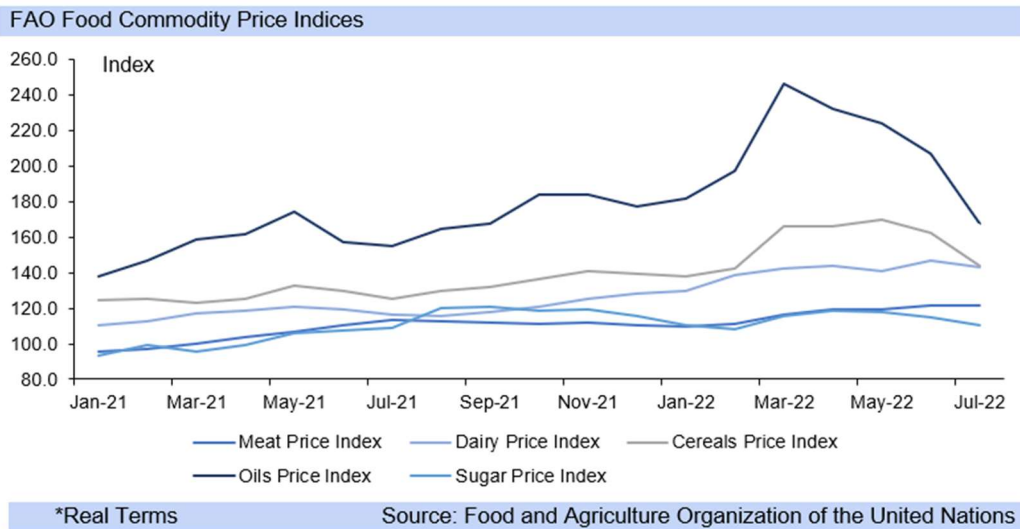




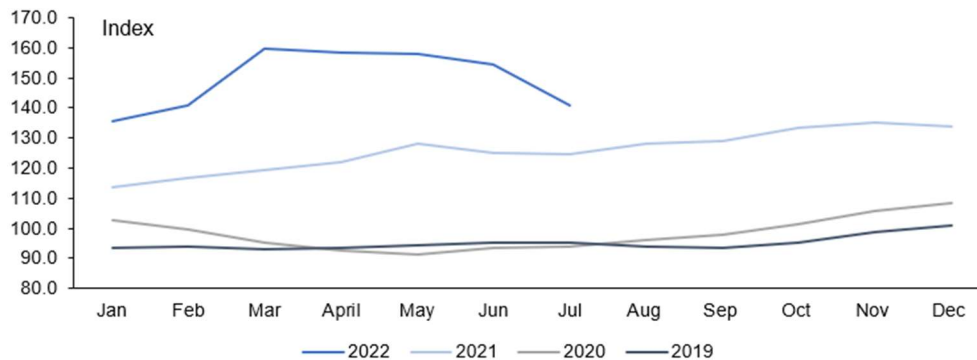
# SA Economics

Wednesday 10 August 2022

Commodity currencies note: there is currently the potential for slightly lower inflation this year than previously expected



### FAO Food Price Index



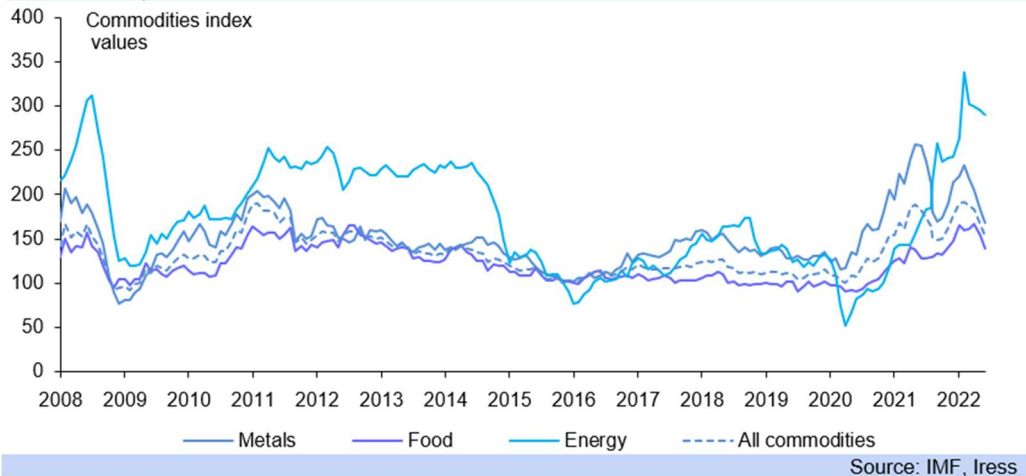
Source: Food and Agriculture Organization of the United Nations

