



21 August 2019

WEEKLY

FOOD-FOR-THOUGHT

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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
- World grain balance sheet



Local Agriculture

- Weekly progressive producer deliveries
- Maize import and export of for the new season



Exchange rate

Overview of the Rand against the US\$

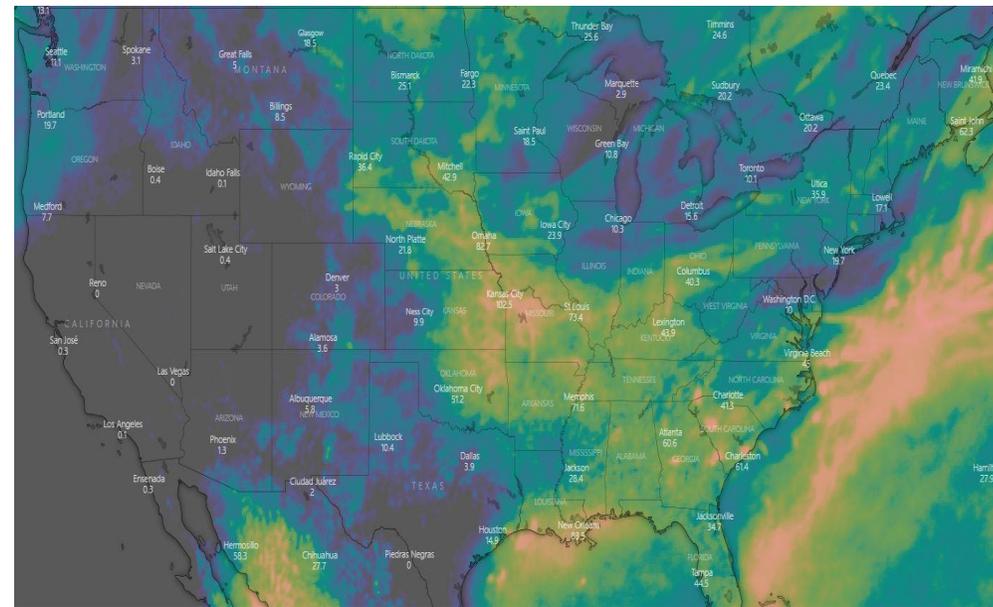


Price risk management

Long-term option strategy

Ten day forecast: North America

Good rainfall predictions over the Corn Belt areas in the United States support current crop conditions.



