

Logistics should be a key area of focus for SA agriculture

Logistics has always been the backbone of South Africa's export-oriented agricultural sector, although it does not always get as much attention as it has more recently due to various disruptions. South Africa's agricultural exports, valued at US\$10,2 billion in 2020, the second-largest value on record, were supported by functional logistics at the shipping ports and the farm gate. Since the start of the Covid-19 pandemic, the disruption in the global shipping lines, growing container ship shortages and costs, theft of Transnet infrastructure, and most recently, cyberattacks at the same company have brought some focus into this sector. For South Africa's agricultural sector, especially the export-focused subsectors such as the fruit, wine and grain industries, smooth running of the logistics is crucial.

Through these challenges, South Africa's agriculture logistics role players pushed hard to maintain robust export activity in the first half of this year. Hence, South Africa's agricultural exports amounted to US\$6,1 billion, which is a 30% y/y increase. Compared with last year, the growth is partly because of base effects, as the first half of 2020 was heavily affected by the Covid-19-related disruptions to global supply chains. Still, the growth reflects rising export performance for various products and functional logistics systems. Notably, there had also been coordinated efforts between the significant logistics role players such as Transnet and others, through regular industry meetings, to ensure the ports' continuous functioning in these challenging times. The export figures are, in a way, an indicator of the success of these coordinated efforts.

Still, more needs to be done as South Africa's agricultural output is likely to increase in the coming years, especially within fruits, which will demand extra capacity at the ports. Notably, the major economic reconstruction initiatives such as Agriculture and Agro-processing Master Plan also attempt to boost domestic production. The additional output will need to be channelled to the export markets, increasing the volumes in the South African ports. Another important consideration is that even in-country logistics will increasingly come under pressure as agricultural production improves. A large share (of about 80%) of major agricultural commodities such as maize, wheat and soybeans are transported by road. As South African authorities have signalled, a move from road to rail will require increased investment and security at rail lines. The constant theft at Transnet lines is counter-productive to the national efforts and business activity and should be a key focus for the police and security authorities.

Beyond the inland transport facilities, there is also a need for increased investment and efficiency and ways of reducing costs for users at the ports. South Africa's ports currently rank poorly in the global rankings. A case in point is the World Bank and IHS Markit's Comparative Assessment of Container Port Performance. South Africa's ports of Cape Town, Port Elizabeth, Durban and Ngqura were at the bottom of 351 ports of various countries.¹ As with several interventions in the recent past where the government's financial resources are constrained, a dialogue between government, logistics role players and potential investors might be crucial for mobilizing capital for investments in the ports. This should be a long-

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¹ The New Global Container Port Performance Index (CPPI) can be accessed here: <https://ihsmarkit.com/research-analysis/new-global-container-port-performance-index-cppi.html>

term and strategic area for the country to focus on, especially as the global leading shipping companies anticipate challenges in the shipping lines for years to come.²

The logistics are a bloodline of success and should be the focus of policymakers and various industry role players. From an agricultural sector perspective, the key is to identify areas that need improvement and present those to organized platforms of the logistics role-players and government for solution-oriented deliberations. Through its involvement at Transnet, the government is a major player in this effort and should dedicate energy towards improving the country's logistics. Importantly, this is not a challenge unique to agriculture but all export-oriented sectors such as mining, automobile, and other manufacturing areas.

Weekly highlights

Favourable rains boosted South Africa's 2021/22 winter crop

Last week, South Africa's Crop Estimates Committee released its first production estimates for winter crops — wheat, barley, canola and oats. Since the start of the 2021/22 season, the Western Cape, which grows more than two-thirds of these winter crops, received favourable rainfall. Farmers also responded positively to the good rains through increasing area plantings. For example, the recently released data show that wheat, canola, and oats plantings are up by 2% (to 521 500 hectares), 35% (to 100 000 hectares) and 34% (to 35 150 hectares) y/y, respectively. For wheat, the area planted is roughly in line with the 11-year average, while for canola and oats, current planting is the largest on record. Barley is the only winter crop that farmers cut its area sharply by 33% y/y to 94 730 hectares. This is partly because of lower demand following temporary bans on alcohol sales at various intervals since the pandemic and a large harvest in the previous 2020/21 season.

These winter crops have matured and are in good condition within the Western Cape and various parts of South Africa. Importantly, there is generally good soil moisture to support the crops in the coming months following higher rainfall over the past few months. The higher winter rainfall in the Western Cape is reflected in dam levels. In the week of 30 August 2021, the Western Cape's provincial dams averaged 82% full, compared with 72% in the corresponding period last year.

