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Livestock and Fibre markets

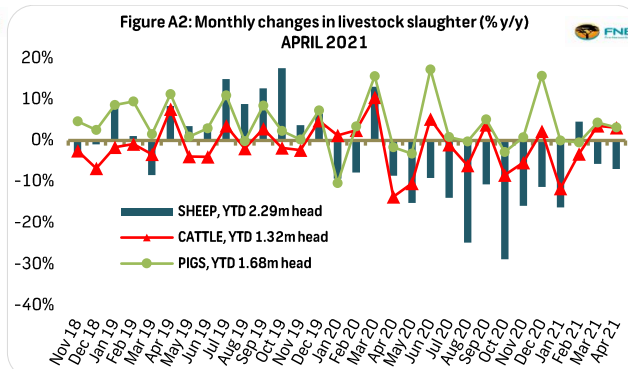
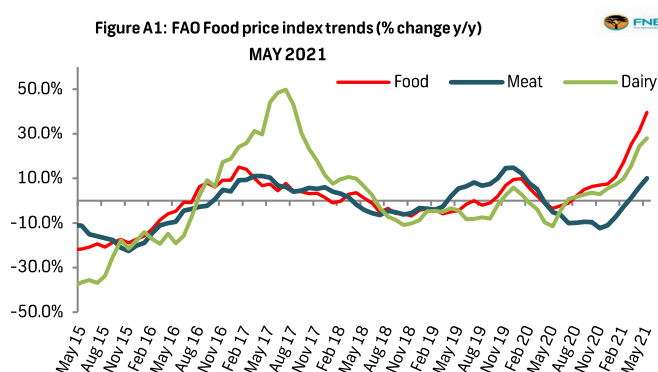
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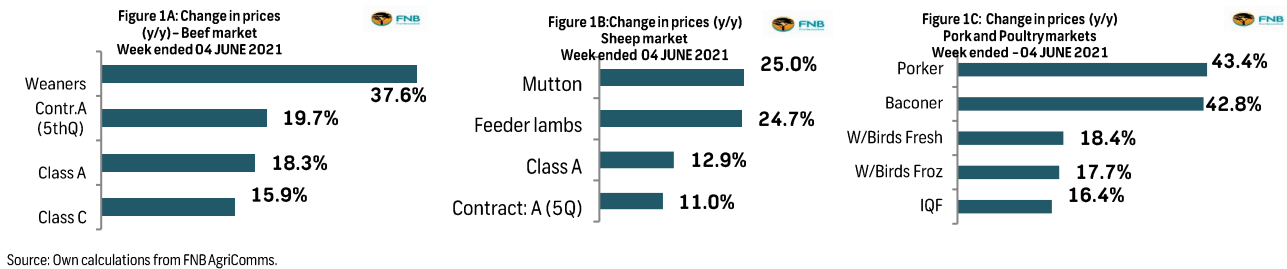
Paul Makube pmakube@fnb.co.za | Tumi Kgasago | Vhutshilo Mabela | 11 JUNE 2021

UPDATE ON LIVESTOCK MARKETS

- The latest update from the Food and Agriculture Organization (FAO) is that global food prices skyrocketed in May due to a combination of tightening stocks and strong demand for most agriculture commodities. The FAO May 2021 food price index rose by 4.8% month-on-month (m/m) and sharply higher by 39.7% year-on-year (y/y) at 127.1 points which reflects the biggest and a twelfth consecutive monthly gain since October 2010 and September 2011 respectively.
- In the animal protein complex, the FAO meat price index posted the eighth monthly gain of 2.2% m/m to 2.3 points which is 10% higher y/y. Contribution to the increase in the meat price index was across meat types underpinned by the strong import demand from Asia and tightening global stocks with livestock slaughter taking a nosedive in some regions. The dairy price index rose by 1.5% m/m and a whopping 28% y/y due to the combination of tight stocks and surging demand in the skim milk powder and cheese categories in the EU with China raising its appetite for whole milk powder.
- Locally, South Africa's agriculture GDP numbers for the first quarter of 2021 came in on the downside by 3.2% quarter-on-quarter (q/q) seasonally adjusted and annualised with declines for the animal products and field crop categories. Livestock slaughter, an indicator for availability of domestic animal products, saw a contraction of almost 4% and 6% y/y respectively for the cattle and sheep categories in the 1st quarter of 2021 while pig numbers were slightly up by 1.5% y/y (see figure A2). For the current slaughter season (NOV-OCT), the cumulative cattle and sheep slaughter to April 2021 fell by 1.6% and 9.6% respectively relative to the same period last season.
- Consequently, the combination of limited availability and the resilient consumer demand helped maintain prices in the meat complex elevated across the board with the pork and baconer categories being the biggest gainers as illustrated in figure 1.



