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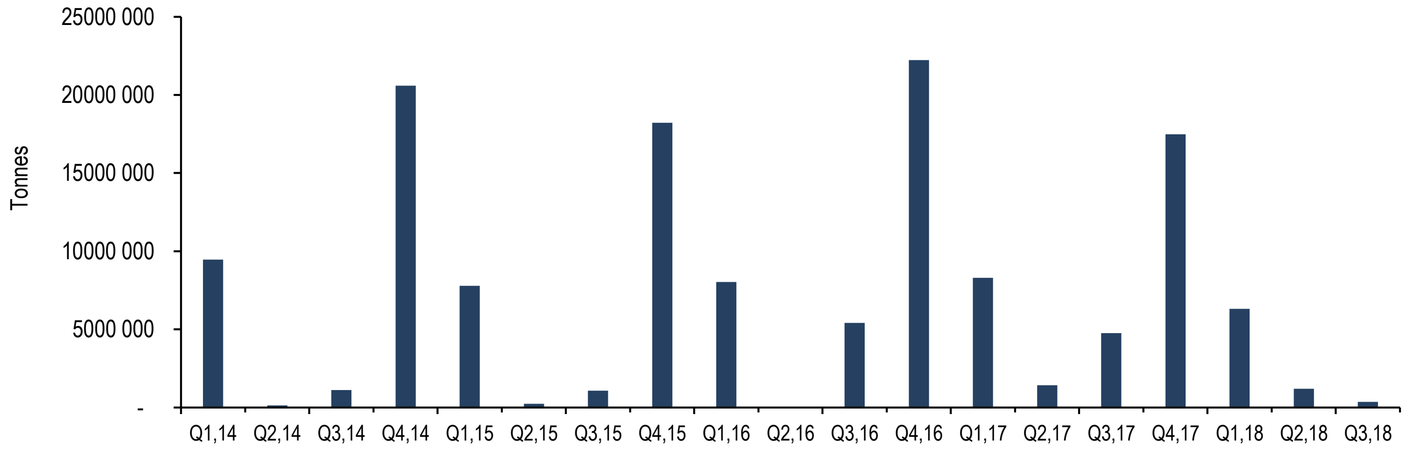
Global focus – Trump's meeting with Xi sends a positive message to the soybean market

- This week starts with a positive message for soybean markets as the White House indicates that China has agreed to start purchasing agricultural products from US farmers immediately.[i] This follows what is termed a 'successful' meeting between the US and Chinese presidents over the weekend, as the two countries work towards resolving the ongoing trade dispute. While the US exports a wide range of agricultural products to China, such as cotton, sorghum, pork, tobacco and potatoes, amongst others, soybean is the leading product in value terms. Hence, it was the agricultural product most affected by the retaliatory tariffs introduced by China a few months back. Over the past five years, the US exported on average about 48 million tonnes of soybean per annum. About two-thirds of this was destined for China. The other notable markets for US soybeans are Mexico, Indonesia, Japan and the Netherlands. Within the Chinese soybean market, the key US competitors are Brazil, Argentina and Uruguay.

- In years with no trade friction, the US soybean exports to China continued with minimal interruptions throughout the year, with significant volumes of over 15 million tonnes typically observed in the fourth quarter each year, followed by the first quarter with over 5 million tonnes (Figure 1). It is unclear if this trend will continue this year. While the weekend communication from the White House signals cooperation within the two nations, we are yet to see if there will be an increase in activity on the ground. Within the Chinese soybean market, Brazil has emerged as a key supplier in the midst of ongoing US-China trade dispute, and it is likely to remain so, given the expected record harvest of 121 million tonnes in the 2018/19 production season.

- From a South African perspective, the above-mentioned developments will have minimal direct implications in the near term, albeit South Africa is a net importer of soybean oilcake. Over the past 10 years, about 98 percent of South Africa's soybean oilcake imports originated from one country - Argentina. If anything, the impact of the trade dispute could be through price transmissions in the near term, except if the US starts to push for market access in the South African soybean oilcake market. This wouldn't be a surprise as we recently saw a similar situation in the poultry sector. In such a scenario, local farmers' incomes would be pressured, while users of the product would benefit.

