

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Required Report - public distribution

**Date:** 10/30/2017

**GAIN Report Number:**

## South Africa - Republic of

### Grain and Feed Update

#### The supply and demand for wheat and corn in South Africa

**Approved By:**

Kyle Bonsu

**Prepared By:**

Dirk Esterhuizen

**Report Highlights:**

Post forecasts that South Africa will export about 2.0 million tons of corn in the 2017/18 MY, drawing on a relatively large carry-over stock from the 2016/17 MY. In the 2016/17 MY, South Africa produced a record 17.5 million tons of corn and exports are expected to reach about 2.5 million tons. On the other hand, due to the drought in the Western Cape Province, the major wheat producing area in South Africa, wheat imports are expected to almost double in the 2017/18 MY to 1.9 million tons. In the 2016/17 MY, South Africa imported 1.0 million tons of wheat and wheat products.

**Post:**

Pretoria

## **Executive Summary**

According to the Crop Estimate Committee (CEC) farmers planted 491,600 hectares of wheat in the 2017/18 MY, which is only three percent lower than the 508,365 hectares planted in the 2016/17 MY. However, due to extreme drought in the Western Cape Province, wheat production is expected to drop by 13 percent to 1.7 million tons. Two-thirds or 326,000 hectares of South Africa's wheat area was planted in the Western Cape Province. As a result, post estimates that South Africa's wheat and wheat products imports will almost double in the 2017/18 MY to 1.9 million tons.

Lower local corn price levels has been putting downward pressure on the area to be planted with corn in 2017, for the 2017/18 MY<sup>1</sup>, after a record corn crop of 17.5 million tons was recorded in the 2016/17 MY. Hence, post forecasts that around 2.4 million commercial hectares of corn will be planted in 2017, which is nine percent less than the area planted in the 2016/17 MY. Under normal climatic conditions and taking into account the subsistence farming sector, South Africa's corn crop for the 2017/18 MY could reach 12.0 million tons.

Post estimates South Africa will export about 2.5 million tons of corn in the 2016/17 MY. An oversupplied regional market after a favorable agricultural season and a weak global market for white corn limits South Africa's export opportunities, which will leave a relatively large carry-over stock, especially in white corn, for the 2017/18 MY. As a result, post estimates that South Africa will export 2.0 million tons of corn in the 2017/18 MY.

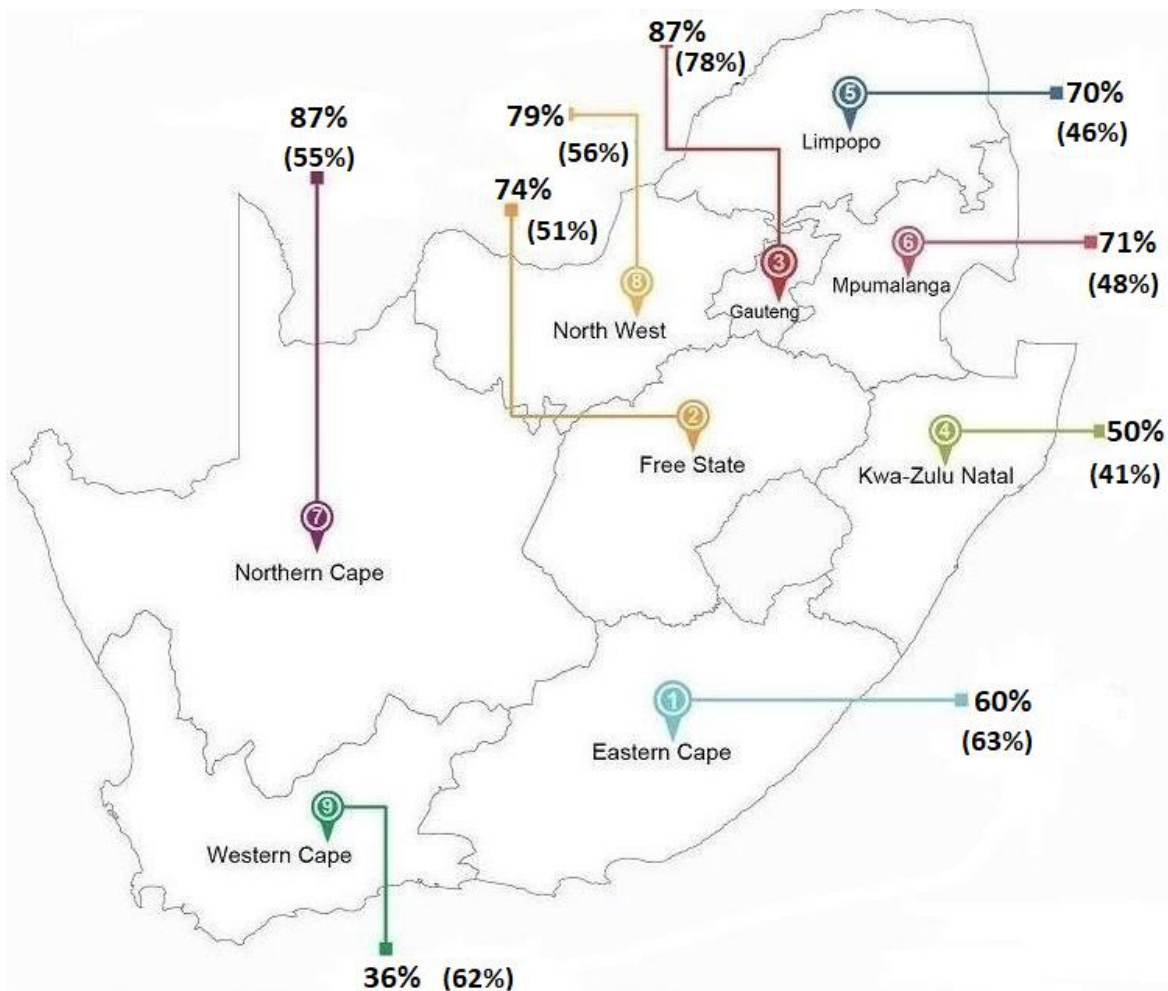
US\$1 = Rand 14.20 (10/26/17)

