AGRIBUSINESS RESEARCH

11 February 2019 Wandile Sihlobo, wandile@agbiz.co.za

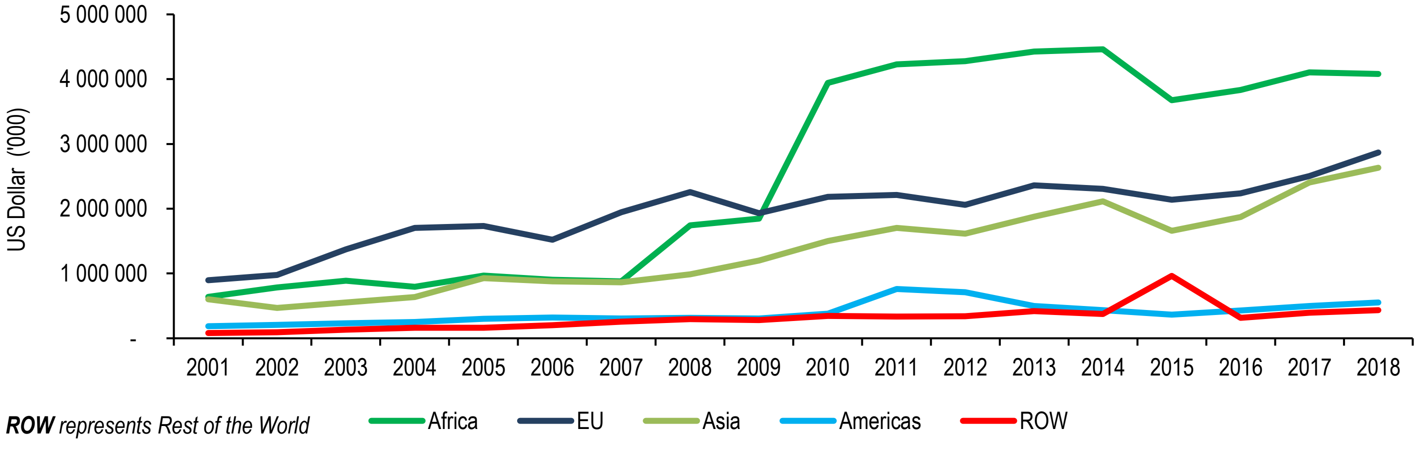
South Africa's agricultural exports grew by 7% y/y in 2018

- Although we wrote about South Africa's agricultural trade last month, the recently released data for December 2018 paint a clear picture of the full year's agricultural trade performance that is worth highlighting. In 2018, South Africa's agricultural exports grew by 7% y/y to US$10.6 billion, a record level in a dataset starting from 2001. This was underpinned by increased exports of oranges, grapes, wine, maize, apples, wool, lemons, mandarins and pears, amongst other products. Over the same period, imports increased marginally by 0.1% y/y to US$6.7 billion. The key imported products were rice, wheat, offal, palm oil, whiskey, live cattle and oilcakes for animal feed. Overall, this subsequently led to a 21% y/y increase in South Africa's agricultural trade balance to a record US$3.9 billion.

- From a destination point of view, the African continent and Europe continued to be the largest markets for South Africa's agricultural exports, collectively absorbing 66% of total exports in 2018, measured in value terms. In more detail, Africa remained South Africa's largest market, accounting for 39% of agricultural exports. The leading products to these markets were beverages, fruit, vegetables, wool, sugar and grains. Asia is also an important market for South Africa's agricultural exports, demanding a 25% export share in 2018. Wool, fruit, grains, beverages, vegetables and meat were the leading products exported to this particular region. The Americas and the rest of the world accounted for 5% and 4% shares (Figure 1). Exports to these regions were also dominated by fruits, beverages, vegetables, tea, sugar and grains.

