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Livestock and Fibre markets

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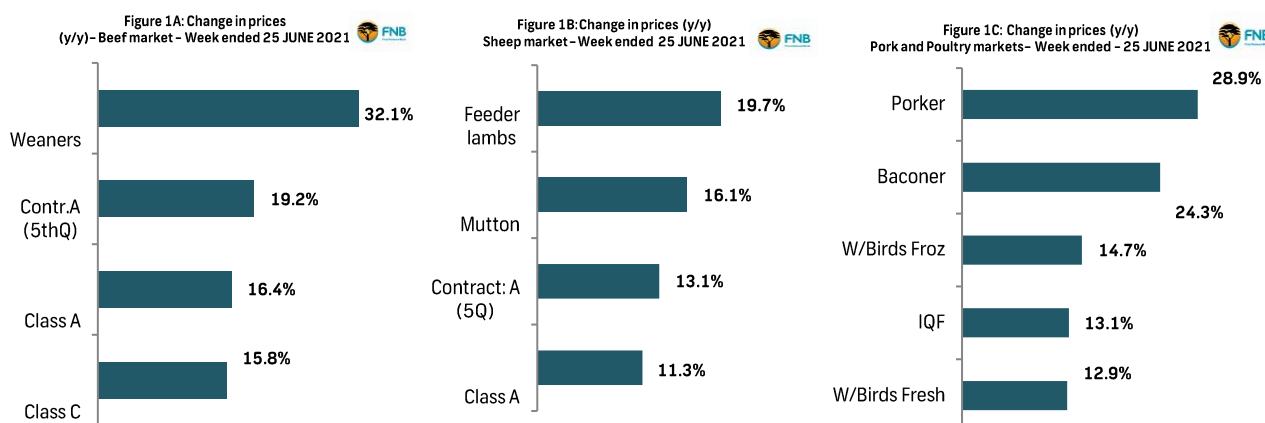


Paul Makube pmakube@fnb.co.za | Tumi Kgasago | Vhutshilo Mabela | 07 JUL 2021

UPDATE ON LIVESTOCK MARKETS

- After experiencing the African Swine Fever (ASF) induced supply tightness of pork and a subsequent surge in imports, China's production has been on the mend in the past three months to June according to the USDA's latest update. This has led to increased volatility and downward pressure on the domestic pork prices necessitating some intervention by authorities.
- Lower prices have discouraged producers to hold on a bit longer and embarked on herd liquidation especially in the small-medium categories amid high raw feed input costs. This has negative implications for domestic production in the medium term with shortages mostly met by imports thereby boosting international prices.
- Citing data from the China's Agriculture Ministry, the USDA indicated live hog prices reached about RMB13/kg early in June 2021 which is down 63% from the peak of RMB35/kg in January 2021. Prices have been on consistent downtrend since the beginning of the year. With expectations of a 5% year-on-year (y/y) drop in the country's soybean production, China is China's appetite for important plant protein source will remain strong for the remainder of the year.
- On the domestic market, prices were mostly sideways across most commodities tracked except for lamb and mutton that retained the firmer trend on the back of limited availability and resilient demand during the week of month end. At current levels, meat prices remain way above last year by double-digit margins as illustrated in figure 1.

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



Source: Own calculations from FNB AgriComms.

Raw feed input price update

- Recent developments on the international market is that weather turned positive for the US crops placing downward pressure on prices. This week saw futures falling across the board by mid-week with maize almost 10% down w/w while the soybean complex saw declines of 5% for soybean and soymeal respectively as reflected in table 1.

Table 1: International prices of raw feed inputs for livestock

07 JUL 2021	Maize (US\$/ton)		Soybean (US\$/ton)			Soymeal (US\$/ton)		
Sep 21	213.78	-9.4%	Sep 21	489.65	-5.4%	Sep 21	360.4	-4.9%
Dec 21	209.21	-9.8%	Nov 21	487.67	-5.1%	Oct 21	361.3	-4.6%
Mar 22	212.21	-9.5%	Jan 22	489.28	-4.9%	Dec 21	364.9	-4.4%
May 22	214.18	-9.4%	Mar 22	482.52	-4.3%	Jan 22	365.2	-3.9%
Jul 22	214.10	-9.3%	May 22	480.39	-4.2%	Mar 22	362.4	-3.1%

Source: CME

- On the domestic market, the slight rand weakness helped maintain prices on the upside. Yellow maize remains stubbornly elevated above R3,300/ ton which erodes feeding margins as it is the main ingredient in feed (table 1). High feed costs will continue to test the profitability of intensive livestock feeding systems given the huge contribution to operations.

