



## Agri Trends

04 May 2017

### A cash settled merino wool futures contract underway

The JSE has announced that they will be working closely with Cape Wools SA to introduce a cash settled merino wool futures contract. The underlying instrument will be the Merino fleece wool, as captured on an index basis and as represented by the Merino Wool Indicator. The futures contract will be cash settled with no physical delivery and the contract months will be March, June, September and December. An official product launch event is envisaged in June 2017.

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### Contents

Beef market trends .....	1
Sheep meat market trends .....	3
Pork market trends .....	5
Poultry market trends .....	7
Wool market trends .....	10
Cotton market trends .....	12

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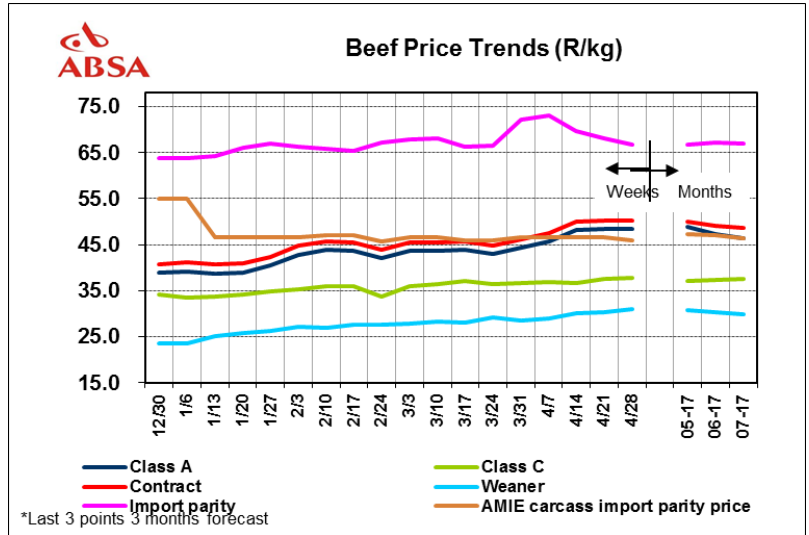
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# Beef market trends

## International

New Zealand steers traded sideways over the past week at 5.63NZ\$/kg and cows traded 1.18% lower at 4.18NZ\$/kg compared to a week ago. In the US, beef prices for the week were mostly higher as follows: Top side traded 1.45% higher at \$224,37/cwt. Rump was 2.77% higher at \$352.53/cwt and Strip loin was 6.35% higher at \$738.59/cwt. Chuck traded 0.64% higher at \$228,61/cwt. Brisket traded 3.70% lower at \$206,77/cwt. The carcass equivalent price was 2.38% higher at \$326.96/cwt.



## Bullish factors

- The US Department of Agriculture recently released the April Cold Storage report, which showed that total red meat supplies in freezers were down 5% from the previous month and down 7% from last year.
- The lower US beef prices may support increased demand from consumers.
- Rain in Australia has meant that some restocking has weakened supply into the global market.
- The reduction in availability of Australian and New Zealand beef continue to be supportive to prices

## Bearish factors

- The number of cattle placed into the US feedlots during March, increased by 11% year over year. This may be supported by three years of herd expansion as well as favourable low feed costs.
- US beef production is expected to continue to increase, and prices are adjusting downwards on the back of higher supplies.
- Brazil is expected to slaughter 40.4 million head of cattle in 2017, which is 10% more than the previous year. As a result, Brazilian beef production is expected to increase to 10.1 million tons from 9.1 million tons. Pressure from increased volumes of cheaper Brazilian beef may add a downward pressure on prices.

## Domestic

Beef prices recorded some good gains over the past week. Prices may maintain its current strong levels. The forecasted Absa beef prices are as follows: Class A prices are 0.03% higher at R48.41/kg. Class C prices are 0.74% higher at R37.80/kg. The average weaner calf prices over the past week were 2.5% higher at R31.05/kg. The average hide price over the past week was 0.27% higher at R14.79/kg from the previous week's price of R14.75/kg green. NB\* Hide prices are determined by the average of RMAA (Red Meat Abattoir Association) and independent companies.

### *Bullish factors*

- An average national Class A beef prices remained in the level of R48/kg over the past week. This is as lower supplies are met with strong demand.
- The average weaner calf prices have increased to R31.05/kg this week on the back of improved demand and less available supplies. Tightening supplies has been the main driver behind steady increases in prices over the past few months.
- As more cattle were slaughtered during the past drought, there is supply tightness in the market which supports prices. This season's good rainfall has improved growing conditions and subsequently triggered herd building. This ultimately adds to the reduction in cattle supplies.

