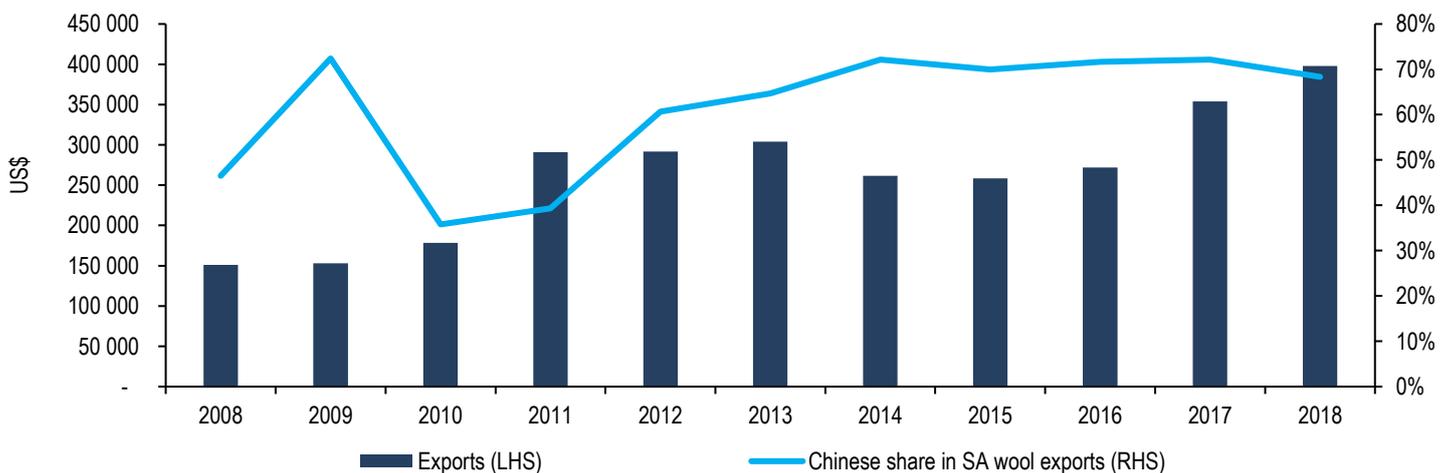


## Suspension of South African wool exports to China a key concern

- The suspension of South Africa's wool imports by the Chinese authorities because of the foot-and-mouth disease outbreak earlier in the year is a key concern. Wool is an important commodity in the South African agricultural sector, ranked the sixth largest exportable commodity after oranges, grapes, wine and apples in 2018. In the same year, wool accounted for 4% of South Africa's agricultural exports of US\$10.6 billion.
- What makes the Chinese decision to suspend South African wool imports particularly concerning is its share contribution to the domestic exports. Over the past five years, China accounted for an average of 71% of South Africa's wool exports in value terms. So, if the current trade friction is not soon resolved, the South African wool industry could be negatively affected as over 90% of production is exported either as greasy wool or in semi-processed form as scoured and wool top. Under such a scenario, the impact would ultimately be reflected in the agricultural trade balance. The other markets for South African wool industry are China, Czech Republic, Italy, India, Bulgaria, Germany, and the United States, amongst others. But, all of the aforementioned markets are smaller than China, which is the world's leading wool importer, taking more than two-thirds of the world's wool imports in 2017.
- The leading suppliers of wool to China are typically, Australia, South Africa, New Zealand, Uruguay, Argentina, Turkey and the United Kingdom, amongst others. The media reports out of Australia already suggests that the local woolgrowers could take advantage of the temporary suspension of South Africa in the Chinese market, and increase their market share. Be that as it may, we are yet to see if this suspension will be in place for some time or will soon be lifted; the industry is currently engaging with the local authorities. One of the periods where South African wool exports to China were suspended because of the foot-and-mouth disease outbreak was in 2011, but the impact then on export values was minimal, as the matter was resolved in a space of a few months. We will closely monitor the developments on the current suspension in the coming weeks, in order to ascertain its impact on the agricultural trade balance.

