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Grains, Oilseeds and Sugar

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Paul Makube: pmakube@fnb.co.za | 17 May 2017

Weekly update on Grains, Sugar & Oilseed markets

Maizemarkettrends:

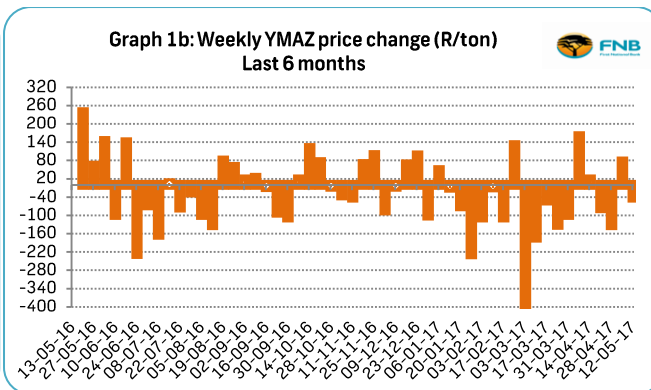
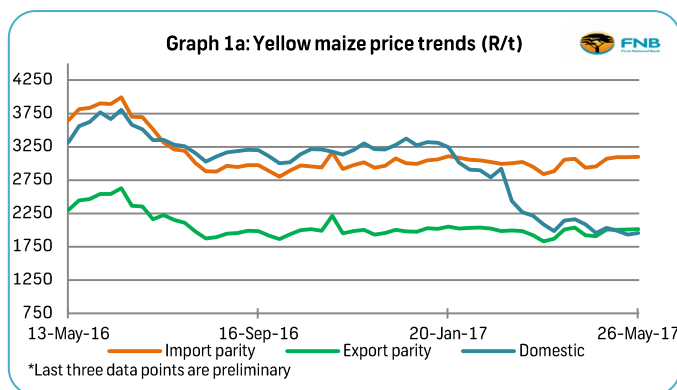
Weekly average	SAFEX (Rand/ ton)						CME (US\$/t)	
	WMAZ	% w/w	YMAZ	% w/w	CBOT Corn	% w/w	US CORN	% w/w
12 May 2017	R 1,873	-3.9%	R 1,955	-6.3%	R 1,872	-1.4%	156.12	0.3%
Daily average								
16 May 2017	R 1,815	-1.3%	R 1,915	-1.2%	R 1,944	0.0%	157.50	0.0%
16 May 2017	WMAZ	% d/d	YMAZ	% d/d	CBOT Corn	% d/d	US CORN	%d/d
Jul-2017	R 1,820	-1.8%	R 1,938	-1.7%	R 1,944	0.0%	144.83	0.0%
Sep-2017	R 1,874	-1.7%	R 1,986	-1.7%	-	-	147.99	0.1%
Dec-2017	R 1,948	-1.6%	R 2,059	-1.4%	R 2,091	0.0%	151.85	0.1%
Mar-2018	R 1,989	-1.7%	R 2,095	-1.7%	R 2,174	0.0%	155.63	0.1%

Source: JSE, USDA, CME

Commentary

International yellow maize market:

- The weekly trend remained downwards with weather continuing to influence direction as US planting progressed. The average weekly maize prices eased lower week-on-week (w/w) at US\$158.70 per ton, which is down 5% year-on-year (y/y). The weaker trend continued this week with prices falling further below last week's average at US\$157.50/t.
- In the weekly United States Department of Agriculture (USDA) update, about 1.4 million tons were inspected for export during the week ending May 11 which is up 65.5% w/w and 23.2% y/y. Exports for the 2016/17 marketing year are reportedly ahead of last year by 53.9%.
- On planting, progress came in above expectations at 71% by end of last week compared to 73% last year and the 5-year average of 70%. On Crop Progress, emergence was reported at 31% compared to the long term average of 36%.
- Elsewhere, China is reportedly offering incentives of higher subsidies for producers to switch to soybeans in an effort to help reduce maize area.
- USDA made a downward revision to its world production estimate with the largest declines in China and the United States. Partly offsetting are larger crops projected for the EU and Canada. Total world production came in at 1.03m for 2017/18 from 1.07m in the 2016/17 season.
- World maize utilization was raised by 9 million tons (1% y/y), while imports are projected to increase 7 million tons to 144.8 million tons.
- The reduction in China's maize planted area sees the 2017/18 production falling by almost 4.5m y/y to 215 million tons.

