



Agri Trends

24 February 2017

#Budget2017 Gordhan takes a sip: “It’s just water, alcohol is too expensive now”

Minister Pravin Gordhan was frank about the critical position of our economy. Our biggest hurdles are the economic climate and the political uncertainty we face. The government has all the plans and growth strategies, but we need to realise that we are at a crossroads where the biggest challenge is execution. The Minister repeatedly emphasized the importance of discipline and challenged his colleagues to do the same. Reference was made to how public and private sector should work together.

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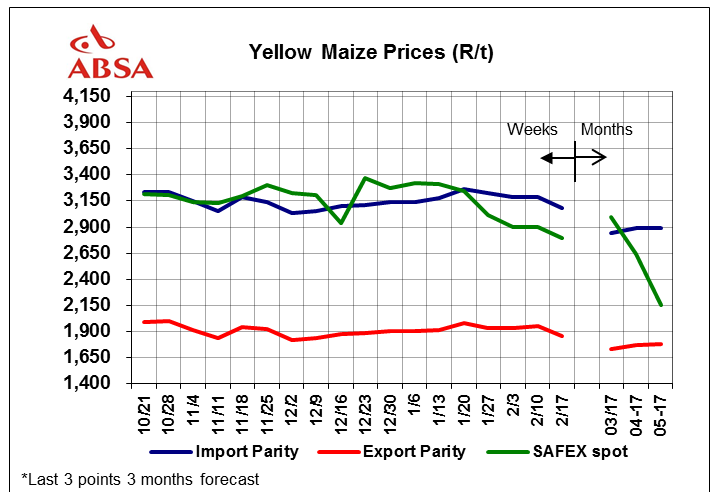
Maize market trends

International

Grain bids closed higher this week as traders awaited direction from the US Department of Agriculture Forum. The forum will offer forecasts as to what farmers will be planting this spring. The weekly average prices for yellow corn in the Gulf traded lower week on week by 1,47% to \$163.02/ton. The Rand depreciated week on week from R13.00 to R13.10.

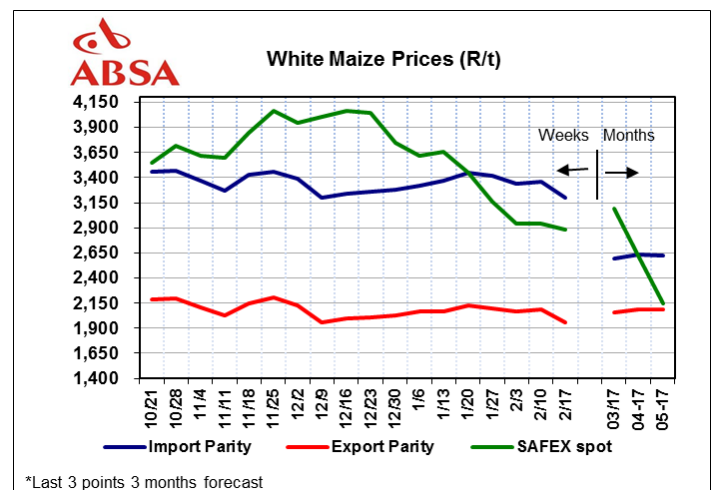
Bullish factors

- Trump’s protectionist stance, with the “America 1st” policy has kept grain prices high due to the anticipated trade frictions between China and the US.
- There’s “concern” about trade tensions between Mexico (largest US Corn importer) and the US. This could push Mexican business towards South America.
- Army worm has spread to the Democratic Republic of Congo (DRC), causing prices to increase in the United Nations.



Bearish factors

- Production estimates in Argentina have stabilized along with the weather, and some prominent forecasters have even begun inching their numbers higher. Expecting a great harvest from Argentina.
- The cbot maize price strength was limited by private exporters of maize in the US, that cancelled sales of 136,000 tonnes of optional- origin maize to South Korea.
- The US upgrades South America as a rival in maize exports. The country’s maize production is expected to increase. Political tensions between US and Mexico, may give way for South America to export large quantities to Mexico.



Domestic

As at Wednesday 22 February 2017, the spot price for old season white maize (March 2017) increased by 6.40% week on week from R2877/ton to R3086/ton. Week on week, old season yellow maize price (March 2017) increased by 6.3% from R2817/ton to R2995/ton. During the same time, week on week new season white maize prices for delivery in July 2017 decreased by 2% from R2037/ton to R1996/ton.

Bullish factors

- If prices decline sufficiently, expect demand to recover above current expectations.
- It is early in the season – any weather scare to reduce a potential yield of 4,8 ton/ha will support prices.
- Relatively weaker Rand
- 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.

