



31 July 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



Local Agriculture

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



Exchange rate

Overview of the Rand against the US\$



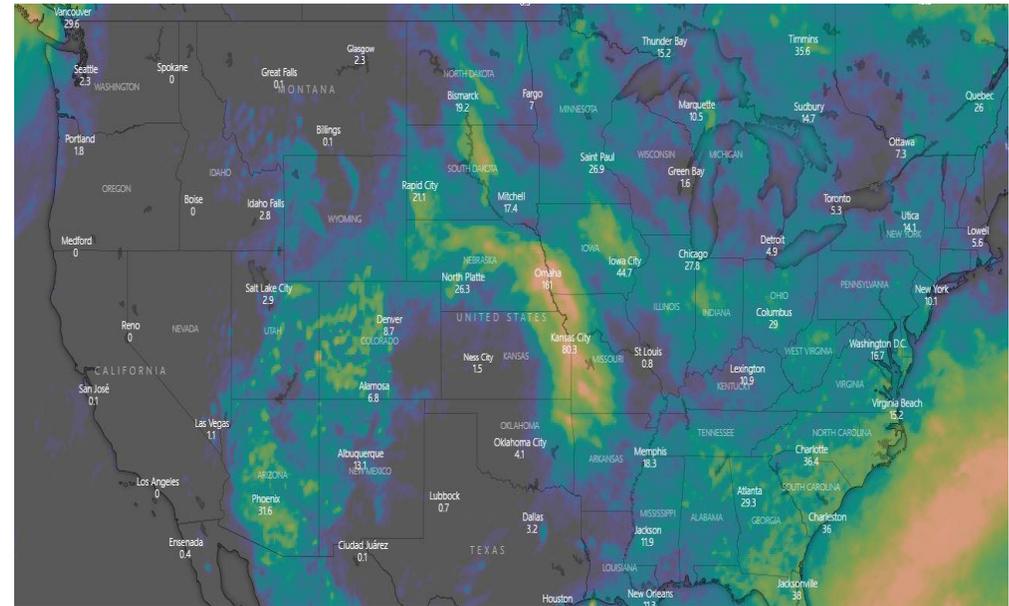
Price risk management

Minimum/Maksimum price risk management strategy

Ten day forecast: North America

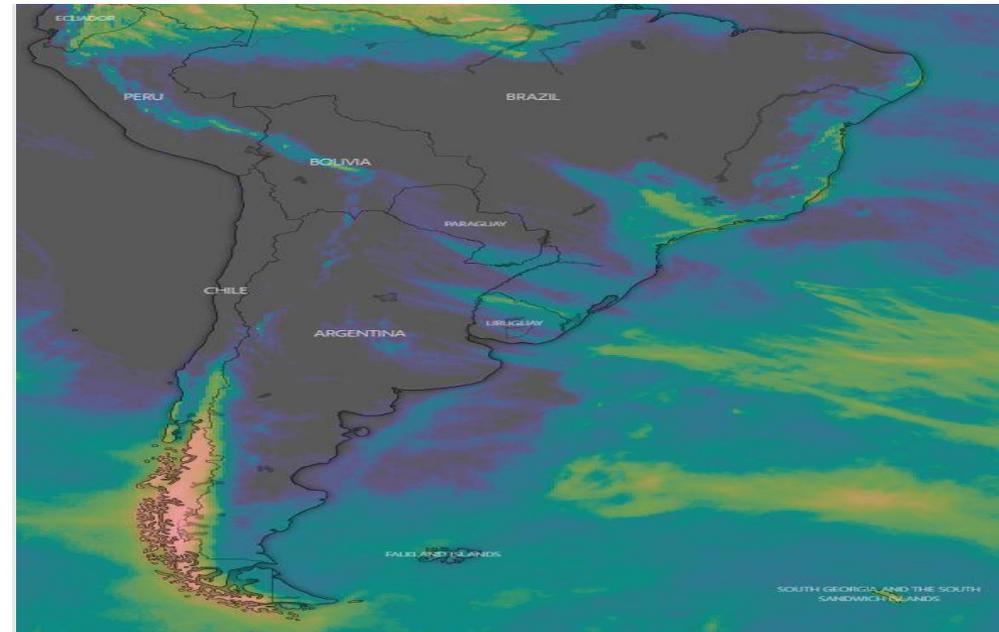
Above normal temperatures along with normal rainfall predicted for the next 10-days will boost crop conditions in the USA and also improve yields.

