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Livestock and Fibre markets

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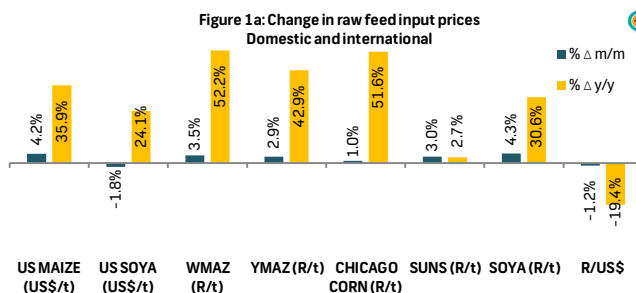
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UPDATE ON LIVESTOCK MARKETS

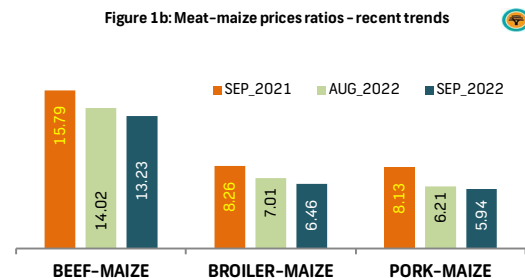
Elevated grain and oilseed prices continue hurt livestock profit margins

- The latest estimates on global production and ending stocks of grains and oilseed crops for the 2022/23 season show a slight contraction which poses upside risk to prices.
- Global maize production and ending stocks estimates for 2022/23 season showed a contraction of 4% and 2% year-on-year (y/y) respectively at 1.1 7 billion tons and 307 million tons with declines for the European Union, Serbia, and the United States. The war in Ukraine added to this tight supply outlook with the country's production and stocks expected to contract by 25% and 43% respectively y/y (figure 1a).
- In the case of soybeans, production and stocks are expected to rebound sharply by 9.9% and 8.8% respectively for 2022/23 season which bodes well for the availability of soymeal which may possibly dampen the price outlook.
- Maize and soybeans are major inputs in the production of livestock feed in South Africa and as 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.
- The recent trend in international maize prices shows gains with the average for October so far up 4.2% month-on-month (m/m) and almost 36% higher y/y at US\$324.29/ ton. Although soybeans eased by 1.8% m/m they remained 24% higher y/y at US\$595.24/ ton. This coupled with rand weakness placed upward pressure on domestic maize and soybean prices despite abundant supplies. The average white maize (WMAZ) and yellow maize (YMAZ) prices so far for OCT 2022 are up 3.5% and 2.9% respectively m/m and almost 52% and 43% higher y/y (figure 1a).

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



Source: FNB AgriComms, JSE

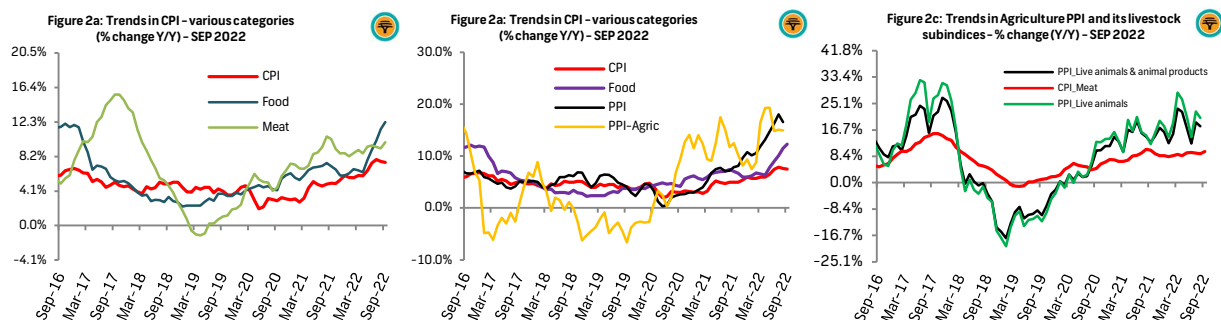


- The currency remains volatile and has so far depreciated by 1.2% m/m and 19.4% y/y to an average of R17.68/US\$ after peaking at R18.48/US\$.
- The plant protein category also remained elevated with soybean prices increasing by 4.3% m/m and 30.6% y/y. Soybeans are the biggest source of plant protein in animal feed in the form of soymeal (48%). The prices of another plant protein source, sunflower, remains elevated and has increased by 3% m/m and 2.7% y/y.
- The above have obviously caused margin compression for feeders as determined by the meat-maize prices ratio, an indicator of profitability in the livestock sector.
- During SEP 2022, the meat-maize price ratios for beef, broiler, and pork have deteriorated by 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.

