

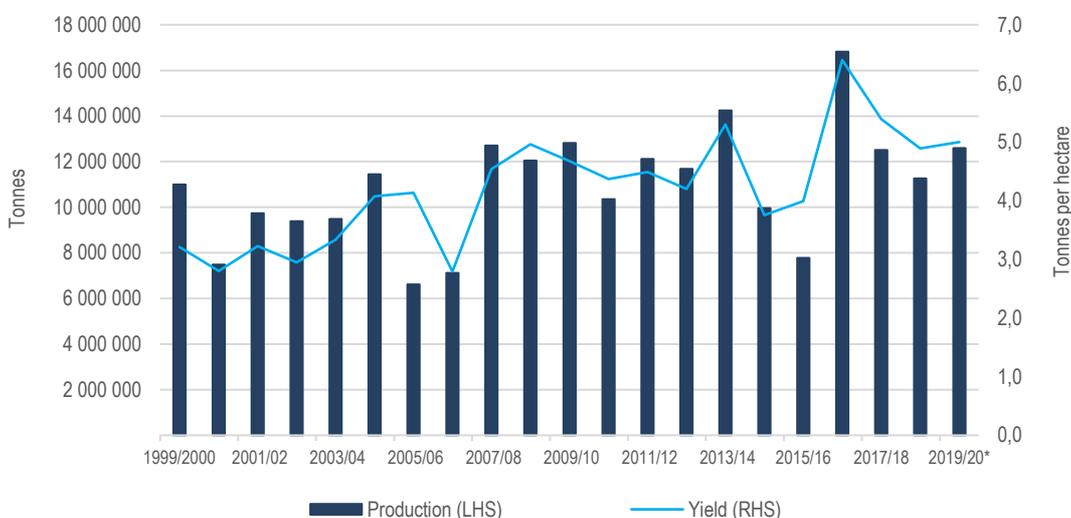
Growing optimism about SA maize harvest in 2019/20

Since the start of the year, we've been cautious about making a bold call on South Africa's maize harvest in the 2019/20 season. This was because of (1) uncertainties about the weather outlook between January and March 2020 – a period which will require higher moisture level for crop development, and (2) planting progress in areas that received late rains. Having observed the planting progress in various regions of the country, and also having noticed that January, which was set to have below-normal rains, actually brought good rains in the country, we are optimistic about the season's maize harvest.

If we assume that farmers planted the intended area of 2.5 million hectares (up 10% y/y), and use an average yield of 5.0 per hectare, which is plausible with current soil moisture, South Africa could harvest a minimum crop of 12.5 million tonnes in the 2019/20 season. This would be an 11% increase from the 2018/19 harvest of 11.3 million tonnes. Also, worth noting is that we are on the lower end of market expectations with this view. The United States Department of Agriculture (USDA) currently forecasts South Africa's 2019/20 maize harvest at 12.8 million tonnes (commercial production). Meanwhile, the International Grains Council (IGC) estimates 13.5 million tonnes.

What causes the difference between these organizations estimates and ours is the yields assumptions. The USDA has a yield estimate of 5.1 tonnes per hectare, while the IGC has a much higher yield estimate of 5.4 tonnes per hectare. Both estimates are plausible if South Africa receives good rains to support the crop within the next two months. The highest average maize yield South Africa received over the past decade was in 2016/17 at 6.4 tonnes per hectare as illustrated in Exhibit 1. That was a year of a record maize harvest of 16.8 million tonnes, planted on 2.6 million hectares. Even if South Africa would receive normal rains that support the crop, we doubt if such a harvest would be possible in the 2019/20 season.

Exhibit 1: South Africa's maize production



Source: CEC, Agbiz Research
Note: * represents an estimate

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On 29 January 2020, South Africa’s Crop Estimates Committee will release an official preliminary estimate of area plantings of maize and other summer crops (soybeans, sunflower seed, sorghum, dry beans and groundnuts). Such data will be helpful in verifying the aforementioned production estimates. The feedback we’ve received from various farming groups thus far suggest that the intended area plantings of 2.5 million hectares might have been planted successfully.

