# BFAP Baseline 2017

## Investment environment and commodity outlook

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http://bfap.co.za/documents/baselines/BFAP_Baseline_2017.pdf

# Policy Certainty is Needed

Context

- **Uncertain environment**: Drought, recession, risk ratings and other factors

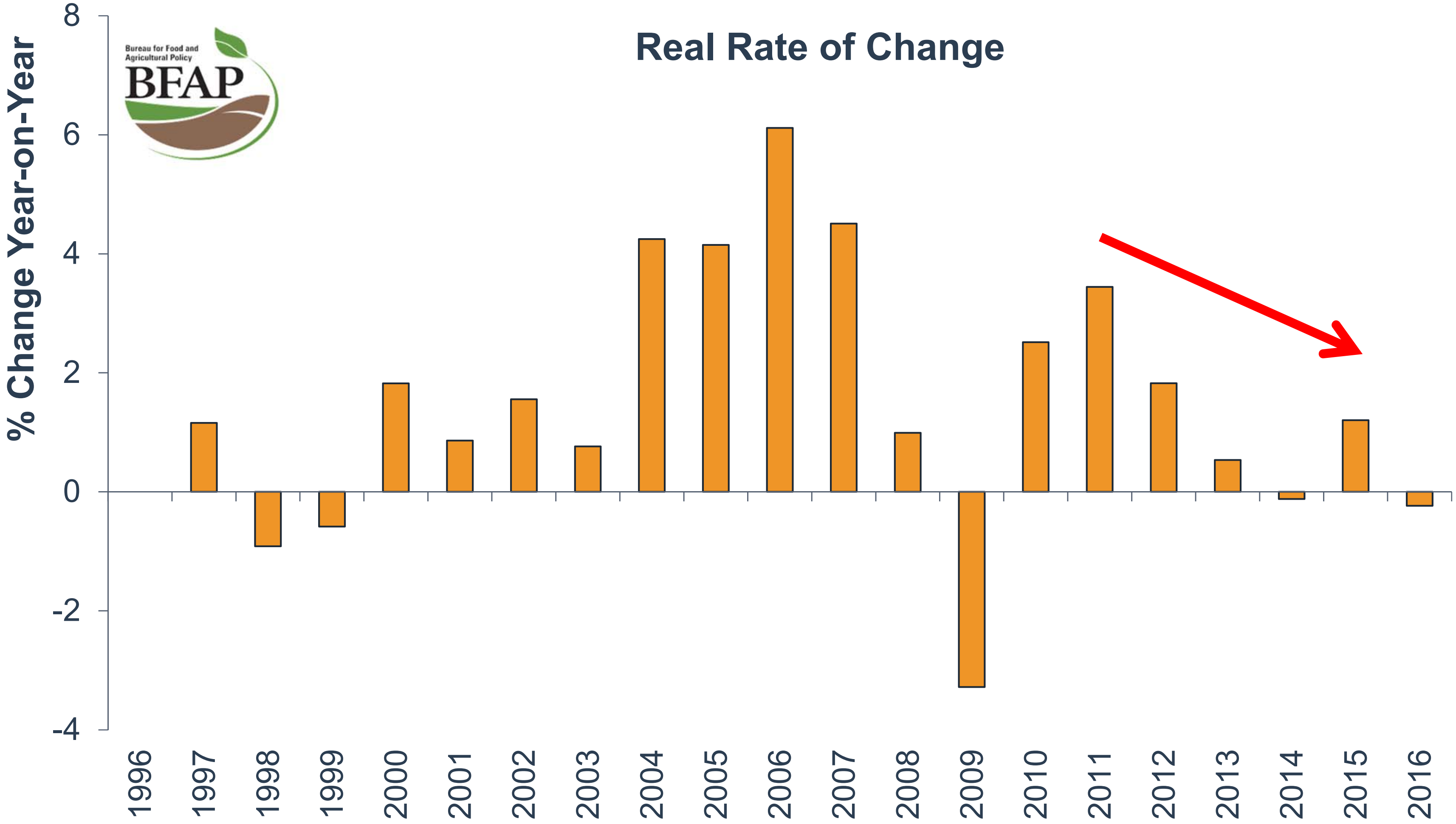
- **Policy concern**: Land reform, food security, transformation.

- **Policy certainty**: A pre-requisite for successful agricultural sector,  rural economy and overall economic performance.

