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# Livestock and Fibre markets

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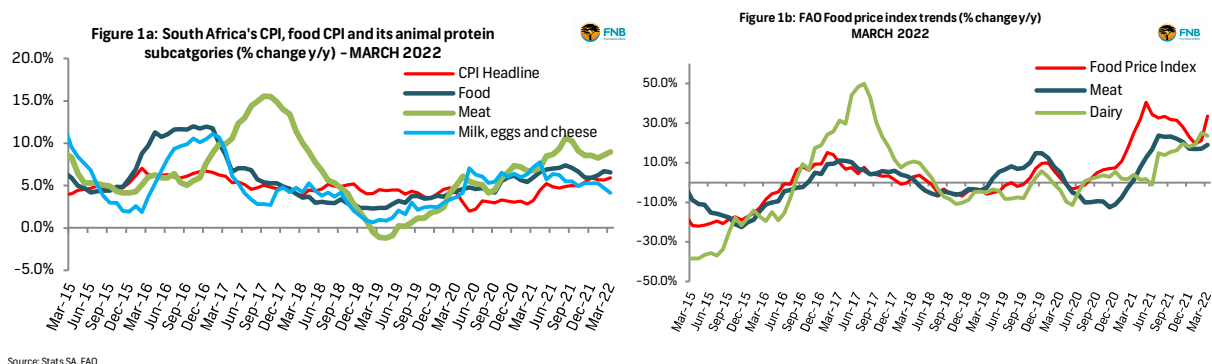


Paul Makube pmakube@fnb.co.za | Tumi Kgasago | Vhutshilo Mabela | 28 APR 2022

## UPDATE ON LIVESTOCK MARKETS

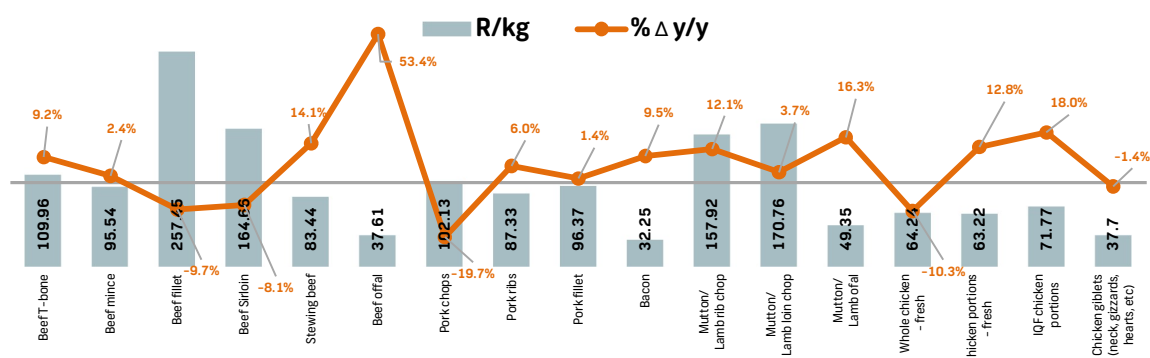
- Statistics South Africa's (Stats SA) recently revealed a further deterioration in the consumer welfare following its release of the March 2022 consumer price index (CPI) print. The CPI accelerated and edged closer to the upper end of the South African Reserve Banks target range of 3% to 6%, increasing by 1% month-on-month (m/m) and 5.9% year-on-year (y/y) from 5.7% y/y in February (figure 1a). Elevated food and fuel inflation made a significant contribution to the acceleration in the CPI.
- The food subcomponent however steadied m/m and decelerated to 6.6% y/y which reflects the resilient demand despite tough economic conditions (figure 1a). Meat price inflation jumped 0.7% m/m and was close to the 2021 highs (9.1% to 10.6% y/y) recorded during August to October at 9% y/y. A further drilldown into the meat data shows sharp gains in beef cuts with T-bone, stewing beef, and beef offal increasing by 9%, 14%, and 53% respectively y/y R109.96/kg, R83.44/kg, and R37.61/kg. This more than outweighed declines in beef fillet and sirloin which decreased by 9.7% and 8.1% respectively y/y at R257.45/kg and R164.66/kg (figure 1c).
- In the pig product category, prices rebounded modestly with pork ribs, fillet, and bacon increasing by 6.0%, 1.4%, and 9.5% respectively y/y at R87.33/kg, R96.37/kg, and R32.25/kg. Pork chops were the only exception and remained in negative territory, falling sharply by 19.7% y/y at R102.13/kg.
- Lamb and mutton cuts saw gains across the board with rib chop, loin chop, and offal increasing by 12.1%, 3.7%, and 16.3% respectively y/y at R57.92/kg, R170.76/kg, and R49.35/kg. In the chicken category, the declines of 10.3% and 1.4% in fresh whole birds and chicken giblets (neck, gizzards, hearts, etc) respectively were more than offset by sharp increases in fresh chicken portions and IQF chicken portions with increases of 12.8% and 18% respectively y/y.

