



Perspektief | Perspective

Nuusbrief | Newsletter

06/09/2013 WEEK 36 - 2013

KLIK HIER VIR DIE AFRIKAANSE WEERGAWE

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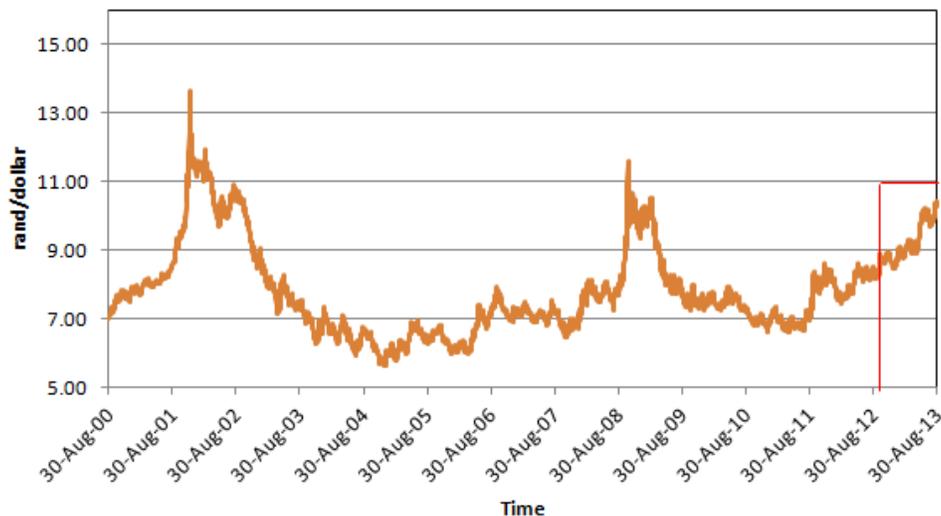
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Brief overview of the exchange rate situation

Wessel Lemmer (senior economist: Industry Services, Grain SA) and Wandile Sihlobo (economist: Industry Services, Grain SA)

»As from 30 August 2000 to 30 August 2013, the South African Rand has weakened by approximately 48% against the US Dollar; from R6,99/US\$ to R10,34/US \$.

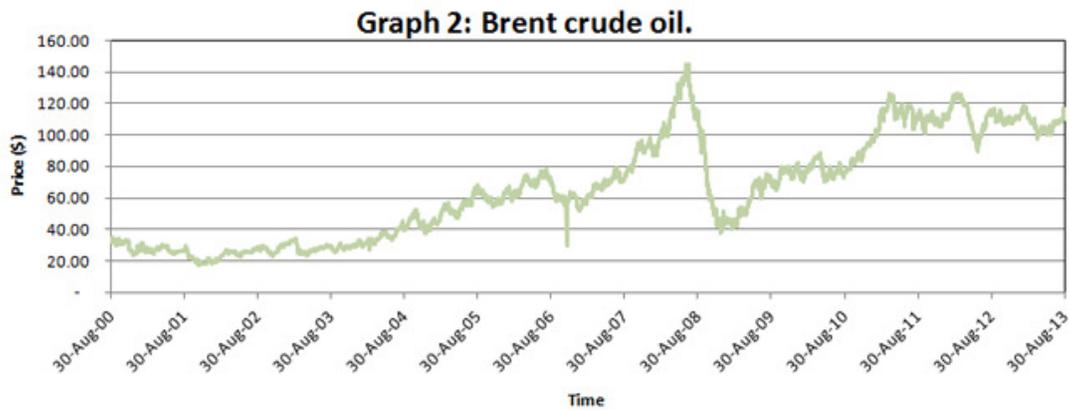
Graph 1: Rand/dollar.



Source: Grain SA (2013)

Over the years, there are a number of factors that have played a part in this depreciation. However, the recent depreciation from R8,42/dollar on 30 August 2012 to 30 August 2013, has been heavily supported by labour unrest, the high unemployment rate, policy uncertainty and declining competitiveness (Bishop, 2013). Some economists are of the view that the political climate, low levels of skilled labour and the low interest rate are also among the major contributors in the weakening of the rand value, as these directly influence investments (BER, 2013).

