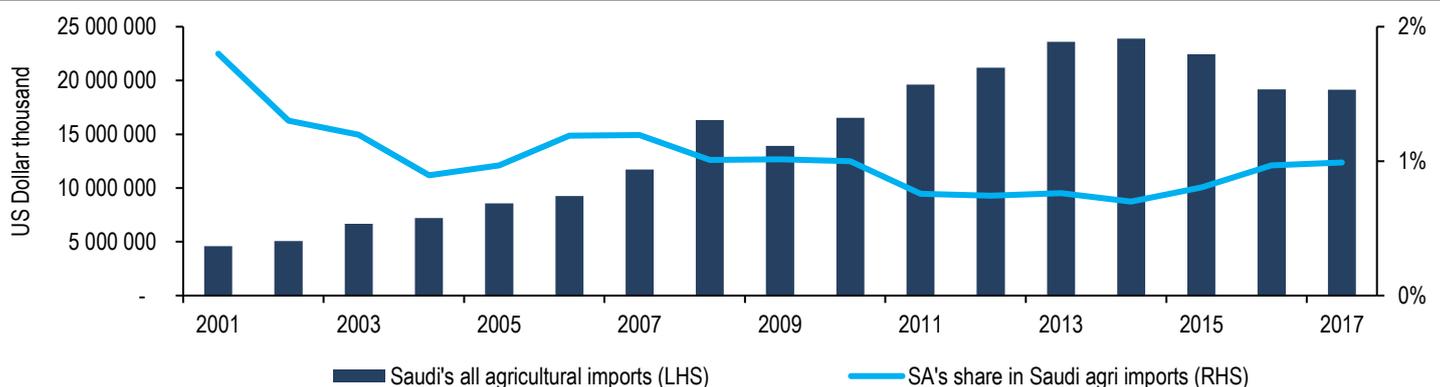


SA agriculture could benefit from strengthening relations with Saudi Arabia

- The Kingdom of Saudi Arabia is an important player in global agricultural trade, ranked the world's 20th largest importer of agricultural products in 2017. Therefore, last week's engagement between South Africa and the Kingdom's Minister of Agriculture is of particular interest, as it focused on key areas that South Africa is already perusing as a way to ignite inclusive growth within the agricultural sector. These are areas of trade, investment, capacity building, research and development in the field of agriculture.
- In terms of trade, over the past five years, the Kingdom of Saudi Arabia imported on average US\$21 billion worth of agricultural products. In that, South Africa was a small player accounting for less than 2% share of all agricultural imports. The key exportable products to the Saudi Kingdom were oranges, lemons, pears, grapes, mandarins, apples, plums, grapes, and avocados, amongst other products. The dominant suppliers of agricultural products to the Saudi Kingdom were Brazil, India, United States, United Arab Emirates, Germany, France, Turkey and Egypt, amongst others. The top imported agricultural products were meat and edible offal, rice, barley, milk and cream, cigars, cheese, live sheep and goats, sugar cane, maize, chocolate, citrus, pail oil, oilcake, bananas, tea, vegetables and fruit juices.
- South Africa is already a net exporter of some of the aforementioned products, albeit the exports are mainly concentrated in European, African, and Asian markets. The recent visit could be a first step towards expanding South Africa's agricultural presence in the Saudi Kingdom, and the Middle-East region at large. The products that South Africa would have to prioritise are horticulture, grains and livestock. Furthermore, South Africa's desire to expand its agricultural production in some of the currently underutilised land will have to be accompanied by markets for the products which will be produced, the Saudi Kingdom is one such market, given its size in the global agricultural trade. The other objectives of the visit – investment, capacity building, research and development in the field of agriculture – are also an essential part of the growth strategy of South Africa's agricultural sector. At this point, however, the agriculture ministers of South Africa and the Kingdom of Saudi Arabia only discussed a Memorandum of Understanding on cooperation on the aforementioned subjects. Hopefully, this will be followed by a more ambitious engagement which will seek to open the market for South African agricultural products, and also attract investments.

