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Investment environment and commodity outlook

AGBIZ Information Day

1 November 2018

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&

University of Pretoria

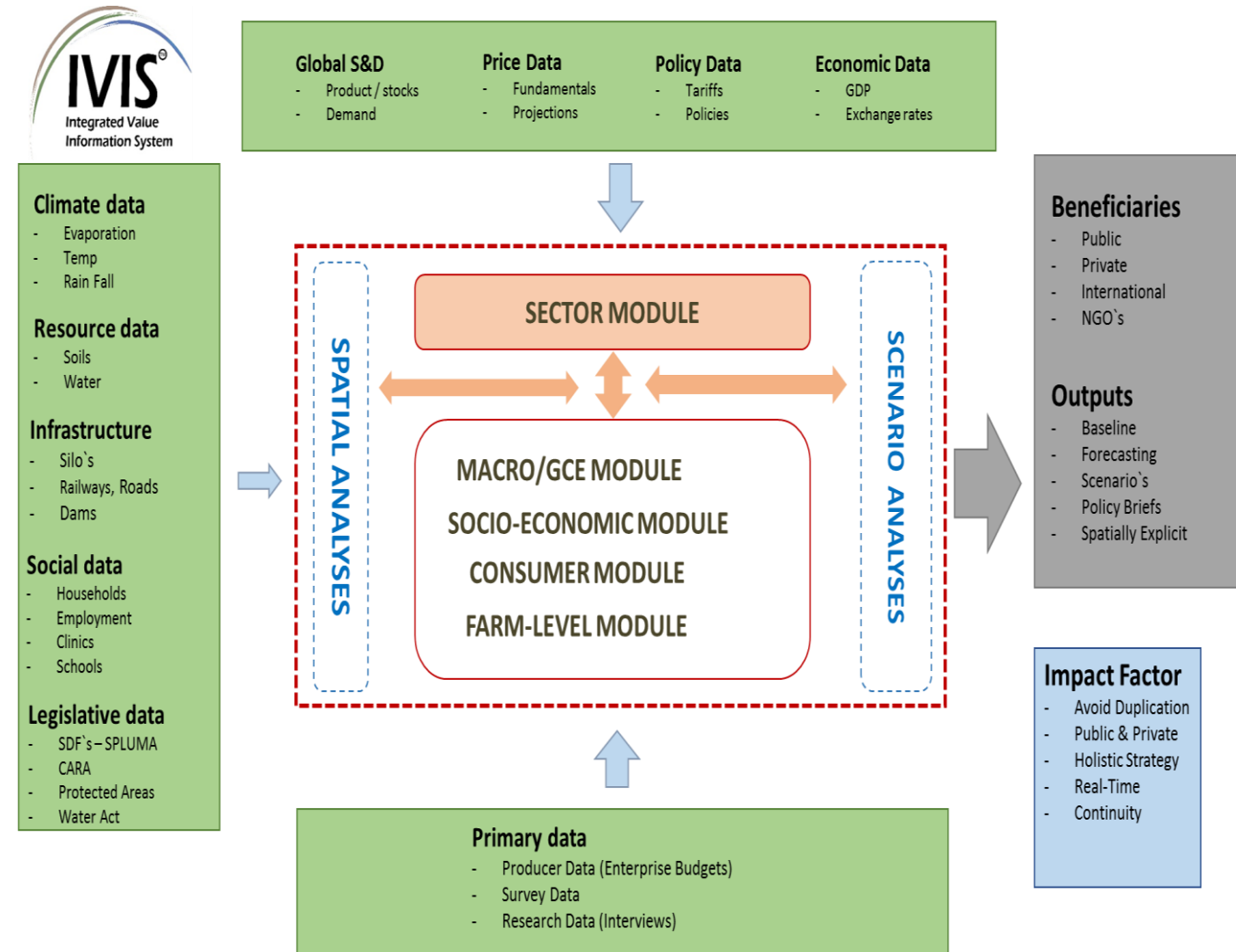
Background: BFAP



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- Founded in 2014
- 15 Years experience in analysing, modelling, forecasting and unpacking the agro-food, fibre and beverage sectors and value chains in Africa.
- Network consisting of 45 employees and associates spanning the African continent
- Our business model is based on adding value through long-run strategic partnerships in private sector, industry bodies, universities and government.
- International, regional and local analytical partners: FAPRI, FAO, OECD, BER &

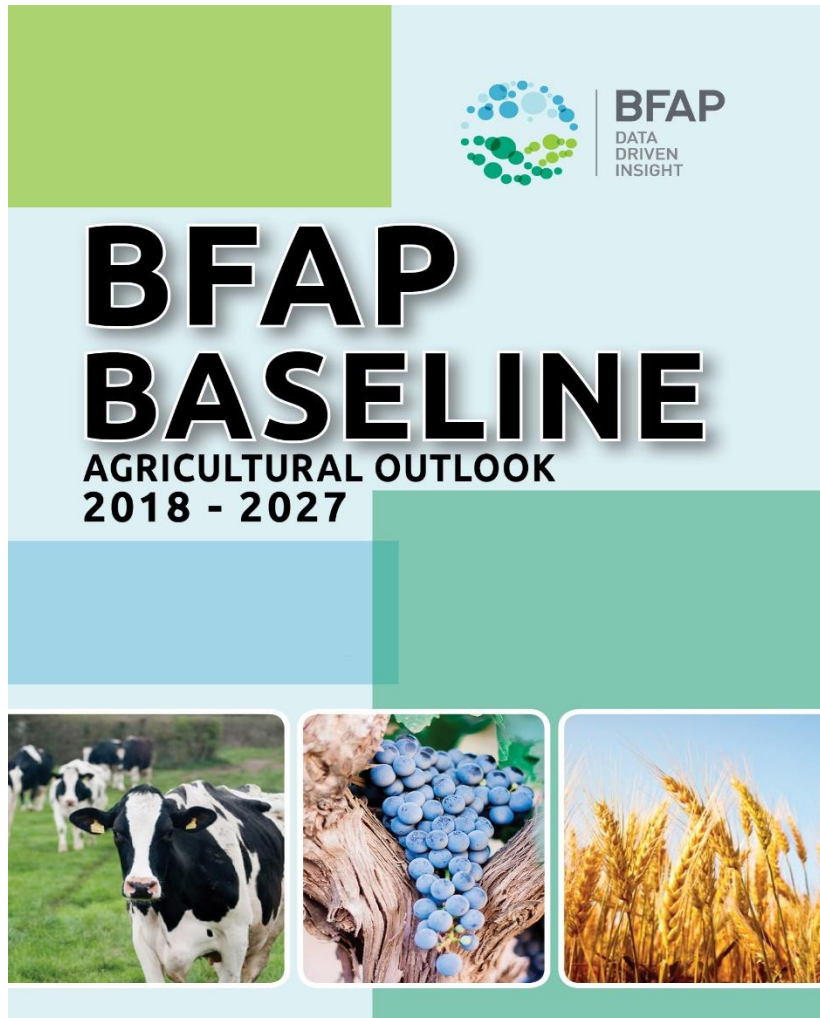
ReNAPRI



BFAP's foundation for analysing future trends



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- Annual 10-year agricultural outlook on 52 commodities
- State of agriculture- & food systems across Southern Africa:
 - Commodity Markets
 - Field crops
 - Livestock
 - Horticulture
 - Consumer Economics
 - Farming Systems & Inputs
 - Value chains
 - Africa
 - Spatial Integration





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Presentation Overview

1. Taking stock

2. Outlook for South African agriculture

Domestic consumer environment

1. Outlook for field crops

2. Outlook for livestock

Macroeconomic assumptions

'Ramaphoria' fades to realism, emerging market sentiments compounding pressure

	2017	2018	2019	2020	2021	2022
Real GDP Growth	1,3	0,6	1,5	2,0	2,4	2,5
Exchange Rate	13,30	13,21	14,24	14.32	14.44	14.52
CPI Inflation (%)	5,3	4,7	4,9	5,0	5,1	5,0
Brent Crude Oil (\$ per barrel)	54,0	74,7	73,5	70,3	68,0	67,0

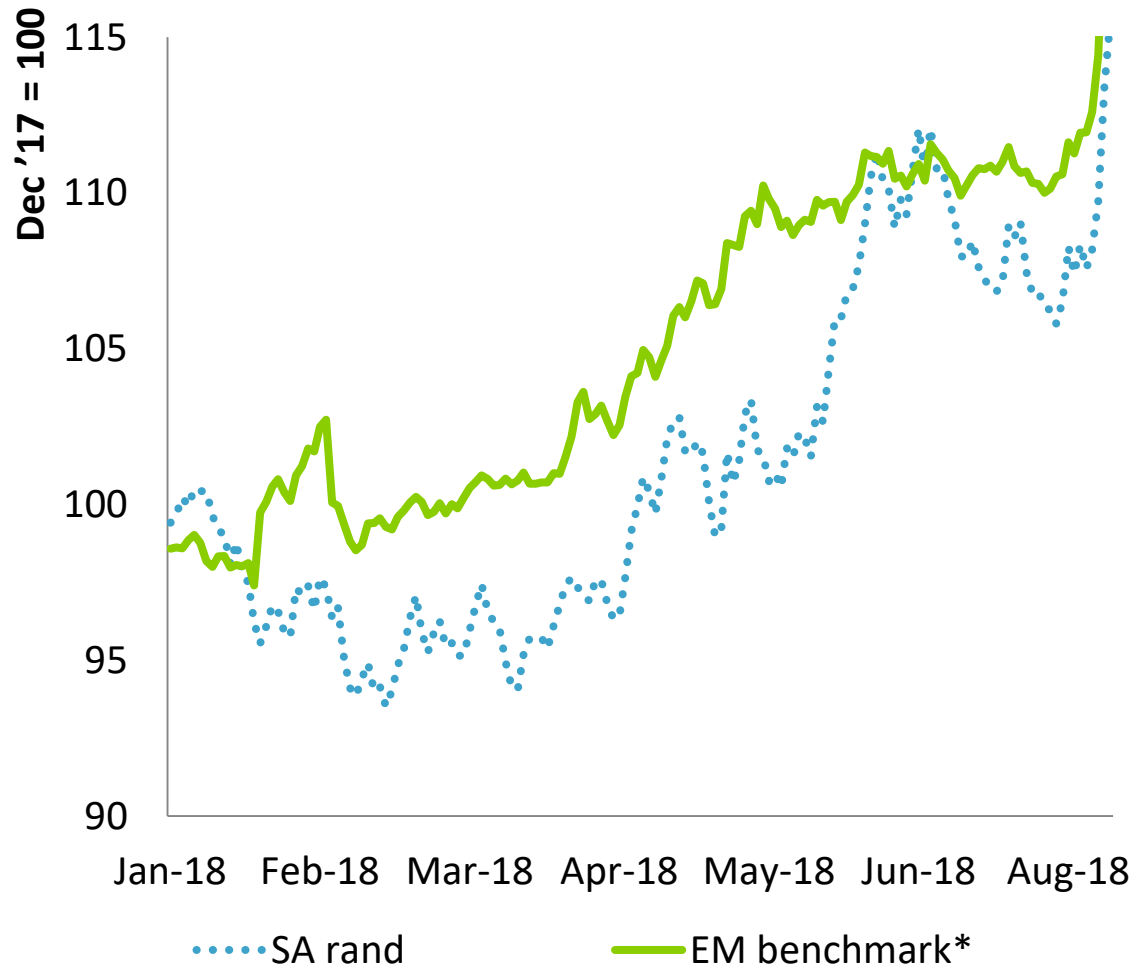


Key factors: drought, weak Rand, oil price, cost of inputs, uncertainty & volatility

- Q2 GDP... SA in a technical recession
- Land values – Decrease by 30% (Agri Development Solutions)
- Ag GDP – contracted by 29% in Q2 (Bloomberg)
- Trade war implication on emerging markets

Source: Pienaar, BER, 2018

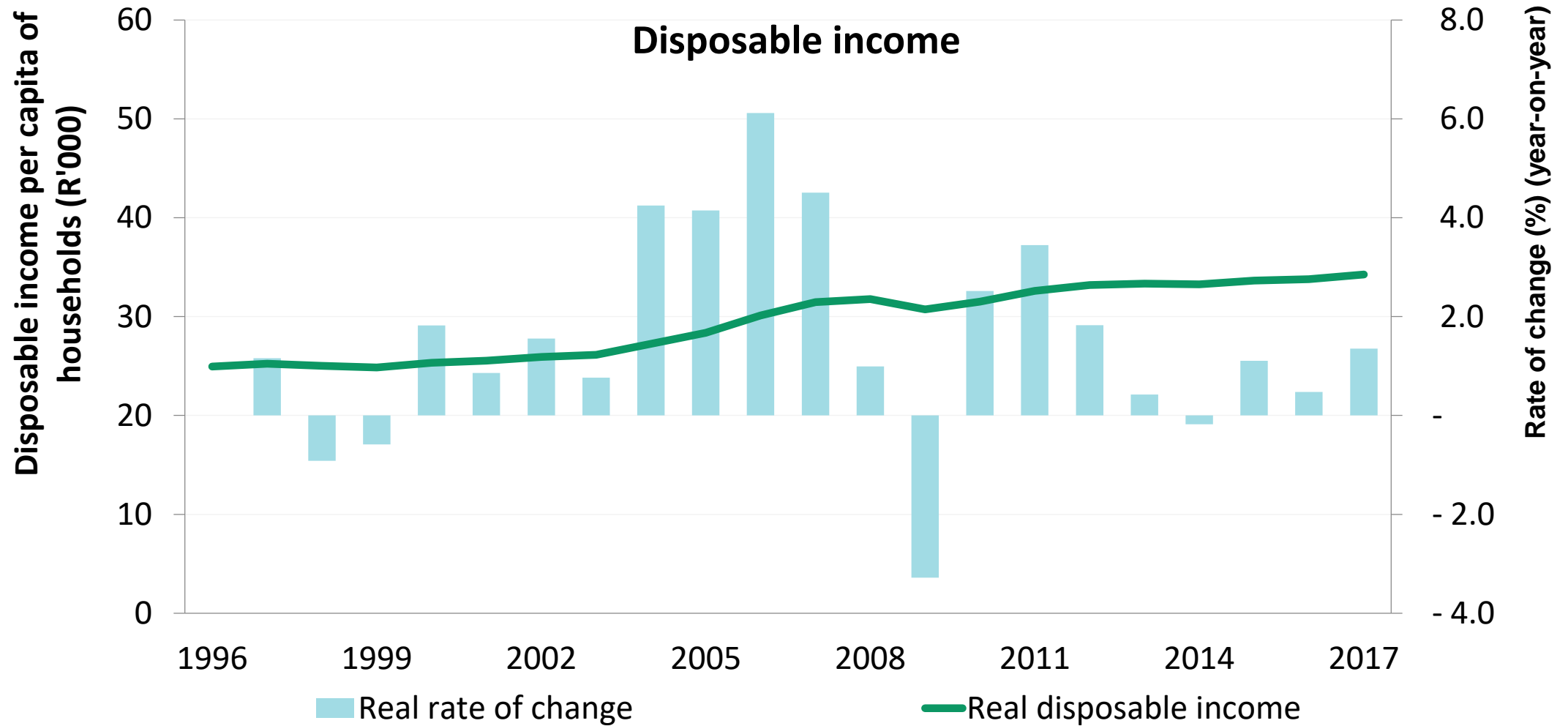
Exchange rate performance & risks



- After initial change of government, Rand outperformed other emerging markets
- Recent uncertainty re land policy and general political sentiment has put it on the back foot
- Poor global sentiment toward emerging markets likely to keep it under pressure
- Trade war influencing Rand and other emerging market currencies



Domestic consumer confidence & income



Source: Stats SA

fin24

Search by company



The human costs

After two decades of improving safety at goldmines, SA's progress has stalled.



Taking a cut

The Guptas siphoned more than R100 million from a China loan documents show.

