

Monthly grain market report



Marketing and Agri-Business Section

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PERIOD UNDER REVIEW: JANUARY 2016

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1. SOUTH AFRICAN GRAIN MARKET

On 29 January 2016, the MTM price for wheat to be delivered in February 2016 amounted to R 4 763 per ton, which equates to a 3.3% m//m or R 130 decrease compared to the 31 Dec' 2015 contract.

| <u>MTM-Prices (29/01/2016) - expressed in Rand/MT</u> | | | | | | | | | Month end R/MT (28/01/15) | Year-on- Year Change (%) | Month end R/MT (30/11/15) | Month end R/MT (31/12/15) |
|---|------------|------------|------------|------------|-------------|------------|------------|------------|------------------------------------|-----------------------------------|------------------------------------|------------------------------------|
| Commodity/ Delivery Date | Feb- 16 | Mar- 16 | May- 16 | Jul- 16 | Sept- 16 | Dec- 16 | Mar- 17 | Jul- 17 | Feb-15 | Feb-15 vs. Feb-16 | Dec-15 | Jan-15 |
| Wheat (RFTN) | 4763 | 4802 | 4886 | 4892 | - | - | - | - | 3928 | ↑ 21.3% | 4563 | 4923 |
| White maize | 5005 | 5016 | 4880 | 4763 | 4780 | 4780 | 4610 | 3500 | 1968 | ↑154.3 % | 3430 | 4661 |
| Yellow maize | 3828 | 3810 | 3569 | 3515 | 3552 | 3587 | - | - | 1990 | ↑ 92.1 % | 3430 | 3897 |
| Sunflower | 7750 | 7680 | 7075 | 6795 | 6850 | 6822 | - | - | 4940 | ↑ 54.9% | 7040 | 6800 |
| Soybean | 6855 | 6810 | 6430 | 6510 | - | - | - | - | 5525 | ↑ 24.1 % | 6015 | 6500 |
| Sorghum | - | 3850 | - | 3650 | - | - | - | - | 2300 | ↑ 67.4% (March 2015) | 3190 | 3420 (March 2016) |

Table 1: Mark-to-market prices for the summer crops and winter cereals as traded on SAFEX
Source: SAFEX (2015 & 2016)

Market future prices, production and production area estimates

Grain commodity future prices have escalated tremendously during the 2015/16 marketing season, with some futures reaching above average. Maize commodity prices was hit the hardest, as can be seen from the 154.3% y/y or R3, 037 per ton increase for white maize that has more than doubled over the marketing

year, whilst yellow maize has increase by 92.1% or R1, 833 per ton closing at almost twice the future price traded for the same period in the previous year. Assessing the movement of the monthly market prices, white maize futures were 45.9% more costly compared to the end of Nov' 2015 contract and 7.4% more compared to the Dec' 2015 contract. On the other hand, yellow maize futures traded at 11.5% more expensive than the end of Nov' 2015 contract and 1.9% less compared to the end of December 2015 contract. It is evident that respective factors within the grain market such the prevailing drought have far greater implications on white maize futures than yellow maize.

A practical example is that the demand for white maize in South African food consumption is far greater than yellow maize, due to the cultural connotation associated with the use thereof in our traditional staple meal known as 'pap' which is anticipated to have far reaching consequences especially in terms of food security (Business Day, 2016). Although yellow maize can be used to produce the staple meal, as it has been the case during drought occurrence during the early 2000's and in other Southern African countries. However, the domestic market's preference towards the product characteristics offered by white maize is rather greater than yellow maize (Reuters, 2016). As a result, an indication has been given that maize meal maybe available in both white and yellow maize as well as a combination thereof, depending on the influx of maize imports to address the shortfall of the current maize deficit, considering that significant white maize exports are only produced in the United States and Mexico(Reuters, 2016). Livestock farmers are also pressurised to slaughter animals in an attempt to recoup losses, as they are unable to adequately feed animals due to the scarcity thereof as a result of grain crop losses and deteriorating veld conditions (Business Day & DAFF, 2016). Infrastructural and capacity concerns regarding anticipated large maize import volumes are being addressed by the Department of Agriculture, Forestry and Fisheries (DAFF) as well as affected industry stakeholders (DAFF, 2016).