- From a national policy perspective, in his 2019 State of the Nation Address, President Ramaphosa signalled that potential expansion in agricultural production would mainly be on export-oriented products. There is already a clear pathway for this initiative as South Africa is currently well-positioned in terms of export markets, and there is clarity about products that show a growing demand in the world market. With that said, South Africa's agricultural trade prospects for 2019 are not as positive as for 2018, as unfavourable weather conditions in parts of the country could lead to lower production, particularly in grains. The current ban on the exports of beef is another factor that could lead to reduced exports in 2019. The subsectors that could still show solid export performance this year are horticulture and wine. Be that as it may, we still expect a positive trade balance for South Africa's agriculture in 2019.

Figure 1: South Africa's agricultural exports by region



Source: Trade Map, Agbiz Research

Is there room for import substitution in SA agriculture?

- Although South Africa has an import substitution objective through its Industrial Policy Action Plan, the substitution of some of the key imported agricultural products is unlikely in the foreseeable future as South Africa does not have favourable agroecological conditions, specifically for the production of palm oil and rice. About 23% of the overall 2018 agricultural imports were rice, wheat, offal, and palm oil. In the case of wheat and offal imports, there could be a decline in the coming years if the domestic revitalisation process of these subsectors succeeds.

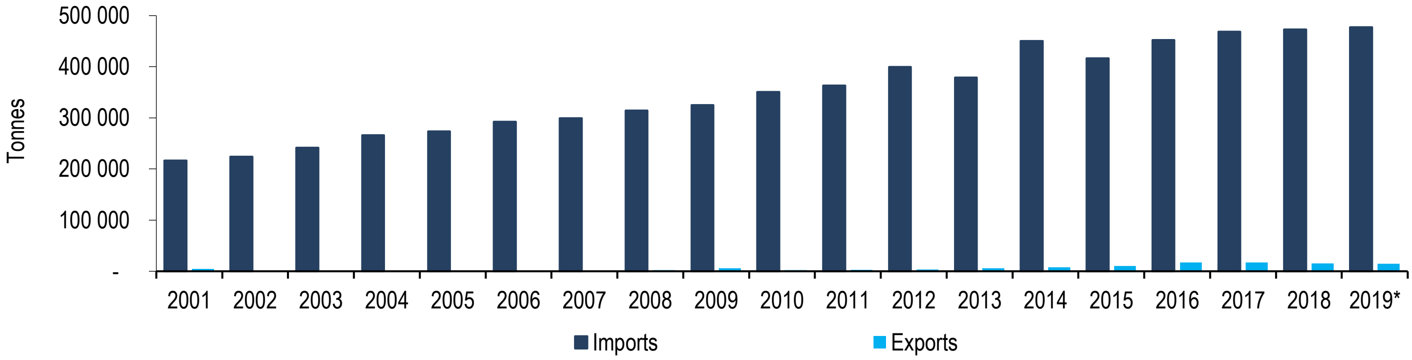
- From a rice imports perspective, South Africa's 2019 imports, which will translate into consumption could amount to 1.1 million tonnes, up by 10% from 2018 (Figure 2). This is according to data from the International Grains Council (IGC). But the import value might not be higher than in 2018 due to comparatively lower rice prices on the back of a large global harvest. The 2018/19, global rice production could reach a record 491 million tonnes, marginally up from the previous season. The key contributing countries to the expected increase are India, Vietnam, Thailand, the United States, China, Bangladesh and the Philippines. These are some of the countries that supply to South Africa. The benefit of an uptick in global rice production is clear in prices, which have softened in recent months compared to the beginning of the year across all the aforementioned countries. This is beneficial to rice-importing countries' consumers.

Figure 2: South Africa's rice imports and exports

Source: Trade Map, International Grains Council, Agbiz Research

- In terms of palm oil, South Africa's imports increased by 5% per annum over the past 17 years to a record 472 874 tonnes in 2018 (Figure 3). Throughout this period, the leading suppliers were Indonesia and Malaysia. The trend is unlikely to change this year due to growing domestic demand. We forecast 2019 palm oil imports at 477 603 tonnes.

