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# Livestock and Fibre markets

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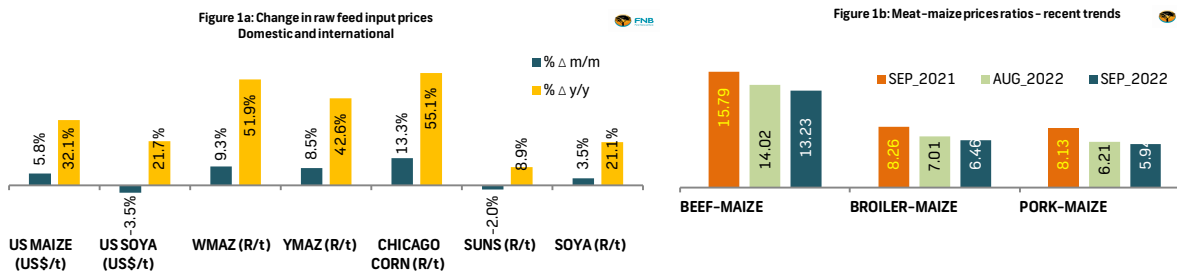
Paul Makube pmakube@fnb.co.za | Tumi Kgasago | Vhutshilo Mabela | 27 SEP 2022

## UPDATE ON LIVESTOCK MARKETS

### Feeding margins tighten on surging raw feed input prices

- Prices of grains and oilseeds that used as inputs in the production of livestock feed in South Africa continue to trend on the upside both on a month-on-month and year-on-year basis as illustrated in figure 1a.
- Feed accounts for a significant portion of intensive livestock production costs and prices of raw inputs mainly maize (+70%) and other plant protein sources such as soybeans and sunflower have a huge influence on profitability.
- Domestic prices of these raw feed inputs are in turn influenced by various factors such as the rand exchange rate, international prices, weather, and production trends. We have seen increased volatility in the rand/ US dollar exchange rate which topped R18/US\$ recently thus placing upward pressure on domestic prices.
- Although showing signs of easing due to harvest pressure and US dollar gains lately, US maize prices are still 5.8% higher m/m and 32% higher y/y. Domestically, white maize (WMAZ) and yellow maize (YMAZ) prices so far are 9.3% and 8.5% higher respectively m/m and almost 52% and 43% higher y/y.
- The plant protein category also remained elevated with soybean prices increasing by 3.5% m/m and 21% y/y. Soybeans are the biggest source of plant protein in animal feed in the form of soymeal (48%). After reaching a record high in 2022, sunflower prices eased marginally by 2% m/m but still 9% ahead of the 2021 levels.
- The above caused margin comprehension for feeders as determined through the meat-maize prices ratio, an indicator of profitability in the livestock sector. The meat-maize price ratios for beef, broiler, and pork have so far decreased by 5.6%, 8%, and 4.4% respectively m/m in SEP 2022 and still 16.2%, 21.8% and 26.9% lower y/y (see figure 1b). While meat prices remain at best levels, the higher input costs coupled with disease challenges have eroded producer margins.

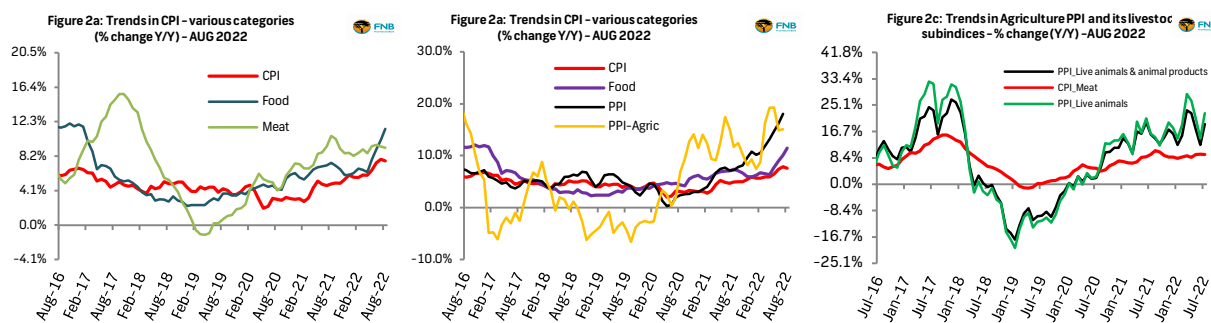
Figure 1: Changes in prices of raw feed inputs and the meat-maize price ratios for beef, broiler, and pork.



