



## Agri Trends

31 May 2017

### Consumer preferences tilting the butter supply, and spiking prices!

The dairy industry has been seeing a shortage in butter, and this mainly due to the consumer preferences moving towards “banting” diet, which promotes high fat and high protein intake. The international price for butter has also increased significantly too, due to higher demand. The local consumer has increased demand for full cream milk, butter and full cream products, reducing the demand for low fat milk & products. Previously the usage of lower fat milk/cream and other products allowed for excess fat to be used as input into butter. Since trends have moved towards full cream, the lower supply of input has resulted in shortages of butter.

The move towards this trend is favourable for the milk industry, because full fat milk production promotes milk demand, Whereas when people move towards lower fat milk, they eventually stop consuming the product because the taste of low fat milk is less pleasing, resulting in a lower consumption of milk overall.

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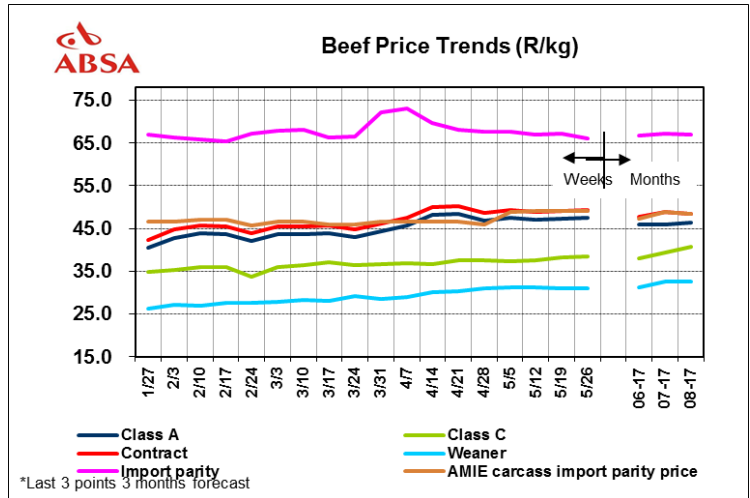
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# Beef market trends

## International

New Zealand steers traded sideways over the past week at 5.61NZ\$/kg and cows traded sideways at 4.18NZ\$/kg compared to a week ago. In the US, beef prices for the week were mostly lower as follows: Topside traded 1.22% lower at \$228.20/cwt. Rump was 1.26% lower at \$365.84/cwt and strip loin was 4.94% lower at \$798.21/cwt. Chuck traded 3.09% lower at \$222.51/cwt. Brisket traded 3.82% higher at \$234.44/cwt. The carcass equivalent price was 2.39% lower at \$346.41/cwt.



## Bullish factors

- Strong demand is supporting beef prices in the US. The Memorial Day weekend, which is the unofficial kick off to summer and the grilling season, is expected to support demand.
- Global demand for beef is currently strong. Beef prices are increasing, despite a pick-up in overall global supplies

## Bearish factors

- There are some concerns that prices are reaching levels that are too high and may result in downward pressure in the coming months. If prices increase too much, this may see customers switch to alternative proteins.
- Beef imports into the US are forecast higher as supplies of domestic processing-grade beef remain relatively tight and supplies of beef increase in key exporting countries.

## Domestic

Beef prices were strong over the past week, with prices showing some good gains across the different classes. The forecasted Absa beef prices are as follows: Class A prices are 0.28% higher at R47.45/kg. Class C prices are 0.86% higher at R38.50/kg. The average weaner calf prices over the past week were sideways at R31.10/kg. The average hide price over the past week was sideways at R14.62/kg green. The international hide markets have taken a sharp downturn; and this coupled with the strength in the South African rand weighs down on prices. The hide market is also approaching a quiet season. All these factors are expected to weigh down on prices moving forward. NB\* Hide prices are determined by the average of the RMAA (Red Meat Abattoir Association) and independent companies.

## Bullish factors

- Average weaner calf prices are high on the back of improved demand and less available supplies. Tightening supplies have been the main driver behind steady increases in prices over the past few months.

### *Bearish factors*

- High producer prices for both the domestic and export markets and the deterioration in grazing conditions going into winter may support increased slaughter and therefore weigh down on prices.
- Demand may start to ease after the Easter period.

