

June 3 2024

How the changing political landscape may influence South Africa's agriculture and land policy

- With the voter counts now completed and the African National Congress (ANC) support having fallen sharply to just 40% support, some form of a coalition government will likely govern South Africa. The nature of such a coalition arrangement will likely emerge in the coming days and weeks.
- As with any coalition negotiations, trade-offs will likely involve several government functions and policies. The question that should be addressed in the agriculture sector is: What are the implications for potential changes in government functions on agriculture and land reform policy?
- We believe that regardless of the formation of the coalition the ANC settles with, the Department of Agriculture, Land Reform and Rural Development (DALRRD) policies should be maintained. Still, from a reading of the top four political parties trailing the ANC in the voter outcome, two stand out with contrasting views on land reform to the current policy path, namely, the Economic Freedom Front (EFF) and the uMkhonto weSizwe Party (MK Party). These parties have a strong preference for the expropriation of land without compensation.
- The MK Party manifesto states that the government should "expropriate all land without compensation, transferring ownership to the people under the custodianship of the state and traditional leaders". This is the direct opposite of the programme of rolling out title deeds and strengthening land tenure that the DALRRD is currently pursuing. Similarly, the EFF manifesto states that its approach to the resolution of the land question will be "anchored on the principle of expropriation of land without compensation for equal redistribution and use, and for the State to be the custodian of all land in South Africa." We deem this policy path unfavourable for investments, long-term inclusive agricultural growth agenda, and job creation.
- For its part, the Democratic Alliance (DA) champions strong property rights. Moreover, the DA has been implementing national agricultural policies in the Western Cape. This suggests that the DA would not be inclined to change the agricultural policy path significantly.
- The Inkatha Freedom Party has a slightly different view, which advocates for the growth of South Africa's agriculture, with the release of land to the beneficiaries in the State's hands. This, too, is aligned with the current ANC policies. The slight ambiguity of the IFP policy on land is the following statement from the manifesto: "Continue to support the policy of land expropriation with reasonable compensation".
- From a purely agricultural perspective, the IFP policies are aligned with the current government's approach. For example, the IFP states that the government must "Ensure significant State support, especially for new entrants into the agriculture industry." This work is already being implemented

through the Blended Finance instrument that the DALRRD is rolling out in partnership with financial institutions. The IFP further argues for partnerships, stating that the government must "Promote the involvement of both private and public sectors in the country's agricultural development processes." This partnership approach is at the heart of the Agriculture and Agro-processing Master Plan.

- Admittedly, forming alliances would likely result in trade-offs in policy positions of the political parties that would join the ANC in government. Therefore, whether there is solid conviction for this expropriation of land without compensation policy in the EFF and MK Party is something that will likely become clearer as parties outline their non-negotiables. We will know more about this in the coming days and weeks.
- Ultimately, when the new administration has been formed, we believe that the Agriculture and Agro-processing Master Plan should remain the primary programme for the government to drive inclusive growth in South Africa's agriculture. We also believe that the protection of strong property rights and the continuous release of government land to appropriately selected beneficiaries are essential steps in driving inclusive growth in South Africa's agriculture.
- The current leadership at DALRRD remain in office until a new government is formed. A lot about the political leadership of the DALRRD in the new administration remains unknown. Still, even if there is a change in the department's political leadership, we don't expect any immediate changes to the civil service leadership. With the current Director-General and the deputies set to remain in their positions for some time, we believe the policy mentioned above for the DALRRD will likely be sustained. And this is our preference. While not relevant in the current case, it is worth emphasizing that changes in leadership personnel should not necessarily imply policy change.

WEEKLY HIGHLIGHT

South Africa's summer grains and oilseed production estimates slightly lowered

- We appreciate that the minds of many South Africans are on the election outcome and possible coalition for the new administration, but food matters remain vital in the midst of all. Thus, reflecting on the latest Crop Estimates Committee's (CEC) forecasts for the 2023/24 summer crop production season is valuable. This is a fourth production estimate for the season, and the harvest across the country is underway, so we may put more weight on the accuracy of this figure than our tentative view in the previous estimates.
- The CEC places South Africa's 2023/24 total summer grains and oilseed production forecast at 15,9 million tonnes, down 0,5% from the previous month's forecast (April 2024) and 21% lower than the last season's harvest. This data was released at the end of May; therefore, the "previous month" reference is April 2024.