### Headline CPI pauses but food surges to double digit levels

- Last week's inflation data releases pointed to a tough situation for the South African consumer with inflation remaining elevated and interest rates being hiked aggressively.
- Faced with an elevated inflation trajectory, uncertainty over the duration of the Russia-Ukraine war and its continued curtailment of world trade, and weaker domestic and global growth, the SARB had no choice but to increase the repo rate by another 75bps to 6.25% which was in line with market expectations.
- Although headline inflation decelerated to 7.6% in August 2022 from 7.8% in July, it remained way outside the upper end of the SARB's target range of 3% to 6%. Core inflation also slowed from 4.6% previously to 4.4% y/y in August but the rising public transportation costs pushed the monthly outcome to 0.2% m/m.
- The food and non-alcoholic beverages inflation (NAB) and food subindices posted strong increases and were back at double digit levels last seen in early 2017. FNAB increased by 1.8% m/m and was up by a whopping 11.3% y/y in August from 9.7% y/y in July. Food alone marched 1.7% m/m and jumped by 11.5% y/y which is the highest level since January 2017. Cereals were the biggest contributor with a 0.6 percentage point addition to the monthly pressure.
- There was however some respite on the meat side with overall inflation decelerating to 9.2% y/y from 9.4% previously. The monthly pressure from the disease-induced ban on cattle sales saw meat inflation accelerating by 0.7% m/m in August from 0.5% in July. Although the ban on cattle movement and sales was subsequently lifted, the latest updates from the Department of Agriculture, Land Reform, and Rural Development (DALRAD) indicates that the outbreak of the foot-and-mouth disease (FMD) persists following a further detection in the town of Hertzogville in the Free State province.

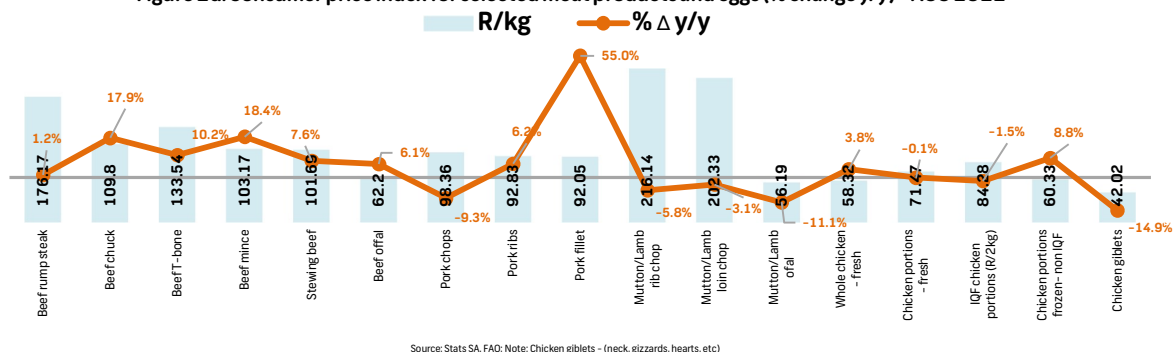
**Figure 2: Food price inflation trends**



Source: StatsSA, FAO

- It is however hoped that a further decrease at the pump will continue to help subdue fuel inflation which fell by 3.8% m/m in August but still sharply higher by 43.2% y/y.
- A drill-down into the meat inflation subcomponents shows gains for the beef category with beef mince and beef chuck leading the pack with increases of 18.4% and 17.9% y/y. Beef offal remains relatively elevated, clocking 6% 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 with the offal category falling by 11% m/m while the rib and loin chops fell by 5.8% and 3.1% y/y respectively.
- For the pork market, pork fillet prices remained sharply on the upside with a monthly increase of 31.4% m/m and 55% y/y while pork chops had good monthly gains of 6.7% m/m but were sharply down by 9.3% y/y.
- Chicken prices saw monthly gains across most categories except for the chicken giblets (neck, gizzards, hearts, etc) which fell by 3.8% m/m and 14.9% y/y. The frozen category was mixed with IQF chicken portions (R/2kg) increasing by 6.3% m/m but still down 1.5% y/y, while non-IQF frozen chicken portions rose by 3.1% m/m and 8.8% y/y in August.

