

Absa AgriBusiness Agri - outlook



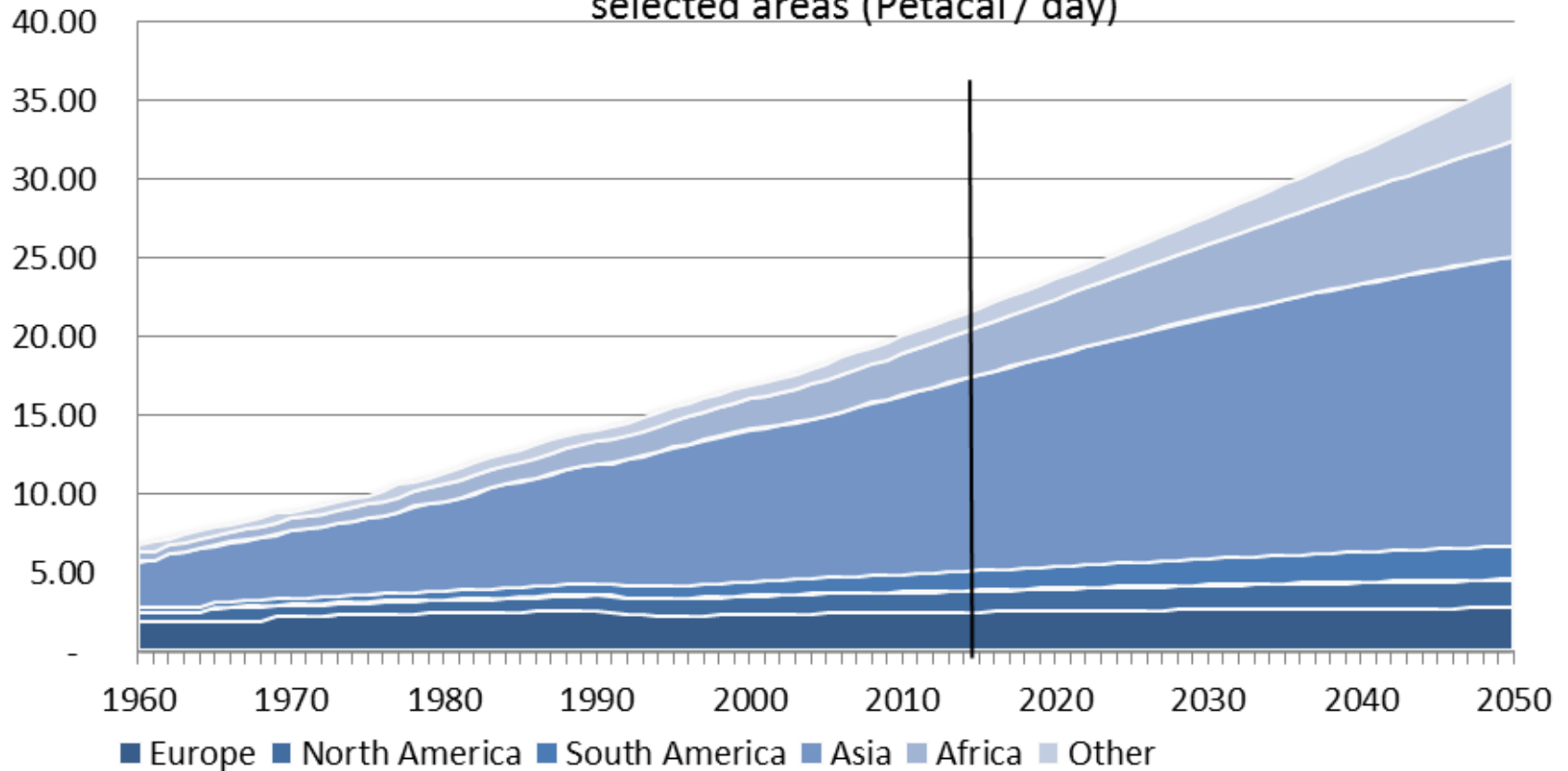
Presented By Ernst Janovsky

28 October 2014

Disclaimer: Although everything has been done to ensure the accuracy of the information, the Bank takes no responsibility for actions or losses that might occur due to the usage of this information.

Global food consumption in the next 40yr's is to exceed total food production of the last 500 years

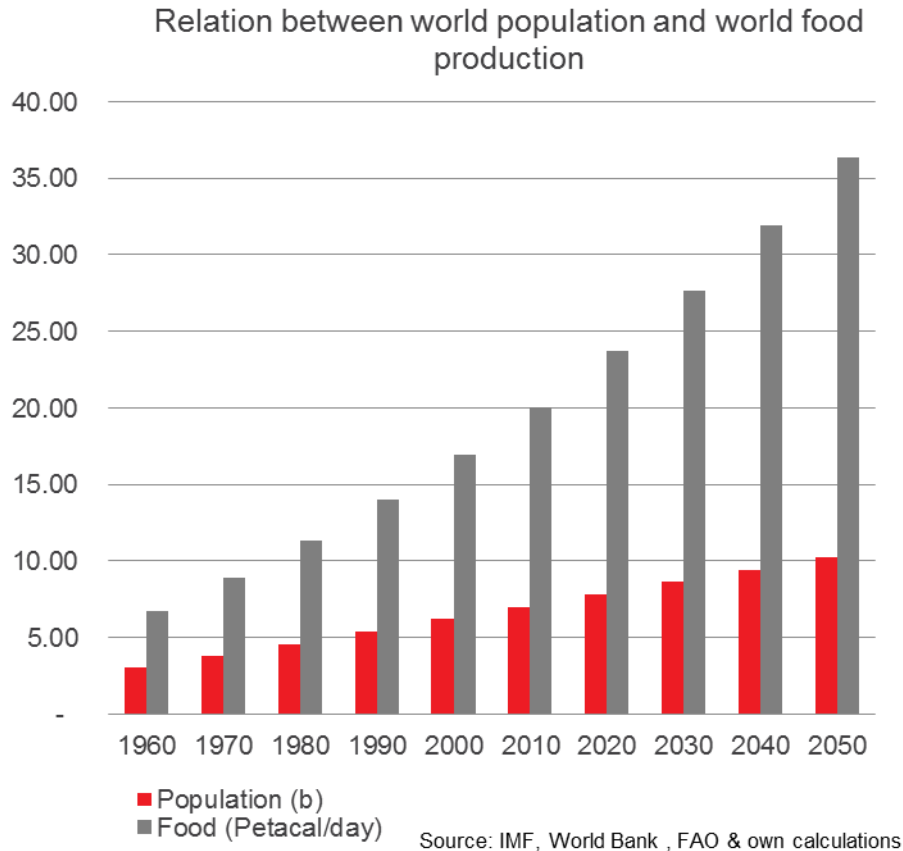
Growth in food consumption based on growth in population growth of selected areas (Petacal / day)



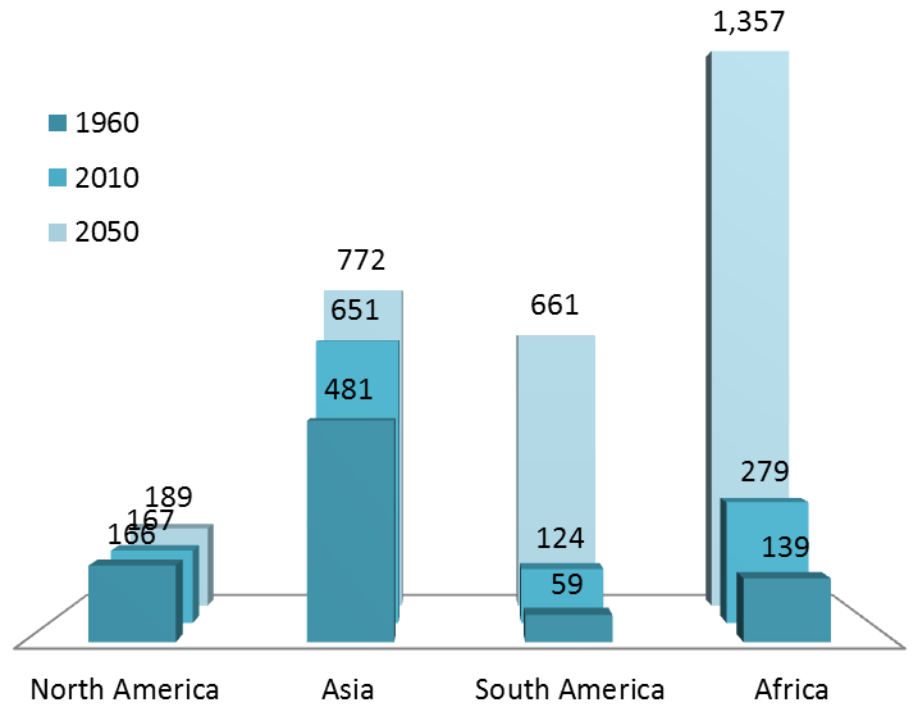
Source: IMF, World Bank , FAO & own calculations

Demand for food outstrip prediction based on population growth

Growth in demand can easily be met by unlocking production growth in Africa and South America.

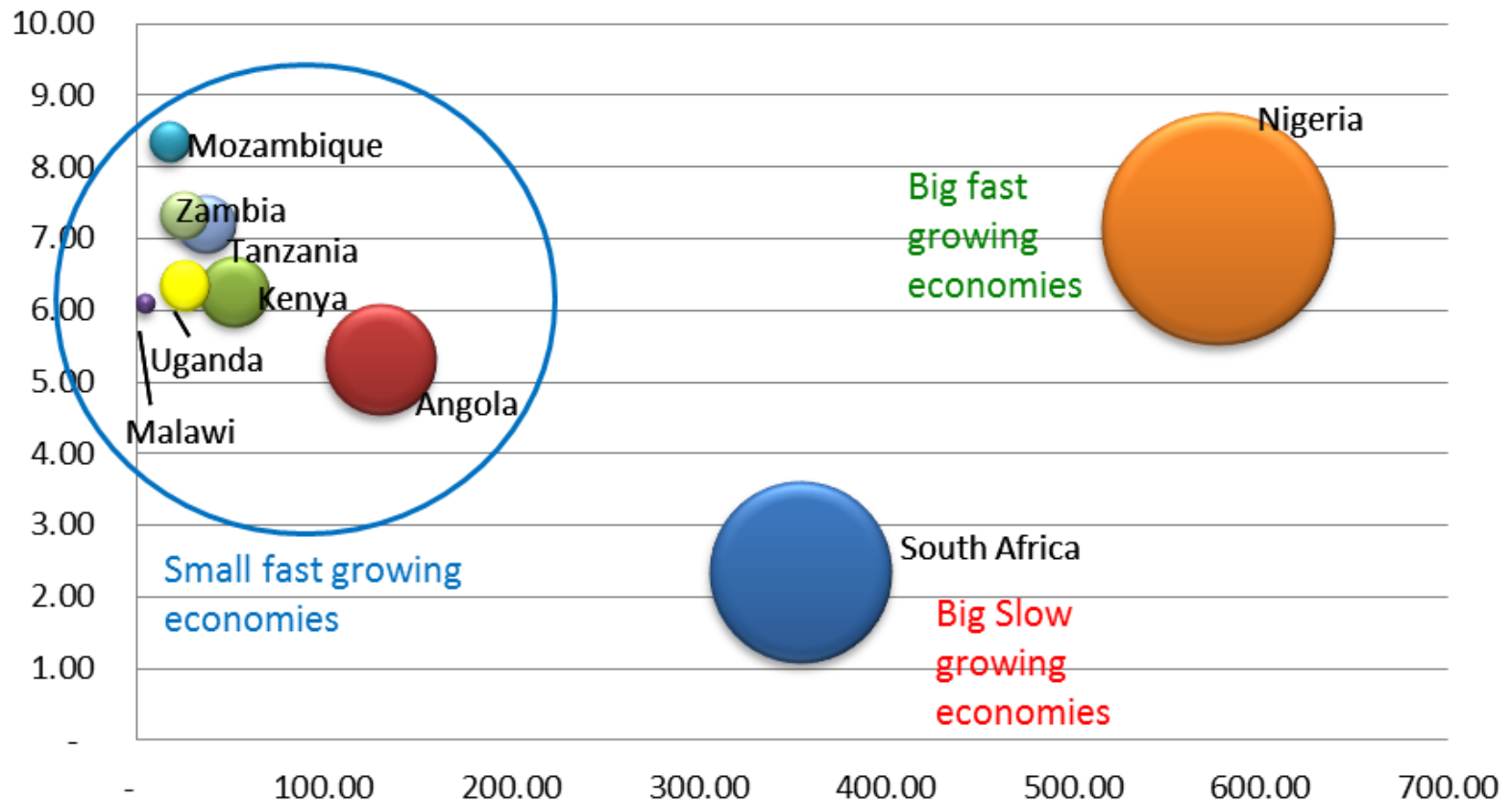


Resource availability for dry land crop production (million Ha)



Investment opportunities in Sub-Saharan based on the economic prospects

Sub-Saharan countries economic prospects
(GDP growth % vs GDP size US\$ b 2014)



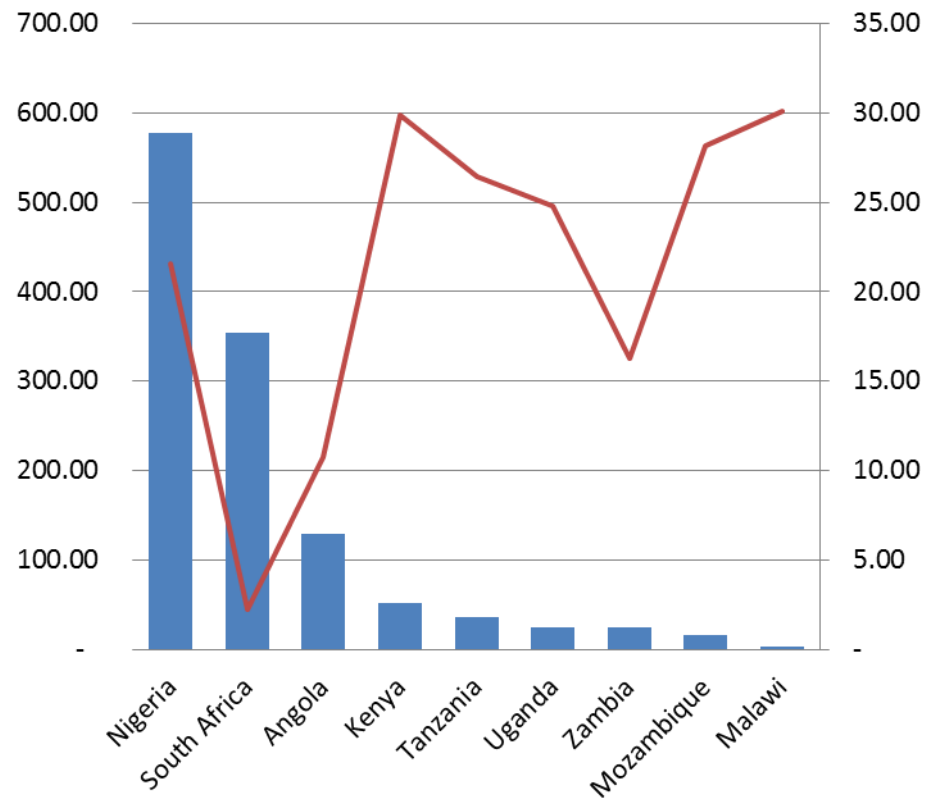
Source: IMF, World Bank & own calculations

Investment in agriculture needs to be match to investment in infrastructure

Other factors to consider before investing

1. Asset Management Risk (access to title or asset through leasehold)
2. Operational risk (ease of doing business, accesses to inputs etc.)
3. Marketing risk (Market access, Price discovery, Government intervention etc.)

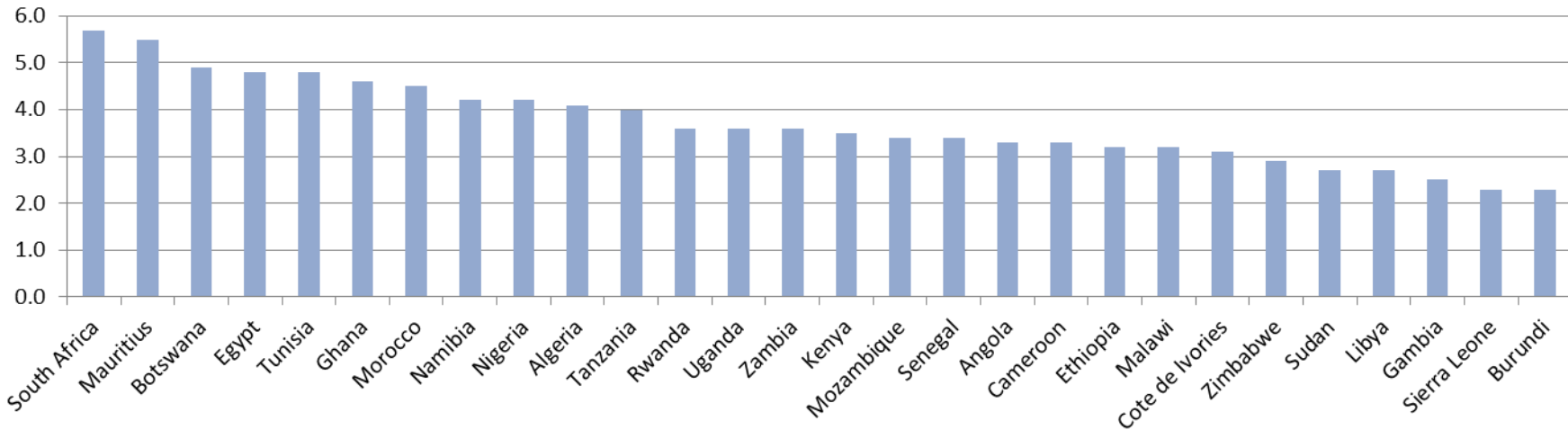
Relation between 2014 GDP (US\$ b) and Agriculture's contribution to GDP (%)



Investment risk rating (PESTLE) for selected Africa countries

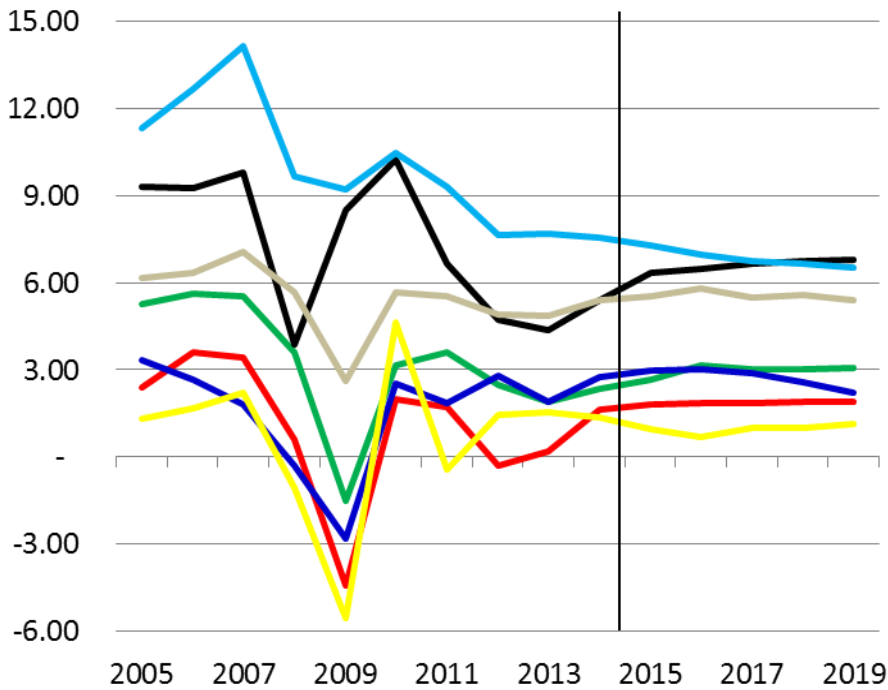
PESTLE anilist	South Africa	Mauritius	Botswana	Egypt	Tunisia	Ghana	Morocco	Namibia	Nigeria	Algeria	Tanzania	Rwanda	Uganda	Zambia	Kenya	Mozambique	Senegal	Angola	Cameroon	Ethiopia	Malawi	Cote de Ivories	Zimbabwe	Sudan	Libya	Gambia	Sierra Leone	Burundi
Political	6.9	7.0	7.7	4.5	4.8	5.5	5.1	6.1	3.9	5.3	5.4	1.7	4.5	5.4	3.9	4.5	5.5	4.7	4.3	4.0	4.8	4.1	2.7	2.2	2.8	1.7	1.4	1.5
Economic	5.1	4.1	3.8	5.2	4.6	4.0	4.3	3.5	4.6	4.3	4.2	3.5	3.9	3.9	4.0	3.8	3.3	4.2	3.5	3.6	3.1	3.6	2.5	3.1	3.2	3.2	2.5	2.5
Social	3.3	3.6	2.4	4.3	3.6	3.9	3.5	2.4	3.3	2.7	2.5	1.9	2.2	2.2	3.2	2.3	2.6	1.8	3.0	2.3	2.2	2.1	3.4	2.8	3.0	1.4	1.6	1.6
Technology	6.0	7.0	4.9	6.9	7.0	4.5	7.2	4.7	4.0	6.7	2.7	1.7	2.4	2.4	3.3	1.9	4.1	3.0	3.5	1.5	1.6	3.9	4.1	2.0	6.7	2.9	1.4	0.6
Legal	6.7	7.9	6.2	4.4	6.1	6.0	4.2	5.1	4.5	3.0	4.7	8.1	4.4	4.4	3.6	3.9	2.5	2.3	2.7	3.8	3.9	2.4	2.8	3.5	0.0	3.4	3.9	4.6
Environment	5.8	1.7	1.9	3.8	2.1	2.6	2.6	2.5	4.2	3.8	2.4	1.3	1.9	1.9	2.0	2.3	1.6	2.8	2.3	2.2	1.5	2.3	2.8	2.3	2.9	1.4	1.7	1.2
Total	5.7	5.5	4.9	4.8	4.8	4.6	4.5	4.2	4.2	4.1	4.0	3.6	3.6	3.6	3.5	3.4	3.4	3.3	3.3	3.2	3.2	3.1	2.9	2.7	2.7	2.5	2.3	2.3

PESTLE score per country (1=high risk 10 = low risk)



Global demand shifts immanent if GDP growth is used as indicator of expected demand growth.