Other summer grains such as sunflower, soya and sorghum has also experienced moderate to high price escalations during the course of the marketing year. Sunflower futures were 54.9% y/y or R2, 810 per ton more compared to the same period in the previous year, whilst futures amounted to 10% more compared to November 2015 and 14% compared to December 2015. In addition, soybean futures escalated by 24.1% y/y or R1, 330 per ton compared to the same period last year and 14% more compared to the Nov'2015 contract. Sorghum futures also soared during the past few months, and are evident by the 67.4% y/y or R 1,550 more charged per ton compared to the same period in the previous year.

Wheat futures traded 21.3% y/y or R 835 per ton more compared to the same period during last year and 4.4% more compared to the November 2015 contact and 3.3% lesser than the Dec' 2015 contract. As indicated in the previous report, although production in the West Coast area has been severely affected by the drought conditions, farmers managed to produce improved wheat yields which resulted in a better outcome in terms of the overall wheat supply during the current production cycle. It is however anticipated that the next production cycle would have more severe implications, due to farmers not having sufficient water resources available to meet post-harvest irrigation requirements (Engineering News, 2016).

Summer Cereals: Preliminary area planted and production forecast for 2016 season

Given the current unfolding of events, the Crop Estimate Committee (CEC) recently released the preliminary estimates pertaining to the area planted with summer crops and the estimated overall production , which was predominantly obtained from the non-probability survey conducted by Statistics and Economic Analysis directorate from DAFF with input from the information obtained from the main production regions.

The overall maize area is estimated at 1,995 million hectares for the 2016 season, which translates to 657,700 or 24.79% lesser hectares planted compared to the 2015 season in which 2,653 million hectares were planted. The drought-stricken "maize belt" region has mainly resulted in the decrease in the maize cultivated area as the planting of the crop within the optimal planting timeframe was delayed due to

insufficient rainfall. Compared to last year's planting season, maize plantings decreased by 35.7% y/y and 33.1% y/y respectively in the Free State and North-West, 15.7% in the Eastern Cape (taking into account that the majority of smallholder grain production is derived from the province) and 8.2% y/y in Kwa-Zulu Natal (SAGIS, 2015). Production is anticipated to decrease by 2,503 million tonnes (57% white maize and the remaining 43% yellow maize) to an amount of 7,438 million tonnes in 2016 which is "well above the market expectation of 5.5 to 6 million tons" (Grain SA, 2016).

The below estimations has been derived for other summer crops:

- The area under production for sunflower seed is anticipated to increase to by 7.12% or 41,000 hectares, compared to the 576,000 hectares planted in the previous season. The production forecast is however down by 5.89% or 38,900 tons lesser compared to the 622,000 tons harvested in 2015 (SAGIS, 2016).
- Soybeans hectares are forecasted to decline by 22.16% or 152,300 hectares, compared to the 687,300 hectares planted last season. This subsequently impacts on production forecast which is lesser by 27.48% or 291,290 tons, in relation to the 1,060 million harvested during last season (SAGIS, 2016).
- Groundnuts hectares declined by 58.62% or 34,000 hectares, compared to the 58,000 planted during the previous season. Production thereof is therefore estimated to decline by 47.77% or 27,075 tons in relation to the 56,675 tons yield in the previous season (SAGIS, 2016).
- Sorghum hectares have decreased by 11.35% or 8,000 hectares, compared to the 70,500 hectares in the previous year – whilst the production yield is estimated to be down by 2.49% or 2,900 tons (SAGIS, 2016). South Africa is expected to import about 90,000 tonnes in the 2016/17 production year, to dampen the shortfall of sorghum which is most commonly used in beer production and animal feed, but also as a replacement of maize when necessary (Business Day, 2016).
- Dry beans hectares are 60.16% or 38,500 hectares lesser in relation the last year's harvest, whilst the production forecast indicates a 52,115 or 38,240 tons decrease (SAGIS, 2016).

