



## Agri Trends

24 March 2017

### Export markets can provide opportunities for beef

Exports have the potential to provide opportunities for the South African beef market. To exploit this opportunity, the industry needs to find international markets that are willing to pay more for certain parts, and establish a relationship with these markets i.e export high value cuts to high value markets. It is necessary to position beef as a premium product rather than a commodity. There is, however, strong competition in the international market with other nations trying to compete for the same market. As a result, these nations could possibly try to turn the product into a commodity. More efforts will be needed to address, among others, the country's animal health status, traceability, classification and grading system. In addition, further research and development is needed.

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#### Contact us at Absa AgriBusiness:

[Karabo.Takadi@absa.co.za](mailto:Karabo.Takadi@absa.co.za)

[Wessel.Lemmer@absa.co.za](mailto:Wessel.Lemmer@absa.co.za)

[Conce.Moraba@absa.co.za](mailto:Conce.Moraba@absa.co.za)

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# Beef market trends

## International

New Zealand steers traded sideways over the past week at 5.41NZ\$/kg and cows traded sideways at 4.26NZ\$/kg compared to a week ago. In the US, beef prices for the week were mostly higher as follows: Top side trade 0.40% lower at \$252,14/cwt. Rump was 10.44% higher at \$957.06/cwt and Strip loin was 4.36% higher at \$736.98/cwt. Chuck traded 2.06% lower at \$243,61/cwt. Brisket traded higher at \$217,74/cwt. The carcass equivalent price was 2.52% higher at \$339.79/cwt.

## Bullish factors

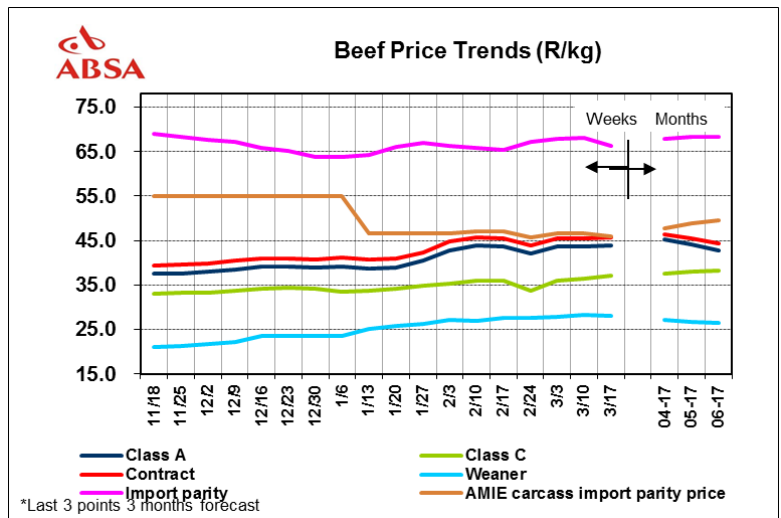
- Lack of supplies, both in New Zealand and from Australia, continued to keep prices high.
- Competition from Brazil into markets including China; with Australia's higher beef prices add support to prices.
- Optimism about strong economy in the US support beef demand is supportive to prices. A more positive economic climate (low unemployment, higher incomes etc are positive to beef demand).
- The warm winter in the US may be factoring into better demand as consumers kick off grilling season earlier than usual
- US export performance is also strong, which is absorbing much of the increasing domestic production, and supporting demand for imported product.

## Bearish factors

- There is increased pressure coming on prices due to the successful rebuilding of the US herd.
- Market direction going forward may be reliant on Australian weather patterns. Dry conditions through Queensland are forcing more cattle to slaughter, and if they continue, this could result in an increase of supply to the US market.
- Low feed prices support favourable beef production.

## Domestic

Beef prices strengthened weeks on week. 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 strengthened over the past month. Producers are also buying more weaner calves that were not usually in demand for fattening purposes, hereby stimulating prices in the short term. Moving forward, prices may remain steady as weather conditions continue to support the rebuilding of herds. The forecasted Absa beef prices are as follows: Class A prices are 0.58% higher at R43.89/kg. Class C prices are 1.88% higher at R37.07/kg. The average



weaner calf prices over the past week were 0.9% lower at R28.01/kg. The average hide price over the past week was 0.81% lower at R14.13/kg from the previous week's price of R14.25/kg green. NB\* Hide prices are determined by the average of RMAA (Red Meat Abattoir Association) and independent companies.