Figure 1: Quarterly US soybean exports to China



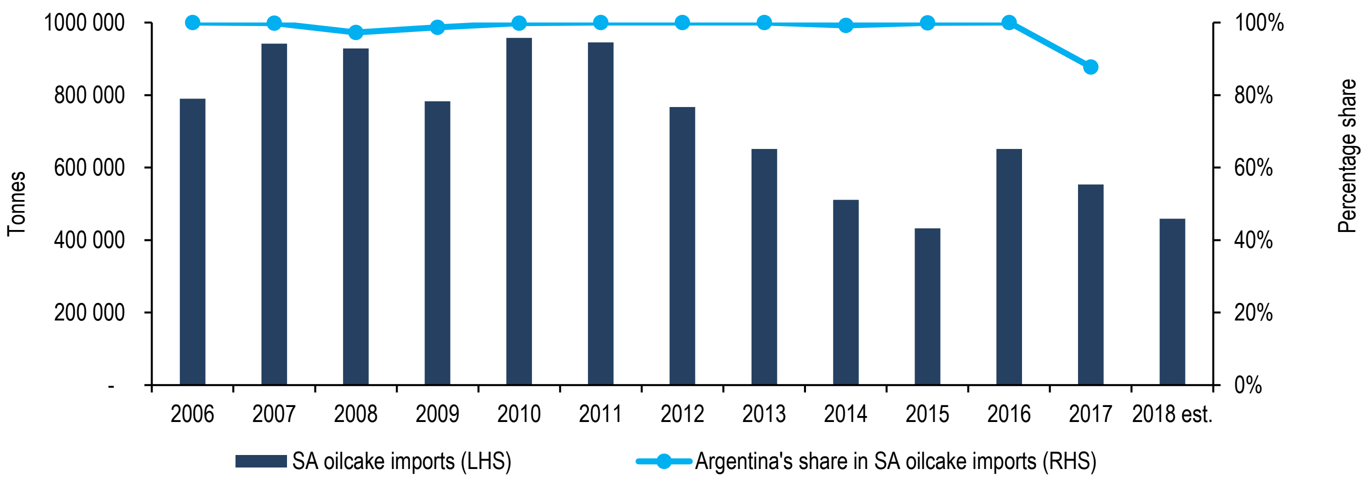
Source: Trade Map, Agbiz Research

Domestic focus – soybean oilcake imports; wheat market; and weather prospects

Soybean oilcake imports

- While we believe that a scenario where the US swings some of its soybean by-products exports to South Africa remains plausible, the impact would not be as negative as what was reported in the South African poultry industry about two years ago. This would rather displace a share of Argentina's supplies within the South African soybean oilcake market. As illustrated in Figure 2, Argentina has been a dominant player in the South African soybean oilcake market over the last decade. It was only in 2017 where Argentina's share started to dwindle as new entrants such as Zambia, Malawi and Zimbabwe started to gain market share. These countries collectively accounted for 12 percent of South Africa's soybean oilcake imports in 2017. With that said, South Africa's soybean oilcake imports are on the decline following an uptick in domestic soybean production. We estimate that South Africa's soybean oilcake imports could reach 458 992 tonnes in 2018, down by 17 percent from last year (Figure 2).

