Spring Edition

AgriTrends 2023

About this report

How will local and global conditions impact the agricultural industry?

AgriTrends offers insight from industry experts, enabling agribusiness stakeholders to navigate the future. The AgriTrends 2023 Spring Edition looks at the impact of global and local weather developments, load-shedding, and market dynamics in South Africa and abroad.

We also explore how these factors will shape the way we do business in the future. Through shared insight, the industry can continue to navigate disruptions and uncertainties and grow a stable future for South African agriculture.

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INTEGRATING BIODIVERSITY INTO AGRIBUSINESS AND FINANCE DECISION-MAKING – WHY NATURAL CAPITAL MATTERS?

Introduction and overview

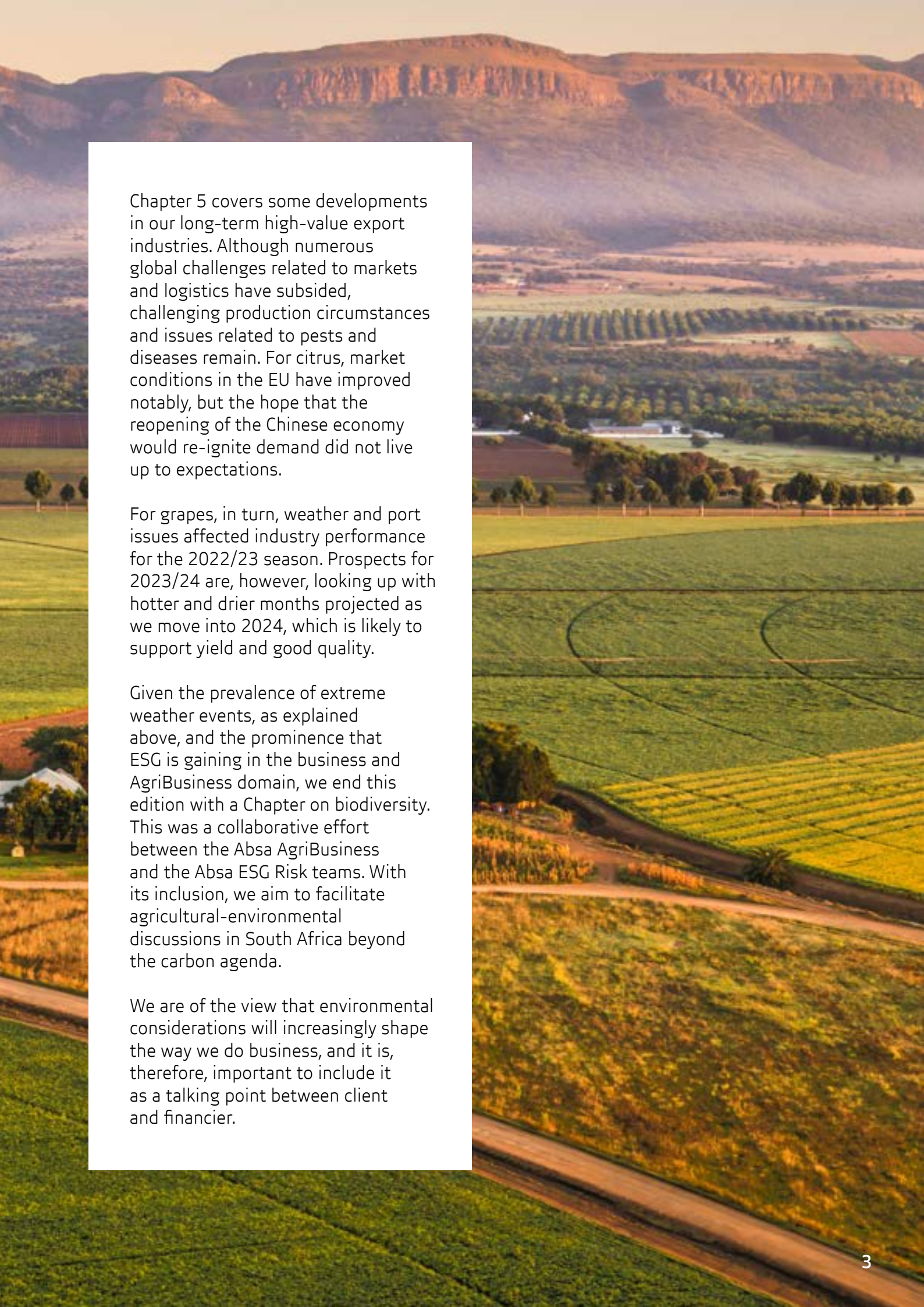
Many of the key issues facing the South African agricultural industry, highlighted in our Autumn 2023 Absa AgriTrends, are still at play. Although load-shedding has eased, upside risks remain, and coupled with the current El Nino weather event, will affect yields and the quality of various irrigation crops over the coming months.
Due to the relevance of this weather phenomenon, Chapter 1 is an overview and associated projection of the current El Nino and its effects, compiled by renowned Agricultural Meteorologist Johan van der Berg. Although this piece of work shows that high temperatures and low erratic rainfall are likely outcomes for the coming months, we are still cautiously optimistic about 2023/24 summer crop production. Here, good soil moisture levels and the possibility of a weakening in the El Nino event as we enter 2024 could still result in a decent crop, well above levels demanded for domestic use.

It is, however, not just locally, where weather is front of mind. Widespread heat waves in the Northern Hemisphere have also been impacting sentiment in a range of agricultural commodity markets since the start of June.
Extreme temperatures and floods are being recorded in the US, the EU, and China. This has resulted in increased risk premiums for grains and oilseeds. Weather can also impact prices of fruit and nuts. Geo-political issues such as the Ukraine counter-offensive are also impacting dynamics in grain and oilseed markets.

In Chapter 2, we unpack how these and other issues are likely to shape local price trajectories over the coming months and years.

With grain price dynamics largely being dominated by supply-side factors, local livestock prices, which we cover in Chapter 3, are dominated by demand-side issues. For beef specifically, large price decreases since the start of the year were underpinned by rising interest rates and load-shedding, with the latter a major disruptor in consumer purchasing patterns. With a reprieve in load-shedding since the start of June, we do, however, see a modest upward scope in prices. Over the medium term, this will, however, be limited by an increase in marketed animals underpinned by aggressive herd-rebuilding initiatives over the last four years. Recent market access to China and Saudi Arabia does provide some upside price scope in this sector.

Load-shedding has also impacted fresh produce market dynamics. For onions and potatoes specifically, prices have been extremely favourable over the past few months. As a result of reduction in hectares, driven by load-shedding and rapidly increasing input costs, margins have been under pressure over the past few years. In the case of onions, the rapid price run, apparent since last year August, is a market correction in response to higher input costs in our view. We, therefore, do not foresee prices returning to levels apparent in 2021 and early 2022. We elaborate on these and other vegetable trends in Chapter 4.



Chapter 5 covers some developments in our long-term high-value export industries. Although numerous global challenges related to markets and logistics have subsided, challenging production circumstances and issues related to pests and diseases remain. For citrus, market conditions in the EU have improved notably, but the hope that the reopening of the Chinese economy would re-ignite demand did not live up to expectations.

For grapes, in turn, weather and port issues affected industry performance for the 2022/23 season. Prospects for 2023/24 are, however, looking up with hotter and drier months projected as we move into 2024, which is likely to support yield and good quality.

Given the prevalence of extreme weather events, as explained above, and the prominence that ESG is gaining in the business and AgriBusiness domain, we end this edition with a Chapter on biodiversity. This was a collaborative effort between the Absa AgriBusiness and the Absa ESG Risk teams. With its inclusion, we aim to facilitate agricultural-environmental discussions in South Africa beyond the carbon agenda.

We are of the view that environmental considerations will increasingly shape the way we do business, and it is, therefore, important to include it as a talking point between client and financier.

CLIMATE OUTLOOK FOR 2023/24

With special reference to El Nino: What can be expected?

ENSO (El Nino Southern Oscillation)

The ENSO phenomenon (El Nino Southern Oscillation) consists of two main phases: El Nino (warm phase) and La Nina (cool phase), with an intermediate or neutral phase when sea surface temperature anomalies are within about 0.5°C (between 0.5°C warmer than usual and 0.5°C cooler than usual). The current situation is that a moderate-to-strong El Nino event is in progress. It started to develop in May this year and is expected to reach peak intensity in December and last until about March/April 2024. Indications are that the intensity, in terms of warming of sea surface temperatures, will compare well with previous stronger El Nino events, although not as strong as in 1982/83 and 2015/16.

Although the impact of ENSO may be global, the physical position of the phenomenon is close to the equator in the Pacific Ocean, stretching from the west coast of central South America (Nino 1 and 2) to more than halfway to Northern Australia (Nino 4). El Nino development is due to weaker-than-usual southeast passage winds from the west coast of South America, resulting in an accumulation of warmer-than-usual sea surface temperatures due to a lack of mixing of surface waters. The opposite is true when stronger-than-usual winds occur, moving warm surface waters more towards the west with an accumulation of warmer-than-usual surface waters towards southeast Asia. Cooler-than-usual waters are now able to reach the surface from deeper layers, resulting in La Nina conditions.

The trigger for weaker or stronger winds is uneven warming of surface waters and changes in wind speeds and directions. Large-scale weather systems are mainly driven by differences in surface energy levels, resulting in alternating low- and high-pressure systems. Low-pressure systems are rising air, and high-pressure systems are falling or descending air. Higher sea surface temperatures result in the development of low-pressure systems, rising air, cloud formation, and rain. After rainfall occurs, the dry air is dumped in a high-pressure system with descending air and unfavourable conditions for rain.

So, if there are changes in surface heat energy levels, there is also a spatial shift in climate and weather patterns. Climate systems are globally interconnected, meaning that there can be spatial differences in rainfall but also temperature and other climate elements over seasons or years.

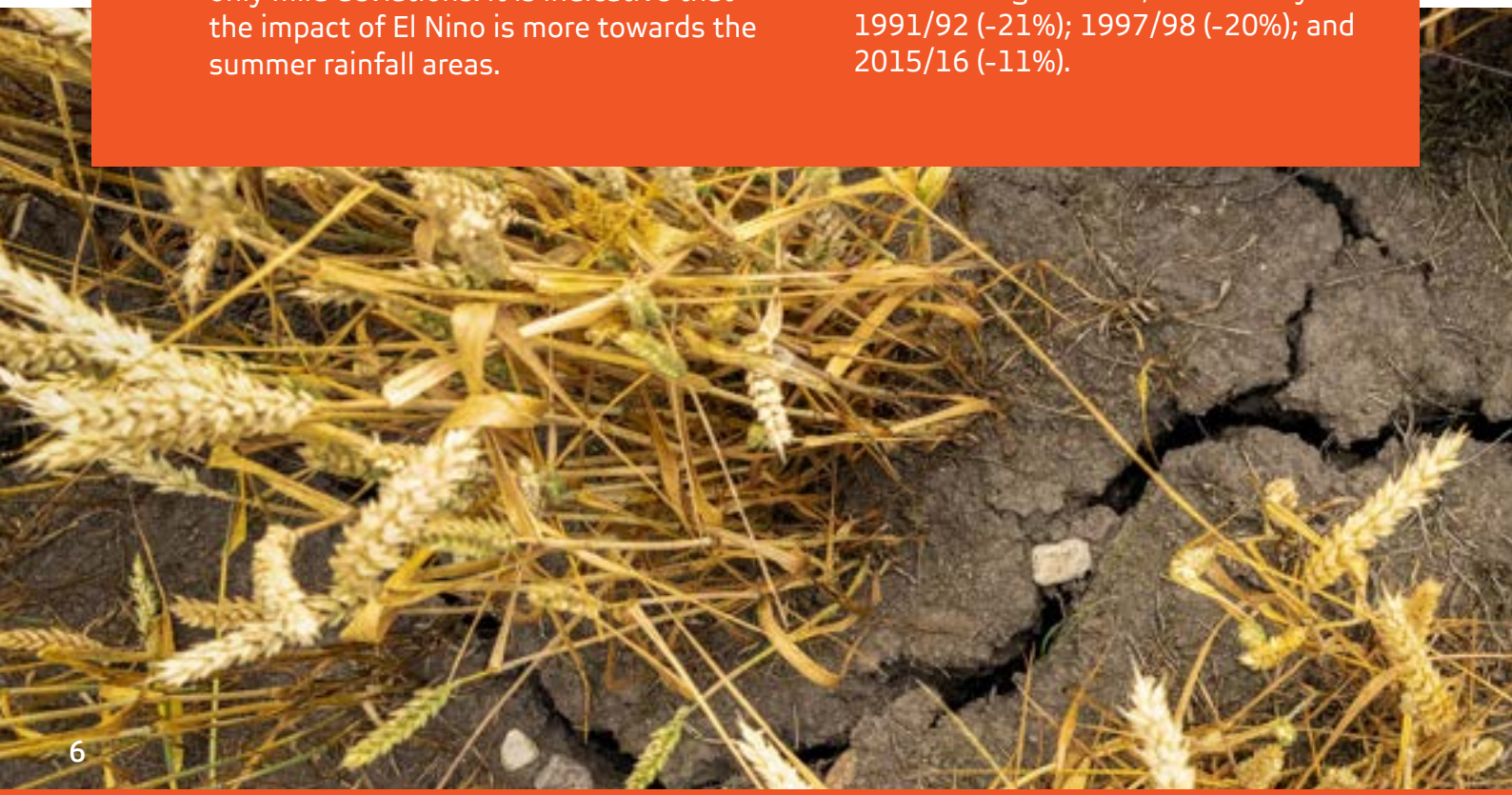
Higher sea surface temperatures result in low-pressure systems, rising air, cloud formation, and rain.

There were 26 El Nino- and 25 La Nina events since 1950, with about 20 seasons where there was neither El Nino nor La Nina. EL Nino-intensity in terms of sea surface anomalies or deviation from average indicates that there have been eleven weak El Nino events, seven moderate events, five strong events, and three very strong events since 1950. The three strongest events occurred in 1982/83, 1997/98, and 2015/16 with strong events in 1957/58, 1965/66, 1972/73, 1987/88, and 1991/92. Peak temperature anomalies in the important Nino-3.4 area during the three very strong events ranged from +2.2°C in 1982/83, +2.4°C in 1997/98, and +2.6°C warmer than usual in 2015/16. During the extreme drought caused by the 1991/92 El Nino event, when grain yields were about 60% below average, sea surface temperatures peaked at about 1.7°C warmer than usual.

Impact of previous
El Nino events on annual rainfall

Considering annual (seasonal 1 July to 30 June) rainfall deviation from average (%) for South Africa as well as per province for the last five strongest El Nino events since 1980 (1982/83; 1991/92; 1997/98; 2009/10; and 2015/16), there are some interesting trends (Table 1.1).

- Not all El Nino events result in below-average rainfall conditions for South Africa. See Table 1.1, 2009/10. The 2009/10 El Nino resulted in above-average rainfall.
- There are differences between provinces in terms of the impact of the five-strong El Nino events on rainfall, although the 1982/83 and 1991/92 El Nino events impacted severely negatively on nearly all the summer rainfall provinces.
- The 1997/98 El Nino was associated with far below-average rainfall for the Western Cape, but the other El Nino events caused only mild deviations. It is indicative that the impact of El Nino is more towards the summer rainfall areas.
- The average deviation of rainfall for South Africa during El Nino events is about 14% below average.
- On an individual basis per El Nino event, rainfall totals during strong El Nino events can be up to nearly 50% below average (See Table 1.1, Limpopo 1991/92 (-46%), Northwest Province 1991/92 (-45%), Mpumalanga 1997/98 (-42%), etc).
- Considering the five strongest El Nino events for all nine provinces in Table 1.1, the 1982/83 El Nino caused the most severe drought with about 26% below average rainfall, followed by 1991/92 (-21%); 1997/98 (-20%); and 2015/16 (-11%).



Annual (seasonal 1 July to 30 June) rainfall deviation from average (%) for South Africa as well as per province for the last five strongest El Nino events since 1980 (1982/83; 1991/92; 1997/98; 2009/10, and 2015/16)1

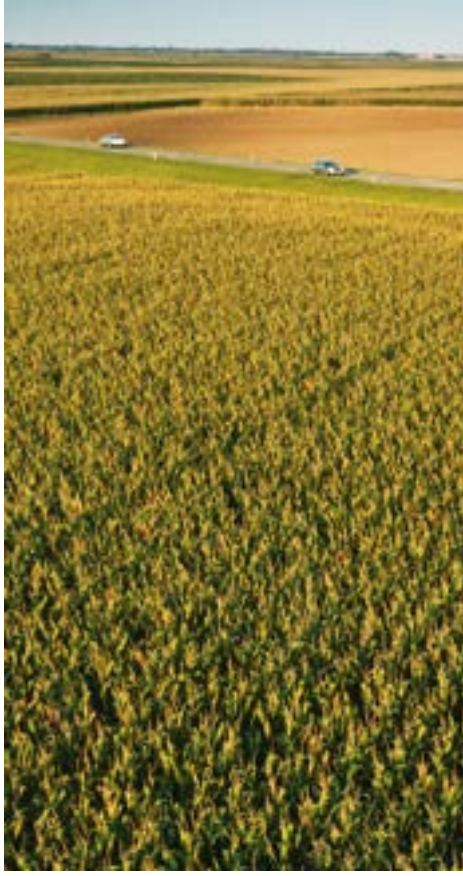
Table 1.1

Rainfall anomaly (%) (deviation from average per province)

EL NINO	1982/83	1991/92	1997/98	2009/10	2015/16	Average
South Africa	-27	-16	-19	+4	-13	-14
KwaZulu-Natal	-33	-20	-3	-8	-26	-18
Mpumalanga	-29	-28	-42	+16	-15	-20
Gauteng	-28	-34	-6	+32	+3	0
Limpopo	-39	-46	-12	+4	-9	-20
Eastern Cape	-31	-9	-26	-6	-17	-18
Free State	-28	-33	-6	+18	+8	-8
North West	-24	-45	-9	+8	-19	-19
Western Cape	-3	+10	-41	+1	-7	-8
Northern Cape	-16	-14	-37	+4	-13	-15
Average	-26	-21	-20	+8	-11	

There were 26 El Nino- and 25 La Nina events since 1950

Historic El Nino events and South African maize yields



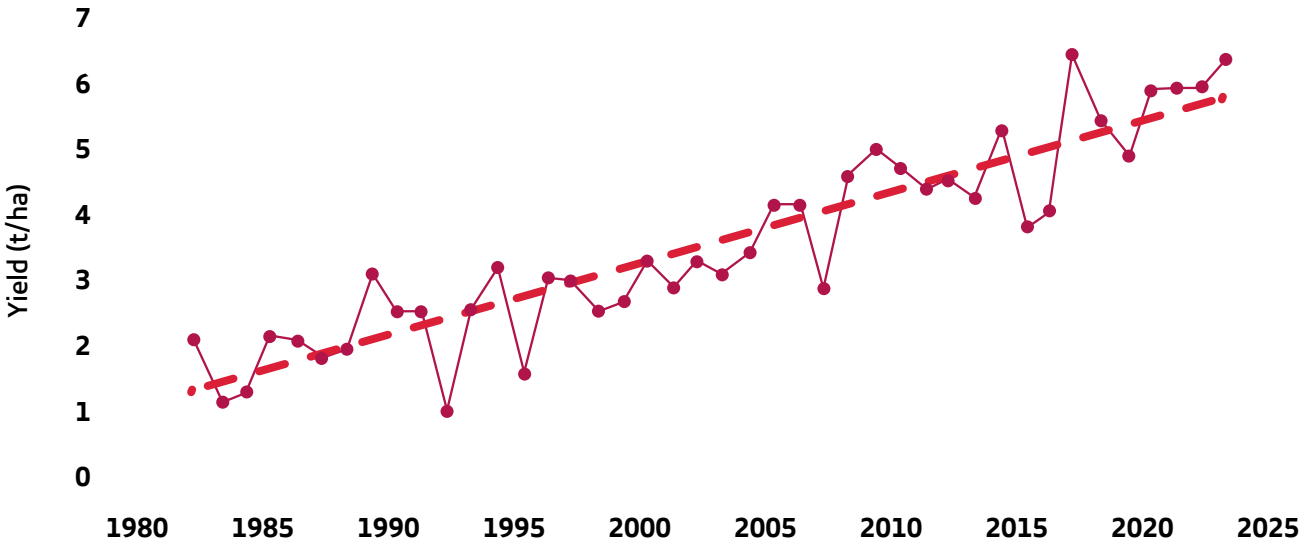
Globally and in South Africa, sharp increases in crop yields have occurred over time. The South African maize trend yield (t/ha) increased from less than 2 t/ha in the 1980s to just below 6 t/ha in 2023 (see Figure 1.1 below).

Differences between the actual RSA maize yield per season since 1981/82 and the trend line are used to determine yield anomalies or differences from the average (trend line) and expressed as a percentage.

In Figure 1.2, these yield deviations were sorted from most negative (lowest yields) to most positive (highest yields), and the ENSO years were classified as different colours. Red bars indicate El Nino seasons, green bars are La Nina seasons, and blue bars represent the neutral seasons.

