NAMC

Promoting market access for South African agriculture

MARKET INTELLIGENCE REPORT

2020

WEEK: 37

Grains and oilseed

Global Perspectives

According to the United States Department of Agriculture (USDA), global oilseed production estimates for 2020/21 declined by 1 million tons in August to 609 million tons in September 2020 (See Table 1). The decline was due to lower soybean and sunflower seed production more than offset gains in peanut and rapeseed production. In the United States (US), the soybean production went down by 3 million tons. The offset production gains were recorded in Brazil, Canada and India. A decline in production from Russia, Ukraine and Argentina led to a decline in sunflower globally while greater rapeseed production in Canada and peanuts in India and the US increased commodity forecasts higher. In terms of trade, oilseeds increased by 1 million tons and reached 190 million tons due to higher soybean exports from Brazil and peanuts from India and the US (USDA, 2020). World ending stocks of oilseeds decreased by 1 million tons which due to lower soybean carry over and lower production in the US.

Table 1: Global oilseed trends estimates for 2020/21

World (Million Tons)	Output	Total Supply	Trade	Ending Stocks
Aug 2020/21	610.42	721.33	188.54	108.28
Sept 2020/21	609.15	720.83	189.56	106.98

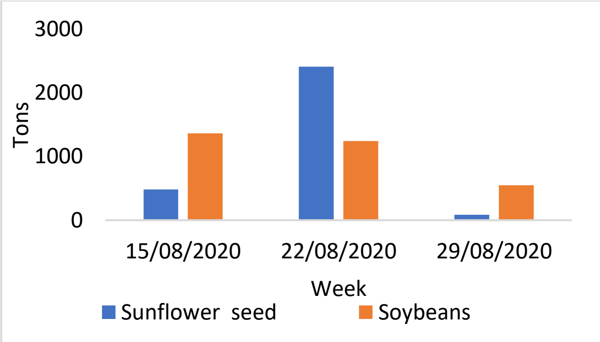
Source: International Grain Council (IGC), 2020

Domestic and Regional Perspectives

In South Africa, sunflower is one of the most significant oilseed crops and it is the largest source of vegetable oil together with by soybeans and canola. According to NAMC's Supply and Demand Estimates (2020), the total production supplies including carry-over stocks of sunflower seed was estimated to increase from 906 785 tons in July to 926 735 tons in August 2020 while the total demand was projected at 793 150 tons. The projected closing stock level for sunflower seed as of the 28th day of February 2021 is 133 585 tons. Figure 1 below presents weekly deliverables for sunflower and soybean to commercial silos on indicated dates.

South Africa's soybeans production supplies including carry-over stocks is estimated at 1.6 million tons for the 2020/21 marketing season, while the total demand was forecasted at 1, 4 million tons. The projected closing stock level by the end of 2020/21 market season is 155 155 tons. At an average processed quantity of 120 833 tons per month, this represents available stock levels for 1.3 months or 39 days.

Figure 1: South Africa's weekly deliverables for Sunflower and Soybeans



Source: SAGIS, 2020

Key areas to unlock growth in Grains and Oil Seeds

The domestic oilseed industry is not as big as grains such as maize, and there is a balance between the local supply and demand of sunflower seed. The basic argument behind this statement is that the total crushing capacity of 1.7 million tons is sufficient to satisfy the current demand for sunflower oil and cake. And if local production for sunflower is to be increased for example, the local prices of oil and cake would break away from import parity levels and trade lower thus negatively affecting crushing margins of the plants. This is likely to result in a decline in demand and possibly lead to lower producer prices for sunflower seed. Perhaps to develop the industry, new black emerging entrants should be assisted at the level of processing and not necessary at primary production stage. Structurally, this is the way the industry has been set up, and this structure is not bound to change anytime soon. Therefore, no structural shifts can be anticipated in the sunflower industry over the medium term, and producers can only boost profits by improving yields and implementing efficient production systems.

Fruits and Vegetables

Global Perspectives

The landscape of doing international trade is fast changing. Focus is drifting away from trade restrictive measures to market access enabling initiatives like Geographical Indications (GIs), among others. A GI is a sign or name used to identify a product from a specific geographic origin and exhibits qualities or reputation attributable to that origin. GIs have proven to be a value-added marketing differentiator as well as an indicator of geographical origin and quality. GIs however can only be beneficial to South Africa if and when agricultural industries secure more protected GI names in international markets (e.g. European Union (EU)) to which a large proportion of fruit and vegetable exports are destined.

Other than that, South Africa is bound to face very stiff competition in the EU market from competitors like China, United States (US) and Vietnam, among others. Of recent, the EU signed a stand-alone GIs agreement with China and the scope of GIs was extended a number of fruits and vegetable products. Also, a free trade agreement (FTA) between Vietnam and the EU came into force on August 01, 2020 and a number of Vietnamese GIs are protected in the EU, including fresh & processed fruits and other products. The EU also amended the regulation (EU) 2016/2031 on the protective measures against plant pests and this is bound to affect fruits and vegetables destined to the EU, most especially citrus, apples, pears, mangos and plums (CBI, 2020).

In the other news, the United States (US) proposed a bill to ban citrus imports from China following a decision by the US Department of Agriculture to limit the volume to commercial shipments only, registered production sites and packaging plants which show proof that produce is free from harmful organisms including fruit flies.

Domestic and Regional Perspectives

The citrus industry is expected to export 142.6 million cartons (15kg cartons) of citrus in the 2020 season, compared to 126.1 million cartons exported in 2019. The majority will come from the Northern region (76.4 million cartons), followed by the Eastern Cape (39.6 million cartons) and the Western Cape (26.8 million cartons). The shipment of citrus has been fairly stable, after the initial delays in the first few weeks of lockdown.

