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Livestock and Fibre markets

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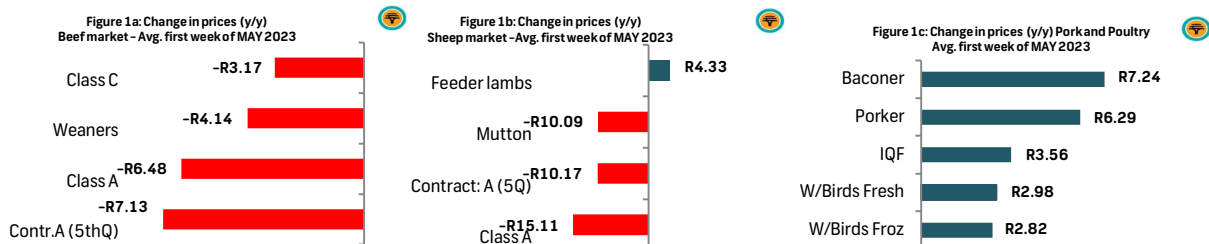
Paul Makube pmakube@fnb.co.za | Tumi Kgasago | Vhutshilo Mabela | 11 MAY 2023

UPDATE ON LIVESTOCK MARKETS

Biosecurity remains critical to the sustainability of the livestock industry in South Africa

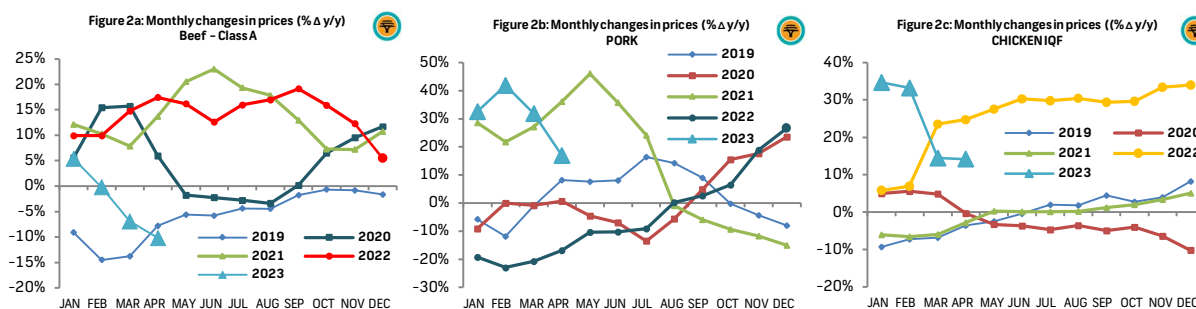
- The agriculture sector has remained resilient despite facing many headwinds in the past few years including inclement weather causing devastating floods, decay in logistics infrastructure, biosecurity breaches which saw the outbreaks of animal diseases, and load shedding.
- For livestock, biosecurity is critical to the survival of the industry as production expansion and exports are curtailed thus threatening the sustainability of farming operations. Last year saw the outbreak of the food-and-mouth disease (FMD) which disrupted cattle, sheep, and pork trade for a significant period in 2022. The outbreak of avian flu was reported in the Western Cape recently which necessitated the culling of birds and disposal of eggs.
- Reports that the South Africa faces a shortage of critical vaccines for the control of animal diseases does not bode well for the sustainability of the sector as herd liquidations may cause meat shortages and the subsequent spike in prices in the longer term. We have already seen how meat inflation topped a 5-year record high of over 11% year-on-year (y/y) so far in 2023 with overall food inflation at a 6-year high of 11.4% y/y.
- The Onderstepoort Biological Services continues to struggle to produce vaccines the latest being that for Bluetongue, a vector-borne viral disease that can be fatal in sheep. The livestock sector accounts for 42% of the agriculture gross producer value, therefore, urgent, and concrete actions are required to stem the tide of erosion of value chain services and infrastructure that may ultimately lead to *agri-shedding*, an outcome that would be worse than load shedding.
- Our analysis of trends in the livestock markets shows more downward pressure across the board as post-holiday weakness in demand continues to weigh heavily on the market. Although poultry and pork prices have pulled back from the earlier highs recently, they are still higher relative to last year this time (figure 1c).

