Rising farming input costs are partly cushioned by higher agricultural commodity prices

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Wandile Sihlobo
Chief Economist
+27 12 807 6686
wandile@agbiz.co.za

www.agbiz.co.za

At the start of every agricultural production season, one of the major concerns for farmers is weather conditions over the course of the season and how these will affect yield. But for the 2021/22 season, another important concern that has been on farmers' radars since the start of the season has been the rising input costs, i.e., the prices of fertilizers and agrochemicals. These are largely driven by supply constraints in key fertilizer-producing countries such as China, India, the US, Russia and Canada. Rising shipping costs, oil and gas prices have also been contributing factors, with firmer global demand from an expanding agricultural sector. This has been the case for farmers in the Northern Hemisphere for some time but also more recently for farmers in the Southern Hemisphere. On average, the prices of fertilizers were up by over 50% in September 2021 compared to the corresponding period a year ago. Meanwhile, the agrochemicals had risen by over 30% over the same period.

However, another essential dynamic in the global agricultural market, which plays an offsetting role to some degree, is the sustained higher commodity prices. There are unique price-driving factors for each crop, but broadly, the growing demand for grains and oilseeds in China, poor crop yields in South America in 2020/21 production season, and higher shipping costs, have been the primary price drivers. Many, including ourselves, had thought higher agricultural commodity prices would be temporary. The producers in the Northern Hemisphere, who incurred high input costs, will somewhat be cushioned by the current commodity prices, which will help overshadow some of the costs. Still, margins will be squeezed compared with the 2020/21 production season in the major agricultural commodities.

The Southern Hemisphere farmers are also counting on commodities prices remaining elevated for some time as they have also incurred higher input costs. We believe this is likely to be the case, although prices could fall mildly from 2021 levels. With that said, we doubt that agricultural commodities prices would fall to levels seen in 2019 in the near term. While the early production estimates point to some upside compared with 2020/21, prices have not declined notably on the back of these upbeat expectations. For example, the International Grains Council (IGC) forecasts 2021/22 global maize production at 1,21 billion tonnes (up 8% year-on-year y/y), wheat at 781 million tonnes (up 1% y/y), rice at 513 million tonnes (up 1% y/y), soybeans at 380 million tonnes (up 4% y/y), and sorghum at 65 million tonnes (up 7% y/y). On 04 November 2021, the Food and Agriculture Organization of the United Nations (FAO) reported that its Global Food Price Index lifted by 3% in October from the previous month (up 31% from October 2020), and stood at its highest level since July 2011.

The primary food products driving the most recent increase in the FAO's Global Food Price Index were grains and vegetable oils. In grains, wheat, barley and maize were the lead products on price increases of the past few months because of rising demand and relatively lower supplies from Russia, the US, Canada and Australia. These increases come despite the IGC forecast that the overall global wheat production could increase by 1% from the 2020/21 season, as we have previously stated. The global barley production is expected to fall by 8% y/y to 147 million tonnes in the 2021/22 production season. There are expectations of poor yields across major producing countries, including Russia, the EU region, Canada, Australia,

Kazakhstan, the US, the UK, and Turkey. Consequently, the International Grains Council forecasts a 22% decline in barley's 2021/22 global ending stocks.