Figure 2: South Africa's soybean oilcake imports



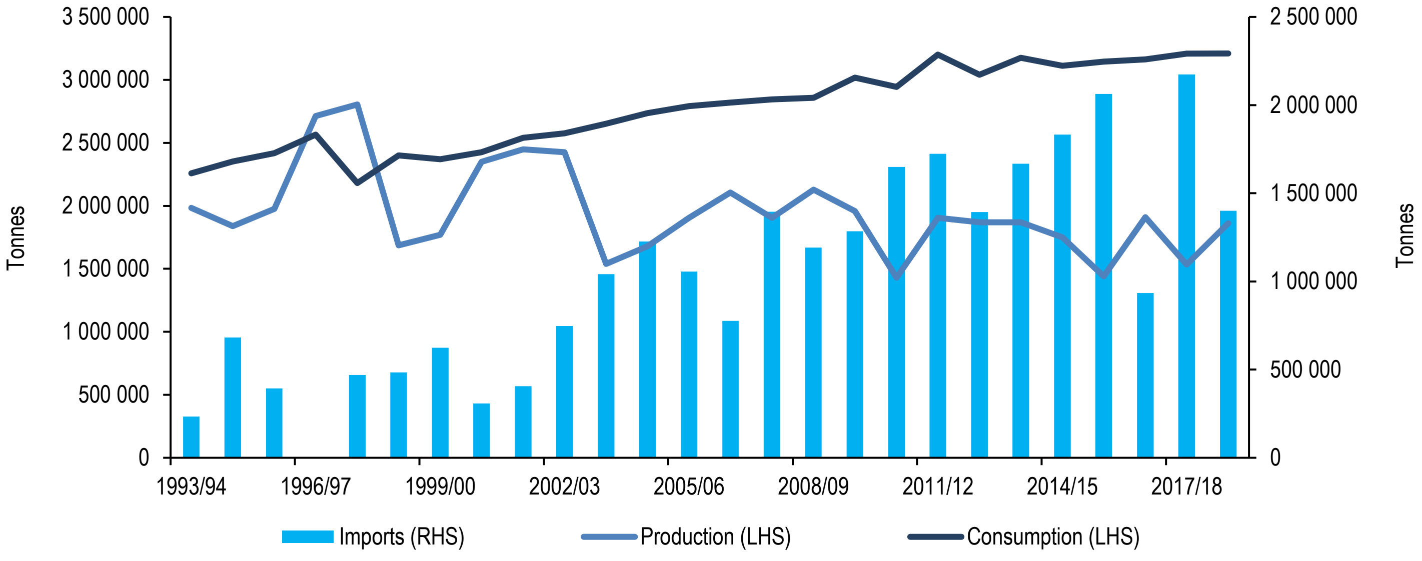
Source: Trade Map, Agbiz Research

SA wheat market

- Contrary to market expectations of a possible downward revision, last week, the Crop Estimates Committee left its 2018/19 wheat production estimate for South Africa unchanged from last month at 1.86 million tonnes. This is a 21 percent increase from the previous season owing to a significant recovery in the Western Cape harvest as the province recovers from the 2017 drought. Furthermore, the general expansion in area planted also contributed to the expected increase in production. The initial expectations of a downward revision of the production estimate were premised on reports that the recent heavy wind and rainfall in the Swartland area of the Western Cape negatively affected the crop, but this seems to have somewhat been on the quality of the crop, not volume.

- The current production estimate essentially means that South Africa's 2018/19 wheat imports could fall by 36 percent from the previous year to 1.4 million tonnes (Figure 3). In the week of 23 November, about 7 percent of this had already landed on South African shores. Additional volume will be delivered between this month and September 2019, which is the last month of the 2018/19 marketing year. Russia, Ukraine, Lithuania, Germany and Argentina, amongst others, are likely to remain the key suppliers as it has been the case in the 2017/18 marketing year.

Figure 3: South Africa's wheat production, consumption and imports



Source: SAGIS, CEC, Agbiz Research

Weather prospects

- The weather remains a central focus in the South African agricultural market as summer crop planting activity is still underway. The expected rainfall last week did not materialise in most regions, thus planting activity has not progressed in the central and western parts of the country. As set out in our previous notes, the planting has thus far largely advanced 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.

- Fortunately, the weather conditions could soon improve as the recent report by the South African Weather Service suggests that there are prospects for above-normal rainfall over most parts of the summer rainfall areas of the country during mid-summer, which is December 2018 and February 2018. This is a positive improvement from expectations of below-normal rainfall between the end of January and March 2019.

