



# Agri Trends

07 March 2017

## Low feed costs and higher meat prices to benefit the feedlot industry in 2017

South Africa is expected to harvest a total maize crop of about 13,9 million tons, 78.93% more than the 2016 crop. At these production levels, there will be exportable surpluses, which will pressure prices to trade towards export parity price levels. The animal feeds industry and intensive livestock industries should use this buying opportunity. The lower maize prices are expected to result in declines in feed costs, which should benefit the feedlot business as this will translate into reduced input costs. Low feed costs and higher meat prices are expected to benefit the feedlot industry in 2017. The excellent production conditions leads to a welcome recovery in the profitability of the livestock industry.

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# Beef market trends

## International

New Zealand steers traded 0.37% lower over the past week at 5.36NZ\$/kg and cows traded sideways at 4.13NZ\$/kg compared to a week ago. In the US, beef prices for the week were mostly higher as follows: Top side trade 5.53% higher at \$249,61/cwt. Rump was 6.80% higher at \$321.96/cwt and Strip loin was 11.79% higher at \$609.93/cwt. Chuck traded 2.72% lower at \$240,00/cwt. Brisket traded 4.25% higher at \$212,72/cwt. The carcass equivalent price was 5.26% higher at \$306.72/cwt.

## Bullish factors

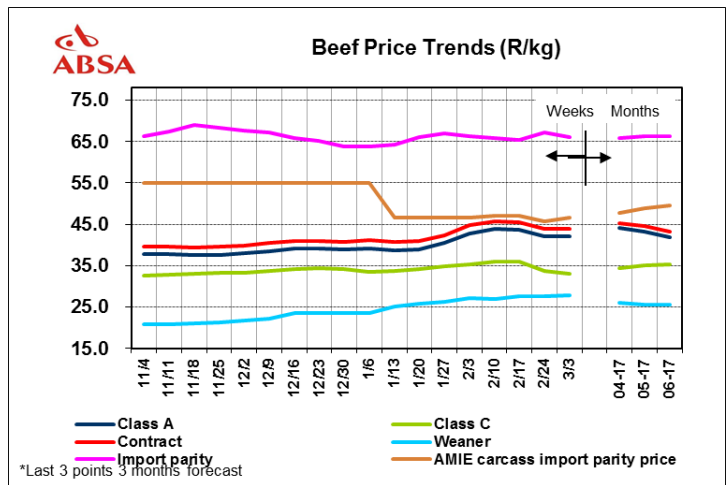
- Optimism about strong economy in the US support beef demand.
- The warm winter in the US may be factoring into better demand as consumers kick off grilling season earlier than usual
- In New Zealand, the lack of cattle to slaughter is the predominant issue currently. Following recent rain in the North Island of the country, slaughtering has decreased significantly and exporters have little product to trade.
- Recent rains in New Zealand have delayed the flow of large numbers to at least late March, implying the next few weeks could be slow for processors.

## Bearish factors

- There is increased pressure coming on prices due to the successful rebuilding of the US herd.
- Low feed prices support favourable beef production.

## Domestic

Beef prices lost some ground weeks on week. Favourable rainfall across the country have been helpful to prices, as producers can keep cattle longer on the ground, which limit the number of cattle to be slaughtered. As a result, beef prices have strengthened over the past month. Producers are also buying more weaner calves that were not usually in demand for fattening purposes, hereby stimulating prices in the short term. Moving forward, prices may remain steady as weather conditions continue to support the rebuilding of herds. The forecasted Absa beef prices are as follows: Class A prices are 0.32% lower at R42.00/kg. Class C prices are 1.84% lower at R33.00/kg. The average weaner calf prices over the past week were 1.1% higher at R27.83/kg. Feedlots are experiencing pressure in their cash flows due to weaner calf prices increasing from about R22/kg to levels just over R28/kg in other regions. The average hide price over the past week was 0.65% lower at R14.56/kg from the previous week's price of R14.65/kg



green. NB\* Hide prices are determined by the average of RMAA (Red Meat Abattoir Association) and independent companies.

### *Bullish factors*

- It is expected that beef prices may remain supported for most of the year
- Continued widespread rainfalls in some parts of the country are helping with the rebuilding of herds.
- Feedlot stock levels are following a downward trend adding support to prices.

### *Bearish factors*

- The slowdown in demand in line with seasonal trends.
- Beef prices remain high compared to pork and poultry prices. This may lead to more demand for the cheaper poultry and pork products.