Figure 1: Changes in average monthly livestock prices (% Δ y/y)



Source: FNB AgriComms

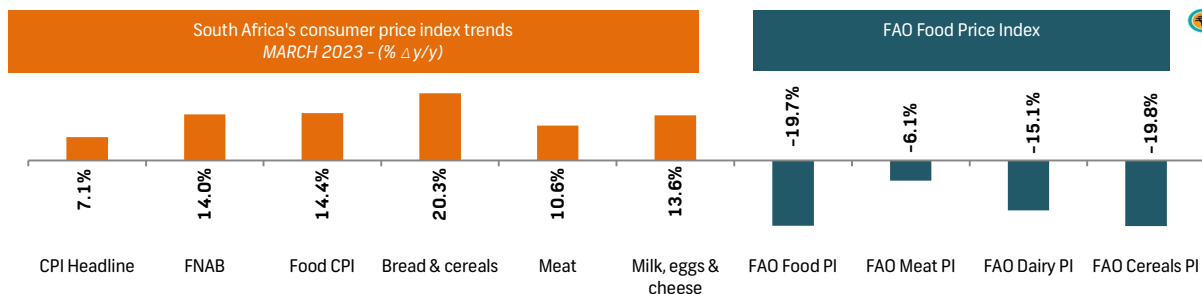
- Nonetheless, the continued softening of prices across the grain complex provides a breather for livestock feeders as feed prices are likely to ease in the medium term.
- The historical growth trend in prices shows a deceleration for pork and poultry in 2023. However, the pork price growth in 2023 remains way above the 2022 levels while chicken has slowed considerably below last year's achievement. Beef on the other hand has posted a negative growth trend which is way below the past three years for class A carcass (figs.2b & c).

Figure 2: Growth trends for producer prices of various meat types (% Δ y/y)

Global meat inflation still on the downside, but locally remains sticky on the upside

- The FAO global food price inflation (FPI) edged higher month-on-month (m/m) in April 2023 as gains in the sugar and meat categories more than offset decreases for cereals, dairy, and vegetable oil prices. The monthly gain was however marginal with a rebound of 0.6% m/m, but annual FPI continued to trend in negative territory for the fifth consecutive month at -19.7% year-on-year (y/y).
- In the case of meat, biosecurity issues curtailed output as the avian influenza and Africa swine fever outbreaks in various areas raised price levels. Although rebounding slightly by 1.3% m/m in April 2023, the FAO meat price index declined for the fourth consecutive month to -6.1% y/y. The monthly rebound in meat inflation was underpinned by supply tightness and the increased demand especially in Asia.
- In contrast, South Africa's meat inflation remained sticky on the upside in March 2023 at 10.6% higher y/y. However, we have observed moderation in meat prices at producer level in the last few months, thus a further deceleration in the monthly meat CPI. Livestock slaughter has been on the upside in the first three months of the year, thus an increase in meat supply. The total number of cattle, sheep, and pig slaughter during March 2023 increased by 16%, 28%, and 14% respectively m/m.
- However, load shedding has increased the cost of operations such as processing and maintaining the cold chain due to the perishability of meat. The South African consumer is yet to benefit from the spill over weakness from the international as they are outweighed by domestic challenges. Nonetheless, we expect the recent decrease in domestic agriculture commodity prices to start filtering through to consumers in the second half of 2023. The summer crop harvest outlook is impressive with maize at good levels of 15.89 million tons, thus placing downgrade pressure on prices.

