

## South Africa's agriculture performance in 2020/21 rests on the weather prospects

The most crucial time for South Africa's summer crop and some horticulture products, and by extension the livestock sector, is between October and February of each year. This is a summer rainfall period and therefore a determinant of the season's harvest, and veld conditions. We've started the 2020/21 production season at the beginning of October 2020 with prospects of above-normal rainfall in most regions of the country, which means a possibility of a large harvest. While October was set to experience below-normal rainfall, with the La Niña induced higher rainfall set to begin from November, there were, in fact, good showers in most regions of South Africa. The benefit of these rains is evident in improved soil moisture as illustrated in Exhibit 1.

The improved soil moisture, primarily in KwaZulu-Natal, central and northern Eastern Cape, eastern Free State and parts of Mpumalanga will help accelerate planting activity, which is already underway. The optimal planting window for maize and soybeans closes in the week of 20 November 2020 in the eastern regions of South Africa, while remaining open for the central and western regions until mid-December. For the eastern regions, this means that the areas that will manage to complete plantings within the next two weeks could have its crop benefit from improved soil moisture on the back of the early La Niña rainfall. Meanwhile, for the central and western regions, the rainfall will have a similar effect on crops, although there might be delays in plantings from time-to-time depending on the occurrence of expected rains.

We are more confident about the La Niña occurrence following the report of 06 November 2020 by the South African Weather Service which indicated that "El Niño-Southern Oscillation (ENSO) is currently in a La Niña state and the forecast indicates that it will most likely remain and strengthen towards a strong La Niña state during mid- and late-summer. With this strong likelihood of a strong La Niña during mid-summer, there are increased chances of above-normal rainfall in the summer rainfall areas during the summer season." The weather agency further stated that "early-summer (Nov-Dec-Jan), mid-summer (Dec-Jan-Feb) and late-summer (Jan-Feb-Mar) all indicate increased chances of above-normal rainfall over the summer rainfall areas of South Africa." This supports our view that the 2020/21 season will most likely be yet another good season for South Africa's agriculture.

The farmers have also been encouraged by the favourable weather prospects following the reports of their intention to lift South Africa's summer crop area plantings by 5% year-on-year (y/y) to 4.15 million hectares, as stated in our note of 02 November 2020.<sup>1</sup> While we don't have the comprehensive seed sales data yet, the other indicator which we have continued to monitor is tractor sales. The sales have remained robust between June and October 2020, at levels higher than 2019. This too illustrates farmers' optimism about the 2020/21 summer crop production season. The improved financial conditions following the second-largest summer crop harvest on record in the 2019/20 production season, coupled with higher commodity prices have also contributed to higher tractor sales and intentions to increase plantings in 2020/21 season.

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**Wandile Sihlobo**

Chief Economist

+27 12 807 6686

[wandile@agbiz.co.za](mailto:wandile@agbiz.co.za)

[www.agbiz.co.za](http://www.agbiz.co.za)

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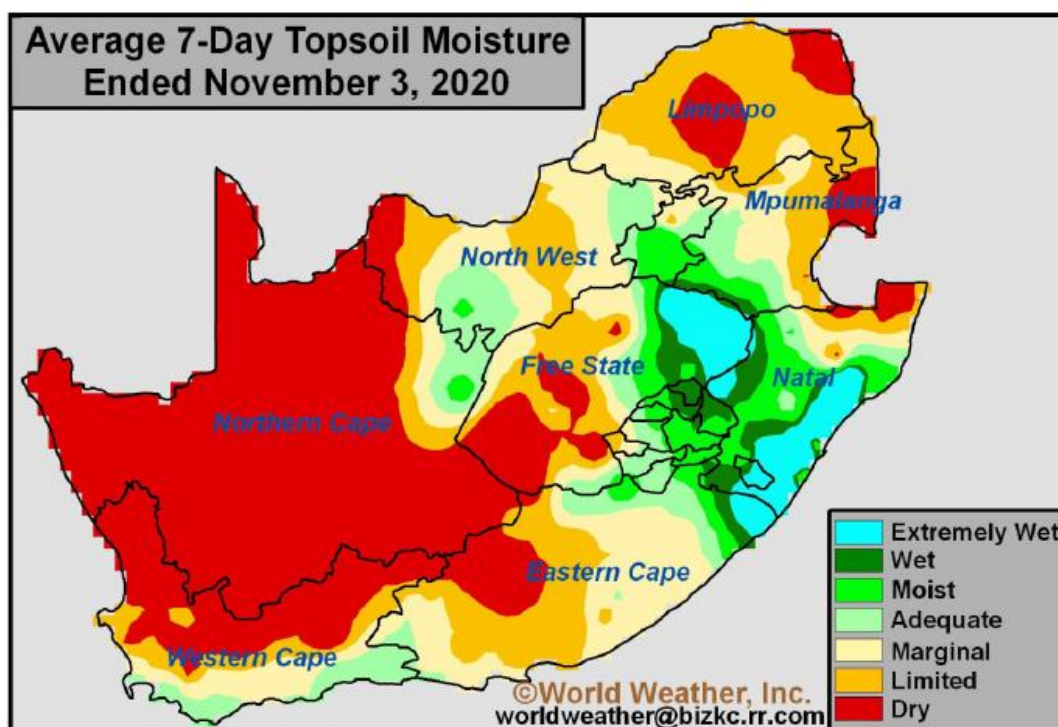
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<sup>1</sup> This comprises yellow and white maize, sunflower seed, soybeans, groundnuts, sorghum and dry beans.

