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Livestock and Fibre markets

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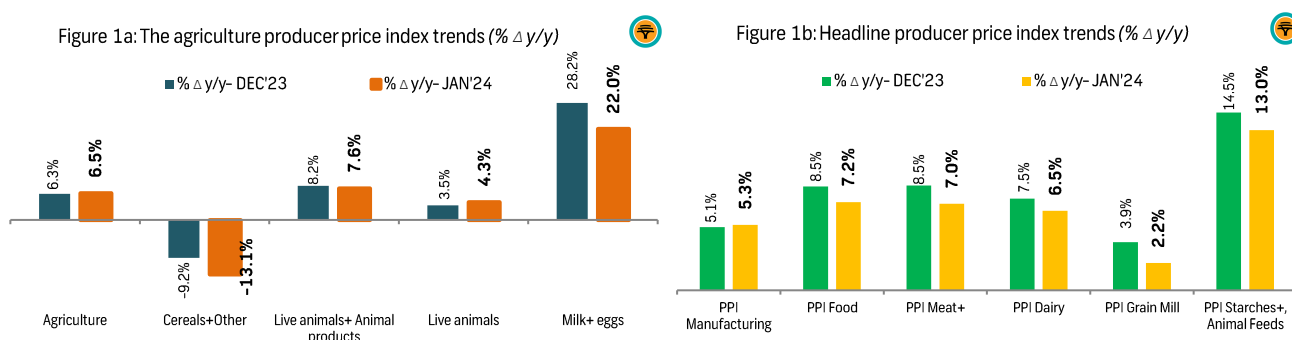
Paul Makube | Tumi Kgasago | Vhutshilo Mabela | 29 FEB 2024

UPDATE ON LIVESTOCK MARKETS

Annual PPI for live animals and animal products slowed to 7.6% y/y in January

- The latest headline producer price inflation (PPI) update from Statistics South Africa showed a rebound from a 5-month low of 4% in December 2023 to 4.7% year-on-year (y/y) in January 2024 (figure 1b). Gains in food products, beverages, and tobacco products prices with a contribution of 1.2 ppts followed by metals, machinery, equipment and computing equipment (0.8 ppts); coke, petroleum, chemical, rubber and plastic products (0.7 ppts); and transport equipment (0.6 ppts) underpinned the uptick in the PPI.
- The monthly price pressures saw the PPI nudging 0.1% month-on-month (m/m) after posting marginal declines of 0.6% m/m for both November and December 2023.
- For agriculture, forestry and fishing (AFF), the PPI decelerated to a 4-month low of 6.6% in January 2024 from 6.8% in December 2023. The AFF PPI decreased for the third consecutive month to 3.7% m/m.
- The monthly agriculture PPI fell sharply to a 12-month low of -4.3% m/m in January 2024. However, the annual agriculture PPI bottomed out to 6.5% y/y in January from 6.3% y/y in December 2023 (figure 1a).
- The monthly PPI for live animals and animal products declined for the second consecutive month to a 24-month low of -2.7% m/m. It however decelerated to 7.6% y/y in January 2024 from 8.2% y/y in December 2023. For live animal only, the monthly PPI remained negative at -2.8% m/m in January from -0.2% m/m in December. The annual live animals PPI however rebounded to 4.3% y/y in January 2024 after slowing to 3.5% y/y in December.
- The renewed intensification of loadshedding poses further cost pressures on the agriculture sector as irrigation schedules are disrupted in a high temperature environment that placed significant stress on crops.

