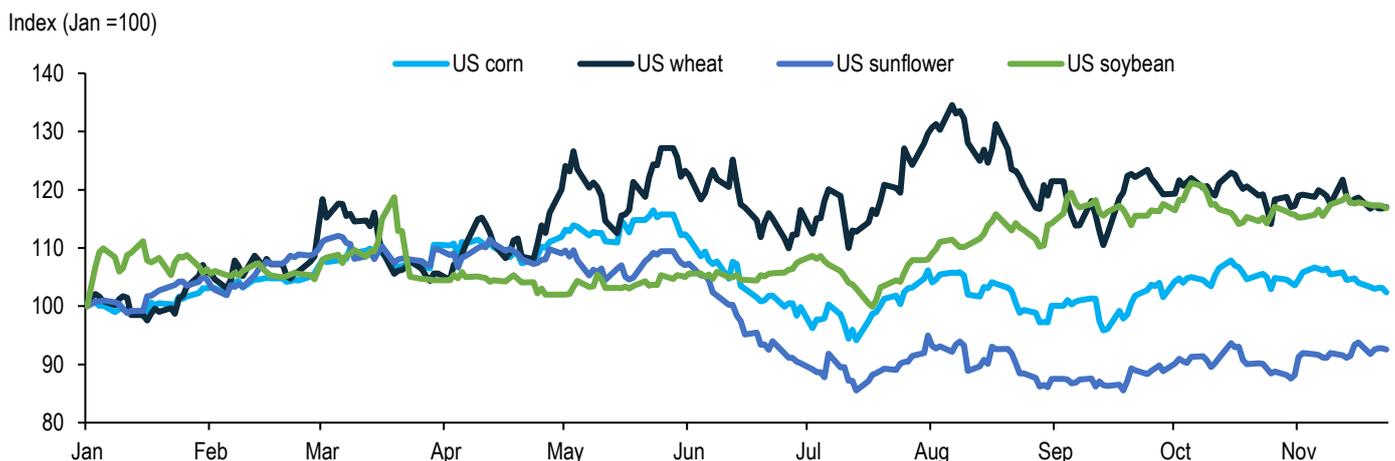


Global focus – large global production, but stocks will remain tight

- The 2018/19 global maize harvest could be the second largest on record, up by 3% y/y at 1.07 billion tonnes. This is underpinned by expected large harvests in the US, Brazil, Argentina, Ukraine and China. Nevertheless, the global maize stocks will remain tight due to an increase in consumption, particularly animal feed as traditional buyers of wheat are shifting to maize due to price competitiveness. Therefore, the stocks could fall by 13% y/y to 266 million tonnes.
- The results of drier weather conditions that affected the wheat crop earlier in the season in Russia, Ukraine, Australia, China, India and the European Union region are reflected in the International Grains Council's 2018/19 global wheat production estimate of 729 million tonnes, down by 5% y/y. This could then lead to a 3% y/y decline in stocks to 262 million tonnes.
- The 2018/19 global soybean production is set to increase by 8% y/y to 367 million tonnes on the back of expected large harvests in the US, Brazil, Argentina, China, India, Paraguay, Ukraine, Russia and Uruguay, amongst others. As a result of this improvement in production, the 2018/19 global soybean stocks could be up by 28% y/y to 51 million tonnes, despite the expected uptick in consumption over the corresponding period. Similar to soybeans, the 2018/19 sunflower seed production is projected to increase by 5% y/y to 52 million tonnes boosted by an expected large harvest in the Black Sea region.
- From a South African perspective, the aforementioned developments will have minimal direct implications in the case of maize as South Africa is a net exporter. But other commodities are interlinked to the SAFEX market as the country is a net importer of wheat, soybeans and sunflower seed by-products. The price dynamics presented in Figure 1 below are somewhat a result of the aforementioned fundamental factors, and the price movements in the near-term are likely to maintain a similar trend, except soybeans which continue to be largely affected by the US-China trade dispute.

