

April 8 2024

South Africa's red meat and wool exports are on a recovery path

- The past two years presented major challenges for the South African livestock industry. The spread of the Foot-and-Mouth Disease (FMD) and higher feed costs were the two major factors that weighed on their business. As farmers, various feedlots, and the government worked to control the spread of the FMD, the impact was deepening on the revenues of farming businesses as they suddenly had to limit the movement of animals, and various export markets were temporarily closed. In the case of the beef industry, in 2022, the exports fell below the prior five-year average, totalling 26 881 tonnes, down 16% year-on-year, according to data from Trade Map. The exports recovered slightly in 2023, up 3% year-on-year to 27 675 tonnes.
- Even as the beef industry confronted these challenges, it had already resolved that widening the export market would catalyze its long-term growth. There was evidence pointing to the expansion of exports. For example, between 2017 and 2021, South Africa's overall beef exports averaged 31 169 tonnes. This was notable progress as the beef exports had averaged 26 670 tonnes five years prior, and the years before that were less than 15 000 tonnes. The spread of animal diseases threatened this export growth.
- Between 2017 and 2021, the exports comprised, on average, 49% fresh beef and 51% frozen beef. The export markets were also diverse. For fresh beef, Kuwait, Jordan, United Arab Emirates, Mozambique, Lesotho, Qatar, Zimbabwe, Mauritius, and the Netherlands were some of the largest and most consistent markets. Similar markets and new ones were at the top of the list for frozen beef. These included Lesotho, Mozambique, China, the United Arab Emirates, Jordan, Egypt, the Netherlands, Qatar, Hong Kong, and Kuwait. Fortunately, while some regional markets had temporarily closed off the red meat products from South Africa, some remained open. Thus, the exports did not collapse in 2022 and 2023, when animal disease was a major challenge.
- This challenge was not limited to the cattle industry. Although the wool industry was not directly affected by FMD, some export markets temporarily closed due to concerns related to the disease. China, which accounts for more than two-thirds of South Africa's wool exports, temporarily closed for various periods in 2022 and 2023. The impact of those temporary closures is visible on export volumes of wool. For example, in 2022, South Africa's wool exports fell by 19% year-on-year to 42 239 tonnes. The major decline in volume was in the Chinese market.
- Fortunately, the engagements between the South African and Chinese authorities to reassure them of the safety measures in place to ensure that there is no spread of disease led to the resumption of exports. In 2023, South Africa's wool exports recovered 18% year-on-year to 49 715 tonnes.
- The higher feed costs were a factor outside the control of the farmers and regulators. This was also not unique to South Africa but a global phenomenon. The rise in Chinese demand for grains, coupled with

drought in South America, higher shipping costs, and the Black Sea war, were major drivers of grain prices in the past two years. South Africa is interlinked to the global market; thus, the rise in international grain prices was also a reality here at home. For this reason, the livestock farmers had to contend with higher feed prices while simultaneously being squeezed in export markets.

