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The 2018/19 maize production prospects of South Africa's neighbouring countries

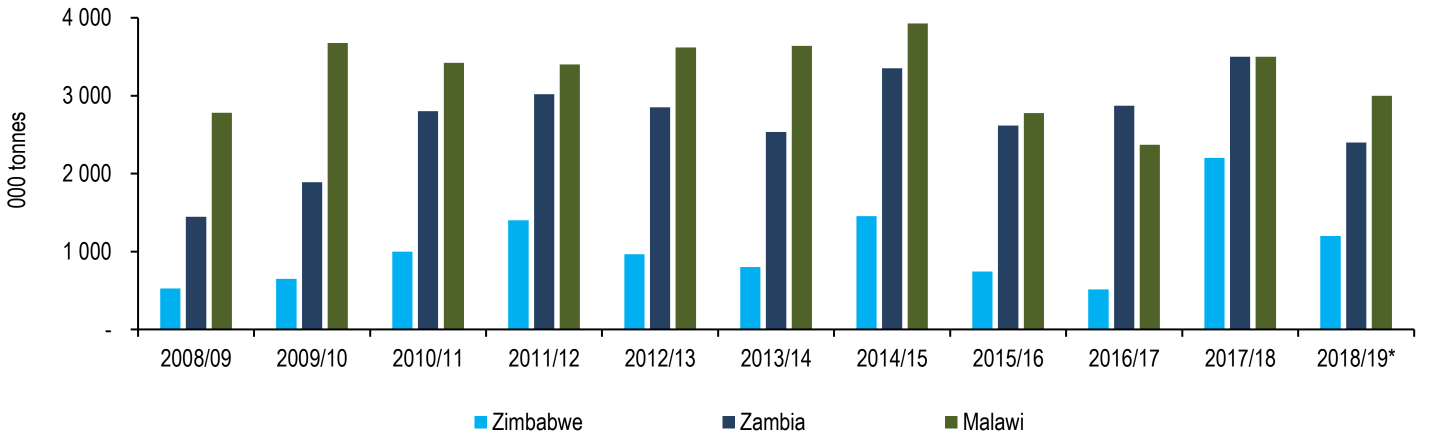
- The drier weather conditions that affected parts of South Africa also had a negative impact in the maize-producing areas of Zimbabwe, Zambia and Malawi over the past couple of months. Hence, these particular countries could experience a double-digit decline in maize production in the 2018/19 season compared to the previous one.

- Zimbabwe's 2018/19 maize production could fall by 45% year-on-year to 1.2 million tonnes (the 2018/19 production season corresponds with 2019/20 marketing year). This is according to data from the International Grains Council (IGC). Given that Zimbabwe's maize carryover stock of roughly 458 000 tonnes from the 2018/19 marketing year might not be sufficient to boost its maize supplies in the 2019/20 marketing year, the country could remain a net importer of maize. If we account for the fact that Zimbabwe's maize consumption typically varies between 1.8 million and 2.0 million tonnes, then maize imports for the 2019/20 marketing year will most likely amount to 400 000 tonnes. In such an event, within the Southern Africa region, the most likely suppliers of maize would be Zambia and South Africa (notwithstanding the expected poor harvest in South Africa due to dryness in the western regions of the country). The other possible suppliers could be Mexico, the United States and Russia, amongst others.

- Zambia's 2018/19 maize production could amount to 2.4 million tonnes, down by 31% year-on-year, according to data from IGC. Nonetheless, this will not make Zambia a net importer of maize in 2019/20 marketing year. The country has carryover stocks of about 785 000 tonnes, which will be an opening stock in the new marketing year. This means that Zambia's maize supplies could be about 3.1 million tonnes in 2019/20 marketing year, which is well above the annual maize consumption of roughly 2.5 million tonnes.

- IGC forecasts Malawi's 2018/19 maize production at 3.0 million tonnes, down by 14% from the previous season due to prospects of unfavourable weather conditions. Moreover, the country's maize stocks are tight, estimated at 50 000 tonnes at the end of the 2018/19 marketing year. With that said, the country might not need notable imports to supplement its supplies in 2019/20 marketing year as annual maize consumption is estimated at 3.0 million tonnes.

