

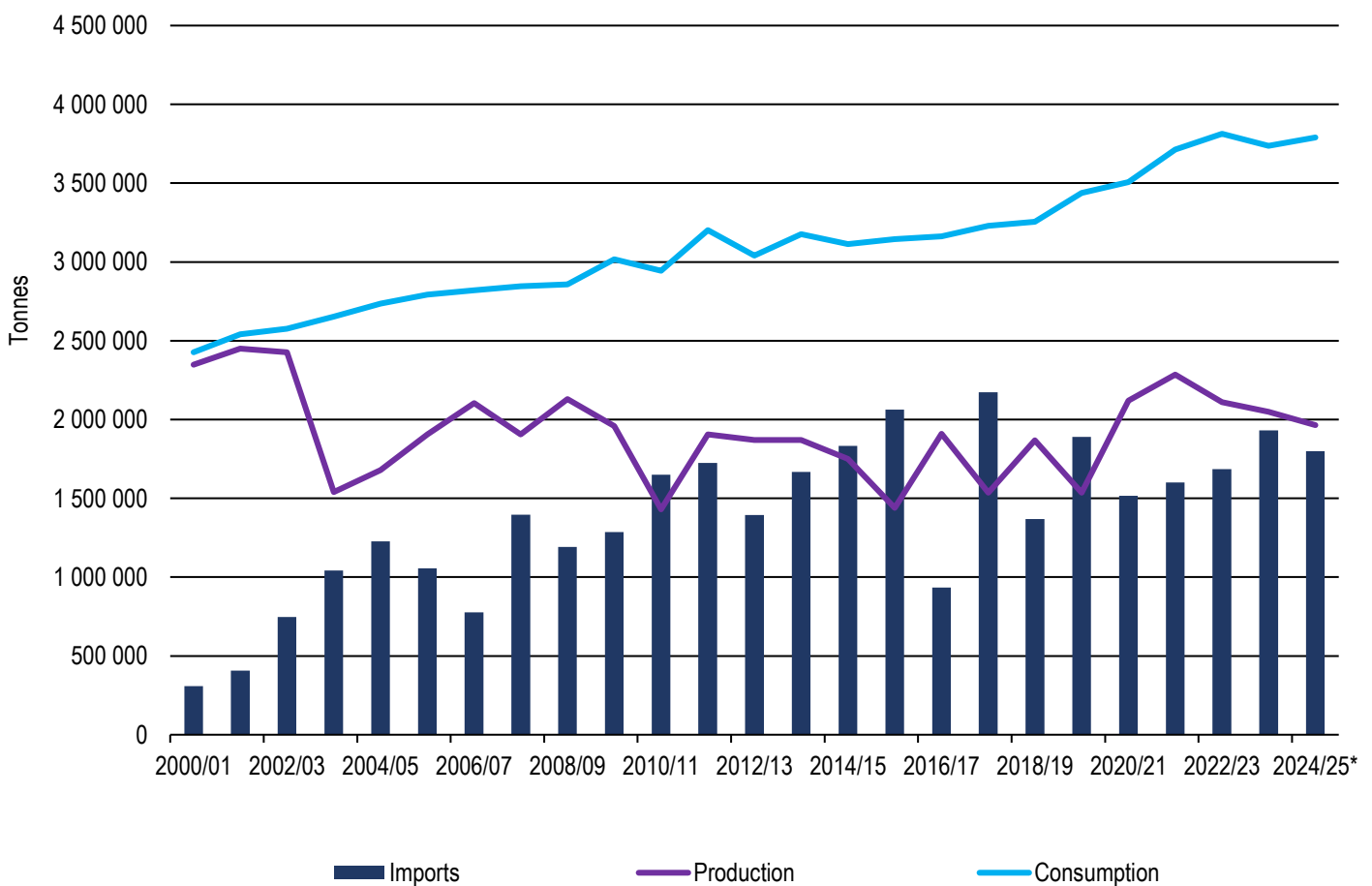
The market dynamics of the South African wheat industry

