



## Agri Trends

04 April 2017

### The Rand declines due to ratings downgrade

The Rand weakened following the announcement by the rating agency, Standard and Poor's, to downgrade South Africa to junk status on Monday. The weakening of the currency will likely increase the cost of imported goods and negatively impact input costs. As a result, the South African Reserve Bank (SARB) could increase rates in order to protect the value of the Rand. The SARB last week kept the repo rate unchanged at 7%, with one committee member voting for a .25 basis point cut. The prime lending rate remains at 10.5%. The SARB also reduced its inflation forecasts, with inflation expected to shortly return to the target range of 3% to 6%. SARB has highlighted the volatility in the exchange rate as a risk to this outlook. However, due to the latest policy developments after the announcement of the downgrade, the Reserve Bank may review its decision during the next Monetary Policy Committee Meeting.

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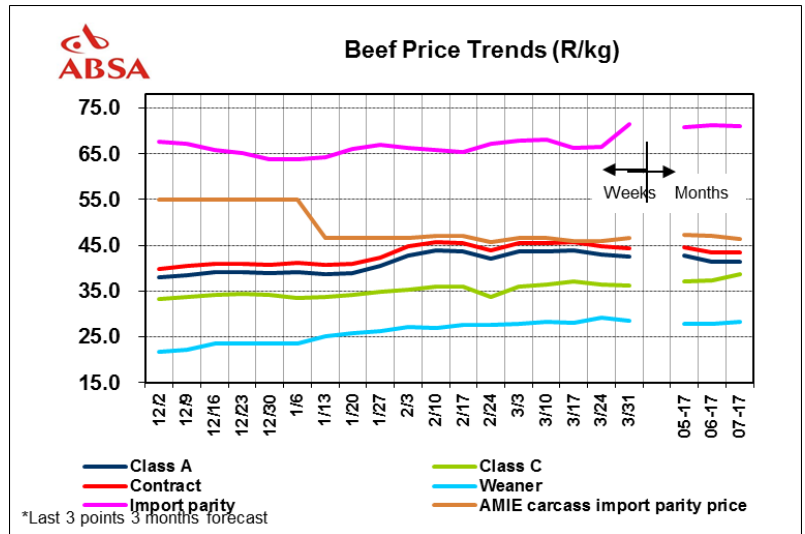
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# Beef market trends

## International

New Zealand steers traded higher over the past week at 5.56NZ\$/kg and cows traded 2.35% higher at 4.36NZ\$/kg compared to a week ago. In the US, beef prices for the week were mostly lower as follows: Top side traded 7.94% lower at \$225,27/cwt. Rump was 1.81% lower at \$398.57/cwt and Strip loin was 8.76% lower at \$711.26/cwt. Chuck traded 2.52% lower at \$240,78/cwt. Brisket traded 0.40% lower at \$208,66/cwt. The carcass equivalent price was 5.09% lower at \$329.44/cwt.



## Bullish factors

- There have been further increases in the US imported beef market this week.
- Not only do imported beef supplies to the US market look limited going forward, but also, An increase in US export performance has drawn on much of the increased domestic production, which is keeping domestic supply tighter than expected. This has subsequently led to end users drawing down cold store inventories at a much faster pace than typical for this time of year.
- Rain in Queensland, Australia has lowered the possibility of an increase in volumes out of this market, which will provide good support for imported prices going forward.
- Tighter supplies from New Zealand

## Bearish factors

- Pressure on prices in anticipation of the New Zealand cow slaughter.
- There is increased pressure coming on prices due to the successful rebuilding of the US herd and lower feed prices.
- Maize prices remain affordable and plentiful, which may make it hard to see major upside in US cattle prices.

## Domestic

Beef prices lost some ground weeks on week. The forecasted Absa beef prices are as follows: Class A prices are 0.87% lower at R42.60/kg. Class C prices are 0.70% lower at R36.22/kg. The average weaner calf prices over the past week were 2.3% lower at R28.48/kg. The average hide price over the past week was 5.44% higher at R14.83/kg from the previous week's price of R14.07/kg green. NB\* Hide prices are determined by the average of RMAA (Red Meat Abattoir Association) and independent companies.

