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Livestock and Fibre markets

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Paul Makube pmakube@fnb.co.za | Tumi Kgasago | Vhutshilo Mabela | 23 JUNE 2021

UPDATE ON LIVESTOCK MARKETS

- The latest Statistics South Africa (StatsSA) update on inflation showed a rapid acceleration in consumer price inflation (CPI) in May 2021 to a 30-month high of 5.2%, which is now back above the midpoint and drifting towards the upper end of the Reserve Bank's target range of 3% to 6%. However, Core inflation remained below the midpoint of the target range at 3.1% which highlights the impact of food and fuel price hikes on inflation in May 2021 to a 30-month high of 5.2% and now back above the midpoint and drifting towards the upper end of the Reserve Bank's target range of 3% to 6% (see figure A1).
- At 6.7% year-on-year (y/y), food and non-alcoholic beverages (FNAB) reached the highest level since July 2017 with the food category alone coming in even higher at 6.8% (figure A1). However, both decelerated by 0.7% month-on-month (m/m) in May 2021 due to easing price pressures in the grain, fruit, and vegetables markets.
- The meat inflation for May 2021 surprised on the upside and jumped 8.5% y/y from 7.1% in April and has remained outside the upper end of the SARB target for eight consecutive months (figure A). The monthly meat inflation however slowed to 1.2% m/m from 1.4% recorded during April 2021.
- A further drilldown on the meat complex by type shows sharp gains for chuck, T-bone, and sirloin in the beef category with increases of 22%, 21%, and 20% respectively y/y, while rump steak and fillet fell by 5% and 12% respectively y/y (figure A3). For mutton and lamb, the biggest gainers were stew and neck with increases of 33% and 7% respectively y/y. In the pork category, the price of chops rose sharply by 14% y/y while fillet posted a corresponding decrease of 15% y/y (figure A4).
- In the case of chicken, the price of the highly traded IQF portions (2kg) surged by 20% y/y and 19.1% m/m at R42.59/kg. Fresh whole bird prices also posted strong gains, coming in sharply higher by 17% y/y but still on the downside m/m with a decrease of 7.2% m/m in May 2021 after falling by 2.1% m/m in April 2021. Giblets which include necks, gizzards, hearts, and feet posted good gains on the back of strong demand, closing 10.8% higher m/m in May 2021 (figure A6).

Figure A1: StatsSA Food price trends (% change y/y)
Beef - MAY 2021

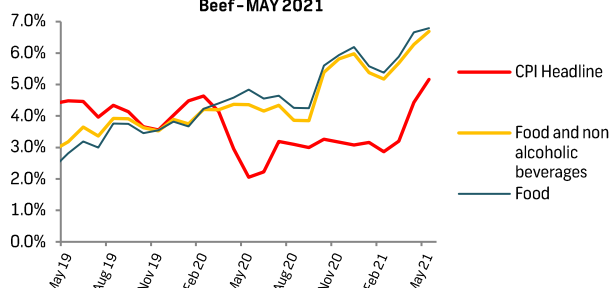


Figure A2: StatsSA Food price trends (% change y/y)
Beef - MAY 2021

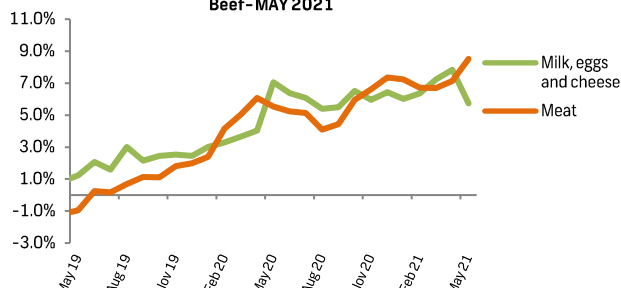


Figure A3: StatsSA Food price trends (% change y/y)

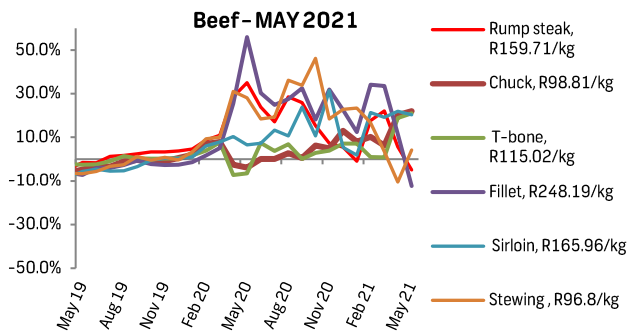


Figure A4: StatsSA Food price trends (% change y/y)