<sup>[1]</sup> The marketing years (MY) used in the text refers to the USDA marketing years in the PS&D table, and do not necessarily correspond with the marketing years used by the South African grain industry.

## **WHEAT**

## Production

The CEC released its third forecast for wheat production in South Africa on October 26, 2017. According to the CEC, farmers planted 491,600 hectares of wheat in the 2017/18 MY, which is only three percent lower than the 508,365 hectares planted in the 2016/17 MY. However, due to extreme drought in the Western Cape Province, total wheat production in South Africa is expected to drop by 13 percent to 1.7 million tons. Two-thirds or 326,000 hectares of South Africa's wheat area was planted in the Western Cape Province. Wheat production in the Western Cape Province is expected to drop by 32 percent, from 1.1 million tons the previous season to 749,800 tons in the 2017/18 MY. Figure 1 indicates the average dam levels for the different provinces in South Africa. In the Western Cape Province average dam levels are currently only 36 percent of capacity, compared to 62 percent in the previous year. Conditions are not expected to improve in the short-term since the Western Cape Province falls in a winter rainfall area with only limited rain occurring during the summer season (September to March).



**Figure 1: South Africa's average dam levels: week ending 16 October 2017 (last year's figures in brackets)**

**Source:** Department of Water and Sanitation and Agbiz Research

The following table indicates the area planted and production figures of wheat in South Africa for the 2015/16 MY (actual), 2016/17 MY (actual) and 2017/18 MY (estimate).

**Table 1: Area planted and production of wheat in South Africa**

MY	Area (hectares)	Yield (tons/ha)	Production (1,000 tons)
<b>2015/16 (actual)</b>	482,150	3.0	1,440
<b>2016/17 (actual)</b>	508,365	3.8	1,910
<b>2017/18 (estimate)</b>	491,600	3.4	1,655

**Source:** The Crop Estimates Committee (CEC)

## Consumption

Annual wheat consumption in South Africa has increased on average by only about one percent per annum the past five years, mainly due to slow economic growth and the availability of cheaper alternatives like corn and rice. Corn, the staple food for many South Africans, also showed price inelasticity after retail prices almost doubled over the past two years, due to the drought, but the per capita demand stayed constant. With the prices of corn products decreasing after last year's drought, post does not foresee major shifts in wheat consumption in the 2017/18 MY. Hence, wheat demand in the 2017/18 MY is expected to reach 3.22 million tons (also refer to Table 2). The South African Grain Information Services (Sagis) finalized domestic wheat consumption for the 2016/17 MY at 3.19 million tons, in line with post's previous estimate of 3.20 million tons and marginally higher than the 3.17 million tons consumed in the 2015/16 MY.

In Table 2, the consumption of wheat in South Africa is illustrated for the 2015/16 MY (actual), 2016/17 MY (estimate) and 2017/18 MY (forecast).

