



Retail and Business Bank
Sector Economics
Agribusiness
17 February 2021



Agri Trends: Grains and Oilseed Report

Rand appreciation pulled prices down

Maize: Global maize prices have eased somewhat since early February. According to the latest WASDE report, stocks in countries such as China and Mexico have increased and earlier production concerns from South American countries have faded. Locally, prices are down due to a combination of slightly lower world prices and exchange rate dynamics. The rand strengthened by 2% to the US dollar over the past week.

Wheat: Hard red wheat prices were down 1.4% week-on-week and 0.9% month-on-month. Despite easing somewhat over the last month, prices are still significantly higher than in the first few months of 2020, finding support from the general bullishness in the commodity markets. Crop damage due to climatic issues in the US could provide further price support over coming months.

Oilseeds: Short-term prices eased somewhat on the back of a reduction in trading volumes in the previous week. Fundamental factors such as strong demand and an export tax from Russia, however, point to an upward trend over coming months. Extreme cold weather in key US wheat production regions could provide further price support as we approach mid-2021.

Abrie Rautenbach
+27 67 417 1645
Abrie.Rautenbach@absa.africa

Marlene Louw
+27 060 881 2450
Marlene.Louw@absa.africa

Paige Bowen
+27 66 288 9429
Paige.Bowen@absa.africa

www.absa.co.za

<https://www.absa.co.za/business/sector-solutions/agribusiness/agri-smart-insights/>

We are implementing some changes to our Agri Trends Reports in order to improve your user experience and generate the insights in a shorter time for more timely reporting. If you have any feedback please do not hesitate to send it to Marlene.Louw@absa.africa

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

Maize Market Trends

International Maize Market

According to the latest World Agricultural Supply and Demand Estimates (WASDE) report published by the USDA, global maize production for the 2020/21 season is projected to increase, with rain in Argentina easing supply concerns. An increase in ending stocks from countries, such as China and Mexico, pulled global maize prices slightly lower over the past week, but prices are still substantially higher compared to February 2020 supported by strong demand from China. High maize prices have caused record volumes of other coarse grains to be used as feed. This supports the notion that strong demand is likely to keep price elevated for the foreseeable future.

	R/USD	Near month CBOT Corn (c/bu)	USA YM Import Parity Randfontein (R/ton)	US YM Export Parity Randfontein (R/ton)	Argentina YM Import Parity Randfontein (R/ton)
Price	14.55	538.60	4922.7	2974.6	4718.15
w/w	-2.0%	-0.4%	-2.7%	-5.4%	-3.0%
m/m	-5.7%	-1.8%	-0.6%	-2.2%	-5.0%
y/y	-2.2%	34.2%	29.0%	47.7%	24.6%

Local Maize Market

The spot prices of white and yellow maize decreased week on week as a result of global prices trending lower, as discussed above, and the exchange rate strengthening considerably since the beginning of the month. Currency dynamics point to a weak dollar as opposed to a strong rand, with US employment indicators for January showing a slower-than-expected recovery. This, combined with an increased appetite for emerging market currencies and investment, as vaccination plans are gaining momentum globally, likely led to rand strengthening. The combined effect of lower world prices and strengthening rand meant spot prices for white maize and yellow maize decreased 3.2% and 3.5% week on week, respectively. Year-on-year prices are however still considerably higher.

	JSE WM Spot Price, Randfontein (R/ton)	White Maize Mar-21 (R/ton)	White Maize Jul-21 (R/ton)	JSE YM Spot Price, Randfontein (R/ton)	Yellow Maize Mar-21 (R/ton)	Yellow Maize Jul-21 (R/ton)
Price	3 195	3 141	3 027	3 314	3 300	3 166
w/w	-3.2%	-3.4%	-3.0%	-4%	-3.5%	-2.3%
m/m	-13.1%	-13.5%	-1.1%	-8.7%	-8.3%	-0/3%
y/y	11.3%	20.1%	17.8%	23.8%	26.7%	22.0%

Outlook

We have lowered our price outlook marginally for February-April 2021 from our earlier 2 February projection, driven by the currency dynamics discussed above and the slight decrease in global prices. However, we continue to see significant upside room in price movements based on fundamentals. Strong demand from China continues to support prices while domestic factors influencing the rand could see prices increasing faster than depicted in Figure 1 below.