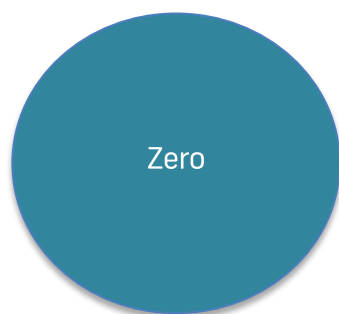


Sources: JSE, SAGIS, USDA, Own Calculations

Domestic yellow maize:

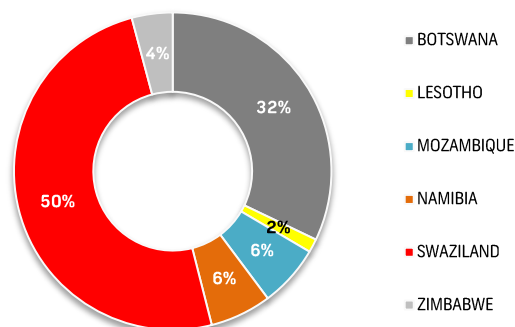
- Weakness in the domestic maize market continued as the rand found traction and the favourable production conditions paved way for a bumper crop for the 2016/17 season. This saw the average weekly yellow maize prices falling 2% w/w and 40% y/y at R1,989/ ton, which is below the R2,000/t level.
- The softer trend continued this week, closing Tuesday 16 May 2017 at R1,915/t, way below last week's levels.
- There were no imports of yellow maize for the season as we have now returned to a surplus. Exports for the week ended 12 May 2017 were pegged at 4,954 tons, all to the neighbouring countries.

Figure 1c: Yellow maize imports (tons) - 2017/18 marketing season



Source: Sagis

Figure 1d: Yellow maize exports (tons) 4,954 tons so far for the 2017/18 marketing season



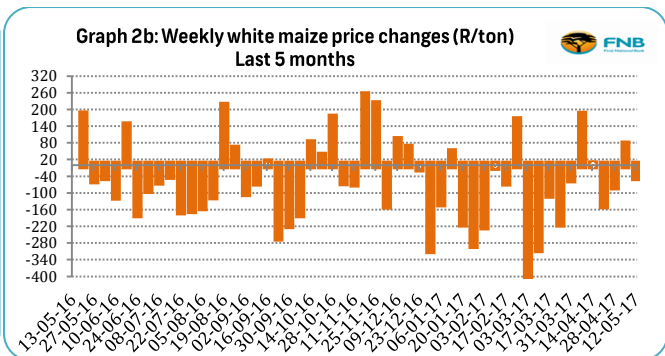
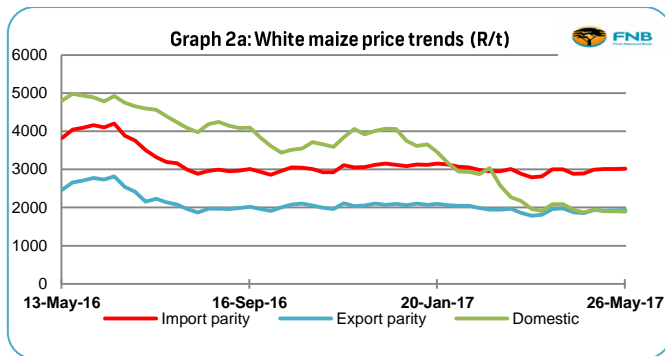
16 May 2017 Calculated Yellow Maize Options prices (R/ton) RMB commodity desk (Tel: 011 269 9005)								
Jul-17			Sep-17			Dec-17		
Ask	Put	Call	Ask	Put	Call	Ask	Put	Call
1,980	97	55	2,020	133	99	2,100	180	139
1,940	75	73	1,980	111	117	2,060	158	157
1,900	55	93	1,940	91	137	2,020	137	176

International white maize market:

- US white maize prices were a bit softer last week on rapid planting progress and improved planting conditions. The average weekly white maize prices eased to US\$138.90 per ton, which is 15% lower y/y.
- In this week's trade, white maize prices rebounded yesterday after a softer start to the week due to potential weather delays. Prices closed marginally higher from Monday's level at US\$139.48 per ton.