Home

Companies ▾

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Entrepreneurs ▾

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Business ▾

All data is delayed

ZAR/EUR

▲ 17.52 (0.57%)

ZAR/GBP

▲ 19.69 (0.49%)

ZAR/JPY

▲ 0.14 (0.81%)

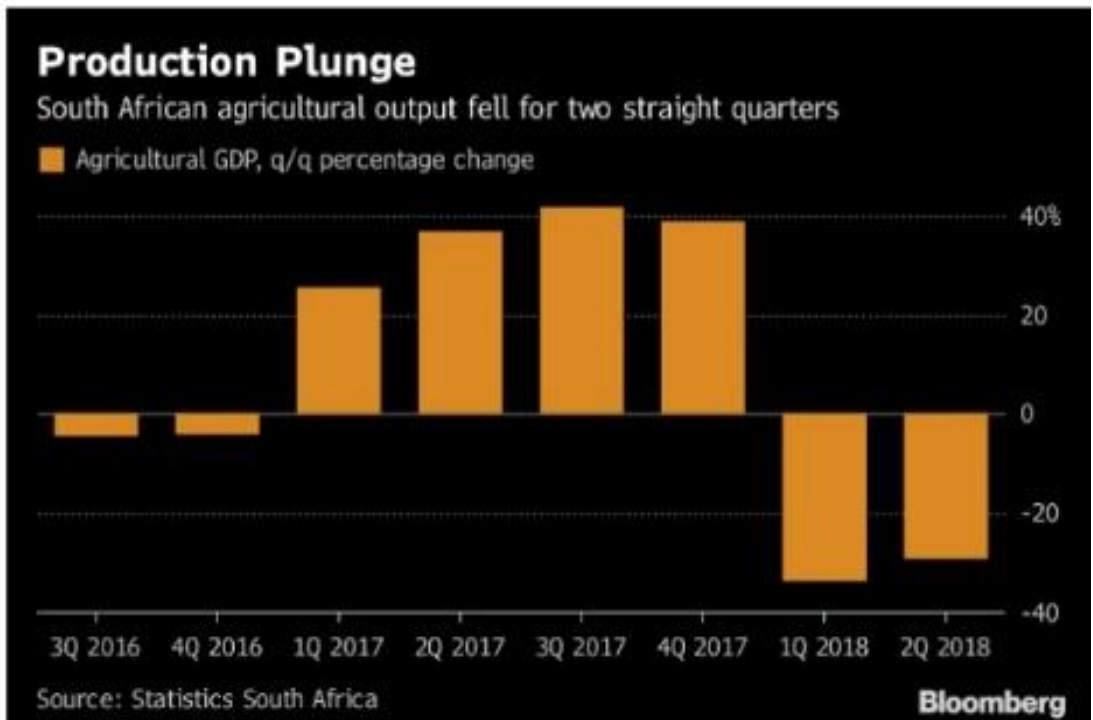
ZAR/USD

▲ 15.11 (0.50%)

ZAR/AUD

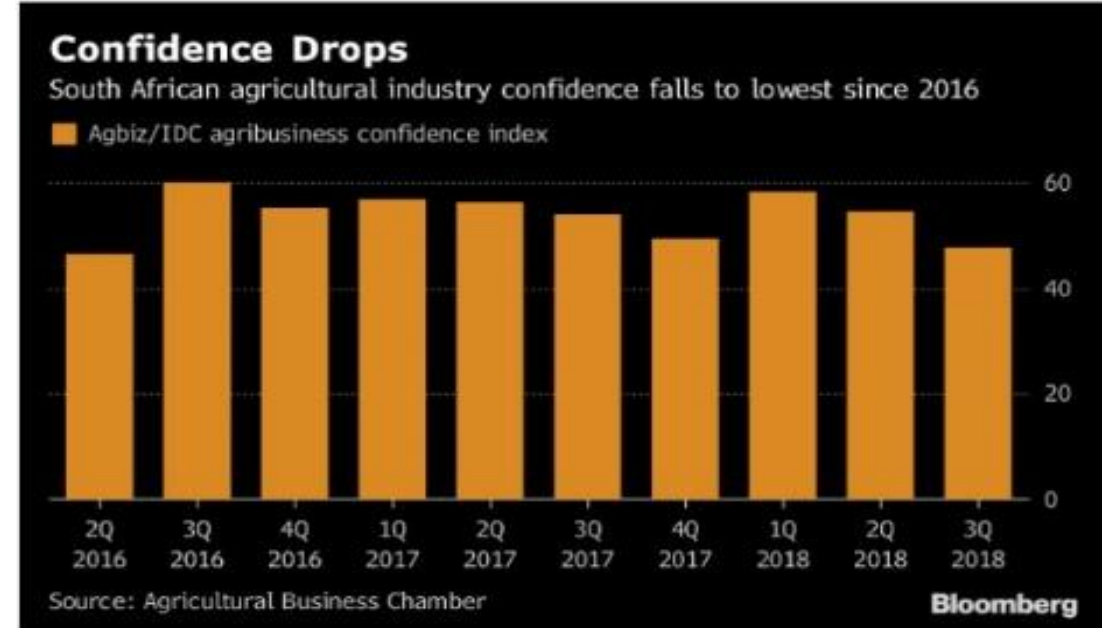
▲ 10.73 (0.40%)

CHARTS: How land-seizure talks have hit SA's farming industry

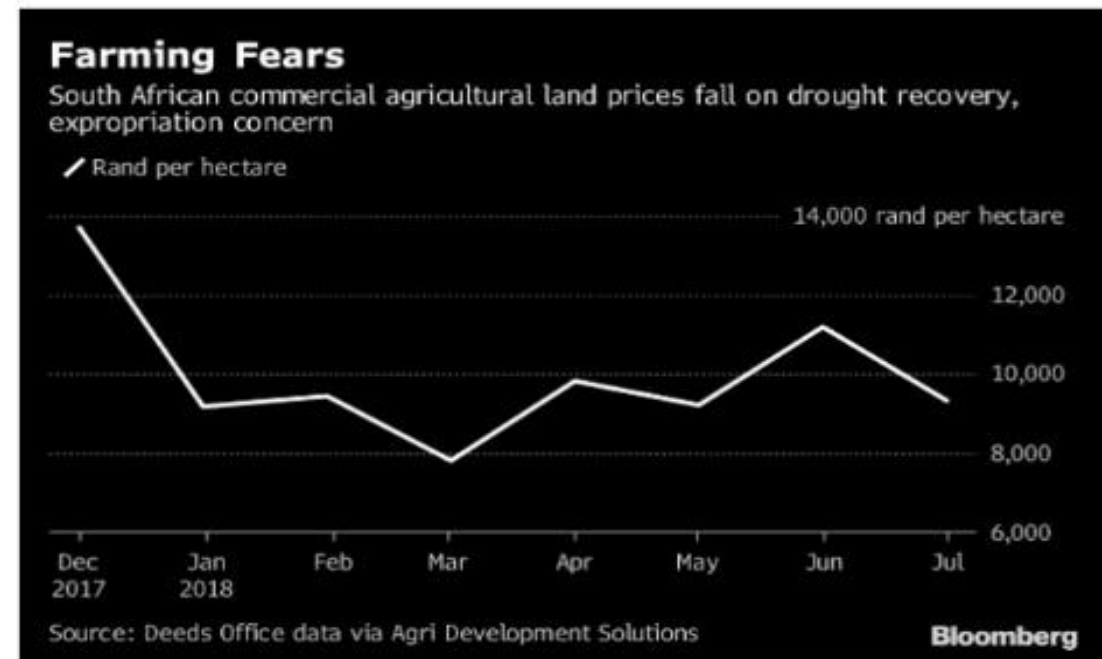


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Farm prices in South Africa **have plunged by a third** since December. The average price of agricultural land sold in July was R9 318 (\$613) a hectare compared with R13 700, according to Johann Bornman, an economist and chairperson of Agri Development Solutions, who obtained the data from the Deeds Office, which maintains the property registry.





....but there is hope!!

SA farmers & agri-businesses
have shown resilience

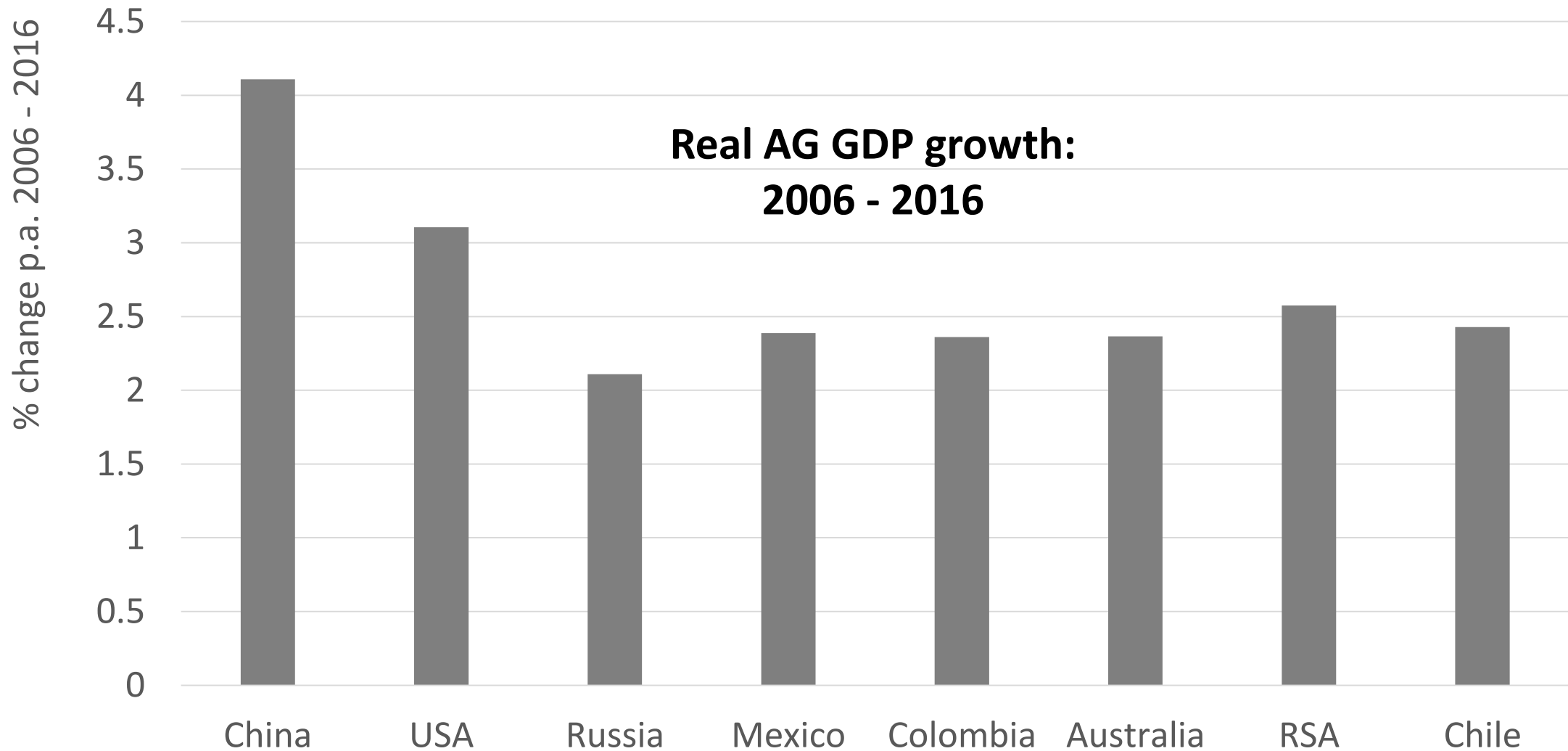


Outlook for South African Agriculture from an investment perspective

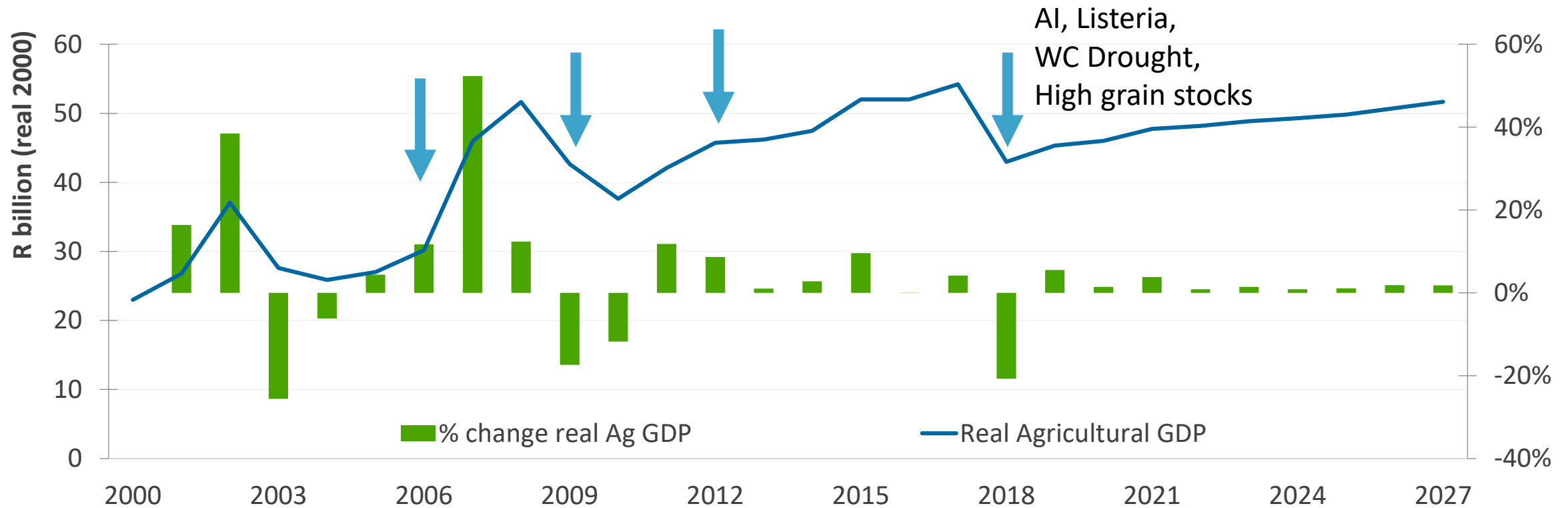


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SA's performance in the global economy



Agricultural GDP in South Africa



Livestock

- Beef herd rebuilding
- Cycle positive with lower feed
- Disease impact critical

