Important events to keep an eye on in South Africa's agriculture this week

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The week ahead brings a flurry of critical data on the South African agricultural sector. The most notable releases are the Quarterly Labour Force Survey data for the fourth quarter of 2020, which is due for release on 23 February. On 24 February, the results of the 2020 Global Food Security Index will be published. On 25 February, the Crop Estimates Committee releases its first production estimates of South Africa's 2020/21 summer crops. But in addition to the data releases, the tabling of the national budget on 24 February could also have important implications for the sector from a policy perspective. We provide a brief preview of each of these critical events in the calendar this week.

The Quarterly Labour Force Survey will be an important update on employment ...

The Quarterly Labour Force Survey (QLFS) data will be of particular interest following the 16,1% increase in the farm minimum wage to R21,69 per hour with effect on 1 March. Agriculture has had a good season in 2019/20, which improved farm incomes, but the positive performance was not widespread. The subsectors that were affected by the lockdown regulations performed poorly. Such subsectors include the wine industry, tobacco, cotton and floriculture, amongst others. The wine industry's negative impact was already evident from the third quarter of 2020, where farm jobs in the Western and Northern Cape fell by 37% and 8% on a year-on-year basis, respectively. In the case of the Western Cape, agricultural employment fell to the lowest levels since the last quarter of 2014, at 136 729. The fourth-quarter results will indicate whether this was a temporary blip or if the industry remained under pressure throughout the year. Discussions we have had with the wine industry suggest that the recent increase in the minimum wage could cause a further squeeze on incomes in a subsector that already had cashflow challenges resulting from the recent ban on domestic sales of wine. Nevertheless, the Q4 2020 will be historical. The actual effects of the current minimum wage increase on jobs will be apparent later this year.

... while the national budget will likely provide an update on the Land Bank

In terms of the national budget, the vital point that agricultural role players will most likely be watching is the National Treasury's messaging about the Land Bank, which has been experiencing liquidity challenges for a while. In the Medium-Term Budget Policy Statement presented in October 2020, Finance Minister Tito Mboweni noted that the Land Bank would "require an additional R7 billion over the medium term to support its restructuring". We will be watching closely to see if there will be any follow through on this, especially in the context of the country's fiscal constraints. The Land Bank is an essential institution in agricultural finance, interlinked with primary agriculture and various agribusinesses. Hence, any possible failures would potentially have broader implications on South Africa's agricultural sector and food security.

Global food security will also be in the spotlight this week ...

The Economist Global Food Security Index, which will also be released on the same day as the national budget, will provide South Africa with a historical view of the food security conditions in 2020. We expect South Africa's food security conditions to have deteriorated somewhat from 2019 as more people were out of work because of the pandemic. In 2019, South Africa ranked as the 48th most food-secure country out of 113 countries measured in *The Economist* Global Food Security Index, a few inches worse from last year's ranking of 45. This ranking was relatively good and leading in the African continent, although slightly behind most BRICS countries, i.e. Brazil, Russia, India and China. For example, South Africa has ranked 13 spots behind China, nine places behind Brazil, six spots behind Russia, and 24 spots ahead of India. The current food security conditions are primarily supported by the productivity gains in agriculture, which ensured that South Africa could supply food at a reasonably lower cost.

Nevertheless, there are pockets of food insecurity within South Africa when one considers a household-level perspective. Food insecurity speaks to the country's general inequality, where some households are food secure, and over 6 million South Africans of low-income households are not, primarily due to affordability. Food insecurity is significantly more prevalent in Limpopo, KwaZulu-Natal and the Eastern Cape. We fear that in 2020, this may have been exacerbated by the rising unemployment and closure of various businesses because of the pandemic. The National Income Dynamics Study – Coronavirus Rapid Mobile Survey (NIDS-CRAM) published last week also pointed to a deterioration in hunger in South Africa in late 2020.

… while the Crop Estimates Committee will publish the first 2021 summer crop forecast

The Crop Estimates Committee data, which are out also this week, will provide a view of the potential size of the 2020/21 summer grains production. The season started on a positive footing with favourable rainfall and higher commodity prices, which incentivized an increase in all grain area plantings by 6% to 4.2 million hectares. As stated in the previous notes, this dataset comprises maize (white and yellow), soybeans, sunflower seeds, groundnuts, sorghum and dry beans. There is an expansion in most crops, except sunflower seeds, whose plantings declined by 5% year on year (y/y) to 473 300 hectares, which would be the smallest area in nine years.

