Agri Trends

26 September 2017

Feed the maize market during times of increased uncertainty

The following time period until the end of 2017 will be a bumpy ride for the Rand. An increase in policy uncertainty in the run up to the ANC elective conference by the end of 2017 will pose opportunities to price maize. The global corn market reached a bottom and prices trade sideways. Harvesting already started in the USA and there is no bullish potential left in a weather market. Domestic maize producers need to consider lowering their plantings in the coming season as the rate of exports are too low to make a significant dent in the maize carry out by the end of April 2018. In order to continue producing maize at profitable levels producers will have to ration supply in order not to harm the present price levels.

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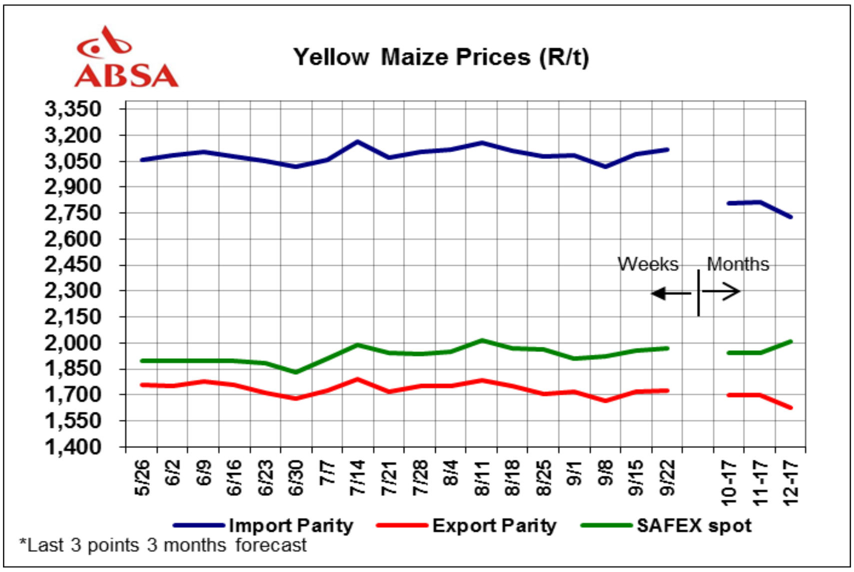
Maize market trends

International

Week-on-week yellow maize No 2 gulf price decreased from US$148.14/ton to $141.59/ton. No major harvest threat is in the forecast for the US, 61% of the maize crop in good to excellent condition.

Bullish factors

- The Vietnamese government resumed imports of US DDGS (Distillers Dried Grains).Reopening of DGS trade will promote US corn and wheat export recovery.
- Argentinian weather (excessively wet and partly flooded) impeding the timely start of oilseeds and grains planting. It will all depend on how quickly the soils dry up, and flooding subsides, to allow for late plantings of oilseeds and grains.

