

Collaboration helped to lift agricultural exports in Q3 despite various challenges

The need to expand South Africa's agricultural export markets beyond the current reach, along with concerns about logistical interruptions, were the two major running themes in various interactions we had with agribusinesses last month. China, Japan, India, Saudi Arabia, and Bangladesh are some of the markets that the agribusinesses are interested in expanding their presence in. This is because of the growing population and generally better economic conditions that support the demand for high value agriculture, food, and beverages products. For the near term, the destruction and criminality destroying Transnet infrastructure was a key focus. This is mainly because South Africa's agricultural and agribusiness sector is export-oriented. Some worried that the unrest in Kwa-Zulu Natal in July, combined with the cyberattack at Transnet and general theft of rail material that disrupted the agriculture, food and beverages export activity would have a notable impact on trade figures for the second half of this year.

We now have the trade data for the third quarter of 2021, and positively, the exports are up by 8% y/y to US\$3,4 billion. This puts South Africa's agriculture, food and beverages exports for the first three quarters of this year at US\$9,6 billion. The top exportable products were citrus, maize, wine, apples and pears, nuts, sugar, fruit juices, and wool, amongst other products. We expect some of these products to continue dominating the export list in the fourth quarter of the year. The major factors underpinning this robust export value are the sizeable agricultural output in the 2020/21 production season, combined with general solid global demand, even at higher agricultural commodity prices. There are still ample agricultural and beverages exports ongoing since the start of the final quarter of this year. Hence, we are inclined to believe that South Africa could surpass 2020's agriculture exports of US\$10,2 Billion, which was the second-highest on record and could even pass the record exports of 2018, which was US\$10,6 billion.

From a destination point of view, the African continent and Asia were the largest markets for South Africa's agricultural exports in the third quarter of this year, accounting for 35% and 33% in value terms, respectively. The European Union was the third-largest market, taking up 23% of South Africa's agricultural exports. The balance of 9% value constitutes the Americas and other regions of the world.

At the core of this success lies the continued coordination that organized agribusiness and agriculture, Transnet, and various ports operating and truckers' groups have had since the July unrests. Through meetings organized by Business Unity South Africa (BUSAs), the regular interactions amongst these groups have been a key platform to share information about various glitches that are encountered in the logistics and ease the flow of information to parties that can assist. The logistical challenges have caused financial implications, but the coordination has ensured a flow of products and export earnings for the country.

For some role players in logistics, Finance Minister Enoch Godongwana's view in the Medium-Term Budget Policy Statement that South Africa will focus on improving the efficiency of logistics infrastructure was seen as a positive signal for long term sustainability. Notably, the Finance Minister's indication of plans to have Transnet Freight Rail allow third-

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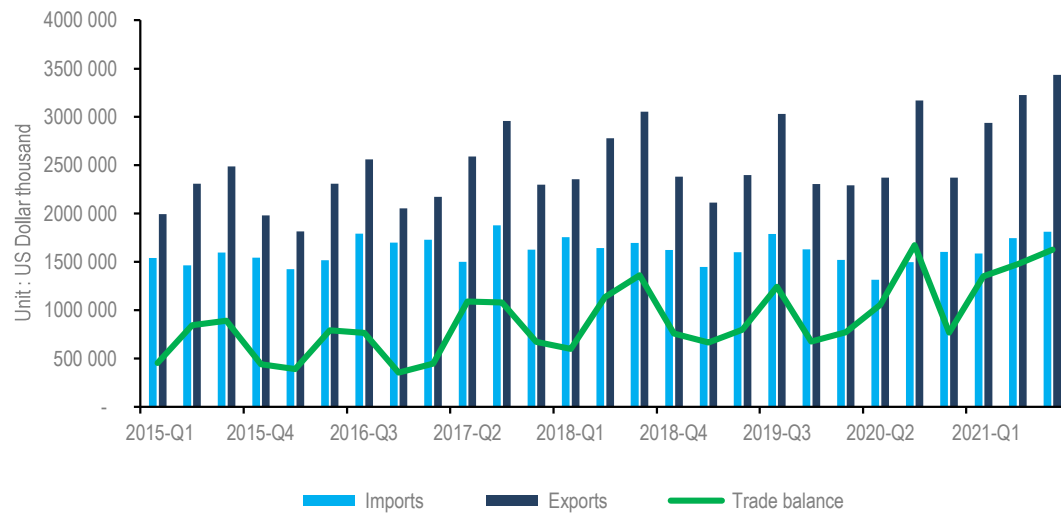
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party access to the freight rail network by the end of 2022 will also assist the agricultural sector, which has long desired to increase its share of products transported by rail.