Table 2: Raw feed inputs – Latest price trends in JSE grain and oilseed futures market (R/ton)

07 JUL 2021	WMAZ	change w/w	YMAZ	change w/w	SUNS	change w/w	SOY	% change w/w
Sep 21	R3 167	1.2%	R3 308	1.8%	R8 541	0.4%	R7 350	2.1%
Dec 21	R3 236	1.1%	R3 378	1.6%	R8 600	0.4%	R7 445	1.9%
Mar 22	R3 256	1.0%	R3 368	1.4%	R8 356	0.7%	R7 490	2.3%
May 22	R3 194	0.3%	R3 205	0.8%	R7 600	0.7%	R7 200	2.9%
Jul 22	R3 179	0.3%	R3 197	-	-	-	-	-

Source: JSE

International update on beef markets

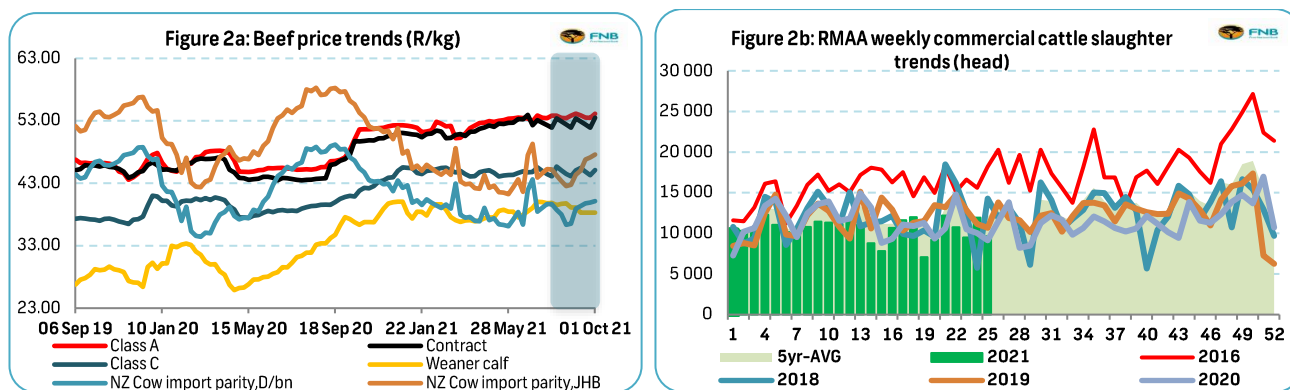
- The US domestic wholesale boxed beef values remained under pressure and decreased further in last week's trade with Choice and the Select categories falling by 6.8% and 3.2% respectively week-on-week (w/w) but still sharply higher by almost 41% and 35% y/y at US\$291/cwt and US\$269/cwt.
- In the cattle market, the CME cattle feeder index eased marginally w/w but sharply higher by 12% y/y at US\$146/cwt. Cattle slaughter numbers fell 6% w/w ahead of the long holiday weekend at 623,000 head but still 7% ahead of last year. For the YTD, US cattle slaughter is 6% ahead on the 2020 levels.
- In Brazil, the benchmark contract for difference (CFD) saw further losses and closed last week marginally down by 102% w/w at BRL20.30/ kg after reaching a 12-month peak of BRL21/kg.

Table 3: Beef producer price trends in South Africa

Beef producer prices Beefmarket – South Africa						
Date	02 Jul 21	% Δ w/w	% Δ y/y	3-Year Avg	25 Jun 21	18 Jun 21
Class A (R/kg)	52.93	-0.9%	16.4%	10.2%	53.40	53.45
Class C (R/kg)	44.80	0.1%	15.8%	11.0%	44.76	44.90
Contract: A (*Incl.5thQ)	52.29	-3.1%	19.2%	11.1%	53.95	53.25
Import parity (R/kg)	49.31	3.8%	-8.5%	-2.5%	47.50	41.64
Weaner calves (R/kg LW)	39.06	1.5%	32.1%	25.1%	38.50	37.96

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

Figure 2: Beef prices and cattle slaughter trends



*Last nine data points on figure aa are preliminary

Source: RMAA

Domestic beef market update:

- Beef carcass prices softened for class A categories while class C beef remained firm on good uptake.
- The weaner market continues to post good gains on the back of limited availability. The weekly average weaner calf prices gained 1.5% w/w and 32% y/y at R39.06/kg.
- 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 helps maintain good fodder supplies for overwintering as Spring approaches in just over a month's time.