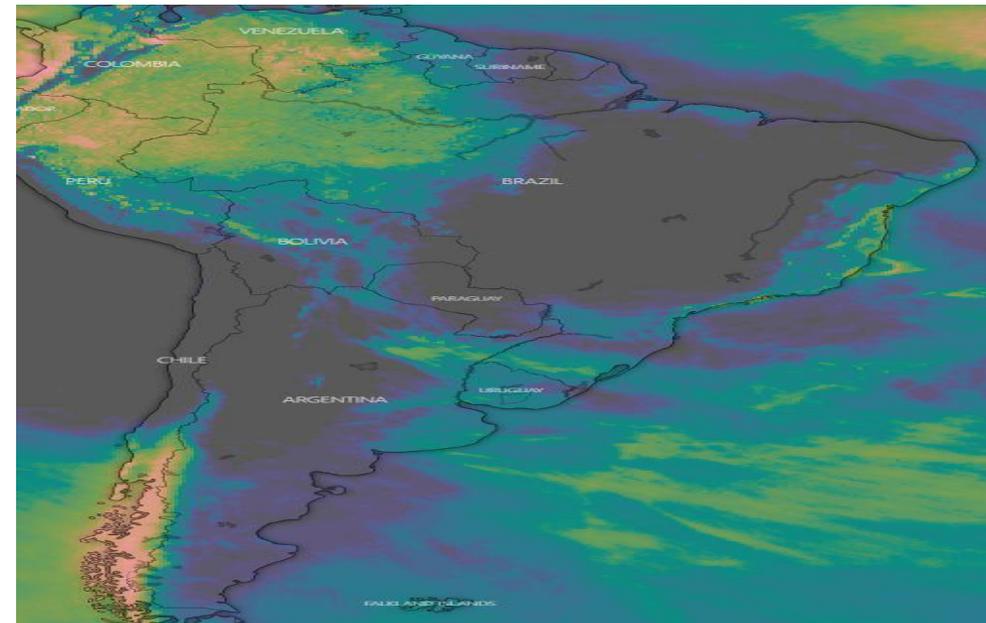
INTERNATIONAL

WEATHER

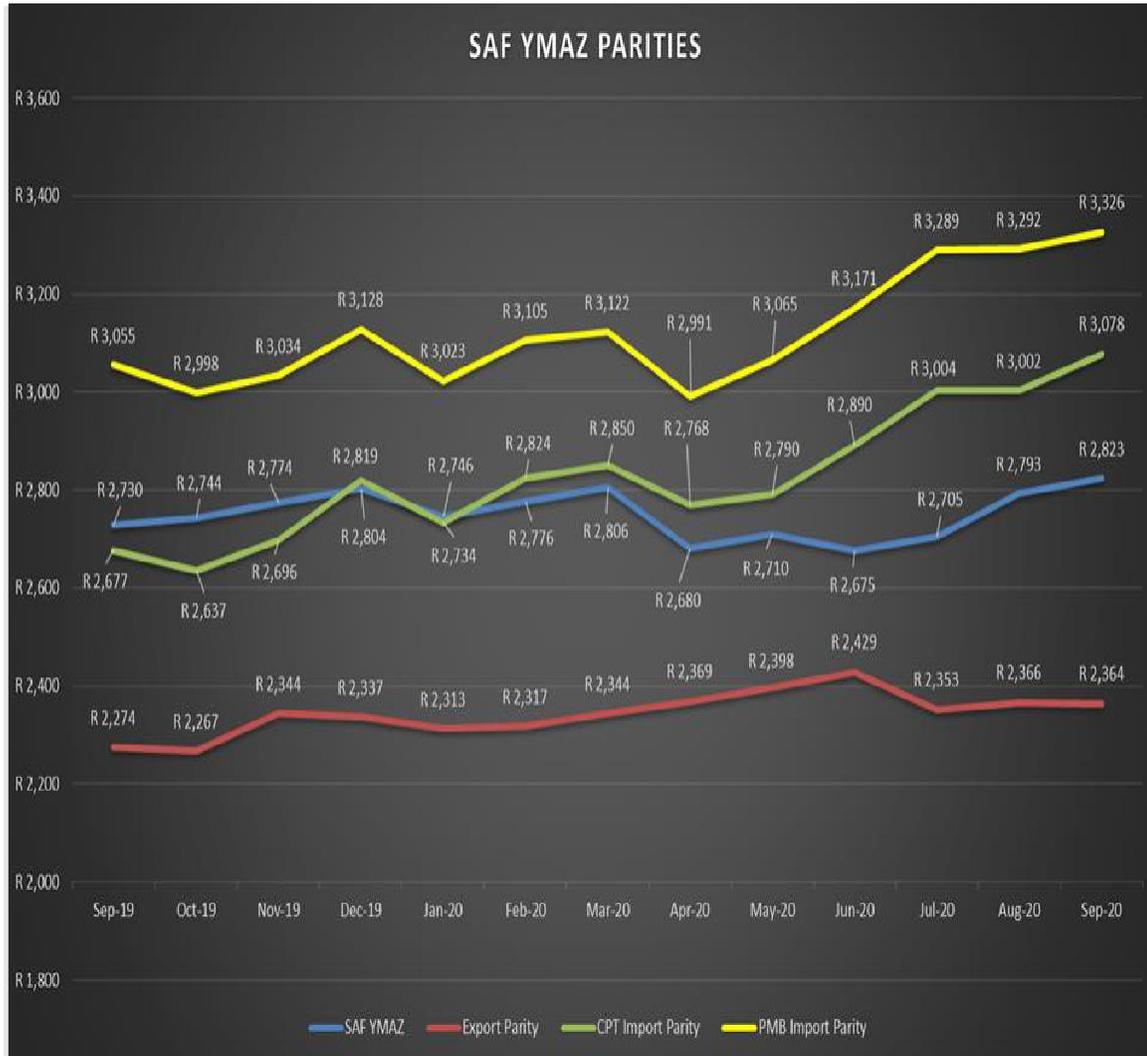


Ten day forecast: South America

The somewhat dryer and cooler weather conditions that are expected in South America will have a negative effect on wheat crops, in both Brazil and Argentina.