# Household Disposable Income per Capita

Context

Fig. 16, Page 21

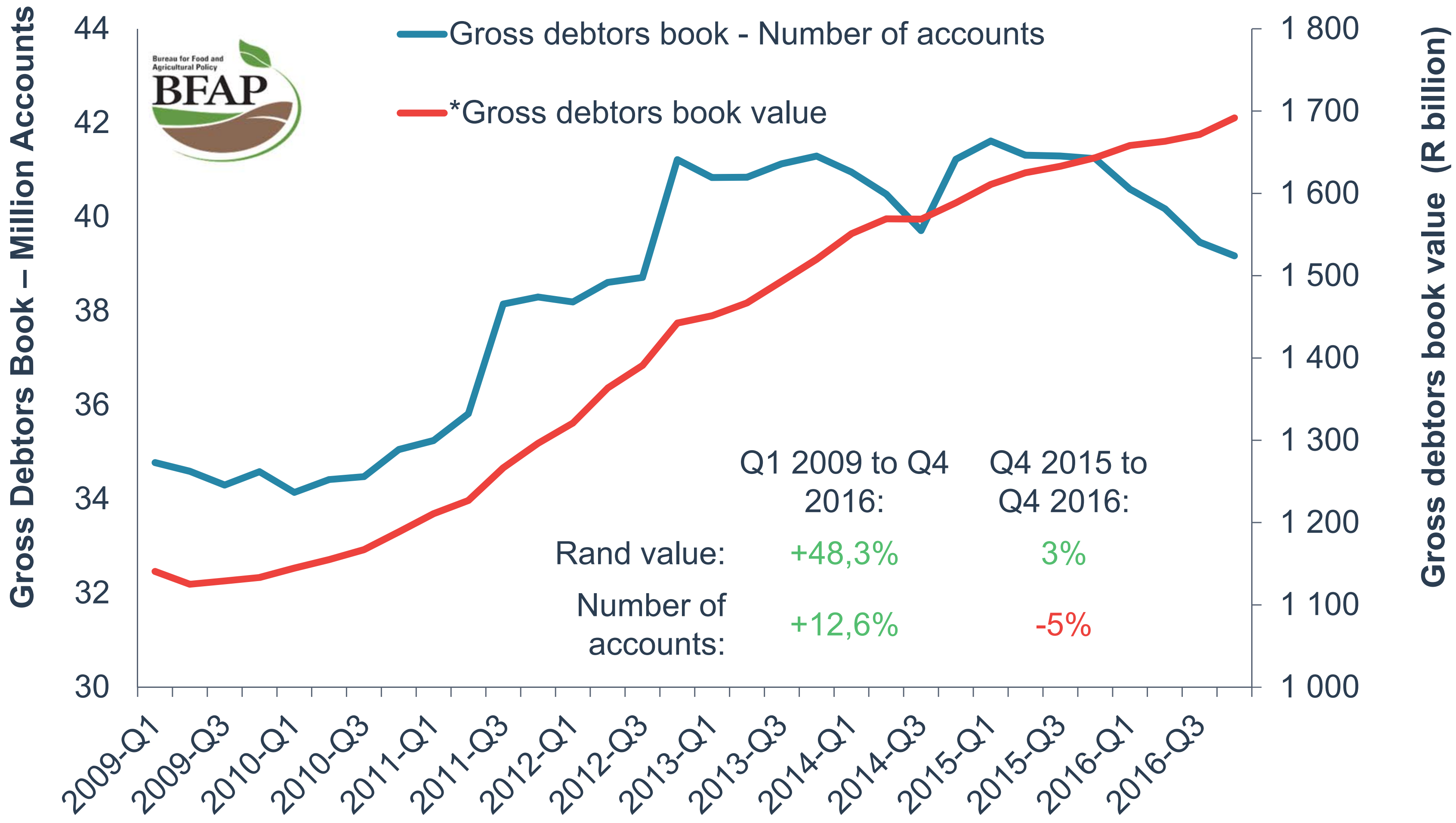



Source: SARB, 2017

# National Debt

Context

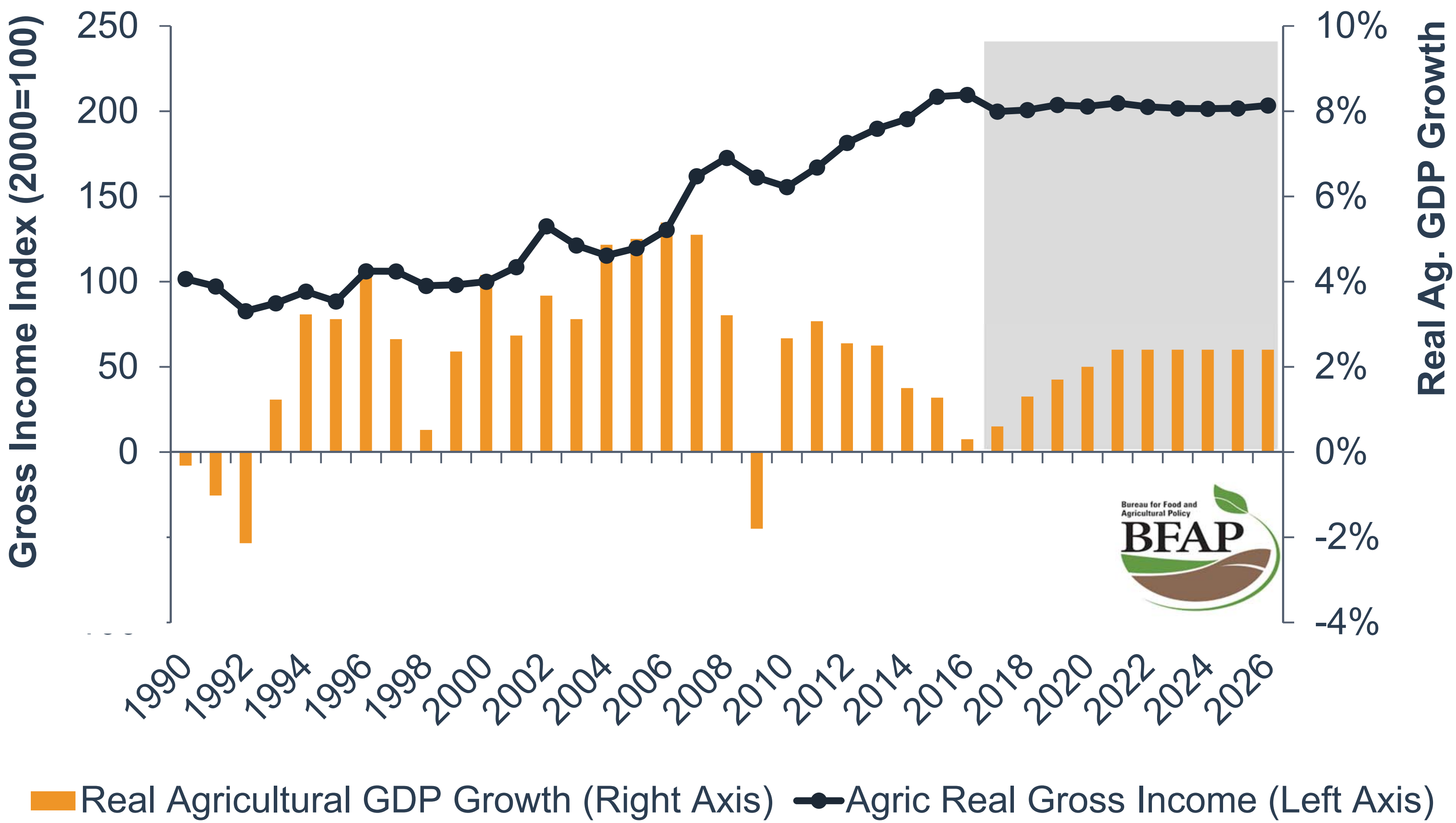
Fig. 20, Page 25



# GDP and Real Gross Income

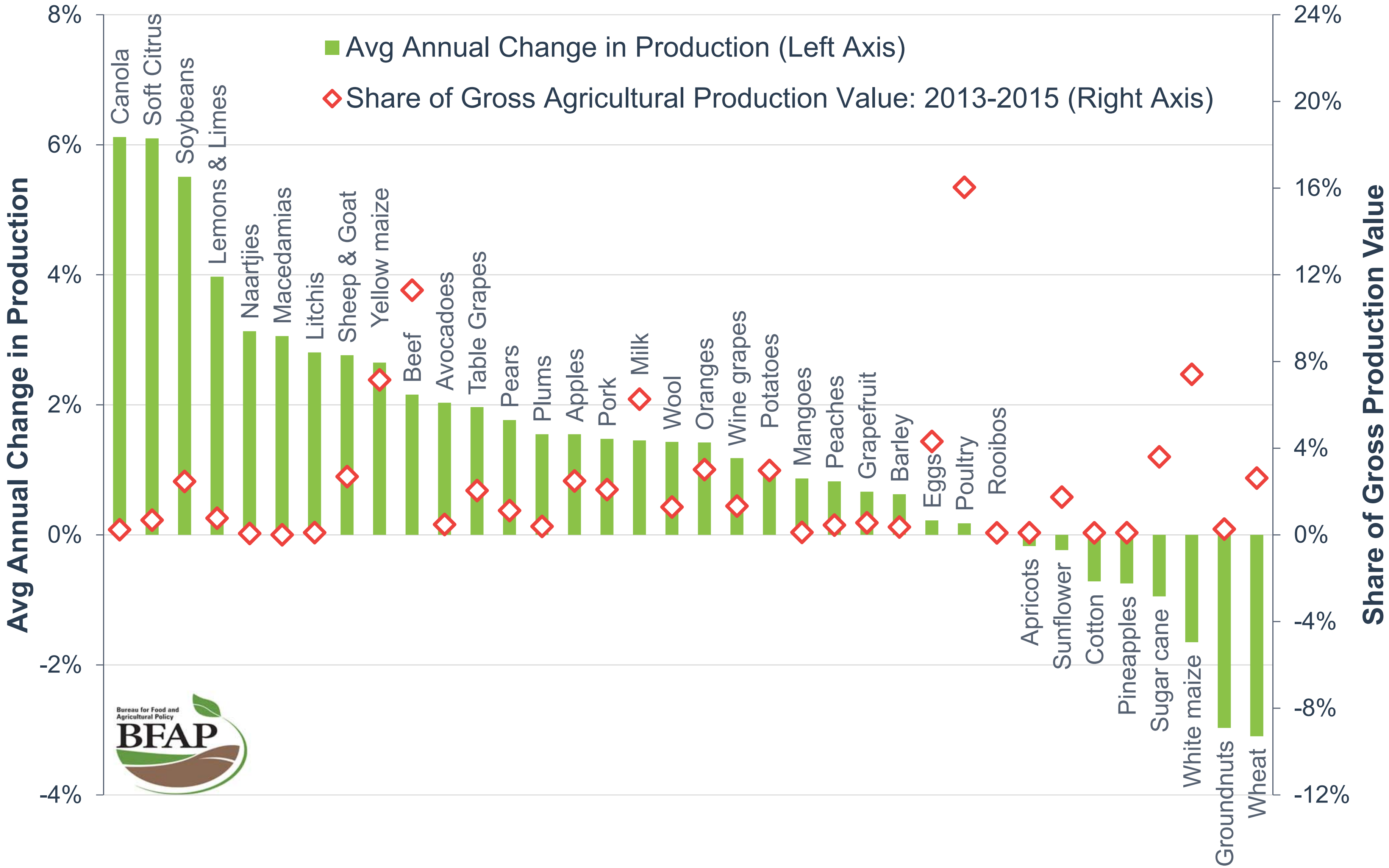
Context

Fig. 1, Page 5

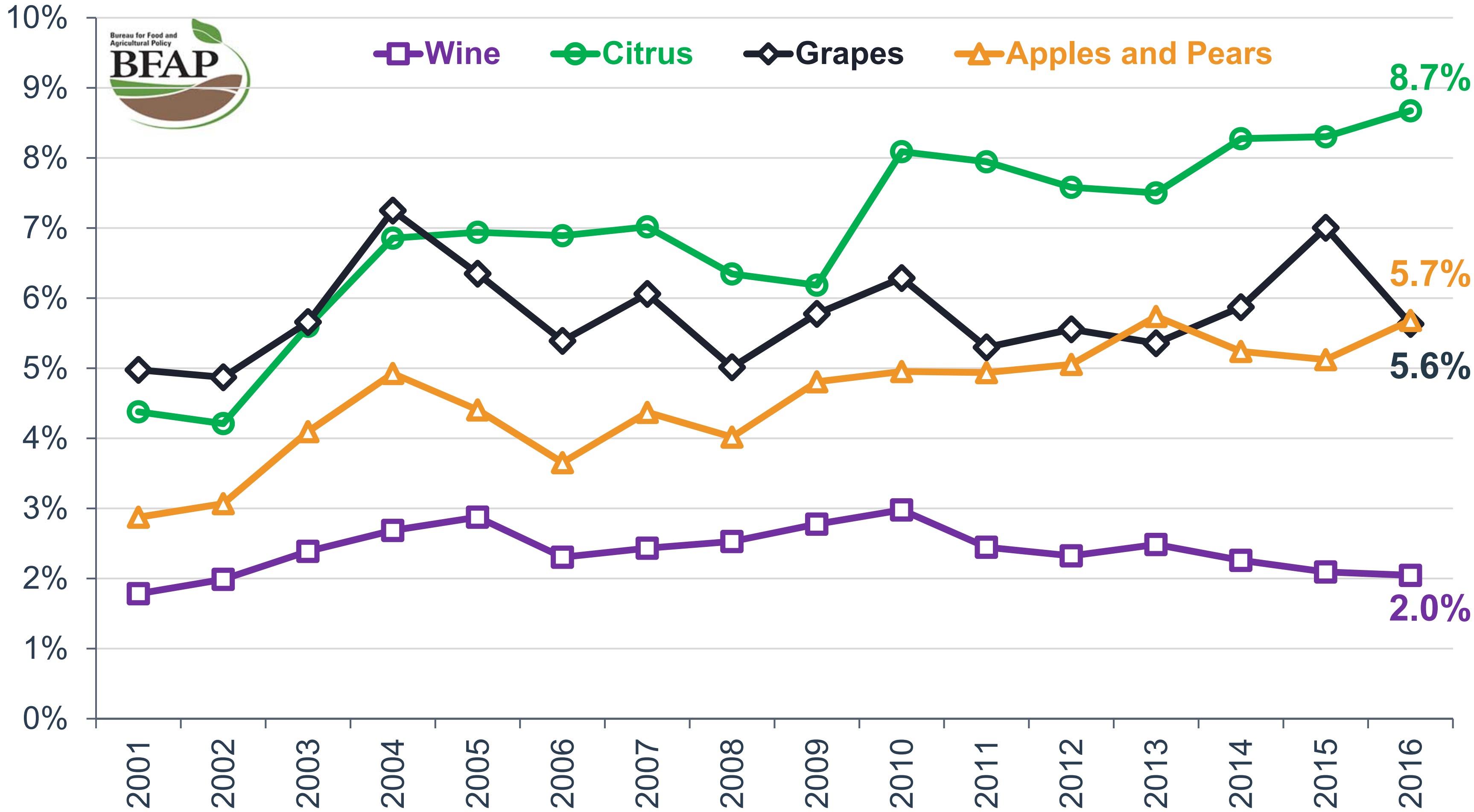


# Agriculture's Performance

Context



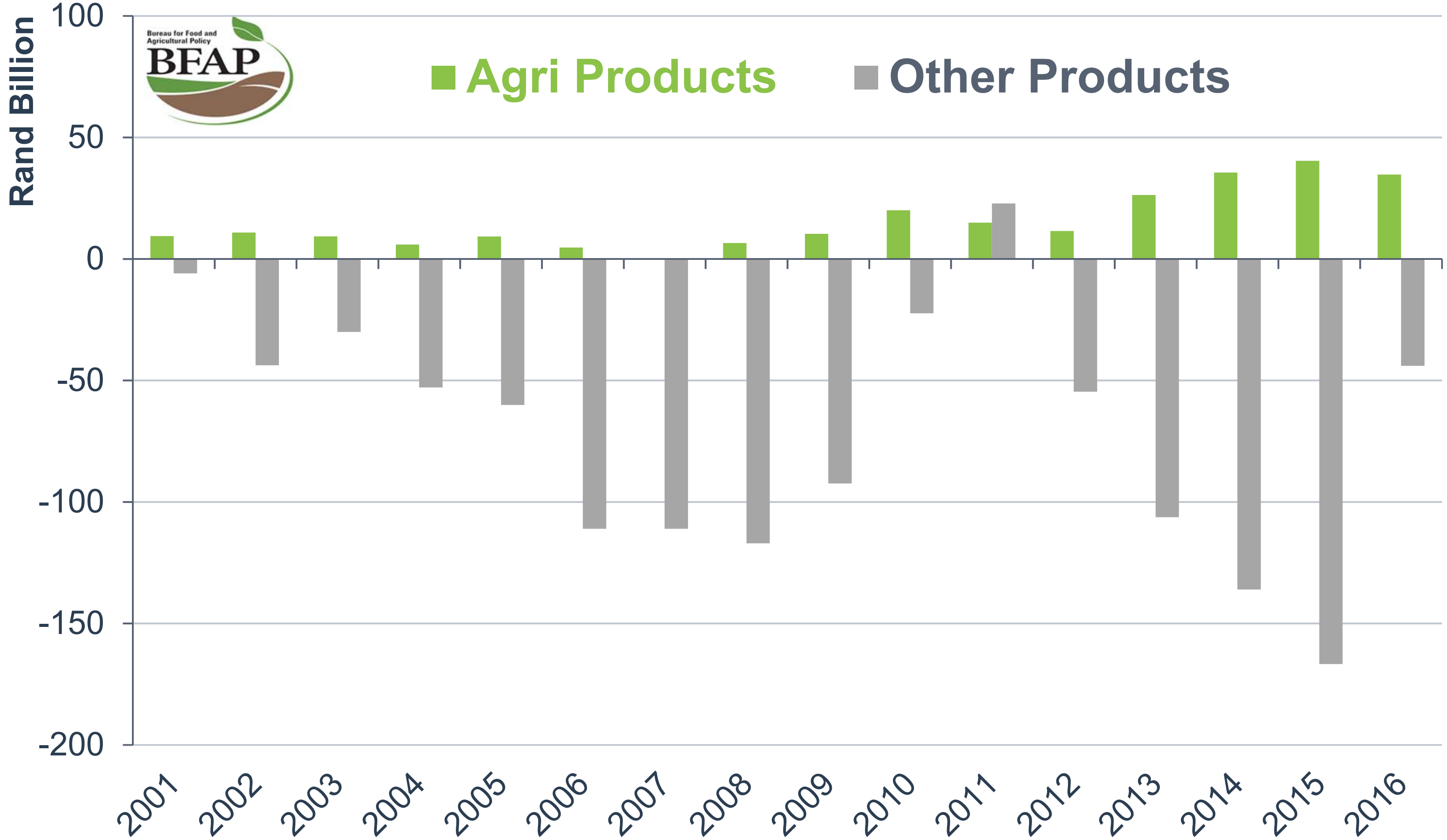
# SA Share of World Exports (Value)



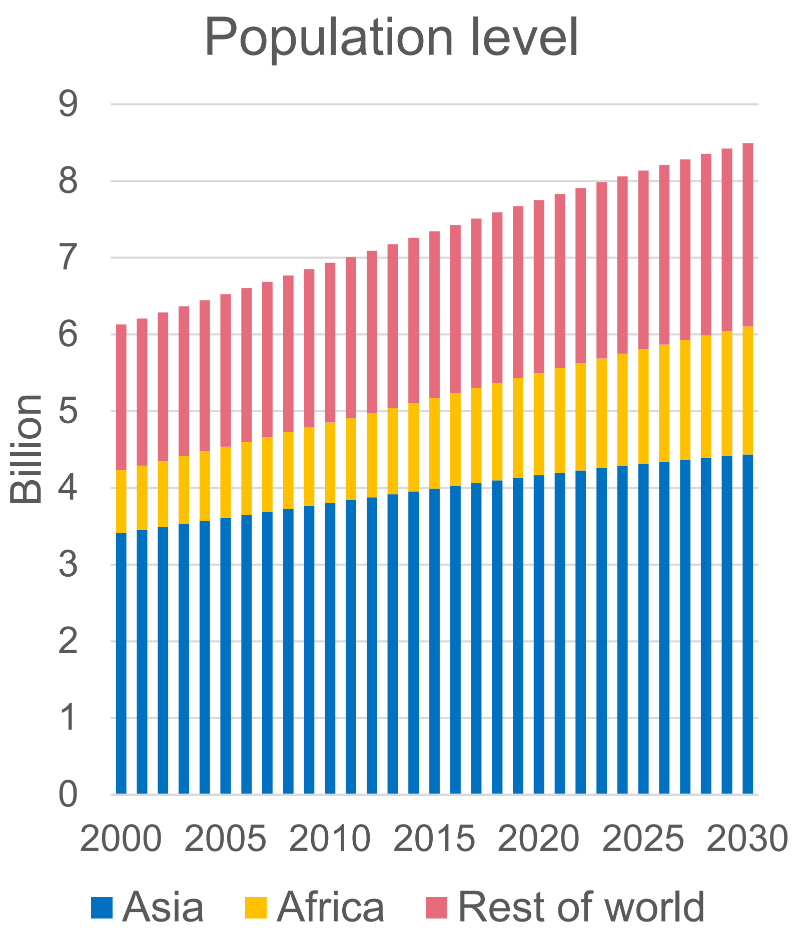
# Net Trade of Agri- and Non-Agri Products

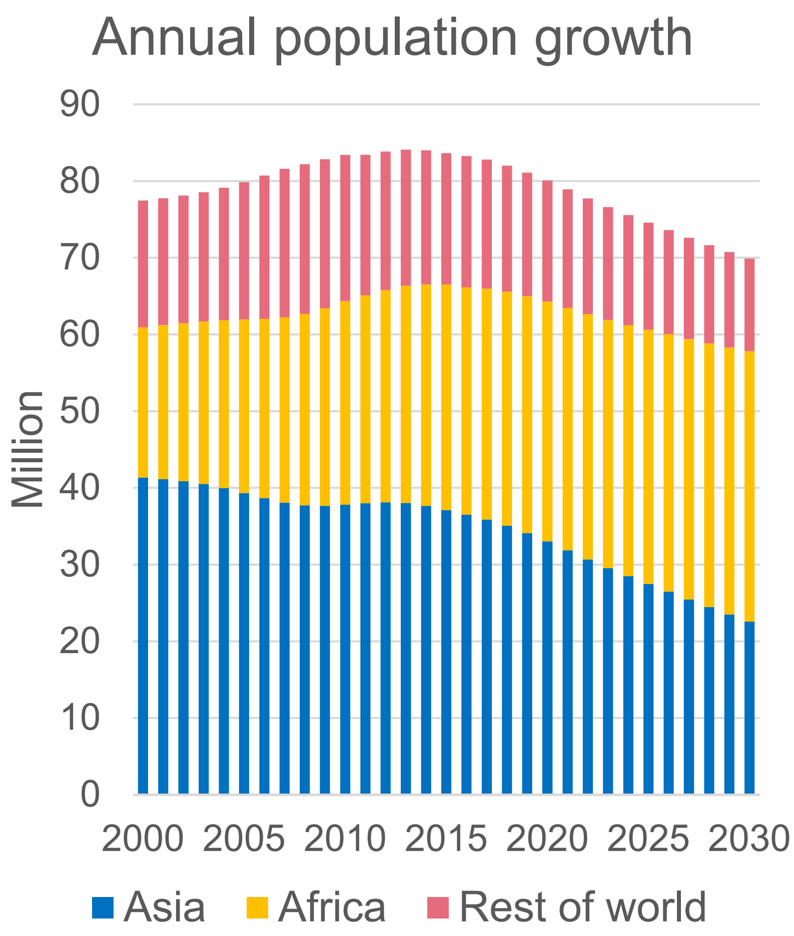
Context

Fig. 3, Page 6



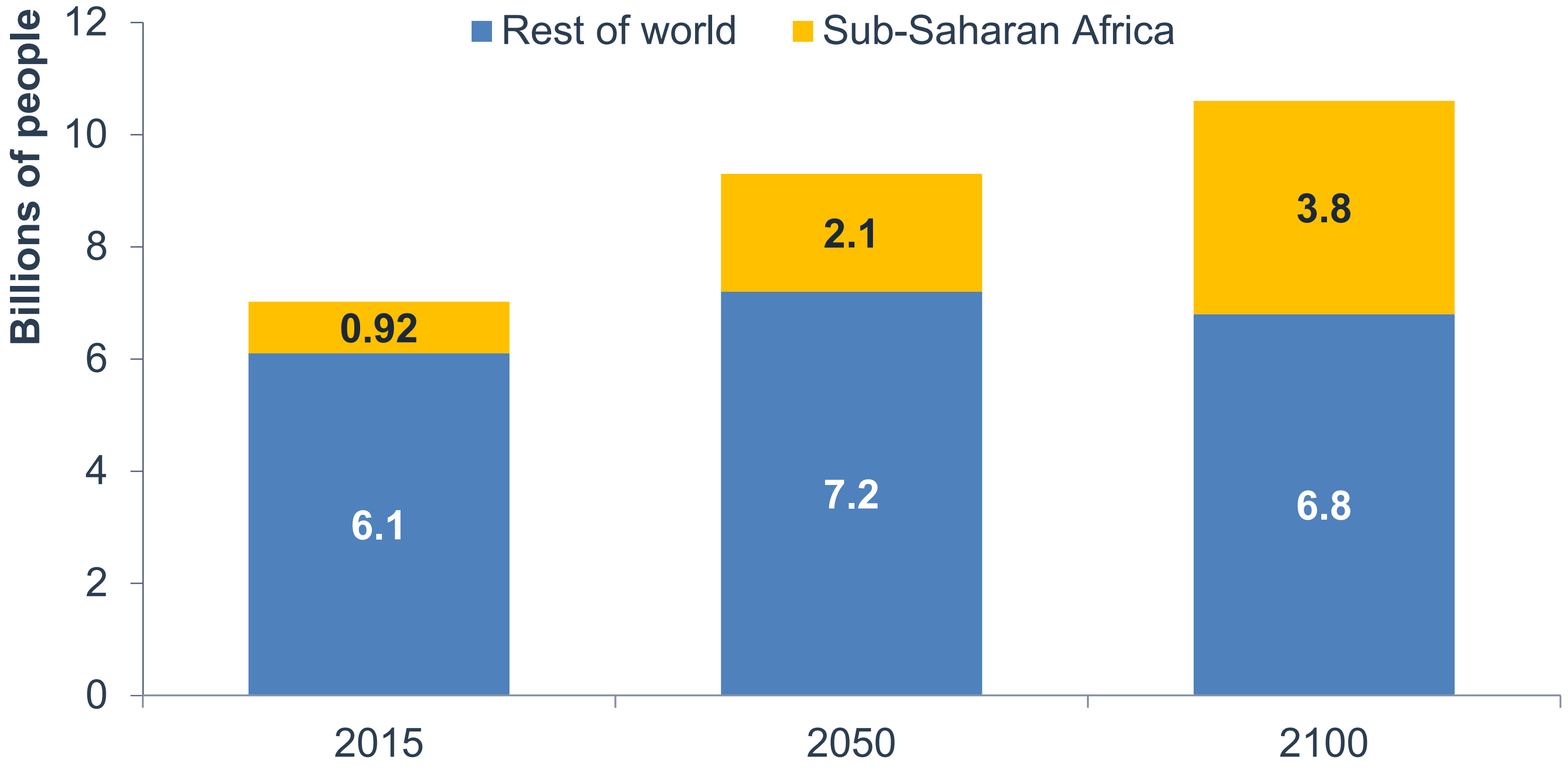
# World Population



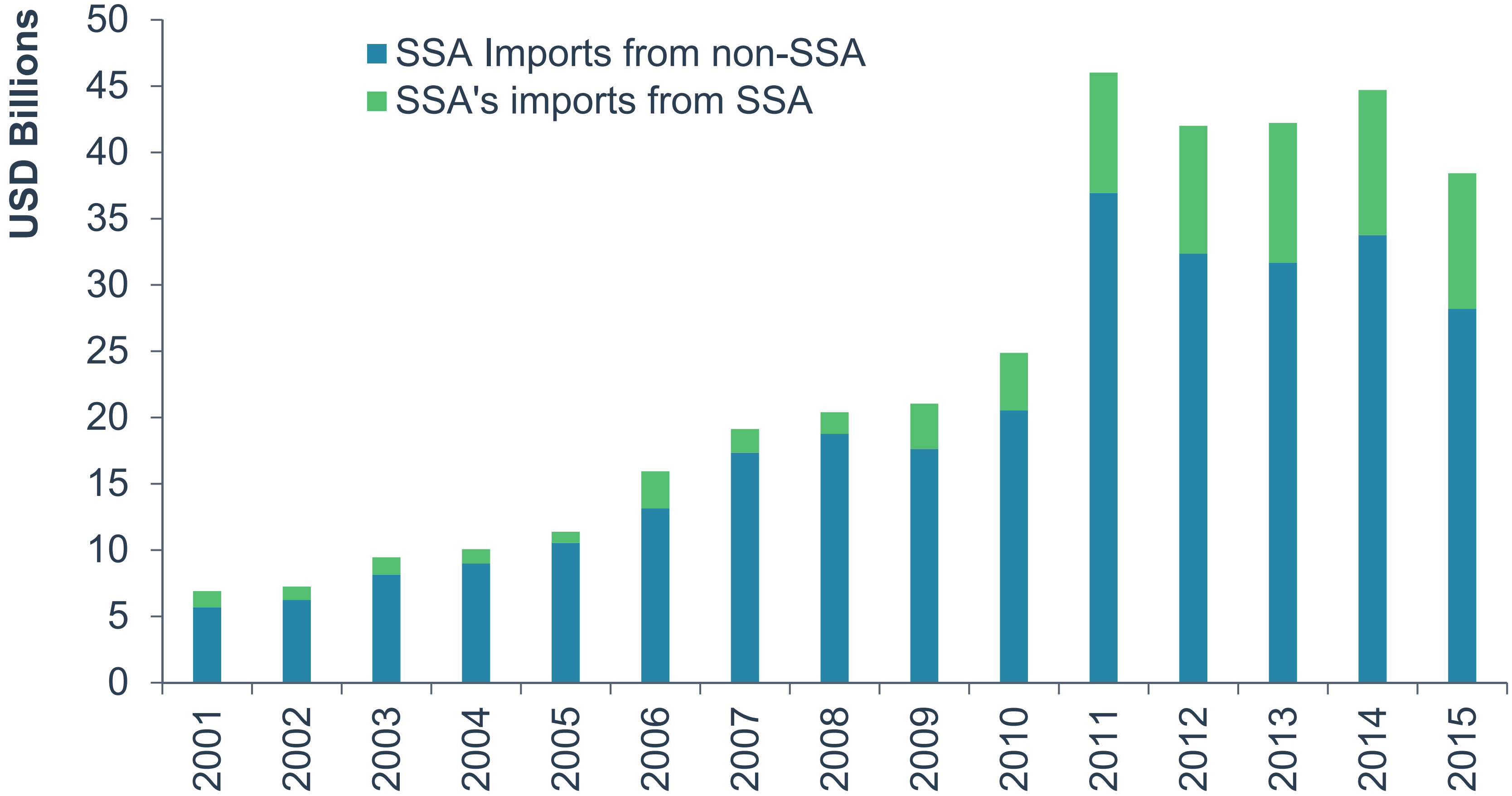
# Sub Sahara Africa rapid population growth

