

# Agri-Market **INSIGHT**



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*Bringing the Insight of Market Conditions*

*DEC 2015- JAN 2016*

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## **Highlights**

- Ethiopian government has issued an international tender to purchase 70 000 tons of milling wheat, following the drought situation which has affected grains.
- It is projected that Zambia's 2015/2016 maize crop will be a third lower compared to previous year due to severe drought in many parts of the country.
- The US president has decided to suspend the application of duty-free treatment for all Agoa-eligible goods in the agricultural sector from South Africa effective March 15.
- Domestic grains and oilseed prices continue to escalate, driven by dry conditions in 5 major provinces.
- The livestock market is traded mixed, with prices of beef, mutton and poultry increasing from a month ago.
- Prices are expected to increase in the medium term as demand should improve with festive buying.
- The domestic wool market indicator closed at R161.61/kg, 14.3% higher compared to the previous sale.
- The average market indicator closed at R217.89/kg, 3% lower from previous sale in the final sale of the 2015 winter season.
- The average market indicator for the 2015 winter season was 10% higher compared to 2014 of R197.68/kg.
- The fibres market continue to draw support from a weaker Rand exchange.

## **NEWS OF THE MONTH**

### ***Ethiopian govt issues tender for wheat***

Ethiopian government has issued an international tender to purchase 70 000 tons of milling wheat, with a deadline for 5<sup>th</sup> January. Ethiopia has issued a series of wheat tenders in recent months, including a giant 1 million tons purchase in October 2015. The country has been hit by what is described as the worst drought in 50 years, curbing production for wheat, maize and sorghum. It is expected that grain stocks will be depleted by March-April, putting pressure on the 97 million populated nation. The drought situation has also led to livestock losses estimated at 200 000 animals in 2015.



**Zambia's maize crop a third lower**

It is projected that Zambia's 2015/2016 maize crop will be a third lower compared to previous year due to severe drought in many parts of the country. The 2014/15 maize crop is estimated at 2.6 million tons, down by 21% from the year before. It is expected that if current weather conditions continue, production will decline by 30% or more. The key production areas have not had enough rain.

**AGOA talks break down**

The US and SA authorities had agreed on terms for poultry imports, which thus means that SA will be included amongst countries that are part of the AGOA agreement. The terms of agreement mean that US will export 65 000 tons duty free annually to SA. The deadline (of December 2015) passed as the two countries deadlocked over salmonella inspections and country of origin requirements for US beef. The agreement reached by South Africa and the USA on trade related to exports of poultry, beef and pork, is one that the industry do not necessarily agree with the conditions of the deal. CEO of South African Poultry Association reports that the concessions lowered animal health and human health standards to satisfy the U.S

The US president has decided to suspend the application of duty-free treatment for all Agoa-eligible goods in the agricultural sector from South Africa effective March 15. In the interim SA has two months to comply with agreements reached on the 7<sup>th</sup> January in order to open market access for US poultry and other meats to SA. Failure to do so would mean SA will be excluded from the countries benefiting from trade preference under the Agoa bill. By implication this means exports of citrus, macadamia nuts, wine, and other agricultural products would attract tariffs, making SA products somewhat uncompetitive.

**Machinery sales take a further dip**

Tractor and combined harvester sales declined by 28.5% and 37.5% respectively in December compared to a year ago. Year-to-date sales for 2015 show that sales are down by 12.2% and 36.6% for tractors and combined harvesters respectively. Market sentiments in the grain and oilseed industry indicate plantings for the 2015/16 summer crop season will be lower on the back of drought. This will have an impact on the agricultural machinery industry, slashing sales further in 2016.

