

Voluntary Report – Voluntary - Public Distribution

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Report Name: South African Wheat Prices Reach Record High Levels

Country: South Africa - Republic of

Post: Pretoria

Report Category: Grain and Feed

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Report Highlights:

South Africa's local wheat price increased sharply to record high levels in April 2020. Wheat is the second most important grain commodity consumed in South Africa after corn. Hence, any sharp increase in wheat prices will have a detrimental effect on the South African consumers' food expense. Since deregulation in 1997, South Africa's wheat production declined over time while local demand for wheat rose, resulting in an increase in South Africa's dependence on wheat imports and in the impact of the exchange rate. The South African Rand depreciated by 25 percent since January 2020 due to COVID-19 and Moody's downgrade of South Africa's credit rating to junk status, driving local wheat prices to record levels. Record high wheat prices have a negative inflationary impact on bread and wheat flour prices, and increase the South African consumers' expenditure on basic food products.

US\$1 = Rand 18.50 (5/13/2020)

Introduction

South Africa’s local wheat price increased sharply to record high levels of R5,567 per ton (US\$300) in April 2020, amidst a COVID-19 lockdown (see also Figure 1). The President of South Africa announced a 21-day national lockdown that started on Friday March 27, 2020, but later extended it to last until the end of April. From May 1, 2020, South Africa moved to a stage 4 lockdown with some restrictions being lifted, but for most part South Africa is still in a relative firm lockdown.

Wheat is the second most important grain commodity consumed in South Africa after corn. The annual per capita consumption of corn is the highest at 90kg/person, followed by wheat (55kg/person) and then rice (15kg/person). In 2019, South Africans spent more than R150 billion (US\$8 billion) on bread and grain products, representing 25 percent of total consumption expenditure on food products. South Africa’s total wheat consumption is around 3.3 million tons per year, which includes 2.4 billion loafs of breads or 40 loafs of breads per person per annum. Hence, any sharp increase in wheat prices will have a detrimental effect on South African consumers’ food expense.

