

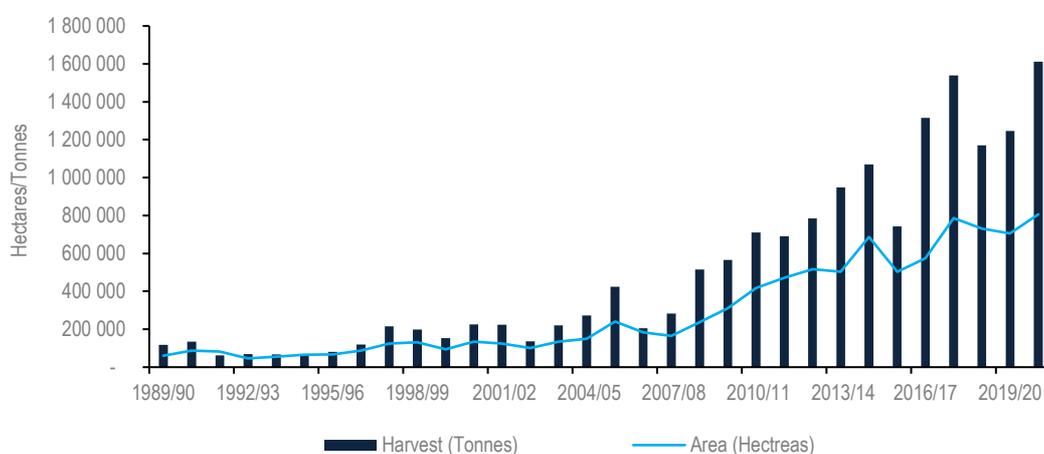
## Strong SA soybean production offers no immediate input-cost respite for poultry farmers

One vital task in South Africa's quest to improve its poultry industry is booting soybean production, which is a crucial ingredient in poultry feed. Evidence<sup>1</sup> shows that roughly 50-70% of broiler production costs in South Africa are attributed to the feed, 70-80% of which comes from maize and soybean costs. Yellow maize production has been a success story for South Africa for decades, as the country is usually a net exporter of the product. However, the opposite is true for soybeans. South Africa remains a significant net importer of soybean oilcake or meal, a major ingredient in poultry feed.

Nevertheless, South Africa's soybean oilcake imports have declined by 56% from the record levels of nearly a million tonnes in 2010 to about 420 thousand tonnes in 2019, according to data from Trade Map. This decline in imports has coincided with an increase in domestic soybean production. South Africa's soybean planting has been on an upside trajectory since 2009/10 when plantings were just 311 450 hectares. Since then, plantings have increased significantly, with the 2020/21 plantings estimated at 806 000 hectares. This remarkable increase in soybeans plantings is underpinned by the growing domestic demand from the poultry industry, and the broader livestock subsector. South Africa's per capita consumption of poultry meat has almost doubled over the past two decades – currently estimated at 33 kilograms.

As highlighted in our previous notes, to service the growing demand for meat, the South African agribusinesses, supported by the government, made investments to increase domestic soybean processing capacity from roughly 860 000 tonnes in 2012 to a level over 2.2 million tonnes. This expansion was also aimed at stimulating domestic soybean production, as part of an import substitution strategy led by the Department of Trade, Industry and Competition. The farmers responded positively to these demand changes as evidenced by the growth in plantings over the past decade (see Exhibit 1).

### Exhibit 1: South Africa's soybeans production



Source: SAGIS and Agbiz Research

<sup>1</sup> Goga, S. & Bosiu, T., 2019. *Governance of Poultry Value Chains – A Comparative Perspective on Developing Capabilities in South Africa and Brazil*, Johannesburg: CREED.