### **Outlook**

Internationally, tight Australian and New Zealand supplies and strong demand for beef from China may continue to support prices in the short term. All eyes will be on production out of both Australia and New Zealand in coming weeks. Domestically, the outlook for beef prices is positive for 2017 with higher beef prices, lower feed prices and favourable grazing conditions expected to benefit the industry.

## Sheep meat market trends

### International

The New Zealand lamb prices were mostly higher this week compared to last week. Lamb prices closed 1.48% higher this week at NZ\$79.1/head for 15kg lamb. Lamb prices were 1.41% higher at NZ\$110.8/head for 21kg lamb. Ewe prices closed 1.64% higher at NZ\$68.3/head for a 21kg ewe. The import parity price for lamb was 0.17% lower at R54.77/kg while the import parity price for mutton was 0.06% lower at R37.68/kg.

#### Bullish factors

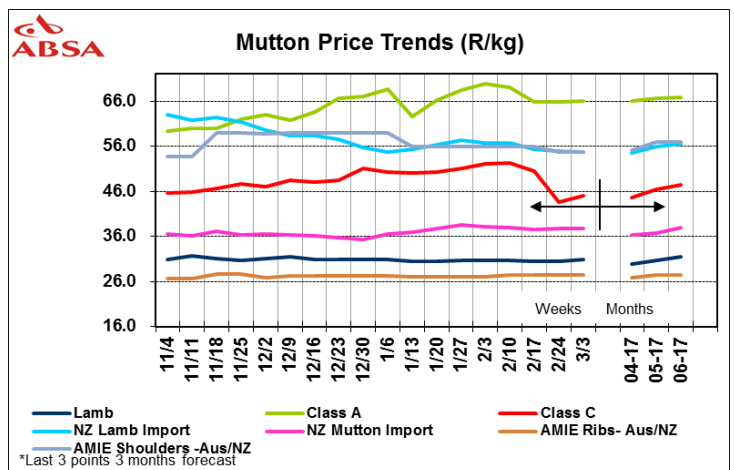
- Australian lamb prices are expected to hold at their current very high levels, due to declining supplies and a falling Australian currency
- In New Zealand, tight lamb supply may support prices in coming weeks.
- Meat and Livestock Australia (MLA) indicate that current prices are very close to record levels.

#### Bearish factors

- If New Zealand prices increase too much, this may see customers switch to alternative proteins, as seen several years ago.

### Domestic

Lamb and mutton prices remained strong over the past week. Prices are expected to remain steady in the short term in line with favourable weather conditions which encourage herd rebuilding, but consumer resistance to the higher sheep meat prices may weigh down this market. It is also worth noting that lamb and mutton prices are more sensitive to market fluctuations. Lamb and mutton prices are expected as follows: The average Class A prices were 0.22% higher at R66.00/kg and the average Class C was 0.31% lower at R43.38/kg. The average price for feeder lambs traded 1.08% higher at R30.85/kg. The average price for dorper skin was 7.27% lower at R41.18/skin and merinos were 2.31% lower at R91.25/skin.



### *Bullish factors*

- Favourable weather outlook may continue to support the livestock market as it may revive pastures and support herd rebuilding.

### *Bearish factors*

- Consumer resistance to high lamb and mutton prices may increase price risk especially during this time of the year when consumers just got out of the festive season.
- The sheep industry does not enjoy the same export opportunities like in the beef industry.
- Lamb and mutton prices are higher when compared to beef, pork and poultry prices, and as a result there might be consumer resistance to the high mutton prices, which may add pressure to lamb and mutton prices.

### **Outlook**

Internationally, Prices may also be supported as supplies in both New Zealand and Australia remain low. Locally, the outlook for lamb and mutton prices is positive, but these prices are more prone to market fluctuations.

