

Higher global rice prices do not materially affect our SA food inflation view

In recent notes, we expressed a view of potential moderation in the consumer food inflation in the second half of the year. We believe that the products that will underpin this softening are grains-related products, vegetable oils, meat and fruit. But within the grains category, South Africa is exposed to imports, particularly for wheat and rice. Global grain prices have declined over the past few months, except rice, which has surged. However, this does not change our view on domestic food inflation. This note explains our thinking on global rice prices.

In April 2022, rice from various origins, such as Thailand, Vietnam, India, and Pakistan, traded below US\$400 per tonne. This month, except for India, these rice price origins traded over US\$470 per tonne. This is notable considering that for much of 2022, when other grains such as wheat and maize surged following the invasion of Ukraine by Russia and drought in South America, rice prices remained steady and even softened in some months (see Exhibit 1). The reasonably steadier rice prices at the time benefitted the importing countries that needed to boost their supplies and partially substitute expensive wheat with rice. At the time, large stocks from the 2021/22 season helped to improve supplies for importing countries.

Over time, as the demand firmed and the large stocks from the 2021/22 season depleted, the impact of the high consumption levels translated into increasing prices. Moreover, according to data from the International Grains Council, the 2022/23 global rice harvest was down by 1% from the previous season at 509 million tonnes. The production was mainly down in Vietnam, the US, Pakistan, China, the Philippines, and Brazil. Due to the lower production volume and an uptick in consumption, the 2022/23 global rice stocks fell by 3% year-on-year to 172 million tonnes. These developments are the underpinning drivers of the surge in prices.

Importing countries now face increasing pressure. Sub-Saharan Africa is one such region, with imports of 19,4 million tonnes in the 2022/23 season, which equates to 37% of global rice imports. The major rice-importing countries within the region are Benin, Côte d'Ivoire, Nigeria, Senegal, South Africa, and Mozambique.

From a volume perspective, South Africa imports roughly 1,1 million tonnes of rice annually, and the 2022/23 volume remains unchanged from the previous season. The current global rice price trend and the rand/dollar exchange remain vital variables to monitor in the coming months. Still, with the prices of maize and wheat products set to moderate in the second half of the year, consumers may reduce their rice consumption if its prices remain elevated this year.

Critically, the global rice price increase should be temporary in our view. The International Grains Council forecasts a 2% recovery in global rice production in the 2023/24 season to 521 million tonnes. The increase in expected is predicted across all key producing countries such as India, Vietnam, Thailand, the US, Pakistan, China, Indonesia, Bangladesh and the Philippines. The production recovery is due to anticipated favourable weather conditions and yield improvement. With consumption in the same season set to improve moderately by 1%

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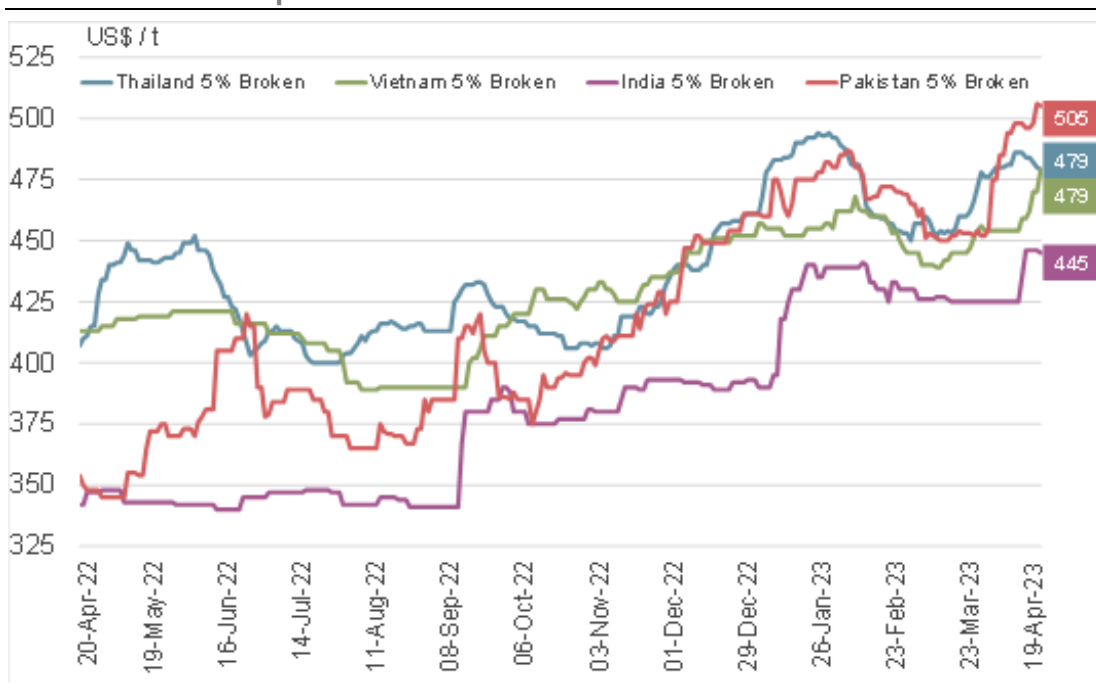
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to 519 million tonnes, the global rice stocks could increase. These factors should support some moderation in global rice prices in 2024.

The International Grains Council estimates the sub-Saharan region's rice imports in the 2023/24 season at 20,5 million tonnes, up 6% from the previous season. Benin, Côte d'Ivoire, Nigeria and Senegal will be the primary drivers of the increase in regional rice imports. South Africa's rice imports will likely remain flat at 1,1 million tonnes in the 2023/24 season. The likely surge in supplies means that prices could soften going to 2024, which will benefit the consumers, assuming the rand/dollar exchange remains firm.

In sum, in the near term, the global rice market will not follow the moderating price trend that we see in other grains. That said, the current price surge will likely be temporary, with prices set to soften when the supplies improve in 2024. As a result, we still do not see the rice price increase changing our view of potential moderation in grain-related products within South Africa's inflation consumer food basket this year. Lower maize and wheat prices are likely to be more dominant.

Exhibit 1: Global rice prices



Source: International Grains Council