

how can we help you?

Livestock and Fibre markets

Brought to you by **FNB Business**

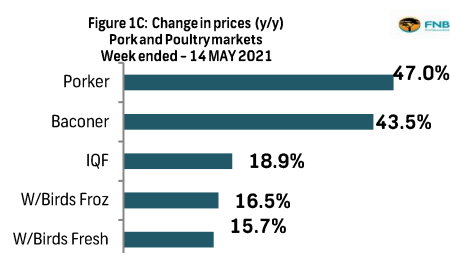
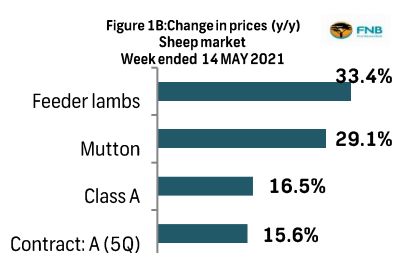
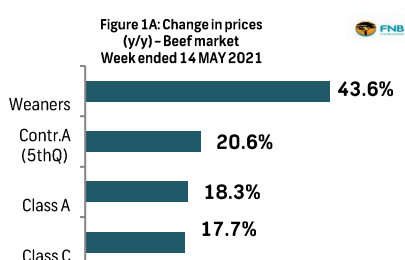


Paul Makube pmakube@fnb.co.za | Tumi Kgasago | Vhutshilo Mabela | 19 MAY 2021

UPDATE ON LIVESTOCK MARKETS

- The negative impact of the recent surge in world grain and oilseed prices continues to be felt down the value chain with margin squeeze for livestock feeders and the uptick in consumer inflation across the globe. The Food and Agriculture Organization has already confirmed a spike in international food prices with the meat category rising by 5.1% year-on-year (y/y) during April 2021.
- Faced with runaway consumer inflation on the back of the upswing in global agriculture commodity prices, Argentina recently imposed a 30-day export restriction on meat to stymie domestic price pressures ahead of the year-end elections.
- On company news, the biggest meat packer in the US Tyson has reported 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.
- Locally, the biggest poultry producer Astral Foods has recently reported a 37% drop in half-year earnings due to a combination of higher feed costs and increased competition from imports. Raw feed inputs such as maize and soybeans have remained elevated during the review period on the back of the spill over gains from the international market. At current levels of R3,225/ ton and R3,375/ ton respectively for white (WMAZ) and yellow maize (YMAZ), prices are 22% and 29% higher relative to the same period in 2020. Their world counterpart (US No2. YMAZ) is 100% higher y/y at US\$289/ ton.
- Nonetheless, recent developments in the world supply and demand dynamics 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.

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



Source: Own calculations from FNB AgriComms.

- 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.
- The yearly trend in livestock prices shows elevation across the board as reflected in figures 1A to 1C.
- This week saw further weakness in the grain markets due to a combination of easing prices internationally, a stronger rand and harvest pressure (table 1). This signals some improvement in feed costs in the near term which should provide some breather for the intensive livestock feeders.

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

18 MAY 21	WMAZ	change w/w	YMAZ	change w/w	SUNS	change w/w	SOY	% change w/w
Jul 21	R3 243	-5.8%	R3 396	-5.8%	R9 087	2.4%	R7 591	0.9%
Sep 21	R3 299	-5.6%	R3 446	-5.7%	R9 200	2.5%	R7 688	0.7%
Dec 21	R3 370	-5.9%	R3 518	-5.8%	R9 230	2.5%	R7 793	0.8%
Mar 22	R3 401	-5.4%	R3 499	-5.3%	R8 800	0.0%	R7 811	1.2%
May 22	R3 365	-2.7%	R3 298	-3.9%	-	-	R7 200	-0.7%

