

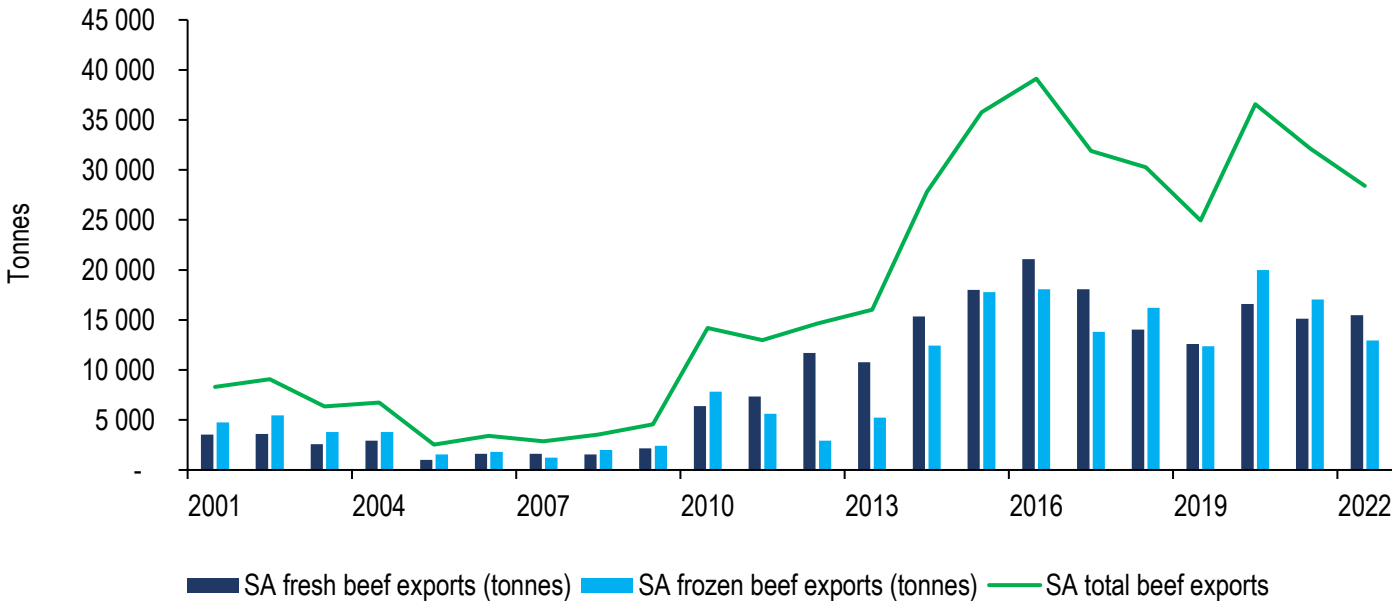
21 August 2023

The re-opening of beef export markets is positive for South Africa

- One positive development in South Africa's agriculture this past week was the re-opening of the Chinese beef market and the firm establishment of beef access to the Kingdom of Saudi Arabia. The Kingdom of Saudi Arabia has not featured prominently in South Africa's beef export markets in the past, with only small volumes last exported in the early 2000s. The renewed access to this market is critical to South Africa's ambition to expand beef exports, as the Saudi beef market is sizable at over US\$647 million in 2021, according to data from Trade Map.
- About 62% of the Saudi beef imports were frozen beef, while 38% were chilled or fresh beef imports. Some leading suppliers to Saudi Arabia include Brazil, Australia, Pakistan, The US, New Zealand, and Canada. Beyond beef, the Saudi meat market is large, with all meat imports valued, on average, at US\$1,9 billion annually over the past five years. This means, over time, as South Africa increases its production in other meat value chains, Saudi Arabia could remain a strategic country for growing exports.
- Regarding China, the country has an established trade relationship with South Africa. Over the past six years, China has been the leading importer of South Africa's frozen beef cuts in value terms. Therefore, easing import restrictions that were put in place following an outbreak of the foot-and-mouth disease is a welcome development, as that could lead to an increase in exports.
- These positive developments provide some relief when the South African beef industry has faced a challenging operational environment for several reasons. One of the significant challenges was the rise in feed prices since 2020, especially for maize and soybeans. The rise in animal feed prices coincided with a worsening financial strain on consumers due to the Covid-19 pandemic's damaging effects. Thus, we saw a decline in the demand for red meat products as consumers opted for relatively cheaper forms of protein. Moreover, the spread of foot-and-mouth disease (FMD) to six of South Africa's nine provinces for the first time in history was another challenge for the industry. This brought temporary bans in specific export markets, extending to auctions and livestock movement, mainly cattle, for some time in 2022.
- Fortunately, the feed prices have now softened somewhat, with both maize and soybean prices, on average, down 13% y/y. This is in response to large domestic maize and soybean harvests and the easing of global grain prices (irrespective of lingering worries about the Black Sea Grain Deal). Therefore, the resumption of exports to China and the opening of export opportunities to the Kingdom of Saudi Arabia adds to this improving operational environment going forward.