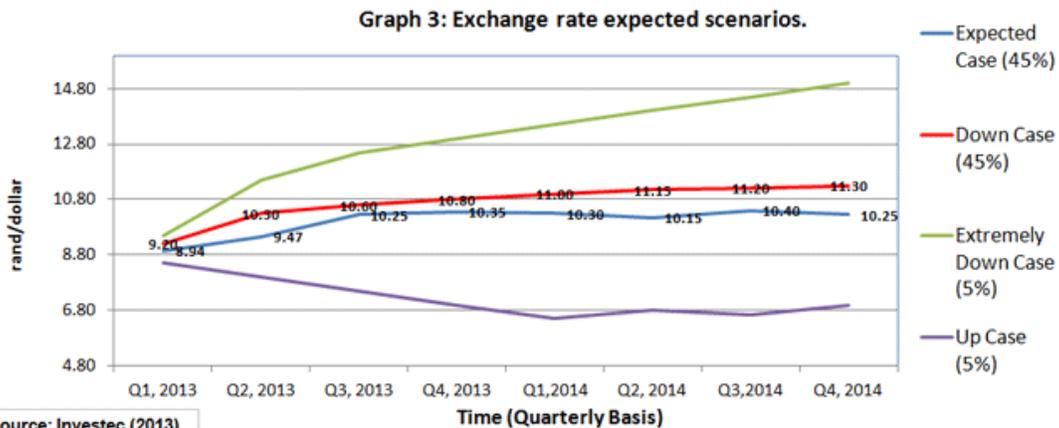
In recent months, there have been some positive arguments that the weakening of the rand value heavily supported the exports, thus reducing the current account deficit. However, the situation seems to be slightly different in the grain and oilseeds industry, as approximately 75% of the fertiliser material is imported; approximately 99% of the agro-chemicals are imported, as well as a large part of Brent crude oil. Thus, the weak exchange rate puts much pressure on producers due to high production costs.



Source: Grain SA (2013)

Yearly, Brent crude oil prices have also shown significant increases - from \$32,45 a barrel on 30 August 2000 to \$112,86 a barrel on 30 August 2013. Many factors have played a part in this significant increase; however unrests over the years in some of the Organisation of the Petroleum Exporting Countries (OPEC) have been the major contributing factor.

Future expectations



Source: Investec (2013)

Source: Bishop (2013)

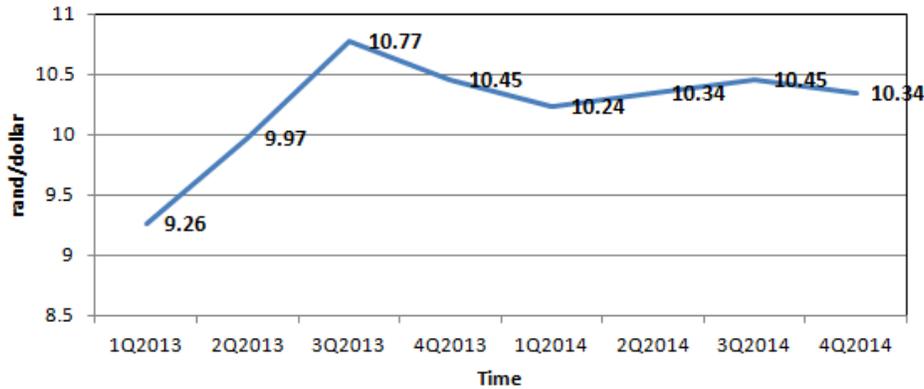
A recent report by Investec Group Economics, presented the above illustrated expectations from the next coming year. Currently the rand seems to be following the Expected Case and further expectations regarding this, are that the rand will continue trading above R10/dollar. If this situation prevails, it will put much stress on the summer grain producers as they are approaching the planting season.