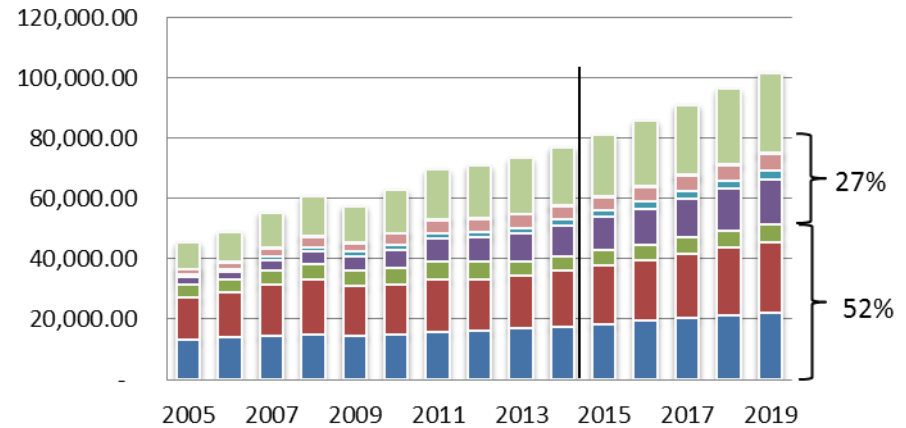
Real GDP growth for selected countries



- South Africa
- Japan
- Sub Sahara Africa
- Europ
- India
- USA
- China

Source: IMF, World Bank & own calculations

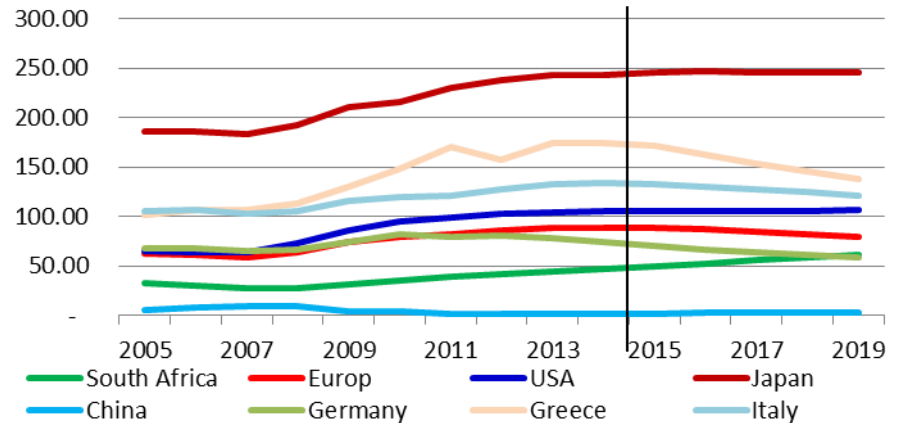
World GDP for selected countries



- USA
- Europ
- Japan
- China
- India
- Russia & Brazil
- South Africa
- Other

Source: IMF, World Bank & own calculations

Government debt as percentage of GDP

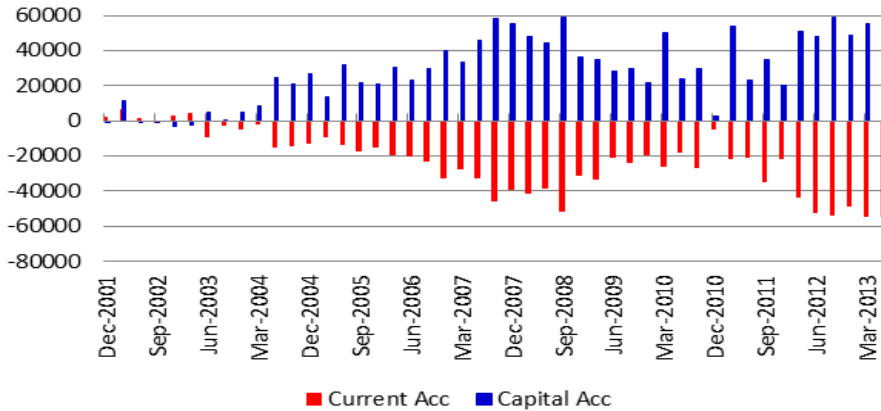


- South Africa
- Europ
- USA
- Japan
- China
- Germany
- Greece
- Italy

Source: IMF, World Bank & own calculations

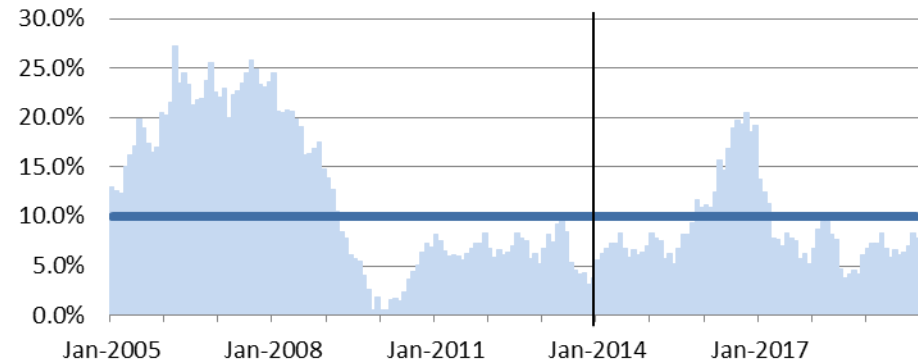
Market sentiments drive exchange and interest rates and market volatility

South African Balance of Payment (R billion)



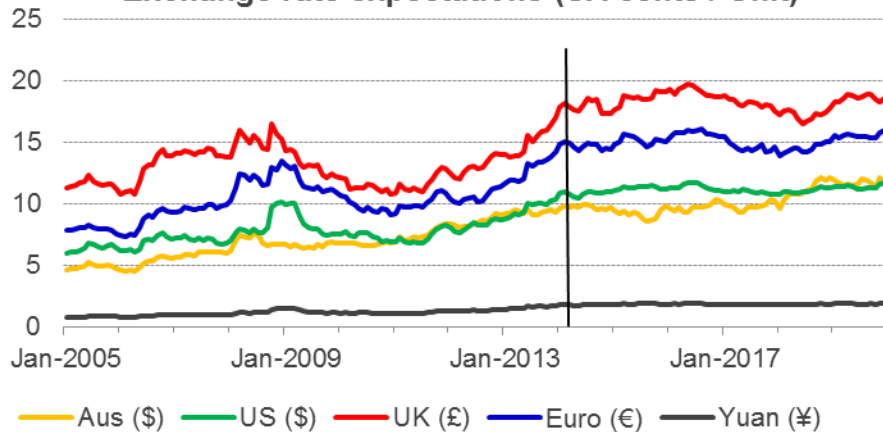
Sources: Reserve Bank

Year on Year growth M3 money (%)



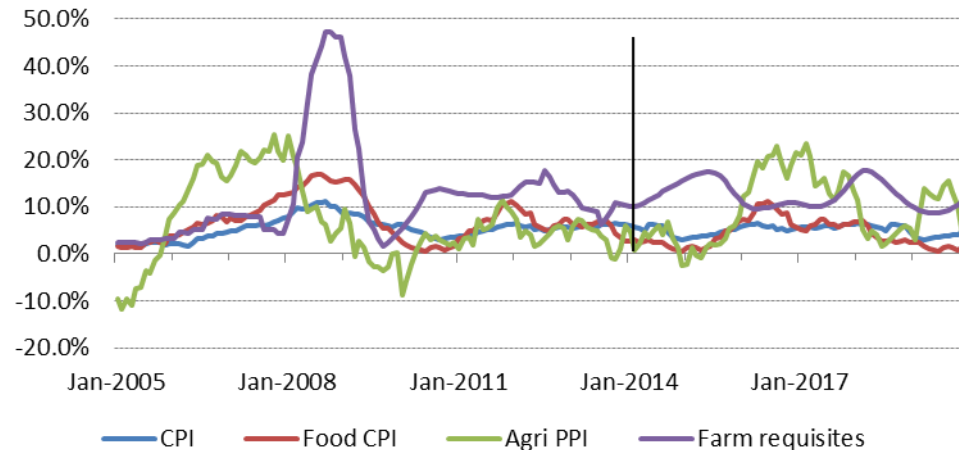
Sources: Reserve Bank

Exchange rate expectations (SA cents / Unit)



Sources: Own calculations

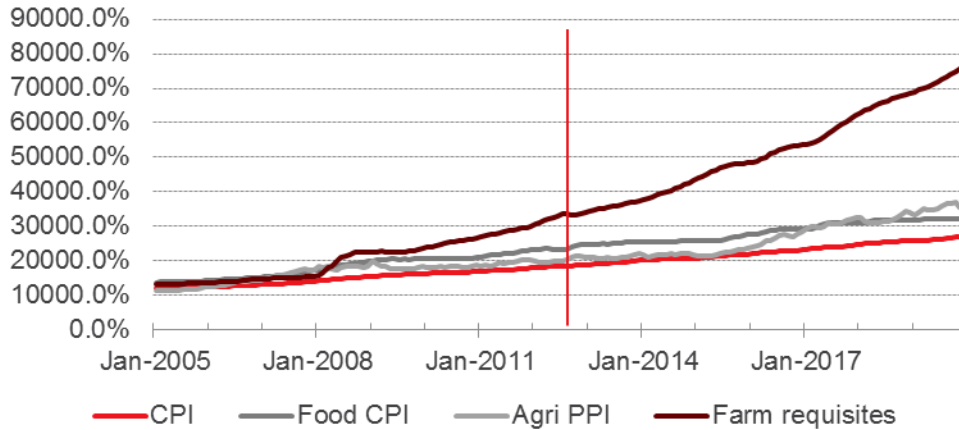
SA Inflation (%YoY)



Sources: Stats SA, Debt Agriculture

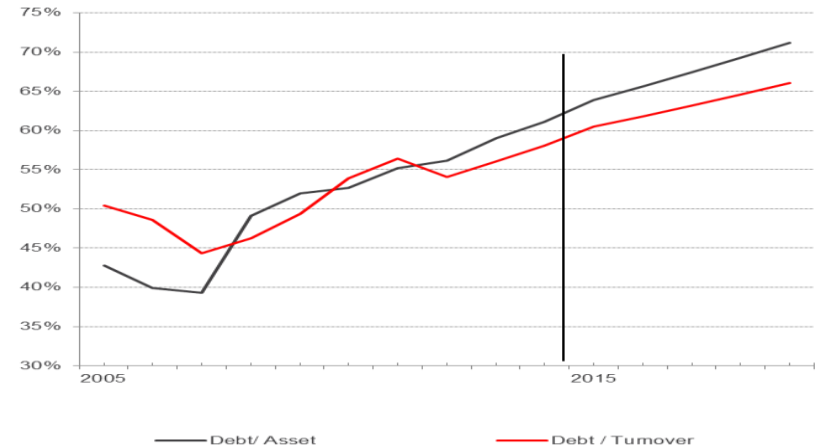
Constant improvement in productivity is needed independent of the farming method to remain profitable.

SA Inflation indicators (2005 = 100)

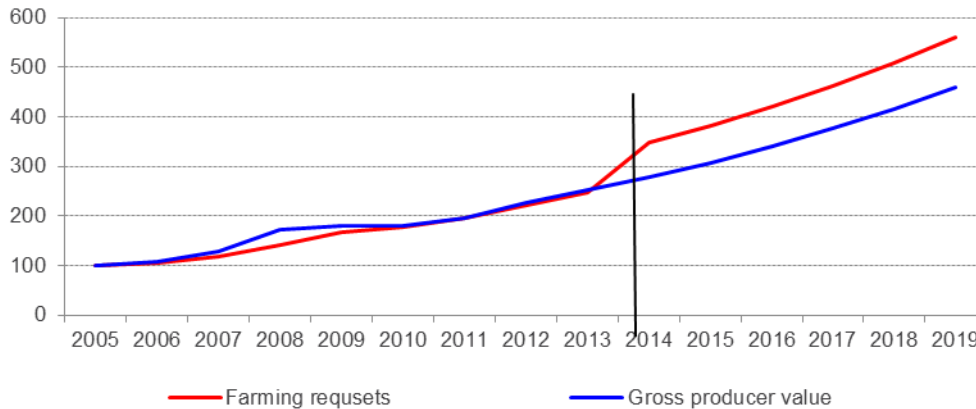


Sources: Stats SA, Dept Agriculture

Debt to Fixed Asset and Turnover ratio (%)



Relation gross producer value and input costs (Index 2005 = 100)



Source: Department of agriculture, own calculation

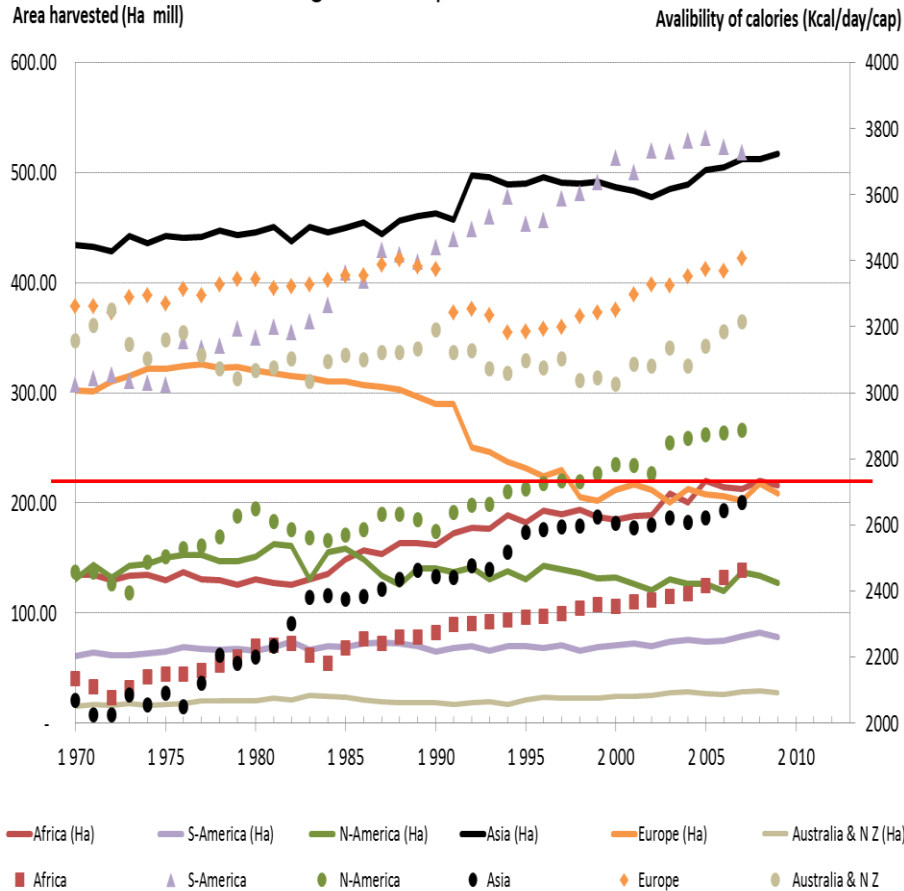
Productivity

=

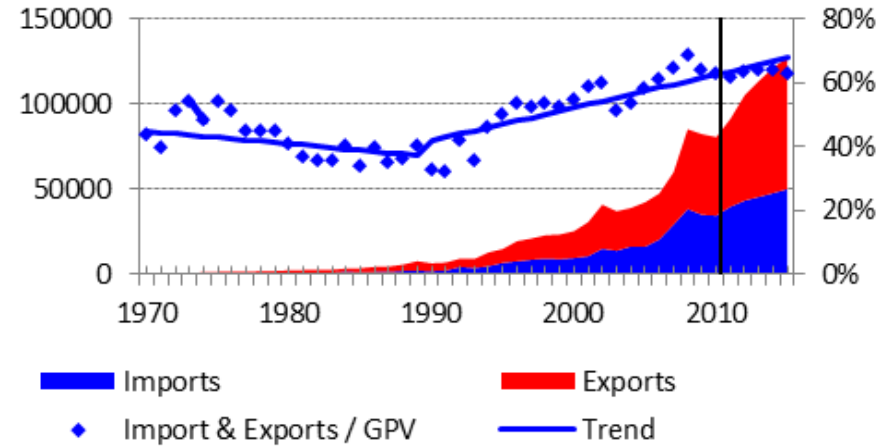
$$\left[\frac{(\text{Price} \times \text{Volume}) - \text{Production cost}}{\text{Unit}} \right]$$

Producers do not have any control over price and are deemed to be price takers

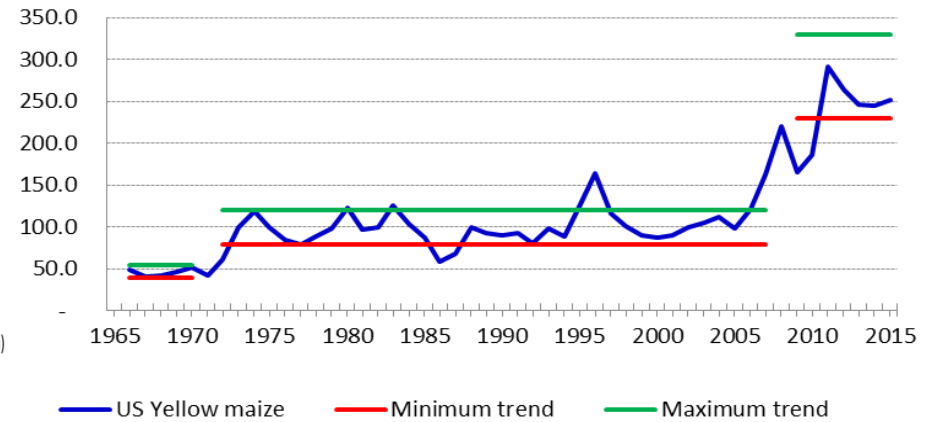
World Agricultural production trends



Value of importe and exports of agricultur goods (R'000 & % of GPV)



International yellow maize price trends (US\$/T)



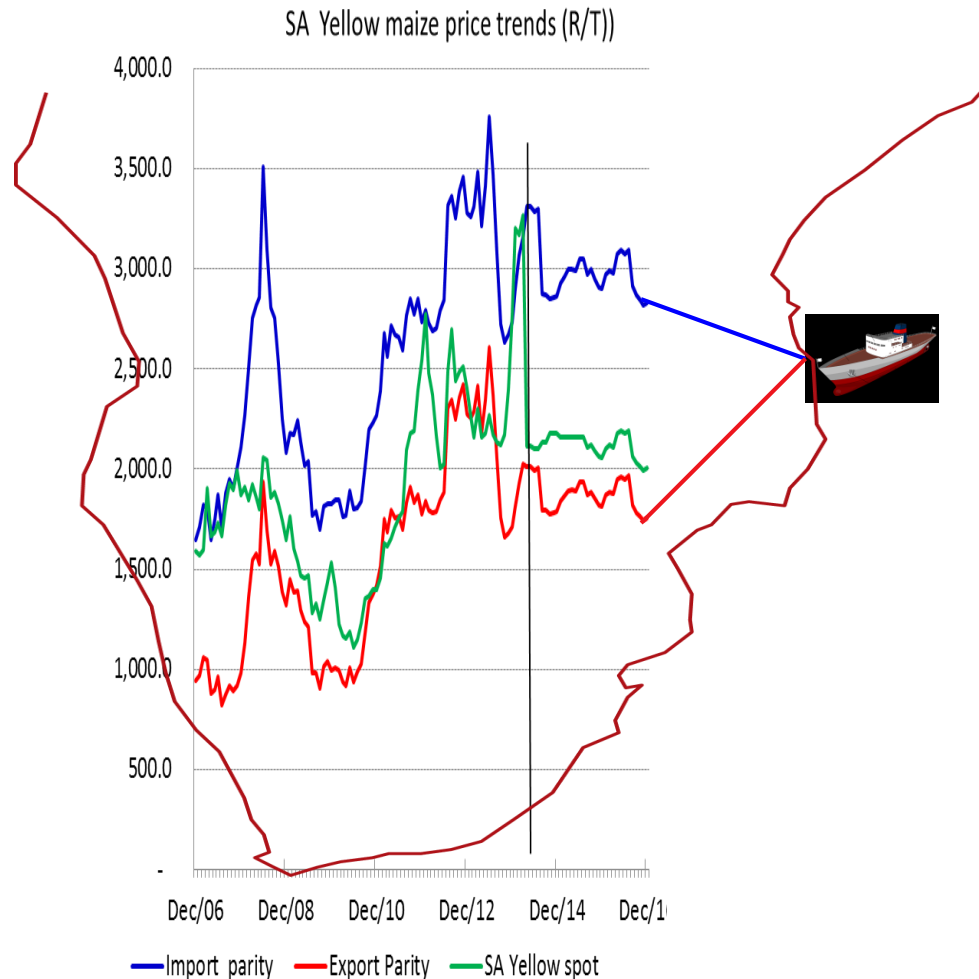
Domestic price volatility is the net result of domestic supply and demand trends with in the boundaries of import and export parity prices

Import parity price =

- World price x Exchange rate
- + Unload costs
- + Tariff
- + Transport Cost
- + Importer's margin
- + Shrinkage and Spillage

Export parity price =

- World price x Exchange rate
- Upload costs
- Transport Cost
- Exporter's margin
- Shrinkage and Spillage



Through productivity increases, Farming Enterprises can continue to remain profitable in spite of a Cost Curve

1. Demand technology

- Taste enhancement / Packaging / Presentation / Time value enhancements
- **Variety, safety and convenience is taken as a given**

2. Storage technology

- Improved shelf life
- Dairy – UHT
- Apples - CA treatment 18mth
- **No more seasonality**

3. Information technology

- Connectivity
- Precision farming – Effective utilization of inputs
- Measurement and efficiency Management
- Positioning of seed
- Automation tractors, dairy etc.
- **Here now attitude / instant gratification**

4. Energy efficiency and Transport

- World is becoming a smaller place
- No till – 12-17L/ha
- New efficient tractors
- Green energy applications
- **Delivery just in time**

5. Production technology

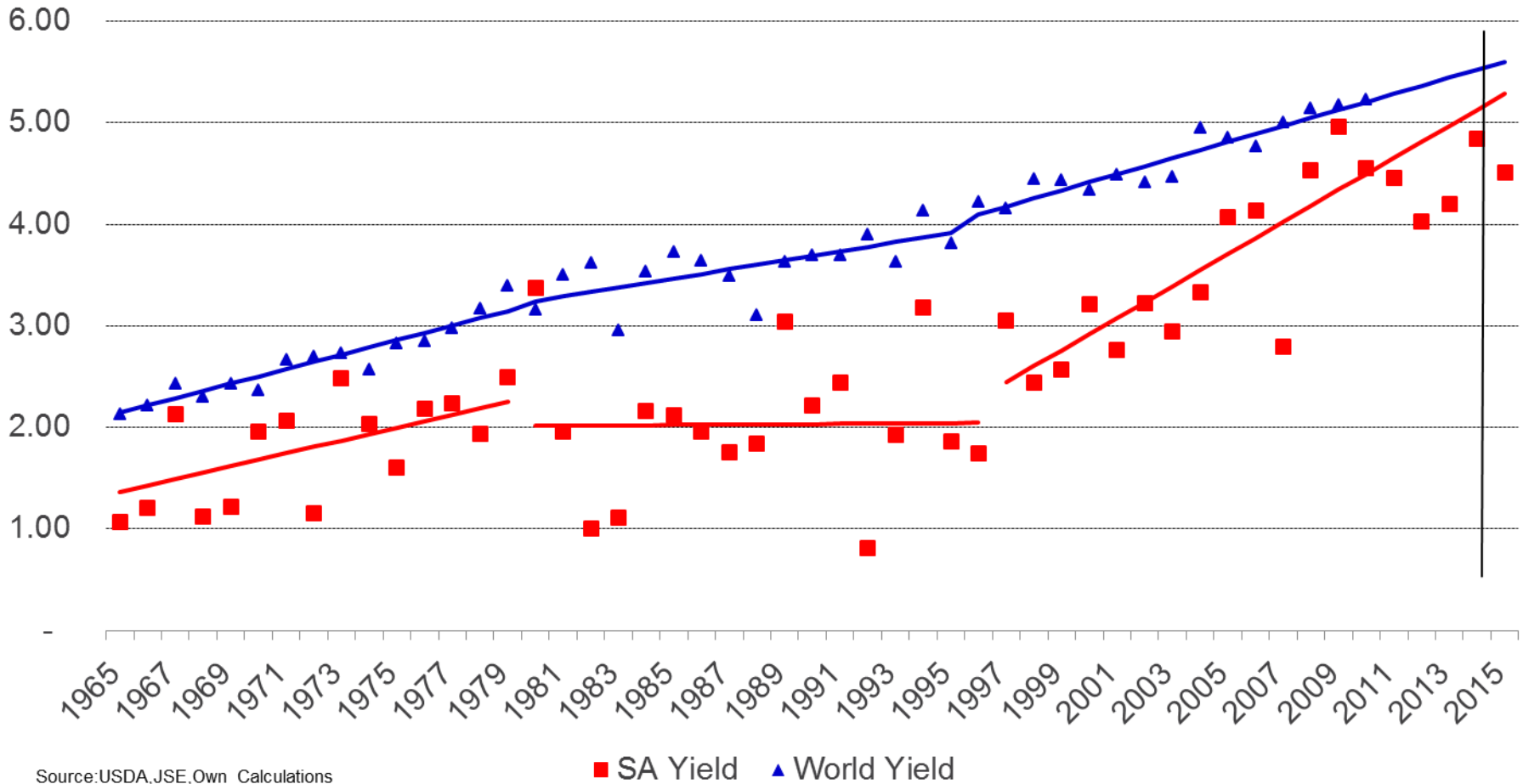
- Biological farming
 - Bacterial soups
 - Organic and Chemical
- Genetic technology
 - Selection via gene traits
 - Manipulation of genes
- **Improved Efficiency's**

