



Agri Trends

21 February 2017

Recovery in feed prices may improve the profitability of milk production

The outlook for the dairy industry is expected to be more positive from May onwards. The expected bigger maize crop may bring relief in feed costs. As a result, feed prices may start to recover and the profitability of milk production will therefore increase. The favourable rainfall outlook around the country since 2016 has been very positive for the production of the grain crops. The break-even level for the milk: feed ratio is between 1.3:1 and 1.4:1, and currently, the ratio is around levels of 1;1. This level is far below the long term average of 1.3:1. The unfavourable milk:feed price ratios is expected to result in slower production growth or lower production over time. Should producer prices increase, this can result in better production prospects.

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Beef market trends

International

New Zealand steers traded 0.77% higher over the past week at 5.25NZ\$/kg and cows traded 2.55% higher at 4.02NZ\$/kg compared to a week ago. In the US, beef prices for the week were mixed as follows: Top side trade 1.69% higher at \$205,95/cwt. Rump was 2.78% higher at \$289.37/cwt and Strip loin was 0.28% lower at \$518.38/cwt. Chuck traded 2.65% higher at \$243,75/cwt. Brisket traded 0.64% lower at \$198,00/cwt. The carcass equivalent price was 0.80% higher at \$280.36/cwt.

Bullish factors

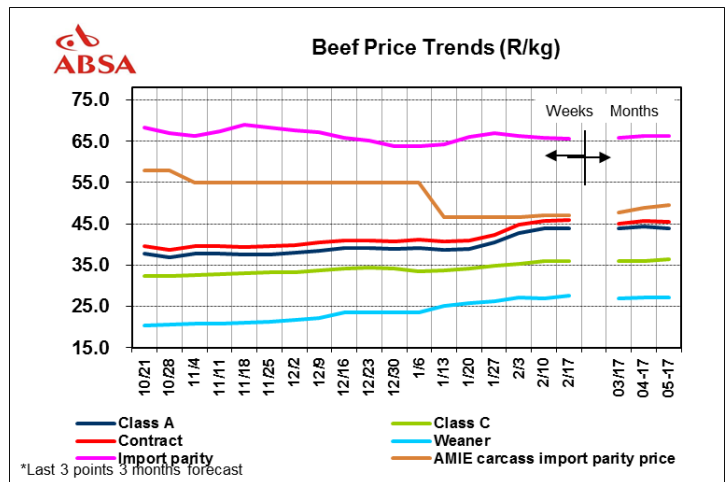
- Strong consumer demand is positive to prices. The rising Economic growth in the US is expected to support demand.
- The volume of imported beef coming into the US continues to run well under last year levels. Imports from Australia for the first five weeks of the year decreased by 35% compared to the same time a year ago and by more than half compared to levels seen in 2015.
- The first 5 weeks of 2017 saw beef imports from Brazil unto the US remain at minimal levels as Brazilian processors wait for the US Department of Agriculture to clear up some final procedural issues. Once this is finalized, a notable amount of Brazilian beef may head into the US, in part to fill the vacuum created by the shortage of Australian product.
- Chinese buyers have returned from their New Year celebrations. The return of this market may boost demand.

Bearish factors

- The US Department of Agriculture's weekly production report suggested that the week's slaughtering would reach 572,000 head. This number would be 9.0% over last year.
- Reports suggest that the US beef herd is rapidly recovering and is now at its highest level since 2010, which could dampen demand for future imported product.

Domestic

Market fundamentals continue to remain bullish for the beef industry, with beef prices continuing to increase. Favourable rainfall across the country have been helpful to prices, as producers can keep cattle longer on the ground, which limit the number of cattle to be slaughtered. As a result, beef prices have been following an upward trend. The forecasted Absa beef prices are as follows: Class A prices are 0.24% higher at R43.95/kg. Class C prices are 0.35% higher at R36.10/kg. The average weaner calf prices remained steady over the past week at R27.54/kg. The average hide price over the past week was 0.07% higher at R14.66/kg from the previous week's price of R14.65/kg green. The



recent strength of the currency and pressure from the demand side has been adding pressure on prices. There may also be stocks still sitting from December, which further add pressure on prices. NB* Hide prices are determined by the average of RMAA (Red Meat Abattoir Association) and independent companies.