Figure 1: South Africa’s local wheat prices since 2015

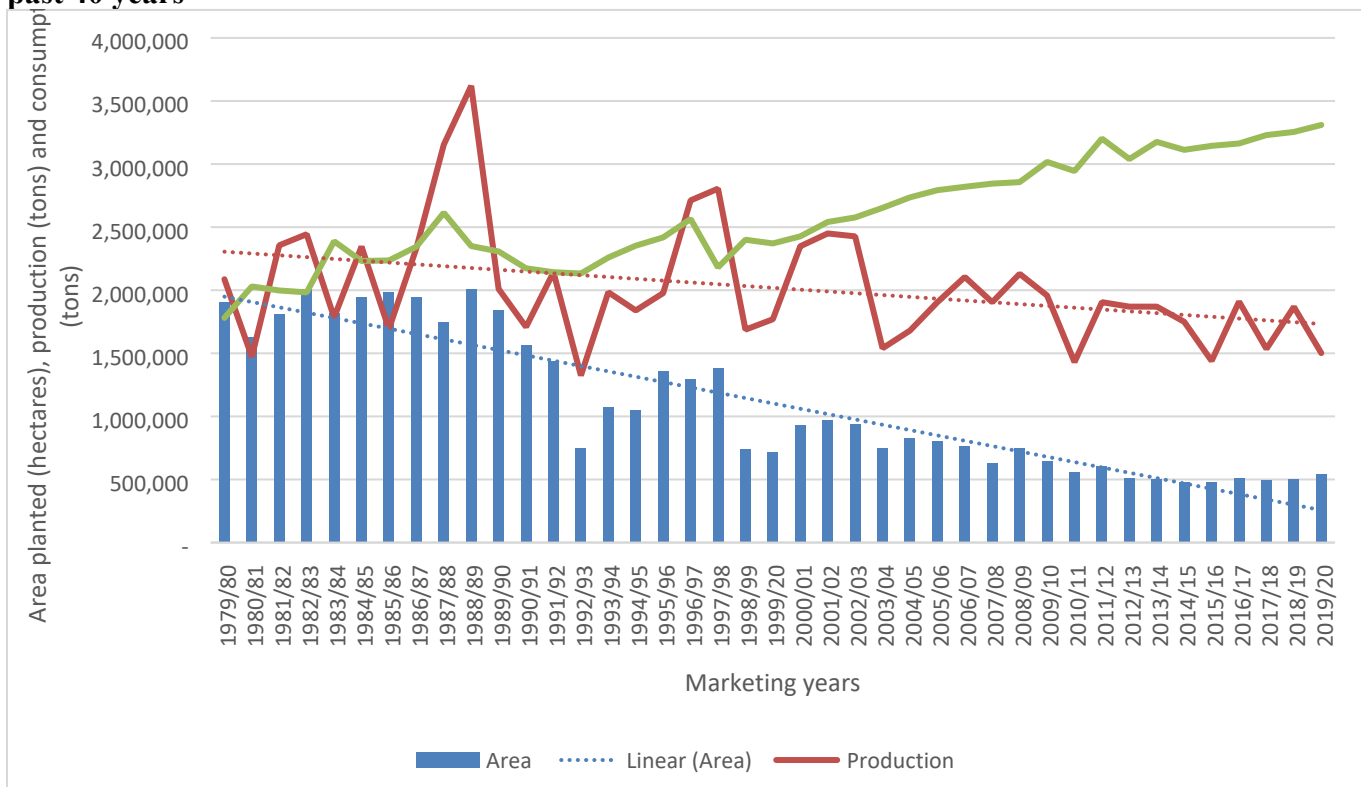


Source: GrainSA

Background: Diminishing local wheat production on increased demand

South Africa’s agricultural markets deregulated in 1997, which had a dramatic impact on many agricultural commodities, including wheat production (also refer to Figure 2). After deregulation and in the free market environment, South Africa’s wheat area has dropped significantly as producers prefer to plant more profitable crops such as canola, oats, corn and soybeans. In the past 8 years, South Africa’s wheat area stagnated at around 500,000 hectares, down from around 2.0 million hectares that was planted before deregulation. As a result of a declining planted area, South Africa’s wheat production dropped by almost 50 percent to less than 2 million tons per year. The current marketing year’s (2019/20 MY) wheat crop, at 1.5 million tons, is the third lowest since deregulation. Meanwhile, the local demand for wheat increased by 50 percent or by 2 percent per annum the past 25 years to more than 3 million tons. This gap between local production and demand increased South Africa’s dependence on wheat imports.

Figure 2: The trend in the area planted, production and consumption of wheat in South Africa the past 40 years

