

Quarterly Economic Overview of Agriculture Forestry & Fisheries, Fourth Quarter 2017

Draft Report

Statistics and Economic Analysis

2017

PREFACE

The core business of the Directorate: Statistics and Economic Analysis is to provide economic and statistical services to monitor the economic performance of the agriculture, forestry and fisheries (AFF) sector. To support this important task, the Economic and Statistical Research Unit conducts economic analyses of the performance of the AFF sector, as well as the external impact on the AFF sector and its industries.

This publication, the *Quarterly Economic Overview of the Agriculture, Forestry and Fisheries Sector*, was developed because of a need within the Department of Agriculture, Forestry and Fisheries (DAFF) to be regularly informed on developments and expected economic trends in the agricultural sector. The quarterly report has been established as a regular feature in the directorate's workplan. Since the beginning of 2004, the report has also been published for outside use to add value to a number of regular economic publications about the agricultural sector. It is our vision to maintain it as an indispensable reading for everyone interested in developments in the AFF and the South African AFF sector.

This issue looks at the economic developments in the fourth quarter of 2017, as well as the expected economic trends in the South African AFF sector as the domestic and global economies continue to face economic uncertainties.

Compiled by Heidi Phahlane with inputs from:

Mthembeke Z.A., Lekganyane M.S., Mofolo K.M., Gininda P., Ramonyai D., Peter-Dukuza F., Lubbe P, Jafta A. and Mathlo I.M.

All correspondence can be addressed to:

The Director: Ms Ellen Matsei

Directorate: Statistics and Economic Analysis

4th Floor, Sefala Building

503 Belvedere Street, Arcadia, South Africa

Tel.: +27(12) 319 8454

E-mail: DAS@daff.gov.za

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EXECUTIVE SUMMARY

Global growth prospects : Global growth for 2017 is projected to rise to 3.6% in 2017 and 3.7% in 2018. Upside growth surprises were particularly pronounced in Europe and Asia, but broad based, with outturns for both the advanced and the emerging market and developing economy groups exceeding the drop in forecasts by 0.1 percentage points. The strong momentum experienced in 2017 is expected to carry into 2018 and 2019, with global growth revised up to 3.9% for both years, according to the World Economic Outlook. Real GDP growth Rates, 2017 (Q4) in the advanced economies of the following countries: Canada, France, Germany, Italy, Japan, United Kingdom and United States increased by 0.4%, 0.6%, 0.6%, 0.3%, 0.1%, 0.5% and 2.5% respectively, as compared to 2016 (Q4).

Emerging markets and developing economies, Q4: 2017 real GDP growth rates increased in the following countries Brazil, India, Malaysia, South Africa, Nigeria and Russia by 0.1%, 6.8%, 7.2%, 5.9%, 6.6%, 3.1%, 1.9% and 0.9% respectively. Whereas, China and Philippines remain constant, and Indonesia declined by 1.7% as compared to Q4:2016.

Global grain supply forecast: The global grain supply forecast indicates a total grain increase of 1.9%, from 3.1 million metric tons in Q4: 2016 to 3.2 million metric tons in Q4: 2017. Global supply projections for Q4: 2017 of wheat, coarse grains, rice milled, oilseeds, cotton, oil meals and vegetable oils increased by 2.2%, 1.1%, 3.7%, 4.6%, 7.3%, 5.4% and 4.5% respectively as compared to Q4: 2016

South Africa GDP: The country's economic growth accelerated for the first time in four years in 2017. Statistics South Africa (Stats SA) indicated that South Africa's real gross domestic product (measured by production) increased with growth rate of 3,1% in Q4: 2017 from positive growth of 2.3% in Q3: 2017. The growth behind the economy is supported largely by the growth in the agricultural sector is the largest positive contributor to growth in GDP in the fourth quarter. The sector remains the largest contributor to the GDP in Q3 and Q4: 2017. The sector increased by 37,5% in Q4: 2017 and contributed 0,8 of a percentage point to GDP growth

Inflation: The annual average headline CPI for the fourth quarter of 2017 was estimated at 4.7% slightly lower compared to 4.8% in the third quarter of 2017. On the other hand, food inflation was 5.1% in the fourth quarter of 2017 which is also lower than 6% reported during the third quarter of 2017. The decline in both annual headline CPI and food inflation during the fourth quarter of 2017 is good news to cash strapped consumers who spent large portion of their income on food.

Employment: South Africa's unemployment rate fell to 26.7% of the labour force in the fourth quarter of 2017 from 27.7% in the third quarter. StatsSA said that formal sector employment declined by 135,000 while the informal sector employment increased by 119,000 compared to Q3: 2017. Declines in Finance (91,000), Trade (45,000), private households (43,000), and Mining industries (35,000) contributed mostly to the net loss in employment. However, employment was created in Community, social and personal services (75,000), Manufacturing (42,000), Agriculture (39,000), Construction (26,000) and Transport (13,000) in the same period. The number of people employed in agricultural sector increased by 5% in the fourth quarter of 2017, from 810 000 persons in the third quarter of 2017 to 849 000 persons in the fourth quarter of 2017.

The grain market review section: It reflects on quarterly price trends (domestic and international) and supply and demand of the following major products produced in South Africa: maize, wheat, soya bean, sorghum, sunflower and groundnuts as well as the **Fruit and vegetable** and **Meat industry review**

Trade: South Africa's overall agricultural trade balance grew by 70.6% in Q4:2017 compared with Q4:2016. The export value of agricultural products increased by 7.2% in Q4:2017 to R30,56 billion, from R 28,51 billion in Q4:2016. During the same period, the import value of agricultural products decreased by 7.4%, to R21,47 billion in Q4: 2017 compared with R23,19 billion in Q4:2016.

1 GLOBAL OVERVIEW OF THE AGRICULTURE, FORESTRY AND FISHERIES ECONOMY

1.1 Global Real GDP Growth Rates

The International Monetary Fund (IMF) believes that, advanced economies are now projected to grow by 1.9% in 2017 and 2.0% in 2018, 0.1 and 0.2 percentage points more than in the October forecast, respectively. The outlook for advanced economies has improved for the season 2017/18, reflecting somewhat stronger activity in the second half of 2016 as well as a projected fiscal stimulus in the United States. Growth projections for 2017 have also been revised upward for Germany, Japan, Spain, and the United Kingdom, mostly on account of a stronger-than-expected performance during the latter part of 2016. These upward revisions more than offset the downward revisions to the outlook for Italy and Korea.

According to the World Economic Outlook, Global growth for 2017 is projected to rise to 3.6% in 2017 and 3.7% in 2018. Upside growth surprises were particularly pronounced in Europe and Asia, but broad based, with outturns for both the advanced and the emerging market and developing economy groups exceeding the drop in forecasts by 0.1 percentage points. The strong momentum experienced in 2017 is expected to carry into 2018 and 2019, with global growth revised up to 3.9% for both years. For the two-year forecast horizon, the upward revisions to the global outlook result mainly from advanced economies, where growth is now expected to exceed 2 percent in 2018 and 2019.

This forecast reflects the expectation that favorable global financial conditions and strong sentiment will help maintain the recent acceleration in demand, especially in investment, with a noticeable impact on growth in economies with large exports. The revision reflects increased global growth momentum and the expected impact of the recently approved U.S. tax policy changes. Real GDP growth Rates, 2017 (Q4) in the advanced economies of the following countries: Canada, France, Germany, Italy, Japan, United Kingdom and United States increased by 0.4%, 0.6%, 0.6%, 0.3%, 0.1%, 0.5% and 2.5% respectively, as compared to 2016 (Q4). See figure 1 below.

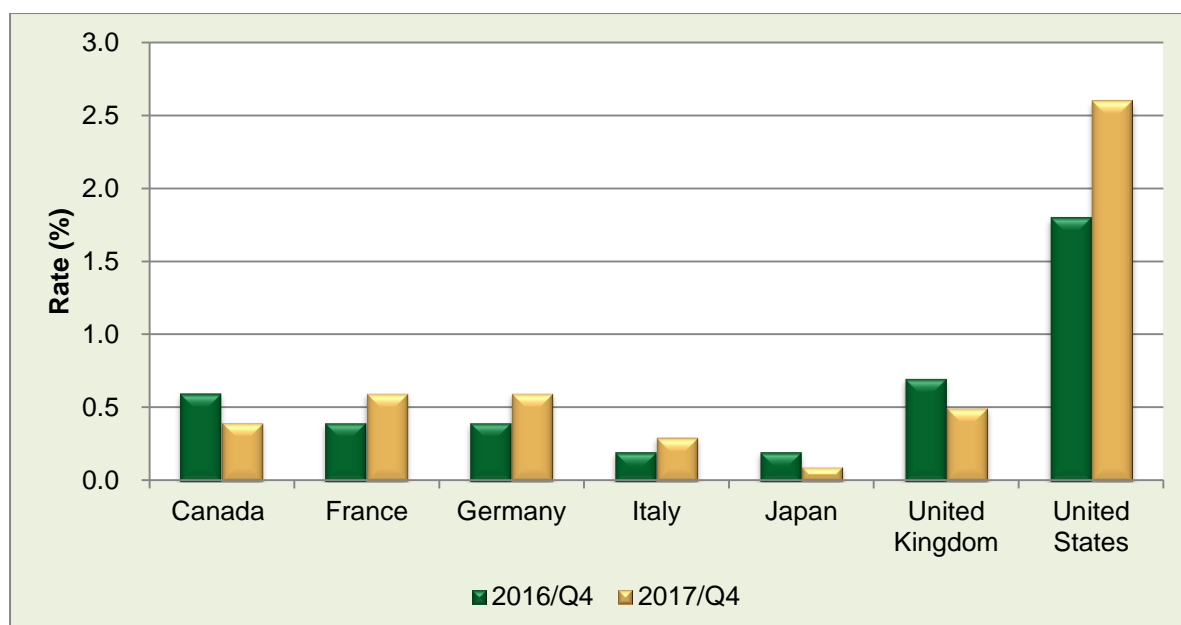


Figure 1: Advanced Economies Quarterly GDP Growth Rates

Source: Various Sources

World Economic Outlook update highlighted that, growth prospects marginally worsen for emerging market and developing economies, where financial conditions have generally tightened. The aggregate growth forecast for the emerging markets and developing economies in 2018 and 2019 is unchanged, with marked differences in the outlook across regions. Emerging and developing Asia will grow at around 6.5% over 2018/19, broadly the same pace as in 2017. The region continues to account for over half of world growth. In emerging and developing Europe, where growth in 2017 is now estimated to have exceeded 5%, activity in 2018 and 2019 is projected to remain stronger than previously anticipated. In Latin America, the recovery is expected to strengthen, with growth of 1.9% in 2018 and 2.6% in 2019.

The economic growth is anticipated to pick up in Sub-Saharan Africa from 2.7% in 2017 to 3.3% in 2018 and 3.5% in 2019, with a modest upgrade to the growth forecast for Nigeria but more subdued growth prospects in South Africa, where growth is now expected to remain below 1% in 2018/19, as increased political uncertainty weighs on confidence and investment. Growth this year and next are projected to remain above 2% in the Commonwealth of Independent States, supported by a slight upward revision to growth prospects for Russia in 2018. Figure 2 indicate that in the emerging markets and developing economies, Q4: 2017 real

GDP growth rates increased in the following countries, Brazil, India, Malaysia, South Africa, Nigeria and Russia by 0.1%, 6.8%, 7.2%, 5.9%, 6.6%, 3.1%, 1.9% and 0.9% respectively. Whist, China and Philippines remain constant, Indonesia declined by 1.7% as compared to Q4:2016.

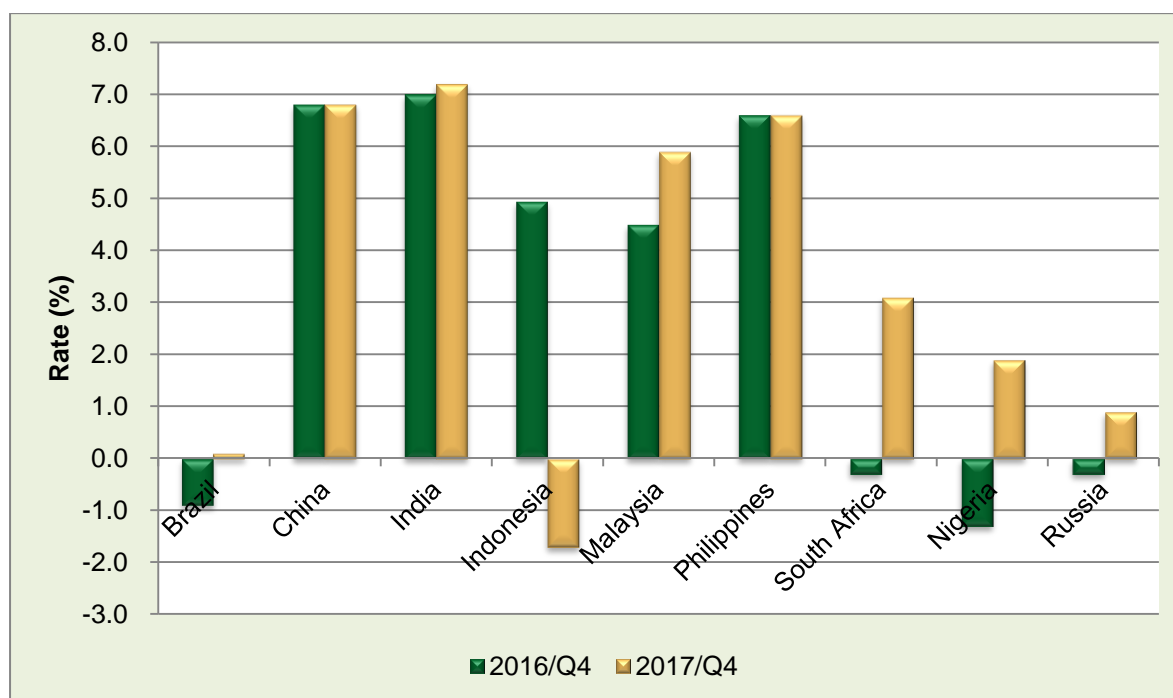


Figure 2: Emerging Markets and Developing Economies Quarterly GDP Growth Rates

Source: Various Sources

1.2 Global Grain Forecast

According to the United States Department of Agriculture (USDA, 2017) latest report on world agricultural supply and demand estimate indicates that global 2017/18 wheat supplies are increased, primarily on higher production forecasts for Canada and the European Union more than offsetting production declines in Brazil, South Africa, and Yemen. Moreover, global coarse grain production for 2017/18 is forecast 1.4 million tons higher to 1,3 million. The 2017/18 foreign coarse grain outlook is for larger production, increased consumption, and higher stocks relative to previous months.

Global rice production for 2017/18 is raised 2.3 million tons which are led by a 2.0 million ton increase for China and a 0.4 million ton increase for Burma. The China increase is based on production data from China's National Bureau of Statistics. The

global oilseed supply and demand forecasts for 2017/18 include higher production, exports, and ending stocks compared to the preceding month. Global production is forecast at 0.5 million tons, up 0.7 million, mostly reflecting higher rapeseed, peanut, and palm kernel production. An increase in EU sunflower seed production is offset by lower production for Russia and Argentina. Other production changes include higher palm oil for Indonesia and Thailand and lower palm oil from Malaysia.

The global 2017/18 cotton forecasts include lower beginning stocks, production, and ending stocks. Global production is reduced 1.5 million bales as reductions in Pakistan, India, Burkina Faso, Argentina, and Australia is partly offset by increases in Turkey and Central Asia. The global grain supply forecast indicates a total grain increase of 1.9%, from 3.1 million metric tons in Q4: 2016 to 3.2 million metric tons in Q4: 2017. Global supply projections for Q4: 2017 of wheat, coarse grains, rice milled, oilseeds, cotton, oil meals and vegetable oils increased by 2.2%, 1.1%, 3.7%, 4.6%, 7.3%, 5.4% and 4.5% respectively as compared to Q4: 2016, see figure 3 below.

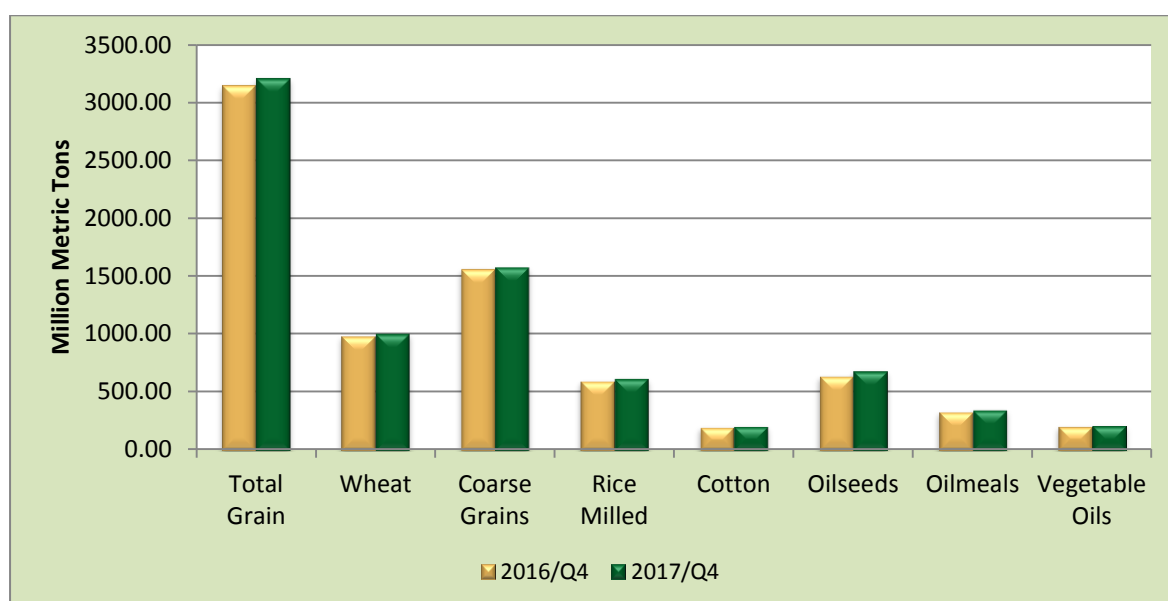


Figure 3: Quarterly global grain supply forecast

Source: USDA

1.3 Global Food Prices

According to the Food and Agriculture Organisation's (FAO, 2017) latest bulletin for a third quarter report, it highlights that the FAO Food Price Index (FFPI) averaged 169.5 points in January 2018, nearly unchanged from December 2017 but almost 3% below the corresponding period last year. While firmer prices were registered for cereals and vegetable oils in January, dairy and sugar values were generally weaker and meat quotations remained steady. The Cereal Price Index averaged 156.2 points in January, up almost 2.5% (4 points) from December and 6.3% from January 2017. Despite large supplies, wheat and maize prices received some support from a weaker US dollar as well as concerns over weather. International rice values continued to firm up in January, sustained mainly by renewed Asian demand.

The Vegetable Oil Price Index averaged 163.1 points in January, virtually unchanged from December, as moderate rises in palm oil values were outweighed by weakening prices for other oils, notably sunflower and rapeseed oils. The Dairy Price Index averaged 179.9 points in January, down 2.4% (4.5 points) from December 2017. Although this decline pushed the index further down for the fourth consecutive month, it is still 41% higher than its trough reached in April 2016. The Meat Price Index averaged 170.6 points in January, almost unchanged from its slightly revised value for December 2017. At this level, the index is 7.4% higher than its January 2017 value and 19.5% below its all-time high reached in August 2014. Prices of bovine meat were up marginally, reflecting lower quantities offered for sale from Oceania, while those of ovine meat rose supported by strong international demand, especially from Asia and the Middle East.

The Sugar Price Index averaged almost 201 points in January, down 1.6% (3.2 points) from December and as much as 30.4% below the corresponding month last year. Globally in Q4: 2017 some major countries were paying slightly more by 1.4% on food purchases compared to Q4: 2016). The following global food products price indices in Q4: 2017, meat, dairy and cereals reflect a steady increase by 7%, 7.4% and 7.6%. Whilst price for oil and sugar indices decreased by 4.1% and 28.4%, respectively, as compared to Q4: 2016, see figure 4.

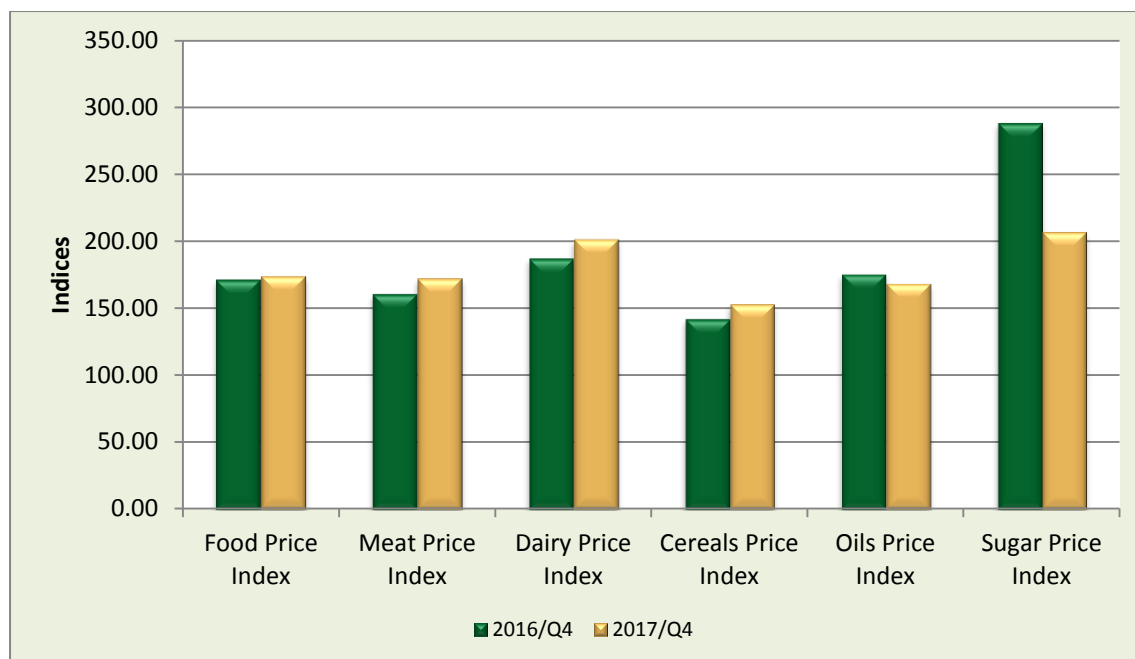


Figure 4: Quarterly global food price indices
Data Source: FAO

2 THE STATE OF THE DOMESTIC ECONOMY IN AGRICULTURE, FORESTRY AND FISHERIES

2.1 Growth

The economic data from Statistics South Africa for Q4: 2017 showed improved economic outlook following the growth in the agricultural sector which was heavily affected by drought a year ago. The data shows that gross domestic product (GDP) growth rate was 3,1% in Q4: 2017 from positive growth of 2.3% in Q3: 2017, see fig 6. The country's economic growth accelerated for the first time in four years in 2017. The growth behind the economy is supported largely by the growth in the agricultural sector is the largest positive contributor to growth in GDP in the fourth quarter. The sector remains the largest contributor to the GDP in Q3 and Q4: 2017. The sector increased by 37,5% in Q4: 2017 and contributed 0,8 of a percentage point to GDP growth, see fig 5 below.

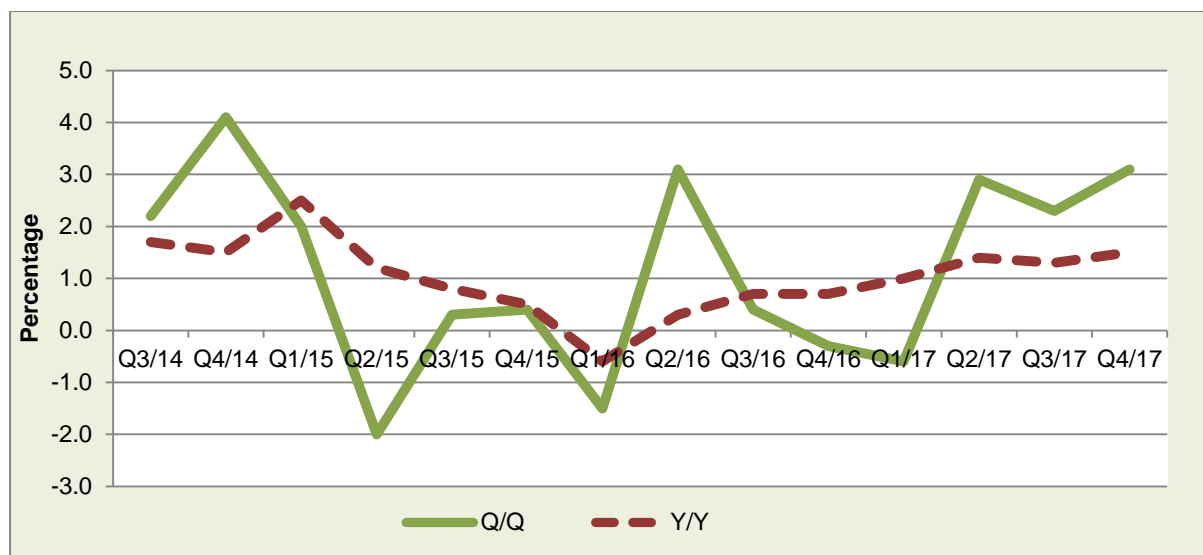


Figure 5: Domestic Real GDP Growth

Source: Stats SA

The mining and quarrying sector contracted by 4.4% for the first time in Q4: 2017 following a positive growth of 6.2% in Q3: 2017. The mining and quarrying sector contributed negatively to the GDP by 0.3% during Q4: 2017. Lower production in production of gold and mining of platinum metals contributed to lower growth in the mining sector.

The manufacturing industry; and the electricity, gas and water industry grew by 4.3% and 3.3% respectively and contributed 0.5% and 0.1% respectively in the fourth quarter of 2017. The construction industry contracted by 1.4% from a negative growth of 1.2% in Q4: The mining and quarrying sector contracted by 4.4% for the first time in the fourth quarter of 2017 following a positive growth of 6.2% in the third quarter of 2017. The mining and quarrying sector contributed negatively to the GDP by 0.3% during Q4: 2017. Lower production in production of gold and mining of platinum metals contributed to lower growth in the mining sector.

The manufacturing industry; and the electricity, gas and water industry grew by 4.3% and 3.3% respectively and contributed 0.5% and 0.1% respectively in the fourth quarter of 2017. The construction industry contracted by 1.4% from a negative growth of 1.2% in the fourth quarter of 2017. The tertiary sector contributed positively to the GDP as both industry grew. The trade, catering and accommodation industry and the transport, storage and communication industry 4.8% and 2.8% respectively

contributed 0.6% and 0.2% respectively to the GDP. Increased activities in both sectors contributed to the growth of the sector.