- Despite the foot-and-mouth disease challenge, South African beef exports did not collapse. Some markets remained open, although with strict controls. This is evident in South Africa's beef exports for 2022, which amounted to 28 422 tonnes (albeit down 12% from 2021), according to data from Trade Map. This is only mildly below the ten-year average. Fresh beef accounted for 54% of overall exports, while the balance was frozen beef. Within this total figure, a significant decline was recorded in frozen beef exports, which were 12 945 tonnes in 2022, down 24% year-on-year. Meanwhile, fresh beef exports increased by 2% year-on-year to 15 477 tonnes.
- The key markets for South Africa's fresh beef were Kuwait (with a market share of 22%), Jordan (16%), Mozambique (13%), United Arab Emirates (12%), Qatar (9%), Netherlands (4%), Lesotho (3%), Canada (3%), Zimbabwe (3%), Mauritius (3%), and Eswatini (2%). These markets accounted for 90% of South Africa's fresh beef exports in 2022.
- In the case of frozen beef exports, the top export markets for South Africa were Lesotho (16%), China (14%), Nigeria (14%), United Arab Emirates (9%), Mozambique (7%), Kuwait (6%), Egypt (5%), Qatar (4%), United Kingdom (3%), Netherlands (3%), and Jordan (2%). These markets accounted for 82% of South Africa's frozen beef exports 2022.
- Overall, the broadening of South Africa's beef export markets is a welcome development and shows the possibilities the country could achieve through collaboration and aligned interests between the government and private sector. These efforts of opening key markets such as the Kingdom of Saudi Arabia should extend to other commodities, mainly fruits and wine, that are eager to expand the export markets while retaining the existing markets in the EU, African continent, and Asia and the Americas, amongst other regions. Organized agriculture, agribusinesses and government share this ambition and should continue collaborating to find new growth opportunities.