**Figure 1: Food price inflation trends – MARCH 20221 update**



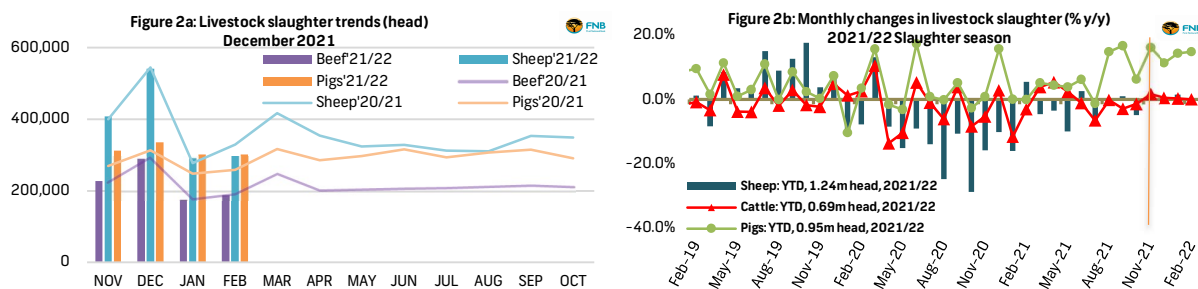
- Global food inflation as measured by the United Nation Food and Agriculture Organization (FAO) accelerated sharply to a record high since 1990 in March 2022. Averaging 159.3 points, the FAO food price index jumped 12.6% month-on-month (m/m) and 33.6% year-on-year (y/y) underpinned by gains in vegetable oils, cereals, and meat subcategories (figure 1b).
- In the animal protein category, the global meat subindex lifted by 4.8% m/m and 19% y/y in March 2022 underpinned by a strong rebound in pork, poultry, and bovine prices. Tight global supplies due to the combination of reduced slaughter and strong demand provided the recent upside in pig prices.
- The Foot-and-Mouth Disease (FMD) debacle in South Africa continues with latest reports indicating an arrest of one of the livestock handlers for the illegal movement of goats from the FMD-controlled zone into the free zone. The current outbreak is significant given the numbers and the provinces affected and is obviously not good news as it will have a negative impact on exports due to FMD being a notifiable disease in terms of the World Organization for Animal Health (OIE) and importing countries may elect to place a ban on imports as is the case with China recently.

