



WEEKLY

17 July 2019

# FOOD-FOR-THOUGHT

# Content



## Weather

Ten day forecast for the USA, Brazil and Argentina



## Parities

Import and export parity of yellow maize



## International Agriculture

- USA planting progress
- USA grain conditions and emergence report
- WASDE actual report



## Local Agriculture

- Weekly progressive producer deliveries
- Import and export of maize for the new season
- Supply and demand of soybeans



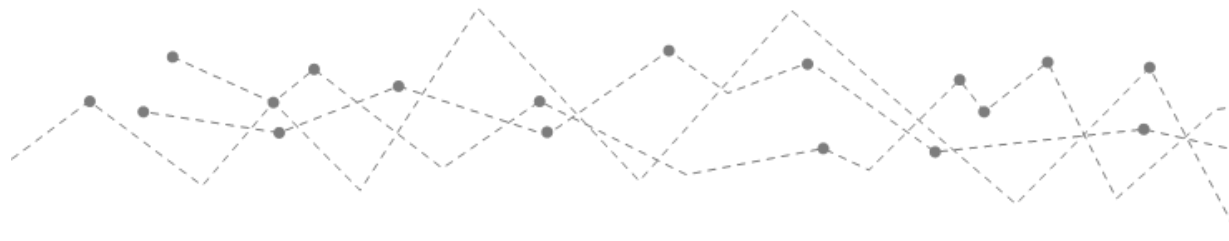
## Exchange Rate

Overview of the Rand against the US\$



## Price risk management

Minimum/maximum price risk management strategy



## Ten day forecast: North America

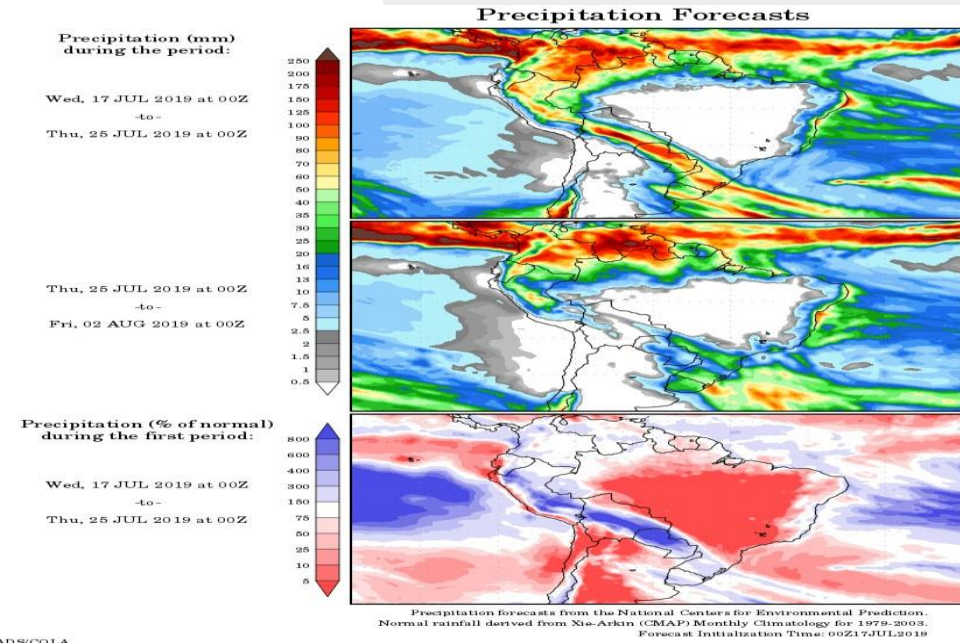
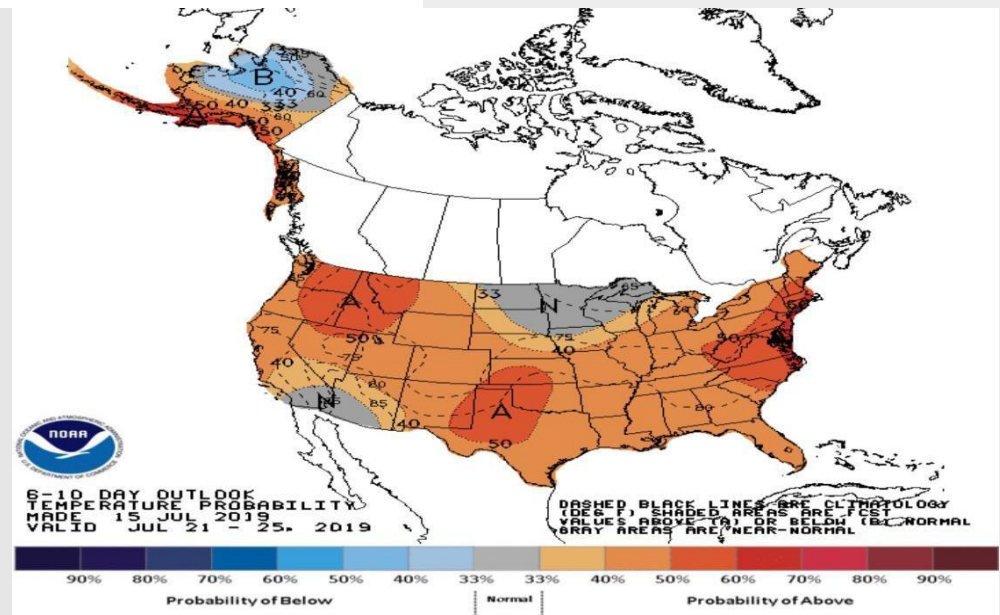
Above normal temperatures can be expected in die USA the next 10 days. It will put pressure on planted grain growth and affect crop conditions negatively.