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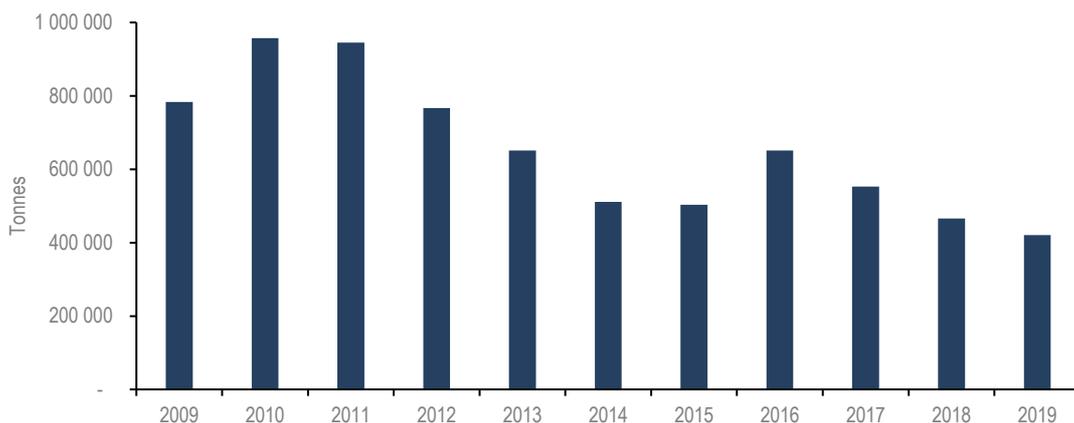
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The record 806 000 hectares of soybean plantings in 2020/21, combined with the higher-than-usual rainfall since the start of the season suggest that South Africa could have solid soybean output. So far, the largest soybean harvest on record was in the 2017/18 production season, a crop of 1,54 million tonnes, with an average yield of 1,96 tonnes per hectare. There is still uncertainty about the potential size of the yield in the current season. But if we apply a five-year average yield of 1,82 tonnes per hectare on an area planting of 806 000 tonnes, South Africa's soybean harvest could reach 1,47 million tonnes. This would be the second-largest harvest on record. It is also plausible that South Africa's soybeans yields could reach 2,00 tonnes per hectare, as was the case in 2016/17, a year of higher rainfall and also in the 2008/09 production season. Under such a scenario, South Africa's soybean harvest would amount to 1,61 million tonnes, which would be the largest soybean harvest on record.

The Crop Estimates Committee will provide its first production estimates on 25 February 2021. It is only then that we will know the official view of the possible harvest. But the insights we are receiving from farmers about the crop conditions, combined with the estimated area plantings suggest that the 2020/21 production season could be one of the best for South Africa's soybeans producers.

The possible increase in soybeans production would also mean that soybean oilcake imports would soften somewhat from the 2019 levels of 420 thousand tonnes (see Exhibit 2). Still, the implications of increased domestic production on prices will remain marginal. South Africa is a small player in the global soybean market, accounting for a mere 0,5% of global soybeans production (even though this is roughly two-thirds of Africa's soybean production). The South African soybeans prices are primarily influenced by market developments in significant soybeans producing and consuming countries: the key producing countries are Brazil, the US, Argentina, India and Paraguay. Meanwhile, China is a significant consumer, as the country imports over 60% of globally traded soybeans. On Friday, 05 February 2021, South Africa's soybeans spot price closed at R9 990 per tonnes, which is 65% higher than the corresponding period last year. This price increase was primarily underpinned by higher global soybeans prices, which are supported by China's growing demand, which in turn, is backed by a recovery in the country's pig industry from the devastation caused by the African swine fever outbreak in 2019.

**Exhibit 2: South Africa's soybeans oilcake/meal imports**



Source: Trade Map and Agbiz Research

In sum, the increase in soybean plantings is a welcome development in a country that strives to boost its domestic poultry production. Nevertheless, the gains in production increase won't, at least in the near-term, translate into price changes for buyers of the product – poultry producers – as South Africa is still a small player in the soybeans market with domestic prices influenced mainly by developments in the global market. Ultimately, the poultry producers input costs will remain elevated despite the increase in domestic soybean

production. There is, however, a benefit in terms of the agricultural trade balance, as the increase in domestic soybeans production will ultimately lead to a decline in soybean oilcake imports.

## Weekly highlights

### Solid start of the year for South Africa's agricultural machinery sales

South Africa's agricultural machinery sales have had a solid start to the year, with tractor sales up by 28% year-on-year with 445 units sold in January 2020. The combine harvester sales in the same month were at the same levels as in 2020, with five units sold. These strong sales are somewhat a continuation of the 2020 activity where the tractor sales amounted to 5 738 units, up by 9% from 2019, with combine harvester sales up by 23% from the same year, amounting to 184 units. The underpinning driver is the slightly improved farmers' finances following higher agricultural output in 2020, coupled with relatively higher commodity prices.

