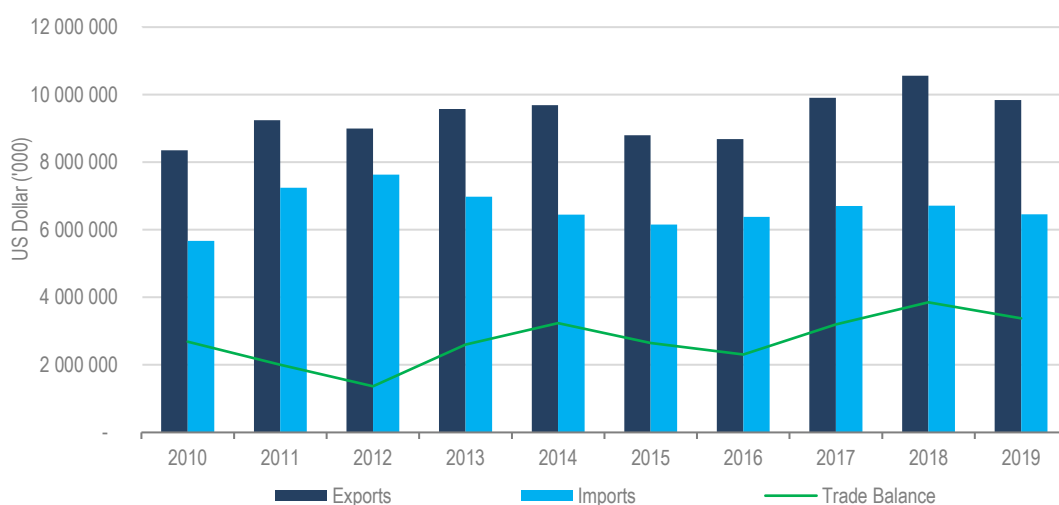


Understanding SA's agriculture trade patterns

After reaching a record level of US\$10.6 billion in 2018, South Africa's agricultural exports fell by 8% year-on-year (y/y) in 2019 to US\$9.8 billion. This, however, was unsurprising as agricultural production data for 2019 showed a notable decline in a number of exportable commodities because of the drought. The temporary ban on exports of livestock products and wool in 2019, following the outbreak of foot-and-mouth disease at the start of the year, also contributed to the decline in exports. Be that as it may, the top exportable agricultural products for 2019 included citrus, wine, grapes, apples and pears, sugar, macadamia nuts, wool and maize, amongst other products.

Over the same period, South Africa's agricultural products imports declined by 4% y/y to US\$6.4 billion. This was underpinned by the decline in the import value of rice, meat, wheat and palm oil. But these products remained amongst the top imported agricultural products in value terms. Overall, this subsequently led to a 12% y/y decline in South Africa's agricultural trade surplus to US\$3.4 billion, as shown in Exhibit 1.

Exhibit 1: South Africa's agricultural trade



Source: Trade Map, Agbiz Research

From a destination point of view, the African continent and Europe continued to be the largest markets for South Africa's agricultural exports, respectively absorbing 41% and 26% of total exports in 2019, measured in value terms. The leading products to these markets were beverages, fruit, vegetables, sugar, wool and grains.

Asia is also an important market for South Africa's agricultural exports, demanding a 24% export share in 2019. Wool, fruit, grains, beverages, vegetables and meat were the leading products exported to this particular region. The Americas and the rest of the world (ROW) accounted for 5% and 4% shares, as shown in Exhibit 2. Exports to these regions were also dominated by fruits, beverages, vegetables, sugar and grains.

