

East Africa and South America 2020/21 maize and soybeans crops at risk in a La Niña year

On 10 November 2020, the Australian Bureau of Meteorology reaffirmed its view of a La Niña occurrence from this year until at least February 2021.¹ While this weather phenomenon presents prospects of higher rains and a potentially good agricultural season in South Africa, other regions of the world could experience the opposite. Within the African continent, one such region is East Africa, where the La Niña weather event typically correlates with below-average rainfall in the months from December to February. This is a period just before the start of the summer grains planting, which is typically in February of each year. Therefore, the current La Niña event has raised the risk of yet another poor agricultural harvest for countries in this region, such as Kenya, Somalia and Ethiopia. This means that these countries will likely still depend on maize imports in the 2021/22 marketing year.

Another region which is at risk, and more important for global maize and soybean supplies in South America. The La Niña weather event typically correlates with dryness in parts of Argentina and Brazil. The early effects of this were clear in the 2020/21 planting season, which is still underway, with planting progress in these countries lagging behind the previous years' pace because of dryness.² There is also concern that even when planting is completed, the crop yields will likely be much lower because of dryness. The regions of southern Brazil have already rung alarm bells to this possibility.³ Brazil and Argentina collectively account for 14% and 50% of global maize and soybeans production, respectively, hence the concerns about crop conditions in this region having implications on both global supplies and prices.

Interestingly, the United States Department of Agriculture (USDA), which released its update of the World Agricultural Supply and Demand Estimates report on 11 November 2020, is still optimistic about Brazil and Argentina's soybeans and maize's production in 2020/21. The USDA currently forecasts Brazil's 2020/21 soybean harvest at a record 133 million tonnes (up by 6% year-on-year (y/y)), with Argentina's 2020/21 soybean harvest also set to be up by 4% y/y, estimated at 51 million tonnes. For Argentina, the current harvest estimate is down marginally from the October 2020 estimate which mirrors the nervousness about the yields, while for Brazil, the USDA maintained a similar view as the previous month. Also, the USDA forecasts Brazil's 2020/21 maize production at 110 million tonnes (up 8% y/y), which is unchanged from the October 2020 estimate. Meanwhile, for Argentina, the 2020/21 maize production estimate is down by 2% y/y, estimated at 50 million tonnes.

The USDA reviews its estimates monthly. Therefore, there is still a chance that the current optimistic estimates about Brazil and Argentina's 2020/21 soybeans and maize production could change as more information about crop conditions, after planting has been completed, becomes available. Historic data does illustrate that in La Niña periods, crop yields in these countries are generally poor.⁴ Hence, we are convinced that it is a matter of time before the

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¹ More information about La Niña occurrence is available here: <http://www.bom.gov.au/climate/enso/outlook/>

² More information about planting progress in Brazil is available here: http://www.soybeansandcorn.com/news/Nov12_20-Soy-Planting-Started-Slow-in-Parana-will-end-at-the-Normal-Time

³ More information about effects of dryness on Brazil's crop is here: http://www.soybeansandcorn.com/news/Nov13_20-Dry-Weather-in-Rio-Grande-do-Sul-Impacting-Early-Summer-Crops

⁴ More information about La Niña impact on crop yields in South America is available here: <https://emergence.fbn.com/profitability/la-ni%C3%B1a-impact-south-america>

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USDA begins downward revisions of crops in these countries from the aforementioned optimistic estimates.

Under such a scenario, the 2020/21 global soybean and maize production estimates would have to be revised down. Currently, the USDA forecasts 2020/21 global soybeans and maize production at 362 million tonnes and 1,14 billion tonnes, which is up by 8% y/y and 3% y/y, respectively. The possible downward revision of these production estimates will mean that crop prices will remain at its current elevated levels. Soybeans and maize prices have in the past few months largely been supported by growing demand, specifically in China, and the weather issues are an added factor.⁵ These relative price increases are illustrated in the FAO Cereal Price Index, which averaged 111.6 points in October, up 17% from the corresponding period in 2019 (Exhibit 1).

