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Livestock and Fibre markets

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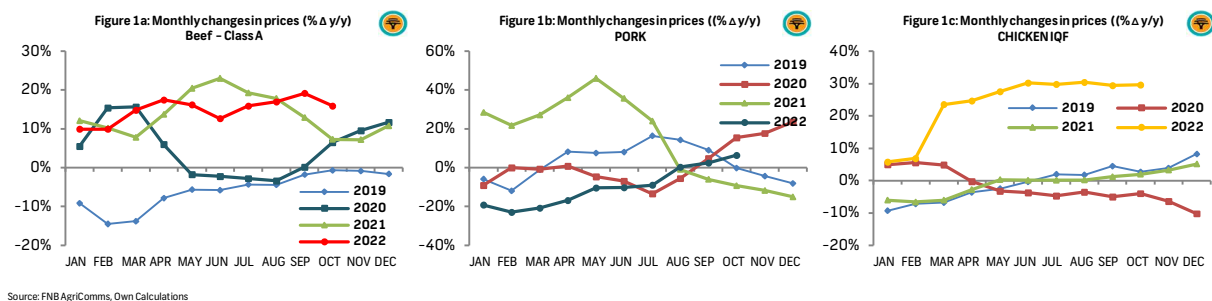
Paul Makube pmakube@fnb.co.za | Tumi Kgasago | Vhutshilo Mabela | 16 NOV 2022

UPDATE ON LIVESTOCK MARKETS

A strong rebound in pork prices ahead of festive season

- Our analysis of the weekly trends in domestic meat prices shows a strong growth in the pork market due to the combination of resilient demand and higher import parity prices.
- The average porker and baconer prices so far for the two weeks of November 2022 rose by 13% and 24% respectively month-on-month (m/m) and were almost 12% and 8% higher year-on-year (y/y) at R33.16/kg and R33.64/kg.
- At current levels, porker and baconer prices are 39% and 33% higher relative to the 2022 lows of R23.87/kg and R25.34/kg respectively that was achieved earlier in the year. Growth in monthly pork prices is now back to the 2020 levels for this time of the year as illustrated in figure 1b.
- While the latest import figures are for two months ago, the trend shows elevated prices of imported product with average values for September 2022 up by almost 40% y/y at R42.23/kg. Thanks to a relatively weaker exchange rate that helped reduce the competitiveness of the imported product on the domestic market.
- In the chicken market, prices for the individually quick-frozen chicken (IQF) have maintained a consistent uptrend relative to the 2021 levels in the past eight months (figure 1c). Average IQF prices for November (first 2-weeks) jumped 4% m/m and were 13% ahead of the same period in 2021 at R31.27/kg.
- For beef, the seasonal price trends show good gains as we head closer to the festive period in December. Growth in class A beef carcass prices is far above the past few years for the Oct-Nov period as illustrated. In contrast, weaner calf prices eased from the 2022 highs as higher maize and soybeans prices eroded feeding margins thus curtailing demand. Weaner calf prices as so far down by 3% m/m and almost 9% lower y/y at R36.97/kg live weight (LW).

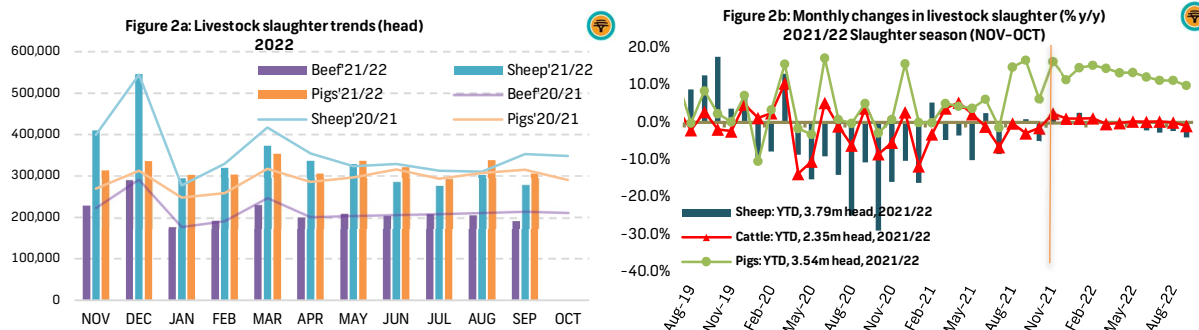
Figure 1: Global food price inflation trends and meat prices by selected countries