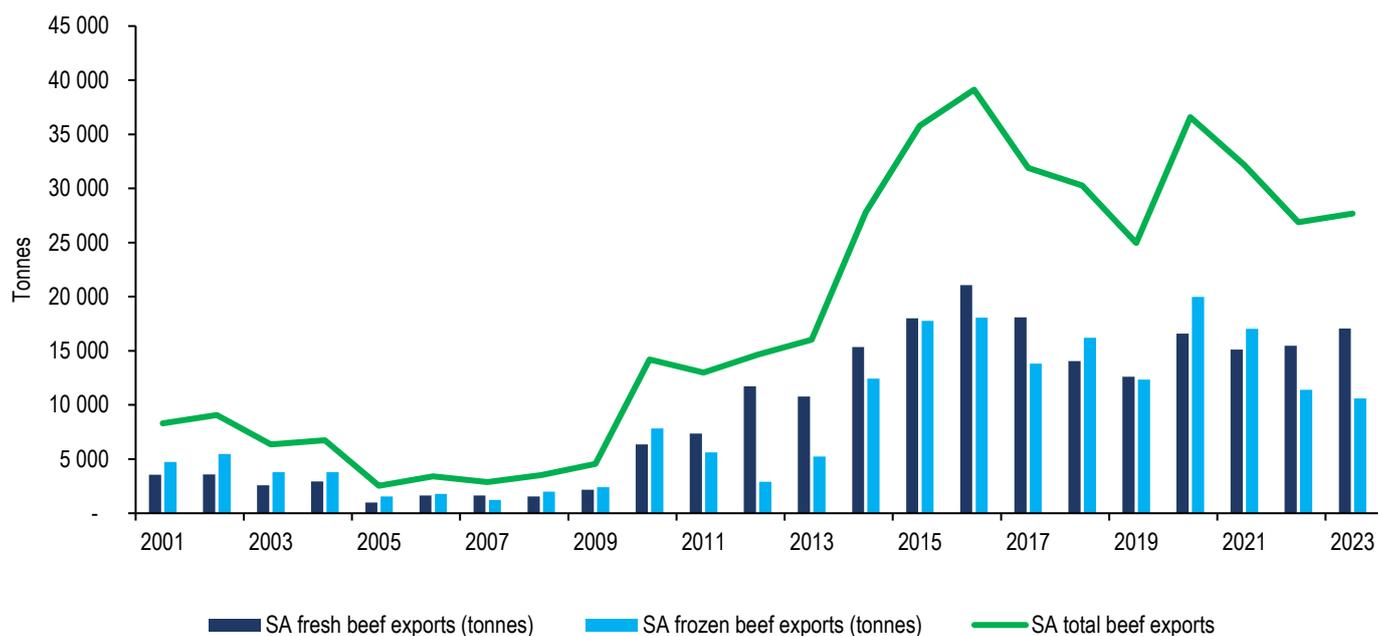
Inclusion agenda

- There is also a transformation and inclusivity agenda in the performance of the wool and beef industries. These industries are among the agricultural subsectors with a large share of new-entrant black farmers. Therefore, the financial strain of the past few years might have also delayed the progress that various stakeholders are making to drive transformation in these industries. National Agricultural Marketing Council data shows that black farmers account for roughly 18%, 13% and 34% of wool, mohair, and cattle production, respectively.

Broader economic view

- Above all, livestock is also a part of the South African economy, accounting for nearly half of the gross value added when combined with the poultry and piggery industries. The poultry and piggery also faced a fair share of challenges, primarily the African swine fever and avian influenza, which became a heavy financial burden for producers. This signals weaknesses in South Africa's biosecurity system in the recent past.
- Still, with more export markets opening, such as Saudi Arabia, China, and others, South Africa must continue its collaborative efforts between the government and private sector to strengthen biosecurity. Importantly, widening the export markets while retaining the existing ones remains a priority for both the government and the private sector.
- Indeed, the past two years for South Africa's livestock industry were challenging. Fortunately, the path forward is promising. The export drive and strengthening of the biosecurity system are part of the interventions that provide an environment where this industry could continue to play a vital role in the South African farm economy. Feed prices may again be a challenge in the near term as the country struggles with a drought, but the long-term outlook remains optimistic.

Exhibit I: South African beef exports



Source: Trade Map and Agbiz Research

WEEKLY HIGHLIGHT

Will the improved global grain production cushion the South African consumer from the current domestic drought?

- The global grain supplies are at comfortable levels; thus, prices have continued to moderate. For example, the Food and Agriculture Organization of the United Nations Cereals Price Index, which measures the monthly change in international prices of grains, averaged 111 points in March 2024, down 3% from its February level and 20% below its March 2023 value.
- The broad moderation in grain prices underscores improved global supplies in the 2023/24 season. For example, the International Grains Council (IGC) forecasts the 2023/24 global maize harvest to be 1.2 billion tonnes, which is up 6% year-on-year. Moreover, 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.

