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Some unresolved animal health issues that require urgent review

- Biosecurity has been a top-of-mind issue in South Africa's agriculture for more than three years. The specific area of concern has primarily been on animal disease. Rightly so, given the many recent outbreaks across the country. Still, we must never neglect plant health.

- But for this week, we want to reflect on animal health. Cases of foot and mouth (FMD) disease, avian influenza, African swine fever, and Brucellosis continue to emerge, leading to huge costs to farming businesses. The damage to the industry is vast in terms of loss of productive animals, earnings, high-value export markets. The damage to confidence should also not be ignored as the sector will struggle attract investment if there is no clear strategy for addressing animal disease. We have raised this issue many times, and it is good to see that the new Minister of Agriculture, Mr John Steenhuisen, has this issue at the top of the Department of Agriculture's list of priorities.

- This is encouraging, but the real issue is that the process of improving the resolution of animal health issues in South Africa has been dragging on since 2000. Following the animal disease crises in those years, it was concluded that the chain of command in veterinary service in South Africa was inadequate. After various interactions with experts in the industry, we understand that the Department of Agriculture drafted a new Act to deal with the inadequacies in the existing Animal Diseases Act 35 of 1984. The new Act, the Animal Health Act 7 of 2002, was passed by parliament and signed into law by President Thabo Mbeki. Despite the President signing the Act, it was never formally promulgated. Perhaps, with time, this may be worth revisiting as the industry is strengthening its focus on animal disease matters. This would be done to revise it and ensure it is aligned with present-day challenges.

- The experiences over the last three years have again illustrated how important it is to urgently re-evaluate the organisational structures of veterinary services in provinces to address the lack of service delivery and abolish the matrix organisational structure of service delivery.

- These are some of the recommendations contained in the report issued by the Task Team appointed by former Minister Thoko Didiza of the then Department of Agriculture, Land Reform and Rural Development completed in 2002.

- We have extracted ten recommendations from that report that the leadership in the Department of Agriculture should consider. Some industry role players are puzzled as to why very few of these measures have thus far been implemented. The latest foot and mouth disease outbreak in parts of the Eastern Cape again illustrates the importance of these recommendations. These are:

1. A meeting between the Minister and the MECs of all provinces will be held to discuss interim measures to establish the chain of command, allocation of funding, movement control, and the designation of responsibilities.

2. Urgently establish an animal health biosecurity plan, which should include alternative options to ensure biosecurity, such as vaccination to control the spread of disease.

3. Activate Animal Health Biosecurity awareness programmes for livestock owners and handlers across the value chain, including regulatory compliance requirements.

4. Actively enforce regulatory compliance for disease management throughout the value chain.

5. Activate public-private partnership agreements and market access during disease emergencies for each commodity impacted by diseases.

6. Re-activate the process to establish an animal disease emergency fund. This could be done by reserving a specified share of the national annual animal health budget in a contingency reserve. The necessary regulations will have to be developed, and approval from the National Treasury will probably have to be obtained.

7. Reinstate a rigorous and effective system to control the movement of animals out of disease control areas. In the case of communal areas, a mechanism to work together with traditional leaders should be introduced.

8. Immediately deal nationally with the state of disrepair of international and protection zone fences.

9. Review the structural arrangements across several Directorates within the national Department, especially in the Branch of Agricultural Production, Health, Food Safety, Natural Resources, and Disaster Management to eliminate duplication and to strengthen human and financial resources.

10. Evaluate and assess the management and leadership of key staff in the provincial veterinary offices.

- Some of these recommendations will require collaboration with other departments such as Public Works, Boarder Management Agency, and the South African Police Service. Therefore, the Minister must take the lead to rally support from his cabinet colleagues. We view this as vital, as the livestock and poultry industries account for nearly half of our agricultural fortunes, with significant contributions by black farmers. We also know of the impasse between the EU officials and the South African authorities. The EU is unwilling to consider any discussions on red meat exports to the EU before South African authorities consider some critical questions about veterinary processes and animal disease issues. The EU officials are adamant that they still need these critical questions answered before they consider further negotiations on our access to the high-value markets in their region. Therefore, South Africa must seize the opportunity and interest of the EU in our high-quality red meat products and resolve the outstanding regulatory matters that have been formally communicated to our authorities.

