



Agricultural Outlook

Spring Edition

2018



A large, thick red curved graphic that forms a partial circle, framing the central text. It starts on the left side and curves around to the right side.

#Africanacity

Africans are remarkable.
The distinctly African ability to always
find ways to get things done.

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Foreword

Jacobus Wells, head of Absa AgriBusiness Africa



It is my pleasure to present the 2018 Absa AgriBusiness Spring Edition Outlook, which focuses on the latest trends and developments in various livestock industries.

What is particularly exciting about this edition is that it is the first one since Absa launched its new strategy and identity, as we set upon an exciting new chapter as one of Africa's largest standalone banks.

This has reinvigorated each and every one of us at Absa to do better for our clients. We are very excited about the opportunity we have to create a proud and forward-looking African business that recognises our African heritage and has global scalability. Absa has been a partner of the agriculture sector for more than 100 years, and we thus understand the complex nature of the sector and its role in Africa, as well as the opportunities that exist.

As such, we remain committed to the growth and sustainability of the sector.

Agriculture is a key driver of the South African economy. While agriculture contributes on average only 2,7% to South Africa's total GDP, it has a major impact on the entire food value chain, contributing significantly to employment, economic growth, and ensuring food security.

Some challenges expected to limit global economic growth and put pressure on South Africa's agribusiness sector in the medium term include the US-China trade war, volatile crude oil prices, and other geopolitical developments. Local producers may thus experience more competition on the export market, higher input costs and increased concerns in terms of biosecurity.

As a leading player in the agribusiness sector, Absa remains abreast of market trends, thus enabling us to offer holistic solutions to our clients. We will continue to invest in human capital, new technology and finance solutions, thereby adding value to our relationship with our clients, and ensuring that they remain competitive in the global arena.

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South African Revenue Service

Statistics South Africa

US Department of Agriculture

World Bank

Economic overview

Wessel Lemmer

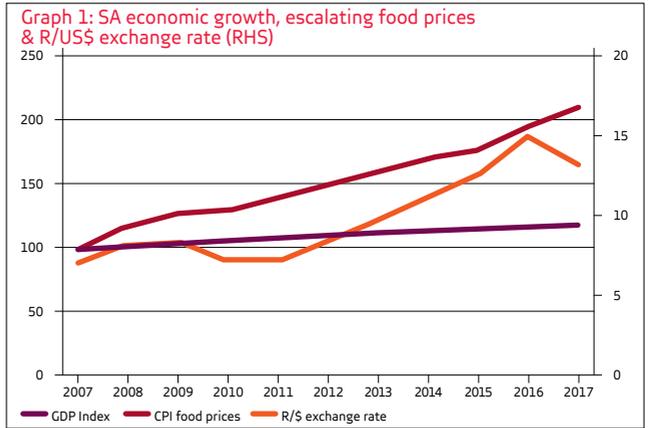
Consumers are expected to become increasingly poor as South Africa's economy continues to grow at a sluggish pace, while consumer price inflation increases (see *Graph 1*). The M3 money supply, which includes cash and credit, is set to increase. This indicates that consumer debt levels are increasing. GDP growth is expected to decline in 2019 to 1,2%, compared with the expected growth of 1,7% in 2018 (see *Table 1*). However, it is expected to increase in 2020 and 2021 to 2,1% and 2,2% respectively. Food inflation is anticipated to range between 4,7% and 5,6% in 2020, well above the expected GDP growth. Exporting producers are likely to be in a better position than those who supply solely for the domestic market. Government debt is expected to increase from

55% of the GDP in 2018 to 56% in 2020. The current state of state-owned enterprises, such as Eskom, is likely to contribute towards growing debt levels. Moreover, increased debt and poor governance will also increase South Africa's risk to be further downgraded by credit ratings agencies.

Forecasts indicate that South Africa will become increasingly dependent on imports. As such, the country's current account will continue to worsen as it struggles to finance these imports with increasingly less valuta earned from its exports. The rand is also expected to continue to weaken, as policy uncertainty, increased economic growth in the US, and increased interest rates by the Federal Reserve Bank in the US, will result in a greater outflow of

Table 1: SA economic growth, government debt, food inflation & interest rates

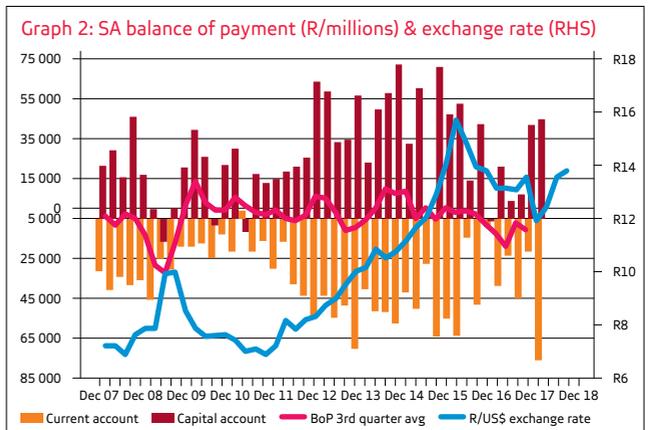
	2018	2019	2020	2021
GDP growth	1,7%	1,2%	2,1%	2,2%
Government debt	55%	54,7%	56%	56%
CPI food inflation	4,7%	5,1%	5,6%	5,5%
Repo rate	6,5%	6,8%	7%	7%
Prime lending rate	10%	10,3%	10,5%	10,5%



capital (see Graph 2). However, in the meantime, agricultural exporters will benefit from a weakening rand, while smaller-scale producers, who are largely dependent on the domestic market but still need to buy imported inputs, will eventually consolidate to gain economies of scale or exit the sector entirely.

Gross producer values

This outlook focuses on the industries in the agriculture sector that contributed 67% to the annual gross producer value (GPV) for agriculture (see Table 2 and Graph 3). The GPV for agriculture amounted to R266,6 billion in 2016/17. The crops listed in the table



below amounted to a GPV of R178,3 billion, with year-on-year (y/y) growth of 13,2% in 2016/17.

The index (see Graph 4) of the GPV of field crops, horticulture and animal products, compared

with the GPV of agriculture in total, offers perspective on the performance of these industries since 2007/08. The average growth of the GPV for agriculture was 106%,

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
GPV ¹	90 905	92 616	91 381	98 283	117 110	126 860	143 029	151 985	157 605	178 358
GPV total	129 162	134 565	132 653	144 305	168 591	184 623	209 472	224 792	243 391	266 623
% sub-total ¹	70%	69%	69%	68%	69%	69%	68%	68%	65%	67%
Growth y/y for selected crops	30%	1,9%	-1,3%	7,6%	19,2%	8,3%	12,7%	6,3%	3,7%	13,2%
Growth y/y for GPV total	31,1%	4,2%	-1,4%	8,8%	16,8%	9,5%	13,5%	7,3%	8,3%	9,5%

[1] Subtotal of the following agricultural sectors: fowls slaughtered, cattle and calves slaughtered, maize, milk, eggs, sugar cane, other livestock products, sheep and goats slaughtered, wheat, soya bean, pigs slaughtered, wool, mohair, and cotton.

compared with the GPV growth of field crops at 61% and horticulture at 157%.

Soya bean

Over the past 10 years, the GPV for soya bean increased by more than 600%, which was the most of all the other agricultural commodities examined in this outlook. The establishment of additional crushing capacity resulted in fewer soya bean oilcake imports, which led to a growth in production.

Thus, domestic growth in soya bean production and processing will largely depend on the country's ability to substitute imports in favour of local supply.

Cotton

Compared with other agricultural industries, the domestic cotton industry remains small. However, the GPV increase of cotton was the second largest compared with the other industries examined in this outlook, with the cotton GPV increasing more than 204% over the past 10 years. While the cotton industry is expected to continue to grow, given its increase of 40% in 2016/17, the future growth of the local industry will largely depend on the growth of consumer demand for cotton on the export market. As consumers are becoming more environmentally conscious, and prefer natural fibres over synthetic products, demand is expected to improve. Moreover, the quality and traceability of the locally produced,

socially-responsible cotton lint are preferred worldwide. However, the limited gins and on-farm cotton picking capacity hampers the availability of cotton supply for the export market.

Wool

Over the past 10 years, the GPV for wool increased 203%. During 2018, local wool growers received record prices, and it is expected that these prices will remain firm globally. Drought, depleting flock numbers globally, and a general shortage of wool to meet the growing demand for natural fibres, will continue to support prices. An improvement in rainfall in the drought-stricken wool production regions of South Africa will support the future GPV for wool.

Pork

Over the past 10 years, the GPV for pork improved 168%. At the end of 2017, the industry achieved unprecedented record prices.

However, prices dropped to below breakeven levels after the detection of listeria in meat-processing facilities, and with consumers subsequently associating these facilities with pork products. As such, local demand for pork products declined.

The industry is still suffering from the lower turnover in 2018. The future growth of the industry will depend on improved biosecurity measures, the tracking and traceability of products, and reliable communication by authorities on food safety in the meat-processing industry.

Red meat & poultry

The poultry industry, which includes slaughtered fowl and eggs, is the largest agricultural industry in GPV in South Africa.

The broiler and layer industries grew 113% and 107% respectively since 2007/08. The GPV growth of the red meat industry, which includes slaughtered cattle, calves, sheep and goats, was between 154% and 156% since 2007/08, and amounted to R40,8 billion, compared with the poultry industry at R50,7 billion. Failure to address biosecurity issues in the red meat industry with regards to Rift Valley fever, foot-and-mouth disease and anthrax may have an impact on the demand for exports.

Moreover, the drought has had a negative impact on herd numbers, limiting the production of weaner cattle and feeder lambs for the next two production seasons. This will continue to support weaner cattle and carcass prices.

The growth of the poultry industry is limited by import tariffs, with increased imports likely to meet local demand. This will limit improvement in the GPV of poultry in the future.

The GPV of the red meat industry is likely to increase, and will likely eventually exceed the GPV of the poultry industry.

Dairy

The GPV of the dairy industry grew 125% over the past 10 years.

Local supply of dairy products generally manages to meet increased consumer demand, and producers' adjustments in supply

have led to improved production and lower prices.

Due to industry competitiveness, inland dairies that are dependent on full-feed rations are less competitive than those that produce their own maize, soya bean and animal feed. As a result, these producers will continue to exit the industry, while those who have sustainable dairy farms will benefit from sufficient economies of scale. The duty-free imports of products from the EU, such as UHT milk, and increased biosecurity measures will continue to limit the growth potential of the domestic dairy industry.

Sugar

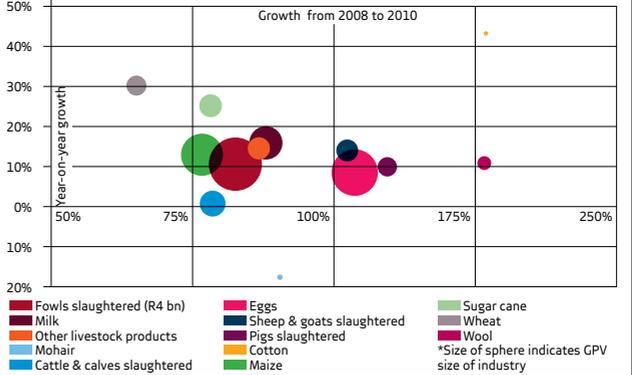
Since 2007/08, the GPV of the sugar industry increased 106%; however, the sugar industry is dependent on the current tariff regime to survive financially.

Low-cost imports, due to global surplus, will continue to hamper the local industry. The industry thus needs a sufficient reference price to curb cheap imports.

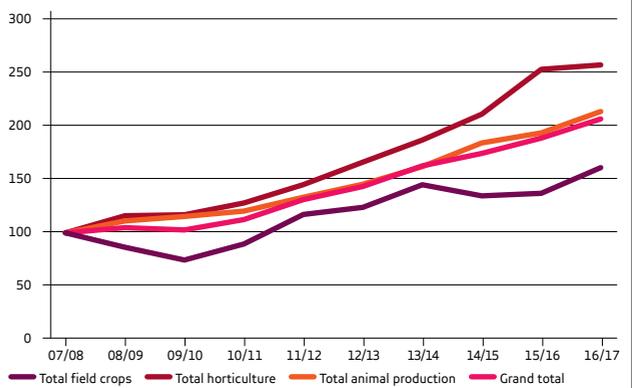
Maize

The GPV of maize varies according to production, which is largely affected by dryland production conditions, as well as the volatile price difference between import and export parity. Using data from three-year averages since 2007/08, the industry's GPV growth was below average at 36%. Due to the high cost of maize imports, producers must maximise production by

Graph 3: Agricultural industries that contributed 67% to the gross producer value for agriculture



Graph 4: Index for agricultural crops (basis year: 2007/08)



planting genetically modified varieties to lower the production cost per unit. As a result of favourable weather conditions, farmers produced a surplus that must now be exported. However, the export price is often lower than production costs. Thus, producers will have to increasingly depend on the diversification of their farm operations, and introduce livestock, game and alternative crops to limit their exposure to the maize market.