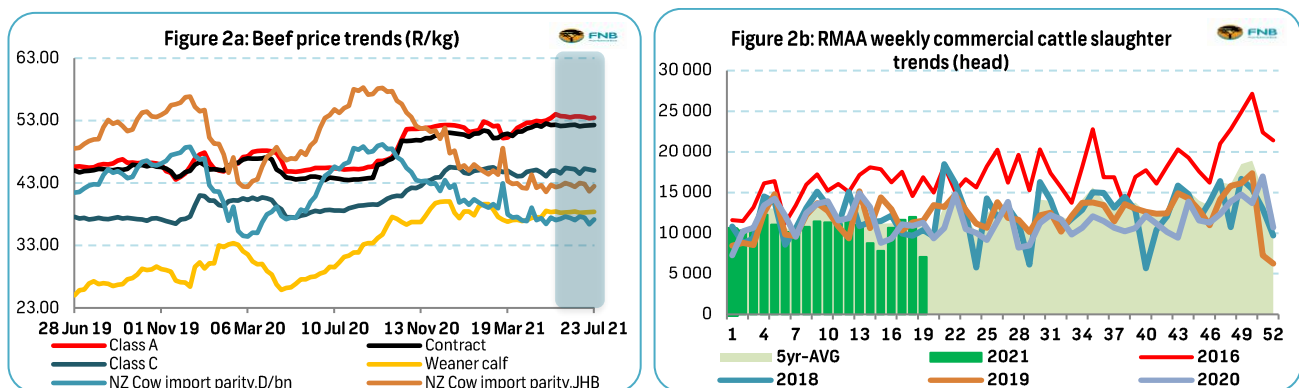
Source: JSE,

- Maize prices are now back below R3,500/ ton across most futures contracts for both WMAZ and YMAZ. However, livestock feeding margins remain under pressure at levels above R3 000/ ton for maize especially for YMAZ which continues to trade at a premium way above its white counterpart.
- The oilseed complex however remains firm with sunflower still at historical highs across the 2021 futures. 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.

International update on beef markets

- Shipping delays or logistical issues at ports in the West Coast continues to be a challenge for the US import market. The strength in US import prices continued backed by good demand and supply tightness. At wholesale level, US boxed beef values saw further gains with Choice and the Select categories up by over 3% w/w but still down by almost 33% y/y.
- US weekly beef export sales took a knock in last week's update, netting 17,700 tons which is back 4% week-on-week (w/w) 7% below the four-week average. Major destinations were Japan and South Korea both with shares of 48% of the total, followed by smaller quantities to China (2%), Mexico (1%), and Taiwan (1%).

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	14 May 21	% Δ w/w	% Δ y/y	3-Year Avg	07 May 21	30 Apr 21
Class A (R/kg)	53.01	0.3%	18.3%	11.7%	52.83	52.96
Class C (R/kg)	44.08	-1.3%	17.7%	10.0%	44.68	45.10
Contract: A (*Incl.5thQ)	52.54	1.0%	20.6%	12.2%	52.04	52.27
Import parity (R/kg)	41.58	-2.5%	-11.3%	-6.5%	42.63	42.26
Weaner calves (R/kg LW)	38.57	2.7%	43.6%	24.3%	37.54	37.54

LW – LiveWeight; *Fifth quarter. Source: USDA, JSE, FNB Agric

Domestic beef market update:

- It was a mixed bag in the beef market with class C easing slightly during 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 posted good gains on increased demand. The average weekly weaner calf prices closed 2.7% higher w/w and were almost 44% ahead of the same week in 2020 at R38.57/ kg live weight (LW), which is 24% above the 3-year average.