**Table 2: Consumption of wheat in South Africa**

Wheat (1000 tons)					
Marketing year	Human	Animal	Seed	Other	TOTAL
<b>2015/16 (actual)</b>	3,142	2	19	4	3,167
<b>2016/17 (estimate)</b>	3,160	3	24	3	3,190
<b>2017/18 (forecast)</b>	3,190	5	20	5	3,220

**Source:** The South African Grain Information Services (Sagis) and Grain SA

## Trade

Post forecasts that South Africa's wheat and wheat products imports will almost double in the 2017/18 MY to 1.9 million tons, mainly due to a projected 13 percent decrease in local production as the result of the drought in the Western Cape Province.

In the 2016/17 MY, South Africa imported 933,299 tons of wheat, down 55 percent from the 2.1 million tons of wheat imported in the 2015/16 MY. Countries South Africa imported wheat from included Germany (237,464), Russia (182,961 tons), Czech Republic (144,246 tons) and Romania (112,277 tons). A new Economic Partnership Agreement (EPA) between South Africa and the European Union (EU) that came into effect at the end of 2016, allows for duty-free imports of 300,000 tons of wheat from

countries in the EU. This duty-free allowance was effective from February 1, 2017 to October 31, 2017, hence the strong imports of wheat from EU countries in the 2016/17 MY. The United States exported 60,941 tons of wheat to South Africa in the 2016/17 MY.

In the 2016/17 MY, South Africa's exports of wheat and wheat products increased by 50 percent to 104,000 tons to neighboring countries due to the increase in production. South Africa's wheat and wheat products exports are expected stay at the level of 100,000 tons in the 2017/18 MY.

**Table 3: Export and import countries for wheat**

	<b>2016/17 MY (Oct 1, 2016 – Sept 30, 2017) Tons</b>
<b>Import Suppliers</b>	
United States	60,941
Argentina	35,613
Australia	24,679
Canada	27,841
Czech Republic	144,246
Germany	237,464
Latvia	16,905
Ukraine	13,467
Poland	76,905
Romania	112,277
Russia	182,961
<b>TOTAL IMPORTS</b>	<b>933,299</b>
<b>Export destinations</b>	
Botswana	19,168
Lesotho	18,326
Mozambique	2,992
Namibia	9,362
Swaziland	2,529
Zambia	15,312
Zimbabwe	25,204
<b>TOTAL EXPORTS</b>	<b>92,893</b>

**Source:** Sagis

**Notes:** *These figures reflect wheat grain. Trade figures in the PS&D table include the trade in wheat flour and other wheat products like uncooked pasta and couscous.*

The current effective import tariff for wheat imports into South Africa is R752.40 per ton (US\$53/ton). This tariff was announced on September 29, 2017 and is an increase of 98 percent from the previous tariff of R379.34 per ton that went into effect on September 8, 2017. The wheat tariff is calculated based on a variable formula designed to ensure that changes in the international market are constantly accommodated. The formula is based on a reference price which is the 5-year average price of United

States Hard Red Wheat No 2, plus adjustments for distortion factors (subsidies) in the global wheat market and subtraction of the average freight costs to South African shores. The reference price was set by the International Trade Administration Commission of South Africa (ITAC) at US\$279 per ton in June 2017. The wheat tariff is then determined by calculating the difference between the 3-week moving average of the United States Hard Red Wheat No 2 and the reference price. If the difference is more than \$10 for three consecutive weeks, the tariff is triggered. The import tariff is then calculated according to the difference between the two dollar prices.

An annual quota of 108,279 tons of wheat was also announced last year that could enter South Africa at a rebate of 14.4 percent on the full duty (see also Table 4).

**Table 4: South Africa's import tariffs for wheat**

General	European Union (EU)	European Free Trade Association (EFTA)	Southern Africa Development Community (SADC)	Minimum Market Access	
				Annual quota	Extent of rebate
R752.40/ton	New EPA trade agreement - 300,000 tons import tariff free from February 1, 2017 to October 31, 2017. Outside quota R752.40/ton	R752.40/ton	R752.40/ton	108,279	Full duty less 14.4%