**Transformation in Regional Agri-food System**




Source: World Bank Development Group, 2015

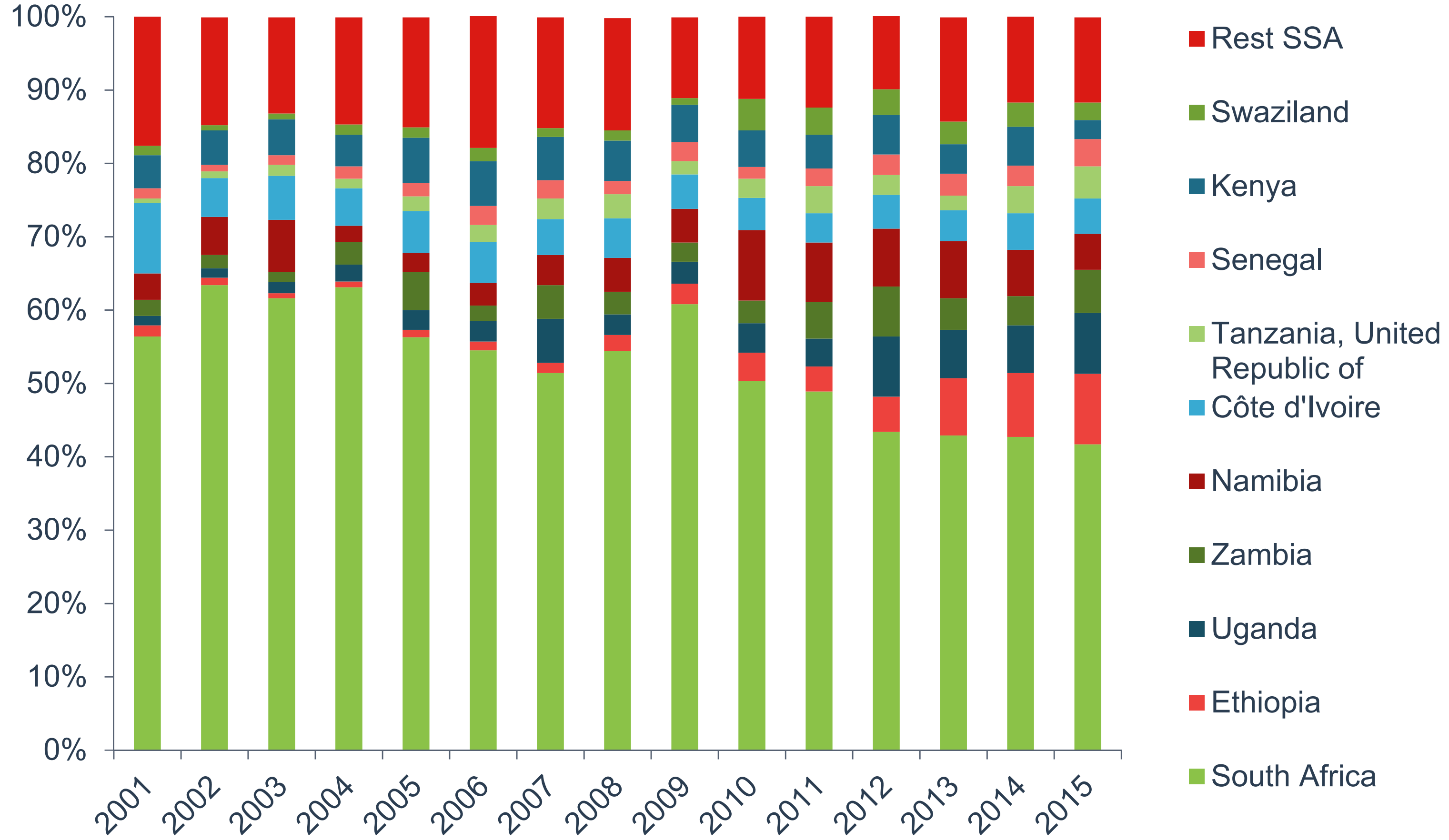
# SSA Total Food Imports from 7 to 40 billion USD (2001-2015) <u>(intra SSA trade from 1 to 10 billion USD)</u>




Source: ITC, 2017

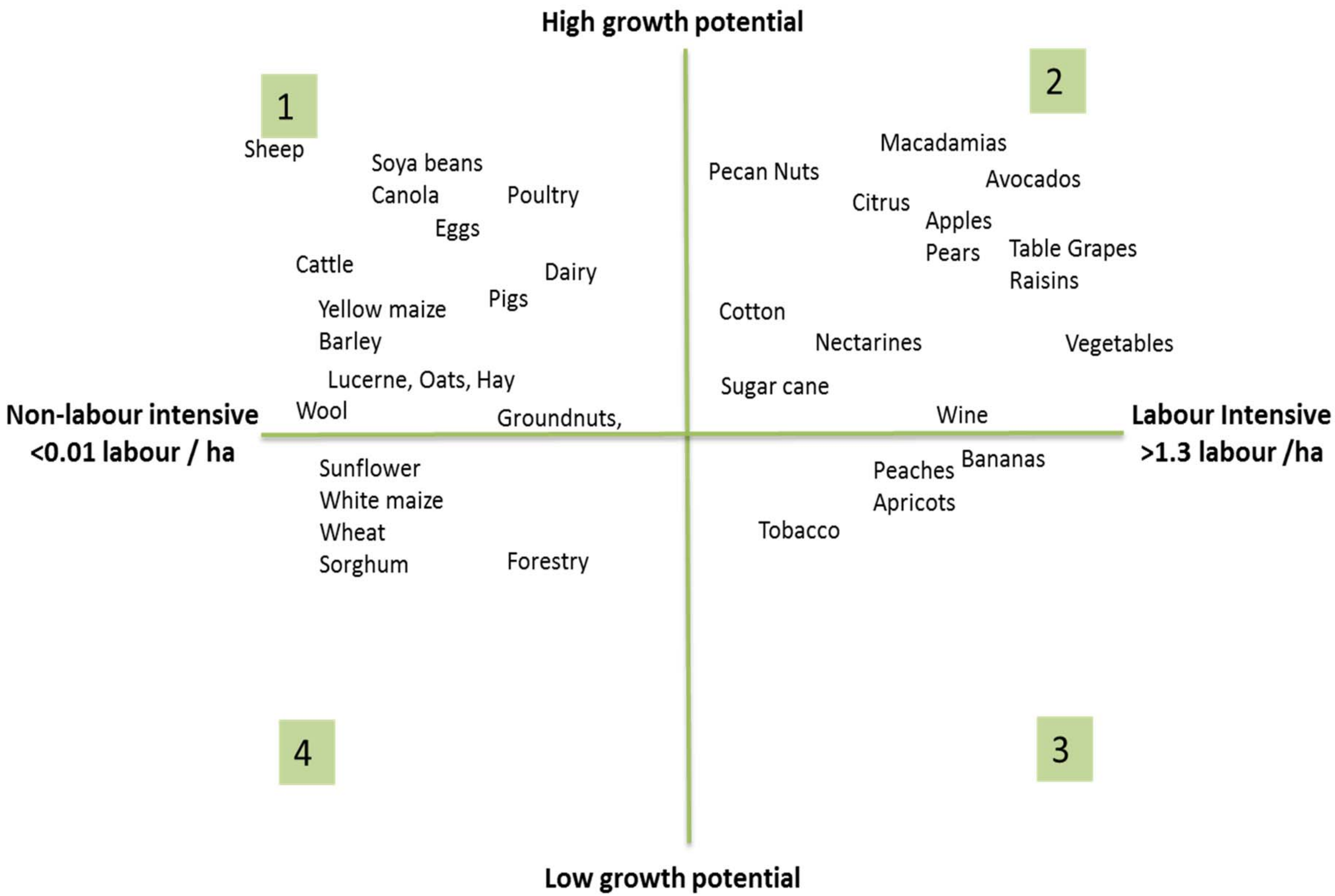
# List of supplying markets from SSA of food imported by SSA

## Transformation in Regional Agri-food System



# Where to Focus

## Transformation in Regional Agri-food System



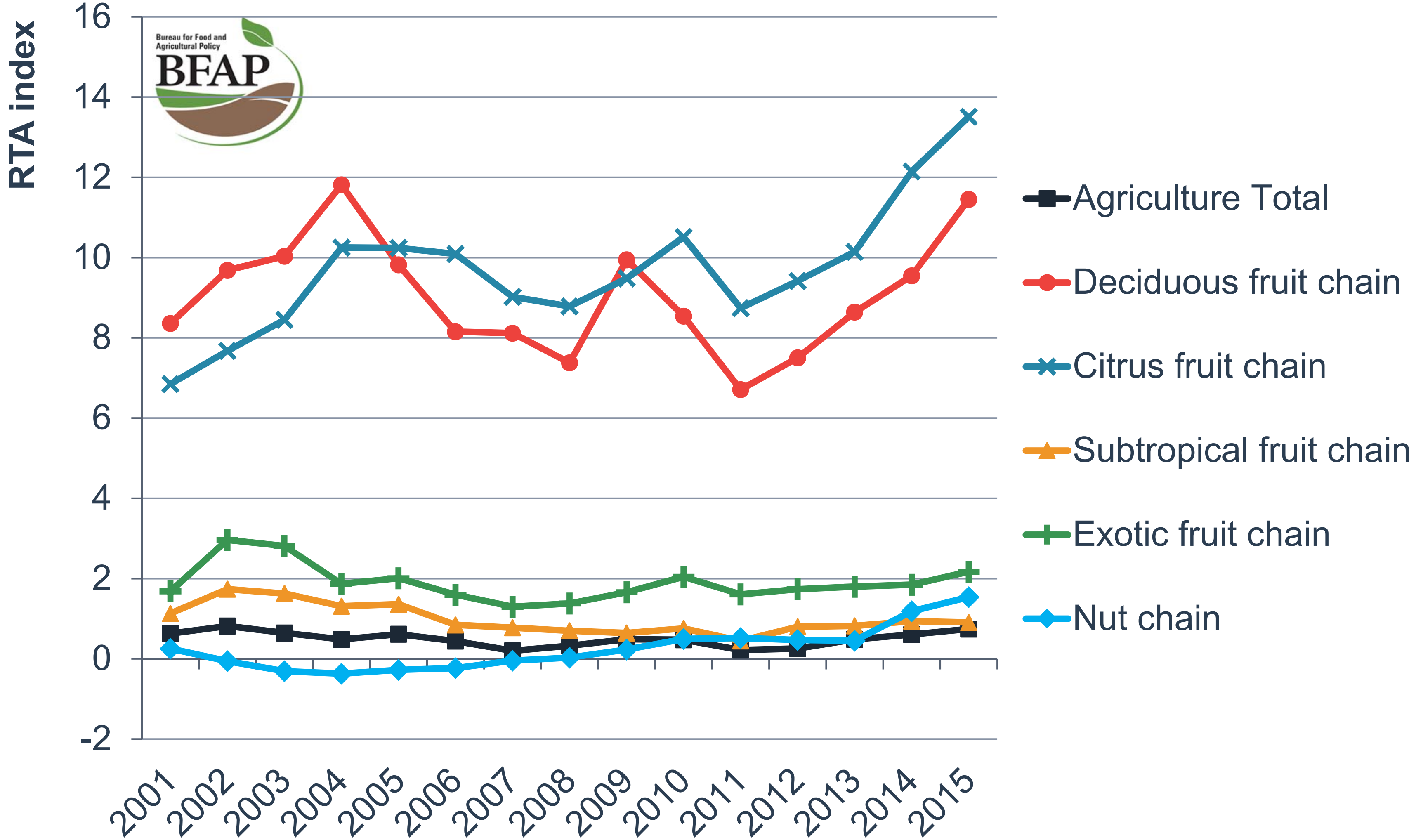
# South African Fruit and Nut Sectors

## Horticulture and Wine

- Export orientated and not likely to change significantly
- Increased competition globally:
    - Southern hemisphere role-players (Argentina, Chile, Peru)
    - Expansion of pome fruit in former Eastern European countries and Russia
- Sufficient opportunities remain - quality and consistency paramount
- Increased competition for scare resources (land, water, capital)
- Increased focus on water management practices –need to improve efficiency and productivity of water