PARITY



	Sep-19	Dec-19	Mar-20	Jul-20
Import parity PMB	R3 055	R3 128	R3 122	R3 289
Import parity CAPE	R2 677	R2 819	R2 850	R3 004
SAFEX Yellow maize	R2 730	R2 804	R2 806	R2 705
Export parity	R2 274	R2 337	R2 344	R2 353



Agriculture



USA Crop Conditions (Good/Excellent)

Corn

2017
= 62%

2018
= 68%

5y avg
= 69%

Current
week
= 56%

Soybeans

2017
= 60%

2018
= 64%

5y avg
= 66%

Current
week
= 53%

Agriculture

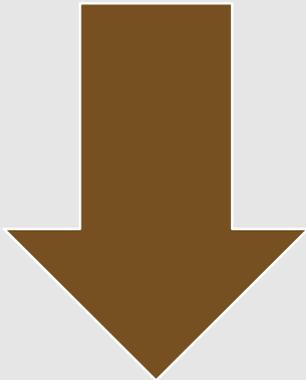


USA Crop Progress

Corn: Dough



5y avg
= 76%



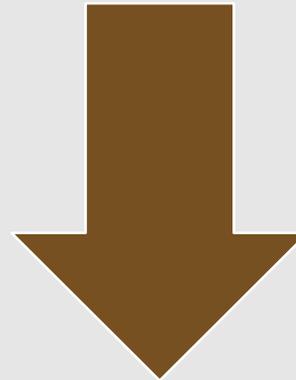
18 Aug'19
= 55%

Difference = -21%

Soybeans: Setting Pods



5y avg
= 85%



11 Aug'
19
= 68%

Difference = -27%

Agriculture



World Grain Balance Sheet after USDA report Aug'19

X	Attribute	2019/20 (Aug'19)						2019/20 (Jul'19)				Aug'19 vs Jul'19			
		World, MMT	including				World, MMT	including				World		including TOP-10	
			TOP-10		Other			TOP-10		Other		MMT	%	MMT	%
			MMT	%	MMT	%		MMT	%	MMT	%				
Corn	Production	1108,2	943,4	85,1%	164,8	14,9%	1105,1	939,6	85,0%	165,5	15,0%	+3,1	0,3%	+3,8	0,4%
	Domestic Consumption	1128,5	870,7	77,2%	257,8	22,8%	1132,0	873,9	77,2%	258,1	22,8%	-3,5	-0,3%	-3,2	-0,4%
	Ending Stocks	307,7	283,3	92,1%	24,4	7,9%	298,9	274,9	92,0%	24,1	8,0%	+8,8	2,9%	+8,4	3,1%
	Export	169,9	163,5	96,2%	6,4	3,8%	170,8	164,1	96,1%	6,7	3,9%	-0,9	-0,6%	-0,6	-0,4%
	Import	169,3	114,8	67,8%	54,5	32,2%	167,8	113,8	67,8%	54,0	32,2%	+1,5	0,9%	+1,0	0,9%
Wheat	Production	768,1	638,2	83,1%	129,9	16,9%	771,5	640,9	83,1%	130,6	16,9%	-3,4	-0,4%	-2,7	-0,4%
	Domestic Consumption	754,5	518,6	68,7%	235,9	31,3%	756,0	519,4	68,7%	236,6	31,3%	-1,5	-0,2%	-0,8	-0,2%
	Ending Stocks	285,4	239,2	83,8%	46,2	16,2%	286,5	240,2	83,8%	46,3	16,2%	-1,1	-0,4%	-1,0	-0,4%
	Export	182,6	171,8	94,1%	10,8	5,9%	183,1	172,2	94,0%	11,0	6,0%	-0,5	-0,3%	-0,4	-0,2%
	Import	179,0	75,3	42,1%	103,7	57,9%	178,9	74,6	41,7%	104,3	58,3%	+0,1	0,0%	+0,7	0,9%
