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Livestock and Fibre markets

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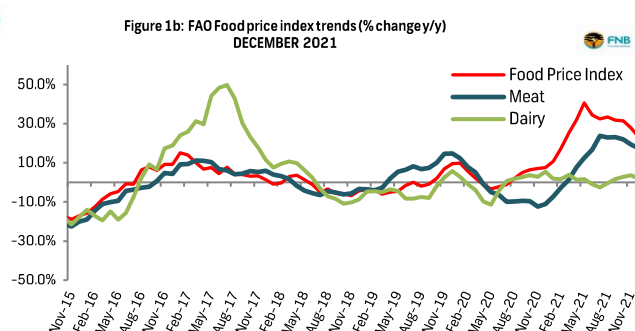
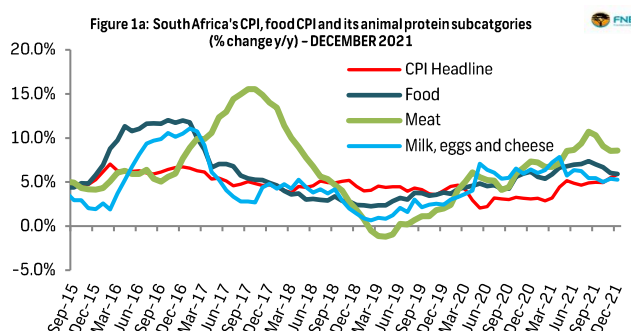


Paul Makube pmakube@fnb.co.za | Tumi Kgasago | Vhutshilo Mabela | 26 JAN 2022

UPDATE ON LIVESTOCK MARKETS

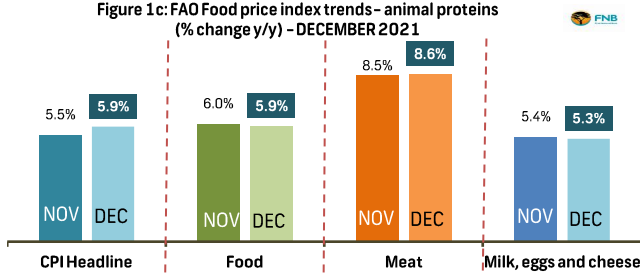
- The latest updates on food inflation for both South Africa and the world show a deceleration in December 2021. Statistics South Africa's December 2021 food inflation print slowed for the fourth consecutive month to 5.9% year-on-year (y/y) from 6% in November 2021. Underpinned by elevated raw commodity prices in the grains, meat, and vegetable oils, the overall average food CPI for 2021 accelerated sharply by 6.5% y/y relative to the 4.6% recorded in 2020.
- In the animal protein category, meat price inflation jumped 1.2% month-on-month (m/m) which is the biggest monthly increase since May 2021. After decelerating for three consecutive months since Aug 2021, the meat CPI rebounded by 8.6% y/y in December with increases of 20.4% and 15.7% for the prices of beef rump steak and beef offal respectively, while pork chops, mutton /lamb loin chop, and IQF chicken portions rose by 12%, 8.9%, 8.4% y/y respectively.
- A combination of limited availability due to the reduced livestock slaughter in 2021, the increased poultry tariffs and the subsequent contraction in imports kept the overall meat price complex on the upside. Livestock slaughter figures for the 2020/21 (Nov-OCT) season saw declines of 1.4% and 4.9% y/y respectively for cattle and sheep. The pig market was however the exception with the total seasonal slaughter rising by 6.3% y/y as reflected in figures 2a and 2b. This trend continued into the 2021/22 slaughter season (Nov-Oct) with cattle and sheep slaughter numbers for Nov 2021 trailing the previous season by 0.4% and 5.5% respectively. Pork remains an exception with increases of 15.4% m/m and 7% y/y.
- Globally, the meat price index as measured by the United Nations Food and Agriculture Organization (FAO) showed a further monthly decline for a fifth consecutive month at -0.1% m/m. Although still elevated at 17.4% y/y, the December meat price inflation slowed for the third consecutive month at 17.4% y/y as the increased availability of poultry and ovine exports weighed heavily on prices (see figure 1b).