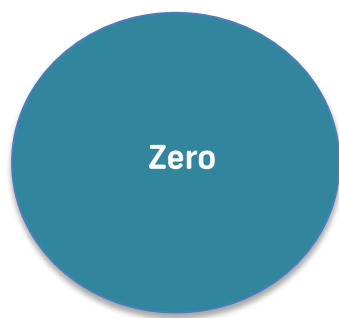
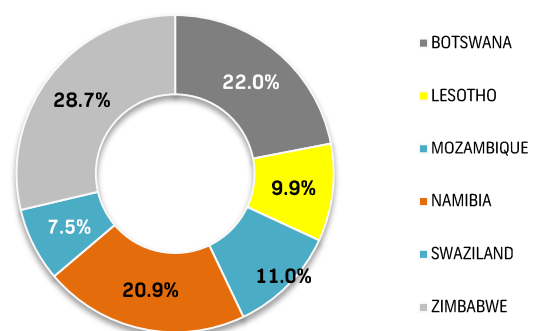
Domestic white maize:

- Weekly white maize prices continued to post modest losses under pressure due to the bullish domestic supply outlook and further rand gains. The implications of a higher output are the increased export availability for the local product. The average weekly white maize prices fell by 2.2% w/w and 60% y/y at R1,903/ ton.
- This week saw a further decline in white maize prices as the currency powered further to best levels in the past few weeks. White maize prices closed down 1.3% d/d on Tuesday 16 May at R1,815/t, which is around break-even depending on your area of production.
- There were no imports last week. Total maize exports reached 13,168 tons with white maize accounting for 62% at 8,214 tons. Main destinations were Botswana (22%), Lesotho (10%), Mozambique (11%), Namibia (21%), Swaziland (8%), and Zimbabwe (29%).



16 May 2017 Calculated White Maize Options prices (R/ton) RMB commodity desk (Tel: 011 269 9005)								
Jul-17			Sep-17			Dec-17		
1,860	93	53	1,920	137	91	1,980	175	143
1,820	70	70	1,880	115	109	1,940	153	161
1,780	51	91	1,840	94	128	1,900	132	180

Figure 1c: White maize imports (tons) – 2017/18 marketing season

Figure 1d: White maize exports (tons) 2017/18 marketing season
Season-to-date = 20,386 tons

Source: Sagis

OUTLOOK

Prices are expected to remain under pressure in the short to medium term on the expected bumper crop with the renewed rand strength adding to the weaker tone.

Wheat market trends:

12 May 2017	JSEWHEAT (R/t)	% w/w	US HRW (US\$/t)	% w/w	US SRW (US\$/t)	% w/w
Weekly average	R 4,414	-0.2%	186.27	0.8%	173.78	-1.7%
16 May 2017	(R/t)	% d/d	US HRW (US\$/t)	% d/d	US SRW (US\$/t)	% d/d
Daily average	R 4,41	0.3%	175.25	-2.9%	171.48	0.2%
16 May 2017	(R/t)	% w/w	US HRW (US\$/t)	% w/w	US SRW (US\$/t)	% w/w
Jul-2017	R 4,361	-0.2%	155.86	0.0%	155.94	0.3%
Sep-2017	R 4,306	0.3%	161.01	-0.8%	162.26	0.8%
Dec-2017	R 4,206	0.5%	168.80	-1.5%	171.30	1.7%
Mar-2018	R 4,280	0.0%	175.41	-0.8%	176.81	0.8%

Source: JSE, USDA, CME; International prices are for 15 May 2016

Commentary

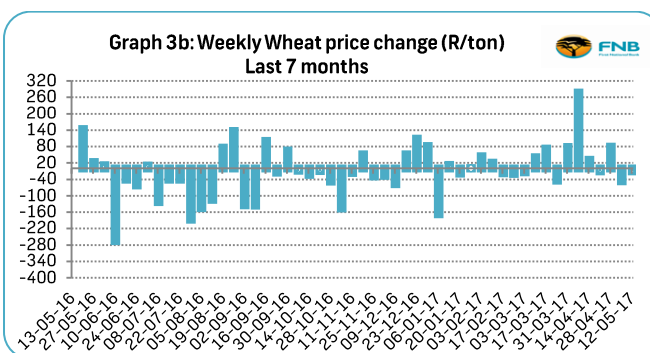
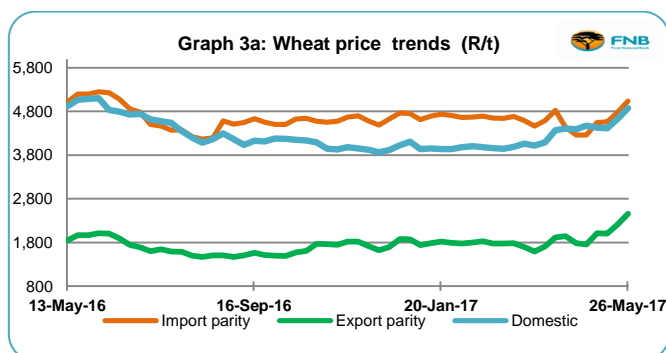
International wheat market

