What to make of the latest USDA report?

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If the U.S. maize crop was at an advanced stage of growth, the latest U.S. Department of Agriculture (USDA) report would have convinced us that the supplies will be in better shape than initially feared. Last week, the agency lifted its estimate for U.S. maize production by 1% from June 2019 to 352 million tonnes. This improvement, coupled with an uptick of the Black Sea's production estimates led to a 1% increase in the 2019/20 global maize production estimate to 1.1 billion tonnes. This would, however, still be 2% less than the 2018/19 harvest.

But the crop is not yet at an advanced stage of development, and the production estimates could change notably in next month's update report. On 07 July 2019, only 8% of the U.S. maize crop was at the silking stage of growth, compared to 34% in the corresponding week in 2018, and a five-year average of 22%. This is a result of late plantings in most parts of the U.S. due to excessive wet weather conditions in the past few weeks.

The excessive rains did not only slow plantings but also increased a chance of poor yields in the U.S. On this end, we continue to monitor the developments through the USDA's Weekly Crop Conditions report. On Sunday, 07 July 2019, only 57% of the U.S. maize was rated as being in good or excellent growing conditions, compared with 75% in the corresponding period in 2018. This alone tells us that the U.S. maize crop is not in good condition.

As we pointed out in our note last week, for South African maize farmers and maize-users, developments in the U.S. market are important and have strong influences on our local market, which is generally linked to the global agricultural markets.

The other crop that we are viewing from the same lenses as maize is soybeans. But, unlike maize, the U.S. soybean production estimate was revised down by 7% from June 2019 to 104 million tonnes. This contributed to an overall 2% month-on-month decline in global soybean production estimate to 347 million tonnes. Moreover, global soybean production is 4% lower than the 2018/19 season. It is not only the U.S. that is contributing to the decline in global soybean harvest, but also Argentina owing to the expectations of poor yields.

Similar to maize, we cannot take the soybean production numbers as an absolute indication of what is likely to transpire at the end of the season because the crop is still at its early stages of growth. This is also due to a late start of the season on the back of excessive moisture. In the week of 07 July 2019, the U.S. soybean crop hadn't even completely emerged. About 90% of soybeans had emerged compared to 100% on 07 July 2018. Of the crop that had emerged, only 10% of it was blooming compared to 44% on 07 July 2019. In terms of crop-growing conditions, data from the USDA shows that 53% of the soybean crop was rated good or excellent, compared to 71% in the corresponding period in 2018.

While South Africa is not a major importer of soybeans, developments in the global soybean market do influence the local market and prices of soybean by-products. The most notable one is soybean oilcake, of which South Africa imports on average about half a million tonnes a year. Over the coming weeks, we will closely monitor the crop-growing conditions in the U.S. maize and soybean fields in order to ascertain the impact on global supplies. To this end, an important report to keep an eye is the USDA's August 2019 issue of the World Agricultural Supply and Demand Estimates report which will be released on 12 August 2019.

Poor maize yields in the North West province of SA

Crop yields are lower than expected in North West

We are concerned about the maize yields in North West. Our recent interaction with farmers in areas that have recently harvested within the province points to lower than expected yields. Farmers in areas around Lichtenburg report maize yields of about 2.2 tonnes per hectare, compared to expectations of the average yield of 3.4 tonnes per hectare across the province.[1]

While it is still early to make a pronouncement on the province's maize fortunes, if yields would average at levels lower than the Crop Estimates Committee's 3.4 tonnes per hectare for the province, then South Africa's overall maize expectations of 10.9 million tonnes would have to be lowered somewhat. This would largely be on white maize which is predominantly produced in North West. For perspective, the North West is a key contributor to South Africa's maize production, accounting for an average of 15% to the country's maize.

Roughly 48% of South Africa's maize has already been harvested

If we look beyond North West, the maize harvest process is underway in most parts of South Africa. As set out in our note last week, the data point that gives a good sense of the area harvest thus far is SAGIS's producer deliveries data which is updated every Wednesday.