Headline CPI pauses but food surges to double digit levels

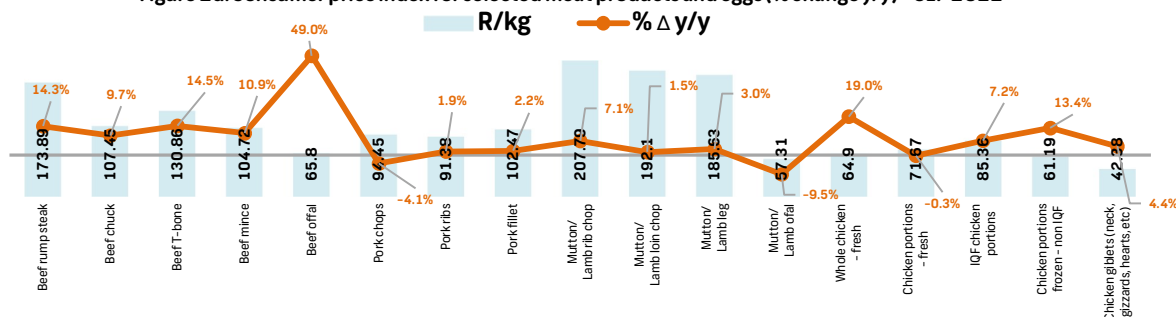
- Headline inflation decelerated further to 7.5% in SEP 2022 from 7.6% and 7.8% in August and July respectively. However, it remained way outside the upper end of the SARB's target range of 3% to 6% posing upside risk to the interest rate outlook.
- The food and non-alcoholic beverages inflation (FNAB) and food subindices posted strong increases and were back at double digit levels last seen in early 2017. FNAB increased by 0.5% m/m and was up by a whopping 11.9% y/y in SEP from 11.3% y/y in AUG. Food alone move marginally higher by 0.6% m/m but jumped by 12.3% y/y which is the highest and same level since May 2009.
- On the meat side, overall inflation decelerated to 0.5% m/m but accelerated to 9.9% y/y in SEP 2022 from 9.2% in AUG. While seasonal demand places upward pressure towards year end, we do not expect a massive swing in prices given the constrained economy and tightening consumer budgets.
- A drill-down into the meat inflation subcomponents shows a slide moderation in monthly prices in the beef category.
- Prices for beef rump steak, beef chuck, and beef T-bone eased by 1.3%, 2.1%, and 2.0% m/m but still sharply higher by 14.3%, 9.7%, and 14.5% y/y. Beef offal extended gains which is reflection of a strong demand in the current tough economic climate. Beef offal jumped 5.8% m/m and 49% y/y at an average of R65.80/kg.
- Lamb and mutton categories continued to soften, falling by 3.9% and 5.1% m/m respectively although still 7.1% and 1.5% higher y/y. For pork, chops fell by 4.0% m/m and 4.1% y/y while ribs eased 1.6% m/m but still 1.9% higher y/y. Pork fillet were the only exception, gaining 11% m/m and 2.2% y/y (figure 2d).
- Chicken prices saw monthly gains across most categories with whole chicken (fresh) jumping 11.3% m/m and 0.3% y/. The highly traded frozen IQF portions moved 1.3% higher m/m and were 7.2% above the same period in 2021.