South Africa annual growth rate increased from 0.6% in 2016 to 1.3% in 2017. Economic growth is projected to pick up moderately in 2018-19, as stronger activity in trading partners boosts exports. Investment will support growth in 2019 on the assumption that business confidence increases and policy uncertainty fades. South Africa's economy is projected to grow by 1.5% and 1.8% in 2018 and 2019 respectively (National Treasury Forecast).

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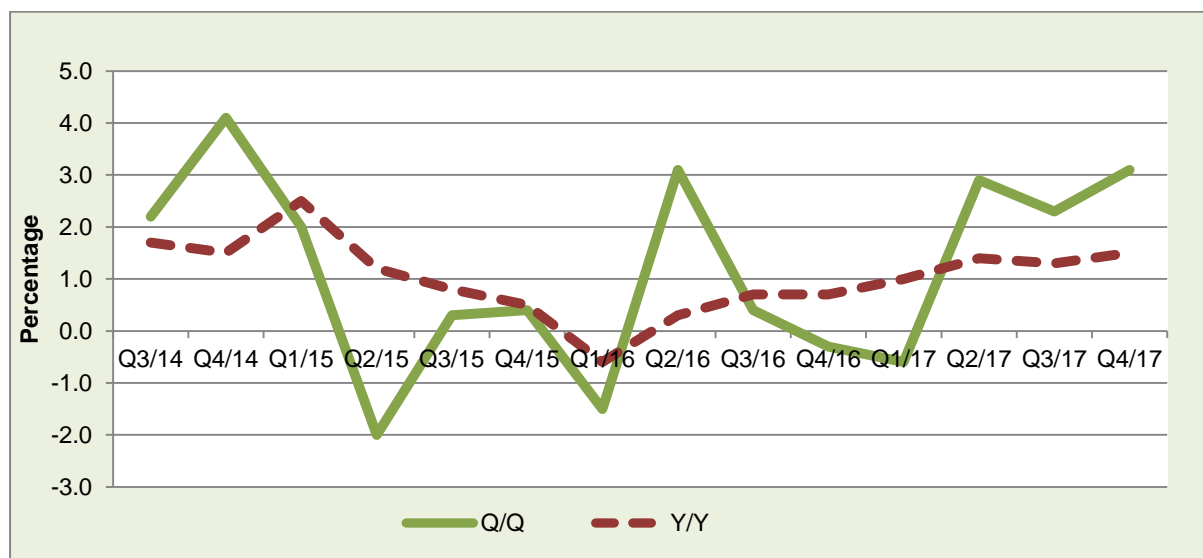


Figure 6: Agriculture, forestry and fishing sector growth rates

Source: Stats SA

2.2 Inflation

Figure 7 illustrates South Africa’s annual headline CPI and the food inflation from the fourth quarter of 2015 to the fourth quarter of 2017. The annual average headline CPI for the fourth quarter of 2017 was estimated at 4.7% slightly lower compared to 4.8% in the third quarter of 2017. On the other hand, food inflation was 5.1% in the fourth quarter of 2017 which is also lower than 6% reported during the third quarter of 2017. The decline in both annual headline CPI and food inflation during the fourth quarter of 2017 is good news to cash strapped consumers who spent large portion of their income on food. Month-on-month food inflation for December was 4.9% lower when compared to 5.2% registered during the month of November. Meanwhile the annual consumer price inflation for December 2017 was estimated at 4.7% which is slightly higher when compared to 4.6% of the preceding month. Average annual consumer price inflation for the year 2017 was 5.3% which is 1.1% lower when compared to 6.4% average annual inflation for the year 2016.

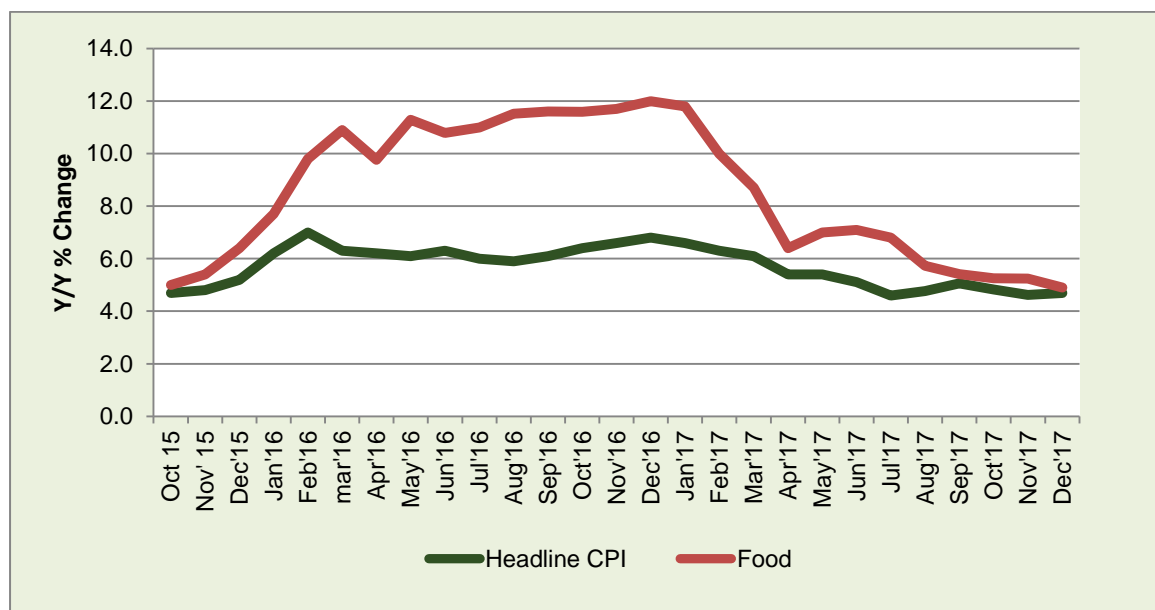


Figure 7: SA headline CPI and CPI for food

Source: Stats SA

Figure 8 illustrates consumer trends of selected food items from Q4: 2015 to Q4: 2017. As can be observed from the figure 8, food inflation for selected food items have declined towards the fourth quarter of 2017 with exception of meat. On average, the CPI for food for Q4: 2017 was 5.1% from a 6% in Q3: 2017. Consumers paid more for food in the Q3 than in Q4: 2017 by 0.9%.

Data for selected food items revealed that the CPI for meat, fish and milk, eggs and cheese were generally higher compared to other food items. On a quarterly basis, the CPI for meat were the most expensive, followed by milk, eggs and cheese and, fish with CPI of 14.8%, 4.0% and 2.9% respectively for the fourth quarter of 2017. Consumers paid more during Q4 as the CPI for vegetables, oil and fats; and milk, eggs and cheese increased by 2.8%, 0.8% and 1% between the third and fourth quarter of 2017. On contrary, cpi for bread and cereals, meat and fish continue to pressure on consumers income. Meat, bread and cereal and fish were cheaper during Q4 by 3.6%, 0.2% and 1.8% between the Q3 and Q4: 2017.

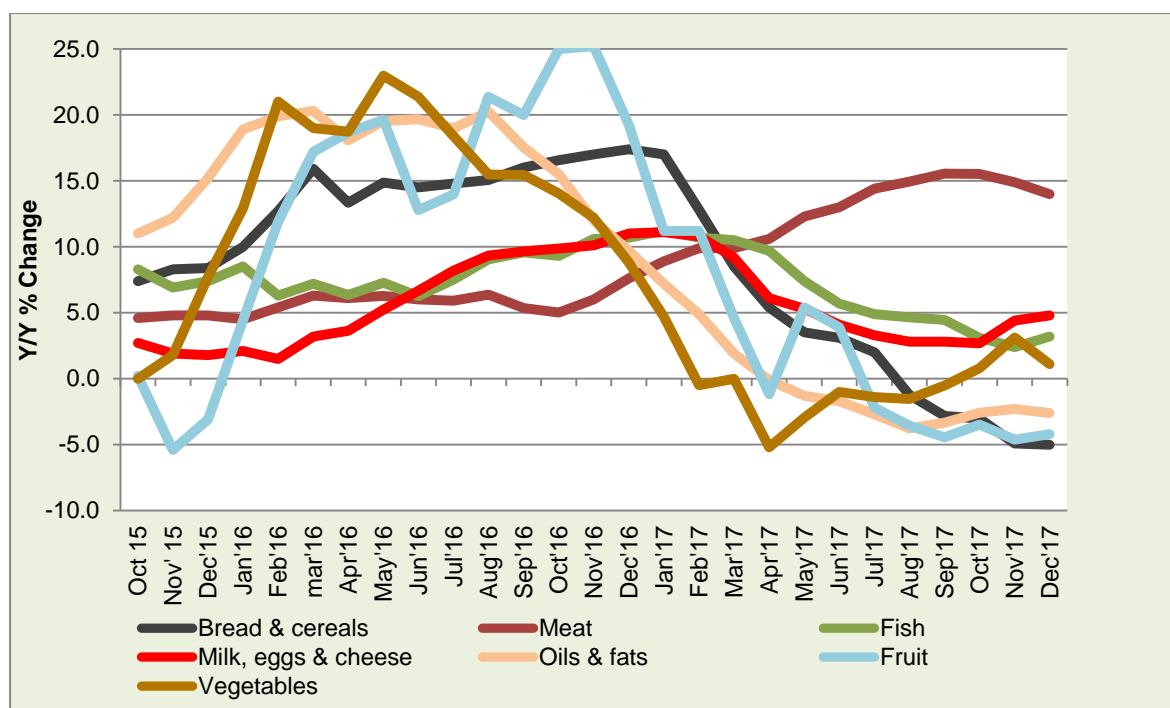


Figure 8: CPI for selected food items

Source: Stats SA

2.3 Employment

South Africa's unemployment rate fell to 26.7% of the labour force in the fourth quarter of 2017 from 27.7% in the third quarter. In its quarterly labour force survey, Statistics South Africa said this amounted to 5.9 million people without jobs in the three months to end December, compared with 6.2 million people in the previous quarter.

The expanded definition of unemployment, which includes people who have stopped looking for work, fell to 36.3% in the fourth quarter, from 36.8% in the previous quarter. As might be expected South Africa's unemployment rate improved in the fourth quarter this might be attributed a temporary hiring boost due to the december holiday season. StatsSA said that formal sector employment declined by 135,000 while the informal sector employment increased by 119,000 compared to Q3: 2017. Declines in Finance (91,000), Trade (45,000), private households (43,000), and Mining industries (35,000) contributed mostly to the net loss in employment. However, employment was created in Community, social and personal services (75,000), Manufacturing (42,000), Agriculture (39,000), Construction (26,000) and Transport (13,000) in the same period.

The largest decline in the unemployment rate was recorded in Northern Cape (2.8 percentage points), Western Cape (2.4 percentage points) and North West (2.3 percentage points). Between Q3: 2017 and Q4: 2017, the number of discouraged work-seekers grew by 103,000 (or 4.2%) to 2.5 million persons. A decline in unemployment rate was observed across all age groups. Compared to adults, the unemployment rate was highest among the youth irrespective of educational level. Approximately 3.1 million (29.7%) of the 10.3 million young persons (15-24 years) were not in employment, education or training.

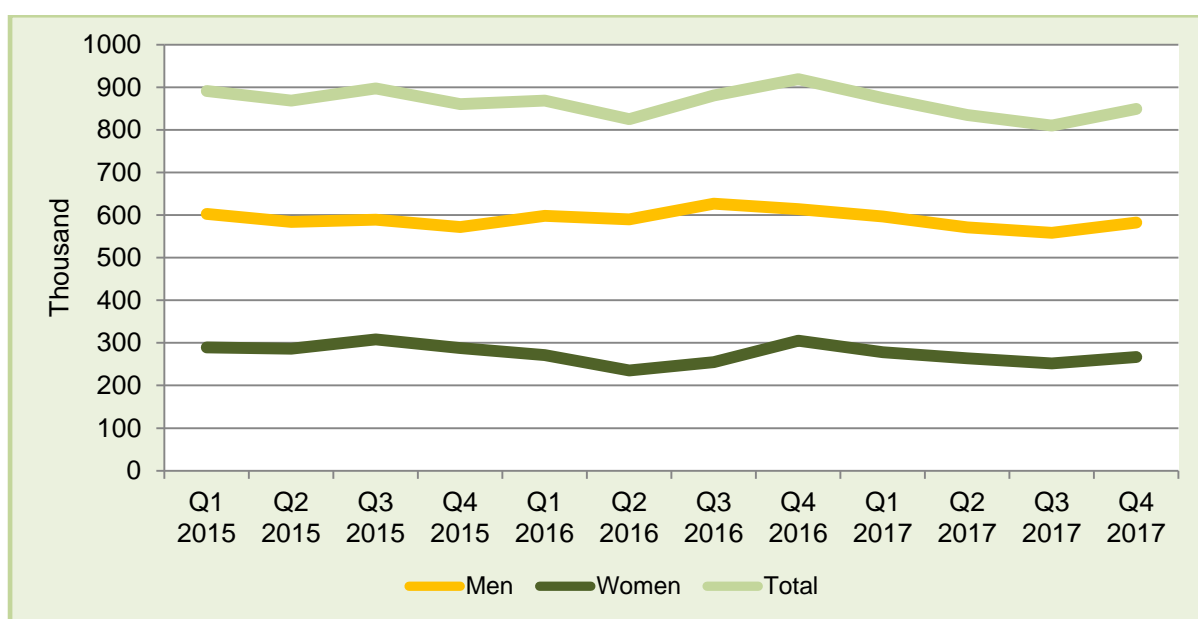


Figure 9: Total number of people employed in the agriculture sector between 2015 and 2017.
Source: DAFF

The number of people employed in agricultural sector increased by 5% in the fourth quarter of 2017, from 810 000 persons in the third quarter of 2017 to 849 000 persons in the fourth quarter of 2017. Of the 39 000 employment gains by the sector, 15 000 jobs were gained by women meanwhile 24 000 jobs were gained by men. In total, the agricultural sector comprised of 267 000 women and 582 000 men in the fourth quarter of 2017 compared to 252 000 women and 558 000 men the previous quarter. This quarterly increase was mainly in field crops, horticulture and livestock sub-sectors.

Figure 10 below shows that between the third quarter of 2017 and the fourth quarter of 2017, provincial agriculture employment increased in five provinces, whilst decreased in other four provinces. Western Cape had the highest employment of 193 000 in agriculture, which is 21.2% increase between the two quarters. During the same period agriculture employment in Northern Cape, Eastern Cape, Mpumalanga and Free state also increased by 42.4%, 10.3%, 4.9% and 3.0% respectively. Meanwhile agriculture employment in Gauteng, KwaZulu-Natal, Northern Cape and Limpopo decreased by 17.4%, 12.8%, 3.2% and 1.6% respectively between the two quarters.

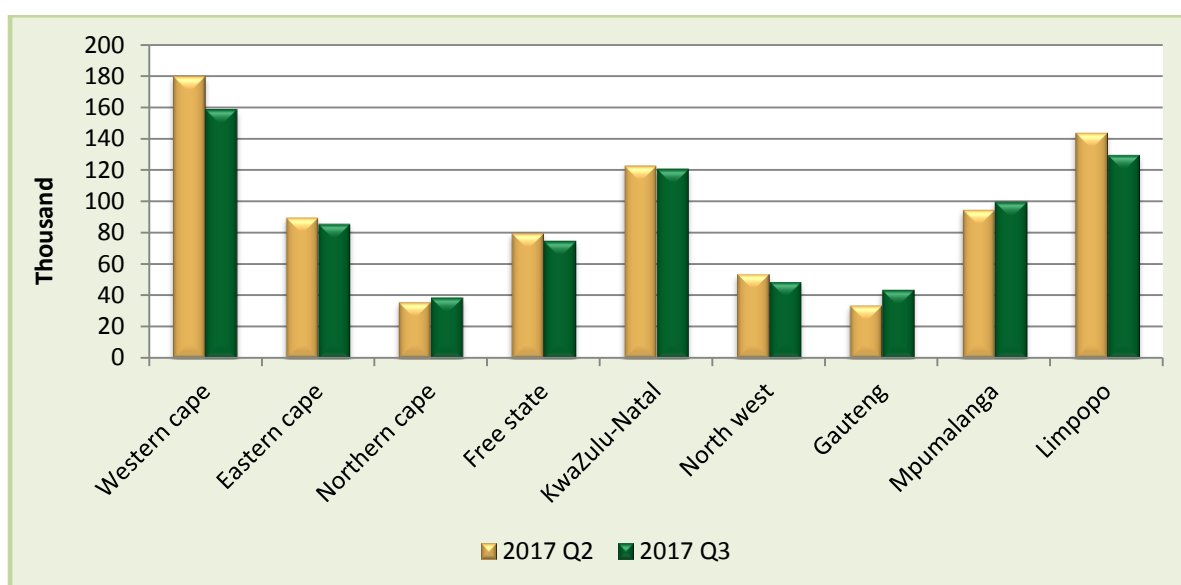


Figure 10: Provincial agriculture employment between Q3 and Q4: 2017

Source: DAFF

The 2017 fourth quarter (QLFS) also indicate that 1.9 million people were involved in subsistence farming in the fourth quarter of 2017 compared to 1.7 million people in the fourth quarter, an increase of 12.7%. Figure 11 below illustrate the number of people involved in subsistence farming in all provinces in the fourth quarter of 2017 compared to the third quarter of 2017. KwaZulu-Natal had the highest number (836 000) people involved in subsistence farming compared to (788 000) in the previous quarter, an increase of 6.1%. Meanwhile, Eastern Cape had (488 000) people involved in subsistence farming compared to (440 000) in the previous quarter, an increase of 10.8%. During the same period the number of people involved in subsistence farming in Gauteng, Western Cape, Mpumalanga, Limpopo, Free state

and Northern Cape increased by 151.3%, 60.9%, 56.0%, 18.0%, 16.8%, and 11.5% respectively. Meanwhile the number of people involved in subsistence farming in North West decrease by 40.3% between the two quarters.

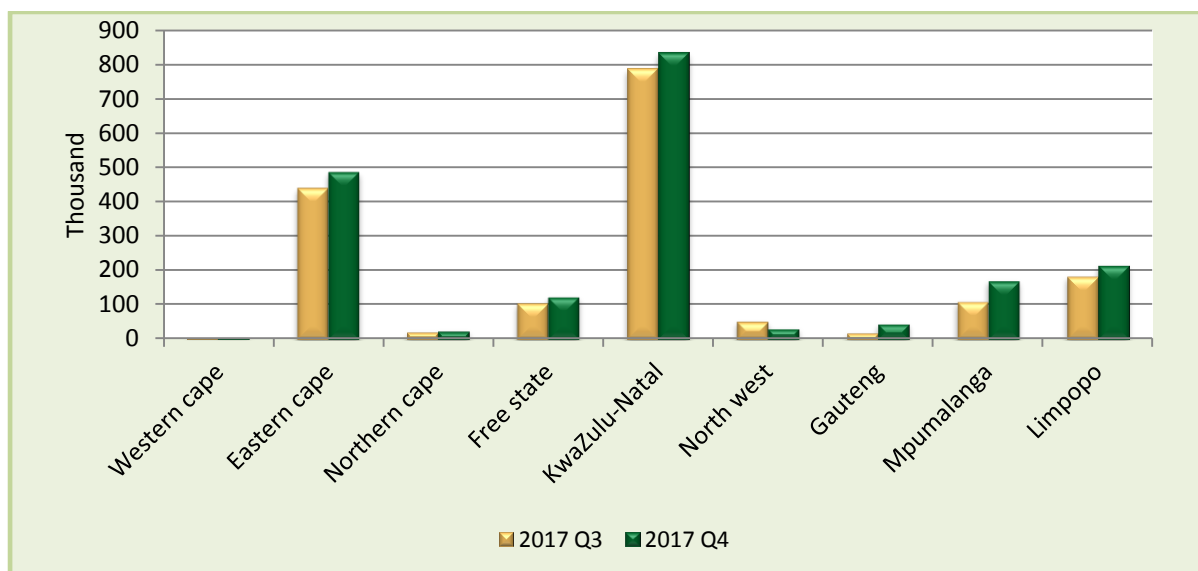


Figure 11: Provincial number of people involved in subsistence farming between Q3: 2017: and Q4: 2017
Source: DAFF

2.4 Expenditure on intermediate goods and services by the agricultural sector

The total expenditure on intermediate goods and services was reported at R38.5 billion in the last quarter of 2017 compared to R37.1 billion in the third quarter of 2017, an increase of 3.7%. Compared to a year ago the total expenditure on intermediate goods and services increased by 6.5% from R36.6 billion in the last quarter of 2016 to R38.5 billion in the last quarter of 2017.

The figure below show total expenditure on farm services, fuel, farm feeds, fertiliser as well as seeds and plants. The increase in total expenditure was attributed to the increase in expenditure on farm feed, farm services, fuel and fertiliser which increased by 8.0%, 6.0%, 4.7% and 3.0% respectively as well as seeds and plants which increased by 10.0%.

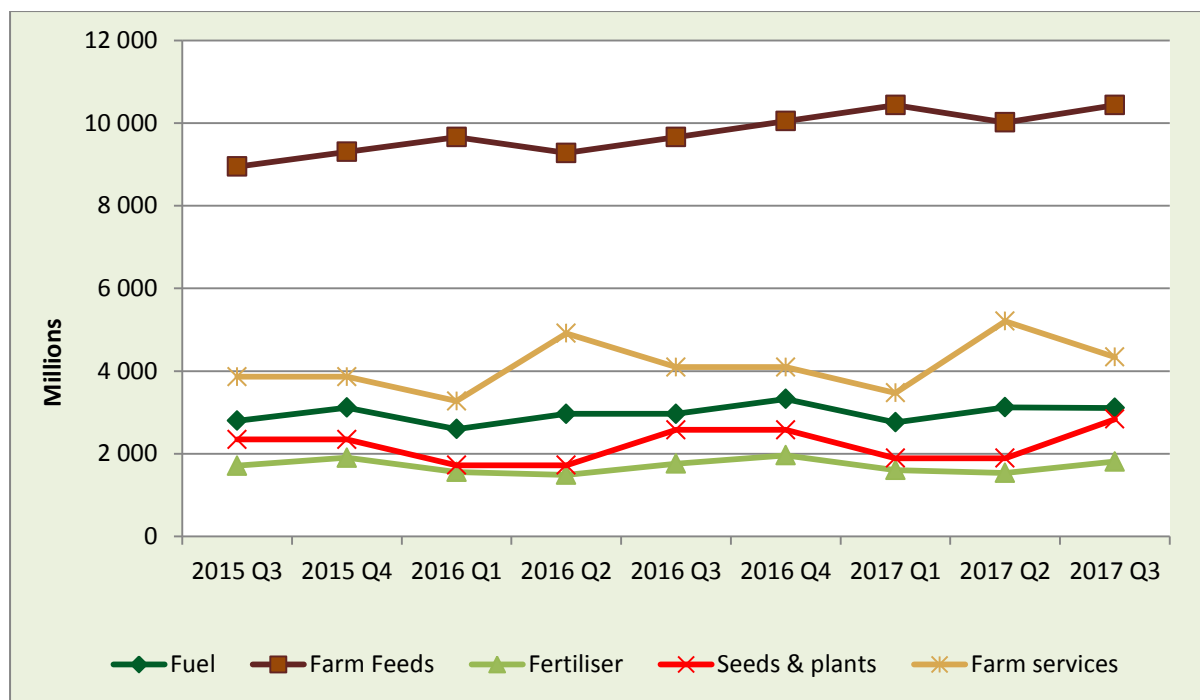


Figure 12: Trends in the expenditure on fuel, farm feeds, fertilisers, seeds and plants and farm services between Q4: 2015 and Q4: 2017

Source: DAFF

2.5 South African fertiliser market review

Fertilizer consumption in South Africa accounts for about 0.5% of the total global consumption and subsequently, the local fertilizer industry is a price taker (DAFF, 2016). Qatar is the highest consumer of fertilizer in the world. During 2014, Qatar's fertilizer consumption amounted to 12,111.5 kilograms per hectare. The five leading biggest consumers of fertilizer include Malaysia, Hong Kong, New Zealand, and Bahrain. South Africa is ranked 96th out of 161 countries with consumption amounting to 60.6 kilograms per hectare on arable land.

The South African fertilizer industry is fully exposed to world market forces and operates in a totally deregulated environment with no import tariffs or government sponsored support measures. In this deregulated market environment, fertilizer prices are strongly influenced by international prices, currency exchange rates (R/US\$) and shipping costs. For this reason, it is important to study the international fertilizer supply and demand balances and other factors which influence this market as they have a direct impact on the domestic market. The South African fertilizer market is very competitive, with a handful of national and regional operators.

Competition is driven through price incentives, product differentiation and specialized services such as individual agronomic advice, custom blending and application.

2.5.1 International fertiliser prices

Average prices of the four main international fertilisers displayed an increasing trend in Q4: 2017 (October to December 2017). The average price of Ammonia increased by 42% in Q4: 2017 to R 4 073.94/ton, from R2 868.27/ton in Q3:2017. The average price of Urea increased by 21% in Q4: 2017 to R 3 340.03/ton, from R2 749.53/ton in Q3:2017. During the same period, the average price of DAP increased by 12% in Q4: 2017 to R5 002.72/ton, from R4 484.36/ton in Q3: 2017. Meanwhile, the average price of MOP increased by 4% in Q4: 2017 to R 3 190.12/ton, from R 3 068.26/ton in Q3: 2017, see Figure 13.

