

## Taking stock of global grains monthly data and its implications for South Africa

Although South Africa is a net exporter of some major grains such as maize and barley, the country is not insulated from the global grains market developments. International price movements in these commodities do influence, to a certain extent, trading conditions in the domestic market. For rice, wheat, soybean oilcake and sunflower oil, which South Africa is a net importer of, global market conditions matter even more. The livestock and poultry industry, which heavily relies on maize and soybean meal for feed is often at the forefront of global shocks, specifically from a soybean meal perspective.

It is for these reasons that we always take a keen interest in developments in the global grains market. Over the past couple of weeks, there have been numerous reports of dry weather conditions threatening crops in Europe. At the same time, parts of the US have experienced severe windstorms which destroyed maize and soybean fields, while some parts of Asia have also been affected by floods. All these events have raised concerns that earlier expectations of a record global grains harvest in 2020/21 could turn out to have been too bullish. Nevertheless, the International Grains Council (IGC) report which came out on 27 August 2020, maintained an optimistic picture, with 2020/21 global grains harvest estimated at a record 2.23 billion tonnes, which is a 2% annual increase. The IGC expects this to be boosted by expected large maize, wheat, sorghum, rice, soybean and rye harvests. This suggests that the aforementioned unfavourable weather conditions in various geographies have thus far caused minimal damage than previously feared.

Starting with maize, which accounts for more than half of global grains in volume terms, the 2020/21 harvest projection of 1.17 billion tonnes is roughly unchanged from the previous month's estimate. This is 4% higher than the 2019/20 production season, with potential increases expected to originate from the US, parts of sub-Saharan Africa, Brazil, Canada and Ukraine, amongst others. This will offset the projected harvest decline in Argentina, India, parts of the EU and Vietnam, whose crop has been negatively affected by the aforementioned unfavourable weather conditions, dryness in Europe and flooding in Asia.

Available data from the US suggest that the crop damages by a windstorm in Iowa could be compensated by higher yields in other States, and thus the national harvest is still set to be 11% higher than the 2019/20 production season. This large global maize harvest has, however, not translated to price declines in the recent weeks. In fact, on 27 August 2020, global maize (Chicago maize) price was up by 7% y/y, traded around US\$173 per tonne. The underpinning price drivers of global maize prices have been the aforementioned weather concerns, and also the growing demand for maize, primarily supported by China. The IGC estimates that 2020/21 global maize consumption will lift by 3% y/y.

In the case of wheat, the 2020/21 harvest is projected to increase just marginally by 0.1% y/y to a fresh high of 763 million tonnes. This is boosted by expected large harvests in Russia, Australia and Canada, amongst other countries. The increase in the harvests of these countries will compensate for the expected slight crop declines in the US, EU, UK and Ukraine. Dryness has been a major challenge in countries that are expecting an annual decline in the harvest. But the important point is that the global wheat supplies in 2020/21 season are likely to remain solid. Similar to the maize market, the strong global demand for

31 August 2020

**Wandile Sihlobo**

Chief Economist  
+27 12 807 6686  
wandile@agbiz.co.za

[www.agbiz.co.za](http://www.agbiz.co.za)

### Disclaimer:

Everything has been done to ensure the accuracy of this information, however, Agbiz takes no responsibility for any loss or damage incurred due to the usage of this information.

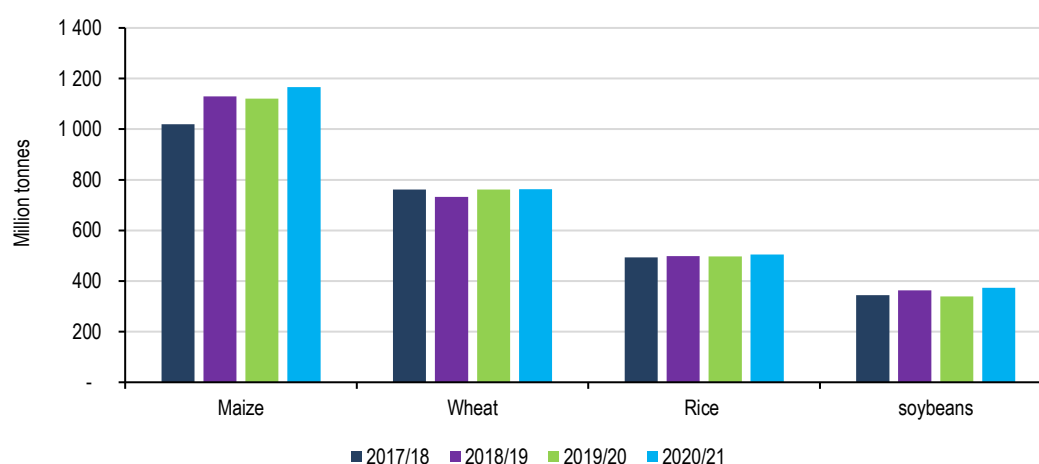
wheat has sustained global prices (US HRW) at fairly higher levels. On 27 August 2020, the global wheat prices were up by 15% y/y, trading around US\$232 per tonne. This does not bode well for wheat-importing countries like South Africa. Over the past 10 years, South Africa has imported on average about 51% of its annual wheat consumption of about 3.1 million tonnes. The figure, could, however, decline somewhat in the 2020/21 season as domestic wheat harvest is set to be the largest in a decade, estimated at 1.96 million tonnes.