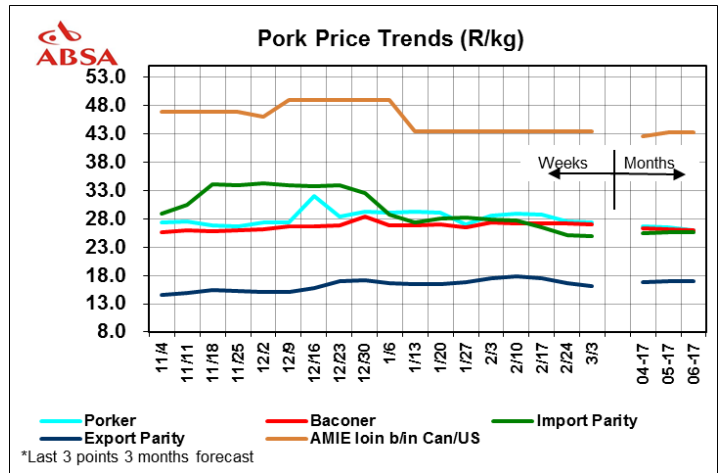
## Pork market trends

### International

The average weekly US pork prices were mixed over the past week. Carcass prices were 1.7% lower at US\$80.39/cwt, Loin prices were 3.3% higher at US\$78.71/cwt, Rib prices were 1.3% higher at US\$123,12/cwt and ham was 0.6% lower at US\$54.63/cwt.

#### Bullish factors

- In the US, seasonal support would be expected for the summer months.
- The lower retail pork prices have been driving strong pork consumption this year.
- USDA expects a 4% increase in pork exports with little change in imports.
- China is expected to maintain the high level of pork imports this year.



#### Bearish factors

- So far this year, pork production has been about 3% higher than for the same period last year.
- The strength of the US dollar slows agricultural export sales.
- The US moves in a direction of more protectionism that increases trade barriers and reduces our agricultural export sales potential.
- Increased competition from other proteins may weigh down on prices.

### Domestic

Domestic prices lost some ground weeks on week. Prices are expected to enjoy underlying support from the higher livestock prices. The Absa forecast prices are expected as follows: Porker prices are 0,4% lower at R27.40/kg while Baconer prices are 0.4% lower at R27.00/kg.

#### Bullish factors

- Underlying support from higher livestock prices.
- Pork prices may be supported by increased spending towards pork products compared to the higher prices beef and mutton.

### *Bearish factors*

- The 2017 maize production is expected to reach 13,918 mill tons. This production prospects was at the higher end of the market expectation. As a result, we expect that this will help to improve profitability of the dairy, pork and poultry industries as these industries are very feed intensive. The higher maize crop will help to reduce feed prices.

### **Outlook**

Internationally, strong demand for pork may continue to support prices. Locally, the outlook for the pork industry is more positive from May onwards, especially with the bigger maize crop that is expected. The bigger crop will bring relief to feed costs. Total maize of 13,918 million tons is expected for 2017.

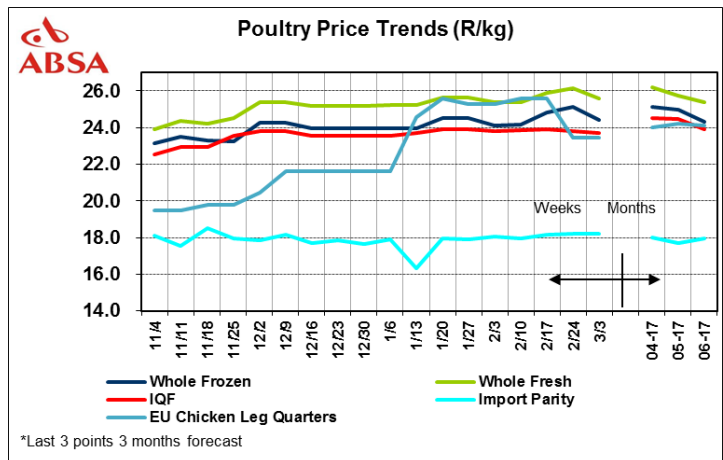
## Poultry market trends

### International

Poultry prices in the US were mostly higher over the past week. Whole bird prices were 0.51% higher at 86.56USc/lb. Breasts traded sideways at 115,00Sc/lb, whilst Leg Quarters traded sideways at 34,50USc/lb.

#### Bullish factors

- Poultry markets, including China, will gradually recover after the Northern Hemisphere winter season, when avian influenza pressure will likely be reduced. This may lead to recovery in demand for the product.
- China's health authority has indicated on Friday that the H7N9 epidemic had been on the decline since emergency measures were taken. Areas with H7N9 cases shut down live poultry markets and suspended cross-area live poultry transport, preventing further spread of the epidemic.



#### Bearish factors

- Low feed prices support favourable poultry production.
- In China, chicken is a popular and cheap alternative to pork. Demand has been hit in recent years by food safety scandals and bird flu outbreaks.
- Chicken prices in China declined to their lowest levels last week as concerns about H7N9 deepened after global health authorities said the strain had evolved into a more severe form for birds.
- Top US chicken and egg companies strengthened procedures to protect birds from avian flu on Monday, a day after the federal government confirmed the nation's first case of the virus at a commercial operation in southern Tennessee in more than a year.

