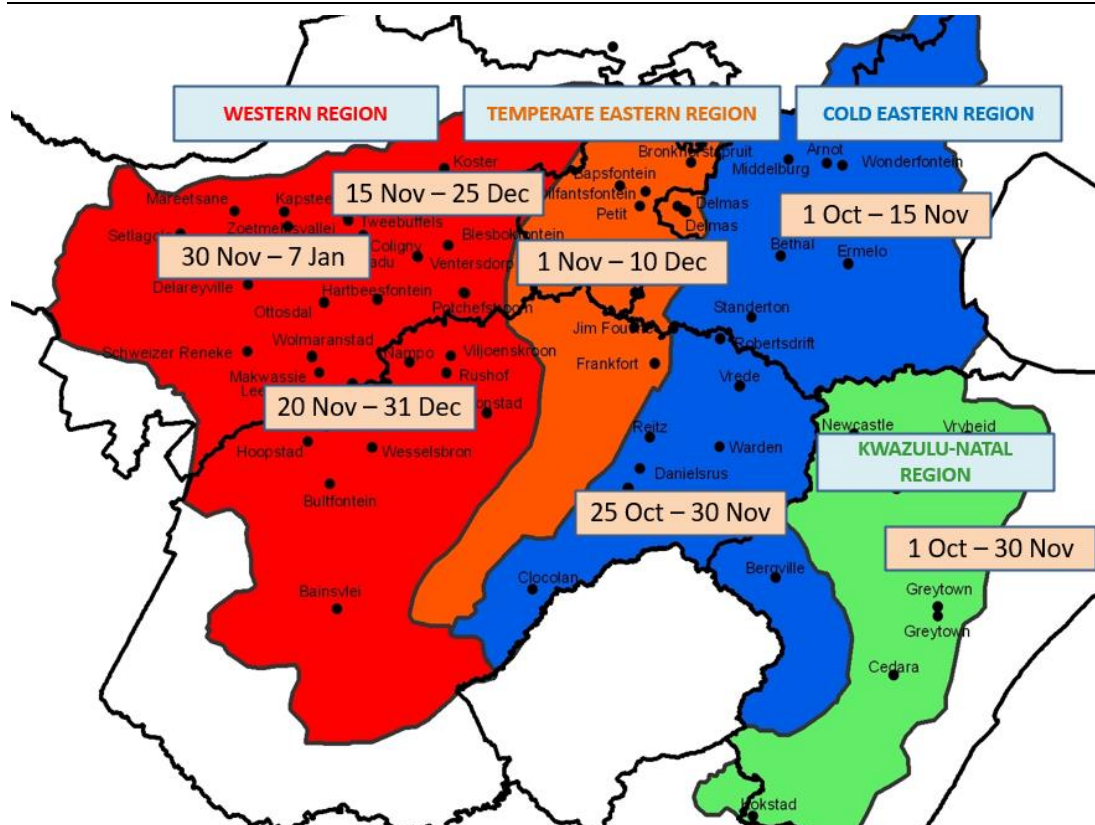
¹ South African Weather Service. "Seasonal Climate Watch". July 31, 2021

We will only know the farmers' intentions to plant for the 2021/22 summer grains and oilseeds on 27 October 2021 when South Africa's Crop Estimates Committee is scheduled to release the data. The preliminary estimates from the United States Department of Agriculture (USDA) point to a somewhat pessimistic outlook for South Africa's 2021/22 maize area plantings, placing it at 2,5 million hectares, down 9% y/y.² The USDA attributes this potential decline in maize area plantings to a possible reduction in maize prices towards the end of the year. This is on the back of an expected decline in global maize prices, at a time where Southern African regional demand for maize will also weaken following large harvests across the region. However, the yield estimates are set to be roughly in line with the 2020/21 season, at around 5,9 tonnes per hectare, because of anticipated favourable weather conditions. Although we are not entirely convinced that an area of plantings for maize could fall to 2,5 million hectares in the 2021/22 season, such an area would be in line with 10-year average plantings for commercial maize in South Africa. Importantly, such a decline would also mean that the area switches from maize to sunflower seed and soybeans, which in sum would still lead to an improvement in South Africa's 2021/22 summer grain and oilseed production.