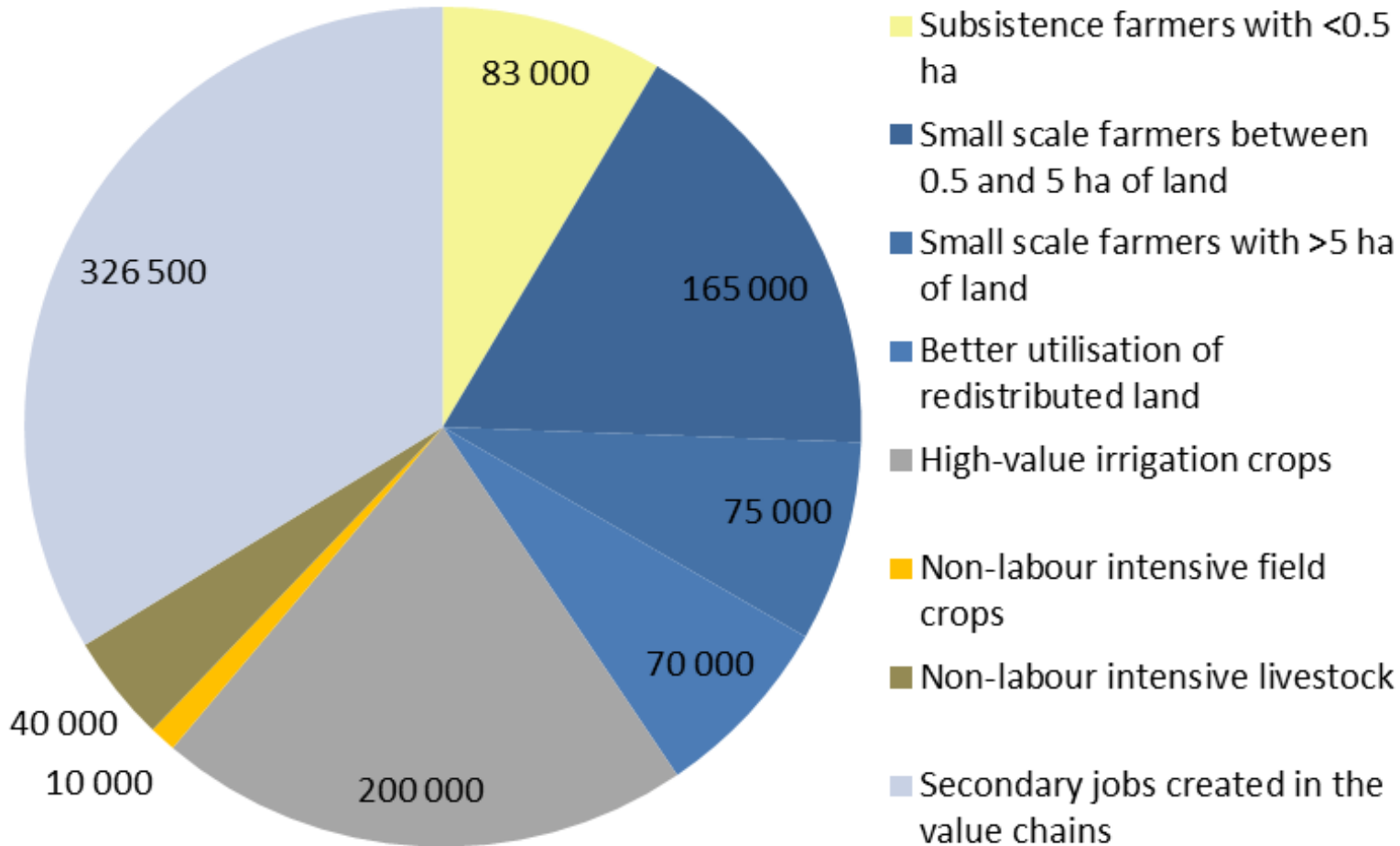
Field Crops

- High stock, low prices
- Post drought cash-flow
- Feed crop dominance

Horticulture

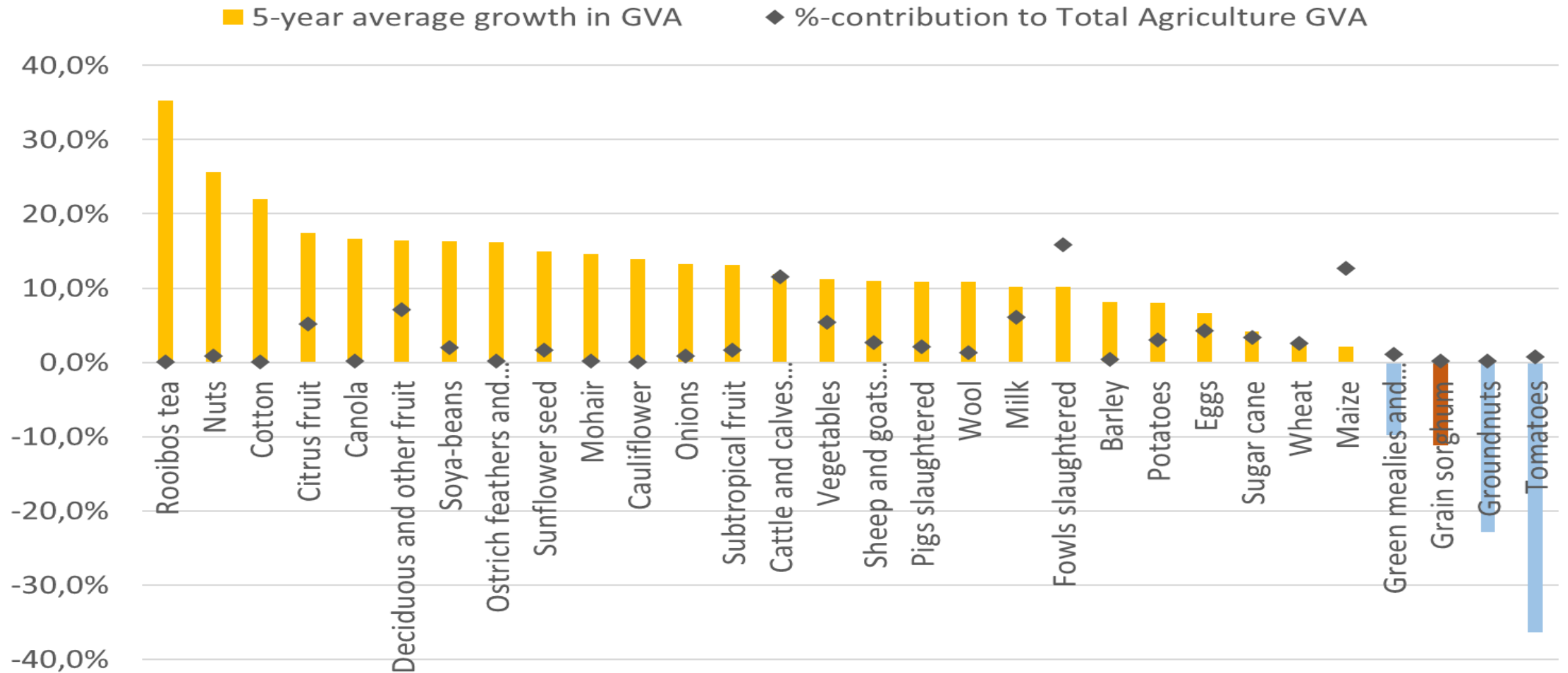
- WC drought recovery
- Water availability concerns
- Need to open new export markets

NDP targets – BFAP's score sheet

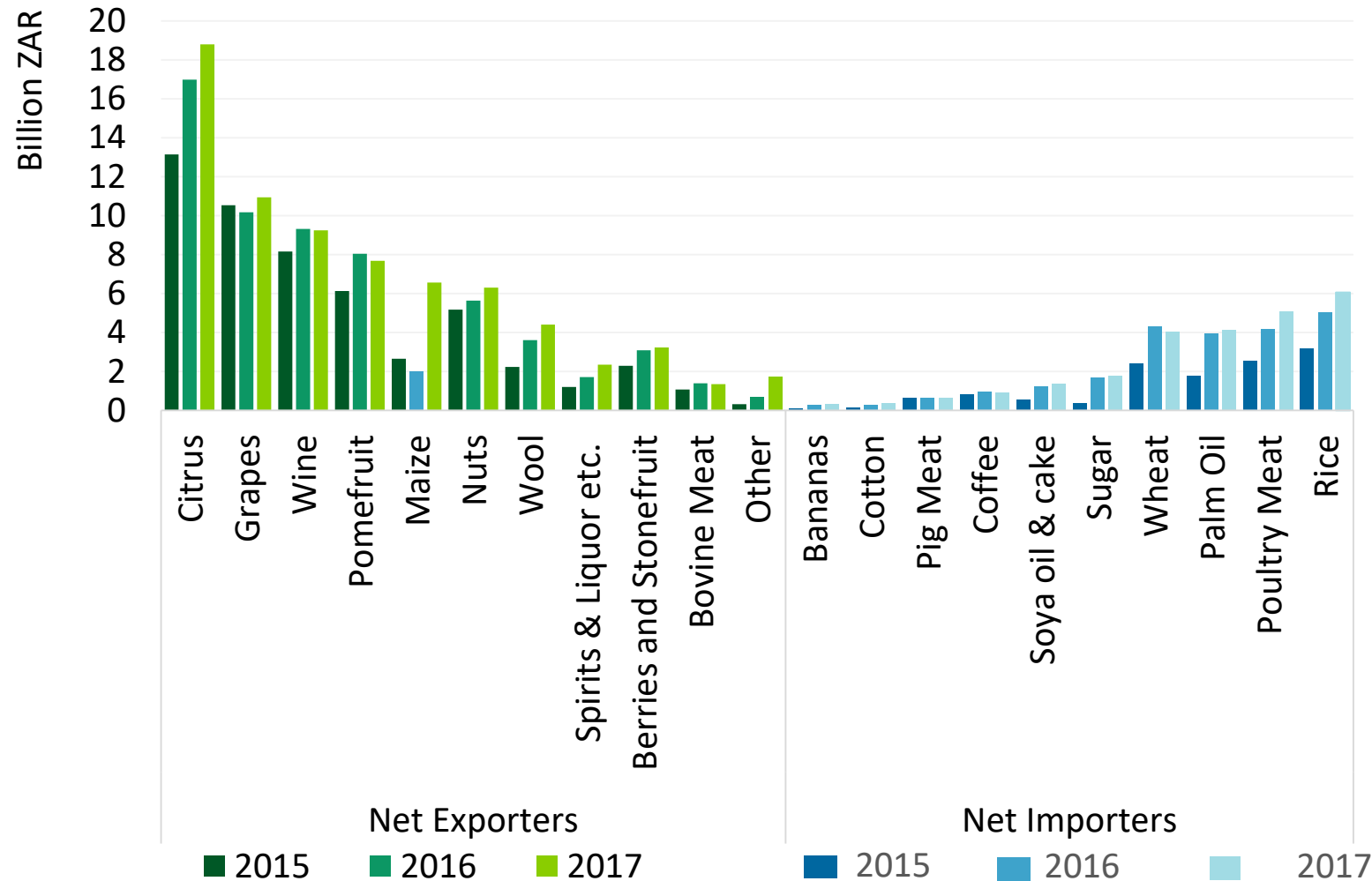


NDP Target	Indicator
Land reform	No
Jobs: High value crops	Yes
Jobs: Under-utilised land, homelands etc.	No
Agro -processing	Yes

High-growth industries are on track



Export performance: Agriculture



- SA a net exporter of agricultural products
- Horticulture leading export performance – rapid growth in Citrus exports, nuts, wool
- Significant imports: rice, poultry, palm oil, wheat



Market access for South African products

SACU: Southern African Customs Union

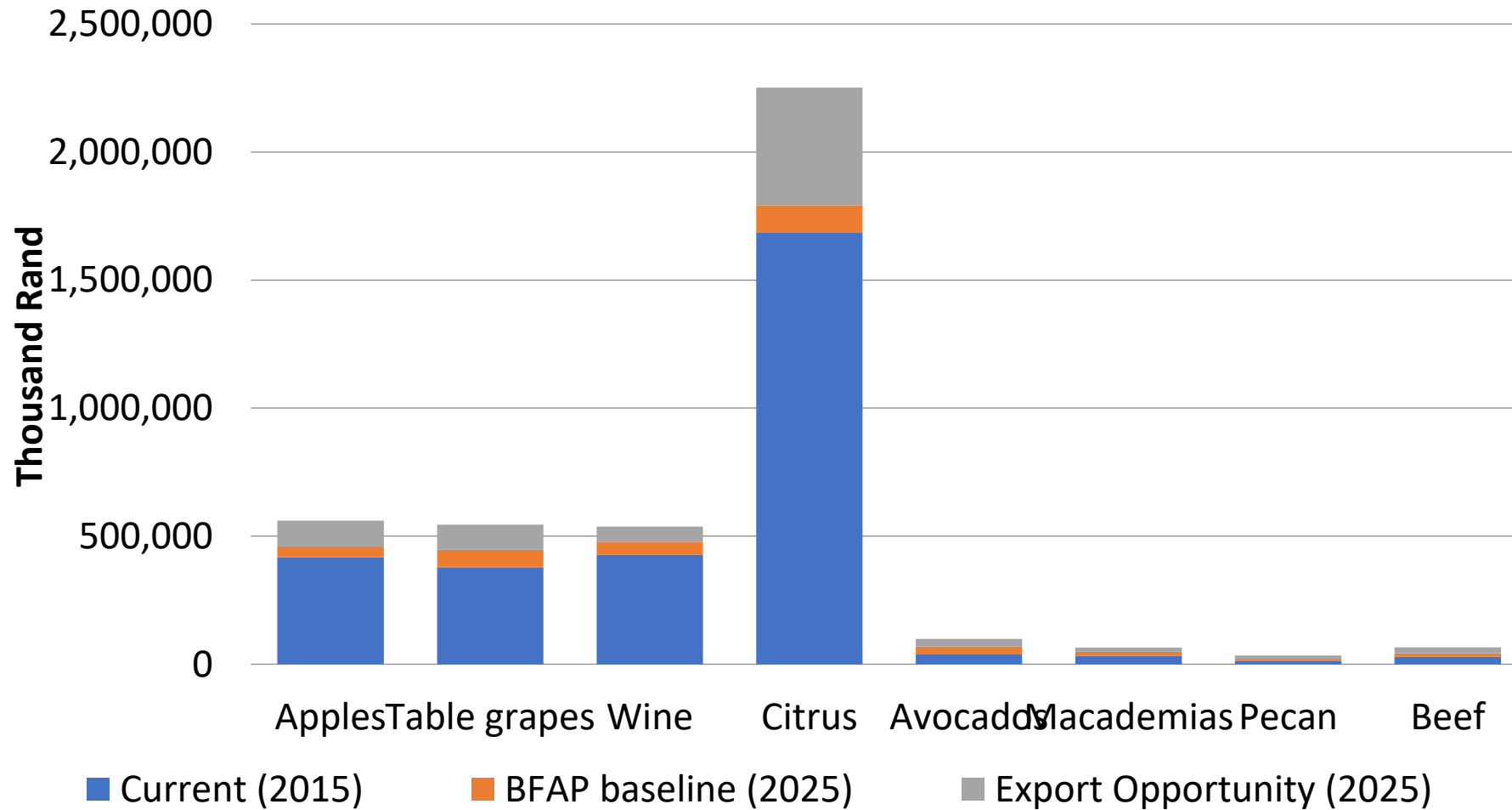
GSTP: Global System of Trade Preferences among developing countries

PTN: Protocol on Trade Negotiation

Source:
SHAFPE, 2018

	South Africa	Australia	New Zealand	Peru	Chile	Argentina	Uruguay
China		Bilateral	Bilateral	Bilateral	Bilateral		
Hong Kong (China)					Bilateral		
India	SACU (Plurilateral)			GSTP	Bilateral GSTP	GSTP Mercosur-India Bilateral	GSTP Mercosur-India Bilateral
Indonesia		ASEAN-Australia-New Zealand	ASEAN-Australia-New Zealand	GSTP	GSTP	GSTP	
Japan		Bilateral		Bilateral	Bilateral		
South Korea		Bilateral		Bilateral GSTP PTN	Bilateral GSTP PTN	GSTP	PTN
Malaysia		Bilateral ASEAN-Australia-New Zealand	Bilateral ASEAN-Australia-New Zealand	GSTP	Bilateral GSTP	GSTP	
Philippines		ASEAN-Australia-New Zealand	ASEAN-Australia-New Zealand	GSTP PTN	GSTP PTN	GSTP	PTN
Thailand		Bilateral ASEAN-Australia-New Zealand	Bilateral ASEAN-Australia-New Zealand	GSTP	GSTP	GSTP	
Vietnam		ASEAN-Australia-New Zealand	Bilateral ASEAN-Australia-New Zealand	GSTP	Bilateral	GSTP	

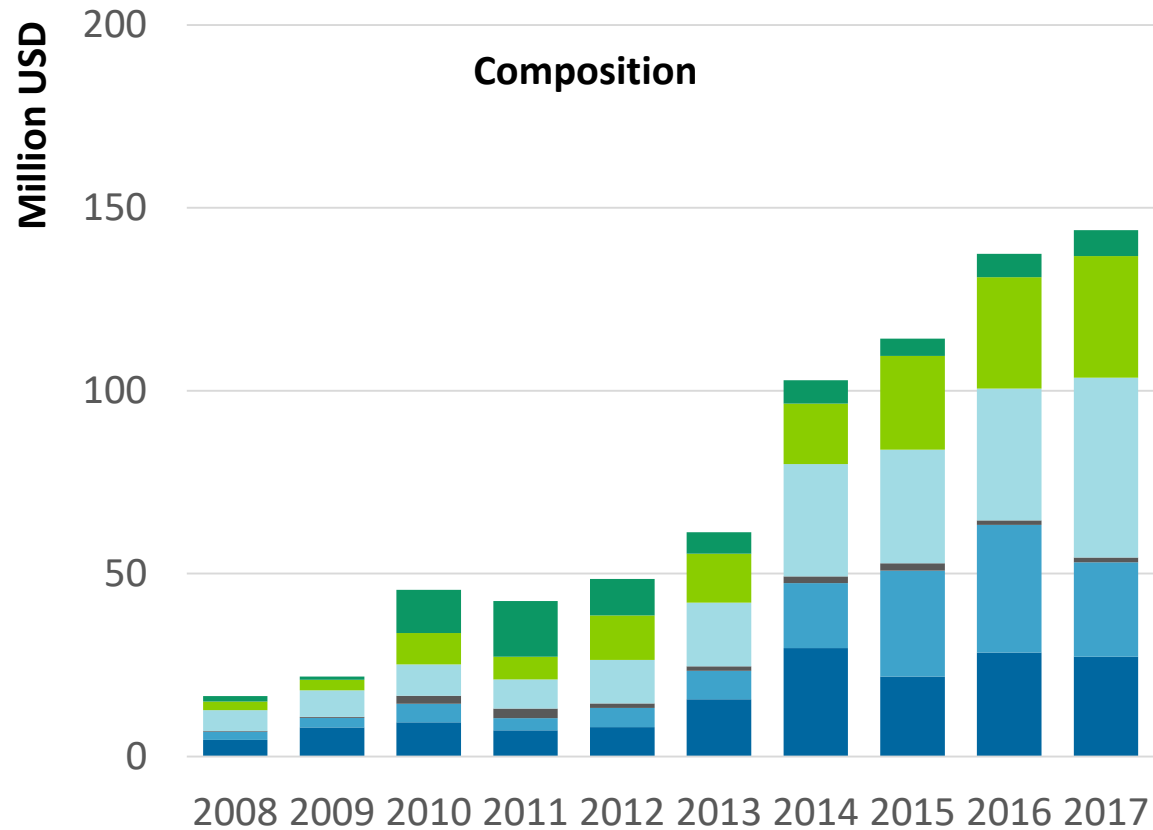
If we get things right - R6 billion additional exports over outlook