**Figure 1: South Africa's wool exports**

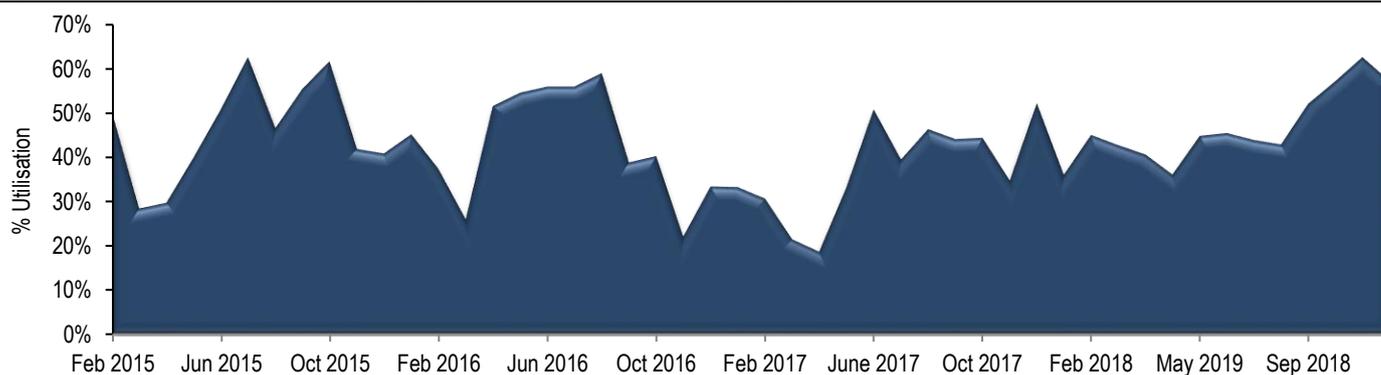


## Data previews: South African grains and oilseeds

### SAGIS monthly data

- From a **maize** perspective, SAGIS monthly data which is due for release on 26 February 2018 will present South Africa's maize usage for January 2019, trade figures (aggregation of weekly activity), and stock levels, amongst other aspects. In December 2018, South Africa's maize monthly usage was 853 147 tonnes, down by 15% from the previous month, but 2% higher than the corresponding period in 2017. Drawing from the historical figures, January 2019 data is likely to show a slight uptick from the previous month. In addition, South Africa's maize stocks were at 6.1 million tonnes in December 2018, down by 13% from the previous month, and 17% from the corresponding period in 2017. This decline was underpinned by generally higher maize consumption levels, as well as the fact that South Africa received a lower harvest of 12.5 million tonnes in 2017/18 production season compared to 16.8 million tonnes in the 2016/17 production season.
- South Africa utilised 120 814 tonnes of **soybeans** in December 2018, down by 13% from the previous month, but 51% higher than December 2017. The annual increase was driven by large domestic supplies, as well as the growing demand from the crushing plants. About 87% of the monthly soybean utilisation went to the crushing plants for oils and oilcake (meal). If we apply an estimate of 2.2 million tonnes of South Africa's soybean crushing capacity, which equates to 183 333 tonnes per month, then, the country utilised 57% of its monthly soybean processing capacity in December 2018 (Figure 2). This is slightly above the annual average pace. The crushing activity or utilising could remain fairly higher this season, as we expect the data for January 2019 to show an uptick in utilisation, and potentially slowdown in March 2019 when the crushing plants go on maintenance stage.
- Furthermore, South Africa exported 2 052 tonnes of soybeans, significantly down from the previous month's exports of 28 633 tonnes. We estimate that South Africa could export 35 000 tonnes of soybeans in the 2018/19 marketing year. The country has, thus far, exported 94% of the seasonal forecast. Moreover, South Africa's soybean stocks were at 721 025 tonnes in December 2018, down by 14% from the previous month, but 41% higher than the corresponding period the previous year. The annual uptick is on the back of a large harvest in the 2017/18 production season. South Africa's **sunflower seed** consumption fell by 26% month-on-month in December 2018, and 8% year-on-year to 55 994 tonnes. Similar to soybeans, January data could show an uptick, and potentially decline in March when the processing plants go onto maintenance stage. The stocks were at 241 370 tonnes, down by 19% from November 2018, and 22% from December 2017. This was partly due to lower harvest, and solid consumption.

