



agriculture, forestry & fisheries

Department:
Agriculture, Forestry and Fisheries
REPUBLIC OF SOUTH AFRICA

Grain Markets Early Warning Report



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Overview

- The supply and demand prospects continue to point to a generally comfortable market situation for all AMIS crops in 2017/18, with the latest production forecasts indicating higher global outputs than earlier anticipated, especially for wheat. Given the large carryovers from the previous season, total supply in 2017/18 is likely to prove more than sufficient to meet projected demand. The ending wheat stocks are expected to hit a new high while maize inventories would only fall marginally below their already record opening levels. Soybean market would also remain well supplied if current production forecasts materialize.
- Maize: the global corn market reached a bottom and prices trade sideways. Harvesting already started in the USA. Locally, the maize producers need to consider lowering their plantings in the coming season as the rate of exports are too low to make a significant dent in the maize carry out by the end of April 2018. In order to continue producing maize at profitable levels, producers will have to ration supply in order not to harm the present price levels.
- Soybean: the crop prospects have declined in some major producing regions in South America, particularly in Brazil and Paraguay where too dry conditions are experienced in some key soybean growing regions. World soya meal production is forecasted to reach a record 233.8 million ton in 2017/18, and this may add to the ample supplies, lengthening large stocks period and accompanying lower prices.
- Due to perceptions that favour imported soya meal consumption above local soya meal, domestic soya meal consumption demand showed a decline between March and July 2017, even with the bumper crop. With the massive soybean harvest the domestic market had in 2017, the local crushing industry is absorbing as much as it can for the current demand.

Table of Contents

| | |
|--|----|
| Overview | 1 |
| 1. Domestic Supply-Demand Outlook..... | 2 |
| 1.1 Maize..... | 2 |
| 1.2 Sorghum | 2 |
| 1.3 Wheat..... | 2 |
| 1.4 Soya Beans..... | 2 |
| 1.5 Sunflower..... | 3 |
| 2. Crop Conditions in Selected Countries | 4 |
| 3.1 Maize..... | 5 |
| 3.2 Sorghum | 5 |
| 3. Commodity Prices | 5 |
| 3.4 Soya Beans..... | 6 |
| 3.5 Sunflower..... | 6 |
| 3.6 Futures Prices | 7 |
| 4. Global Market Outlook | 9 |
| 5. Acknowledgements..... | 10 |

1. Domestic Supply-Demand Outlook

1.1 Maize

| Marketing Season: April to May | Actual for 2015/16 | Final for 2016/17 (Sep 2017) | Projection for 2017/18 (Sep 2017) |
|--------------------------------|--------------------|------------------------------|-----------------------------------|
| Production | 9 955 000 | 7 778 500 | 16 744 000 |
| Opening Stocks | 2 073 635 | 2 471 067 | 1 094 638 |
| Total Supply | 13 884 507 | 12 221 827 | 17 082 445 |
| Total Demand | 11 413 440 | 11 127 189 | 12 633 000 |
| Closing Stocks | 2 471 067 | 1 094 638 | 4 449 445 |
| Days' stock | 88 | 41 | 161 |

Source: NAMC, Supply and Demand Estimates Committee

1.2 Sorghum

| Marketing Season: March to April | Actual for 2015/16 | Final for 2016/17 (Sep 2017) | Projection for 2017/18 (Sep 2017) |
|----------------------------------|--------------------|------------------------------|-----------------------------------|
| Production | 88 500 | 70 500 | 151 335 |
| Opening Stocks | 121 812 | 83 142 | 35 238 |
| Total Supply | 278 212 | 226 677 | 244 073 |
| Total Demand | 195 070 | 191 439 | 193 000 |
| Closing Stocks | 83 142 | 35 238 | 51 073 |
| Days' stock | 190 | 76 | 111 |

