

# **The recent sharp price increases in South Africa's white maize shouldn't be a worry: a temporary market blip**

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## Overview

In times of uncertainty, as we are in during COVID-19 and a 21-days lockdown in South Africa, any unusual rise in prices of goods which society relies on the most can be discomfoting. This is particularly the case with South Africa's staple white maize prices, which on 23 March 2020 reached the highest levels last seen in 2016, which was a drought period, at R3 981 per tonne. The question some might be confronted with is whether such price moves should be a concern to the extent that policymakers might need to intervene in the market by setting a price cap? The short answer is no. Temporary price fluctuations are largely a result of currency volatilities and Zimbabwe's entrance back into the market after the ban on GMOs was lifted. These volatilities will self-correct, as a new supply of maize hits the market. It appears that the demand spike in Zimbabwe and the COVID-19 crisis were coincidental, and the latter has little bearing on the observed market movements beyond the effects on the exchange rate. Ultimately, we conclude interventions are not needed to curb white maize price volatilities.

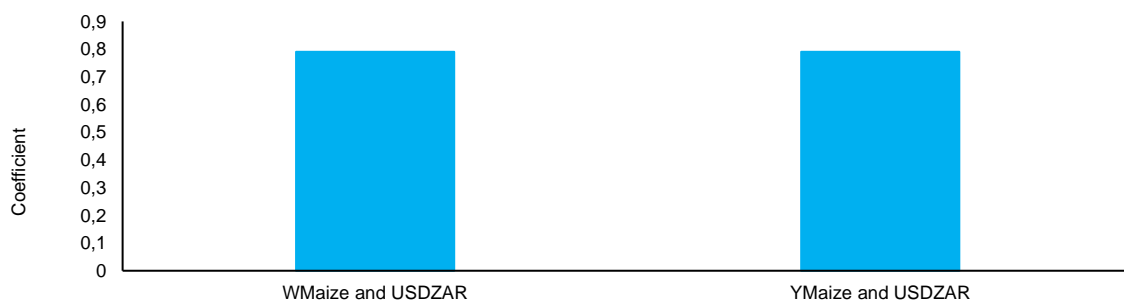
## Maize price evolution

The 23rd of March 2020 was extraordinary in the South African maize market. White maize prices increased by 24% overnight to R3 981 per tonne, a price level last seen in 2016. Coincidentally, this was a day President, Cyril Ramaphosa, had announced that the country would have 21-days lockdown as a way to curb the spread of COVID-19. Such price shifts in times of uncertainty would be viewed by some as "suspicious behaviour" by market players. However, there are unique factors that resulted in the moves in the white maize market. These are:

- 1) the weakening of the South African Rand against the US Dollar (USDZAR), and
- 2) rising demand from the region, primarily Zimbabwe, amongst other factors.<sup>2</sup>

Firstly, the movement in maize market prices is closely related to the exchange rate shift. Data shows that the correlation between maize prices and exchange rate over the past year is 79%. This means as the currency weakens, the maize prices tend to rise. Simply put, this means for every one-percentage movement in the Rand against the US Dollar, the South African maize prices move by 15% (see Exhibit 1). The Rand is currently undervalued because of the rapid rise in COVID-19 cases.

**Exhibit 1: High frequency (daily) correlation between maize prices and USDZAR**

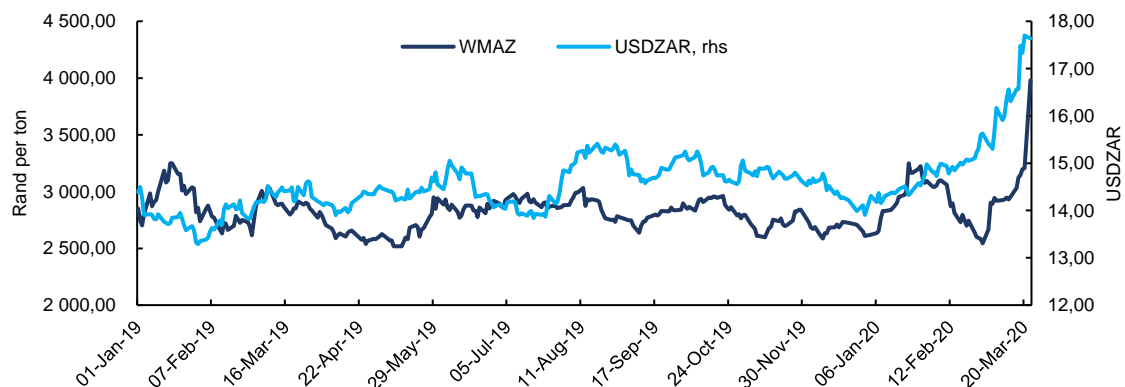


Source: JSE, Bloomberg and Author's calculations

<sup>2</sup> These include the fact that 23 March 2020 was an expiry date for a March contract month on JSE.

