

## **The local white maize market in perspective**

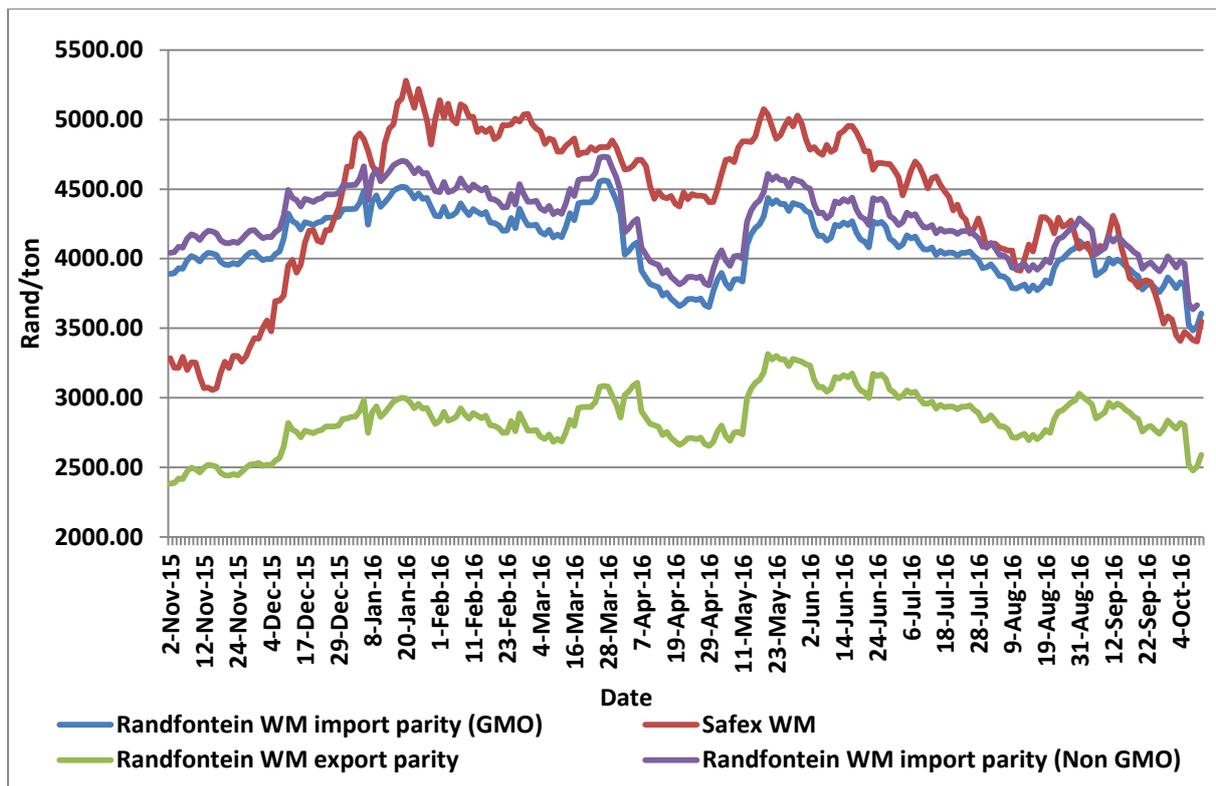
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The past year was known for its difficult conditions in the agricultural sector. These difficult times went hand to hand with the extremely dry conditions that were seen locally and what is known as the worst drought in 104 years. The drought which was persistent over large parts of the summer rainfall and summer cropping areas created fears and uncertainties in the market whether the local production would be sufficient to fulfil the local demand. The other big debates in the market were whether the import infrastructure would be able to handle the large import volumes if it is needed in order to fulfil the local demand. The different uncertainties and questions in the market place created panic in the local markets and the prices increased to record levels which were very high.

In many areas the farmers were forced to plant the crops much later than the usual planting dates due to sufficient rain that came later in the season. This created the fears that if the cold winter weather would have come early it would have been unfavourable for production. At the end of the day the season turned out to be better than expected and the yields were better than the initial expectations. There were also seen that the importers in the market started to react early and the imports already started to land from the 3<sup>rd</sup> week of the marketing season. Other factors that has a significant impact on the local white maize prices is the international market conditions and the exchange rate. The exchange rate plays a large role in the local market prices as well as in the import and export parity prices. Several local and international political and economic factors contributed to the unstable and volatile exchange rate and have a large impact on the local prices.