Source: NAMC, Supply and Demand Estimates Committee

1.3 Wheat

| Marketing Season: October to Sept | Actual for 2015/16 | Projection for 2016/17 (Sep 2017) | Projection for 2016/17 (Sep 2017) |
|-----------------------------------|--------------------|-----------------------------------|-----------------------------------|
| Production | 1 440 000 | 1 910 000 | 1 716 650 |
| Opening Stocks | 596 823 | 827 232 | 357 932 |
| Total Supply | 4 075 147 | 3 650 232 | 3 849 582 |
| Total Demand | 3 247 915 | 3 292 300 | 3 259 500 |
| Closing Stocks | 827 232 | 357 932 | 590 082 |
| Days' stock | 96 | 41 | 68 |

Source: NAMC, Supply and Demand Estimates Committee

1.4 Soya Beans

| Marketing Season: March to February | Actual for 2015/16 | Final for 2016/17 (Sep 2017) | Projection for 2017/18 (Sep 2017) |
|-------------------------------------|--------------------|------------------------------|-----------------------------------|
| Production | 1 070 000 | 742 000 | 1 316 370 |
| Opening Stocks | 63 704 | 89 128 | 84 792 |
| Total Supply | 1 241 340 | 1 075 008 | 1 397 162 |
| Total Demand | 1 152 212 | 990 216 | 1 160 700 |
| Closing Stocks | 89 128 | 84 792 | 236 462 |
| Days' stock | 29 | 32 | 77 |

Source: NAMC, Supply and Demand Estimates Committee

Estimates Committee (CEC) in September 2017, the area estimated for commercial maize production was at 2.628 million hectares for 2017/18 marketing season. Maize projections for September 2017/18 marketing season were at 16.744 million tons, showing an increase of 68% from the 2015/16's harvest.

- According to the latest Crop Estimates Committee's 7th forecast, the country is expecting a commercial maize crop at a whopping 16.744 million tons. This is the largest maize crop to be ever produced by South Africa. This estimate is over 100% when compared to the final crop attained in 2016/17 marketing season. This high yields are attained despite the country's recovery from drought and outbreak of Fallen Army Worm.
- **Sorghum** production volume for September 2017/18 marketing season is projected to slightly decrease as compared to 153 480 tons attained in June 2017.
- The intended plantings of sorghum are expected to decrease by 13% as compared to the previous season, putting much pressure on the surplus. 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 September 2017 have increased as compared to the previous projection of 35 768 tons projected in June 2017. The days' stock has slightly increased from 72 days in June 2017 to 111 days in September 2017.
- **Wheat** production volumes are projected to decline by 10.0% in September 2017 season compared to the projected volume in June 2017. Wheat supply is projected to decrease by 2.7% in September 2017 as compared to June 2017. This is mainly attributed to unfavourable weather conditions with limited rains in the major production zones. On the other hand, the demand for wheat is also projected to slightly decline by 0.6%, driven by higher prices in the local markets.
- The closing stock for wheat has significantly increased by over 100% compared to June 2017 projections.
- Production volume of **soy beans** is projected to increase by 6.7% in September 2017/18 season when compared to the projected volume in June 2017, whereas the 2015/16 final crop is about 19% higher than the production forecast for September 2017/18.

- **Maize:** The projected maize crop for September 2017/18 is estimated at 16.744 million tons, which is 7% more when compared to June 2017 forecast. According to the report released by the Crop

- Soy beans supply for September 2017/18 is projected to increase by 8.3% in comparison to June 2017/18 forecast.

1.5 Sunflower

| Marketing Season: April to May | Actual for 2015/16 | Final for 2016/17 (Sep 2017) | Projection 2017/18 (Sep 2017) |
|--------------------------------|--------------------|------------------------------|-------------------------------|
| Production | 663 000 | 755 000 | 874 595 |
| Opening Stocks | 92 927 | 45 867 | 163 086 |
| Total Supply | 802 557 | 880 392 | 1 046 181 |
| Total Demand | 756 690 | 717 306 | 819 100 |
| Closing Stocks | 45867 | 163 086 | 227 081 |
| Days' stock | 22 | 84 | 102 |