- In last week's trade, US spot wheat prices ended mixed with gains for the HRW category due to market expectations of less production in some of the leading production areas such as Russia and Europe. The SRW however posted marginal losses, closing down 1.7% w/w and almost 8% lower y/y at US\$173.78/t.
- This week however started weaker note with both the HRW and the SRW wheat prices posting losses on better than expected crop ratings following snow and rain damages in US Kansas.

- About 62% of the US winter crop was rated in the good to excellent conditions, 9-percentage point's higher w/w and 11-percentage points better than last year's ratings. This bolsters expectations of above average yields. Planting of spring wheat is also progressing well, with about 78% of the estimated hectares planted, well above the seasonal pace of 73%.
- On the export front, the weekly Export Inspections report showed US wheat exports up 5% w/w and 87% y/y at 691,226 tons. The cumulative year-to-date exports were pegged at 25.8m tons, up by almost 34% y/y.
- Elsewhere, Russia has reportedly resolved its trade issues with Turkey and exports are expected to resume later this week. Export prices in Russia are expected to rebound and this will filter into the domestic market as Russia is one of the major suppliers of wheat.
- The world production outlook indicates a drop in wheat production for 2017/18 at 734m tons compared to 753m tons for the 2016/17 season. At this level, the expected crop is still the second highest total on record.

Domestic wheat market

- Wheat prices eased marginally lower last week largely due to a weaker rand. At R4,414/t, the average weekly price remains below last year by 10%. In the latest update on wheat, the CEC pegged the final production at 1.9m tons which is 33% higher y/y. This is largely due to the increased planted area and better production conditions in the growing areas.
- In this week's trade, prices rebounded modestly due to concerns over the deteriorating production conditions in the producing areas of the Western Cape.
- Weekly import update from SAGIS showed no records for the week ended 12 May 2017.
- Nonetheless, exports continued despite SA being a net importer of wheat. Weekly wheat exports increased sharply to 6,364 tons with the year-to-date reaching 71,091 tons.
- Most of the exports are destined for the neighbouring countries with Zimbabwe so far accounting for 30% of the total, followed closely by Lesotho (23%), Zambia (18%), Namibia (9%), Botswana (14%), Mozambique (4%), and Swaziland (2%).



Source: JSE, USDA, Own Calculations *Last three data points are preliminary

16 May 2017 Calculated Wheat Option prices (R/ton) RMB commodity desk (Tel: 011 269 9005)								
Jul-17			Sep-17			Dec-17		
Ask	Put	Call	May-1	Put	Call	Ask	Put	Call
4,400	164	125	4,340	256	222	4,240	322	288
4,360	143	144	4,300	235	241	4,200	300	306
4,320	123	164	4,260	215	261	4,160	279	325

OUTLOOK

The production outlook for the 2017/18 season is concerning given the deterioration in production conditions for the Western Cape as due to lack of sufficient rains. The regional dams have now reached low below 21% full. This is expected to have an upward pull in prices in the medium to longer term with the rand strength/ weakness determining the magnitude of the increase.