6. Economy of scale

- Size efficiency

Maize productivity improvement through yield improvement

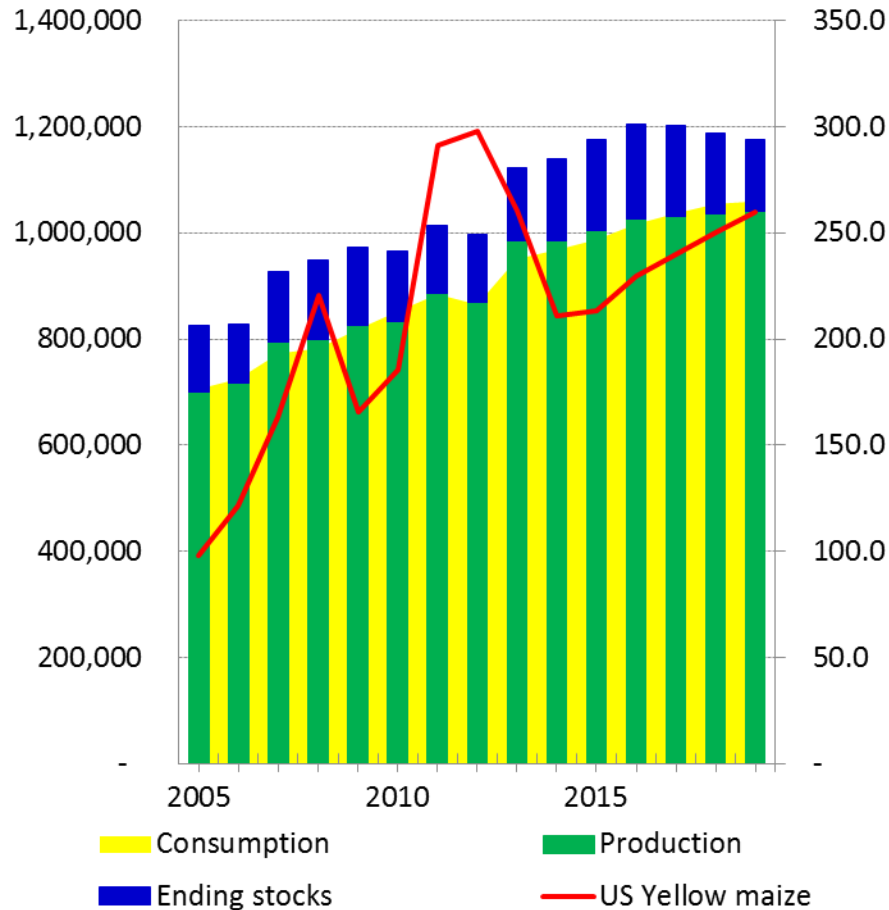
Maize yield trends (t/ha)



Source: USDA, JSE, Own Calculations

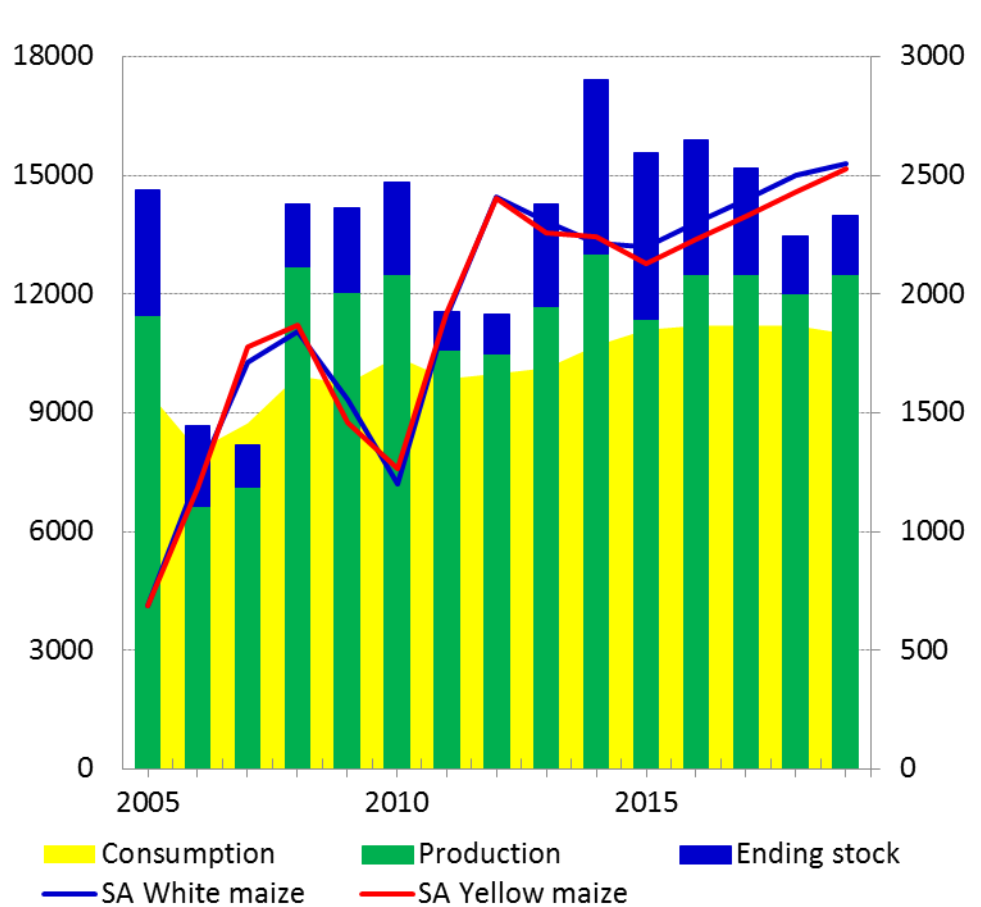
International and domestic long term maize outlook

World maize production and price trends ('000t : R/t)



Source:USDA,JSE,Own calculations

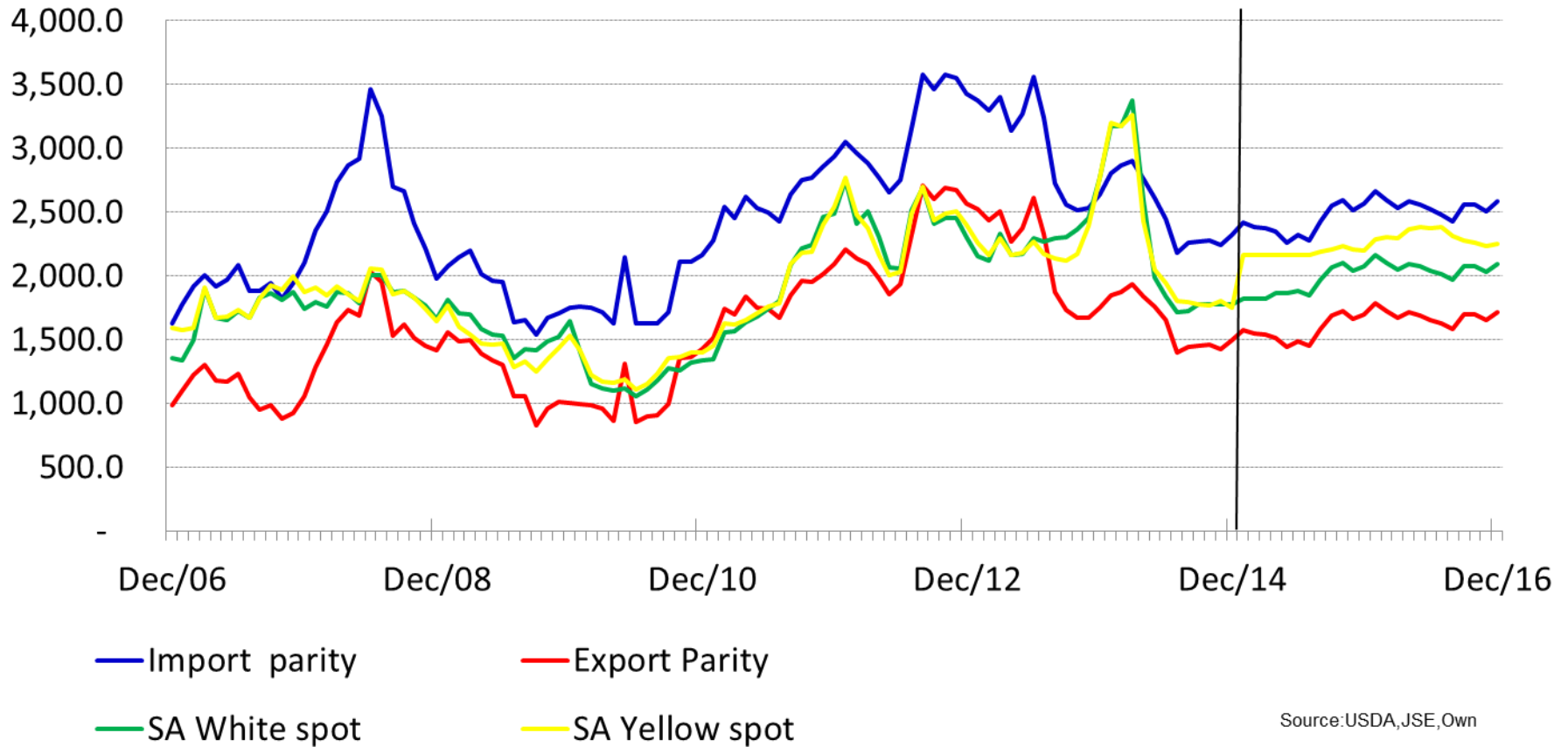
Domestic maize production and trends ('000t : R/t)



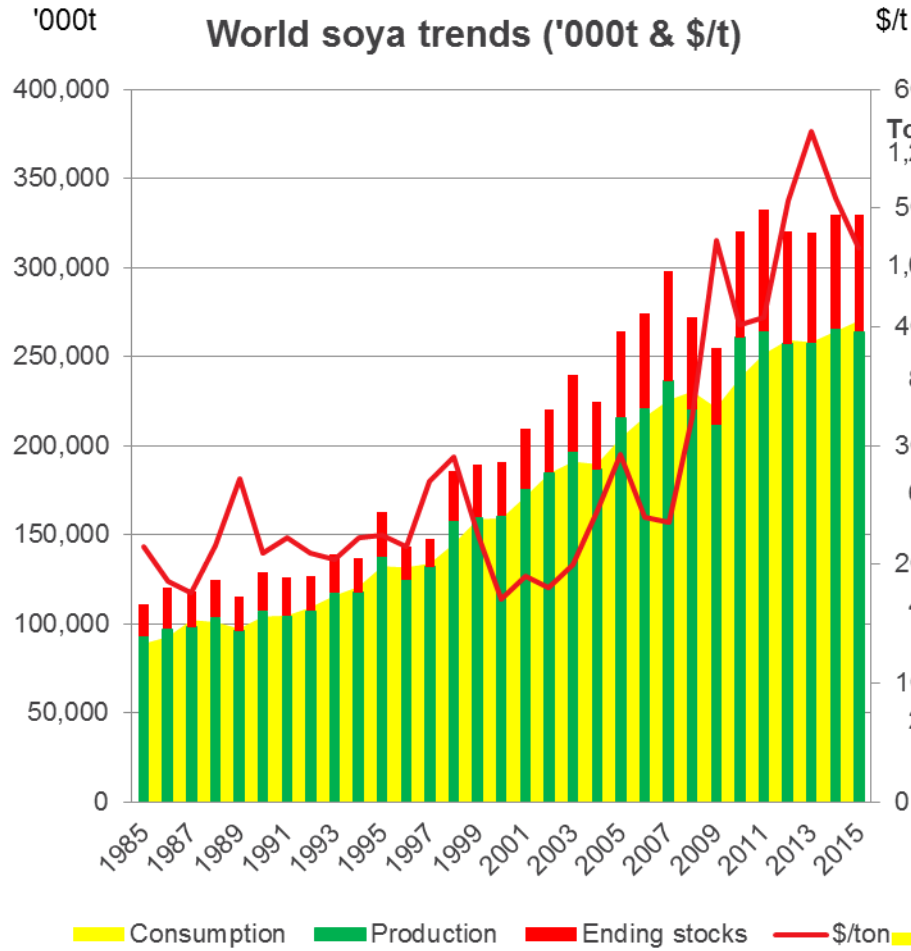
Source:USDA,JSE,Own Cal

Domestic short term maize outlook

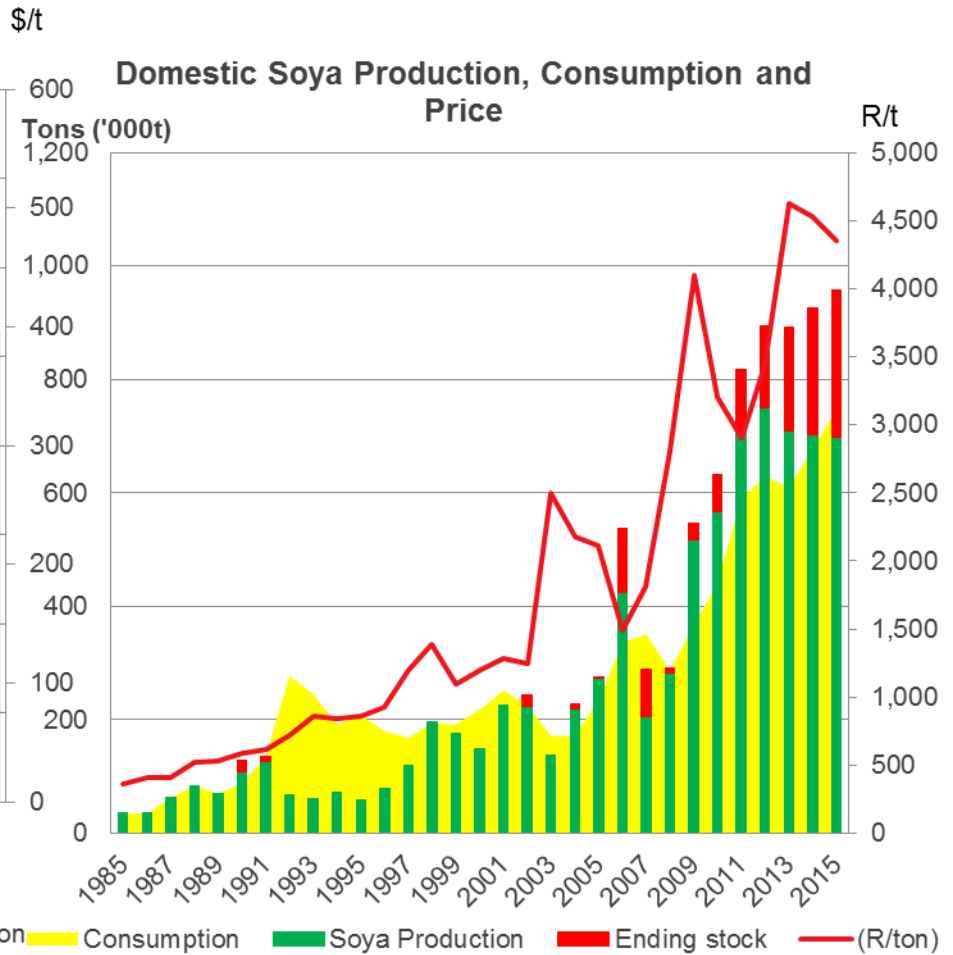
SA White and Yellow maize price trends (R/T)



World and domestic soya trends



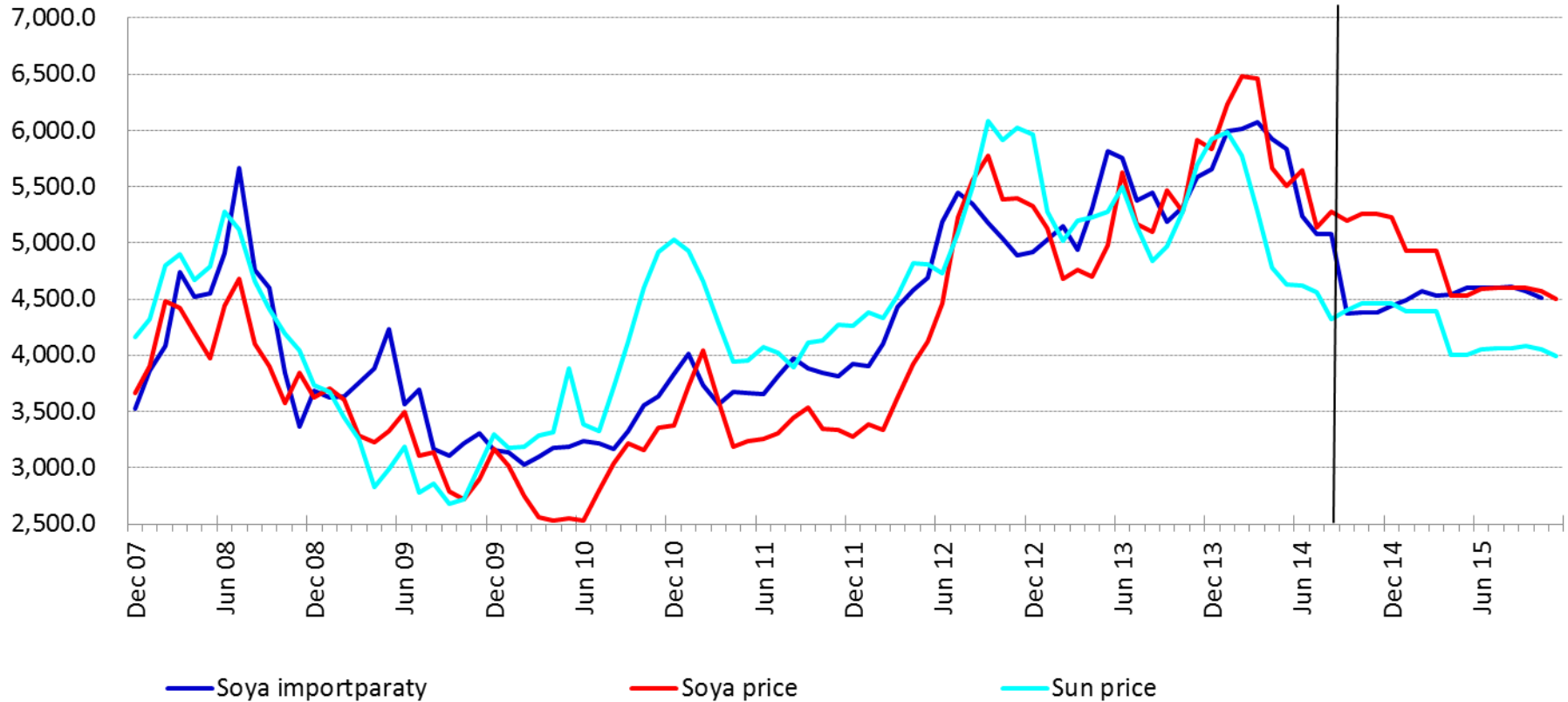
Source:USDA,DAFF,Own Calculations



Source:USDA,DAFF,Own Calculations

Domestic Oil seed price outlook

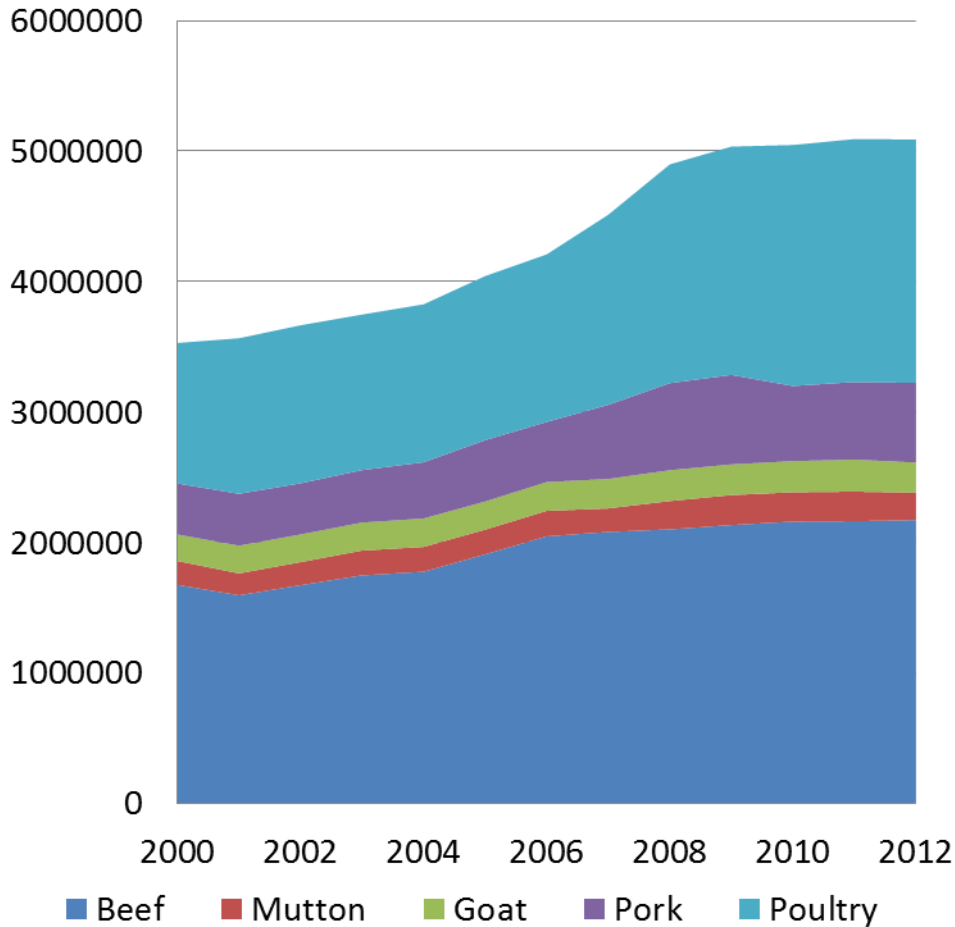
SA Soya price trends (R/T)



