

A mixed bag of grains

We had important data out overnight (evening of February 11) – the World Agricultural Supply and Demand Estimates report, produced by the United States Department of Agriculture (USDA).¹ The commodities I typically pay close attention to in this report are wheat, maize and soybeans, for various reasons however.

Wheat

South Africa is a generally net importer of wheat, so its key that one has a sense of global wheat supplies and other market developments. In the 2019/20 season, South Africa's wheat imports could increase by 33% y/y to 1.8 million tonnes. This is 13% higher than the five-year average import volume, exacerbated by the decline in domestic wheat production on the back of unfavourable weather conditions² in parts of the Western Cape late 2019.

Fortunately, there are large supplies in the global market. The USDA forecasts 2019/20 global wheat production at 764 million tonnes, up 4% y/y. What's more, the 2019/20 global wheat stocks are estimated at 288 million tonnes, which is also 4% higher than the previous season. This means global wheat prices could remain somewhat subdued this year, which will be beneficial for importing countries such as South Africa. The existing wheat import tariff in South Africa could, however, slightly reduce these gains that domestic buyers would have enjoyed. Meanwhile, somewhat cushioning local farmers (this is a discussion for another day).

Maize

South Africa is a net exporter of maize, so one looks into the USDA data for two reasons; (1) to get a sense of their estimate for South Africa's maize production at a particular season, (2) and for a view of global maize supplies, which partially influences domestic maize prices. With that said, the correlations between the global and South African maize prices tend to be weak in years of maize abundance in the domestic market.

The USDA forecasts South Africa's 2019/20 maize production at 14.0 million tonnes, which is up 19% from the previous season. This data comprises both commercial and non-commercial production. Hence, it is slightly higher than the estimates we have recently released (our commercial maize production estimate for the 2019/20 season is 12.5 million tonnes, which is the lower end of market expectations).

If such harvest materializes, South Africa could have over 1.5 million tonnes of maize for the export market. This will benefit maize-importing countries such as Zimbabwe, Mozambique, Japan, Taiwan, and SACU market, amongst others. These are all typical markets for South African maize.

Globally though, maize production is set to fall by 1% y/y to 1.1 billion tonnes in 2019/20. This will subsequently lead to a 7% y/y decline in stocks to 297 million tonnes. While this will

12 February 2020

Wandile Sihlobo

Chief Economist

+27 12 807 6686

wandile@agbiz.co.za

www.agbiz.co.za

Disclaimer:

Everything has been done to ensure the accuracy of this information, however, Agbiz takes no responsibility for any loss or damage incurred due to the usage of this information.

¹ <https://www.usda.gov/oce/commodity/wasde/>

² <https://wandilesihlobo.com/2020/02/04/south-africas-wheat-harvest-down-notably-in-2019-20-season/>

be supportive of global maize prices, its influence on the South African maize market is likely to remain minimal.

Soybean

South Africa imports, on average, 550 000 tonnes of soybean oilcake (meal) a year. About 97% from Argentina. Hence, we are compelled to pay close attention to global soybean market dynamics. The USDA forecasts 2019/20 global soybean production at 339 million tonnes, down 5% y/y. As a result, the 2019/20 global soybean stocks are down 11% y/y, estimated at 99 million tonnes. With China now back in the market, this means soybeans and its product prices could be slightly elevated in the coming months, which is not good for importing countries such as South Africa.

Concluding remark

Overall, this is a "mixed bag of grain market dynamics"; global wheat prices could be favourable in the near term for importing countries (and South African consumer). The same is true for maize but the benefit will be from the anticipated improvement in domestic supplies. Meanwhile, soybeans could be the opposite.