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

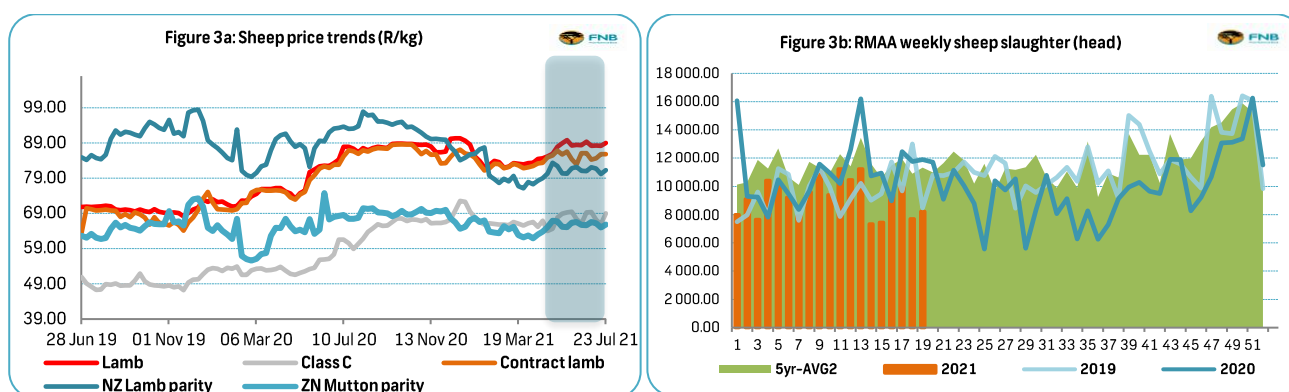
International sheep market update

- In Australia, favourable conditions with quality feed boosted lamb growth rates leading to higher production which is above-average since mid-March 2021. 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.
- In New Zealand, April lamb exports were reported modestly lower month-on-month (m/m) by 14,400 tons and 3000 tons below the five-year average. Although the shipments to China fell by 10,000 tons m/m in April to 15,000 tons it so far remains the largest destination with over 50,000 tons exported (Feb-Apr 2021) with all other regions below 20,000 tons.

Domestic sheep market update

- Weekly lamb and mutton prices retained the recent uptrend on the back of solid demand and limited availability. The current contract class A lamb and mutton prices are still up 16% and 29% respectively relative to last year and are both almost 15% and 20% 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	14 May 21	%Δ w/w	%Δ y/y	3-Year Avg	07 May 21	30 Apr 21
Class A (R/kg)	87.88	2.2%	16.5%	15.5%	85.96	85.21
Mutton (R/kg)	67.86	4.9%	29.1%	19.8%	64.68	64.05
Contract: A (*Incl.5thQ, R/kg)	86.80	1.6%	15.6%	15.0%	85.44	84.90
Import parity (R/kg)	82.46	-1.1%	-5.9%	-0.6%	83.39	80.28
Feeder lambs (R/kg LW)	45.78	3.8%	33.4%	22.3%	44.10	42.96

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

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

- Last week saw further gains on the US domestic market due to the combination of strong domestic and export demand. The weekly pork carcass cutout values closed almost 2% higher w/w to US\$114.47/cwt but were marginally down on last year. US pork exports for March 2021 reached a record of 294,724 tons valued at US\$794.9 million, up 1% and 4% respectively y/y.
- China is not only importing pork but also breeding pigs as it seeks to improve genetics and rebuild herds following serious challenges with the outbreaks of African Swine Fever (ASF). Genesus, the world's largest producer of purebred pigs has reportedly supplied a total of 1,030 purebred breeding pigs that were flown from the UK to China recently. China's pork imports surged by 16% y/y in March 2021 to 460,000 tons which raised the cumulative YTD total by 22% y/y to 1.16 million tons.