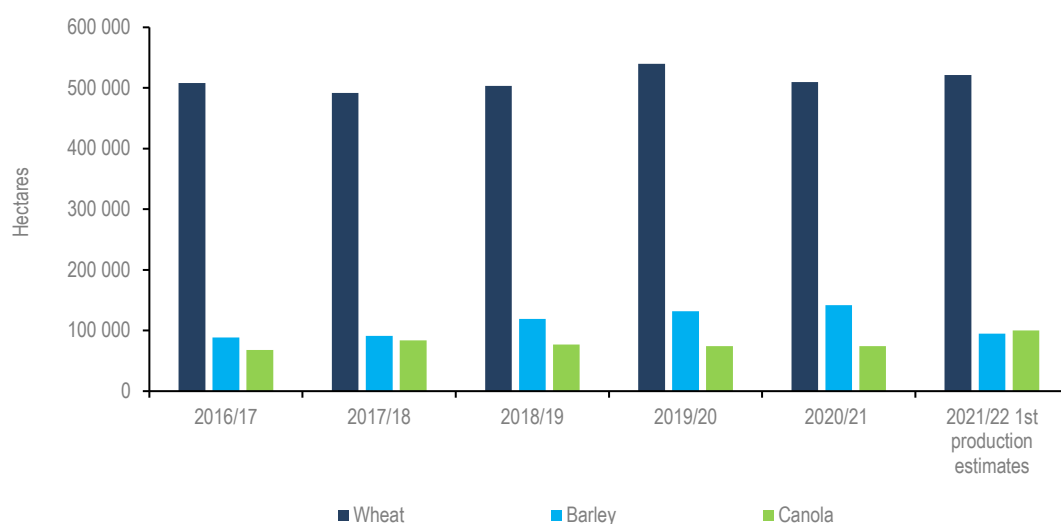
Against this backdrop, the first production estimates mirror optimism about the 2021/22 winter crop. For example, canola and oats production could reach record levels of 195 000 tonnes (up 18% y/y) and 79 253 tonnes (up 39% y/y). Surprisingly, the wheat production estimate is 2,09 million tonnes, down by 2% from the 2020/21 season. This is primarily underpinned by a decline in area plantings and lower yields in parts of the Free State. The Western Cape registered an uptick in production from the 2020/21 season. Still, given the overall increase in area planted and the positive reports about crop conditions we continue to receive from farmers in the Western Cape and other regions, this particular estimate could be lifted in the coming months, in our view. In line with our expectations, the barley production estimate is down by 39% from the 2020/21 season, estimated at 356 700 tonnes.

Nevertheless, South Africa will remain a net importer of wheat even if the 2021/22 harvest is larger than the previous season. The import requirements for the marketing year, which starts on 01 October 2021, will become clearer once we have a reliable estimate of the current crop. Generally, under the scenario of a potential uptick in the harvest from 2020/21, imports could decline from the expected volume of 1,6 million tonnes in the current marketing year.

² Harry Dempsey, "Executives warn of growing container ship shortages", *Financial Times*, 23 August 2021. Available: <https://www.ft.com/content/90cf1470-8999-4a7e-8390-441305139928>

Additionally, the price direction will continue to be largely guided by the global dynamics, primarily because of South Africa's dependency on imports. On 02 September 2021, South Africa's wheat spot price traded around R5 860 per tonne, up by 11% y/y. We anticipate that prices could soften somewhat in the coming months, in line with our expectations of a slight decline in the global wheat prices which will be underpinned by improvement in production. The International Grains Council (IGC) forecasts 2021/22 global wheat production at a record 788 million tonnes, up 2% y/y. The upside risk to this view is the rising consumption, especially in the global animal feed industry and other industrial uses. As a consequence, the global wheat stocks could remain tight irrespective of the expected increase in production. IGC forecasts a mere 1% increase in 2021/22 global wheat stocks to 280 million tonnes, which means the prices might not fall as some might have initially anticipated. The tight stock levels always cause volatility in global wheat prices whenever there are reports of unfavourable weather conditions or logistic glitches in major exporting countries. This happens even if such news later turns out to be inconsequential to the market fundamentals.