**Table 1: Agricultural Machinery Sale**

	Dec-2015	Dec-2014	% Change	Year-to-date 2015	Year-to-date 2014	% Change
<b>Tractors</b>	246	344	-28.5	5 673	6 460	-12.2
<b>Combine Harvesters</b>	5	8	-37.5	211	333	-36.6

Source: South African Agricultural Machinery Association

**SA to import 5 million tons of maize**

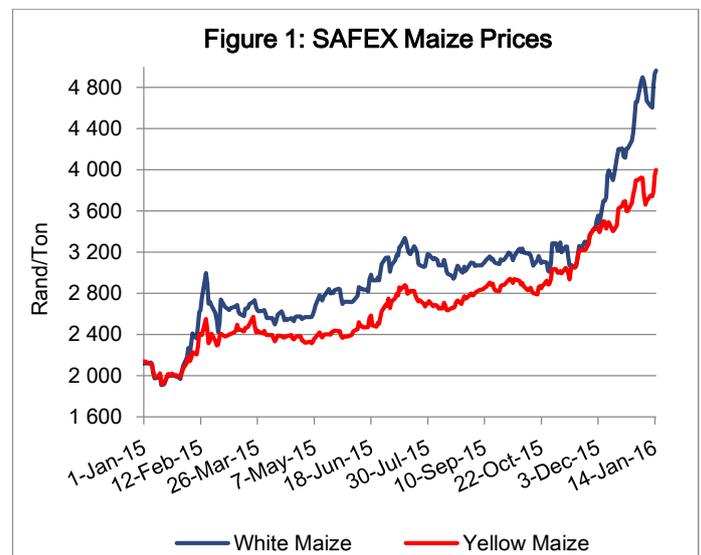
The Agriculture, Fisheries and Forestry, Senzeni Zokwana, announced that South Africa might have to import between 5 and 6 million tons of white and yellow maize. This is following poor conditions in the maize belt triangle - Mpumalanga, Free State and North West – stemming from El Nino conditions. Mpumalanga is showing optimism on maize conditions. DAFF has reprioritized R305.3 million from the Comprehensive Agricultural Support Programme (CASP) and Ilema Funds towards drought relief, and a further R66.4 million with the Department of Rural Development and Land Reform have committed about R66.4 million to Land Care for 2015/16. Land Care is a community based and government supported approach to the sustainable management and use of agricultural natural resources

**Eskom hearings for 16.6% tariff increase commence**

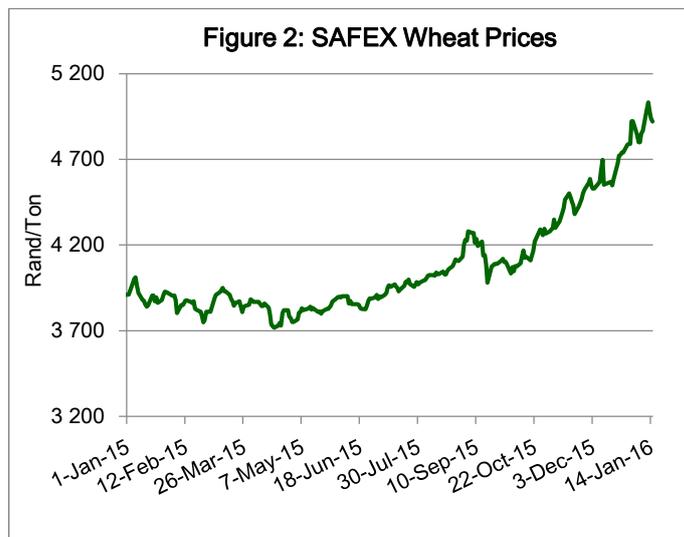
The National Energy Regulator (NERSA) commenced with public hearings in Cape Town on the 18<sup>th</sup> of January to review Eskom’s application for a 16.6% increase in tariffs for 2016 and 2017. This comes as the electricity provider is trying to recover an additional R22.8 billion. Currently, electricity tariffs are set to increase by 8% this year. NERSA’s approval on tariff increases for Eskom are based on a couple of factors, including cost of primary energy and electricity demand. The approval of the requested 16.6% increase would place certain industries in strain (manufacturing, agriculture, etc) and squeeze disposable income of consumers.

**GRAIN AND OILSEEDS MARKET**

**Maize:** Domestic white and yellow maize are currently (15 Jan 2016) up by 25% and 17% respectively from a month ago. Drought in the maize belt and intentions to plant by CEC suggest that area planted for summer crops for the 2015/16 will be lower compared to previous season. White and yellow maize are trading at R4, 965/ton and R4, 000/ton respectively.



