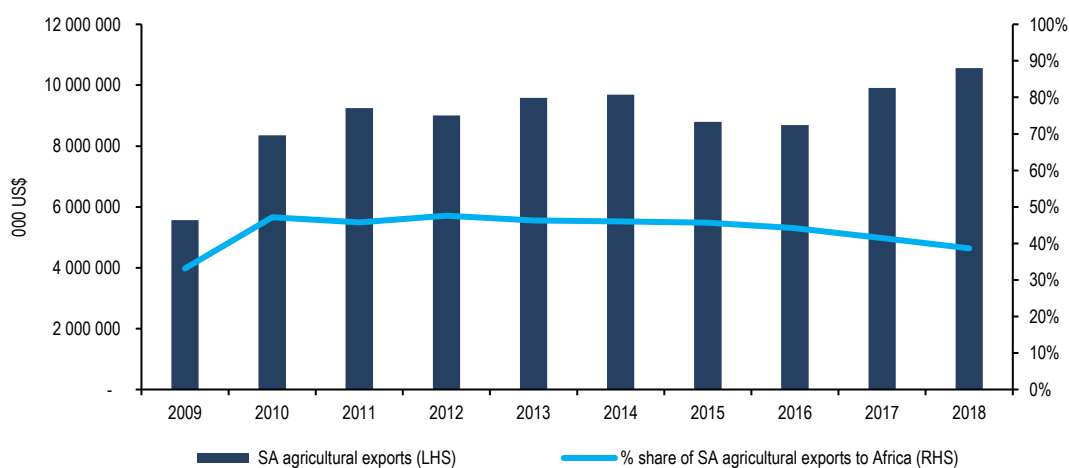


Is Africa an important market for SA agriculture?

In the 05 August 2019 note we sketched out the importance of the recently signed African Continental Free Trade Agreement to South Africa's agricultural sector (see [here](#)). In this week's note, we show how the African continent has been a key driver of the South African agricultural export success over the past decade. Two points are worth stressing.

The first is that, over the past decade, the African continent accounted for an average of 44% of South Africa's agricultural exports, as shown in Figure 1. This equals an average of US\$3.9 billion worth of agricultural exports. The top ten leading markets were Botswana, Namibia, Mozambique, Lesotho, Eswatini, Zambia, Zimbabwe, Angola, Mauritius and Nigeria. This compares to an average share of less than 30% in the prior decade. The growing middle class and, in turn, more spending power has in part been the catalyst for the growth of South Africa's exports to the African continent. This means that the economic trajectory of the aforementioned countries is important for South Africa's agricultural sector as it influences the domestic demand of the importing countries. Also, worth noting is that aside from Nigeria, nine of countries are part of the Southern African Development Community (SADC), and currently account for 82% of South Africa's agricultural exports. In total, the SADC region accounts for 88% of South Africa's agricultural exports to the African continent.

Figure 1: South Africa's agricultural exports



Source: ITC, Agbiz Research

The second point to note is that the products exported to the continent are generally mixed, ranging from sugar, beverages and spirits, to grains, cotton, and vegetable oil, amongst other products. The share of almost all agricultural products to the continent has grown over the past decade with the exception of grains, which experienced a decline. The decline in grains exports is mainly due to the development of domestic grain production in a number of countries in the continent. Meanwhile, horticultural products and also beverages and spirits production in the continent remains limited. The profile of agricultural exports also speaks to the earlier point about the rising middle-class in the continent, which might have presented changes in consumer taste with high-protein foods being more preferable.

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The role of grains is by no means reduced, as the livestock and poultry sector, which we believe will grow in the coming years, will require grains and oilseeds as feed. The decline of the African continent's share in South Africa's grain export markets has not caused disruption in domestic production. The grain industry developed its export markets to the Far-East which have proved to be dominant players of late, especially in the case of maize.

Looking ahead, we think the African continent will remain an important export market for South Africa's agricultural sector. Given that about 88% of South Africa's agricultural exports currently go to the SADC region (82% to the top nine markets within the region). The above-mentioned African Continental Free Trade Agreement would potentially open additional avenues for South African products to destinations where the country hasn't largely participated in over the recent past.

Some of the developments that will be important to watch over the coming years are (1) the economic performance of the countries in the African continent because of its effect on spending; (2) infrastructure development for facilitating trade; (3) strengthening of institutions and fight against corruption as this influences the economic performance and stability of nations; and (4) ease of doing business across the continent.

With the African Continental Free Trade Agreement providing a potential opportunity to unlock further growth in agricultural trade (and other goods), this will not be possible unless and until the abovementioned issues are sufficiently addressed. The precedent of African countries collaborating politically and economically set by this agreement should translate to deep and fundamental reforms that unlock the existing barriers to intra-regional trade.