Figure 1: Malawi, Zambia and Zimbabwe maize production



Source: Trade Map, Agbiz Research

Update on South Africa's maize conditions

Maize market

- The expected wet weather conditions in the week of 18 January 2018 did not materialise in most parts of South Africa. In the western regions of the country, the weather conditions were quite dry and temperatures turned hot towards the end of the week, which does not bode well for the new season's recently planted crops. Meanwhile, the eastern regions of the country received erratic rainfall and experienced temperatures much closer to normal resulting in continued favourable crop development. These weather dynamics are illustrated by changes in subsoil moisture levels in Figure 2 (week of 08 January 2019) and Figure 3 (week of 17 January 2019) below.

- In essence, the western maize production areas of South Africa are now critically dry once again because of the hot and dry weather, and relatively limited soil moisture leading into this week (17 January 2019).

Figure 2: South Africa's subsoil moisture: January 8, 2019

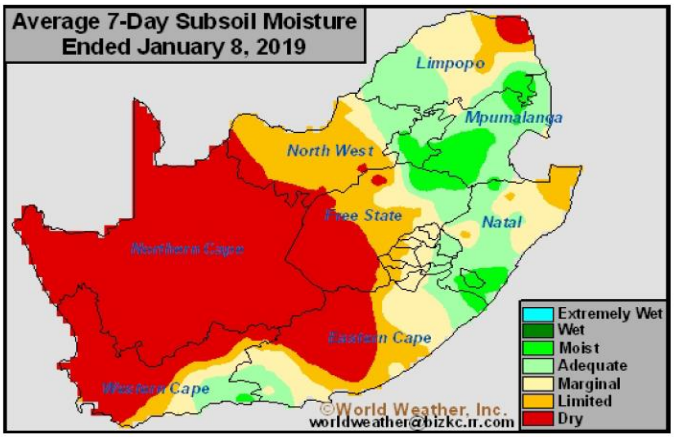
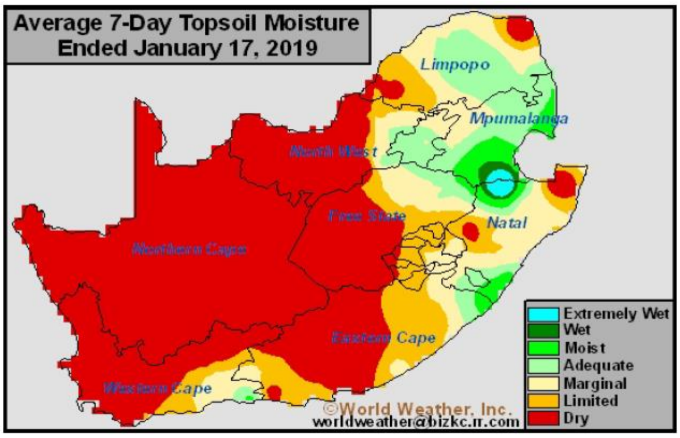


Figure 3: South Africa's subsoil moisture: January 17, 2019



Source: World Weather Inc.

- Our view regarding maize plantings remains unchanged from last week.[1] To recap, the intended area of 2.44 million hectares for maize in the 2018/19 season could fall by 19% to 1.98 million hectares. This would be almost in line with the area planted during the drought period of the 2015/16 production season. At that time, South African maize production amounted to 7.8 million tonnes, turning the country into a net importer, as annual maize consumption is roughly 10.8 million tonnes. During that year, there were relatively lower stocks as it was a second successive drier season. But, this time is different. South Africa's maize ending stocks, which will be carried over to the 2019/20 marketing year at the start of May 2019 is estimated at 3.4 million tonnes. This will provide a buffer for the country's supplies. Therefore, if South Africa's 2018/19 maize production could amount to at least 8.0 million tonnes, the country would have sufficient supplies for the whole 2019/20 marketing year, assuming there will be limited exports.[2]

[1] South Africa's Agricultural Market Viewpoint for the week of 14 January 2018: https://agbiz.co.za/uploads/reports/20190114%20SA%20Agricultural%20Market%20Viewpoint.pdf

[2] The 2018/19 production year corresponds with 2019/20 marketing year.