**Source:** South African Revenue Services (SARS), Sagis

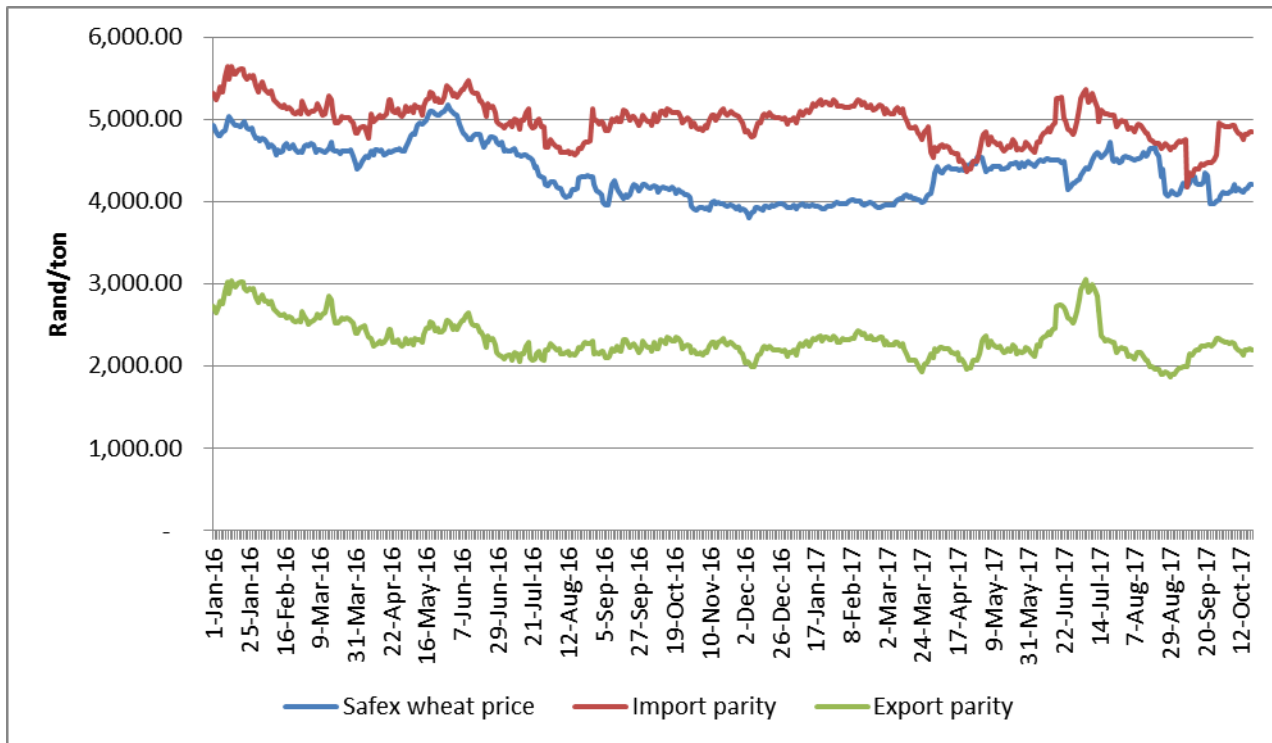
## Prices

Local wheat prices moved closer to import parity levels since April this year due to the drought in the Western Cape Province (see also Figure 2). Table 5 indicates the local wheat prices of October 17, 2017 as traded on the South African Future Exchange (Safex). Currently, wheat prices are trading at around R4,200 per ton (US\$295/ton). Local wheat prices are expected to keep on trading close to import parity levels to reflect an expected lower wheat crop in the 2017/18 MY.

**Table 5: Local prices for wheat**

Commodity	Futures prices (as of 10/17/2017)			
	2017/10	2017/12	2018/03	2018/05
Wheat	R4,165/t (\$293/t)	R4,150/t (\$292/t)	R4,229/t (\$298/t)	R4,263/t (\$300/t)

**Source:** Sagis



**Figure 2: The trend in the SAFEX price for wheat since January 2016**

**Table 5: PS&D Table for Wheat**

Wheat	2015/2016		2016/2017		2017/2018	
	Oct 2015		Oct 2016		Oct 2017	
Market Begin Year	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
South Africa						
Area Harvested	482	482	508	508	490	492
Beginning Stocks	737	737	954	1112	659	768
Production	1440	1440	1910	1910	1720	1655
MY Imports	2171	2171	1300	1040	1900	1900
TY Imports	2026	2026	1220	1220	1900	1900
TY Imp. from U.S.	230	230	45	45	0	100
Total Supply	4348	4348	4164	4062	4279	4323
MY Exports	69	69	150	104	200	100
TY Exports	107	107	109	109	200	100
Feed and Residual	30	25	30	30	50	30
FSI Consumption	3295	3142	3325	3160	3350	3190
Total Consumption	3325	3167	3355	3190	3400	3220
Ending Stocks	954	1112	659	768	679	1003
Total Distribution	4348	4348	4164	4062	4279	4323
Yield	2.9876	2.9876	3.7598	3.7598	3.5102	3.3638

(1000 HA) ,(1000 MT) ,(MT/HA)