This data could also have an impact on the direction of maize prices in the near to medium term. While there has been some level of ease that agricultural conditions have turned favourably in the country, with South Africa still a net exporter of maize in the marketing year that ends in April 2020, maize prices remained at relatively higher levels. On 23 January 2020, yellow and white maize prices were up by 8% y/y and 5% y/y, trading around R2 970 per tonne and R3 167 per tonne, respectively. We think a confirmation that farmers planted 2.5 million hectares could add downward pressure on price, while a deviation to a smaller area could maintain prices at these levels (as some market players still have doubts about the 2.5 million hectares).

Moreover, a bigger maize crop from the 2018/19 commercial harvest of 11.3 million tonnes will mean that South Africa’s food price inflation could be contained at comfortable levels in 2020. The country’s food price inflation averaged 3.1% y/y in 2019, a year which saw elevated inflation of grain products prices and subdued meat prices. Our sense this year is that food price inflation could average 4.0% y/y if there is a good maize harvest, and also assuming subdued red meat prices on the back of restricted exports following another outbreak of foot-and-mouth disease in the country.

Weekly highlights

SA food price inflation could remain subdued in 2020.

As noted in the aforementioned section, South Africa’s food price inflation averaged 3.1% y/y in 2019, which is well below market expectations (Exhibit 2). What many analysts seem to have underestimated was the length of the period that meat prices would remain subdued for, and its influence thereafter on the overall food price inflation headline number. This is because meat contributes 35% of the food inflation basket, which is a significant share.

Exhibit 2: South Africa’s food price inflation has generally been subdued



The expected improvement in maize production and the current ban on red meat exports could keep food price inflation subdued in 2020.

The subdued meat price trend was largely caused by the ban on exports on the back of a foot-and-mouth disease outbreak at the start of 2019. Seeing that foot-and-mouth disease is again a challenge this year, South Africa's meat prices could remain subdued for the greater part of 2020. But the lower base of 2019 will mean that meat will not keep overall food price inflation at lower levels in 2020 as in the previous year.

Therefore, the lower base of meat prices is one of the key factors that could add upward pressure on food price inflation this year. Another important factor that there is still uncertainty about is the maize harvest. In the 2018/19 season, South Africa harvested 11.3 million tonnes of maize. And the current estimates for 2019/20 season are generally optimistic as we've explained in the first section of this note. The crop in the fields is looking great, although planted way behind the normal schedule. If the next two months could bring sufficient rains, then it is plausible that South Africa could get a decent maize harvest which bodes well for consumers.

As previously stated, in an event that South Africa harvests a maize crop of more than the 11.3 million tonnes of the 2018/19 season, South Africa's food price inflation should hover around 4.0% in 2020. Under this scenario, the upside pressure will largely come from meat; it will mainly be base effects in the case of red meat, and a possible slight uptick in poultry products prices.

Africa's wheat production could fall 10% y/y in 2019/20

The IGC forecasts a 10% decline in Africa's wheat production in 2019/20 season to 26.0 million tonnes. The countries underpinning this expected decline in harvest are South Africa, Libya and Morocco. In all these countries the crop has been impacted by drier weather conditions during the crop growth stages, which in turn, weighed on yields potential.

Fortunately, other regions of the world had a fairly good season and boosted global wheat production. Moreover, the losses in Africa's wheat production are of less significance at a global stage as the continent only produces 3% of global wheat. IGC forecasts the 2019/20 global wheat harvest at 761.1 million tonnes, up by 3% y/y. This means Africa's consumers will be able to source wheat supplies from other parts of the world to fulfil the current shortfall which is exacerbated by the poor harvest (Africa is generally an importer of wheat). The continent's 2019/20 wheat imports could increase by 4% y/y to 51.3 million tonnes, according to IGC data. The leading importers will be Algeria, Egypt, Libya, Morocco, Tunisia, Ethiopia, Kenya, Nigeria, South Africa and Sudan.

