



Agri Trends

24 January 2017

Profit margins for broiler industry may remain under pressure for the next four months

Profit margins for the broiler industry may remain under pressure for the next four months. The prevailing old season maize prices increased feed costs, as feed for broilers contain about 70% maize. On the other hand, the price for broilers is low and the cost squeeze renders margins negative. In the meantime, the bird flu outbreaks in the EU continue and local producers enjoy some price support due to the banning of low cost imports.

Contents

Beef market trends	1
Mutton market trends.....	3
Pork market trends.....	5
Poultry market trends.....	7
Wool market trends.....	10
Cotton market trends.....	12

Contact us at Absa Agri-business:

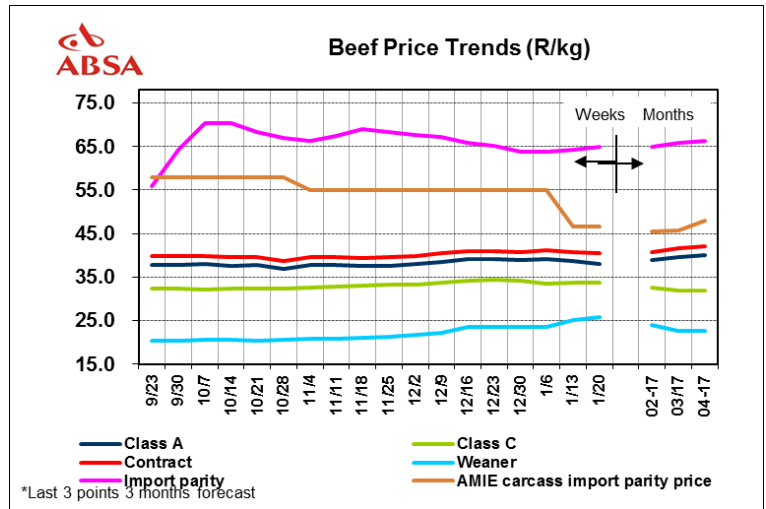
Karabo.Takadi@absa.co.za

<https://www.absa.co.za/business/sector-solutions/agribusiness/trends-and-reports/>

Beef market trends

International

New Zealand steers traded lower over the past week at 5.19NZ\$/kg and cows traded sideways at 3.85NZ\$/kg compared to a week ago. In the US, beef prices for the week were mixed as follows: Top side trade 0.11% higher at \$198,58/cwt. Rump was 0.05% lower at \$240.39/cwt and Strip loin was 3.86% higher at \$561.33/cwt. Chuck traded 0.68% higher at \$222,78/cwt. Brisket traded 4.08% lower at \$206,57/cwt. The carcass equivalent price was 0.69% higher at \$280.59/cwt.



Bullish factors

- The US beef market is still under pressure from increasing domestic production. This is also expected to keep a cap on imported prices.

Bearish factors

- The Strengthening of the New Zealand Dollar has added pressure on prices over the past week.

Domestic

Beef prices remain strong in January following strong gains during the month of December. Favourable rainfall across the country are helpful to prices, as producers can keep cattle longer on the ground, which limit the number of cattle to be slaughtered. As a result, week on week slaughter numbers have declined. The forecasted Absa beef prices are as follows: Class A prices are 1.97% lower at R38.00/kg. Class C prices are 0.26% higher at R33.80/kg. C grade prices normally follow a downward trend in December, but last year we did not see that trend due to less available supplies. The average weaner calf prices was 2,9% higher at R25.83/kg. The weaner calf market was very strong during the December month on the back of good demand and scarcity of the calves. This has led to the strength in the weaner prices, with other markets reportedly reaching levels of R30/kg. The average hide price over the past week was 1.14% lower at R15.17/kg from the previous week's price of R15.34/kg green. The recent strength of the currency is one of the factors putting pressure on hide prices. Hide prices are coming under immense pressure to reduce and the expectations are that prices may drop over the next few weeks. NB* Hide prices are determined by the average of RMAA (Red Meat Abattoir Association) and independent companies.

Bullish factors

- Week on week slaughter numbers as per the Red Meat Abattoir Association have declined by 11.01%

- Good demand and limited supplies of weaner calves support prices. The expected declines in maize prices in the coming months following the expected favourable crop as well as good grazing conditions are factors which should keep the weaner market supported.
- Good rainfall in some parts of the country support herd rebuilding
- Beef prices reached high levels over the festive season, and prices remain supported into January.
- Export opportunities on the pipeline may support pricing. The Department of Agriculture met with China to discuss the possibility of exporting South African beef to China.