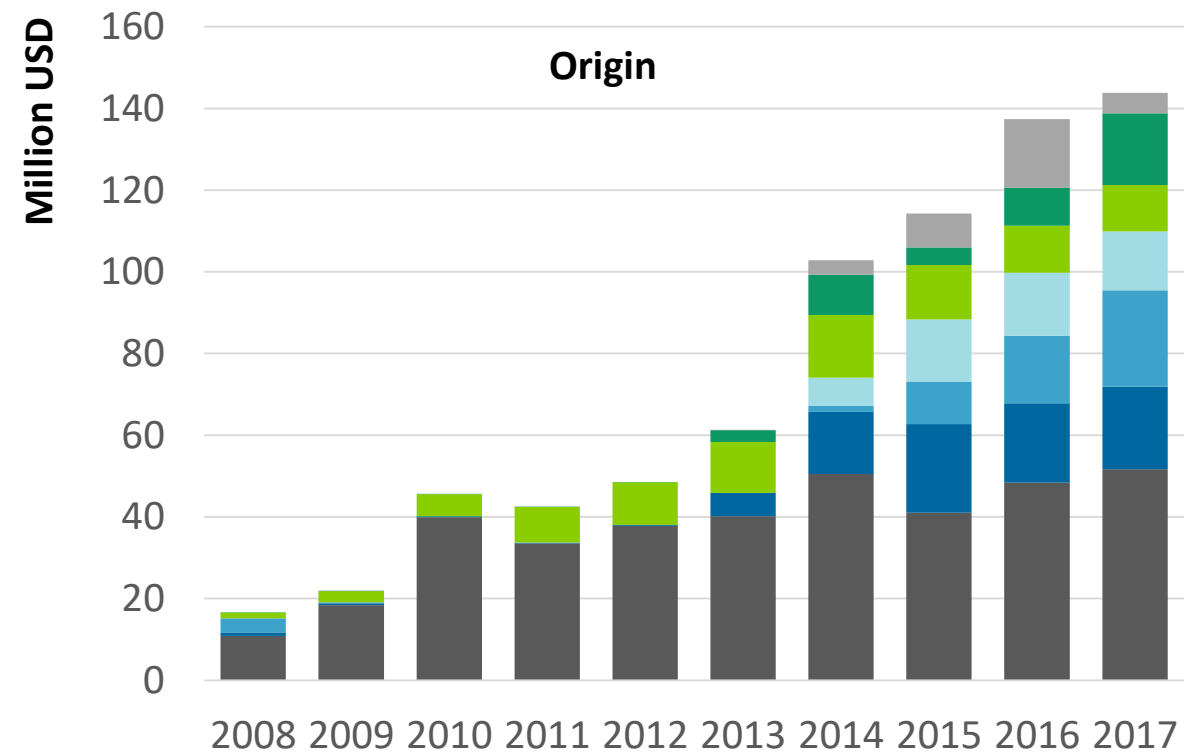
Disease management is critical: Beef exports



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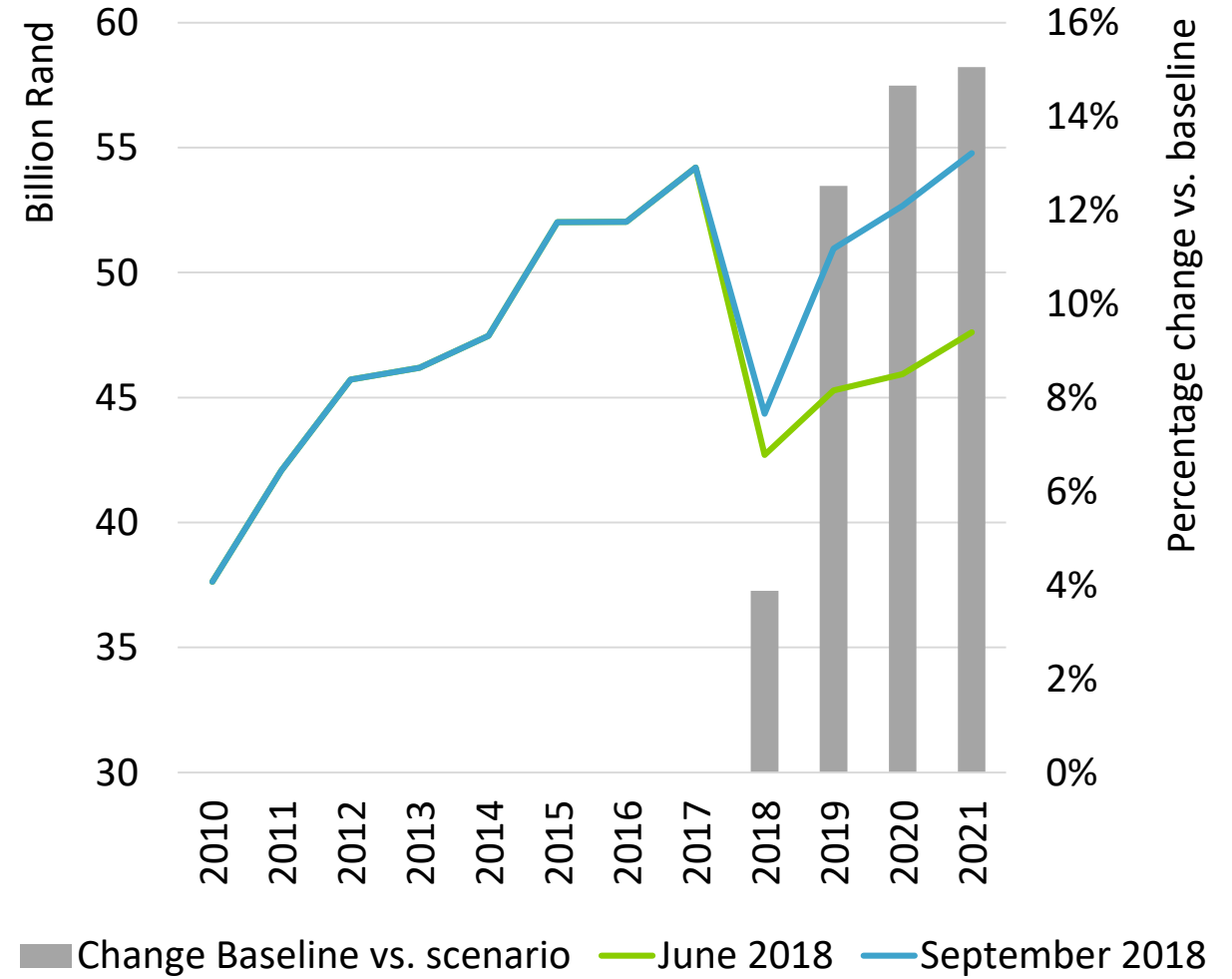
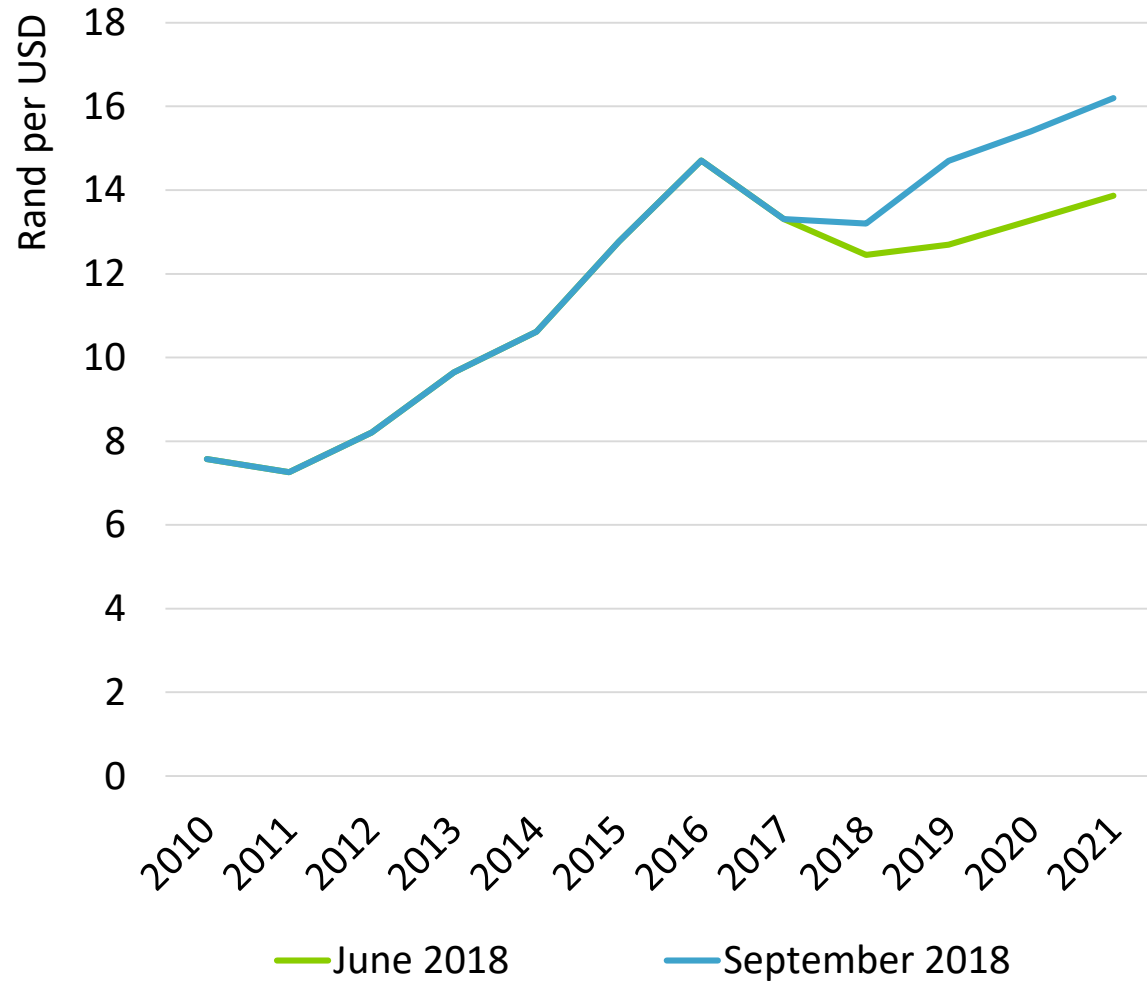
■ Fresh or chilled, carcass ■ Fresh or chilled, bone-in cuts
■ Fresh or chilled boneless ■ Frozen carcass
■ Frozen, bone-in cuts ■ Frozen, boneless



■ Other ■ Kuwait
■ United Arab Emirates ■ Jordan
■ Mozambique ■ Hong Kong and China
■ Viet Nam

