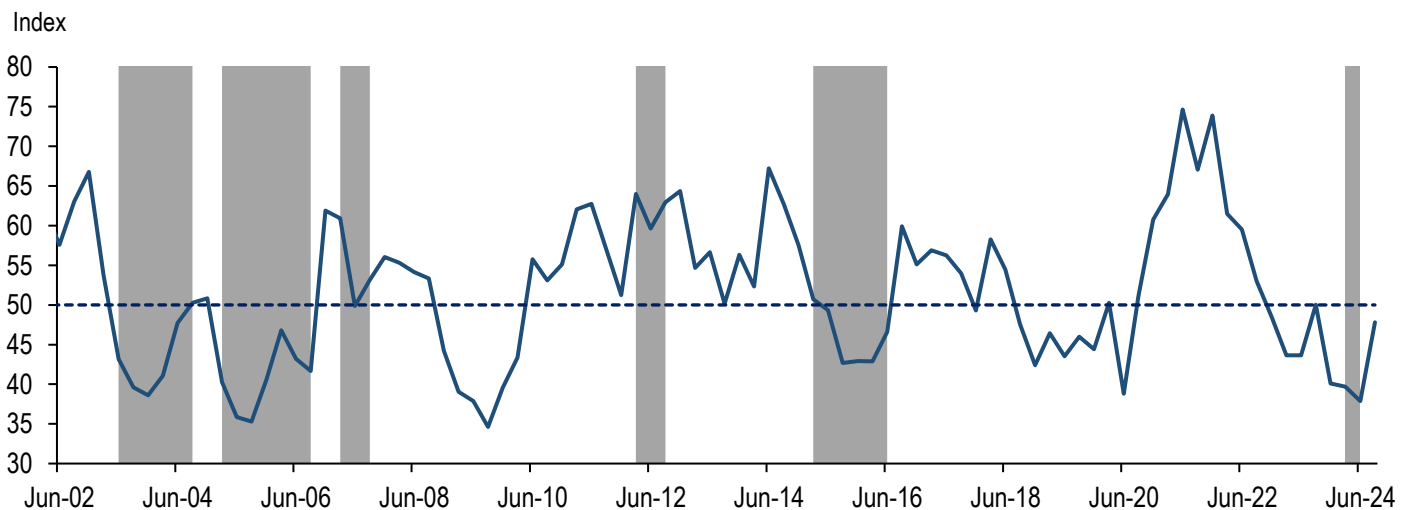


## In search for optimism in South Africa's agriculture

- Like many other sectors of the economy, South Africa's agriculture has shown signs of improving optimism since the start of the Government of the National Unity (GNU), which has fueled confidence levels about the path forward. The Agbiz/IDC Agribusiness Confidence Index (ACI), a sentiment indicator about business conditions in the sector, has risen from its low levels in the second quarter of 2024. The ACI increased by 10 points to 48 in the third quarter. While the index remains below the neutral 50-point mark, the jump by 10 points is encouraging. It signals that things are moving in the right direction.
- A sustained lift in sentiment matters, especially over the long run, for fixed investment in the agriculture and agribusiness sectors. The ACI also serves as a leading indicator of agricultural growth prospects over time. We can thus expect slightly better farming output data for the third quarter of the year.
- Several factors underpin the improvement in sentiment. One of them is the better electricity supply in the country. South Africa's horticultural production – fruit, vegetables and floriculture – is under irrigation, requiring a sustainable energy supply. Furthermore, roughly a third of field crops are produced under irrigation, benefiting from improved energy supply. The livestock, poultry, and dairy industry are also among the major energy users in the sector. Aquaculture industries like abalone farms also require a sustainable energy supply to pump fresh water.
- Indeed, there has been a significant increase in renewables and other alternative energy sources, but the broad stability in the national energy supply has helped.
- Moreover, the fact that the 2024-25 summer season starts, at least for field crops and horticulture, with relatively better-priced input costs compared with the past season, is another reason to be optimistic. For example, 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. While we highlight the proportion of these products in the grain farmers' costs, they also make a considerable share of the production costs in the horticulture sub-sector. 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.

- 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. The weather arguably matters more than other factors regarding the sector's performance. The 2023-24 mid-summer drought has led to a projected 23% decline in South Africa's summer grains and oilseed production to 15,45 million tonnes. This is also one of the factors behind the contraction in the agricultural gross value added in the second quarter of this year (in addition to the animal disease challenges). Therefore, the possibility of improvement in rainfall occurrence means that the recovery in the sector's performance is in sight.
- Ultimately, improving agricultural production conditions would also bode well for job creation in the sector and the consumer food price inflation outlook going into 2025.
- While we highlight these reasons for optimism in the agricultural sector, we remain of the firm belief that the long-term growth prospects of South Africa, which would also deliver jobs, hinge on the GNU's ability to resolve the challenges of the network industries, improve the functioning of the municipalities, address the animal diseases, and open new export markets in a world that is increasingly fragmented.