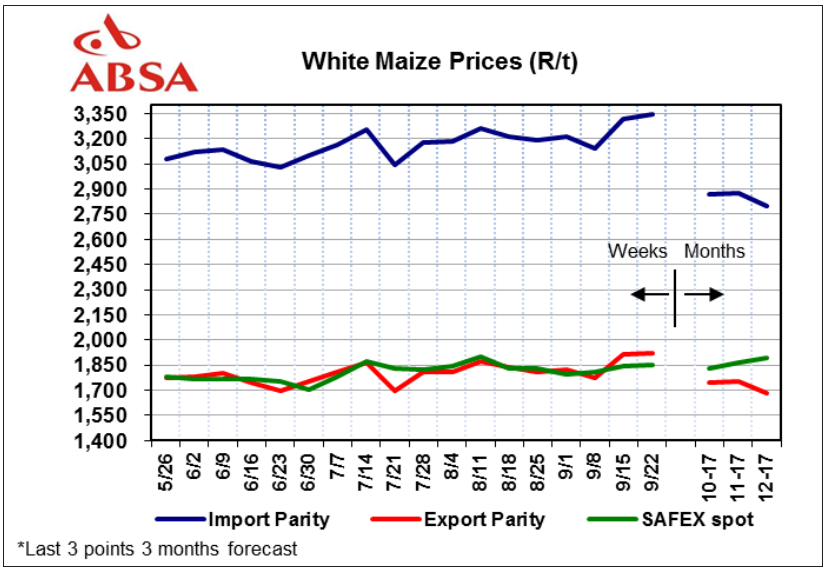


Bearish factors

- Harvesting in the US has begun, and about 61% of the maize crop was in good or excellent condition.
- Some extended forecasts report above normal temperatures and below normal rainfall during the first week of October in the US. No major harvest threat is in the forecast for the US, most weather talk among traders has shifted focus to South America adverse weather developments

Domestic

By September 22 , week on week new season white maize prices for delivery in Dec 2017 decreased marginally by 1.4% (R27) from R1917/ton to R1890/ton, Jul 2018



contracts decreased marginally by 06% week-on-week from R2052/ton to R2040/ton . Week-on-week new season yellow maize prices for delivery in Dec 2017 decreased by 1% (R21) from R2030/ton to R2009/ton. Prices for delivery in July 2018 for yellow maize were recorded at R2216/ton a 1.2% decline from last week's R2141/ton.

Bullish factors

- Due to the expected increase in policy uncertainty and chances of a potential credit ratings downgrade by November the outlook for the Rand worsen. The Rand may devaluate by the end of the first quarter in 2018 to reach R14.50 to the US$ by the end of March 2018. This will provide underlying support to maize export parity prices and increase the rate of exports.
- Some irregularities during the Kenyan elections during early August have seen the Supreme Court annul those elections. New elections will be held on October 31st, As it stand now, the prior arrangement still holds and the government remains to subsidise white maize and will do so till end September. The entire white maize supply is imported mainly from South Africa and Mexico. Kenyan contacts expect a further 120 000 t**on** WM vessels each from SA and Mexico and a further 20 000t on from Zambia to be offloaded offload during October.
- Next year's production prospects could see a decline in white maize plantings.

Bearish factors

- Due to the expected increase in policy uncertainty and chances of a potential credit ratings downgrade by November the outlook for the Rand worsen. The Rand may devaluate by the end of the first quarter in 2018 to reach R14.50 to the US$ by the end of March 2018. This will provide underlying support to maize export parity prices and increase the rate of exports.
- The current rate of exports is limited and not sufficient to reduce the maize carry out by the end of the current marketing year.
- Current weather outlooks are in favour of higher rainfall for the coming season.

Outlook

The current maize outlook remains bearish, with ample local white maize supply still ample and export activity below the optimal level needed to reduce the current stocks. For now it cannot be said with certainty what producers will plant in the next production season, market anticipates a shift to oilseeds and yellow maize due to the large volumes of white maize already available. Due to the expected increase in policy uncertainty and chances of a potential credit ratings downgrade by November the outlook for the Rand worsen. The Rand may devaluate by the end of the first quarter in 2018 to reach R14.50 to the US$ by the end of March 2018. This will provide underlying support to maize export parity prices and increase the rate of exports.

Globally, some extended forecasts report above normal temperatures and below normal rainfall during the first week of October in the US. No major harvest threat is in the forecast for the US; most weather talk among traders has shifted focus to South America adverse weather developments. Ample supplies of maize in South America will augment any upward pressure on maize prices, despite bad weather currently experienced.