Wheat

Over the past decade, the production of dryland wheat declined substantially in the summer rainfall production regions, with producers at the coast competing with lower-priced imports. The production of wheat is thus not sustainable without a sufficient import tariff.

In rand value, wheat is the second-largest field crop, but has grown the least over the past 10 years.

Production inputs

Wessel Lemmer

Overview

The global oversupply of fertiliser is having an impact on global prices. China, the world's largest producer of fertiliser, is facing increased competition in phosphate exports from Morocco and Saudi Arabia, and nitrogen exports from the US.

South Africa imports the majority of its agricultural inputs, including fuel, fertiliser and pesticides, and global prices for these inputs increased significantly between 2017 and 2018. Over the next two years, it is expected that the weakening rand against other major currencies will be the largest contributor to future local price increases, while the annual increase in global prices is expected to be less severe. In order to consistently produce improved yields, South African producers are required to frequently apply fertiliser, particularly nitrogen.

As South Africa imports all its urea, as well as a percentage of its phosphate in the form of MAP (mono-ammonium phosphate),

the increase in price will have a negative effect on profit margins.

Urea

International

Urea is derived from ammonia, a compound of nitrogen and hydrogen, which is produced from natural gas. The development of gas fields in the US led to surplus production, resulting in a global price decline in urea of 0,5% in 2018. It is expected that price increases will be limited to 2,7% in 2019 and 2,6% in 2020.

Domestic

Transport and other administrative costs, which account for up to 40% of the final price of fertiliser, will make the largest contribution to the expected increase in local price.

Thus far, the rand has weakened 4,9% in 2018 y/y, and the crude oil price increased 21,1%. The local urea price is anticipated to increase 2,7% in 2019 and 2,6% in 2020, while the price of crude oil is expected to decline 4,6% in 2019, and a further 2% in 2020.

This will likely result in lower transport costs for fertiliser in 2019 and 2020. However, the global price increase for crude oil and the weaker rand will significantly increase the price of all fertilisers in the short term.

Phosphate

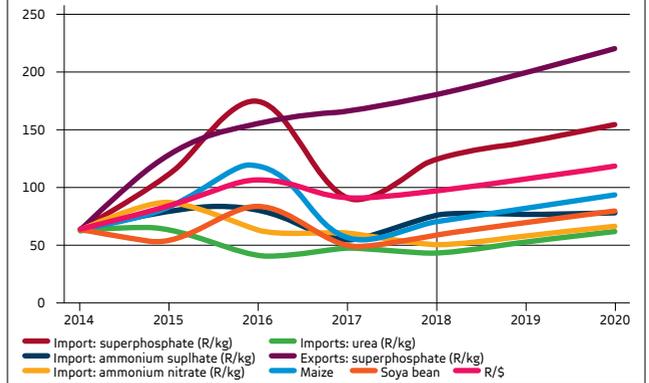
International

Prices for phosphate declined 2,1% y/y in 2018. It is expected that prices will increase 2,1% in 2019 and 2% in 2020. The price of diammonium phosphate (DAP) significantly increased by 20,3% in 2018, but price increases should be limited to 1,3% in 2019 and 1% in 2020.

Domestic

The increase in the global price for phosphate, as well as fuel price increases and a weaker rand, will result in a significant price increase for local phosphate. However, price increases are expected to be more subdued during 2019 and 2020.

Graph 5: SA fertiliser imports (price index basis year: 2014)



Crude oil

The price of crude oil already increased 21,1% y/y in 2018, but prices are likely to decline 4,6% in 2019 and 2% in 2020.

However, significant increases in diesel and fertiliser prices are expected for the rest of 2018.

The future increases in fertiliser cost will mostly be driven by a weaker rand.

Chemicals

Terms of trade for maize producers are expected to improve for super phosphate, ammonium sulphate and ammonium nitrate.

However, the terms of trade for chemicals will likely weaken significantly.

The price for insecticides is expected to increase 16,7%, while fungicide and herbicide prices are expected to increase 12,5% and 11,3% in 2018 respectively.

Outlook

It is expected that the global use of fertilisers will decline over the long term, largely due to

Table 3: Global price increases for energy commodities & fertiliser

	2018	2019	2020
	% change y/y		
Natural gas	0,0	3,2	3,1
Crude oil	21,1	-4,6	-2,0
Urea	-0,5	2,7	2,6
Phosphate	-2,1	2,1	2,0
DAP	10,3	1,3	1,0
Potassium chloride	1,9	3,1	3,5
Rand/US\$	4,9	6,0	5,7

Table 4: SA price increases (%) for imported fertiliser & locally produced maize & soya bean

	2018	2019	2020
	% change y/y		
Superphosphate	22,1	8,1	7,7
Urea	-3,6	9,3	8,9
Ammonium sulphate	17,8	1,3	1,0
Ammonium nitrate	-8,3	7,8	7,1
R/\$	4,9	6,0	5,7
Maize	11,9	8,4	8,6
Soya bean	8,8	8,7	8,0

Table 5: SA price increases (%) for imported pesticides & locally produced maize & soya bean

	2018	2019	2020
	% change y/y		
Herbicides	11,3	9,7	6,9
Insecticides	16,7	15,2	12,3
Fungicides	12,5	10,8	7,3
R/\$	4,9	6,0	5,7
Maize	11,9	8,4	8,6
Soya bean	8,8	8,7	8,0

the CAP-reform in the EU, the growing integration of the Internet of Things, and big data technology, which will result in lower input use.

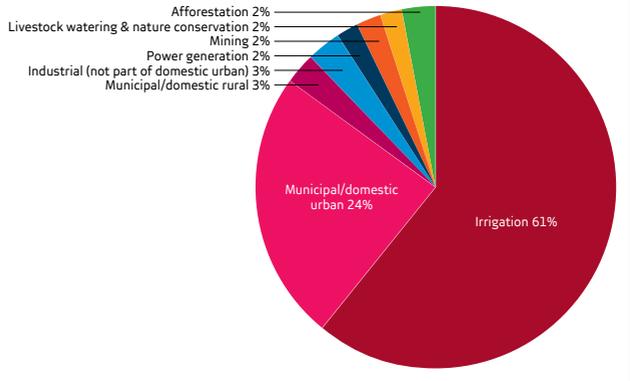
It is also expected that the price for potash will increase 1,9% in 2018, 3,1% in 2019 and 3,5% in 2020.

Water

Dr Langa Simela

South Africa is the 39th driest country in the world, with an average annual rainfall of 465mm, compared with the world annual average of 990mm. Moreover, South Africa has less water available per person at 843m³/annum than its drier neighbours Namibia and Botswana. Despite this, South Africans use 64ℓ more per person/day than the world average of 173ℓ/person/day. The current realisable yield of surface water supplies about 10,2km³ per annum, about 21% of total run off, of which 70% is stored in the country's 252 largest dams, and the remaining 30% stored in 3 832 smaller dams. Underground water contributes an additional 2km³ to 3km³ per annum. Irrigation is the biggest user of water and consumes about 61% of total supply, followed by municipal and domestic use at 27%. Industrial use outside of urban areas, power generation, mining, livestock, watering, nature conservation and afforestation each use around 2% to 3% of water.

Figure 1: SA's current water use by sector



At the current rate of utilisation, South Africa will suffer a 17% water deficit by 2030. The looming water crisis is a result of increasing demand, inadequate maintenance of water infrastructure, and under-investment in water infrastructure, and is exacerbated by climate change. It is estimated that South Africa will need to invest R89,9 billion/year to achieve the desired level of water security by 2030, but the country is currently spending R33 billion less than is required.

Plans for change

The Department of Water and Sanitation (DWS) has drawn up a National Water and Sanitation Master Plan, which is intended to guide the water sector in terms of investment planning for the development of water resources and the delivery of water and sanitation services by 2030. These planned interventions focus on reducing water leakage, using surcharges to curb demand, and clamping down on illegal abstraction by 2023.

By 2025, construction of the Lesotho Highlands Water Programme Phase 2, augmentation of the Voëlvelei Dam, uMkhomazi Water Project, Thukela-Goedertrouw Water Transfer Scheme, and the Lower uMkhomazi Scheme should all be completed. The proposed interventions are described below:

1. Reducing demand, increasing supply

It is estimated that dilapidated municipal infrastructure results in a 35% loss before the water reaches the consumer. Moreover, water losses of as high as 27% occur from irrigation schemes, whereas unavoidable seepage and evaporation from more efficient concrete canals result in losses of up to 12%. Planned interventions are likely to increase available water from the 13 949km³/year in 2015, to 15 926km³ by 2030. However, this will only be effective if South African consumers also lower their per capita usage to the world average to ensure a positive impact on the water balance, with a saving of 0,47km³ per annum.

2. Redistribution of water

The plan states that more than 70% of commercial farms are owned by established commercial farmers, who use 95% of the water allocated to the agriculture sector. This intervention aims to identify available water that can be allocated to black farmers, and reallocate this water from 2018. Target sources include closing mines, new developments

of small dams or groundwater extraction, any savings from government irrigation schemes, and alignment of the water, land and agrarian reform programmes to the Irrigation Strategy of the Department of Agriculture, Forestry and Fisheries.

3. Managing effective water & sanitation services

This intervention focuses on supplying clean water to end users and recycling used water.

Currently, 56% of the 1 150 wastewater treatment plants in South Africa do not function properly, while 44% of the 962 water treatment works are in poor or critical condition. This limits access to safe water. For the next five years, the planned key actions of this intervention centre on enhancing managerial and technical capacity at municipal level to effectively operate, maintain and manage water supply and sanitation services.

4. Regulation of water & sanitation sector

This intervention intends to improve the coordination between technical, governance and economic water regulations to ensure the provision of reliable, universal water supply and sanitation. Special focus is on ensuring affordable access to water by the poor and curbing illegal water use. It also intends to replace the existing Lawful Use Act with water licences by 2028, and to review the raw water pricing strategy to move towards more

realistic water tariffs, as well as to implement a waste discharge charge by 2020.

5. Improving raw water quality

Key concerns are the impact of mining, industry, agriculture and poorly operated and maintained municipal wastewater treatment works on the deteriorating water quality. Megatrends, such as hydraulic fracturing and the growth of inadequately serviced populations, increase the stress on water quality. This also includes excessive use of fertilisers and agrochemicals.

The goal for 2030 is that water must be safe for use. Lawful and safe discharge of all contaminated water and integrated water quality management should thus be attained. Key actions include strong enforcement of licence conditions to prevent pollution of raw water by 2023.

6. Protecting & restoring ecological infrastructure

Key ecological infrastructure that make up critical water assets are under pressure. Around 50% of South Africa's water originates from only 8% of the land, which should therefore be protected from degradation.

Moreover, the ecological condition of rivers has deteriorated severely, and wetlands are disappearing. Key actions over the next five years therefore include protection of strategic water resources, restoration of ecological infrastructure, and reduction in pollution.

7. Creating effective water sector institutions

The institutional arrangement of the water sector is currently overly-complex and inefficient. For example, DWS is a policy maker, regulator, implementer, and operator of water resource infrastructure, and acts as a catchment management authority in most of the country. There is thus a need to simplify the institutional arrangement and devolve more local functions to local institutions. Important proposals are the establishment of a National Water and Sanitation Infrastructure Agency to develop, operate and maintain national water infrastructure.

8. Managing data & information

Inadequate data and information that result from weakening monitoring systems pose high risks to decision making and planning. Improved data and monitoring systems should thus be developed. Key actions include the refurbishment of gauging stations by 2027, and monitoring rainfall, streamflow, dam levels and key water quality parameters, as well as ensuring the correct capture and storage of up-to-date water use records by 2020.