Winter cereals: 2015/16 marketing season

Wheat production remained unchanged between the 5th and 6th crop forecast at 1,501 million tons, whilst the harvest decreased to 14.2% y/y or 248,810 tons compared to the previous season's harvest. The current annual production is below the 5 year (2010-2015) average of 1,745 million tons (SAGIS, 2016).

Due to the drought in the Western Cape, the largest wheat producer (in terms of area planted and production) – the production share has decreased by 186,000 tons and amounted to 47% or 713,000 tons of the total output anticipated for 2015, compared to the 51% share obtained in the previous production year. Furthermore, the Western Cape Province crop losses amounts to 65% of the total crop loss in the 2015 production season, whilst the Northern Cape, North West, Limpopo and the Free State jointly contributed 32% of the mentioned crop loss in 2015. Taking into account that the 2015 wheat planting in the Free State declined by more than 10,000 hectares, whilst the North West plantings increased by 3,000 hectares. Current projections however indicates that the Northern Cape will produce about 17% or 259,200 tons, as the second largest wheat producer followed by the Free State estimated at 14% or 208,000 tons production share.

Malting barley crop estimates have been adjusted downward by 4.51% or 16,114 tons from the last production forecast which amounted in a total crop output estimate of around 341,373 tons, compared to the previous crop which yielded 357,487 tons or 13% y/y more. Canola crop estimates have declined by 3.84% or 3,900 tons from the last estimation, which shrink the 2015 overall crop to 97,600 tons.

Producer deliveries

Wheat

Progressive producer deliveries for wheat amounted to 1,315 million tonnes for the 2015/16 marketing season, which accounts for 88% of the 2015/16 crop estimate compared to 1,501 million tons estimated for the current production cycle. For the weeks ranging from 02 -29 January 2016, a total of 22,310 tonnes was delivered, which provides an indication that weekly producer deliveries have slightly decrease if compared to deliveries in previous weeks. No significant adjustments were reported for the period under review.

Maize

Progressive producer deliveries for maize yielded 8,807 million tonnes for the 2015/16 marketing season for the period ranging from 02-29 January 2016, of which 50% thereof was derived from white maize and yellow maize respectively. A total of 77,582 tonnes was delivered of which 48,326 tons was white maize, whilst 29,256 tons was yellow maize. Assessing the deliveries to date for the 2015/16 marketing season, 48% thereof was graded as WM1 (white maize grade 1) and 47% thereof YM1 (yellow maize grade 1).

Exports, imports and re-exports

This section pertains to the trade of wheat for the period from 02 to 29/01/2016:

| Table 2 a: Wheat trade for the 2015/16 season, according to tons | | | | Source: SAGIS, 2015 | |
|---|-----------------------------------|--|--|---------------------|--|
| Progressive wheat exports for 2015/16 | 23,778 | Progressive wheat imports for 2015/16 | 676,313 | | |
| Wheat exports during the reporting period : (02 - 29/01/2016) | 4,261 | Wheat imports during the reporting period : (02-29/01/2016) | 189,897 of which 169,597 was for RSA and the rest for neighbouring countries | | |
| | | | | | |
| Importing countries | Share in RSA wheat exports | Supplying countries | Share in RSA wheat imports | | |
| Botswana | 21.1% | ¹ Canada | 11% | | |
| Namibia | 46.3% | ¹ Germany | 28.6% | | |
| Zimbabwe | 31.8% | ¹ Poland | 28.3% | | |
| | | ¹ Russia | 25% | | |
| | | ¹ United States | 7% | | |
| | | Imports were shipped through the following ports: | | | |
| | | <ul style="list-style-type: none"> 90.97% thereof was shipped through the Durban harbour, followed by 3 % via East London and 6 % via Port Elizabeth. | | | |

The overall demand estimate for wheat has been adjusted downward by 175,000 tons to amount to 3,310 million tons in total, due to a downward adjustment in the projections of the exports of whole wheat from 275,000 tons to 100,000 tons (NAMC, 2016). No changes have been reported in the overall wheat supply estimates, and thus it remains unchanged at 4,026 million tonnes and imports are still estimated to be in the range of 1,950 million tonnes (NAMC, 2016).

