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Livestock and Fibre markets

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UPDATE ON LIVESTOCK MARKETS

- Latest news out of the United States is that there are plans to boost the domestic meat industry through an injection of an additional US\$100 million for loan guarantees as part of the post Covid-19 pandemic recovery program. The initial announcement was for a total of US\$500 million earmarked for expansion in meat and poultry processing capacity according to the United States Department of Agriculture (USDA).
- On the export front, the US beef exports continued to enjoy robust growth both in volume and value terms with the year to August 2021 quantity surging by 21% year-on-year (y/y) to 756,554 million tons. Its major customers are the Republic of Korea, Japan, China (+Hong Kong) with shares of 25%, 23%, and 19% respectively. China posted the biggest growth of 155% y/y in US beef imports according to the data from the US Meat Export Federation (USMEF).
- Meanwhile, Brazil, the world's number one beef exporter with estimated shares of 22% lately had challenges with an incident of an atypical form Bovine Spongiform Encephalopathy (BSE). The absence of Brazil from the Chinese market with a 32% share of world imports poses upside risk to beef prices if the situation is sustained for a bit longer (see figure 1).
- The US pork market however experienced a contraction in exports with volumes so far down 1% y/y to 1.66 million tons as the second biggest market, China, saw a 38% y/y reduction in imports. Chinese producers have been rebuilding their herds over the past year after the Africa Swine Fever (ASF) decimated a large population in the previous years. Consequently, the normalization of the domestic supplies lowered import demand but has since placed pressure on the market with prices reportedly plunging by 56% since the beginning of 2021.

Figure 1: Trends in world and Brazil's meat production and exports

Figure 1a: World beef+veal, chicken, pigmeat Production and Export trends (million tons)

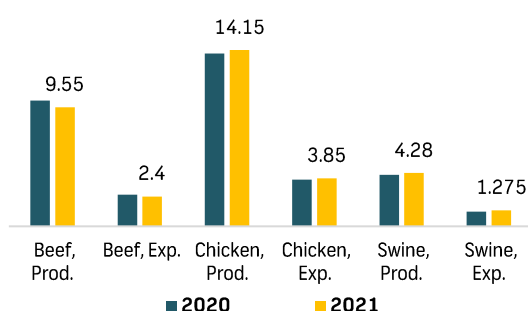
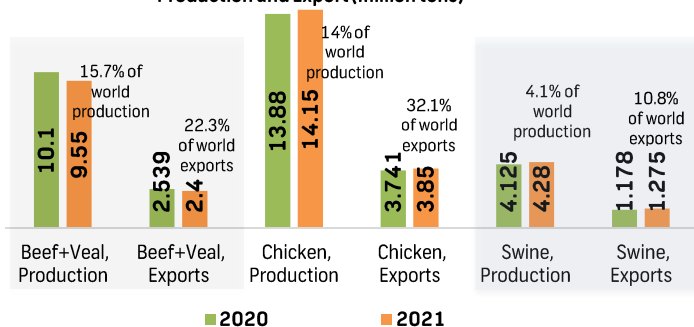
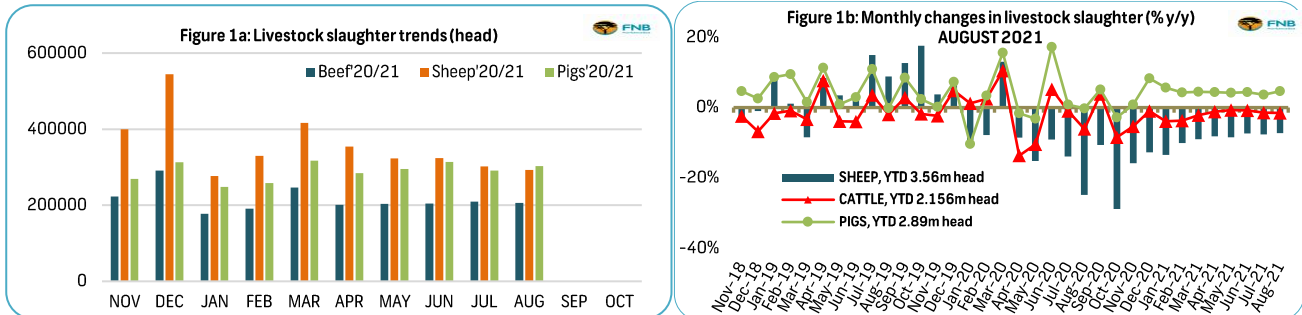


