

## **Trend-bucking rain cause for optimism**

South Africa's agricultural sector is having an upbeat start to the year. This optimism is a welcome change from the usual heightened uncertainty that has characterized the beginning of each past few years. Since the severe drought of 2014, we have been experiencing more frequent dry periods each season, which has generally dampened farmers' sentiment.

Over the last few years, this time of the year had many of us in agriculture worried about whether farmers would complete the area they intended to plant as various regions would typically be dry. Such dryness was the case at the start of 2020, where many of us doubted if the agricultural sector would fully recover from the contraction experienced in 2019. It was only towards the end of January 2020 when South Africa received widespread and consistent rains that turned outlook for agriculture to positive.

Since the start of the 2020/21 summer season, the favourable rains have supported the sector's strong positive sentiment. Conversations with farmers in different regions and farmer organizations have also been positive. However, the heavy rains of the week of January 8 carry a risk of causing crop damage in some areas of the North West, Free State, KwaZulu-Natal and northern regions of the Eastern Cape. Still, this risk appears limited at this stage.

The early insights from folks on the ground, such as Free State Agriculture, have been comforting. On January 6, Free State Agriculture's media statement opened with this optimistic line, noting that "most farmers in the Free State are rejoicing over the good rains that have occurred in the province recently." The areas that experienced crop damage are few farmers in the Hoopstad and Bultfontein districts. Still, this does not change the positive agricultural outlook for the year. In the northern regions of the Eastern Cape, the recent rains did not cause crop damages.

We are in a La Niña year, which means higher rainfall for the Southern Africa regions throughout the summer season. On January 8, the South African Weather Service indicated that they expect wetter conditions over most South Africa's regions through March 2020, most notably the summer rainfall areas. The rains will aid soil moisture in areas that have not received heavy rains as the areas I have mentioned above. The northeastern regions of Mpumalanga and the southwestern parts of the Eastern Cape would welcome a good soaking rain.

Notably, the pollination stage of crop development, which generally requires higher moisture, will be during a rainy period for most summer crops – maize, sunflower seed, soybeans, groundnuts, sorghum and dry beans. Such wetter conditions add to the prospects of yet another large summer crop harvest for South Africa within the 2020/21 season.

We will have a good indication of the potential size of the crop when the Crop Estimates Committee releases the first production forecast on February 25. It is also around this period where I believe commodity prices, mainly maize, will soften from its current higher levels. On January 7, white and yellow maize spot prices were each up by 40% year-on-year (y/y), respectively trading at R3 703 per tonne and R3 633. These current higher prices are a function of various factors, including higher global prices underpinned by strong global demand, and a relatively weaker domestic currency and strong demand for South Africa's products in the region.

The 2020/21 summer rainfall was not isolated to South Africa but spread across the Southern Africa region. Hence, the agricultural outlook is buoyant across the region. An improved summer crop production across the Southern Africa region, will, amongst other things, ease demand for South Africa's grains. The reduced regional need will, in turn, lead to softening domestic prices. Ultimately, the excellent start of the agricultural season means that South Africa's food price inflation will remain subdued, possibly not exceeding an average of 5% in 2021, which is positive for consumers. Such gains, however, will perhaps appear from the second quarter of the year. The first quarter could see elevated food price inflation on the back of higher grain prices from the end of 2020 and early 2021.