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Livestock and Fibre markets

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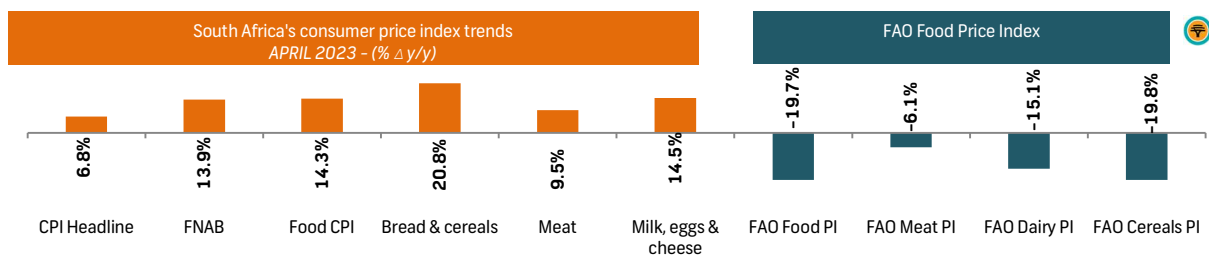
Paul Makube pmakube@fnb.co.za | Tumi Kgasago | Vhutshilo Mabela | 25 MAY 2023

UPDATE ON LIVESTOCK MARKETS

Meat inflation decelerates for the second consecutive month in April 2023

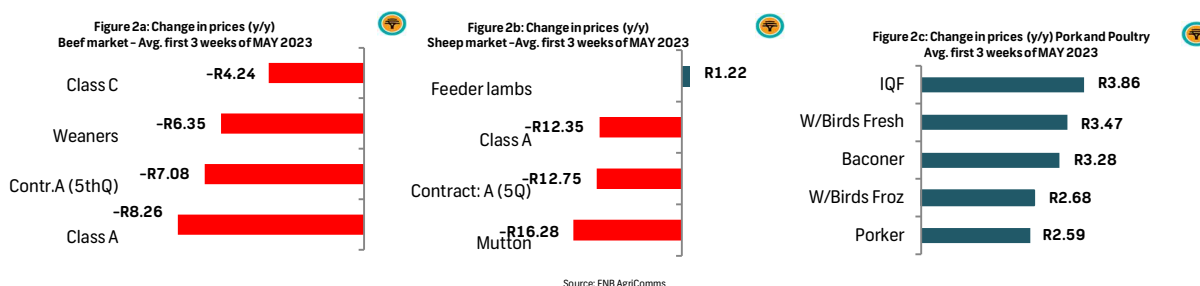
- The latest update on consumer price inflation (CPI) from Statistics South Africa (StatsSA) showed that headline inflation decelerated from 7.1% year-on-year (y/y) in March to 6.8% y/y in April 2023 (figure 1).
- Consumer food inflation softened to 14.3% y/y in April from 14.4% in March as a slowdown in the meat, oils and fats, and fruit categories more than offset the marginal increases in other product categories. At double digit level, the food CPI is back to the levels recorded during the second half of 2016 and early months of 2017.
- Although decelerating for the second consecutive month, South Africa's meat inflation remained sticky on the upside in April 2023 at 9.5% y/y from 10.6% previously. The monthly meat CPI steadied for the second consecutive month (0.0% m/m) which reflects the trend we have observed already at producer level in the last few months.
- The monthly meat supplies were already robust into April with the March slaughter figures showing increases of 16.0%, 83.2%, and 14.0% m/m respectively for beef, sheep, and pigs. We expect the meat CPI to continue the current trajectory in the near term due to the seasonal downturn in demand and availability following the calf weaning period.
- However, load shedding continues to complicate the outlook as the increased the cost of operations such as processing and maintaining the cold chain due to the perishability of meat may force producers to pass on costs. The South African consumer is already under financial strain with debt service costs having risen sharply in the past twelve months following another 50bp rise in interest rates.
- Consumer yet to benefit from weakness in international agriculture commodity prices as domestic challenges continue to outweigh their impact. Nonetheless, we expect the recent decrease in domestic agriculture commodity prices to start filtering through to consumers in the second half of 2023.

