



FIRST CAPITAL
TREASURY SOLUTIONS
(Pty) Limited

First Capital Food Prices Review & 2018 Outlook



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Acronyms

CPI	: Consumer Price Index
Corr	: Correlation
EU	: European Union
FAO	: Food and Agricultural Organization
FC	: First Capital
Kg	: Kilogram
L	: Litres
P/Kg	: Per Kilogram
MAWF	: Ministry of Agriculture, Water and Forestry
MME	: Ministry of Mines and Energy
NAB	: Namibia Agronomic Board
NSA	: Namibia Statistics Agency
N\$: Namibian Dollar
ppm	: Parts per million
r	: Correlation coefficient
Stats SA	: Statistics South Africa
UN	: United Nations
USA	: United States of America
Y/Y	: Year on Year change

Note to the reader

We welcome you to our special edition of the First Capital(FC) Food Price Review and Outlook for 2018 where we cover a broad spectrum of topics related to the food sector. This report is one of our contributions to research on issues affecting society and the economy. We recognize food prices as fundamental in economic policy as not only does it impends macroeconomic stability but also reduces welfare levels of most households, especially the poorer ones, for whom food consumption constitutes a relatively large share of total expenditures. Through this report we provide more insight into previous trends of prices and simulates the impact of food price changes on household welfare. Furthermore, the report covers factors that are driving prices of various food items. Using current information and other leading indicators, we also present our view on the likely scenarios of demand, supply and prices of food commodities in the short t medium term.

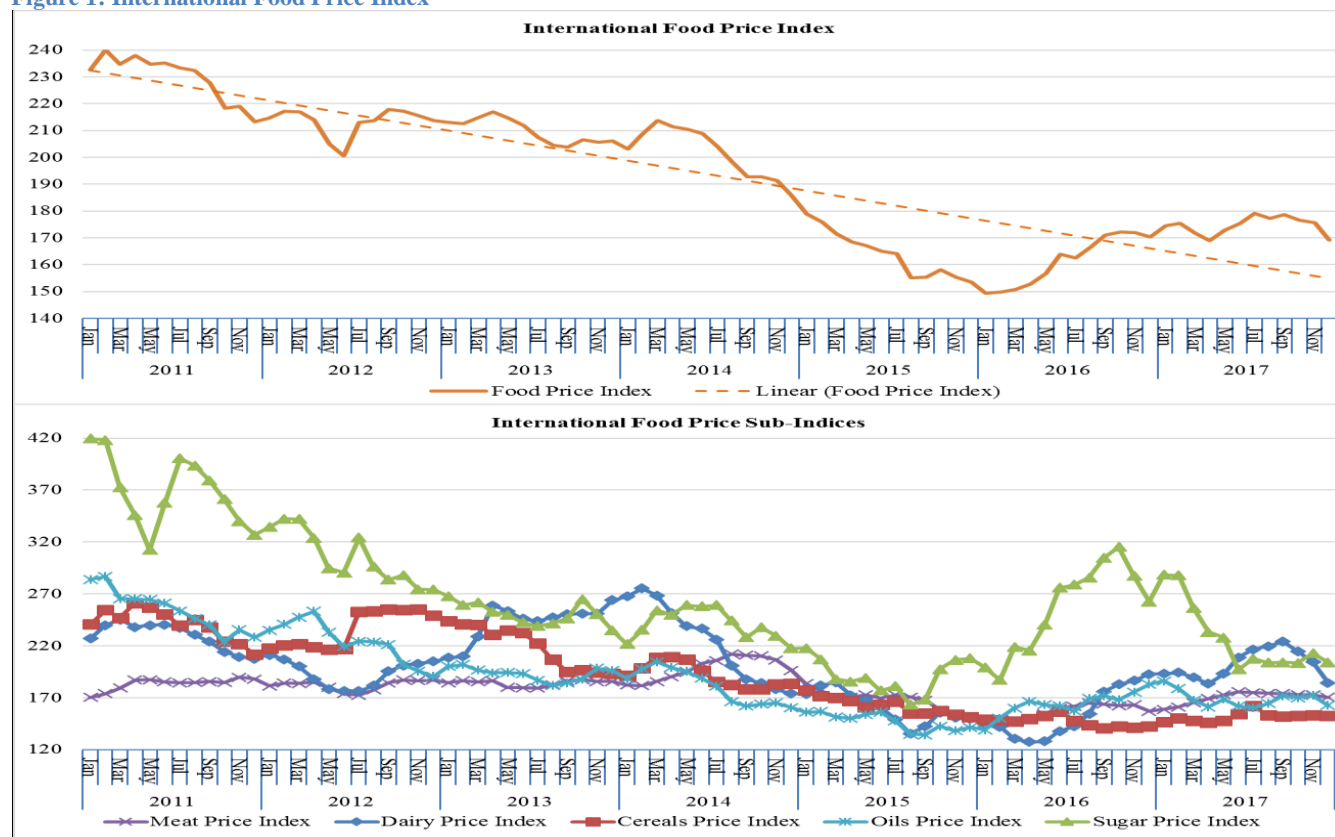
This report will be published twice a year to supplement our monthly Food Price Monitors in analyzing trends of past months and provide an outlook for the year. The second report in a year will be focused on reviewing the trends and readjust our outlook where necessary using available data. Through this publication we believe every agent of the economy will be informed.

1. Global Food Price Trends

1.1. Overall and subcategory International food price trends since 2011

The United Nations (UN)'s Food Agricultural Organisation (FAO) publishes monthly indices of international food prices. Since 2011, FAO's Food Price Index has been trending downward, indicating that prices were continuously dropping, until in 2016 when the index temporarily changed direction and started rising due to the impact of the 2015/16 weather-related effects which reduced global food supply. After marginally trending upward throughout 2016, the index stabilised during the first six months of 2017, before trending downward since July 2017, indicating that prices of recent have been declining. In December 2017, the index stood at 169.3 points, 3.7 percent below the print for November 2017 and 5.5 percent below July 2017. Main drivers of the downward trend were sugar, dairy and vegetable oils price indices that exhibited the similar trends during the same period. The price index of sugar was 32% down in December 2017 compared to December 2016 on the back of a surge in global supply mainly driven by record levels of output from the world's leading producer, Brazil which accounts for almost 25% of total global sugar output. Prices of vegetable oils equally fell by a marginal 11 percent in December (y/y) on account of stock piles in Indonesia and Malaysia. The decline in milk prices could be attributed to weaker demand seen in 2017 on milk products like butter, cheese and milk powder mainly in China.

Figure 1: International Food Price Index

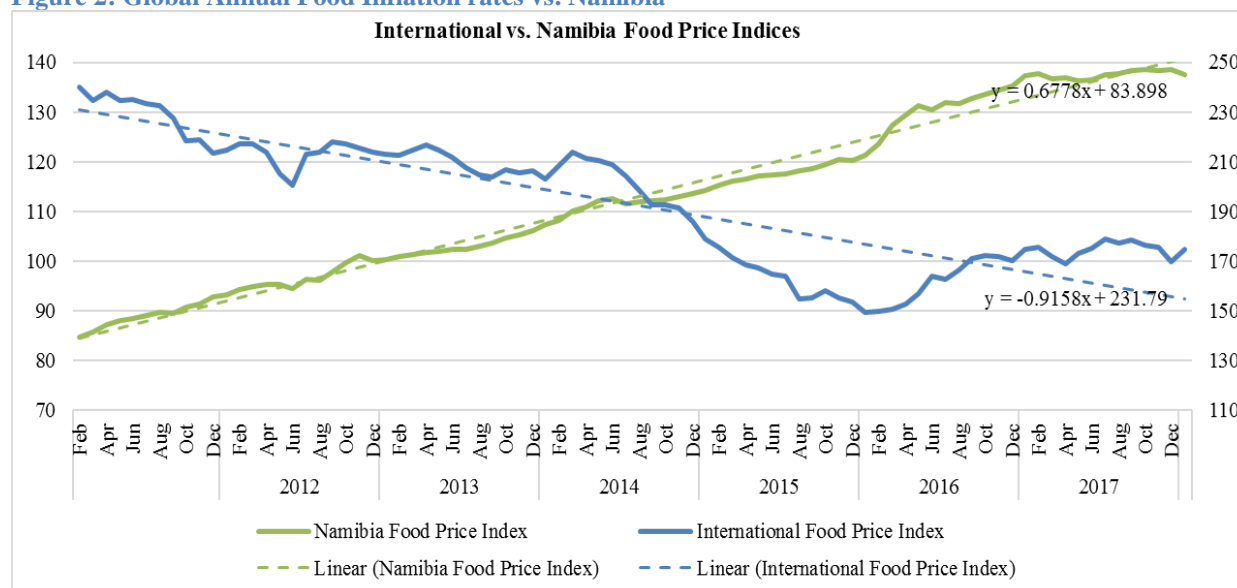


Source: FAO

1.2. A comparison of Namibian Food Price Index and international Food Price Index

Despite a downward trend of international food price index shown since 2011, the domestic index of food prices have been trending upward during the same period, indicating that domestic prices have been moving in opposite direction with international prices. A number of reasons can be attributed to the slow transmission of international food prices to domestic markets namely: little competition making few players in the market to limit the transmission of low prices to consumers, local transport costs that do not always reflect international oil prices in case of depreciating domestic currency as well as trade policies which could limit local access to international commodities. Furthermore high levels of domestic inflation could equally warrant an increase on labour and other costs related to production which could also be a limiting factor for transmitting low international prices into domestic markets. Equally important, are policy measures in relation to tariffs on imported goods which could also explain why there is minimum transmission of international prices to domestic prices. The composition of imported food items from international markets could also explain the divergence in local prices with international prices given that much of food products consumed are either produced locally or within the region(specifically in South Africa).

Figure 2: Global Annual Food Inflation rates vs. Namibia



Source: FAO & NSA

1.3. A correlation analysis of domestic prices with those in Neighboring countries

Using monthly food price indices data, a correlation analysis was done to calculate coefficients that indicates the relationship of domestic prices with those in neighboring countries and international prices. As shown in table 3, Namibian price trends have very strong positive correlations (Above $r = 0.92$) with all its neighboring countries. The strong correlation of domestic prices with its neighboring countries is in line with our expectation given strong trade links it has in food production with its neighbors.

