



Agri Trends

26 January 2017

Excessive rainfall curbs soybean plantings in Argentina – prices rally

The production of soybeans in Argentina were projected to reach 57 million tons in the 2016/17 (Oct/Sep) marketing year compared to 56,8 million tons the previous year. According to Oilworld the recent flooding in Argentina may curb the new season plantings of soybeans to produce only 52 million tons. Production may even decline to 50 million tons and below. Key production regions were hit by rainfall of 75 to 150 mm of rain on 15 January. This came on top of excessive rainfall and flooding. Consequently, markets witnessed a steep price rally of 6% in the prices of soybeans and 11% in soya meal. Once the water has receded it will be too late for the replanting of beans in order to complete intended plantings. It is expected that the area planted in Argentina may decline to a five year low while yields will be trimmed below average in many areas. Uncertainty provides underlying price support.

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Contact us at Absa Agri-business:

Karabo.Takadi@absa.co.za

Wessel.Lemmer@absa.co.za

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Maize market trends

International

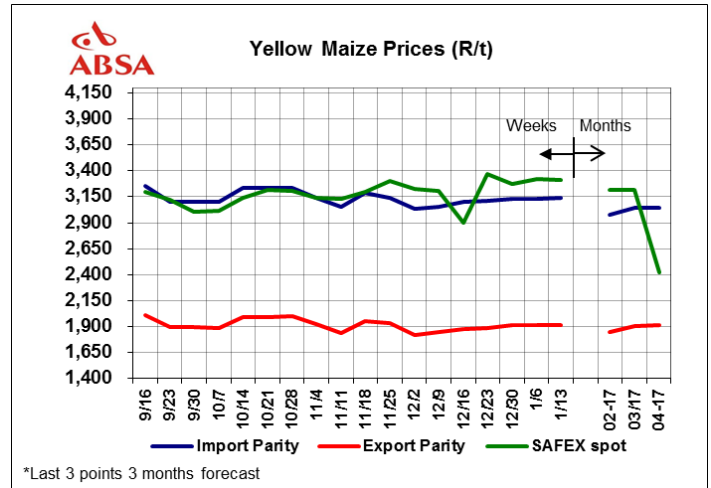
The weekly average prices for yellow corn in the Gulf traded higher week on week by 1,4% to \$160.54/ton.

Bullish factors

- Heavy rains in Argentina have reduced yield prospects for the corn and soybean crops there.
- Weekly ethanol data was also very supportive
- US corn exports inspections were strong at 963,900 tons over the last week.

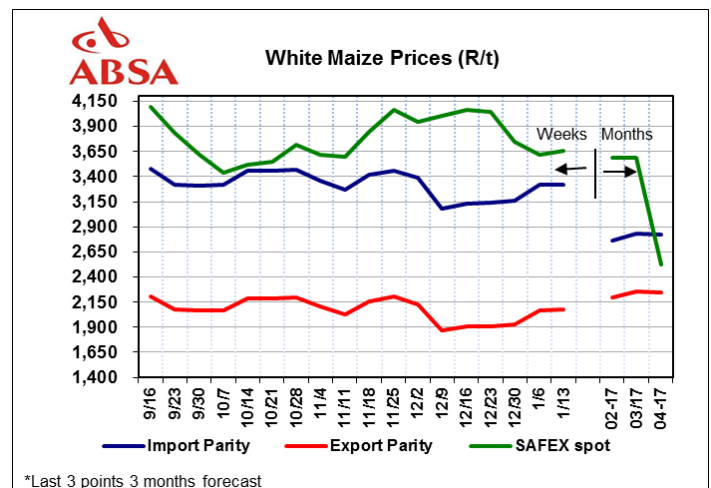
Bearish factors

- Ample world stocks and concerns over US trade policy under President Donald Trump add pressure on the market.
- Corn was also pressured by an increase in Informa Economics' projection of US 2017 corn plantings to 90.489 million acres, from 90.151 million last month.
- The projected global ending stock for maize for the 2016/17 marketing year may reach 224.4 million tons compared to 208,5 million tons in 2015/16. It is the highest ending stocks level on record.
- The Yellow Maize Gulf (Nr 3) price trades at \$171/ton compared to the lowest level of \$151/ton and the highest of \$196/ton for the past 52 weeks (IGC, 2017)



Domestic

As at Wednesday the 25th of January, the spot price for old season white maize (March 2017) decreased by R234/t week on week from R3322/ton to R3088/ton. Week on week, old season yellow maize price (March 2017) decreased by 8.09% from R3163/ton to R2907/ton. During the same time, week on week new season white maize prices for delivery in July 2017 decreased by 7.08% from R2315/ton to R2151/ton whilst yellow maize prices decreased by 6.30% to R2200/ton.