### *Bullish factors*

- Slaughter numbers are on the decline. 6.50% fewer cattle was slaughtered in February 2017 compared to January 2017. 192 186 cattle was slaughtered in February 2017 according to the red meat levy admin numbers.
- It is expected that a possible increase in South African exports may support meat prices especially with the trade agreement between South Africa and China.
- Improved demand is expected over the coming weeks due to better demand heading into the Easter holidays.

### *Bearish factors*

- 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, on-going limited supplies from Australian and New Zealand are currently supporting prices. Domestically, lower feed prices and less livestock available are causing prices to increase. 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 0.36% higher this week at NZ\$83.6/head for 15kg lamb. Lamb prices were 0.43% higher at NZ\$117.1/head for 21kg lamb. Ewe prices closed sideways at NZ\$73.0/head for a 21kg ewe. The import parity price for lamb was 7.97% higher at R58.88/kg while the import parity price for mutton was 7.32% higher at R40.63/kg.

#### Bullish factors

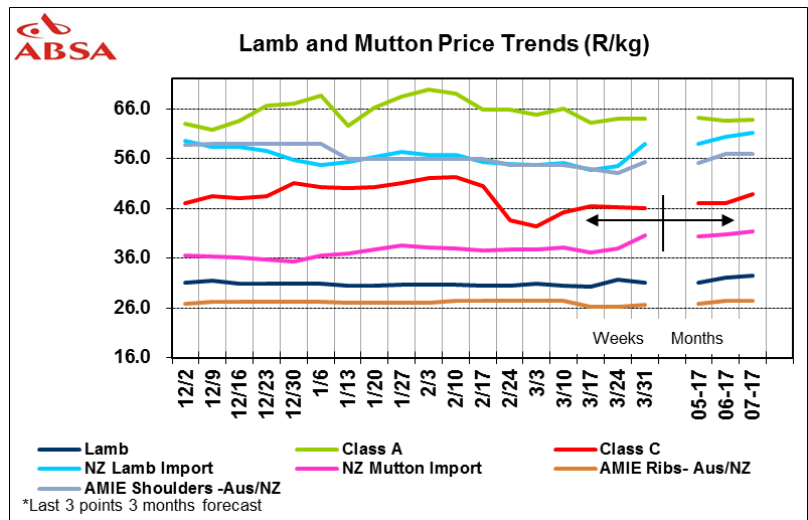
- The tone in global lamb markets continues to be positive, as demand remains higher than supply. Further upside to global prices will be dependent on supply going forward.
- The shortage of product from both Australia and New Zealand is making an impact on export prices, with firmer prices evident in key markets.
- Prices in New Zealand Dollar are above historical levels for the time of year. Prices for key items have increased significantly in recent weeks.

#### Bearish factors

- There are some concerns that prices are reaching levels that are too high and may result in downwards pressure in the coming months. If prices increase too much, this may see customers switch to alternative proteins.

### Domestic

Lamb and mutton prices strengthened during the past week. Lamb and mutton prices were as follows: The average Class A lamb prices were 0.24% higher at R64.10/kg and the average Class C was 0.12% lower at R46.10/kg. The average price for feeder lambs traded 0.18% lower at R31.13/kg. The average price for dorper skin was 7.40% lower at R41.92/skin and merinos were 7.27% lower at R87.58/skin.



### *Bullish factors*

- Positive demand going into Easter
- High meat prices and low feed costs are supporting the lamb and mutton market.

### *Bearish factors*

- Consumer resistance to high lamb and mutton prices may increase price risk. Lamb and mutton prices remain the expensive meat in the market.
- The sheep industry does not enjoy the same export opportunities as 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, the shortage of product from both Australia and New Zealand is making an impact on export prices, with firmer prices evident in key markets. Locally, the outlook for lamb and mutton prices is positive, due to high meat prices and low feed costs supporting the industry. Easter demand may be positive for this product as it triggers more demand.