Bullish factors

- Demand for weaner calves remains strong, and there is scarcity in the market which drives prices higher.
- Beef prices remained steady over the past week
- Widespread rainfalls in some parts of the country are helping with the rebuilding of herds.
- A talk of a bilateral agreement between South Africa and China to promote beef exports is expected to support prices.
- Due to the current shortage of weaner calves, producers are also buying more weaner calves that were not usually in demand for fattening purposes. Thus stimulating prices in the short term.

Bearish factors

- The slowdown in demand during the month of February as with previous seasonal trends.
- Beef prices remain high compared to pork and poultry prices. This may lead to more demand for the cheaper poultry and pork products.

Outlook

Internationally, tight Australian and New Zealand supplies and strong demand for beef from China may continue to support prices. Domestically, the outlook for beef prices is positive for 2017 with beef prices showing steady gains over the past couple of weeks.

Mutton market trends

International

The New Zealand lamb prices were higher this week compared to last week. Lamb prices closed higher this week at NZ\$78.4/head for 15kg lamb. Lamb prices were 0.46% higher at NZ\$109.7/head for 21kg lamb. Ewe prices closed 1.69% higher at NZ\$66.2/head for a 21kg ewe. The import parity price for lamb was 2.19% lower at R55.41/kg while the import parity price for mutton was 1.23% lower at R37.45/kg.

Bullish factors

- The Australian sheep and lamb market remains strong due to reduced supplies driving up the market.
- Mutton prices are now at yearly highs as demand remains strong all over the globe.
- New Zealand lamb slaughter rates continue to be much lower than typical for February. This is putting pressure on processor supply commitments for the chilled Easter trade.
- The New Zealand's producer prices are supported by the low supplies.

Bearish factors

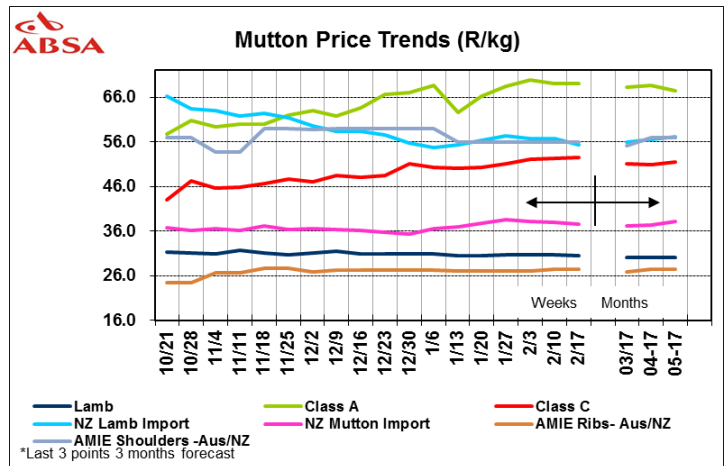
- If New Zealand prices increase too much, this may see customers switch to alternative proteins, as seen several years ago.

Domestic

Mutton prices remained steady over the past week, dropping a few cents in class A and gaining a few cents in class C. Prices are expected to remain steady in the short term in line with favourable weather conditions which encourage herd rebuilding. Mutton prices are expected as follows: The average Class A prices were 0.07% lower at R69.00/kg and the average Class C was 0.06% higher at R52.41/kg. The average price for feeder lambs traded 0.60% lower at R30.52/kg. The average price for dorper skin was 6.40% lower at R44.30/skin and merinos were 2.92% higher at R98.07/skin.

Bullish factors

- Favorable weather outlook may continue to support the livestock market as it may revive pastures and support herd rebuilding, keeping prices high.



Bearish factors

- Slowdown in demand during the month of February as with previous seasonal trends.
- Mutton prices are higher when compared to beef, pork and poultry prices, and as a result there might be consumer resistance to the high mutton prices, which may add pressure to lamb and mutton prices.
- Mutton prices showed a declining trend week on week
- There are enough supplies of feeder lambs in the market.