Figure 1: While Saudi Arabia is a key player in global agricultural trade, South Africa's share within Saudi imports is still negligible

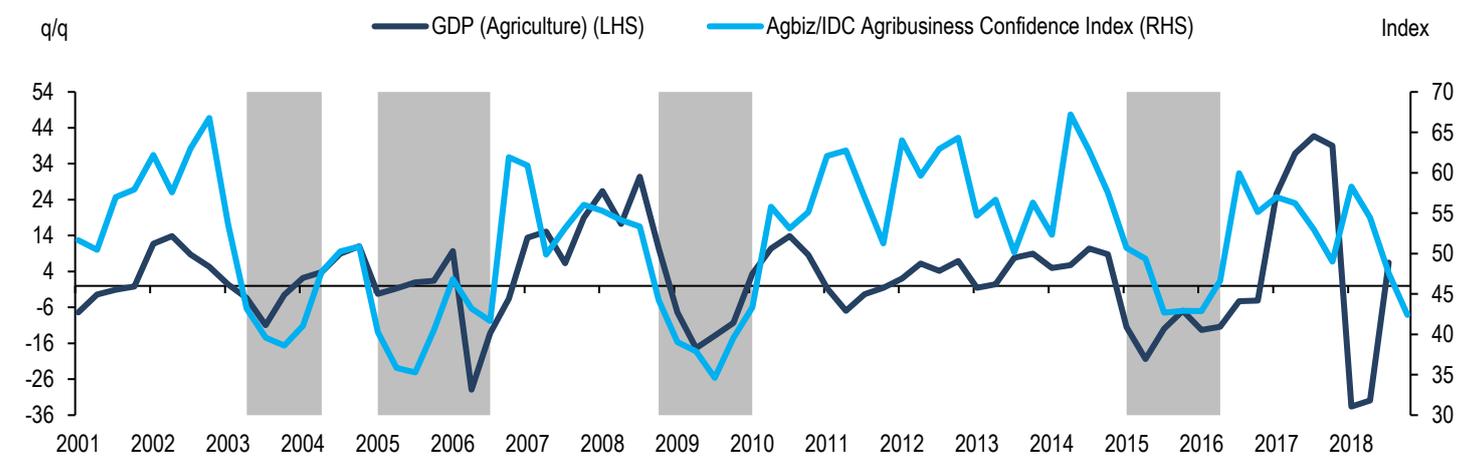


Data previews

Agricultural GDP, 4Q18

- Although expanded in the third quarter of last year, we expect South Africa's agricultural economic growth to have contracted by roughly 4%-5% on a quarter-on-quarter seasonally-adjusted annualised rate in the fourth quarter of 2018. This is partly due to the base effect following a notable uptick in agricultural economic growth in the last quarter of 2017, and also generally lower grains output in 2018. Therefore, the South African agricultural economy is likely to have contracted by roughly 3% in 2018, owing to the aforementioned factors.
- It is also worth noting that the sentiment in the South African agricultural sector was generally subdued at the end of 2018, with the Agbiz/IDC Agribusiness Confidence Index at the lowest point since the fourth quarter of 2009. Given that the historic strong correlation between the Index and the agricultural GDP, the downbeat reading in agribusiness confidence numbers last year somewhat reinforces our view of possible contraction of the sector last year (Figure 2). Statistics South Africa will release the numbers on Tuesday, 05 March 2019.
- Furthermore, the improvement in the Western Cape's agricultural output, after good rainfall last year, will most likely be reflected in the first quarter of 2019 growth numbers. Hence, we expect a recovery in the South African agricultural economy in the first quarter of 2019. But this might not be sustained throughout the year due to expectations of lower grains output in 2019, compared to the previous year.

Figure 2: There was generally some despondency in the South African agricultural sector in 2018



