

## What do global wheat production dynamics mean for SA?

When we look at South Africa's agricultural and food import data for the past five years, wheat ranks as the second most valuable product after rice. It accounted for 6% (or US\$417 million) of the annual average agricultural imports of US\$6,6 billion during this period. This is equivalent to approximately 1,5 million tonnes in volume terms over this five-year period, which is about half of South Africa's annual average wheat consumption needs. This time around, with the Russia-Ukraine war and drought in parts of the Northern Hemisphere still a major concern, there is some worry about the general global wheat supplies and South Africa's domestic wheat production prospects.

From a global perspective, recent data from the International Grains Council (IGC) provides some comfort. The IGC forecasts production at 792 million tonnes for the 2022/23 season, which would be up 1% year-on-year (y/y) if achieved. With industrial use of wheat expected to slow this year, while feed and food use might increase marginally, the global stocks are projected at 286 million tonnes. This is up 2% y/y and suggests that prices could remain at current levels and sideways from now on. Currently, wheat prices globally are at levels below US\$450 per tonne, which is a far better place than during the months just after Russia invaded Ukraine when prices surged to levels over US\$500 per tonne between April and June.

The improvement in global wheat production is mainly supported by the expected large harvests in Russia (up 25% y/y), the US (up 8% y/y), Canada (up 56% y/y), Kazakhstan (up 16% y/y), China (up 1% y/y), Turkey (up 5% y/y) and the UK (up 4% y/y). In the case of Russia, there remains uncertainty about whether the country will be able to efficiently export wheat to key consuming regions in the climate of the ongoing war and the country's aggression against Ukraine and the global community. Nevertheless, the expected improvement in the harvest in the countries above has helped to overshadow the decline in the harvest in the EU, Argentina, Australia, Ukraine, and India.

With everything considered, these global production estimates suggest that South Africa will be in a better place to procure the required imports in the 2022/23 marketing year, which started this month. South Africa's wheat imports for this new marketing year are forecast at 1,5 million tonnes, roughly unchanged from the previous year.

This import forecast is underpinned by the belief that South Africa could have another decent wheat harvest in the 2022/23 season. Farmers lifted the area plantings to 566 800 hectares, from 523 500 hectares in the previous year. This was on the back of attractive prices following a surge in wheat prices after Russia invaded Ukraine, as well as good soil moisture in various wheat-growing regions of the country. As such, current production estimates are also comforting, pointing to a harvest of 2,2 million tonnes. Again, this is roughly the same as the 2021/22 season, which was the largest harvest in two decades. These figures show that most of South Africa's wheat needs will be produced domestically this year. In that order, the Western Cape, Free State, Northern Cape and Limpopo are the largest producing provinces of this season's crop. Outside the Western Cape, the crop in other provinces will benefit from irrigation. Importantly, we still see a possible upward revision of the domestic wheat harvest if the Western Cape, which produces nearly half of the domestic wheat, receives good rains

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over the coming weeks and if the weather conditions remain favourable in other producing provinces.

Overall, the global wheat supplies are in a better position than many had feared, especially when there were prospects of fertilizer shortage in some regions. The world has managed to adjust, and countries with capacities have improved domestic production to stabilize global supplies. Still, Russia remains a significant producer, making up 12% of the expected 792 million tonnes of the global harvest. This means the events in the Black Sea will continue to matter for the global wheat market and price dynamics.

Importantly, we expect South Africa to remain comfortable regarding wheat supplies and import activity during this new 2022/23 marketing year which ends in September 2023. As we expect, the import estimate of 1,5 million tonnes mentioned above could be revised if production increases, benefiting from good weather in the coming weeks. The sideways price movements we expect in the global environment could also be a reality here in South Africa. The domestic wheat price ended September 2022 at R7 120 per tonne. This is significantly lower than the levels over R8 000 per tonne we saw a few months ago. Still, the current spot price of around R7 120 per tonne is 21% up from the end of September 2021. This means that wheat prices are likely to stabilize at relatively higher levels than last year, which helps the farmers that procured inputs at higher levels. But the opposite is true for the consumer, whose position is also worsened by higher fuel prices and rising interest rates.