OPINION PIECE:

Western Cape wheat farmers look to skies as rain dries up

By Wandile Sihlobo, Business Day, 18 September 2019

Farming is proving to be one of the more challenging vocations in SA because of the ever-changing risk environment. Not only must farmers monitor economic conditions, changing consumer preferences and social dynamics, but the weather is proving to be the most unpredictable aspect of all.

An example is the Western Cape, where weather forecasters predicted the possibility of above-normal rainfall in 2019, and wheat farmers in that province worked hard to ensure they planted whatever good land they could find, in the hope that higher rainfall would lead to a better harvest and an improvement in their fortunes after years of drought.

For a while the “gods of the weather” seemed to be on their side, as rainfall enabled planting and sustained the crop in good shape until the end of August. However, after that the province experienced much warmer and drier weather conditions, which caused damage in the fields, changing the once promising prospects of the harvest ahead to a depressing outlook.

In the middle of August, the SA Crop Estimates Committee predicted a wheat harvest of 1.92-million tons in the 2019/2020 season, which would have been the biggest harvest in a decade. It is now clear that this was a far-fetched prospect, as a number of farmers in the province continue to report crop losses.

As I write this column the weather forecast shows clear skies across the province for the next eight days, with the prospect of rainfall only in the week between September 23 and October 1, according to wxmaps — a George Mason University-hosted weather forecast website. If this materialises it may help ensure there is no excessive crop damage but it will not reverse the losses already incurred.

On September 12 Grain SA noted the crop damage and that farmers will be under financial pressure in the coming months as prices are unlikely to adjust for yield losses. I agree. If damage had occurred in crops where SA is typically a net exporter, such as maize, the effect on prices would have been noticeable.

But this is not the case for wheat, as SA imports about half (an average of 1.6-million tons) of what is consumed annually, and sales generally track the import parity price level. This means the drought may not result in large movements in domestic wheat prices. Wheat farmers will therefore not be compensated with better prices, despite the production declines, a point Grain SA tries to advance.

The factors that have the most notable effect on domestic wheat prices are global wheat market conditions and the exchange rate. But global wheat prices could remain at softer levels in the coming months because of a recovery in production in the EU and the Black Sea regions. Last week the US agriculture department placed its estimate for 2019/2020 global wheat production at 766-million tons, up 5% from the previous season.

For SA wheat users (millers and bakers), the expected poor domestic harvest in the Western Cape, and ultimately the country, will have a minimal effect on their cost structures. As long as the global wheat market is well supplied local wheat prices should be at comfortable levels, taking a cue from the global wheat market (assuming a generally stable exchange rate). The same applies to food price inflation dynamics.

While the picture looks comfortable for consumers in the near term irrespective of the erratic weather conditions, the sustainability of the farming system remains at risk. The challenge to farmers and the food value chain is how to adapt in a rapidly changing risk environment. There are no easy answers to this.

My sense is that the government and private sector mitigate the risk and learn from best practices elsewhere.

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