Cost pressures unrelenting for agriculture as fuel price outlook shows steep accent from June

By Paul Makube

11 May 2022

Following the Finance Minister's generous accommodation of an almost two months reprieve in the fuel price that entailed a R1.50c per litre reduction in the general fuel levy, farmers face a hefty fuel bill next month as the intervention period lapses.

Source: ©Phanuwat Nandee via 123RF

The R1.50c/ litre will be back into the fuel calculation and considering the exchange rate depreciation of 9.0% month-on-month (m/m) and 11.4% year-on-year so far with crude weakening by 5.4% m/m and 59.0% year-on-year, a further R3/ litre in fuel increases is possible in June 2022 if the relieve measures are not extended or a new fuel price determination is implemented.

Furthermore, indications are that the interest rates hikes will be aggressive going forward following a second increase of 25 basis points in March which brought the repurchase rate to 4.25%. Farmers, therefore, face higher debt serving costs in a record-high input cost environment.

We are heading into increased activity in the agriculture calendar and demand and consumption of fuel is high. The escalation in fuel costs does not bode well for producers as production costs are likely to escalate across the value chains that manifest differently from planting, harvesting, distribution and packaging.

Summer grain and oilseed harvest is at its infancy and will start ramping up in June while cultivation operations for winter crops are currently in full swing. Grain producers and logistics companies in the agriculture value chain will feel the pain as closer to 80% of grain is transported by road.

Livestock and horticulture with citrus harvest in its infancy will also be affected in terms of distribution across the country and for exports. This will obviously push food inflation to remain above 6% in the near term.

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