INTERNATIONAL

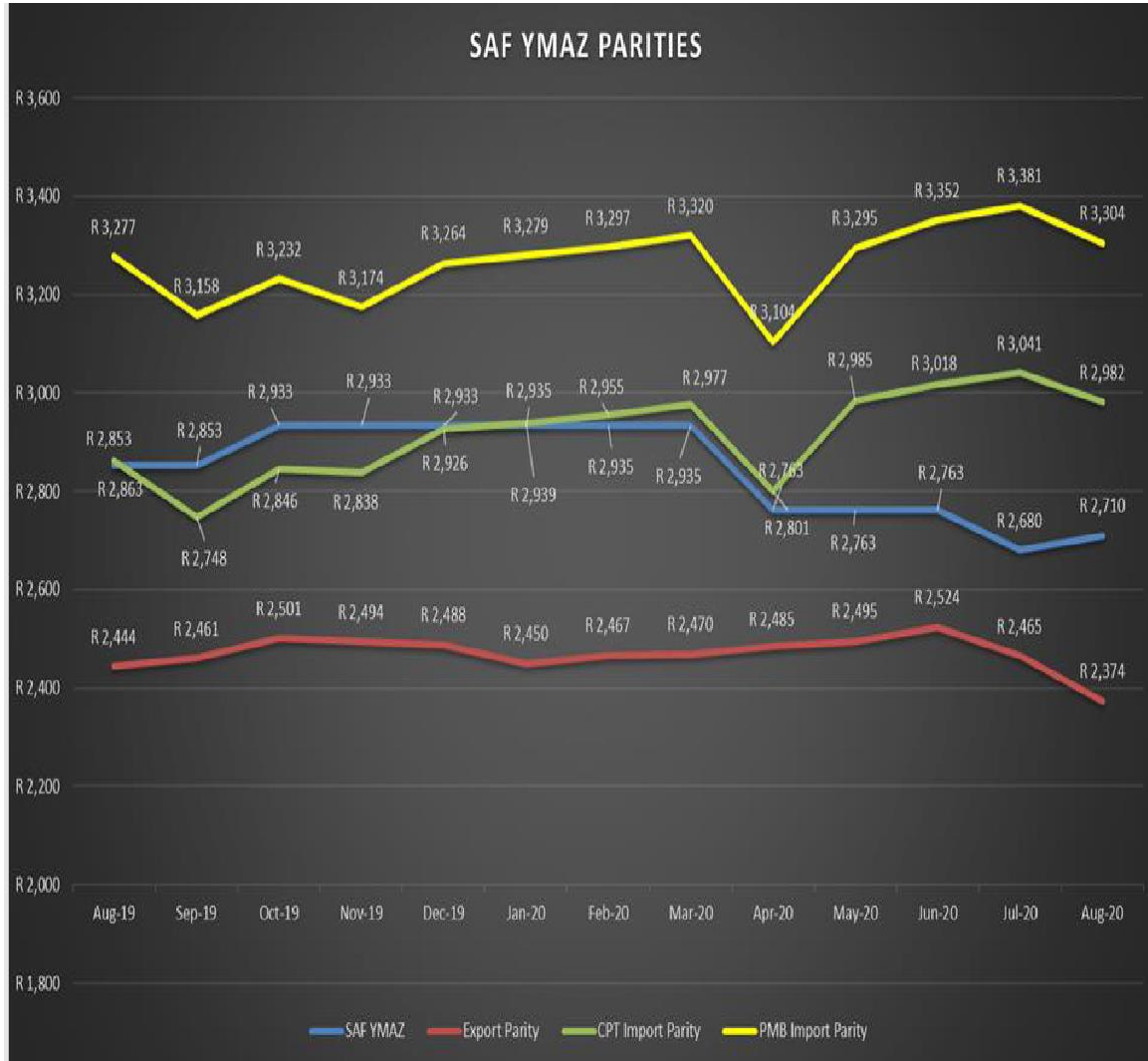
# WEATHER

## Ten day forecast: South America

Normal and dry conditions are expected in both Brazil and Argentina. This weather supports the harvesting pace in the two countries.