Exhibit I: South Africa's beef exports



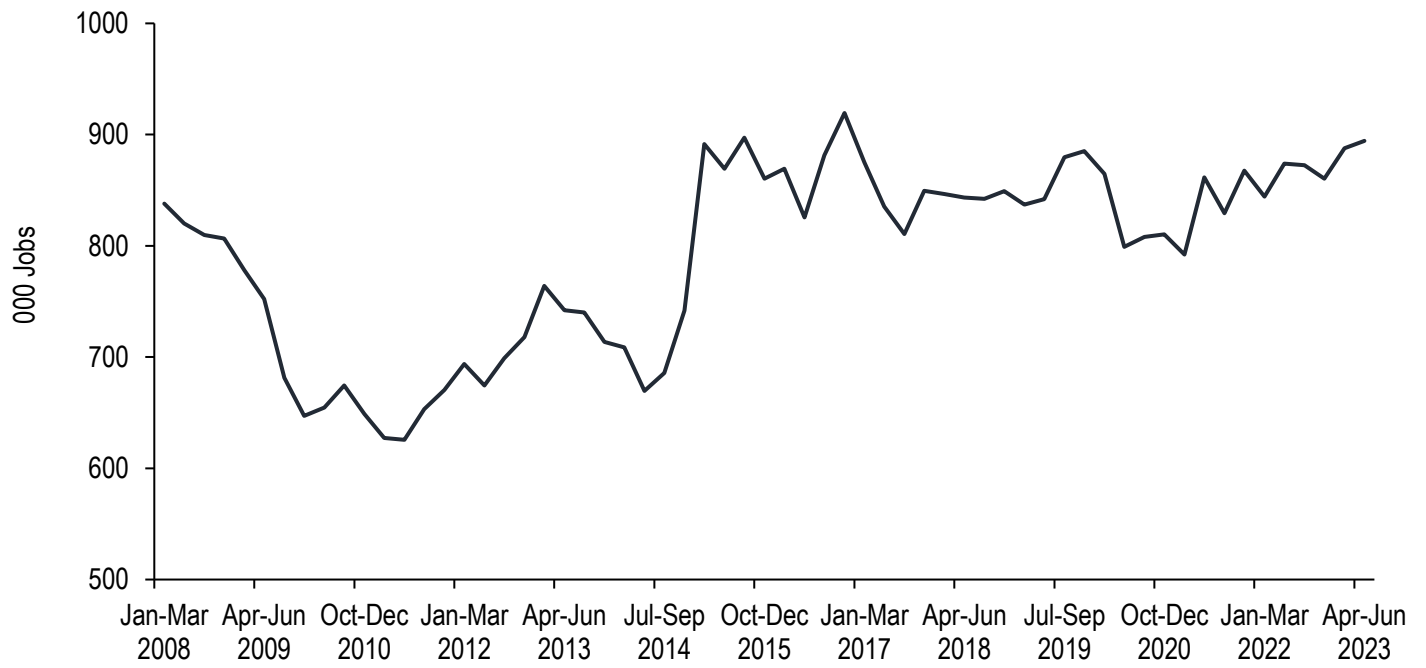
Source: Trade Map and Agbiz Research

WEEKLY HIGHLIGHT

SA agricultural jobs up 2% y/y in Q2, 2023

- The data released this past week by Statistics South Africa paints an encouraging picture of agricultural employment. In the second quarter of 2023, about 894 000 people were employed in primary agriculture, up 1% q/q and 2% y/y. This is the highest farm employment level since the last quarter of 2016 and is well above the long-term agricultural employment of 780 000. From a regional perspective, the Western Cape, Eastern Cape, Northern Cape, and KwaZulu-Natal were the significant drivers of this employment.
- The robust production conditions of various field crops, forestry and aquaculture were behind the improvement in agricultural jobs in the second quarter. Meanwhile, the livestock industry saw modest improvement, which is unsurprising as the industry still deals with the tail-end effects of the rough period of foot-and-mouth disease and higher feed costs among the industry's pressures. There was a notable decline also in the game industry and production of organic fertilizer facilities.
- Overall, this notable improvement in employment in the second quarter is unsurprising as South Africa has a robust field crop and horticulture harvest following favourable rainfall. At the start of the season, production was threatened by persistent load shedding. Still, the various interventions to ease the load-shedding burden on farmers, such as load curtailment, expansion of the diesel rebate to the food value chain, and most private sector investment in alternative energy sources, all supported the production conditions.
- Hence, the 2022/23 maize harvest is estimated at 16,4 million, 6% higher than the 2021/22 season's harvest and the second-largest harvest on record. Soybeans harvest could reach a record 2,8 million tonnes. South Africa's sugar cane crop will likely increase by 3% to 18,5 million tonnes in 2023/24. Other field crops and fruits also show prospects for decent harvest this season, which underpins these favourable jobs data. In the coming weeks, the focus will also be on the effectiveness of the recently announced Agro-Energy Fund and the application details.
- The key challenges the sector faces are rising geopolitical tensions, deteriorating infrastructure, weakening municipalities, crime, and energy supply which all influence farm profitability and job prospects. The South African government, collectively with the private sector, should address these issues to support long-term in the sector.
- El Nino's forecast in the upcoming 2023/24 summer season is another aspect to keep an eye on, although we remain optimistic that it will have a mild impact on the sector and thus keep production at decent levels and, by extension, sustain decent employment.