The season that turned out to be better than expected leads to higher than expected producer deliveries. This together with the imports that went well has placed some pressure on the local white maize prices the last few weeks. There are several reasons that contributed to the decreasing of the local prices and it includes the strengthening of the exchange rate up to the international market prices that are under pressure as well as the local harvesting pressure created by the local crops that entered the markets. The uncertainties did however highlight the importance to calculate a white maize import parity price which can be used in order to compare the local SAFEX white maize price with. Figure 1 indicates the local SAFEX price together with the USA import and export parity prices of white maize. The import parity prices include the USA GMO and non GMO prices.

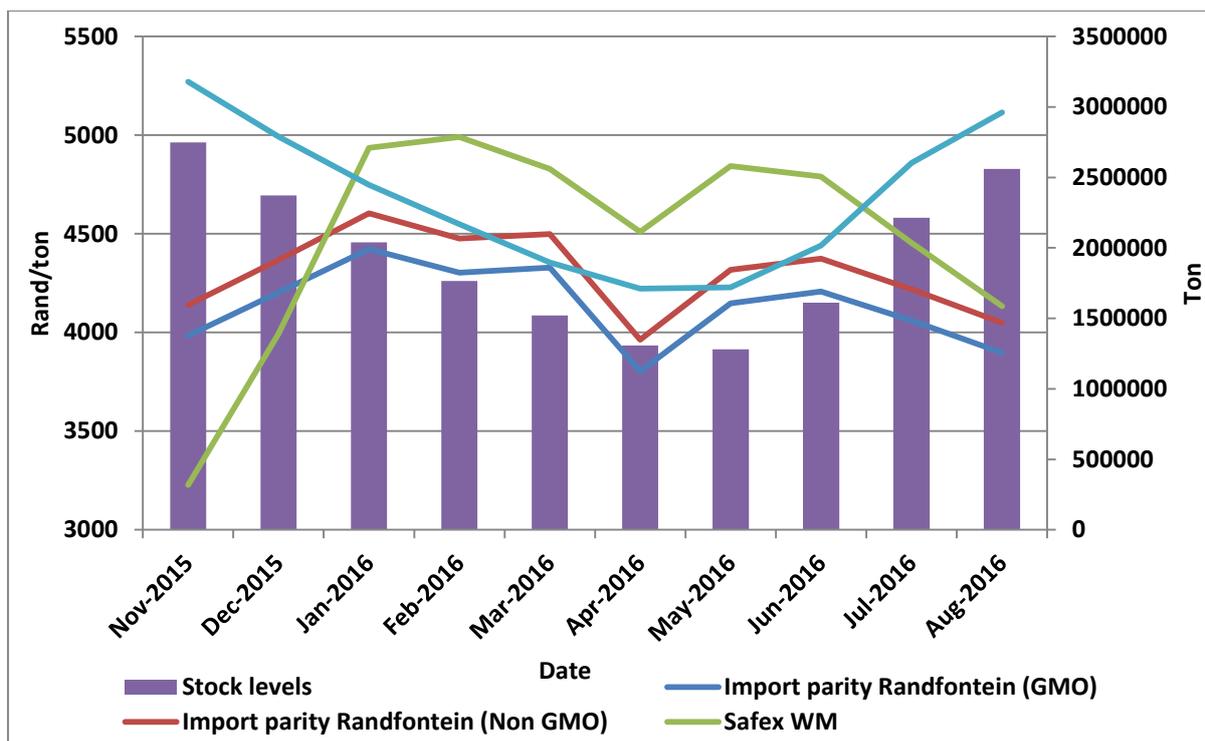


**Figure 1: White maize parity prices versus SAFEX WM prices**

Source: Grain SA

Figure 1 indicates the white maize parity prices versus the local SAFEX white maize prices from November 2015. It is clear from figure 1 that the local prices traded at very high levels and above the import parity prices from the end of December 2015. The prices did however showed cyclical movements but still traded higher than the import parity prices. The prices traded at these high levels until around middle August 2015 where the prices started to trade lower and even below the import parity prices.

