



NAMMC

Promoting market access for South African agriculture

MARKET INTELLIGENCE REPORT

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WEEK: 33



Grains and Oil Seeds

Global Perspectives

Global harvest for grains has almost completed and latest estimates for wheat production outlook declined by 3.7 million tons for 2020/21. This is due to the 4.0 million tons reduction for the European Union (EU), and 1.0 million tons reductions each for Kazakhstan and Turkey. However, these changes are partially offset by a 1.5 million tons production increase for Russia and a 1.1 million ton increase for Brazil. On the same vein, global wheat consumption is estimated down by 1.3 million tons attributed to 1 million tons reduction for EU feed and residual use. Wheat global exports also went down fractionally with several offsetting changes including a 1.5 million tons cut for the EU, and a 0.8 million tons reduction for Kazakhstan due to reduced production. However, an increase in exports by Russia and the U.S, due to improved supplies after harvest has offset the reduction in exports with 1.5 million tons and 0.7 million tons, respectively. Price movements for major exporting countries were mixed, but mostly range-bound during last month. U.S. prices witnessed the steepest decline, pressured by winter wheat harvest progress, while in Russia prices were slightly up despite a good output of wheat for this season. Global ending stocks of wheat are revised at 2.0-million-tons higher to a record 316.8 million tons (USDA).

Domestic and Regional Perspectives

Overall production for grains this year is forecast at 18.3 million tons, 30% higher than the five-year average and showing a significant recovery. Production is forecasted at an average level of 1.65 million tons in 2020. This is an offset for earlier expectations of a large decline in the planted area, improved rainfall in June in the high wheat producing area such as the western regions and record high prices of wheat during the planting season. This development has encouraged farmers to sow more than the initial intentions, lessening the year on year (y-o-y) decline in plantings. Maize exports are expected to be above average level of 2.5 million tons in the 2020/21 marketing season (May/April), more than 1 million tons above previous year. Exportation of white maize is most likely to be concentrated within the Southern Africa Development Community (SADC) region, with Zimbabwe foreseen to be one of the main destinations after lifting bans against GMO's, mainly produced in SA. The bulk of yellow maize exports are expected to be shipped to East Asia, mainly to the Republic of Korea, Japan and Taiwan, which have already collectively imported nearly 0.5 million tons of yellow maize since May 2020. Due to the sharp rand depreciation between March and April 2020, wholesale prices of maize declined between May and early July. Wheat prices fell in June due to rand depreciation and the low prices in the international market (FAO, 2020). For trade and deliveries of wheat are highlighted in the Figure 1.

Key areas to unlock growth in Grains and Oil Seeds

The forecasted export growth mostly reflects the sufficient domestic supplies due to the large 2020 maize harvest, while the weak national currency, driven by the effects of the COVID-19 pandemic, is further supporting the outlook given the increased competitiveness of locally produced maize in the international market. Maize and wheat remain key grains to curb food insecurity; however, the impact of lockdown has dire effects on economic activities due to job losses which may impact on the household ability to purchase food. But it is unlikely that domestic prices will be under pressure due to sufficient stocks.