### *Bullish factors*

- It is expected that a possible increase in South African exports may support meat prices especially with the trade agreement between South Africa and China.
- China and the EU as well as certain South American countries imposed a total or partial ban on meat from Brazil on Monday. Brazilian inspection officers accepted bribes to allow the export of rotten or Salmonella tainted meat from Brazil. It is not known how long the ban will be in place but it offers an opportunity for South Africa meat exporters.
- Improved demand is expected over the coming weeks due to better demand heading into the Easter holidays.

### *Bearish factors*

- The slowdown in demand in line with 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, Lack of supplies, both locally and from Australia, continued to keep prices high and strong demand in the US continue to support prices in the short term. Domestically, the outlook for beef prices is positive for 2017 with higher beef prices, lower feed prices and favourable grazing conditions expected to benefit the industry.

## Sheep meat market trends

### International

The New Zealand lamb prices were mostly sideways this week compared to last week. Lamb prices closed the same this week at NZ\$79.9/head for 15kg lamb. Lamb prices were the same at NZ\$111.8/head for 21kg lamb. Ewe prices closed sideways at NZ\$69.3/head for a 21kg ewe. The import parity price for lamb was 2.77% lower at R53.68/kg while the import parity price for mutton was 2.66% lower at R37.07/kg.

#### Bullish factors

- Meat and livestock Australia indicates that the national Australian mutton indicator remained in the upper band of price records this week. Limited sheep availability is the primary driver behind the strong prices nationally, with strong wool and lamb prices enticing producers to retain whatever ewes they can.
- Market demand remains well in excess of supply. Prices have increased in most markets, particularly central Europe. There are some concerns that prices are reaching levels that are too high and may result in downwards pressure in coming months.

#### Bearish factors

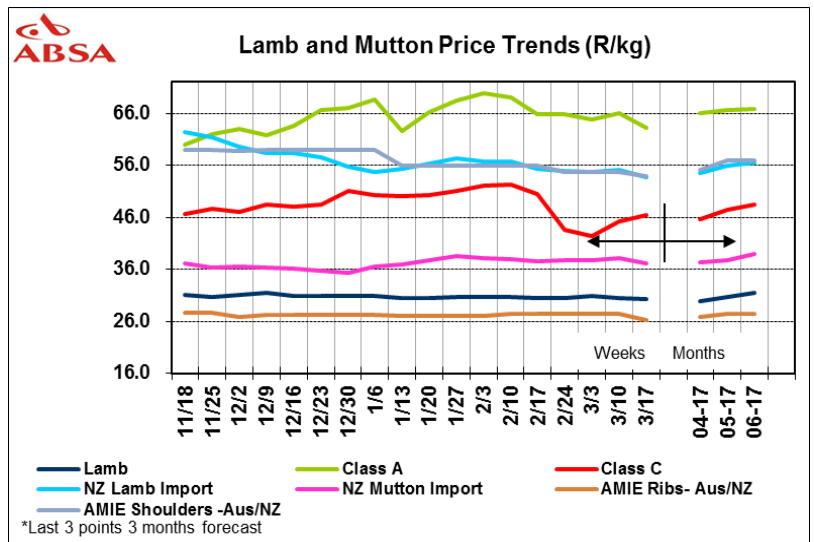
- If prices increase too much, this may see customers switch to alternative proteins.

### Domestic

Lamb and mutton prices eased during the past week. Lamb and mutton prices were as follows: The average Class A lamb prices were 4.29% lower at R63.11/kg and the average Class C was 2.87% higher at R46.44/kg. The average price for feeder lambs traded 1.1% lower at R30.18/kg. The average price for dorper skin was 1.27% lower at R45.27/skin and merinos were 15.44% higher at R94.45/skin.

#### Bullish factors

- Favourable growing conditions may continue to support the livestock market as it may revive pastures and support herd rebuilding.



### *Bearish factors*

- Consumer resistance to high lamb and mutton prices may increase price risk.
- The sheep industry does not enjoy the same export opportunities as in the beef industry.
- Lamb and 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.

### **Outlook**

Internationally, Prices may also be supported as supplies in both New Zealand and Australia remain low. Locally, the outlook for lamb and mutton prices is positive, due to high meat prices and low feed costs. Easter demand may be positive for this product and it triggers more demand.

## Pork market trends

### International

The average weekly US pork prices were mostly higher over the past week. Carcass prices were 0.3% higher at US\$81.55/cwt, Loin prices were 1.0% higher at US\$81.79/cwt, Rib prices were 1.1% lower at US\$122,34/cwt and ham was 3.5% higher at US\$59.99/cwt.

