

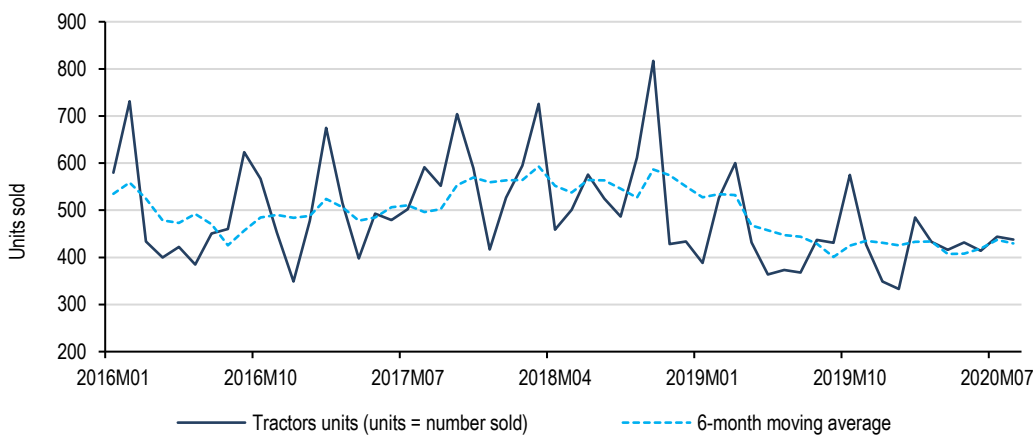
SA agriculture machinery sales on a firm footing in August 2020

South Africa's tractor sales maintained the positive path in August 2020, which has been underway since June, although showing a marginal increase of 0.2% y/y, with 430 units sold (Exhibit 1). Meanwhile, there were 13 units sold of combine harvesters compared to no sales in August 2019. This is still boosted, to a certain extent, by improved farmers' financial position following a large summer grains harvest in 2019/20 production season and combined with relatively higher commodity prices. As we highlighted in the previous notes, South Africa's 2019/20 maize, sunflower seed, and soybeans produced are up 38% y/y, 16% y/y and 8% y/y, estimated at 15.5 million tonnes, 785 910 tonnes and 1.3 million tonnes, respectively.

The available data for the first eight months of the year already show that the agricultural machinery sales performance will be much better than we anticipated at the start of the year, in part, because of the aforementioned large harvest. Nevertheless, we are still hesitant about the robustness of the sales in 2021, irrespective of the expected higher rainfall which should help bring another good harvest.

We think South Africa's agricultural machinery industry will be pressured by the weak exogenous macroeconomic fundamentals going into 2021. First, the weaker domestic currency will lead to higher prices for imported agricultural machinery, which will reduce farmers' ability to acquire tractors and combine harvesters. Second, the further downgrade of South Africa's sovereign credit rating to the sub-investment grade could negatively influence the financing of agricultural equipment. Lastly, a year of relatively good sales is likely to be followed by a subdued period as the rate of replacement of machinery with new ones would ordinarily be lower than the previous years.

Exhibit 1: South Africa's tractor sales



Source: South African Agricultural Machinery Association (SAAMA), Agbiz Research

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