10 February 2020

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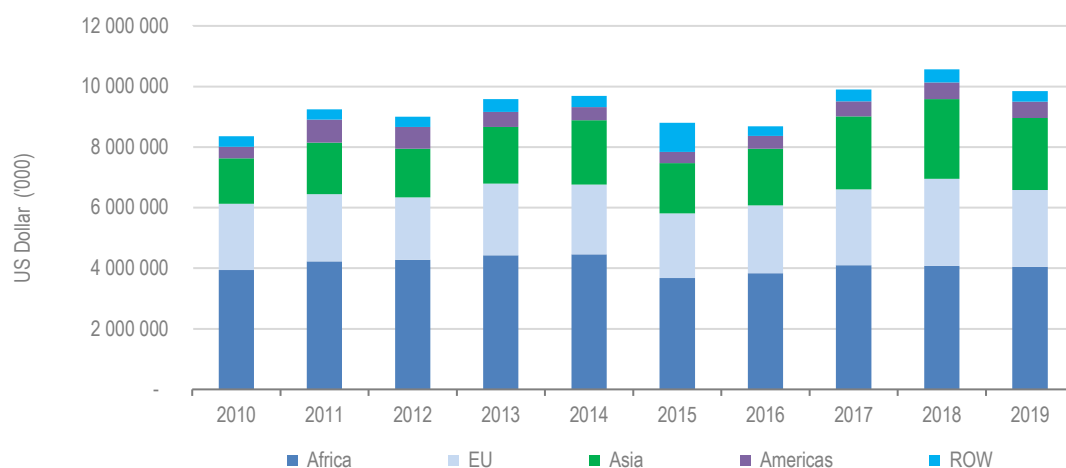
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Exhibit 2: South Africa's agricultural exports by region



Source: Trade Map, Agbiz Research
 Note: ROW represents the Rest of the World

Looking ahead

South Africa's agricultural exports could recover somewhat in 2020. The improved weather conditions this year has led to an increase in summer crops area plantings and prospects of a bigger maize harvest, which is an exportable commodity.¹ The South African wine grapes production is also set to increase in 2020, thus contributing to a larger wine volume output.² There is also general optimism about 2020 harvest in the fruit industry, which supports our view of possible improvement in agriculture exports this year.³ The industry that is still on the backfoot because of biosecurity concerns in the red meat sector. There is currently a ban on South Africa's livestock products (including red meat) exports because of the foot-and-mouth disease outbreak that occurred towards the end of 2019.

Policy considerations

The South African government and private sector players have embraced a vision of expanding labour-intensive agricultural subsectors as part of a broader development strategy. This is to be an export-driven initiative. Such subsectors are mainly horticulture and to certain extent field crops. Fortunately, the top valuable agricultural exports over the past five years were also within these subsectors, which means that South Africa is on the right path in its agricultural development strategy.

With that said, while 24% share of South Africa's agricultural exports goes to Asia, as previously noted, there is still potential to expand participation in that market. With India and China headlining the growth potential in Asia and the Far East, this region overall is significant enough to warrant more attention, especially given that there is currently no preferential market access for South Africa's agricultural sector in this region. South Africa is having to compete with the likes of Australia and Chile, who have secured trade agreements that have afforded them a significant competitive advantage which could end up threatening South Africa's market share and future growth. Therefore, South Africa should continue to engage these countries for greater market access to agricultural products.

¹ We currently forecast SA's 2019/20 maize production at 12.5 million tonnes (up 12% y/y), which means there could be over a million tonnes of maize for export markets.

² Vinpro, "SA wine grape crop set to be good, but below 5-year average", December 10, 2019. Available at: <https://vinpro.co.za/sa-wine-grape-harvest-set-to-be-good-but-below-average/>

³ USDA, "South Africa: Citrus Annual", December 27, 2019: Available at: <https://apps.fas.usda.gov/newgainapi/api/Report/DownloadReportByFileName?fileName=Citrus%20Annual%20Pretoria%20South%20Africa%20-%20Republic%20of%2012-15-2019>