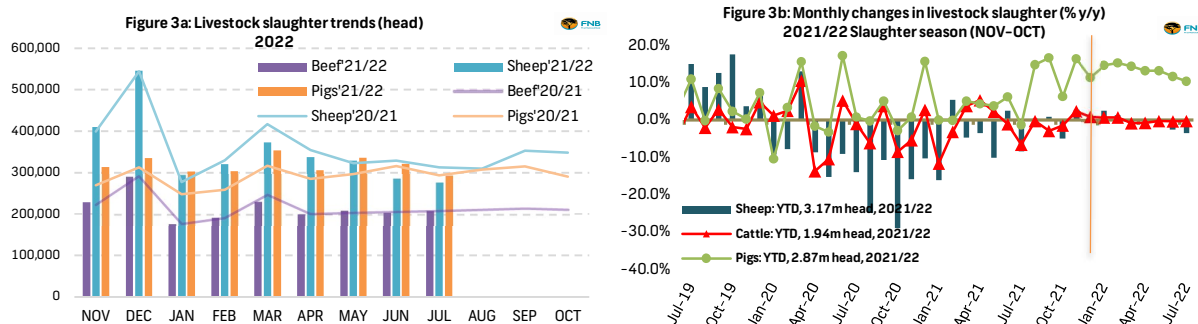
Figure 2d: Consumer price index for selected meat products and eggs (% change y/y) – AUG 2022



## Trends in livestock slaughter

- 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.

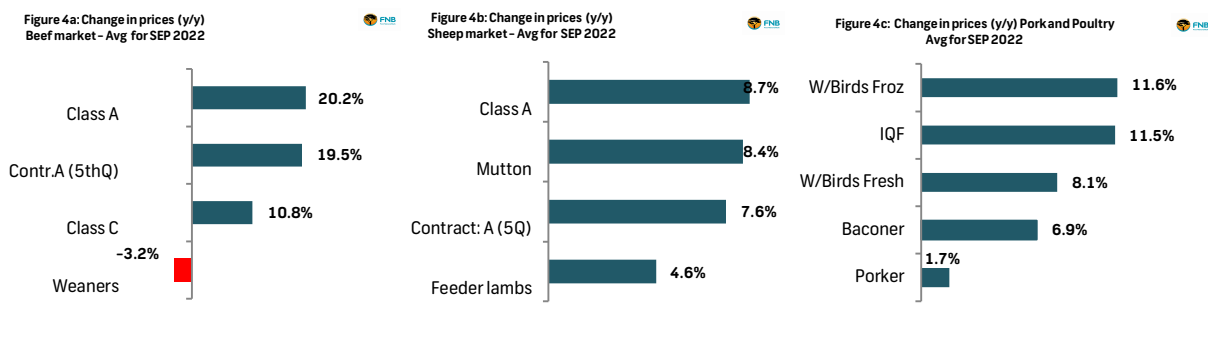
Figure 3: South Africa's livestock slaughter trends



## 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 improving marginally lately to the current average of R36.10/kg LW for SEP 2022, prices continuing to trend below the 2021 levels and off the peak of R45/kg live weight (LW).

Figure 4: Changes in average weekly livestock prices (% change y/y)



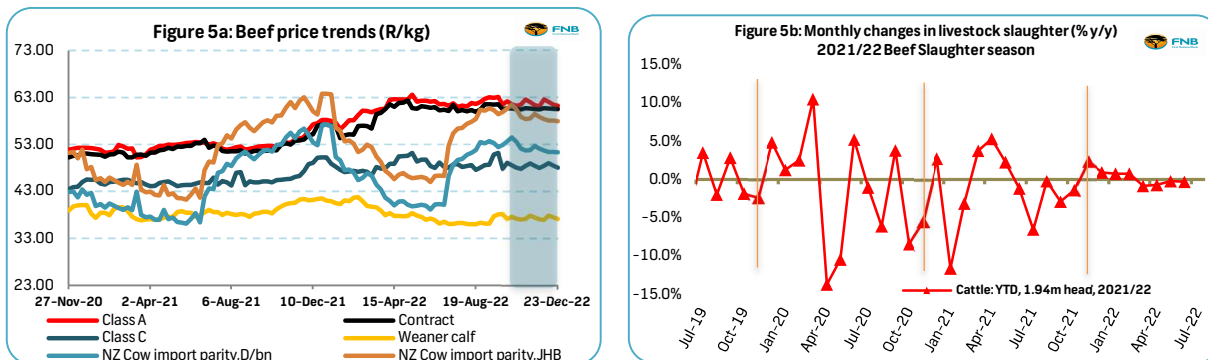
### International update on beef markets

- The us import market saw a sideways trend in imported meat prices in a slow trading week. On the domestic market, US wholesale market is that boxed beef cutout values continued to soften on demand contraction which saw both Choice and Select categories falling by 19%/y.

