

*"Projected expansions in US plantings pose high prospects for global maize output. Tanzanian production projected to increase by 7% to 6.3 Mil tons in 2016/17 season, hence, likely to put pressure on prices"*

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## Executive Summary

Global maize production forecasted to increase by 1.1% to 1014 Mil tons due to anticipated recovery in EU yields and projected expansion in US plantings. On the other hand, an intense drought, the driest in the last 35 years is threatening food security in the Southern part of Africa and likely to have a significant impact on East African Countries' maize market. Moreover, Tanzanian production projected to increase by 7% to 6.3 Mil tons in 2016/17 season, hence, likely to put pressure on prices.

### 1. Global Maize Market Fundamentals

The five year global compounded annual growth rate (CAGR) of maize production and consumption stands at a 2% and 3% respectively (USDA Data & NMB Analysis). Maize consumption outpaces production due to growth in other uses i.e. feeds together with Food, Seed and Industrial use (FSI) by 2% and 0.5% respectively for the last two years.

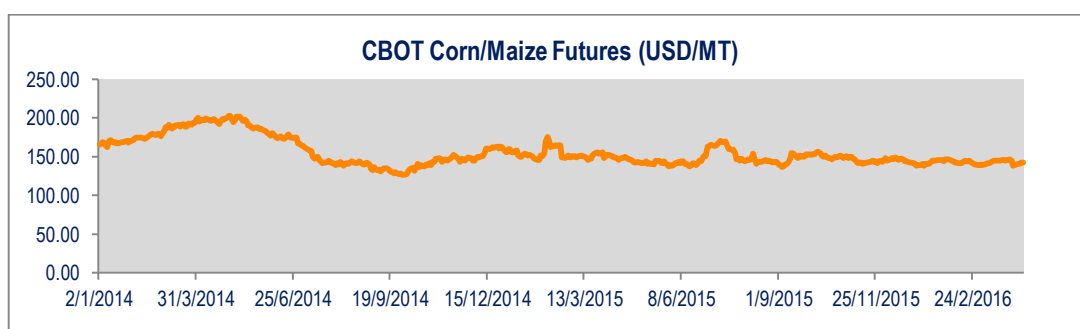
The Food and Agriculture Organization (FAO) forecast an increase in world coarse grain output, particularly maize<sup>1</sup> by 1.1% to 1,014Mil tons due to anticipated recovery in EU yields and projected expansion in US plantings. A recent report by USDA on 2016 plantings revealed that US (world leading corn producer) expects to increase its corn acreage to 93.6m (+6% YOY) at the expense of soybeans and wheat.

As regards to price, Rabobank project a bearish forecast for corn in their March and April monthly reports following USDA's plantings report.

### 2. Maize futures prices trend

Chicago Board of Trade (CBOT) maize futures performed better in 2014/15 season than in 2015/16 season. Average prices in 2015 dropped by 8.9% to 148.9USD/Mt from 163.5USD/Mt. Despite the decline, maize still outperformed other grains due to a drop in global production in 2015 to some 24.4Mil tons from 25Mil plus tons in 2014 (Agrimony, 2016). See figure 1 below for further clarification.

Figure 1: Maize Futures prices trend



Source: Agra net, 2016

A recent forecast by Rabobank shows that CBOT maize futures will settle at 152USD/MT in both Q2 and Q3 and slightly drop by 2.6% to 148USD/MT in Q4 (See Table 1 below). With the expected increase in US plantings, global maize prices are likely to undergo a downward pressure from the increased supply.

Table1: Rabobank's CBOT maize futures price forecast

Quarter	Q2'16(f)	Q3'16(f)	Q4'16(f)	Q1'17(f)
CBOT Maize futures-USD/MT	152	152	148	152

<sup>1</sup> Maize accounts for nearly three quarter of coarse grains output (FAO)

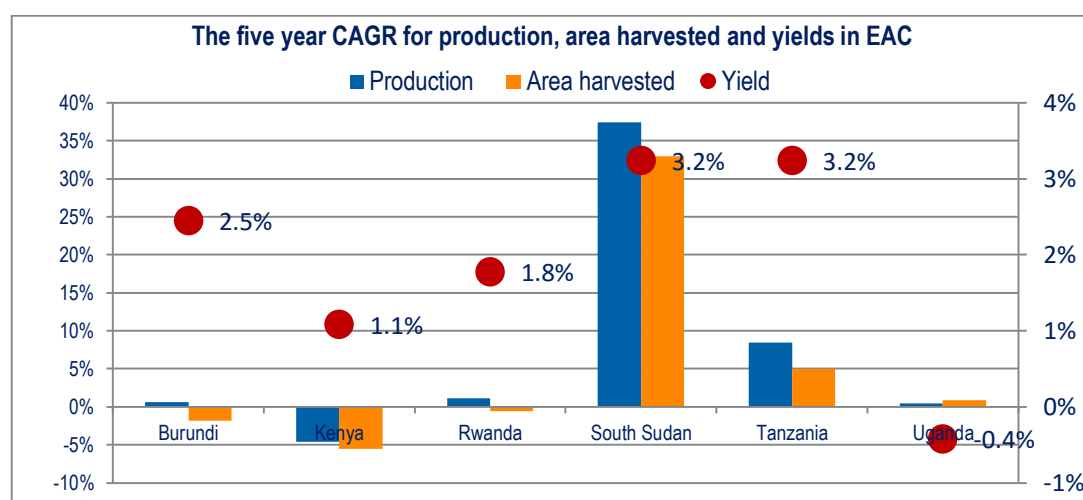
### 3. Regional Maize market fundamentals

