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Livestock and Fibre markets

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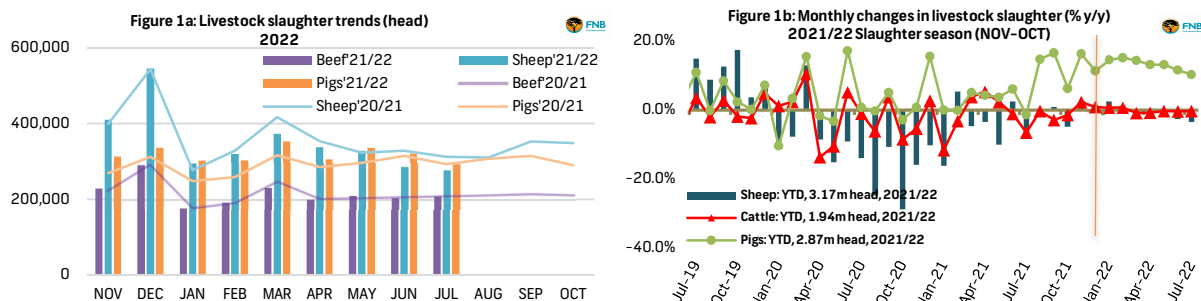


Paul Makube pmakube@fnb.co.za | Tumi Kgasago | Vhutshilo Mabela | 31 AUG 2022

UPDATE ON LIVESTOCK MARKETS

- The latest data on livestock slaughter in South Africa shows a modest decline in numbers for July 2022 led by pigs which fell by 8.7% month-on-month (m/m), but almost unchanged y/y. Sheep numbers followed closely with a monthly decline of 3.3% and were 11.5% lower y/y. Beef was however the exception with a slight increase of 2.2% m/m in slaughter numbers. The total livestock slaughter for the three categories fell 4% m/m and 4.4% y/y which indicates limited domestic availability of meat thus a relatively elevated price trend.
- Meanwhile, there is no respite with the Foot-and-Mouth Disease (FMD) situation as per the latest update from the Minister of Agriculture, Land Reform and Rural Development (DALRRD) which shows 11 new outbreaks as of the week ended 25 August which brought the total properties infected to 127. We should expect a further contraction in livestock slaughter particularly cattle for the duration of the ban which has upside implications for prices.
- On the inflation front, both the consumer and producer indices came in on the upside with the producer price inflation (PPI) accelerating much faster by 2.2% m/m and 18% y/y while the headline CPI accelerated to 7.8% y/y and was 1.5% m/m.
- The PPI for agriculture rebounded by 0.9% m/m and accelerated further by 15% y/y from 14.8% y/y in June. The food CPI on the other hand rose by 1.2% m/m and 10.1% y/y and back in double digit levels last seen in February 2017.
- Although the agriculture PPI is off the 2022 peak of 19.3% y/y recorded in May, its recent outcome indicates margin pressure on the sector as input costs accelerate much faster than output prices (figure 2b). The PPI for *live animals and animal products* rose by 4.3% m/m in July and were sharply higher by a whopping 19.1% y/y. For live animals alone, the PPI jumped 5.3% m/m and was sharply higher by 22.5% y/y which implies extreme margin pressure on intensive livestock production systems such as feedlots given that feed costs are also elevated.

Figure 1: South Africa's livestock slaughter trends



Source: Own calculations from Red Meat Levy Admin data.

- It is however hoped that a further decrease at the pump with fuel prices likely to fall by R2/l and R1/l for petrol and diesel respectively given the latest over-recovery estimates bodes well for the agriculture sector as we head into the summer season.
- Although relatively elevated, meat inflation decelerated 9.4% y/y and has been around this level for the past three months to July 2022. The monthly meat CPI was just 0.5% higher m/m from 0.9% m/m in June. The recent deterioration of FMD and the subsequent ban on cattle movement pose upside risk to the near-term inflation outlook.
- A drill-down into the meat inflation subcomponents shows gains for the beef category with brisket and T-bone leading the pack with increases of 16% y/y. Beef offal remains relatively elevated, clocking 8% higher y/y and is likely to strengthen further due to the FMD-induced tightening availability.
- Softer demand pressured the lamb and mutton categories which saw declines across the board except for the neck prices that rose by 10% y/y.
- For the pork market, pork ribs and fillet prices came in slightly on the upside while pork chops fell sharply by 12% m/m and 15% y/y. Chicken prices saw gains of over 6% y/y across the frozen product category while the fresh whole birds and portions which generally have a smaller market share fell sharply by 12% and 9% respectively y/y.

