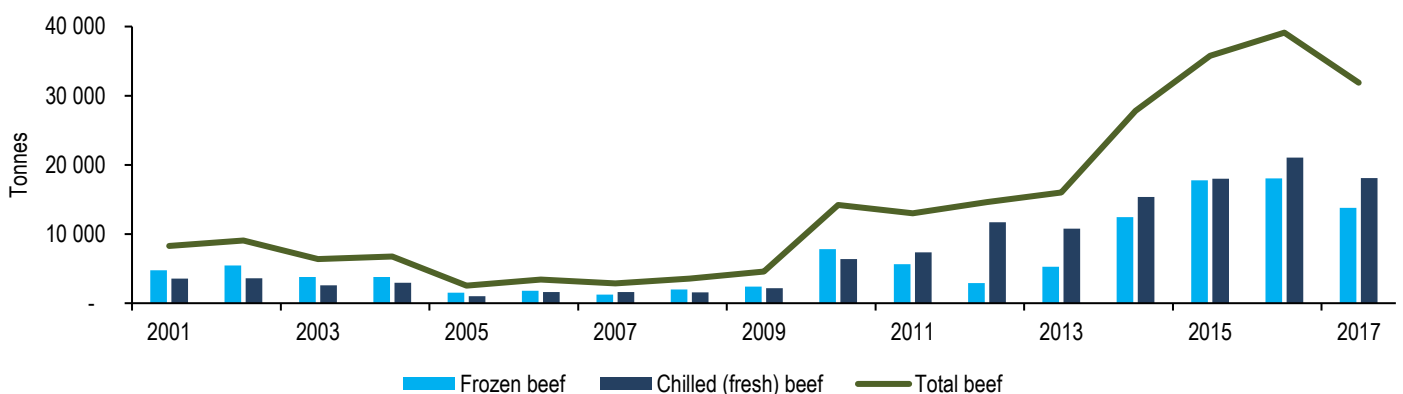


## The recent outbreak of foot-and-mouth disease could disrupt SA beef exports

- The South African beef industry has seen enormous growth in exports over the past couple of years, generating an estimated US\$144 million in 2017. In terms of volumes, medium-term trends show a sharp increase in overall beef exports, from 8 292 tonnes in 2001 to 31 888 tonnes in 2017 (Figure 1). Frozen beef exports trebled from 4 740 tonnes in 2001 to 13 808 tonnes in 2017. Meanwhile, fresh/chilled beef exports increased 5-fold over the same period, from 8 292 tonnes to 18 080 tonnes.
- Within the top ten destinations for South African frozen beef export markets, there are continental markets (Lesotho, Mozambique, Angola, Mauritius, Swaziland and Egypt), the Far East region (Hong Kong, China and Vietnam), as well as the Middle East (United Arab Emirates). In terms of chilled/fresh beef, the continental markets (Swaziland, Mozambique, Lesotho, Namibia and Mauritius) featured prominently, followed by the Middle East (United Arab Emirates, Kuwait, Jordan and Qatar), as well as the Far East (China).
- However, this notable progress is likely to be disrupted this year following an outbreak of the Foot and Mouth Disease (FMD) in cattle in the Vhembe District of Limpopo, which has resulted to a number of countries, such as Swaziland, Botswana and Namibia, amongst others, banning South African cattle and beef exports. This will put pressure on cattle farmers (especially the red meat industry), and in turn, negatively impact South Africa's agricultural trade balance. The overall financial impact on the industry, however, is unclear at this stage as the local authorities are still on the ground conducting further investigations to verify the results to determine the extent of the outbreak of FMD.<sup>1</sup>
- Aside from the disease outbreak, 2019 was already starting on a negative footing owing to drier weather conditions in the western parts of South Africa, which did not only negatively affect grazing veld, but also led to an increase in maize and soybean prices – both of which are key animal feed ingredients.

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



Source: Trade Map, Agbiz Research

<sup>1</sup> Government's office statement on the outbreak: <https://www.daff.gov.za/docs/media/FMD%20media%20statement.pdf>

## Late and erratic rainfall slowed grains and oilseeds plantings

### Maize market

- The 2018/19 summer grains and oilseeds production season started on a sound footing, with farmers aiming to lift planting area by 5% from the 2017/18 production season to 4.03-million hectares. These plans were followed by actions, as tractor sales surged 6% to 6 246 units in the first 11 months of 2018 compared to the same period during 2017. At the time, good rainfall in the eastern parts of the country enabled farmers to start planting, albeit rainfall turning erratic and not widespread in some weeks, thus negatively affecting crops. Meanwhile, the central and western parts of South Africa received minimal rainfall all the way to Christmas. As a result, less than 20% of the intended maize in the western Free State and North West provinces had been planted by 25 December 2018, compared to the normal seasons where maize plantings would be nearing completion over the same period. The key reason for this was persistent dryness, which is illustrated by levels of soil moisture in Figure 2 below.