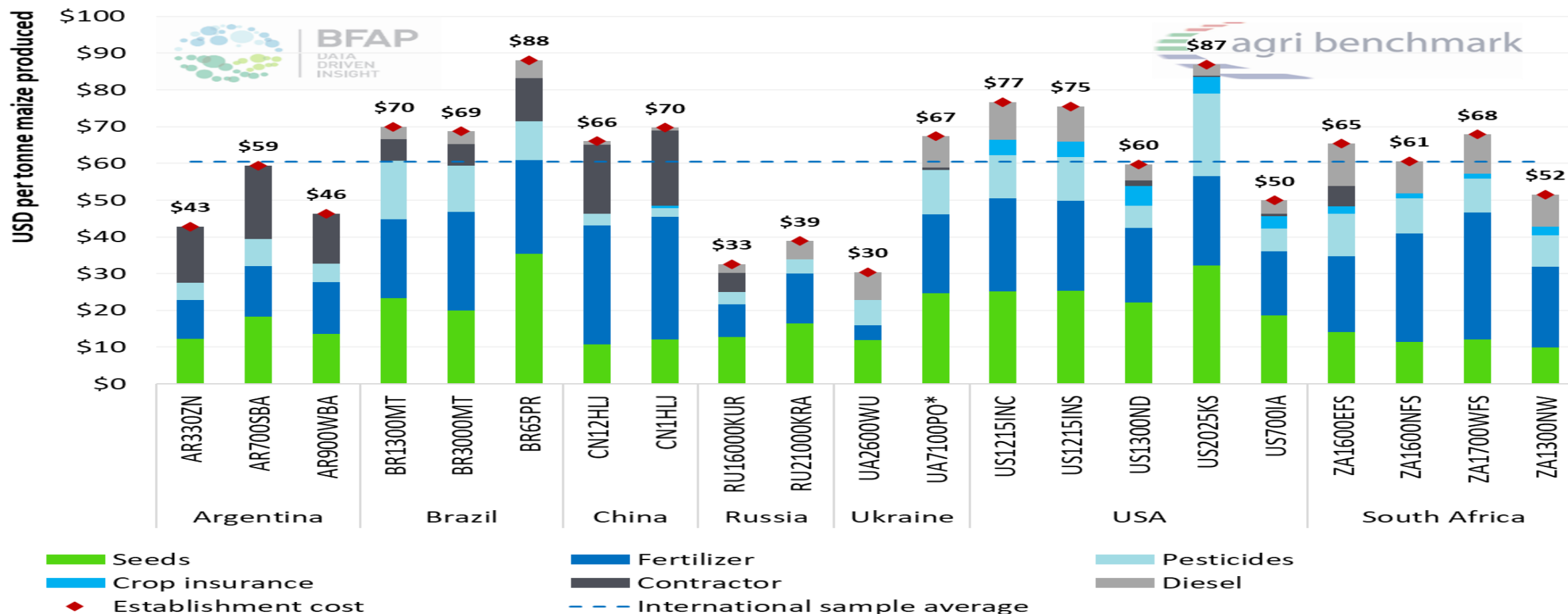
Source: ITC Trademap, 2018

Recent exchange rate depreciation

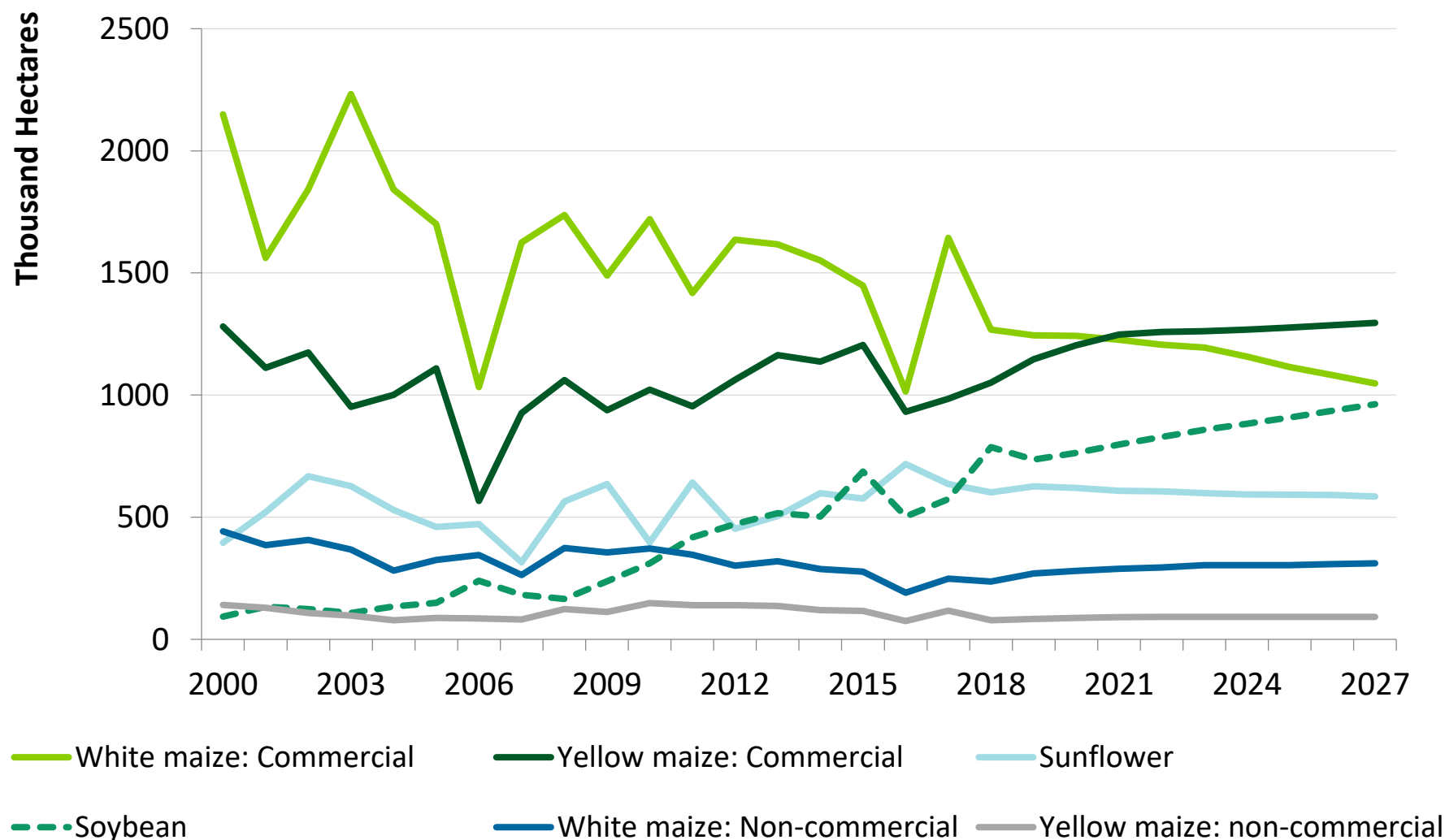


Global competitiveness remains high

Maize cost of production \$/ton



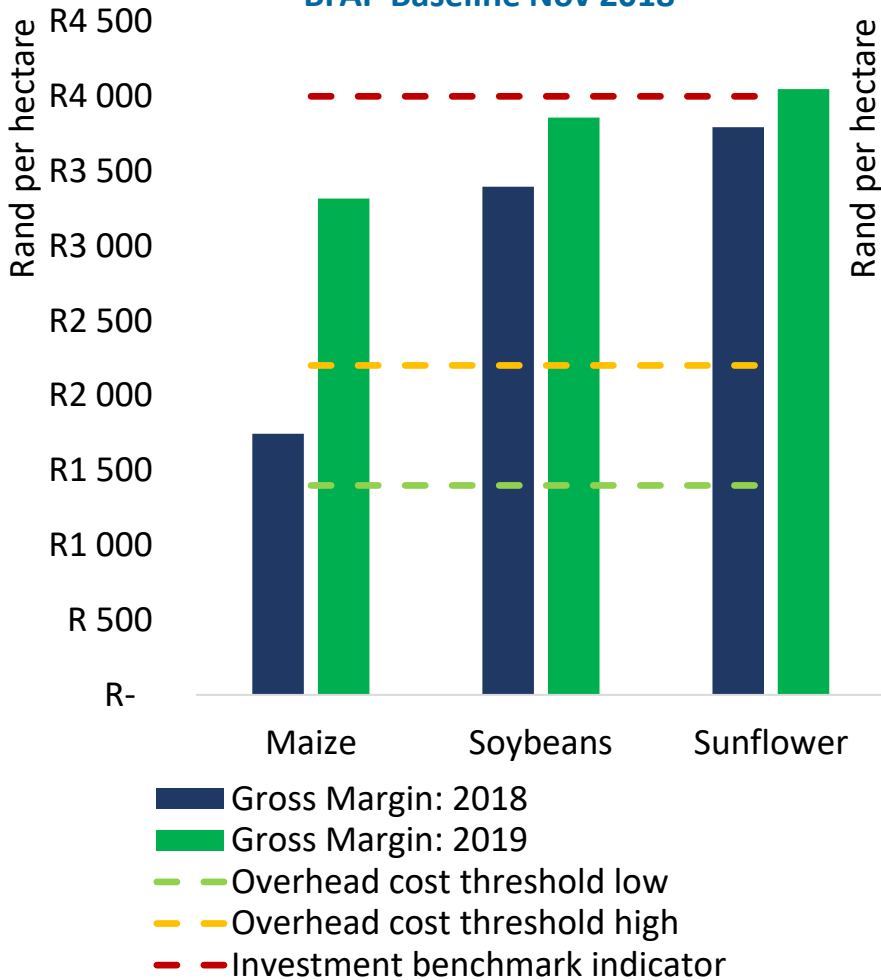
Sustainable rotation and risk mitigation



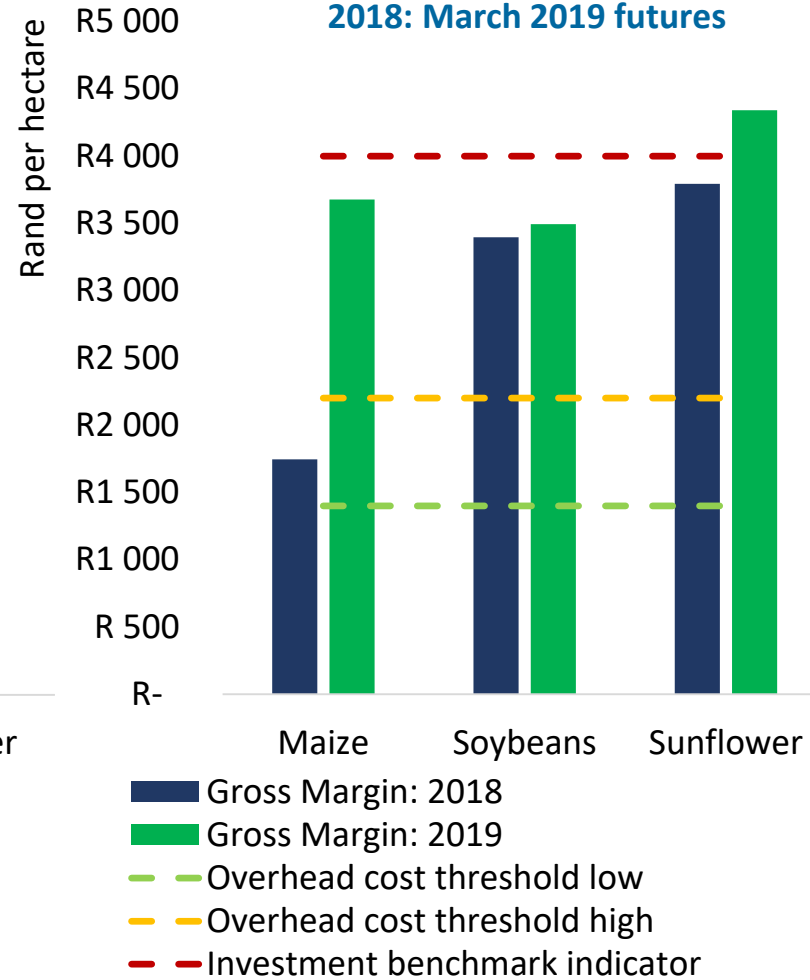
- Continued decline in white maize area
- The rise of soybeans...
- Sunflower as risk mitigating alternative?

Gross Margin: 2018 vs. 2019

BFAP Baseline Nov 2018



31 day price average: 15 Aug - 26 Sep
2018: March 2019 futures



Average gross margin outlook for 3 crops in 9 agro-ecological zones

2 graphs, different price assumptions:
left = BFAP Baseline Nov 2018 assumptions vs. right = 31 day moving average price assumptions for March 2019

- Improved outlook for maize from 2018 to 2019
- Soybeans under baseline – outperform maize in 2019; existing futures for stipulated period – maize marginally better opposed to soybeans
- Sunflower remain good alternative for Western producing regions
- 2018 – Several regions not able to cover overhead expenditure



Potential El-Nino in 2018/19 on region

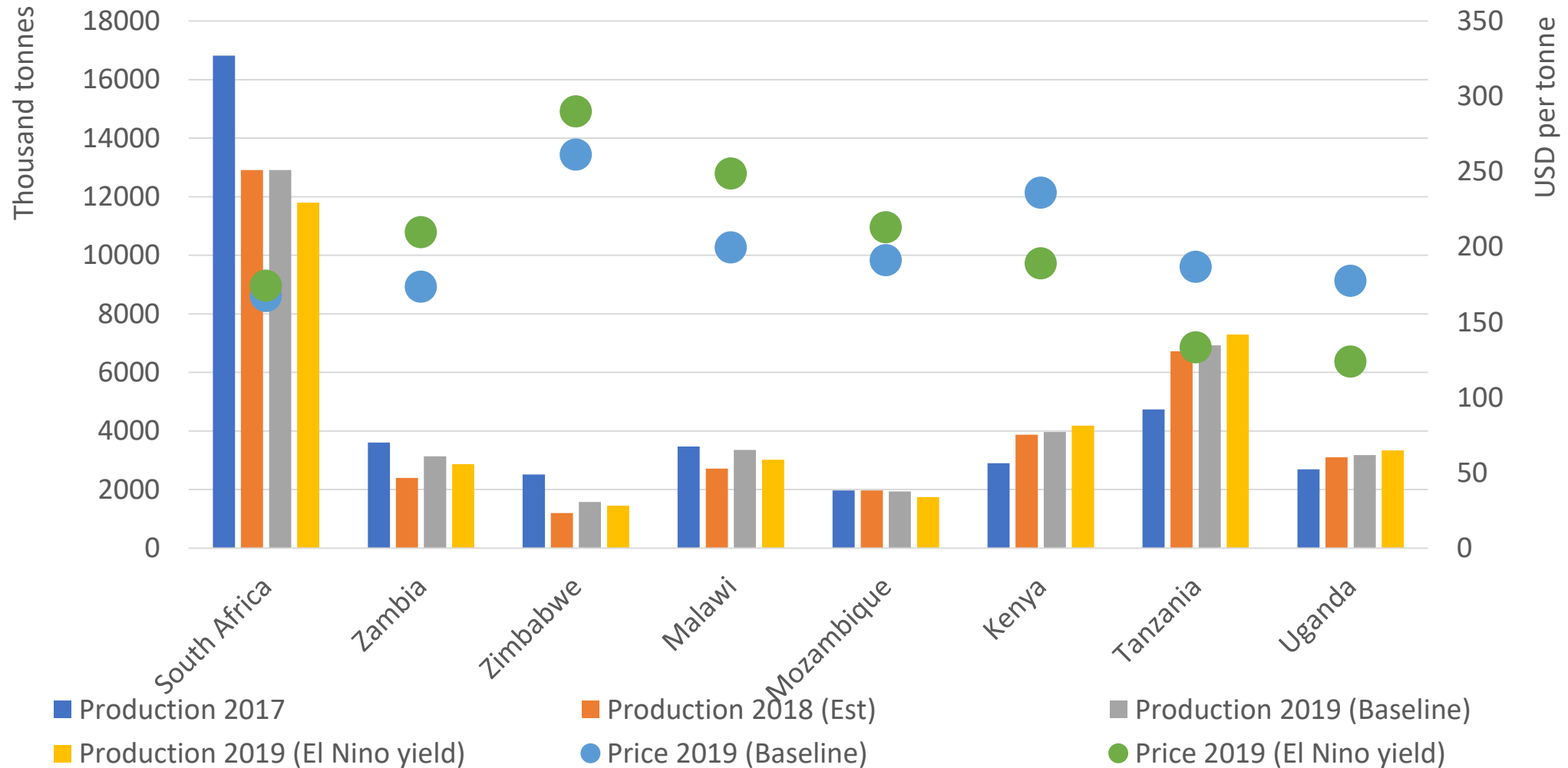
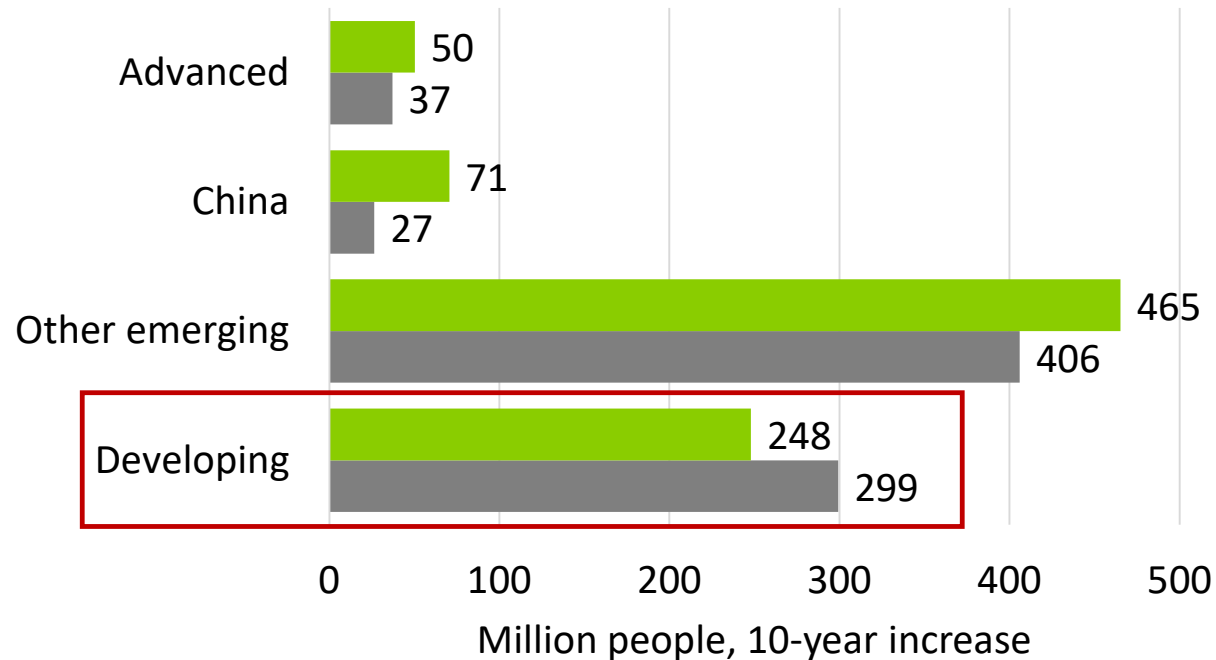


Fig 21, Pg. 32

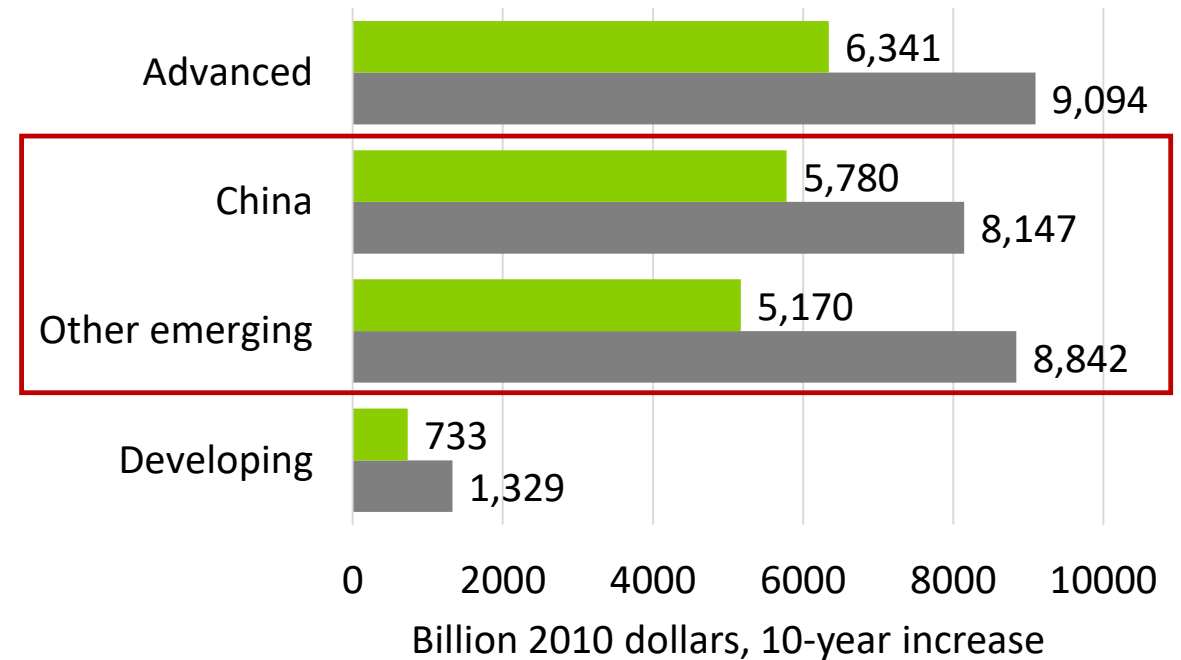
Growth of population and GDP

Population growth



■ 2008-2018 ■ 2018-2028

Real GDP growth



■ 2008-2018 ■ 2018-2028

- Population growth: Developing regions accelerating, slower for advanced, China & other emerging markets
- Projected income to grow in all regions, but proportionally higher in China & other EM
- Impact of rising incomes in advanced, emerging & developing countries?

