



Agri Trends

03 August 2018

A possible El-Nino event may support maize prices going into 2019.

Weather forecasts indicate more than a 50% chance of another El-Nino event. The occurrence may start in late 2018 and will likely continue into autumn of 2019. If the event materialises, the likelihood increases for lower rainfall and higher-than-average-temperatures during Nov 2018- early 2019, during the summer crop production period. This could lead to lower maize crop in 2019.

The South African maize industry is currently sitting with large stocks in silos. This season, harvesting started late, therefore maize deliveries are expected to gain significant momentum in August 2018, adding to already large stocks. A lower maize crop in the next season due to weather anomalies (El-Nino events) may bode well for maize prices locally, as the market consume and reduce supplies. Policy uncertainty and the weakening of the Rand may support prices. The current local surpluses and good rains received in Feb-May2018 will buffer some of the potential crop losses if weather patterns follow forecasts.

Contents

Maize market trends	1
Wheat market trends	4
Oilseeds market trends.....	6
Wool market trends.....	8
Cotton market trends	9

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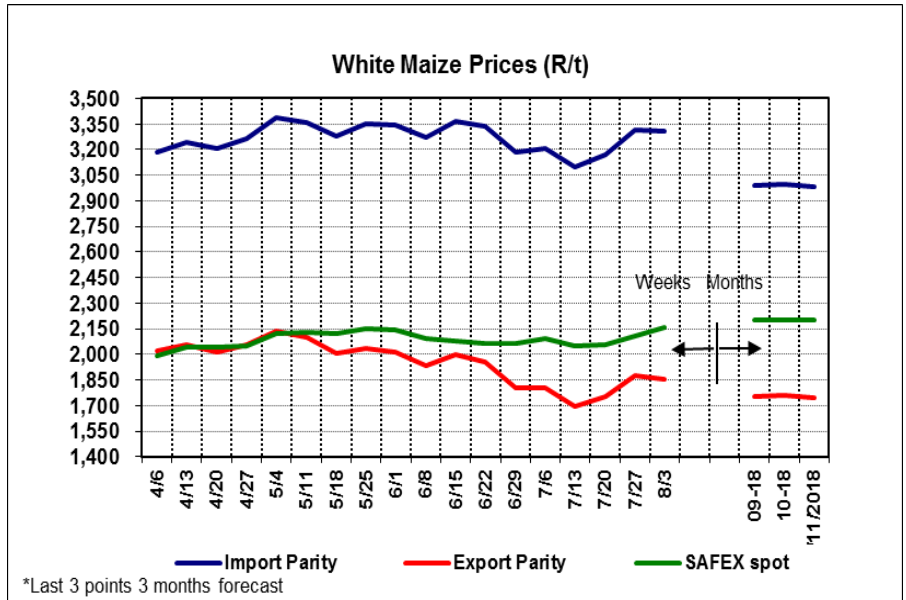
Maize market trends

International

Week-on-week yellow maize No 2 gulf price increased from US\$159.17/ton to US\$163.41/ton. Poor maize growing conditions could potentially place maize crops under pressure. Higher buying interest, exports and weather concerns supported prices.

Bullish factors

- Drier, hotter weather forecasts in the Midwest for August (critical crop development period) supported US maize prices. Poor growing conditions (higher temperatures) could potentially place crop development under pressure in the season.
- Strong international demand and easing China-US war tensions also supported prices.
- Spill over from higher US soybeans prices provided underlying support to the US maize prices.