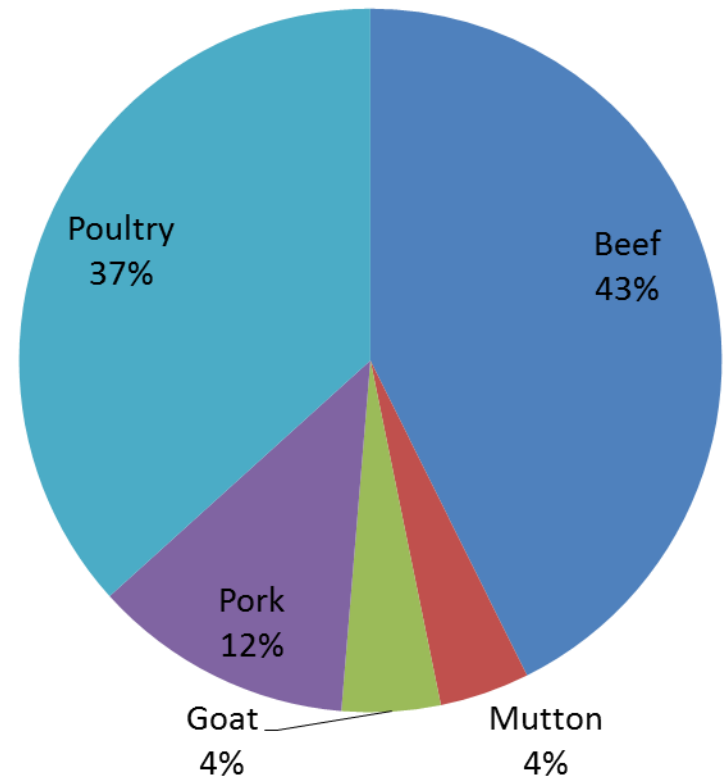
Source : Safex, own cal

Southern Africa livestock meat production trends

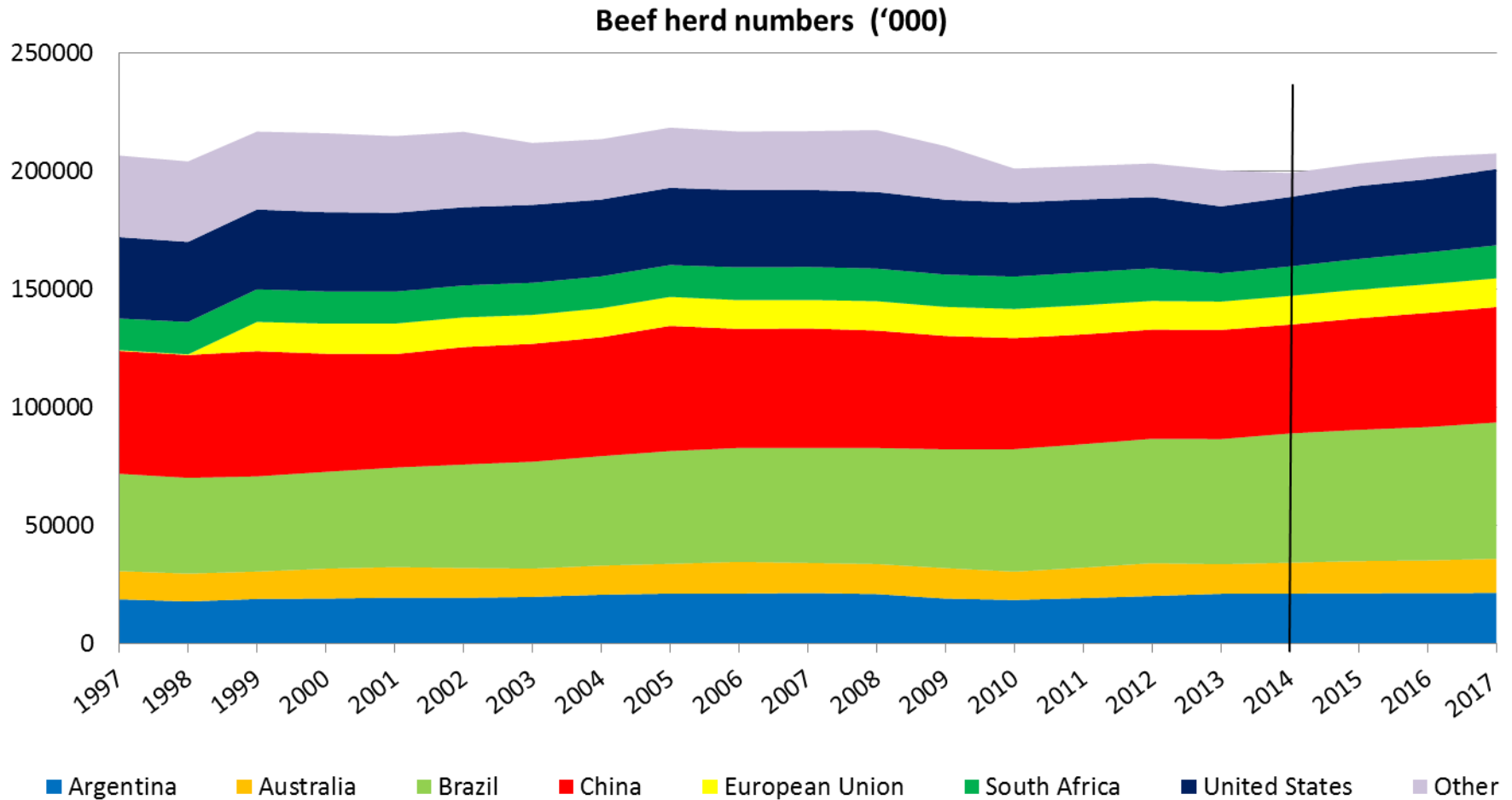
Southern Africa Meat production (t)



Southern Africa Meat production 2012
(5,08mt)

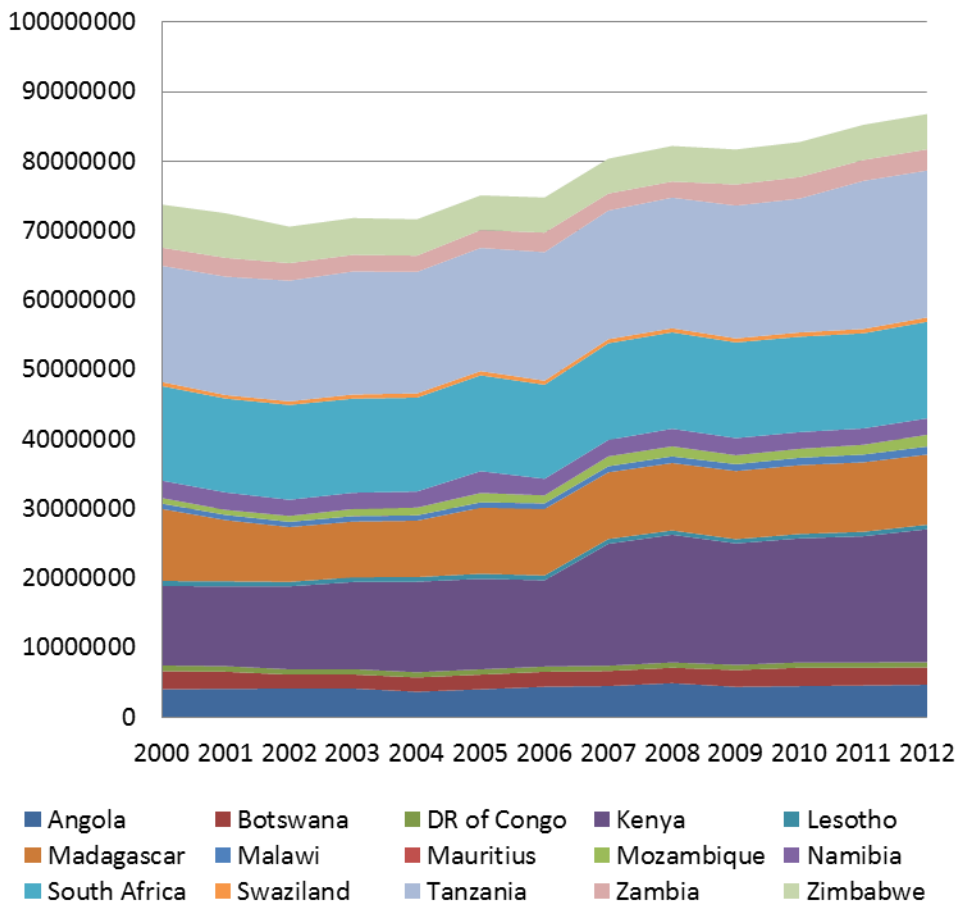


World Cattle numbers

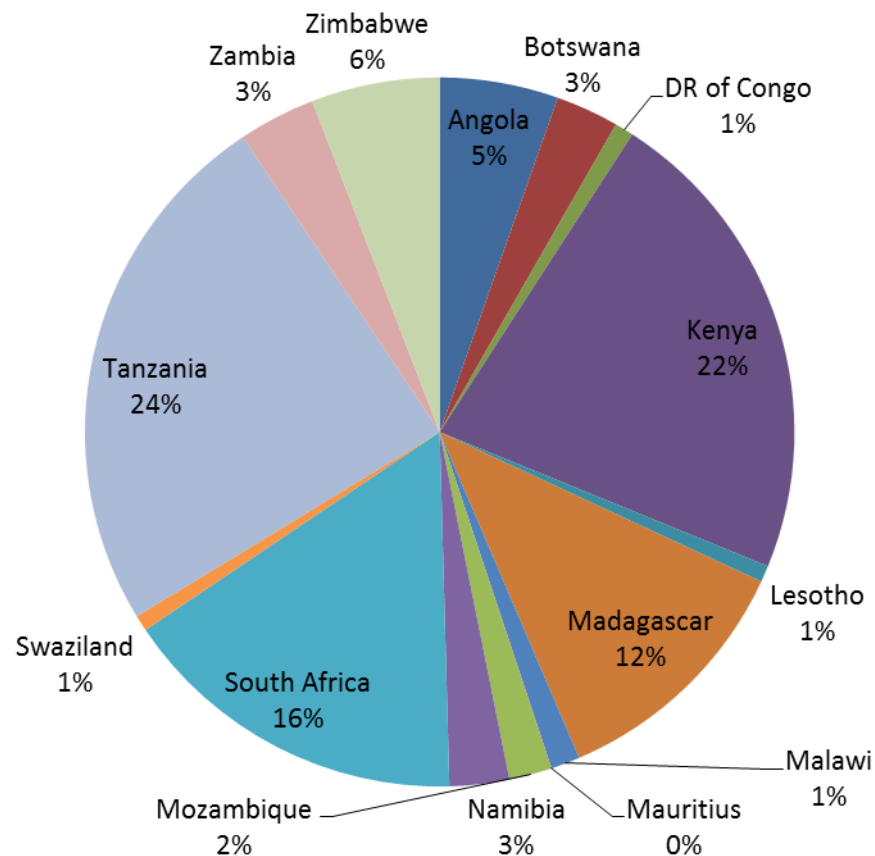


Southern Africa Beef herd numbers

Southern Africa Beef herd trends (#)

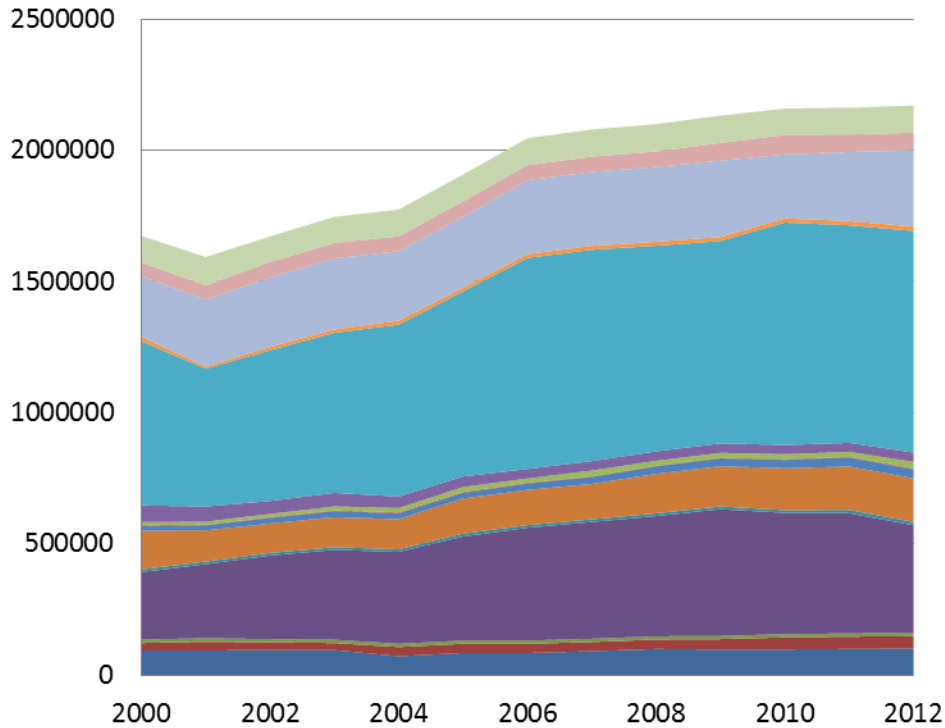


Southern Africa - Cattle herd composition 2012 (86,7m)

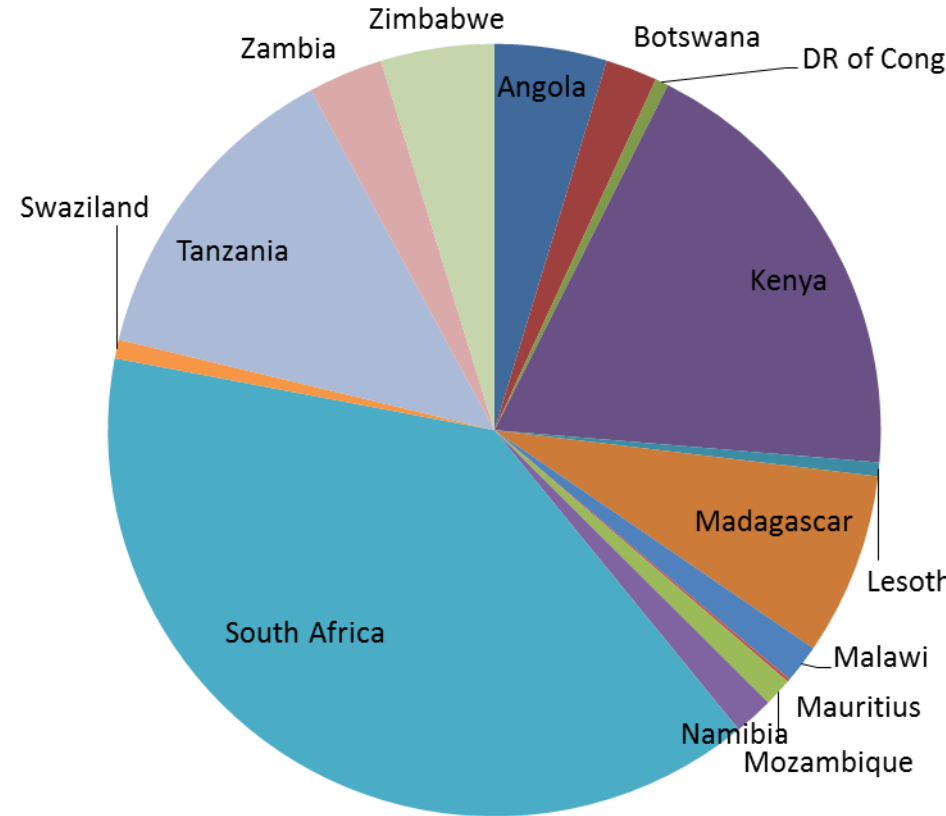


Southern Africa beef production

Southern Africa Beef production (t)



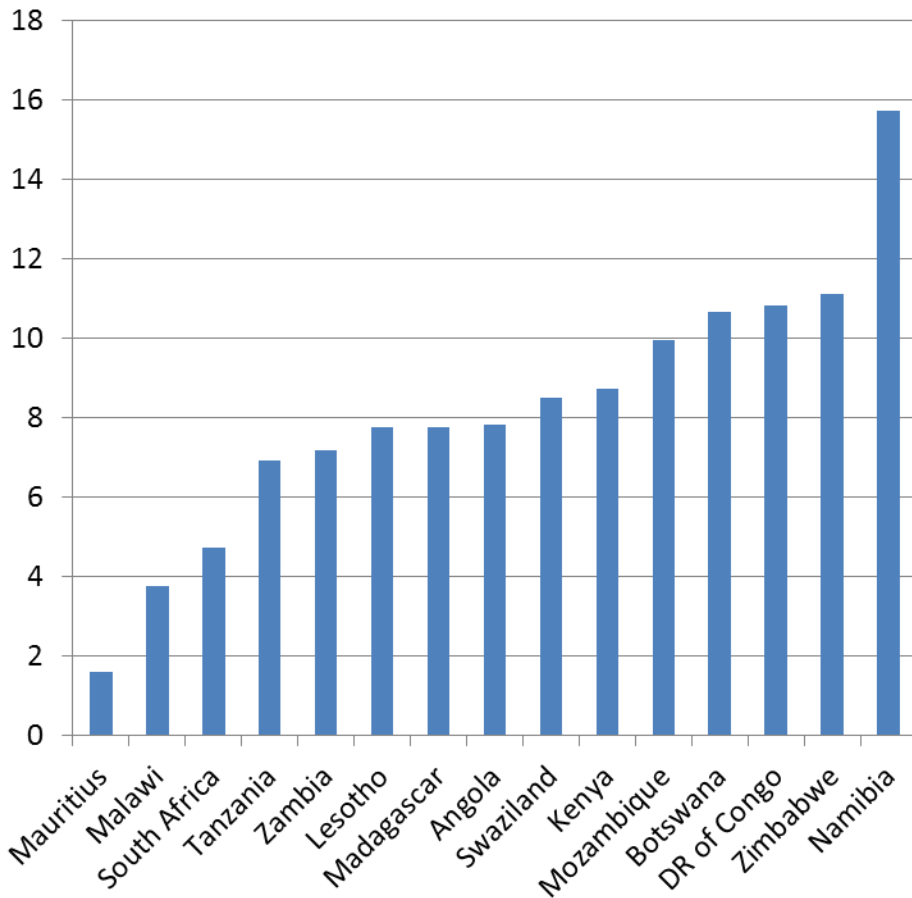
Southern Africa - Beef production 2012 (2,17mt)



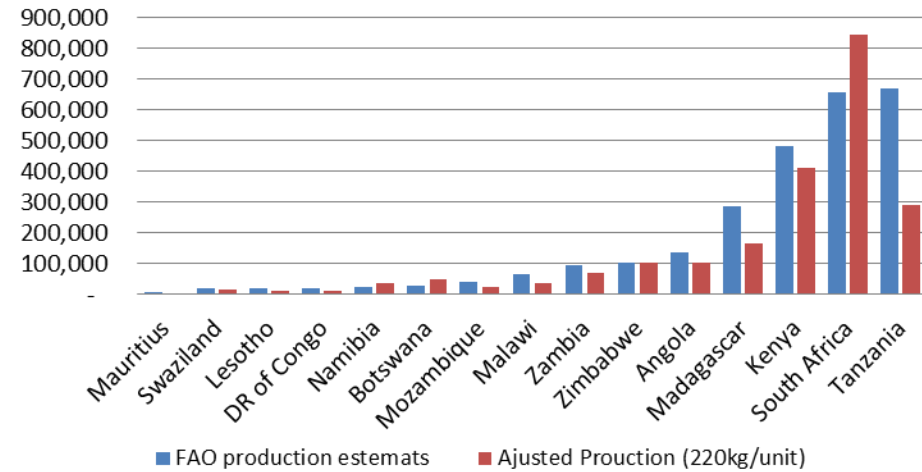
- Angola
- Botswana
- DR of Congo
- Kenya
- Lesotho
- Madagascar
- Malawi
- Mauritius
- Mozambique
- Namibia
- South Africa
- Swaziland
- Tanzania
- Zambia
- Zimbabwe

Southern Africa beef herd efficiencies ratios as well as over and under reporting of production trends

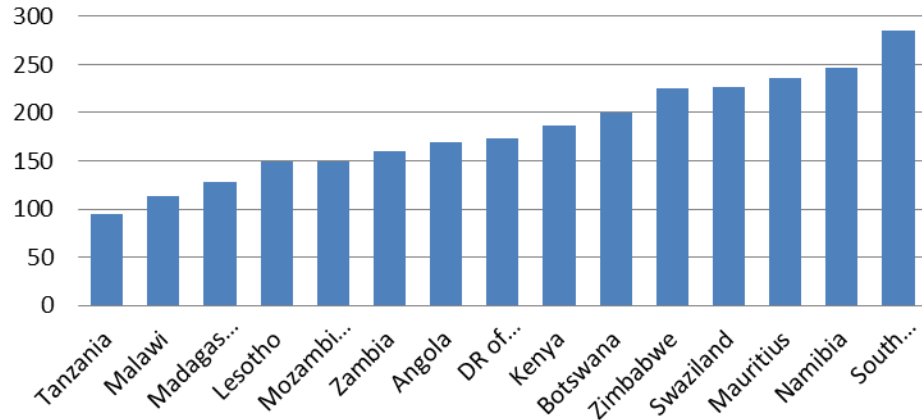
Herd: Slaughter - efficiency Ratio



Over under reporting of production (t)

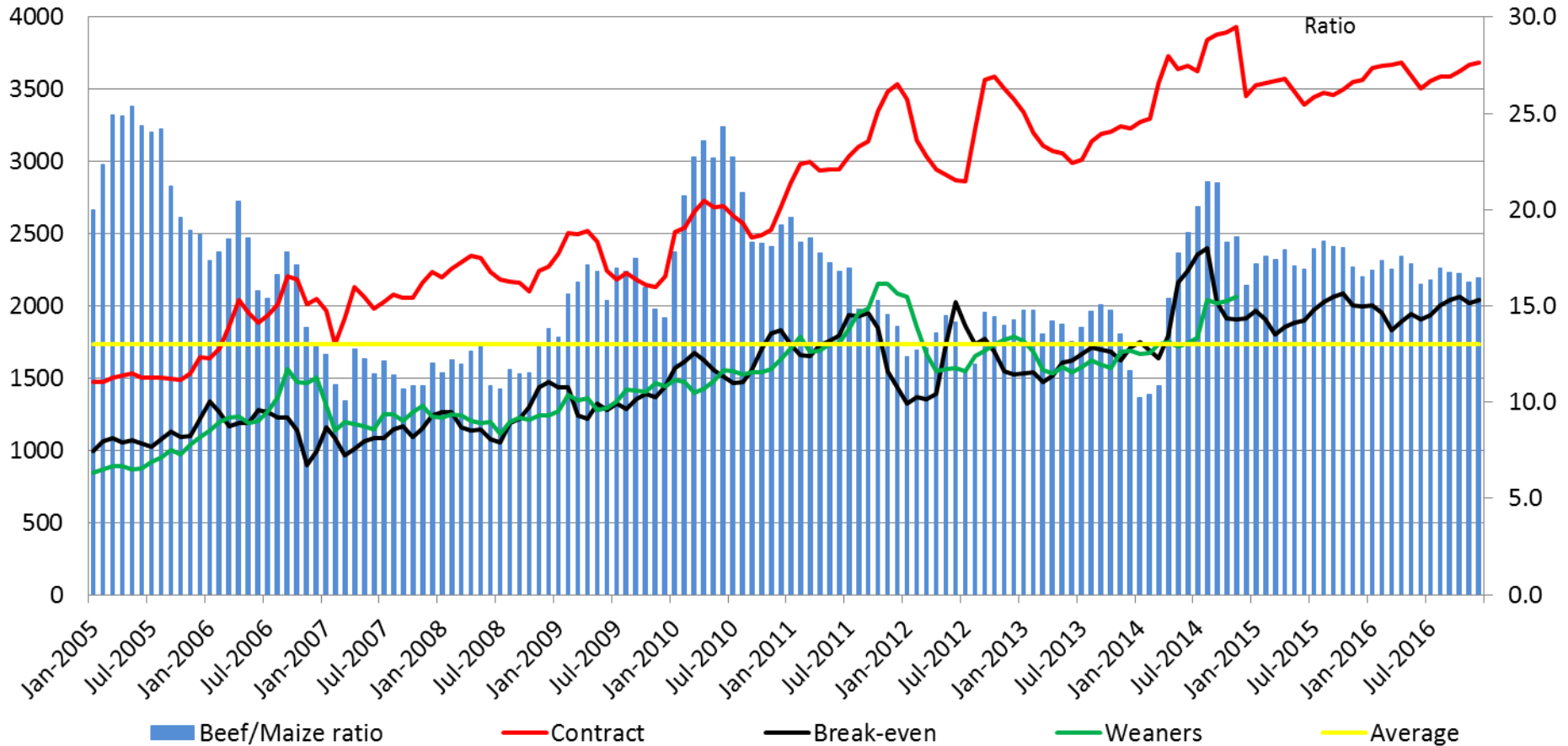


Calculated Average Carcass weight FAO (kg/unit)



