

SA is looking at an unusual, yet welcome, scenario of three successive rainy seasons

South Africa has not had three consecutive favourable agricultural seasons in a long time. The typical cycles are two seasons of large agricultural output followed by a notable decline on the back of dryness. The only periods in the recent past that had three successive years of conducive weather conditions and a large crop harvest were in the 2007/08, 2008/09, and 2009/10 production seasons. In this period, commercial maize production was over 12 million tonnes each year, averaging 12,5 million tonnes per year.

A sharp decline in the maize area, specifically in the 2005/06 production season, characterised the seasons prior. This was primarily caused by dryness and resulted in a lower harvest of 6,6 million tonnes in 2005/06 and 7,1 million tonnes in the 2006/07 production season. Other key summer crops such as sunflower seed and soybeans registered similar dips in production, especially in the 2006/07 season.

But the upcoming 2021/22 season is likely to be an additional period of a prolonged cycle of favourable weather conditions and good agricultural activity in South Africa. The 2019/20 and 2020/21 production seasons were characterized by ample rainfall, which supported agricultural activity in the country and led to large harvests. For maize, which we have already highlighted, this was the first time in history where South Africa's maize yields have surpassed 15 million tonnes in two succeeding seasons; at 15,3 million tonnes in 2019/20 and 16,4 million tonnes in the 2020/21 season. Other subsectors of agriculture, mainly horticulture, also recorded large production volumes in essential fruits such as citrus. The deciduous fruits and wine grapes also showed an improvement in output from the previous years' decline.

As we approach the summer crop planting season from October, the weather forecasts show strong prospects of above-normal rainfall in the 2021/22 summer season. At the end of July 2021, the South African Weather Service indicated that South Africa could experience another La Niña this summer, albeit weaker than in 2020/21. An important point to highlight here is that this would build on relatively higher soil moisture across the country following the 2020/21 season's La Niña rains. On 12 August, the International Research Institute for Climate and Society echoed a similar sentiment as the South African Weather Service, expecting a weak La Niña for the coming season.¹ Importantly, from September 2021 to January 2022, the La Niña probabilities are over 50% -- see the blue bars in Exhibit 1. These expectations suggest that the summer crop growing areas of South Africa could likely receive above-normal rainfall during this period.

Another important dynamic of a La Niña is that it could bring dryness for regions such as South America. We witnessed it in 2020/21 and the downward revisions on Brazilian and Argentinian grain production forecasts due to poor yields. A repeat of this scenario would mean that the preliminary forecasts of a large crop in these regions that the United States Department of Agriculture (USDA) and the International Grains Council (IGC) have recently

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¹ The International Research Institute for Climate and Society forecasts are available [here](#).

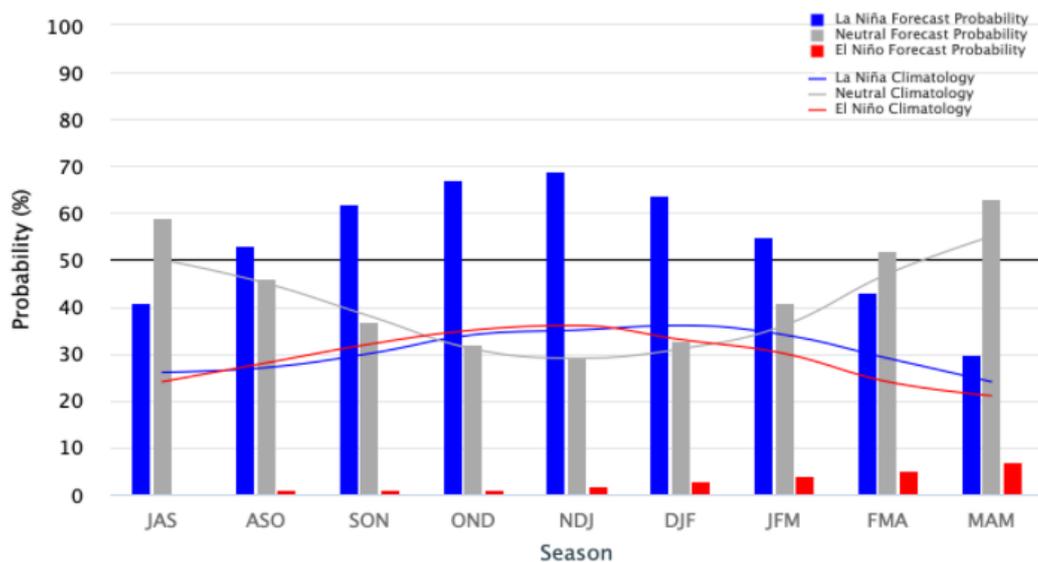
released would most likely be cut in the coming months.² Under such a scenario, the global grains prices would not fall notably in the coming months as we had previously expected (although they will probably remain at lower levels than at the start of 2021). Such price dynamics would spill over into South Africa's grain market, as had been the case for much of 2020 and this year. The price levels above the long-term average would incentivize farmers to maintain an area planning of just over four million hectares for summer crops as in the previous years (although there might be a switch between various crops depending on profitability).

