



07 August 2019

WEEKLY

# 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
- Expectations for the 12 August 2019 USDA report



## Local Agriculture

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



## Exchange Rate

Overview of the rand against the US\$

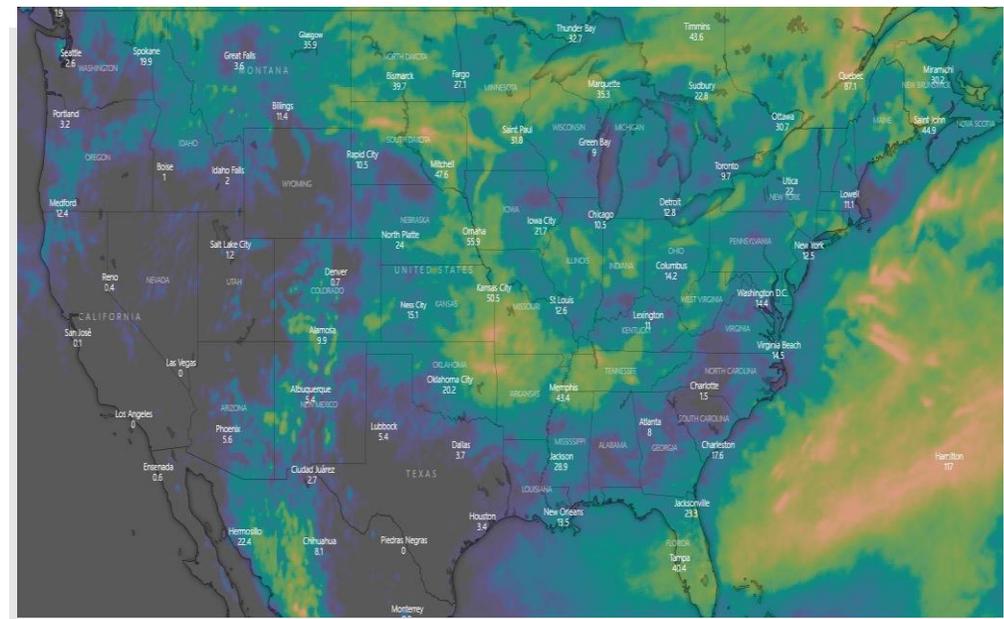


## Price risk management

Long-term option strategy

## Ten day forecast: North America

High temperatures and abnormal rainfall are expected in the USA the next 10-days. Crop growth should benefit from these conditions.