Yellow Maize Futures: 22 September 2017	Dec-17	Mar-18	Jul-18	Sep-18
CBOT ($/t)	139.17	144.09	150.19	152.75
SAFEX (R/t)	2009	2053	2116	2169
SAFEX (R/t) *Change week on week (w/w)*	-21.00	-22.00	-25.00	-21.00

Dec-17			Mar-18			Sep-18		
Ask	Put	Call	Ask	Put	Call	Ask	Put	Call
2,050	117	76	2,100	192	145	2,160	226	182
2,010	94	93	2,060	170	163	2,120	204	200
1,970	75	114	2,020	148	181	2,080	182	218

Table 2: Weekly average white maize futures and estimated option prices

White Maize Futures 22 September 2017	Dec-17	Mar-18	Jul-18	Sep-18
SAFEX (R/t)	1890	1937	2040	2101
SAFEX (R/t) *Change w/w*	-27.00	-18.00	-12.00	-12.00

Dec-17			Mar-18			Jul-18		
Ask	Put	Call	Ask	Put	Call	Ask	Put	Call
1,930	108	68	1,980	191	148	2,080	243	203
1,890	86	86	1,940	168	165	2,040	220	220
1,850	67	107	1,900	147	184	2,000	199	239

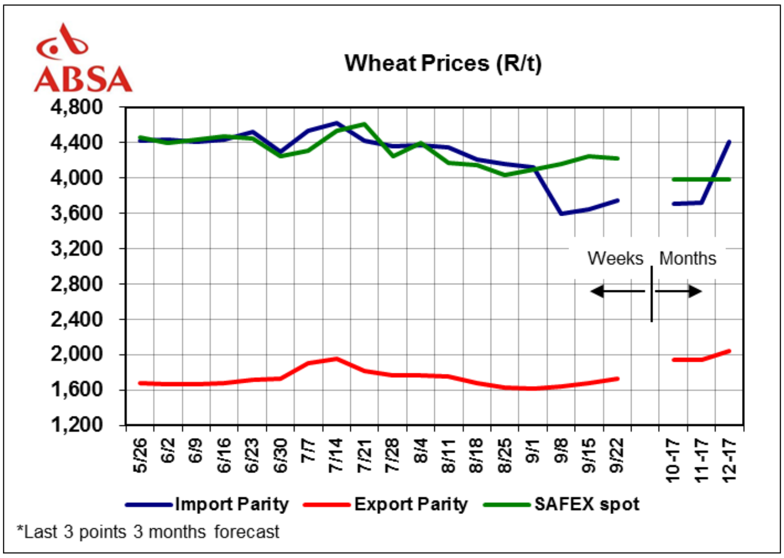
Wheat market trends

International

The weekly average old season HRW wheat Gulf increased price week on week from US$183.42/ton to reach a weekly average of US$181.42/ton. Lower crop prospects in Australia, Argentina and Canada provided some price support.

Bullish factors

- Drought affected Australia cut its wheat export prospects, because of crop losses.
- US wheat export sales declined to 3 million ton.
- In Argentina, heavy rainfall worsened the effects of the already excessively wet fields in Buenos Aires, La Pampa, Southern Cordoba and southern Entre Rios. In some of the affected areas, +/- 505 of the grains and oilseed are excessively wet. Recently planted wheat in certain areas will be abandoned and intentions to plant in some areas will not be possible to keep.



Bearish factor

- In the US, 89% of the spring wheat crop is harvested, up 13% from the previous week.
- Larger Russian production prospects keep capping major global price increases.

Domestic

On September 22, wheat prices for delivery in Sep 2017 declined by 5.9% (R250) from R 4230/ton to R3980/ton week on week.

Bullish factors

- Persisting drought in the Western Cape. Dams still remain relatively empty as seen on the latest dam level statistics for the Western Cape at 35.3% (compared to 61.9% in 2016). According to the South African Weather Bureau, it doesn't seem likely that the country will receive sufficient rains in the coming 2 weeks to replenish soil moisture. The grains, viticulture and horticultural industry may incur material damage later.

