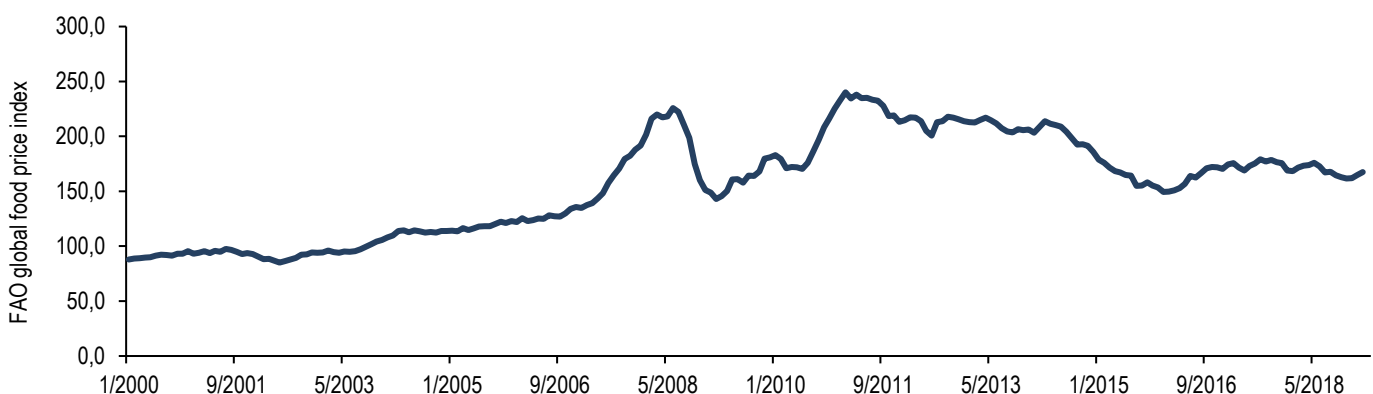


Global food prices could remain stable in the near term

- The recent World Agricultural Supply and Demand Estimates report by the United States Department of Agriculture (USDA) provides further evidence that the world will have fairly large maize, soybean, and rice supplies in the 2018/19 season. Meanwhile, wheat production could decline from levels seen in the 2017/18 season.
- The USDA lifted its estimate for 2018/19 global maize production marginally from last month to 1.1 billion tonnes. This is 2% higher than the previous season. The increases are mainly in South America and the Black Sea region. Moreover, the agency placed its 2018/19 global rice production at 501 million tonnes, up by a percentage point from the levels observed in January 2019, and the 2017/18 production season. The 2018/19 global soybean production estimate was roughly unchanged from January 2019 levels at 360 million tonnes. But this is 6% higher than the 2018/19 production season. The uptick is mainly on the back of an expected large harvest in the United States, China, and Argentina. The data for 2018/19 global wheat production show a marginal decline from January 2019, with production set to reach 735 million tonnes. This, however, is a 4% decline from the 2017/18 production season.
- Overall, while production of most commodities is expected to increase in the 2018/19 season, prices might not decline nor stabilise due to expectations of a rise in global consumption of grains and oilseeds, amongst other factors. This is already evident in the FAO Cereal Price Index which averaged 169 points in February 2019, up by 4% from the corresponding period in 2018. Nonetheless, we suspect that there won't be a significant uptick in overall global food prices, as slowing meat and dairy products prices could overshadow the increases in grains, and sugar products prices. In fact, the FAO Food Price Index, which comprises grains (cereals), vegetable oils, meat, dairy and sugar products, averaged 167 points in February 2019, down by 2% from the same period last year (Figure 1).
- For South Africa, the relevance of this is through a number of channels, with the most direct one being that the country is a net importer of rice and wheat. From a rice perspective, prices could remain stable to downwards in the near term as stocks could increase by 5% y/y boosted by large supplies, despite the anticipation of an increase in global consumption. This will be beneficial for South African importers, and ultimately consumers. But wheat is the opposite.

Figure 1: Global food prices are still at fairly lower levels



South Africa's rice and wheat imports estimates

Rice

- To elaborate on the aforementioned points, South Africa's 2019 rice imports could amount to 1.1 million tonnes, up by 10% from 2018 (Figure 2). Therefore, a potential decline in global rice prices as a result of increased production will benefit rice-importing countries' consumers, such as South Africa. The key contributing countries to the expected increase in production are India, Vietnam, Thailand, the United States, China, Bangladesh and the Philippines. These are some of the countries that supply to South Africa.