Figure 1.1

RSA average maize yields (t/ha, solid dotted line) and linear trend line (red dotted line) since 1981/82



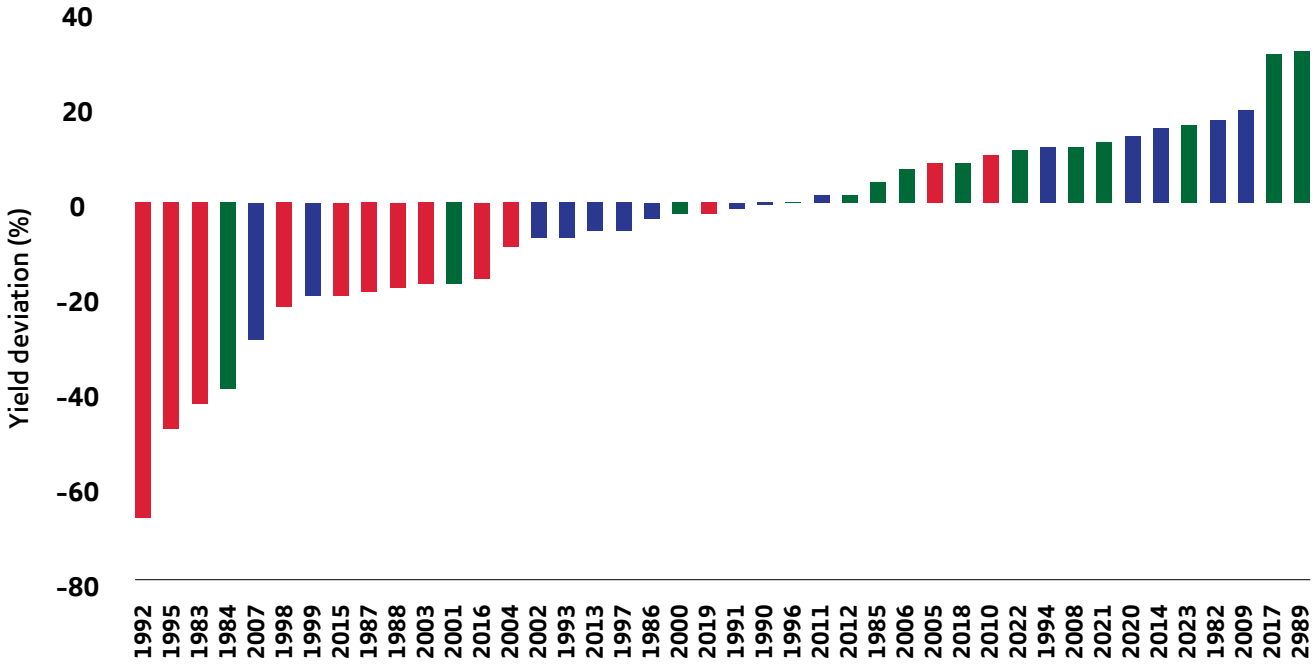
Source: Sagis, 2023

Considering the maize yield deviations in Figure 1.2, the following conclusions can be drawn:

- There is a very strong indication of below-average yields during El Nino seasons (Figure 1.2, red bars). Seven of the ten lowest yields or most negative deviations during all El Nino events since 1981/82 were associated with El Nino events.
- The average yield deviation is about 20.5% below average for all El Nino events since 1981/82, ranging from about 67% below average in 1991/92 to about 10% above average in 2009/10.
- It is in contrast to La Nina seasons (Figure 1.2, green bars), where most of the yield deviations were positive. The only poor production La Nina season in the top ten lowest yields occurred in 1983/84 when maize yields were about 40% below the expected yield. Poor initial soil moisture conditions from the 1982/83 drought, as well as the presence of Cyclone Domoina at the end of January 1984, contributed to the low yields.

Figure 1.2

RSA actual maize yield deviation from yield trend, expressed as a percentage from maize yields trend over time (harvest year)



Source: Sagis, 2023

Rainfall distribution per month during strong El Nino events

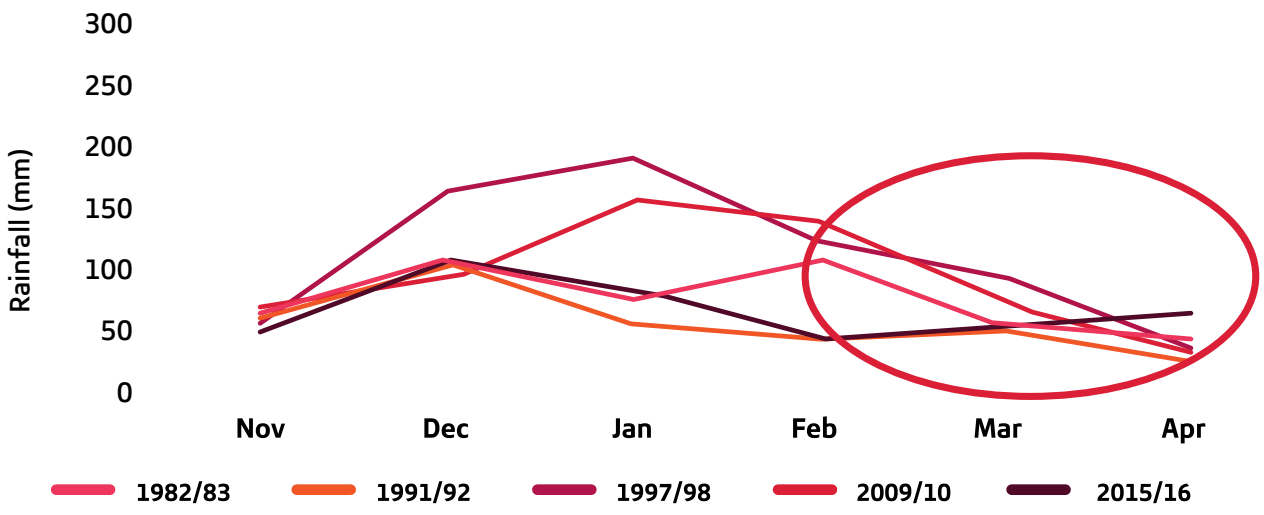
Although below-average rainfall totals are a characteristic of El Nino events, other contributing factors determine production conditions like rainfall distribution within a season.

The last five strongest El Nino events are considered in terms of monthly rainfall totals for each El Nino event. Three selected localities (Lichtenburg, Bothaville, and Bethal), which are representative of the western, central, and eastern production areas, are considered in the Figures 1.3, 1.4, and 1.5, and some interesting trends stand out.

- The negative effect of El Nino on rainfall seems to be more concentrated during the February to April period for nearly all El Nino events for all three localities (Figures 1.3, 1.4, and 1.5, red circle).
- The peak rainfall month for Lichtenburg (Figure 1.3) seems to be about December, although it is still below average.
- The Bethal area (Figure 1.5) seems to be less influenced by El Nino events, but a drier February and/or March (excluded 2015/16) is present.
- Some El Nino-events like 1982/83 and 1991/92 resulted in low rainfall totals throughout the season.

Figure 1.3

Lichtenburg: Monthly rainfall totals (mm) for the last five strongest El Nino events since 1980



Source: Sagis, 2023

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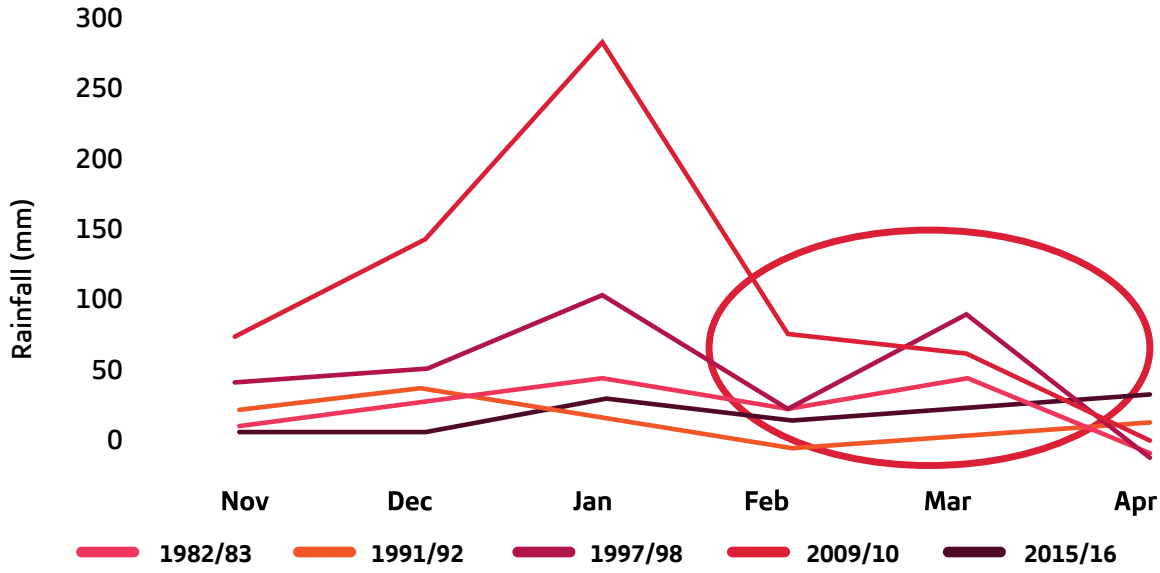
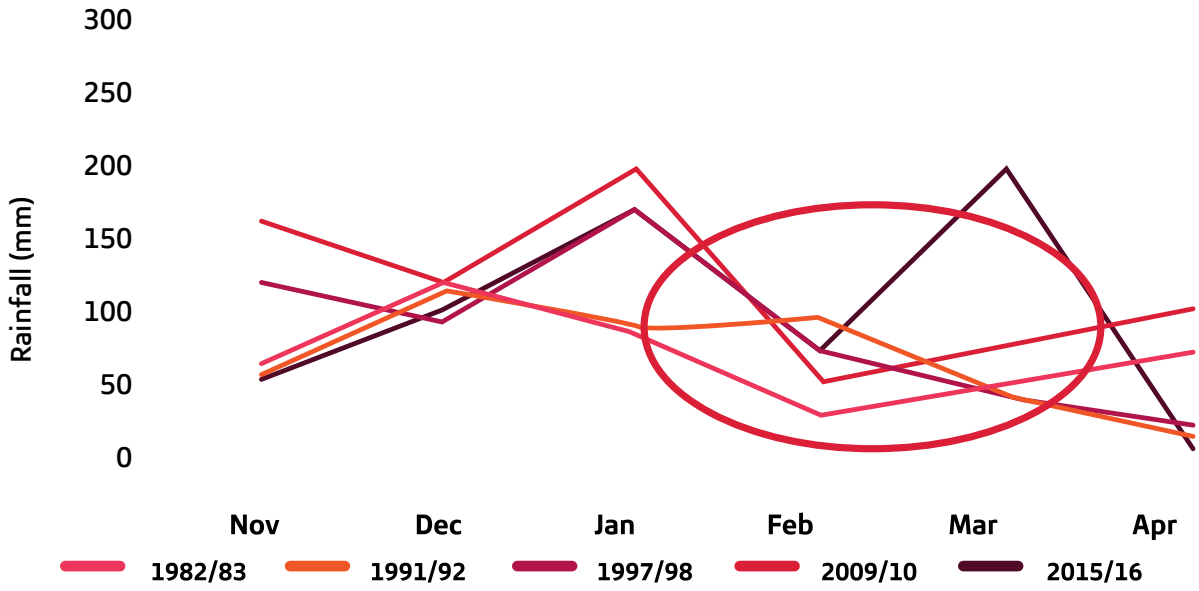


Source: Sagis, 2023

Figure 1.5

Bethal: Monthly rainfall totals (mm) for the last five strongest El Nino events since 1980



Source: Sagis, 2023

Other characteristics of rainfall during El Nino events

- The time between rainfall events is usually longer with extended dry spells.
- Average to above-average rainfall is possible in spring and early summer before drier conditions usually strike in mid-to-late summer.
- Rainfall during El Nino events tends to be very erratic spatially, meaning very patchy rainfall patterns. It is, however, still possible that some areas or farms can have record yields.

What is the Global Impact?

El Nino is not an indication of less rain globally but rather a shift in spatial rainfall patterns.

While Southern Africa usually suffers from below-average rainfall conditions during El Nino events, is it good news in some other parts of the world?

- With a well-established El Nino at the end of May, it is very positive for above-average rainfall for June to August for most of the United States except for the West Coast areas like California as well as south towards Mexico.
- It is also positive for rain in the Northern Hemisphere summer for areas like China and Eastern Europe.
- With drier conditions during the Southern African summer with El Nino present, it is usually positive for rain in East African countries like Kenya, Uganda, Tanzania, and Ethiopia.
- El Nino is also good news for favourable production conditions for most of Argentina but below-average rainfall for most of Brazil.
- El Nino events negatively impact rainfall in Australia and winter crop yields are usually below average.

Summary and conclusion

- There is a strong El Nino event in progress that will last until about March/April 2024.
- Although not all past El Nino events resulted in below-average rainfall, there is a high risk for below-average rainfall for the 2023/24 summer season for the summer rainfall area.
- Historic South African maize yields (t/ha) are indicating that yields gravitated towards below average during El Nino seasons. Seven out of ten of the lowest yields since 1981/82 were El Nino seasons.
- Rainfall distribution within a season often results in below-average rainfall during the important months of February and March in the El Nino seasons.
- Timing and speed of development of El Nino events are, however, very important. The late peaking El Nino of 1991/92 (January/February) was one of the most severe El Nino events on record that resulted in very low rainfall totals, especially in the important months of February and March.
- The 2023/24 El Nino is expected to reach maturity in about December 2023 and can prevent extremely low rainfall in the second part of summer.
- A further positive consideration for the 2023/24 production season is that there are high volumes of available soil moisture.
- Extreme high temperatures in mid to late summer in South Africa are a feature of El Nino events. The additional effect of global warming can add to extremely high temperatures and increased heat wave conditions.

GRAIN AND OILSEED MARKETS

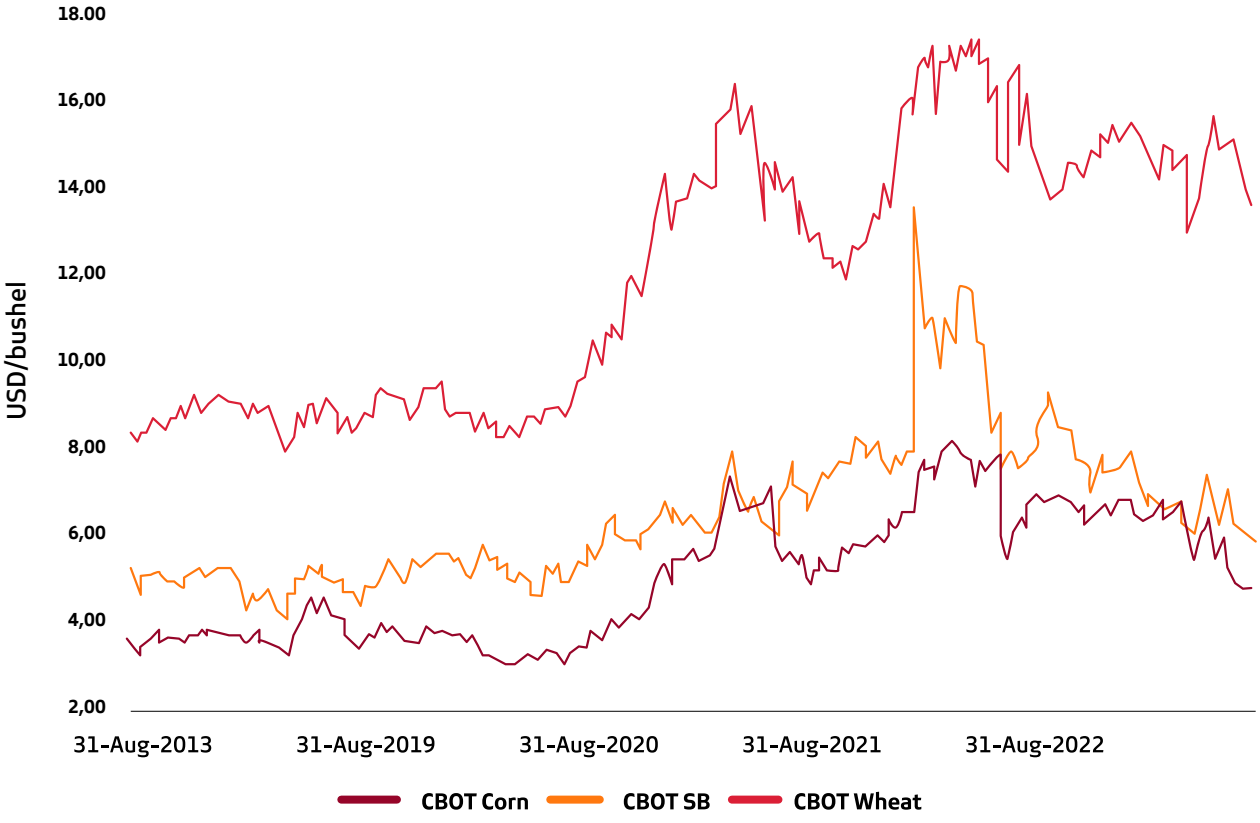
There is a saying that the best cure to high prices are high prices. This underpinned the expectation that after the high agricultural commodity prices apparent in 2021, prices will ease into 2022. The war between Russia and Ukraine resulted in prices firming in 2022H1, with some price decreases only starting to become apparent during the second half of 2022. Prices, continued to trade at elevated levels compared to pre-pandemic levels.

Since the second quarter of 2023, there has been renewed momentum in downward price trends of global grain and oilseed prices.

This has been a bumpy ride, with weather-related issues and concerns around supplies out of the black sea region providing repeated upward price runs despite a general bearish sentiment (see Figure 2.1 to the right)

Figure 2.1

After commodity price runs in 2021, prices were expected to ease, but the downward path proved to be a bumpy ride.



Source: Reuters, 2023

Maize market dynamics

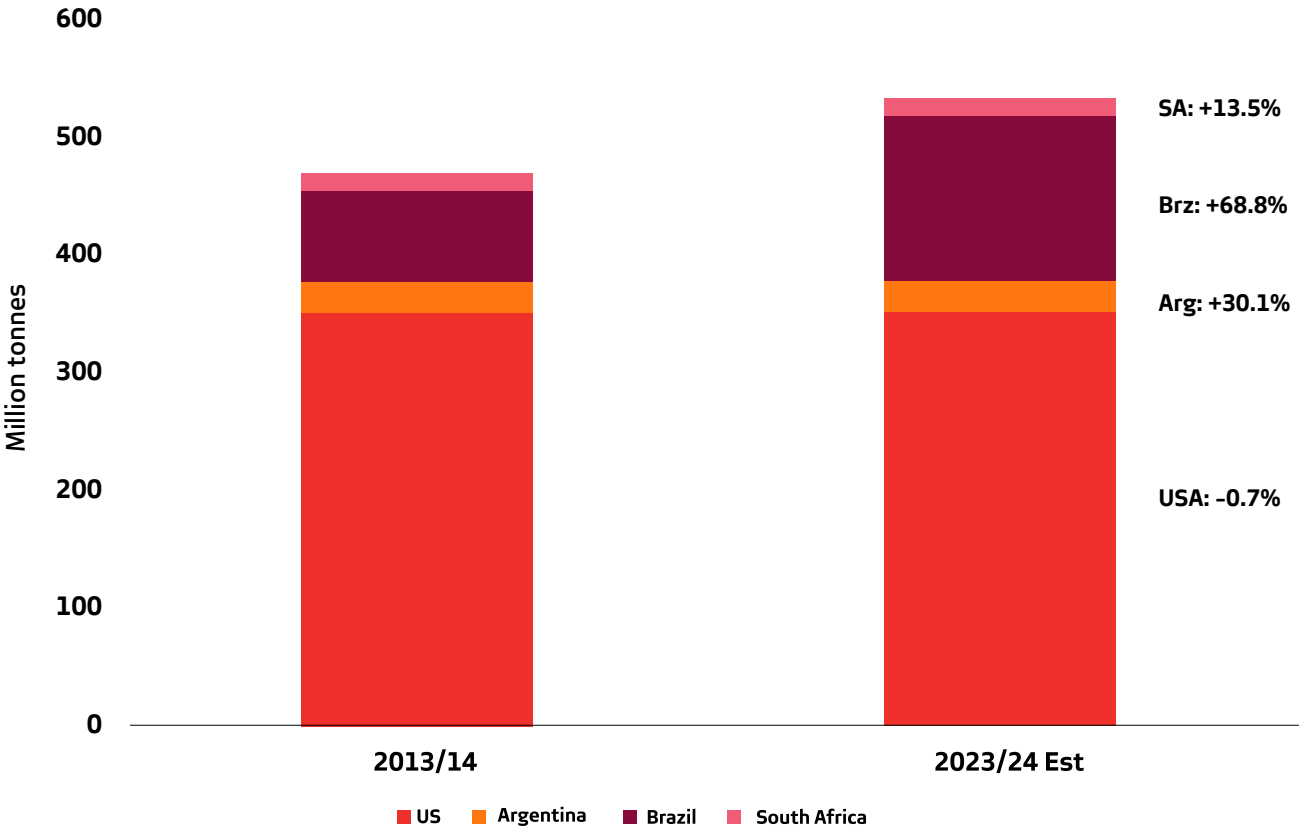
Of specific interest to stakeholders in the South African yellow maize market are developments in the Brazilian corn industry. If one considers the production growth figures over the past decade of the main corn producers around the globe, Brazil stands head and shoulders above the rest, with a growth of 68.8%. This is presented in Figure 2.2 to the right. It also positioned Brazil to overtake the US to become the largest corn exporter during 2023.

The above-mentioned production growth, combined with some infrastructural issues related to storage and port capacity, has resulted in Brazil's corn prices coming under pressure, which positioned it as a cost-effective exporter of corn during the first half of 2023.

This is of specific relevance to local stakeholders because Brazil is a southern hemisphere producer, which results in their marketing/export season overlapping with that of South Africa. This is affecting the competitiveness of South African maize prices in the global market.

Figure 2.2

Corn production in 2013/14 and 2022/23 shows that the largest production growth came from South America.



Source: USDA WASDE, 2023

There have also been factors that propped up South African prices and contributed to the uncompetitiveness of South African prices relative to our Southern American counterparts. These factors include the volatility of the ZAR and perhaps the sentiments around the current El Nino and how that will impact future supplies from South Africa.