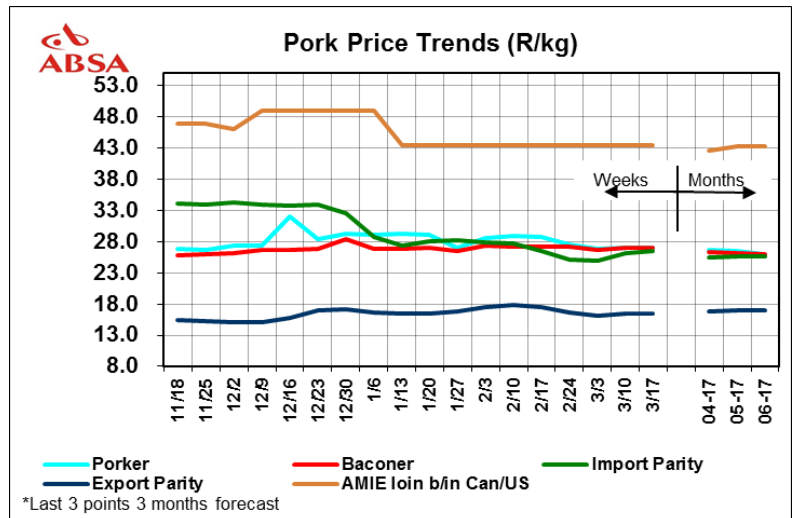
### Bullish factors

- Good demand is expected to be supportive to prices.
- New government restrictions on the zoning of pig facilities in China are expected to stall Chinese herd recovery and lead to high pork prices. The higher pork prices may accelerate a trend away from pork, toward substitutes including beef, import for which are also seen at a record high.

China's latest five-year-plan for agriculture set a goal of moving swine production away from waterways and densely populated area, and into the countryside. The result was widespread bans on pig production in urban areas, implemented by local authorities from 2017. Chinese pork imports are expected to reach a record high in 2017 following a ban on urban pig rearing units.

### Bearish factors

- In China, pork remains the protein of choice for the Chinese consumer, but consumption is expected to be reduced by the high pork prices encouraging consumers to switch to alternative protein sources such as beef.
- Increased competition from other proteins may weigh down on prices.
- Increasing US production will continue to pressure prices.



## Domestic

Domestic prices weakened slightly weeks on week. The Absa forecast prices are expected as follows: Porker prices are 0,3% lower at R26.94/kg while Baconer prices are 0.2% lower at R26.98/kg.

### *Bullish factors*

- Improvement in demand during the Easter period may provide support to pork prices.
- Underlying support from higher livestock prices.
- Pork prices may be supported by increased spending towards pork products compared to the higher prices beef and mutton.

### *Bearish factors*

- The 2017 maize production is expected to reach 13,918 mill tons. This production prospects was at the higher end of the market expectation. As a result, we expect that this will help to improve profitability of the dairy, pork and poultry industries as these industries are very feed intensive. The higher maize crop will help to reduce feed prices.

## Outlook

Internationally, strong exports from the US and new government restrictions on the zoning of pig facilities in China may support pork prices against higher US production. Locally, pork prices are expected to remain supported in the short term due to improved demand associated with the Easter period.

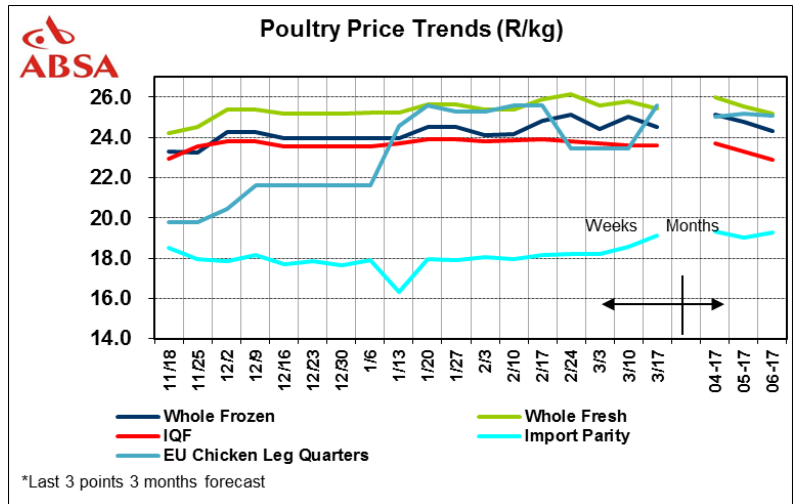
## Poultry market trends

### International

Poultry prices in the US were mostly higher over the past week. Whole bird prices were 3.86% higher at 96.63USc/lb. Breasts traded 0.82% higher at 122,50Sc/lb, whilst Leg Quarters traded 7.04% higher at 38,00USc/lb.