### *Bearish factors*

- Demand may start to ease after the Easer period.
- 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, the reduction in availability of Australian and New Zealand beef are supportive to prices. Domestically, scarce supplies may continue to add upward support to prices, but demand may taper off after the Easter holidays which may limit price increases.

## Sheep meat market trends

### International

The New Zealand lamb prices were mostly higher this week compared to last week. Lamb prices closed 1.24% higher this week at NZ\$90.0/head for 15kg lamb. Lamb prices were 1.29% higher at NZ\$126.0/head for 21kg lamb. Ewe prices sideways at NZ\$77.7/head for a 21kg ewe. The import parity price for lamb was 0.57% higher at R61.34/kg while the import parity price for mutton was 0.51% lower at R41.72/kg.

#### Bullish factors

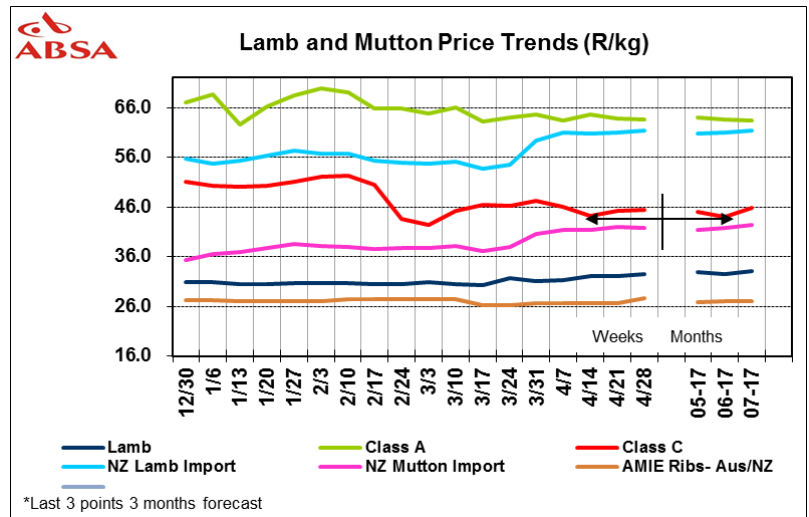
- Global demand for sheep meat remains firm due to tighter supplies from the two largest exporters, Australia and New Zealand. This has led to improved producer prices.
- Lamb prices continued to increase sharply across New Zealand last week. The strong prices reflect both procurement competition and firmer export returns.
- Beef and Lamb New Zealand released their mid-season update last week. They have increased New Zealand's export lamb slaughter for the 2016/17 season to be the second lowest on record at 19.2 million head. Compared to last season, this down just under 700,000 head.
- Limited global supplies are helping demand for sheep meat.

#### 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 were mixed over the past week. Lamb and mutton prices are expected as follows: The average Class A lamb prices 0.27% lower at R63.59/kg and the average Class C at 0.22% higher to reach R45.40/kg. The average price for feeder lambs traded 0.7% higher at R32.40/kg. The average price for dorper skin was 5.04% higher at R43.33/skin and merinos were 0.62% lower at R92.69/skin.



### *Bullish factors*

- Lamb, mutton and beef prices remain supported. Good grazing conditions this season are encouraging the herd rebuilding phase.
- High meat prices and low feed costs are supporting the profitability of the sheep industry.

### *Bearish factors*

- Prices may taper off as demand normalizes after increased spending associated with the Easter holidays.
- Consumer resistance to high lamb and mutton prices may increase price risk. Lamb and mutton prices remain the expensive meat in the market.

### **Outlook**

Internationally, Market prices continue to strengthen on the back of the tight supplies. The low global inventories and continuing low supply are keeping market prices high. Locally, prices may taper off as demand normalizes after increased spending associated with the Easter holidays.