Figure 2: Food price inflation trends

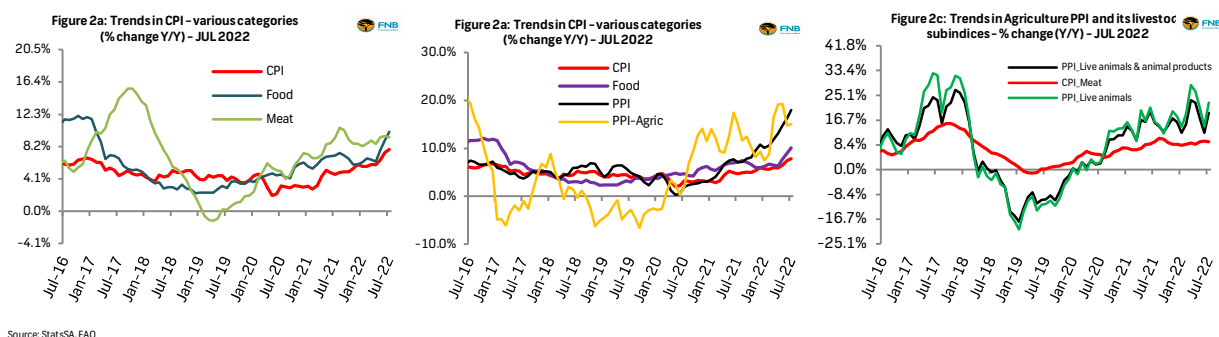
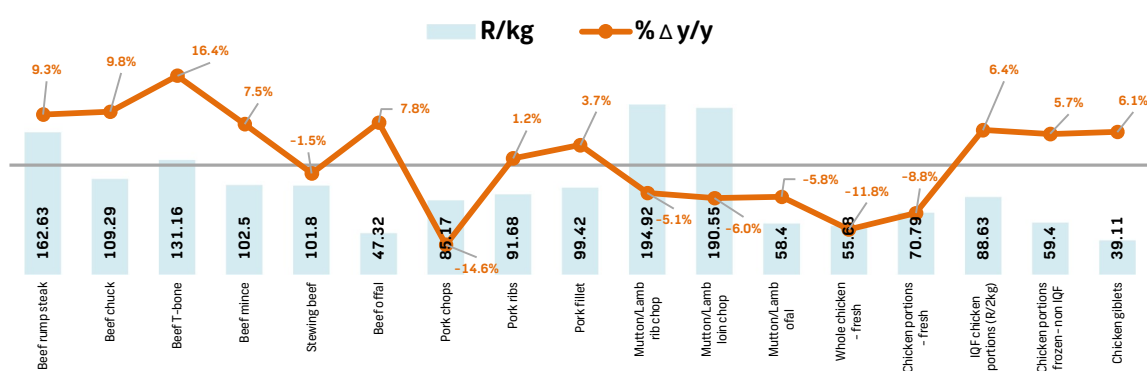


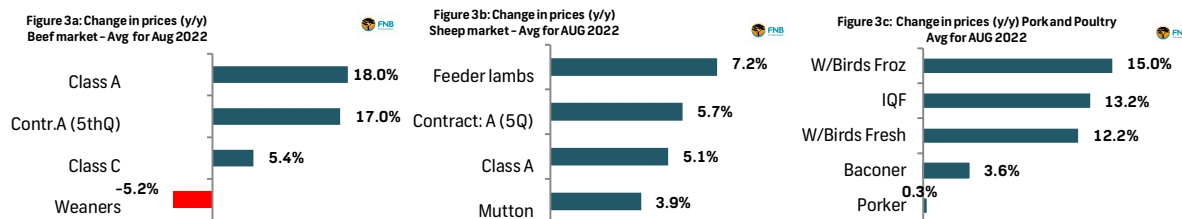
Figure 2d: Consumer price index for selected meat products and eggs (% change y/y) - JUL 2022