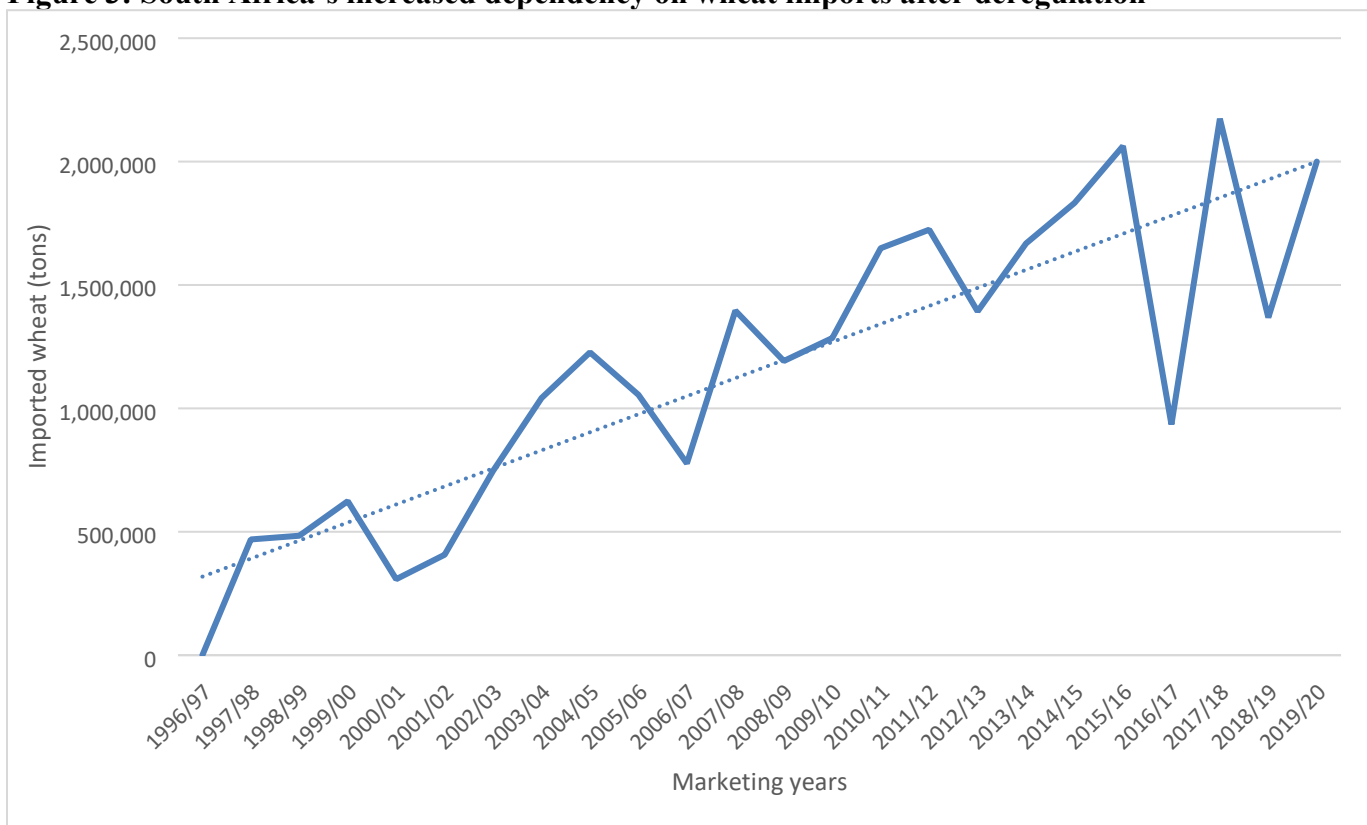


Source: South African Grain Information Services (Sagis)

Increased dependency on wheat imports with no stoppage during lockdown

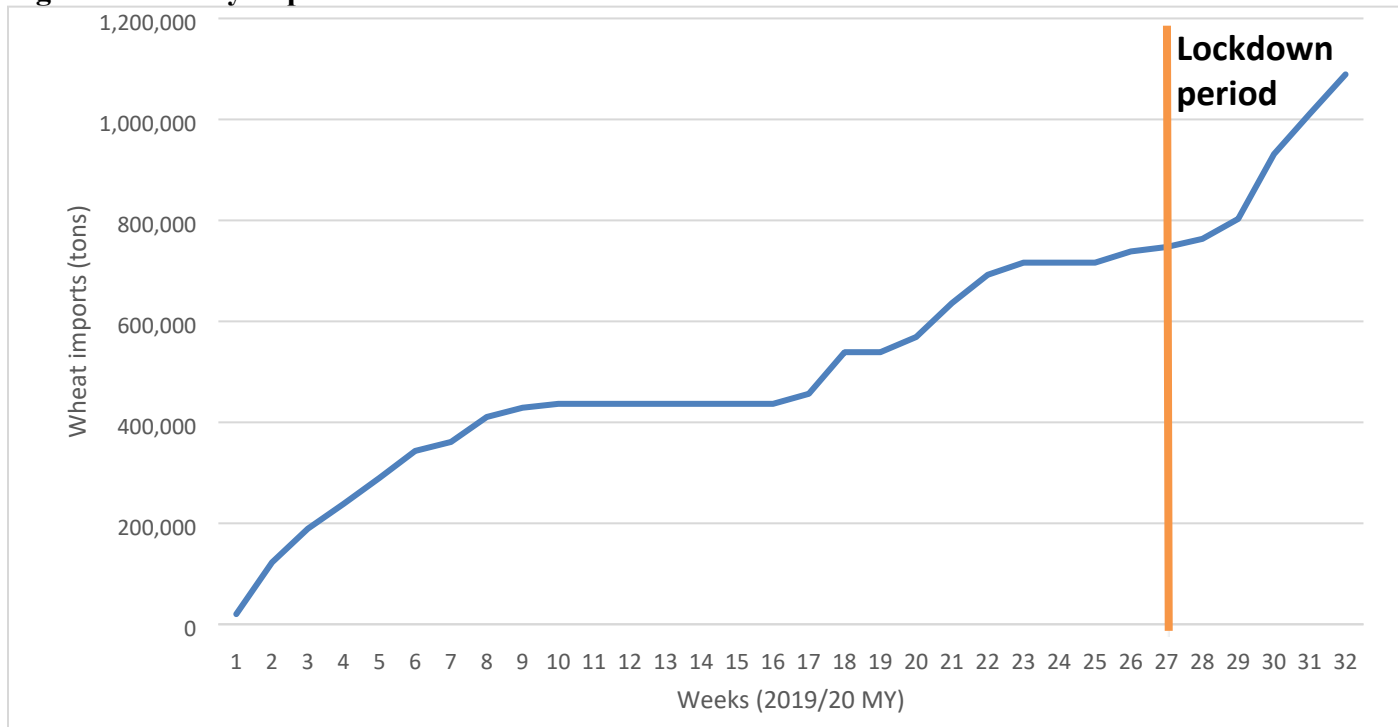
Figure 3 illustrates South Africa’s increased dependency of wheat imports after the deregulation of the agricultural markets in 1997. Wheat imports increase dramatically to augment the decrease in local production and to meet local demand. Post estimates that South Africa will have to import about 2 million tons of wheat in the 2019/20 MY (October 2019 to September 2020), which is more than half of local demand. For the first seven months of the 2019/20 MY, South Africa already imported 1.1 million tons of wheat, 80 percent more than the same period of the 2018/19 MY. As the South Africa government labeled the food supply system as an essential sector that needs to remain uncompromised and functional during lockdown, ports operated as normal with only limited logistical problems (also see Figure 4).