Figure 1: South Africa's producer price inflation outcomes for FEB 2024



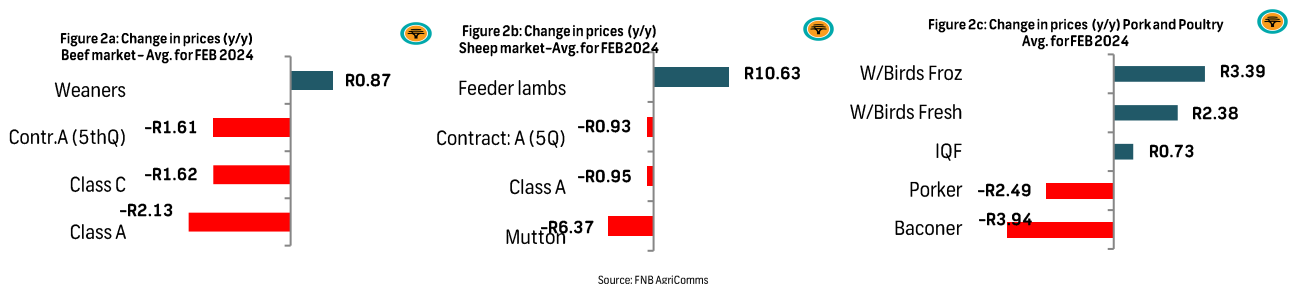
Source: StatsSA, FAO

- Additionally, the already dilapidated road infrastructure continue to add costs through high maintenance of vehicles and use of alternative routes to reach markets.
- On a sombre note, indications are that fuel prices are expected to increase further in March 2024 following a hike in February. The latest estimates from the Central Energy Fund shows an under-recovery of R1.08/l and R1.21/l for the two diesel grades of 0.05% and 0.005% sulphur content respectively. For petrol, the under-recovery was -R1.20/l and -R1.16/l for the 95 ULP and 93 (ULP & LRP) grades respectively.

Red meat prices remained under pressure while chicken was firmer y/y in February 2024

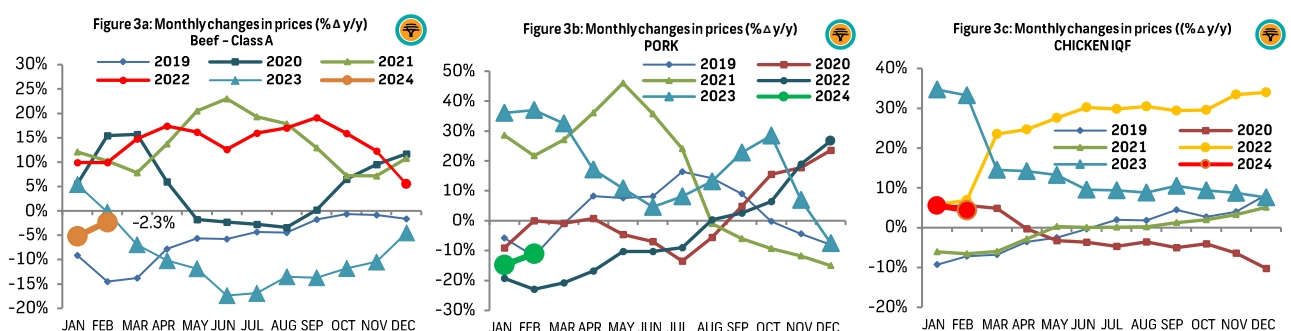
- Our analysis of monthly trends on domestic livestock market still shows weakness across the red meat complex in February 2024 relative to the same period in 2023.
- The monthly average contract class A prices for February fell by 0.8% (-R0.77/kg) m/m and 2.9% (-R1.61/kg) y/y at R54.29/kg. In the live market, weaner calves steadied m/m and edged 2.5% (+R0.87/kg) higher y/y at R35.83/kg live weight (LW) (figure 2a).
- In the sheep category, mutton decreased by 4.3% (-R2.69/kg) m/m and was down by 9.7% (-R6.37/kg) y/y at R59.14/kg in February 2024. Contract class A lamb fell by 1.1% (-R0.89/kg) m/m and 1.1% (-R0.93/kg) y/y to R 83.43/kg. Feeder lam prices however posted good gains of 2.9% (+R1.28/kg) m/m and 4.6% (+R2/kg) y/y at R45.13/kg LW (figure 2b).
- Pig meat saw declines across the board with porker prices falling by 2.3% (-R0.77/kg) m/m and 7.1% (-R2.49/kg) y/y at R32.55/kg. Baconers dropped 2.3% (-R0.76/kg) m/m and 11.0% (-R3.94/kg) y/y at R31.76/kg (figure 2c).
- Chicken remains an exception with gains of 7.0% (+R2.38/kg) and 10.0% (+R3.39/kg) y/y respectively for frozen and fresh whole birds at R36.16/kg and R37.17/kg, while IQF advanced by 2.2% (+R0.73/kg) at R33.10/kg (figure 2c).