- At the end of September, South Africa closed its 2023-24 marketing year for wheat. We had a decent harvest of 2,05 million tonnes during the season, just above the five-year average harvest of 1,98 million tonnes. South Africa achieved this harvest despite a challenging production season. For example, the Western Cape, which produces nearly two-thirds of South Africa's wheat crop, suffered heavy floods in September 2023 of the previous season, which, at the time, had raised fears of potential significant crop losses. But the wheat fields recovered towards the end of the year and subsequently delivered a decent crop.
- Still, because of the mild uptick in consumption, South Africa's decent wheat production of 2,05 million tonnes did not imply that imports would be stable. Quite the opposite, the imports increased by 15% from the previous season to 1,93 million tonnes in the 2023-24 season. By the end of September 2024, much of the imported wheat also helped to stabilize the stocks and even boosted the opening stocks for the new season. At the start of the 2024-25 wheat season, the opening stock was 753k tonnes, up 34% from the previous season. These relatively large opening stocks boost the 2024-25 season supply.
- While the 2024-25 winter crop season started on a better footing than the previous one for the Western Cape, it will likely yield a slightly lower harvest. The Crop Estimates Committee forecasts South Africa's wheat crop for the 2024-25 season to be 1,96 million tonnes, down 4% from the previous season. The crop losses are not in the Western Cape, the major wheat producer. The Western Cape expects a larger harvest this season than the 2023-24 season. The challenge is the poor harvest in other major producing provinces, primarily the Northern Cape, Limpopo, and the Free State. These provinces have reduced area plantings for wheat this year. The relatively lower wheat prices at the start of the season may be one of the factors behind the decision to slash plantings.
- However, the challenge for the Free State and Limpopo is beyond the prices. These provinces experienced severe mid-summer drought, which led to significant summer grain losses. When the winter wheat season started in May, farmers' mood was downbeat, and they worried about soil moisture. Others may have wanted to conserve soil moisture for the new summer crop season. Thus, we saw lower plantings and relatively lower expected yields in some areas. These challenges have contributed to the 4% expected national decline in the 2024-25 South African winter wheat harvest.
- In a season like this with a reasonably expected lower harvest, one would assume that the imports would increase, especially as the consumption of wheat and wheat products in South Africa remains strong. However, the latest South African Grain and Oilseeds Supply and Demand Estimates Committee estimates suggest that 2024-25 wheat imports may fall 7% to 1,80 million tonnes. This will be closely aligned with a five-year average of wheat imports to South Africa. The major boost is the higher opening stocks, supplemented by the ample imports in the past season. In a way, one could argue that South

African importers took advantage of global wheat imports' relatively better prices in the past few months to build supplies for this new season.

- We are still relatively early in the 2024-25 production season. However, the crop conditions look favourable in most regions of the country. Thus, we are optimistic that the expected harvest may materialize. If anything, we could even see slight upticks in the expected harvest. At the end of October, the Crop Estimates Committee had slightly lifted the 2024-25 South African wheat production forecast by 1% from the previous estimate to the expected 1,96 million tonnes.
- Overall, the 2024-25 season imports will likely account for 47% of South Africa's annual wheat consumption. The sourcing of imports should not be a challenge. There are sizeable global wheat supplies. The International Grains Council forecasts the 2024-25 global wheat production at 798 million tonnes, the second largest on record. This also implies that the global wheat prices could remain reasonably moderate for much of the coming months, thus benefiting importing countries such as South Africa.