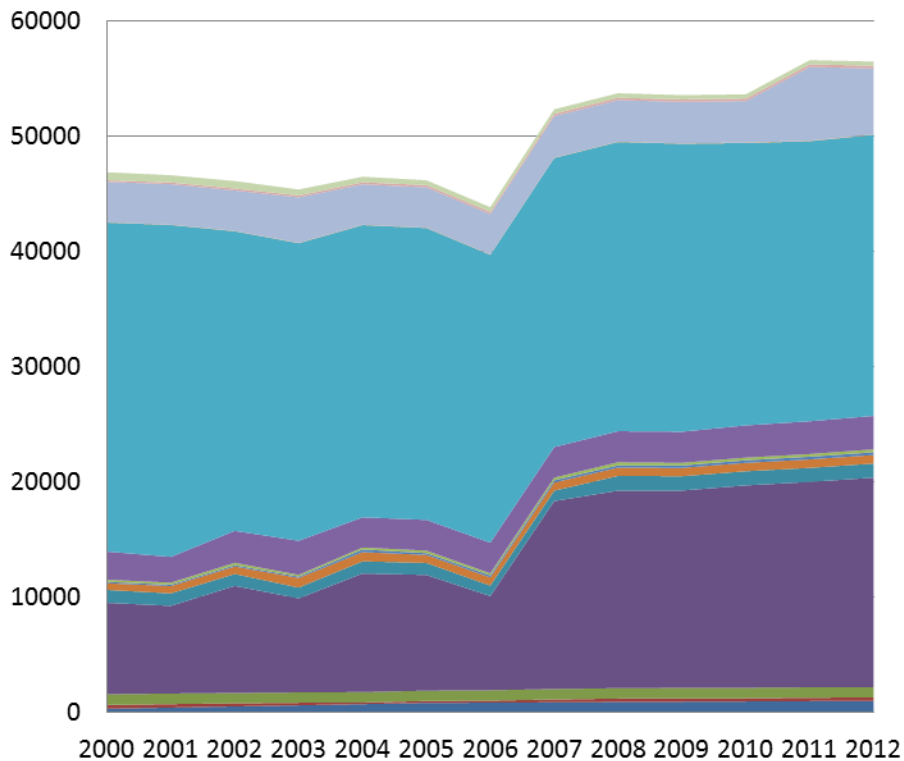
Beef price outlook

Relationship between maize & weaner calf prices

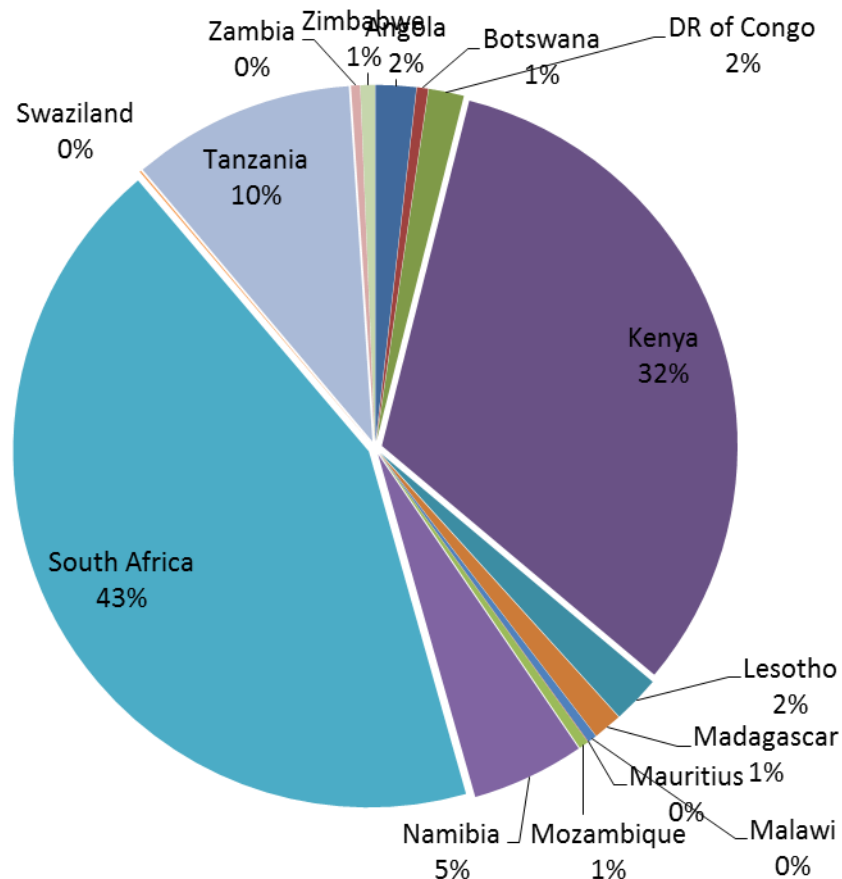


Southern Africa Sheep Herd trends

Southern Africa Sheep herd trends (#'000)

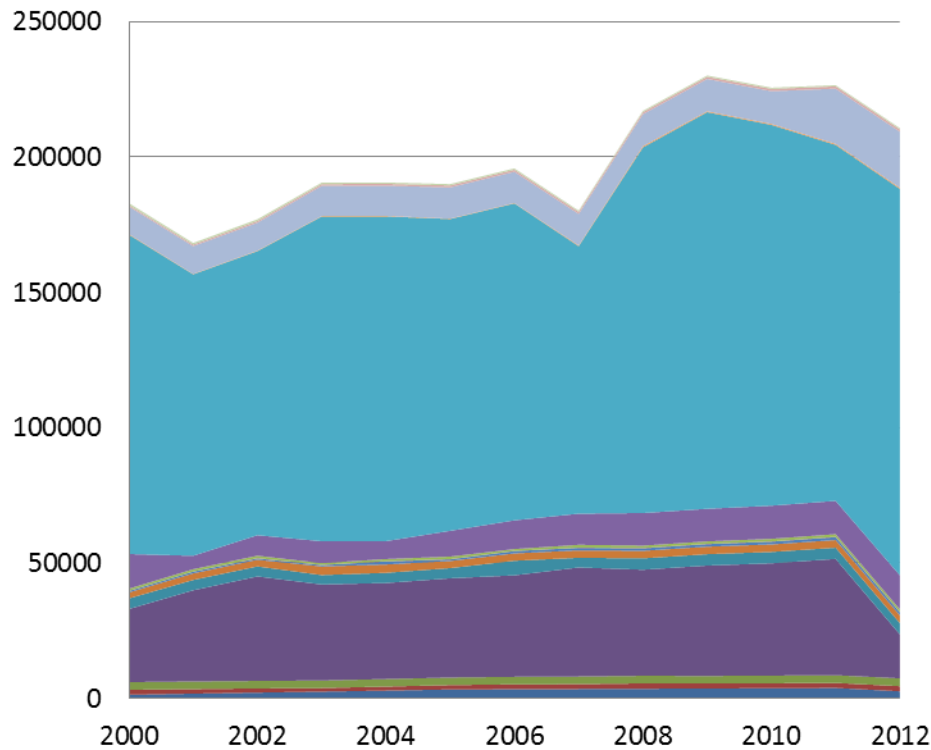


Southern Africa - Sheep herd composition 2012 (56,5m)

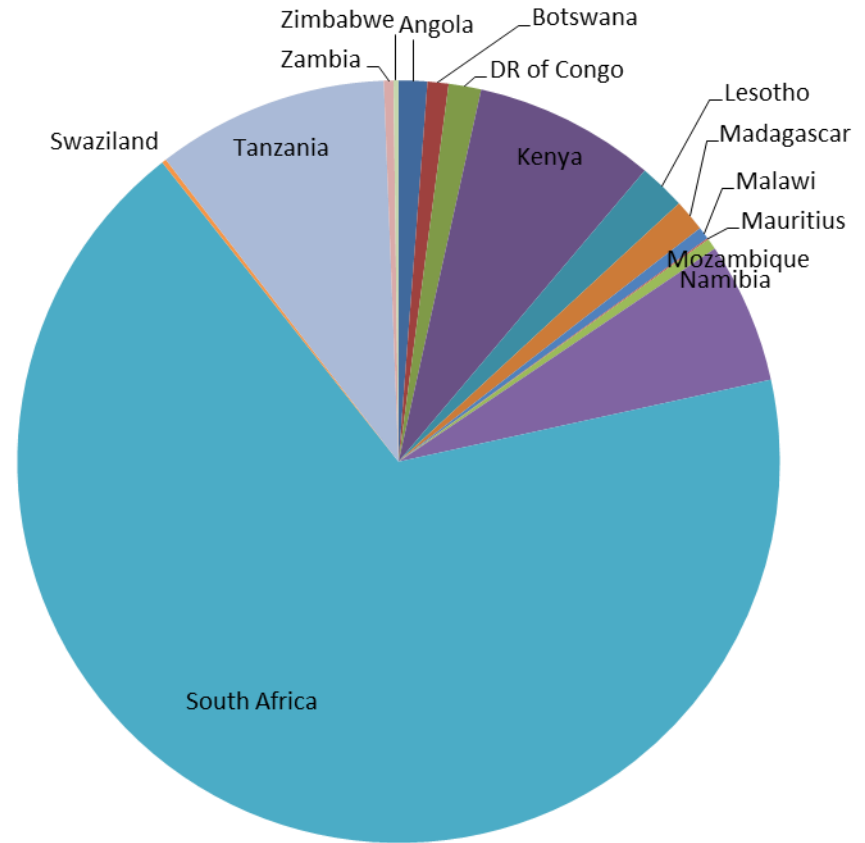


Southern Africa Sheep Production trends

Southern Africa Mutton production (t)

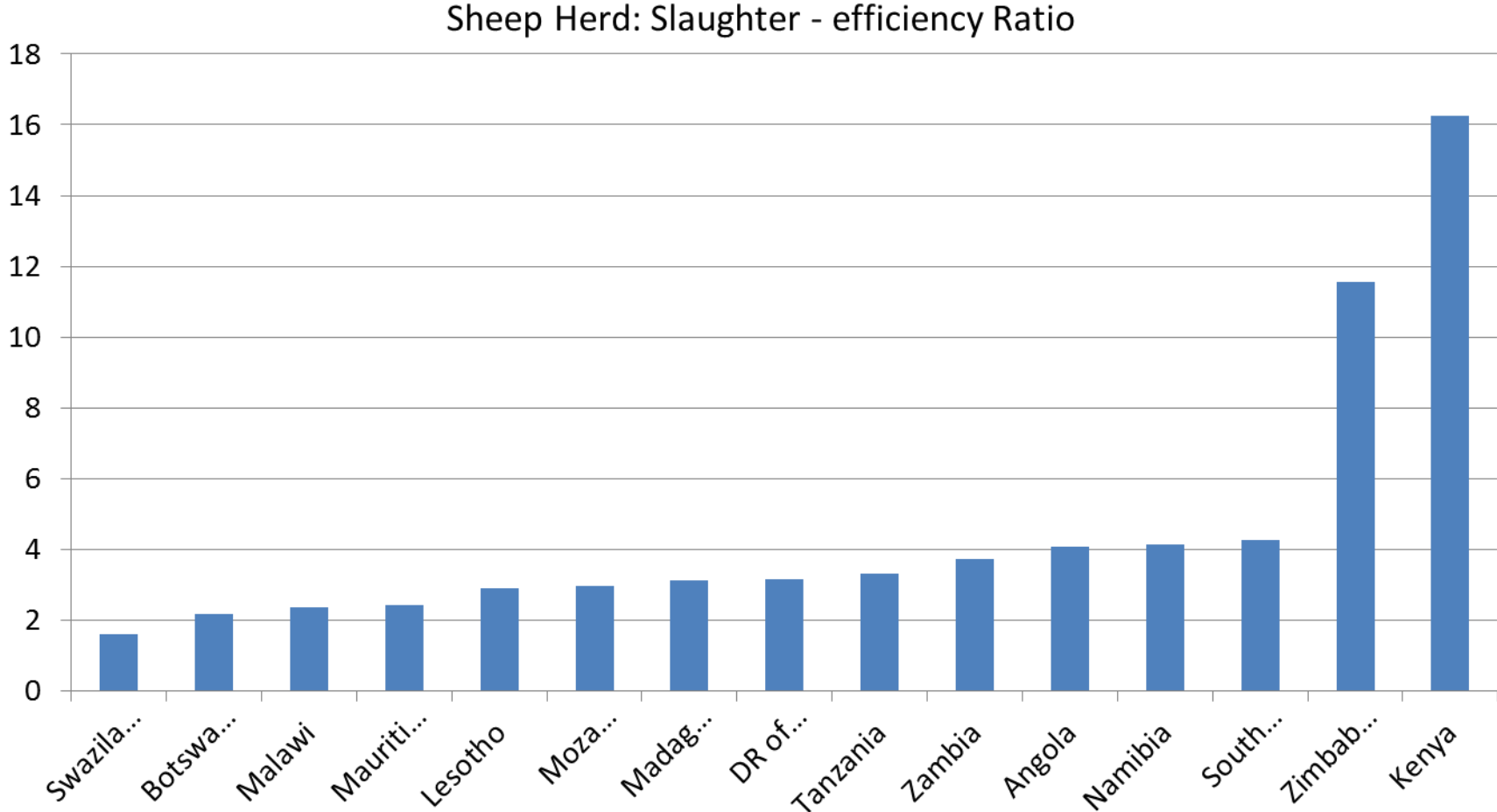


Southern Africa - Mutton production 2012 (2,17mt)



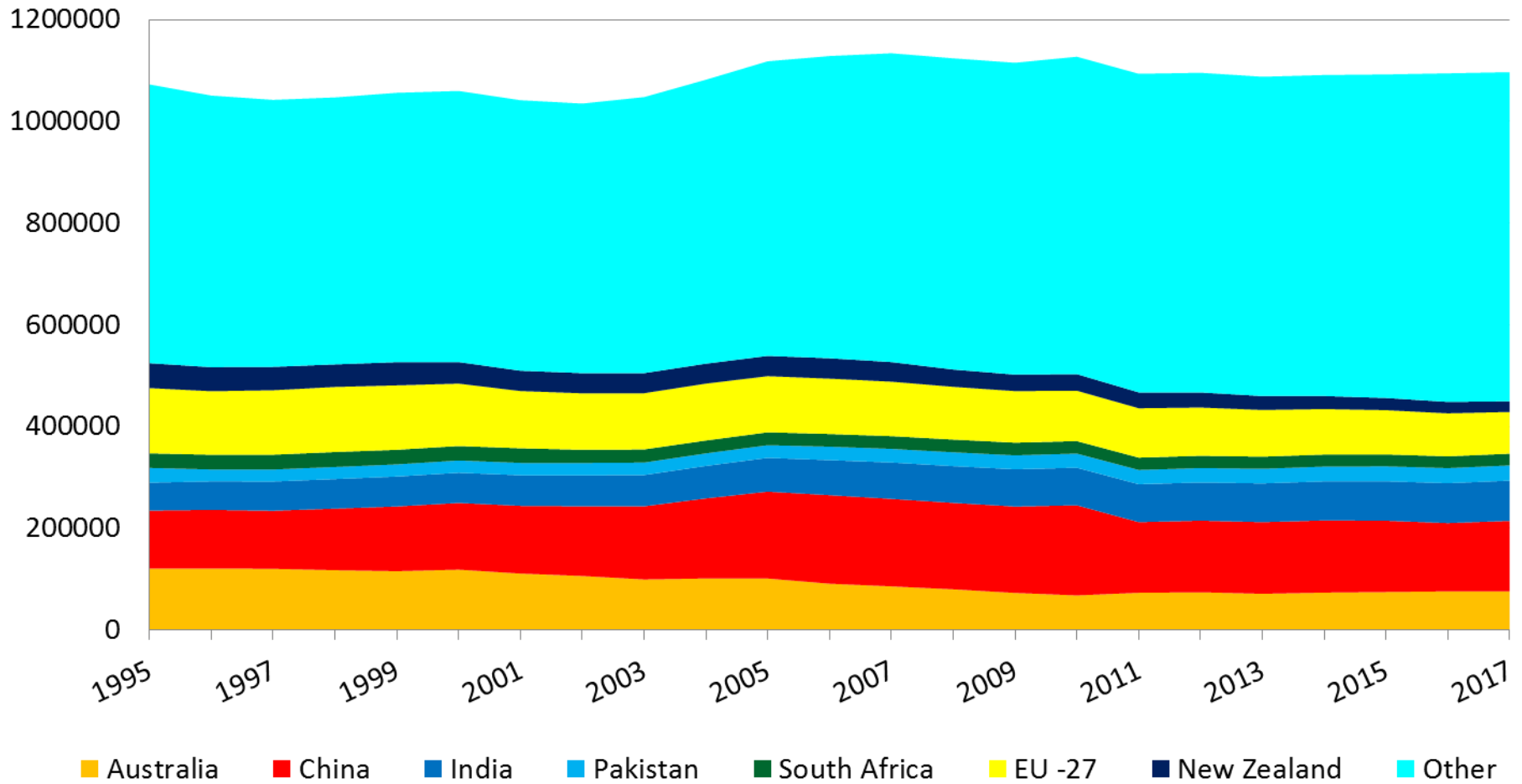
- Angola
- Botswana
- DR of Congo
- Kenya
- Lesotho
- Madagascar
- Malawi
- Mauritius
- Mozambique
- Namibia
- South Africa
- Swaziland
- Tanzania
- Zambia
- Zimbabwe

Southern Africa Sheep herd efficiencies ratios



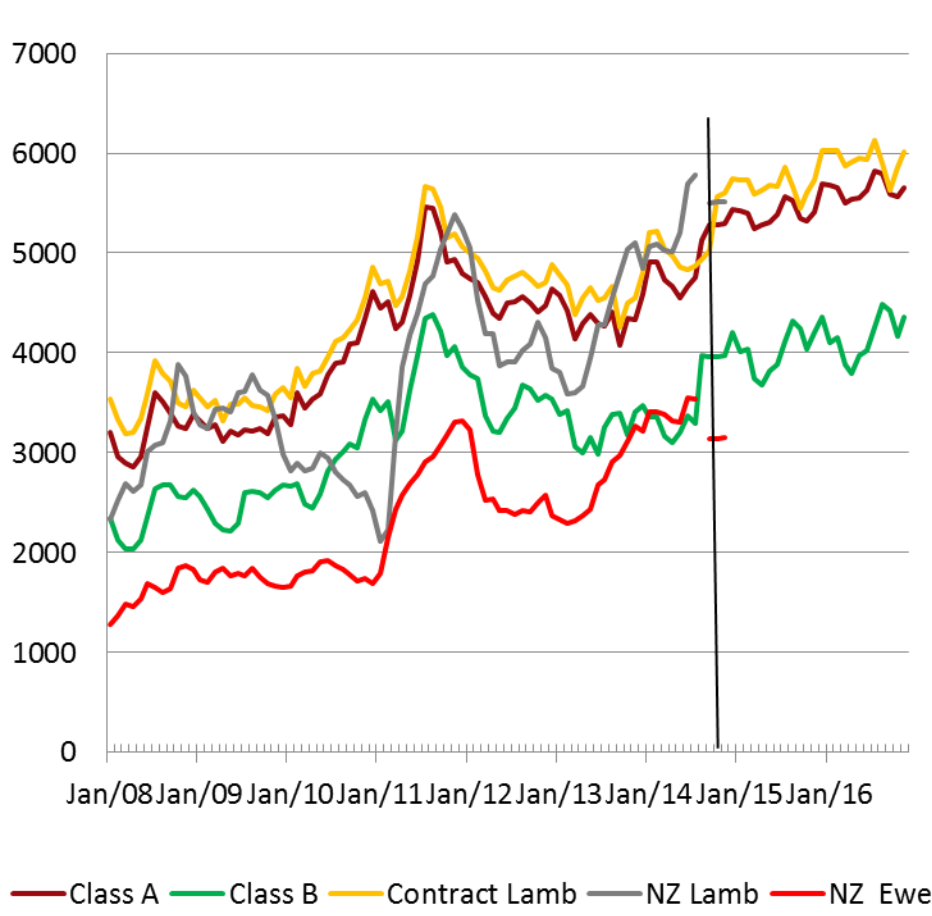
Sheep herd numbers

World Sheep numbers ('000)

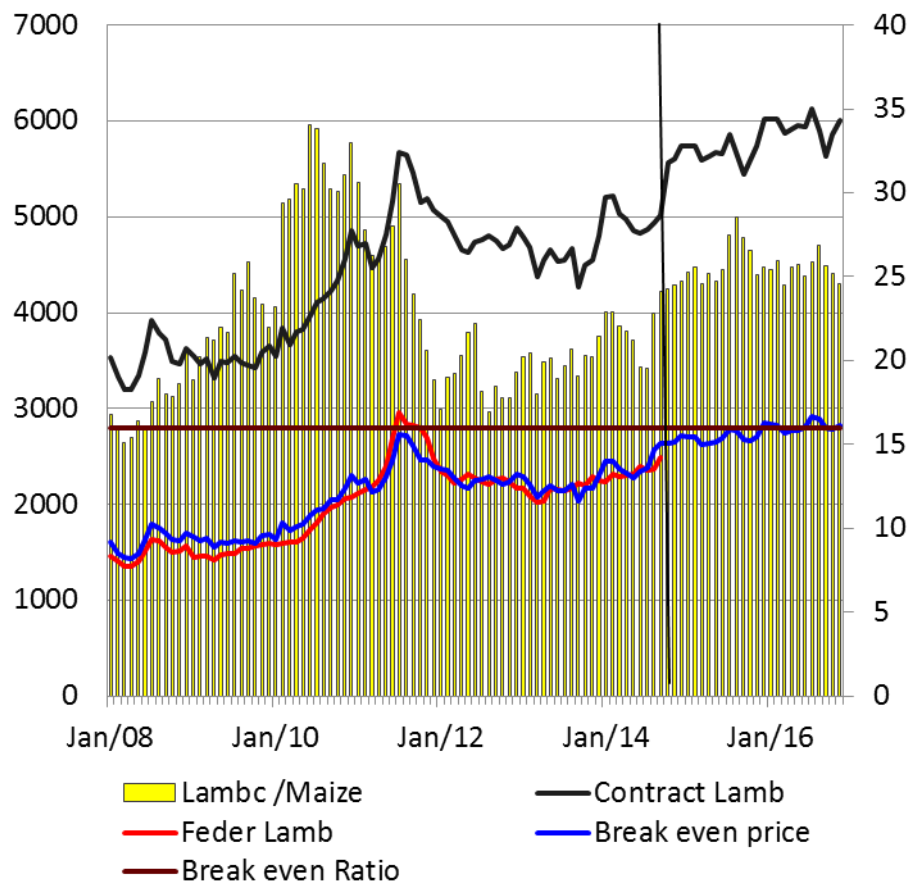


International Mutton price trends

Domestic Mutton prices (c/kg)