As indicated in our note on 18 January 2021; ordinarily, in a year of higher agricultural output, commodity prices would soften. But in 2020 and into the beginning of 2021, the rising demand for grains in China provided support to global prices, which, in turn, influenced the domestic market. The increasing demand for South Africa's grains in Southern Africa and the Far East markets, coupled with the relatively weaker domestic currency, also supported domestic grain prices. Farmers were on the right side of having supplies, in an environment with favourable prices, and thus the slight improvement in the finances that supported the increased machinery sales. The generally higher tractor sales also correspond with the increase in summer crop plantings in 2020/21. The Crop Estimates Committee's first planting estimates data placed total summer grains plantings for 2020/21 at 4.2 million hectares, up by 6% from the 2019/20 season.

Nevertheless, we are still downbeat about the outlook for agricultural machinery sales in 2021. The expected large harvest in the 2020/21 production season might not lead to another year of higher agricultural machinery sales. Typically, a relatively good sales year is likely to be followed by a somewhat lower sales period as the replacement rate of machinery with new ones would usually be down from the previous years. Moreover, there will likely be pressure from weak exogenous macroeconomic fundamentals such as the weaker domestic currency, which will lead to higher prices for imported agricultural machinery. We think such a relatively lower tractor sales pattern would appear from the latter month of the second quarter of the year.

### Exhibit 3: South Africa's tractor sales



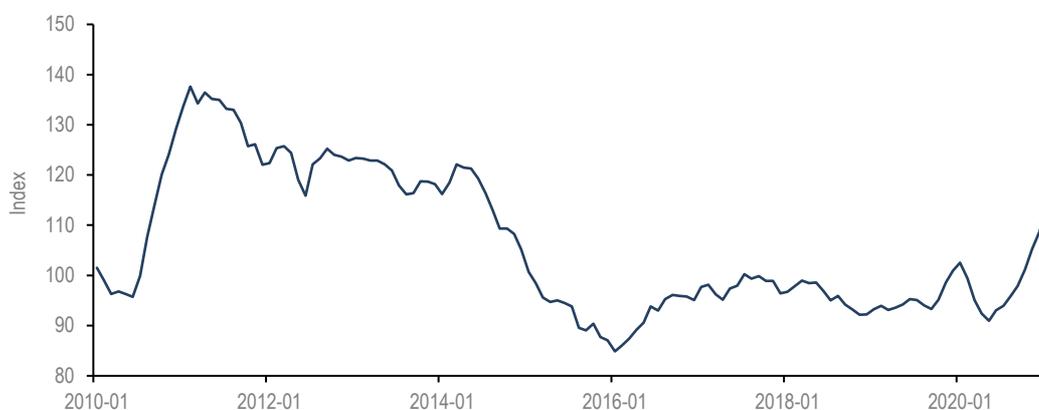
Source: South African Agricultural Machinery Association (SAAMA) and Agbiz Research

## Global food prices remain elevated

Global agricultural commodity prices remain elevated. The FAO Global Food Price Index, which reached 113 points in January 2021, which is the highest level since July 2014, illustrates higher global agricultural commodity prices. This increase was primarily driven by higher grain and vegetable oil prices. As the country's pig industry has recovered from the African swine fever shock of 2019, China's rising demand is proving to be the primary driver of both grain and vegetable oil prices. The expected lower palm oil production in Malaysia and Indonesia, coupled with dryness reports in parts of Argentina, added support to vegetable oil prices. These factors have continued to underpin prices into February 2021, and will most likely remain the dominant drivers of prices in the near-to-medium term.

In South Africa, the country is exposed to these shocks, both through palm oil and soybean oilcake imports, hence the global commodity price developments could spill over into the domestic market. For grain producers, those mentioned above global agricultural demand dynamics bodes well for prices and incomes. In contrast, the opposite is true for animal feed for the poultry and livestock industry.

