

KZN infrastructure reconstruction should be a springboard for growth

KwaZulu-Natal is a major agricultural province with significant production of various products such as sugarcane, fruit, dairy, and poultry. Roughly 30% of South Africa's dairy herd is located in the province, along with 12% of the country's chicken eggs and pigs. Notably, almost 81% of the country's sugar is produced in the province. The province is also a major producer of macadamia, amongst other fruits. These industries were not spared from the recent flood damage in the province. We are still assessing the scale of the damage to communicate with the authorities. Some of our members, such as the South African Canegrowers Association, indicate a substantial area where fields were destroyed and require a total replant. There was also extensive damage to on-farm infrastructure, which, combined with field damage, brought the total financial losses in the province's sugarcane industry to an estimated R222 million. The survey of the full damage is still underway, which means that this figure could be adjusted in the coming days.

The preliminary assessment of the macadamia plantations suggests that the damage is not as severe as in sugarcane farming. The monetary losses will be apparent in the coming days. The replanting process will be costly, especially when fertilizer prices are generally higher due to the Russia-Ukraine war and pre-existing output constraints in the major fertilizer producing countries, such as China, and Canada, amongst others. Notably, the grains and oilseeds fields in KwaZulu-Natal also suffered, leading to delays in the harvesting process. We, however, doubt that this will cause a notable change in the national grains and oilseeds production estimates as the province is not a significant producer.

In addition to the farm level challenges, the province's infrastructure is significantly destroyed – roads, bridges, ports, railway lines, warehouses, amongst others. These losses have a major cost to the quality of life in the province and business. For the agriculture and agribusiness sectors that rely on roads and rail to export products through the Port of Durban and transport products from KwaZulu-Natal to the inland and other provinces of South Africa, the infrastructure damage will be a major challenge.

Over the past couple of days, the logistics groupings, Transnet, and the government have made commendable progress in reopening the Port of Durban and fixing the damaged infrastructure for business to continue. According to communication from the Public Enterprises Minister, Mr Pravin Gordhan, the port was fully operational at the end of this past week.¹

From now on, the rebuilding process of KwaZulu-Natal centres on the need for investment in the network industries, specifically the road, rail, electricity, water and telecommunications infrastructure. These are also areas that challenge other provinces of the country, although to a lesser extent, than KwaZulu-Natal, where the damage is severe. The heavy rains since the start of the 2021/22 summer season exacerbated the damage to infrastructure in South Africa, and the small towns where maintenance has always been poor are in an even worse position. Small towns and rural municipalities are also often plagued by poor service delivery and non-performing municipalities, complicating recovery.

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Wandile Sihlobo

Chief Economist

+27 12 807 6686

wandile@agbiz.co.za

www.agbiz.co.za

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¹ The Minister's statements are contained in the article that can be accessed [here](#).

For agriculture, the focus on the network industries is also at the heart of the expansion and growth of the rural economy. The investment by agribusinesses into agricultural value chains and linkages of small or emerging farmers or new-entrant and commercial farmers into markets require functional road networks and water infrastructure. Thus, the Department of Agriculture, Land Reform and Rural Development should nudge other line departments such as the Public Enterprise, National Treasury and others towards increasing the focus and spending on the network industries and municipalities' performance. Resolving these aspects would have positive spin-offs to the agricultural sector, unlock production expansion, and job creation. Therefore, the recovery process of KwaZulu-Natal should send a message across the country on the prioritization of improving essential infrastructure. The agricultural sector won't be the only beneficiary. The manufacturing industry, mining, tourism, and automobile sectors are among the industries that benefit from improved basic infrastructure in South Africa.

Weekly highlights

Indonesia's decision to ban palm oil exports to increase global food prices further

A ban on agricultural exports is never desirable, especially by a major player in agricultural markets. Unfortunately, such practices have been common since the start of the Covid-19 pandemic and the Russia-Ukraine war more recently.

We have seen this through the temporary curbs on wheat and rice exports, as global prices increased and countries attempted to protect their domestic consumers. In 2020, the G20 agricultural ministers intervened and discouraged countries from banning exports as the practice further exacerbated global agricultural commodity prices and reduced local farmers' incentives to increase production in the next season to fulfil the stronger global demand. The latest country to follow this path of export curbs is Indonesia, which, this past Friday, banned the exports of palm oil.² Indonesia explained its decision to ensure the protection of domestic consumers from rising prices.