Maize

- A closer look at the data shows that white and yellow maize harvest could be 6,4 million tonnes (down 0,9% m/m) and 6,9 million tonnes (down 0,3% m/m). These revisions place the total maize production estimate at 13,3 million tonnes (down 0,6% m/m).
- When viewed annually, white maize harvest is down 25%, with yellow maize down 13% from the 2022/23 season. The expected harvest of 13,3 million tonnes is down 19% from the 2022/23 season.
- We are optimistic that this harvest may materialize, although we are unsure of the quality. Suppose we are correct; this harvest would meet South Africa's annual maize consumption of roughly 12,00 million tonnes, leaving the country with over a million tonnes for exports.
- With that said, maize prices will likely remain elevated for some time because of potentially tighter supplies later in the season. Admittedly, in recent weeks, white and yellow maize prices have moderated from the levels we saw last month because of the harvest pressure, amongst other factors. Still, white maize prices are over 30% higher than levels we saw a year ago, with yellow maize prices up roughly 7% from a year ago. The white maize spot price closed at R5 273 per tonne on May 31, while the yellow maize spot price was R4 097 per tonne.
- As highlighted in our previous notes, yellow maize prices have not increased much, as the supply risk could be manageable through imports. There are ample maize supplies (yellow) in the world market. The International Grains Council (IGC) forecasts the 2023/24 global maize harvest to be 1,2 billion tonnes, up 6% year-on-year. A majority of this expected global maize is yellow. The stocks are also robust, thus keeping the international yellow maize prices moderate. This also partly explains the relatively mild increase in yellow maize prices compared with the surge in white maize prices, which is scarce in the world market and primarily produced in Southern Africa and Mexico.

Oilseeds

- The 2023/24 soybean harvest was lowered by 2% from last month to 1,7 million tonnes (down 36% y/y). This annual decline results from lower yields in various regions of South Africa. We now believe South Africa may not play a robust position in soybean exports like the previous season. If anything, soybean oilcake imports this new season are now a possibility.
- Meanwhile, the sunflower seed harvest estimate was again lifted from last month by 6% to 649 250 tonnes (down 10% y/y). The area plantings are moderately down from the previous year, which means the primary driver of the annual decline in the harvest is the expected poor yields, especially as most of South Africa's sunflower seed is planted in the western regions that experienced dryness and heatwave in February and March.