Exhibit I: South Africa's wheat market



Source: CEC, SAGIS and Agbiz Research

WEEKLY HIGHLIGHT

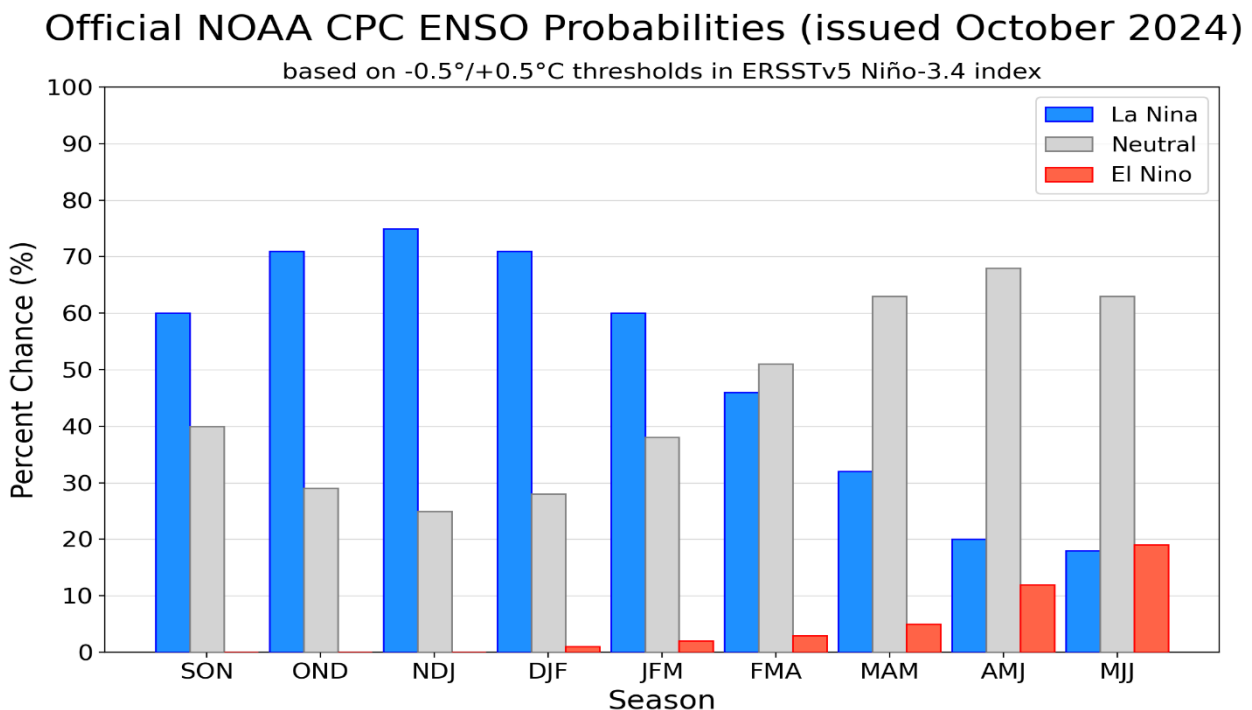
SA farmers will likely plant a slightly bigger area for grains and oilseeds in the 2024-25 season

- After a challenging 2023-24 summer crop season, which saw South Africa's grains and oilseeds production falling by 24% year-on-year to 15,39 million tonnes, the recovery period may be soon. The data released by the Crop Estimates Committee this past week shows that South African farmers intend to plant 4,47 million hectares of summer grains and oilseeds in the 2024-25 season. This is up mildly by 1% from the previous season.
- The planting intentions for white maize are at 1,58 million hectares (up 1% y/y), and yellow maize is at 1,06 million hectares (down 2% y/y). The overall maize planting intentions are at 2,64 million hectares (up 0,2% y/y), which aligns with the five-year average area. The planting intentions for soybeans are at 1,2 million hectares (up by 0,2%), the largest area on record. The sunflower seed planting intention is 540k hectares (up 2,1% y/y), slightly below the average planting of 554k hectares. The planting intentions for groundnuts are 40k hectares (down 2,9% y/y), sorghum at 54k hectares (up 28% y/y), and dry beans at 45k hectares (up 14% y/y).
- We think there are three primary drivers of this optimism. First, the relatively higher grains and oilseed prices on the back of the poor harvest in the past season provide an incentive for increased planting in the 2024-25 season. Second, the season starts with relatively better-priced input costs than the past season. In rands terms, most fertilizer product prices were down by roughly 10% year-on-year in September 2024 compared with the previous year. Since fertilizer accounts for approximately a third of the grain farmers' input costs in South Africa, such a price decline significantly improves farmers' finances.
- Also worth noting is that in rands terms, herbicide prices were down by around 20% in August 2024 compared with the same period last year. The prices of insecticides were down by roughly 15% year-on-year in August 2024. Since herbicides and insecticides comprise about 10% of grain farmers' input costs, declining prices help with operational costs. The stronger domestic currency, combined with the decline of these prices in the international market, is a significant factor behind the decrease in domestic prices. The recent easing in fuel prices at a time of high usage during planting is another positive factor regarding the operating conditions in the farming sector.
- Lastly, the prospects of a La Niña-induced rainfall in the 2024-25 summer season is another additional factor to be optimistic about the agricultural outlook in South Africa. Indeed, most regions of the country have not received any meaningful rains, but it is still early, and we suspect there could be a late start to the season. The comforting observation is that the major weather forecasters continue to see the likelihood of the La Niña event this season. For example, on October 15, the Australian Bureau of Meteorology noted, "The ENSO Outlook is currently at La Niña Watch, meaning there remain some