Notably, farmers were already optimistic about the production conditions, as evident from the tractor sales. In the first seven months of this year, South Africa's tractor sales were 26% ahead of the corresponding period in 2020, with 3 934 units. However, it is worth noting that sales in much of last year were negatively affected by lockdown restrictions, so the base is slightly distorted. Still, 2020 was also a good year in South Africa's tractor sales, so surpassing it means we are witnessing some good momentum this year. In 2020, the tractor sales amounted to 5 738 units, up by 9% from 2019, supported by the large summer grains and oilseeds harvest in 2019/20.

The only challenge that farmers are contending with this season is rising input costs. In July, agrochemicals such as glyphosate, atrazine, acetochlor were respectively up by 151%, 30% and 24% from July 2020. Meanwhile, fertilizer products such as ammonia, urea, DAP, and KLC were up by 184%, 104%, 115% and 98%, respectively, from July 2020.

This means that the profitability margins of this year will be squeezed, and farmers should work on receiving higher yields in order to thrive. The rainy weather outlook presents a conducive environment for potentially higher crop yields in the 2021/22 season. All else being equal, we are looking at an unusual period of three consecutive favourable seasons for South Africa's agriculture, especially for field crops and horticulture. While this is positive for the sector, higher international commodity prices will keep input costs elevated for the livestock and poultry sector.

Exhibit 1: Early-August 2021 probabilistic ENSO forecasts (La Niña in blue bars)



Source: International Research Institute for Climate and Society at Columbia University

² The expected large harvest in these regions contributed to the expected record 2,3 billion tonnes of global grains in 2021/22 season. A change in their production conditions would also mean a downward revision from the global grains production estimates of the IGC and USDA.

Weekly highlights

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

This past week, IGC lowered its 2021/22 global grains production estimate by 12 million tonnes from July to 2,28 billion tonnes. Still, this is 3% up from the 2020/21 season. The downward revision was primarily on the back of more minor than previously estimated wheat and barley harvests in Canada, Russia and the US. We doubt if this specific downward revision will change the global food prices' downward trend in the past two months, as illustrated in the FAO Global Food Price Index in June and July. In the medium term, however, the expected La Niña could undermine the recovery in South America's grains production, and by extension, negatively affected the expected global harvest of 2,28 billion tonnes. We are unsure of the potential magnitude of a downward revision; although we believe it will be marginal, hence we maintain a view of a somewhat softening in global grains prices.

If we focus on specific major grains such as maize, IGC left its forecasts for the 2021/22 global maize production unchanged from July, at a new peak of 1,20 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, down marginally by 2 million tonnes from July 2021. Still, this is 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. Wheat production forecast, however, was lowered by a significant volume of 6 million tonnes from July to 782 million tonnes. This is still up by 1% y/y due to expected large yields in the EU, Ukraine and Argentina. Positively, IGC lifted its forecast for the 2021/22 global rice production marginally from July to 512 million tonnes, up 1% y/y. This is on the back of possible expansions in area plantings in Asia, combined with expected better yields.