# PARITY



	Aug-19	Dec-19	Mar-20	Jul-20
Import parity PMB	R3 277	R3 264	R3 320	R3 381
Import parity Kaap	R2 853	R2 933	R2 977	R3 041
SAFEX Yellow maize	R2 863	R2 926	R2 935	R2 680
Export parity	R2 444	R2 488	R2 470	R2 465



# Agriculture



USA crop conditions ( Good/Excellent )

2017  
= 61%

2018  
= 69%

5-year avg  
= 68%

Current  
week  
= 54%

2017  
= 65%

2018  
= 75%

5-year avg  
= 71%

Current  
week  
= 57%

# Agriculture

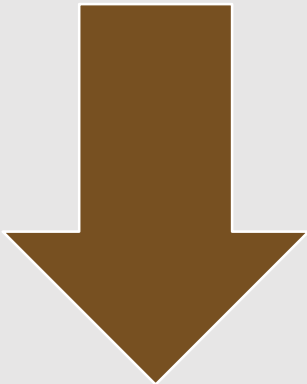


## USA crop progress

Corn: Silking



5y avg  
= 42%



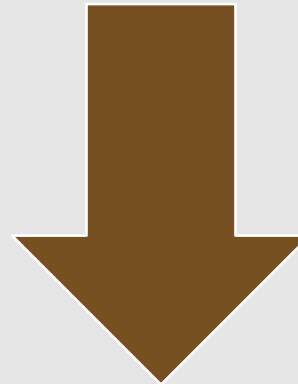
14 Jul-19  
= 17%

Difference = -25%

Soybeans: Blooming



5y avg  
= 49%



14 Jul-19  
= 22%

Difference = -27%

# Agriculture



## USDA report: USA and South-American crop production

### 2019/20 U.S. Crop Production

	CORN		SOYBEANS	
	Yield	Production	Yield	Production
<b>USDA June</b>	<b>166.0</b>	<b>13.875</b>	<b>48.5</b>	<b>3.845</b>
Trade average	165.0	13.664	48.6	3.883
<i>USDA June</i>	<i>166.0</i>	<i>13.680</i>	<i>49.5</i>	<i>4.150</i>
2018/19 Final	176.4	14.420	51.6	4.544

Note: Yield figures in bushels per acre, production figures in billions of bushels.

Data sources: Reuters; USDA/WAOB

@kannbwx

### USDA South American Crop Production

(millions of tonnes)

	CORN		SOYBEANS	
	Argentina	Brazil	Argentina	Brazil
<b>2018/19 July</b>	<b>51.0</b>	<b>101.0</b>	<b>56.0</b>	<b>117.0</b>
<i>2018/19 June</i>	<i>49.0</i>	<i>101.0</i>	<i>56.0</i>	<i>117.0</i>
Final 2017/18	32.0	82.0	37.8	122.0
<b>2019/20 July</b>	<b>50.0</b>	<b>101.0</b>	<b>53.0</b>	<b>123.0</b>
<i>2019/20 June</i>	<i>50.0</i>	<i>101.0</i>	<i>53.0</i>	<i>123.0</i>