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



- The historical annual growth trend in prices shows beef and pork still in negative territory in February 2024 relative to last year (figure 3a and 3b). However, chicken price growth remained in positive territory in February 2024 but slowed from the previous month (figures 3c).
- The current strength in chicken prices relative to last year is still on the back of the earlier outbreak of avian influenza.
- The mooted tariff reduction is still yet to impact prices. Meanwhile, poultry imports for December 2023 came in sharply higher by 19.9 % m/m and 8.7 % y/y at 34,325 tons to a total value of R439.4 million (FOB) which is up 30.9 % m/m and 14.2% y/y. Total chicken imports for 2023 were 11% higher y/y at 399,702 tons for a value of R4.25 billion, up 1.5% y/y.

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



Maize futures surge in response to a tightening production outlook

- Worsening weather conditions have complicated the harvest outlook and price expectations. The excessive heat caused a lot of stress and wilting of crops during the critical growth stage thus impacting negatively on potential yields. Consequently, the National Crop Estimates Committee (CEC) slashed its first estimate of the country's maize crop by 12.6% y/y to 14.36 million tons mainly due to a significant reduction in the expected white maize harvest (-17.2% y/y).
- Maize futures responded with sharp gains to the reduced harvest outlook. Yellow maize for May-24 and July-24 delivery on 29th February 2024 surged by 10.7% (+R386/t) and 10.2% (+R371/t) m/m respectively at R4,009 and R3,997/t. White maize posted the biggest gains of 22.9% (+R484/t) m/m for both May-24 and July-24 contracts at R4,553/t and R4,552/t.
- Oilseeds estimate shows soyabeans production cut by 22.8% y/y to 2.14 million tons due to the combination of yield contraction and a 2.2% y/y reduction in planted area. However, this projected level is still way ahead of the 10-year and 5-year averages of 1.26 million tons and 1.55 million tons respectively.
- Similarly, the sunflower estimate was lowered by 6.8% y/y to 671,100 tons. However, prices in the oilseed complex have responded with marginal gains as the current levels especially of soybeans will still meet requirements for feed. Soybeans and sunflower are an important plant protein sources from a livestock feeding perspective.
- The latest soybeans for May-24 and July-24 delivery were almost unchanged m/m at R8,047/t and R8,193/t respectively.
- Sunflower for futures May-24 and July-24 on 29th February 2024 were 0.7% (+R54/t) m/m and 0.9% (+R71/t) y/y at R8,200/t and R8,420/t respectively.

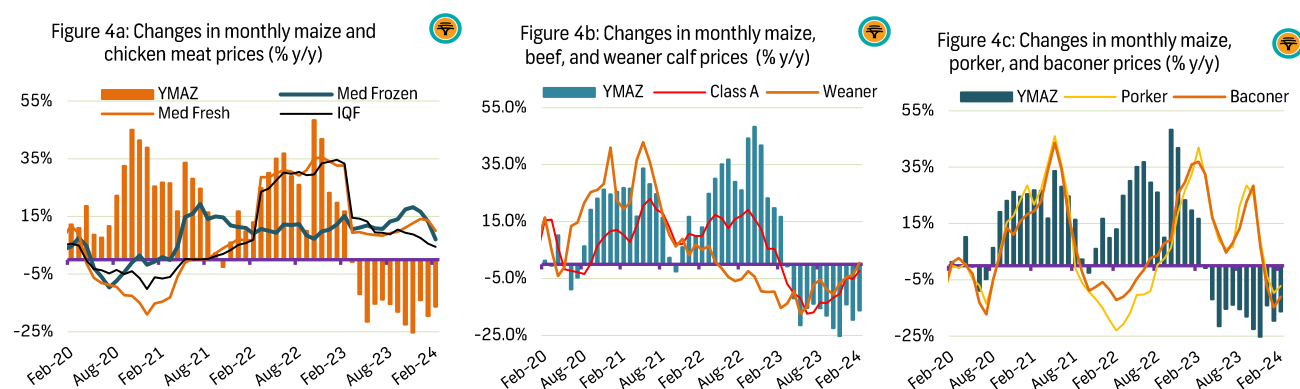
Table 1: Raw feed inputs – Latest price trends in JSE grain and oilseed futures market (R/ton)