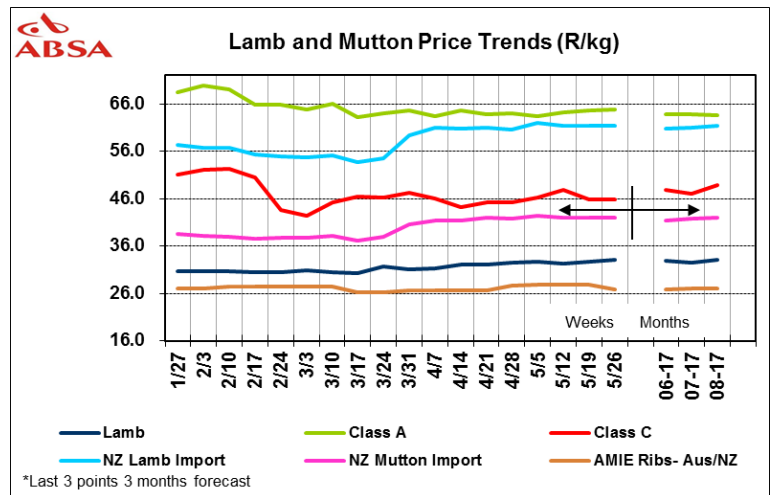
### **Outlook**

Internationally, consumer demand for beef seasonally peaks in the last half of May for the Mother's Day and Memorial Day events. Domestically, high producer prices for both the domestic and export markets and the deterioration in grazing conditions going into winter may support increased slaughter and therefore weigh down on prices.

## Sheep meat market trends

### International

New Zealand lamb prices traded mostly higher this week compared to last week. Lamb prices closed 0.43% higher at NZ\$93.4/head for 15kg lamb. Lamb prices were 0.38% higher at NZ\$130.7/head for 21kg lamb. Ewe prices traded 4.67% higher at NZ\$83.0/head for a 21kg ewe. The import parity price for lamb was 0.17% lower at R61.32/kg, while the import parity price for mutton was 0.24% lower at R41.90/kg.



### Bullish factors

- Global lamb markets continue with the positive trend. 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 domestic and export prices. Market fundamentals look strong in all the main destination markets, helped by shortages and strong demand for chilled product.
- The US market is also a strong performer. Prices in this market are showing steady increases and are expected to continue with these current upward trends.
- Procurement competition continued to drive the lamb slaughter market higher across New Zealand this week

### Bearish factors

- In New Zealand, there are some indications that slaughter rates have increased as winter weather encourages more slaughter.
- There are some concerns that prices are reaching levels that are too high and may result in downward pressure in the coming months. If prices increase too much, this may see customers switch to alternative proteins.

## Domestic

Lamb and mutton prices were mostly higher over the past week. Lamb and mutton prices are expected as follows: The average Class A lamb prices were 0.20% higher at R64.75/kg and the average Class C 0.29% lower at R45.73/kg. The average price for feeder lambs traded 1.0% higher at R33.05/kg. The average price for dorper skin was 0.12% higher at R40.50/skin and merinos were 3.62% lower at R87.95/skin.

### *Bullish factors*

- High meat prices and low feed costs are supporting the profitability of the sheep industry.

### *Bearish factors*

- Consumer resistance to high lamb and mutton prices may increase price risk. Lamb and mutton remain the most expensive meat on the market.

## Outlook

Internationally, global lamb markets continue with the positive trend. Locally, prices may be supported by month end buying.