In sum, the La Niña weather event in 2020/21 presents varying effects to global agriculture across regions. East Africa and parts of South America could see crops being negatively affected this season. For South Africa, La Niña tends to bring higher-than-average rainfall, as we have stated previously. Therefore, there is little concern at this stage in terms of maize supplies as the country is expected to harvest over 16 million tonnes of maize in 2020/21 (these are both our estimate and also that of USDA), and remain a net exporter. But for soybeans, South Africa remains a net importer of roughly half a million tonnes of soybean meal, a majority of which originates from Argentina, which means the risks for the domestic livestock and poultry producers remain. Importantly, global price movements will still influence commodities prices in South Africa. This is something that the livestock, dairy and poultry sectors should keep an eye on in the coming months.

Exhibit 1: Global Cereal/Grains Price Index



Source: FAO and Agbiz Research

Note: The FAO Cereals Price Index is compiled as a combined index from agricultural commodity prices in various countries

Weekly highlights

SA agricultural employment held up in Q3, 2020, but there are disparities across provinces

South Africa's agricultural economic data have generally been encouraging this year. Whether one looks at output, tractor or combine harvester sales or exports, the picture has been positive. But the jobs data for the third quarter of the year, while slightly up from the second quarter, paints a troubling picture, particularly at a regional level.

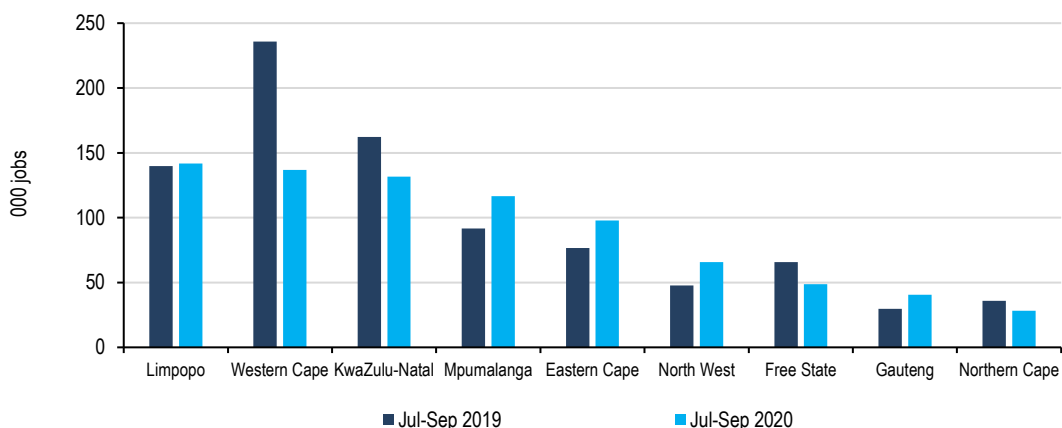
⁵ Demand for American grain is surging: <https://www.economist.com/finance-and-economics/2020/11/12/demand-for-american-grain-is-surging>

For regions with an abundance of field crops and general horticulture, the year has been fairly good, despite the challenges brought by the pandemic. But for regions, primarily focused on wine production (and to a certain extent livestock which is struggling with higher feed prices), the year has only been good from an output perspective. The wine sales, for the past few months, have been weak, mainly because of the ban during various periods of the lockdown. This has had implications on farm incomes and consequently jobs.

At an aggregate level, South Africa’s agricultural employment in the third quarter of the year increased by 1% from the previous quarter to 807 882. This slight quarterly recovery corresponds with the reopening of the economy and certain agricultural commodities during that period. This is important because while the majority of agriculture remained operational since the start of the lockdown period, the sector could not entirely avoid job losses as demand for some products in the sector was somewhat disrupted. When compared to the corresponding period in 2019, employment in this sector was down by 8%.

