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Livestock and Fibre markets

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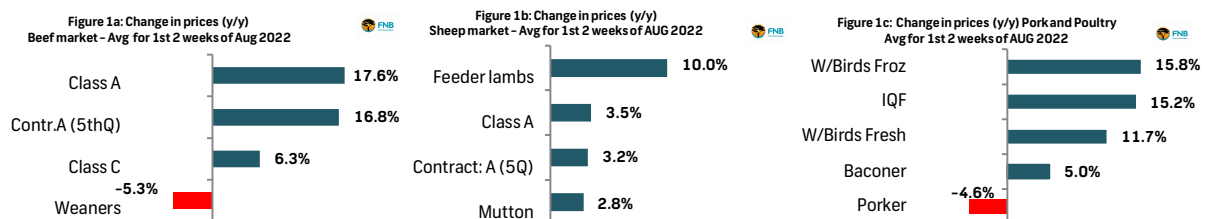


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UPDATE ON LIVESTOCK MARKETS

- Breaking news on the domestic market is that the Minister of Agriculture, Land Reform and Rural Development (DALRRD) announced her decision to suspend all movement of cattle in the whole country to halt the continued spread of Foot and Mouth Disease (FMD). The duration is 21 days in which all cattle may not be moved from one property to another for any reason which will however be subject to weekly review.
- Prosecution for the illegal movement of cattle will be conducted in terms of the contravention of the Animal Diseases Act, 1984 (Act no 35 of 1984). In the previous update, DALRRD confirmed that there were 110 incidences in the previous FMD zone comprised of three events according to DALRRD.
- The first event started in May 2021 in KZN while the second was from March 2022 in the previous FMD free zone in LP which spread to the Northern GP in April 2022. The 3rd outbreak started in March 2022 in the NW and has since spread to GP, the FS, and the MP provinces.
- This is obviously not good news as it has 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 in the case of the Peoples Republic of China. China announced a ban on the import of all cloven-hoofed animals and their products from South Africa to China as of 01 April 2022. China accounted for 22% of total SA meat exports in 2021.
- Although a short-term measure, the suspension is still disruptive to the supply and demand dynamics in the country. However, persistent outbreaks will curtail the country's export drive which is still a relatively small share of local production.
- The latest SARS export figures showed a rebound in the last two months to June 2022. For June 2022, exports increased sharply by 37% m/m despite the earlier FMD challenges at 4,698 tons.
- Nonetheless, the FMD outbreak is yet to make a significant dent on livestock prices as they remain elevated relative to last year (see figures 1a to 1c).

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



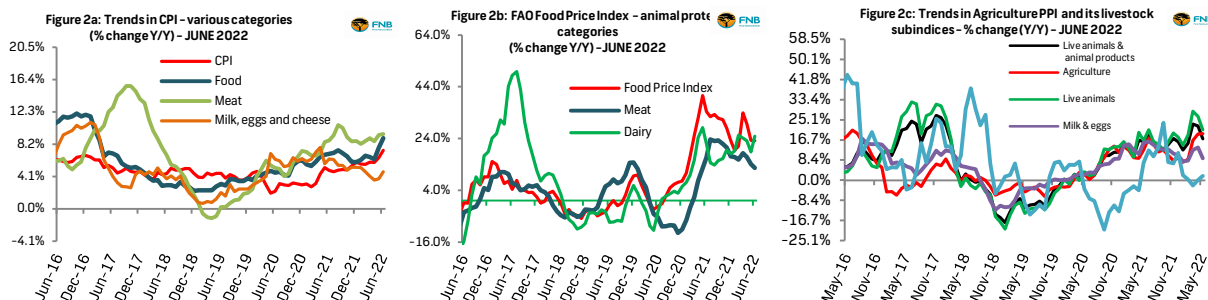
Source: Own calculations from FNB AgriComms.

- In the weaner market, subdued demand due to the FMD challenges saw calf prices falling from the peak of R45/kg live weight (LW) to the current average of R36.04/kg LW for the first two weeks of August 2022.