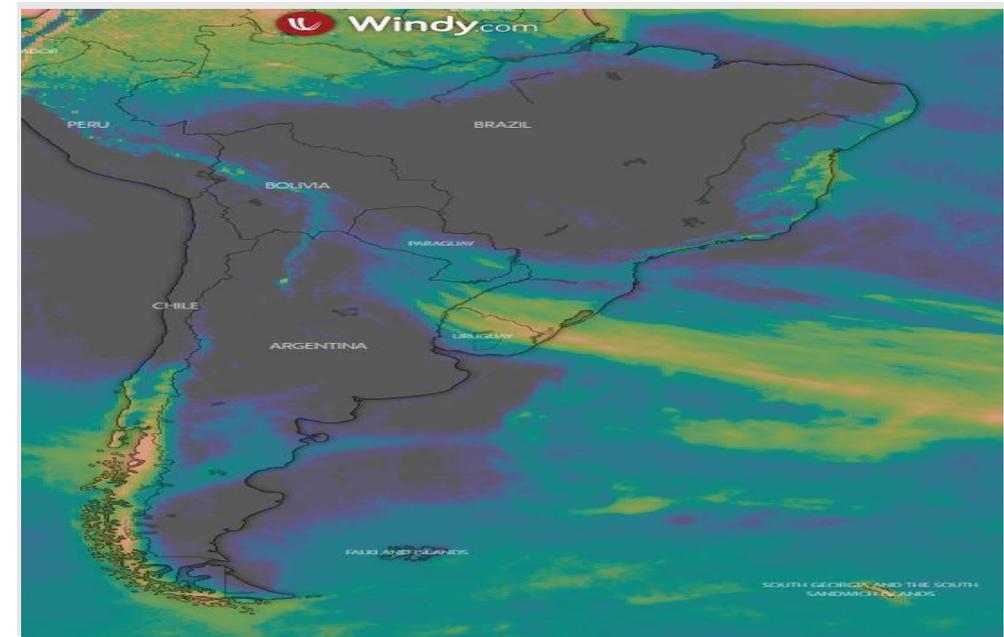
INTERNATIONAL

# WEATHER

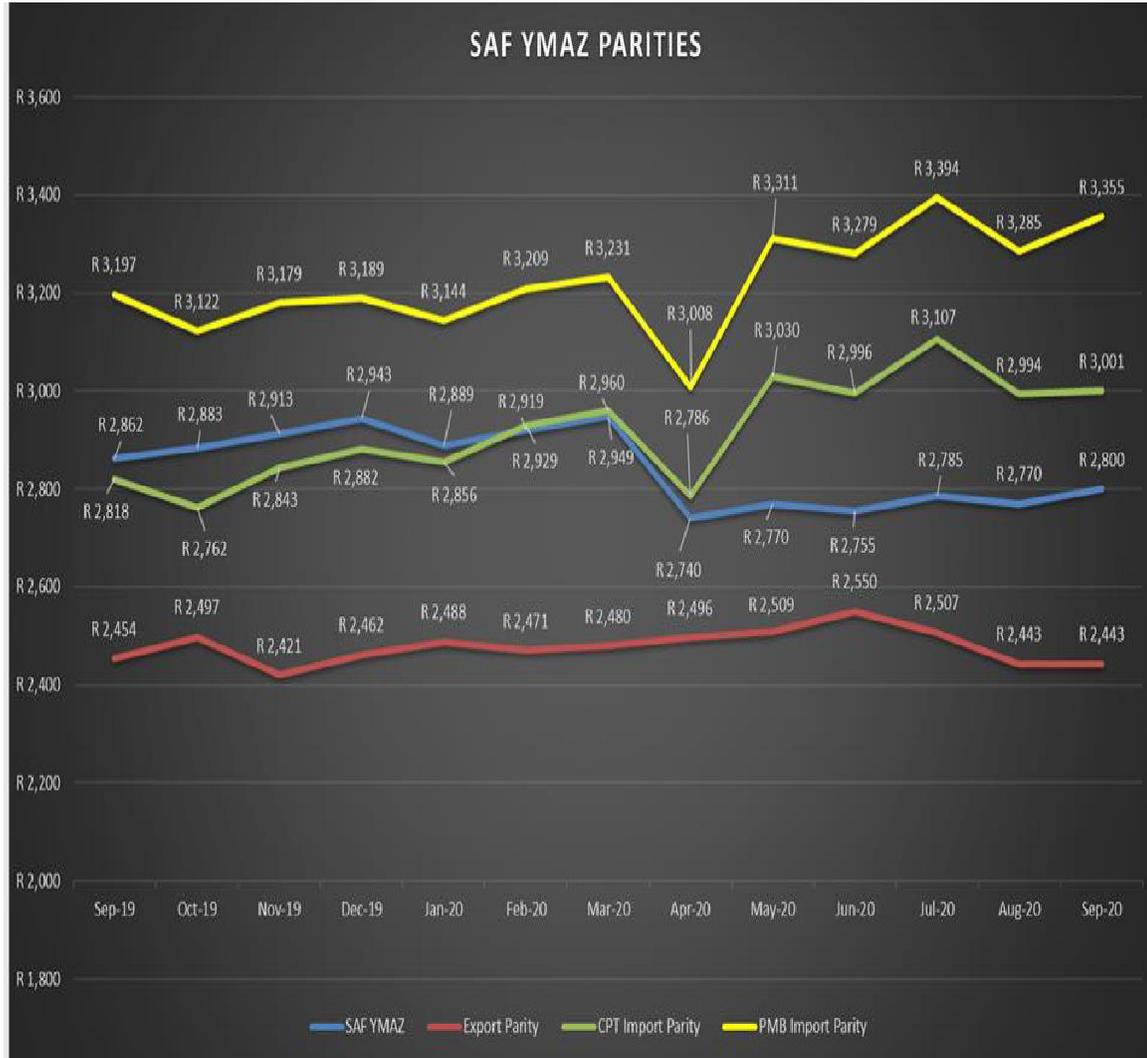


## Ten day forecast: South America

Dry weather across Argentina supports the harvesting season. Heavy rainfall is predicted for parts of Brazil especially in the Parana area.