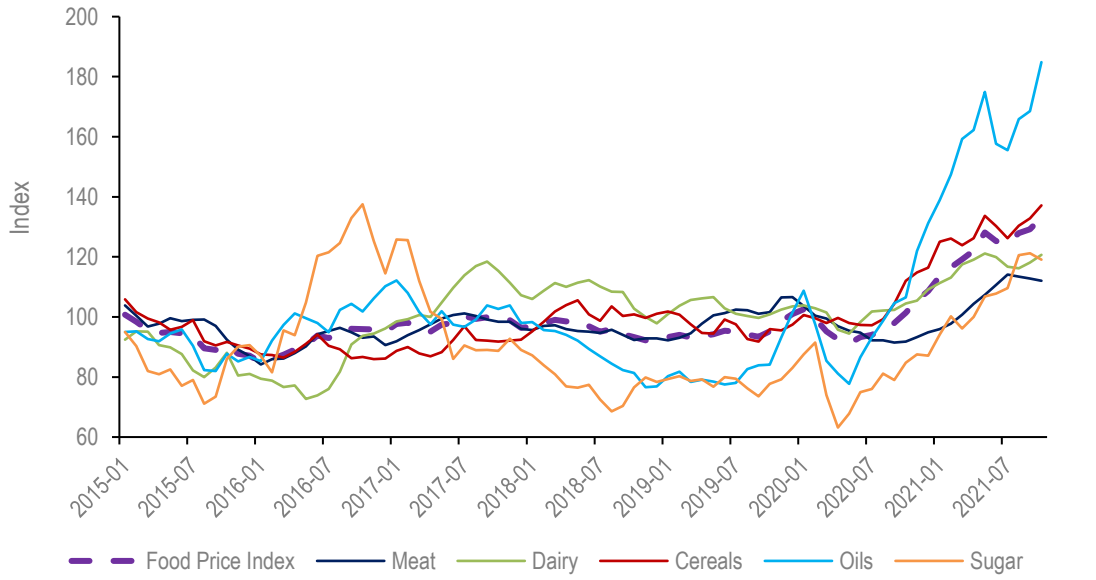
Global maize production is expected to recover notably, as we stated above. Still, the uptick in consumption from food, feed industries and general industrial use has been at the core of rising prices the past few months. Moreover, the global maize production estimates are quite tentative as the Southern Hemisphere, a significant contributor to global maize production, is still at its planting stages. In this regard, we see Brazil, Argentina and East Africa as the regions with significant downside risks to the current production estimates. We are in a La Niña weather event, which typically brings dryness to these regions. The current production estimates by the IGC points to an increase in maize production in Brazil (up 35% y/y) and Argentina (up 5% y/y). Still, if dryness is intense due to the La Niña weather event, these estimates could be revised down, which will have implications on the global maize supplies, and in turn, prices.

In vegetable oil prices, the FAO's subindex for these products is at an all-time high, increasing by 10% m/m in October. The products that underpinned the price increases are palm oil, soybeans, sunflower seed and canola. The persistent concerns about labour shortages in Malaysia's palm fields have brought some anxiety in the market, leading to an increase in global palm oil prices. Additionally, the growing global demand for vegetable oils has also been a key driver of prices these past few months. China and India are amongst the leading buyers of oils.

The ongoing global supply chains glitches and higher shipping costs are amongst the factors that have helped to sustain the agricultural commodity prices at the current higher levels. These remain essential matters to monitor going forward, in addition to how the La Niña weather event impacts South American and East Africa's agriculture production. While the discussion was centred on grains and vegetable oils, these dynamics exist across the agriculture commodities market, as the weather impact will influence agriculture events the same way.

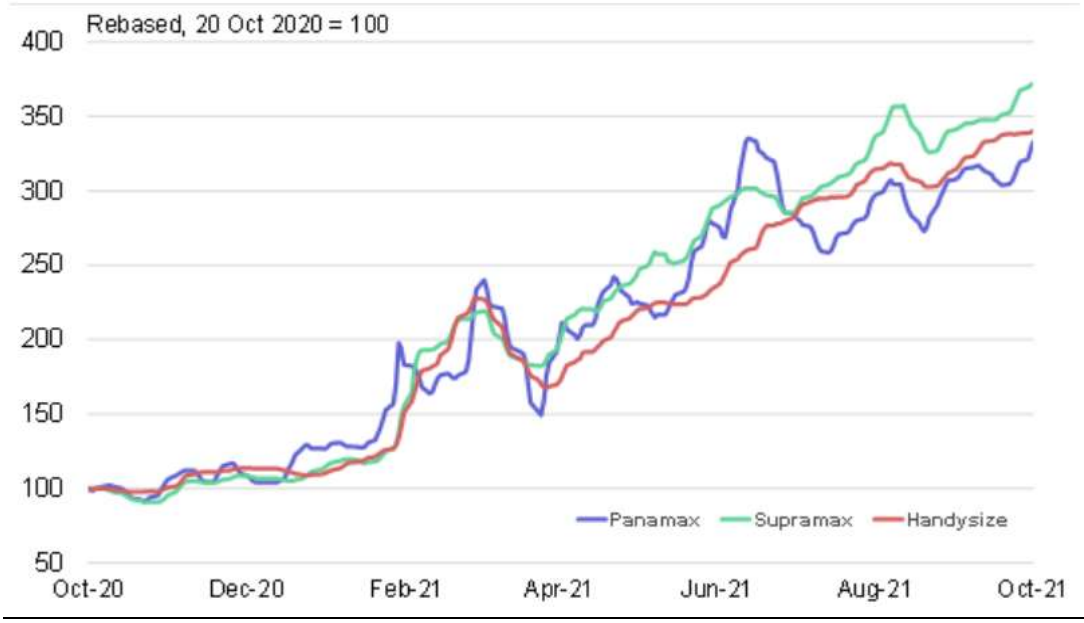
In essence, farmers have incurred inputs at higher prices. Still, the higher commodities prices, which will likely prevail for some time, bring some slight financial cushion as opposed to years where we have seen drastic falls in prices when there are forecasts of harvest improvements.