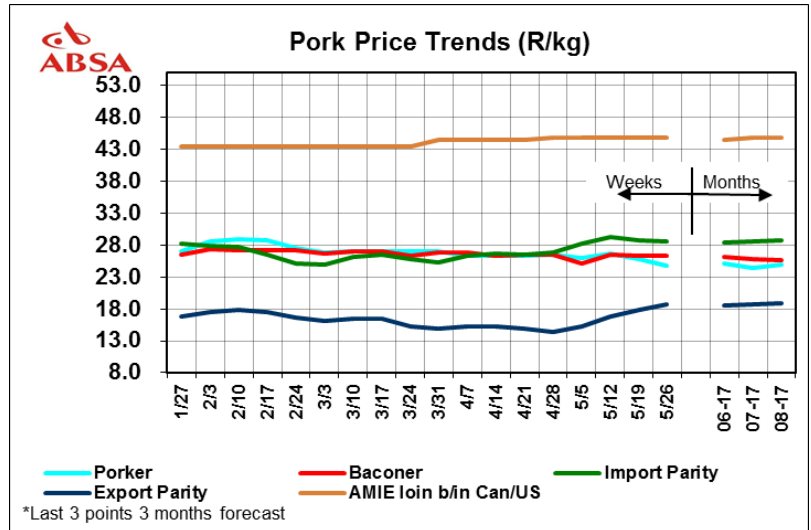
## Pork market trends

### International

The average weekly US pork prices were mostly higher over the past week. Carcass prices were 4.5% higher at US\$89.11/cwt, loin prices were 2.8% higher at US\$87.64/cwt, rib prices were 5.0% higher at US\$141.81/cwt and ham was 1.7% higher at US\$65.82/cwt.

#### Bullish factors

- The Memorial Day weekend, which is the unofficial kick off to summer and the grilling season are supportive to demand.
- The US is heading for a year of record red meat and poultry production. While output is booming across the board, pork is looking especially attractive since its discount to beef has been widening. This may lead to better demand for pork products than beef.
- Contractions in the breeding herd in China as a result of environmental regulations are expected to give support to prices, as they lead to production decreases.



#### Bearish factors

- Bumper grain crops have reduced costs to feed animals, encouraging production.
- Pork prices have stayed relatively low due to plentiful supplies.
- Pork production in 2018 is forecast higher on expected increased farrowing and continued gains in sow productivity.

### Domestic

Pork prices have decreased week on week. The forecasted Absa prices are expected as follows: Porker prices are 4,1% lower at R24.79/kg, while baconer prices are 0.2% lower at R26.25/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 pigs.

### **Outlook**

Internationally, the unofficial kick-off to summer and the grilling season is expected to support pork prices.

Locally, pork prices may move sideways to upwards gaining underlying support from the higher beef and mutton prices.

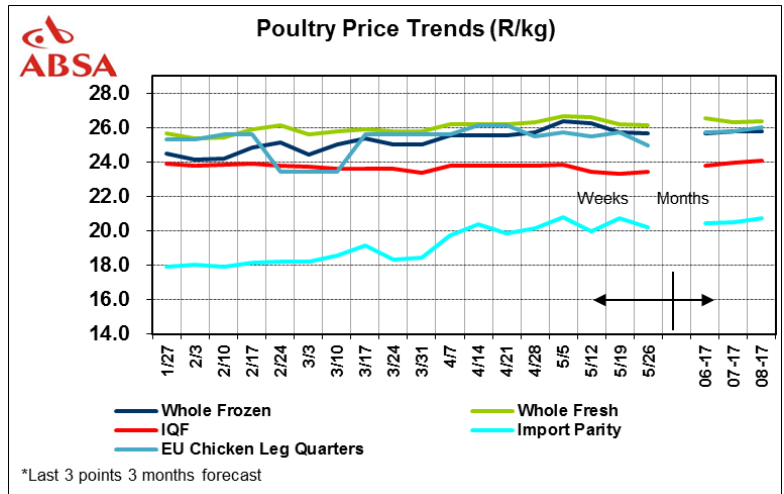
## Poultry market trends

### International

Poultry prices in the US were mostly higher over the past week. Whole bird prices were 4.96% higher at 113.84USc/lb. Breast traded 10.97% higher at 172.00USc/lb, while leg quarters traded 2.35% lower at 41.50USc/lb.

#### Bullish factors

- The US 2017 broiler price forecast may increase as second quarter prices increase due to recent price strength.
- Positive economic growth and good consumer demand are supportive to poultry prices



#### Bearish factors

- The US Department of Agriculture released the May Cold Storage report last week. The report shows that the total combined supplies of beef, pork, chicken and turkey in cold storage at the end of April were 1% higher than the previous month. This is 4.4% higher when compared to the same month a year ago.

### Domestic

The average poultry prices over the past week were mostly lower. The average prices for frozen birds were 0.19% lower at R26.65/kg during the week. Whole fresh medium bird prices were 0.14% lower at R26.14/kg, while IQF prices were 0.33% higher at R23.41/kg.

