agriculture, forestry & fisheries

Department:
Agriculture, Forestry and Fisheries
REPUBLIC OF SOUTH AFRICA

THE SOUTH AFRICAN GRAIN MARKETS QUARTERLY EARLY WARNING REPORT

NO. 2 OF 2014

1. SUMMARY

The domestic closing stock for maize in the current season is expected to increase by about 225.25% on the back of higher production volume. Producer prices for maize declined to lower levels between May 2014 and June 2014 in response to higher producer deliveries and the price expected to remain relatively stable at a similar level until the end of the third quarter (September 2014). The sorghum stocks are expected to increase to about 81 thousand tons (62.15%) while the price is expected to stabilize owing to producer deliveries for the new marketing season. Wheat is expected to close with inventories below the pipeline requirements while maize, sorghum and soybean stocks are projected to be above the ideal levels. Wheat and soybean stocks are expected to increase slightly due to slight expansion in supply base.

According to the Agricultural Market Information System of the G20 (AMIS), good crop prospects and larger stocks are expected to boost global grain supplies in 2014/15 season. However, with the critical growing period for maize and soybean still ahead in the northern hemisphere, and with El Nino looming, market uncertainty is likely to prevail during the coming months. Conditions remain mostly favourable for wheat with winter wheat season drawing to a close in the northern hemisphere. Maize harvest in the southern hemisphere is nearly complete and conditions are favourable.

2. MAIZE

2.1 Maize Balances

Table 1: Domestic Stocks for Maize as at 01 July 2014

Marketing Season: May to April	**Actual for 2012/13**	**Actual for 2013/14**	**Projection for 2014/15**
	Tons		Tons
Production	12 121 000	11 810 600	13 890 150
Opening Stocks	994 000	1 417 393	589 028
Producer Deliveries	11 929 000	10 991 995	13 370 150
Imports	11 000	79 682	0
Surplus	42 000	122 608	82 642
Total Supply	**12 976 000**	**12 611 678**	**14 099 820**
Local demand	9 613 000	9 790 054	10 059 000
Exports	1 946 000	2 232 596	2 125 000
Total Demand	**11 559 000**	**12 022 650**	**12 184 000**
Closing Stocks	**1 417 393**	589 028	1 915 820
Processed p/month	744 583	779 056	788 667
Days' stock	57	23	73

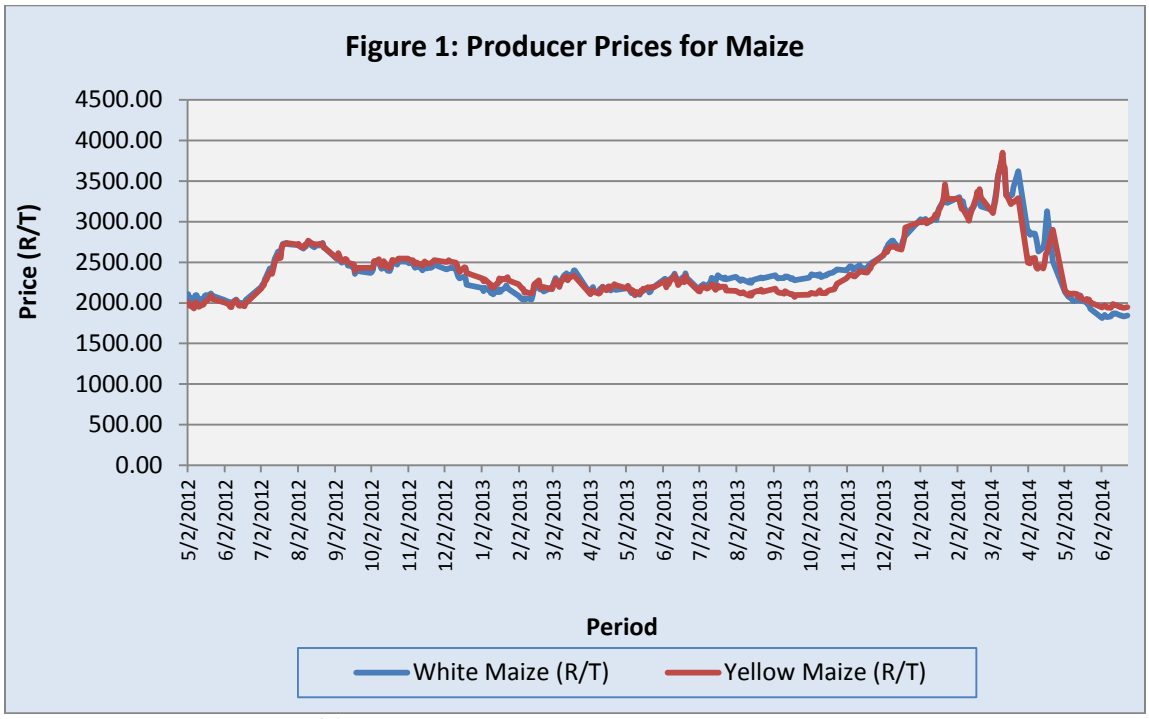
Source: NAMC, Demand and Supply Estimates Committee