Figure 3: Food price inflation trends



The bullish summer crop harvest outlook continues to weigh heavily on raw feed input prices

- A relatively good supply outlook for raw feed inputs bodes well for improving profit margins in the livestock sector. Maize, the major ingredient in livestock feed, saw an upward adjustment to its harvest estimate at 15.89 million tons (+2.7% y/y) against an annual consumption of 11.8 million tons. Similarly, the soybean crop is expected at another record of 2.76 million tons which is 23.6% higher y/y.
- Although the renewed rand weakness has provided some support, grain and oilseed futures continued to trend on the downside which bodes well for improved feeding margins if sustained. The latest Jul-2023 contracts fell by 5.3% (-R200/t) and 6.2% (-R246/t) respectively m/m for WMAZ (table1) at R3,589/t and R3,743/t. Although still trading at a premium over its white counterpart, YMAZ prices are off the record highs of above R5,000/t.
- We saw a similar trend on the plant protein side with the Jul-2023 soybean futures falling by 4% (-R334/t) m/m at R8,099/t. Sunflower futures for Jul-2023 delivery fell by 4.5% (-R415/t) m/m at R8,751/t.

Table 1: Raw feed inputs – Latest price trends in JSE grain and oilseed futures market (R/ton)

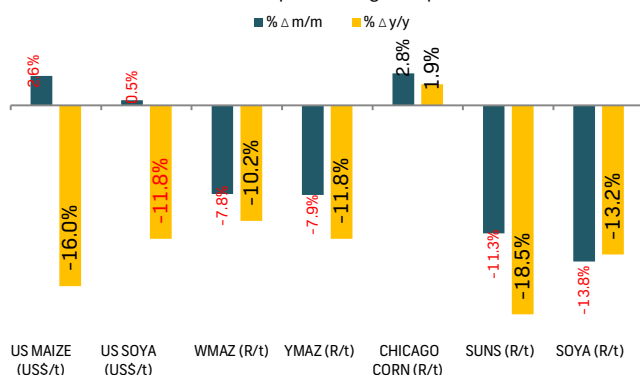
12 MAY 2023	WMAZ R/ton	% Δ m/m	YMAZ R/ton	% Δ m/m	SUNS R/ton	% Δ m/m	SOY R/ton	% Δ m/m
Jul-23	R3,589	-5.3%	R3,743	-6.2%	R8,751	-4.5%	R8,099	-4.0%
Sep-23	R3,670	-5.2%	R3,811	-6.3%	R8,984	-3.9%	R8,271	-3.6%
Dec-23	R3,786	-5.0%	R3,925	-6.0%	R9,203	-3.9%	R8,444	-3.6%
Mar-24	R3,845	-4.0%	R3,929	-5.8%	R9,130	-0.7%	R8,420	-
May-24	R3,772	-	-	-	-	-	R7,808	-

Source: JSE,

- In April 2023, the average price of yellow maize declined by 7.9% (-R328/t) m/m and was down 11.8% (-R511/t) y/y at R3,819/t. Similarly, its white counterpart fell by 7.8% (-R320/t) m/m and was 10.2% (-R428/t) lower y/y (fig.4a) at R3,768 /t. For the plant protein sources, the average sunflower prices for April decreased by 11.3% (-R1,104/t) m/m and by a whopping 18.5% (-R1,961/t) y/y at R8,660/t. Soybeans also saw a sharp decrease of 13.8% (-R1,251.67/t) m/m and 13.2% (-R1,187/t) lower y/y at R 7,826/t (fig.4a).
- Except for pork, the meat-maize price ratio for beef improved by 10.7% m/m and 1% y/y during April 2023 while that of chicken advanced by 10.8% m/m and almost 25% y/y. On the back of the recent downside pressures on pork prices, the meat-maize price ratio for pork deteriorated by 0.7% m/m but still showed a marked improved of 31.7% relative to the 2022 levels (fig.4b).

