

Wheat Industry **INSIGHT**



Bringing the Inside of Market Conditions

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Highlights

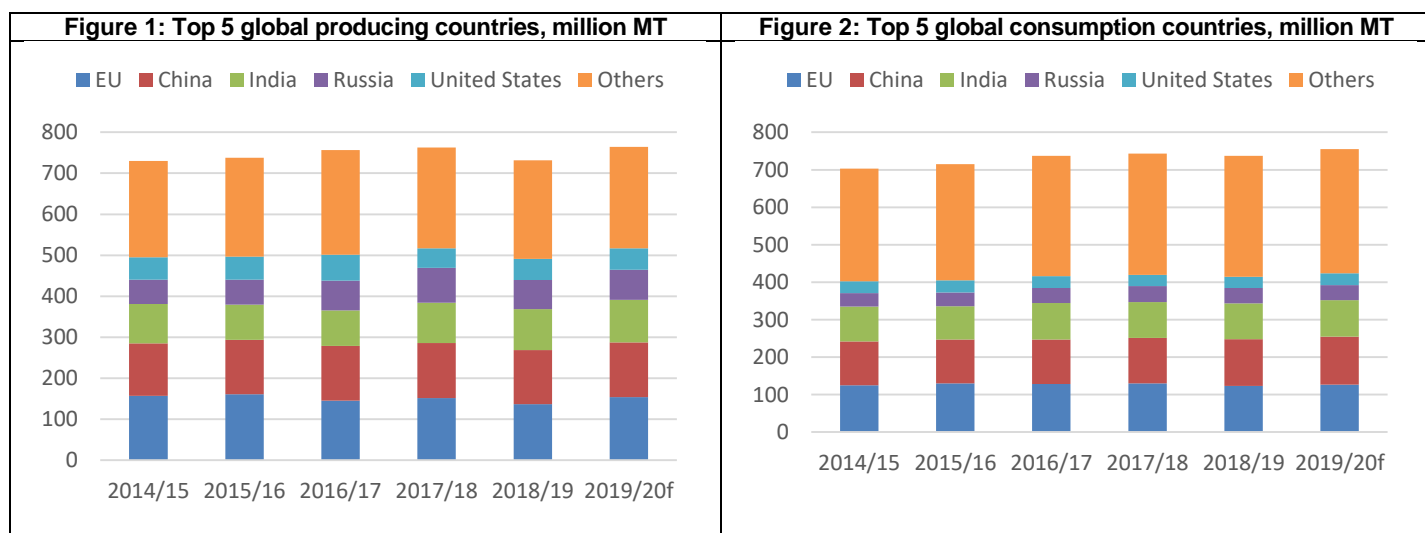
- Forecasts indicated that global production will increase by 4.5% to 764.5 million metric tonnes (MT) in the 2019/20 season, influenced by increased production in most major producing countries.
- Global consumption is expected to increase by 2.4% to 754.9 million MT in the 2019/20 season.
- Global wheat exports are forecast to increase by 5.8% to 183.6 million MT in the 2019/20 season.
- Global imports are expected to increase by 6.1% to 180.8 million MT in the 2019/20 season.
- The global average wheat price in March 2020 was approximately USD 228.12 per metric tonne which was down by 4.5% from the previous month, up by 7.2% compared to six months ago and up by 13.8% compared to a year ago.
- South Africa's wheat production in the 2019/20 is expected to decrease by 19.7% to 1.5 million from 1.9 million MT from the previous season.
- In March 2020, the domestic average monthly wheat price was R5 081.05 per tonne, up by 7.1% from the previous month, up by 13.1% compared to six months ago and up by 11.5% compared to a year ago.
- South Africa's wheat imports in the 2019/20 season are expected to increase by 33.2% to 2.0 million MT from 1.5 million MT the previous season.
- The Bank's current exposure in the wheat industry as at February 2020 was approximately 0.11% of the Bank's total loan book.
- In the short to medium term wheat prices are expected to be strong, influenced by low domestic production, the weakening rand against the United States dollar, global supply disruptions and logistical challenges caused by the global COVID-19 virus pandemic.