INTERNATIONAL WEATHER

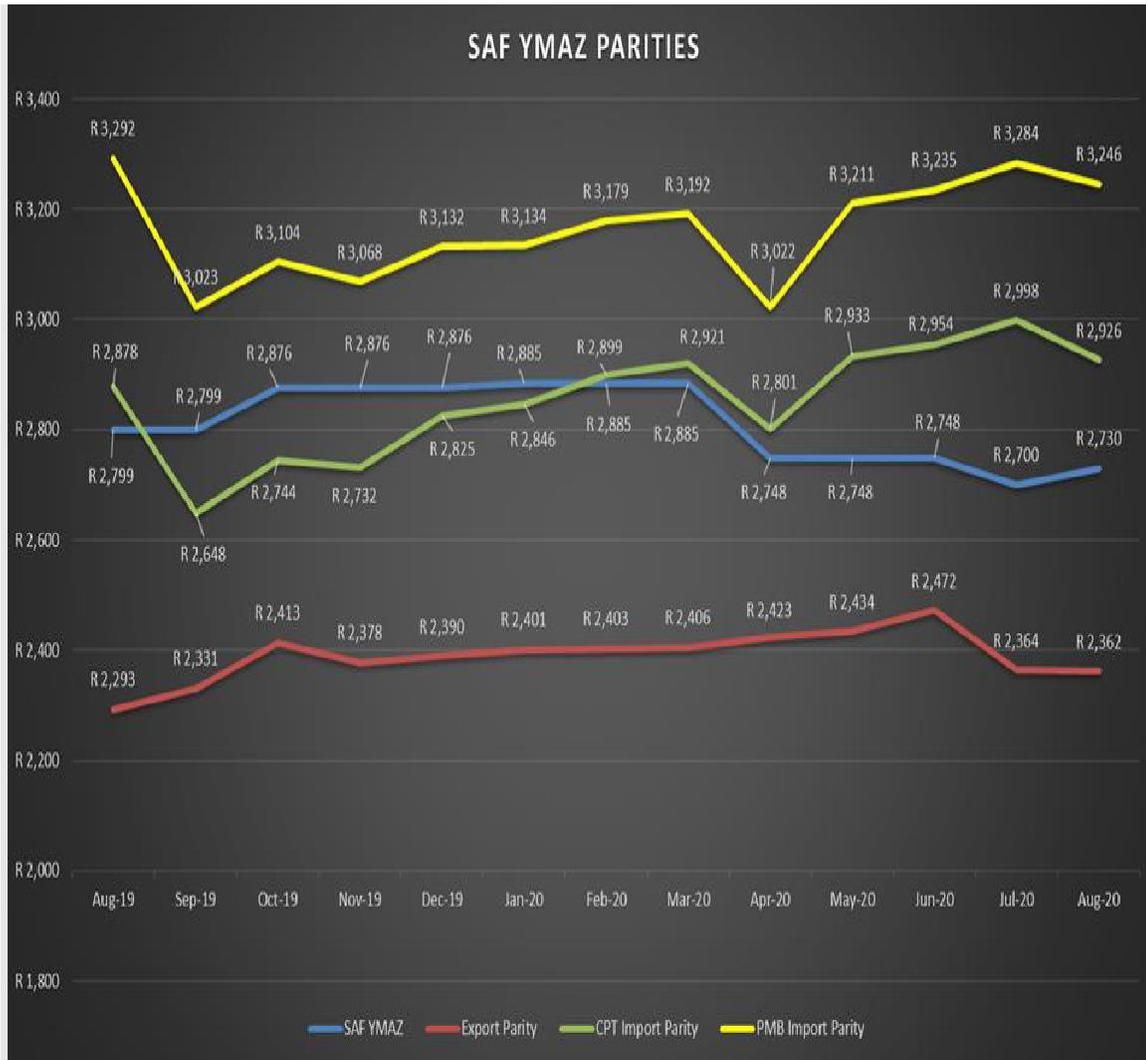


Ten day forecast: South America

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



PARITY



	Aug-19	Dec-19	Mar-20	Jul-20
Import parity PMB	R3 292	R3 132	R3 192	R3 284
Import parity CAPE	R2 878	R2 825	R2 921	R2 998
SAFEX Yellow maize	R2 799	R2 876	R2 885	R2 700
Export parity	R2 293	R2 390	R2 406	R2 364