9. Building capacity for action

Underlying all proposed interventions is the need for institutional capacity and staff equipped with appropriate skill sets. The plan proposes a number of modified training programmes, which incorporate recruitment,

Table 6: Provisional water balance with and without critical interventions

Water-use sectors	2030 water requirements projections (millions/m ³)		
	Without demand management interventions	With urban losses reduced from 35% to 15%	Reduce domestic demand from 237ℓ/consumer/day to 173ℓ/consumer/day
Agriculture (irrigation & livestock watering)	9 700	9 700	9 700
Municipal (industries, commerce, urban & rural domestic)	5 800	4 941	3 696
Strategic/power generation	430	430	430
Mining & bulk industry	1 017	1 017	1 017
International obligations	178	178	178
Afforestation	434	434	434
Total water requirements (2030)	17 559	16 700	15 455
Total water available (2015)	13 949	13 949	13 949
Increased surface water yield	874	874	874
Increased groundwater use	405	405	405
Desalination (including treated acid mine drainage)	588	588	588
Re-use	110	110	110
Total water available (2030)	15 926	15 926	15 926
Deficit/surplus	-1 633	-774	471
Deficit/surplus (%)	-10%	-5%	3%

retention and development training, for municipal water managers and technical staff in water institutions.

10. Ensuring financial stability

To manage the R33 billion/year funding gap, DWS proposes cost-reflective tariffs for water users, reviewing subsidised water use, particularly by agriculture, in line with the socio-economic impact on food security and implementation of the use-it-or-lose-it policy.

11. Amending legislation

Key legislation that impact on the water sector are the National Water Act No. 36 of 1998, which governs the use, protection development, management and control of raw water; the Water Services Act No. 108 of 1997,

which governs the provision of water and sanitation services; the Water Research Act No. 34 of 1971, which established the Water Research Commission; and the National Water and Water Services acts that have been amalgamated into the Water and Sanitation Bill, which makes provision for changes in legislation that are proposed in the master plan.

12. Enhancing research, development & innovation

The research, development and innovation system will support the development of new solutions, technologies and evidence to inform policy and further advances in research.

Weather

Johan van den Berg

One of the distinct features of Southern African rainfall is its highly variable nature, which makes it very difficult for farmers to plan accordingly. Moreover, the sequence of consecutive drier and wetter seasons is also problematic, with below average rainfall for five or more consecutive years, especially in drier provinces, not uncommon. This can have devastating effects on farming activities and financial sustainability. At the end of June 2018, forecasts indicated a more than 50% probability for the occurrence of another El Niño event, expected to start in winter/spring 2018, and likely to last until autumn 2019.

The El Niño Southern Oscillation is not the only factor that determines rainfall; the Indian Ocean surface temperature also plays an important role.

The current forecast for this suggests neutral conditions. This is likely a positive indicator for rainfall, and may soften the effect of El Niño later in the season.

If El Niño develops, it is likely that the summer rainfall region will receive early spring/summer rain. However, there is also a significant increase in the probability for below average rainfall and above average temperatures for November 2018 to February 2019.

The summer rainfall region received good rain earlier in the year. This has improved soil water conditions, which are thus favourable for the start of the summer crop season. Most dams are also near full capacity. The favourable state of surface and subsurface water conditions will soften the effect of possible drier conditions.

While the Cape received good, timely rainfall, there are still concerns about the probability of rain for the rest of the season, particularly in the Southern Cape.

Longer-term trends

An analysis of historic rainfall data for South Africa indicates a semi-cycle of consecutive below average and above average rainfall

periods respectively. It is likely that the summer rainfall region will experience a series of improved rainfall over the next few years, following a series of dry seasons.

However, an El Niño event may postpone this for a while, but it is also possible that the expression of El Niño in terms of rainfall may not reach extreme deviations.

The sunspot cycle is also now reaching its lowest point, and the five to six years of rising sunspot activity will likely coincide with improved rainfall.

It is possible that the current drought in the winter rainfall region may persist, considering the dry spells that occurred in three- to eight-year periods in the past. El Niño usually improves rainfall for the Western Cape. However, improved rainfall may last for only one season, before the province is faced with below average rainfall again. The proper management of water is thus very important, and farmers should harvest and store as much as possible during times of good rainfall.

Botswana

Yamkelani Ngxabi

Overview

Botswana is one of the least populated countries in Africa with only 2,3 million people. The economy is mainly driven by diamond mining and tourism.

Botswana's economy has continued to recover after a setback in 2015, when the GDP contracted 1,7% due to weaker demand for diamond exports, severe drought, and persistent electricity and water supply shortages. However, real GDP growth increased from 4,3% in 2016 to an estimated 4,5% in 2017, largely driven by broad-based expansion in non-mining activities, such as water and electricity production; trade; transport and communication; and construction. Agriculture contributes less than 5% to the GDP. About 80% of Botswana's agricultural output is derived from livestock production (mainly beef), which, through the Botswana Meat Commission (BMC), has access to export markets. The country's agricultural potential is limited due

to the Kalahari occupying a large part of the country. Subsistence farming is prevalent, with fewer than 1 000 commercial farming enterprises. Crop production is produced on less than 1% of the total land area, with maize, sorghum, millet and pulses in production.

Livestock

Botswana's beef industry generates 80% of its total income from the export of 20% of its total beef production, but operates mainly in a closed market economy, with the BMC forming the main distribution channel of meat to the European market. The current EPA between the EU and some African countries allows Botswana, Lesotho, Mozambique, Namibia, and Swaziland duty-free access to the European market. BMC's facilities consist of an integrated complex, with an abattoir, as well as canning, tanning and by-product plants. Currently, BMC's prices for EU-compliant cattle and non-EU compliant cattle ready

for slaughter and exporting are P33/kg (R44,92/kg) and P29/kg (R39,48/kg) respectively. It is expected that livestock production and prices will increase over the next five years due to increased demand from neighbouring countries, namely South Africa, Angola, and Mozambique, as well as countries further abroad such as the UAE and Hong Kong. The increase in production and consumption is also supported by population and GDP growth. However, foot-and-mouth disease (FMD) outbreaks have slightly crippled the beef industry, with a decline from 2015 in trade value.

Sorghum

In a good year, local farmers are able to produce only about 20 000t. From 2016 to 2017, Botswana produced a significantly smaller crop as unseasonal dry spells resulted in planting plummeting 98%. To mitigate these effects, government extended its P600 million (R816,75 million) agricultural inputs programme

for communal farmers to boost planting. As a result, production is expected to increase during the 2017/18 season.

The country relies entirely on sorghum imports to meet demand. Consumption has remained fairly constant between 2006 and 2017, with an increase of only 10 000t. Consumption is expected to rise moderately over the next five years.

Trade

Botswana is a net importer, and imports sorghum mainly from Zambia and South Africa. In the 2006/07 season, the country imported around 20 000t, peaking at around 54 000t in the 2012/13 season. This reduced sharply in 2014/15 due to Botswana's economic setback and drought in its neighbouring countries.

Outlook

Botswana is expected to remain a net importer of sorghum. However, production and

Table 7: Botswana's cattle holdings, population, births & deaths

Regions	Cattle population			Cattle inventory	
	Male-owned	Female-owned	Total	Births	Deaths
Southern	154 704	29 706	184 410	45 360	12 572
South-East	4 654	871	5 525	1 386	306
Kweneg	194 338	25 217	219 555	55 346	12 297
Kgatleng	74 681	16 242	90 923	22 120	5 652
Central	635 671	108 488	744 159	179 305	42 627
North-East	18 736	9 646	28 382	6 806	1 723
Ngamiland	199 636	38 496	238 132	60 786	21 643
Ghantsi	59 665	100 559	69 725	19 780	4 710
Kgalagadi	97 021	1 153	108 174	30 348	8 448
Total traditional	1 439 106	249 878	1 688 984	421 235	109 978
Total commercial			383 699	88 986	12 354
Grand total			2 072 683	510 221	122 332

Table 8: Botswana's beef trade values (US\$ '000)

Year	Export values		Import values		Trade values	
	Fresh/chilled	Frozen	Fresh/chilled	Frozen	Fresh/chilled	Frozen
2013	40 892	74 678	527	750	40 365	73 928
2014	50 254	64 392	628	1 369	49 626	63 023
2015	62 664	53 642	224	239	62 440	53 403
2016	53 469	51 665	226	509	52 203	51 158
2017	41 375	39 189	400	334	40 975	38 855

consumption are expected to increase due to economic recovery and government support.

Soya bean

Botswana produces an annual average of 10 000t of soya bean, and is a net importer. Government increased the local soya bean price

to P700/50kg bag (R953/50kg bag) to encourage local farmers to produce enough to meet the requirements of the government feeding schemes.

Beef

Karabo Takadi, Erik van Papendorp & Casper Gilfillian

International

Global beef and veal production (see *Graph 6*) is expected to grow marginally in 2018, mainly due to increased production in Brazil, the US, and Argentina. Production growth in Brazil is driven by higher carcass weights, stronger domestic demand, and record exports. Drought conditions in the US have also led to an increase in the slaughter rate. Some beef farmers in the US may be forced to liquidate herds if the weather does not improve, which will increase global supply. Dry weather conditions in Argentina will force some producers to market cattle earlier than usual, with the higher slaughter rate expected to marginally boost production. Australia's unfavourable weather conditions and poor pastures will slow the country's herd rebuilding efforts, while higher carcass weights will boost production. Dry conditions will also increase the slaughter rate in Australia, leading to an increase of beef on the global market.

Consumption

The per capita consumption of beef and veal decreased almost 5% between 2008 and 2017. However, consumption is expected to recover over the next 10 years, improving 3,5%. The greatest growth in consumption is expected to come from China. Consumption in low-income regions that currently have low per capita consumption levels of meat, such as sub-Saharan Africa, is not expected to increase significantly due to a lack of sufficient growth in income. Some emerging economies, particularly China, have already transitioned to relatively high levels of per capita meat consumption.

Trade

Major exporters, namely Brazil, the US, and Australia, are looking to increase their export volumes, and pressure on supply will thus become increasingly evident. Global exports are forecast to increase almost 5% in 2018. Robust demand from China

and Hong Kong will continue to increase as stagnant domestic production is unable to meet rising consumer demand.

Prices

An increase in per capita income in China and other emerging economies has improved the demand for meat. This, in turn, has led to greater livestock production, which has boosted the demand for animal feed on the global market. This has contributed to real agricultural prices remaining above levels seen in the early 2000s, and the current large supply of animal protein is thus putting pressure on prices. However, the rebuilding of herds in the US, Argentina and Australia will likely support prices in the long term.

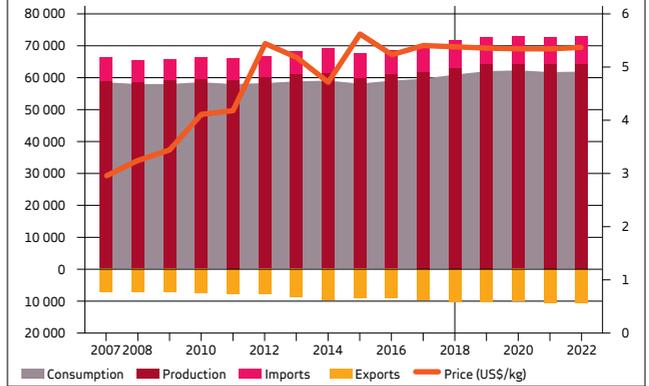
Outlook

Greater global beef supply, as well as greater supply for other meat products such as pork and poultry, is weighing on the beef market. Trade is expected to reflect growing demand and accessibility, as well as competitiveness.