A further cattle slaughter contraction in SEP 2022 from the FMD-induced supply crunch

- As per expectations, the SEP 2022 livestock slaughter numbers came in on the downside which reflects the impact of the ban on movement of cattle due to the outbreak of Foot-and-Mouth Disease (FMD) earlier in the third quarter of 2022.
- Cattle slaughter fell by 7.1% m/m and 10.3% y/y at 192,419 head. This brought the cumulative season-to-date number to 2.35 million head which is marginally down by 0.9% y/y (figures 2a and 2b).
- Sheep numbers fell by 11.4% m/m in SEP and were 21.1% below the 2021 levels at 278,661 head. Cumulatively, the number of sheep slaughtered reached 3.79 million head which is 4% lower y/y.
- Pig slaughter fell sharply by 10.5% m/m and 3.2% y/y at 305,417 head thus raising the cumulative STD number by 9.9% y/y to 3.54 million head.

Figure 2: South Africa's livestock slaughter trends

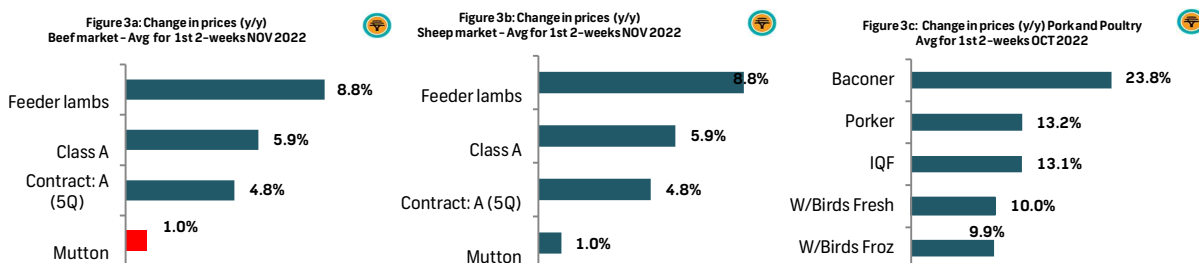


Source: Own calculations from Red Meat Levy Admin data.

Domestic livestock prices still elevated y/y in October 2022

- Domestic livestock prices showed no sign of pulling back as demand remained resilient amid supply tightness (see figures 3a to 3c).

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



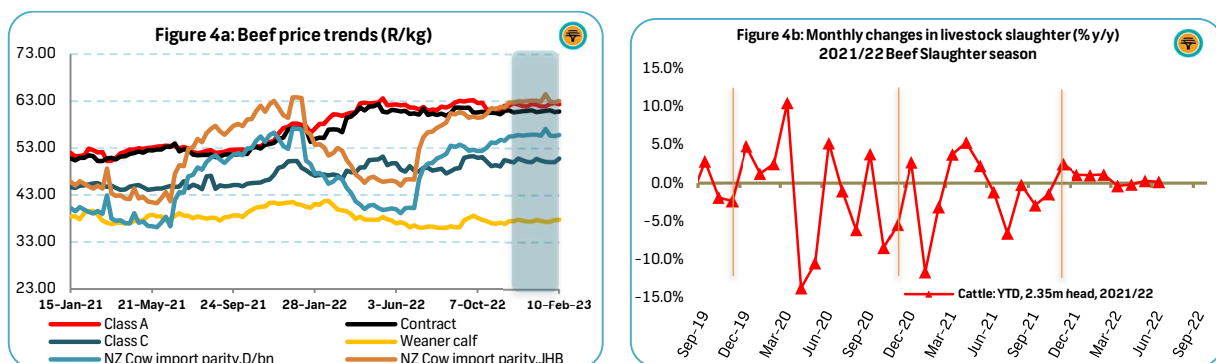
Source: FNB AgriComms

International update on beef markets

- The US import market saw pressure from weak seasonal demand and lower domestic prices according to the USDA. At wholesale level, US boxed beef values are currently 8% to 12% lower relative to last year this time.
- In the cattle market, the Chicago Mercantile Exchange (CME) feeder cattle futures came under pressure lately due to surging international grain prices that will elevate feed costs and erode producer margins.
- Elsewhere, cattle prices were reportedly firm in Australia in last week's trade with the benchmark Eastern Young Cattle Indicator (EYCI) supported by strong demand.
- In Brazil, the benchmark contract for difference (CFD) eased from the recent high for November and has fallen by almost 10% since the January levels at BR19.77/kg.