Bearish factors

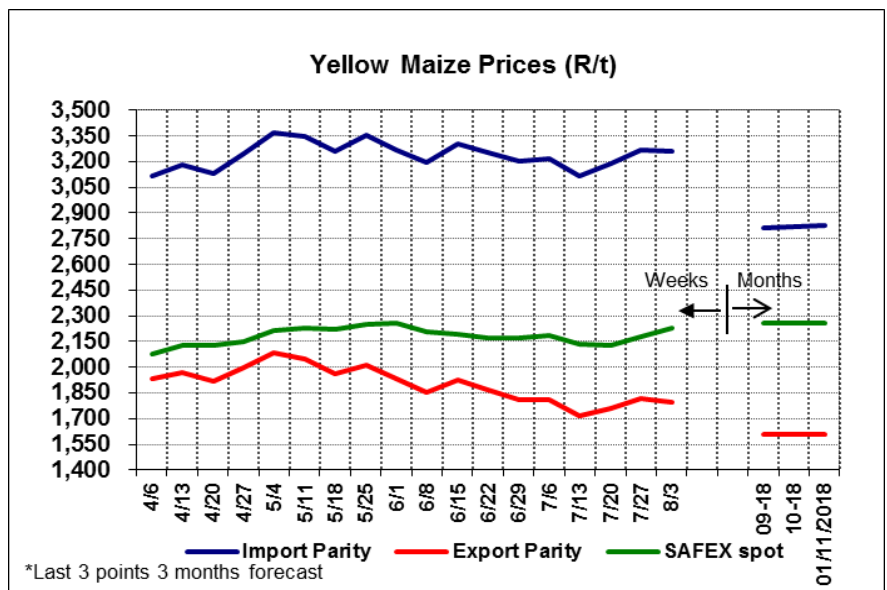
- Prices were lower in Brazil due to seasonal pressures and weak domestic demand.

Domestic

On 02 August, local maize market traded lower week on week. New season white maize prices for delivery in Sep 2018 traded higher by R75/ton from R2127/ton to R2202/ton. Week-on-week new season yellow maize prices for delivery in Sep 2018 increased R67/ton from R2193/ton to R2260/ton.

Bullish factors

- Weather forecast at the end of June 2018 indicated a potential possibility for the development of El Nino from winter 2018 until autumn 2019. This could lead to below average rainfall and above average temperatures during the summer crop-planting period. A potential lower crop in 2019 will benefit the industry, as we will consume the already stored grains, reducing stocks, therefore supporting maize prices in the 2019 period. * It is still very early in the forecast season.
- Weaker domestic currency week-on-week making SA exports more competitive in the global market.
- Local maize prices gained some ground, finding support from the higher US maize prices and the weaker Rand.



Bearish factors

- Deliveries are picking up. According to SAGIS, SA deliveries for the week ending 27 July 2018 were 813,814 tons (540,612 tons white maize and 273,202 tons yellow maize). Season deliveries for this season is 7.5 million tons. The deliveries were slower this season, well below the past few seasons. However due to the late start of the harvest season we expect solid deliveries to gain momentum in the month of August.
- SA is still dealing with large stocks of maize in storage. Yellow maize stored at the end of June 2018 was recorded at 2.7 million tons (enough surplus for 5 months' consumption). White maize in storage as at the end of June 2018 is 2.8 million ton (enough surplus for 5 months' consumption). With the expected pick-up in maize deliveries, these volumes will only get larger especially if exports do not pick up with the same momentum.

Outlook

Local

The deliveries were slower this season, well below the past few seasons. However due to the late start of the harvest season we expect solid deliveries to gain momentum in the month of August. The increased

International

Weather will remain a key factor to look at in the month of August. Drier, hotter weather forecasts in the Midwest for August (critical crop development period) supported US maize prices. Poor growing conditions (higher temperatures) could potentially place crop development under pressure in the season.