Such a policy approach by a country that accounted for an average of 54% of global palm oil exports in value terms over the past five years will have profound price implications for the global vegetable oils market. This export ban also happens when the Black Sea region, which accounts for nearly two-thirds of the sunflower oil, is also constrained in exports because of the war and the destruction of infrastructure and agricultural fields. Before this ban on palm oil exports, the price impact of the Black Sea export disruption and tighter supplies in the palm oil supplies in Asia have been visible in prices. For example, this past March, the FAO's Vegetable Oil Price Index was up by 23% from February to a new record of 249 points (see exhibit 1). These recent export policy changes in Indonesia will likely lead to further increases in vegetable oil prices.

For South Africa, these developments have implications on both prices and supplies. South Africa is a net importer of vegetable oil, with an annual average of 450 000 tonnes over the past decade. In that volume, Indonesia accounted for 66% of the imported volume. The remainder of the volume was imported from Malaysia. Thus, a ban on exports of a key supplier will disrupt the palm oil supplies in South Africa in the coming months. The added issue will be increased prices across all vegetable oils such as canola, cotton, soybean and sunflower oils.

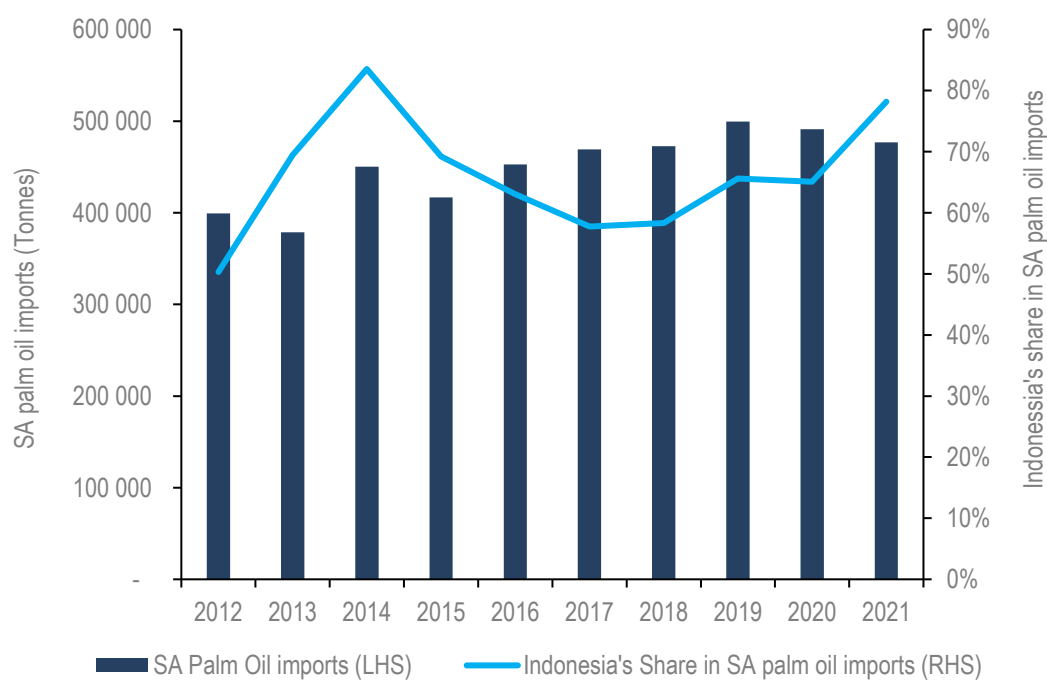
Perhaps, the comforting aspect for South Africa is that these disruptions are occurring when the domestic sunflower seed production has improved notably. The 2021/22 domestic

² More information is available in this Reuters article, [here](#).

sunflower seed harvest is estimated at 959 450 tonnes, the second-largest volume. If the recent wet weather conditions don't reduce the yield or quality of the crop, South Africa will at least have some flexibility to fill the palm oil gap with sunflower oil. There might be challenges for the businesses that use palm oil for industrial purposes, and that is if they don't have the supplies already imported. Moreover, in a few weeks, South Africa will begin planting winter crops, which include canola. The tighter global vegetable oil supplies, and higher prices, could also incentivize the domestic farmers to increase their canola plantings. If such could happen, then the domestic market would again fill any gaps in vegetable oil with canola at the end of the year. Still, such decisions are yet to be made by farmers once they have considered the profitability and climatic weather conditions for the coming months.