Exhibit 1: South Africa's winter crop plantings



Source: Crop Estimates Committee and Agbiz Research

SA Weather Service reaffirms its optimistic view about 2021/22 summer rainfall

Our note on 30 August 2021 alluded to prospects of La Niña rains in the 2021/22 summer season. This followed a July report of the South African Weather Service and also an August report by the International Research Institute for Climate and Society. On 03 September, the local weather urgency reaffirmed its view, noting that the "El Niño-Southern Oscillation (ENSO) is currently in a neutral state and the forecasts indicate that it will most likely remain in a neutral state for spring, with a likely change to a weak La Niña during early- and mid-summer." Moreover, "as we move towards the spring and summer season, ENSO starts playing an important role in our summer rainfall. As such, the increased likelihood of a weak La Niña during early- and mid-summer is expected to be favourable for above-normal rainfall in that period."

This statement underscores our view that South Africa could have three consecutive seasons of higher rainfall. The only periods in the recent past that had three successive years of conducive weather conditions and a large crop harvest were in 2007/08, 2008/09, and 2009/10 production seasons. Importantly, these are positive prospects not only for summer crops but all agricultural subsectors – horticulture and livestock included. The favourable rainfall of the past two seasons ensured that the horticulture industry recovered from the strain of the recent droughts and topped the agriculture exports list. We are likely to witness

a continuation in 2022. The same is true for the livestock industry as the grazing veld will also improve.

The only major challenge is heavy users of grains and oilseeds within the livestock and poultry industry. While a La Niña weather event is positive for Southern Africa, it could bring dryness for South America. We witnessed it in 2020/21 and the downward revisions on Brazilian and Argentinian grain production forecasts due to poor yields. A repeat of this scenario would mean that the preliminary forecasts of a large crop in these regions that the United States Department of Agriculture (USDA) and the International Grains Council (IGC) have recently released would most likely be cut in the coming months. Under such a scenario, the global grains prices would not fall notably in the coming months as we had previously expected (although they will probably remain at lower levels than at the start of 2021). Such price dynamics would spill over into South Africa's grain market, as had been the case for much of 2020 and this year, and add upward pressure on the livestock and poultry sector input costs.

Data releases this week

We start the week with a global focus. On Tuesday, the USDA will release the **US Crop Progress report** for 05 September 2021. In the previous report of 29 August, the US maize crop was rated 60% good/excellent, which is slightly below the last year's rating in the same week of 62%. In the same week of 29 August 2021, the US soybean crop was rated 56% good or excellent, which means the crop is poorer than the same time last year when the rating was 66%. Essentially, these results reflect the drier weather conditions that parts of the US have experienced these past few weeks. On Friday, the USDA will also release the **US Weekly Export Sales** data and the **World Agricultural Supply and Demand Estimates (WASDE)** monthly report. The WASDE report will provide a view of the possible supply volumes of key grains and oilseeds on the backdrop of changing climatic conditions. At the end of August 201, the IGC maintained an optimistic view that 2021/22 global grains production could amount to 2,28 billion tonnes, which is 3% up from the 2020/21 season. We will watch if the USDA holds a similar view.