Global food and meat inflation cools off in July 2022

- Global food inflation as measured by the United Nation Food and Agriculture Organization (FAO) came in on the downside for the fourth consecutive month with a monthly decline of 8.6% m/m in July 2022.
- Averaging 110.94 points, the FAO food price index decelerated by 10 percentage points to 13.1% year-on-year (y/y) in July 2022 from 23.1% y/y in June underpinned by losses in vegetable oils and cereals (figure 3b).
- Although still elevated at 124 points, the global meat subindex fell by 0.5% m/m and further posted a sharp decelerated to 8.7% y/y in July from 12.5% in May. The monthly decrease in the meat complex was underpinned by improved supplies and lower import demand for ovine meat and beef.
- Domestically, the CPI accelerated and edged beyond the upper end of the South African Reserve Banks target range of 3% to 6% at 7.4% y/y in July 2022 from 6.5% y/y in May. Elevated food and fuel inflation made a significant contribution to the acceleration in the CPI which saw the food subcomponent jumping 1.3% m/m to reach a record high since February 2017 at 9% y/y which showed significant pressure on consumers.
- On the meat side, the CPI increased by 0.9% m/m and was 9.5% higher y/y. Tough economic times force consumers to switch to more cheaper cuts including offal. Consequently, beef offal remained elevated with a monthly increase of 44.4% at R68.88/kg in June, which is 53.6% higher y/y.

Figure 2: Food price inflation trends



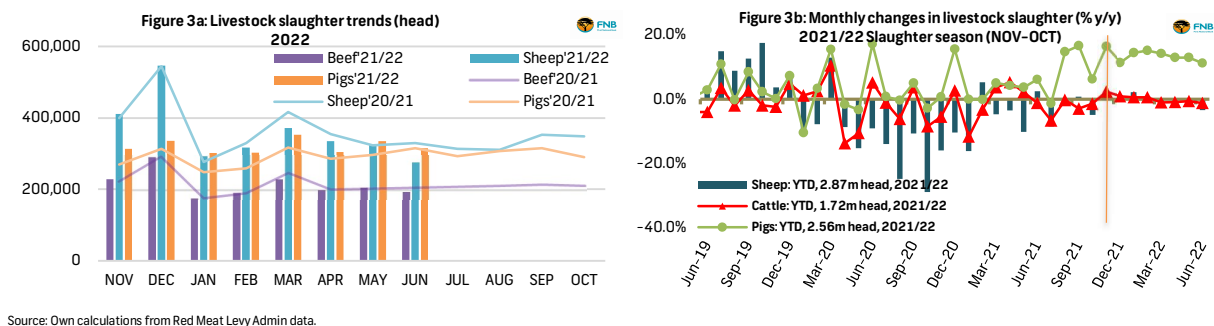
Source: StatsSA, FAO

- We saw a similar trend in the milk, eggs and cheese category which saw an acceleration of 1.4% m/m and 4.7% y/y. Producers in this category had to content with rising cost of fuel which is critical for product distribution and the higher feed prices.
- Meanwhile, mounting cost pressures saw the agriculture producer price index (PPI) edging marginally higher by 0.8% m/m and still elevated at 19.3% y/y in May 2022. The PPI for live animals and animal products fell by 2.8% m/m but still 17.2% higher y/y in May from 22.5% y/y in April. The PPI for live animals alone decreased by 2.8% m/m but still 20.8% higher y/y which is a second consecutive month of deceleration after reaching a record high of 28.5% y/y in five years during March 2022.

A further contraction in livestock slaughter in June 2022

- The latest data on livestock slaughter in South Africa shows a moderate to sharp decrease in numbers for June 2022 led by sheep which fell by 15.4% month-on-month (m/m) and 16% y/y. Beef slaughter fell by 5.8% m/m and 5.3% y/y while pigs were down by 5.9% m/m and 0.2% y/y.
- The revised LevyAdmin data showed that the cumulative number of cattle and sheep slaughtered for year-to-June 2022 (YTD) fell by 1.1% and 3.3% at 1.72 million and 2.88 million head respectively relative to the same period in 2021.
- Pigs however remain the exception with the cumulative YTD slaughter number increasing by a whopping 11.2% y/y at 2.56 million head. (See figures 3a and 3b).