Figure 1: Inflation trends – South Africa and World – December 2021 update



Source: FAO, StatsSA

Figure 1c: FAO Food price index trends – animal proteins (% change y/y) – DECEMBER 2021



Source: FAO, StatsSA

Figure 1d: FAO Food price index trends – animal proteins (% change y/y) – DECEMBER 2021

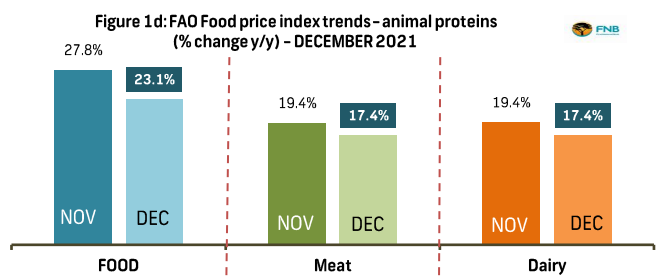
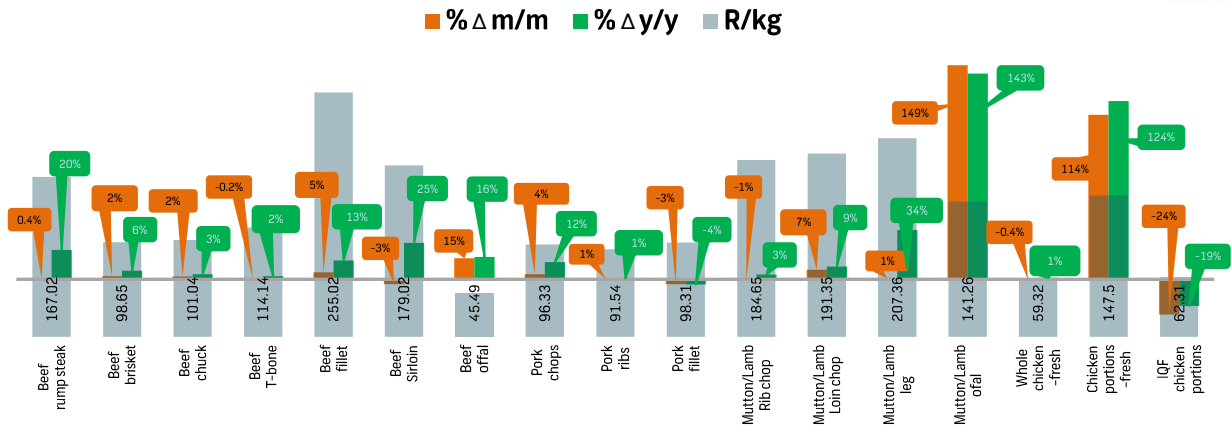
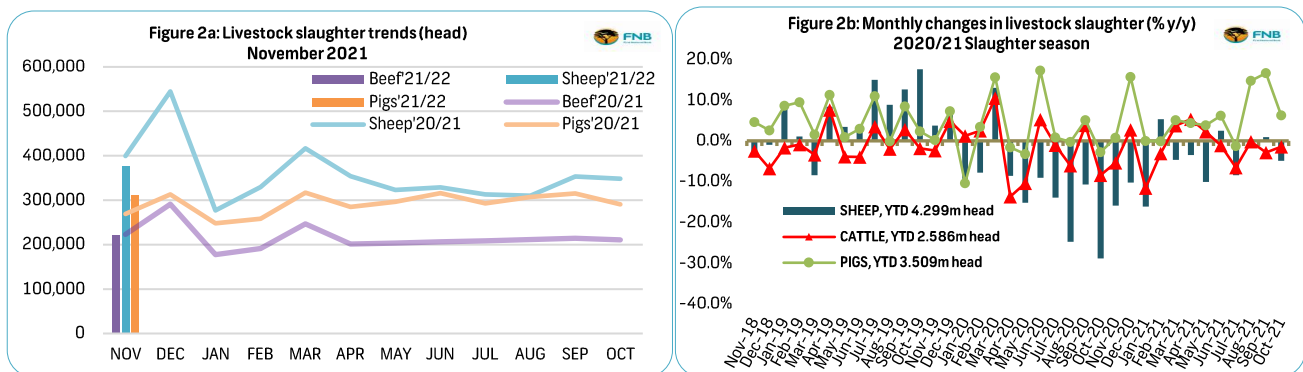