The focus here will mostly be on maize and soybeans, a primary staple grain and oilseed, respectively. We estimate that South Africa's maize production could amount to 16,66 million tonnes, which would be the second-largest maize harvest on record (15,41 million tonnes in 2019/20). Meanwhile, the soybean harvest could amount to 1,47 million tonnes, up by 18% y/y and would be the second-largest harvest on record.

In sum, the quarterly labour force data, national budget, global food security, and crop estimates data will be significant events to watch this week. What emerges from these critical events could have implications on the sector, particularly the national budget's outcome regarding the Land Bank challenge. Meanwhile, the Crop Estimates Committee's production estimates data may be key for domestic crop prices and, ultimately food inflation.

Weekly highlights

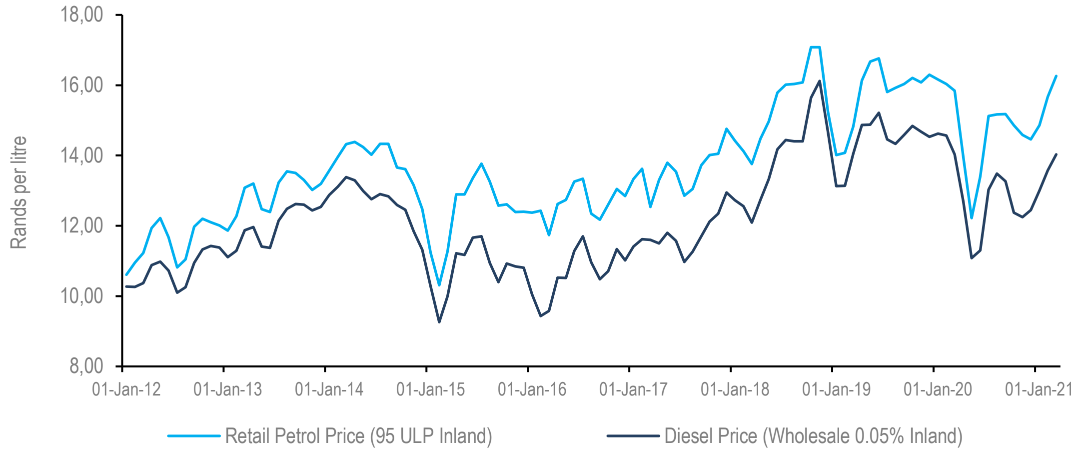
Fuel price increase on the cards in March 2021

The Central Energy Fund's preliminary estimates suggest that South Africa's petrol (95 ULP inland) and diesel (0.05% wholesale inland) prices could increase by 57 cents per litre (c/l) and 48 (c/l), respectively, on 03 March 2021. This adjustment means the retail price of petrol could rise to R16,24 per litre from the current level of R15,67 per litre. Simultaneously, the wholesale diesel price could increase to R14,06 per litre from R13,58 per litre in February 2021. This will be the highest level for petrol since December 2019, while for diesel it's the highest level since March 2020. The underpinning driver of the price increase is the rising

Brent crude price, which on 18 February 2021, traded at US$62,91 per barrel, which is 10% higher than the corresponding period last year.

While this expected fuel price uptick will increase farmers' input costs, it, fortunately, comes at a quiet period in the agricultural sector. This is except for the agribusinesses in logistics, which will most likely experience an increase in activity due to an expected uptick in wheat imports and summer grains exports. It is worth noting that roughly 81% of maize, 76% of wheat and 69% of soybeans in South Africa are transported by road. On average, 75% of national grains and oilseeds are transported by road.

Exhibit 1: South Africa's retail petrol and wholesale diesel prices



Source: Central Energy Fund and Agbiz Research

SA food price inflation decelerates in January 2021

South Africa's food price inflation softened to 5,6% y/y in January 2021, from 6,2% y/y in the previous month. The deceleration was in most product prices in the food basket except for bread and cereals, which accelerated from the levels seen in December 2020. Nevertheless, this was overshadowed by the slowing price inflation in meat; fish; milk, eggs and cheese; fruit; and vegetables.

The "bread and cereals" products price inflation mirrors the increases observed in the past few months in grain prices. The current slightly elevated price inflation for this particular product prices will likely prevail for most of the first quarter as grain prices have continued to surge since the start of the year. While South Africa had its second-largest grain harvest in history in the 2019/20 production season, and ordinarily, one would have expected prices to soften; we have experienced the opposite. As indicated in our previous notes, domestic grain prices remained elevated on the back of strong demand for South African maize across the Southern Africa region and the Far East markets. The weaker domestic currency also added to the price increase and spillovers from higher global grain prices. The global grain market was primarily driven by the growing demand for grain in China.

