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Livestock and Fibre markets

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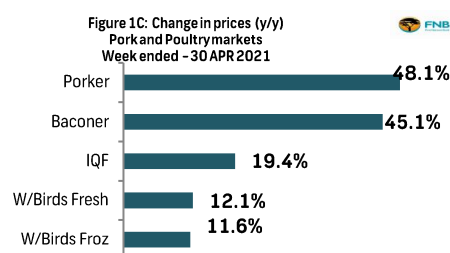
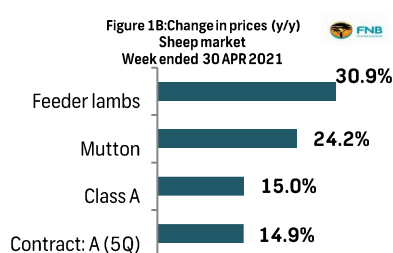
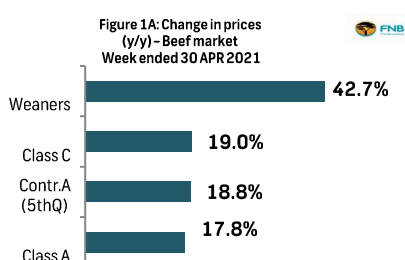


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UPDATE ON LIVESTOCK MARKETS

- The recent surge in world grain and oilseed prices have started squeezing margins in intensive livestock feeding systems as they are major raw inputs in feed manufacturing. Meat companies such as Tyson, the biggest in the US, has reported that a potential hit on profits due to cost escalation as feed ingredients accelerated by US\$135 million in the second quarter of 2021 relative to last year.
- Tightening stocks and weather challenges in both South America and the US have underpinned the upswing in grain prices in the past few months. However, the good news is that the 2021/22 world maize production is now projected at a record high of 1.19 billion tons with stocks rebounding to 292 million tons which is up 5.4% and 3.1% respectively year-on-year (y/y) according to the recent USDA World Agriculture and Demand Estimates (WASDE) report. Expectations are for larger production increases in the United States, Brazil, China, Ukraine, and Argentina.
- For soybeans, the USDA projected world production up 22.6 million y/y to 385.5 million tons with Brazil's crop projected at a record high of 144 million tons and Argentina coming in 5.0 million higher y/y to 52 million tons.
- The significance of this improved supply outlook is that prices are likely to cool off from the recent highs in the medium term thereby reducing costs for livestock feeders and consequently better margins for producers.
- On the domestic front, the strength in maize and soybean prices was largely underpinned by the surge on the global market despite the country's huge harvest outlook of over 16m and 1.7m tons respectively for 2021. A decrease on the international market will certainly filter through to the local market with huge medium-term benefits for livestock feeders.
- The weekly trend in livestock prices showed mixed trend in last week's trade with poultry, lamb, and mutton retaining firmness while beef and pork saw losses post the month end period. Nonetheless, the yearly trend in livestock prices shows elevation across the board as reflected in figures 1A to 1C.

Figure 1: Changes in average weekly livestock prices (% change y/y)



Source: Own calculations from FNB AgriComms.

- In the grain markets: Earlier weather challenges in the US and South America as well as tightening global stocks of grain and oilseeds continue to underpin the recent strength in international prices.
- Maize prices have now reached a seasonal high and are back above R3,500/ ton across the board. At levels above R3 000/ ton for maize, livestock feeding margins remain under pressure and currently yellow maize is trading at a premium way above its white counterpart.
- After a brief reprieve in the week earlier, oilseed prices strengthened on spill over gains from the grain markets. Nonetheless, the increased availability of soybeans with harvest estimate now above 1.7 million tons will see processing for oilcake garnering pace which bodes well for the intensive livestock feeding systems. The improved global supply outlook augurs well for domestic livestock feeders as grain and oilseed prices are likely to ease from the recent highs.

Table 1: Raw feed inputs – Latest price trends in JSE grain and oilseed futures market (R/ton)

12 MAY 21	WMAZ	change w/w	YMAZ	change w/w	SUNS	change w/w	SOY	% change w/w
Jul 21	R3 542	0.6%	R3 706	1.0%	R9 016	-2.0%	R7 676	0.6%
Sep 21	R3 594	0.4%	R3 754	0.8%	R9 123	-1.5%	R7 782	0.8%
Dec 21	R3 683	0.7%	R3 833	1.1%	R9 152	-1.7%	R7 884	0.8%
Mar 22	R3 697	0.7%	R3 792	1.4%	R8 800	-	R7 867	1.1%
May 22	R3 461	0.6%	R3 500	0.7%	-	-	R7 250	-0.7%