### Domestic beef market update:

- The resumption of trading has boosted the weaner market with prices rebounding from the lows of R35.50/kg to R38.10/kg liveweight (LW).
- On the carcass market, limited availability helped maintain some upside in prices towards month end.

**Figure 5: 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	23-Sep-22	% Δ w/w	% Δ y/y	3-Year Avg	16-Sep-22	9-Sep-22
Class A (R/kg)	63.11	0.3%	20.0%	17.0%	62.95	63.04
Class C (R/kg)	51.18	0.6%	13.0%	13.0%	50.89	48.70
Contract: A (*Incl. 5thQ)	61.58	0.1%	19.0%	16.0%	61.52	61.60
Import parity (R/kg)	59.47	-1.0%	3.0%	2.0%	60.28	60.65
Weaner calves (R/kg LW)	38.10	1.0%	-1.0%	3.0%	37.65	36.12

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.

### Weekly summary of the sheep market

#### International sheep market update

- Australian lamb and mutton values were reportedly on the upside supported by good uptake despite the seasonal increase in lambs. Sheep slaughter was also strong above the 100 thousand market for the second consecutive week.
- In New Zealand, demand contraction on the global market amid increased exchange rate volatility remains a concern as export margins might come under pressure in the near term.

#### Domestic sheep market update

- The carcass market reversed gains due to the subdued demand during midmonth. At current levels, lamb and mutton prices are 7% to 10% higher respectively y/y and 4% to 7% above the 3-year average for this time of the year.

Figure 6: Lamb and mutton prices and sheep slaughter trends

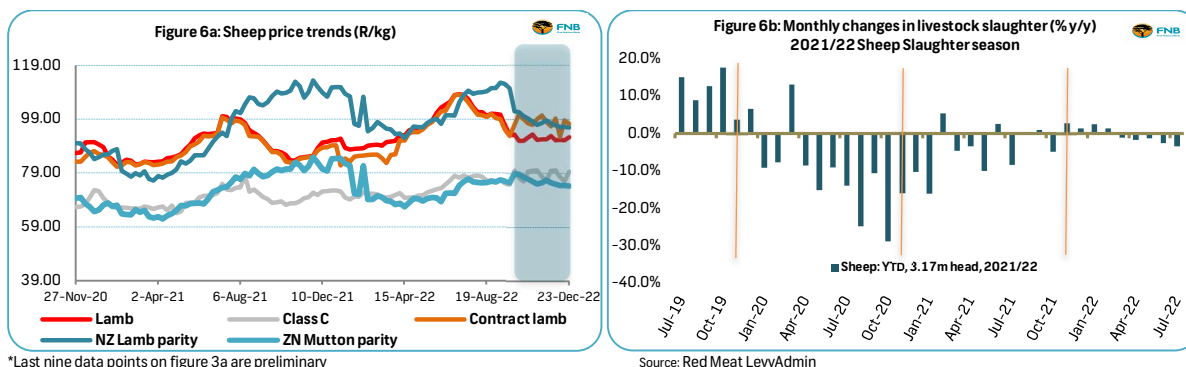


Table 2: Sheep producer price trends in South Africa

Sheep market – South Africa						
Date	23-Sep-22	% Δ w/w	% Δ y/y	3-Year Avg	16-Sep-22	9-Sep-22
Class A (R/kg)	93.08	-3.8%	6.9%	4.0%	96.80	100.65
Mutton (R/kg)	74.89	-0.2%	10.0%	7.0%	75.06	76.57
Contract: A (*Incl. 5thQ, R/kg)	92.84	-2.5%	7.0%	4.0%	95.23	98.96
Import parity (R/kg)	110.53	-1.0%	3.0%	6.0%	112.01	112.49
Feeder lambs (R/kg LW)	43.16	-3.1%	-2.0%	0.0%	44.55	46.50

