



Agri Trends

11 April 2017

Possible interest rate increases may add financial pressure to producers

Producers are already under financial pressure following the drought conditions experienced last season. Despite good rains this season, a great crop estimate, recovered veld conditions and, as a consequence, favourable meat prices, producers may still need to recover. Producers are strongly advised to be conservative with their budgets and spending, and to monitor their asset/debt ratios to ensure maximum control. Debt ratios are envisaged to increase during the year with the accumulation of higher interest. With the decreasing value of the Rand, it is predicated that fuel will become more expensive, in addition to tractors, implements (new technology) and inputs that are imported. Furthermore, the higher transport costs will negatively impact the price of products on the shelves for the consumer.

Contents

Beef market trends	1
Sheep meat market trends	3
Pork market trends	5
Poultry market trends	7
Wool market trends	10
Cotton market trends	11

Contact us at Absa AgriBusiness:

Karabo.Takadi@absa.co.za

Wessel.Lemmer@absa.co.za

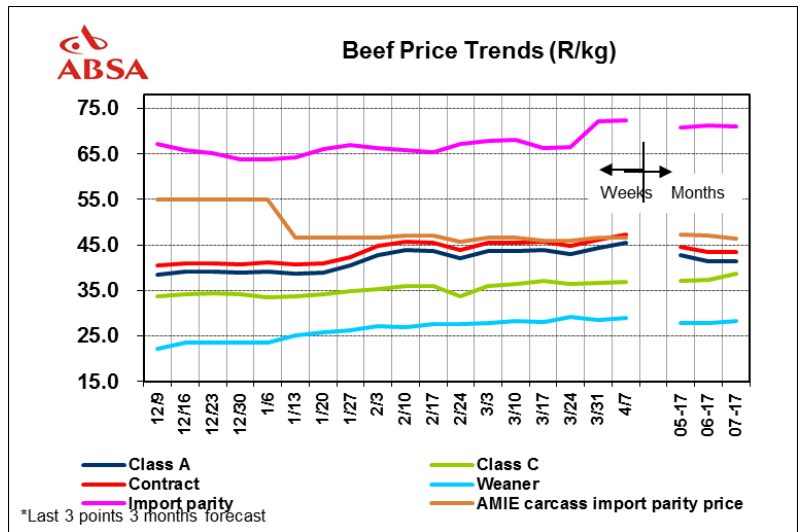
Conce.Moraba@absa.co.za

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

Beef market trends

International

New Zealand steers traded 0.36% lower over the past week at 5.56NZ\$/kg and cows traded 1.59% lower at 4.33NZ\$/kg compared to a week ago. In the US, beef prices for the week were mostly lower as follows: Top side traded 6.68% lower at \$210,22/cwt. Rump was 7.06% lower at \$370.45/cwt and Strip loin was 9.74% lower at \$642.00/cwt. Chuck traded 6.33% lower at \$225,54/cwt. Brisket traded 0.16% higher at \$208,99/cwt. The carcass equivalent price was 6.59% lower at \$307.74/cwt.



Bullish factors

- Heavy marketing of steaks were a particular feature of the Memorial Day and Independence Day holiday markets last year, adding extra keenness to seasonal support for beef and cattle prices. We expect that prices may follow the same trend towards these holidays and therefore supportive to the beef market.
- The reduction in availability of Australian and New Zealand beef are supportive to US beef exports especially into Asia.

Bearish factors

- There may be pressure on prices in anticipation of the New Zealand cow slaughter. There is potential for elevated slaughter rates to weigh on prices.
- Maize prices remain affordable and plentiful, which may make it hard to see major upside in US cattle prices.

Domestic

Beef prices were steady weeks on week across all grades. The forecasted Absa beef prices are as follows: Class A prices are 2.47% higher at R45.40/kg. Class C prices are 0.64% higher at R37.00/kg. The average weaner calf prices over the past week were 1.4% higher at R28.89/kg. The average hide price over the past week was 1.05% lower at R14.68/kg from the previous week's price of R14.83/kg green. Moving forward, prices are expected to gain support from the weakening of the South African currency, especially with the current political climate. NB* Hide prices are determined by the average of RMAA (Red Meat Abattoir Association) and independent companies.