In essence, the high-frequency weather-related data continues to paint a positive outlook for South Africa's agricultural sector. The next four months will, nonetheless, warrant constant monitoring as that will be a crucial period for all summer crops, from planting to pollination. Any deviation of the actual weather conditions from the current expectations will have an impact on the outlook view that we have been communicating over the past few weeks.

From a macroeconomic standpoint, we believe that agriculture will again show positive growth in 2021, although at a much lower rate than the 10% y/y expansion we currently expect in agriculture's gross value-added in 2020. The lower growth rate will primarily be a function of base effects, while the output will most likely be large, all else being equal. The same is true for food price inflation which we continue to believe won't exceed 5% y/y in 2021 (from an expected 4.5% y/y in 2020 and the actual rate of 3.1% y/y in 2019). The potentially larger harvest in 2021 could result in softening commodities prices from the higher levels experienced in October, where maize and soybean prices are up by over 20% y/y. The reasons for such an increase are demand-driven and weaker currency effects. From February 2021, if the favourable weather conditions and generally large harvests view holds for South Africa (and the entire Southern Africa region), the commodities prices could soften notably and that will bode well for food price inflation.

**Exhibit 1: South Africa's soil moisture**



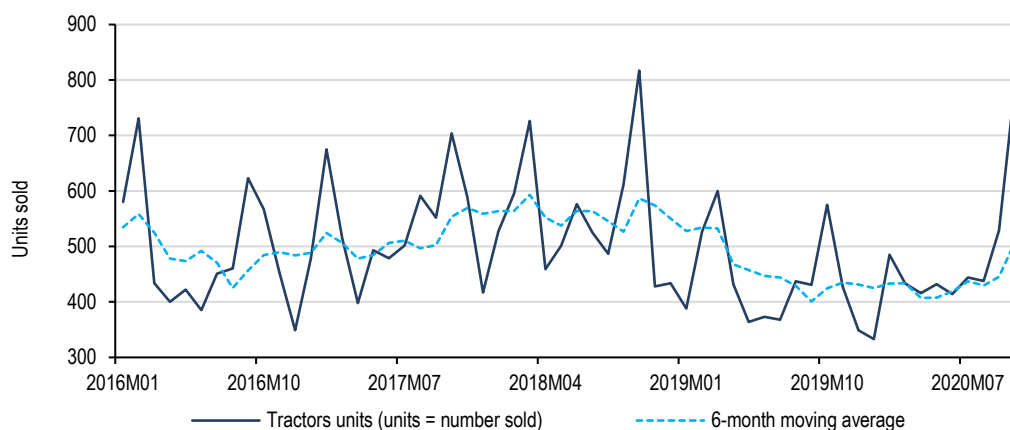
Source: World Weather Inc (data as at 03 November 2020)

**Weekly highlights**

**SA agriculture machinery sales remained on a firm footing in October 2020**

South Africa's agricultural machinery sales remained solid in October 2020. Tractor and combine harvester sales were up by 37% y/y and 136% y/y, with 789 units and 26 units sold, respectively. The tractor sales were boosted, to a certain extent, by improved farmers' financial position following a large summer grains harvest in the 2019/20 production season, combined with higher commodity prices. South Africa's 2019/20 maize, sunflower seed, and soybeans production was up 37% y/y, 16% y/y and 8% y/y, estimated at 15.4 million tonnes, 785 910 tonnes and 1.3 million tonnes, respectively.