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

## OUTLOOK

The 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 further contraction in weekly US pork carcass values on subdued demand and increased availability on markets. Weekly pork cutout values fell by 3% on the week and were 2% lower y/y at US\$103.20/ cwt. On the slaughter front, pig slaughter increased by 3% on the week but still 2% lower y/y with the cumulative YTD total falling by 3% y/y at 90.30 million head.
- China's pork prices have reportedly been high prompting authorities to release about 200 thousand tons of pork stocks from stake reserves to help curb further acceleration. Meanwhile, pork imports rebounded by 20 thousand tons to 140 thousand tons in August 2022 but still sharply down by 50% y/y as domestic production increased due to the rebuilding of the sow herd.

### Domestic pork market update

- Last saw further strength in the pork market due to the spill over gains from beef prices. Average porker prices closed 1% higher y/y and still 18% above the 3-year average. Baconers were 12% higher y/y and 34% 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.

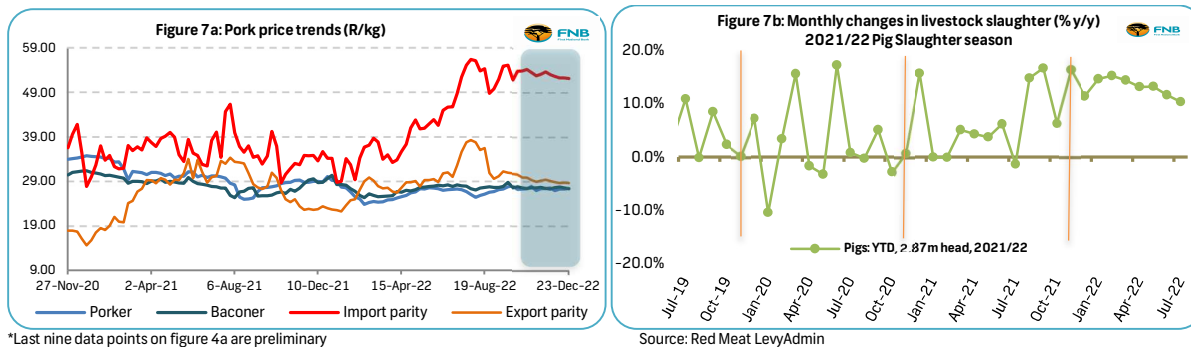
Table 3: Pig producer prices and slaughter trends

Pork market – South Africa						
Date	23-Sep-22	% Δ w/w	% Δ y/y	3-Year Avg	16-Sep-22	9-Sep-22
Porker (R/kg)	27.82	1.8%	1.0%	18.0%	27.32	27.16
Baconer (R/kg)	28.80	3.0%	12.0%	34.0%	27.95	27.68
Import parity (R/kg)	55.22	0.0%	58.8%	76.0%	55.02	52.04

Source: USDA, JSE, FNB Agric



Figure 7: Pork prices and slaughter trends



## 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

- The Chinese chicken consumption is expected to rebound in the year ahead as normality returns following the increased lockdowns this year. Production is expected to remain relatively stable at 14.3 million tons in 2023, according to the USDA.

### Domestic poultry market update

- Loadshedding remains a concern for producers as cutbacks may constrain availability on the domestic market. This further erodes producer margins as cost of fuel for generators may not be easily recouped due to the limited upside for pricing.
- The weaker rand hopefully will curtail import levels in the near term. The likelihood of a cut in fuel prices estimated at just over R1/l bodes well for demand as pressure on consumer disposable income is likely to ease.