Figure 3: South Africa's palm oil imports



Source: Trade Map, International Grains Council, Agbiz Research

Global observers are optimistic about SA's 2018/19 maize harvest

- At first, it was the International Grains Council which placed its estimate for South Africa's 2018/19 maize production at 10.7 million tonnes; the United States Department of Agriculture (USDA) has also joined in with an 11.5 million tonnes estimate.[1] Both these estimates are well below 2017/18 production of 13.5 million tonnes (commercial and non-commercial production) due to reduced plantings, and expectations of poor yields in some areas.

- While these estimates paint a slightly more positive picture than general market expectations, it is still too early to be certain about the size of the South African maize crop, and there is still divergence of views in the market about the actual area planted. Last month, the National Crop Estimate Committee estimated area planted to maize at 2.3 million hectares. About 1.3 million hectares is white maize, with 1.0 million hectares being yellow maize. This came as a surprise as we had a projection of 1.98 million hectares. As set out in our previous report, we suspect that there could be a revision later this month, and our view still leans towards a possible downward adjustment. Such an adjustment would then influence the aforementioned production estimates.

- From a global perspective, there were no major adjustments in maize production estimates. The USDA left its 2018/19 global maize production estimate at 1.09 billion tonnes, which is 2% higher than the previous season's harvest. Moreover, this is slightly higher than IGC's estimate of 1.08 billion tonnes. The developments in the global maize market typically have a minimal impact on local maize prices, but that is mainly when South Africa has sufficient supplies for domestic consumption. But this time is different due to the uncertainty about the 2018/19 maize harvest.

SA grains and oilseeds crop conditions and weather perspective

- Although most areas of the country received rainfall in the past couple of weeks, there has not been any material improvements in summer grains conditions, particularly in the western parts of South Africa (more precisely North West and Free State). In the eastern regions, crops are in a fair condition, albeit some regions experienced hail damage in the past couple of days, as the start of the 2018/19 production season did not experience dryness as the western areas. This is mainly Limpopo, Mpumalanga, KwaZulu-Natal and parts of the Eastern Cape.

- The most recent data from RMD Financial Services show that the Free State, North West and Mpumalanga have thus far received lower rainfall compared to the past two production seasons, 2016/17 and 2017/18, measuring September to the beginning of February 2019.[2] Aside from crop conditions, the impact of fairly lower rainfall this year is clear on the dam levels for the week of 04 February 2019, which are generally lower than the corresponding period last year in the case of North West and Mpumalanga.

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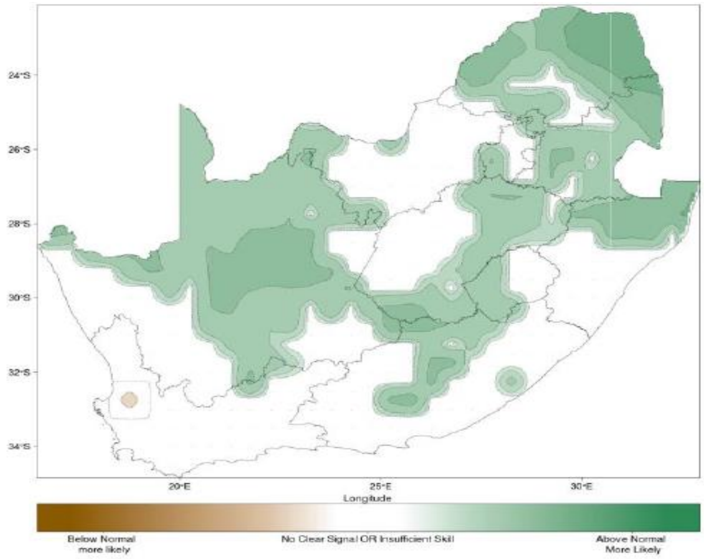
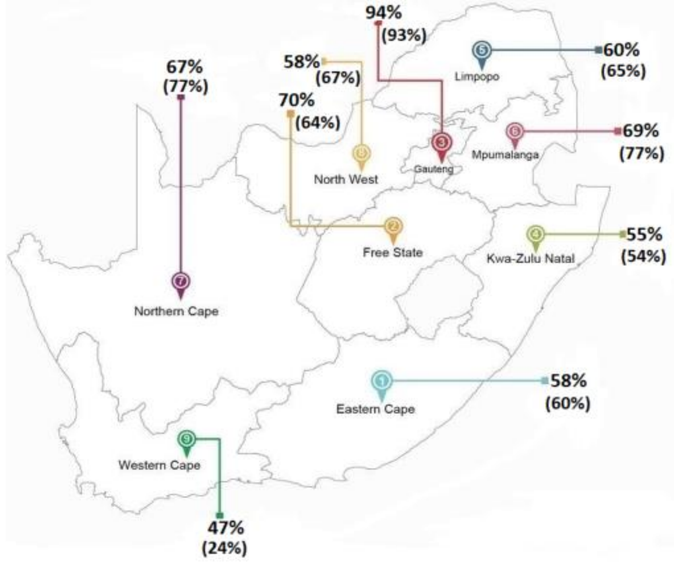
[1] It is worth noting that about 6% of the USDA's maize production estimate is non-commercial, with 94% being commercial.
[2] For more information on RMD data: https://www.rmd.co.za/