Agriculture



USA crop conditions (Good/Excellent)

Corn

2017
= 61%

2018
= 72%

5-year
avg. =
71%

Current
week
= 58%

Soybeans

2017
= 59%

2018
= 72%

5-year
avg. =
68%

Current
week
= 54%

Agriculture

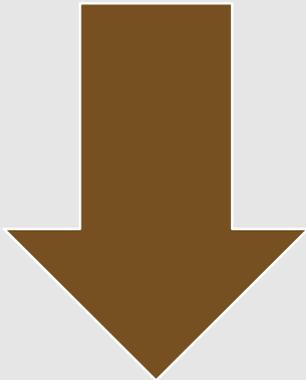


USA crop progress

Corn: Silking



5y avg
= 83%



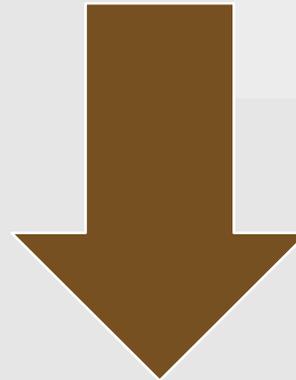
14 Jul-19
= 58%

Difference = -25%

Soybeans: Blooming



5y avg
= 45%



14 Jul-19
= 21%

Difference = -24%

AGRICULTURE



Producer deliveries up to 31 July

Maize

Current season:

White maize = 2 488 689 t
Yellow maize = 4 083 921 t

Previous season:

White maize = 3 935 595 t
Yellow maize = 4 239 042 t

Soybeans

Current season:

= 1 102 271 t

Previous season:

= 1 458 899 t

Sunflower

Current season:

= 603 956 t

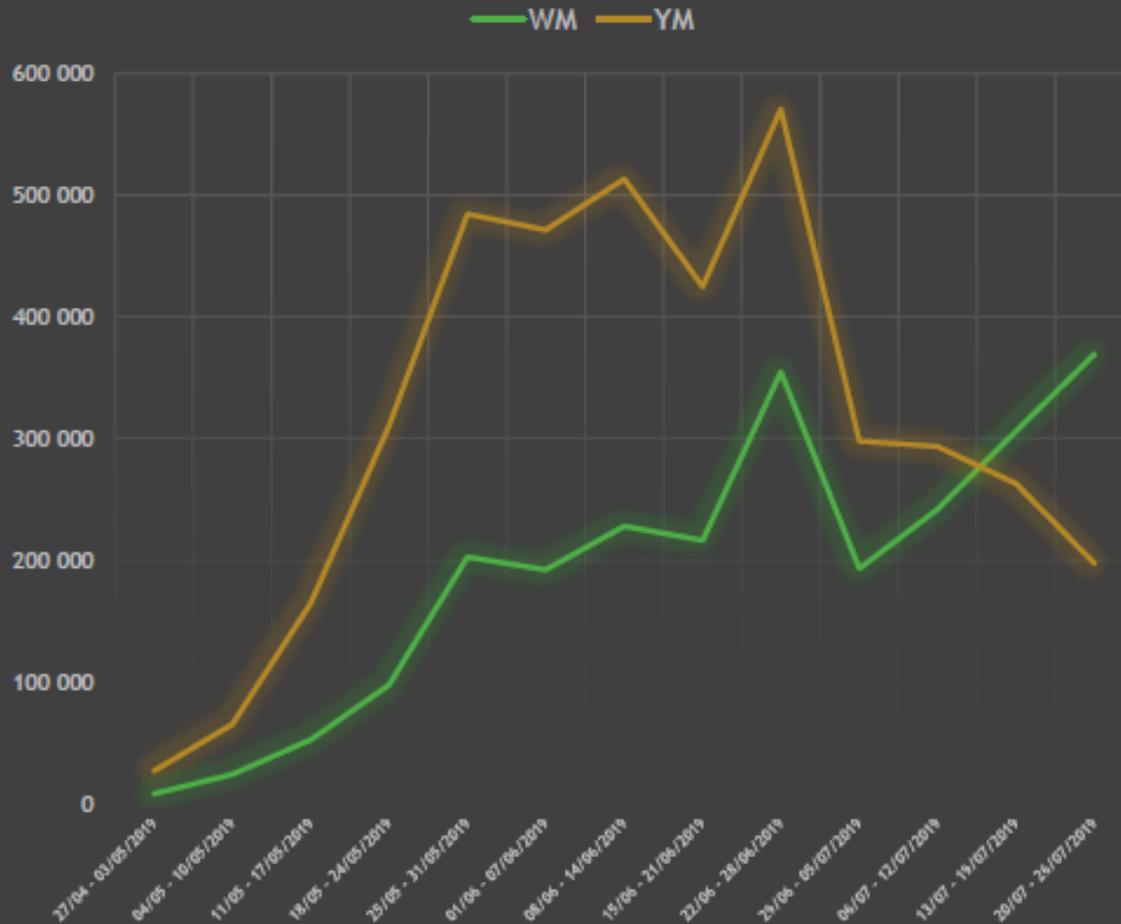
Previous season:

= 815 343 t

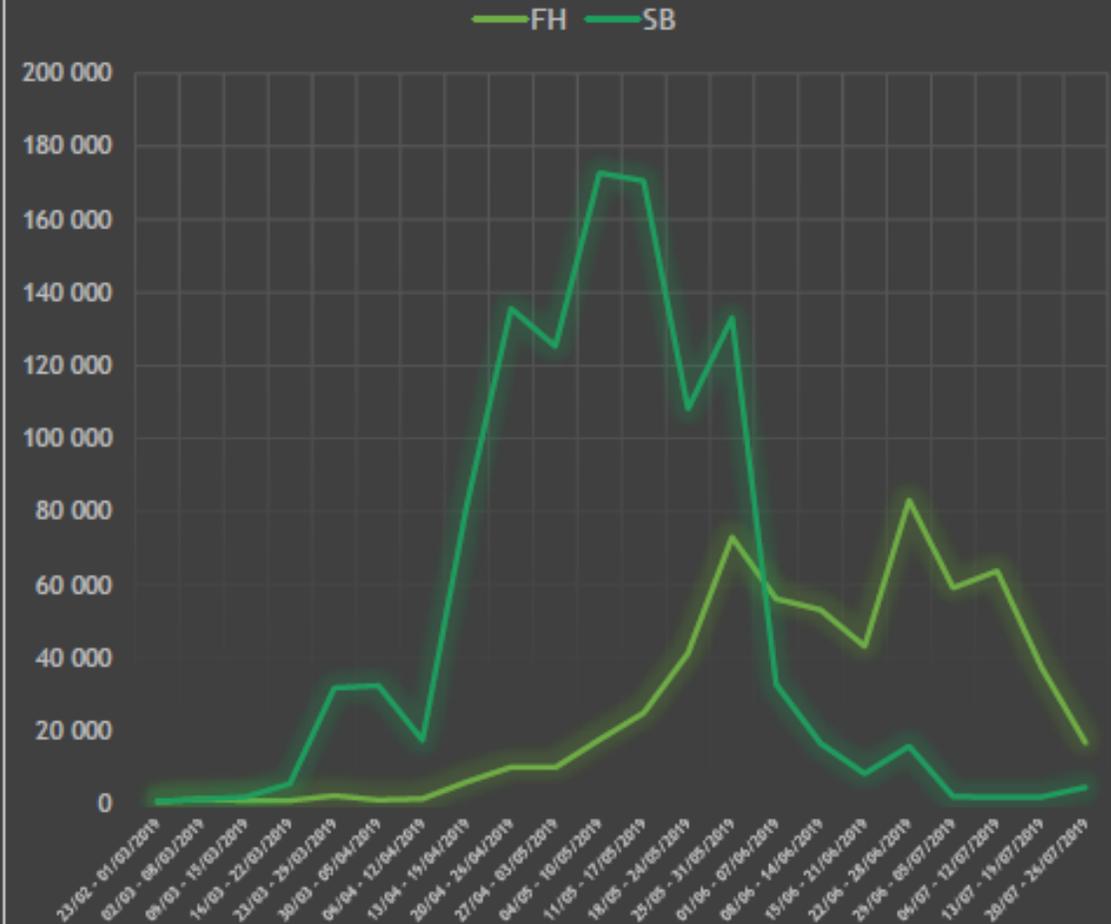
Agriculture



Producer deliveries: Maize



Producer deliveries: Oilseeds



AGRICULTURE

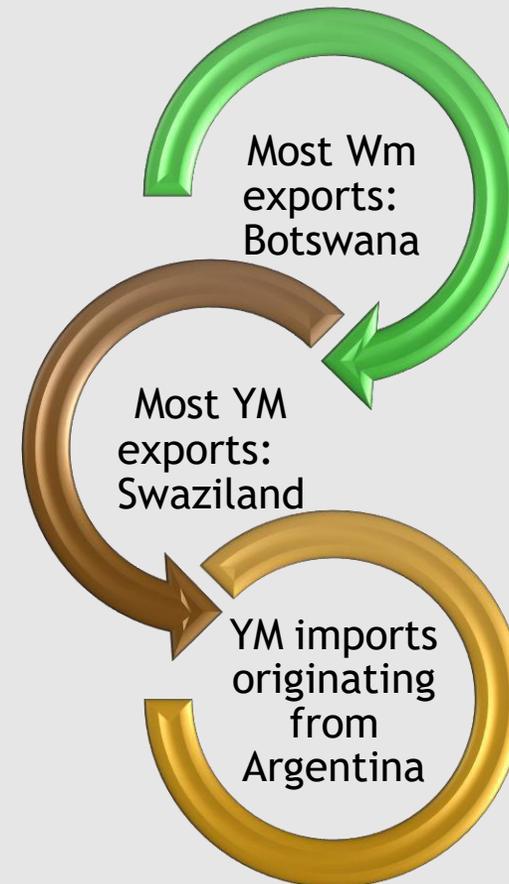


White maize

- Exports = 165 124t
- Imports = 0t

Yellow maize

- Exports = 72 332t
- Imports = 130 135t



EXCHANGE RATE

R/\$



USDZAR CHART



The rand traded stronger against the US dollar at the opening of the SAFEX grain market. Just before closing of the market the rand weakened and supported local grain prices.

The reason for the weaker rand includes the fact that the unemployment rate increased to 29%.

NEWS



US and Brazil to strengthen trade agreement.

Pres D Trump from the United States wants to meet with Brazil to discuss the possibility of a free trade agreement between the two largest economies in the Americas. These two countries traded about \$100 billion worth of products and services the previous years.

The US added tariffs on steel and aluminium for all countries earlier this year, but was fast to exclude Brazil.

Read more at:

<https://www.reuters.com/article/us-usa-trade-brazil/trump-says-he-will-seek-u-s-trade-accord-with-brazil-idUSKCN1UP1KA>



Argentina could become no.1 soymeal exporter

A Chinese delegation is set to visit Argentina in August to inspect soymeal crushing plants. A key step as the South American country looks to open up exports of processed soy to the world's No. 1 consumer.