Bearish factors

- The price pressure in the weaning market would be the weaning season during the month of March to May, which is characterized by oversupply of weaners in the market.
- Consumers normally become under pressure during the January month following increased spending during the festive season and as schools reopen. Consumer resistance to higher priced beef product may add pressure on prices.

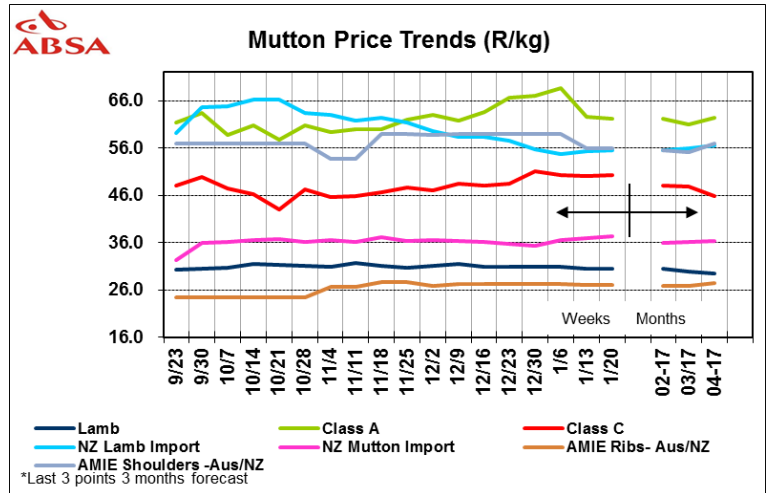
Outlook

Internationally, the US beef market is still under pressure from increasing domestic production, which is expected to keep a lid on imported prices. For this reason, most reports suggest that the rising market will be short-lived and we may see prices stabilise towards the end of January. With Trump coming into power, we are likely to see further currency volatility which will be an important driver in prices. Domestically, a positive rainfall outlook is supportive to prices and the weaner calf market is also expected to remain supported for most of the year expect during the weaning season.

Mutton market trends

International

The New Zealand lamb prices were mostly lower this week compared to last week. Lamb prices closed 0.92% lower this week at NZ\$75.4/head for 15kg lamb. Lamb prices were 1.03% lower at NZ\$105.5/head for 21kg lamb. Ewe prices closed sideways at NZ\$63.00/head for a 21kg ewe. The import parity price for lamb was 0.27% higher at R55.53/kg while the import parity price for mutton was 1.04% higher at R37.31/kg.



Bullish factors

- Inventories remain very low, and with markets aware that supply will be tight again through 2017, customers are eager to secure product now.
- Prices have remained at high levels, and there is expectation of further upside; in particular from China and the Middle East.
- Increasing supplies of New Zealand lamb have failed to dent demand for product so far this season.
- Prices strengthen as Australia Day approaches

Bearish factors

- Prices typically decline at this time of year as production increases.

Domestic

Mutton prices were higher during the festive season. Prices may experience a downward pressure due to seasonal reduction in demand during the month of January. There may be consumer resistance to higher prices as normally prices decline during this time. The good rainfall this summer can however add a bullish tone to prices, as they encourage herd rebuilding. Mutton prices are expected as follows: The average Class A prices were 0.50% lower at R62.20/kg and the average Class C was 0.44% higher at R50.21/kg. The average price for feeder lambs traded sideways at R30.38/kg. The average price for dorper skin was 10.18% lower at R40.92/skin and merinos were 10.00% higher at R89.52/skin.

Bullish factors

- Prices are supported by improved spending during the holiday season, and hence prices remain elevated into January.

- Favorable weather outlook may support the livestock market as it may revive pastures and support herd rebuilding. This may keep livestock prices high.

Bearish factors

- Week on week increases in slaughter numbers by 60% (RMAA stats) may have added pressure to the market prices. During the week which ended on the 15th of January, Class A prices declined week on week from R68.70/kg to R62.51/kg.
- Slowdown in demand during the month of January as with previous seasonal trends.

Outlook

Internationally, strong demand from China may support prices in the short term especially with the New Year celebrations there. Local prices remain supported into the New Year following strong demand during the festive season. Prices may however ease to some extent following consumer resistance to higher prices.

