

June 24 2024

## The crunch time for maize supplies in Southern Africa is coming

- The full impact of the 2023/24 mid-summer drought in the Southern Africa region's maize supplies will likely show more acutely towards the end of the year and into the first quarter of 2025. In the near term, the limited maize volume some countries managed to harvest will cushion the consumers. The Southern African countries in a more precarious position will likely be Zimbabwe and Zambia. The Pretoria office of the United States Department of Agriculture (USDA) recently released its 2023/24 maize production forecast for Zimbabwe. The harvest is expected to fall roughly 60% year-on-year to an estimated 635 000 tonnes. This is the lowest harvest since the 2015/16 production season when the country experienced a drought.
- Although a significant factor, the drought is not the only reason for the fall in Zimbabwe's maize harvest. There is the decline in fertilizer usage that has also contributed to poor yields. Fertilizer prices, while down from the previous year, remain well above the pre-COVID-19 levels, thus adding financial strain on farmers. Fertilizer makes up roughly a third of the grain farmers' input costs.
- This significant decline in Zimbabwe's maize production means that the import needs will increase sharply. Zimbabwe's domestic maize consumption is typically at about two million tonnes. Thus, we find the USDA's estimates that Zimbabwe may need to import at least a million tonnes in the new marketing year of 2024/25 convincing (the 2024/25 marketing year corresponds with the 2023/24 production season). Such an import figure will be a significant increase from Zimbabwe's maize imports of 637 327 tonnes in the 2023/24 marketing year, all from South Africa. This is reflected in the South African Grain Information Services (SAGIS) data and the USDA's balance sheet of Zimbabwe's maize market.
- In the 2024/25 marketing year that started in May, Zimbabwe had already imported 125 347 tonnes of the expected million tonnes by June 14. All this maize originated from South Africa and has accounted for 49% of South Africa's maize exports since the beginning of maize. Unlike the 2023/24 marketing year, where South Africa's overall maize exports were 3,4 million tonnes, in the new 2024/25 marketing year, South Africa's maize exports will likely fall to 1,4 million tonnes. This is on the back of a poor domestic harvest. South Africa's maize harvest is down 19% year-on-year, estimated at 13,3 million tonnes, because of the mid-summer drought.
- Admittedly, South Africa did not experience a sharp fall in maize production, like what we see in Zimbabwe or Zambia, where the domestic maize harvests are down by over 50%. Part of the reason is differences in farming practices, better timing of the planting window, and the improved seed cultivars in South Africa, among other factors. The significant difference is using improved seed cultivars, fertilizer, and agrochemicals. Irrigation is not a major factor, as only 10% of South African maize is under irrigation, and the rest is rainfed. We also see similar proportions of maize under irrigation in Zimbabwe.

