



WEEKLY

10 May 2019

# FOOD-FOR-THOUGHT

# Content



## Weather

USA, Brazil and Argentina ten day forecast



## Parities

Yellow maize import and export parity



## International Agriculture

USA planting progress



## National Agriculture

Soybeans producer deliveries



## Exchange rate

Overview of the Rand against the US\$



## Price risk management

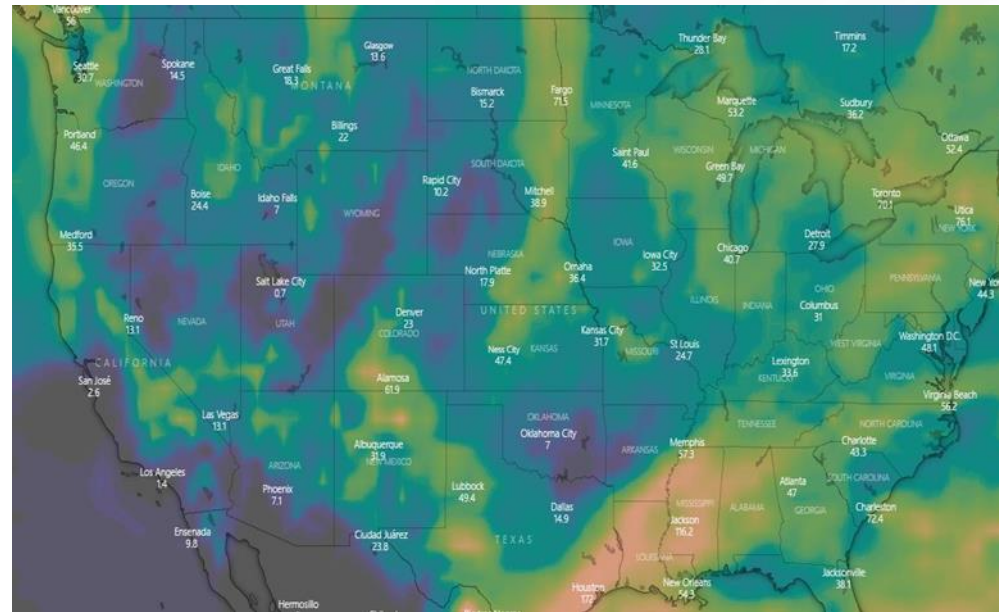
70/30 soybean strategy



## Ten Day forecast: North America

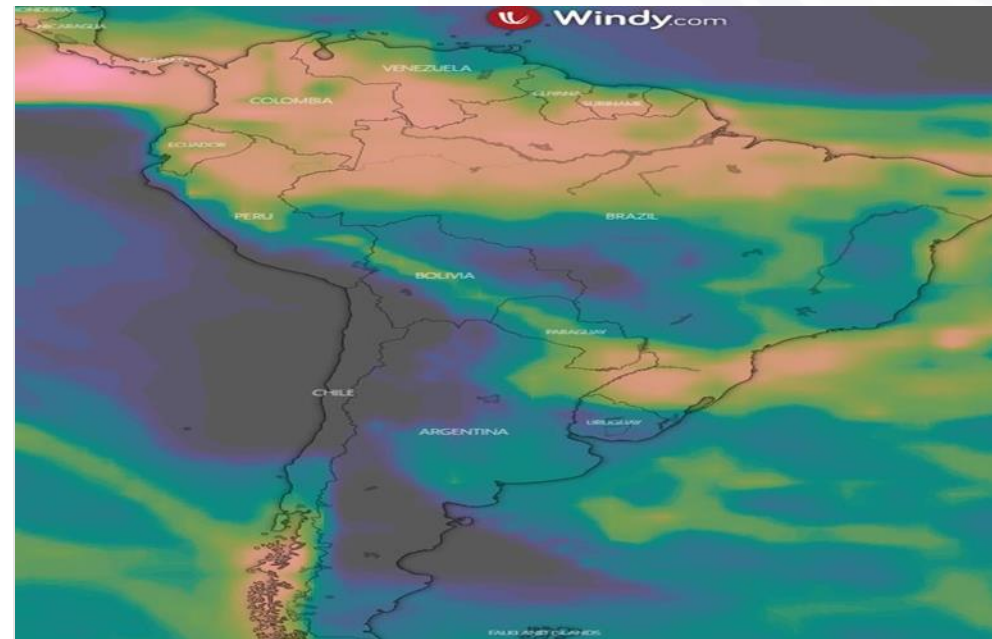
Most grain producing areas in the USA can expect good rainfall over the next ten days.

