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Livestock and Fibre markets

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UPDATE ON LIVESTOCK MARKETS

Avian flu attack on poultry dampens consumer sentiment ahead of the festive season

- The renewed spread of the avian flu with two strains attacking the poultry industry in South Africa has serious consequences for farmers and consumers in the months ahead. The country was hit by the highly pathogenic avian influenza strains H7 and H5 with the former's attack severe in the inland provinces of the North West, Mpumalanga, the Free State, and Limpopo while the latter took its toll on the Western Cape. Over 1.5 million chickens have been culled and the counting continues as the spread is yet to be contained. Layer operations are the hardest hit and egg shortages are already reported at retail level. In the case of broilers, the breeding side is impacted thus chicken meat supply tightness will not kick in immediately but in the medium to longer term should the disease not be contained in the short term.
- Meanwhile, the outbreak has triggered an import ban on South Africa's poultry products from Namibia as expected given that the avian influenza is a notifiable disease in terms of the World Organization for Animal Health. Although accounting for less than 5% of domestic production, exports are an additional revenue source for producers and therefore important. Namibia was the second biggest destination for broiler exports and accounted for 20.4% of the 24,119 tons exported in the first half of 2023.
- With another fuel hike looming for October after a massive increase of R2.84/l and R2.76/l in the price of the two grades of diesel namely, the 0.05% and 0.005% Sulphur content respectively in September, erosion of profit margins will continue.
- Further cost pressures will lift the producer price inflation (PPI) for live animals and animal products which has been in deceleration for the past three months at 2.3% y/y in August from 3.2%, 6.6%, and 8.9% respectively in July, June, and May 2023. At manufacturing level, the PPI for meat and meat products fell by 0.5% m/m and decelerated to 0.2% y/y (fig.1b).

Figure 1: Consumer and producer price inflation trends

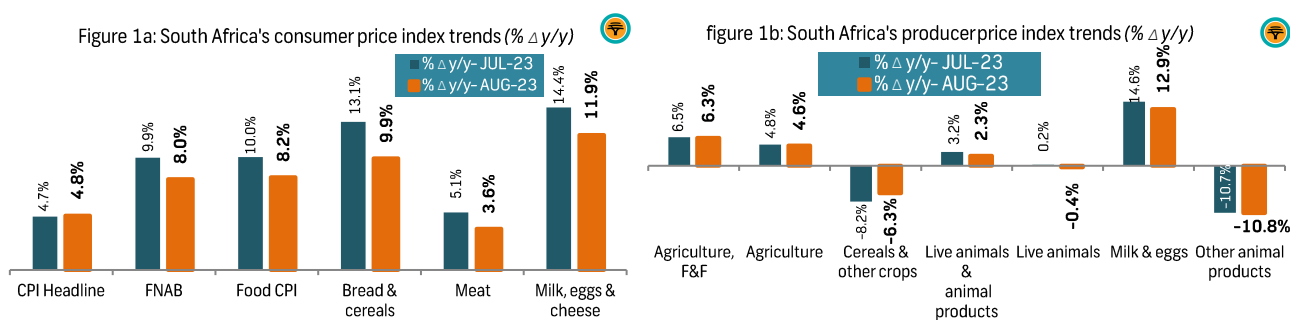
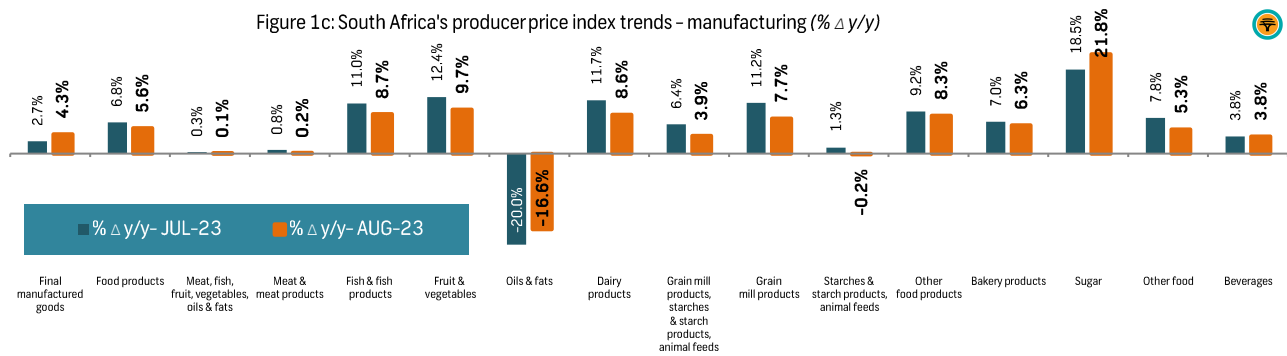