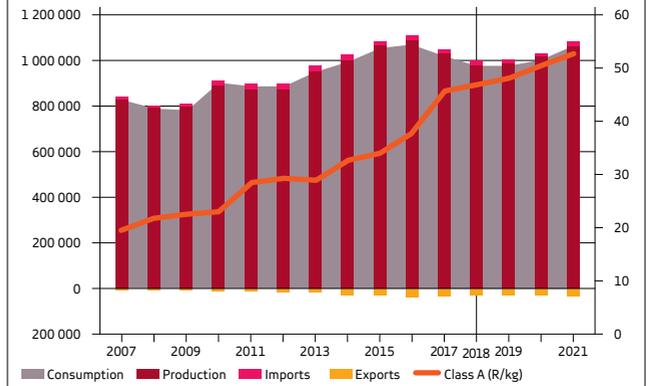
Domestic

The gross production value (GPV) of the total animal products produced in South Africa increased 10% (y/y) to R126,6 billion in 2016/17, while the GPV of slaughtered cattle and calves amounted to R33,3 billion. This represents a 26% share of the GPV of all animal products, including meat, fibre, eggs and milk. Despite the drought, the GPV of slaughtered cattle and calves increased 9% y/y. Over the

Graph 6: Global beef & veal production ('000t) & price (RHS) trends



Graph 7: SA beef production (t) & price trends (RHS)



past five years, production has declined, with the drought having a negative effect on current cattle numbers. Higher beef prices impact the rebuilding of herds, with replacement heifers and cows being sold on auction to supply the shortfall in the market. The local cattle population has dropped from an estimated 13,9 million head in 2012, to 13 million head in 2017. Stricter regulations also restricted imports, resulting in limited supply on the local market. South Africa imports beef mainly from Namibia

and Botswana, which accounted for an estimated 2% of the total local market supply at the end of 2017.

Good rain was received at the end of summer 2017, which will assist with the recovery of current herd numbers and production. However, it can take up to five years for the national herd to get back to previous levels.

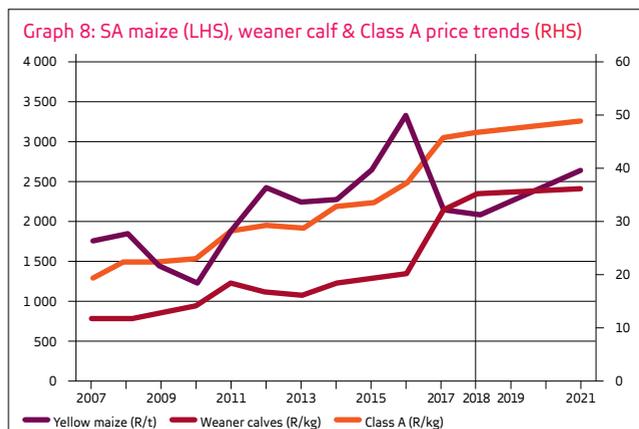
Consumption

Consumption has remained stagnant, and has shown only modest gains over the past four

to five years, as the beef price is generally higher than other meat types. Moreover, meat consumption usually increases in relation with per capita income. As it stands now, South Africa's economy is growing modestly, and consumers remain under pressure. The latest VAT increase has also placed additional pressure on consumers, and has led to an increase in meat and meat product prices at a time when red meat prices are already trading higher than usual. Currently, the beef price is at a record high due to farmers rebuilding their herds. Beef will also face increased competition from cheaper protein sources, such as poultry and pork, as a poor economic outlook and increasing costs encourage consumers to buy cheaper proteins. Local meat exports have increased over the past few years, with the weakening rand supporting the demand for South African beef. South Africa's control of foot-and-mouth disease (FMD) also increased exports and supported demand. However, the listeriosis outbreak may have a negative effect on current beef consumption if pork prices remain at low levels.

Trade

South Africa imports over 300 000 head of cattle from Namibia every year, with a total of 313 401 imported from Namibia during 2017. The recent FMD outbreak, however, led to a decrease in imports. This, as well as the drought, resulted in limited supply on the local market. Moreover,



stricter regulations on Namibian beef imports, such as the traceability of cows and unsafe breeding practices, will likely have a negative effect on cattle supply over the long term.

It is expected that South Africa will import more beef from Botswana over the next year, as the country has a great oversupply of cattle. Low economic growth and increased red meat prices will likely open the market for cheaper meat, such as chicken. This, as well as increased imports from Botswana, will have an effect on the demand for red meat.

Price

There has been a significant increase in red meat prices following the drought. Feeding margins were positive for most of 2017 on the back of low feed costs, which was a result of lower grain prices. During this time, the industry achieved its best margins in 10 years. This provided much needed relieve

from 2016, in which feeding margins experienced severe pressure and were trading below breakeven levels. Maize is one of the largest cost factors in feedlots. As such, the lower maize price has lessened the cost burden on feedlotters.

The average price for weaners was R32,24/kg in 2017. This is the largest average yearly price on record, and is 58% higher than the average price in 2016.

Lack of quality weaner supply supported local livestock prices for most of the year, with the average beef Class A price increasing 21% in 2017 compared with the average price in 2016.

Outlook

Livestock prices increased significantly over the past year, and weaner prices reached record levels due to strong demand and limited supply. The lower feed price and farmers holding back weaner calves to rebuild herds will result in high carcass prices over the medium term.

Mutton

Karabo Takadi, Wessel Lemmer & Pieter de Jager

International

China is the world's largest producer, consumer and importer of sheep meat.

The export market is very concentrated, and currently dominated by Australia and New Zealand, which are also the second- and third-largest sheep producers in the world.

Production in these two countries declined marginally in 2017. During the 2017/18 season, increased sheep turn-off as a result of poor weather resulted in an increase of sheep meat production in Australia, with the drier conditions leading to a higher slaughter rate.

High prices for sheep meat are expected to continue, which may provide producers with the incentive to balance lamb turn-off with flock rebuilding. New Zealand's flock numbers are expected to further drop, despite the rate of decline having levelled. Favourable breeding and lambing conditions during 2017 are expected to marginally increase

supply on the global market in 2018. However, supply will remain low, which will support prices.

Consumption

China was the world's largest importer of sheep meat in 2017. Consumption here is expected to remain strong over the coming years, which will be largely driven by the growing middle class. China's demand for imports can be volatile, and is often heavily affected by domestic production, with reports suggesting that production in 2017 had declined.

The modern retail sector and up-market hotel and restaurant sectors may also contribute to the increase in demand for sheep meat. Global consumption is also expected to increase, particularly in developing countries.

Sheep meat will remain a niche market in most countries, despite a per capita consumption growth of 8% over the next 10 years, which will be mainly concentrated in China and other Asian countries.

Trade

New Zealand and Australia produce 72% of the world's total exports. From 2007 to 2017, New Zealand's exports fell 15% when sheep farms in the country were converted into dairies. The rate of conversion has since slowed. New Zealand's sheep meat production is expected to stabilise in 2018/19, and will continue to strongly compete with Australia.

Prices

Future sheep production is optimistic, with record-high prices for wool, lamb and mutton. Limited supply on the global market is expected to continue to support prices in 2018. Meanwhile, global demand is expected to improve.

In 2017, Australian prices for sheep meat were the first to increase, with New Zealand's prices quickly following suit. Australia's prices have been strong throughout 2017, and are expected to remain strong in 2018. However, a drop in the prices of other protein sources may remain

a threat to lamb and mutton. Demand for New Zealand's sheep meat is expected to remain strong as a result of lower production in that country. The increase in global demand and limited flock rebuilding rates are expected to support producer prices.

Domestic

During 2015/16, South Africa experienced drought, which led to the liquidation of the national flock. Good rainfall during 2016/17 boosted pasture recovery, allowing for the rebuilding of flocks. As a considerable amount of sheep was slaughtered during the drought, the local market is currently experiencing supply constraints, with 9% less head of sheep slaughtered during 2017 compared with 2016. Fewer sheep have also been sent to abattoirs thus far in 2018. Moreover, sheep numbers are declining due to the persisting drought in large parts of the Karoo, as well as predation and stock theft. Producers in Ermelo, Mpumalanga, are reportedly

moving away from sheep production due to increased theft levels. As a result of the drought, the conception rate of ewes has declined from about 95% to around 70%. Therefore, production has been on the decline since 2016. South African sheep farming is concentrated in the Northern and Eastern Cape, Western Cape, Free State and Mpumalanga. Although good rain occurred in many regions of the country during 2017/18, there were areas in parts of the northern and southern Karoo that received little or no rain. There is huge demand for good-quality breeding ewes. The availability of ewes of any breed is currently very limited, and, if available, are also very expensive. Unproductive ewes have also already been sold, leading to fewer stocks on the market. Producers will likely keep back ewe lambs for flock building, which may lead to a further decline in the slaughtering rate.

Production in the short to medium terms is thus expected to decrease. Due to this, prices

are expected to remain high. Farmers will likely remain under financial pressure for the next 10 to 12 months, even if good rain is recorded. This is because they will have to rebuild their flocks, which means that the first offspring will only be available in a year's time. The lower maize price in 2017 led to a decline in feed costs.

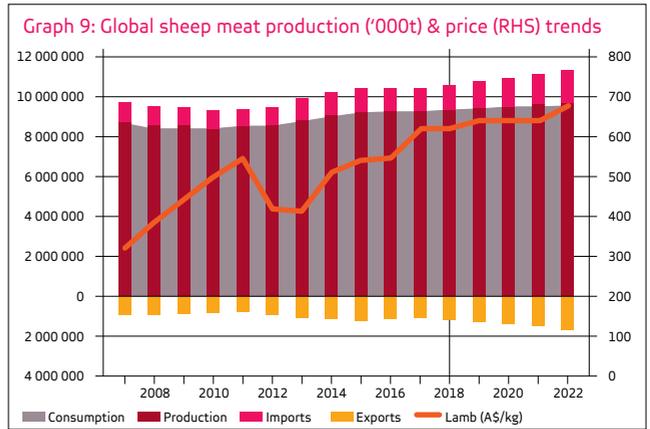
This, coupled with high meat prices, has resulted in greater profitability for producers.

Consumption & trade

Lamb and mutton remain the most expensive meat on the market. As such, consumer resistance to higher prices may increase price risk. From 2016 to 2017, consumption declined roughly 3%. This is a result of escalating sheep and lamb meat prices, flock rebuilding, and dwindling supply.

South Africa is a net importer of mutton, as it imports much more than it exports.

The country cannot meet local demand, and will thus continue to rely on imports.



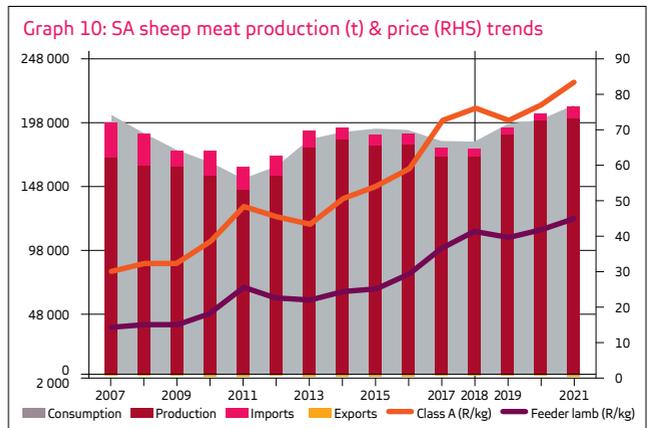
Prices

The average Class A carcass price for lamb increased 23% from 2016 to 2017. This was mainly due to the drought and its impacts. Lamb and mutton prices reached a record high in 2017, and still remain at high levels. Long-term trends show that lamb and mutton prices have been steadily increasing over the past decade.

The average price for feeder lambs increased 25% from 2016 to 2017. The depleted national flock, which has led to greater retail prices, and lower feed costs have contributed to gains in the feeder lamb industry. Feeding margins were also positive for most of 2017 on the back of lower feed costs, which was a result of lower grain prices.

Producers are currently achieving good returns in terms of high meat prices, as well as an increase in the wool price.

Merino farmers earn about two-thirds of their income from meat, and the high wool price has thus improved their profitability.



Outlook

Indications are that profit margins for sheep feedlotters is under increased pressure, due to consumer resistance to high retail prices, while the higher prices for weaner feeder lambs impact negatively on the long-term profitability of feedlots. However, the industry is expected to continue to benefit from high meat and wool prices. Limited supply is also expected to support red meat prices. It is recommended that producers reduce their debt

levels over the next two to three years when prices are still high and favourable in order to remain in business over the long term.

Biosecurity management must be maintained in order to secure the export market for wool. Producers should also consider breeding with larger-framed animals as they are generally hardier.

Pork

Karabo Takadi, Mbali Nyembe & Marius Bosman

International

Global production is expected to increase in 2018 due to expansion in China, the US and the EU.