# INTERNATIONAL WEATHER

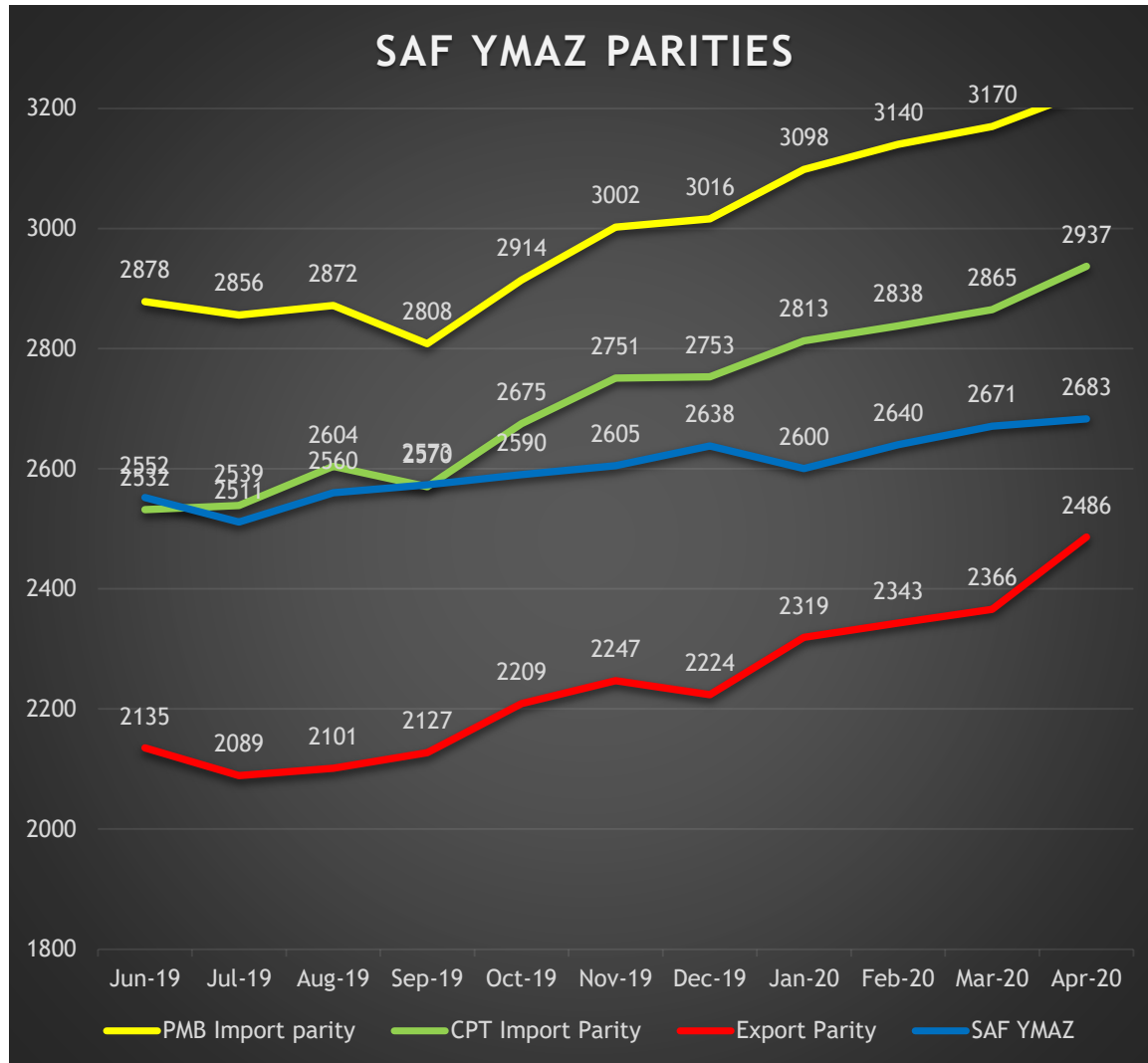


## Ten Day forecast: South America

The northern areas in Brazil, as well the far south can expect good rainfall. Dry weather predicted for most parts of Argentina with minimum rainfall in the east.



