

Higher prices for grains, dairy and vegetable oils a global occurrence

by Wandile Sihlobo

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South Africans are not the only ones experiencing a relative increase in agricultural commodity prices. The world over is experiencing a similar trend, at least, for essential commodities such as grains, dairy and vegetable oils. The Food and Agriculture Organization of the United Nations recently released an update of its monthly [Food Price Index](#), which reached 113 points in January 2021, up 10% year-on-year, and highest since July 2014. This particular index is compiled as a combined index from agricultural commodity prices in various countries, thus mirroring a fair view of relative global food prices.

In South Africa, whether one looks at maize prices or soybeans, wheat or sunflower seed; the price trend shows a notable uptick over the past couple of months; roughly in line with the global trend. For example, on Friday, 05 February 2021, South Africa's white and yellow maize spot prices closed at R3 299 and R3 451 per tonne, respectively up by 8% and 21% from the corresponding period last year. On the same day, South Africa's soybeans spot price closed at R9 990 per tonnes, which is 65% higher than the corresponding period last year.

To some, such increases would be counterintuitive in a year where we expect another bumper crop in South Africa, aided by increased summer crop plantings and favourable rains since the start of the 2020/21 production season in October. But because South Africa is a relatively small player in the global agricultural market -- particularly grains -- market dynamics in major producing and consuming countries influence the domestic price movements. The somewhat weaker domestic currency also contributed to the price increases, amongst other factors.

Staying with grains and oilseeds, which are amongst the aforementioned global Food Price Index's price drivers, China's rising demand has been exceptionally fundamental in the current surge of prices.

China is currently rebuilding its pig herd, which was devastated by the African swine fever in 2019. At the end of 2020, the Chinese government [said](#) that its pig and sow herd has rebounded to more than 90% of pre-African swine fever. This recovery fueled soybean imports and maize. China now imports 60% of the globally traded soybeans volume of 168 million tonnes. Meanwhile, in maize, China only imports about 9% of 183 million tonnes globally sold. What makes China's role in the maize market noticeable in the recent past is a notable increase in maize imports from 6,6 million tonnes in 2019/20 to an estimated 16,3 million tonnes in 2020/21 marketing year. This increase is fueled by both stock piling and the recovery in the pig industry.

China's strong buying was also a force behind the uptick in global dairy prices, specifically in January as the country prepared for its [New Year holiday](#).

There have also been production constraints in various geographies that have contributed to a surge in agricultural commodities prices. In Malaysia and Indonesia, the excess rains weighed on palm oil yields. Whereas in Argentina, the persistent dryness has led to a downward revision of the maize and soybean products prospects.

South Africa's agricultural commodities prices will continue to be influenced by global events in the coming months. But the impact will possibly be less pronounced in grains from around March 2021. This is a period where there will be some certainty about the maize harvest's potential size in South Africa and other Southern African countries. If the production forecasts come out positive, as I [expect](#), the maize prices could soften somewhat in the coming month. The softening of maize prices will ultimately bode well for consumer food price inflation.

However, for oilseeds, such as soybeans, domestic prices could remain elevated even if production prospects confirm that 2020/21 is a season of a large harvest. The reason is that South Africa is still a net importer of soybeans products (soybean meal), and hence more exposed to global market dynamics than maize, which the country is a net exporter of it.

In sum, the current increases in agricultural commodity prices that we are seeing is a global issue. Still, the expected sizeable domestic maize harvest could help ease price pressures in the coming months.

***Wandile Sihlobo** is the Chief Economist of the Agricultural Business Chamber of South Africa (Agbiz) and the author of "[Finding Common Ground: Land, Equity, and Agriculture](#)." He is also a Visiting Research Fellow at the Wits School of Governance, University of the Witwatersrand.*