



# Agri Trends

25 May 2018

## Crushing margin increased since January 2018 and to remain high until September 2018

The crushing margin for soybeans increased since January 2018 from R200/ton to R1100/ton. The margin declined since the start of May to R960/ton. Due to the locally increased production of soybeans, local prices remain under pressure. The prices for soybean oil declined marginally over time while the price for soybean oilcake increased significantly since January 2018. The crushing of sunflowerseed is limited by the demand for sunflowerseed oilcake that is about 370 000 tons per year. The demand for oilcake requires the crushing of 860 000 tons of sunflowerseed. Sunflowerseed oilcake has a limited uptake by the animal feeds industry due to the product's high fibre content. South Africa remain a net importer of soybeans. The local poultry industry and large livestock role players need to increase the uptake of local soybean oilcake. Until such a time the local production and prices of soybeans will remain under pressure and capacity under-utilized.

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## Maize market trends

### International

Week-on-week yellow maize No 2 gulf price increased from US\$178.50/ton to US\$180.38/ton. The increase was linked to outlooks for smaller supplies of sorghum due to easing US-China trade issues.

#### Bullish factors (Supporting Prices)

- Abnormal dry and warm condition over parts of the Corn Belt could potentially place crop under pressure.
- Easing trade war tensions between US and China prompted some gains in the maize market due to expected lower supply of sorghum.
- Brazil's second safrinha crop production expected to decline which supported prices.

#### Bearish factors (Suppressing Prices)

- Good rains expected in the major safrinha (2nd crop) states (Mato Grosso and Goias) after prolonged dryness.

### Domestic

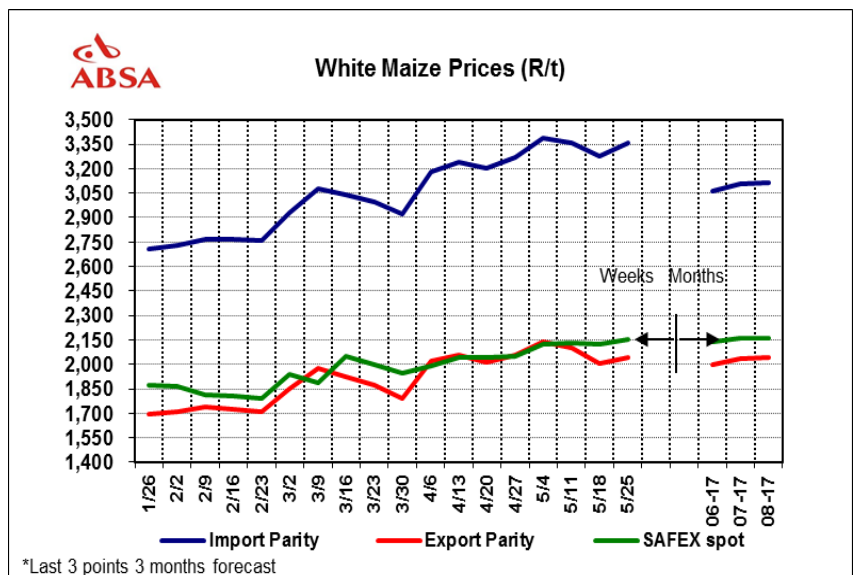
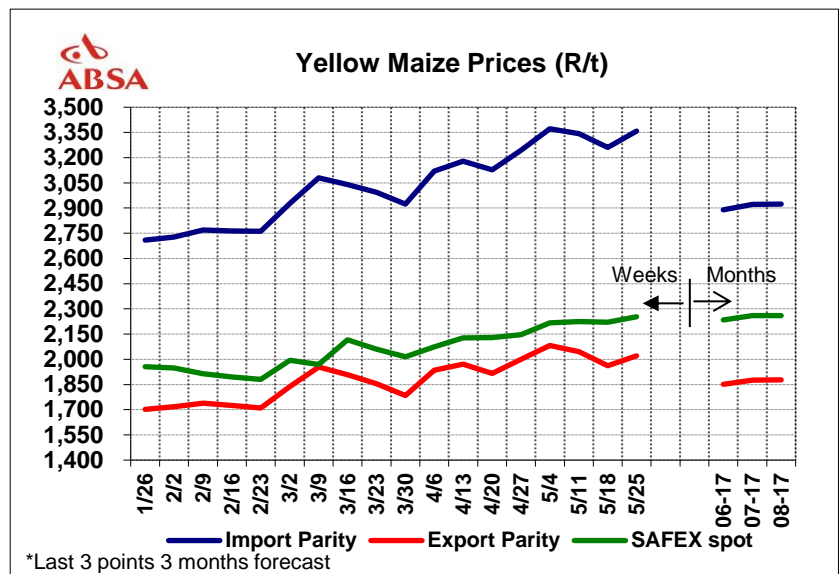
On 24 May, local maize market traded marginally higher week on week. New season white maize prices for delivery in Jul 2018 increased marginally from R2124/ton to R2157/ton. Week-on-week new season yellow maize prices for delivery in Jul 2018 increased marginally from R2222/ton to R2260/ton.