Argentina, the top global soymeal exporter, has tried for years to break into the China market. Global trade uncertainties - including pessimism about U.S.-China negotiations - has, however, strengthened Argentina's hand. China is the No. 1 buyer of Argentine soybeans but does not import any of its processed meal.

Read more at:

<https://www.reuters.com/article/us-argentina-soyproducts-china-exclusive/exclusive-china-to-inspect-argentine-crushers-could-unlock-no-1-soymeal-market-idUSKCN1UP1WT>



Trump warns China about trade agreements

President D Trump warned China of their tactic to wait out the presidents term before entering into a trade agreement. He said that when he regain the presidency in November 2020 the chances for a trade deal will be very small.

Read more at:

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



Summary

- Good weather conditions support crop conditions and crop growing stages, adding pressure on the CBOT market and in turn also on the local SAFEX market.
- Crop conditions are better than market expectations, but remain the same as the previous week. The better than expected conditions add pressure on CBOT prices.
- The price of yellow maize is currently trading below the Cape import parity. It is a good indication that the local maize price is cheaper than international prices and has the potential to move upwards.
- Maize producer deliveries in South Africa escalated, especially for white maize. Yellow maize however is experiencing a slight downward trend. Harvest pressure should not have a massive impact at this early phase, as the the market focus is currently on the international market.

