



agriculture, forestry & fisheries

Department:
Agriculture, Forestry and Fisheries
REPUBLIC OF SOUTH AFRICA

Grain Markets Early Warning Report



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June

Overview

- Prospects for wheat continue to point to a decline in world production from the 2016 record, although still permitting a further build-up in global wheat inventories in the new marketing season (2017/18). Maize and rice market could be heading for some tightening, although the increase in global production could sustain a still comfortable supply situation in 2017/18.
- Soybeans are likely to begin the new season with record- large opening stocks, reflecting the latest upward revisions to the 2016/17 production levels. In view of persistent bearish factors, international prices for all four AMIS crops remain subdued. Ample global supply, expected record harvests and sluggish international grain market have contributed to low grain prices. The International Grain Council (IGC) has lowered its world grain stocks for the end of this season to multi-year low due to higher expectations of increased industrial usage for corn in the US and China.
- In the domestic market, dry conditions have been affecting the progress of wheat planting in the major production zone. The wheat input costs have increased by approximately 2-5% in 2017 as compared to the previous year, putting pressure on producers to reach break-even point. The latest import duty is R1 190.19, compared to the expected import duty of R1 371.75 to be published probably in June 2017.
- The size of the commercial maize crop has been estimated at a stupendous 15.631 million tons. This crop is about 101% higher than the 2016 crop. The total yield was reported at 5.95 t/ha, which is also the highest yield ever in the history of South Africa.
- South Africa may be sitting on a larger soybean crop than was estimated for the third Crop Estimate Committee's estimates due to the above average yields (3 t/ha). The crush margins are positive, providing support to the soybean prices which are expected to increase after the latter part of May and moving forward.

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1. Domestic Supply-Demand Outlook

1.1 Maize

Marketing Season: April to May	Actual for 2015/16	Projection 2016/17 (Mar 2017)	Projection 2017/18 (June 2017)
Production	9 955 000	7 778 500	15 631 050
Opening Stocks	2 073 635	2 471 067	1 096 709
Total Supply	13 884 507	12 325 843	16 049 259
Total Demand	11 413 440	11 040 000	12 683 000
Closing Stocks	2 471 067	1 285 843	3 366 259
Days' stock	88	48	121

Source: NAMC, Supply and Demand Estimates Committee

1.2 Sorghum

Marketing Season: March to April	Actual for 2015/16	Projection 2016/17 (Mar 2017)	Projection 2017/18 (June 2017)
Production	88 500	74 150	153 480
Opening Stocks	121 812	83 142	35 238
Total Supply	278 212	234 792	246 218
Total Demand	195 070	194 780	210 450
Closing Stocks	83 142	40 012	35 768
Days' stock	190	84	72

Source: NAMC, Supply and Demand Estimates Committee

1.3 Wheat

Marketing Season: October to Sept	Actual for 2015/16	Projection 2016/17 (Mar 2017)	Projection 2016/17 (June 2017)
Production	1 440 000	1 909 540	1 910 000
Opening Stocks	596 823	827 232	827 232
Total Supply	4 075 147	4 154 772	3 958 232
Total Demand	3 247 915	3 319 000	3 279 500
Closing Stocks	827 232	835 772	678 732
Days' stock	96	96	79

Source: NAMC, Supply and Demand Estimates Committee

1.4 Soya Beans

Marketing Season: March to February	Actual for 2015/16	Projection 2016/17 (Mar 2017)	Projection 2017/18 (June 2017)
Production	1 070 000	742 000	1 233 130
Opening Stocks	63 704	89 128	84 792
Total Supply	1 241 340	1 072 628	1 289 422
Total Demand	1 152 212	1 007 450	1 182 000
Closing Stocks	89 128	65 178	107 422
Days' stock	29	24	34

Source: NAMC, Supply and Demand Estimates Committee

Crop Estimates Committee (CEC) in May 2017, the area estimated for commercial maize production was at 2.628 million hectares for 2017/18 marketing season. Maize projections for March 2017/18 marketing season were at 7.778 million tons, showing a decline of 22% from the 2015/16's harvest.

