

29 January 2024

## South Africa's agricultural trade strategy in an increasingly fractured world

- In a world increasingly fractured by the ongoing wars, growing geopolitical tensions, and divisions on alignments to these tensions, South Africa's government and business must continuously work to open new export markets and diversify from the long-existing ones to spread the risks should the tensions be prolonged. While this applies to most exporting industries in the South African economy, it is particularly relevant for the strongly export-oriented agricultural sector.
- South Africa's relationship with the long-existing markets in the EU, the African continent, and some Asian and American countries must be natured. This is a crucial step as some countries may not outright block trade between countries in this fractured world but use non-tariff barriers. The EU recently used non-tariff barriers by alleging a "False codling moth", a citrus pest, in South Africa and requiring that citrus products be kept at certain temperatures before accessing the EU market. This happens while South Africa has already treated the products to eliminate the chances of such pest occurrence. Even within the Southern African Customs Union, Namibia and Botswana are some countries that typically block South Africa's vegetable exports to protect their industries.
- Disappointingly, the Namibia and Botswana bans typically happen without much clear and on-time communication to the authorities in neighbouring South Africa. Moreover, with the geopolitical tensions in the Middle East and South Africa's lack of alignment with some of its major trading partners, it is reasonable for some business owners in South Africa to worry about the economic implications of geopolitics. Importantly, it is critical for South African authorities, specifically the trade ministry, to continuously engage with major trading partners and affirm the country's deep interest to maintain smooth trade even as geopolitical tensions are rising.
- South Africa should send a firm message to neighbouring Namibia and Botswana about its interest in maintaining smooth trade within the Southern African Customs Union and that these countries should ease the current restrictions on vegetables. If there are attempts to revive their domestic vegetable industries, such should be communicated clearly to South Africa, as an affected partner, with clear timeframes of these bans. Such information would be valuable in assisting the South African industry and government to plant appropriately for export markets to other regions when the ban is in place.
- More importantly, South Africa's agriculture and trade ministries must intensify their efforts to widen the export markets to various regions of Asia and the Middle East. Countries such as India, China and Saudi Arabia should be on the top of the agenda for deepening trade and cooperation. Still, these should not be at the expense of the existing trade partners but an addition. The political relationship established through BRICS+ is the first step, and South Africa should capitalize on it. These countries

have large populations and strong economic power. Notably, they collectively import over US\$270 billion of agricultural products a year, according to data from Trade Map. South Africa's participation in these countries remains small and should increase in the coming years.

- The recent steps of opening exports for the South African beef industry in Saudi Arabia this past week and resumption of beef exports to China at the end of 2023, along with exports of maize and soybeans to China in 2023, are the first step of what should be a significant trade opportunity. The South African authorities should work to open markets for the fruit, wine, and beef industries. These particular industries are growing in South Africa, and have risks in their traditional export markets in the increasingly fragmented world.
- The failures in logistics at the South African ports, railway lines, and roads should not deter export drive and promotion. Those responsible for logistics and roads should work on saving the country from the current slump, while the trade and agricultural authorities should do their part to open more markets.
- The export promotion drive is even more relevant when considering the growth that is yet to be in the currently underutilized 2,5 million hectares of PLAS land. When that land gets into total production, primarily in fruit, vegetables, livestock, and poultry, South Africa will have to secure markets for the increased volumes of agricultural produce. Therefore, export promotion is the best bet to diversify and minimize risk to industry in the fractured world and a long-term growth strategy for the country.
- The organized agricultural stakeholders should all be vocal about trade and logistics in their various engagements with the authorities and collaborate with them to improve these areas for the long-term growth of this vital sector of the South African economy..

## WEEKLY HIGHLIGHT

### SA food prices likely to moderate in 2024

- Food prices were a significant discussion point worldwide in 2023. South Africa had a fair share of elevated food prices in the first half of 2023, and the pace of increases slowed somewhat towards the end of the year. The December 2023 consumer food inflation data showed further deceleration to 8,5% in December 2023, from 9,0% in the previous month (and against market expectations of a slight uptick to 9,3%). The product prices underpinning this deceleration were primarily bread and cereals, oils and fats, and vegetables. At the Agricultural Business Chamber of South Africa (Agbiz), we expect this moderation path to continue in 2024 for most of the products within the food basket.
- The significant risk to meat supplies that animal diseases such as avian influenza presented in 2023 could ease this year. There will likely be a recovery in poultry production following a range of interventions that the industry and the government embarked on at the end of last year. These include

the importation of fertilized eggs to rebuild the parental bird stock lost from avian influenza, importing table eggs (powder and liquid eggs that would help in the baking process and free the whole eggs for human consumption), and the ongoing processes of the possible vaccinations to curb the spread of the disease (although there remain some delays with approvals of some vaccines by the authorities). Evidently, over the festive season, we did not notice any recorded shortages of poultry products.