Weekly summary of the sheep market

International sheep market update

- Australian lamb for slaughter surged by 19% y/y in June 2021 and way above the 5-year average for month since 2016. However, this did not dent the price levels and saw the Eastern Trade Lamb indicator (ESTLI) trading at a good level of AU\$8.64/kg which is up 5% w/w and 10% higher y/y. In New Zealand, supply shortages continued to place upward pressure on domestic lamb and mutton prices on markets.
- In the US, prices were stronger with the weekly carcass cut out prices gained 2% w/w and almost 54% higher y/y at US\$530.53/cwt.

Domestic sheep market update

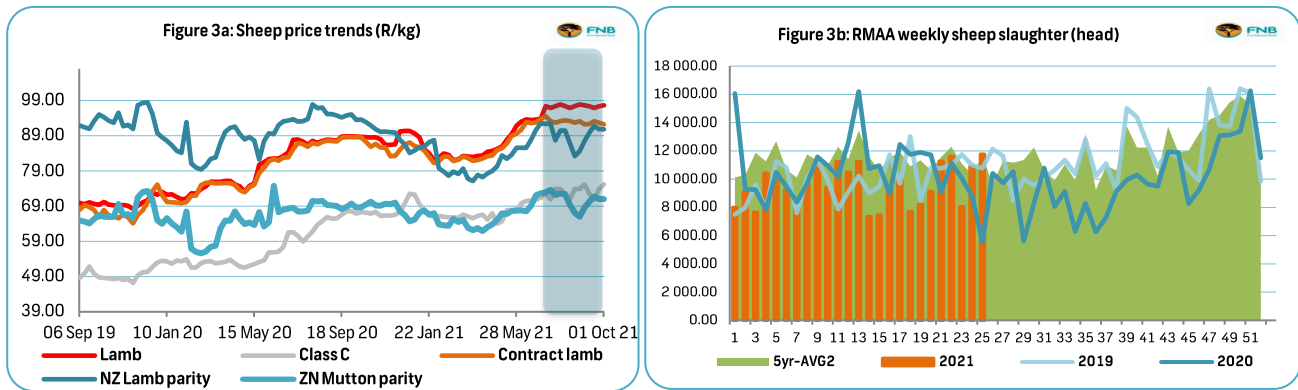
- Weekly lamb and mutton prices continued to post good gains on slight uptake on markets. The current contract class A lamb and mutton prices are however still up 13% and 16% respectively relative to last year and are both almost 17% above the 3-year average for this time of the year.

Table 4: Sheep producer price trends in South Africa

Sheep market – South Africa						
Date	02 Jul 21	% Δ w/w	% Δ y/y	3-Year Avg	25 Jun 21	18 Jun 21
Class A (R/kg)	93.75	0.2%	11.3%	13.0%	93.58	93.45
Mutton (R/kg)	71.45	1.0%	16.1%	16.6%	70.76	70.58
Contract: A (*Incl. 5thQ, R/kg)	93.72	1.0%	13.1%	17.1%	92.75	92.60
Import parity (R/kg)	92.52	2.1%	-0.8%	2.5%	90.63	87.89
Feeder lambs (R/kg LW)	49.34	0.2%	19.7%	18.6%	49.26	48.08

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

Figure 3: Lamb and mutton prices and sheep slaughter trends



*Last nine data points on figure 5a are preliminary

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 rebounded modestly which saw the weekly pork carcass cutout values closing last week 2.6% higher w/w at US\$115/cwt, which is almost 78% ahead of the same week last year. Pig slaughter dropped further by 3.3% w/w but still 12% higher y/y at 2.28 million head. This brought the YTD number up 1.2% y/y at 65.10 million head.

Domestic pork market update

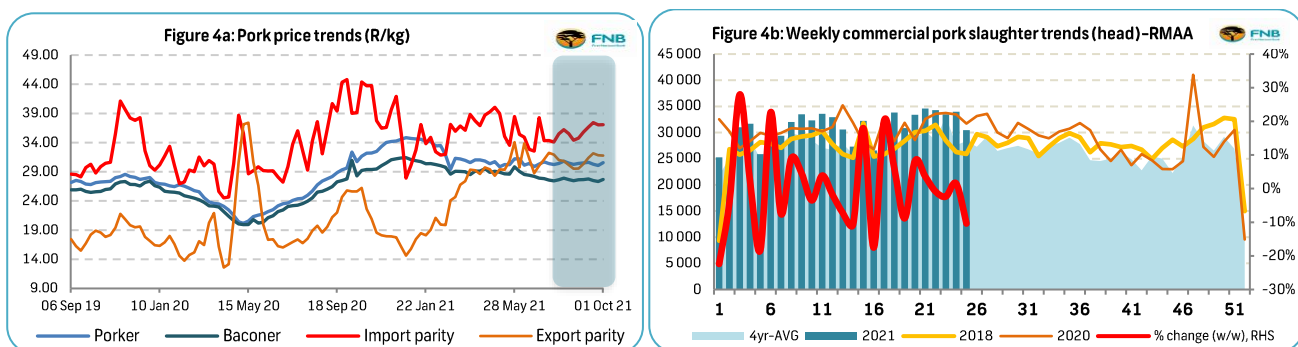
- Last week saw a mixed trend in the pig market with porkers gaining 1.5% w/w while baconers retreated by 1% w/w. However, at current levels, pork and baconer prices are still 29% and 27% higher y/y and were 27% and 30% above the 3-year average for this time of the year.