Bullish factors

- Slaughter numbers are on the decline. 6.50% fewer cattle was slaughtered in February 2017 compared to January 2017. 192 186 cattle was slaughtered in February 2017 according to the red meat levy admin numbers. Lower slaughtering is supportive to prices.
- Prices are following an upward trend in line with increased Easter demand.
- Export opportunities for this industry may keep prices elevated.

Bearish factors

- Beef prices remain high compared to pork and poultry prices. This may lead to more demand for the cheaper poultry and pork products.

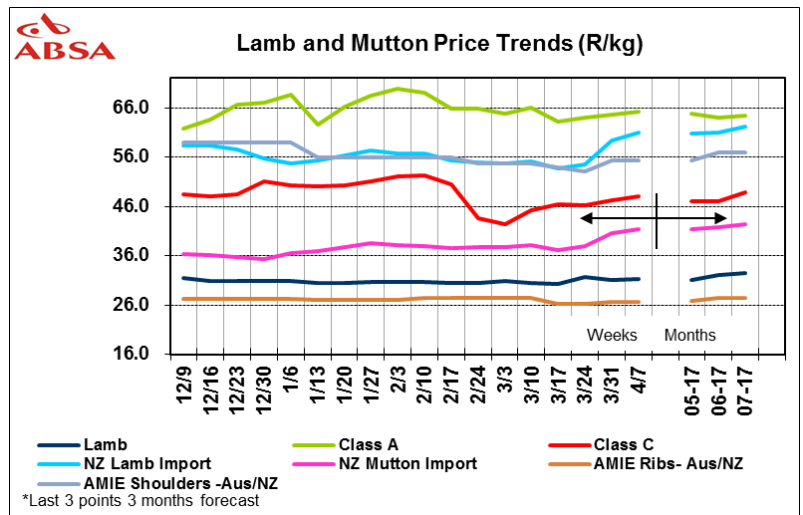
Outlook

Internationally, the reduction in availability of Australian and New Zealand beef are supportive to beef prices. Domestically, lower feed prices and less livestock available are causing prices to increase. 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 higher this week compared to last week. Lamb prices closed 0.47% higher this week at NZ\$84.8/head for 15kg lamb. Lamb prices were 0.51% higher at NZ\$118.7/head for 21kg lamb. Ewe prices closed sideways at NZ\$73.0/head for a 21kg ewe. The import parity price for lamb was 2.55% higher at R60.90/kg while the import parity price for mutton was 2.04% higher at R41.46/kg.



Bullish factors

- In Australia, strong producer intent to retain ewes for flock rebuilding, the current strength of the wool market and low grain prices are supportive to prices.
- In New Zealand, winter supply contracts shows that lamb prices will be well above historical levels. This is due to firm global markets and an expectation of continuing low supply for the remainder of the season.
- The shortage of product from both Australia and New Zealand is supporting lamb and mutton prices.

Bearish factors

- As the US domestic slaughter increases, this trend is gaining momentum and may act to keep a lid on imported prices, despite the expectations of continued low supply out of Australia in the medium term.
- There are some concerns that prices are reaching levels that are too high and may result in downwards pressure in the coming months. If prices increase too much, this may see customers switch to alternative proteins.

Domestic

Lamb and mutton prices strengthened during the past week. Lamb and mutton prices were as follows: The average Class A lamb prices were 0.76% higher at R65.20/kg and the average Class C was 2.06% higher at R48.12/kg. The average price for feeder lambs traded 0.7% higher at R31.35/kg. The average price for dorper skin was the same at R41.92/skin and merinos were 3.95% lower at R84.12/skin.

Bullish factors

- Positive demand going into Easter
- High meat prices and low feed costs are supporting the lamb and mutton market.

Bearish factors

- Consumer resistance to high lamb and mutton prices may increase price risk. Lamb and mutton prices remain the expensive meat in the market.
- The sheep industry does not enjoy the same export opportunities as 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, the shortage of product from both Australia and New Zealand continue to support prices. Locally, the outlook for lamb and mutton prices is positive, due to high meat prices and low feed costs supporting the industry. Easter demand may be positive for this product as it triggers more demand.