Figure 3: South Africa's livestock slaughter trends



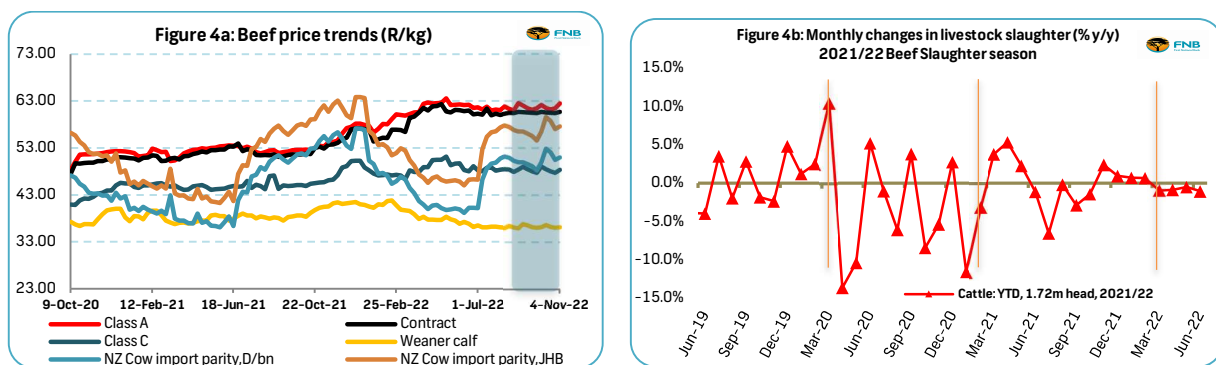
International update on beef markets

- The latest update on the US import market shows further weakness across the board under pressure due to slow trading, softer domestic prices, and subdued seasonal demand.
- At wholesale level, US boxed beef cutout values remained weak despite reduced cattle slaughter due to softer demand. Boxed beef cutout values for Choice and Select categories traded 15% and 17% respectively below the 2021 levels.

Domestic beef market update:

- Further pressure on weaner calf market as demand slips. Weaner calf prices are currently 5% lower y/y at R36.00/kg live weight (LW). The current weaner calf prices are still 2% 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: Red Meat LevyAdmin

Table 1: Beef producer price trends in South Africa

| Beef producer prices: Beef market – South Africa | | | | | | |
|--|-----------|---------|---------|------------|----------|-----------|
| Date | 12-Aug-22 | % Δ w/w | % Δ y/y | 3-Year Avg | 5-Aug-22 | 29-Jul-22 |
| Class A (R/kg) | 61.82 | 1.3% | 18.0% | 16.0% | 61.05 | 61.23 |
| Class C (R/kg) | 48.55 | 0.4% | 3.0% | 8.0% | 48.38 | 48.17 |
| Contract: A (*Incl.5thQ) | 60.32 | 0.5% | 17.0% | 16.0% | 60.04 | 60.28 |
| Import parity (R/kg) | 57.80 | 1.0% | 3.0% | 1.0% | 57.39 | 56.53 |
| Weaner calves (R/kg LW) | 36.00 | 0.0% | -5.0% | 2.0% | 36.08 | 36.25 |

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

OUTLOOK

The weaner calf market may however rebound as supplies tighten should some of the major suppliers be heavily impacted by the FMD outbreak. Expectations are for the market to continue trending relatively sideways to higher in the near term.

Weekly summary of the sheep market

International sheep market update

- Australian lamb markets reported some gains on improved uptake on markets. Strong export demand lifted mutton values with volumes reported up 9% y/y. In the lamb markets, volumes for the four months ahead are projected to contract by 5% from the previous estimate at 7.6 million head largely due to retention but still 400 thousand above the 2021 levels.

Domestic sheep market update

- The trend was again downwards across the board during midmonth as demand weakened. In the weaner market, prices fell by 1% on the week at R47.56/kg LW, which is 2% below the 2021 levels. At current levels, weaner lamb prices are 2% above the 3-year average for this time of the year.