Figure 4: Expected precipitation conditions for Feb to March 2019



Source: South African Weather Service.

Figure 5: Dam levels for the week of 04 Feb 2019 vs 04 Feb 2018



Source: DWS, Agbiz Research. (**Note**: figures in brackets represent 04 February 2018)

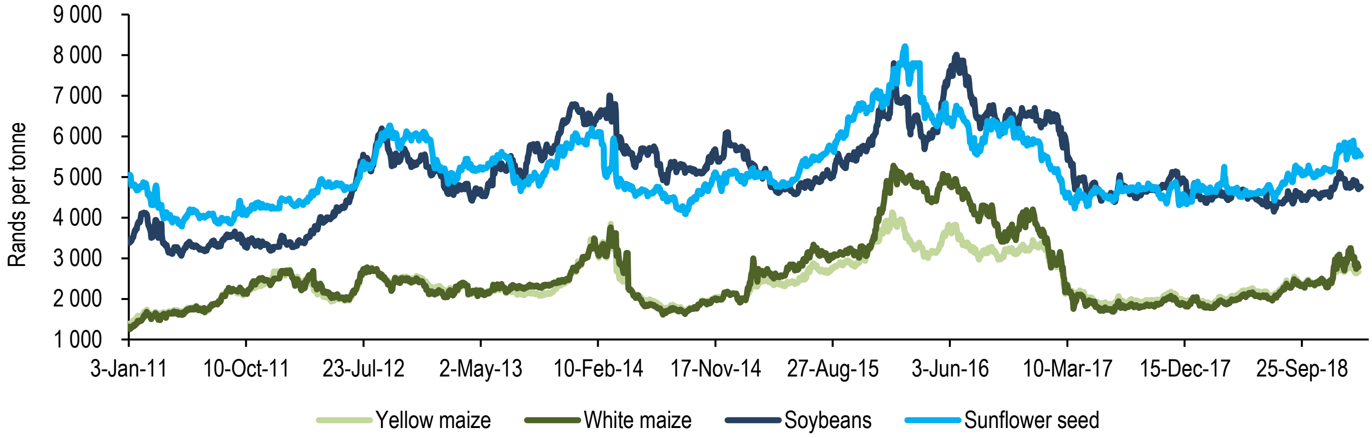
- To recap, in production seasons where grains and oilseeds plantings have occurred during optimal periods, the weather would be a key focus between October and February. This is from planting into the pollination stages of development. But this time around, the planting process was quite late in some areas which means the need for rainfall will extend beyond the typical February pollination period.

- Therefore, the weather will remain a key factor in the market which could influence SAFEX price movements of grains and oilseeds. Fortunately, the South African Weather Service has recently indicated a likelihood of above-normal rainfall conditions over the summer rainfall regions during early autumn (Feb-Mar-Apr). However, this might not be widespread across all grains and oilseed-growing regions. The shaded areas in Figure 4 are the most likely regions to receive above-normal rainfall in the coming months. It seems as if the North West, which critically needs moisture, could remain fairly dry for some time, and that does not bode well for the crops. The recent farmer surveys suggest that the North West could receive below-average yields in the 2018/19 season, specifically maize.

