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Livestock and Fibre markets

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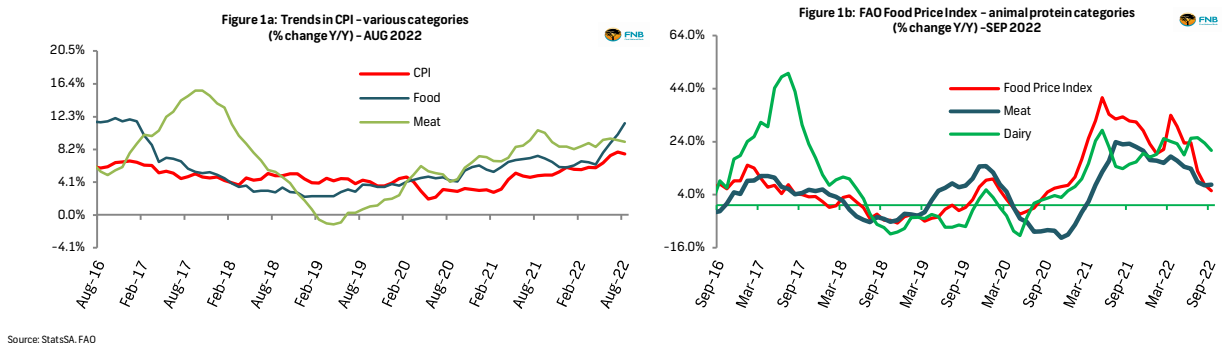
Paul Makube pmakube@fnb.co.za | Tumi Kgasago | Vhutshilo Mabela | 13 OCT 2022

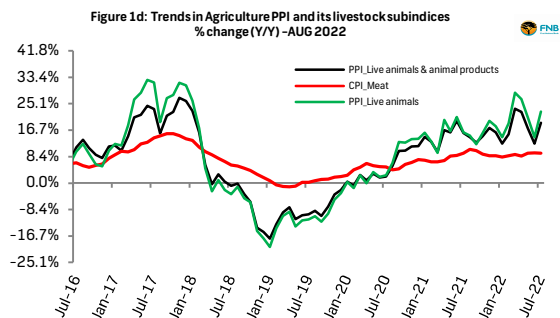
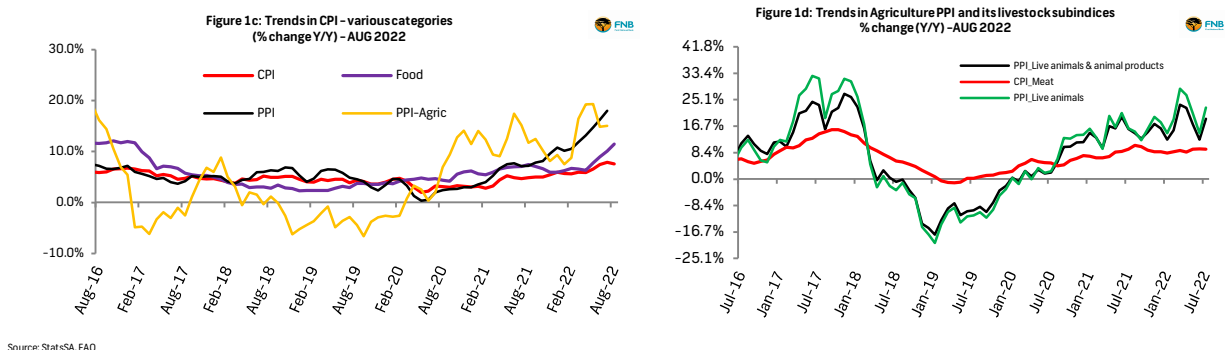
UPDATE ON LIVESTOCK MARKETS