Table 1: Week on week yellow maize futures and estimated option prices

Yellow Maize Futures: 05 July 2018			Sep-18	Dec-18	Mar-18	May-19		
CBOT (\$/t)			144.38	150.09	154.42	156.68		
SAFEX (R/t)			2260	2352	2394	2395		
SAFEX (R/t) <i>Change week on week (w/w)</i>			67	69	68	70		
Sep-18			Dec-18			Mar-19		
Ask	Put	Call	Ask	Put	Call	Ask	Put	Call
2,200	21	81	2,280	92	164	2,300	126	220
2,160	11	111	2,240	75	187	2,260	109	243
2,120	5	145	2,200	61	213	2,220	93	267

Table 2: Week on week white maize futures and estimated option prices

White Maize Futures 02 August 2018			Sep-18	Dec-18	Mar-19	May-19		
SAFEX (R/t)			2202	2289	2340	2359		
SAFEX (R/t) <i>Change w/w</i>			75	75	69	70		
Sep-18			Dec-18			Mar-19		
Ask	Put	Call	Ask	Put	Call	Ask	Put	Call
2,100	16	118	2,180	89	198	2,220	144	264
2,060	9	151	2,140	73	222	2,180	127	287
2,020	4	186	2,100	60	249	2,140	111	311

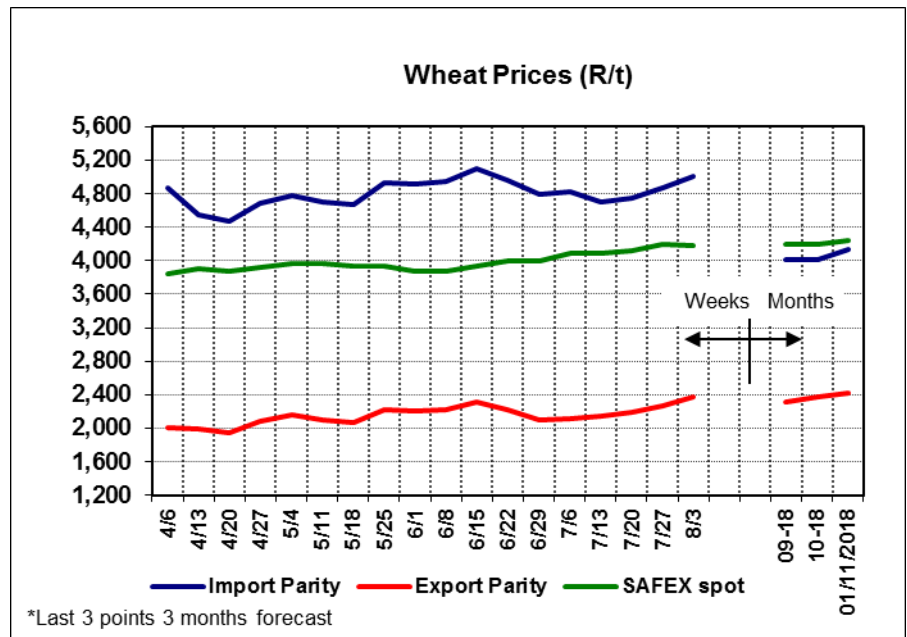
Wheat market trends

International

The weekly average old season SRW wheat Gulf price remained unchanged at US\$223/ton week on week. Weekly average HRW wheat price increased from US\$245/ton to US\$257/ton week on week. Crop losses in EU and the Black Sea region as well as Australian crop concerns due to drought conditions supported price gains in the wheat market.

Bullish factors

- Poor production prospects in the EU and Black Sea Region supporting the wheat market recently. EU wheat future prices remained elevated due to production concerns in Sweden.
- Some of Australia's major wheat growing areas are under pressure due to drought conditions.
- Crop losses in the Europe (Germany and France) due to the drought supported higher global wheat prices.
- Poor production prospects in the Black Sea region, Australia and EU supported price gains.
- Hot and dry weather in Canada and storms increased uncertainty for the wheat crop. US expected to have lower yields.
- Due to drought in the Ukraine, crop production estimates have been lowered to 24.7 million tons from 26.1 million tons. The average wheat yields in Russia were recorded at 3-year lows.



Bearish factors

- US spring wheat condition is rated at 76% good/excellent, compared to 31% a year ago.
- Slow export demand for US wheat, added a bearish tone to the market.
- The USDA acreage and stock report had bearish sentiment with US wheat area planted estimated at 47.8 million acres, well above market expectation and higher than the previous year's all wheat area planted.