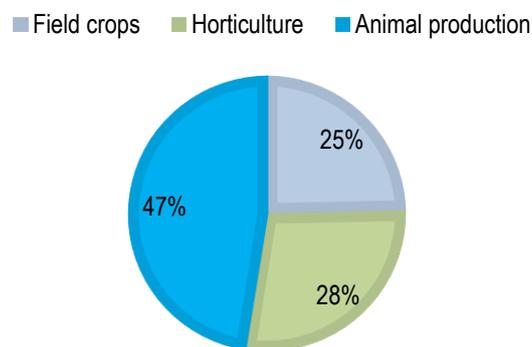
Figure 1: Global grains and oilseed prices



Domestic focus – livestock sector is dependent on crop production

- Crop production is typically a key focus in our notes, although not a bigger contributor to the South African agricultural economy in terms of value added. Figure 2 shows that nearly half of the country's agricultural gross value added is derived from the livestock sector. However, the growth of the livestock sector depends on field crops which play a key role as feed in the cattle, sheep, poultry, pig, goat industries, etc. Almost all these industries have somewhat recovered following the 2015/16 drought which led to a notable decline in the herds, albeit the commercial slaughtering numbers are still subdued. We expect an uptick in slaughtering activity ahead of the festive season.

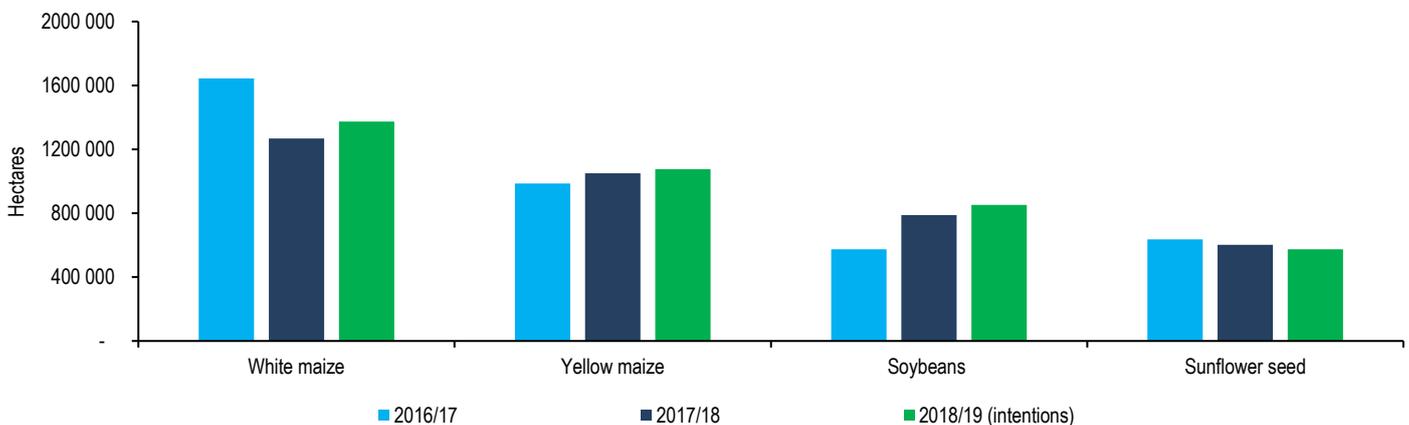
Figure 2: Gross value of agricultural production



Source: DAFF, Agbiz Research

- From a crop production perspective, the weather remains a central focus in the market as planting activity is still underway. The planting has thus far largely progressed in the eastern parts of South Africa following higher rainfall in the past couple of months. These are areas that predominantly produce yellow maize and soybeans. Meanwhile, the western regions of the country which largely produce white maize and sunflower seed have not seen good progress in planting due to drier weather conditions over the past couple of months. However, conditions could soon change, as the South African Weather Service forecasts above-normal rainfall over most parts of the country between November 2018 and January 2019. The area planting for most crops could increase this season compared to 2017/18 production season (Figure 3).

