

Why April is a critical month for SA winter and summer crops

April is an important month in South Africa's agricultural sector, especially for field crops. Later this month, farmers in the Western and Northern Cape, Free State, Limpopo and other winter crop growing regions will start preparing the land for 2023/24 winter wheat, canola, barley and oats production. For now, it is unclear how much area will be planted for each crop. The Crop Estimates Committee (CEC) will release the farmers' intentions to plant data, and key figures for the potential area plantings, on 26 April. We expect most crops' plantings to exceed the five-year average area. For example, the wheat five-year average area planted is 528 690 hectares, which is 7% lower than the area plantings for the 2022/23 production season. Therefore, we doubt that the 2023/24 season will see an area below the five-year average. Wheat prices, although having softened somewhat in recent months, remain relatively attractive for farmers.

Moreover, the demand for the crop domestically remains strong. Notably, the input prices have come off from the highs we saw last year. For example, in February 2023, essential agrochemicals such as glyphosate, acetochlor, and atrazine were down by 32% y/y, 18% y/y and 2% y/y, respectively, in rand terms. Had the South African Rand not weakened during this period, the gains from the price declines would have been significant. In US Dollar terms, the above-, mentioned input prices were down by roughly 30% and atrazine by 17% from February 2022. Prices of insecticides and fungicides have also declined notably from last year's levels. Also worth noting is that in February 2023, essential fertilizers such as ammonia, urea, di-ammonium phosphate and potassium chloride are down 6%, 36%, 28% and 14% in rand terms, respectively. Again, in US Dollar terms, the price decline was more notable, which speaks to the impact of the relatively weaker South African Rand on imported products.

These price changes in inputs are vital as they impact vast components of the grain input costs. Fertiliser accounts for a third of grain farmers' input costs, while other agrochemicals account for roughly 13%. This means that a decline in the prices of these inputs will make a notable saving on farmers' input costs. This partially compensates for the decline in commodity prices over the past few months.

Importantly, the weather conditions for the winter crops also remain positive. In its Seasonal Climate Watch update published on 03 April 2023, the South African Weather Service noted that while the weather conditions are transitioning into an El Nino state, which typically brings below-normal rains in much of the country, the winter crop-growing regions of South Africa will receive rains. This is positive for the season. In addition, the areas that produce under irrigation in Limpopo, Free State, Northern Cape and other provinces of South Africa should also thrive, benefiting from the 2022/23 soil moisture and improved dam levels.

We will, however, need to keep a close eye on the irrigation regions. About half of South Africa's winter wheat is produced under irrigation. Therefore, the energy crisis remains a risk in such areas, although the Department of Agriculture, Land Reform and Rural Development, along with Eskom, is assessing possibilities of load curtailment and scheduled load shedding to minimize disruption in food production.

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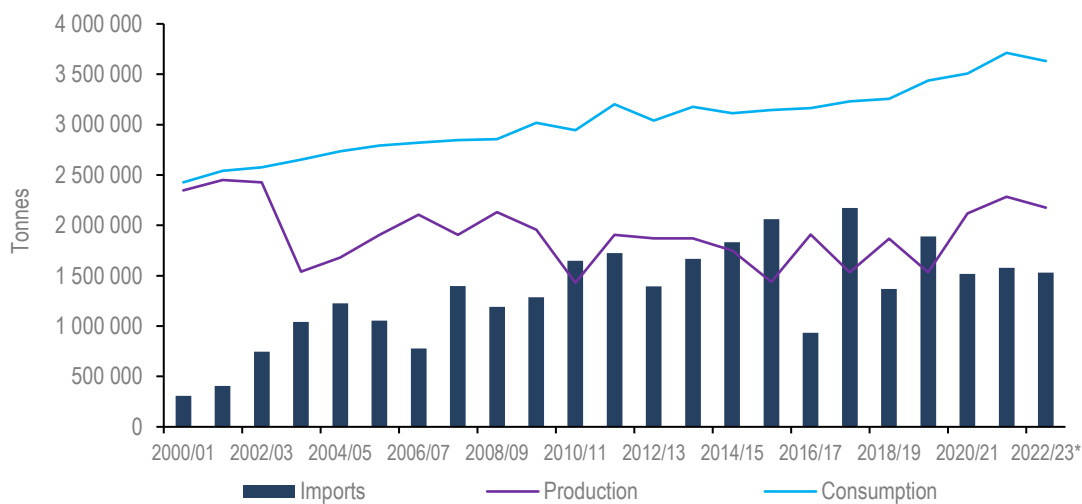
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Aside from these developments in winter crops, the summer crop-growing regions of South Africa are also nearing the harvest process. In the early planted regions, we should see a start of the harvest later this month. The crop across the country is in reasonably good condition, maturing and drying in some regions. We generally expect an ample harvest in most summer crops, which is aligned with the view of the CEC. In its March update, the CEC projected South Africa's 2022/23 summer grains and oilseed production estimate at 19,6 million tonnes, 5% higher than the previous season. This is primarily on the back of expected higher yields as the overall planted area for summer grains and oilseeds are 4,4 million hectares, roughly unchanged from the previous season. If we consider the large crops like maize, soybeans and sunflower seed, production is forecast at 15,9 million tonnes (up 3% y/y), 2,7 million tonnes (up 22% y/y), and 797 610 tonnes (down 6% y/y), respectively.

In sum, this is a crucial month in South Africa's field crops, and the outlook by all key indicators is broadly positive. We are likely heading to a favourable winter crop season. At the same time, we are finishing a promising summer crop season. While farmers are currently in an environment of lower commodity prices than last year, softening input prices provide a necessary financial cushion.

From a consumer perspective, these developments are broadly positive and bode well for some moderation in consumer food price inflation in the second half of the year when the decline in commodity prices could begin to filter into the retail prices. The one major risk is electricity stability. This is as much a risk for farmers as it is for consumers. However, we are hopeful that the government's interventions to limit the damage of the electricity crisis to food production will help. If the government's proposed interventions for the electricity crisis assist during irrigation periods – afternoons and evenings – then we should have a favourable season. The load curtailment is particularly beneficial for food processors.

Exhibit 1: South Africa's wheat market



Source: SAGIS, CEC and Agbiz Research