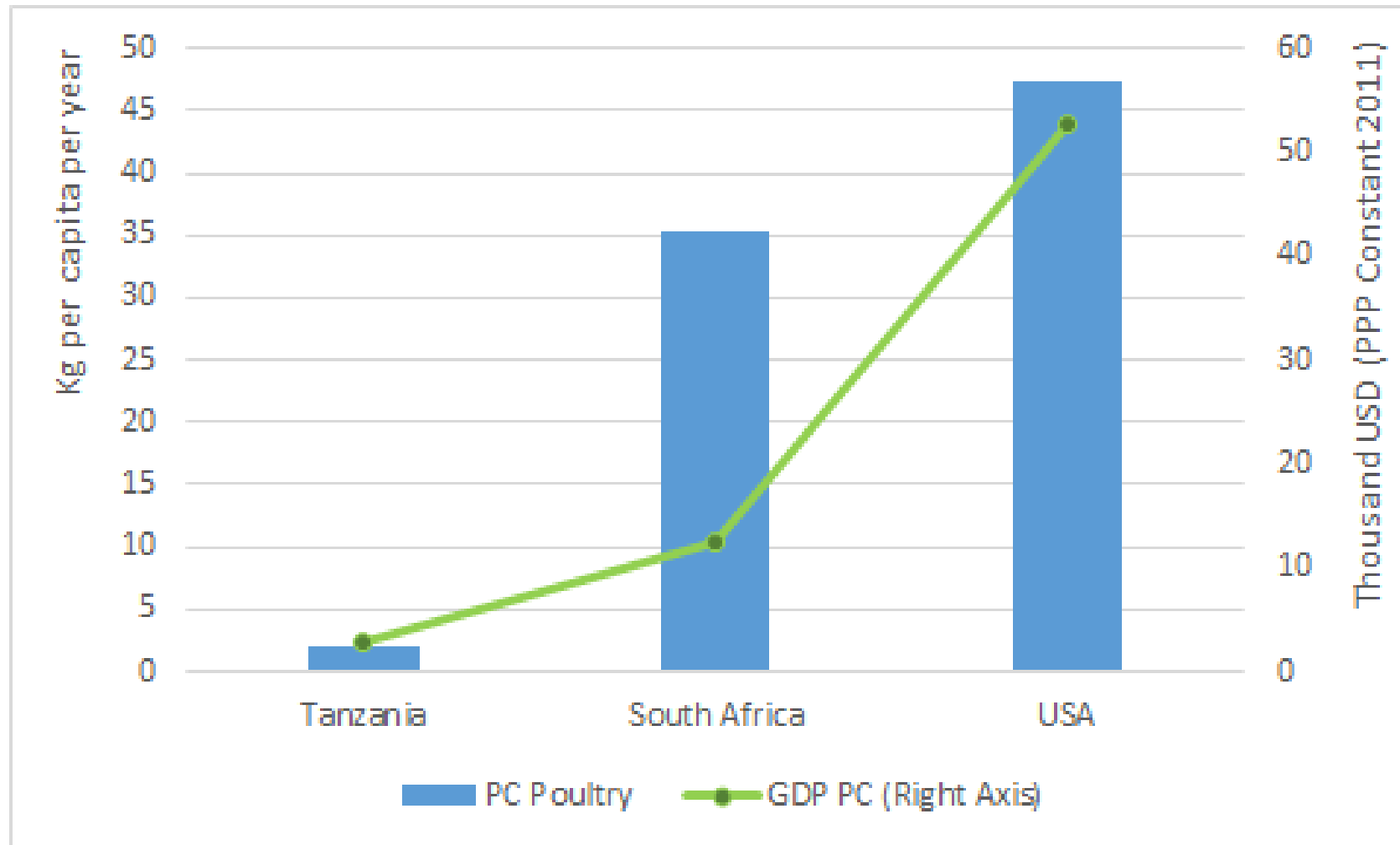


SOURCE: FAPRI, 2018

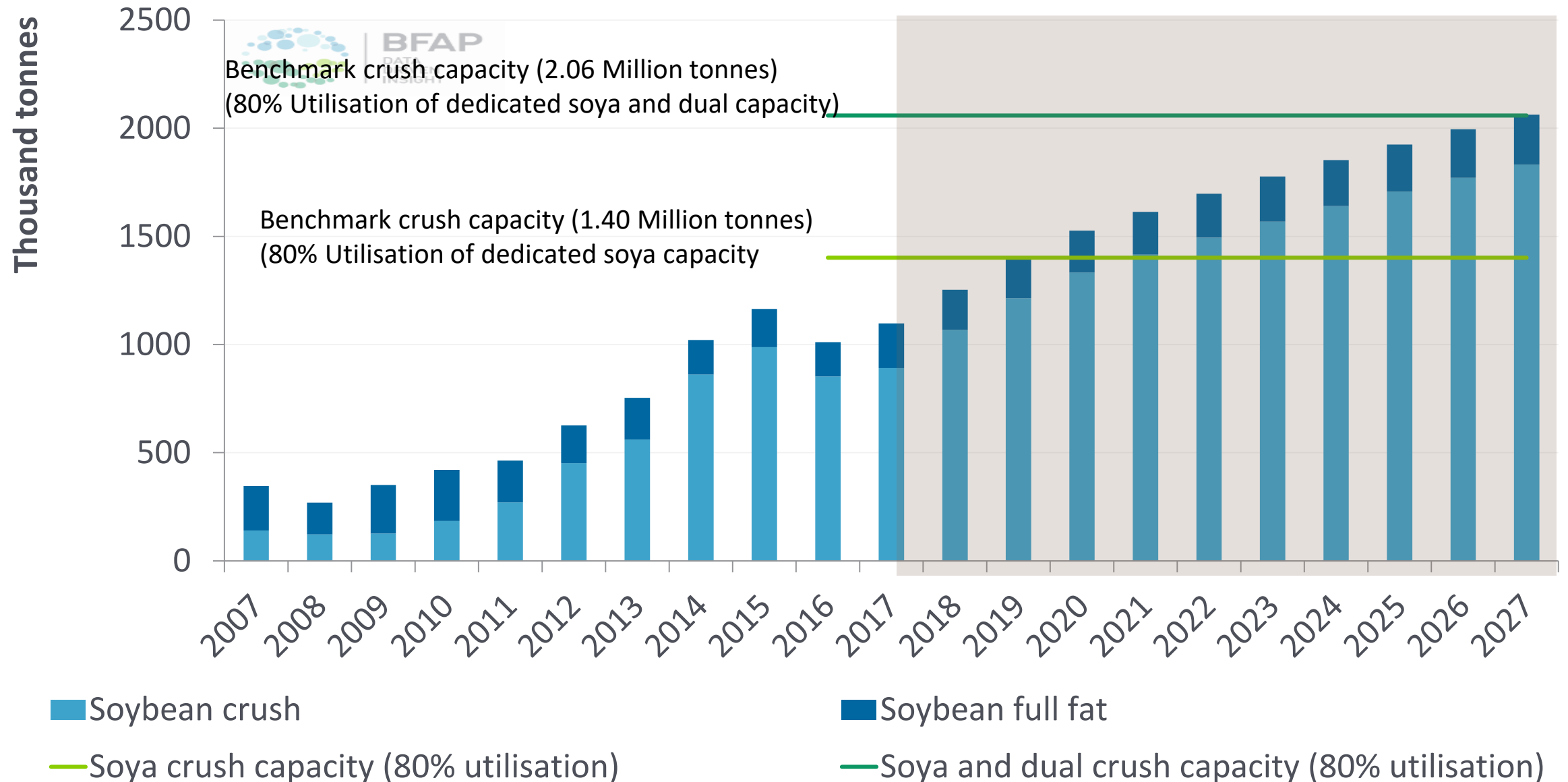
Keeping growth within context of market size



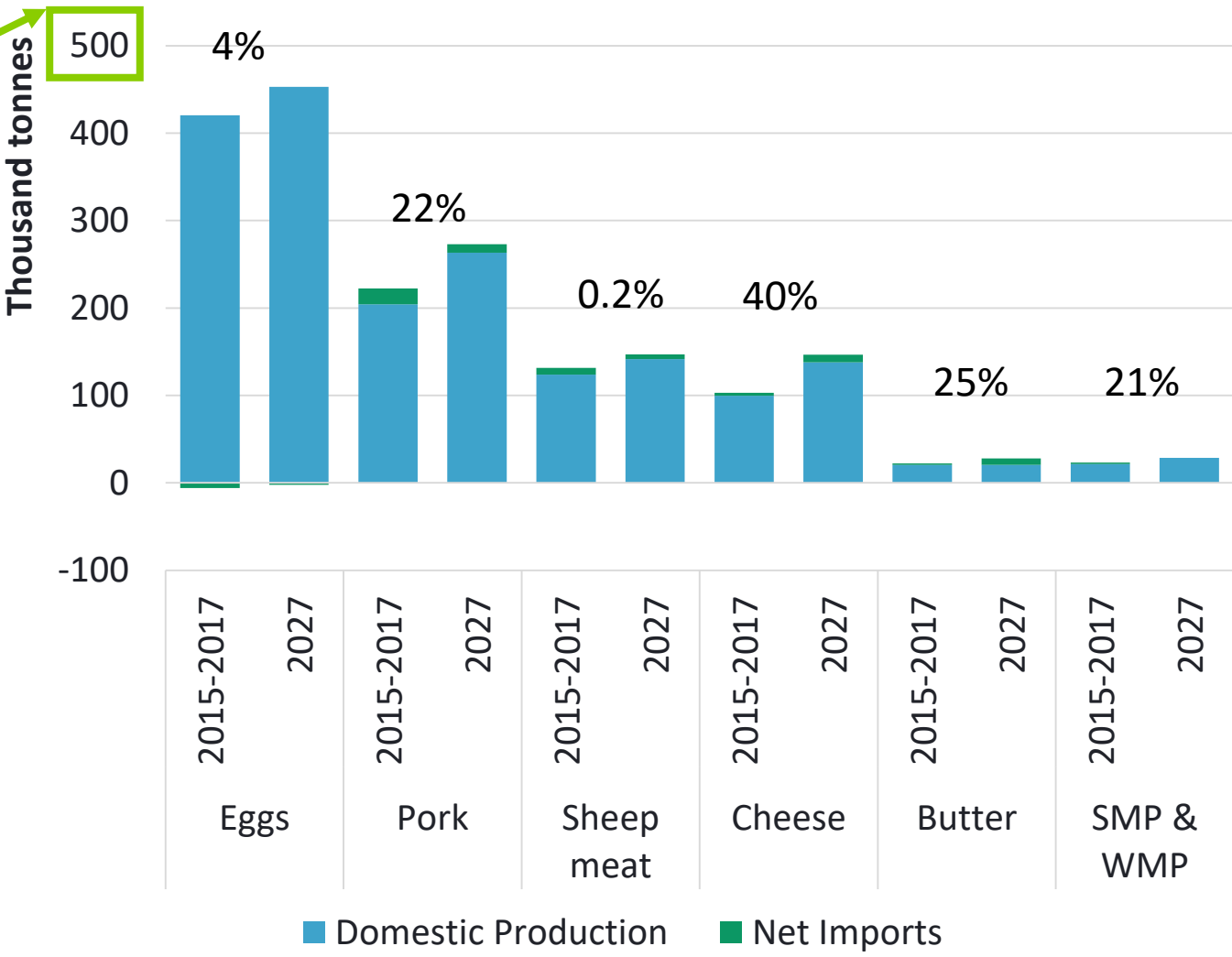
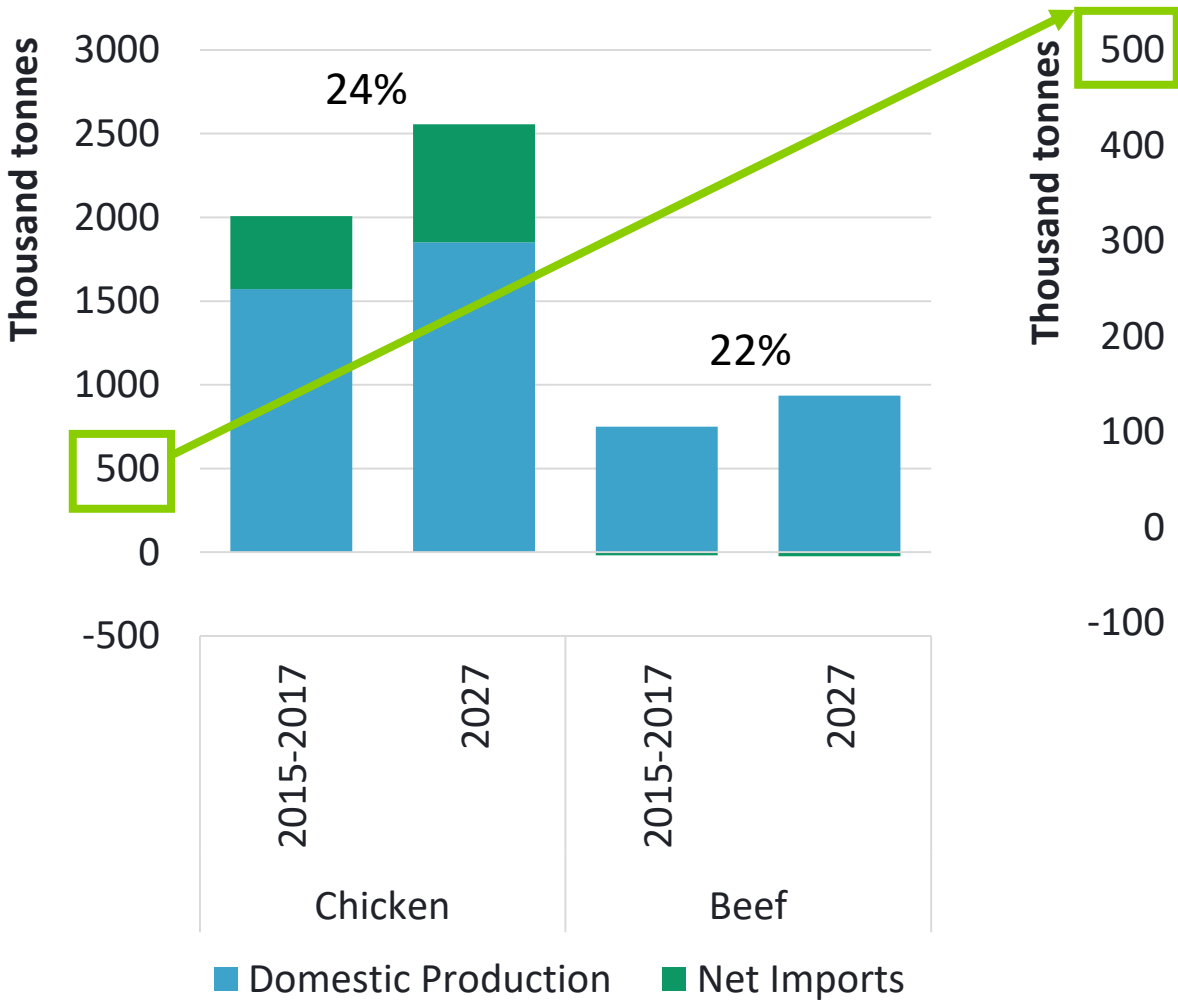
Poultry consumption and PC GDP