Figure 1c: Consumer price index for selected meat products and eggs (% change y/y)



Source: FAO,

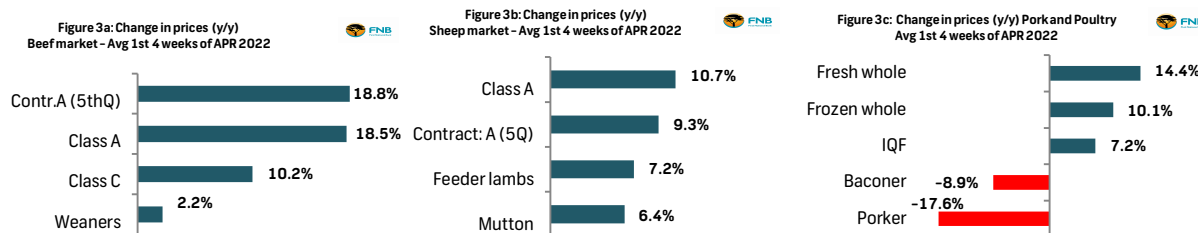
Figure 2: South Africa's livestock slaughter trends



Source: Own calculations from Red Meat Levy Admin data.

- Meanwhile, the latest update on livestock slaughter shows a modest rebound of 7.1% and 2.2% month-on-month (m/m) respectively in beef and sheep numbers in February 2022 while pigs were almost unchanged. The yearly trend however shows declines of 0.9% and 10% respectively year-on-year (y/y) for beef and sheep. Pig slaughter jumped 16.5% y/y with the cumulative 2021/22 (Nov-Oct) season-to-date (STD) number up 14.8% relative to the same period in the previous season (figure 2a).
- The monthly trend in meat prices still shows an uptrend across most categories except for the pork market that remains under pressure with sharp decreases of 8.9% and 17.6% 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.

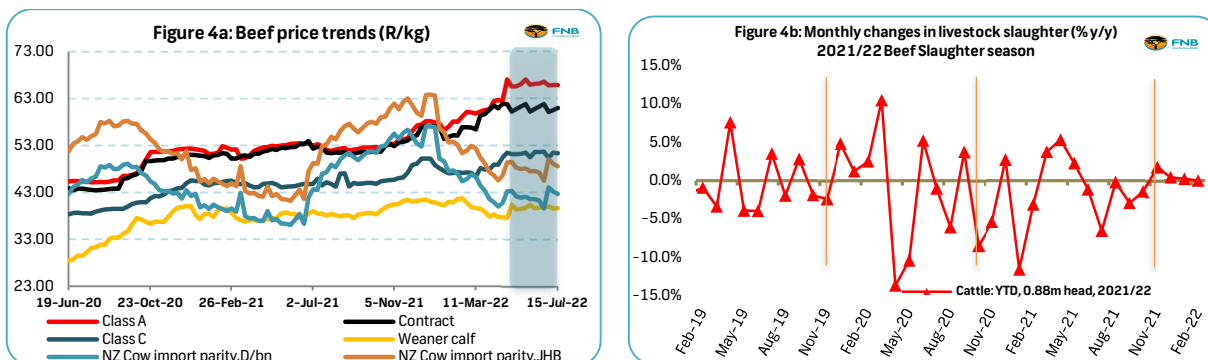
## International update on beef markets

- The latest USDA beef and veal forecasts show 1% y/y uptick in global production led by increases in Australia, Brazil, India, and Mexico with increases of 12.0%, 3.7%, 3.7%, and 1.9% respectively y/y in 2022. The US output is however projected to contract by 0.8% y/y and exports consequently falling by 4.3% y/y.
- Australia's exports are expected to rebound sharply by 13.9% y/y as better production conditions accelerated herd recovery after drought thereby boosting availability. It is followed closely by Brazil with a 12% jump in shipments underpinned by the increased availability and the regaining of the Chinese market access following the earlier phytosanitary restrictions.

## Domestic beef market update:

- Beef prices remain elevated despite the Foot-and-Mouth Disease challenge.
- In the weaner market, prices have eased from the record highs of over R40/kg live weight (LW) at R37.75/kg LW. The current weaner calf prices are however 1% ahead of the 2021 levels and 11% above the three-year average for this time of the year.