Bullish factors

- If prices decline sufficiently expect that demand may recover above current expectations.
- The Crop Estimates Committee increased the preliminary area planted by 3,5% from the intentions of 2 463 000 ha to 2 549 200 ha. The hectares fall short to produce a surplus for export purposes. A high national average yield of 4,7 ton/ha is needed to produce more than 12 million tons before sufficient surplus maize will be available for export purposes.
- We need to import 2,7 million tons of maize by end of April 2017. Due to low prices in March some of the export commitments washed out. The result is that we fall behind with our rate of imports. By week 38 we imported 1 822 945 tons of maize. Projected to the end of April south Africa will import 2 494 556 tons. Compared to the 2,7 million tons of maize the carry out at the end of April 2017 will be 205 443 tons less than expected. Consequently, the production of maize to meet demand in the new season need to increase to 12,2 million tons or a national average yield of 4,8 ton/ha. If the rate of imports do not catch up soon the market will turn bullish.
- It is early in the season – any weather scare to reduce a potential yield of 4,8 ton/ha will support prices.

Bearish factors

- A possible continuation of Rand strength will keep prices under pressure.
- Maize prices may be under pressure with the arrival of the new crop from March onwards.
- The weather outlook for follow up rainfall in the next ten days looks favourable.
- The Crop Estimates Committee increased the preliminary area planted by 3,5% from the intentions of 2 463 000 ha to 2 549 200 ha. If producers realise a national average yield of 4,6 ton/ha (white maize yield of 4,2 ton/ha and a yellow maize yield of 5,23 ton/ha) the national average yield may aim at 4,6 ton/ha or 11,7 million tons.

Outlook

Internationally, prices are supported by estimated lower production figures based on unfavourable growing conditions in especially Argentina. Drier weather in Argentina after recent flooding may bring some relief to prices. Locally, the favourable weather outlook adds a bearish tone to maize prices but it still too early to bank the bin.

Table 1: Weekly average yellow maize futures and estimated option prices

Yellow Maize Futures: 25 January 2017	Mar-17			May-17			July-17			Sep-17			Dec-17		
CBOT (\$/t)	144.19			147.04			149.89			152.35			155.01		
SAFEX (R/t)	2907.00			2250.00			2200.00			2242.00			2302.00		
SAFEX (R/t) Change week on week (w/w)	-256.00			-124.00			-148.00			-154.00			-144.00		
	Mar-17			May-17			Jul-17								
	Ask	Put	Call	Ask	Put	Call	Ask	Put	Call						
	2,940	99	66	2,300	126	76	2,240	169	129						
	2,900	78	85	2,260	103	93	2,200	147	147						
	2,860	59	106	2,220	83	113	2,160	126	166						

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

White-Maize Futures 20 January 2017	Mar-17			May-17			July-17			Sep-17			Dec-17		
SAFEX (R/t)	3088.00			2250.00			2151.00			2200.00			2261.00		
SAFEX (R/t) Change w/w	-234.00			-146.00			-164.00			-173.00			-158.00		
	Mar-17			May-17			Jul-17								
	Ask	Put	Call	Ask	Put	Call	Ask	Put	Call						
	3,120	157	125	2,300	170	120	2,200	209	160						
	3,080	136	144	2,260	148	138	2,160	187	178						
	3,040	116	164	2,220	127	157	2,120	165	196						

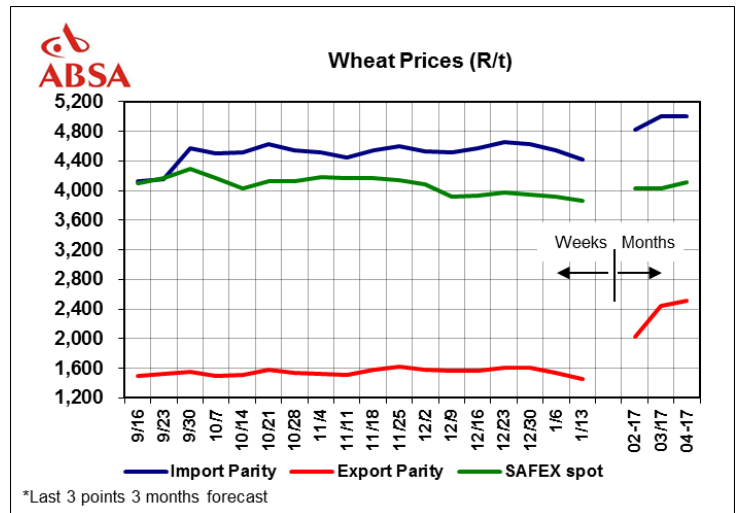
Wheat market trends

International

The weekly average old season HRW wheat Gulf price increased week on week by 2,8% from US\$153.35/ton to reach a weekly average of US\$157.59/t.