#### Bullish factors

- The outbreak of Bird Flu in Europe resulted in the banning of broiler meat from regions in the EU. The relief is temporary as it is uncertain when the bans will be lifted. It will however take about 6 weeks on sea for the product to reach South Africa once the bans have been lifted. But until then the decline in broiler meat imports from the EU is an important relieve for broiler producers in the industry. Expectations are that the ban will stay in place at least until the new import tariff is announced. Poultry imports from the EU shifted to the US. In a calendar year the EU has unlimited tariff free access to the South African market but US only has 65 000 tons. For the period January to March 2017, 35 290 tons were imported from the US. This means that imports from the US may decline or stop soon.



- The government is seeking to establish new export markets for the local poultry industry in order to drive competitiveness.

### *Bearish factors*

- Imports from the EU picked up slightly as some of the plants have been cleared. The volumes from these plants are however not significant.
- As a result of the lower new season maize price and feed costs, consumers may expect that the price of broiler meat should decline as well.
- As soon as the prevalence of the Bird Flu threat in the EU subsides an increase in poultry imports will continue to hurt the local industry.

### **Outlook**

Internationally, positive economic growth and consumer demand are supportive to poultry prices.

Locally, poultry prices may remain stable in the short term. The profit margins for the broiler industry are expected to recover. The declining new season maize prices lower feed costs as feed for broilers contain about 70% maize. On the other hand, the price for broilers has improved. As a result of the bird flu outbreaks which broke in the EU towards the end of 2016, imports from this area were halted, a move which provides support for the local industry. The local producers are enjoying some price support as a result of the banning of low cost imports.

Livestock prices (R/kg) week ended 26 May 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	0.28	47.45	47.32	0.20	64.75	64.62	-4.1	24.79	25.85	-0.14	26.14	26.18
Class C/Baconer /Frozen birds	0.86	38.50	38.17	-0.29	45.73	45.86	-0.2	26.25	26.31	-0.19	25.65	25.70
Contract/Baconer/IQF	0.27	49.26	49.13	0.42	65.40	65.13	-2.1	25.52	26.08	0.33	23.41	23.34
Import parity price	-1.64	66.18	67.28	0	41.97	41.97	1.7	36.8	36.2	-2.63	20.2	20.8
Weaner calves/ Feeder lambs	0	31.10	31.10	1.0	33.05	32.71		-	-			
Specific imports: Beef trimmings 80vl/b/Mutton shoulders/Loin b/in/chicken leg 1/4	0	49.00	49.00	-1.4	54.75	55.50	0	44.90	44.90	-2.92	24.95	25.70

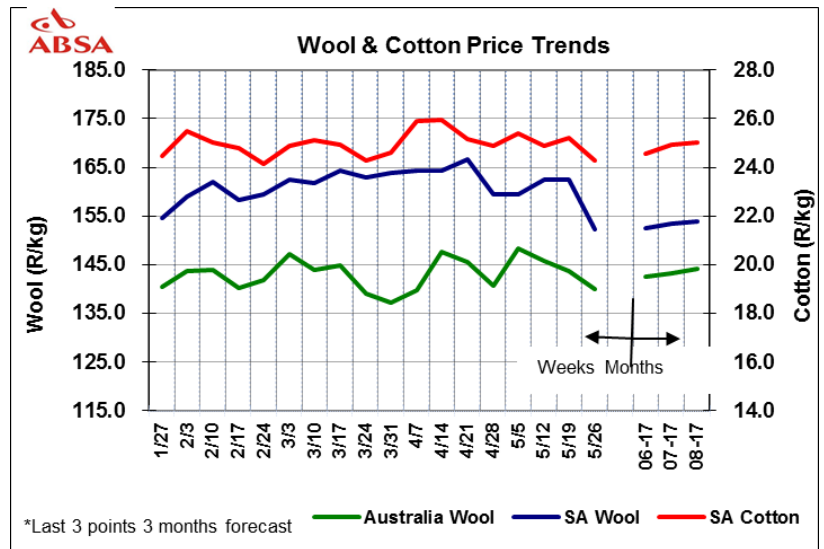
## Wool market trends

### International

Australian wool market prices were lower and closed 1.77% lower at Au1495c/kg at the latest auction.

#### Bullish factors

- Wool volumes are declining. There was a relatively small offering at the recent auction, and prospects for smaller weekly offerings in coming weeks may support prices.
- Large numbers of Australian growers have shorn sheep earlier than usual (at 6-9 months' growth) in order to benefit from the recent higher prices. This wool will therefore not be available at its usual offering time, potentially creating a forward wool shortage and putting upward pressure on prices.



