



## Agri Trends

22 February 2018

### Credit agencies responded positively on the budget speech.

Moody's pending decision on their ratings review is still outstanding but early indications are that they will confirm South Africa's Baa3 rating but with a Negative Outlook. In comparison to the Medium Term Budget Policy Statement in 2017, South Africa confirmed the improved fiscal orientation in the 2018 budget. Credit agencies perceived this as positive but also warned that South Africa must continue on this path. It is important that South Africa makes a firm turn around and follow through on the change of leadership and great sense of optimism. In general, economic performance weighs more than political developments in the long run. The economic indicators reacted positively on the budget speech which indicates a turn-around in business confidence. As a net exporter the agricultural industry will be challenged to rely less on a weakening exchange rate in the long run but to continue to improve productivity by focusing on research, technology and improved market access.

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## Maize market trends

### International

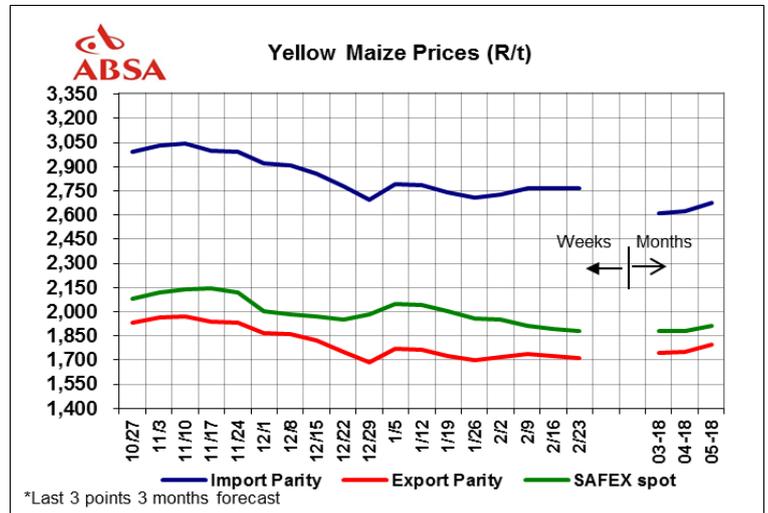
Week-on-week yellow maize No 2 gulf price increased from US\$157.07/ton to US\$162.80/ton. Price support stemmed from increased overseas buying.

#### Bullish factors

- Argentina received some light scattered showers, but there wasn't any significant improvement in the weather conditions. Dryness still persists. Analysts in Argentina have lowered their crop estimates citing lower than expected yields and crop damage.
- Brazil's second safrinha planting is lagging behind the previous year's level.

#### Bearish factors

- The size of South Africa's maize crop is higher at 16.820 million tons, adding to the global stocks.



### Domestic

The local maize market traded sideways but still at lower levels due to the stronger Rand. By February 23rd, week on week new season white maize prices for delivery in Mar2018 remained at R1790/ton, Jul 2018 contracts decreased marginally week-on-week by 0.4% (R7/ton) from R1897/ton to R1890/ton. Week-on-week new season yellow maize prices for delivery in Mar2018 increased marginally by 0.2% (R3/ton difference) from R1878/ton to R1881/ton. Prices for delivery in Jul2018 for yellow maize were recorded at R1942/ton a 0.8% decline from R1957/ton.

#### Bullish factors

- South Africa's export activity will likely pick up, thanks to a stronger Rand and lower maize prices.

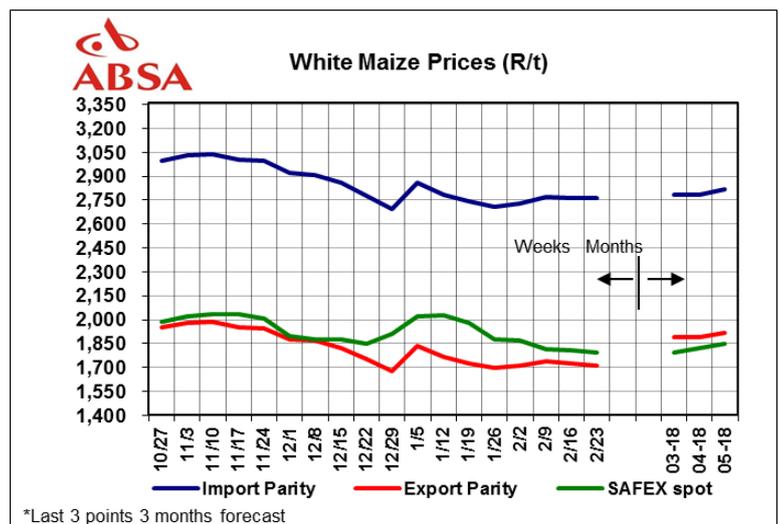
#### Bearish factors

- The size of the commercial maize crop is higher at 16.820 million tons, 76 000tons higher than the final CEC estimate of 16.744 million tons.
- Favourable weather conditions are expected for the summer crop growing regions.