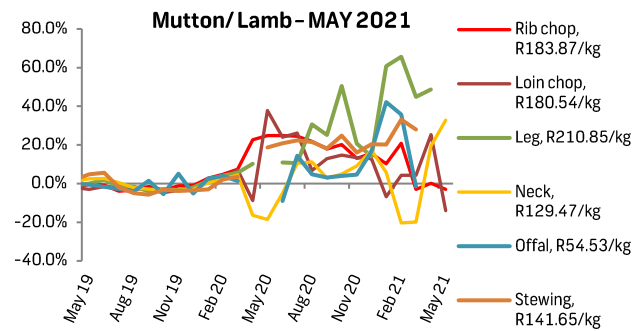


Figure A5: StatsSA Food price trends (% change y/y)

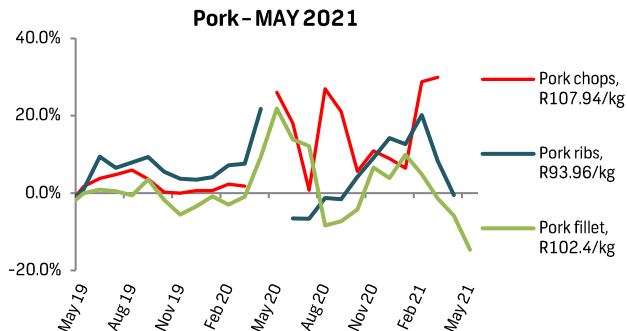
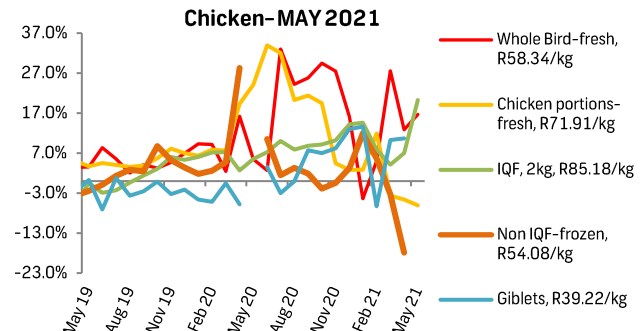


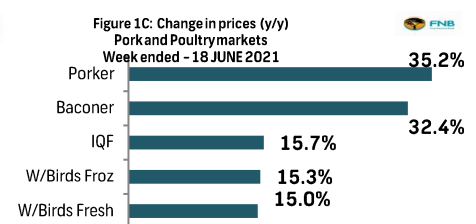
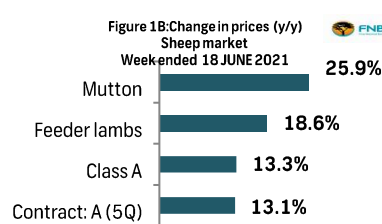
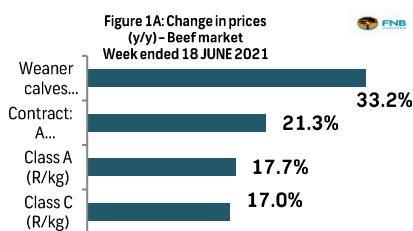
Figure A6: StatsSA Food price trends (% change y/y)



Source: Own calculations StatsSA data.

- Last week saw prices trending mostly sideways to lower across the livestock market as demand was subdued during midmonth. The weaner market retained a firmer tone with calves advancing 1% relative to the week earlier while lambs steadied. However, at R37.96/kg live weight (LW), weaner calf prices were 33% higher y/y and almost 25% above the 3-year average for this time of the year. Feeder lambs were almost 19% and 17% higher respectively relative to the 2020 levels and the 3-year average at R48.08/kg LW as illustrated in figure 1.

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



Source: Own calculations from FNB AgriComms.

- Interesting developments on the grain markets is that maize prices have started cooling off from the recent highs with nearby futures already below R3,200/ ton for the WMAZ. Although the YMAZ is still above this level, they have shown signs of further moderation.
- The current levels are still not good enough to effect good margins for feeders (table 1). High feed costs will continue to test the profitability of intensive livestock feeding systems given the huge contribution to operations.