For rice, the IGC forecasts the 2020/21 global harvest at 505 million tonnes, which is roughly unchanged from the previous month estimate and 2% higher than the previous season. This is underpinned by an expected large harvest in Asia, following expansion in area planted and expectations of higher yields in some countries in this region. Positively, the floods that have caused damage in parts of Asia in the recent weeks seem to have caused minimal disruptions in the rice plantations, hence the global harvest estimate is still maintained at these higher levels. Similar to other commodities, rice prices have remained elevated. On 27 August 2020, Thailand (5% broken) rice prices were up by roughly 25% y/y trading around US\$500 per tonne. Amongst factors driving prices is the growing demand, and fears that the floods would cause crop damage, which the new information shows that has not been the case. Moreover, prices are at fairly higher levels for all origins; Vietnam, India and Pakistan. This is a challenge for importing countries like South Africa who are also experiencing a depreciation in the domestic currency. As highlighted in our previous notes, IGC estimates South Africa's 2020 rice imports at 1.1 million tonnes, up by 10% y/y.

There is also optimism about soybeans, with the 2020/21 global harvest estimated at 373 million tonnes, slightly above the previous month estimate and 10% higher than the previous season. The US, Brazil, Argentina, China, India and Paraguay are amongst the key drivers of the expected large harvest. Importantly, the data show that the crop damage in Iowa, following the windstorm, has not been as disastrous as initially feared, as the US soybean harvest is still firm, up 23% y/y. In the case of South America, the estimates are still tentative as plantings will gain momentum in October 2020. But the strong soybean demand from China provides an incentive for South American farmers to increase the plantings. On 27 August 2020, the US, Argentina and Brazil soybean prices were up by 11%, 7% and 9% from the previous year, trading at US\$389 per tonne, US\$376 per tonne and US\$405 per tonne, respectively.

In a nutshell, the global grains market will still be well supplied in the 2020/21 season, but the recent weather disruptions and changes in demand have led to price increases, which is not conducive for importing countries such as South Africa.

### Exhibit 1: Global grains production



Source: International Grains Council and Agbiz Research

## Weekly highlights

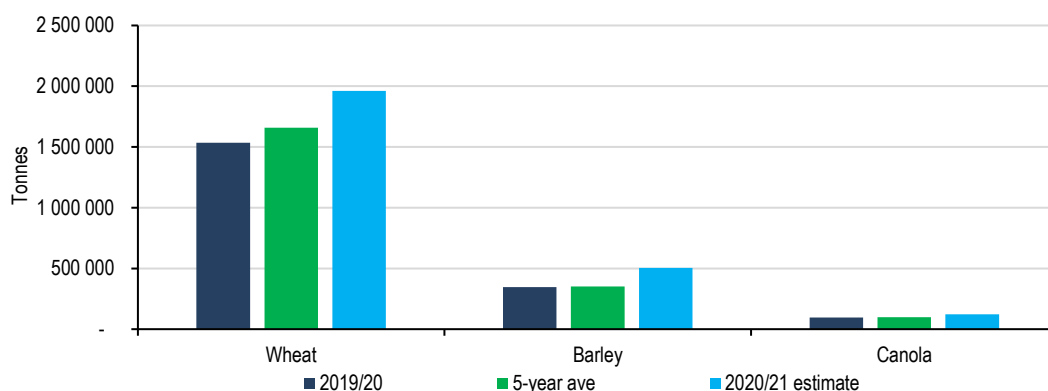
### Key insights from the last CEC report

This past week, the Crop Estimates Committee (CEC) released its 7th summer crop production estimates for 2019/20 and the first winter crop production estimates for 2020/21 season. In terms of summer crops, there weren't major adjustments in key grains production estimates from the previous month's data. The total maize production is still at 15.5 million tonnes (up 38% y/y), which is the second-largest harvest on record, although the white maize production estimate was revised down marginally from the past month, while the yellow maize estimate was lifted. The sunflower seed production estimate was lifted marginally from the previous month, currently estimated at 785 910 tonnes, which is 16% higher than the previous season. Meanwhile, the soybeans production estimate was left unchanged at 1.26 million tonnes, which is up 8% y/y. Most importantly, the focus on summer grains is now shifting towards 2020/21 production season, with plantings set to commence in October. The weather forecast for the 2020/21 season is favourable, with expectations of above-normal rainfall, which will be brought by the La Niña event. Also, commodity prices are at relatively higher levels, which provides an incentive for farmers to maintain plantings at a fairly decent area.

