

## Monthly grain market report



Marketing and Agri-Business Section

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PERIOD UNDER REVIEW: December 2015

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### 1. SOUTH AFRICAN GRAIN MARKET

On 31 December 2015, the MTM price for wheat to be delivered in January 2016 amounted to R 4 923 per ton.

<u>MTM-Prices (31/12/2015) - expressed in Rand/MT</u>							Month end R/MT (31/12/14)	Year-on- Year Change (%)	Month end R/MT (30/10/15)	Month end R/MT (30/11/15)
Commodity/ Delivery Date	Jan-16	Feb-16	Mar-16	May-16	Jul-16	Sept-16	Jan-15	Jan-15 vs. Jan-16	Nov-15	Dec-15
<b>Wheat (RFTN)</b>	4923	4901	4974	4980	5024	-	3911	↑ 25.6%	4266	4563
<b>White maize</b>	4661	4630	4661	4560	4564	4564	2121	↑ 119.8%	3094	3430
<b>Yellow maize</b>	3897	3737	3677	3622	3597	3602	2140	↑ 82.1%	2940	3430
<b>Sunflower</b>	6800	-	6930	6585	6521	-	5155	↑ 31.9%	6740	7040
<b>Soya</b>	6500	-	6410	6350	6200	-	5780	↑ 12.5%	5675	6015
<b>Sorghum</b>	-	-	3420	-	3350	-	2330 (March 2015)	↑ 46.8%	3040 (Dec 2015)	3190

Table 1: Mark-to-market prices for the summer crops and winter cereals as traded on SAFEX  
Source: SAFEX (2014 & 2015)

#### **Market future prices, production and production area estimates**

Grain market prices has experienced immense upward pressure during the past marketing season in 2015/16, especially maize prices which has respectively increased by 119.8% y/y and 82.1% y/y for white

and yellow maize, compared to the same period in the previous year. Since white maize are used for human consumption purposes, and yellow maize mostly in animal feed, the price changes provides a relative indication of the ripple effects of maize as agricultural inputs in both the primary agriculture sector and the consumer market (NAMC, 2015).

Domestic grain price escalations can mainly be ascribed to persisting drought conditions caused by the El Nino weather pattern, which is reported to be the worst in 23 years (Bloomenberg & DAFF, 2015). South Africa is the continents largest grain producer, and thus crop losses in the main producing areas poses food vulnerability beyond our national borders. Furthermore, a large part of the maize-producing areas with particular reference to the western parts (i.e. Free State and North West which produced 2/3 in the 2014 season) have remained drier than the eastern parts (i.e. Mpumalanga). Given the state of affairs, producers could not make the necessary progress with new planting within the optimal planting window as intended compared to the previous season, due to below average rainfall (Bloomenberg, 2015). Future price changes in table 1, provides a fair indication of the degree of the effects of the shortage of white and yellow maize within the domestic market. In addition, the weakening of the local currency is also attributing to higher prices in the domestic grain commodity market as the sourcing thereof are more attractive compared to the importation of maize. However sourcing of maize is limited given the current domestic supply restrictions, which is evidently noticeable in the 11-year high maize import level which was recorded at more than 93,000 at the end of November/December 2015 (Bloomenberg & SAGIS, 2015).

Drought conditions also lead to crop losses within the wheat production areas, such as the Free State and the Swartland area in the Western Cape. The Western Cape recorded slightly higher yields, given the state of affairs within the wheat industry. The aforementioned factors impacted on wheat future market prices to increase by 25.6% y/y compared the same period last year (refer to table 1) (SAGIS & Bloomenberg, 2015).

#### **Winter cereals: 2015/16 marketing season**

The 5<sup>th</sup> winter crop estimate released on 15 December 2015, indicated an 189,785 ton or 11% reduction in the overall wheat harvest compared to the 1<sup>st</sup> wheat crop estimate for the 2015/16 production cycle estimated at 1,501 million tons. The adjustment translates to an expected decline of 248,810 tons or 14% y/y, compared to the 2014 final crop harvested (SAGIS, 2015).