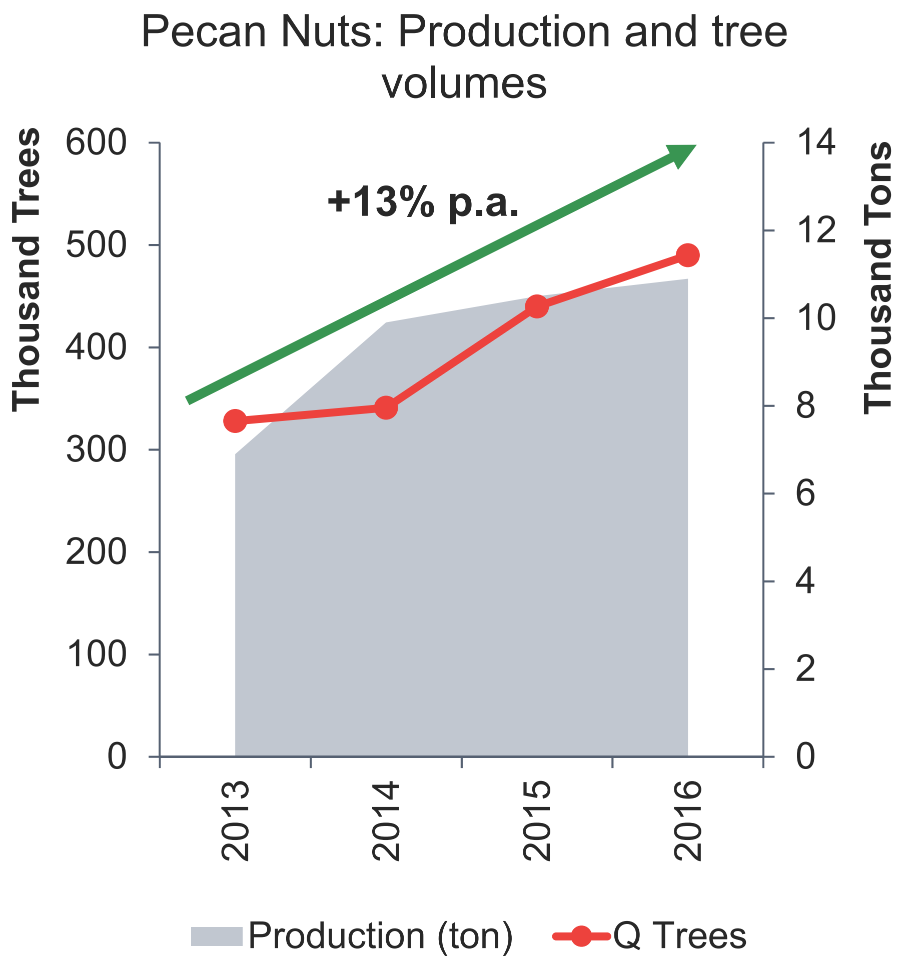
# Competitiveness: Fruits and Nuts

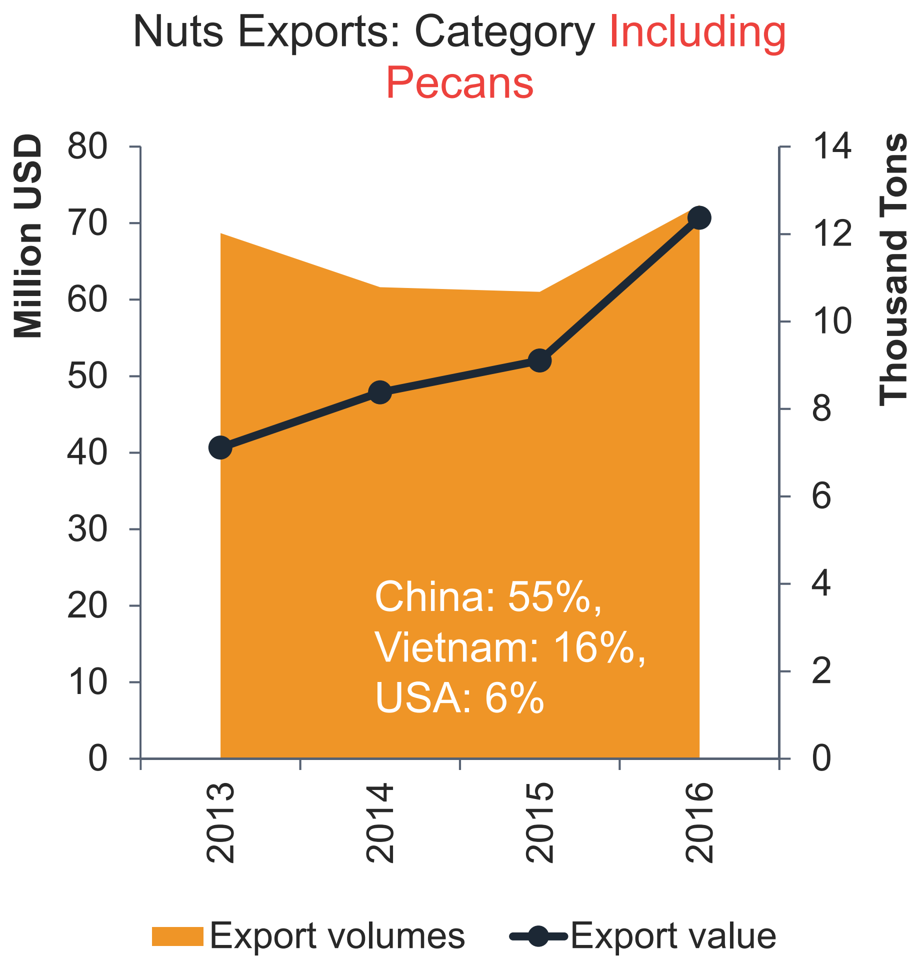
Horticulture and Wine



# Pecan Nut Production and Exports

Horticulture and Wine

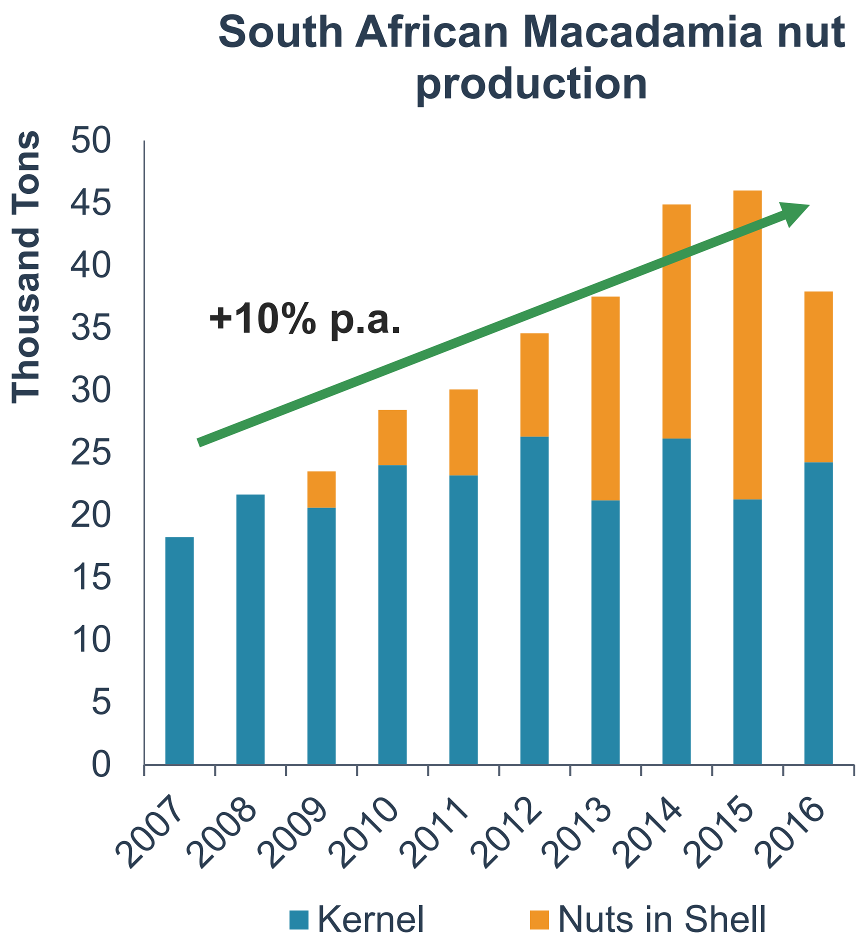


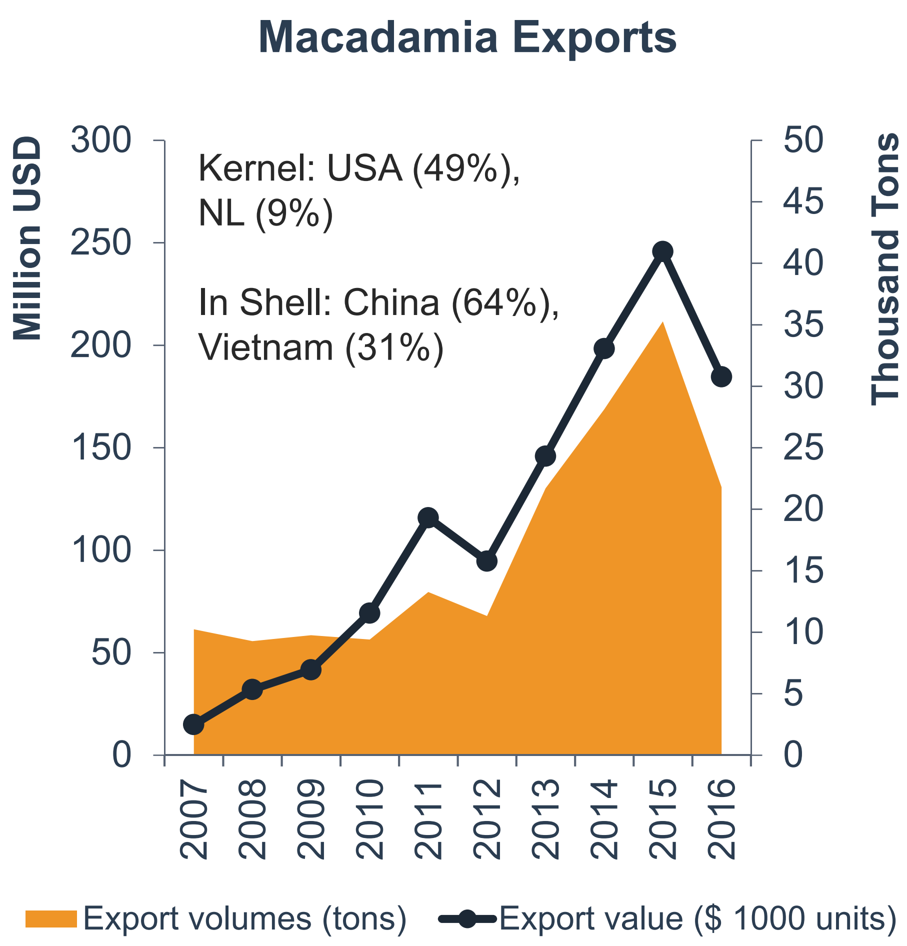




Source: SAPPA (2016) and Trademap (ITC) 2017

# Macadamia Production and Exports

Horticulture and Wine

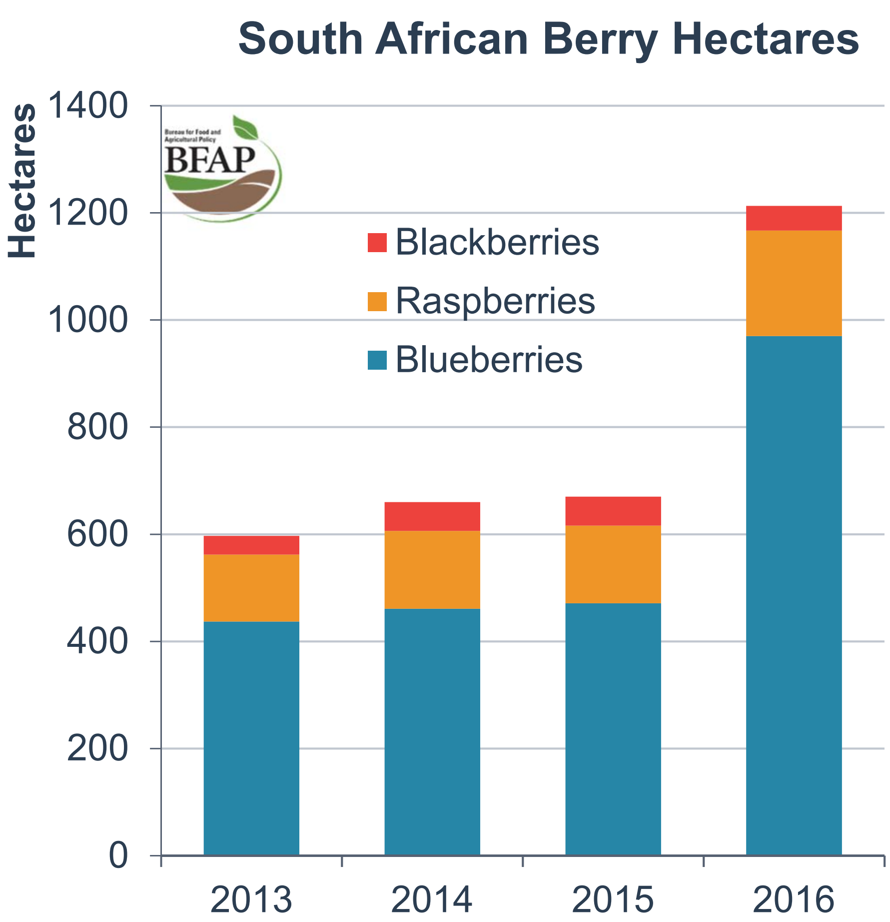


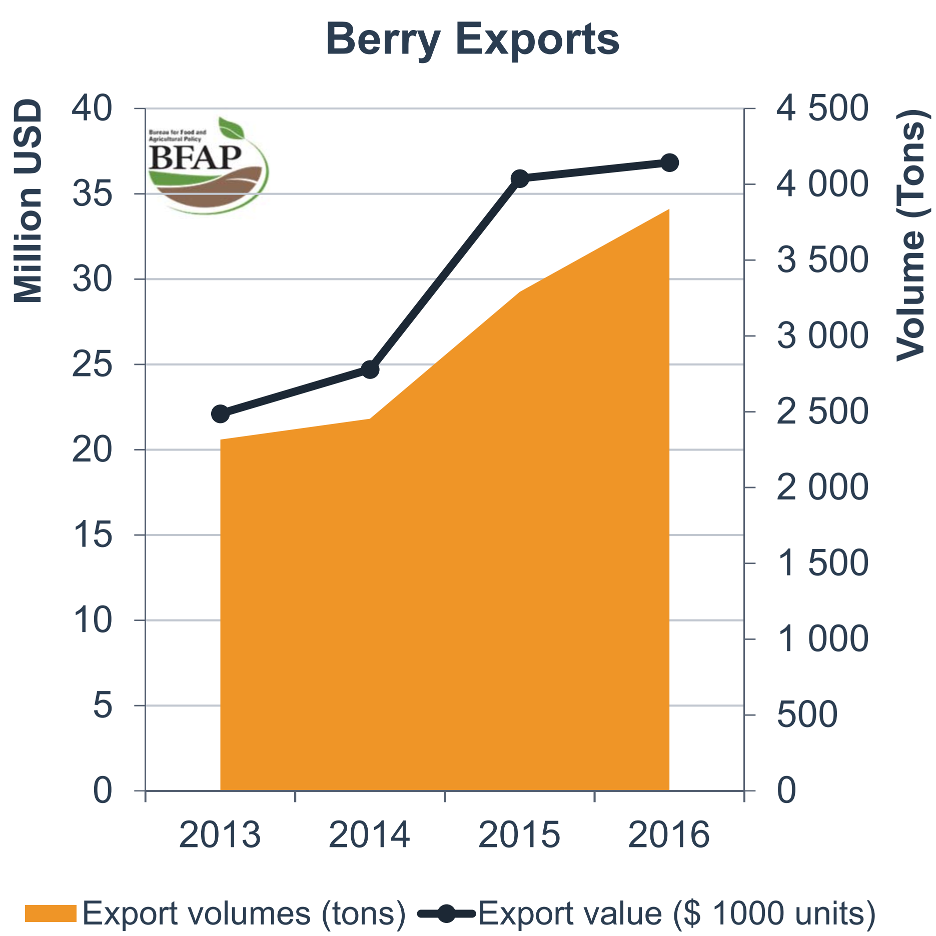




Source: SAMAC (2016) and Trademap (ITC) 2017

# Berry Exports and Production

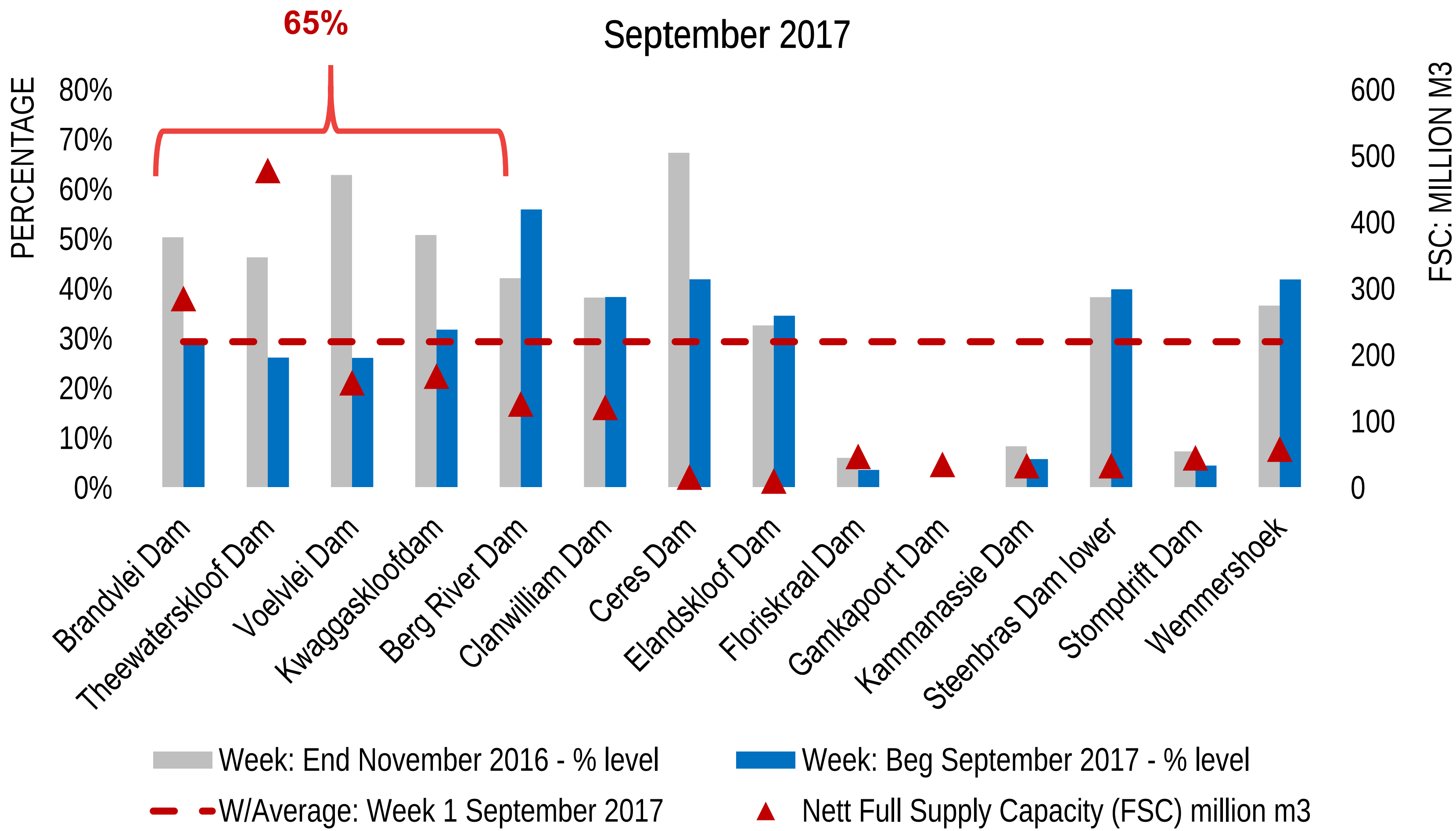
Horticulture and Wine




Source: HORTGRO (2016) and Trademap (ITC) 2017

# Western Cape water situation



# Pome Fruit: Drought Scenario

Horticulture and Wine

| | APPLES | | | PEARS | | |
|---|---|---|---|---|---|---|
| | Baseline | | Baseline vs. Scenario | Baseline | | Baseline vs. Scenario |
| | 2016 | 2026 | % change in 2026 | 2016 | 2026 | % change in 2026 |
| **Production (Tons)** | 902129 | 999777 | -24.17% | 431535 | 453161 | -30.98% |
| **Exports (Tons)** | 425325 | 445015 | -28.88% | 222192 | 222636 | -30.20% |
| **Export Price (R/Ton)** | 10815 | 15574 | 4.22% | 11157 | 15257 | 6.75% |
| **Domestic Price (R/Ton)** | 5556 | 8113 | 18.19% | 5605 | 8209 | 14.71% |

- Alternative scenario of prolonged water shortages
- Aggregate industry estimated yield impact: 50% - 80% “normal” water requirement for Outlook
- Impact of improved water productivity?

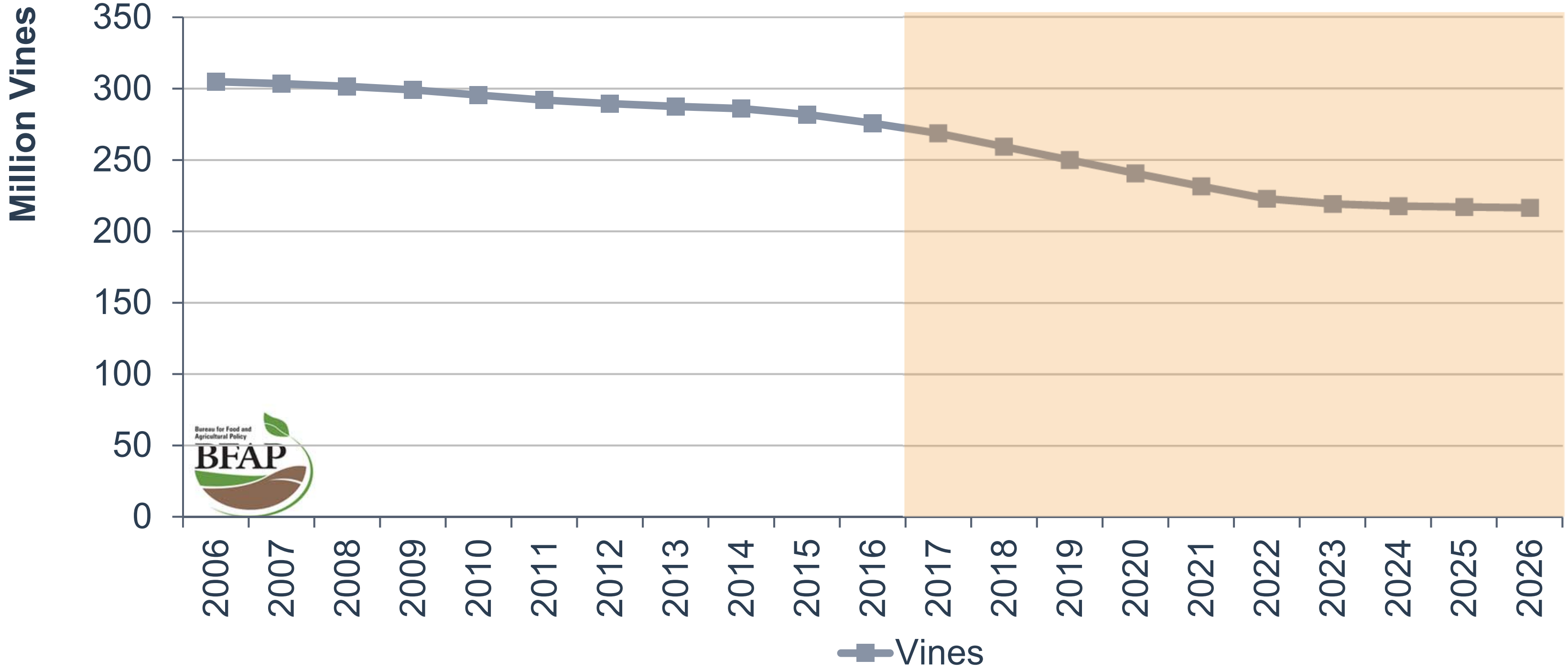
# South African Fruit Sector

Horticulture and Wine

- Effect of water shortages in a farming setup – unique for every enterprise
- Collective approach to improve water productivity & management
- Competition for resources among fruit industries and enterprises
- “Small – enterprises” – in hectares, but ever increasing in value of output and ROI