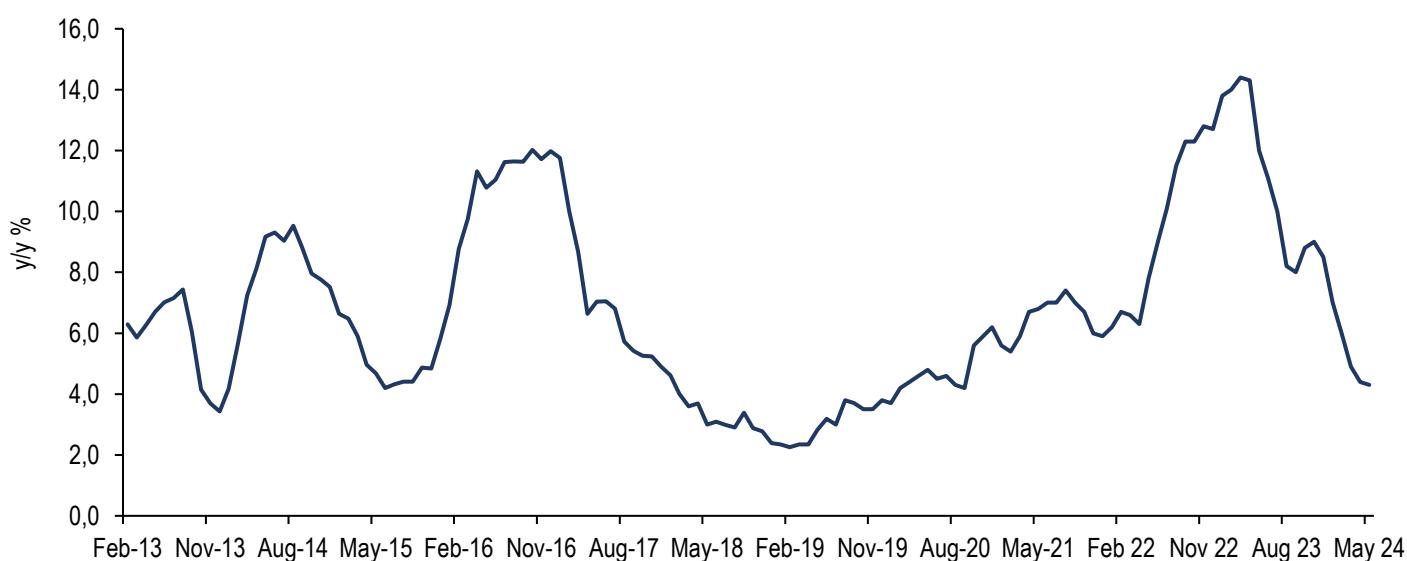
- The 1,4 million tonnes of South African exportable maize surplus is not reserved for any particular country but for exports to the whole region and world market. About 840 000 tonnes will likely be white maize, with 600 000 tonnes likely to be yellow maize, according to data from the South African Grains and Oilseed Supply and Demand Estimates Committee. Still, Zimbabwe will likely be the significant beneficiary if the country's private sector stakeholders and government places orders timely. Zambia, another Southern African country with a maize import need of a million tonnes, insists that the imports should only be non-genetically modified. Over 85% of South Africa's maize is genetically modified, which means that, under the current rules, Zambia may not consider South Africa to be a supplier of maize.
- One would have expected Zambia to ease its regulations in such seasons of major maize needs. Quite remarkably, the government authorities have maintained this prohibition. It is already a challenge to find white maize in the world market regardless of whether it is genetically modified or not, as the primary producers are the Southern African region (South Africa specifically) and Mexico. Most of the world's maize is yellow maize for animal feed. The drought has hit the entire Southern Africa region.
- Therefore, Zambia faces a tough challenge for the months ahead and is another country to watch closely towards the last quarter of this year and into the first quarter of 2025. It is all possible that, confronted with the realities of higher domestic food prices and scarcity of non-genetically modified maize supplies, Zambia may adjust its policy. This is something to keep a close eye on. Still, it is difficult to ascertain whether such a possible temporary policy change would benefit the South African consumer as the maize supplies are constrained even domestically, as illustrated by the decline in maize exports compared with the previous season.
- We are reading the headlines about the significant decline in Southern Africa's maize supplies. However, the full impact of the poor harvest on the consumer will likely be more pronounced towards the end of this year and into the first quarter of 2025. This was when the major maize consumers in the Southern African region would have used much of the domestic harvest, which provided a much-needed cushion in the near term. When such times come, the eyes will be on South Africa, and the country will play its role through the 1,4 million tonnes of maize available for exports.
- However, South Africa's maize for exports may be insufficient to fulfil the regional demand, particularly if Zambia does not successfully secure their desired non-genetically modified maize supplies from the world market and decides to adjust its policy and permit imports. If it were to happen, such a policy move would intensify the competition for South African maize. Thus, we believe that significant upside risks remain to maize prices, mainly white maize, towards the end of this year and into 2025 because of this possible regional maize demand.

## WEEKLY HIGHLIGHT

### A continued easing of SA consumer food inflation

- We continue to observe a welcome easing in South Africa's consumer food inflation. The data released last week by Statistics South Africa shows that consumer food inflation slowed to 4,3% in May 2024, down from 4,4% in the previous month. This deceleration was primarily driven by price moderations in "bread and cereals", "milk, eggs and cheese", "oils and fats", and "sugar, sweets and desserts". Meanwhile, other products in the food basket experienced a mildly increase.
- However, in the coming months, we may start to see a slight change in the direction of consumer food price inflation, with potentially a slight uptick as the price increases of the past few months in the grain-related food products begin to filter through to the consumer. The mid-summer drought in South Africa resulted in a 25% decline in white maize harvest to an estimated 6,4 million tonnes. This led to a surge in white maize prices from the end of the first quarter to the second quarter. However, these price increases have not been fully reflected in grain-related food products, partly due to the lag between farm gate prices and retail prices. Despite this, we doubt if the increases will be sharper. The moderate wheat prices, supported by ample global supplies and a relatively firmer domestic currency, will somewhat mitigate the sharper price increase in this food category.
- Beyond the grain-related food products, "meat", "fish", "fruit", and "vegetable" prices may continue to show a slight uptick in the coming months. These price movements and our expectations of the price changes in grain-related food products may be sufficient to slightly nudge up the food inflation trend from the moderating trend we have observed in the past few months, even if ever more slightly. Globally, the [FAO Food Price Index](#) also shows a slight uptick monthly, mainly underpinned by increases in grains and dairy products.