Trends at producer level

- At producer level, prices remain elevated underpinned by the resilient demand and supply tightness.
- Contrary to expectations, the FMD outbreak is yet to make a significant dent on livestock prices as they remain elevated relative to last year (see figures 3a to 3c).
- Although trading currently halted, the weaner market remains an exception with prices continuing to trend on the downside and off the peak of R45/kg live weight (LW) to the current average of R36.10/kg LW for August 2022.

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



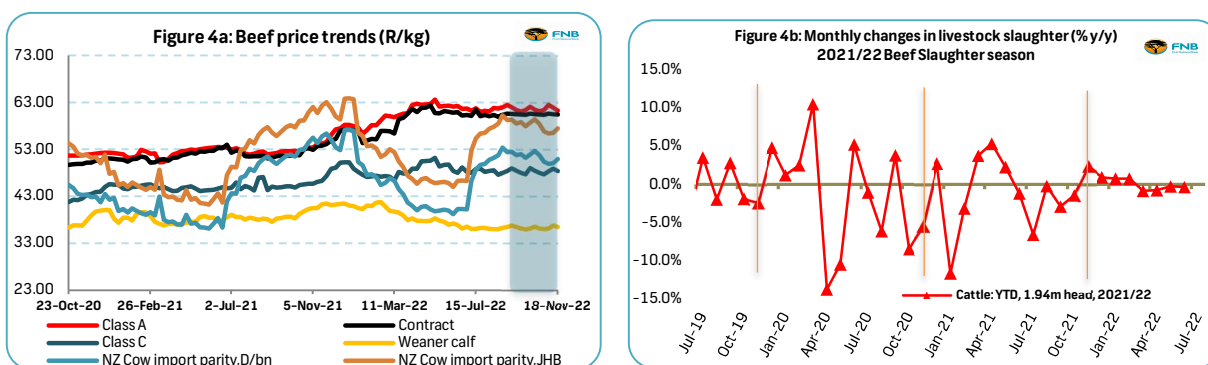
International update on beef markets

- The latest update on the US wholesale market is that boxed beef cutout values continued to soften on demand contraction and increased availability due to heavy cattle slaughter. Last week's boxed beef cutout values for Choice and Select categories were sharply lower by 24% and 25% respectively relative to the 2021 levels.
- In the cattle market, the CME feeder cattle index advanced by 1.7% last week and was 14% higher y/y at US\$182.25/cwt. Weekly slaughter rebounded to 678 thousand head with the cumulative YTD total of 22.10 million head, up 3.8% and 1.2% respectively y/y.

Domestic beef market update:

- With trading at a standstill, indicative prices for weaners show a potential for a strong rebound in the medium-term as feedlots resume restocking following the FMD disruptions.
- On the carcass market, limited availability pushed prices higher as buyers scurry for product.

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	26-Aug-22	% Δ w/w	% Δ y/y	3-Year Avg	19-Aug-22	12-Aug-22
Class A (R/kg)	62.04	0.6%	19.0%	17.0%	61.65	61.82
Class C (R/kg)	48.05	1.0%	8.0%	9.0%	47.57	48.55
Contract: A (*Incl.5thQ)	60.45	0.9%	18.0%	17.0%	59.94	60.32
Import parity (R/kg)	60.34	3.0%	5.0%	3.0%	58.43	57.80
Weaner calves (R/kg LW)	36.32	1.0%	-5.0%	1.0%	36.00	36.00

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

OUTLOOK

We expect a strong rebound in supplies as slaughter activity returns to normal in the medium term. Upside pressure remains due to uncertainty over normalization of the FMD situation as well as lack of import availability from Botswana.