### Outlook

#### Local

Favourable weather outlook and the volatility of the Rand will remain particular focus areas, impacting the market. Export activity remains sluggish. With the current strong Rand and lower domestic prices, we anticipate better commercial buying.



## International

Prices received support from sustained export activity (Iran and Venezuela bought 240 000tons of maize from Brazil and Russia) despite the weather worries in Argentina and the planting delays of the safrinha crop in Brazil.

Yellow Maize Futures: 22 February 2018	Mar-18	Jul-18	Sep-18	Dec-18
CBOT (\$/t)	144.38	150.58	153.34	156.39
SAFEX (R/t)	1881	1942	1998	2057
SAFEX (R/t) Change week on week (w/w)	3	-15	-9	-7

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

White Maize Futures 22 February 2018	Mar-18	Jul-18	Sep-18	Dec-18
SAFEX (R/t)	1791	1890	1945	2008
SAFEX (R/t) Change w/w	1	-7	-10	-2

# Wheat market trends

## International

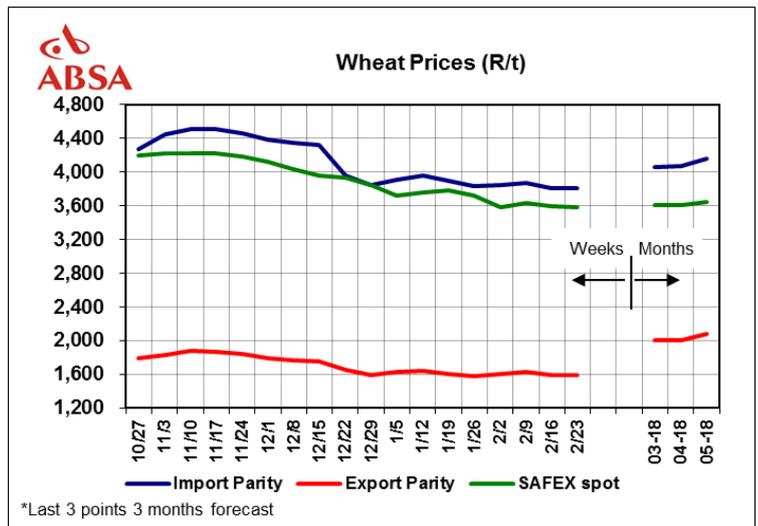
The weekly average old season HRW wheat Gulf price decreased from US\$188.59/ton to US\$187.42/ton week on week, while the weekly average SRW wheat price increased from US\$186.52/ton to US\$189.50/ton week on week.

### Bullish factors

- The dry weather in the southern Plains continued to put pressure on the production prospects of US HRW. The SRW growing areas however had flooding concerns due to some heavy rains.
- EU and CIS countries had some concerns of a cold spell outlook in the latter part of February.
- ABARES has forecasted Australia's 2017/18 production at 21.1 million tons, down from 34.4million tons in 2016/17.
- Winter conditions in Russia, caused loading issues at the ports.

### Bearish factors

- US exports are sluggish, with a 12% decline year-on-year.



## Domestic

On 23<sup>rd</sup> February 2018, wheat prices for delivery in Mar2018 increased by 1.9% (R68/ton) from R3539/ton to R3607/ton. Jul2018 prices increased by 1.3% (R46/ton) from R3650/ton to R3696/ton, week on week.

### Bullish factors

- Lower levels of wheat have been delivered for the week ending 16<sup>th</sup> February compared to the prior week.
- Local prices traded positively following higher international prices, supported by unfavourable weather conditions in the US and parts of the EU.

### Bearish factors

- The lower tariff of R394.90/ton still pending publication will have a negative effect on the producers during their optimal planting time. Dry land wheat producers in both the Western Cape and Free State can be impacted negatively when the new tariff are published during their preparations for the next wheat plantings in May
- The Rand slightly weakened during this week after rallying the previous week. This will support imports.

## Outlook

### Local

Prices continue to follow international prices, because SA is a net importer of wheat. This week higher international prices on the back of poor weather conditions in the US and EU supported domestic prices. The strong Rand will enable more wheat imports to supplement the local needs after SA's very poor wheat season. Weather outlook for the next week shows possible rainfall for the Western Cape.

