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SA WEEKLY
AGRICULTURAL VIEWPOINT

Expropriation debates mask the excellent work being done behind the scenes to support agricultural growth

29 March 2021

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The Department of Agriculture, Land Reform and Rural Development (DALRRD), agribusinesses and various social partners have been hard at work for months crafting the Agricultural and Agro-processing Master Plan and separately blended finance instruments. These aim to ignite growth and expansion in South Africa's agricultural sector as part of the government's broader Economic Reconstruction and Recovery Plan. Both these initiatives are set to be launched in the coming months whilst the first phase of the blended finance instrument has already started, as evidenced by the launch of the joint Agri-Industrial Fund of R1 billion by the Industrial Development Corporation (IDC), in partnership with the DALRRD.[1] These are constructive programmes with the potential to ignite growth and transformation in the sector. As such, industry bodies such as Agbiz allocate most of their time and resources to pursue these goals. Sadly, much of this good work takes place behind the scenes whilst other significant policy developments that might deter the progress grabs social partners' attention and the media.

A case in point is the renewed debate about Section 25 of the Constitution and the Expropriation Bill. Last week, the Portfolio Committee on Public Works hosted public hearings on the Expropriation Bill whilst the committee tasked to "make explicit what is implicit" in Section 25 of the Constitution continued with their public hearings. The outcome will have implications on public sentiment. We hope that it will not detract from the two initiatives above to drive growth and expansion in South Africa's agriculture. The success of any of these programmes depends on the private sector and other social partners jointly implementing the government's proposals. As such, policy actions that might be perceived as not aligned with the broader stakeholders' interests present a risk and could lead to a lack of participation and stalling the Master Plan and the blended finance implementation.

Admittedly, the discussion of the potential amendment of Section 25 of the Constitution has gone beyond the realm of agriculture as various stakeholders are engaged with the national debate led by Parliament. Yet, its outcomes will likely have direct implications on the success of the DALRRD work programme. Hence, it is prudent that Parliament decides on the Section 25 matter, mindful of the broader impact on the agricultural sector and other sectors of the economy when South Africa is at an economic reconstruction phase.

We have long argued at Agbiz that land reform is an important policy imperative, and we are in full support of it. Yet, we do not believe that an amendment of the Constitution will lead to the country's desired outcome of prosperity. Likewise, Parliament must finalize the Expropriation Bill. It provides the procedural guarantees required to bring the government and an expropriated owner or bondholder onto an equal footing if expropriation occurs. Unlike the Section 25 amendment, Agbiz is broadly supportive of the need for legislation to regulate expropriation but opposes the provisions relating to 'nil' compensation. Expropriation should always be used as a last resort and cannot substitute for well-formulated and well-implemented programmes to effect transformation in the sector. There are various private-public partnerships (p-p-p) for land reform, some of which were

[1] More information about the launch of the Fund is here: https://www.idc.co.za/2021/03/23/idc-and-the-dalrrd-launch-r1bn-agri-industrial-fund-to-boost-black-farmers/

highlighted in the Presidential Advisory Panel on Land Reform and Agriculture and also chapter six of the National Development Plan, which the government could utilize to accelerate land reform. Importantly, there is also an ample land supply that the government has not efficiently distributed or transferred to potential beneficiaries, with estimates placing such land at over 2 million hectares.

We are also bombarded daily with news headlines of corruption and inefficiencies at local government levels, some of which threaten the same black farmers government intends to support.[2] Hence, the p-p-p approaches have been the desired approach to us for land reform. The ongoing Master Plan is designed in the spirit of the joint-venture or p-p-p. A continuation of this approach to policy implementation would potentially yield positive results for expansion in agricultural production and, after that, job creation in the sector.