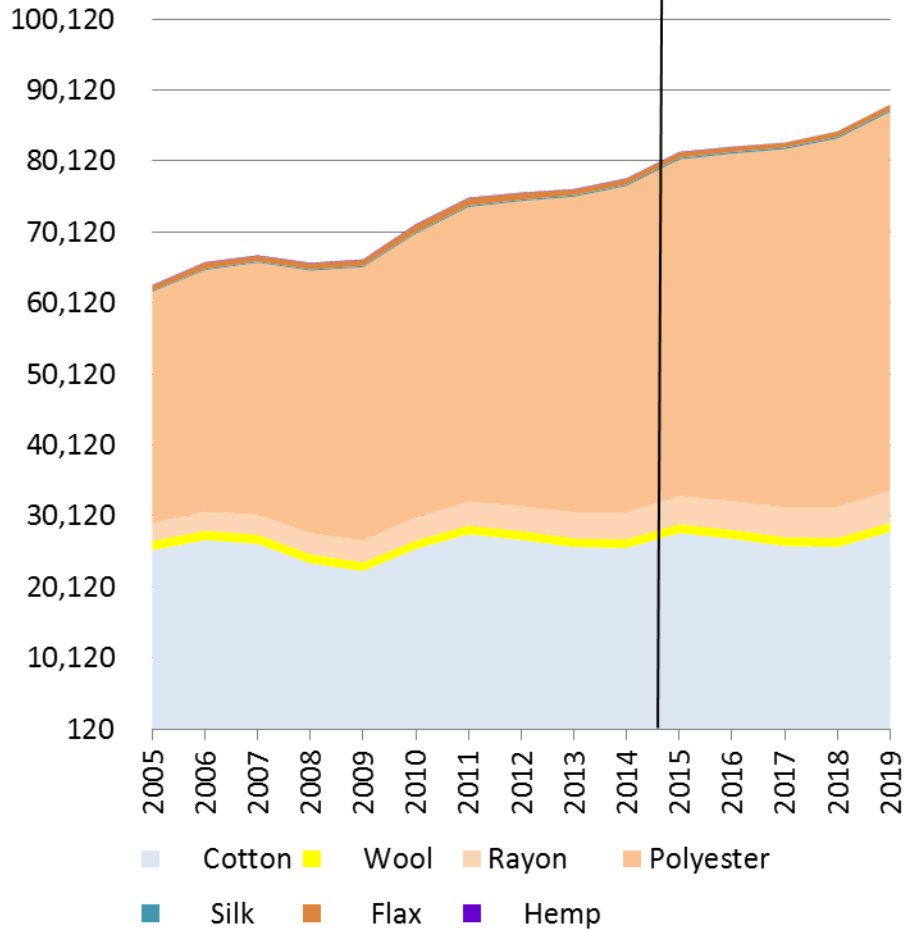


Relationship between mutton and maize priceprice (c/kg) price ratio

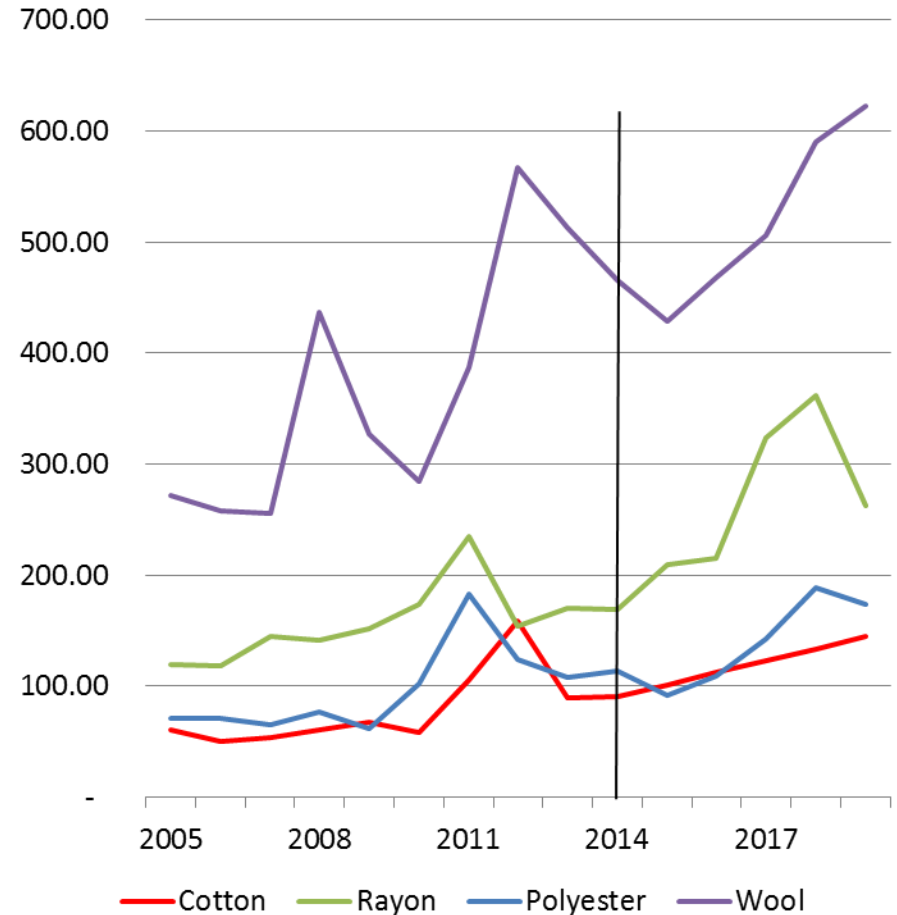


International fibre outlook

World fiber production

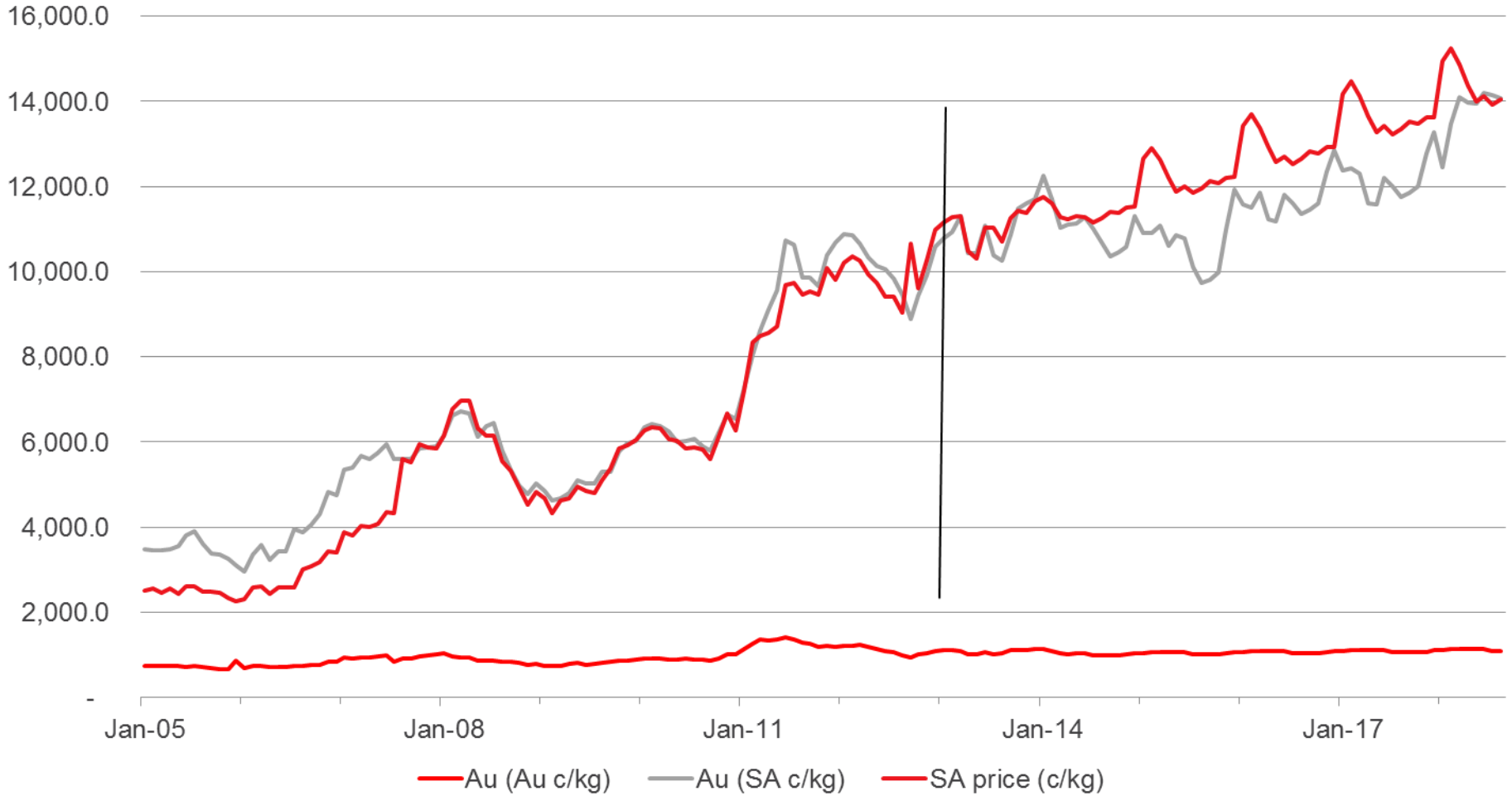


Fiber Price Relation Relation - Raw fiber equivalent (US c/lb)



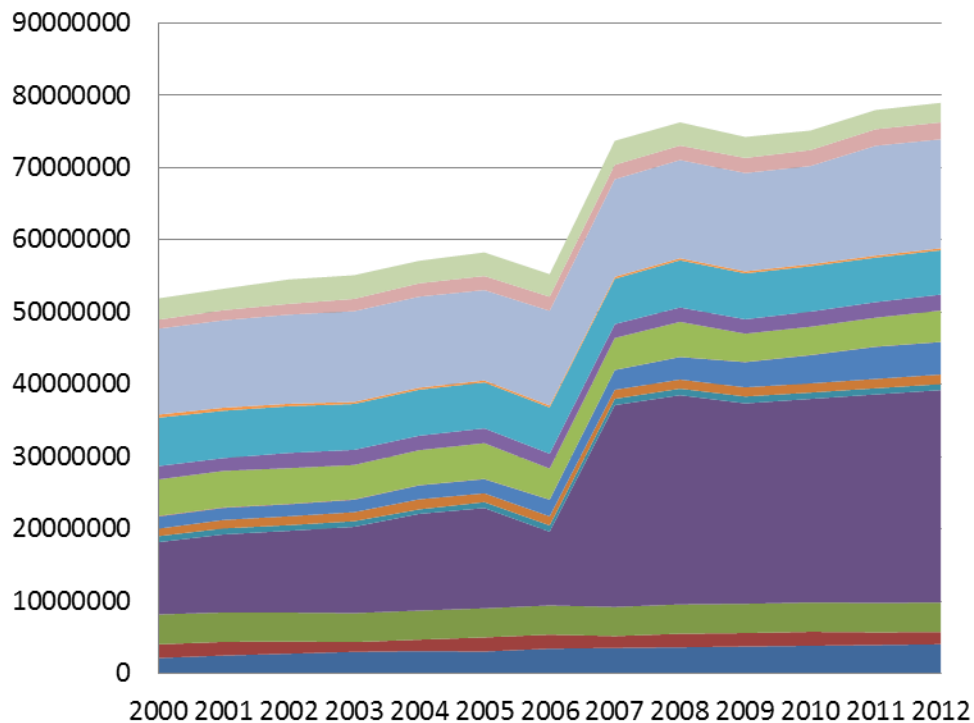
Wool price outlook

Wool price - Raw fiber equivalent (US c/lb)



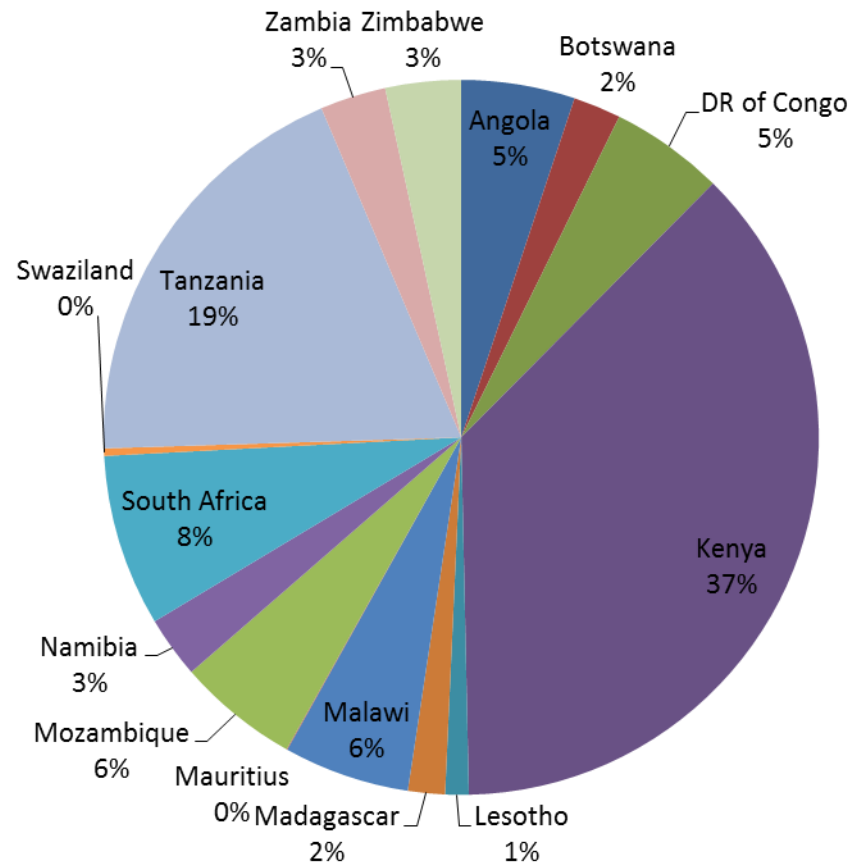
Southern Africa Goat Herd trends

Southern Africa Goat herd trends (#)



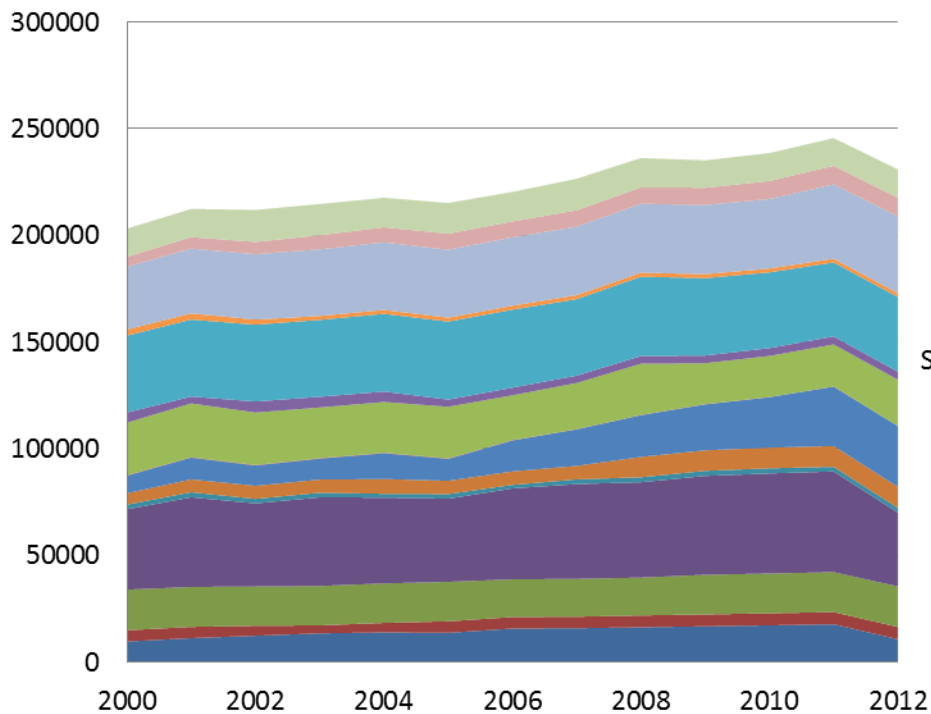
- Angola
- Botswana
- DR of Congo
- Kenya
- Lesotho
- Madagascar
- Malawi
- Mauritius
- Mozambique
- Namibia
- South Africa
- Swaziland
- Tanzania
- Zambia
- Zimbabwe

Southern Africa - Goat herd composition 2012 (78,9m)

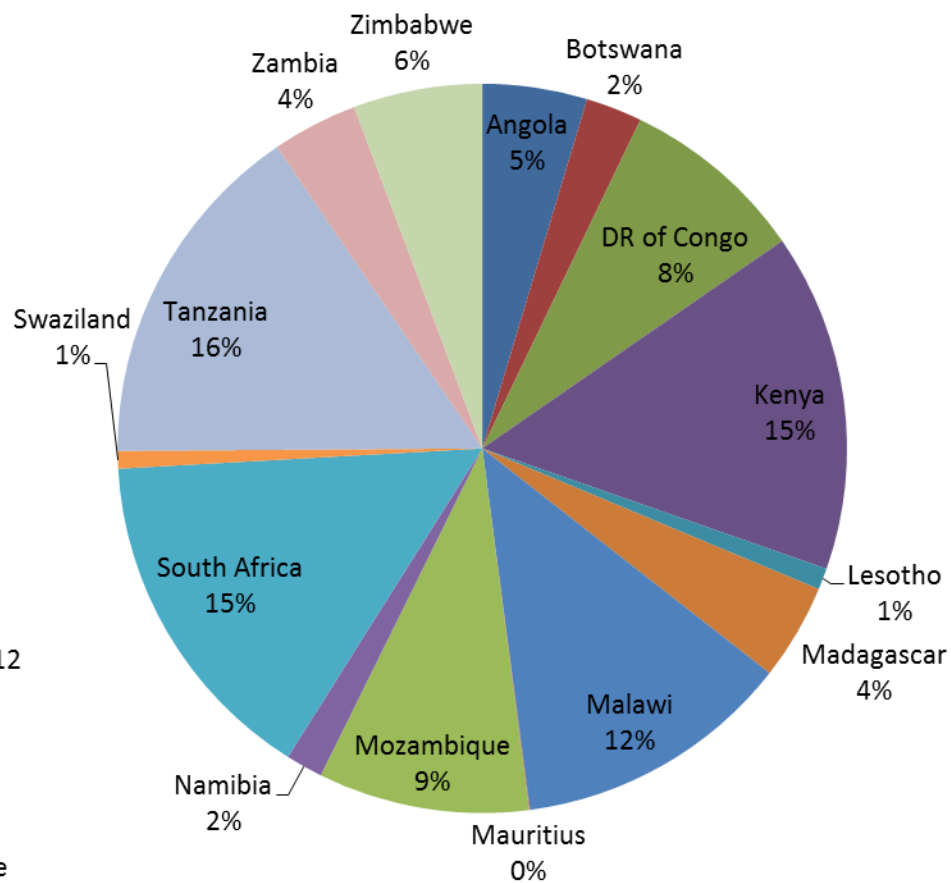


Southern Africa Goat Production trends

Sothern Africa Goat meat production (t)

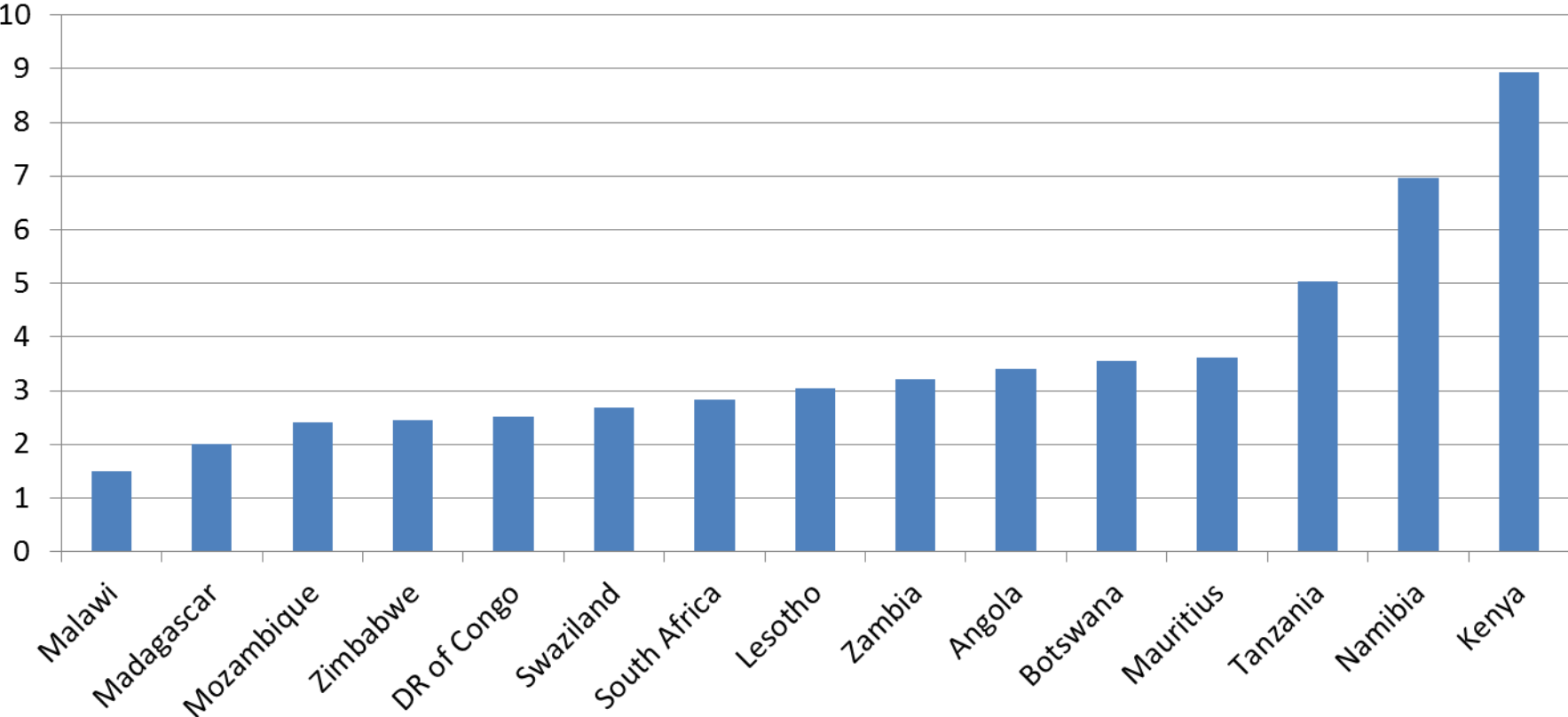


Southern Africa - Goat meat production 2012 (230 827t)



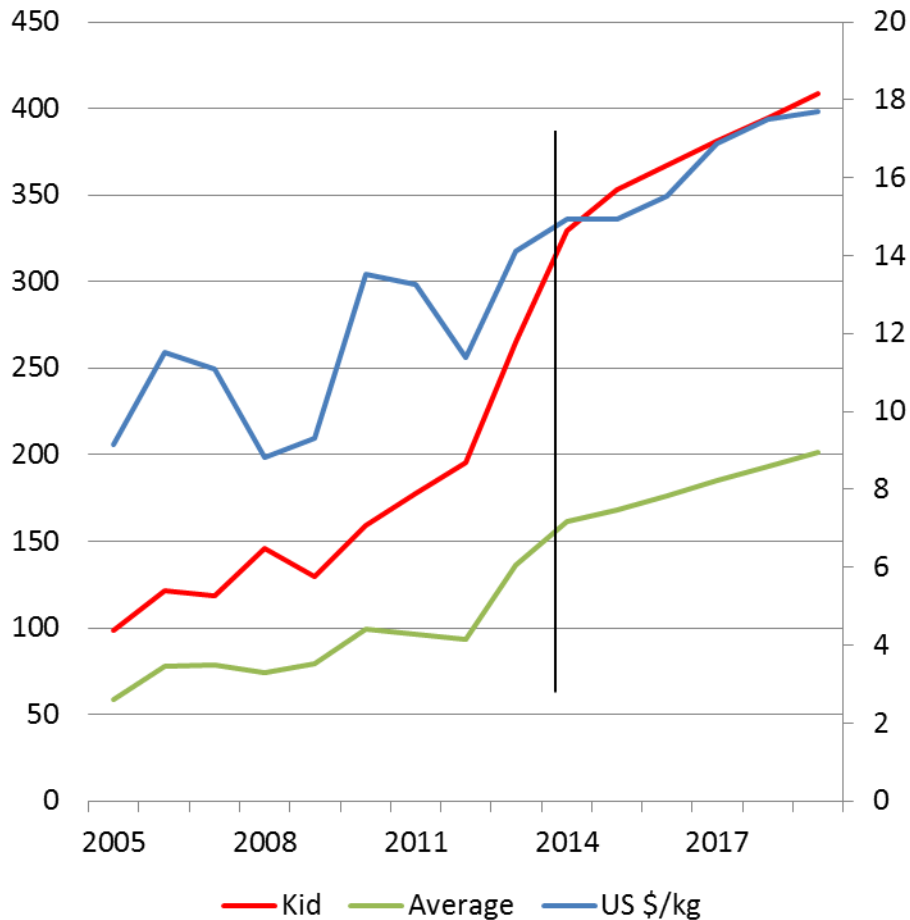
Southern Africa Goat herd efficiencies ratios

