Is there a market for SA's large barley supplies?

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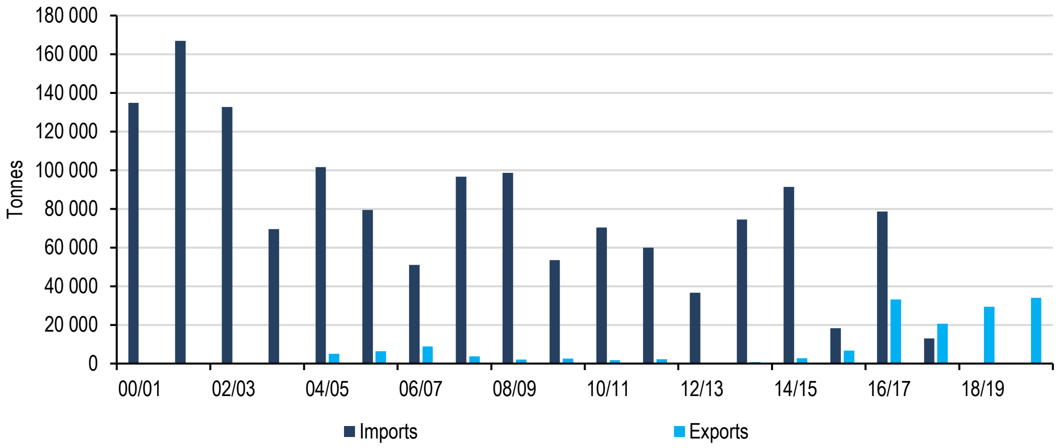
The barley industry is set to face some market demand slump emanating from a COVID-19-induced alcohol ban on the one hand, against a predicted record 2020/21 farm production harvest on the other. South Africa could produce an estimated 505 215 tonnes in 2020/21, which is up by 46% from the previous season. This is a result of increased area plantings and also expected higher yields following favourable rainfall in the Western Cape. Such a harvest means that South Africa could remain a net exporter of barley (Exhibit 1). The key export markets for South Africa's barley over the past five years were within the African continent, primarily Uganda, Namibia, Zambia, Botswana, Lesotho and Togo, amongst others.

Exhibit 1: South Africa's barley trade

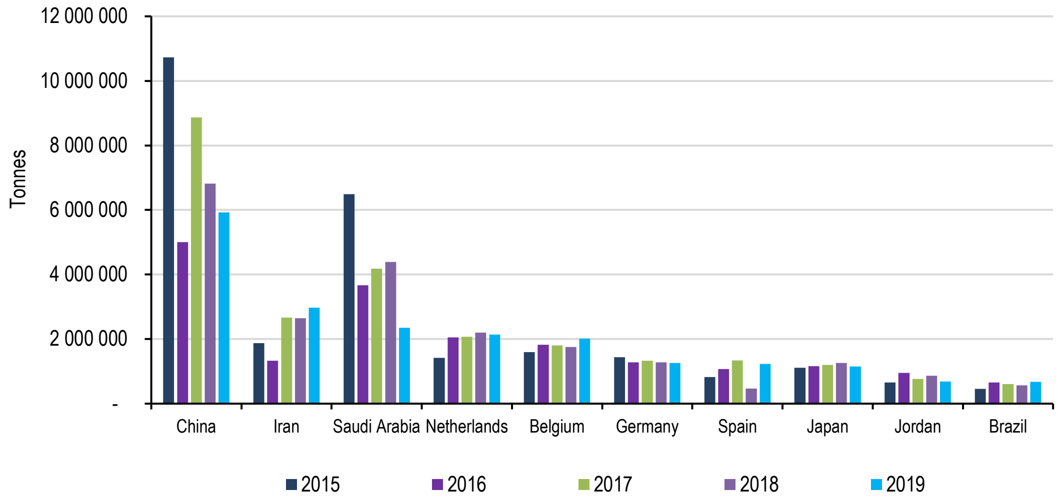


Source: SAGIS, Grain SA and Agbiz Research

Meanwhile, the 2020/21 marketing season has also been affected by the COVID-19 lockdown regulations which led to a temporary ban on alcohol sales for an extended period; first between 27 March and 1 June, and again between 12 July and 17 August. These bans could lead to a lower intake of barley by the domestic beer industry. The irony of a historically large barley output amid a predicted fall in demand from processors creates new market uncertainty – where are farmers going to sell their barley? South Africa might have to explore export opportunities for its surplus beyond traditional markets. It would be worth considering key barley-importing countries in the global market such as China, Iran, Saudi Arabia, Netherlands and Belgium, as illustrated in Exhibit 2.