Domestic beef market update:

- A softer trend across the beef carcass complex during the midmonth period.
- The weaner market is still on a sideways trend as elevated grain prices erode producer margins for feeders.

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	11-Nov-22	% Δ w/w	% Δ y/y	3-Year Avg	4-Nov-22	28-Oct-22
Class A (R/kg)	61.13	-0.3%	12.9%	9.8%	61.34	61.18
Class C (R/kg)	49.09	-0.5%	6.5%	7.2%	49.33	49.18
Contract: A (*Incl. 5thQ)	60.18	-0.4%	12.0%	10.2%	60.45	60.58
Import parity (R/kg)	61.81	0.9%	1.8%	6.2%	61.25	61.45
Weaner calves (R/kg LW)	37.08	0.6%	-8.5%	-2.8%	36.85	37.02

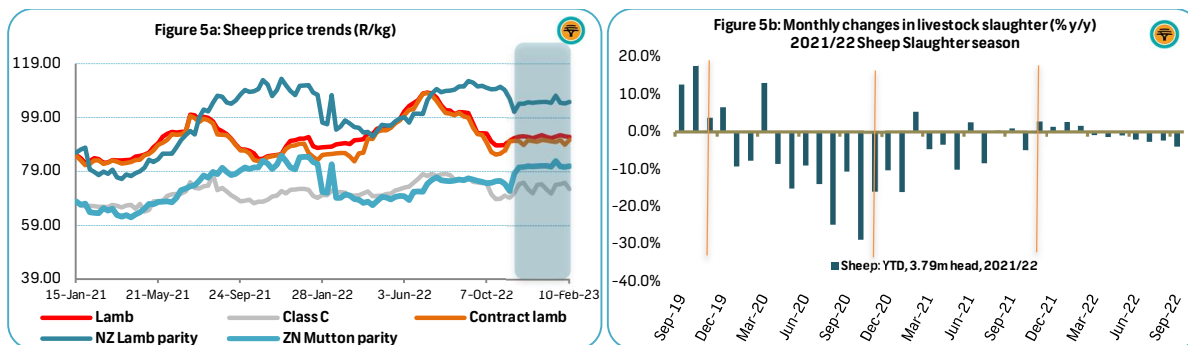
LW – Live Weight; *Fifth quarter. Source: USDA, JSE, FNB Agric

OUTLOOK

Strong seasonal rains bode well for the cattle market as the reliance on purchased feed is reduced amid elevated grain and oilseed prices.

Weekly summary of the sheep market**International sheep market update**

- Demand on export markets for lamb has reportedly come under pressure with Covid-19 restrictions in China not helping despite talk of lifting the control measures. The lifting of restrictions is critical for improved activity and ramping up supplies as the Chinese New Year draws closer

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					
	11-Nov-22	% Δ w/w	% Δ y/y	3-Year Avg	4-Nov-22	28-Oct-22
Class A (R/kg)	90.45	1.8%	6.7%	2.9%	88.86	88.72
Mutton (R/kg)	69.35	-1.0%	-0.3%	0.9%	70.05	68.85
Contract: A (*Incl. 5thQ, R/kg)	90.22	4.0%	6.7%	3.5%	86.78	85.53
Import parity (R/kg)	106.18	-2.7%	-0.7%	4.8%	109.15	110.37
Feeder lambs (R/kg LW)	41.30	-1.0%	-8.9%	-3.4%	41.72	40.87

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

Domestic sheep market update:

- The midmonth period was mixed with mutton falling under pressure on demand contraction while supply tightness lifted lamb prices. The weaner lamb market extended losses on limited uptake.

OUTLOOK

The improved seasonal upswing in demand as we head closer to the festive period will boost prices across the board.

Weekly pork market

International pork market update

- The renewed spike in grain prices on continued war disruptions placed pressure on prices. US lean hogs' contract for difference is now off the 2022 peak but still 5% higher relative to beginning of the year at US\$85.58/lb.