Bearish factors

- The Rand strength will keep prices under pressure.
- Widespread showers in the summer grain producing areas, support favourable crop production prospects.
- The high rainfall may cause delays in deliveries, adding to the current stocks.

Outlook

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. Rand weakening will support exports to foreign markets.

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

Yellow Maize Futures: 22 February 2017	Mar-17	May-17	July-17	Sep-17	Dec-17			
CBOT (\$/t)	146.06	148.91	151.76	154.03	156.39			
SAFEX (R/t)	2995.00	2155.00	2092.00	2146.00	2204.00			
SAFEX (R/t) Change week on week (w/w)	245.00	-57.00	-40.00	-36.00	-39.00			
May-17			Jul-17			Sep-17		
Ask	Put	Call	Ask	Put	Call	Ask	Put	Call
2,200	102	57	2,140	158	110	2,180	183	149
2,160	79	74	2,100	135	127	2,140	161	167
2,120	59	94	2,060	114	146	2,100	140	186

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

White-Maize Futures 22 February 2017	Mar-17	May-17	July-17	Sep-17	Dec-17			
SAFEX (R/t)	3086.00	2144.00	1996.00	2049.00	2120.00			
SAFEX (R/t) Change w/w	269.00	-5.00	-41.00	-47.00	-43.00			
May-17			Jul-17			Sep-17		
Ask	Put	Call	Ask	Put	Call	Ask	Put	Call
2,180	133	97	2,040	154	110	2,080	179	148
2,140	111	115	2,000	131	127	2,040	157	166
2,100	91	135	1,960	111	147	2,000	137	186

Wheat market trends

International

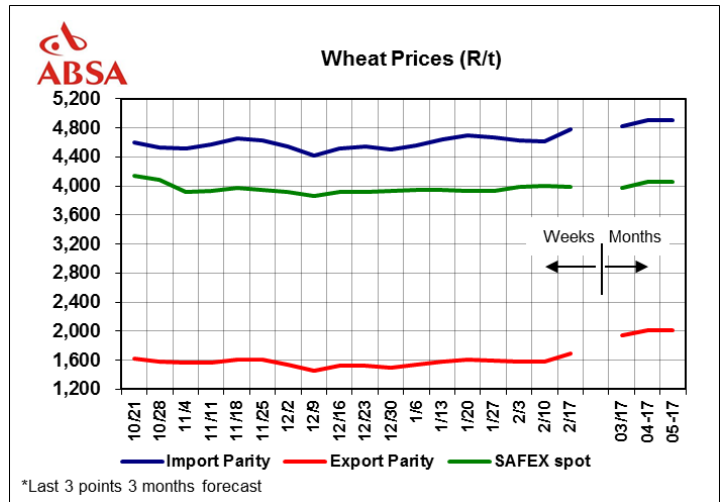
The weekly average old season HRW wheat Gulf price decreased week on week from US\$185.19/ton to reach a weekly average of US\$180.96/t.

Bullish factors

- Egypt's General Authority for Supply Commodities (GASC) bought 300,000 tonnes of Russian wheat and 60,000 tonnes of Ukrainian wheat at an international tender.
- Russian wheat prices increased last week, thanks to a stronger currency and increased demand. Ethiopia bought about 400,000 tonnes of Black Sea wheat.
- A weaker dollar will improve export prospects.
- Stronger currency and stormy weather in the ports of Russia are causing export pressure.
- The USDA has brought down their 2016/17 wheat ending stock forecast, mainly due to India. India's wheat forecast has declined to 87million tons (9 year low).
India imports are one factor that will support prices. India is the world's second largest grower (due to El Nino linked drought, production was reduced), however, it will import large quantity of wheat.

Bearish factor

- The EU crop monitoring service reported that "limited frost damage" occurred after the recent cold snap. 92% of French crop is in excellent condition.
- Record US wheat stocks will put pressure on wheat prices.
- Competition between Russia and EU will drive prices down.
- Globally, wheat is still in ample supply and remains at record high irregardless of the production shortfalls in Kazakhstan and India, which caused a reduced global forecast.



Domestic

As at Wednesday the 22nd of February, the spot price for wheat (March 2017) decreased by 0.3% week on week from R3985/ton to R3974/ton. Wheat prices for delivery in July 2017 decreased by 0.2% from R4134/ton to R4125/ton.