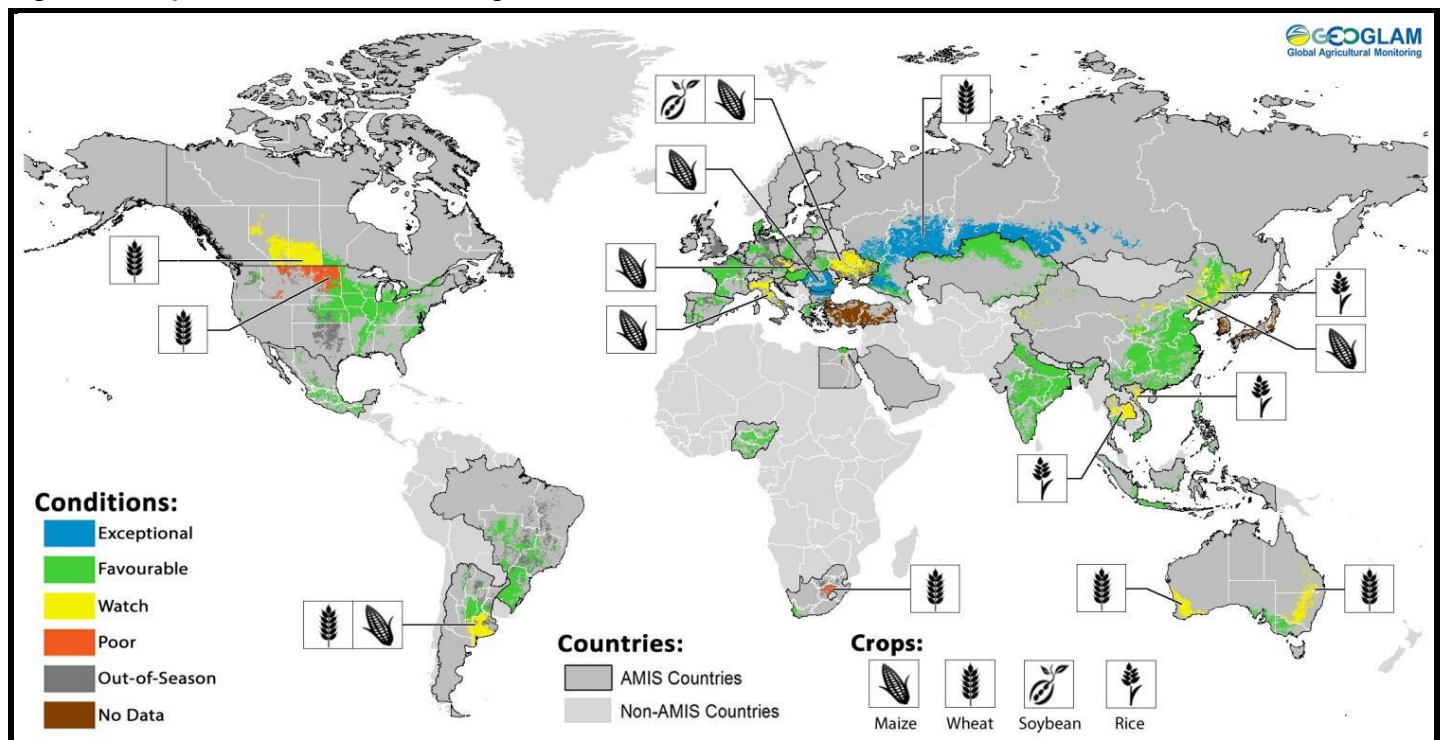
Source: NAMC, Supply and Demand Estimates Committee