Table 5: Pig producer prices and slaughter trends

Pork market – South Africa						
Date	02 Jul 21	% Δ w/w	% Δ y/y	3-Year Avg	25 Jun 21	18 Jun 21
Porker (R/kg)	30.32	1.5%	28.9%	28.8%	29.88	30.42
Baconer (R/kg)	27.91	-1.0%	24.3%	29.5%	28.20	28.40
Import parity (R/kg)	38.29	17.7%	40.6%	22.2%	32.54	32.86

Source: USDA, JSE, FNB Agric

Figure 4: Pork prices and slaughter trends



*Last nine data points on figure 6a are preliminary

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

- In Brazil, the benchmark contract for difference (CDF) reversed earlier gains and closed last week down 1% w/w at BRL7.36/kg. This week however saw a slight recovery prices so far bottoming out and trending higher.
- In the mechanically separated chicken (MSC) category, US prices of 15–20% MSC rebounded ahead of the holiday weekend improved demand into both domestic and export channels. Weekly frozen MSC closed last week up by 3.7% w/w and sharply higher by 98% y/y. The fresh category rose by 9.3% w/w and were 54% above the same week last year.

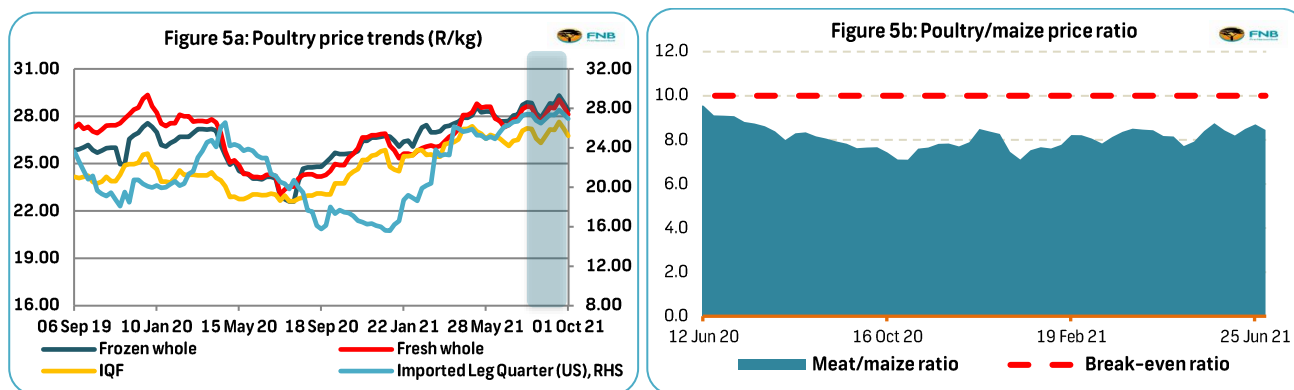
Domestic poultry market update

Table 6: Poultry producer price trends in South Africa

Week ending	Poultry market – South Africa					
	02 Jul 21	%Δ w/w	%Δ y/y	3-Year Avg	25 Jun 21	18 Jun 21
Fresh whole birds (R/kg)	27.45	0.5%	12.9%	5.6%	27.31	27.71
Medium Frozen whole birds (R/kg)	27.70	0.1%	14.7%	7.3%	27.68	27.68
Individually Quick Frozen (IQF) (R/kg)	26.12	-0.9%	13.1%	7.2%	26.35	26.60
Import parity (R/kg)	26.30	0.6%	23.2%	11.5%	26.14	25.57

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 ended mixed with gains for the whole bird category while IQF posted losses in last week's trade.
- 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 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 of feeding chicken in the industry.

OUTLOOK

We expect 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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