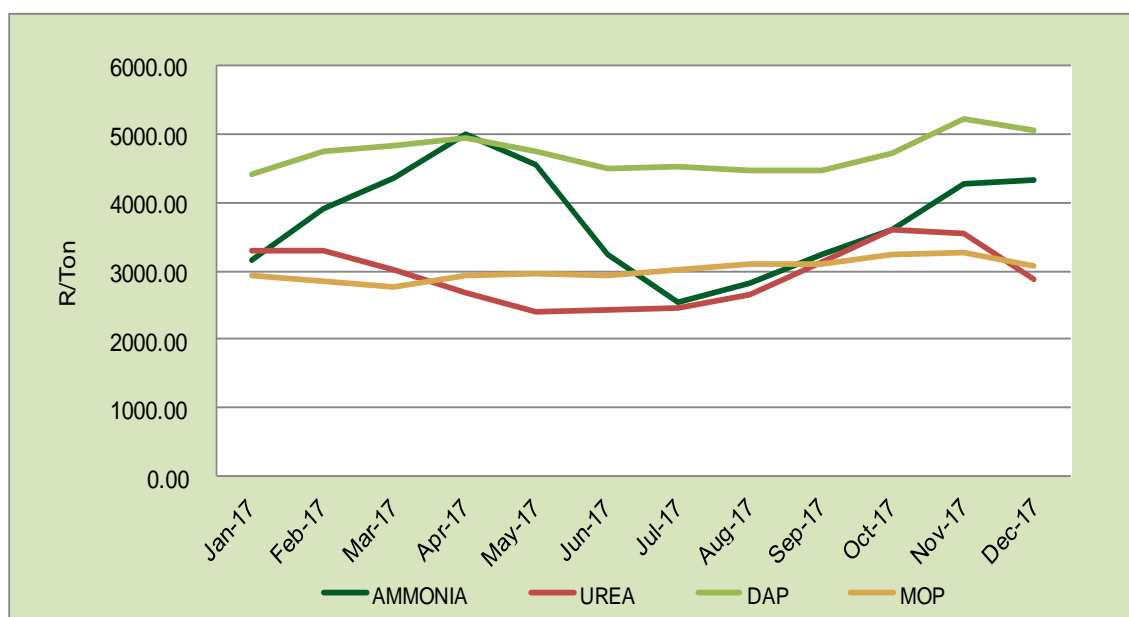


Figure 13: Average monthly international fertiliser prices (Rand/ton) in 2017.

Source: GrainSA

2.5.2 South Africa's fertiliser Prices

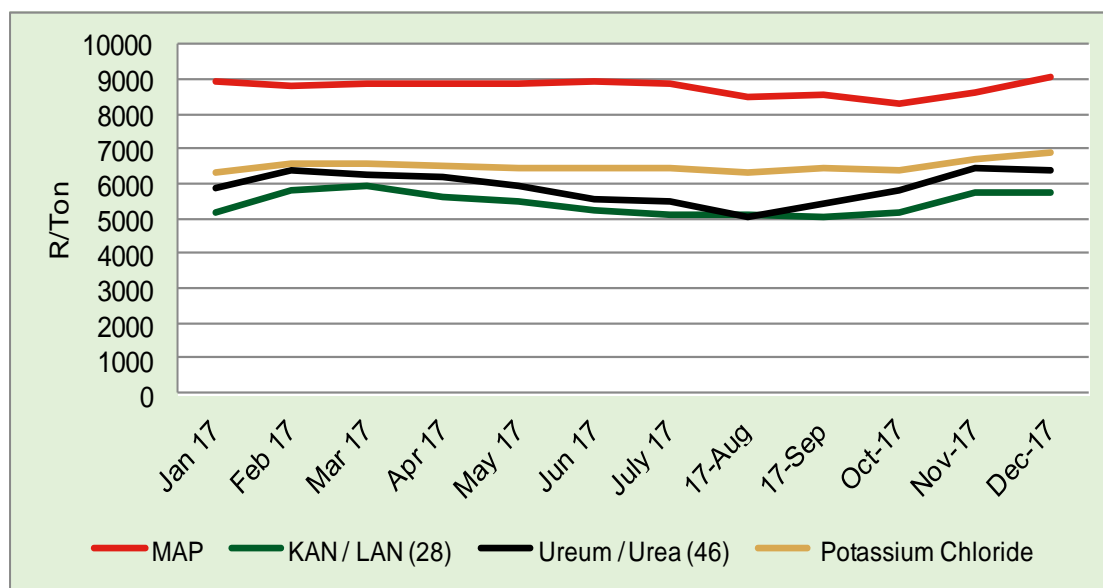


Figure 14: Average prices of SA's main four fertilizers

Source: GrainSA

Figure 14 shows average prices of fertilizers in South Africa in 2017. Average prices of the four main fertilizers in South Africa increased notably in Q4: 2017 (October to December 2017), following international fertilizer prices. Average prices for Mono-Ammonium Phosphate (MAP) increased by 2% in Q4: 2017, to R 8 673/ ton from R8 499/ ton in Q3: 2017. Average prices for Potassium Chloride increased by 4% in Q4: 2017, to R6 661/ton from R6 387/ton in Q3: 2017. Meanwhile, average prices for Lime Ammonium Nitrates (LAN) increased by 9% in Q4: 2017, to R5 536/ton from R5 093/ton in Q3: 2017 while average prices for Urea increased by 17% during the same period, to R 6 220/ton in Q4: 2017 from R5 307/ton in Q3: 2017.

2.5.2.1 South Africa's expenditure on fertilizers

South Africa's expenditure on fertilizer wavered in 2017. The fluctuation is as a result of changes in the area planted and the seasonality of agricultural crops. SA's expenditure on fertilizer in Q3: 2017 amounted to R 1,81 billion whilst in Q4: 2017, it amounted to R 2,02 billion. Between Q3: and Q4:2017, there was a 12% increase on expenditure on fertilizer. The increase in fertilizer consumption in Q4: 2017 can be attributed to the majority of the grain crops which account for a large amount of hectares during planting season. Planting season is usually from October to

December and happens on a yearly especially with crops like maize, soybeans, sunflower and sorghum (GrainSA). Between 2016 and 2017, expenditure on fertilizers increased by 3%, from R 6.76 billion in 2016 to R6.96 billion in 2017.

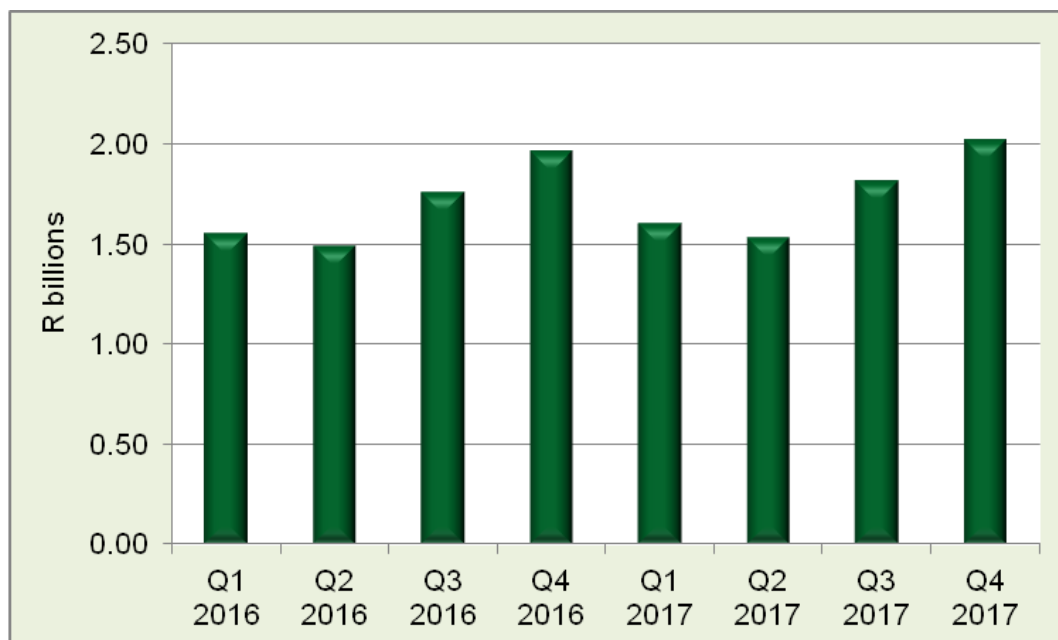


Figure 15: SA's expenditure on fertilizers from 2016 to 2017

Source: DAFF

2.6 Nominal gross farm income and net farm income from agricultural products

The nominal real gross income from all agricultural products decreased from R71.3 billion in the third quarter of 2017 to R64.7 billion in the last quarter of 2017, a decrease of 9.3%. This was largely supported by a huge decrease of 33.2% and 28.6% in income from field crops and horticulture respectively, while income from animal products increased by 14.5% between the two quarters. The significant decrease of 32.9% in income from field crops is attributed to the huge decrease in income from cotton, sunflower seed, maize, hay, groundnuts, lucerne seed, grain sorghum, and soya beans. While the decrease of 32.4% in income from horticulture was supported by a significant decrease in income from rooibos tea, dried fruit, citrus, fruit, nuts, viticulture and vegetables. During the same period the increase of 16.0% in income from animal product was due to a huge increase in income from wool, mohair, sheep slaughtered, as well as ostrich feathers and products. Goats slaughtered, pigs slaughtered, milk, eggs, poultry meat, other livestock products as

well as cattle and calves slaughtered also contributed to the increase in income from animal products. Compared to a year ago real gross farm income from all agricultural products increased by 7.6% in the fourth quarter of 2017 compared to same quarter of 2016. During this period, the increase was largely supported by an increase in income from animal products and horticulture which increased by 13.9% and 5.4% respectively, while income from field crops decreased by 7.8%.

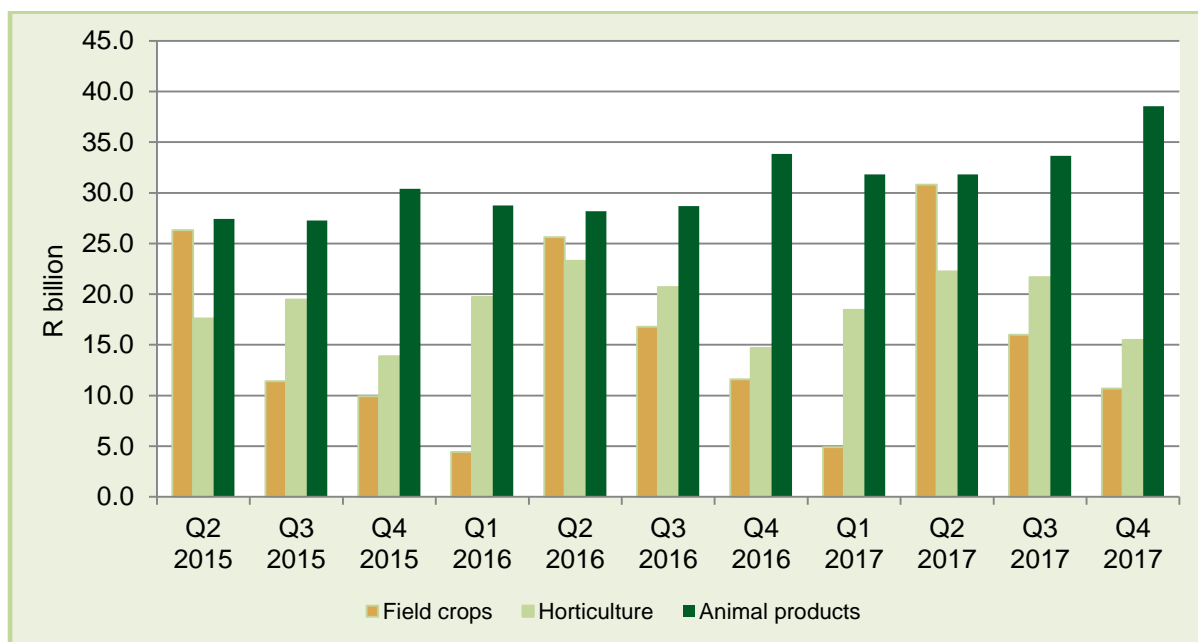


Figure 16: Trends in nominal gross farm income between 2015 and 2017.

Source: DAFF

2.7 The net farm income

Figure 17 illustrate the net farm income trends between 2015 and 2017. The net farm income is estimated at R19.0 billion in the fourth quarter of 2017 compared to R15.7 billion in the same quarter of 2016, an increase of 20.4%. During this period, the increase was largely supported by an increase in income from animal products and horticulture which increased by 13.9% and 5.4% respectively

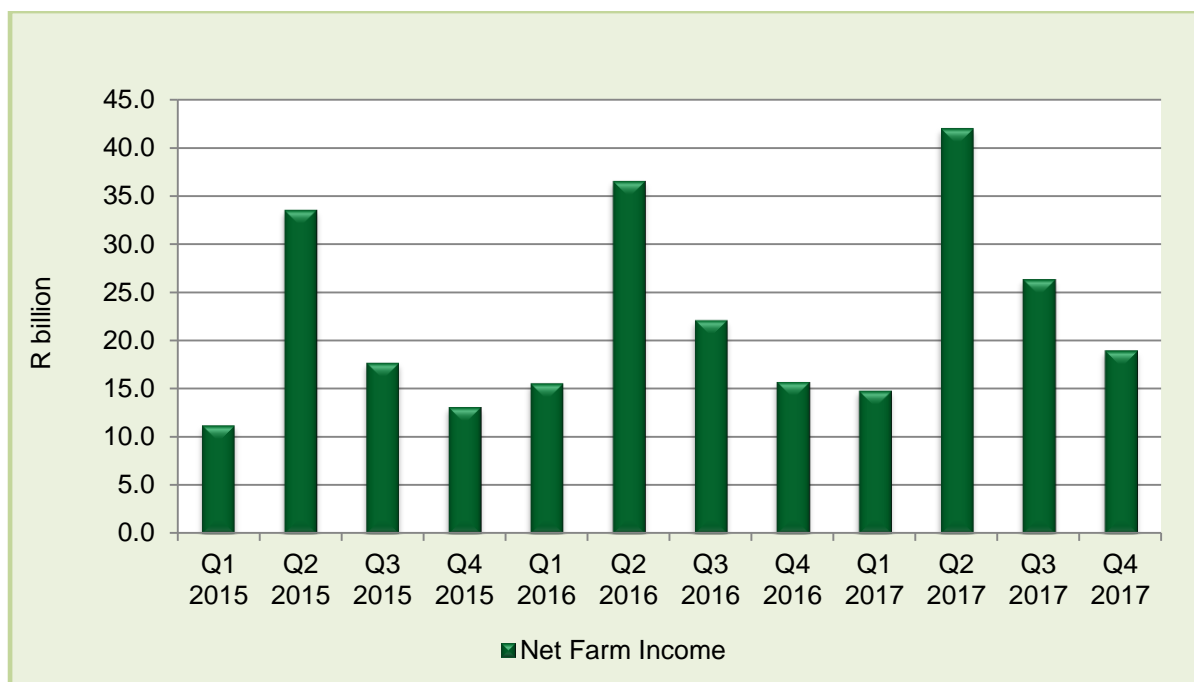


Figure 17: Trends in the net farm income between 2015 and 2017.
Source: DAFF

2.8 Private consumption expenditure on agricultural products

Figure 18 below shows that private consumption expenditure on food increased in the last quarter of 2017 to R169.9 billion from R159.6 billion in the third quarter, an increase of 6.4%. Compared to a year ago, total private consumption expenditure on food increased to R169.9 billion reported in the fourth quarter of 2017 compared to R166.5 billion in same quarter of 2016, an increase of 2.1%. During this period the main expenditure items were meat, potatoes and as well as fruit and vegetables which increased by 9.3%, 7.7% and 3.2% respectively. While the expenditure on bread and grain decrease by 7.4% in the same period. The expenditure on oils and fats also decreased by 4.0% between the last quarters of 2017 and 2016.

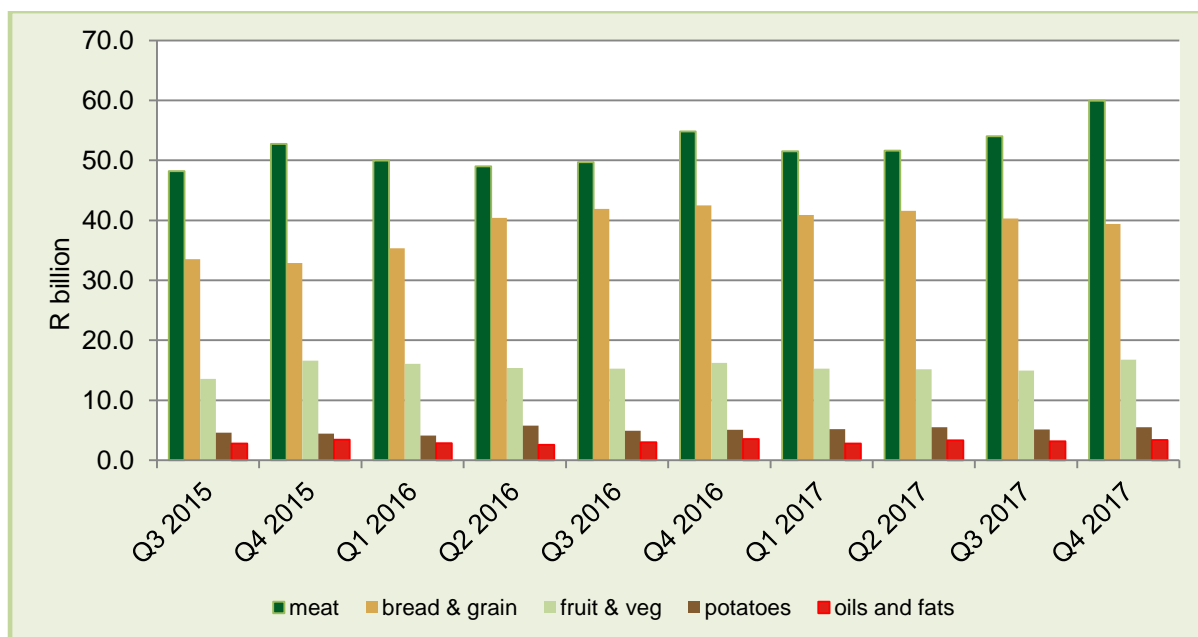


Figure 18: Trends in private consumption expenditure between 2015 and 2017
Source: DAFF

2.9 Review of South Africa's water dam levels

South Africa receives an annual rainfall of 492 millimetres while the rest of earth receives an annual rainfall of 985 millimetres. South Africa receives nearly half the earth's average and consequently, South Africa is classified as a water-stressed country. Rainfall varies considerably from west to east. In the northwest, annual rainfall often remains below 200 millimeters. Much of the eastern Highveld, in contrast, receives an annual rainfall of between 500 millimeters to 900 millimeters of rainfall while occasionally, rainfall exceeds 2000 millimeters. On average, a large area of the center of the country receives about 400 millimeters of rain while there are wide variations closer to the coast. The 400 millimeter "rainfall line" is significant especially because land east of the rainfall line is generally suitable for growing crops while land west of the rainfall line, is only suitable for livestock grazing or crop cultivation on irrigated land.

South Africa also experiences alternating periods of droughts and floods which affects the amount of water across South Africa. Hot dry conditions result in high evaporation rate and scientists predict that with global warming, South Africa will

experience much wetter wet seasons and much drier dry seasons, resulting in an increase in floods and droughts.

There are a large number of dams all over South Africa that store water. There are also a number of water transfer schemes that move water from one catchment via pumps, pipes and canals into another catchment. Gauteng is supplied with water from the Vaal Dam catchment, which includes the Vaal River, Wilge River and all their tributaries. There are two water transfer schemes that feed into the Vaal Dam catchment, namely the Lesotho Highlands Water Project, which obtains water from the mountains of Lesotho, and the Thukela-Vaal Water Transfer Scheme, which obtains water from Kwa-Zulu Natal and is released into the Vaal Dam catchment when needed (DWS, 2017).

In the past couple of years, South Africa experienced low rainfalls due to drought. Over the past two years, matters have been escalating especially in the Western Cape where dams levels were at record lows in a year, after the usual winter rainfall season. The Minister of Cooperative Governance and Traditional Affairs (Cogta) reported that his department was close to declaring Western Cape as a national disaster. Hence, the Department of Cooperative Governance and Traditional Affairs (Cogta) is supporting the head of the disaster management centre to classify this drought as a national disaster. Expectations are that this process will be finalised early 2018.

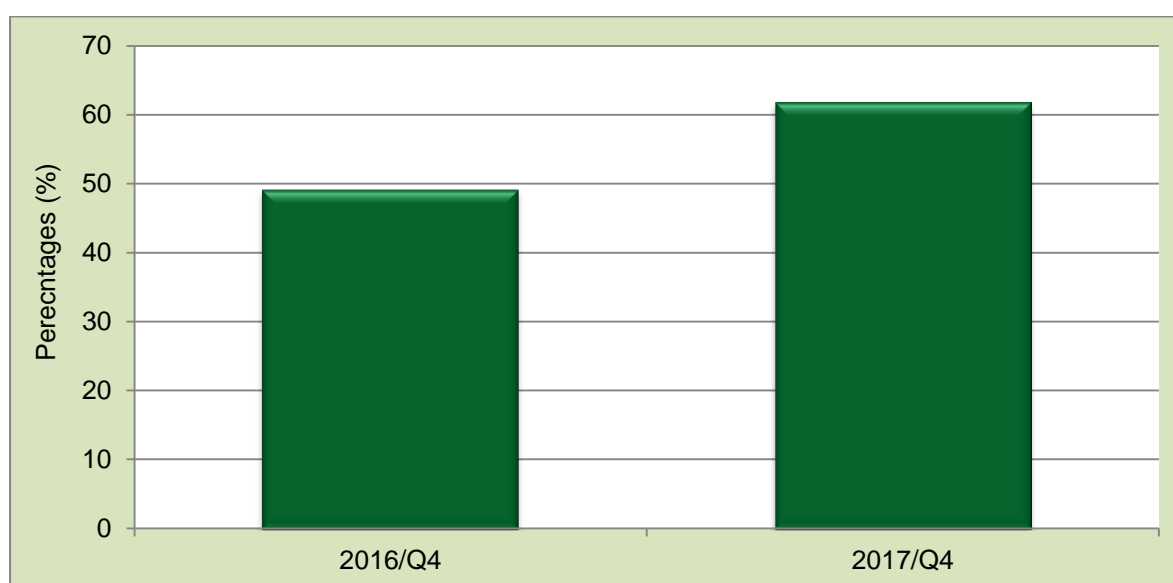


Figure 19: Total national dam levels

Source: Department of Water & Sanitation (DWS)

The country's dam levels increased considerably in the fourth quarter of 2017 compared with the fourth quarter of 2016. In Q4:2017, the increase in SA's dam levels increased by 25% to reach dam levels of 61.8% compared with 49.14% in Q4:2016. The department of water and sanitation (DWS) reported that the increase in dam levels could be as a result of recent rainfalls throughout major parts of the country. However, between Q3 and Q4:2017, SA's dam water levels decreased by 9.4% in Q4:2017 compared with 68.2% in Q3:2017.

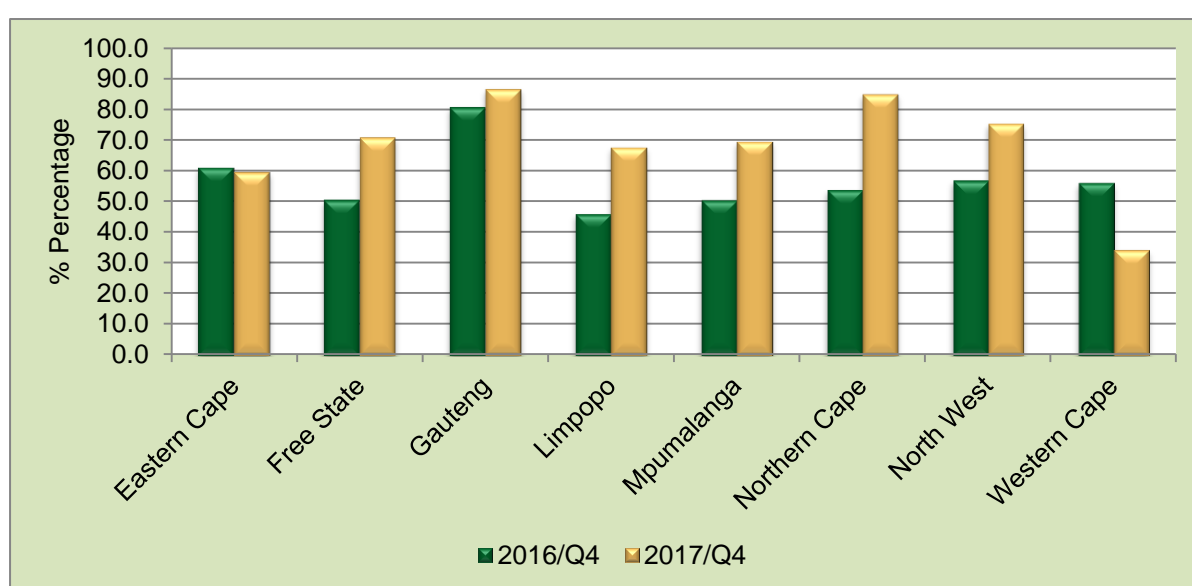


Figure 20: Average dam levels

Source: Department of water and sanitation (DWS)

There was a significant increase in the average dam levels in most parts of the country in Q4: 2017 compared with Q4: 2016. Average dam levels in the Northern Cape, Limpopo, Free State, Mpumalanga, North West and Gauteng Province increased by 57%, 48%, 39%, 37%, 32% and 7% respectively in Q4:2017 compared with Q4:2016. During the same period, average dam levels in the Northern Cape increased from 54% in Q4: 2016 to 85% in Q4: 2017. Average dam levels in Limpopo increased from 46% in Q4: 2016 to 68% in Q4: 2017. Average dam levels in the Free State increased from 51% in Q4: 2016 to 71% in Q4: 2017. Average dam levels in Mpumalanga increased from 51% in Q4: 2016 to 70% in Q4: 2017. Average dam levels in North West increased from 57% in Q4: 2016 to 75% in Q4: 2017 while average dam levels in Gauteng increased from 81% in Q4: 2016 to 87% in Q4: 2017.

According to the department of water and sanitation, recent rainfalls in Gauteng resulted in the Integrated Vaal River System (IVRS) increasing its dam levels following periods of consistent declines. The Integrated Vaal River System consists of 14 dams which are vital for Gauteng as well as Sasol and Eskom. The system is a catalyst towards the economy of Gauteng and the country. The department of water and sanitation highlighted that currently, the Integrated Vaal River System sits at 71.2%, up by 1.3% from 69.9% in the first week of December 2017. Meanwhile, last year during the same period, the Integrated Vaal River System was at 52.9%. Despite the rise in the IVRS, the department of water and sanitation cautioned consumers to conserve water as the current drenches of rain may be construed by some that are water secure.

The department of water and sanitation further reported that according to the Water Management Area (WMA) for Limpopo, the water levels were at 76.4% in Q4:2017 compared with 52.1% in Q4:2016. During the same period, water levels at the Olifants River were at 65.8% in Q4:2017, a huge improvement compared with 39.5% in Q4:2016. Polokwane Water Supply Systems reached 56.9% in Q4:2017, a marginal decrease compared with 57.1% of water levels in Q4:2016. Luvuvhu Water Supply Systems also experienced a slight decline, reaching 93.7% in the last week of November 2017 compared with 94.0% in the last week of October 2017. Nandoni Dam stood at 97.25% in Q4: 2017, which brings relief to communities.

