



Agri Trends

13 July 2017

Herd rebuilding serving as support to beef prices.

Beef prices have experienced a significant increase in the six months to June 2017. The average class A beef price was up 17.2% at the end of June 2017 compared to the price paid at the end of January 2017. The excellent recovery in rainfall after the drought boosted the recovery of pastures, which supported the rebuilding of herds. The rebuilding process in turn served as support for livestock prices and supply tightness in the beef market, which came after many cows were slaughtered during the past drought.

The current lower maize price during 2017 suggests that the cost of feed has declined from the high levels seen during the past season, which may boost production.

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Beef market trends

International

New Zealand steers traded 0.35% lower over the past week at 5.68NZ\$/kg and cows traded 0.67% lower at 4.43NZ\$/kg compared to a week ago. In the US, beef prices for the week were mixed as follows: Topside traded 1.95% lower at \$240.96/cwt. Rump was 0.27% higher at \$375.59/cwt and strip loin was 6.68% lower at \$634.73/cwt. Chuck traded 0.36% higher at \$230.02/cwt. Brisket traded 11.09% lower at \$235.46/cwt. The carcass equivalent price was 5.38% lower at \$318.32/cwt.

Bullish factors

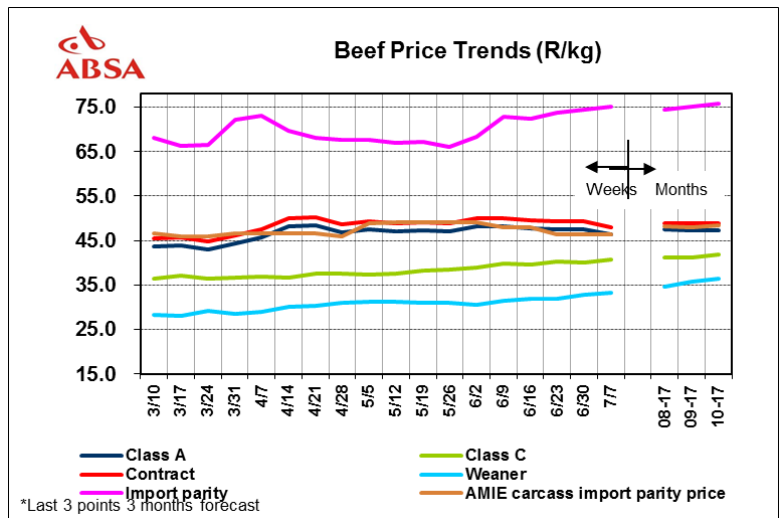
- The US department of Agriculture released its world agricultural supply and demand estimate report (Wasde) on the 12th of July 2017. The report sees the beef production forecast higher due to higher cattle slaughter and heavier carcass weights.
- For 2018, red meat and poultry production forecasts have been reduced in the wasde report. Forecast beef production is reduced from the previous month due to lower expected steer and heifer slaughter in the first part of the year.
- Wasde report shows the beef export forecast higher as global demand is expected to strengthen during the second half of the year. The US exports continue to perform strongly as demand is increasing for US beef exports.

Bearish factors

- The US market was steady last week. Independence Day celebrations have resulted in a quiet week in terms of trading.
- Cattle price forecasts for 2017 are lowered from last month as prices have weakened and fed cattle supplies are expected to remain ample.
- US beef production is rising for a second straight year, helping to boost meat and poultry output to the highest levels and weighing on meat prices

Domestic

Beef prices lost some ground over the past week. Class A prices are 2.47% lower at R46.29/kg. Class C prices are 1.38% higher at R40.68/kg. The average weaner calf prices over the past week were 1.3% higher at R33.24/kg. The



average hide price over the past week was 0.28% higher at R14.37/kg green. NB* Hide prices are determined by the average of the RMAA (Red Meat Abattoir Association) and independent companies.

Bullish factors

- Average weaner calf prices remain 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.
- The excellent recovery of rainfall after the drought boosted the recovery of pastures, supporting herd rebuilding. This serve as support for livestock prices.

Bearish factors

- The deterioration in grazing conditions during winter negatively impact on grazing conditions.
- The current lower maize price during 2017 suggests that the costs of feed have declined from the high levels seen during the past season, which may encourage feeding of animals, and bode well with production gains.

Outlook

Internationally, limited red meat export supplies in Australia and New Zealand, together with strong demand have been major supporting factors to beef and lamb prices. Continued strong demand in Asia supported meat prices too. Domestically, herd rebuilding process is underway, which may continue to add support to beef prices.

