

Tracking South Africa's crop planting amid new the Covid-19 variant and La Niña

There is heightened uncertainty worldwide in the wake of the news of the new Covid-19 variant, Omicron (B.1.1.529). The travel ban against several Southern African countries will likely negatively impact the tourism industry and associated businesses as the summer months are the most important for this sector. From the agricultural side, the primary concern is the wine industry, which is currently in its rebuilding stages following the various bans on alcohol sales since the onset of the pandemic and the collapse of agritourism and wine routes tourism sales.

While there is a lot that remains unknown about this new variant at this stage, we do not foresee the new Covid-19 variant causing major changes in regulations and trading activity for much of the agricultural sector. After all, agriculture has largely been classified as an essential industry and has remained operational since the start of the pandemic. We will, nonetheless, monitor the potential impact of the travel bans and the general surge of the Covid-19 infections on the global supply chains. This is an important area for South Africa's export-oriented agricultural sector.

Aside from these global factors and the ongoing pandemic-related uncertainty, South Africa's agricultural sector has started the 2021/22 production season positively. The country is in a full La Niña swing, which is evident from the frequent higher rainfall that South Africa has received since the beginning of October. Consequently, the soil moisture has improved considerably across the country. That said, the western parts of the Free State, Eastern Cape and North West still require additional rain to enable planting. Last week, even regions of the Karoo received favourable rainfall, which will help improve the pastures and benefit the livestock in the province.

Farmers started planting in October in the eastern regions of South Africa, and progress has been good thus far. For example, over 80% of the intended area for maize and soybeans in Mpumalanga has already been planted. Similarly, eastern Free State farmers have planted roughly 75% of the intended area for maize crops. Meanwhile, the north-western Free State regions have planted around 30% of the maize area, and North West has only planted around 5% of the crop. The Eastern Cape and KwaZulu Natal is also progressing well with plantings. This planting progress is in line with the traditional planting window. For provinces west of the N1 (national road), the optimal planting window is between 15 November to the end of December, while the optimal window for the eastern regions is between 15 October and the end of November. This means that there is sufficient time for plantings to be completed in the western regions of N1, which have planted a minimal area of the summer crop thus far.

The South African farmers intend to plant 4,34 million hectares of summer grains and oilseeds. This is up by 5% from the 2020/21 production season. This comprises maize, sunflower seed, soybeans, groundnuts, sorghum and dry beans. As we highlighted at the time of the release of this data on 27 October 2021, a deep dive into the numbers show a mixed picture, albeit broadly positive. For example, the 2021/22 maize planting intension is 2,73 million hectares, down by 1% y/y (but well above the 10-year average area of 2,53 million hectares). Sorghum area is also set to fall by 9% y/y to 45 000 hectares (well below

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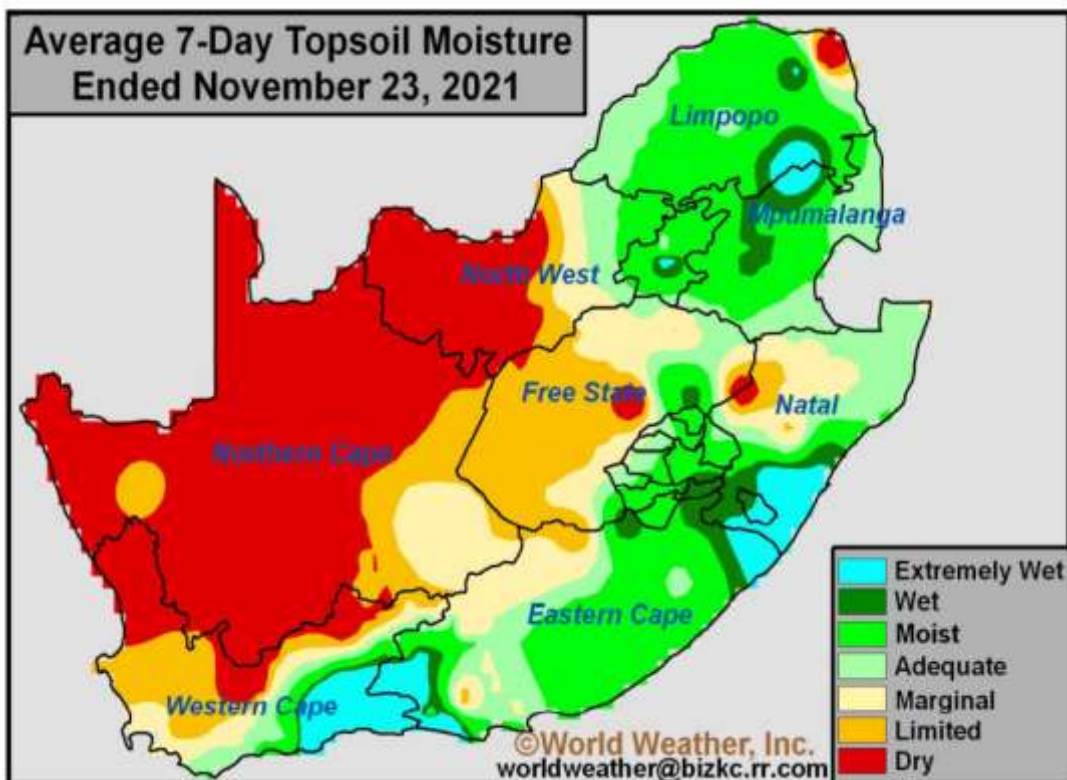
the 10-year average of 52 237 hectares). The groundnuts area is set to decline by 4% from the 2020/21 production season to 37 000 hectares (lower than the 10-year average of 43 348 hectares). Meanwhile, sunflower seed, soybeans, and dry beans area plantings are set to increase by 16%, 12% and 14% from the 2020/21 production season to 555 800, 924 800, and 54 250 hectares, respectively.