Figure 2: Food price inflation trends



Source: StatsSA, FAO

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

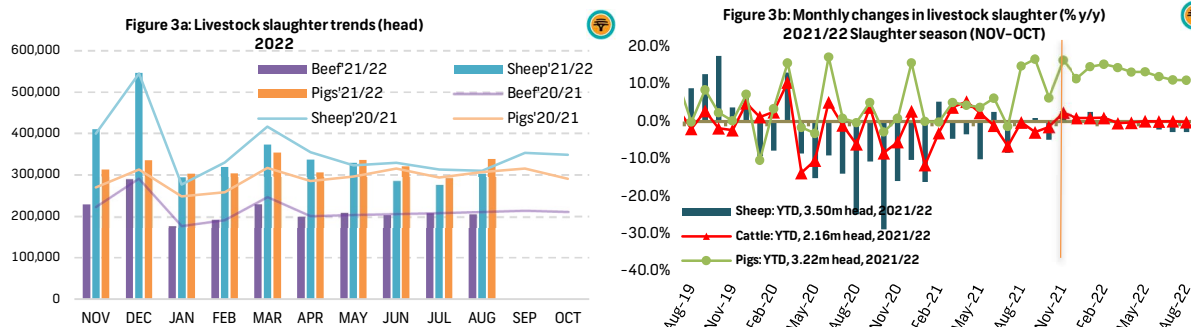


Source: Stats SA. Note: Chicken giblets - (neck, gizzards, hearts, etc)

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 (figures 3a and 3b).
- 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 3: South Africa's livestock slaughter trends

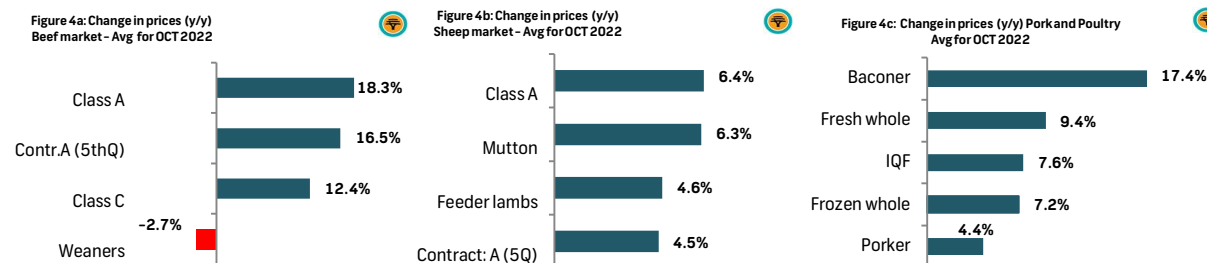


Source: Own calculations from Red Meat Levy Admin data.

Domestic livestock prices still elevated y/y in October 2022

- Livestock prices remain elevated related to the 2021 underpinned by the resilient demand and supply tightness (see figures 3a to 3c).
- Although improving marginally lately to the current average of R37.95/kg LW for OCT 2022, prices continuing to trend below the 2021 levels by 2.7% and off the peak of R45/kg live weight (LW).

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



Source: StatsSA, FAO

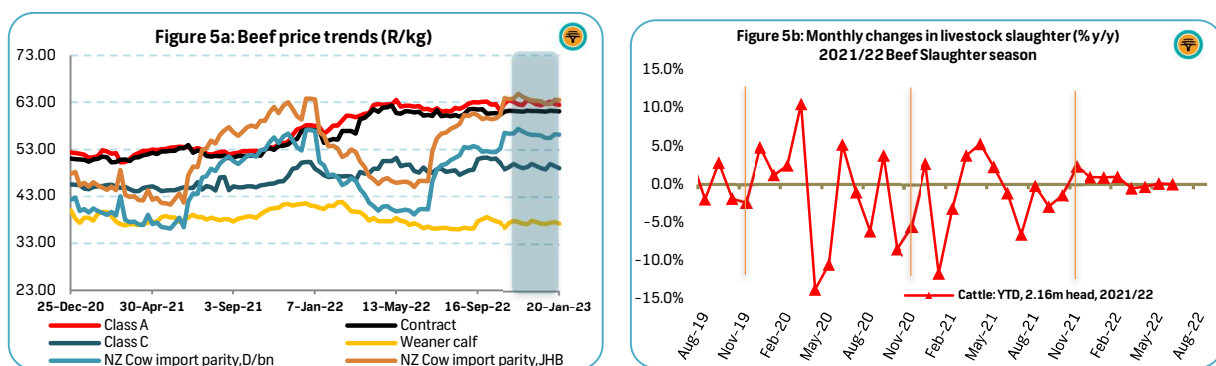
International update on beef markets

- The USDA estimate of the 2023 US production was revised upwards due to increased marketing and improved calf numbers placed in feedlots in the last half of 2022. Robust export demand from Asia boosted the export forecast which came in on the upside.