Sheep meat market trends

International

New Zealand lamb prices traded sideways this week compared to last week. Lamb prices closed sideways at NZ\$98.6/head for 15kg lamb. Lamb prices were sideways at NZ\$138.1/head for 21kg lamb. Ewe prices traded 0.58% lower at NZ\$86.1/head for a 21kg ewe. The import parity price for lamb was 1.66% higher at R70.69/kg, while the import parity price for mutton was 1.12% higher at R48.09/kg.

Bullish factors

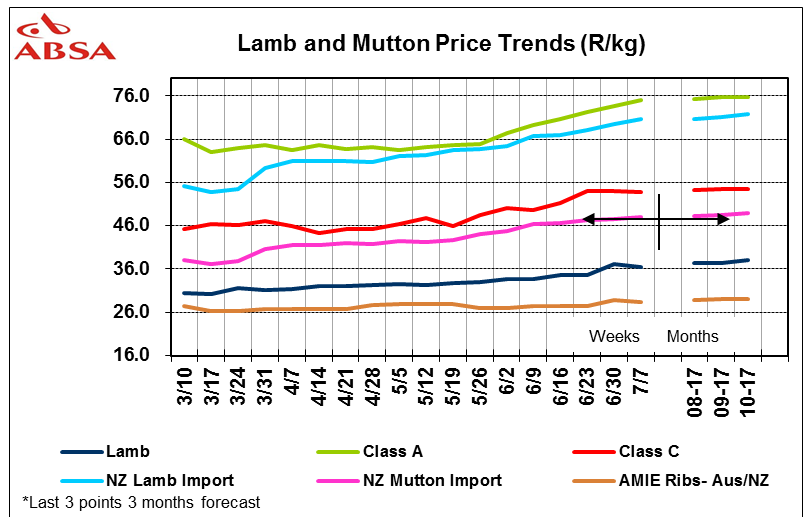
- Low supply from New Zealand and Australia may continue to support prices.

Bearish factors

- An easing in demand from some markets and reports of building inventories paint a softer outlook for New Zealand lamb in coming months.
- Report indicates that consumers have reached the limit of their willingness to pay any more for the majority of New Zealand key lamb products. Prices for some New Zealand products have reached a ceiling, with customers showing no willingness to pay anymore. There are growing signs that there will be resistance to further increases in prices for some items.

Domestic

Lamb and mutton prices were mostly higher over the past week. Lamb and mutton prices were as follows: The national average Class A lamb prices increased by 1.66% to R74.97/kg and the average Class C prices decreased by 0.37% to R53.74/kg. The average price for feeder lambs traded 2.23% lower at R36.34/kg. The average price for dorper skin is 2.56% higher at R44.44/skin and merinos were 13.51% higher at R114.58/skin.



Bullish factors

- High meat prices and low feed costs are supporting the profitability of the sheep industry.
- The herd rebuilding process is underway, limiting the amount of sheep to be slaughtered.

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, Low supply from New Zealand and Australia may continue to support prices. Locally, lamb and mutton prices continued with their strong gains over the past week, as the herd rebuilding process continues to be underway. The average national lamb prices trades at almost R75/kg mark, which is very strong.

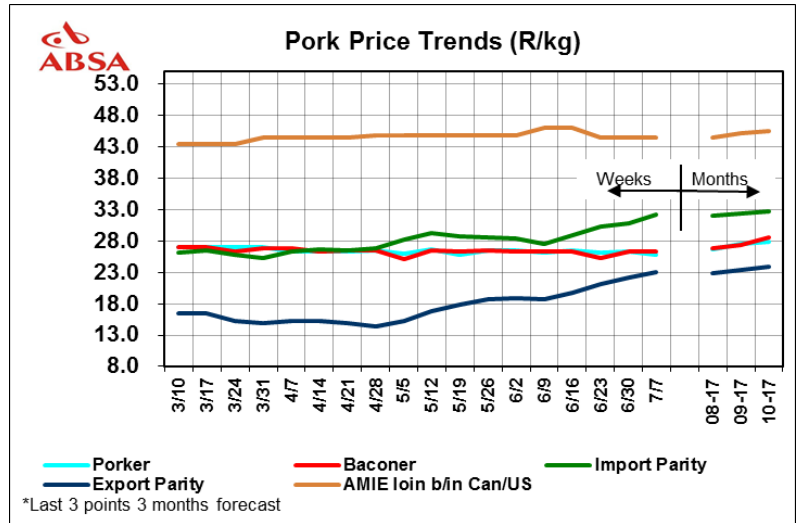
Pork market trends

International

The average weekly US pork prices were mostly higher over the past week. Carcass prices were 1.8% higher at US\$103.58/cwt, loin prices were 1.1% higher at US\$94.77/cwt, rib prices were 6.7% lower at US\$138.78/cwt and ham was 3.0% higher at US\$75.36/cwt.

