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Livestock and Fibre markets

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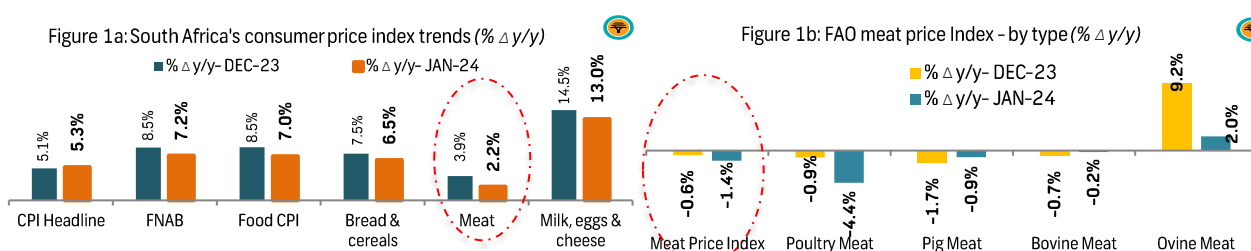
Paul Makube | Tumi Kgasago | Vhutshilo Mabela | 22 FEB 2024

UPDATE ON LIVESTOCK MARKETS

Meat inflation started the year on a softer note on seasonal downturn in demand

- South Africa's headline inflation quickened more than expectations to 5.5% year-on-year (y/y) in January 2024 and advanced by 0.1% month-on-month (m/m) as higher fuel prices weighed heavily on the index. Fuel prices lifted by 3.3% y/y in January 2024 on the back of higher crude oil prices and a weaker rand exchange rate.
- Although edging 0.6% higher m/m, food inflation decelerated for the third consecutive month to 7% y/y in January 2024 underpinned by slowing prices across most categories with oils and fats in negative territory and vegetables decelerating after being sticky on the upside during 2023.
- In the meat category, the seasonal downturn in demand pushed prices lower which saw the annual meat inflation decelerating further to 2.2% y/y in January 2024 compared to the deflation of 3.9% y/y in December. Meat inflation steadied at 0.9% m/m (figure 1a).
- A drilldown into the meat category shows beef rump steak and pork chops posting biggest decreases of 19.7% (-R39.15/kg) y/y and 13.7% (-R14.71/kg) y/y respectively (table 1). These more than offset gains for chicken meat which remained sticky on the upside across all portions with the individually quick frozen (IQF) increasing by 8.5% (+R5.31/kg) at R67.73/kg.
- However, there is a potential downside for chicken in the medium term due to the increased competition from imported product given the government's notice of a partial rebate that would be applied to imported boneless cuts and frozen chicken i.e., full duty less 30% currently at 42%. Bone-in frozen or unfrozen chicken would see a partial rebate of full duty less 25% from the current 62% if implemented.
- Globally, meat inflation as measured by the United Nation's Food and Agriculture Organization (FAO) remained in a deflationary mode at -0.6% m/m and annually at -1.4% y/y in January 2024 (figure 1b).

Figure 1: Food and meat price inflation trends – JAN 2024



Source: StatsSA, FAO

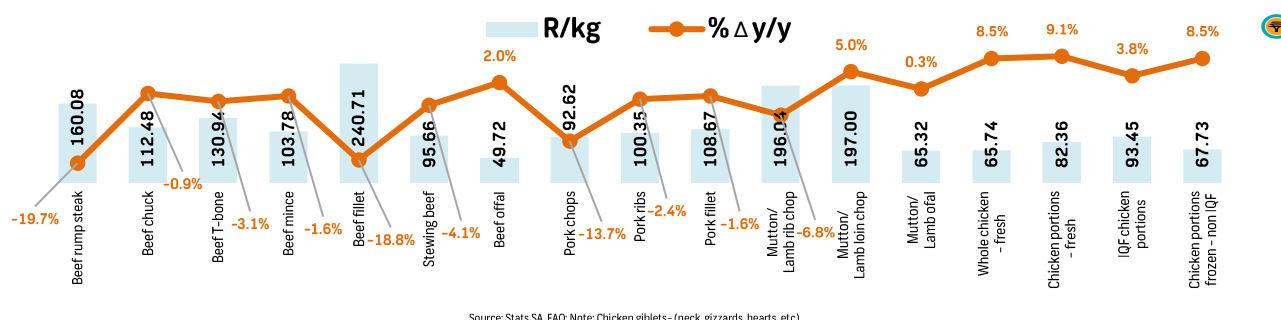
- A combination of lack lustre global demand and higher exportable volumes pushed chicken prices lower by 4.4% y/y and were marginally down by 0.9% m/m in January. Pork prices weakened by 0.9% m/m and 1.7% y/y under pressure due to the weak Chinese demand and increased availability from major exporters.
- The overall global food inflation fell by 1.2% m/m and 10.4% y/y underpinned by decreases for cereals and meat that outweighed gains in the sugar, dairy, and vegetable categories.