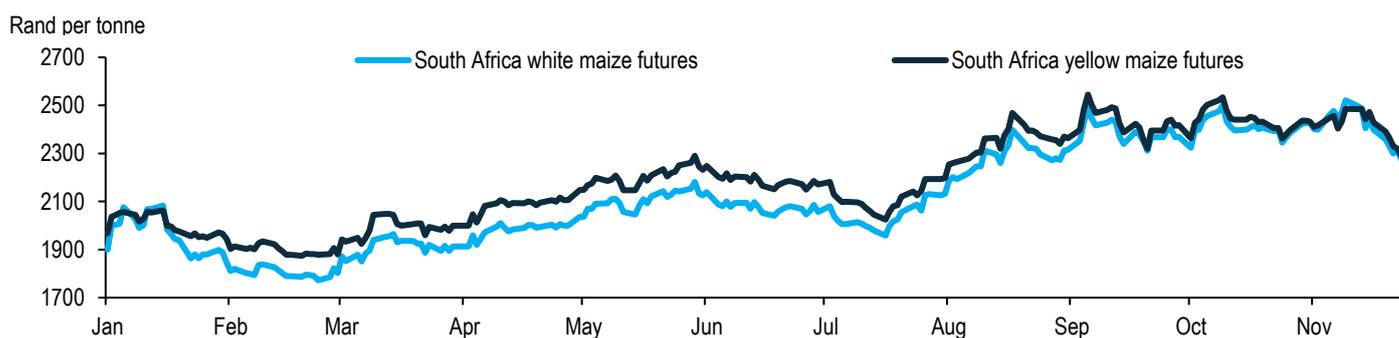
Figure 3: South Africa's summer crop intentions to plant for 2018/19 season



Source: CEC, Agbiz Research

- Having said that, we remain concerned about the potential impact of an El Niño towards the later parts of summer, although expected to be weak this time around. The local weather service suggests that this weather phenomenon could lead to below-normal rainfall between the end of January and March 2019. If we assume that the planting intentions illustrated in Figure 3 materialises, there are three possible production outcomes:
 - **Maize (white and yellow)** – area plantings of 2.44 million hectares, and an average five-year yield of 5.00 tonnes per hectare, then overall production could amount to 12.2 million tonnes (down from 12.9 million tonnes in 2017/18 production season)
 - **Soybeans** – area plantings of 851 800 hectares, and an average five-year yield of roughly 1.84 tonnes per hectare, then South Africa's 2018/19 soybean production could amount to 1.57 million tonnes (up from 1.55 million tonnes in the 2017/18 production season).
 - **Sunflower seed** – area plantings of 575 000 hectares, and a five-year yield of 1.28 tonnes per hectare, then production could amount to 736 000 tonnes (down by 14% from the 2017/18 production season).
- Although the harvest is generally expected to be lower than the previous season in the case of maize and sunflower seed, South Africa's supplies will still be at comfortable levels due to large stocks from the 2017/18 production season, and also the fact that the expected crop is higher than annual consumption in the case of maize.
- Going forward, the SAFEX maize, sunflower seed and soybeans prices will continue to be driven by weather developments, currency fluctuations and global events as it has been the case in the past couple of months (Figure 4, shows domestic white and yellow maize prices). The weather outlook and ZAR/USD exchange improved somewhat recently and that is mirrored in price performance in SAFEX grains and oilseeds commodities which declined in the past couple of days. To conclude by reflecting on the opening point, the performance of these commodities has a direct impact on the livestock sector which is a key user through animal feed.