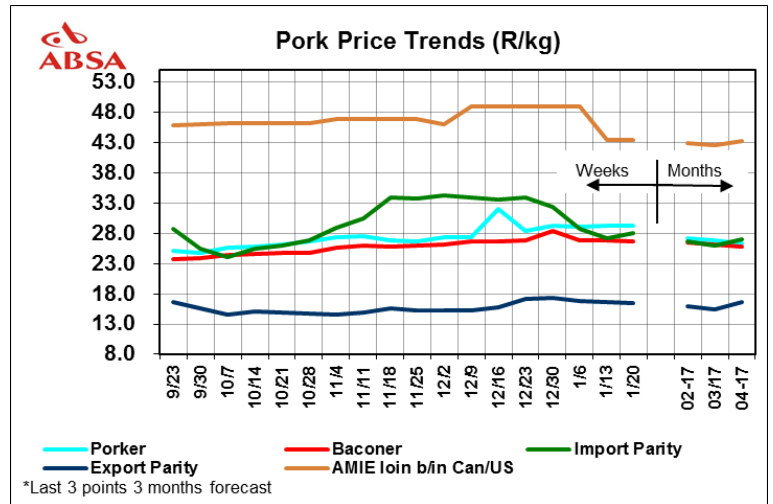
Pork market trends

International

The average weekly US pork prices were mixed over the past week. Carcass prices were 0.3% lower at US\$79.01/cwt, Loin prices were 1.0% lower at US\$80.51/cwt, Rib prices were 0.7% higher at US\$117.38/cwt and ham was 4.3% higher at US\$60.75/cwt.

Bullish factors

- The weekly export numbers continue to point to excellent export demand for US pork.
- Chinese pork imports are set to remain strong for the years to come, due to the high cost of domestic production, and the fact that reports point out that official hog herd figures may be significantly overstated. This will keep domestic prices high. Stricter environmental regulations in China may also curb production. 2016 pork output fell 3.4% year-on-year to 52.99 million tons, which may see China continue to import.



Bearish factors

- Hog prices are expected to decline by 15% due to continued ample availability. Low pork prices together with increased production will likely increase US pork exports.
- The January US department of Agriculture World Agricultural Supply and Demand Estimate (WASDE) report expects pork production in 2017 to increase by 5% from 2016.
- Pork supply continues to remain large. The large supplies are likely to cap the extent of the strength the market can sustain.

Domestic

Domestic prices gained momentum over the festive season, and showed positive gains on the back of good demand. Prices remained strong into the month of January, but demand may ease slightly as demand prospects start to ease. The Absa forecast prices were as follows: Porker prices are 0.2% higher at R29.34/kg while Baconer prices are 0.3% lower at R26.75/kg.

Bullish factors

- Pork prices remain supported following improved demand during the festive period.

- Pork remains the cheaper protein when compared with beef and mutton, and this may support the demand side of the product.
- Week on week declines in slaughtering of 5.7% (RMAA numbers).

Bearish factors

- Reports indicate that Brazil will resume exports of fresh pork to South Africa following the lifting of the ban by the South African Department of Agriculture, Forestry and Fisheries (DAFF). The ban was since implemented due to outbreaks of foot-and-mouth disease.
- The strengthening Rand and improvement in feed costs due to expected good crop may add pressure on prices.

Outlook

Internationally, the large supplies may limit the extent of the strength the market can sustain. Locally, the outlook for the pork industry is more positive from May onwards, especially with the bigger maize crop that is expected. The bigger crop will bring relief in feed costs.

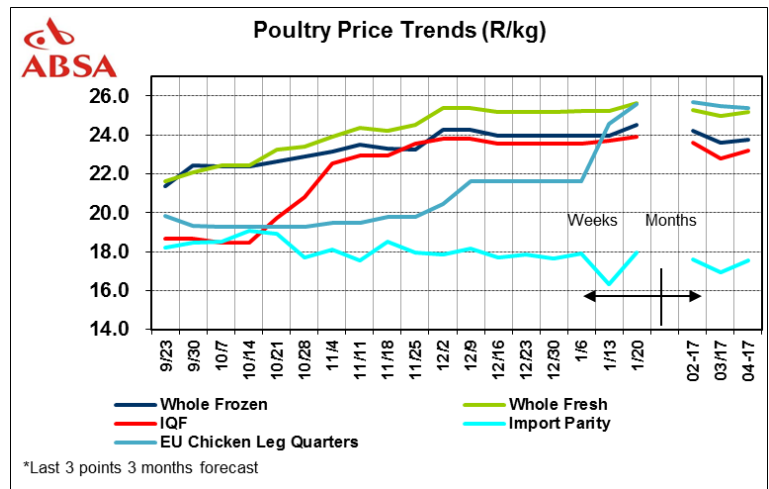
Poultry market trends

International

Poultry prices in the US were mostly lower over the past week. Whole bird prices were 1.77% lower at 85.13USc/lb. Breasts traded 1.05% lower at 94,50Sc/lb, whilst Leg Quarters traded 20.75% higher at 32,00USc/lb.