IMF predicts a sharp decline in global economic growth for 2022-24

- The International Monetary Fund's (IMF) latest update on global economic outlook points to a dire situation with economic growth forecast for 2022 more than halved from 6% in 2021 to 3.2% in 2022 and further deteriorating to 2.7% in 2023.
- The IMF reports suggests that the world economy is in a bad shape with 33% facing two consecutive quarters of negative growth. Obviously, this does not augur well for meat demand as tight consumer disposable incomes force them to switch to alternative protein sources including cheaper cuts thus placing downward pressure on the meat complex.
- The intermittent lockdowns in China due to the persistent Covid-19 outbreaks as well as contraction in the US and the Euro area economies impacted negatively on demand conditions. This together with a rebound in supplies of some agriculture commodities helped place downward pressure on global food prices in September 2022. Consequently, the monthly global food price inflation as measured by the United Nation's Food and Agriculture Organization (FAO) fell for the sixth consecutive month by 1.1% month-on-month (m/m) and further decelerated to 5.5% y/y from 7.7% in August.
- The meat complex saw further weakness on subdued import demand and increased availabilities for some categories. The monthly FAO meat price inflation decreased for the third consecutive month by 0.5% m/m but still coming in on the upside by 7.7% y/y in September 2022 (fig 1b).
- On the local front, headline inflation decelerated to 7.6% in August 2022 from 7.8% in July and it remained way outside the upper end of the SARB's target range of 3% to 6%. Food alone marched 1.7% m/m and jumped by 11.5% y/y which is the highest level since January 2017. There was however some respite on the meat side with overall inflation decelerating to 9.2% y/y from 9.4% previously.

Figure 1: Food price inflation trends



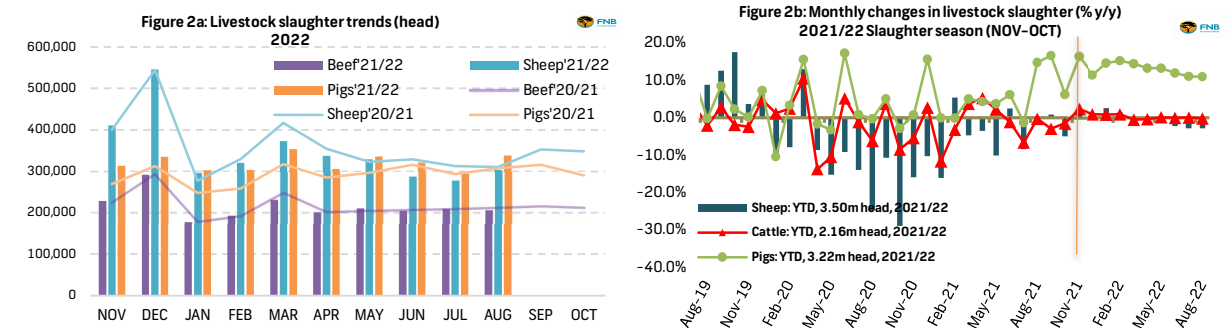


- The monthly pressure from the disease-induced ban on cattle sales saw meat inflation accelerating by 0.7% m/m in August from 0.5% in July. The lifting of the FMD-induced ban on movement of cattle in the FS following the earlier detection in the town of Hertzogville was positive news for the industry as we head closer to the festive period.

Cattle slaughter slowed in August due to FMD-induced supply constraints

- The latest data on livestock slaughter in South Africa shows a slight decline in cattle numbers for AUG-2022. The monthly cattle slaughter fell by 1.7% m/m and 2.5% y/y at 206,053 head. This brought the cumulative season-to-date number to 2.16 million head which is almost unchanged y/y.
- Sheep numbers rebounded by 7% m/m in AUG but still 2.3% below the 2021 levels at 303,149 head. Cumulatively, the number of sheep slaughtered reached 3.50 million head which is 2.8% lower y/y.
- Pig slaughter rose sharply by 10.7% m/m and 10% y/y at 338,150 head thus raising the cumulative STD number by 11% y/y to 3.22 million head.

