

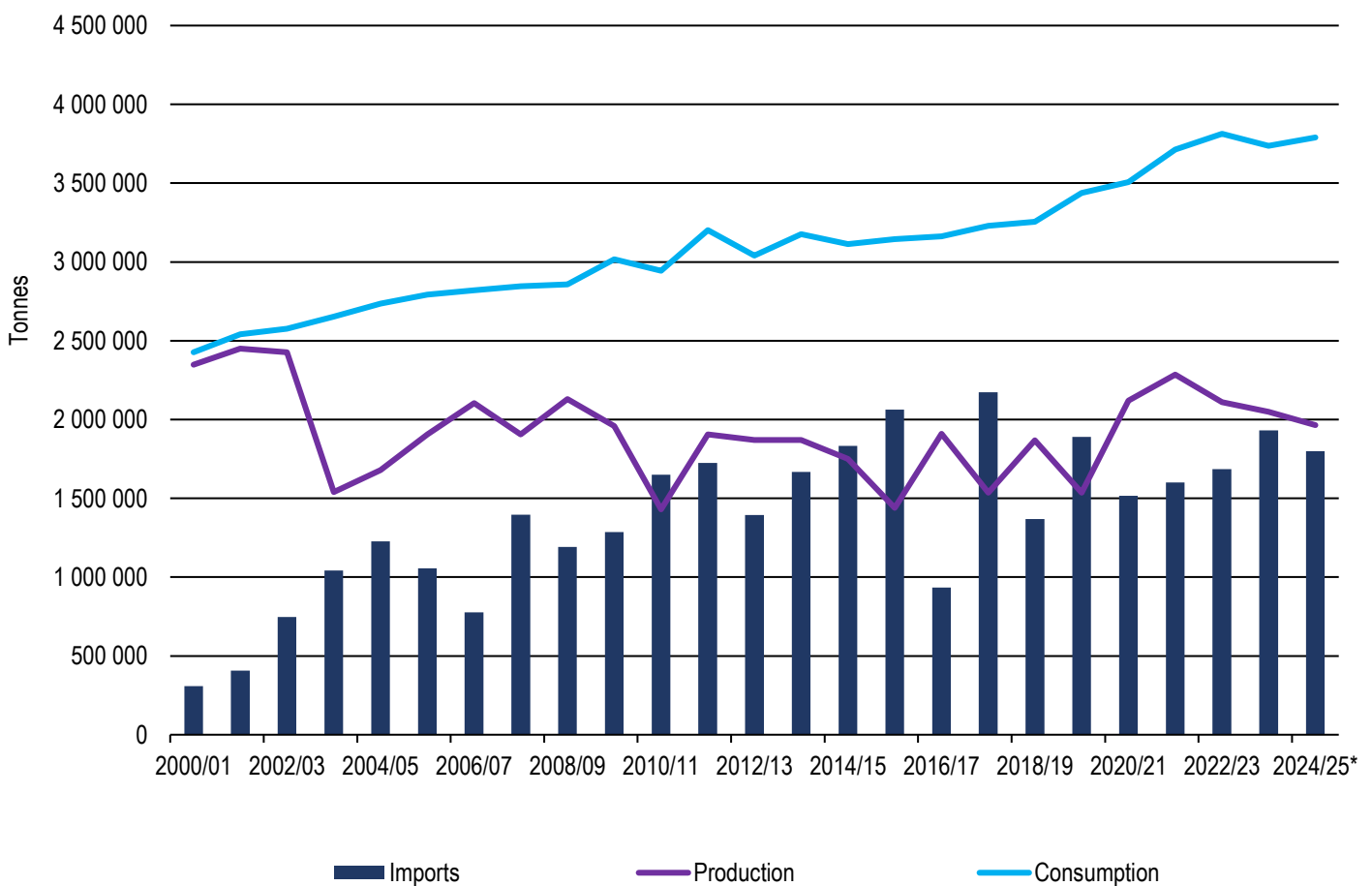
The market dynamics of the South African wheat industry

- At the end of September, South Africa closed its 2023-24 marketing year for wheat. We had a decent harvest of 2,05 million tonnes during the season, just above the five-year average harvest of 1,98 million tonnes. South Africa achieved this harvest despite a challenging production season. For example, the Western Cape, which produces nearly two-thirds of South Africa's wheat crop, suffered heavy floods in September 2023 of the previous season, which, at the time, had raised fears of potential significant crop losses. But the wheat fields recovered towards the end of the year and subsequently delivered a decent crop.
- Still, because of the mild uptick in consumption, South Africa's decent wheat production of 2,05 million tonnes did not imply that imports would be stable. Quite the opposite, the imports increased by 15% from the previous season to 1,93 million tonnes in the 2023-24 season. By the end of September 2024, much of the imported wheat also helped to stabilize the stocks and even boosted the opening stocks for the new season. At the start of the 2024-25 wheat season, the opening stock was 753k tonnes, up 34% from the previous season. These relatively large opening stocks boost the 2024-25 season supply.
- While the 2024-25 winter crop season started on a better footing than the previous one for the Western Cape, it will likely yield a slightly lower harvest. The Crop Estimates Committee forecasts South Africa's wheat crop for the 2024-25 season to be 1,96 million tonnes, down 4% from the previous season. The crop losses are not in the Western Cape, the major wheat producer. The Western Cape expects a larger harvest this season than the 2023-24 season. The challenge is the poor harvest in other major producing provinces, primarily the Northern Cape, Limpopo, and the Free State. These provinces have reduced area plantings for wheat this year. The relatively lower wheat prices at the start of the season may be one of the factors behind the decision to slash plantings.
- However, the challenge for the Free State and Limpopo is beyond the prices. These provinces experienced severe mid-summer drought, which led to significant summer grain losses. When the winter wheat season started in May, farmers' mood was downbeat, and they worried about soil moisture. Others may have wanted to conserve soil moisture for the new summer crop season. Thus, we saw lower plantings and relatively lower expected yields in some areas. These challenges have contributed to the 4% expected national decline in the 2024-25 South African winter wheat harvest.
- In a season like this with a reasonably expected lower harvest, one would assume that the imports would increase, especially as the consumption of wheat and wheat products in South Africa remains strong. However, the latest South African Grain and Oilseeds Supply and Demand Estimates Committee estimates suggest that 2024-25 wheat imports may fall 7% to 1,80 million tonnes. This will be closely aligned with a five-year average of wheat imports to South Africa. The major boost is the higher opening stocks, supplemented by the ample imports in the past season. In a way, one could argue that South

African importers took advantage of global wheat imports' relatively better prices in the past few months to build supplies for this new season.

- We are still relatively early in the 2024-25 production season. However, the crop conditions look favourable in most regions of the country. Thus, we are optimistic that the expected harvest may materialize. If anything, we could even see slight upticks in the expected harvest. At the end of October, the Crop Estimates Committee had slightly lifted the 2024-25 South African wheat production forecast by 1% from the previous estimate to the expected 1,96 million tonnes.
- Overall, the 2024-25 season imports will likely account for 47% of South Africa's annual wheat consumption. The sourcing of imports should not be a challenge. There are sizeable global wheat supplies. The International Grains Council forecasts the 2024-25 global wheat production at 798 million tonnes, the second largest on record. This also implies that the global wheat prices could remain reasonably moderate for much of the coming months, thus benefiting importing countries such as South Africa.

Exhibit I: South Africa's wheat market



Source: CEC, SAGIS and Agbiz Research