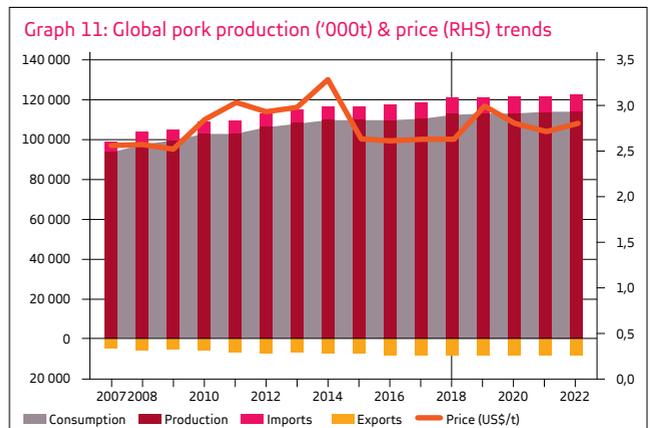
Robust demand and favourable prices during 2017, as well as further expectations for growth, are driving major expansion in pork production across the world.

Large investment into the industry in China has resulted in a growing number of hogs, which has supported production growth. Meanwhile, recent outbreaks of African swine fever (AFS) in China may lead to a decline in production.

Higher hog slaughter rates and gains in carcass weights are expected to boost US production in 2018. Pork production is also growing in Russia as the ban on imports from Brazil has boosted demand for Russian pork.

Consumption

As world economic growth continues, increasing consumer incomes are expected to support growth in per capita pork consumption during 2018,



thereby strengthening demand prospects and encouraging higher production.

However, several large pork importers will reduce purchases during 2018 due to growth in domestic production.

Simultaneous growth in production among exporters and reduced demand from top importers is expected to lead to fierce competition and lower pork prices during 2018, which may improve consumption and support prices.

Trade

Growth in China's production will reduce demand for imported pork in general, while the imposition of additional import tariffs will make it more difficult for US pork to compete with other suppliers. Possible production cuts in China due to an African swine fever outbreak may lead to increased imports to China. Russia is expected to reduce purchases due to its recent ban on Brazilian pork products, while Brazil has to look for other markets to which to

divert its supply. The trade policy actions being taken by the US and other countries bring uncertainty to the market and are bearish for trade. While exports are forecast to grow during 2018, the market will clear at lower prices. Global exports are forecast 1% higher in 2018, driven by higher demand and lower pork prices.

Prices

The global pork industry is expected to remain in expansion mode. Strong demand during 2017 pushed carcass prices higher, while relatively low feed prices widened producer margins. This year, margins are expected to narrow as feed prices increase and supplies increase quicker than demand. The impacts of the China-US trade war may distort markets and weigh on pork values in North America, while creating some potential upside for producers in Asia, Europe, and South America. Potential tariffs on US soya bean add further cost pressure on Chinese producers. Increasing supply in the EU may also put downward pressure on prices. The threat of AFS and the risk to exports associated with AFS remain an overhang on the EU market. Brazilian producers continue to struggle with weak pork prices and higher feed costs.

Outlook

Plentiful supply will characterise the market; however, production growth in major import countries and trade disruptions introduce significant risk for exporters. While

trade continues to grow in 2018, several of the world's largest buyers, including China and Russia, are expected to reduce imports. As exporters thus struggle to maintain their market share or look for new opportunities, prices are likely to drop by the end of 2018.

Domestic

The pork industry has shown signs of recovery and experienced favourable trading conditions since the second quarter of 2017, following a challenging period in 2015/16, which saw record-high feed prices and low pork prices.

Feed prices dropped after the bumper maize crop of 2016/17, as yellow maize prices decreased from more than R4 000/t (recorded in January 2016) to R2 100/t during April 2017. Pork prices also improved during this period.

These positive trading conditions continued into early 2018, with producer margins benefitting from the improving industry. However, the industry suffered another blow when traces of *Listeria* bacteria were discovered on a polony casing produced by Enterprise on 4 March 2018. The public was subsequently advised to avoid *all* processed meat products. This resulted in a drop in the consumption of pork products, which caused a massive oversupply of slaughter pigs on the local market. Demand for pork was also badly affected with consumers associating fresh pork meat with processed products such as polony, viennas and frankfurters. The effect was a drop in prices from

27,44/kg during the first week of March, to a low of R19,71/kg just after the 4 March announcement.

Trade

Africa remains South Africa's largest export destination for pork products, due to geographical location, which offers South Africa a competitive edge over other exporting countries in terms of transport costs. During 2017, over 86% of South Africa's total pork exports went to African countries, with Namibia importing 27%, Mozambique importing 24%, Botswana importing 12%, and Lesotho and Swaziland importing 19% and 8% respectively. Export cuts included hams at 6%, ribs at 11%, and full carcasses at 28%, while other cuts accounted for 55%. South Africa aims to gain a foothold in other importing countries, such as Thailand, Vietnam, the Philippines, Singapore, India, and China.

Thus, negotiations to reach bilateral agreements with these countries must be prioritised to improve the industry's profitability.

About 50% of all South Africa's pork imports are ribs. Rib consumption is high, and the country cannot meet local demand. During 2017, South Africa imported the majority of its pork (at 63,3%) from Germany and Spain. Most imported pork is subject to an import tariff of 15%, or a minimum of \$1,30/kg (about R20,21/kg). However, ribs are the exception, with no import tariff imposed. This is due to South Africa's free trade agreement with the EU.

Prices

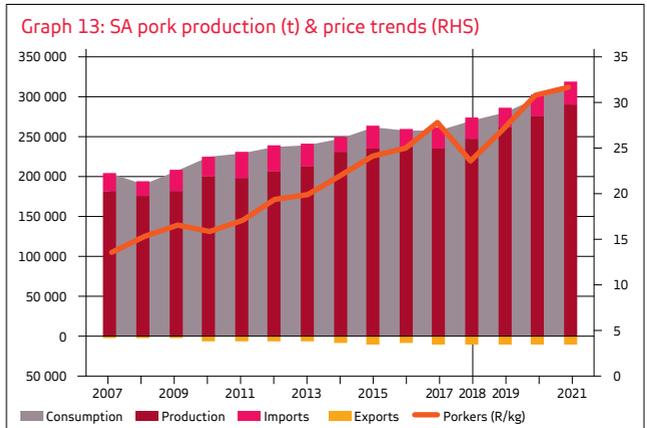
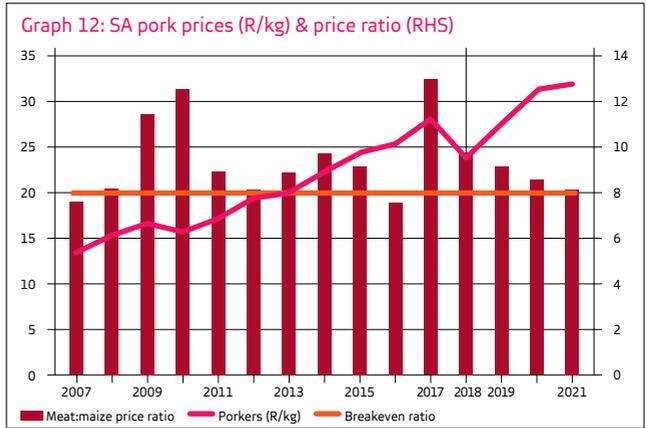
The listeriosis outbreak led to a notable decline in pork prices, with the current lower prices expected to boost sales and offer the pork industry a competitive advantage over other meat types. This will thus support pork prices over the short to medium term. The recent marketing and promotion campaigns for fresh meat at retail stores, initiated by the pork industry, will also improve demand for fresh pork products, thereby further supporting prices.

Biosecurity

South Africa recently faced an outbreak of ASF. The outbreak was an isolated case in Springbok, Northern Cape, and occurred at the end of May. It was contained and no other farms were affected, and infected pigs were culled. However, a large ASF outbreak would severely impact South Africa’s exports, resulting in these markets closing. While ASF is under control, and no other cases have been reported, South African producers must implement effective biosecurity systems to ensure that diseases, such as AFS, are contained. This is crucial to ensure access to more export markets and the industry’s profitability.

Outlook

The outlook for the local pork industry remains positive. It is expected that feed prices will remain low during the short to medium terms, which will assist producers in managing input



costs. The pork price is expected to gradually increase on the back of strong demand, especially as cost players continue to actively market fresh pork meat. It is difficult to predict what impact the listeriosis outbreak will continue to have on consumer spending patterns, however there is already some indication that consumer confidence is recovering, albeit at a slow pace. The limited supply of other meat sources on the market, as a result of producers rebuilding their

herds and flocks, is expected to support pork prices.

The export market also provides long-term opportunities for the industry.

Poultry

Karabo Takadi & Karien Potgieter

International

The global poultry industry is well supplied, with production expected to continue to grow in 2018, mainly due to expansion in the US, Brazil, India, and the EU. Plentiful feed at relatively low prices has supported the uptick in production. The increase in US and Brazilian production was also strengthened by the absence of the highly pathogenic avian influenza (HPAI) and modest global demand, while the production increase in the EU and India are being driven by rising domestic demand.

Following two years of decline, China's production is now forecast to improve slightly on the back of efforts to curb HPAI outbreaks, stable feed costs and rebounding domestic demand.

Over the past 10 years, per capita consumption has increased by around 16%. This is expected to improve another 5,5% over the next decade. However, plentiful animal protein on the global market may weigh on poultry consumption in the short term.

Animal protein production is expanding around the world, and increasing competition between different types of protein, as well as between exporters for access to import destinations, remain a factor.

Trade

Global poultry trade has become highly volatile due to many developments, which will change trade in the long term. The Brazilian weak-flesh investigation and associated trade implications, the truck drivers' strike in Brazil, restrictions on EU trade, Saudi Arabia's halal stunning requirements, the current NAFTA negotiations, and the Chinese issuing a special safeguard on imports of Brazilian poultry, as well as the increasing US-China trade tensions, are some of the factors that will have an impact on trade. Brazil is expected to be the most affected, which will likely lead to a decline in production and exports. This will open up opportunities for other exporters.

Prices

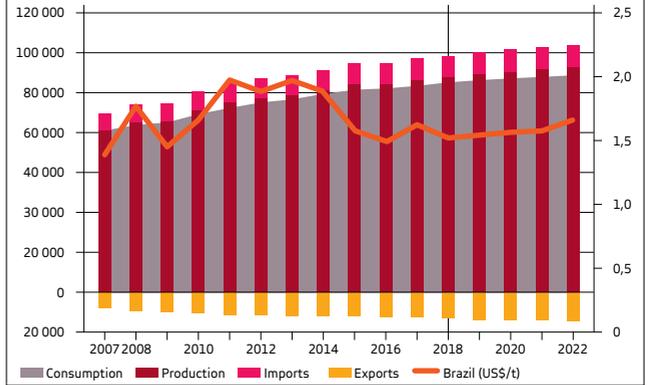
China is currently experiencing increasing prices due to limited supply on the back of recovering demand, which was impacted by the outbreak of HPAI. However, China's vaccination campaign has resulted in significantly lower numbers of HPAI cases, which will lead to an increase in supply over the medium to long terms.

Many other countries' poultry industries are performing well, however, and regions such as the EU, Mexico, Indonesia and India are well balanced, creating good, profitable conditions for the industry.

Outlook

The global market remains well supplied, but improved consumption will absorb these supplies. Despite increased production by major exporters, barriers to trade constrain additional export growth. Poultry production remains big, and trade volatility is expected to remain high.

Graph 14: Global poultry production ('000t) & price (RHS) trends

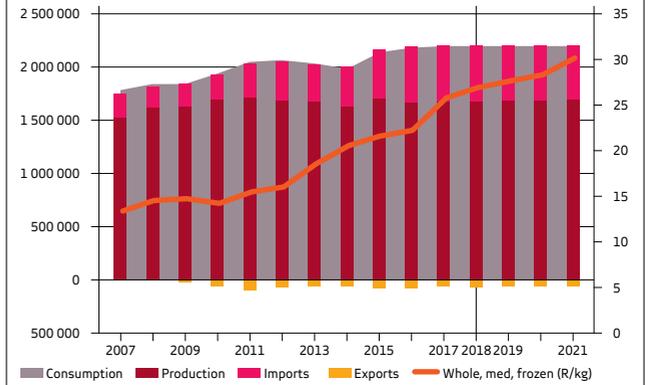


Domestic

South African broiler production has remained flat over the past five years, as production costs have increased, consumers' disposable income has dropped, and poultry meat product imports at low prices have battered the demand for locally produced broiler products. These are some of the factors that contributed negatively to total production in recent times. Approximately 76,4% of the birds in the poultry industry are used for meat production, while the remaining 23,6% are used for eggs.