- The total demand for September 2017/18 is also projected to go up by 0.7% compared to the final demand during 2015/16 season.
- **Sunflower** production volume for September 2017/18 marketing season was projected to slightly increase as compared to the projections in June 2017/18. The final production volumes for 2015/16 were 663 000 tons and it was about 24% less than the production volumes forecasted for September 2017/18.
- The total supply for sunflower seed increased by 2.3%, whereas the total demand decreased by 6% respectively in September 2017 as compared to June 2017 projections.
- The final closing stock for sunflower is projected to be about 51% higher for September 2017/18, when compared to 150 356 tons projected for June 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 September 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 – In the northern hemisphere, conditions remain mixed as winter wheat harvest completes, whereas the spring wheat harvest begins. In the **EU**, rains in western and northern Europe hampered harvesting and raised quality concerns, however overall yields are in line with the five year average as harvest is almost complete. In the **Russian Federation**, conditions are generally favourable for both the winter wheat and spring wheat, with the winter wheat harvest nearing completion. In **Kazakhstan**, conditions are generally favourable for spring wheat with the exception of dry conditions in Akmola, a main producing area. In **China**, spring wheat is under good conditions as harvest begins. In the **US**, harvest of spring wheat is wrapping up under favourable conditions, whereas production in western areas is significantly reduced due to drought. In **Canada**, conditions are mixed as dry conditions in the Southern Prairies are causing concern for spring wheat, with average winter wheat attained in Ontario under cool wet season. In **Australia**, conditions have improved across southern production states with recent rainfall. However, dry conditions persist across the northern areas where production is expected to be significantly affected. In **Argentina**, conditions are generally favourable as sowing is almost done. However new rains continue to delay final sowing in the southern areas.

Maize - In the southern hemisphere, conditions continue to be generally favourable as harvest wraps up in Argentina and Brazil. In **Brazil**, the harvest of summer planted maize is closing under favourable conditions, with a recorded increase in production due to increased yields and area planted. In the **Argentina**, conditions are generally favourable as harvest wraps up, although high soil moisture and high grain moisture are delaying some areas. In the **US**, conditions are favourable with good yields prospects. In **Canada**, cool wet weather persists, which continues to slow crop development in the main producing province of Ontario. In **Mexico**, conditions are favourable for the start of the spring summer crop as rains have begun across the country. In **China**, conditions are generally favourable for both spring and summer planted maize. In the **EU**, conditions are generally favourable as rains mitigated heat stress in Eastern Europe, although the

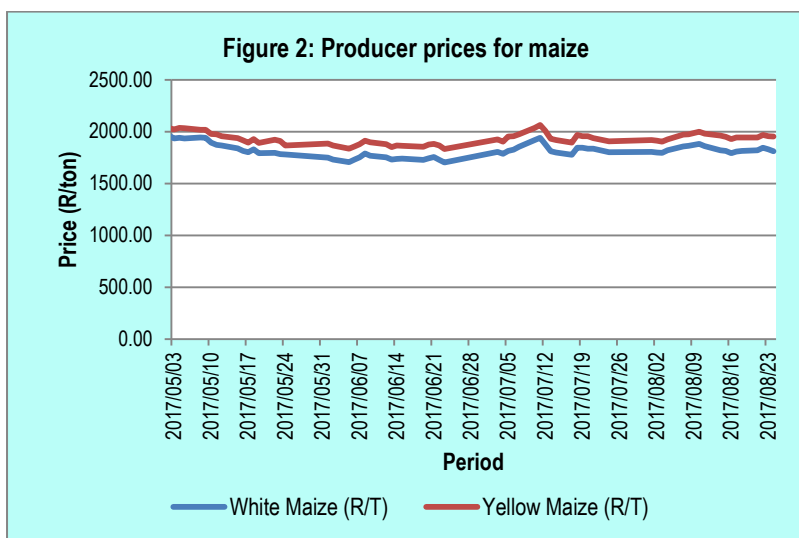
¹ The G20 Agricultural Marketing Information System. South Africa is a member of AMIS.

southern Europe still affected by a drought that potentially damaged yields. In **India**, conditions are favourable for the Kharif crop as good soil moisture level positively impacts the crop development.

Soybeans - In the northern hemisphere, generally favourable conditions persist with the exception of dry conditions in Ukraine, whereas in the southern hemisphere, new crop plantings are still to begin. In the **US**, conditions are favourable with improvement in the Dakotas and the Eastern Corn Belt. In **Canada**, conditions are mixed as cool wet weather continues to slow crop development in the main producing province of Ontario. In China, conditions are generally favourable for the crop in the flowering stage. In India, conditions are generally favourable for the crop in the vegetative stage. In the Ukraine, conditions are less than favourable as lack of rain and rapid drying of the soil affected the crop.