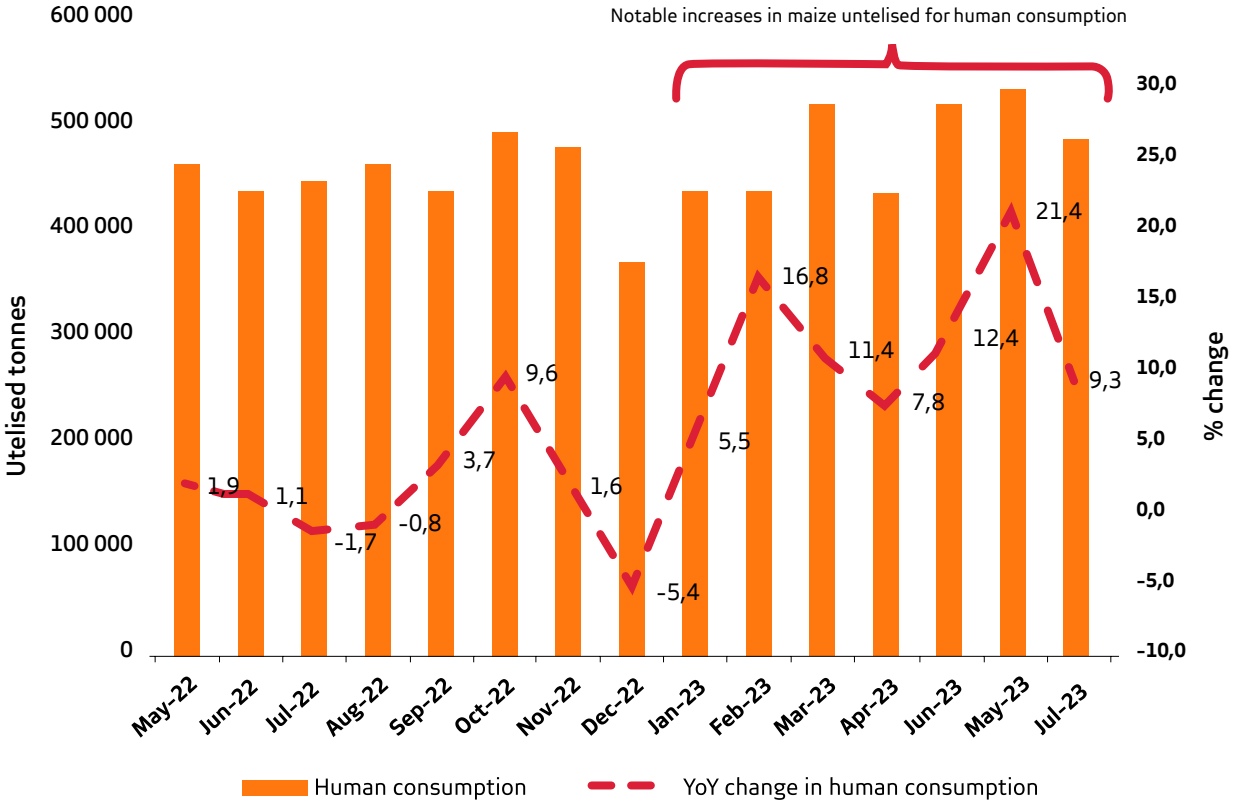
Locally, maize consumption has also changed over the past months, largely driven by human consumption growth from May to July.

Our view is that pressured consumers have increased demand for affordable staples such as maize meal and, as a result, yearly increases in monthly utilisation have increased by between 5.5% and 21% since the start of the year.

This, combined with notable increases in other staples such as rice, which the FAO food price index noted have globally increased by almost 20% year on year in July, are expected to further drive local demand support for maize meal.

Figure 2.3

Maize used for human consumption recorded notable increases on the back of a tougher economic climate and more recently a change in relative prices of staples.



Source: Sagis, 2023

Wheat market dynamics

Although most grain and oilseed commodity markets have been impacted by the war between Russia and Ukraine, wheat markets have been especially sensitive to this.

Figure 2.4 to the right shows how most of the price surges in CBOT prices over the past 18 months could be traced back to escalations in the war. Despite these dynamics, global wheat prices have been on a downward trend, diving below pre-invasion levels in February 2023.

Upside price risks, underpinned by the dynamics of the Black Sea region, however, persist. Russia and Ukraine remain the world's fifth and seventh largest exporters of wheat, respectively, but volumes out of these two countries have decreased notably compared to pre-war levels.

Trade data suggests that 2022 wheat export volumes have been more than 50% lower for Russia and almost 40% lower for Ukraine. Escalations in August, which consisted of Russian attacks on the Ukrainian port of the Danube and a Ukrainian drone attack on a Russian naval ship, suggest that exports through the Black Sea corridor are likely to become increasingly challenging.

In response to the end of the Black Sea deal, Ukraine has secured a "humanitarian corridor" for wheat exports. Although this alleviates some of the trade pressures to

Global commodity market trends and exchange rate dynamics are key determinants of local prices.

move grain out of the Ukraine, production and infrastructure damage would weigh on production. Analysts note that this could likely limit the productive and export capacity for grains in Ukraine over the next 5 to 10 years.

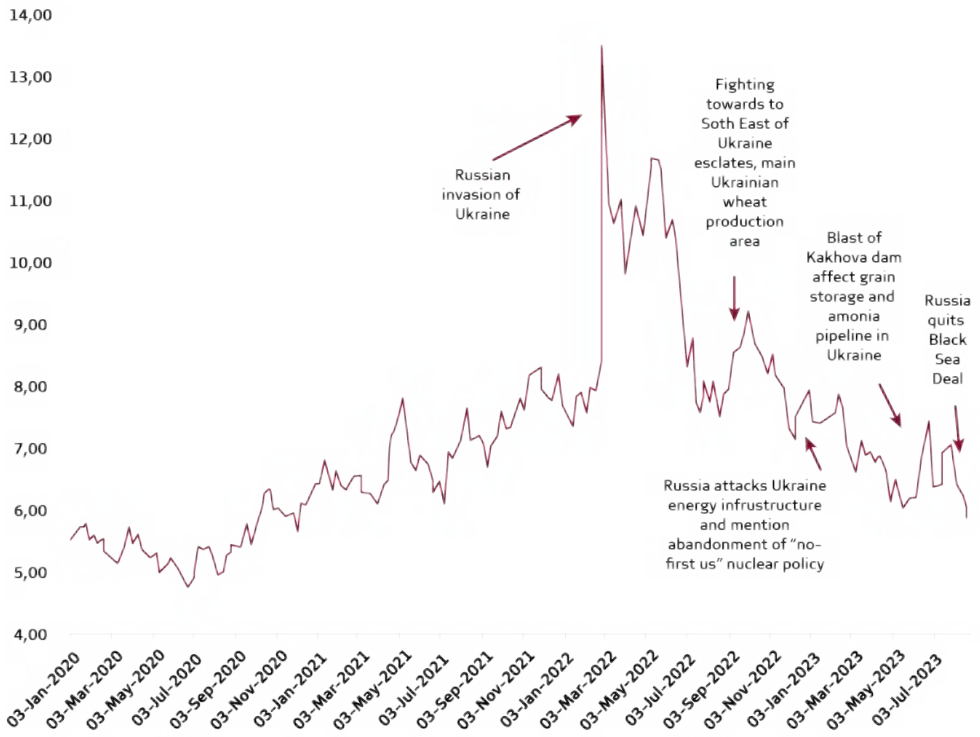
In terms of global supply, the reduction in exports out of the Black Sea region was largely made up by increases in exports from Australia, other Eastern European countries, and Brazil during 2021 and 2022. Reduced volumes out of the Black Sea region, however, increase production risks in other major wheat-producing regions around the globe.

If we consider the rise in importance of Australia as a global wheat supplier over the past two seasons, the current El Nino presents significant upside price risks if weather impacts Australian production negatively.

South Africa is a net importer of wheat, and as a result, global commodity market trends and exchange rate dynamics are key determinants of local prices.

Figure 2.4

CBOT wheat prices show surges when Russian-Ukraine fighting escalates.



Source: Reuters, 2023

The figure to the right shows an index of SAFEX Wheat prices, CBOT Wheat prices, and the ZAR/USD converted into an index with January 2022 as the basis. From this figure, it is apparent that despite world prices easing, SAFEX wheat prices have held firm since the first quarter of this year. This was underpinned by a weakening exchange rate and rate of imports lagging behind the usual import pace for this time of the year.

For the 2022 planting season, South Africa produced a sizable crop, but the final crop had notable quality issues.

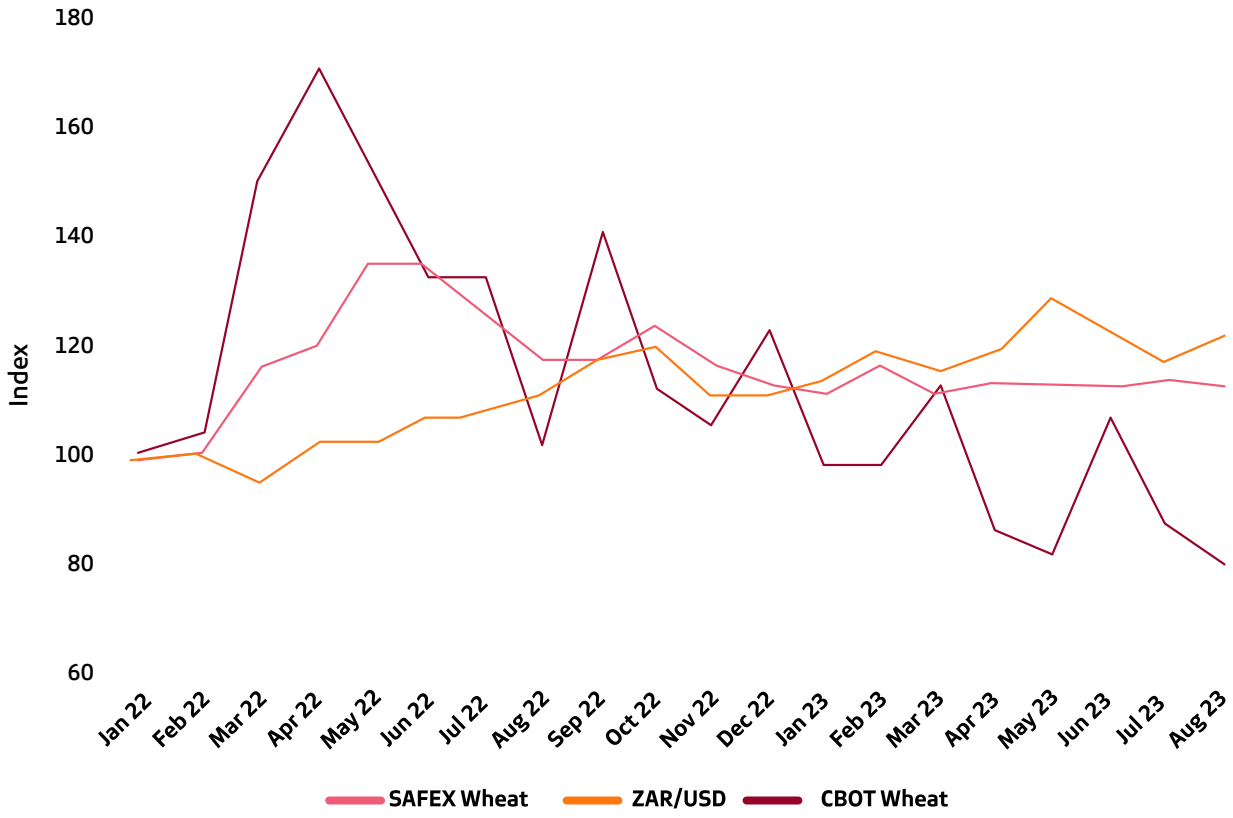
The reluctance of the current SAFEX price to decrease following global prices could suggest that the market is again pricing quality-related issues for South African wheat in 2023.

Trade data suggests that 2022 wheat export volumes have been more than 50% lower for Russia and almost 40% lower for Ukraine.

In addition to this, the wheat area for the current season contracted by around 6% compared to 2022. Our view is that this was largely driven by high input costs and load-shedding concerns that affected area decisions for wheat under irrigation.

Figure 2.5

Despite global wheat prices coming down, South African prices have remained firm over recent months.



Source: Reuters, 2023

Looking ahead

In the case of maize, we expect prices to move away from export parity in 2024. Here, the key driver will be the current El Nino. We expect producers to reduce area due to the weather-related risks. Lower yield, depending on the extent of dryness, could also, in turn, contribute to a smaller crop. This is expected to be further supported by strong local utilisation as consumers rely on maize for an affordable staple food option, and feed utilisation picks up with the prospects of an uptick in red meat exports to the Middle- and Far East.

The bullish factors in local markets are, however, expected to be offset, to some extent, by bearish global factors in 2024. Here, a relatively strong 2024 production season in the US is expected to limit drastic global price growth. For 2025, the weather will play an even more important role. Two consecutive El Ninos have shown to have a notable effect on yield, as the benefit of high soil moisture would not be available with the maize season that is imminent now. Our view is that prices will bottom out in the second half of 2024 and that global prices will recover into 2025.

Global wheat prices, in turn, are likely to have limited further downside scope and could find support from low global stock levels.

Maize prices will bottom out in the second half of 2024 and global prices will recover into 2025.

Here, further upside risks for 2024 are presented by the effect of El Nino on key production areas such as Australia and war-related dynamics in the Black Sea.

Firming global prices are likely to support wheat prices in 2024 and 2025.

Average exchange rate projections

Table 2.1(a)

	2023	2024	2025
(ZAR/USD)	18.08	17.53	17.58

Source: Absa Strategy Research, 2023

Local grain prices

Table 2.1(b)

	Wheat	Yellow Maize
2019	R 4 500	R 2 696
2020	R 5 171	R 2 921
2021	R 5 430	R 3 428
2022	R 7 015	R 4 351
Forecasts		
2023	R 6 350	R 3 790
2024	R 6 590	R 3 800
2025	R 6 480	R 4 100

Source: Absa AgriBusiness, 2023

Projected exchange rate movements, as shown in Table 2.1(a) could, however, counter this to some extent. Although the view is that the ZAR could firm as South African growth recovers on the back of improved energy availability and improved global growth, the upside risk to this view remains, and the view is also expected to be associated with high levels of volatility. In this regard, a band of around ZAR 19.00 to the dollar at the top end or R16.75 at the bottom end is also a plausible outcome during certain periods over the next 24 months.

Soybean market dynamics

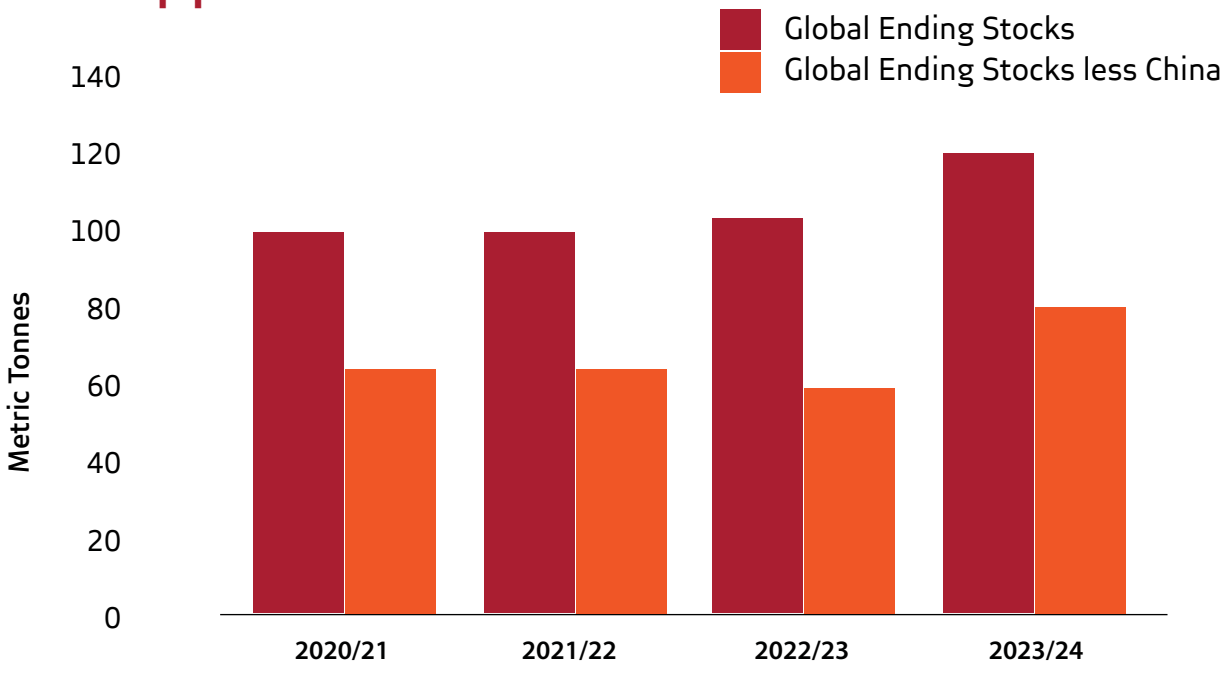
Brazil is the world's largest soybean exporter, and production dynamics in this market are key in giving global prices direction. Soybean production in Brazil for the 22/23 marketing season increased by 4.5% compared to the previous season, and for the 23/24 marketing season, WASDE estimates suggest that it could grow by around 5% yet again.

Strong production from Brazil has, in turn, supported higher global stock levels (see Figure 2.6 below), which is likely to limit price growth over the coming months. Contrary to corn, Brazilian soybeans are also impacted less by El Nino, and as a result, favourable production for the coming season is still highly probable.

Locally, soybean prices have been following an upward trend since May. This is largely underpinned by strong local utilisation as a result of positive crushing margins. Strong utilisation would also likely weigh on stocks and a smaller crop, next season to reduced area and possible declines in yield, as a result of the current El Nino, could see production dropping close to or below local crushing capacity. This would cause prices to move away from export parity. In terms of rainfall, the timing of rain towards the Western production regions of the country would be key in determining yield.

Figure 2.6

Higher stock projected stock levels are expected to keep price increases limited.



Source: WASDE, 2023

Looking ahead

Locally, softer world prices would likely be offset by local prices.

World prices in 2023H2 are softer due to good stocks, but increased oil cake demand from China and a start in a cutting cycle for global interest rates could support prices over the outer months of the outlook period.
A drive towards climate goals is also a medium-term consideration. Biodiesel, with higher blending mandates compared to ethanol, could also continue to play a significant role in the demand for oilseeds over the medium term, with blending mandates for the US announced in June 2023.

Locally, softer world prices would likely be offset by local prices moving away from export parity due to lower stocks and production concerns around El Nino.

Soybean price projections *Table 2.2*

	Soybeans (R/t)
2019	5 326
2020	7 165
2021	7 816
2022	9 252
Forecasts	
2023	8 450
2024	9 150
2025	9 200

Source: Absa AgriBusiness, 2023

LIVESTOCK MARKETS

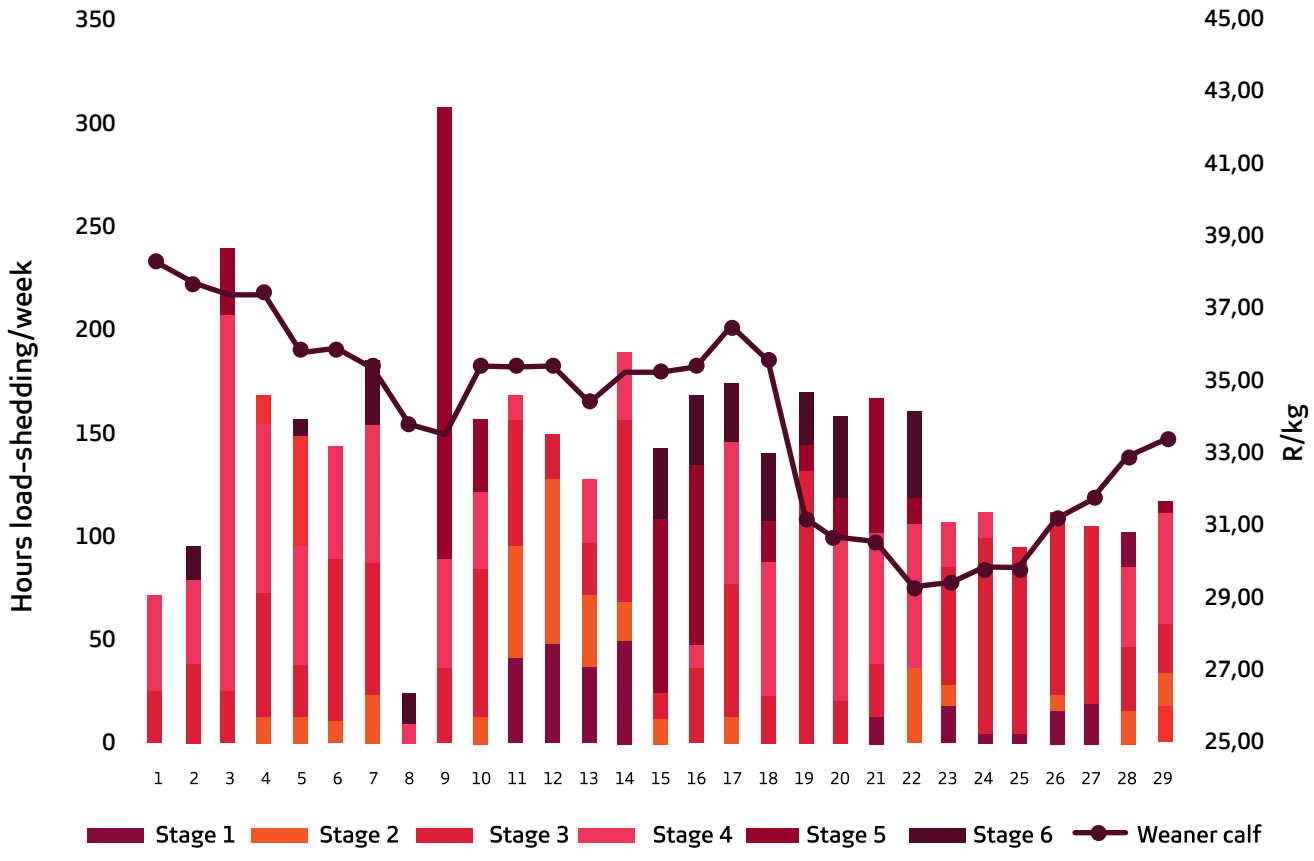
Beef market dynamics

Since the start of the year, Class A carcass prices have decreased by around 25%, whilst weaner calf prices eased by around 13%. Although there are multiple factors, such as the impact of herd rebuilding and lower grain prices, that contributed to this, the impact of pressures on the disposable income of consumers should not be underestimated. According to Stats SA, fuel and food increased notably over the last 18 months. This, combined with load-shedding – which increased waste and transaction costs in the chain – and risks of buying and storing meat for consumers, contributed to driving prices down to levels last apparent during the early stages of the pandemic.