- According to the latest Crop Estimates Committee's 4th forecast, the country is expecting a commercial maize crop at a whopping 15.631 million tons. This is the largest maize crop to be ever produced by South Africa. This estimates is about 1.095 million tons more than the 3rd estimate reported in April 2017. The expected yield is about 5.95 t/ha, the highest yield ever reported. This is despite the country's recovery from drought and outbreak of Fallen Army Worm.
- **Sorghum** production volume for June 2017/18 marketing season is projected to increase as compared to 74 150 tons attained in March 2017.
- The intended plantings of sorghum is expected to decrease by 12,6% or 6 150 ha to 42 350 ha as compared to the previous season, putting much pressure on the supply. This means that if the demand increases further then the country will have to import more to boost the domestic supply situation. The projected closing stocks in the current season of June 2017 have decreased as compared to the previous projection of 40 012 tons projected in March 2017. The days' stock has slightly dropped from 84 days in March 2017 to 72 days in June 2017.
- **Wheat** production volumes are projected to rise by 0.02% in June 2017 season compared to the projected volume in March 2017. Wheat supply is projected to decrease by 4.7% in June 2017 as compared to March 2017. This is mainly attributed to unfavourable weather conditions in the major production zones. On the other hand, the demand for wheat is also projected to slightly decline by 1.2%, driven by low quantity supply and higher prices in the local markets.
- The closing stock for wheat has significantly decreased by 18.7% compared to March 2017 projections.
- Production volume of **soy beans** is projected to increase by 66% in June 2017/18 season when compared to the projected volume in March 2017, whereas the 2015/16 final crop is about 15% lower than the production forecast for June 2017/18.

- **Maize:** The projected maize crop for June 2017/18 is estimated at 15.631 million tons, which is over 100% more when compared to March 2017 forecast. According to the report released by the

- Soy beans supply for June 2017/18 is projected to increase by 20% in comparison to March 2016/17 forecast.

1.5 Sunflower

Marketing Season: April to May	Actual for 2015/16	Projection 2016/17 (Mar 2017)	Projection 2017/18 (June 2017)
Production	663 000	755 000	853 470
Opening Stocks	92 927	45 867	163 086
Total Supply	802 557	870 567	1 022 556
Total Demand	756 690	731 200	872 200
Closing Stocks	45867	139 367	150 356
Days' stock	22	70	64