This section pertains to the trade of maize for the period from 02-29/01/2016:

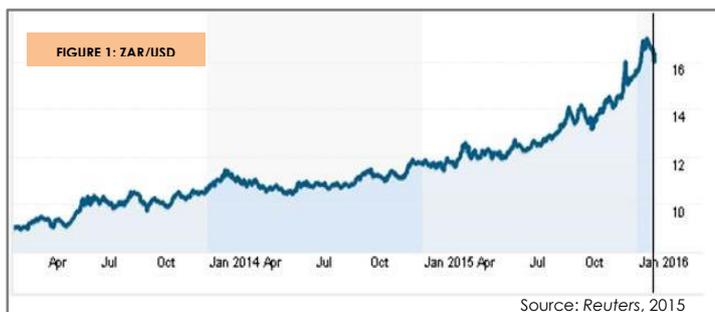
| Table 2 b: Maize trade for the 2015/16 season, according to tons | | | | | | Source: SAGIS, 2015 | |
|---|----------------------|-----------------------|---|---------------------|-----------------------|---------------------|--|
| Progressive maize exports for 2015/16 | White maize: 336,642 | Yellow maize: 169,546 | Progressive maize imports for 2015/16 | White maize: 71,559 | Yellow maize: 798,604 | | |
| Maize exports during the reporting period : (02-29/01/2016) | White maize: 44,295 | Yellow maize: 13,004 | Maize imports during the reporting period : (02-29/01/2016) | White maize: 2,932 | Yellow maize: 128,276 | | |
| | | | | | | | |

| Importing countries | Share in white maize exports | Share in yellow maize exports | Supplying countries | Share in white maize imports | Share in yellow maize imports |
|---------------------|------------------------------|-------------------------------|--|------------------------------|-------------------------------|
| Botswana | 36.7% | 21.8% | Zambia | 100% | |
| Lesotho | 7.4% | 3.4% | ² Argentina | | 21.9% |
| Mozambique | 8.3% | 10.9% | ² Brazil | | 44% |
| Namibia | 27.6% | 18.9% | ² Paraguay | | 34.1% |
| Swaziland | 3.19% | 45% | | | |
| Zimbabwe | 16.9% | - | | | |
| | | | ² Imports were shipped through the following ports: 42% via Cape Town, 36% via Durban. | | |

The total maize demand for the 2015/16 season was adjusted downwards by 42,000 tonnes to 11,200 million tonnes, due to a downward adjustment in local demand quantities of 80,000 tonnes, an additional 10,000 tonnes for animal processing, 2,000 tonnes decrease for withdrawals from producers and an 30,000 tonnes increase in whole maize exports (NAMC, 2016). Maize supplies was adjusted downward by 418,750 tonnes, due to an decline in opening stock estimates of 400,306 tonnes and 2,473 million decrease in local producer deliveries and a 2,470 million tonnes increase in maize exports. In addition to a decrease of 13,044 tonnes in early devirries and 2,000 shrink in the estimated surplus (NAMC, 2016).

2. ECONOMY

Figure 1: Review of the performance of the local currency (ZAR) against the USD (ending 30 January 2016).



The Rand continued to depreciate against the major global currencies, and ended trade at R 16.10 against the US dollar, R 17.54 against the Euro and R 23.12 against the British Pound on 29 January 2016. This translates into a plunging currency move of -2.93%, -2.46% and -0.13% against the USD, EUR and GBP respectively (SARB, 2016). Analysing the trend of the local currency against the US dollar, the rand depreciated by 23% y/y against the USD when measured on 29

January 2016 (SARB, 2016).

High debt levels and weakened investor confidence are prevailing within the global economy. A consequence thereof is the slowdown in the Chinese economy which was slightly lower at 6.9% in 2015, from 7.3% obtained in 2014. Chinese growth prospects are below the government's 7% growth threshold, which is reported to be the slowest since 1990. Thus numerous government interventions are implemented to enhance growth projections at around 6.5% per annum for the following 5 year period as from 2016-2020 (Nedbank, 2016).