Outlook

Internationally, demand remains strong all over the globe which supports prices. Prices may also be supported as supplies in both New Zealand and Australia remain low. Locally, beef prices remain strong week on week. Prices remain supported due to favourable weather conditions which support herd rebuilding.

Pork market trends

International

The average weekly US pork prices were mixed over the past week. Carcass prices were 0.1% lower at US\$84.64/cwt, Loin prices were 0.9% higher at US\$74.99/cwt, Rib prices were 1.6% higher at US\$122.26/cwt and ham was 3.2% lower at US\$58.97/cwt.

Bullish factors

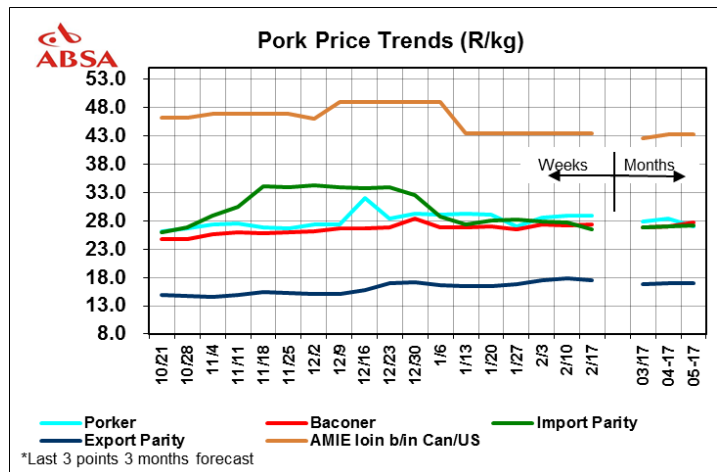
- China's appetite for EU pork is growing. European farmers benefitted from a doubling of pork exports to China in 2016 due to the restructuring of the Chinese pig industry. EU producers are however likely to see increasing competition from the US and Brazil in future after gaining increased access to the Chinese market.
- US robust pork demand supports prices.
- Brazilian pork prices are expected to increase due to exports and internal demand. The increases in prices are directly connected to the crisis the sector experienced in 2016, when many producers left the market due to high production costs and low demand. In addition, Brazilian producers of pork meat have benefited from the avian flu crisis in Asian-Pacific countries, which has positively impacted the demand for other types of meat.

Bearish factors

- Increased competition from other proteins may weigh down on prices.
- US pork supply continues to remain large. The large supplies are likely to cap the extent of the strength the market can sustain.
- Unless alternative markets can be found, a decline in demand from China could begin to put pressure on global pork prices this year, particularly in light of the expansion in US production.

Domestic

Domestic prices remained steady weeks on week. Prices are expected to remain steady moving forward with underlying support from the higher livestock prices. The Absa forecast prices are expected as follows: Porker prices are 0,2% higher at R28.90/kg while Baconer prices are 0.1% higher at R27.28/kg.



Bullish factors

- Underlying support from livestock prices.

Bearish factors

- It is in line with seasonality for prices to decline during February.
- The profitability of the pork industry will benefit from the expected higher total crop. The favourable weather conditions bode well with higher maize crop.

Outlook

Internationally, demand for pork may support prices. 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 higher over the past week. Whole bird prices were 1.17% higher at 85.67USc/lb. Breasts traded 0.10% higher at 102,60Sc/lb, whilst Leg Quarters traded sideways at 32,50USc/lb.

Bullish factors

- The active bird flu epidemic in China is likely to greatly reduce poultry production there. China has been struggling with bird flu outbreaks in humans for some time, with poultry markets forced to close in some parts of the country to prevent disease spread. There is some consensus developing that the bird flu will impact total world consumption of soymeal (or equivalent) by 1 to 2m tons.
- Taiwan's government has banned the transportation of poultry for seven days starting the 17th of February as part of ongoing efforts to contain the spread of bird flu.
- The Australian government has reported that the first shipment of fresh Australian eggs have reached the South Korean market. South Korea is a potentially lucrative market for Australian egg farmers, as they have an undersupply after culling hens to manage an avian influenza outbreak.