## **CORN**

### **Production**

Lower local corn price levels will put downward pressure on the area to be planted with corn for the 2017/18 MY, especially for the white corn area, due to the record white corn crop for the 2016/17 MY. Hence, post forecasts a 15 percent drop, to 1.4 million hectares, in area planted of white corn by commercial producers in the 2017/18 MY. The expected commercial yellow corn area planted should be at average levels of about 1.0 million hectares. As a result, post forecasts that around 2.4 million commercial hectares of corn will be planted in the 2017/18 MY, which is nine percent less than the area planted in the 2016/17 MY. Under normal climatic conditions and taking into account the subsistence farming sector, South Africa's corn crop for the 2017/18 MY could reach 12.0 million tons, which is 32 percent less than the record corn crop of 17.5 million tons produced in the 2016/17 MY (also refer to Table 6).

Post's forecast on area planted for the 2017/18 MY is in line with the CEC's "intention to plant survey" that was released on October 26, 2017. According to the CEC survey, commercial farmers indicated that they will plant 2.5 million hectares of corn in the 2017/18 MY. The intention by commercial farmers is to plant 1.4 million hectares of white corn and 1.1 million hectares of yellow corn.

The CEC released its final production estimate for the 2016/17 MY summer crops on September 28, 2017. The CEC estimated the South African commercial corn crop at a historically high level of 16.7 million tons on 2.6 million hectares. This represents an increase of 115 percent from the 2015/16 MY's commercial corn crop of 7.8 million tons. A record high commercial white corn crop of 9.9 million tons was produced, almost three times more than in the previous marketing year. The commercial yellow corn crop at 6.9 million tons is 57 percent higher than the previous season.

The CEC also released the final production estimates for the subsistence farming sector's corn crop. According to the CEC subsistence farmers planted 366,650 hectares of corn in the 2016/17 MY, 38 percent more than the 266,130 hectares planted in the previous marketing year. Corn production by the subsistence sector was estimated at 731,000 tons, 68 percent higher than the 435,740 tons produced in the 2015/16 MY. This means South Africa's total corn crop for the 2016/17 MY was estimated at a record 17.5 million tons on 3.0 million hectares, which is more than double the 2015/16 MY's drought-reduced corn crop of 8.2 million tons.

The following table details area planted and production figures for commercial white corn and yellow corn as well as corn produced by subsistence farmers for the 2015/16 MY (actual), 2016/17 MY (estimate), and 2017/18 MY (forecast).



**Table 6: Area planted and production of commercial and subsistence corn in South Africa**

	Area 1,000h a	Yiel d t/ha	Prod . 1,000 t	Area 1,000h a	Yiel d t/ha	Prod. 1,000 t	Area 1,000h a	Yiel d t/ha	Prod. 1,000 t
<b>MY</b>	<b>2015/16</b>			<b>2016/17</b>			<b>2017/18</b>		
<b><u>Commercial corn</u></b>									
White	1,015	3.4	3,409	1,643	6.0	9,893	1,400	4.2	5,950
Yellow	932	4.7	4,370	986	6.9	6,851	1,000	5.3	5,350
<b>Sub Total</b>	<b>1,947</b>	<b>4.0</b>	<b>7,779</b>	<b>2,629</b>	<b>6.4</b>	<b>16,744</b>	<b>2,400</b>	<b>4.6</b>	<b>11,300</b>
<b><u>Subsistence corn</u></b>									
White	191	1.5	286	249	1.9	464	300	1.6	500
Yellow	75	2.0	150	118	2.3	267	100	2.0	200
<b>Sub Total</b>	<b>266</b>	<b>1.6</b>	<b>436</b>	<b>367</b>	<b>2.0</b>	<b>731</b>	<b>400</b>	<b>1.7</b>	<b>700</b>
<b>TOTAL</b>	<b>2,213</b>	<b>3.7</b>	<b>8,215</b>	<b>2,996</b>	<b>5.8</b>	<b>17,475</b>	<b>2,800</b>	<b>4.2</b>	<b>12,000</b>

Source: CEC

### Consumption

South Africa's economic growth is expected to continue to be sluggish in the next few years, due to structural and policy constraints, which will likely limit the increase in the demand for animal protein and hence animal feed. As a result, the demand for corn feed is expected to increase marginally to 5.3 million tons in the 2017/18 MY. The human demand for corn, the staple food for many South Africans, especially for the lower to middle income groups, is expected to grow in correlation with population growth to 5.1 million tons. The per capita consumption of corn has stagnated at around 90kg per annum for the past 10 years. Thus, total commercial demand for corn is estimated to reach about 10.7 million tons in the 2017/18 MY (also refer to Table 7).