## International

The dryness in the US remains a concern. Freezing weather in parts of the EU could potentially result in some winterkill of crops and heavy snow in the CIS countries seen disrupting transportation and loading at the ports. The burdensome world supplies and strong export competition, keeps a lid on any significant price increases. World market is currently responding to the weather movements.

Wheat Futures 22 February 2018	Mar-18	May-18	Jul-18	Sep-18
CME (\$/t)	170.58	176.00	181.97	189.69
SAFEX (R/t)	3607	3648	3696	3689
SAFEX (R/t) Change w/w	68	48	46	33

## Oilseeds market trends

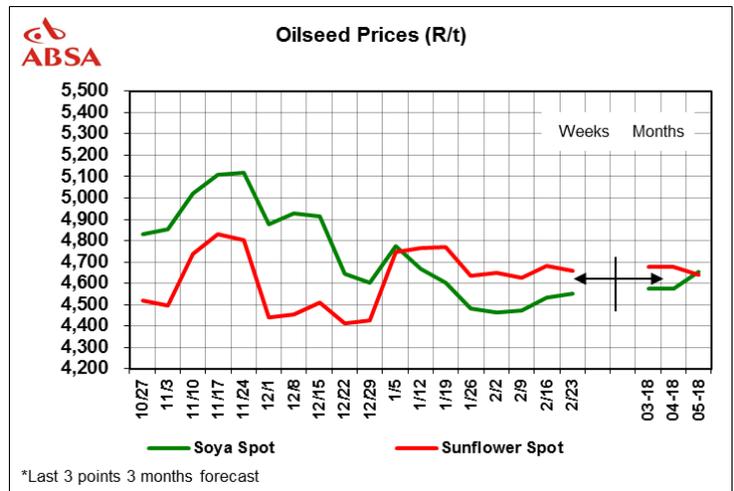
### International

The weekly average USA soybean price increased week-on-week from US\$386.81/ton to US\$391.96/ton. US soya oil prices marginally increased from US\$31.69/ton to US\$31.88/ton and soymeal prices traded higher from US\$336.22/ton to US\$348.78/ton.

World soybean market production is falling below consumption as result of deteriorating crop prospects in South America. Biggest price gainer is in soy meal.

#### Bullish factors

- Argentinian soybean and sunflowerseed crop production and crushing estimates have been revised downward due to weather adversities. Oilworld estimates a 13 million ton reduction in soybean crop compared to the previous season, and possible further reductions in February. The largest impact in this reduction will be seen in soymeal. In the global trade, for 8 major oil meals, Argentina is the primary player, accounting for 48% of global soya meal exports and 35% of the other exports of 8 oil meals.
- Global demand for US and Brazilian soybeans expected to be higher in 2018.
- Argentinian groundnut crop is also suffering from dryness.
- Lower world soy oil export will likely raise dependency on palm oil in the global market.



#### Bearish factors

- World vegetable oil production has turned out better than expected from a month ago. Vegetable oil prices are also slightly down, in view of possible abundant palm oil supplies.
- Argentinian producers will likely sell more now at this higher, more attractive prices.
- There are still some very large stocks of soybeans available in Argentina and Brazil.
- The Chinese stocks are at record levels after their imports in January and better domestic production. Oilworld therefore expects a slower import demand rate.
- Burdensome supplies of rapeseed and canola expected to keep a lid on any price increases in the EU for Jan/Jun2018.

### Domestic

On February 23rd, sunflower seed prices (Mar2018) marginally declined week on week by 0.1% (R6/ton) from R4681/ton to R4675/ton while soybean (Mar2018) prices increased by 2% (R100/ton) from R 4475/ton to R4575/ton. Prices traded higher, especially soybean and soymeal prices due to weather related crop losses in South America. Vegetable oils prices were lower, abundant world market supplies, weighed down the market, as can be seen by the lower sunflower seed & sunflower seed prices.

#### Bullish factors

- We remain a net importer of oil cake and vegetable oil. A stronger Rand may lead to lower derived prices for oil and oilcake.
- Due to production failures in Argentina, soybean and soymeal prices fared higher, supporting local soybean prices that are derived from the international soybean prices.
- The commercial sunflower seed and soybean crops have been revised down.

## 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**

International weather outlook remains a primary focus. Crop failure in Argentina (the main player in oil meal trade) has resulted in higher oilcake prices. South Africa imports oilcake, higher international prices, negatively affects the market; the stronger Rand at the moment will provide some relief. Domestic soybean prices follow international soybean prices and therefore traded higher week on week.