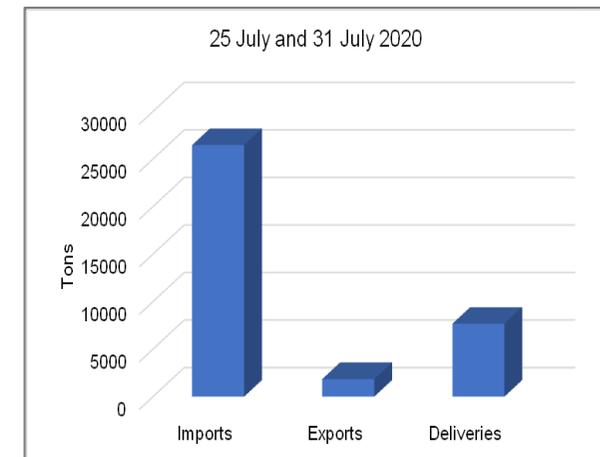


Figure 1: Trade and delivery of wheat between 25 July and 31 July 2020

Source: SAGIS, 2020

Fruits and Vegetables

Global Perspectives

Globally, potatoes are used for a number of purposes but more than 50% of produced are processed into potato food products and ingredients while some are reused as seed stock for the subsequent season. French fries constitute the largest share of processed potatoes with an estimated annual consumption of seven million metric tons, followed by potato crisps which are mostly consumed in developing countries (Market Watch, 2020). China is the leading producer of potatoes, followed by India and Russia in that order. Whole sale prices of potatoes vary greatly among countries, especially since the outbreak of the Covid-19 pandemic. For instance, between mid-July and mid-August, available data shows that the wholesale price per kilogram in Russia increased by 43.2% to USD\$ 0.35 while a 0.64% drop to US\$ 0.73 was registered in France. Despite a significant decline in wholesale prices in France, the price of potatoes still remains higher than what it costs in other countries where an increase in prices was observed. For example, in India (US\$0.22), Poland (US\$0.44) and China (US\$ 0.44) wholesale prices rose by 14.3%, 4.4% and 3.7%, respectively but those prices are much less than US\$ 0.75 per kg paid in Russia. It is also important to note that although the United States (USA) registered a relatively small increase (1.3%) in potatoes prices, the country exhibited the highest prices during the period under consideration. During the week of 10-14 August 2020 alone, biggest price upsurges were noted in Algeria (12.7%), Russia (9.5%) and South Africa (5.6%) while biggest drops were in Japan (22.4%), Ecuador (15.9%) and Belgium (10.3%).

Domestic and Regional Perspectives

South Africa's potato industry holds the biggest share of about 50% in the vegetable sector, in terms of gross value in production. According a report by the Potatoes SA, in 2020, the industry exhibited the lowest sales at the national fresh produce markets (NFPMs) than any other year since 2015, while comparing the same months until June each year for 10 kg bags sold. NFPMs had sold 59.2 million bags by the end of June 2019 as compared to 56.2 million bags sold in June 2020. The average price of all classes of 10kg bags was just below the prices received in 2018 and 2019 for some months, however, the prices of 10kg bags of potatoes in June 2020 had spiked more than the other years, trading at roughly R43/10 kg bag. For the week ended on the 7th day of August, the average trading price was R51.87/10 kg bag while on the 11th day of August, it was about R55/10kg at the four major NFPMs (*See* Table 1).

The pandemic is attributable to the less demand than supply through the closure of fast-food/restaurant businesses and informal trading, especially at the start of the national lockdown. Therefore, the high volumes in the national markets brought the prices down during the lockdown as fast food businesses were closed. After the opening of fast-food businesses, the prices recovered to what they are now, but also influenced by lower volumes in the markets during winter. According to Potatoes SA, prices are expected to remain high in the coming months.

Key areas to unlock growth in Fruits and Vegetables

In South Africa and the rest of the world, potato is the most consumed vegetable. This is attributed to its nutritional value and affordability. Locally, potato contributes about 45% of vegetable sales despite the significant decline of potato farms over the past two decades. Potato production has generally characterised by high input costs which could serve as a key barrier to entry. The industry has about 650 commercial farmers and 1000s of developing farmers. Throughout the past decade, the industry has experienced an average growth of about 3% per annum. To sustain and increase this growth, the government needs to start subsidizing the industry in technology development geared towards improving yields and reducing diseases, and production practises. Lastly, during the early phases of the lockdown, regulations did not permit informal trading whereas they are responsible for 66% of national potato sales. This caused a drop in demand as more factors contributed, including closure of informal food services and restaurants. In the entire value chain, informal markets also need to be prioritised throughout the decision-making processes as they play a significant role.

Table 1: Prices of potatoes at the 4 major NFPMs.

Market	11 Aug (R/10kg)	7 Aug (R/10kg)	Change
JHB	R56.40	R56.25	R0.15
Pretoria	R57.74	R56.63	R1.11
Durban	R57.13	R52.37	R4.76
Cape Town	R49.46	R48.42	R1.04

Source: Potatoes SA, 2020

Livestock and Animal products

Global Perspectives

The widespread impact of the COVID-19 pandemic and restrictions on both supply and demand in the global wool industry have become very clear in the past two months. Shorn wool production is forecast to fall by a further 1.7% during the 2020–21 period to 276,000 tons, despite improved seasonal conditions. The expected fall in production is driven by a forecast 4.1% fall in the number of sheep shorn nationally as a result of low opening sheep numbers. Price forecasts for wool have been revised downwardly as a result of the COVID-19 pandemic, associated control measures and low oil prices. Lockdowns have caused closures of clothing stores and textile mills across the world. Low oil prices are expected to hold synthetic fibre prices low, driving strong competition in the use of substitute fibres in textile blends. The wool industry has been undergoing significant transformation over the years, as technological advancements in knitting and improvement in textures and fabric quality continue to speak of a new wave of aesthetic appreciation. The real growth opportunities, however, lie with millennial consumers whose purchasing behaviour, such as preference for quality, authenticity, and transparency are characteristics inherent to wool. A better Australian wool market greeted grower seller last week, with a more appropriate volume of wool put up for sale relative to current demand. As a result, last week, 92% clearance rates were achieved.