The Figure 3.1 and 3.2 show the relationship between weaner calf prices and load-shedding and carcass prices and load-shedding.

Figure 3.1

Weekly weaner calf prices and load-shedding intensity

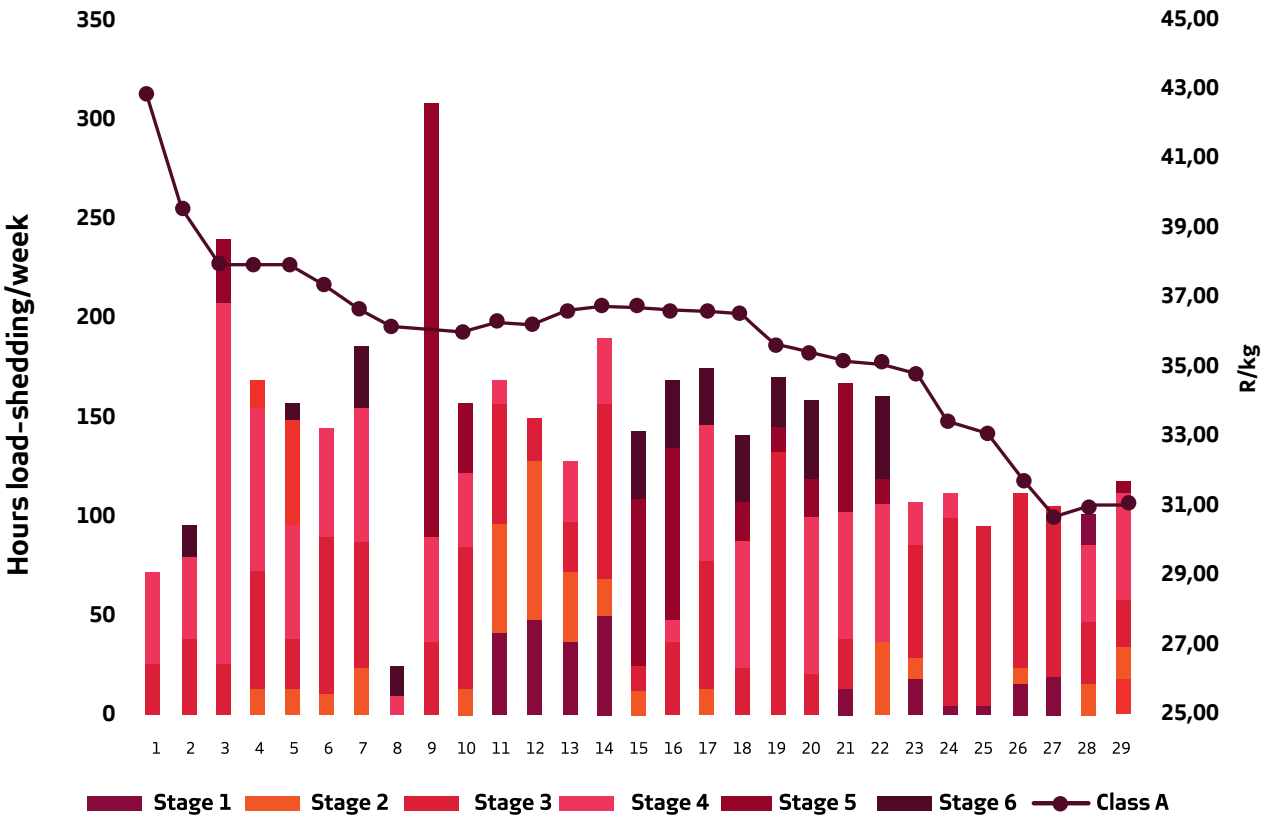


Source: Absa AgriBusiness, 2023

From Figures 3.1 and 3.2, it should be clear that weaner calf prices have started to increase from week 22 onwards, which coincides with a significant reduction in load-shedding. This effect was likely enhanced by increased demand for calves to utilise the summer crop residues after harvest. Nevertheless, our view is that the increase in electricity availability has spurred the chain to prepare for a recovery in retail demand for red meat in 2023H2, albeit at a modest pace. The resurgence of Stage 6 in week 34 holds risk for this view, and if implemented for an extended period of time, it could see carcass and weaner calf prices turning downward again.

Figure 3.2

Weekly Class A carcass prices and load-shedding intensity



Source: Absa AgriBusiness, 2023

Looking ahead

The three main factors affecting beef prices over the past year have undoubtedly been:

- Persistently and rapidly increasing interest rates,
- Purchasing rhythm disruptions due to load-shedding, and
- A reduction in exports due to disease concerns.

We are of the opinion that for all three of these factors, the worst could be behind us. In the case of higher interest rates, local and global market sentiments seem to suggest that inflation has significantly cooled. In a local context, the drag that these higher interest rates are having on growth would also likely be a deterrent for significant increases in South African rates going forward. As apparent from the figures in the previous section, there has been a reprieve in load-shedding. There are, however, upside risks. Here, one of the issues that are associated with these risks is maintenance timelines at Koeberg. Experts suggest that Koeberg could be back online in November. Timelines beyond this, combined with increased maintenance on the Eskom fleet during summertime, show that there is a risk for higher levels of load-shedding to return.This, combined with a possible increase in other unforeseen breakdowns and an increase in maintenance as we enter summer, could result in higher levels of load-shedding, which could limit price growth.

Given the above, we forecast average price levels of Class A carcass prices of around R53.20 for 2023, with room for modest growth over the coming years as economic growth improves as load-shedding eases and export opportunities increase on the back of lower disease incidence. This will likely also support weaner calf prices, but room for rapid calf price growth is limited due to increased animals becoming available on the back of herd rebuilding initiatives. Prolonged dry conditions over the coming years could also result in more animals being marketed, which will put downward pressure on carcass and calf price views as recorded below in Table 3.1.

Table 3.1

Beef and weaner calf price projections

	Class A (R/kg)	Class C (R/kg)	Weaner Calf (R/kg)
2020	46.41	40.30	28.18
2021	52.48	45.41	33.00
2022	59.60	48.20	38.77
	Forecasts		
2023	53.20	47.50	33.90
2024	54.15	48.30	34.10
2025	54.75	48.80	38.60

Source: Absa AgriBusiness, 2023

Lamb and mutton market dynamics

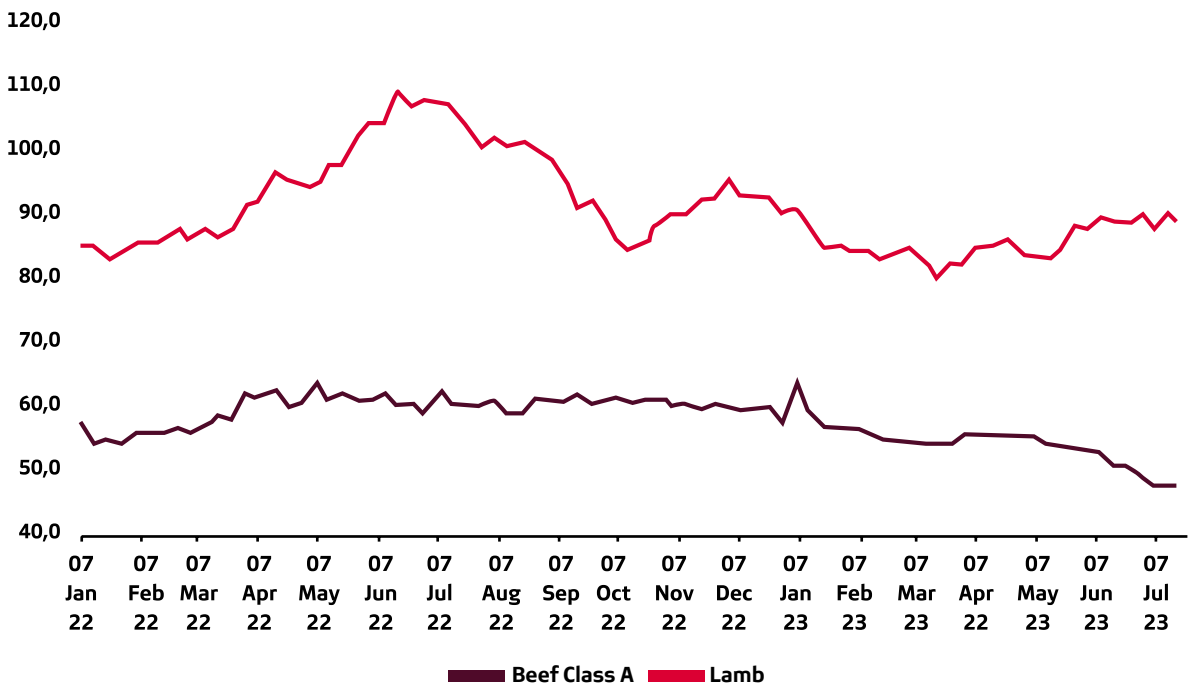
During the third and fourth quarters of 2023, red meat prices exhibited divergent trends, with beef prices easing while lamb prices held steady (see Figure 3.3 below).

Although lamb faces the same weak demand-side dynamics as beef, supply constraints are causing prices to hold relatively firm.

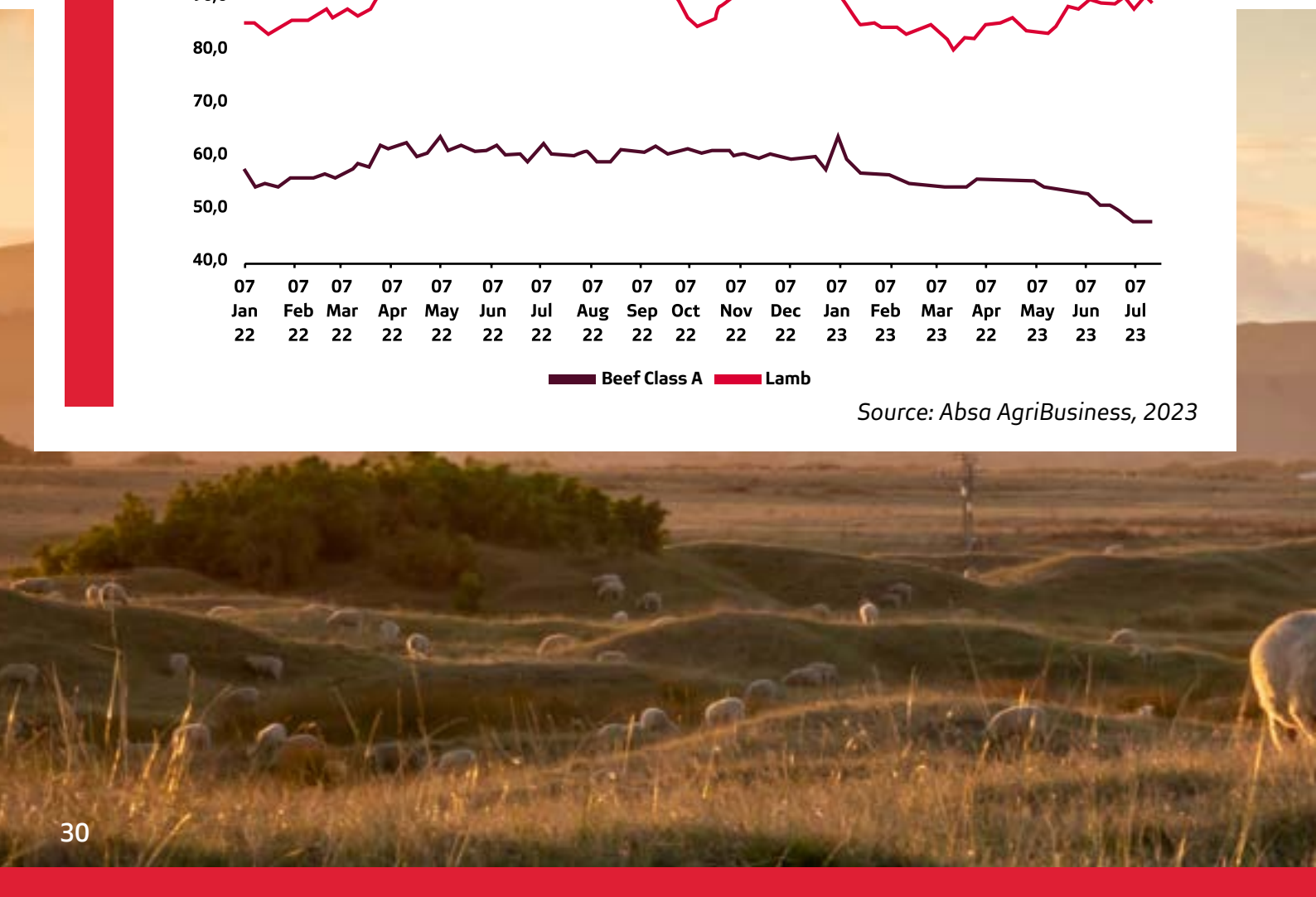
The dry conditions that lasted until recently in key lamb production areas, combined with the high incidence of theft of small stock, are all contributing to lower slaughter numbers for lamb and mutton.

Figure 3.3

Lamb carcass prices compared to Class A beef carcass prices



Source: Absa AgriBusiness, 2023



The aforementioned factors, combined with seasonal trends of lamb prices trading higher during winter months, contributed to a slight increase in prices during the second and third quarters of 2023. The usual price runs and high peaks associated with winter months were, however, absent during June and July of this year, which does point to timid demand side factors being at play.

In terms of supply-side dynamics, a structural issue that is driving production lower is the high incidence of stock theft. According to official figures on this from the South African Police Service, just short of 27 500 cases of stock theft have been reported in South Africa during 2022.

According to official figures

27 500

cases of stock theft have been reported in South Africa during 2022.

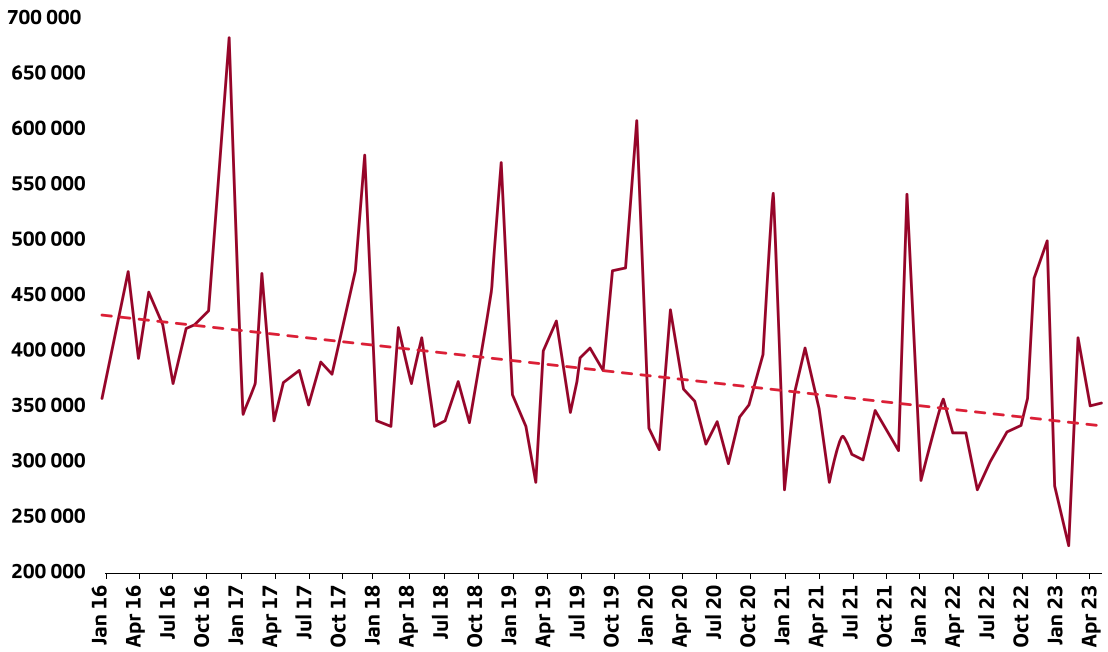
32%

of the total number of animals reported stolen where sheep.

In addition to this, around 32% of the total number of animals that were reported as stolen amounted to sheep. As a result of this, numerous producers in high-risk areas have opted for beef production instead or have stopped farming with livestock altogether. Organised agriculture also notes the importance of reporting stock theft so that accurate statistics on it can help motivate additional resources. The figure below shows how lamb slaughters have trended downward over the past seven years, as indicated by the dashed red line.

Figure 3.4

Sheep slaughter numbers over time show a declining trend.



Source: RMIS, 2023

Looking ahead

Our view is that lamb prices will trade sideways over the coming months with some upward scope as we approach the festive season.

For the outer years of the outlook, we see modest price increases as structural issues related to supply continue to provide support for prices.

The extent to which this price growth can be accelerated will be underpinned by export potential. With the reserve bank not expected to initiate a dramatic cutting cycle soon, local producers are expected to remain under pressure, and high prices, comparable to those apparent during 2022, would likely lead to demand destruction, given the current consumer environment.

Lamb prices will trade sideways over the coming months.

Sheepmeat and feeder lamb prices

Table 3.2

	Class A (R/kg)	Class C (R/kg)	Feeder Lamb(R/kg)
2020	81.07	58.93	39.81
2021	86.98	69.14	44.76
2022	94.00	72.26	45.55
	Forecasts		
2023	87.20	62.50	41.00
2024	88.95	63.75	41.41
2025	91.60	65.70	42.24

Source: Absa AgriBusiness, 2023

Pork market dynamics

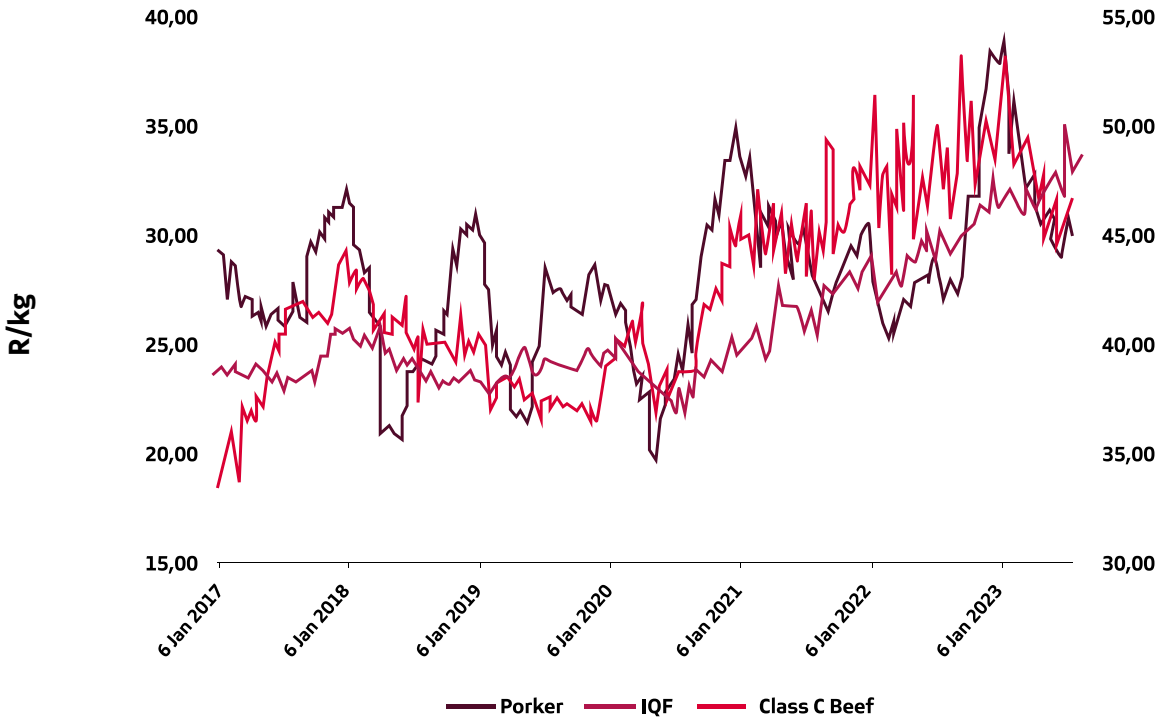
Over the past three years, pork prices have recorded notable price runs during the second half of the year (see figure 3.5). The question is whether history can repeat itself in 2023. Here, it is helpful to consider dynamics in the broader meat complex and supply and demand dynamics within the local pork sector.

If one considers the broader meat protein landscape, the questions on this are mixed. Red meat price growth is expected to be muted, especially for beef, as explained above, although a reprieve in load-shedding could provide some relief. Chicken prices, in turn, have upside scope due to exchange rate dynamics and disease issues weighing on global supply prospects. Pork would likely find itself in between these two price levels, although it has traded below chicken during certain periods over thew past two years.