Figure 3: Correlation coefficients of food price trends

Corr, r	Namibia	South Africa	Botswana	Zambia	Angola	International
Namibia	1.00	0.99	0.96	0.97	0.92	-0.68
South Africa	0.99	1.00	0.97	0.98	0.89	-0.65
Botswana	0.96	0.97	1.00	0.88	0.82	-0.50
Zambia	0.97	0.98	0.88	1.00	0.93	-0.69
Angola	0.92	0.89	0.82	0.93	1.00	-0.50
International	-0.68	-0.65	-0.50	-0.69	-0.50	1.00

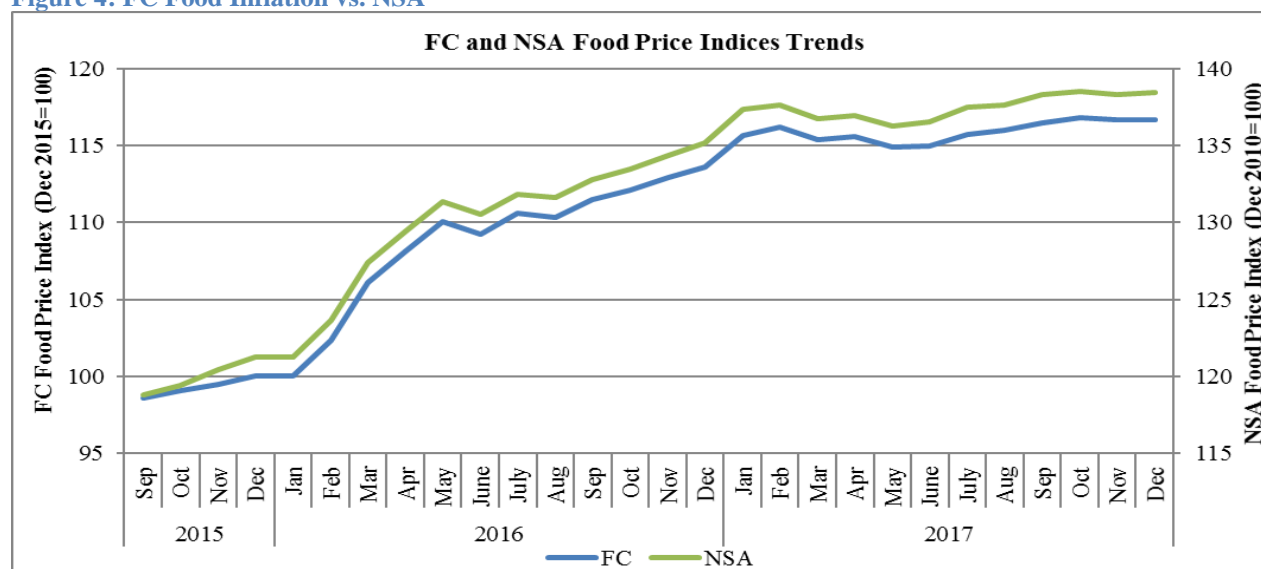
Source: First Capital's own calculations using country specific official CPI statistics & FAO

2. Domestic Food Price trend

2.1. First Capital Food Price Index relative to Namibian Statistics Agency's Index trend

Despite the wide geographic coverage of prices collected to construct the official indices by the Namibia Statistics Agency(NSA) as opposed to that of First Capital(FC) Food price indices, they both display similar trends (*see figure 2 below*). Even though the FC prices are collected from six towns, we are convinced that those towns are representative of the geography of the country, and should provide a good measure to indicate prices and trends in the country. This is expected given that the supply of food countrywide is closely integrated or put simply, shops countrywide are supplied by similar suppliers e.g. Namib Mills on staple food.

Figure 4: FC Food Inflation vs. NSA



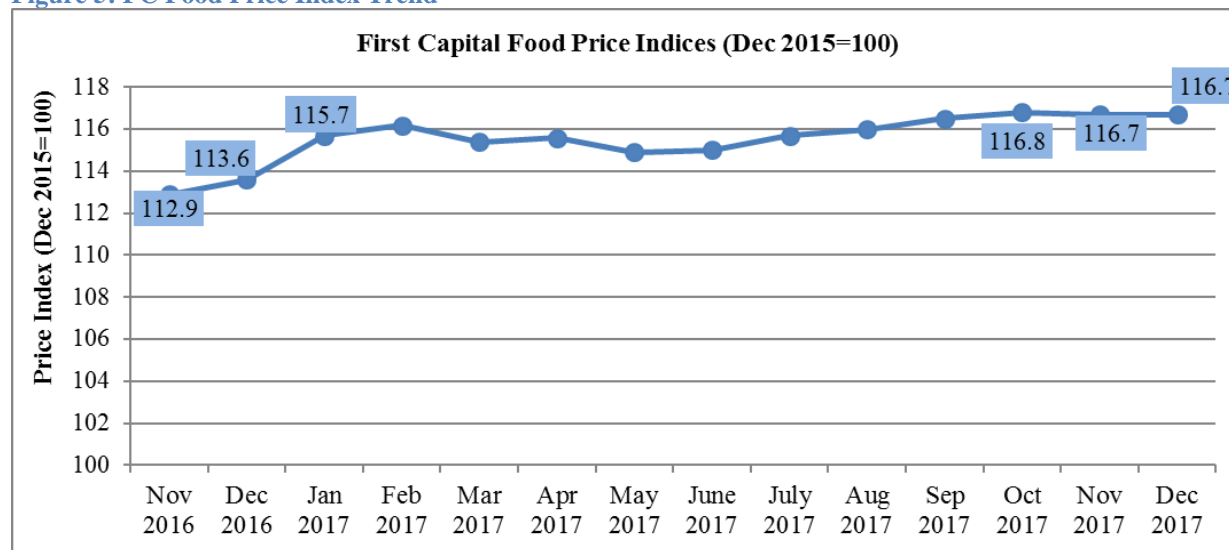
Source: NSA & First Capital

2.2. Trend analysis of the FC Food Price Index

The FC food price index measuring a basket of food items from top 6 retail shops in the country stood at 116.7 in December 2017, 2.7 percent above December 2016 indicating that food prices were 2.7 percent higher in December 2017 compared to December 2016 prices (*See figure 5*). Despite ending at 116.7 points in December 2017, the index averaged 115.9 in 2017, 5.5 percent above the average in 2016, an indication that

overall 2017 prices were 5.5 percent above the average prices in 2016. Though prices are still rising, the rate at which they are rising has declined significantly throughout the year from the high of 13 percent in January 2017 (y/y) to 2.7 percent in December 2017(y/y) indicating a downward trend in inflation.

Figure 5: FC Food Price Index Trend



Source: First Capital Research

When the Index is higher than 100 the prices are moving up, when the its less than a 100 prices are moving down

2.2. 1. FC Food Price Index Sub-Index Analysis

Meat & Poultry

The price index for meat and poultry products was on a continuous rise throughout 2017, in line with our expectations, as a reflection of weak production during the livestock herds rebuilding period following the drought-induced liquidation of livestock herds. At 118.2 points recorded in December 2017, the meat and poultry index was 8.3 percent higher than it was 12 months ago. On average the index was 7.9 percent higher in 2017 than in 2016, implying that consumers had to pay more on meat than most of the other food commodities in 2017 relative to 2016. Poultry product prices increased by 4.2 percent in December 2017 (y/y) much lower than 11 percent price hike for livestock food products (Beef, Pork and mutton). Despite the observed declining feed prices and improved grazing areas for livestock, meat prices remained relatively elevated mainly due to weak supply as farmers optimised on good pastures to restock and recover on the loss they endured during the worst drought conditions.

Outlook: Due to severity of the previous drought that depleted herds of livestock, we expect the cycle of rebuilding livestock herds which started in 2017 to continue throughout 2018. Limited supply induced by the continued restocking cycle of livestock could be key upside risk of meat inflation in 2018. However, the current rainfall patterns indicating possibilities of a dry season this year if the situation does not change before end of the rain season, could be key factor for the livestock market. Contrary to the livestock meat market, we

expect chicken meat product prices to moderate throughout the year primarily due to stable input costs and sufficient market supply.

Maize Meal

As widely expected given the good rain season of 2016/17, maize meal prices were on a declining trend since February 2017 due to good supply in the market. Relative to maize meal prices in December 2016, prices in December 2017 were nearly 5 percent lower, reflecting a relief to consumers as supermarkets pass the benefit that comes with bumper harvests to consumers. On average consumers were buying maize meal products at 5 percent lower in 2017 than in 2016.

Outlook: The outlook of Maize meal prices is dependent on a combination of domestic output levels of maize which can be predicted based on the rainfall trends during the crop season as well as the expected output from South Africa where 90 percent of maize imports originates. Despite that the normal maize output levels under the irrigation system may be guaranteed as is always the case, dry-land production levels could be lower if the current pattern of rainfall is anything to go by for this crop season. Revised estimates released on the 2nd of February 2018 by the South Africa Grain & Oilseeds Supply & Demand Estimates Committee (S&DEC), indicates that supply of white maize in South Africa will hit 9,642,750 tons for 2017/18 marketing season well above the total combined 7,147,000 demand, a situation which will push the stock levels to record high of 2,805,036 in April this year. Should such output levels be realised, it will compensate for domestic supply shortfall in case of having a dry season and thereby stabilize the market of maize prices throughout 2018.

Milk

In December 2017, prices of milk products were 2.7 percent above December 2016, which is a significant slowdown of annual inflation in milk products from the double-digit numbers recorded in the last three months of 2016. The declining inflation in milk products is in line with our estimates having factored the effect of good grading pastures and restocking cycle on livestock on the supply of milk.

Outlook: The outlook of milk is dependent on the rainfall trends which should influence the grazing conditions of animals. Should the current rainfall patterns remain, we would be in a position of having a dry season which will not produce enough greener grazing areas for livestock. Without good grazing areas livestock will be waning and more likely, milk production will be reduced.