Figure 1: Food price inflation trends

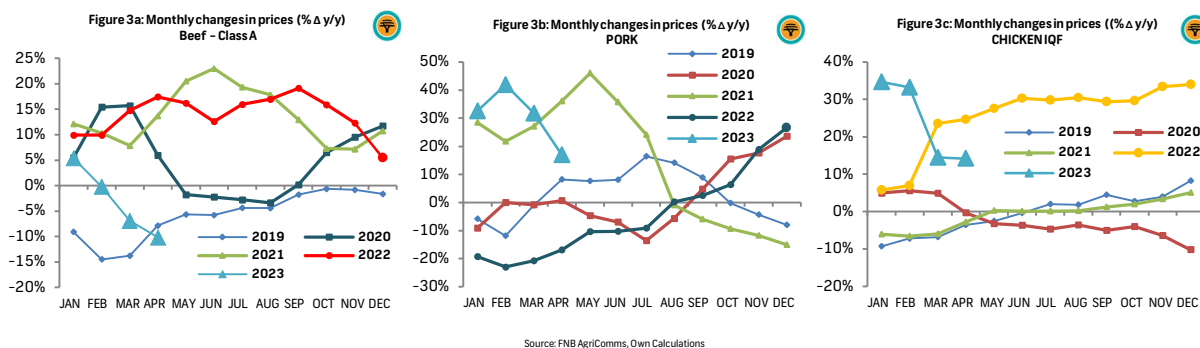


Source: StatsSA, FAO

- Although summer crop yields are currently good with the May 2023 production estimates for total SA maize upgraded by 2% and 4% from April and the previous season respectively to 16.85 million tons, commodity prices are now off the boil following two years of a strong rally.
- Globally, 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).
- Our analysis of trends in the livestock markets shows more downward pressure across the board as demand wanes due to the onset of winter. Although poultry and pork prices have pulled back from the earlier highs recently, they are still higher relative to last year this time (figure 2c).

Figure 2: Changes in average monthly livestock prices (% Δ y/y)

- 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.3b &c).

Figure 3: Growth trends for producer prices of various meat types (% Δ y/y)

Another upgrade of SA's 2022/23 summer crop harvest outlook in May 2023, a bearish outcome for raw feed input prices

- SA's Crop Estimates Committee upgraded their estimates of the country's 2022/23 summer crop harvest by 2% m/m which 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 16.85 million tons (+1.9% m/m and 4.6% y/y). 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 lately, grain and oilseed futures continued to trend on the downside which bodes well for improved feeding margins if sustained. The latest Jul-2023 and Sep-23 are way off the 2022 high of over R5,000/t for both the white and yellow maize.
- We saw a similar trend on the plant protein side with the Jul-2023 and Sep-23 futures falling way below last year's record high of over R12,000/ton and R11,000/ton respectively for soybeans and sunflower as reflected in Table 1.

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

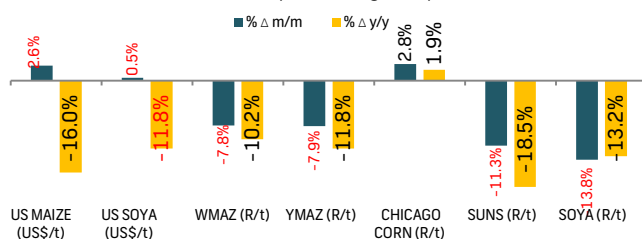
25 MAY 2023	WMAZ R/ton	% Δ m/m	YMAZ R/ton	% Δ m/m	SUNS R/ton	% Δ m/m	SOY R/ton	% Δ m/m
Jul-23	R3,667	5.2%	R3,780	3.4%	R8,333	-2.1%	R7,902	4.7%
Sep-23	R3,748	5.1%	R3,854	3.4%	R8,538	-2.5%	R8,070	4.5%
Dec-23	R3,849	4.5%	R3,947	3.1%	R8,770	-2.3%	R8,244	4.7%
Mar-24	R3,900	4.4%	R3,954	3.2%	R8,670	-2.7%	R8,200	3.8%
May-24	-	-	-	-	-	-	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 R7,826/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).

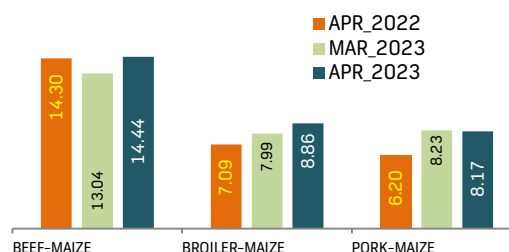
Figure 4: Changes in prices of raw feed inputs and the meat-maize price ratios for beef, broiler, and pork.