Barley	Production	152,3	130,7	85,8%	21,6	14,2%	151,9	130,3	85,8%	21,5	14,2%	+0,4	0,3%	+0,4	0,3%
	Domestic Consumption	149,9	118,4	79,0%	31,5	21,0%	148,5	117,5	79,1%	31,0	20,9%	+1,4	0,9%	+0,9	0,8%
	Ending Stocks	19,6	15,2	77,9%	4,3	22,1%	20,2	16,4	81,1%	3,8	18,9%	-0,6	-3,0%	-1,2	-6,9%
	Export	27,8	27,7	99,5%	0,1	0,5%	28,1	27,9	99,5%	0,1	0,5%	-0,3	-0,9%	-0,2	-0,9%
	Import	27,3	23,6	86,6%	3,7	13,4%	27,6	23,9	86,5%	3,7	13,5%	-0,3	-1,3%	-0,3	-1,3%
Soybeans	Production	341,8	330,9	96,8%	11,0	3,2%	347,0	335,9	96,8%	11,1	3,2%	-5,2	-1,5%	-5,0	-1,5%
	Domestic Consumption	354,3	310,2	87,5%	44,2	12,5%	355,1	311,3	87,7%	43,8	12,3%	-0,8	-0,2%	-1,1	-0,4%
	Ending Stocks	101,7	98,1	96,4%	3,6	3,6%	104,5	100,8	96,5%	3,7	3,5%	-2,8	-2,7%	-2,7	-2,7%
	Export	149,2	148,8	99,7%	0,4	0,3%	151,3	150,8	99,7%	0,4	0,3%	-2,1	-1,4%	-2,0	-1,4%
	Import	148,9	128,7	86,4%	20,2	13,6%	150,8	130,8	86,7%	20,1	13,3%	-1,9	-1,3%	-2,1	-1,6%
Rapeseed	Production	70,5	69,2	98,2%	1,3	1,8%	71,8	70,5	98,2%	1,3	1,8%	-1,3	-1,8%	-1,3	-1,8%
	Domestic Consumption	71,0	67,4	95,0%	3,5	5,0%	72,1	68,7	95,3%	3,4	4,7%	-1,1	-1,5%	-1,3	-1,8%
	Ending Stocks	8,7	8,6	98,4%	0,1	1,6%	6,7	6,6	97,9%	0,1	2,1%	+2,0	29,6%	+2,0	30,3%
	Export	15,6	15,6	100,0%	0,0	0,0%	16,5	16,5	100,0%	0,0	0,0%	-0,9	-5,6%	-0,9	-5,6%
	Import	15,5	15,2	98,3%	0,3	1,7%	15,9	15,6	98,1%	0,3	1,9%	-0,4	-2,6%	-0,4	-2,5%

Source: based on data of USDA - Aug'19

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AGRICULTURE



Producer Deliveries up to 31 July

Maize

Current season:

White maize = 3 867 858 t
-69% of total crop delivered
Yellow maize = 4 592 035 t
-85% of total crop delivered

Previous season:

White maize = 5 879 286 t
-89% of total crop delivered
Yellow maize = 5 122 855 t
-86% of total crop delivered

Soybeans

Current season:

= 1 106 793 t
-95% of total crop delivered

Previous season:

= 1 463 046 t
-95% of total crop delivered

Sunflower

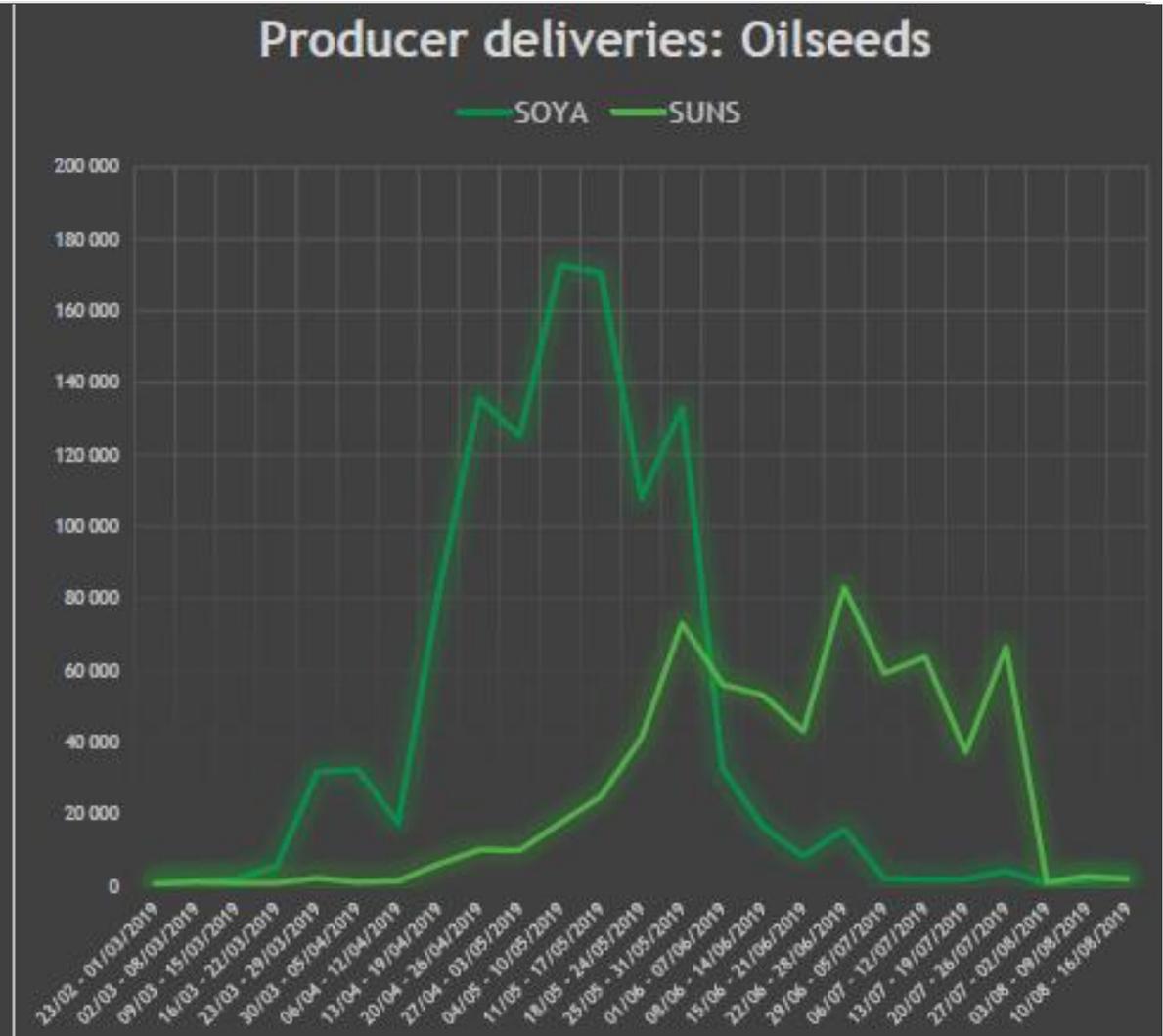