Source: Own calculations from FAO (fig.A1) and Red Meat Levy Admin (fig.A2) data.

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

- In the grains markets, the recent world production outlook for major grain such as maize has improved which is a positive development as prices are likely to cool off from the lofty highs. The USDA World Agriculture Supply and Demand Estimates (WASDE) report for June 2021 pegged the 2021/22 world maize production output and ending stocks estimates slightly higher y/y at 1.19 billion tons and 289.4 million tons respectively. Although slightly down on the May estimate, the 2021/22 world maize ending stocks are 9 million tons higher y/y. The expected moderation in maize prices will be beneficial to livestock feeders across the world as the crop is a major feed ingredient and therefore a huge influence on profitability.
- Local grain prices remain elevated which means feed costs are unlikely to ease in the short term. Maize prices are back stubbornly above the R3300/ ton level while soybeans edged just above R7 500/ ton (table 1). High feed costs will continue to test the profitability of intensive livestock feeding systems given the huge contribution to operations.

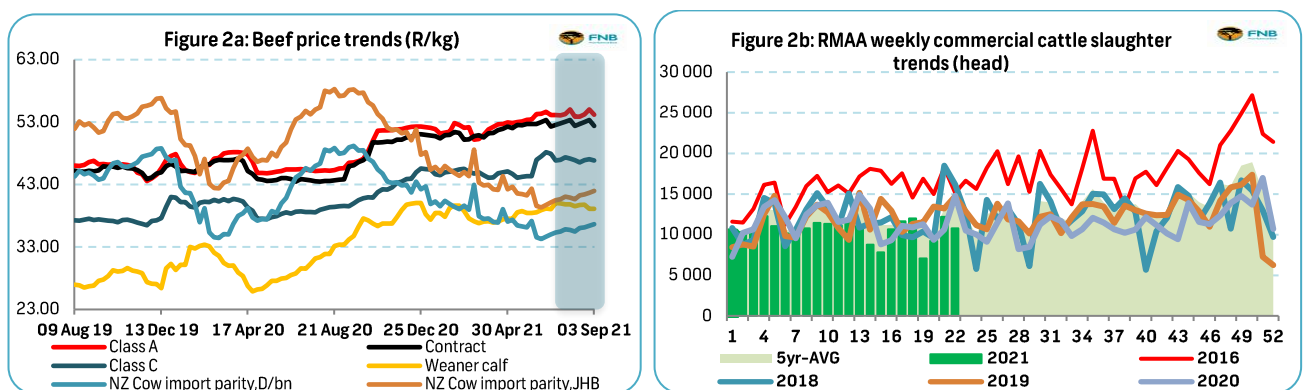
Table 1: Raw feed inputs – Latest price trends in JSE grain and oilseed futures market (R/ton)

10 JUNE 2021	WMAZ	change w/w	YMAZ	change w/w	SUNS	change w/w	SOY	% change w/w
Sep 21	R3 372	2.0%	R3 508	2.3%	R8 622	-3.1%	R7 491	0.5%
Dec 21	R3 450	1.9%	R3 587	2.2%	R8 686	-2.0%	R7 586	0.4%
Mar 22	R3 469	1.8%	R3 567	1.9%	R8 456	-2.2%	R7 586	0.2%
May 22	R3 373	0.4%	R3 380	2.8%	-	-	R7 270	3.6%
Jul 22	R3 379	2.1%	R3 430	3.2%	-	-	-	-

Source: JSE.

International update on beef markets

- The US import market saw further gains on the back of good demand amid tight supplies from traditional suppliers as slaughter numbers eased. At wholesale level, domestic US boxed beef values saw further gains in last week's trade with Choice and the Select categories both closing almost 14% higher y/y, while the CME feeder cattle index advanced by 10%.

Figure 2: Beef prices and cattle slaughter trends

*Last nine data points on figure 2a are preliminary

Source: RMAA

Table 2: Beef producer price trends in South Africa

Beef producer prices: Beef market – South Africa						
Date	04 Jun 21	% Δ w/w	% Δ y/y	3-Year Avg	28 May 21	21 May 21
Class A (R/kg)	53.40	0.1%	18.3%	11.3%	53.34	53.10
Class C (R/kg)	44.35	0.1%	15.9%	10.5%	44.32	44.25
Contract: A (*Incl.5thQ)	52.70	0.0%	19.7%	11.9%	52.68	52.50
Import parity (R/kg)	42.37	2.7%	-13.5%	-7.5%	41.59	41.49
Weaner calves (R/kg LW)	38.46	0.0%	37.6%	24.7%	38.46	38.76

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

Domestic beef market update:

- Beef prices continued to trend sideways but still at best levels on the back of the resilient domestic demand and supply tightness 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 steadied last week with limited uptake and seasonal supply pressures from the recent weaning limiting further upside. The average weekly weaner calf prices are still 38% ahead of the same week in 2020 at R38.46/ kg live weight (LW), which is 25% above the 3-year average.

