

SA records a 5% y/y increase in agriculture exports in Q3, 2020

The combination of a large harvest, joint efforts between government and private sector to keep agriculture operational since the outset of the lockdown, and long-term efforts of export market development, continue to pay off for the domestic agricultural sector. In the third quarter of 2020, South Africa saw a record quarterly exports of US\$3.2 billion, which is an increase of 5% on a year-on-year basis. The growth in agricultural exports was primarily underpinned by citrus, wine, maize, nuts, deciduous fruit and sugar cane.

These products will continue to support South Africa's agricultural exports in the last quarter of 2020. Citrus has featured prominently throughout the year and exports for 2020 are expected to reach a record 2.5 million tonnes, up 17% y/y.¹ Similarly, we think wine exports will continue to improve in the last quarter of the year, following the restriction of sales in the domestic markets for a certain period during lockdown and disruption of exports in the same period. This all happened in a season where South Africa's wine production was in recovery mode from a volume perspective, with the 2020 wine grape harvest estimated to be up by 8.2% y/y to 1.3 million tonnes.² The same goes for maize, whose 2020/21 exports are estimated at 2.5 million tonnes, up by 35% y/y, mainly on the back of a large harvest, which is the second-largest on record. The same goes for other products that already featured prominently in the exports list in the first three quarters of the year as a result of large production volumes.

Earlier in the year, there was a concern about the logistical challenges at the ports (domestic and receiving ports) and general uncertainty about global trade due to disruptions caused by the pandemic to global supply chains and the debilitating effect lockdowns had on the demand, but agricultural trade data show that the sector has largely been insulated. From the domestic side, this is mainly the result of joint efforts of both government and private sector in ensuring that there was constant communication about challenges the industry faced, and action thereafter to resolve such glitches.³

The African continent, Asia and the European Union were the largest markets for SA's agricultural exports in the third quarter of the year, accounting for 30%, 29%, and 29% in value terms, respectively. The balance of 12% by value was spread across the rest of the world, with the Americas being the dominant region.

These robust exports enabled South Africa to maintain an agricultural trade surplus of US\$1.7 billion in the third quarter of 2020, which is up by 35% from the corresponding period last year. Worth noting is that agricultural imports also assisted in this robust trade balance, following a decline of 16% y/y to US\$ 1.5 billion. The main imports were wheat, rice, palm oil, poultry meat and sunflower oil. We generally expect these products to have dominated the import bill in the fourth quarter of the year as South Africa is not endowed with climatic

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Wandile Sihlobo

Chief Economist

+27 12 807 6686

wandile@agbiz.co.za

www.agbiz.co.za

¹ This is according to data from the United States Department of Agriculture Pretoria Office:

https://apps.fas.usda.gov/newgainapi/api/Report/DownloadReportByFileName?fileName=South%20African%20Citrus%20Exports%20Expected%20to%20Reach%20Record%20Levels%20Amid%20COVID-19_Pretoria_South%20Africa%20-%20Republic%20of_10-08-2020

² This is according to reports from Vinpro: <https://vinpro.co.za/sa-wine-harvest-report-2020-great-season-remarkable-wines/>

³ Agricultural industry leaders quickly met, and with the help of the Bureau for Food and Agricultural Policy (BFAP) created a weekly value chain tracker covering all aspects of the sector. This proved an essential tool as challenges emanating from it were elevated to the legislators to be tackled swiftly and ensure the continuity of the sector.

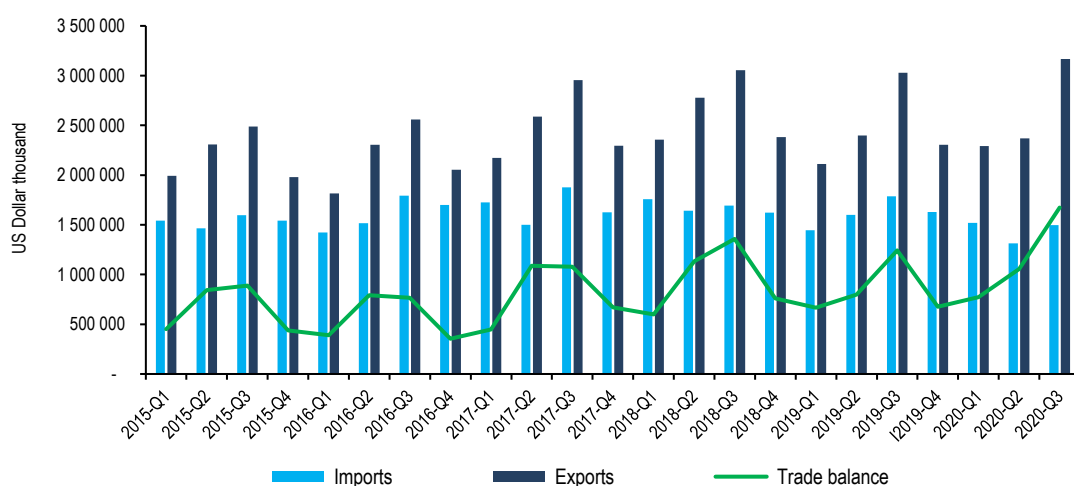
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conditions to increase its production in some of these products, specifically wheat, rice and palm oil. This is a matter that the localization strategy that's currently being drafted in the country needs to be cognizant of. The country can substitute some products, but there are a few, yet dominant, of which South Africa will not be able to reduce its imports over the foreseeable future. Hence, the policy focus needs to be more export-orientated as South Africa expects yet another season of large agricultural output in 2021. Still, the focus on localization requires careful studying of the agriculture and food imports list and a focus on the certain niche value chain that South Africa can realistically improve its efficiencies on. This also needs to be on value chains that can be labour intensive to assist in resolving the growing unemployment crisis in the country.

