Lower export demand will be among agriculture's Covid challenges

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The potential rise in oil prices and weak demand for SA's agricultural exports from most regions are two additional challenges for the agricultural sector that are spinning off the Covid-19 pandemic.

Global oil prices came under pressure at the beginning of March after a dispute between Saudi Arabia and Russia, which led to both countries increasing their oil production. Brent crude prices fell 60% before staging a 29% recovery to end at $24 per barrel last week. The collapse in oil prices was beneficial to oil and petroleum product importing countries such as SA, as it offset the effect of a drastic weakening of their domestic currencies over the same period.

However, the tide has now turned. The Opec crude oil cartel agreed to reduce oil production by 9.7-million barrels a day in May and June, which roughly equates to 10% of global supply. Moreover, there is a commitment to continue oil reductions until April 2022. This means the decline we saw in oil prices could soon be reversed.

This could manifest in domestic fuel prices from May, a month when the summer grain harvest will be commencing and the citrus harvest will be in full swing. Meanwhile, the winter grain planting season will be in its early stages. All these processes require more fuel consumption at a time when prices are likely to be increasing. Fuel accounts for 11% of SA's grain production costs, so an increase in fuel prices would be a notable drawback.

What's more, the agribusinesses involved in the logistics chain could also be hit. About 80% of SA's grain and a substantial volume of other agricultural products are transported by road.

Second, the spectre of slowing demand for SA's agricultural exports is no longer confined to the European and Asian markets, which on their own are crucial markets accounting for 50% of SA's agricultural exports of R142bn in 2019. The African market, which generally accounts for 40% of SA's agricultural exports, could also experience slowing demand in 2020. This might be the case notwithstanding the potential food shortage in various countries in the rest of Africa this year.

While the rate of confirmed Covid-19 cases is low on the continent, other than in SA, there are various key contributing factors to slowing demand. Chief among them is the relative weakness of currencies across the region amid the pandemic, which could lead to rising food prices. Another is supply chain disruptions as various countries implement strict border closures to curb the Covid-19 pandemic.

In the event that lower demand for SA's agricultural products becomes a reality in some markets, the effect could be felt across various agricultural industries. The aforementioned regions constitute about 90% of SA's agricultural export markets, which means any glitches in trade activity could have a notable effect. Having said this, the evidence available so far remains encouraging that exports will continue with limited glitches, which have mostly been on the side of SA's ports and roadblocks.

Essentially, while the SA agricultural and agribusiness sector is not as hard hit by the Covid-19 pandemic as other sectors of the economy, there are still a number of challenges that could weigh on profitability.

With regard to potential rising fuel prices in the near term, it would be advisable for agribusinesses and farmers to hedge their fuel prices for use during the harvest and post-harvest periods. However, trade could remain challenging, especially if one considers the potential fall in consumer buying power in SA's traditional markets.

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