OUTLOOK

Seasonal demand pressures are yet to manifest, and this has helped prices remain elevated. 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

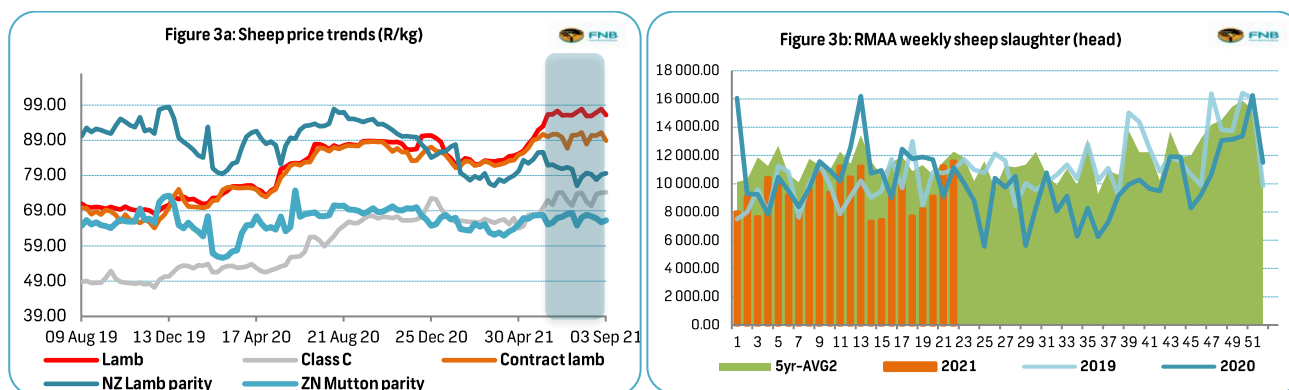
International sheep market update

- New Zealand lamb and mutton prices continued to trend higher on the back of limited availability and increased processor demand. However, there are concerns over the mutton slaughter for the longer-term lamb supplies. On the export front, lamb prices increased significantly in April with average export value of NZ\$10.42/kg which is way above long-term trend but still below the 2020 levels. Strong Chinese demand remains supportive with frozen cut values reaching best levels.

Domestic sheep market update

- Weekly lamb and mutton prices retained the recent uptrend on the back of solid month end demand and limited availability. The current contract class A lamb and mutton prices are still up 11% and 25% respectively relative to last year and are both almost 15% and 19% 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	04 Jun 21	% Δ w/w	% Δ y/y	3-Year Avg	28 May 21	21 May 21
Class A (R/kg)	92.98	1.2%	12.9%	14.5%	91.88	89.44
Mutton (R/kg)	69.82	2.8%	25.0%	19.4%	67.95	67.90
Contract: A (*Incl. 5th Q, R/kg)	90.74	1.3%	11.0%	15.0%	89.57	88.96
Import parity (R/kg)	85.60	0.0%	-4.6%	1.0%	85.58	83.58
Feeder lambs (R/kg LW)	49.38	2.2%	24.7%	21.8%	48.30	47.98

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.

Weekly pork market*International pork market update*

- The US domestic pork market posted further gains due to the combination of strong domestic and export demand. The USDA has recently lowered its expectation of the US pork production due to the reduction in carcass weights that more than offset higher slaughter pace. The US YTD pig slaughter is already 1.8% ahead of last year at 55.57 million head.