Rice

Rice prices were fairly stable throughout 2017. Rice prices recorded in December 2017 are 3 percent above prices in 2016. Among the factors contributing to stable rice prices were stable international prices of rice, the increasing domestic supply of rice though far from demand, as well as the favourable domestic exchange rates making importing of rice affordable.

Outlook: Though domestic land available for rice plantation have increased, one does not expect domestic output to make a dent on prices as it remains far less relative to total domestic demand. However, International supply is expected to drop slightly marred by a series of climatic setbacks affecting crops in the Northern Hemisphere during the summer months. FAO estimates that 2017/18 output levels of rice will be lower than the 2016 record outcome of 501 million tonnes. Though Asian countries like India, Viet Nam, Thailand and China are expected to see stagnating output levels, high accumulated stock piles will stabilize the market. Equally the firmer domestic currency should be key to domestic price outlook as the trend of the stronger local currency will make imports cheaper.

Bread

The price of bread was 2 percent higher in December 2017 relative to December 2016 prices. This is broadly in line with the price of baking flour used for the production of bread. Though local production of wheat slowed in 2016/17, imports were high as international prices remained favourable. Though producer prices of wheat went up, favourable international prices of wheat compensated for this hence domestic flour and bread prices remained stable throughout the year.

Outlook: According to FAO, global supply of Wheat will remain unchanged in 2017 relative to 2016. Though output levels of wheat from the world's leading supplier USA (Accounting 15% of global supply) is set to fall by 25 percent in 2017/18, due to reduced planted area, favourable levels of output from Russia, European Union(EU) and Asian countries are set to offset the decline from USA. Stable global supply of wheat would support prices to remain fairly stable in 2018. Due to expected favourable wheat international prices, we expect that to pass through to domestic prices of flour and bread.

Sugar

Sugar prices in December 2017 were 4 percent higher than in December 2016. Namibia remains a net importer of nearly all of its sugar requirements. In 2016/17 international sugar prices declined mainly due to record levels of output from Brazil, the leading sugar producer. International sugar prices were down by 32 percent in December 2017 compared to December 2016. However, domestic prices continued edging up opposing the trend of international prices. Domestic costs related to transportation, processing and packaging imported sugar could be attributed as some of factors limiting the perfect pass through effect of falling international prices to domestic sugar prices.

Outlook: Though the global sugar supply is expected to rebound in 2018, strong demand is expected to balance the market on account of the recent shift in converting sugar cane to ethanol. As such, prices will still remain volatile in the near future as the demand of converting sugar cane to ethanol edges up.

Table 1: First Capital (FC) Food Price Indices by Category

December 2015=100

	2016				2017			
	September	October	November	December	September	October	November	December
Staple Foods	111.3	112.1	112.6	112.9	108.5	109.3	108.9	108.2
Meat & Poultry ¹	105.1	106.6	107	109.1	113.9	114.9	115.8	118.2
Fruits	108.1	109.7	110.6	111.8	106.5	111.5	117.3	119.1
Vegetables	108	108.1	108.3	108.6	110.2	110.5	111.8	110.9
Bread	121.6	122.8	122.5	122	118.9	119.6	119.2	118.6
Milk ²	109.1	108.9	108.9	109.3	113.1	112.3	111.2	112.2
Sugar	116	116.9	116.2	116.5	124	123.7	123.3	122.3
Non-Alcoholic Beverages	109.3	108.5	109	109.5	115.7	115	115.7	114.3
FC Food Price Index	111.9	112.3	112.9	113.6	115.7	116.8	116.7	116.7

When the Index is higher than 100 the prices are moving up, when its less than a 100 prices are moving down

1. Include chicken (1.5kg, 2kg thighs & braicuts), Pork, beef stew. 2 Includes 2L Pasteurized homogenized & 1L fresh milk

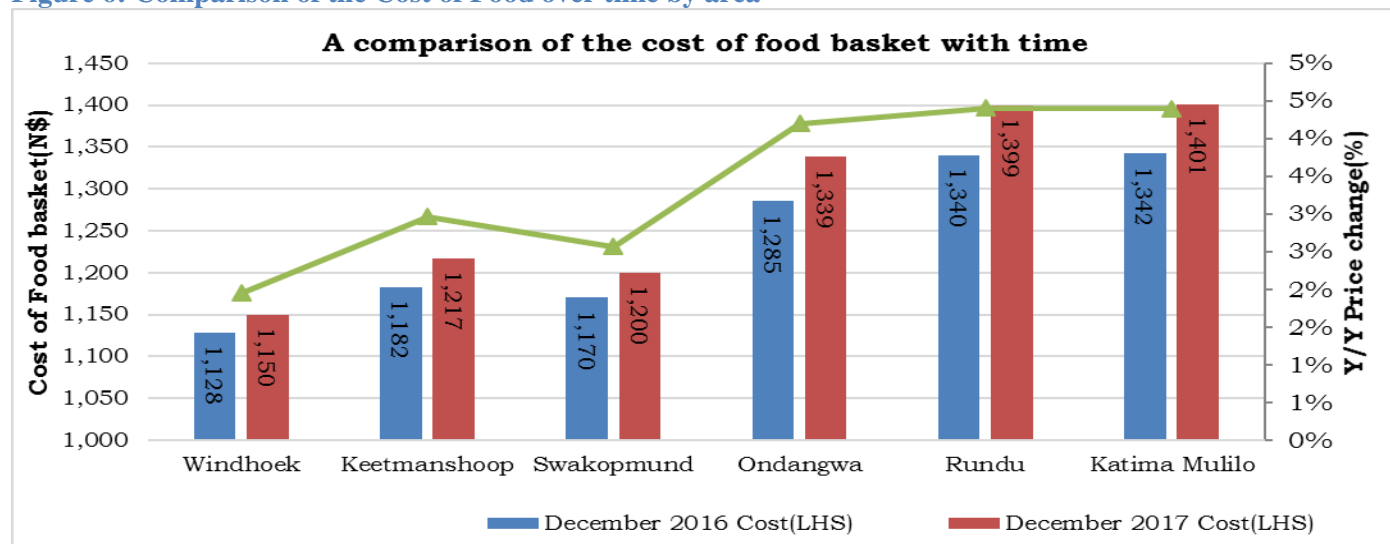
Source: First Capital Research

3. A Comparison of the Cost of food over time in 6 towns

FC Food Price Index compiles data from different branches of six supermarkets around six towns in the country in order to compile the proxy for the cost of living using food prices for each of these towns. Certain items cannot be compared at certain times because they are not available at other supermarkets in other towns at the time of collection. The prices represented below are average prices, for example, the price of bread represented under a particular town is the average price of the cheapest non-branded 700g bread in the supermarkets of that town at that particular time.

Using prices in December 2017 a food basket costing N\$1 150 in Windhoek was costing 18 percent more in northern parts of the country (Ondangwa, Rundu & Katima Mulilo). When comparing 2017 with 2016 prices using an identical food basket, 2017 prices in northern towns were on average 4.3 percent higher than 2016 prices while in Windhoek prices of 2017 were only 2 percent higher than in 2016. This clearly indicates that on average prices are rising faster in northern parts of the country relative to prices in Windhoek. As expected, the widening differences in the cost of identical basket of food in Windhoek and northern regions could be explained by the cost of transport from supplying centres in central regions to the northern parts of the country.

Figure 6: Comparison of the Cost of Food over time by area



Source: First Capital Research

4. A comparison of food item prices over time

A comparison of food item prices in December 2017 relative to the prices in December 2016 and December 2015 shows that Prices in December 2017 were 2.2 percent up than in December 2016. However, in December 2016 prices were up by 12 percent above the cost of December 2015. Most notable goods which became cheap in 2017 relative to 2016 prices were maize meals, and local brands of rice. Maize meal prices were 4 percent cheaper in December 2017 relative to 2016 prices while local bands of rice were 2 percent cheap in December 2017 relative to the price in December 2016. However, meat prices were 8.3 percent expensive in December 2017 than the December 2016. On average December 2017 prices are 14 percent more than prices in December 2015.

Table 2: Food items prices trend

Goods	Description	December 2015 Prices(N\$)	December 2016 Prices(N\$)	December 2017 Prices(N\$)
Bread	White	8.19	9.2	8.79
	Brown	7.85	8.89	8.47
Meat & Poultry	Beef Stew (p/kg)	62.79	67.99	74.32
	Mutton (p/kg)	67.15	67.15	110.5
	Chicken (1,5kg)	55.5	58.08	59.24
	Chicken (2kg) Braai Cuts	75.95	79.95	82.49
Fish & Sea Food	Lucky Star Pilchard (400g)	17.99	20.55	21.49
Mealie Meal	TopScore 5kg	55.99	63.5	60.99
	TopScore 10kg	93.99	106.95	101.99
Rice	Tastic (2kg)	25.99	28.1	28.79
	Local Store Brand(2kg)	20.99	21.99	22.59
Macaroni	Polana (3kg)	56.75	57.99	60.99
Vegetables	Tomato (p/kg)	18.95	21.55	21.99
	Potato (p/kg)	13.1	14.55	14.99
	Onion (p/kg)	10.08	10.99	11.12
Fruits	Banana (p/kg)	22.99	24.99	25.62
	Oranges (p/kg)	20.1	21.45	21.87
	Apples (p/kg)	21.99	23.95	24.12
Butter	Rama (500g)	24.99	26.05	26.99
Milk	Farm Fresh (1L)	16.69	19.01	19.69
Sugar	Marathon White 2kg	24.21	26.99	27.95
	Sugar King White 2kg	24.99	27.99	30.03
Cooking Oil	(750ml)	13.15	15.1	15.05
	(2L)	35.99	38.99	40.18
Cereal	Oats (Jungle) 1kg	20.99	24.25	25.59
Tea	Five Roses (250g)	32.79	39.5	41.38
	Fresh Park (200g)	32.85	39.99	41.99
Coffee	Ricoffy (250g)	29.89	35.99	37.74
Cool drink (2L)	Coke	15.99	17.55	18.96
	Fanta	15.99	17.5	18.36