- Food price inflation at the commodity level has continued to move lower, driven largely by grains, which is still expected to exert some downward pressure on PPI inflation figures in Q3.22, and so on CPI inflation in particular in Q4.22 for South Africa.
- Falling food and energy prices since the end of Q2.22 have contributed to a moderation in commodity prices overall on the month, with gasoline prices down -15.2% and Brent crude oil -12.8%, and so large petrol (R2.72/litre) and diesel (R2.48/litre) price cuts building for SA.
- With the fuel prices adjusted on the first Wednesday of the month, this will place subduing pressure on the CPI inflation rate next month. However, in July the state did not pass the full amount of the over-recovery through, only delivering around half, which remains a risk.
- Fuel prices could be flattish to slightly lower in Q3.22 versus Q2.22, depending on the actual price changes at the pump, as fuel prices in SA remain state administered prices. To date August and July's drop in petroleum product prices have overshadowed rand weakness.
- However, it should be noted that fuel prices are still higher compared to a year ago, which will support inflation to some extent as the headline measure is based on year on year changes, and so a collapse in inflation is not likely, just a moderation over H2.22.
- The petrol price is running at R25.42/litre in August and the diesel price at R24.52/litre, versus R18.30/litre and R15.64/litre in the respective months in 2021. Globally, commodities' food prices are still elevated y/y, up 8.2% (Economist food commodities price index).
- Transport costs are up 20% y/y in SA, with fuel costs 45.3% y/y higher than a year ago, while food price inflation is 9.0% y/y (all latest data – published for July). Q3.22 is expected to begin to see some moderation in inflation, but price pressures have become broad based.
- Higher fuel costs have pushed up transport, and so production, costs generally, while retailers have also faced higher input costs, with salary and wage increases rising as inflation has, contributing to wider price pressures, which will slow disinflation (the drop in inflation).

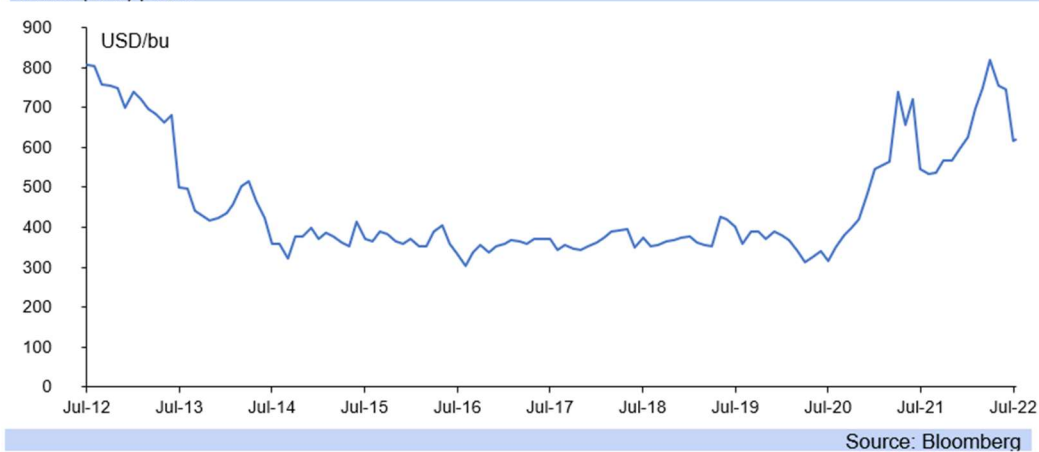
- Lower international gasoline prices, if sustained, will have an impact on the likely outcome for SA's CPI inflation rate for 2022, potentially moving it towards 6.6% y/y from a previous expectation of 6.9% y/y, if September sees the large fuel prices currently scheduled.