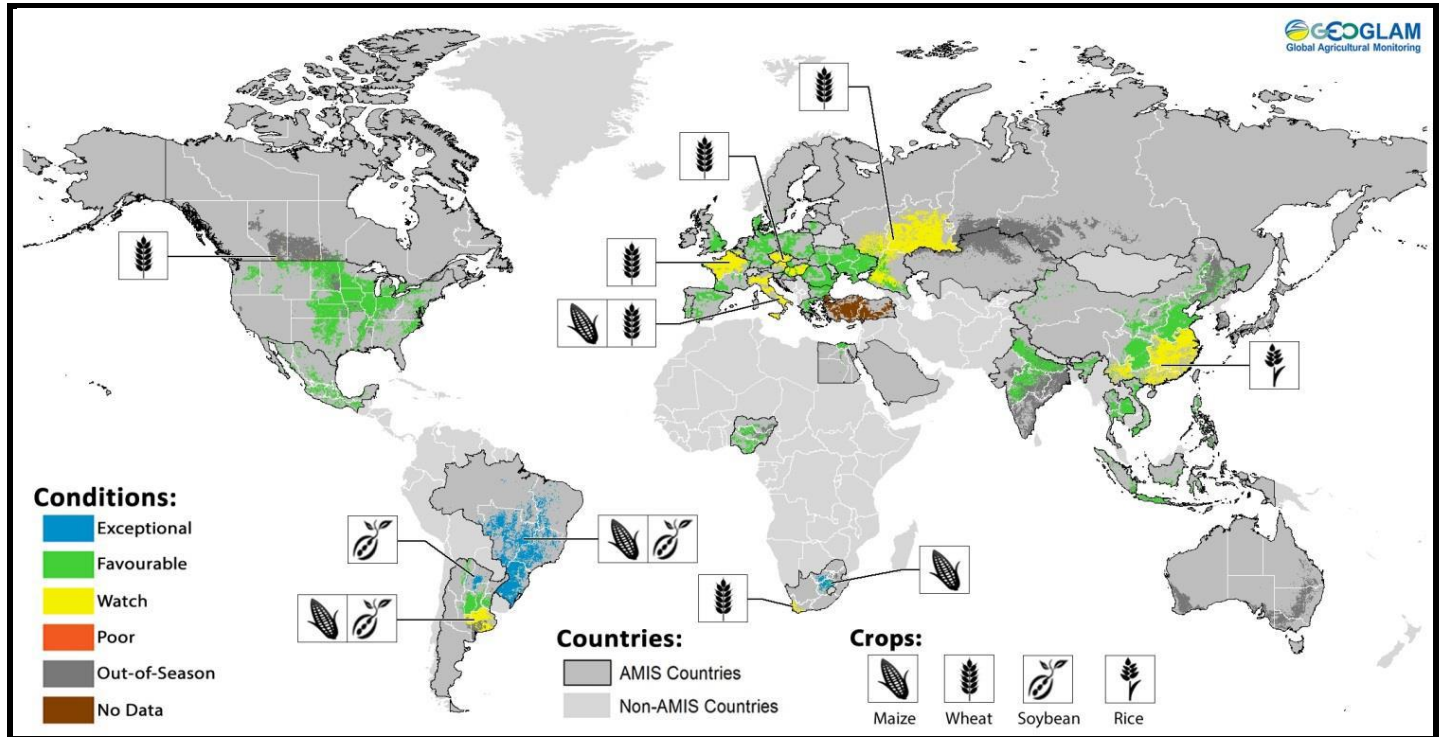
Source: NAMC, Supply and Demand Estimates Committee

- The total demand for June 2016/17 is also projected to go up by 3% compared to the final demand during 2015/16 season, responding gradually to the increase in the country's crushing volumes.
- **Sunflower** production volume for June 2017/18 marketing season was projected to slightly increase as compared to the projections in March 2016/17. The final production volumes for 2015/16 were 663 000 tons and it was about 29% less than the production volumes forecasted for June 2017/18.
- The total supply and demand for sunflower seed both increased by 17% and 19% respectively in June 2017 as compared to March 2017 projections.
- The final closing stock for sunflower is projected to be about 8% higher for June 2017/18, when compared to 139 367 tons projected for March 2017.

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 June 2017). For the purpose of this report the focus will be on maize, wheat and soya beans.

Figure 1: Crop conditions for selected grains in AMIS countries



Source: GEOGLAM

Wheat – The winter wheat conditions in the northern hemisphere are mixed as dry or cold conditions are observed in some areas. In the **EU**, winter wheat conditions are generally favourable, however additional rain is required in the major production areas due to a cold spell that raised concerns and delayed crop growth. In the **US**, conditions are generally favourable, however both the winter wheat and spring wheat areas are expected to be down to multi-decade lows. In **China**, conditions for winter wheat crops are generally favourable. In **India**, the winter wheat crop is under favourable conditions as harvesting is almost complete. In the **Russia Federation**, conditions are under watch as an April snow and frost may have damaged the crop. In Ukraine, conditions remain favourable while recent cool weather has slowed crop growth and development. In Canada, conditions are mixed as prolonged dry weather and insufficient snow cover has raised concerns about winter kill of crops.