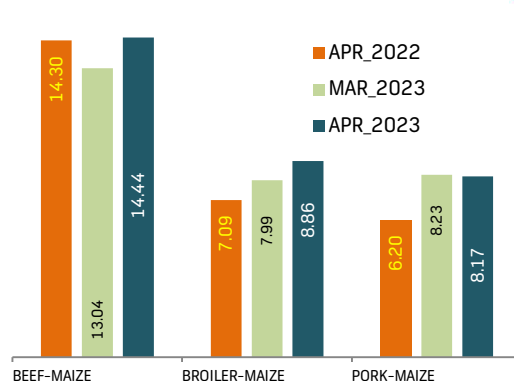
Figure 4: Changes in prices of raw feed inputs and the meat-maize price ratios for beef, broiler, and pork.

Figure 4a: Change in domestic (R/t) and international (US\$/t) prices of raw feed inputs – Average for April 2023



Source: FNB AgriComms, JSE

Figure 4b: Meat-maize prices ratios – recent trends

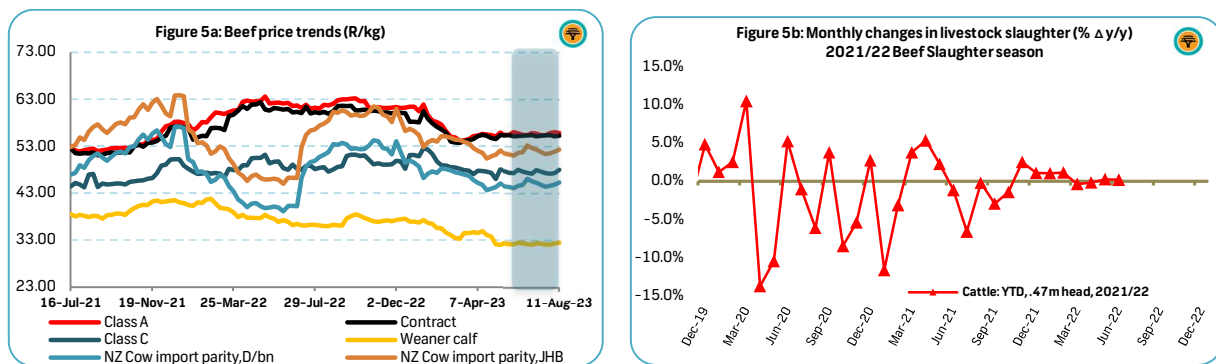


OUTLOOK

- The renewed rand weakness will help curb imports as they make them more expensive thus improving the competitiveness of the local product. Tight supplies due to the reduced imports will help lift domestic prices of poultry and pork meats.
- The onset of the winter season will see increased availability of weaner calves due to weaning, thus downward pressure on prices.
- Meat price growth will be curtailed by the seasonal demand contraction amid higher interest rates and food inflation reaching a 15-year high of 14.4% y/y.
- Fodder availability will be sufficient to carry livestock through winter following an excellent summer rainfall season. The continued decline in grain prices bodes well for feeding margins in the medium term.
- However, the lingering El Niño weather pattern in recent forecasts poses upside risk to prices in the longer term as a deterioration in conditions may derail herd rebuilding and induce stock liquidation in the next summer.

AgroMetrics: Livestock Charts & Data Tables

Figure 5: Beef prices and cattle slaughter trends



*Last nine data points on figure 2a are preliminary

Source: Red Meat LevyAdmin

Table 2: Beef producer price trends in South Africa

Beef producer prices: Beef market – South Africa									
Date	05-May-23	% Δ w/w	R/kg Δ w/w	% Δ y/y	R/kg Δ y/y	3Yr. Avg. (% Δ)	3Yr. Avg. (Δ R/kg)	28-Apr-23	21-Apr-23
Class A (R/kg)	55.06	-0.5%	-R0.29	-12.0%	-R7.54	-3.2%	-R1.81	55.35	55.54
Class C (R/kg)	46.04	-2.7%	-R1.29	-8.9%	-R4.50	-2.5%	-R1.19	47.33	47.58
Contract: A (*Incl.5thQ)	54.55	-0.4%	-R0.21	-12.5%	-R7.79	-3.3%	-R1.84	54.76	55.18
Import parity (R/kg)	51.17	0.7%	R0.37	10.8%	R4.98	9.9%	R4.63	50.80	50.38
Weaner calves (R/kg LW)	32.15	-4.6%	-R1.55	-14.8%	-R5.57	-10.2%	-R3.65	33.70	34.08