With higher rainfall that led to a record production year and thus relatively lower corn prices, the commercial demand for corn will increase by four percent to 10.5 million tons in the 2016/17 MY. Post expects that South Africa will use about 5.0 million tons of corn for human consumption and 5.2 million tons of corn for animal feed. Post also estimates that white corn usage for animal feed will increase to about 1.3 million tons as more yellow corn will flow to the export markets.

Table 7 outlines the commercial consumption for white corn and yellow corn in South Africa for the 2015/16 MY (actual), 2016/17 MY (estimate) and 2017/18 MY (forecast).

**Table 7: The commercial consumption of white and yellow corn in South Africa**

<b>CORN 1,000 Mt</b>	<b>White</b>	<b>Yellow</b>	<b>Total</b>	<b>White</b>	<b>Yellow</b>	<b>Total</b>	<b>White</b>	<b>Yellow</b>	<b>Total</b>
<b>MY</b>	<b>2015/16</b>			<b>2016/17</b>			<b>2017/18</b>		
<b>Human</b>	4,233	577	4,810	4,450	500	4,950	4,550	500	5,050
<b>Animal</b>	86	4,918	5,004	1,300	3,900	5,200	500	4,800	5,300
<b>Other</b>	33	245	278	100	200	300	100	200	300
<b>TOTAL</b>	<b>4,352</b>	<b>5,740</b>	<b>10,092</b>	<b>5,850</b>	<b>4,600</b>	<b>10,450</b>	<b>5,150</b>	<b>5,500</b>	<b>10,650</b>

**Source:** SAGIS; Grain SA

**Note:** Please note that consumption figures in the PS&D table also include corn utilized by the subsistence farming sector and commercial on-farm usages.

## **Trade**

Post estimates that South Africa will export about 2.0 million tons of corn in the 2017/18 MY, drawing on a relatively large carry-over stock from the 2016/17 MY.

After the drought in the 2015/16 MY forced South Africa to import more than 2.2 million tons of corn, South Africa returned to being a net exporter of corn in the 2016/17 MY as a result of the historically high corn crop. In the first 24 weeks of the 2016/17 MY (May 1, 2017 to October 13, 2017), South Africa has already exported nearly 1.4 million tons of corn, which included 479,749 tons of white corn and 906,750 tons of yellow corn (see also Table 8). This means South Africa is on average exporting almost 60,000 tons of corn per week. White corn is mainly exported to Kenya (247,250 tons), as many parts of Kenya have been impacted by drought. The major markets for South Africa's yellow corn are Japan (509,307 tons), Taiwan (213,926 tons) and South Korea (107,241 tons). However, post estimates South Africa will only export a total of 2.5 million tons of corn in the 2016/17 MY. An oversupplied regional market after a favorable agricultural season and a weak global market for white corn limits South Africa's export opportunities, which will leave a relatively large carry-over stock, especially in white corn, for the next marketing year.

**Table 8: Export and import countries for white and yellow corn (1,000 tons)**

	2015/16 MY May 1, 2016 – Apr 30, 2017			2016/17 MY <sup>1</sup> May 1, 2017 – Apr 30, 2018		
	White corn	Yellow corn	Total	White corn	Yellow corn	Total
<b>Export Destinations</b>						
Angola	0	0	0	0	2	2
Botswana	135	70	205	101	8	86
North Korea	0	6	6	0	1	1
Kenya	16	0	16	247	0	225
Lesotho	84	13	97	41	2	39
Japan	0	0	0	0	509	411
Malawi	3	0	3	0	0	0
Mozambique	42	27	69	26	9	23
Namibia	81	15	96	14	18	26
South Korea	0	0	0	0	107	107
Swaziland	54	70	124	16	36	40
Taiwan	0	0	0	0	214	214
Tanzania	10	0	10	0	0	0
Uganda	0	0	0	25	0	25
Zimbabwe	121	90	211	10	1	11
<b>TOTAL EXPORTS</b>	<b>546</b>	<b>291</b>	<b>837</b>	<b>480</b>	<b>907</b>	<b>1,387</b>
<b>Imports</b>						
Argentina	0	990	990	0	0	0
Brazil	0	94	94	0	0	0
Mexico	500	0	500	0	0	0
Romania	0	36	36	0	0	0
Ukraine	0	372	372	0	0	0
United States	145	100	245	0	0	0
<b>TOTAL IMPORTS</b>	<b>645</b>	<b>1,592</b>	<b>2,237</b>	<b>0</b>	<b>0</b>	<b>0</b>