#### Bullish factors (Supporting Prices)

- Old season maize prices in South Africa are at production cost levels
- Relatively weaker Rand week on week.

#### Bearish factors (Suppressing Prices)

- Maize deliveries will increase from mid-May. Storage may pose a challenge for already stocked up silos from the previous season's carry over.
- Weather conditions permitted good harvesting progress without any disturbances. More deliveries anticipated to gain momentum for the following weeks.
- Maize deliveries were 14% higher week on week.



## Outlook

### Local

Prices ended slightly higher week on week, underpinned by higher international prices. Expect prices to trade sideways in the short term due to harvest pressure and build of stocks.

### International

Easing trade war tensions between US and China supported some gains this week. Brazil's second safrinha crop production expected to decline which supported prices.

Yellow Maize Futures: 24 May 2018			Jul-18	Sep-18	Dec-18	Mar-19		
CBOT (\$/t)			159.15	162.59	166.33	169.58		
SAFEX (R/t)			2260	2305	2383	2402		
SAFEX (R/t) <i>Change week on week (w/w)</i>			38	42	44	38		
Jul-18			Sep-18			Dec-18		
Ask	Put	Call	Ask	Put	Call	Ask	Put	Call
2,260	61	61	2,300	90	95	2,380	145	148
2,220	43	83	2,260	71	116	2,340	125	168
2,180	29	109	2,220	55	140	2,300	107	190

Table 2: Week on week white maize futures and estimated option prices

White Maize Futures 24 May 2018			Jul-18	Sep-18	Dec-18	Mar-19		
SAFEX (R/t)			2157	2207	2285	2323		
SAFEX (R/t) <i>Change w/w</i>			33	33	34	40		
Jul-18			Sep-18			Dec-18		
Ask	Put	Call	Ask	Put	Call	Ask	Put	Call
2,160	152	149	2,220	68	55	2,300	128	113
2,120	131	168	2,180	48	75	2,260	107	132
2,080	112	189	2,140	33	100	2,220	88	153

## Wheat market trends

### International

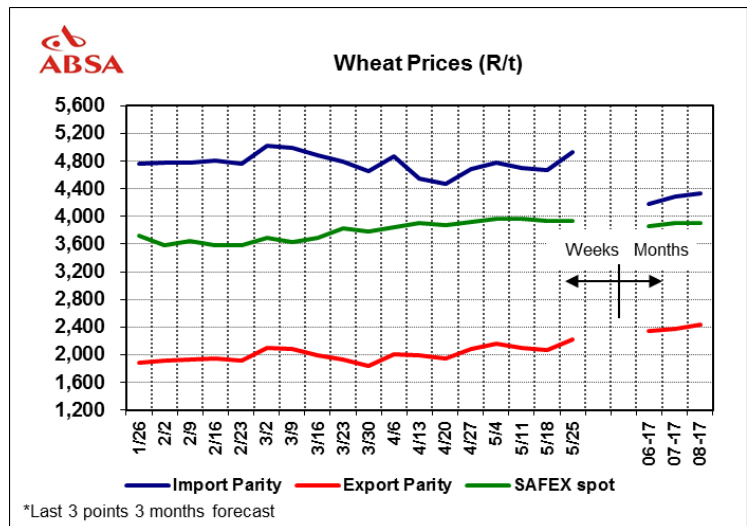
The weekly average old season HRW wheat Gulf price increased marginally from US\$242/ton to US\$254/ton week on week. Weekly average SRW wheat price also increased from US\$218/ton to US\$230/ton week on week. Prices found support from drier than expected weather conditions in the US Southern Plains, and large parts of Australia and Russia.

#### Bullish factors (Supporting Prices)

- Continued dryness woes in several of the major wheat exporters US, Canada, Australia and the Black Sea region supported some price gains during the week.
- Due to the very warm and dry weather, MARS (the EU's crop monitoring body), reduced its wheat production outlook.
- Russian wheat harvest expected to be 126 million tons. Lower than the previous year's harvest due to dry weather conditions over the large producing areas in the country.

#### Bearish factors (Suppressing Prices)

- Price gains were limited by declining US export competitiveness due to stronger US currency.



### Domestic

On 24<sup>th</sup> of May 2018, wheat prices for delivery in Jul2018 increased by (R60/ton) from R3854/ton to R3914/ton, week on week. Domestic prices followed bullish international trends.

#### Bullish factors (Supporting Prices)

- Seed sales in the Swartland area are reported to be about 40% lower year-on-year, which could potentially indicate to smaller area planted under wheat. More land has is reported to be used for feed crops.
- Input costs are below break-even cost levels to be profitable. Lack of sufficient cash flow may limit the planting of wheat.
- A stronger new wheat tariff was published today (25 May 2018) of R437.20/ton from the lower R293.80/ton which was published on 21 May 2015.

