

SA agricultural trade surplus expands by 11% y/y in the first quarter of 2019

- If we do not write about South Africa's first quarter of 2019 agricultural trade figures, one would assume that there have been limited positive developments in this sector as the past few months have been clouded by unwelcoming news. These varied from tough production conditions in summer crop growing areas due to drought earlier in the year, disappointing jobs numbers, to biosecurity matters which for a number of weeks affected exports of livestock and its products, amongst other factors. In the midst of all this, South Africa reported an agricultural trade surplus of US\$660 million in the first quarter of this year. This is up by 11% from the corresponding period in 2018. This was primarily due to an 18% year-on-year decline in the value of imports to US\$1.45 billion, not an uptick in exports. South Africa's agricultural exports were down by 10% from the first quarter of 2018, recorded at US\$2.11 billion.
- The exports were underpinned by grapes, wine, apples, pears, wool, fruit juice, apricots, cherries, peaches, and maize, amongst other agricultural products. We expect these products to have continued driving South Africa's agricultural exports in the second quarter of 2019. With that said, maize might not feature prominently as we think South Africa's 2019/20 maize exports could fall by 55% year-on-year to about 1.0 million tonnes owing to an expected lower harvest. In terms of imports, the leading products included poultry meat (edible offal of fowls), rice, wheat, sugar, palm oil, beer, fish, sunflower oil, tobacco, and live cattle. Looking at the historic activity, as shown in Figure 1 below, the import values might not change much in the coming months. Also, we expect an increase in some product's import volumes this year. Most notably, South Africa's 2019 rice imports could amount to 1.1 million tonnes, up by 10% from 2018. In addition, South Africa's 2019 palm oil imports could increase by 1% from last year to 477 603 tonnes.
- From a destination point of view, the African continent and Europe continued to be the largest markets for South Africa's agricultural exports, respectively accounting for 44% and 30% in value terms. Asia was the third largest market, taking up 18% of South Africa's agricultural exports in the first quarter of 2019. The balance of 8% value was spread across other regions of the world.
- Looking ahead, 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 and wine grapes. Trade in livestock and its products, which has been distracted following the foot-and-mouth disease outbreak in some parts of the country has somewhat resumed, and conditions could normalise in the coming months. Overall, we still expect a positive trade balance for South Africa's agriculture in 2019. Regarding a national policy perspective, in his 2019 State of the Nation Address, President Matamela 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 well-positioned in terms of export markets, and there is clarity about products that show a growing demand in the world market, such as horticulture products, and livestock, to a certain extent, to mention a few categories.¹

¹ Wandile Sihlobo, "Areas of agriculture hold job-creation opportunity for new administration," Business Day, May 08, 2019

Figure 1: South Africa 's agricultural surplus expanded by 11% y/y in Q1, 19



Source: Trade Map, Agbiz Research

UPDATE: South Africa's winter crop

- The weather remains a primary focus in the domestic winter crop market as planting approaches its final stages in the Western Cape – the leading winter crop producer in South Africa. A number of areas received light showers over the past couple of weeks and managed to plant, but there is currently an urgent need for follow-up rainfall across the province. The Southern Cape and Overberg are some of the areas that have not received good rainfall thus far, to such an extent that plantings were suspended in some areas due to lower soil moisture.
- Be that as it may, the slow progress in plantings in the Southern Cape and Overberg is no cause for concern as the planting window runs until the beginning of June 2019. Moreover, the rainfall cycles seem to be occurring later than the usual periods. Hence, we expect these areas to receive sufficient moisture over the coming weeks.
- Although the near-term weather forecasts, as illustrated in Figure 3, show prospects of continuous dryness over the Western Cape, we are still positive about the outlook for the year and the 2019/20 winter crop production season. As set out in our note on 20 May, the South African Weather Service recently indicated that the south-western parts of the country could receive above-normal rainfall, in high frequency, between this month and August 2019. This means that there could be an increase in soil moisture in the province not only during the planting period but throughout most part of the production season.
- The activity in other winter crop producing provinces of the country, which are mainly under irrigation, could gain momentum over the coming weeks. Broadly speaking, we think the crops could experience a generally good season as dams across the country are still at healthy levels, measured at over 60% full in the week of 20 May 2019. Overall, these weather developments reinforce our assessment of a good production season in 2019/20 and also a view that farmers might be able to achieve the intended area of 513 450 hectares of wheat, 118 500 hectares of barley, and 80 000 hectares of canola across South Africa.

