Market views on the 2021/22 global and domestic grains and oilseeds harvest

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The closing session of last week's Agbiz Grain Symposium offered an opportunity to explore global and domestic grains market developments. The central global theme around production was that the 2021/22 season seems set to show recovery across all major grains and oilseeds. This was echoed by the International Grain Council (IGC) on 23 September when the institution released its monthly update, placing the 2021/22 global grains and oilseeds production estimate at 2,29 billion tonnes, up by 4% from the previous season. The expected recovery in maize, wheat, rice and soybeans production is the primary driver of this forecast. Still, rising consumption from the animal feed industry and general industrial use means that the 2021/22 global grains and oilseeds stocks could remain tight at 599 million tonnes, which is roughly unchanged from the previous season's level of 598 million tonnes.

This latter point has implications for prices in the coming months. Tighter stocks could mean that prices will remain generally volatile in the coming months as the market sensitivity to changes in weather conditions in the major producing areas around the globe will be high. This, however, is not a concern for the Northern Hemisphere, where the grain-growing conditions are promising, and the crop has matured in most regions, with harvesting in the early stages in parts of the US. Nevertheless, the same cannot be said about the Southern Hemisphere, where the planting activity for the 2021/22 season will only gain momentum at the start of October. The major risk for this region is the expected La Niña weather event which brings mixed experiences across regions. South America and East Africa typically experience dryness during La Niña episodes. Meanwhile, the Southern Africa region would usually receive above-normal rain. We experienced a similar phenomenon in the 2020/21 production season, and Brazil's crops suffered, mainly in the maize-growing areas.

A second consecutive year of below-normal rainfall in Brazil and Argentina would mean an increased risk of poor yields and consequently a relatively lower harvest than the 2020/21 production season. Notably, a poor season would change the optimistic global production view that the IGC and the likes of the United States Department of Agriculture (USDA) have already painted. Brazil and Argentina collectively account for 14% and 50% of global maize and soybean production, respectively. Therefore, the concerns about crop conditions in this region could have implications on both global supplies and, subsequently, prices. In all the major risks that we discussed with analysts at last week's Agbiz Grain Symposium, the primary point that was widely shared as a risk to keep an eye on was South America's weather for this reason.

Within the African continent, one such region is East Africa, where the La Niña weather event also correlates with below-average rainfall from December to February. This is a period just before the summer grains planting, which is typically in February of each year. Therefore, the current La Niña event has raised the risk of a potential poor harvest for Kenya, Somalia and Ethiopia. While some countries in the African continent had large yields in the 2020/21 production season, these particular countries saw a decline in production and some production stagnation from the previous 2019/20 season because of poor rainfall. The 2020/21 summer season was a La Niña period, although the expectations for the 2021/22 season are pointing to a weaker event compared with the previous season. The expected La Niña episode also mean that these particular African countries will likely still depend on maize imports in the 2022/23 marketing year (this corresponds with 2021/22 production year). Nevertheless, securing maize imports will not be a daunting task as the Southern Africa region will likely have yet another year of a large harvest, all else being equal.

The discussions about the South African grains and oilseeds production prospects ahead of the 2021/22 season were generally positive. The recent update on the La Niña points to an at least 50% chance of occurrence in the 2021/22 summer season, and this would provide conducive production conditions, as we have previously stated. This favourable weather outlook, along with higher commodity prices and strong tractor sales, is an important signal for a good season, as we have previously stated. Regarding pricing, the domestic market will again likely take a cue from the global dynamics as in the past two years. The domestic market could be well supplied with prices possibly remaining at export parity levels. At these levels, the global market determines the price movements, as is the case now. This applies to all major grains and oilseeds. While we expect the global prices to soften from levels we saw much of this year, we doubt that prices could be back to 2019 levels because of the tighter stocks and the production risk in South America that we discussed above. Also worth noting is that South Africa's summer grain and oilseeds planting could average around 4,2 million hectares in 2021/22 production season with slight switches between some crops. This is roughly in line with the 2020/21 production season. With that said, we will have a reliable estimate on 27 October 2021 when the national Crop Estimates Committee releases its farmers' intentions to plant data. At this period, we will be able to formulate a view on the potential size of the crop in the 2021/22 season.