Meanwhile, the Western Cape and Eastern Cape experienced declines in the average dam levels in Q4:2017 compared with Q4:2016. Water levels in the Western Cape and the Eastern Cape dropped by 39% and 2% respectively in Q4: 2017 compared with Q4:2016. Dam levels in the Eastern Cape decreased by 2% to reach 60% in Q4: 2017 compared with 61% in Q4: 2016. The Nelson Mandela bay metro introduced stringent water restrictions to reduce water usage, as some towns experienced low water supply. According to the department of water and sanitation weekly report, dam levels during the last week of November 2017 indicated that there is some stability in the Western Cape, where dam levels remained at 34.7% during the last two weeks of November 2017 compared with the same period the previous year. The Spokesperson for the department of water and sanitation, Sputnik Ratau, reported that dam levels were dropping despite recent rains and this trend was observed throughout all dams nationally. High temperatures in between

the rain led to a high evaporation rate coupled with usage, which resulted in lower dam levels.

Cape Town's main supplying dam, The waterskloof, remained at a perilous 23.3% while Voëlsvlei Dam was at 27.4% and Clanwilliam Dam looked promising at 33.6% in Q4:2017. According to the department's weekly report released the last week of November 2017, average dam levels in the Western Cape province were at 34.7% during the last two weeks of November compared with 54,7% the same period in 2016.

ENCA reported that the decline in agricultural usage in Cape Town contributed to the reduction in the consumption of water. Meanwhile, Cape Town Deputy Mayor, Ian Neilson, reported that despite the decline in agricultural usage, there has not been any significant decline in urban usage. According to Neilson, many of the agricultural users in the Western Cape Supply System, where the City also draws water from, have used up the water allocated to them as per agreement with the National Department of Water and Sanitation. Agricultural usage is therefore likely to drop significantly as the agricultural sector is drawing about 30% of the water in the supply scheme which is expected to fall to approximately 15% in March 2018 and 10% in April 2018.

3. Review of Agricultural Markets

3.1 Grain market review

3.1.1 White and yellow maize

Figure 21 depict international maize price trends and the local maize prices as reported by Sagis. The international grain prices, exchange rate, the stock levels in the domestically have an influence on domestic grain prices. During a normal year, the domestic price of maize will fluctuate between the import and export parity prices. The import parity price reflect the price that local grain millers can pay to import maize from a foreign country taking into account the exchange rate, transport, insurance etc. The export price reflect the price foreign millers are willing to pay to buy maize from South African producers. South African millers will only buy maize internationally if the international maize price is cheaper than the local maize price

and likewise foreign producers will do the same. In theory, the price of maize will not go higher than the international price.

Figure 21 indicates that during Q4: 2017, South Africa's white and yellow maize prices traded between the import and export parity price. White maize import parity price for Q4: 2017 traded at R3175/ton, 5.7% higher compared to R3005/ton in Q3: 2017. During the same period, the domestic price for white maize traded closer to the export parity price during Q4: 2017. The price traded at R1914/ton, 4.9% higher compared to R1825/ton in Q3:2017. Meanwhile, the domestic price of white maize traded lower than the international price. Therefore, when taking into account all other factors, expectations are that local grain producers will demand more local maize than international maize.

On the other hand, the export parity price traded at R1655/ton in Q4: 2017, about 5,4% higher compared to R1570/ton in Q3: 2017. During the same period, local yellow maize price rebounded by 4.9%, from R1944/ton in Q3 to R2013/ton in Q4: 2017. Nevertheless, the local yellow maize price remains within the parity prices.

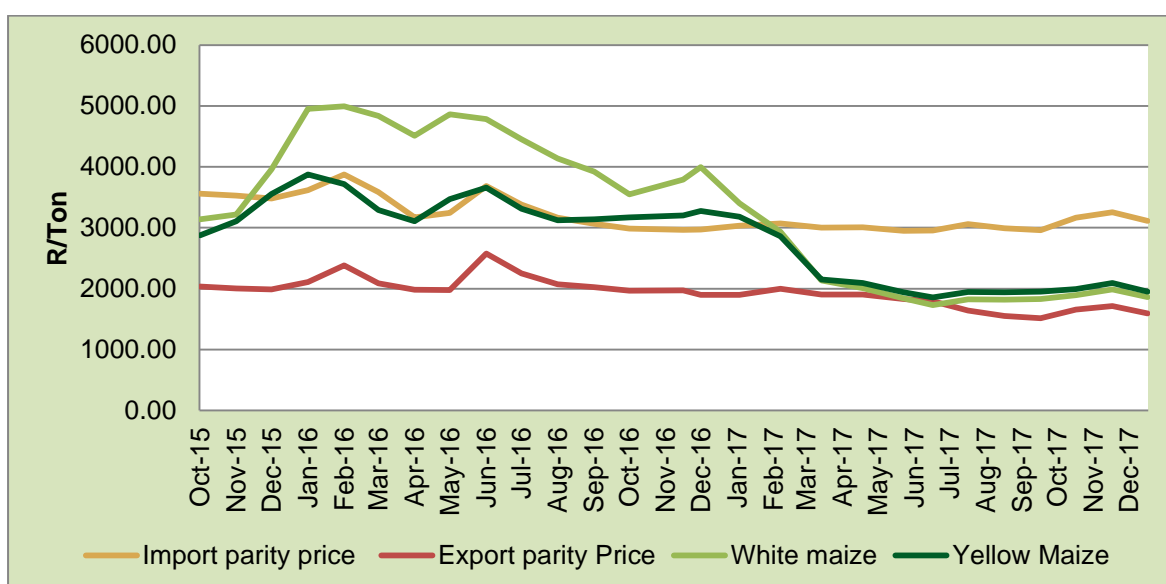


Figure 21: White maize price
Source: Sagis

Figure 22 shows retail maize prices against the maize seed prices. The average quarterly maize seed prices in Q4: 2017 was estimated R1913/ton, 4.9% higher than R1825/ton in Q3: 2017. Maize seed prices maintained a downward trend since Q1: 2017. The gradual decline in maize seed prices in Q4: 2017 will mostly likely result in lower prices for maize by-products in Q1: 2018. The price of selected maize by-products also declined for the third consecutive quarter since Q2: 2017. The quarterly price of super maize (1kg0, super maize (2.5kg); (super maize) mealie meal/maize flour (5kg), (special maize) mealie meal/maize flour (1kg) and (special maize) mealie meal/maize flour (2.5kg) recorded a negative growth of 4.0%, 6.1%, 7.4%,4.3% and 7.0% respectively in Q4: 2017 from a negative growth 9.5%, 9.8%, 9.5%, 16.2% and 16.0% respectively in Q3: 2017. The decline in prices of maize by-products is attributed to high yields during Q2: 2017. Lower prices of maize by-products will most certainly benefit consumers in the long run.

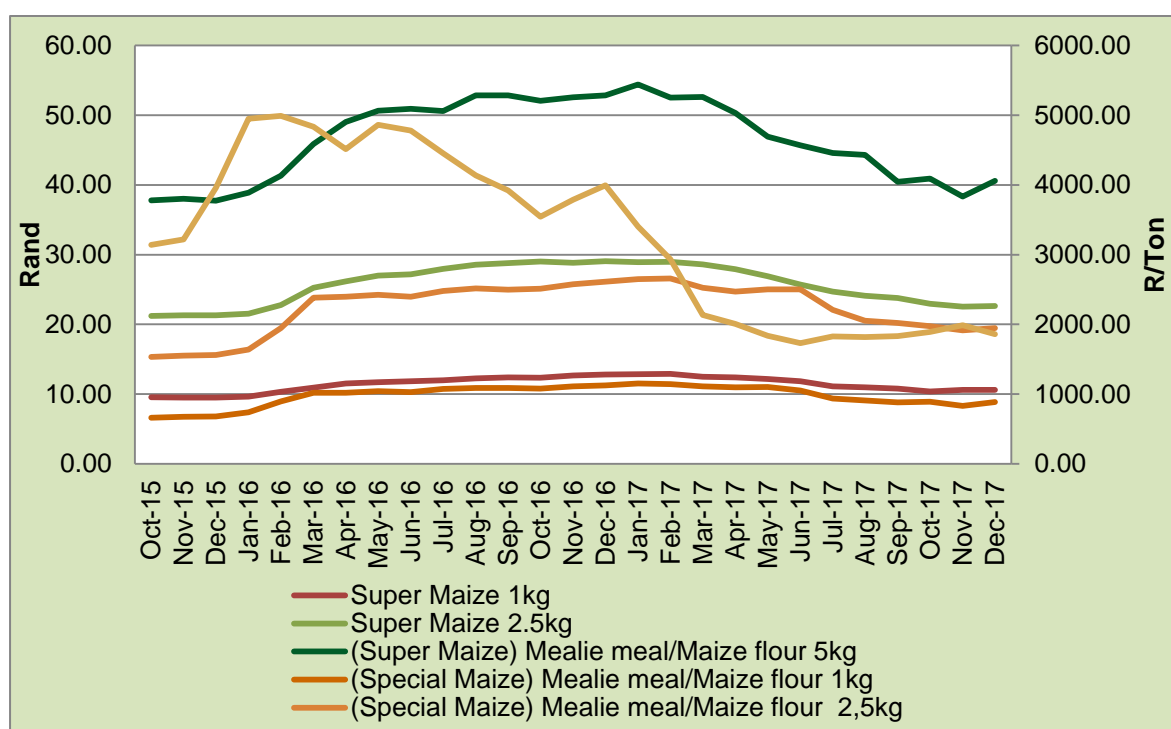


Figure 22: Retail prices vs white maize seed prices

Source: Safex/Stats SA

Figure 23 displays supply and demand of white maize from Q4: 2015 to Q4: 2017. Producer deliveries and exports of yellow maize contracted by 96.0% and 70.3% respectively during Q4: 2017 from a growth of 24.1% and 39.6% respectively in Q3:

2017. South Africa’s local demand of white maize moderated to 6.8% during Q4: 2017, from a growth of 19.0% the preceeding quarter. However, maize surplus accelerated and recorded a three digit growth of 485.4% in Q4: 2017 from 61.9% growth in Q3: 2017. The surplus in maize stock will continue to keep prices lower in the coming month. Yellow maize price as reported by Safex is currently at 1913/ton for Q4: 2017.

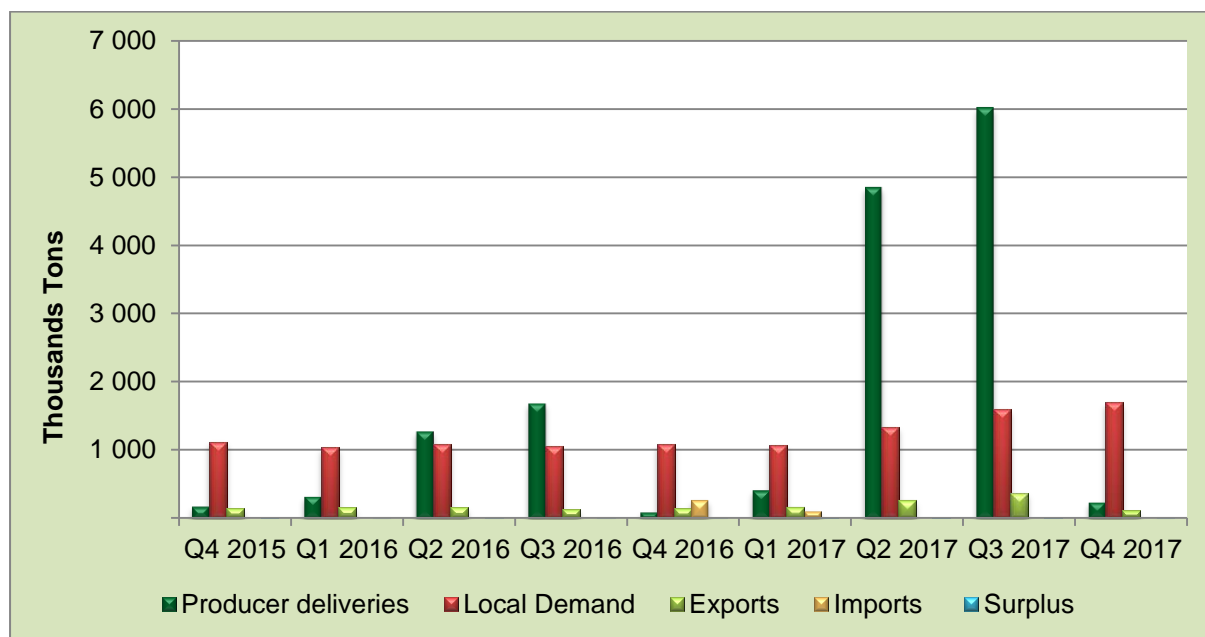


Figure 23: Supply and demand of white maize

Source: Sagis

Figure 24 displays supply and demand of yellow maize from Q4: 2015 to Q4: 2017. Producer deliveries and local demand of yellow maize decelerated by 91.4% and 38.9% respectively in Q4: 2017 from a contraction of 45.4% and 23.7% respectively in Q3: 2017. Amongst many other reasons for the contraction in Q3: 2017, the bumper crop in Q2: 2017 remained the key reason owing to low producer deliveries in Q4: 2017. On the other hand, exports of yellow maize contracted by 38.9% in Q4: 2017 from a positive growth of 142.5% in Q3: 2017.

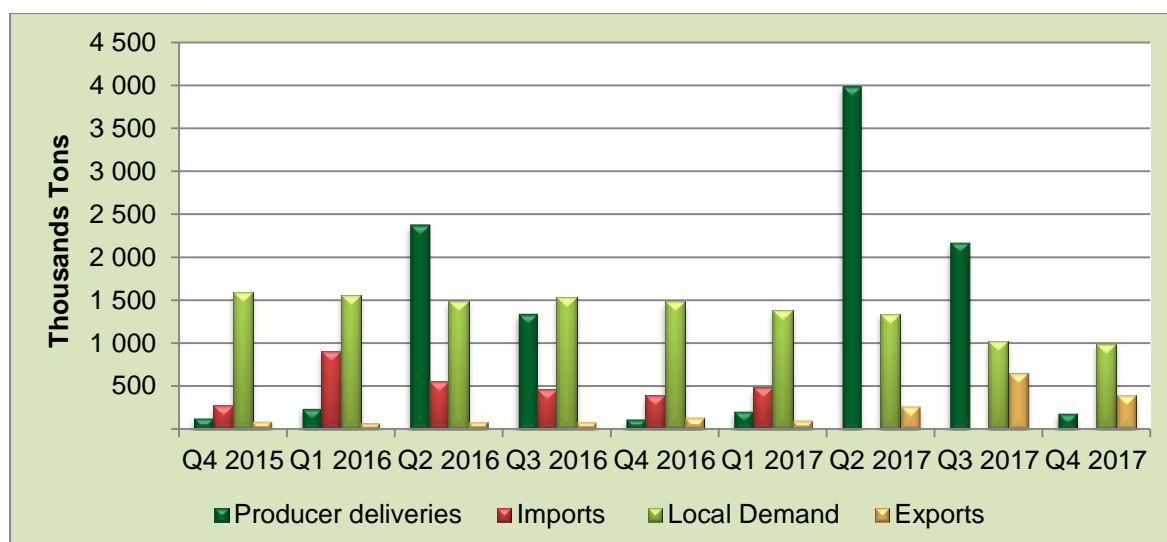


Figure 24: Supply and demand of yellow maize

Source: Sagis

3.1.2 Wheat

Global wheat production in 2017/18 has been raised up by 0.8 million tons, on account of the 1.0 million ton increase for Russia and 0.5 million ton increase for the European Union, based on updated harvest results. Though there has been some increases in production in Russia and the EU, the increases were offset by a 0.5 million tons decrease for Pakistan.

Global 2017/18 trade was higher in December's projection as higher exports from Canada, Russia and the Ukraine more than offset reduced exports from the United States. Projected imports were raised for Brazil, China, Indonesia and Ukraine. Brazil's imports were raised up by 500 000 tons to 8.0 million tons due to a smaller crop. China's imports were raised up by 500 000 tons to 3.5 million tons, on faster-than-expected trade. Meanwhile, Indonesia's imports were raised up by 1.0 million tons to 11.5 million tons, primarily on higher expected feed wheat usage.

Import projections for Bangladesh and the European Union were lowered by 500 000 tons each in December 2017 to 6.0 million tons each respectively, on slower-than-expected trade in Bangladesh as well as slow pace of purchases and a larger crop in the European Union.

December's export projections were higher for Canada, Russia and the Ukraine. Canada's exports were raised up by 1.0 million tons to 22.0 million tons, on a larger-

than-expected crop. Russia and Ukraine's exports were each raised up by 500 000 tons to 33.5 million tons and 17.0 million tons respectively, on strong pace of shipments from Russia and larger-than-expected trade in Ukraine. Canada's export projection for December remained unchanged at 28.5 million tons despite the slow pace of shipments on the expectation of improved competitiveness later during the course of the year. Meanwhile, projected exports from the United States were lowered by 500 000 tons to 26.0 million tons, on the slow pace of shipments and the bumper Canadian exports.

Total world consumption in December 2017 was forecast to be 2.1 million tons higher, primarily on greater usage from Indonesia, Canada and the EU. Meanwhile, wheat consumption in the Middle East grew by 20% over the last decade.

South Africa's wheat production for the 2017/18 season is expected to decline by 23% percent this season, mainly due to poor yields in the Western Cape and in some parts of the Free State province. During the 2017/18 season, South Africa planted 491 600 hectares of wheat, which was less 3.3% than 508 365 hectares planted the previous season. The drought had an impact on wheat plantings and consequently, will affect wheat harvested this season.

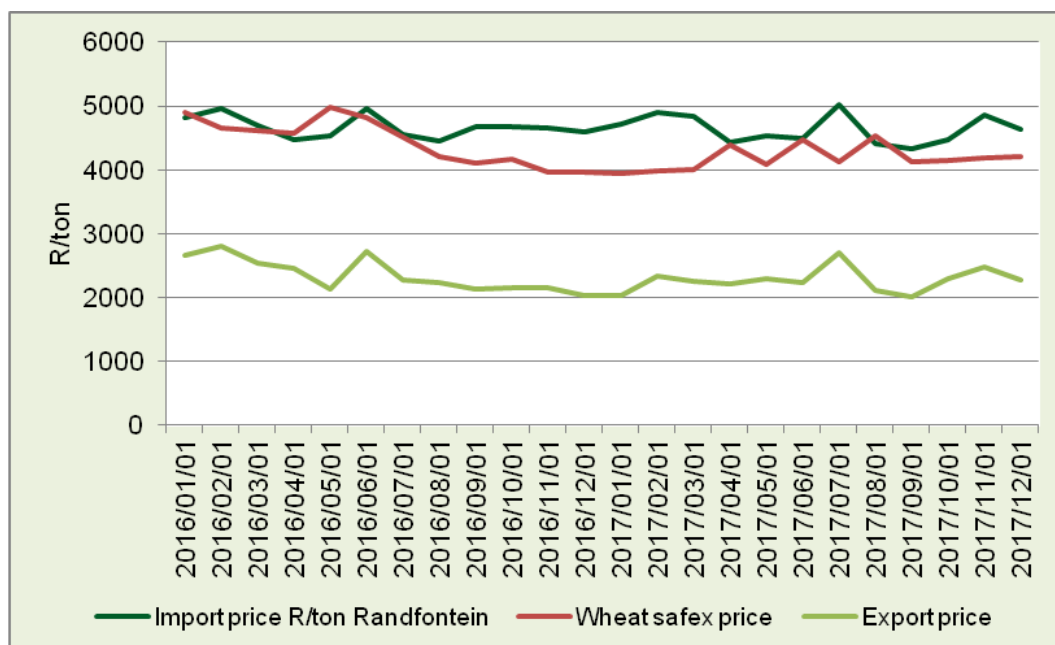


Figure 25: Wheat safex price, Export price and Import price

Source: Sagis/Safex

Figure 25 illustrates the wheat safex prices, exports price and import price seen from January 2016 to December 2017.

In the fourth quarter of 2017, the rand performed weaker against the US dollar. Meanwhile, globally, there is an ample supply of wheat, remaining at record high levels. Due to the abundant production and high carry out stocks, this has kept international prices lower. South Africa produces an average of 1,7 million tons of wheat annually, while the annual average total commercial demand for wheat amounts to 3.2 million tons. In order to meet local commercial demand, South Africa imports wheat which is usually between 40% - 50% of local consumption, making South Africa a net importer of wheat. Despite the high volume of imports that enter the country, there lies great potential for the South African wheat industry to grow wheat production locally.

Meanwhile, South Africa is a very small player in the global market with prices determined by the global market. As a result, domestic supply and demand factors have less effect on global prices. In Q4:2017, the import price (R/ton), export price (R/ton) and the wheat safex price all went up by 0.3%, 3.8% and 10.1% respectively when compared to Q3: 2017. Lower global wheat prices and the weaker rand were key drivers to the wheat import parity price. Between Q3 and Q4:2017, importing wheat was not so expensive compared to producing it locally. In Q4:2017, exporters could gain more with the 3.8% increase in the export price compared to Q3:2017. The combined effect of lower international wheat prices, limited availability of wheat in South Africa have affected the South African domestic wheat prices as indicated by price movements in October to December 2017.

Figure 26 represents retail bread prices versus the wheat import price. In Q4:2017, the retail price of both white and brown bread (700 grams) fell by 4.7% and 2.6% respectively compared to Q4:2016. The retail price of White bread (700 gram) fell to R12.94 in Q4:2017 from R13.58 in Q4:2016 while brown bread (700 gram) fell to R12.05 in Q4:2017 from R12.08 in Q4:2016. On the other hand, the price of bread brown (600gr) went up by 6.2% in Q4:2017 while cake flour and bread flour went up by 2.2% and 0.38% respectively in Q4:2017 compared with Q4:2016. The decline in the brown bread (600 gram) prices could be attributed to a decrease in some costs down the value chain. Factors which are the biggest contributors in producing

bread include, fuel costs, energy costs, transport costs, packaging and labour costs and can contribute to increases down the value chain.

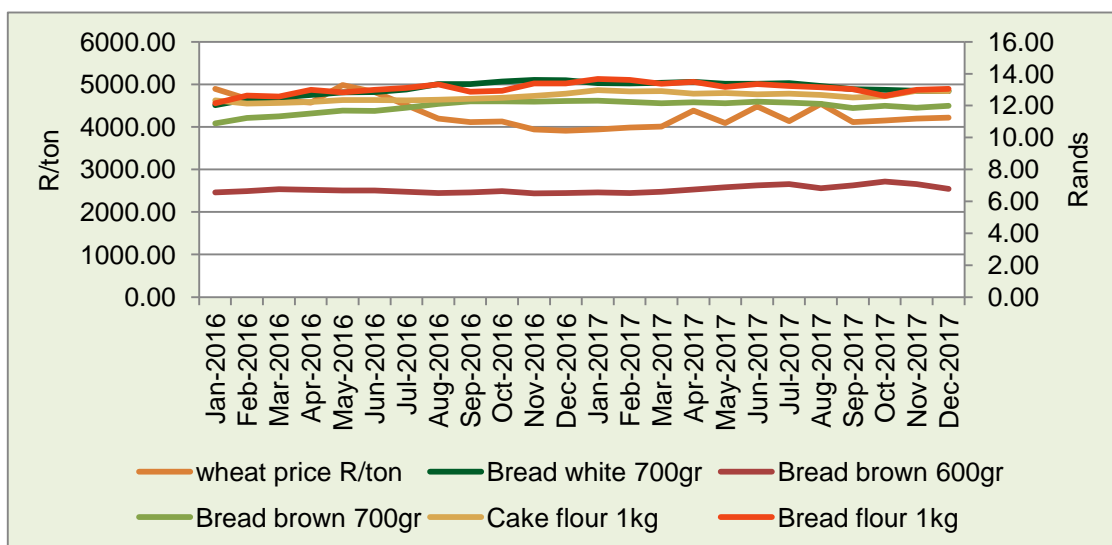


Figure 26: Retail bread price vs wheat import price

Source: Stats SA & Safex

Globally, wheat market prospects in December painted a good picture compared to the previous season, with forecasts for a larger Canadian and European Union wheat crops, which helped lift the 2017/18 global wheat production to new record highs in December. Projections for both global wheat output and trade now exceed last year’s records. A sharp increase in wheat supplies in Canada is expected to intensify the competition facing U.S. exports during the latter part of the 2017/18 marketing year.

In the Western Cape Province; which is one of the largest wheat producers in South Africa, 325 000 hectares of wheat have already been planted of which 200 000 hectares were planted in the Swartland. With only 1.4 million hectares expected, which is about 23% less than the previous season, importing plans are already on the way to supplement local demand for wheat. With the April- May rainfall generally below the average, summer rainfall areas are likely to receive late summer rains, which could result in late winter rainfall again for the Western Cape. Absa (2017) reported that the local wheat industry estimates a loss of about R1.7 billion to R2 billion in gross incomes. Nevertheless, despite the odds, with prudent financial

planning, risk mitigating strategies and sustainable farming practices, producers can still find a way to get through the challenging time.

Figure 27 shows producer deliveries, local demand of wheat as well as imports and exports of wheat from Q1:2016 to Q4:2017.

Producer deliveries of wheat decreased massively in Q4: 2017, by 73% compared to Q4: 2016. Local demand also decreased significantly, by 66% in Q4:2017 compared with Q4:16. SA's imports of wheat increased massively by 208 594 tons in Q4:2017 compared with 79 013 tons in Q4:2016 while exports went down by 75% in Q4:2017 compared with Q4: 2016.