Data sources: USDA/FAS; Reuters

@kannbwx

# AGRICULTURE



Producer deliveries up to 12 July

## Maize

### Current season:

White maize = 1 809 901 t  
Yellow maize = 3 617 113 t

### Previous season:

White maize = 2 576 832 t  
Yellow maize = 3 351 671 t

## Soybeans

### Current season:

= 1 095 160 t

### Previous season:

= 1 449 575 t

## Sunflower

### Current season:

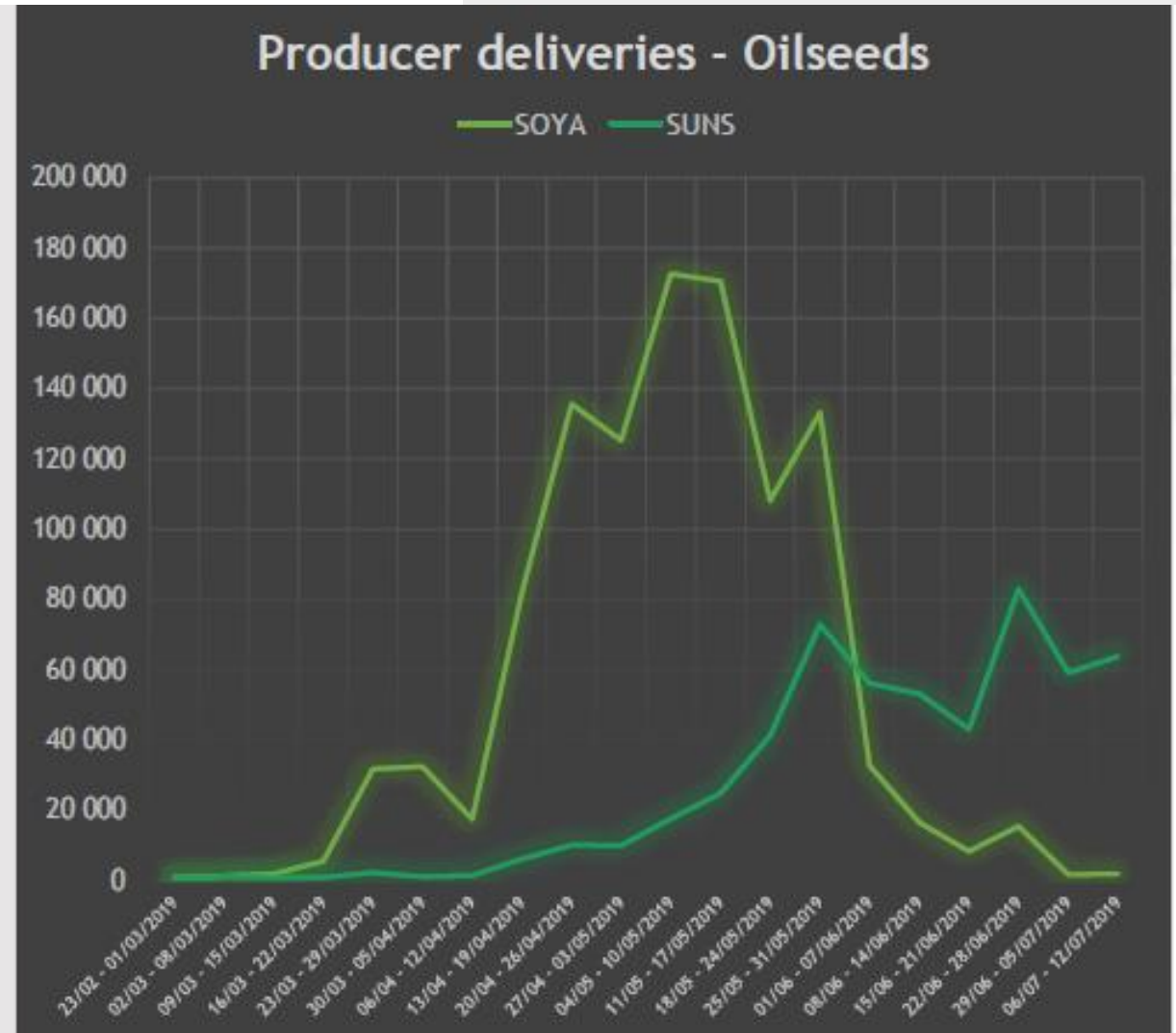
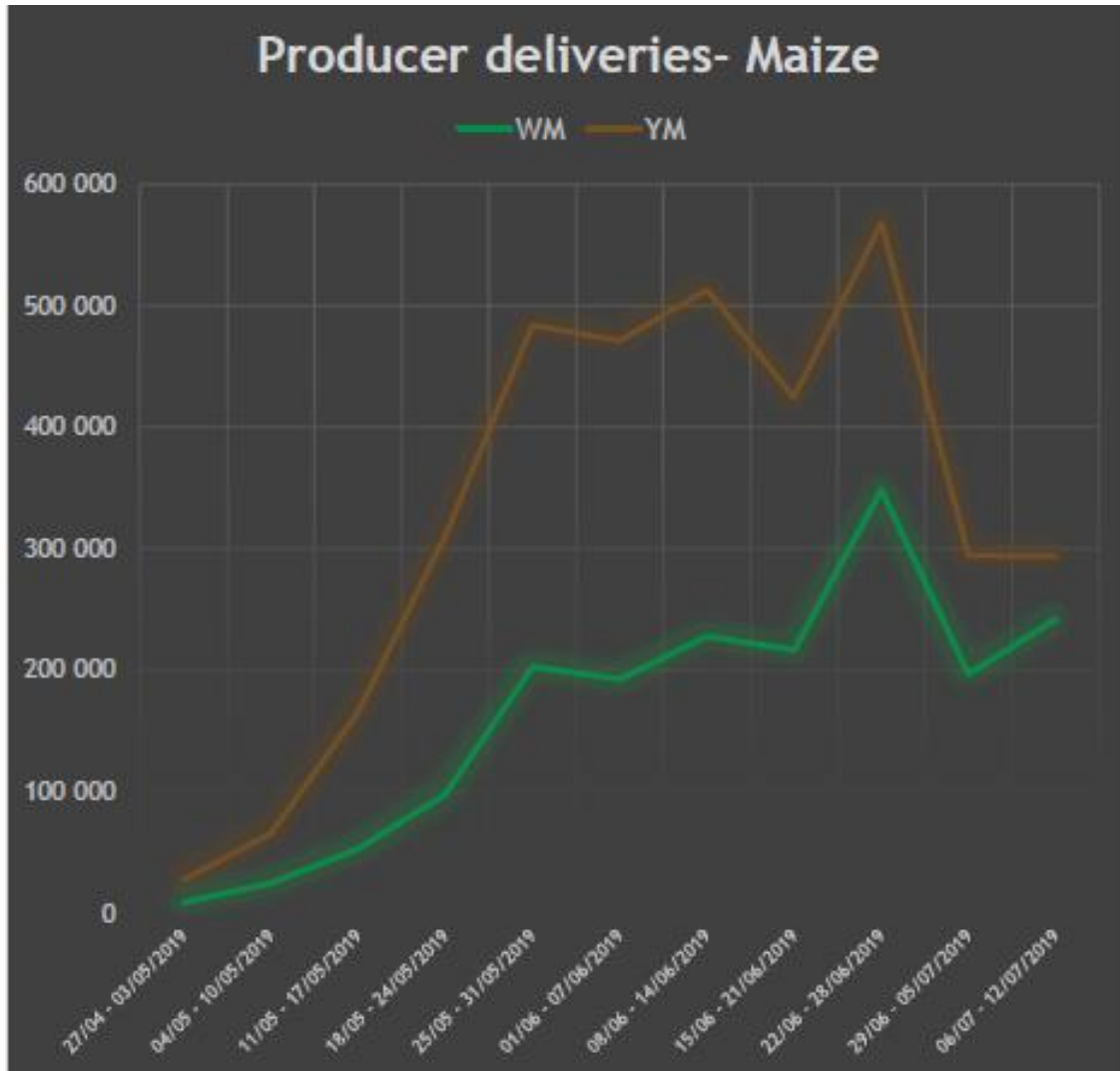
= 549 684 t