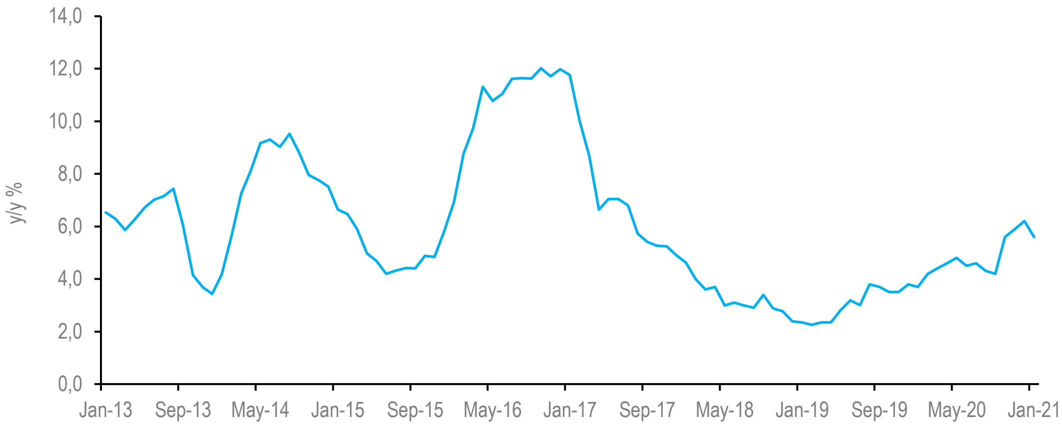
Nevertheless, we expect South Africa's grain prices to soften from the second quarter on the back of an expected sizeable domestic maize harvest of 16,6 million tonnes from 15,4 million tonnes in the 2019/20 production season. This is all against South Africa's annual consumption of about 11,4 million tonnes.

Meat, which has a higher weighting of 35% in the food basket, saw price inflation decelerating in January 2021, in part, due to increased supply following slightly higher slaughtering activity in December 2020. Cattle slaughtering was up by 1% in December 2020, at 281 043 head. This slight increase, combined with relatively depressed household incomes, has partly contributed to softening price inflation for the product. In terms of vegetables and fruit, the domestic supply recovery is mainly the contributing factor to easing price inflation.

From now on, we still expect South Africa's food price inflation to remain at slightly elevated levels in the first quarter of the year because of higher grain prices and the imported vegetable oils and fats. But from the second quarter of the year, grain prices could soften and filter through, with a lag, on the "bread and cereals" products prices. This product category also has a higher weighting of 21% in the food basket, and changes in its price inflation will be noticeable. In terms of meat, we expect a sideways price movement for the coming months. Slaughtering could slightly improve in 2021 in cattle, and the base effects on poultry meat, which increased in 2020 partly as a result of an import tariff hike, could also bode well for food price inflation.

In sum, we believe South Africa's food price inflation could remain relatively higher in the first quarter of 2021, primarily underpinned by bread and cereals products (the pass-through of current higher grain prices will persist for the first quarter). But from the second quarter, we could see food price inflation decelerating somewhat. Our baseline view is for food price inflation to average around 5,0% y/y in 2021.