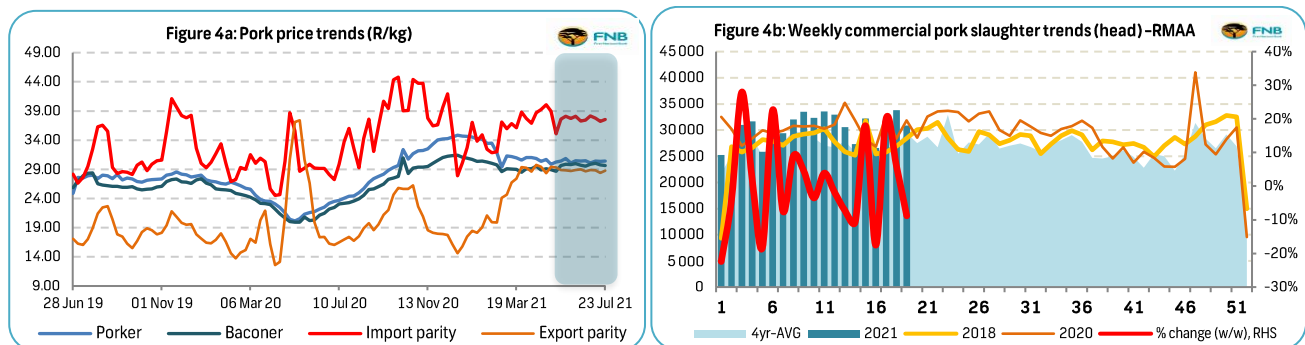
Domestic pork market update

- Last week saw a mixed trend in prices with baconers extending losses towards mid-month. The current pork and baconer prices are however still sharply higher by 47% and 44% respectively relative to the same week in 2020 and are 29% and 33% above the 3-year average for this time of the year.

Table 4: Pig producer prices and slaughter trends

Pork market – South Africa						
Date	14 May 21	%Δ w/w	%Δ y/y	3-Year Avg	07 May 21	30 Apr 21
Porker (R/kg)	30.23	1.3%	47.0%	28.5%	29.85	30.72
Baconer (R/kg)	28.64	-1.0%	43.5%	32.9%	28.93	29.10
Import parity (R/kg)	35.06	-10.1%	22.4%	11.9%	38.99	40.05

Source: USDA, JSE, FNB Agric

Figure 4: Pork prices and slaughter trends

*Last nine data points on figure 6a are preliminary

Source: RMAA

OUTLOOK

Although showing signs of easing lately, 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

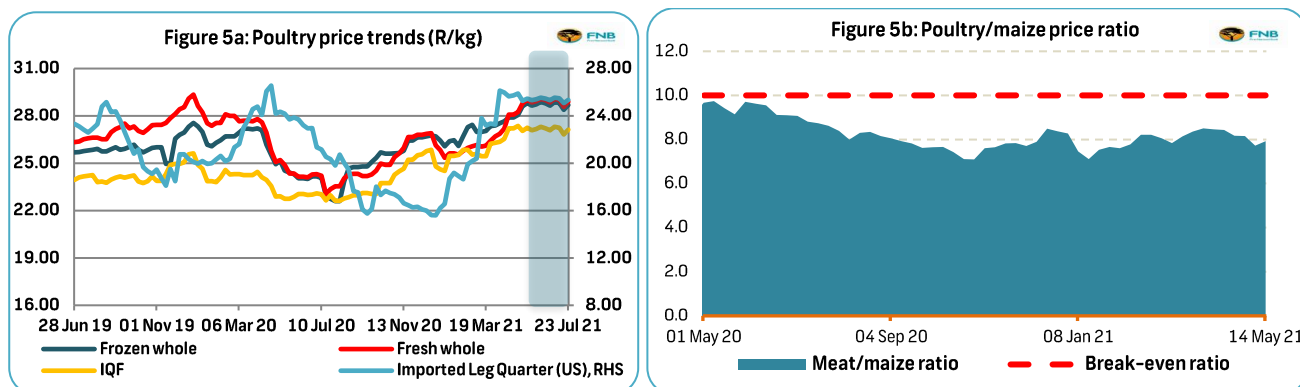
International poultry market update

- 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

- Except for the IQF category, poultry prices closed on the upside across the fresh categories. Although easing slightly w/w, IQF prices are almost 19% ahead of last year and 11% above the three-year average for this time of the year.
- Meanwhile, import parity prices came under downward pressure due to the renewed rand strength as the local unit is now at its best level since January 2020.
- On the feeding front, there is no sign of improvement in the meat/maize ratio as the maize prices remain high thereby maintaining a wider 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					
	14 May 21	%Δ w/w	%Δ y/y	3-Year Avg	07 May 21	30 Apr 21
Fresh whole birds (R/kg)	28.80	1.9%	15.7%	9.1%	28.25	28.08
Medium Frozen whole birds (R/kg)	28.60	1.9%	16.5%	9.6%	28.07	27.90
Individually Quick Frozen (IQF) (R/kg)	27.04	-1.2%	18.9%	10.7%	27.36	27.20
Import parity (R/kg)	25.28	-2.3%	4.6%	3.8%	25.89	25.73

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. Signs of easing maize prices augurs well for the potential reduction in feed costs in the medium to longer term.