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- * Design & Manufacture farm equipment

- * General Engineering
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- * Trailer Repair
- * Machining
- * Line Boring

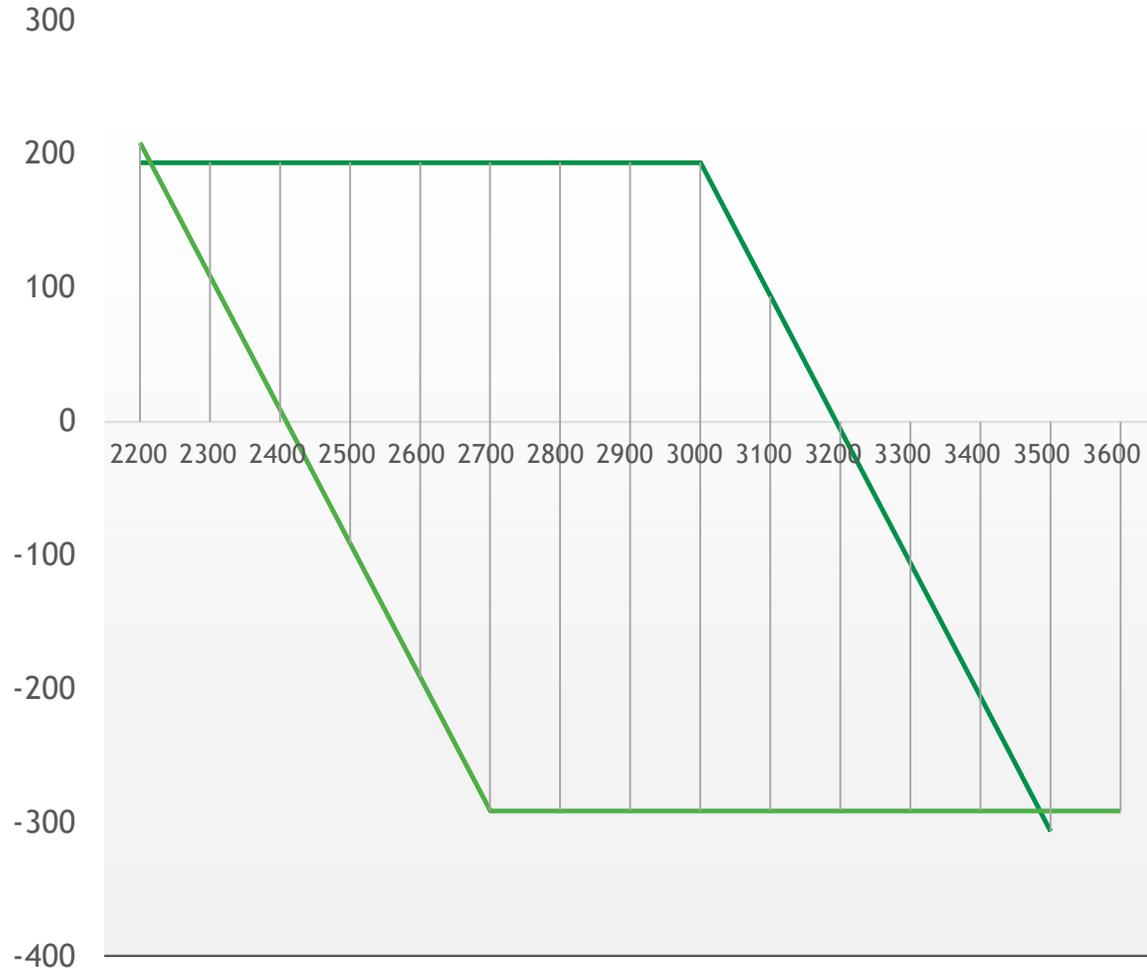
- * Design & Manufacturing
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- * Steel Construction
- * Warehouses
- * Workshops



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: $R272(\text{put}) - R192(\text{call}) = R80/\text{t}$



“There is only one thing that makes a dream impossible to achieve: the fear of failure.”

- Paulo Coelho

CONTACT US



Tel: +27 (0) 13 243 1166

E-pos: info@randagri.co.za

Web: www.randagri.co.za

Address: 24 Samora Machel
Street, Middelburg, Mpumalanga