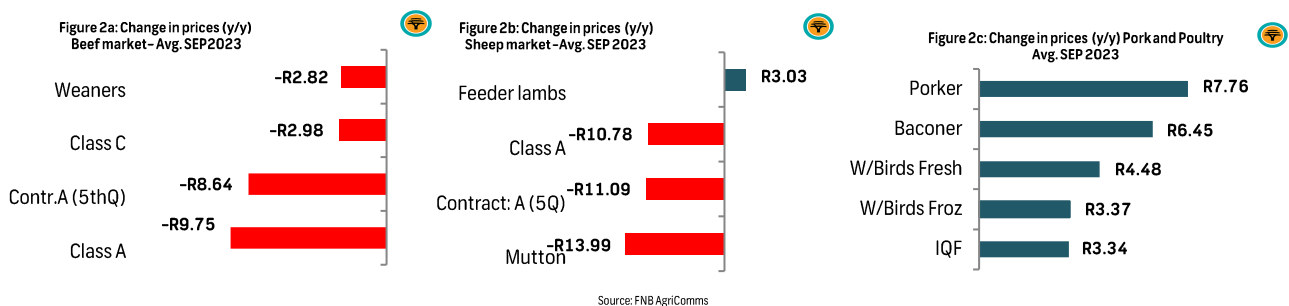
Figure 1c: South Africa's producer price index trends – manufacturing (% Δ y/y)

Source: StatsSA.

- Headline PPI however accelerated faster to 4.3% y/y in August 2023 from 2.7% in July 2023 and increased by 1.0% m/m. For agriculture, forestry and fishing, the PPI slowed to 6.3% y/y in August 2023 from 6.5% y/y in July and the index decreased by 0.2% m/m. The agriculture PPI fell by 0.5% m/m in August and decelerated to 4.6% y/y after rising by 4.8% y/y in July, see figure 1c.
- On the consumer front, headline inflation lifted marginally from 4.7% y/y in July to 4.8% y/y in August 2023. Food inflation however steadied m/m and decelerated for the fifth consecutive month at 8.2% y/y from 10% y/y in July. The monthly meat CPI declined for the second consecutive month to -0.7% m/m and slowed by 1.4ppts from the previous month to the lowest level since Jan 2020 at 3.6% y/y in August 2023. However, the renewed cost pressures emanating from fuel coupled with the potential supply tightness in the poultry industry have muddled the meat inflation outlook for months ahead.

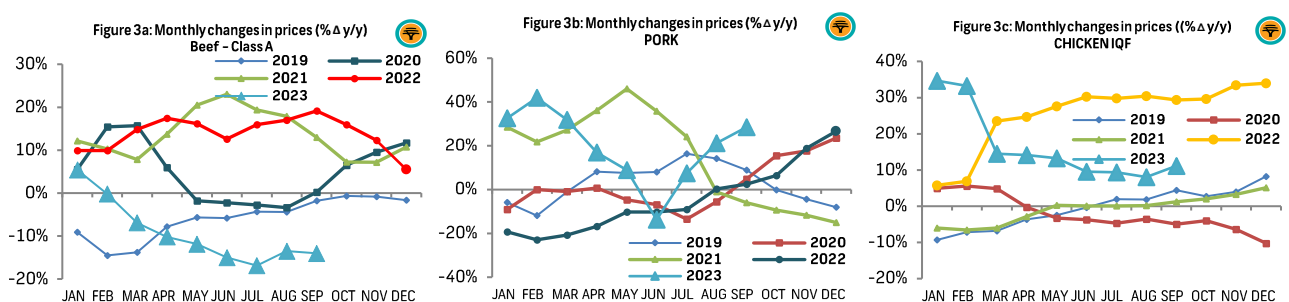
Pork prices continue to post solid gains on supply tightness and renewed demand

- Pork: Baconer prices lifted by 10.6% (+R3.32/kg) m/m and were 23% (+R6.45/kg) higher y/y at R34.48/kg. Porker prices strengthened by 11% m/m (+R3.47/kg) and 28.4% (+R7.76/kg) y/y at R35.03/kg. Both pork and baconer prices have rebounded from mid-year lows to levels recorded earlier in the year during February 2023. On the poultry side, the firmer trend continued due to the lingering supply tightness and the rebound in seasonal demand. There is no respite in the beef and sheep market with prices continuing to trade at a huge discount relative to last year (figure 2c).

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

Source: FNB AgriComms

- The historical growth trend in prices shows a further uplift for pork while that for poultry was relatively stable in 2023 (figures 3a and 3b). Beef price growth remains in negative territory, see figure 3a.