- In terms of pricing, the SAFEX grains and oilseeds were generally under pressure last week due to a combination of factors which include increased commercial selling, coupled with a spillover from lower Chicago grain prices and the relatively stronger domestic currency against the US dollar (Figure 6). These factors will most likely dominate the market again this week. In terms of the Chicago agricultural commodity market, the recent revisions of the 2018/19 global grains and oilseeds production estimates by the USDA will most likely support prices at the start of the week, and that might spill over to the domestic market.

- From a domestic data perspective, South Africa exported 51 844 tonnes of maize in the last week of January 2019. The leading buyer was Ethiopia, with a 74% share. This was followed by BNLS countries. Overall, this placed South Africa's 2018/19 maize exports at 1.85 million tonnes, which equates to 84% of the seasonal forecast. With an export estimate of 2.20 million tonnes of maize in the 2018/19 marketing year, South Africa is expected to have about 3.40 million tonnes of carryover stock at the end of the season in April 2019. This will boost the country's supplies at the start of the 2019/20 marketing year, which is May 2019.

Figure 6: South Africa's maize, soybean and sunflower seed prices



Source: Bloomberg, Agbiz Research

A brief review of global vegetable oilseeds production

- Given that South Africa is a net importer of oilseeds, the developments in the global market are important to understand as that will have an influence on the domestic prices of oilseeds. Fortunately, this year most vegetable oilseeds production prospects are generally favourable despite the unfavourable weather conditions experienced in the past couple of weeks in some countries.

- The USDA forecasts 2018/19 global soybean production at 361 million tonnes, up by 6%from the previous season. This is slightly lower than IGC's estimate of 363 million tonnes for the same season. The leading suppliers are the US, Argentina, China, India, Ukraine, Russia and Uruguay.

- Furthermore, the USDA forecasts palm oil production at 73 million tonnes, up by 4% from the previous season. The leading contributors to the expected harvest are Indonesia, Malaysia, Thailand, Colombia and Nigeria. The 2018/19 global sunflower seed production could amount to 51 million tonnes, up by 9% from the previous season, according to data from the USDA. The leading producers are Argentina, Russia, Turkey and Ukraine.

- Unlike other oilseeds which are set to experience an uptick in 2018/19 production season, canola production is set to decline by 5% from the previous season to 70 million tonnes. This is also according to data from the USDA.

Our takeaway messages this week

- In 2018, South Africa's agricultural exports grew by 7% y/y to US$10.6 billion, a record level in a dataset starting from 2001.

- From a destination point of view, the African continent and Europe continued to be the largest markets for South Africa's agricultural exports, collectively absorbing 66% of total exports in 2018, measured in value terms.