- Another additional policy measure the government has in addressing potential shocks on poultry meat supplies is enabling poultry product imports in the event of supply constraints, which we do not anticipate over the foreseeable future.
- Moreover, the fruit and vegetable prices, which remained elevated towards the end of 2023, will likely slow notably in the coming months because of the estimated increase in the volume of products that are in season in the various Fresh Produce Markets across South Africa. The supply constraints in some vegetables last year, mainly potatoes, were caused by the bad harvest. We expect improvement in 2024, regardless of the reports of pepper ringspot virus in a few potato farms in the northern regions of South Africa.
- Notably, while we are in an El Niño period, the weather conditions have been quite favourable across South Africa. The agricultural conditions are excellent, and we believe that farmers planted the intended area of 4,5 million hectares for the 2023/24 season, up 2% y/y. We expected favourable yields across the country, even in the North West, where rainfall has not been as high as in other regions of South Africa. This week, 30 January, South Africa's Crop Estimates Committee will release the preliminary planting data to show whether farmers planted the area they intended to plant.
- At the Agbiz, we are optimistic that farmers planted this area. Moreover, crop yields will likely be broadly excellent with favourable rainfall across the country since the season started. What is vital is for farmers to receive ideal rain in February, a pollination period that is key to yield development. This potentially improved domestic agricultural supplies and a generally sizeable global harvest bodes well for continuously moderating consumer food price inflation in 2024.
- At the international level, the figures from the Food and Agriculture Organization of the United Nations already show continuous moderation in agricultural commodity prices. For example, the FAO Food Price Index, a monthly agricultural commodity price index, eased at 118.5 points in December 2023, down 2% from its November level and 10% year-on-year. This decline was underpinned by the easing price indices for sugar, vegetable oils and meat. This declining price trend could continue in the coming months if the positive global crop yield prospects hold.
- Ultimately, food prices in 2024 may not be as major an issue as they were the previous year, assuming that risks such as energy prices and shipping routes are not majorly disrupted for a prolonged period by the ongoing geopolitical tensions. Domestically, the agricultural production conditions are promising and signal continuous moderation in prices.

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



Source: Stats SA and Agbiz Research

## WEEK AHEAD

### What we are watching this week

- As always, we start the week with a global focus, and the United States Department of Agriculture (USDA) releases its **weekly U.S. grains and oilseeds export sales** data on Thursday.
- On Friday, the Food and Agriculture Organization of the United Nations releases its January 2024 figures of the **FAO Food Price Index**. The Index eased at 118.5 points in December 2023, down 2% from its November level, and 10% year-on-year. This decline was underpinned by the easing in the price indices for sugar, vegetable oils and meat.
- On the domestic front, this is an important week for South Africa's summer grains and oilseeds industry. On Tuesday, we will have the **preliminary area planted** data from South Africa's Crop Estimates Committee. At Agbiz, we remain optimistic that farmers possibly planted the 4,5 million hectares area they intended to plan for the 2023/24 season. This is up 2% from the previous season. With excellent rainfall across the country so far, we are also positive about the crop conditions and yield prospects. While the harvest for some crops may be slightly lower, than the 2022/23 season, South Africa should have a decent harvest at above-average levels.
- On Wednesday, SAGIS will release its weekly **South Africa's Grains and Oilseeds Producer Deliveries** data for January 26. In the previous release on January 19, South Africa's 2023/24 maize