Ultimately, geopolitics has introduced several uncertainties in the global agricultural markets and food prices. The actions of the Indonesian government, which attempt to protect local consumers, have implications for the global vegetable oil market and South Africa. While South Africa, to an extent, might have substitutes for palm oil, the price increases will be inescapable for consumers. The "oils and fats" component in the consumer food price inflation will likely see further increases/acceleration in the coming months. This will add to the already increasing prices and the expectation that the "bread and cereals" component of the food price inflation basket will see similar increases.

Exhibit 1: South Africa's palm oil imports



Source: Trade Map and Agbiz Research

SA consumer food price inflation moderated in March 2022

Since the war in Ukraine began and disrupted the global grains market, the agricultural commodity prices have increased significantly, with the FAO's Global Food Price Index in March averaging 170 points, which is the highest level since the inception of the Index in 1990. The rise in grains and vegetable oil prices has been the primary driver of the surge in the Index. As interlinked to the global agricultural markets, South Africa has also experienced increased agricultural commodity prices. The resulting observation of these developments has been a potential uptick in consumer food price inflation. But there is a lag between farmgate price increases and the retail level.

Hence, the data released by Statistics South Africa last week showed that the country's consumer food price inflation moderated to 6,6% y/y in March 2022 from 6,7% y/y in the previous month. This is on the back of softer price increases in fish; milk, eggs and cheese; oils and fats; and vegetables. The moderation in the "oils and fats" products prices is temporary. The global vegetable oils prices continue to surge, and local prices will follow a similar trend with time. Moreover, the higher grains prices will also reflect on the elevated "bread and cereals". Still, with the Russia-Ukraine war affecting the global grains trade and domestically the floods in KwaZulu-Natal, we don't foresee risks to food products supply over the foreseeable future, only a potential price increase. There is a sizeable domestic harvest of grains, fruits, and expected import volumes for products that the country typically imports, such as rice, wheat, and palm oil. The one essential product whose price trend remains uncertain is meat. The recent outbreak of foot-and-mouth disease will likely lead to the temporary closure of some key export markets for the red meat industry, thus adding downward pressure on prices. Conversely, there are fears of a potential increase in poultry product prices, which could somewhat lessen the benefit of softer red meat prices.

There are various factors all pushing in opposing directions in the short term. As a result of these dynamics, we now expect South Africa's consumer food price inflation to increase modestly from readings in recent months, and possibly average 6,0% y/y in 2022 (from 6,5% in 2021), and not follow the drastic surge that we have observed in grains prices. The base effects and meat and fruit will also play a constructive role in the consumer food price inflation path.

Exhibit 2: SA consumer food price inflation



Source: Stats SA and Agbiz Research

Data releases this week

We start this week focusing on global data release; today, the United States Department of Agriculture (USDA) will release the **US Crop Progress** data. In the previous release, in the week of 17 April 2022, maize and soybean plantings were still at preliminary stages, with a few States had started. Regarding the area the US farmers will plant, the USDA's May 2022 report on the 2022/23 production estimates is a key report to keep an eye on. On Thursday, the USDA will release the **US Weekly Export Sales** data.

Domestically, the Crop Estimates Committee will release its **third production forecast for summer crops** on Tuesday. The current estimates paint a relatively better picture than many

feared at the start of the season when excessive rains were across the country. The Committee forecasts the overall summer crop harvest at 17,8 million tonnes, down by 7% y/y. We don't expect a major deviation from this current estimate.

On Wednesday, Statistics South Africa will release the **Producer Price Index (PPI)** data for March 2022. In this data, our focus will be on the food category.