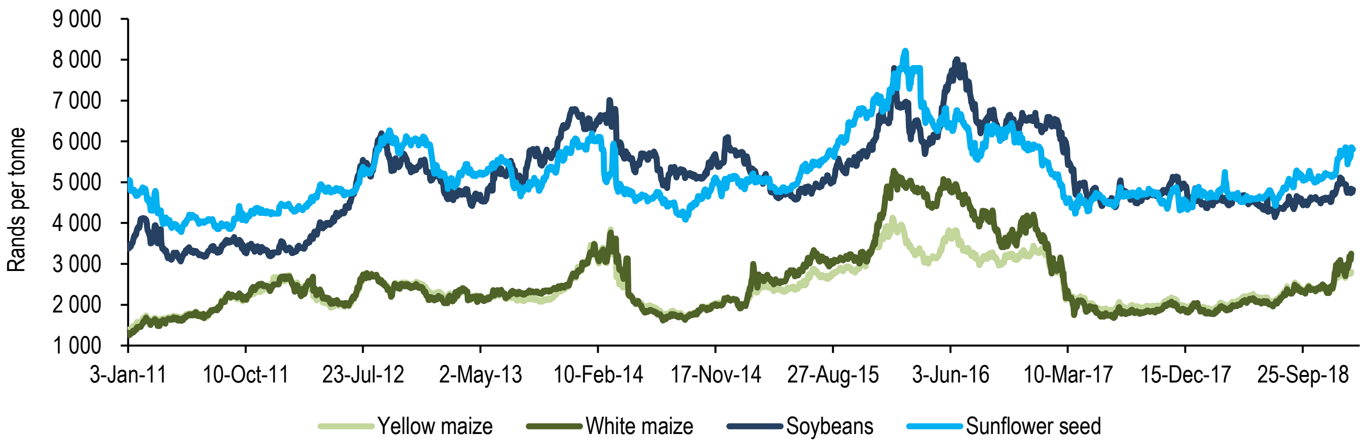
- We will release an update of the production estimate next week when there is some level of certainty about the actual maize area planted. The preliminary planting data will be part of the much-anticipated summer grains and oilseed monthly data which will be released by the national Crop Estimate Committee on 29 January 2019. Whatever the planting data comes out to be, it is worth noting that the production estimates in the market generally vary between 10.4 million tonnes and 12.0 million tonnes.[3] Our previous estimate, which we have since reversed was about 12.2 million tonnes, then based on an area of 2.44 million hectares.

Implications of the aforementioned production dynamics on SAFEX maize prices

- Prices in South African grains commodities (white and yellow maize) rallied last week, supported by the aforementioned dryness which has caused fears of a poor harvest, as well as higher Chicago maize prices. In the case of Chicago maize prices, the key driver was the fear that unfavourable weather conditions in South America could lead to a poor harvest. A number of analysts have already lowered their maize and soybean production estimates for Brazil due to dryness. Moreover, the talks of US maize and soybeans sales to China and other unknown destinations which supported the market. However, it is still difficult to tract the global grain trade movement as the United States Department of Agriculture (USDA)'s activities have been affected by the partial government shutdown.

- In the near term, the erratic weather conditions and uncertainty about the maize harvest size will continue to lift SAFEX prices and, in turn, add inflationary pressure on consumers and animal feed industries. We do not expect a notable uptick in soybeans and sunflower seed prices for two reasons. First, soybeans are largely produced in the eastern regions of South Africa which have a fair amount of soil moisture that should support the crop (see Figure 2 and 3). Second, the delays in maize plantings in the western regions of the country meant that the late plantings could largely be sunflower seed. To this end, we will get a clearer view of the actual area plantings on 29 January 2019 when the national Crop Estimate Committee releases its monthly assessment.

Figure 4: South Africa's maize, soybean and sunflower seed prices



Source: Bloomberg, Agbiz Research

[3] The lower estimate is from BFAP, with the highest one being the USDA.

