



Retail and Business Banking
Sector Economics
AgriBusiness
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Agri Trends: Grains and Oilseed Report

Hot and dry conditions in the US keep markets bullish

Maize: The total maize crop for the current season was estimated at 16.8 million tonnes in the fifth round of production estimates released on 29 June. Global market dynamics are expected to be the key driver of local prices. Northern hemisphere supply, and as a result weather conditions in the US, will dominate global price direction over the coming weeks.

Wheat: Due to hot and dry weather in the US, spring wheat had some damage and which resulted in some producers abandoning damaged crops or using it for feed. Spring wheat accounts for around a quarter of US wheat production. Despite this prices eased slightly with production conditions in other key producing areas such as the EU reported to be favourable. Good rainfall in the Southern Cape suggests that the local crop could again perform well this season.

Oilseeds: Soya oil is still benefiting from strong vegetable oil prices, in general. Here prices remain high due to tight supply. Prices for soya oil could trend somewhat lower in the coming week due to a reduction in palm oil exports levies from Indonesia that is due to commence on 2 July. This will put downward pressure on palm oil which is expected to spill over into other vegetable oil markets. Locally, the Crop Estimate for June is unchanged from estimates in May at 1 918 million tonnes which is a 54% increase in production compared to the previous season with sunflower production being estimated at 677 thousand tonnes.

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

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

www.absa.co.za

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

Maize market trends

International maize market

CBOT corn prices have come down from the highs experienced in the first weeks of May. On 7 May the most actively traded CBOT corn contract peaked at USD 7.72. Since then prices have come down and over the past weeks traded in a band between USD 6.50 and USD 6.80 per bushel. Dry and hot conditions in the mid-West of the US remains concerning. In the week ending 25 June, some states did receive much-needed rain which caused the prices to move marginally lower. Low stock to use levels are causing the markets to be very responsive to issues that could affect Northern hemisphere supply and as result weather conditions in the US will dominate price direction over the coming weeks. Parity prices are supported by global and exchange rate dynamics combined with surges in the international shipping cost.

	R/USD	Near-month CBOT corn (\$/ton)	USA YM Import parity Randfontein (R/ton)	US YM Export parity Randfontein (R/ton)	Argentina YM Import parity Randfontein (R/ton)
Price	14.19	256.10	5 496	3 450	5 653
w/w	1.3%	-0.7%	-0.4%	-1.1%	-0.7%
m/m	1.7%	-1.05%	-1.0%	-4.2%	-4.2%
y/y	-15.2%	105.2%	38.6%	52.8%	25.7%

Local maize market

Local white and yellow maize prices decreased by 1.5% and 0.9% respectively. Yellow maize prices are now around 8% below US export parity prices and around 19% above Argentine export parity prices with local prices following Argentine parity prices lower. Lower prices in Argentina are a result of better than expected yields. Global prices and exchange rate movements will continue to give price direction in the local market. In the case of white maize specifically, a large harvest in the rest of the region will limit regional exports and cause white maize to be destined to deep-sea destinations or, given the R150 odd discount on yellow maize, be used in the local feed market. The total maize crop for the current season was estimated at 16.8 million tonnes in the fifth round of production estimates released on 29 June.

	JSE WM spot price Randfontein (R/ton)	White maize Sep-21 (R/ton)	White maize Dec-21 (R/ton)	JSE YM spot price Randfontein (R/ton)	Yellow maize Sep-21 (R/ton)	Yellow maize Dec-21 (R/ton)
Price	3 038	3 096	3 171	3 178	3 228	3 328
w/w	-1.5%	-1.2%	-1.4%	-0.9%	-1.1%	-1.2%
m/m	-3.0%	-3.3%	-3.2%	-2.5%	-3.0%	-2.9%
y/y	21.7%	-	-	22.3%	-%	-

Outlook

Price dynamics over the coming months is bullish with, as mentioned above, weather in the US expected to play a key role in giving world prices direction. This, combined with the levels of the rand notably weaker than a month ago, could put upward pressure on South African prices. Given this, our price projections follow a modest upward trajectory with local prices expected to trade at levels of around R3 230 in September. Futures prices seem to support this view.