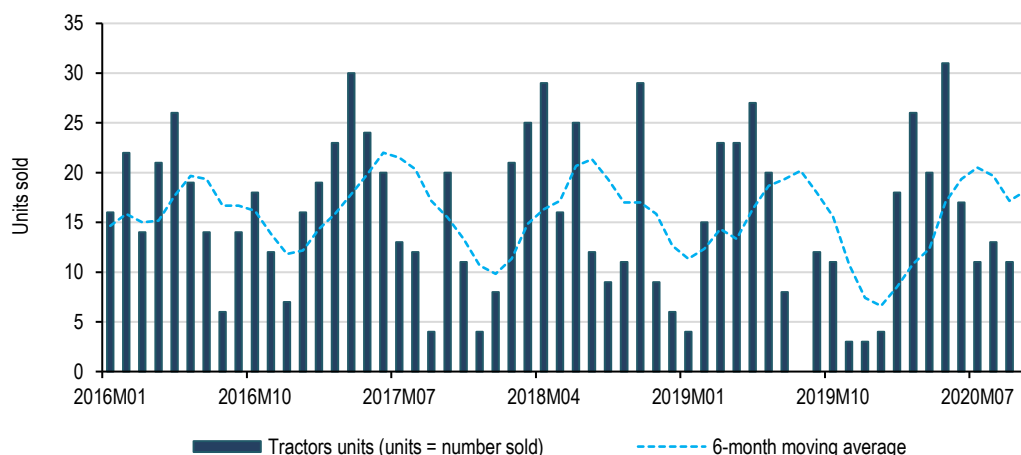
## Exhibit 2: South Africa's tractor sales



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

In the case of combine harvester sales, the expected large winter crop has, in part, also contributed to the notable increase in sales in October 2020. South Africa's 2020/21 winter wheat, barley and canola harvest are estimated at 2.1 million tonnes (up by 39% y/y), 526 706 tonnes (up by 53% y/y) and 137 356 tonnes (up by 45% y/y), respectively. This large winter crops harvest is also supported by favourable weather conditions that were experienced in most regions of the country, primarily the Western Cape, which is the largest producing province of winter crops in South Africa.

## Exhibit 3: South Africa's combine harvester sales



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

The data for the first ten months of the year already show that the agricultural machinery sales performance will be much better than we anticipated at the start of the year and in 2019. This is, in part, because of the aforementioned large harvest. South Africa's tractor sales between January and October 2020 amounted to 4 713 units, up by 5% y/y. Meanwhile, the combine harvester sales in the same period amounted to 177 units, up by 24% y/y.

Looking ahead, we think South Africa's agricultural machinery industry could be subdued in 2021. 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. Moreover, a year of relatively good sales is likely to be followed by a fairly lower sales period as the rate of replacement of machinery with new ones would ordinarily be down from the previous years.

## Data releases this week

On the global front, we start the week with the **US weekly crop progress report** which will be released later today by the United States Department of Agriculture (USDA). The report will mainly show the harvest progress in the US maize, soybeans and sunflower seed fields. The previous report of 02 November 2020 showed that the harvest activity was gaining momentum, with 87%, 82% and 61% of soybeans, maize, and sunflower seed, respectively, already harvested. This harvest progress surpassed the activity during a corresponding period in 2019 and an average five-year harvest activity of all the aforementioned crops.

On Tuesday, the USDA will release the **World Agricultural Supply and Demand Estimates report** for November 2020. This report will provide an update of the 2020/21 global grains and oilseeds production forecasts. This will be important to watch as it will show the potential impact of the drier weather conditions in parts of Europe and South America on crop sizes. The USDA currently forecasts global maize, wheat and soybeans production at 1.16-billion tonnes (up by 4% y/y), 773 million tonnes (up by 1% y/y) and 368 million tonnes (up by 9% y/y), respectively.

On Friday, the USDA will release the **US weekly export sales data**, which also help in tracking the agricultural trade activity between the US and China. In recent weeks, China has been buying large volumes of both maize and soybeans, and the demand is expected to hold as the country rebuilds its pig herd which was devastated by African swine fever.