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 grain prices.

South Africa's agricultural employment rebounds in Q2, 2021

As highlighted in our note last week; after falling to the lowest levels since 2014 in the first quarter of this year, 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 under way, 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.

From a regional perspective, except for the Western Cape and Mpumalanga, agricultural employment increased in the second quarter of 2021 compared with the corresponding period in 2020. Again, this can be explained by the need for more labour during a harvest period of a bumper crop. The decline in employment in the Western Cape can be explained by the fact that the province' wine and wine grape industry was hard hit by the lockdown

regulations at various intervals in 2020 and this year. While the second quarter of this year's 185 000 jobs in the Western Cape is not at its lowest compared to the first quarter's 136 000, it is still well below the five-year average of 209 000 jobs. For Mpumalanga, it is unclear what might have led to an 11% y/y decline in agricultural employment as the province had a vibrant field crop and horticulture season, both of which are generally labour-intensive. Perhaps the decline in forestry and game industry jobs might explain the province's farm labour dynamics.

Overall, the employment data remain of interest following the 16,1% increase in the farm minimum wage to R21,69 per hour with effect on 1 March 2021. At the time of its publication, various commodity groups indicated that the increase in the minimum wage would cause a further squeeze on cash flow and negatively influence hiring decisions. But, the actual effects of the current minimum wage increase on jobs will only be apparent with a lag. We will continue to monitor the data. Fundamentally, the agricultural economy is on a solid footing for a second consecutive year. In 2020, the sector's gross value added expanded by 13,1% y/y. This year will likely also be another year of good performance, with the Bureau for Food and Agricultural Policy (BFAP) forecasting a 7% y/y growth.