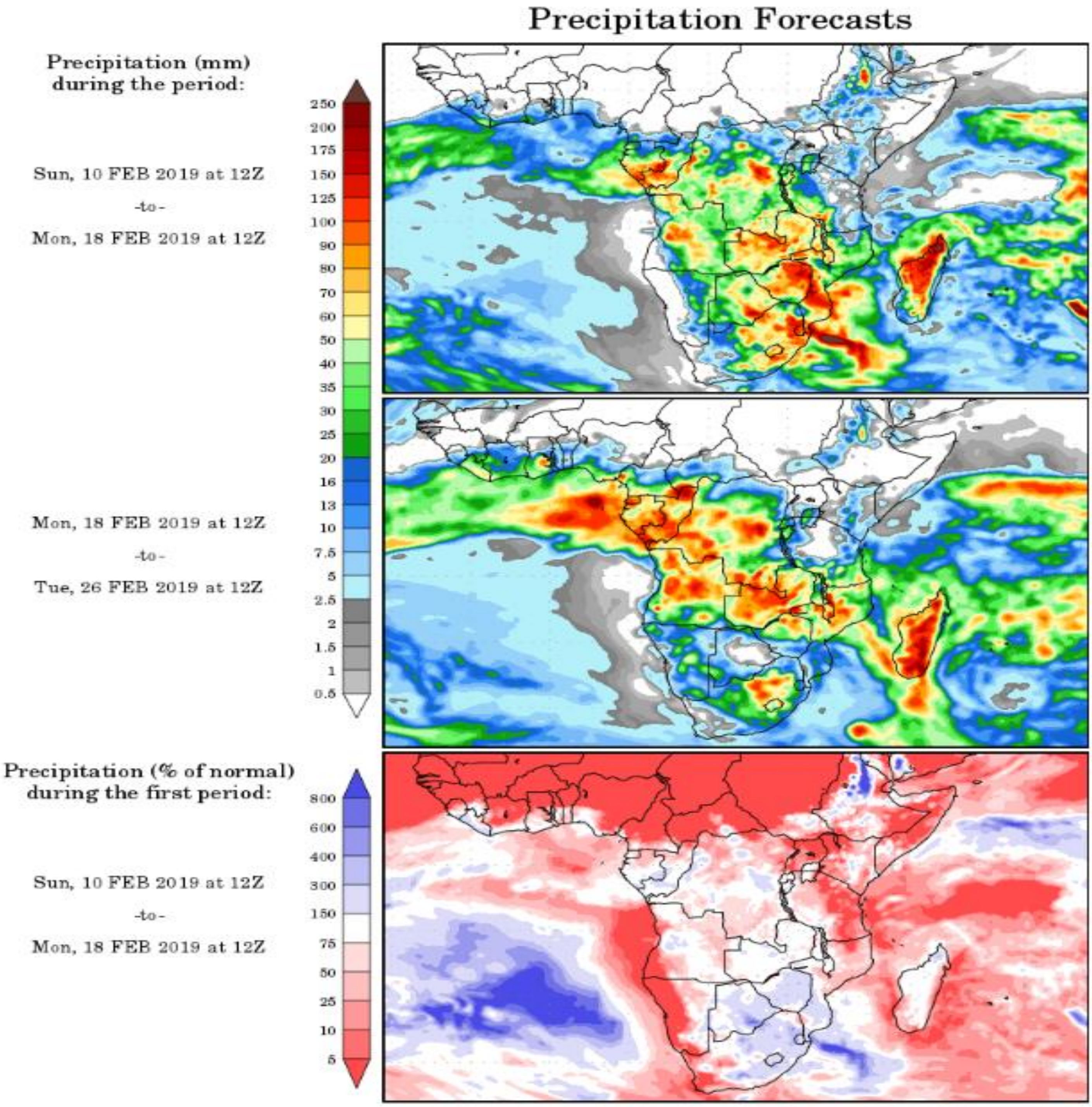
- From a national policy perspective, in his 2019 State of the Nation Address, President Ramaphosa signalled that potential expansion in agricultural production would mainly be on export-oriented products. There is already a clear pathway for this initiative as South Africa is currently well-positioned in terms of export markets, and there is clarity about products that show a growing demand in the world market.

- Although South Africa has an import substitution objective through its Industrial Policy Action Plan, the substitution of some of the key imported agricultural products is unlikely in the foreseeable future as South Africa does not have favourable agroecological conditions, specifically for the production of palm oil and rice.

- From a production perspective, at first, it was the International Grains Council which placed its estimate for South Africa's 2018/19 maize production at 10.7 million tonnes, the United States Department of Agriculture (USDA) has also joined in with 11.5 million tonnes estimate. Both these estimates are well below 2017/18 production of 13.5 million tonnes (commercial and non-commercial production).

- Although most areas of the country received rainfall in the past couple of weeks, there has not been any material improvements in summer grains conditions, particularly in the western parts of South Africa (more precisely North West and Free State).

Figure 7: South Africa's precipitation forecast



Source: wxmaps

<u>Key Data Releases in the Agricultural Market</u>:

- SAGIS producer deliveries data: 13/02/2019
- SAGIS weekly grain trade data: 14/02/2019
- National Crop Estimates Committee's monthly data: 27/02/2019