Exhibit 2: South Africa's food price inflation



Source: Stats SA and Agbiz Research

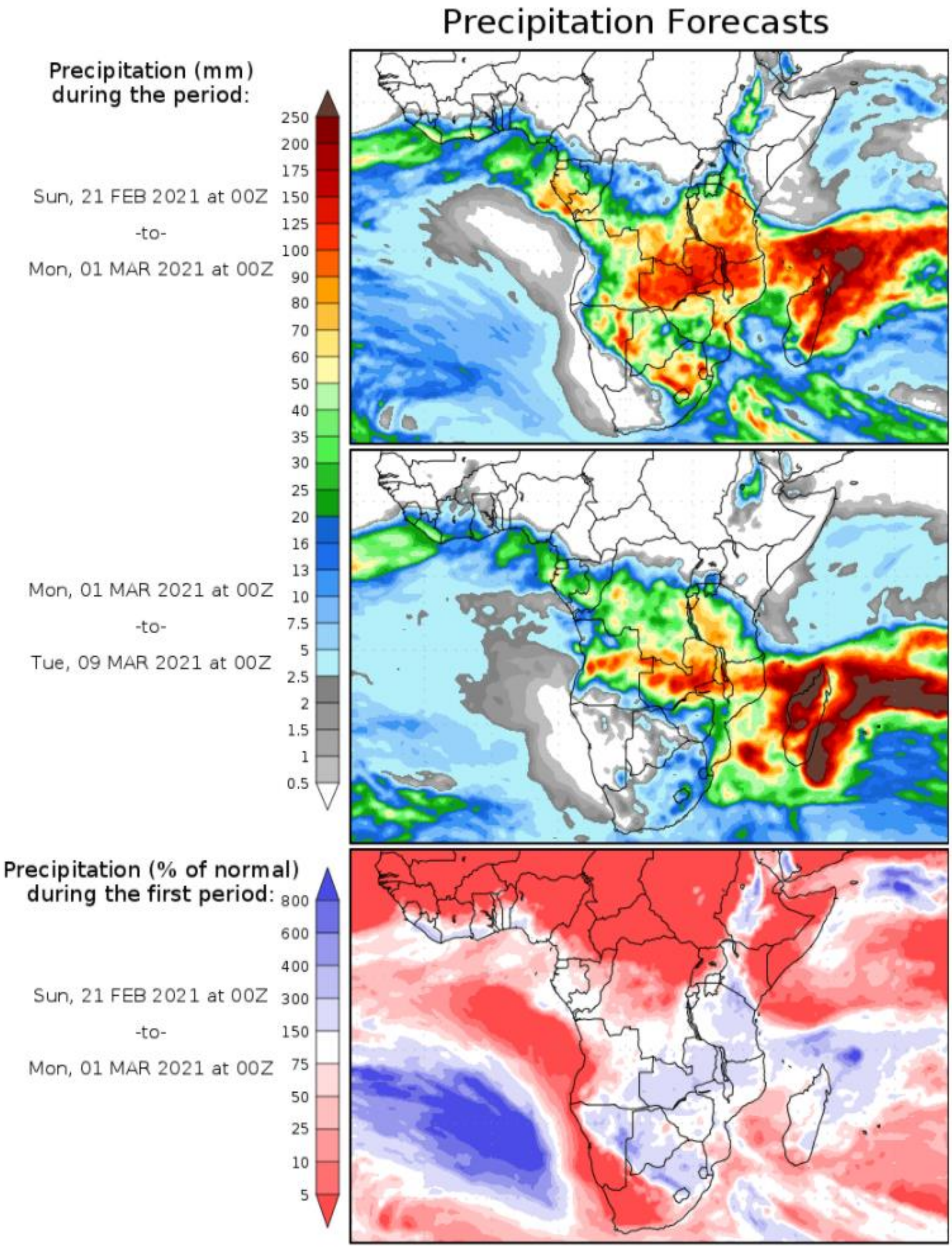
Data releases this week

This is a fairly busy week in the agricultural calendar. In addition to the critical releases noted in the opening section of this note, on Wednesday, the South African Grain Information Service (SAGIS) will release the **weekly grain producer deliveries data** for the week of 19 February. This data cover summer and winter crops, although the focus is on winter crops whose harvest has recently been completed. On 12 February, about 9 068 tonnes of winter wheat were delivered to commercial silos. This placed the 2020/21 wheat producer deliveries at 1,95 million tonnes, which equates to 92% of the expected harvest of 2,11 million tonnes.

On Thursday, SAGIS will release the **weekly grain trade data** for the week of 19 February. In the previous week of 12 February, South Africa's 2020/21 total maize exports were at 2,11 million tonnes, which equates to 80% of the revised seasonal export forecast (2,64 million tonnes). In terms of wheat, South Africa is a net importer. On 12 February, imports amounted to 465 444 tonnes, which equates to 29% of the seasonal import forecast of 1,58 million tonnes. On Thursday, Stats SA will release the **Producer Price Index (PPI) data** for January 2021.

Globally, the notable data release will be the **US weekly export sales data** released by the United States Department of Agriculture on Thursday. Here, we will continue to monitor China's buying activity of US maize and soybeans. As we have consistently outlined in our notes, China bought large volumes of US maize and soybeans to feed its pig industry and build stocks. China's pig industry is recovering after the devastation caused by the African swine fever outbreak in 2019.

Exhibit 3: South Africa's precipitation forecast



Source: George Mason University (wxmaps)

This week could bring rainfall over most summer crop growing areas of South Africa. This is not conducive for crops as these areas are somewhat experiencing water logging following the higher rainfall linked to Cyclone Eloise in the past few weeks.

The week thereafter shows prospects of continuous rains, although light, over most regions of South Africa.