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	22-Apr-22	% Δ w/w	% Δ y/y	3-Year Avg	15-Apr-22	8-Apr-22
Class A (R/kg)	62.51	-0.2%	19.0%	15.0%	62.66	62.45
Class C (R/kg)	50.44	3.1%	12.0%	12.0%	48.90	48.89
Contract: A (*Incl.5thQ)	61.86	1.4%	19.0%	17.0%	60.98	61.56
Import parity (R/kg)	46.58	2.0%	5.0%	0.0%	45.61	46.55
Weaner calves (R/kg LW)	37.75	0.0%	1.0%	11.0%	37.75	38.36

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

## OUTLOOK

The near-term price outlook remains on the upside on good holiday demand. However, the higher feed costs due to the elevated grain and oilseed prices will continue to squeeze producer margins for feeders.

## Weekly summary of the sheep market

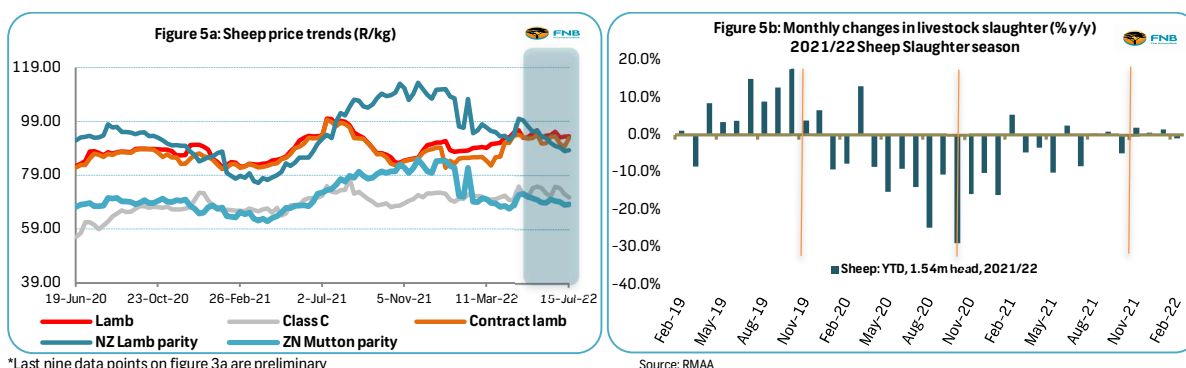
### International sheep market update

- The Australian national trade lamb indicator bottomed out and strengthened on improved uptake and limited availability ahead of Easter. Lamb slaughter was reportedly at a seasonal high relative to the past two years at 394,712 head which brought the cumulative YTD number to 4.86 million head.

### Domestic sheep market update

- Another strength in the lamb and mutton markets on strong holiday demand and limited availability as inclement weather conditions impacted negatively on supplies. In the feeder lamb market, prices remain elevated at R44.23/kg LW. At current levels, weaner lamb prices are 10% higher y/y and 14% 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

**Table 2: Sheep producer price trends in South Africa**

Date	Sheep market - South Africa					
	22-Apr-22	% Δ w/w	% Δ y/y	3-Year Avg	15-Apr-22	8-Apr-22
Class A (R/kg)	94.89	2.2%	12.1%	12.0%	92.89	93.08
Mutton (R/kg)	69.81	0.1%	4.0%	11.0%	69.74	71.45
Contract: A (*Incl. 5thQ, R/kg)	93.76	3.0%	12.0%	12.0%	91.06	91.18
Import parity (R/kg)	93.98	2.0%	19.0%	7.0%	91.94	93.46
Feeder lambs (R/kg LW)	44.23	0.6%	10.0%	14.0%	43.98	43.31

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

## OUTLOOK

We expect near-term prices to maintain the current momentum with a potential strength on good demand in the holidays ahead.