## Pork market trends

### International

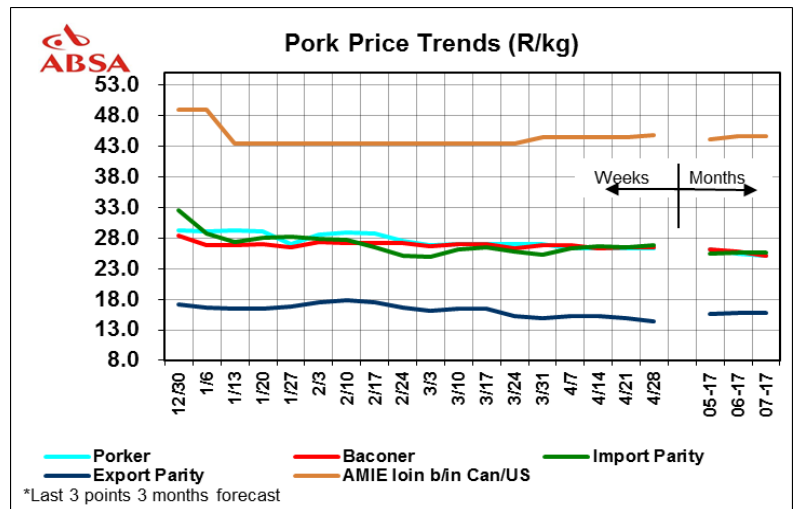
The average weekly US pork prices were mixed over the past week. Carcass prices were 0.6% higher at US\$74.12/cwt, Loin prices were 1.4% higher at US\$75.61/cwt, Rib prices were 2.8% lower at US\$115.77/cwt and ham was 5.0% higher at US\$60.07/cwt.

### Bullish factors

- Continuing strong Asian imports are supporting pork prices across the globe
- The recovery in global pork production is expected to drive exports.
- Exports of US pork to destinations such as Mexico, South Korea and Colombia are expected to increase this year on the back of relatively low prices. However, it is likely that the US will face strong competition from the EU in terms of trade into Asian markets, especially China. Current low prices from the US are supportive and challenge supply from the main export competitor, the EU.
- The US Department of Agriculture (USDA) reported tighter than anticipated US stocks of frozen pork and the tightest March pork belly stocks on record in its latest cold storage report.

### Bearish factors

- The USDA's March Hogs and Pigs report indicates that the US breeding herd is expanding and slaughter hog numbers this coming autumn will be even higher than one year ago
- Lower grain prices support the fattening of hogs.
- Global pork production is expected to increase by 1% in 2017. The majority of the expected production increase is driven by the US and Russia, more than offsetting a forecast decline in Chinese output.



## Domestic

Pork prices haven't shown a positive trend week on week, but prices are expected to improve moving forward. Absa forecast prices are as follows: Porker prices are 0,1% higher at R26.40/kg while Baconer prices are 0.1% higher at R26.48/kg.

### *Bullish factors*

- 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, increases in global pork production may weigh down on prices, but the recovery in global pork production may drive exports.

Locally, pork prices may follow a sideways movement. Lower feed costs may support the intensive pork industry, improving profitability. The lower feed costs are encouraging to the fattening of the pigs.

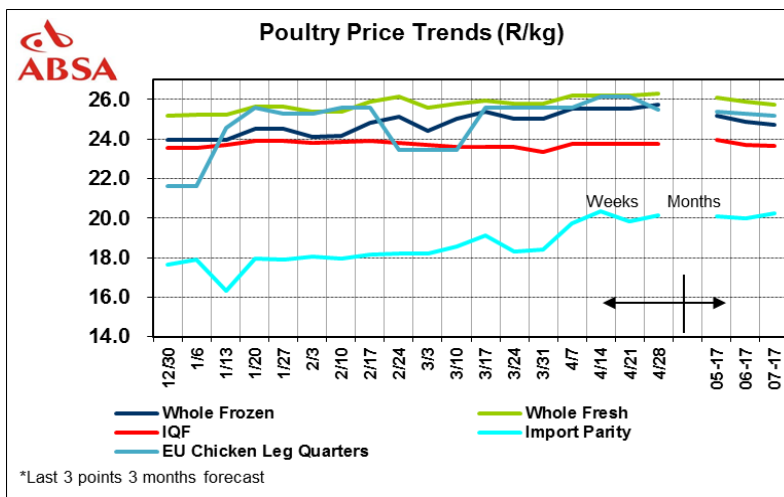
## Poultry market trends

### International

Poultry prices in the US were mostly higher over the past week. Whole bird prices were 0.85% higher at 97.26USc/lb. Breasts traded 2.25% higher at 136,50Sc/lb, whilst Leg Quarters traded 5.13% higher at 41,00USc/lb.

#### Bullish factors

- Chicken is a least expensive protein, which may lead to more consumers to buy chicken instead of pork or beef, supporting chicken prices.
- Total stocks of chicken were down 3% from the previous month and down 3% from last year.