### Exhibit I: Agbiz/IDC Agribusiness Confidence Index



Source: Agbiz Research, South African Weather Service  
 Shaded areas indicate periods of drought in South Africa.)

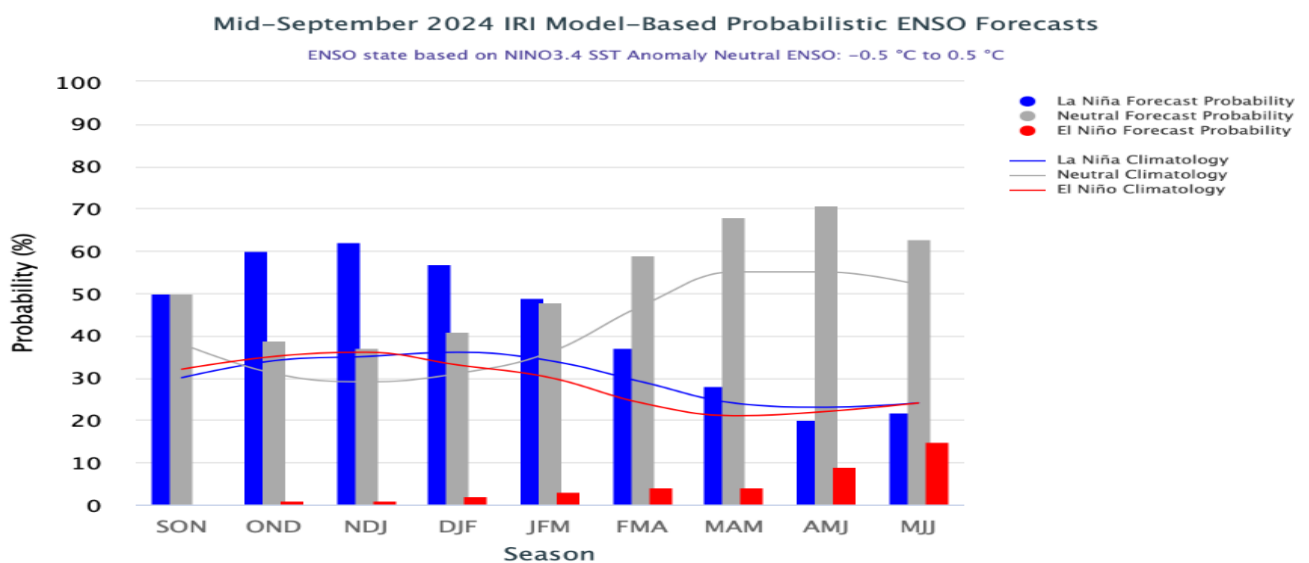
## WEEKLY HIGHLIGHT

### We remain upbeat about SA's 2024-25 agricultural production season

- It is perhaps a reasonable choice to remain optimistic about the upcoming 2024-25 summer season in South Africa's agriculture. Global weather forecasters paint encouraging prospects for weather conditions. For example, the Australian Bureau of Meteorology and the International Research Institute for Climate and Society (IRI) at Columbia University continue to forecast La Niña occurrence.

- The Australian Bureau of Meteorology states, "The ENSO Outlook is at La Niña Watch, meaning there are some signs that a La Niña may form in the Pacific Ocean later in 2024". Meanwhile, the IRI sees a strong likelihood of La Niña now through January 2025, and after that, it weakens as the weather normalizes (see the blue bar in Exhibit 1).
- Overnight, the South African Weather Service (SAWS) also published a cautiously optimistic note. The SAWS stated that the "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."
- The SAWS added that "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. Current predictions focus on the early- and mid-summer seasons and indicate wetter conditions over the interior of the country. The northeastern parts, however, at this stage, indicate drier conditions extending through to the mid-summer period."
- What we draw from these statements is that (1) South Africa and indeed the Southern Africa region is out of an El Niño cycle, which typically brings drought and has had a devastating impact on agriculture in the 2023-24 summer season; (2) there is reason to be optimistic about the La Niña possibilities and favourable rains in the 2024-25 season (but must be mindful of the regions the SAWS suggests may be slightly dry for some time), and that (3) even if we are out of a La Niña cycle soon and in the "neutral" state, the agricultural conditions could still be favourable as the "neutral" state implies normal conditions.
- In essence, we are inclined to believe that the 2024-25 agricultural season may be a period of recovery in South Africa and the Southern Africa region following a challenging drought period in the 2023-24 season, which negatively impacted not only summer grains and oilseeds, but also the livestock industry.