During June 2017, an HPAI outbreak brought about many challenges to the broiler and laying industries, with the latter most vulnerable to the disease. The outbreak increased producers' financial burdens as infected flocks had to be culled. Production declined as a result. Laying hen flocks were severely affected by the outbreak, leading to a reduction in the number of average cases of eggs produced

Graph 15: SA poultry production (t) & price (RHS) trends



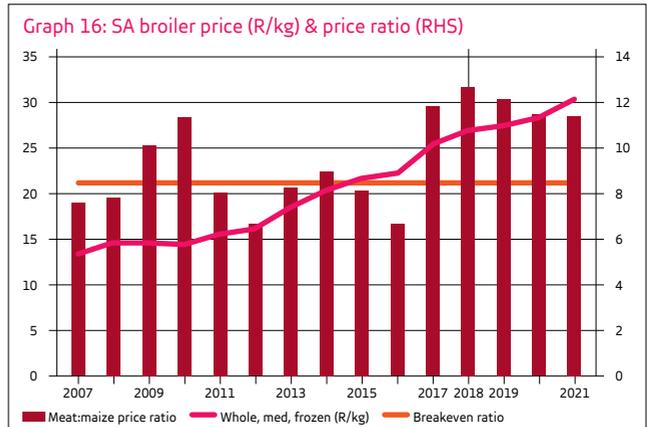
per week, which led to an increase in egg prices. The national layer flock decreased 6,6% in 2017. The outbreak followed improved sentiment in the poultry industry during 2017, after the sector had faced high feed costs and lower egg and broiler prices during 2016.

The consumption of white meat is considerably higher than that of red meat in South Africa, as it is a cheaper source of animal protein. Demand for poultry is thus expected to increase on the back of higher red meat prices.

This comes after the drought impacted negatively on cattle numbers, which had led to red meat prices reaching a record high. Current poor economic conditions are putting pressure on consumers' purchasing power. This is likely to limit demand growth for poultry meat and eggs.

Trade

In 2017, South Africa imported 523 481t of poultry meat, down only 0,8% from 2016, despite the absence of the key EU market.



The EU exported fewer tons to South Africa during this period due to the trade ban imposed on EU countries that were affected by HPAI. Brazil was South Africa's main import country in 2017 at 60,6% of total poultry imports, followed by the US at 15,6%. Competition from imported poultry meat will remain a challenge for local producers. South Africa's total poultry exports declined 11% in 2017, with most of the country's exports destined for other African markets. Developing export markets for locally produced poultry products is crucial for the competitiveness of the industry.

Price

Given the correlation between maize and feed prices, poultry producers faced increased cost pressure during 2015 and 2016 due to higher input prices. Improved prospects followed in 2017, in line with a decline in feed costs and increases in broiler prices, creating a favourable environment for the industry and

improving profit margins. Poultry prices are expected to increase in the medium to longer terms, and will likely be supported by higher red meat prices. In the short term, the lower pork price, as well as consumers' lack of buying power, will add a bearish tone to the market. Yellow maize prices are expected to recover from their low levels once stocks have been sold, and are expected to trade at R2 644/t during 2021. An increase in the maize price will lead to an increase in feed costs. The average egg producer price was 17% higher in 2017 compared with 2016. Total egg production declined 7,1% in 2017, compared with production in 2016. The increase in turnover as a result of higher egg prices will enable producers to increase biosecurity, as well as allowing producers to increase their number of egg laying units through personal funding, rather than loan capital. It is likely that egg producers who were not affected by the avian influenza outbreak will expand layer house capacity.

The rand has weakened in recent weeks, and forecasters expect that it may further weaken. The weaker exchange rate will result in an increase in import prices, thereby offering some protection to local producers.

Outlook

Lower feed costs and higher broiler and egg prices will support the poultry industry, thereby improving margins. Grain prices are expected to trade sideways, which will keep feed prices low.

However, the industry is continuously threatened by potential HPAI outbreaks, and strict biosecurity measures must thus be implemented. Imports may reduce in line with expectations of a weaker currency in 2019, while higher-cost poultry products will increasingly benefit from exports. Consumers' buying power is being eroded by high costs such as the fuel and VAT increases, but white meat remains the cheaper protein on the market, which will likely support consumption.

Dairy

Conce Moraba & Wessel Lemmer

International

Growth of production in the world's largest milk producing regions, including the EU, US, New Zealand, Argentina, Australia, Uruguay and Brazil, remained static y/y, and output was lower than expected. This led to a rally of prices of specific products in certain countries in the first half of 2018.

Global butter and cheese prices continued to improve due to increased consumer demand and lower butter stocks. In India, the largest global consumer of dairy products, demand continued to increase, driven by a shift in consumer preference for packaged products, such as pre-packaged liquid milk and curd, as well as the rise of value-added dairy products such as yoghurt, cheese, and UHT milk. Global skim milk powder (SMP) stocks remain high; however, this is limiting price increases for other dairy products. The US-China trade war and *Mycoplasma bovis* in New Zealand may pose risks to the global dairy industry.

Production

Wet conditions in April, followed by severe cold during May, had a negative effect on the pasture-growing season over large parts of Europe. Due to the lingering effects of unfavourable weather, production in the EU was expected to increase only 1,5% y/y.

Dairy commodity prices in the EU are set to increase into the second half of 2018 and 2019, which will likely support better farm gate prices. Butter prices also continue to rally, due to limited supply.

In the US, production is set to increase, but at a lower rate compared with the previous year. Milk output declined y/y as a result of unfavourable weather conditions, which led to lower profitability. The US herd declined in the first four months of 2018, and more culling is anticipated later in 2018. Continuing drought conditions will result in limited feed availability, thus supporting higher feed prices.

US milk prices are expected to improve; however higher feed

costs could depress any increases. Despite facing challenging conditions, milk production in New Zealand recovered well in 2017/18, and is expected to match the previous year's output of 21,4 million litres. New season milk production, which commenced on 1 June 2018, started on the back foot with New Zealand's government announcing a *Mycoplasma bovis* disease eradication programme. This will see about 126 000 cows culled from 2019 to 2020. However, affected producers can decide when to cull their herds, with production thus unlikely to be affected in the short term.

New Zealand's production is set to improve 2% y/y. Greater profitability, the higher milk price, sufficient feed stock and expected favourable weather will support an increase in production. Exports are also expected to improve 2% y/y, and will be underpinned by higher milk production.

Australia's milk production increased 3,5% y/y, despite

severe dryness in some of the northern parts of the region. Increased consumer demand for full-fat products was expected to contribute to the ongoing production and profitability revival.

The Brazil truck drivers' strike in 2018, also called the diesel crisis, led to major highways being blocked in the country, which crippled logistics. Trucks were left idle, milk collection routes were disrupted, processing plants received less milk, with some reporting receiving 90% less milk in May than expected, and truck owners could not find fuel.

These disruptions led to producers dumping their milk, which resulted in losses for them and processors. However, prices are expected to increase during the second part of 2018.

Milk production in Argentina improved 4% during the second quarter of 2018 despite the drought conditions experienced earlier in the year as increased farm gate prices supported higher milk production. However, feed

prices are likely to rise due to adverse weather conditions and their impact on crop production. This may cause a drop in production during the second half of 2018. Demand has been positive thus far in 2018; high inflation rates could temper consumer appetite for spending, however.

Factors that may affect global dairy prices in the future include higher oil prices, which will impact on input costs, and lower disposable income for consumers in oil-importing countries.

The EU's decision to reduce SMP stocks may support global SMP prices in the future.

China is in the process of revising national food safety standards for raw, sterilised, UHT, pasteurised and modified milk. This could have an impact on China's imports of whole milk powder.

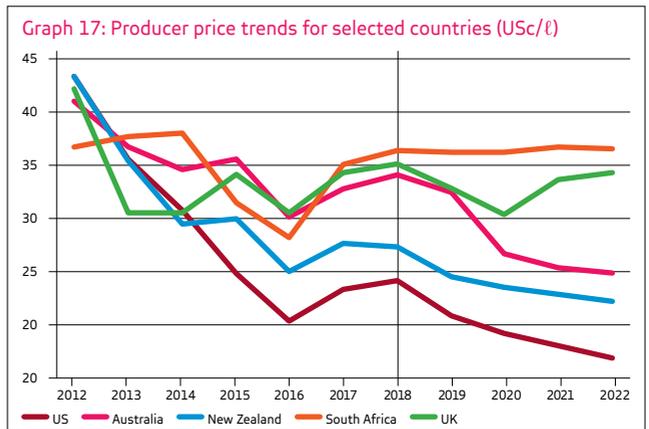
Domestic

Local milk production increased 4% y/y in 2017, as lower feed prices led to positive milk:feed price ratios. This encouraged greater

milk production from June 2017. The upward trend in production and limited consumer demand led to lower milk prices from May 2018. The number of dairy farmers also continues to decline, with an average of 400 farmers leaving the industry every year. South Africa currently has only about 1 300 producers. Despite this, production has increased over the past few years. During June 2018, inland producer prices were around R4,25/ℓ. At this price level, some coastal milk producers should still manage to realise a modest profit.

Prices

The milk:feed price ratio increased between 1,7:1 and 1,8:1 from May 2017 to April 2018. This supported production, as milk prices were higher and grain prices relatively lower compared with the previous year. Milk imports in 2017 exceeded those in 2016. This trend is continuing in 2018, with imports during the first four months of the year exceeding exports by 15 million litres. Increased imports



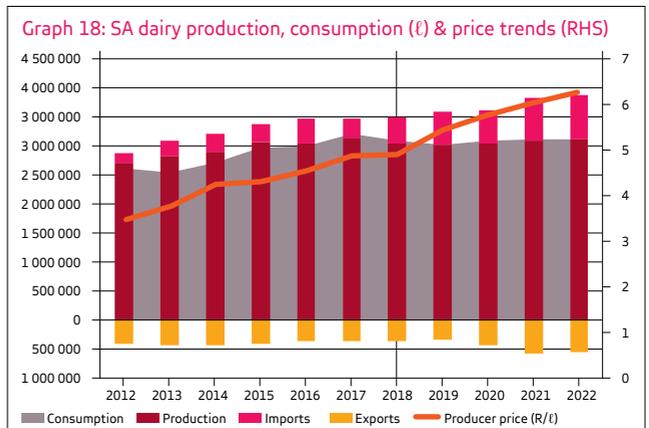
and greater local production is currently exceeding demand, which has led to lower prices. The price decline in May resulted in the milk:feed price ratio dropping to 1,5:1. Should milk prices continue to decline, the milk:feed price ratio could decline to 1,4:1.

The breakeven point for the milk:feed price ratio is between 1,3:1 and 1,4:1.

Challenges

Lower milk prices and profit margins have reduced farmer confidence, and despite the decline in feed prices, production costs remain high.

Imports remain a threat, and industry is seeking an import tariff to offset cheaper UHT imports. Major processors have joined industry in this, as imports have also begun to impact on their businesses' profitability. While imports of UHT from countries such as Poland is cheaper, the quality is comparable to the local UHT product. The availability of buyers for inland milk remains



a concern, as the number of buyers continues to decline. The consolidation of buyers in the market reduced competition and increased offtake risk to the producer. Fresh milk producers and processors are under pressure due to the lower demand for fresh milk.

Outlook

Lower grain prices, the weakening rand against other major currencies, and higher global dairy product prices, will continue to provide underlying support for milk

prices. The favourable milk:feed price ratio will support production, and consumers' demand for foodstuffs with greater protein and fat content will support growing demand. Despite this, the consolidation of buying power in the domestic market will weigh on dairy prices going forward.

Wool

Conce Moraba, Lizanne Herselman & Jer Nortje

International

Global wool production will remain under pressure as a result of a decline in flock numbers. This is due to the drought in South Africa and Australia during 2015/16.

Australia achieved record-high prices in 2017, and this trend has continued in 2018, with the wool super cycle now in its third year. Producers in Australia, the world's largest wool producing country, reduced their scale of production due to the drought and higher mutton and beef prices.