#### Bearish factors

- The stronger AUD vs USD led to a smaller decline in wool prices.
- Australian wool prices are at record levels, and as a result, may experience a correction.

### Domestic

The last sale was on the 23 and 24 of May 2017. Domestic wool market prices were 6.16% lower at the most recent sale of the season to close at R152.37 (clean).

#### Bullish factors

- The 2016/17 wool growing season is approaching its end.
- Demand for good quality long fleece wool remained good with strong competition between buyers.
- 40% less wool is expected to be on offer at the next auction

#### Bearish factors

- Sentiment on the wool market was heavily influenced by the volatility and strengthening of the Rand

- The Rand was 4,0% stronger against the US Dollar compared with the average rate at the previous sale.

## Outlook

Internationally, wool volumes are declining. There was a relatively small offering at the recent auction, and prospects for smaller weekly offerings in the coming weeks may support prices. Locally, prices were weighed down by the strength of the currency.

Moving forward, strong demand and the reduction in volumes in both Australia and South Africa may provide support for the domestic and international wool markets.

## Cotton market trends

### International

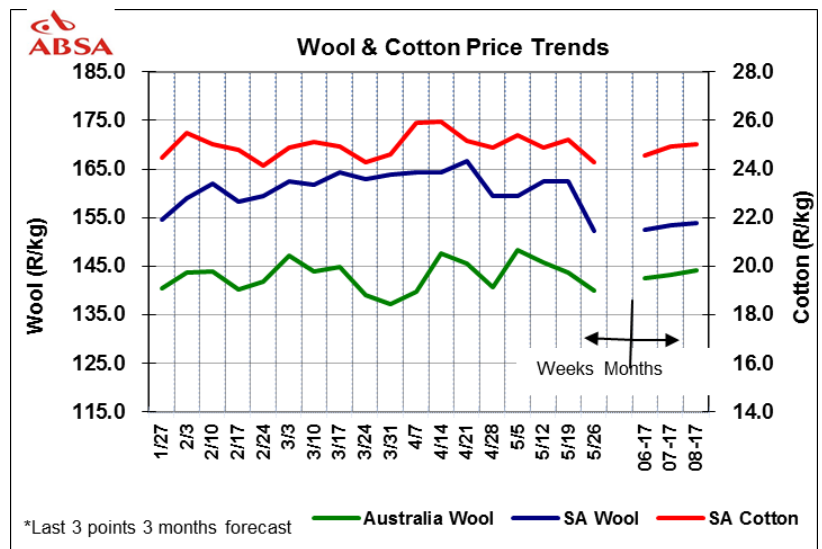
Cotton prices traded 4.21% lower over the past week and closed at US75.22c/lb.

#### Bullish factors

- US export sales continue to be positive, which may continue to support the cotton market.
- China's stocks were seen dropping by nearly 2million tons over 2017/18, as the country extends a sell down of government stocks.

#### Bearish factors

- Cotlook increased its inventories estimate. The estimates reflects an increased forecast for world production, upgraded by 91,000 tons to 24.5m tons, due to improved ideas for the US harvest and growth in Indian output.
- Global raw cotton production is expected to increase by 1.78 million tons, as producers react to the generally firm prices and good yields obtained during the current 2016/17 campaign.
- The increases in cotton prices might have hurt demand in the short term.



## Domestic

SA cotton prices traded 3.73% lower to close at R24.28/kg. The decreases in prices were in line with decreases in international prices, and also supported by the strength in the South African rand. The third 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 ended 26 May 2017**

Wool prices	%	SA prices (c/kg)	%	Australian prices (SA c/kg)	%	Australian future Jun 2017 (AU\$/kg)	%	Australian future Sep 2017 (AU\$/kg)
Wool market indicator	-6.16	15237	-3.39	14512		-		-
19 $\mu$ micron	4.20	19032	-4.22	18304	0.00	18.60	-0.86	17.20
21 $\mu$ micron	3.94	14789	-2.75	14318	0.00	14.55	-1.42	13.90
Cotton prices		SA derived cotton (R/kg)		New York A Index (US\$/kg)		New York future Jul 2017 (US\$/kg)		New York future Oct 2017 (US\$/kg)
Cotton prices	-3.73	24.28	-1.94	1.87	-2.6	1.701	-1.6	1.64

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