## Exhibit 2: La Niña Watch



Source: International Research Institute for Climate and Society (IRI) at Columbia University

## India has removed the rice export ban, and this is positive for SA consumers

- The disruptions in the primary grain supplies always spark fear of food security. Indeed, in July 2023, India sparked fresh concerns about global food security as the world was readjusting from the disruptions caused by the Russia-Ukraine war on global grain supplies and prices. The country placed a ban on the non-basmati white and broken rice. This affected category typically accounted for 45% of the 22 million tonnes of rice that India exports to the global market annually. The rationale cited in media articles at the time was that India's government was worried about inflation ahead of the upcoming elections.
- After that official announcement on July 20, 2023, global rice prices rallied in the following months, as many were concerned about possible supply shortages. The worries were not misplaced. India accounts for roughly 26% of global rice production. Fortunately, there was a quick adjustment of supply chains, and the world did not necessarily face a major rice shortage. The fact that other notable rice exporters such as Pakistan, Thailand, the US, Vietnam, China, Cambodia, and Myanmar had a good crop in the 2023-24 season also helped to ease the fears over time and to avail the supplies.
- We are far from that reality today – at least from the rice price levels. The global rice prices have softened notably in recent weeks because of the expected ample global supplies. Moreover, at the end of September 2024, India finally eased export restrictions, as above-average monsoon rains are expected to boost crop yields, and there are ample global supplies. (India has, however, imposed a minimum export price of \$490 per tonne). The rice prices from various origins have moderated significantly from the higher levels we saw last year – currently trading at levels around US\$550 per tonne, compared to levels around US\$650 per tonne at the end of 2023.
- We paid attention to the rice issue in South Africa throughout this period because of our dependence on rice imports. We rely 100% on imports. We consume about a million tonnes of rice annually. We can't produce rice because of our relatively dry environment; we are generally a semi-arid country. Thailand is the leading rice supplier to South Africa, accounting, on average, for 74% of South Africa's rice import volume a year in the past five years. India is the second largest rice supplier to South Africa, boasting an average annual share of 21% over the past five years. Other rice suppliers to South Africa include Pakistan, Vietnam, China, Australia, the US, and Brazil.
- Therefore, this reliance on imports means we should constantly monitor global price developments. Indeed, this time around, the rice price prospects look to continue softening because of the abundant supplies and minimal trade disruptions. The International Grains Council forecasts 2024-25 global rice production at 528 million tonnes, up 1% year-on-year. There are expectations for a good harvest in India, Vietnam, Thailand, the US, Pakistan, China, India, Bangladesh and Pakistan, amongst others. The expansion in area planted and favourable weather conditions are some of the factors behind the optimism about the global rice harvest in the 2024-25 season. Subsequently, the global rice stocks could also lift by 1% from the 2023-24 season to 176 million tonnes.
- All else being equal, one can say that the coming months will likely see much better continuous moderation in global rice prices. This benefits the importers like South Africa. Moreover, the relatively less depreciated domestic currency will also help ease the costs of imported rice.