## Weekly pork market

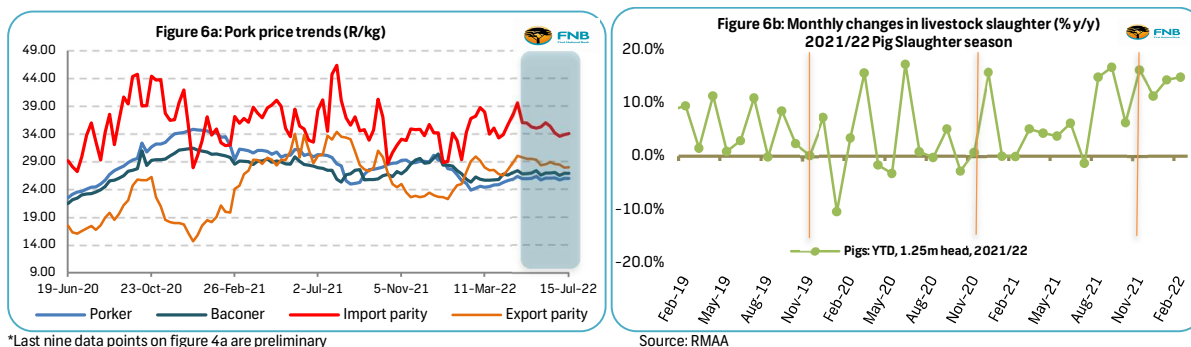
### International pork market update

- China seems to have weathered the storm with regards to the previous African Swine Fever (ASF) followed by massive culling and the subsequently herd rebuilding process with pig numbers topping 450 million head which is up 11% y/y. Latest forecasts shows China's pork production will jump 7.4% y/y to 51 million tons, thus reducing its import demand by 19% y/y.
- Global pork production is expected to increase by 2.6% despite cost constraints due to higher prices of raw feed prices. The increase is largely underpinned by the higher Chinese output.
- However, most of China's production is destined for the local market, thus global export availability shrinks to 11.685 million tons which is down 4.3% y/y. Further, the forecasts for major exporters namely the EU and Canada show a decrease of 4.7% and 0.9% respectively y/y. Brazil's volume of shipments will only rise by 0.7% y/y in 2022.

### Domestic pork market update

- Baconer and porker prices extended strong gains on improved uptake and the spill over strength in the meat complex. Porker and baconer prices are however still way below the 2021 levels by 15% and 6% respectively but still 10% and 25% higher than the 5-year average for this time of the year.
- With feed grain prices still unrelenting at higher levels, we can expect margins to remain under pressure in the industry.

**Figure 6: Pork prices and slaughter trends**



**Table 3: Pig producer prices and slaughter trends**

Pork market – South Africa						
Date	22-Apr-22	% Δ w/w	% Δ y/y	3-Year Avg	15-Apr-22	8-Apr-22
Porker (R/kg)	25.89	1.2%	-15.0%	10.0%	25.58	25.27
Baconer (R/kg)	27.04	1.6%	-6.0%	25.0%	26.61	26.78
Import parity (R/kg)	37.43	5.0%	-4.7%	19.0%	35.76	33.83

Source: USDA, JSE, FNB Agric

### OUTLOOK

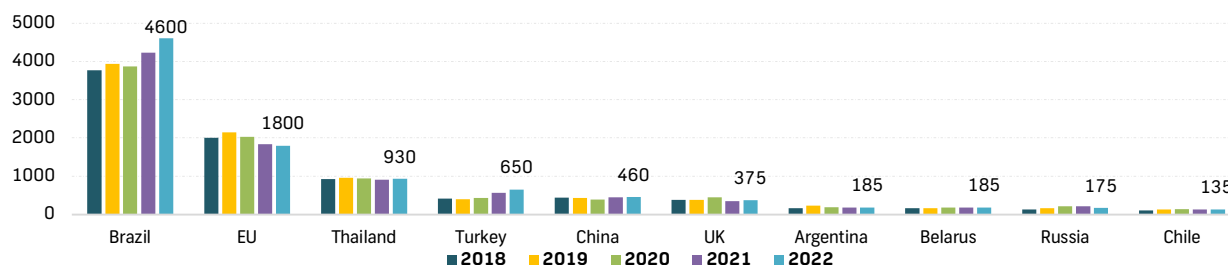
We expect prices to maintain the current momentum in the short term but with further upside due to the spill over strength in the red meat complex as pork trades at a discount relative to other meat types.