3. Commodity Prices

3.1 Maize



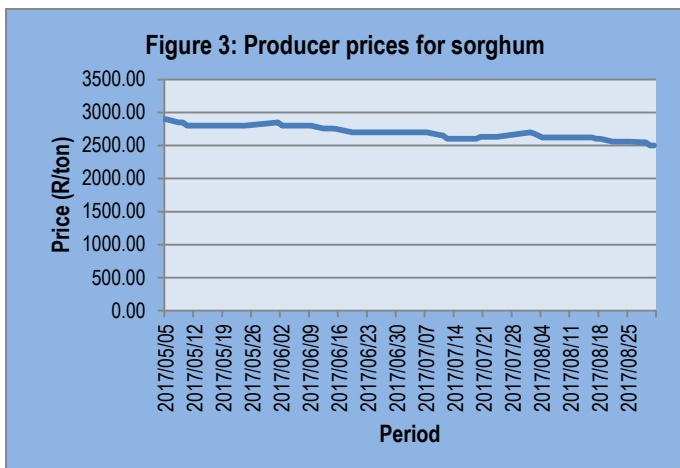
Source: SAFEX, accessed from SAGIS

Figure 2 above show the producer prices for maize starting from May 2016 to August 2017 marketing season. The figure indicates that producer prices for white and yellow maize came in under pressure trading lower for all contract months. The price for both white and yellow maize posted modest gains throughout the period under analysis, however during July 2017 both prices somehow showed slight increases. Producer prices for both yellow and white maize continued to decrease with minimal maize prices below R2 000/ton recorded throughout the period.

The price for white maize on moved slightly lower on average, whereas the price for yellow maize traded slightly higher above white maize throughout the period under review, from May to August 2017. Maize harvest is currently underway in the country, with estimated record high crop the country has ever produced. Ample supply of maize from both the domestic and international markets will augment any upward pressure on maize prices. Also the slow rate of exports may subsequently lead to higher carry-over stocks of maize in the domestic market, thus causing prices to remain sideways in the long term. 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..

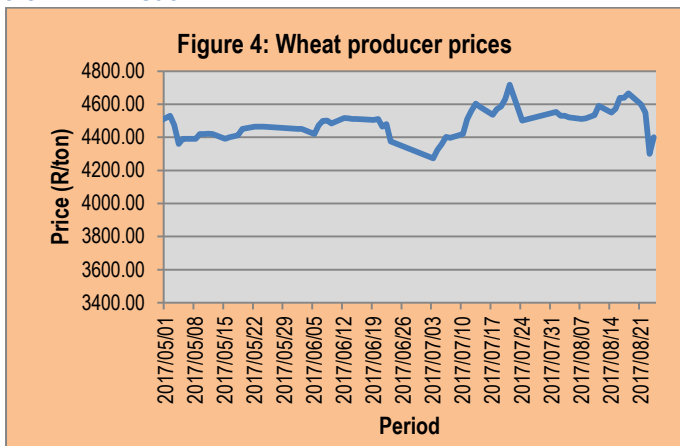
3.2 Sorghum

Figure 3 shows producer prices for sorghum opening from May 2017 until August 2017. The producer prices for sorghum fluctuated considerably throughout the period under review. Sorghum prices opened higher at R2 900/ton from May 2017 to August 2017 and this was followed by a further decrease in producer prices until the lowest price was attained in August 2017, closing at R2 500/ton.



