COMMENTARY

23 November **2026**

THE INFLUENCE OF EXCHANGE RATE MOVEMENTS AND GLOBAL INPUT PRICES ON SOUTH AFRICA'S AGRICULTURAL PRODUCTION COST

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Introduction

Agricultural production and the broader food value chain are influenced by the cost of inputs, including fertilisers, fuel and energy. These inputs contribute to the costs incurred by farmers during production such as seedbed preparation, planting, maintenance, and harvesting. Other expenses beyond the farm gate include processing, storage, and the transportation of agricultural commodities and food products. South Africa's exposure to international input markets makes the domestic food cost structure sensitive to changes in global commodity prices and movements. Shifts in the Rand against major currencies, particularly the United States (US) dollar, crude oil, fertilizers, and pesticides affect the domestic prices.

The exchange rate plays an important role in determining the domestic cost of imported agricultural inputs. When the Rand depreciates against the US dollar, imported inputs generally become more expensive in Rand terms, potentially increasing production and distribution costs. Conversely, Rand appreciation may moderate these costs. However, the extent to which exchange rate movements influence domestic input prices also depends on shifts in international commodity prices, freight rates and other supply-chain factors.

Global developments in agricultural input prices

International agricultural input markets experienced mixed price movements between August 2025 and August 2026. According to the National Agricultural Marketing Council (NAMC) Food-Input Cost Advisory Report depicts international fertiliser prices, measured in US dollars, increased during the period under review. Year-on-year, ammonia prices increased by 52%, while diammonium phosphate (DAP) and muriate of potash (MOP) rose 13% and 11%, respectively. In contrast, urea prices declined by 18% over the same period. On a monthly basis, international fertiliser prices declined between July and August 2026, with ammonia recording the largest decrease of 21%, followed by urea (4%), DAP (3%) and MOP (2%).

Energy prices also contributed to changes in agricultural production and distribution costs. Between August 2025 and August 2026, international crude oil prices (measured in US dollar) increased by 19.3%, from US$69.06 to US$82.37 per barrel. Furthermore, international freight costs increased over the same period. The Baltic Dry Index (BDI) rose by 47.59%, while the Global Oilseeds Freight Index (GOFI) increased by 19.58%. These increases suggest that higher shipping and transportation costs may add to the cost of importing agricultural inputs, even when international commodity prices or exchange rate movements are favourable.

Exchange rate movements and domestic agricultural input costs

The NAMC reports that the Rand appreciated by 7.3% against the US dollar between August 2025 and August 2026, strengthening from R17.76 to R16.46 per US dollar. This appreciation of the Rand would generally be expected to provide some relief from imported input cost pressures. However, the impact of a stronger Rand was not sufficient to offset increases in the Rand-denominated prices of selected fertilisers. Over the same period, Rand-denominated ammonia prices increased by 39%, while DAP and MOP increased by 3% and 1%, respectively. In contrast, urea prices declined by 25% between August 2026 and August 2026.

The relationship between exchange rate movements and domestic input prices is also evident in the fuel market. Although the Rand appreciated against the US dollar, domestic diesel and petrol prices increased by 30.9% and 18.2%, respectively, between August 2025 and August 2026. Diesel prices increased from R20.00 to R26.17/litre, while petrol prices rose from R21.51 to R25.42/litre.

Implications for South Africa's agricultural cost structure

Changes in agricultural input costs may influence food prices across the production, processing and distribution stages of the value chain. However, the extent to which these cost increases are passed on to consumers varies across commodities and depends on other factors, including (i) seasonality, (ii) production conditions, and (iii) market supply and demand. For instance, the September 2026 NAMC food basket price report indicates a marginal year-on-year (August 2025 – August 2026) increase of 0.2%, while vegetable and fruit prices increased by 12.65% and 9.60%, respectively. These trends illustrate that, although exchange rate movements and international input prices contribute to domestic agricultural cost pressures, their effects on food prices are not uniform across commodities.

Possible interventions

Consistent with the Industrial development Strategy (2026) diversifying import sources and strengthening regional trade arrangements could reduce South Africa's exposure to international supply disruptions and price shocks. Government could also support research and development into locally available organic fertilisers and other suitable alternatives, ensuring that their use is supported by scientific evidence.

In line with the Agriculture and Agro-processing Master Plan (AAMP), investing in renewable energy and energy-efficient technologies may reduce agricultural production costs, and limit exposure to fuel and electricity price fluctuations. Additionally, investment in port capacity, road and rail infrastructure could improve the efficiency in the movement of agricultural inputs and outputs while reducing delays, congestion and transportation backlog.

In conclusion, South Africa's agricultural sector remains vulnerable to exchange rate fluctuations, international input prices, fuel costs and freight expenses. Although the Rand appreciation may provide relief on imported inputs, rising international and domestic prices may offset these benefits. Diversifying fertilisers import sources, investing in renewable energy and improving transport and logistics infrastructure could strengthen agricultural input supply resilience and help reduce production and distribution costs.