1. THE GLOBAL WHEAT MARKET

1.1 Global production and consumption

Figure 1 below, shows the trends in global wheat production from the 2014/15 season to 2019/20 forecast (f) season. From the 2014/15 season to the 2018/19 season, global wheat production increased at a compounded annual growth rate (CAGR) of 0.9%. In the 2018/19 season, the global wheat production decreased by -4.1% to 731.5 million metric tonnes (MT) from 762.9 million MT the previous season. This was influenced a decrease in production from major global producers such as the European Union (EU) (-9.4%), China (-2.2%) and Russia (-15.8%), amongst others. Forecasts indicated that global production will increase by 4.5% to 764.5 million MT in the 2019/20f. The increase in global production will be supported by increased production in major producing countries such as the EU (12.5%), China (1.6%), India (3.7%), Russia (2.7%) and the United States (1.9%), amongst others.

Figure 2 below, shows the trends in global wheat consumption from the 2014/15 season to 2019/20f. From the 2014/15 season to the 2018/19 season global wheat consumption increased at a CAGR of 1.4%. Global wheat consumption decreased by 0.8% to 737.1 million MT in the 2018/19 season from 743.2 million MT the previous season. The decrease in global consumption in the 2018/19 season was influenced by a decline in consumption in countries such as the EU (-5.5%), India (-0.1%) and Russia (-5.8%), amongst others. Global consumption is expected to increase by 2.4% to 754.9 million MT in the 2019/20 season. The increase in global consumption will be supported by increased consumption in the EU (2.7%), China (2.4%), India (2.5%) and the United States (5.6%), amongst others.

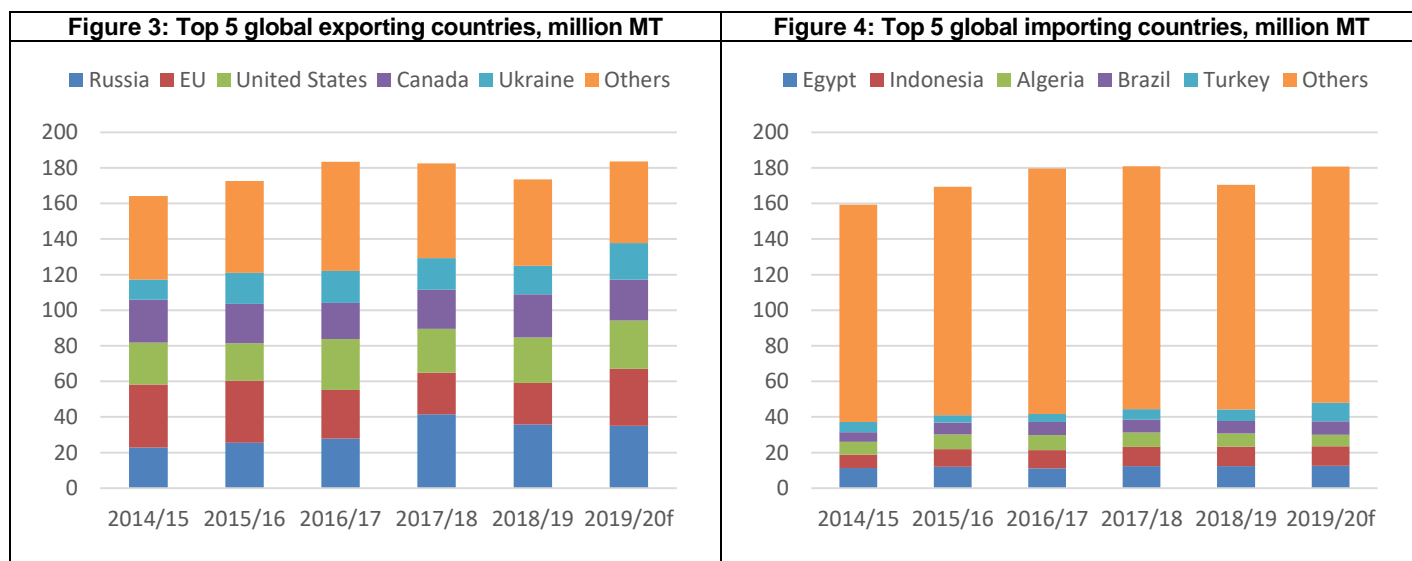


Source: USDA, Land Bank R&I.