## WEEK AHEAD

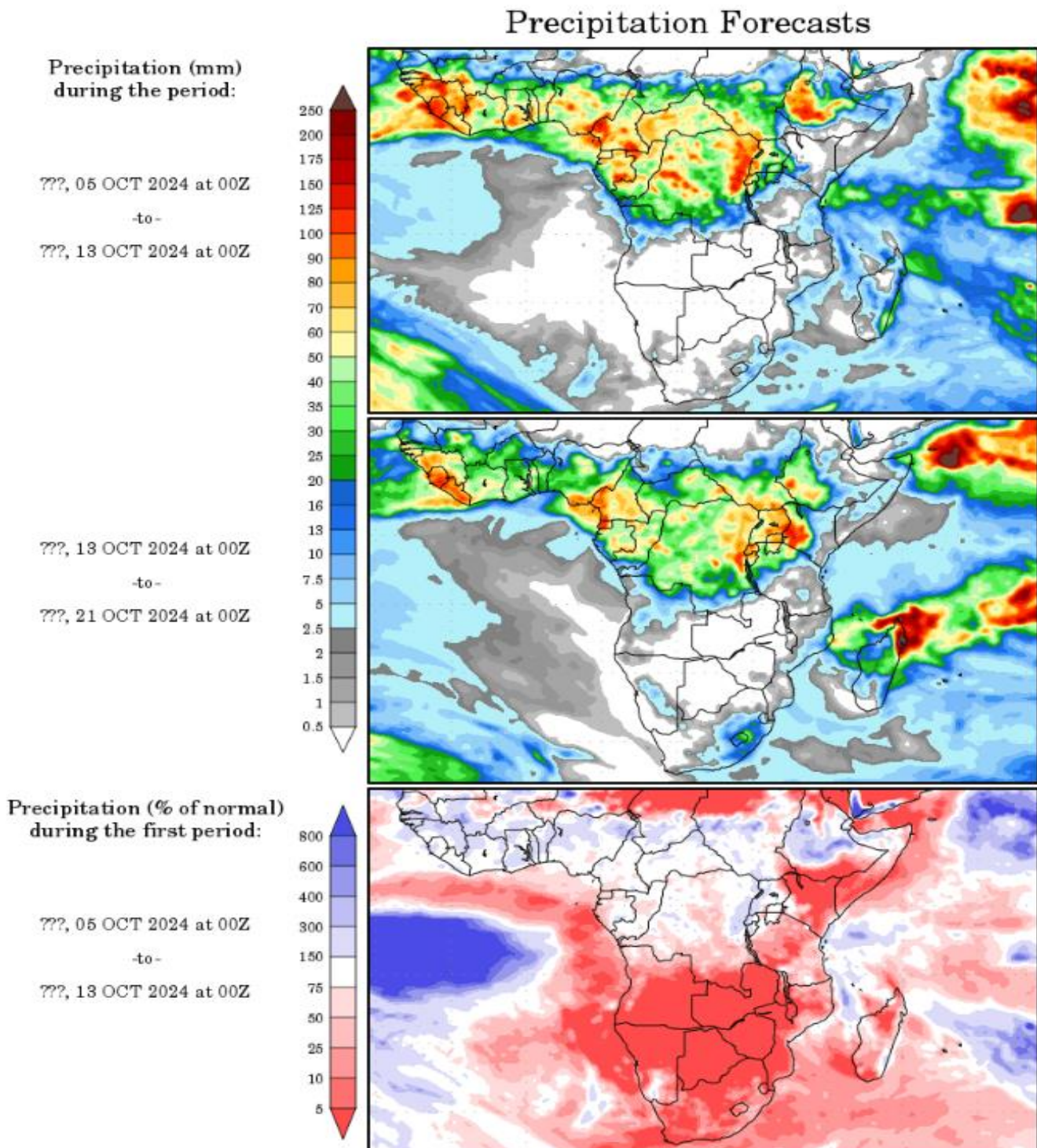
### What we are watching this week

- As always, we start the week with a global focus, and on Monday, the United States Department of Agriculture (USDA) releases its weekly **US Crop Progress** report. The US's 2024-25 maize harvest process is underway in some States, with 21% of the crop harvested as of September 29, 2024. This is ahead of last season's pace, where 18% of the crop had by this time. We also continue monitoring crop conditions in the US, which will inform the yield prospects. In the week of September 29, about 64% of the US maize crop was rated good/excellent (compared with 53% rating at the same time last year). Also worth noting is that 20% of the US soybeans had been harvested on September 29, 2024, compared with 18% at the same time last year. Regarding the soybean growing conditions, about 64% of the US soybean crop was rated good/excellent (compared with the 52% rating at the same time last year).
- Moreover, the USDA will release its **weekly US Grains and Oilseed Export Sales** data on Thursday.
- 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 23rd week of the new marketing year, 2024-25. In the previous release on September 27, South Africa's weekly maize producer deliveries were about 44k tonnes. This placed the 2024-25 maize producer deliveries at 10,0 million tonnes out of the expected harvest of 12,80 million tonnes. The 2024-25 soybean deliveries in the first 31 weeks of this new marketing year amounted to 1,73 million tonnes out of the expected harvest of 1,81 million tonnes. At the same time, the sunflower seed deliveries amounted to 622k 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 23rd week of the 2024-25 marketing year. In the previous release on September 27, the 22<sup>nd</sup> week of the 2024-25 marketing year, South Africa exported 38k tonnes of maize. Of this volume, 54% was exported to Zimbabwe, 17% to Botswana, 15% to Namibia, and the balance to the neighbouring African countries. This places South Africa's total maize exports in the 2024-25 marketing year at 929k 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 220k tonnes.
- South Africa is a net wheat importer, and September 27 was the 52nd week of the 2023-24 marketing year, with wheat imports totalling 1,89 million tonnes. We will now transition to the new marketing year of 2024-25 from the first week of October. South Africa will remain a net wheat importer in this new marketing year.

## South Africa's Precipitation forecast

- The weather forecast for this week shows clear skies over most regions of South Africa. While this is not ideal for the 2024-25 summer crop production season that starts soon and requires better soil moisture, we are still in the early days. The rainfall prospects will likely improve in the coming weeks.

### Exhibit 3: South Africa's precipitation forecast



Source: George Mason University (wxmaps)