# Import and Export PARITIES



	Jul-19	Sep-19	Dec-19	Mar-20
PMB import parity	R2 856	R2 808	R3 016	R3 140
CPT import parity	R2 532	R2 808	R2 753	R2 865
SAFEX yellow maize	R2 511	R2 570	R2 638	R2 671
Export parity	R2 089	R2 127	R2 224	R2 366

**Note:**  
 CPT = Cape  
 PMB = Pietermaritzburg



# FINANCIALS

- CBOT prices in the USA currently trade at a six year low. The graph illustrates the factors that triggered the massive decline in prices as well as the weight of each factor.
- The low price of soybeans can mainly be attributed to the trade war between the USA and China which started May 2018.

## CBOT Soybean prices

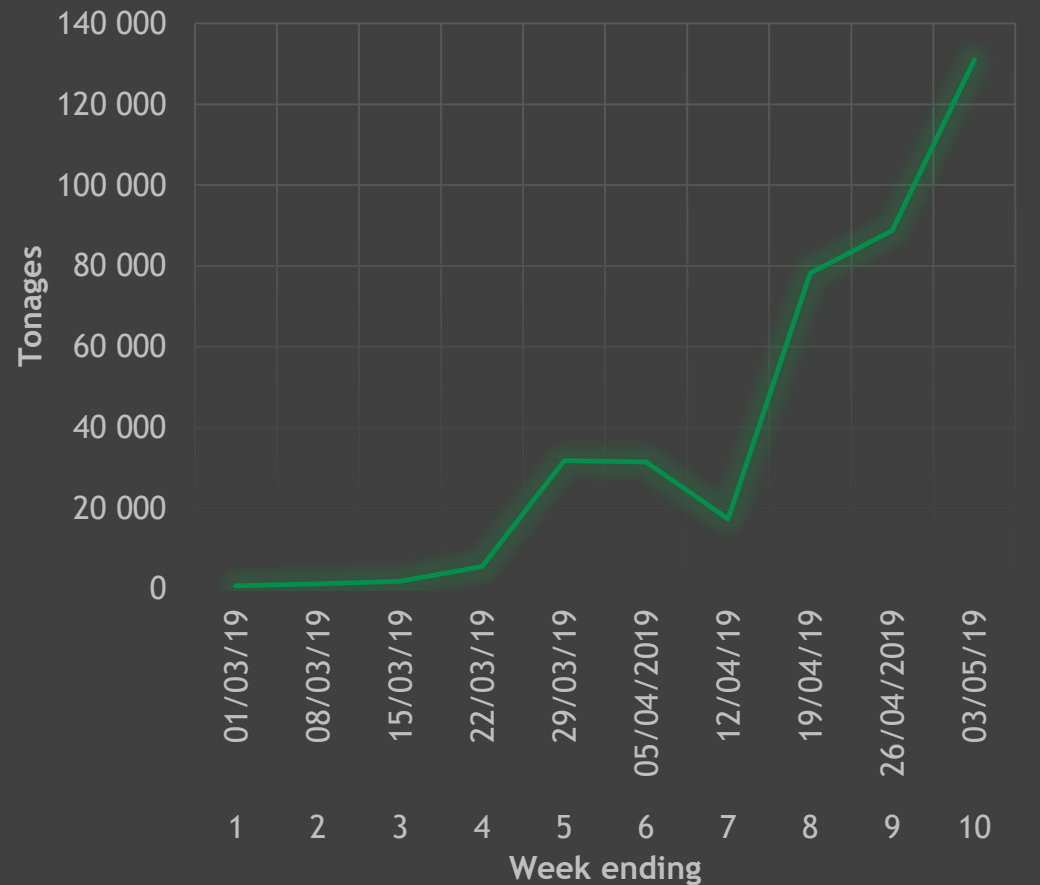


# International Agriculture



## Producer deliveries

### Soybean producer deliveries



Prev. week  
deliveries  
= 131 018  
ton



Total  
deliveries  
= 388 008  
ton

# International Agriculture



## USA planting progress

Corn	Week ending			2014-2018 (Average)
	05-May-18	29-Apr-19	05-May-19	
Colorado	15%	8%	21%	28%
Illinois	68%	9%	10%	66%
Indiana	37%	2%	3%	35%
Iowa	37%	21%	36%	51%
Kansas	44%	31%	41%	51%
Kentucky	34%	28%	42%	46%
Michigan	12%	2%	3%	16%
Minnesota	8%	2%	6%	42%
Missouri	74%	45%	49%	74%
Nebraska	38%	16%	35%	47%
North Carolina	78%	53%	73%	81%
North Dakota	6%	1%	3%	23%
Ohio	20%	2%	2%	27%
Pennsylvania	8%	5%	17%	19%
South Dakota	5%	0%	0%	29%
Tennessee	61%	41%	65%	70%
Texas	79%	65%	70%	73%
Wisconsin	13%	4%	7%	24%
18 States	36%	15%	23%	46%

