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Abstracts

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Angola

BMI View: There have been only minor changes in South West Africa since our last update, including some investment in the Angolan sugar sector. Food security, always of prime concern in the region, is not expected to become problematic in the coming weeks, as planting for the season has begun largely on schedule. A key dynamic to watch will be the price of oil. As most of the region imports oil, high prices could cause current account deficits, leading to a depreciation of countries' currencies. As countries in the region are also generally net food importers, a depreciation in currency would most likely lead to imported food inflation. Indeed, a comparable dynamic occurred in East Africa (specifically Uganda and Tanzania) in 2011 when energy prices rose. Over the long term, we see only moderate growth in South West Africa's grain production.

Key Views

Zambian corn production growth to 2015/16: 32.6% to 3.7mn tonnes. Government support and expected high corn prices will most likely lead to a continued rise in corn plantings in the coming years.

Angolan sugar production growth to 2015/16: 68.8% to 84,400 tonnes. This growth is mainly owing to base effects, as we have not yet seen a significant government commitment to the agricultural sector and believe that the country will remain a net importer over the long term.

2012 regional average real GDP growth: 7.6 (up from 5.2% in 2011).

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Average consumer price inflation: 8.2% y-o-y in 2012 (down from 9.0% y-o-y in 2011).

Industry Developments

As of late January, the food security environment in Southern Africa has remained largely stable. There were generally favourable rains in Namibia and Botswana at the beginning of the 2011/12 cropping season; however, we note that roughly 240,000 Namibians will continue to suffer from at least mild food insecurity and that food price inflation in Botswana has risen in recent months. In Angola, there has been some localised flooding in corn-growing areas owing to above-average seasonal rains. We also expect the country to require more imports during the 2011/12 season owing to weak production in previous seasons. In Zambia, there have been some delays to planting owing to poor rains in the eastern and central regions. Overall, however, we do not expect food stability in the region to become a serious problem in the near term.

The recent US$650mn investment by Japanese firm Marubeni in the construction of a sugar and ethanol plant in Angola is likely to boost sugar and ethanol production in the long term. The factory will be built in the Cunene region in the south of the country and will have an annual production capacity of 400,000 tonnes of sugar and 40mn litres of ethanol. We expect the country to produce 75,000 tonnes of sugar in 2011/12 and to import 165,000 tonnes in order to accommodate demand of 250,000 tonnes.

Marubeni's factory would provide a significant boost to domestic production and, if used at full capacity, could make the country fully self-sufficient. Moreover, we see the government's effort to increase private investment in the sugar sector as positive for the diversification of the economy away from oil exploration. Currently 44.2% of Angolan GDP comes from mining and oil exploration. The government announced recently that it would invest US$6bn in the agricultural sector in order to increase its competitiveness and to reduce dependence on the oil sector. In addition, the government's plan to increase sugar cane planting to 500,000 hectares by the end of our forecast period in 2016 should support ethanol production.

Zimbabwe

BMI View: We are confident of a strong corn crop in 2011/12, thanks to fundamentally sound growing conditions, despite reports of issues with fertiliser supply in January. This will spur Zimbabwean corn supply to outstrip consumption and keep it on a healthy

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incremental path amid sustained government and private investment. The sugar sector is seeing increased investment from the government and the private sector, and an area of promise, aside from strong domestic demand, is ethanol for biofuels, of which the government is seeking a contribution of 10% to its liquid fuel consumption by 2017.

Key Views

Sugar consumption growth to 2016: 97.1% to 408,000 tonnes. The defining factors of this seemingly explosive growth will be base effects and economic growth.

Corn production growth to 2015/16: 85.0% to 1.9mn tonnes. This will be driven by greater availability of fertiliser and higher prices allowing farmers to purchase more seed.

2012 real GDP growth: 7.8% (down from 9.0% in 2011; predicted to average 7.5% from 2011 until 2016).

Consumer price inflation: 6.1% y-o-y in 2012 (up from 3.5% y-o-y in 2011).

Industry Developments

After a strong 2010/11 season, when corn production rose by 40% to almost 1mn tonnes, the 2011/12 crop is forecast to expand further. The country received adequate rains in Q411 amid the beginning of the rainy season in November (despite occasional dry spells in parts of Mashonaland West and Central causing slight and localised dips in output), with above average rainfall expected throughout Q112.

Yet while greater availability of fertiliser encouraged more plantings in Q411, reports in late January of shortages of ammonium nitrate top-dressing prompted one government official to highlight the negative impact this may have on the year's crop. But for now we will stick to our positive outlook for the 2011/12 crop.

The country is seeking to fulfill at least 10% of its liquid fuel requirements with biofuels by 2017. A new biofuels policy proposal submitted for approval in late 2011 is intended to promote biofuel consumption (via removal of carbon tax on ethanol) and see that farmers benefit from the whole value chain, ultimately boosting production. So far two private companies and the Agricultural Rural and Development Authority (ARDA) have reached an agreement to use an estimated 5,500 hectares (ha) of sugarcane in the country's main growing region (the lowveld) for ethanol production, with a further 11,000 ha scheduled for January 2012. As part of the deal, ARDA will provide land to the private companies, who will build the facilities and then sell it back to ARDA after 20 years. Output from the project is expected to reach roughly 350,000 litres of anhydrous (up to 85%) ethanol a day, enabling the plant to meet the country's ethanol requirements by 2020.

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