Bullish factors

- Global wheat exports increase year on year from 176,83 million tons to 178.05 million tons but total global demand remain nearly unchanged at just below 740 million tons.
- USDA data has showed US winter wheat sowings at their lowest since 1909, with hard wheat plantings particularly weak.
- An appreciating rouble supported wheat prices in Russia



Bearish factors

- Weakness in the US dollar helped limit losses in the US grain futures
- In the US, a combination of plentiful wheat stocks and minimal risks to winter wheat are putting pressure on wheat prices.
- The world ending stocks for wheat are projected to increase by 1,15 million tons to 253,3 million tons. Ending stocks in the US increased to 32,3 million tons and stocks in foreign countries may reach 221 million tons – very similar to the previous year. Globally, wheat is in ample supply.

Domestic

As at Wednesday the 25th of January, the spot price for wheat (March 2017) decreased by 0.70% week on week from R4008/ton to R3980/ton. Wheat prices for delivery in July 2017 decreased by 0.43% from R4138/ton to R4120/ton. The following bullish factors remain for this week.

Bullish factors

- South Africa remains a net importer of wheat. Since the end of November no imports occurred. The current import tariff of R1591.40/ton still partially provides underlying support to domestic prices until at least end of March.
- Note that South Africa do not import wheat since November. If the domestic stocks are used to the full by April we may become increasingly reliant on imports and be exposed fully to any unfortunate factors that may impact international prices to increase.

- The dry conditions in the Western Cape may extent to the next season impacting negatively on new season production from May 2017 onwards.

Bearish factors

- National Treasury indicated that the wheat tariff formula will remain until the end of March 2017. Until then the R1591/ton wheat import tariff will remain unchanged given that no major changes occur in the international FOB price for wheat. We expect an adjustment of about R600/ton in the wheat import tariff without impacting negatively on new season prices for wheat.
- Under the new SACU EU EPA agreement from February onwards a monthly amount of 33 333 tons can be imported tariff free from the EU.
- The strong Rand impact negatively on import parity.

Outlook

Globally, favorable production and high carry out stocks keep international prices low. Locally, imports stopped completely in expectations of a favorable adjustment in the import tariff from April onwards and the opportunity to import wheat of 33 000 tons tariff..

Wheat Futures								
25 January 2017			Mar-17	May-17	July-17	Sep-17	Dec-17	
CME (\$/t)			155.98	161.12	166.63	172.14	178.57	
SAFEX (R/t)			3980.00	4065.00	4120.00	N/A	N/A	
SAFEX (R/t) Change w/w			-28.00	-36.00	-18.00	N/A	N/A	
Mar-17			May-17			Ju-17		
Ask	Put	Call	Ask	Put	Call	Ask	Put	Call
4,020	140	100	4,100	224	189	4,160	291	251
3,980	118	118	4,060	203	208	4,120	269	269
3,940	98	138	4,020	182	227	4,080	248	288

Oilseed market trends

International

Oilseed prices

The weekly average USA soybean price decreased week on week from US\$401.00/ton to US\$392.24/ton by 2,18%. USA soya oil prices increased from USA\$35.54/ton to USA\$35.31/ton and soymeal prices traded 7.97% higher at USA\$343.48/ton.