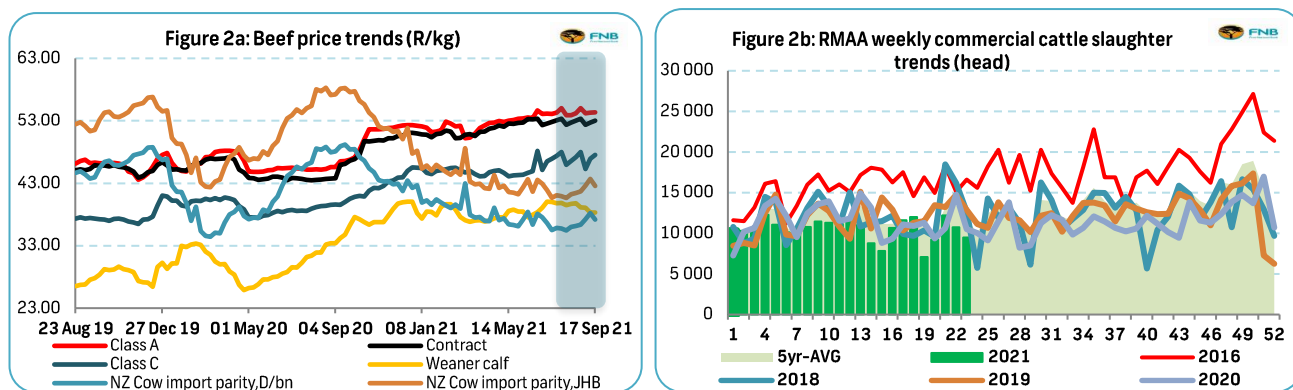
Table 1: Raw feed inputs – Latest price trends in JSE grain and oilseed futures market (R/ton)

23 JUNE 2021	WMAZ	change w/w	YMAZ	change w/w	SUNS	change w/w	SOY	% change w/w
Sep 21	R3 089	-4.2%	R3 228	-3.8%	R8 190	-2.3%	R7 136	-1.1%
Dec 21	R3 166	-4.1%	R3 305	-3.8%	R8 280	-2.0%	R7 224	-1.3%
Mar 22	R3 185	-4.2%	R3 293	-3.6%	R8 136	-2.1%	R7 264	-1.7%
May 22	R3 149	-4.7%	R3 140	-3.8%	R7 470	-	R6 950	-2.1%
Jul 22	R3 135	-3.1%	R3 154	-3.3%	-	-	-	-

Source: JSE,

International update on beef markets

- The US import market saw the price of imported beef trending mostly sideways with limited upside in slow trading amid heavy domestic availability.
- US domestic wholesale boxed beef values extended losses in last week's trade with Choice and the Select categories falling by 2.5% and 5% respectively week-on-week (w/w) but still sharply higher by almost 50% and 40% y/y. In the cattle market, volume of slaughter fell sharply by 91% respectively w/w and y/y at 57,000 head which brought the year to date number to 646,000 head which is still down by 96% y/y.

Figure 2: Beef 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	18 Jun 21	% Δ w/w	% Δ y/y	3-Year Avg	11 Jun 21	04 Jun 21
Class A (R/kg)	53.45	-0.1%	17.7%	10.9%	53.52	53.40
Class C (R/kg)	44.90	0.6%	17.0%	11.5%	44.65	44.35
Contract: A (*Incl. 5thQ)	53.25	-0.1%	21.3%	12.6%	53.30	52.70
Import parity (R/kg)	41.64	-4.6%	-19.7%	-11.7%	43.11	42.37
Weaner calves (R/kg LW)	37.96	1.1%	33.2%	24.7%	37.54	38.46

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

Domestic beef market update:

- Beef carcass prices continued to trend sideways to firmer but still at best levels relative to last year.
- Producers continue to 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.

OUTLOOK

Despite seasonal pressure due to weaning, the weaner calf market remains robust and prices are yet to fall closer to the R30/kg LW level. 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, limited availability due to inclement weather helped lift domestic lamb and mutton prices on markets. Strong demand from processors added to the firmer tone.

Domestic sheep market update

- Weekly lamb and mutton prices trended sideways as demand slipped during midmonth. The current contract class A lamb and mutton prices are however still up 13% and 26% respectively relative to last year and are both almost 17% and 20% above the 3-year average for this time of the year.