Data trends show that South Africa hasn't exported barley to any of the world's largest importing countries illustrated in Exhibit 2. The country has, nonetheless, exported various agricultural commodities to these countries such as maize, citrus, beef and wine, amongst others. This indicates that there is an existing agricultural trade movement between South Africa and these countries. However, the existence of trade flows of other agricultural products is not a sufficient predictor of whether barley exports could follow a similar path. Hence, barley producers and exporters could consider key additional factors such as tariff and non-tariff barriers associated with exporting to these countries. The full scope of the latter is a matter that requires further analysis and technical support from the Department of Agriculture, Land Reform and Rural Development (DALRRD), who will provide perspectives around plant health regulations that would need to be met to access these markets.

Exhibit 2: World's top ten barley-importing countries



Source: Trade Map and Agbiz Research

From a tariff perspective, South African barley exports to the EU (i.e. Netherlands, Belgium, Germany, Spain, etc.) remain duty-free under the SADC-EPA preferential trade arrangement. The picture for the rest of the other markets – from the Middle East and Far East markets, is mixed. As illustrated in Table 1, South African barley exporters will face tariffs in Japan (175%), Brazil (10%), Iran (5%) and China (3%). Some Middle East markets like Jordan and Saudi Arabia are duty-free.

Table 1: Customs tariffs on barley exported by South Africa

Importing country	Tariffs	Description
China	3%	MFN duties
Iran	5%	General tariffs
Saudi Arabia	0%	MFN duties
Netherlands	0%	Preferential tariff for SA
Belgium	0%	Preferential tariff for SA
Germany	0%	Preferential tariff for SA
Spain	0%	Preferential tariff for SA
Japan	174,73%	MFN duties
Jordan	0%	MFN duties
Brazil	10%	MFN duties

Source: Trade Map and Agbiz Research

To identify the feasibility of accessing these markets, the Department of Trade, Industry and Competition (dtic) should begin to arrange outward-bound trade missions – which should predominantly have private-sector representation – to visit these markets and engage in Business-to-Business sessions to understand the product and client specifications and requirements.

The dtic, as well as the DALRRD, should work together with industry in a coordinated effort to access these markets. The Public-Private Partnership (PPP) effort of developing a market entry strategy should ideally form part of a longer-term market development strategy designed to provide strategic alternative options in the event of a decline in domestic usage of barley, as many in the market anticipate. It is an opportunity for closer cooperation between the private sector and government, and a model that can be used in other sectors.

With the domestic barley crop now at advanced stages and set to reach the harvesting stage by end of this year, efforts towards expanding market access in these countries for South Africa's barley need to begin immediately. We recommend that the top ten countries in Table 1 be prioritized. The competitors that South Africa will potentially face in the various markets are France, Russia, Argentina, Australia, Canada, United Kingdom, Kazakhstan, Germany, Denmark and Estonia. In key markets such as China, which accounted for 21% of global barley imports by volume in 2019, Australia was a major supplier of roughly half of the imports, followed by Canada, France, Ukraine and Argentina.

However, China has since placed import tariffs of 80.5% on Australia's barley, which provides a window of opportunity for other competitive suppliers. South Africa could be one such supplier to China, and this is a path South Africa's government and industry should explore and prioritize in addition to other key markets. We think that Australia might also be looking for markets for its barley, which could present tough competition, to a certain extent, for South Africa. Hence, China should be prioritized.