Figure 2: South Africa's subsoil moisture: December 28, 2018

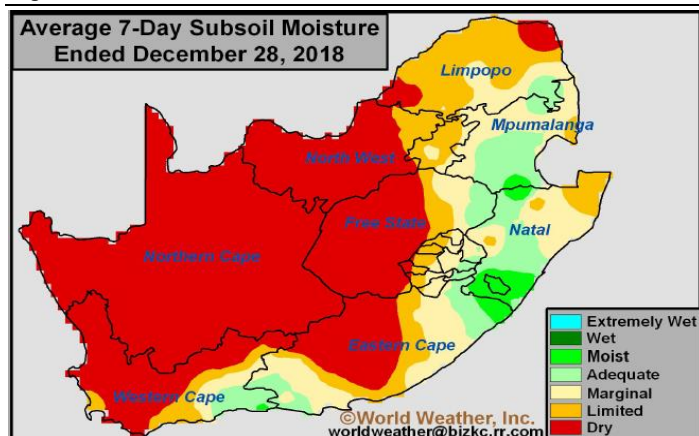
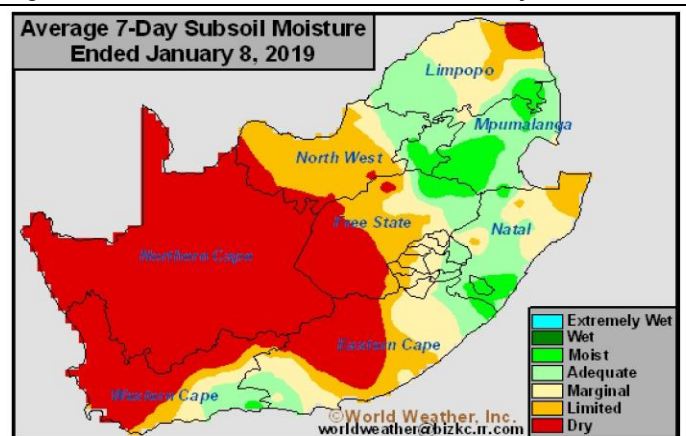


Figure 3: South Africa's subsoil moisture: January 8, 2019



Source: World Weather Inc.

