SA TO IMPORT R2.2BN IN MAIZE AS DROUGHT CONTINUES

By Robyn Joubert

A national drought is leaving the primary agriculture sector, which contributes 2.5% to GDP, in dire straits. Economists expect the effect to quickly trickle through to companies that support the sector. And for the consumer it means double-digit food price inflation by March 2016.

Many farmers have prepared their lands to start planting, but rain is desperately needed for planting to commence.

If rain doesn't fall in the next few weeks, the crop and livestock prospects for many commodities will be decidedly bleak, with direct and material impact on the earnings of farmers and the companies that support them, and on food price inflation.

Coupled with sweltering heat, the prolonged drought is a major source of anxiety to the farming sector, which contributes about 2.5% annually to SA's GDP through primary agricultural production.

The main commodities affected by the drought are maize, wheat, sugar cane and citrus, although all commodities and livestock in drought-stricken areas are affected.

Unlike more common localised droughts, SA is currently in the grip of a national drought.

"The only areas where there are not problems are the Eastern and Southern Cape. There are severe problems in Mpumalanga, KZN, most of the Free State, parts of Limpopo and parts of North West," says Johan van den Berg, Santam agriculture manager: specialised crop insurance. "The northern parts of the Northern Cape are also suffering severely and in some parts of the Kalahari, north of Upington, rain last occurred more than 18 months ago."

In KZN, which accounts for 24.4% of SA's agricultural activity according to Stats SA, dam water levels were sitting at 57.9% of capacity as at 2 November (compared with 70.5% a year earlier), with Hazelmere Dam at 26.3% (43.5%), Midmar Dam at 53.1% (68.7%), Hluhluwe Dam at 30.2% (70%) and Pongolapoort Dam at 52.8% (63.1%). The North West's 25 dams are at 45.9% capacity (68.7%), while Free State dams are at 66.4% (78%).

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"While large dam water levels are still respectable, medium and smaller dams are in most cases empty or very close to empty," explains Van den Berg. "This will affect irrigation in smaller irrigation areas. Borehole water is also becoming a problem and supply to animals and for human consumption is becoming a serious concern."

Net importer of maize

The next few weeks are crucial for the maize industry, which grows 91% of its crop without irrigation. Maize planting takes place from mid-October to late December.

"Maize tonnage has decreased from a record bumper crop of 14.2m tons in 2013/14 to just under 10m tons in 2014/15. For the first time in seven years, we will become a net importer, importing white maize from Mexico and Zambia and yellow maize from Argentina and Brazil," says Agri SA senior economist Thabi Nkosi. "We need to import an estimated 770 000 tons of maize this season, of which almost 60% has already been imported. This will cost the economy about R2.2bn at current prices and tonnages."

Of the 770 000 tons of imports, 700 000 tons are yellow maize, which is mainly used for livestock feed. "The situation is more desperate on the livestock side but we are also concerned about supply of white maize, which is used for consumer consumption. Not a lot of countries produce white maize," Nkosi says.

Poultry double whammy

Astral Foods CEO Chris Schutte says conditions in maize producing areas would have a dramatic effect on the

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poultry sector. "If maize farmers, especially in the eastern areas like Mpumalanga, don't get good rain soon, they will be unable to plant. It will lead to reduced acreage and probably also a reduced yield. Coming on the back of the previously poor crop, it will severely upset the maize balance sheet and will most probably push the price to record highs," he says.

This would have a severe impact on the production cost of commercial chickens. "Feed makes up 65% of the cost of producing a chicken. In January and February, we will see feed prices increasing to the highest level in my history of 32 years in poultry. Producers have to try and recover part of it from the consumer. But retail is dead set against any price increases so producers will go into a margin squeeze of note. This inability to recover the higher maize cost could lead to the demise of smaller producers," Schutte states.

The heat wave was also wreaking havoc on poultry production, with the wind entering naturally ventilated poultry houses being warmer than the air inside. Chickens don't eat when they are hot and so their growth slows.

"It's a double whammy for poultry producers," Schutte says. "It will take long, slow, soft rain to improve soil moisture – and this is unlikely because of the effect of El Niño. This is a dark cloud with no silver lining. And it's not a rain cloud."

Red meat prices could rocket

The drought has also resulted in a crisis in terms of grazing and dry matter for animals. Hay and fodder has become so expensive that many farmers struggle to afford to feed their herds. The cost of grass bales has increased from about R250/bale of medium-quality grass a year ago, to R450 or more.

Dave Smit, a grass farmer from Tweedie in the KwaZulu-Natal Midlands, says the situation is desperate. "It is not just that hay has become expensive. It is that there is next to nothing available. Where we should be heading for second cuts on rainfed grass, we have had just one minute cut. The grass looks like a soccer field."

As a result, farmers are cutting their herd sizes, "right down into their nucleus herds", says Red Meat Producers Organisation CEO Gerhard Schutte. "Their overdrafts are up to the limit."

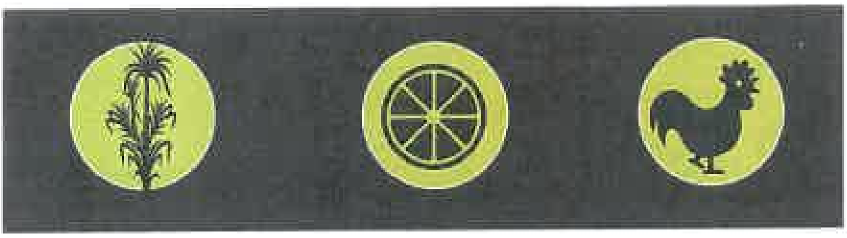
"Even after rains, it would take two to four years for farmers to recover financially, and it will be a fine balance between paying the bill for the drought and expanding."