1.2 Global wheat trade

Figure 3 below, shows the trends in global wheat exports from the 2014/15 season to the 2019/20f season. From the 2014/15 season to the 2018/19 season, global wheat exports grew at a CAGR of 2.3%. In the 2018/19 season, global wheat exports decreased by 4.9% to 173.5 million MT from 182.5 million MT the previous season. This was influenced by a decrease in exports from countries such as the Russia (-13.5%), the EU (-0.3%) and the Ukraine (-9.9%), amongst others. Global wheat exports are forecast to increase by 5.8% to 183.6 million MT in the 2019/20 season. This will be influenced increased exports out of the EU (37.3%), the United States (6.8%) and the Ukraine (28.8%).

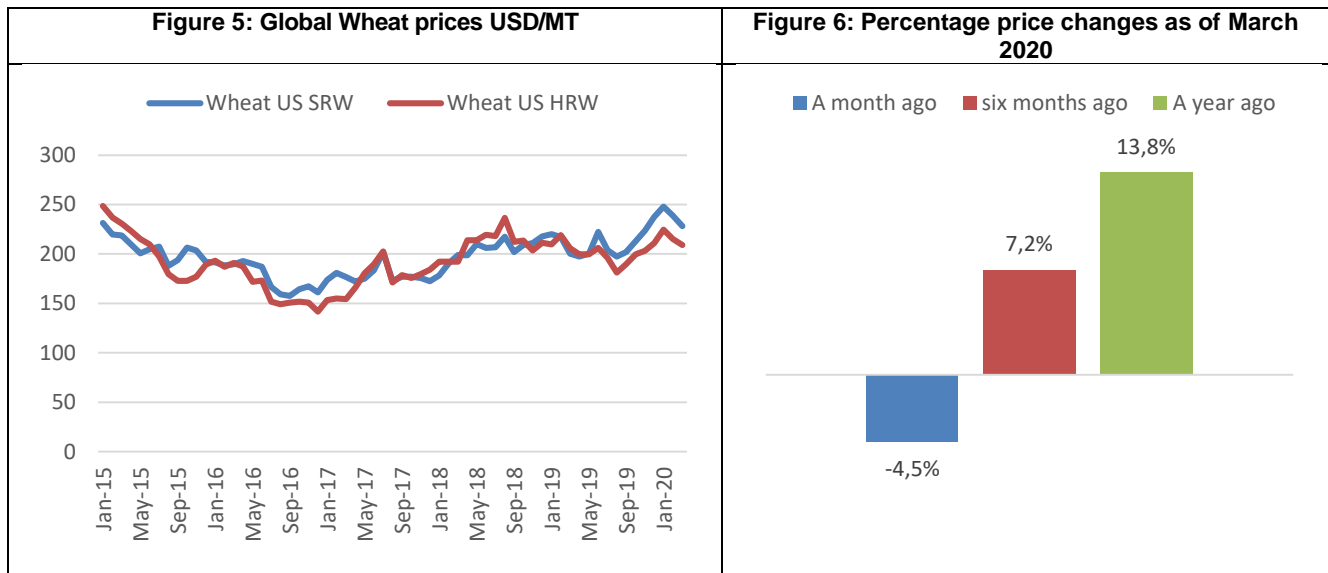
Figure 4 below, shows the trends in global wheat imports from the 2014/15 season to the 2019/20f. Global wheat imports increased at a CAGR of 1.3% between the 2014/15 season and the 2018/19 season. In the 2018/19 season, global wheat imports decreased by 5.8% to 170.4 million MT from 180.9 million MT the previous season. Estimates indicate that global imports will rebound and increase by 6.1% to 180.8 million MT in the 2019/20 season. The increase in global imports will be supported by increased import volumes in countries such as Egypt (1.2%), Indonesia (0.6%), Brazil (6.8%) and Turkey (64.9%), amongst others.



Source: USDA, Land Bank R&I.

1.3 Global prices

Figure 5 below, shows global monthly wheat prices per metric tonne from January 2015 to March 2020. As shown in Figure 5 below, global wheat prices have shown a sustained upward trend during the period under review in line with increased global demand over the last few years. Nonetheless, global wheat prices have been increasing moderately since March 2018. The global average wheat price¹ in March 2020 was approximately USD 228.12/M, which was down by 4.5% from the previous month, in line with the supply and demand shocks caused by the COVID-19 virus global pandemic. Nonetheless, the global wheat price was still up by 7.2% and by 13.8% compared to six months ago and to a year ago, respectively (see Figure 6 below).