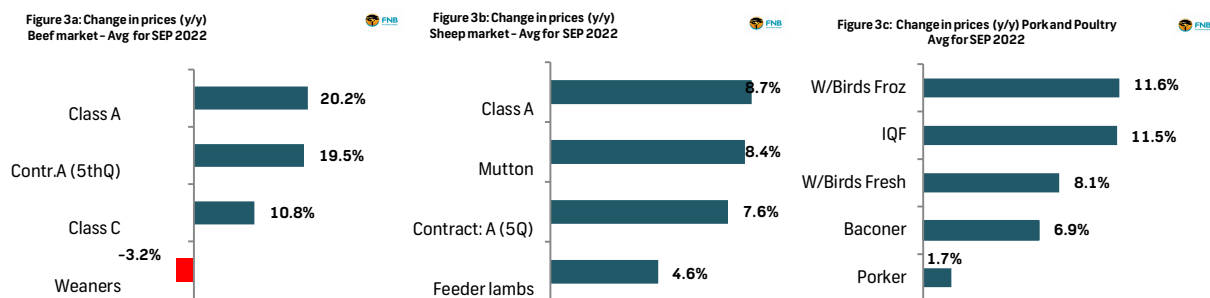
Figure 2: South Africa's livestock slaughter trends



Trends in livestock prices 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).
- The pork market has posted a modest recovery in the past few weeks on the back of a resilient demand despite increased availability on markets. Pork and baconer prices are now 4% and 16% above the 2021 levels as of the first week of October 2022.
- The weaner market however remains the exception with prices continuing to soften. At an average of R36.12/kg live weight LW, the current prices continued to trend below the 2021 levels and off the peak of R45/kg live weight (LW).

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



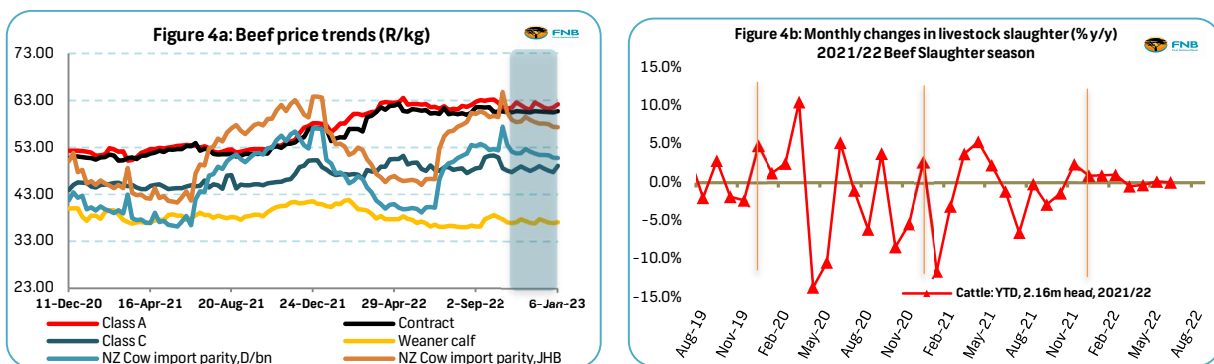
International update on beef markets

- 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:

- Beef prices pulled back from the earlier highs as demand slipped towards midmonth.
- Pressure on the weaner market was sustained by improved availability and limited uptake.

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	7-Oct-22	% Δ w/w	% Δ y/y	3-Year Avg	30-Sep-22	23-Sep-22
Class A (R/kg)	62.54	-1.0%	19.0%	16.0%	63.18	63.11
Class C (R/kg)	50.89	-0.7%	13.0%	12.0%	51.25	51.18
Contract: A (*Incl.5thQ)	60.65	0.1%	17.0%	14.0%	60.58	61.58
Import parity (R/kg)	59.44	0.0%	3.0%	2.0%	59.71	59.47
Weaner calves (R/kg LW)	38.12	-1.0%	-1.0%	0.0%	38.56	38.10

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. The price outlook remains sideways for the near term, but a modest rebound is expected as we head closer to the festive period.