#### Bearish factors (Suppressing Prices)

- Prices will follow international trends. Ample global supplies will limit price gains.

### Outlook

#### Local

Expect prices of new season wheat to trade sideways. Global glut may put pressure on international prices throughout the year. Profitability remains a concern for dryland producers in the Western Cape.

## International

Any price movements were linked to weather affecting the 2018/19 crops. US export prices traded higher this week, on the back off drier than expected weather conditions in the US Southern Plains, and large parts of Australia and Russia.

Wheat Futures 24 May 2018	May-18	Jul-18	Sep-18	Dec-18
CME (\$/t)	200.99	208.15	214.31	217.43
SAFEX (R/t)	3914	3908	3904	3850
SAFEX (R/t) Change w/w	60	-9	4	0

Jul-18			Sep-18			Dec-18		
Ask	Put	Call	Ask	Put	Call	Ask	Put	Call
3,960	78	80	3,940	105	105	3,900	124	129
3,920	38	40	3,900	65	65	3,860	84	89
3,880	0	0	3,860	25	25	3,820	44	99

## Oilseeds market trends

### International

The weekly average USA soybean price increased week-on-week from US\$386.63/ton to US\$402.06/ton. US soya oil prices marginally increased from US\$30.95c/lb to US\$31.59c/lb and soymeal prices traded higher from US\$378.65/ton to US\$380.02/ton.

#### Bullish factors

##### Soybean:

- China will have to import some soybeans from the US due to insufficient supplies from South America.
- Soybean crushing margins have increased significantly. Support stemming from increasing soymeal prices (due to export shortfalls in Argentina).

##### Sunmeal:

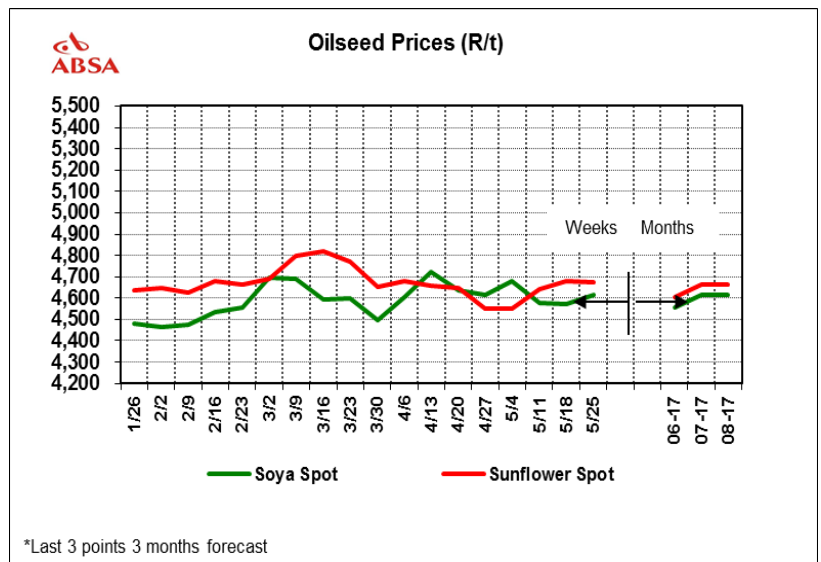
- China is one of the large buyers of Ukraine sunflower meal, thus contributing to the price firmness of the sunflower meal in the Ukraine and Western Europe since April.

##### Soymeal:

- The multi-month drastic drought in Argentina has brought soymeal prices to the ceiling, soaring at 2016 high prices.
- Demand for soy meal consumption in China is still growing, primarily for the poultry and aquaculture industries.

##### Sunflower oil:

- Global production of soya oil increased by more than 4% y/y, with production prospects in US, Brazil, China and other countries more than offsetting the 12% decline of Argentinian soy oil outputs.



### Bearish factors

##### Soybeans:

- Rising expectations for a bumper crop in Brazil. Brazil crop will likely offset the crop losses in Argentina.
- The financial crisis and the weak currency in Argentina has led to reserved farmer selling.

##### Sunflower seed:

- Brisk planting progress and recommencement of rainfall in the CIS countries has painted a positive start to the sunflowerseed crop production. Ukraine producers are already made huge progress; their crop may still be revised higher.

##### Sunmeal:

- World production of soymeal expected to decline by 0.1 million ton to 19.8 million ton. This production is still way above the average production, supported firmly by record soymeal production in the EU-28, Argentina and Turkey.

##### Sunflower oil:

- Global production of sunflower oil is set to decline by 2-3%, but that setback will be offset by record production in EU-28, Turkey and recovering production in Argentina. Due to large global carry-over stocks, world supply is ample and pegged at 20.9 million ton.