Source: First Capital Research

5. Cereal Crops in Namibia

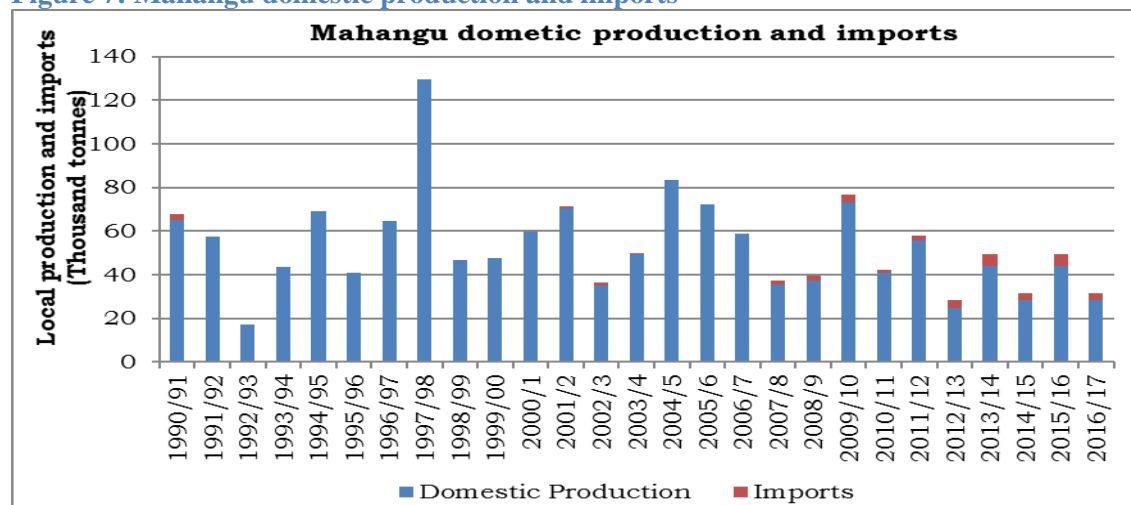
To better understand the reasons behind the price trends, it is critical to consider demand and supply dynamics which to a larger extent influences the price. This section presents the domestic demand on cereal products which are consumed within the country. On the supply-side, we present production which is comprised of locally produced commodities and international production which is imported to meet the local demand.

5.1. Mahangu

Demand & Supply: Mahangu, also known as pearl millet, which is a common staple food of more than 50% of the population remains predominantly produced by subsistence farmers in northern and partly central parts of the country. In 2016/17 slightly above 28 580 tonnes of mahangu were produced locally for domestic consumption. Local production of mahangu accounts for 90 percent of annual local demand. At the level of

output of 28 580 in 2016/17, domestic production of mahangu in 2016/17 was 35 percent lower than the yields a year ago. Domestic output of mahangu will always be subject to volatilities induced by any adverse climatic condition like drought as it had always been the case during previous periods.

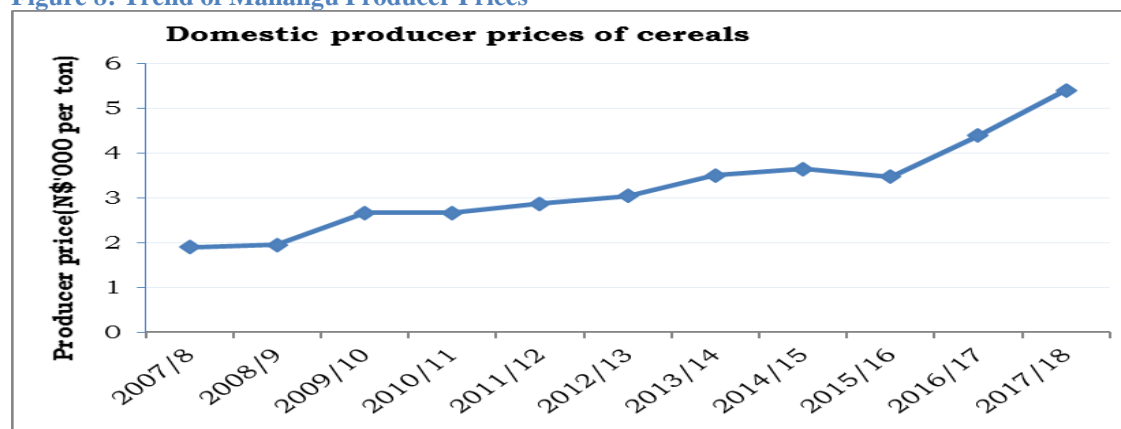
Figure 7: Mahangu domestic production and imports



Source: MAWF & NAB

Producer Prices: Figure 8 shows that mahangu prices continues to trend upwards. Producer prices on mahangu production has risen sharply in 2016/17 and 2017/18. According to figure 8 below, in 2017/18 producer prices increased by 23%(y/y) after an increase of 26%(y/y) in 2016/17. The sharp increase in mahangu producer price is seen as a indication of rising costs related to production and transportation of mahangu grains to the market place. Furthermore, sharp decline in domestic output levels amid strong demand could also partly explain why prices rose sharply.

Figure 8: Trend of Mahangu Producer Prices

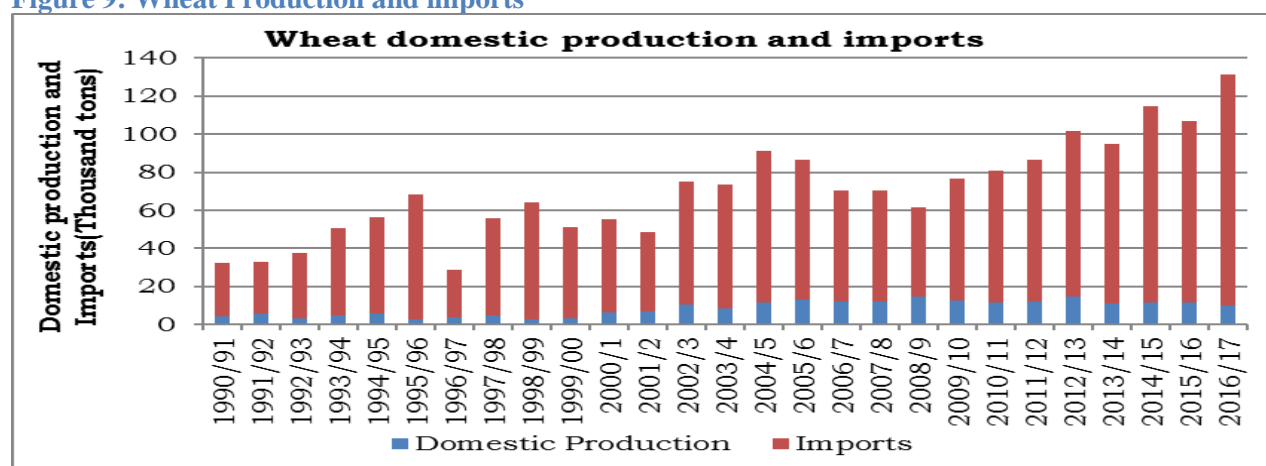


Source: MAWF & NAB

5.2. Wheat

Demand & Supply: Namibia remains a net importer of Wheat. In 2016/17 the total demand for wheat was estimated at 131 000 tonnes of which 9 822 was produced locally in the same period representing seven percent of the total demand while the remaining 93 percent of demand was covered by imported grains. In 2016/17 domestic production was 14 percent down(y/y) while imports were 27 percent higher than last year indicating that a decline in domestic output was compensated by an increase in imports to cater for local demand. Given that a sizable share of wheat is imported from international markets, one would expect the exchange rate and international prices to affect the demand for imports. However, demand for wheat products like bread, macaroni has could also be attributed to the recent increase in imported wheat given that international prices were fairly stable throughout 2017.

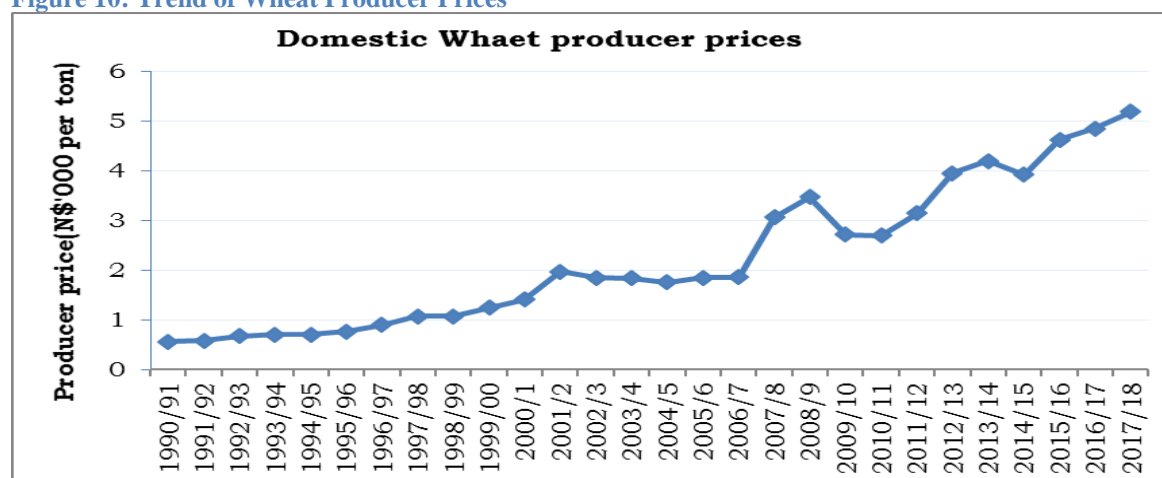
Figure 9: Wheat Production and imports



Source: MAWF & NAB

Producer Prices: Figure 10 shows the trend of Wheat producer prices over time. Producer prices on wheat production were 7 percent up(y/y) in 2017/18 after another marginal increase of 5 percent in 2016/17. Wheat producer price is fairly explained by international prices and the exchange rate. Given international prices of wheat which has softened during the corresponding period, it is not surprising that producer prices were adjusted by the small margins relative to 18 percent(y/y) increase in 2014/15 which is explained by the elevated international prices coupled with the weak domestic currency exchange rate with major international currencies experienced during that period.