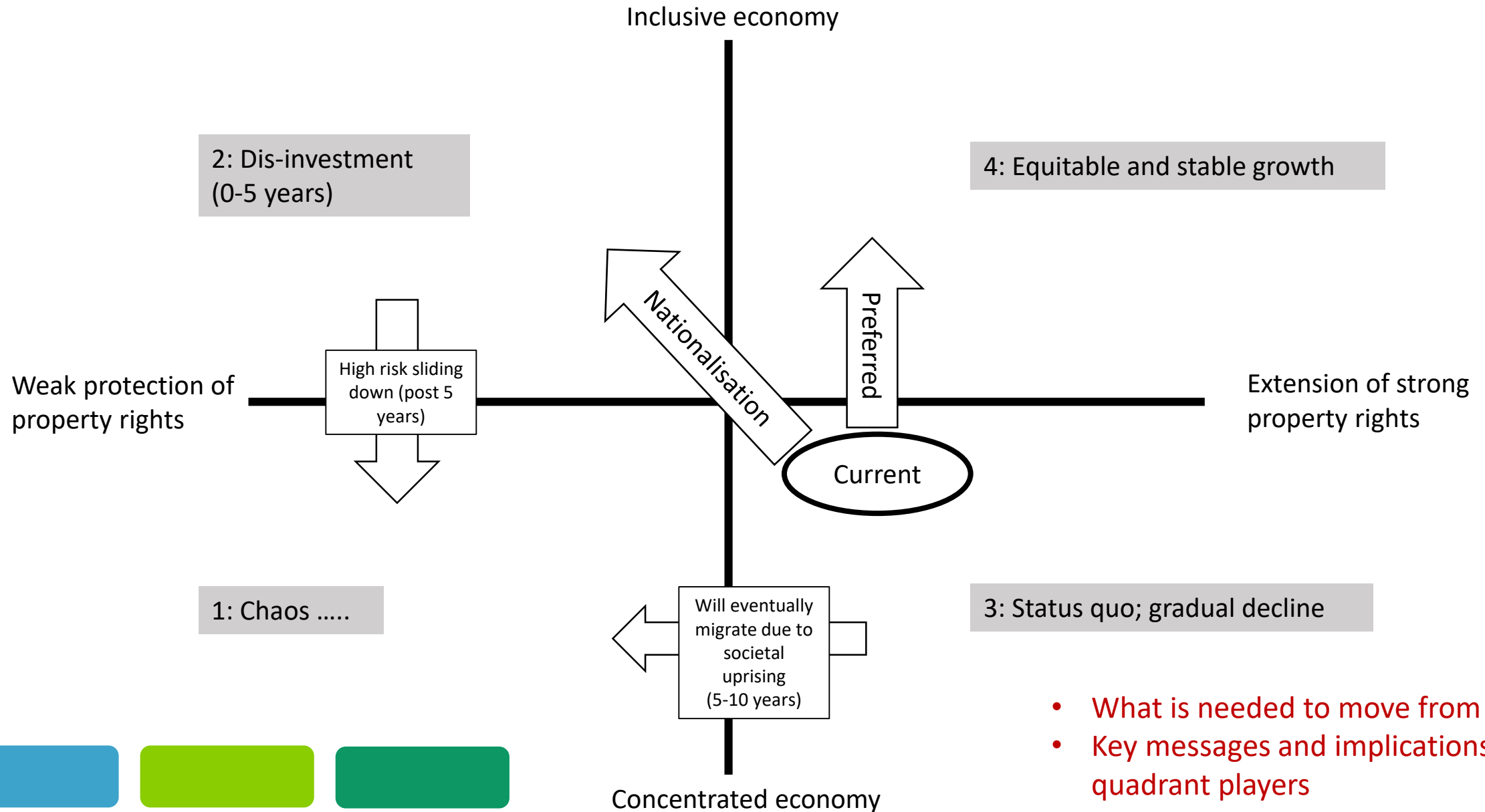
Major investments in Ag-processing



Consistent growth in SA demand



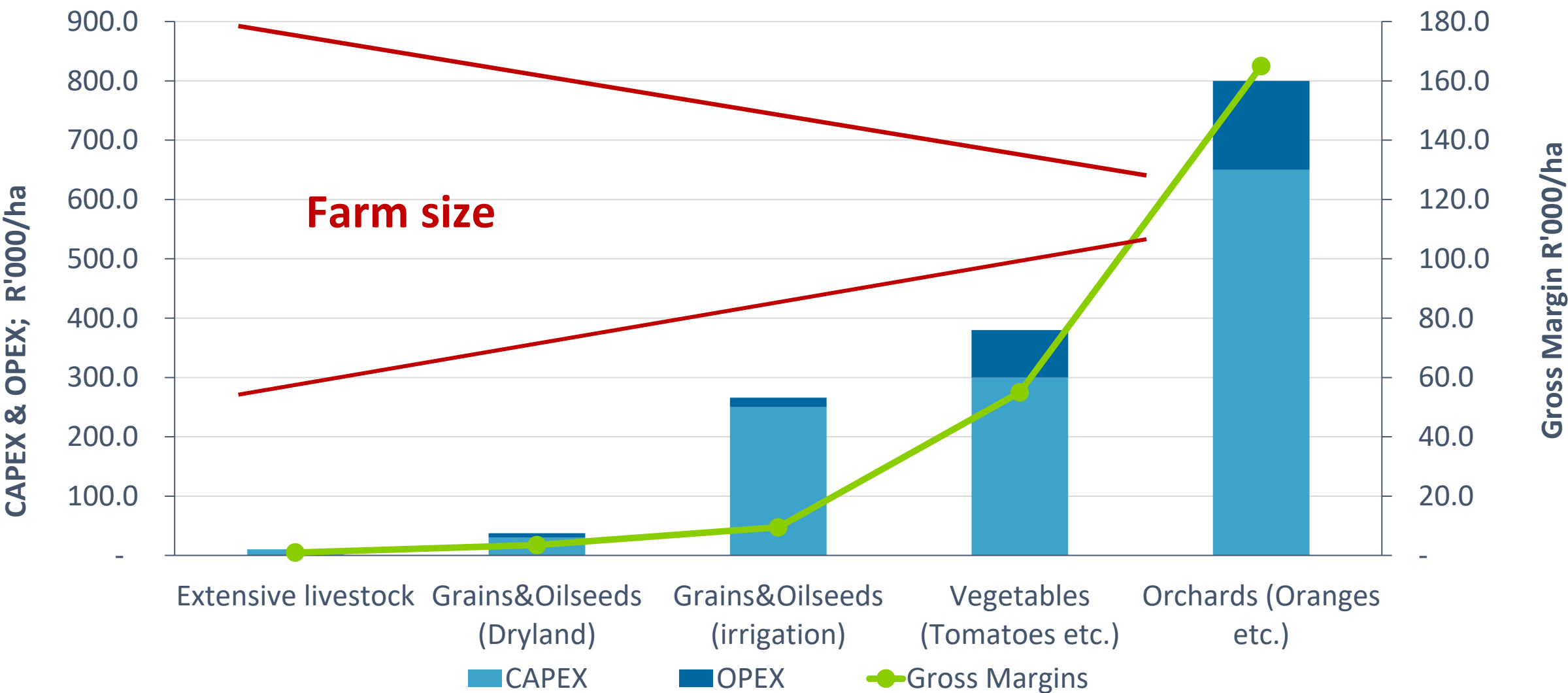
Land reform scenario matrix



- What is needed to move from 3 to 4?
- Key messages and implications to quadrant players

Land Reform: One size does NOT fit all!

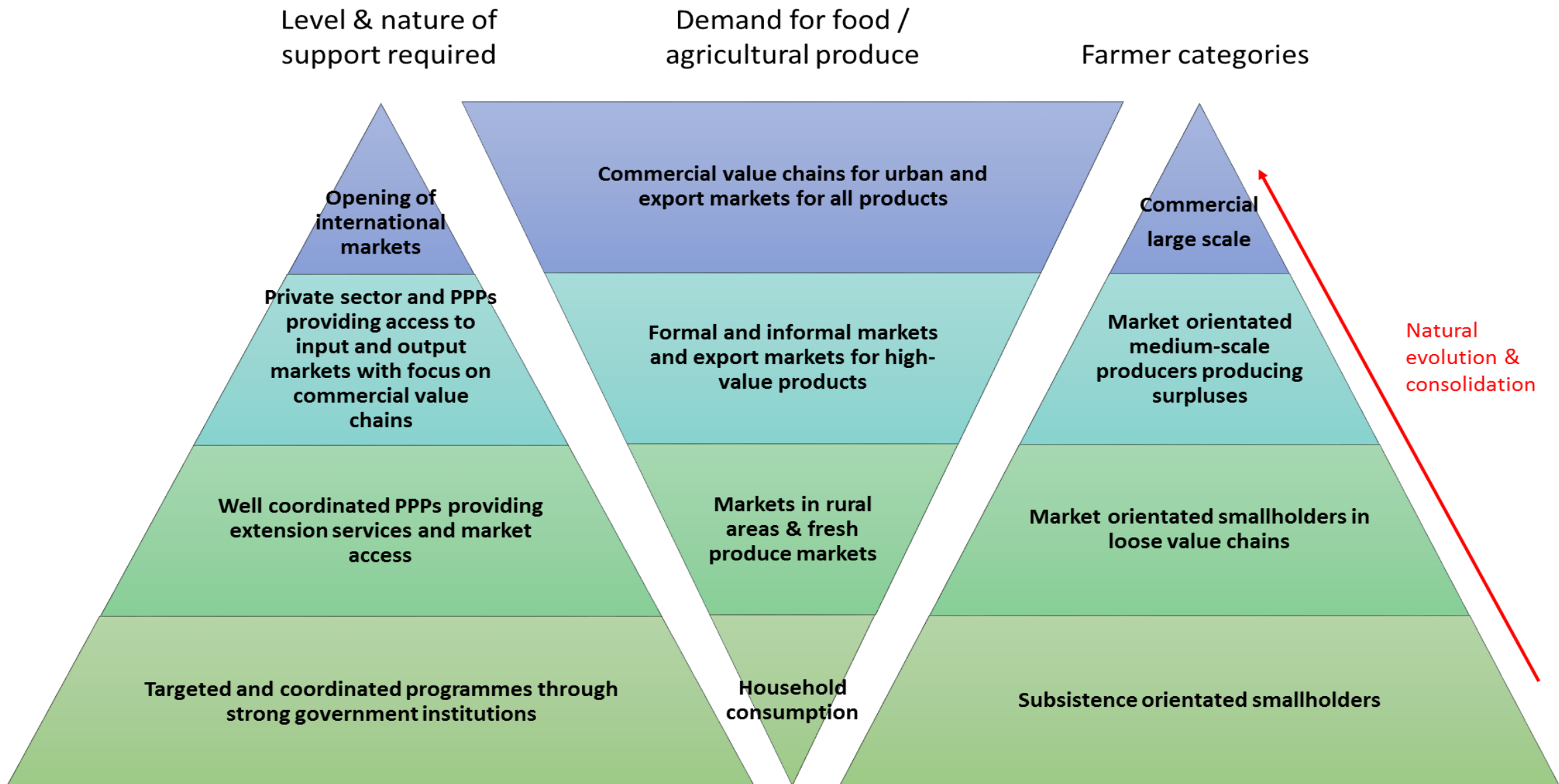
Net revenue per hectare (National 5-year averages)



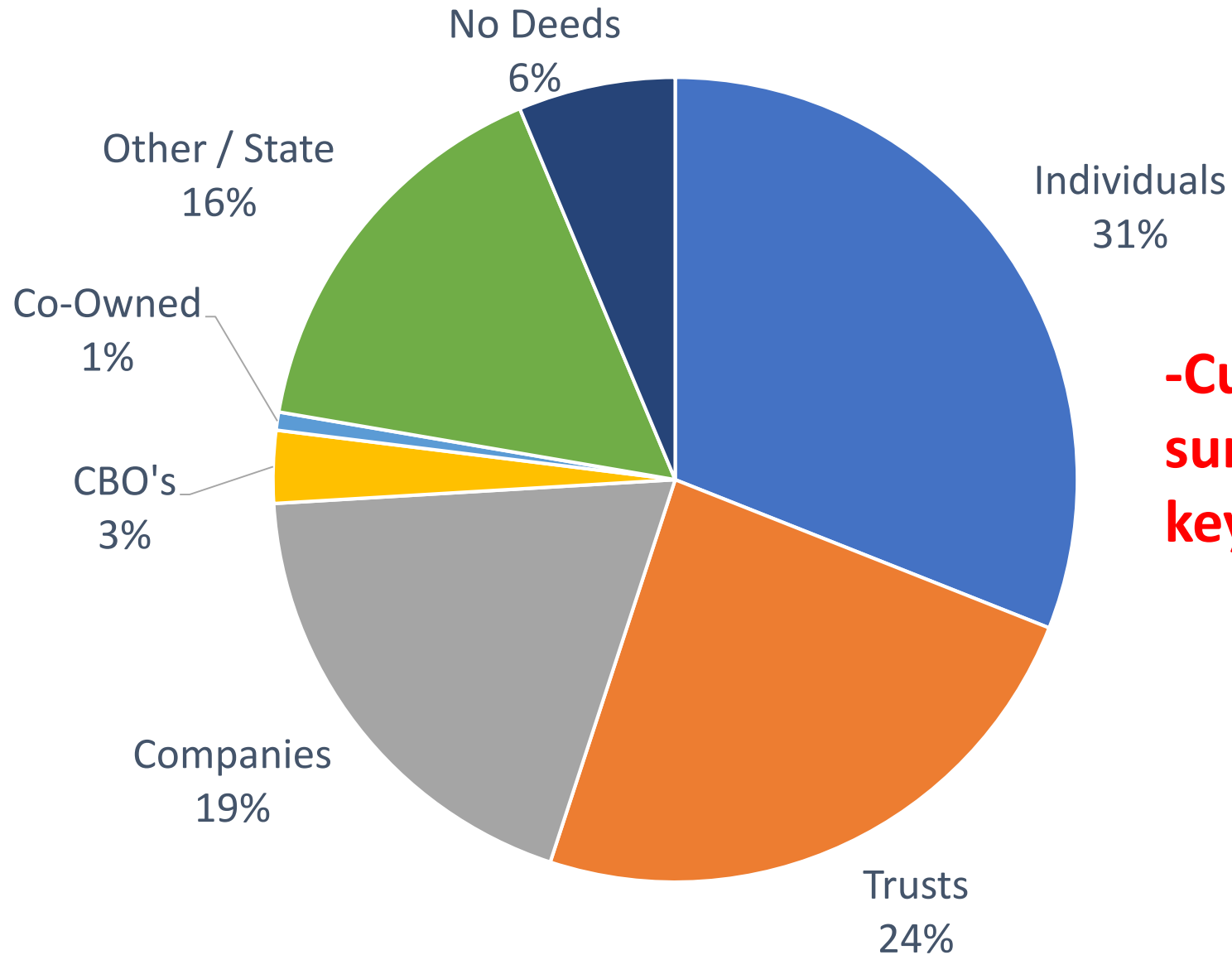
Land Reform – the portfolio approach



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Lack of statistics



-Current Stats SA survey misses our key target group

Natural Resource Base – spatial targeting



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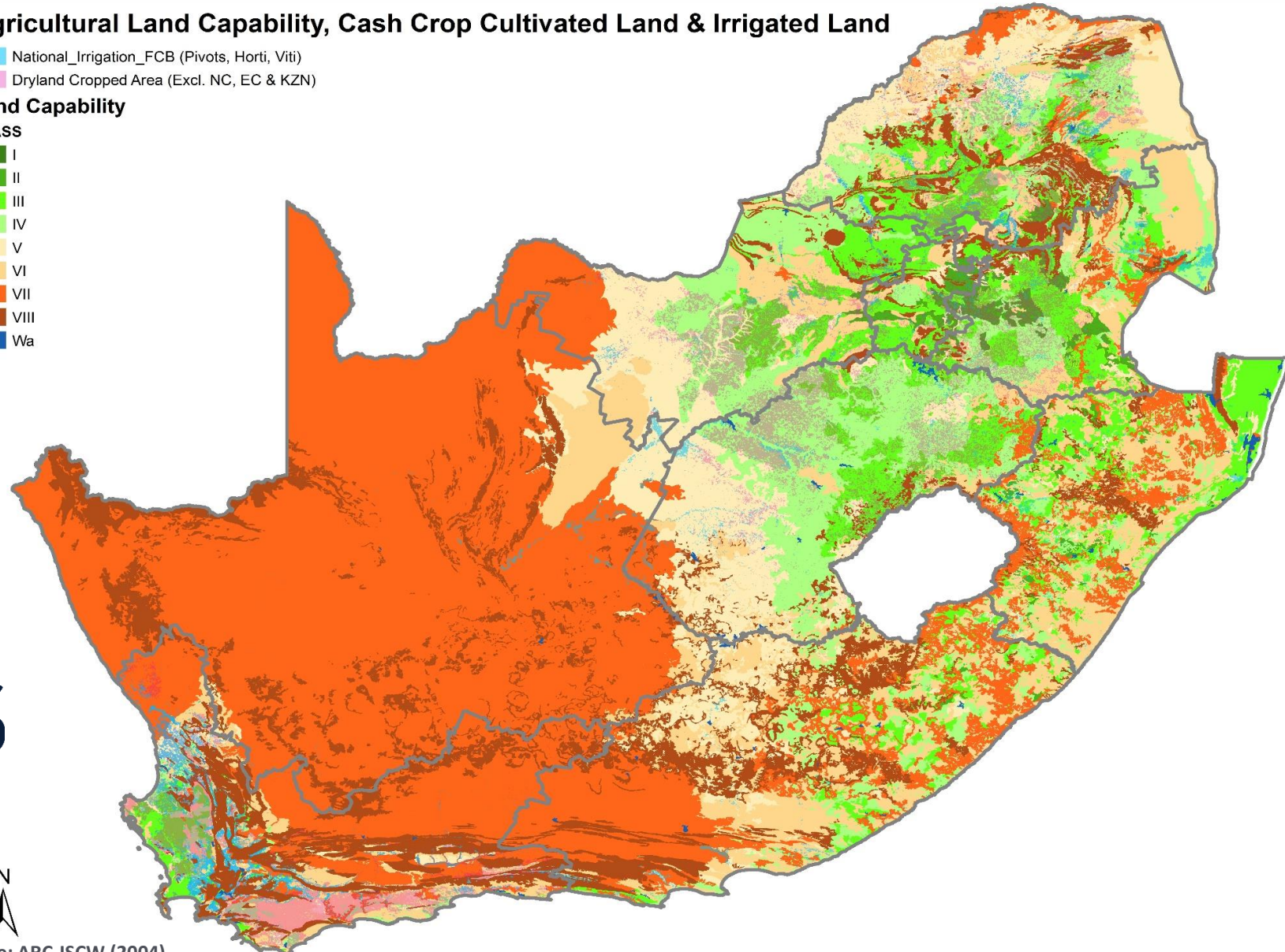
Agricultural Land Capability, Cash Crop Cultivated Land & Irrigated Land