Source: JSE

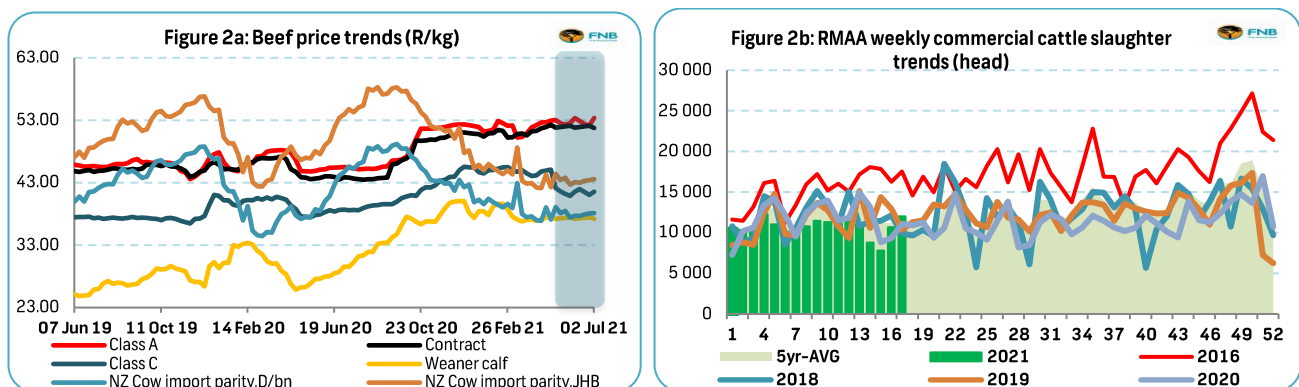
International update on beef markets

- The US import market saw further gains in prices on the back of the improved food service demand and the rebound in activity. Reports of continued shipping delays or logistical challenges at ports in the West Coast added to the firmer tone.
- The latest USDA WASDE report showed higher forecast for total US red meat and poultry production for 2022 with increased pork and poultry production more than offsetting lower beef production. Beef production is expected to contract y/y on reduce cattle slaughter levels.

Domestic beef market update:

- Beef carcass prices reversed recent gains as demand slipped towards the mid-month period. Supplies however remain tight as producers hold on to their stock a bit longer to take advantage of increased fodder from the harvested maize lands as well as better grazing conditions.
- Weaner calf prices moved sideways for the week but were almost 43% ahead of the same week in 2020 and 23% above the 3-year average.

Figure 2: Bee prices and cattle slaughter trends



*Last nine data points on figure aa are preliminary

Source: RMAA

Table 2: Beef producer price trends in South Africa

Beef producer prices: Beef market – South Africa						
Date	07 May 21	% Δ w/w	% Δ y/y	3-Year Avg	30 Apr 21	23 Apr 21
Class A (R/kg)	52.83	-0.2%	17.8%	11.2%	52.96	52.70
Class C (R/kg)	44.68	-0.9%	19.0%	10.9%	45.10	44.96
Contract: A (*Incl.5thQ)	52.04	-0.4%	18.8%	11.2%	52.27	51.92
Import parity (R/kg)	42.63	0.9%	-9.2%	-4.8%	42.26	44.32
Weaner calves (R/kg LW)	37.54	0.0%	42.7%	22.8%	37.54	37.40

LW – Live Weight; *Fifth quarter. Source: USDA, JSE, FNB Agri

OUTLOOK

Despite seasonal pressure due to weaning, the weaner calf market remains robust. Seasonal production conditions remain solid and will help maintain good fodder supplies for overwintering in just over two months' time.