The available data suggests that about 48% of South Africa's maize had already been delivered to commercial silos in the week of 05 July 2018.[2] Over two-thirds of this is yellow maize, due to the fact that the eastern parts of South Africa where yellow maize is predominantly grown experienced relatively good weather conditions which permitted plantings at the start of the season. Meanwhile, white maize, which is mainly produced in the western regions of South Africa is still at the early stages of harvesting due to late plantings.

Overall, there is likely to be good progress in harvesting over the next couple of weeks across the country, with minimal interruptions from the weather front. The weather forecast for this week shows clear skies over maize-growing areas of the country, as illustrated in Figure 2.

White and yellow maize prices are up by 40% y/y and 34% y/y respectively

In terms of pricing, both white and yellow maize traded sideways over the past few days. The ongoing harvest process has had minimal impact on prices. On 11 July 2019, yellow and white maize prices traded at R2 899 per tonne and R2 789 per tonne, respectively up by 40% and 34% from the corresponding period last year (Figure 1).

Figure 1: South Africa's maize prices

Source: JSE, Agbiz Research

[1] In the 20117/18 production season, North West average maize yields were at 4.4 tonnes per hectare, and the five-year average yield, up to 2017/18, is 3.7 tonnes per hectare (swayed down by the yield levels of the drought years).
[2] If we add early deliveries for March and April 2019, which equals to 266 943 tonnes to the 4.7 million tonnes of maize deliveries as of 05 July 2019, and subtract 550 000 tons of on-farm maize usage from the maize production estimate of 10.9 million tons, about 48% of South Africa's maize crop has been harvested

Data preview

This is a quiet week on the agricultural data front. On the domestic front, there are two important data points; on Wednesday SAGIS will release the grain producer deliveries data and weekly grain trade data on Thursday.

We have discussed the producer deliveries in the prior section of this report, specifically maize. From a grain-trading perspective, the data will mainly be for maize and wheat. In terms of maize, this week's data will show activity for the week of 12 July 2019, which is the eleventh week since the start of the 2019/20 marketing year. The first ten weeks' exports amounted to 190 531 tonnes. We expect South Africa to remain a net exporter of maize in the 2019/20 marketing year, although the volume will most likely fall by half from the previous year to about 1.1 million tonnes. This is under the assumption that domestic maize production could amount to 10.9 million tonnes.

At the same time, we expect imports of about 450 000 tonnes, all yellow maize, mainly for the coastal provinces of the country. This is up from an estimated 171 500 tonnes in the 2018/19 marketing year. The country has thus far imported 66 308 tonnes of yellow maize, all from Argentina.