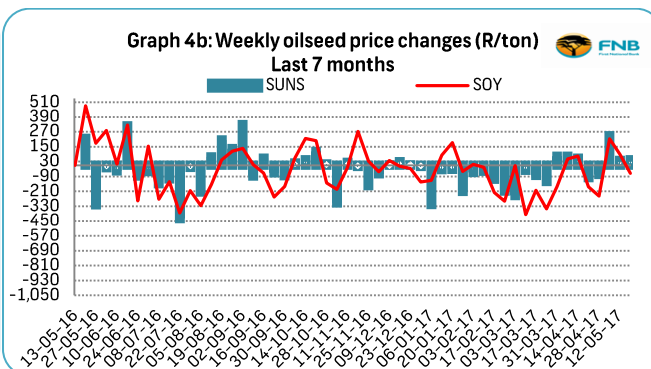
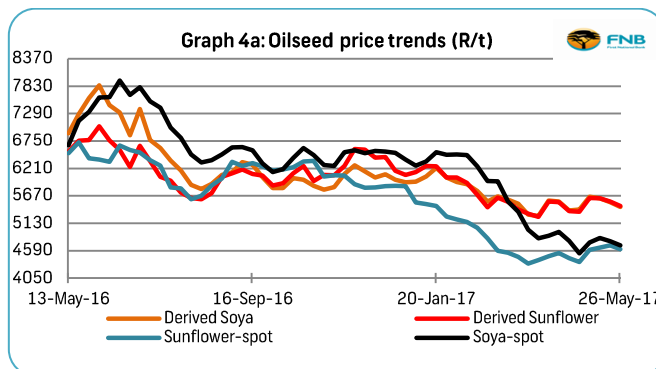
Oilseed market trends:

12 May 2017	JSE SUNS (R/t)	% w/w	JSE SOYA (R/t)	% w/w	US SOYA (US\$/t)	% w/w
Weekly average	R 4,647	0.9%	R 4,840	1.9%	368.99	0.0%
16 May 2017	(R/t)	% d/d	(R/t)	% d/d	(US\$/t)	% d/d
Daily average	R 4,635	-1.2%	R 4,692	-1.7%	372.08	1.1%
16 May 2017	(R/t)	% d/d	(R/t)	% d/d	(US\$/t)	% d/d
Jul-2017	R 4,750	-1.0%	R 4,767	-2.0%	358.69	1.1%
Sep-2017	R 4,876	-0.8%	R 4,865	-2.1%	356.78	0.9%
Dec-2017	R 5,018	-0.9%	R 4,993	-1.7%	-	-
Mar-2018	R 5,044	0.0%	R 5,071	-1.6%	359.72	0.7%

Source: JSE, USDA, CME; International prices are for 15 May 2016

Commentary**International oilseed market**

- Prices were mostly mixed in the US soybean complex with soymeal posting losses while soybeans and soyoil remained steady during last week. The average weekly soybean and soyoil prices steadied at US\$368.99/t and US\$31.00c/lb but still down by 8% and 2% respectively y/y. Soymeal dropped 1.5% w/w and 16% y/y at US\$310.00/t.
- In this week's trade, soybeans had a strong start to the week on improved export demand with reported purchases from China. The US National Oilseed Processing Association (NOPA)'s crush report showed a 4.2m drop in processing during April at 3.8 million tons. This is way below market estimates and down 10% and 6.1% m/m and y/y respectively.
- On crop progress, the US planted area under soybeans reached 32% complete by the end of last week which is slightly below last year's 34% but almost on par with the 5-year average. Crop emergence was reported at 8% emerged compared to the average pace of 9%.
- In Brazil, the analyst firm *Abiove* has reportedly projected the country's soybean production to reach 112.5 million tons and also raised their export projections to almost 62 million tons.



Source: JSE, USDA, Own Calculations *Last three data points are preliminary

Domestic oilseed market

- There was a slight reversal in trend on the domestic oilseed market with soybeans leading gains despite a bullish crop outlook. Sunflower was a tad firmer on the back of a tightening supply outlook. Weekly sunflower prices finished last week up 0.9% w/w but still down 29% y/y at R4,647/ ton. Weekly soybean prices gained 1.9% w/w but still down 27% y/y at R4,840/ ton.
- This week started on a softer note with prices down across the oilseed complex on seasonal harvest pressure and the renewed gains in the rand/ US dollar exchange rate. The currency touched its best level since late April, closing yesterday at R13.24/US\$. Sunflower was a bit softer from Friday's level at R4,692/t, which is however slightly higher than last week's weekly average. Soybeans were the biggest losers and closed down 1.6% d/d at R4,775/t and below the weekly average.

OUTLOOK

The medium term price outlook remains bearish for the oilseed market due to the spill over weakness in the grain market and the renewed rand gains. Nonetheless, the reduced sunflower crop will help limit further downside for this market.