To corroborate the view expressed in forgoing Exhibit 1, here we further show that the weaker Rand is partly to blame for the maize price upsurge (Exhibit 2).

**Exhibit 2: White maize price and USDZAR**



Source: JSE, Bloomberg, Agbiz Research

Secondly, Zimbabwe suffered from the 2018/19 drought which was preceded by a cyclone, and this halved country’s maize harvest to 800 000 tonnes. This level of output is less than half of Zimbabwe’s consumption needs.<sup>3</sup> As expected, the country had to import roughly a million tonnes of maize to supplement the local supplies. The unique circumstances of Zimbabwe’s food security situation forced the country’s lawmakers to lift the ban on the importation of genetically modified maize imports.<sup>4</sup>

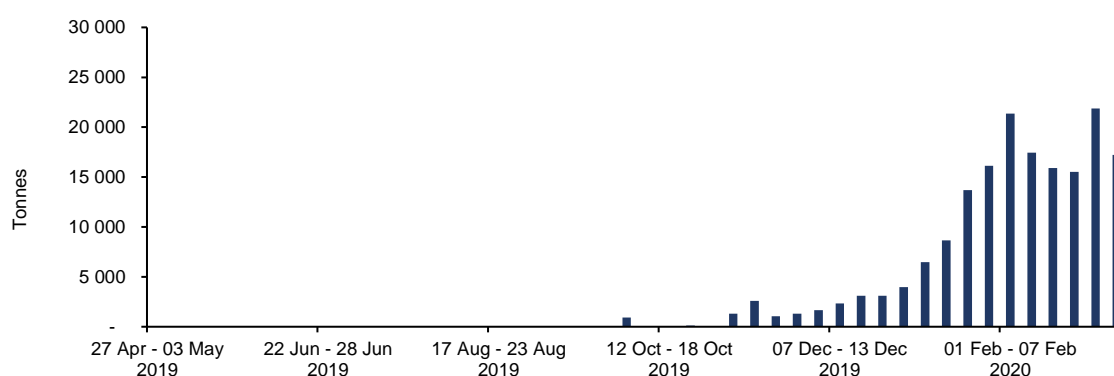
South Africa’s maize surplus, coupled by Zimbabwe’s revised GM policies, inevitably positioned the former to supply the latter. What was perhaps less obvious, was the pace at which Zimbabwe procured maize imports. A “fast lane” was established at Beitbridge border post to facilitate urgent maize supplies from South Africa into Zimbabwe in February 2020, and a drastic increase followed maize exports to Zimbabwe followed thereafter. The spike is illustrated in Exhibit 3 below.

As of 13 March 2020, Zimbabwe was by far the largest export market for South Africa’s white maize in the 2019/20 marketing year, accounting for 21% of the exported 857 147 tonnes. Trailing Zimbabwe was Botswana, with 19% and Namibia, with 18%. With that said, it is worth noting that the volume of white maize exported thus far is still below the expected total white maize exports for the 2019/20 marketing year of 1.1 million tonnes (marketing year ends in April 2020).

<sup>3</sup> Zimbabwe consumes about 2.0 million tonnes of maize a year.

<sup>4</sup> Sihlobo, W., 2020. “Zimbabwe’s decision to lift a ban on GM maize imports could benefit South Africa in the near term”. Available here: <https://wandilesihlobo.com/2020/02/08/zimbabwes-decision-to-lift-a-ban-on-gm-maize-imports-could-benefit-south-africa-in-the-near-term/>

### Exhibit 3: South Africa's weekly white maize exports to Zimbabwe



Source: SAGIS, Agbiz Research

### The path ahead for South Africa's maize prices

The price increases we saw will be short-lived. Already, there was a market correction on 25 March 2020, which saw white maize prices falling by 26% (to R2 940 per tonne), which is back to levels seen in the days leading to the spikes of 23 March 2020.

The most fundamental point to make is that the supply of maize in the South African market remains stable. We expect a commercial maize harvest of 14.8 million tonnes<sup>5</sup> (about 16 million tonnes, if both commercial and non-commercial volumes are taken into account).<sup>6</sup> This is against South Africa's annual consumption of approximately 11.4 million tonnes.

South Africa's domestic white maize market, whose prices have increased notably, could see consumption reaching 6.6 million tonnes in the 2020/21 marketing year, against the production of 8.5 million tonnes. Meanwhile, yellow maize consumption is estimated at 4.8 million tonnes, against an output of 6.3 million tonnes. This data clearly shows that South Africa has more than enough maize in the marketing year, which begins in May 2020 and ends in April 2021. The country will have at least 2.4 million tonnes available as an exportable surplus.