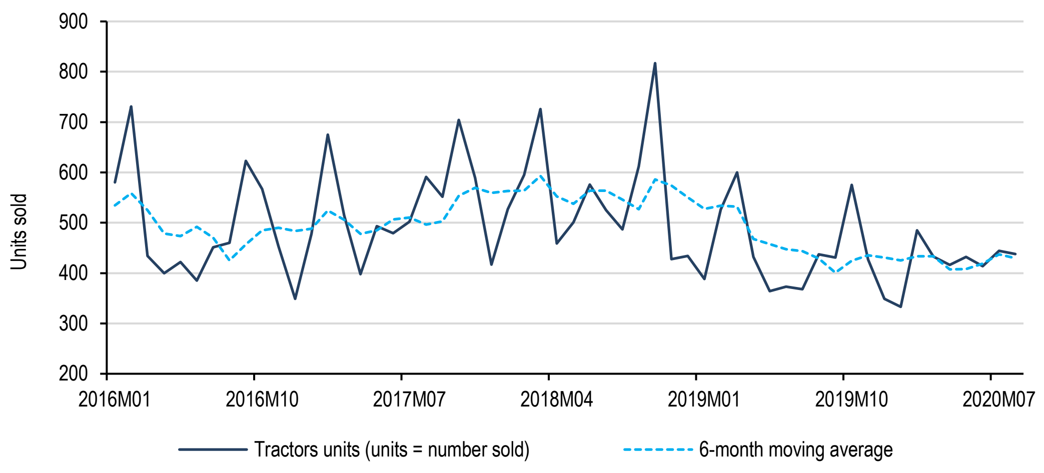
Iran, which accounts for 10% of the world's barley imports typically receives supplies from Russia, the United Kingdom and Germany. In the case of Saudi Arabia, the key suppliers are usually Argentina, Russia, Ukraine and Estonia. These are all suppliers that South Africa will have to compete with in these markets. It will be important to assess the extent of the country's competitiveness against these suppliers and determine if lower tariffs present a meaningful competitive advantage for South Africa to attempt access to these markets. If this is done with speed, it could prove to be an alternative outlet for the excess barley that South Africa will likely have in the 2020/21 marketing year.

Weekly highlights

SA agriculture machinery sales on a firm footing in August 2020

South Africa's tractor sales maintained the positive path in August 2020, which has been underway since June, although showing a marginal increase of 0.2% y/y, with 430 units sold (Exhibit 3). Meanwhile, the were 13 units sold of combine harvesters compared to no sales in August 2019. This is still boosted, to a certain extent, by improved farmers' financial position following a large summer grains harvest in 2019/20 production season and combined with relatively higher commodity prices.

Exhibit 3: South Africa's tractor sales



Source: South African Agricultural Machinery Association (SAAMA), Agbiz Research

The available data for the first eight months of the year already show that the agricultural machinery sales performance will be much better than we anticipated at the start of the year, in part, because of the aforementioned large harvest. Nevertheless, we are still hesitant about the robustness of the sales in 2021, irrespective of the expected higher rainfall which should help bring another good harvest.

As we have highlighted in our previous notes, we think South Africa's agricultural machinery industry will be pressured by the weak exogenous macroeconomic fundamentals going into 2021. First, the weaker domestic currency will lead to higher prices for imported agricultural machinery, which will reduce farmers' ability to acquire tractors and combine harvesters. Second, the further downgrade of South Africa's sovereign credit rating to the sub-investment grade could negatively influence the financing of agricultural equipment. Lastly, a year of relatively good sales is likely to be followed by a subdued period as the rate of replacement of machinery with new ones would ordinarily be lower than the previous years.

SA wheat import tariff lifted

South Africa's wheat import tariff was lifted to R832.10 per tonne from R516.60. This is after a prolonged delay in the adjustment of the tariff as it triggered on 24 March 2020, following a decline in global wheat prices on the back of expected large supplies. The conditions have somewhat changed now, at least from a global wheat price perspective, but for certainty in the market, it was key that the tariff was adjusted as the formula dictates. Ideally, the government should ensure the tariff is implemented immediately whenever the trigger occurs. The delay is not always good for policy certainty. For background, the adjustment on this rate occurs when the international wheat prices deviate by US$10 per tonne for three consecutive weeks from the base price (which is part of the standard formula).

Data releases this week

Starting from a global calendar, today we have the **US weekly crop progress data** which will be released by the USDA. The previous report of 30 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, and also dryness in some states.