Figure 3: South Africa’s increased dependency on wheat imports after deregulation



Source: Sagis

Figure 4: Weekly imports of wheat into South Africa in the 2019/20 MY



Source: Sagis

For the 2019/20 MY thus far (October 1, 2019 to May 8, 2020), Poland, Lithuania, Germany and Russia have been the major exporters of wheat to South Africa, with zero imports from Argentina and limited imports from the United States (see also Table 1).

Table 1: South Africa’s imports of wheat by country

	2018/19 MY (Oct 1, 2018 – Sept 30, 2019) Tons	2019/20 MY¹ (Oct 1, 2019 – Sept 30, 2020) Tons
Import Suppliers		
United States	140,127	8,799
Argentina	35,519	0
Canada	85,428	36,462
Czech Republic	110,636	52,365
Germany	358,343	167,714
Latvia	39,290	54,797
Lithuania	124,161	190,396
Poland	24,998	371,031
Russia	401,385	154,443
Ukraine	48,210	53,199
TOTAL IMPORTS	1,368,097	1,089,206

Source: Sagis

Notes: 1. Preliminary import data from October 1, 2019 to May 8, 2020

As South Africa is a net importer of wheat in a relatively free market environment, local wheat prices follow the overall trend of import parity prices (see Figure 5). As a result, local wheat prices will be impacted by movements in international wheat prices, the strength of the South African Rand exchange rate and the fluctuations in transport costs. Since the beginning of the year, international wheat prices stayed relatively flat while transport costs declined. However, South Africa experienced a significant depreciation of the Rand that resulted in a sharp rise in the import parity price of wheat. The South African Rand depreciated by 25 percent against the United States Dollar since January 2020 to reach a record level of R19.25 per US\$1 (see Figure 6), driving wheat import parity prices and hence local wheat prices to record levels.