Figure 8: Poultry prices and meat/maize ratio trends

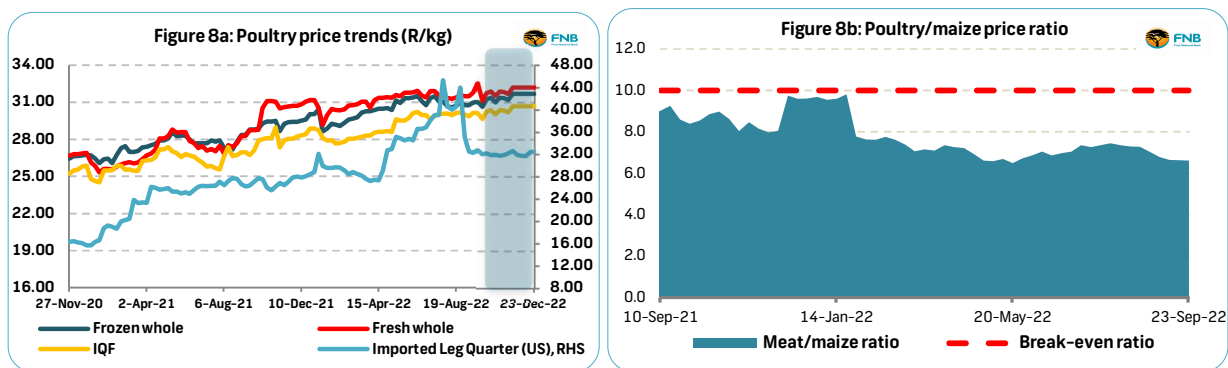


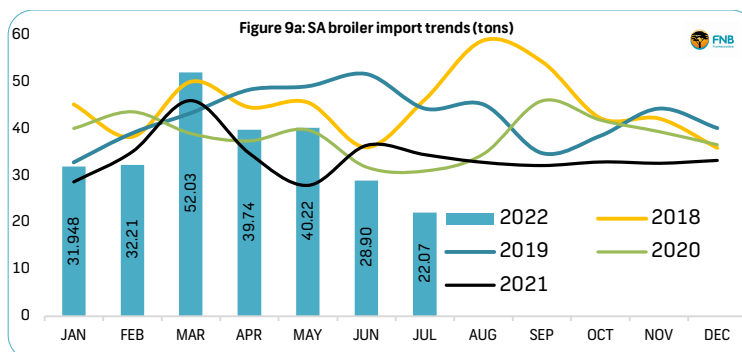
Table 4: Poultry producer price trends in South Africa

Week ending	Poultry market – South Africa					
	23-Sep-22	% Δ w/w	% Δ y/y	3-Year Avg	16-Sep-22	9-Sep-22
Fresh whole birds (R/kg)	32.55	2.4%	13.0%	14.0%	31.78	31.48
Medium Frozen whole birds (R/kg)	31.05	0.2%	8.0%	10.0%	30.98	30.76
Individually Quick Frozen (IQF) (R/kg)	30.15	0.0%	11.0%	11.0%	30.15	29.85
Import parity (R/kg)	32.79	1.7%	21.0%	29.0%	32.24	32.45

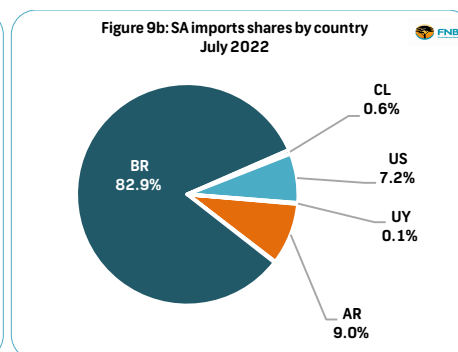
Source: USDA, JSE, FNB Agric

- 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 9: South Africa's broiler import trends ('000 tons)



Source: SARS,



## OUTLOOK

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 R18/US\$, import prices are expected come in bit expensive thus providing some cushion for the local market.

## Raw feed input price update

- Dec-22 futures for yellow maize (YMAZ) and white maize (WMAZ) increased by 6% and 4.6% respectively m/m to R4,840/t and R4,772/t.
- In the oilseed complex, sunflower futures pulled back from the record high of R12,259/t at R9,896/t which is almost 12% lower m/m for the Dec-22 contract (table 5).
- Nearby soybeans for Sep22 delivery gained 3% m/m at R9,397/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)

27 SEP 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	R4,840	6.1%	R4,772	4.6%	R9,896	-12.4%	R9,397	3.0%
Mar-23	R4,812	5.7%	R4,758	4.6%	R9,740	-10.9%	R9,250	3.1%
May-23	R4,500	5.7%	R4,495	4.8%	R9,330	-9.6%	R8,700	2.4%
Jul-23	R4,537	6.4%	R4,500	5.8%	-	-	R8,820	-
Dec-23	R4,698	6.7%	R4,669	5.8%	-	-	-	-

Source: JSE,

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