Figure 10: Trend of Wheat Producer Prices

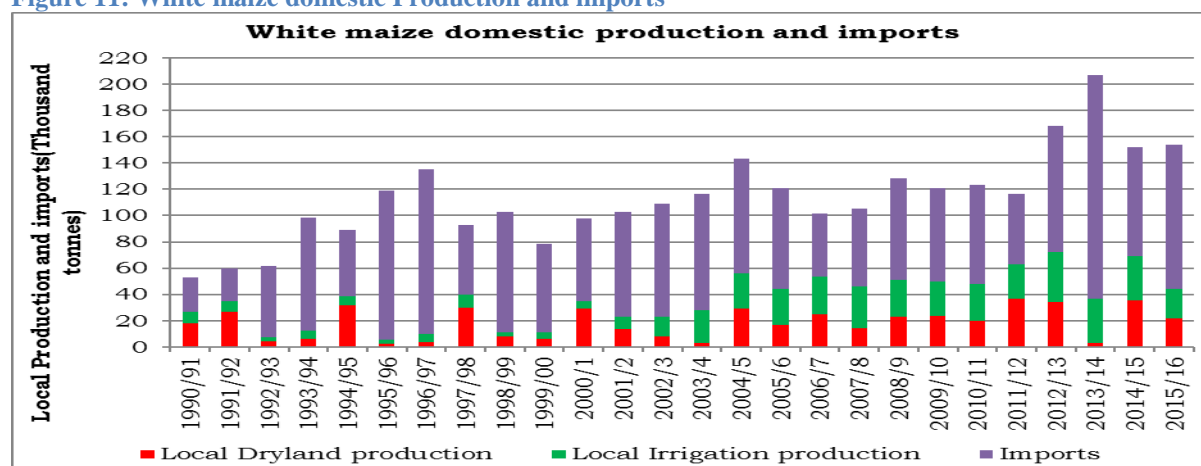


Source: MAWF & NAB

5.3. White Maize

Demand & Supply: Over the years, production of maize through irrigation system had gained momentum as a means of sustaining output levels in times of limited rainfall. However, output levels from Dry-land systems are always volatile with the rainfall conditions in each year. Figure 11 below shows local output in the production of white maize both from dry-land and irrigation systems as well as imported maize grains supplementing domestic production to meet demand. However in 2015/16, the year which had one of the severe droughts in history, local production fell by 35 percent as output levels from dry-land and irrigation systems were 39 and 35 percent down respectively relative to the year before. The domestic local production of 43 948 tonnes from both dry-land and irrigation systems accounted for nearly 30 percent of the domestic demand. Much of the supply deficit in maize is always covered by imports from South Africa.

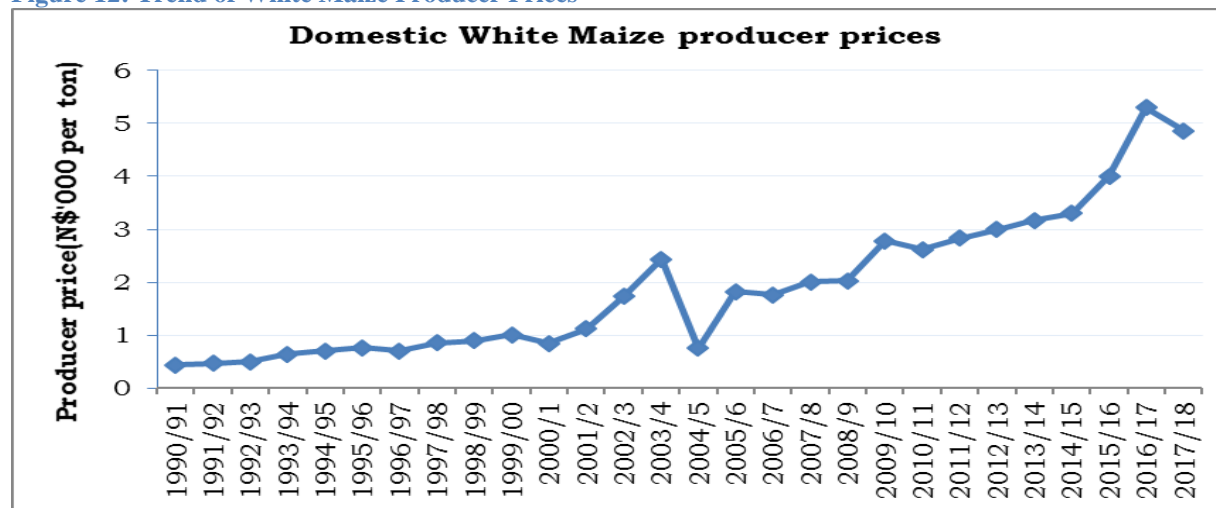
Figure 11: White maize domestic Production and imports



Source: MAWF & NAB

Producer Prices: White maize Producer prices in 2017/18 declined for the first time in 8 years (*see figure 12*). At N\$4 860 per ton in 2017/18, while maize producer price is 8 percent lower(y/y) coming from a price of N\$5304 per ton in 2016/17 which was higher by 32 percent relative to the prior year. As widely expected, this was in line with a surge in supply both from domestic sources and South African Markets on the back of good rains during the season. White maize producer prices are always reflective of the demand and supply dynamics in Namibia and South Africa where much of the imported are sourced. The exchange rate peg, limits any fundamental difference in price trends between Namibia and South Africa.

Figure 12: Trend of White Maize Producer Prices

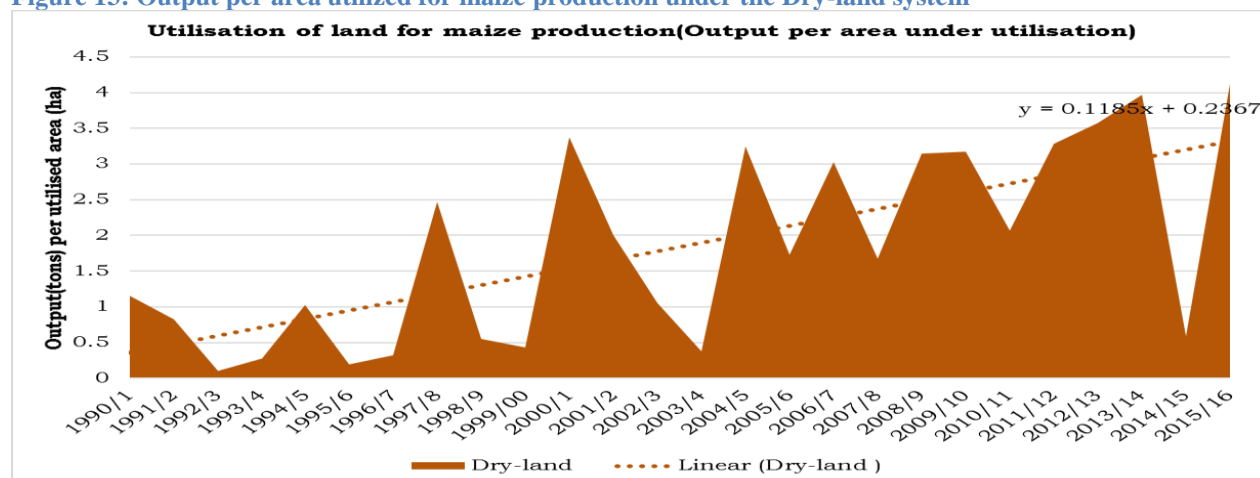


Source: NAB, MAWF and First Capital Research

6. Productive utilisation of Land

During the past years, more land has been made available for agriculture production as a way to effectively utilise the land. Figure 13 shows the output level per hectare of area utilised for crop production. The level of output a certain utilised land would yield can also be used as a proxy indicator for efficient utilisation of land (Holding everything constant). An average hectare of land utilised in 1991 was yielding 0.5 tonnes of maize under the Dry-land system of maize production (*see figure 13*). In 2016 the same utilisation of a hectare was yielding 3.2 tonnes of maize production. This is a positive improvement.

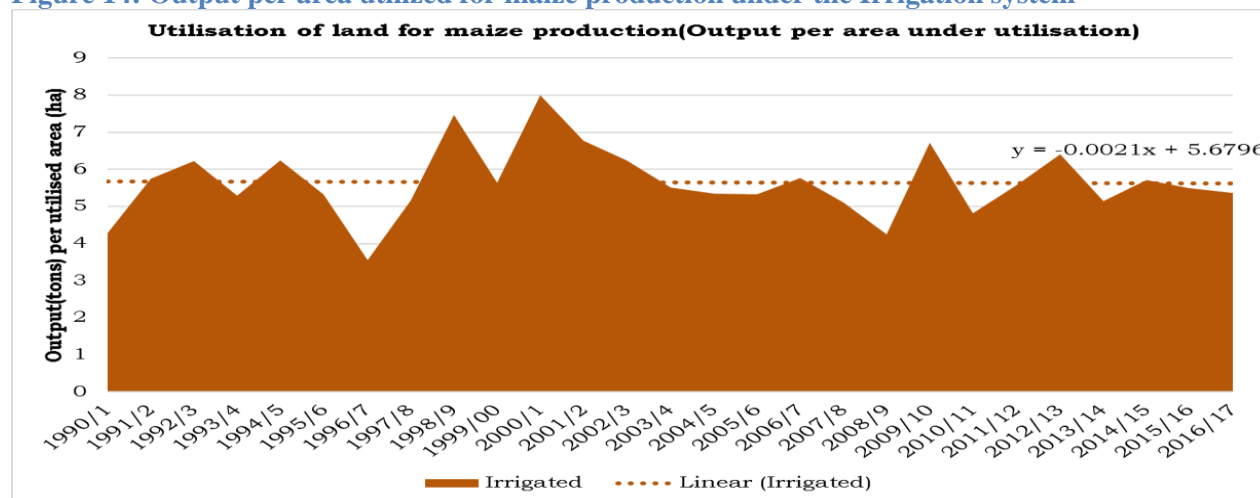
Figure 13: Output per area utilized for maize production under the Dry-land system



Source: NAB, MAWF and First Capital Calculations

Under the irrigation system, the output per hectare of land utilised in 1991 was unchanged compared to the yield produced from the same area of a hectare in 2016 (see figure 14). Though over the past years (since 1990 till 2016), there have not been an improvement over the outputs produced in one hectare utilised under the irrigation system, one can still regard irrigation as favourable system to efficient utilisation of land since the average output per hectare utilised under irrigation is well above the output per hectare utilised under dry land system.

