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Livestock and Fibre markets

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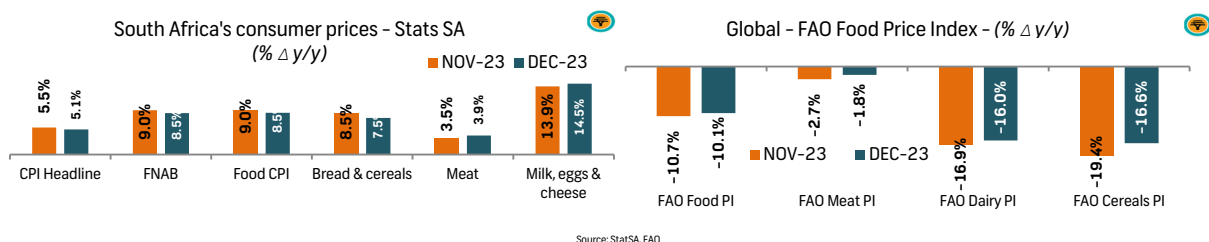
Paul Makube | Tumi Kgasago | Vhutshilo Mabela | 24 JAN 2024

UPDATE ON LIVESTOCK MARKETS

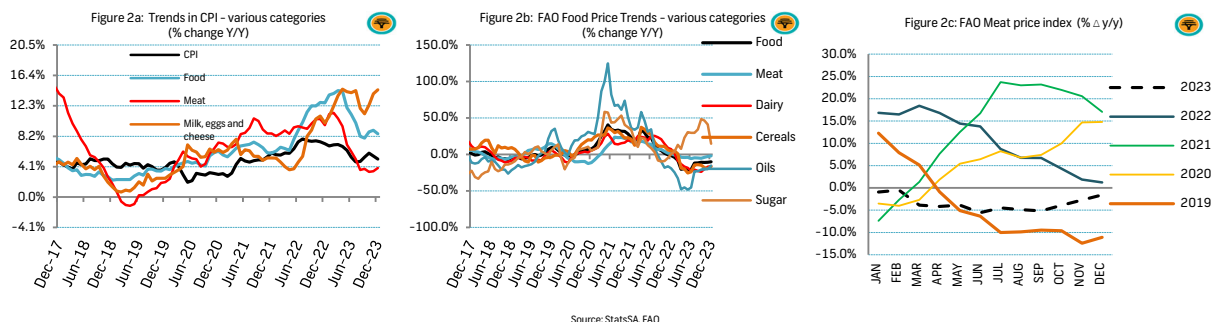
Food inflation cools but the meat category remained sticky on the upside during December 2023

- South Africa's headline inflation came in below expectations for December 2023 at 5.1% relative to the November print of 5.5% y/y. The monthly headline outcome was zero in December after posting a decline of -0.1% m/m in November 2023.
- Food inflation reversed course and slowed to 8.5% y/y as the deceleration in bread and cereals; oils and fats; and vegetables more than offset gains in meat; milk, eggs and cheese; as well as fruit categories. Monthly food inflation was zero after gaining 0.7% m/m in November.
- Meat prices nudged 0.4 ppt from the previous month to 3.9% y/y in December on the back of the seasonal upswing in demand. The monthly inflation moved marginally higher to 0.9% m/m after steady at 0.6% in the past three months to November 2023 (figure 1). The highly pathogenic avian influenza (HPAI) outbreak disrupted egg supplies thus causing a huge shortage and consequently a spike in prices. The HPAI-induced supply crunch underpinned the 0.5 ppt jump in the milk, eggs and cheese inflation which came in at 14.5% y/y in December 2023.
- Contrary to expectations, chicken supplies particularly were adequate during the festive period thus partly contributing to the delay in the finalization of the decision on import tariff rebates that were earlier mooted to ease pressure on consumers.
- While diseases still pose an upside risk to the livestock market, recent developments indicate a potential normalization and rebound in output following efforts to expedite the approval and importation of vaccines, importation of fertilized eggs to repopulate flocks, and importation of table eggs. Thus, there is a potential for further moderation in meat inflation as the year progresses.
- Meanwhile, the much-vaunted El Niño seems to have left domestic agriculture almost unscathed in the first half of the crop season as weather conditions have been relatively favourable. Another good summer crop harvest will help tame inflation later in 2024.

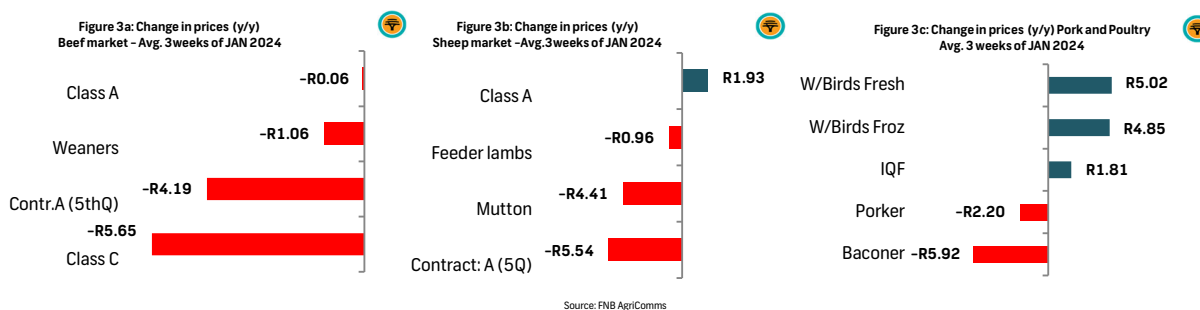
Figure 1: SA and global inflation trends for selected product categories – (% Δ y/y)