Efficient logistics are also vital for imports as South Africa still relies on other countries for crucial food products such as wheat, rice and vegetable oils. These products dominated the food import bill in the third quarter, as they cannot be sustainably produced at scale in South Africa because of unfavourable climatic conditions. As such, in the third quarter of this year, agricultural imports increased by 21% y/y to US\$1,8 billion. The base effect contributed to this notable jump, as 2020 import activity was somewhat interrupted by Covid-19 lockdowns. In addition, the higher agricultural commodity prices also contributed to the elevated import bill. We believe rice, wheat, and palm oil will continue leading the agricultural import product list throughout the fourth quarter of the year. In sum, South Africa recorded a trade surplus of US\$1,6 billion in the third quarter of 2021, which is down by 3% from the corresponding period last year. The narrowing of the trade surplus is not caused by lower exports, as we noted above, but rather the increase in imports value and the higher commodity prices.

In terms of policy, the collaboration that has yielded positive growth in exports even in times of major disruption in logistical infrastructure should be extended to the search for export markets. Positively, the agriculture and agribusinesses role players have already identified the countries which government should use as a priority for this sectors export expansion. These are China, Japan, India, Saudi Arabia and Bangladesh, which we noted above. These efforts should be well sequenced and complement the ongoing attempts to boost domestic production through various interventions such as the Agriculture and Agro-processing Master Plan.

Exhibit 1: South Africa's agricultural trade



Source: Trade Map and Agbiz Research

Weekly highlights

South Africa's agriculture machinery sales have reached the highest levels since 2014

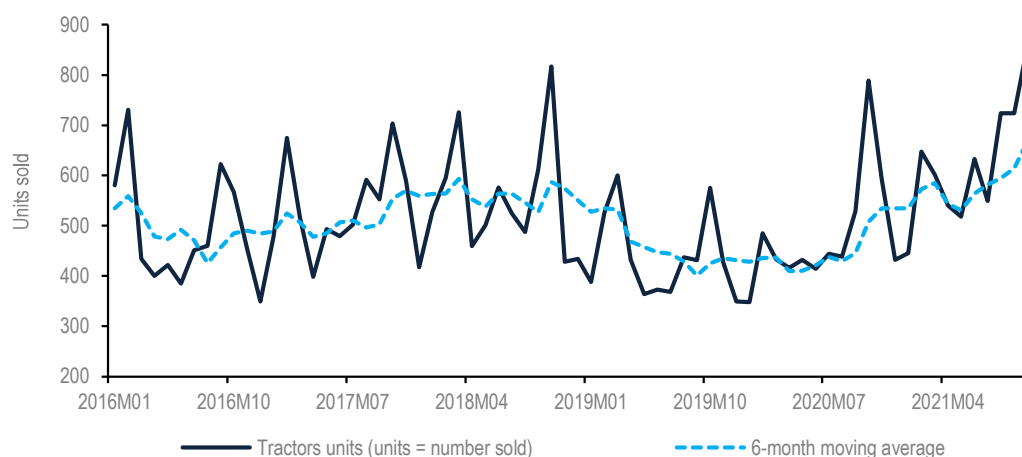
South Africa's agricultural machinery sales have been robust for over a year now. In October 2021, the tractors sales of 856 units, up by 4% y/y, were the highest monthly volume since October 2014. Meanwhile, the combine harvesters' sales of 45 units, up by 73% y/y, were the highest monthly sale since March 2014.