The main wheat producing regions are estimated to have the following respective crop losses compared to the 2014 harvest season: Western Cape at 21%, Free State at 15% and the Northern Cape at 9%. As mentioned the Western Cape wheat producers were able to deliver improved yields in relation to previous years, and hence the crop estimate for the Province has slightly been adjusted upwards by 2.2% compared to the previous crop estimate that took place in November 2015. On the contrary, both the Free State and the Northern Cape's crop estimates have been adjusted downward further by 7.14% and 1.37% respectively – which is mainly due to the persisting drought, in the absence of no weather changes which has brought about additional crop losses (SAGIS, 2015).

Canola crop estimates has also been adjusted downward by 16% or 19,500 tons compared to the previous harvest. A 3.7% or 10,500 ton decline was reported at the 5<sup>th</sup> crop estimate, which accounted to a total crop estimate of 78,050 tons (SAGIS, 2015).

Malting barley has however had more positive crop prospects, in that the 5<sup>th</sup> crop estimate have been adjusted upward by 18% or 55,487 tons, compared to the 2014 final crop and 23,454 tons compared to the 1<sup>st</sup> crop estimate which brought about total crop prospects of 357,487 tons (SAGIS, 2015).

## Producer deliveries

### Wheat

Progressive producer deliveries for wheat amounted to 1,276 million tonnes for the 2015/16 marketing season, which accounts for 85% of the crop estimate as at 15 December 2015. For the weeks ranging from 28 November 2015 till 1 January 2016, a total of 281,921 tonnes was delivered. A substantial downward adjustment of 33,282 tons was recorded for the week ending 4 December 2015.

### Maize

The progressive maize producer deliveries yielded 8,718 million tonnes for the 2015/16 marketing season up till 1 January 2016 of which 49.5% was derived from white maize and 50.5% from yellow maize. In the period stemming from 28 November 2015 till 1 January 2016, a total of 63,781 tonnes was delivered of which half thereof was for white maize, whilst the rest was yellow maize.

### Exports, imports and re-exports

This section pertains to the trade of wheat for the period from 28/11/2015 to 01/01/2016:

Progressive wheat exports for 2015/16	19,517	Progressive wheat imports for 2015/16	506,716
Wheat exports during the reporting period : (28/11/15 – 01/01/2016)	3,047	Wheat imports during the reporting period : (28/11/15 – 01/01/2016)	42,112 of which 61% or 25,862 tonnes was for RSA and rest for SADC countries
<b>Importing countries</b>	<b>Share in RSA wheat exports</b>	<b>Supplying countries</b>	<b>Share in RSA wheat imports</b>
Botswana	19.4%	<sup>1</sup> Ukraine	100%
Namibia	8.4%	<sup>1</sup> Imports were shipped through the following ports: 49% thereof was shipped through the Duran harbour, 32% via East London and 19% via Port Elizabeth.	
Swaziland	9.8%		
Zimbabwe	62.4%		

Wheat imports have been estimated at approximately 2 million tonnes for the 2015/16 season, to ensure that the demand for human and animal consumption, end consumers and the reproduction of seed are met (NAMC, 2015). Hence the current level of wheat imports are expected to rise to make provision for the shortage in the domestic market, in view of the anticipated 1, 5 million tonnes of producer deliveries as well the opening stock of approximately 600,000 tonnes brought forward on 1 October 2015.

