Investment environment and commodity outlook

AGBIZ Information Day

1 November 2018

Prof Ferdi Meyer

Director: Bureau for Food and Agricultural Policy (BFAP) & University of Pretoria
Background: BFAP

- Founded in 2014
- 15 Years experience in analysing, modelling, forecasting and unpacking the agro-food, fibre and beverage sectors and value chains in Africa.
- Network consisting of 45 employees and associates spanning the African continent
- Our business model is based on adding value through long-run strategic partnerships in private sector, industry bodies, universities and government.
- International, regional and local analytical partners: FAPRI, FAO, OECD, BER & ReNAPRI
BFAP’s foundation for analysing future trends

- Annual 10-year agricultural outlook on 52 commodities

- State of agriculture- & food systems across Southern Africa:
  - Commodity Markets
    - Field crops
    - Livestock
    - Horticulture
  - Consumer Economics
  - Farming Systems & Inputs
  - Value chains
  - Africa
  - Spatial Integration
Presentation Overview

1. Taking stock
2. Outlook for South African agriculture

Domestic consumer environment

1. Outlook for field crops
2. Outlook for livestock
Macroeconomic assumptions

‘Ramaphoria’ fades to realism, emerging market sentiments compounding pressure

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
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<tbody>
<tr>
<td>Real GDP Growth</td>
<td>1,3</td>
<td>0,6</td>
<td>1,5</td>
<td>2,0</td>
<td>2,4</td>
<td>2,5</td>
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<tr>
<td>Exchange Rate</td>
<td>13,30</td>
<td>13,21</td>
<td>14,24</td>
<td>14,32</td>
<td>14,44</td>
<td>14,52</td>
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<tr>
<td>CPI Inflation (%)</td>
<td>5,3</td>
<td>4,7</td>
<td>4,9</td>
<td>5,0</td>
<td>5,1</td>
<td>5,0</td>
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<tr>
<td>Brent Crude Oil ($ per barrel)</td>
<td>54,0</td>
<td>74,7</td>
<td>73,5</td>
<td>70,3</td>
<td>68,0</td>
<td>67,0</td>
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Key factors: drought, weak Rand, oil price, cost of inputs, uncertainty & volatility

- Q2 GDP... SA in a technical recession
- Land values – Decrease by 30% (Agri Development Solutions)
- Ag GDP – contracted by 29% in Q2 (Bloomberg)
- Trade war implication on emerging markets

Source: Pienaar, BER, 2018
• After initial change of government, Rand outperformed other emerging markets

• Recent uncertainty re land policy and general political sentiment has put it on the back foot

• Poor global sentiment toward emerging markets likely to keep it under pressure

• Trade war influencing Rand and other emerging market currencies
Domestic consumer confidence & income

Disposable income per capita of households (R'000)

Disposable income

Real rate of change

Real disposable income

Rate of change (%)(year-on-year)

Source: Stats SA
CHARTS: How land-seizure talks have hit SA's farming industry
....but there is hope!!

SA farmers & agri-businesses have shown resilience
Outlook for South African Agriculture from an investment perspective
SA’s performance in the global economy

Real AG GDP growth:
2006 - 2016
Agricultural GDP in South Africa

Livestock
- Beef herd rebuilding
- Cycle positive with lower feed
- Disease impact critical

Field Crops
- High stock, low prices
- Post drought cash-flow
- Feed crop dominance

Horticulture
- WC drought recovery
- Water availability concerns
- Need to open new export markets
### NDP targets – BFAP’s score sheet

<table>
<thead>
<tr>
<th>NDP Target</th>
<th>Indicator</th>
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<tr>
<td>Land reform</td>
<td>No</td>
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<tr>
<td>Jobs: High value crops</td>
<td>Yes</td>
</tr>
<tr>
<td>Jobs: Under-utilised land, homelands etc.</td>
<td>No</td>
</tr>
<tr>
<td>Agro-processing</td>
<td>Yes</td>
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</table>
High-growth industries are on track
SA a net exporter of agricultural products