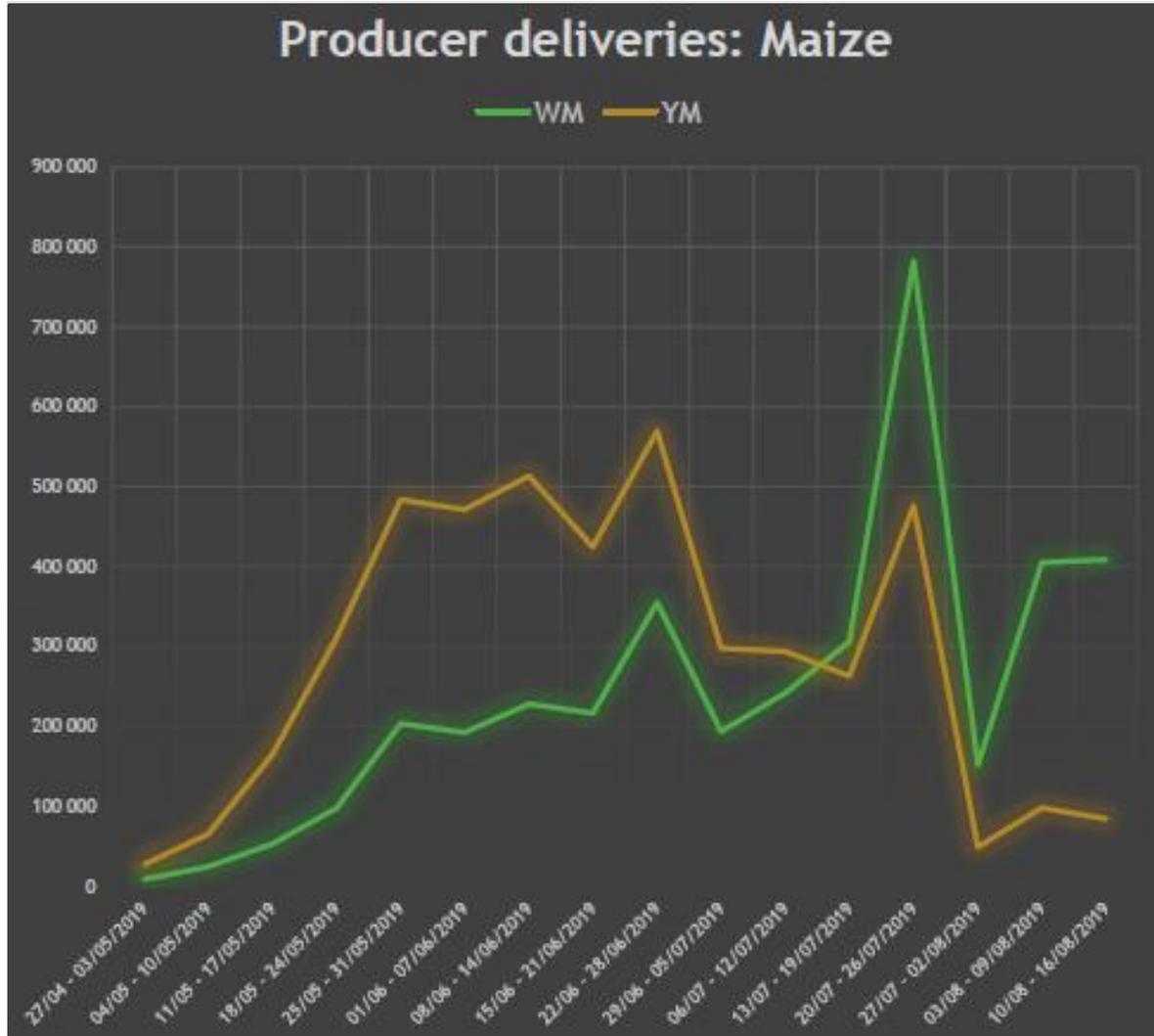
Current season:

= 659 544 t
-99% of total crop delivered

Previous season:

= 834 576 t
- 97% of total crop delivered

Agriculture



AGRICULTURE

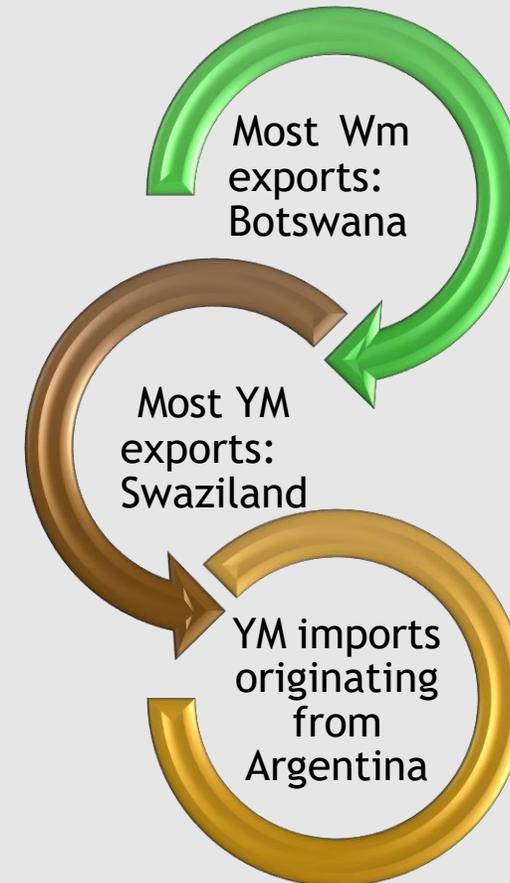


White maize

- Exports = 192 391t
- Imports = 0t

Yellow maize

- Exports = 90 005t
- Imports = 131 399t



EXCHANGE RATE

R/\$



USDZAR CHART



The rand appreciated on 21 August due to the news of a lowered inflation rate of 4% from 4.5%.

The rand traded between R15,30 and R15,23 during SAFEX trading hours. At the time of writing, the rand was trading at R15,20.

NEWS



Good rainfall welcomed in the US Corn Belt.

Weekend rains were generally heavier than expected especially in the western Corn Belt.

Rainfall in some of the dryer eastern Corn Belt areas were welcomed, although not as heavy as in the western areas.

These rains will help the latest planted corn that is in the midst of pollination and grain fill.

The growing stages of both maize and soybeans are far below the 5-year averages

Read more at:

http://www.soybeansandcorn.com/news/Aug21_19-Rains-Benefit-US-Crops-Slow-Crop-Development-Main-Concern



Rand strengthened on good inflation news.

Inflation moderated to 4% in July, below the midpoint in the SA Reserve Bank's 3%-6% target range.

This supports the argument that the Reserve Bank may lower the interest rate later in the year. This is good news for South Africa, since the interest rate on the government debt will be lower.

Read more at:

<https://www.businesslive.co.za/bd/markets/2019-08-21-rand-firms-notably-as-inflation-slows-in-july/>



China targets South American soybeans.

Brazil's soybean market got another boost this week with local oilseeds processors increasingly competing with Chinese buyers for one of Brazil's most prized export commodities, causing prices in local currency to spike.

While traders reported Chinese buying more than 1 million ton of soybeans from Brazil and Argentina in the last two days alone, farmers have also been selling their beans to local crushers, who need them to produce biofuel and animal feed.

Read more at:

<https://www.producer.com/daily/brazil-soybeans-coveted-by-china-local-crushing-industry/>



Summary

- Poor crop conditions are supported by promising weather conditions predicted for the USA.
- The local yellow maize commodity is currently more expensive than imported maize as the SAFEX is currently trading above Cape import parity. This means that the current market price of yellow maize is well priced.
- Weaker than average crop conditions in the USA supported the CBOT prices.
- World-ending stock levels are lower on soybeans and higher on maize.
- Local yellow maize deliveries are on track, while white maize deliveries are behind schedule compared to previous years.
- The stronger rand is putting added pressure on local grain prices.

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- * Trailer Repair
- * Machining
- * Line Boring

- * Design & Manufacturing
- * Building Maintenance
- * Steel Construction
- * Warehouses
- * Workshops



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 would like to sell their product, but would still like to participate in the market, since they are confident that the price will surge.

Usually the client will enter a 70/30 agreement setting a fixed price, against which they will sell their grain and purchase futures in a subsequent month. The risk is that for every R1 drop in market, the client loses R1.

Outcome of the option strategy:

Should the market price increase, the client will benefit from the profits gained from R3100/t to R4 000/t .

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 buys their 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.



“Only I can change my life. No one can do it for me.”

- Carol Burnett

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)

Address: 24 Samora Machel Street,
Middelburg, Mpumalanga

