Global grain supplies could bail out Africa

By Wandile Sihlobo

Although the past few months have been a struggle to secure grain supplies for southern and eastern Africa, other parts of the world are in better shape and could help offset the shortfall. No indicator spells this out as clearly as the Global Grains Price Index of the Food and Agricultural Organization (FAO) of the United Nations, which averaged 158 points in September this year and was down by 4% year-on-year (y/y) because of large global supplies.

The International Grains Council (IGC) forecasts the global 2019/20 grains production at 2,2 billion tons, which is 1% higher than the previous season. This is boosted by increased wheat and rice production, which have overshadowed the decline in the maize and soya bean harvest.

Global grain production

At the start of the 2019/20 production season, an increase in grain production seemed like a pipe dream because of excessively wet weather conditions and delayed plantings in the United States (US). In addition, when planting finally occurred, there were fears of potentially poor yields. While these tough production conditions caused a decline in global maize and soya bean production, now estimated at 1,1 billion tons and 342 million tons and down by 3% and 6% from the 2018/19 season, respectively, the magnitude of the decline is not as significant as initially feared.

Improved weather conditions over the past few months and the use of high-yielding, short-growing seed varieties are among the factors that softened the impact of late plantings and wet conditions in areas that produce maize and soya beans in the US.

Global wheat production, which decreased notably in the 2018/19 season, recovered by 4% y/y to 764 million tons in the 2019/20 season – the largest harvest ever. There is a notable improvement in the production of all the major wheat-producing countries except Kazakhstan, whose harvest is set to fall by 18% from the 2018/19 season. This increased wheat supply and the ensuing decline in prices drew back some users who had switched to maize during the previous season, because of higher prices. According to data from the IGC, the 2019/20 global wheat consumption is now estimated at 757 million tons, up by 3% y/y.

Despite the increase in consumption, global wheat prices are still under pressure, down by 15% y/y in October, trading around $206 per ton. The Global Grains Price Index illustrates a more comprehensive picture of the overall global grain price dynamics.

The African context

As a nett importer of wheat, the African continent will benefit from the current lower prices. The IGC forecasts Africa's 2019/20 wheat imports at 51 million tons, up by 5% from the previous season. The leading importers include Algeria, Egypt, Morocco, Nigeria, Tunisia, Kenya, Ethiopia, Sudan and South Africa.

From a South African perspective, the increase in global wheat production comes at a time when it is much needed. South Africa's 2019/20 wheat imports could amount to 1,6 million tons, up by 14% from the 2018/19 season, because of the expected poor domestic wheat harvest. While this is beneficial for South African consumers in the near term, it also means that an increase in prices might not compensate South African producers for lower production.

South Africa is a nett importer of wheat, which means prices are already

at import parity levels, and their movements will largely be directed by developments in the global wheat market rather than by domestic factors.

In terms of the entire southern and eastern Africa, Kenya, Mozambique and Zimbabwe are expected to import notable volumes of grains in the 2019/20 marketing year. Estimated maize imports for these countries will collectively be at least 2 million tons. As of mid-November, imports had largely been from Tanzania and South Africa. In addition, wheat imports for the above-mentioned three countries could amount to 3 million tons.

The upside is that the grain shortfall in southern and eastern Africa occurs in a season during which there are generally large global supplies to cushion the countries in need. It will, however, be tough to source white maize imports. Outside of the African continent, Mexico is the only key producer. Meanwhile, wheat will largely be available in the global market.

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