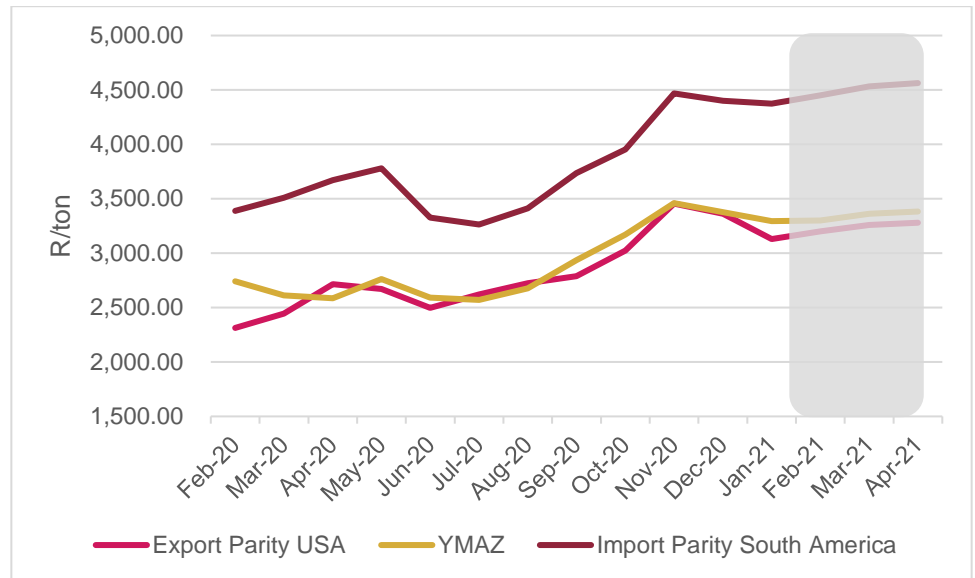


Figure 1: Yellow Maize Prices and Price Projections

*Section in grey represents Absa Agribusiness forecasts

Wheat Market Trends

International Wheat Market

CBOT soft red wheat prices decreased marginally on week, but showed a significant increase month-on-month. Hard red wheat decreased by 1.4% week-on-week. Both categories were up significantly from price levels in February 2020. Short-term prices eased somewhat on the back of a reduction in trading volumes in the previous week. Fundamental factors such as strong demand and an export tax from Russia, however, point to an upward trend over coming months. Extreme cold weather in key US wheat production regions could provide further price support as we approach mid-2021.

	R/USD	CBOT SRW Near Month (c/bu)	Kansas HRW Near Month (c/bu)
Price	14.55	636.00	616.00
w/w	-2.0%	-0.7%	-1.4%
m/m	-5.7%	4.3%	-0.9%
y/y	-2.2%	11.1%	20.1%

Local Wheat Market

Local wheat prices have, over the past week and month, decreased on the back of a stronger rand and slightly lower global wheat prices. The final crop for wheat in South Africa will be released on 25 February, to conclude the South African marketing season.

	JSE Spot Price (R/ton)	Mar-21 (R/ton)	USA Import Parity (R/ton)
Price	4 924	4 955	5 541
w/w	-3.3%	-3.4%	9.6%
m/m	-2.3%	-3.3%	9.1%
y/y	4.8%	-	2.3%

Outlook

As South Africa is a net importer of wheat, domestic wheat prices will likely track the rand/US dollar exchange rate movements. We had earlier projected an upward trajectory for wheat prices expecting a rand depreciation. Over the past two weeks, however, the rand has proved to be remarkably resilient. As a result, we somewhat temper our price projection and now expect prices to increase only marginally over the next three months, with upside risk stemming from a weaker exchange rate. US prices could also find momentum on the back of the current climatic issues and see a steeper trajectory over coming months if crop damage expectations in the central regions manifest.