**Figure 2: South Africa's soybean monthly utilisation of crushing (processing) plants**

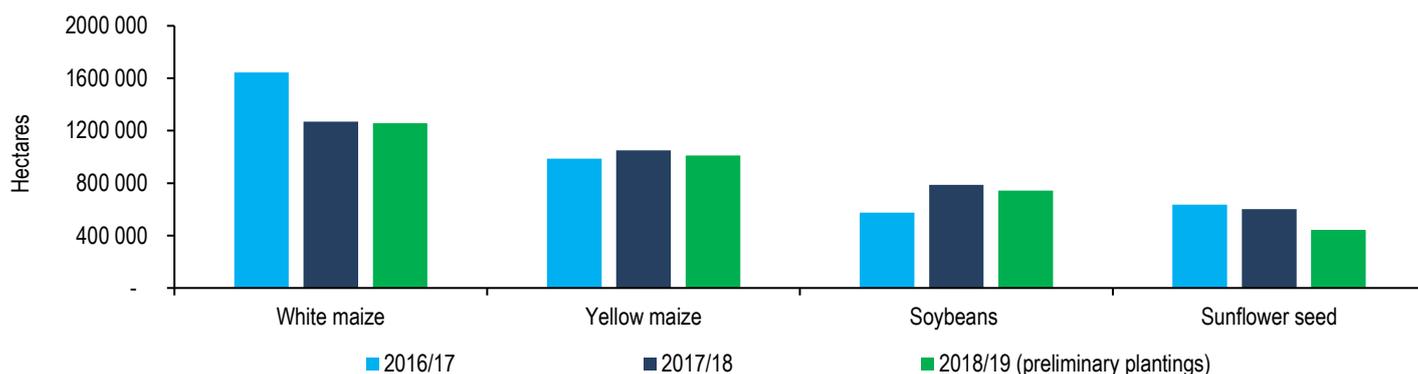


Source: Bloomberg, Agbiz Research

## Summer grains and oilseeds production estimates

- Although a large part of grains and oilseeds hectares were planted outside of the optimal planting period, the recent rainfall in most parts of South Africa led to a widespread improvement in crop conditions. As set out in our note on 18 February 2019, the weather outlook for the next couple of weeks is favourable. The South African Weather Service forecasts above-normal rainfall between February and April 2019, which should support the late-planted areas. This is a welcome development, but it is unclear if it will lead to notable improvement in yields. The key concern at this stage for late-planted areas is a possibility of frost later in the season, as that could negatively affect crop yields.
- On 27 February 2019, the Crop Estimate Committee (CEC) will release a revised area planting and production estimates for maize (white and yellow), sunflower seed, soybeans, groundnuts, sorghum and dry beans.
  - **Maize:** We expect a downward revision of the maize area planting estimate from the preliminary figure of 2.37 million hectares to levels between 1.98 and 2.10 million hectares. As set out in our note on 29 January 2019, the CEC might have overstated white maize plantings, and will likely slash the estimates this month. The CEC will also release its first production estimates for maize in the 2018/19 production season. The important question at the moment is, what size of maize crop will South Africa have in the 2018/19 production season? The estimates in the market currently vary between 10.7 and 11.5 million tonnes, which is plausible if one assumes the aforementioned area and average yields, which is likely, given the favourable rainfall outlook for the coming months.
  - **Soybeans:** We do not expect any notable adjustments in South Africa's 2018/19 soybean plantings from last month's preliminary figure of 743 600 hectares. If we apply the aforementioned area estimate, and an average five-year yield of 1.84 tonnes per hectare, South Africa's 2018/19 soybean production could amount to 1.37 million tonnes, down by 12% from the previous production season.
  - **Sunflower seed:** We suspect that last month's production numbers underestimated the planting activity, particularly in North West. As a result, we expect an increase in sunflower seed planting data from the 444 000 hectares reported in January 2019. With that said, the production could still be lower than the 2017/18 production of 858 605 tonnes, as we believe that yields could be below average in some areas, and also the area planted could still be lower than the 601 500 hectares planted in the 2017/18 production season.

**Figure 3: South Africa's summer crop preliminary planting data for 2018/19 season (as at 29 January 2019)**



Source: CEC, Agbiz Research

## Price implication of summer grain and oilseed production estimates

- South Africa's grain and oilseed prices have generally been under pressure in the past couple of weeks partly due to favourable weather conditions, and also spill over from lower Chicago grains and oilseeds prices (Figure 1). This week, the CEC's data which will be released on Wednesday could impact the prices, depending on the rate of deviation in area planting and production estimates from what has generally been priced in the market, which is similar to the aforementioned production estimates. Another important factor in the domestic agricultural market at the moment is the weather. From this end, the outlook is somewhat bearish as the crops could remain in fairly good shape over the coming weeks owing to expectations of rainfall.