Figure 5: Lamb and mutton prices and sheep slaughter trends

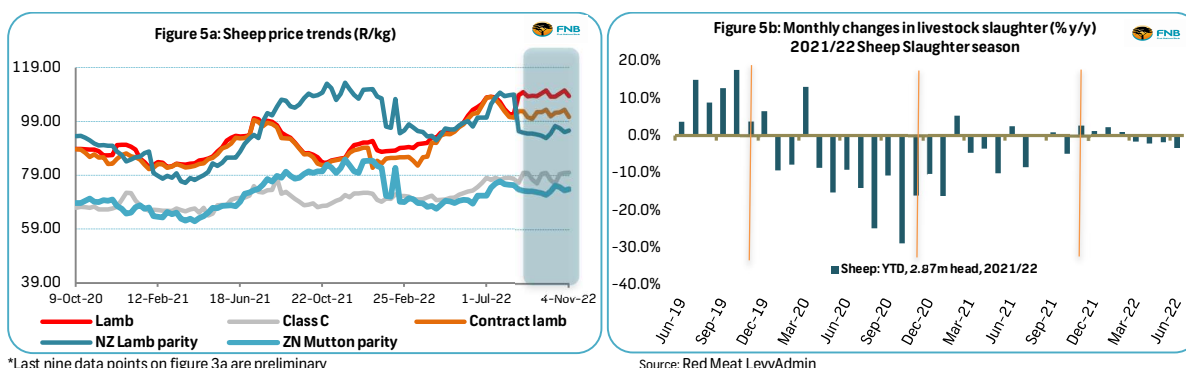


Table 2: Sheep producer price trends in South Africa

| Date | Sheep market - South Africa | | | | | |
|---------------------------------|-----------------------------|---------|---------|------------|----------|-----------|
| | 12-Aug-22 | % Δ w/w | % Δ y/y | 3-Year Avg | 5-Aug-22 | 29-Jul-22 |
| Class A (R/kg) | 101.58 | -0.1% | 4.1% | 6.0% | 101.67 | 103.56 |
| Mutton (R/kg) | 77.64 | -0.6% | 0.0% | 7.0% | 78.11 | 77.86 |
| Contract: A (*Incl. 5thQ, R/kg) | 100.48 | -0.2% | 4.0% | 6.0% | 100.70 | 102.76 |
| Import parity (R/kg) | 108.92 | 0.0% | 4.0% | 5.0% | 108.78 | 108.41 |
| Feeder lambs (R/kg LW) | 47.56 | -1.3% | -2.0% | 2.0% | 48.17 | 49.94 |

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

OUTLOOK

The potential deterioration in the FMD situation poses upside risk to this market. Improved seasonal upswing in demand as the warmer month return are supportive for prices in the medium term.

Weekly pork market

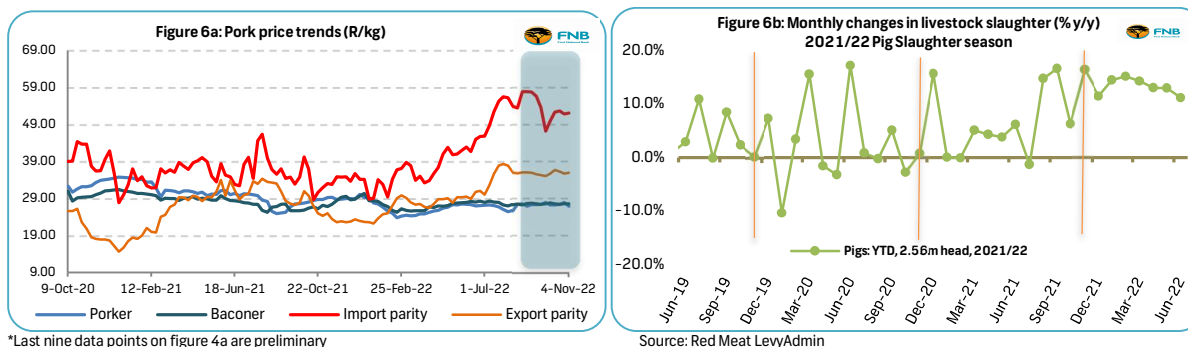
International pork market update

- US pork carcass values were a bit softer on limited uptake in last week's trade. Pig slaughter slowed on the week and were 3% lower y/y and the YTD cumulative total falling by 4% y/y at 75.86 million head.
- China's sow herd is reportedly recovering with numbers up 2% m/m in June 2022 but still 6% lower y/y at 42.8 million head. The improved domestic supplies reduced the country's import demand and prices are trending at reasonable levels for the average consumer. As China accounts for just over 44% and 37% of the global pork production and imports respectively, a reduced Chinese demand will curtail global exports and place downward pressure on prices.

Domestic pork market update

- The pork market surprised on the upside on improved uptake. Average porker prices closed 1% higher y/y and still 10% above the 3-year average. Baconers were 3% higher y/y and 28% above the 3-year average for this time of the year.

- There is still concern over the relatively elevated feed grain prices as they are yet to fall to reasonable levels to achieve improved profitability in the market.