In sum, at an aggregate level, South Africa's agricultural sector has benefited from the cooperation of government and business in ensuring the functioning of value chains and logistics during the lockdown and this is evident on the exports data. But as we always pointed out, the industries such as wine, continue to feel the costs of the ban in sales during various stages of the lockdown. The financial impact of this was evident also on the jobs data for the third quarter of the year, which we recently commented on. Overall, South Africa's agricultural exports could increase in 2020 from 2019's US\$9.9bn to more than US\$10bn. The catalyst will be the increase in grains and horticultural output, and to a certain extent, the weakening domestic currency which increases the price competitiveness of the South African agriculture and food products in export markets.

Exhibit 1: South Africa's agriculture trade



Source: Trade Map, Agbiz Research

Weekly highlights

Rainfall could cause slight delays in SA summer crop plantings, but that shouldn't be a concern

The one dominant event in South Africa's agriculture this past week was increased rainfall in several summer crop growing regions. This was primarily in the eastern regions of the country, and there were also destructive winds in the former Transkei in the Eastern Cape⁴ and also parts of Gauteng. Summer crop plantings have been completed in some areas in the eastern regions of South Africa, hence, while rains are a welcome development, we are worried about the devastation that could be caused by the heavy winds. So far, however, we have only received anecdotal evidence of destructions in relatively small farms in the Eastern

⁴ More information about the destruction caused by heavy winds in the Eastern Cape: <https://www.news24.com/news24/southafrica/news/strong-suggestions-that-a-tornado-ripped-through-mthatha-sa-weather-service-20201119>

Cape. We continue to closely monitor weather events in other parts of the country. We are in a La Niña year and could continue experiencing heavy rainfall in various parts of the country in the coming months.

Worth noting is that the optimal planting window for maize and soybeans closed in the week of 20 November 2020 in the eastern regions of South Africa, while remaining open for the central and western regions until mid-December. While the heavy rains are a welcome development, they might cause delays in plantings from time-to-time depending on the occurrence in the coming weeks. Nevertheless, this is not a major concern for now. We will assess crop conditions and the potential impact of planting delays as the season progresses. The 2019/20 season, which brought the second-largest grain harvest on record was delayed by roughly a month from the normal planting schedule because of late rains. This proves to show that if there isn't a threatening frost later in a season, crops could thrive well.

The weather forecast for the next two weeks promises continuous rainfall of between 20 and 70 millimetres across most provinces of South Africa⁵, except for the Western Cape and Northern Cape. As a reminder, the recently released intentions to plant data by the Crop Estimates Committee (CEC) show that farmers intend to increase the area plantings for 2020/21 summer crops by 5% year-on-year (y/y) to 4.15 million hectares. This comprises yellow and white maize, sunflower seed, soybeans, groundnuts and dry beans. There is an expected increase in area plantings of most of these crops, except for sunflower seed, where the area plantings are anticipated to decline by 4% y/y to 480 500 hectares, which would be the smallest area in nine years.

In the case of the Western and Northern Cape, the expected drier weather presents favourable conditions for the winter crop harvest process which is currently underway. The rain in the winter crop areas would do damage at this stage of the winter crop harvest in both provinces. As indicated in our previous note, the CEC currently forecasts South Africa's 2020/21 wheat, barley and canola production at 2.13 million tonnes, 526 706 tonnes and 137 356 tonnes. These will be the largest harvests on record for barley, canola and oats, while for wheat it will be the largest harvest in 19 years.

Data releases this week

This is a relatively quiet week on the agricultural calendar. 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 15 November 2020 showed that the harvest activity was gaining momentum, with 96%, 95% and 88% 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. As indicated in our previous note, 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**.

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 20 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 13 November 2020, about 176 717 tonnes of winter wheat were delivered to commercial silos. This placed the 2020/21 wheat producer deliveries at 383 125 tonnes, which equates to 18%

⁵ More information about the rainfall prospects is available here: <http://wxmaps.org/pix/prec10>

of the expected harvest of 2.13 million tonnes. The volumes of producer deliveries will increase in the coming weeks when the harvesting process gains momentum in some regions.