Bullish factors

- South Africa remains a net importer of wheat. 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.
- Weaker Rand

Bearish factors

- The strong Rand impact negatively on import parity.
- Large amounts of wheat still sitting in the Western Cape can't be moved due to high logistics costs.
- 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.
- The high rainfall is positive for the winter production

Outlook

Globally, favorable production and high carry out stocks keep international prices low. Wheat is in ample supply and remains at record high. Foreign importers of wheat can enjoy the lower prices. Locally, a stronger Rand will support foreign wheat imports.

Logistical high costs still impeding the movement of the wheat stock in Cape Town. Relative ample supply of wheat locally is placing pressure on prices.

Wheat Futures		Mar-17	May-17	July-17	Sep-17	Dec-17		
22 February 2017								
CME (\$/t)		167.09	172.05	176.37	181.33	187.39		
SAFEX (R/t)		3985.00	4070.00	4134.00	N/A	N/A		
SAFEX (R/t) Change w/w		-45.00	-38.00	-23.00	N/A	N/A		
May-17			Jul-17			Sep-17		
Ask	Put	Call	Ask	Put	Call	Ask	Put	Call
4,100	192	152	4,160	262	227	N/A	N/A	N/A
4,060	170	170	4,120	241	246	N/A	N/A	N/A
4,020	150	190	4,080	220	265	N/A	N/A	N/A

Oilseed market trends International

Oilseed prices

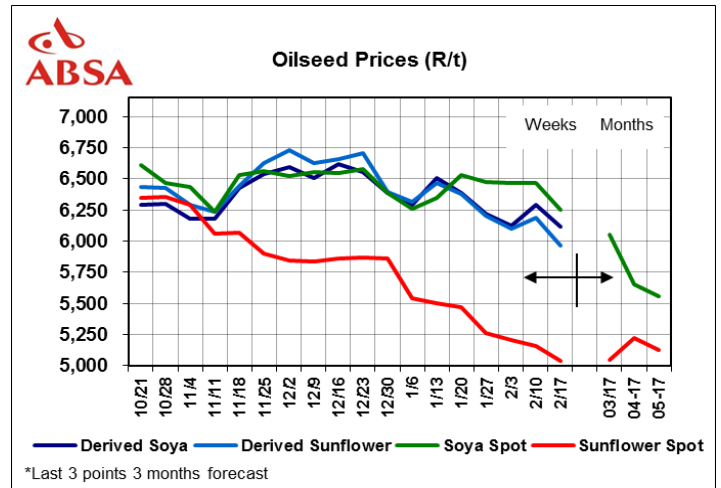
Compared to last week soybean bids were lower. The weekly average USA soybean price decreased week on week from US\$396.83/ton to US\$389.94/ton by 1.7%. US soya oil prices decreased from USA\$33.94/ton to USA\$32.72/ton and soymeal prices traded lower at USA\$335.00/ton.

Bullish factors

- Prices were supported the recent weeks, from massive inflows of speculative money, motivated mainly by the risk of crop losses in South America.
- Reserved farmer selling and logistical bottlenecks from Brazil, still keeping the demand for US soybeans rather high.

Bearish factors

- Subdued biofuel production (Argentina & US) is raising soya oil stocks, which translated into a plunging decline of 3-4% in soya oil prices, week ending 17 Feb 2017.
- Palm oil prices lower attributed to improved production.
- The downtrend of imports is mainly supported by India's recovery of soybean and groundnut crushing.
- US soybeans were at 3-week low, increase is capped by the bumper harvest prospects in South America and the USDA's forecast of increased soybean plantings in the US. Prices are expected to trade sideways to lower due to the ample supplies in the global market.
- World production and exports of sunflower meal have shown growth in the first months of 2016/17.
- US farmers are expected to plant a record number of acres this spring of soybeans.
- Harvest in Brazil was about 25% finished by 17/02/2017, Argentinian crop is still developing, any rise in prices is still capped by the expected large crops in South America.



Domestic

As at Wednesday the 22 February 2017, sunflower seed prices (Mar 17) decreased week on week by 2.4% from R5044.00 to R4922.00 whilst Soybean prices declined by 2% from R6050/ton to R5930/t.

Bullish factors

- South Africa remains a net importer of soybean oilcake and vegetable oils, due to insufficient production and quality to meet the growing local demand.
- Producers intended to plant 670 000 hectares to sunflower seed this season compared to 718 500 ha in 2016.

Bearish factors

- Improved growing conditions for soybean and sunflowers, there's an expectation of a good crop harvest.
- The Rand supports lower costs of imports of oilcake and vegetable oils.
- Domestic soybean prices may be under pressure with the arrival of the new crop from March onwards.