**Figure 4: South Africa's maize, soybean and sunflower seed prices**



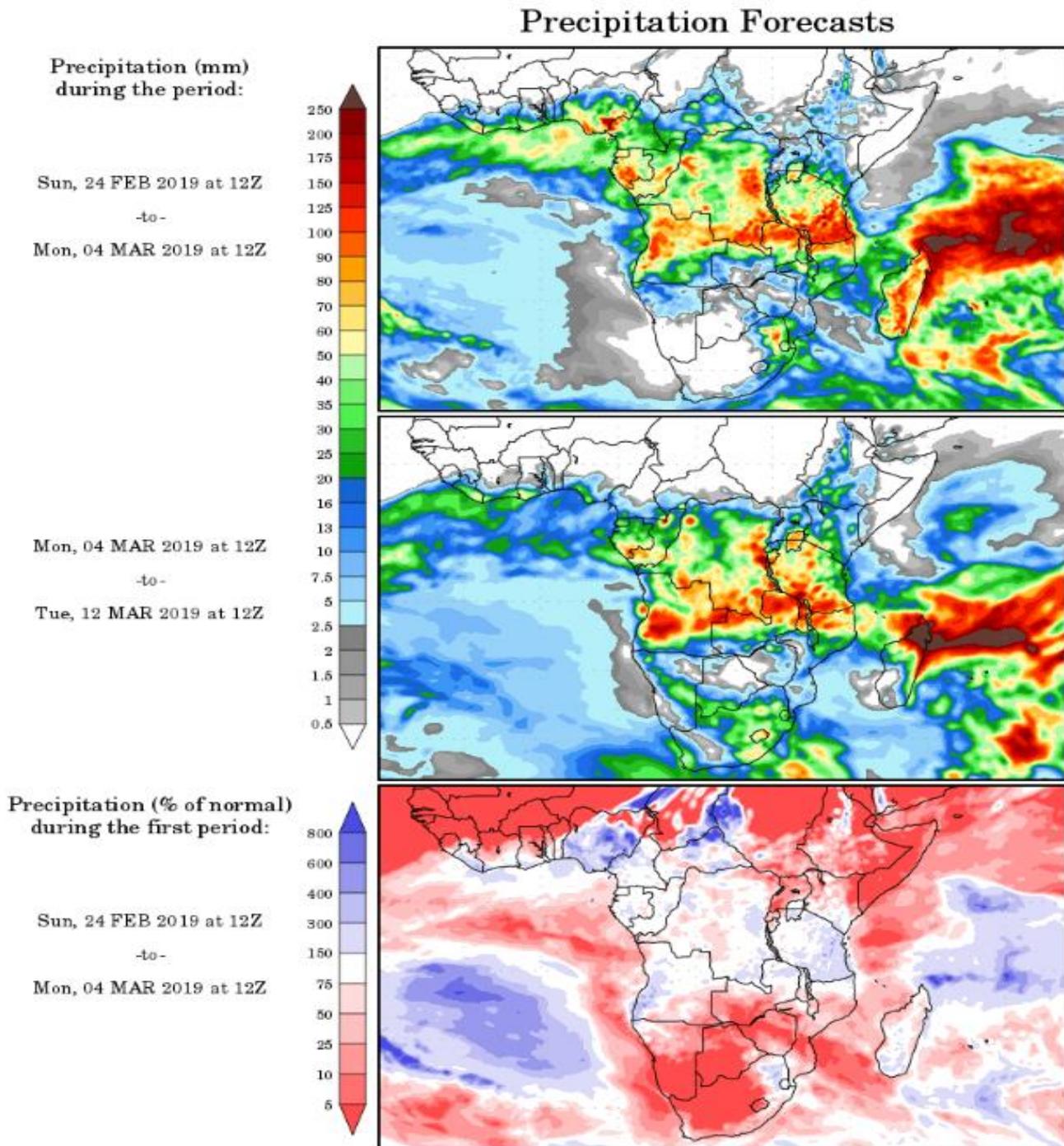
Source: Bloomberg, Agbiz Research

## Our takeaway messages this week

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- The suspension of South Africa's wool imports by the Chinese authorities because of the foot-and-mouth disease outbreak earlier in the year is a key concern.
- What makes the Chinese decision to suspend South African wool imports particularly concerning is its share contribution to the domestic exports. Over the past five years, China accounted for an average of 71% of South Africa's wool exports in value terms.
- SAGIS monthly data which is due for release this week will present South Africa's grains and oilseeds usage, trade, and stocks data for January 2019.
- On 27 February 2019, the Crop Estimate Committee (CEC) will release a revised area planting and production estimates for maize (white and yellow), sunflower seed, soybeans, groundnuts, sorghum and dry beans.
- We expect a downward revision in maize area planting estimates, upward revision in sunflower seed plantings estimate. Meanwhile, soybean plantings could remain unchanged from January 2019 estimates.

Figure 5: South Africa's precipitation forecast



Source: wxmaps

**Key Data Releases in the Agricultural Market:**

- SAGIS producer deliveries data: 27/02/2019
- National Crop Estimates Committee's monthly data: 27/02/2019
- SAGIS weekly grain trade data: 28/02/2019

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