Bullish factors

- Europe has reported more birds being killed in flu outbreaks. The return of avian influenza is expected to affect the outlook for Asia, Europe and Africa. Many of the EU and Asian countries export meat and breeding stock, and therefore these developments will impact negatively on trade.
- Avian flu spreads to Uganda, threatening millions of birds.



Domestic

The average poultry prices over the past month remained steady. The average prices for frozen birds were 2.34% higher at R24.50/kg during the week. Whole fresh medium bird prices were 1.66% higher at R25.65/kg while IQF prices were 0.76% higher at R23.89/kg.

Bullish factors

- Good demand during the December month.
- Underlying support from the higher livestock prices
- 13.9% safeguard duty on imported bone in chicken. The tariffs came at the time when there were outbreaks of Avian influenza in the EU, which fortunately for the industry limits lower priced imports from the EU supporting domestic prices. The relief is temporary as it is uncertain when the bans will be lifted. But until then the decline in broiler meat imports from the EU is an important relieve for broiler producers in the industry.
- In order to limit losses, there are planned temporary or permanent closures of less efficient plants. Other plants reduce the number of shifts in order to limit losses and save jobs. This limits the output and supply of broiler meat which may lead to future price support.

Bearish factors

- Slight declines in demand during the month of January as consumers have other commitments like school following strong demand during the festive season.

- As soon as the prevalence of the Bird Flu threat in the EU subsides, an increase in poultry imports will continue to hurt the local industry.
- In expectation of a lower new season maize price and feed costs, consumers may expect that the price of broiler meat should decline as well from May 2017 onwards. This may add pressure on prices.

Outlook

Internally, the emergence of avian flu will prove challenging for the poultry industry going forward. Concerns regarding bird flu will pose as a challenge for the global poultry outlook, and will likely limit international trade. Locally, the largest contributor in the short term to support domestic broiler prices is the outbreak of Bird flu in the EU. The lower prices for maize from May onwards will improve the sustainability of broiler production.

Livestock Prices (R/kg) week ending 20 January 2017	Beef			Mutton			Pork			Poultry		
	%	Current Week	Prior Week	%	Current Week	Prior Week	%	Current Week	Prior Week	%	Current Week	Prior Week
Class A / Porker / Fresh birds	-1.97	38.00	38.77	-0.50	62.20	62.51	0.2	29.34	29.28	1.66	25.65	25.23
ClassC/ Baconer / Frozen birds	0.26	33.80	33.71	0.44	50.21	49.99	-0.3	26.75	26.82	2.34	24.50	23.94
Contract / Baconer/ IQF	-0.32	40.54	40.67	-0.30	63.69	63.88	0.0	28.05	28.05	0.76	23.89	23.71
Import parity price	1.06	64.89	64.21	1.04	37.31	36.92	-0.7	34.8	35.0	9.80	17.9	16.3
Weaner Calves/ Feeder Lambs/	2.9	25.83	25.11	0	30.38	30.38		-	-			
Specific Imports: Beef trimmings 80vl/b/Mutton Shoulders/Loin b/in /chicken leg1/4	0	46.57	46.57	0	56.00	56.00	0	43.50	43.50	4.28	25.60	24.55

Wool market trends

International

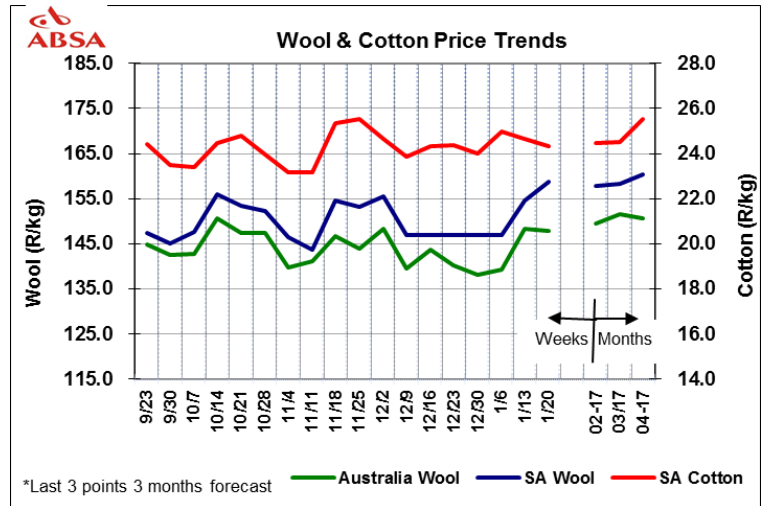
The Australian wool market prices were higher and closed 0.84% higher at Au1434c/kg at the recent auction.