WEEKLY HIGHLIGHT

Global food prices continue to ease

- The world endured elevated food prices in the past few years for various reasons, ranging from drought in the major agricultural-producing regions of South America to the Black Sea war. But in recent months, global agricultural prices and consumer food prices have softened. Food prices globally are roughly 25% less than the peak levels reached in March 2022, which was right after Russia invaded Ukraine and caused much disruption and panic in the agricultural markets.

- This past week, the Food and Agriculture Organization of the United Nations (FAO) released its monthly Global Food Price Index, i.e., the FAO Food Price Index. This Index measures the monthly changes in international prices of a basket of agricultural commodities. The FAO Food Price Index stood at 120.8 points in July 2024, marginally below its revised figure for June. The major contribution factor to the marginal moderation was the easing in grain prices, while other commodities increased somewhat. The FAO Food Price Index is now 3% lower than its corresponding value one year ago. Most notably, as we stated above, the Index is 25% below its peak in March 2022, when Russia had just invaded Ukraine.

- The FAO shows that the global export prices of all major grains decreased monthly for a second consecutive month. The FAO further argues that "the increasing seasonal availability from ongoing winter wheat harvests in the northern hemisphere, and generally favourable conditions in Canada and the US supporting expectations for large spring wheat harvests continued to put downward pressure on international wheat prices. Strong exporter competition and weak global demand also weighed on wheat prices. Seasonal pressure underpinned a decline in maize export prices as well. Harvesting in Argentina and Brazil progressed ahead of last year's pace, while crop condition ratings in the US remained above last year's average. Among other coarse grains, world prices of barley and sorghum also fell in July."

- This optimistic view is also aligned with the encouraging view shared recently by the International Grains Council (IGC) regarding the availability of global grain supplies. For example, in their latest update, the IGC placed the 2024/25 global grains and oilseed production forecast at 2,3 billion tonnes, up mildly from the previous season. The stocks are expected to be healthy, around 582 million tonnes, although having declined somewhat from the 2023/24 season because of the increased industrial use of grains.

- We see an encouraging outlook if we consider the significant grains such as rice, wheat, maize and soybeans. For example, the IGC forecasts a 1% year-on-year increase in the 2024/25 global rice production to 528 million tonnes. This is based on an anticipated large crop in all the major rice-producing regions, such as India, Vietnam, Thailand, the US, China, Pakistan, Indonesia, Bangladesh and the Philippines. Subsequently, the stocks could also increase by 1% to 175 million tonnes.

- The production prospects for 2024/25 global soybeans are also positive, estimated at 415 million tonnes, up by 6% year-on-year. This is based on the expected large harvest in the US, Brazil, Argentina, India, and Paraguay. Still, given that nearly half of the production is by the southern hemisphere producers, specifically South America, we view these data as tentative until the start of the season in the region in about two months. Assuming the current estimates materialize, the 2024/25 global soybean stocks would lift by 16% year-on-year to 79 million tonnes. Such an increase in the harvest and supplies would add downward pressure on worldwide soybean prices, which is favourable for the animal feed industry.