# Wine Grape Production

## Horticulture and Wine

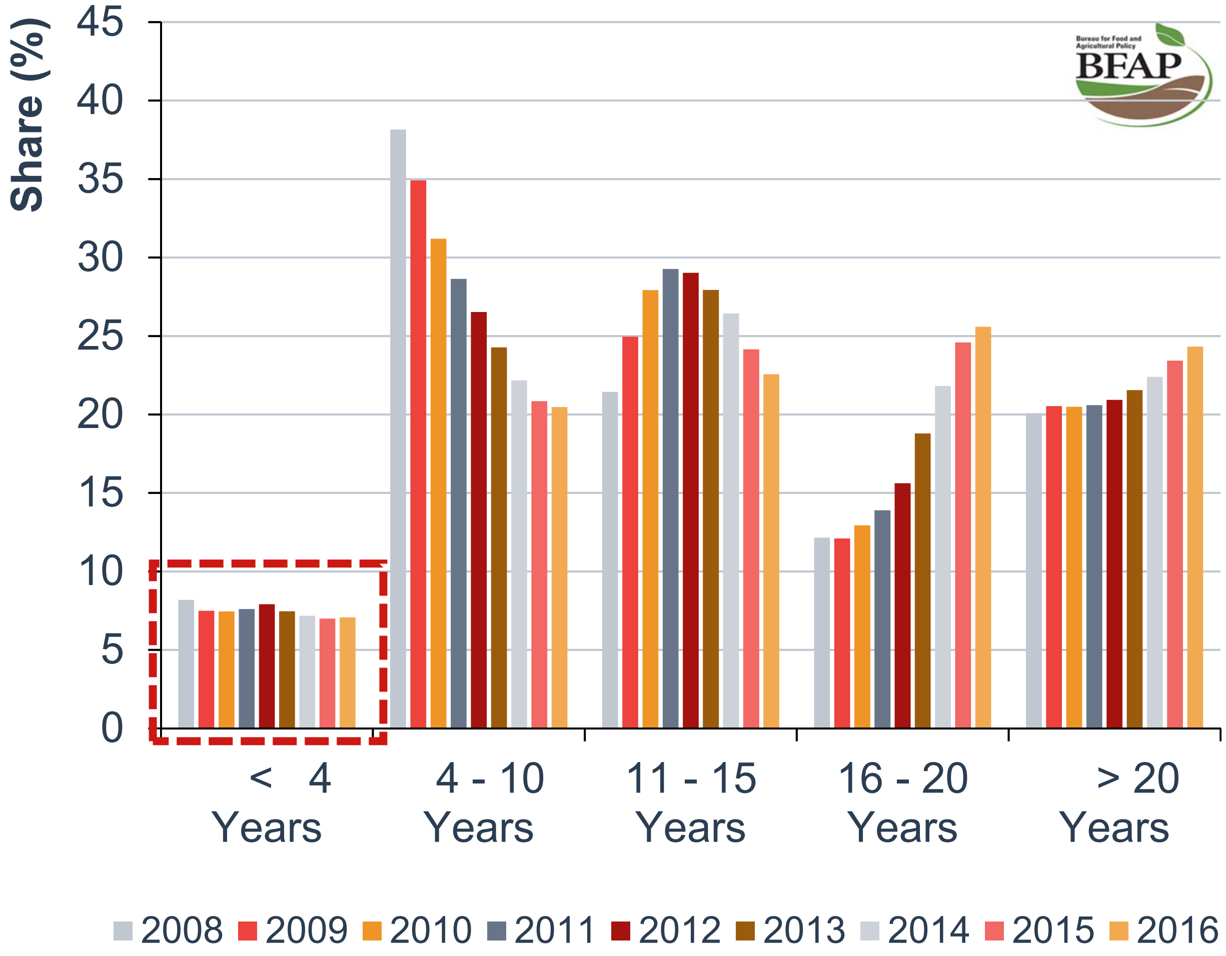



- SA vineyards declined by 2% from 2015 and 2016 and 8.5% since 2008.
- Total bearing vines projected to decrease by avg. 2.4% p.a. –> 221 million vines by 2026
- Reduction slows over second half of outlook

# Vineyard Age Distribution

Horticulture and Wine

Fig. 111, Page 108

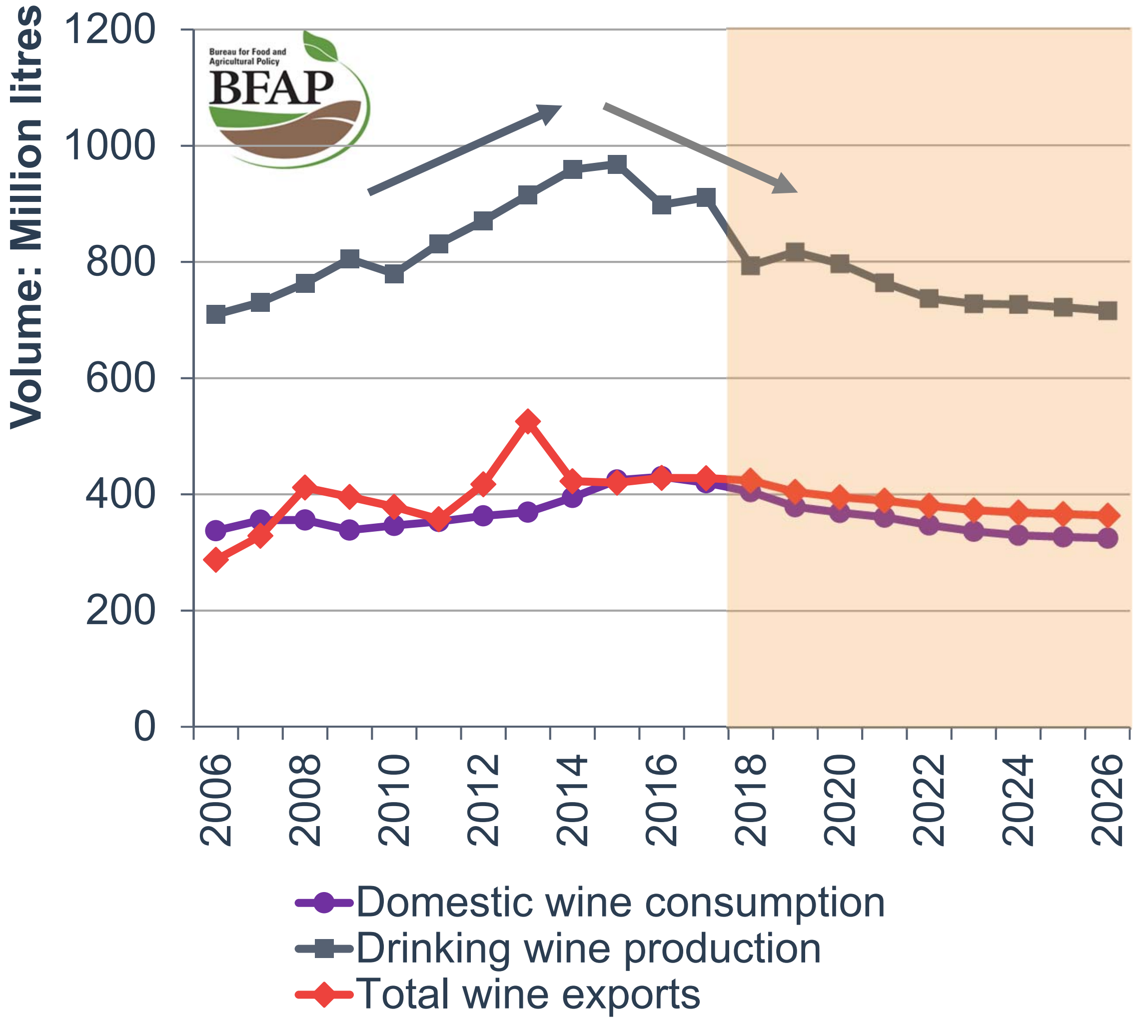



- Vineyards below 4 years stabilised ± 7 000 ha
- Vineyards aged 4 - 15 years declined since 2011
- Share of older vineyards (+16 years) has grown from 34% in 2011 to almost 50% in 2016.
- Vineyard aging expected to continue
  - Current profitability
  - Many reaching replacement age

# Wine Market Balance

Horticulture and Wine

Fig. 106, Page 104

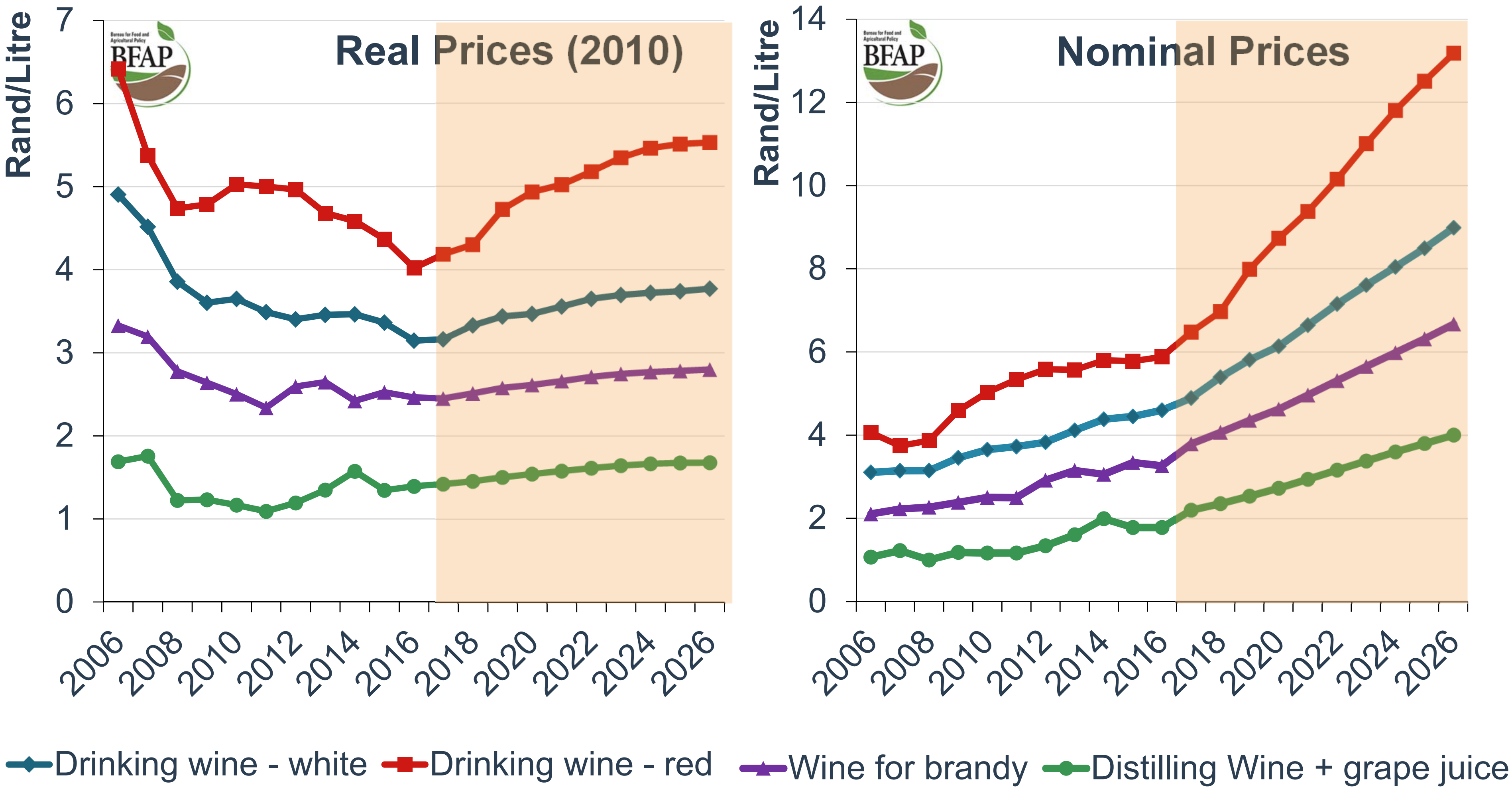



- Decline in wine production – reduced wine grape production
- Rebalancing of supply & demand in market
- Domestic consumption reduces -> weak consumer spending power & higher prices
- Export volumes decline -> lower production & higher domestic prices
- Opportunity to rebase…

# Wine Prices Projected to Increase

Horticulture and Wine

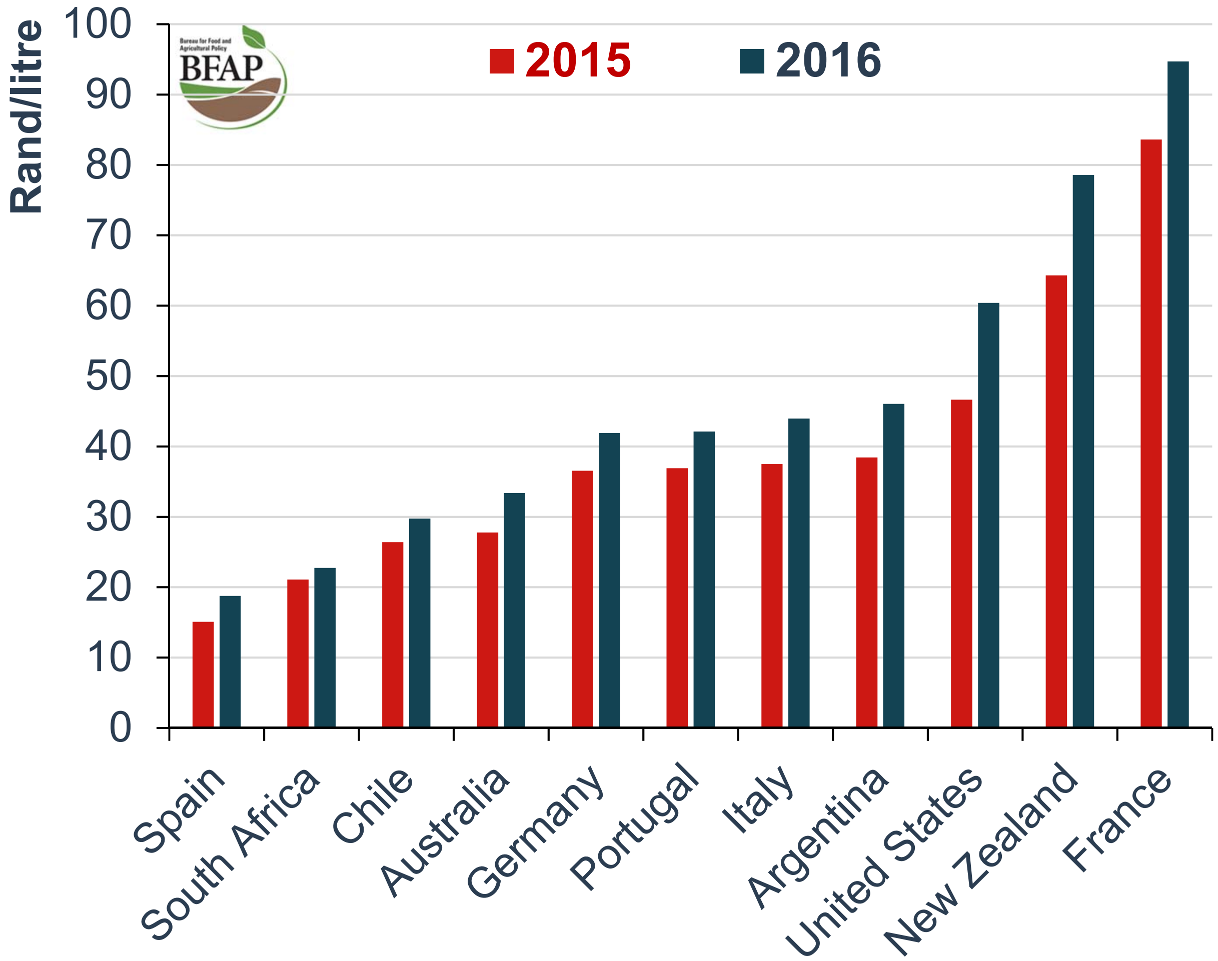
Fig. 109, Page 106



# Opportunity to Improve Export Value

Horticulture and Wine

Fig. 107, Page 105



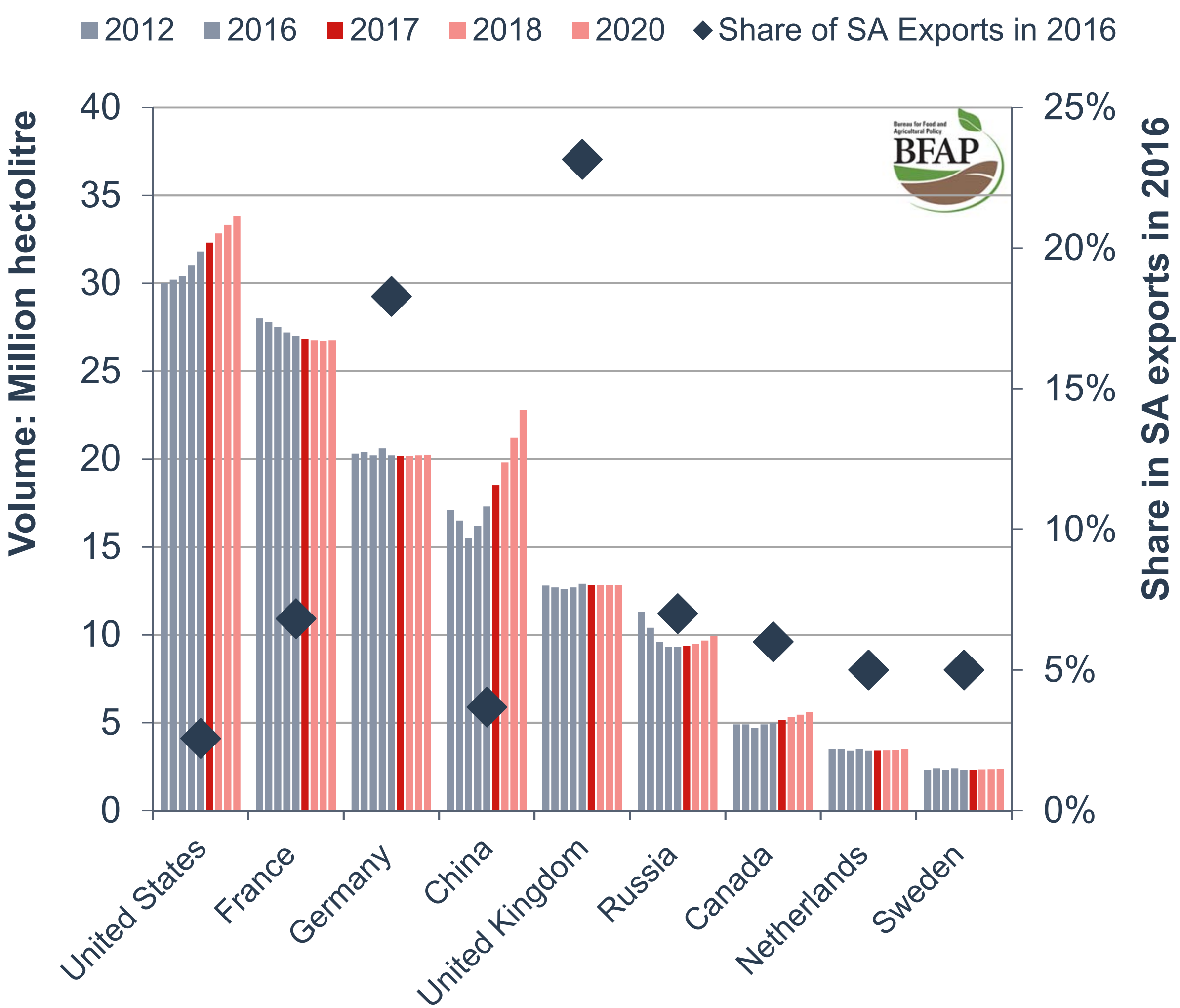

- SA export prices low in global context
- Increase share packaged wine in total exports
- Target higher value, growing markets