Figure 1b: Brazil meat trends Production and Export (million tons)



Source: USDA, PSD

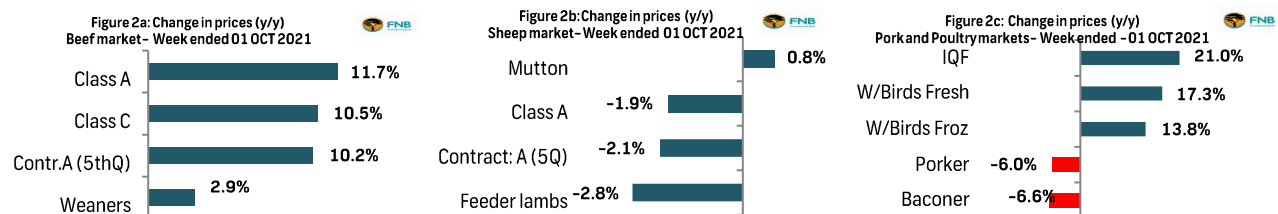
- Domestically, we still observed a further contraction in cattle slaughter both on a month-on-month basis and relative to the previous season (figure 1a and 1b respectively) which to some extent underpins the elevated trend in prices as illustrated in figure 2. Cattle slaughter for the current slaughter season (Nov-Oct) up to August 2021 is already 1.5% below the previous season while sheep numbers are down 7.3%.
- In contrast, pig numbers are 4.6% higher on the previous season which had a downside impact on the pig market with pork and baconer prices already in negative territory and closed 2.6% and 5.1% lower y/y in last week's trade (figure 2c).



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

- Domestically, we still observe a contraction in beef and cattle slaughter relative to the previous season which to some extent underpins the elevated trend in prices as illustrated in figure 1d and 2a respectively. Cattle slaughter for the current slaughter season (Nov-Oct) up to July 2021 is already 2.5% below the previous season while sheep numbers are down 7.8%.
- In contrast, pig numbers are 3.4% higher on the previous season which had a downside impact on the pig market with pork and baconer prices already in negative territory and closed 6% and 6.6% lower y/y in last week's trade (figure 2).

Figure 2: Changes in average weekly livestock prices (% change y/y)

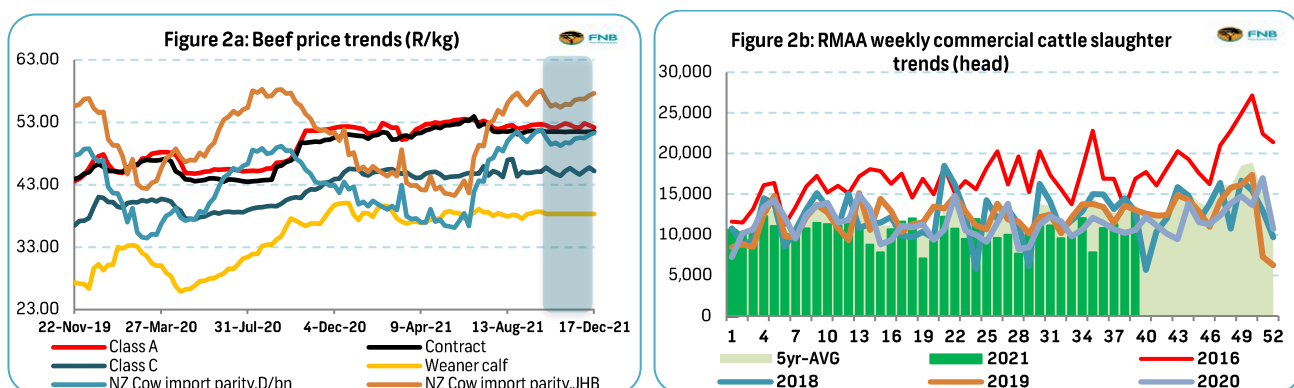


Source: Own calculations from FNB AgriComms.