29 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	R4,553	22.9%	R4,009	10.7%	R8,200	0.7%	R8,047	0.1%
Jul-2024	R4,552	22.9%	R3,997	10.2%	R8,420	0.9%	R8,193	0.0%
Sep-2024	R4,605	21.7%	R4,062	9.8%	R8,547	–	R8,389	–
Dec-2024	R4,707	21.4%	R4,156	9.3%	R8,824	–	R8,541	0.5%
Mar-2025	R4,687	–	R4,120	–	–	–	–	–

Source: JSE

- The annual growth in monthly prices of chicken meat still far outpaces that of maize as illustrated in figure 4a. A negative price growth for maize augurs well for livestock feeders as it constitute over 70% of feed.
- Figures 4b and 4c 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 and early in 2024. Although still in deceleration, chicken so far remain an exception with price growth in positive territory while that of maize continued to trend on the downside.
- Nonetheless, the renewed uptick in maize prices threatens profitability of intensive livestock feeding if sustained.

Figure 4: Changes in maize prices in relation to various meat types

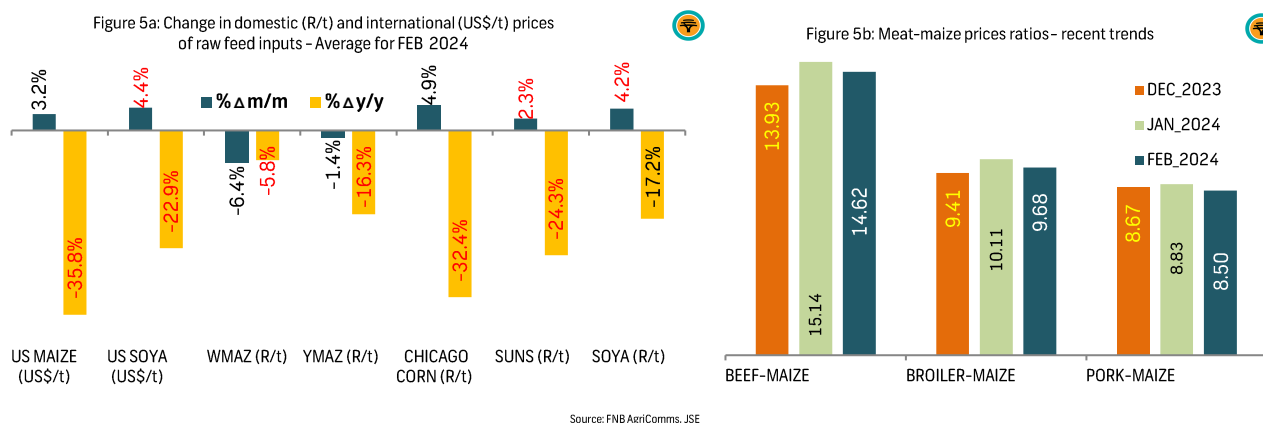


Source: FNB AgriComms, JSE, Own Calculations

Although easing marginally in February, meat-maize price ratios still better than last year

- Profitability indicators: The monthly meat-maize price ratios declined modestly m/m across the board in February 2024. The beef, pork, and broiler meat-maize price ratios decreased by 3.7%, 4.3%, and 3.4% m/m respectively (figure 5b).
- However, the meat-maize price ratios for beef, pork, and broilers were moderate to sharply higher by 6.3%, 27.8%, and 16.7% respectively y/y.
- As illustrated in figure 5a, the average monthly prices of raw feed input commodities were down relative to a year ago with both white and yellow maize prices falling by 23% y/y. The average monthly soybeans and sunflower prices fell by 24.3% and 17.2% y/y respectively (figure 5a).