Weekly summary of the sheep market

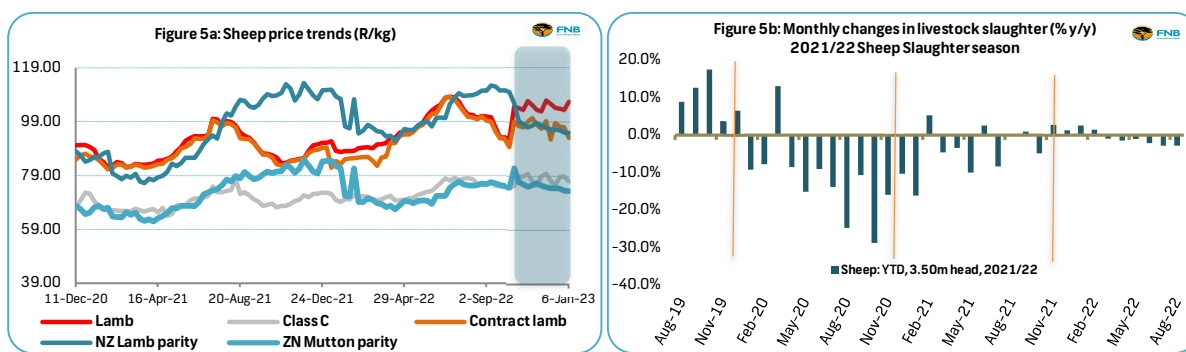
International sheep market update

- 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 moved sideways to lower 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 6% 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					
	7-Oct-22	% Δ w/w	% Δ y/y	3-Year Avg	30-Sep-22	23-Sep-22
Class A (R/kg)	93.02	-0.2%	7.5%	4.0%	93.18	93.08
Mutton (R/kg)	74.65	0.0%	9.0%	6.0%	74.62	74.89
Contract: A (*Incl. 5thQ, R/kg)	89.68	-3.2%	5.0%	2.0%	92.65	92.84
Import parity (R/kg)	110.01	-1.0%	1.0%	5.0%	110.73	110.53
Feeder lambs (R/kg LW)	42.05	-3.6%	-7.0%	-5.0%	43.64	43.16

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

- Weekly US pork cutout values were a bit firmer in last week's trade but fell short of the 2021 levels by 9.4% at US\$100/ cwt. On the slaughter front, pig slaughter increased by 2.9% on the week but still 1.6% lower y/y at 2.56 million head with the cumulative YTD total falling by 3% y/y at 95.38 million head.
- Meanwhile, US pork exports rose to 226,293 tons in August which is slightly higher on year ago levels and the largest since November 2021. The cumulative year to August total pork exports however fell by 15% y/y to 1.72 million tons with the value exported reaching US\$4.9 billion which is 13% lower y/y.
- 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.

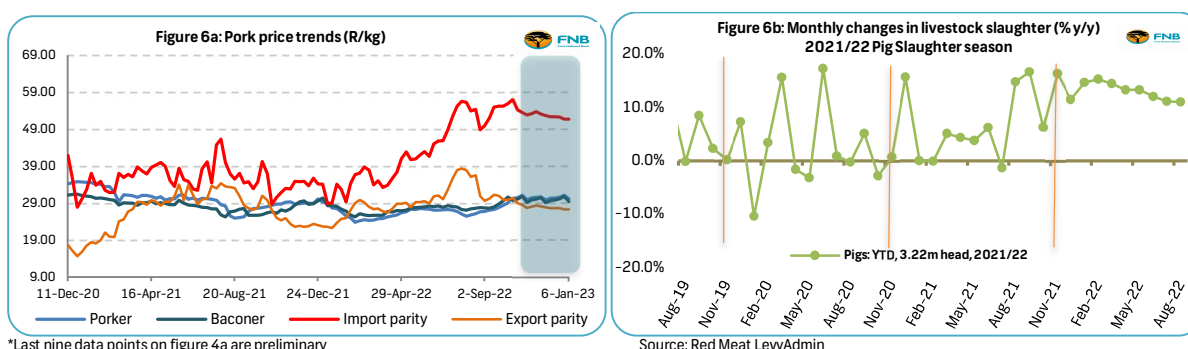
Domestic pork market update

- Last saw further strength in the pork market on resilient demand.
- 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	7-Oct-22	% Δ w/w	% Δ y/y	3-Year Avg	30-Sep-22	23-Sep-22
Porker (R/kg)	29.15	2.5%	4.0%	24.0%	28.44	27.82
Baconer (R/kg)	30.70	3.5%	16.0%	42.0%	29.65	28.80
Import parity (R/kg)	56.00	1.0%	51.3%	79.0%	55.22	55.22