Bearish factors

- A reduction in the wheat import tariff to R379.34/ton as published on the 8th September 2017 placed wheat prices under pressure. The lower import tariff and subsequent lower import parity price levels leads to an increased supply of wheat on the domestic market
- A weakening Rand

Outlook

Canadian wheat prospects have been lowered by 14.6% compared to the 2016 season. Australian wheat crop expectation and export sales have been reduced due to severe drought. The reduced stocks levels provided some price support, however the wheat global market still has large stock and crop, and therefore prices are expected to remain under pressure well into the next year.
The domestic wheat industry is definitely not anticipating a top harvest since the industry was laden with a lot of strain due to below average rainfall and late plantings, we expect a lower wheat harvest.
The latest wheat import tariff was published on the 8Th September 2017, revised downwards to R379.35/ton from R947.20/ton.
The lower import tariff and subsequent lower import parity price levels leads to an increased supply of cheaper imported wheat on the domestic market, placing downward pressure on the local wheat price. How long before the producers should wait till a higher tariff is announced remains an uncertainty. The previous tariff took 40days to be published for now this lower tariff may weigh on domestic prices and encourage imports.

Wheat Futures 22 September 2017	**Dec-17**	**Mar-18**	**Jul-18**	**Sep-18**
CME ($/t)	172.5116715	177.472071	187.1172923	194.006736
SAFEX (R/t)	3980	3981	4055	4120
SAFEX (R/t) *Change w/w*	-5.9%	0.0%	-0.2%	0.4%

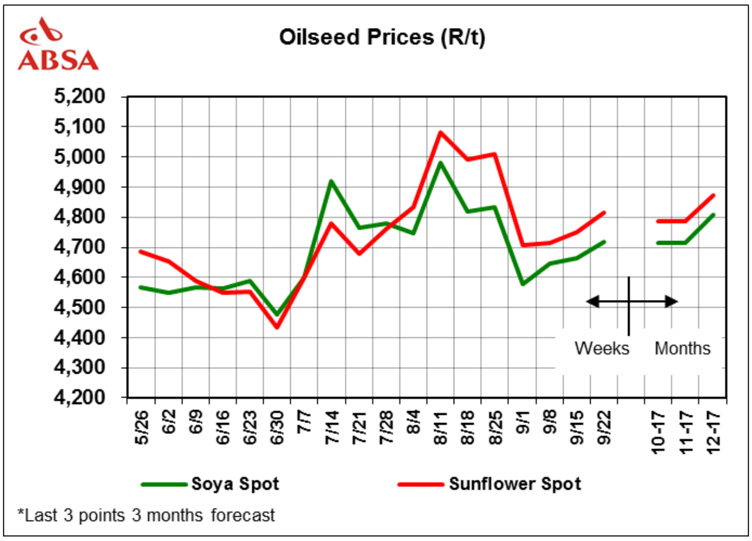
Dec-17			**Mar-18**			**Jul-18**		
Ask	Put	Call	Ask	Put	Call	Ask	Put	Call
4,020	161	122	4,100	246	201	4,160	322	282
3,980	139	140	4,060	225	220	4,120	300	300
3,940	119	160	4,020	204	239	4,080	279	319

Oilseed market trends

International

The weekly average USA soybean price remained unchanged week on week at US$378.78/ton US soya oil prices decreased from US$34.77/ton to US$34.37/ton and soymeal prices traded higher from US$301.28/ton to US$307.33/ton.

We expect to see a decline in the Southern Hemisphere soybean production in early 2018; this trend will mainly be driven by adverse weather conditions.



Bullish factors

- Oilseed crop prospects have declined in some major producing regions in South America. Brazil and Paraguay are too dry in some key soybean growing regions. Heavy rainfall in Argentina and Uruguay caused excessive moisture in maize and soybean fields.
- Insufficient rainfall in India is bound to cause below potential soybean yields in the key producing state of Madhya Pradesh (where about 50% of India's soybean growing area is).
- The supply shortage of olive oil, and the insufficient recovery thereof in the 2017/18 season, will likely keep global olive oil prices high. The poor Spanish production outlook (driven by severe drought conditions for the 2nd year,) further adds to high prices.
- Rising soya oil imports to India, Bangladesh, China, South Korea, Peru, Iran, Venezuela and Morocco, supported prices.
- Import requirements recovery for soya meal in the EU-28 and some Asian countries, supported prominent recovery in soya meal exports, reaching levels above last year's.
- Chinese soya meal consumption is boosted by 11% in Oct/Sep 2016/17, thanks to a ban on DDGS imports.
- In Brazil, the latest forecasts show good rain chances across most of central/southern growing regions over the next two weeks. Nevertheless most that showers are expected to miss top soybean state Mato Grosso.
- Crop losses in Australia have resulted in strong recovery of rapeseed prices in Europe and Canada in the past week.

