Cyclone Eloise's damage could have implications for South Africa's maize price outlook

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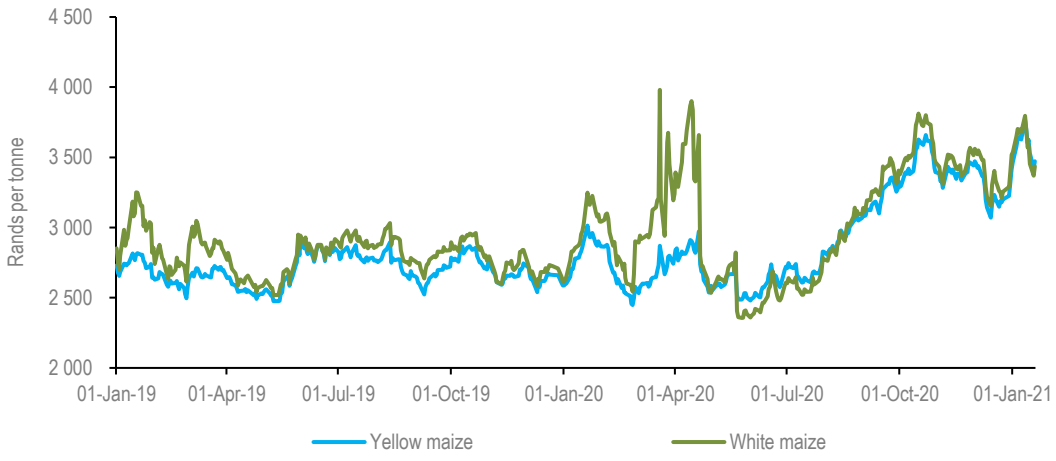
At the start of the year, we expressed an optimistic view that South Africa's maize prices (and to an extent soybean and sunflower seed) could begin to soften from around the end of February 2021. This is the time when more information about the expected sizeable domestic harvest would become available. A decline in commodity prices would be beneficial to the livestock and poultry industries which have had to battle with higher feed prices over the past couple of months. The prospect of large crop production was a South African story as it was a broader Southern Africa region one. Hence, we believed that the demand for South African maize exports to the Southern Africa region would also soften in the 2021/22 marketing year, thereby easing some pressure on domestic prices.

The government of Zimbabwe estimated the country's 2020/21 maize plantings at 1,40 million hectares, which is roughly in line with the ten-year average area for the country. Still, the excellent weather conditions at the start of the 2020/21 season added optimism for a possible good harvest in the country. A potential increase in domestic production would be a positive gain for Zimbabwe which produced only 908 000 million tonnes in the 2019/20 season, making the country a net importer of roughly a million tonnes of maize to meet its domestic needs.[1] Thus far, South Africa has been one of the significant maize suppliers to Zimbabwe, and that added demand contributed to the higher South African maize prices. On 21 January 2021, South Africa's white and yellow maize spot prices traded at 3 436 per tonne and 3 472 per tonne, up by 14% and 20% year on year, respectively.

Exhibit 1: South Africa's yellow and white maize prices



Source: JSE and Agbiz Research

Our optimism about the 2020/21 production season was a significant aspect of our view that prices could soften from these levels. Leaning on the historical data and weather outlook, we estimated South Africa's 2020/21 maize harvest at 16,50 million tonnes (compared with 15,4 million tonnes in 2019/20 production season). We based this estimate on the 6,00 tonnes per hectare yield assumption, on an area of 2,75 million hectares as estimated by the Crop

[1] Data on Zimbabwe's maize production and imports is available here: https://www.indexmundi.com/agriculture/?country=zw&commodity=corn&graph=production

Estimates Committee. The expected production is measured against an annual maize consumption of roughly 11,40 million tonnes, which means that South Africa will likely remain a net exporter of maize in 2021/22 marketing year (this corresponds with the 2020/21 production season).

Zimbabwe, Mozambique, eSwatini and Namibia, amongst other Southern African maize importers all started the 2020/21 production season on a positive footing with prospects of a slightly larger harvest. But the events of the past few days' present risks to this outlook. Cyclone Eloise has already caused devastation in Mozambique's Sofala province and other regions, threatening to cause heavy floods in southern Zimbabwe, northern parts South Africa and Eswatini, Malawi and far eastern Botswana.[2] The scale of the impact of such expected rains is yet to unfold.