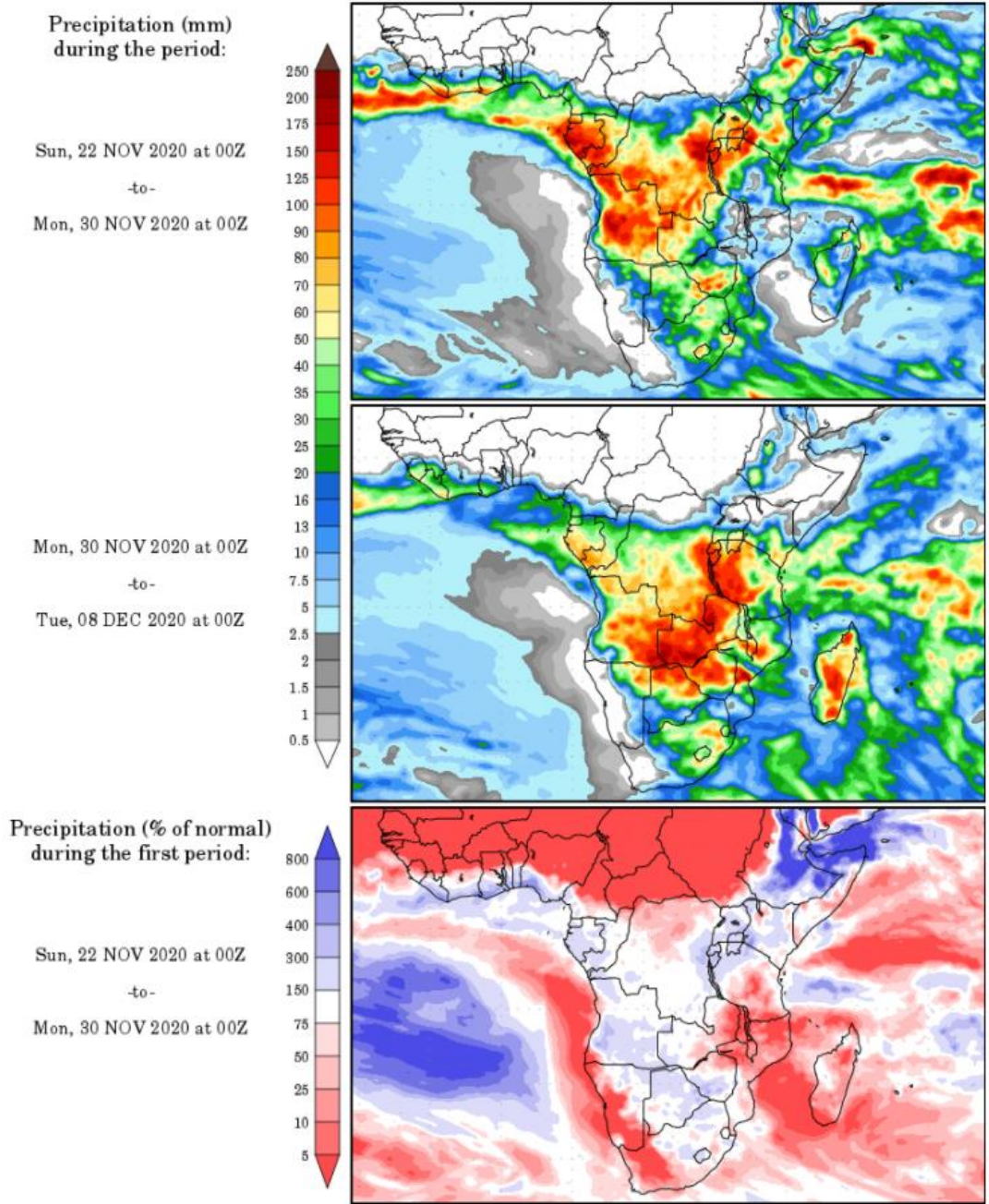
Also, on Wednesday, Statistics South Africa will release the **Consumer Price Index (CPI) data** for October 2020. For background, South Africa's food price inflation slowed to 4.2% y/y in September 2020 from 4.3% in the previous month. This was primarily on the back of a deceleration in oils and fats; fruit; and vegetable products price inflation, which overshadowed the uptick in other products prices such as meat; fish; milk, eggs and cheese; and sugar, sweets and desserts.

On Thursday, SAGIS will release the **weekly grain trade data** also for the week of 20 November 2020. In the previous week of 13 November 2020, South Africa's 2020/21 total maize exports were at 1.71 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 13 November 2020, the seventh consignment for the 2020/21 marketing year had arrived, putting the total imports at 403 835 tonnes. This equates to 26% of the seasonal import forecast of 1.54 million tonnes (down by 18% y/y because of the improved domestic harvest, as previously stated).

Also, on Thursday, Statistics South Africa will release the **Producer Price Index (PPI) data** for October 2020. For recap, South Africa's food producer's price inflation accelerated to 5.2% y/y in September 2020, from 4.2% y/y in the previous month.

Exhibit 2: South Africa's precipitation forecast

Precipitation Forecasts



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

Source: George Mason University (wxmaps)