Exhibit 2: South Africa's agriculture employment



Source: Stats SA and Agbiz Research

WEEK AHEAD

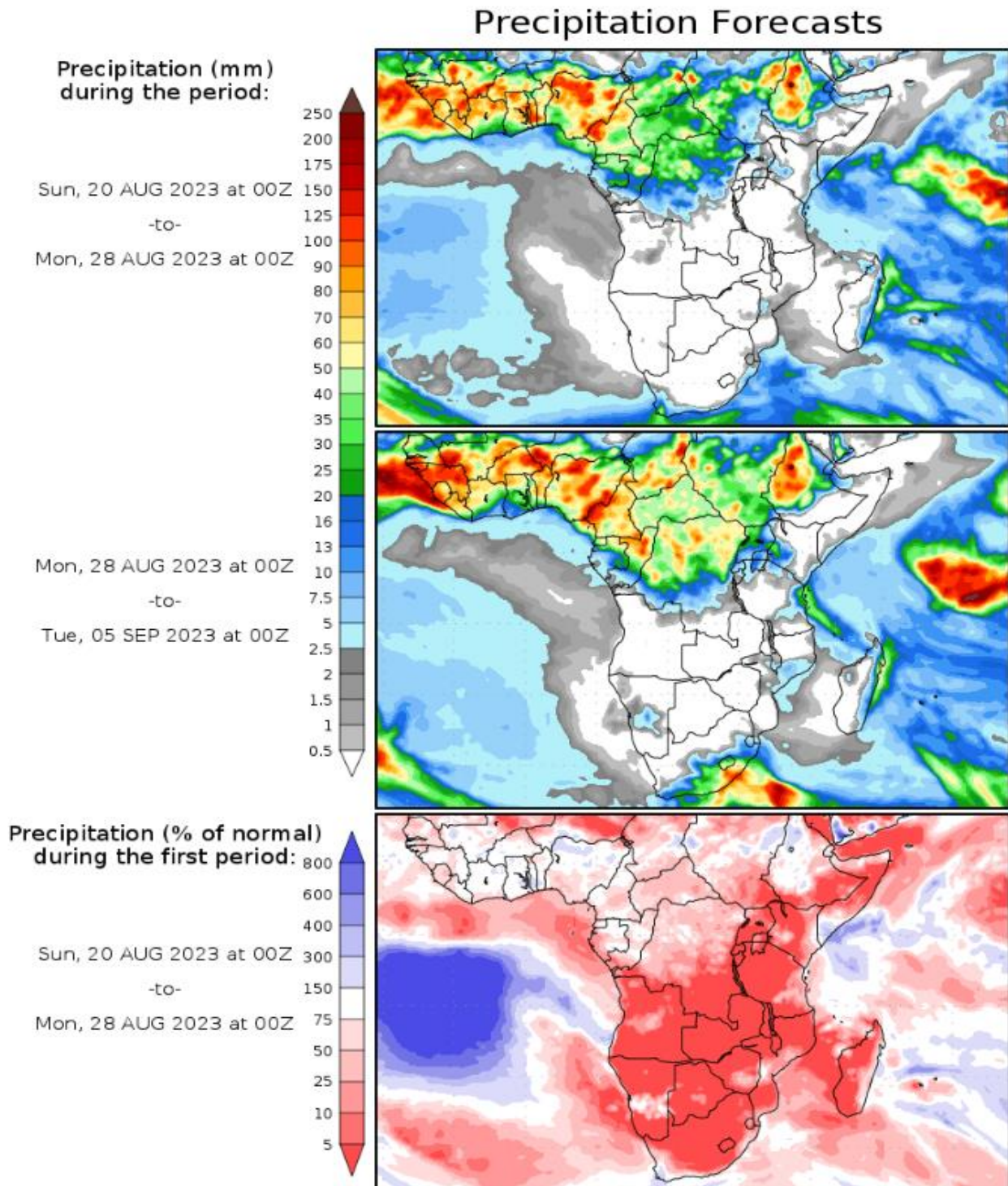
What we are watching this week

- We start the week with a global focus, and today, the USDA will release its weekly update of the **US Crop Progress Report**. After weeks of excessive heat, the US crop growing conditions have improved recently following good rains. For example, on 13 August, about 59% of the planted maize crop was rated good/excellent, slightly above 57% in the same week in 2022. In addition, about 59% of the soybean crop was rated good/excellent, also slightly above the 58% rating in the same week in August 2022. The USDA will release its weekly **US Grains and Oilseeds Exports** data on Thursday.
- On the domestic front, on Wednesday, SAGIS will release its weekly **South Africa Grains and Oilseeds Producer Deliveries** data for 18 August. In the previous release on 11 August, South Africa's 2023/24 maize producer deliveries were about 363 111 tonnes. This placed the 2023/24 deliveries at 13,4 million tonnes out of the expected harvest of 16,4 million.
- The soybean harvest activity has progressed more than maize because it was planted earlier in the season. The harvest is now close to completion, and on 11 August, about 2,6 million tonnes of soybeans had already been delivered to commercial silos out of the expected crop of 2,8 million tonnes. On the same day, sunflower seed producer deliveries amounted to 711 132 tonnes out of the expected harvest of 758 610 tonnes.
- Also, Statistics South Africa will release the **Consumer Price Index (CPI)** data for July 2023 on Wednesday. Our focus in this data will be on the food category. If we recap from the previous release, South Africa's consumer food inflation slowed in June 2023, recorded at 11,1% from 12,0% in the previous month. The product prices underpinning this deceleration are mainly bread and cereals; meat; fish; milk, eggs and cheese; and oils and fats.
- On Thursday, SAGIS will publish its weekly **South Africa's Grains and Oilseeds Trade** data for 18 August. In the previous release on 11 August, the 15th week of the 2023/24 marketing year, South Africa exported 70 729 tonnes of maize. Of this volume, about 75% was exported to South Korea, and the balance was to African countries. This placed South Africa's 2023/24 maize exports at 1,43 million tonnes out of the seasonal export forecast of 3,22 million tonnes.
- South Africa is a net wheat importer, and 11 August was the 45th week of the 2022/23 marketing year, with a weekly import volume of 44 873 tonnes from Poland and Lithuania. This placed South Africa's 2022/23 wheat imports at 1,29 million tonnes. The seasonal import forecast is 1,60 million tonnes, roughly unchanged from the previous season.

South Africa's Precipitation forecast

- There are clear skies over most regions of South Africa this week, which benefits the summer crop harvest process at the final stages in some areas of the country. Meanwhile, the Western Cape could receive light showers, which is conducive for winter crops.

Exhibit 3: South Africa's precipitation forecast



Source: George Mason University (wxmaps)