South Africa focus

- Therefore, could the ample maize supplies in the global market cushion South Africa? The challenge is that most global maize supplies are yellow maize. At the same time, the demand in South Africa, and indeed, in Southern Africa, will be white maize.

- There are notable crop failures in the western regions of South Africa, which are primarily white maize-producing regions. At the end of March, the estimates from the Crop Estimates Committee placed South Africa's 2023/24 white maize harvest at 6,3 million tonnes (down 25% y/y). While a sharp decline, this will still meet the domestic needs if it materializes.
- The primary challenge, however, is the growing demand from Southern African countries that have experienced significant crop failures. This demand, along with the decline in the domestic harvest, has led to a surge in domestic white maize prices in the recent past. White maize trades at around R5 200 per tonne, while yellow maize is around R4 200 per tonne.
- Still, the upbeat global grain production could benefit South African consumers, mainly through wheat and rice imports. However, one aspect that one should watch closely is the exchange rate. The exchange rate matters as South Africa imports roughly half of its annual wheat. And South Africa imports all of its rice consumption.
- Another major factor driving South Africa's food inflation this past year was the increase in prices of vegetable and poultry products. The poor harvest caused the vegetable price increases after load-shedding at the start of the year, undermining crop quality.
- Things have changed this year. While it has been quite dry across the country since the beginning of February 2024, vegetable production has not taken a strain because all commercial production in South Africa is under irrigation, and load-shedding has not been intense.
- Moreover, meat prices rose at the end of 2023 due to supply constraints of poultry products on the back of avian influenza. But there is now anecdotal evidence that the restocking process is underway and there is improvement in the poultry products supplies. Therefore, the risks of further price increases have subsided somewhat.
- Overall, there is increased uncertainty about South Africa's consumer food inflation path for 2024. However, the underlying factors are not all one-sided, and one has to reflect on the price movements and weighting of various products when considering their food price forecast for the year. Indeed, the global grain price outlook remains reasonably positive.

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 planting progress in the US as the 2024/25 season has recently started.
- Moreover, the USDA releases its weekly **US Grains and Oilseed Export Sales** data on Thursday.
- Within the domestic front, on Wednesday, SAGIS will release its weekly **South Africa's Grains and Oilseeds Producer Deliveries** data for April 5. In the previous release on March 29, South Africa's