Weekly summary of the sheep market

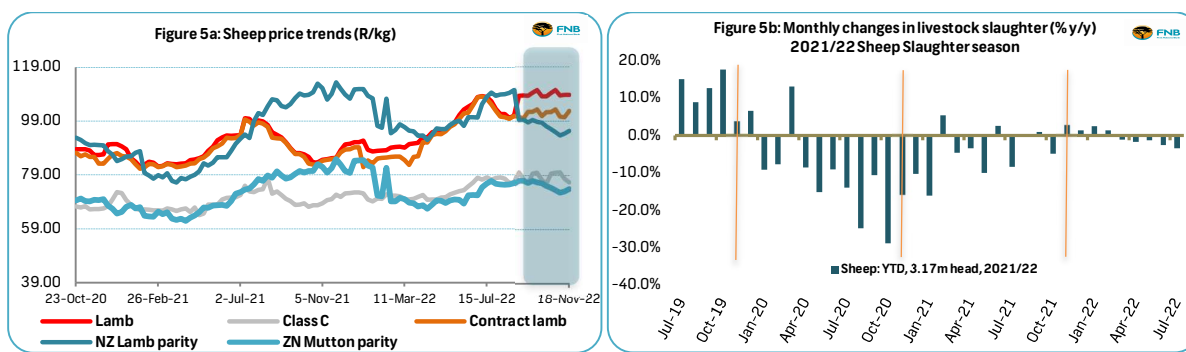
International sheep market update

- Australian lamb and mutton supplies were reportedly on the downside as producers retained their stock a bit longer in anticipation of the uptick in prices. Consequently, lamb numbers slaughtered eased on the week but still 12% ahead of last year while sheep numbers fell 6.6% relative to the week earlier.
- In New Zealand, a combination of increased availability of product and strong uptake helped lift export volumes to China by 8% to 11,500 tons with a market share of 45%.

Domestic sheep market update

- The carcass market rebounded marginally on spill over gains from the beef market due to supply constraints. At current levels, lamb and mutton prices are 5% to 9% higher respectively y/y and 7% to 8% 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: Red Meat LevyAdmin

Table 2: Sheep producer price trends in South Africa

Date	Sheep market - South Africa					
	26-Aug-22	% Δ w/w	% Δ y/y	3-Year Avg	19-Aug-22	12-Aug-22
Class A (R/kg)	101.04	0.8%	7.7%	7.0%	100.25	101.58
Mutton (R/kg)	76.22	0.3%	5.0%	7.0%	76.02	77.64
Contract: A (*Incl. 5thQ, R/kg)	100.83	0.9%	9.0%	8.0%	99.89	100.48
Import parity (R/kg)	110.50	1.0%	4.0%	6.0%	109.43	108.92
Feeder lambs (R/kg LW)	47.18	0.5%	5.0%	6.0%	46.93	47.56

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

OUTLOOK

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

Weekly pork market

International pork market update

- Last week saw a sharp contraction in weekly US pork carcass values on subdued demand despite reduced availability on markets. Weekly pork cutout values fell 12% on the week and were 7% lower y/y at US\$106.11/ cwt. On the slaughter front, pig slaughter slowed on the week and were 2% lower y/y with the cumulative YTD total falling by 4% y/y at 86.64 million head.
- China's pork import volumes were reported unchanged m/m in July at 120 thousand tons but sharply down by 65% relative to the 2021 levels. The YTD cumulative pork imports in China fell by 65.1% y/y at 930 thousand tons. The decline in imports emanate from the strong rebound in domestic production due to the rebuilding of the sow herd.