From a regional perspective, the pain points of the COVID-19 regulations are visible. The Western and Northern Cape, which are the major producers of wine in South Africa, saw employment fall by 31% and 15% quarter-on-quarter, respectively. This corroborates the concerns that various wine producers expressed during the lockdown period. When viewed on an annual basis, the Western and Northern Cape’s primary agriculture employment fell by 37% and 8%, respectively. In the case of the Western Cape, agricultural employment was at the lowest levels since the last quarter of 2014, at 136 729.

Exhibit 2: South Africa’s agriculture employment by province



Source: Stats SA and Agbiz Research

Other provinces of the country experienced an uptick in employment in the third quarter compared to the previous, underpinned by increased activity as more sectors of the economy were progressively opening up. Nevertheless, on an annual basis, KwaZulu Natal and Free State joined the Western and Northern Cape on employment reduction.

From a subsector perspective, it is only the forestry industry that recorded an increase in employment in the third quarter of 2020, compared with the previous year. All other subsectors recorded a decline in employment. However, it is worth noting that the dynamics from provincial level differ, as evidenced by the Eastern Cape, Gauteng, Mpumalanga and Limpopo where primary agricultural employment increased in the third quarter of this year compared with the same period in 2019.

The increased employment in these provinces can be attributed to increased activity in the fields as 2020 was a boom agriculture year in terms of output in almost all subsectors (horticulture, field crops and livestock). The country had its second-largest grains harvest in history. In the case of horticulture, South Africa has generally had a good fruit harvest this

year, with the citrus industry recently noting a 13% year-on-year (y/y) increase in available supplies for export markets in 2020. There is also a broad recovery in the production of deciduous fruit with apple and pear production up by 5% y/y and 1% y/y respectively in 2020. There is also a general recovery in the livestock industry although this particular subsector was not as robust as other subsectors.

We believe that had there not been a pandemic, agricultural employment would have increased notably in 2020 on the back of a large harvest. But the health protocols that were put in place, and rightly so, led to the reduced workforce to comply with social distancing. Disappointingly, the ban of the sale of wine appears to have had a major impact on employment, specifically in the provinces of the Western and Northern Cape. Looking ahead, the agricultural sector is poised for another good year on the back of an expected La Niña. This means that there will be increased activity in the sector, which would sustain employment, at least at levels above 750 000, in our view. We continue to worry about the financial conditions of the wine industry as the impact of the lockdown regulations will be far lasting on the industry. This, in turn, will have implications for primary agriculture employment, specifically in the Western and Northern Cape.

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 09 November 2020 showed that the harvest activity was gaining momentum, with 92%, 91% and 80% 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. Moreover, the US 2020/21 crop are well above the previous season's harvest, with maize estimated at 368 million tonnes, up by 7% y/y and soybeans at 114 million tonnes, up by 17% y/y.

