

There's optimism about SA's 2019/20 summer crop season

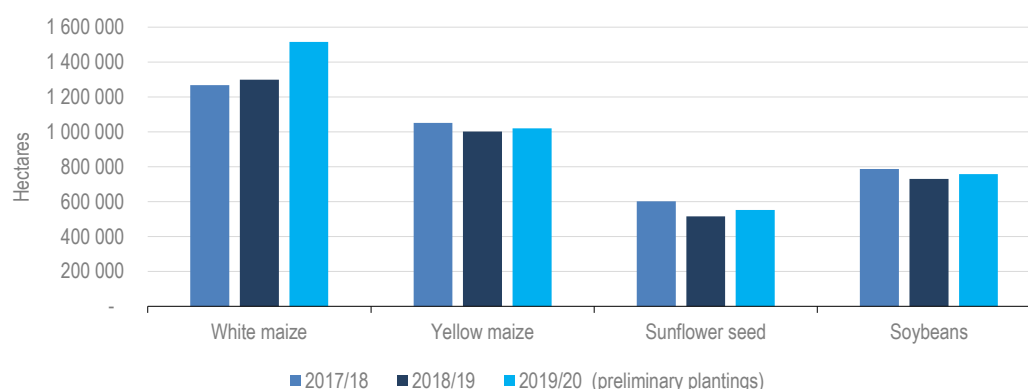
While South Africa's 2019/20 summer crop production season started on a negative footing with delayed rainfall across the country, farmers managed to plant the area they intended. This was confirmed by the preliminary plantings data released this afternoon by South Africa's Crop Estimate Committee (CEC) which shows South Africa's 2019/20 summer crop area at 3.97 million hectares.¹ This is up 1% and 8% from the intentions to plant data released in October 2019 and area planted in 2018/19 season, respectively. There is an improvement in area plantings of all crops with the exception of sorghum and dry beans whose area planting fell by 28% y/y and 13% y/y, respectively.

With soil moisture having improved across the country (see Exhibit 2), these numbers signal the possibility of a good harvest in the 2019/20 production season. This would particularly be the case if there are widespread rainfall within the next two months. In the case of staple grains such as maize, today's data reinforces our view that South Africa could see its maize harvest improving by at least 11% from the 2018/19 season, reaching 12.5 million tonnes. Here we apply the preliminary maize planting data of 2.5 million hectares (up 10% y/y), at an average yield of 5.0 per hectare, which is plausible with current soil moisture. As previously stated, the United States Department of Agriculture (USDA) currently forecasts South Africa's 2019/20 maize harvest at 12.8 million tonnes (*commercial production only*). Meanwhile, the International Grains Council (IGC) estimates 13.5 million tonnes.

What causes the difference between these organizations estimates and ours is the yields assumptions. The USDA has a yield estimate of 5.1 tonnes per hectare, while the IGC has a much higher yield estimate of 5.4 tonnes per hectare. Both estimates are plausible if South Africa receives normal rains to support the crop within the next two months. The highest average maize yield South Africa received over the past decade was in 2016/17 at 6.4 tonnes per hectare. That was a year of a record maize harvest of 16.8 million tonnes, on 2.6 million hectares. Even if South Africa would receive normal rains that support the crop, we doubt if such a harvest would be possible in the 2019/20 season.

Importantly, a bigger maize crop from the 2018/19 commercial harvest of 11.3 million tonnes would mean that South Africa's food price inflation could be contained at comfortable levels in 2020. The country's food price inflation averaged 3.1% y/y in 2019, a year which saw elevated inflation of grain products prices and subdued meat prices. Our sense this year is that food price inflation could average 4.0% y/y if there is a good maize harvest. We are also assuming subdued red meat prices on the back of restricted exports following another outbreak of the foot-and-mouth disease in the country.

Figure 1: South Africa's major summer crop plantings



Source: CEC, Agbiz Research

¹ Summer crops encompass yellow maize, white maize, sunflower seed, soybeans groundnut, sorghum and dry beans.

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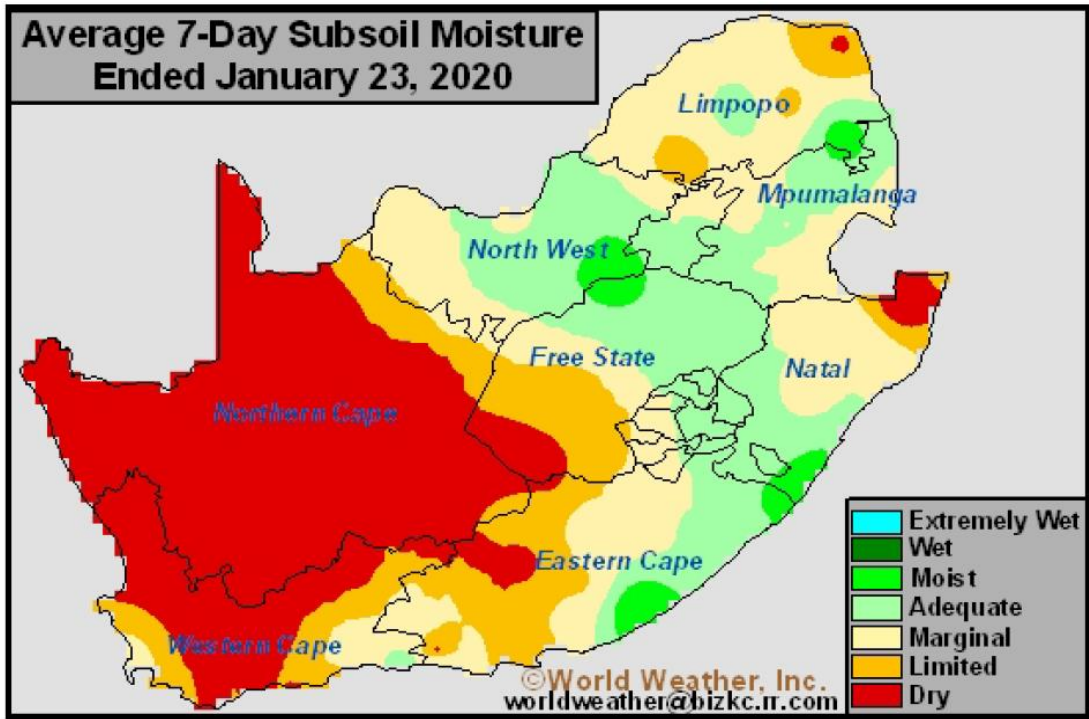
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Exhibit 2: South Africa’s soil moisture



Source: World Weather Inc.