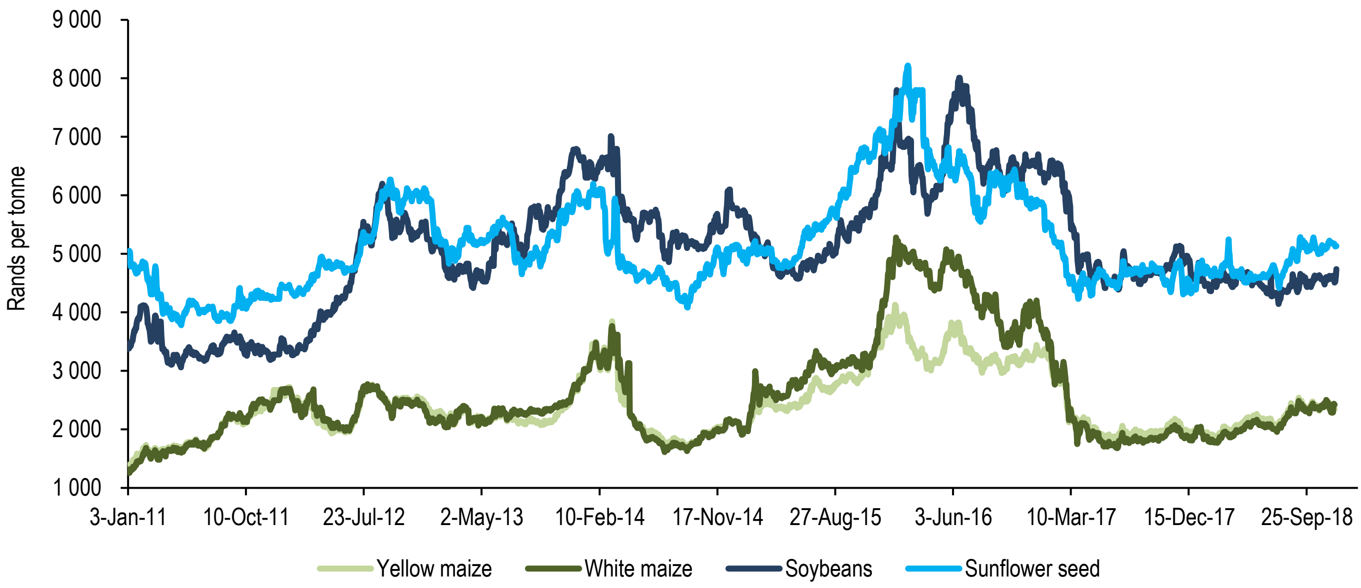
- This means that the areas that have already planted, specifically soybean and yellow maize in the eastern parts of the country, could have a fairly good harvest as pollination will most likely occur during high rainfall periods. The western areas, which mainly produce sunflower seed and white maize, could also benefit from the expected rainfall given that the optimal planting window for crops in these areas is still open. More specifically, the optimal maize planting window will only close at the end of December, with the sunflower seed window set to close early January 2019.

- Therefore, if planting starts as soon as these regions receive rainfall, the western regions also stand a good chance of having a good harvest in the 2018/19 production season. Overall, we have not changed our production expectations from what we reported last week (see below). While the harvest is 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.

- **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).

- Above all, as it has been the case in the past few weeks, the SAFEX maize, sunflower seed and soybeans prices will continue to be driven by domestic weather developments, currency fluctuations and global events in the coming weeks. The positive improvement in domestic weather outlook and the currency performance could add pressure in the SAFEX grains and oilseeds commodities as it has been the case in the past couple of weeks (Figure 4). To close by reflecting on the opening point, the positive message of cooperation between the US and China could add pressure on global soybean prices this week, and this could subsequently spill over to the SAFEX soybean market.