Domestic pork market update

- We saw some renewed strength in the pork market due to the spill over gains from beef prices. Average porker prices closed 6% higher y/y and still 13% above the 3-year average. Baconers were 1% higher y/y and 29% 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

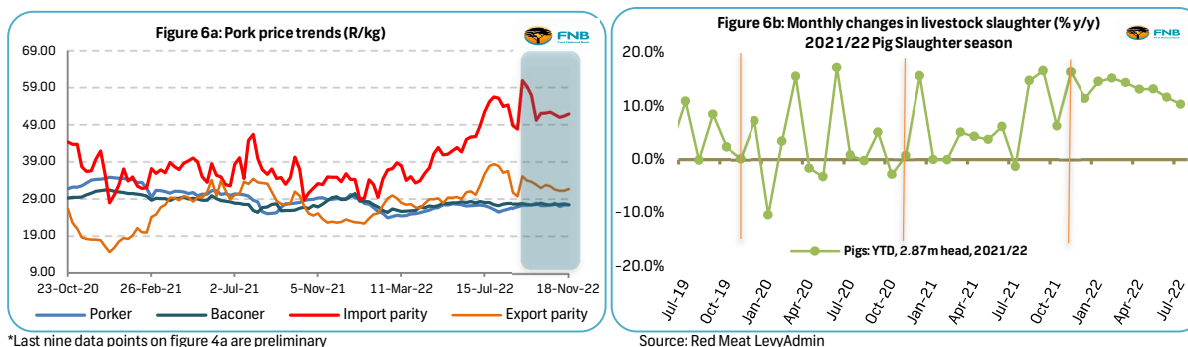


Table 3: Pig producer prices and slaughter trends

Pork market – South Africa						
Date	26-Aug-22	% Δ w/w	% Δ y/y	3-Year Avg	19-Aug-22	12-Aug-22
Porker (R/kg)	26.65	1.8%	6.0%	13.0%	26.18	25.87
Baconer (R/kg)	27.83	0.5%	1.0%	29.0%	27.69	27.52
Import parity (R/kg)	48.84	-10.0%	31.6%	56.0%	54.41	53.97

Source: USDA, JSE, FNB Agric

OUTLOOK

We expect prices to maintain the current momentum with further upside given the FMD-induced supply tightness in the beef market.

Weekly poultry market update

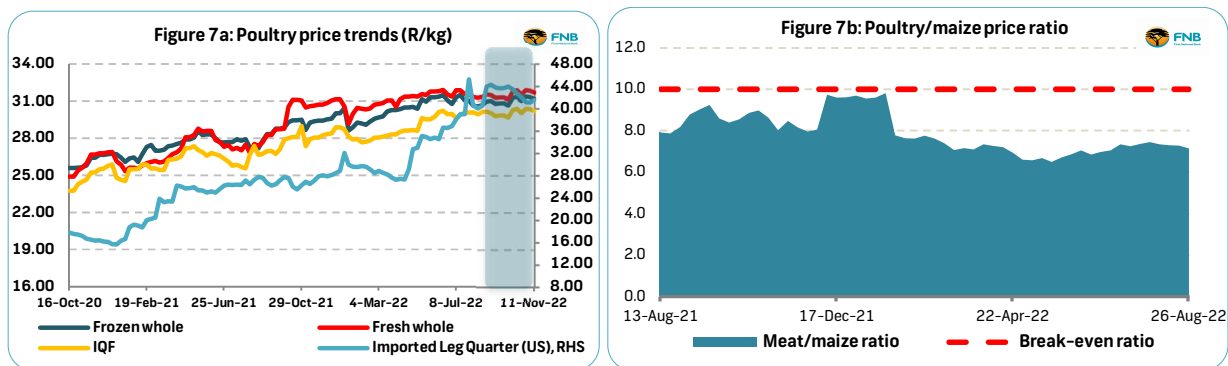
International poultry market update

- Brazil's poultry prices extended losses in recent trades but still way above the 2022 lows in May. This saw the benchmark contract for difference for this commodity closing at BRL7.89/kg in the latest trade which is 24% higher relative to the beginning of the year but still 4% below the 2021 levels.
- In the US, cold storage supplies of poultry as of end of July were reported 5% higher m/m but still 6% above the 2021 levels. Chicken in cold storage was however up 6% m/m and 12% above the 2021 levels.