This placed the total tractors sales for the first ten months of this year at 6 238 units, up by 25% y/y. The combine harvesters' sales increased by 37% y/y over the same period, with 242 units sold. As we noted in the previous commentaries, 2020 was also a good year in South Africa's agricultural machinery sales, so surpassing it means we are witnessing some good momentum this year. In 2020, the tractor sales amounted to 5 738 units, up by 9% from 2019. The combine harvesters were up 29% from 2019, with 184 units sold in 2020.

These robust sales were supported by the large summer grains and oilseeds harvest in 2019/20. Yet, 2020/21 was another excellent agricultural season and coincided with higher commodities prices boosting farmers' finances and, subsequently, the machinery sales. Importantly, this year's data also points to the farmers' optimism about the 2021/22 summer crop production season, whose planting started in October. Moreover, the favourable weather outlook, prospects of a La Niña, and attractive grain prices are another catalyst for a potentially good season with the farmers' intended area planting of 4,34 million hectares of summer grains and oilseeds. This is up by 5% from the 2020/21 production season.

Looking ahead, we still think the agricultural machinery sales will cool off in the last two months of the year. We fear that the rising input costs, such as fertilizers, herbicides and fuel, could add pressure on farmers' finances and thus lead to a change in machinery-buying decisions. Also, the planting will be in full swing, and there will be little incentive to invest in new machinery. Still, the pace of sales in the first ten months of the year convinces us that, in aggregate, the annual sales for 2021 could be significantly larger than the previous year.

Exhibit 2: South Africa's tractor sales



Source: South African Agricultural Machinery Association and Agbiz Research

Data releases this week

We start the week with a global focus. Today the USDA will release the **US Crop Progress** report. We focus on the harvest progress in the US grain and oilseeds. The previous report of 07 November 2021 showed that 84% of the US maize crop had already been harvested, slightly behind last year's pace of 90%. On the same day, 87% of the US soybeans crop had already been harvested, which similarly is slightly behind the pace of 07 November 2020, which was 91%. As we noted last week, this slight delay in harvesting is primarily on the back of a late start of planting in various areas that experienced dryness across the US grain belt. On Thursday, the USDA releases the **US Weekly Export Sales** data.

Domestically, on Wednesday, we will release the **Weekly Grain Producer Deliveries** data for 12 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

