Will Zimbabwe's decision to ban maize imports affect South Africa's maize market?

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Maize was South Africa's fifth largest exported agricultural product in value terms in 2020. It trailed citrus, grapes, wine and apples, which were the top four products in the overall US$10,2 billion worth of South Africa's agricultural products exported last year. And as we have noted previously, the total agricultural export earnings in 2020 were the second largest on record in value terms. The export markets were quite diverse, nearly half spread across the African continent, and third, in the European Union and the rest spread across Asia and the Americas regions. For maize, Zimbabwe was the most dominant export market for South Africa. In the 2,6 million tonnes of maize that South Africa exported within the 2020/21 marketing year, which started in May 2020 and ended in April 2021, about 20% of the volume went to Zimbabwe. This made Zimbabwe the single largest maize export market for South Africa in the 2020/21 marketing year. Other notable export markets were Taiwan, South Korea, Botswana, Vietnam and Japan, amongst others.

It is this significance of Zimbabwe as a market for South Africa's maize exports that makes last week's announcement by Zimbabwean authorities to suspend all maize and maize meal imports with immediate effect consequential.[1] This suspension of imports comes as the country approaches its maize harvest period. According to data from the United States Department of Agriculture (USDA), the domestic crop could reach 2,7 million tonnes, the largest harvest since 1984. The views from local analysts generally concur with the USDA's forecast that Zimbabwe is likely to have a good maize and a strong overall agricultural season. The expected large maize output is primarily supported by the expansion in the area planted, coupled with favourable rainfall since the start of the season. Importantly, Zimbabwe will have the largest maize surplus in nearly three decades, as its annual maize consumption is between 1,8 and 2,0 million tonnes, against the aforementioned crop of 2,7 million tonnes.

South Africa, which benefited from the Zimbabwean maize demand in the recent past, could have 2,8 million tonnes of maize surplus available for export markets. This would be the largest volume since 1994/95, when South Africa exported 4,7 million tonnes of maize, according to data from the South African Grain Information Services (SAGIS). These available maize export volumes are on the back of a large forecast harvest, which we at Agbiz currently forecast to be 16,7 million tonnes. This would be the second largest maize harvest on record. With Zimbabwe as a potential export market out of the picture, and various regional maize producing and consuming countries in the Southern Africa region, such as Malawi, Zambia, Tanzania, and Mozambique, expecting large harvests, regional demand for maize will be weaker than usual. The consistent markets that South Africa will likely have are the Far East markets, including Taiwan, South Korea, and Japan.

In the 2020/21 marketing year, Southern Africa demand for maize was relatively strong as the neighbouring countries did not enjoy as good of a harvest as South Africa did. This strong demand helped to support domestic maize prices. Other important maize price drivers were the weaker exchange rate, combined with increasing demand for South African maize in the

[1] Here is link to the publication of the suspension notice: http://www.xinhuanet.com/english/africa/2021-05/22/c_139962758.htm

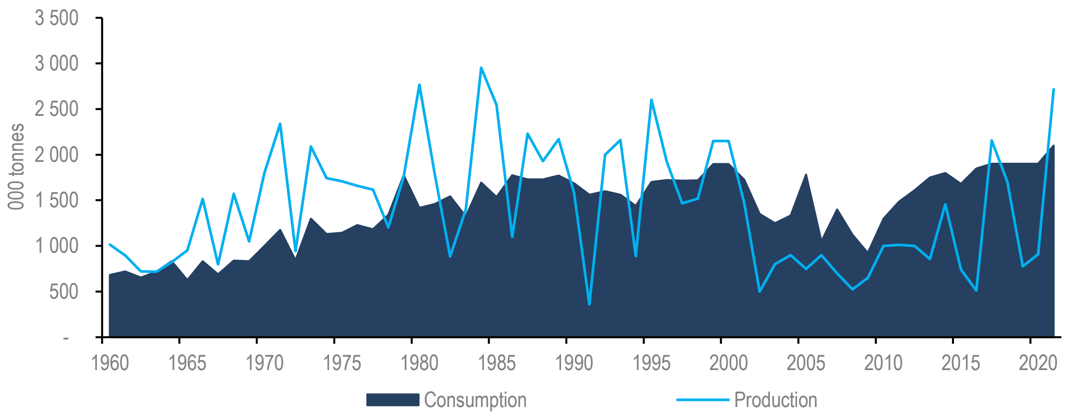
Far East and higher global maize prices. This time around, the exchange rate has strengthened notably compared to 2020 levels, and the regional maize demand will likely weaken, as we have previously stated. These two factors add downward pressure on domestic maize prices. But their influence has been overshadowed by the global maize prices, which have continued to support the increase in domestic maize prices. On 20 May, South Africa's yellow and white maize spot prices were up by 27% year-on-year and 19% year-on-year, respectively, trading at R3 395 per tonne and R3 270 per tonne. The higher global maize prices, which are anchoring domestic maize prices, are supported by the unfavourable production weather conditions in South America and the generally growing Chinese demand.