Bearish factors

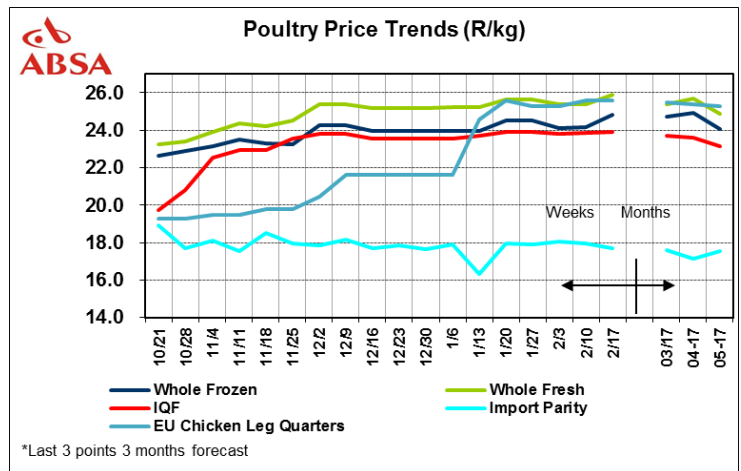
- Low feed prices support favourable poultry production.

Domestic

The average poultry prices over the past week were strong. The average prices for frozen birds were 2.73% higher at R24.83/kg during the week. Whole fresh medium bird prices were 1.95% higher at R25.90/kg while IQF prices were 0.27% higher at R23.92/kg.

Bullish factors

- Less competition in terms of imports from the EU market is supporting domestic prices.
- Poultry prices are enjoying underlying support from the higher livestock prices
- Planned temporary or permanent closures of less efficient plants may limit supply.
- Strong demand for low value product.
- Better demand for local product on the back of reduced supplies due to bird flu in the EU is adding support to prices.



Bearish factors

- The return of exports from the EU to the local market following the bird flu may pressure prices.
- 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

Internationally, there is uncertainty on the export demand effects of avian influenza outbreaks. 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 17 February 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	0.24	43.95	43.85	-0.07	69.00	69.05	0.2	28.90	28.85	1.95	25.90	25.41
ClassC/ Baconer / Frozen birds	0.35	36.10	35.97	0.06	52.41	52.38	0.1	27.28	27.25	2.73	24.83	24.17
Contract / Baconer/ IQF	0.45	45.87	45.66	-0.14	69.33	69.43	0.1	28.09	28.05	0.27	23.92	23.86
Import parity price	-0.14	65.68	65.77	-1.23	37.45	37.45	-2.0	35.6	36.3	-1.26	17.7	17.9
Weaner Calves/ Feeder Lambs/	2.0	27.54	27.00	-0.6	30.52	30.70		-	-			
Specific Imports: Beef trimmings 80vl/b/Mutton Shoulders/Loin b/in /chicken leg1/4	0.0	47.00	47.00	0	56.00	56.00	0	43.50	43.50	0.0	25.60	25.60

Wool market trends

International

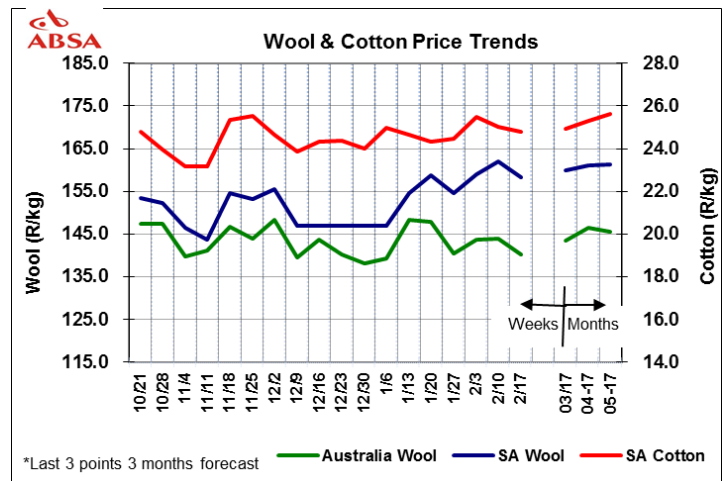
The Australian wool market prices were higher and closed 0.21% higher at Au1440c/kg at the recent auction.