signs that a La Niña may form later in 2024". The Columbia Climate School at Columbia University sees the probability of La Niña occurrence at over 60% between October 2024 and January 2025. From February, the prospects slow to below 50%, with normal weather conditions dominating throughout the summer season.

- An important point to underscore here is that "normal" weather conditions in a summer season imply regular rainfall, not drought or "El Niño". Therefore, the normalizing weather prospects from February should not be a significant worry.
- Admittedly, the South African Weather Service (SAWS) has been more cautious than its peers to make a bold call on where we are regarding the weather prospects. On October 5, in its monthly Seasonal Climate Watch, the SAWS stated, "The El Niño-Southern Oscillation (ENSO) is still in a Neutral state and is predicted to weaken further. Current predictions indicate the development of a La Niña state during the start of the summer season; however, there is still significant uncertainty in the predictions. It is advised to monitor the ENSO system during the start of the summer season, as it may change the rainfall outlook for the summer rainfall regions if and when the La Niña materializes."
- Overall, these are intentions to plant, not an actual area. The preliminary area planting will only be out at the end of January 2025. Our focus will be on rainfall conditions and the progress of plantings across the country. We remain optimistic that we may recover, but the season will be delayed than usual.

Exhibit 2: La Niña prospects



Source: Columbia Climate School at Columbia University

WEEK AHEAD

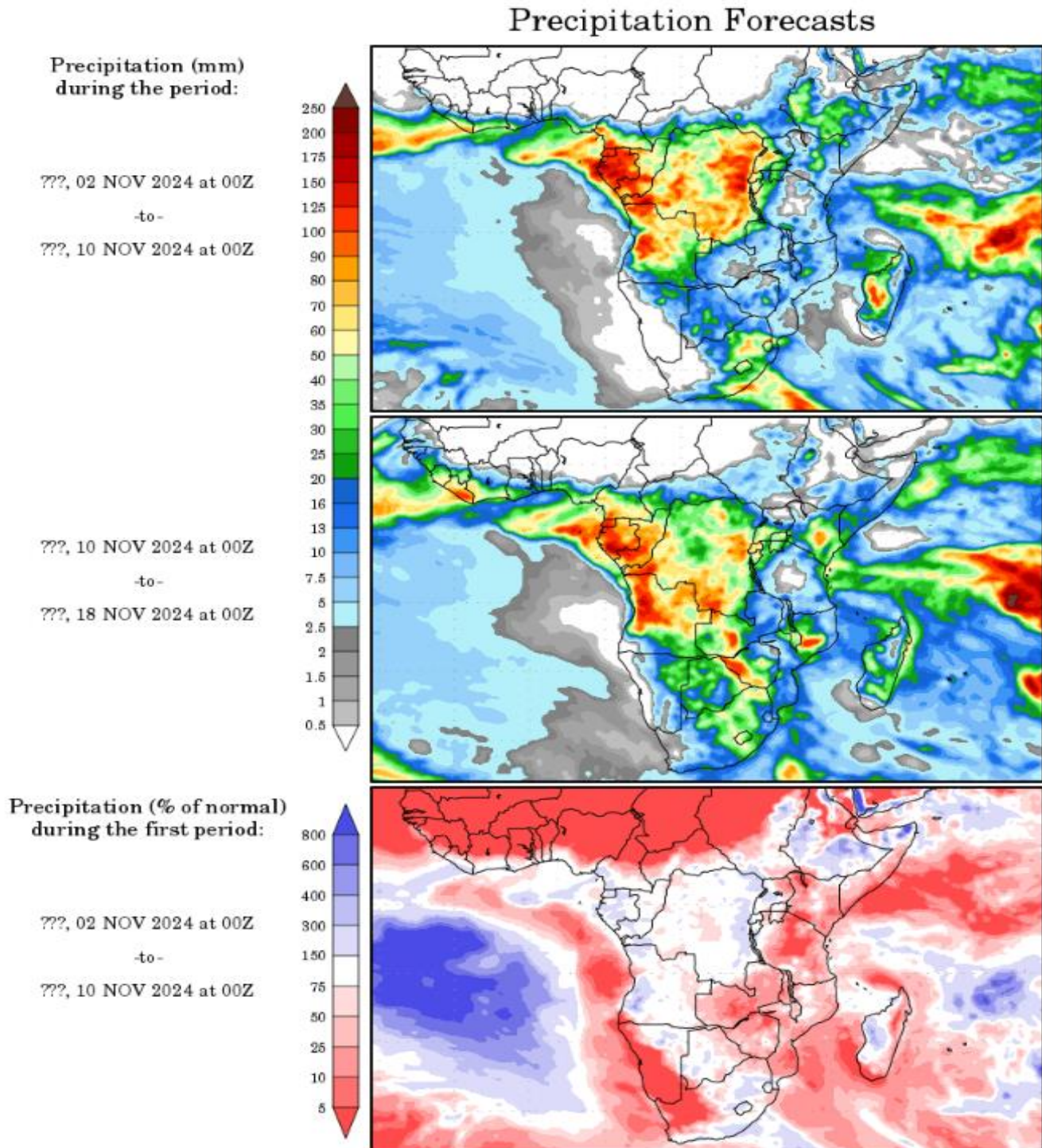
What we are watching this week

- As always, we start the week with a global focus, and today, the United States Department of Agriculture (USDA) releases its weekly **US Crop Progress** report. The US's 2024-25 maize harvest process is underway, with 81% of the crop harvested as of October 27, 2024. This is ahead of last season's pace, where 68% of the crop had been harvested by this time. Also worth noting is that 89% of the US soybeans had been harvested on October 27, 2024, compared with 82% at the same time last year. Moreover, the USDA will release its **weekly US Grains and Oilseed Export Sales** data on Thursday.