Figure 3: Lamb and mutton prices and sheep slaughter trends

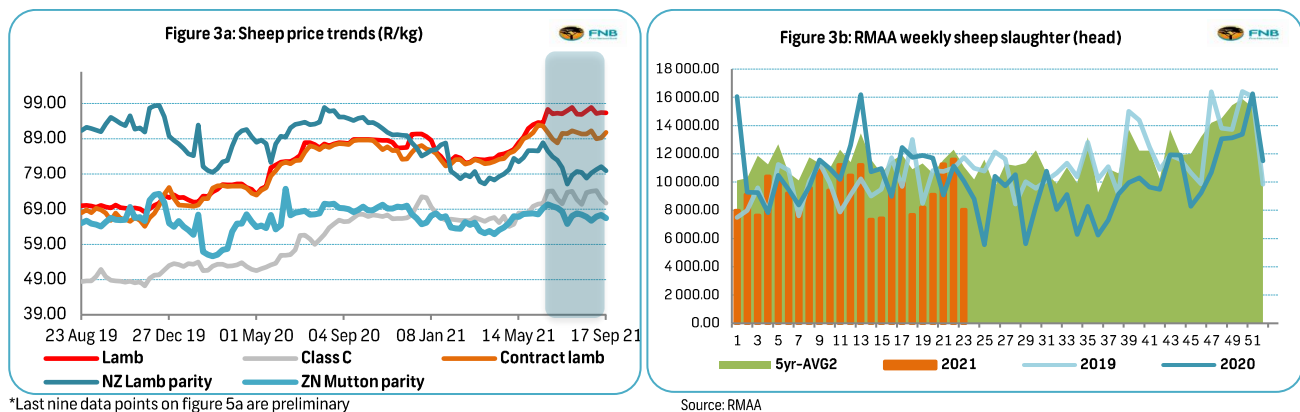


Table 3: Sheep producer price trends in South Africa

Sheep market – South Africa						
Date	18 Jun 21	%Δ w/w	%Δ y/y	3-Year Avg	11 Jun 21	04 Jun 21
Class A (R/kg)	93.45	-0.2%	13.3%	14.2%	93.62	92.98
Mutton (R/kg)	70.58	0.2%	25.9%	19.5%	70.45	69.82
Contract: A (*Incl. 5thQ, R/kg)	92.60	-0.3%	13.1%	16.8%	92.85	90.74
Import parity (R/kg)	87.89	2.7%	-4.5%	0.7%	85.56	85.60
Feeder lambs (R/kg LW)	48.08	0.0%	18.6%	17.1%	48.08	49.38

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

OUTLOOK

We expect near-term prices to maintain a sideways to firmer trend in the near term but with increased upside as we head into the warmer months in three months ahead.

Weekly pork market

International pork market update

- The US domestic pork market saw a reversal in trend in last week's trade on slow trading and limited uptake despite a contraction in volumes. The weekly pork carcass cutout values fell by 8% w/w and but still 90% higher y/y at US\$123.44/ cwt. As with cattle, pig slaughter was sharply down by 88% w/w and y/y respectively at 292,000 heads with the YTD number down by 96% y/y at 2.59 million head.
- 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.

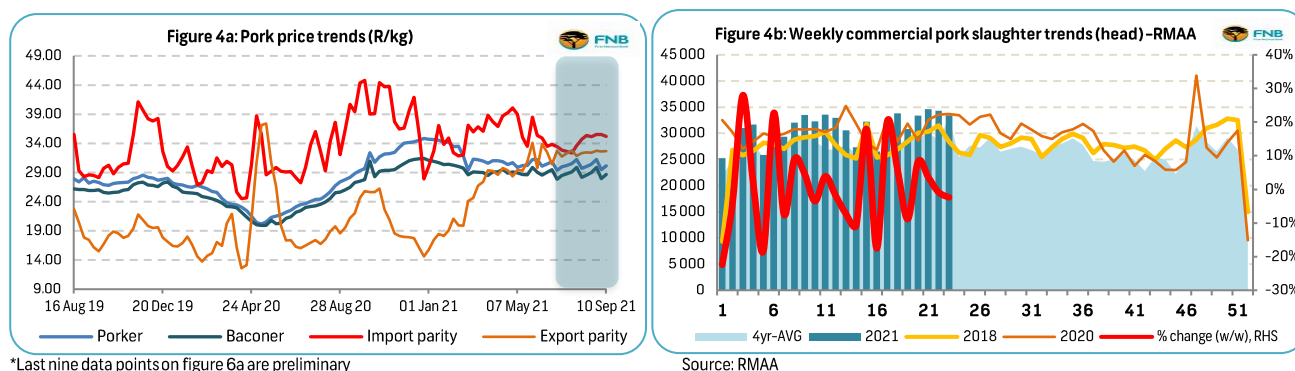
Domestic pork market update

- Last week saw a mixed trend in the pig market with porkers retaining recent gains while baconers eased during midmonth. The current pork and baconer prices are however both sharply higher by 35% and 32% relative to the same week in 2020 and are 28% and 32% above the 3-year average for this time of the year.