Mozambique is one of the few Southern African countries that always fall victim to natural disasters, either droughts or floods, at least once every three years. The current tropical cyclone Eloise is hitting Mozambique not long after Cyclone Idai in March 2019, which devastated more than 700000 hectares of agricultural land and the infrastructure at the Port of Beira.[3]

In 2019/20, Mozambique's farming community began rebuilding, with maize production rising to 2,13 million tonnes, the third-largest harvest on record, according to data from the United States Department of Agriculture (USDA). The current season of 2020/21, was set to be one of the best agricultural seasons across Southern Africa because of good rains which enabled plantings at its start, during planting in October 2020.

While we are still trying to understand the full scale of Cyclone Eloise's devastation, an early assessment by Mozambique's National Institute for Disaster Management and Risk Reduction suggests that "since the start of the heavy rains in mid-January, more than 21 500 people have been affected, and more than 3 900 hectares of farmland have been impacted".[4] This insight suggests that Mozambique could find itself once again in another food crisis, even if not at the same scale as that of 2019 following the devastation caused by Cyclone Idai. During the food crisis, the necessities are staple foods or grains, which Mozambique is generally a net importer of major ones such as maize, wheat and rice.

In a regular season, Mozambique imports, on averagely, roughly 139 000 tonnes of maize, 632 000 tonnes of rice, and 729 000 tonnes of wheat a year to fulfil its domestic needs, according to data from the USDA. Maize imports are primarily transported on land as these are mainly from South Africa and Zambia. Meanwhile, wheat and rice imports originate from Europe, and Asia through Beira Port, which is in the area that has been affected by Cyclone Eloise.

In Zimbabwe, Eswatini, Botswana and Malawi, we are unsure of the scale of damage the expected heavy rains will potentially cause to crops. Nevertheless, we are beginning to see increased risk on the optimistic view of agricultural production in Southern Africa in 2020/21 production season that we expressed earlier because of Cyclone Eloise.

For South Africa, we remain optimistic that the agricultural sector, primarily staple grains, will be mostly unaffected. The South African Weather Service indicates possible destructive

[2] Southern Africa – Tropical Cyclone Eloise Flash Update No.5, As of 22 January 2021. Available: https://reliefweb.int/report/mozambique/southern-africa-tropical-cyclone-eloise-flash-update-no5-22-january-2021
[3] More information about the effects of Cyclone Idai is available here: https://www.reuters.com/article/us-africa-cyclone-farmers-idUSKCN1RD24Q
[4] More information from the United Nations Office for the Coordination of Humanitarian Affairs is available here: https://reliefweb.int/sites/reliefweb.int/files/resources/ROSEA_20210122_TropicalStormEloise_FlashUpdate%235_def.pdf

winds, mainly, in the eastern regions of KwaZulu-Natal, Mpumalanga and Limpopo.[5] The horticultural fields in these areas, however, could be affected.

Under a scenario of minimal damage in South Africa's grain-producing regions, the Southern Africa region will have sufficient supplies from the country and Zambia. The 16.50 million tonnes of maize that we estimate for South Africa, far outstrip the annual consumption of 11.4 million tonnes, meaning that there could be over 2.0 million tonnes of maize for the export market. Such volumes will fulfil the needs of affected areas of Mozambique, Zimbabwe and Malawi if such a need arises. To close with a word of caution, some of the points we have expressed here are based on incomplete information about the scale of Cyclone Eloise's impact, which we are currently observing. We might revisit some of the estimates as more information becomes available.

Weekly highlights

South Africa's food price inflation likely to soften form the second quarter of 2021

In the fourth quarter of 2020, South Africa's food price inflation was on an upwards trajectory, with the December print accelerating to 6,2% y/y from 5,9% y/y in the previous month. This is the highest rate since July 2017, when food price inflation was at 6,8% y/y. South Africa's food price inflation averaged 4,8% y/y in 2020, up from 3,1% y/y in 2019. Nevertheless, these are still relatively comfortable levels compared with the drought-related surge of 2016, where South Africa's food price inflation averaged 10,8% y/y. The drivers of the increase in the headline food price inflation in the last quarter of the year were primarily bread and cereals; meat; fish; milk, eggs and cheese; and oils and fats.

In the case of "bread and cereals" — which consists mainly of essential products and with a weighting of 21% in the food basket — the driver of acceleration in price inflation is the higher grains prices. While South Africa had its second-largest grains harvest in history in the 2019/2020 production season, and ordinarily one would have expected prices to soften, we have in fact experienced the opposite. Grains prices remained elevated on the back of strong demand for South African maize across the rest of the Southern Africa region and the Far East markets, as previously stated. The weaker domestic currency also added to the price increase, along with spillovers from higher global grains prices. The global grains market was primarily driven by the growing demand for grains in China. But most recently, La Niña-induced dryness in parts of Argentina and Brazil continues to support prices.