Update on South Africa's wheat market

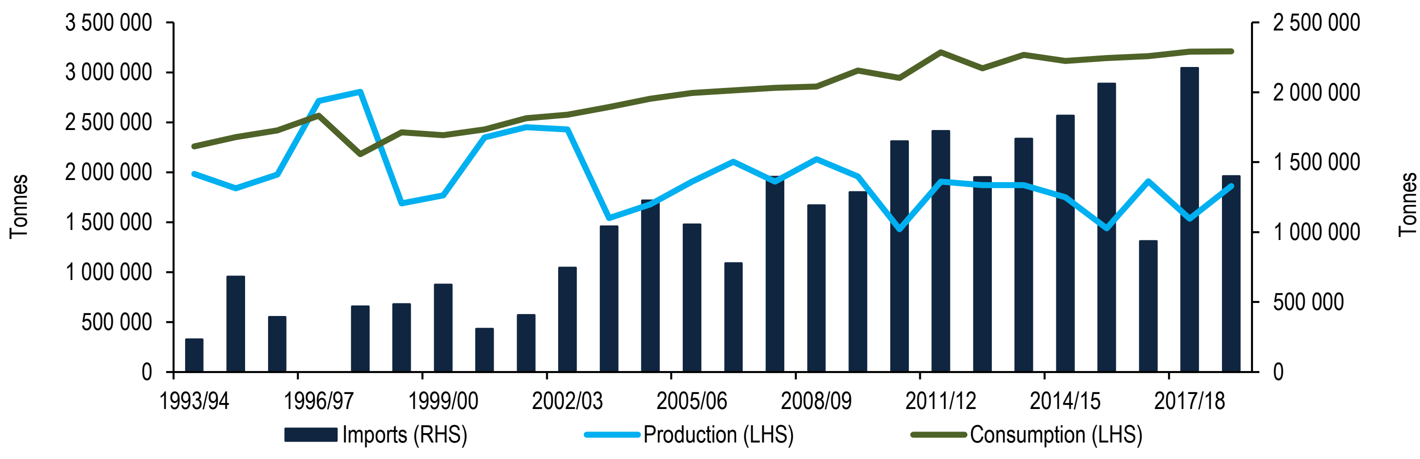
- The South African wheat market has had a relatively quiet start of the year and conditions are likely to remain this way for the next three month, assuming there are no drastic changes in the global market. It is now clear that South Africa will have a fairly good winter wheat harvest in the 2018/19 season, currently estimated at 1.83 million tonnes, up by 19% from the previous season. This is due to an uptick in the Western Cape harvest as the province recovers from the 2017 drought. Furthermore, the general expansion in area planted also contributed to the expected increase in production.

- Going forward, the wheat crop will receive increased attention again around May 2019 when the planting activity for the 2019/20 production season commences in the Western Cape. In the process, the weather will be a key factor to keep an eye on. At this point, there is no warning, conditions remain fairly normal.

- Overall, the current production estimate essentially means that South Africa's 2018/19 wheat imports could fall by 36% from the previous year to 1.4 million tonnes (Figure 5). In the week of 11 January 2019, about 13% of this had already landed on South African shores. An additional volume will be delivered between this month and September 2019, which is the last month of the 2018/19 marketing year. Russia, Canada, Argentina, Ukraine and the United States were the key suppliers, and are likely to remain amongst the key suppliers in the coming months as it has been the case in the 2017/18 marketing year.

- At the end of the week of 18 January 2019, SAFEX wheat prices were up by 17% from levels seen in the corresponding period last year, traded around R4 379 per tonne. This uptick was mainly driven by higher Chicago wheat prices as well as the relatively weaker domestic currency. The increase of Chicago wheat prices can partly be explained by the expected lower global harvest on the back of unfavourable weather conditions in parts of the European Union, China, India, Australia, and also the Black Sea region earlier in the season. IGC forecasts 2018/19 global wheat production at 729 million tonnes, down by 5% from the previous season. As a result, the 2018/19 global wheat ending stocks could fall by 4% from the previous season to 262 million tonnes.

Figure 5: South Africa's wheat production, consumption and imports



Source: SAGIS, CEC, Agbiz Research

Our takeaway messages this week

- Zimbabwe is likely to experience a shortage of maize supplies in the 2019/20 marketing year due to an expected poor harvest.

- Zambia and Malawi's maize harvest could fall double-digit from the 2017/18 production season, but the countries could still be self-sufficient in the 2019/20 marketing year (corresponds with 2018/19 production season), supported by fairly large stocks from the previous year.

- Back in home soil, the western maize production areas of South Africa are now critically dry once again because of the hot and dry weather and relatively limited soil moisture leading into the week of 17 January 2019. The impact of this was reflected on maize prices which rallied to levels over R3 000 per tonne, particularly white maize which is planted in the western regions.