Table 1 above shows that the current marketing season (2014/15) opened with lower maize stocks (589 028 ton) in May 2013. The opening maize stocks for the current season are 58.44%

lower than the opening stocks for the previous marketing season (i.e. 2013/14). Maize production for 2014/15 marketing season is projected to increase by 17.613.55% compared to the volumes of maize produced in 2013/14. The total supply for maize in the current season is projected to stand at about 14.10 million tons and this represents an increase of about 11.80% compared to what was supplied to the local market in the previous season. On the other hand, the total demand in the current marketing season (2014/15) is projected at 12.18 million tons. This represents an increase of about 1.34% compared to the maize demand for the previous marketing season.

According to Table 1, the current maize marketing season is projected to close with about 1.92 million tons at the end of April 2015 and this is 225.25% higher compared to the stock levels at the end of 2013/14 marketing season. At an average processed quantity of 788 thousand tons per month, this represents available stock for 73 days. This is a very comfortable stock level considering the fact that a norm for maize stock holding in South Africa in a normal marketing season is 45 days. This implies that the projected closing stock levels for 2014/15 season are relatively higher than the norm.

2.2 Maize Prices



Source: SAFEX, accessed from SAGIS

Figure 1 above shows maize producer prices for the period starting from 2012/13 to 2014/15 marketing season. The figure shows that producer prices for maize were generally moderate in 2013/14 season. Producer prices for both yellow and white maize started increasing October 2013 and continued on an increasing trend until December 2013. The prices remained at higher levels until the end of 2013/14 marketing season due to the lower maize stocks in the domestic market. The producer price for maze dropped significantly in May 2014 and June 2014 mainly due to producer deliveries that started reaching the market at the beginning of the new season.

3. SORGHUM

3.1 Sorghum Balances

Table 2: Domestic Stocks for Sorghum as at 01 July 2014

Marketing Season: April to May	Actual for 2013/14	Projection for 2014/15	10 year Average
Production	147 200	233 220	214330
	Tons	Tons	
Opening Stocks	56 015	50 069	101350
Producer Deliveries	145 604	230 320	212270
Imports	50 033	9 000	20030
Surplus	0	1 000	700
Total Supply	**251 652**	**290 389**	334350
Local demand	181 033	184 200	198910
Exports	182 033	25 000	34100
Total Demand	**201 583**	**209 200**	**233010**
Closing Stocks	**50 069**	**81 189**	101340
Processed p/month	14 211	14 458	15671
Days' stock	107	171	30

