



# Agri Trends

09 February 2018

## Vegetable prices expected to increase in 2018

The ongoing drought in South Africa is expected to reflect through the vegetable commodities in 2018. Planting conditions for some vegetable crops (potatoes, onions) were not ideal as irrigation water preference was given to permanent orchards in the Western Cape. Growers in the Western Cape have planted fewer onions than normal; some have not even sown any onions this winter. Crop damage was also seen in some of the tomato crop, due to heat stress. Generally vegetable prices are expected to be slightly higher in 2018 mainly because of lower production. See vegetable section for more insights.

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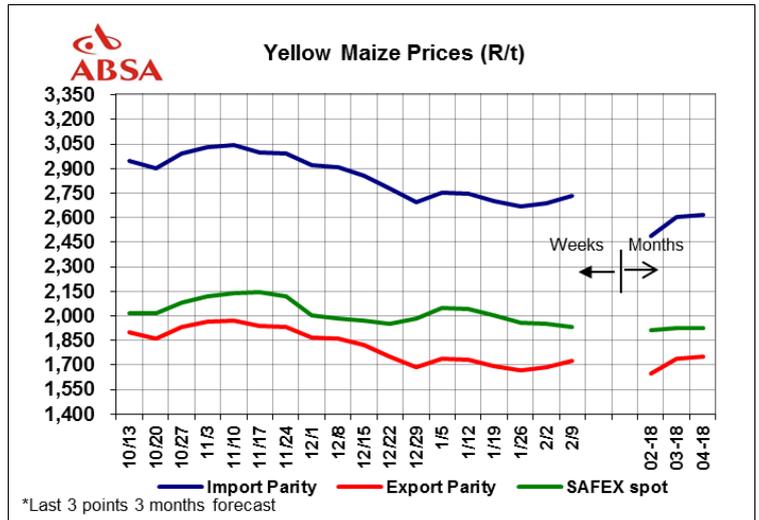
## Maize market trends

### International

Week-on-week yellow maize No 2 gulf price increased from US\$158.74/ton to US\$161.15/ton.

#### Bullish factors

- US maize prices posted gains week on week, on the back of a weaker dollar and strong overseas intentions to buy. Exports increased by 125 million bushels.
- Continuing weather woes about Argentinian crop condition, keeping trade on its toes.
- Rain in the central and northern regions of Brazil, caused seeding delays of the second safrinha crop.
- Chinese maize futures were up this week on the news of an investigation into sorghum imports (sorghum dumping) from US. This lead to increased import demand for maize in the country. Imports reached a 5-month high of 0.45 million ton in December 2017. Increased domestic maize prices drove consumers to seek for maize overseas.
- Drought conditions continue to spread across the US Plains and some parts of Argentina.



#### Bearish factors

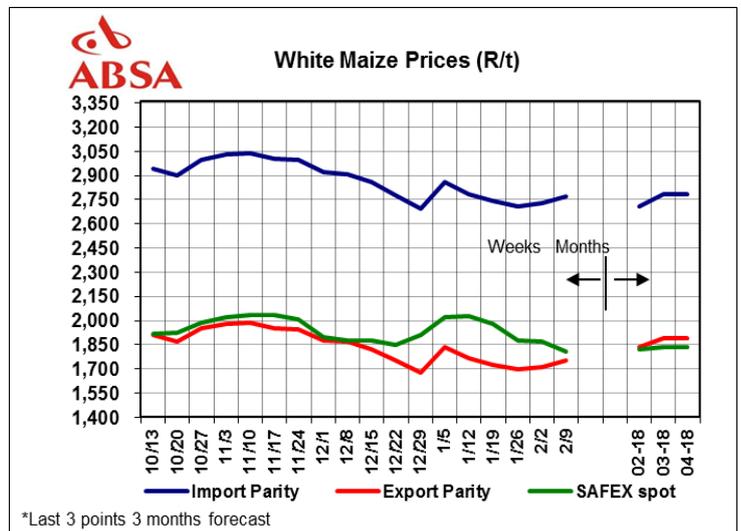
- The USDA's hiked its Mexico maize production expectations. That's important given the latest round of NAFTA talks and ahead of February's WASDE.
- The IGC has increased China's ending stocks, which has a significant effect on the global maize ending stocks.

### Domestic

The local maize market traded slightly higher, by February 8<sup>th</sup>, week on week new season white maize prices for delivery in Mar2018 increased by 1.4% (R25/ton) from R1811/ton to R1836/ton, Jul 2018 contracts increased week-on-week by 1.8% (R34/ton) from R1913/ton to R1947/ton. Week-on-week new season yellow maize prices for delivery in Mar2018 declined by 1.2% (R23/ton) from R1903/ton to R1926/ton. Prices for delivery in Jul2018 for yellow maize were recorded at R2004/ton a 1.4% marginal increase from R2004/ton.

#### Bullish factors

- Extreme dryness and heat took a toll on late planted summer crops. Some damage occurred to crops, especially plants in the process of emergence or young crops. This might have affected yields.



#### Bearish factors

- It is estimated that the 2017/18 (May/Apr) marketing year will end with a carry out / ending stock of 3 060 973 tons of white and 1 529 755 tons of yellow maize. The total closing stock for old season maize is estimated to reach 4 590 728 tons at the end of April 2018.
- Sufficient rain is still possible during the months of February and March. This rain will retain moisture levels to conditions that are conducive for good production and very good grazing. Because of the good weather outlook, yields will probably be better than previously anticipated when the areas were affected by heat waves.

- South Africa's export activity remains sluggish. For the week ending 02 February 2018, yellow maize exports were 45 112 tons and white maize exports were 6 481 ton.

## Outlook

### Local

Favourable weather conditions are expected for the summer crop growing regions, however planting season is over. The summer rainfall season had a late start to the season and there's anticipation that the second part of the summer season will be much better. Because of the good weather outlook, yields will probably be better than previously anticipated when the areas were affected by heat waves. Rain will be good for soil moisture levels, veldt conditions and dam levels.