### Weekly poultry market update

#### International poultry market update

- Global chicken meat output is expected to increase marginally by 0.4% y/y in 2022 which is still a record high at 100.97 million tons with Turkey, Russia, and Brazil posting the biggest increases of 6.4%, 4.3%, and 2.4% y/y (figure 7).
- Higher feed costs have curtailed output in other areas and Brazil stands in a better position as the leading export to fill the void especially the loss of Ukraine and Russia whose volumes are expected to shrink by almost 20% y/y.
- Turkey and UK exports are expected to jump 15.5% and 7% respectively y/y on rebound in demand in the region as the world's second major chicken meat exporter, the EU, sees volumes falling by 2% y/y.

**Figure 7: Global chicken meat export trends by country (000'tons)**

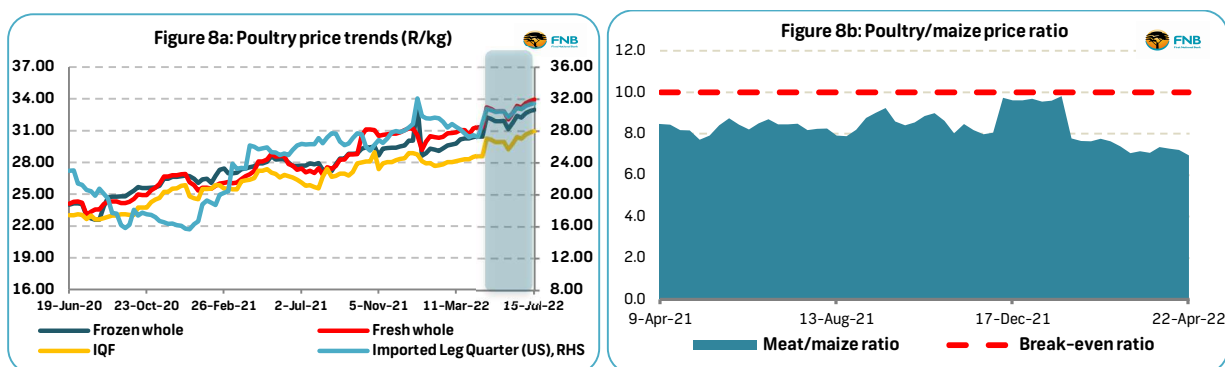


Source: USDA



- In Brazil, the benchmark contract for difference (CFD) eased from the recent highs at BRL7.96/kg in latest trade which is almost 38% higher than the 2022 low and pre-Russia-Ukraine war. At current level, the CFD is 20% higher y/y but still way off the 2021 peak of BRL8.60/kg.
- Using the 5-year average to 2021, Brazil accounts for 14% and 31% of world production and exports respectively and it is projected to raise its exports by almost 9% y/y in 2022 according to the USDA estimates.