The downside of a La Niña weather event is heightened prospects of hail, which South African farmers should consistently monitor as this could damage summer crops, vegetables and the fruit industry. Over the past few weeks, various Free State and Limpopo regions received heavy rains and winds. Fortunately, there has not been significant damages reported by Agbiz members in these regions. If the winds and rains remain moderate, with no hailstorm, then we can confidently say that South Africa is heading for yet another good agricultural season in 2021/22, all else being equal. This is an optimistic view for crops that we zoomed into in this commentary and all subsectors of agriculture.

The current La Niña weather event, which is favourable for the Southern Africa regions, has brought dryness in various regions of South America. We continue to receive reports of crop damages in areas planted early from analysts on the ground in Brazil specifically. Depending on the scale and persistence of dryness, this could affect global grains and oilseed supplies and, after that, prices, as we previously discussed. As such, we maintain our view that global agricultural commodities will remain somewhat elevated in the coming months. Such price trends, combined with possibly higher yields in South Africa, would help slightly offset the high input costs farmers incurred at the start of the season.

In sum, the global economy is back in a state of heightened uncertainty caused by the new mutations of Covid-19. The South African tourism industry and associated businesses such as wine will be negatively affected by the reduced travelling going into the festive season. But the broader agricultural sector will likely remain robust, with significant risks being potential hail due to the La Niña weather event and possible disruption in the global supply chains.

Exhibit 1: South Africa's soil moisture levels in the week of 23 November 2021



Source: World Weather Inc.

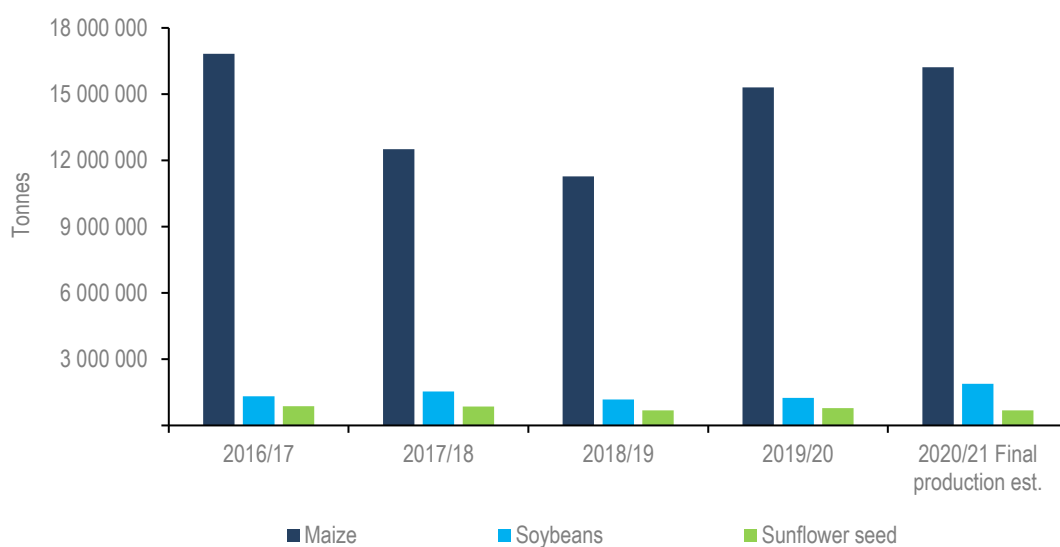
Weekly highlights

South Africa closed its 2020/21 summer crop production season with the second-largest harvest on record