Soybeans	Week ending			2014-2018 (Average)
	05-May-18	28-Apr-19	05-May-19	
Arkansas	38%	10%	10%	37%
Illinois	26%	3%	3%	16%
Indiana	20%	0%	0%	12%
Iowa	11%	3%	3%	11%
Kansas	7%	2%	2%	6%
Kentucky	5%	4%	4%	6%
Louisiana	61%	24%	24%	58%
Michigan	5%	2%	2%	6%
Minnesota	1%	0%	0%	15%
Mississippi	50%	20%	20%	54%
Missouri	17%	2%	2%	11%
Nebraska	15%	3%	3%	13%
North Carolina	12%	5%	5%	7%
North Dakota	1%	0%	0%	7%
Ohio	7%	1%	1%	9%
South Dakota	1%	0%	0%	5%
Tennessee	6%	3%	3%	9%
Wisconsin	4%	0%	0%	6%
18 States	14%	3%	3%	14%



## USDZAR CHART



The Rand is currently trading above the 200 and 100 moving averages. It appreciated against the US Dollar after President Trump announced higher tariffs on Chinese imports. Another contributing factor to the stronger Rand is the successful South African national election on Wednesday, the 8<sup>th</sup> of May, which was completed without incident. At the time of writing this report, the Rand was trading at R14.36 to the US Dollar.





### European Union grain import increases by 40%

The European Commission's new short-term outlook indicates that maize imports increased by 38.6% (from 14.5 million to 20.1 million tons in the 2017/18 season). This equates to a 50% increase against the five-year average. Most grain imports will originate in the Ukraine

Read more at:

<https://www.farmersweekly.co.za/agri-news/world/eu-maize-imports-increase-40-for-current-marketing-season/>



### President Trump threatens trade war peace

The President of the United States of America, Donald Trump, announced that should China not reach an agreement with the USA in the short-term, higher tariffs will be put into place on Chinese goods. The announcement sparked tension between the two leading economies, and prices on the stock market depreciated drastically.

Read more at:

<https://www.reuters.com/article/us-usa-trade-china/china-trade-team-still-plans-on-u-s-talks-as-trump-vows-to-raise-tariffs-idUSKCN1SCOMF>



### El-Nino still a possibility

Sea surface temperatures remain at weak El Nino levels. Although it is too early to be certain about the status of surface temperatures in the El Nino areas over the next few months, there are some indications of a further weakening of El Nino conditions. The main cause of this is the cooling of sub surface water temperatures in the El Nino areas. More concrete information will only come to light in around July.

Read more at

<http://www.farmingportal.co.za/index.php/agri-index/88-global-weather/2219-el-nino-still-present-but-may-change-to-neutral-in-coming-winter-months-and-summer-of-2019-20-south-africa>



