

Expected El Niño in 2023/24 summer does not necessarily foretell a bad harvest.

Forecasts of an El Niño occurrence in the 2023/24 summer season do not necessarily equate to a bad agricultural season. The upcoming season of possible below-normal rainfall, i.e., El Niño, follows a rare consecutive four years of heavy rains that have improved soil moisture and natural grazing veld. This means there is a natural cushion for agricultural activity even if the rains are below the average (typically around 500 mm) in South Africa. What will be necessary, however, is for the showers to fall in critical periods, such as seed germination and pollination stages of growth, which are all essential for crop growing.

It would not be South Africa's first time in such a fortunate position. The summer of 2018/19 had a weather El Niño event. Still, the rains fell in critical periods, and South Africa attained a decent crop harvest, with commercial maize at 11,2 million tonnes, soybeans at 1,2 million tonnes and sunflower seed at 678 000 tonnes. Other field crops and horticulture also achieved decent yields that year. Notably, the 2018/19 season was not preceded with favourable four years of favourable rainfall that improved soil moisture. Therefore, the current position is better than the most recent El Niño period.

Various weather forecasters all share the same view in terms of the likelihood of the occurrence of an El Niño. In the past few months, we reflected on forecasts by the South African Weather Service and Columbia University's International Research Institute for Climate and Society, which all point to a higher probability of El Niño occurrence towards the end of this year. The latter has placed its possibility at over 80% at the start of this month. Also, the Australian Bureau of Meteorology recently said that "The ENSO outlook has been shifted to El Niño ALERT. This means that while the El Niño–Southern Oscillation (ENSO) is currently neutral, there is approximately a 70% chance of El Niño forming in 2023." And "this is roughly three times the normal chance of an El Niño."

Under such conditions, the agricultural sector and agribusinesses must plan for this changing operational environment from the conducive four years that supported growth in the sector. Still, this weather outlook should not necessarily imply less investment in agriculture or elevated risk. Such fears are likely as some people still remember the harsh drought of the 2015/16 production season, where maize output fell to 7,8 million tonnes, soybeans at 742 000 tonnes, and sunflower seed fared better at 755 000 tonnes as farmers switched white maize hectares to sunflower seed and cotton in the western regions of South Africa. That season, the livestock industry, various field crops and horticulture also suffered major losses across the country. Importantly, the 2015/16 season was preceded by a drier production period in 2014/15, and soil moisture was too low in various regions. Thus, the fall in yields was notable.

Moreover, the years before were also not exceptionally wet, and production conditions were generally challenging. This means that for teams in agricultural credit desks at various organizations, using the recent drought periods as a reference for what could transpire in the coming season would be misguided and could result in a far more risk-averse approach than production conditions on the ground warrant. The financiers and service providers in the sector could, perhaps, start to worry if we get another drought in the 2024/25 season. Such a

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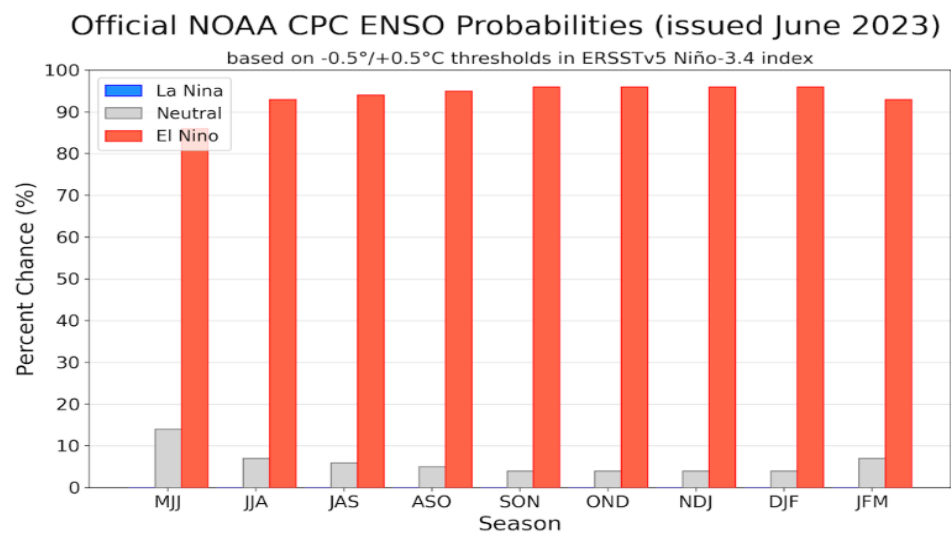
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scenario would then be on the back of a less wet season, and soil moisture reserves would have been used in the 2023/24 season. But this is not in the forecasts at this point. The communication from all major weather forecasters has focused on the upcoming season. Also worth noting is that farmers' production methods have changed over the past few years with the adoption of no-till farming and other climate friend practices, which all aim to conserve soil moisture and support production.

Overall, the South African, and indeed Southern African agricultural sector, faces a slightly drier 2023/24 summer season. But this should not ring the alarm about the sector's prospects or scare investors and financiers away. The current conditions are different from recent droughts. There is good soil moisture, and grazing veld has improved for livestock. The key will be planting at the correct times when the rains can support the germination of the crop and pollination around February. The South African farmers have the machinery and weather forecasting capabilities to achieve such timing.

Exhibit 1: El Niño occurrence forecasts



Source: Columbia University's International Research Institute for Climate and Society