Weekly summary of the sheep market

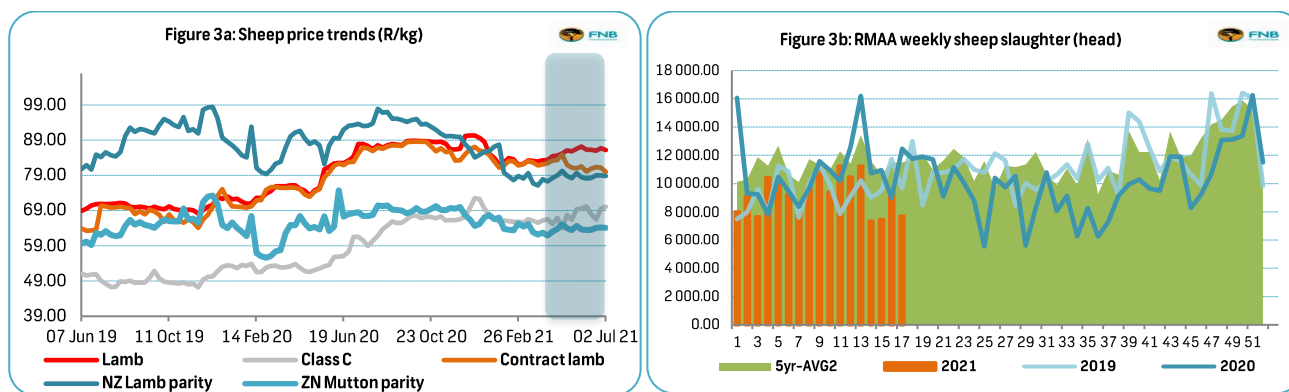
International sheep market update

- In New Zealand, lamb and mutton prices are reportedly trending higher due to the combination of tightening supplies and improved processor demand. Prices are currently way above the 5-year average and higher than the 2019/20 levels.
- AU lamb production is reportedly on the upside and above historical average since mid-March as producers liquidate stock that were in cropped lands as the winter crop season begins. Favourable conditions with quality feed boosted growth rates. The country's exports were not that fantastic with the AU-China tensions doing further harm. AU shipments to China for the YTD (March) decreased by 17% y/y. AU export to the Middle East also fell sharply by 42% y/y following Qatar's decision to end import subsidies in December 2020.

Domestic sheep market update

- Weekly lamb and mutton prices were mostly firmer on the back of solid demand and limited availability. The current contract class A lamb and mutton prices are still up 15% and 24% respectively relative to last year and are both almost 14% and 16% above the 3-year average for this time of the year.

Figure 3: Lamb and mutton prices and sheep slaughter trends



*Last nine data points on figure 5a are preliminary

Source: RMAA

Table 3: Sheep producer price trends in South Africa

Sheep market – South Africa						
Date	07 May 21	% Δ w/w	% Δ y/y	3-Year Avg	30 Apr 21	23 Apr 21
Class A (R/kg)	85.96	0.9%	15.0%	14.2%	85.21	84.66
Mutton (R/kg)	64.68	1.0%	24.2%	16.1%	64.05	66.96
Contract: A (*Incl.5thQ, R/kg)	85.44	0.6%	14.9%	14.2%	84.90	83.38
Import parity (R/kg)	83.39	3.9%	-5.9%	-0.3%	80.28	79.00
Feeder lambs (R/kg LW)	44.10	2.7%	30.9%	20.1%	42.96	40.32

LW – Live Weight; *Fifth quarter. Source: USDA, JSE, FNB Agri

OUTLOOK

We expect near-term prices to hold on stable demand. However, tough trading expected during the winter period ahead.

Weekly pork market

International pork market update

- A combination of strong domestic and export demand continued to provide upside support for the US pork market. The weekly pork carcass cutout values advanced by 3% week-on-week (w/w) to US\$112.48/cwt but were still slightly lower by 1.3% y/y.
- US weekly pig slaughter dropped 1.9% w/w but still way ahead of 2020 levels at 2.41 million head. This brought the year-date pig slaughter to 46.47 million head which is just 1% ahead of last year.
- China's pork imports continued to surge with latest reports showing growth of 16% y/y for March 2021 at 460,000 tons which raised the cumulative YTD total by 22% y/y to 1.16 million tons.

Domestic pork market update

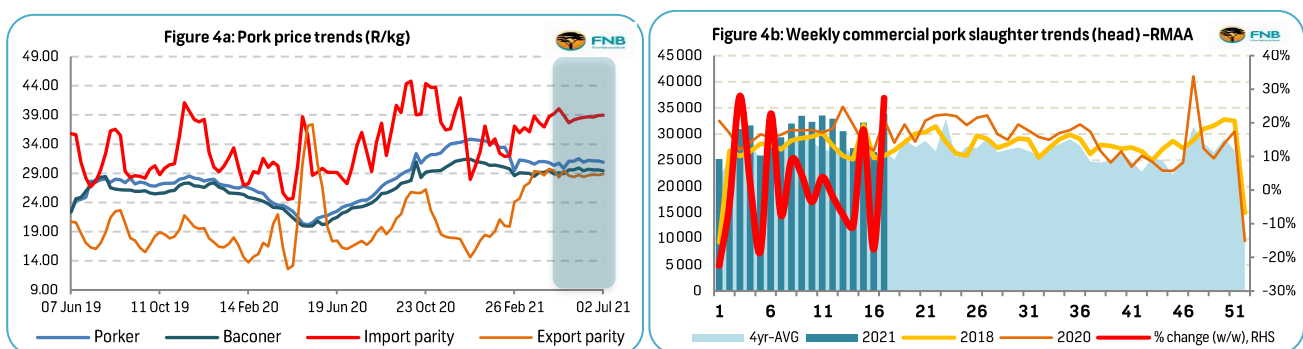
- Last week saw a slight reversal in trend towards mid-month. The current pork and baconer prices are still sharply higher by 48% and 45% respectively relative to the same week in 2020 and are 27% and 34% above the 3-year average for this time of the year.
- Disease challenges internationally will continue to determine price direction in the medium to longer term due to the influence on import parity levels. Earlier ASF challenges in SA have subsided and authorities are monitoring the situation.