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

Source: FNB AgriComms, Own Calculations

A sustained uptick in maize prices does not bode well for livestock feeding

- Latest trends in maize futures show an upswing with white maize maintaining levels above R4,000/t. The Dec-23 and Jul-24 maize contracts were up 10% and 4.5% m/m respectively at R4,111/t and R4,034/t as of September month-end. Yellow maize for Dec-23 and Jul-24 delivery increased by 6.9% and 3.6% m/m respectively at R3,996/t and R3,968/t.
- Despite the huge harvest and a solid global production outlook with the international prices of corn for Dec-23 delivery reaching its lowest level, domestic maize prices sustained a firmer trend.
- In the oilseed complex, prices have lost steam with soybeans and sunflower for Dec-23 delivery falling by 3.5% and 1.8% m/m respectively (-R341/t) and (-R164/t) at R9,454/t and R9,031/t as reflected in Table 1.

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

29 SEP 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
Dec-23	R4,111	10.2%	R3,996	6.9%	R9,031	-1.8%	R9,454	-3.5%
Mar-24	R4,130	8.6%	R4,040	6.5%	R8,990	-0.9%	R9,345	-3.4%
May-24	R4,044	5.4%	R3,910	2.8%	R8,707	1.1%	R8,719	-2.6%
Jul-24	R4,034	4.5%	R3,968	3.6%	R8,788	-	R8,883	-2.6%
Dec-24	R4,157	3.3%	R4,139	3.0%	-	-	-	-

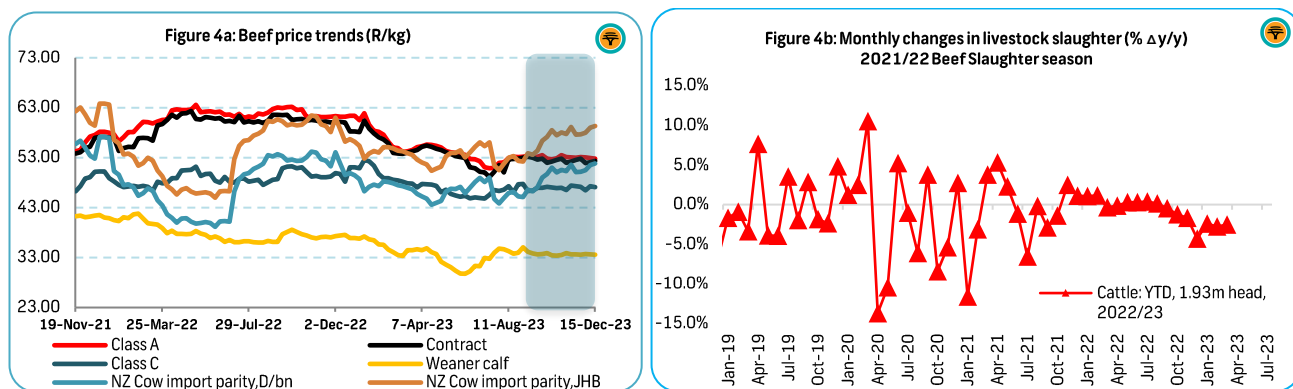
Source: JSE,

OUTLOOK

- Good early season rains are most welcome for pasture regrowth given the expected harsh conditions associated with the El Niño weather pattern that is now in full swing.
- Renewed cost pressures due to higher fuel prices will ride profit margins and place further strain on the livestock sector.
- Poultry operating environment is expected to be even tougher due to the avian flu outbreak.
- A sustained rebound in grain prices and consequently higher feed costs will compress profit margins for intensive livestock feeding systems such as poultry, pork, and feedlots.

