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Livestock and Fibre markets

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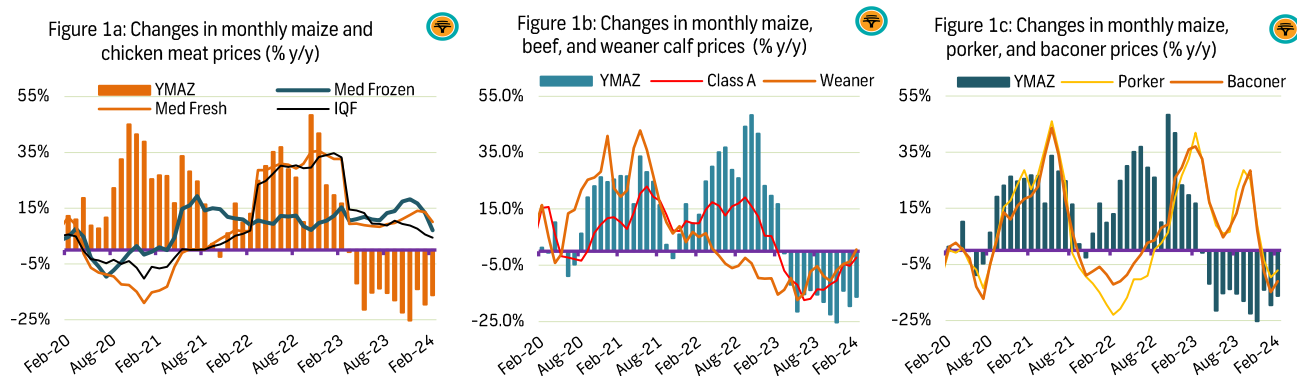
Paul Makube | Tumi Kgasago | Vhutshilo Mabela | 14 MAR 2024

UPDATE ON LIVESTOCK MARKETS

Runaway maize futures threaten livestock feeding margins

- Although there are rains in the outlooks in near term for most summer crop areas, the situation remains dire in other areas with crop damage almost irreversible. Indications are for another cut in crop estimates as the situation deteriorated further after the previous assessment.
- The impact has been a significant upswing in maize and oilseed prices with the latter surging by 28% (+R903/t) and 12% (+R460/t) month-on-month (m/m) for the Jul-24 white and yellow maize respectively at R5,187/t and R4,251/t in recent trades (13 Feb-24). Maize is a major ingredient in livestock, accounting for over 70% of total feed consumed (table 1).
- In the oilseed complex, sunflower and soybeans for May-24 delivery rose by 9% (+R754/t) and 6% (+R489/t) m/m respectively at R9,002/t and 8,648/t. The two crops are critical sources of plant protein for animal feed formulations.
- While the annual growth in maize prices has been in negative territory in the past twelve months thus boosting feeding margins, the situation seem set for a huge reversal if the current price trajectory is sustained (see figures 1a to 3c).
- In the meat category, annual growth in prices of chicken meat still far outpaces that of maize as illustrated in figure 1a. The previous outbreak of the avian influenza underpinned the recent strength in chicken meat prices. Nonetheless, a combination of weak consumer sentiment on the back of depressed economic conditions and bulging stocks will curtail further price growth in the near term.
- However, feeding margins were relatively thin in the beef and pork category as their price growth remained in negative territory since the second half of 2023 and early in 2024.

Figure 1: Changes in maize prices in relation to various meat types



Source: FNB AgriComms, JSE, Own Calculations

- Commodity futures in the grain and oilseed complex remained elevated relative to the previous month as of the 13th March 2024.

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

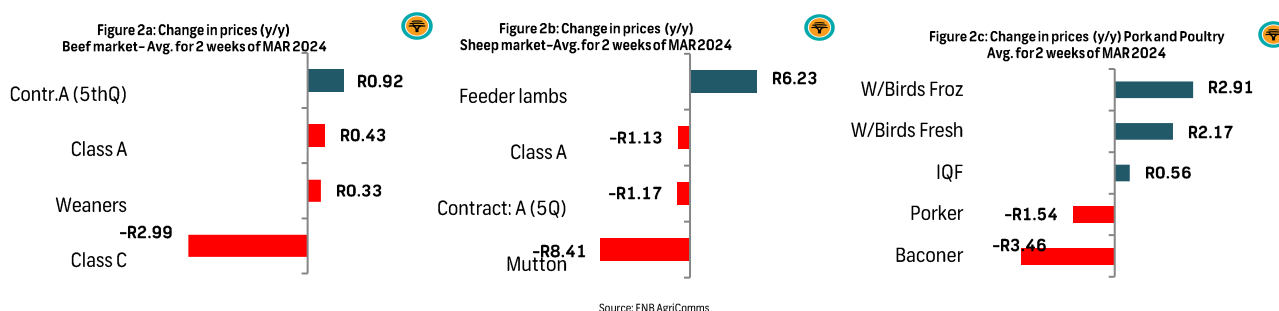
13 MAR 2023	WMAZ R/ton	%Δ m/m	YMAZ R/ton	%Δ m/m	SUNS R/ton	%Δ m/m	SOY R/ton	%Δ m/m
May-2024	R5,191	21.7%	R4,233	12.3%	R9,002	9.1%	R8,648	6.0%
Jul-2024	R5,187	21.1%	R4,251	12.1%	R9,268	10.4%	R8,781	5.6%
Sep-2024	R5,216	25.4%	R4,314	11.6%	R9,318	7.9%	R8,883	4.7%
Dec-2024	R5,316	19.9%	R4,399	11.1%	R9,470	6.5%	R9,090	4.6%
Mar-2025	R5,170	17.9%	R4,375	11.2%	-	-	R8,778	-