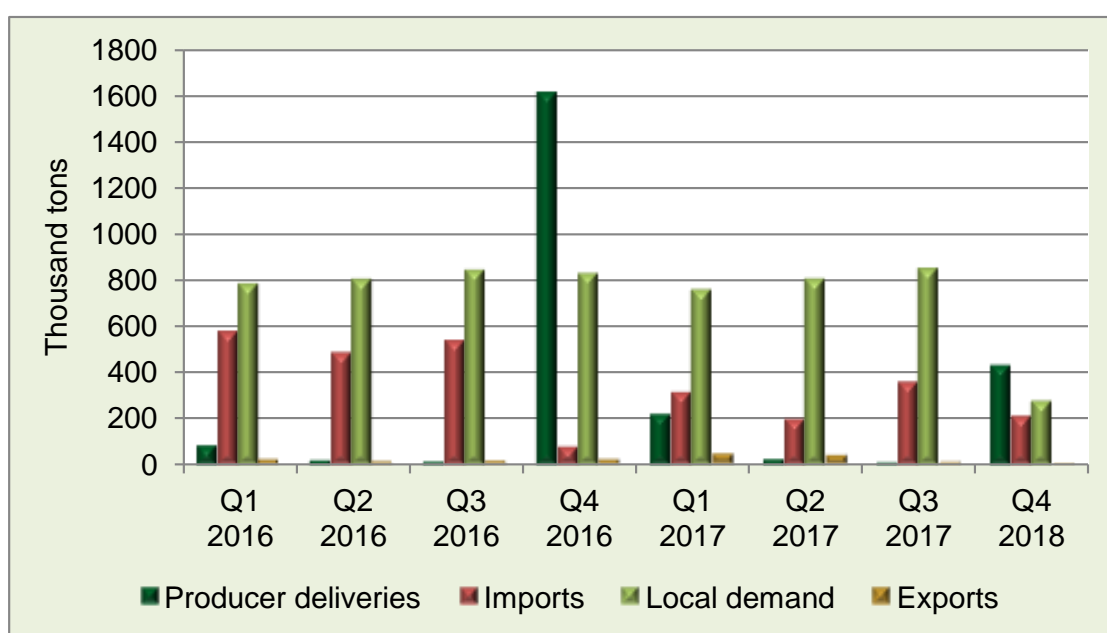


Figure 27: Wheat deliveries, local demand, Imports and Exports

Source: Stats SA & Safex

3.1.3 Soya beans

The local price of soybeans traded 25% lower on a year-on-year basis in Q4: 2017 while it traded 3.4% higher in Q4: 2017 compared with Q3: 2017. The local price of soybeans traded 27% below the import price during Q4: 2017 as shown in figure 28. For the first time since Q1: 2017 that the price of soybean traded below the import

price, even though the price remains above the export parity price. Various fundamentals explain the movement in prices during Q4: 2017; from currency fluctuations, the quiet market ahead of the planting season and higher international prices due to inter-alia; concerns over dryness in Argentina. Local soybean prices are expected to trade lower in 2018 due to abundant soybean stock and the anticipated increase in soybean production in 2018, see table 1.

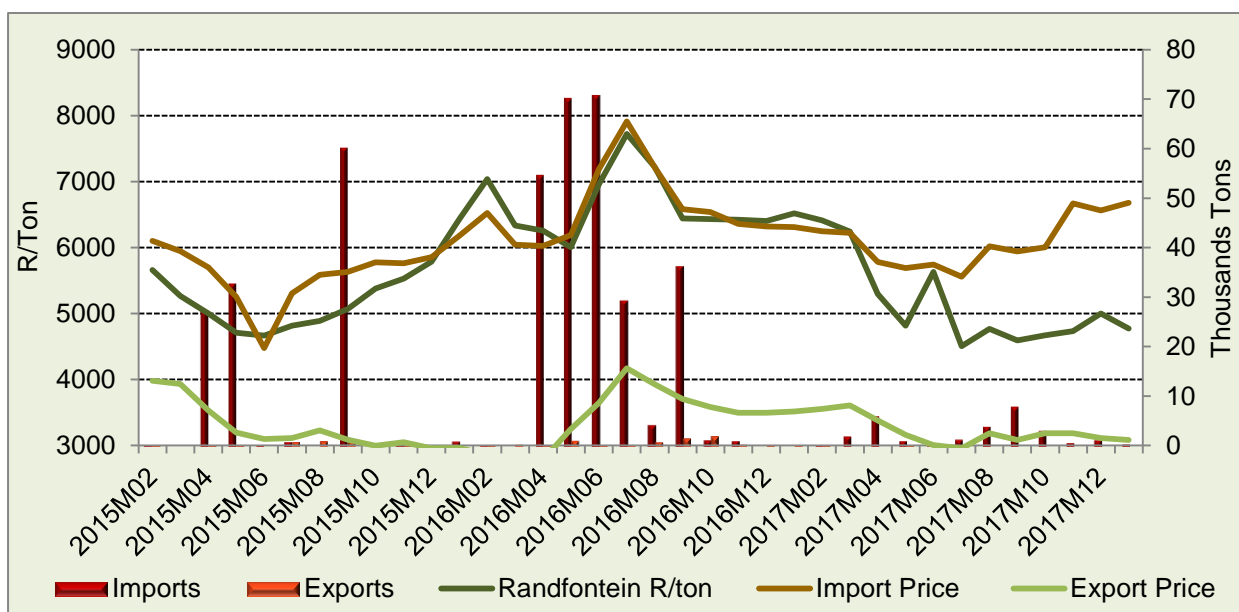


Figure 28: Soya beans local price vs Import Price

Source: Safex/Sagis/USDA/World Bank/NAMC

The final production forecast for soybeans in 2017 averaged 1,3 million tons, whilst the latest prediction for 2018 is that soybean production is expected to average 1,4 million tons; which will be the highest production on record. Imports remained lower in 2017, whilst exports decreased compared to the previous year, resulting in high ending stocks. Demand is expected to rise in 2018 with high beginning stock expected to keep prices lower in 2018.

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|--------------------------|---------|---------|---------|-----------|-----------|-----------|-----------|-----------|
| Beginning stock | 46 200 | 225 800 | 68 639 | 61 806 | 63 704 | 89 128 | 84 792 | 332 442 |
| Production | 710 000 | 650 000 | 784 500 | 948000 | 1070000 | 742000 | 1 316 000 | 1 374 700 |
| Imports | 1 539 | 976 | 4489 | 103 704 | 124 981 | 271 098 | 28 000 | 20 000 |
| Total Supply | 757 739 | 876 776 | 857 628 | 1 113 510 | 1 258 685 | 1 102 226 | 1 428 792 | 1 727 142 |
| Local Consumption | 484 739 | 655 278 | 780 432 | 1 049 230 | 1 164 880 | 1 010 689 | 1 095 900 | 1 208 700 |
| Exports | 47 200 | 152 616 | 15 390 | 576 | 4 677 | 6 745 | 450 | 500 |
| Closing stock | 225 800 | 68 882 | 61 806 | 63 704 | 89 128 | 84 792 | 332 442 | 517 942 |
| Total Demand | 757 739 | 876 776 | 857 628 | 1 113 510 | 1 258 685 | 1 102 226 | 1 428 792 | 1 727 142 |

Table 1: South African Soybeans Production & Use Table

Source: DAFF/ NAMC

3.1.4 Sunflower

ABSA Agribusiness trends report (October 2017) highlighted that in November 2017, sunflower seed prices decreased significantly week on week by 10% (R500/ton) from R4933/ton to R4433/ton while soybean prices also declined by 5.3% (R278/ton) from R 5211/ton to R4933/ton. The summer crop production conditions deteriorated in November due to weaker than expected rainfall conditions, very low temperatures as well as hot and windy conditions. Anticipated shift to more sunflower plantings into the next season and lower plantings for groundnuts and soybeans. Moreover, in December 2017, sunflower seed prices increased week on week by 2% (R87/ton) from R4520/ton to R4607/ton while soybean prices decreased by 0.9% (R47/ton) from R 5035/ton to R4988/ton. Domestic prices followed international bearish trends.

The price of sunflower seed decreased by 3.4% in Q4: 2017 compared to Q4:2016. The local price of sunflower seed traded 23.1% lower in Q4: 2017 as compared to trading 18.7% below the import price in Q3: 2017. The price of sunflower oil (2 litre) in Q4: 2017 traded 9.9% lower whilst the price of sunflower (750ml) in Q4: 2017 traded 1.8% lower compared to Q4: 2016. The price of sunflower oil (2 litre) in Q4: 2017 decreased by 0.4% whilst the price of sunflower oil (750ml) in Q4: 2017 increased by 1.6% compared to Q3: 2017.

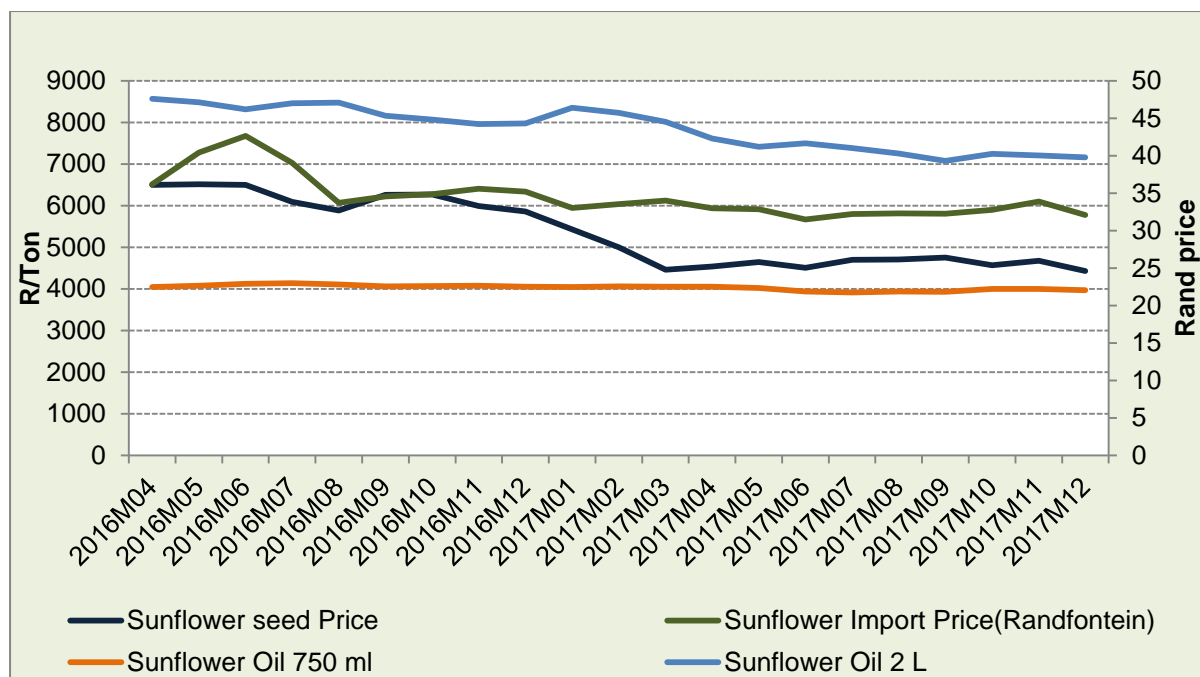


Figure 29: Sunflower local seed; import price (Randfontein) and Sunflower retail price

Source: Safex; USDA; Sagis; and Own calculations

In November 2017, ABSA reported that due to the weaker than expected rainfall conditions, summer crop production conditions deteriorated in several regions of South Africa. The Central and Western regions of South Africa had lower rainfall, which delayed soybean and sunflower planting. The weaker local currency supported sunflower seed prices. Meanwhile, world production and exports of sunflower oil are expected to decline between January and March 2018. Producer deliveries in Q4: 2017 decreased by 94.9% compared to Q3: 2017 while sunflower seed imports decreased by 80.7% during the same period. Local sunflower seed consumption in Q4: 2017 was 3.3% lower than in Q3: 2017. Local consumption of sunflower seed in Q4: 2017 is expected to be 31.9% higher than it was in Q4: 2016, see figure 30.

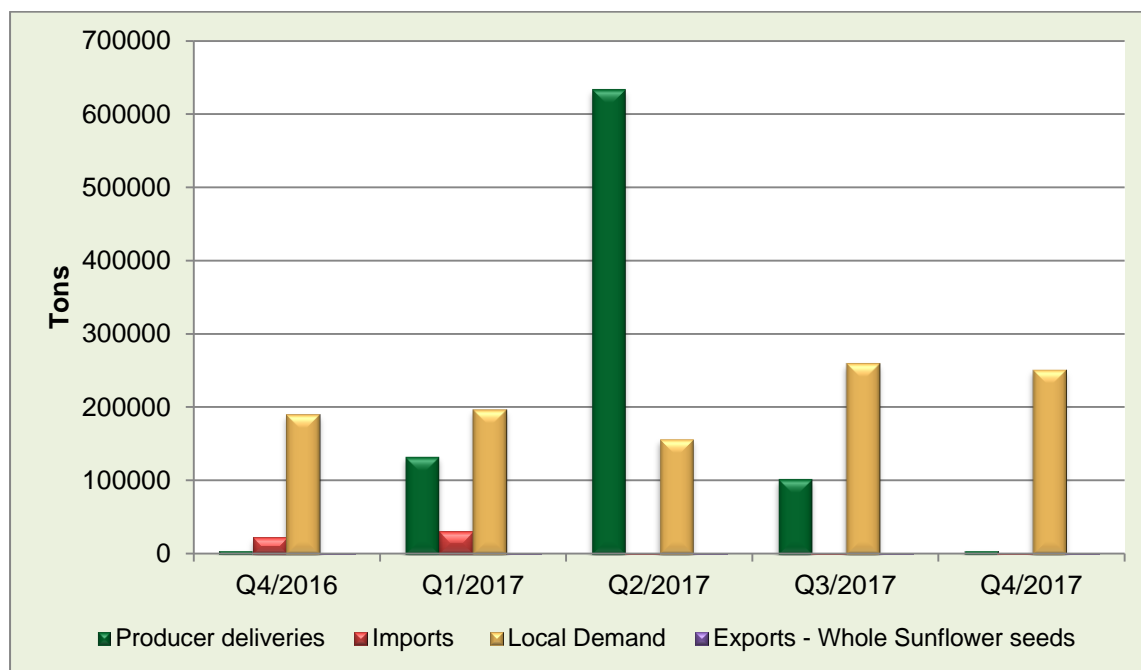


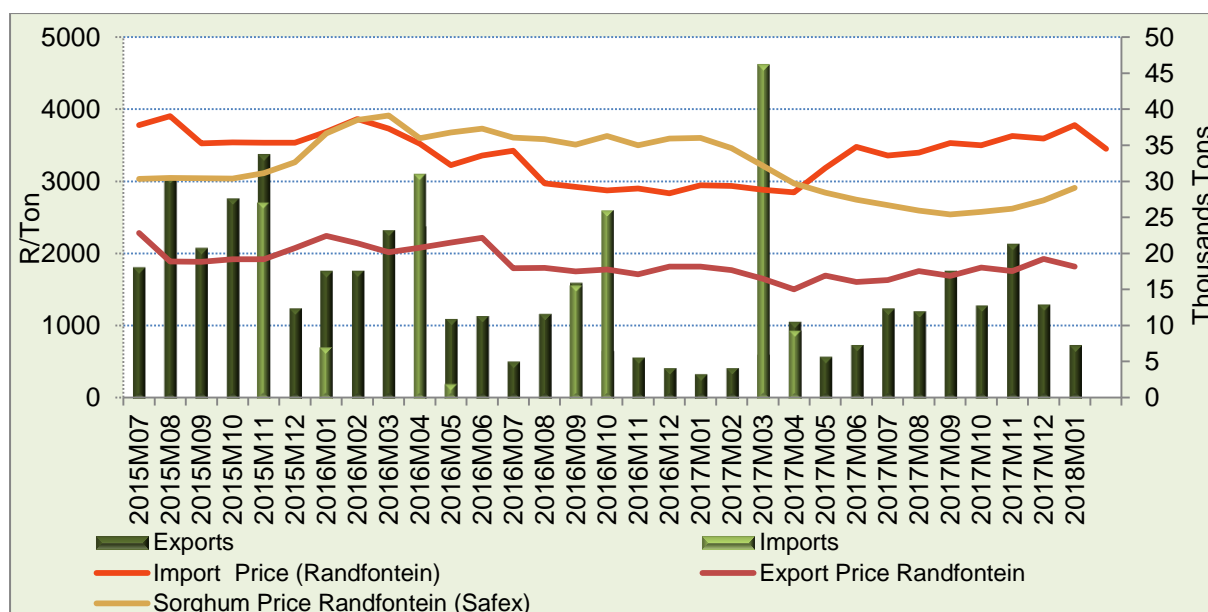
Figure 30: Sunflower seed deliveries; local demand and trade

Source: Sagis

3.1.5 Sorghum

The local price of sorghum decreased by 26% on a year-on-year basis in Q4:2017 whilst it increased by 2% in Q4:2017 compared with Q3: 2017. The decline in prices on a year-on-year basis is due to the high production in 2017, resulting in high ending stocks as shown on table 2. Prices have risen in Q4: 2017 compared to Q3: 2017, as local production is expected to decline.

Local and international prices are expected to rise in the long term as international production is expected to lower by 6%; whilst local production is expected to decline by 48% in 2018 compared to 2017, see table 2. Imports are expected to rise by 52% during the 2018 season to average 80 000 tons compared to 56 000 tons in 2017.


Figure 31: Sorghum Parity Price

Source: Safex, Sagis/NAMC

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|----------------------|---------|---------|---------|---------|---------|---------|---------|---------|
| Opening stock | 73 400 | 62 500 | 56 015 | 50 069 | 121 812 | 83 142 | 35 238 | 54 708 |
| Production | 155 000 | 135 500 | 147 200 | 265 000 | 114 700 | 70 500 | 152 000 | 78 200 |
| Imports | 57 800 | 54 800 | 50 033 | 8 725 | 34 316 | 74 957 | 56 000 | 85 000 |
| Total Supply | 290 800 | 250 300 | 251 652 | 320 301 | 277 713 | 226 677 | 244 073 | 219 926 |
| Local demand | 203 500 | 175 300 | 182 033 | 172 320 | 165 532 | 178 790 | 176 000 | 174 468 |
| Exports | 24 800 | 19 000 | 19 550 | 26 169 | 29 039 | 12 649 | 13 800 | 8 000 |
| Total Demand | 228 300 | 194 300 | 210 583 | 198 489 | 194 571 | 191 439 | 190 000 | 182 468 |
| Ending Stock | 62 500 | 56 000 | 50 069 | 121 812 | 83 142 | 35 238 | 54 708 | 37 458 |

Table 2: Production & Use Table

Source: DAFF/ NAMC

3.1.6 Groundnuts

Finalisation of the groundnut crop by the Crop Estimate Committee (CEC) remains unchanged at 92 050 tons end of harvesting season. Prospects for an exceptional groundnut crop looks promising and analysts expect this year's groundnut crop to show better profits than most crops. This comes after a year which yielded only 18 000 tons from the 22 600 hectares planted the previous season, which saw the area planted to groundnuts increase significantly to 56 00 hectares in 2017. The weather played a critical role in the success of the crop.

Figure 32 shows producer deliveries and local demand of groundnuts from Q1:2015 to Q4:2017.

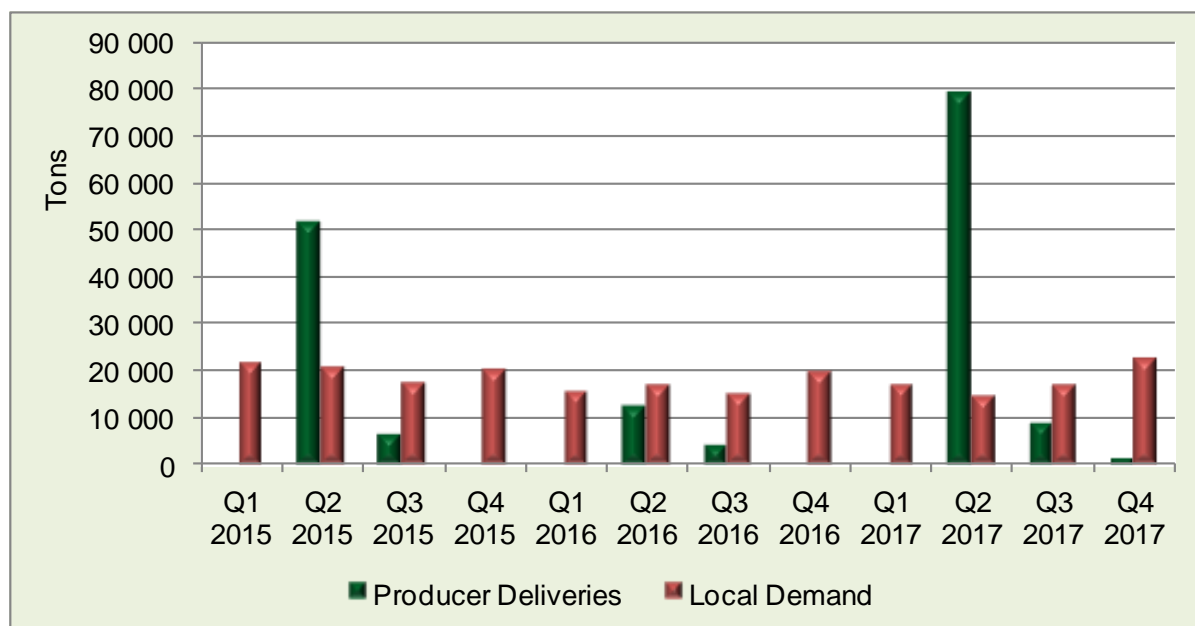


Figure 32: Producer deliveries and local demand of groundnuts

Source: Sagis

Producer deliveries of groundnut increased notably in Q4:2017 compared with Q4:2016, to 1 665 tons from 100 tons. The increase in producer deliveries can be attributed to an increase in area planted in 2016/17 to 56 000 hectares. For the past two to three years, production levels in South Africa have been so low that even national markets experienced a shortage.

Local demand for groundnut increased by 15% in Q4: 2017 to 22 468 tons from 19 576 tons in Q4: 2016. There is always a demand for groundnuts in the local and international markets, and farmers in the right climatic conditions could reap rich rewards from investing in this crop. Nevertheless, the South African Groundnut Forum indicated that one of the challenges facing the South African groundnut industry is achieving a major portion of menus relating to food projects for schools, prisons and non-profit organisations since it is affordable and high in protein. Furthermore, due to a decline in quality, the market shrunk. Consequently, the challenge facing SA's groundnut industry is to increase local consumption as before.

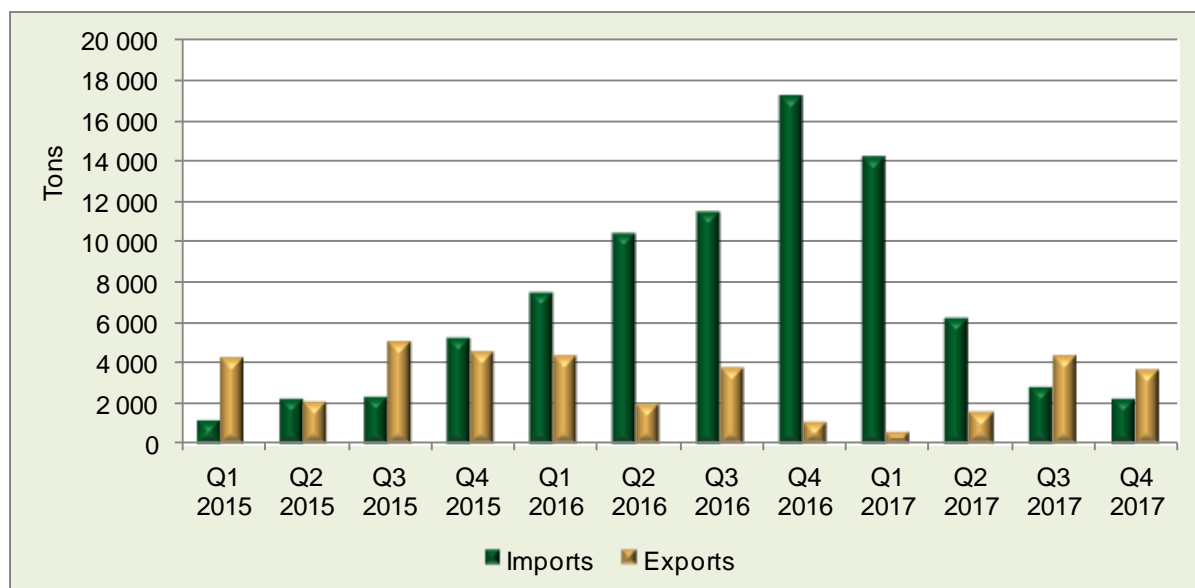


Figure 33: Exports and Imports of groundnuts

Source: Sagis

South Africa is generally known as a net exporter of groundnuts, however, even in a year with a good crop, South Africa continued to import groundnuts. Exports of groundnuts increased massively in Q4: 2017 compared with Q4: 2016, to 3 569 tons from 1 095 tons. South Africa gained most of its groundnuts (not roasted or otherwise cooked, whether or not shelled or broken) export revenue from groundnuts exported to Belgium which was the leading export destination in Q4: 2017 followed by Japan and Mozambique. The export value of groundnuts (not roasted or otherwise cooked, whether or not shelled or broken) in Q4: 2017 increased to R 68,53 million compared with R 22,80 million in Q4: 2016. During the same period, imports of groundnuts decreased considerably in Q4: 2017, from 17 206 tons in Q4: 2016 to 2 268 tons in Q4: 2017. Groundnuts (not roasted or otherwise cooked, whether or not shelled or broken) import value in Q4: 2017 decreased by a massive 89%, from R 314.5 million in Q4: 2016 to R 35.7 million in Q4: 2017. SA's top three suppliers of groundnuts (not roasted or otherwise cooked, whether or not shelled or broken) in Q4:2017 were Brazil, Argentina and China. Should imports continue coming in, the new 2018/19 season might be met with higher opening stock and subsequently, higher ending stock.

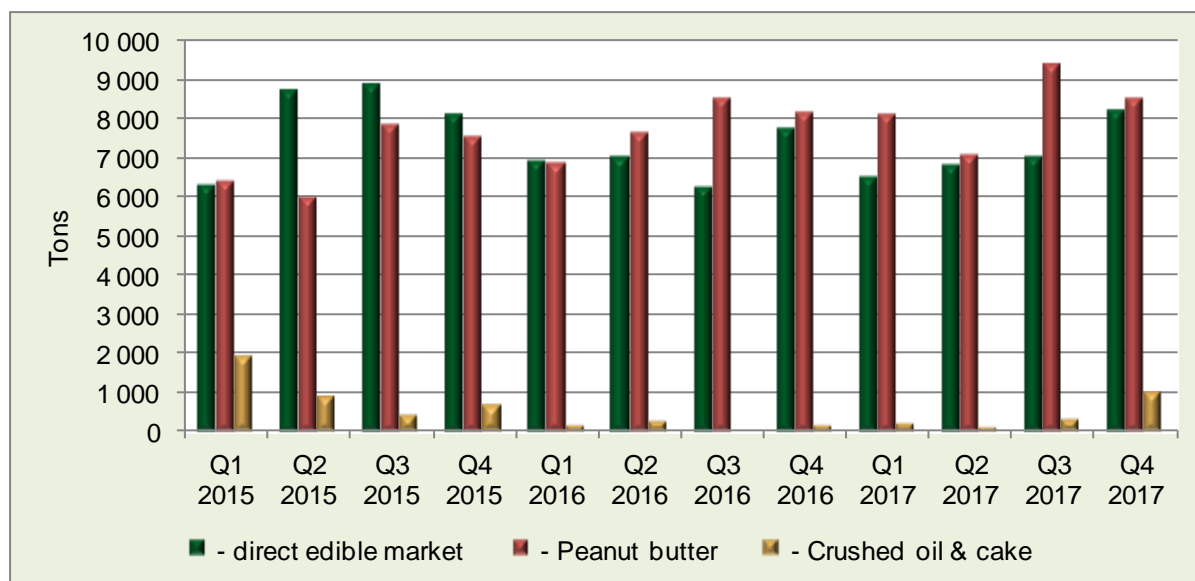


Figure 34: Groundnuts consumption

Source: Sagis

South Africans mainly consume peanuts in two forms, mainly as peanuts (edible nuts) and processed peanut butter. A challenge facing the SA groundnut industry is achieving an increase in local consumption. Consumption levels in the edible market increased by 12% in Q4: 2017 compared with Q4: 2016, from 7 727 tons to 8 191 tons. Generally, local consumption requirements for groundnuts is around 63 000 tons per year of which 37% of this is consumed as peanuts and then the rest is processed into peanut butter, oil and other products. Consumption of peanut butter increased by 10% in Q4:2017 compared with Q4:2016, from 8 161 tons to 8 499 tons.

