

A good season for South Africa's winter crops

Our recent analysis of South Africa's agricultural production for the 2019/20 and 2020/21 production seasons has largely carried a positive tone. Over the past month, our focus has been on summer crops and horticulture, where record yields have been a dominant feature in the discussion. For summer crops, we maintain our upbeat view that the 2020/21 season will show further improvement in output compared with the 2019/20 season.

Encouragingly, this optimistic production outlook extends into winter crops, i.e., wheat, canola, oats and barley, which we have not discussed much recently. The Western Cape, where more than two-thirds of the winter crops are planted, has received favourable rains since the start of May. Moreover, the cold weather in recent weeks has also provided conducive conditions for the crops. This is in a season where farmers intended to increase wheat, canola and oats plantings by 1% (to 512 500 hectares), 28% (to 95 000 hectares) and 32% (to 34 500 hectares) y/y, respectively. For wheat, planting intentions are roughly in line with the 10-year average, while for canola, current planting intentions are the largest in eight years and well above the long-term average. For oats, this would be the largest area planted on record. Barley is the only winter crop that saw its expected area planting fall sharply by 33% y/y to 95 000 hectares. This is partly because of lower demand following temporary bans in alcohol sales at various intervals since the start of the pandemic. The 2021/22 crop looks set to be in the lowest area since the 2017/18 production season.

The weather outlook for the next two months will likely keep the crop in good condition until the end of the season. At the end of June 2021, the South African Weather Service indicated that "the multi-model rainfall forecast indicates mostly above-normal rainfall during the late-winter season (Jul-Aug-Sep), notably however there are below-normal rainfall expectations over the southern coastal areas for late winter." We take that to mean that the southern coastal areas that could remain relatively dry are primarily around the Eastern Cape, where the 2020/21 summer rainfall did not affect most of the southern areas of the province, and there remain concerns of dryness.¹ But for the Western Cape, there will likely be normal rains in the coming months, which bode well for the winter crops growing season. Also, it is worth noting that the benefit of the recent rains in the Western Cape is reflected on dam levels. In the week of 12 July 2021, the Western Cape's provincial dams averaged 72% full, compared with 51% in the corresponding period last year.²

An important date to keep an eye on in the coming week is 28 July, when the Crop Estimates Committee (CEC) will release the preliminary area plantings of South Africa's winter crops. We do not believe there will be a significant deviation from the area mentioned above that farmers intended to plant. Our interactions with farmers, specifically in the Western Cape, suggest that there has been an increase in area plantings of wheat and canola and a decline in barley for reasons we have stated above.

It will be a month until we understand how much the latest rains and expected area increase will contribute to overall yields and output. The CEC will release the first winter crop production forecast only on 26 August. Still, the available information suggests that we could see a slightly larger harvest than in the 2020/21 production season. For wheat, the 2020/21

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¹ For more insights on Eastern Cape's dryness, please see [here](#).

² The Western Cape's dam levels data can be accessed [here](#).

crop was the largest in nearly two decades at 2,1 million tonnes, while canola was the largest harvest on record at 165 200 tonnes, and oats at a record 57 000 tonnes.

Nevertheless, South Africa will remain a net importer of wheat even if the 2021/22 harvest is larger than the previous season, as we expect. The import requirements for the marketing year, which starts on 01 October 2021, will become clearer once we have a reliable estimate of the current crop. Generally, under the scenario of an improved production in the 2021/22 season, imports could decline from the expected volume of 1,6 million tonnes in the 2020/21 marketing year.

While a decline in import volumes will be positive for the South African agricultural trade balance, the expected large crop will have minimal impact on price trends. South Africa's wheat prices will continue to be heavily influenced by the global market developments as the country is a net importer of the commodity. On 15 July 2021, South Africa's wheat spot price was down 7% y/y, trading around R5 260 per tonne. These developments in the wheat market also influence the barley market prices.

In sum, the positive news of good agricultural production in South Africa is not limited to particular crops, but extends to all subsectors, especially where area plantings have also been lifted. The driving force of optimism is the favourable weather conditions.