The winter crops data were of key interest as we will now have a sense of the influence the good rains in the Western Cape over the past few weeks have had on crops, as well as favourable soil moisture in other provinces. The data released by the CEC showed that South Africa's 2020/21 wheat, barley and canola production could increase by 28% y/y, 46% y/y and 29%, respectively, to 1.96 million tonnes, 505 215 tonnes and 122 820 tonnes. Admittedly, these are still preliminary data and the weather conditions in September will matter more on determining if the forecast harvest will materialize. Fortunately, on July 24, in its Seasonal Climate Watch report, the South African Weather Service highlighted prospects for "increased chances of above-normal rainfall over the South-Western and Southern parts of the country between August and October 2020". We have already received good moisture in August, and anticipate that rains will continue in the coming months and support the crop.

As previously stated, South Africa over the past 10 years imported on average about 51% per annum of its consumption. But the expected improvement in the domestic harvest in 2020/21 season will lead to at least 200 000 tonnes decline in imports from the currently expected imports of 1.80 million tonnes in the 2019/20 season. This bodes well for South Africa's agricultural trade balance. In terms of barley, South Africa will remain a net exporter. Meanwhile, for canola, the harvest will probably be utilized in the domestic market.

### Exhibit 2: South Africa's winter grains production



Source: Crop Estimates Committee and Agbiz Research

## Higher maize prices an upside risk to food price inflation

South Africa's food price inflation increased to 4.6% y/y in July 2020, from 4.5% y/y in the previous month. This was primarily underpinned by a slight uptick in bread and cereals; fish; and oils and fats. With the current higher maize prices, which last week crossed the R3 000 per tonne mark, we are inclined to believe that there could be a further uptick in food price inflation, although probably mild, in the coming months.

At the start of the year, when we were seeing prospects of good maize, fruits and vegetables harvest; The only upside risk to South Africa's food price inflation was meat, even then the underpinning driver was the base effects. This is because in 2019 South Africa's meat prices were largely under pressure on the back of increased supply when the beef exports were temporarily suspended because of the foot-and-mouth disease. Another key risk that we later added was poultry price potential increase after South Africa lifted the import tariff. After considering these factors, we estimated that South Africa's food price inflation would average around 4% y/y in 2020 (from 3.1% y/y in 2019).

The general increase in grain prices has now added to the aforementioned upside risks on food price inflation. The "bread and cereals" component of the food basket, which we initially did not view as potentially adding upswings should be viewed differently now. July 2020 data already provide evidence to this point, as this food category was amongst the key drivers of South Africa's food price inflation during the month. Also, maize prices have been steady at fairly higher levels for some time, which again supports the view that this adds to upsides risks to food price inflation.