Consumption levels of peanut butter improved in Q4:2017 despite slight increases in the domestic peanut butter prices in October and December 2017.

Consumption levels of crushed oil & cake have been volatile but increased massively in Q4:2017 compared with Q4:2016, from 181 tons to 1 001 tons. Crushed oil extracted from groundnuts can be used as raw material for manufacturing of soap, massage oil for polio patients, body cream, shaving cream, hair cream and for fluid diet used to strengthen patients and sharpen their appetite before and after operations. The oil cake, which is a by-product of the oil extraction process is used to make glue for wood, animal feed, fertilisers and antibiotics. Furthermore, the oil cake

is the most widely preferred cattle and animal feed due to its exceptional quality and nutrition.

Figure 35 shows retail prices of oilseed products between January 2015 and December 2017.

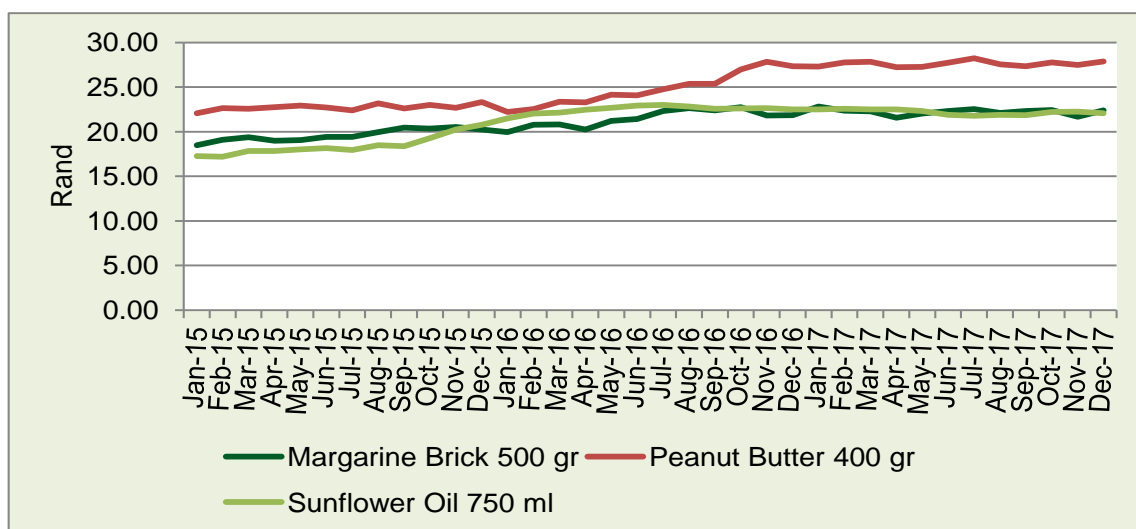


Figure 35: Oilseed products

Source: Stats SA

Between January 2015 and December 2017, the market prices for peanut butter (400 gram) remained volatile however, displayed an increasing trend over the period. In November 2017, the market price for peanut butter (400 gram) decreased by 1%, to R27.48 from R27.76 in October 2017. Nevertheless, in December 2017, the market price for peanut butter (400 gram) increased by 1.4% to R27.88. The increase could be attributed to an increase in the petrol price inflation in December 2017. Oil soared to two-and-a-half year high in December 2017 as the oil market has been rebalancing. Oil prices have a positive correlation with petrol prices and petrol inflation accounts for 4.58% of the total CPI basket. Petrol is a volatile component of headline inflation. Consequently, petrol price inflation accelerated to 14,2 % (y/y) in December from 7,9% (y/y) in November.

Higher yields and prices in the previous season can inspire local markets to explore historic markets and exploit new opportunities. There are new possibilities available for SA groundnut producers which will entail hard work to access cultivars that will deliver higher yields and assist in cutting down costs and deliver more affordable

products to the market. Furthermore, with the changing and declining supply over the years, new possibilities exist for the South African groundnut industry to regain their position on the export market.

3.2 Fruit and vegetable market review

As uncertainty around the weather continues, South Africa is transitioning into a La Niña with a high probability of above normal rainfall. While some parts of the country are experiencing some rain, South Africa in its entirety is receiving below average rainfall compared to previous seasons. Most rivers are not flowing normally while dam levels, though showing some slight recovery, are still at their lowest levels compared to previous seasons.

The following section looks at the average prices and quantities of fruits and vegetables supplied at Fresh Produce Markets (FPMs) between Q4:2016 and Q4:2017.

In Q4: 2017, average prices for avocados, grapes and apples increased by 112%, 33% and 2% respectively compared to Q4:2016, largely due to good uptake and a decrease in supplies across markets. According to the CEO for Avocado Growers' Association, the remarkable increase in the average prices of avocados is due to the demand for avocados that doubled in the past three years and production shortages due to drought. Avocado growers in SA, which are ranked the 12th largest producers in the world, are positioning themselves for strong growth. The industry is adding about 1,000 hectares/year to the existing 16 000 hectares. Meanwhile, average prices for oranges, bananas, pears and mangoes decreased by 25%, 15%, 10% and 6% respectively in Q4: 2017 compared with Q4: 2016, see Figure 38. Banana imports increased sharply in 2017, peaking at 9,837,697 kg during the summer month of December 2017 from a low of 2,777,362 kg during March 2016. Supermarket groups also started importing bananas as a response to lower local production volumes. Average prices for oranges decreased on account of an increase in the area planted in the main growing regions of Limpopo, Eastern Cape and Mpumalanga.

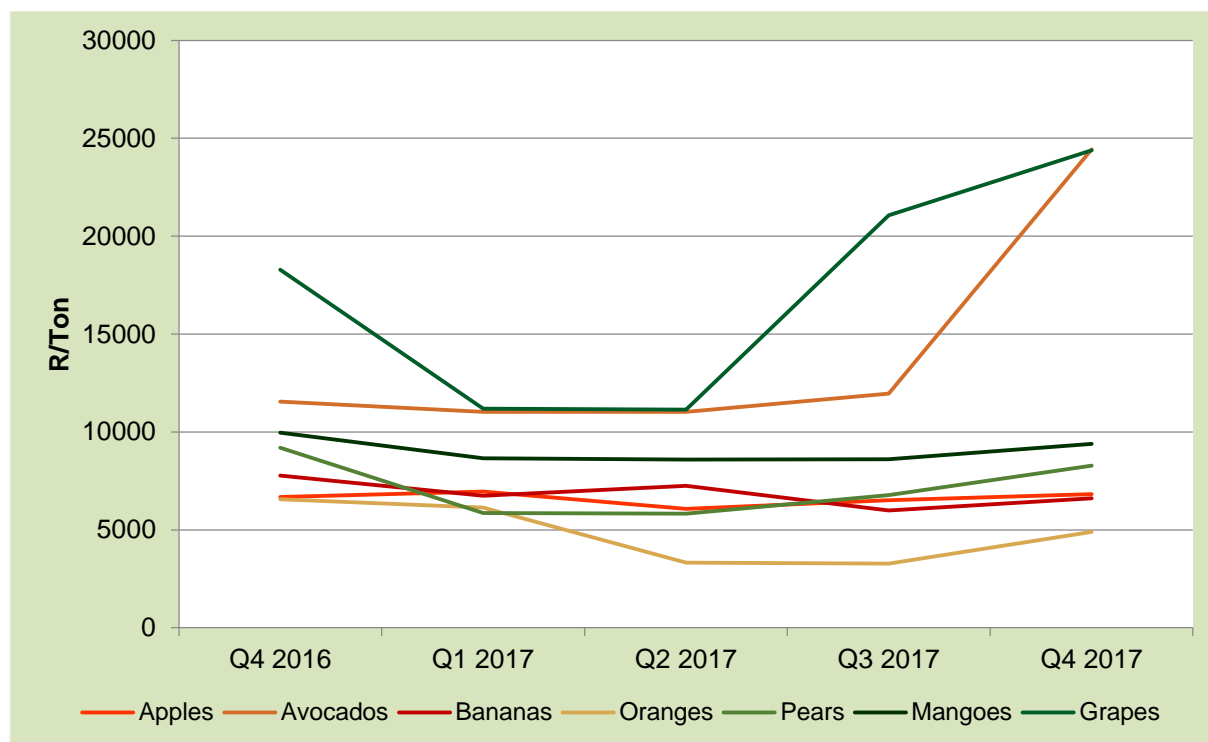


Figure 36: Average price trends of various fruits traded at Fresh Produce Markets (FPMs)

Source: Daff

Figure 37 indicates various quantities of fruits traded at fresh produce markets in Q4: 2017 compared with Q4: 2016. In Q4:2017, quantities of avocados, grapes, mangoes and apples supplied at Fresh Produce Markets (FPMs) decreased by 51%, 29%, 6% and 6% respectively in Q4: 2017 compared with Q4: 2016 while quantities of oranges, bananas and pears increased by 50%, 35% and 5% respectively, over the period. The South African Table Grape Industry's (SATI) 4th Crop Estimate for the 2017/18 table grape season revealed that the upper and lower limits of tables grapes are about 16.8% and 12.2% lower, respectively than the previous record of the 2016/2017 season. Furthermore, although the supply of avocados decreased drastically leading to higher prices, expansion of the industry would likely be more aggressive if not for constraints in the supply of new trees from nurseries.

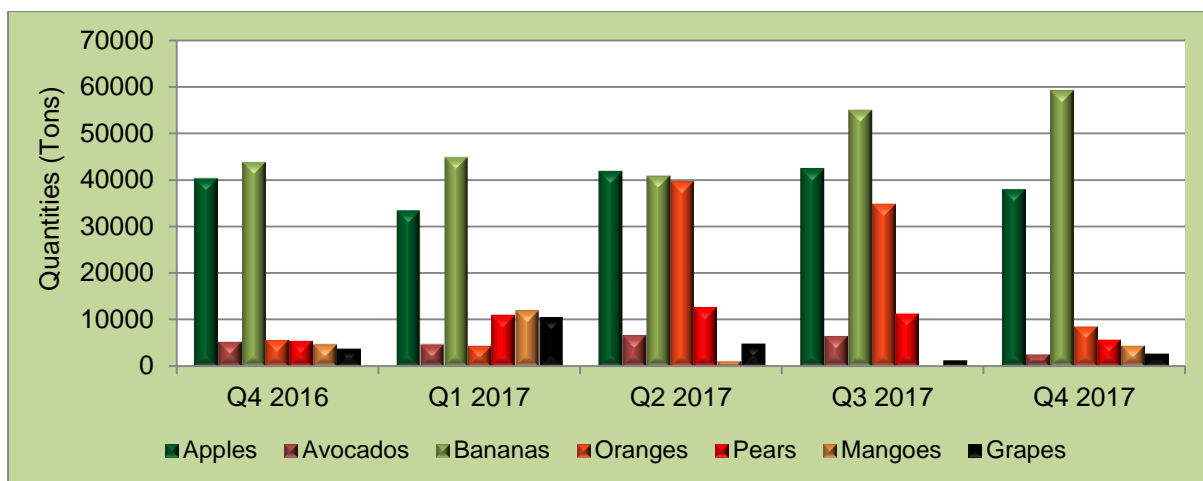


Figure 37: Quantities of various fruits traded at Fresh Produce Markets (FPMs)

Source: Daff

Figure 38 indicates the average prices of various vegetables traded at fresh produce markets in South Africa. In Q4: 2017, average prices for carrots and potatoes decreased by 7% and 5% respectively across Fresh Produce Markets while average prices for onions, cabbage and tomatoes increased by 64%, 19% and 3% respectively compared with Q4: 2016. Domestic vegetable prices are symptomatic of SA's climatic situation and can be seen in any other crop reaching the market floor. Domestic onions prices came under pressure and were lower than last year due to ample supply. Average prices for cabbage in Q4:2017 increased due to moderation in supplies compared with Q4: 2016. Meanwhile, in August 2017, potato prices were 36% lower than at the same time in 2016. This was due to the favourable production season with volumes on markets, 16% higher than the same time in 2016. In the carrot market, higher volumes kept prices on the downside.

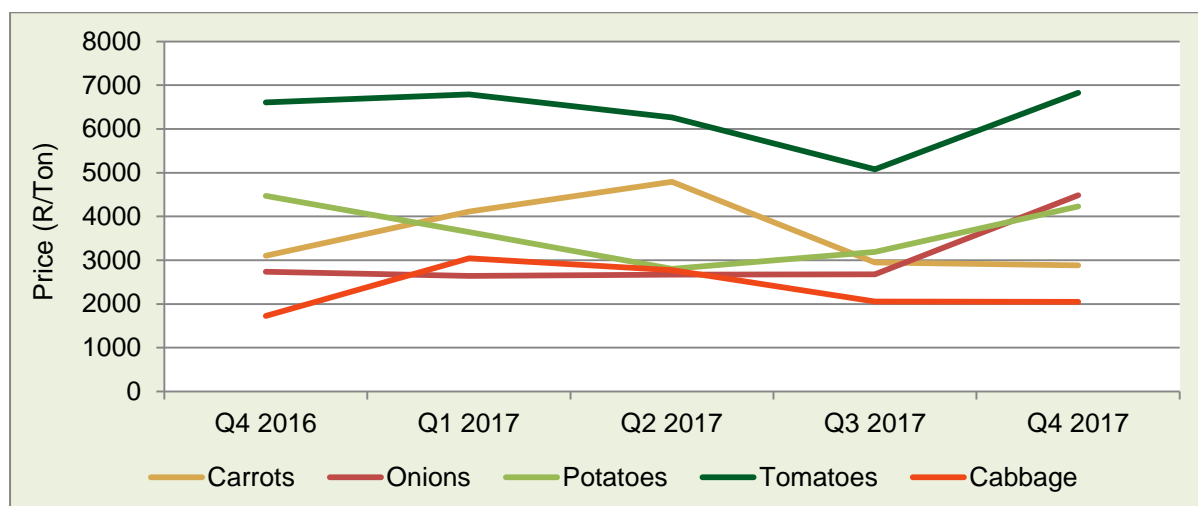


Figure 38: Average prices of various vegetables traded at Fresh Produce Markets (FPMs)

Source: Daff

Figure 39 indicates quantities of various vegetables traded at fresh produce markets in Q4: 2017 compared with Q4:2016. In Q4: 2017, quantities of onions, tomatoes and cabbage decreased by 10%, 2% and 2% respectively compared with Q4:2016. Growers of onions in the Western Cape planted fewer onions than normal while some have not even sown onions. Meanwhile, reduced cabbage volumes supported an increase in the average cabbage prices. Tomato quality is poorer than normal and can be attributed to an increase in variation in temperature. The warmer temperatures in the Western Cape will likely have a negative impact on yields. On the other hand, quantities of potatoes and carrots supplied at Fresh Produce Markets in Q4:2017 increased by 5% and 2% respectively compared with Q4: 2016.

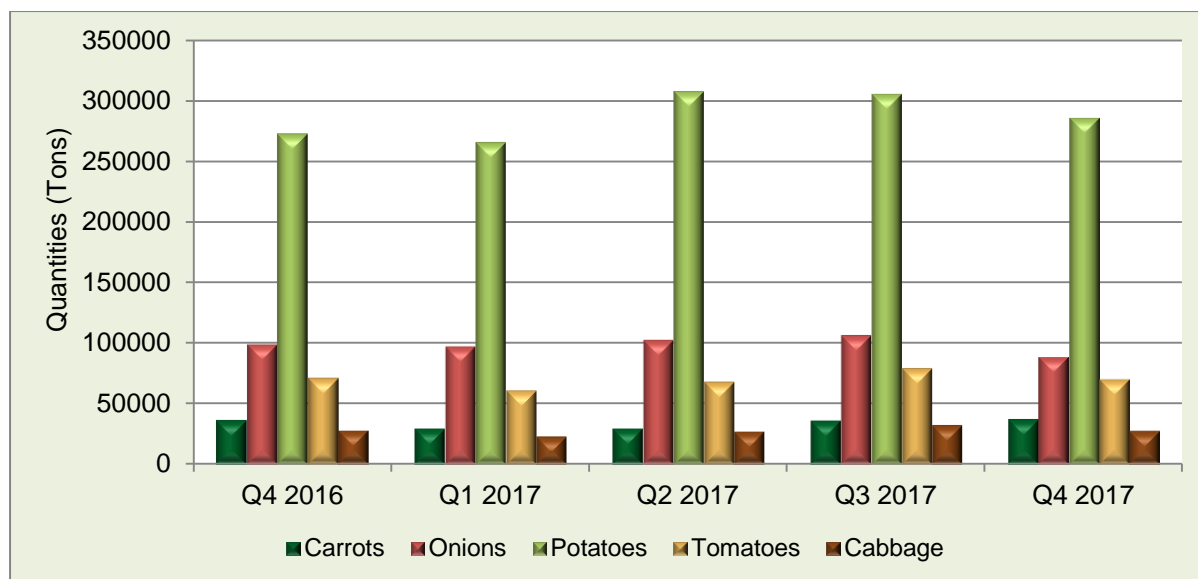


Figure 39: Quantities of various vegetables traded at Fresh Produce Markets (FPMs)

Source: Daff

3.3 Meat industry review

Despite global beef production forecast to grow by less than 2% in 2017, according to December 2017 world agricultural supply and demand estimate report, global beef production was reduced on slower expected marketing pace for fed cattle and lighter carcass weights in 2018. The United States, Brazil, Argentina, Turkey and China are expected to see the most sizeable gains, while declines are expected in South Africa, the Russian Federation and Australia (FAO, 2017). Expectations are that in 2018, beef production is expected to increase as higher placements in the latter part of 2017 are expected to support marketing and fed cattle slaughter in 2018 (USDA, 2017).

Global beef exports are expected to increase year-on-year in 2017 on strong global demand which is expected to carry into first quarter of 2018 while several beef exporting countries supported growth by growing production in most cases. The situation vary among beef exporting countries and market conditions will keep international market dynamic foreseeable in future. Beef exports from the top four exporting countries (Brazil, India, China, Australia and U.S.) are projected to account for 73 percent of total exports from top ten beef exporting countries in 2017.

Domestically, indications are that rainfall conditions for summer rainfall areas are weaker than expected and it impacts on the planting of summer crops as well as condition of natural grazing. The quantity and quality of natural grazing is deteriorating rapidly, especially over the central to western and far western parts of the country. Consequently, reproductive animals with calves/lambs started to suffer. Moreover, the extent at which prices increased in 2017 is also due to reduced stock as a result of 2016 drought. So far, weather forecasts indicate that La Nina development is taking place which will hopefully improve summer rainfall conditions especially in the new pasture growing season. Rainfall outlooks for the rest of the season remain favourable particularly for the summer rainfall areas. Expectations are that the expected rainfall will replenish soil moisture conditions and revive grazing conditions (Absa, 2017).

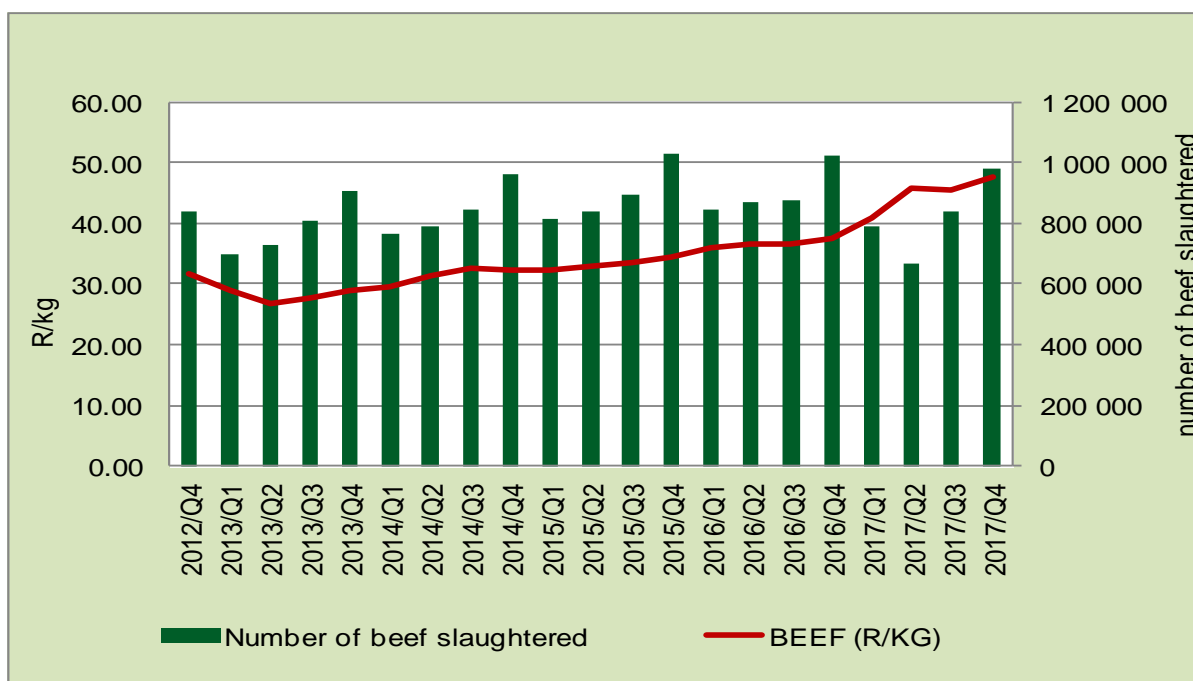


Figure 40: Total number of beef slaughtered

Source: Daff

Figure 40 represents total number of beef slaughtered and their price per rand/cents from Q4: 2012 to Q4: 2017. The number of beef slaughtered in Q4:2017 decreased by 4.1% to 982 643 from 1,03 million in Q4: 2016. A decrease in the number of beef slaughtered in Q4: 2017 could be as a result of tightening supplies that have been the main driver behind steady increases in prices over the past few months. Grazing

conditions already improved in some areas and as the summer progresses, it is expected that there will be a strong regrowth that will enable farmers to rebuild their livestock herds. Furthermore, lower maize prices during 2017 suggest that the cost of feed might have declined, which may encourage feeding of animals and thus bode well for production gains.

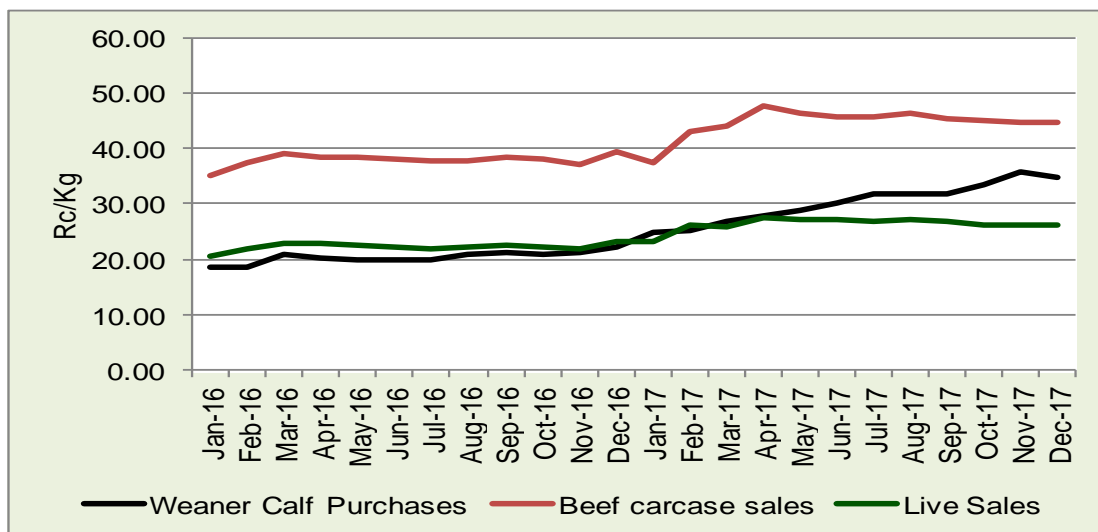


Figure 41: SA weaner calf purchases, beef carcass sales and live sales

Source: SA feedlot

Figure 41 represents weaner calf purchases, beef carcasses sales and live sales from January 2016 to December 2017. As depicted in figure 43, weaner calf purchases, beef carcasses sales and live sales increased by an average of 34.6%, 44.78% and 26.2% respectively between October and December 2017 compared to the same period in 2016. This may be due to an increase in demand for beef over the festive season. Meanwhile, the average weaner calf prices however remain high on the back of improved demand and less available supplies. Tightening supplies have been the main driver behind steady increases in prices over the past few months. Furthermore, it is a norm for beef carcass sales to pick up towards the festive season. The beef market will be supported by increased beef consumption during the festive period.

3.4 Poultry industry review

Poultry Production decreased by 1.8% on a year-on-year (y/y) basis in the last quarter of 2017 whilst it increased by 0.1% on a quarter-on-quarter (q/q) basis. The decline in yearly production is due to inter-alia; the outbreak of the Highly Pathogenic Avian Influenza (HPAI) H5N8 which was confirmed in commercial chickens although it was more severe in the egg industry. The average price per ton increased by 14% on year-on-year (y/y) basis and increased by 7% on a quarter-on-quarter(q/q) basis, see figure 42.