Exhibit 1: South Africa's wheat market



Source: SAGIS, CEC and Agbiz Research

Weekly highlights

The outlook remains positive about the 2021/22 global grains production

The global agricultural conditions remain favourable for the 2021/22 production season. This was reaffirmed in the United States Department of Agriculture's (USDA) monthly World Agricultural Supply and Demand Estimates report. The USDA lifted its estimates for 2021/22 maize production estimate marginally from the previous month to 1,2 billion tonnes, 7% higher than the last season. This estimate is roughly in line with recent one from the International Grains Council (IGC). The optimism is on the back of an expected large crop in the US, Brazil, Argentina, Ukraine, China, EU, and Russia. In the same season, the global maize stocks are forecast at 291 million tonnes, also marginally up from the previous month and 4% higher than the last season. With that said, this is well below the 300 million tonnes of the past few season stocks. As such, these thin stocks continue to be a source of volatility or sensitivity in maize prices, which typically lift on daily weather-related news in major

producing countries, even if such information has minimal impact on crop conditions. As highlighted in our commentary following the release of IGC data, while the production forecasts look promising, another essential region that we continue to observe is the Southern Hemisphere crop (particularly in South America), which will only be planted in October. The outcome of the crop in this region will have a notable implication on the global harvest estimates.

Moreover, the USDA forecasts 2021/22 global wheat production at 792 million tonnes, a slight downward revision from the previous month. Still, this is 2% higher than the 2020/21 season. This is on the back of an expected large crop in the EU, the US, Ukraine, Argentina, China, India, and the UK. Subsequently, the global stocks for the 2021/22 season are at 291 million tonnes, up by 1% y/y. These improvements point to a possible softening of global wheat prices in the coming months from the higher levels of the recent months.

The global rice production prospects remain favourable, at 506 million tonnes, roughly unchanged from the previous month's estimate. This is up by 0,2% from the 2020/21 season because of expanding area plantings in Asia. Nevertheless, the 2021/22 global rice stocks could fall by 5% y/y to 166 million tonnes, primarily due to increased consumption. Notably, this stock estimate is well below the IGC's one of 171 million tonnes. As such, we could expect global rice prices to be somewhat elevated in the coming months. This also means that rice-importing countries such as South Africa can expect prices at relatively higher levels in the coming months. Still, prices are unlikely in the near term to be at higher levels as experienced at the start of the year where Thailand and Vietnam rice prices (5% broken) were over \$US500 per tonne in February and March. Both these prices are now at levels below US\$460 per tonne.

Soybeans have one of the most optimistic outlooks, with the USDA estimating the 2021/22 harvest at 385 million tonnes, which is roughly unchanged from June 2021 estimate and 6% higher than the previous season. This is supported by expected large harvest in the US, Brazil, Argentina, India, Paraguay, Russia, Ukraine, and Uruguay. The 2021/22 global soybeans stocks are forecast at 94 million tonnes, up by 3% y/y.

In our view, these production forecasts suggest that global crop prices this second half of the year could soften slightly from the recent months' levels, albeit the generally lower stock levels. That could also positively influence the South African consumer food price inflation outlook. However, the price developments in the case of soybeans will be influenced more by Chinese buying decisions and the broader vegetable oils market developments.

Data releases this week

We start the week with a global focus, as the USDA will today release the **US Crop Progress Report**, which will rate the crop conditions over the past week compared to the corresponding period last year. The **US Weekly Export Sales** data is due for release, also by the USDA, on Thursday.