### Previous season:

= 722 105 t



# Agriculture



# AGRICULTURE

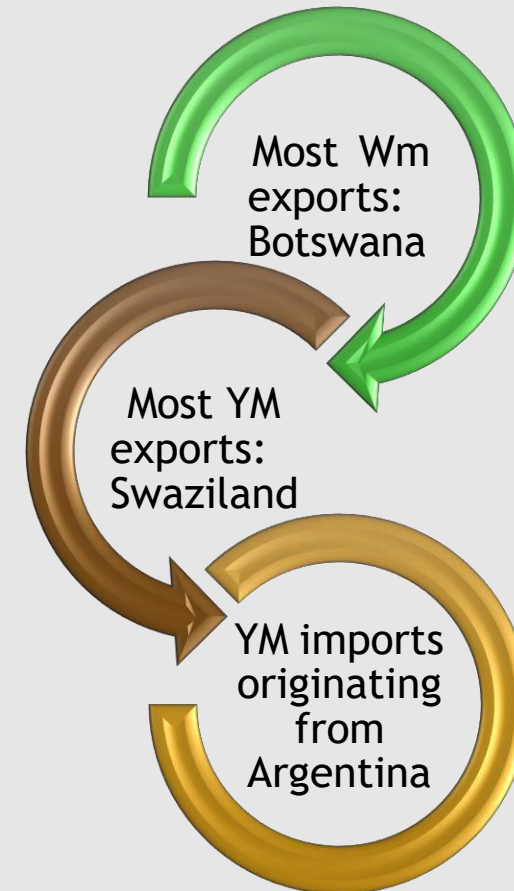


## White maize

- Exports = 133 412t
- Imports = 0 t

## Yellow maize

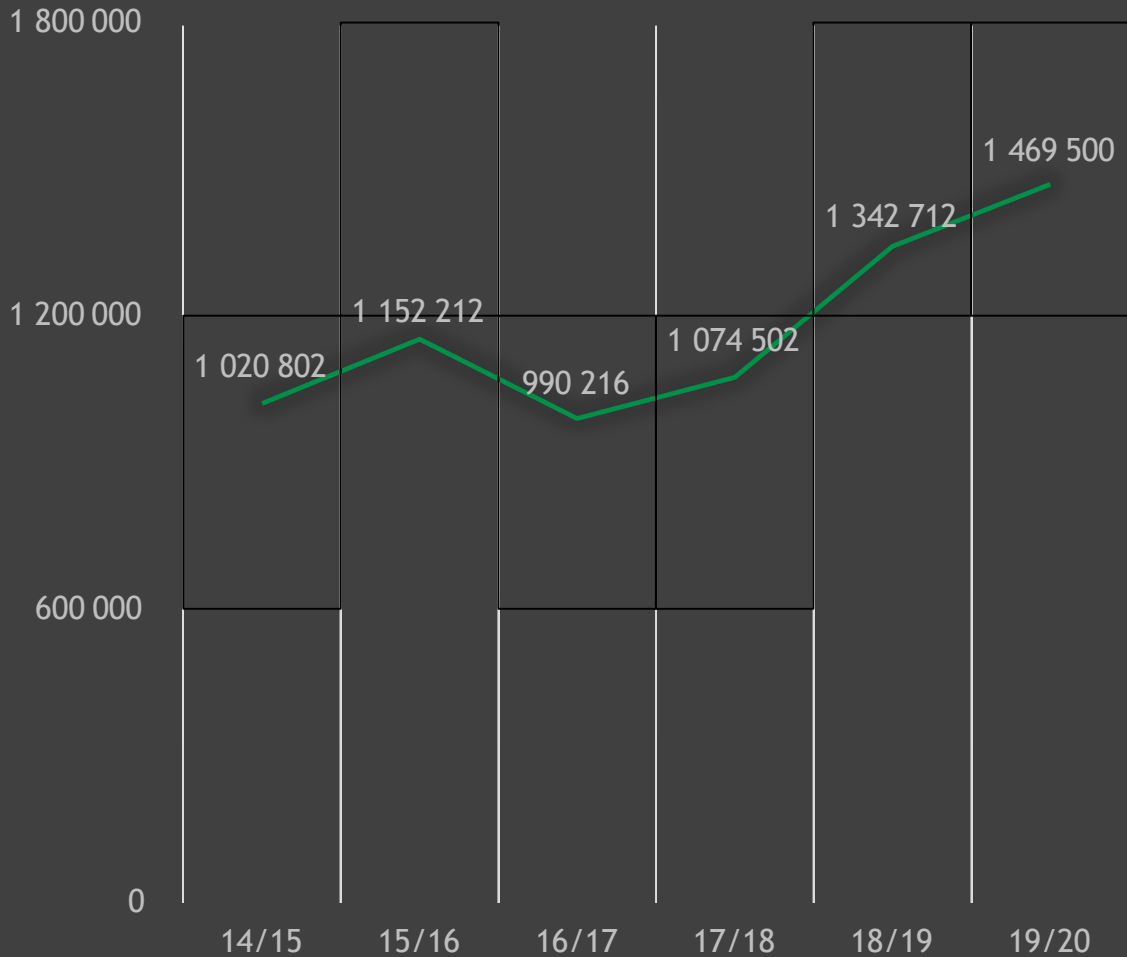
- Exports = 57 119 t
- Imports = 66 308 t