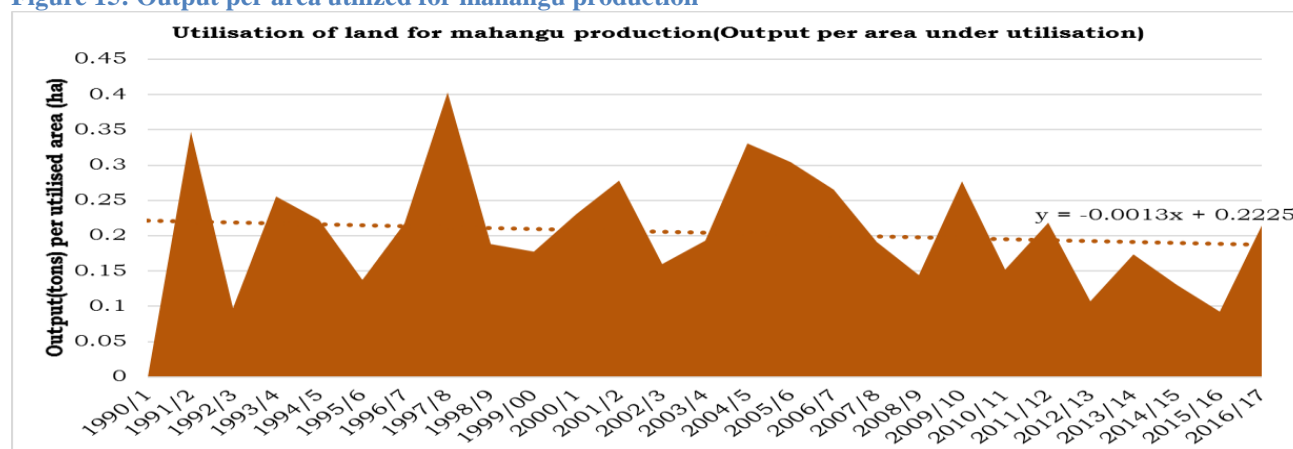
Figure 14: Output per area utilized for maize production under the Irrigation system



Source: NAB, MAWF and First Capital Calculations

Figure 15 below shows the trend of output level per hectare of area utilised for mahangu production. The output per hectare of land utilised in 2017 is slightly lower than the average yields a hectare of land utilised was producing in 1991. This means that mahangu farmers are now yielding less per hectare utilised compared to the yield they were getting in a similar period of time in 1991.

Figure 15: Output per area utilized for mahangu production

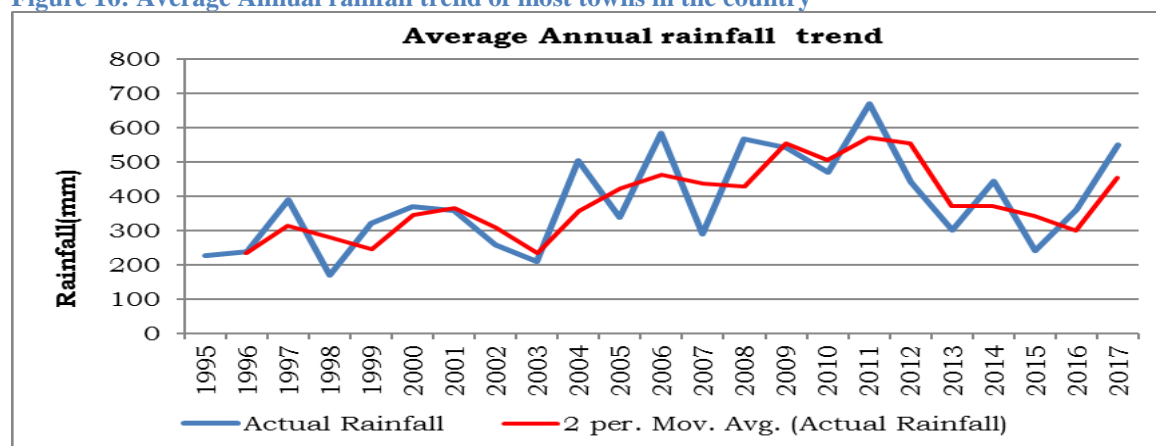


Source: NAB, MAWF and First Capital Calculations

7. Namibia Rainfall pattern

Namibia has recorded above average rainfall during the 2016/17. Figure 16 below shows the average rainfall trend of most towns representative of the country. According to data available on rainfall, the average rainfall improved significantly in 2016/17 compared to rainfall figures some few years ago. An average of 502 mm of rainfall was observed in most parts of the country in 2016/17 which is much higher than the rainfall figures recorded between 2013 and 2015 when rainfall recorded ranged between 200mm and 350 mm. The effect of improved rainfall had positive impact on supply of agriculture commodities since better harvest resulting from good rainfall will increase supply. However, during the 2017/18 season, the rainfall received between October 2017 and January 2018, is slightly lower on average compared to the same period last year. This could however indicate another dry season if more rainfall is received before end of April 2018.

Figure 16: Average Annual rainfall trend of most towns in the country



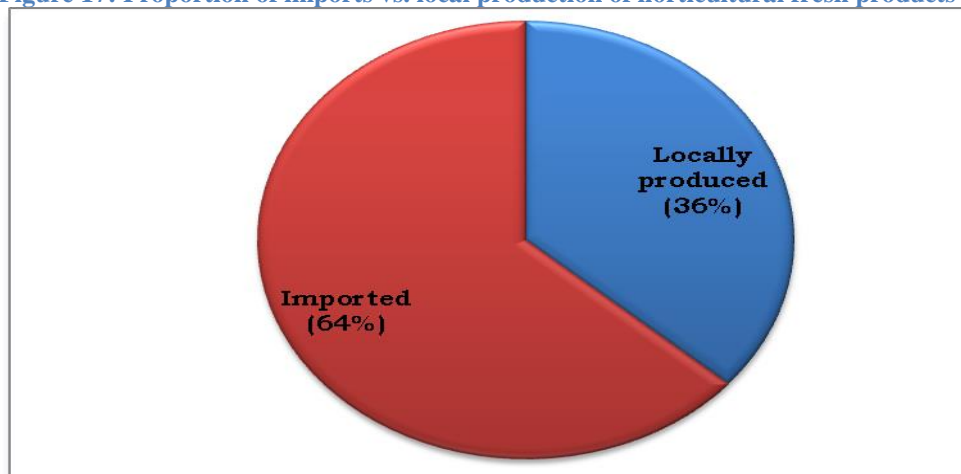
Source: Namibia Meteorological Centre, First Capital Research

8. Market of Horticultural Fresh Products

8.1. Local production and import of horticultural fresh products in Namibia

Horticultural fresh products commonly feature up on almost everyday's consumption pattern of households on food. These include vegetables and fruits. Figure 17 below shows the proportions of the quantity of vegetables and fruits locally produced against the proportion imported. During 2015/16, Namibia produced 36 percent of the total demand for vegetables and fruits consumed in Namibia, while the remaining balance was imported from South Africa and other countries.

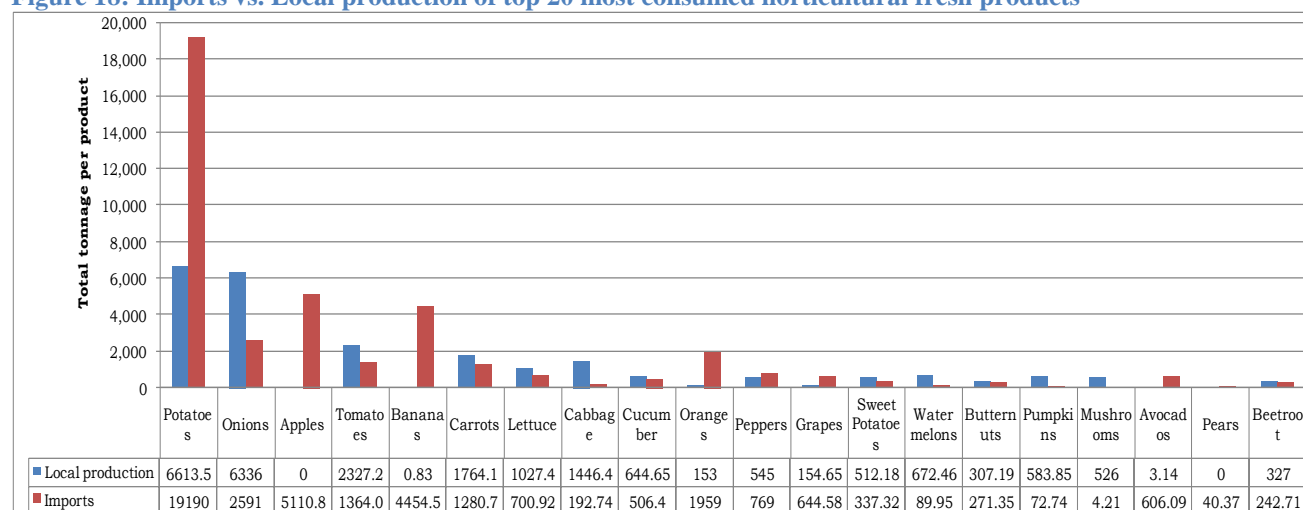
Figure 17: Proportion of imports vs. local production of horticultural fresh products



Source: NAB,MAWF, First Capital Research

Demand and Supply: Figure 18 shows the distribution of quantity produced locally and imported from the top 20 fresh vegetables and fruits mostly consumed or demanded in Namibia. Top on the demand of Namibians among vegetables and fruits are potatoes followed by onions, apples and tomatoes. Bananas and carrots are 5th and 6th most demanded. Despite that potatoes are the most demanded, Namibia only produces a quarter of the total demand for potatoes in the country, while 75 percent of potatoes consumed are imported. Further, although apples are the most consumed among fruits, Namibia does not produce apples. Very few bananas are also produced in Namibia while nearly all bananas consumed are imported. Similarly, Namibia imports 93 percent of the total demand for oranges.