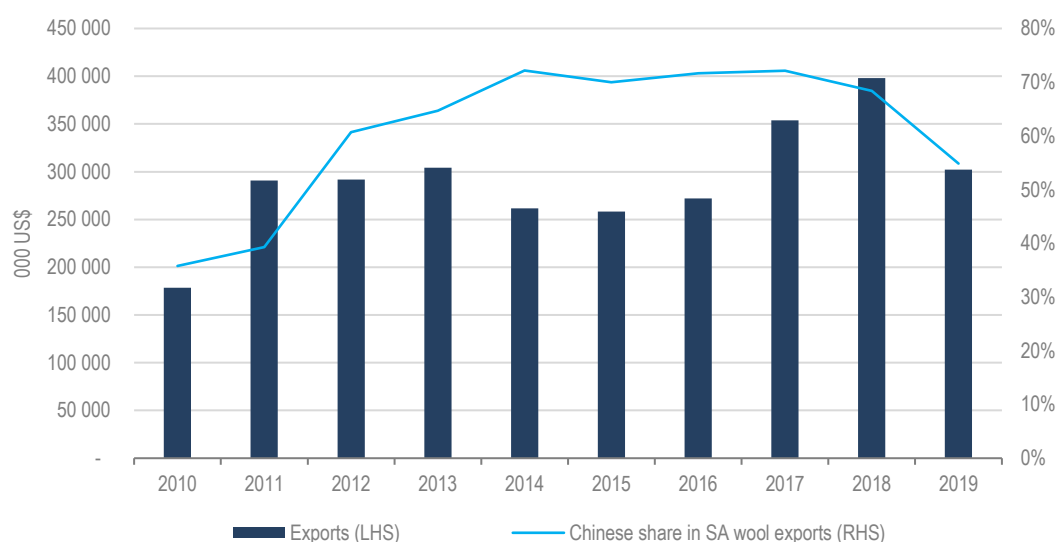
Weekly highlights

SA wool industry took a knock from a ban of exports by China in 2019

South Africa's wool industry experienced a tough year in 2019. China, which accounts for an average of 71% of South Africa's wool exports in value terms, placed a ban following the outbreak of the foot-and-mouth disease in Limpopo. This lasted for months and weighed on the farmers' finances.

With the agricultural trade data for 2019 out, we now have a sense of the impact of this ban on exports. South Africa's wool exports fell by 24% year-on-year in 2019 to US\$302 million. The notable decline was in exports to China, which fell by almost a third from 2018, in both volume and value terms. What's more, the Chinese share in South Africa's wool exports fell to the lowest level in nine years – at 55%, as illustrated in Exhibit 3 below.

Exhibit 3: South Africa's wool exports



Source: Trade Map, Agbiz Research

The countries where South Africa saw its wool exports expanding were mainly the Czech Republic, Italy, India and Bulgaria. With that said, these are small markets, China remains an important market for wool. In 2018, China accounted for roughly half of global wool imports in volumes terms, and more than half in value terms. Fortunately, South Africa's wool exports to China has resumed, and if that continues with minimal interruptions, 2020 could show some level of recovery from 2019 levels. There are now measures in place to continue exporting wool to China, regardless of the most recent foot-and-mouth disease outbreak.

SA tractor sales down notably in January 2020

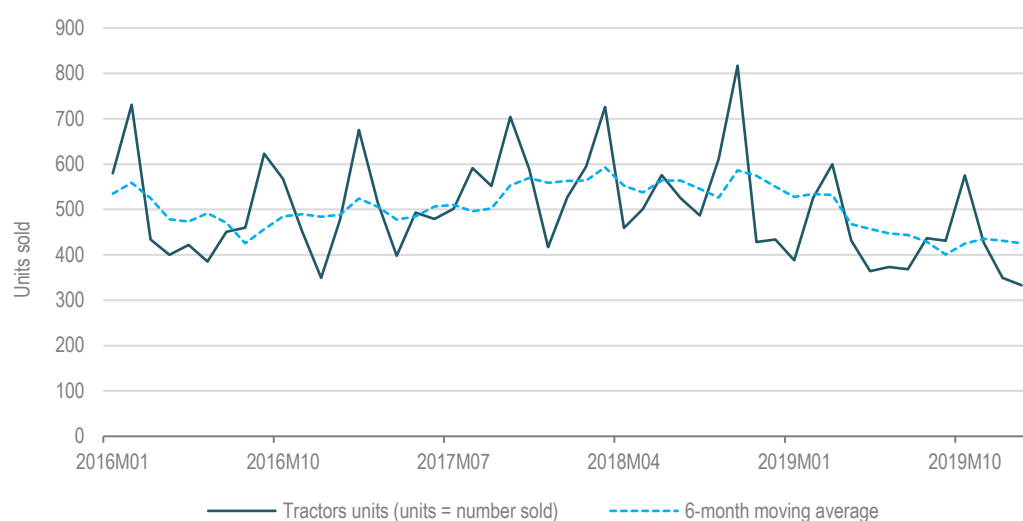
The South African agricultural machinery market started the year on a bad footing. Tractor sales were down 14% y/y, with 333 units sold. This is the lowest monthly sales data that has been recorded over the past six years – see Exhibit 4. This sales data is, however, unsurprising as it is a continuation of the 2019 tractor sales trend. That year, farmers' incomes were constrained because of poor harvests on the back of drought and biosecurity issues, amongst other aspects. As we have consistently pointed out in the previous posts, the drought which led to lower agricultural output in 2019 is not the full story. It's worth

SA's wool exports fell by 24% year-on-year in 2019 to US\$302 million.