### International

There weren't really any bullish surprises in the February 2018 WASDE report. US maize prices posted gains week on week, on the back of strong overseas intentions to buy. Exports increased by 125 million bushels. Continuing concerns about Argentinian crop condition, remains a major element to monitor.

Yellow Maize Futures: 08 February 2018	Mar-18			Jul-18			Sep-18			Dec-18		
CBOT (\$/t)	143.99			149.99			152.45			155.50		
SAFEX (R/t)	1926			2004			2048			2113		
SAFEX (R/t) Change week on week (w/w)	23			28			14			19		
Mar-18			May-18			Jul-18						
Ask	Put	Call	Ask	Put	Call	Ask	Put	Call				
1,960	57	23	2,020	110	60	2,040	142	106				
1,920	35	41	1,980	87	77	2,000	120	124				
1,880	19	65	1,940	67	97	1,960	100	144				

Table 2: Weekly average white maize futures and estimated option prices

White Maize Futures 08 February 2018	Mar-18			Jul-18			Sep-18			Dec-18		
SAFEX (R/t)	1836			1947			1990			2058		
SAFEX (R/t) Change w/w	25			34			21			28		
Mar-18			May-18			Jul-18						
Ask	Put	Call	Ask	Put	Call	Ask	Put	Call				
1,880	72	28	1,930	133	93	1,980	142	109				
1,840	48	44	1,890	111	111	1,940	120	127				
1,800	30	66	1,850	91	131	1,900	100	147				

## Wheat market trends

### International

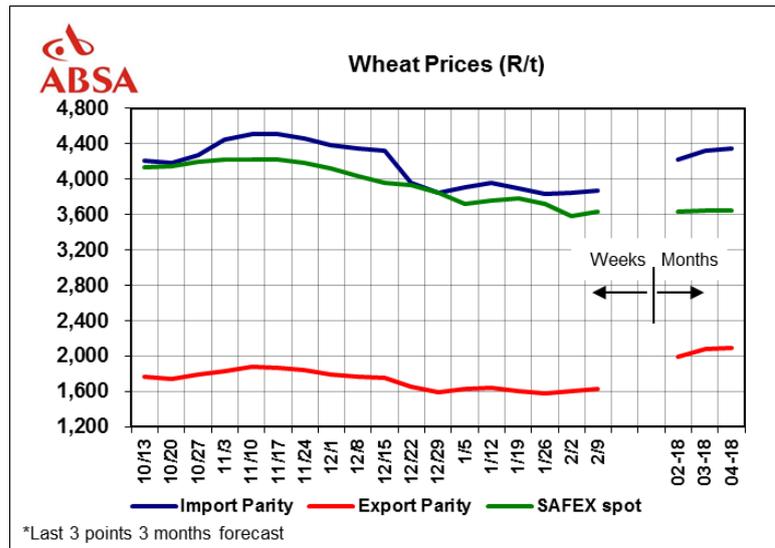
The weekly average old season HRW wheat Gulf price decreased from US\$188.59/ton to US\$187.42/ton week on week. US HRW wheat prices were weighed down by sluggish export demand. While the weekly SRW wheat price increased from US\$185.94/ton to US\$187.37/ton week on week.

### Bullish factors

- The USDA projects the global stocks to be 1.9 million lower to 266.1 million ton.
- The USDA has raised its consumption by 3.1 million ton. Indonesia (now the largest importer of wheat), and China expected to increase their consumption significantly.

### Bearish factors

- The world's 2017/18 wheat production is projected higher due to favourable production prospects in the Ukraine and Argentina.
- Preliminary outlook on Canadian wheat prospects for the 2018/19 season shows a 4% increase supported by increased sowings of spring wheat and durum, outweighing any declines in hard winter wheat sowings.
- Global trade is projected higher according to the February 2018 WASE Report. Higher exports from Russia, Argentina and Canada are expected.



### Domestic

On 8<sup>th</sup> February 2018, wheat prices for delivery in Mar2018 increased by 2.6% (R93) from R3559/ton to R3652/ton. Jul2018 prices also increased by 2.8% (R102) from R3665/ton to R3767/ton, week on week. Domestic prices followed international trends. Weaker local currency supported prices

### Bullish factors

- Because the summer rainfall season started late, there's likelihood that the winter rainfall over the Western Cape might also be delayed.
- The expected commercial production of wheat in South Africa is about 1.4 million tons, which is almost 23% less than the previous season. The decline was driven by poorer than expected yields, especially in the Swartland. Producers that suffered in 2017 may likely only plant in Apr/May if the growing conditions in the production season are exceptionally well and soil moisture levels are favourable

### Bearish factors

- The local wheat crop quality was compromised due to the drought. Very high protein levels have been recorded. This could mean that millers will have to import lower priced ("lower protein") wheat to supplement the local high protein wheat to ensure baking efficiencies.

### Outlook

#### Local

The drought situation in the Western Cape remains critical. The wheat industry is in a difficult place with profit margins heavily squeezed. The industry has to survive in a time faced with burdensome global stocks, lower local

yields coupled with stronger local currency supporting imports. Probability of light falls over the Southern Cape is high, which should provide some relief.

### International

Although some concerns were rising over the persisting dryness in the US, and its effect on the 2018/19 US crops, the burdensome world supplies and strong export competition, keep applying pressure on world wheat prices. Wheat prices are expected to remain under pressure well into 2018

Wheat Futures 08 February 2018	Mar-18			May-18			Jul-18			Sep-18		
CME (\$/t)	172.42			177.29			182.62			189.78		
SAFEX (R/t)	3652			3725			3767			3760		
SAFEX (R/t) Change w/w	93			97			102			62		
			Mar-18			May-18			Jul-18			
Ask	Put	Call	Ask	Put	Call	Ask	Put	Call				
3,700	61	13	3,760	127	92	3,800	165	132				
3,660	36	28	3,720	106	111	3,760	144	151				
3,620	18	50	3,680	87	132	3,720	124	171				

## Oilseeds market trends

### International

The weekly average USA soybean price remained unchanged week on week at US\$374.23/ton. US soya oil prices marginally decreased from US\$32.89/ton to US\$32.61/ton and soymeal prices traded lower from US\$336.22/ton to US\$333.95/ton.