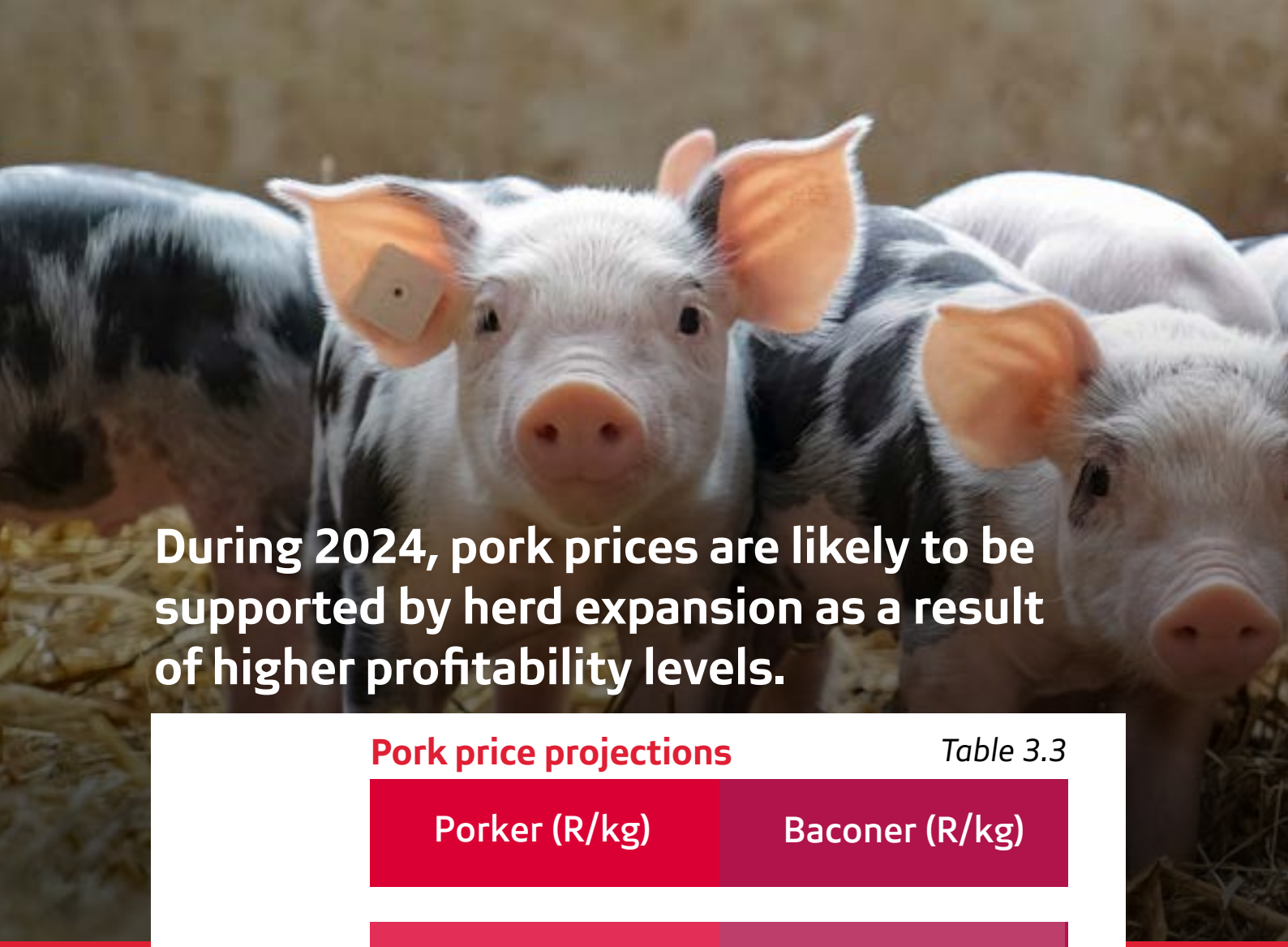
If one considers pork supply from the start of the year up to May, pig slaughter numbers were comparable to 2022 levels. It should, however, be noted that during the first half of 2022, high slaughter numbers were recorded on the back of continued strain on margins that induced herd liquidation during 2022. The sustained high slaughter numbers into 2023, therefore, suggest that an expansion phase of the cycle has not commenced yet. Consistent bearish trends in feed prices since the start of the year could serve as an incentive for expansion and slaughter numbers could trend lower. This could support prices, but given conditions in the broader meat complex, price growth is expected to be muted.

Figure 3.5

Upward trending poultry prices provide scope for pork price growth in 2023H2, whilst lower beef prices could counter this.



Source: Absa AgriBusiness, 2023



During 2024, pork prices are likely to be supported by herd expansion as a result of higher profitability levels.

Pork price projections

Table 3.3

	Porker (R/kg)	Baconer (R/kg)
2020	26.47	25.28
2021	29.64	28.00
2022	29.40	28.40
	Forecasts	
2023	33.40	32.05
2024	34.10	32.75
2025	34.90	33.70

Source: Absa AgriBusiness, 2023

We expect pork prices to follow a modest upward trajectory over the outlook period. During 2024, prices are likely to be supported by herd expansion as a result of higher profitability levels.

Here, the possibility of further and notable grain price declines could expedite this, but we note that current global weather dynamics are not supportive of further strong bearish grain trends over the coming months.

Looking ahead

2024
Prices are likely to be supported by herd expansion.

Soft red meat prices are, in turn, a factor that could affect pork prices negatively, but given our view that these will show recovery towards 2025, our view is that modest price growth for the sector is plausible.

Poultry market dynamics

In August 2022, the Minister of Trade and Industry suspended all tariffs on poultry into South Africa in an attempt to curb rapidly rising food prices. Despite this, poultry imports into South Africa were 11% lower in 2022 than in 2021.

This was largely the effect of high global prices as the spread of highly pathogenic avian influenza impacted production in various key exporting regions around the globe, as shown in the map included below.

Figure 3.6

Global distribution of AIV with zootonic potential* observed since 1 October 2022 (i.e. current wave)

Source: Absa AgriBusiness, 2023

Note: Symbols may overlap for events in similar geographic locations
**includes H5Nx HPAI viruses*

Customs data, as shown in Figure 3.7, show that after the suspension of the above-mentioned tariffs in early August 2022 up to May 2023, imports from the countries for which anti-dumping tariffs applied pre-August 2022, only Brazil and Denmark exported poultry products to South Africa.

In the case of Denmark, this was a small quantity of 278 tonnes in March 2023, whilst Brazil accounted for the bulk of South African poultry imports during this time. In fact, during the time of the tariff suspension, Brazilian imports increased markedly during the 2023 Q4.

What makes the effect of the tariff suspension difficult to isolate is that 2022Q4 was also associated with increased incidence and frequency of load-shedding, which affected local production of poultry negatively.

Broiler production figures from the South African Poultry Association do indicate that production in November and December contracted in terms of the months leading up to it and the corresponding months in 2021.

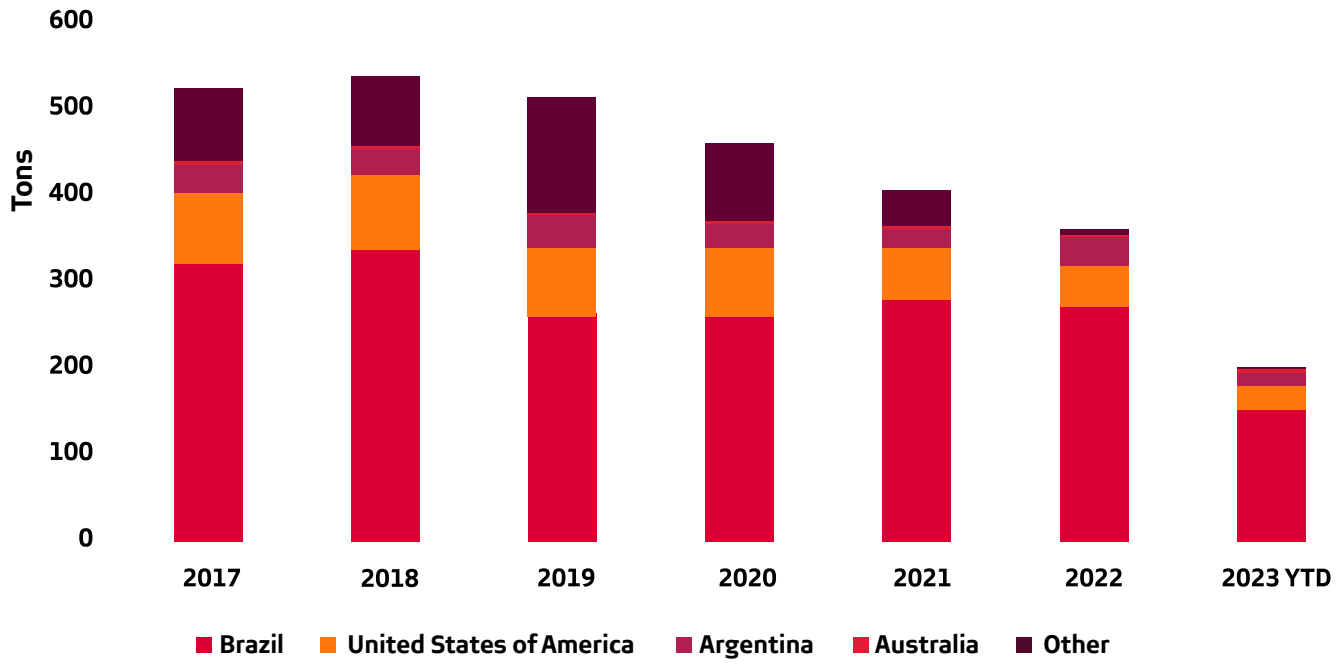
11% lower

Poultry imports into South Africa in 2022 compared to 2021

The above discussion underscores the importance of international developments with disease issues and poultry markets. Local risk of outbreaks also persists, with the latest outbreak in August in Delmas affecting the layer industry. This, combined with the exchange rate, will likely give local prices direction over the coming months.

Figure 3.7

Global disease issues and a weak exchange rate have curbed imports of poultry products during 2022.



Source: Trademap, 2023

Looking ahead

We expect local poultry prices to remain firm throught the rest of 2023 as exchange rates are anticipated to depreciate and global prices are supported by disease concerns.

As shown on the left, Brazil is a key supplier of exports of poultry to South Africa.

Wide-spread infections have not occurred. In the event of this happening, prices could increase rapidly as South African trade policies do not allow for trade in poultry products to occur if countries record infections.

During 2024, local prices could ease, underpinned by a positive supply response to favourable prices and lower input costs, most notably feed.

After this, and as economic conditions in South Africa improve towards 2025, prices are expected to increase again.

Chicken price projections

Table 3.4

	Frozen Whole Bird (R/kg)	Fresh Frozen Bird (R/kg)	IQF Pieces (R/kg)
2020	25.47	26.17	23.95
2021	29.22	29.66	25.40
2022	32.20	32.60	29.00
	Forecasts		
2023	34.62	34.95	32.05
2024	33.55	33.90	31.50
2025	34.60	35.05	32.60

Source: Absa AgriBusiness, 2023

VEGETABLE MARKETS

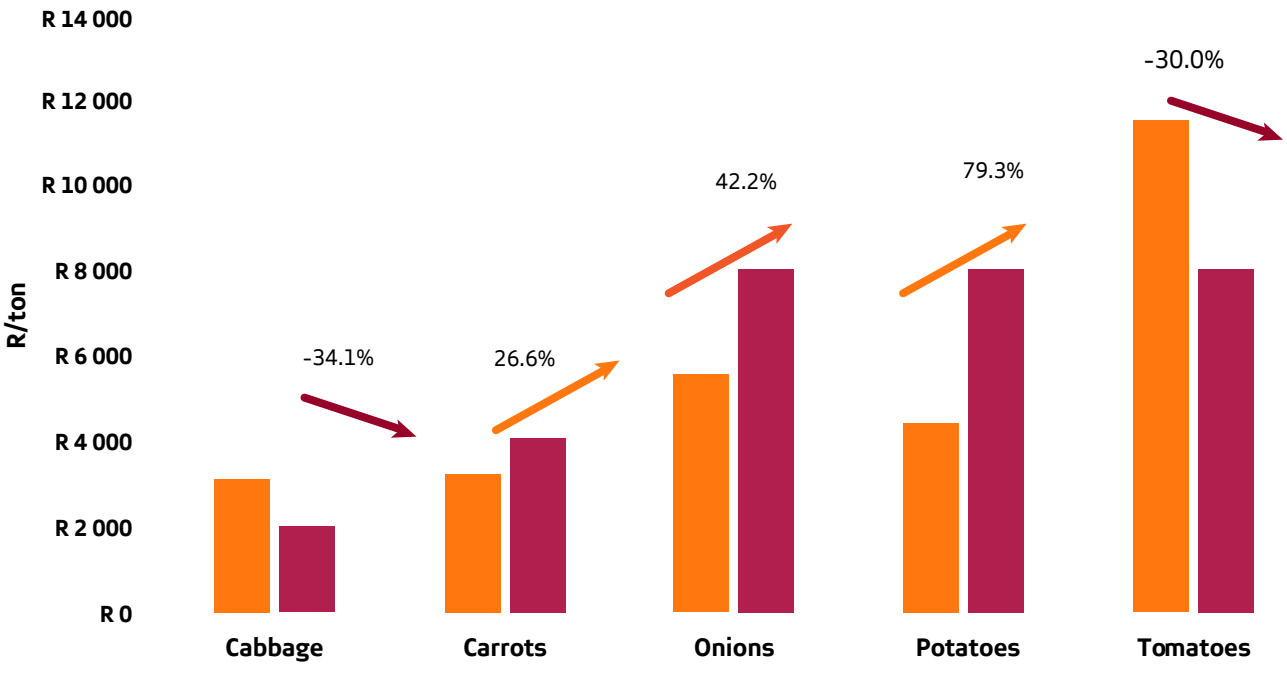
Vegetable prices increased substantially during 2023, and for July specifically, vegetable inflation was recorded at 20.9%. The main drivers of inflation in this subcategory were onions and potatoes, recording yearly price increases of 42.2% and 79.3% as shown in the figure to the right.

Carrots also recorded double-digit increases, although far more modest than their other root vegetable counterparts. Cabbage and tomatoes, in turn, recorded decreases, although it should be kept in mind that tomatoes were coming from a high base underpinned by strong price growth in 2021 and 2022.

Based on this, and keeping the interrelatedness of potato and onion production in mind, we delve a little deeper into the market dynamics of potatoes and onions to explore if these higher prices are a new reality or a result of short-term market shortages.

Figure 4.1

The main drivers of vegetable inflation were potatoes and onions.



Source: Absa AgriBusiness, 2023

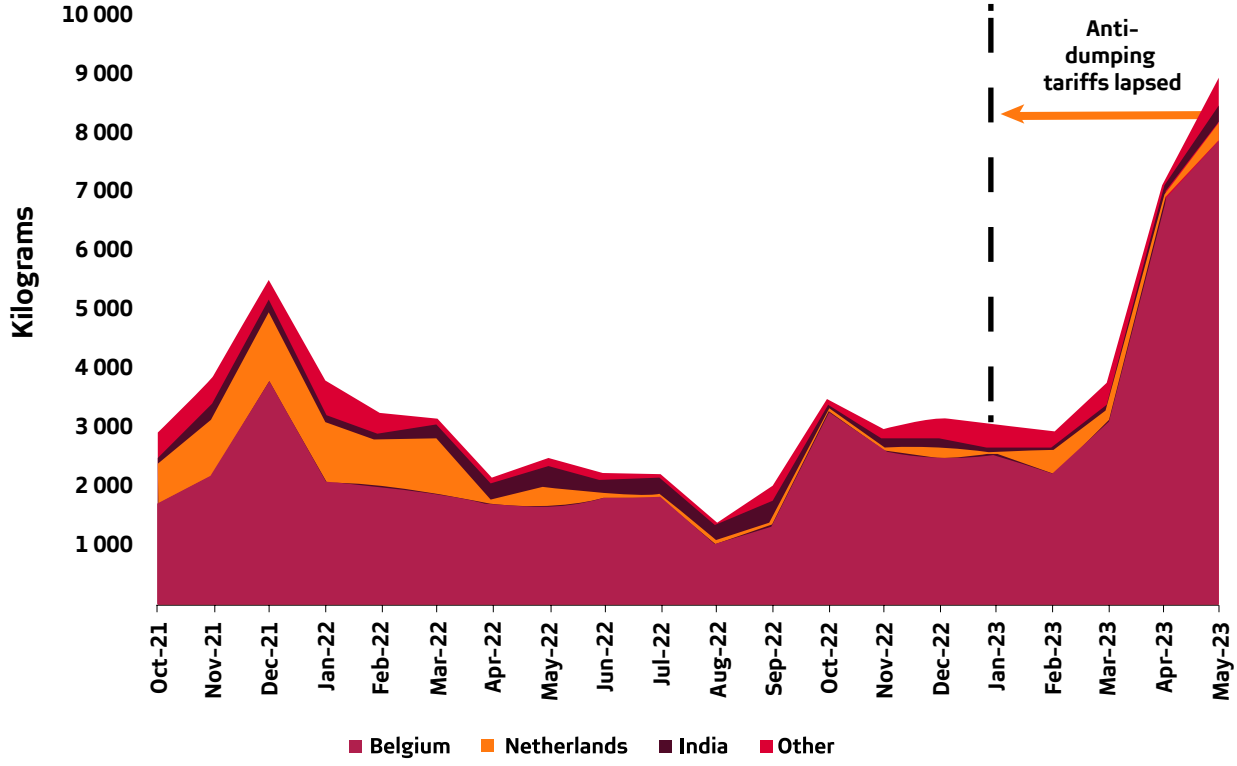
Potato market dynamics

There are 16 geographical areas around South Africa considered to be potato production regions. As a result of this geographical diversity, South Africa is supplied by different production regions throughout the year. Seasonal variations sometimes result in regions overlapping or weeks where there is a gap in supply as a result of an early harvest conclusion by a region. For potatoes, the last time that this resulted in extremely favourable prices was in September and October of 2021. During this time, potatoes out of Limpopo were late to the market, which resulted in shortages that pushed prices towards R100 per 10 kg. When increased volumes started to reach the market in November, prices decreased rapidly to stabilise around R40 per 10 kg in December.

During July 2023, potatoes have yet again experienced a huge price rally, breaching R80 per 10 kg in the third week of July. Our view is that this is the result of multiple factors that affected supply negatively. These factors include lower hectares planted due to load-shedding and extremely high input costs. During June and July 2023, price surges were also supported by firming demand as the processing sector experienced lower levels of load-shedding and an anti-dumping tariff on frozen chips or French fries, which came into effect in May. The rapid increase in imports, during the time in which anti-dumping tariffs did not apply, is presented in Figure 4.2.

Figure 4.2

When anti-dumping tariffs lapsed, French fry imports surged. Its re-investment is good news for local potato producers.



Source: Trademap, 2023

Onion market dynamics

Over the past three and a half years, onion prices have traded at an average of just above R4 200 per ton. The price mostly traded close to this average, with only sporadic gaps in volumes taking prices up to R6 500 per ton and volume gluts pushing prices to close to R2 500 per ton. Since September 2022, onions, however, experienced two periods of rapid price increases. The first was between September and November of 2022, which we deem as a result of lower production underpinned by high input costs, of which fertiliser prices recorded the most notable increase.

The second price run was from March 2023, peaking in late May 2023, again underpinned by a decline in area, which led to lower volumes. This decline in hectares was a result of persistent pressure on profitability.

Onion prices have traded at an average of just above

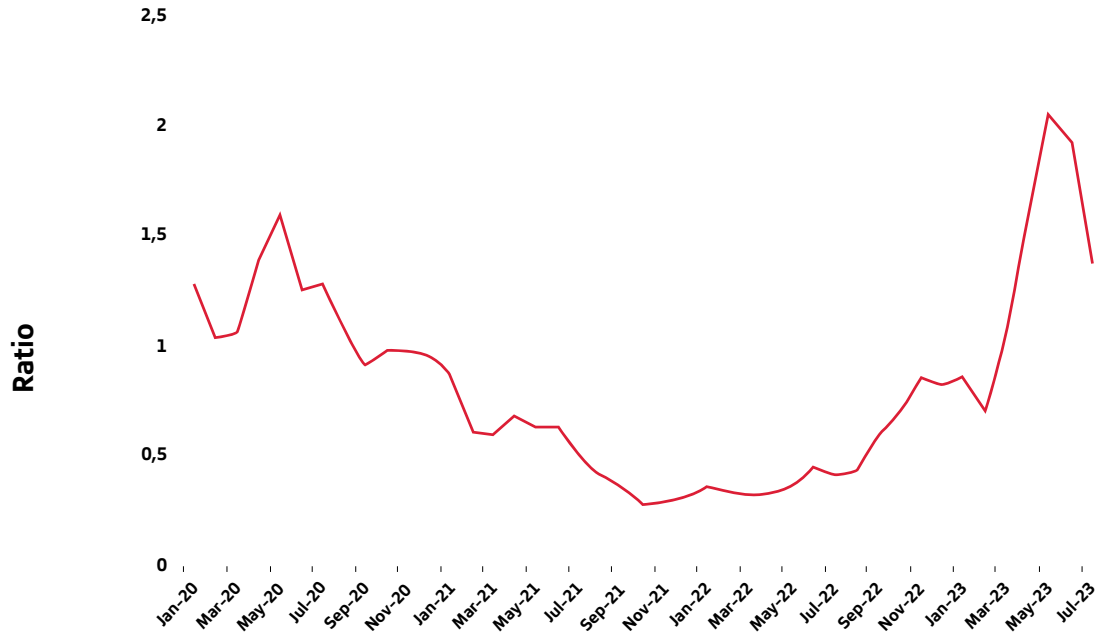
R4 200 per ton

over the past three years.

Here, the figure below shows that onion profitability, expressed as a ratio of onion prices to fertilizer, has been on a declining trend since early 2020. This trend was only reversed during late 2022 as the effect of reduced area and lower volumes drove prices up. Profitability indicators suggest that factors are starting to normalise, with onion prices coming down due to demand resistance at higher prices and as a result of a decrease in fertilizer prices over recent months. Our view is that the price run that we saw since mid-2022 was a long overdue correction in prices, and as a result, we do not expect prices to return to levels apparent between 2020 and 2022H1.