In sum, the higher tractors sales, attractive prices and favourable weather forecasts suggest that South Africa is set for another favourable agricultural season in 2021/22. With that said, it is still early, and we wait for more data, especially weather-related data, to formulate a firm view. South Africa will need favourable rains primarily between October 2021 and February 2022 for this upcoming season, not only for field crops, but also livestock and horticulture. For now, the available indications are encouraging.

Against this backdrop, we are inclined to believe that South Africa's consumer food price inflation could continue to moderate in the second half of the year from the higher levels of 7% y/y in June 2021, and remain contained at relatively lower levels in 2022.

Exhibit 1: South Africa's optimal planting dates for maize



Source: Grain SA and Agbiz Research

² United States Department of Agriculture. "South Africa Grain and Feed Update". July 15, 2021

Weekly highlights

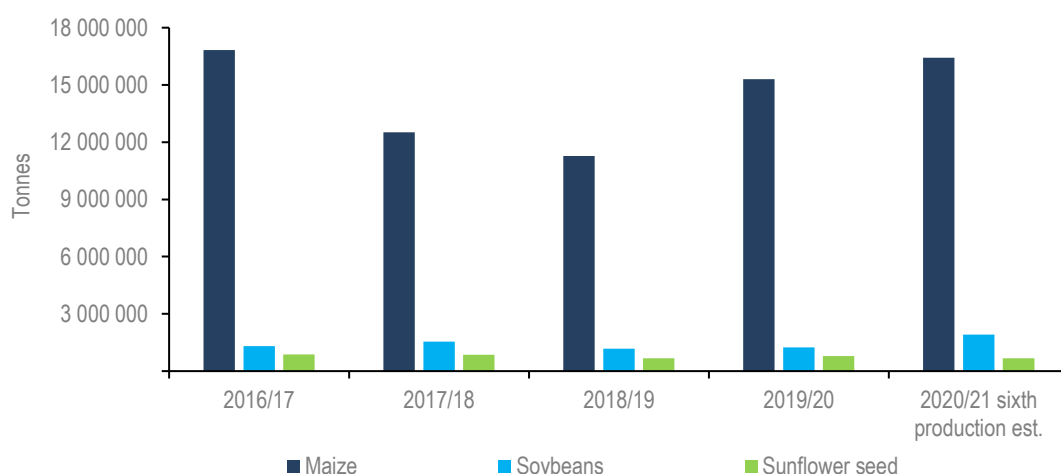
SA 2020/21 maize and sorghum production estimates lifted marginally from June

Although our focus is shifting towards the 2021/22 production season, which starts in October, we continue to monitor the production updates of South Africa's 2020/21 summer crops. Last week, the Crop Estimates Committee (CEC) released its sixth production estimate, reaffirming ample supplies. Most crop estimates were left roughly unchanged from June 2021 production figures except for commercial maize and sorghum, which were lifted by 3% and 5%, to 16,4 million tonnes and 203 980 tonnes, respectively. The non-commercial maize saw a much larger revision of an 8% increase from June 2021 to 636 440 tonnes. This placed South Africa's overall maize production for the 2020/21 season at 17,1 million tonnes. This is up by 8% from the 2019/20 production season and the second-largest harvest on record. Meanwhile, sorghum is up by 29% y/y and has the largest harvest in seven years.

Soybean's 2020/21 production estimate was left unchanged at a record 1,9 million tonnes (up 54% y/y), groundnuts at 58 900 tonnes (up 18% y/y), dry beans at 56 577 tonnes (down 13% y/y) and sunflower seed at 677 240 tonnes (down 14% y/y). As we highlighted in the previous month's update, the broadly large 2020/21 summer grain and oilseeds production estimate is on the back of increased area plantings for summer crops and favourable rainfall since the start of the season.

If we focus on the major grains, the current maize production data essentially mean 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). Notably, the increased soybeans production also means a decline in soybean oilcake imports, which in a typical year is just under half a million tonnes a year.