#### Exhibit I: South Africa's consumer food inflation

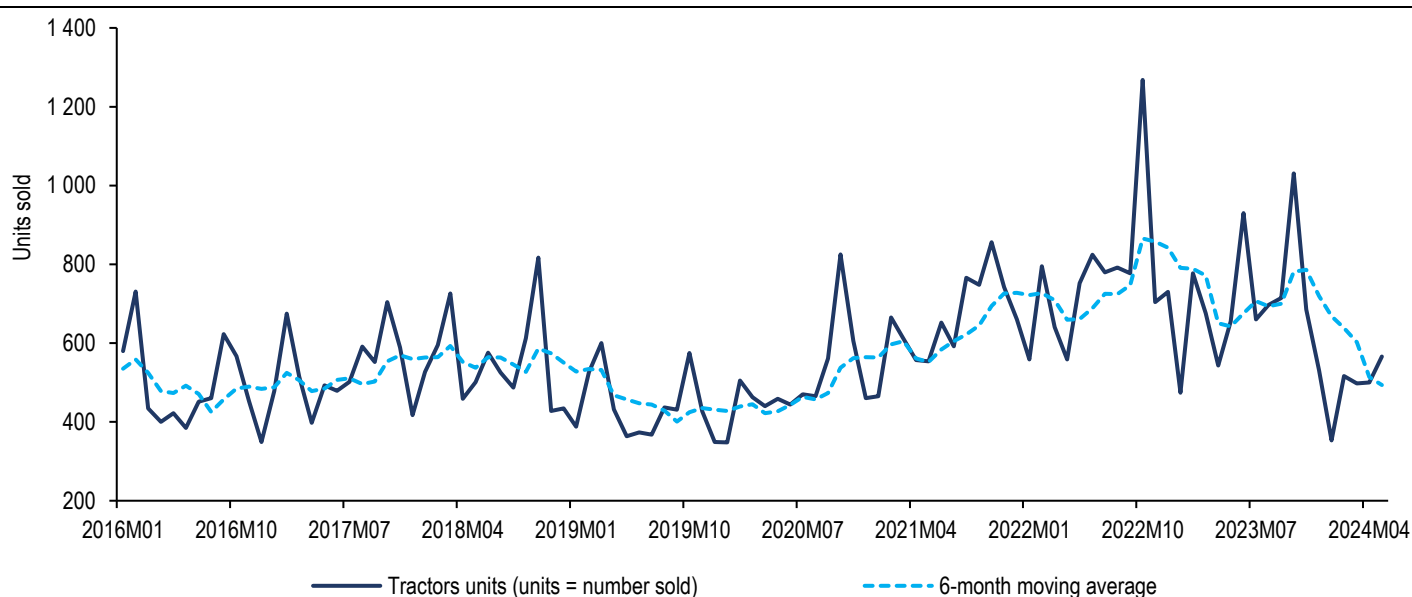


Source: Stats SA and Agbiz Research

## South Africa's tractor sales show a monthly uptick

- We were pleasantly surprised by the upbeat mood amongst the agricultural stakeholders at the NAMPO 2024 in Bothaville. Given the mid-summer drought, which resulted in a 19% drop in South Africa's expected summer grains and oilseed harvest, we anticipated a more sombre atmosphere. However, the South African agricultural stakeholders were out in their numbers at the NAMPO 2024 festival, and the sentiment in Bothaville was as upbeat as the previous years of excellent harvest. We even imagined that South African agricultural machinery sales might start to tick up from the declining trend we had witnessed since the start of the year. Indeed, the tractor sales for May 2024 were the highest monthly figure we have seen since the beginning of the year, at 566 units, up 13% month-on-month. Meanwhile, combine harvester sales were down 4% month-on-month, with 25 units sold.
- Still, this monthly uptick does not change the declining annual sales performance we have witnessed since the start of the year. For example, South Africa's tractor sales were down 14% year-on-year in May 2024, and the combined harvester sales were down 62% year-on-year. We believe this persistent annual decline in sales since the start of the year reflects the normalization of sales after a few years of robust activity. For example, South Africa's tractor sales for 2022 amounted to 9,181 units, up 17% year-on-year. This was the highest annual sales figure in the past 40 years. The combine harvesters also had an excellent performance of 373 units in 2022, up 38% year-on-year. This was the highest yearly sales figure since 1985. In 2023, the tractor sales were down marginally from the previous year, while the combine harvester sales held the last year's momentum. These past few years, the generally strong agricultural machinery sales were primarily supported by ample grains and oilseed harvests when prices were also favourable.
- Moreover, higher interest rates have added pressure to farmers' finances. Although various input costs, such as fertilizer and agrochemicals, have softened since 2023, the prices remain generally well above pre-COVID levels, further straining farmers' budgets.