Figure 2: South Africa's rice imports and exports

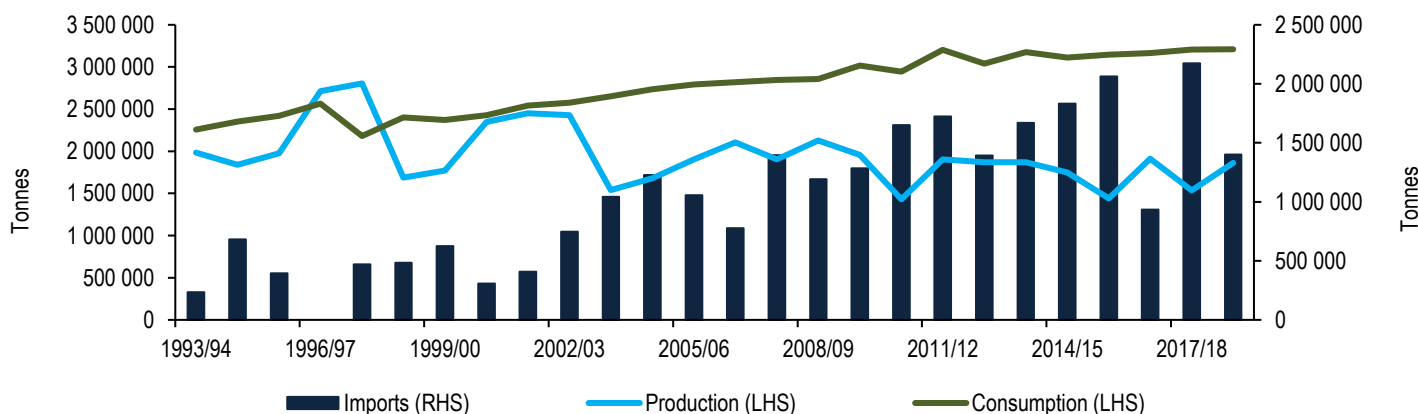


Source: Trade Map, International Grains Council, Agbiz Research

Wheat

- Although South Africa's wheat production has recovered from levels seen in the drought year, with the 2018/19 harvest estimated at 1.84 million tonnes, up by 19% from the previous season, the country will remain a net importer of the commodity. The imports, however, could fall by 36% from the 2017/18 season to 1.4 million tonnes (Figure 3). In the week of 01 March 2019, about 376 789 tonnes had already been imported. The leading suppliers are Germany, Russia, Argentina, Ukraine, and Canada.