Disclaimer:

This report may contain certain opinions, predictions and assumptions and has been compiled from a variety of sources. Accordingly, you use the information in this report ("this information") at your own risk and should not rely on it as a substitute for obtaining any specific professional advice you require. Accordingly, First National Bank, a division of FirstRand Bank Limited ("FNB") provides no warranties or undertakings of any kind, whether express, implied or otherwise, concerning this information, its accuracy and/or reliability. Neither FNB nor its holding company, subsidiaries or other group companies will be liable to you for any claims, demands, expenses, losses or damages, of whatsoever nature, which you may suffer or incur by using this information.

To find out more or to speak to one of our **agricultural specialists**, please contact us.

Name	City	Cell	Email
Grewar, Oosthuizen	Eastern Cape – Port Elizabeth	071 607 6850	grewar.oosthuizen@fnb.co.za
Edmund, De Beer	Eastern Cape – Port Elizabeth	084 656 5634	edebeer1@fnb.co.za
Fred, Terblanche	Eastern Cape – Graaff Reinet	064 500 5880	frederik.terblanche@fnb.co.za
Martin, Louw	Free State – Theunissen	082 784 8880	mlouw1@fnb.co.za
Chris, Bekker	Free State – Bloemfontein	082 560 1894	cbekker@fnb.co.za
Leon, Bergman	Free State – Bethlehem	083 387 7977	leon.bergman@fnb.co.za
Krohn, Jo-Ann	Free State – Bloemfontein	064 542 3548	Jo-Ann.Krohn@fnb.co.za
Voutsas, Philip	Gauteng – Sandton	082 820 4202	philip.voutsas@rmb.co.za
Da Silva, Kristin	Gauteng – Sandton	079 693 8268	Kristin.DaSilva@fnb.co.za
Greg, Sparrow	KwaZulu-Natal – Pietermaritzburg	071 684 8420	greg.sparrow@fnb.co.za
Sarah, van der Merwe	KwaZulu-Natal – Pietermaritzburg	082 371 1040	sarah.vandermerwe@fnb.co.za
Bertram, July	KwaZulu-Natal – Pietermaritzburg	061 518 7165	bertram.july@fnb.co.za
Strydom, Marc	KwaZulu-Natal – Pietermaritzburg	082 497 4781	mstrydom@fnb.co.za
Arno, De Klerk	Limpopo – Polokwane	082 538 5970	arno.deklerk@fnb.co.za
Theo, Verwey	Mpumalanga – Emalahleni	082 419 6086	tverwey@fnb.co.za
Gao, Ngakantsi	Mpumalanga – Emalahleni	072 471 6040	gaopalelwe.ngakantsi@fnb.co.za
Du Plessis, Hanro	Mpumalanga – Emalahleni	082 895 1762	hanro.duplessis@fnb.co.za
Pedrie, Van der Merwe	Northern Cape – Kimberley	071 351 3439	pedrie.vandermerwe@fnb.co.za
Johan, De Klerk	North West – Brits	082 776 3477	jdeklerk2@fnb.co.za
Johan, Beukes	Western Cape – Stellenbosch	082 372 4656	johan.beukes@fnb.co.za
Michelle, Swarts	Western Cape – Willowbridge	072 020 5181	michelle.Swarts@fnb.co.za
Andries, Van Zyl	Western Cape – Willowbridge	073 280 8703	andries.vanzyl@fnb.co.za

Disclaimer:

This report may contain certain opinions, predictions and assumptions and has been compiled from a variety of sources. Accordingly, you use the information in this report ("this information") at your own risk and should not rely on it as a substitute for obtaining any specific professional advice you require. Accordingly, First National Bank, a division of FirstRand Bank Limited ("FNB") provides no warranties or undertakings of any kind, whether express, implied or otherwise, concerning this information, its accuracy and/or reliability. Neither FNB nor its holding company, subsidiaries or other group companies will be liable to you for any claims, demands, expenses, losses or damages, of whatsoever nature, which you may suffer or incur by using this information.