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Rising fuel prices to add pressure on SA's agriculture sector in 2021/22 summer crop planting period

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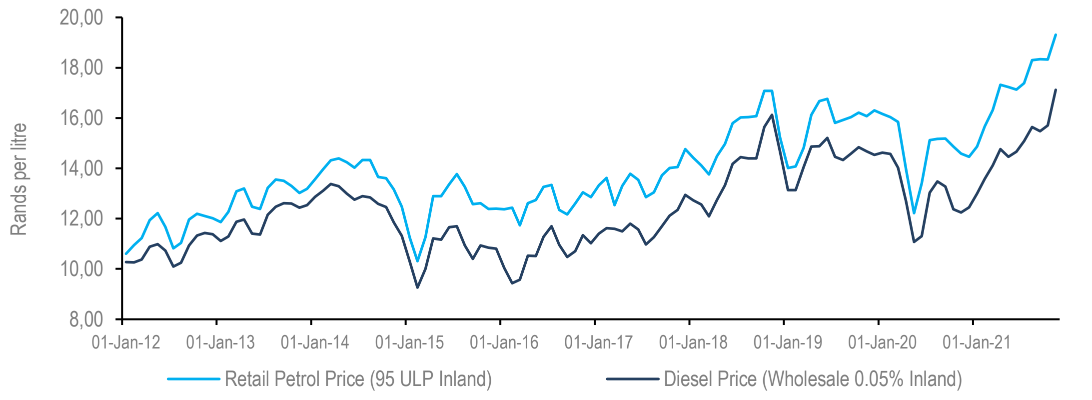
The planting season for South Africa's 2021/22 summer grains and oilseeds started positively in the eastern and central regions with favourable rains that improved soil moisture. The weather outlook for the coming months is positive, with prospects of above-normal rainfall, which should support the crop in this new season.[1] The one concern that farmers currently have to contend with is the rising input costs. We have recently written about the fertilizer and agrochemicals prices which in October 2021 were over 40% compared with 2020 levels.[2] The increasing fuel prices are an additional cost that farmers and agribusinesses currently face.

The preliminary estimates from the Central Energy Fund suggest that petrol (95 ULP Inland) and diesel (0.05% Wholesale Inland) prices could increase by 98 cents per litre (c/l) and R1,41c/l, respectively, on 03 November 2021. This adjustment means the retail price of petrol could increase to R19,31 per litre from the current level of R18,33. Simultaneously, the wholesale diesel price could rise to R17,12 per litre from R15,71 in October 2021. The key factors sustaining fuel prices at these higher levels are the somewhat weaker ZAR/USD, combined with the rising Brent crude oil prices.

For context, fuel generally accounts for between 11% and 13% of grains and oilseeds production costs. The consumption is usually moderate throughout the year, with the highest periods being during planting and harvesting, and we are in such times at the moment. In terms of annual fuel usage, it is worth noting that South Africa transports by road roughly 81% of maize, 76% of wheat, and 69% of soybeans. On average, 75% of national grains and oilseeds are transported by road.

Exhibit 1: South Africa's retail petrol and wholesale diesel prices



Source: Central Energy Fund and Agbiz Research

[1] We are in a La Niña season, which will bring widespread rains (see here for details).
[2] It is worth highlighting that South Africa imports about 80% of its annual fertilizer consumption and is a minor player globally. Much of the fertilizer imported by South Africa is utilized in maize production, accounting for 41% of total fertilizer consumption in the country, the second-largest consumer being sugar cane at 18%. Fertilizer constitutes about 35% of grain farmers' input costs and a substantial share in other agricultural commodities and crops.