### Exhibit 2: South Africa's tractor sales



Source: South African Agricultural Machinery Association and Agbiz Research

## WEEK AHEAD

### What we are watching this week

- We start the week with a global focus, and today, the United States Department of Agriculture (USDA) releases its **weekly US Crop Progress** report. The maize planting across the US is complete, and now we will focus on the growing conditions of the 2024/25 crop. In the week of June 16, about 72% of the US maize crop was rated good/excellent. This is well above the crop rating of the same week last year, which was at 55%. The improvement in the weather conditions is a major contributor to this better crop conditions this year.
- On the same day, the US soybean plantings were still underway, although close to completion. About 97% of the intended area had been planted (behind last year's pace of 93%). On the proportion of the soybean crop that has emerged, 70% of this crop was rated good/excellent. This is far better than the crop rating on June 16, 2023, when only 54% of the crop was rated good/excellent.
- Moreover, the United States Department of Agriculture will release its **weekly US Grains and Oilseed Export Sales** data on Thursday.
- Within the domestic front, on Wednesday, SAGIS will release its **weekly South Africa's Grains and Oilseeds Producer Deliveries** data. In the case of maize, this week, we will see a release of the data for the eighth week of the new marketing year, 2024/25. In the previous release on June 14, South Africa's weekly maize producer deliveries were about 923 475 tonnes. This placed the 2024/25 maize producer deliveries at 5,9 million tonnes out of the expected harvest of 13,3 million tonnes. So far, the quality of this harvest is mainly good.
- The 2024/25 soybean deliveries in the first 15 weeks of this new marketing year amounted to 1,6 million tonnes out of the expected harvest of 1,7 million tonnes. At the same time, the sunflower seed deliveries amounted to 518 276 tonnes out of the expected harvest of 649 250 tonnes.
- In the case of wheat, last week, 1 998 tonnes of wheat were delivered to commercial silos. This placed the 2023/24 wheat producer deliveries at 1,9 million tonnes out of the harvest of 2,1 million tonnes.
- On Thursday, SAGIS will publish its **weekly South Africa's Grains and Oilseeds Trade** data for the eighth week of the 2024/25 marketing year. In the previous release on June 14, the seventh week of the 2024/25 marketing year, South Africa exported 38 817 tonnes of maize. Of this volume, 51% was exported to Zimbabwe, and the balance to the rest of the neighbouring African countries. This places South Africa's total maize exports in 2024/25 at 255 788 tonnes out of the expected exports of 1,4 million tonnes.
- Moreover, while South Africa will likely remain the net exporter of maize in the 2024/25 marketing year, the coastal regions will import small volumes of yellow maize for animal feed because of price advantage. We have recently seen the imports of yellow maize from Argentina through Cape Town. South Africa's 2024/25 maize imports currently stand at 49 644 tonnes.

- South Africa is a net wheat importer, and June 14 was the 37th week of the 2023/24 marketing year; South Africa's 2023/24 wheat imports totalled 1,3 tonnes out of the seasonal forecast of 1,6 million tonnes. The major wheat suppliers include Poland, Lithuania, Latvia, Russia, and Australia.
- Also on Thursday, the Crop Estimates Committee (CEC) will release the **fifth production forecast for summer field crops for 2024**. We doubt the CEC will introduce significant changes in its current estimates, as the harvest is in full swing and yields have so far been broadly aligned with expectations. The CEC placed South Africa's 2023/24 total summer grains and oilseed production forecast at 15,9 million tonnes in May, down 0,5% from the previous month's forecast and 21% lower than the last season's harvest.