### Exhibit 4: FAO's Global Food Price Index



Source: FAO and Agbiz Research

## Data releases this week

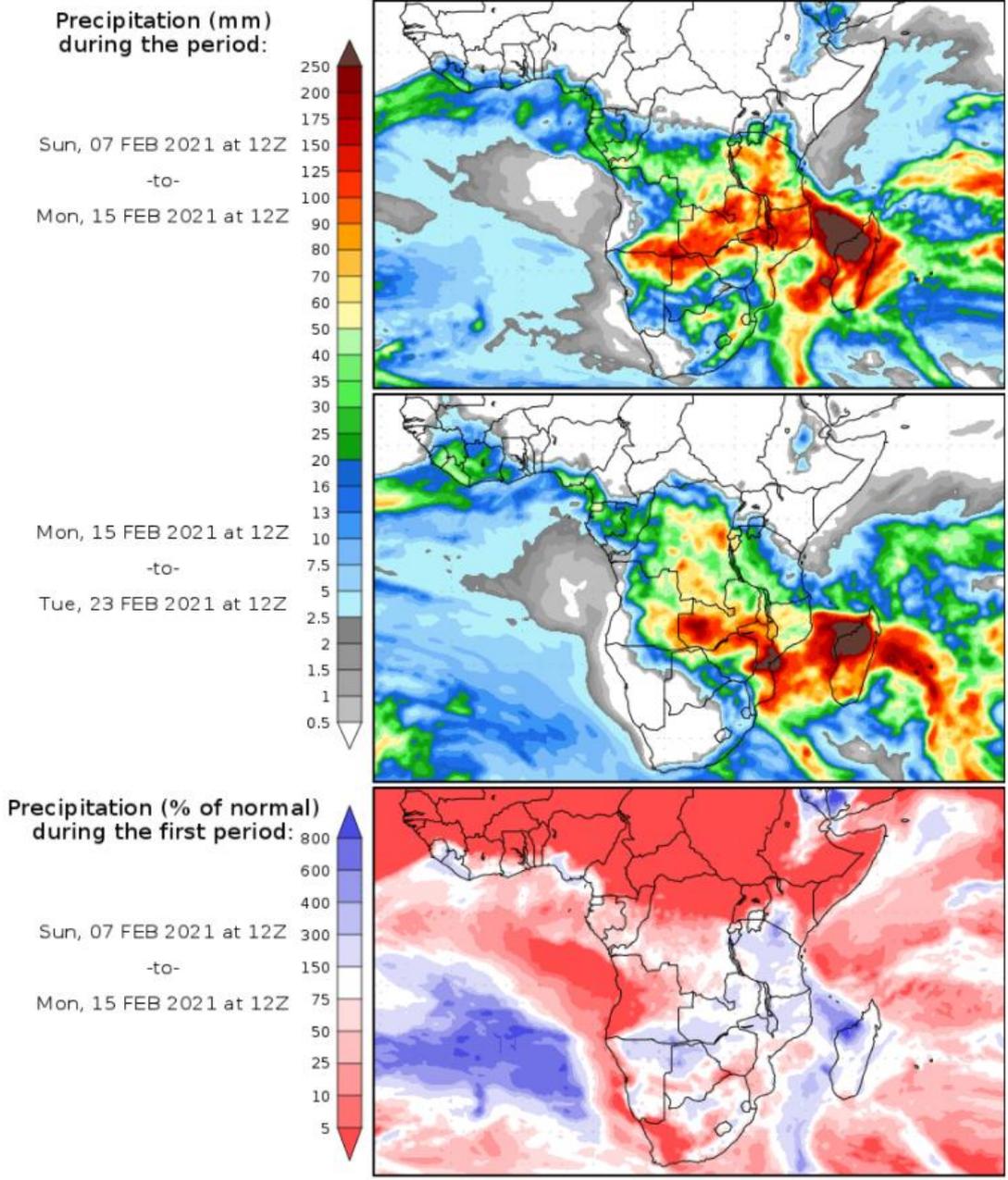
This week, on the agricultural data calendar, we have the **World Agricultural Supply and Demand Estimates** report from the United States Department of Agriculture (USDA) on Tuesday. The USDA will also release the **US weekly export sales data** on Thursday.

On the domestic front, on Wednesday, the South African Grain Information Service (SAGIS) will release the **weekly grain producer deliveries data** for the week of 05 February 2021. This data covers summer and winter crops, although the focus has shifted towards winter crops whose harvest has recently been completed. On 29 January 2021, about 14 177 tonnes of winter wheat were delivered to commercial silos. This placed the 2020/21 wheat producer deliveries at 1,89 million tonnes, which equates to 90% of the expected harvest of 2,11 million tonnes.

On Thursday, SAGIS will release the **weekly grain trade data** for the week of 05 February 2021. In the previous week of 29 January 2021, South Africa's 2020/21 total maize exports were at 2,03 million tonnes, which equates to 77% of the revised seasonal export forecast (2,64 million tonnes). In terms of wheat, South Africa is a net importer. In the week of 29 January 2021, imports amounted to 452 853 tonnes, which equates to 29% of the revised seasonal import forecast of 1,58 million tonnes.

**Exhibit 5: South Africa's precipitation forecast**

### Precipitation Forecasts



Source: George Mason University (wxmaps)

*This week could bring light rainfall over the summer crop producing regions of South Africa.*

*The week thereafter, South Africa could have clear skies, which is much needed after heavy rains over the past few weeks.*