



agriculture,
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REPUBLIC OF SOUTH AFRICA

Grain Markets Early Warning Report



No. 2 of 2015

Summary

- Production volumes for maize and sorghum are projected to decline significantly due to drought in major producing regions.
- Total supply for wheat increased despite a decline in production. The higher supply volumes were fuelled by imports from the black sea region.
- The inventories for maize and sorghum to decline on the back of lower production while those for wheat and soybean are projected to increase slightly. However the total supply for maize and sorghum is still expected to be sufficient to meet the local demand, although on a very tight note.
- Prices for soya beans are projected to decline slightly in the short run in response to a comfortable supply outlook while prices for sunflower are expected to remain moderate.
- Prices for sorghum are expected to fluctuate slightly in an upward trend for the next several months while the price for maize is expected to increase until later in the year.

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1. Domestic Supply-Demand Outlook

1.1 Maize

Marketing Season: April to May	Actual for 2014/15	Projection 2015/16 (Mar 2015)	Projection 2015/16 (Jul 2015)
Tons			
Production	12 146 800	9 665 290	9 755 300
Opening Stocks	589 028	2 301 019	2 073 635
Total Supply	14 508 063	12 061 309	12 070 088
Total Demand	12 434 428	10 106 000	10 744 000
Closing Stocks	2 073 635	1 215 309	1 326 088
Days' stock	76	45	51

Source: NAMC, Supply and Demand Estimates Committee

- **Production:** On 26 February 2015 the Crop Estimate Committee released the fifth production forecast for summer crop for 2015 production season (2015/16 marketing season). The maize crop is estimated at 9.76 million tons, which is 0.93% higher compared to March 2015's forecast.
- The 2014/15 season closed with higher maize inventories of about 2.073 million tons which, together with imports, are expected to supplement the lower production of the current season (2015/16).
- The 2015/16 season is projected to close with about 1.33 million tons, which is a sufficient buffer stock for the market.

1.2 Sorghum

Marketing Season: March to April	Actual for 2014/15	Projection 2015/16 (Mar 2015)	Projection 2015/16 (Jul 2015)
Tons			
Production	265 000	178 700	114 700
Opening Stocks	50 069	119 944	121 812
Total Supply	320 301	299 144	236 312
Total Demand	198 489	200 550	197 550
Closing Stocks	121 812	98 594	38 762
Days' stock	279	218	87

Source: NAMC, Supply and Demand Estimates Committee

- Sorghum **production volume** for 2015/16 marketing season was projected to decline by 32.57% compared to 2014/15 for the same reasons as maize in March 2015. However, the July projection suggests a decline of 57.71%.
- Although sorghum production volumes for the current season are projected at lower levels, the larger carryover stocks from the previous season (2014/15) are expected to boost the domestic supply situation.
- The closing stocks in the current season are expected to decline significantly compared to the previous season. However this is above the pipeline requirement. The local market is therefore expected to be in a comfortable situation with regard to sorghum in 2015/16 marketing season.

1.3 Wheat

Marketing Season: Oct to Sept	Actual for 2013/14	Projection for 2014/15	10 year Average
Tons			
Production	1 870 000	1 775 534	1852 800
Opening Stocks	651 180	488 526	593818
Total Supply	3 974 646	4 043 060	3701653
Total Demand	3 486 120	3 474 005	3148628
Closing Stocks	488 526	569 055	553025
Processed p/month	264 653	265 000	2409041
Days' stock	56	65	69

Source: NAMC, Supply and Demand Estimates Committee

- Production volumes for wheat are projected to decline 5.05% in 2014/15 season compared to the previous season on the back of slight declines in area planted.
- Despite a slight decline in production volume, wheat supply is expected to increase by about 1.72%, driven mainly by influx of imports originating from the Black Sea Region.
- On the other hand, demand for wheat is projected to decline by 0.34% driven by a decline in quantities of wheat exported to other regions.
- The closing inventories for wheat are expected to ease slightly compared to the previous season.