Figure 4.3

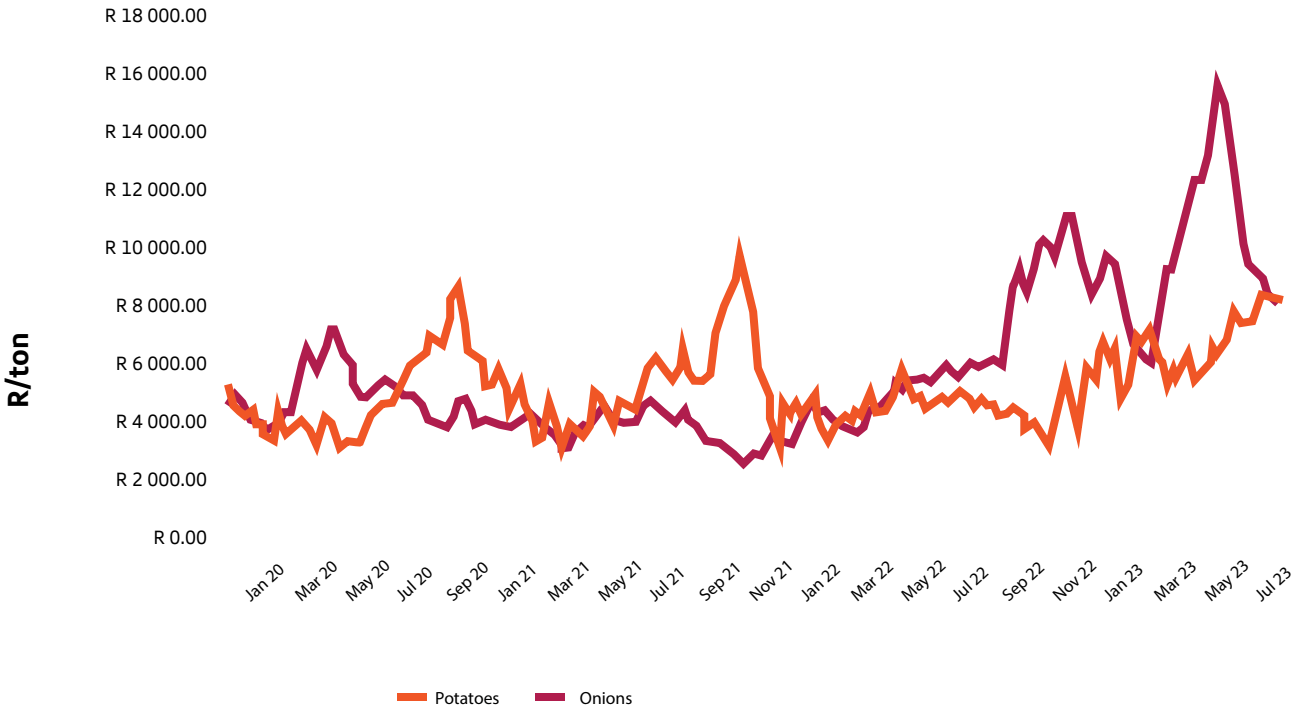
Onion margins have been under persistent pressure since 2020. This led to a decline in hectares which has supported prices in 2023.



Source: Absa AgriBusiness, 2023

Figure 4.4

Onion and potato prices follow an inverse relationship.



Source: Absa AgriBusiness from TechnoFresh data, 2023

Looking ahead

Onion and potato cycles are usually inversely related (see Figure 4.4).

Our view, therefore, is that the current favourable performance in the onion market could draw area away from potatoes and into onions. This could result in a strong performance in potato prices during 2024.

Potato prices are, however, also performing well, and it is expected that short markets can result towards the end of the Limpopo season as frost damage occurred during late July and early August.

Our view, therefore, is that 2022 served as a year where prices for both onions and potatoes corrected to function at higher levels underpinned by higher production costs.

The current favourable performance in the onion market could draw area away from potatoes and into onions.

Vegetable price projections

Table 4.1

	Potatoes (R/ton)	Onions (R/ton)
2020	4 683	4 660
2021	5 053	3 607
2022	4 350	6 435
Forecasts		
2023	6 250	8 150
2024	6 500	7 680
2025	6 890	7 950

Source: Absa AgriBusiness, 2023

HIGH-VALUE EXPORT INDUSTRIES

Introduction

With the challenges in high-value export industries in 2022, ranging from high input prices, record shipping costs, and load-shedding, it might seem at first glance that the headwinds in these industries have eased.

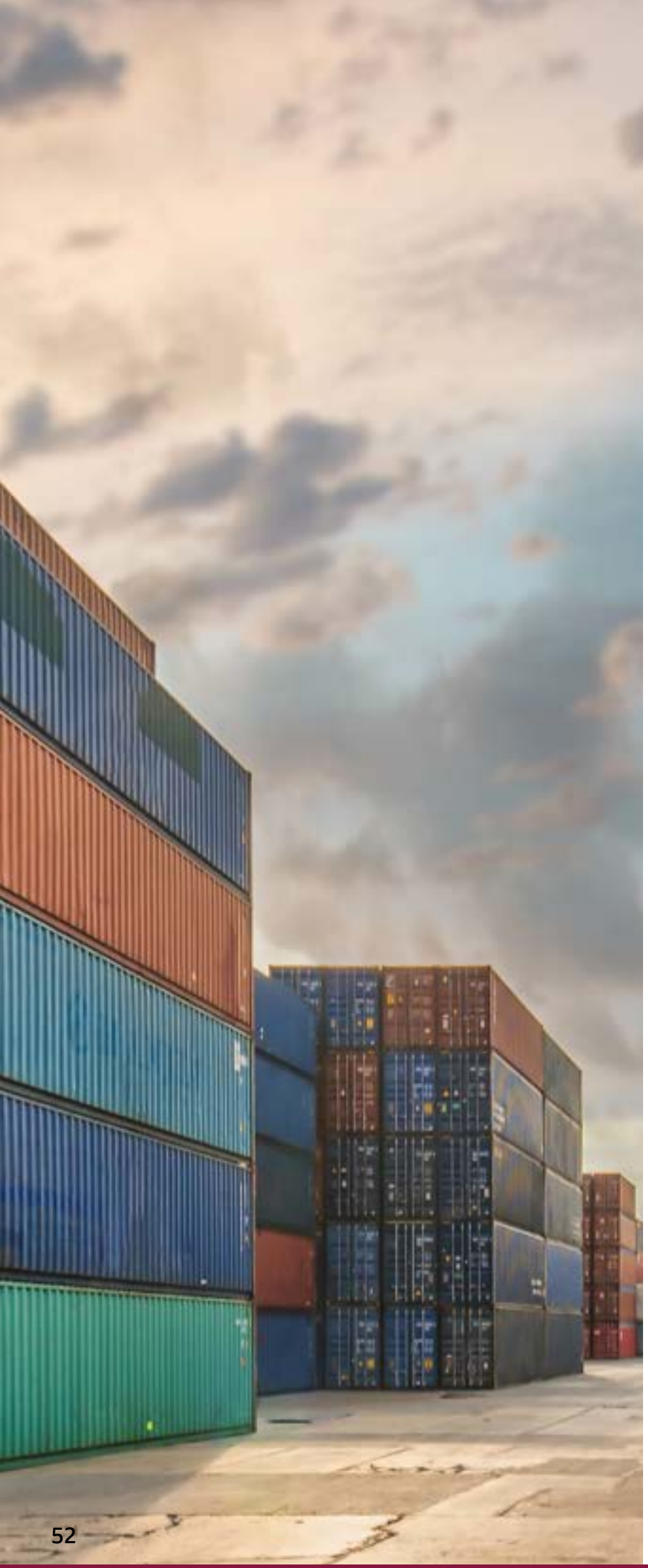
China's reopening also provided the expectation that a slowing global economy would reignite, and as a key importer of agricultural goods historically, a more vibrant Chinese market provided the upside scope for agricultural prices in particular. Although some headwinds, such as high input and shipping costs, have eased and China's economic reemergence provided a brief boost to markets, local infrastructural and logistical challenges are persisting.

Here, the ports specifically remain a constraining issue. In terms of setting the scene for trading conditions in high-value export industries, we therefore start this chapter by considering the macroeconomic conditions in China, prospects for local ports, and how these two factors could come into play for high-value export industry sentiment over the coming years.

China's economic slowdown

In our autumn edition of AgriTrends, we devoted a chapter to how the reopening of China could affect the global macroeconomy and agricultural markets. Evidence from key Chinese economic indicators and the state of the property sector now suggests that China's post-pandemic path will not take global growth to higher levels. The economic indicators reporting poor Chinese economic performance include:

- A 14.5% year-on-year drop in exports in July 2023
- Year-on-year June retail sales grew by only 3% from the June 2022 base that was still in a lockdown period.
- Deflation/Negative growth in consumer prices
- Evergrande, a large property developer filed for bankruptcy in mid-August
- Unemployment of young Chinese aged between 16 and 24 years, living in urban areas, reached 21.3%.



The big question that follows from this is: Is poor Economic performance in China cyclical or structural? Sentiment from market and political commentators are leaning toward the latter. Firstly, analysts note that a demand-driven consumer environment, as a requirement for vibrant economic growth, is not supported by the current governance approach and ideologies of the leading party in China. Local economic activity also needs to be supported by growth in income, but given the high youth unemployment levels, higher income could also be constrained over the medium term.

Combined with the local Chinese picture, there is also a dimmer global view. Here, one should consider the fact that countries are increasingly inward-looking, a term now referred to as "slowbalisation", with a growing demand for services, as opposed to products. As the manufacturing hub of the world, China might, therefore, struggle to regain growth comparable to levels in the previous decade.

Despite this, the sheer size of the Chinese population will still support the import demand for food for which South Africa is well positioned. Gaining access to red meat and avocado pears recently, other sectors such as blueberries are likely next on the list to gain access and would greatly benefit from diversification in export markets. Economic dynamics in China could, however, affect growth prospects for the demand for premium or luxury food products over the medium. It would, herefore, serve South African role players well to diversify market access into other lucrative markets such as India. In this regard, most of our fruit and nut exports still face a hefty import duty into India.

Local road, rail, and port logistics

With large volumes of citrus still expected to come online over the next five years, the question is how these shipments will be cooled and transported.

Although, current road and rail inefficiencies are not something that only affects fruit exports but also grains, and more broadly manufacturing and mining, we have positioned the road vs. rail infrastructure narrative in this chapter due to its importance for the South African citrus industry and the extensive work done by the Citrus Growers Association in this regard.

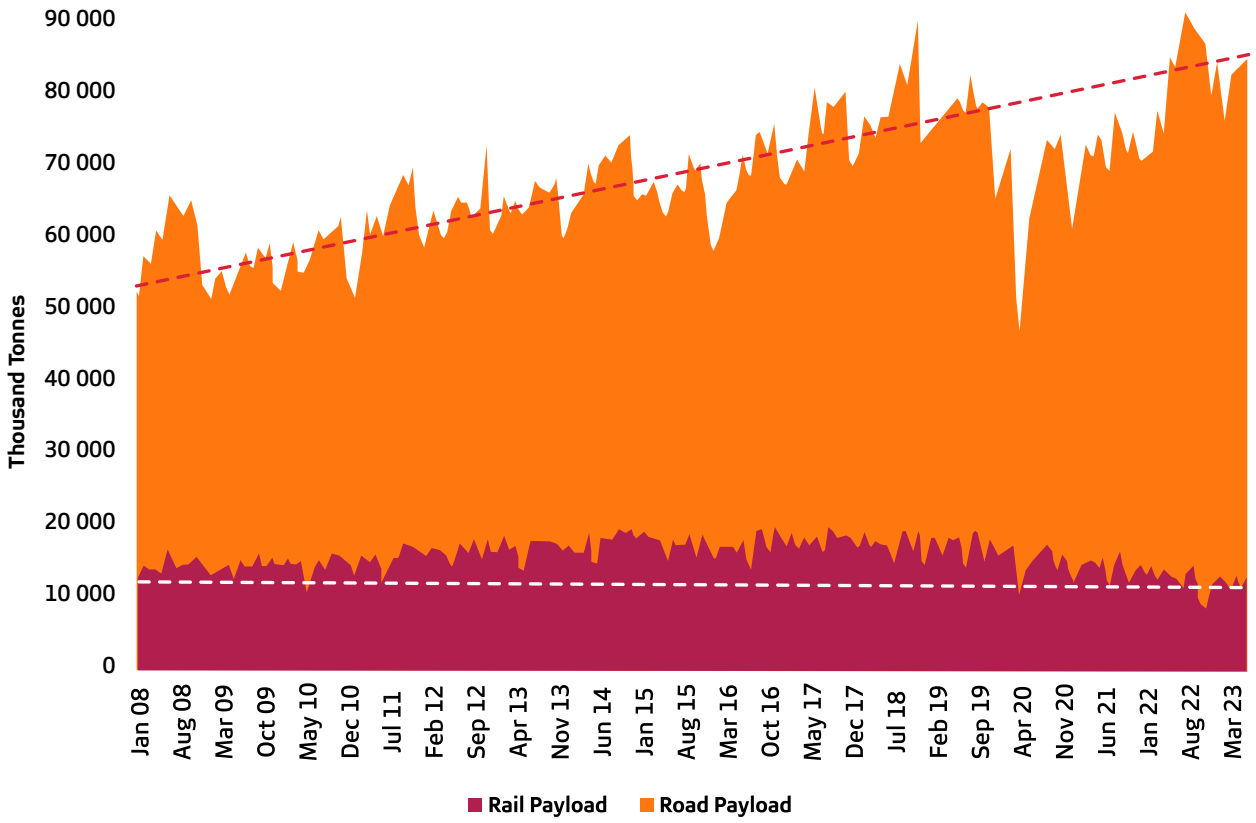
Over the past 15 years, road transport has absorbed the lion's share of growth in transportable goods, with rail infrastructure, in fact, showing a modest decline since 2020 (see Figure 5.1 below).

For transport specifically, the CGA looked at future transport demand from the Northern regions by taking production growth over the next five years from the region into account. Their estimations suggest that there would need to be a 36% increase in weekly truck trips from 2 200 to 3 000 weekly trips to support this growth.

Broken down further, this amounts to 250 ambient truck trips and 560 refrigerated transport trips. Given current constraints on road infrastructure, it is assumed that road transport would not be able to absorb the bulk of this growth, which translates to 18 000 pallets of citrus from the Northern regions needing to be transported by rail.

Figure 5.1

Road freight volumes have increased consistently over the past 16 years whilst rail volumes were stagnant.



Source: StatsSA, 2023

In this regard, we see the request for public participation in the important Gauteng-Durban container corridor as a key development that could support higher rail transport for citrus from the Northern regions over the coming years.

Port performance is also a key issue to consider. As seen in Figure 5.2 and Figure 5.3 below and to the right, port efficiency, as measured by the containers shipped and landed in the ports of Durban and Cape Town, remains well below pre-pandemic levels.

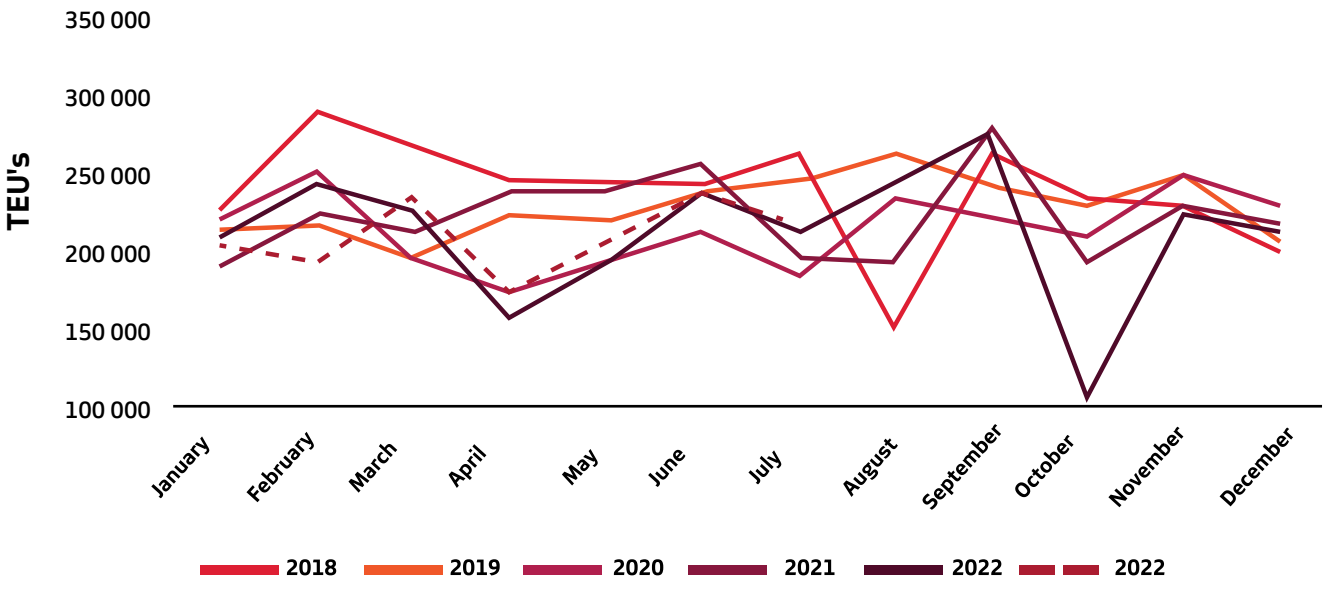
Although it is acknowledged that weather-related issues have played a part in port efficiency in certain months, especially in Cape Town, huge value can be unlocked if port-related issues, such as those related to equipment, can be addressed.

Considering that almost half of the total fruit exports out of South Africa are channelled through Cape Town port, the inefficiencies related to its performance remain a huge risk to the industry. The news regarding South African ports in 2023 has, however, not all been bad. In July, it was announced that International Container Terminal Services (ICTSI) has been selected as a private sector partner for operations in Durban port.

Half of the total fruit exports out of South Africa are channelled through the Cape Town port.

Figure 5.2

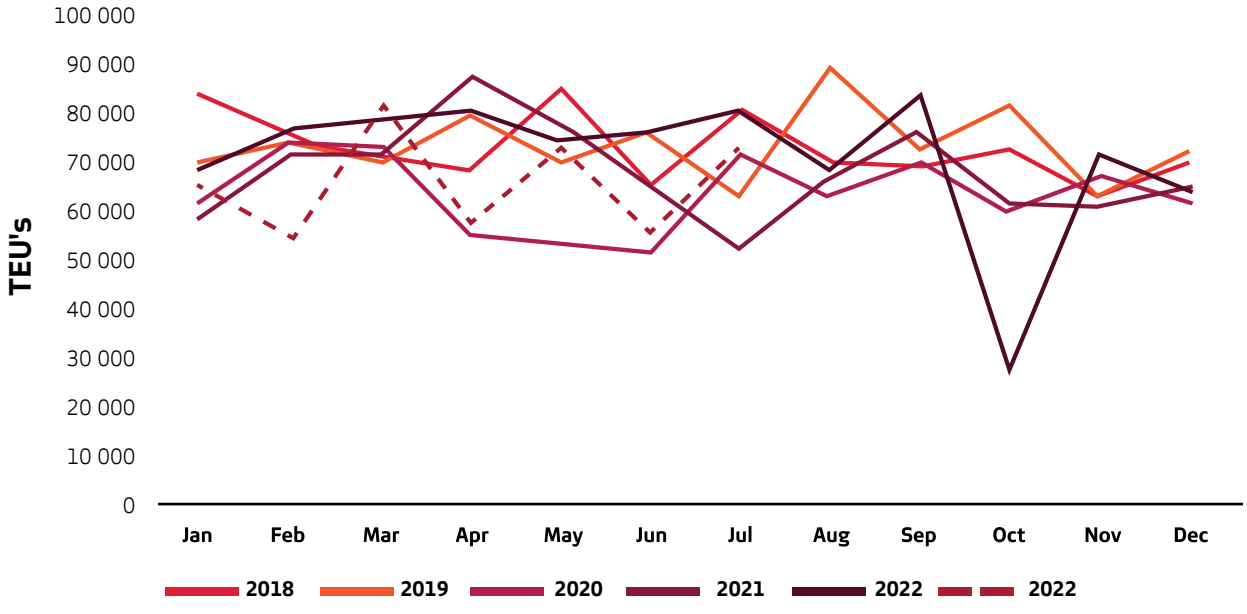
For Durban's port, container movement activity is still below pre-pandemic levels.



Source: Transnet, 2023

Figure 5.3

For Cape Town's port, through which almost half of South Africa's fruit is shipped, container movement also remains below pre-pandemic levels.



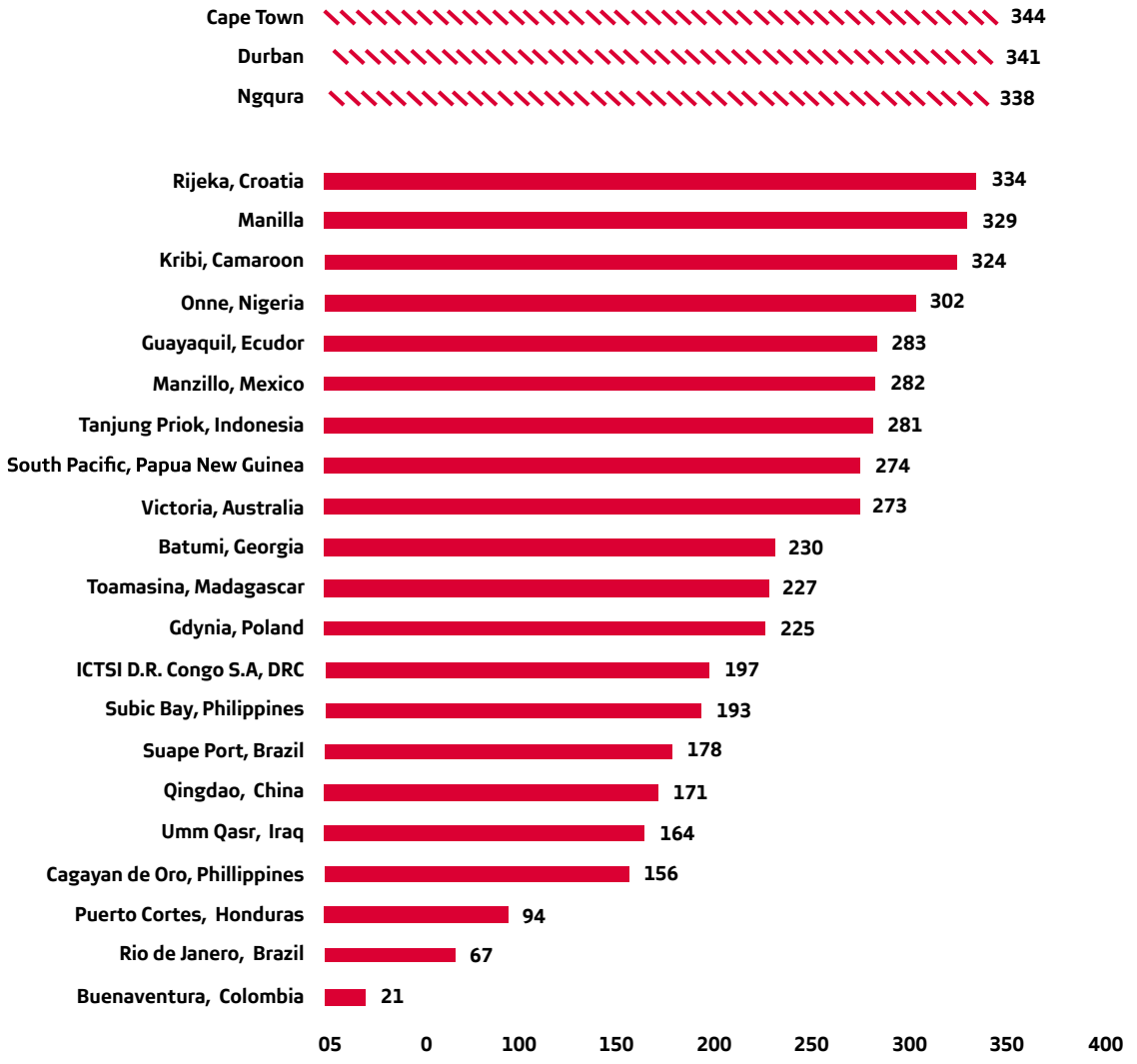
Source: Transnet, 2023

News reports suggest that the agreement between Transnet Port Terminals and ICTSI will result in a new company that runs Pier 2 in Durban port, with efficiency issues expected to be addressed through investment in equipment and through its extensive experience in managing container terminals ports around the globe.