So far in week 36, the volume oranges exported to date has increased by 13% compared to last year's exports, supplying a total of 56.0 million cartons. The majority went to Europe (41%), the Middle East (16%) and South East Asia (15%). Grapefruit on the other hand has registered a 2% decline in its exports in 2020 as compared to 2019. With reference from 2019, there was a decrease in grapefruit exports to most markets, except for Russia and South East Asia to which exports grew by 21% and 33% respectively. Lemons showed a strong rise in demand, with 28% (23.6 million cartons) more exports than in 2019. This is attributable to the positive impact of the health benefits of vitamin C which was commended during the pandemic. Most of the lemons went to Europe (36%) and the Middle East (35%). Soft citrus has also done well, with an increase of 31% (21,3 million cartons) from 2019 exports. The majority of the fruit went to Europe, the United Kingdom, the Middle East and North-America. Even at the backdrop of the pandemic and declining growth, citrus continues to be a high-income earner of foreign earnings for South Africa.

Key areas to unlock growth in Fruits and Vegetables

Statistics South Africa (Stats SA) announced a massive gross domestic product (GDP) decline of approximately 51% in the second quarter of 2020, as compared to the country's economic activities in the first quarter. The decline was mainly caused by the shutdown of economic activities in a bid to limit the spread of COVID-19. However, as highlighted in Figure 2, the agricultural sector (including forestry and fisheries) was the only positive contributor to the GDP growth, with an increase of 15.1% and a contribution of 0.3 of a percentage points to GDP growth. The increase was mainly due to increased production and international demand for field crops, horticultural and animal products. Additionally, the agricultural sector was was among a selected few allowed to operate despite closure of other sectors during the lockdown. The citrus industry has certainly contributed in the GDP growth, as the industry is experiencing a good season compared to 2019 both in volumes packed and exported.

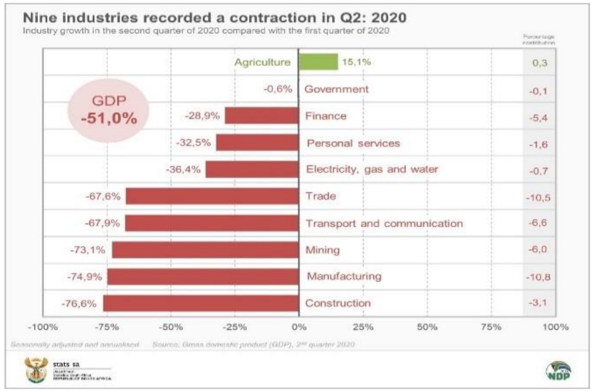


Figure 2: Industry performance in quarter 2
Source: STATS SA

Livestock and Animal products

Global Perspectives

Australian cattle/beef exports fell to 77 559 cattle per month which is the lowest since the past five years. Globally, exports of beef totalled 78 000 tons in August, which is the lowest monthly total since January last year. Relative to August of 2020, volumes increased by 27%, while year-to-year beef exports are increased to 9% on 2020, with constricting supply really starting to take hold. The top destinations in August were Japan (19 700 tons), the United States (18 200 tons) and South Korea (13 000 tons). For the first eight months of the year, total exports of chilled beef increased by just 1% on 2019 levels (relative to a decline of 12% for frozen beef), with exports to the United States, China and South Korea all experiencing good growth. As the herd size gains momentum, the proportion of cows to total cattle slaughtered will continue to fall, which should result in a greater percentage of beef being exported as chilled prime cuts rather than as frozen manufacturing mince.

While the first few months of 2020 saw strong demand from China for chilled beef, as affluent consumers sought high quality products for cooking at home, beef volumes to China have been impacted by the temporary suspension of five Australian establishments which would normally be significant suppliers for the market. Interestingly, it appears that much of the product which would have been destined for China is being re-directed towards South Korea and the United States. Relative to total Australian beef exports, South Korea accounted for 17% in August, a rise from 12% in August 2019, while the United States accounted for 23%, an increase from 19% last August. While China certainly remains a critical market, this ability to pivot and distribute beef to other high-value markets remains a key component, underpinning the stability of the Australian export industry.

Domestic and Regional Perspectives

During the week of 11 September, the average auction price was R34.39/kg for weaners (200 – 250kg) and R32.33/kg after auction commission. The price was 3.4% higher compared to the previous week. At the time, the increase was caused by the scarcity of weaners in the production areas, among factors. Compared to a month ago (August), the price increased in by 4.2% and was 27.3% higher on a year-on-year basis. Compared to the long term trend, the chance is 74% for a higher average price in September compared to August, which is based on prices over the past 20 years, and

90.0% for a higher price in October compared to September. The average producer price of Class A2/A3 beef was in 4.9% higher in the week of 4 September 2020 compared to the previous week. The increase in the beef price can among others be attributed to a higher end month demand and a lower supply. Both global and local beef prices are expected to increase going forward, as sit-down and takeaway restaurants reopen, given the easing of Covid-19 lockdown restrictions, thus improved demand levels.

Key areas to unlock growth in Livestock and animal products

The department of Agriculture, Land Reform and Rural Development has ring-fenced R1.2 billion for assistance to mainly financially distressed small-scale farmers. South Africa's agricultural sector has both commercial producers and small-scale farmers, who often supply food and employment in communities and are critical to ensure food security. The funds act as a catalyst to improve the supply of food products (including red meat) within the country and also in international markets. Demand for beef remained strong, therefore it is vital to improve the supply in order to minimise prices fluctuations.

Source of information

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For correspondence:

Markets and Economic Research Centre
Email: research@namc.co.za
Tel: +27 (0) 12 341 1115
Website: www.namc.co.za

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