Figure 6: Pork prices and slaughter trends

- On monthly international trade, pork imports dropped sharply by 10.8% m/m at 2,311 tons in June 2022 with total value (FOB) falling by 2.6% m/m to R98.04 million. However, the average prices shot up by 9.1% m/m at R42.43/kg.
- On the export front, pork exports rebounded modestly by 4.5% m/m to 714 tons. Export earnings rose sharply by 11.4% m/m to R24.67 million with the average product price increasing by 6.6% m/m to R34.52/kg.

Table 3: Pig producer prices and slaughter trends

| Date | Pork market - South Africa | | | | | |
|----------------------|----------------------------|---------|---------|------------|----------|-----------|
| | 12-Aug-22 | % Δ w/w | % Δ y/y | 3-Year Avg | 5-Aug-22 | 29-Jul-22 |
| Porker (R/kg) | 25.87 | 1.7% | 1.0% | 10.0% | 25.45 | 26.08 |
| Baconer (R/kg) | 27.52 | 1.5% | 3.0% | 28.0% | 27.10 | 27.35 |
| Import parity (R/kg) | 53.97 | -4.0% | 46.1% | 72.0% | 56.29 | 56.57 |

Source: USDA, JSE, FNB Agric

OUTLOOK

We expect prices to maintain the current momentum with limited upside given the current tough economic conditions on the consumer front.

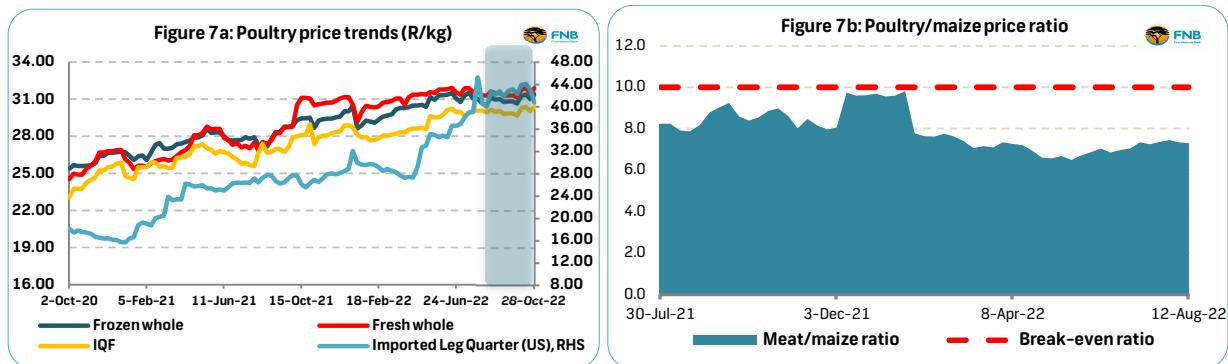
Weekly poultry market update*International poultry market update*

- Brazil's poultry prices still trade way above the 2022 lows in May. This saw the benchmark contract for difference for this commodity closing at BRL8.14/kg in the latest trade which is 24% higher relative to the beginning of the year and back on par with the 2021 levels.
- While showing signs of moderation, the elevated feed and energy costs will continue to erode producer margins thus forcing marginal producers to downscale operations or delay production expansion plans.

Domestic poultry market update

- Last week saw some pressure on the local market as demand slipped during midmonth amid tighter disposable incomes especially in the lower LSM category.
- However, the current fresh whole bird, frozen (medium) whole bird, and IQF portion prices are still 14%, 13%, and 9% respectively above the 2021 levels.
- Demand has come under pressure lately after been relatively stable in the past few months as chicken remains a relatively cheaper animal protein source compared to beef, lamb and mutton which remain at record highs.
- There are worries over pressure on consumer disposable income after the recent interest rate hike with the outlook still pointing to further increases in the subsequent SARB's MPC meetings.