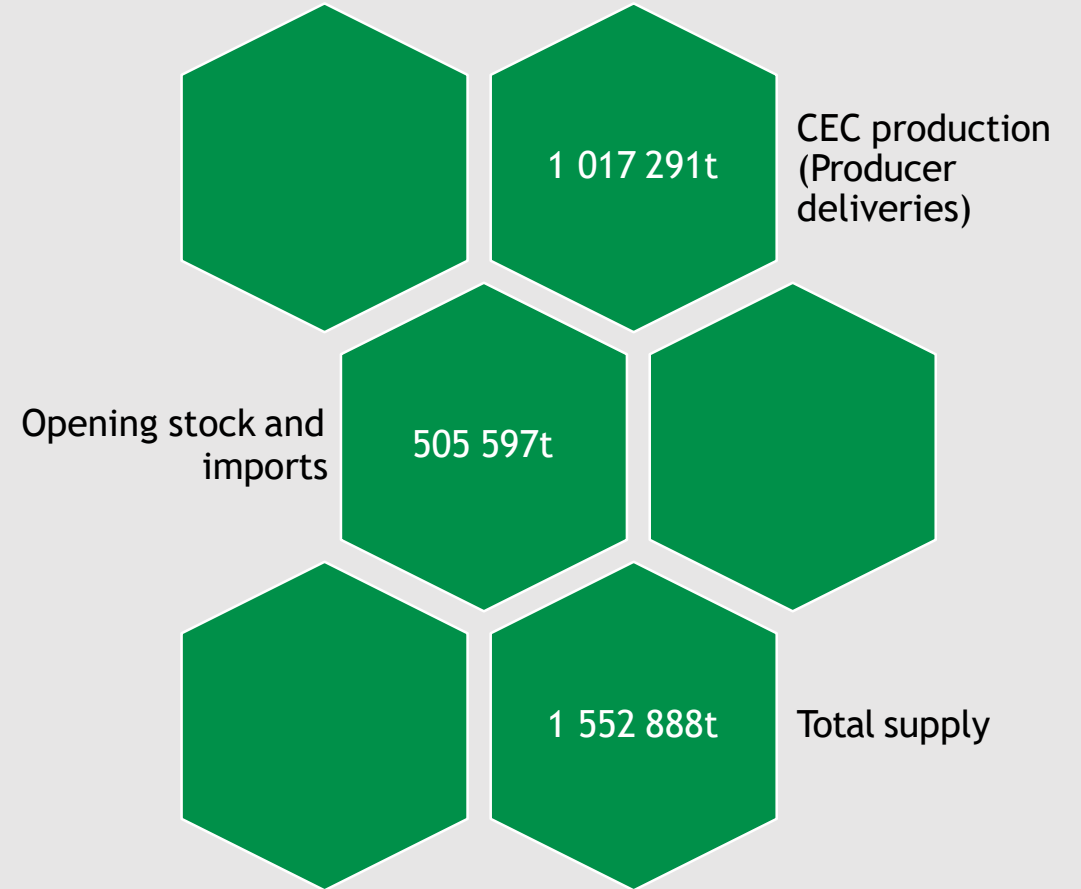
# Agriculture



### South African Soybean Demand



### 2019/20 Production Forecast



R/\$



## USDZAR CHART



USA retail sales were better than market expectations, causing the weakening of the rand. However the rand stays relatively strong against the dollar due to the possibility of further import tariff increases on Chinese goods by the USA, as China didn't keep to their promise to buy more US agricultural products.

If these increases are implemented, we can expect a weaker dollar and a stronger South African currency, which will place local grain prices under pressure.

# NEWS



## Very hot weather to be expected in the USA.

Dry and warm weather conditions possibly associated with heat waves in the corn belt are predicted for the USA. According to the weather outlook the scorching heat will be offset by below normal temperatures. It put grain plantings under pressure and negatively affect the crop conditions and yield. A smaller yield signifies the production will also decline.

Read more at:  
<https://www.farmersweekly.co.za/agri-news/world/us-farmers-brace-themselves-for-further-crop-damage/>



## Grain market outlook

The American corn market seems to trade bullish (positive) although there were some losses over the past few days, The longer term trend suggests that the price of corn will increase again. Current weather conditions are threatening the blooming stage of soybeans and could affect the yield negatively which will support grain prices.

Read more at:  
<http://www.agtag.co.za/category/1/post/23546>



## South African Rand hovers below R14.00 level

The South African rand depreciated against the US\$ on Wednesday (17 July 2019 ) due to better than expected retail sales in the US. Trump is threatening to impose more taxes on China if the country does not deliver on their promise to buy more agricultural products from the US.

Read more at:  
<https://www.businesslive.co.za/bd/markets/2019-07-17-rand-hovers-under-r14-amid-us-china-trade-jitters/>