- National_Irrigation_FCB (Pivots, Horti, Viti)
- Dryland Cropped Area (Excl. NC, EC & KZN)

Land Capability

CLASS

- I
- II
- III
- IV
- V
- VI
- VII
- VIII
- Wa



IVIS
INTEGRATED VALUE
INFORMATION SYSTEM



Grain SA Jobsfund Project

Map Information

Base Layers

Active Layers

Active Features

Show/Hide All

Grain SA - Jobs Fund Fields

Mabizela Zehlele Ignatia (021100397003)

FIELD INFORMATION

Mentor Identification

Crop planted last season

Crop to be planted on this field

Area

Latitude

Longitude

Wiggill Paul

White Maize

White Maize

1.50

-28.7697

29.2011

Map Legend

Jobs fund fields 2016/2017

Jobs fund fields 2016/2017

Public View

Windows Taskbar

Satellite view of field crop boundary

Description of photo:

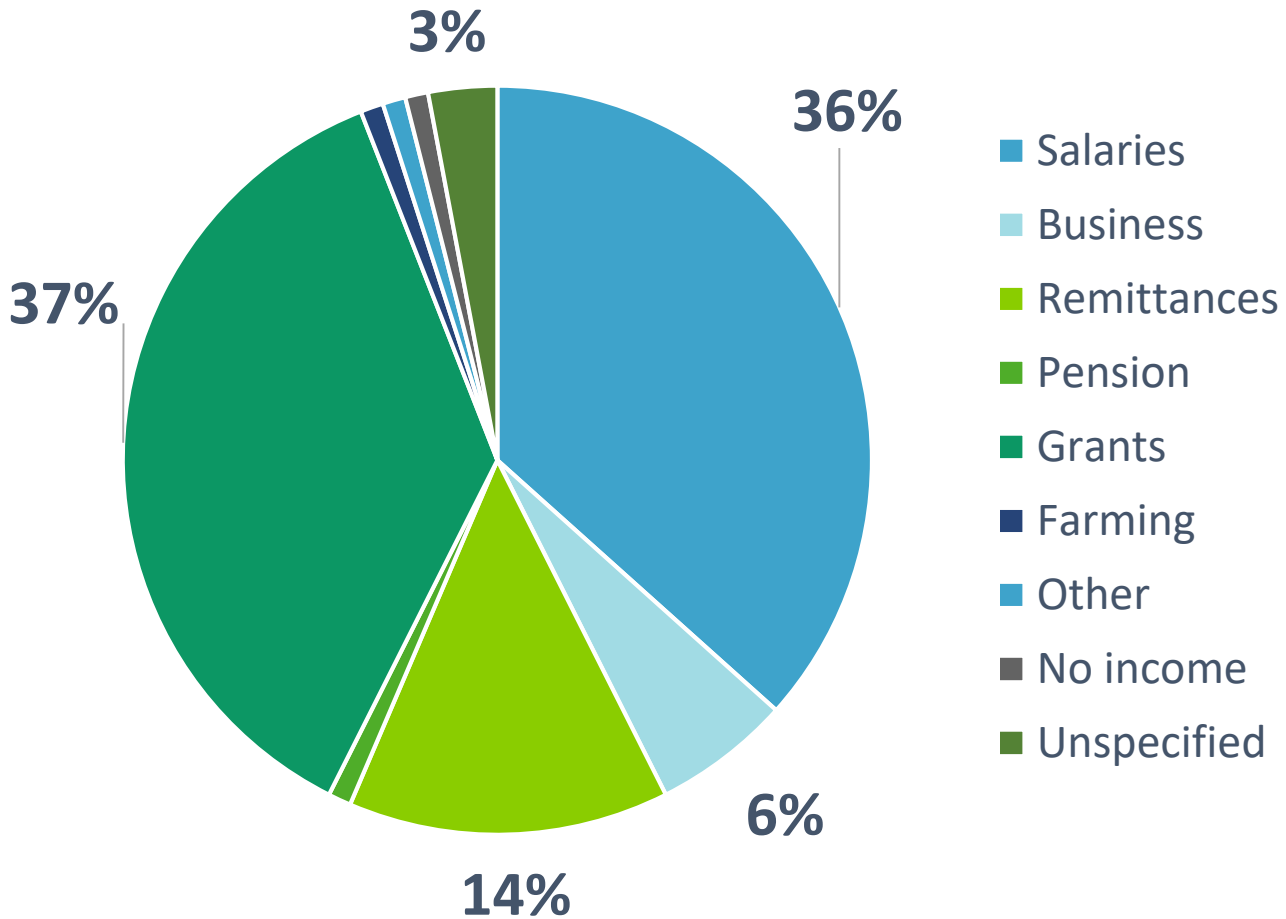
photo

Description of photo:

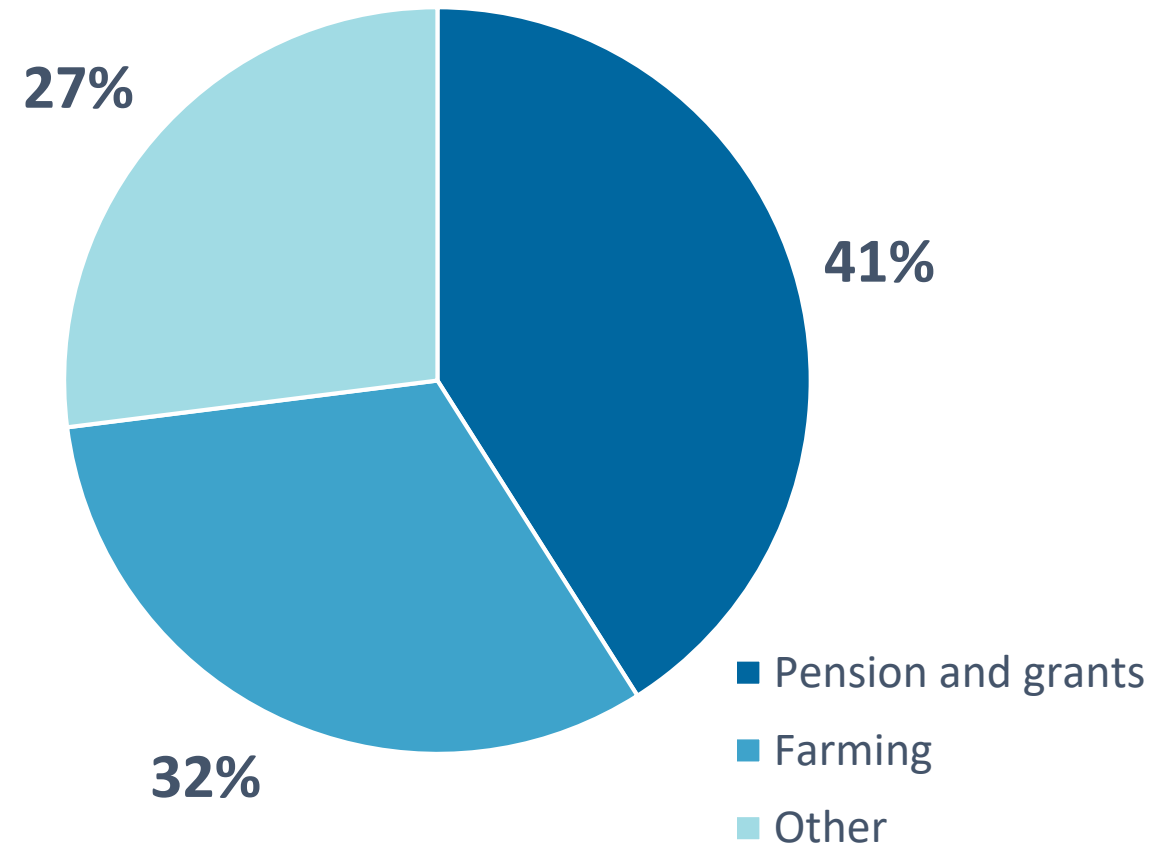
land

Farming as a source of income

StatsSA 2015 Household survey

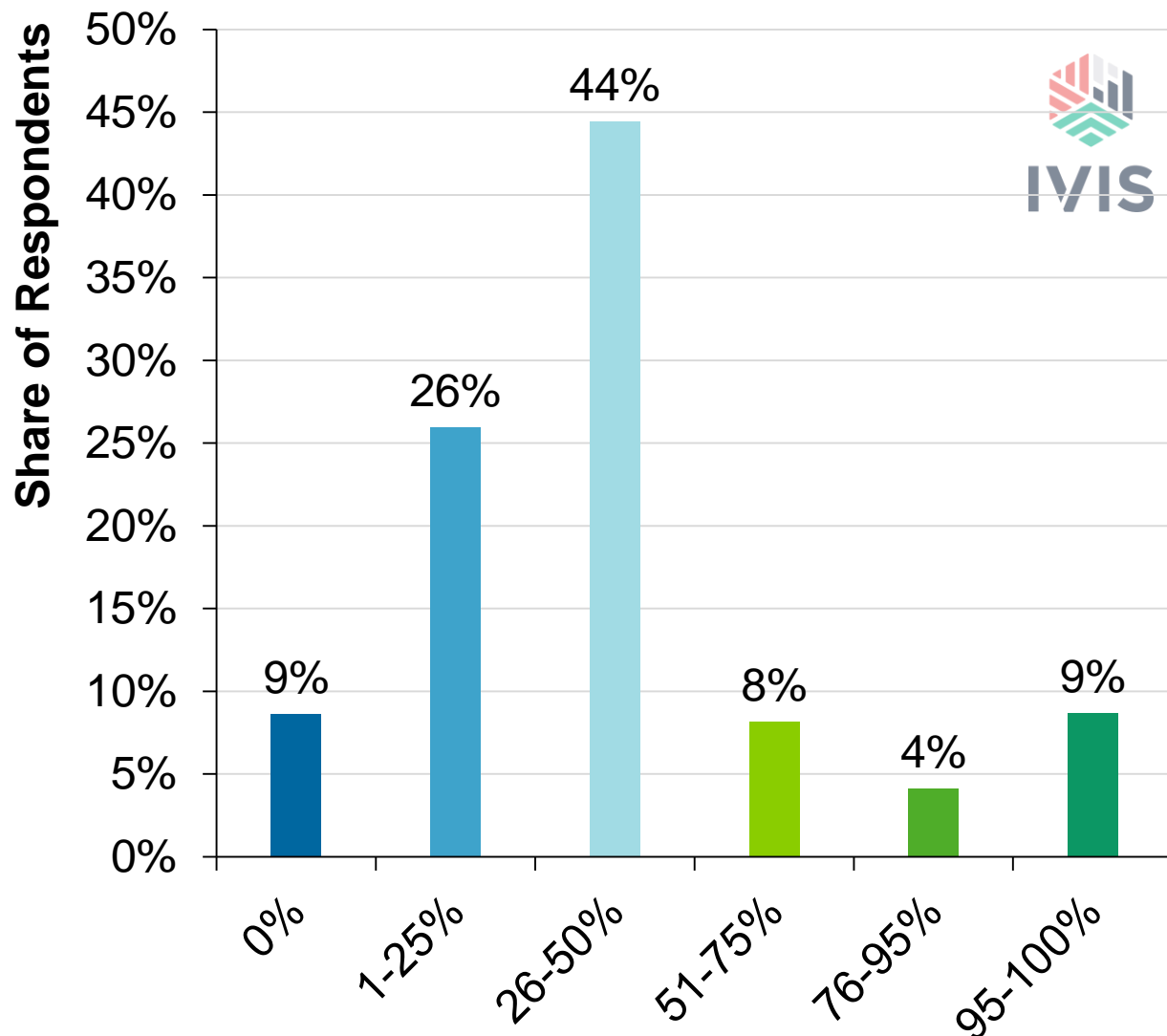


2016/17 Jobs Fund - GrainSA supported developing farmers

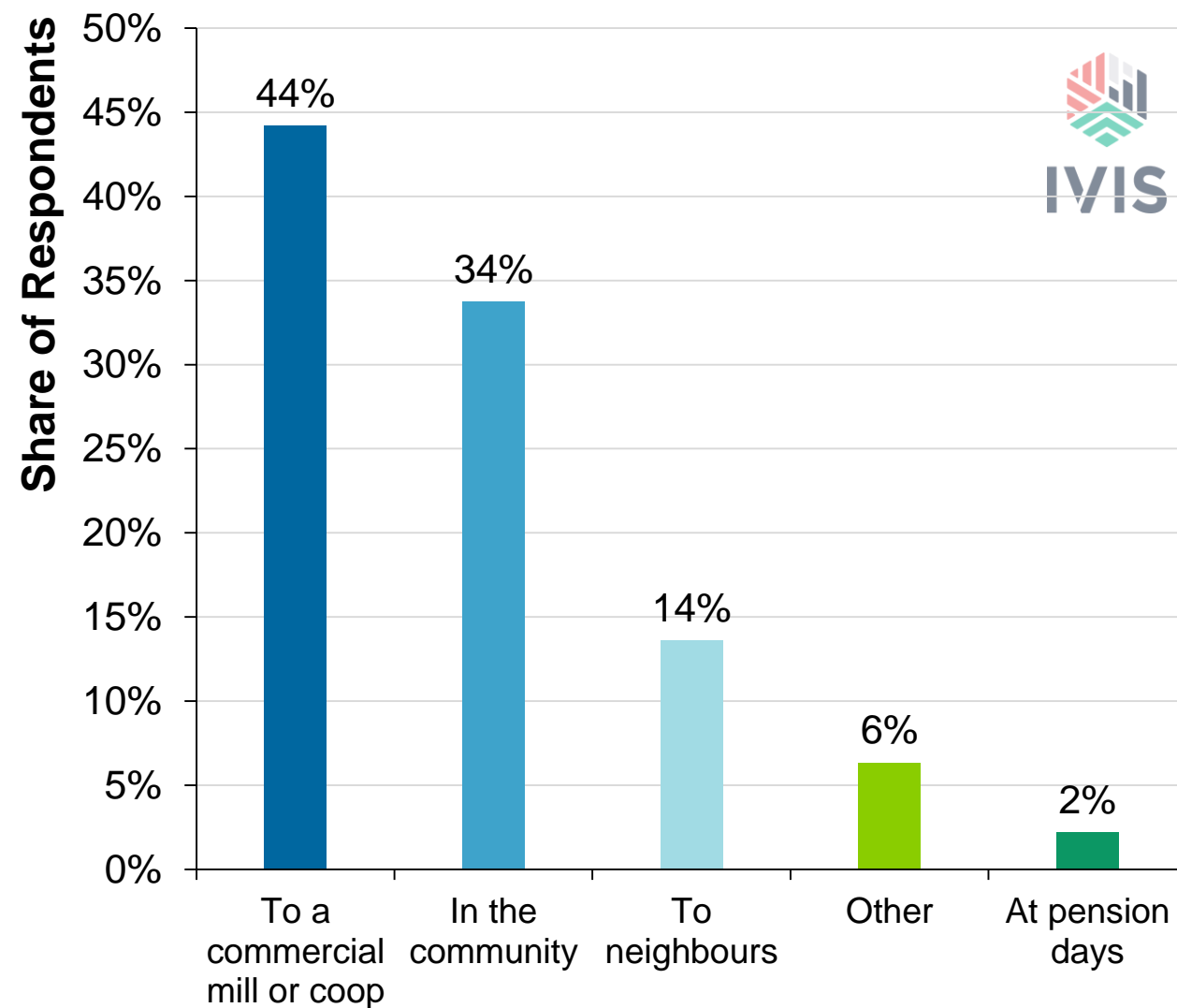


Maize consumption & marketing

Share of harvest consumed in the household



Where farmers sold their 2016/17 grain



Concluding thoughts

The “Go Do’s”:

- Market-led land reform
- Unlock under-utilised land....yes, it will cost direct support!
- Infrastructure: water, water, water
- Services...collapse of municipalities
- Opening of more export markets