The South African maize prices are currently at export parity prices, which have risen by nearly 70% year-on-year because of the global factors mentioned above. The export parity prices are derived from the global maize price multiplied by the exchange rate minus transaction costs and can be regarded as a "floor price" for domestic maize prices. As domestic prices trade closer to export parity levels, South African maize becomes more competitive in international export markets. Hence, we continue to believe that the Far East buyers will remain active in the South African market, particularly for yellow maize.

Importantly, Zimbabwe's decision to ban imports of maize will inconvenience the South African exporters that had established relations with importers in Zimbabwe. Yet, the policy action on its own will likely have limited lasting impact on South African maize prices. Prices are already at export parity prices and mainly underpinned by broader global developments than the regional policy changes. Moreover, it has been long known that Zimbabwe's maize harvests this year is in good shape, and market participants already anticipated the possible decline in maize demand from the country.

Ultimately, the relatively higher maize prices we are witnessing in South Africa might not soften much going forward, unless there happens to be a change in the global maize market. At the moment, the global maize stocks are tight and continue to support prices. Any changes will depend on the global outlook for 2021/22 maize crop. Northern hemisphere countries are currently starting to plant and will harvest at the end of the year. South Africa could experience a marginal decline in prices as the harvest gains momentum, but a lot will demand on global factors. Hence, we continue to believe that the livestock industry, which is dependent on the domestic grains industry, will experience higher inputs costs in the near term. This will eventually affect the end consumer with firms such as Astral Foods already having signalled that they would soon be passing down the higher input costs to consumers. South African consumers will be carrying the burden of rising food prices, not because of the lower supplies domestically, but of the uncertain nature of global agricultural conditions at the moment.

Exhibit 1: Zimbabwe's maize market



Source: USDA and Agbiz research

Weekly highlights

What to make of South Africa's recent consumer food price inflation data?

Last week, Statistics South Africa reported much higher figures for consumer food price inflation than some had expected. In April 2021, the country's consumer food prices were at 6,7% year-on-year, the highest level since July 2017. The different thing about 2017 is that it was a year that followed a drought period – so there were still pass-throughs of higher grain prices from the previous poor season. Notably, livestock farmers were restocking their herds after the devastation caused by the drought. This meant that there was less slaughtering activity and meat prices rose, driving the uptick on overall consumer food price inflation, which for July 2017 was reported at 6,9% year-on-year. But we are far from that reality this time around. We have had two consecutive favourable agricultural seasons, characterized by higher rainfall, which supported crop yields and the livestock industry.

Nevertheless, we are operating in a global environment and developments in various regions of the world impact the South African agricultural market. A case in point is global grain prices, which remain elevated because of droughts in South America and dryness in parts of the US and Canada, as previously stated in the above section of this note. Driven by these higher global prices, South African grain prices remain elevated. Similar price trends are also evident in oilseeds (an additional price driver here is also robust Chinese demand for soybeans).

Therefore, in our view, the driving factors of local food prices are not so much what is happening in South Africa, where we are expecting the second-largest maize harvest in history, about 16,7 million tonnes. Instead, the higher global grains and oilseeds prices are the driving factors of prices. We know from our most recent research that the correlation between domestic and international maize prices remains positive, about 60% for white maize (which is mainly traded into the African region) and 85% for yellow maize (which is sold into the global market). This implies that when global maize markets show an increase, domestic maize prices tend to rise in tandem. We see pretty much similar observations for soybeans, of which South Africa is a net importer.