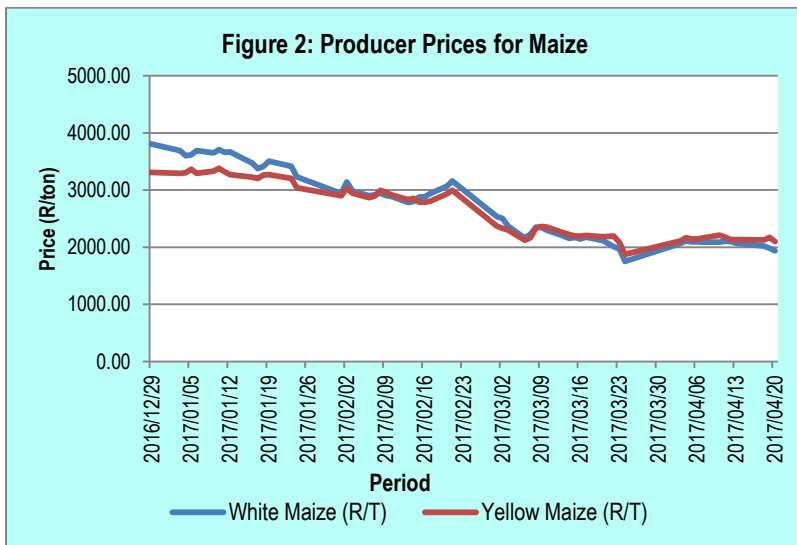
Maize - In the Southern hemisphere, overall conditions remains mostly favourable with very good production prospects, while sowing begins in the Northern hemisphere. In **Brazil**, overall conditions for both the spring and summer crops are exceptional with increased production prospects. In the **Argentina**, conditions remains favourable with no major losses expected from the recent flooding, however harvesting of the early planted crop has been delayed due to the beginning of soybean harvest. In **South Africa**, conditions are exceptional across major production areas as wet conditions during most of the summer season have boosted production prospects for this year. In **Mexico**, the autumn-winter maize is in vegetative stage under favourable conditions, while the sowing of spring-summer maize has begun. In the **US**, sowing is currently progressing throughout the country under favourable conditions. In China, sowing of the spring crop has begun under favourable conditions. In the EU, conditions are generally favourable with the exception of dry weather delaying sowing in northern Italy.

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

Soybeans - In the southern hemisphere, generally favourable conditions persist and harvesting is proceeding very well in Brazil. In Argentina, harvest conditions continue to be favourable with some minor areas in the south showing signs of floods. In the northern hemisphere, sowing is beginning with the record high area expected to be planted at the US. In the **Brazil**, the harvest is coming to a close under exceptional conditions with increased production prospects across the country.. In **Argentina**, the harvest is progressing with some delays in the south due to heavy rains and flooding and the production prospects remain positive on good yields. In the US, sowing has begun in the south, with a record high area expected to be sown for 2017.

3. Commodity Prices

3.1 Maize



Source: SAFEX, accessed from SAGIS

Figure 2 above reflects the producer prices for maize starting from December 2016 to April 2017 marketing season. The figure indicates that producer prices for white and yellow maize opened higher above R3 000/ton in December 2016. The price for both white and yellow maize declined drastically over the period under analysis, however during February 2017 both prices remained somehow stable. Producer prices for both yellow and white maize continued to decrease with minimal maize prices below R2 000/ton recorded during March 2017.

The prices of both white and yellow maize followed similar trends, closing lower with the price of yellow maize being higher above white maize from March to April 2017. During the previous season, domestic maize prices were at an all time high as a result of lower production and the weaker South African rand. The higher prices supported those producers who were able to plant during the dry season. The size of the commercial maize crop has been estimated at a stupendous 15.631 million tons, which is 101% higher than the 2016 crop. These estimates together with ample global supply and sluggish international grain market have somehow contributed to low domestic maize prices.