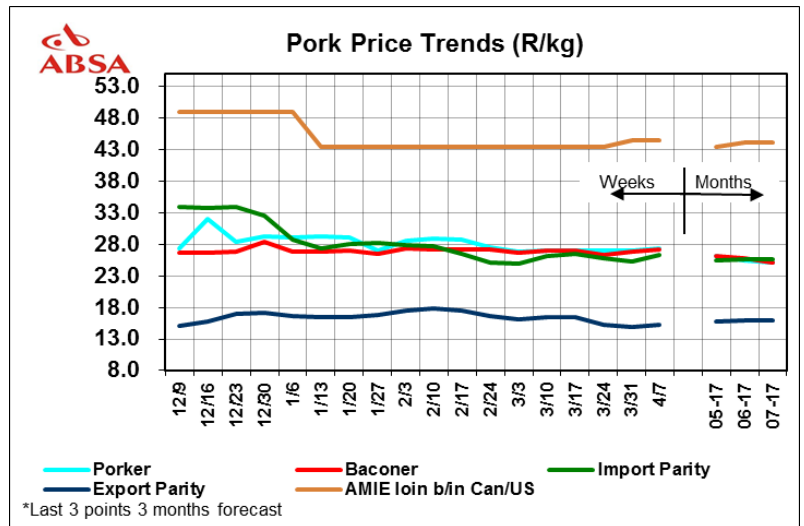
Pork market trends

International

The average weekly US pork prices were mostly lower over the past week. Carcass prices were 2.1% lower at US\$74.54/cwt, Loin prices were 1.6% lower at US\$74.26/cwt, Rib prices were 1.6% lower at US\$114,04/cwt and ham was 2.5% lower at US\$54.47/cwt.

Bullish factors

- Good demand for pork products in the US is expected to support prices.
- The prospect of decreased US meat supplies resulting from reduced plant operations associated with a short week due to Easter weekend may have triggered retail meat buying, supporting prices.



Bearish factors

- Hogs are more plentiful as moderating spring temperatures in the US Midwest allow pigs to quickly put on weight.
- The US supplies of pork, as well as chicken are plentiful, offering the retailer a lot of protein feature options and adding pressure to prices. The USDA's hog report showed a record large hog herd as of the 1st of March 2017, which suggests plentiful supplies ahead.

Domestic

The Absa forecast prices are expected as follows: Porker prices are 1,5% higher at R27.38/kg while Baconer prices are 0.8% higher at R27.10/kg. Prices are expected to follow an upward trend in the short term supported by expected improvement in demand.

Bullish factors

- Improvement in demand during the Easter period may provide support to pork prices.
- Underlying support from higher livestock prices.

Bearish factors

- Lower feed costs will support the intensive pork industry, improving profitability. The lower feed costs are encouraging to the fattening of the pigs.

Outlook

Internationally, abundant pork supplies in the US will be met by good demand. Prices are under pressure due to ample hog supplies ahead. 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 lower over the past week. Whole bird prices were 1.06% lower at 97.41USc/lb. Breasts traded 0.81% lower at 123,00USc/lb, whilst Leg Quarters traded 5.63% higher at 37,50USc/lb.

Bullish factors

- Chicken is a cheap protein, and many shoppers may choose to save money and buy chicken instead of buying pork or beef which may support chicken prices.