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

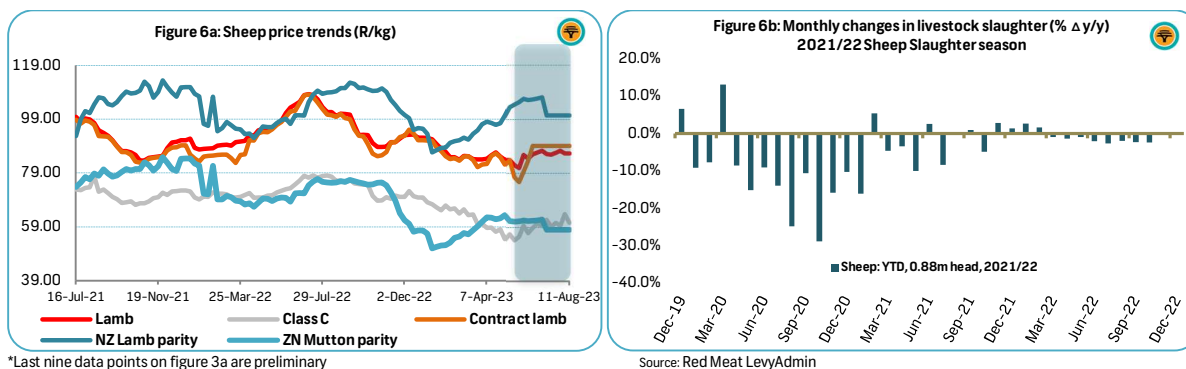
Weekly summary of the sheep market

Table 3: Sheep producer price trends in South Africa

Sheep market – South Africa									
Date	05-May-23	% Δ w/w	R/kg Δ w/w	% Δ y/y	R/kg Δ y/y	3Yr. Avg. (% Δ)	3Yr. Avg. (Δ R/kg)	28-Apr-23	21-Apr-23
Class A (R/kg)	83.89	-1.5%	-R1.29	-11.9%	-R11.29	-4.8%	-R4.20	85.18	86.57
Mutton (R/kg)	54.45	-6.3%	-R3.65	-22.9%	-R16.14	-13.6%	-R8.58	58.10	57.18
Contract: A (*Incl.5thQ, R/kg)	82.15	-3.1%	-R2.63	-12.8%	-R12.08	-5.7%	-R4.94	84.78	86.22
Import parity (R/kg)	98.53	3.0%	R2.85	2.7%	R2.58	7.6%	R6.94	95.67	95.28
Feeder lambs (R/kg LW)	41.05	-1.6%	-R0.65	-10.0%	-R4.58	-5.0%	-R2.16	41.70	41.38