International update on beef markets

- The latest update from the USDA indicates some strength on the import market underpinned by tightened supplies and shipping delays. Strong domestic demand added to the firmer tone.

Figure 3: Beef prices and cattle slaughter trends



*Last nine data points on figure aa are preliminary

Source: RMAA

Table 1: Beef producer price trends in South Africa

Beef producer prices: Beef market – South Africa						
Date	1-Oct-21	% Δ w/w	% Δ y/y	3-Year Avg	24-Sep-21	17-Sep-21
Class A (R/kg)	52.65	0.1%	11.7%	8.2%	52.60	52.56
Class C (R/kg)	45.10	0.0%	10.5%	9.9%	45.10	44.92
Contract: A (*Incl.5thQ)	51.66	0.1%	10.2%	7.4%	51.60	51.65
Import parity (R/kg)	58.10	0.7%	0.7%	3.1%	57.73	56.78
Weaner calves (R/kg LW)	38.66	0.0%	2.9%	10.9%	38.66	38.40

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

Domestic beef market update:

- The domestic market moved sideways to firmer across most carcass categories on slight uptick in demand. The weaner market however steadied on the week but still 2.9% ahead of the same period last year and almost 4% higher than the 3-year average for this time of the year.
- At feeding level, there is abundance in terms of fodder from the harvested maize lands as well as good overwintering grass cover. Some Eastern and Northern Cape areas however remain an exception as production conditions are yet to recover from the drought conditions.

OUTLOOK

Seasonal demand conditions are expected to rebound in the medium term as the warm weather returns and hopefully vaccinations reach an advanced stage to allow for the much needed and awaited outdoor activities following the downgrade to level 1.

Weekly summary of the sheep market

International sheep market update

- Last week saw some weakness in the US lamb market with the lamb carcass values easing marginally by 0.7% relative to the week earlier at US\$623.80/ cwt but still sharply higher by 70% year-on-year (y/y). Weekly sheep slaughter numbers increased by 3.2% week-on-week (w/w) but still 8.6% below the 2020 levels at 32,000 head, bringing the YTD total lower by 0.8% y/y at 1.42 million head.
- In New Zealand, the spring lamb supplies were reportedly tight with carcass weights coming on the downside following the poor seasonal winter conditions.

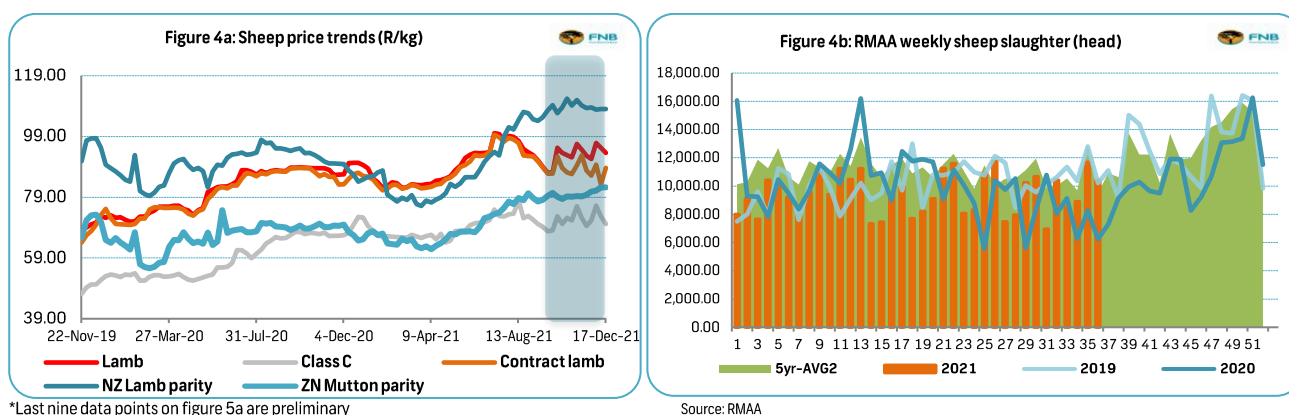
Figure 4: Lamb and mutton prices and sheep slaughter trends