3.2 Sorghum

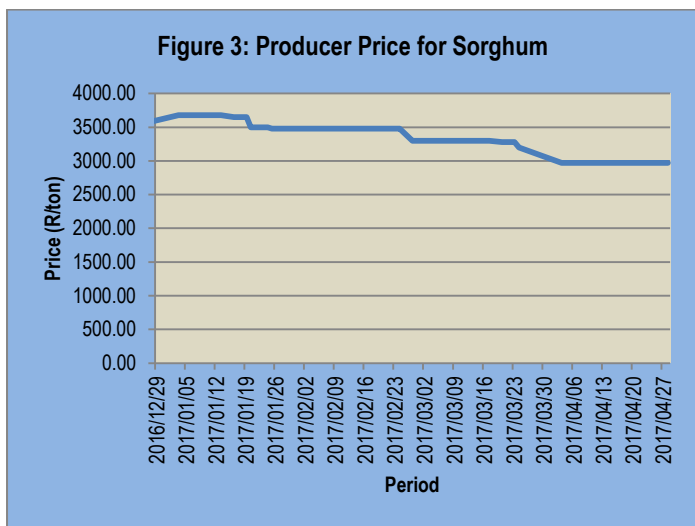
Figure 3 shows producer prices for sorghum opening from December 2016 until April 2017. The producer prices for sorghum fluctuated considerably throughout the period under review. Sorghum prices opened higher above R3 500/ton from December 2016 to January 2017 and this was followed by a slight decrease below R3 500/ton attained between February 2017 and April 2017, respectively. The producer prices for sorghum remained relatively stable for the remainder of the

season until marginal decline in prices were attained in April 2017, closing at R2 970/ton.

Figure 4 shows wheat producer prices from December 2016 to April 2017. The Figure indicates that the wheat producer price opened slightly lower below R4 000/ton in December 2016. The price showed a significant increase from December 2016 until the closing of the season in April 2017. In overall, the local wheat market traded relatively stable at the current prices, ranging from R3 949/ton up to R4 422/ton. Globally, the drought conditions in the Ukraine placed much pressure on the international prices. Dry domestic conditions coupled with high input cost have been affecting the progress of wheat planting in the major production zones which also affected the market price for wheat.

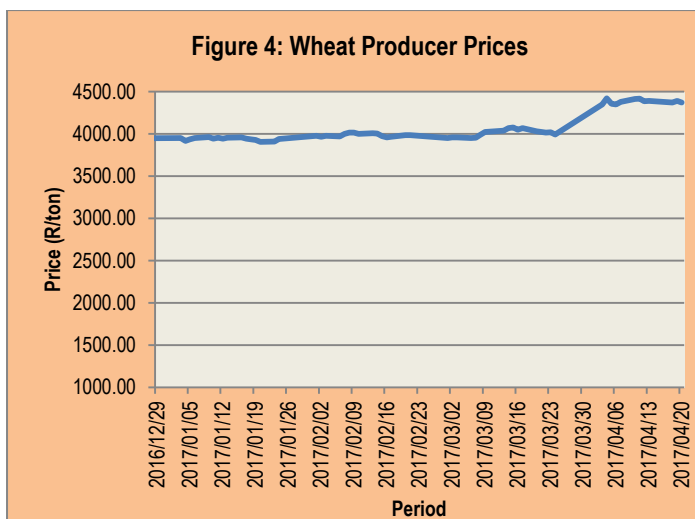
Figure 5 shows that the 2016/17 marketing season opening price for soybeans was just above R6 000/ton in December 2016. The figure displays drastic fluctuations in the producer price for soya beans over the entire period. There was a notable increase in soy bean prices during January 2017. The price for soybean ranged between R4 700/ton and R6 700/ton over the period under consideration. The figure shows that the price of soybean remained relatively unstable over the period, from December 2016 to April 2017. However this was followed by a steady drop in producer prices at R6 050/ton attained in February 2017.

The soybean marketing season closed with a decrease in price around R4 743/ton in April 2017 as compared to the opening in December 2016. The domestic soybean prices remained under pressure due to the arrival of the new larger crop, however crush margins remained positive, providing support to the domestic soybean prices. In the international markets, soybean world stocks approach 100 million tons for the first time ever. The soy meal demand is lower than expected in several exporting and producing countries resulting in downward revision of soy meal consumption and soybean crush estimates in the USA and Argentina.