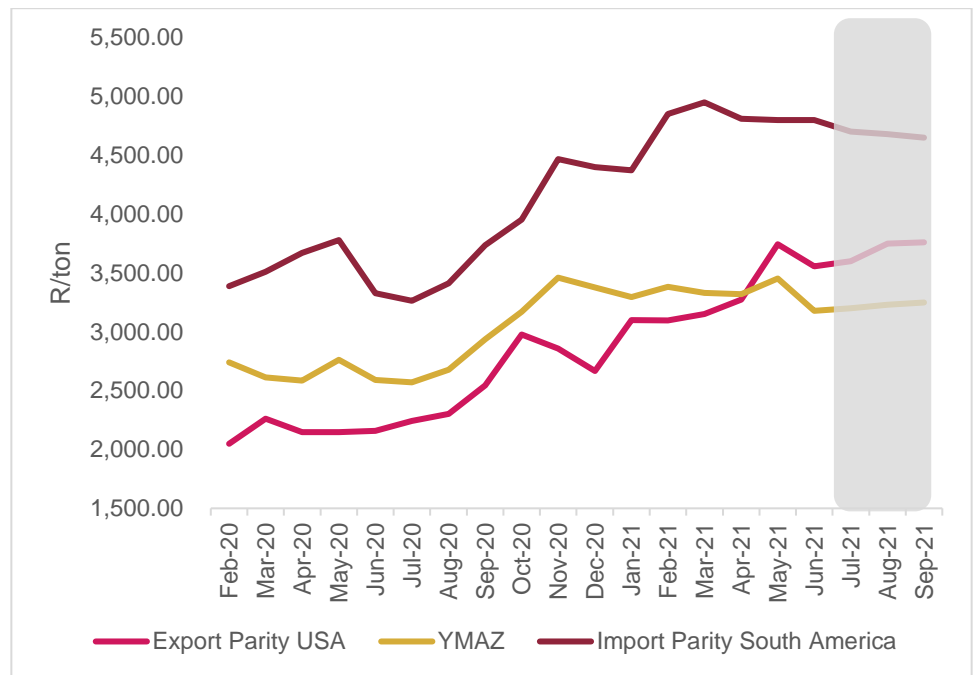


Figure 1: Yellow maize prices and price projections

*Section in grey represents Absa AgriBusiness forecasts

Wheat market trends

International wheat market

Week on week price changes in SRW amounted to a decrease of slightly less than 4% with HRW decreasing by a more modest 1%. Yearly price shifts are also relatively small compared to coarse grains such as corn. This is supported by higher stock to use ratios for wheat. In the week starting 28 June, SRW continued to find price support on concerns of hot and dry weather. Analysts also note that September contracts for spring wheat traded at levels comparable to 2013 and that some farmers were abandoning damaged crops or using them for feed. Spring wheat accounts for around a quarter of US wheat production.

	R/USD	CBOT SRW JUL 21 (USD/t)	CBOT HRW JUL 21 (USD/t)
Price	14.19	234.03	220.53
w/w	1.3%	-3.9%	-1.0%
m/m	1.7%	-4.0%	-2.2%
y/y	-15.2%	30.0%	40.5%

Local wheat market

Local wheat prices firmed by 2.6% compared to last week. This was a result of the weakening of the rand and an increase in import parity prices. SAFEX prices are around 2% lower compared to the corresponding time last year. In 2020, between June and August, South African wheat prices surged due to a small local crop in 2019/20. This changed with the crop for 2020/21, estimated at above 2 million tonnes on the back of favourable production conditions, by the CEC. Current weather again points to a favourable season. This combined with firm prices, wheat production is expected to make a strong contribution to agricultural GDP in 2021Q4.

	JSE spot price (R/ton)	Sep21 (R/ton)	USA import parity (R/ton)
Price	5 115	5 094	5 396
w/w	2.6%	2.7%	0.8%
m/m	-0.2%	2.9%	3.4%
y/y	-2.2%	-	3.2%

Outlook

We expect prices to move sideways with upside potential from a depreciating rand and the possibility of higher global prices. Although wheat stocks are higher than coarse grains such as maize, which is currently bullish due to dry and hot conditions in the US, large increases in maize could pull wheat prices higher due to spillover effects..