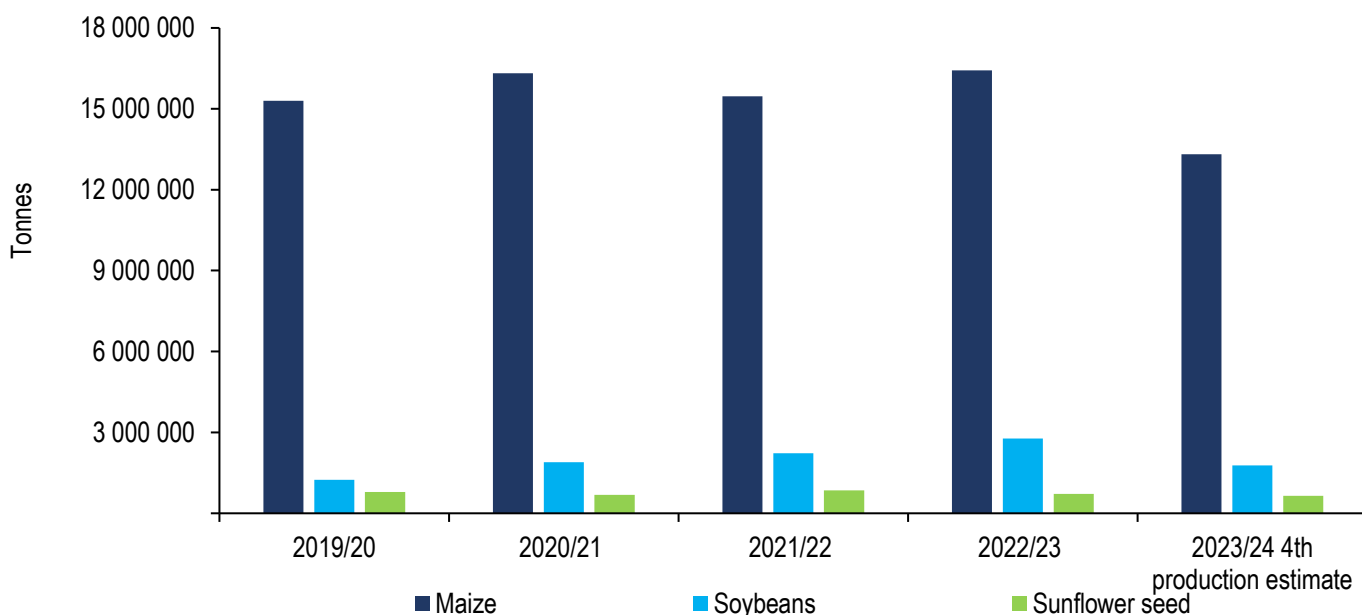
Other grains

- The 2023/24 groundnut harvest estimate is 54 440 tonnes (up 3% y/y), sorghum is at 95 830 tonnes (up 2%), and dry beans are at 52 190 tonnes (up 4%).

Concluding remarks

- The current production data illustrates the scale of damage caused by the mid-summer drought to the South African agricultural sector. The complete scale of the financial impact of this drought on the farming businesses is yet to be clear.
- Still, from a consumer perspective, South Africa is not in a crisis, in our view. The recent drought presents upside risks to food price inflation but not the overall basket. The challenge is primarily the white maize, especially considering the potentially more robust regional demand later in the year.
- The favourable supplies of other grains in the world market, mainly yellow maize (also rice and wheat), and the moderating prices mean South Africa could be slightly cushioned in these commodities.
- The IGC forecasts the 2023/24 global wheat harvest to be 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 2023/24 global sunflower seed harvest is forecast at 57,9 million tonnes, well above average. The prospects for the new season are also comfortable at the global level.
- Still, the exchange rate will be necessary to monitor when assessing the possible imports of wheat, palm oil and rice into South Africa.