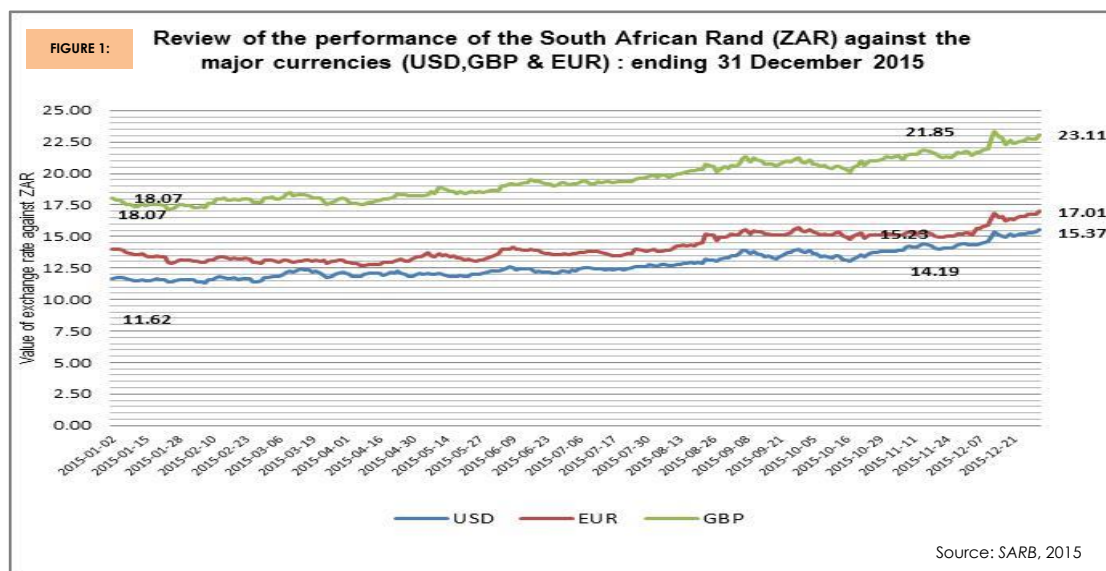
This section pertains to the trade of maize for the period from 28/11/2015 to 01/01/2016:

Progressive maize exports for 2015/16	White maize: 292,347	Yellow maize: 146,542	Progressive maize imports for 2015/16	White maize: 68,627	Yellow maize: 670,328
Maize exports during the reporting period : (28/11/15 – 01/01/2016)	Yellow maize: 55,172	Yellow maize: 22,278	Maize imports during the reporting period : (28/11/15 – 01/01/2016)	White maize: 352	Yellow maize: 108,584
<b>Importing countries</b>	<b>Share in white maize exports</b>	<b>Share in yellow maize exports</b>	<b>Supplying countries</b>	<b>Share in white maize imports</b>	<b>Share in yellow maize imports</b>
Botswana	42%	27%	Zambia	100%	
Lesotho	14%	4%	<sup>2</sup> Argentina		30%
Mozambique	8%	8%	<sup>2</sup> Brazil		56%
Namibia	24%	21%	<sup>2</sup> Paraguay		14%
Swaziland	12%	32%			
Central African Republic		4%	<sup>2</sup> Imports were shipped through the following ports: 40% via Cape Town, 50% via Durban.		
Republic of Korea		5%			

The total maize demand was tallied to be in range of approximately 11 million tonnes, of which 10,5 million is based on domestic market requirements. Maize imports have been projected to amount to 1,28 million tonnes, given the realisation of producer deliveries of 9,48 million tonnes and consideration of opening stock on 1 May 2015 which amounted to 2,01 million tonnes (NAMC, 2015). However, as mentioned in the week ending on 27 November 2015, 11-year record levels for yellow maize imports of 93,188 tonnes has been reported, in aid of the local shortages (Farmers Weekly, 2015).

## 2. ECONOMY

Figure 1: Review of the performance of the local currency (ZAR) against the US\$, € and £ (ending 30 December 2015).



The Rand continued to depreciate in value, and traded at R 15.31 against the US dollar, R 17.01 against the Euro and R 23.11 against the British Pound on 31 December 2015.

A range of international and domestic factors has influenced the performance of the Rand; and a summary (although not limited) is provided below:

- On the 4<sup>th</sup> of December 2015, South Africa's credit rating (i.e. foreign currency) by Fitch Rating has been downgraded to a "BBB-" from a "BBB", which was mainly ascribed to the persisting low economic growth levels as well as the high level of risk associated with national spending targets which exceeds governments revenue portfolio (SARS & Nedbank, 2015). In addition, Standards and Poor have also downgraded South Africa's economic outlook from stable to negative (Nedbank, 2015). In addition, the lower GDP growth prospects, persisting electricity shortages, escalating labour disputes, and continued weak business performance was amongst the main reasons brought to the fore in respect of the downgrading (SARB, 2015). SARB has however responded on the aforementioned, by reiterating governments commitment "to alleviate the most binding constraints to growth and has set out a series of urgent economic reforms to build a more competitive economy" (SARB, 2015), which will subsequently influence investors' confidence (Nedbank, 2015).
- Stats SA reported that the annual consumer inflation (also known as the CPI - i.e. measuring of price changes in the consumer basket or cost of living) to have increased to 4,8% in November 2015 from 4,7% in October 2015 which remains relatively close to the 3% to 6% target threshold. On the other hand, annual headline producer inflation (also known as the PPI, it measures price changes at producer level) have increased to 4,3% in November 2015 from 4,2% in October 2015 (SARB & Nedbank, 2015).
- The US Federal Reserve Bank has provided an indication that the US Central bank is considering the stabilisation of the policy interest rate, while the European Central Bank indicated that it was willing to implement its extraordinary measures until its policy objectives are met (Nedbank, 2015). On 16