1.4 Soya Beans

Marketing Season: March to February	Actual for 2014/15	Projection for 2015/16	10 year Average
Tons			
Production	948 000	1 038 100	535 800
Opening Stocks	61 806	63 704	77 875
Total Supply	1 084 506	1 194 304	622 111
Total Demand	1 020 802	1 049 800	545 612
Closing Stocks	63 704	144 504	76 499
Days' stock	23	51	60

- **Production volume** for soya beans increased significantly in 2014/15 season compared to 2013/14 (9.50 %). The production is projected to slightly increase in 2015/16 season to 1.038 million tons.
- **Supply** for the product is projected to increase by about 10.12% in 2015/16 on the back of some increment in opening inventories, production deliveries and import volumes.
- **The demand** is also expected to increase marginally driven mainly by huge increases in crushing volumes. The local crushing for soybean increased significantly in recent years due to investments that were made in crushing facilities. The **Closing stocks** for sorghum are also projected to increase by more than 120% compared to the previous season.

1.5 Sunflower

Marketing Season: April to May	Actual for 2014/15	Projection 2015/16	10 year Average
	Tons		
Production	832 000	612 400	637 400
Opening Stocks	47116	92 927	84 342
Total Supply	949 409	780 327	756 351
Total Demand	856 482	692 800	669 710
Closing Stocks	92 927	87 527	86 641
Days' stock	40	47	36

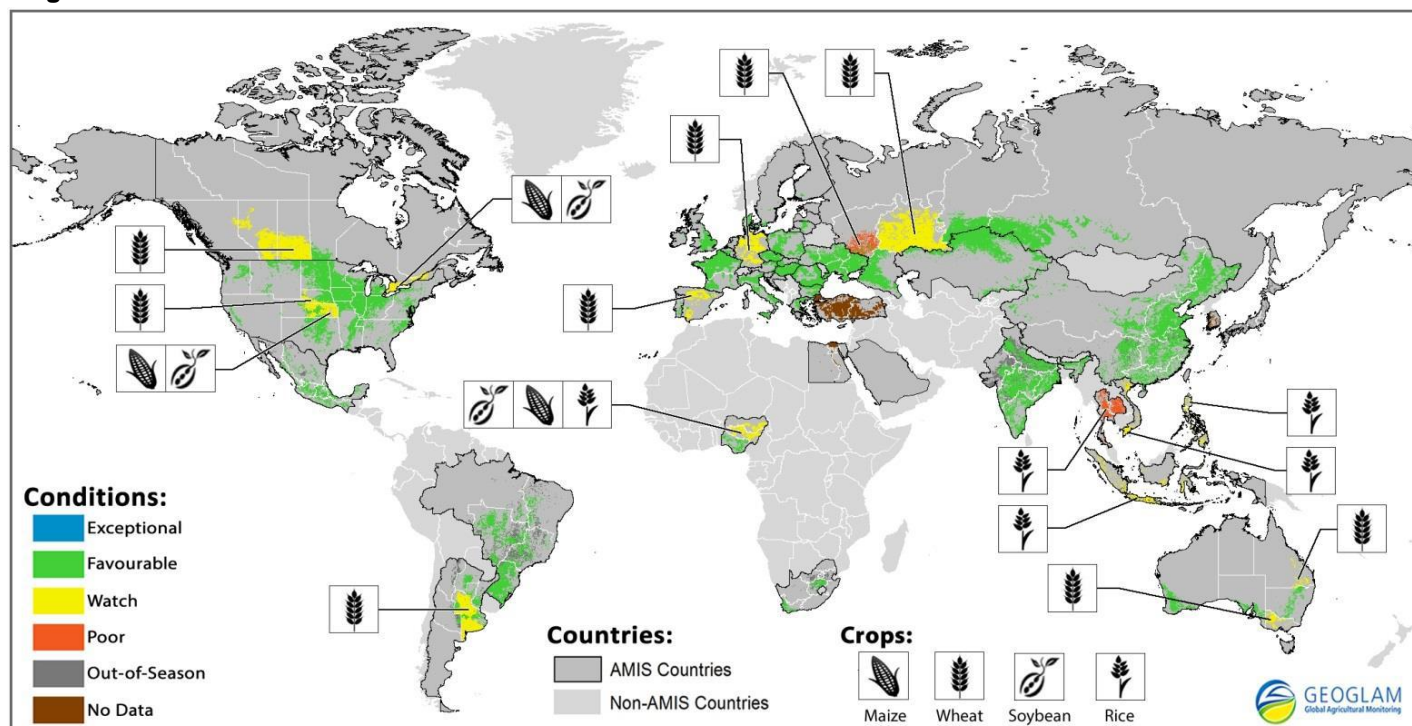
Source: NAMC, Supply and Demand Estimates Committee

