



## AGRICULTURE FORESTRY AND FISHERIES ECONOMIC COMMENTARY 1st Issue 1 August 2016

### Interest rates

Headline news in current economic events for the past week has been in relation to the Reserve Bank Monetary Policy Committee (MPC). The committee left the repo rate unchanged at 7.0% on the 21st July 2016. The main reason for this pause on the rate hike is attributed to the 12.2% strengthening of the rand since the last MPC meeting. In addition, interest hikes has influenced more than R100bn of capital inflow into the country as global investors search for yields, stabilising the rand even further well below the \$15 mark.

However, this is positive news for the agricultural sector, which has a number of commodities lined up for exports, for the commodities are becoming cheaper for the international buyer. The export quantities are, however, negatively impacted by the recent drought, where South Africa finds itself being a net importer of most of these commodities. The improvement in the climatic conditions towards the end of 2016 can help to improve planting intentions and forecasted production of the critical crops. Sufficient production stock can guarantee increased exports and improve domestic income along with other sectors that are exporting, if there is a continued depreciation of the rand. On the other hand the depreciating rand has a negative effect on the input costs of the farming business unit reducing the profit margin and adding pressure on the farm income. Sectors, such as, manufacturing and mining, are influenced by Chinese demand for such commodities, the UK referendum to leave the EU and inflexible labour policies and hence can weigh down SA's growth potential, according to the IMF. If these factors continue to undermine the increase of exports to the related countries, the rand will continue to depreciate or remain at lower level. That will, however, leave the country with high inflation where we could continuously remain with high interest rates. The recent GDP figure shows that Agriculture, Forestry and Fisheries is the third lowest performing industry after mining and manufacturing at -6.5%

Because of the performance of the rand, the inflation outlook for 2016/17 has been improved from 7.3% to 7.1% in the fourth quarter of 2016, thanks to lower petrol prices. This is a short-term outlook, as there are generally negative sentiments on both global and domestic GDP. The Reserve Bank has forecasted 0% on domestic economic growth, which is down from 0.6% from the time of the last MPC. This is different from the IMF 's 0.1% which is better than the MPC estimate.

CROP ESTIMATES JULY 2016 Full publication is available Source: www.daff.gov.za			
CROPS	Production Forecast (Tons ) July 2016	Area estimate July 2016 (HA)	Yield July 2016 T/HA
<b>SUMMER FIELD CROPS-Commercial</b>			
Maize	7,262 million	1,947 million	3.73t/ha
Sunflower seed	742 750	718 500	1.03t/ha
Groundnuts	29 285	22 600	1.30t/ha
Soybeans	750 250	502 800	1.49t/ha
Sorghum	88 500	48 500	1.82t/ha
Dry beans	35 745	34 400	1.04t/ha
<b>WINTER CEREAL CROPS-Commercial</b>			
CROPS	Production estimates 2015 (TONS)	Area Planted Intension (Mid-April 2016) (HA)	Preliminary area planted. July 2016 (HA)
Wheat	1 440 000	481 850	486 350
Malting Barley	332 000	92 000	88 400
Canola	93 000	71 500	70 500





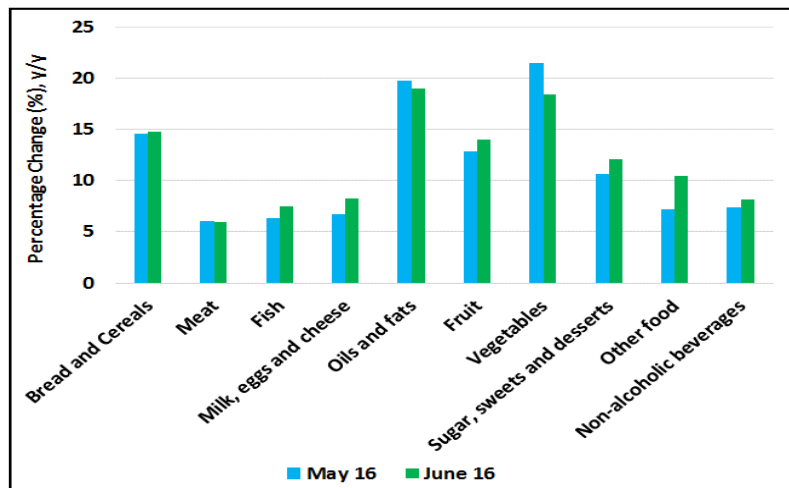
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There is uncertainty about the behaviour of the exchange rate, the overall domestic inflation depending on what happens globally. The MPC has as a result decided to be cautious as they observe the performance of the GDP, Inflation and global events.

### Inflation

The recent June inflation has accelerated in line with market expectations from 6.1% y/y in May 2016 to 6.3 % in June. Inflation on food and non-alcoholic beverages accelerated to 10.8% y/y in June 2016 from 10.5% y/y in the previous month. The food and non-alcoholic beverages basket consists of “bread and cereals”, “meat”, “fish”, “milk, eggs and cheese”, “oils and fats”, “fruit”, “vegetables”, “sugar, sweets and deserts”, “non-alcoholic beverages” and “other foods”. Each of these products is allocated a weight, with the largest being “meat” and “bread and cereal”, which make up 30% and 23%, respectively

### June 2016 year on year percentage changes:



Food has been impacted by the drought with price per ton on main commodities, such as maize, showing a price increase of more than 100% y/y. The fact is that agricultural sector remains one of the contributors to the recent overall inflation. The impact of drought requires the country to import most of the staple commodities during the time when the currency is performing at its lowest level Hence, the cost brought in by high import prices eventually trickles into the shelf price of most of these consumer-everyday commodities, causing high inflation in the food basket. This then influences the MPC to increase interest rates.

The expectation that El Nino weather, that brought the drought could transition into La Niña weather had

brought in a positive expectation of softer commodity prices on mainly summer crops. The La Nino is known to come with massive rains of up to 60%, which can start within the next 2 to 3months towards the summer season.

The massive rain, which can well be above 600 mm average, can produce bumper crops and eventually soften commodity prices. Inflation basket prospects of food and non-alcoholic beverages can improve from the first quarter of 2017. This is the basis on which MPC believes inflation will come back within the target range from the third quarter of 2017.

Source: <http://www.dblive.co.za/economic>

Source:<http://agbiz.co.za>

Source: Crop Estimates Committee,<http://www.daff.gov.za/docs/cropsestimates>





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REPUBLIC OF SOUTH AFRICA



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### ABOUT THE PUBLICATION

#### PURPOSE

This publication is meant to inform internal stakeholders of the department about the effects of the economic issues on the AFF sector. A number of issues are mentioned in the media that are current, in most cases having an impact in the overall performance of the sector. The intension of this Commentary is to highlight those issues and help everyone understand how these issues affect our environment. The Economic publications within the DAFF will also be referred to, where economic indicators will be highlighted.

#### FREQUENCY

The publication will be released on the 1st and the 15th of every month covering events taking place on the period concerned. The dissemination will take place through emails to all SMS and professionals in the Department including provinces.

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