Figure 1e: Consumer price index trends for selected meat products – DECEMBER 2022 (% change y/y)



Source: FAO, StatsSA

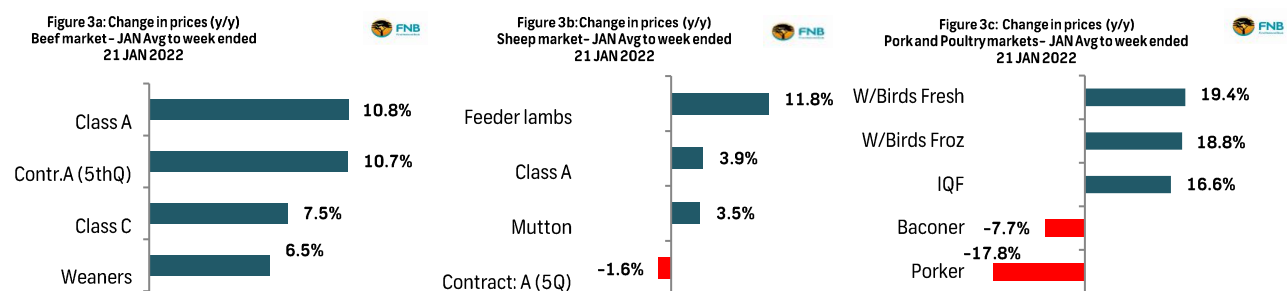
Figure 2: South Africa's livestock slaughter trends



Source: Own calculations from Red Meat Levy Admin data.

- Meanwhile, the average prices for first three weeks of JAN 2022 still shows an uptrend across most categories except for the pork market that remains under pressure with decreases of 17.8% and 7.7% y/y for porkers and baconer respectively as illustrated in figures 3a to 3c.

Figure 3: Changes in average weekly livestock prices (% change y/y)



Source: Own calculations from FNB AgriComms.