Lower commodity prices (i.e. oil and precious metal) are hampering economic expansions within in developing economies, with some even experiencing economic contractions due to the distortion in trade balances which are mainly a result of the downward pressurised prices within the commodity market, whilst drought is severely hampering agricultural output due to the El Nino weather system in other countries such as Sub-Saharan Africa (Nedbank, 2016).

Hence, the South African economy's performance is deteriorating due to the impact of a range of international and domestic factors (although not limited to the mentioned) which includes: rising inflation which is anticipated to average at 6.8% in 2016 and increase to above 7% in 2017. In an attempt to stabilise the economy, the South African Reserve Bank (SARB) increased the repo rate by 50 basis points or 0.50% to 6.75%. This tallies the cumulative increases of the repo rate to 1.75% since January 2014 (SARB & Nedbank, 2016).

In addition, the weaker rand gave rise to higher food inflation, whilst relative high tariffs for both water and electricity also add additional pressure which could hamper economic prospects. Infrastructural challenges are also adding to the mounting to the pressure within the economy (Nedbank, 2016).

3. ENERGY

Eskom submitted an application review to NERSA (National Energy Regulator of South Africa) for an additional tariff increase to the average 8% which was imposed for the Multi-year price determination (MYPD) 3, which stretches over the 5 year period from 1 April 2013 to 31 March 2018. Public consultations were recently held, as part of the review process in order to decide whether to approve an increase of about double the current agreed tariff to cover an additional R 22.8 billion through the requested increase. The additional funds are requested to meet the national energy supplier's (i.e. Eskom) "financial obligations and to restructure the balance sheet" (Fin24, 2016).

Brent crude oil prices, ended at USD 36.53 per barrel at the end December 2015, which translates to an increase of 36.3% y/y increase compared to the same period in the previous year. The price declined further and reached USD 29.00 per barrel in the 3rd week of January 2016, which is the lowest level since mid-2004 (Nedbank, 2016).

The below monthly fuel price adjustment have been effective as from Wednesday, 03 February 2016

| Product description | Numeric adjustment (cents per litre) | Price adjustment description | Coast SA (cents per litre) |
|--|--------------------------------------|---|--|
| Petrol 93 ULP | 6c | cents per litre increase in retail price | 1 182.00 |
| Petrol 95 ULP & LRP | 6c | cents per litre increase in retail price | 1 200.00 |
| Diesel 0.05% Sulphur | 62c | cents per litre decrease in wholesale price | 943.17 |
| Diesel 0.005% Sulphur | 63c | cents per litre decrease in wholesale price | 947.57 |
| Illuminating Paraffin (Wholesale) | 59c | cents per litre decrease in wholesale price | 535.03 |
| Illuminating Paraffin (SMNRP) | 79c | cents per litre decrease in the Single Maximum National Retail price (SMNRP) | 749.00 |
| Maximum Retail Price for LPGAS | 1c | cents per kilogram increase in the maximum retail price | 392.21 (refinery gate) LPG for residential customers is derived as per the control sheet per kilometre. |

Source: Department of Energy, 29 January 2016

ACKNOWLEDGMENT OF INFORMATION SOURCES

In this publication, the below listed information sources are acknowledged:

- ✚ Business Day: www.bdlive.co.za
- ✚ Crop Estimate Committee (CEC), South Africa: www.daff.gov.za ; www.sagis.org.za or www.grainsa.co.za
- ✚ Department of Agriculture, Forestry and Fisheries: www.daff.gov.za
- ✚ Department of Energy (DoE): www.energy.gov.za
- ✚ Engineering News: www.engineeringnews.co.za
- ✚ Fin24: www.fin24.co.za
- ✚ Grain SA www.grainsa.co.za
- ✚ National Agricultural Marketing Council: www.namc.co.za
- ✚ Nedbank: www.nedbank.co.za
- ✚ Reuters: www.reuters.com
- ✚ SAFEX: www.jse.co.za/redirects/safex
- ✚ SAGIS: www.sagis.org.za
- ✚ SARB: <http://www.resbank.co.za/>

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