- Sunflower **production volume** for 2015/16 marketing season is also projected to decline by 23.69% compared to 2014/15 for the same reasons as maize.
- Although sunflower production volumes for the current season are projected at lower levels, the larger carryover stocks from the previous season (2014/15) are expected to boost the domestic supply situation.
- On the other hand, demand for sunflower is projected to decline by 19.11% driven by a decline in quantities of sunflower processed specifically the crushing to oil & oilcake.
- The closing stocks for sunflower are expected to slightly decline by 5.81% compared to the previous season.

2. Crop Conditions in Selected Countries

The following figure (Figure 1) shows crop conditions for selected grains in the AMIS¹ countries based on the information provided by the Group on Earth Observations' Global Agricultural Monitoring (GEOGLAM) initiative (as of 28 June 2015). For the purpose of this report the focus will be on maize, wheat and soya beans.

Figure 1



Source: GEOGLAM

Maize: In the northern hemisphere, conditions remain generally favourable. In the **US** there is some concern developing over excessive rains in June. In Ukraine, EU, India, China, the Russian Federation, Mexico, conditions are favourable and in Canada conditions are mixed due to excessive rainfall. In the *southern hemisphere*, conditions continue to be favourable in Brazil and Argentina as the season draws to a close.

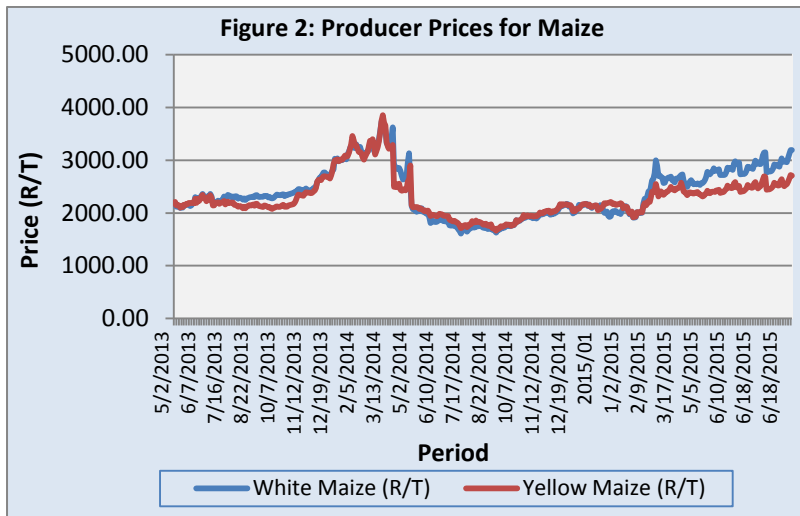
Wheat: In the *northern hemisphere*, conditions remain mostly favourable. In the **EU** there is some concern due to hot and dry conditions in Spain and dry conditions in the western and central regions. In **China, Ukraine** and **Kazakhstan** conditions are favourable. In the **US** conditions are generally favourable despite recent high rainfall which may affect quality. In the Russian Federation, winter wheat conditions are mixed especially in the Central and Volga region due to the excessive dry conditions during establishment. There is some concern over spring wheat conditions due to recent hot and dry weather. In **Canada**, conditions are mixed for both winter and spring wheat. In the southern hemisphere conditions are generally favourable for the developing crop. In Argentina, planting is progressing slowly in some regions due to dryness. In **Australia** and **South Africa** conditions are favourable.

Soya beans: In the *northern hemisphere*, conditions remain generally favourable. In the US conditions are favourable however there is some concern developing over excessive rains. In **India**, and **China**, conditions are mostly favorable and in **Canada** and **Nigeria**, conditions are mixed. In the *southern hemisphere*, conditions remain favourable for **Argentina** as the season draws to a close.