Data previews

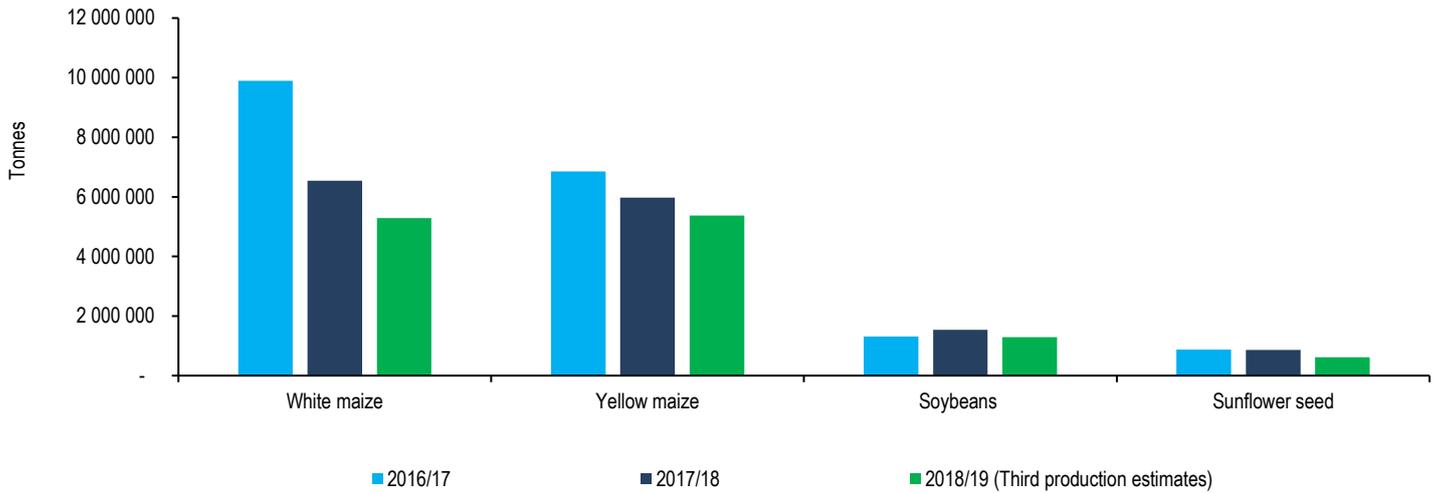
South Africa's agricultural data calendar is packed this week. On Tuesday the Crop Estimates Committee will release its fourth summer crops production forecasts, followed by grain producer deliveries data on Wednesday and weekly grain trade data on Thursday, both from SAGIS. Stats SA will also release the food producer price inflation data for April 2019 on Thursday.

Summer grain and oilseed production estimates

- The summer grains harvest process has started in the eastern parts of South Africa, particularly Mpumalanga, Limpopo, KwaZulu-Natal, and Free State. In fact, Mpumalanga and KwaZulu-Natal had harvested over 40% of the crop in the week of 24 May 2019. The yields in most areas range between below-average to average, although the eastern regions received better rainfall than the western areas of the country where the harvest process has not started.
- On Tuesday, 28 May, the Crop Estimates Committee will release its fourth summer crop production estimates which will help shape our view of South Africa's grain and oilseed supplies for the 2019/20 marketing year. The data will include maize (white and yellow), sunflower seed, soybeans, groundnuts, sorghum and dry beans, but our focus in this particular preview note is only on major grains.
 - **Maize:** We started off the season with a pessimistic view, thinking that South Africa's maize production could drop to as low as 10.0 million owing to poor yields in the central and western parts of the country. While conditions didn't improve much in these areas over the past few months, as previously noted, the somewhat positive feedback from interactions with farmers in some parts of the country has compelled us to align our view with the Crop Estimates Committee's one that South Africa's 2018/19 maize production could amount to 10.6 million tonnes, as shown in Figure 2. In essence, we do not expect notable changes in the upcoming release, if anything it will probably be a slight downward revision on the white maize production figures due to anticipated poor yields.
 - As we have previously indicated, with the currently expected maize harvest of 10.6 million tonnes in the 2018/19 production season (this corresponds with 2019/20 marketing year) added to an opening stock of 2.8 million tonnes when the 2019/20 marketing year started on 01 May 2019, the country could have sufficient maize supplies to cover the country's annual consumption of about 10.8 million tonnes. Moreover, South Africa is likely to remain a net exporter of maize in the 2019/20 marketing year. The exports, however, could decline by half from the 2018/19 marketing year to about 1.0 million tonnes.
 - **Soybeans:** Over 40% of soybeans have been harvested in Mpumalanga, eastern Free State, and KwaZulu-Natal. The yields generally vary between below-average and average. Hence, we expect a marginal downward revision of South Africa's soybean harvest from the current estimate of 1.3 million tonnes. This crop is already down by 13% from the 2017/18 production season and means that South Africa could be a net importer of soybeans in the 2019/20 marketing year (corresponds with the 2018/19 production season). Other things being equal, we think South Africa's 2019/20 soybean imports could amount to 7 000 tonnes, which is slightly higher than the 2018/19 marketing year.