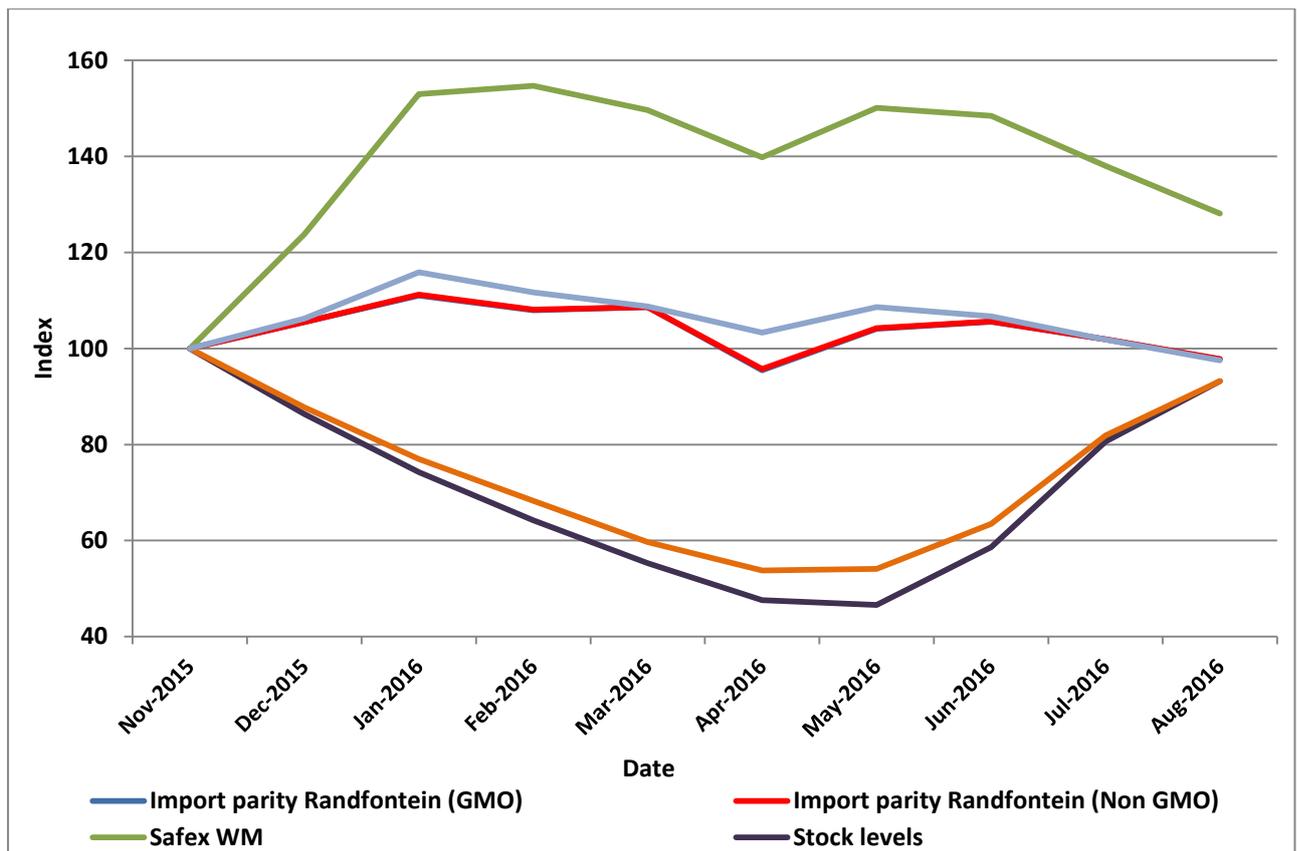
Figure 2 indicates the average monthly parity prices together with the average monthly local white maize prices, the total local supply and the monthly stock levels. It is clear from figure 2 that there are a bit of a negative correlation between the local prices and the total supply as well as the stock levels. The increase in the stock levels resulted in lower local prices. It can also be seen that the international prices became under pressure and placed pressure on the local prices as well.



**Figure 2: Average monthly: WM parity prices, WM SAFEX, total WM supply and WM stock levels**

Source: Grain SA and SAGIS

Figure 3 indicates the white maize parity prices, the SAFEX white maize prices as well as the stock levels, total supply and exchange rate calculated as index values. This is done on a monthly basis from November 2015 up to August 2016 with November 2015 as the base value. The index values make the different data more comparable and also indicate the correlation between the data quite good. It also indicates the rate of change between the different prices and stock levels.



**Figure 3: Index values**

Source: Grain SA

It is clear from figure 1 that there is a negative correlation between the local SAFEX white maize prices and the stock levels as well as the total supply. There are also a positive relationship between the parity prices and the local SAFEX prices as these two moves together.

### **In conclusion**

The local white maize prices were under pressure the past month due to several reasons which included the strengthening of the exchange rate, the lower international prices as well as the producer deliveries that entered the market. The prices showed normal cyclical movements with decreases that were seen during August and September. The import parity prices are based on the USA and the prices in terms of the Mexico import prices trades around R4 000/ton. The exchange rate remains a large role player in the local market and the volatility and uncertainties of the exchange rate make it a very risky factor.