Maize production in East African Countries has in the last five years grown by 12% i.e. 12.3Mil tons in 2015 from 11Mil tons in 2011 influenced by increased acreage particularly in Tanzania, Uganda and South Sudan<sup>2</sup>. Although, the five year average yield in the region is just 1.6Mt/Ha, several countries in EAC show a positive growth in yields in the same period (USDA Data & NMB Analysis, 2016). See Figure 2 below

The 2016/17 maize season marks an important phase in EAC due to the ongoing El Nino effects in some parts of Africa. An intense drought, the driest in the last 35 years is threatening food security in the Southern part of Africa and some parts of South Sudan in EAC. A preliminary forecast of maize production in Southern Africa for the coming harvest is 7.4mil tons, a drop of 25% compared to the last season with an estimated 2.5 million people currently undergoing food crisis particularly in Zimbabwe, Malawi, Lesotho, Mozambique and Madagascar (FEWS NET<sup>3</sup>, 2016).

With a growing maize consumption of around 4% (five year period coupled with the drought effect in Southern Africa, it is likely that prices will undergo an upward pressure. At this juncture, the importance of regional trade cannot be ignored as some countries such as Malawi have already started knocking at Tanzania's Ministry of Agriculture, Livestock and Fisheries doors inquiring for possibilities of sourcing maize in the near future (Explained by the Director of Food Security at the ministry through telephone interview).

**Figure 2: Compounded Annual growth rates of Maize Production, Area harvested and Yield in EAC**



**Source:** USDA Data & NMB Analysis, 2016

### 4. Tanzania Maize Market

Tanzania consumes 90% of its maize production. A further increase in consumption is expected in 2016/17 season due to increased demand in refugee camps arising from political crisis in neighboring countries i.e. Burundi and DRC (USDA Foreign Agricultural Service reports).

According to the Ministry of Agriculture, Livestock and Fisheries, production is projected to increase by 7% to 6.3Mil tons. Telephone interviews with the National Food Reserve Agency (NFRA) and East Africa Grain Council (EAGC) revealed the same particularly for Highlands, Lake and Southern Zones.

Tanzania has consistently had surplus maize stocks enabling it to meet its domestic food needs. In the past five years, maize ending stocks have grown by 12% and this growth has been more significant in the last two years. However, the National Food Reserve Agency (NFRA) which is responsible for maintaining national reserves and address shortages during emergency, has an installed capacity of 246,000 tons but operates around 150,000 tons in every three months. This is roughly 3% of the total maize produced in the country limiting the possibility of supporting Tanzania to either support its neighbors nor itself in case of a serious production crisis.

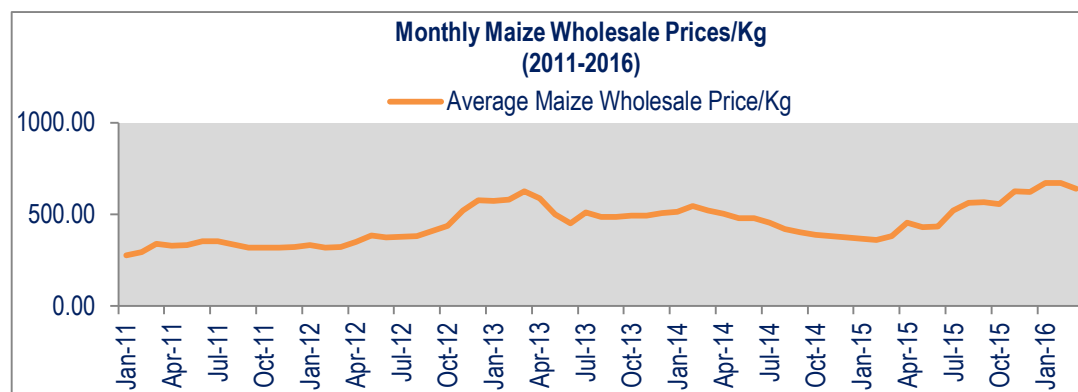
For the past five years, prices have been stable with a few exceptions in 2013/14 and 2015/16 seasons. 2013/14 season maize prices were higher leading to a bumper crop in 2014/15 season. The 2014/15 bumper crop weighed

<sup>2</sup> South Sudan started maize production in 2011

<sup>3</sup> Famine Early Warning Systems Network

heavily on maize prices. In 2015/16 prices went up due to drop in production by 12% to 5.9Mil tons from 6.7Mil tons in the previous season. With such a pattern, we expect prices to drop in 2016/17 season due to the projected increase in production. However, prices could increase if cross border trade will be encouraged given the production crisis in most parts of Southern Africa. See figure 3 below.

**Figure 3: Tanzania Maize Monthly Wholesale Prices**



**Source:** Ministry of Trade and Industry, 2016

## 5. The outlook

Market fundamentals support low global maize prices for 2016/17 particularly the expected increase in US plantings. US produces about 35% of global maize output and thus a strong determinant of global prices (USDA data and NMB Analysis). However, the global market has no significant impact to our local market. Tanzania is a small player in the global maize trade.

At the regional level, the forecasted production crisis in Southern Africa is likely to have significant impact on East African Countries' maize market if cross boarder trading will be enhanced. It is also worth noting the Non-Tariff Barriers existing in various regional blocks including East African Community, the actual fate of cross border trade cannot be stated with certainty.

Our view regarding Tanzanian maize market; since the supply side have consistently had a direct effect on the maize market, we expect prices to drop in 2016/17 based on the projected increase in production in this coming season. We also expect more stocks uptake by traders and processors as a result of depressed prices targeting better margins towards 2016/17 Q4 and 2017/18 Q1