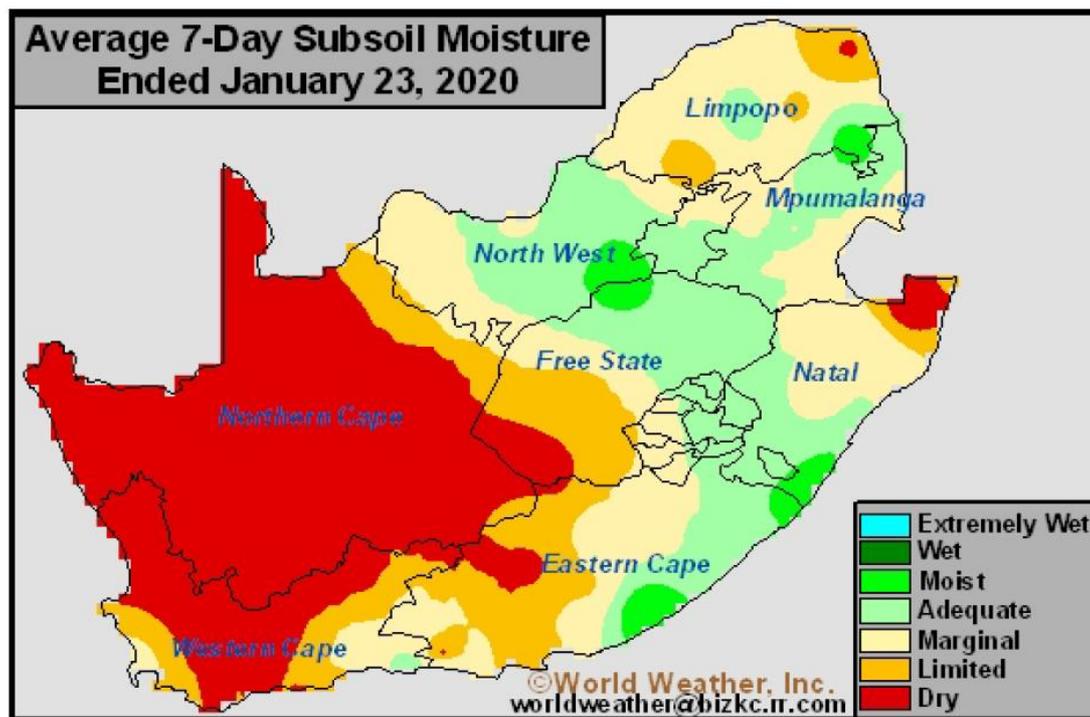
Soil moisture has improved in most region of South Africa

The key catalyst behind the optimist view about South Africa's maize harvest we expressed in the opening section of this note is largely supported by favourable weather conditions. The benefit of recent rains across the country is illustrated in Exhibit 3. The maize-belt region of South Africa, and stretching down to the Eastern Cape and KwaZulu-Natal had largely adequate soil moisture to support crop development in the week of 23 January 2020.

In fact, aside from the Western Cape, which is a winter rainfall area, only the southwestern regions of the Eastern Cape, fringes of the Free State, North West and the northern regions of KwaZulu-Natal and Limpopo were still experiencing soil moisture stress last week. Most importantly, the near-term weather forecasts show prospects of rainfall within the next two weeks (see Exhibit 4). This will improve soil moisture and subsequently benefit summer crops and broader agriculture activity.

Africa remains a net importer of wheat.

Soil moisture has improved notably in most regions of South Africa which is supportive of crop development.



Source: World Weather Inc.

Data releases this week

On Wednesday, the South African Grain Information Service (SAGIS) will release the **grain producer deliveries data** for the week of 24 January 2020. This covers both summer and winter crops. But we particularly monitor winter wheat data, whose harvest has recently been completed in most regions of South Africa. In the week of 17 January 2020, about 7 502 tonnes were delivered to commercial silos. This placed total wheat deliveries at about 1.3 tonnes, which equates to 80% of the expected harvest in the 2019/20 season.

On Thursday, SAGIS will release the **weekly grain trade data** (wheat and maize), also for the week of 24 January 2020. In brief, maize exports for the 2019/20 marketing year have thus far amounted to 848 205 tonnes, which equates to 71% of the import forecast for this season (1.2 million tonnes).