Source: JSE

Poultry prices soften towards mid-month while dry conditions induce forced selling for weaners

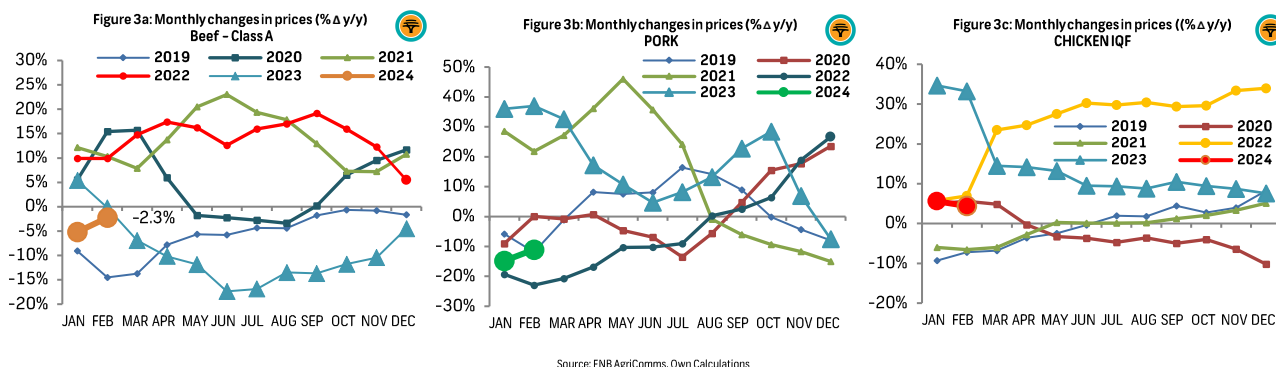
- Our analysis of weekly livestock prices on the domestic market shows a mixed trend early in March with sheep meat and pork extending losses. Weak demand and increased availability underpinned the recent downtrend.
- We saw some unseasonal strength in beef prices towards mid-month with the average contract class A for the first two weeks of March 2024 advancing by 0.6% (+R0.32/kg) m/m and 0.8% (+R0.92/kg) y/y (figure 2a).
- In the weaner market, prices saw modest monthly declines on the back of a rebound in volumes as dry conditions force producers to recalibrate their livestock levels. Average weaner calf prices for the first two weeks of March fell by 6.4% (-R2.32/kg live weight (LW)) m/m but still 1% (+R0.33/kg LW) higher y/y.
- Sheep meat saw losses across all categories under consideration with mutton posting the biggest decrease of 5.3% (-R3.17/kg) m/m and 13% (-R8.41/kg) y/y at R56.01/kg. Class A lamb came in a bit softer, easing by 0.1% (-R0.08/kg) m/m and still 1.3% (-R1.13/kg) lower y/y at R84.17/kg.
- For weaner lambs, supplies were a bit tight and helped lift prices by 3.3% (+R1.47/kg LW) m/m and 8.8% (+R3.69/kg LW) y/y at R45.46/kg LW.
- The pig meat category saw a marginal decline of 0.2% (-R0.06/kg) m/m and 4.6% (-R1.54/kg) y/y for porkers at R32.16/kg. Baconers however saw marginal gains of 0.2% (+R0.06/kg) m/m but still sharply down by 9.8% (-R3.46/kg) y/y at R31.84/kg.
- Demand pressures coupled with elevated stocks weighed heavily on the market early in March. Chicken saw losses across the board during the first two weeks of the month with average prices for frozen and fresh whole birds falling by 2.5% (-R0.92/kg) and 1.6% (-R0.59/kg) m/m respectively.
- However, the annual trend remains elevated with frozen and fresh whole bird prices surging by 6.5% (+R2.17/kg) and 8.6% (+R2.91/kg) y/y at R35.24/kg and R36.58/kg. The highly traded chicken meat, IQF, saw slight losses of 1.7% (-R0.56/kg) m/m but still up by the same margin relative to last year at R32.69/kg.

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).