Source: SAGIS

Note: 1. Preliminary export and import data from May 1, 2017 to October 13, 2017

## Prices

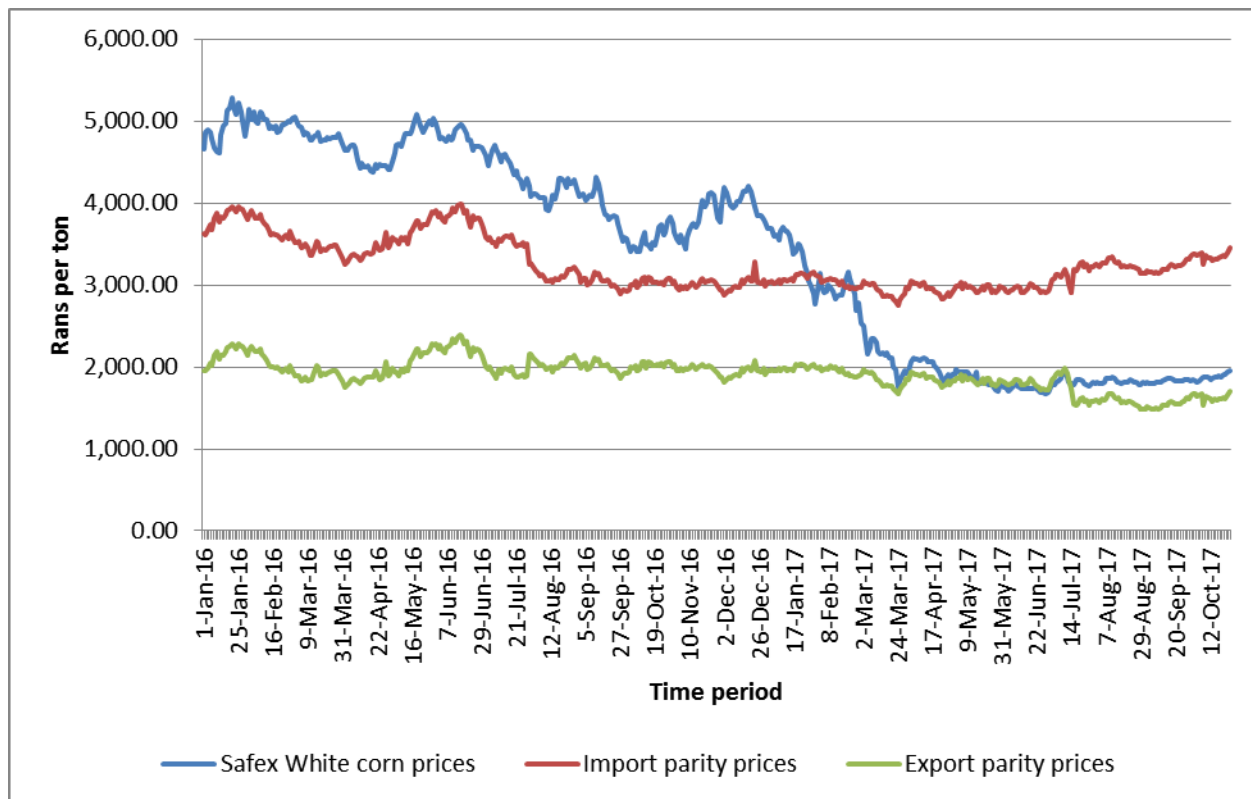
Local corn prices started to move downwards, away from import parity levels, in mid-December 2016 and accelerated to export parity levels in mid-February, after the realization that a bumper crop in South Africa is a reality. Since mid-February, the corn prices have moved relatively sideways link to export parity prices (see also Figures 3 and Figure 4). On October 17, yellow corn was trading at R1,974 per ton (US\$139/ton) and white corn at R1,876 per ton (US\$132/ton) (see also Table 9). Year-on-year local

yellow corn and white corn prices are, respectively, 36 percent and 46 percent lower, indicating the effect of the 2016/17 MY's bumper crop on local corn prices. With the oversupply of corn in the local market, especially white corn, corn prices are likely to trade at export parity levels for the remainder of the 2016/17 MY.

