Will Zimbabwe's decision to ban maize imports affect South Africa's maize market?

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Maize was South Africa's fifth largest exported agricultural product in value terms in 2020. It trailed citrus, grapes, wine and apples, which were the top four products in the overall US$10,2 billion worth of South Africa's agricultural products exported last year. The total agricultural export earnings in 2020 were the second largest on record in value terms. The export markets were quite diverse, nearly half spread across the African continent, and third, in the European Union and the rest spread across Asia and the Americas regions.

For maize, Zimbabwe was the most dominant export market for South Africa. In the 2,6 million tonnes of maize that South Africa exported within the 2020/21 marketing year, which started in May 2020 and ended in April 2021, about 20% of the volume went to Zimbabwe. This made Zimbabwe the single largest maize export market for South Africa in the 2020/21 marketing year. Other notable export markets were Taiwan, South Korea, Botswana, Vietnam and Japan, amongst others.

It is this significance of Zimbabwe as a market for South Africa's maize exports that makes last week's announcement by Zimbabwean authorities to suspend all maize and maize meal imports with immediate effect consequential. This suspension of imports comes as the country approaches its maize harvest period. According to data from the United States Department of Agriculture (USDA), the domestic crop could reach 2,7 million tonnes, the largest harvest since 1984. The views from local analysts generally concur with the USDA's forecast that Zimbabwe is likely to have a good maize and a strong overall agricultural season. The expected large maize output is primarily supported by the expansion in the area planted, coupled with favourable rainfall since the start of the season. Importantly, Zimbabwe will have the largest maize surplus in nearly three decades, as its annual maize consumption is between 1,8 and 2,0 million tonnes, against the aforementioned crop of 2,7 million tonnes.

South Africa, which benefited from the Zimbabwean maize demand in the recent past, could have 2,8 million tonnes of maize surplus available for export markets. This would be the largest volume since 1994/95, when South Africa exported 4,7 million tonnes of maize, according to data from the South African Grain Information Services (SAGIS). These available maize export volumes are on the back of a large forecast harvest, which we at Agbiz currently forecast to be 16,7 million tonnes. This would be the second largest maize harvest on record. With Zimbabwe as a potential export market out of the picture, and various regional maize producing and consuming countries in the Southern Africa region, such as Malawi, Zambia, Tanzania, and Mozambique, expecting large harvests, regional demand for maize will be weaker than usual. The consistent markets that South Africa will likely have are the Far East markets, including Taiwan, South Korea, and Japan.

In the 2020/21 marketing year, Southern Africa demand for maize was relatively strong as the neighbouring countries did not enjoy as good of a harvest as South Africa did. This strong demand helped to support domestic maize prices. Other important maize price drivers were the weaker exchange rate, combined with increasing demand for South African maize in the Far East and higher global maize prices. This time around, the exchange rate has strengthened notably compared to 2020 levels, and the regional maize demand will likely weaken, as we have previously stated. These two factors add downward pressure on domestic maize prices.

But their influence has been overshadowed by the global maize prices, which have continued to support the increase in domestic maize prices. On 20 May, South Africa's yellow and white maize spot prices were up by 27% year-on-year and 19% year-on-year, respectively, trading at R3 395 per tonne and R3 270 per tonne. The higher global maize prices, which are anchoring domestic maize prices, are supported by the unfavourable production weather conditions in South America and the generally growing Chinese demand.

The South African maize prices are currently at export parity prices, which have risen by nearly 70% year-on-year because of the global factors mentioned above. The export parity prices are derived from the global maize price multiplied by the exchange rate minus transaction costs and can be regarded as a "floor price" for domestic maize prices. As domestic prices trade closer to export parity levels, South African maize becomes more competitive in international export markets. Hence, we continue to believe that the Far East buyers will remain active in the South African market, particularly for yellow maize.

Importantly, Zimbabwe's decision to ban imports of maize will inconvenience the South African exporters that had established relations with importers in Zimbabwe. Yet, the policy action on its own will likely have limited lasting impact on South African maize prices. Prices are already at export parity prices and mainly underpinned by broader global developments than the regional policy changes. Moreover, it has been long known that Zimbabwe's maize harvests this year is in good shape, and market participants already anticipated the possible decline in maize demand from the country.

Ultimately, the relatively higher maize prices we are witnessing in South Africa might not soften much going forward, unless there happens to be a change in the global maize market. At the moment, the global maize stocks are tight and continue to support prices. Any changes will depend on the global outlook for 2021/22 maize crop. Northern hemisphere countries are currently starting to plant and will harvest at the end of the year.

South Africa could experience a marginal decline in prices as the harvest gains momentum, but a lot will demand on global factors. Hence, we continue to believe that the livestock industry, which is dependent on the domestic grains industry, will experience higher inputs costs in the near term. This will eventually affect the end consumer with firms such as Astral Foods already having signalled that they would soon be passing down the higher input costs to consumers. South African consumers will be carrying the burden of rising food prices, not because of the lower supplies domestically, but of the uncertain nature of global agricultural conditions at the moment.

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