Notably, while our discussion focused on grains as we drew from conversations at the recent Agbiz Grain Symposium, these favourable production conditions will likely be a reality across the agricultural subsectors – horticulture (fruit and vegetables), livestock and the entire field crops. Provided that we are emerging from another wetter season in 2020/21, there is a likelihood of higher yields for most crops and fruits in the upcoming 2021/22 season.

Weekly highlights

International Grain Council maintains a positive view of the 2021/22 production season

As we outlined in the opening section of this note, this past week, IGC maintained a relatively positive view of the 2021/22 global grains and oilseeds production estimate of 2,29 billion tonnes (slightly unchanged from August 2021) and up 4% y/y. If we focus on specific major grains such as maize, IGC left its forecasts for the 2021/22 global maize production unchanged from August, at a new peak of 1,21 billion tonnes, up by 7% y/y. This is on the back of an expected large crop in the US, Brazil, Argentina, Ukraine, China, EU, and Russia.

The observations are almost similar in the global soybean production prospects, with the 2021/22 harvest estimated at 380 million tonnes, unchanged from August 2021 and up by 5% y/y. Brazil, Argentina, India, Paraguay, Russia, Ukraine, and Uruguay are the primary countries underpinning an expected large harvest. An important point to bring back here is that the Southern Hemisphere countries will only be in the planting season from around October 2021; therefore, the current production estimates are still tentative. An important issue we will monitor closely going forward, especially in South America's crop, is the expected La Niña event and potential dryness that could accompany it in this region.

Similar to the aforementioned crops, the IGC left its forecast for the 2021/22 global rice production unchanged from the previous month at 512 million tonnes, which is up 1% y/y. This is on the back of possible expansions in area plantings in Asia, combined with expected better yields. Negatively, the IGC lowered its forecast for global wheat production by one million tonnes from August 2021 to 781 million tonnes. Nevertheless, this is still up by 1% y/y due to expected large yields in the EU, Ukraine, China, India, North Africa and Argentina. In essence, IGC still maintains a favourable outlook for 2021/22 grains and oilseeds production forecasts despite the changing weather prospects. Any changes in the organization's tone going forward will have implications on global and domestic grains and oilseed prices.

Slightly higher than expected consumer food price inflation in August 2021

South Africa's consumer food price inflation continues to surprise on the upside. We thought the start of the second half of the year would moderate the increase we observed in the past few months. But the data released by Statistics South Africa on 22 September 2021 show that consumer food price inflation accelerated to 7,4% y/y in August 2021 after registering 7,0% in the previous two months. This is the highest level since March 2017. The underpinning drivers of this uptick in consumer food price inflation were meat and, to a lesser extent, fish and vegetables. Meanwhile, most products in the food basket, including 'bread and cereals, and 'oils and fats', decelerated, the latter after a sharp increase in recent months.

The notable increase in meat price inflation can be explained partly by the decline in cattle and sheep slaughtering activity over the past few months. For example, in July 2021, cattle and sheep slaughtering activity was down by 16% y/y and 11% /y/y, with 188 865 and 298 873 head slaughtered, respectively. The livestock industry is still in the herd-rebuilding process that we have been in since the drought of 2015-16. Moreover, the continuous outbreak of foot-and-mouth disease in some provinces of South Africa, such as KwaZulu-Natal and Limpopo, has recently led to farmers slowing the slaughtering activity. This is slightly different from what we have observed in the past when such outbreaks and the temporary ban in exports that would typically result in a somewhat increase in meat supply and consequently softening in prices. It is possible that the good performance in crops production may have helped to provide some financial breathing room for some diversified farmers to rebuild herds rather than sell more meat to the domestic market.