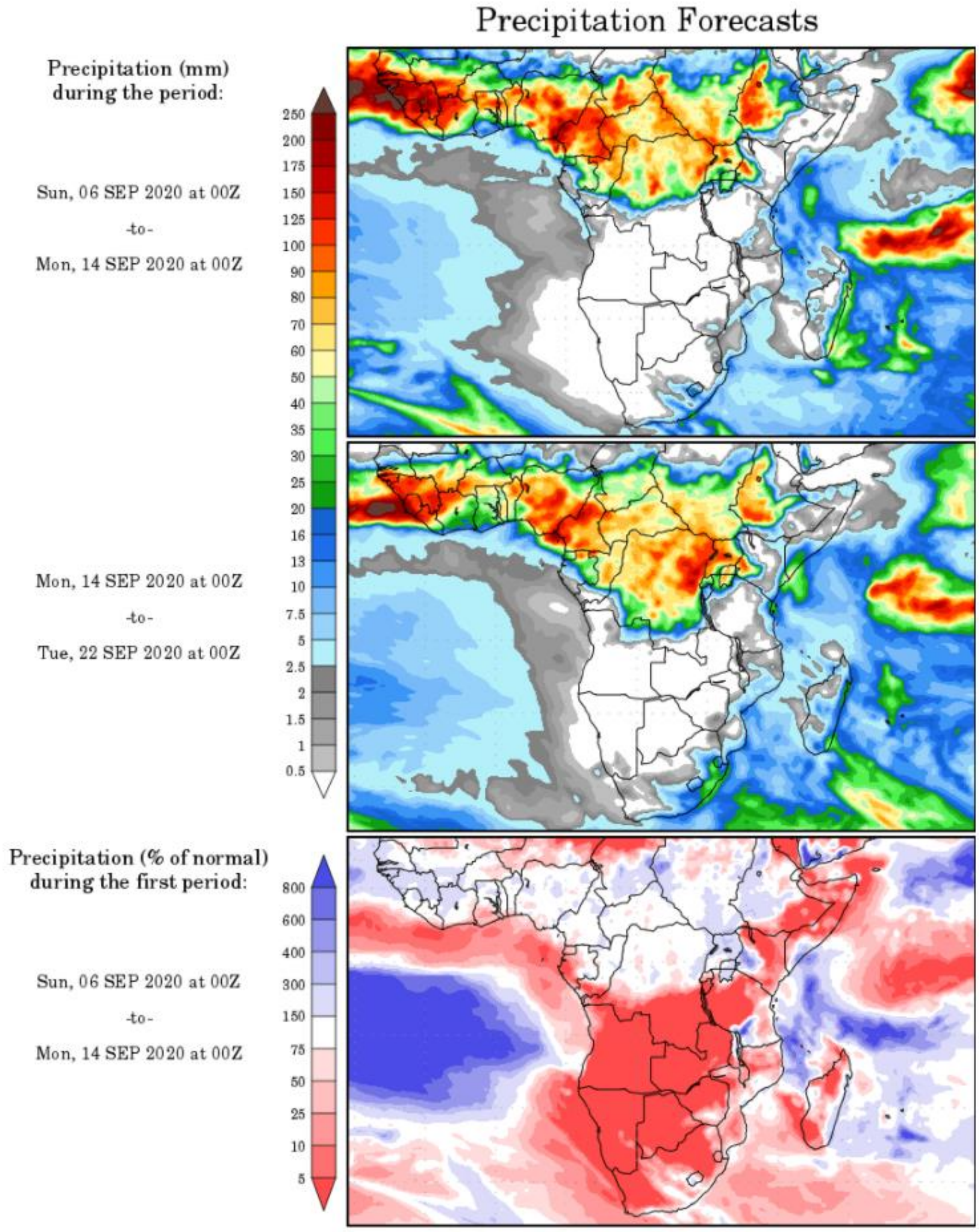
On Thursday, the USDA will release the **weekly export sales data**, which also helps in tracking the agricultural trade activity between the US and China. The available data shows that China is behind the levels agreed on as part of "phase one" trade agreement between the two countries. Also, on Thursday, the USDA will release an update of its monthly **World Agricultural Supply and Demand Estimates** report. In the previous month, the USDA reaffirmed its view that there will be large grains supplies in the global market in 2020/21 season, having revised up its production estimates of maize and soybeans, with a slight decline on wheat and rice.

On the domestic front, on Tuesday, Stats SA will release the **Gross Domestic Product (GDP) data** for the second quarter of the year. We expect agriculture's gross value-added to have grown by between 20-25% q/q on a seasonally-adjusted and annualised basis. The key drivers will remain somewhat the same as the previous quarter, which was an uptick in animal products, field crops and horticulture.

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 04 September 2020. This data covers both summer and winter crops. But the focus is on summer crops which are currently being harvested. In terms of maize, in the week of 28 August 2020, about 82% of the expected 15.5 million tonnes of harvest had already been delivered to commercial silos. While for oilseeds, the harvesting process has been completed.

On Thursday, SAGIS will release the **weekly grain trade data** for the week of 04 September 2020. In the previous week of 28 August 2020, about 1.26 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 47% 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 28 August 2020, about 89% of the expected 1.80 million tonnes of imports in the 2019/20 season had already landed on domestic shores.

Exhibit 4: South Africa’s precipitation forecast



Source: George Mason University (wxmaps)

There are clear skies over most regions of South Africa this week, but the following week could bring light showers along the east coast of the country.