Source: SAFEX, accessed from SAGIS

3.3 Wheat

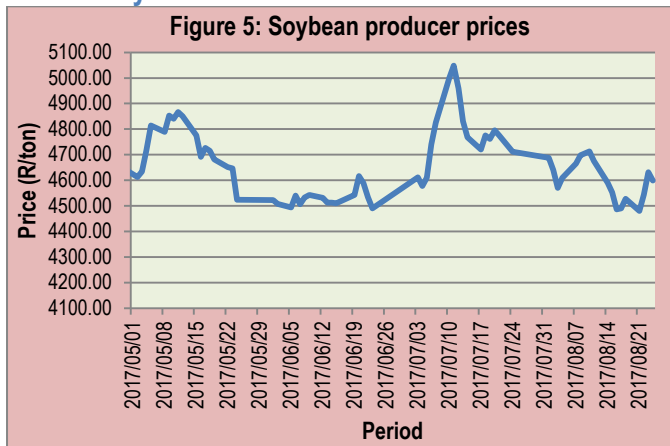


Source: SAFEX, accessed from SAGIS

Figure 4 shows wheat producer prices from May 2017 to August 2017. The Figure indicates that the wheat producer price opened slightly higher above R4 500/ton during May 2017. The price showed mixed, but mostly higher trends throughout the period. In overall, the local wheat market traded relatively stable at the current prices, ranging from R4 500/ton up to R4 666/ton. This is due to the fact that the local wheat industry was laden with lots of strain due to below average rainfall and late plantings, which lowered harvests. Globally, wheat prices are expected to remain under pressure well into the next year due to available large global stocks and great crop prospects from the Black Sea.

Figure 5 shows that the 2016/17 marketing season opening price for soybeans was just above R4 500/ton in May 2017. 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 May 2017. The price for soybean ranged between R4 400/ton and R5 048/ton over the period under consideration. The figure shows that the price of soybean remained relatively unstable over the period, from May 2017 to August 2017. However this was followed by a steady drop in producer prices at R4 490/ton attained in June 2017. The figure indicate that during July 2017, soybean producer prices reached a peak at R5 048/ton. The producer price of soybean closed slightly higher above R4 500/ton during August 2017.

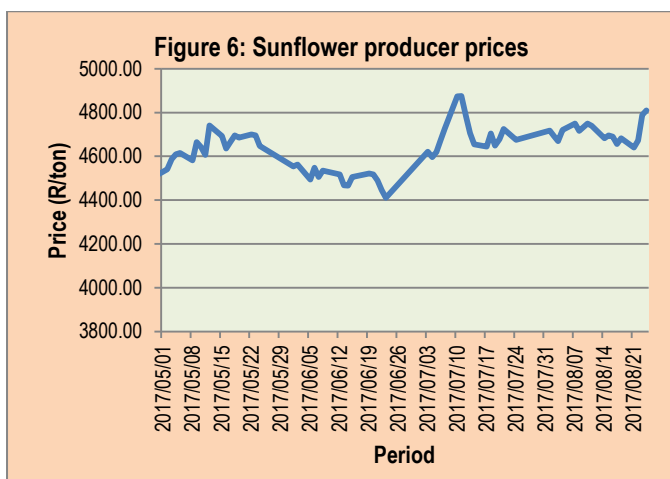
3.4 Soya Beans



Source: SAFEX, accessed from SAGIS

The local sunflower seed and soybean prices traded higher following bullish international prices after unfavourable weather in the Ukraine underpinned production in July 2017. World soybean supplies are likely to remain abundant in 2017/18 despite the anticipated world production drop. The possible factors that remain to be seen supporting prices is the deteriorating weather in the major palm oil and oil seed producing countries as well as the Chinese palm oil and soya oil demand purchase on the world market.

3.5 Sunflower



Source: SAFEX, accessed from SAGIS

Figure 6 shows that sunflower seed opening price for 2017/18 marketing season was below R5 000/ton throughout the period under review. The producer price for sunflower seed posted some major fluctuations with a lowest price of R4 410/ton and the highest price of R4 875/ton attained during the period under review. Sunflower seed prices have marginally increased in July 2017 and begin to show unstable shifts onwards.

In overall, the local market for Sunflower closed relatively higher in August 2017, about 5.9% higher as compared to the opening price reached in May 2017. The producer

price for both soybean and sunflower depicted similar trends throughout the period, with both prices reaching a peak in July 2017. However, the price for soybean traded slightly higher above the sunflower producer price.

Despite the fact that South Africa remains a net importer of oilseeds and oilcake, the production of sunflower seed has been increased in 2016, by about 12.9% as compared to the previous season, as the positive crushing margins still provide underlying support to the sector. Globally, the upward sunflower seed production estimates have been made for the European Union at 8.4 million tons and Russia at 11.6 million tons. This indicate that the 2017/18 world production of sunflower seed will be higher than initially expected, with only 0.8 million tons below the huge 2016/17 crop.

