# El Nino offers opportunity for SA farmers: Santam

By Helmo Preuss

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Although global grain prices have risen due to the US drought, South African farmers should see this as an opportunity, says Johan van den Berg, manager of specialised crop insurance at short-term insurer Santam.

Eastern production areas, especially Mpumalanga, received more than 20mm rain and in some areas more than 100mm in the first week of September, and this could ensure a good start to the planting season, which is in full swing in early October.

"The presence of an El Nino phenomenon does increase the risk for drought and other extreme climate events like frost and hail but it is by no means a guarantee. However, other contributing factors such as the general condition of agriculture, the financial status of farmers, soil moisture conditions, and commodity prices play an important role in decision making and risk appetite of farmers and other key players in industry," he said.

The dry weather in other parts of the world may provide agricultural opportunities in SA. The severe drought being experienced in parts of the US has resulted in a maize crop of approximately 100 million tons less than expected, resulting in a low global supply of maize and other summer grains and relatively high commodity prices.

Due to the high domestic price of summer crops, there are intentions to establish a relatively large area of maize and soy beans, provided soil water conditions and rain are favourable.

## Look to rainfall patterns

Van den Berg said farmers should also take into account that an El Nino event usually stimulated early summer rainfall over Southern Africa but decreased the probability for rain in the mid to late summer, especially over the central to western parts.

With the absence of tropical cycles, El Nino events in the past were also responsible for some rain in the critical February period, when the summer grain crop was at its most vulnerable for drought.

A weak El Nino effect has been observed since June 2012, before a return to normal sea surface temperatures occurred in September 2012. However, a redevelopment of a weak El Nino was still expected later in the season until March-April 2013.

The effect was part of the El Nino Southern Oscillation (ENSO) phenomenon and the events occur on average in about 25% of years.

This happens when abnormal warming of sea surface water occurs in the equatorial Pacific due to the weakening of the southeast trade winds or even a reversal of the normal wind pattern.

A pool of warmer than normal water gathers along the equator between South America and Australia.

## SA farmers indirect beneficiaries

In about 25% of years, the opposite - known as La Nina - may occur, when sea surface temperatures are cooler than normal due to a strengthening of the south-easterly trade winds. In about 50% the trend is more towards normal or average sea surface temperatures.

Maize farmers in particular in SA have been the indirect beneficiaries of regional droughts that have caused grain shortages in neighbouring countries. Aid agencies then buy grain from the nearest (and cheapest) source to ship to the countries in need.

Higher grain prices were part of the reason for rising food inflation in 2011, even though global economic prospects have turned more bearish on the eurozone sovereign debt crisis since August.

Bread and cereals have a 3.08% weight in the South African consumer price index, while grains have a 0.87% weight in the producer price index.

Many central banks around the world, such as the European Central Bank, raised interest rates in the first half of 2011 due to rising food inflation, while many African central banks increased interest rates in the second half.

Of the 90 major central banks, 34 made net increases to their interest rates, 21 made net reductions to their policy interest rates, and 35 (including the South African Reserve Bank) kept their rates unchanged.

The 2011 experience was similar to 2008, when surging oil prices prompted a commodity price boom and the majority of central banks, including the South African Reserve Bank, tightened monetary policy prior to the peak in July 2008, before slashing rates after the global credit freeze caused by the Lehman Brothers bankruptcy in September 2008.