Domestic and Regional Perspectives

The 2020/21 wool season kicked off this week, with 8 146 bales on offer and an overall sales clearance of 94.45% (of wool actually offered). The initial offering was reduced by 1 280 bales, withdrawn prior to the sale. Amidst continuing global market uncertainty and downward pressure in the Australian market - which declined by 11.5% last week, and in spite of the 2.2% weakening of the Rand against the US Dollar, the South African market also eased, decreased by 5.7% in ZAR terms on R137.38 per kg. The weaker Rand could also not support the price levels and the market traded 7.7% lower in US Dollar terms. Wool with finer microns performed better than the market average, with the broader wool categories experiencing severe downward pressure. Competition amongst buyers improved throughout the sale, especially for sustainable merino fleece wools. The major buyers on last week's sale were: Standard Wool SA (2 215), Lempriere SA (1 953), Modiano SA (1 196) and Stucken & Co (961). The average prices for a selected micron categories for good top-making (MF5), long fleeces were as follows: 18,0 microns decreased by 2,4% to close at R163,47/kg; 18,5 microns decreased by 4,4% to close at R152,14/kg; 19 microns lost 3,7% to close at R146,83/kg; 19,5 microns dropped by 5,6% to close at R141,66/kg; 20 microns was less by 4,5% to close at R140,08/kg; 20,5 microns lost 4,1% to close at R138,16/kg; 21,0 microns lost 6,3% to close at R135,58/kg; 21,5 microns tumbled by 4,0% to close at R138,64/kg; 22 microns fell by 1,6% to close at R138,63/kg and 22,5 microns declined by 2,6% to close at R134,25/kg. The next auction was scheduled for 19th August 2020 whereby approximately ±6 893 bales were anticipated be on sale.

Key areas to unlock growth in Livestock and animal products

Over the past five years, China accounts for an average of 71% of South Africa's wool exports in terms of value. And the wool industry has been faced with logistic restrictions before the suspension of wool imports from South Africa. One of the key areas to unlock is on diversifying South Africa's wool exports especially to African countries such as Egypt which indicated greater potential for wool imports from South Africa. It is also critical to invest more in textile manufacturing so that locally produced wool can be process within the country. This however requires proper investment such that South Africa is able to manufacture apparel products and clothing items such as classical suits, and others.

Table 2: South Africa merino indicator.

South Africa Merino Indicator			
Indicator	This sale	Prior sale	%Change
SA c/kg Clean	13738	14566	-5.70%
Ave. to date (20/21)	13738	16539	16,9 %
Ave. to date (19/20)	16539	-	-
US c/kg Clean	789	855	7,7 %
Euro c/kg Clean	671	758	11,5 %
AWEX EMI c/kg Clean	1004	1134	11,5 %

Source: Cape Wool, 2020

Source of information

Australian Wool (2020) - <https://www.wool.com/market-intelligence/weekly-price-reports/>
International Grains Council (IGC, 2020) - <https://www.igc.int/en/markets/marketinfo-sd.aspx>
South African Supply and Demand Estimates (SASDE, 2020) - <https://www.namc.co.za/category/research-publications/supply-demand-estimates/>
Cape Wool SA (2020) - <https://www.capewools.co.za/>
AgriOrbit (2020); <https://www.agriorbit.com/live-exportation-of-sheep-d-day-is-approaching/>
The Cattle Site (2020); <https://www.thecattlesite.com/news/55694/taiwan-strengthens-trade-relationship-with-paraguay-with-cattle-imports/>
Reuters (2020); <https://www.reuters.com/article/us-china-foreigninvestment-agriculture/china-to-encourage-foreign-investment-in-livestock-breeding-plant-based-meat-substitutes-idUSKCN24W0YZ>
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FarmersWeekly(2020); <https://www.farmersweekly.co.za/agri-news/south-africa/wildlife-industry-caught-off-guard-by-latest-hunting-ban/>
South Africa Cane-Growers(SA-canegrowers, 2020) - <https://sasa.org.za/facts-and-figures/>
United States Department of Agriculture (USDA, 2020) - <https://apps.fas.usda.gov/psdonline/circulars/cotton.pdf>
Cotton South Africa (CottonSA, 2020) - <https://cottonsa.org.za/resources/economic-info/>
Agri-hub (2020): <https://www.agrihub.co.za/reports/#79-2020>
WAPA (2020): http://www.wapa-association.org/asp/page_1.asp?doc_id=447

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