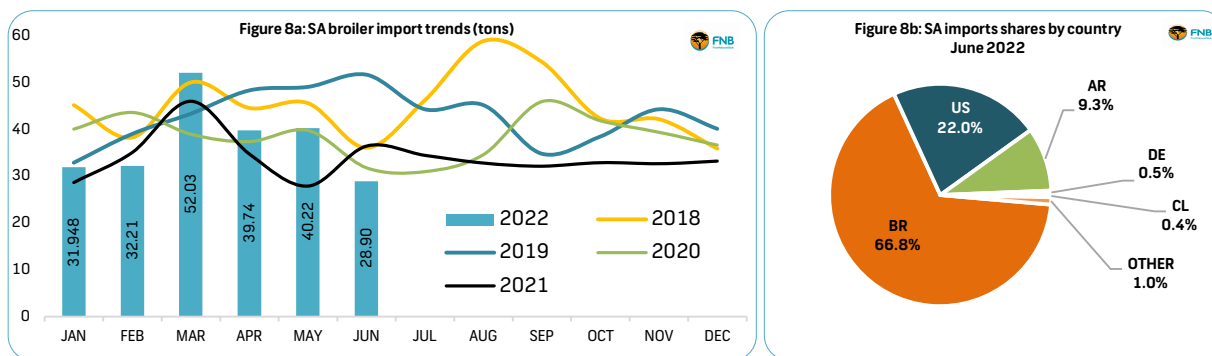
Figure 7: Poultry prices and meat/maize ratio trends



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

- Broiler imports reversed earlier gains and fell sharply by 28% m/m and 20.6% y/y in June at 28.19 thousand tons. The cumulative YTD imports were however still 7.7% ahead relative to the same period in 2021 at 224.85 thousand tons (figure 8).
- Meanwhile, the total poultry imports for June came in at 29.50 thousand tons of which the majority in broiler meat. The June 2022 poultry imports fell by 28.1% m/m and 24% y/y and were valued at R369.8 million (fob) which is down 24% m/m and 27.8% y/y.

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 | | | | | |
|--|-------------------------------|---------|---------|------------|----------|-----------|
| | 12-Aug-22 | % Δ w/w | % Δ y/y | 3-Year Avg | 5-Aug-22 | 29-Jul-22 |
| Fresh whole birds (R/kg) | 31.30 | -0.2% | 14.0% | 14.0% | 31.35 | 31.56 |
| Medium Frozen whole birds (R/kg) | 30.58 | -0.2% | 13.0% | 14.0% | 30.65 | 31.06 |
| Individually Quick Frozen (IQF) (R/kg) | 29.96 | -0.5% | 9.0% | 13.0% | 30.10 | 30.08 |
| Import parity (R/kg) | 40.02 | -1.4% | 47.0% | 36.0% | 40.60 | 45.28 |

Source: USDA, JSE, FNB Agric

OUTLOOK

The potential upswing in red meat prices due to the FMD-induced supply tightness bodes well for chicken meat as it is a cheaper substitute in the animal protein complex.

The relatively high maize prices continued to maintain a wide gap between the meat/maize ratio and the breakeven level as illustrated in figure 8b. With the rand exchange rate now hovering around R17/US\$, import prices are expected come in bit higher thus providing some cushion for the local market.

Raw feed input price update

- The latest midweek trends show some weakness in the maize market relative to the previous month but still at relatively high levels. White maize (WMAZ) and yellow maize (YMAZ) prices are however both still trending above R4,000/ ton.
- Dec-22 futures for yellow maize (YMAZ) fell by 1.1% m/m to R4,354/t while WMAZ decreased marginally by 0.7% m/m at R4,345/ ton with the rest of the contracts falling by 0.4% to 3.3% m/m.
- In the oilseed complex, sunflower futures remained elevated above R10,000/ ton but off the 2022 peak of R12,259/t at R10,853/t which is 1.6% lower m/m for the Dec-22 contract (table 5).
- Nearby soybeans for Sep22 delivery gained 5.8% m/m at R8,930/t.
- We still maintain the view that although there are signs of the reversal in price trend which bodes well for potential cooling-off of feed costs, the current levels are still relatively high to reduce pressure on profitability of intensive feeding system (see table 5).

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

| 16 Aug 2022 | WMAZ R/ton | % Δ m/m | YMAZ R/ton | % Δ m/m | SUNS R/ton | % Δ m/m | SOY R/ton | % Δ m/m |
|-------------|---------------|------------|---------------|------------|---------------|------------|--------------|------------|
| Dec-22 | R4,354 | -1.1% | R4,345 | -0.7% | R10,853 | 1.6% | R8,930 | 5.8% |
| Mar-23 | R4,345 | -0.8% | R4,338 | -0.4% | R10,594 | 0.8% | R8,843 | 4.1% |
| May-23 | R4,069 | -1.9% | R4,070 | -3.3% | R9,800 | -2.0% | R8,314 | 1.4% |
| Jul-23 | R4,028 | -1.5% | R4,041 | -1.0% | - | - | - | - |
| - | - | - | - | - | - | - | - | - |

Source: JSE,

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