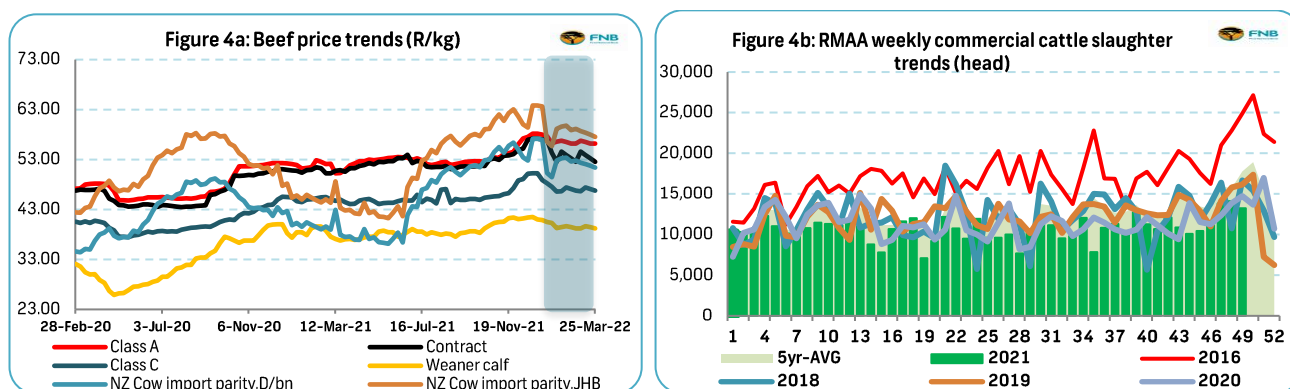
International update on beef markets

- The US import market continued to post gains in prices underpinned by the relatively good demand amid limited availability from Australia and New Zealand. Logistics challenges continued to resurface with shipping delays and labour shortages reportedly being a challenge in some of the ports.
- In Australia, favourable rains have boosted production conditions and subsequently prices as producers held back on their stock. This saw the country's benchmark eastern young cattle indicator (EYCI) reaching a new record in last week's trade.

Domestic beef market update:

- Beef prices saw further weakness during midmonth with decreases across the board as expected due to the seasonal dip in demand post the December holidays. However, the current beef prices are holding well relative to last year with class As and Cs both over 7% higher relative to last year.
- We saw a similar trend in the weaner market with prices off the 2021 peak at R40.28/ kg live weight (LW) which is however still 5% ahead of the 2021 levels for this time of the year.
- Good rains have ensured good grass cover and producers have held back on their stock for herd rebuilding. However, this comes with its own perils with animal health costs likely to increase due to the increased incidences of animal pests and diseases. The price of grains particularly maize, a major ingredient in livestock feed, also remains sky-high due to the inclement weather that caused crop damages and further threatening yield prospects for the 2021/22 harvest.

Figure 4: Beef prices and cattle slaughter trends



*Last nine data points on figure 2a are preliminary

Source: RMAA

Table 1: Beef producer price trends in South Africa

Beef producer prices: Beef market – South Africa						
Date	21-Jan-22	% Δ w/w	% Δ y/y	3-Year Avg	24-Dec-21	17-Dec-21
Class A (R/kg)	56.27	-2.5%	10.0%	10.0%	58.18	57.52
Class C (R/kg)	47.54	-1.0%	7.0%	8.0%	50.25	50.18
Contract: A (*Incl. 5thQ)	54.36	-4.0%	8.0%	9.0%	57.18	56.97
Import parity (R/kg)	55.70	-2.0%	24.0%	11.0%	63.82	59.38
Weaner calves (R/kg LW)	40.28	-1.0%	5.0%	11.0%	41.50	41.37

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

OUTLOOK

Although a bit softer, beef prices are expected to rebound due to limited availability.

Weekly summary of the sheep market

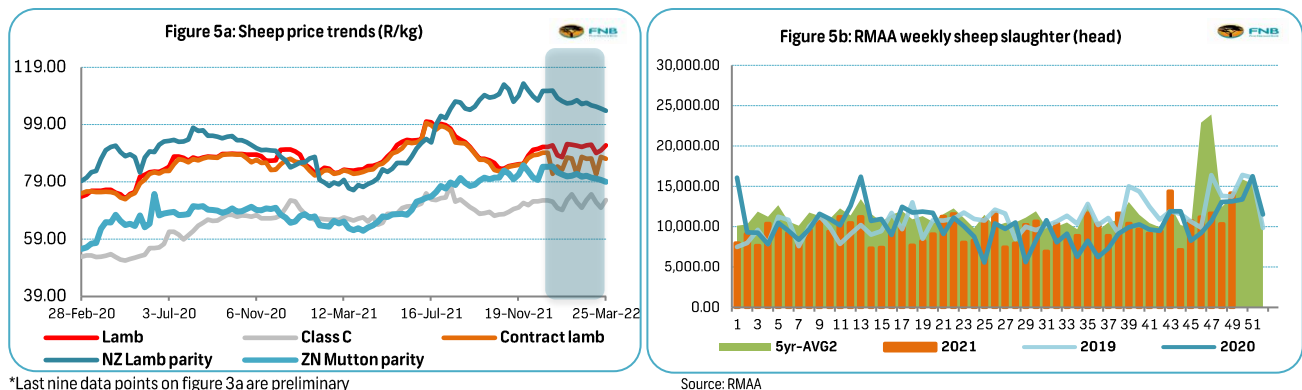
International sheep market update

- In Australia, indicator prices for both lamb and mutton came under pressure and weakened in last week's trade due to limited demand and higher supplies. Meanwhile, favourable seasonal conditions as the La Niña weather pattern continues to manifest will help improve weights.