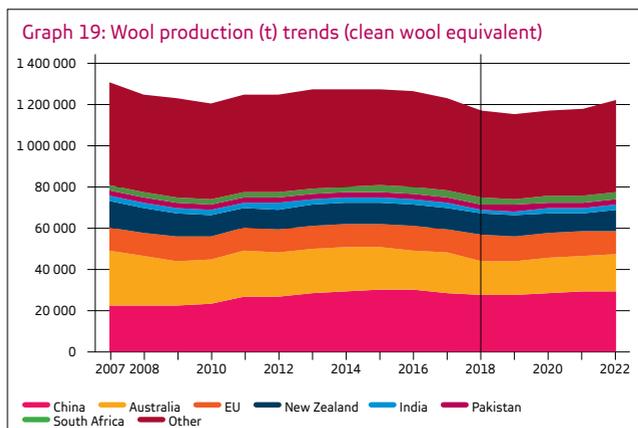
Global supply is at its lowest level in 70 years. The outlook for economic growth in the major wool consuming countries remains positive, which will provide underlying support for demand and prices of Merino and broader wool. Consumer confidence in the US, EU, Japan and China have increased to multi-year highs, which is expected to encourage greater consumer spending. The expanding middle class in China, the world's largest consumer of wool, is equal in size to the entire US population, which

bodes well for higher global wool consumption. The growth of retail sales in the clothing sector and improved consumer confidence in China are also underpinning prices.

The US, one of the world's three largest wool consuming countries, relies on imports to meet local needs, and the demand for wool-based sport wear and next-to-skin baby apparel is likely to support sustained growth. Fine-wool premiums is currently trading higher than the 10-year average, and a marginal increase in supply, as well as positive demand, will set the tone of the market in the medium term. Factors, such as higher cotton prices, and rising oil and synthetic fibre prices, is expected to have an impact on textile and fibre markets.

Domestic

South Africa's wool industry performed exceptionally well over the past two years. The market indicator kicked off 25% higher in 2017/18 compared with the previous season. The wool price



experienced a steady sideways increase throughout 2017, which increased towards the end of the season and closed 39% higher than the 2016 season. The market closed the season at a record high of R211/kg (clean). Global and local demand for good-quality, long and finer wools have continued to improve, exceeding production.

Global demand for natural fibres is increasingly high, and the current weakening rand will support profitability from exports.

Rising demand for quality and finer wools, despite tight supplies, is also supporting high prices.

Production is currently on a downward trend, which coincides with the large decline in national sheep numbers. Flock rebuilding is underway, and local supply will thus remain limited.

The Eastern Cape is South Africa's largest producer of wool, followed by the Free State and the Western Cape. The Boland region, including Ermelo, Mpumalanga and Standerton, was once South Africa's main wool producing

region. However, rising theft, urbanisation and mine industry development have resulted in a decline in wool production in this region. Caledon, in the Western Cape, produced the most wool this season. During the 2017/18 season auction, the Eastern Cape and the Northern Cape received the highest average value per bale at R15 000.

Price

Following positive sentiment on the global market, the local price for quality, clean, fine wool is currently at a record high of R201,36/kg. The average price for the 2017/18 season is R184,56/kg, compared with the price of R155,86/kg for the previous season. Demand for longer wools, particularly on the uniform market, is on the increase. As such, producers are encouraged to determine the price differential between the returns they receive on 6-month shearing wools as opposed to 8-, 10-, and 12-month shearing wools. The surge in

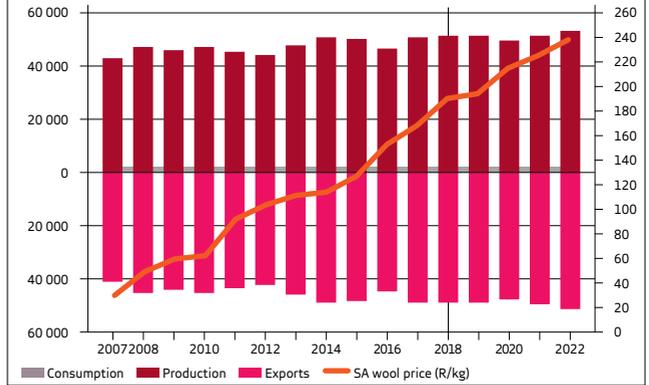
demand for longer wools is expected to originate from China. New uniform orders are expected to come through in the 2018/19 season, with demand particularly high for wool between 20,5 and 22 micron.

Industry risks

As there is abundant stock of broader wool on the global market, producers are advised to steer away from production of this wool category. Demand is lower for broader wool, and therefore prices are declining. Moreover, increasing stocks in the UK and New Zealand will place further pressure on prices. Biosecurity and animal disease outbreaks of Rift Valley fever and foot-and-mouth disease, amongst others, must be controlled, as these outbreaks could have a negative impact on South Africa's export potential.

The country has only about 30% capacity to process its own wool, and export is thus critical. The capability of the country to process even this 30% is

Graph 20: SA wool production (t) & price (R/kg) trends (RHS)



uncertain, as all the required machinery may not be available and in addition to process the entire volume due to lack of maintenance.

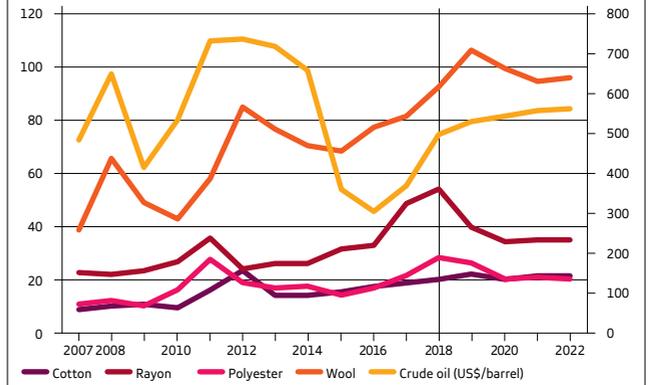
China's debt and credit risk may pose a threat to the uptake of South African wool. China has the highest debt in the world, with debt levels at 227% of its GDP, and the country buys 70% of South Africa's clip. Uncertainty in this market may thus have a huge impact on South Africa's wool exports. Moreover, the US-China trade war is creating a lot of volatility and exchange rate fluctuations.

Predation and urbanisation remain threats to South Africa's wool industry. Farmers are also advised to ensure that shearers follow correct and ethical practices when handling animals to protect the integrity of the industry and avoid negative media backlash.

Outlook

Demand from China, the Czech Republic and India will support

Graph 21: Fibre (USc/lb) & crude oil price (RHS)



domestic wool prices. Supply remains tight on the local market due to flock rebuilding. Current high mutton prices will also continue to compete with wool production.

Global wool prices are currently trading at seven times the price of cotton, compared with the traditional wool:cotton ratio of between 3:1 and 4:1.

Wool is perceived as a more valuable fibre compared with cotton, polyester, acrylic and nylon. The lower exchange

rate and demand growth, which currently exceeds supply, are likely to support prices in the future. Positive sentiment is also expected to continue, with the wool industry able to absorb an increase of 50% (25 million kilograms) in production, from 50 million kilograms to 75 million kilograms, without it having a negative impact on prices. As such, increasing flock numbers under normal climatic conditions is ideal.

Mohair

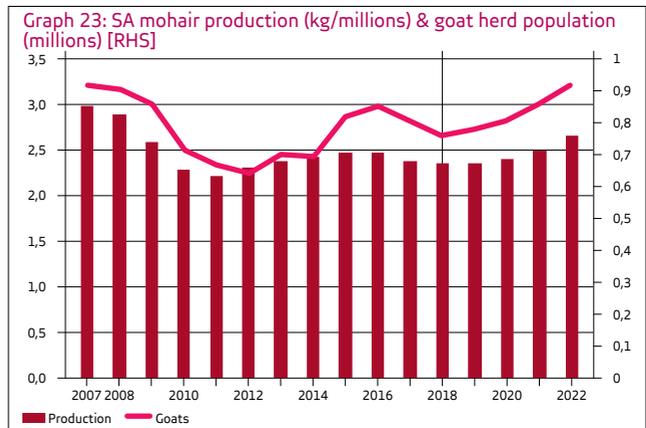
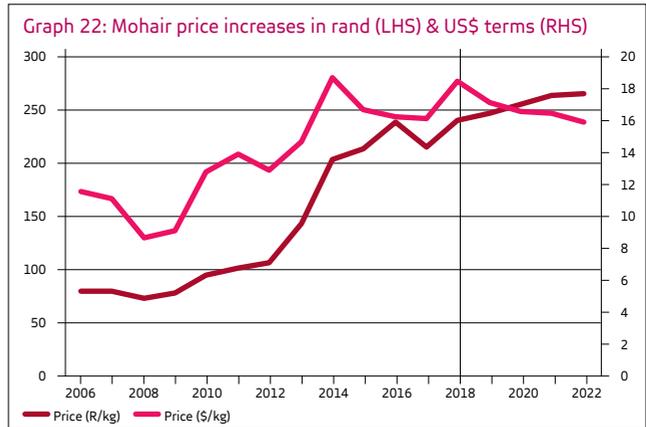
Conce Moraba, Wessel Lemmer & Marvin Khaile

Overview

South Africa produces and processes about 54% and 70% of the world's mohair respectively, making it the world's largest producer of the commodity. While production for 2017 is estimated at 2,4 million kilograms, it is expected to decline in 2018 and 2019 as a result of persistent dry conditions in the main production regions of South Africa.

During the recent winter season, demand and price performed well, with prices closing at R233,94/kg, which was 26% higher than the 2016 winter season closing price. Strong competition amongst buyers and a weaker rand supported mohair prices, while rising demand for mohair products in China and Italy are expected to continue to support prices.

The global fashion trend, which demands more environmentally friendly, sustainable, natural fibres that are produced in an ethical and socially-aware environment, offers mohair production an advantage over synthetic fibres.



This is expected to further support prices.

Outlook

Prices are expected to remain above average over the long term, as the drought continues to limit production.

Due to growing consumer awareness of animal welfare and environmental concerns, local growers are encouraged to follow the guidelines that pertain to sustainability and the ethical treatment of animals.

Demand is expected to improve as consumer confidence in China has increased to a multi-year high, thus encouraging consumer spending. China remains the world's largest mohair importer, followed by Italy and Taiwan.

A weaker rand, lower production, improved global economic growth and global demand for natural fibres will also support production and prices.

Moreover, positive prices and targeted marketing may encourage future investment in the industry.

Sugar

Rikasha Ramburan & Deon van Wyk

International

Global sugar production is derived from both sugar cane and sugar beets. Due to the 2015/16 drought, there was a significant drop in production. However, consumption has increased from about 165 million tons in 2013/14 to an estimated 174 million tons currently. Consumption is growing at a slower rate than before as a result of consumers changing their lifestyle habits. Despite this, production has been steadily increasing, with the 2018 marketing season expected to achieve 188 million tons.

Thailand and India, two of the world's biggest producers, achieved record highs in production. While India's consumption has also increased to a record high, the country's exports are still expected to triple to six million tons. Thailand is expected to produce 14,1 million tons, of which 78% will be exported. Meanwhile, ethanol stockpiles and falling prices in Brazil could result in producers processing more of the crop into

sugar, leading to greater supply on the world market. Brazil exports about 30 million tons of sugar on average. The global surplus is expected to reach an all-time high of 49,5 million tons. This will continue to place downward pressure on prices.

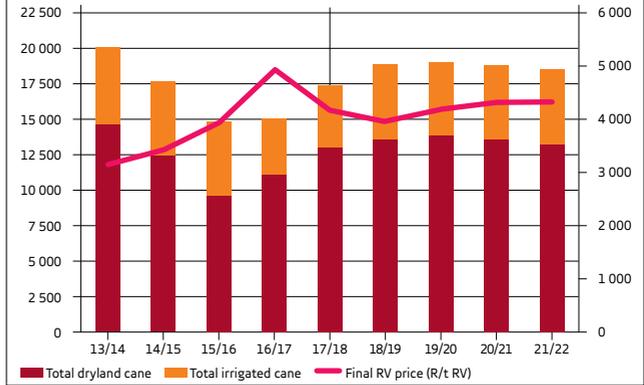
Production

Production is expected to far exceed consumption over the long term, and unless a weather-related event impacts on production, the world will enter a long period of substantial stocks. Prices are therefore expected to remain under pressure. Producers in the Northern Hemisphere are improving their sugar beet production technology at a faster rate than those of sugar cane. This is due to the difference in growing times of the crops, and could result in higher yielding sugar beet varieties being produced at a faster rate.