Source: USDA, Land Bank R&I.

¹Wheat (US), No. 2, soft red winter, export price delivered at the US Gulf port for prompt or 30 days shipment.

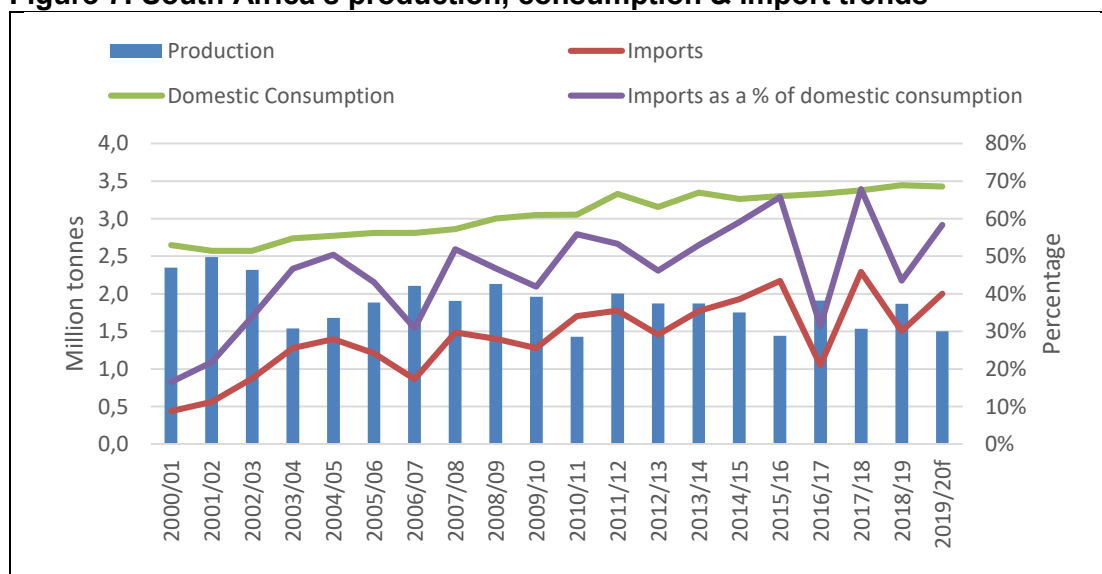
2. THE DOMESTIC WHEAT MARKET

2.1 Domestic production, consumption and imports

Figure 7 below, shows South Africa's wheat production, consumption and import trends from 2000/01 and 2019/20f. As shown in Figure 7 below, domestic consumption has always been higher than domestic production during the period under review. During the same period, domestic consumption has increased at a CAGR of 1.4% while domestic production has decreased at a CAGR of 1.2%. The shortfall in domestic production has been met by imports which have increased at a CAGR of 6.7% during the period under review.

South Africa's wheat production in the in the 2019/20 season is expected to decrease by 19.7% to 1.5 million from 1.9 million MT from the previous season. South Africa's wheat imports in the 2019/20f are expected to increase by 33.2% to 2.0 million MT from 1.5 million MT the previous season. As shown in Figure 7 below, in the 2018/19 season, South Africa's wheat imports accounted for 43.6% of domestic consumption.