Bearish factors

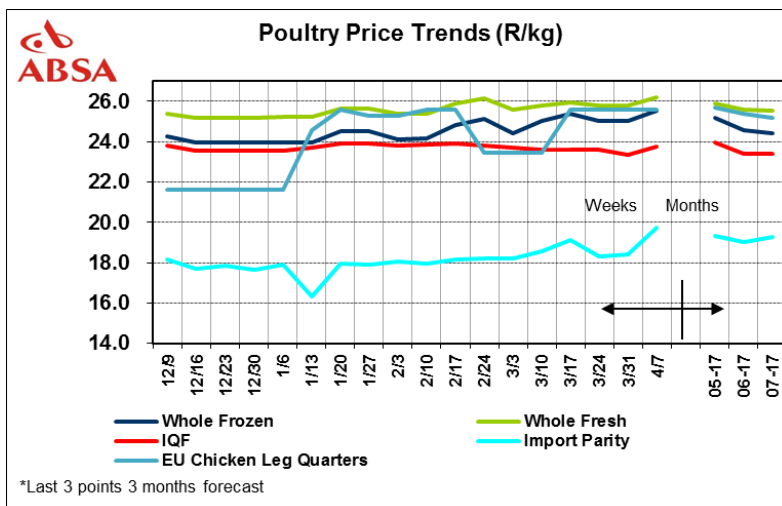
- Prospect of increased US domestic supplies have been raised following bird flu outbreaks. Depending on the progress of the bird flu outbreaks, this may lead to limitations from some importers.
- The US supplies of pork, as well as chicken are plentiful, offering the retailer a lot of protein feature options and adding pressure to prices.
- Brazilian chicken exports fell 4% in March after the meat scandal. Total chicken exports, which include fresh and processed products, reached 386,400 tons in March compared with 402,900 tons in the same month a year ago.

Domestic

The average poultry prices over the past week were stronger. There is a rising trend in prices moving into the Easter weekend. The average prices for frozen birds were 2.19% higher at R25.55/kg during the week. Whole fresh medium bird prices were 1.59% higher at R26.19/kg while IQF prices were 1.75% higher at R23.77/kg.

Bullish factors

- Positive demand in the market currently supports 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.

Outlook

Internationally, the Brazilian meat scandal and the bird flu will impact on international trade prospects. Locally, poultry prices are expected to be supported by improved demand associated with Easter holidays and less supplies in the market currently.

Livestock Prices (R/kg) week ending 07 April 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	2.47	45.40	44.30	0.76	65.20	64.71	1.5	27.38	26.97	1.59	26.19	25.78
ClassC/ Baconer / Frozen birds	0.64	37.00	36.76	2.06	48.12	47.15	0.8	27.10	26.90	2.19	25.55	25.00
Contract / Baconer/ IQF	2.33	47.22	46.14	2.52	67.00	65.35	1.1	27.24	26.93	1.75	23.77	23.36
Import parity price	0.49	72.51	72.16	2.04	41.46	40.63	4.3	33.7	32.3	7.17	19.8	18.4
Weaner Calves/ Feeder Lambs/	1.4	28.89	28.48	0.7	31.35	31.13	-	-	-	-	-	-
Specific Imports: Beef trimmings 80vl/b/Mutton Shoulders/Loin b/in /chicken leg1/4	0	46.60	46.60	0	55.30	53.30	0	44.50	44.50	0	25.60	25.60

Wool market trends

International

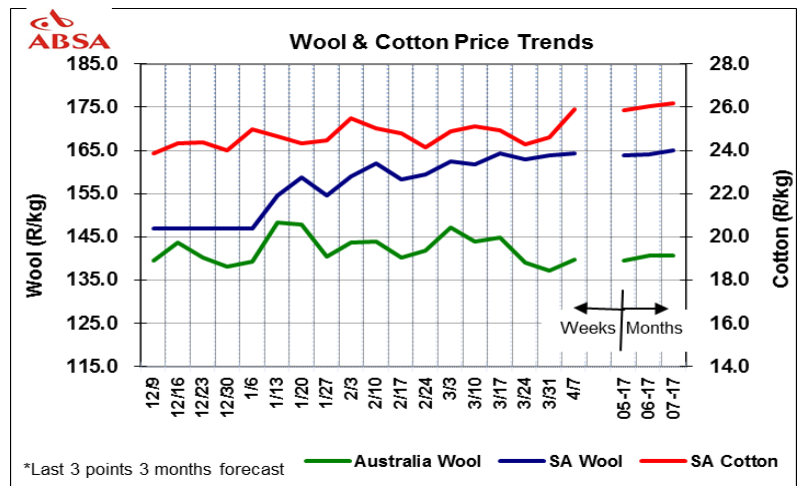
The Australian wool market prices were lower and closed 2.86% lower at Au1459c/kg at the recent auction.