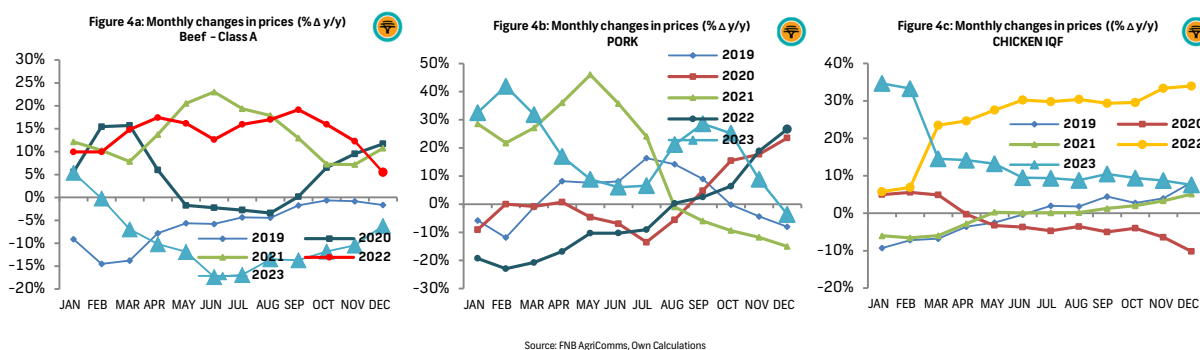
- Globally, the latest United Nation's Food and Agriculture Organization (FAO) monthly update showed a subdued food inflation in 2023 with the overall index falling by 13.7% y/y (figures 1 & 2b). In December, the FAO food price inflation fell by 1.5% and 10.1% y/y underpinned by declines in prices for sugar, vegetables oils, and meat.
- The FAO monthly meat inflation remained in negative territory for the whole of 2023, coming in at -0.8% m/m and -1.6% y/y in December 2023 (figures 2b, 2c). A constrained Asian demand amid increased availability in pig meat, bovine, and poultry categories underpinned the softer trend in global meat price inflation.

Figure 2: Detailed SA and global inflation trends for selected product categories (% Δ y/y)

- Our analysis of monthly trends on domestic livestock market shows weakness across most categories except for chicken early in 2024 relative to the same period last year due to the seasonal contraction in demand and competing expenditure needs for consumers post the December holidays.

Figure 3: Changes in average monthly livestock prices (% Δ y/y)

- The historical annual growth trend in prices shows a flat trend for poultry in 2023, remaining way below the 2022 levels (figure 4c). However, pork price growth slowed sharply since Oct 2023 (figures 4b). Beef on the other hand continued to trend in negative territory, which is way below the past three years for class A carcass (figure 4a).

Figure 4: Growth trends for producer prices of various meat types (% Δ y/y)

The relatively favourable crop conditions so far bodes well for a moderation in feed prices in 2024

- The relatively favourable weather conditions during the first half of the 2023/24 crop season bodes well for a potentially decent harvest considering that the planted area was raised by 2% y/y to 4.5 million hectares.
- Another decent harvest will help limit further upside for grain and oilseed prices and subsequently livestock feed prices. Maize is a major input in livestock feed while soybeans and sunflower are important raw materials for plant protein.
- Latest price trends show that maize has fallen below R4,000/t and traded at a huge discount relative to the December levels. Yellow maize on 23 January 2024 settled at R3,779/t and R3,712/t respectively for the Mar-24 and Jul-24 contracts, both falling by 8% m/m.
- In the oilseed complex, soybeans and sunflower futures for Mar-24 and Jul-24 delivery were 5.8% and 11.5% lower respectively from last month at R8,374/t and R8,340/t.

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

23 JAN 2024	WMAZ R/ton	%Δ m/m	YMAZ R/ton	%Δ m/m	SUNS R/ton	%Δ m/m	SOY R/ton	%Δ m/m
Mar-2024	R3,779	-7.8%	R3,614	-8.1%	R8,340	-11.5%	R8,374	-5.8%
May-2024	R3,720	-8.8%	R3,645	-6.8%	R8,298	-8.0%	R8,276	-5.7%
Jul-2024	R3,712	-8.2%	R3,645	-6.1%	R8,477	-7.4%	R8,425	-5.7%
Sep-2024	R3,804	-	R3,731	-6.1%	-	-	-	-
Dec-2024	R3,891	-7.2%	R3,824	-5.9%	-	-	R8,747	-

Source: JSE,

OUTLOOK

- Prices are expected to follow normal seasonal trend with limited upside in the short term. The relatively good agriculture conditions bodes well for feed availability and the potential moderation in raw feed input prices. This bodes well for livestock producers as good pastures help reduce feeding costs. While El Nino is still in full swing, the latest forecast shows a diminishing trend in autumn and hopefully a return to neutral or normal rainfall conditions later in the year.

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