Domestic beef market update:

- Last week saw some pressure on the local market as demand slipped towards midmonth. Prices were down across the board but still sharply higher relative to last year.
- On the weaner market, there has been some recovery in the past few weeks, but prices paused last week to R37.40/kg liveweight (LW).

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	21-Oct-22	% Δ w/w	% Δ y/y	3-Year Avg	14-Oct-22	7-Oct-22
Class A (R/kg)	61.12	-2.4%	15.1%	11.6%	62.65	62.54
Class C (R/kg)	50.09	-1.9%	10.1%	10.1%	51.05	50.89
Contract: A (*Incl. 5thQ)	60.42	-0.5%	14.0%	11.1%	60.75	60.65
Import parity (R/kg)	60.33	1.3%	2.0%	3.4%	59.57	59.44
Weaner calves (R/kg LW)	37.40	-0.8%	-6.0%	-1.5%	37.70	38.12

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

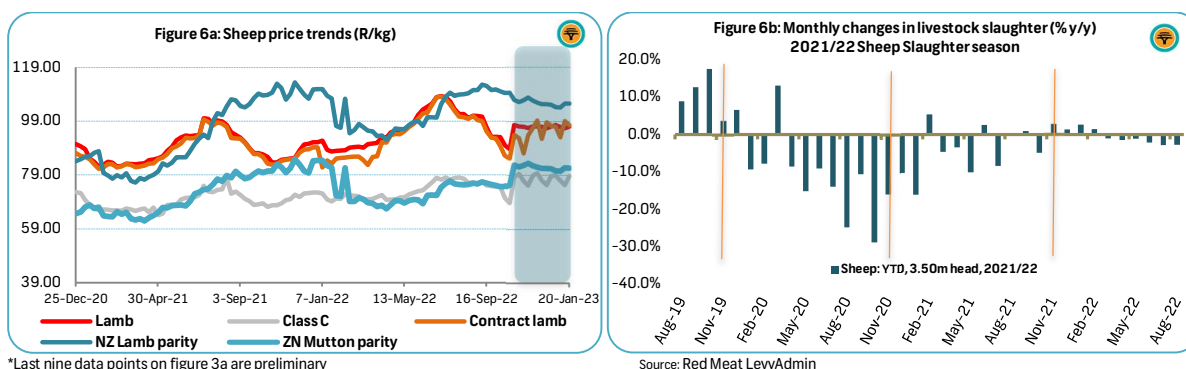
International sheep market update

- Australian lamb and mutton export values are expected to strengthen on the back of the renewed exchange rate weakness which improves the competitions of its products on global markets. Signs of the improvement in global supply chain networks with softening freight rates and easing port congestions bodes well for the export outlook.
- However, reports of elevated inventories in overseas markets coupled with poor economic conditions pose downside risk to export prices in the near term.

Domestic sheep market update

- The carcass market extended losses due to the subdued demand. At current levels, lamb and mutton prices are 3% to 6% higher respectively y/y and just over 1% above the 3-year average for this time of the year.

Figure 6: 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

Sheep market - South Africa						
Date	21-Oct-22	% Δ w/w	% Δ y/y	3-Year Avg	14-Oct-22	7-Oct-22
Class A (R/kg)	88.65	-1.6%	6.1%	1.9%	90.08	93.02
Mutton (R/kg)	68.72	-2.6%	1.6%	1.2%	70.54	74.65
Contract: A (*Incl. 5thQ, R/kg)	85.22	-1.0%	3.0%	-0.3%	86.10	89.68
Import parity (R/kg)	109.64	0.1%	0.0%	5.1%	109.48	110.01
Feeder lambs (R/kg LW)	41.96	0.2%	-7.1%	-3.9%	41.86	42.05

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

- Pork prices in China are reportedly strong despite attempts to alleviate pressure on the consumer through the release from State reserves. Feed prices continue to place downward pressure on profitability as tightening soymeal supplies force companies to raise prices.
- Meanwhile, China 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.
- For the US, pork export forecast was lowered in the recent USDA estimates by 1.7% y/y for 2022 to 6.28 billion pounds an anticipation for a lower Chinese import demand.