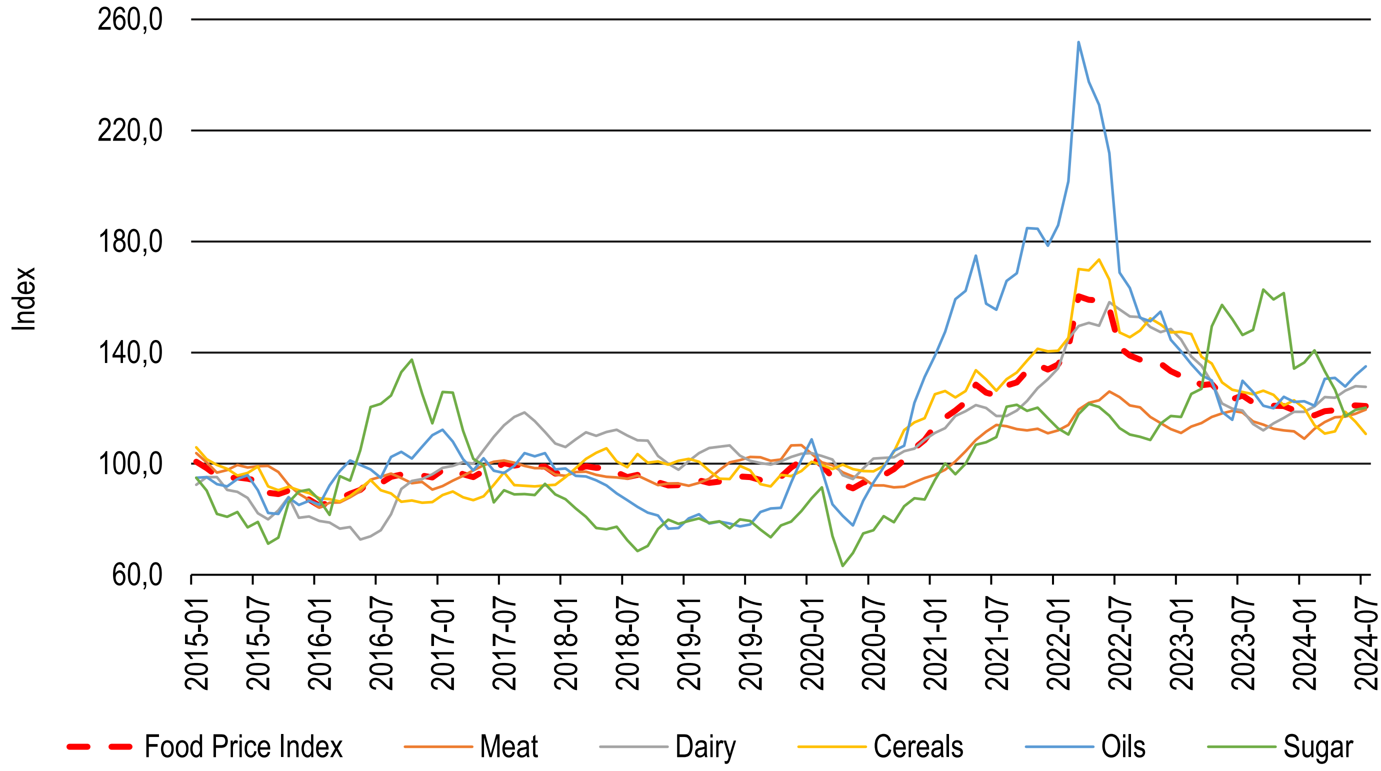
- A less optimistic view is in the major grains such as wheat and maize, although their supplies will remain at levels above average. For example, the IGC forecasts the 2024/25 global wheat production at 793 million tonnes, slightly lower than the 2023/24 season's crop of 804 million tonnes. This is due to the expected production declines in the EU, UK, Ukraine and Russia. These overly wet weather conditions in these countries during the season are the reason for the anticipated poor yields.

- With food and industrial use of wheat expected to remain strong, the IGC placed the 2024/25 global wheat stocks at 261 million tonnes, down 3% year-on-year. Be that as it may, international wheat prices have not reacted to these expectations and have remained on a moderating path in recent weeks, which is a welcome development from a consumer perspective.