Oilseeds Futures 16 May 2017			Jul-17	Aug-17	Sep-17	Oct-17	Dec-17	
CBOT Soya oil (US c/lb)			33.01	33.10	33.20	33.24	33.40	
CBOT Soya cake meal (US\$/t)			317.00	317.60	318.00	317.00	318.10	
16 May 2017								
Calculated Sunflower Option prices (R/ton) RMB commodity desk (Tel: 011 269 9005)								
Jul-17			Sep-17			Dec-17		
Ask	Put	Call	Ask	Put	Call	Ask	Put	Call
4,800	181	131	4,920	278	234	5,060	355	313
4,760	160	150	4,880	256	252	5,020	334	332
4,720	139	169	4,840	236	272	4,980	313	351

Sugar market trends:

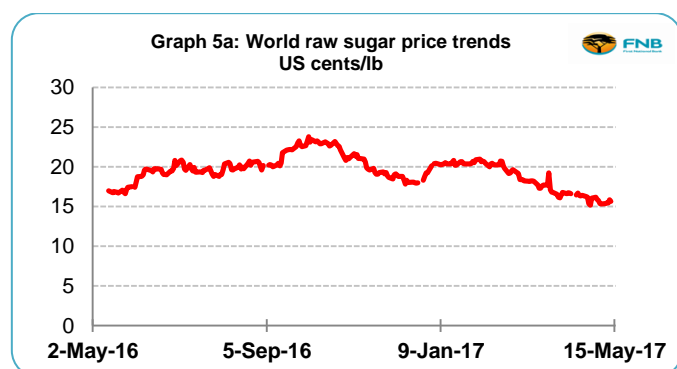
Commentary

International sugar market

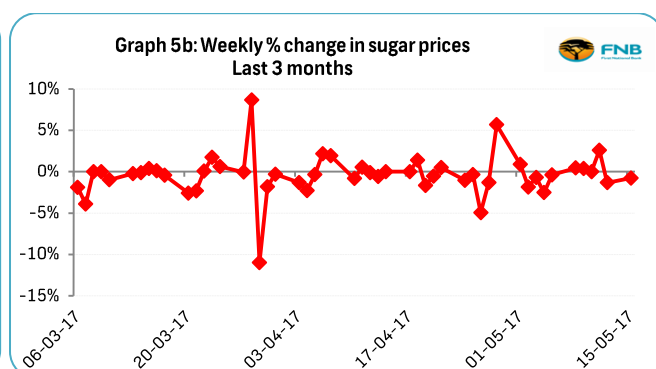
- The medium to longer term outlook for sugar indicates bumper crops in the world's largest sugar producing countries. This together with the weak consumption growth and the subsequent increase in stocks will maintain downward pressure on sugar prices.
- In Mexico, sugar producers reportedly plan to urge the government to ban imports of US high fructose corn syrup (HFCS) if a bilateral sugar dispute is unresolved and the Trump administration decides to reinstate anti-dumping duties.
- Meanwhile, the USDA this month projected the 2017/18 Mexico sugar production at 6.2 million tons based on a sugarcane crop of 55.0 million and a recovery of about 11.3%. The agency kept the combined per capita consumption of sugar and HFCS for 2017/18 unchanged from last year with sugar deliveries for human consumption projected at 4.53 million tons. Exports to the United States are based on U.S. Needs as defined in the Suspension Agreements, according to the USDA.
- Raw sugar prices had a softer start to this week but rebounded modestly yesterday with futures closing higher across the board on the back of a weaker US dollar. Raw sugar for Oct-17 and Mar-18 delivery closed Tuesday 16 May 2017 up by 2.4% and 2.1% d/d at US15.88 c/lb and US16.15 c/lb respectively. The weekly and daily prices changes on the InterContinental Exchange (ICE) trading are reflected in the table below.
- Last week's average weekly raw sugar prices finished down 1% w/w and 4.5% y/y at US15.55 cents per pound.

