

Rand/US Dollar to remain a key driver of South Africa's grain prices - 03 November 2016

- South Africa is traditionally a net exporter of maize and a net importer of wheat. However, during 2015/16 marketing year the country became a net importer of both maize and wheat due to lower supplies on the back of a drought season. Total maize imports in the 2015/16 marketing season reached 1.96 million tons and 2016/17 season's imports are set to increase by 38% year-on-year (y/y) to 2.7 million tons due to lower domestic supplies. In the 2015/16 season wheat imports reached 2.06 million tons, with 2016/17 wheat imports set to decline by 37% y/y to 1.5 million tons due to a recovery in domestic production.
- The Rand to the US Dollar exchange currently has a more direct impact in the South African maize market than the previous few seasons. **Chart 1** shows that grain prices since June 2015 have been moving much more closely in tandem with the Rand to US Dollar exchange rate, to the extent that grain price movements seem to track the exchange rate. For wheat, this phenomenon has been the norm since South Africa is traditionally a net importer of the grain.
- **Chart 2** shows the correlation coefficients¹ between grain prices and the Rand to US Dollar exchange rate. The correlation of wheat has been strong over the observe period, increasing marginally over the past few months, with the coefficient moving from a three year average of 0.81 to 0.84 as imports increased from 1.8 million to over 2.0 million tons in the 2015/16 season.
- The shift from export parity to import parity for white and yellow maize has seen a drastic shift in the correlation between maize prices and the Rand to US Dollar exchange rate. Between 2012 and mid-2015, there was no correlation between domestic maize prices and the Rand to US Dollar exchange rate, but more recently it moved from close to zero to 0.7 for white maize and 0.9 for yellow maize (see **Chart 2**).
- Overall, this suggests that the Rand and US Dollar exchange rate will remain a key driver of commodity prices until South Africa's production recovers in the 2016/17 production season.

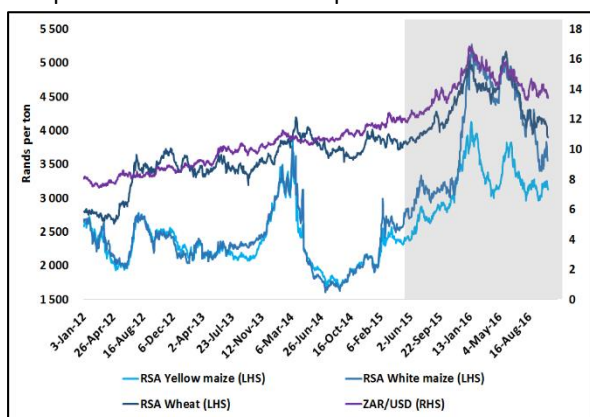


Chart 1: RSA Grain prices and ZAR/USD

Source: JSE, Bloomberg, Agbiz Research

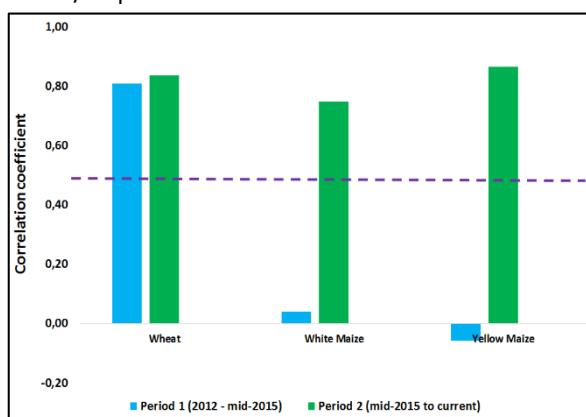


Chart 2: Correlation coefficient of grain prices & ZAR/USD

Source: Agbiz Research

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¹ A correlation coefficient shows the degree to which variables move together. It is a measure that lies between -1 and 1, and a correlation above 0.5 is positive and strong (and vice versa).