Meat, which is also an essential product in the food basket, with a 35% weighting, saw prices increasing due to various factors. Chief among them was the progressive decline in slaughtering numbers towards the end of 2020. In October 2020, sheep and cattle slaughtering was down by 22% year on year and 2% year on year, respectively. For milk products price, there was also a seasonality factor; whereas the fats and oil prices were, in part, underpinned by the weaker domestic currency. South Africa remains a net importer of vegetable oils.

Looking ahead, the critical question is whether this upward swing in food prices could become a prolonged trend for much of this year? We doubt that will be the case. First, while La Niña causes dryness in South America (with a negative impact on crops), Southern Africa is the opposite. We have been receiving higher-than-usual rainfall that has boosted crop conditions, not only in South Africa but across Southern Africa. This means there are expectations of a good harvest in Southern Africa. The only risk to this view is the aforementioned tropical cyclone Eloise, which has devasted Mozambique, with its impact still unknown in other affected Southern Africa countries.

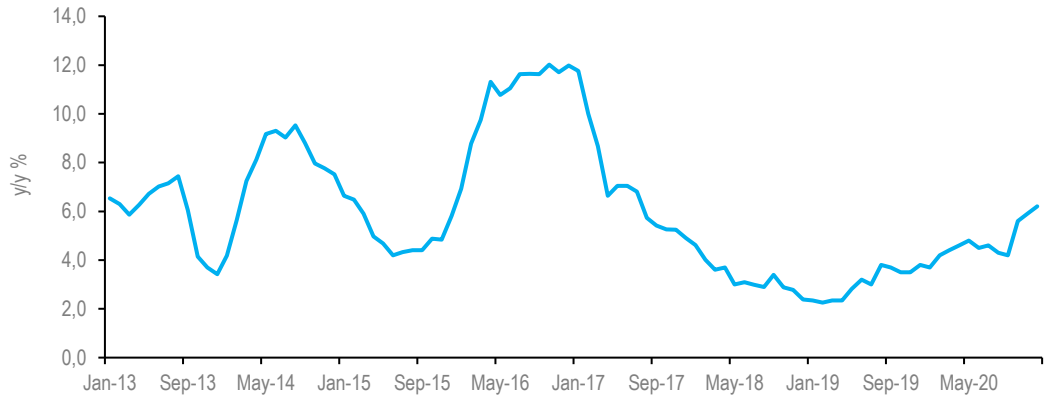
[5] This announcement is available here: https://twitter.com/SAWeatherServic/status/1352578559924178944

Under a scenario of minimal damage on grains in South Africa and Zimbabwe, which would mean an improved crop harvest across Southern Africa, we could see the demand that existed in the 2019/2020 crop declining, thus taking some pressure off domestic crop prices. Such conditions would result in South Africa's grains prices softening, notably, from the current higher levels.

On meat, slaughtering could slightly improve in 2021 and the base effects on poultry meats, which increased in 2020 partly as a result of an import tariff hike, could also bode well for food price inflation. However, we are less optimistic on fats; the relatively weaker domestic currency and elevated global vegetable oil could mean that oils and fats price inflation could be slightly elevated for some time. In terms of fruits and vegetables, the good rains across the country could boost supplies and keep prices broadly steady.

Against this backdrop, we believe South Africa's food price inflation could remain elevated in the first quarter of 2021, primarily underpinned by bread and cereals products (the pass-through of current higher grains prices will persist for the first quarter). But from the second quarter, we could see food price inflation decelerating somewhat. Our baseline forecast is for food price inflation to average around 5,0% y/y in 2021. We will likely revisit this estimate as more information about the impact of tropical cyclone Eloise on Southern Africa's agriculture becomes available.