**Sources: OIV, 2017**

# Global Wine Consumption is Shifting

Horticulture and Wine

Fig. 105, Page 103




- Traditional markets stagnating – maintain
- Expansion in USA & China – target growth
- Strategic marketing & good positioning for value

**Sources: OIV, 2017; Euromonitor, 2017; SAWIS, 2017**

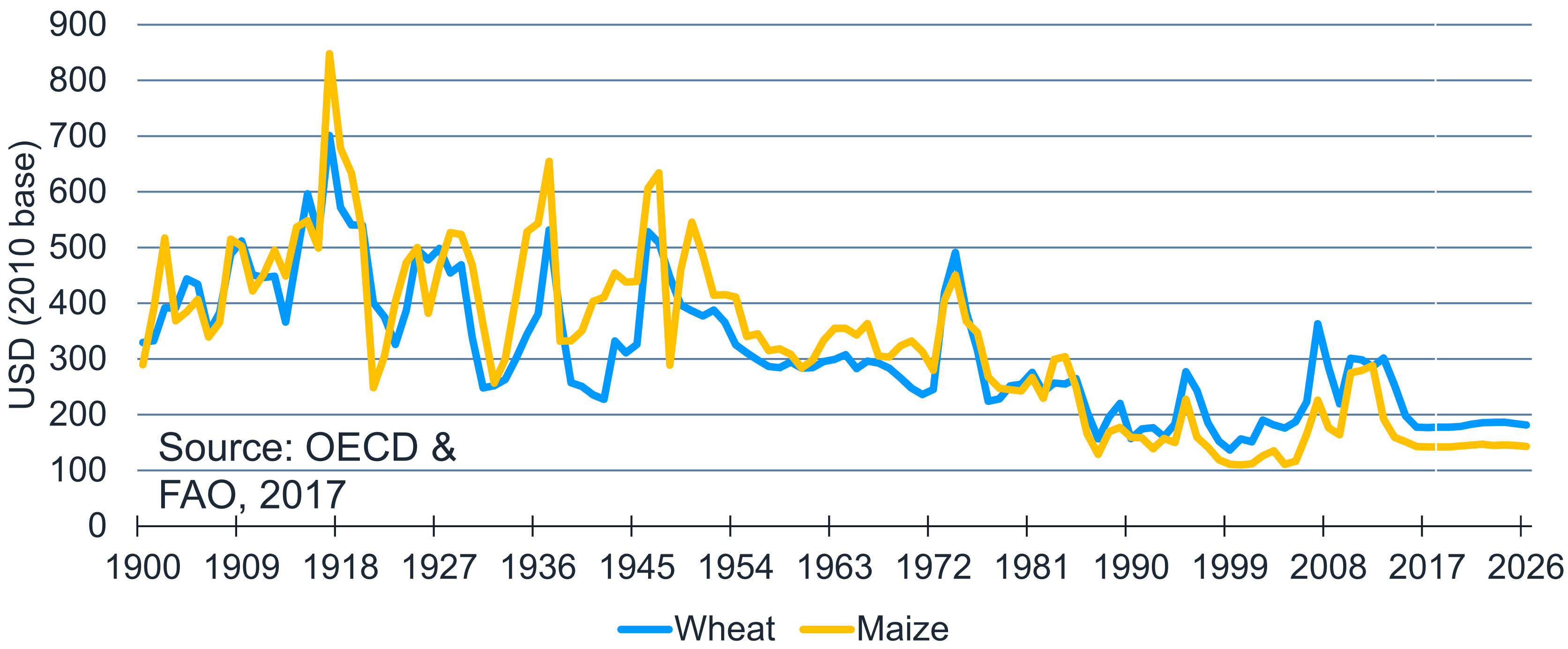
# South African Wine Industry

## Horticulture and Wine

- Come a long way towards strategic targets set as part of WISE -> must sustain momentum to become **value driven**
- Production volumes expected to decline, supporting prices going forward
- Will continue to face **competition for land and water** from other horticultural industries
- Domestic consumption under pressure due to limited spending power & higher prices -> **segmentation** & opportunities in **wine tourism**
- Export volumes expected to decline -> opportunity to target **higher value products & markets**

# Grains and Oilseeds in global market

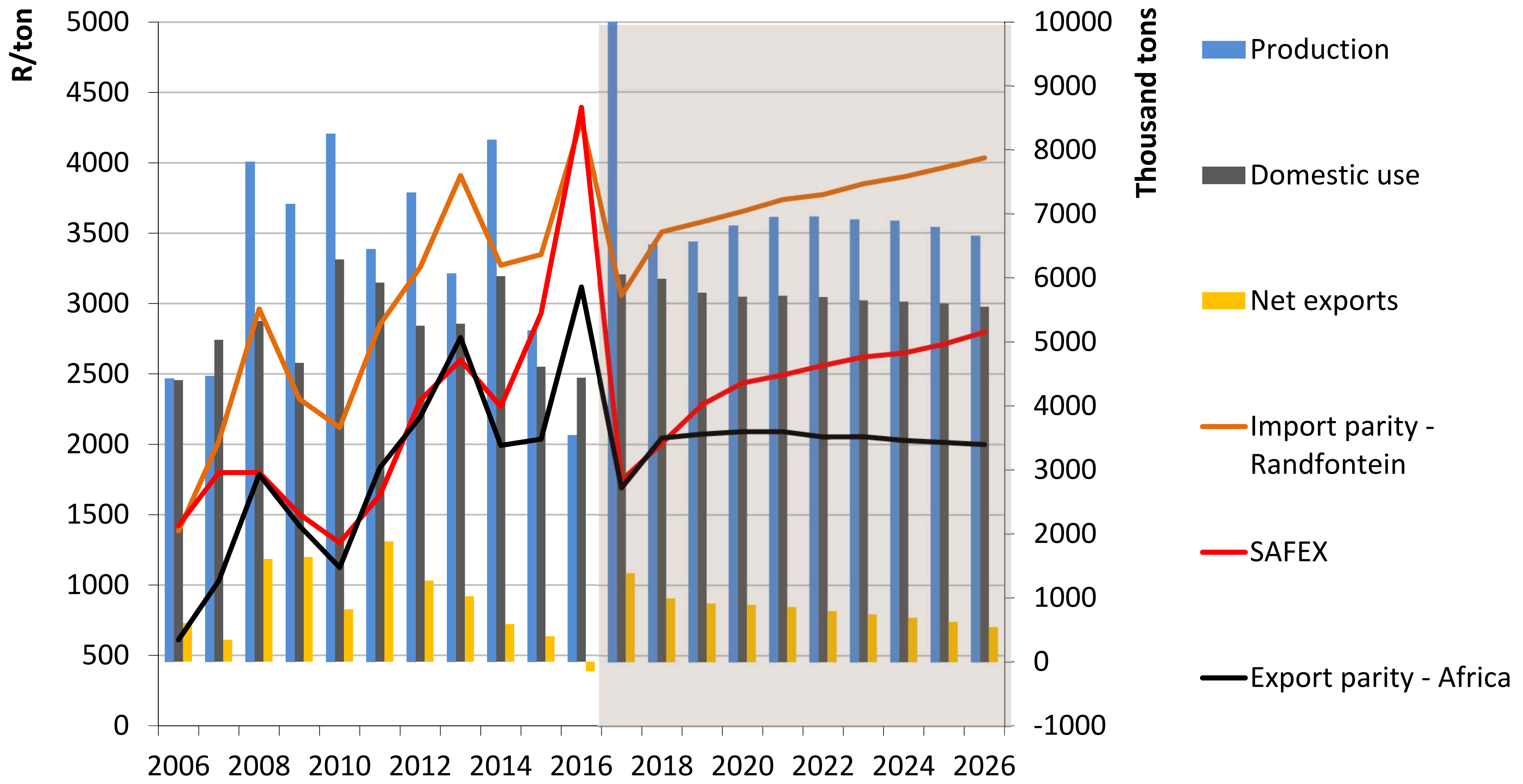
Long term trend of real commodity prices



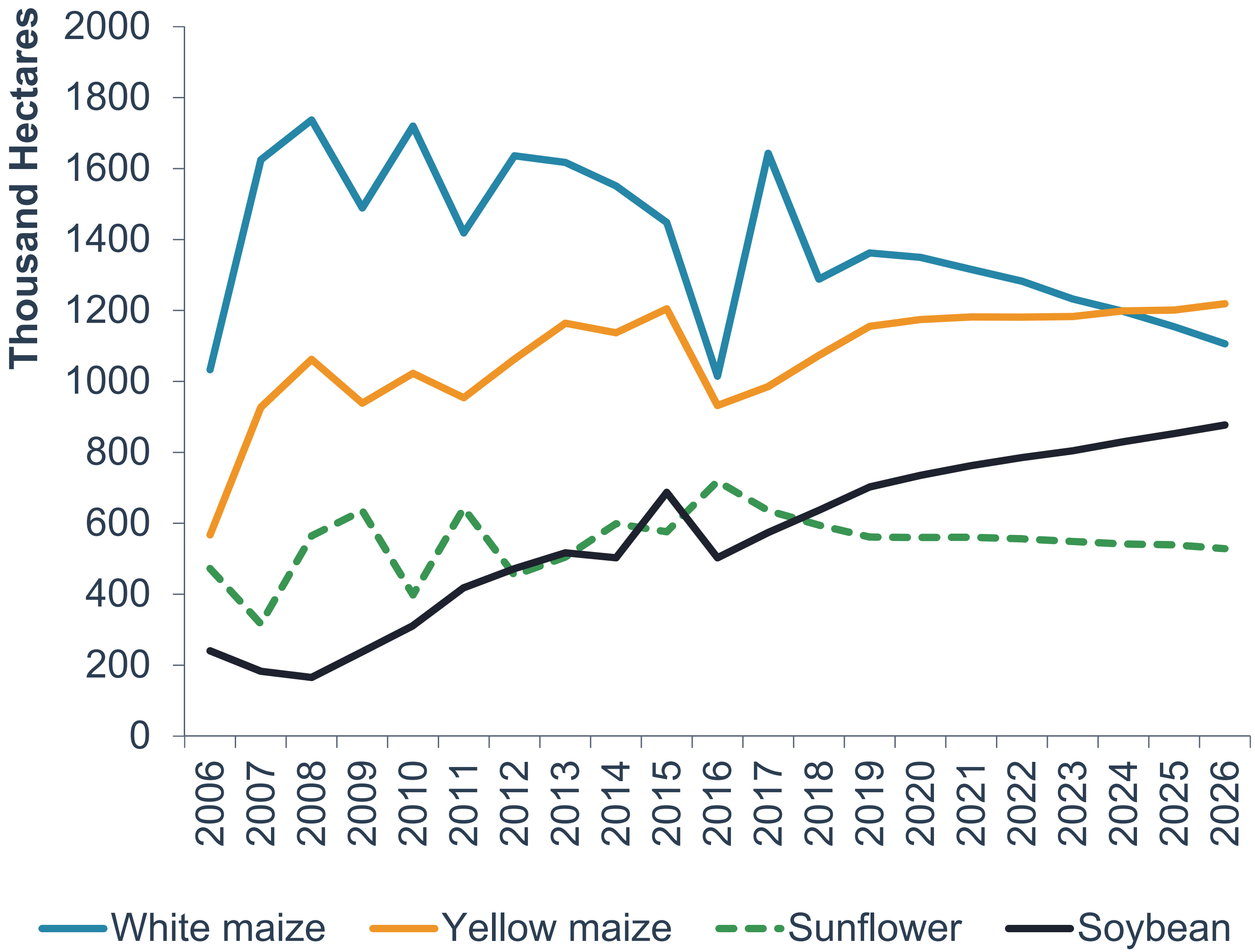

- Prices follow the long run declining trend, with an average price decrease of about 1.5% per year in real terms
- Prices of agricultural commodities are subject to considerable volatility and may show large deviations from their long-term trends for an extended period of time
- Prices eventually returned to their long-term trend

Source: OECD-FAO, 2017

# White maize, turnaround in domestic prices

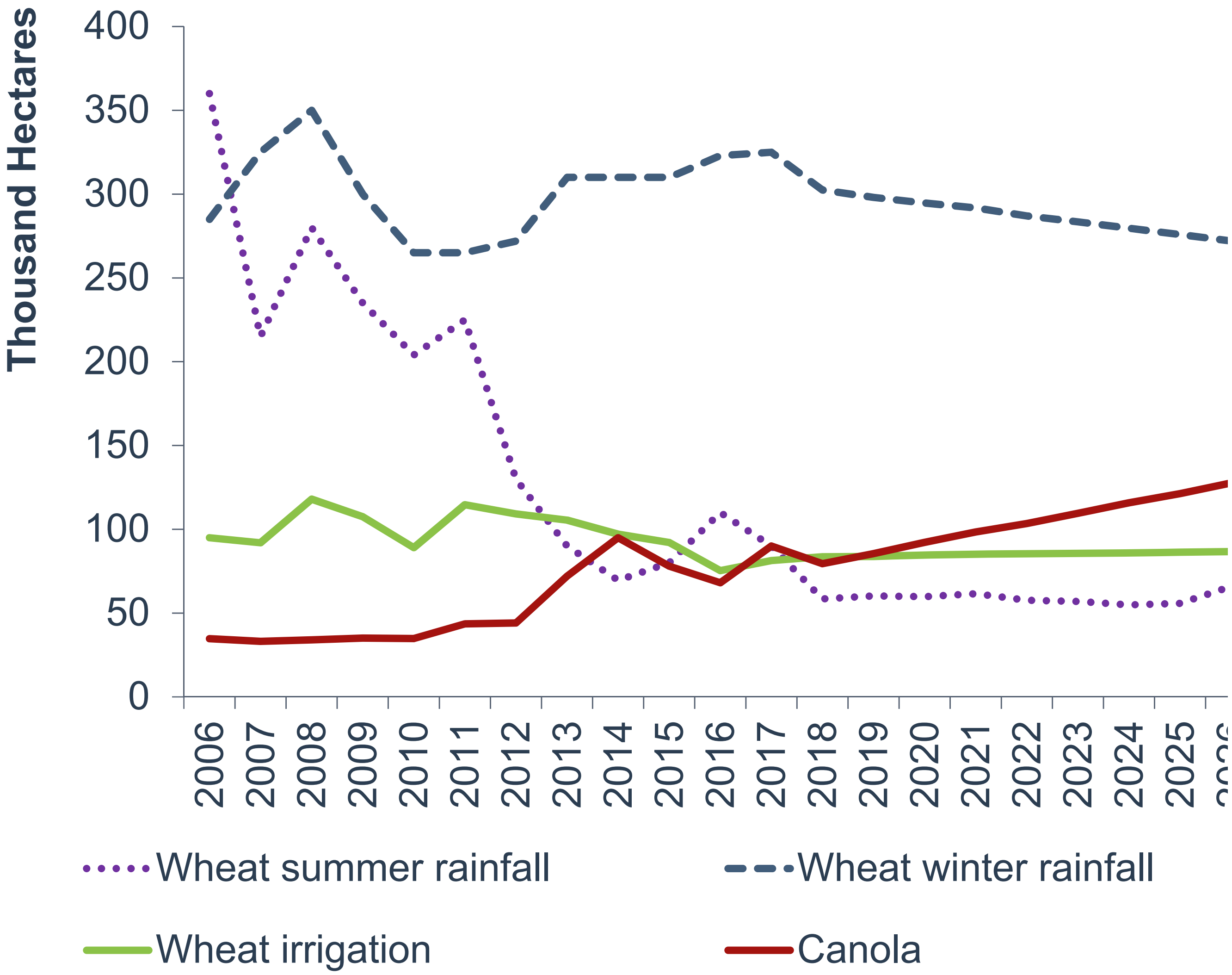


# Summer Crop area



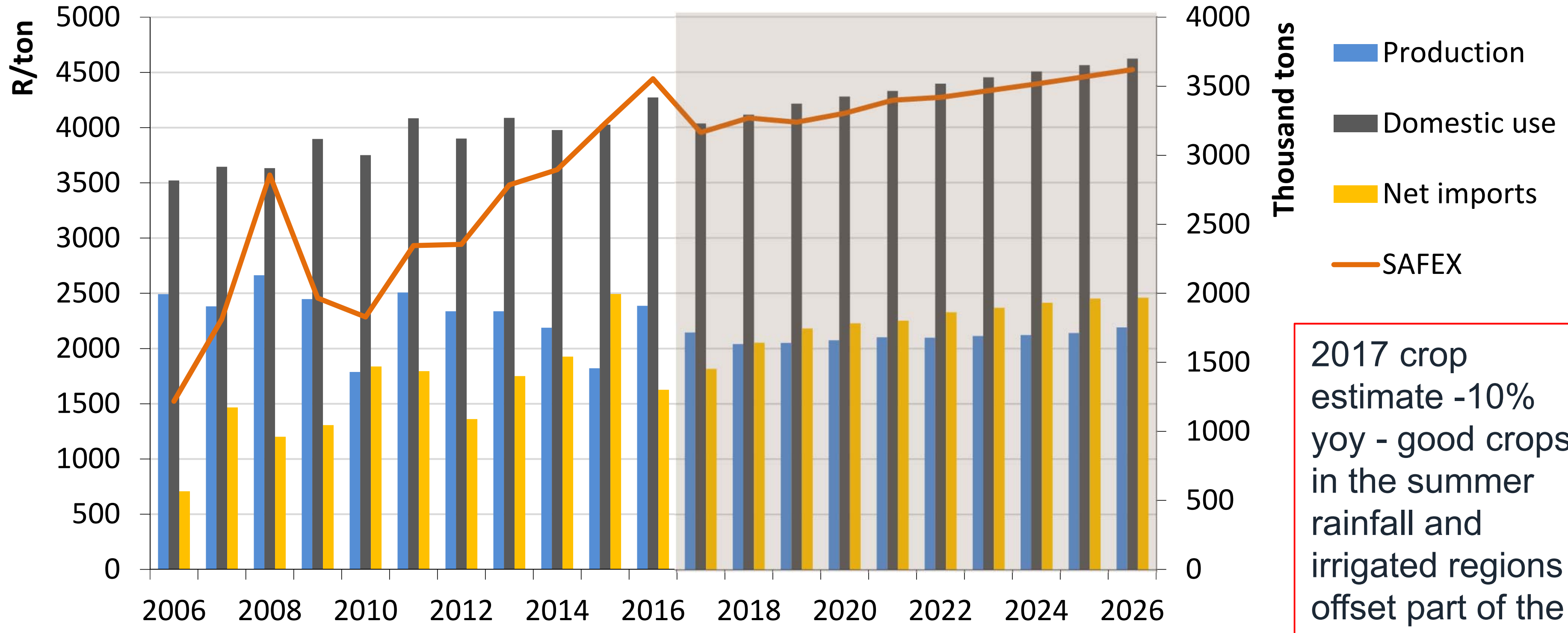

- White maize area projected to decline by more than 300 000 ha on the back of bumper crop and low prices in current season.
- Rapid expansion in soybean area continues to reach more than 900 000 ha by 2025.
- Long-run balance in grain and oilseed markets reflects shift to yellow maize and soybeans.