Domestic pork market update

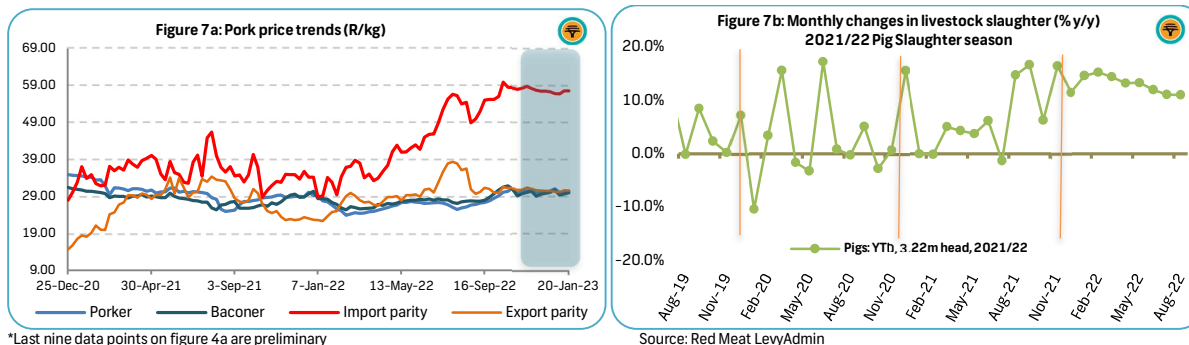
- Recovery in the pork market on supply tightness and the rebound in demand. Average porker prices closed 5.6% higher y/y and still 29% above the 3-year average. Baconers were 21% higher y/y and 48% above the 3-year average for this time of the year.
- There is still concern over the relatively elevated 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	21-Oct-22	% Δ w/w	% Δ y/y	3-Year Avg	14-Oct-22	7-Oct-22
Porker (R/kg)	30.38	0.7%	5.6%	29.1%	30.18	29.15
Baconer (R/kg)	31.86	1.1%	21.1%	47.8%	31.52	30.70
Import parity (R/kg)	58.50	-2.3%	91.1%	86.7%	59.85	56.00

Source: USDA, JSE, FNB Agric

Figure 7: Pork prices and slaughter trends



*Last nine data points on figure 4a are preliminary

OUTLOOK

We expect prices to maintain the current momentum with further upside on seasonal improvement in demand.

Weekly poultry market update

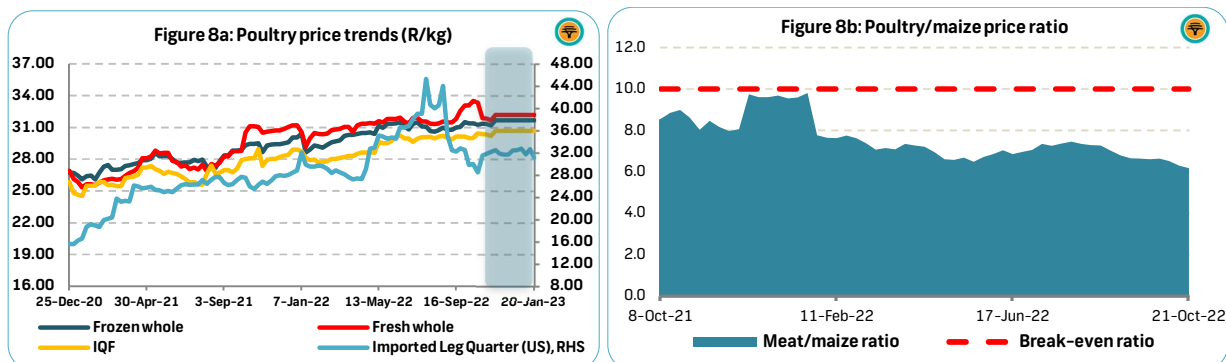
International poultry market update

- The USDA made an upward revision to their broiler production estimates for the US based on improved production and hatchery data. The outbreak of the Highly Pathogenic Avian Influenza (HPAI) in September caused the downward revision to their forecasts as placement is curtailed towards year end.
- 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 rand exchange rate has been very volatile although settling a bit firmer lately on positive Medium Term Budget Statement.
- The unrelenting strength in grain prices however remains a concern for producers as feed costs do not any signs of moderating. This will tighten feeding margins as further price increases are constrained by the tough economic conditions.