Horticulture leading export performance – rapid growth in Citrus exports, nuts, wool

Significant imports: rice, poultry, palm oil, wheat
## Market access for South African products

<table>
<thead>
<tr>
<th>SACU: Southern African Customs Union</th>
<th>South Africa</th>
<th>Australia</th>
<th>New Zealand</th>
<th>Peru</th>
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<th>Argentina</th>
<th>Uruguay</th>
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<td>Hong Kong (China)</td>
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<tr>
<td>India</td>
<td>SACU (Plurilateral)</td>
<td>ASEAN-Australia-New Zealand</td>
<td>GSTP</td>
<td>GSTP</td>
<td>GSTP Mercosur-India Bilateral</td>
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<td>Bilateral</td>
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<td>South Korea</td>
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<td>GSTP PTN</td>
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<td>GSTP PTN</td>
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</table>

*SACU*: Southern African Customs Union  
*GSTP*: Global System of Trade Preferences among developing countries  
*PTN*: Protocol on Trade Negotiation  

Source: SHAFFE, 2018
If we get things right - R6 billion additional exports over outlook
Disease management is critical: Beef exports

**Composition**

<table>
<thead>
<tr>
<th>Year</th>
<th>Fresh or chilled, carcass</th>
<th>Fresh or chilled, bone-in cuts</th>
<th>Fresh or chilled boneless</th>
<th>Frozen carcass</th>
<th>Frozen, bone-in cuts</th>
<th>Frozen, boneless</th>
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**Origin**

- **Other**
- **United Arab Emirates**
- **Jordan**
- **Mozambique**
- **Viet Nam**
- **Hong Kong and China**
- **Kuwait**

Source: ITC Trademap, 2018
Recent exchange rate depreciation

- **Rand per USD**
  - June 2018
  - September 2018

- **Billion Rand**
  - Change Baseline vs. scenario
  - June 2018
  - September 2018

- **Percentage change vs. baseline**
  - 0%
  - 2%
  - 4%
  - 6%
  - 8%
  - 10%
  - 12%
  - 14%
  - 16%
Global competitiveness remains high

Maize cost of production $/ton

- **AR310ZN**: $43
- **AR7008BA**: $59
- **AR900WBA**: $46
- **BR130DMT**: $70
- **BR130DMKT**: $69
- **BN5PR**: $66
- **CN12H1**: $70
- **CN12H1**: $66
- **RU16000KUR**: $33
- **RU21000KRA**: $39
- **UA2600W**: $30
- **UA7100PO**: $67
- **US1215NC**: $77
- **US1215NS**: $75
- **US121ND**: $87
- **US20D5K**: $60
- **US700A**: $50
- **ZA1600BF**: $65
- **ZA1600NS**: $61
- **ZA17000F**: $68
- **ZA13000W**: $52

**Countries**:
- **Argentina**
- **Brazil**
- **China**
- **Russia**
- **Ukraine**
- **USA**
- **South Africa**

**Cost Components**:
- Seeds
- Fertilizer
- Crop insurance
- Establishment cost
- Pesticides
- International sample average
- Diesel

**Note**: The graph illustrates the cost of maize production in various countries, broken down into different cost components.
Sustainable rotation and risk mitigation

- Continued decline in white maize area
- The rise of soybeans...
- Sunflower as risk mitigating alternative?

Fig 21, Pg. 32
Improved outlook for maize from 2018 to 2019

Soybeans under baseline – outperform maize in 2019; existing futures for stipulated period – maize marginally better opposed to soybeans

Sunflower remain good alternative for Western producing regions

2018 – Several regions not able to cover overhead expenditure
Potential El-Nino in 2018/19 on region

![Graph showing production and price data for various regions with different scenarios for 2019.]