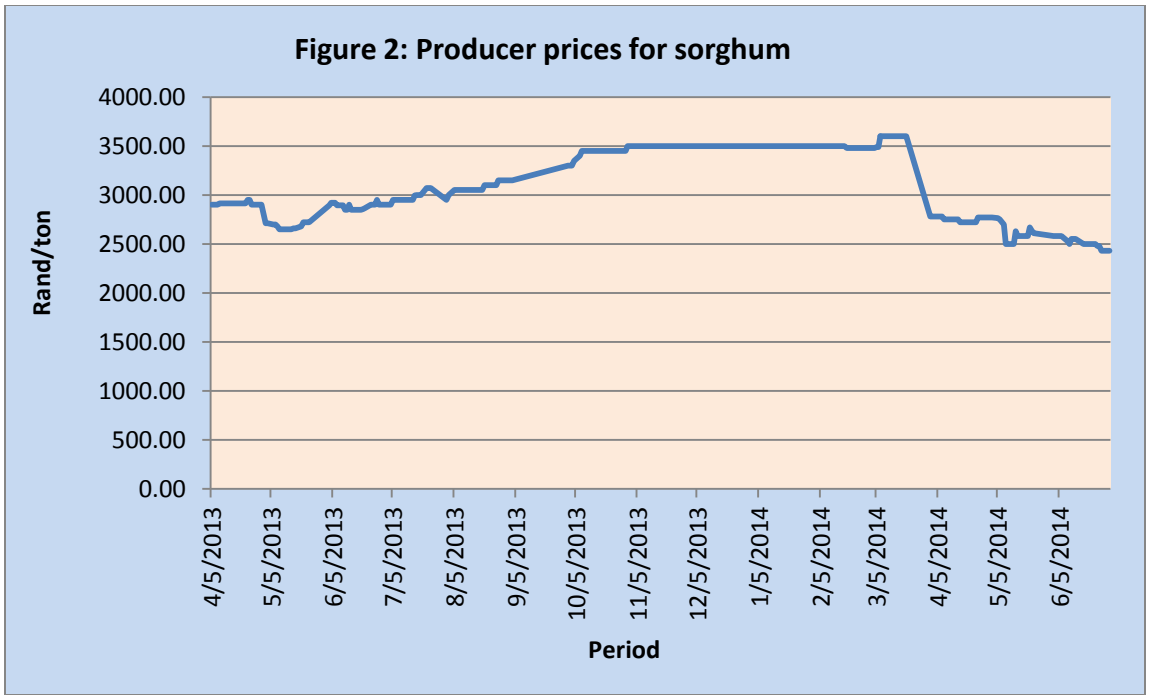
Source: NAMC, Demand and Supply Estimates Committee

Table 2 above shows the balance sheet for sorghum covering the period 2013/14 to 2014/15 marketing seasons. The table shows that sorghum stocks opened about 10.62% lower in the current season compared to the opening stocks of the previous season. The production volume for the current season is estimated at about 233 thousand tons. This is an increase of about 58.44% compared to what was produced during 2013/14 marketing season. Although the total sorghum supply is projected to increase by 15.39%, the closing stocks for the product are projected to experience an increase of 62.15% mainly due to the fact that the total supply increased more rapidly compared to the demand.

The projected closing stock for sorghum is 81 189 tons. Taking into account the average processed quantity of 14 458 tons per month, this represents available stock for 5.6 months or 171 days.

3.2 Sorghum Prices

Figure 2 below shows producer prices for sorghum starting from April 2012 until June 2014. Sorghum traded relatively lower in April 2013 and this increased slightly in May 2013. In general, the producer price for sorghum ranged between R2 450/ton and R3 500/ton between April 2012 and February 2013. The lowest price was recorded in May 2012 while the highest was experienced in February 2014. The period under review closed with relatively lower producer prices for sorghum in June 2014 resulting from higher producer deliveries at the beginning of the marketing season.