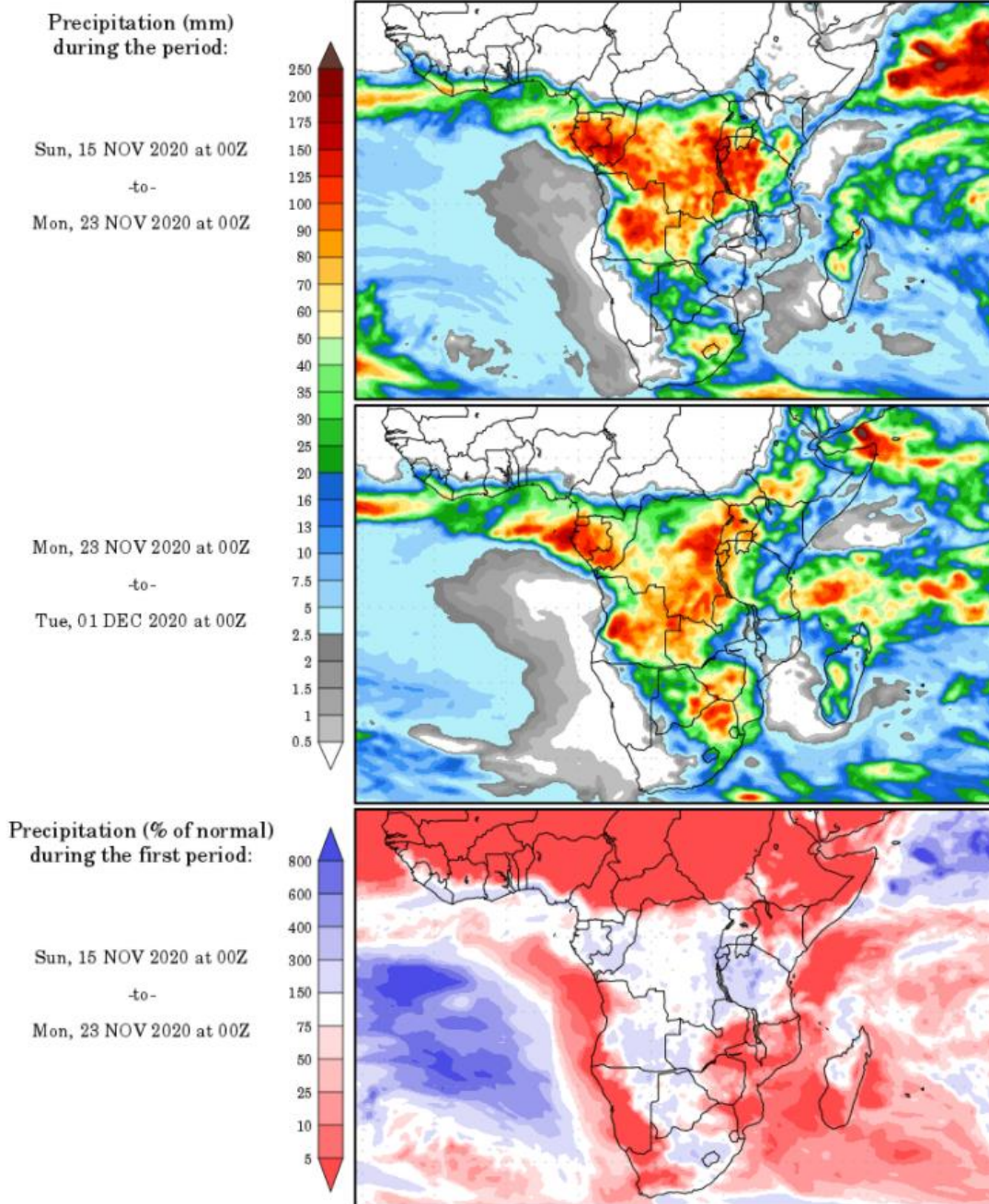
On Thursday, the USDA will release the **US weekly export sales data**, which also help in tracking the agricultural trade activity between the US and China. In recent weeks, China has been buying large volumes of both maize and soybeans, and the demand is expected to hold as the country rebuilds its 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 13 November 2020. This data covers both summer and winter crops. But the focus has shifted towards winter crops whose harvest has recently started in few regions of the country. In the week of 06 November 2020, about 147 890 tonnes of wheat were delivered to commercial silos. This placed the 2020/21 wheat producer deliveries at 202 314 tonnes. The volumes of producer deliveries will increase in the coming weeks when the harvest process gains momentum in some regions. Importantly, the overall crop for the season is estimated at 2.13 million tonnes, the largest crop in 19 years.

On Thursday, SAGIS will release the **weekly grain trade data** also for the week of 13 November 2020. In the previous week of 06 November 2020, South Africa's 2020/21 total maize exports were at 1.69 million tonnes, which equates to 68% of the seasonal export forecast (2.50 million tonnes). In terms of wheat, South Africa is a net importer, and in the week of 06 November 2020, the sixth consignment for the 2020/21 marketing year had arrived, putting the total imports at 347 251 tonnes. This equates to 23% 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).

Exhibit 3: South Africa's precipitation forecast

Precipitation Forecasts



The next two weeks could bring higher rainfall over the summer crop producing regions of the country.

This should 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)