#### Bearish factors

- Broiler production in the US increased by 2% for the first quarter of 2017.
- In the US, total frozen poultry supplies on the 31st of March 2017 increased by 2% from the previous month and by 2% from a year ago.
- The latest notifications from the World Organization for Animal Health (OIE) has indicated that the highly pathogenic H5N1 avian influenza virus struck birds in Iran and Vietnam, as H5N8 outbreaks continue in Europe, including at a large poultry farm in Sweden. Avian Influenza has become a major concern for industries in many parts of the world especially in Asia, Europe, Africa and North America.

### Domestic

The average poultry prices over the past week were higher. The average prices for frozen birds were 0.67% higher at R25.72/kg during the week. Whole fresh medium bird prices were 0.49% higher at R26.32/kg while IQF prices were 0.02% higher at R23.778kg.

#### Bullish factors

- Better demand for local product on the back of reduced supplies due to bird flu in the EU is adding support to prices.
- Underlying support from lamb, mutton and beef prices may support the poultry market.



### *Bearish factors*

- Prices may taper off slightly after heavy uptake during the Easter period
- The return of exports from the EU to the local market following the bird flu may pressure prices.

### **Outlook**

Internationally, Avian Influenza continues to remain a problem, bringing uncertainties by disrupting trade.

Locally, poultry prices may remain stable in the short term. The industry as a whole will benefit from cheaper feed costs in 2017, following high costs in 2016 due to the drought conditions. This season's good rainfall improved growing conditions which led to higher crops. 14.536 million tons of maize may be produced in 2017, which bodes well with the feed intensive industries.

Livestock Prices (R/kg) week ending 28 April 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	0.03	48.41	48.40	-0.27	63.59	63.76	0.1	26.40	26.36	0.49	26.32	26.19
ClassC/ Baconer / Frozen birds	0.74	37.80	37.52	0.22	45.40	45.30	0.1	26.48	26.46	0.67	25.72	25.55
Contract / Baconer/ IQF	0.04	50.24	50.23	-0.26	64.30	64.47	0.1	26.44	26.41	0.02	23.78	23.77
Import parity price	-1.71	66.85	68.01	-0.51	41.72	41.94	-2.3	32.0	32.8	1.67	20.2	19.8
Weaner Calves/ Feeder Lambs/	2.5	31.05	30.28	0.7	32.40	32.17		-	-			
Specific Imports: Beef trimmings 80vl/b/Mutton Shoulders/Loin b/in /chicken leg1/4	-1.29	46.00	46.60	-11.7	57.60	65.20	0.9	44.90	44.50	-2.49	25.50	26.15

## Wool market trends

### International

The Australian wool market prices were lower and closed 0.73% lower at Au1501c/kg at the latest auction.

#### Bullish factors

- Strong demand has supported wool prices in the past weeks.
- A dip in the Australian dollar during the last day of the auction was positive for prices.
- The Australian Wool Production Forecasting Committee latest forecast is that Australian shorn wool production in 2016/17 will increase by 4.3% to 339 mkg greasy, largely due

to excellent seasonal conditions in many areas lifting fleece weights. The committee said the strong wool market conditions also appeared to be encouraging producers to retain sheep.

- There is a rumour floating around about new Chinese government uniform orders that may be released in July. This would provide a spike in demand at a time when supplies are low.

#### Bullish factors

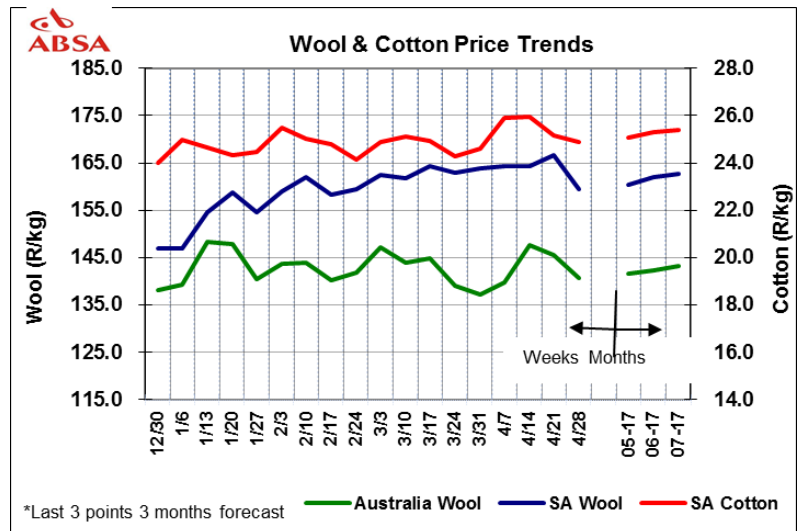
- A relatively large offering at the recent auction may have put pressure on prices.
- Australian wool prices are at record levels, and as a result, may experience a correction.