### Domestic

The average poultry prices over the past week were mostly lower. The average prices for frozen birds were 2.82% lower at R24.44/kg during the week. Whole fresh medium bird prices were 2.04% lower at R25.60/kg while IQF prices were 0.38% lower at R23.71/kg.



### *Bullish factors*

- Lower supplies of chicken and eggs in the market are driving prices.
- Better demand for local product on the back of reduced supplies due to bird flu in the EU is adding support to prices.
- Poultry prices are enjoying underlying support from the higher livestock prices
- Planned temporary or permanent closures of less efficient plants may limit supply. Poultry companies have been reporting to cut down shifts or close other operations in order to remain competitive.

### *Bearish factors*

- The animal feeds industry and intensive livestock industries should use the higher maize crop as a buying opportunity. Prices are expected to be pressure by the higher expected grain crop.
- The return of exports from the EU to the local market following the bird flu may pressure prices.
- In expectation of a lower new season maize price and feed costs, consumers may expect that the price of broiler meat should decline as well, which may add pressure on prices.

### **Outlook**

Internationally, the avian influenza situation has significant implications, both locally and globally and is a disruption to trade. Locally, lower prices for maize from May onwards will improve the sustainability of broiler production. The 2017 maize production is expected to increase by 78,93% to reach 13,918 million tons. It is expected that prices will experience increased pressure following the positive production prospects, resulting in lower feed prices.

Livestock Prices (R/kg) week ending 03 March 2017	Beef			Mutton			Pork			Poultry		
	%	Current Week	Prior Week	%	Current Week	Prior Week	%	Current Week	Prior Week	%	Current Week	Prior Week
Class A / Porker / Fresh birds	-0.32	42.00	42.14	0.22	66.00	65.86	-0.4	27.40	27.52	-2.04	25.60	26.14
ClassC/ Baconer / Frozen birds	-1.84	33.00	33.62	-0.31	43.38	43.52	-0.4	27.00	27.10	-2.82	24.44	25.15
Contract / Baconer/ IQF	-0.35	43.80	43.95	0.26	66.76	66.59	-0.4	27.20	27.31	-0.36	23.71	23.79
Import parity price	-1.38	66.17	67.10	-0.06	37.68	37.70	-1.4	33.9	34.4	0	18.2	18.2
Weaner Calves/ Feeder Lambs/	1.1	27.83	27.54	1.1	30.85	30.52		-	-			
Specific Imports: Beef trimmings 80vl/b/Mutton Shoulders/Loin b/in /chicken leg1/4	0	45.70	45.70	0	54.80	54.80	0	43.50	43.50	0	23.45	23.45

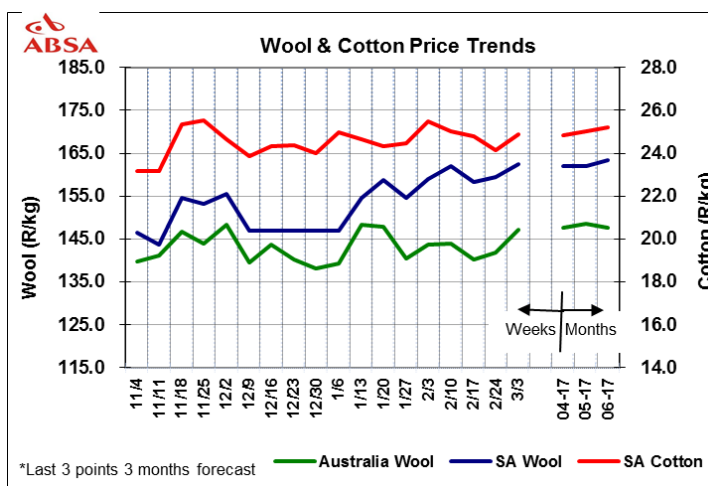
## Wool market trends

### International

The Australian wool market prices were higher and closed 3.52% higher at Au1500c/kg at the recent auction. The EMI wool index has risen seven out of eight selling weeks in 2017, making it the best start to a calendar year since 2011.

#### Bullish factors

- Australian wool prices are expected to remain at their current high levels due to reductions in supply and a falling Australian dollar.
- The wool market is currently enjoying some of the best conditions in years following a return of confidence to the industry last year after several years of unfavourable prices.
- In Australia, there is limited wool in storage
- Demand for wool is outstripping supply and it is this improvement in demand that is the driving force behind the steady rise in profitability for wool growers.