# PARITY



	Sep-19	Dec-19	Mar-20	Jul-20
Import parity PMB	R3 179	R3 189	R3 231	R3 394
Import parity CAPE	R2 818	R2 882	R2 960	R3 107
SAFEX Yellow maize	R2 862	R2 943	R2 949	R2 785
Export parity	R2 454	R2 462	R2 480	R2 507



# Agriculture

## USA Crop Conditions (Good/Excellent)



Corn

2017  
= 60%

2018  
= 71%

5y avg  
= 68%

Current  
week  
= 57%

Soybeans

2017  
= 60%

2018  
= 67%

5y avg  
= 66%

Current  
week  
= 54%

# Agriculture

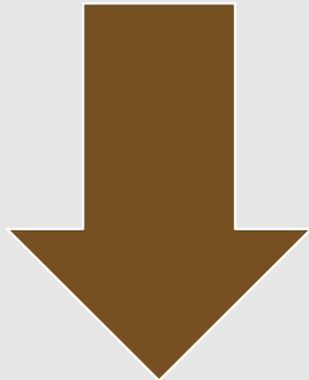


## USA crop progress

Corn: Dough



5y avg  
= 42%



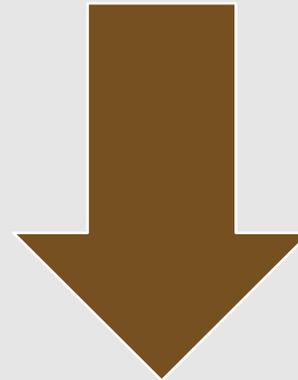
14 Jul-19  
= 23%

Difference = -19%

Soybeans: Setting pods



5y avg  
= 63%



14 Jul-19  
= 37%

Difference = -26%

# Agriculture



Expectations for the 12 August 2019 USDA report

## 2019/20 U.S. Crop Production

(Trade estimates for Crop Production August 12, 2019)

CORN				
	Planted Acres	Harvested Acres	Yield	Production
Trade Average	<b>87.998</b>	<b>80.05</b>	<b>164.9</b>	<b>13.193</b>
Trade range	83.494 – 89.8	76.114 – 81.9	161.0 – 167.2	12.723 – 13.55
WAOB July	91.7	83.6	166	13.875
Final 2018/19	89.129	81.74	176.4	14.420

Note: Area figures in millions of acres, yield figures in bushels per acre, production figures in billions of bushels.

Data sources: Reuters; USDA/WAOB/NASS

@kannbwx

## 2019/20 U.S. Crop Production

(Trade estimates for Crop Production August 12, 2019)

SOYBEANS				
	Planted Acres	Harvested Acres	Yield	Production
Trade Average	<b>81.006</b>	<b>79.890</b>	<b>47.6</b>	<b>3.800</b>
Trade range	78.0 – 83.5	77.3 – 82.8	46.0 – 49.0	3.633 – 3.974
WAOB July	80.0	79.3	48.5	3.845
Final 2018/19	89.196	88.110	51.6	4.544

Note: Area figures in millions of acres, yield figures in bushels per acre, production figures in billions of bushels.

Data sources: Reuters; USDA/WAOB/NASS

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LOCAL

# AGRICULTURE



Producer deliveries up to 31 July

## Maize

### Current season:

White maize = 2 889 493 t  
-52% of total crop delivered  
Yellow maize = 4 250 984 t  
-79% of total crop delivered

### Previous season:

White maize = 4 259 106 t  
-65% of total crop delivered  
Yellow maize = 4 411 934 t  
-74% of total crop delivered