Source: Statistics South Africa, Agbiz Research

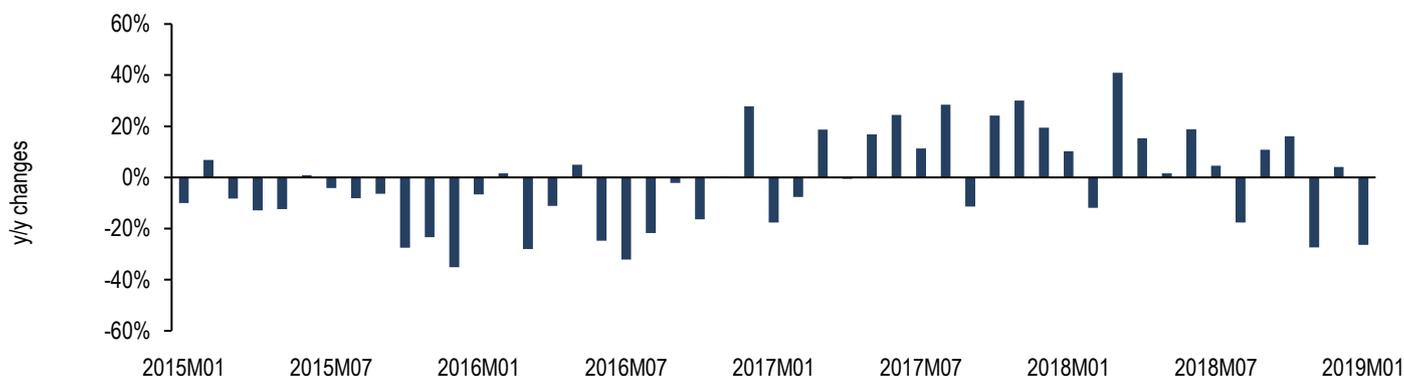
(Shaded areas indicate periods when rainfall across South Africa was below the average level of 500 millimetres)

Agricultural machinery sales data

- After registering a notable decline in January 2019, South Africa's tractor sales could somewhat recover in February 2019. This could be partly on the back of improved activity in the fields late January into February 2019, which is shown by the uptick in summer grain area plantings. The most recent data from the Crop Estimates Committee shows that South African farmers planted 3.7 million hectares of summer grains and oilseeds, which is 3% higher than the preliminary planting estimate in January 2019.

- Had this been a normal season, we would have expected tractor sales to be at 679 units in February 2019, which is a 75% increase from last month and 14% increase from the corresponding period last year. In addition, we would have expected the harvest sales to amount to 28 units in February 2019, well above the previous month's sales, and a 35% year-on-year increase. However, this season is different, the sales are likely to show marginal improvement from last month, but could remain well below the levels seen in 2017, and the past five-years' average levels.

Figure 3: Year-on-year percentage change in South African tractor sales (data as of January 2019)



Source: South African Agricultural Machinery Association, Agbiz Research

Weekly grain trade data

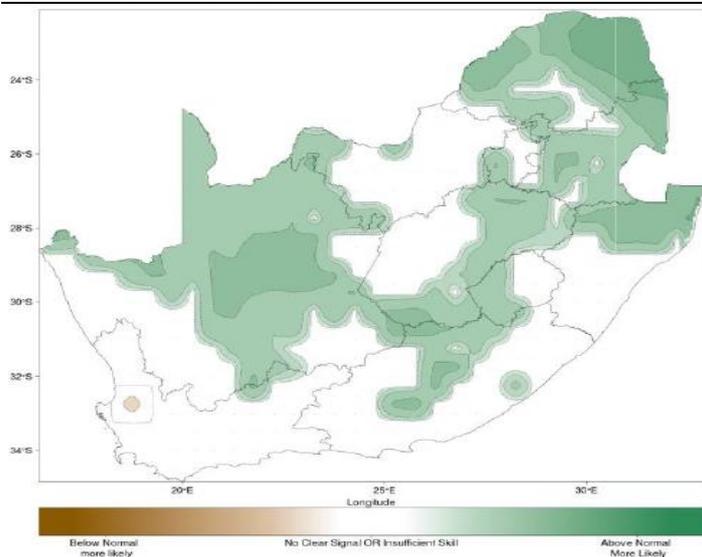
- South Africa's weekly grain trade data is due for release on Thursday, 06 March 2019. This will mainly be maize and wheat. In terms of maize, we expect South Africa to be a net exporter in 2018/19 marketing year, with about 2.3 million tonnes (white and yellow maize). About 1.9 million tonnes have thus far been exported, which equates to 83% of seasonal exports. The key buyers have been Vietnam, Taiwan, and continental markets. Therefore, this week's data which will reflect trade for the week of 01 March 2019, could show further exports.
- Looking ahead, South Africa is likely to remain a net exporter of maize in the 2019/20 marketing year which commences on 01 May 2019. The exports, however, could decline by half from the 2018/19 marketing year to about 1.1 million tonnes. This is under the assumption that maize production could amount to 10.5 million tonnes.
- In terms of wheat, South Africa is generally a net importer, although the recovery in the country's 2018/19 domestic wheat production will lead to a decline in imports this season. South Africa's 2018/19 wheat imports could fall by 36% from the previous season to about 1.4 million tonnes. So far, the country has imported about 25% of the seasonal forecast. The leading suppliers have been Russia, Germany, Latvia, Argentina, and Canada, amongst others. The data for the week of 01 May 2019, which is due for release on Thursday will most likely lead to an increase in imports.