Figure 18: Imports vs. Local production of top 20 most consumed horticultural fresh products

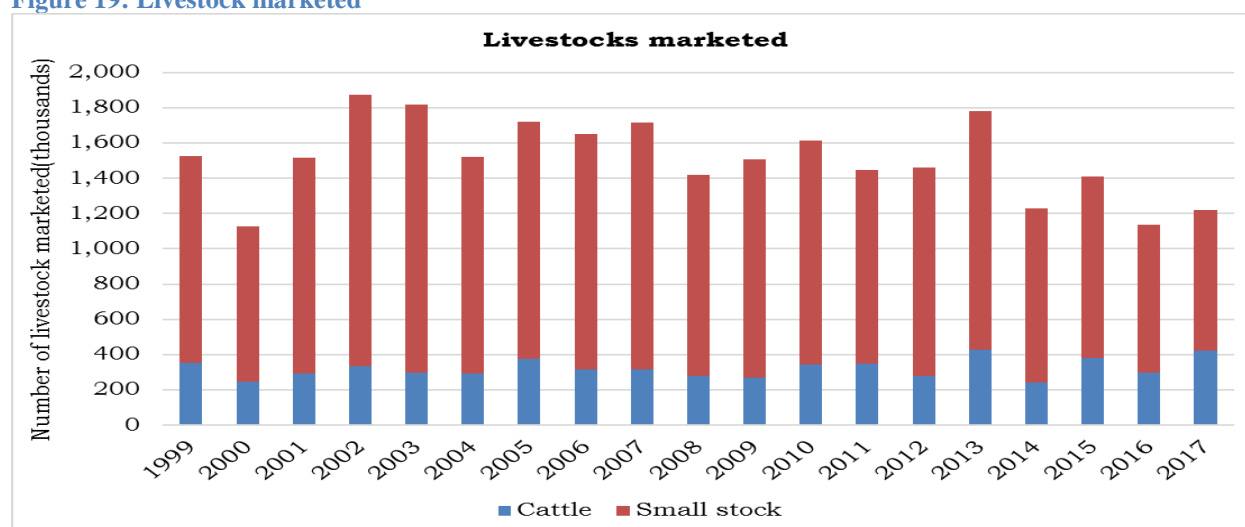


Source: NAB

9. Livestock Sector

Demand and Supply: Total number of livestock marketed in 2017 increased significantly relative to 2016 on account of the rebound in cattle livestock numbers marketed. A total of 421 500 cattle were marketed in 2017, an increase of 43 percent from cattle marketed in 2016. In 2017 a total of 313,000 cattle were exported to South Africa accounting for 74 percent of total cattle marketed up from a share of 56 percent in 2016. The demand for export to South Africa is attributed to the differential of domestic weaner prices relative to South African Prices which are nearly 9 percent above Namibian prices. In the near future, we expect domestic supply to remain subdued as farmers continue to export to South African markets where they receive favorable prices.

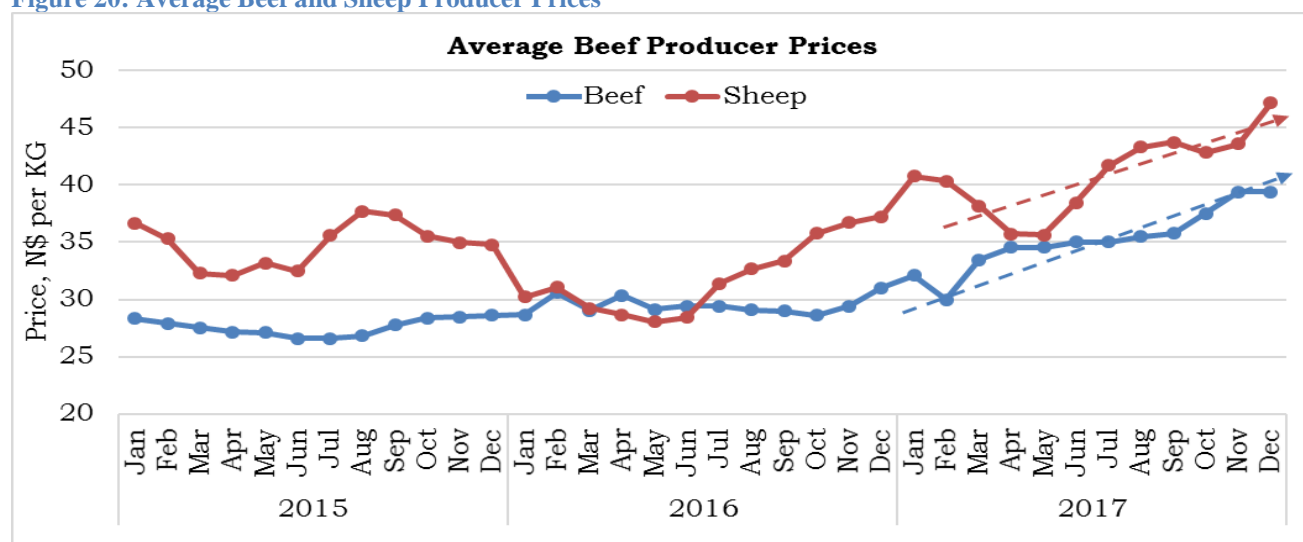
Figure 19: Livestock marketed



Source: Meat Board of Namibia

Producer Prices: As expected since January 2017 livestock producer prices have been rising continuously. In December 2017 average producer prices of both Beef and Sheep livestock were all 27 percent higher than a year ago. Over the recent two months period between October and December 2017, livestock producer prices continued rising with Beef producer prices edging up by 5 percent while sheep producer prices rose 10 percent. This continuous rising of livestock producer prices is always expected to passthrough to consumers. As a result in line with the trend of livestock producer prices, meat prices on shelves has turned out to be on the rise throughout 2017 similar to the trend in producer prices. The recent continued rising trajectory trend of producer prices towards the end of 2017 should suggest that consumer meat prices may continue rising in the coming few months

Figure 20: Average Beef and Sheep Producer Prices

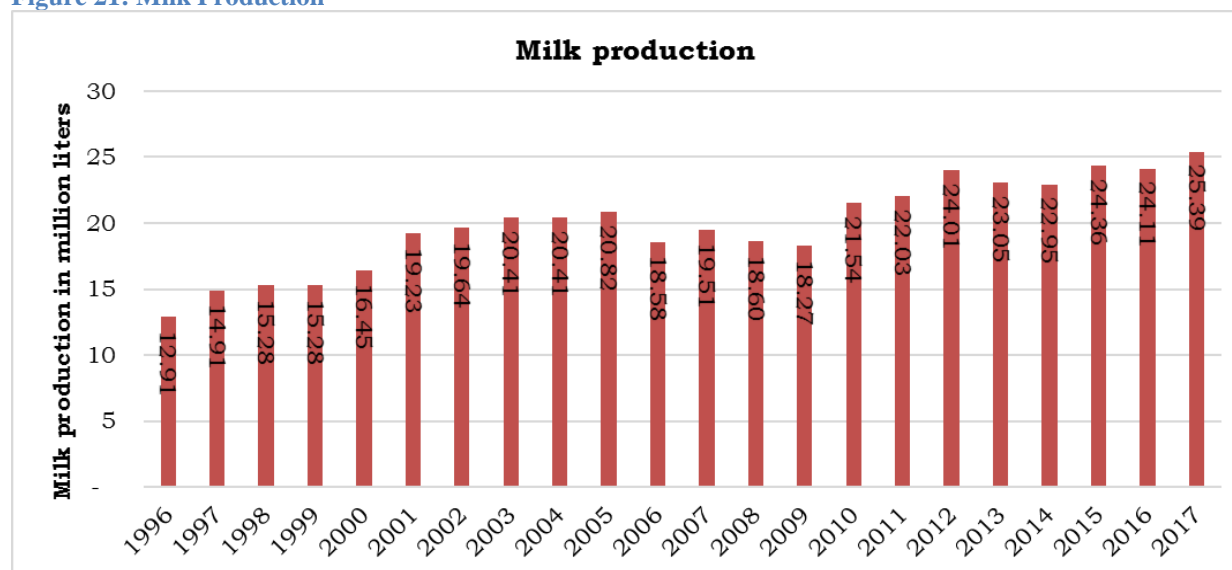


Source: Meat Board of Namibia

10. Milk Production

Domestic production of milk increased by 10 percent in 2017(y/y). Similarly supply in South Africa, where nearly half of milk consumed locally is imported, equally increased in 2017 compared to 2016. This is in line with our expectations that the rebuilding cycle of beef livestock herds will be a major factor on the improvement of milk production levels. In line with the good supply of milk, prices of milk products were stable throughout 2017. As the rebuilding cycle of livestock herds continues, one should expect milk product prices to stabilise in the coming months. However, the risk to milk production could be if this season turns out to be a dry season as low rainfall recorded to date suggest.