Domestic

On 02 August 2018, wheat prices for delivery in Sep2018 decreased marginally from R4194/ton to R4193/ton, week on week. Wheat prices for Dec2018 and Mar2019 increased respectively by 1.5% week-on-week. Local prices remained unchanged weekly.

Bullish factors

- According to the latest CEC the preliminary planted area estimate for wheat is 505 000 hectares (2.73% higher), which 13 400 hectares (22.73%) more than the 491 600 ha planted for the previous season.
- Weather in the Western Cape remains slightly uncertain. Swartland received very good rains while parts of the Overberg areas is still very dry.

Bearish factors

- Weather in the Western Cape remains slightly uncertain. Swartland received very good rains while parts of the Overberg areas is still very dry.

- The surge in US wheat prices could potentially lower the level of the wheat import tariff. Since 13 July 2018, the new wheat import tariff is R281.70/ton down from R437.20/ton.

Outlook

Local

Local prices remained unchanged week-on-week. The local wheat industry did not follow the higher US wheat prices. The wheat growing conditions are currently looking good, with the Western Cape receiving rains. According to the latest CEC the preliminary planted area estimate for wheat is 505 000 hectares (2.73% higher), which 13 400 hectares (22.73%) more than the 491 600 ha planted for the previous season. Prices expected to trade in the range of R4100-R4300/ton in the next 2 months.

International

Poor production prospects in the EU and Black Sea Region supporting the wheat market recently. Some of Australia's major wheat growing areas are under pressure due to drought conditions. Weather anomalies remain a key factor to monitor across major growing areas.

Table 1: Week on week wheat futures and estimated option prices

Wheat Futures 02 August 2018	Sep-18	Dec-18	Mar-19	May-19
CME (\$/t)	202.09	207.97	210.27	210.73
SAFEX (R/t)	4193	4245	4327	
SAFEX (R/t) Change w/w	-1	67	63	

Sep-18			Dec-18			Mar-19		
Ask	Put	Call	Ask	Put	Call	Ask	Put	Call
4,080	25	138	4,140	99	204	4,200	141	268
4,040	16	169	4,100	84	229	4,160	125	292
4,000	10	203	4,060	70	255	4,120	110	317

Oilseeds market trends

International

The weekly average USA soybean price increased week-on-week from US\$335.56/ton to US\$344.65/ton. US soya oil prices increased from US\$28.27c/lb to US\$28.40/lb and soymeal prices traded higher from US\$330.44/ton to US\$336.10/ton. US soybean prices surged this week when the Trump administration announced it would roll out a R2bn package for farmers. Easing trade war tensions between the US and China supported the soybean market.