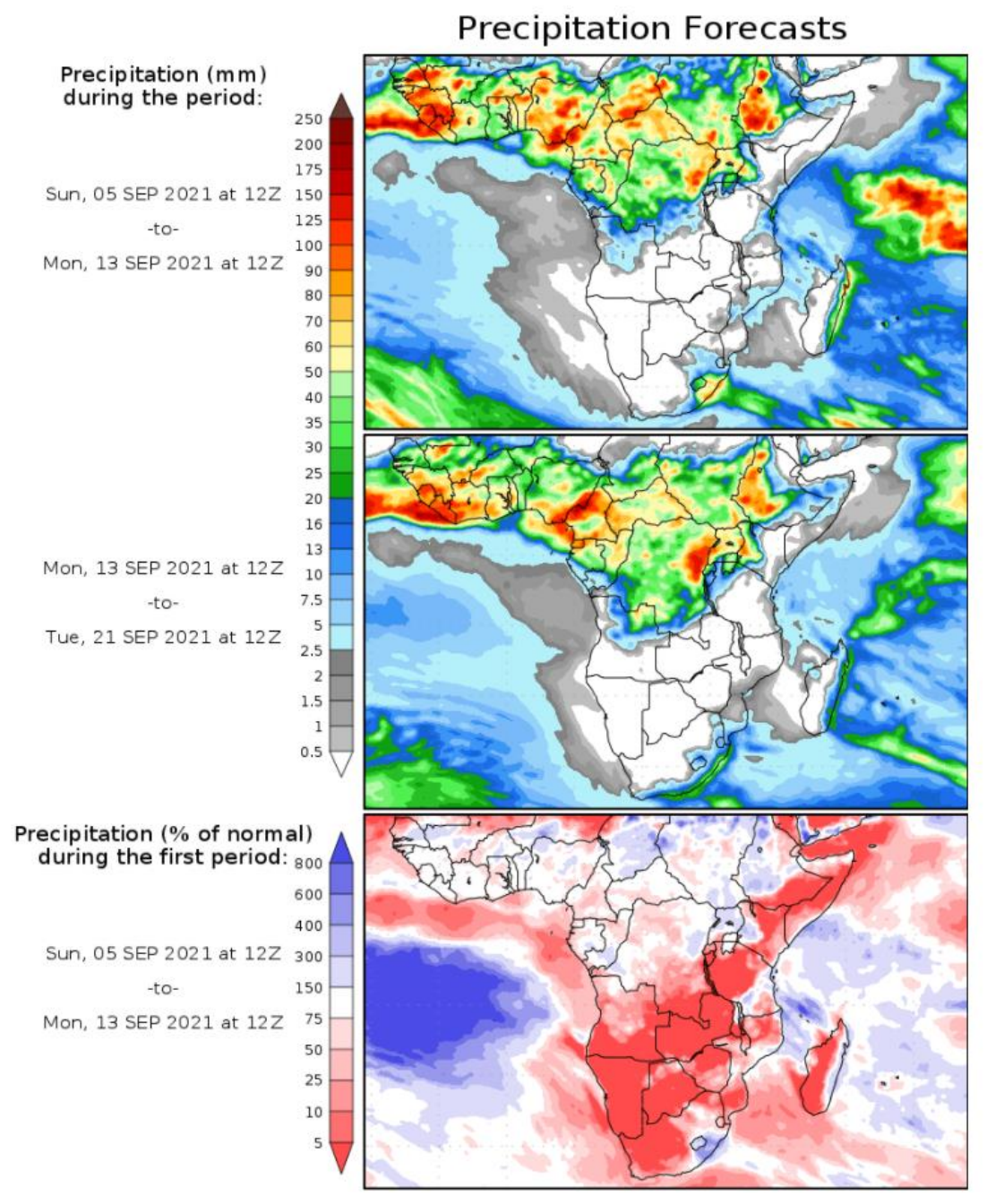
On the domestic front, we have a first data release by Statistics South Africa on Tuesday, the **GDP for the second quarter of 2021**. We expect a positive quarterly rebound following a contraction in the first quarter of the year, more so, as the second quarter had increased activity through harvesting and exports of field crops and a range of horticulture products. Notably, South Africa's agricultural economy is on a solid footing for a second consecutive year following large harvests in field crops and horticulture this year.

On Wednesday, SAGIS will release the **Weekly Grain Producer Deliveries** for 03 September 2021. This data cover summer and winter crops, although we only focus on summer crops for now, where harvesting has recently been completed, and farmers will soon be preparing for the next season. To recap, on 27 August, about 1 867 tonnes of soybeans were delivered to commercial silos. This placed the soybean producer deliveries for 26 weeks of the 2021/22 marketing year at 1,82 million tonnes, which equals 96% of the expected harvest of 1,89 million tonnes (revised estimate from the previous 1,92). Moreover, 662 763 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 seventeenth week of the 2021/22 marketing year, which began in May. The producer deliveries currently amount to 13,6 million tonnes, equating to 83% of the expected crop of 16,3 million tonnes (revised down from the previous estimate of 16,4 million tonnes).

On Thursday, SAGIS will release the **Weekly Grain Trade** data for the week of 03 September 2021. In the week of 27 August, which was the sixteenth week of South Africa's 2021/22

maize marketing year, total maize exports amounted to 1,3 million tonnes, which equates to 48% of the seasonal forecast of 2,7 million tonnes (down by 7% y/y). The annual decline in South Africa's maize export forecast is because of anticipated soft demand in Southern Africa on the back of an improvement in the region's supplies. In terms of wheat, South Africa is a net importer. On 27 August, imports amounted to 1,4 million tonnes, equating to 88% of the seasonal import forecast of 1,6 million tonnes.

Exhibit 2: South Africa's precipitation forecast



Source: George Mason University (wxmaps)

The weather forecast (Exhibit 2) for the next two weeks shows clear skies over most regions of South Africa (with the exception of the eastern parts).

Again, this is not a major issue at this point as the planting season requires rains only at the beginning of October, and the rainfall prospects are positive.