Uncertainty about South American crops underpinning volatile prices in the oilseed market. Weather in South America remains a primary factor to consider. The USDA's WASDE report released on the 8<sup>th</sup> February 2018, painted a bearish picture in the oilseed market, with global oilseed production for 2017/18 estimated at 578.6 million tons. Soybean ending stocks is estimated at 530 million tons, a 60 million ton increment.

#### Bullish factors

- Argentinian production crop projected at 54 million ton (2 million ton less). Adverse weather ( warm and dry conditions) conditions caused lower plantings and reduced yields.
- Global import demand was strong, driven by increased feed requirements for dairy cows in New Zealand.
- Soybean production prospects are seen declining in parts of South America (Argentina, Paraguay and Uruguay), but improvement seen in Brazil. The drought is still affecting major growing areas.
- India has raised some of its vegetable import duties last week, cottonseed oil imports and consequently prices will be affected the most.

#### Bearish factors

- According to the USDA's WASDE report (released 8<sup>th</sup> February 2018), global oilseed production in Brazil is estimated at 112 million tons ( up by 2 million ton), thanks to favourable weather.
- World palm oil activity was lower this week because of holidays in Malaysia. Palm oil prices were down in January 2017 compared to December 2018 due to lower Malaysian exports. This followed normal seasonal trends.

### Domestic

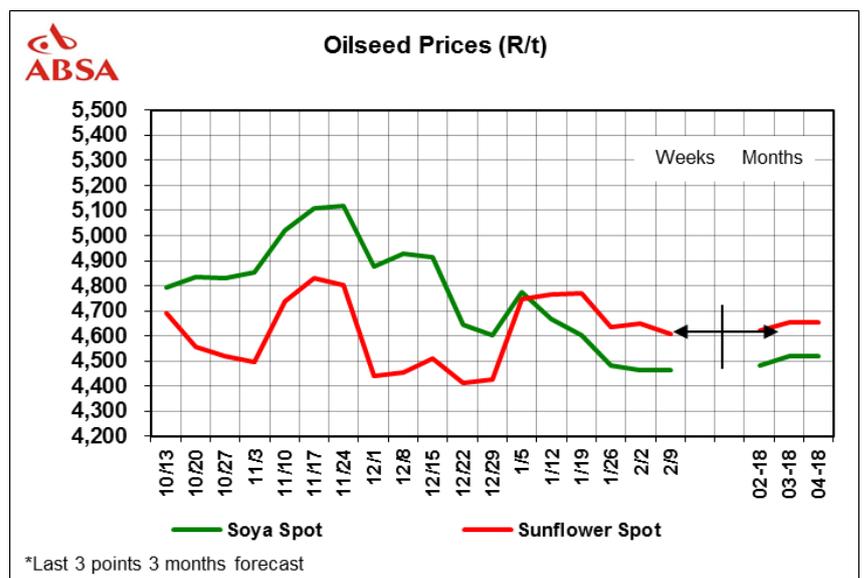
On February 8<sup>th</sup>, sunflower seed prices (Mar2018) marginally decreased week on week by 0.4% (R17/ton) from R4672/ton to R4655/ton while soybean (Mar2018) prices increased slightly by 0.3% (R12/ton) from R 4412/ton to R4520/ton.

#### Bullish factors

- The depreciating Rand provided some support to the local March soybean and sunflower contract prices w/w closing Friday 9<sup>th</sup> February 2018.
- Higher international prices on the back of South American on-going weather concerns.

#### Bearish factors

- South African weather conditions over the summer rainfall producing regions have improved. Recent showers have improved the soybean crop conditions, as the crop is still in the early stages of development.



## Outlook

### Local

Producers indicate in 2017 that they plan to increase the plantings of sunflowerseed by 4,7% to reach 665 500 hectares in 2018. Even at a low average yield of 1.21 ton/ha compared to the 1,38 ton/ha in the past marketing year the record stock levels of 2017 may still prevail over the next two marketing years. One of the industry's greatest challenges is not only to improve they yield (t/ha) of sunflowerseed but also the oil content to meet the needs of crushers. The volatile Rand, weather conditions and international prices will remain critical to any major shifts in the local oilseed market. That needs to be monitored closely.

The large carry out by the end of February 2018, and expectations that global soybean prices will remain low coupled with a relatively stronger Rand may result sideways to lower price levels in the next weeks.

### International

World soybean supplies are expected to remain abundant in 2017/18. The world outlook for 2017/18 seems to indicate increasing stock levels and lower exports. Brazil will be a main rival against the US for export market. South American weather remains pivotal to any price changes.

Oilseeds Futures 08 February 2018	Mar-18	Jul-18	Sep-18	Dec-18				
CBOT Soybeans (US\$/t)**	362.94	370.47	369.27	370.93				
CBOT Soy oil (US c/lb)	32.21	32.59	34.82	32.93				
CBOT Soy cake meal (US\$/t)*	375.49	380.66	377.69	374.73				
SAFEX Soybean seed (R/t)	4520	4686	4770	4890				
SAFEX Soybean seed (R/t) change w/w	108	89	69	85				
SAFEX Sunflower seed (R/t)	4655	4712	4828	4871				
SAFEX Sunflower seed (R/t) change w/w	-17	12	-7	0				
<b>Sunflower Calculated Option Prices (R/t)</b>								
<b>Mar-18</b>			<b>May-18</b>			<b>Jul-18</b>		
Ask	Put	Call	Ask	Put	Call	Ask	Put	Call
4,700	121	76	4,720	224	188	4,760	273	225
4,660	99	94	4,680	202	206	4,720	252	244
4,620	79	114	4,640	182	226	4,680	231	263

