Higher grain harvests to aid food makers

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Grain prices dropped further this past week as early projections painted a favourable outlook for SA's main crops, ranging from maize to wheat.

The country's food producers stand to be the biggest beneficiaries in terms of lowering their input costs.

Just a little more than a year ago, white maize and wheat traded well above the R5,000 a tonne mark on the JSE's commodity derivatives market, reflecting at the time mounting concerns about the effects of the drought on the grain supplies, as well as a sharply weaker rand. The price of white maize had increased substantially relative to the yellow maize variety because it is not readily available on the international market.

But the situation has changed since then, with white maize for July delivery now fetching R1, 932 a tonne as of Friday on expectation of a much better harvest in 2017.

SA will likely harvest 13.9-million tonnes of maize in 2017, which is nearly double the previous year's 7.77-million tonnes, according to the preliminary figures released by the Crop Estimates Committee last week.

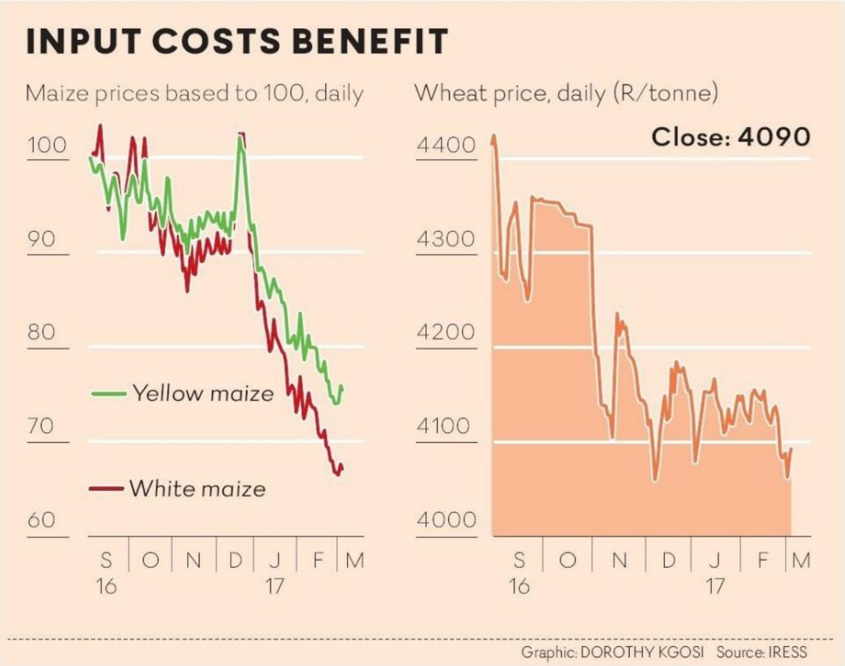
These figures get revised at least eight times in a year before the final outcome is reached, which will be sometime later in 2017.

White maize output is estimated at 8.31-million tonnes in 2017, up a whopping 144% on 2016, while that of the yellow variety is forecast to rise 28% to 1.23-million tonnes.

Farmers have ramped up other crops including soybeans, sunflower and dry beans. Commercial wheat production is also expected to recover from the drought-induced setback.

February's outbreak of the potentially destructive alien pest, known as the fall armyworm, has had little effect on prices so far, but the concern was strong enough to mobilise key stakeholders in agriculture to find a solution.

The bumper maize harvest, or the expectation thereof, will help take pressure off the food producers that have been battling elevated cost pressures in the past year or so.



"I most certainly agree with the view that markets are pricing in lower input costs for a number of primary food producers in the second half of 2017," said Andrew Dittberner, chief investment officer at Cannon Asset Managers.

"The accepted view is that the drought is now in the rear-view mirror and, as such, softer input prices will play a material role in improved operational performances, and hence margin recovery in the likes of Astral and Tiger Brands."

Astral uses maize and soya as primary ingredients, while Tiger and Pioneer Foods use maize and wheat.

The brightening crop outlook has fuelled buying momentum in food stocks, with shares in Astral rising from a low of about R122 in December to a current high of about R147. RCL Foods has risen 24% to R15.70 since the start of 2017.

"The animal feed industry and intensive livestock industries should use this buying opportunity," analysts at Absa said in a note, referring to lower prices.

Astral's net profit halved in its last financial results, hit by higher feed costs, which it expects to ease in the second half of the financial year.

Pioneer Foods anticipates a respite in cost pressures in the coming months. However, the food producer expects headline earnings per share to drop between 38% and 55% in the six months to March.

Dawie Maree, head of information and marketing at FNB Business and Agriculture, said grain prices had limited downside potential from the current levels, given that market expectations of a higher crop were discounted.

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The output percentage white maize is expected to rise in 2017 and the crop is estimated at 8.31-million tonnes. Yellow maize is forecast to rise 28% to 1.23-million tonnes.