Exhibit 2: South Africa's agriculture employment



Source: Stats SA and Agbiz Research

Data releases this week

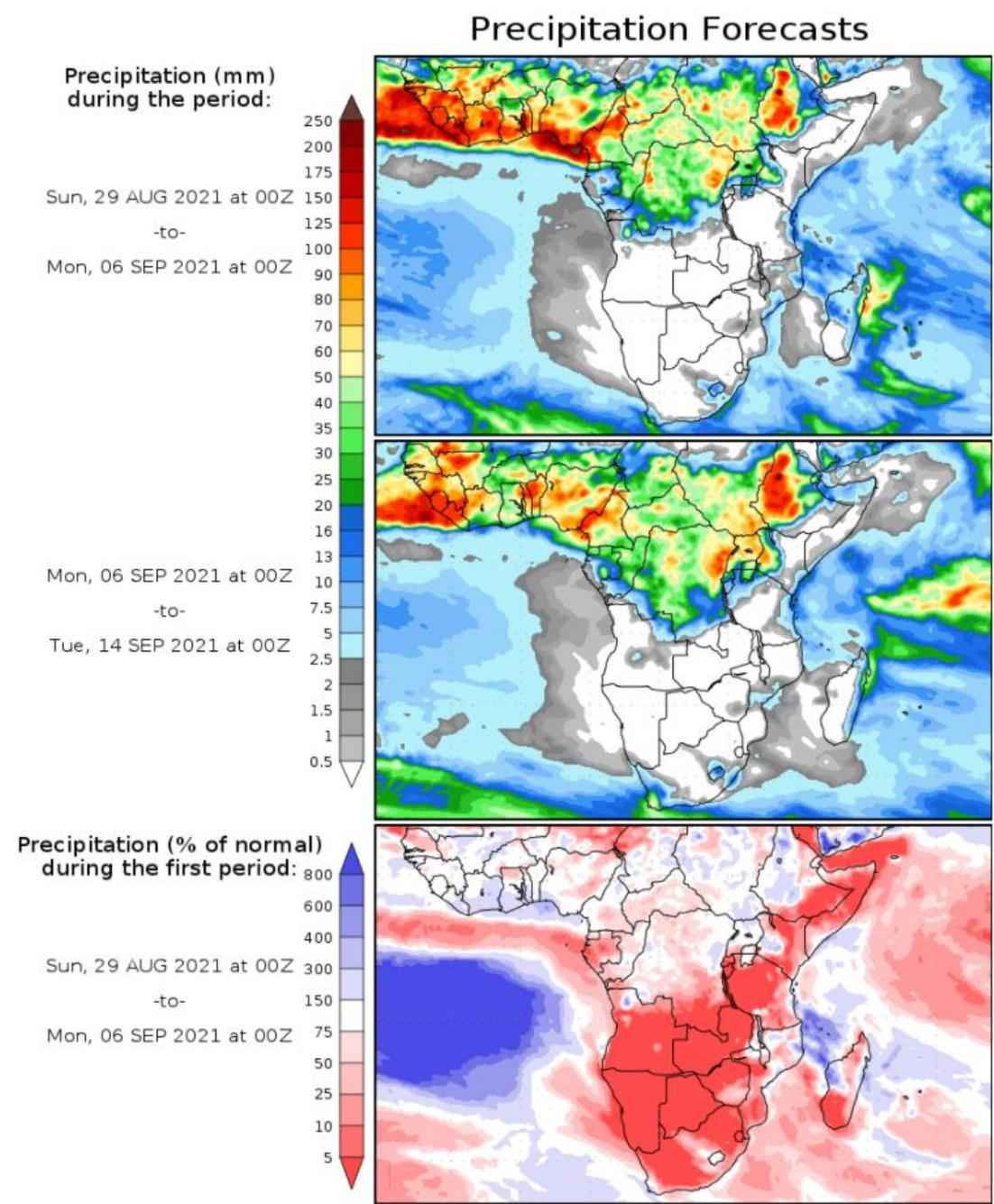
As always, we start the week with a global focus, and today the USDA will release the **US Crop Progress** report for 29 August 2021. In the previous report of 22 August, the US maize crop was rated 60% good/excellent, which is well below the last year's rating in the same week of 64%. In the same week of 22 August 2021, the US soybean crop was rated 56% good or excellent, which means the crop is poorer than the same time last year when the rating was 69%. Essentially, these results reflect the drier weather conditions that parts of the US have experienced these past few weeks. On Thursday, the USDA will release the **US Weekly Export Sales** data. Over the past week, China continued to buy large US soybeans for its recovering pig industry.

On the domestic front, we have a first data release on Wednesday from SAGIS, the **Weekly Grain Producer Deliveries** for 27 August 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 20 August, about 1 247 tonnes of soybeans were delivered to commercial silos. This placed the soybean producer deliveries for 25 weeks of the 2021/22 marketing year at 1,81 million tonnes, which equals 94% of the expected harvest of 1,92 million tonnes. Moreover, 662 527 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 sixteenth week of the 2021/22 marketing year, which began in May. The producer deliveries currently amount to 13,5 million tonnes, equating to 82% of the expected crop of 16,4 million tonnes.

On Thursday, SAGIS will release the **Weekly Grain Trade** data for the week of 27 August 2021. In the week of 20 August, which was the fifteenth week of South Africa's 2021/22 maize marketing year, total maize exports amounted to 1,2 million tonnes, which equates to 48% of the seasonal forecast of 2,7 million tonnes (down by 7% y/y). As set out in our previous note, the decline in South Africa's maize export forecast is because of an anticipated decline in Southern Africa's demand on the back of an improvement in the region's supplies. In terms of wheat, South Africa is a net importer. On 20 August, imports amounted to 1,4 million tonnes, equating to 88% of the seasonal import forecast of 1,6 million tonnes.

Exhibit 3: South Africa's precipitation forecast



The weather forecast (Exhibit 3) for the next two weeks shows clear skies over most regions of South Africa. This is not a major issue at this point as the planting season, which requires rains only begins in October, and the rainfall prospects are positive as we have highlighted at the start section of this note.

Also worth noting is that the second week of September could bring rains over the Western Cape, which bodes well for winter crops.

Source: George Mason University (wxmaps)