SA's tractor sales were down 14% y/y in January 2020, with 333 units sold.

remembering that in 2018 South Africa's agricultural machinery sales were relatively robust, which implies that the rate of replacement in 2019 was going to be low.⁴

Exhibit 4: South Africa's tractor sales



Source: SAAMA, Agbiz Research

What's more, there have been questions about whether agricultural policy, which has dominated the headlines in the past few years (certainly between 2017 and 2019), has influenced farmers' attitudes on investments. To this end, we continue to monitor, through the Agbiz/IDC Agribusiness Confidence Index (ACI)⁵, the influence of policy discussions on agricultural investment.

Certainly, sentiment in the farming sector has generally been subdued for the past six quarters (counting from Q4, 2019). This is the longest period the ACI has trended below the neutral 50-point mark points since 2010, which implies that agribusinesses are downbeat about business conditions in South Africa.

However, we are yet to have a full picture of the sector's fixed investment numbers for 2019. What we found rather comforting thus far is that fixed investments in the sector did not decline notably in 2018. Be that as it may, the subdued confidence levels suggest a need for urgency in moving the policy levers to ensure that, at least matters that are in the South African policymakers' reach, are well addressed in the interest of sustainable growth of the agricultural and agribusiness sector.

Data releases this week

On Tuesday, Stats SA will release the **Quarterly Labour Force Survey data** for the fourth quarter of 2019. To recap, the Quarterly Labour Force Survey data for the third quarter of 2019 showed that South Africa's primary agricultural employment jumped by 4.5% y/y from the corresponding period the previous year to 880 000. This came as a surprise as the third quarter of each year is usually a quiet period on farms in most parts of the country. These jobs gains were mainly in the livestock, horticulture, field crops, as well as aquaculture subsector.

⁴ South Africa's total tractors and combine harvesters' sales for 2018 amounted to 6 687 units and 200 units, up by 4% y/y and 2% y/y, respectively.

⁵ The Agbiz/IDC Agribusiness Confidence Index can be access here: <https://agbiz.co.za/economic-intelligence-1/agribusiness-confidence>

We think this could have largely been underpinned by the replanting in parts of the horticulture fields following a drought season that caused damage in the fields in provinces such as the Western and Eastern Cape. Other provinces that showed job gains are KwaZulu-Natal, Gauteng and Mpumalanga. Meanwhile, the Northern Cape, Free State, North West and Limpopo saw a reduction in agricultural employment.

Also, on Tuesday, the United States Department of Agriculture will release its monthly update of the **World Agricultural Supply and Demand Estimates report** for major grains and oilseeds. The focus will be on 2019/20 production season data.

On Wednesday, the South African Grain Information Service (SAGIS) will release the **weekly grain producer deliveries data** for the week of 07 February 2020. This covers both summer and winter crops. But for now, we particularly monitor winter wheat data, whose harvest has recently been completed in most regions of South Africa. In the week of 31 January 2020, about 8 532 tonnes were delivered to commercial silos. This placed total wheat deliveries at about 1.36 tonnes, which equates to 90% of the expected harvest in the 2019/20 season.