Source: SAFEX, accessed from SAGIS

4. WHEAT

4.1 Wheat Balances

Table 3: Domestic Stocks for Wheat as at 1 July 2014

Marketing Season: April to May	**Actual for 2013/14**	**Projection for 2014/15**	**10 year Average**
	Tons	Tons	
Production	1 870 000	1 804 450	1852 800
Opening Stocks	651 180	489 253	593818
Producer Deliveries	1 837 137	1 799 450	1823 514
Imports	1 393 215	1 650 000	1274 022
Surplus	0	12 000	10300
Total Supply	**3 881 532**	**3 950 703**	**3701653**
Local demand	3088043	3196010	2938304
Exports	304 236	240 000	210324
Total Demand	**3 392 279**	**3 436 010**	**3148628**
Closing Stocks	**489 253**	**514 693**	553025
Processed p/month	253 341	262 501	2409041
Days' stock	59	60	69

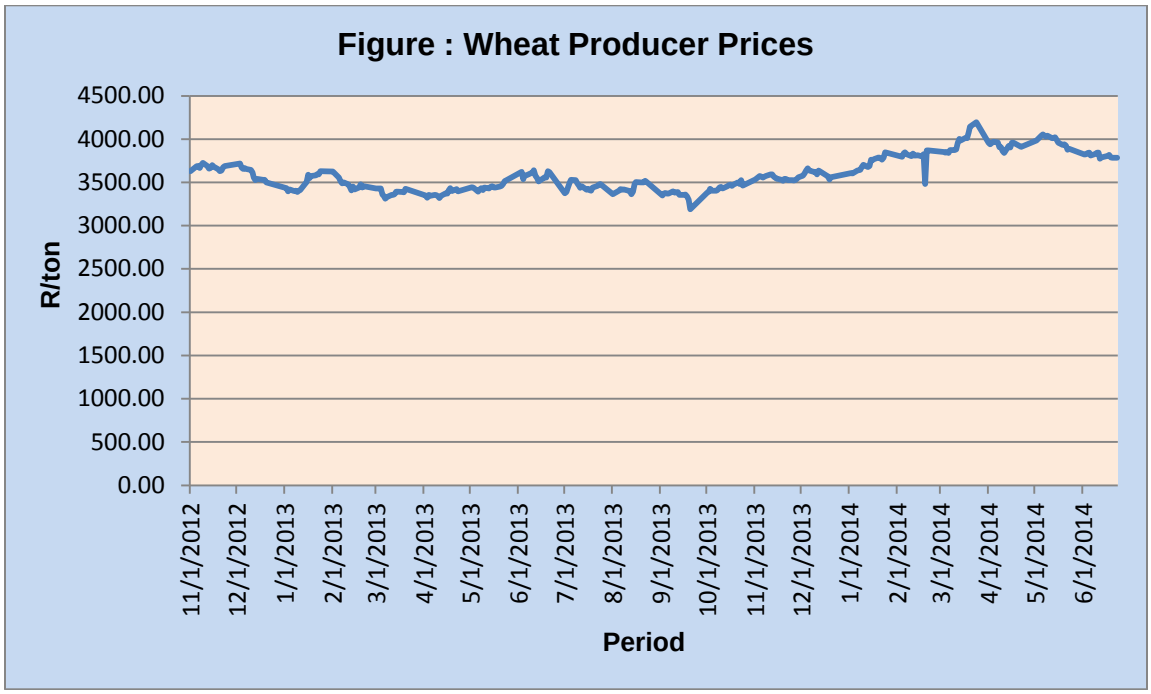
Source: Statistics and Economic Analysis

The projected wheat production volume for the current marketing season (2014/14) dropped by about 3.5% compared to the volumes of wheat produced in the previous season (1.87 million tons). The current marketing season opened with the wheat stocks of about 489 253 tons which is 24.86% lower compared to the opening stocks of the previous season. The projected wheat supply increased by about 1.78% compared to the previous season,. The domestic wheat

demand is projected to increase by 1.29% while at same time the wheat stocks are expected to close by 5.19%higher compared to the previous season. The projected closing stocks are 514 693 tons.