Bullish factors

- Strong demand for US pork continues to support the pork market. There is good demand for pork associated with the grilling season.
- The USDA wasde report has reduced its forecast for pork production compared to June as lower slaughter in mid-2017 is expected to more than offsets higher fourth-quarter slaughter. Second-half carcass weights are reduced.
- Hog price forecasts have been increased for 2017 on strong domestic and export demand. Demand strength is expected to carry over into 2018, and forecast hog prices are expected higher.



Bearish factors

- Pork production in China will likely start to recover in the second half of 2017, as lower feed grain prices encourage farmers to build up herds and newly established capacity comes online.
- A big hog supplies in the US may pressure prices. US pork supplies and prices remain plentiful.

Domestic

Pork prices were mostly lower over the past week. The latest pork prices are as follows: The average porker prices are 2,2% lower at R25.74/kg, while the average baconer prices are 0.1% higher at R26.32/kg. The average cutters prices were 0.9% lower of R26.83/kg whilst the average heavy baconer price was sideways at R25.58. The average SAU price is R19.47/kg and the SAB price is R23.75/kg.

Bullish factors

- Currently, as the poultry industry is faced with bird flu outbreaks, this may increase production costs due to added biosecurity measures and production losses. Poultry producers may demand higher prices. As a result, there may be a shift towards pork products as an alternative to poultry, thereby boosting demand for pork.

- Underlying support from higher livestock prices may support pork prices.
- Higher beef, lamb and mutton prices may see buyers switch to more consumption of cheaper meats like pork and poultry.

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, improved demand for pork during the grilling season in the US may support pork prices even during the time of plentiful supplies.

Locally, with the poultry industry faced with bird flu outbreaks, production costs may increase due to the added biosecurity measures and production losses. As a result, poultry producers may demand higher prices. This may in turn result in a shift towards pork products as alternative to poultry, thereby boosting demand for pork and supporting prices.

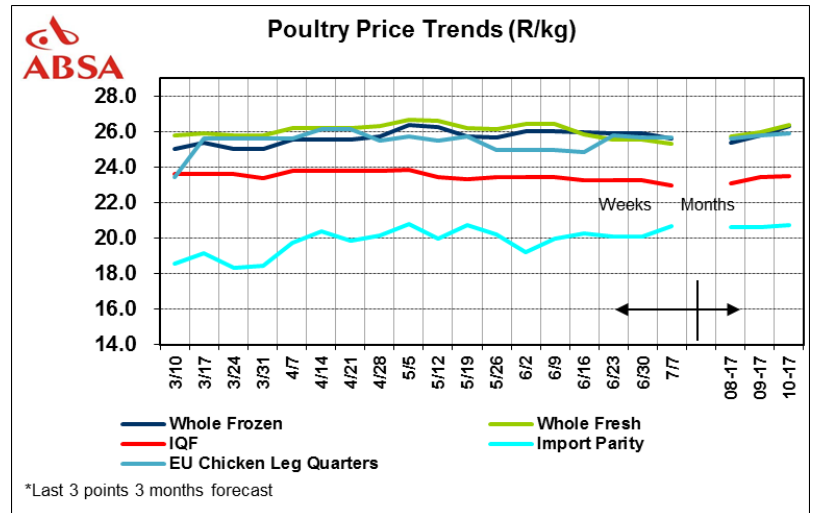
Poultry market trends

International

Poultry prices in the US were mixed over the past week. Whole bird prices were 0.15% higher at 108.13USc/lb. Breast traded 7.67% lower at 150.50USc/lb, while leg quarters traded 2.41% higher at 42.50USc/lb.

Bullish factors

- Broiler prices have been increased for 2017 in the wasde report due to the current price strength.
- Demand for low cost animal protein remains strong, supporting prices.
- The spread of bird flu outbreaks across the globe has led to thousands of chickens being culled, which pose a threat to production levels.