Domestic sheep market update

- Softer seasonal demand pulled the lamb and mutton prices from the December high. However, the current lamb and mutton prices both remain stronger relative to the 2021 levels by just over 4%. The long-term average is even stronger by over 8% respectively relative to the 3-year average for this time of the year.
- In the feeder lamb market, prices reversed late 2021 gains of closer to R45/kg Live weight (LW) due to the limited uptake. Feeder lamb traded last week at R40.52/kg LW, which is down 1.6% on the week earlier but still 2% higher y/y and 10% above the 3-year average for this time of the year.

Figure 5: Lamb and mutton prices and sheep slaughter trends



*Last nine data points on figure 3a are preliminary

Source: RMAA

Table 2: Sheep producer price trends in South Africa

Sheep market – South Africa						
Date	21-Jan-22	%Δ w/w	%Δ y/y	3-Year Avg	24-Dec-21	17-Dec-21
Class A (R/kg)	87.69	-0.6%	4.5%	8.0%	91.18	90.55
Mutton (R/kg)	69.15	-1.0%	4.0%	10.0%	72.55	72.23
Contract: A (*Incl. 5thQ, R/kg)	83.28	-1.3%	0.0%	6.0%	89.24	88.57
Import parity (R/kg)	107.19	-1.0%	23.0%	15.0%	110.71	107.39
Feeder lambs (R/kg LW)	40.52	-1.6%	2.0%	10.0%	45.32	45.27

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

OUTLOOK

We expect near-term prices to maintain the current momentum but the tough economic conditions and the seasonal decrease in demand early in the New Year will limit further upside.

Weekly pork market

International pork market update

- In the US pork market, there has been relative downward pressure on prices due to demand concerns emanating from the Omicron wave of infections and interest rate hikes in the outlooks.

Domestic pork market update

- Latest developments on the pork market indicate downward pressure on prices due to the seasonal dip in demand. Both baconer and porker prices are now way below the 2021 levels by 7% and 19% respectively.
- However, at current levels pork and baconer prices are still way above the 3-year average by 17% and 31% (see table 3). With feed grain prices still unrelenting at higher levels we can expect further downward pressure on profitability the industry.