4.2 Wheat Prices

Figure 3 below indicates that the current marketing season for wheat opened with relatively higher producer price for wheat in October 2013. The price was generally stable between March 2013 and June 2013. The period under review closed with moderate producer price for wheat in June 2014. According to SAFEX future prices, the prices are expected to decline marginally towards the end of 2014 in anticipation of producer deliveries for the new season.



Source: SAFEX, accessed from SAGIS

5. SOYBEAN

5.1 Soybean Balances

Table 4: Domestic Stocks for Soybean as at 1 July 2014

Marketing Season: March to February	**Actual for 2013/14**	**Projection for 2014/15**	**10 year Average**
	Tons	Tons	
Production	784 500	944 340	398200
Opening Stocks	68 639	61 806	75960
Producer Deliveries	759 156	914 340	382979
Imports	3 256	85 000	20300
Surplus	2 572	2 500	1625
Total Supply	**833 613**	**1 063 646**	480864

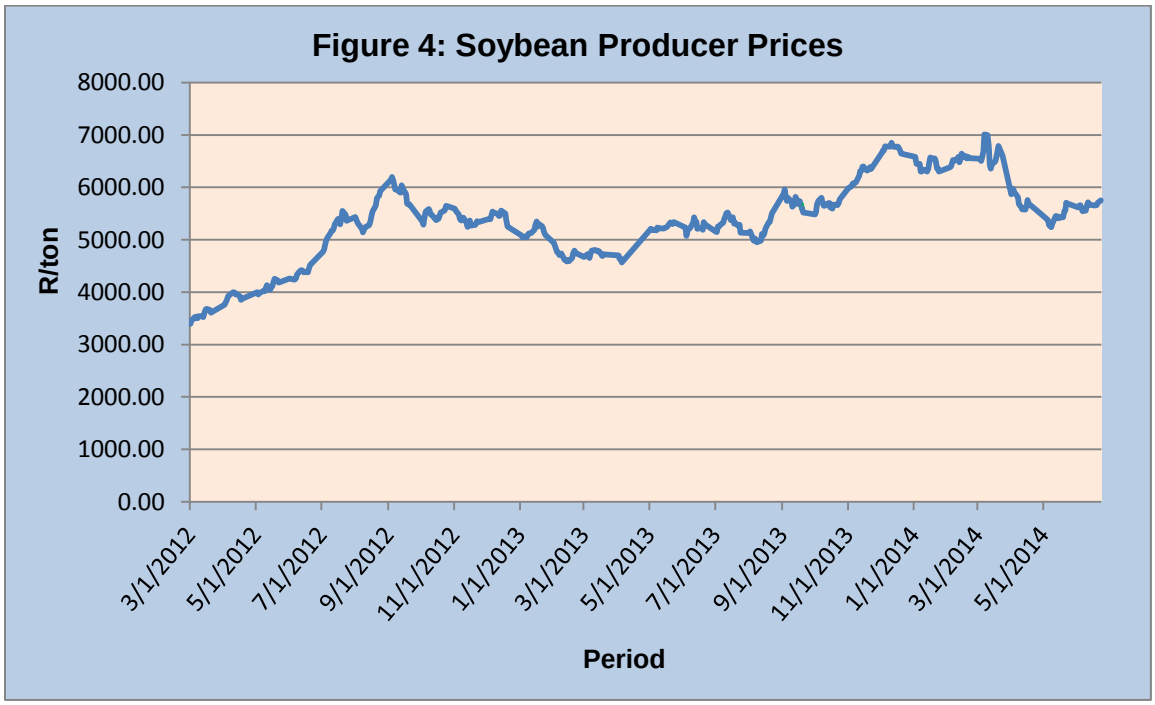
Marketing Season: March to February	Actual for 2013/14	Projection for 2014/15	10 year Average
Local demand	756 417	856 700	355714
Exports	15 390	15000	50002
Total Demand	**771 807**	**871 700**	**405716**
Closing Stocks	**62 738**	**191 946**	75148
Processed p/month	61 806	70 250	28690
Days' stock	30	83	81