Bearish factors

- The forecast for 2017 red meat and poultry production is increased from last month in the wasde report as higher forecast beef and broiler production more than offset declines in pork and turkey production.
- Broiler production is expected higher on recent production data.
- The spread of numerous outbreaks of highly pathogenic avian influenza (HPAI) across the globe with cases in Asia, Africa, Europe, Russia, and the US have been negative for poultry prices. Although these outbreaks will constrain expansion, global broiler meat production is expected to increase by 1% to 89.5 million tons in 2017.

Domestic

The average poultry prices over the past week were mostly lower. The average prices for frozen birds were 1.21% lower at R25.59/kg during the week. Whole fresh medium bird prices were 0.92% lower at R25.32/kg, while IQF prices were 1.12% lower at R22.98kg. Following the recent bird flu outbreak, poultry destined for exports have to be absorbed in the South African market. This may weigh on prices.

Bullish factors

- Currently, as the poultry industry is faced with bird flu outbreaks, this may increase production costs due to added biosecurity measures and production losses. Poultry producers may demand higher prices.
- Human infection with A(H5N8) cannot be excluded but the likelihood is very low and globally now infections with A(H5N8) have been detected. There is no risk to the human population of South Africa but the virus is highly pathogenic and cause losses in the poultry industry. Should this situation escalate, this may pose a risk to the poultry production.
- The impact of a total culling of birds on production at a site may have an impact of between four to six months before production fully recover to previous levels. This is if the producer adheres to proper biosecurity measures.
- Higher beef, lamb and mutton prices may see buyers switch to more consumption of cheaper meats like pork and poultry, supporting demand for these products.

Bearish factors

- The Department of Agriculture, Forestry and Fisheries has reported that export of chickens has been banned and trading partners have been informed on the current situation.
- Following the recent bird flu outbreak, poultry destined for exports have to be absorbed in the South African market. This may weigh on prices.
- Currently, as the poultry industry is faced with bird flu outbreaks, this may increase production costs due to added biosecurity measures and production losses. Poultry producers may demand higher prices. As a result, there may be a shift towards pork products as an alternative to poultry.

Outlook

Internationally, positive economic growth and consumer demand are supportive to poultry prices during the time of plentiful supplies.

Locally, following the recent bird flu outbreak, poultry destined for exports have to be absorbed in the South African market. This may weigh on prices.

Livestock prices (R/kg)	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	-2.47	46.29	47.46	1.66	74.97	73.75	-2.2	25.74	26.32	-0.92	25.32	25.55
Class C/Baconer/Frozen birds	1.38	40.68	40.13	-0.37	53.74	53.94	0.1	26.32	26.28	-1.21	25.59	25.90
Contract/Baconer/IQF	-2.37	48.07	49.24	3.10	75.45	73.18	-1.0	26.03	26.30	-1.12	22.98	23.24
Import parity price	0.97	75.20	74.47	1.12	48.09	47.56	3.5	42.2	40.8	2.78	20.67	20.11
Weaner calves/Feeder lambs	1.3	33.24	32.82	-2.23	36.34	37.17		-	-			
Specific imports: Beef trimmings 80vl/b/Mutton shoulders/Loin b/in/chicken leg 1/4	0	46.50	46.50	1.1	60.75	60.10	0	44.50	44.50	0	25.65	25.65

Wool market trends

International

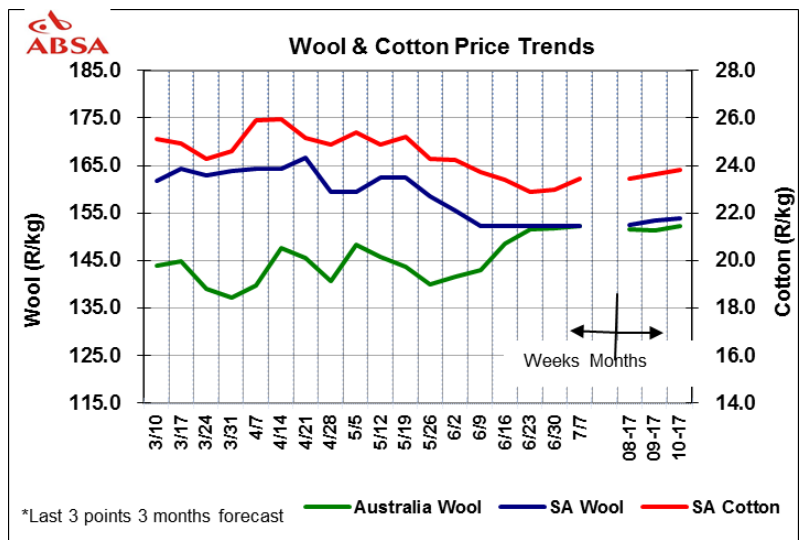
Australian wool market prices were higher and closed 1.13% higher at Au1524c/kg.