Bullish factors

- Strong demand especially from China has supported wool prices in the past weeks.

Bullish factors

- Australian wool prices experienced a correction this week.
- A large offering contributed to the declines in prices this past week.



Domestic

Domestic wool market prices were 0.30% higher at the most recent sale of the season to close at R164.34 (Clean).

Bullish factors

- The Rand was 4,5% weaker against the US Dollar compared with the average rate at the previous sale.
- Keen competition from the market and good demand for good quality wool.

Bearish factors

- Weeks on week, slightly higher volumes were offered on the market.

Outlook

Internationally, strong demand for wool may support wool prices moving forward. Locally, prices are expected to be supported by a reduction in supplies and good demand for the product.

Cotton market trends

International

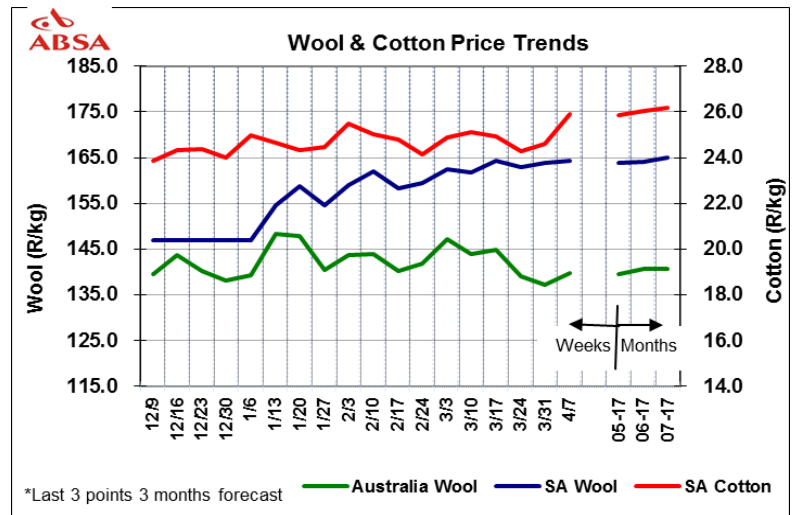
Cotton prices traded 1.75% lower over the past week and closed at US72.51c/lb.

Bullish factors

- Chinese cotton consumption is seen to be strong due to steady economic growth.

Bearish factors

- Cotton futures followed a downward trend on the back of forecasts for the big US sowings.
- Chinese cotton auctions are expected to keep imports low next season. Chinese government sales were seen drawing down stocks from 12.67m tons to 8.90m tons by the end of 2017/8.
- China's 2017/18 cotton production is forecast to recover moderately, to 5.15m tons, up 100,000 tons year on year, due to increasing plantings. Plantings are being supported by a price-subsidy policy in Xinjiang, the country's top growing region.
- Australia's cotton crop is expected to be bigger next season, as good returns encourage farmers to continue increasing sowings.



Domestic

SA cotton prices traded 5.15% higher to close at R25.89/kg. The increases in prices were in spite of decreases in international prices but supported by the weakness in the exchange rate.

Outlook

Internationally, prices may be weighed down by the bearish US planting report and expectations of the higher global cotton production. Locally, the exchange rate movement may continue to affect the domestic market prices.

Fibres Market Trends
Week ending 07 April 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	0.30%	16434	0.49	15094		-		-
19µ micron	-3.26%	19898	-0.56	18708	0.00	17.65	0.00	17.00
21µ micron	-3.14%	14396	1.21	14314	-2.87	13.55	-1.47	13.40
Cotton prices		SA derived Cotton (R/kg)		New York A- Index (US\$/kg)		New York future May- 2017 (US\$/kg)		New York future Jul-2017 (US\$/kg)
Cotton Prices	5.15	25.89	-0.81	1.89	-2.3	1.643	-1.5	1.684

Absa AgriBusiness

Karabo.Takadi@absa.co.za

Wessel.Lemmer@absa.co.za

Conce.Moraba@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.