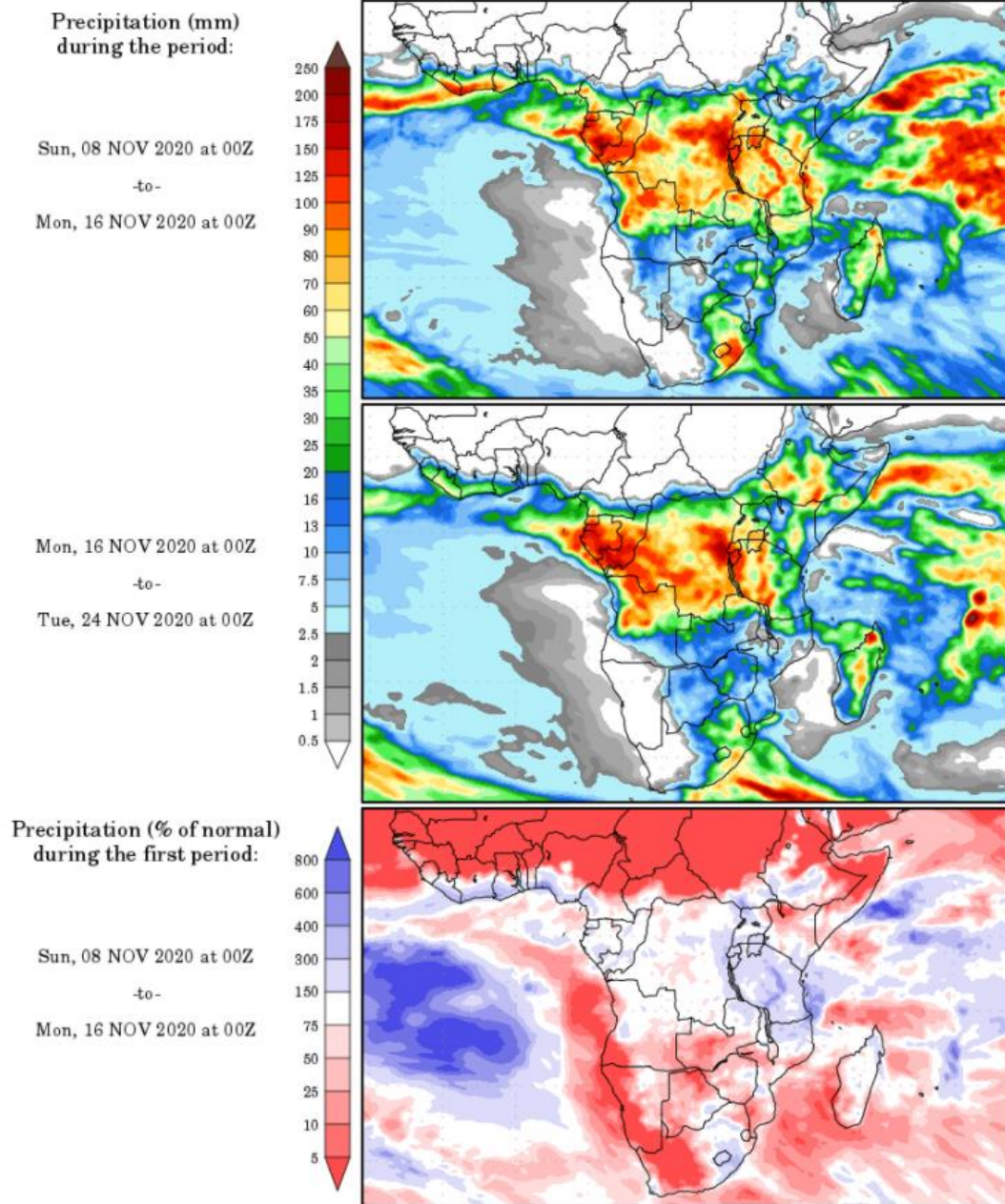
On the domestic front, on Wednesday, the South African Grain Information Service (SAGIS) will release the **weekly grain producer deliveries data** for the week of 06 November 2020. This data covers both summer and winter crops. But the focus shifted towards winter crops whose harvest has recently started in few regions of the country. In the week of 30 October 2020, about 40 477 tonnes of wheat were delivered to commercial silos. This placed the 2020/21 wheat producer deliveries at 54 313 tonnes. The volumes of producer deliveries will increase in the coming weeks when the harvest process gains momentum in some regions.

On Thursday, SAGIS will release the **weekly grain trade data** also for the week of 06 November 2020. In the previous week of 30 October 2020, South Africa's 2020/21 total maize exports were at 1.66 million tonnes, which equates to 66% of the seasonal export forecast (2.50 million tonnes). In terms of wheat, South Africa is a net importer, and in the week of 30 October 2020, the fifth consignment for the 2020/21 marketing year had arrived, putting the total imports at 297 662 tonnes. This equates to 19% of the seasonal import forecast of 1.54 million tonnes (down by 18% y/y because of the aforementioned improved domestic harvest, as previously stated).

Also, on Thursday, Statistics South Africa will release the **Quarterly Labour Force Survey (QLFS) data** for the third quarter of the year. To recap, in the second quarter of the year, the Quarterly Labour Force Survey data showed that South Africa's primary agricultural employment declined by 5% (or 43 029 jobs) from the corresponding period last year to 799 033. This was unsurprising as the social-distancing regulations introduced at the end of March 2020, to prevent the spread of the coronavirus, meant that farmers and agribusiness were not able to increase employment, especially of seasonal labour in the same way they would have in the absence of the pandemic, in years of an agricultural bumper harvest as in 2019/20 season.

**Exhibit 4: South Africa's precipitation forecast**

**Precipitation Forecasts**



*This week could bring higher rainfall over the summer crop producing regions of the country, with the exception of some regions of the Eastern Cape which could remain fairly dry and warm.*

*The following week, however, promises widespread rains across the summer crop growing areas of the country. This should also help improve soil moisture and thereafter boost summer crop plantings and support gemination in areas that would have already planted by then.*

Source: George Mason University (wxmaps)