Abattoir figures indicate the rate at which farmers are sending animals to market. "The national slaughter figure for mutton for October was 431 820 sheep, 10% higher than the previous month. Beef is 21% higher than

Wheat fields between Clarens and Fouriesburg in the eastern Free State. While some farmers have been able to plant, follow-up rain is urgently needed to avoid damage to crops.

Will it rain before Christmas?

South Africa is still in the grip of a very strong El Niño phase, although there are indications that El Niño will reach maturity relatively early, before December. This can assist in improving the conditions for the second part of the season. In the short term, conditions that are more conducive to rainfall should occur in the second part of November in most of the summer crop area. "In the longer term, most strong El Niños of the past were followed by a relatively strong La Niña phase and resulted in wet conditions. If this is also true for the current situation, 2016/17 may [experience] favourable rainfall conditions," says Johan van den Borg, Santam Agriculture manager: specialised crop insurance.



a year ago, at 258 443 cattle. Last year was also dry [with an elevated slaughter rate], so on top of that we are still slaughtering more cattle," says Pieter Cornelius, AgInfo Manager: Livestock.

There is currently sufficient livestock on farms to ensure normal red meat supply. However, livestock farmers are running the risk of animal mortality, especially among cattle. Many animals have just given birth and need high-quality nutrition. If rain holds off until next winter, it will send meat prices rocketing. "The effect will start to be felt from next winter to the end of 2016. SA imports little meat but if local supplies fall short, we will be forced to import from countries like Australia and New Zealand," says Cornelius. "This will have a strong effect on prices. The price of medium cow meat from Australia for October is R68.39/kg, compared to R28.74/kg for SA's Class C2/C3; while medium steer meat costs R74.09/kg, compared to R33.92/kg for SA's Class A2/A3. The import parity price for Australian trade lamb is R66.48/kg compared to R53.89/kg for SA Class A2/A3."

The rand has already fallen 21.3% against the dollar in the past 12 months. "If we go into a prolonged drought and the economy fails to perform, the rand could depreciate 30% or 40% year-on-year, making imports even more expensive," Cornelius adds.

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2.5%

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Chris Schutte
CEO of Astral Foods

Richard Nicholson
Economic research manager at the SA Cane Growers' Association

Two seasons of drought for sugar cane

In the sugar cane industry, the drought has thus far spanned two production seasons, becoming increasingly serious in the 2015/16 season. Estimates as at September predict the loss of grower revenue to be R1.9bn, with the national crop estimated to be 25.89% lower than 2013/14 at 14.8m tons, compared with 20m tons in 2013/14 and 17.7m tons in 2014/15.

"This drought is deemed one of the worst in 100 years," says Richard Nicholson, economic research manager at the SA Cane Growers' Association. "The entire KZN dryland producing region has been negatively affected, with the North Coast, Zululand and the Midlands particularly affected by production declines." Mills at Umzimkulu and Darnall have been closed.

The drought has caused the farm gate price of sugar and molasses recovered from the sugar cane to increase due to lower supply. "However sugar producers are still able to meet domestic demand for sugar so the price has not yet been drastically affected," Nicholson says.

The pain trickles down

The drought would have a significant impact on the broader economy and on the farming sector, says Vunani Securities analyst Anthony Clark. "We have already seen that the lower maize crop and significantly lower wheat crop has had a direct, material effect on the earnings of farmers and companies that support them. Equipment sales, for example, have fallen sharply."

Grain SA economist Wandile Sihlobo says maize prices had hit record highs and remained at the upper levels. "White maize is now sitting at around R3 100/ton. That is 65% higher than a year ago. Yellow maize is around R2 800/ton and that is 45% higher than a year ago," Sihlobo explains.

Clark expects higher prices to filter through to consumers by the end of the first quarter of 2016.

"Most food companies hedge their procurement three to six months forward. As they start to unwind their positions, they will have no choice but to pass on underlying price inflation to consumers. We are looking at double-digit consumer food price inflation on all basic commodities like mealie meal and bread from March 2016, which will lead to volume pressure and stress on the retail side," Clark says.

Unlisted agricultural companies, such as OTC, Senwes and Kaap Agri, and food companies like Pioneer and Tiger Brands, would be impacted, but some more so than others.

"Pioneer Foods is a very large staples business involving milling and the supply of wheat and mealie meal. They will have greater exposure than Tiger Brands, which is more of a grocery-type business. It is not a crisis but if prices remain high and if the 2016 wheat and maize crops do not recover, it will mean margin contraction and lower earnings."

The impact could also be felt by agri-insurance companies. Drought cover is not available on winter crops anymore but it is on summer crops, which farmers have been unable to plant. If conditions prevent them from planting summer crops, "this will reduce the potential market for insurance, especially hail insurance, which is the main line of income for most insurance companies", Van den Berg explains.

The planting window for summer crops is becoming critical in the Eastern Free State, KZN and Mpumalanga, with window periods very close to an end. Farmers in the rest of the Free State and North West can still plant maize until about Christmas and sunflower until the second to third week in January. "It is very likely that farmers in the eastern production areas will not be able to plant all intended hectares before the optimum planting window closed," Van den Berg says.

If rain falls before the end of November, farmers will probably still plant but the yield potential will be much lower due to a shorter growing season.

"The only thing to mitigate the worst-case scenario is if SA has good rains and a bumper maize crop of 12m tons to 14m tons, along with a stable rand. 2016 is going to be a challenging period for food companies that have enjoyed margin expansion over the past few years; and poultry companies that have enjoyed protectionism and rising poultry prices," Clark says. ■

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Photos: Robyn Joubert