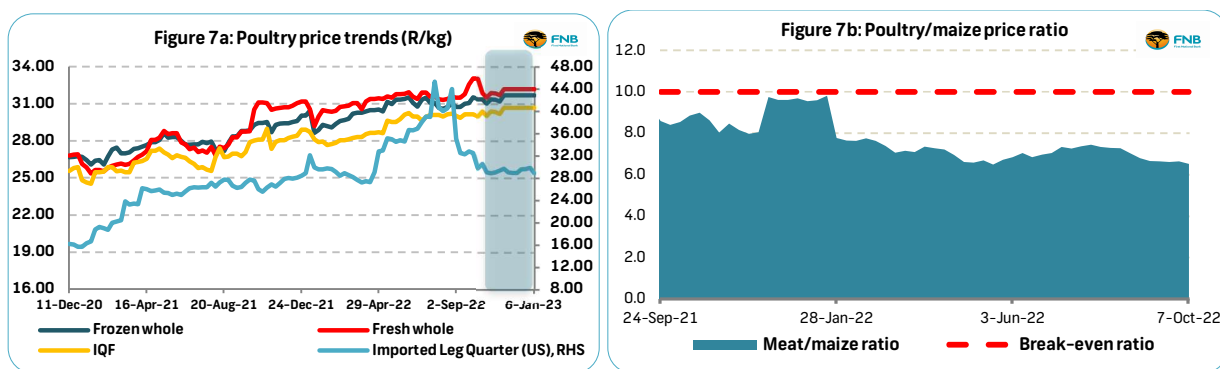
Source: USDA, JSE, FNB Agric

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

We expect prices to maintain the current momentum with further upside on good demand.

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.

Figure 7: Poultry prices and meat/maize ratio trends

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.

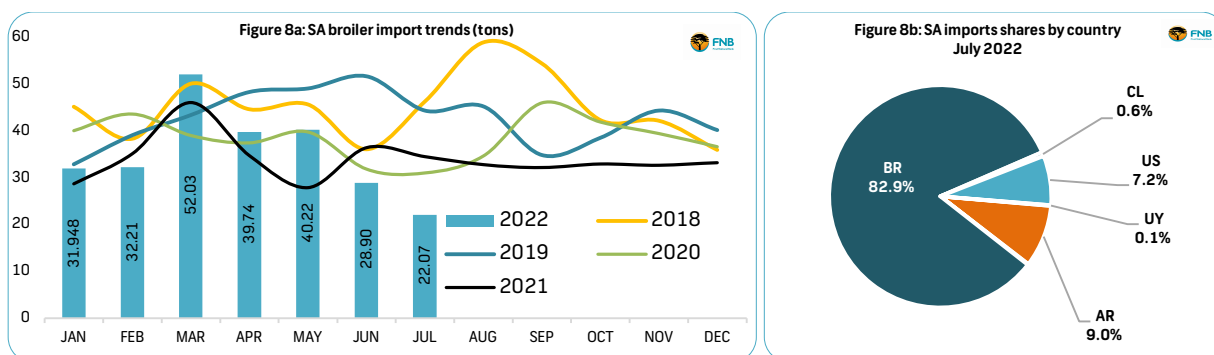
Table 4: Poultry producer price trends in South Africa

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 8: 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

- No respite on the feed front as grain and oilseed prices started to week on a stronger note relative to last month (table 5).

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

10 OCT 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	R5,125	2.8%	R5,024	1.9%	R10,832	6.4%	R9,830	5.0%
Mar-23	R5,103	3.0%	R5,005	2.1%	R10,732	6.6%	R9,685	5.0%
May-23	R4,709	1.8%	R4,693	1.7%	R9,924	5.5%	R8,922	3.3%
Jul-23	R4,745	1.8%	R4,716	2.0%	R9,730	5.5%	R9,080	3.3%
Sep-23	R4,785	-	R4,758	-	-	-	-	-

Source: JSE,

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