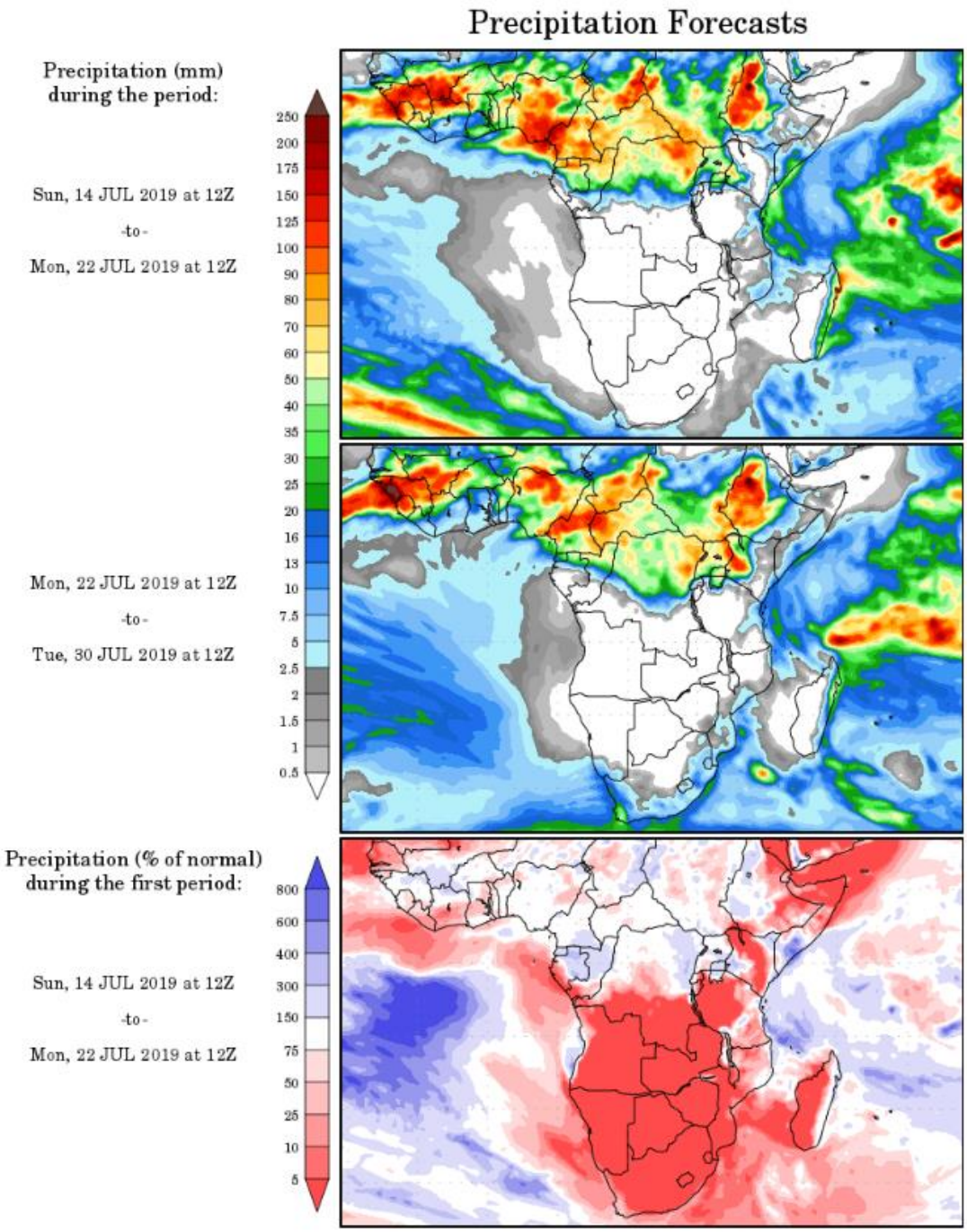
While South Africa will be a net exporter of maize in the 2019/20 marketing year, there will be imports of around 450 000 tonnes. This will all be yellow maize

In terms of wheat, South Africa remains a net importer, although the recovery in the country's 2018/19 domestic wheat production will lead to a decline in imports this season. South Africa's 2018/19 wheat imports could fall by 36% from the previous season to about 1.4 million tonnes. So far, the country has imported about 62% of the seasonal forecast. The leading suppliers have been Germany, Russia, Lithuania, Canada, Czech Republic, the U.S. and Latvia, amongst others.

Aside from local data releases, on Tuesday we will keep a close eye on the budget vote speech in Parliament from the Minister of Land Reform, Agriculture and Rural Development.

On the global front, this will be a quiet week with the only key data release being the U.S. Crop Progress report, which will be released by the USDA in the evening today (Monday). This particular report will give us a sense of the crop conditions there, and also an indication of the potential yields in the U.S., as explained in the introductory section of this note.

Figure 2: South Africa's precipitation forecast



Source: George Mason University (wxmaps)

The weather forecast for this week show clear skies over the summer crop growing areas of the country which should support the harvest activity

Fortunately, the week of 30 July promises rainfall in the Western Cape province which will be supportive of winter crops – wheat, barley and canola

Key Data Releases in the Agricultural Market:

- U.S. Crop Progress report: 15/07/2019
- SAGIS producer deliveries data: 17/07/2019
- SAGIS weekly grain trade data: 18/07/2019
- SAGIS monthly data (grains stocks data, consumption, etc.): 25/07/2019
- National Crop Estimates Committee's monthly data: 25/07/2019