Bullish factors

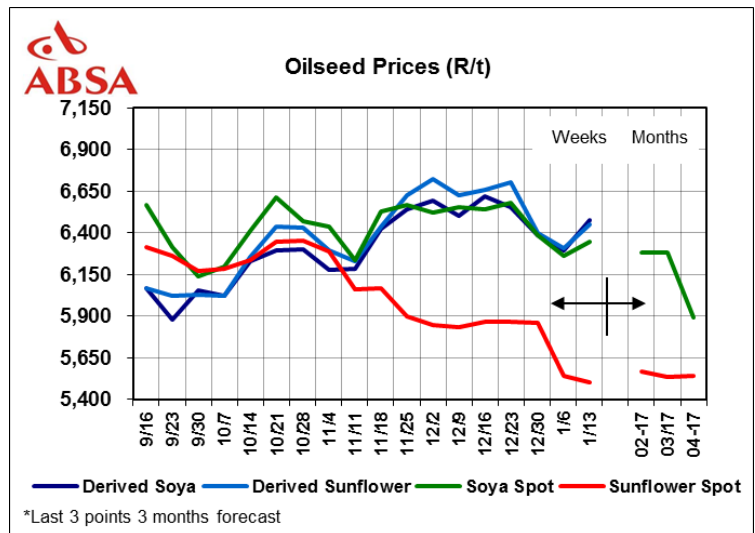
- Soybeans found support from heavy rain and flooding in Argentina. Currently, analysts in Argentina are estimating a 4-7 million ton reduction in Argentine soybean production due to the excessive rainfall. Soymeal prices were also supported as a result.
- Additional sources of support for soybeans came from a weaker US dollar and stronger outside markets.
- NOPA reported soybean crush in December was 160.2 million bushels, below average market expectations of 162.8 million bushels
- Informa trimmed its 2017 soybean plantings forecast to 88.647 million acres from 88.862 million previously.

Bearish factors

- Drier weather in Argentina after recent flooding has brought relief to prices.
- A significant shift towards soybeans and away from corn in the spring planting season in the US is expected.
- US soybean crushing stagnated at an estimated 4,63 million tons in December and did not increase further as expected.
- Global soybean supplies are still ample.
- The prospect of the New Year holidays which start later this week in China may see pressure in palm oil prices. China is a big buyer of palm oil and soybeans.

Domestic

As at Wednesday the 25th of January, sunflowerseed prices (Mar 17) decreased week on week by R330/t to R5250 from R5580 whilst soybean prices also declined by R125/t from R6520/ton to R6395/t.



Bullish factors

- South Africa remains a net importer of soybean oilcake and vegetable oils. At the preliminary estimated hectares of 542 200 ha and a relatively conservative yield of 1,7 ton/ha we still need to import 170 000 tons of soybean to meet our domestic demand of 1,17 million tons.
- Producers planted less sunflowerseed (665 800 ha) compared to the previous season and less than intended (670 000 hectares) this season compared to 718 500 ha in 2016.
- Uncertainty on the future development of weather conditions is relevant.

Bearish factors

- At an average conservative yield of 1,7 ton/ha on 542 200 ha a total amount of 921 740 tons of soybeans are produced. The yield may even be higher if favorable conditions persist. The highest yield on record was 2,19 ton/ha on 237 750 ha. A national production of 516 000 tons were produced back then. If fortunate and the national average yield reaches 2 tons per hectare a total production of 1 084 000 tons can not be excluded.
- A strong rand will favor lower cost imports of oilcake and vegetable oils leading to a cap on price increases in the domestic market.
- Soybean prices will be under pressure with the arrival of the new crop from March onwards.

Outlook

Soybean prices may ease from their recent increases, as the outlook for Southern Hemisphere crops remains relatively unthreatening. Argentina is expected to experience hot and dry conditions this week. That pattern should allow for flooded regions to dry down more quickly.

Oilseeds Futures 25 January 2017	Mar-17	May-17	July-17	Sep-17	Dec-17			
CBOT Soybeans (US\$/t)**	387.74	391.14	393.53	384.25	377.73			
CBOT Soy oil (US c/lb)	34.87	35.12	35.36	35.29	35.10			
CBOT Soy cake meal (US\$/t)*	343.3	346.3	348.4	341.7	334.7			
SAFEX Soybean seed (R/t)	6395.00	5920.00	6024.00	6124.00	N/A			
SAFEX Soybean seed (R/t) change w/w	-125.00	-115.00	-96.00		N/A			
SAFEX Sunflower seed (R/t)	5250.00	5310.00	5400.00	5544.00	N/A			
SAFEX Sunflower seed (R/t) change w/w	-330.00	-280.00	-275.00	-226.00	N/A			
Sunflower Calculated Option Prices (R/t)								
Mar-17			May-17			Jul-17		
5,300	180	130	5,360	300	250	5,440	340	300
5,260	158	148	5,320	279	269	5,400	318	318
5,220	138	168	5,280	258	288	5,360	298	338