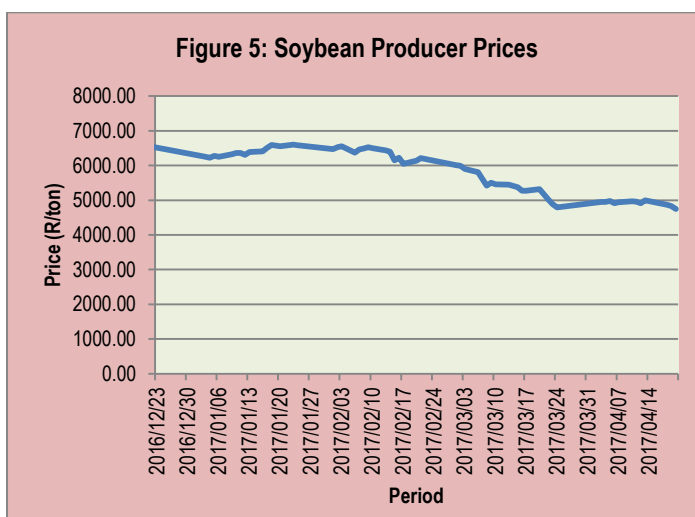
Source: SAFEX, accessed from SAGIS

3.3 Wheat



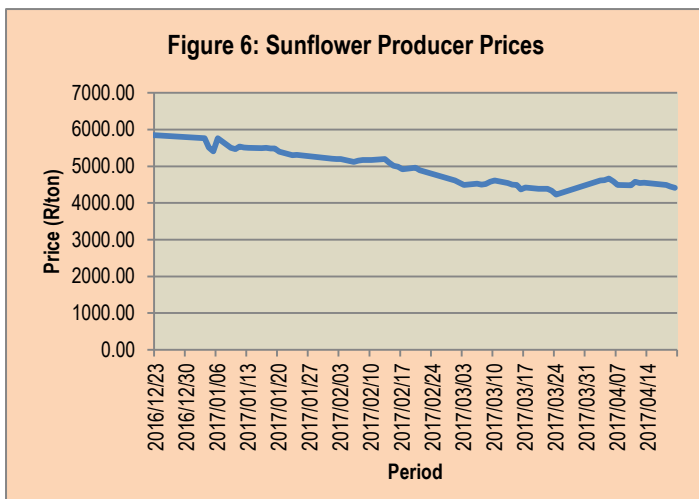
Source: SAFEX, accessed from SAGIS

3.4 Soya Beans



Source: SAFEX, accessed from SAGIS

3.5 Sunflower



Source: SAFEX, accessed from SAGIS

Figure 6 shows that the opening price for 2016/17 marketing season was slightly below R6 000/ton in December 2016. Figure 6 displayed a decreasing trend in the producer price for sunflower with a lowest price of R4 230/ton and the highest price of R5 850/ton attained during the period under review. Sunflower prices have increased a little in January 2017 and begin to decline onwards.

In overall, the local market for Sunflower closed relatively lower in April 2017, about 28% lower as compared to the opening price reached in December 2016. The producer price for both soybean and sunflower declined considerably over the period under review, with soybean trading higher as compared to sunflower. In overall, South Africa remains a net importer of oilseeds and oilcake.

1.

3.6 Futures Prices

Futures prices for maize, wheat, soy beans, sorghum and sunflower are shown in Table 1 below.

Table 1: Future prices for maize, wheat, soybean and sunflower

Commodity	Future Prices (2017/06/20) (R/T)			
	May-17	July-17	Sep- 17	Dec-17
White maize	1892	1754 ▼	1815 ▲	1881 ▲
Yellow maize	1964	1887 ▼	1940 ▲	2007 ▲
Wheat	4088	4423 ▲	4269 ▼	4168 ▼
Sunflower	4475	4557 ▲	4685 ▲	4877 ▲
Soybeans	5007	4648 ▼	4740 ▲	4851 ▲
Sorghum	2975	2700 ▼	3000 ▲	3174 ▲

Source: SAGIS

As of 20 June 2017, the contracts for white and yellow maize traded at R1 892/ton and R1 964/ton, respectively. Both white and yellow maize traded slightly lower during May 2017 as compared to March 2017 contracts. Wheat market opened higher, with May 2017 contracts trading at an average of R4 088/ton. This trend showed great price stability in the local market. In overall, the local wheat market traded relatively stronger with the current prices. High wheat producer prices are due to lower supply in the domestic market, which results in importation of wheat to match the local demand.