Outlook

Local: Price increases will be limited as margins are under pressure. The expected bumper harvest in South America is limiting increases in soybean prices globally; however this should benefit the domestic market, which is a net importer. The moderate weaker rand against the dollar supports prices.

Oilseeds Futures 22 February 2017	Mar-17	May-17	July-17	Sep-17	Dec-17			
CBOT Soybeans (US\$/t)**	375.80	379.75	383.24	377.27	373.87			
CBOT Soy oil (US c/lb)	37.20	37.32	37.44	37.09	36.74			
CBOT Soy cake meal (US\$/t)*	335	340	343	342	339			
SAFEX Soybean seed (R/t)	5930.00	5463.00	5563.00	5675.00	N/A			
SAFEX Soybean seed (R/t) change w/w	-120.00	-94.00	-99.00	-97.00	N/A			
SAFEX Sunflower seed (R/t)	4922.00	5000.00	5100.00	5227.00	N/A			
SAFEX Sunflower seed (R/t) change w/w	-166.00	-180.00	-201.00	-126.00	N/A			
Sunflower Calculated Option Prices (R/t)								
May-17			Jul-17			Sep-17		
5,040	210	170	5,140	263	223	5,260	321	288
5,000	189	189	5,100	242	242	5,220	300	307
4,960	169	209	5,060	222	262	5,180	279	326

*short ton

** Dec 2017 = Jan 2018

Vegetable market trends

Potatoes

The potato price took a knock the past week, averaging at less than R3 p/kg. The continuous wet conditions have hampered harvesting productivity which may impact supplies at the markets. The reduced supply may lead to a slight increase in prices for the week; however a decline in prices is still expected once harvesting operations return to normal.

Peppers

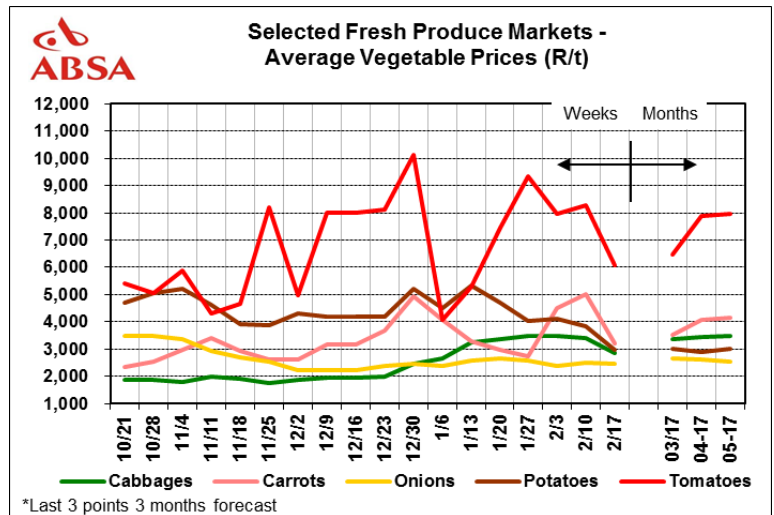
The current wet conditions have put a damper on the picking ability on the farms; therefore a price increase is expected in this week due to the lower supply to the markets. Prices and quality are moderate; the increase in prices is expected to normalize as the rain subsides. Crop quality could be negatively impacted, should we experience prolonged intermediate rainfall. Crops may be susceptible to diseases as this weather poses the perfect micro climate breeding environment.

Onions

Onion price is still under pressure. The price has reduced to approximately R25-R35 p/10kg as opposed to R45-R50p/10kg from last year. The demand from Africa (Angola, Mozambique, Lesotho, & Swaziland) did not pick up as fast as the market had hoped. The lack of demand from Africa rests on its own economic challenges such as lower household income and economic growth. Local weather conditions (heat & rainfall) are responsible for the lower quality produce at the markets.

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. Producers are receiving between 40%-50 % difference in prices based on the quality delivered. Carrots increased in volumes. However, it is expected that prices will recover between March to April (Around Easter).



Tomatoes

Tomato volumes are low and quality is poorer than normal. The crop volumes declined by 18.6% week on week. The poor quality can be attributed to an increase in variation in temperature. The continuous wet conditions may bring about different diseases. Diseases affect smaller producers more than the bigger producers. 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 17 February 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	-15.7%	2871	3407	7.7%	13139	12202
Carrots	-36.2%	3208	5027	-0.6%	16968	17063
Onions	-2.3%	2453	2510	-3.7%	60907	63269
Potatoes	-21.9%	2996	3837	-4.2%	138423	144419
Tomatoes	-26.6%	6070	8271	12.4%	36841	32781

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