**Wheat:** The 5<sup>th</sup> crop forecasts by the CEC for 2015/16 wheat are at 1.501 million tons, down by 14.2% from last season. Domestic wheat prices are currently (15 January 2016) at R4, 921/ton, 7.7%% higher compared to a month ago.



**Oilseed:** Domestic sunflower and soya bean prices are up by 7% and 14.5% respectively from a month ago. Weather conditions in major production regions have been considerably dry, pushing prices upward. Sunflower and soya bean are trading at R7, 460/ton and R7, 410/ton respectively

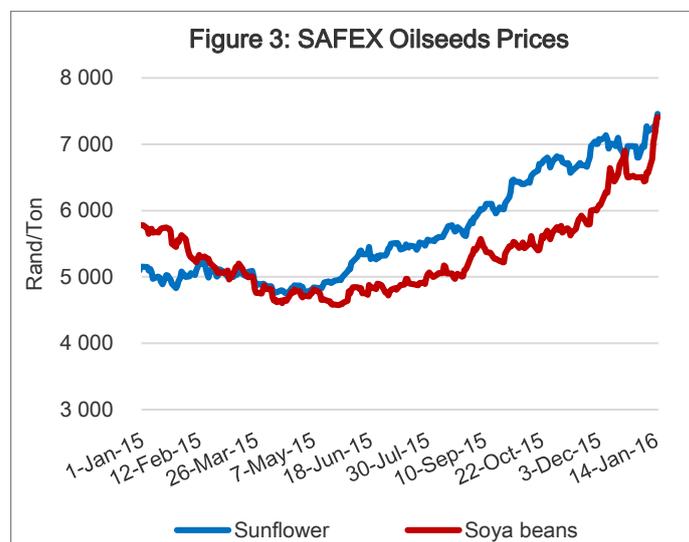


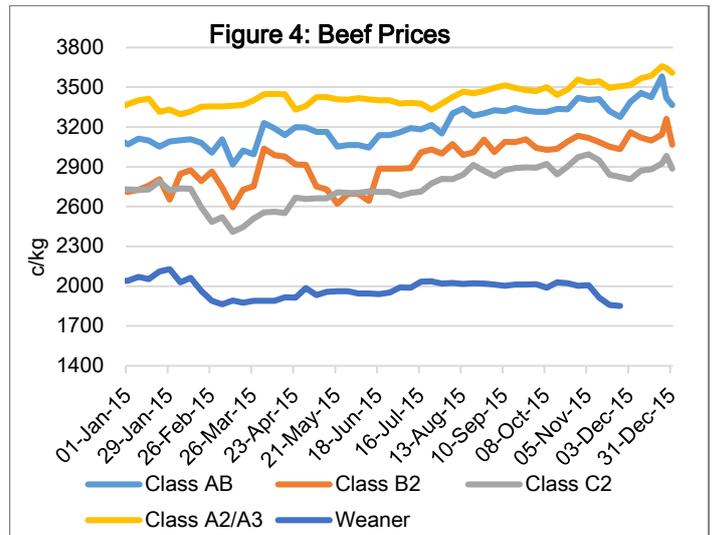
Table 3: Grains & Oilseed Prices

SAFEX Rand/Ton	15-Jan-2016	Month Ago	3 Months Ago	Year Ago
White Maize	4 965	3 958	3 123	1 913
Yellow Maize	4 000	3 419	2 820	1 925
Wheat	4 921	4 568	4 125	3 841
Sunflower	7 460	6 972	6 543	4 930
Soya bean	7 410	6 470	5 530	5 726

Source: Grain SA

**LIVESTOCK MARKET**

**Beef:** The domestic beef market traded mixed from a month ago, with classes A2 and C2 slightly up; while classes AB2 and B2 and down. Farmers affected by drought will likely experience cash flow problems due to costs of buying additional feed. Some farmers may likely reduce stock to curb the costs for additional feed. Prices are expected to decrease in the short term due to increased supply; while rebounding in medium term.