These higher maize and overall oilseeds prices have been our reality since last year, putting increased pressure on the livestock industry. At the start of the week, Astral Foods, one of South Africa's notable poultry companies, signalled that they are now being forced to pass on the rising input costs to consumers.[2] Therefore, it is not surprising to see that one of the products that underpinned the recent increase in South Africa's consumer food price inflation is meat. The meat producers have experienced rising input costs because of higher feed costs for such a long period. Eggs, milk and cheese also increased, and the driving factor is similar.

Oil and fats are another food product category that was behind the notable increase in consumer food price inflation. South Africa imports large volumes of vegetable oil a year, roughly half a million tonnes of palm oil and just over a hundred tonnes of sunflower oil. Currently, the global prices of vegetable oils are relatively higher because of supply constraints in the palm oil producing Asian countries, combined with generally higher global demand. What we are witnessing here in the domestic market is a spillover of this phenomenon.

Lastly, vegetables were another contributing factor behind the rise in food price inflation. Here, we are convinced that this was a temporary blip. Several people in my networks

[2] Here is a link for more information on Astral Food's view: https://www.businesslive.co.za/bd/companies/industrials/2021-05-17-astral-reports-profit-hit-as-sa-maize-prices-push-five-year-high/

complained of higher tomato, onion and carrot prices these past few months. Supply constraints caused those increases as higher rainfalls delayed harvests and caused some crop damage in the northern regions of South Africa. But things are normalizing, and the high-frequency vegetable price data suggests so.

In sum, the higher global grain prices present upside risks to South Africa's food price inflation, despite our sizeable domestic harvest. Our agricultural market is interlinked to the worldwide environment, and we will likely continue to see local prices reflective of the global realities, which is higher prices. But we don't expect such increases to be exorbitant. Hence, we are still comfortable with our view of average consumer food price inflation of about 5,5% y/y (slightly up from 5,0% y/y we had previously communicated) in 2021. Also, meat is an essential product to keep an eye on as companies signal potential price increases for the foreseeable future. The higher grain prices that persuaded them to take this view will likely be with us for the next few months, although probably at slightly lower prices than the R3 500 per tonne levels we are witnessing. We could see some softening of the monthly consumer food price inflation data, mainly underpinned by grains products, from mid-year to when the local maize harvest gains momentum.

Exhibit 2: South Africa's consumer food price inflation

Source: Stats SA and Agbiz Research

Data releases this week

We start the week with the **US Crop Progress** report on the agricultural data calendar, which will be released by the USDA today. The previous report of 16 May showed that US maize planting was nearing completion, with 80% of the intended area already planted in maize, with soybeans at 61%, and ahead of last year's pace on the same day. The **US Weekly Export Sales data** is due for release on Thursday.

On the domestic front, on Wednesday, SAGIS will release the **Weekly Grain Producer Deliveries** data for 21 May. This data cover summer and winter crops, although we only focus on summer crops for now as the harvesting process gains momentum, particularly on oilseeds. To recap, on 14 May, about 92 235 tonnes of soybeans were delivered to commercial silos. This placed the soybean producer deliveries for the eleventh week of the 2021/22 marketing year at 1,64 million tonnes, which equals 92% of the expected harvest of 1,79 million tonnes. Similarly, 342 008 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 696 290 tonnes.