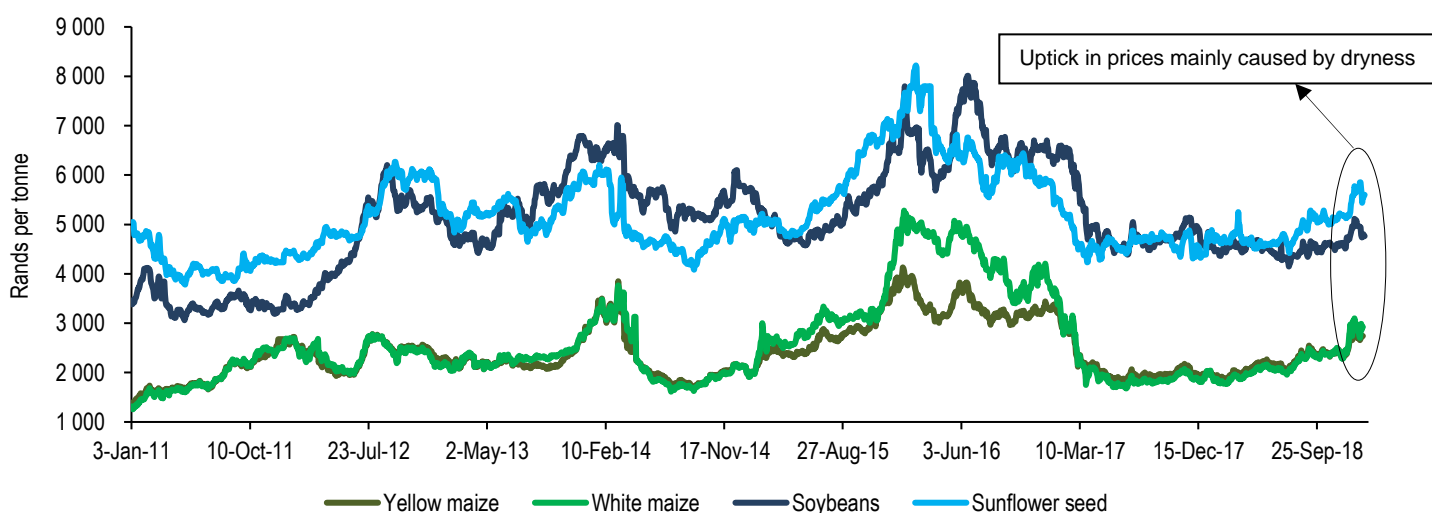
- However, the last few days of 2018 brought widespread showers across most parts of the country which offered an opportunity for farmers to start plantings in the western Free State and North West provinces, despite the optimal planting period having closed back in mid-December 2018 for maize (see Figure 3 for improvement in subsoil moisture following late December 2018 and early January 2019 rainfall). The most recent industry estimates suggest that about 60% of the intended maize area in the North West had been planted in the week of 11 January 2019, from levels of less than 20% in December 2018, as previously mentioned. In the eastern Free State, the estimates suggest that roughly 70% of the intended area for maize has already been planted by end of last week. Meanwhile, the north-western central Free State had only planted roughly 35% of the intended area over the same period. Other provinces such as Mpumalanga, Northern Cape, Eastern Cape and KwaZulu Natal managed to plant the typical areas, with Limpopo reportedly experiencing a shift from maize hectares to cotton.
- The aforementioned production dynamics suggest that the intended area of 2.44 million hectares for maize in the 2018/19 season could probably fall by approximately 19% to 1.98 million hectares. This would be almost in line with the area planted during the drought period of 2015/16 production year. At that time, South African maize production amounted to 7.8 million tonnes, turning the country into a net importer, as annual maize consumption is roughly 10.8 million tonnes. During that year, there were relatively lower stocks as it was a second successive drier season.

- Nonetheless, this time is different. South Africa's maize ending stocks, which will be carried over to the 2019/20 marketing year at the beginning of May 2019 is estimated at 3.4 million tonnes. This will provide a much-needed buffer for the country's supplies. Most importantly, this suggests that if South Africa's 2018/19 maize production could amount to at least 8 million tonnes, the country would have sufficient supplies for the whole 2019/20 marketing year.<sup>2</sup>
- Our initial estimates for South Africa's white and yellow maize 2018/19 production was about 12.2 million tonnes, based on farmers' intentions to plant 2.44 million hectares. It is now clear that such harvest will not materialise as we expect a decline in area, as well as the fact that the late planted maize might not yield well because of the lateness of the season, and possible frost later during the course of the season.
- We will release an update of the production estimate at the end of this month when there is some level of certainty about the actual area planted. Suffice to say that at the moment, the production estimates in the market generally vary between 10.4 million tonnes and 12.0 million tonnes.<sup>3</sup> To reiterate a point noted above, the country generally needs a crop of at least 8.0 million tonnes in order to meet the domestic needs (if we add the possible opening stock, and assume that there will be limited exports).

### Implications

- The erratic weather conditions and uncertainty about the harvest size will continue to lift SAFEX maize prices and, in turn, add inflationary pressure on consumers and animal feed industries. For cattle farmers (the red meat industry in particular), this will add to the pressures caused by the recent FMD outbreak. Figure 4 below illustrates the impact of dryness on SAFEX commodity prices in the past couple of weeks.

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



Source: Bloomberg, Agbiz Research

<sup>2</sup> The 2018/19 production year corresponds with 2019/20 marketing year.

<sup>3</sup> The lower estimate is from BFAP, with the highest one being the USDA.