Table 1: Meat price changes by selected cuts per red meat type in South Africa

	Beef rump steak	Beef chuck	Beef T-bone	Beef mince	Stewin g beef	Beef offal	Pork chops	Pork ribs	Pork fillet	Mutton/ Lamb rib chop	Mutton/ Lamb loin chop	Mutton/Lam b ofal
R/kg	160.08	112.48	130.94	103.78	95.66	49.72	92.62	100.35	108.67	196.04	197.00	65.32
% Δ m/m	0.5%	4.2%	0.3%	1.5%	0.5%	1.4%	-0.9%	-0.9%	0.2%	1.1%	0.3%	5.3%
R/kg Δ m/m	0.77	4.56	0.38	1.57	0.47	0.71	-0.86	-0.94	0.21	2.09	0.68	3.27
% Δ y/y	-19.7%	-0.9%	-3.1%	-1.6%	-4.1%	2.0%	-13.7%	-2.4%	-1.6%	-6.8%	5.0%	0.3%
R/kg Δ y/y	-39.15	-1.06	-4.15	-1.73	-4.15	0.96	-14.71	-2.49	-1.76	-14.25	9.31	0.20

Source: StatsSA

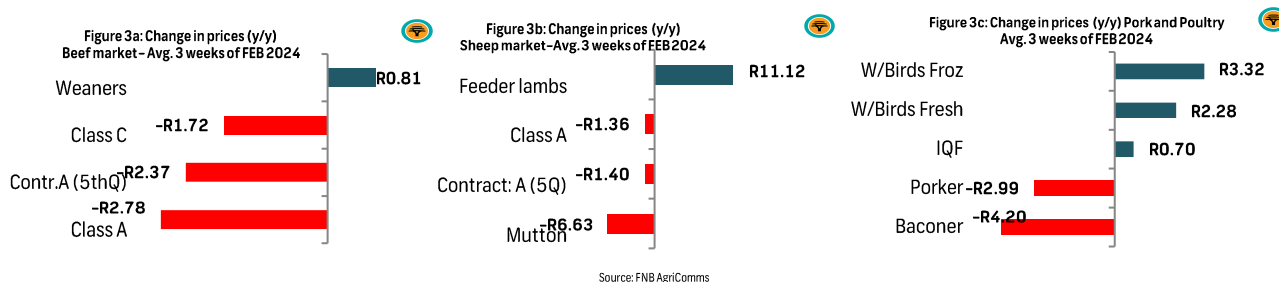
Figure 2: Consumer prices for selected meat products (% change y/y) – JAN 2024



Source: Stats SA, FAO; Note: Chicken giblets - (neck, gizzards, hearts, etc)