Figure 6: Pork prices and slaughter trends

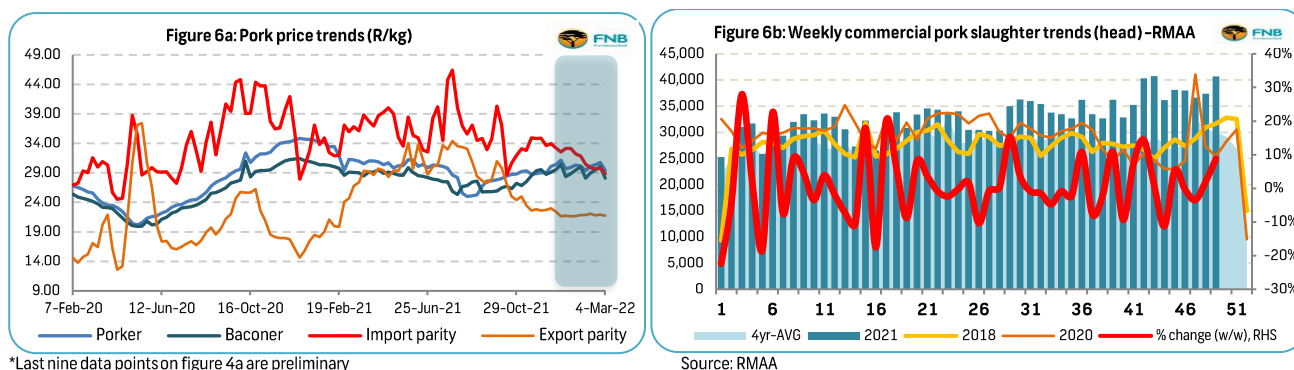


Table 3: Pig producer prices and slaughter trends

Pork market – South Africa						
Date	21-Jan-22	% Δ w/w	% Δ y/y	3-Year Avg	24-Dec-21	17-Dec-21
Porker (R/kg)	27.58	-0.7%	-19.0%	17.0%	30.16	28.93
Baconer (R/kg)	28.18	-0.6%	-7.0%	31.0%	29.65	28.86
Import parity (R/kg)	34.04	17.0%	0.7%	9.0%	34.24	35.76

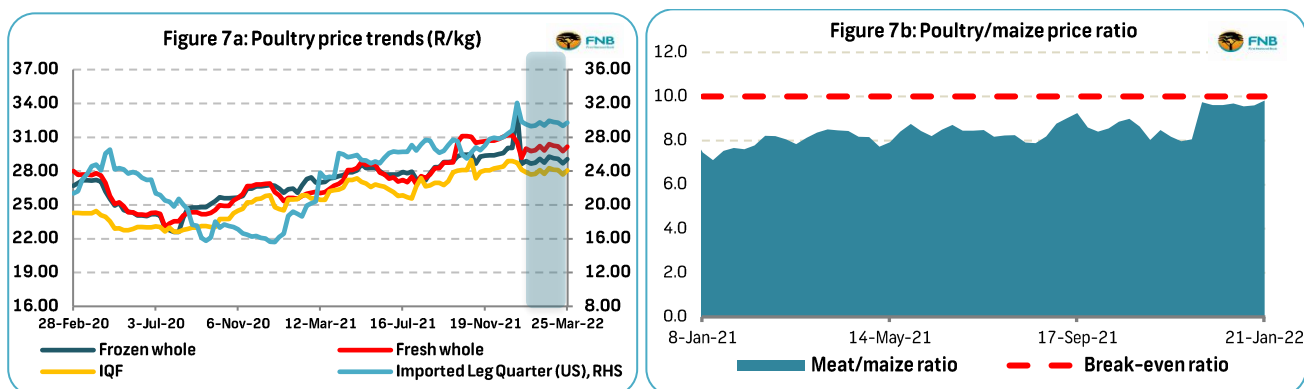
Source: USDA, JSE, FNB Agric

OUTLOOK

We expect prices to maintain the current momentum in the short term. The medium-term outlook however shows a potential improvement due to the spill over strength in the red meat complex as pork trades at a discount relative to other meat types.

Weekly poultry market update

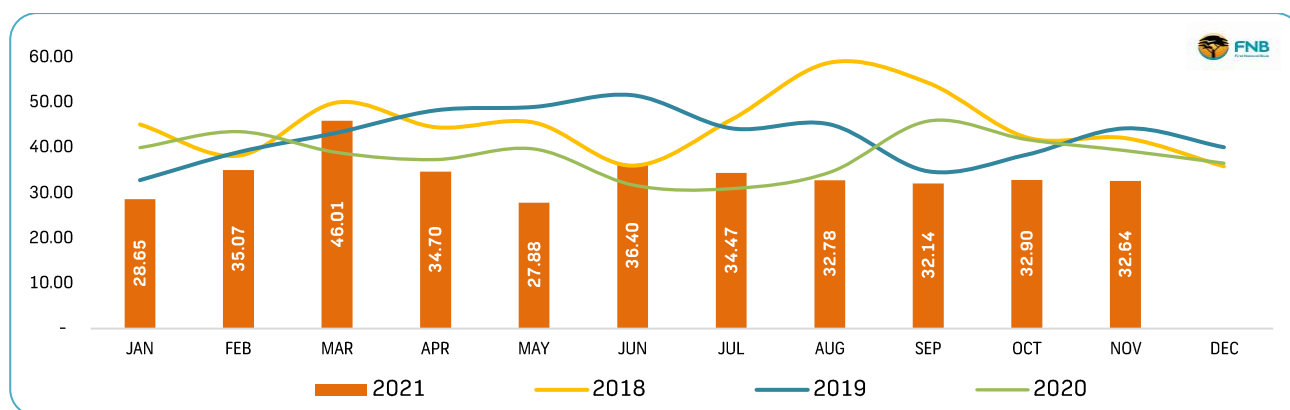
Figure 7: Poultry prices and meat/maize ratio trends