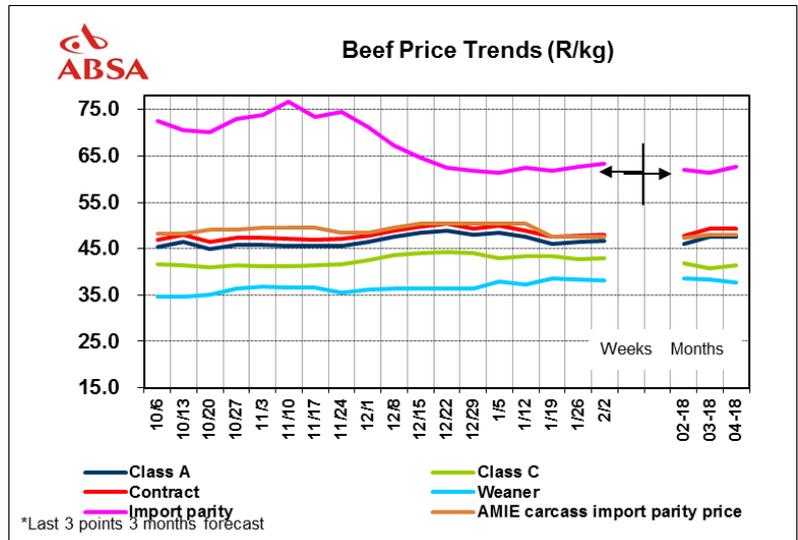
\*short ton

\*\* Dec 2018 = Jan 2019

# Beef market trends

## International

New Zealand steers traded sideways over the past week at 5.45NZ\$/kg and cows traded sideways at 4.12NZ\$/kg compared to a week ago. In the US, beef prices for the week were mostly higher as follows: Topside traded 3.47% higher at \$216.75/cwt. Rump was 1.49% higher at \$349.96/cwt and strip loin was 0.41% higher at \$511.28/cwt. Chuck traded 1.37% higher at \$237.61/cwt. Brisket traded 2.33% higher at \$245.50/cwt. The carcass equivalent price was 1.38% higher at \$292.28cwt.



### Bullish factors

- Strong demand for beef in the US.
- For 2018, beef exports have been increased as demand from several key trading partners is expected to remain strong<sup>1</sup>(USDA Wasde).
- The number of cattle placed on feed in the US during the first part of 2018 is expected to be lower, resulting in lower marketings and beef production in the second half of the year.
- Lack of supply in New Zealand coupled with good demand from the US is supporting the beef market.
- New Zealand supply to the market has been low in recent weeks, and it is not expected to increase until the autumn cow slaughter.

### Bearish factors

- In Australia, dry conditions are forcing more cattle to be slaughtered than expected.
- The high NZD/USD continues to have an impact on export revenues
- National Agricultural Statistics Service (NASS) Cattle report, released January 31, estimated the US cattle inventory continued to increase for the fourth consecutive year, but the report also indicated that fewer numbers of cattle were being held outside feedlot.
- The January NASS Cattle on Feed report showed year-over-year increases in placement numbers in December, implying higher numbers of fed cattle in the US will likely be marketed during the spring quarter.

## Domestic

The average beef producer prices increased during the months leading to December, but prices have lost some ground into January 2018. Prices have lost some ground into January in line with seasonality.

Week on week, beef prices were mostly higher across the different classes. The average Class A prices recovered further this week and are 0.49% higher at R46.65/kg. Class C prices were 0.45% higher at R42.85/kg. The average weaner calf prices over the past week lost some ground slightly and were 0.4% lower at R38.11/kg. Weaner calf prices so far in January are strong, due to higher demand. The average hide price over the past week continued to lose some ground. The markets are generally weak after pressure resulting from the strength in the South African rand. The strong South African rand, together with the weak international market weigh on market prices. The average hide prices traded 2.12% lower at R10.17/kg green. NB\* Hide prices are determined by the average of the RMAA (Red Meat Abattoir Association) and independent companies.

<sup>1</sup> USDA Wasde- US Department of Agriculture World Agricultural Supply and Demand Estimates

### Bullish factors

- Favourable rain will be very welcome for soil moisture levels, veldt conditions and dam levels
- The upcoming Easter holidays will support prices.
- Good demand and limited supplies of weaner calves.
- The latest weather forecast indicates that summer rainfall forecasts improved for the last week of January 2018 and the whole of February with the exception of the extreme western and south western parts of the country.
- Farmers were unable to plant summer crops over the western and south western parts of the summer crop area, resulting in a reduction of about 10-20% of the intended total maize production area.
- A positive momentum in prices was brought by improved month buying spending.

### Bearish factors

- Consumers normally become under pressure during the January month following increased spending during the festive season.
- The weather was dominated by dry and hot conditions for the first three weeks of January 2018 over most of the country, this negatively impacted moisture levels on the veld. Natural grazing as well as cultivated pastures was not producing, causing the condition of animals to deteriorate.
- Feeding margins were positive for most of 2017, on the back of low feed costs resulting from the lower grain prices. The beef: maize price ratio (the amount of maize it takes to equal the value of the meat) serves as an indicator for an economic performance of the beef industry. Should this price ratio trade above a break even ratio of 13, then the industry is deemed to be doing well. This price ratio in 2017 was deemed favourable for most of the year, and was the best it has been in 8 years.

### **Outlook**

Internationally, the expanding global beef production is expected to create strong competition in global markets, and possibly add pressure on beef prices.

Locally, beef prices may trend sideways in the short term, and then increase towards the end of the month.