### Domestic

Domestic wool market prices were 4.37% lower at the most recent sale of the season to close at R159.44 (Clean).

#### Bullish factors

- The demand for good quality long fleece wool remains strong. Despite the larger auction only 7% was left unsold.



### *Bearish factors*

- The Rand was 1,2% stronger against the US Dollar compared with the average rate at the previous sale.
- Higher volumes weeks on week were on offer. 76.2% more volumes were on offer at the recent auction.
- Fine, medium and strong wool all traded easier

### **Outlook**

Large offering at the recent auction may have added pressure on prices. Moving forward, strong demand may continue to provide support for the domestic and international wool market.

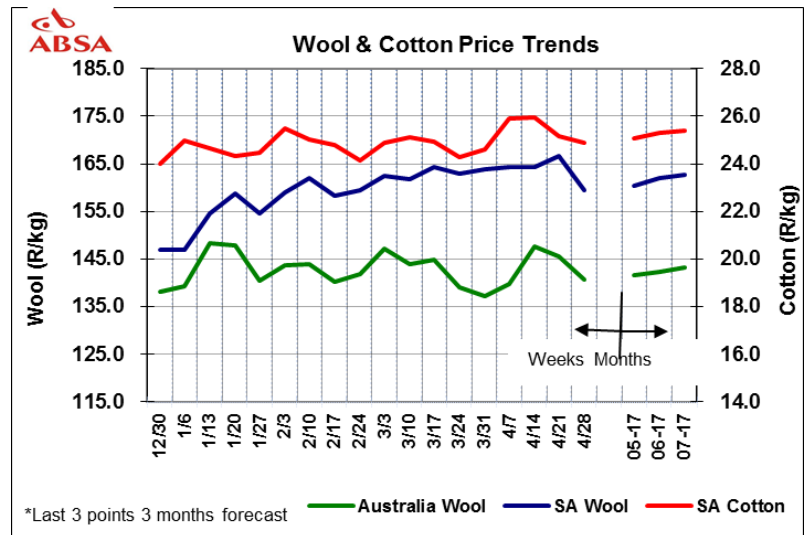
## Cotton market trends

### International

Cotton prices traded 0.81% higher over the past week and closed at US76.10c/lb. This is the highest weekly average since the 27<sup>th</sup> of June 2014 when the average was 77.72.

#### Bullish factors

- Higher cotton prices are bringing more acreage back into cotton production. The International Cotton Advisory Committee (ICAC) is projecting a 5% expansion in the global growing area for cotton during the 2017/18 season, which is an increase of 30.8 million hectares.



#### Bearish factors

- The International Cotton Advisory Committee (ICAC) is projecting a 5% expansion in the global growing area for cotton during the 2017/18 season, which is an increase of 30.8 million hectares.
- The US cotton area is forecast to expand 12% and production could grow 8% to 4 million tons.
- India's cotton area could increase 7%, and improved yields could boost production 3% to roughly 3 million tons.
- China's cotton area could increase 3% after five season of consecutive contraction, with production increasing 1% to 4.8 million tons.

### Domestic

SA cotton prices traded 1.07% lower to close at R24.89/kg. The decreases in prices were in spite of increases in international prices, but pressured by the strength in the South African rand. The 3rd estimate for the 2016/17 cotton production year indicates a total crop of 74 173 lint bales, which is an increase of 47% from the previous season.

### Outlook

Internationally, ideas of higher world cotton production may weigh down on prices. Locally, the exchange rate movement may continue to affect the domestic market prices.

**Fibres Market Trends**
**Week ending 28 April 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>	<b>-4.37</b>	15944	<b>-2.20</b>	14808		-		-
<b>19μ micron</b>	<b>-5.09</b>	19223	<b>-1.62</b>	18806	<b>-1.07</b>	18.50	<b>1.47</b>	17.25
<b>21μ micron</b>	<b>-4.12</b>	14347	<b>-3.60</b>	14535	<b>0.00</b>	14.50	<b>0.00</b>	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>	<b>-1.07</b>	24.89	<b>0.79</b>	1.90	<b>-0.9</b>	1.749	<b>-1.5</b>	1.719

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