## Domestic

New season soybean prices (Jul2018) marginally increased week on week by R49/ton from R4566/ton to R4615/ton. New season sunflower seed prices (Jul2018) marginally increased week on week from R4654/ton to R4662/ton.

### Bullish factors

#### Soybeans

- The increase in global soybean and oil cake prices provides underlying supporting for the domestic oilseed crushing industry, therefore increasing demand for domestic oilcake production.

#### Sunflower seed

- The uptick of demand in the sunflower seed oilcake depends on the growth of the livestock industries, primarily the dairy and beef feedlot enterprises. The growth and higher prices in the beef industries supports prices.

### Bearish factors

#### Soybeans

- Good weather conditions permitting good strides in the harvesting progress.
- Expect a big old season harvest. Producers need to price now and harvest pressure may add to price pressure.

#### Sunflower seed

- Tight crushing margin for sunflower seed allows for less sunflower seed to be crushed
- Harvest pressure on a big sunflower seed crop may add to price pressure.

## Outlook

### Local

Soybean prices to trade sideways. Expect price support due to profitable crushing margins

### International

The impact of the Argentinian drought is most severe in the soy meal because Argentina is the world's largest exporter, meal prices expected to remain high. The 2018/19 US soybean outlook shows higher crushing, more exports and lower ending stocks. Erratic weather will remain a risk factor to take cognisance of in the next 3 months.

Oilseeds Futures 24 May 2018	Jul-18	Sep-18	Dec-18	Mar-19
CBOT Soybeans (US\$/t)**	380.57	383.15	386.08	380.11
CBOT Soy oil (US c/lb)	31.71	34.82	32.50	33.07
CBOT Soy meal (US c/lb)	414.62	414.62	413.08	395.49
SAFEX Soybean seed (R/t)	4615	4715	4825	4890
SAFEX Soybean seed (R/t) change w/w	49	44	31	32
SAFEX Sunflower seed (R/t)	4662	4800	4905	4900
SAFEX Sunflower seed (R/t) change w/w	8	6	3	0

Jul-18			Sep-18			Dec-18		
Ask	Put	Call	Ask	Put	Call	Ask	Put	Call
4,700	95.45	98.45	4,840	121.53	124.53	4,940	146.80	145.80
4,660	55.45	58.45	4,800	81.53	84.53	4,900	106.80	105.80
4,620	15.45	18.45	4,760	41.53	44.53	4,860	66.80	65.80

\*Short ton

\*\* Dec 2018 = Jan 2019



## Beef market trends

### International

New Zealand steers traded sideways over the past week at 5.33NZ\$/kg and cows traded sideways at 3.96NZ\$/kg compared to a week ago. In the US, beef prices for the week were mixed as follows: Topside traded 0.07% lower at \$239.05/cwt. Rump was 0.03% lower at \$365.88/cwt and strip loin was 2.97% higher at \$849.29/cwt. Chuck traded 0.53% higher at \$224.88/cwt. Brisket traded 1.06% lower at \$249.93/cwt. The carcass equivalent price was 1.23% higher at \$362.85cwt.

#### Bullish factors

- Strong US domestic demand for beef is adding support to prices during a time of plentiful supplies.
- The US market is coming into its peak demand period.
- Demand from export markets is equally as strong as that in the US domestic market. This is playing an important role in holding the market up.
- US beef exports for the first quarter of the year were 12% higher than a year ago. Exports accounted for over 11% of US beef production in that period; absorbing close to half of the total increase in US beef production.

#### Bearish factors

- Increased US beef export volumes are softening demand for New Zealand beef in Japan and South Korea.
- Any significant weakening in US export demand may weigh on market prices.
- The recent strength in the US dollar against other global currencies could weigh on US beef export markets, where a strong dollar can make imports more expensive.