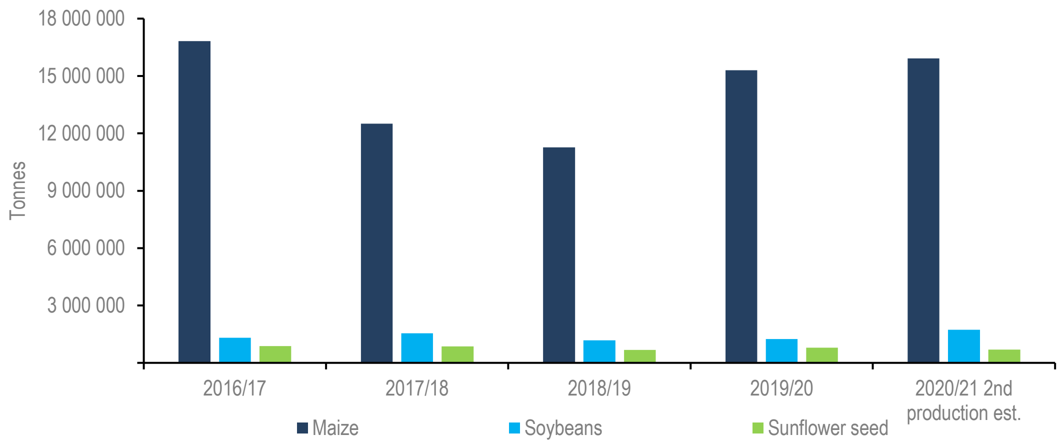
In sum, there is some level of unity in agriculture and agribusiness at the moment, and all stakeholders are working towards ensuring the success of the Master Plan implementation, anchored by blended finance and various regulatory support that DALRRD and multiple departments such as Water Affairs, DTIC, etc. would provide. However, the approach that will be taken in Parliament in as far as the discussions of Section 25 of the Constitution can sway the stakeholder's minds off these necessary economic reconstruction plans.

Weekly highlights

SA's 2020/21 summer grain and oilseeds harvest lifted from February estimates

Last week, the South African Crop Estimates Committee (CEC) mildly lifted its forecast for 2020/21 summer grain and oilseeds production from the previous month by 1% to 18,7 million tonnes (this compared with 17,6 million tonnes in 2019/20 production season). The upward adjustments were on maize, soybeans and sorghum, whereas sunflower seed, dry bean and groundnut production estimates were revised. If we zoom into significant crops, the 2020/21 maize, soybean and sunflower seed harvests are forecast at 15,9 million tonnes (up 4% y/y, and second-largest harvest on record), 1,9 million tonnes (up 39% y/y, a record harvest), and 712 940 tonnes (down 12% y/y), as illustrated in Exhibit 1.

Exhibit 1: South Africa's significant grain and oilseeds production



Source: Crop Estimates Committee and Agbiz Research

[2] Some of the corruption issues are highlighted in this article: https://www.dailymaverick.co.za/article/2021-03-25-the-politics-of-expropriation-without-compensation-when-rhetoric-and-reality-clash/

The maize production estimate is slightly below our estimated 16,7 million tonnes, and the Bureau for Food and Agricultural Policy's estimated 17,0 million tonnes. Considering the optimistic yield estimates we received from farmers and observations in places we have been in, we are inclined to think that there is still room for the CEC to lift further its maize production estimates in the coming months. Hence, we are not adjusting our view for now from an assessment of 16,7 million tonnes.

The current maize production data essentially mean that South Africa would remain a net exporter in the 2021/22 marketing year, starting in May 2021 (corresponds with the 2020/21 production season). South Africa's annual maize consumption is roughly 11,4 million tonnes, which means there will likely be over 2,0 million tonnes of maize available for export markets, all else being equal.

The expected large harvest could also add downward pressure on maize prices, although marginal as the global maize market remains supportive of prices. This is particularly the case as we forecast an excellent crop in South Africa and across the Southern and East Africa regions, a major importer in the previous year. For example, estimates from the United States Department of Agriculture show that Zambia's maize production could reach 3,4 million tonnes (up 69% y/y). In comparison, Malawi's maize harvest is estimated at 3,8 million tonnes (up 25% y/y), Mozambique's maize crop is estimated at 2,1 million tonnes (up 8% y/y), Kenya's maize is forecast at 4,0 million tonnes (up 5% y/y). There is optimism about the crop in other countries, including Zimbabwe.

Over the past few months, the weaker domestic currency, growing demand for South Africa's maize in the Southern Africa region and the Far East, coupled with generally higher global grain prices, provided support to the domestic maize prices. But we believe that the domestic crop conditions will matter more for price movements in the future than has been the case over the past few months. On 25 March 2021, South Africa's yellow and white maize spot prices were down 18% y/y and 3% y/y, trading at R3 220 per tonnes and R3 123 per tonne, respectively.

In the soybean case, the price drivers are somewhat similar to maize. Nevertheless, an increase in the soybean harvest will still not change much because South Africa imports around half a million tonnes of soybean meal (although this volume will fall notably this year on the back of the large domestic harvest). The country will most likely continue being dependent on imports, even at these harvest levels, to meet the growing demand for soybean meal by the poultry sector. Hence, global soybean market dynamics will continue to influence local prices. On 25 March 2021, the domestic soybean spot price was up 17% y/y, trading around R7 670 per tonne.

In sum, the broadly large summer grain and oilseeds production estimate this season is on the back of increased area plantings for summer crops and favourable rainfall since the start of the season. We expect the maize production estimate to be adjusted somewhat in the coming month as farmers on the ground continue to express optimism about yield prospects. This will likely add downward pressure on maize prices, which bodes well for South Africa's consumer food price inflation for 2021.