The contracts for sunflower show improving trends, trading at R4 475/ton in May 2017. Contracts of sunflower trade continued to show great stabilities until R4 877/ton attained in December 2017. Contracts for soybean producer price opened higher above R5 000/ton in May 2017, about 6 percent lower when compared to the opening in March 2017. The producer price for soybean remained under pressure below R5 000/ton for the entire period, with the lowest price of R4 648 attained in July 2017. This may be due to the large stocks in the global market and the arrival of large crop in the domestic market, putting more pressure on the prices.

Future contracts for sorghum opened lower at R2 975/ton in May 2017 as compared to the opening in March 2017. However the producer price for sorghum show some increasing trends with the lowest price of R2 700/ton attained in July 2017. The sorghum producer prices closed higher at R3 174 during December 2017.

4.1 World Prices

Wheat: Average prices reacted negatively during April 2017, pressured by heavy old stocks and tentative expectations for another good global harvest in 2017/18. However, with the market focus mainly on weather developments, some concerns emerged about less than ideal conditions for crops in certain regions. The market participants monitored prolonged dryness in parts of the EU, especially in France, while wet soils hindered the early stages of spring sowing in the US and Canada. Despite expectations for a good harvest, importers in India remained active buyers amid attractive international prices even after the recent reinstatement of an import duty. Other recent purchases of wheat were reported for milling in Algeria and feed makers in the Republic of Korea.

Maize: Average world maize export values were fractionally lower during April 2017, with most key markets trading in a narrow range. Prices at the US Gulf dropped for a second successive month, weighed by heavy supplies and prospects for much stiffer export competition from South America in the second half of 2017. Overall losses were capped by speculation about possible Midwest seeding delays. Slow country movement contributed to advances in Argentina, where farmers were said to be prioritising the soybean harvest. Partly reflecting currency movements, old crop values in the Black Sea region remained firm.

Soybeans: The world soybean markets retreated significantly during April, the IGC's daily Index down by 6 percent, as prospects for heavy global availabilities weighed on sentiment. In Brazil, where conditions were mostly favourable, harvesting of what is set to be the biggest ever crop moved into its final stages. Prices were also pressured by survey-based data indicating that US farmers are planning to significantly boost plantings for the 2017/18 outturn. However, declines were trimmed by good international demand, reluctant selling by growers in Brazil and earlier concerns about the impact of adverse weather on mature fields in core areas of Argentina.

4.2 Policy Developments

Wheat

- On 19 April 2017, the Ministry of Agriculture in Brazil reduced the minimum wheat prices of all wheat types by 3.6 percent for the 2017/18 crop.
- **Across the board** On 9 April, the Ministry of Agriculture in India launched an initiative to increase and diversify marketable surplus; facilitate the allocation of loans to small-scale farmers; and encourage investment in market infrastructure from public and private sectors.

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. **Agricultural Marketing Information System**
www.amis-outlook.org
4. **Group on Earth Observations Global Agricultural Monitoring Initiative**
www.geoglam-crop-monitor.com
5. **National Agricultural Marketing Council**
www.namc.co.za
6. **Barclays Africa Group Limited- ABSA Agri-business**
www.absa.co.za

For more information contact:

Director: Marketing Tel: (012) 319 8455 Fax: (012) 319 8131 E-mail: MogalaM@daff.gov.za	Deputy Director: Commodity Marketing Tel: (012) 319 8081 Fax: (012) 319 8077 E-mail: ElvisNak@daff.gov.za	Senior Agricultural Economist: Field Crops Marketing Tel: (012) 319 8071 Fax: (012) 319 8077 E-mail: MolahlegiM@daff.gov.za
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