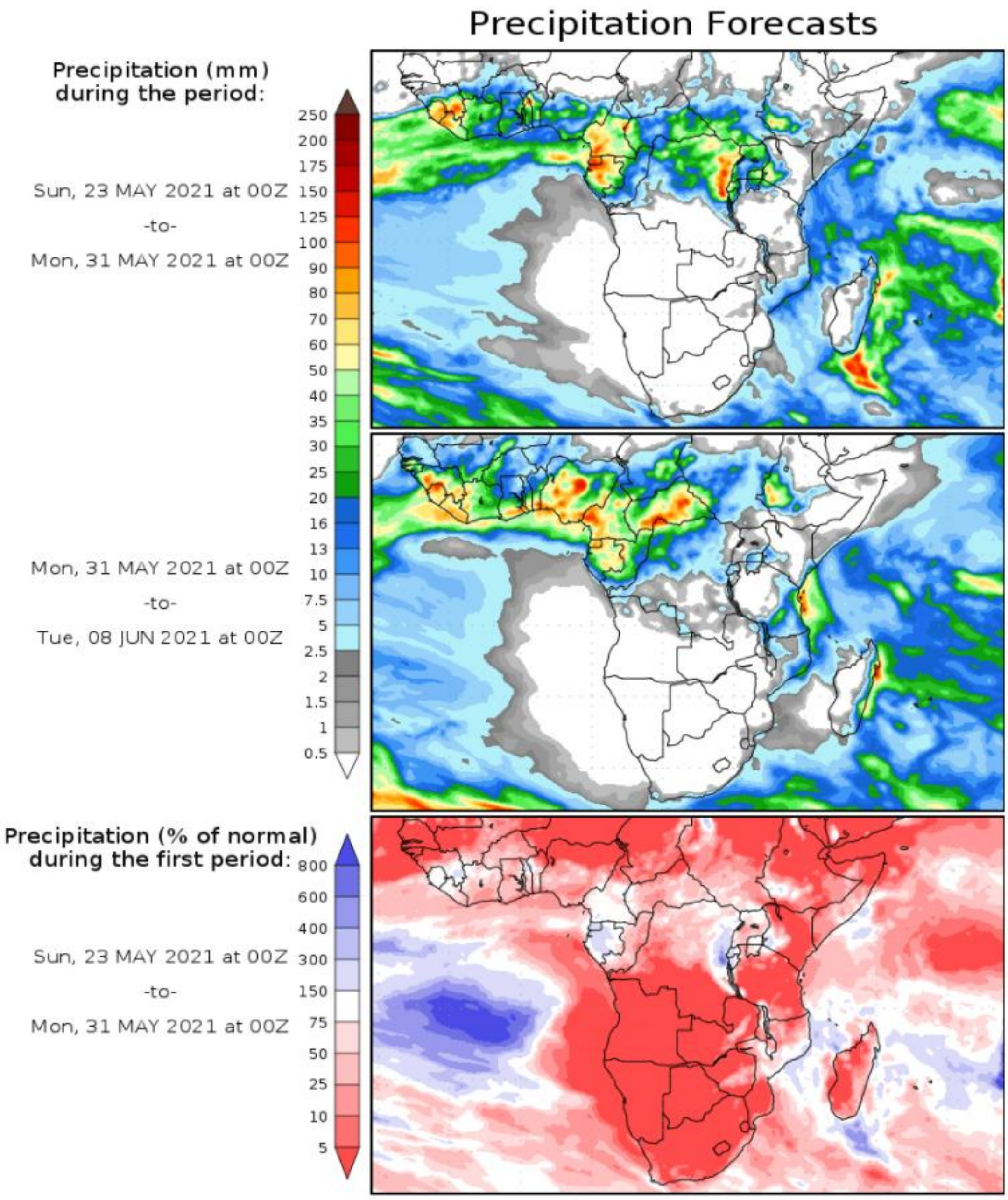
On Thursday, SAGIS will release the **Weekly Grain Trade data** for the week of 21 May. In the week of 14 March, which is the second week of South Africa's 2021/22 maize marketing year, total maize exports amounted to 92 587 tonnes, destined for Spain, South Korea and the regional markets. The seasonal export forecast is 2,8 million tonnes (up 10% y/y) because of the expected large domestic harvest. In terms of wheat, South Africa is a net importer. On 14

May, imports amounted to 993 650 tonnes, equating to 63% of the seasonal import forecast of 1,58 million tonnes. Also, on Thursday, the Crop Estimates Committee will release its **fourth production forecast** for summer field crops for the 2020/21 season. We generally do not expect any notable adjustments from the previous month's estimates. This is with the exception of maize, where we forecast an upward revision from the current estimate of 16,1 million tonnes to 16,7 million tonnes. Moreover, Statistics South Africa will release the **Producer Price Index (PPI) data** for April 2021 also on Thursday.

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

Nonetheless, the dryness is not conducive for the Western Cape, which is a winter crop area, that currently needs rainfall to increase soil moisture and support the planting activity.

Exhibit 3: South Africa's precipitation forecast



Source: George Mason University (wxmaps)