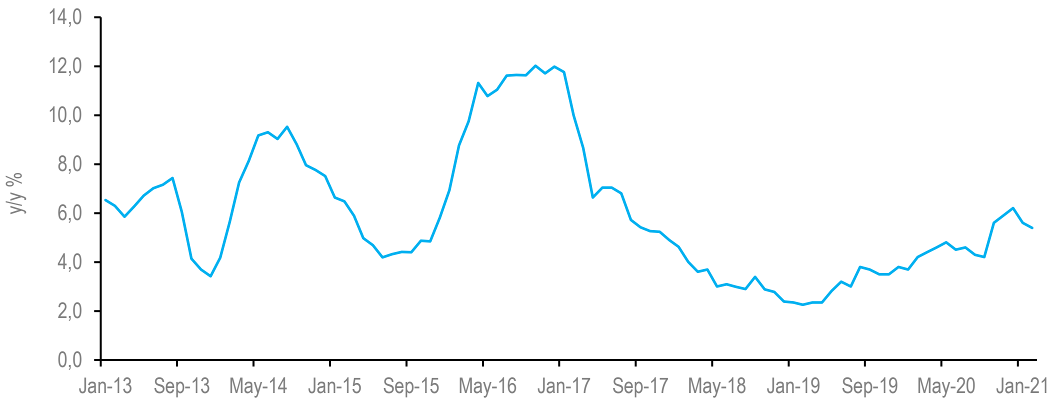
SA consumer food price inflation decelerates further in February 2021

After softening from 6,2% y/y in December 2020 to 5,6 % y/y in January 2021, South Africa's consumer food price inflation decelerated further to 5,4% y/y in February. The primary products underpinning this deceleration in price inflation are meat, fruit, vegetables, and bread and cereals. Importantly, this is in line with the price trends in agricultural commodity prices, which, while still elevated, are at lower levels than the corresponding period in 2020.

From now on, we still expect South Africa's consumer food price inflation to remain at slightly elevated levels in the first quarter of the year, partly, because of generally higher grain and imported vegetable oils and fats prices. But from the second quarter of the year, grain prices could soften further and filter through, with a lag, on the "bread and cereals" products prices. The anticipated decline in prices is on the back of the large forecast harvest of 16,7 million tonnes mentioned in the previous section of this note. This product category also has a higher weighting of 21% in the food basket, and changes in its price inflation will be noticeable. In terms of meat, we expect a sideways price movement for the coming months. The cattle slaughtering could slightly improve in 2021, and the base effects on poultry meat, which increased in 2020 partly as a result of an import tariff hike, could also bode well for food price inflation.

Overall, it is still our view that South Africa's consumer food price inflation could remain relatively higher in the first quarter of 2021, primarily underpinned by bread and cereals products (the pass-through of current higher grain prices will persist for the first quarter). But from the second quarter, we could see food price inflation decelerating somewhat. We maintain our baseline view for South Africa's consumer food price inflation to average around 5,0% y/y in 2021. The only upside risk that we continue to monitor and assess inflation's impact is the rising petrol prices. South Africa's agricultural commodities and processed food are primarily transported by road, and the increased transport costs could impact the final product prices. For example, South Africa is transporting roughly 81% of maize, 76% of wheat, and 69% of soybeans. On average, 75% of national grains and oilseeds are transported by road. This is an area worth monitoring over the coming months.