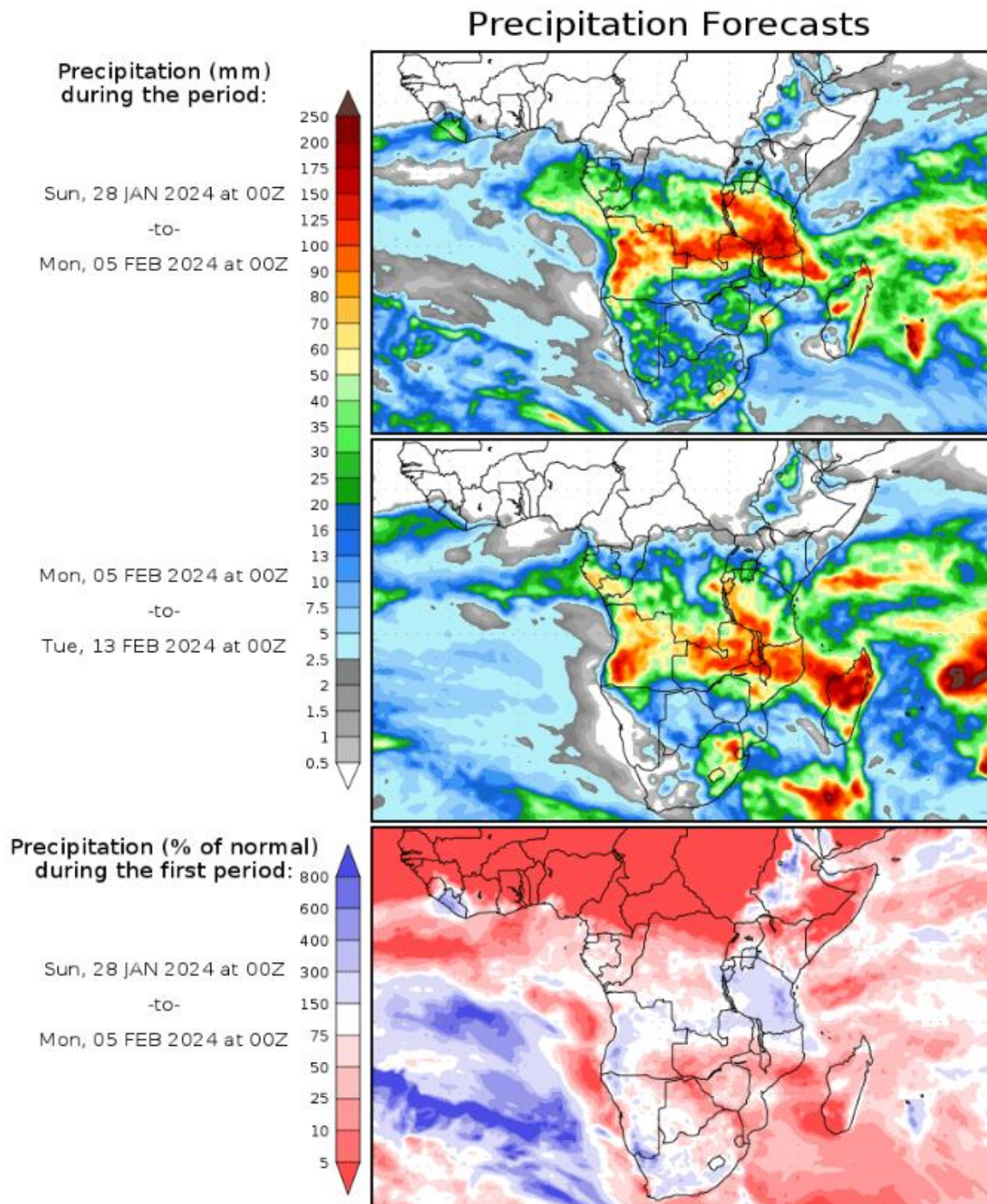
producer deliveries were about 27 306 tonnes. This placed the 2023/24 marketing year's maize producer deliveries at 14,8 million tonnes out of the overall harvest of 16,4 million.

- On the same day, the soybean deliveries were about 2,7 million tonnes of soybeans out of the harvest of 2,8 million tonnes. The sunflower seed producer deliveries amounted to 716 195 tonnes out of the harvest of 724 110 tonnes.
- Also worth noting is that South Africa's winter wheat harvest is towards completion. Last week, 15 419 tonnes of wheat were delivered to commercial silos. This placed the 2023/24 wheat producer deliveries at 1,8 million tonnes out of the expected harvest of 2,2 million tonnes.
- On Thursday, SAGIS will publish its weekly **South Africa's Grains and Oilseeds Trade** data for January 26. In the previous release on January 19, the 38th week of the 2023/24 marketing year, South Africa exported 48 889 tonnes of maize. Of this volume, 57% was exported to Zimbabwe, and the balance to the rest of the neighbouring African countries. This placed South Africa's 2023/24 maize exports at 2,75 million tonnes out of the seasonal export forecast of 3,33 million.
- South Africa is a net wheat importer, and January 19 was the 16th week of the new 2023/24 marketing year, with 28 180 tonnes of imports from Poland. This placed South Africa's 2023/24 wheat import are at 621 700 tonnes out of the seasonal forecast of 1,6 million tonnes (down from 1,7 million tonnes in the 2022/23 season).

## South Africa's Precipitation forecast

- The weather forecast for the next two weeks is favourable, showing prospects of light showers across most summer crop-growing regions of South Africa.

### Exhibit 2: South Africa's precipitation forecast



Source: George Mason University (wxmaps)