Moreover, the uptick in vegetable price inflation reflects the tight stocks we have been observing in products such as potatoes because of production damages in the northern regions of the country. This, however, is temporary, and supplies could soon improve, and prices may soften. Under such a scenario, the vegetable price inflation trend would follow other major products such as grain related, which are cooling off from the higher levels of the past few months, reflective of agricultural commodity prices. Overall, we still hold a constructive view of possible moderation on food price inflation which will most likely be underpinned by the possible softening in grain-related products, dairy and vegetables. There will also be a base-effect factor in some products, whose uptick in prices started in the second half of 2020. The path for meat prices remains uncertain for now. We will closely observe the slaughtering data of the coming months to ascertain our view on the price trend of this particular product.

Exhibit 1: South Africa's consumer food price inflation

Source: Stats SA and Agbiz Research

Data releases this week

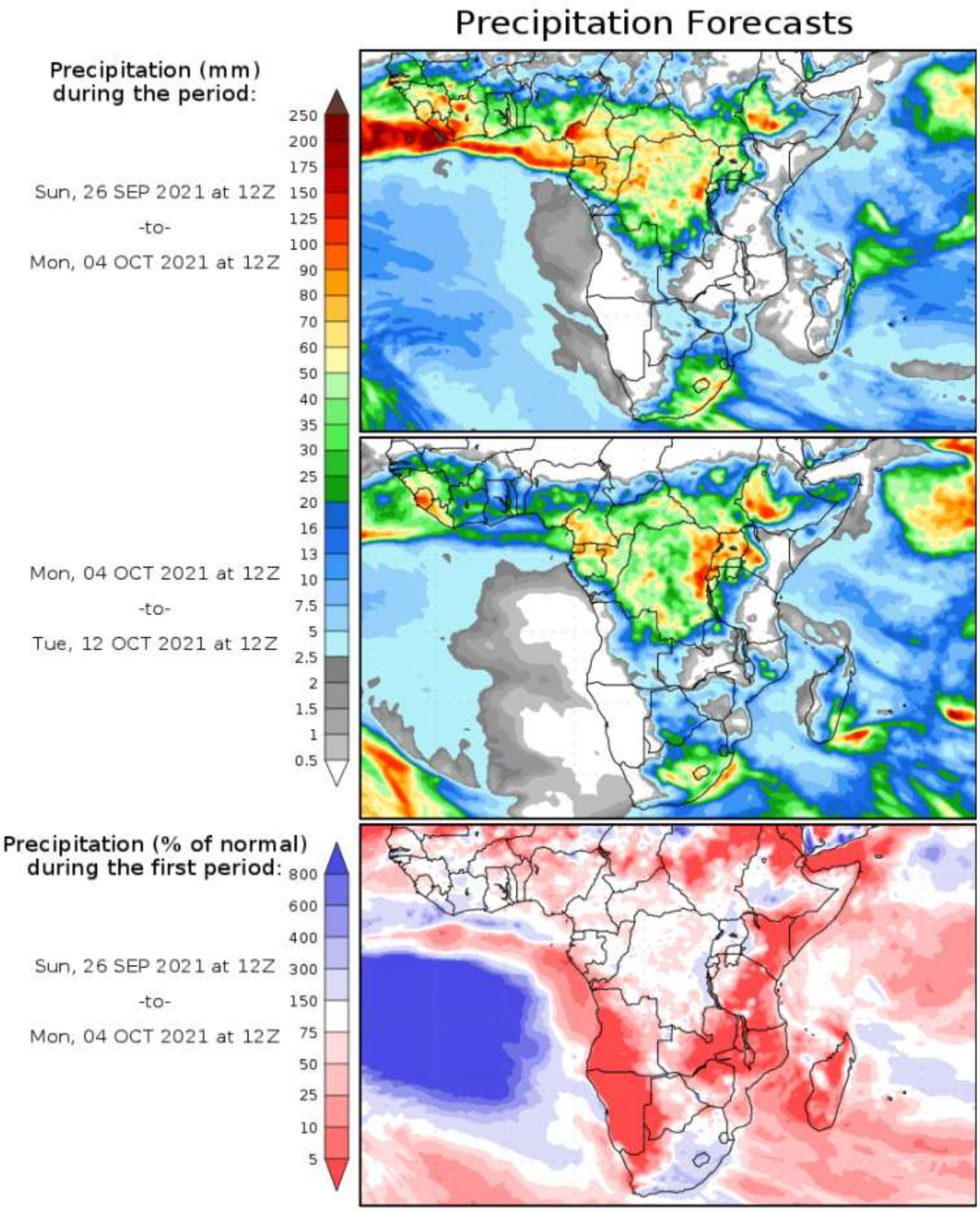
As always, we start the week with a global focus. Today, the United States Department of Agriculture (USDA) will release the **US Crop Progress report** for 26 September 2021. In the previous report of 19 September, the US maize crop was rated 59% good/excellent, which is slightly above the previous week's rating. Still, this is below the last year's rating in the same week of 61%. In the same week of 19 September 2021, the US soybean crop was rated 58% good or excellent, which is also slightly above the previous week's rating. Again, this is poorer than the rating of the same week last year of 63%. This slightly poor crop rating reflects the dryness that parts of the US experienced in the past few weeks. On Thursday, the USDA will release the **US Weekly Export Sales** data.