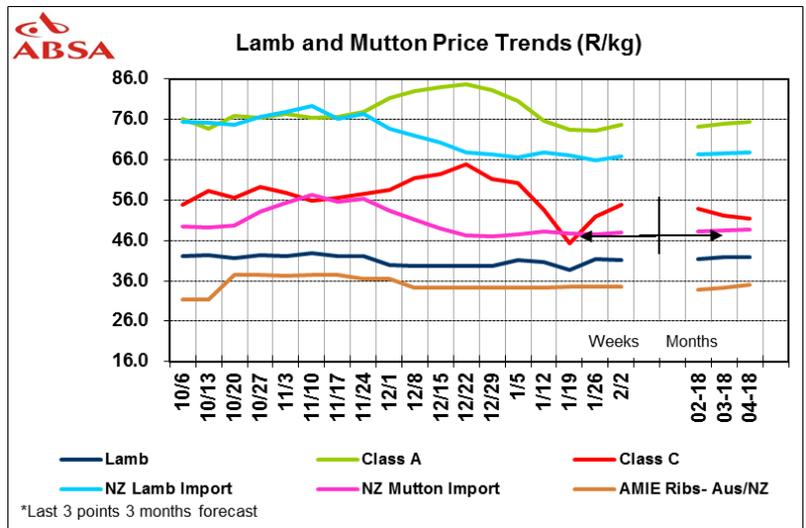
# Sheep meat market trends

## International

New Zealand lamb prices traded sideways this week compared to last week. Lamb prices closed sideways at NZ\$102.8/head for 15kg lamb. Lamb prices were sideways at NZ\$143.9/head for 21kg lamb. Ewe prices traded sideways at NZ\$95.6/head for a 21kg ewe. The import parity price for lamb was 1.1% higher at R66.74/kg, while the import parity price for mutton was 1.1% higher at R47.94/kg.

### Bullish factors

- Global lamb markets remain in a strong position and look set to remain this way into the medium term.
- Rural Bank’s 2018 Agriculture Outlook predicts that for Australia, lamb prices will be particularly strong, with demand outpacing supply for the sixth consecutive year, leading to an expected record high price early in the year.
- An expectation of continuing tight global supply, particularly from both Australia and New Zealand, is likely to keep the market firm in the near future.
- Lamb farm gate prices remain very high in New Zealand for the time of year, underpinned by lack of supply.



### Bearish factors

- New Zealand lamb farm gate prices are expected to decline at the end of the Easter production period.
- There is an expectation New Zealand lamb supply will lift towards the end of February. This will be completely dependent on weather patterns in coming weeks.

### Domestic

Lamb and mutton prices followed an upward trend for the months heading into December 2017, but prices have lost some ground into January 2018 and have declined from those record levels reached in December 2017.

This week, lamb and mutton prices recorded some gains when compared to the previous week. Lamb and mutton prices were as follows: The national average Class A lamb prices increased by 1.9% to R74.71/kg and the average Class C prices increased by 5.5% to R54.81/kg. The average price for feeder lambs traded 0.3% lower at R41.24/kg. The average price for dorper skin is 1.9% higher at R33.13/skin and merinos were 1.0% lower at R91.27/skin.

### Bullish factors

- The upcoming Easter holidays will support prices
- Short term forecasts favour improved conditions for rainfall for the next weeks over the summer rainfall area.

### Bearish factors

- The weather was dominated by dry and hot conditions for the first three weeks of January 2018 over most of the country, this negatively impacted moisture levels on the veld. Natural grazing as well as cultivated pastures were not producing, causing the condition of animals to deteriorate.

### Outlook

Internationally, an expectation of continuing tight global supply, particularly from both Australia and New Zealand, is likely to keep the market firm in the near future.

Locally, prices may have gained support from increased month end buying. In the short term, prices may trade sideways and follow an upward movement towards Easter.

## Pork market trends

### International

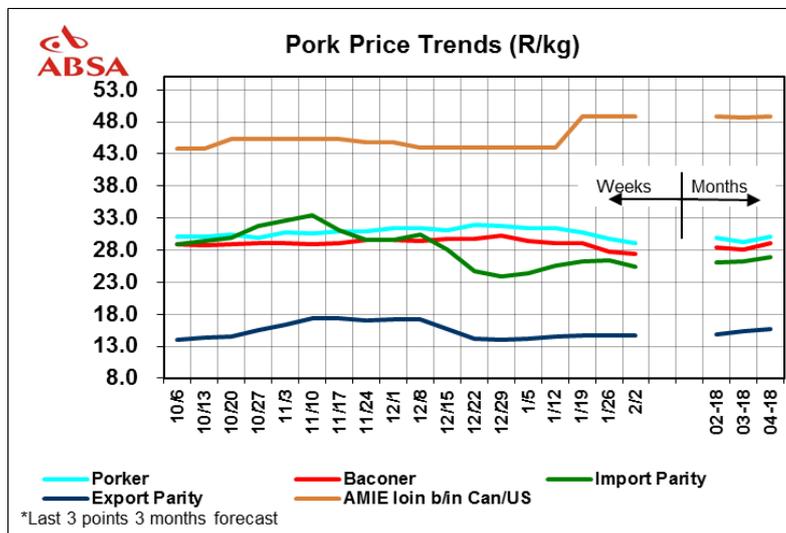
The average weekly US pork prices were mostly lower over the past week. Carcass prices were 0.4% lower at US\$81.00/cwt, loin prices were 1.1% lower at US\$70.52/cwt, rib prices were 0.9% lower at US\$130.30/cwt and ham was 4.8% lower at US\$61.96/cwt.

#### Bullish factors

- Pork production is reduced on the pace of slaughter to date (USDA Wasde).
- In Brazil, local pork demand expected to increase, along with the improving economic conditions

#### Bearish factors

- According to Rabobank's latest pork outlook, global pork supply is forecast to increase further, mainly driven by the US, Canada, and Brazil.
- Rabobank reports that in the EU, increased production is expected to reach the market beginning in 2018. Additional supply is expected to pressure pig prices and cutout values. This price decline could stimulate consumption and exports.



### Domestic

Pork prices are in general averaging lower having increased during the festive season. This week, pork prices were mixed. The latest average pork prices are as follows: The average porker prices are 2,1% lower at R29.10/kg, while the average baconer prices are 0.9% lower at R27.47/kg. The average cutters prices were 1.7% higher at R28.7/kg and the average heavy baconer price was 2.4% higher at R26.83. The SAU price was 5.3% higher at R21.15/kg.

#### Bullish factors

- Pork remains a cheaper protein compared to beef and sheep meat, which may continue to support demand in this market.
- Prices may have been supported by increased buying associated with month end.

#### Bearish factors

- Pork prices may follow beef and mutton prices lower.
- The recent strength in the South African Rand is expected to weigh on pork prices.
- Lower feed costs continue to support the intensive pork industry, improving profitability. The lower feed costs are encouraging to the fattening of pigs.