¹ The G20 Agricultural Marketing Information System. South Africa is a member of AMIS.

3. Commodity Prices

3.1 Maize



Source: SAFEX, accessed from SAGIS

Figure 2 above shows maize producer prices for the period starting from 2012/13 to 2015/16 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 January 2014. The prices remained at higher levels until the end of 2013/14 marketing season due to the lower maize stocks in the

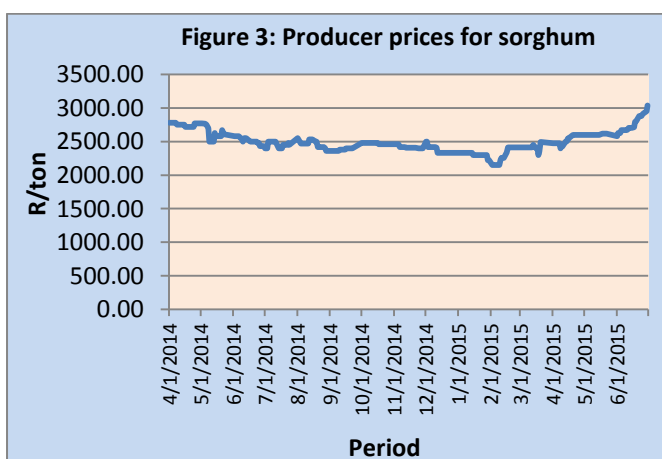
domestic market. The producer price for maize dropped significantly in May 2014 and June 2014 mainly due to producer deliveries that started reaching the market at the beginning of the new marketing season (2014/15).

The figure further shows that the prices of both yellow and white maize began to show an increasing trend from February 2015. It can also be noted from the figure that yellow maize prices were considerably below white maize prices. The increase in maize prices may be explained by the decline in maize production during the current season.

According to the AMIS Market Monitor, the international maize prices remained firm as no fundamental changes were perceived for the current abundant global supply situation, although strong export sales were said to be supportive.

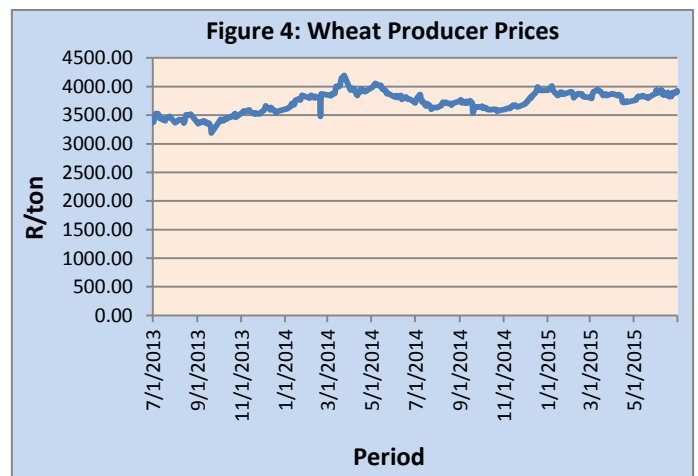
3.2 Sorghum

Figure 3 below shows producer prices for sorghum starting from April 2014 until June 2015. Sorghum traded relatively higher in April 2014 and this was followed by slight in May 2014. In general, the producer price for sorghum ranged between R2 150/ton and R2 580/ton between April 2014 and June 2015. The period under review closed with relatively higher producer prices for sorghum in June 2015. Sorghum producer prices are expected to increase in July to R3 040/ton.