Figure 4: South Africa's white and yellow maize prices

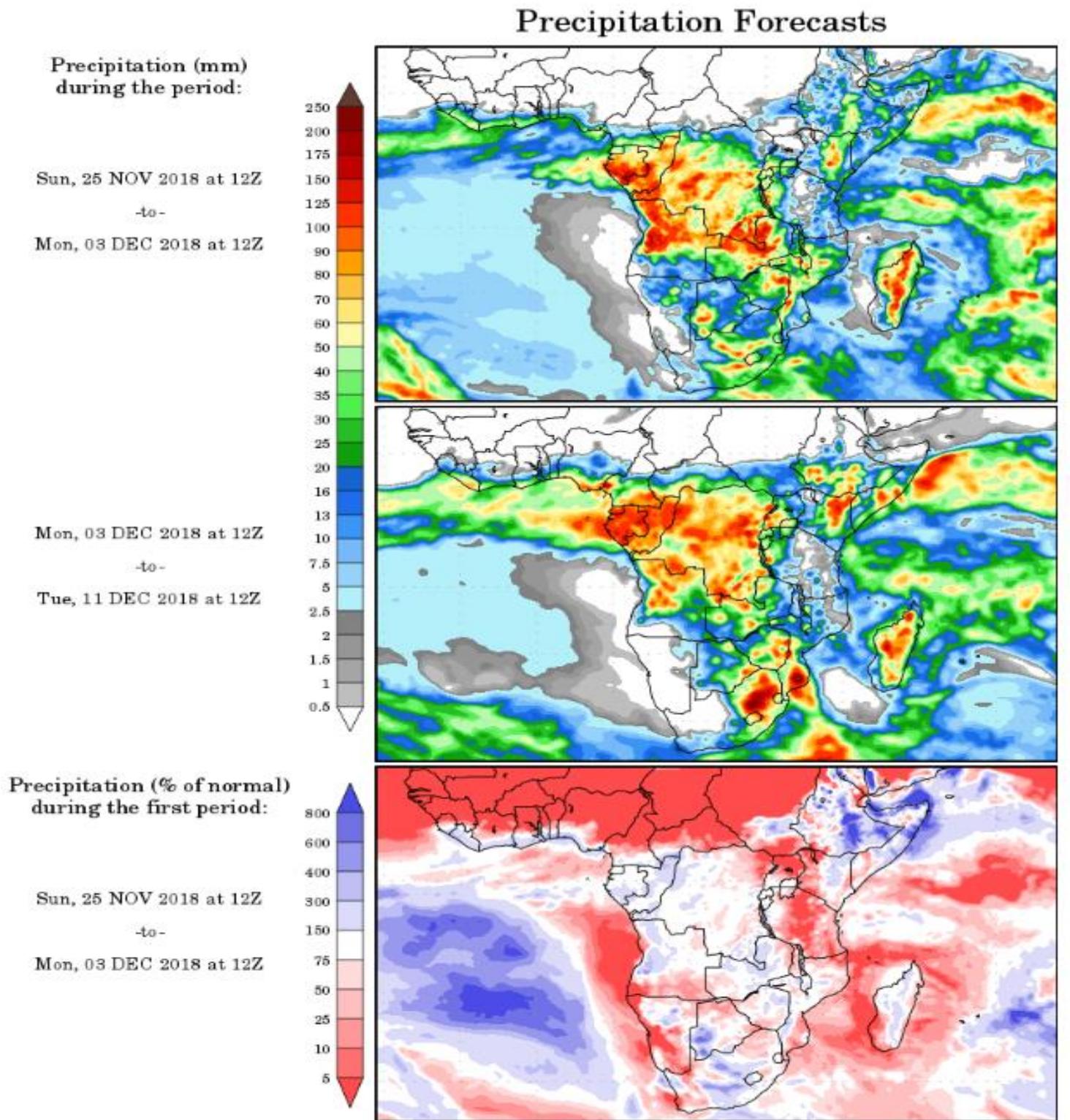


Source: Bloomberg, Agbiz Research

Key Data Releases in Agricultural Markets:

- USDA's crop progress report: 26/11/2018
- SAGIS monthly data: 26/11/2018
- National Crop Estimates Committee's monthly data: 27/11/2018
- SAGIS producer deliveries data: 28/11/2018
- SAGIS weekly grain trade data: 29/11/2018

Figure 5: South Africa's precipitation forecast



Source: wxmaps

Disclaimer:

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