### Outlook

Internationally, the rising global pork supplies may weigh on this market.

Locally, prices are expected to follow a sideways trend in the short term. The pork market may be a good substitute for higher beef and mutton prices, thereby offering support to pork prices.

## Poultry market trends

### International

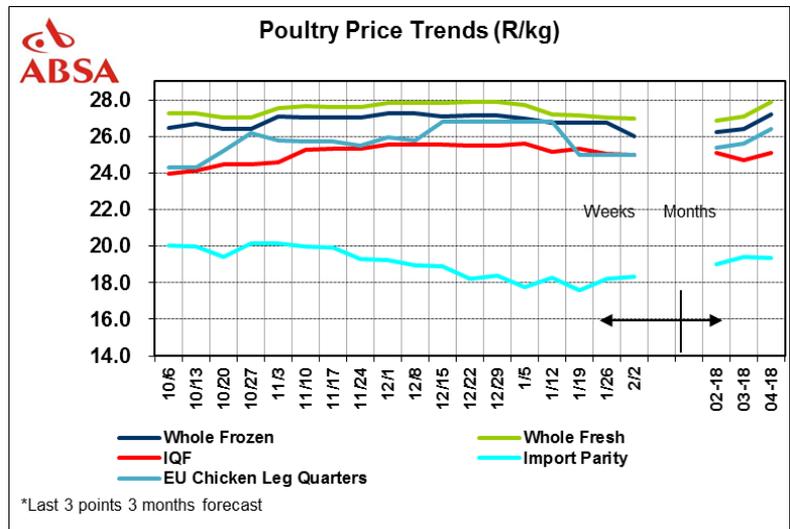
Poultry prices in the US were mixed over the past week. Whole bird prices were 1.14% lower at 91.66USc/lb. Breast traded 1.04% lower at 95.50USc/lb, while leg quarters traded 1.32% higher at 38.50USc/lb.

#### Bullish factors

- First-half broiler export forecasts are raised on expectations of strong demand (USDA Wasde).
- Possible return of avian influenza in the northern hemisphere this winter may impact global trade.

#### Bearish factors

- Broiler production is increased largely on continued growth in bird weights (USDA Wasde).
- In the US, estimated record-high US corn and soybean harvest are expected to lower feed prices.



### Domestic

The average poultry prices over the past week were mostly lower. The average prices for frozen birds were 2.72% lower at R26.02/kg during the week. Whole fresh medium bird prices were 0.25% lower at R26.98/kg, while IQF prices were 0.19% lower at R25.01/kg. The recent rand strength and seasonal trends have been weighing on prices.

#### Bullish factors

- The drought in the North West and Free State Provinces impact negatively on maize stocks. This will result in increased feed prices in 2019.
- Prices may increase towards Easter.
- Egg prices are following an upward trend, following recent bird flu outbreaks in some regions, leading to shortages of eggs. Production prices for Jumbo eggs in Rands per dozen have increased by 38% during November 2017 compared to November 2016, from R18.27 rand per dozen to R25.14 Rands per dozen.
- There is stronger demand for cheaper proteins like poultry.

#### Bearish factors

- The recent strength of the South African rand is weighing on local prices.
- Poultry prices may be weighed on by the declining beef and mutton prices.
- Sufficient rainfall during February and March may assist in very good grazing conditions before winter. This can also help to ensure good production conditions for summer grain crops.
- The low domestic maize and soybean prices result in favourable animal feed prices for 2018.

### Outlook

Internationally, larger broiler supplies are expected, but possible outbreaks of Avian Influenza may limit production growth.

Locally, poultry remains a cheaper protein compared to sheep meat and beef, which makes it favourable and supportive to demand.

Livestock prices (R/kg) week 08 Feb 2018	Beef			Mutton			Pork			Poultry		
	%	Current week	Prior week	%	Current week	Prior week	%	Current week	Prior week	%	Current week	Prior week
Class A/ Porker/ Fresh birds	0.49	46.65	46.42	1.9	74.71	73.29	-2.1	29.10	29.73	-0.25	26.98	27.05
Class C/ Baconer/ Frozen birds	0.45	42.85	42.66	5.5	54.81	51.97	-0.9	27.47	27.71	-2.72	26.02	26.75
Contract/Baconer/ IQF	0.35	47.94	47.77	3.1	75.33	73.09	-1.5	28.29	28.72	-0.19	25.01	25.05
Import parity price	1.15	63.30	62.58	1.1	47.94	47.42	-0.6	31.5	31.7	0.5	18.33	18.24
Weaner calves/ Feeder lambs	-0.4	38.11	38.26	-0.3	41.24	41.38		-	-			
Specific imports: Beef trimmings 80vl/b/ Mutton shoulders/Loin b/in/ chicken leg 1/4	0	47.50	47.50	0	56.60	56.60	0	48.90	48.90	0	25.00	25.00

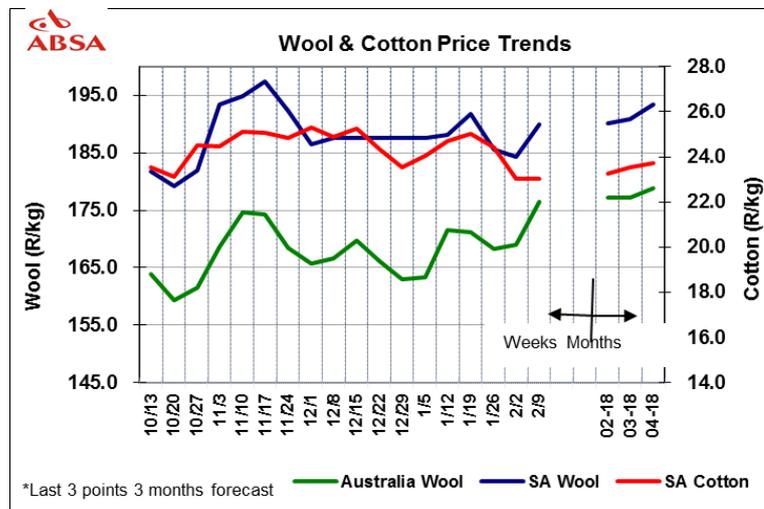
## Wool market trends

### International

The Australian wool market continued to show some strong gains this week. The Australian wool market prices averaged higher this week and closed 4.60% higher at Au1818c/kg at the recent auction.