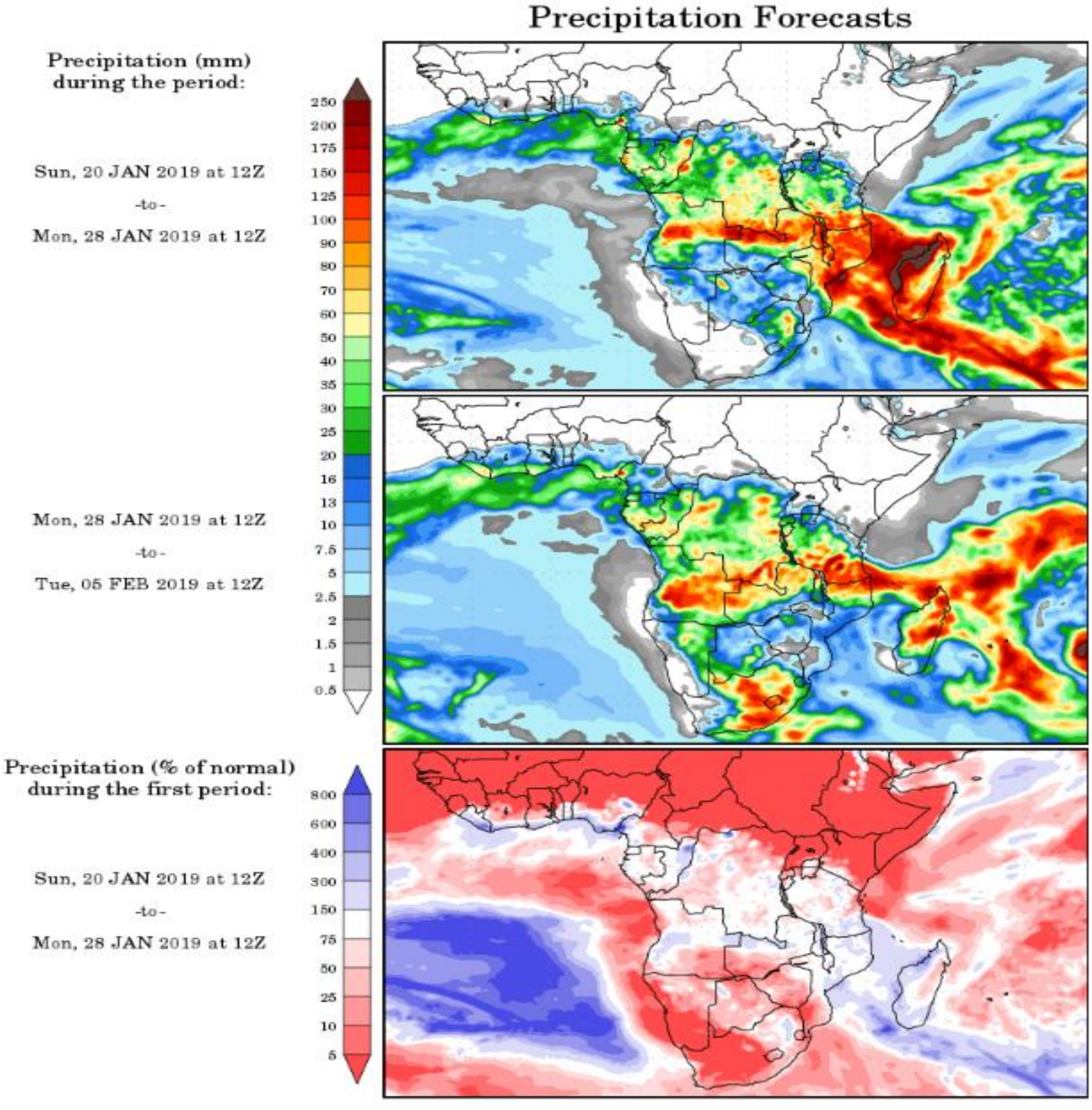
- An important date to keep an eye on is 29 January 2019 when the national Crop Estimate Committee releases the preliminary planting data for South Africa's summer grains and oilseeds.

- The weather will continue to play a key role in the South African agricultural markets in the next three months. Thereafter, the focus will shift to winter crop producing areas. The near-term precipitation prospects are constructive (see page 6).

- At the end of the week of 17 January 2019, SAFEX wheat prices were up by 17% from levels seen in the corresponding period last year, trading around R4 379 per tonne. This was driven by high international wheat prices and the relatively weaker domestic currency.

- Overall, the tough production conditions in the grains and oilseeds subsectors will most likely add upward pressure on consumer prices, but we do not expect a notable uptick in headline food price inflation, as lower meat prices will somewhat overshadow the potential upswings.

Figure 6: South Africa's precipitation forecast



Source: wxmaps

<u>Key Data Releases in the Agricultural Market</u>:

- SAGIS producer deliveries data: 23/01/2019
- SAGIS weekly grain trade data: 24/01/2019
- SAGIS monthly data: 25/01/2019
- National Crop Estimates Committee's monthly data: 29/01/2019