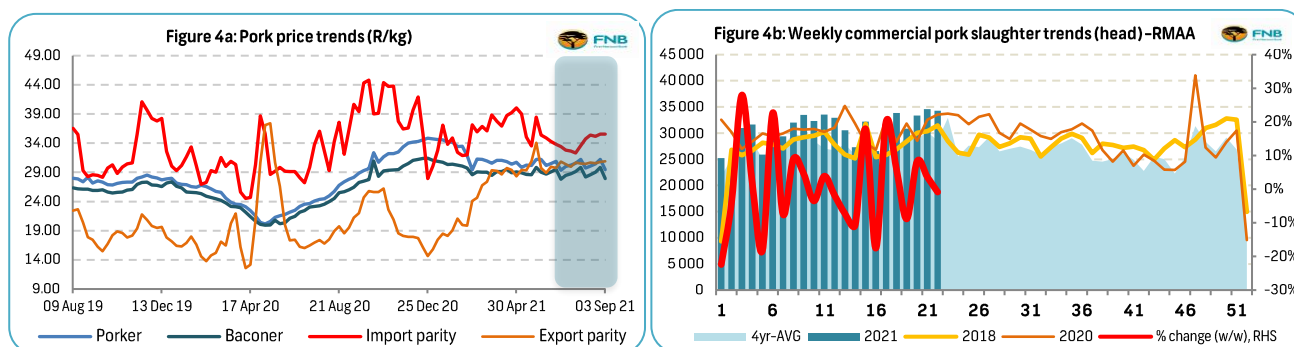
Domestic pork market update

- Last week saw pork and baconers retaining the firmer trend on good uptake across markets. The current pork and baconer prices are both sharply higher by 43% relative to the same week in 2020 and are 33% and 35% above the 3-year average for this time of the year.

Table 4: Pig producer prices and slaughter trends

	Pork market – South Africa					
Date	04 Jun 21	% Δ w/w	% Δ y/y	3-Year Avg	28 May 21	21 May 21
Porker (R/kg)	31.20	-0.1%	43.4%	32.6%	31.24	30.20
Baconer (R/kg)	29.05	-2.7%	42.8%	34.8%	29.86	28.60
Import parity (R/kg)	35.39	-8.0%	21.2%	12.9%	35.67	33.52

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

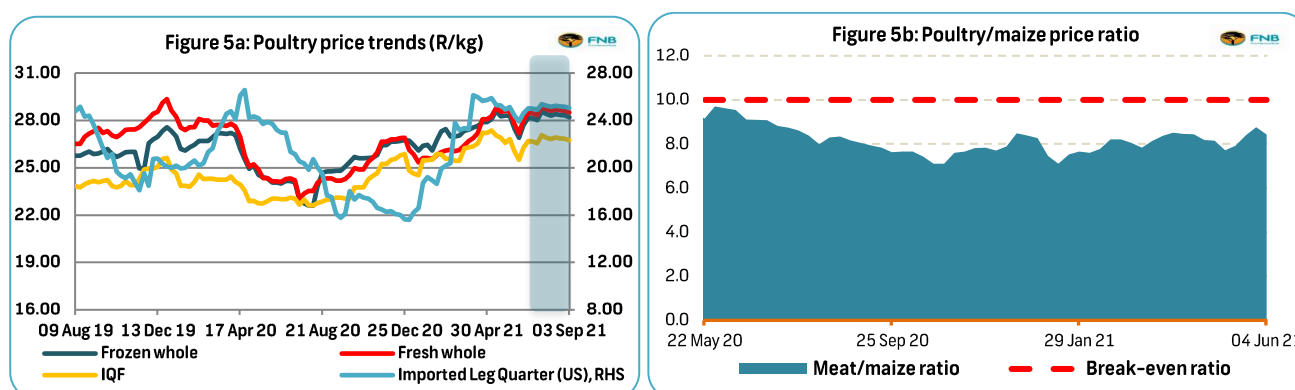
International poultry market update

- The US poultry market saw further gains in the mechanically separated chicken (MSC, 15–20%) for both the fresh and frozen categories. The weekly frozen MSC prices were 2.2% w/w and 103% higher y/y on the back of contraction in volumes. The fresh category posted even bigger gains of almost 8% w/w and 116% y/y as volumes fell sharply by 34% w/w and 77% y/y.

Domestic poultry market update

- Poultry prices have moved relatively sideways recently on spill over support from the red meat market. In the IQF segment, prices are 16% ahead of last year and 9% above the three-year average for this time of the year.
- In the whole bird segment, prices surged by almost 18% for both the frozen and fresh categories relative to the 2020 levels and 9% above the 3-yr average.
- Meanwhile, the recent rand appreciation has helped limit further upside in import parity prices which came in 8% lower w/w/. However, the surge in international y/y raised the import parity level by 22% from last year and now almost 13% above the 3-year average for this time of the year.
- On the feeding front, there is no sign of improvement in the meat/maize ratio as the maize prices remain high thereby maintaining a 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 of feeding chicken 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					
	04 Jun 21	%Δ w/w	%Δ y/y	3-Year Avg	28 May 21	21 May 21
Fresh whole birds (R/kg)	28.60	0.0%	18.4%	8.6%	28.60	28.54
Medium Frozen whole birds (R/kg)	28.30	0.0%	17.7%	9.2%	28.30	28.25
Individually Quick Frozen (IQF) (R/kg)	26.82	0.9%	16.4%	9.1%	26.58	26.89
Import parity (R/kg)	25.14	0.9%	6.0%	3.1%	24.92	25.27

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. Disease challenges remain a concern for the industry following the recent outbreak of the avian influenza in Gauteng.

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