Source: NAMC, Demand and Supply Estimates Committee

Table 4 above shows that the current marketing season (2014/15) opened with the soybean stocks of 61 806 tons in March 2014. The opening stocks for the current season are 9.95% lower than the opening stocks for the previous marketing season (i.e. 2013/14). On the other hand soybean production for the current season increased by 20.37% compared to the volumes harvested in the previous marketing season. The total supply for the current season is projected at about 1 063 646 tons and this represents an increase of about 27.59% compared to what was supplied to the local market in the previous season. On the other hand, the projected demand for the current marketing season is 871 700 tons. This represents an increase of 12.94% compared to total demand for the product in the previous season. The soybean stocks are projected to close at about 191 946 tons in the current season, and this is about 205.95M% higher compared to the closing stock levels in the previous marketing season.

5.2 Soybean Prices

Producer prices for soya beans are presented in Figure 4 below. This covers the period ranging from March 2012 until May 2014.



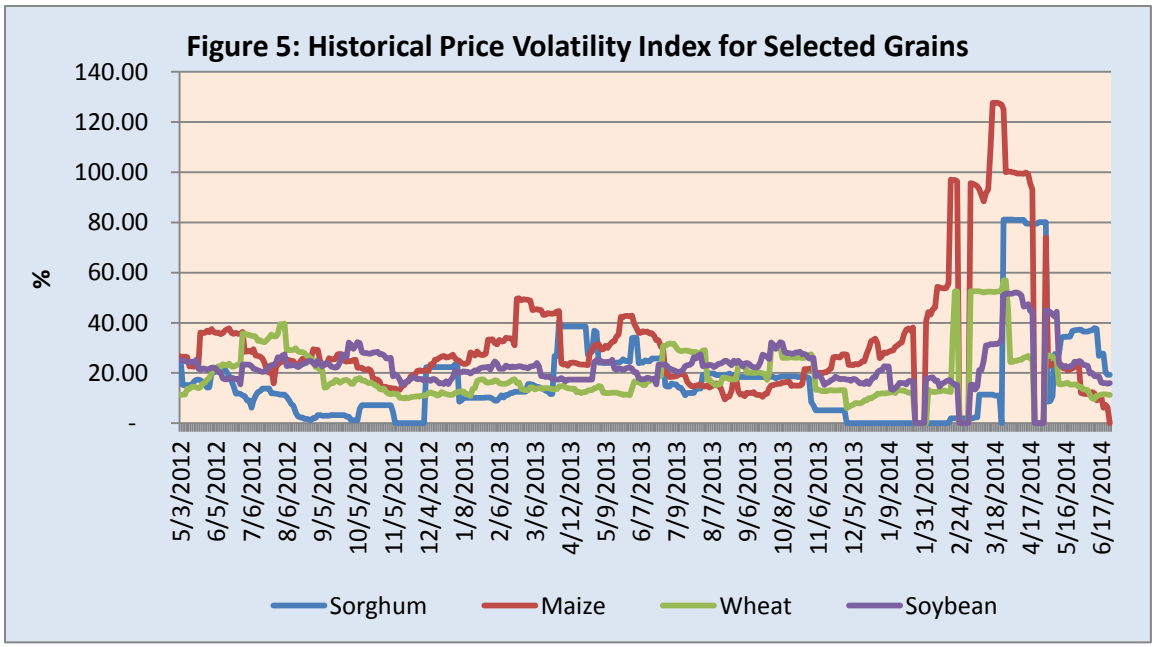
Source: SAFEX, accessed from SAGIS

Figure 4 above shows that the 2012/13 marketing season opened with lower prices for soybeans in March 2012. The figure displays a great fluctuation in the producer price for soya beans. The

price ranged between R3 250.00 and R7 011.00 over the period under consideration. The price closed on a relatively high trend between in May 2014.