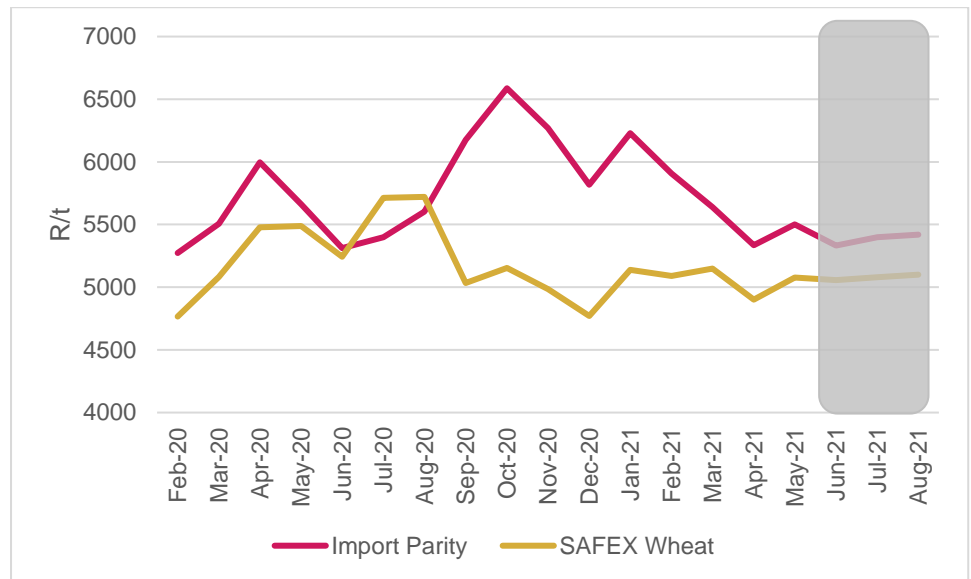


Figure 2: International and SAFEX wheat price projections

*Section in grey represents Absa AgriBusiness forecasts

Oilseed market trends

International oilseed market

International soybean prices decreased by almost 5% week on week. This was on the back of some rain in the US which improved production prospects. Soybean stock to use ratios are higher than corn and as a result, these soybean prices were more receptive to the effect of some rain relief in the US during last week. Soya oil, in turn, is still benefiting from strong vegetable oil prices in general. Here prices remain high due to tight supply. Prices for vegetable oils could trend downward in the coming week due to a reduction in palm oil exports levies from Indonesia that is due to commence on 2 July.

	R/USD	Soybean CBOT Near month (USD/ton)	CBOT soy oil (USc/lb)	CBOT soya meal (USD/ton)
Price	14.19	488.55	59.71	347.2
w/w	1.3%	-4.8%	2.7%	-7.0%
m/m	1.7%	-13.1%	-9.2%	-12.2%
y/y	-15.2%	51.2%	113.6%	18.3%

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Local oilseed market

Local oilseed prices increased week on week with soybean prices increasing by slightly more than 3% and sunflower prices increasing by 1.1%. Prices are however lower compared to the corresponding time last month on the back of global prices trending down. The Crop Estimate for June is unchanged from estimates in May at 1 918 million tonnes which is a 54% increase in production compared to the previous season

	Derived soybean price (R/ton)*	JSE soybean spot price (R/ton)	JSE sunflower seed spot price (R/ton)
Price	8 738	7 065	8 179
w/w	0.9%	3.1%	1.1%
m/m	-6.5%	-1.3%	-7.3%
y/y	19.3%	3.7%	39.9%

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

Outlook

Our outlook for the coming three months is for prices to move sideways. This is supported by global prices trending lower as a result of an improvement in the dry conditions apparent in the US over the past weeks countered by a weakening rand. Persistent dry and hot weather would provide some upside scope for this view although the price effect of this might be smaller than it would be for corn for the reasons mentioned above.

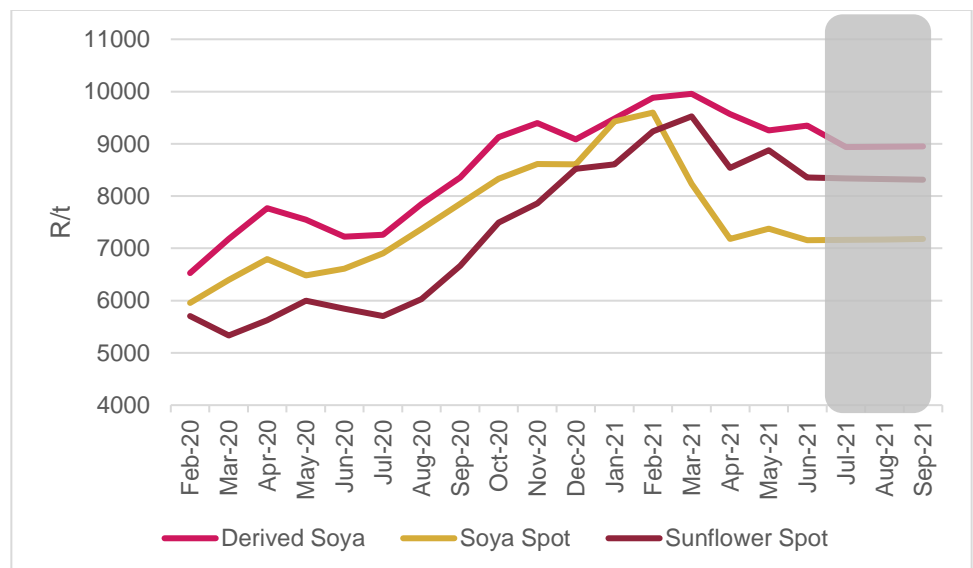


Figure 3: SAFEX oilseed price projections

*Section in grey represents Absa AgriBusiness forecasts