### Domestic

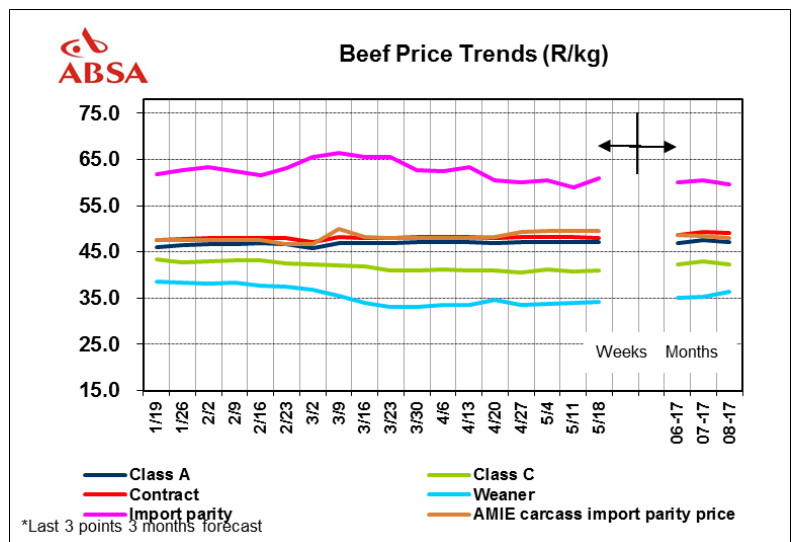
Week on week, beef prices were mixed across the different classes. The average Class A price was 0.31% lower this week at R47.07/kg. Class C prices were 0.31% higher at R40.93/kg. The average weaner calf prices over the past week increased by 0.8% to R34.24/kg. The average hide price this week recovered from last week's declines. The recent weakness in the South African rand may have added support to this market. The average hide prices traded 0.9% higher w/w at R7.78/kg green. Overall, the hide market sentiment remains bearish, in line with the international weak hide market. NB\* Hide prices are determined by the average of the RMAA (Red Meat Abattoir Association) and independent companies.

#### Bullish factors

- Improved demand during month end associated with increased month end spending.
- Demand for C grades normally improves during this time.
- Decline in available supplies after the weaner calf season may add a bullish tone to prices.

#### Bearish factors

- The deterioration in grazing conditions going into winter
- Seasonally, we are moving into a colder winter period which is not supportive of outdoor grilling. This may weigh on demand prospects for beef, lamb and mutton.
- Normally, the increased supply for weaner calves during the weaner season from March until May weigh on weaner calf prices. This will improve the price margin for feedlots.
- Lower pork prices may weigh on the beef market.



## **Outlook**

Internationally, the US market is coming into its peak demand period, which may add support to prices.

Locally, the lower feed price together with the lack of weaner calfs to rebuild the national herd in the medium term may result in carcass prices to remain elevated for a long time period to come. In the short term, we are moving seasonally into a colder winter period which is not supportive of outdoor grilling, but supportive to stewing cuts.

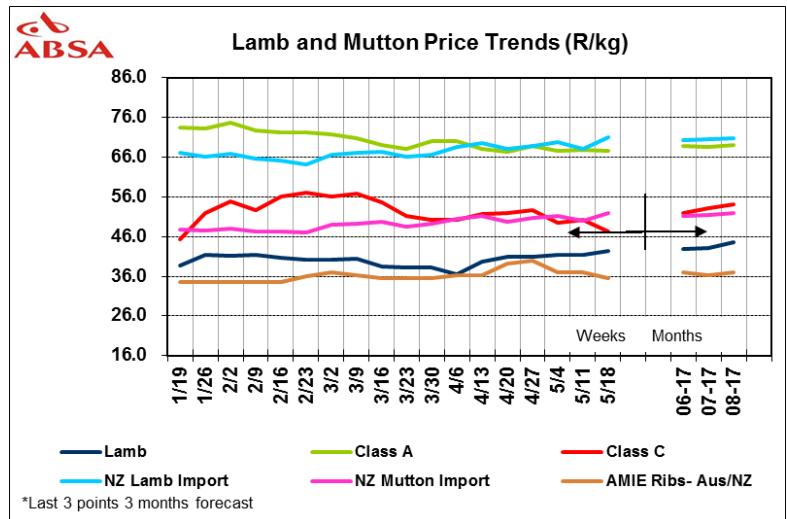
## Sheep meat market trends

### International

New Zealand lamb prices traded higher this week compared to last week. Lamb prices closed 0.7% higher at NZ\$109.9/head for 15kg lamb. Lamb prices were 0.7% higher at NZ\$153.8/head for 21kg lamb. Ewe prices traded 1.0% higher at NZ\$105/head for a 21kg ewe. The import parity price for lamb was 4.1% higher at R70.97/kg, while the import parity price for mutton was 4.1% higher at R51.94/kg.

#### Bullish factors

- New Zealand's April lamb exports increased by 10% month on month, and 6% year on year.
- Agri HQ has reported that China continues to take a growing share of New Zealand's production, with the growth in this market offsetting the lower volumes exported to the Middle East so far this season.
- Shipments to the US continue to be a solid performer, accounting for 10% of New Zealand export volumes.
- Mutton exports season to date are tracking 13% above the same period last year, driven by record high demand for sheepmeat especially from China.



#### Bearish factors

- Supply for the remainder of the season in the South Island of New Zealand is expected to be significantly higher compared to historical trends following a very slow autumn.

### Domestic

This week, lamb and mutton prices were mostly lower this week when compared to the previous week. Lamb and mutton prices were as follows: The national average Class A carcass lamb prices decreased by 0.5% to R67.50/kg and the average Class C carcass prices decreased by 5.7% to R47.28/kg. The average price for feeder lambs traded 2.2% higher at R42.43/kg. The average price for dorper skin is 2.9% higher at R31.38/skin and merinos were 4.7% higher at R86.06/skin.