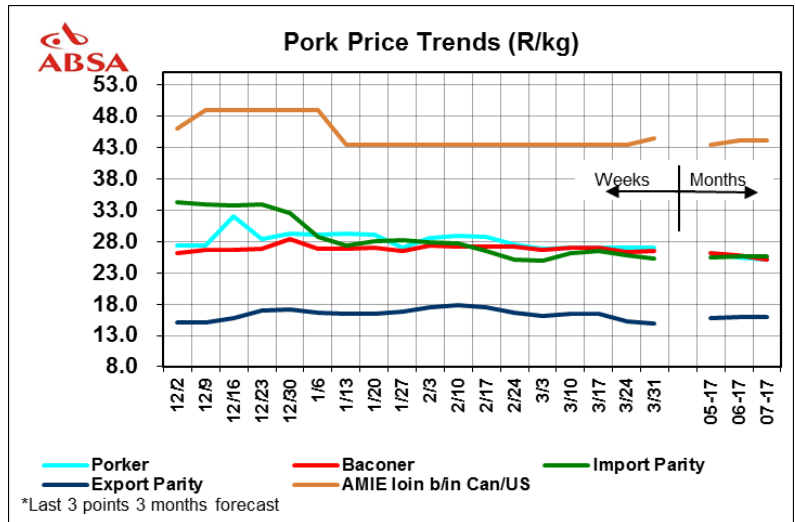
## Pork market trends

### International

The average weekly US pork prices were mostly lower over the past week. Carcass prices were 3.4% lower at US\$76.14/cwt, Loin prices were 4.2% lower at US\$75.49/cwt, Rib prices were 0.4% lower at US\$115,93/cwt and ham was 6.0% lower at US\$56.84/cwt.

#### Bullish factors

- Good demand for pork products in the US is expected to support prices.
- New government restrictions on the zoning of pig facilities in China are expected to stall Chinese herd recovery and lead to high pork prices.



#### Bearish factors

- The US hog herd in the December-February quarter grew by 4% versus a year earlier, suggesting plentiful hog supplies ahead.
- Abundant pork supplies in the US.

### Domestic

The Absa forecast prices are expected as follows: Porker prices are 0,2% higher at R26.97/kg while Baconer prices are 0.6% higher at R26.44/kg.

#### Bullish factors

- Improvement in demand during the Easter period may provide support to pork prices.
- Underlying support from higher livestock prices.

#### Bearish factors

- Lower feed costs will support the intensive pork industry, improving profitability. The lower feed costs are encouraging to the fattening of the pigs.

## Outlook

Internationally, abundant pork supplies in the US will be met by good demand. Prices are under pressure due to ample hog supplies ahead. Locally, pork prices are expected to remain supported in the short term due to improved demand associated with the Easter period.

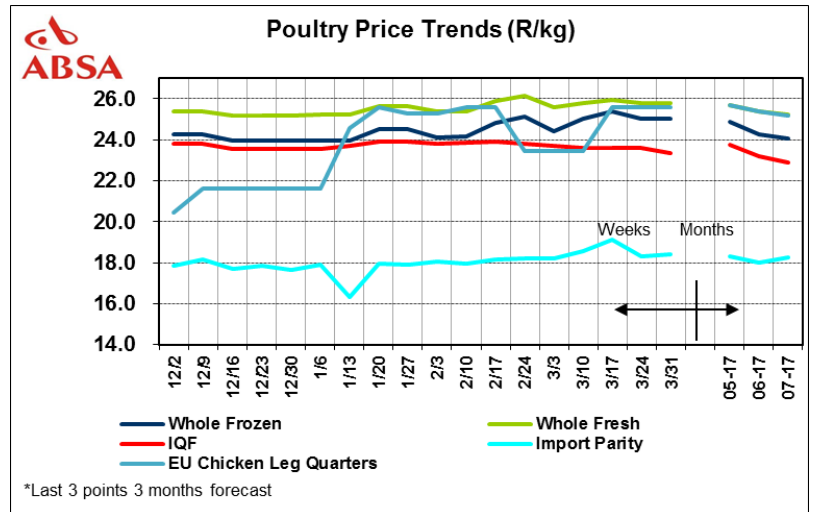
## Poultry market trends

### International

Poultry prices in the US were mostly lower over the past week. Whole bird prices were 0.12% lower at 98.45USc/lb. Breasts traded 1.98% lower at 124,00Sc/lb, whilst Leg Quarters traded 1.39% lower at 35,50USc/lb.