Table 4: Pig producer prices and slaughter trends

Pork market – South Africa						
Date	18 Jun 21	% Δ w/w	% Δ y/y	3-Year Avg	11 Jun 21	04 Jun 21
Porker (R/kg)	30.42	1.0%	35.2%	29.3%	30.12	31.20
Baconer (R/kg)	28.40	-0.5%	32.4%	31.8%	28.54	29.05
Import parity (R/kg)	32.86	-5.9%	12.7%	4.8%	34.92	35.39

Source: USDA, JSE, FNB Agric

Figure 4: Pork prices and slaughter trends**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 pork prices improve in the medium term as demand gains traction in the warmer months ahead.

Weekly poultry market update*International poultry market update*

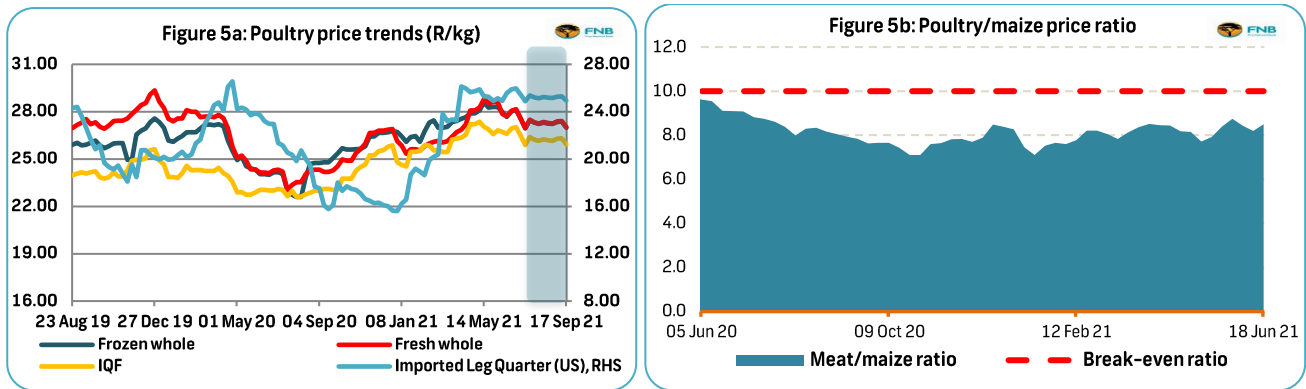
- The US poultry market saw the price of the frozen mechanically separated chicken (MSC, 15–20%) increasing by 3.8% w/w and almost 102% ahead of the 2020 levels. The fresh whole bird prices however fell by 10% w/w but were still 88% higher y/y. In the whole bird category, prices were mostly down across the board with the lighter weights being the biggest gainers. The average prices eased marginally lower by 0.8% w/w at US106.98 cents/lb.

*Domestic poultry market update***Table 5: Poultry producer price trends in South Africa**

Poultry market – South Africa						
Week ending	18 Jun 21	% Δ w/w	% Δ y/y	3-Year Avg	18 Jun 21	% Δ w/w
Fresh whole birds (R/kg)	27.71	-0.5%	15.0%	6.2%	27.71	-0.5%
Medium Frozen whole birds (R/kg)	27.68	-1.1%	15.3%	7.3%	27.68	-1.1%
Individually Quick Frozen (IQF) (R/kg)	26.60	-0.4%	15.7%	8.6%	26.60	-0.4%
Import parity (R/kg)	25.57	2.7%	11.4%	5.0%	25.57	2.7%

Source: USDA, JSE, FNB Agric

Figure 5: Poultry prices and meat/maize ratio trends



*Last nine data points on figure 4a are preliminary

- Poultry prices saw further losses across the board under pressure due to the subdued demand during midmonth.
- On the feeding front, raw feed prices are yet to fall to acceptable levels to significantly lift the meat/maize ratio. The current maize prices are relatively high thereby maintaining a wide 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.

OUTLOOK

We expected prices to retain the current momentum in the short term, but the return of warmer months ahead will help lift demand.

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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
Humphreys, Freddy	Free State – Bloemfontein	060 975 0273	freddy.humphreys@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

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