Exhibit 1: FAO's Global Food Price Index



Source: FAO and Agbiz Research

Exhibit 2: Baltic Indices: Grains and oilseeds carrying sectors



Source: Baltic Exchange

Weekly highlights

The USDA forecasts continued growth in South Africa's deciduous fruit production

Last week, the United States Department of Agriculture (USDA) released its annual report on South Africa's deciduous fruit production for the 2021/22 season, forecasting a continuous growth in apples, pears and tables grapes production. This is on the back of favourable weather conditions, new areas coming into production and high yielding varieties. For example, the USDA forecasts a 1% y/y increase in South Africa's apple area plantings in 2021/22 to 25 400 hectares. This will likely be in the Northern and Western Capes regions. The production of apples is also expected to lift by 1% y/y to 997 000 tonnes.

In pears, the area plantings will also likely increase by 1% y/y in 2021/22 season to 13 000 hectares. There is generally an increase in investment in this fruit in the past few years, in line with growing demand in the global market. The favourable weather conditions will likely boost production by 1% y/y to 425 000 tonnes in the 2021/22 season. Moreover, the USDA sees South Africa's table grapes area increase by 2% y/y in 2021/22 to 20 900 hectares. The Agency noted that "this is based on new orchards and varieties coming into full production, new production areas in the Northern Cape, and some wine grape areas under financial stress in the Western Cape being converted to table grapes". The production could also increase by 2% y/y to 370 000 tonnes in 2021/22.

In essence, the outlook for South Africa's deciduous fruit is generally positive, and the growing demand in the export markets has been at the core of driving domestic production and increasing investments over the past few years. Notably, favourable weather conditions have also played a notable role in these current estimates. This means that the horticulture subsector will continue to play a noteworthy part in South Africa's agriculture exports.[1]

[1] The full report of the USDA with data and further insights is available here.