Bearish factors

- Larger than expected canola production in in Canada may offset any production losses on Australia.
- World palm oil production is expected to increase way above the demand in 2017/18, adding to the current stocks.
- World soya meal production is forecasted to reach a record 233.8 million ton in 2017/18. This may add to the ample supplies, lengthening large stocks period and accompanying lower prices.

Domestic

On September 22nd , sunflower seed prices (Dec17) decreased week on week by 1.1% (R54) from R4904/ton to R4854/ton while soybean (Dec17) prices declined by 1.4% (R69) from R 4844/ton to R4775/ton. Sunflower seed prices fared higher than soybean prices for the December 2017 contracts. Increased local demand for sunflower seed crushing supports sunflower seed prices above soybean prices.

Bullish factors

- Due to perceptions that favour imported soya meal consumption above local soya meal, (domestic soya meal consumption demand declined by 24% Mar/July 2017) in the recent months, even with the bumper crop. Processing needs shifted more to sunflower seed crushings (up by 12% Apr/July 2017). Domestically we anticipate the positive sunflower seed and soybean crushing margins to support prices.

Bearish factors

- Local oilseed plantings are anticipated to increase in the next year, as producers may look for alternative higher profit margin crops.

Outlook

With the massive soybean harvest the domestic market had in 2017, the crushing industry is absorbing as much as it can for the current demand however it should be noted that not all crushing facilities will be used to full capacity to ensure all production is processed. We anticipate a soybean surplus to be carried over into the next year. Carry-over stocks coupled with probable expansion in soybean plantings motivated by a shift from maize to oilseed cultivation, could cause the country to have another record harvest in 2018, should weather prospects remain positive. Looking forward if (should) producers plant soybeans and sunflower seed and hedge against risk accordingly, better margins than maize could potentially be enjoyed. Producers must take care and consider to hedge against a potential downturn in oilseed prices that may follow intentions to increase plantings by the end of October.

The USDA's bearish August report raised its forecast for the US soybean crop to a record 120.6 million ton. The upward trend was a direct effect of enhanced yield potential. These estimates were done on crop growing conditions as of 1 September 2017; they may not reflect the recent hurricane's detrimental effects. The USDA's October report may give a more detailed, up to date view on the crop conditions. We keep a look out on the upcoming report, because it will also provide the latest production estimates of soybeans, cotton and groundnuts, which were also open to upward revisions.

Oilseeds Futures 22 September 2017	**Dec-17**	**Mar-18**	**Jul-18**	**Sep-18**
CBOT Soybeans (US$/t)**	365.42	368.72	373.96	370.10
CBOT Soy oil (US c/lb)	34.22	34.62	34.96	34.88
CBOT Soy cake meal (US$/t)*	345.38	350.88	356.04	355.49
SAFEX Soybean seed (R/t)	4775	4870	5050	-
SAFEX Soybean seed (R/t) change w/w	-69.00	-51.00	-10.00	-
SAFEX Sunflower seed (R/t)	4854	4955	5085	-
SAFEX Sunflower seed (R/t) change w/w	-54.00	-64.00	-80.00	-

Sunflower Calculated Option Prices (R/t)

Dec-17			**Mar-18**			**Jul-18**		
Ask	Put	Call	Ask	Put	Call	Ask	Put	Call
4,900	244	198	5,000	334	289	5,120	398	363
4,860	222	216	4,960	313	308	5,080	376	381
4,820	201	235	4,920	292	327	5,040	355	400

*short ton

** Dec 2017 = Jan 2018