#### Bullish factors

- Prices in the Australian wool market strengthened this week as a lower Australian dollar sparked increases in demand.
- New business and favourable exchange rate movements boosted demand from Chinese buyers. Demand from China was the key driver behind this week's support in the Australian market.



#### Bearish factors

- High wool prices may weigh on demand moving forward.
- The strong price increases have seen an 8% increase in scheduled quantities at the next week sale to over 43,000 bales.

### Domestic

The last auction was on the 7th of February 2018. Domestic wool market prices increased and the merino indicator was 3.1% higher to close at R189.87 (clean) at the sale. The next sale is scheduled for 14 February 2018 where approximately  $\pm$  10 223 bales will be on sale.

#### Bullish factors

- The Rand was 0,5% weaker against the US Dollar compared with the average rate at the previous sale.
- There are concerns regarding the scarcity of wool with smaller auctions now expected due primarily to the impact of the drought. There were smaller volumes at the latest auction again this week, and volumes on offer where 10% lower compared to the previous auction.
- Market demand remains strong.
- Strong competition due to limited offering.

#### Bearish factors

- The Rand was 0,1% stronger against the Euro compared with the average rate at the previous sale.

### Outlook

Internationally, drought conditions both in Australia and South Africa continue to pose a risk to the upcoming supply numbers. Meanwhile, high wool prices can weigh on demand moving forward.

Locally, concerns regarding the scarcity of wool due primarily to the impact of the drought continue to hold, which brings about support to prices.

## Cotton market trends

### International

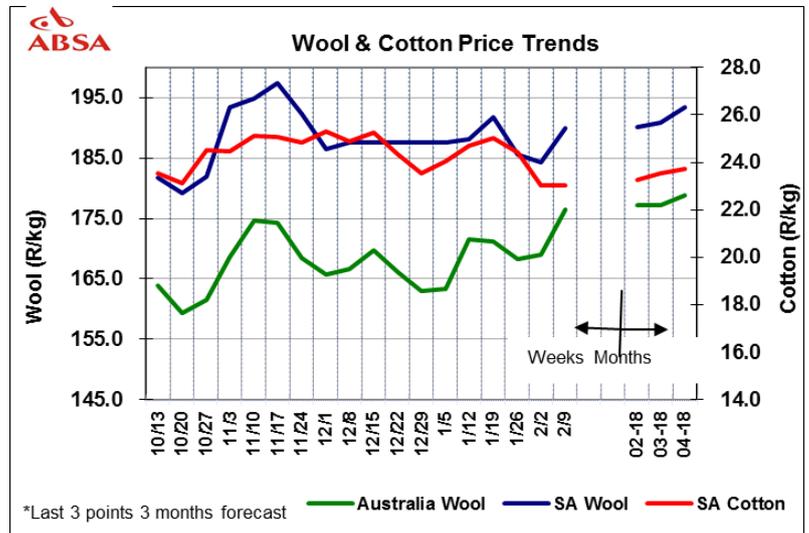
Cotton prices traded 4.96% lower over the past week and closed at US75.71c/lb.

#### Bullish factors

- The 2017/18 US cotton supply and demand forecasts show slightly lower exports and higher ending stocks relative to last month. The export forecast is lowered 300,000 bales to 14.5 million based on a lagging pace of shipments to date (USDA Wasde).
- Rising price of competing fibres is expected to support demand for cotton.

#### Bearish factors

- World production is 400,000 bales higher than last month, as higher estimates for China, Brazil, and South Africa offset lower expectations for India and Australia (USDA Wasde).
- Global consumption is forecast 325,000 bales lower, as decreases for India and Thailand offset an increase for Vietnam (USDA Wasde).
- World ending stocks are projected 760,000 bales higher as a 1.1-million-bale increase in China's projected ending stocks (and higher US stocks) offsets declines for India, Australia, Turkmenistan, Tajikistan, and Vietnam (USDA Wasde).



### Domestic

The derived SA cotton prices traded 5.70% lower to close at R23.04/kg. The decreases in prices were due to decreases in international prices, in spite of the slight weakening in the South African rand. The 1st estimate for the 2017/18 production year indicates a cotton crop of 189 779 lint bales for the RSA, an increase of 145% over the previous season. Dryland and irrigation hectares show increases of 63% and 159% respectively over the previous year mainly due to the more favourable prices of cotton in relation to competitive crops but also due to renewed interest in cotton production.

### Outlook

Internationally, higher production estimates for China, Brazil, and South Africa may weigh on the cotton market.

Locally, the exchange rate movement may continue to affect the domestic market prices.

Fibres market trends  
Week ended 09 February 2018

Wool prices	%	SA prices (c/kg)	%	Australian prices (SA c/kg)	%	Australian future Mar 2018 (AU\$/kg)	%	Australian future May 2018 (AU\$/kg)
Wool market indicator	3.06	18987	2.23	17064		-		-
19µ micron	-2.27	20338	1.65	20262	5.16	21.40	4.22	21.00
21µ micron	1.80	17468	2.95	17750	4.96	18.00	3.24	17.50
Cotton prices 02 February 2018		SA derived cotton (R/kg)		New York A Index (US\$/kg)		New York future Mar 2018 (US\$/kg)		New York future May 2018 (US\$/kg)
Cotton prices	-5.70	23.04	-5.39	1.94	-4.3	1.727	-3.8	1.75

## Vegetables market trends

The ongoing drought in South Africa is expected to reflect through the vegetable commodities in 2018. Planting conditions for some vegetable crops (potatoes, onions) were not ideal as irrigation water preference was given to permanent orchards in the Western Cape. Crop damage was also seen in some of the tomato crop, due to heat stress. Generally vegetable prices are expected to be slightly higher in 2018 mainly because of lower production.