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Commodities price indices vs rand

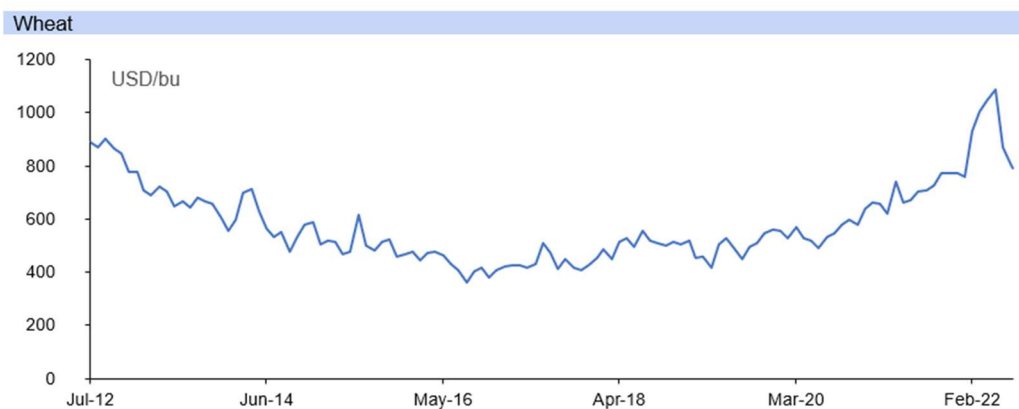


Maize (corn) prices



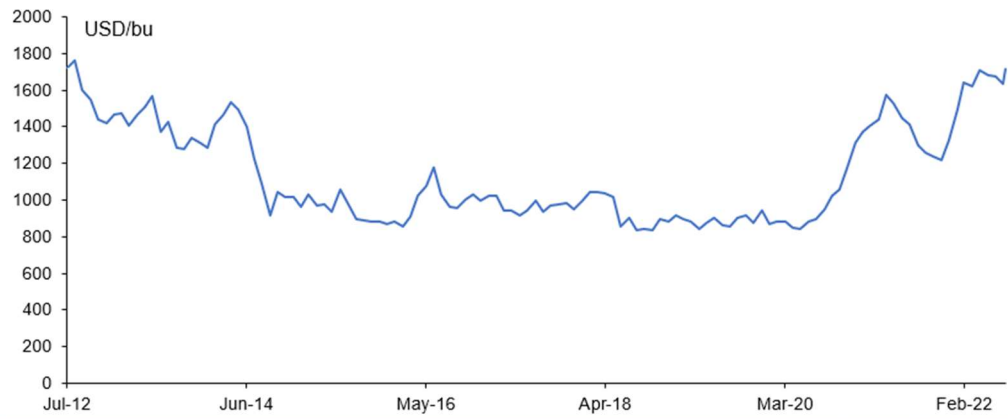
- South Africa's maize production is showing an improved estimate from the CEC (Crop Estimate Committee) for this year (lifted by higher forecasts for yellow maize), while the soybean crop is expected higher this year than at any point since 2010.
- While South Africa's "estimated maize crop is 10% smaller than the 2021 crop", it is still near the five year average, produced mainly in "the Free State, Mpumalanga and North West provinces ... 82% of the 2022 crop".

- Weather conditions are likely to favour rain as well for the 2022/23 period, with SA seeing above average rainfall under a La Nina phenomenon. Above average rainfall is positive for production, providing extreme weather conditions, damaging to crops, do not occur.
- The Australian Bureau of Meteorology has said that its "La Nina WATCH means there is around a 50% chance of La Nina forming later in 2022. This is approximately double the normal likelihood." SA weather services are also indicating this.
- Agbiz notes "South Africa will need favourable rains, not excessive, primarily between October 2022 and February 2023 for this upcoming season, not only for field crops but also for livestock and horticulture. For now, the available indications are encouraging."
- Agbiz also notes "South Africa is a net wheat importer, and ... (t)he major wheat suppliers are Argentina, Lithuania, Brazil, Australia, Poland, Latvia and the US. ...Russia was one of the major wheat suppliers (26%) ... The suppliers mentioned above have now replaced this".
- The good prospects for SA's grains and oil seeds will only exert a moderate influence on domestic prices however, with international commodity prices (for grains and oil seeds) instead having the major influence.
- International wheat prices are 2.7% higher y/y currently, soybeans are up 28.8% y/y, maize (corn) prices are up 4.4% y/y, and month to date are up 4.5% for soybeans and 0.6% for corn, while wheat is down -2.0%. Base effects will also have some moderating impact over H2.22.
- While there are some signs that inflationary pressures could moderate by slightly more than expected in 2022, it is still too soon to be able to be certain, but fuel prices have dropped markedly, and food prices are moving in the right direction to support this.



Source: Bloomberg

Soybean



Source: Bloomberg