Domestic poultry market update

- Last week saw some recovery on the local market as demand improved for the month end period. The strength in other meat types provided added support.
- However, the current fresh whole bird, frozen (medium) whole bird, and IQF portion prices are still 13%, 11%, and 13% respectively above the 2021 levels.
- The likelihood of a cut in fuel prices with the over-recovery on petrol estimated at just over R2/l bodes well for demand as pressure on consumer disposable income eases.

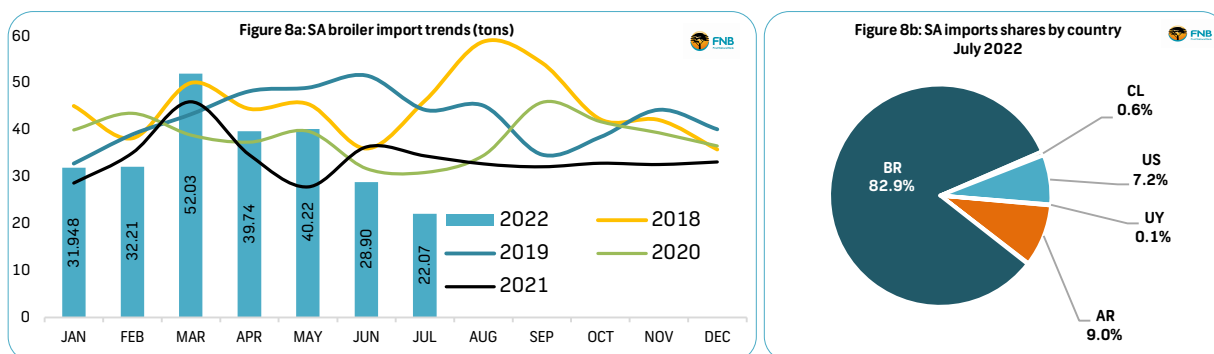
Figure 7: Poultry prices and meat/maize ratio trends



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

- Broiler imports fell sharply by 28% m/m and 36% y/y in July at 22.08 thousand tons. The cumulative YTD imports were however still 1.6% ahead relative to the same period in 2021 at 247.13 thousand tons (figure 8).
- Meanwhile, the total poultry imports for July came in at 23.25 thousand tons of which the majority in broiler meat. The July 2022 poultry imports fell by 22% m/m and were valued at R275.22 million (fob) which is down 26% m/m.

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					
	26-Aug-22	% Δ w/w	% Δ y/y	3-Year Avg	19-Aug-22	12-Aug-22
Fresh whole birds (R/kg)	31.57	0.6%	14.0%	13.0%	31.38	31.30
Medium Frozen whole birds (R/kg)	30.98	0.8%	11.0%	11.0%	30.72	30.58
Individually Quick Frozen (IQF) (R/kg)	30.18	0.1%	13.0%	13.0%	30.15	29.96
Import parity (R/kg)	43.99	8.5%	59.0%	47.0%	40.53	40.02

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 a resurgence in the maize market relative to the previous month.
- Dec-22 futures for yellow maize (YMAZ) and white maize (WMAZ) increased by 4% and 5% respectively m/m to R4,615/t and R4,628/t.
- In the oilseed complex, sunflower futures remained elevated above R10,000/ ton but off the 2022 peak of R12,259/t at R11,325/t which is almost 7% higher m/m for the Dec-22 contract (table 5).
- Nearby soybeans for Sep22 delivery gained 2% m/m at R9,116/t.
- The recent upswing in prices does not bode well for livestock feeders as feed costs will remain elevated thus maintaining profit margins under pressure (see table 5).

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

31 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	R4,615	4.3%	R4,628	5.2%	R11,325	6.9%	R9,116	2.0%
Mar-23	R4,614	4.8%	R4,630	5.6%	R11,030	6.6%	R9,000	1.8%
May-23	R4,348	5.7%	R4,366	4.4%	R10,471	7.0%	R8,520	0.9%
Jul-23	R4,383	5.7%	R4,353	4.8%	-	-	-	-
Dec-23	R4,501	6.0%	R4,494	-	-	-	-	-

Source: JSE,

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