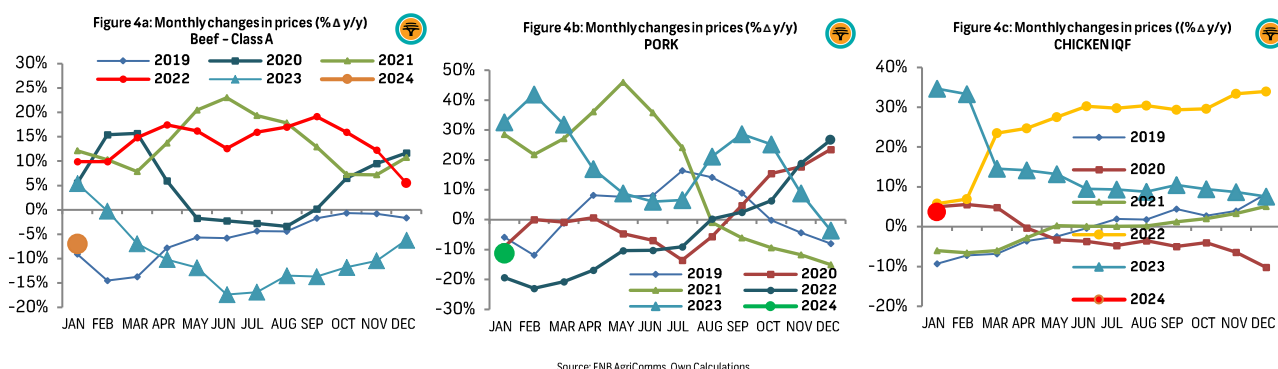
- Our analysis of monthly trends on domestic livestock market shows weakness across the red meat complex in January 2024 relative to the same period in 2023.
- This trend continued into February as a sustained weakness in demand weighed heavily on the market. The average contract class A prices for the first three weeks of February fell by 1.4% (-R0.77/kg) m/m and 4.2% (-R2.37/kg) y/y to R54.17/kg.
- In the sheep category, mutton posted the biggest decrease of 5.4% (-R3.40/kg) m/m and 10% (-R6.63/kg) y/y at R59.41/kg for the first three weeks of February 2024.
- However, the trend in the live market shows a slight rebound for the weaner calves and feeder lamb prices as the relatively favourable production conditions influence producers to hold on to their stock a little longer. Average weaner calf prices jumped 2.3% (+R0.81/kg) y/y at R36.05/kg live weight (LW) while feeder lamb prices were 6.4% (+R2.70/kg) y/y at R45.17/kg LW.
- Pig meat saw declines across the board with porker and baconer prices falling by 8.5% (-R2.99/kg) and 11.7% (-R4.20/kg) y/y respectively.
- Chicken remains an exception, posting gains of 6.7% (+R2.28/kg) and 9.8% (+R3.32/kg) y/y respectively for frozen and fresh whole birds at R36.14/kg and R37.16/kg, while IQF advanced by 2.2% (+R0.70/kg) at R33.19/kg.

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



Source: FNB AgriComms

- The historical annual growth trend in prices shows a decline for beef and pork at the beginning of 2024 relative to last year (figure 3a and 3b). However, chicken price growth remained in positive territory into 2024 due the impact of the earlier outbreak of avian influenza on prices (figures 3c).

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

Short-term adverse weather remains an downside risk to livestock feeding margins

- Although harvest outlook still points to another decent maize crop for the 2023/24 production season, recent weather conditions have complicated the price expectations. Extreme heat and lack of rain in some areas helped lift maize prices back above R4,000/t (table 2).
- Oilseeds however remain on the downside relative to last month with futures closing modestly lower in the range 3.4% to 4.3% m/m for sunflower and soybeans. Soybeans are an important plant protein source from a livestock feeding perspective.

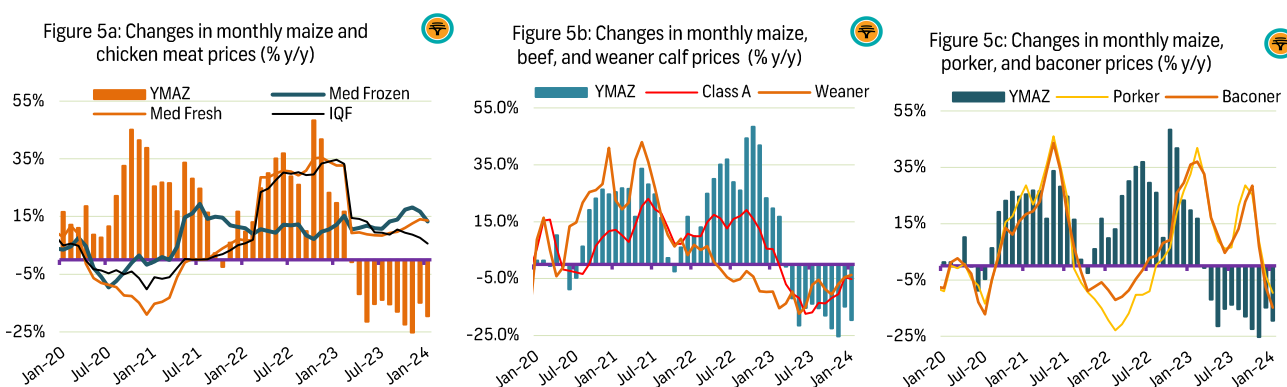
Table 2: Raw feed inputs - Latest price trends in JSE grain and oilseed futures market (R/ton)