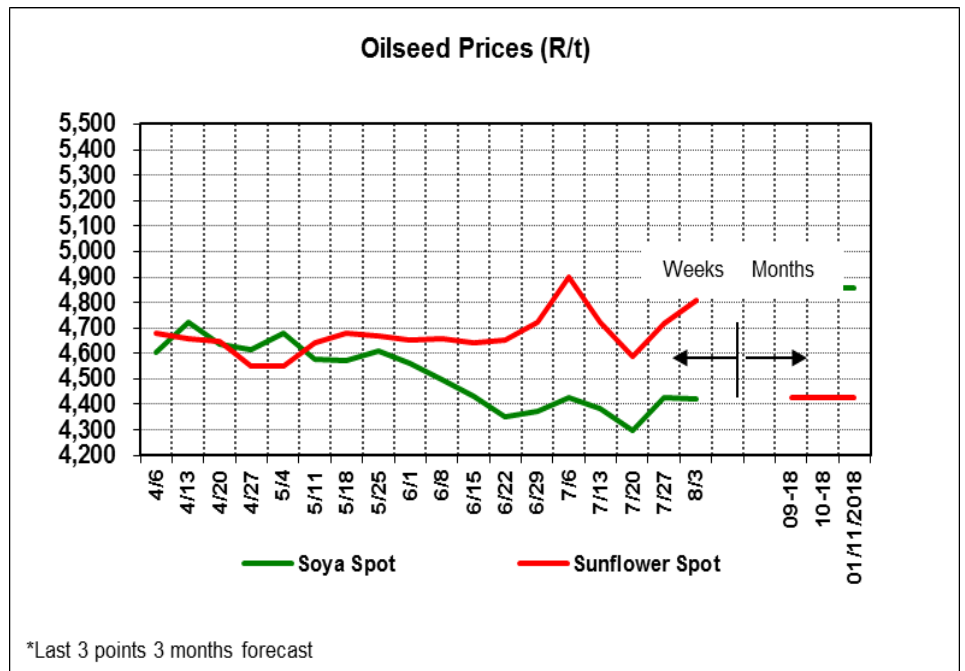
Bullish factors

Soybean:

- US soybean prices surged this week when the Trump administration announced it would roll out a R2bn package for farmers.
- Easing trade war tensions between the US and China supported soybean prices.
- Hopes for stronger demand for US soybeans and spillover from firm grains market supported US soybeans this week.
- Weather outlooks indicating drier and warmer temperature across the Midwest during August provided support to US soybean prices.

Rapeseed:

- EU rapeseed prices surged to 8-month high due to continuing crop condition worries in the major growing regions.



Bearish factors

Soybeans:

- Uncertainty about freight costs in Brazil and continual logistical disruptions due to the trucker's strike limited trade.

Domestic

New season soybean prices (Sep2018) increased week on week by R5/ton from R4423/ton to R4428/ton.

New season sunflower seed prices (Sep2018) increased week on week by R118/ton from R4737/ton to R4855/ton.

Bullish factors

Sunflower Seed:

- Lower deliveries have supported the sunflower seed market. The suns have outperformed the soybean market this week. The Sep soybean/sunflower seed spread has widened significantly.
- Weekly sunflower seed producer deliveries were lower (about 27%) compared to the previous week.

Bearish factors

Soybeans

- Soybean production remain unchanged at 1.5 million tons. Abundant supplies may boost domestic crushings to record 1.1 million ton during mar/Feb 2018/19. There could be a potential increase for exports.
- For the week ending 27 July 2018, cumulative soybean producer deliveries for the 2018/19 MY amounted to 1.47 million ton.

Outlook

Local

South African soybean started to gain momentum with the higher US soybeans and the weaker Rand adding some support.

International

Easing trade war tensions between the US and China supported soybean prices this week. Weather outlooks indicating drier and warmer temperature across the Midwest during August provided support to US soybean prices.

Table 1: Week on week soybean and sunflower seed futures and estimated option prices

Oilseeds Futures 02 August 2018	Sep-18	Dec-18	Mar-19	May-19
CBOT Soybeans (US\$/t)**	325.92	329.77	337.31	340.80
CBOT Soy oil (US c/lb)	34.82	28.61	29.18	29.51
CBOT Soymeal (US c/lb)	363.74	365.49	361.54	360.11
SAFEX Soybean seed (R/t)	4428	4570	4658	4690
<i>SAFEX Soybean seed (R/t) change w/w</i>	5	7	-2	-10
<i>SAFEX Sunflower seed (R/t)</i>	4855	4980	4910	4731
<i>SAFEX Sunflower seed (R/t) change w/w</i>	118	111	52	-9

Sep-18			Dec-18			Mar-19		
Ask	Put	Call	Ask	Put	Call	Ask	Put	Call
4,920	117	52	5,040	205	145	5,040	325	195
4,880	94	69	5,000	183	163	5,000	301	211
4,840	73	88	4,960	163	183	4,960	278	228