#### Bullish factors

- Demand for C grades normally improves during this time.
- Improved demand during month end may support prices.

#### Bearish factors

- Seasonally, we are moving into a colder winter period which is not supportive of outdoor grilling. This may weigh on demand prospects for beef, lamb and mutton, but stewing cuts tend to benefit during this time.
- The deterioration in grazing conditions going into winter

### Outlook

Internationally, market conditions continue to support prices, due to tight global supplies.

Locally, lamb and mutton prices may benefit from improved spending during month end.

## Pork market trends

### International

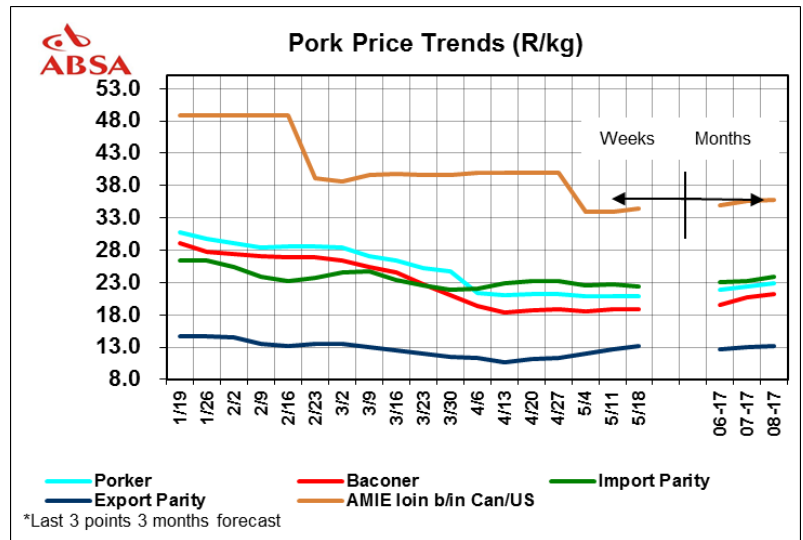
The average weekly US pork prices were mostly higher over the past week. Carcass prices were 2.9% higher at US\$73.48/cwt, loin prices were 0.5% lower at US\$74.42/cwt, rib prices were 6.7% higher at US\$148.36/cwt and ham was 2.9% lower at US\$48.66/cwt.

#### Bullish factors

- Barbeque season is expected to boost demand for pork in the US.

#### Bearish factors

- It was announced on Monday that both the US and China have agreed to suspend tariffs (US-China trade war), However, it wasn't clear what tariffs would be suspended and when.
- Plentiful supplies of pork and hogs in the US.
- Abundance of pork in China.
- The recent strength in the dollar against other global currencies could weigh on US pork in export markets, where a strong dollar can make imports more expensive.



### Domestic

Average pork prices have shown a declining trend over the past months. Average pork prices have declined by between 30% and 40% during the second week of April 2018, compared to the second week of January 2018. In recent weeks, pork prices started to show signs of recovery.

This week, pork prices were mostly higher. The latest average pork prices are as follows: The average porker prices are 0,1% higher at R20.92/kg, while the average baconer prices are 0.4% higher at R18.94/kg. The average cutters prices were 2.1% higher at R20.10/kg and the average heavy baconer price was 0.1% higher at R18.55. The SAU price was sideways at R14.30/kg.

#### Bullish factors

- Improved demand during month end associated with increased uptake during the end of the month may support prices.
- Sappo has indicated that most retail groups have reported increase in demand for fresh pork.
- Marketing and promotion campaigns by the pork industry drive increased pork sales.
- The current low prices of pork may increase consumer uptake of fresh pork cuts.

#### Bearish factors

- Plentiful pork volumes in the market.

### Outlook

Internationally, pork prices in the US may continue to benefit from increased demand during the barbeque season. Locally, lower product prices are expected to boost sales, and therefore add support to pork prices. Improved demand during month end may add further support to prices.

## Poultry market trends

### International

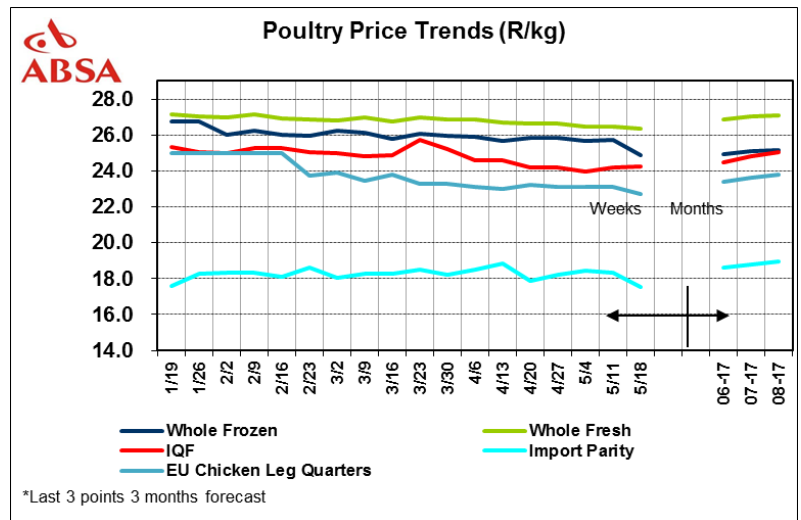
Poultry prices in the US were mixed over the past week. Whole bird prices were 1.3% higher at 117.97USc/lb. Breast traded 7.4% lower at 106.00USc/lb, while leg quarters traded 8.2% lower at 33.50USc/lb.