22 FEB 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
May-2024	R4,270	13.1%	R3,732	1.4%	R7,995	-4.3%	R7,921	-4.2%
Jul-2024	R4,243	12.4%	R3,713	0.6%	R8,281	-3.4%	R8,069	-4.2%
Sep-2024	R4,302	11.9%	R3,788	0.3%	R8,547	-	R8,250	-
Dec-2024	R4,414	11.6%	R3,884	0.6%	R8,824	-	R8,410	-3.9%
Mar-2025	R4,450	-	R3,900	-	-	-	-	-

Source: JSE

- The annual growth in monthly prices of chicken meat still far outpaces that of maize as illustrated in figure 5a. A negative price growth for maize augurs well for livestock feeders as it constitute over 70% of feed.
- Figures 5b and 5c illustrate a deceleration in feeding margins as both maize and meat price growth remained in negative territory for beef and pork since the second half of 2023. The renewed uptick in maize prices threatens profitability of intensive livestock feeding.

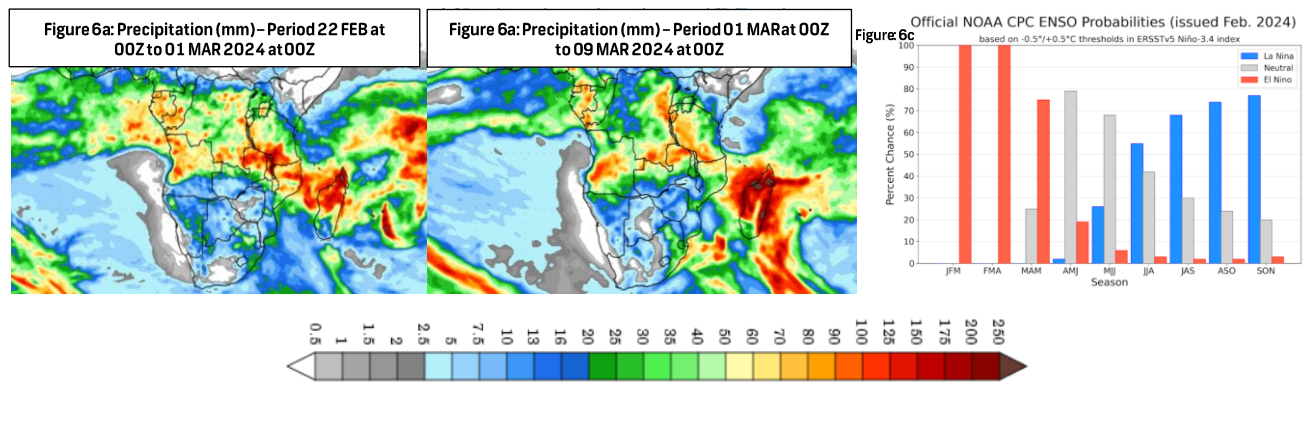
Figure 5: Changes in maize prices in relation to various meat types



OUTLOOK

- The renewed uptick in maize prices poses downside risk to the profitability of intensive livestock feeding. Nonetheless, forecasts of rain in the next two weeks into March bodes well for crop recovery in areas badly affected by the recent heat wave (figures 6a and 6b).
- Further, the dissipation of the El Niño weather pattern and the return of the neutral conditions later in 2024 bodes well for overall agriculture production (figure 6c).
- While poultry has seen some improvement in margins in the recent past, the recent government notice of a partial rebate that would be applied to imported boneless cuts and frozen chicken i.e., full duty less 30% currently at 42%, is likely to reversed gains to recovery following the disease-induced decimation of profits in 2023. Bone-in frozen or unfrozen chicken would see a partial rebate of full duty less 25% from the current 62% if implemented.
- Focus will now turn to the Easter period ahead as demand is likely to pick up. Meanwhile, the recent announcement by the South Africa's Finance Minister of increased pension grants bode well for affordability and demand in the LSM. The fuel levy also remained unchanged for the year ahead and will help ease pressure on distribution costs of live animals and animal products.

Figure 6: Short to medium term rainfall forecasts and summary of the status of El Niño, La Niña, and the Southern Oscillation (ENSO)



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