AgroMetrics: Livestock Charts

Figure 4: Beef prices and cattle slaughter trends

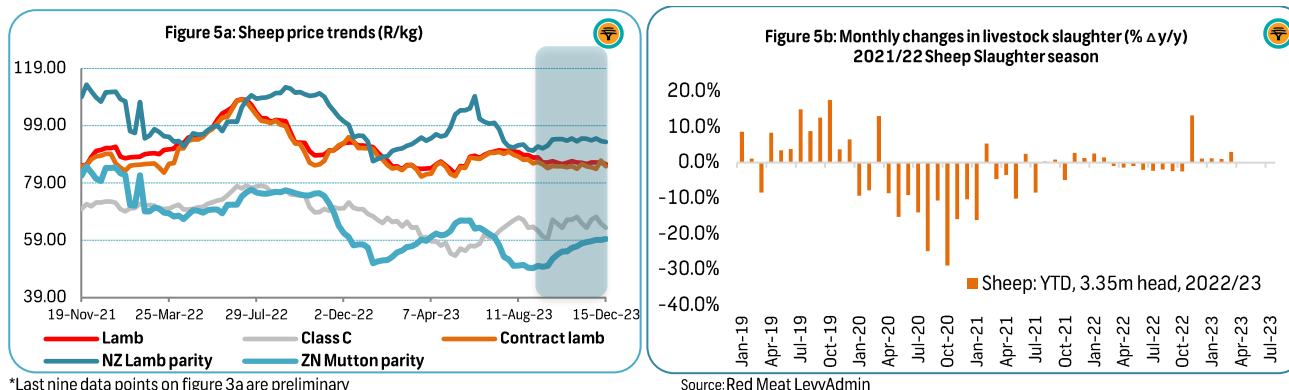


*Last nine data points on figure 2a are preliminary

Source: Red Meat Levy Admin

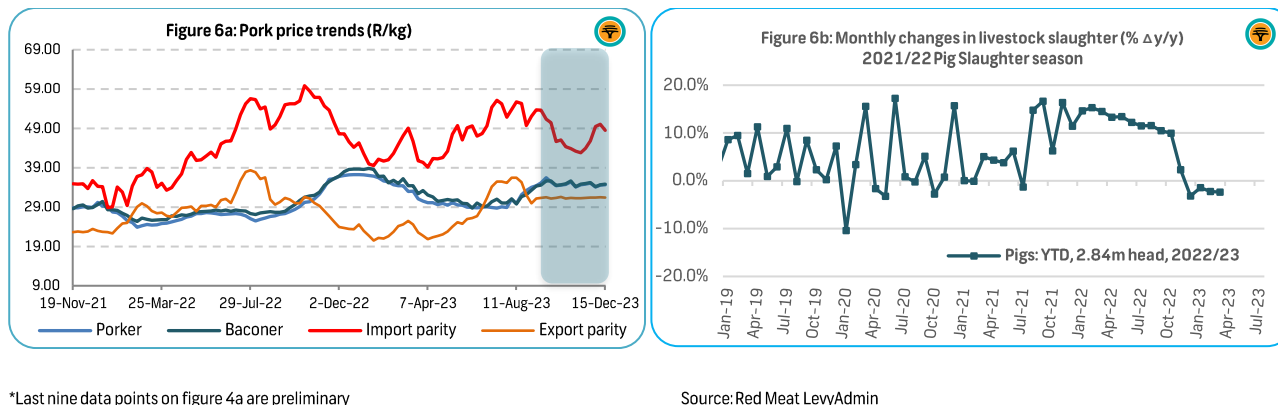
Weekly summary of the sheep market

Figure 5: Lamb and mutton prices and sheep slaughter trends



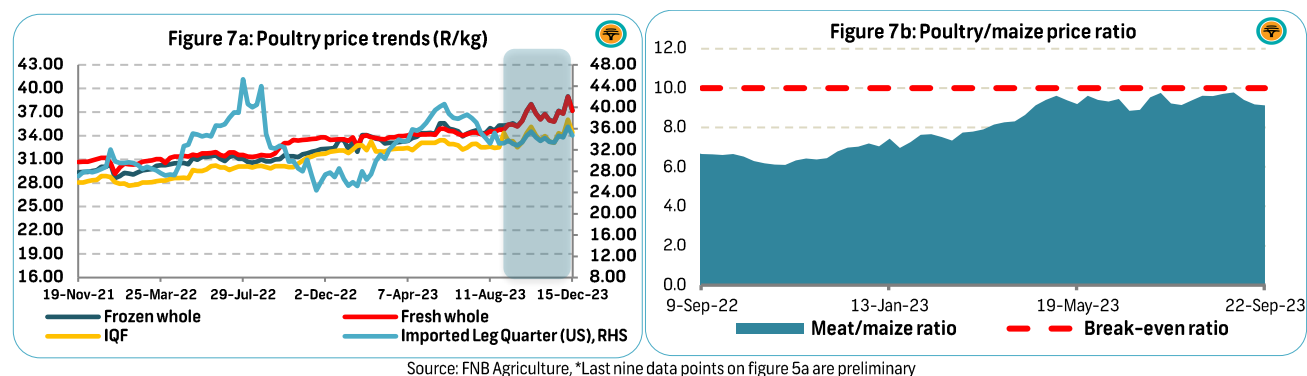
Weekly pork market

Figure 6: Pork prices and slaughter trends



Weekly poultry market update

Figure 7: Poultry prices and meat/maize ratio trends



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