December 2015, the US Federal Reserve Bank: Open Market Committee benchmarked the interest target range for federal funds rate between 0, 25% - 0, 50% from 0%, given the prospect that the economy has stabilised after the 2007-09 financial crisis (Nedbank & US Fed., 2015).

- Chinese inflation rates remain a concern given the low consumer inflation rate which emerged to 1, 6% in December 2015 from 1, 5% in November 2015. On the other hand, the producer inflation rate remained negative and unchanged at -5, 9%. In addition, growth in the Chinese manufacturing sector contracted for the 5<sup>th</sup> consecutive month in December 2015 – and has brought about continuous job losses (Reuters, 2015).

### 3. ENERGY

Brent crude oil prices fell to USD 37 per barrel on average in December 2015, which is the lowest recorded level since December 2008 (Nedbank & OPEC, 2015). Oversupply in the global market are persisting for some time, as more than 2 million barrels are produced in excess per day, which amounts to more than 2% of the world demand (Reuters, 2015).

Hence, this has brought about an 11 year low (refer to figure 2) of below USD 40 per barrel since July 2004 (Reuters, 2015).



The below monthly fuel price adjustment have been effective as from Wednesday, 06 January 2016

Product description	Numeric adjustment (cents per litre)	Price adjustment description	Coast SA (cents per litre)
<b>Petrol 93 ULP</b>	0c	No changes in retail price	1 176.00
<b>Petrol 95 ULP &amp; LRP</b>	3c	cents per litre <b>decrease</b> in retail price	1 194.00
<b>Diesel 0.05% Sulphur</b>	76c	cents per litre <b>decrease</b> in wholesale price	1005.17
<b>Diesel 0.005% Sulphur</b>	78c	cents per litre <b>decrease</b> in wholesale price	1010.57
<b>Illuminating Paraffin (Wholesale)</b>	63c	cents per litre <b>decrease</b> in wholesale price	594.03
<b>Illuminating Paraffin (SMNRP)</b>	84c	cents per litre <b>decrease</b> in the Single Maximum National Retail price (SMNRP)	828.00
<b>Maximum Retail Price for LPGAS</b>	45c	cents per kilogram <b>increase</b> in the maximum retail price	391.66 (refinery gate) LPG for residential customers is derived as per the control sheet per kilometre.

Source: Department of Energy, 31 December 2015

## ACKNOWLEDGMENT OF INFORMATION SOURCES

*In this publication, the below listed information sources are acknowledged:*

- ✚ Bloomberg: [www.bloomberg.com](http://www.bloomberg.com)
- ✚ Crop Estimate Committee (CEC), South Africa: [www.daff.gov.za](http://www.daff.gov.za) ; [www.sagis.org.za](http://www.sagis.org.za) or [www.grainsa.co.za](http://www.grainsa.co.za)
- ✚ Department of Agriculture, Forestry and Fisheries: [www.daff.gov.za](http://www.daff.gov.za)
- ✚ Department of Energy (DoE): [www.energy.gov.za](http://www.energy.gov.za)
- ✚ Grain SA [www.grainsa.co.za](http://www.grainsa.co.za)
- ✚ Nedbank: [www.nedbank.co.za](http://www.nedbank.co.za)
- ✚ Reuters: [www.reuters.com](http://www.reuters.com)
- ✚ SAFEX: [www.jse.co.za/redirects/safex](http://www.jse.co.za/redirects/safex)
- ✚ SAGIS: [www.sagis.org.za](http://www.sagis.org.za)
- ✚ SARB: <http://www.resbank.co.za/>
- ✚ Western Cape Department of Agriculture (Elsenburg): [www.elsenburg.com](http://www.elsenburg.com)

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