# Winter crop area




- Approx. 30 000 ha winter wheat area is replaced by barley and canola in long run
- 2017 Winter crop area (% change from 2016):
  - Wheat: -3.3%
  - Barley: +3%
  - Canola: +23.4%

# Wheat production and demand



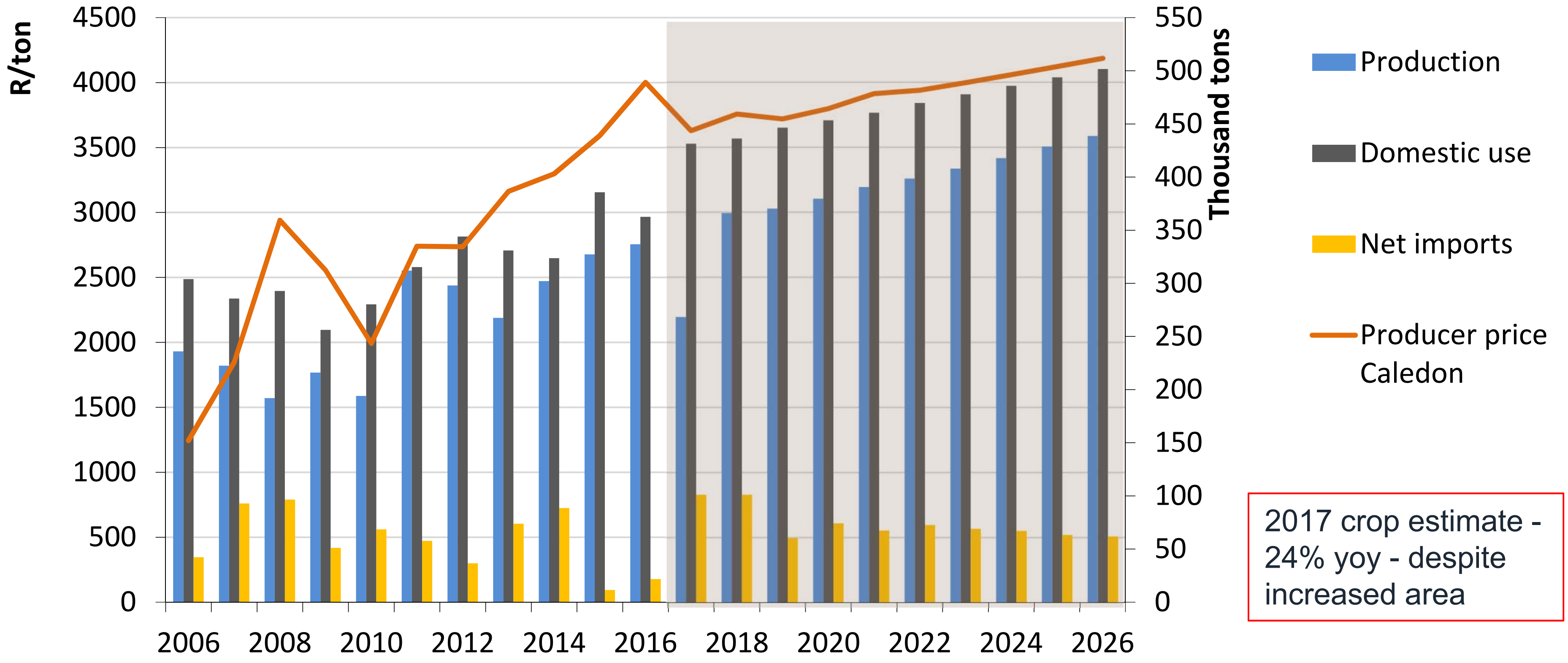

2017 crop estimate -10% yoy - good crops in the summer rainfall and irrigated regions offset part of the 25% yoy decline in WC

Previous decade:

- Yield growth: 2.3% p.a.
- Consumption growth: 1.5%p.a

- Next decade:
  - Yield growth: 1.3% p.a.
  - Consumption growth: 1.5%p.a

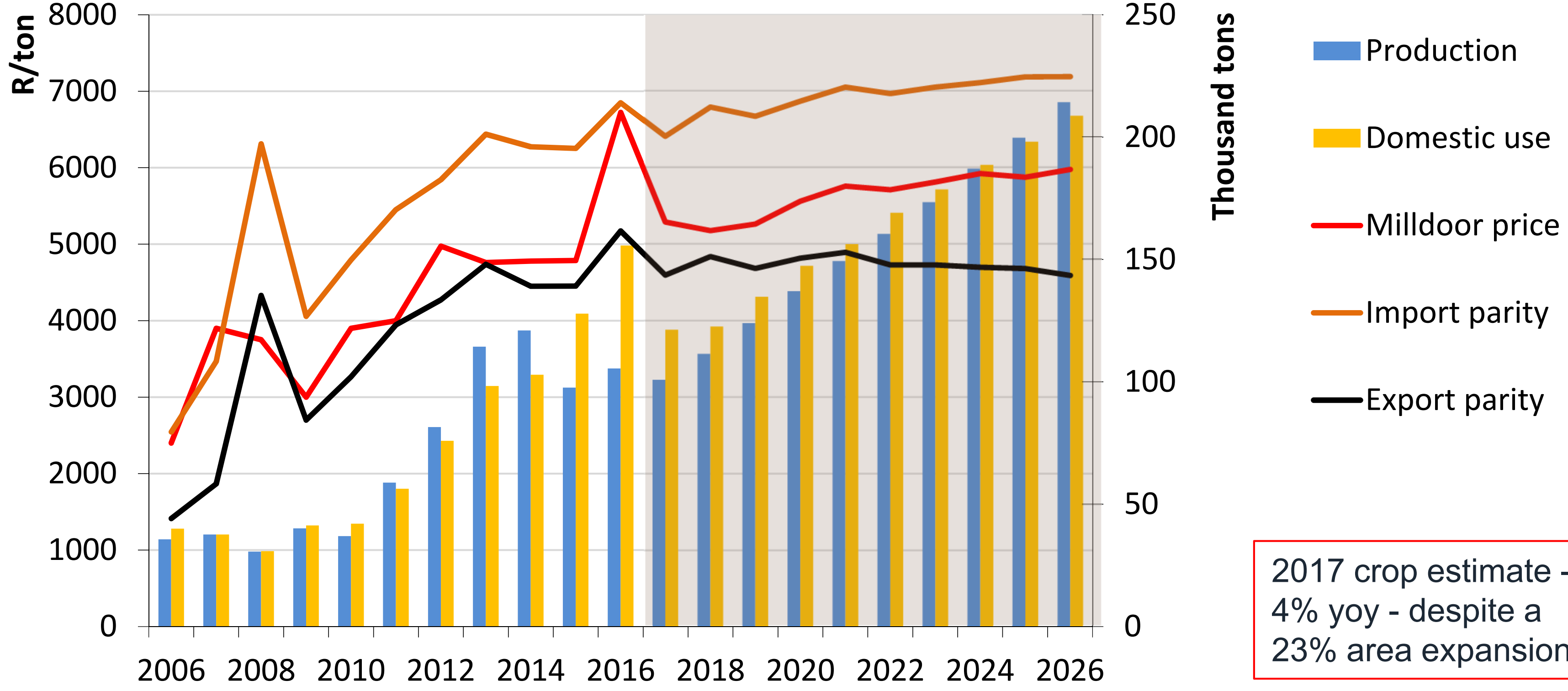
# Barley production and demand




2017 crop estimate - 24% yoy - despite increased area

- Previous decade:
  - Yield growth: 5% p.a.
  - Consumption growth: 1.3%p.a
- Next decade:
  - Yield growth: 1.3% p.a.
  - Consumption growth: 1.9% p.a

# Canola production and demand




2017 crop estimate - 4% yoy - despite a 23% area expansion

- Previous decade:
  - Yield growth:4.2% p.a.
  - Consumption growth: 16%p.a
- Next decade:
  - Yield growth: 2% p.a.
  - Consumption growth: 5.8% p.a.

# Key messages

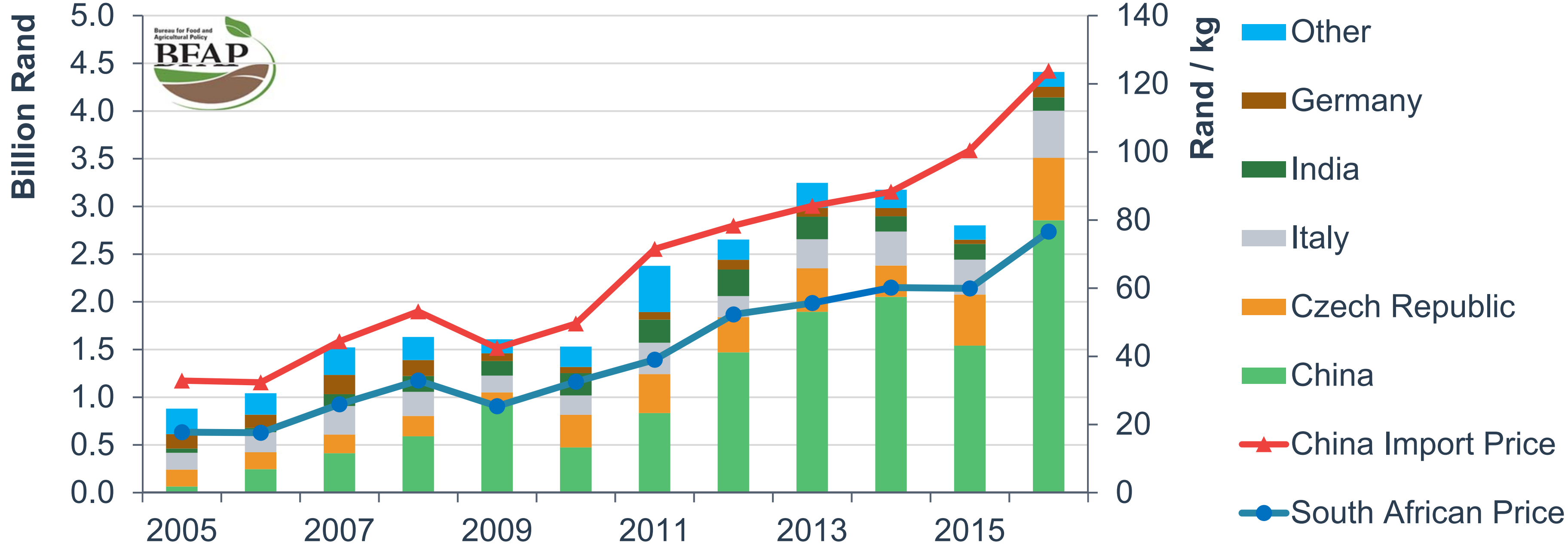
## Grains, Oilseeds and Potatoes

- Major recovery in grain and oilseed production following the drought, **but** cash flow remains under pressure.
- Drop in maize prices brings major relief to the food inflation on the staple food basket
- Gradual shift to feed grains and oilseeds
- Higher and sustainable crop yields critical to remain competitive

# Success in Wool Production

Livestock and Dairy

Fig. 82, Page 80

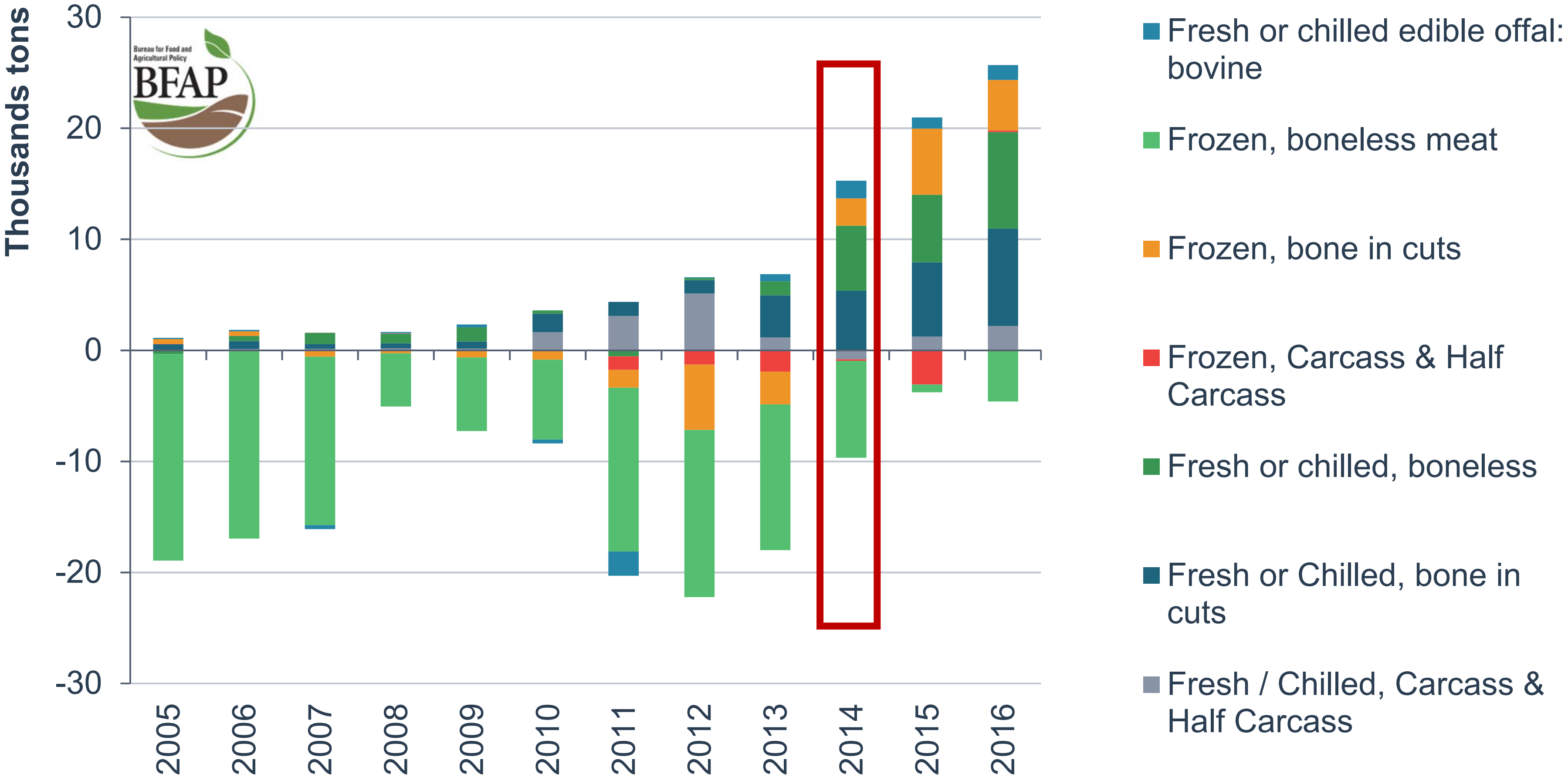



- SA share in China imports increased from 2% to 8% in past decade
- Eastern Cape Production +2.3% p.a. past decade – significant share from smaller producers in communal areas
- 1998-2015, value contribution increased: R15m –> R130m – **it can be done!**