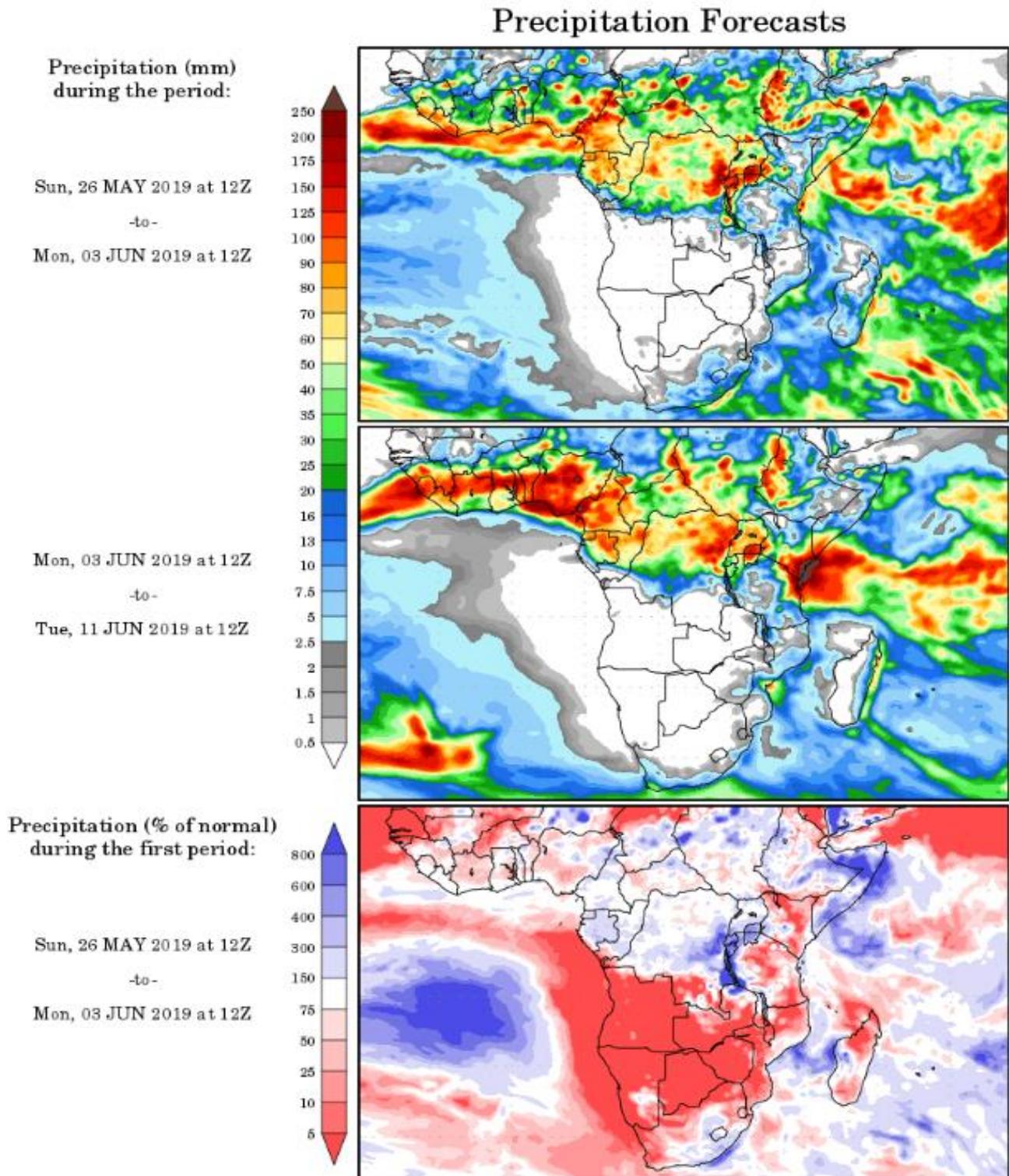
- **Sunflower seed:** Similar to soybeans, we think that the Crop Estimates Committee could leave its sunflower seed production estimate unchanged from last month, at 611 140 tonnes as production conditions have not changed much in sunflower seed growing areas since the last assessment. The currently expected harvest is down by 29% from the previous season. If we work with these numbers, South Africa could be a net importer of sunflower seed in 2019/20 marketing year. The imports could amount to 80 000 tonnes, up from 1 324 tonnes in the 2018/19 marketing year.

Figure 2: South Africa's summer crop production estimates for 2018/19 season (data as at 25 April 2019)



Source: Crop Estimate Committee, Agbiz Research

Figure 3: South Africa's precipitation forecast



Source: wxmaps

Key Data Releases in the Agricultural Market:

- National Crop Estimates Committee's monthly data: 28/05/2019
- SAGIS producer deliveries data: 29/05/2019
- SAGIS weekly grain trade data: 30/05/2019

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