Source: SAFEX, accessed from SAGIS

3.3 Wheat



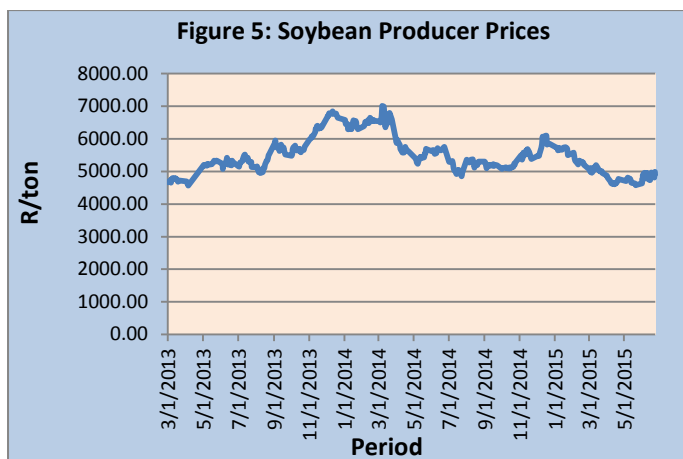
Source: SAFEX, accessed from SAGIS

Figure 4 above indicates that wheat producer prices were relatively lower in July 2013. The price showed an increasing trend from August 2013 reaching a peak in March 2014. Moderate declines in prices were experienced from April 2014 until November 2014. The period under review closed with moderate producer price for wheat in June 2015. Wheat prices are expected to remain relatively high in the next few months.

International prices for wheat declined slightly on the back of significant improvement in global stock levels. Favourable weather in the US Great Plains and a

strengthening US dollar against other currencies overshadowed renewed tensions in the Black Sea region and helped keep wheat prices relatively lower.

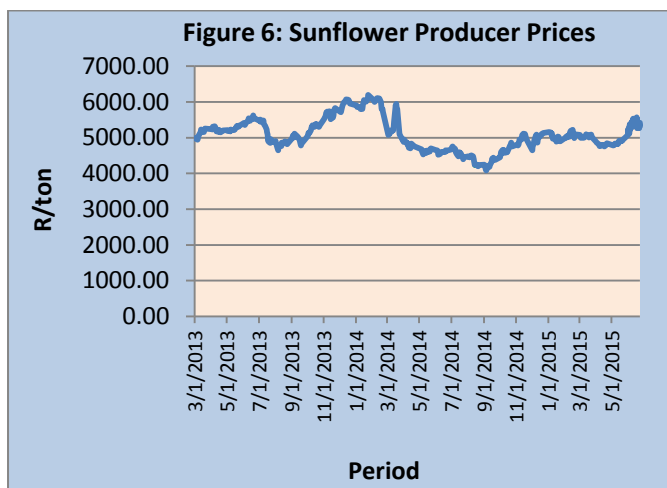
3.4 Soya Beans



Source: SAFEX, accessed from SAGIS

Figure 5 shows that the 2013/14 marketing season opened with lower prices for soybeans in March 2013. The figure displays a great fluctuation in the producer price for soya beans. The price ranged between R4 566.00/ton and R7 011.00/ton over the period under consideration. The price closed on a relatively low trend during the first quarter of 2015. In the international markets, Soybean prices are projected to decline as Brazil and Argentina's soybean crop is anticipated to be at record highs.

3.5 Sunflower



Source: SAFEX, accessed from SAGIS

Figure 6 shows that the 2012/13 marketing season opened with moderate prices in March 2013. Similar to soybean prices, Figure 6 also displays a great fluctuation in the producer price for sunflower. The price ranged between R4 084/ton and R6 200.00 over the period under consideration. The price closed on a relatively high trend during the fourth quarter of 2014.

3.6 SAFEX Futures Prices

SAFEX futures prices for maize, wheat, soya beans, sorghum and sunflower are shown in Table 1 below.

Table 1

	Futures Prices (2015/06/30) (R/T)			
Commodity	July-15	Sep-15	Dec-15	Mar-16
White Maize	3148	3193 ▲	3262 ▲	3255 ▼
Yellow Maize	2680	2708 ▲	2756 ▲	2721 ▼
Wheat	3910	3925 ▲	3835 ▼	3883 ▲
Soybeans	4765	4850 ▲	4970 ▲	4918 ▼
Sorghum	3040	3030 ▼	2820 ▼	N/a
Sunflower	5320	5420 ▲	5510 ▲	5200 ▼

Source: SAGIS

As of 30 June 2015, the July 2015 contracts for white and yellow maize traded at R3 148.00/ton and R2 680.00/ton respectively. The December 2015 contract prices are relatively more expensive at R3 262.00/ton and R2 756.00/ton for white and yellow maize respectively. Sorghum contracts generally showed a decreasing trend, with December contract trading at an average of R2 820.00/ton. On the other hand the contracts for wheat, soya beans and sunflower generally traded on an increasing trend over the same period.