### **International**

Argentinian soybean and sunflowerseed crop production and crushing estimates have been revised downward (13 million ton lower than the previous season) due to dryness and heat. There's a possible further reduction again in February. Prices for oil meals fared higher while on the contrast vegetable oils were on the defensive due to ample stocks. Global demand for US and Brazilian soybeans is expected to increase in 2018, thanks to Argentina's production failures. Weather will remain a dominant factor determining price in the next month.

Oilseeds Futures 22 February 2018	Mar-18	Jul-18	Sep-18	Dec-18
CBOT Soybeans (US\$/t)**	379.20	386.73	381.58	378.83
CBOT Soy oil (US c/lb)	32.49	32.67	34.82	33.29
CBOT Soy cake meal (US\$/t)*	414.18	416.59	407.25	398.57
SAFEX Soybean seed (R/t)	4575	4750	4855	4934
SAFEX Soybean seed (R/t) change w/w	100	90	88	67
SAFEX Sunflower seed (R/t)	4675	4692	4802	4930
SAFEX Sunflower seed (R/t) change w/w	-6	25	-22	25

\*short ton

\*\* Dec 2018 = Jan 2019

## Vegetables market trends

The drought and heat stress has caused some plant deterioration over the recent months (December & January). Recent favourable weather has allied some stress but quality was compromised. This can be seen with this week's lower prices for tomatoes, onions, potatoes, peppers and carrots even when lower supplies were recorded.

### Onions expected to rise over coming months

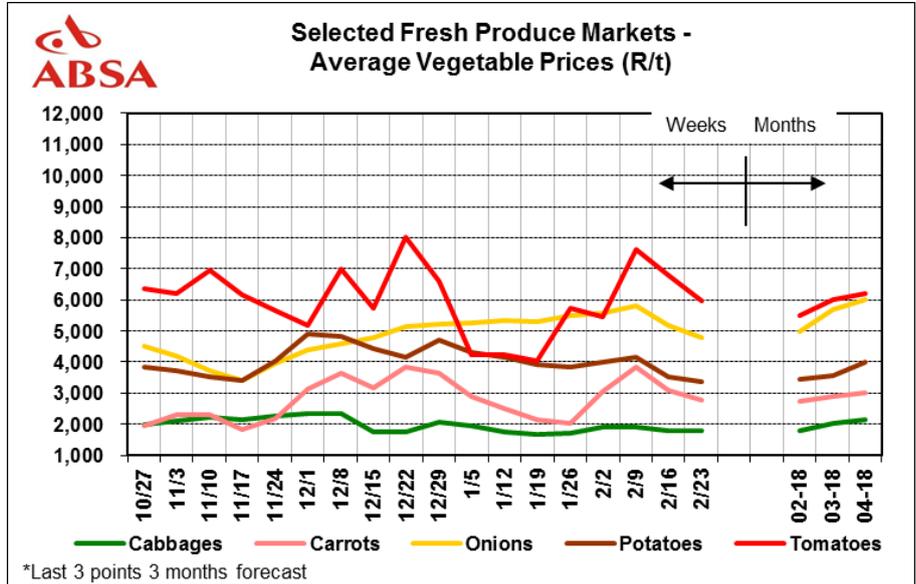
The reduction in onion plantings have led to increased prices from December 2017 when the Western Cape started delivering their produce to the Fresh Produce markets. Yields and quality was compromised during the heat waves and the drought. Prices are currently trading at R50-60/10kg bag. Lower volumes are delivered at the Fresh Produce markets, crop is smaller, and therefore prices are anticipated to increase over the next two months.

### Potato prices lower

Area harvested declined in the Western Cape (Sandveld) and Eastern Cape region due to persisting dryness and heat. The situation can change drastically within the first 5 months of 2018, depending on drought (or any other weather abnormalities). 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. Prices were lower week-on-week; demand was sluggish from the consumer side.

### Tomatoes prices decline, poorer quality delivered.

Volumes delivered were on a declining trend (-8.4) week on week for 23 February 2018. Prices still declined significantly by 16% irregardless of the lower volumes delivered at the Top 5 Fresh Produce Markets. 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. Produce that was delivered was of fairly poorer quality.



Vegetable Prices: Fresh Produce Market (Averages for the Pretoria, Bloemfontein, Johannesburg, Cape Town and Durban markets)						
Week ending 23 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	1.1%	1824	1804	-22.1%	1562	2005
Carrots	-7.4%	3142	3394	-12.3%	2030	2315
Onions	-8.0%	5080	5522	-9.0%	5782	6354
Potatoes	-5.7%	3294	3492	-13.4%	13945	16110
Tomatoes	-16.2%	5938	7086	-8.4%	3901	4260
Peppers	-3%	8020	8290	-11%	743	839

**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.