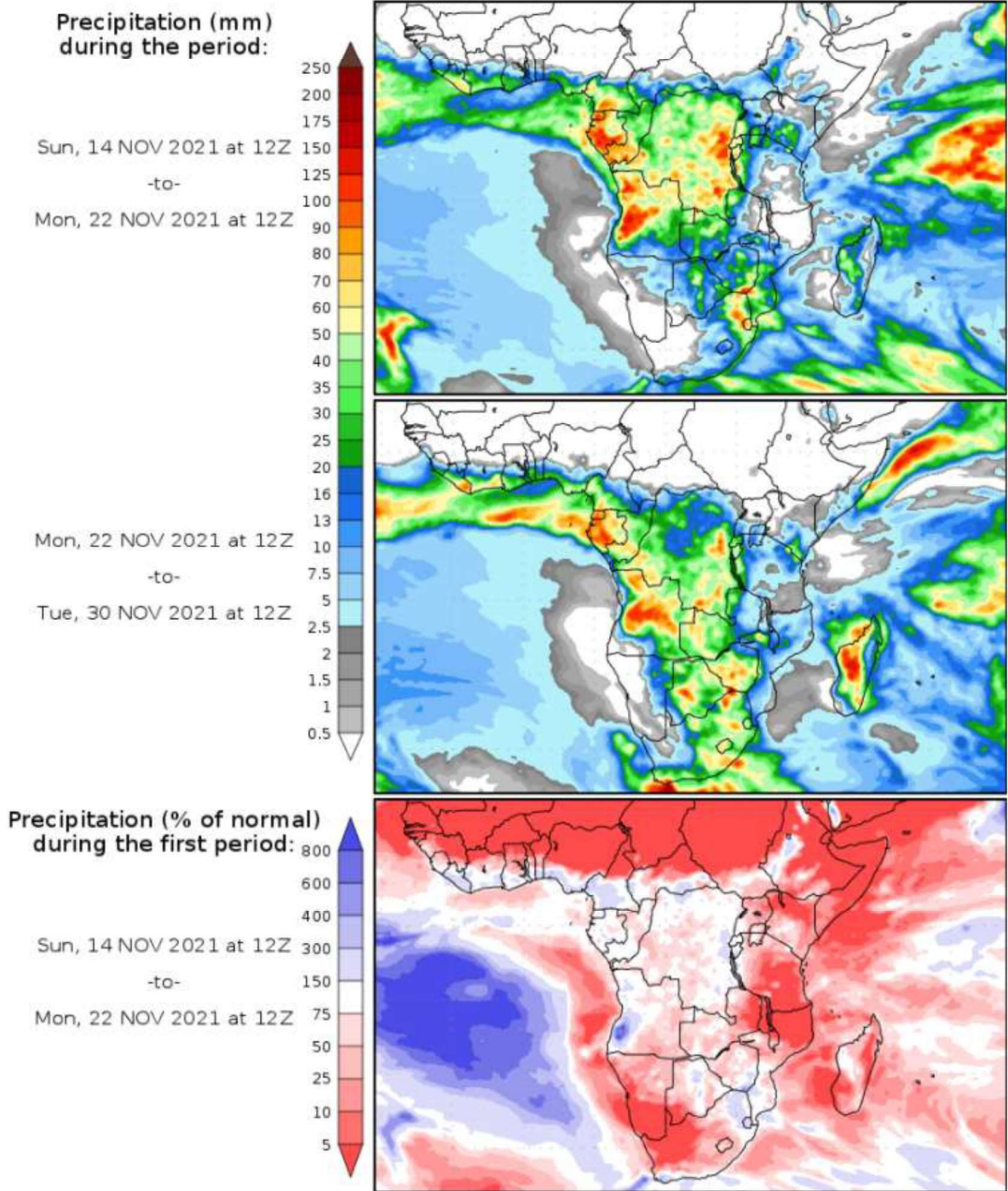
months. On 05 November, 327 tonnes of soybeans were delivered to commercial silos. This placed the soybean producer deliveries for 36 weeks of the 2021/22 marketing year at 1,83 million tonnes, which equals 97% of the expected harvest of 1,89 million tonnes. Moreover, 671 057 tonnes of sunflower seed 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 27th 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.

Also, on Wednesday, Stats SA will release the **Consumer Price Index (CPI)** for October 2021. As a reminder, South Africa's consumer food price inflation moderated to 7,0% y/y in September 2021, from 7,4% in the previous month. The products prices underpinning this deceleration include 'bread and cereals', 'meat', 'fish', and 'vegetables'.

On Thursday, SAGIS will release the **Weekly Grain Trade** data for the week of 12 November 2021. In the week of 05 November 2021, which was the 27th week of South Africa's 2021/22 maize marketing year, total maize exports amounted to 2,05 million tonnes, equating to 60% of the revised seasonal forecast of 3,42 million tonnes (up by 16% y/y). South Africa is a net importer of wheat, and 05 November 2021 was the fifth week of the 2021/22 marketing year. The total imports are now at 270 853 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

Precipitation Forecasts



The weather forecast for the next two weeks shows prospects of rainfall in the summer crop growing regions of South Africa.

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

Source: George Mason University (wxmaps)