Domestic pork market update

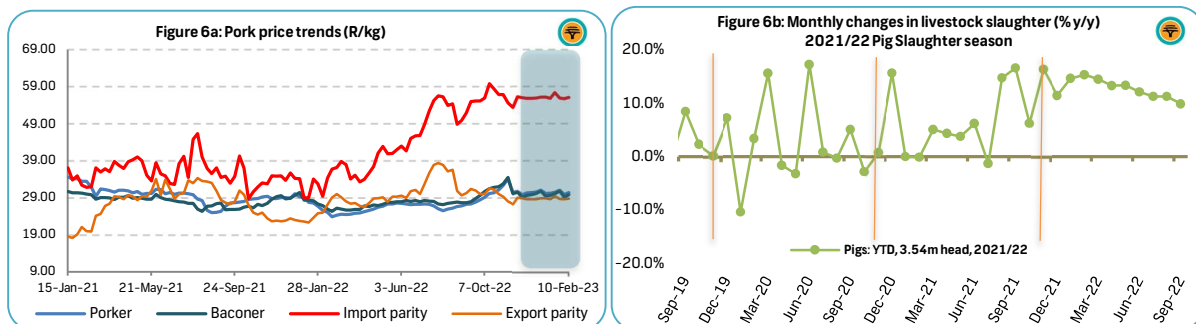
- As further upswing in the pork market on due to the combination of supply tightness and resilient demand. Average porker and baconer prices are now 16% and 25% higher respectively y/y and still 44% and 60% above the 3-year average.
- This will help open the feeding margins despite the elevated raw feed input prices.

Table 3: Pig producer prices and slaughter trends

Date	Pork market – South Africa					
	11-Nov-22	% Δ w/w	% Δ y/y	3-Year Avg	4-Nov-22	28-Oct-22
Porker (R/kg)	34.02	5.3%	15.9%	44.6%	32.30	31.13
Baconer (R/kg)	34.48	5.1%	25.3%	60.0%	32.80	31.96
Import parity (R/kg)	55.57	-2.4%	69.2%	77.3%	56.91	56.88

Source: USDA, JSE, FNB Agric

Figure 6: Pork prices and slaughter trends



*Last nine data points on figure 4a are preliminary

Source: Red Meat LevyAdmin

OUTLOOK

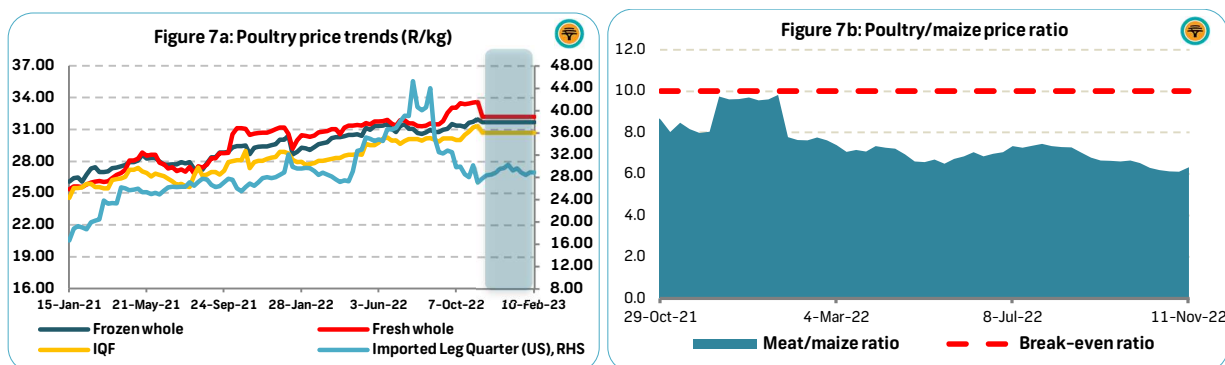
We expect prices to maintain the current momentum with further upside on seasonal improvement in demand.

Weekly poultry market update

International poultry market update

- Following the completion of a tight Presidential Elections in Brazil, unhappy supporters of the outgoing President embarked on massive protests that caused blockages thus limiting activity in the poultry sector. Closure of some plants will result in reduced export availability in the near term with December around the corner.
- 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.