#### Bullish factors

- US broiler exports are expected higher in 2019 on the back of expected continued increases in foreign demand.

#### Bearish factors

- Plentiful global supplies and competition from expanding red meat supplies may weigh on poultry prices.



### Domestic

The average poultry prices over the past week were mostly lower. The average prices for frozen birds were 3.3% lower at R24.85/kg during the week. Whole fresh medium bird prices were 0.5% lower at R26.35/kg, while IQF prices were 0.4% higher at R24.27kg.

#### Bullish factors

- The possibilities of new occurrences of bird flu during winter continue to be a risk factor in the broiler industry.
- Improved demand during month end may support prices.

#### Bearish factors

- Lower pork prices may weigh on the poultry market.
- Favourable feed price environment contribute positively to feeding margins.

### Outlook

Internationally, increasing broiler supplies and competition from expanding red meat supplies may weigh on poultry prices.

Locally, prices may gain support from increased spending during month end.

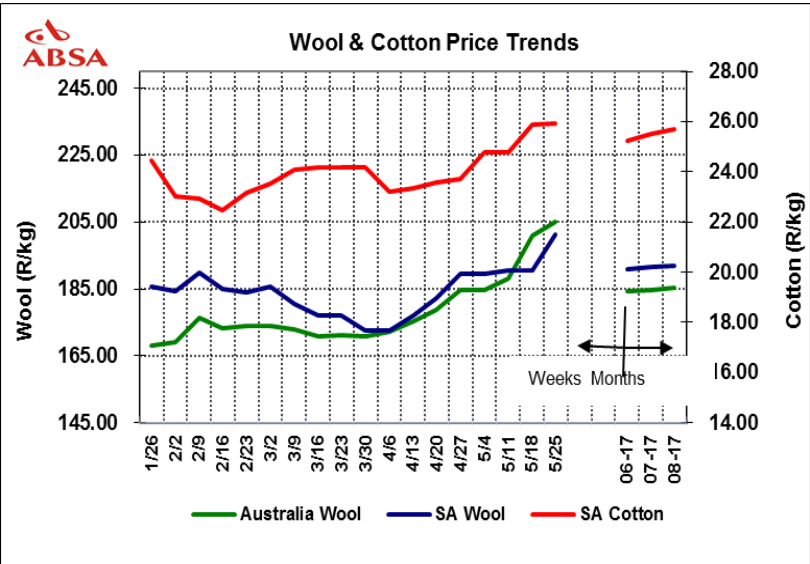
## Wool market trends

### International

The Australian wool market traded higher week on week. Prices traded at Au1983 c/kg up by 2.1%.

#### Bullish factors (Supporting Prices)

- Global supply of wool is unlikely to increase in the short term. Unfavourable seasonal conditions are largely supporting the continuous lower production.
- The declining wool supply in the major growing countries, and growing demand is supporting prices.
- Despite the market pushing higher, only about 32 000 bales were rostered for sale next week, supply is tight.



#### Bearish factors (Suppressing Prices)

Livestock prices (R/kg) week 24 May 2018	Beef			Mutton			Pork			Poultry		
	%	Cur-rent week	Prior week	%	Cur-rent week	Prior week	%	Cur-rent week	Prior week	%	Cur-rent week	Prior week
Class A/ Porker/ Fresh birds	-0.31	47.07	47.22	-0.5	67.50	67.86	0.1	20.92	20.90	-0.5	26.35	26.49
Class C/ Baconer/ Frozen birds	0.31	40.93	40.81	-5.7	47.28	50.15	0.4	18.94	18.86	-3.3	24.85	25.70
Contract/Baconer/ IQF	-0.41	48.03	48.23	-1.1	67.71	68.45	0.2	19.93	19.88	0.4	24.27	24.16
Import parity price	3.39	60.88	58.88	4.1	51.94	49.88	2.3	30.6	29.9	-4.4	17.5	18.3
Weaner calves/ Feeder lambs	0.8	34.24	33.96	2.2	42.43	41.50	-	-	-	-	-	-
Specific imports: Beef trimmings 80vl/b/ Mutton shoulders/Loin b/in/ chicken leg 1/4	0	49.50	49.50	2.3	60.88	59.50	1.5	34.50	34.00	-1.7	22.71	23.10

- Global demand for broader crossbred wool dropped significantly.