Table 2: Sheep producer price trends in South Africa

	Sheep market – South Africa					
Date	1-Oct-21	%Δ w/w	%Δ y/y	3-Year Avg	24-Sep-21	17-Sep-21
Class A (R/kg)	87.12	0.0%	-1.9%	6.4%	87.10	89.06
Mutton (R/kg)	68.08	0.4%	0.8%	10.2%	67.82	69.21
Contract: A (*Incl.5thQ, R/kg)	86.78	0.0%	-2.1%	7.0%	86.75	88.85
Import parity (R/kg)	109.26	1.6%	15.0%	10.2%	107.59	105.26
Feeder lambs (R/kg LW)	44.10	0.5%	-2.8%	8.3%	43.89	43.18

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

Domestic sheep market update

- Last week saw a sideways trend in the sheep market due to the lack lustre demand. The feeder lamb market however saw some strength but still well below the R50/ kg level at R4410/kg LW, but still 3% lower y/y. The current feeder lamb prices are however 8% above the 3-year average for this time of the year.

OUTLOOK

We expect near-term prices to maintain a sideways to downside trend but with increased upside as we head deep into the warmer months.

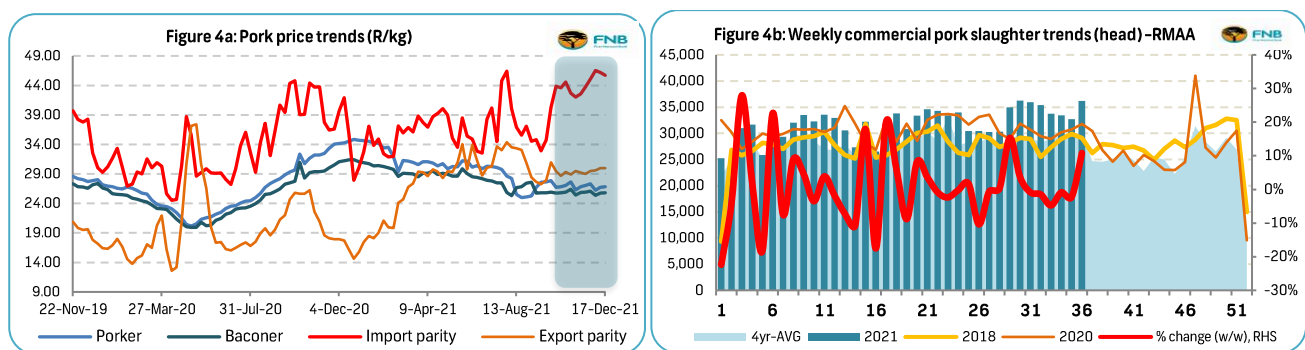
Weekly pork market

International pork market update

- The US pork market posted strong gains with weekly pork carcass cutout values increasing by 7% w/w in last week's trade at US\$112.97/cwt and were sharply higher by 22% relative to the same week last year. Pig slaughter fell by 2% w/w and 3.4% y/y at 2.52 million head with the cumulative YTD total reaching 95.81 million head which is however still down by 1.8% on 2020 levels.

Domestic pork market update

- Last week saw further recovery for the pig market on improved uptake. However, at current levels pork and baconer prices are still in negative territory relative to last year but way above the 3-year average by 18% and 20% respectively.

Figure 5: Pork prices and slaughter trends

*Last nine data points on figure 4a are preliminary

Source: RMAA

Table 3: Pig producer prices and slaughter trends

	Pork market – South Africa					
Date	1-Oct-21	%Δ w/w	%Δ y/y	3-Year Avg	24-Sep-21	17-Sep-21
Porker (R/kg)	27.84	0.7%	-6.0%	18.3%	27.66	27.60
Baconer (R/kg)	25.94	0.5%	-6.6%	20.4%	25.80	25.80
Import parity (R/kg)	40.29	15.9%	-10.1%	28.6%	34.78	32.94

Source: USDA, JSE, FNB Agric

OUTLOOK

We expect a further uptick in prices in the medium term due to improved competitiveness as pork is already selling at a discount over other meat types.