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

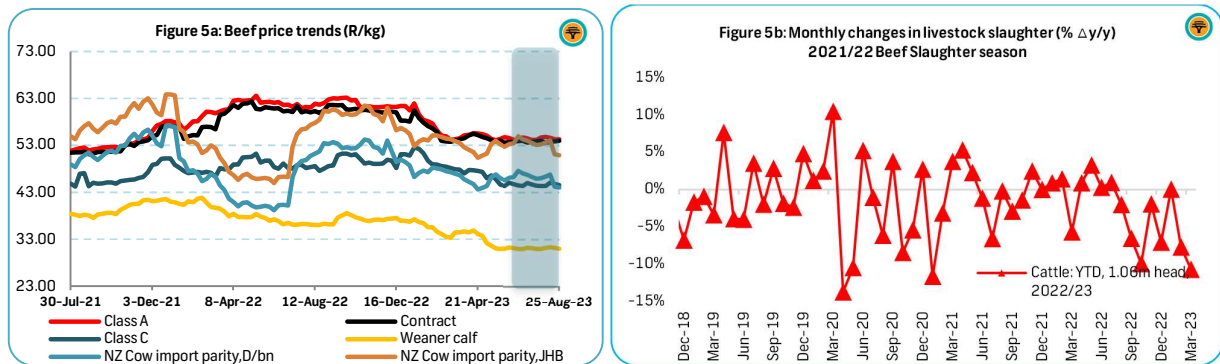


OUTLOOK

- The renewed rand weakness will help curb imports as they make them more expensive thus improving the competitiveness of the local products in the pork and poultry categories. 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 over 14% 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	19-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)	12-Apr-23	28-Apr-23
Class A (R/kg)	54.08	-0.4%	-R0.24	-12.3%	-R8.00	-4.1%	-R2.31	54.32	55.06
Class C (R/kg)	45.76	-1.7%	-R0.81	-7.3%	-R3.60	-1.4%	-R0.64	46.57	46.04
Contract: A (*Incl.5thQ)	53.78	-0.6%	-R0.32	-11.3%	-R6.82	-3.3%	-R1.86	54.10	54.55
Import parity (R/kg)	53.96	1.4%	R0.73	17.4%	R7.99	14.4%	R6.79	53.23	51.17
Weaner calves (R/kg LW)	31.08	-1.6%	-R0.52	-17.8%	-R6.72	-13.2%	-R4.74	31.60	32.15

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

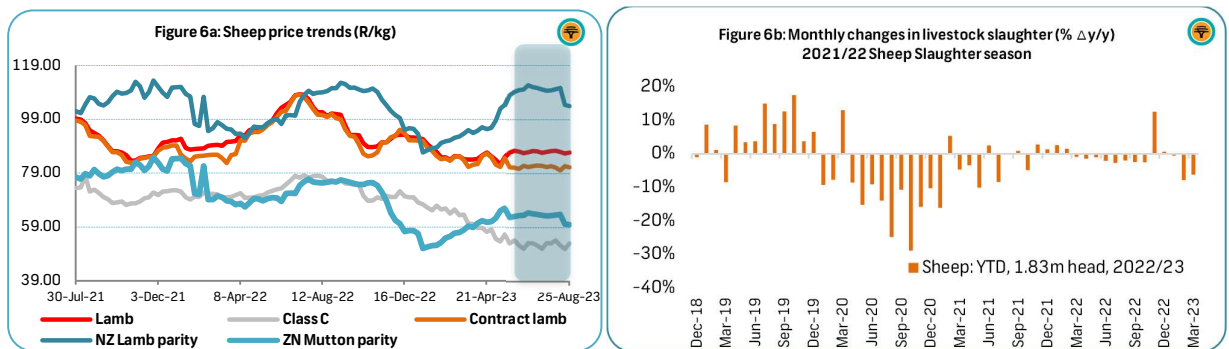
Weekly summary of the sheep market

Table 3: Sheep producer price trends in South Africa

Sheep market – South Africa									
Date	19-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)	12-Apr-23	28-Apr-23
Class A (R/kg)	84.96	3.5%	R2.88	-12.6%	-R12.22	-5.6%	-R5.05	82.08	83.89
Mutton (R/kg)	56.18	4.7%	R2.53	-21.8%	-R15.62	-13.9%	-R9.10	53.65	54.45
Contract: A (*Incl.5thQ, R/kg)	84.56	4.0%	R3.22	-12.7%	-R12.34	-5.4%	-R4.86	81.34	82.15
Import parity (R/kg)	104.37	1.4%	R1.46	7.1%	R6.89	10.1%	R9.60	102.90	98.53
Feeder lambs (R/kg LW)	42.11	1.8%	R0.73	-13.3%	-R6.46	-7.4%	-R3.38	41.38	41.05