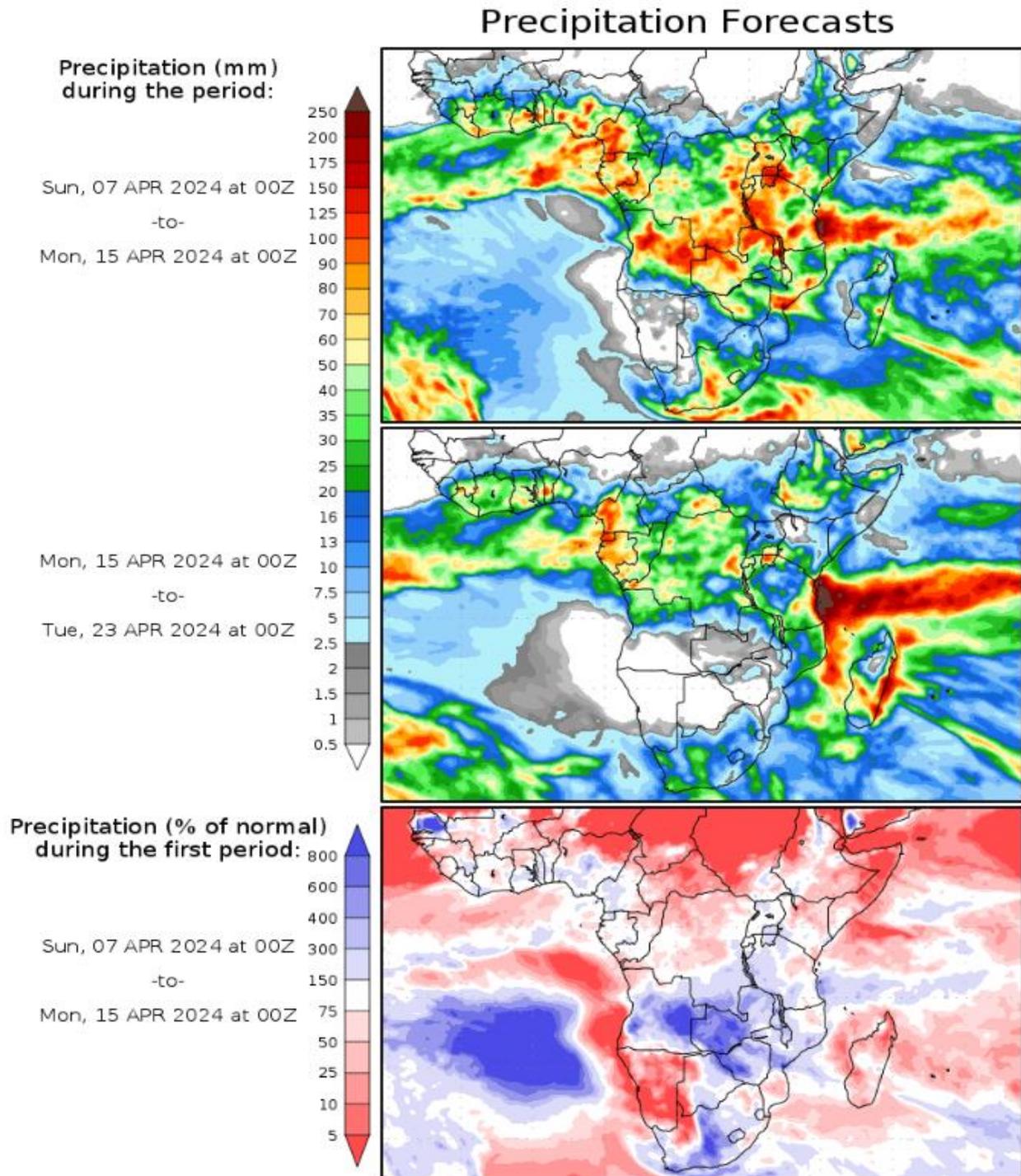
2023/24 maize producer deliveries were about 87 458 tonnes. This placed the 2023/24 marketing year's maize producer deliveries at 15,4 million tonnes out of the overall harvest of 16,4 million.

- The focus on oilseeds is now shifting to the new 2024/25 marketing year. Still, so far, there have been no significant volumes delivered to commercial silos. For example, the 2024/25 soybean deliveries in the first four weeks of this new marketing year amounted to 201 797 tonnes out of the expected harvest of 1,8 million tonnes. At the same time, the sunflower seed deliveries amounted to 61 028 tonnes out of the expected harvest of 589 000 tonnes.
- In the case of wheat, last week, 4 877 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 April 5. In the previous release on March 29, the 48th week of the 2023/24 marketing year, South Africa exported 33 553 tonnes of maize. Of this volume, 57% was exported to Zimbabwe, and the balance to the rest of the neighbouring African countries. This placed South Africa's 2023/24 maize exports at 3,2 million tonnes out of the seasonal export forecast of 3,3 million.
- South Africa is a net wheat importer, and March 29 was the 26th week of the new 2023/24 marketing year, with 14 528 tonnes of imports from Australia. This placed South Africa's 2023/24 wheat imports at 958 098 tonnes out of the seasonal forecast of 1,6 million tonnes.

South Africa's Precipitation forecast

- Most regions of South Africa could receive showers this week. This is positive for summer crop-growing regions of the country, although it is already too late to make crop improvement in most areas. For the winter crop regions, the rain will help improve soil moisture ahead of the planting period that starts at the end of this month.

Exhibit 2: South Africa's precipitation forecast



Source: George Mason University (wxmaps)