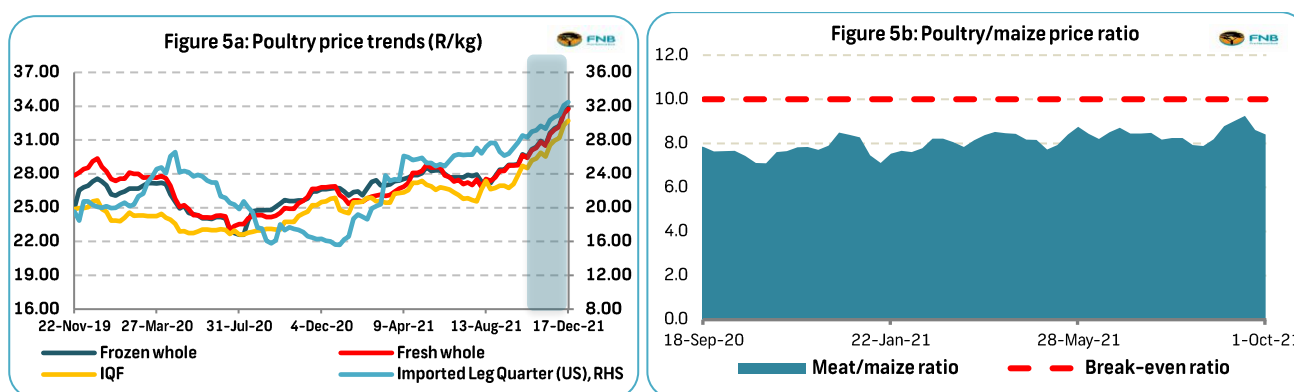
Weekly poultry market update

International poultry market update

- In the US, poultry prices saw some weakness in the whole bird category while the mechanically separated chicken (MSC) category ended mixed with gains for the frozen MSC prices while the fresh MSC fell sharply w/w but were both still 76% and 15% higher y/y respectively at US\$2.01 cents/lb and US\$30.44 cents/lb.

Domestic poultry market update

Figure 6: Poultry prices and meat/maize ratio trends



*Last nine data points on figure 4a are preliminary

- Poultry prices have been on an upward trajectory recently on the back of tight supplies and renewed optimism about demand.
- 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.

Table 4: Poultry producer price trends in South Africa

Week ending	Poultry market – South Africa					
	1-Oct-21	%Δ w/w	%Δ y/y	3-Year Avg	24-Sep-21	17-Sep-21
Fresh whole birds (R/kg)	28.78	0.1%	17.3%	6.5%	28.75	28.75
Medium Frozen whole birds (R/kg)	28.86	0.2%	13.8%	7.3%	28.80	28.80
Individually Quick Frozen (IQF) (R/kg)	27.89	2.9%	21.0%	10.3%	27.10	26.75
Import parity (R/kg)	27.70	2.3%	53.7%	26.2%	27.07	26.39

Source: USDA, JSE, FNB Agric

OUTLOOK

We expect prices to retain the current momentum in the short term, but the return of warmer months ahead will help lift demand. The gradual return to more outdoor activity with the looming downgrade of the lockdown restriction is likely to spur demand for poultry. The pace of the reconstruction of the infrastructure decimated by the July unrest will also influence demand in the medium term as more people get back to work.

Raw feed input price update

- There has been no respite on prices of raw feed inputs with all remaining relatively elevated relative to last year. The WMAZ and YMAZ prices are now back above the R3,300/ ton levels as reflected in table 5.
- The oilseed complex also saw further strength for sunflower with near term futures above R10,000/ ton while soybeans have pulled away from the early year highs to just above R7,000/ ton as the huge harvest and further softening on the international market weighed heavily on prices (table 5).

Table 5: Raw feed inputs – Latest price trends in JSE grain and oilseed futures market (R/ton)

22 SEP 2021	WMAZ	change w/w	YMAZ	change w/w	SUNS	change w/w	SOY	% change w/w
Dec-21	R3,309	0.2%	R3,498	0.4%	R10,593	6.3%	R7,590	-2.2%
Mar-22	R3,313	0.4%	R3,482	0.8%	R9,720	6.1%	R7,536	-2.9%
May-22	R3,225	0.8%	R3,330	1.2%	R8,918	5.4%	R7,397	-1.1%
Jul-22	R3,225	1.1%	R3,341	1.4%	R9,000	5.5%	R7,494	-0.9%
Sep-22	R3,212	-	-	-	-	-	-	-

Source: JSE.

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