#### Bullish factors

- China's weekly number of H7N9 avian flu cases continues to slowly decline following an unprecedented spike of cases over the winter, with 17 more illnesses, 3 of them fatal, reported in the past week.
- Brazilian poultry production and exports are seen growing by 4 and 10% respectively in 2017, due to cheaper maize as well as bird flu in competing markets. In 2017, a record maize crop is already entering the market and feed costs have declined. The extent and the impact of the Brazilian meat scandal is yet unknown as the Meat scandals in Brazil could hurt demand from that nation.



#### Bearish factors

- Avian influenza has been confirmed in three states in the US, two of which share borders with Georgia. As a precaution, Georgia State health has suspended all poultry exhibitions indefinitely. The recent highly pathogenic avian influenza outbreak in the US may limit expected export growth.
- The USDA this week announced a recall of 933,000 pounds of chicken products. It is one of the biggest chicken recalls in months as metal objects were found in the ready-to-eat chicken products and by FSIS inspection personnel during verification activities. These items were shipped to retail locations and institutions nationwide.
- Meat scandals in Brazil could hurt demand from that nation.

### Domestic

The average poultry prices over the past week were mostly lower. The average prices for frozen birds were 0.13% lower at R25.00/kg during the week. Whole fresh medium bird prices were 0.10% lower at R25.78/kg while IQF prices were 1.02 lower at R23.36/kg.



### *Bullish factors*

- Positive demand in the market currently supports prices.
- Better demand for local product on the back of reduced supplies due to bird flu in the EU is adding support to prices.

### *Bearish factors*

- 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 Brazilian meat scandal and the bird flu will impact on international trade prospects. Locally, poultry prices are expected to be supported by improved demand associated with Easter holidays and less supplies in the market currently.

Livestock Prices (R/kg) week ending 31March 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	-0.87	42.60	42.98	0.24	64.10	63.95	0.2	26.97	26.93	-0.10	25.78	25.80
ClassC/ Baconer / Frozen birds	-0.70	36.22	36.47	-0.12	46.10	46.16	0.6	26.44	26.29	-0.13	25.00	25.04
Contract / Baconer/ IQF	-0.63	44.44	44.72	0.35	65.76	64.54	0.4	26.71	26.61	-1.02	23.36	23.60
Import parity price	7.63	71.50	66.43	7.32	40.63	37.86	-0.6	32.3	32.5	0.59	18.4	18.3
Weaner Calves/ Feeder Lambs/	-2.3	28.48	29.16	-1.8	31.13	31.71	-	-	-	-	-	-
Specific Imports: Beef trimmings 80vl/b/Mutton Shoulders/Loin b/in /chicken leg1/4	0	46.00	46.00	4.3	55.30	53.00	2.3	44.50	43.50	0	25.60	25.60

## Wool market trends

### International

The Australian wool market prices were lower and closed 2.85% lower at Au1502c/kg at the recent auction.

#### Bullish factors

- Strong demand especially from China has supported wool prices in the past weeks.

#### Bullish factors

- A large offering contributed to the declines in prices this past week. Despite the declines in prices this week, next week's quantity continues to remain high.

### Domestic

Domestic wool market prices were 0.52% higher at the most recent sale of the season to close at R163.85 (Clean).

#### Bullish factors

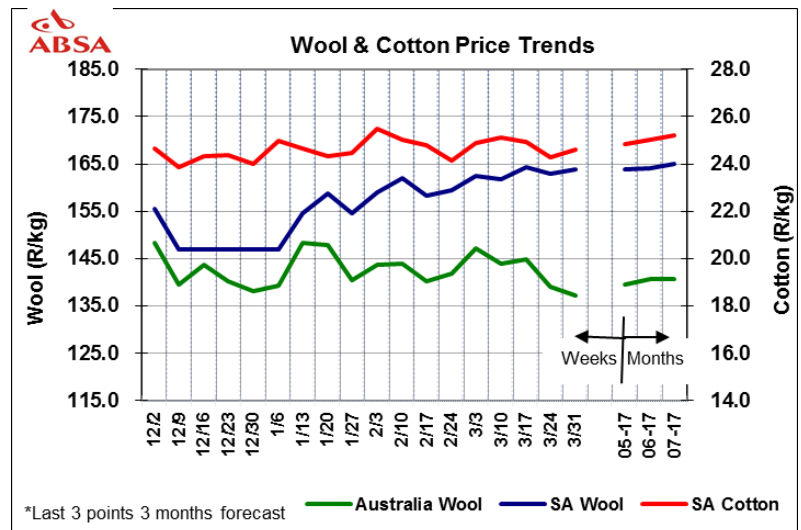
- The Rand was 3,4% weaker against the US Dollar compared with the average rate at the previous sale.
- Good demand for good quality wool supported prices.
- Strong competition in the market