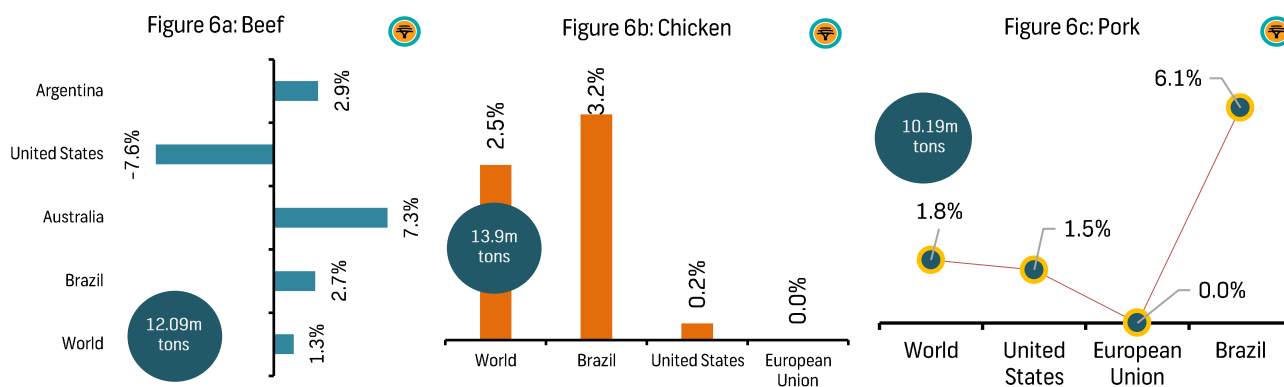
Figure 5: Changes in prices of raw feed inputs and the meat-maize price ratios for beef, broiler, and pork.



Global meat export forecast higher in 2024

- Globally, beef production is expected to increase only marginally by 0.2% y/y to 59.5m tons in 2024 weighed heavily by declines in output for the US which is forecast to drop by 3.1% y/y according to data from the USDA (figure 6a).
- Exports are however expected at 12.09m tons, up 1.3% y/y with Australia posting the biggest increase of 7.3% y/y and the world's largest exporter, Brazil, lifting by 2.7% y/y.
- Broiler production forecast was raised by 0.9% y/y to 103.26m tons which is 5% and 2% higher than the 8-year and 5-year averages respectively. Exports are expected up 2.5% y/y to 13.90m tons largely due to increases for Brazil (+3.2% y/y), see figure 6b.
- For pork, the global production outlook was pegged at 114.15m tons which is down marginally by 0.9% y/y mainly due to a 3% drop in China. However, exports are expected to increase by 1.8% y/y to 10.19m tons led by Brazil with an increase of 6.1% y/y. Chinese pork imports are thus expected to surge by 16.9% y/y to 2.25m tons (figure 6c).

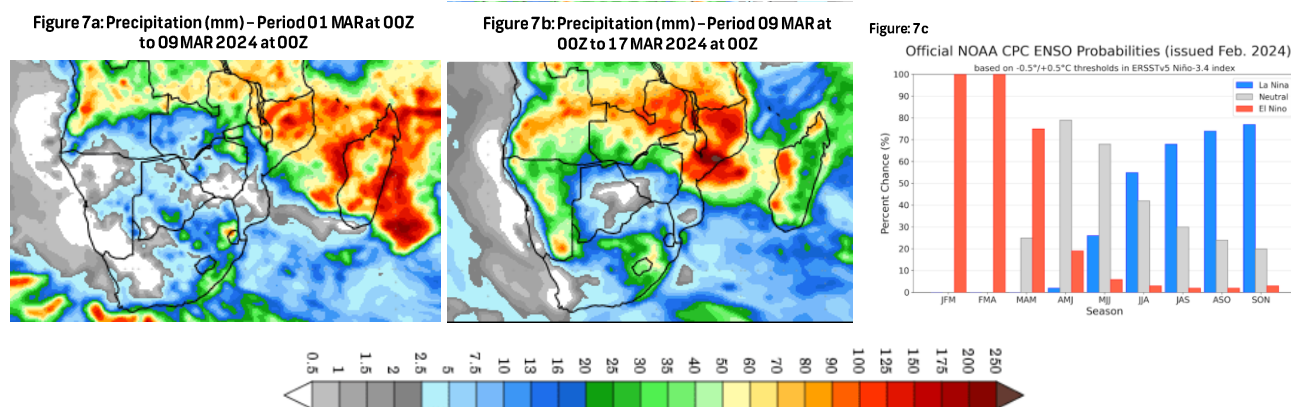
Figure 6: Changes in global meat export forecasts – 2024 (% Δ y/y)



OUTLOOK

- Focus will now turn to the Easter period ahead for the seasonal uptick in demand and price rebound. Meanwhile, the recent announcement by South Africa's Finance Minister of increased pension grants bode well for affordability and demand in the lower 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.
- However, 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 of March 2024 bodes well for crop recovery in areas badly affected by the recent heat wave (figures 7a and 7b).
- 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.

Figure 7: 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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