**Table 4: Beef Prices**

Beef Price Band c/kg	01-Jan-2016	Month Ago	3 Months Ago	Year Ago
Class A2	3607	3516	3471	3372
Class AB2	3365	3388	3314	3069
Class B2	3067	3161	3043	2710
Class C2	2887	2806	2894	2730

Source: RMAA

**Pork:** Domestic pork prices are trading upwards, except that of sausages. Prices are expected to even out due to ample supply (seasonal cycle); while trading sideways in the medium term.

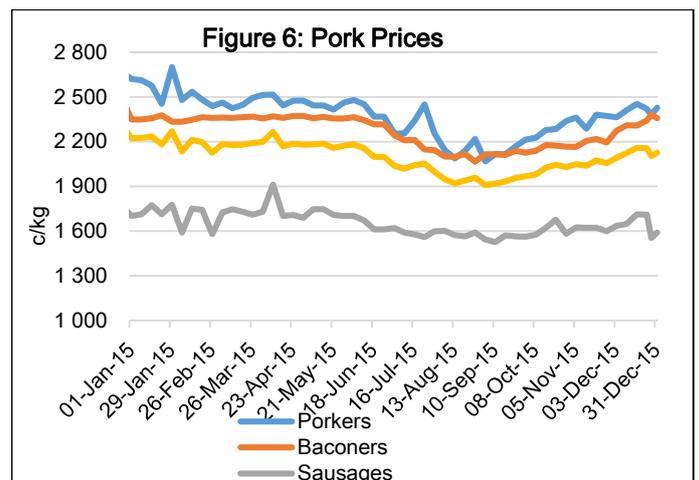


Table 6: Pork Prices

Pork Price Band c/kg	01-Jan-2016	Month Ago	3 Months Ago	Year Ago
Baconers	2357	2274	2127	252350
Porkers	2429	2364	2214	2622
Sausages	1590	1635	1561	1702
Average Pork Prices	2125	2091	1967	2225

Source: RMAA

**Poultry:** Domestic poultry market traded mixed from the same period last month. The prices of fresh and frozen chicken traded higher compared to a month ago; while the price for IQF is lower compared a month ago. Prices are expected to level out the short to medium term. In the event that SA open market access for US poultry and other meats, as a compromise for Agoa deal, prices will likely decline in the medium to long term.

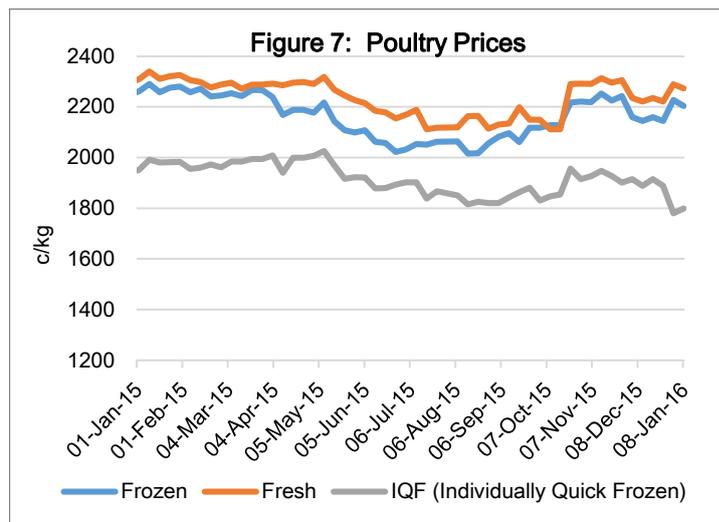


Table 7: Poultry Prices

Poultry Price Band c/kg	08-Jan-2016	Month Ago	3 Month Ago	Year Ago
Fresh	2273	2221	2112	2309
Frozen	2203	2144	2128	2290
IQF	1799	1889	1847	1992

Source: Farmers Weekly

### FIBRE MARKET

**Cotton:** The International Cotton Advisory Committee (ICAC) projections have been revised downward for 2015/16 world cotton production to 23.1 million tons, previously 23.6 million tons. The forecast is 12% lower compared to the previous season. World consumption will surpass production in the 2015/16 at 24.4 million tons, previously projected 25 million tons. Lower yields due to unfavourable weather and lower subsidies will curb production in China. US production will be affected by lower yields on the back of excessive rains.