*Short ton

** Dec 2018 = Jan 2019

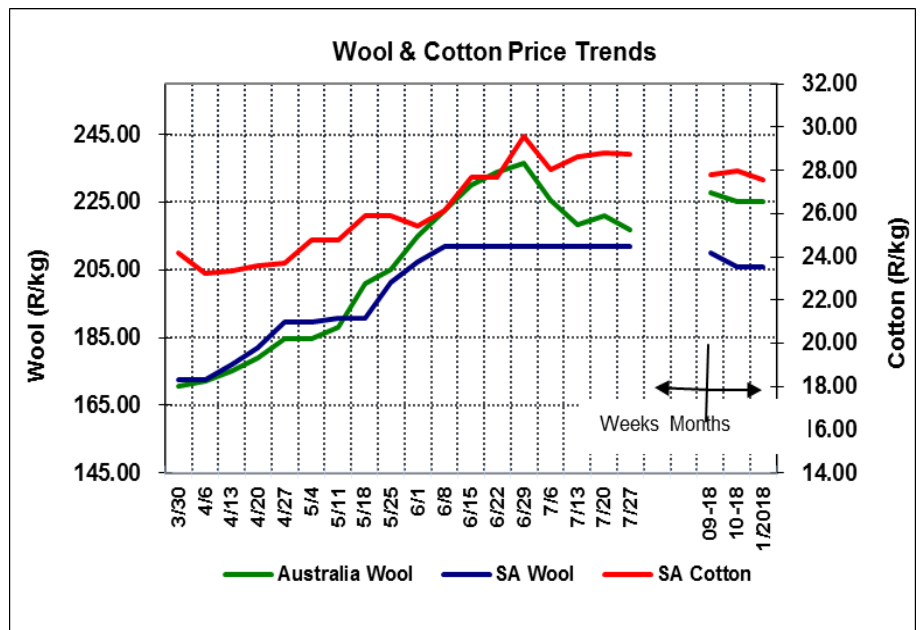
Wool market trends

International

The 29 June 2018 was the final sale of the 2018/19 season. The season performed very well, with Merino fleece reaching unprecedented prices. The 1st week of the new wool-selling season could not keep up with the prices at the last closing sale. Australian wool market traded 3% lower from AU2056c/kg to AU1994c/kg. Prices were lower across all microns.

Bullish factors

- The Merino reached new records in both price and the new end use demand. Merino is now shifting from just traditional knits to higher premium clothing such as sportswear, next to skin garments and more. The vast range will underpin prices and could help maintain high prices in the industry.
- High price of meat kept wool production low.
- Most drought-affected regions in Australia remain dry. This may have an impact on the growers' ability to keep some of his stock for further plans of wool growing.



Bearish factors

- Quality of wool capped prices. Merino skirtings added to the lower prices.
- Potential trade wars, exchange rate volatility could weigh on the market.
- Debt and credit risks in China could also weigh on the market.
- Subdued demand and buying interest from China weighed on prices.
- Over 19 200 bales were offered in Melbourne.

Domestic

The last auction was on 06 June 2018. Domestic wool market prices closed at R211.99 c/kg (clean) at the sale. Wool prices traded at record prices this season, driven by very strong demand, limited supply and very fierce competition between buyers.

Bullish factors

- Excellent demand for quality long and fine wool at the recent auction.
- Final wool delivered to broker stores was lower than the previous season deliveries.
- Wool demand is growing in the making of next to skin apparel such as baby clothes with eczema and sportswear.

Bearish factors

- Analysts do caution that some degree of a downward correction is to be expected.

Outlook

Internationally, the previous season wool prices performed very well, with Merino fleece reaching unprecedented prices. The 1st week of the new wool-selling season could not keep up with the prices at the last closing sale. Australian wool market traded 3% lower from Au2056c/kg to AU1994c/kg. Prices were lower across all microns.

Locally, lower supply, fierce competition amongst buyers for South African wool, coupled with lower seasonal delivering are all added to the bullish tone to the wool market.

The wool market ended the season on an all-time record high on 6 June 2018. South Africa has its last sale the previous week. Auctions will resume on 15 August 2018.