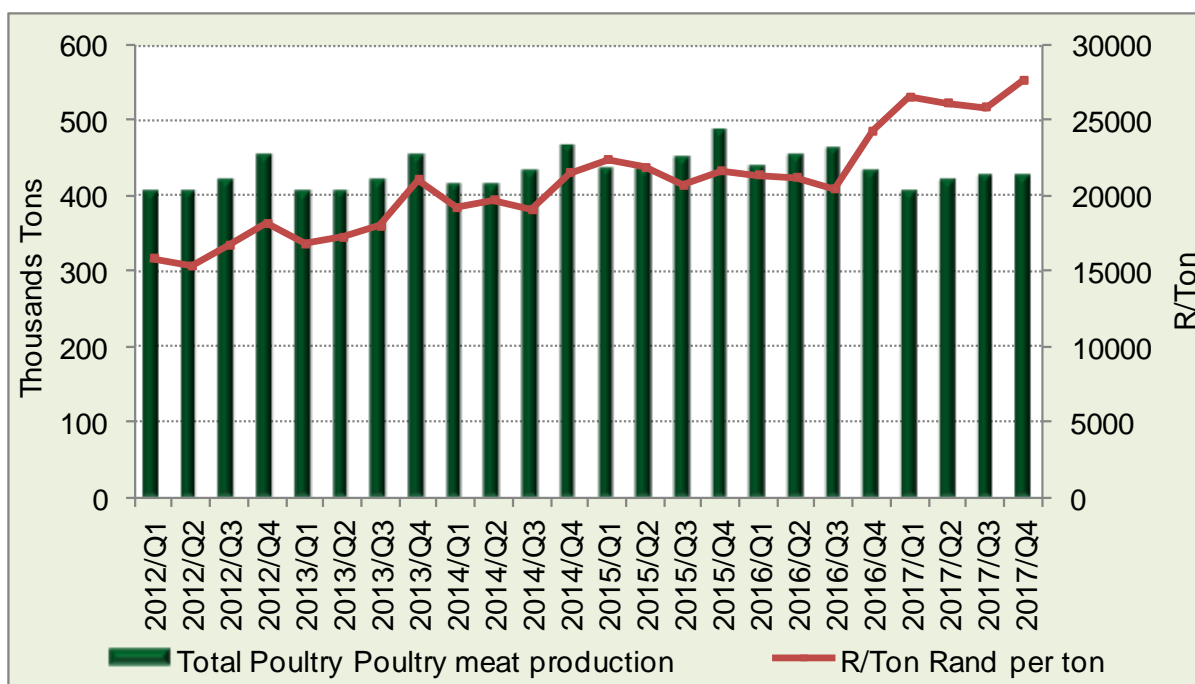


Figure 42: Poultry Production

Source: DAFF

Figure 45 is an index of selected chicken prices and feeds prices; highlighting the impact in the retail sector. The index for whole chicken per kg and fresh chicken portions per kg basis increased by 6.0% and 6.4% respectively on a year-on-year basis in December 2017 whilst it increased by 2,3% and 0,8% respectively on a quarter-on-quarter basis. Meanwhile, yellow maize as a proxy for feed prices decreased by 37% on a year-on-year basis in December 2017 while it decreased by 3,6% on a quarter-on-quarter basis.

The graph below is an index of selected chicken prices relative and feeds prices; highlighting the impact in the retail sector. Whole chicken per kg and Fresh Chicken

kg portion index has increased by 6% and 6.4% on y/y basis whilst on a q/q basis the indices have increased by 2,3%% and 0,8% respectively. Whilst yellow maize as a proxy for feed prices has decreased by 37% on y/y basis and decreased by 3,6% on q/q basis

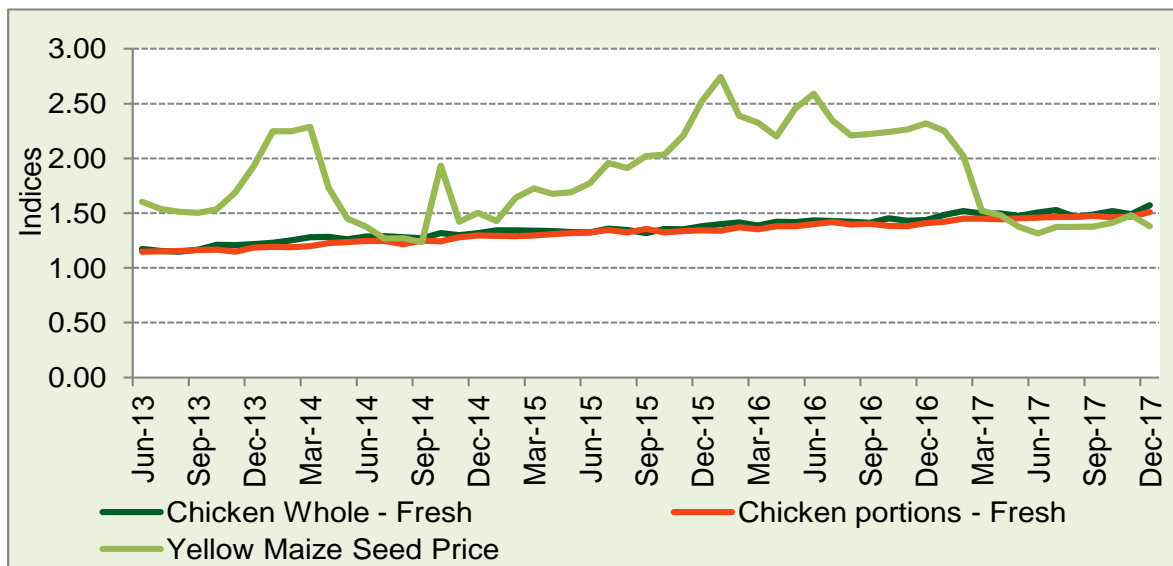


Figure 43: Poultry feed vs Retail prices

Source: SAPA, STATSTA & Safex

3.5 Egg industry review

According to analysts, egg prices are expected to increase between 15% and 20% as suppliers have to cover the costs of lower production due to the Avian flu outbreak. Earlier in the year, producers were warned that a shortage of poultry products would drive up prices. Producers had to cull birds to curb the outbreak.

According to statistics from the South African Poultry Association (SAPA), analysts reported that there was a 12% annual drop in egg production recorded for September 2017. As a result, the increase in egg prices is subject to demand and supply dynamics, with the influenza outbreak having a major influence on the recent spike, reported FNB Senior Agricultural economist. Meanwhile, data from Statistics South Africa revealed that egg prices in October were 8.5% higher than the previous year. Egg prices increased from an average of R36.96 for an 18-egg tray to R40.11.

According to analysts, egg prices were expected to go up as much as 20% in the remaining months of the year, especially with the December petrol hike of 71cents/litre which is expected to impact on egg distribution costs which will be passed on to consumers. For producers, the upside is that the price increase will help producers to recoup losses as they are still servicing debt incurred during the last drought. The increase in egg prices is expected to further place them in a better position to repopulate and increase production which will eventually benefit the consumer in terms of an affordable source of protein, reported FNB Senior Agricultural economist.

Lower maize prices are also expected to benefit the profitability of the sector. Expectations are that lower maize prices will pass on the benefit to the consumer towards the end of 2018 given that recovery may take up to a year, and staples such as eggs will start decreasing in price.

The impact on prices was felt more in the Western Cape due to the culling of layer hens and subsequent, the supply shortages on the region's shelves, reported FNB Senior Agricultural Economist. During October 2017, the Western Cape government indicated that more than two million birds had been culled or died due to the avian flu. Meanwhile, the Western Cape accounts for 22% of poultry in South Africa, reported Dawie Maree, head of marketing and information for Agriculture at FNB Business.

Eggs were brought in from Bloemfontein into the Western Cape at a huge cost which most likely downstreamed to the consumer. The culling of birds would impact on the replacement of layers in the future. Industry experts indicated that there will at least be a 55-day lag in producing new layers, which mean that replacement layers will only be available by Christmas.

After the devastating highly pathogenic avian influenza (H5N8) outbreaks in 2017, South Africa's poultry industry, which includes domestic fowl such as chicken, geese and ducks, could face another wave of outbreaks in winter 2018, warned industry officials. According to Bomikazi Molapo, spokesperson for the Department of Agriculture, Forestry, and Fisheries (DAFF), H5N8 is a virus that can cause high

mortality in birds. The disease is highly infectious and may result in the death of many chickens in a short space of time. Seasonal changes increase the risk of bird flu outbreaks reported Deon de Beer, avian veterinarian and founder of Klapmuts Bird Clinic. According to Deon de Beer, in winter, the chicken houses are closed, ventilation is poor, the immune systems of the birds are low, and bird flu spreads like wildfire. Winter creates a situation where a combination of a lot of vulnerable hosts and outbreaks will happen again.

Bianca Capazorio, spokesperson for the Western Cape Ministry of Economic Opportunities reported that testing of Swift Terns found at five different sites across the City of Cape Town came back positive for the virus. Consequently, farmers have been urged to maintain strict biosecurity measures. Due to the spread of the virus by wild birds, another outbreak in 2018 is possible.

Meanwhile, Louw Pienaar, economist at the Department of Agriculture, reported that egg prices in South Africa spiked by 16.9% from November 2016 to November 2017. The Western Cape was the most affected by rising poultry prices. The price of 18 eggs increased from R38.42 to R42.66 between September and October of 2017.

In Q4: 2017, the total production of eggs was 169,6 million dozens, a decrease of 11.3% in production compared with 191,3 million dozens produced in Q4: 2016. Between Q3:2017 and Q4:2017, the total production of eggs decreased by 6%, from 181,0 million dozens to 169,6 million dozens.

The average price per dozen of eggs increased by 30% in Q4:2017, from R 12.28 per dozen in Q4:2016 to R15.93 per dozen in Q4:2017. When comparing the Q3:2017 with Q4:2017, the average price per dozen of eggs increased by 22.6%, from R12.99 per dozen to R15.93 per dozen. Professor Johan Wilemse, Agricultural economist at the University of Free State reported that a shortage in table eggs could result in high egg prices and alluded that it can take between one to two years for the layer flock to return to levels they were before the bird flu outbreak, which could cause prolonged shortage of eggs. Food prices have been unreasonably high and the current situation within the poultry industry will likely contribute to an already

crisis situation and this will hit the low-income households as many of them depend on the poultry products.

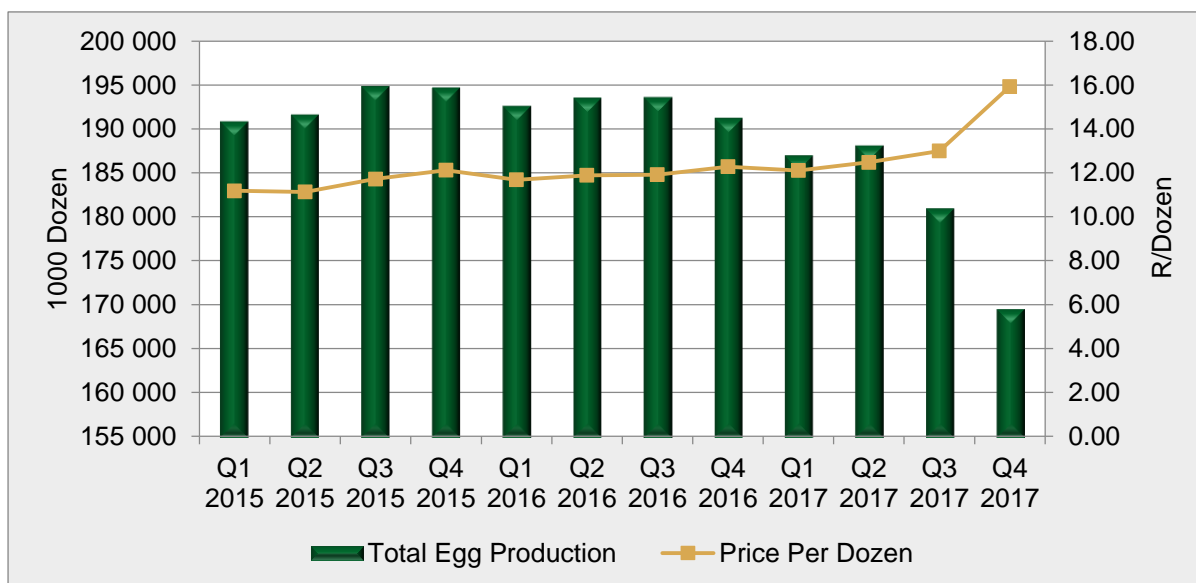


Figure 44: Trends in total egg production and average price per dozen of eggs.

Source: DAFF

SA's exports of bird eggs (in shell, fresh, preserved or cooked) decreased by 25% in Q4:2017 compared with Q4:2016, decreasing from 3 360.86 tons in Q4:2016 to 2 935.60 tons in Q4:2017. When comparing Q3:17 with Q4:2017, South Africa's exports of bird eggs decreased by 13%, Analysts suggest that this is due to South Africa's inability to export poultry to certain countries as a result of the export ban imposed by many Southern African countries. However, measures have been put in place within the South African egg industry to ensure establishments are not hit hard by the egg shortage caused by the avian flu outbreak.

Imports of bird eggs (in shell, fresh, preserved or cooked) have not been smooth between Q4:2016 and Q4:2017. In Q4:2016, imports of bird eggs reached 0.026 tons while in Q4:2017, there was literally no indications of imported bird eggs (in shell, fresh, preserved or cooked). Between Q3:2017 and Q4:2017, imports to bird eggs decreased by 100% with no indication of imported birds eggs between the quarters. According to Dr Charlotte Nkuna, interim Chief executive at SAPA, some farmers were considering importing table eggs however they were constrained by high air transport cost making it uneconomical.

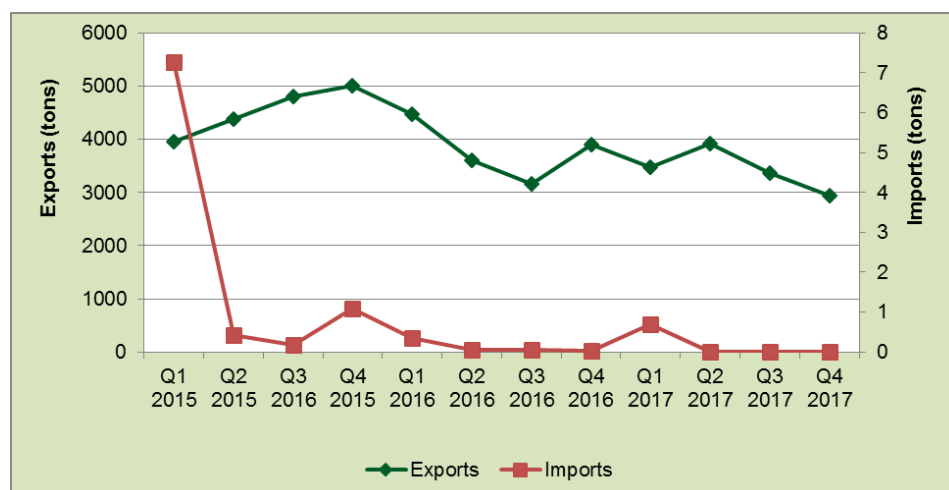


Figure 45: Trends in imports and exports of Birds' Eggs, In Shell, Fresh, Preserved Or Cooked
 Source: GTA, 2017

3.6 Milk industry overview

According to the Milk Producers Organisation (MPO), total milk production in July 2017 exceeded that of the corresponding month in 2016. The increase in the production of milk is due to more favourable milk: feed ratio as well as better climatic conditions. Total milk production in Q4: 2017 came in 6% higher than in Q4:2016, increasing from 931 773 million litres in Q4:2016 to 1 044 411 million litres in Q4:2017.

The average producer price per litre of milk increased by 6.4% in Q4:2017, from R4, 40/l in Q4:2016 to R5.00/l in Q4:2017. Comparing Q3:2017 and Q4: 2017, the average price per litre of milk increased by 0.6% between the two quarters. Climatic conditions play an important role in determining agricultural product prices. Favourable climatic conditions in some areas have already resulted in lower grain prices and this year's record crop will ensure grain prices remain relatively low. The exchange rate will also influence dairy product prices, especially products that will be imported. Meanwhile, producer prices are indirectly linked to international product prices, depending on various factors such as the extent of openness of the dairy industry to international trade, the level of self-sufficiency in the dairy industry and the extent of regulation or deregulation in the industry.

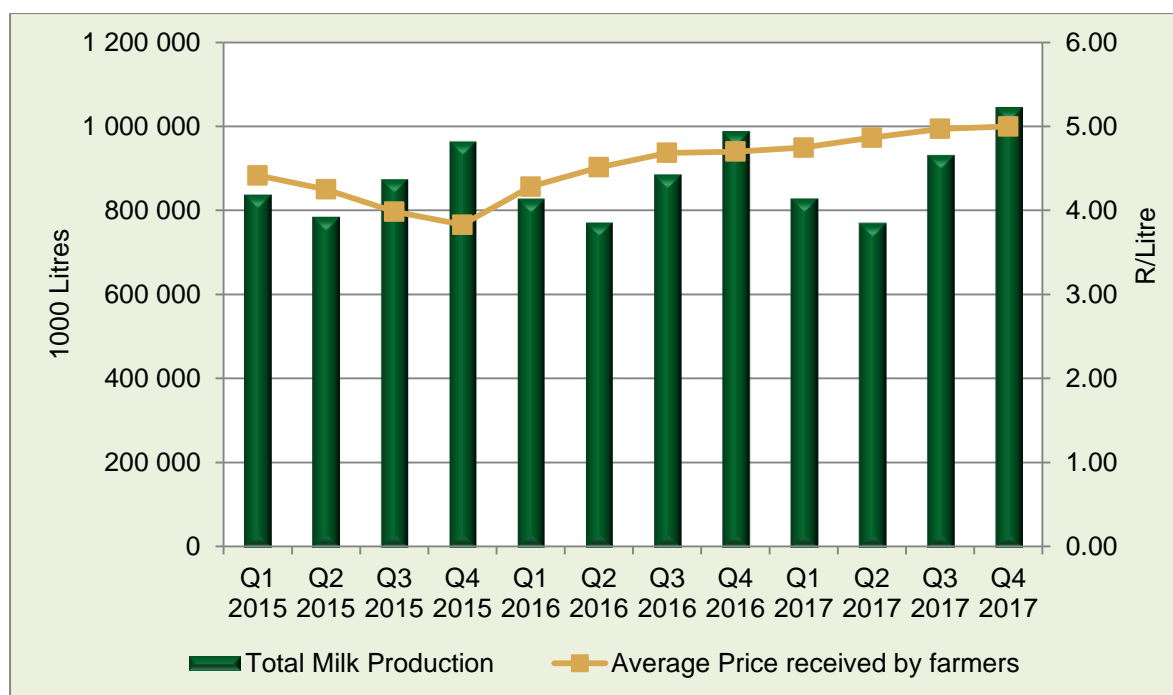


Figure 46: Trends in total production and average price of milk

Source: DAFF

Exports of milk and cream (neither concentrated nor containing added sweetening) were 2.6% higher in Q4:2017 compared with Q4:2016, exporting a total of 22 240 312 million litres of milk and cream in Q4:2017 compared to 21 684 183 million litres exported in Q4:2016. Between Q3:2017 and Q4:2017, exports of milk and cream (not concentrated or containing added sweetening) increased by 20.8%, from 18 407 586 million litres in Q3:2017 to 22 240 312 million litres in Q4:2017. International dairy product prices remain highly volatile and lower milk production in major exporting countries has been the main driver for the slight increase in SA's milk exports.

Imports of milk and cream decreased by 16.1% in Q4:2017, to 8 713 007 million litres in Q4:2017 from 10 384 822 million litres in Q4:2016. When comparing Q3:2017 with Q4:2017, imports of milk and cream increased by 3.7%, from 9 049 608 million litres in the Q3:2017 to 8 713 007 million litres in Q4:2017. With the current rise in SA's milk intake in the first eleven months of 2017, OECD-FAO predicts that population growth; increasing income and dietary changes will continue to push consumption growth.

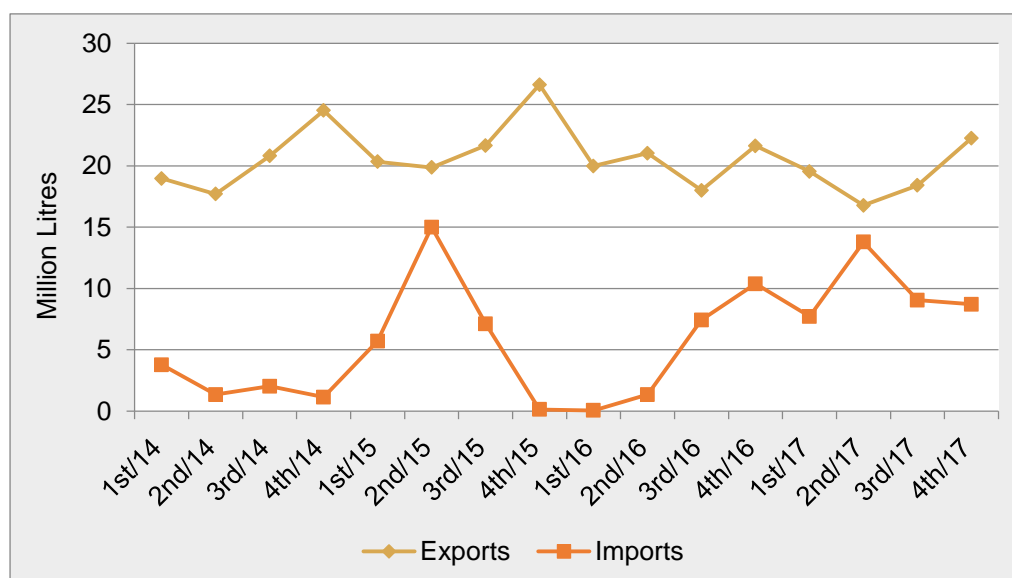


Figure 47: Trends in imports and exports of milk and cream, not concentrated nor containing added sweetening
Source: GTA, 2017

3.7 Trade of agricultural, forestry and fisheries

South Africa's overall agricultural trade balance grew by 70.6% in Q4:2017 compared with Q4:2016, to R 9.09 billion from R5.33 billion, driven by solid performance from fruits, wine, sugar and grain products. Despite reflecting an increase between Q4:2016 and Q4:2017, South Africa's agricultural trade balance decreased by 29.3% in Q4:2017 compared with Q3:2017, from R 12.86 billion to R 9.09 billion. There are several factors impacting on the industry such as production conditions that deteriorated in the summer crop production areas in November due to below expected rainfall, hot and windy conditions. Meanwhile, SA's expected commercial wheat crop is forecast about 1.4 million tons (23%) less than the previous season while the wheat industry in the Western Cape estimates a loss of between R1.7 billion and R2 billion in gross incomes. Although agricultural output rebounded on the back of the largest maize crop on record, concerns remain over the impact of the ongoing drought in the Western Cape on fruit, citrus, grape and wheat farming, among others.

The export value of agricultural products increased by 7.2% in Q4:2017, from R 28,51 billion in Q4:2016 to R 30,56 billion in Q4:2017. During the same period, the import value of agricultural products decreased by 7.4%, from R23,19 billion in

Q4:2016 to R21.47 billion in Q4:2017. Absa (2017) believes the full impact of the drought and reduced plantings will likely reach markets by February 2018.

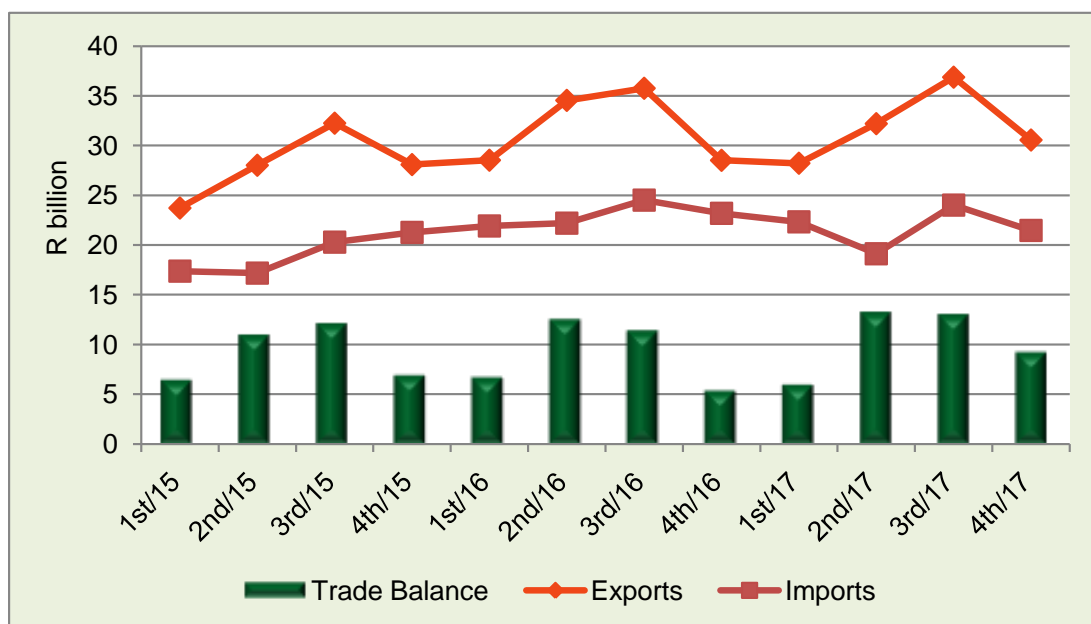


Figure 48: Trade balance of agricultural products

Source: GTA, 2017

Though the export value of agricultural products increased by 7.2% in Q4:2017 compared with Q4: 2016, the export value of agricultural products decreased by 17,1% in Q4: 2017 compared with Q3: 2017, from R36,87 billion in Q3: 2017 to R30,56 billion in Q4: 2017. The fourth quarter of 2017 was a tumultuous time in terms of the credit ratings and anticipation around the ANC elective conference, while both consumer and business confidence remained depressed.

Figure 49 illustrates South Africa gained most of its agricultural export revenue from products exported to Namibia, which was the leading export destination, followed by United Kingdom and Netherlands.

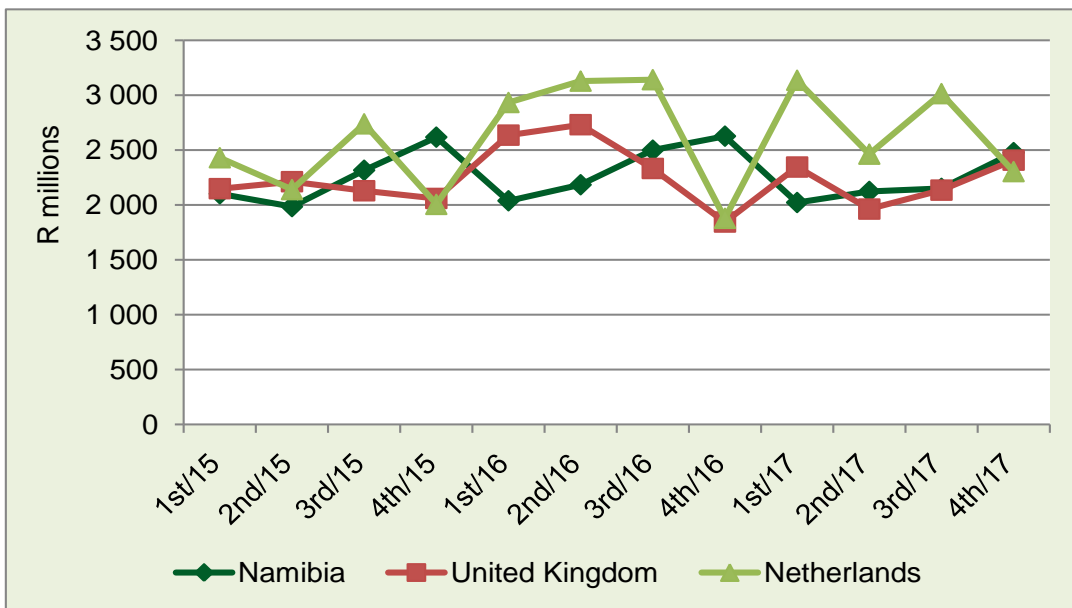


Figure 49: Top Three markets of agricultural products exported by SA

Source: GTA, 2017

The top three agricultural products which contributed a considerable amount to agriculture’s export value in Q4:2017 include fresh grapes (6.4%), wine (6.2%) and wool (5.9%) respectively, see Figure 50.