Domestic

Local sugar cane production is in a recovery phase after suffering

Graph 24: SA cane production ('000 tons) & producer prices (RHS)



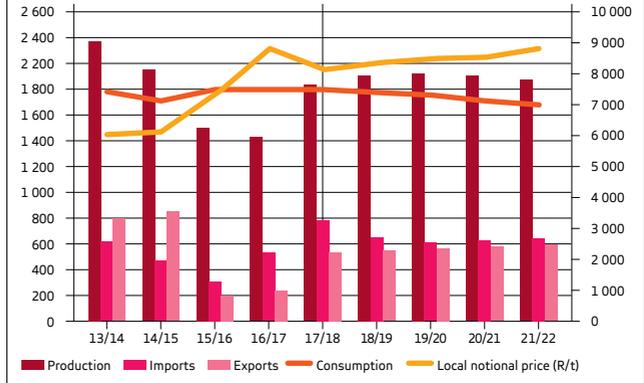
major losses due to the drought, which affected large parts of South Africa's sugar cane production region. During a normal season, as last experienced in 2012/13, South Africa produces roughly 20 million tons. However, during the lowest point of the drought in 2015/16, only 14,8 million tons was produced, which resulted in producers losing R1,9 billion in revenue.

Production

The area planted to sugar cane has been declining over the past few years. This is mainly a result of producers achieving only marginal profitability, which has led to them diversifying into higher-value crops, and agricultural land being converted for commercial use. The implementation of the sugar tax is expected to accelerate this trend.

Production for the current season is expected to achieve 18,9 million tons, which is an 8,6% increase compared with last season. Yields are further expected to increase next season as producers recover

Graph 25: SA sugar production, trade ('000 tons) & price trends (RHS)



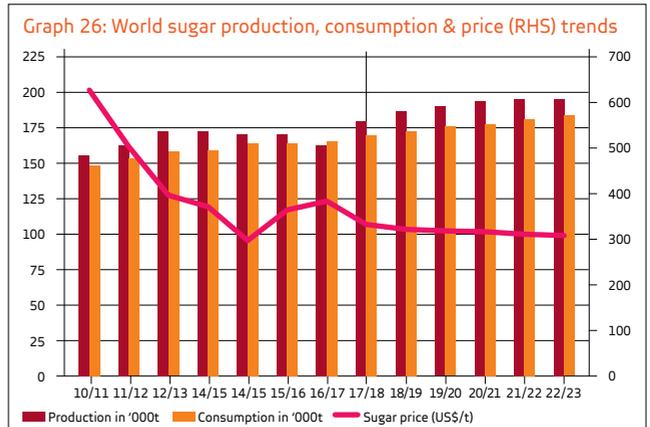
from the drought. Thereafter, production is expected to decline as more hectares are removed from cane production. Total yield is thus expected to drop about 600 000t by 2025.

Price

The opening price for the 2018/19 season was R3 824/t RV. This represents a decrease of R363/t RV from the final RV price for the 2017/18 season. The price reduction was due to greater production, reduction in the import

tariff in February 2017, which led to higher import volumes, a drop in local demand and a lower global sugar price. The current RV price is similar to that received in 2015.

During 2017/18, local producers lost roughly 22% of domestic market share because of a surplus of cheaper sugar imports on the local market. Imports amounted to about 40% of total local production in 2017. To ensure the economic sustainability of the industry over



the long term, the import tariff must be urgently reviewed and increased. A submission has been made to ITAC in this regard to increase the tariff from US\$566/t (about R8 775/t) to US\$856/t (R13 271/t). If ITAC increases the tariff as suggested, the RV price will likely only increase between November 2018 and February 2019 due to high current stocks. With local consumption expected to suffer a slight downward trend, an increase in the tariff should decrease imports and increase export volumes. The local industry has become increasingly more exposed to the export market over the last three seasons, and is manually adjusting local market demand estimates on a monthly basis in order to manage surpluses and control local RV prices. The import tariff duty applied in the last quarter of 2017 has resulted in a reduction of imports into the country. As the imports displaced local sugar, the notional price increased and began stabilising

as imports declined. The notional price was decreased this year in March by 13% in order to stimulate local sales. The notional price for 2017/18 is R8 339/t, compared with the price of exported sugar at R4 702/t.

As imports have declined, it is mainly the large sugar stocks on the local market that are currently negatively affecting RV prices. Once the surplus is utilised in the short to medium terms, the RV price should improve.

Improved tariff protection will also prevent a recurrence of this situation in future, especially considering current global sugar production trends.

Outlook

Over the next five years, it is expected that the area planted to sugar cane and production will steadily decrease. This is due to the marginal profitability of sugar cane, as well as import pressures.

The implementation of the sugar tax is also expected to reduce the demand for sugar,

and diversification has thus been earmarked as key to the long-term sustainability of the industry.

The most popular crops currently being planted instead of sugar cane include macadamia trees, tea trees, bananas and avocados. However, sugar cane will remain the majority income contributor in most of these instances, especially in the case of macadamia trees, which has a much longer production waiting period.

The use of technology and innovation in the industry will be essential to maintain production levels on reduced hectareage and to improve profitability.

The South African Sugarcane Research Institute plays a vital role in this regard with the development of new cultivars and agronomic practices that improve production. The decrease in the RV price is expected to result in producers having tighter cash flow restrictions going forward, with growers possibly holding back their sugar cane to be harvested in the next season.

Cotton

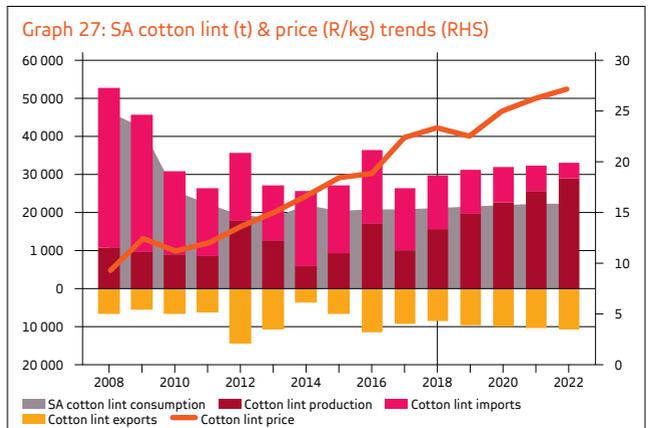
Conce Moraba, Nico le Roux & JG Horn

International

Global cotton prices have been mostly positive in 2018, with most benchmark prices moving even higher in the second half of 2018. The Cotlook A Index surged to its highest level since March 2012. Current high prices are supported by global production concerns due to dry conditions in western Texas in the US, crop losses caused by pink worm infestation in India, and ongoing uncertainty regarding trading policies. Global production in 2017/18 increased 15% compared with the previous season. However, production was expected to decline about 3%, from 121,2 million bales to 120,4 million bales in 2018/19.

India and China, the world's largest producers of cotton, are expecting reduced output. Meanwhile, world consumption is expected to continue growing steadily into 2018/19.

Moreover, there is increasingly significant demand from Asia and South Asia.



Higher consumption, coupled with lower production, will result in a decline in available ending stocks, which is likely to support prices in the future.

Most current global price volatility stems from the Chinese market, with China reportedly planning to increase import quotas in the near future.

However, there is uncertainty about how much the country will import due to its escalating trade war with the US, the world's largest cotton exporter.

Domestic

Lower maize prices supported cotton production during the 2017/18 season, as cotton is currently more profitable than maize and sunflower seed production. Cotton SA's sixth crop estimate for the 2017/18 season showed a 67% increase in dryland cotton production, and a 168% increase in irrigated cotton production. Estimated production for the season amounted to 187 528 bales. The industry estimated that 19 570ha would be

planted to cotton under irrigation, while 18 646ha would be planted in dryland production regions. Despite increased domestic production, local cotton prices were expected to remain firm, supported by higher global prices, higher prices of other natural fibres, like wool, a weakening exchange rate, and growing local and global demand.

Current gin capacity is 162 000t, while production is at 102 158t. The local increase in cotton production will substitute imports.

By 2021, the country's current gin capacity could limit cotton production; however, it is expected that gin capacity will be increased to process another 58 000t within the next four years.

An integrated effort by the cotton industry value chain to rebuild interest in cotton production

South African cotton production has been resuscitated by the establishment of the Sustainable Cotton Cluster programme, which involves every stakeholder from farm gate to the end consumer. The programme involves producers, ginners, spinners and well-known established retailers. This agreement with industry provides a stable price framework, ensuring price certainty for producers, offtake agreements, close proximity to markets, quick responses to fashion trends, and an industry that is locally more competitive, thereby creating employment.

According to Cotton SA, if the local industry could replace all imports of T-shirts, chinos, underwear and towels by only 25%, the domestic cotton industry could provide another 35 000 jobs. One of the bottlenecks to achieving this growth is the lack of local processing capacity and infrastructure. In 2005, South Africa had 22 spinning factories, but now only has four.

Timber

Deon van Wyk

The timber and forestry industry remains one of the more consistent and better performing commodities in the agriculture sector. It is therefore one of the more strategic commodities with a significant contribution towards GDP, economic growth and job creation. Roughly 70% of all timber products are exported, with the result that the industry is largely exposed to global trends.

International

The use of industrial roundwood is still 1,3% below the pre-2008 recession levels. However, it is predicted that timber consumption and demand will increase in the West over the short term. This, as well as the growth in the developing world and an expected increase in energy generation from biomass, will increase global timber consumption to levels not experienced before.

This increase in demand for timber on the world market will coincide with long-term forecasts

of decreasing supply levels, which will have a positive effect on global timber prices.

Domestic

Demand for pulp wood from harder pulp wood species is expected to increase slightly as the capacities of chipping plants allow, while the demand for pulp wood from softer species is expected to decline.

The price for timber will be driven by the local inflation rate, as well as the R/US\$ exchange rate.

Demand for saw log is driven by the housing and construction industry, which is currently experiencing little growth. As such, the price of larger logs is expected to rise marginally, while the price of smaller logs will remain static. Increasing production costs will be the main driver for price increases.

Demand for timber in the mining industry is predicted to decline, which will lead to a very marginal price increase. However, the production of treated poles is expected to remain at current levels, with the main opportunities

on the export market. Moreover, price increases are expected to be in line with the national inflation rate.

Outlook

The timber industry is well established and has seen continued growth over the past few years. The area planted to timber is decreasing while demand is increasing. Global consumption of timber products is expected to grow substantially from current levels, while the procurement of timber plantations by saw mill operators and other processors is likely to increase to ensure the availability of raw material for processing in the medium and long terms. Given these factors, the outlook for the industry remains positive, with marginal growth expected in the short term. However, margins are expected to improve over the long term.



AgriBusiness AgriBesigheid

At Absa AgriBusiness, we know that the soil connects us. It is the lifeblood that surges through our communities, opening doors to a journey with endless possibilities for shared economic growth. From feeding to breeding, we have learnt to understand agriculture business and all its challenges as if it were our own. That's why we can offer banking products and services we know clients need.

As a partner in the agricultural environment for over 100 years, Absa has cultivated a wealth of experience and knowledge in developing tailored, world-class business solutions for all commodities in the sector. Farmers rely on us for strategic planning and the empowerment of farming communities, irrespective of the size. Our commitment to this crucial sector is clear. Whether we are stimulating the advancement of our country's flourishing wine industry or nurturing the crops that help feed millions, we make administering and managing your business easier.

When we make things easier for our farming communities, we invest in our own livelihoods and allow our economy to grow.

For more detailed information, please visit our website at www.absa.co.za

By Absa Agri-besigheid, weet ons dat ons deur die grond verbind is. Dit is die lewensaar wat deur ons gemeenskappe vloei en deure oopmaak na eidelose geleenthede vir gedeelde ekonomiese groei. Van voer na teel, ons verstaan agri-besighede en die uitdagings wat daarmee gepaard gaan, asof dit ons eie is. Daarom kan ons bankdienste en -produkte aanbied wat kliente werklik benodig.

As vennoot in die landbou, al vir meer as 100 jaar, het Absa 'n magdom ervaring en kennis verbou in die ontwikkeling van wêreldklas sake-werkwyses, gefokus op alle kommoditeite in die sektor. Produisente maak op ons staat om strategies te beplan en die bemagtiging van plaasgemeenskappe te bewerkstellig, ongeag die grootte. Ons toewyding aan hierdie noodsaaklike sektor is duidelik. Of ons die vooruitgang van die land se florerende wynindustrie stimuleer, of die gewas wat miljoene voed na omsien, ons vergemaklik die administrasie en bestuur van jou besigheid.

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