Exhibit 2: South Africa's consumer food price inflation



Source: Stats SA and Agbiz Research

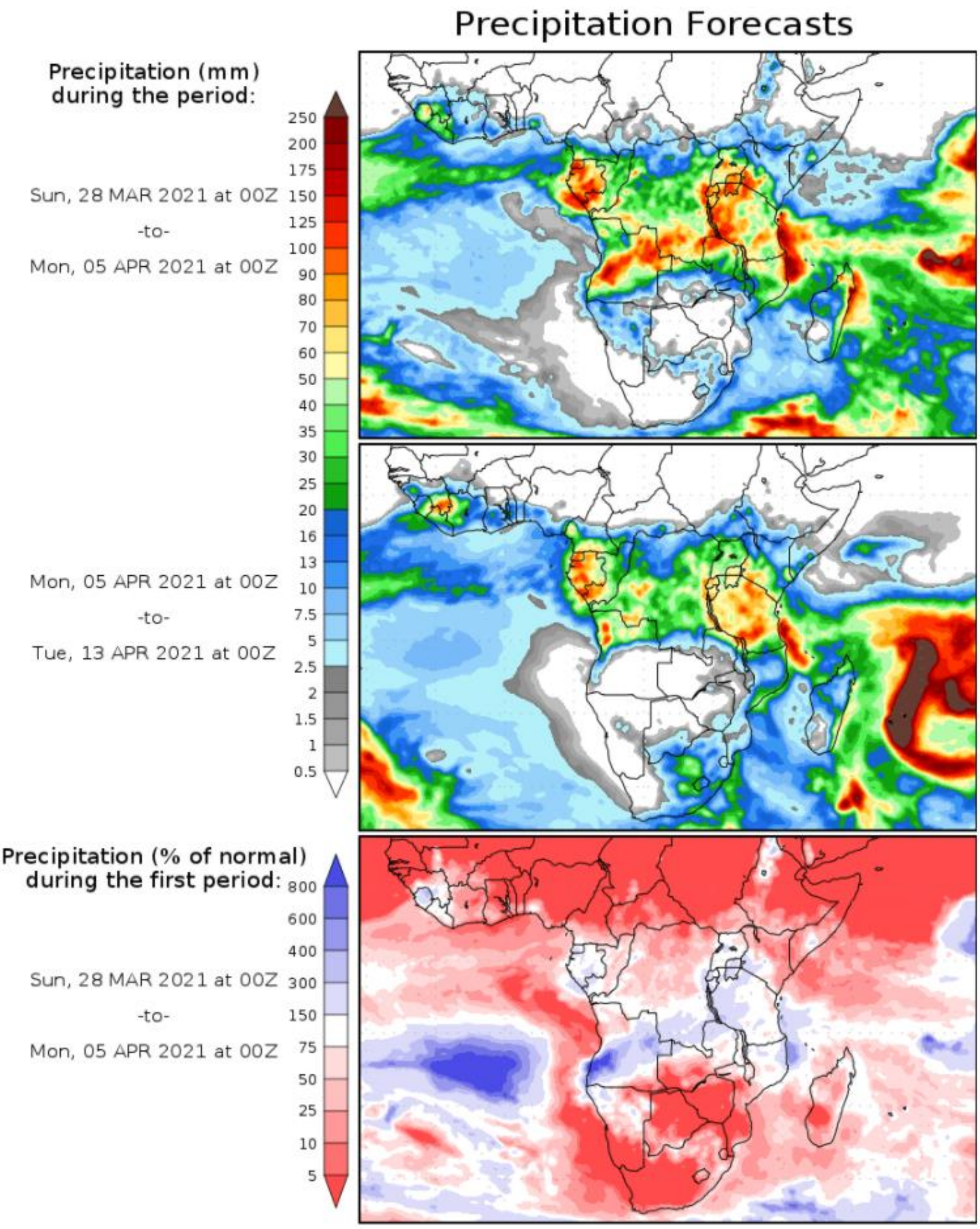
Data releases this week

This is a quiet week on the agricultural calendar. On Wednesday, the South African Grain Information Service (SAGIS) will release the **weekly grain producer deliveries data** for 26 March. This data cover summer and winter crops, although the focus is still on winter crops whose harvest has recently been completed. On 19 March, 6 327 tonnes of winter wheat were delivered by farmers to commercial silos. This placed the 2020/21 wheat producer deliveries at 1,99 million tonnes, which equates to 94% of the expected harvest of 2,11 million tonnes. From April onwards, the focus will shift to summer crops as the harvest process will soon be gaining momentum. We already see momentum in 2021/22 soybean producer deliveries. On 19 March, about 31 395 tonnes were delivered to commercial silos. This placed the deliveries for the first three weeks of the new marketing year at 42 090 tonnes. Similarly, about 17 095 tonnes of sunflower seed have already been delivered in the 2021/22 season.

On Thursday, SAGIS will release the **weekly grain trade data** for the week of 26 March. In the previous week of 19 March, South Africa's 2020/21 total maize exports were at 2,31 million tonnes, which equates to 86% of the seasonal export forecast of 2,69 million tonnes. In terms of wheat, South Africa is a net importer. On 19 March, imports amounted to 705 027 tonnes, which equates to 45% of the seasonal import forecast of 1,58 million tonnes.

Globally, the notable data release will be the **US weekly export sales data** released by the United States Department of Agriculture on Thursday. Here, we will continue to monitor China's buying activity of US maize and soybeans.

Exhibit 3: South Africa's precipitation forecast



Source: George Mason University (wxmaps)

The weather forecast for the week shows clear skies, which is conducive for summer crops at its current maturing stages of growth.

Nevertheless, the week thereafter shows prospects of light showers which is not ideal for crops.