

## SA's large maize harvest might not lead to a notable decline in prices in the near term

Last week, the South African Crop Estimates Committee (CEC) mildly lifted its forecast for 2020/21 maize, soybeans and sorghum from the March 2021 estimate to 16,1 million tonnes (up 5% y/y – the second-largest harvest on record), 1,8 million tonnes (up 44% y/y, a record harvest), and 189 885 tonnes (up 20% y/y), respectively. Meanwhile, sunflower seed and groundnut production estimates were left unchanged from March 2021, at 696 290 tonnes (down 12% y/y) and 57 900 tonnes (up 16% y/y), respectively. The dry beans were the only crop whose estimates were slashed by 9% from March 2021 to 56 577 tonnes (down 13% y/y).

We generally share the CEC's assessment in these estimates, except for maize, where we have long held a more optimistic view. The feedback we continue to receive from farmers as harvesting picks up momentum is that maize yields are generally good in several areas across the country. Hence, we are inclined to believe that the CEC could still adjust its maize production estimate upwards in the coming months. Our view has been that South Africa's commercial maize production estimate could reach 16,7 million tonnes this year. Others such as the Bureau for Food and Agricultural Policy's estimated 17,0 million tonnes. The current maize production data essentially mean that South Africa would remain a net exporter in the 2021/22 marketing year, starting this month, 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 2,8 million tonnes of maize available for export markets, all else being equal.

As in the previous month, we believe that when harvesting gains momentum, the expected large harvest could also add downward pressure on domestic maize prices, although marginal because the higher global maize market remains supportive of domestic prices. Such a supportive environment is clear on the maize spot prices which are up notably from last year. On 29 April 2021, South Africa's yellow and white maize spot prices were up by 32% y/y and 23% y/y, trading at R3 393 per tonnes and R3 238 per tonne, respectively. Over the same period, the US maize prices were up by 107% y/y US\$296 per tonne. The firm Chinese maize demand, rising concerns for Brazil's maize crops due to drought, very dry soils in Canada where planting is about to start, as well as dryness in parts of the US, are amongst the factors driving the increase in global maize prices, which are now at highest levels last seen in 2013.

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. Southern Africa's demand will soften this time around as the region is expecting a large harvest, across all major maize-consuming countries. The domestic currency has also firmed of late. The only major upside driver of domestic maize prices is the rally in global maize prices, regardless of large domestic supplies.

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 remains a net

04 May 2021

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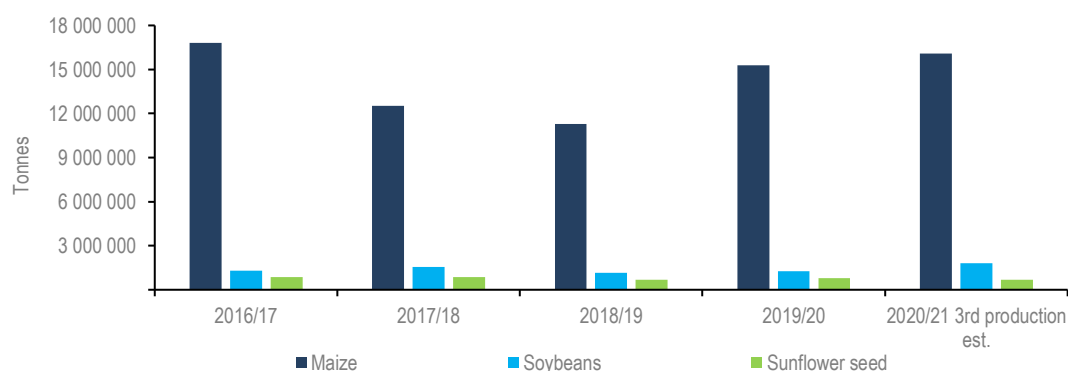
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importer of soybean meal (although this volume will fall notably this year on the back of the large domestic harvest from the usual half a million tonnes a year imports). Hence, global soybean market dynamics will continue to influence local prices. On 29 April 2021, the domestic soybean spot price was up 10% y/y, trading around R7 175 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. Nevertheless, domestic grain prices will likely not be reflective of the expected large harvest because of generally higher global grains prices, which continue to support the domestic market. Our rough calculations using high-frequency data show that the correlation between domestic and international maize prices remains positive, about 60% for white maize and 85% for yellow maize. This means as the global maize markets show an increase, domestic maize prices tend to also rise.

### Exhibit 1: South Africa's major summer grain and oilseeds production

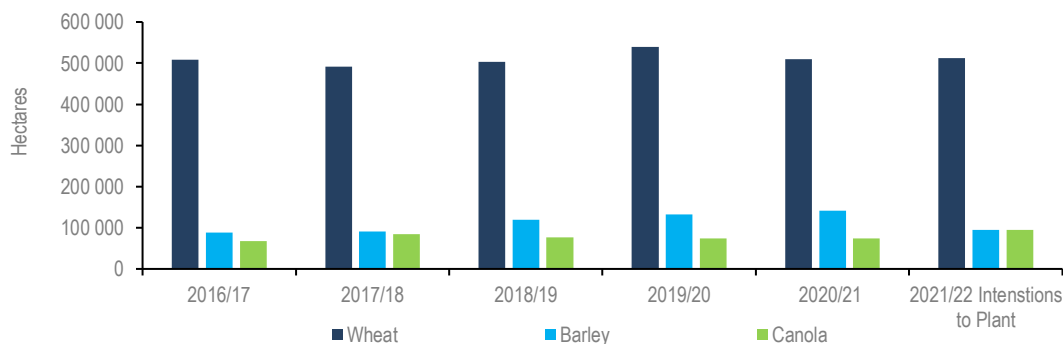


Source: CEC and Agbiz Research

### Farmers' intentions to plant winter crops paint a mixed picture

The CEC also released the farmers' intentions to plant winter crops. As we expected after a large crop and glitches caused by the alcohol ban, there is pessimism about barley plantings. South African farmers intend to reduce barley plantings in the 2021/22 season by 33% to 95 000 hectares, which would be the smallest area since the 2017/18 production season. The decline in barley planting will likely be taken up by canola and oats, whose area plantings are set to increase by 28% y/y and 325 y/y, respectively, to 95 000 hectares and 34 500 hectares. For canola, this would be the largest area since the 2014/15 season, while for oats, this will be a record area planting. For wheat, the 2020/21 planting intentions are at 512 500 hectares, up by 1% y/y. The planting activity has started in canola areas of the Western Cape, but still at initial stages. The region currently needs rain to replenish soil moisture and for plantings to gain momentum.

### Exhibit 2: South Africa's winter crop planting estimates



Source: CEC and Agbiz Research