Bullish factors

- Prices increased week on week due to a solid increase in demand. China's demand for wool had been increasing in line with the more affluent population in China.
- Higher demand globally had been supported by fashion shows in Europe putting wool back into vogue
- The market may hold at this coming auction given the strong resistance wool prices showed at the recent sale. Prices may gain with the declining supplies of Merino types.

Bearish factors

- Another 47,000 bales are expected at the auction next week. Higher volumes may weigh down on the market.
- The wool market was able to absorb the stronger Australian Dollar against all the major currencies



Domestic

Domestic wool market prices were 2.27% lower at the most recent sale of the season to close at R158.28 (Clean).

Bullish factors

- The return of the China market following the New Year festivities in China may boost market demand.
- Increased demand supported the market.
- The finer wool delivered excellent returns to producers again this week and the competition between the buyers was strong, supporting prices.

Bearish factors

- The Rand was 3,2% stronger against the US Dollar compared with the average rate at the previous sale.
- The quantity of wool delivered to the market improved week on week. 77.00% more volumes were offered at this week's auction compared to the volumes at the previous auction. 12175 bales were offered at this week's auction compared to 6 863 bales offered at the previous week's auction.

Outlook

Internationally, higher volumes are expected to be met by good demand, which may result in a positive market. Locally, strong demand continues to add an upward pressure on market prices.

Cotton market trends

International

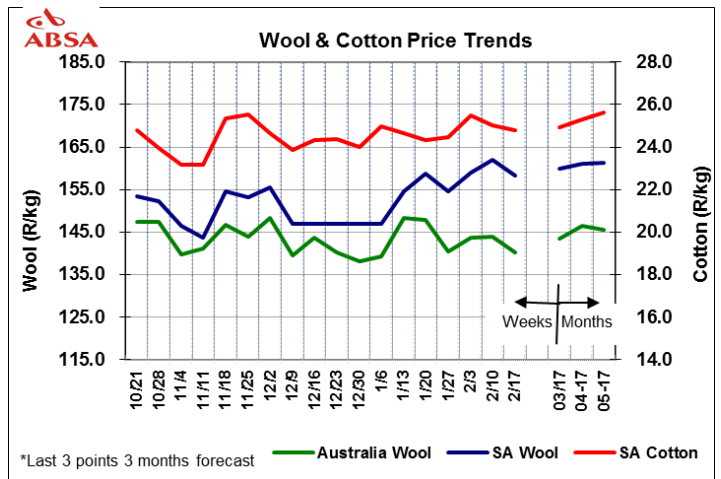
Cotton prices traded 0.42% higher over the past week and closed at US73.46c/lb.

Bullish factors

- The US reported bumper cotton export sales for last week
- The 2016/17 world cotton forecasts include slightly higher consumption and lower ending stocks. Global consumption is higher due to increases for India, Bangladesh and Vietnam.

Bearish factors

- According to industry data, US farmers are expected to increase their cotton sowings by more than 900,000 acres this year, encouraged by higher prices.
- The estimate for cotton production was kept at an elevated 1.46m tons. In Australia, favourable supplies of irrigation water mean the recent unfavourable seasonal conditions have not adversely affected prospects for irrigated cotton.



Domestic

SA cotton prices traded 0.95% lower to close at R24.78/kg. The decreases in prices were in line with the strength of the South African currency over the past week in spite of the higher international prices. The Rand strengthened by an average of 1.99% weeks on week.

Outlook

Internationally, prices may remain supported in the short term on the back of strong export demand. Locally, the exchange rate will continue to affect market prices.

Fibres Market Trends
Week ending 17 February 2017

Wool prices	%	SA prices (c/kg)	%	Australian prices (SA c/kg)	%	Australian Future – Jun 2017 (AU\$/kg)	%	Australian Future Sep – 2017 (AU\$/kg)
Wool market indicator	-2.27	15828	-2.44	14400		-		-
19µ micron	-2.99	18417	-2.79	17689	0.00	16.70	0.00	16.00
21µ micron	-2.86	14493	-3.11	14303	-0.72	13.80	0.00	13.45
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	-0.95	24.78	1.06	1.89	-0.8	1.65	0.2	1.69

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