Bullish factors

- In general, while demand is strong, world Merino production remains low, despite increases in South Africa and Australia's production.

Bearish factors

- Largest offering in almost three months was offered at the Australian auction this week during the first sale of the 2017/18 selling season.
- Analysts have indicated that the opening sale is traditionally one of the larger of the season as growers looking to sell into the new financial year place their wool onto the market.



Domestic

The last sale of the season was on the 07th of June 2017. Domestic wool market prices were 2.19% lower to close at R152.18 (clean) at the close of the season. This was the final auction of the 2016/17 wool growing season, and the next sale is scheduled for 16 August 2017.

Bullish factors

- While the final sale of the season saw the Merino indicator softening, prices for most of the season were significantly higher than in 2015/16 and the forecast is for the market to continue to increase over the long term.
- While demand is strong, world Merino production remains low, despite increases in South Africa and Australia's production

Bearish factors

- Preliminary figures show a 5,5% increase in local wool production compared with the 2015/16 season.

Outlook

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.

Analysts forecast that this strong demand will continue as consumers are increasingly seeking natural and environmentally friendly products.

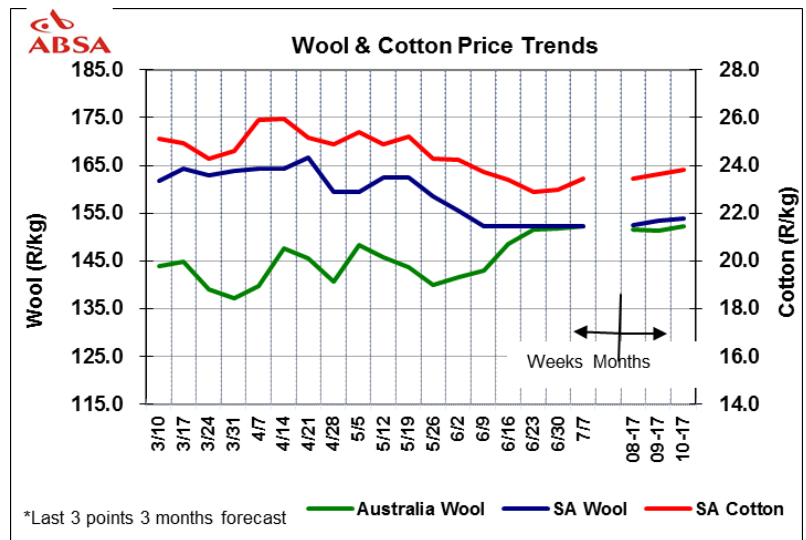
Cotton market trends

International

Cotton prices traded 0.19% higher over the past week and closed at US66.98c/lb.

Bullish factors

- Cotton prices were low despite a further decline in the condition of the US crop. The USDA rated its crop 54% good or excellent, down 3 points week on week, and falling behind year-ago levels.
- World cotton consumption is also forecast higher in the wasde report. Consumption is forecast higher in 2016/17 and 2017/18 when compared to the June forecast.



Bearish factors

- Cotton followed other crops lower.
- Higher production is increasing this month's global cotton stocks forecasts for both 2016/17 and 2017/18.
- The world carrying for 2017/18 is increased 934,000 bales owing in large part to an upward revision of 500,000 bales for India's estimated 2016/17 crop.
- World 2017/18 production is increased 636,000 bales in the wasde report, mainly on increased area expectations for India.

Domestic

The derived SA cotton prices traded 2.01% higher to close at R23.45/kg. The increases in prices were in line with increases in international prices and also supported by the weakening of the South African rand.

Outlook

Internationally, expectations for strong production globally may weigh on market prices. Locally, the exchange rate movement may continue to affect the domestic market prices.

Fibres market trends								
Wool prices	%	SA prices (c/kg)	%	Australian prices (SA c/kg)	%	Australian future Sep 2017 (AU\$/kg)	%	Australian future Dec 2017 (AU\$/kg)
Wool market indicator		15218		15535		-		-
19µ micron		17942		18688	-0.57	17.40	0.60	16.70
21µ micron		14673		15569	2.50	14.35	1.47	13.80
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	2.01	23.45	0.04	1.78	1.4	1.654	0.6	1.53

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