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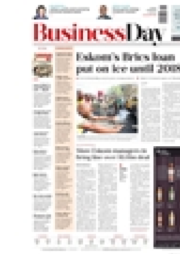

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NEW PRODUCTION SEASON

Farmers need a smart strategy for profit

WANDILE SIHLOBO

While the discussion in SA's agricultural sector has been dominated by the record grain harvest, it has been steadily shifting towards weather-related issues and production strategies.

The 2017-18 production season poses challenges as farmers will have to decide the best mix of crops and they will need to apply better price risk management strategies given the low prices of most agricultural commodities.

Farmers in the eastern regions of the country will start preparing soils for the 2017-18 production season as early as the end of September. This is because the optimal planting window for crops such as yellow maize opens on about October 15 and closes on about November 15.

The optimal planting window in the western regions, which produce white maize, opens about November 15 and closes in the middle of December. Unlike other seasons where farmers focus on technical production strategies and input prices, the coming production season will require careful planning due to two major challenges.

Firstly, the 2016-17 record harvest led to low maize prices, thus reducing farmers' profitability levels.

At the time of writing, the white maize spot price was trading at about R1,820 a tonne on the JSE, which is 56% lower than the levels seen in the same period in 2016 and 17% lower than the long-term average price of R2,200 a tonne.

Also worth noting is that farmers do not necessarily receive the R1,820 a tonne traded price for their grain. There is a reduction due to location differentials, which reduces the farmer's price by R300 to R1,520 a tonne.

Although all grain and oilseed prices declined due to the large harvest, white maize prices experienced the biggest decline of all grains and could remain under pressure due to weak demand on the world market. Other crops such as yellow maize, soya beans and sunflower seed had lower losses and could recover owing to strong demand.

Secondly, the fact that input costs are rising faster than producer prices presents a challenge, more so as farmers are mere price takers, with limited means of recouping their costs other than through higher production volumes and better price risk management practices such as hedging. The increase in input costs can partly be attributed to the volatile rand.

SA's agricultural sector imports a significant amount of its inputs – 80% of annual fertiliser consumption, 98% of annual agrochemicals consumption, as well as fuel, machinery and capital equipment – all of which have a direct effect on farmers' input costs. For example, fertiliser costs constitute about 35% and fuel 11% of grain production costs.

More importantly, even for farmers who managed to make some profit this season, it is not all rosy due to higher debt levels following two successive drought years. In 2016, the overall agricultural debt was at a record level of R145bn in a data set starting from 1980. Initially, there were concerns that high levels of carry-over debt from the 2015-16 drought would negatively affect farmers' ability to finance their inputs in the 2016-17 season.

However, farmers were fully able to use the favourable weather after the drought, thanks to the agribusiness and finance sectors' support, which facilitated carry-over debt and extension of credit.

As a result of this, Agbiz estimates the 2017 total farm debt to be R160bn. This means the profits that might have been made in some regions in 2017 will largely be used to service the debt.

Overall, a greater part of the aforementioned challenges is beyond the farmer's control, but they need to be managed through careful planning.

One way would be to achieve the best crop mix of maize and oilseeds, as oilseeds are expected to offer better returns relative to maize in the next season.

In terms of the weather outlook, SA could have a normal season with neither La Niña nor El Niño conditions. The South African Weather Service, in its seasonal climate watch report for August, indicated that the 2017-18 summer season would have normal rainfall.

WHITE MAIZE PRICES EXPERIENCED THE BIGGEST DECLINE OF ALL GRAINS AND COULD REMAIN UNDER PRESSURE DUE TO WEAK DEMAND

Global observers such as the US agriculture department and the International Grains Council project that SA's 2017-18 maize production will come in at 12.5-million tonnes, which is a 21% annual decline. However, this is above SA's annual maize requirement of 10.5-million tonnes.

Whatever decisions farmers make in the coming months, they will most likely have a limited influence in the short- to medium-term on food prices as the country still has large carry-over stocks from the 2016-17 production season, which should last until the first half of 2018.

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