What to make of the latest USDA report?

On 12 August 2019 we noted that the US Department of Agriculture (USDA)'s monthly World Agricultural Supply and Demand Estimates report would give us a sense of the status of global grains and oilseeds supplies for the 2019/20 season. At the time, there was anticipation that global maize and soybean supplies would decline somewhat because of potentially poor yields in the US on the back of unfavourable weather conditions. But the report surprised with an upward revision, albeit marginal, of the US maize production estimate from levels presented in July to 353 million tonnes, while US soybean production estimate was revised down from the previous month's levels by 4% to 100 million tonnes.

While the US crop is at its advanced stages of development, the general views in the market are that the USDA could still revise down the yields, specifically in the case of maize, which will ultimately influence the harvest expectations.¹ Be that as it may, the aforementioned revisions (and in other countries) means that the 2019/20 global maize production is at 1.1 billion tonnes, down by 1% from the previous season. The decline is, in part, because of expectations of a poor harvest in parts of the US and Argentina, amongst other countries. This meant that the stocks for the season would be at 308 million tonnes, down by 6% year on year. Meanwhile, the 2019/20 global soybean harvest is set to fall by 6% year-on-year to 341 million tonnes. This was primarily underpinned by expectations of poor yields in parts of the US, Paraguay and Argentina. This subsequently meant that global soybean stocks would fall by 11% from the 2018/19 season to 102 million tonnes.

These developments have had a notable impact on the market. On 15 August 2019, the US maize spot prices traded around US\$163 per tonne, down by 5% year-on-year because of the better than expected harvest (Figure 2). Because of interlinkages to the global market, South Africa's maize prices were partially influenced by these developments. Evidently,

The African continent will remain an important export market for South Africa's agricultural sector.

The US maize harvest estimate was revised up from levels seen in July 2019.

¹ <https://uk.reuters.com/article/us-usa-corn-braun/column-market-ideas-for-u-s-corn-yield-still-clash-dramatically-with-usda-idUKKCN1V60SW>

domestic yellow maize prices were under pressure from Tuesday last week, although still way above levels seen this time last year. Meanwhile, on the same day, the US soybean spot price was up by 0.3% from 15 August 2018, trading at US\$340 per tonne, as shown in Figure 2 below. The local soybean prices followed a similar trend, although 27% higher than levels seen on 15 August 2019.

Figure 2: US maize and soybean prices



Source: IGC, Agbiz Research

Going forward, we will closely monitor the developments in the US market as revisions in the country’s maize and soybean production estimates could have implications on global supplies and prices of these commodities. The next update of the World’s Agricultural Supply and Demand Estimates report will be released on 12 September 2019.

Data preview: South African grains

This again is a quiet week on the domestic agricultural data front, with only three important data points.

On Wednesday, SAGIS will release the **grain producer deliveries** data. While the data will present producer deliveries data for the week of 16 August 2019, it essentially gives us an indication of the volume of summer grains and oilseeds that have been delivered to commercial silos after the harvest process.

Also, on Wednesday, Stats SA will release the **CPI data** for July 2019. In June 2019, South Africa’s food price inflation accelerated to 3.2% y/y from 2.8% y/y in the previous month. Cereals, meat, milk, eggs and cheese were amongst the products underpinning this uptick. We think in July 2019, South Africa’s food price inflation showed a further uptick and the key drivers were probably similar food products as the previous month.