Bullish factors

- Buyer concerns about availability have resulted in another week of large price gains for fine Merino wool, mainly at the start of the week.
- Strong demand in the market supported prices.

Bearish factors

- The Australian dollar strengthened against the US dollar, adding pressure to prices.
- Large offerings of over 56,000 bales pressure prices.
- A more relaxed market environment is expected as the Chinese head into the Chinese New Year holiday on the 28th of January.



Domestic

Domestic wool market prices were 2.79% higher at the most recent sale and opening sale of the season to close at R158.85 (Clean).

Bullish factors

- The wool market maintained its momentum and increased with a further 2,8%.
- Concerns on the declining supply of good quality wool on offer may support prices.
- The quantity of wool expected to reach the market towards the end of the season is expected to decline.
- The competition between buyers particularly on the better quality wool was good

Bearish factors

- Approaching festivities in China may add pressure on demand.
- The Rand strengthened by 1,2% against the US Dollar compared with the average rate at the previous sale.

Outlook

Internationally, large volumes are expected to be on offer, and given the pressure seen on the final day of selling this week, prices may be weighed down. Locally, positive demand and the movement of currency will continue to drive the domestic market. The market is expected to remain within these levels for the remainder of the season.

Cotton market trends

International

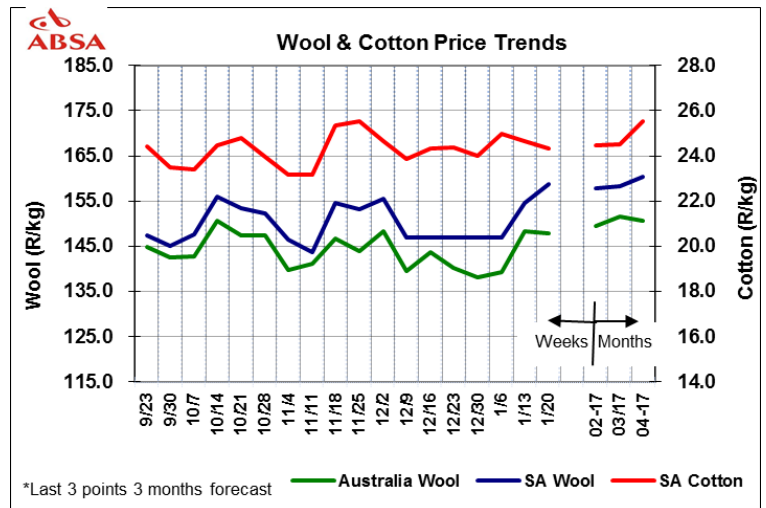
Cotton prices traded 0.76% lower over the past week and closed at US70.92c/lb.

Bullish factors

- Bullish export sales data and a weaker dollar support prices. Export data from the US Department of Agriculture (USDA) showed net upland sales of 346,500 running bales of cotton for last week, up 47% from the previous week.

Bearish factors

- Increased forecasts for US cotton production



Domestic

SA cotton prices traded 1.33% lower to close at R24.33/kg. The decreases in prices were in line with the strength in the South African currency over the past week. The Rand strengthened by an average of 0.43% weeks on week, and this added to the price declines.

Outlook

Internationally, increased forecasts for US cotton production may weigh on prices. Locally, the exchange rate will continue to affect market prices as the cotton market is export driven.

Fibres Market Trends
Week ending 20 January 2017

Wool prices	%	SA prices (c/kg)	%	Australian prices (SA c/kg)	%	Australian Future – Mar 2017 (AU\$/kg)	%	Australian Future Jun – 2017 (AU\$/kg)
Wool market indicator	2.79	15885	1.91	14663		-		-
19µ micron	5.30	18111	1.99	17782	-0.60	16.50	-2.78	16.10
21µ micron	-0.09	14893	-0.44	14960	-2.76	14.10	-2.82	13.80
Cotton prices		SA derived Cotton (R/kg)		New York A- Index (US\$/kg)		New York future Mar- 2017 (US\$/kg)		New York future May-2017 (US\$/kg)
Cotton Prices	-1.33	24.33	-0.91	1.80	0.5	1.60	0.6	1.62

Absa Agri-Business
Karabo.Takadi@absa.co.za

Disclaimer: Although everything has been done to ensure the accuracy of the information, Absa Bank takes no responsibility for actions or losses that might occur due to the usage of this information.