Goat Herd: Slaughter - efficiency Ratio

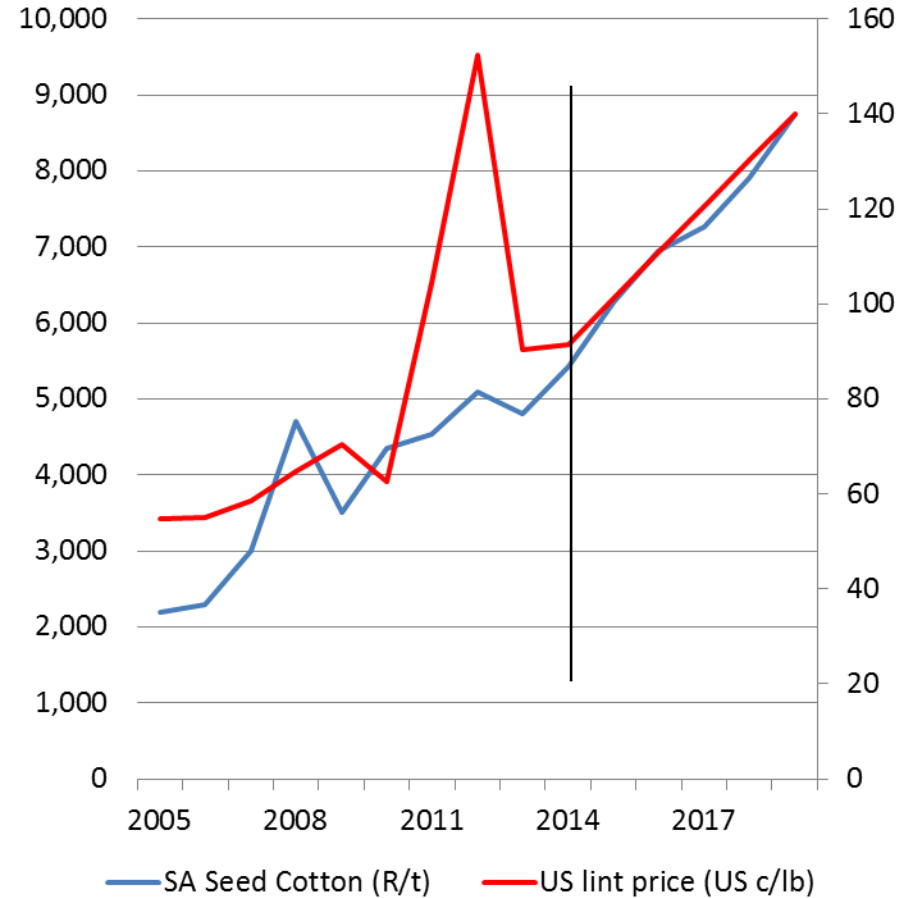


Mohair and cotton price outlook

Mohair Prices (R/kg) and SA Market share (%)

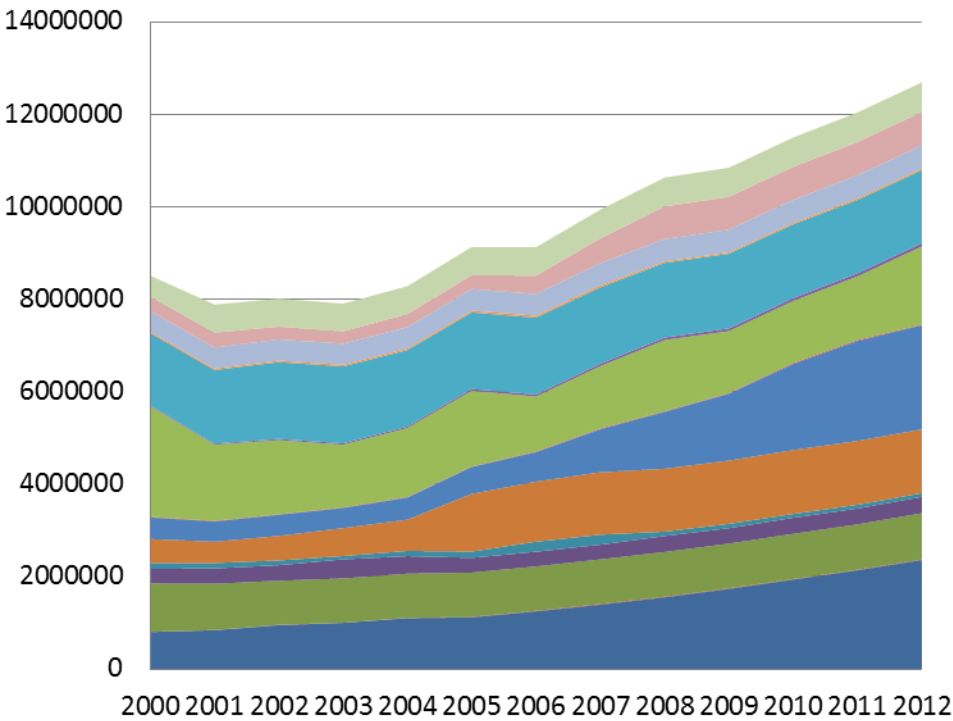


Relation between SA seed-Cotton and US lint Price

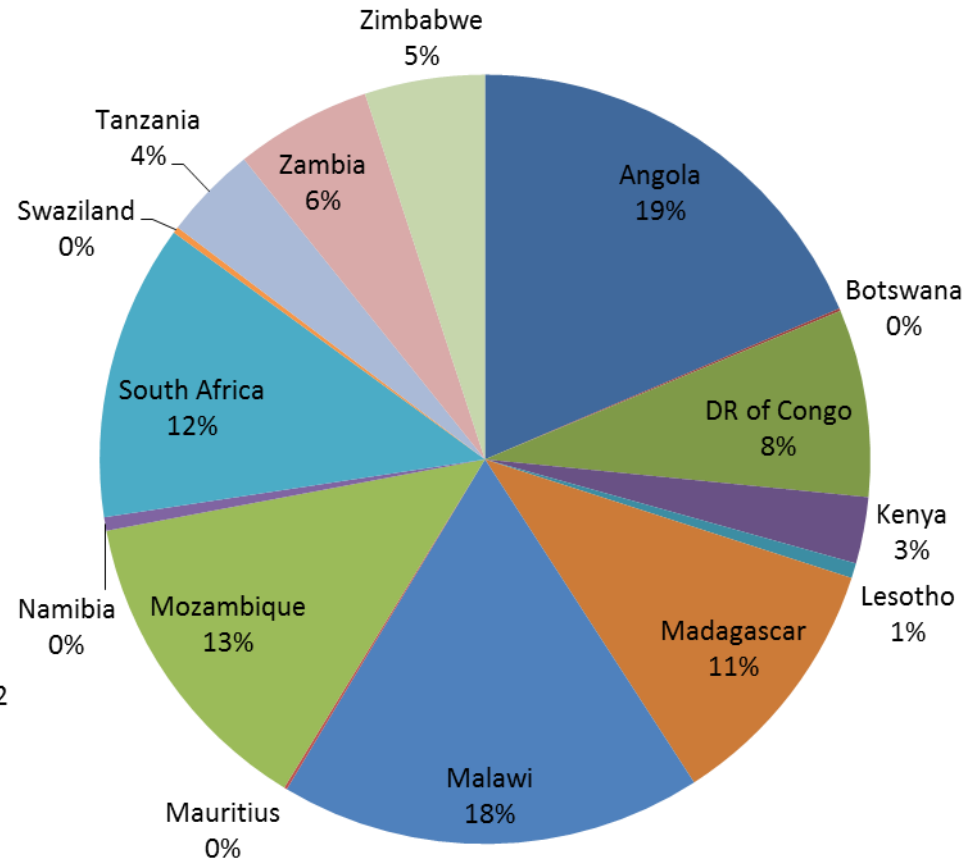


Southern Africa Pig Herd trends

Southern Africa Pig herd trends (#)



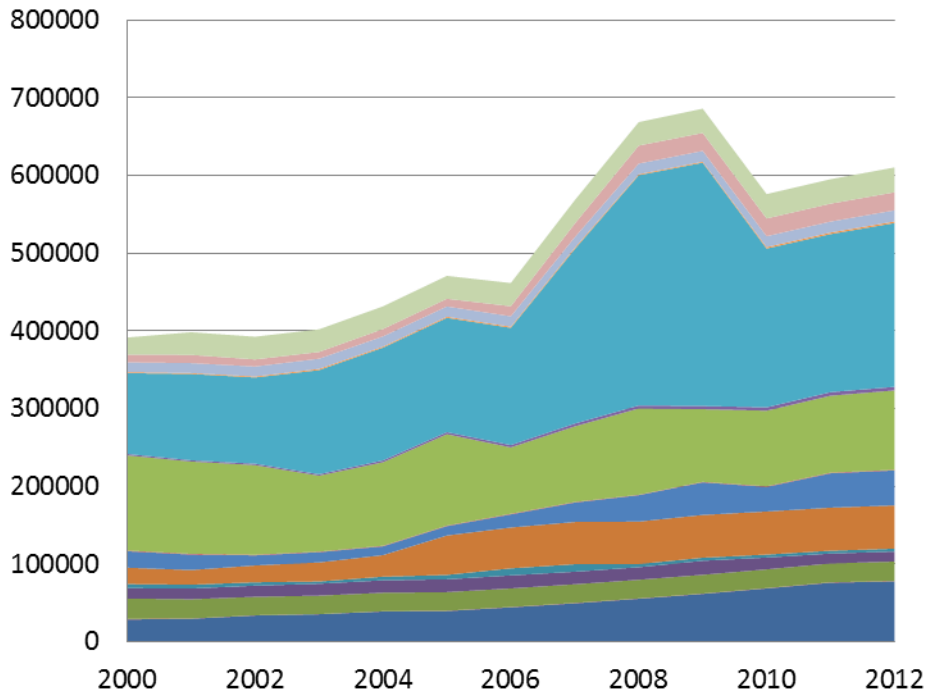
Southern Africa - Pig herd composition 2012 (1,2m)



- Angola
- Botswana
- DR of Congo
- Kenya
- Lesotho
- Madagascar
- Malawi
- Mauritius
- Mozambique
- Namibia
- South Africa
- Swaziland
- Tanzania
- Zambia
- Zimbabwe

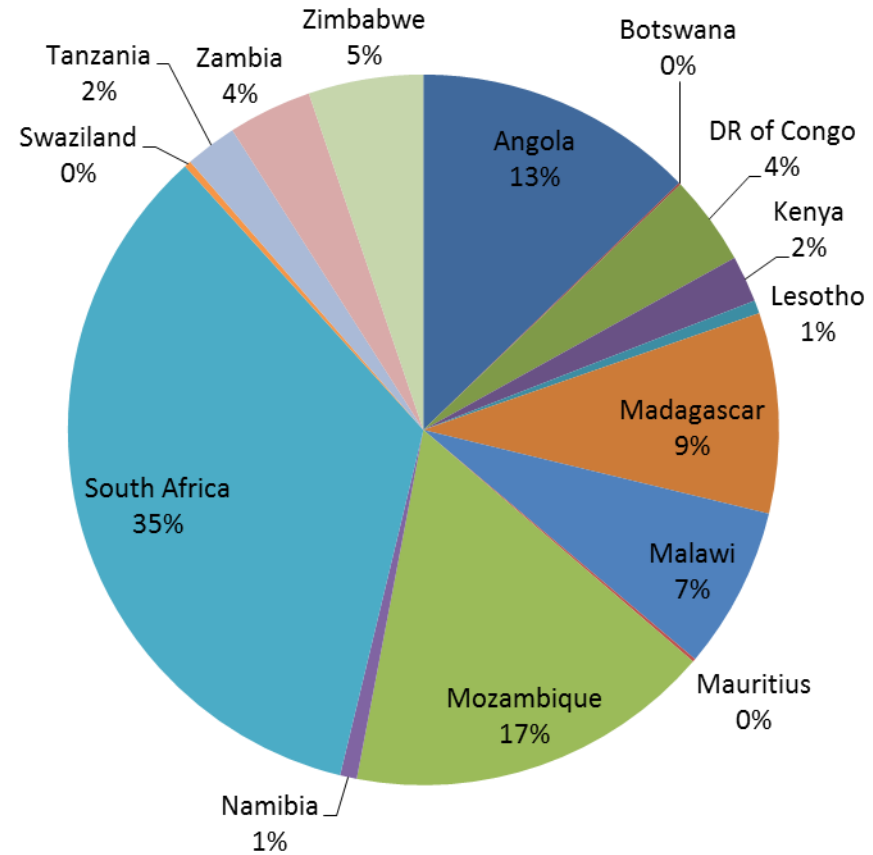
Southern Africa Pig Production trends

Southern Africa Pig meat production (t)



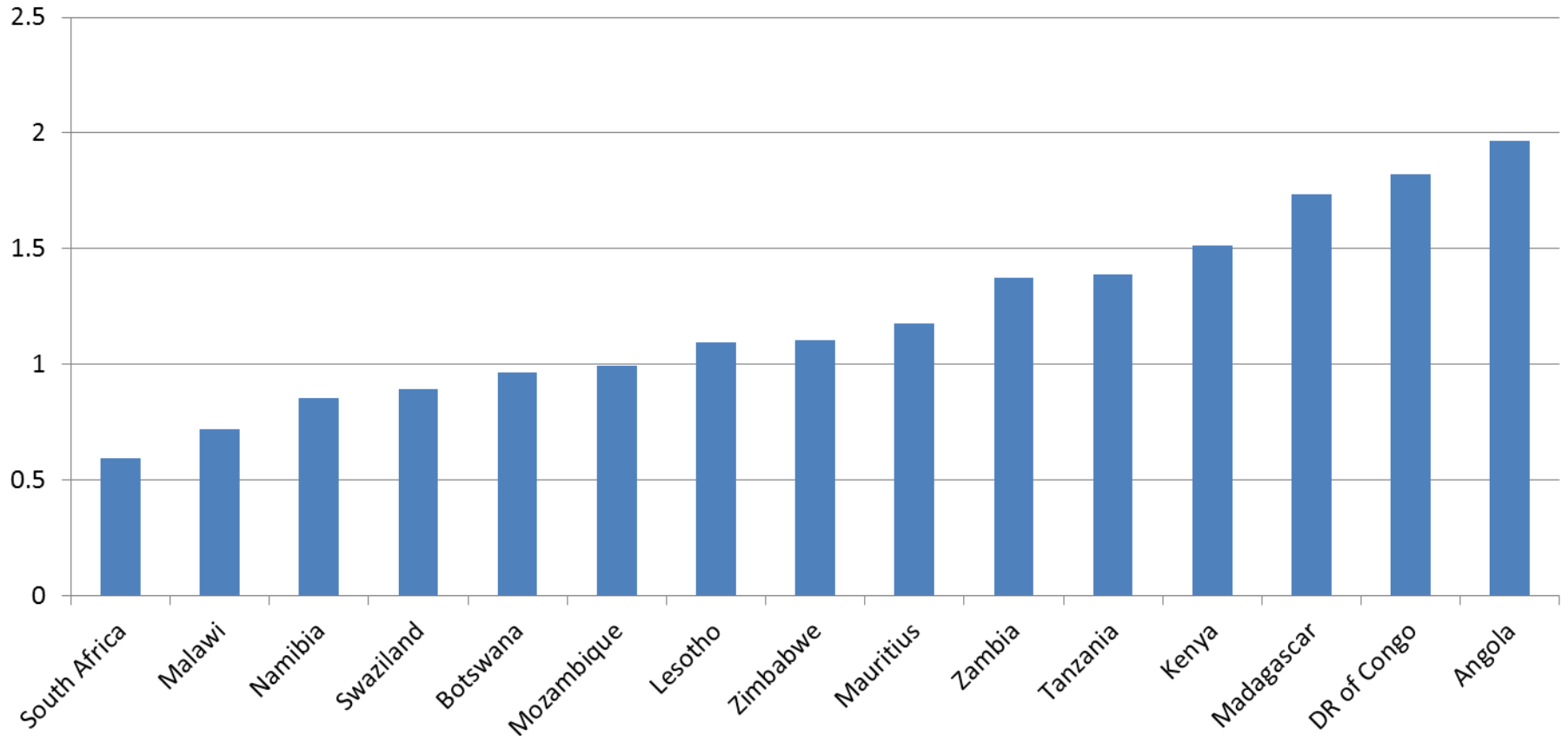
- Angola
- Botswana
- DR of Congo
- Kenya
- Lesotho
- Madagascar
- Malawi
- Mauritius
- Mozambique
- Namibia
- South Africa
- Swaziland
- Tanzania
- Zambia
- Zimbabwe

Southern Africa - Pig meat production 2012 (610 479t)



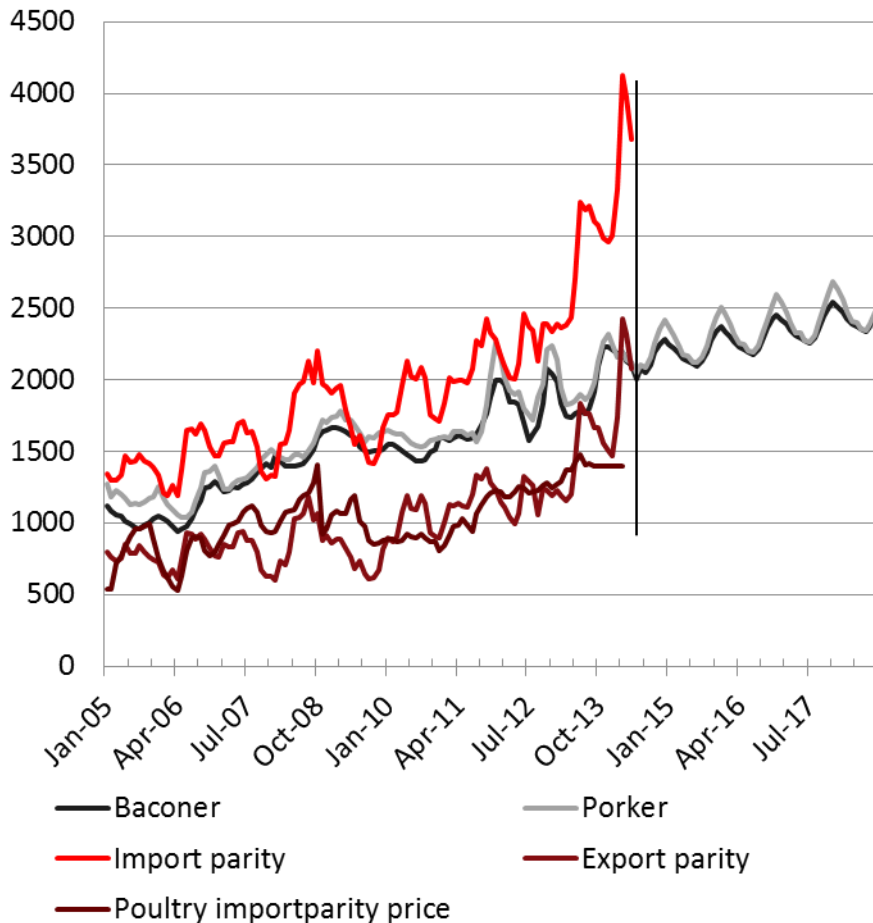
Southern Africa Pig herd efficiencies ratios

Goat Herd: Slaughter - efficiency Ratio

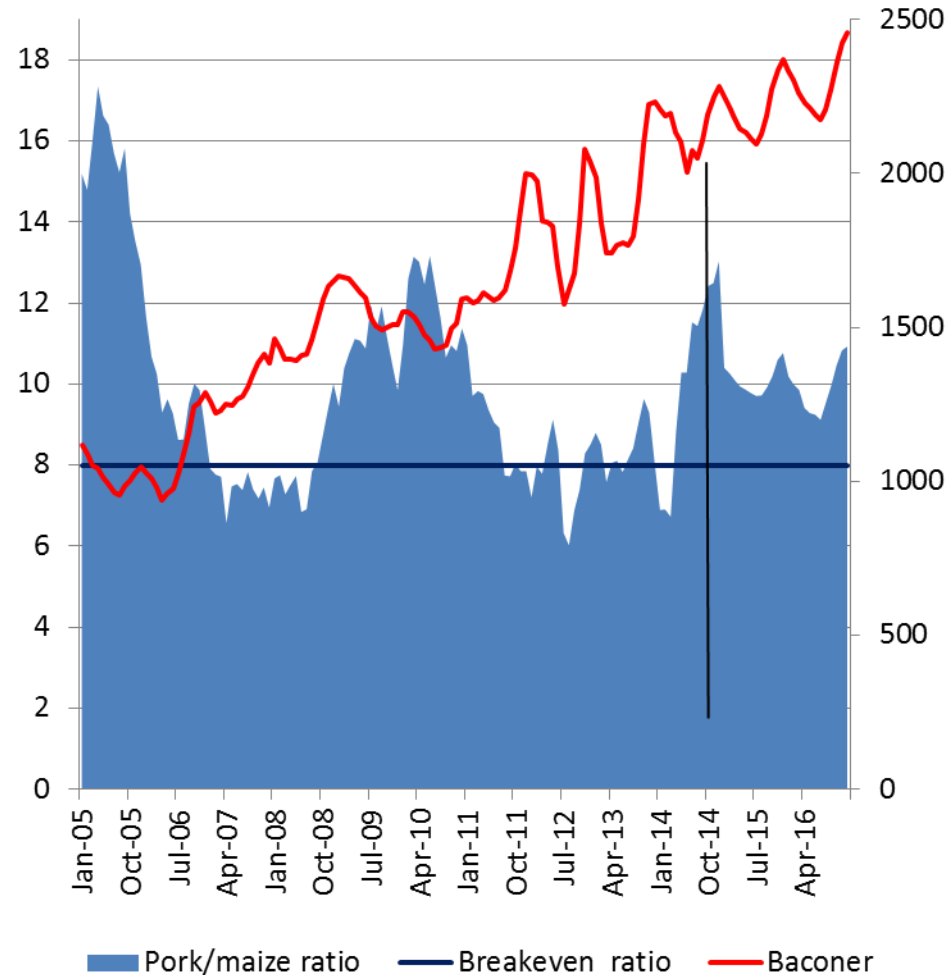


Pork price outlook

Relationship between domestic pork, Import, Export poultry parity prices (ZAR c/kg)