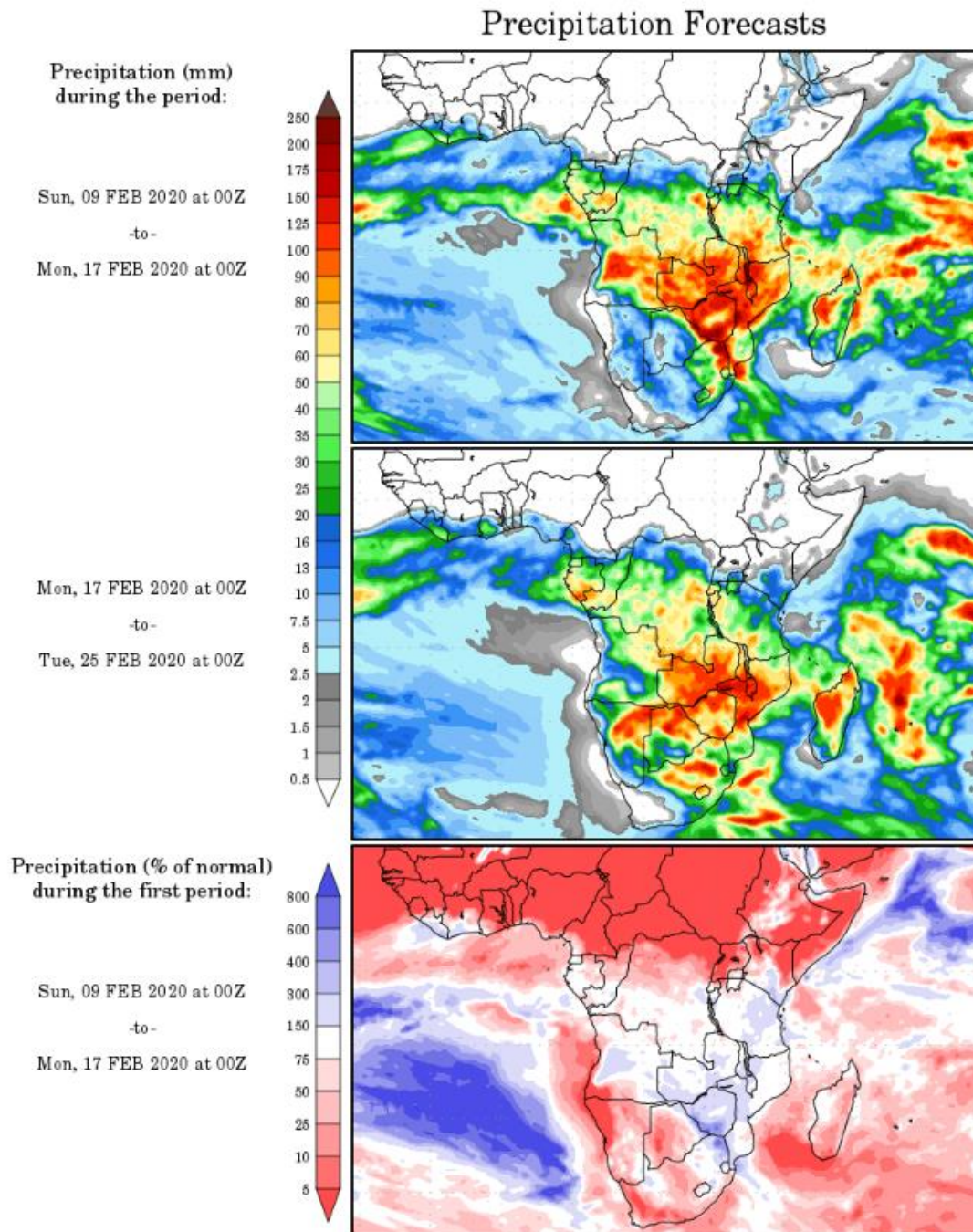
On Thursday, SAGIS will release the **weekly grain trade data** (wheat and maize), also for the week of 07 February 2020. In brief, maize exports for the 2019/20 marketing year have thus far amounted to 935 980 tonnes, which equates to 71% of the export forecast for this season (newly revised 1.32 million tonnes).

At the same time, we expect maize imports of about 525 000 tonnes, all yellow maize, mainly for the coastal provinces of the country. This is up from an estimated 171 622 tonnes in the 2018/19 marketing year. The country has thus far imported 452 229 tonnes of yellow maize.

In terms of wheat, South Africa's 2019/20 wheat imports could increase by 28% y/y to 1.8 million tonnes because of expected lower domestic harvest on the back of unfavourable weather conditions in the Western Cape. In the week of 31 January 2020, South Africa's 2019/20 season amounted to 537 882 tonnes, which equates to 26% of the aforementioned seasonal import forecast (now revised to 1.8 million tonnes).

Also, on Thursday, the United States Department of Agriculture will release the **weekly export sales data**. This is important data to monitor as it will give an indication of the US agriculture exports to China, and help us monitor the progress on commitments made in phase one trade deal (see [A Q&A around the US-China 'phase one' trade agreement](#), 20 January 2020).

Exhibit 5: South Africa's precipitation forecast



Source: George Mason University (wxmaps)

Most summer crop growing areas of South Africa could receive rainfall within the next two weeks which is conducive for agricultural activity.