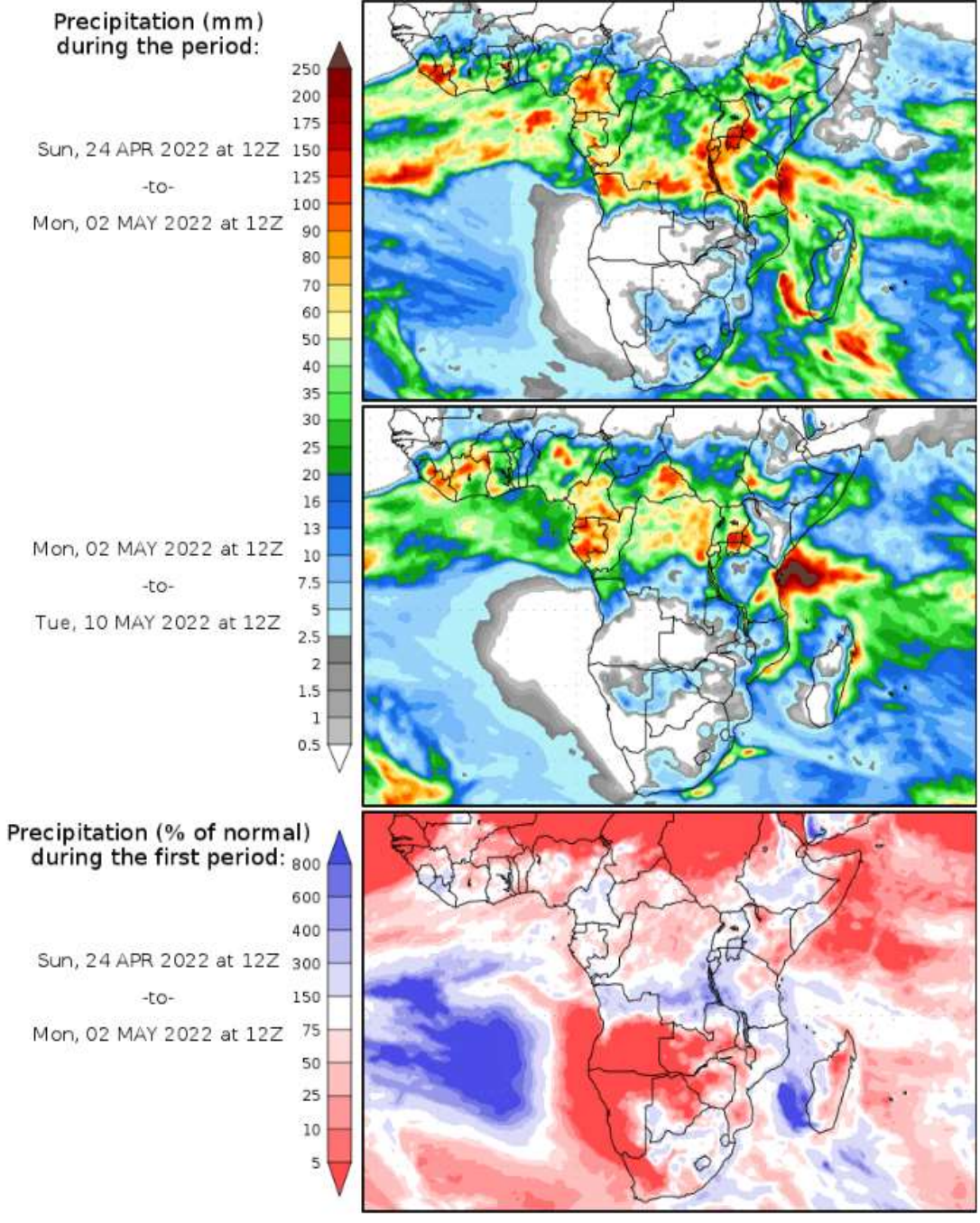
On Friday, SAGIS will release the **Weekly Grain Producer Deliveries** data for 22 April. This data cover summer and winter crops. But our focus is still on winter crops. The summer crops' new season is still at its maturing stages, and harvest has recently started in some early planting regions. Thus, we will focus on the summer crop data from the beginning of May, which will also be the start of the 2022/23 marketing year. In the previous release of the week of 15 April, about 2,2 million tonnes of wheat had already been delivered to commercial silos. This covered the first 29 weeks of the 2021/22 production season and equated to 96% of the harvest estimate of 2,3 million tonnes.

Also, on Friday, SAGIS will release the **Weekly Grain Trade** data for the week of 22 April. On 15 April, which was the 50th week of South Africa's 2021/22 maize marketing year, total maize exports remained at 3,6 million tonnes, equating to 92% of the revised seasonal forecast of 3,9 million tonnes (up by 36% y/y). This past week, there was minimal activity partly because of the disruption of infrastructure at the Port of Durban.

South Africa is a net importer of wheat, and 15 April was the 29th week of the 2021/22 marketing year. The total imports are now at 839 632 tonnes out of the seasonal import forecast of 1,48 million tonnes (slightly below the 2020/21 marketing year imports of 1,51 million tonnes because of a large domestic harvest).

Exhibit 3: South Africa's precipitation forecast

Precipitation Forecasts



After weeks of widespread rains, the weather forecast for the week ahead shows prospects of light showers, which is an improvement.

The forecast for the week thereafter shows clear skies, which is conducive for summer crop harvesting activity, which will start soon in a number of regions.

Source: George Mason University (wxmaps)