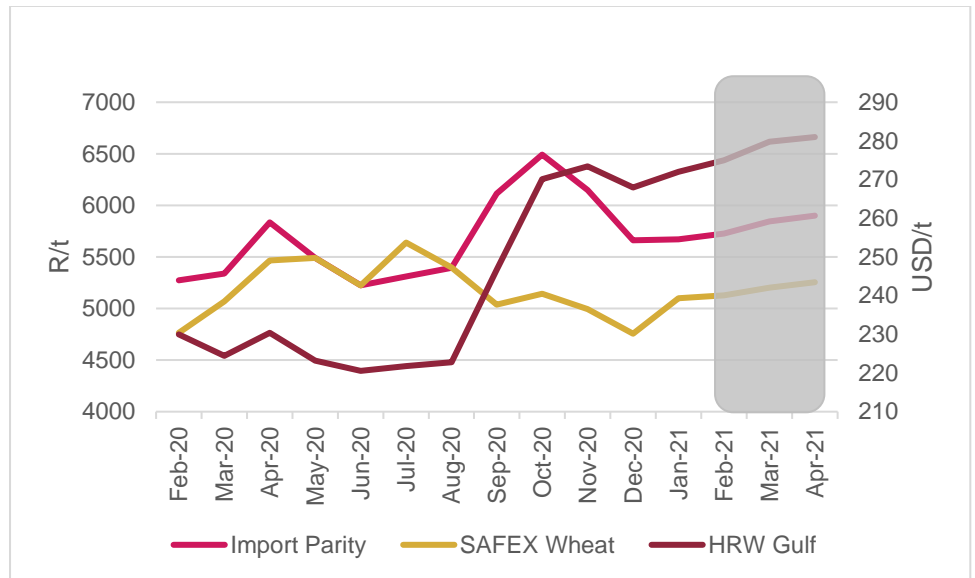


Figure 2: International and SAFEX Wheat Price Projections

*Section in grey represents Absa Agribusiness forecasts

Oilseed Market Trends

International Oilseed Market

US soybean oil prices increased by 3.1% week-on-week and 6.7% month-on-month year on year. Soya meal prices decreased 0.8% week on week and by a substantial 9.3% month on month. However, year-on year prices are still high. US soybean prices decreased somewhat week-on-week due to lower exports from the US. Prices are still substantially higher year-on-year. These comparatively high prices are driven by low stock levels, which is projected to be the lowest since the 2013/14 season.

	R/USD	Soybean Gulf (USD/ton)	CBOT Soya Oil (USc/lb.)	CBOT Soya Meal (USD/ton)
Price	14.55	546.04	46.04	427.2
w/w	-2.0%	-1.9%	3.1%	-0.8%
m/m	-5.7%	2.5%	6.7%	-9.3%
y/y	-2.2%	58.5%	39.4%	41.2%

Local Oilseed Market

Spot prices of soybean and sunflower showed week-on-week and month-on-month decreases. As with the other commodities discussed above, the key driver of this was the rand appreciation. Compared with a year ago, spot prices of soybean are however still 55.3% higher. Sunflower seed, in turn, are up 62% compared to mid-February 2020.

	Derived Soybean Price (R/ton)*	JSE Soybean Spot Price (R/ton)	JSE Sunflower Seed Spot Price (R/ton)
Price	9 930	9 594	8 750
w/w	-1.6%	-8.3%	-6.5%
m/m	-5.2%	-4.1%	-6.4%
y/y	67.3%	55.3%	62.0%

*Derived soybean price: Calculated price based on the imported price for soybean oil and oilcake

Outlook

We expect local oilseed prices to move sideways based on the current resilience of the rand. Global prices also seem to have lost some of the momentum in January as the size of Southern hemisphere supply became clearer. Low global stocks, however, should provide support for increased volatility and upward movement in price. This, combined with a weaker exchange rate later in 2021, could provide further upward push to prices.

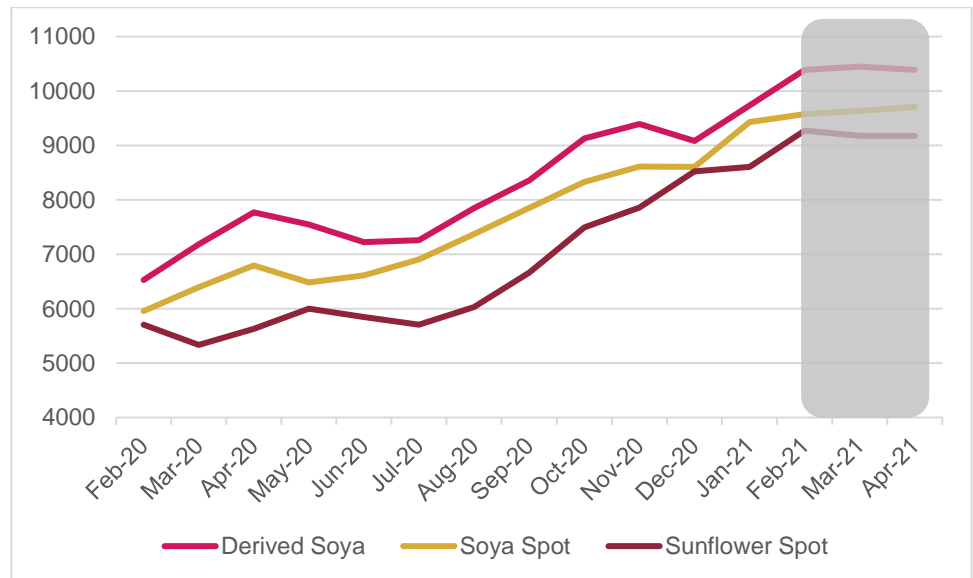


Figure 3: SAFEX Oilseed Price Projections

*Section in grey represents Absa Agribusiness forecasts