- Moreover, while the southern hemisphere major maize producers will only start the season in October, the IGC's preliminary estimates point to possible large harvests. For example, the 2024/25 global maize production is forecast at 1,2 billion tonnes, down by 0,2% from the previous season and well above the long-term average production levels. The slight crop decline is due to an expected slight harvest decline in the US, Argentina, Ukraine, and Russia. Subsequently, after considering the slight decrease in global maize production and strong usage, the IGC forecasts the 2024/25 global maize stocks to be at 281 million tonnes, down 2% year-on-year. Still, we doubt this would lead to a price surge and that the current moderation may continue.

- Overall, while we are still in the early stages of the 2024/25 global grains and oilseed season, with some weather-related risks ahead, the data from the IGC paint an optimistic view of the harvest and supports the view of the moderating global food prices, after a few years of the elevated prices.

Exhibit 1: FAO's global food price index



Source: FAO and Agbiz Research

WEEK AHEAD

What we are watching this week

- We start the week with a global focus, and today, the United States Department of Agriculture (USDA) releases its weekly **US Crop Progress** report. The focus is on the growing conditions of the 2024/25 crop. In the week of July 28, about 68% of the US maize crop was rated good/excellent (compared with 55% rating at the same time last year). On the same day, the US soybean crop was also rated at 67%, which was rated good/excellent (compared with the 52% rating at the same time last year). Moreover, the USDA will release its **weekly US Grains and Oilseed Export Sales** data on Thursday.

- Within the domestic front, on Wednesday, SAGIS will release its **weekly South Africa's Grains and Oilseeds Producer Deliveries** data. In the case of maize, this week, we will see a release of the data for the 14th week of the new marketing year, 2024/25. In the previous release on July 26, South Africa's weekly maize producer deliveries were about 230k tonnes. This placed the 2024/25 maize producer deliveries at 9,2 million tonnes out of the expected harvest of 13,34 million tonnes.

- The 2024/25 soybean deliveries in the first 22 weeks of this new marketing year amounted to 1,69 million tonnes out of the expected harvest of 1,78 million tonnes. At the same time, the sunflower seed deliveries amounted to 609k tonnes out of the expected harvest of 649k tonnes. In the case of wheat, last week, 2 848 tonnes of wheat were delivered to commercial silos. This placed the 2023/24 wheat producer deliveries at 1,98 million tonnes out of the harvest of 2,10 million tonnes.

- On Thursday, SAGIS will publish its **weekly South Africa's Grains and Oilseeds Trade** data for the 14th week of the 2024/25 marketing year. In the previous release on July 26, the 12th week of the 2024/25 marketing year, South Africa exported 44k tonnes of maize. Of this volume, 57% was exported to Zimbabwe, and the balance to the rest of the neighbouring African countries. This places South Africa's total maize exports in the 2024/25 marketing year at 525k tonnes out of the expected 1,4 million tonnes (down from 3,4 million tonnes in the 2023/24 marketing year because of the mid-summer drought).

