

Accommodative Sarb and growth rebound positive for the pumping agriculture sector

 By [Paul Makube](#)

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The South African Reserve Bank (Sarb) again maintained a steady stance on interest rates which saw the repo rate still at a record low of 3.5%. Although the rate outlook has tilted to the upside with the Sarb's Quarterly Projection Model (QPM) pointing to two 25 basis points hikes in each of the second and fourth quarters of 2021, its stance shows an inclination to remain accommodative for a bit longer.



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The lower rates are positive for the agriculture sector which has been pumping well on the back of favourable conditions and increased its credit demand. Robust commodity prices have also helped improve the farmers' cashflows although there are pockets of Covid-19 induced challenges such as the wine value chain.

This will afford the farmers an opportunity to do the necessary refurbishments and replacement of machinery and equipment as evident in the recent April figures which showed tractor and combined harvester up by almost 23% and 115% respectively year-on-year and 27% and 29% higher for the year-to-date (January to April) relative to the 2020 levels.

Another strong agriculture output will limit further upside in food inflation which has recently increased due to the spillover spike in international agricultural commodity prices. We have already seen signs of international maize prices cooling off in recent trades as the production outlook turned positive. T

he expected 2021/22 world maize production is now projected at a record high of 1.19 billion tonnes with stocks rebounding to 292 million tons, which is up 5.4% and 3.1% respectively y/y. This development is positive for overall consumer food inflation for the year ahead. We expect the agriculture sector to post another stellar performance during 2021.

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