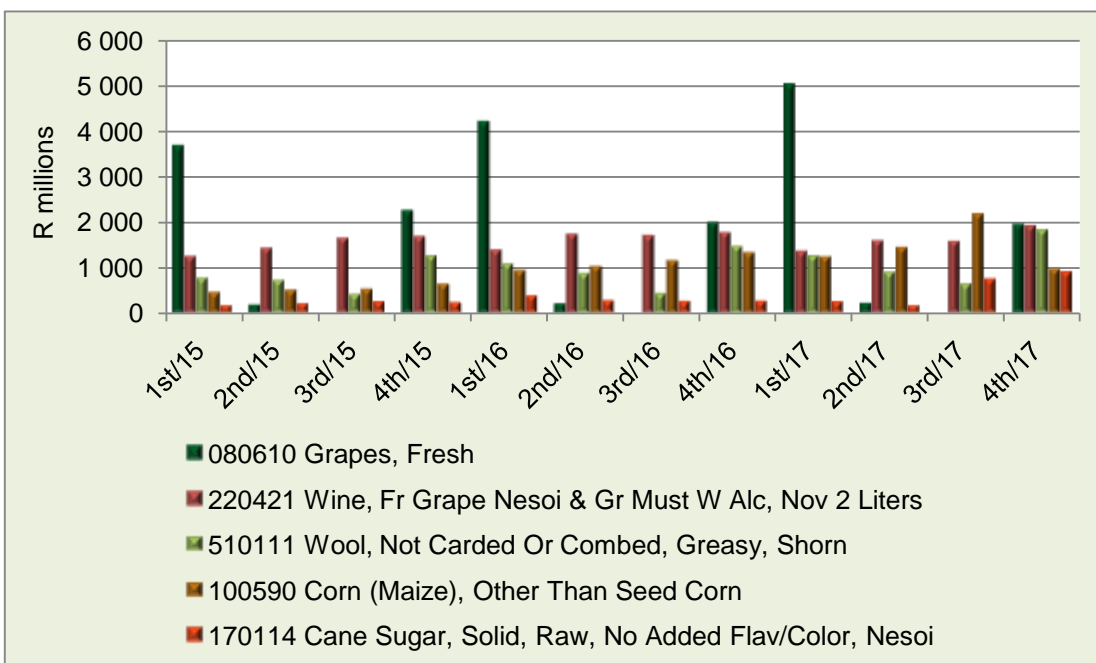


Figure 50: Top five agricultural products exported by SA

Source: GTA, 2017

There has been a markedly improved outlook among consumers for the outlook on the economy with expectations of stronger household consumption and better economic growth in 2018. Expectations are that there is likely to be a reversal on import compression with expectations that better global backdrop will continue to support the export sector.

In Q4:2017, the total import value of agricultural products decreased by 7.4% to R21,47 billion from R23,19 billion in Q4:2016. Between Q3 and Q4: 17, the total import value of agricultural products decreased by 10.6%, from R24,01 billion to R21,47 billion. The top three suppliers of agricultural products to the import value in Q4:2017 were Thailand, Brazil and Argentina, see Figure 51.

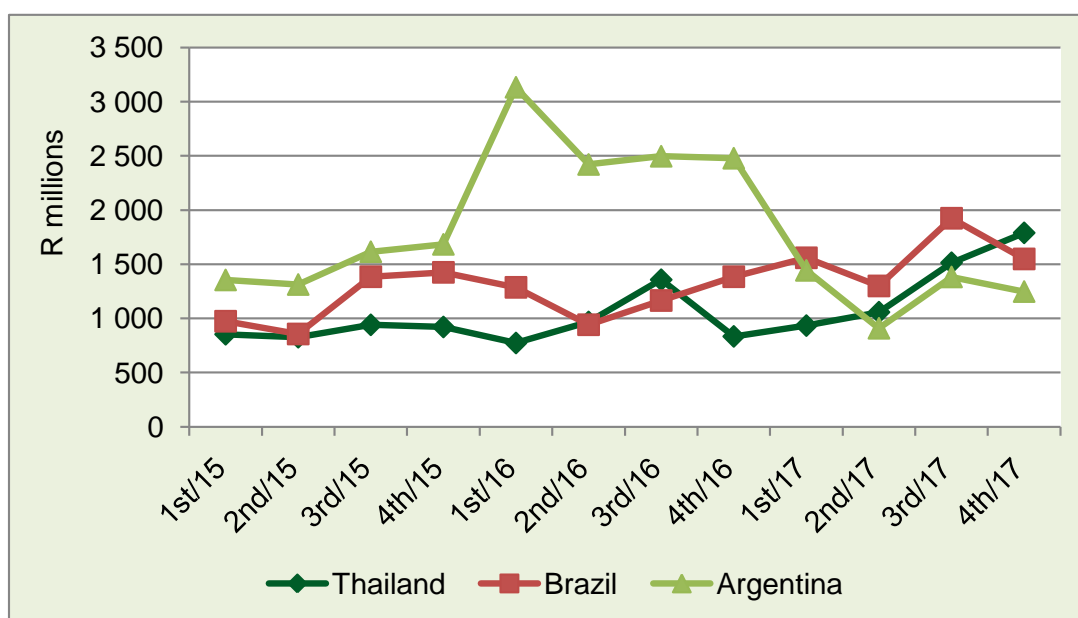


Figure 51: Top three market suppliers of agricultural products to SA

Source: GTA, 2017

The top three agricultural products which contributed a considerable amount to the total agricultural import value in Q4:2017 include rice (8.3%), chicken cuts and edible offal (5.8%) and palm oil (4.4%), see Figure 52.

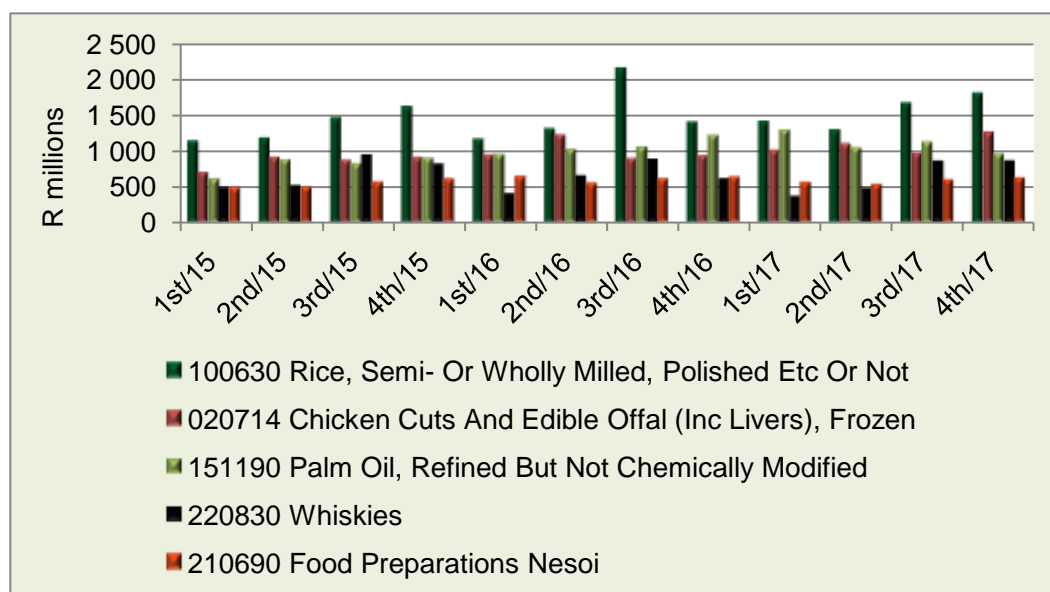


Figure 52: Top five agricultural products imported by SA

Source: GTA, 2017

3.7.1 Fisheries trade

Fish and seafood products are among the world's most traded food commodities. Fish farming developed at a rapid pace and continues to exhibit strong growth potential, fuelled by growing production driven by high demand. Fisheries trade balance in Q4: 2017 decreased significantly compared with Q4: 2016, from a positive trade balance of R 642,56 million to a negative trade balance of R 132,96 million. Between Q3 and Q4: 2017, there was a slight improvement in the fisheries trade balance, decreasing from a negative R133,64 million in Q3:2017 to a negative R132,96 million in Q4:2017. The fisheries trade balance has been in negative territory since Q1:2017. The landscape of fish catch and production is changing.

Worldwide, catches from the wild have stabilised while the aquaculture sector expanded rapidly and is now on track to be the main source of fish in the near future, (Schmidt, 2015). Key emerging issues around the future of fisheries trade include: the prospect for aquaculture; how to better manage capture fisheries; whether sustainability certification can address public concerns regarding fisheries and

aquaculture; and how to curb illegal, unreported, and unregulated (IUU) fishing. Trade is an important factor across each of these.

Both fisheries and the aquaculture sectors face competitiveness in a global market and can have unforeseen environmental and trade impact particularly in relation to overfishing in the wild. Currently, in capture fisheries, catches from the wild are unlikely to grow in future as most fish stocks are over-exploited. The OECD-FAO medium term Agriculture outlook indicated that by 2018, human consumption from aquaculture will exceed those from wild fisheries. Meanwhile, aquaculture also faces some constraints such as potential negative impacts on local water quality and ecosystems, depending on the type of production system. Generally, land based recirculating systems have minimal impacts while open cage system can be risky if poorly managed.

Figure 53 illustrates that in Q4:2017, exports of fisheries products decreased by 29%, to R 1.34 billion from R 1.89 billion in Q4:2016. However, between Q3 and Q4:2017, exports of fisheries products increased by 13.7%, from R1.18 billion to R1.34 billion. Meanwhile, imports of fisheries products In Q4:2017 increased by 18.2% compared with Q4:2016, from R1.25 billion in Q4:2016 to R1.47 billion in Q4: 2017. Between Q3 and Q4: 2017, imports of fisheries products increased by 12.2%, from R1.31 billion to R1.47 billion. According to FAO (2017), seafood demand is highly sensitive to increases in income, and therefore, it is these economic trends, combined with population growth rates that will be the major determinants of future trade flows and consumption patterns.

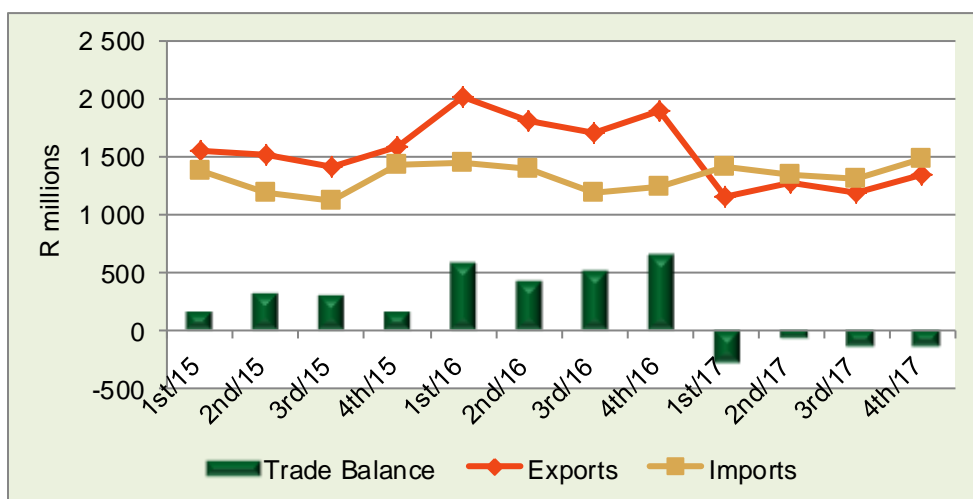


Figure 53: Trade balance of SA fisheries products

Source: GTA, 2017

The top three imported fisheries products in Q4:2017 include sardines/sardinella/brisling (prepared, preserved and not minced), sardines/sardinella/brisling or sprats (frozen) and frozen shrimps and prawns each accounting for 21.1%, 11.4% and 11.1% of the total import value, see figure 54. Developing countries continue to play a significant role in the international supply of fish and fish products.

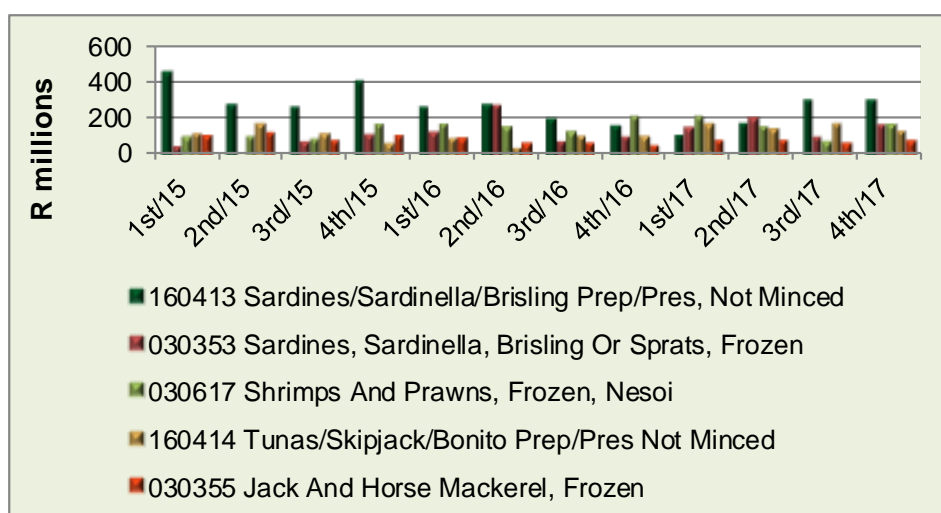


Figure 54: SA top five imported fisheries products

Source: GTA, 2017

Figure 55 presents the top three fisheries products exported by SA in Q4:2017. Hake fillets (frozen) were the main exported seafood products in Q4:2017, followed by

hake (frozen) and fish (frozen), see figure 55. When comparing exports of fish products in Q4:2016 and with Q4:2017, exports of fish (frozen) and hake (frozen) decreased by 16% and 19% respectively in Q4: 2017 compared with Q4: 2016 while exports of fish (frozen) decreased by 18.9% and exports of hake fillets (frozen) and hake (frozen) increased by 81.9% and 61.4% respectively over the period.

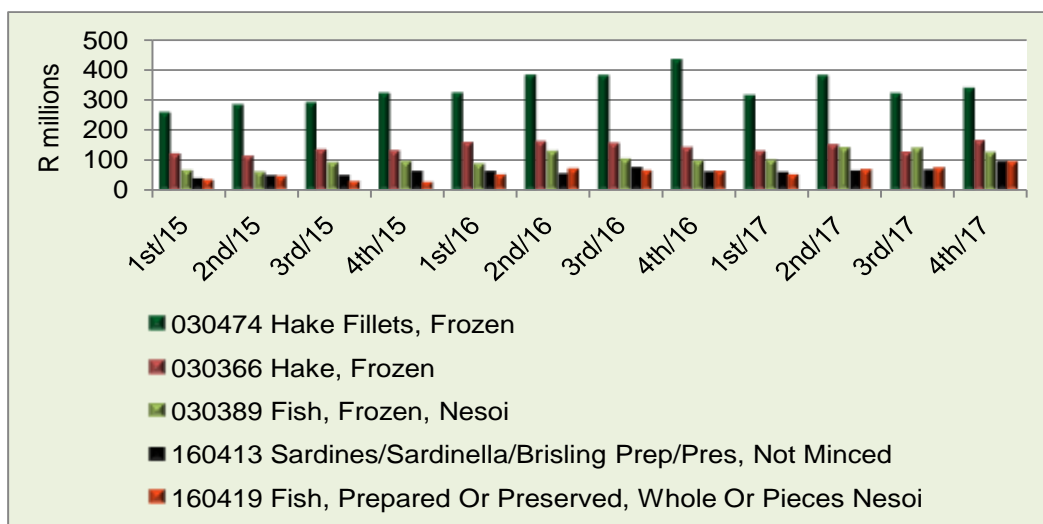


Figure 55: SA top five exports of fisheries products

Source: GTA, 2017

IOL Business reported that approximately half of all the fish caught in South Africa is exported to the European Union (EU) with Cape hake being the most popular fish species, making up more than 50 percent.

3.7.2 Forestry trade

While overall global demand improved modestly in 2017, supply disruptions and changing dynamics created an unpredictable market that surpassed everyone’s expectations. (FSA, 2017). All markets appeared to be at least good to strong in 2017 while there was a surge in prices throughout.

Figure 56 shows the trade balance of SA’s forestry products from Q1:2015 to Q4:2017. In Q4:2017, forestry trade balance entered negative territory from a positive trade balance, from R1.72 billion in Q4: 2016 to a negative trade balance of R1.81 billion in Q4: 2017. Between Q3 and Q4:2017, a sharp downturn is observed in forestry’s trade balance in Q4:2017, decreasing from a positive trade balance of R 1,80 billion in Q3: 2017 to a negative trade balance of R 1.81 billion in Q4: 2017, see

figure 58. Meanwhile, the export value of forestry products increased by 0.6% in Q4:2017 compared with Q4:2016 while the import value increased by 64.3% during the same period.

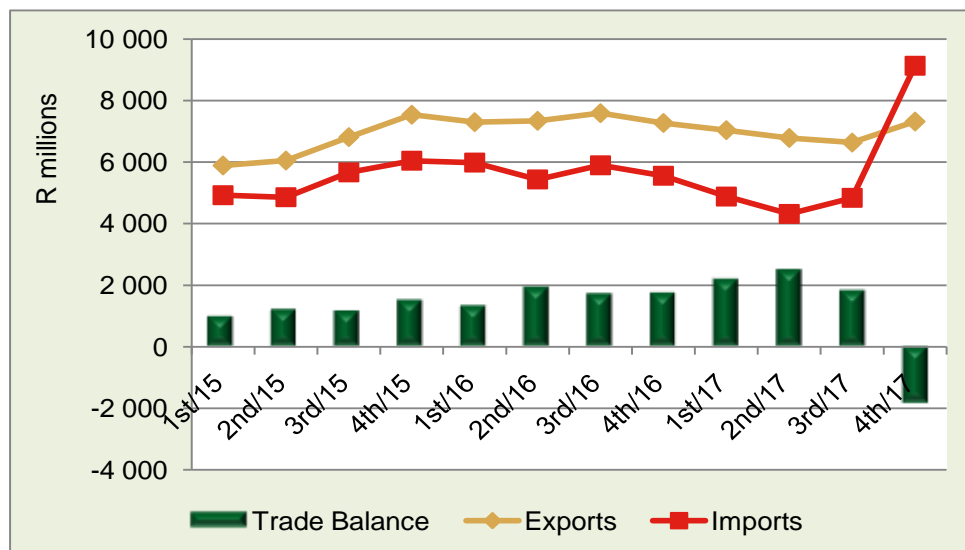


Figure 56: Trade balance of SA forestry products

Source: GTA, 2017

The total export value of forestry products increased marginally in Q4:2017 compared with Q4:2016, from R 7,27 billion in Q4: 2016 to R 7,32 billion in Q4:2017. The top three forestry products exported in Q4:2017 include chemical woodpulp (dissolving grades), wood in chips or particles (non-coniferous) and chemical woodpulp (Soda Etc, N Dis S BI and BI Nonconif), see figure 57.

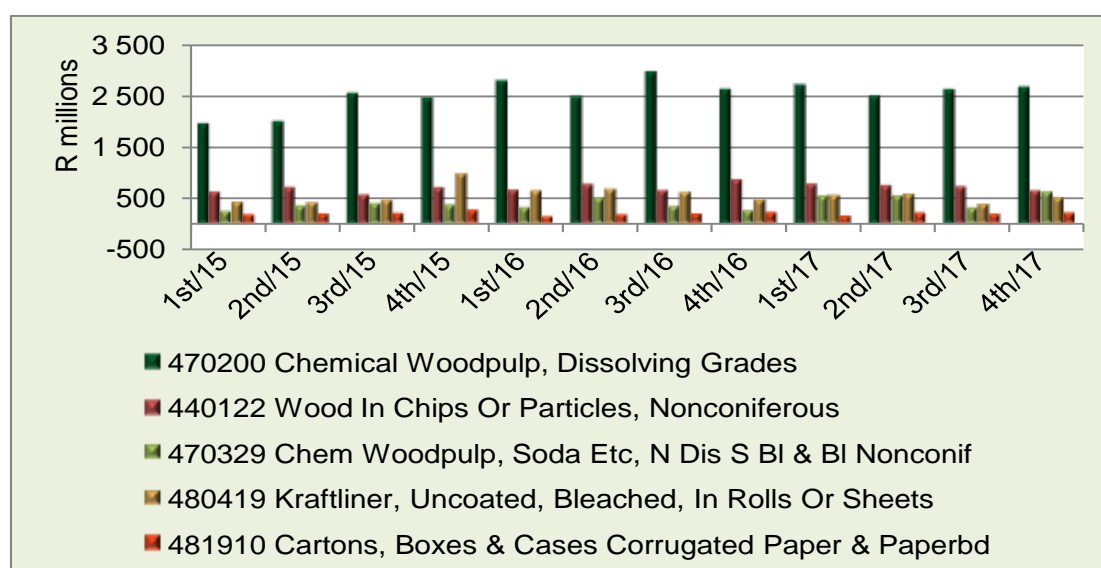


Figure 57: SA top five exports of forestry products

Source: GTA, 2017

The total import value of forestry products increased by a massive 64.3% in Q4:2017 compared with Q4:2016, from R 5.56 billion to R 9.13 billion. SA's top three imported forestry products in Q4:2017 include unused postage, check forms, bank notes, stocks etc, printed books, brochures etc and paper or paperboard (Coat/Impg/CvrW/Plastic Nesoi), see Figure 58.

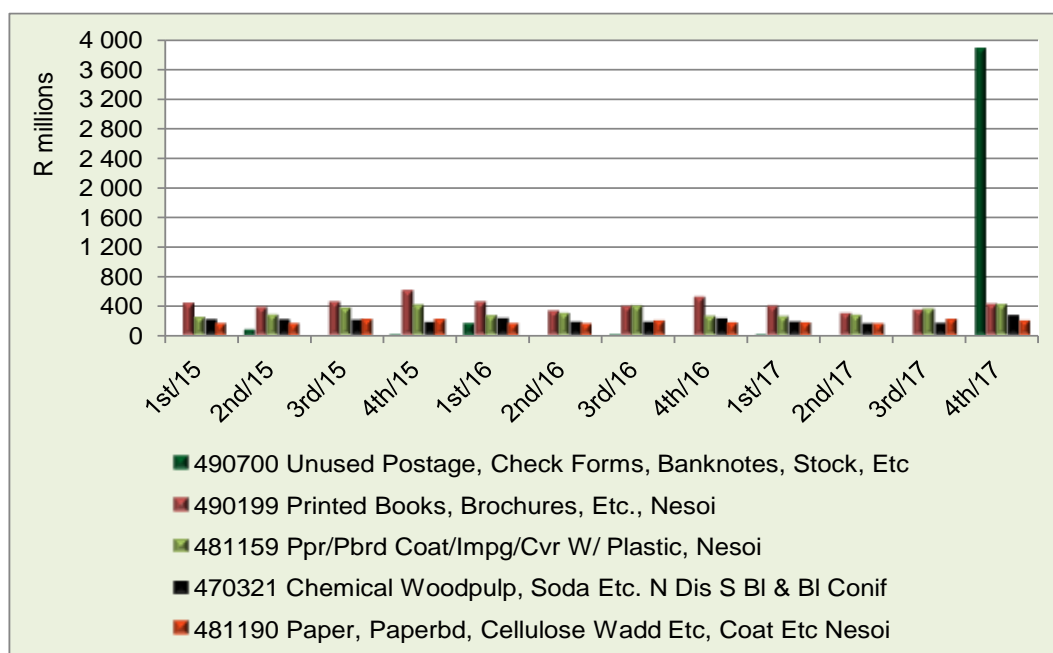


Figure 58: SA top five imports of forestry products

Source: GTA, 2017

There are various factors that can directly or indirectly lead to unpredictable swings in supply, demand and prices of forestry products and this was especially the case in 2017. Overall demand and market activity is anticipated to remain active and volatile in 2018.

4. CONCLUSION

According to the World Economic Outlook, Global growth for 2017 is projected to rise to 3.6% in 2017 and 3.7% in 2018. Upside growth surprises were particularly pronounced in Europe and Asia, but broad based, with outturns for both the advanced and the emerging market and developing economy groups exceeding the drop in forecasts by 0.1 percentage points. The strong momentum experienced in 2017 is expected to carry into 2018 and 2019, with global growth revised up to 3.9% for both years. Real GDP growth Rates, 2017 (Q4) in the advanced economies of the following countries: Canada, France, Germany, Italy, Japan, United Kingdom and United States increased. While Emerging markets and developing economies, Q4: 2017 real GDP growth rates increased in the following countries Brazil, India, Malaysia, South Africa, Nigeria and Russia Whereas, China and Philippines remain constant, and Indonesia declined by 1.7% as compared to Q4:2016.

South Africa's real gross domestic product increased with growth rate of 3,1% in Q4: 2017 from positive growth of 2.3% in Q3: 2017. The growth behind the economy is supported largely by the growth in the agricultural sector of 37,5% in Q4: 2017 and contributed 0,8 of a percentage point to GDP growth. The sector remains the largest contributor to the GDP in Q3 and Q4: 2017. The annual average headline CPI for the fourth quarter of 2017 was estimated at 4.7% slightly lower compared to 4.8% in the third quarter of 2017. On the other hand, food inflation was 5.1% in the fourth quarter of 2017 which is also lower than 6% reported during the third quarter of 2017. The decline in both annual headline CPI and food inflation during the fourth quarter of 2017 is good news to cash strapped consumers who spent large portion of their income on food.

South Africa's overall agricultural trade balance grew by 70.6% in Q4:2017 compared with Q4:2016. The export value of agricultural products increased by 7.2% in Q4:2017 compared with Q4:2016 while the import value of agricultural products decreased by 7.4% in Q4:2017 compared with Q4:2016.

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