6. PRICE VOLATILITY

Figure 5 below presents Historic Price Volatility for maize, wheat, soybean and sorghum. For the purpose of this document, volatility is defined as the standard deviation from the mean over a twenty (20) day period. Figure 5 indicates that, on average maize and soybean were the most volatile of the four commodities covered in the figure. Volatility index declined for sorghum, wheat and soya beans in the fourth quarter of 2013 and increased for maize during the same period. It is also clear from Figure 5 that maize prices became more volatile between January 2014 and April 2014 mainly due to sharp price increases that were observed at the time. Less price volatility was experienced with regard to all four crops between May 2014 and June 2014.



Source: SAFEX, accessed from SAGIS

7. OUTLOOK FOR THE GLOBAL MARKET

7.1 World Prices

Wheat: The IGC Grains and Oilseeds Index (GOI) wheat sub-Index fell by around 4 percent month on month in June 2014, weighed by increasing confidence that world supplies will be comfortable during 2014/15. In the Black Sea region, easing worries about the impact of political tensions on grains trading saw price falls accelerate, pressured by a mostly positive outlook for crops.

Maize: An improving outlook for the next world maize harvest triggered about 7% drop in the IGC GOI maize sub-Index during June 2014. Falls were led by the US, where the recently sown crop made good progress, with only limited support from overly wet weather in isolated areas and from strong demand for ethanol production. Despite recent harvest delays, notably in Argentina, anticipated strong competition from large southern hemisphere supplies added to the weaker tone.

Soybeans: Expectations for plentiful US and world supplies pressured soybean markets during June 2014, as the IGC GOI soybeans sub-Index eased by almost 3%. With harvesting of expected record crops nearly finished in South America, seasonally slowing export demand weighed in the US, while reports of slackening feed demand in China added to the negative tone.

7.2 Policy Developments

Wheat: Brazil introduced a 1 million ton duty-free import quota for non-Mercosur wheat that will be in place from 23 June 2014 until 15 August 2014. In Egypt, the maximum moisture content in wheat imports was raised from 13 percent to 13.5 percent. The new moisture content is applicable for the next nine months.

Bio-fuels: To allay concerns relating to the impact of bio-fuels on global food prices and sustainability, the European Union's member States reached a common position on 13 June 2014 to limit the use of "first-generation" bio-fuels obtained from agricultural crops such as corn and rapeseed. If approved by the relevant EU institutions, the cap applying to energy use by the transport sector would be reduced to 7% by 2020 (compared to the 10% cap agreed in 2009).

Domestic measures: **China**'s waiver on VAT for state-owned grain marketing enterprises is expanded as from early May 2014 to include soybeans held in government reserves, while imported soybeans remain subject to a 13 percent VAT. The conditions of market intervention through stockpiling of wheat were announced, the minimum prices were raised by 5 percent for wheat to CNY2 360/tonne (USD382). In **Argentina**'s province of Cordoba, a subsidized credit line of 20 million pesos (USD 2.5 million) was opened to promote wheat production during the current agricultural year. In **Brazil**, government financing of agricultural loans was increased by 15 percent compared to the previous year. The domestic procurement price for wheat was raised in **Egypt** by 16 percent to EGP500/ardeb (approx. 150kg) (USD 466/tonne).

Trade measures: The Trade Ministry of Indonesia announced that, as from 4 May 2014, the emergency import tariff of 20 percent applied on wheat flour was to be lowered to 5 percent and to be complemented by an import quota of 444,141 tonnes. The quota is to be allocated to such countries as Turkey, Sri Lanka and Ukraine and to be applied until December 2014. As notified to the WTO, Japan is seeking comments on a trade facilitating proposal to review the maximum residue limits (MRLs) of certain agricultural chemicals at higher levels for barley, wheat, sorghum and soybeans. The national standards and specifications for foods and food additives will also be revised.

Source: AMIS

8. ACKNOWLEDGEMENTS

Acknowledgement is given to the following information sources:

1. **Directorate: Statistics and Economic Analysis**
   www.daff.gov.za

2. **South African Grain Information Services**
   www.sagis.org.za

3. **Global Agricultural Marketing Information System**
   www.amis-outlook.org

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