- On Friday, the Food and Agriculture Organization of the United Nations will release its **October 2024 results of the Global Food Price Index**, a measure of the monthly change in international prices of a basket of food commodities.
- On the domestic front, 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 27th week of the 2024-25 marketing year. In the previous release on October 25, South Africa's weekly maize producer deliveries were about 35k tonnes. This puts the 2024-25 maize producer deliveries at 10,26 million tonnes out of the expected harvest of 12,72 million tonnes.
- The 2024-25 soybean deliveries in the first 35 weeks of this new marketing year amounted to 1,75 million tonnes out of the expected harvest of 1,83 million tonnes. At the same time, the sunflower seed deliveries amounted to 625k tonnes out of the expected harvest of 636k tonnes.
- On Thursday, SAGIS will publish its **weekly South Africa's Grains and Oilseeds Trade** data for the 27th week of the 2024-25 marketing year. In the previous release on October 25, the 26th week of the 2024-25 marketing year, South Africa exported 40k tonnes of maize. Of this volume, 47% was exported to Zimbabwe, 20% to Namibia, 15% to Botswana, and the balance to the neighbouring African countries. This puts South Africa's total maize exports in the 2024-25 marketing year at 1,12 million tonnes out of the expected 1,90 million tonnes (down from 3,44 million tonnes in the 2023-24 marketing year because of the mid-summer drought).
- 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 recently seen the imports of yellow maize from Argentina through Cape Town. South Africa's 2024-25 maize imports currently stand at 278k tonnes.
- South Africa is a net wheat importer, and the week of October 25 was the fourth week in the new 2024-25 marketing year. The imports so far amounted to 146k tonnes. The seasonal import forecast is 1,80 million tonnes, down from 1,93 million tonnes the past season.

South Africa's Precipitation forecast

- The near-term weather prospects look promising after some dry spells and high temperatures over most regions of South Africa. The following two weeks could bring widespread rains over the summer crop-growing areas. This will help improve soil moisture and support the planting activity for the 2024-25 summer crops.

Exhibit 3: South Africa's precipitation forecast



Source: George Mason University (wxmaps)