Table 4: Pig producer prices and slaughter trends

Pork market – South Africa						
Date	07 May 21	% Δ w/w	% Δ y/y	3-Year Avg	30 Apr 21	23 Apr 21
Porker (R/kg)	29.85	-2.8%	48.1%	26.8%	30.72	30.38
Baconer (R/kg)	28.93	-0.6%	45.1%	34.2%	29.10	28.89
Import parity (R/kg)	38.99	-2.7%	9.6%	24.4%	40.05	39.26

Source: USDA, JSE, FNB Agric

Figure 4: Pork prices and slaughter trends



*Last nine data points on figure 6a are preliminary

Source: RMAA

OUTLOOK

Elevated raw feed input prices remain a threat to profitability as pork and producer prices have eased from the recent highs. Nonetheless, we expect prices to retain the current momentum with limited downside due to the spill over strength from the red meat complex.

Weekly poultry market update

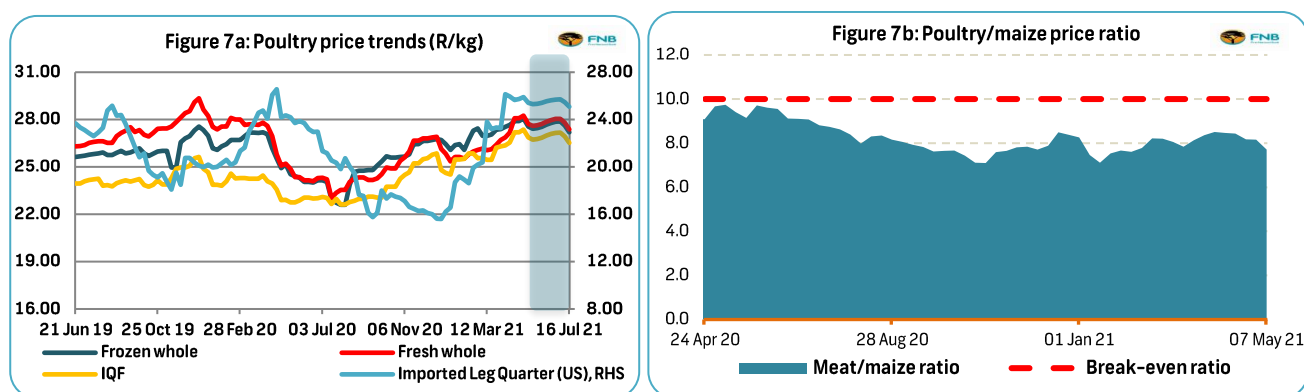
International poultry market update

- The USDA broiler production forecast for the US came in above the 2021 estimate underpinned by higher prices into 2022, but higher feed prices may limit further upswing. The recent surge in grain and oilseed producer has been a challenge for poultry producers as higher feed costs eroded margins.

Domestic poultry market update

- Poultry prices moved mostly sideways across the board last week, but fundamentals remain supportive for further upside.
- On the feeding front, there is no sign of improvement in the meat/maize ratio as the runaway maize prices continue to widen the gap between the break-even level and meat/maize ratio as illustrated in figure 5b. The meat/maize ratio is an indication of profitability in the industry.

Figure 5: Poultry prices and meat/maize ratio trends



*Last nine data points on figure 4a are preliminary

Table 5: Poultry producer price trends in South Africa

Week ending	Poultry market – South Africa					
	07 May 21	%Δ w/w	%Δ y/y	3-Year Avg	30 Apr 21	23 Apr 21
Fresh whole birds (R/kg)	28.25	0.6%	12.1%	7.0%	28.08	28.08
Medium Frozen whole birds (R/kg)	28.07	0.6%	11.6%	8.2%	27.90	27.90
Individually Quick Frozen (IQF) (R/kg)	27.36	0.6%	19.4%	11.4%	27.20	27.20
Import parity (R/kg)	25.89	0.6%	6.3%	6.5%	25.73	25.64

Source: USDA, JSE, FNB Agric

OUTLOOK

The short to medium term price outlook remains solid on the back of strength in the red meat market and tightening import volumes.

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