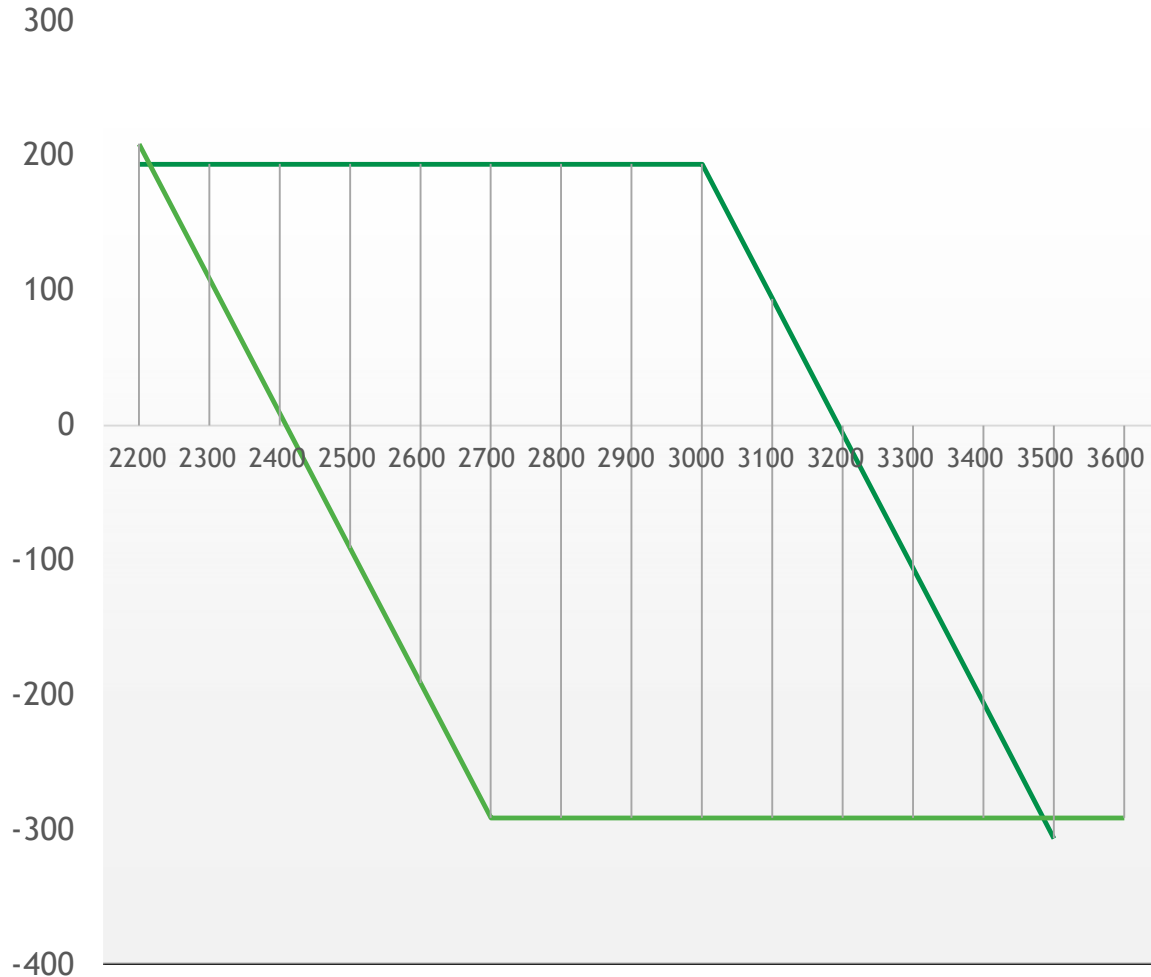
# Summary

- Below normal temperatures followed by extremely hot weather conditions during day time in the USA influence crop conditions and its yield.
- SAFEX is trading at Cape import parity in but the price is expected to move below the import parity in the near future.
- Larger than expected production forecasts placed the CBOT prices under pressure.
- White maize producer deliveries gained some speed the past week, while the yellow maize delivery pace did not fluctuate, it is however expected to pick up near harvesting season.
- The weaker Rand supported the grain prices Wednesday, 17 July limiting the losses on the market. The rand might strengthen again against the dollar as an expected tariff increase on Chinese imported goods

# RISK MANAGEMENT



Min/Max price



## Minimum/Maximum price:

A put option is bought on behalf of the client to establish a minimum price level.

At the same time a call option is sold to lock-in a maximum price for the client. By selling the call option the client receives a premium, which is used to decrease the price of the strategy.

Should the market price move above the maximum level (call option) the client will receive a short futures contract and will be forced to deliver against the maximum level.

If the market price moves below the minimum level (put option) the client can be assured that he will be able to deliver his product against the minimum level.

Suppose the client is entering a min/max strategy as the graph indicates:

- ✓ Producer buy put option @ R2 760 (minimum level) at a cost of R272/t
- ✓ Producer sell call option @ R3 000 (maximum level) at a premium of R192/t

Thus the producer can receive a minimum level of R2 760/t and a maximum level of R3 000/t for his product.

The strategy will cost the farmer effectively:  $R272(\text{put}) - R192(\text{call}) = R80/\text{t}$

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- \* Steel Construction
- \* Warehouses
- \* Workshops





“The price of success is  
hardwork, dedication to do the  
job at hand, and the  
determination that whether we  
win or lose, we have applied the  
best of ourselves to the  
task at hand”

– Vince Lombardi

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