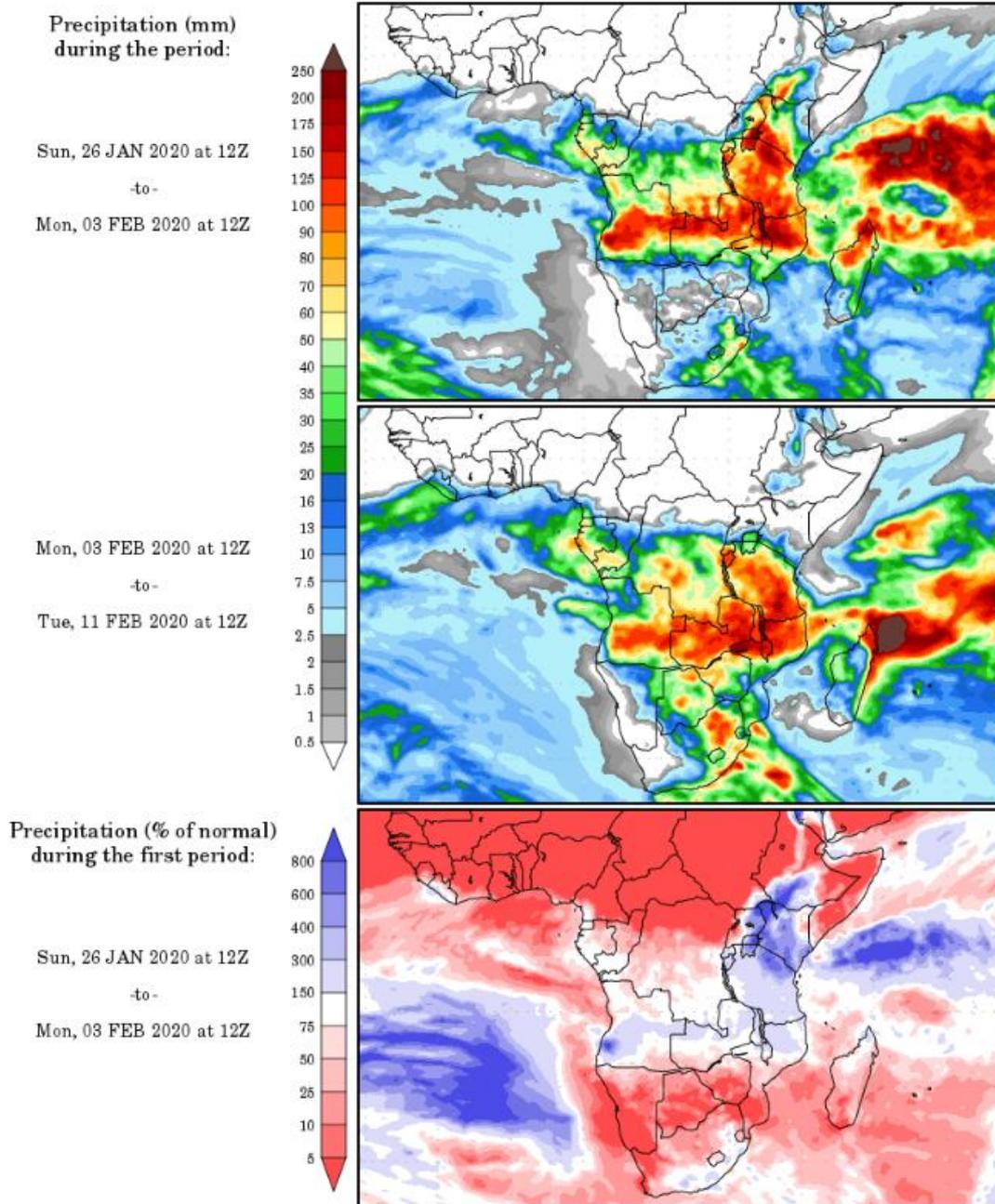
At the same time, we expect maize imports of about 525 000 tonnes, all yellow maize, mainly for the coastal provinces of the country. This is up from an estimated 171 622 tonnes in the 2018/19 marketing year. The country has thus far imported 431 821 tonnes of yellow maize.

In terms of wheat, South Africa's 2019/20 wheat imports could increase by 14% y/y to 1.6 million tonnes because of expected lower domestic harvest on the back of unfavourable weather conditions in the Western Cape. In the week of 17 January 2020, South Africa's 2019/20 season amounted to 437 160 tonnes, which equates to 27% of the aforementioned seasonal import forecast.

Also, on Thursday, Stats SA will release the **Producer Price Index data** for December 2019. South Africa's food producer price inflation slowed to 3,4% y/y in November 2019 from 4.3% y/y in the previous month (Exhibit 2).

Exhibit 4: South Africa's precipitation forecast

Precipitation Forecasts



Most summer crop growing areas of South Africa could receive rainfall within the next two weeks which is conducive for agricultural activity.

Source: George Mason University (wxmaps)