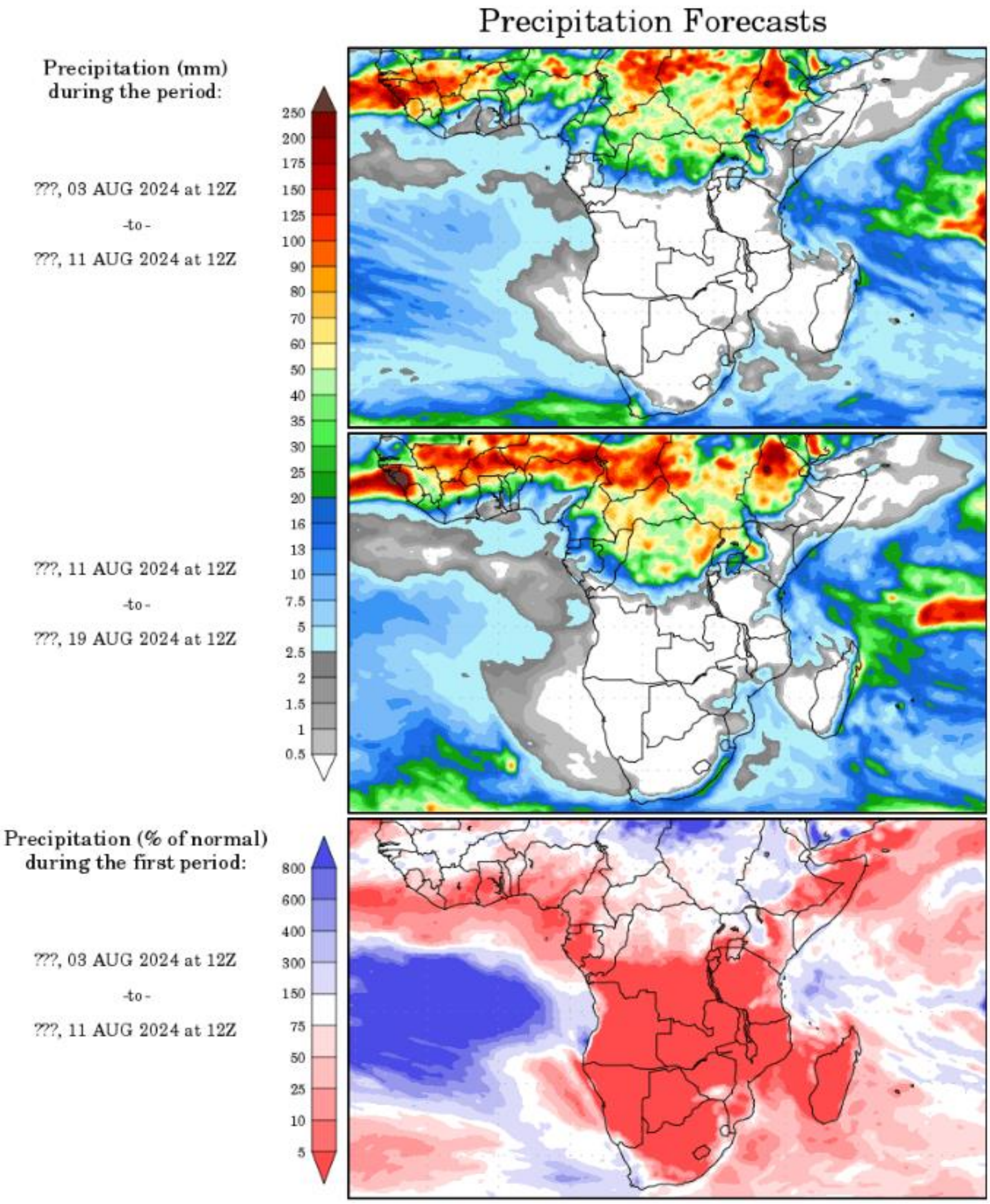
- Moreover, while South Africa will likely remain the net exporter of maize in the 2024/25 marketing year, the coastal regions will import small volumes of yellow maize for animal feed because of price advantage. We have recently seen the imports of yellow maize from Argentina through Cape Town. South Africa's 2024/25 maize imports currently stand at 114k tonnes.

- South Africa is a net wheat importer, and July 26 was the 43rd week of the 2023/24 marketing year; South Africa's 2023/24 wheat imports totalled 1,58 tonnes out of the seasonal forecast of 1,60 million tonnes. The major wheat suppliers include Poland, Lithuania, Latvia, Russia, and Australia.

South Africa's Precipitation forecast

- The weather forecast for this week shows prospects of showers in parts of the Western Cape, which will be conducive for the winter crop-growing regions. The rest of South Africa could remain dry and relatively cold, which is typical for this time of the year ahead of the new summer crop season.

Exhibit 2: South Africa's precipitation forecast



Source: George Mason University (wxmaps)