Figure 7: Poultry prices and meat/maize ratio trends



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

Domestic poultry market update

- Prices moved mostly sideways as the tight supply situation helped offset demand pressures down the value chain.
- Loadshedding remains a concern for producers as cutbacks may constrain availability of the domestic product. This further erodes producer margins as cost of fuel for generators may not be easily recouped due to the potential consumer resistance to further price acceleration.
- The unrelenting strength in grain prices however remains a concern for producers as feed costs do not any signs of moderating.

Table 4: Poultry producer price trends in South Africa

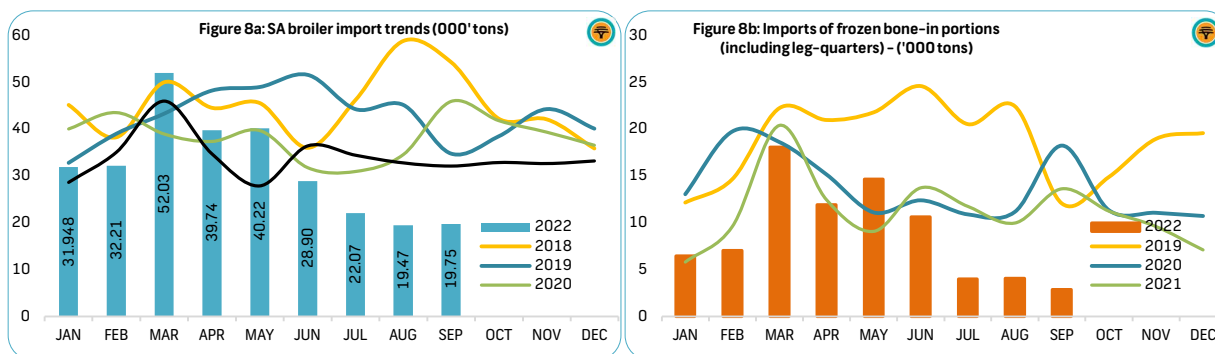
Week ending	Poultry market - South Africa					
	11-Nov-22	% Δ w/w	% Δ y/y	3-Year Avg	4-Nov-22	28-Oct-22
Fresh whole birds (R/kg)	33.60	0.2%	9.8%	12.2%	33.52	33.45
Medium Frozen whole birds (R/kg)	31.98	0.7%	9.2%	10.3%	31.75	31.63
Individually Quick Frozen (IQF) (R/kg)	31.35	0.5%	12.3%	12.1%	31.18	30.81
Import parity (R/kg)	27.09	-10.1%	2.4%	14.1%	30.12	27.97

Source: USDA, JSE, FNB Agric

- Meanwhile, broiler imports rebounded slightly by 1.4% m/m in September 2022 but were sharply down by 39% y/y at 19,747 tons. Brazil remains the major supplier with a share of 82% of the total at 17,258 tons mainly mechanically deboned chicken (MDM) and frozen bone-in portions with shares of 61% and 5% respectively.
- The EU were not in the market due to the impact of the earlier outbreaks of the highly pathogenic avian influenza, but indications are that the situation might turn around in the medium term as cases diminish due to the winter conditions.
- Interestingly, the frozen bone-in portions fell sharply by 30% m/m and 79% y/y at 2,836 tons thus boosting the competitiveness of the local product.

- The total broiler import value fell by 10% m/m and 56% y/y at R184.9 million.
- The cumulative YTD imports were 7% lower relative to the same period in 2021 at 286.54 thousand tons (figure 8).

Figure 8: 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

- Although easing from the recent highs, local prices remain too expensive for feeders. The Dec-22 futures for yellow maize (YMAZ) and white maize (WMAZ) decreased by 0.3% and 3% respectively m/m but still way above R5,000/ton as illustrated in table 5.
- The strength in the oilseed complex continues with sunflower and soybean futures now above R11,000/t and R10,000/t respectively.
- The higher prices do 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)

16 NOV 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	R5,168	-0.3%	R4,971	-3.0%	R11,915	7.8%	R10,185	-0.9%
Mar-23	R5,135	-0.5%	R4,980	-2.4%	R11,746	7.5%	R10,079	1.4%
May-23	R4,660	-3.6%	R4,527	-5.2%	R10,720	3.6%	R8,840	-0.9%
Jul-23	R4,570	-5.3%	R4,482	-6.0%	R10,762	5.9%	R8,943	-1.2%
Sep-23	R4,628	-5.6%	R4,531	-6.4%	R0	#DIV/0!	R9,117	-0.3%

Source: JSE,

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