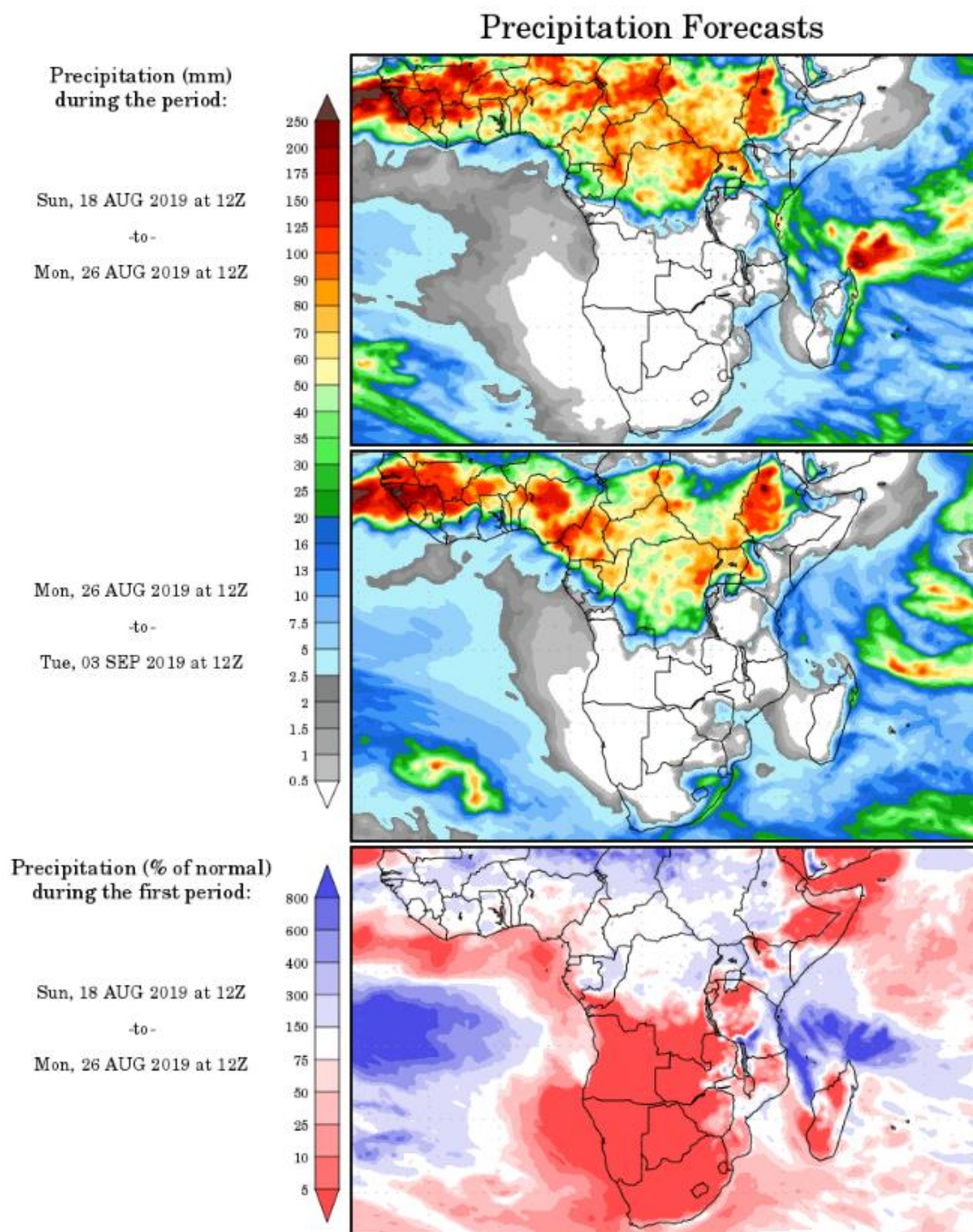
On Thursday, we will get the **weekly grain trade** data (wheat and maize) for the week of 16 August 2019. Briefly, in terms of maize, the first fifteen weeks’ exports of the 2019/20 marketing year amounted to 282 396 tonnes. Looking ahead, we expect South Africa to remain a net exporter of maize this year, although the volume will most likely fall by half from the previous year to about 1.1 million tonnes. This is under the assumption that domestic maize production could amount to 10.9 million tonnes. At the same time, we expect imports of about 450 000 tonnes, all yellow maize, mainly for the coastal provinces of the country. This is up from an estimated 171 500 tonnes in the 2018/19 marketing year. The country has thus far imported 131 399 tonnes of yellow maize, all from Argentina.

South Africa’s food price inflation probably showed a further uptick in July 2019.

South Africa’s 2018/19 wheat imports could fall by 36% from the previous season to about 1.4 million tonnes. So far, the country has imported about 63% of the seasonal forecast.

In terms of wheat, South Africa remains a net importer, although the recovery in the country's 2018/19 domestic wheat production will lead to a decline in imports this season. South Africa's 2018/19 wheat imports could fall by 36% from the previous season to about 1.4 million tonnes. So far, the country has imported about 70% of the seasonal forecast.

Figure 3: South Africa's precipitation forecast



The weather forecast for this week shows clear skies over the summer crop growing areas of the country which should support the harvest activity in areas that have not yet completed the process.

Source: George Mason University (wxmaps)

Key Data Releases in the Agricultural Market:

- U.S. Crop Progress report: 19/08/2019
- SAGIS producer deliveries data: 21/08/2019
- Consumer Price Index data for July 2019: 21/08/2019
- SAGIS weekly grain trade data: 22/08/2019
- National Crop Estimates Committee's monthly data: 27/08/2019