Figure 21: Milk Production



Source: Namib Diaries

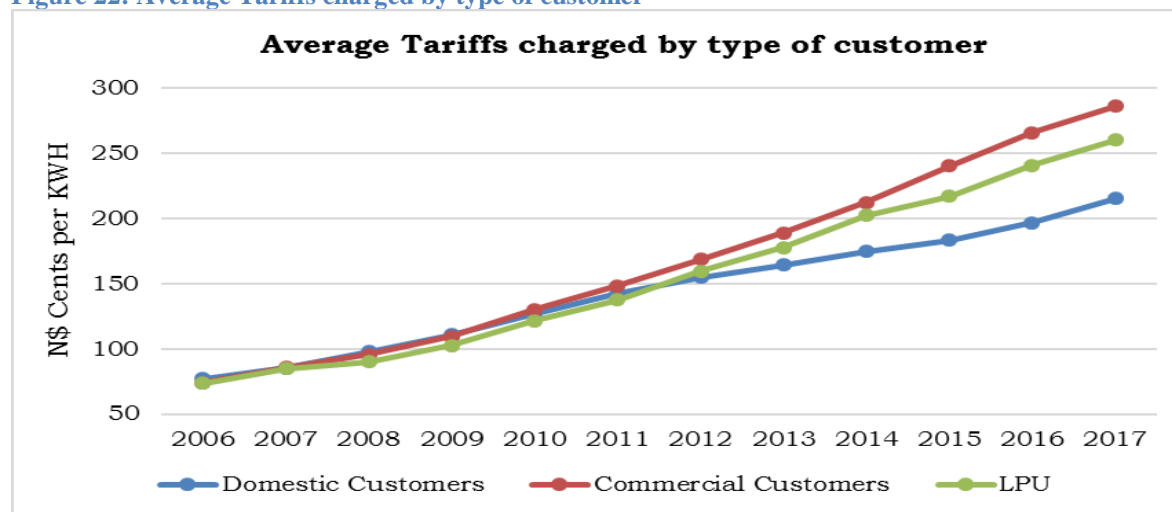
11. Trends in other costs

Besides direct costs on production there are other factors which could also partly impact on the cost of production as well as the cost of consumer prices.

11.1. Electricity costs

In production, electricity access is critical. Figure 22 below, shows the average trend of tariffs charged on consumers of electricity. On average tariffs has been steadily rising by 12 percent(y/y) since 2006. However, customer specific costs shows that since 2013, average tariff charges has been increasing by an average of 6 percent for Domestic customers (Residential) of electricity while commercial and Large power users(industrial) customers were rising at an average of 12 and 11 percent(y/y) respectively.

Figure 22: Average Tariffs charged by type of customer

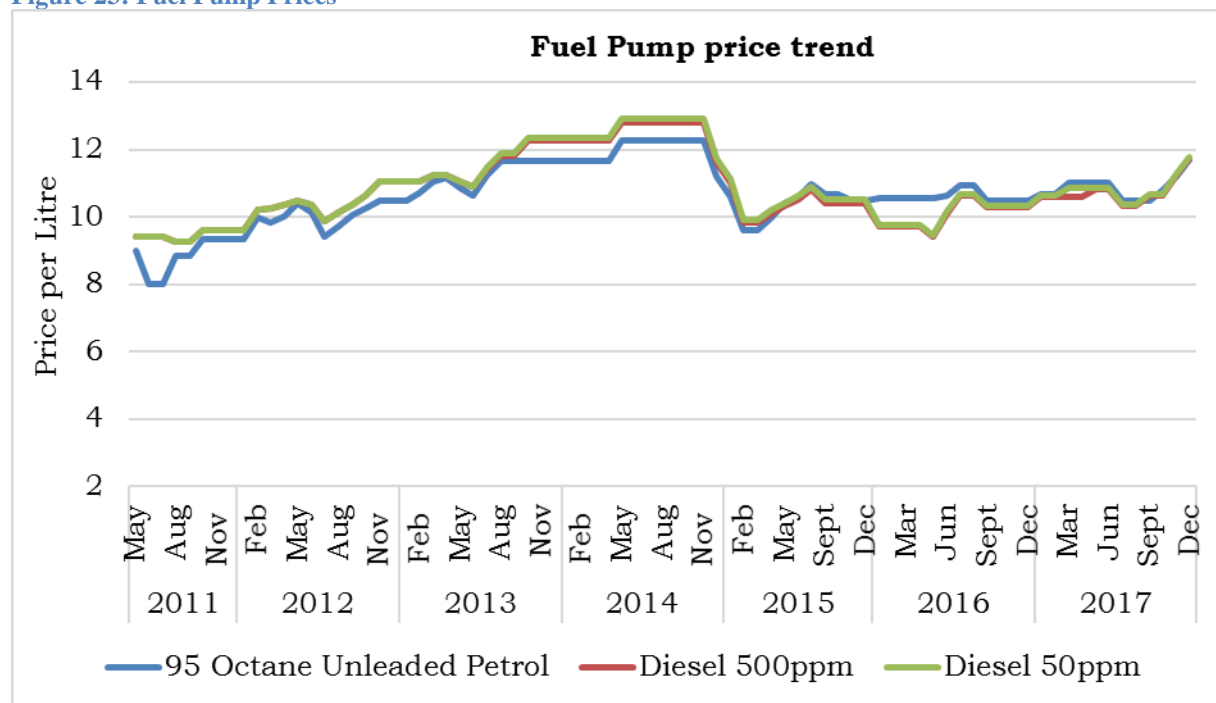


Source: ECB

11.1. Fuel costs

The price of fuel is an indicator of the transportation cost. Once there is significant rise in fuel price, one would expect transport costs to respond in the same order. Since 2016 fuel prices have remained stable slightly above N\$10 per litre of all types of fuel (95 Octane Unleaded Petrol, Diesel 500ppm and Diesel 50ppm). Following four consecutive fuel hikes in 2017, fuel pump prices have been trending upward since July 2017. However, the momentum that started in late last year of rising international crude oil price poses upside risks for further hikes in domestic pump prices. However, given the firmer, domestic currency we are convinced that in the short-term fuel prices should stabilize.

Figure 23: Fuel Pump Prices

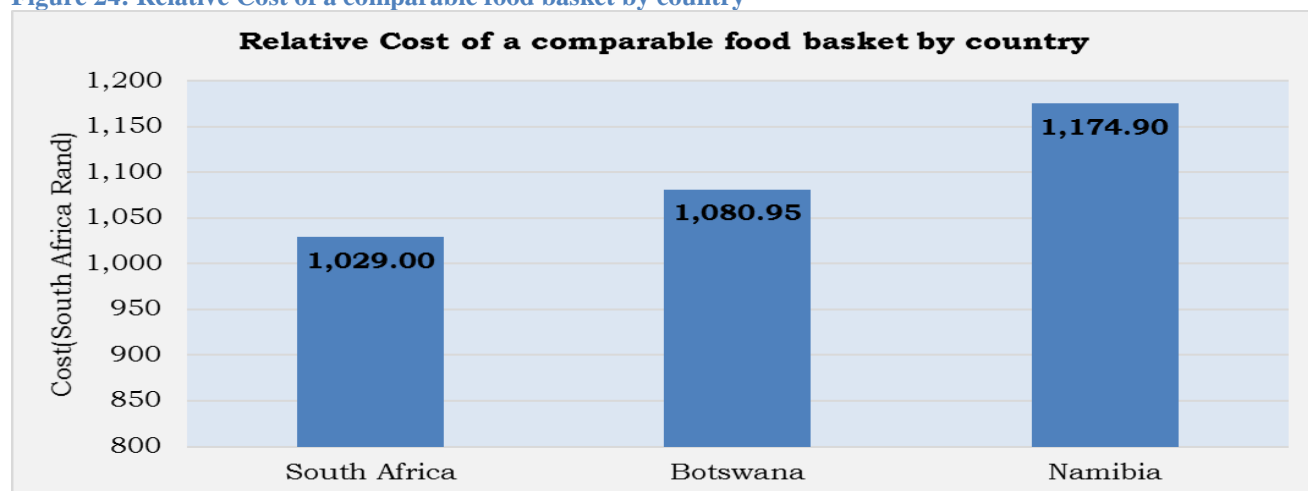


Source: MME

12. Comparison of the Relative food cost in Namibia vs. South Africa and Botswana

Figure 24 shows a comparison of the cost of a food basket using shops common in both countries. For comparison, Botswana prices were converted from Pula to South African Rand, using the average exchange rate for December 2017, while Namibian and South African Prices were treated as they are. According to our findings, a basket of food costing 1174.90 rand in Namibia could cost you 9 percent less in Botswana while in South Africa in could cost you 14 percent less.

Figure 24: Relative Cost of a comparable food basket by country



Source: First Capital Research

13. Conclusion & Outlook for 2018

The rate at which domestic food prices are rising have continuously slowed in 2017 from the high of 13 percent in January 2017 to 3.3 percent in December 2017. The slowing inflation trend is attributed to the effect of staple food prices which have been trending downward since March 2017. We also equally recognize that slowing food inflation is partly explained by the base effect given that inflation was highest towards the end of 2016 making prices much elevated. As the base effect disappear we expect food inflation to edge up slightly before moderating at 5 percent in 2018.

Our Methodology

The First Capital Food Price Monitor uses a list of identical food items that was derived from a study conducted to determine the common food items being bought and consumed by average Namibians in all parts of the country. The findings were used to construct a food basket, containing a list of food items that features most on consumer food shopping list. Six towns (Windhoek, Keetmanshoop, Swakopmund, Ondangwa, Rundu and Katima Mulilo) are considered for this exercise with need to expand its geographic coverage to other regions or towns over time. However, we remain convinced that given the geographic location of these six towns, it more or less represents a picture of the whole country. A total of six retail shops in each town are considered for collection of prices every month. The prices of food item from all supermarkets in a given area are averaged to give an average price of each item by area (e.g. the price of bread in Windhoek reflects the average of all prices of bread from all the six supermarkets in Windhoek). These item specific prices are then used to derive an index figure which, if compared with an index of the previous period, will give you the average price increase/decrease (Inflation) for the current period (e.g. An Index of 116.7 in December 2017 is 2.7 percent up than an index of 113.6 in December 2016 which means that a basket of food now costs you 2.7 percent more than it could cost you in December 2016. To derive an index during a specific period, we follow the following formula:

$$\text{Price Index (September 2016)} = \frac{\text{Price of food basket in September 2016}}{\text{Price of food basket in December 2015}} \times 100.$$

ABOUT US

First Capital Namibia is a financial services company specialized in providing treasury and asset (investment) management services. Established in July 2009, First Capital have in-depth, personal knowledge of the Namibian capital markets and the resulting insight enables us to manage Namibian assets across different spectrum including cash management, equity, fixed income, specialist agriculture and property mandates. We are licensed to manage money for private investors, pension funds, insurance groups, public (government) sector, and charities. Our credibility as asset managers is tightly governed by the Namibia Financial Institutions Supervisory Authority (NAMFISA). We are a Namibian based investment team and focus exclusively on the Namibian market and we add value to portfolios through offering specialized Namibian mandates.

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