## **Domestic**

Domestic wool market prices traded 5.59% higher at R201.36/kg (clean) at the sale. Prices remain high due to lower supply and strong demand. The next sale will be on 30 May 2018.

### Bullish factors (Supporting Prices)

- Excellent demand for quality long and fine wool at the recent auction.
- Great demand for greasy wool currently.
- Availability of wool is at a low for the season.
- Some of the factors underpinning prices in South Africa include Predation and changing politics.

### Bearish factors (Suppressing Factors)

- Analysts do caution that some degree of a downward correction is to be expected.

## **Outlook**

Internationally, the broader merino market continues to grow amid insatiable demand. Producers are receiving unprecedented prices R218.10/kg (greasy) for quality long and fine wool.

Locally, lower supply, strong demand for South African wool, coupled with lower seasonal delivering are all adding a bullish tone to the wool market. Competition was good between buyers. The price difference between the 19 and 22 micron is much closer now. The next sale will be on 30 May 2018.

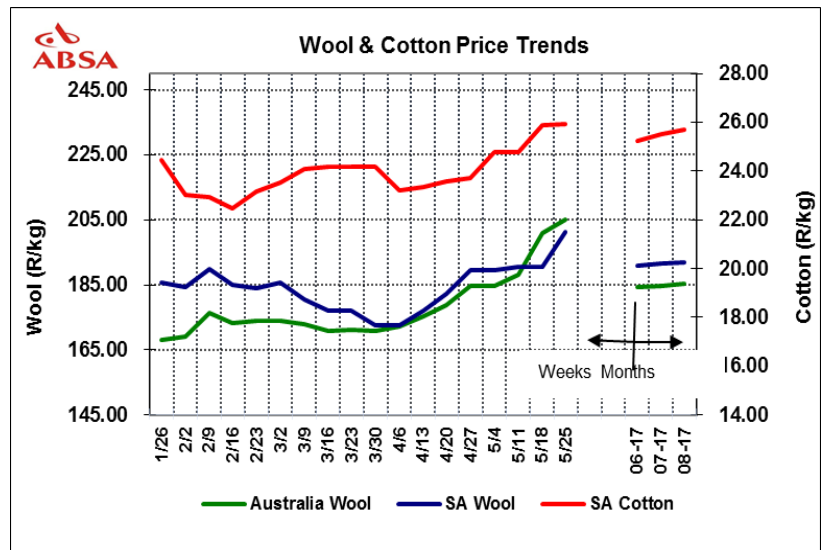
## Cotton market trends

### International

Cotton prices traded 1.64% lower over the past week and closed at US80.19c/lb from US81.53c/lb.

#### Bullish factors (Supporting Prices)

- The USDA cut its domestic and global cotton production forecast.
- China's largest cotton growing region endured unpleasant cold weather. Chinese prices soared due to potential crop damage concerns.
- Rains in the Southern Plains during the week, was not enough to offset the drought stressed cotton crops. Texas production expected to decline.
- High and lower quality cotton is already short on supply globally.
- Higher exports to China may keep prices up.



#### Bearish factors (Suppressing Prices)

- Higher prices expected to impact planting decisions to expand area under cotton for the 2018/19 season.
- Canadian cotton area planted expected to pick up. Planting progress currently at the same rate as last years.

### Domestic

The derived SA cotton prices traded 1.9 % lower to close at R25.42/kg.

### Outlook

Internationally, cotton prices are trading positively and higher for this season. Underpinned by firm prices in the international markets, brisk and higher exports in addition also lower production estimates due to weather uncertainties in the major growing regions.

Locally, the world market and exchange rate movement may continue to affect the domestic market prices.



Fibres market trends  
Week ended 25 May 2018

Wool prices	%	SA prices (c/kg)	%	Australian prices (SA c/kg)	%	Australian future May 2018 (AU\$/kg)	%	Australian future Jul 2018 (AU\$/kg)
Wool market indicator	5.59	20136	1.63	18680		-		-
19µ micron	5.09	21379	2.52	2269	0.00	21.30	0.00	20.70
21µ micron	9.03	20629	2.55	2183	2.99	20.70	2.33	19.80
Cotton prices 18 May 2018		SA derived cotton (R/kg)		New York A Index (US\$/kg)		New York future May 2018 (US\$/kg)		New York future Jul 2018 (US\$/kg)
Cotton prices	0.08	25.42	-1.88	2.04	-1.96	1.87	0.6	1.86

**Disclaimer:** Although everything has been done to ensure the accuracy of the information, Absa Bank takes no responsibility for actions or losses that might occur due to the use of this information.