Figure 7: South Africa's production, consumption & import trends



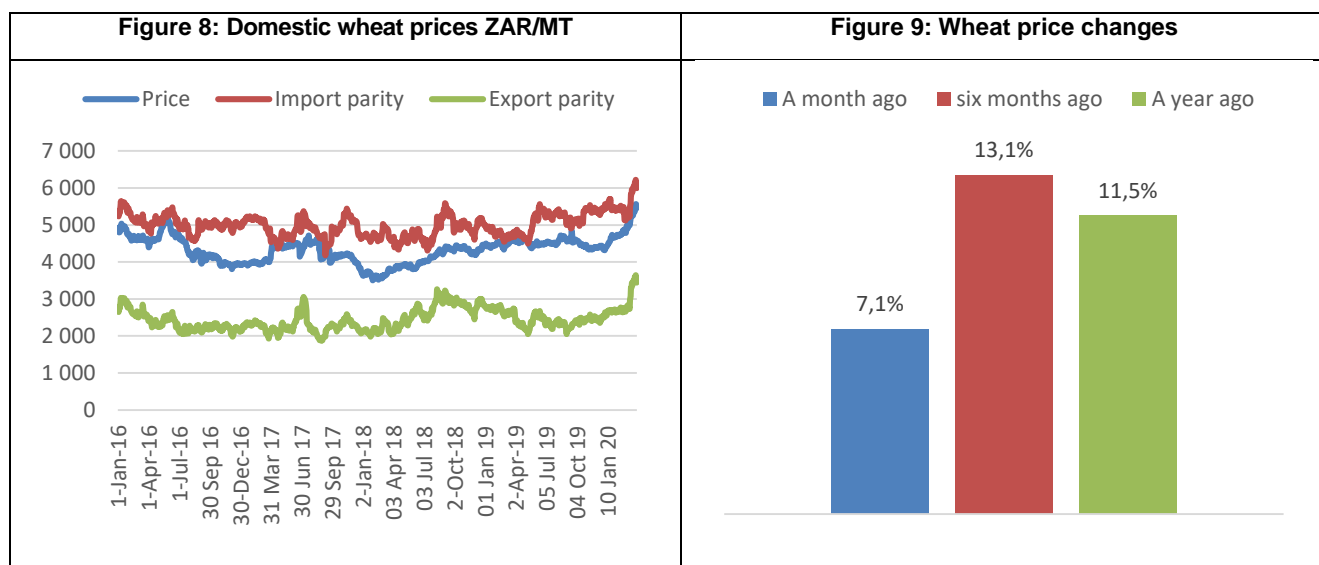
Source: USDA, Land Bank R&I.

2.2 Price analysis

Figure 8 below, shows daily domestic wheat prices per metric tonnes from 1 January 2016 to 7 April 2020. As shown in Figure 10 below, in the last few weeks the SAFEX price has been closer to the

import parity price in line with lower domestic production the previous seasons and also in line with South Africa's status as a net importer of wheat.

Figure 9 below, shows the average monthly wheat price changes as of March 2020. During this period, the domestic average monthly wheat price was R5 081.05 per tonne, up by 7.1% from the previous month, up by 13.1% compared to six months ago and up by 11.5% compared to a year ago. Domestic wheat prices have been strong in the last few months in line with global supply conditions and the effects of the COVID-19 virus pandemic which has caused disruptions in maritime transport.

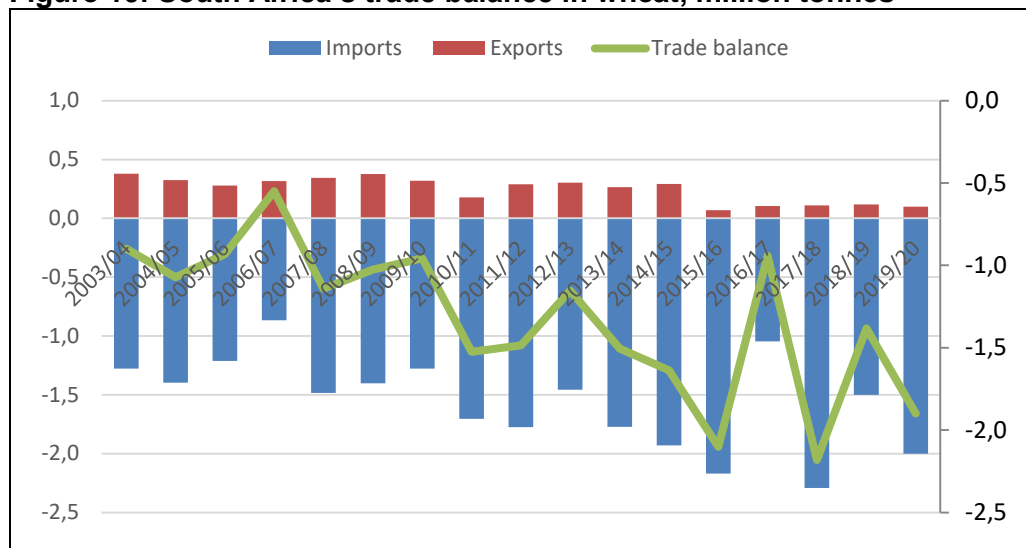


Source: Grain SA, Land Bank R&I.