Last week the Crop Estimates Committee released its final estimates for the 2020/21 production season. Unsurprisingly, there were minimal adjustments from the previous month's estimates, which was the marginal lift in maize, sorghum, dry beans production estimates. South Africa essentially had its second-largest grains harvest on record in the 2020/21 production season. The highlights are the 16,2 million tonnes of maize (up 6% y/y), the second-largest on record and soybeans at 1,9 million tonnes (up by 52% y/y) and a record harvest. This latest production information will have minimal impact on the domestic grains and oilseeds prices, as much of the data is already factored in. The focus has shifted to the new production season of 2021/22, which started in October (and discussed at length in the opening section of this note).

Still, if we focus on the major grains in the 2020/21 production season, the current maize production data essentially mean South Africa would remain a net exporter in the 2021/22 marketing year. South Africa's annual maize consumption is roughly 11,5 million tonnes; hence the current export forecast is 3,42 million tonnes for the 2021/22 marketing year (this year corresponds with the 2020/21 production season). This is up by 16% from the previous year, as a consequence of large production. Notably, the increased soybeans production also means a potential decline in soybean oilcake imports, which in a typical year is just under half a million tonnes a year.

Exhibit 2: South Africa's major summer grain and oilseeds production



Source: CEC and Agbiz Research

Data releases this week

We start the week with a global focus. Today the USDA will release the **US Crop Progress** report. We focus on the harvest progress in the US grains and oilseeds, which is almost complete. For example, the previous report of 21 November 2021 showed that 95% of the US maize crop had already been harvested, slightly behind last year's pace of 97%. On the same day, 95% of the US soybeans crop had already been harvested, which similarly is

slightly behind the pace of 21 November 2020, which was 98%. This week's data will most likely show that the US grains and oilseed harvest is complete. On Thursday, the USDA releases the **US Weekly Export Sales** data.

Domestically, on Tuesday, Statistics South Africa will release the **Quarterly Labour Force Survey** for the year's third quarter. To recap, South Africa's agricultural employment rebounded in the second quarter to 862 000 (up 8% year on year). This is unsurprising because of bumper harvests on field crops and horticulture this season. Moreover, the second quarter of each year is a period of higher activity in most agricultural industries, with harvesting underway, which requires increased labour. Notably, the scenario of higher agricultural commodity prices in a year of large harvests also boosted farmers' incomes and, therefore, could retain and increase employment, even if seasonal.

On Wednesday, SAGIS will release the **Weekly Grain Producer Deliveries** data for 26 November 2021. This data cover summer and winter crops. We only focus on summer crops for now and will switch to primarily winter crops when harvest gains momentum in the coming weeks. For summer crops, the focus is now on the planting activity for the 2021/22 production season, as we have indicated in the opening section of this note. Still, on the old season, on 19 November, 627 tonnes of soybeans were delivered to commercial silos. This placed the soybean producer deliveries for 38 weeks of the 2021/22 marketing year at 1,84 million tonnes, which equals 97% of the expected harvest of 1,89 million tonnes.