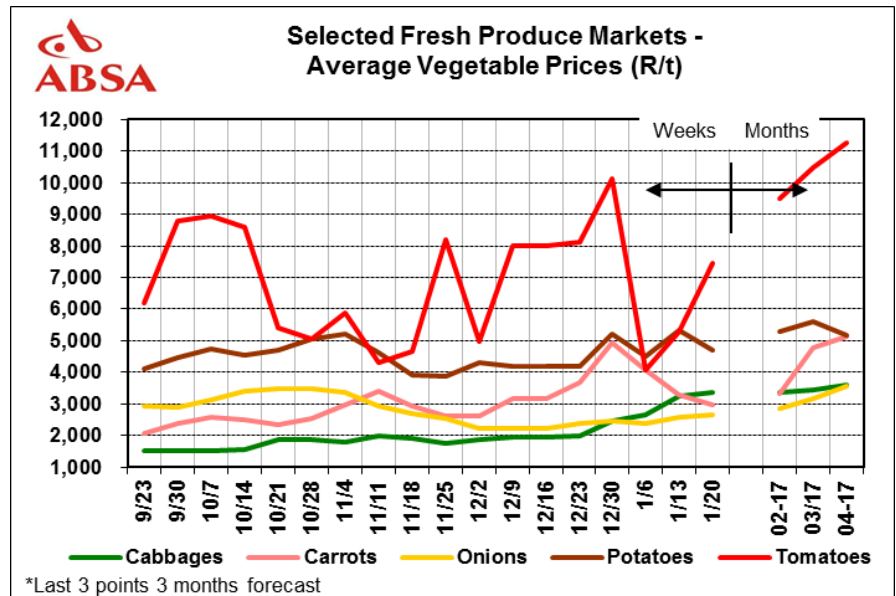
*short ton

** Dec 2016 = Jan 2017

Vegetable market trends

Carrots

Due to the recent rainfall carrots received on the fresh produce markets is of lower quality. Poor germination and loss of plantings due to excessive rainfall lead to lower yields. The price variance between poorer quality carrots and better quality carrots increased. Although carrot volumes decreased it is still not sufficient to ramp up prices in the short term. However, it is expected that prices will recover between February to April (Around Easter) by between 30% to 50%. Even so, compared to a year ago the expected increase in prices may not lead to prices being higher than a year ago.



Peppers

The price of green peppers is under great pressure. Peppers are in terms of value the fifth largest vegetable crop traded on the fresh produce markets. During December and the festive season the lack of available labour for picking and packing limited the volumes of peppers sent to the market. In January with the return of sufficient labour the volumes of peppers increased on the fresh produce markets. Quality decreased in January because the green peppers start to turn colour. Consumers want green red and yellow peppers but not half coloured green peppers. Volumes increased on the Johannesburg fresh produce market to about 14 000 boxes per day leading to an extreme price drop in January to below break-even cost for many producers. Those producers who invested in undercover farming of peppers receive better prices for better quality but even for these producers the margins are severely squeezed. Peppers are regarded as a speculative crop and producers who are risk averse tend to plant other vegetables instead. The average price for peppers in the 5 major fresh produce markets was R6.26/kg for the week ending on the 20th of January. The highest prices received were in Bloemfontein at R8.86/kg and the lowest prices were in JHB at R4.73/kg. Note that the volumes in Bloemfontein was only 9720kg compared to volumes in JHB which reached 538715kg.

Tomatoes

Tomato volumes are low and quality is poorer than normal. The poor quality can be attributed to an increase in variation in temperature. In the Western Cape Province the heat experienced affects the volumes produced as flowers are weaned. Prices are expected to reach between R12 – R15/kg and should stay at these levels for the next three months. Disease affects smaller producers more than the bigger producers. Due to cold weather in Europe the production volumes of tomatoes decreased leading to higher prices. Prices in the EU are sufficient enough to enable local producers to ship tomatoes for the European market by airfreight. In certain countries in Africa the outbreak of the Fall Army worm (A quarantine pest in South Africa) affected production and increase the demand for vegetables to destinations such as Zambia.

Vegetable Prices: Fresh Produce Market (Averages for the Pretoria, Bloemfontein, Johannesburg, Cape Town and Durban markets)						
Week ending 20 January 2017	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	3.7%	3385	3264	945.0%	12287	1176
Carrots	-9.2%	2993	3296	927.4%	17714	1724
Onions	3.2%	2655	2574	891.5%	54719	5519
Potatoes	-11.6%	4706	5321	930.3%	130518	12668
Tomatoes	40.8%	7464	5303	713.4%	32295	3970

Absa Agri-Business
Karabo.Takadi@absa.co.za
Wessel.Lemmer@absa.co.za

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