ICESugarFutures Sugar No.11 (US c/lb)	Jul-17	Oct-17	Mar-18	May-18	Jul-18
16 May 2017	15.88	16.15	16.71	16.65	16.66
% Change w/w	2.8%	2.5%	2.0%	1.8%	1.7%
% Change d/d	2.4%	2.1%	1.8%	1.7%	1.6%

Source: InterContinental Exchange (ICE)



Source: InterContinental Exchange (ICE)



Domestic sugar market

- In the latest update from the South African Cane Growers Association (SACGA), the Recoverable Value (RV) price for the May 2017 was declared at R4,702.60 per ton which is down R52.09/ton month-on-month.
- According to SACGA release, an upward adjustment of 36,068 tons was made to the local market demand estimate (LMDE), in terms of the agreement to mechanistically adjust the LMDE each month of this season, by the variance of actual sales compared with the monthly estimate. This was the measure agreed to monitor and account for the impact of imported sugar on domestic demand.
- The RV price sensitivity analysis shows that the 33% over-performance of sales in April had a positive impact of R52 on the price, if viewed in isolation. This implies that in arriving at the actual outcome of a R52 price reduction for the month, all the other variables would have had a combined negative impact of R104 per ton on the price, considering that the change to the LMDE was the only positive price input for the month. Variables that impacted negatively on the price include the 0.84% reduction in the sugar:RV ratio (94.82% vs. 94.96%), the 8 103 ton increase in gross sugar production (11.883m tons vs. 1.875m tons), the US\$0.90c/lb. reduction in the No.11 world market sugar price (16.79c/lb vs. 17.56c/lb) and the R0.14 firming in the R/\$ exchange rate (13.46 vs. 13.60).

World sugar production trends – 2016/17

Figure 5c: World sugar production
= 170.94 million tons (2015/16)

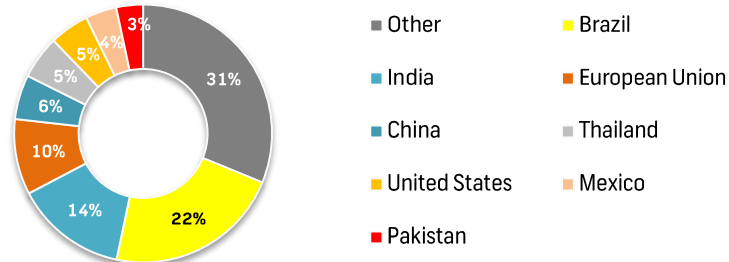


Figure 5d: World cane sugar production
= 134.48 million tons (2016/17)

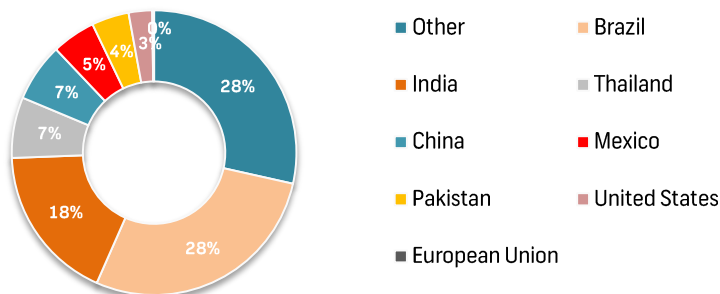


Figure 5e: World beet sugar production
= 36.46 million tons (2016/17)

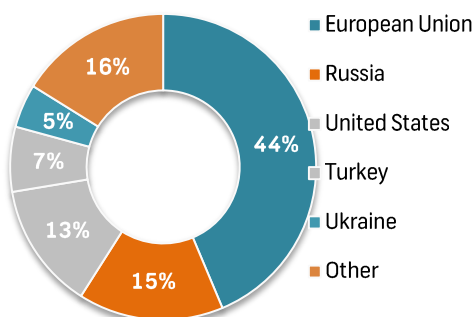
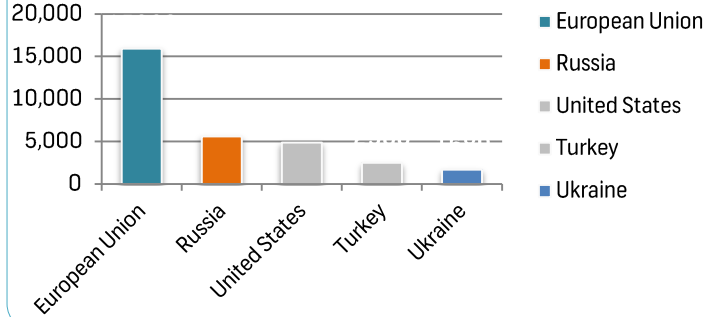


Figure 5e: World top 5 beet sugar producers
('000 tons) - 2016/17



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