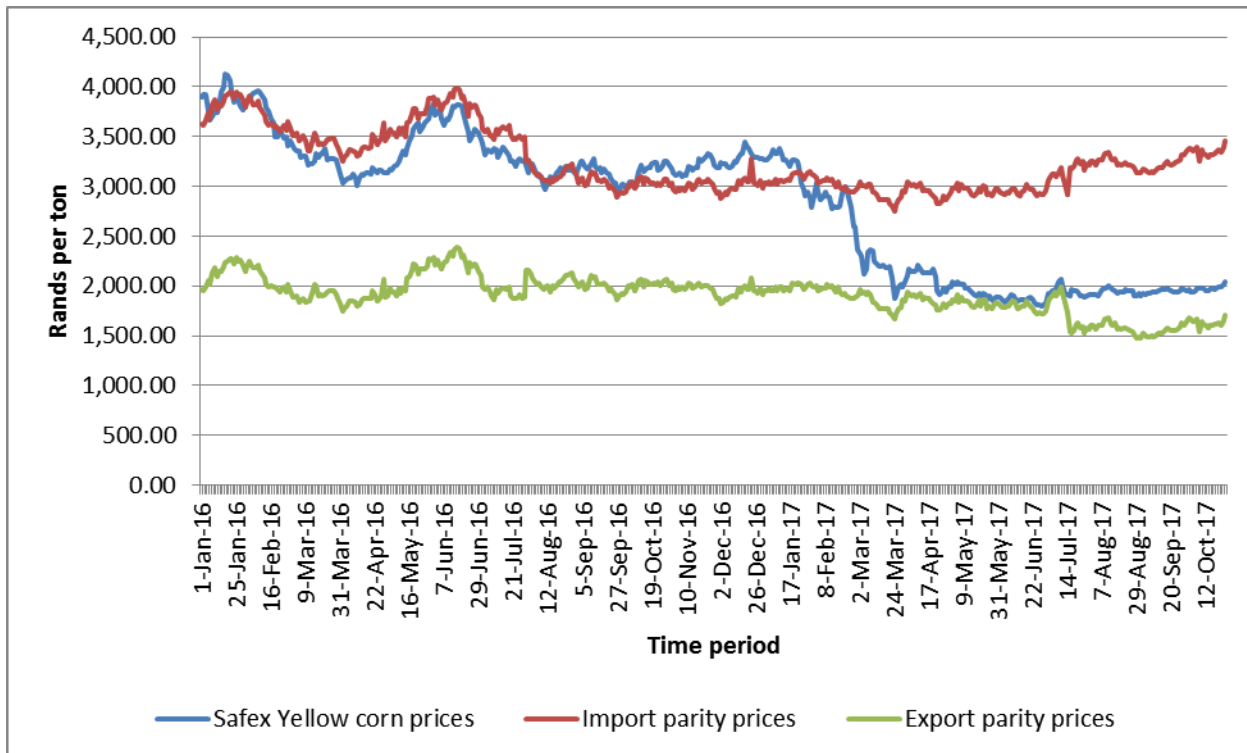
**Table 9: Local prices for corn**

	<b>Futures prices as of 10/17/2017</b>				
<b>Commodity</b>	<b>2017/10</b>	<b>2017/12</b>	<b>2018/03</b>	<b>2018/05</b>	<b>2018/07</b>
White corn	R1,876/t (\$132/t)	R1,916/t (\$135/t)	R1,964/t (\$138/t)	R2,009/t (\$141/t)	R2,065/t (\$145/t)
Yellow corn	R1,974/t (\$139/t)	R2,012/t (\$142/t)	R2,055/t (\$145/t)	R2,091/t (\$142/t)	R2,132/t (\$150/t)

Source: Sagis



**Figure 3: The trend in white corn prices in South Africa since January 2016**



**Figure 4: The trend in yellow corn prices in South Africa since January 2016**

**Table 10: PS&D Table for Corn**

Corn Market Begin Year	2015/2016		2016/2017		2017/2018	
	May 2016		May 2017		May 2018	
South Africa	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	2213	2213	3000	2996	2900	2800
Beginning Stocks	2448	2448	1096	1093	2996	4388
Production	8214	8215	17475	17475	12500	12000
MY Imports	2241	2237	50	0	100	0
TY Imports	2579	2579	1300	1300	100	0
TY Imp. from U.S.	110	110	0	0	0	0
Total Supply	12903	12900	18621	18568	15596	16388
MY Exports	837	837	2500	2500	1700	2000
TY Exports	759	759	2000	2000	1900	2000
Feed and Residual	5700	5700	7125	6080	5800	6100
FSI Consumption	5270	5270	6000	5600	5900	5750
Total Consumption	10970	10970	13125	11680	11700	11850
Ending Stocks	1096	1093	2996	4388	2196	2538
Total Distribution	12903	12900	18621	18568	15596	16388
Yield	3.7117	3.7122	5.825	5.8328	4.3103	4.2857
(1000 HA) ,(1000 MT) ,(MT/HA)						