#### Bearish factors

- Weeks on week, slightly higher volumes were offered on the market.

### Outlook

Internationally, strong demand for wool may support wool prices moving forward. Locally, prices are expected to be supported by a reduction in supplies and good demand for the product.



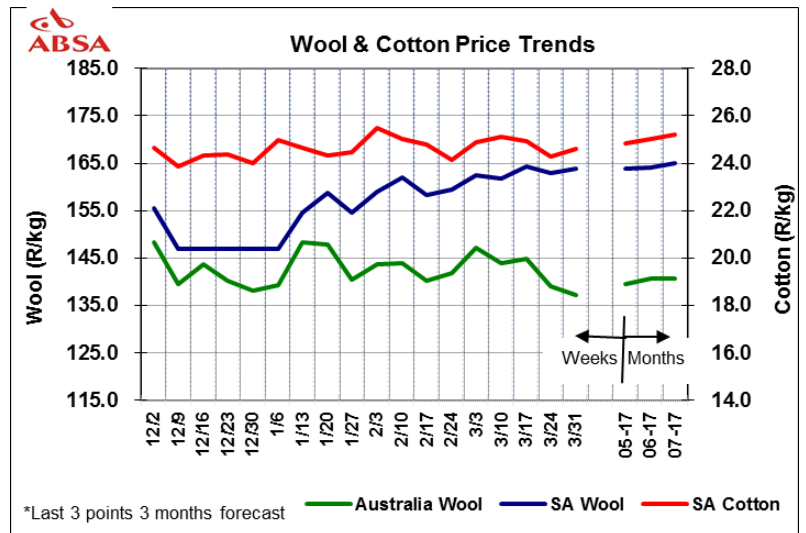
## Cotton market trends

### International

Cotton prices traded 0.82% lower over the past week and closed at US73.80c/lb.

#### Bullish factors

- Expectation of export demand may support prices
- In India, tightness in domestic supply is also boosting imports, as Indian farmers hold off on deliveries in the hope of achieving higher prices later in the crop year.
- India's 2016/17 cotton imports are set to increase from a year ago to a record 3 million bales as the rupee's rise makes buying overseas cheaper



#### Bearish factors

- US cotton farmers are planning to plant 12.2 million acres this year, which is an increase of 21% last year driven by expectations of higher prices in 2017.
- Cotton faces tougher competition from artificial fibres, whose values have been undermined by the drop in oil prices.

### Domestic

SA cotton prices traded 1.48% higher to close at R24.62/kg. The increases in prices were in spite of increases in international prices but supported by the weakness in the exchange rate.

### Outlook

Internationally, prices may be weighed down by the bearish US planting report and expectations of the expected higher global cotton production. Locally, the exchange rate movement may continue to affect the domestic market prices.

**Fibres Market Trends**
**Week ending 31 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>	0.52	16385	0.27	15020		-		-
<b>19µ micron</b>	8.10	20568	-0.41	18813	-3.02	17.65	0.00	17.00
<b>21µ micron</b>	1.89	14863	-1.39	14143	-1.41	13.95	-1.45	13.60
<b>Cotton prices</b>		<b>SA derived Cotton (R/kg)</b>		<b>New York A- Index (US\$/kg)</b>		<b>New York future May- 2017 (US\$/kg)</b>		<b>New York future Jul-2017 (US\$/kg)</b>
<b>Cotton Prices</b>	1.48	24.62	-0.63	1.90	-1.3	1.681	-1.1	1.711

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