## Soybeans

### Current season:

= 1 100 020 t  
-94% of total crop delivered

### Previous season:

= 1 459 322 t  
-95% of total crop delivered

## Sunflower

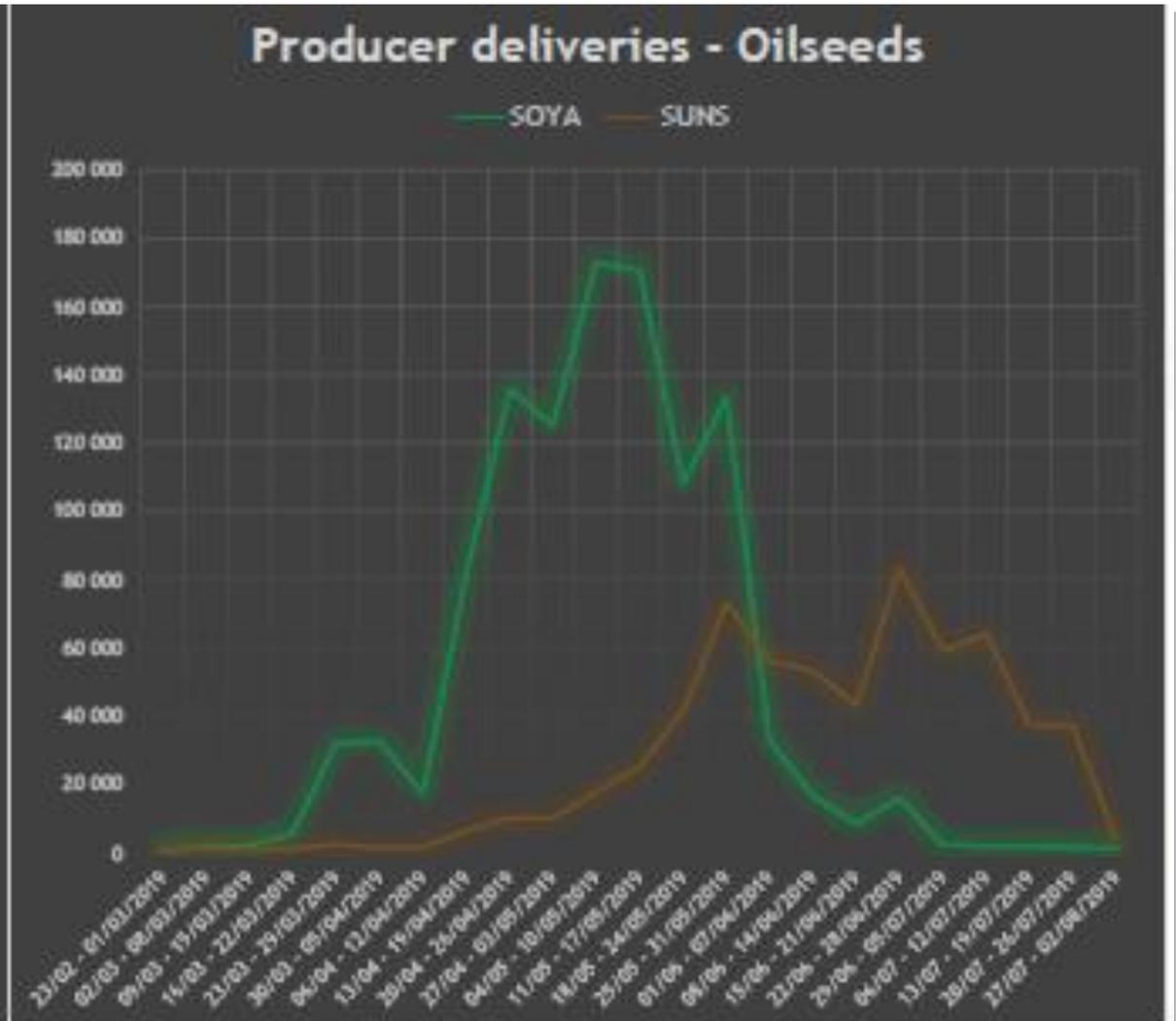
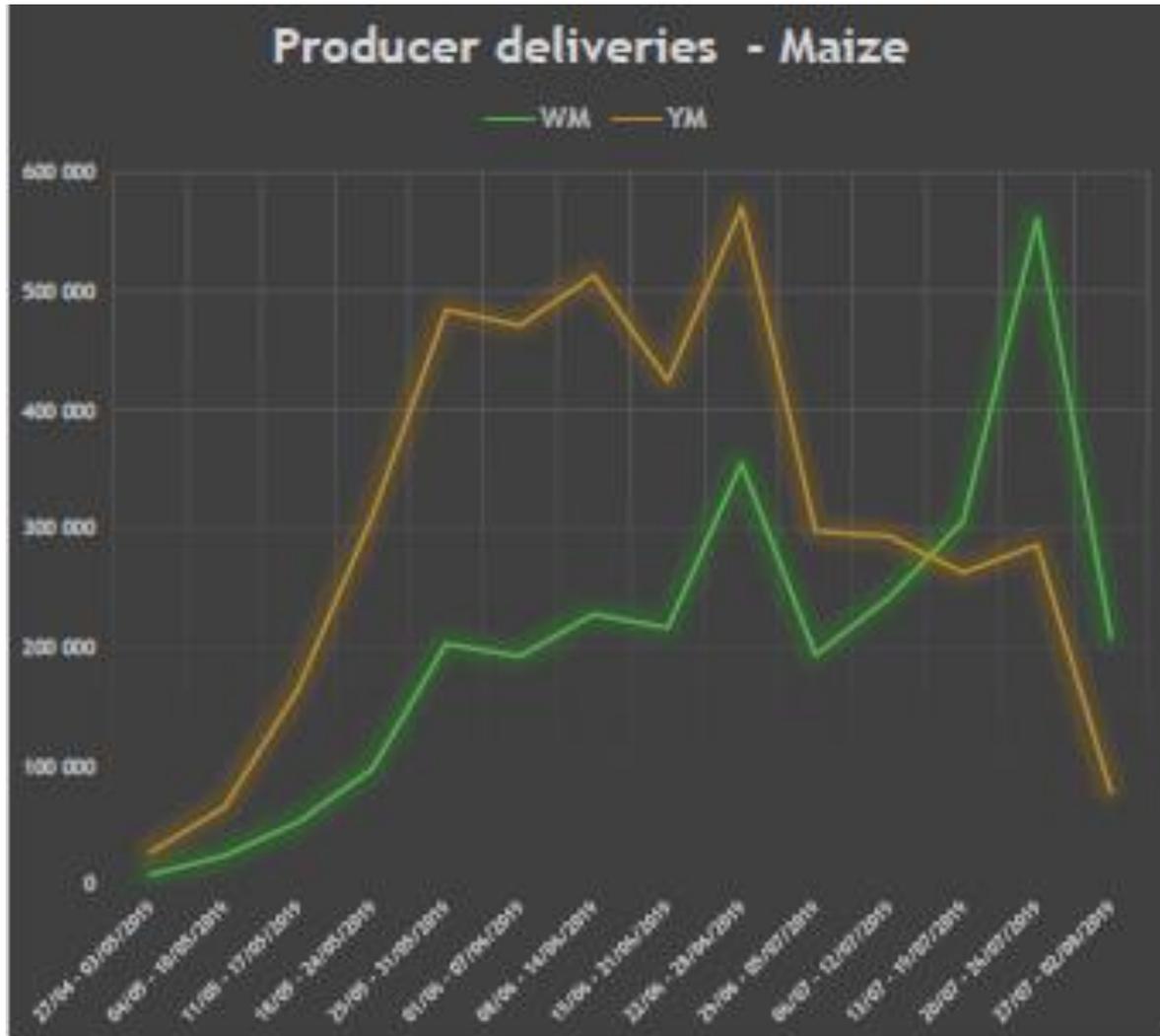
### Current season:

= 628 205 t  
-96% of total crop delivered

### Previous season:

= 821 315 t  
- 95% of total crop delivered

# Agriculture



# AGRICULTURE

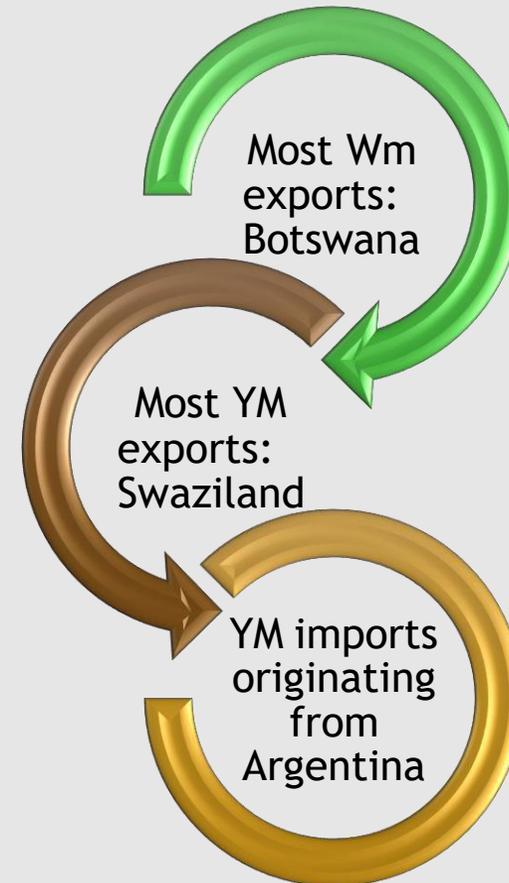


## White maize

- Exports = 174 076t
- Imports = 0t

## Yellow maize

- Exports = 77 508t
- Imports = 131 399t





## USDZAR CHART



The South African rand appreciated against the US dollar during the SAFEX trading hours the 7<sup>th</sup> of August after it collapsed to almost R15.00 the past week. The continuing trade war between China and the USA is the main contributing factor. The Chinese yuan also suffered serious losses impacting on emerging markets currencies such as South Africa to decline against the US dollar.

The USA accuses China of currency manipulation, click here to find out more:

<https://www.bloomberg.com/news/videos/2019-08-06/why-the-u-s-calls-china-a-currency-manipulator-video>

# NEWS



## China stops all agricultural imports from the USA.

Chinese companies have stopped buying U.S. agricultural products, China's Commerce Ministry said on Tuesday, a blow to U.S. farmers who have already seen their exports slashed by the more than year-old trade war. China may also impose additional tariffs on U.S. farm products, the Ministry said. Trump said on Thursday that Beijing had not fulfilled a promise to buy large volumes of U.S. farm products and vowed to impose new tariffs on around \$300 billion of Chinese goods, abruptly dimming prospects of a trade deal.

Read more at:

<https://www.reuters.com/article/us-usa-trade-china-agriculture/china-stops-buying-u-s-farm-products-commerce-ministry-idUSKCN1UV0XJ?il=0>



## Food insecurity hits the Africa continent.

13 Countries in the Southern parts of Africa is facing food insecurity in the 2019/20 seasonn, including. South Africa, Botswana, Angola, Mozambique and Zimbabwe. Only 37.5 million tons of grain were produced in this season, 5.4 million tonnes less than the total demand

Read more at:

<https://www.farmersweekly.co.za/agri-news/africa/41-million-people-in-southern-africa-to-face-food-insecurity>



## Free Trade can boost South African agriculture.

SA's agricultural sector could receive a major boost when the African free-trade zone becomes operational in July 2020.

According to the Agriculture Business Chamber (Agbiz), an organisation that represents commercial farmers and agribusiness, SA exports roughly 49% of its agricultural products in value terms, and the newly launched African Continental Free Trade Area (AfCFTA) would potentially open additional avenues for South African products to participate in new markets on the continent.

"This would practically mean an increase in the share of South Africa's agricultural exports to the continent, rather than mainly focusing on growing other well-established markets," said Agbiz chief economist Wandile Sihlobo.

<https://www.businesslive.co.za/bd/national/2019-08-06-sa-agricultural-sector-could-be-boosted-by-african-free-trade-agreement/>:



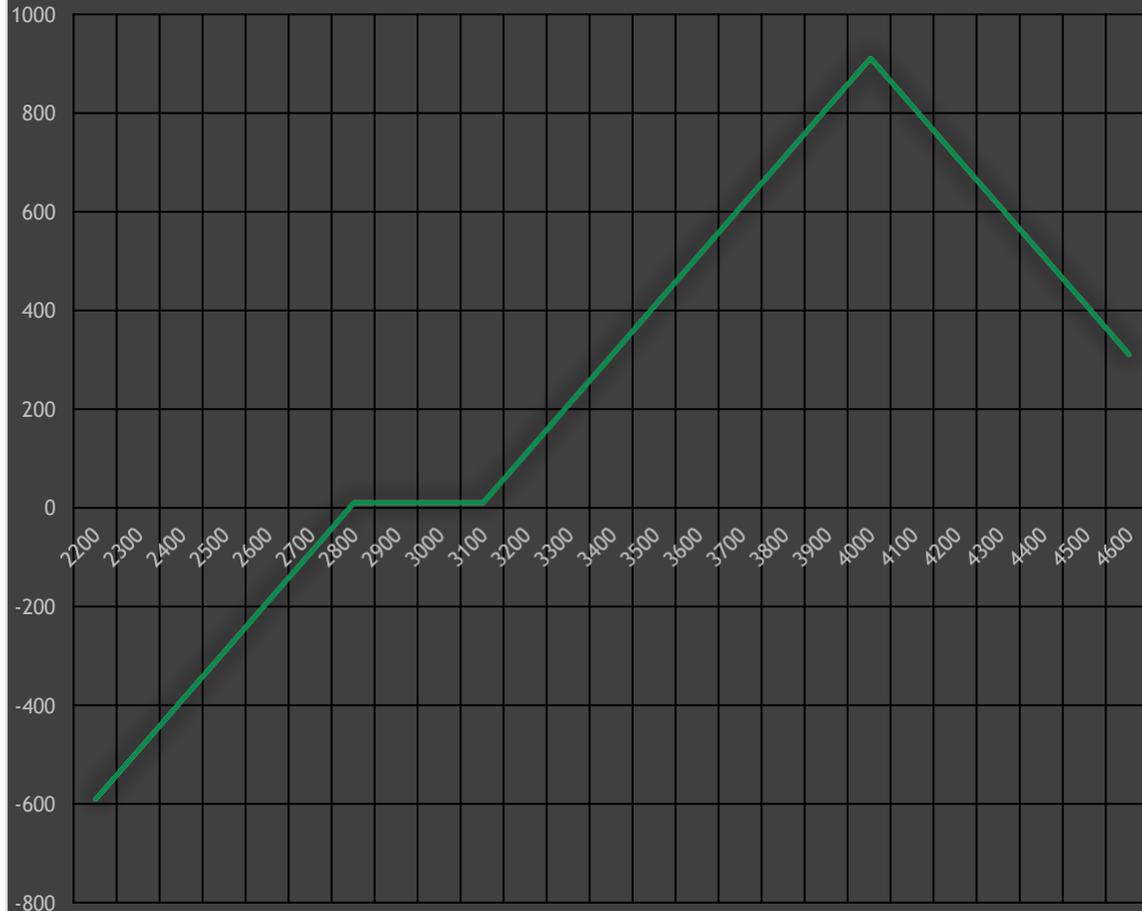
# Summary

- Current USA weather conditions support crop conditions and adds pressure to CBOT prices.
- Local yellow maize is currently trading above import parity in the Cape, the the weaker rand supporting local grain prices is the main contributing factor.
- USA crop conditions are unchanged and still below the 5- year average.
- USDA report expectations indicates that the market expects a reduced corn production i this year with low yields and less planted acers.
- Local maize deliveries declined the past week, mainly because of the weather conditions in the western parts of the country.
- The South African rand is performing poorly against the US dollar and is hovering just below the R15.00 level, supporting local grain prices.

# RISK MANAGEMENT



## Long-term option strategy



### The long-term option strategy steps

- Buy a call option at R3 100
- Sell a put option at R2 800
- Sell 2 x call options at R4 000

### Why the strategy?

The strategy is for the client who wants to sell its product, but still wants to participate in the market, since he believes the price will surge.

Usually the client will enter a 70/30 agreement setting a fixed price against which he will sell his grain and buy futures in a subsequent month. The risk is that with every R1 the market falls, the client will lose R1.

### Outcome of the option strategy:

Should the market price increase, the client will take part in the profits between the R3 100 up and until the R4 000/t level.

If the market price decreases, the client will not lose any money up and until the level of R2 800/t. Should the market price move below the R2 800/t level, the client will buy his grain back and receive a long futures position. Thus as the market moves to R2 500/t, the client will lose R300/t and will be obliged to pay the R300/t loss.

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- \* Machining
- \* Line Boring

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- \* Building Maintenance
- \* Steel Construction
- \* Warehouses
- \* Workshops



**“Optimism is the faith that leads to achievement. Nothing can be done without hope and confidence.”**

**- Helen Keller**

# CONTACT US



**Tel:** +27 (0) 13 243 1166

**E-pos:** [info@randagri.co.za](mailto:info@randagri.co.za)

**Web:** [www.randagri.co.za](http://www.randagri.co.za)

**Adres:** 24 Samora Machel Street,  
Middelburg, Mpumalanga