Exhibit 2: South Africa's food price inflation



Source: Stats SA, Agbiz Research

Data releases this week

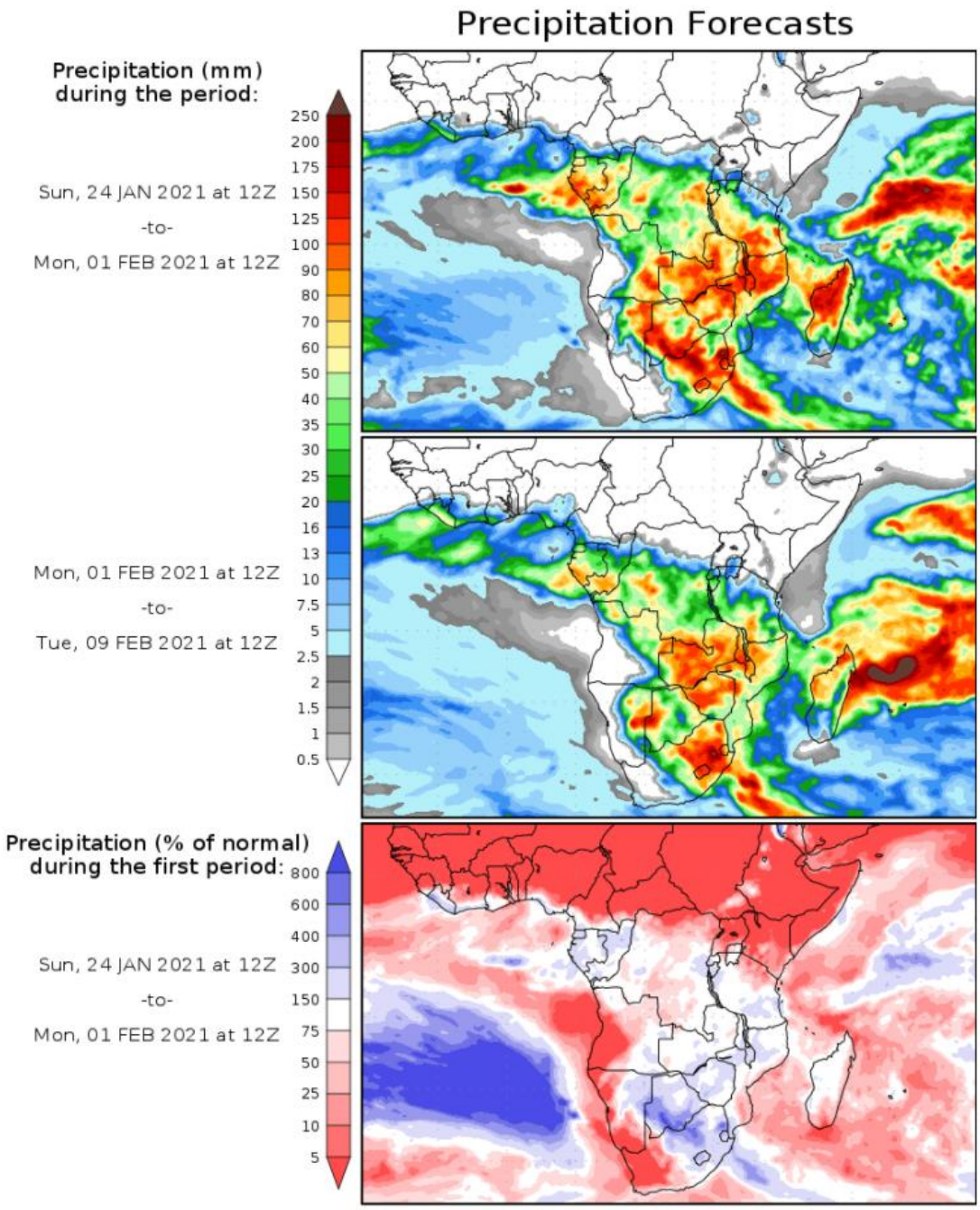
This is a relatively quiet week in South Africa's agricultural calendar. The only notable data release will be the **US weekly export sales data** released by the United States Department of Agriculture on Thursday. As we pointed out in the previous note, in recent weeks, China has been buying large volumes of both maize and soybeans. The demand is expected to hold for some time as the country continues to rebuild its pig herd devastated by African swine fever in 2019.

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 22 January 2021. This data cover both summer and winter crops, although the focus has shifted towards winter crops whose harvest has recently been completed. In 15 January 2021, about 12 714 tonnes of winter wheat were delivered to commercial silos. This placed the 2020/21 wheat producer deliveries at 1.87 million tonnes, which equates to 87% of the expected harvest of 2.15 million tonnes.

On Thursday, SAGIS will release the **weekly grain trade data** for the week of 22 January 2021. In the previous week of 15 January 2021, South Africa's 2020/21 total maize exports were at 1,95 million tonnes, which equates to 76% of the seasonal export forecast (2,50 million tonnes). In terms of wheat, South Africa is a net importer, and in the week of 15 January 2021, imports amounted to 429 262 tonnes. This equates to 28% of the seasonal import forecast of 1,54 million tonnes.

Also, on Thursday, the Crop Estimates Committee will release the **sixth production forecast for winter cereals for 2020**. Meanwhile, Stats SA will release the **Producer Price Index (PPI) data** for December 2020

Exhibit 3: South Africa's precipitation forecast



Source: George Mason University (wxmaps)

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

This could be accompanied by heavy and destructive winds in the north eastern regions of the country as part of the tropical cyclone Eloise.