### Exhibit 3: South Africa's food price inflation



Source: Stats SA and Agbiz Research

## Data releases this week

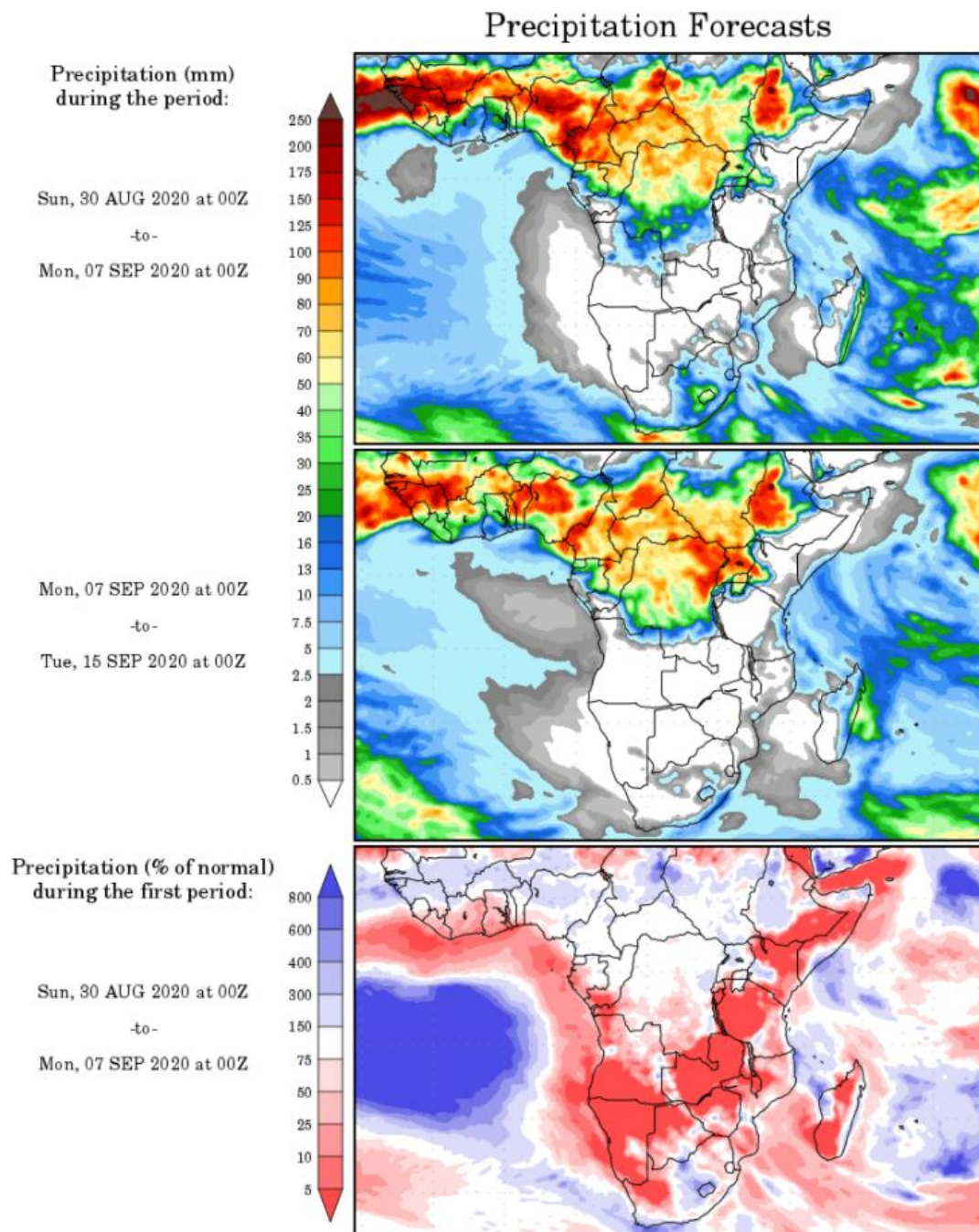
Starting from a global calendar, today the USDA will release the weekly **US Crop Progress** data, which will provide insights on the crop conditions there. The previous report of 23 August 2020 showed that maize and soybeans crop conditions were rated slightly poorer than the previous week, but still in better condition than last year. The weekly deterioration was in part as a result of crop damage in Iowa following the windstorm.

On Thursday, the USDA will release the **weekly export sales data**, which helps in tracking the agricultural trade activity between the US and China, which in recent weeks experienced heightened confrontation. As of the 28 August 2020, roughly 27% of the agreed-upon value of US agricultural sales to China as part of phase-one trade deal had been met, which increases a likelihood of China not keeping up with the targets.

On the domestic front, on Wednesday, the South African Grain Information Service (SAGIS) will release the **weekly grain producer deliveries data** for the week of 28 August 2020. This data covers both summer and winter crops. But the focus is on summer crops where the harvest process is towards completion. The winter crops are still at early growing stages for the 2020/21 season. In terms of maize, in the week of 21 August 2020, about 80% of the expected 15.5 million tonnes of harvest had already been delivered to commercial silos. While in oilseeds, the harvest process has been completed.

On Thursday, SAGIS will release the **weekly grain trade data** for the week of 28 August 2020. In the previous week of 21 August 2020, about 1.18 million tonnes of maize had already been exported, mainly to neighbouring countries, as well as Vietnam, Ethiopia, Japan, Taiwan and South Korea. This equates to 44% of the seasonal export forecast of 2.70 million tonnes, which is up by 89% from the 2019/20 marketing year because of an expected large harvest. In terms of wheat, South Africa is a net importer, and in the week of 21 August 2020, about 89% of the expected 1.80 million tonnes of imports in the 2019/20 season had already landed on the domestic shores.

#### Exhibit 4: South Africa's precipitation forecast



Source: George Mason University (wxmaps)

*Most regions of South Africa could receive rainfall this week. For summer crop growing areas, this is ideal to increase soil moisture ahead of 2020/21 planting season.*

*Meanwhile for winter crop growing regions, the expected rainfall will support the crop which is already in good condition following rains of the past few weeks.*