On a global level, prices for wheat, maize and soybeans declined modestly as agricultural markets experienced few fundamental changes.

4. Global Market Outlook

4.1 World Prices

Wheat: World wheat export markets were more volatile in the past month, with day-to-day activity often linked to changeable weather for crops and fluctuations in currencies. Less than ideal conditions in North America, Europe and the Black Sea region, as well as uncertainty about El Niño in Australia, contributed to overall price gains, even though the outlook for global supplies was still considered comfortable against a backdrop of lacklustre export demand. At current prices and exchange rates, Russia's new export tax from 1 July was not expected to restrict shipments. Planting in Argentina neared the halfway point, with area officially seen only slightly lower y/y, but with some private forecasts for a sharp decline owing to poor profitability. The IGC GOI wheat sub-Index posted a net increase of around 2 percent.

Maize: Average maize export prices were mostly firmer during June, the IGC GOI maize sub-Index posting a modest gain of about 1 percent m/m. US values were underpinned by ongoing concerns about excessively wet conditions in Midwest growing areas, together with support from strength in neighbouring futures markets. Export premiums at the US Gulf were also buoyed by slow barge movements along local rivers, but overall gains were capped by pressure from plentiful global supplies. USDA's Acreage and Grain Stocks reports, released on the last day of June, added some support. Offers in Argentina were higher, but quotations were still competitive against other origins, while nearby prices in the Black Sea region were considered nominal owing to thin activity.

Soybeans: Average global soybean export values were slightly firmer when compared to the previous month. Sentiment in the US was boosted by concerns about the impact of wetter than normal weather on planting progress and crop development, with currency movements and soybean product markets influential at times. However, gains were capped by pressure from heavy global export availabilities following the harvest of record outturns in South America. In the closing stages of the month, flooding on Midwest waterways provided support, as did a lower than expected official estimate of 1 June stocks. Quotations in Argentina and Brazil also strengthened, but increases were limited by an uptick in farmer selling. The IGC GOI soybeans sub-Index rose by nearly 1 percent m/m.

4.2 Policy Developments

Wheat

- On 12 June, Argentina approved the exports of an additional 1.0 million tonnes of 2014/15 wheat, bringing the total volume approved for shipment to 4.7 million.
- In July 2015, the minimum price for wheat in Brazil was increased by 4.6 percent to BRL 34.98 per 60 kilograms (USD 186 per tonne). Under the Producer's Equalization Payment Programme ("Pepro") the Brazilian Government would pay farmers or cooperatives the difference between the market price and the minimum price, should the domestic price of wheat be below the minimum price.
- In mid-June, a prospective "Wheat Sectoral Global Food Security Initiative" was discussed in Geneva where a number of Australian and US wheat industry representatives met with importing and exporting country delegations. The initiative would address import and export restrictions, state trading, food safety, export subsidies and trade-distorting domestic support in a comprehensive manner.

Bio-fuels

- As of 22 June, Brazil replaced a system under which imports of ethanol were taxed at 9.25 percent associated to an offsetting credit for importers, by an 11.75 percent tariff on ethanol imports.
- Indonesia approved a regulation imposing a new levy of USD 50 on palm oil exports and USD 30 on processed products. The implementation date is uncertain at this point in time. Levy revenues will be used to support the biodiesel industry through a price support system.

Across the board

- Brazil announced a 20 percent increase in its Agriculture and Livestock Plan's budget for crop year 2015/16. Details of the implementation of the BRL 187.7 billion (USD 59 billion) will be provided in future reports.
- In June, the European Food Safety Agency (EFSA) issued a positive scientific advice and found that two varieties of GM maize and one brand of GM soybean produced by Monsanto posed no risks to human or animal health. This is the first step for their import authorisation into the European Union. Before actual importation is authorized, the European Commission is to seek member states approval.

5. 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
4. **Group on Earth Observations Global Agricultural Monitoring Initiative**
www.geoglam-crop-monitor.com

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