Figure 4: South Africa's maize, soybean and sunflower seed prices

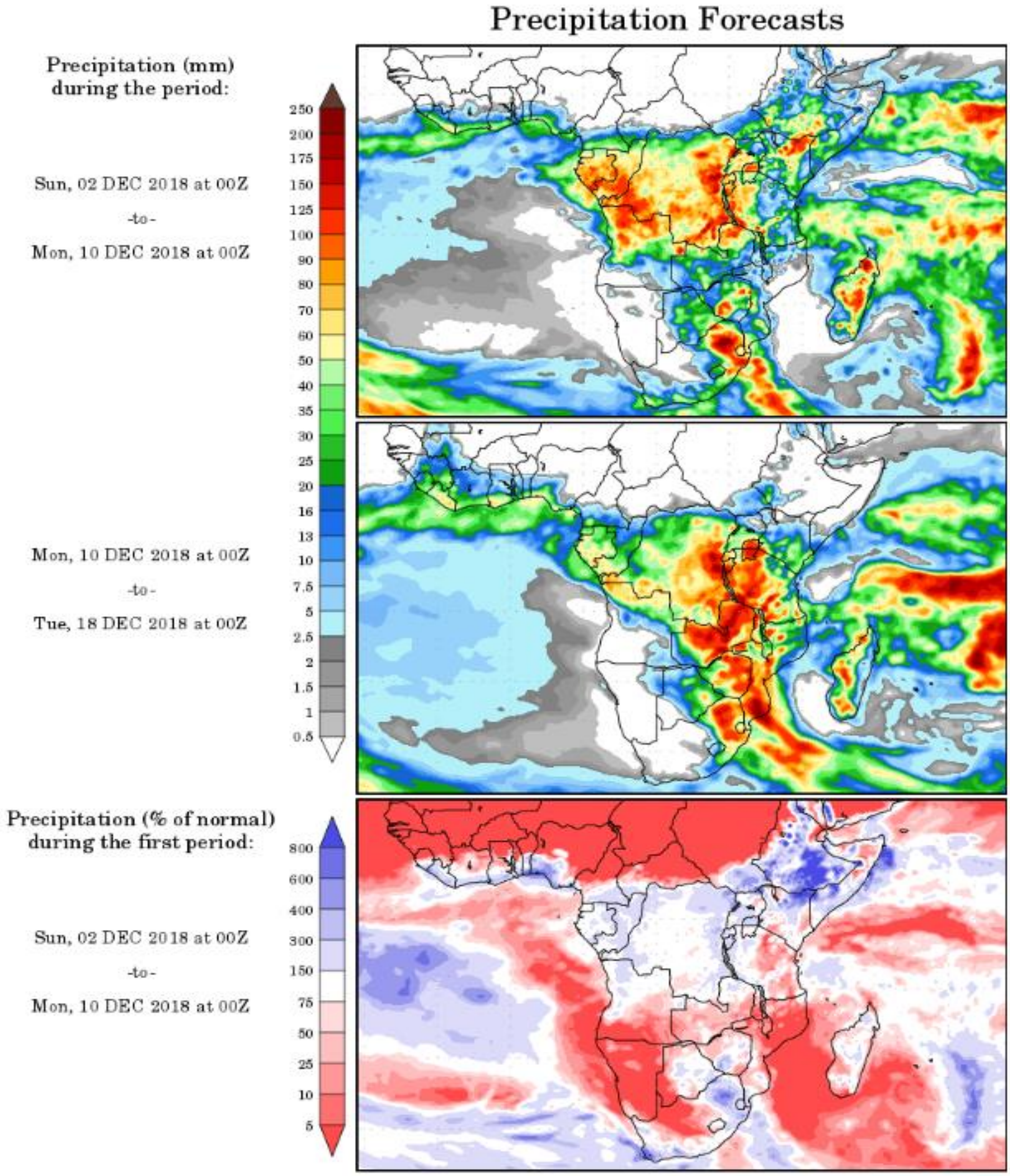


Source: Bloomberg, Agbiz Research

<u>Key Data Releases in Agricultural Markets</u>:

- USDA's crop progress report: 03/12/2018
- SAGIS producer deliveries data: 05/12/2018
- SAGIS weekly grain trade data: 06/11/2018
- National Crop Estimates Committee's monthly data: 20/12/2018
- SAGIS monthly data: 21/12/2018

Figure 5: South Africa's precipitation forecast



Source: wxmaps

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[i] See official statement from the While House: https://www.whitehouse.gov/briefings-statements/statement-press-secretary-regarding-presidents-working-dinner-china/