Source: ITC Trademap

# Net Trade in Beef Products – Shift in Markets

Livestock and Dairy



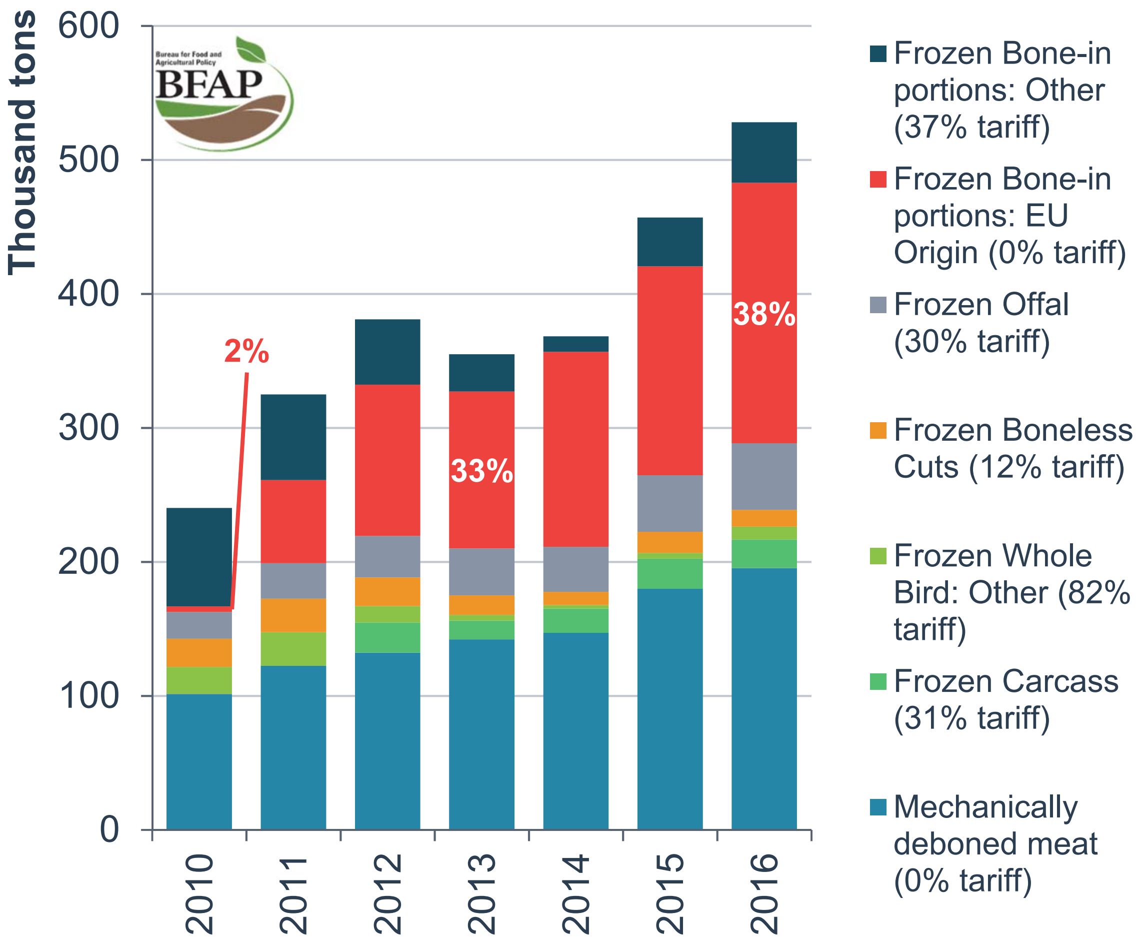

- Predominantly high value cuts destined for Middle East
- Vet protocols are paramount – need to remain free of FMD, more possibilities

Source: ITC Trademap

# Poultry Imports Continue to Grow

Livestock and Dairy

Fig. 74, Page 74



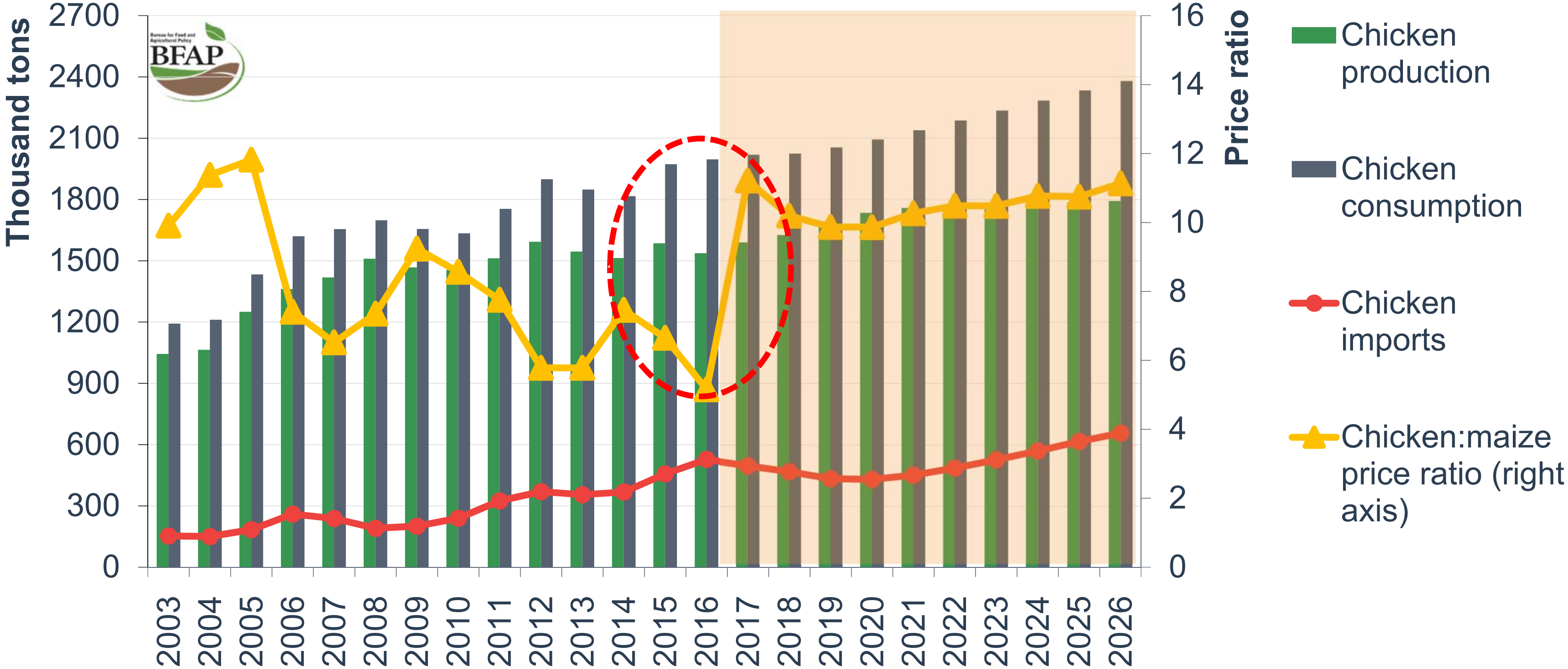

- Rapid growth in imports of bone-in portions
- Bulk of import growth originates from EU
- Short term relief due to HPAI in EU
- Provisional safeguard has lapsed, ITAC investigation ongoing
- Importance of food safety & origin to consumer?

Source: ITC Trademap

# Feed Grain Prices Provide Relief

## Livestock and Dairy

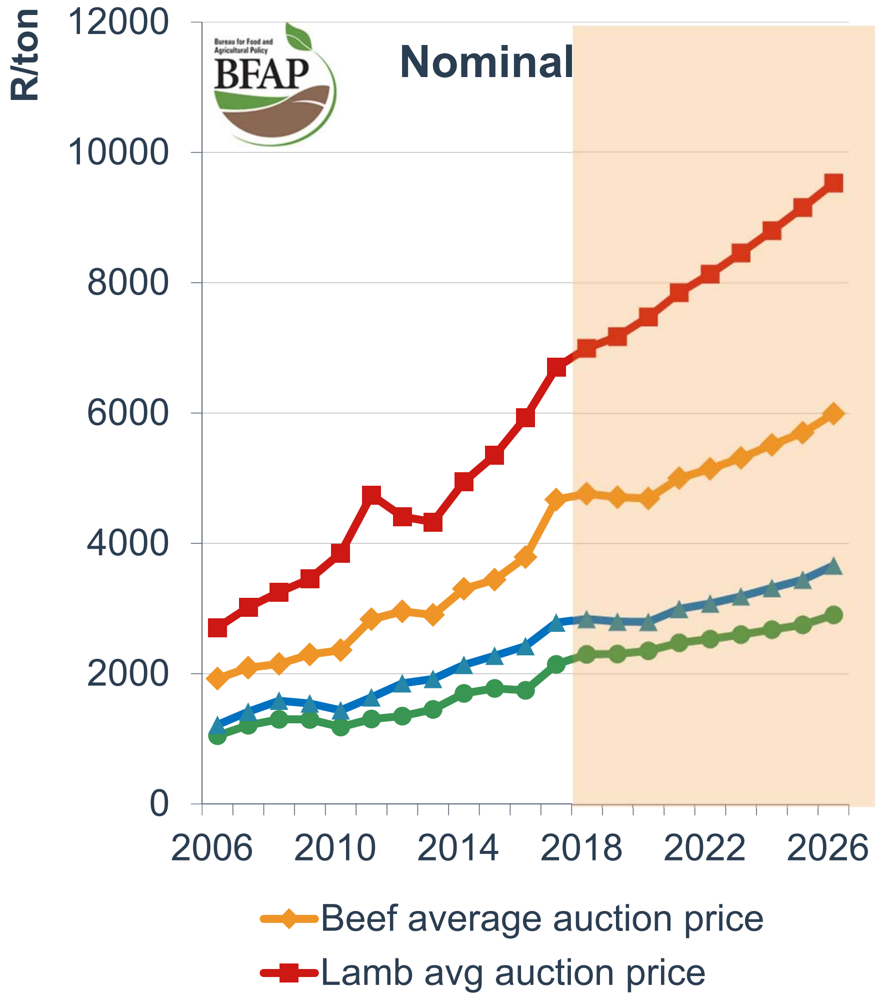
Fig. 75, Page 75

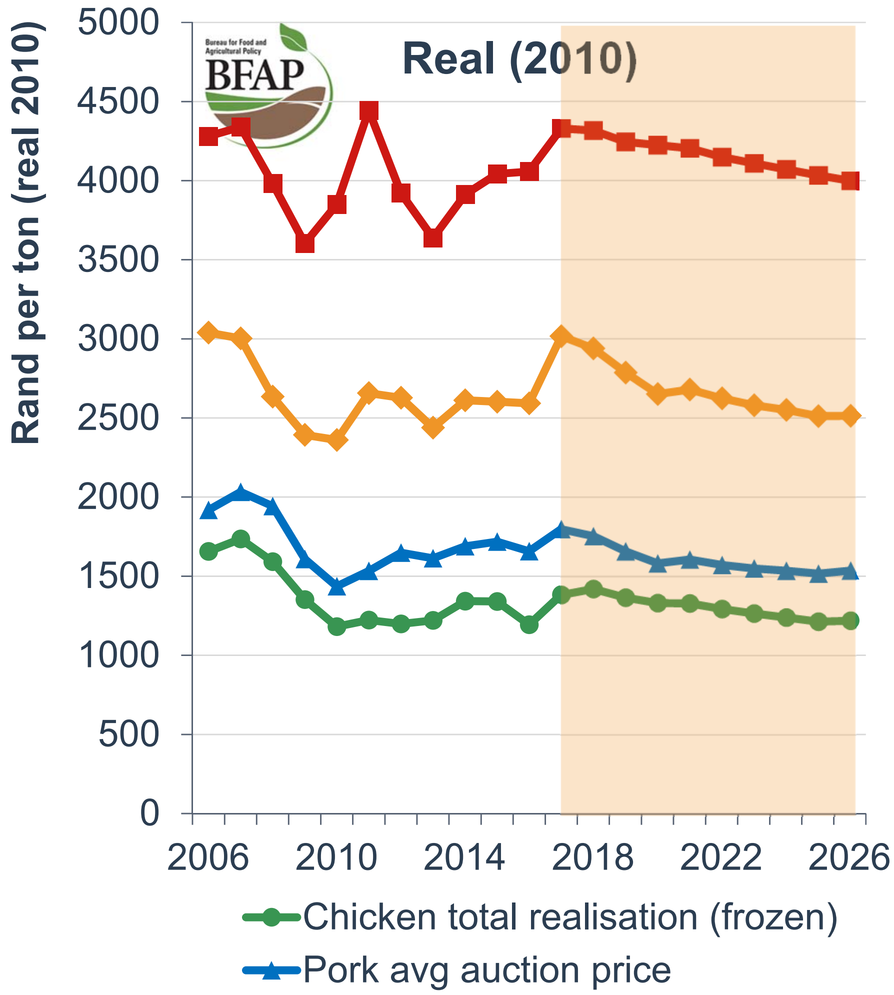



- Profitability to improve on reduced feed costs
- Some, but still limited growth in production
- Many uncertainties remain
  - o Safeguard duties on EU imports
  - o Impact of AI outbreak
- Import growth expected to slow, but still factor

# Summary: Meat Price Outlook

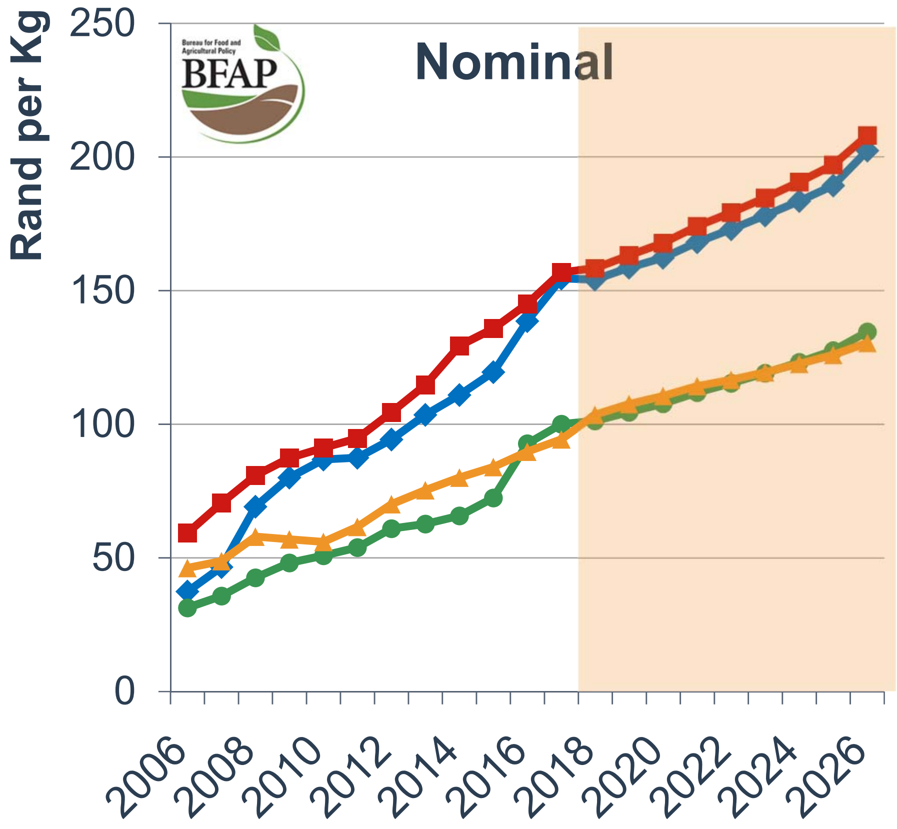
Livestock and Dairy

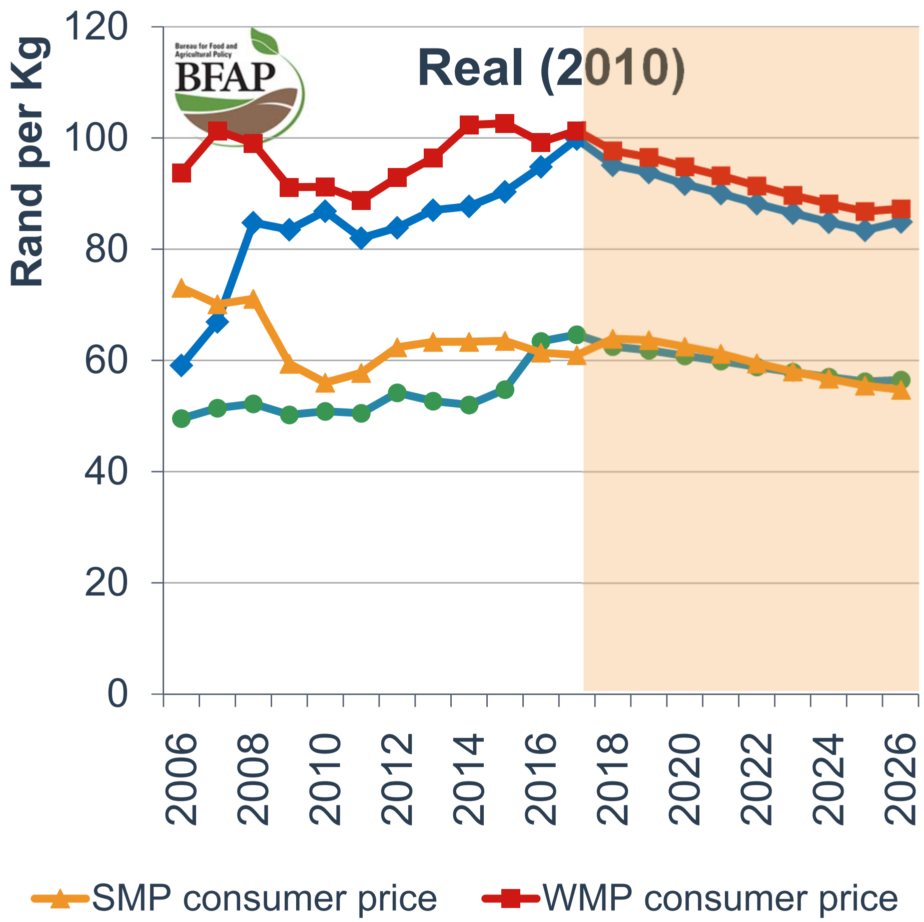


# Dairy Product Prices

Livestock and Dairy



# Key points: Meat and Dairy

## Livestock and Dairy

- Consumer under pressure - domestic demand growth expected to slow, especially in short term
- Commodity cycle has turned in favour of livestock production – provided weather conditions play along
- Livestock sectors have long value chains with a large footprint – commercial and small scale, but prolonged recovery from drought
- Significant expansion potential – particularly informal market
- Disease control is vital – to sustain beef export markets & protect domestic producers (eg. HPAI outbreak 2017)
- Ongoing drought in Western Cape concern – particularly to dairy, where more than 25% of production from Western Cape

# In summary

- SA has caught up with global commodity cycles.
- Lower food price inflation **but** margins under pressure
- Recovery from the drought will take a few years
- Lower feed prices offer opportunity for intensive livestock operations to recover
- Water availability & efficient use – make or break for high-value crops
- Rural economies are growing **but** financing and investment in infrastructure required
- Land reform – only small pockets of success and a long way ahead

# THANK YOU

The BFAP Baseline 2017 publication is available electronically on the BFAP website.

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