On the domestic front, on Wednesday, SAGIS will release the **Weekly Grain Producer Deliveries** data for 24 September 2021. This data cover summer and winter crops, although we only focus on summer crops for now, where harvesting has recently been completed, and farmers will soon be preparing for the next season. To recap, on 17 September, about 1 353 tonnes of soybeans were delivered to commercial silos. This placed the soybean producer deliveries for 29 weeks of the 2021/22 marketing year at 1,82 million tonnes, which equals 96% of the expected harvest of 1,89 million tonnes. Moreover, 667 650 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 677 240 tonnes. In maize, the marketing year is different from oilseeds; we are still in the twentieth week of the 2021/22 marketing year, which began in May. The producer deliveries currently amount to 13,9 million tonnes, equating to 85% of the expected crop of 16,3 million tonnes.

Also on Wednesday, the **Crop Estimates Committee** will release the eight summer crop production estimates for the 2020/21 season, and the second winter crop production estimate. To recap, since the 2021/22 season started, the Western Cape, which is the region that grows more than two-thirds of these winter crops, has received favourable rainfall. Farmers also responded positively to the good rains through increasing area plantings. Last month’s data showed that the 2021/22 wheat, canola, and oats plantings are up by 2% (to 521 500 hectares), 35% (to 100 000 hectares) and 34% (to 35 150 hectares) y/y, respectively. For wheat, the area planted is roughly in line with the 11-year average, while for canola and oats, current planting is the largest on record. Barley is the only winter crop that farmers cut its area sharply by 33% y/y to 94 730 hectares. This is partly because of lower demand following temporary bans on alcohol sales at various intervals since the pandemic and a large harvest in the previous 2020/21 season.

On Thursday, SAGIS will release the **Weekly Grain Trade** data for the week of 24 September 2021. To recap, in the week of 17 September, which was the twentieth week of South Africa's 2021/22 maize marketing year, total maize exports amounted to 1,6 million tonnes, which equates to 57% of the seasonal forecast of 2,8 million tonnes (down by 3% y/y). The annual decline in South Africa's maize export forecast is because of an anticipated soft demand in Southern Africa on the back of an improvement in the region's supplies. In terms of wheat, South Africa is a net importer. On 17 September, imports amounted to 1,4 million tonnes, equating to 88% of the seasonal import forecast of 1,6 million tonnes.

Exhibit 2: South Africa's precipitation forecast



Source: George Mason University (wxmaps)

The weather forecasts show prospects of rains over most regions of South Africa within the next two weeks.

This will help improve soil moisture ahead of the summer crop planting period.