#### Bullish factors

- Brazilian poultry production and exports are seen growing by 4 and 10% respectively in 2017, due to cheaper maize as well as bird flu in competing markets. In 2017, a record maize crop is already entering the market and feed costs have declined.
- In the US, bird flu has infected a second commercial chicken farm in Tennessee that supplies Tyson Foods Inc. Another widespread outbreak could lead to more birds being killed or require flocks to be culled. It also would likely trigger more import bans from trading partners, after South Korea, Japan and other countries limited imports after the first highly pathogenic case in Tennessee in the US.



#### Bearish factors

- The outlook for the global poultry industry in 2017 has been shaken up by sharp increases in the number of human avian influenza (AI) cases in China. This has dramatically changed Chinese market conditions, as prices have fallen sharply, to historic lows.
- The recent highly pathogenic avian influenza outbreak in the US may limit expected export growth.
- Low feed prices in the US support favourable poultry production.

### Domestic

The average poultry prices over the past week were mostly higher. The average prices for frozen birds were 2.00% lower at R24.52/kg during the week. Whole fresh medium bird prices were 1.45% lower at R25.42/kg while IQF prices were sideways at R23.59/kg.



### *Bullish factors*

- Positive demand in the market currently supporting prices.
- 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, which may add pressure on prices.

### **Outlook**

Internationally, the global impact of avian influenza on trade is significant, with ongoing restrictions on trade from Europe and also still from the US. Locally, poultry prices are expected to be supported by improved demand associated with Easter holidays.

Livestock Prices (R/kg) week ending 17 March 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	0.58	43.89	43.63	-4.29	63.11	65.94	-0.3	26.94	27.01	-1.45	25.42	25.79
ClassC/ Baconer / Frozen birds	1.88	37.07	36.39	2.87	46.44	45.15	-0.2	26.98	27.02	-2.00	24.52	25.02
Contract / Baconer/ IQF	0.53	45.64	45.40	-2.47	64.08	65.70	-0.2	26.96	27.02	0	23.59	23.59
Import parity price	-2.77	66.30	68.19	-2.66	37.07	38.08	-0.7	34.1	34.4	3.2	19.1	18.5
Weaner Calves/ Feeder Lambs/	-0.9	28.01	28.26	-1.1	30.18	30.52		-	-			
Specific Imports: Beef trimmings 80vl/b/Mutton Shoulders/Loin b/in /chicken leg1/4	-1.5	46.00	46.70	-1.5	54.00	54.80	0	43.50	43.50	9.1	25.60	23.45

## Wool market trends

### International

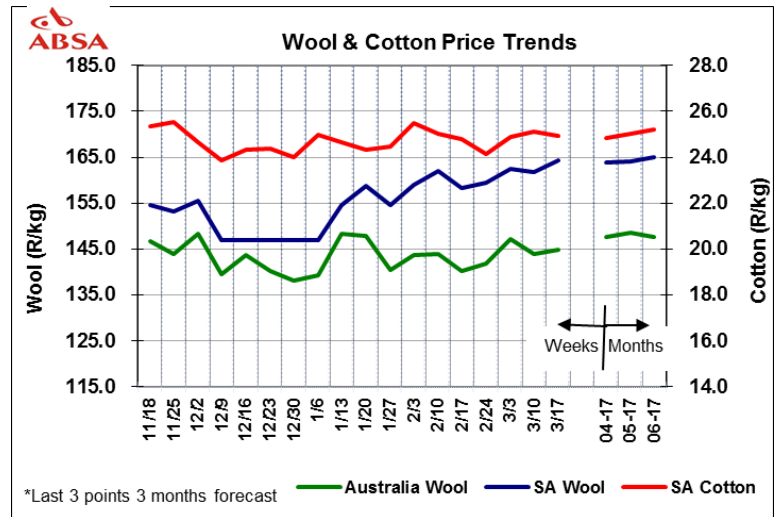
The Australian wool market prices were higher and closed 1.58% higher at Au1546c/kg at the recent auction.

#### Bullish factors

- Increasing demand from Chinese buyers have supported prices
- The high wool prices have gradually brought previously unwilling sellers to market, pushing the amount of wool being held in brokers' stores to historical lows.
- Wool prices have increased to new record peak as on-farm storages empty.