Source: FNB Agriculture, *Last nine data points on figure 5a are preliminary

- Although easing from the December 2021 high due to normal seasonal demand trends, broiler meat prices remain quite elevated relative to last year. Limited stock amid the increased tariff regime and lower imports continue to provide upside support for the poultry market.
- The pace of poultry imports for 2021 has been relatively slow thus providing some breather for the local market. Total imports for November 2021 were marginally down by 0.8% m/m at 32.64 thousand tons and were still 17% lower relative to the same month last year. The cumulative YTD imports reached 373.63 thousand tons which is 12% lower y/y, the lowest level in the past four years and 80% of the 3-year average to 2021 (see figure 8).
- Although the meat/maize ratio improved modestly in the past month on the back of strong broiler meat prices, the elevated maize prices continued to prevent it from edging above the breakeven level as illustrated in figure 7b.

Figure 8: South Africa's broiler import trends ('000 tons)



Source: SARS,

Table 4: Poultry producer price trends in South Africa

Week ending	Poultry market – South Africa					
	21-Jan-22	%Δ w/w	%Δ y/y	3-Year Avg	24-Dec-21	17-Dec-21
Fresh whole birds (R/kg)	29.98	2.7%	17.0%	8.0%	30.01	29.60
Medium Frozen whole birds (R/kg)	28.88	0.9%	9.0%	6.0%	20.51	20.40
Individually Quick Frozen (IQF) (R/kg)	27.89	-0.8%	10.0%	8.0%	31.47	31.04
Import parity (R/kg)	29.53	-1.1%	58.0%	29.0%	29.23	29.61

Source: USDA, JSE, FNB Agric

OUTLOOK

Tight domestic stocks and a contraction in the volume of imports will continue to provide upside support for the market. Nonetheless, the good rains turned out to be bad for the industry as heavy rains caused damages to the grain fields thereby exerting upward pressure on feed grain prices.

Raw feed input price update

- Extensive rain damage to crops in some areas has dampened the 2021/22 grain production outlook. Prices thus remain elevated which places downward pressure on the profitability of livestock feeding.
- Although the nearby yellow maize futures reached a high of R3,822/ ton by mid-December 2021, they have fallen to R3,558/ ton but still not enough to reduce pressure on feed costs (see table 5).
- In the oilseed complex, we saw a similar trend with soybeans above R7,000/ ton with the nearby sunflower futures reaching R9744/t recently from a high of over R10,000/t in 2021 (table 5).

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

26 JAN 2022	WMAZ	change m/m	YMAZ	change m/m	SUNS	change m/m	SOY	% change m/m
Mar-22	R3,558	-2.9%	R3,721	-5.1%	R9,744	-13.3%	R8,030	1.3%
May-22	R3,507	-1.4%	R3,650	-0.4%	R8,933	-5.6%	R7,888	0.9%
Jul-22	R3,510	-0.9%	R3,619	-1.1%	R9,010	-5.6%	R7,984	1.0%
Sep-22	R3,569	-0.5%	R3,668	-0.8%	-	-	R8,098	-
Dec-22	R3,643	-0.9%	R3,725	-1.2%	-	-	-	-

Source: JSE,

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