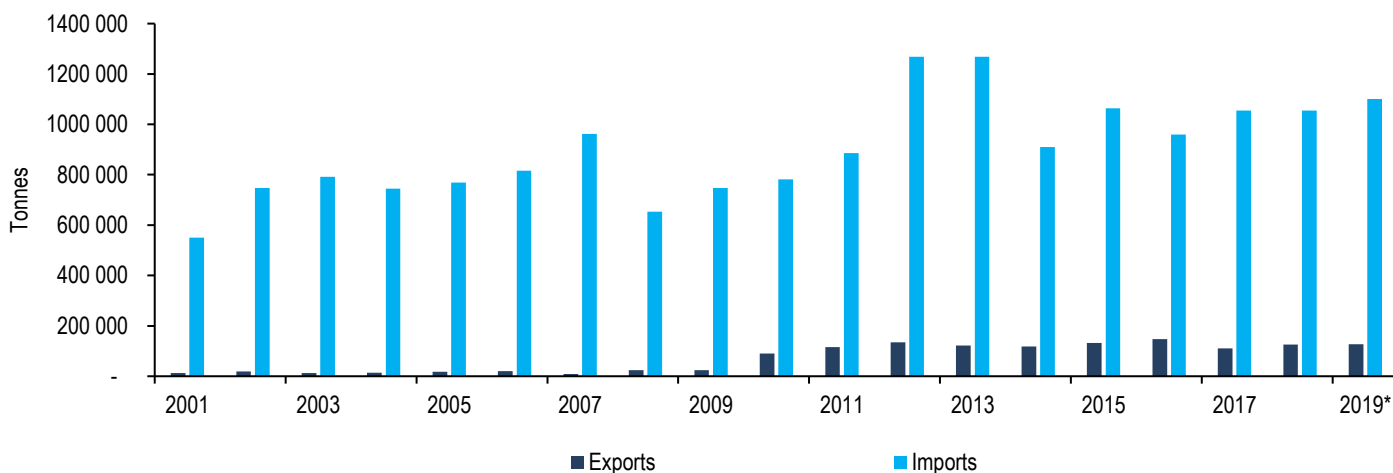
## Views on soybeans and sunflower seed growing conditions

- **Soybeans:** in Mpumalanga, KwaZulu Natal and eastern Free State, the crops were successfully planted and appeared in relatively good condition on 03 January when we did a mini-crop tour in some areas. Meanwhile, in western Free State, and other provinces, there were limited soybean plantings. As it is the case in maize, it is clear that the intended record area of 851 800 hectares in 2018/19 production season might not materialise. We will release our production expectations after 29 January, a date when we will have official preliminary area plantings.
- **Sunflower seed:** roughly 85% of plantings take place in North West and Free State provinces and these areas experienced dryness throughout the season (with exception of eastern), until the last few days of 2018. This led to a delay in plantings, as a result, farmers in parts of western Free State and North West are reportedly still planting. It is unclear if the intended area of 575 000 hectares will materialise or not. We will get clarity at the end of this month.

## SA rice imports to increase in 2019

- Although maize products prices are expected to be relatively higher than last year due to an uptick in commodity prices, we do not expect a meaningful switch in consumption to other substitutes such as rice. South Africa's 2019 rice imports, which will translate into consumption could amount to 1.1 million tonnes, up by 10% from 2018 (Figure 5). This is according to data from the International Grains Council (IGC). Worth noting is that South Africa does not have a conducive climate for rice production and therefore the country imports all of its rice consumption. The imported rice typically includes; paddy, brown, semi-milled, and broken rice.
- As set out in our previous notes, from a supply perspective, the global rice market is in good shape. The 2018/19 global rice production could reach a record 491 million tonnes, marginally up from the previous season, according to data from IGC. The key contributing countries to the expected increase are India, Vietnam, Thailand, United States, China, Bangladesh and the Philippines. These are some countries that supply to South Africa. The benefit of an uptick in global rice production is clear on prices which have softened in the recent months compared to the beginning of the year across all the aforementioned countries. This is all beneficial to rice importing countries' consumers, such as South Africa.