#### Bullish factors

- Stronger Australian dollar against most of the major trading currencies may have added pressure to the market.
- Steady supplies are expected to be on offer at the next auction.



### Domestic

Domestic wool market prices were 1.60% higher at the most recent sale of the season to close at R164.31 (Clean).

#### Bullish factors

- Good competition due to smaller volumes on offer.
- There was good competition for the better and longer wool
- The market got off to a good start with good demand for the finer end of the market
- The Rand was 0,6% weaker against the US Dollar compared with the average rate at the previous sale.

#### Bearish factors

- The coarser wool came under pressure and lost some ground at the latest auction.

### Outlook

Internationally, prices are expected to remain at their current high levels due to reductions in supply. Locally, prices will also be supported by a reduction in supplies.

# Cotton market trends

## International

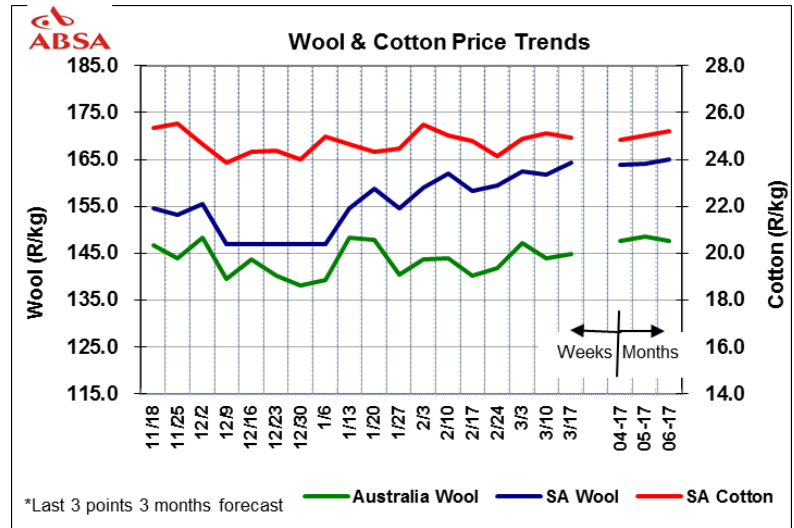
Cotton prices traded 5.50% lower over the past week and closed at US74.50c/lb.

### Bullish factors

- Sales from the Chinese state reserves, improvement in supply from India and record production in Australia are likely to ease the tightness in the cotton export market in the coming months.

### Bearish factors

- Higher prices make cotton plantings more profitable, attracting additional farmers and driving up global production
- China has been met with some disappointed uptake at its latest cotton auction. It is not clear yet if that lack of interest indicates slow demand, or the fact that Chinese stocks are of low quality, and therefore less attractive than imports.



## Domestic

SA cotton prices traded 0.65% lower to close at R24.94/kg. The decreases in prices were in line with decreases in international prices and the strength in the exchange rate.

## Outlook

Internationally, global cotton production is expected to be higher due to increased expectation of planted area in some of the major producing countries, including India, Pakistan and the US which may weigh down on prices. Locally, the exchange rate movement may continue to affect the domestic market prices.

**Fibres Market Trends**
**Week ending 17 March 2017**

<b>Wool prices</b>	<b>%</b>	<b>SA prices (c/kg)</b>	<b>%</b>	<b>Australian prices (SA c/kg)</b>	<b>%</b>	<b>Australian Future – Jun 2017 (AU\$/kg)</b>	<b>%</b>	<b>Australian Future Sep – 2017 (AU\$/kg)</b>
<b>Wool market indicator</b>	1.60	16431	2.41	15329		-		-
<b>19µ micron</b>	0.50	19219	2.70	19302	1.16	17.50	0.30	16.95
<b>21µ micron</b>	0.23	15015	1.07	14883	0.71	14.10	0.00	13.80
<b>Cotton prices</b>		<b>SA derived Cotton (R/kg)</b>		<b>New York A- Index (US\$/kg)</b>		<b>New York future May- 2017 (US\$/kg)</b>		<b>New York future Jul-2017 (US\$/kg)</b>
<b>Cotton Prices</b>	-0.65	24.94	0.34	1.93	0.4	1.723	0.3	1.744

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**Absa AgriBusiness**

[Karabo.Takadi@absa.co.za](mailto:Karabo.Takadi@absa.co.za)

[Wessel.Lemmer@absa.co.za](mailto:Wessel.Lemmer@absa.co.za)

[Conce.Moraba@absa.co.za](mailto:Conce.Moraba@absa.co.za)

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