The final crop forecast for domestic cotton for 2014/15 season is forecast at 93 922 lint bales, up by 115% compared to the previous season. On the domestic front, El Nino conditions are expected to impact on 2015/16 production, affecting yields on the crop, over and above a decline in area planted. Price forecasts in short to medium term are bearish on sluggish demand.

**Mohair:** The average market indicator closed at R217.89/kg, 3% lower from previous sale in the final sale of the 2015 winter season. The average market indicator for the 2015 winter season was 10% higher compared to 2014 of R197.68/kg. The offering consisted 89 974.5kg, with 99.8% sold. The prices of strong adults and fine adults were down by 5% and 2% respectively. The prices of fine adults up by 3%; while young goats were unchanged.

The weak Rand exchange gave boosted the market. Prices are expected to trade sideways in the short term; while increasing the medium term. The 2016 summer season will commence on the 16<sup>th</sup> of February 2016.

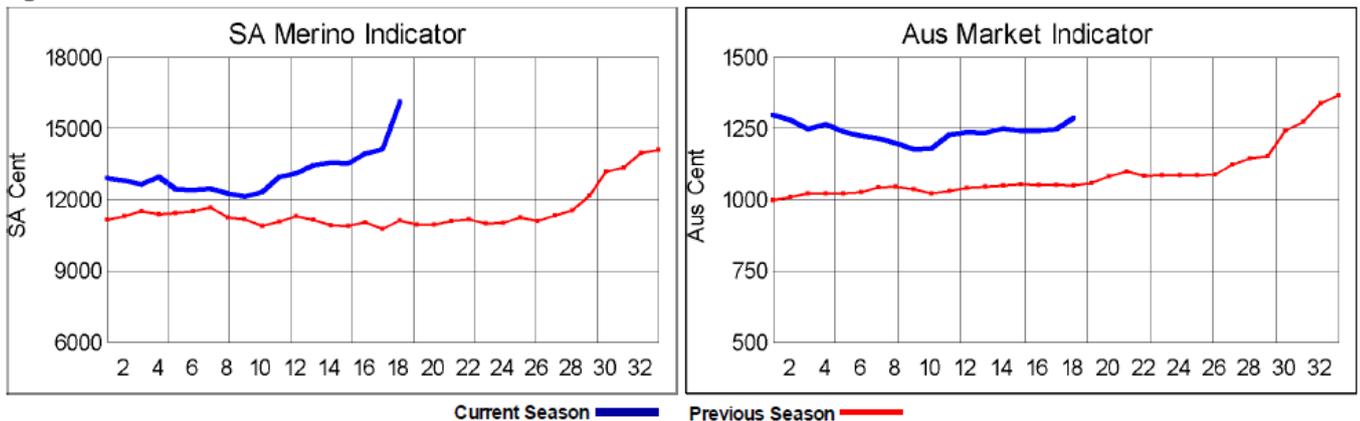
Figure 9: Mohair Prices



Source: Mohair SA

**Wool:** The domestic wool market indicator closed at R161.61/kg, 14.3% higher compared to the previous sale. The offering consisted of 12 778 bales, with 98.2% sold. The Rand was weakened by 13% against US dollar compared to the rate of the previous auction, trading at R16.47/\$. There was strong competition amongst buying houses, boosted mainly by weakening of the local currency. Dominate buying came from the market form G Modiano SA (3 867bales), Standard Wool SA (3 294 bales), Lempriere SA(3 175 bales) and Stucken & Co ( 1 507 bales); while on the supply side offerings only came from BKB and CMW accounting for 98.7% of offering. The next auction will be on 20<sup>th</sup> of January 2016, with an offering of approximately 17 700 bales. Domestic prices are forecast to increase in the short term on improved demand.

Figure 10: Wool Market



Source: Wool SA