To get a sense of how other terminals operated by ICTSI at other ports around the globe fair in terms of efficiency, the World Bank Container Port Performance Index of 2022 was consulted. Figure 5.4 below shows the performance of ports around the globe at which ICTSI operates container terminals.

Figure 5.4

All ports operated by ICTSI are ranked higher than South African ports by the World Bank Container Port Performance Index. This bodes well for efficiency at Durban.



Source: Compiled from World Bank Container Port Performance Index, 2022

From the above figure, it is apparent that all ports operated by ICTSI are ranked higher than the South African ports included in the World Bank index, with those ranked below 300 suffering from issues not necessarily related to the port operator. For instance, Kribi Port in Cameroon often suffers from extended weather-related issues during its rainy season.

Although we acknowledge that the operator and its associated business model is not the only factor affecting port performance, it is certainly a key driver that underpins efficiencies and financial feasibility over the long term, and we see the recent developments with ICTSI in a very positive light for the broader agricultural industry.

Looking ahead

Avocados

Access for South African avos into China comes at a great time when Peruvian export volumes are channelled to European markets due to dollar markets such as the US being well supplied from other regions.

Peruvian export growth is, however, less than initially expected due to heat impacting fruit quality and size, and production for the coming season could be affected by the current El Nino, which is again expected to bring high temperatures.

Despite this, high Peruvian volumes are expected to remain an issue that will shape Southern Hemisphere export markets over the medium term.
Area expansion in Peru has slowed notably due to resource and logistical constraints, which could see export growth coming down from the explosive rates apparent during the past few years.

For South Africa, market window considerations remain key. Here, early season exports, before Peruvian volumes hit the market, are still very lucrative. For the local market, the premium window is also shrinking due to increased imported volumes from countries such as Mozambique and Tanzania.

Citrus

Citrus was not exempted from the challenging circumstances covered above. For the 2023 season, prospects did improve markedly with higher prices in key export markets such as Europe.

Notable reductions in shipping costs also relieved margin pressure compared to the previous two seasons. Disease issues related to trade with the EU, however, continue to remain an issue, with multiple Citrus Black Spot (CBS) cases being detected since the start of the season and the False Codling Moth (FCM) trading protocol remaining an issue.

In this regard, the Citrus Growers Association estimates that about 20% of the oranges destined for Europe will not be exported. This is likely to have a mitigating effect on increased revenues underpinned by the higher prices that have been apparent in this market since the start of the 2023 season.

Market stakeholders note that the 2023 citrus marketing season is associated with improved shipping conditions and firmer prices

Despite the challenges in the industry, sentiments in the industry are still largely positive. This is supported by good recommendations and lobbying from industry bodies, underpinned by strong research. Combined with innovative planning and new developments, such as some of the Northern regions leveraging on the port of Maputo to alleviate pressure on Durban in peak export weeks shows the commitment of industry role players to find solutions to problems and secure the long-term success of the industry.

To touch on the point of Maputo Port explicitly, customs data suggest that South African citrus volume shipped through Maputo in 2022 increased by almost 32%, although from a low base. During 2022, Maputo also conducted its first reefer exports of citrus. For 2023, the year-to-date numbers are more or less on par with 2022 volumes, but it should be noted that this year did not see huge disruptions at Durban ports, such as the April 2022 floods or the hacking of the IT systems that occurred shortly after that. Exported volumes are also projected to be around 4% lower compared to 2022, which is also likely to alleviate some of the pressure on South African ports during peak weeks.

Stakeholders, however, note that it is more expensive to ship through Maputo, with key destinations such as Europe not serviced from here. Despite this, the piloted volumes shipped through the Maputo container terminal over the last two years do suggest it to be a viable option to increase citrus volumes out of the Northern province. These and other initiatives would all need to be used in the future to export the envisioned 260 million cartons out of the region by 2027.

Blueberries

Global blueberry production has increased significantly over the past five years, with the main expansion in volume originating from the Southern Hemisphere coming from Peru (see Figure 5.5 below).

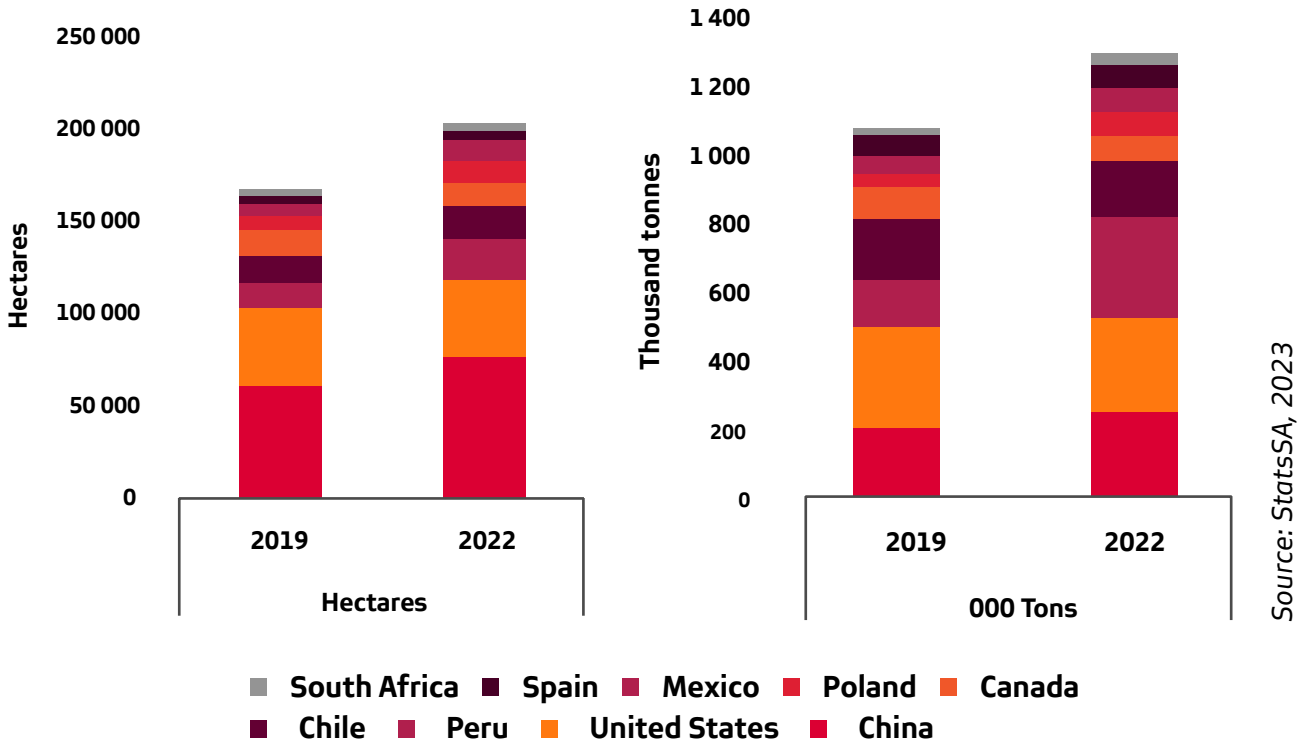
Being the largest Southern Hemisphere producer, production and export conditions in Peru largely influence what happens in key export markets, such as the EU. Peru is projected to break export volume records in the 2023/24 season yet again, with early indications showing year-to-date exports in June increasing by 43% compared to the corresponding time last year.

Early market indications are also positive for South African products, and market stakeholders are confident that if port issues such as the Transnet strike, which happened in October 2022, can be averted, the industry will have a solid 2023/24 season.

In this regard, seasonal prospects remain positive for South Africa as we move into El Nino, which will provide warmer conditions that will assist in flower development and fruit colouring earlier. Quality is also expected to improve as a result of the dryer cycle.

Figure 5.5

Substantial global area and volume growth in blueberries have weighed on average global prices.



Source: StatsSA, 2023

Macadamias

Macadamia prices recorded significant declines during 2022. These declines were underpinned by rapid increases in global production and built-up stocks as a result of low demand during the COVID-19 lockdown years, especially in China.

During 2023, prices remained under pressure as South African production increased by 12.8% to approximately 78 000 tonnes. This is projected to rapidly increase further over the coming years as an increasing share of the total local area comes into full production. The South African industry body (SAMAC) notes that total production can be close to 135 000 tonnes by 2027.

In addition to this, other countries around the globe are also expanding. China specifically has increased its area significantly, and the above-mentioned SAMAC estimation suggests that their production volumes could touch on 100 000 tonnes by 2027.

Some analysts note an even higher production out of China over the next five years as the area expanded notably over the past five years, and upside yield scope creates a further upside to this view.

As the industry matures and market access into alternative export and ingredient markets gains traction, our view is that prices will recover somewhat and stabilise at a price that is reflective of the cost of production and getting product to market.

Our view is, therefore, a modest price recovery over the next two years, but price levels comparable to highs of pre-COVID levels are, in our view, unlikely.

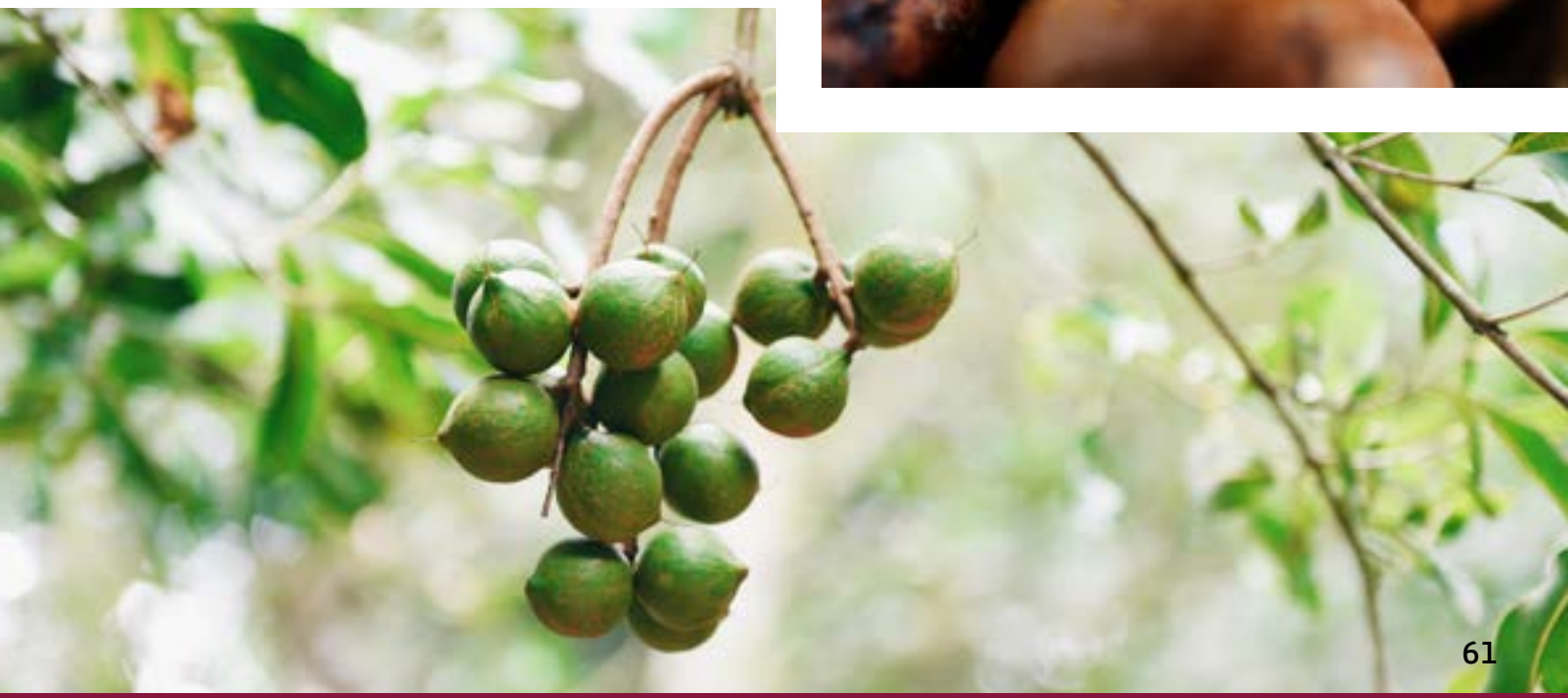


Table grapes

South Africa had a run of challenging seasons over the past three years. In 2022/23 specifically, exports were down by 16% due to a myriad of region-specific factors. The Orange River production region had extreme early heat, which led to a reduction in yield. Northern provinces were faced with a very wet season that affected quality, and the Western Cape had issues with rain, hail, and port logistics towards the tail end of the season. These challenging circumstances have led to consolidation in the industry, with the area declining by around 6.4% over the past two years.

Prospects of hot(ter) and dry(er) late spring and summer months combined with good winter rainfall in the Western Cape have, however, set the scene for a favourable 2023/24 export season. Here, all eyes will be on port performance, which proved to be extremely challenging during the first months of 2023. Market conditions in key markets such as the EU also look favourable, especially for early-season grapes, as lower Northern Hemisphere volumes have kept markets tight. Here, Southern Europe was plagued by extreme heat and rainfall, which have affected volumes negatively.

CIF prices and price forecasts for key export commodities

	Avocados (USD/ton)	Oranges (USD/ton)	Soft Citrus (USD/ton)	Lemons (USD/ton)
2019	1 311.60	552.50	936.30	805.60
2020	1 309.90	661.00	1 022.80	820.60
2021	1 752.40	616.70	1 026.00	697.40
2022	1 577.60	560.10	893.70	642.40
				Forecasts
2023	1 600.00	620.00	951.79	685.44
2024	1 650.00	643.33	977.50	705.32
2025	1 690.00	675.00	998.00	720.84

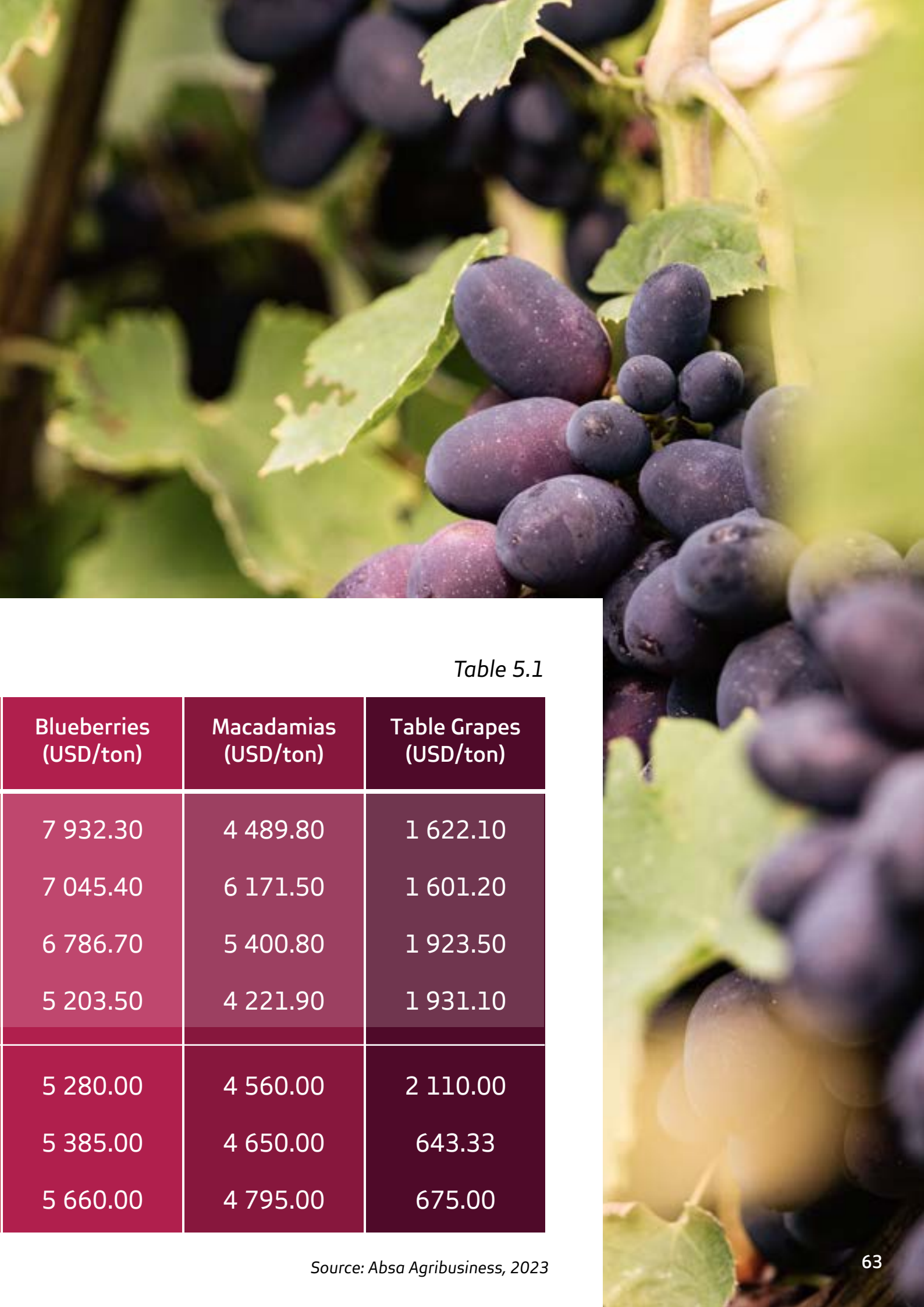
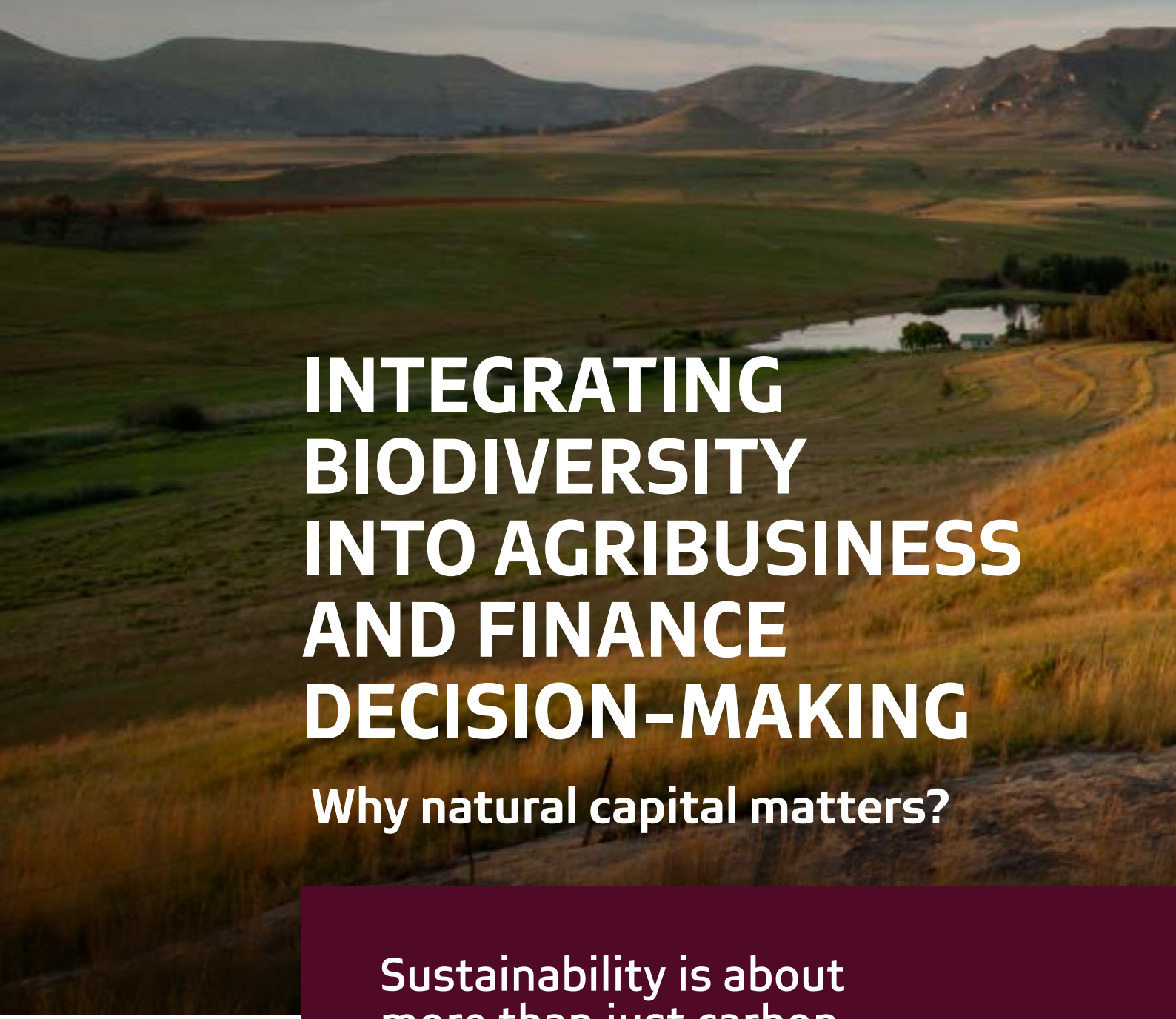


Table 5.1

Blueberries (USD/ton)	Macadamias (USD/ton)	Table Grapes (USD/ton)
7 932.30	4 489.80	1 622.10
7 045.40	6 171.50	1 601.20
6 786.70	5 400.80	1 923.50
5 203.50	4 221.90	1 931.10
5 280.00	4 560.00	2 110.00
5 385.00	4 650.00	643.33
5 660.00	4 795.00	675.00

Source: Absa Agribusiness, 2023



INTEGRATING BIODIVERSITY INTO AGRIBUSINESS AND FINANCE DECISION-MAKING

Why natural capital matters?