### Onions and Western Cape Drought

The onion producing regions of the north (Limpopo & North West Provinces), Western Cape Province and Northern Cape Province faced difficulties for the past two years due to weather related losses. This led to price increases later in the 2017 season, just in time to support prices to recover. The Northern Cape onion producers (the 3rd largest producing region), will be completing their harvesting cycle from October 2017 to May 2018. It should be noted that for the previous 2 years (2015 and 2016) the Northern Cape region never enjoyed a full harvest due to severe heat that caused lower yields and smaller onions. In 2017 region received continuous 6 week rainfall, which caused deterioration of the crop consequently fewer volumes reached the markets. Early planted onions were of good standard in the Northern Cape and yields much better than the previous drought years. The crop estimate was higher than 2015 and 2016, which caused the onion price to remain subdued until December 2017.

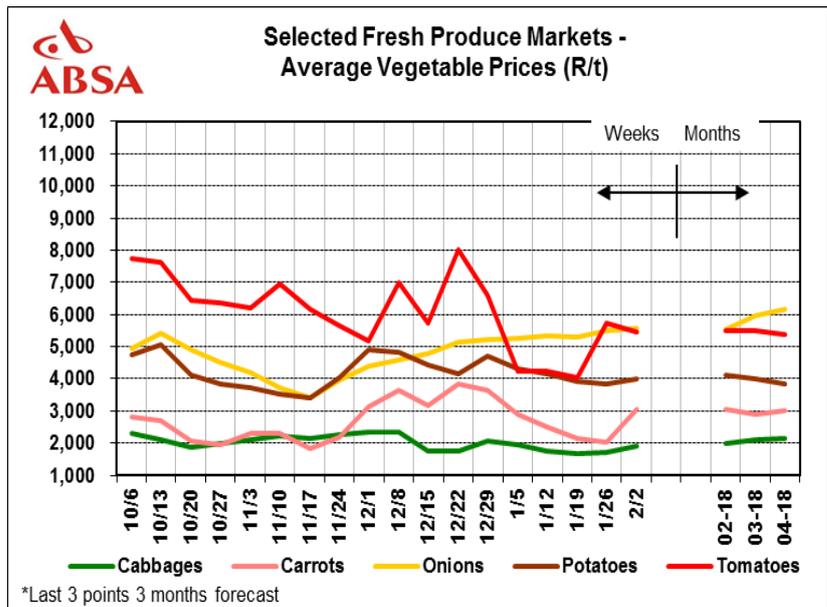
The Western Cape Province (the 2nd largest producing region) only planted 30%-40% of their usual crop. Producers only planted 1000 ha - 1400 ha, compared to the 3000 ha that was planted in 2016, on the back of the continuous dryness in the region. The reduction in onion plantings have led to increased prices from December 2017 when the Western Cape started delivering their produce to the Fresh Produce markets. Yields and quality was compromised during the heat waves and the drought. Prices are currently trading at R50-60/10kg bag. Lower volumes are delivered at the Fresh Produce markets, crop is smaller, and therefore prices are anticipated to increase to R70-R80/10 kg bags during the next 5 months (till July 2018). Onion prices are expected to remain relatively high until September 2018.

### The potato market and water restrictions

The current water restrictions in the Western Cape have influenced planting decisions. The borehole water supplies in the Sandveld area will be sufficient to handle planting intentions well into the next year. However producers that depend on river water will cut back on plantings (but that's a small number of producers), so overall we anticipate a reduced level of potato plantings in the Sandveld area. Ceres will be heading to a significant reduction in hectares planted because most water will be allocated to the fruit trees; however Ceres is a small potato production area when looking at a national potato production context. Reductions in planting will not have a significant impact on the national price. Impact will be significant in the Ceres community itself.

The Eastern Free State potato marketing season hasn't yet started. The area is primarily a dryland potato producing area. The heat wave caused the potato crop to go into dormancy; therefore Eastern Free State dryland production is expected to have lower yields.

The situation can change drastically within the first 5 months of 2018, depending on drought (or any other weather abnormalities). If the drought continues well into the winter of 2018, borehole supplies could get depleted. Sandveld producers may have to reduce their crop significantly by approximately 30% (reduced supplies from the Sandveld, could support higher prices in the other regions, if normal weather support normal plantings/yield in those regions).



In the short term, we anticipate normal seasonal potato prices to take place, prices expected to pick up around March 2018 to April 2018. The potatoes delivered so far at the markets are of good quality.

### Tomatoes and the heat wave

Generally there was an increased supply delivered at the fresh produce during 2017, driven by warm weather conditions. The crop was too ripe, soft and easily susceptible to spoil when on the Fresh Produce floors. Quality was compromised and volumes were high at the Fresh Produce markets, thus lower prices have been recorded since late December 2017 and the 1st month of 2018.

The higher than normal temperatures of above 37°C experienced during the heat waves between the end of 2017 and early 2018, caused tomato plants to wither, some plants didn't yield any fruits. The continuous water availability issues in Western Cape will also limit volumes produced in that region. Therefore the industry expects prices to increase in the next 2 months due to lower volumes available.

Vegetable Prices: Fresh Produce Market (Averages for the Pretoria, Bloemfontein, Johannesburg, Cape Town and Durban markets)						
Week ending 08 February 2018	Difference in weekly prices	This week's Average Price (R/t)	Previous week's Average Price (R/t)	Difference in weekly volumes	This week's Total Volumes (t)	Previous week's Total Volumes (t)
Cabbages	14.3%	1872	1638	-17.8%	1738	2116
Carrots	33.5%	3004	2250	-15.9%	2442	2905
Onions	-2.3%	5320	5444	-3.1%	6569	6778
Potatoes	4.0%	4024	3868	-4.3%	15848	16557
Tomatoes	-3.4%	5614	5810	-5.1%	4660	4912

**Disclaimer:** Although everything has been done to ensure the accuracy of the information, Absa Bank takes no responsibility for actions or losses that might occur due to the use of this information.