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

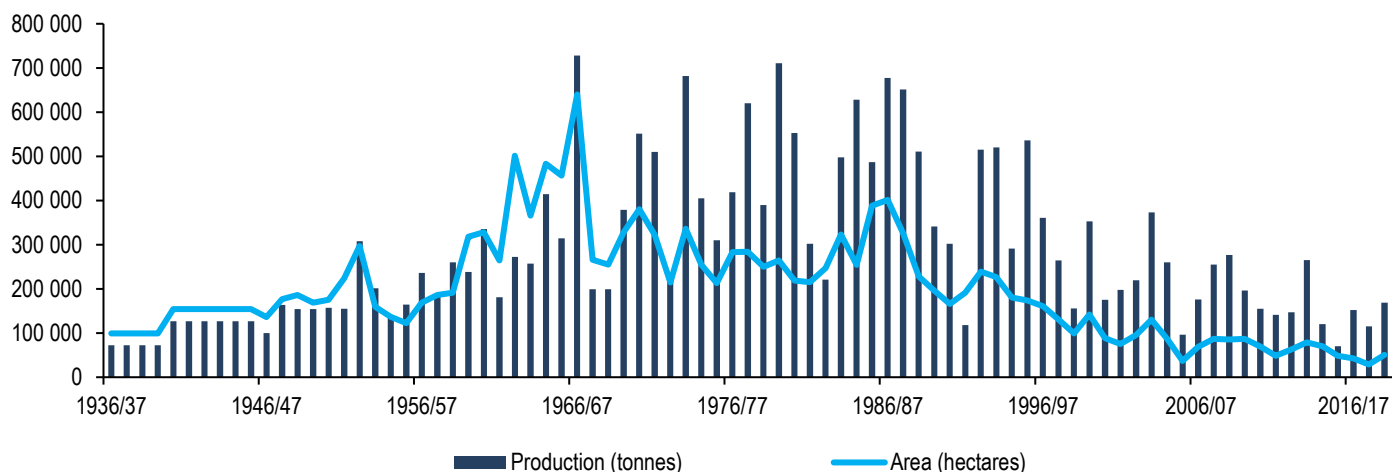


Source: SAGIS, CEC, Agbiz Research

Notable recovery in South Africa's sorghum production

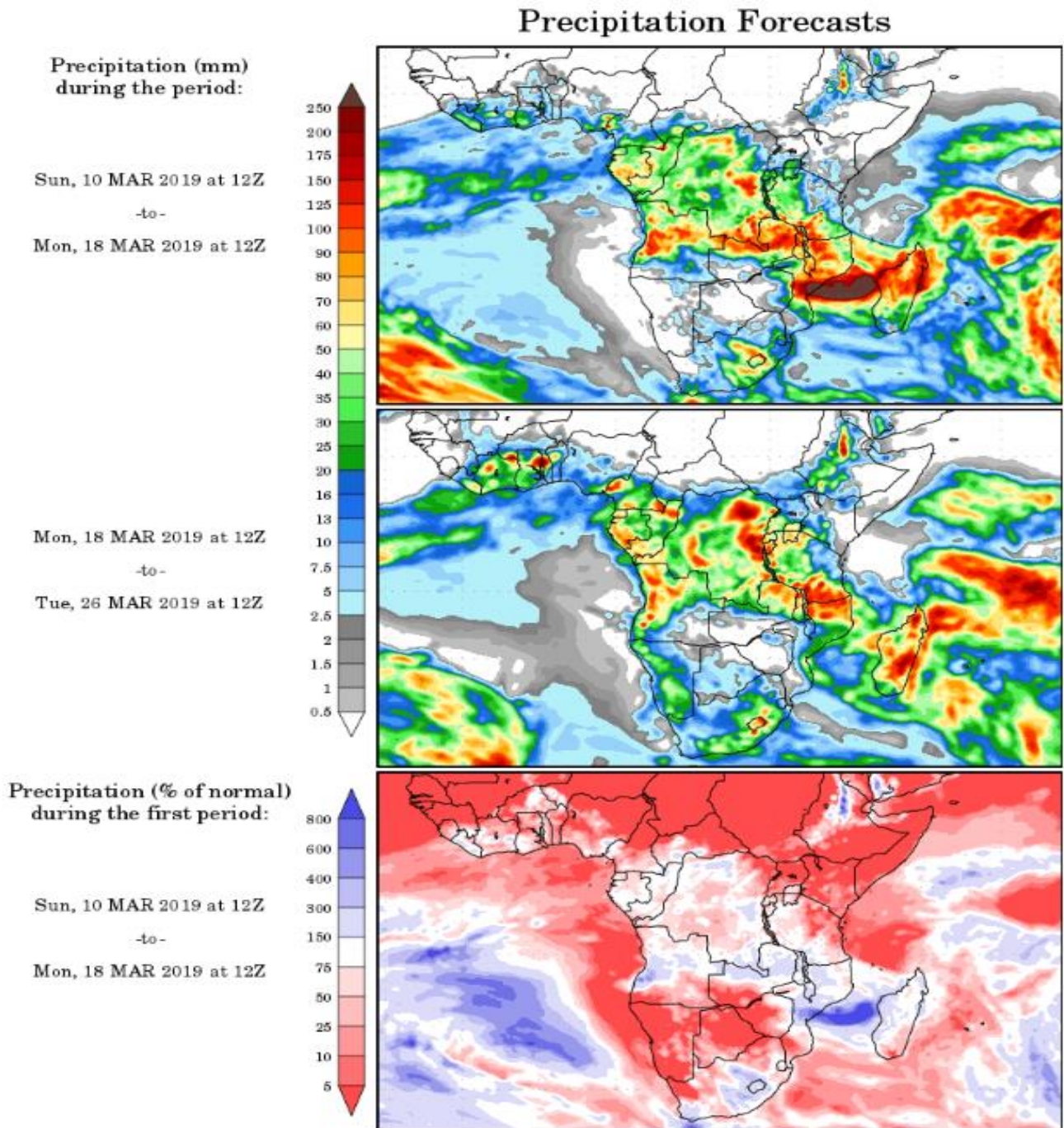
- After being a net importer for two consecutive seasons, South Africa could again be a net exporter of sorghum in the 2019/20 marketing year, which commences on 01 May 2019 (this corresponds with the 2018/19 production season).
- To recap, South Africa's sorghum production has, in the recent past, been on a decline due to a reduction in area plantings as farmers switched to relatively more profitable crops. In the 2017/18 production season, plantings reached the lowest level on record in a dataset starting from 1936/37, with only 28 800 hectares.
- But in the 2018/19 production season, plantings increased by 75% year on year to an estimated 50 500 hectares, which is the largest area since the 2014/15 production season. The expansion was mainly in Limpopo, which accounts for half of the area planted, and also North West, with 17% of the area. This increase can partially be explained by the fact that sorghum is fairly drought tolerant, and is, therefore, the best alternative crop for some farmers when maize cannot be planted. With that said, after good rainfall over the past couple of weeks in most provinces, there are expectations that the national average yields could be about 3.3 tonnes per hectare, which is above average levels. This could potentially boost production to 168 400 tonnes.
- If we account for the aforementioned potential harvest, and opening stock of 33 046 tonnes at the start of the 2019/20 marketing year, South Africa would have sufficient supplies of sorghum, and would therefore not need any imports. The country could, in fact, be a net exporter of roughly 10 000 tonnes of sorghum in the 2019/20 marketing year, after being a net importer in the past two seasons.

Figure 4: South Africa's sorghum production set to recover in 2018/19 production season



Source: SAGIS, CEC, Agbiz Research

Figure 5: South Africa's precipitation forecast



Source: wxmaps

Key Data Releases in the Agricultural Market:

- SAGIS producer deliveries data: 13/03/2019
- SAGIS weekly grain trade data: 14/03/2019
- National Crop Estimates Committee's monthly data: 26/03/2019

Disclaimer:

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