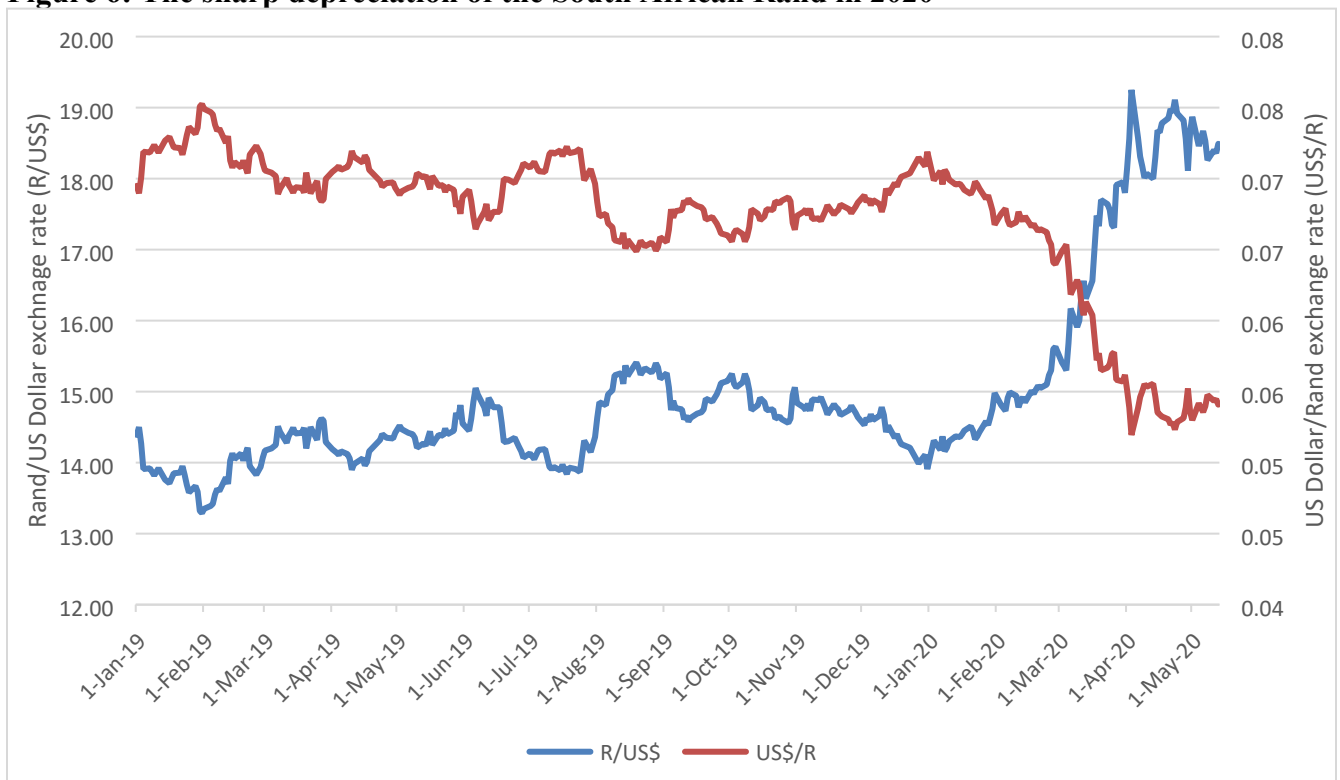
Mainly two factors contributed to the depreciation of the South African exchange rate, namely the impact of COVID-19 and Moody’s downgrade of South Africa credit rating to junk status. Due to the uncertainty regarding the impact of COVID-19 on the global economy and the depth of a global recession, emerging market currencies’ values have been weakening, as stable and less risky currencies such as the United States’ Dollar have been favored. Investors are viewing emerging market currencies as risky, as the world enters a global recession. A downgrade of South Africa’s credit rating by Moody’s to junk status on March 27, 2020, has had a direct impact on the depreciation of the Rand. Moody’s downgrade highlighted the risk associated with investing in South Africa and its government bonds. Moody’s raised concerns of South Africa’s growth prospects, mainly due to the uncertainty on the extent of the economic impact caused by the Covid-19 pandemic, and other "domestic impediments" to growth. Moody’s was the last ratings agency that downgraded South Africa to junk status.

Figure 5: The strong correlation between local wheat prices and import parity prices



Source: GrainSA

Figure 6: The sharp depreciation of the South African Rand in 2020



Source: South African Reserve Bank

Looking ahead

South Africa’s Crop Estimates Committee (CEC) released the intention to plant survey results for wheat on April 29, 2020. According to the CEC producers plan to plant 495,000 hectares with wheat for the 2020/21 MY (October 2020 – September 2021). This represent a decrease of 8 percent from the 540,000 hectares that was planted in the 2019/20 MY. If average yields and normal climatic conditions are assumed, an area of 495,000 hectares could realize a wheat crop of about 1.6 million tons.

South Africa’s annual wheat consumption increased on average by about one percent per annum the past 5 years. Post expects this trend to continue in the 2020/21 MY with local wheat consumption reaching 3.4 million tons. Due to negative economic growth, higher wheat prices and a bumper corn crop, which will lower the price of corn meal, major increases in the consumption of wheat products are not foreseen in the 2020/21 MY. It is still too early to predict the precise impact of COVID-19 on the South African economy, but economist estimate that the economy could shrink as much as 10 percent. South Africa’s current corn crop is estimated at 16.0 million tons, 35 percent higher than the previous season. The commercial white corn crop is estimated at 8.9 million tons, 60 percent higher than the previous season and the commercial yellow corn crop at 6.6 million tons, 14 percent higher than the previous season. As a result, local corn prices decreased by more than 20 percent since April 2020. Harvesting of this bumper corn crop will commence in June 2020.

As a result of the situation describe above, Post estimates South Africa will again have to import about 2.0 million tons of wheat in the 2020/21 MY. The Rand exchange rate will stay under pressure due to the uncertainty regarding the global recession and the Moody's downgrade. This means that for the next year local wheat prices will remain relatively high which will have a negative inflationary impact on bread and wheat flour prices and increase the South African consumers' expenditure on basic food products. (For more information on South Africa's wheat sector, also refer to [Grain and Feed Annual 2020](#)).

Attachments:

No Attachments.