Weather prospects

- While the 2018/19 summer grains and oilseeds production started on a bad footing due to dryness, the weather conditions have improved significantly. The crop is generally in good shape across the country, following widespread rainfall in February. This has led to widespread improvements in dam levels which should support areas that are under irrigation (Figure 5).

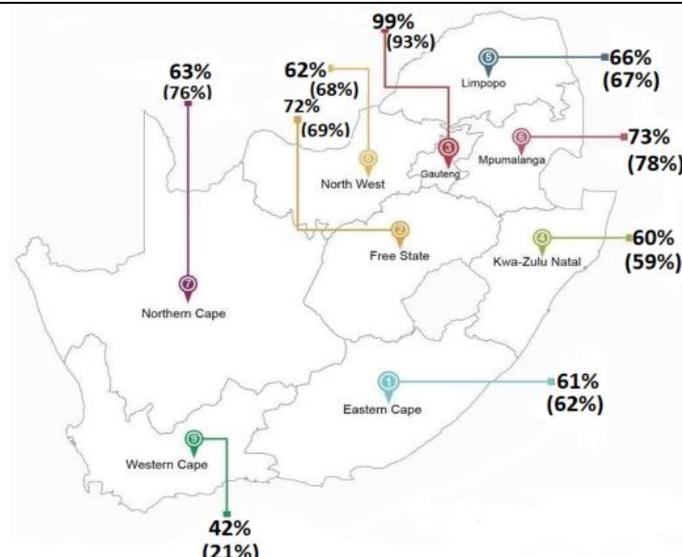
- Looking ahead, the South African Weather Service sees a likelihood of above-normal rainfall conditions over the summer rainfall regions during early autumn (Feb-Mar-Apr). However, this might not be widespread across all grains and oilseed-growing regions. The shaded areas in Figure 4 are the most likely regions to receive above-normal rainfall in the coming months.

Figure 4: Expected precipitation conditions for Feb to March 2019



Source: South African Weather Service.