Exhibit 2: South Africa's major summer grain and oilseeds production



Source: CEC and Agbiz Research

The outlook for 2021/22 global grains production remains positive

We've recently shared our view on South Africa's consumer food price inflation for the second quarter of the year, which is a moderation from the higher levels of 7% y/y in June 2021. Amongst various product prices in the food basket that we expect to soften over the

coming months is grains, specifically maize, wheat and oilseed. We initially based our view on the Global Food Price Index, which fell 3% in June from the previous month, the first drop after 12 consecutive monthly increases. This was underpinned by improved production conditions in the northern hemisphere, leading to expected large grains harvest.

Last week, the International Grains Council released a monthly update of its 2021/22 global grains production estimates, and it remains roughly unchanged from June despite the concerns that warm weather conditions in parts of the US might have compromised the crop. For example, the IGC forecasts the 2021/22 global maize production at a new peak of 1,2 billion tonnes, up by 7% y/y. This is on the back of an expected large crop in the US, Brazil, Argentina, Ukraine, China, EU, and Russia. Similarly, the global wheat production conditions have improved. The IGC now forecasts the 2021/22 global wheat production at a record 788 million tonnes, up 2% y/y. Expected large crops boost this in the EU, Ukraine, Argentina, China, India, and the UK. This particular estimate is down by a million tonnes from June 2021 following a downward revision in the US wheat production estimates because of the aforementioned dryness in the past couple of weeks.

Also, worth noting is that the global rice supplies and stocks are also at comfortable positions, well above the 2020/21 production season. The IGC forecasts the 2021/22 global rice production at a record 511 million tonnes, up % y/y (this is down by a million tonnes from June 2021 estimate). This is on the back of possible expansions in area plantings in Asia, combined with expected better yields resulting from favourable weather conditions. The observations are similar in the global soybean production prospects, with the 2021/22 harvest estimated at 382 million tonnes, up by 5% y/y (this is also down by a million tonnes from the June 2021 estimate because of dryness in growing north-western regions of the US). The beneficial weather conditions will likely boost the crop in Brazil, Argentina, India, Paraguay, Russia, Ukraine, and Uruguay.

These production forecasts suggest that global grains prices could continue softening over the coming months, albeit marginal. On August 5, the FAO will release its Global Food Price Index for July 2021, which will show whether the decline in June will be a sustained change in the price trend or a monthly blip. We think it will be the former. Hence, we believe that the South African grain prices could follow a similar path of a decline in prices from higher levels of the recent months, which bodes well for consumer food price inflation.