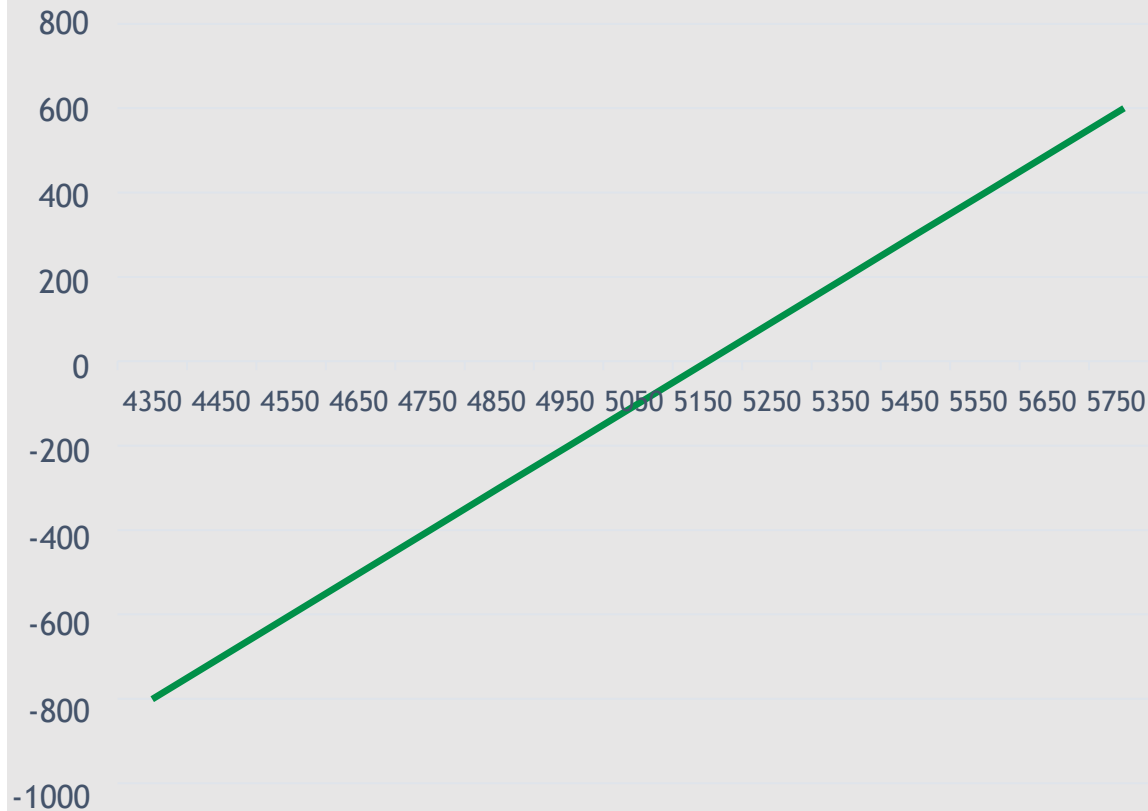
# Summary

- SAFEX yellow maize prices are trading very close to CPT import parity. Upcoming future contracts will already trade below these levels. Pressure on the local market will increase, as the harvesting season is set to kick-off.
- USA crop planting progress is far behind the average, due to wet conditions in key production areas. It is too soon to tell whether this will have an impact on the market. USA producers demonstrated five years ago, in similar conditions, that they are able to plant large amounts of hectares in a short period of time.
- Soybean producer deliveries increased in pace over the past week – a clear indication that the harvesting season is in full swing. Soybean prices are under pressure as a result of this.
- The stronger Rand added extra pressure to the parity prices and, is one of the causes of the losses on SAFEX over the past two days.

# PRICE RISK MANAGEMENT



## 70/30 SOYBEAN



Producer sells 100t soybeans to Rand Agri at **R4 728 (SAFEX)**

- **R3 309.60/t (70%)** paid out to producer.
- **R1 418.40/t (30%)** withheld by Rand Agri.
- **March 2020 soybeans** trade at **R5 147/t** on SAFEX.
- Rand Agri buys a position on behalf off the producer in March 2020.
- Should the March 2020 price move to **R5 300** until February 2020, the producer will make a **R153/t** profit (R5 300–R5 147).
- **The R1 418.40/t + R153/t = R1 571.40/t is paid out to the producer.**

### Benefits:

- Stay in the market for longer - up to 20 February 2020.
- Get your price any day, and receive your money within a week.
- Earn interest on the capital of the 70%.
- No storage costs.
- Measurable instruments on March's price

### Disadvantage:

- If the market moves below R5 147 and decreases by R1 418.40 to R3 728.60/t, the producer needs to close his position or maintain his position, paying in for market shortfalls every day.



« What does  
**enhance**  
mean to you?

... to see **a world** in  
**a grain of sand.** »

We at **Kynoch** would like to thank you, the nation builders, the dreamers, the visionaries, those who stand in the face of adversity and see the potential of a harsh landscape, by planting a seed for tomorrow's generations. We salute you, the food producer.

**Kynoch** pledges to support our food producers at the forefront of sustainability, through enhanced efficiency, through innovation. Ensuring tomorrow's yield is today's victory.

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“Don’t be afraid to give up  
the good to go for the  
great.”

– John D. Rockefeller

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