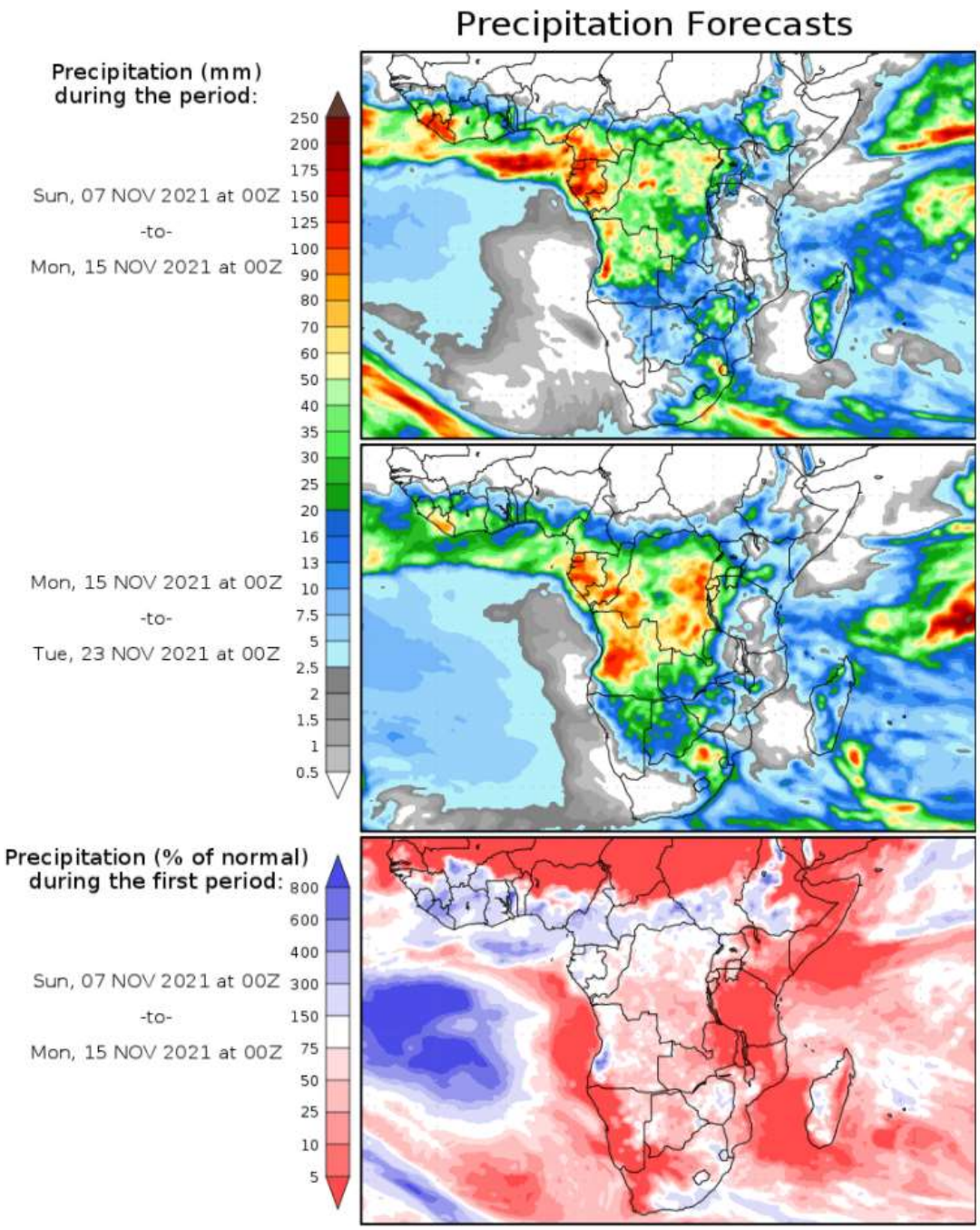
Data releases this week

As always, we start the week with a global focus. Today the USDA will release the **US Crop Progress** report. Our focus on it will be on the harvest progress in the US. The previous report of 31 October 2021 showed that 74% of the US maize crop had already been harvested, which is slightly behind last year's pace of 81%. On the same day, 79% of the US soybeans crop had already been harvested, which is also behind the pace of 31 October 2020, which was 86%. This is primarily on the back of a late start of planting in various areas that experienced dryness across the US grain belt. Moreover, the USDA will release the **World Agricultural Supply and Demand Estimates** report on Tuesday, bringing insight into the expected global harvest in the 2021/22 season. We look to see if the USDA's view for South America's crop will change or remain optimistic, as is the case with the aforementioned IGC view. On Thursday, the USDA releases the **US Weekly Export Sales** data.

Domestically, on Wednesday, we will release the **Weekly Grain Producer Deliveries** data for 05 November 2021. This data cover summer and winter crops. We only focus on summer crops for now and will switch to winter crops when harvest gains momentum in the coming months. To recap, on 29 October, 746 tonnes of soybeans were delivered to commercial silos. This placed the soybean producer deliveries for 35 weeks of the 2021/22 marketing year at 1,83 million tonnes, which equals 97% of the expected harvest of 1,89 million tonnes. Moreover, 670 975 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 26th week of the 2021/22 marketing year, which began in May. The producer deliveries currently amount to 14,2 million tonnes, equating to 88% of the expected crop of 16,2 million tonnes.

On Thursday, SAGIS will release the **Weekly Grain Trade** data for the week of 05 November 2021. To recap, in the week of 29 October 2021, which was the 26th week of South Africa's 2021/22 maize marketing year, total maize exports amounted to 2,00 million tonnes, equating to 59% of the revised seasonal forecast of 3,42 million tonnes (up by 16% y/y). South Africa is a net importer of wheat, and 22 October 2021 was the fourth week of the 2021/22 marketing year. The total imports are now at 244 793 tonnes out of the seasonal import forecast of 1,53 million tonnes (slightly above the 2020/21 marketing year imports 1,51 million tonnes).

Exhibit 3: South Africa's precipitation forecast



Source: George Mason University (wxmaps)

As in the past week, the weather forecast for the next two weeks shows prospects of rainfall in the northern, central and eastern regions of South Africa.

This should help improve soil moisture and support the planting activity for the 2021/22 crop.