2.3 International trade

Figure 10 below, shows the trends in South Africa's international trade in wheat from the 2003/04 season to the 2019/20f season. As shown in Figure 12 below, South Africa's trade balance in wheat has been negative for most of the period under review. South Africa is generally a net importer of wheat with most wheat imports coming from countries such as the United States, Argentina and Germany. In 2018/19 season, South Africa imported 1.7 million tonnes of wheat, a decrease of 34.5% compared to the previous season. In 2019/20 season, wheat imports are expected to increase by 33.2% to 2.0 million tonnes from 2.3 million tonnes the previous season.

Figure 10: South Africa's trade balance in wheat, million tonnes



Source: USDA, Land Bank R&I.

3.0 IMPLICATION FOR LANDBANK

3.1 Exposure

The Bank's current exposure in the wheat industry as of February 2020 was approximately 0.11% (or R50.2 million) of the Bank's total loan book of just over R44.6billion. The Bank's exposure to the industry is exclusively through the Commercial Development and Business Bank (CDBB) probably reflecting the Bank's absence in the processing level of the value chain.

Table 1 below, shows CDBB's clients in the wheat industry by exposure and by non-performing loans (NPLs). As of February 2020, CDBB's top clients by exposure included LJ Lesch Trust & Ander (26.6%), Goedemanskraal Boerdery & Ander (24.4%) and Jochwe (Edms) Bpk (6.1 %), amongst others. As of February 2020, CDBB had recorded one NPL by client named Genadeshoop Bk.

Table 1: CDBB's clients by exposure and by NPLs

Clients by exposure			Clients by NPLs		
Client	Amount	Share	Client	Amount	Share
LJ Lesch Trust & Ander	R13 347 455	26.6%	Genadeshoop Bk	R2 850 032	100.0%
Goedemanskraal Boerdery & Ander	R12 246 456	24.4%			
Jochwe (Edms) Bpk	R3 041 326	6.1%			
Excodor 171 (Edms) Bpk	R2 945 698	5.9%			
Genadeshoop BK	R2 850 032	5.7%			
Pearson Charles	R2 104 047	4.2%			
Human Gert	R1 983 562	3.9%			
Rhenosterbos Trust	R1 719 518	3.4%			
MJ Rall Boerdery & Ander	R1 712 456	3.4%			
Maqala Tshidiso	R1 334 282	2.7%			
Others	R6 957 843	13.8%			
Total	R50 242 676	100.0%		R2 850 032	100.0%

Source: Land Bank R&I.

The clients in Table 1 above, are likely to be affected in the event of negative market shocks, which affect the clients' ability to repay their loans. Therefore, the Bank should monitor these clients closely in the event of a negative market shock.

3.2 Outlook for the wheat market

In the short to medium term, global wheat prices are expected to strengthen despite the expected 4.5% increase in global production. The uncertainties due to the COVID-19 virus global pandemic is likely to lead to major global exporters to institute trade restrictions to meet domestic food security. Furthermore, the disruptions in maritime transportation will further limit the amount of wheat that can be globally traded. The weakening global economic outlook and the logistical challenges brought by the outbreak of COVID-19 virus, will give support to higher global wheat prices.

On the domestic front, the direction of wheat prices will be influenced by three factors, namely, domestic production, global production and the exchange rate. Domestic production decreased by 19.6% in 2019 to 1.5million tonnes. As mentioned prior, global production is expected to increase by 4.5% in the 2019/20 season, however, the COVID-19 virus pandemic is likely to disrupt the imports of wheat. The rand has been depreciating in the last few weeks due to a combination of negative sentiments towards emerging market economies (currencies), the COVID-19 virus pandemic and the downgrading of the

sovereign to junk status by the rating agencies. Based on these factors, it is likely that domestic wheat prices will remain high in the short to medium term.

3.3 Is this industry attractive for Land Bank?

The Bank's exposure in the wheat industry is at 0.11% of the Bank's total loan book. This exposure is very low for such an important sector in terms of food security and employment. There is also a notable absence of the Bank in the processing level of the value chain. Therefore, there is scope for the Bank to increase its support in the wheat industry.

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Sources:

1. AgriSA
2. Department of Agriculture, Forestry & Fisheries
3. United States Department of Agriculture
4. South African Grain Information Services
5. The World Bank Group

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