Figure 8: Poultry prices and meat/maize ratio trends

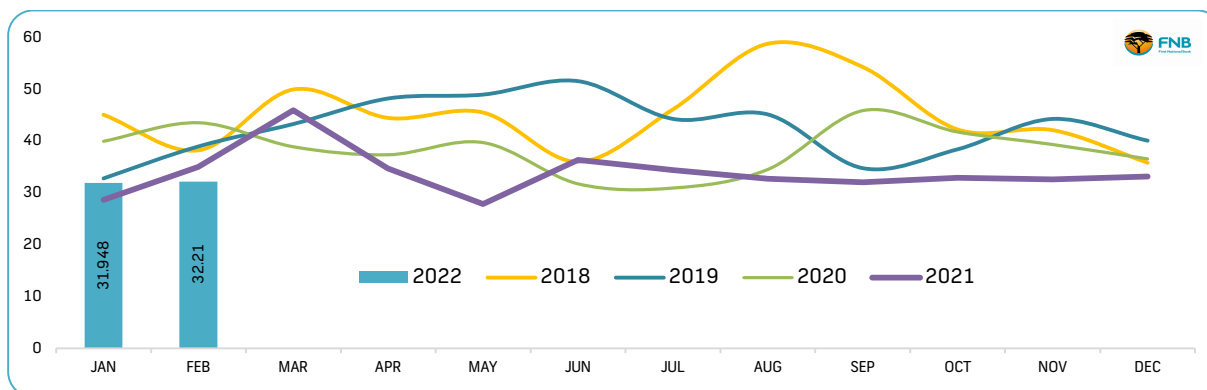


Source: FNB Agriculture, \*Last nine data points on figure 5a are preliminary

#### Domestic poultry market update

- The weekly trend in prices was sideways across most categories in last week's trade. However, the current fresh whole bird, frozen (medium) whole bird, and IQF portion prices are 12%, 9%, and 5% higher relative to the 2021 levels which reflects the strength in the local market underpinned by resilient demand and the relatively limited stock amid tight import volumes.
- Poultry imports showed a contraction of 2.7% m/m in February 2022 at 32,869 tons. However, the broiler component came in at 32,214 tons which is marginally higher by 0.8% m/m but still down by 8.1% y/y (see figure 9). Brazil still accounted for the largest share of almost 78% of the total SA imports.

Figure 9: 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					
	22-Apr-22	% Δ w/w	% Δ y/y	3-Year Avg	15-Apr-22	8-Apr-22
Fresh whole birds (R/kg)	31.37	0.0%	12.0%	9.0%	31.37	31.18
Medium Frozen whole birds (R/kg)	30.49	0.0%	9.0%	8.0%	30.49	30.38
Individually Quick Frozen (IQF) (R/kg)	28.62	0.0%	5.0%	8.0%	28.62	28.53
Import parity (R/kg)	29.06	6.6%	13.0%	8.0%	27.27	27.35

Source: USDA, JSE, FNB Agric

## OUTLOOK

- There seems to be no respite on the feeding front as the relatively high maize prices lowered the meat/maize ratio recently, thus it continues to fall further away from the breakeven level as illustrated in figure 8b. The tightening import volumes that further faces a significant tariff will help maintain the upside for domestic market in the medium term.

### Raw feed input price update

- Latest production estimates point to a good harvest of oilseed crops with soybeans still at a high of 1.89 million tons and the sunflower harvest estimated up by a whopping 42% y/y at a record 963,000 tons.
- The current futures prices of maize, soybean, and sunflower remain high relative to last month and the previous year. White maize (WMAZ) prices are now back above the R4000/ ton recently but still trading at a discount over its yellow counterpart.
- For yellow maize (YMAZ), futures prices increased by over 8% m/m across by mid-week at over R4,500/t. In the oilseed complex, sunflower still above R10,000/ ton but off the 2022 peak of R12,259/t and eased modestly m/m (table 5).
- Soybeans on the other hand showed some renewed gains with nearby Jul22 and Sep22 futures both increasing by almost 7% m/m respectively.
- At current levels and if sustained, the profitability of intensive feeding system will remain under huge pressure and producers might need to cutback of future expansions (see table 5).

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

26 APR 2022	WMAZ	change m/m	YMAZ	change m/m	SUNS	change m/m	SOY	% change m/m
Jul-22	R4,446	9.7%	R4,581	8.0%	R10,671	-5.6%	R9,524	6.8%
Sep-22	R4,495	9.3%	R4,631	7.9%	R10,874	-4.6%	R9,602	6.5%
Dec-22	R4,587	9.4%	R4,711	8.2%	R10,986	-4.6%	R9,687	6.4%
Mar-23	R4,594	9.4%	R4,685	8.3%	-	-	R8,800	1.4%
May-23	-	-	R4,470	-	-	-	-	-

Source: JSE,

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