Cotton market trends

International

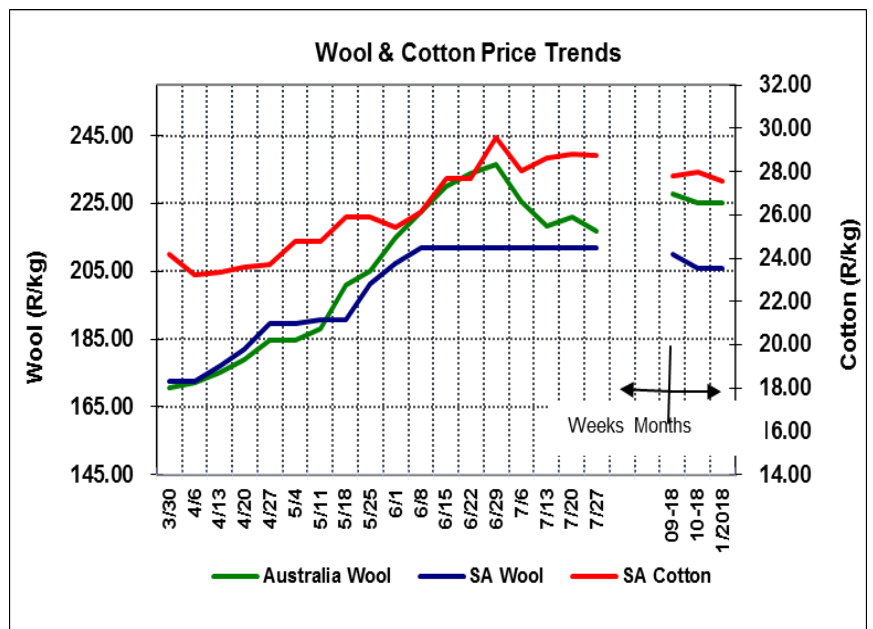
Cotton prices traded 0.82% lower over the past week and closed at US\$5.14/lb down from US\$5.16/lb.

Bullish factors

- Economic growth continues and growth in demand for natural fibres to underpin cotton demand, and supporting prices.
- ICAC's global production for the 2018/19 season is projected at 25.9 million tons (4% decline).
- ICAC's global cotton consumption is estimated to increase to a record 27.5 million tons in 2018/19 (a 4% increase y-o-y). With consumption higher, global ending stocks will also be expected to decline.

Bearish factors

- USDA forecasts that Chinese ending stocks may increase in 2018/19, which could add to the already very large China stocks.



Domestic

The derived SA cotton prices traded 0.24% lower to close at R28.73/kg.

Outlook

Internationally, Volatility in any cotton prices may be originating from movements in China. Talks of abundant stocks in the country limited gains this week. Cotton prices found support in June due to bad weather in India and West Texas reducing global supplies.

Locally, the derived SA cotton prices traded 0.24% lower to close at R28.73/kg. The world market and exchange rate movement may continue to affect the domestic market prices. Lower maize prices induced by large maize stocks and crop production coupled with renewed interest has supported cotton planting in South Africa.

Fibres market trends
Week ended 03 August 2018

Wool prices	%	SA prices (c/kg)	%	Australian prices (SA c/kg)	%	Australian future Sep 2018 (AU\$/kg)	%	Australian future Dec 2018 (AU\$/kg)
Wool market indicator	0.00	21199	-4.07	19960		-		-
19µ micron	0.00	22506	-4.76	22916	-0.90	22.00	-0.96	20.60
21µ micron	0.00	21607	-4.73	22596	-2.27	21.50	-0.97	20.50
Cotton prices 27 July 2018		SA derived cotton (R/kg)		New York A Index (US\$/kg)		New York future Sep 2018 (US\$/kg)		New York future Dec 2018 (US\$/kg)
Cotton prices	-0.24	28.73	0.51	2.16	1.8	1.96	1.3	1.95

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