Figure 8: Poultry prices and meat/maize ratio trends



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

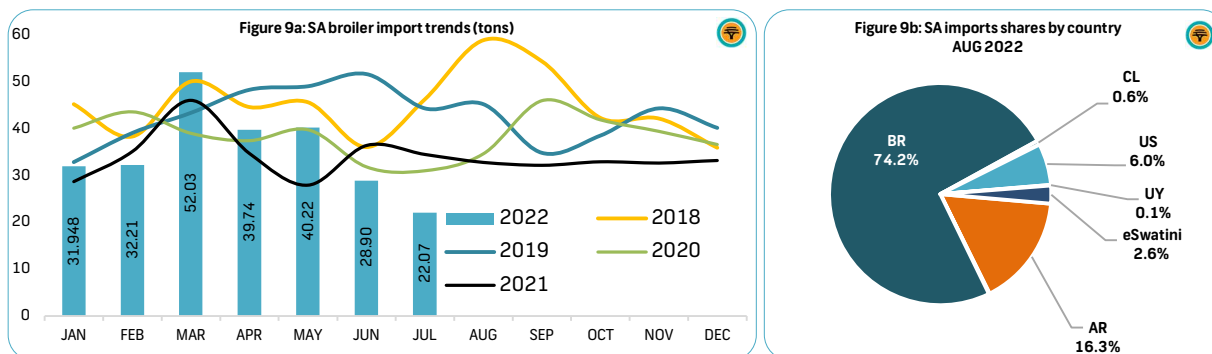
Table 4: Poultry producer price trends in South Africa

Week ending	Poultry market – South Africa					
	21-Oct-22	% Δ w/w	% Δ y/y	3-Year Avg	14-Oct-22	7-Oct-22
Fresh whole birds (R/kg)	33.38	-0.3%	7.3%	12.1%	33.48	33.05
Medium Frozen whole birds (R/kg)	31.26	-0.4%	6.2%	8.6%	31.38	31.38
Individually Quick Frozen (IQF) (R/kg)	30.48	1.6%	8.5%	9.9%	30.00	30.00
Import parity (R/kg)	28.52	-4.7%	11.9%	18.2%	29.93	29.81

Source: USDA, JSE, FNB Agric

- Broiler imports declined further by 12.6% m/m and were sharply lower by 40.6% y/y in AUG 2022 at 19.47 thousand tons. The cumulative YTD imports were 3.3% lower relative to the same period in 2021 at 266.80 thousand tons (figure 9).

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



Source: SARS,

OUTLOOK

The price outlook remains bullish for the medium term as imports contract and demand improve as we head closer to the festive period. However, the relatively high maize prices remain a concern as they continue to maintain a wide gap between the meat/maize ratio and the breakeven level as illustrated in figure 8b.

Raw feed input price update

- Dec-22 futures for yellow maize (YMAZ) and white maize (WMAZ) increased by 4% and 4% respectively m/m and now above R5,000/ ton as illustrated in table 5.
- In the oilseed complex, sunflower futures also rebounded to above R11,000/t and R10,000/t respectively for sunflower and soybeans.
- The good news is that the current prices have encouraged farmers to prepare to plant more in the 2022/23 crop season with increased availability likely to soften prices for livestock producer in 2023.
- 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)

26SEP2022	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	R5,363	4.0%	R5,234	3.2%	R11,528	6.2%	R10,525	2.7%
Mar-23	R5,349	4.1%	R5,232	3.7%	R11,339	6.0%	R10,259	3.4%
May-23	R4,926	2.3%	R4,830	2.7%	R10,636	5.6%	R8,860	-0.1%
Jul-23	R4,905	2.8%	R4,835	3.0%	R10,435	2.7%	R9,009	-0.3%
Sep-23	R4,954	2.1%	R4,883	2.3%	-	-	R9,199	0.6%

Source: JSE,

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