Data releases this week

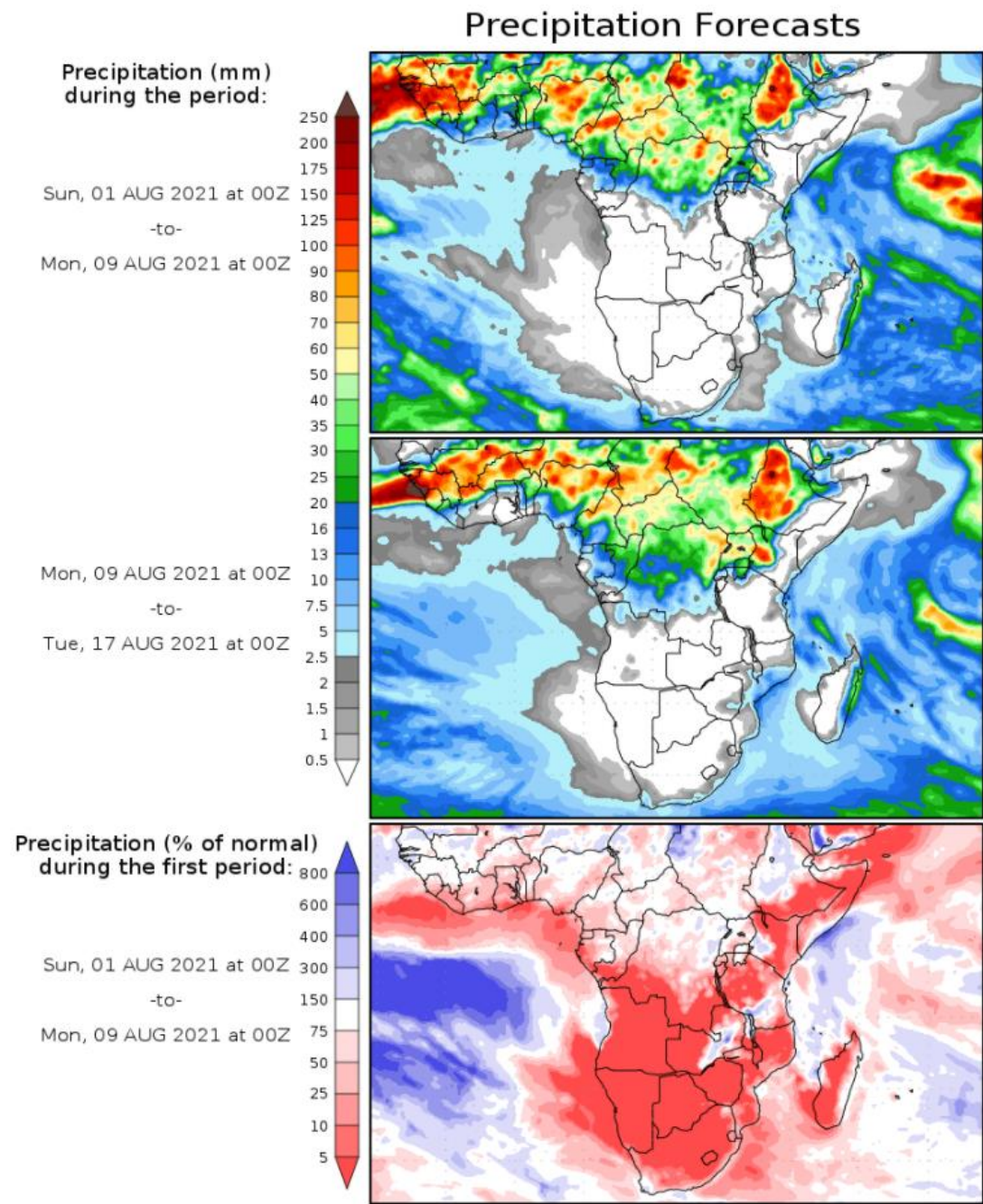
We start the week with a global focus, as the USDA will today release the **US Crop Progress Report**, which will rate the crop conditions over the past week compared to the corresponding period in 2021. In the last assessment on 25 July 2021, the US maize crop was rated at 64% good/excellent, which is worse off than the 77% in the corresponding period last year. In the same week, soybean was rated at 58% good/excellent compared to 72% on 25 July 2020. The drier weather conditions in parts of the US have been the key challenge for some areas within the US grain belt in the past few weeks. The **US Weekly Export Sales** data is due for release, also by the USDA, on Thursday.

On the domestic front, on Wednesday, SAGIS will release the **Weekly Grain Producer Deliveries** data for 30 July 2021. This data cover summer and winter crops, although we only focus on summer crops for now where harvesting is at completion. To recap, on 23 July, about 1 150 tonnes of soybeans were delivered to commercial silos. This placed the soybean producer deliveries for 21 weeks of the 2021/22 marketing year at 1,81 million tonnes, which equals 94% of the expected harvest of 1,92 million tonnes. Moreover, 627 047 tonnes of sunflower seed for the 2021/22 season had already been delivered to commercial silos in the same week, out of the expected crop of 677 240 tonnes. In maize, the marketing year is different from oilseeds; we are still in the twelfth week of the 2021/22 marketing year, which

began at the start of May. The producer deliveries currently amount to 12,2 million tonnes, equating to 74% of the expected crop of 16,4 million tonnes.

On Thursday, SAGIS will release the **Weekly Grain Trade** data for the week of 30 July 2021. In the week of 23 July, which was the twelfth week of South Africa's 2021/22 maize marketing year, total maize exports amounted to 899 656 tonnes. The seasonal export forecast is 2,6 million tonnes, roughly 10% below the previous season because of an anticipated decline in Southern African demand. This region is typically a key importer of maize from South Africa. In terms of wheat, South Africa is a net importer. On 23 July, imports amounted to 1,3 million tonnes, equating to 81% of the seasonal import forecast of 1,6 million tonnes.

Exhibit 3: South Africa's precipitation forecast



Source: George Mason University (wxmaps)

The weather forecast for this week shows clear skies over most regions of South Africa, which is supportive of the summer crop harvest process which is at its tail end.

The far western parts of the Western Cape could also receive light showers, which bodes well for winter crops.