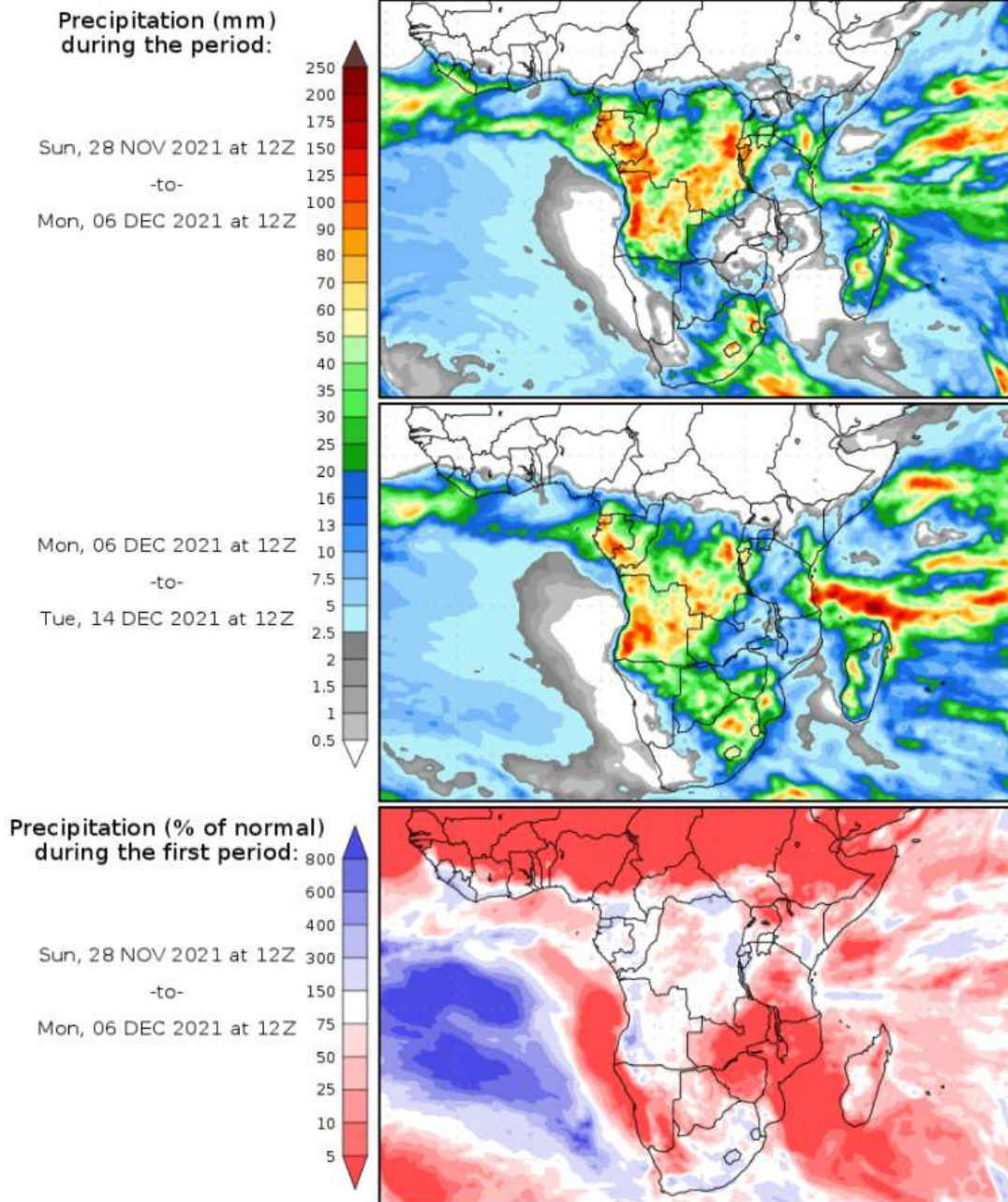
Moreover, 673 351 tonnes of sunflower seed for the 2021/22 season had already been delivered to commercial silos in the same week, out of the expected crop of 677 240 tonnes. In maize, the marketing year is different from oilseeds; we are still in the 29th week of the 2021/22 marketing year, which began in May. The producer deliveries currently amount to 14,3 million tonnes, equating to 88% of the expected crop of 16,2 million tonnes.

In terms of winter crops, 788 555 tonnes of wheat have already been delivered to commercial silos in the first eight weeks of the 2021/22 production season. This equates to 37% of the estimated harvest of 2,12 million tonnes.

On Thursday, SAGIS will release the **Weekly Grain Trade** data for the week of 26 November 2021. On 19 November 2021, which was the 29th week of South Africa's 2021/22 maize marketing year, total maize exports amounted to 2,17 million tonnes, equating to 63% of the revised seasonal forecast of 3,42 million tonnes (up by 16% y/y). South Africa is a net importer of wheat, and 19 November 2021 was the eighth week of the 2021/22 marketing year. The total imports are now at 337 556 tonnes out of the seasonal import forecast of 1,53 million tonnes (slightly above the 2020/21 marketing year imports of 1,51 million tonnes).

Exhibit 3: South Africa's precipitation forecast

Precipitation Forecasts



The weather forecast for the next two weeks shows prospects of widespread rainfall over South Africa.

This should help improve soil moisture and support the planting activity for the 2021/22 season and crops in areas that have already planted.

The key risk, however, in times of higher rains is hail. With that said, we don't foresee prospects of it thus far.

Source: George Mason University (wxmaps)