Sustainability is about more than just carbon

Anyone who is not a specialist in the area of environmental sustainability will be forgiven for thinking that this agenda is centred around carbon and driving greenhouse emissions down. In the scientific community, this is often referred to as 'carbon tunnel vision'. Sustainability issues span more broadly to include a wide range of ecological issues, and the case is increasingly being made that, to truly pursue sustainability, an eco-systems approach is far more valuable (albeit more complex) than considering a single variable or metric such as carbon. Within this context, we, therefore, cover biodiversity and its relationship with agriculture and agricultural finance in an attempt to facilitate agricultural-environmental discussions in South Africa beyond the carbon agenda.

What is biodiversity?

Biodiversity is the variety of life on Earth in all its forms, species, and interactions. An interdependency among nature, people and society, and a healthy biosphere is what underpins them all. It supports all economic activities and human well-being and provides critical life-supporting ecosystem services. It protects communities from floods, fires, and disease, and in some cases, provides resilience against the impacts of climate change. Biodiversity is a key indicator of the health of nature.

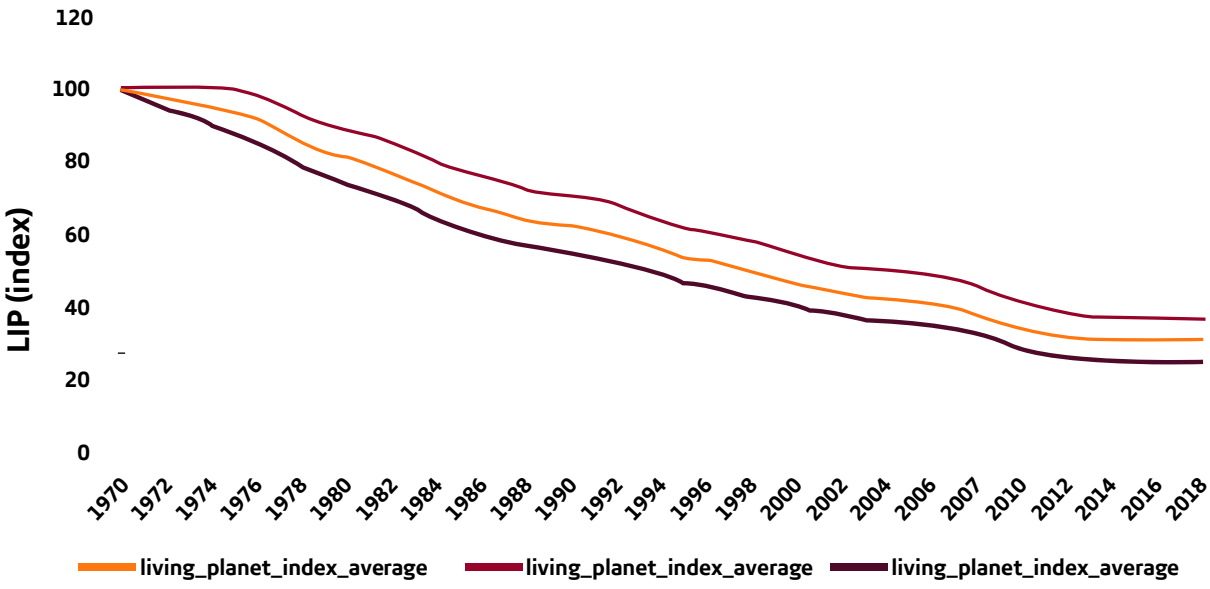
This chapter is a collaborative effort between Lesego Ramusi, Head Environmental and Social Risk (Absa Business Bank), Kariesha Seethal, Manager Environmental and Social Risk (Absa Business Bank) and Absa AgriBusiness.

The state of global biodiversity

Biodiversity is declining at an unprecedented rate due to human-induced activities. For evidence of this, consider Figure 6.1 below, which presents the Living Planet Index that supervises the average change in population size of thousands of studied animal populations relative to the year 1970. Although this index only focuses on vertebrate species, it does tell a story of a loss in the abundance of specific populations, which have, in all likelihood, also filtered through to the loss in the abundance of reliant plant and insect species.

Figure 6.1

The Living Planet Index as a proxy for loss in global biodiversity



Source: Our World in Data, 2023

A loss in biodiversity poses significant but often overlooked risks to agricultural producers, the financial sector, the economy, and the well-being of current and future generations. Despite the risks of biodiversity loss not being prolific in business strategies and decision-making, awareness of these issues and how to include them in business plans and frameworks are rapidly gaining traction. As a case in point, the natural resource crisis is one of the top 10 risks listed in the World Economic Forum Global Risk Report for 2022 and 2023. The United Nations Biodiversity Conference (COP15) held on 19 December 2022 also brought about the adoption of the Kunming-Montreal Global Biodiversity Framework (GBF), which will guide global action on nature through to 2030.

What drives biodiversity loss?

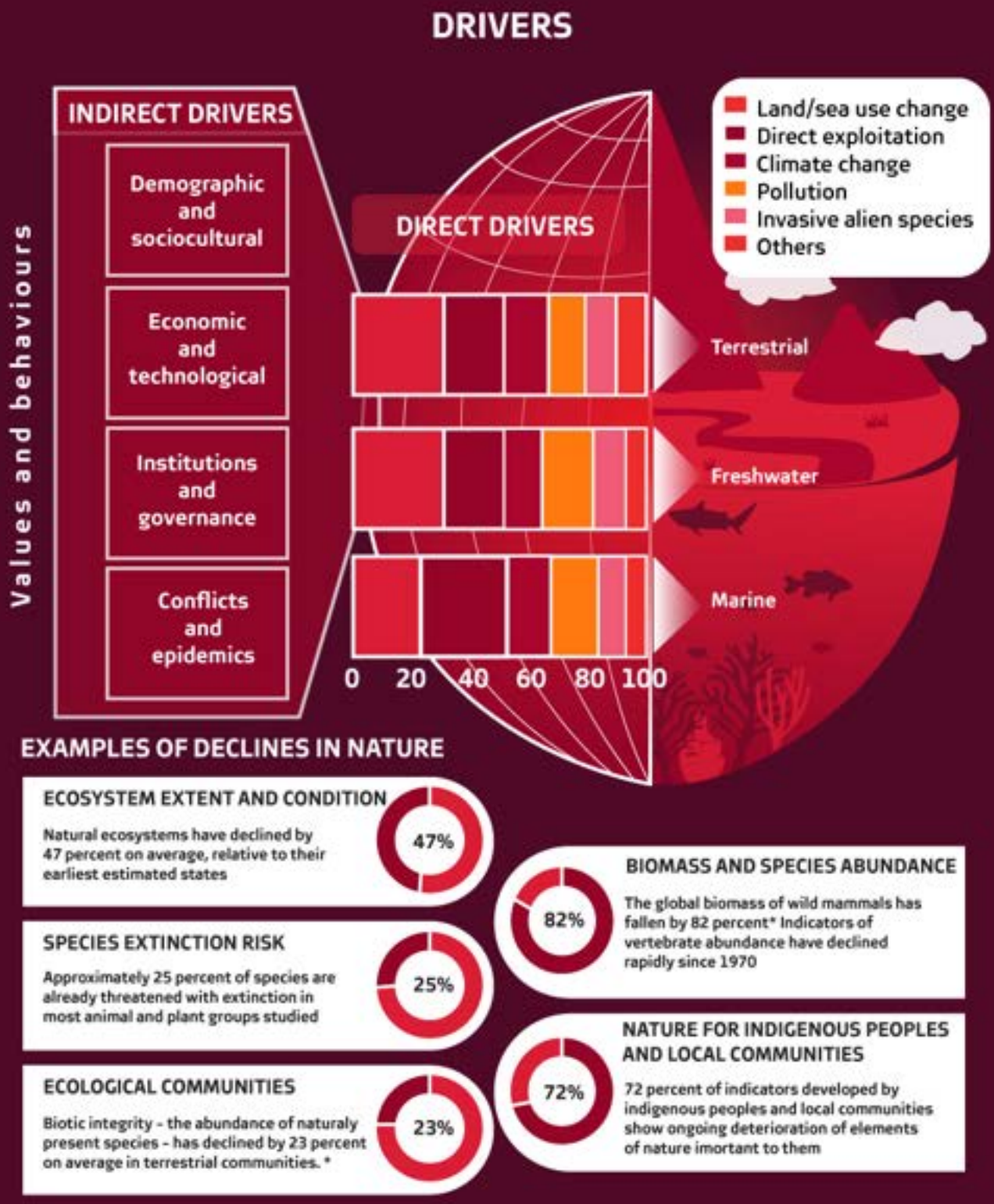
According to Figure 6.2, the direct drivers of biodiversity loss include:

- Land use change
- Direct exploitation of resources
- Climate change
- Pollution
- Invasive alien species

The above-mentioned issues usually result from indirect drivers that are underpinned by societal values and behaviours (such as population growth, consumption, trade, etc.). Agriculture, in turn, is often cited as a notable contributor to multiple of the drivers mentioned here. To position an agribusiness to navigate the opportunities and threats that exist within the broad scope of natural capital management, managers will do well to take cognisance of the trends playing out in this space.

Figure 6.2

Direct and indirect drivers of change that are contributing to global declines in nature and biodiversity



Source: IPBES Global Assessment, 2019

Biodiversity and agriculture

Agriculture both affects and is affected by biodiversity.

As mentioned above, a loss in biodiversity is often caused by excessive exploitation of natural resources, deforestation, and transforming land utilisation. Agriculture and food production, in turn, are often cited as key culprits in this. A loss in biodiversity is further associated with climate change as changes in land use or over-exploitation of resources can increase the release of greenhouse gasses. This, in turn, could impact regional and even global food security over the long run.

Biodiversity is also essential for agriculture as it provides much-needed ecosystem services. These include:

- **Pest regulation**
- **Fertile soil formation**
- **Flood management**
- **Preservation of genetic resources that are resilient to environmental change**
- **Pollination**

Figure 6.3

Dependence of agricultural products on pollination

No Dependency
Yields are not affected by pollinators

Cereals: wheat, maize, rice, sorghum, barley, rye, millet, oats

Roots and tubers: cassava, potatoes, sweet potatoes, carrots

Legumes: including lentils, peas, chickpeas

Fruit and veg: including bananas, pineapples, grapes, lettuce, pepper

Sugar crops: sugar cane and sugar beet

Also includes: areca nuts, asparagus, cabbages, castor oil seed, cauliflower, chicory roots, dates, garlic, hazelnuts, jojoba seeds, leeks, olives, onions, pistachios, quinoa, taro, spinach, taro, triticale, walnuts, yams.

Little Dependency
Yield reduction of 0% without pollinators

Fruit and veg: including oranges, tomatoes, lemons, limes, papayas

Oilcrops: including palm, poppy seed, linseed, safflower seed

Legumes: including beans, cow peas, pigeon peas

Groundnuts

Also includes: bambara beans, chillies, grapefruit, persimmons, string beans

Modest Dependency
Yield reduction of 10% to 40% without pollinators

Oil crops: including sunflower seed, rapeseed, sesame, mustard seed

Fruits: including strawberries, currants, figs, gooseberries, eggplant

Coffee beans

Coconuts and okra

Soybeans

Also includes: broad beans, karite nuts, seed cotton

High Dependency
Yield reduction of 40% to 90% without pollinators

Fruits: including apples, apricots, blueberries, cherries, mangoes, peaches, plums, pears, raspberries

Nuts: including almonds, cashew nuts, kola nuts

Avocados

Also includes: cucumber, buckwheat, nutmeg, anise, fennel, coriander

Essential
Yield reduction greater than 90% without pollinators

Fruits: including kiwi, melons, pumpkins, watermelons

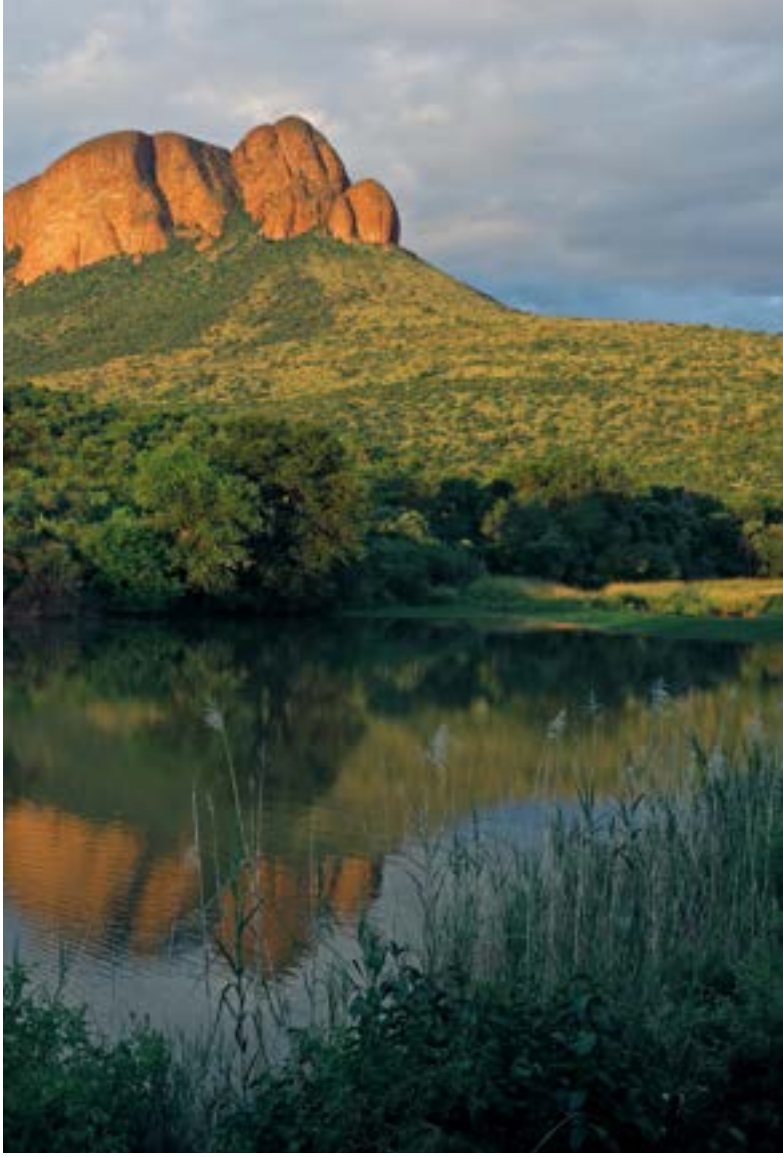
Cocoa beans

Brazil nuts

Also includes: vanilla, quinces

Marcelo Aizen et al., 2019, and Alexandra-Maria Klein et al., 2006

As an example of agriculture's reliance on biodiversity, consider the pollination example on the left. It should be apparent that ecosystem services such as pollination enable the production of food and medicines, as well as raw materials for goods like cotton, wool, wood, fuel, etc. Hence, biodiversity enhances sustainable agriculture, and sustainable agriculture advances biodiversity. Biodiversity is, therefore, key to making agriculture more productive, sustainable, and profitable and de-risking agricultural practices over the long term.



Biodiversity and finance

The financial sector is facing increasing financial risks as a result of biodiversity loss. This topic is gaining traction on financial fronts and financial forums. In addressing the challenge and improving the assessment of the relationship between financial stability and biodiversity, the development of biodiversity assessment frameworks for finance is required. Understanding biodiversity-related risks will enable financial institutions to channel capital away from nature-negative outcomes and towards nature-positive solutions, opportunities, and business models, ultimately supporting the more efficient allocation of both risk and capital and the functioning of stable markets. This will prevent biodiversity loss and enhance the resilience of ecosystems, businesses, and societies that depend on nature.

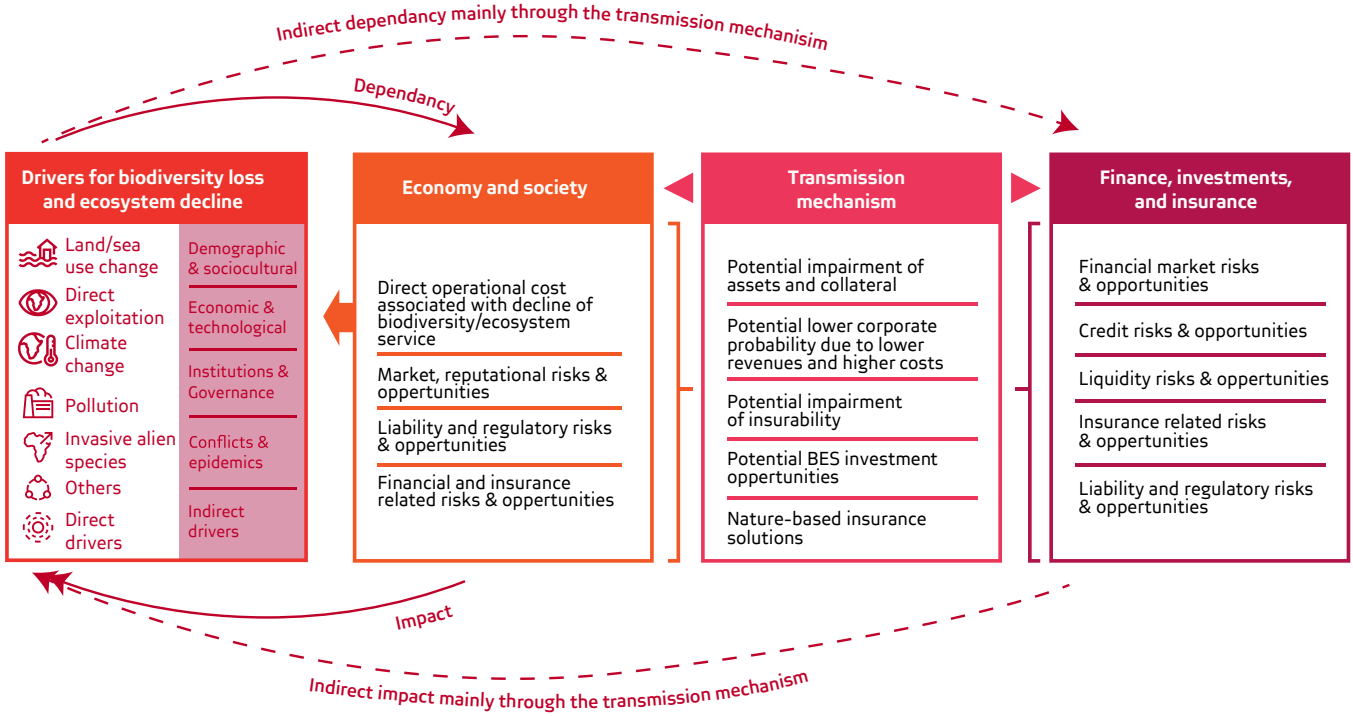
Biodiversity and its related opportunities and risks are gaining increased momentum in financial forums.

Embedding biodiversity in the financial sector will also provide significant investment opportunities in activities to support a transition to more sustainable practices and unlock investment in activities dedicated to biodiversity protection. For the agricultural sector, ensuring that financiers provide agricultural producers with the right incentives and the right systems to be able to adopt, track, and monitor sustainable agricultural practices will ensure that future generations can also rely on these resources. Biodiversity, therefore, isn't just an environmental issue; it's also a social and financial issue.

Figure 6.4 demonstrates transmission channels to financial services where financial institutions could enable and influence the activities of clients in priority sectors of an economy by providing capital or risk protection to varying degrees.

Figure 6.4

The interaction between ecology, the economy, and the corresponding transmission mechanism to financial services



Source: Absa, 2023

Absa's approach to managing biodiversity opportunities and risks

Through its Active Force for Good strategy, Absa Group has committed to promoting environmental sustainability by proactively managing climate change and biodiversity risks and opportunities and providing innovative sustainable finance products and solutions. Absa's strategy and Group Sustainability Risk Policy align with SDG 15: Life on Land, which involves defining an approach for biodiversity and natural capital risk management and the value of sustainable finance towards these types of transactions that are identified in our lending portfolio and value chain.

As a bank, the first step in our journey is to understand the dependencies and impacts of our business and that of our clients on biodiversity. We have, therefore, partnered with key stakeholders to explore tools and eventually develop methodologies, tools, and approaches that will enable us to identify biodiversity dependencies, risks, and opportunities linked to client operations.

Engaging and working with stakeholders and clients on key biodiversity issues will enable us to fast-track and prioritise efforts to overcome these risks. It will also highlight opportunities to capitalise on so that we can offer innovative sustainable finance products and solutions to clients that consider natural capital issues in their operations and strategies. These tools will be first piloted within our agricultural portfolio, which, amongst others, is a priority sector and has a direct dependency on natural capital and biodiversity.

The pilot will allow Absa to define and develop an approach and business case for the Bank to embed natural capital considerations into lending and investment credit risk assessment, financial analysis, and decision-making across all priority sectors. This will be done using existing best practices and global biodiversity frameworks, such as the Taskforce on Nature-related Financial Disclosures (TNFD), to set metrics and targets to accelerate execution and enable reporting and disclosure on material risks.

What issues can the agricultural producer consider when developing a natural capital strategy?

- How greenbelts and natural conservancies can aid in avoiding mono-cropping
- How organic vs. synthetic fertiliser can facilitate soil health
- How insect diversity can facilitate in managing pests and disease
- How to deal with Alien Plant Infestation

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