Figure 5: Dam levels for the week of 25 Feb 2019 vs 25 Feb 2018

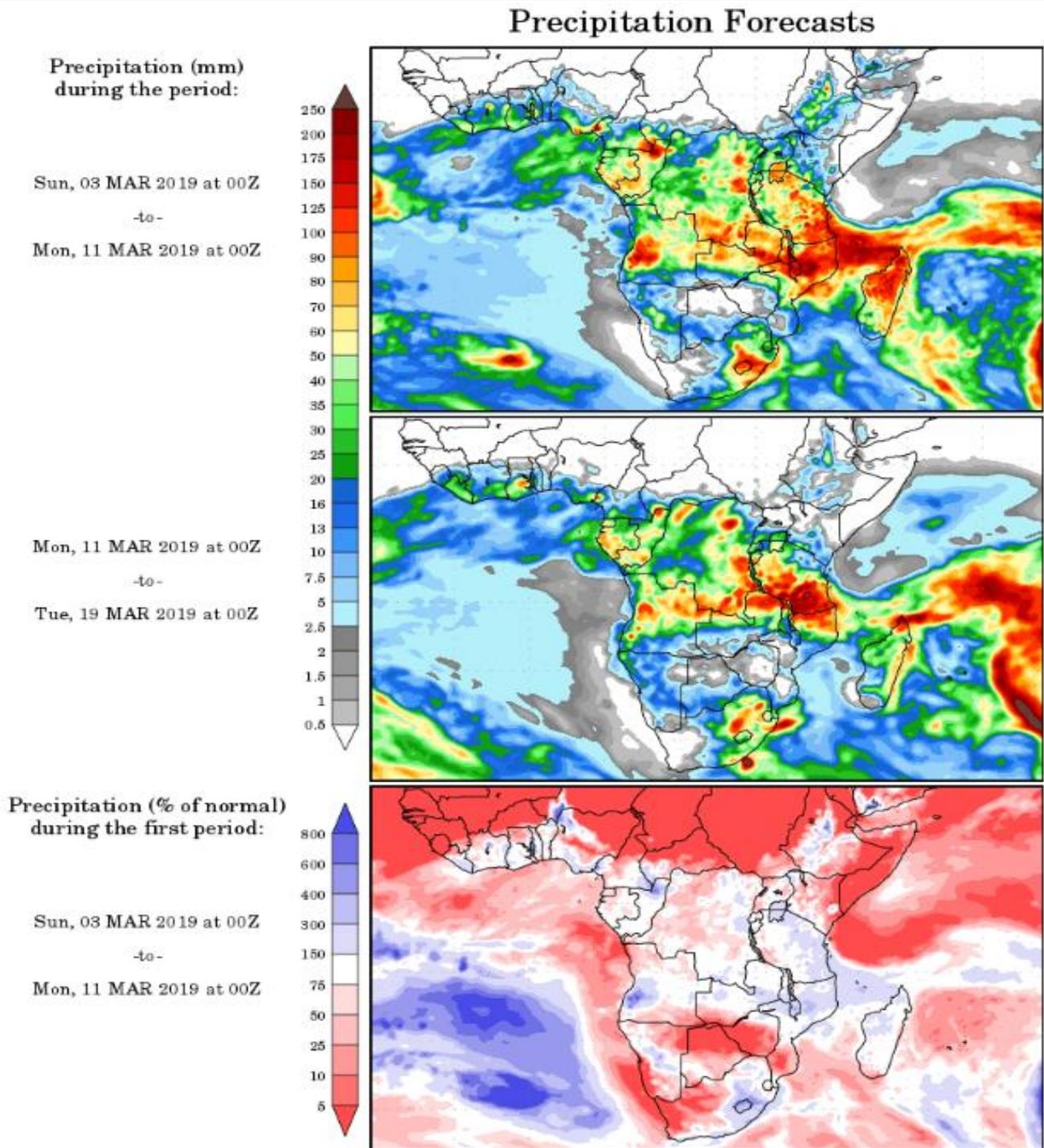


Source: DWS, Agbiz Research. (Note: figures in brackets represent 25 February 2018)

Our takeaway messages this week

- The Kingdom of Saudi Arabia is an important player in global agricultural trade, ranked the world's 20th largest importer of agricultural products in 2017. Therefore, last week's engagement between South Africa and the Kingdom's Minister of Agriculture is of particular interest, as it focused on key areas that South Africa is already perusing as a way to ignite inclusive growth within the agricultural sector. These are areas of trade, investment, capacity building, research and development in the field of agriculture.
- From a data perspective, although expanded in the third quarter of last year, we expect South Africa's agricultural economic growth to have contracted by roughly 4%-5% on a quarter-on-quarter seasonally-adjusted annualised rate in the fourth quarter of 2018.
- After registering a notable decline in January 2019, South Africa's tractor sales could somewhat recover in February.
- South Africa's weekly grain trade data is due for release on Thursday, 06 March 2019. This will mainly be maize and wheat. In terms of maize, we expect South Africa to be a net exporter in 2018/19 marketing year, with about 2.3 million tonnes (white and yellow maize).
- In terms of wheat, we expect a 36% year-on-year decline to 1.4 million tonnes in South Africa's 2018/19 imports.

Figure 6: South Africa's precipitation forecast



Source: wxmaps

Key Data Releases in the Agricultural Market:

- Agricultural GDP: 05/03/2019
- SAGIS producer deliveries data: 06/03/2019
- SAGIS weekly grain trade data: 07/03/2019
- National Crop Estimates Committee's monthly data: 26/03/2019

Disclaimer:

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