Exhibit I: South Africa's major summer grain and oilseed production



Source: Crop Estimates Committee and Agbiz Research

WEEK AHEAD

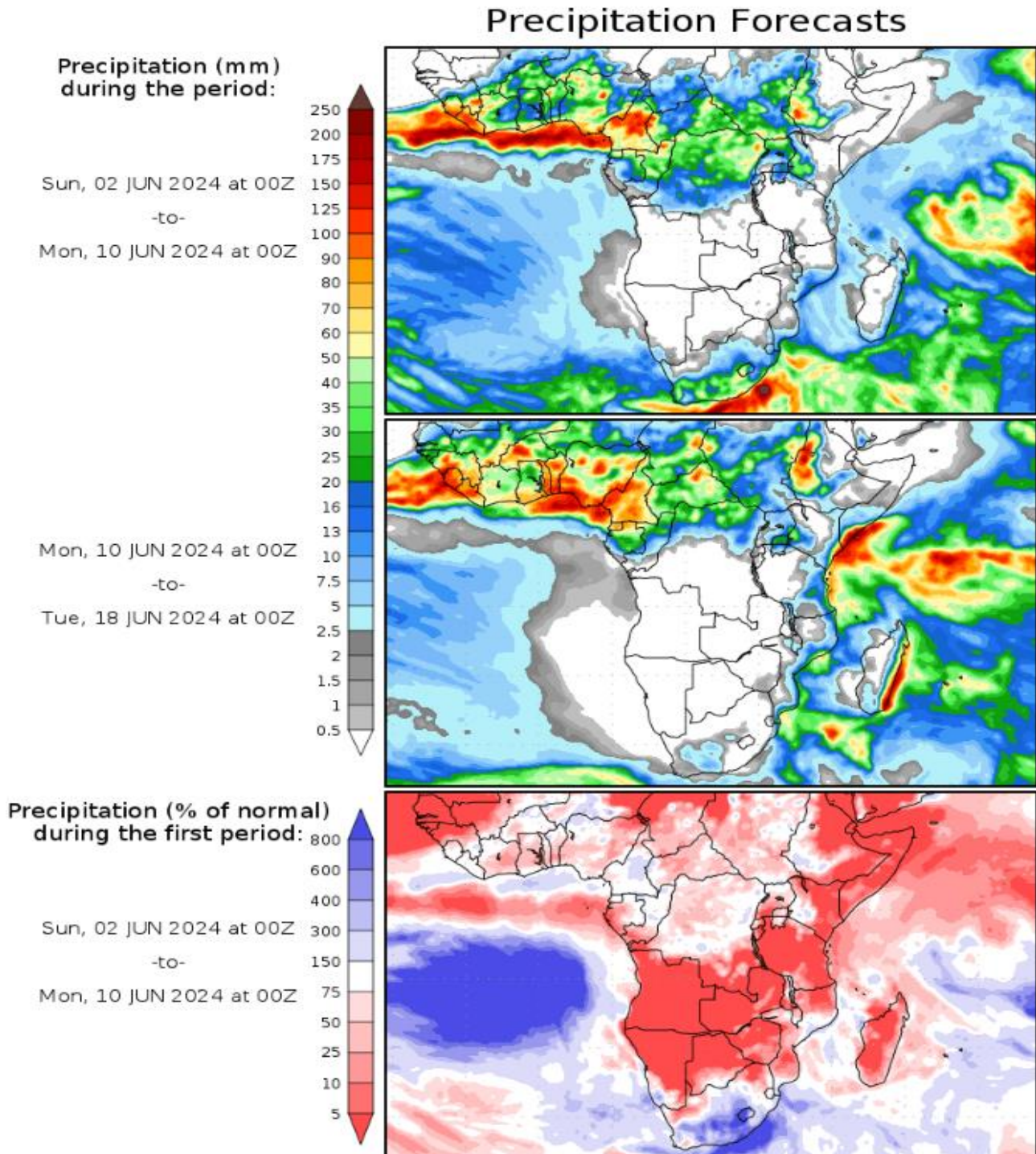
What we are watching this week

- We start the week with a global focus, and today, the United States Department of Agriculture (USDA) releases its **weekly US Crop Progress** report. This report provides insight into the US planting progress for the 2024/25 season. The planting activity has been slightly lagging behind last year's pace because of unfavourable weather conditions in some regions at the start of the season. For example, on May 26, US maize plantings were at 83% of the intended area (which is behind last season's pace of 89% in the same week). On the same day, soybean plantings were 68% of the intended area (behind last year's pace of 78%).
- Moreover, the USDA releases its **weekly US Grains and Oilseed Export Sales** data on Thursday.
- Within the domestic front, on Tuesday, Statistics South Africa will release the **Gross Domestic Product (GDP)** data for the first quarter of 2024.
- On Wednesday, SAGIS will release its **weekly South Africa's Grains and Oilseeds Producer Deliveries** data. In the case of maize, this week, we will see a release of the data for the fifth week of the new marketing year, 2024/25. In the previous release on May 24, South Africa's 2023/24 maize producer deliveries were about 989 352 tonnes of maize to the commercial silos. This placed the overall deliveries at 3,2 million tonnes out of the expected harvest of 13,3 million tonnes. So far, the quality of this harvest is mainly good.
- The 2024/25 soybean deliveries in the first 13 weeks of this new marketing year amounted to 1,6 million tonnes out of the expected harvest of 1,7 million tonnes. At the same time, the sunflower seed deliveries amounted to 389 164 tonnes out of the expected harvest of 649 250 tonnes.
- In the case of wheat, last week, 2 583 tonnes of wheat were delivered to commercial silos. This placed the 2023/24 wheat producer deliveries at 1,9 million tonnes out of the harvest of 2,1 million tonnes.
- On Thursday, SAGIS will publish its **weekly South Africa's Grains and Oilseeds Trade** data for the fourth week of the 2024/25 marketing year. In the previous release on May 24, the fourth week of the 2024/25 marketing year, South Africa exported 39 132 tonnes of maize. Of this volume, 50% was exported to Zimbabwe, and the balance to the rest of the neighbouring African countries. This places South Africa's total maize exports in 2024/25 at 138 918 tonnes.
- Moreover, while South Africa will likely remain the net exporter of maize in the 2024/25 marketing year, the coastal regions will import small volumes of yellow maize for animal feed because of price advantage. We have already seen the imports of yellow maize through Cape Town, with 11 033 tonnes offloaded from Argentina last week. This puts South Africa's 2024/25 maize imports at 49 644 tonnes.
- South Africa is a net wheat importer, and May 14 was the 34th week of the 2023/24 marketing year; South Africa's 2023/24 wheat imports totalled 1,2 million tonnes out of the seasonal forecast of 1,6 million tonnes. The major wheat suppliers include Poland, Lithuania, Latvia, Russia, and Australia.

South Africa's Precipitation forecast

- The weather forecast for this week shows a likelihood of light showers in most regions of South Africa. The rain will not be conducive for the summer grain and oilseed regions, with harvest likely slightly delayed. However, for the southwestern areas of South Africa, where winter crop regions need improvement in soil moisture, the rain will bring relief and support the planting process.

Exhibit 2: South Africa's precipitation forecast



Source: George Mason University (wxmaps)