Nedbank (2013) also presented their expectations for the coming year. On the domestic side, labour unrests are still seen to be playing a huge role in the weakening of the exchange rate. Nedbank (2013) is also of the view that South African growth prospects coupled by political uncertainty ahead of next year's election, are the major contributors to the weakening of the exchange rate.

Some economists have been of the view that the South African Reserve Bank (SARB) might increase the interest rate, thus more capital inflows. However, Nedbank (Nedbank, 2013) further noted that because of the local increasing inflation rate, which is quoted at 6,3% from 5,5% in June and the slow growth rate, which is quoted at approximately 2%, the SARB is expected to keep the interests rates on hold until the middle of 2014.

On the global markets, some of the key driving factors of the weakening of the exchange rate, are seen to be the uncertainty over the Federal Reserve Bank of America as to whether they are going to continue to buy bonds or going to pull off buying bonds from the emerging economies. This situation will result in the reduction of capital inflows to the emerging economies, as foreign investors are expected to shift some funds to the emerging market shares, bonds and currencies. The rising tension in the Middle East region and the possibility of intervention by the US in Syria is likely to have a negative impact on the global economy (Nedbank, 2013).

Graph 4: Exchange rate expectations.



Source: Nedbank (2013)

With all the above noted challenges, it is believed that there can be some great improvements on the economic growth and the rand value, given an improvement in labour-employee relations, the strengthening of the global economic growth, increased labour productivity, better public service delivery and strong incentives for investment.

Further Reading

BER, 2013. *Manufacturing Survey*, Stellenbosch: Bureau for Economic Research, Stellenbosch University.

Bishop, A., 2013. *Rand Quick Note: Strike Action Afflicts the Rand as We Move Increasingly into Down Case-The Down Case Probability Rises*, Johannesburg: Investec.

GSA, 2013. *Algemene Inligting - Plaaslike Internasionaal*, Pretoria: Grain SA.

Nedbank, 2013. *Monthly Insight*, Johannesburg: Nedbank.

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Agri Mega Week - something for everyone to look forward to

Toit Wessels (provincial co-ordinator: Farmer Development, Grain SA)

»From 18 to 21 September it will again be time for the annual Agri Mega Week and as per usual, Grain SA will again be part of the hustle and bustle in Bredasdorp during this time.

By now all Grain SA members should have received their tickets in the mail, gaining them free access and parking for one day. If there are members who have not received his/her tickets, please do not hesitate to contact Toit Wessels at 082 658 6552 for your tickets.

At the Mega Week you will be greeted with typical Grain SA hospitality at the Grain SA tent. Come and enjoy an early morning cup of coffee, tea and a sandwich; refreshments will also be available throughout each day of the Mega Week. Louw Steytler, chairman of Grain SA as well as Jannie de Villiers, Grain SA's chief executive officer and some of the members of the Executive will be available on the Thursday and Friday for discussions with members.

Grain SA members, you are invited to come and say hello at the Grain SA tent and give your inputs and contributions regarding the grain industry and on what we can do to improve our service to you - compliments are equally welcome so that we can know what we are doing right in order to build on it. We look forward to receive our members and to spoil them during the week at Mega Park.

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SA Graan/Grain: Be on the lookout for our big focus on pest and weed control

Estie de Villiers (assistant editor: SA Graan/Grain)

»Is your weed control planning in order? SA Graan/Grain's September issue, which is currently in the mail, has a focus this month on pest and weed control. We will be looking at pest control in a rotational cropping programme; biological control; herbicide resistance; diseases, pests and plagues on maize; canola diseases and wheat rust.

For this edition (with a maize cob and a ladybird on the cover), Petru Fourie (economist: Industry Services, Grain SA) writes about the importance of production budgets before the planting of crops - a necessity that helps producers to make production decisions.

Be sure to take a look at the photo portrayal of the finalists competing for this year's Grain SA/Syngenta Grain Producer of the Year and Grain SA/Absa Developing Grain Producer of the Year awards.

Enjoy the read; until next month!

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