Therefore, prices could pull back as soon as early producer deliveries come into the market to replenish stocks. We believe this could be towards the end of April 2020. Prices could then decline further towards long term average levels of around R2 400 per tonne or below. Ordinarily, with the second biggest maize harvest on record expected, maize prices would be expected to fall to levels below R2 000 per tonne. However, we doubt this will be the case due to a weakening of the Rand to the US Dollar (refer to the discussion above about the exchange rate influence). If maize prices remain at current levels for at most than a month, as we suspect, there should

<sup>5</sup> This is on the 2<sup>nd</sup> production estimate released on 25 March 2020 by the Crop Estimates Committee.

<sup>6</sup> These data are from both the Crop Estimates Committee and the United States Department of Agriculture. The market analysts forecast a commercial harvest of 14.1 million tonnes, which is contained here: <https://www.nasdaq.com/articles/south-africas-maize-harvest-expected-to-be-33-higher-than-last-season-2020-03-25>

be a minimal inflation pass-through to the consumer. This means the South Africa consumer will not necessarily be disadvantaged by the current volatility.

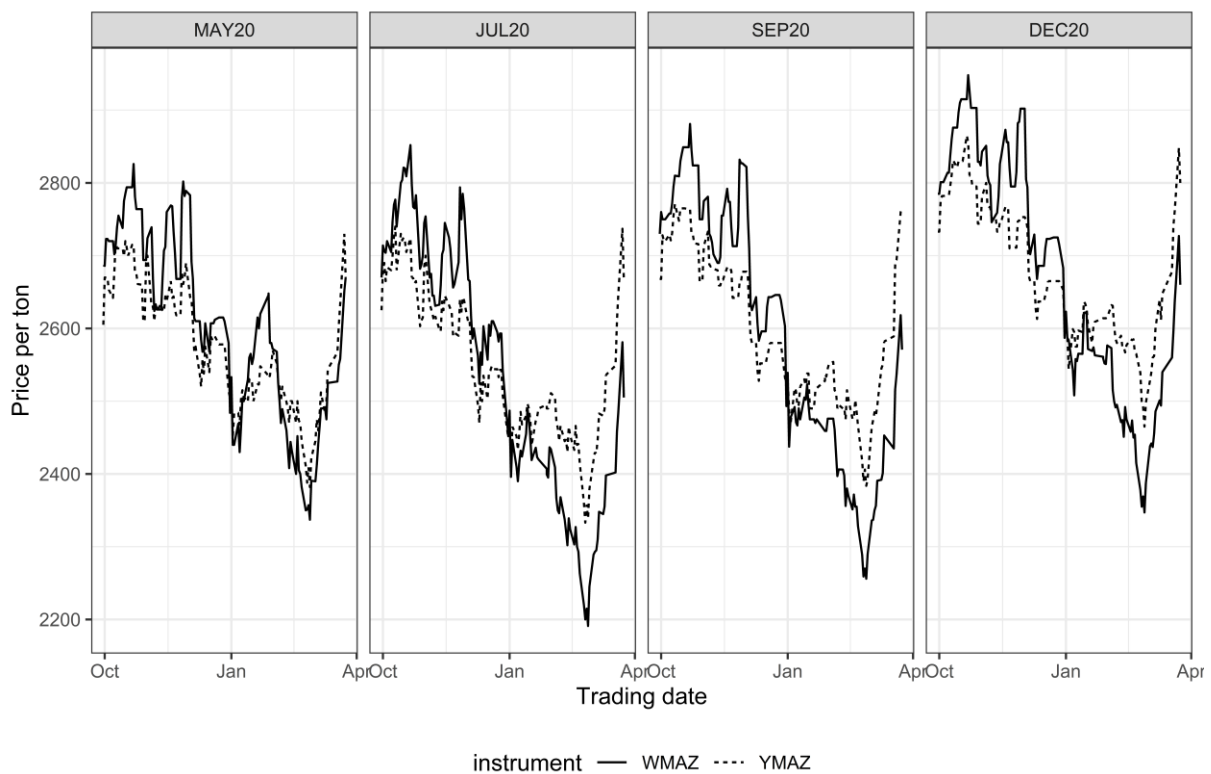
### Policy considerations

Against this backdrop, our preference would be that policymakers monitor these (white) maize price movements over the next two weeks, and there shouldn't put any regulatory measures in place. We believe that there has been a market correction, and the price increases observed were a temporary blip.

### Appendix

Given ample supplies in the South African maize market, futures contract maize prices movements ranged between R2200/tonne and R2950 per tonne.

**Exhibit 3: South Africa's futures prices for white and yellow maize**



Source: SAFEX, Agbiz Research