Fig 21, Pg. 32
• Population growth: Developing regions accelerating, slower for advanced, China & other emerging markets
• Projected income to grow in all regions, but proportionally higher in China & other EM
• Impact of rising incomes in advanced, emerging & developing countries?

SOURCE: FAPRI, 2018
Keeping growth within context of market size

Poultry consumption and PC GDP
Major investments in Ag-processing

Benchmark crush capacity (2.06 Million tonnes) (80% Utilisation of dedicated soya and dual capacity)

Benchmark crush capacity (1.40 Million tonnes) (80% Utilisation of dedicated soya capacity)

Thousand tonnes

Soybean crush

Soybean full fat

Soya crush capacity (80% utilisation)

Soya and dual crush capacity (80% utilisation)
Consistent growth in SA demand
Land reform scenario matrix

2: Dis-investment (0-5 years)

1: Chaos ..... High risk sliding down (post 5 years)

3: Status quo; gradual decline

Will eventually migrate due to societal uprising (5-10 years)

4: Equitable and stable growth

Extension of strong property rights

Preferred

Nationalisation

Current

Weak protection of property rights

Inclusive economy

Concentrated economy

- What is needed to move from 3 to 4?
- Key messages and implications to quadrant players
Land Reform: One size does NOT fit all!

Net revenue per hectare (National 5-year averages)

Farm size

- Extensive livestock
- Grains & Oilseeds (Dryland)
- Grains & Oilseeds (irrigation)
- Vegetables (Tomatoes etc.)
- Orchards (Oranges etc.)

CAPEX & OPEX; R'000/ha

Gross Margin R'000/ha

Gross Margins

CAPEX

OPEX

- Extensive livestock
- Grains & Oilseeds (Dryland)
- Grains & Oilseeds (irrigation)
- Vegetables (Tomatoes etc.)
- Orchards (Oranges etc.)
Land Reform – the portfolio approach

Level & nature of support required

- Opening of international markets
- Private sector and PPPs providing access to input and output markets with focus on commercial value chains
- Well coordinated PPPs providing extension services and market access
- Targeted and coordinated programmes through strong government institutions

Demand for food / agricultural produce

- Commercial value chains for urban and export markets for all products
- Formal and informal markets and export markets for high-value products
- Markets in rural areas & fresh produce markets
- Household consumption

Farmer categories

- Commercial large scale
- Market orientated medium-scale producers producing surpluses
- Market orientated smallholders in loose value chains
- Subsistence orientated smallholders

Natural evolution & consolidation
Lack of statistics

- Current Stats SA survey misses our key target group
Natural Resource Base – spatial targeting

Agricultural Land Capability, Cash Crop Cultivated Land & Irrigated Land

- National_irrigation_FCB (Pivots, Horti, VII)
- Dryland Cropped Area (Excl. NC, EC & KZN)

Land Capability

CLASS

I
II
III
IV
V
VI
VII
VIII
Wa

Grain SA Jobsfund Project
Farming as a source of income

StatsSA 2015 Household survey
- 37% Salaries
- 36% Business
- 14% Remittances
- 6% Pension
- 3% Grants
- 3% Farming
- 3% Other
- 6% No income
- 3% Unspecified

2016/17 Jobs Fund - GrainSA supported developing farmers
- 41% Pension and grants
- 32% Farming
- 27% Other
- 6% Other
Maize consumption & marketing

Share of harvest consumed in the household

- 0%: 9%
- 1-25%: 26%
- 26-50%: 44%
- 51-75%: 8%
- 76-95%: 4%
- 95-100%: 9%

Where farmers sold their 2016/17 grain

- To a commercial mill or coop: 44%
- In the community: 34%
- To neighbours: 14%
- Other: 6%
- At pension days: 2%
Concluding thoughts

The “Go Do’s”:
- Market-led land reform
- Unlock under-utilised land....yes, it will cost direct support!
- Infrastructure: water, water, water .......
- Services...collapse of municipalities
- Opening of more export markets