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

Figure 6: Lamb and mutton prices and sheep slaughter trends



Weekly pork market

Figure 7: Pork prices and slaughter trends

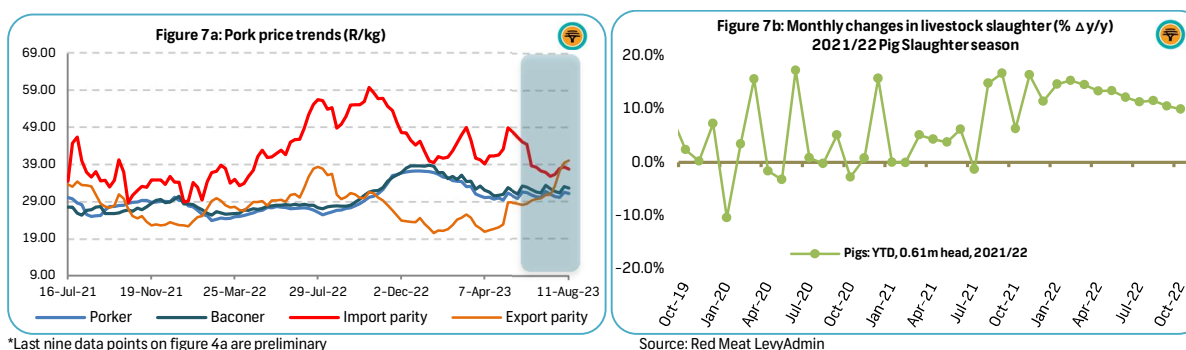


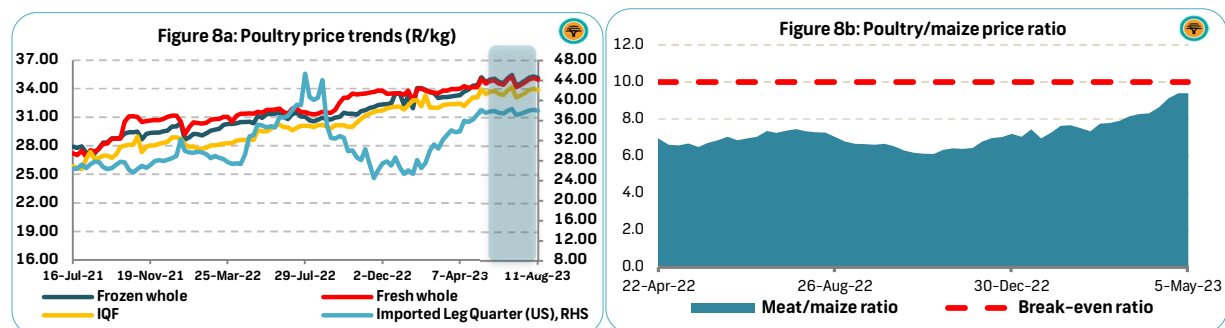
Table 4: Pig producer prices and slaughter trends

Pork market - South Africa									
Date	05-May-23	% Δ w/w	R/kg Δ w/w	% Δ y/y	R/kg Δ y/y	3Yr. Avg. (% Δ)	3Yr. Avg. (Δ R/kg)	28-Apr-23	21-Apr-23
Porker (R/kg)	29.45	-1.8%	-R0.53	10.3%	R2.76	25.1%	R5.92	29.98	29.65
Baconer (R/kg)	30.96	0.8%	R0.26	13.9%	R3.78	43.7%	R9.41	30.70	30.45
Import parity (R/kg)	43.21	3.8%	R1.59	0.7%	R0.32	37.9%	R11.87	41.62	41.28

Source: USDA, JSE, FNB Agric

Weekly poultry market update

Figure 8: Poultry prices and meat/maize ratio trends



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

Table 5: Poultry producer price trends in South Africa

Poultry market – South Africa									
Date	05-May-23	% Δ w/w	R/kg Δ w/w	% Δ y/y	R/kg Δ y/y	3Yr. Avg. (% Δ)	3Yr. Avg. (Δ R/kg)	28-Apr-23	21-Apr-23
Fresh whole birds (R/kg)	34.16	0.0%	R0.00	8.9%	R2.79	9.2%	R2.88	34.34	33.88
Medium Frozen whole birds (R/kg)	34.34	0.0%	R0.00	13.0%	R3.95	10.3%	R3.21	34.34	33.88
Individually Quick Frozen (IQF) (R/kg)	33.09	0.0%	R0.00	15.7%	R4.49	10.4%	R3.12	34.16	34.12
Import parity (R/kg)	37.09	2.6%	R0.96	12.6%	R4.14	13.6%	R4.45	67.34	72.92

Source: USDA, JSE, FNB Agric

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