Figure 5: South Africa's rice imports and exports



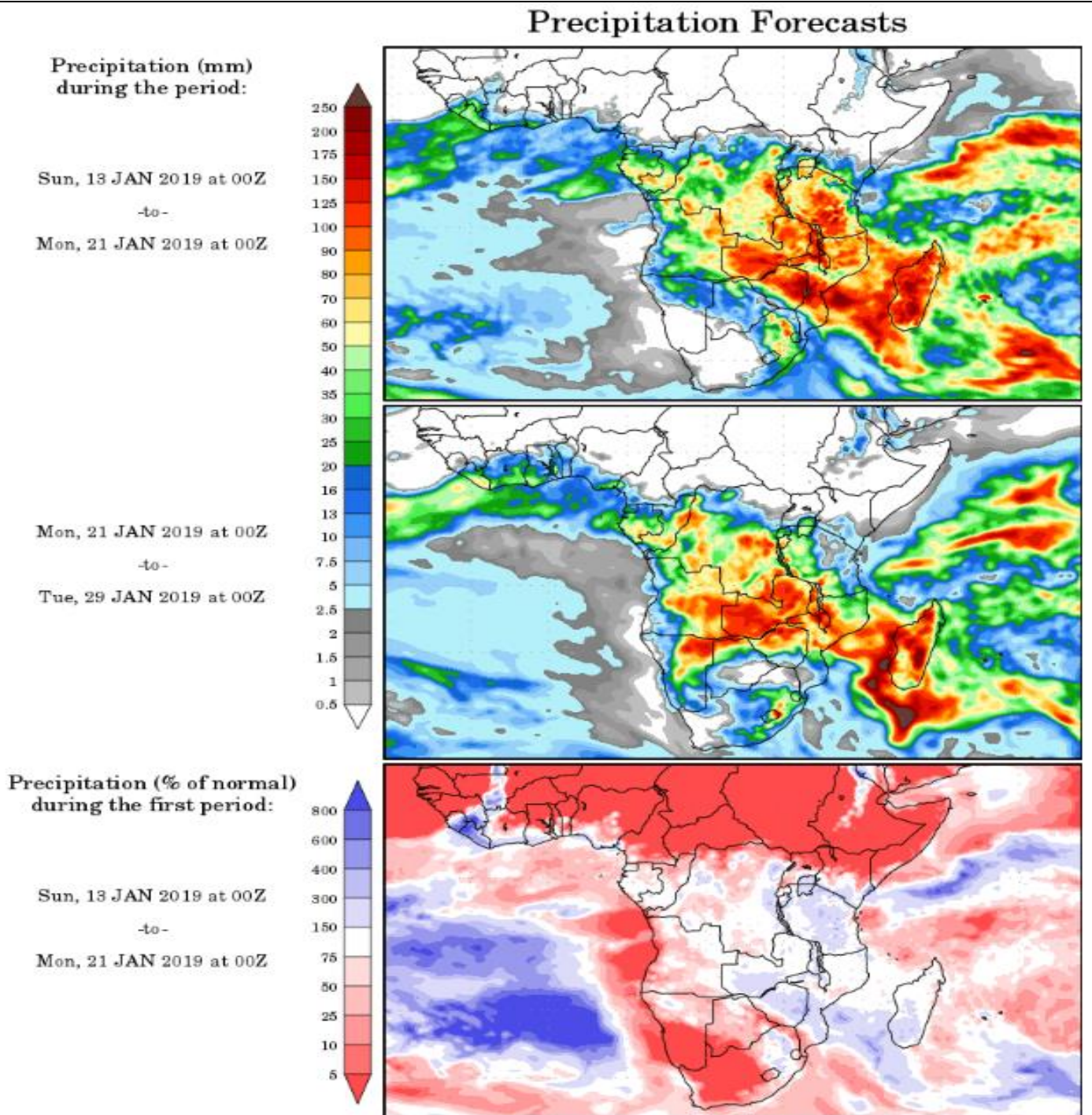
Source: Trade Map, International Grains Council, Agbiz Research

## Our takeaway messages

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- The South African beef sector will be under pressure in 2019 due to rising feed costs, as well as potentially slowing exports on the back of a foot-and-mouth disease outbreak.
- From a consumer perspective, the beef industry challenges will, however, have positive short-to-medium term benefits as slowing exports would translate into an increase in domestic supply and, in turn, slow meat price inflation.
- Our initial maize production estimate of 12.2 million tonnes will not materialise, the crop will most likely be lower due to a potential decline in area planting, as well as prospects of lower yields in late-planted areas.
- Soybean harvest will most likely be lower than the 2017/18 production season due to similar factors as maize, which is a decline in area plantings and expectations of poor yields in some areas.
- Sunflower seed typically surprises by doing well in seasons that are characterised by prolonged dry spells, as farmers tend to shift from maize to sunflower seed plantings in late-rain seasons. Therefore, sunflower production projections remain uncertain, at least until planting data is received.
- The weather will continue to play a key role in the South African agricultural markets in the next three months. Thereafter, the focus will shift to winter crop producing areas. The near-term precipitation prospects are constructive (see page 6).
- South Africa's rice imports will increase in 2019 driven by an uptick in consumption.
- The tough production conditions in the grains and oilseeds subsectors will most likely add upward pressure on consumer prices, but we do not expect a notable uptick in headline food price inflation, as lower meat prices will somewhat overshadow the potential upswings.

Figure 6: South Africa's precipitation forecast



Source: wxmaps

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

- SAGIS producer deliveries data: 16/01/2019
- SAGIS weekly grain trade data: 17/01/2019
- SAGIS monthly data: 25/01/2019
- National Crop Estimates Committee's monthly data: 29/01/2019

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