#### Bullish factors

- Following good prices in the market, an increase in the national offering at next week's auction to about 47,500 bales is expected. This is an increase from nearly 41,000 bales this week.

### Domestic

Domestic wool market prices were 2.00% higher at the most recent sale of the season to close at R162.56 (Clean).

#### Bullish factors

- The wool market performed particularly well today and price increases were achieved on all types offered.
- Concerns of diminishing supplies of wool.

#### Bearish factors

- The Rand was 0,1% stronger against the US Dollar compared with the average rate at the previous sale

## Outlook

Internationally, Demand for wool is outstripping supply and it is this improvement in demand that is the driving force behind the steady rise in profitability for wool growers. Locally, strong demand continues to add an upward pressure on market prices.

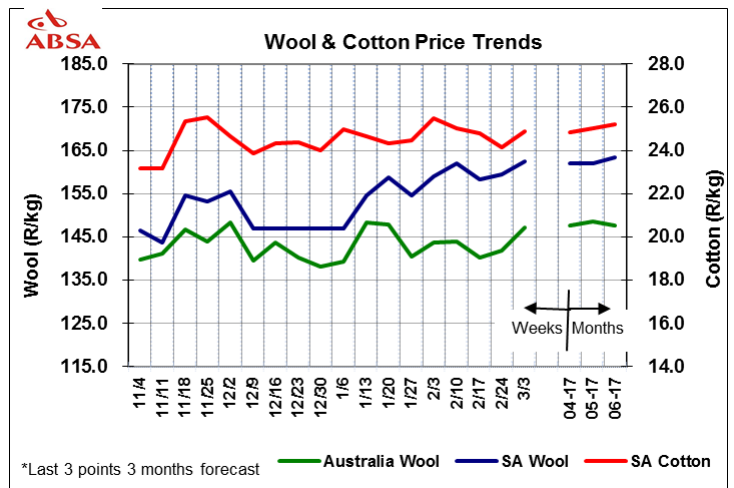
## Cotton market trends

### International

Cotton prices traded 1.68% higher over the past week and closed at US73.20c/lb.

#### Bullish factors

- Strong US export data.
- The International Cotton Advisory Committee (ICAC) has increased its forecast for average cotton prices in 2016/17 by 2 cents.
- Expectations for a further decline in China's inventories are expected in the next season supported by the restarting on Monday of auctions of the fibre from the country's state stockpiles. The auction is expected to offer 30,000 tons of cotton a day, although more could be released if demand is high.



#### Bearish factors

- The ICAC has forecast a downward pressure on prices later this season from the expected increases in cotton inventories outside China in 2017/18.
- The quality of fibre offered this time in the Chinese stock reserves auction may be lower.
- Higher global cotton production may be expected due to increased expectation of planted area in some of the major producing countries, including India, Pakistan and the US.

### Domestic

SA cotton prices traded 3.07% higher to close at R24.88/kg. The increases in prices were in line with inclines in international prices.

### Outlook

Internationally, global cotton production is expected to be higher due to increased expectation of planted area in some of the major producing countries, including India, Pakistan and the US. This may add pressure on prices. Locally, the exchange rate movement may continue to affect the domestic market prices.

**Fibres Market Trends**
**Week ending 03 March 2017**

<b>Wool prices</b>	<b>%</b>	<b>SA prices (c/kg)</b>	<b>%</b>	<b>Australian prices (SA c/kg)</b>	<b>%</b>	<b>Australian Future – Jun 2017 (AU\$/kg)</b>	<b>%</b>	<b>Australian Future Sep – 2017 (AU\$/kg)</b>
<b>Wool market indicator</b>	2.00	16256	3.05	15016		-		-
<b>19µ micron</b>	5.49	19054	3.86	18716	4.79	17.50	1.25	16.20
<b>21µ micron</b>	1.03	14812	4.05	15032	3.62	14.30	3.73	13.90
<b>Cotton prices</b>		<b>SA derived Cotton (R/kg)</b>		<b>New York A- Index (US\$/kg)</b>		<b>New York future Mar- 2017 (US\$/kg)</b>		<b>New York future May-2017 (US\$/kg)</b>
<b>Cotton Prices</b>	3.07	24.89	3.15	1.91	2.2	1.69	0.9	1.69

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