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

Figure 6: Lamb and mutton prices and sheep slaughter trends

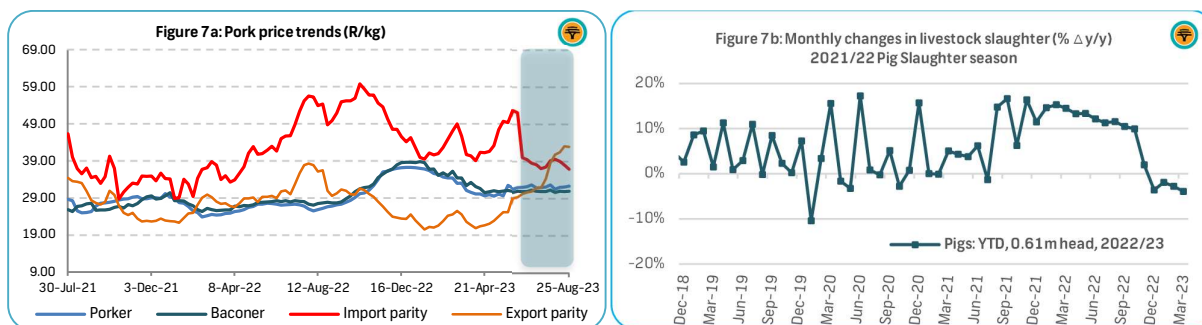


*Last nine data points on figure 3a are preliminary

Source: Red Meat LevyAdmin

Weekly pork market

Figure 7: Pork prices and slaughter trends



*Last nine data points on figure 4a are preliminary

Source: Red Meat LevyAdmin

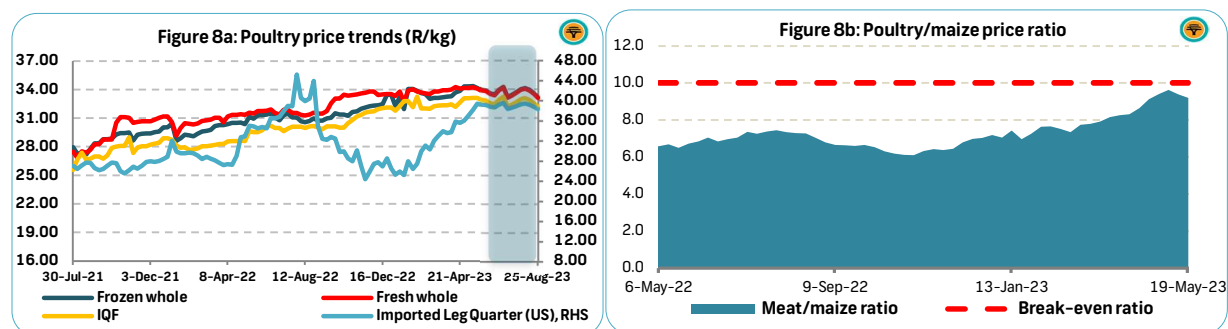
Table 4: Pig producer prices and slaughter trends

Pork market – South Africa									
Date	19-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)	12-Apr-23	28-Apr-23
Porker (R/kg)	29.58	-1.9%	-R0.57	8.2%	R2.25	25.7%	R6.05	30.15	29.45
Baconer (R/kg)	30.85	0.4%	R0.13	11.0%	R3.05	43.2%	R9.30	30.72	30.96
Import parity (R/kg)	49.75	4.7%	R2.22	21.2%	R8.71	58.8%	R18.41	47.53	43.21

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	19-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)	12-Apr-23	28-Apr-23
Fresh whole birds (R/kg)	34.10	-0.4%	-R0.12	8.3%	R2.62	8.1%	R2.54	34.38	34.34
Medium Frozen whole birds (R/kg)	34.18	-0.6%	-R0.20	10.4%	R3.22	9.0%	R2.81	34.38	34.34
Individually Quick Frozen (IQF) (R/kg)	33.12	0.0%	R0.00	12.2%	R3.61	10.8%	R3.23	34.22	34.16
Import parity (R/kg)	39.50	3.2%	R1.23	13.1%	R4.59	19.3%	R6.40	82.91	74.49

Source: USDA, JSE, FNB Agric

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