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 (2017/09/26) (R/T) | | | |
|--------------|----------------------------------|---------|--------|--------|
| | July-17 | Sep- 17 | Dec-17 | Mar-18 |
| White maize | 1754 | 1815 ▲ | 1881 ▲ | 1945 ▲ |
| Yellow maize | 1887 | 1940 ▲ | 2007 ▲ | 2062 ▲ |
| Wheat | 4423 | 4269 ▼ | 4168 ▼ | 4059 ▼ |
| Sunflower | 4557 | 4685 ▲ | 4877 ▲ | 4915 ▲ |
| Soybeans | 4648 | 4740 ▲ | 4851 ▲ | 4860 ▲ |
| Sorghum | 2700 | 3000 ▲ | 3174 ▲ | 2850 ▼ |

Source: SAGIS

As of 26 September 2017, the contracts for white and yellow maize traded at R1 754/ton and R1 887/ton, respectively. Both white and yellow maize traded slightly lower during July 2017 as compared to May 2017 contracts. Wheat market opened higher, with July 2017 contracts trading at R4 423/ton. Wheat price trends showed greater stability in the local market. In overall, the local wheat market traded relatively stronger with the current prices fetching over R4 000/ton. High wheat producer prices are due to minimal production and supply in the domestic market, which then results in the importation of wheat to meet the local demand.

The contracts for sunflower seed show improving trends, trading at R4 557/ton in July 2017. Contracts of sunflower seed trade continued to show great stabilities until R4 915/ton attained in Mar 2018. Contracts for soybean producer price opened higher above R4 500/ton in July 2017, about 10 percent lower when compared to the opening in May 2017. The producer price for soybean remained stable above R4 500/ton for the entire period, with the lowest price of R4 648 attained during the opening in July 2017. Although this soybean futures posted losses for all contract months as compared to the price attained in May 2017.

Future contracts for sorghum opened lower at R2 700/ton in July 2017 as compared to the opening in May 2017. However the producer price for sorghum shows some unstable movements with the lowest price attained during the opening in July 2017. The sorghum producer prices closed slightly higher than the opening price at R2 850 during March 2018.

4. Global Market Outlook

4.1 World Prices

Wheat: While some price support continued to come from concerns about potentially tight supplies of higher grade milling wheats, especially in North America, this was overshadowed by increasing confidence that overall world wheat availabilities would remain heavy. Escalating expectations for harvests in the Black Sea region were a particularly bearish influence, with many forecasts for Russia's crop rising above a record 80 million tonnes. While potential logistical constraints for Black Sea exports were highlighted, traders at other origins anticipated strong competition. Amid competitive prices, the Russian Federation was generally seen likely to be the world's largest wheat exporter in 2017/18..

Maize: A weaker tone prevailed across world maize markets in August against a backdrop of ample global availabilities. With advances in Brazil outweighed by declines at other main origins, the IGC-GOI maize sub index was down by 2%. The US quotations eased on improved domestic production prospects and robust competition for export business from South America. However, hurricane related logistical problems at US Gulf ports helped to limit overall declines. With export prices in South America underpinned by reluctant farmer selling, the price spread between Brazil and the US narrowed over the month.

Soybeans: As pressure from beneficial Midwest crop conditions and heavy South American availabilities outweighed light support from firmer export demand, the IGC GOI soybean sub index fell by 3%. Improving production prospects in the US were highlighted by better weekly crop condition ratings. However, losses were capped by strengthening export interest, especially from buyer in China. Reflecting falls in the US, coupled with pressure from a large local exportable surplus, prices in Brazil also weakened, despite support at times from continued slow farmer selling, robust shipments and firmer internal transport costs.

4.2 Policy Developments

Wheat

- The Ministry of supply in Egypt announced the elimination of flour subsidies used by bakeries producing subsidised bread. Effective from 1 August 2017, the reform aims at curtailing smuggling and corruption. Subsidies are now granted to the loaf of bread instead of benefiting the whole supply chain.
- **Across the board** On 11 July, the Ministries of Agriculture of China and Kazakhstan agreed to strengthen trade and cooperation in the area of agriculture, which include Kazakhstan's commitment to supply 200 000 tonnes of grain and 100 000 tonnes of oil crops to China.

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**
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