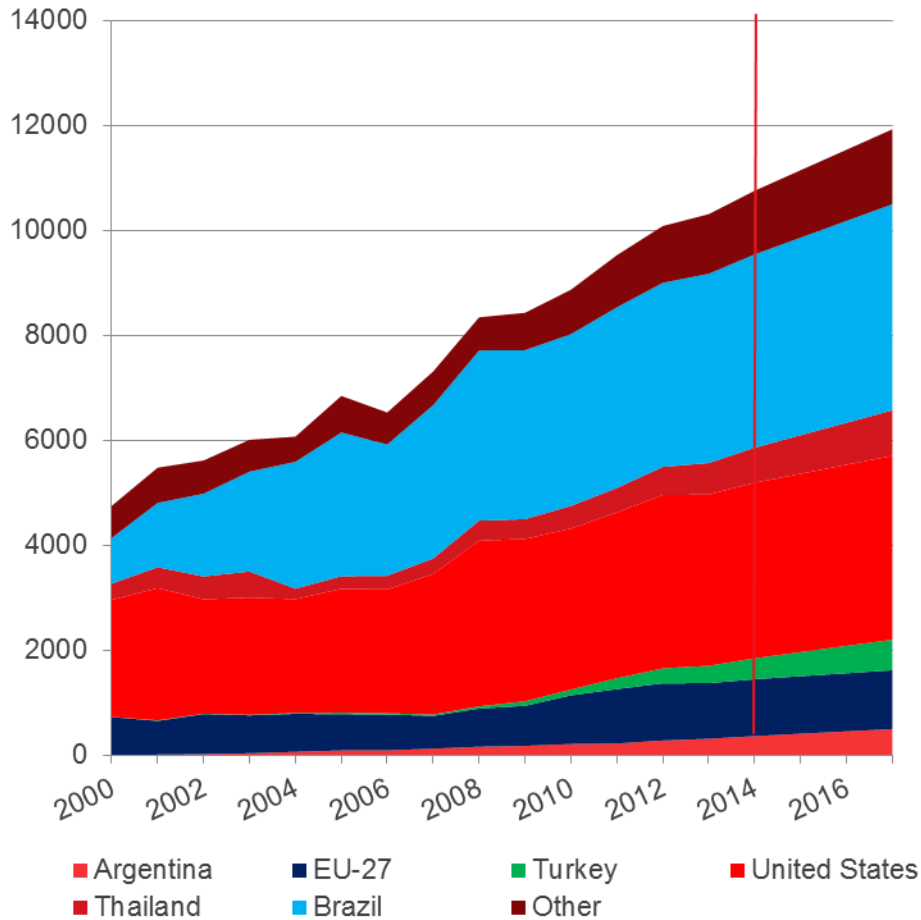
Relationship between pork and maize price



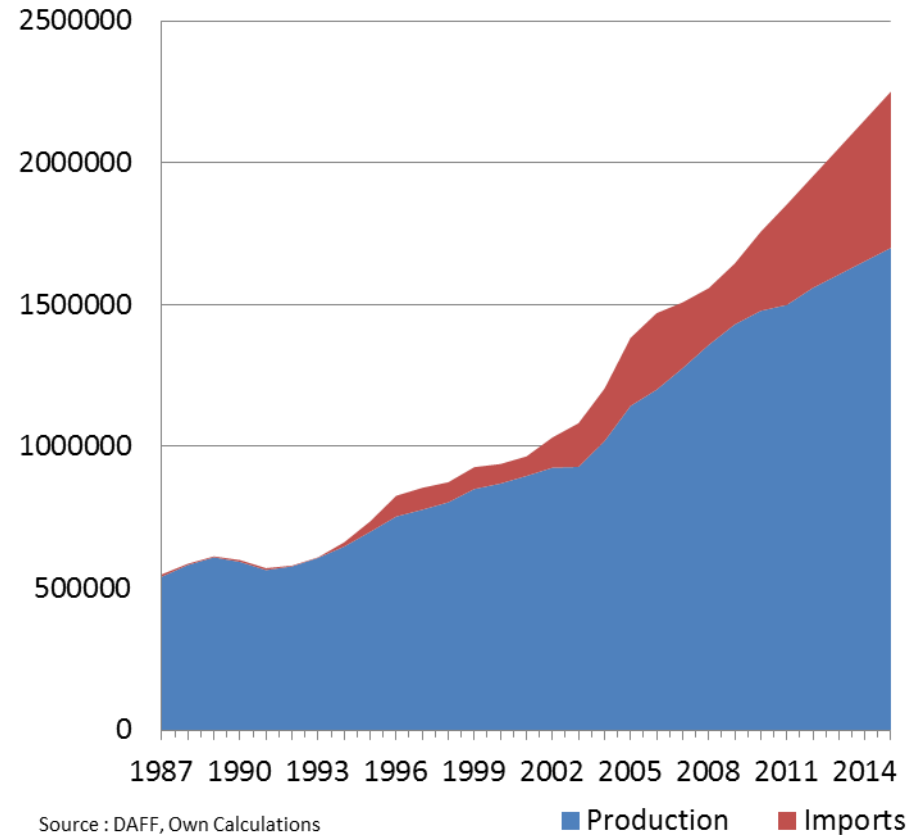
World and domestic poultry production

USDA, Own calculations

Poultry Exports ('000t)



SA poultry production and imports (t)

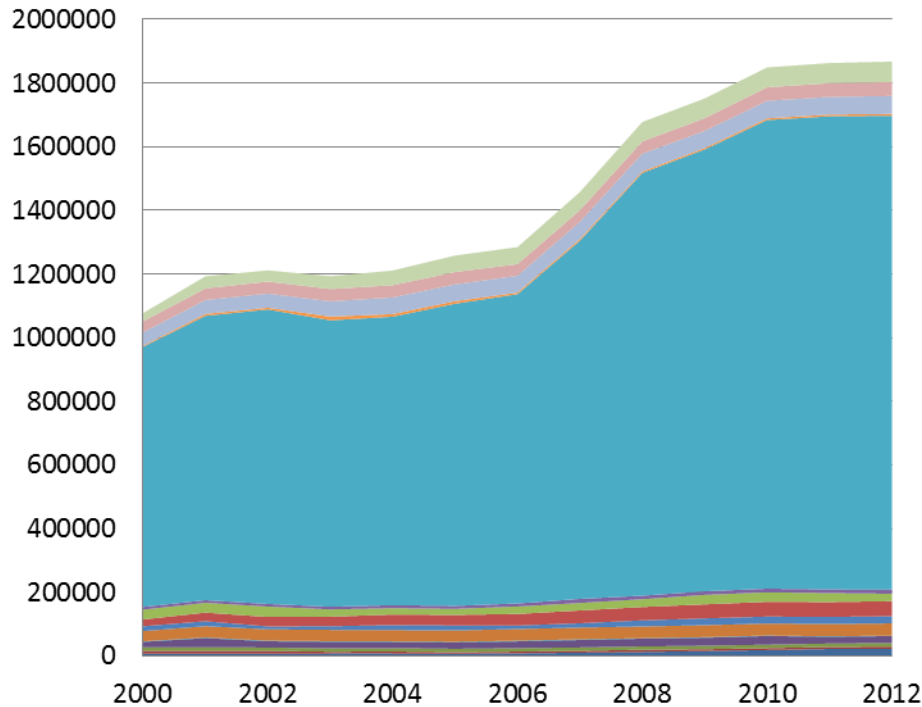


Source : DAFF, Own Calculations

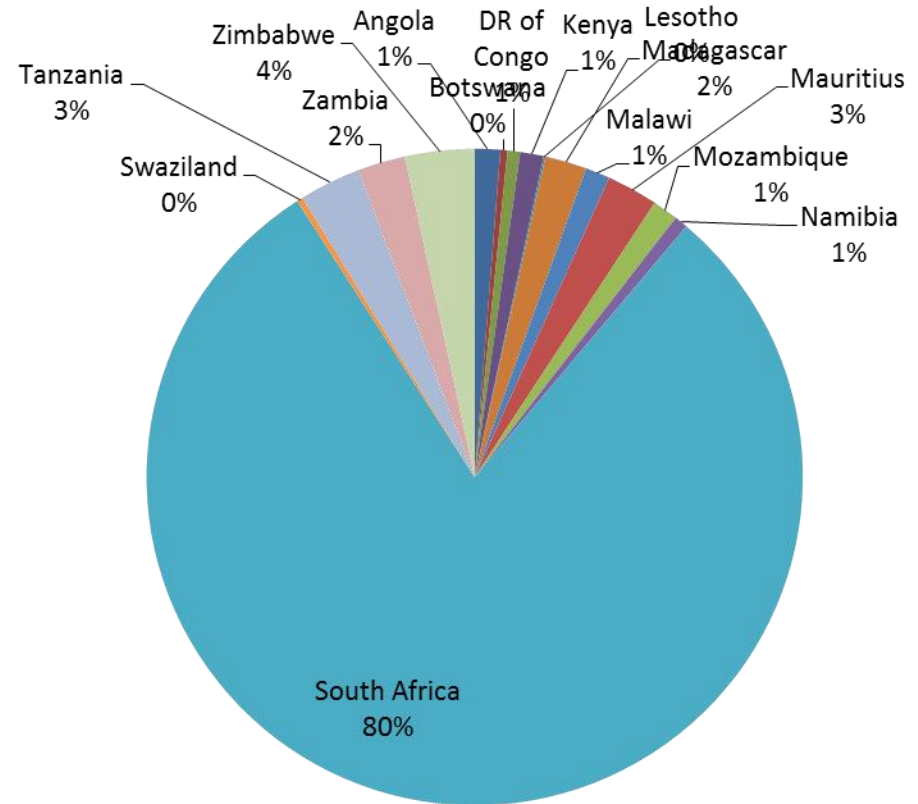
■ Production ■ Imports

Southern Africa Poultry production trends

Southern Africa Poultry meat production (t)

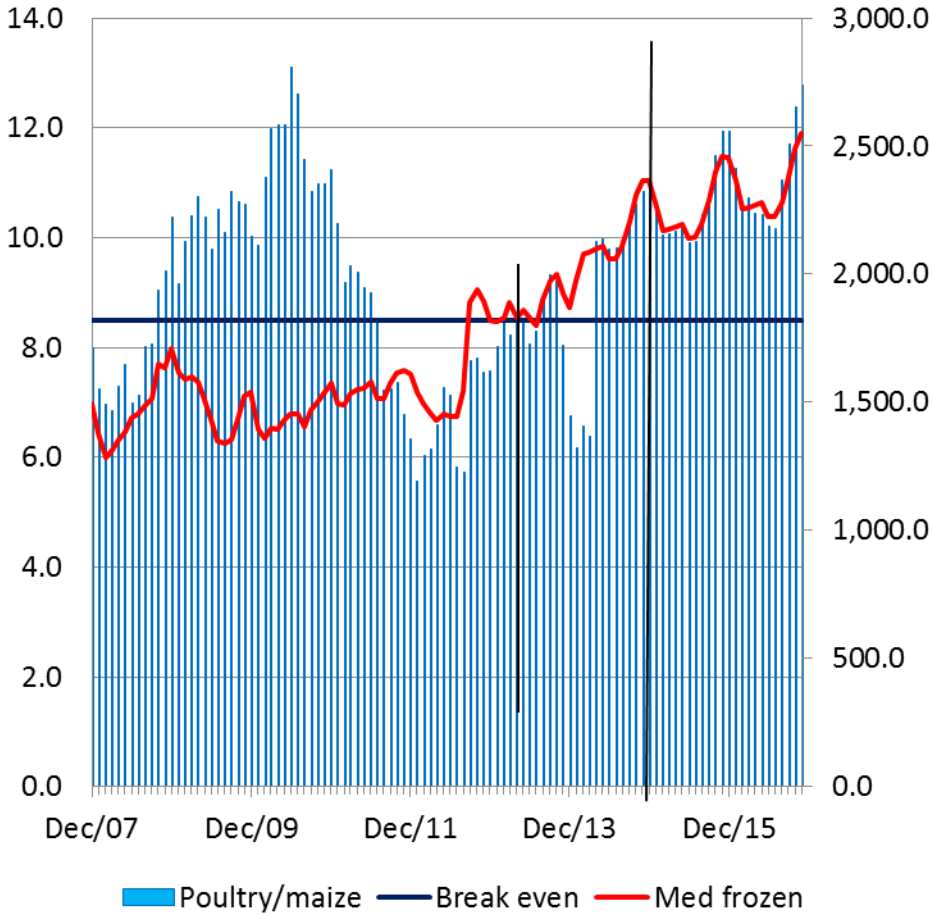


Southern Africa - Poultry meat production 2012 (1,8mt)

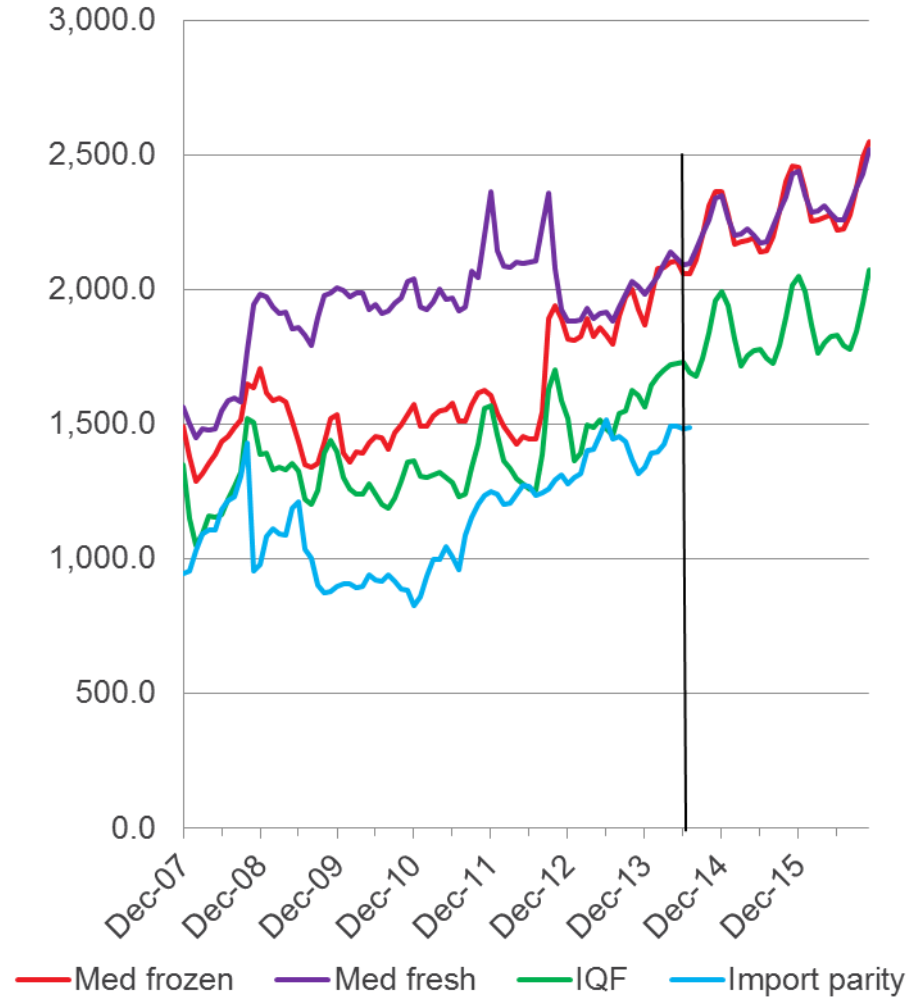


Poultry profitability and price trends

Relationship between Poultry and maize prices



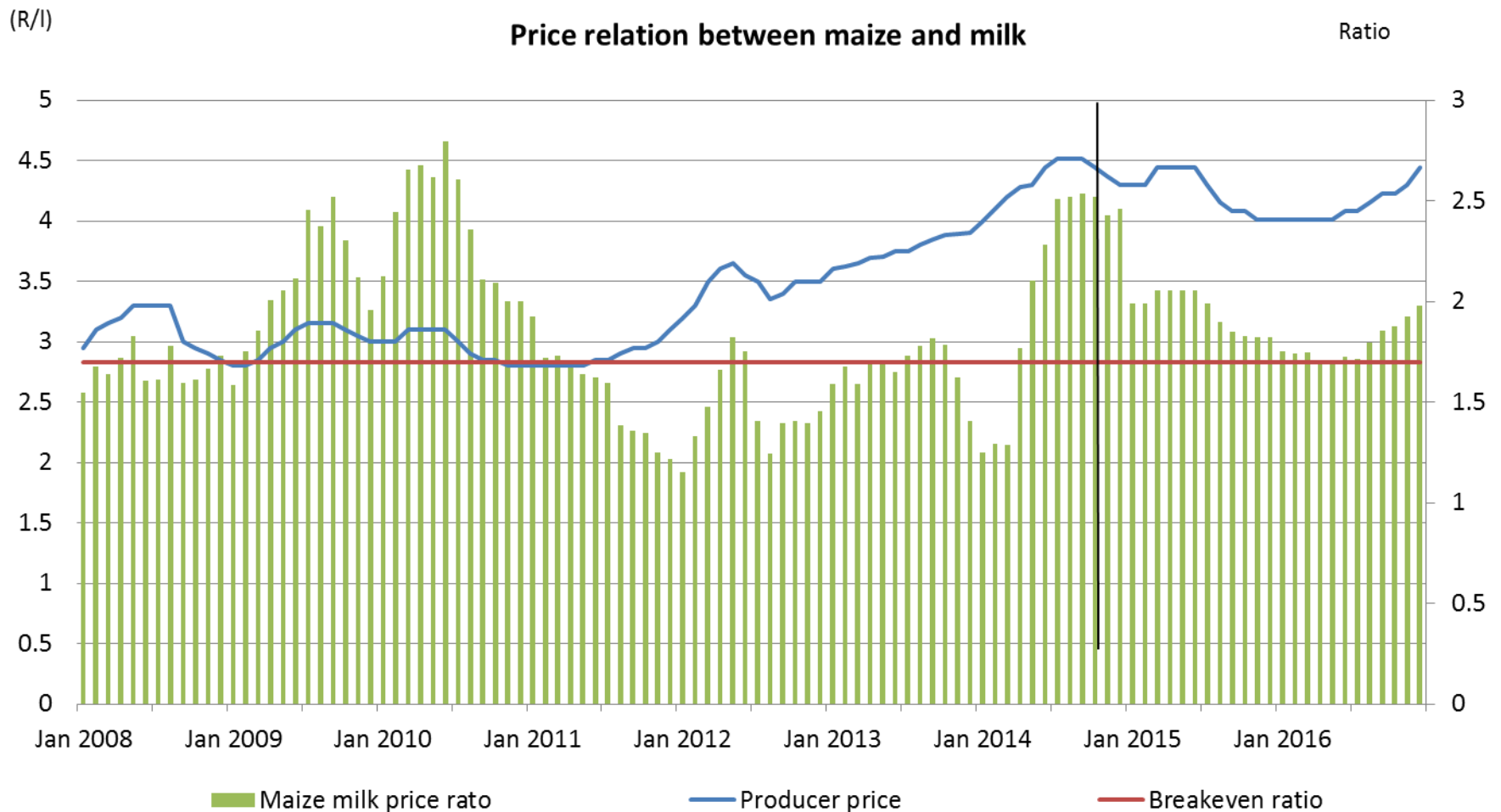
Poultry prices (c/kg)



Source: CBOT, SAFEX, Own Calculations

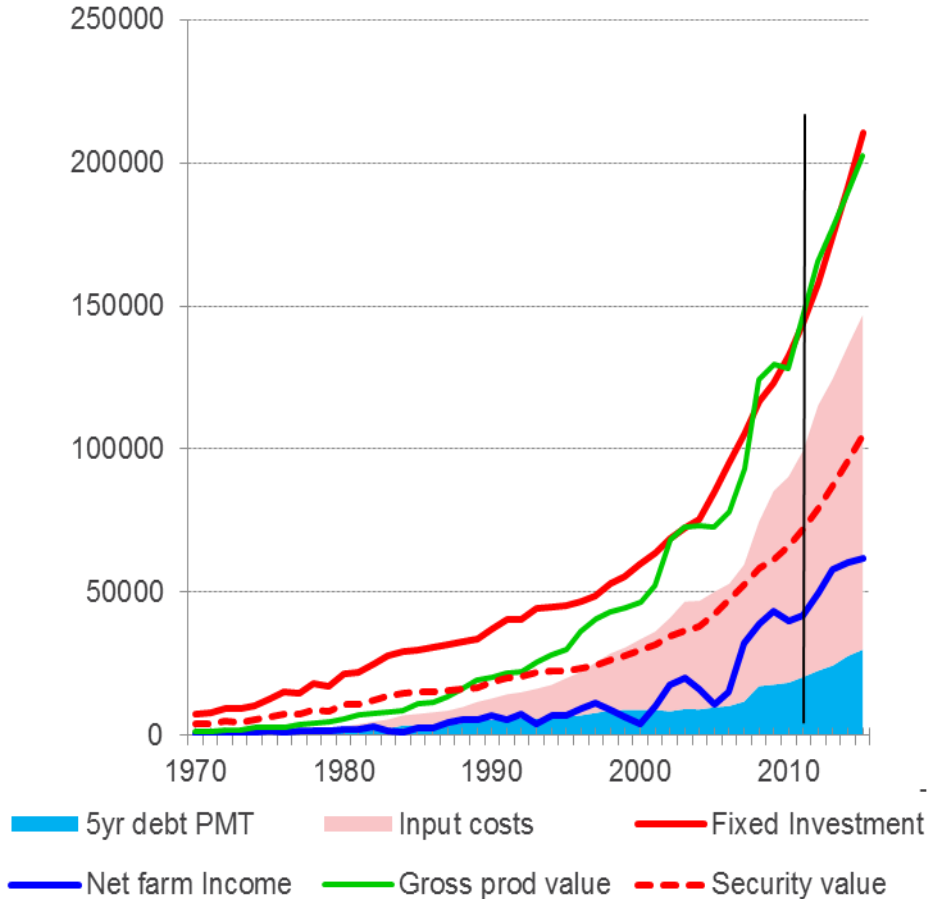
Source: USDA, Own Calculations

Milk outlook

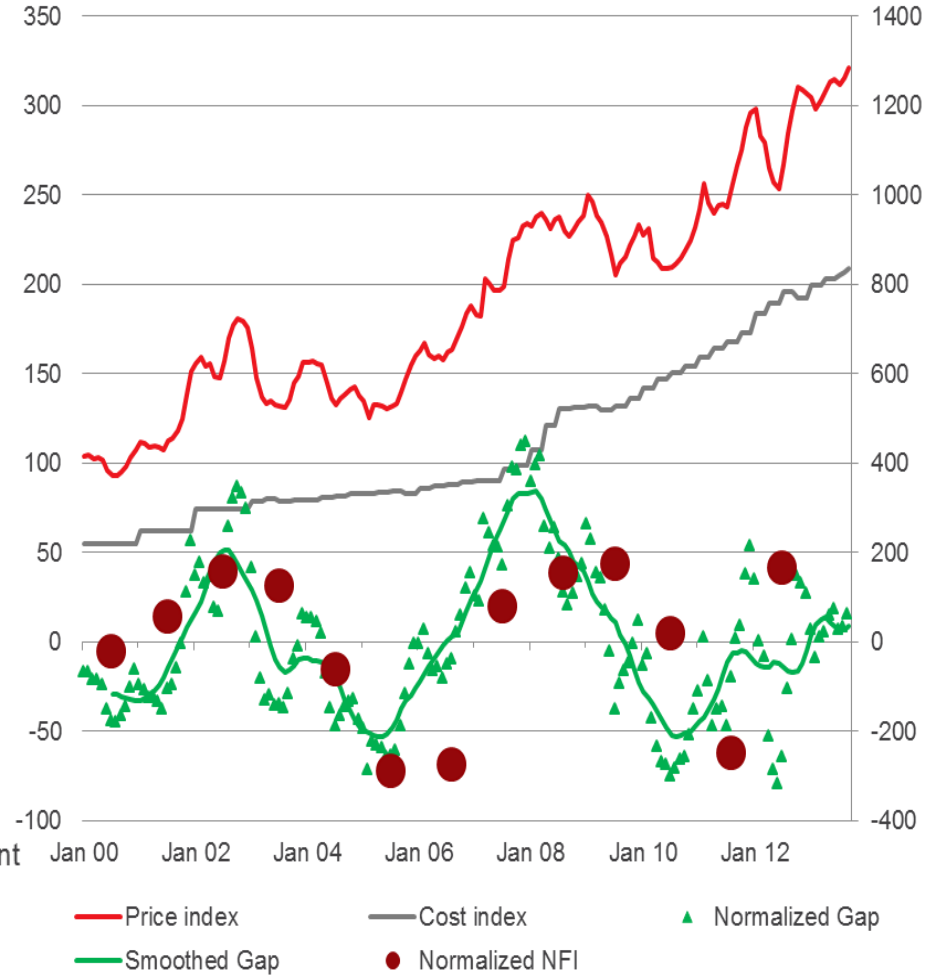


Given all challenges and opportunities farming remain profitable

Capital flows and fixed investment in agriculture (Rm)



SA Agricultural profitability index



Thank you for the opportunity to share some ideas

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