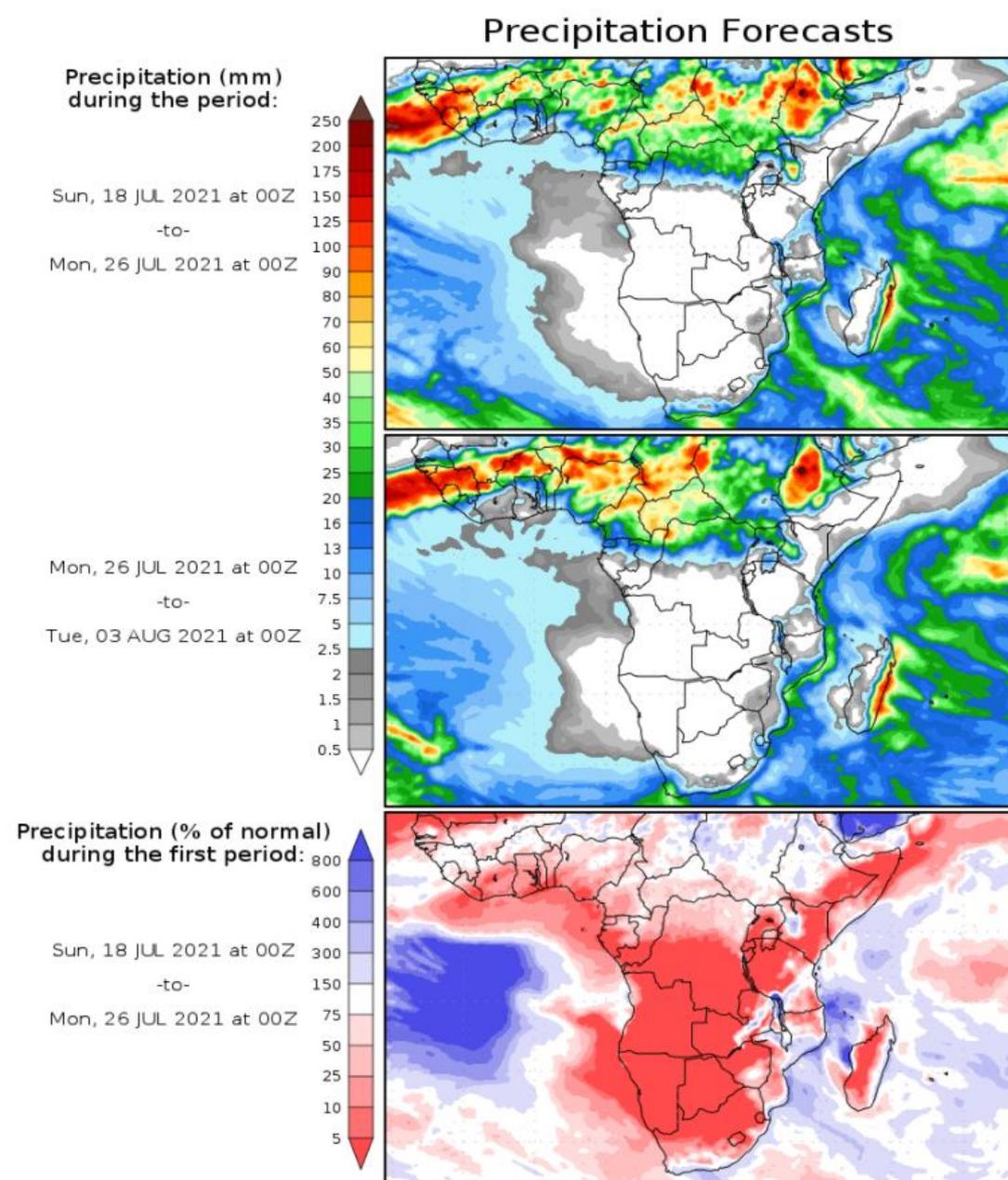
On the domestic front, on Wednesday, SAGIS will release the **Weekly Grain Producer Deliveries** data for 16 July 2021. This data cover summer and winter crops, although we only focus on summer crops for now where harvesting is at completion. To recap, on 9 July, about 2 118 tonnes of soybeans were delivered to commercial silos. This placed the soybean producer deliveries for 17 weeks of the 2021/22 marketing year at 1,80 million tonnes, which equals 94% of the expected harvest of 1,92 million tonnes. Moreover, 593 927 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 tenth week of the 2021/22 marketing year, which

began at the start of May. The producer deliveries currently amount to 10,8 million tonnes, which equates to 66% of the expected crop of 16,2 million tonnes.

Also on Wednesday, Stats SA will release the **Consumer Price Index (CPI)** data for June 2021. To recap, in May 2021, South Africa's consumer food price inflation accelerated at the fastest pace since July 2017, measured at 6,8% y/y, from 6,7% y/y in April 2021. The underpinning drivers of this increase were the oils and fats, meat, vegetables, and to an extent, staple grain-related products.

On Thursday, SAGIS will release the **Weekly Grain Trade** data for the week of 16 July 2021. In the week of 9 July, which was the tenth week of South Africa's 2021/22 maize marketing year, total maize exports amounted to 779 655 tonnes. The seasonal export forecast is 2,6 million tonnes, roughly 10% below the previous season because of an anticipated decline in Southern African demand, a region that is typically a key importer of maize from South Africa. In terms of wheat, South Africa is a net importer. On 9 July, imports amounted to 1,3 million tonnes, equating to 81% of the seasonal import forecast of 1,6 million tonnes.

Exhibit 2: South Africa's precipitation forecast



The weather forecast for this week shows clear skies over most regions of South Africa, which is supportive of the summer crop harvesting process.

The only region that could receive rains this week are the coastal parts of the Western Cape, which is a welcome development as it could support the winter crops.

Source: George Mason University (wxmaps)