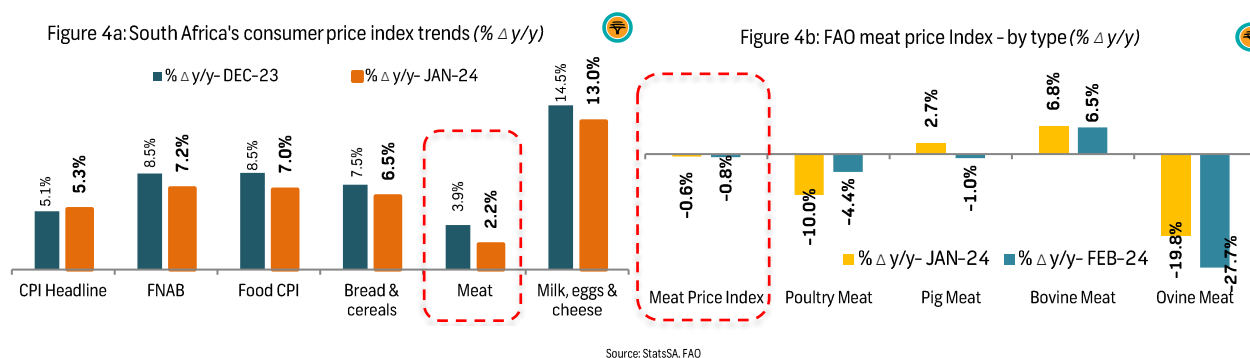
- The current strength in chicken prices relative to last year is still on the back of the earlier outbreak of avian influenza.
- The mooted tariff reduction is still yet to impact prices. Meanwhile, poultry imports for December 2023 came in sharply higher by 19.9 % m/m and 8.7 % y/y at 34,325 tons to 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)

Global meat inflation rebounds monthly in February 2024 but still in deflationary mode y/y

- Globally, annual meat inflation as measured by the United Nation's Food and Agriculture Organization (FAO) remained in a deflationary mode for the fourteenth consecutive month. Meat inflation fell further by 0.8% y/y in February 2024.
- However, global meat inflation rebounded modestly and edged 1.6% higher m/m in February after falling by 1.1% m/m in January 2024 (figure 4b).
- An increase in global prices of poultry, beef, and pork on the back of elevated import demand underpinned the recent rebound in monthly meat inflation. Strong Chinese and Western Europe demand boosted pork prices. Weather-induced supply tightness out of the world's fourth largest exporter, Australia, helped lift beef prices.
- Ovine meat was an exception and fell by 2.7% m/m and 27.7% y/y as higher volumes on the back of strong Australian production and subdued Chinese imports weighed heavily on prices.
- In contrast, South Africa's meat inflation remains elevated relatively to last year. Annual meat inflation decelerated 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 4a).
- 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. 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.

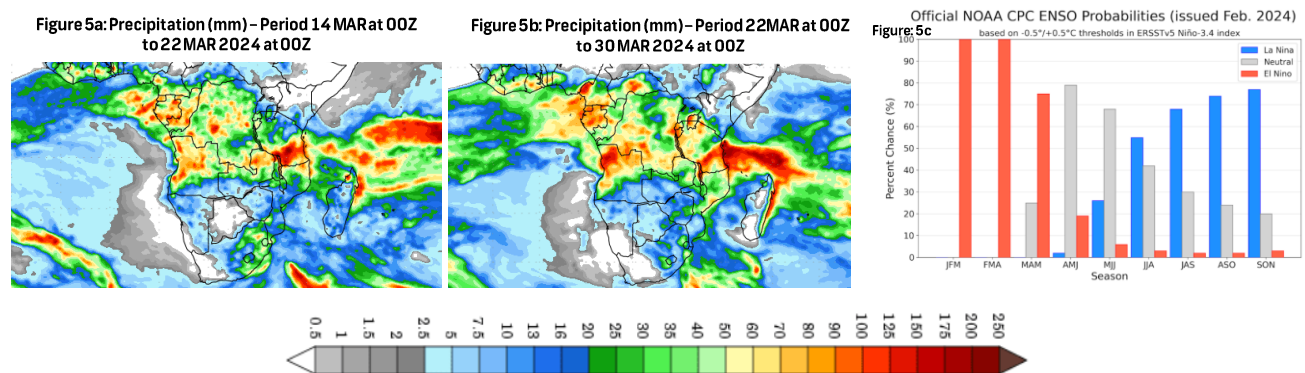
Figure 4: Food and meat price inflation trends – 2024



OUTLOOK

- Weather has become a critical issue for the livestock market due to its impact on feeding margins. The near-term rainfall outlook calls for rains of about 40 to 50 mm in the summer crop areas which may alleviate moisture stress and help crops to recover (figures 5a and 5b). However, indications so far are that crops some areas may be beyond recovery despite rains.
- A sustained uptrend in maize prices poses downside risk to the profitability of intensive livestock feeding.
- Further, the dissipation of the El Niño weather pattern and the return of the neutral conditions and possibly La Niña later in 2024 bodes well for overall agriculture production during the 2024/25 season (figure 5c).
- While poultry has seen some improvement in margins in the recent past, 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%, is likely to reverse gains to industry 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 5: 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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