



Agri Trends

10 August 2018

Record wool and high lamb and mutton prices are giving support to the sheep industry

Internationally, the sheep industry shows a very optimistic view on the year ahead, with record wool and high lamb and mutton prices giving support to this industry, and providing the incentive to feed sheep. Strong export markets are expected to keep prices supported. Income growth and increased meat consumption in China is contributing to strong global demand for sheep meat.

On the local front, the sheep industry is also characterized by great returns in terms of good meat prices and record wool prices. Red meat prices are enjoying support mainly from tight supplies. In addition to the herd rebuilding process that is currently underway, production is being weighed on by among other things, stock theft, predation, and the expansion of mining in the Mpumalanga area leading to shrinking production areas. It is recommended that producers reduce their debt levels over the next two to three years when prices are still high and favourable in order to remain in business in the long term. For the consumer, prepare to dig deep for that piece of lamb chop.

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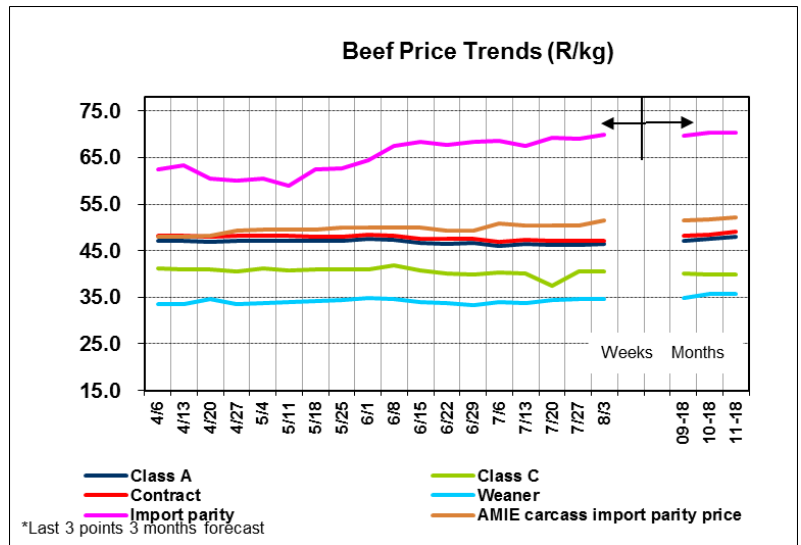
Beef market trends

International

New Zealand steers traded sideways over the past week at 5.44NZ\$/kg and cows traded 0.90% higher at 4.47NZ\$/kg compared to a week ago. In the US, beef prices for the week were mostly lower as follows: Topside traded 0.03% lower at \$207.69/cwt. Rump was 5.33% lower at \$324.75/cwt and strip loin was 10.05% lower at \$519.22/cwt. Chuck traded 1.99% lower at \$212.27/cwt. Brisket traded 2.48% lower at \$229.97/cwt. The carcass equivalent price was 4.24% lower at \$282.11/cwt.

Bullish factors

- June data showed US beef and veal exports were 16% above a year ago. This is the fifth month in 2018 to show double-digit growth.
- The approaching Labor Day holiday in the coming weeks may strengthen demand.
- A weak Australian dollar has been supporting the Australian beef export market, with exports expected to continue to hold.



Bearish factors

- For cattle producers in Australia, persistent drought has had an impact in driving increased slaughterings, particularly female animals. Worries over future fodder supplies saw an 11% (300,000 head) increase in overall slaughterings in the first five months of the year.
- Competition between red meat and poultry is weighing on the meat market.
- The US has seen increases in cattle slaughter resulting from more cows coming to market.

Domestic

Week on week, beef prices were mostly higher across the different classes. The average Class A price was 0.32% higher this week at R46.45/kg. Class C prices were 0.33% higher at R40.63/kg. The average weaner calf prices over the past week decreased by 0.3% to R34.55/kg. The average hide price this week decreased when compared to the previous week. The average hide prices traded 7.2% lower w/w at R5.32/kg green. Overall, the hide market sentiment remains bearish, in line with the weak international hide market. NB* Hide prices are determined by the average of the RMAA (Red Meat Abattoir Association) and independent companies.

Bullish factors

- During June 2018, 190 454 head of cattle were slaughtered. This is 13% fewer head of cattle slaughtered month on month, and 14% less cattle slaughtered compared to the same time a year ago. Slaughter numbers continue to remain under pressure, due to the herd rebuilding process that is underway.
- Beef prices may be supported by better demand that comes with the approaching warmer conditions. There is a possible improvement in demand as warmer temperatures approaches.
- Beef prices are currently high on the domestic market.

Bearish factors

- At the end of June 2018 forecasts indicated a more than 50% probability for the occurrence of an El Nino-event, starting in the winter to spring of 2018 and will most probably last until autumn of 2019. If the event materializes, then there is an increased probability for spring and early summer rainfall over the Summer Rainfall Areas. There is however a very significant increase in the probability for below average rainfall and above average temperatures for the November 2018 to February 2019 period. Favourable rainfall is required to maintain good pasture grazing. The lack of sufficient grazing lead to producers offloading their herds in the short term.
- Cheaper alternative proteins are readily available and add a bearish tone to prices. Consumers are under pressure and some may not be willing to pay more for beef. This may result in a switch to other products.

- Lower pork prices may continue to weigh on the beef market.

Outlook

Internationally, record levels of beef, pork and chicken coming to market are weighing on the meat market.

Locally, beef prices are expected to recover in the next few weeks due to better demand as warmer temperatures are approaching.

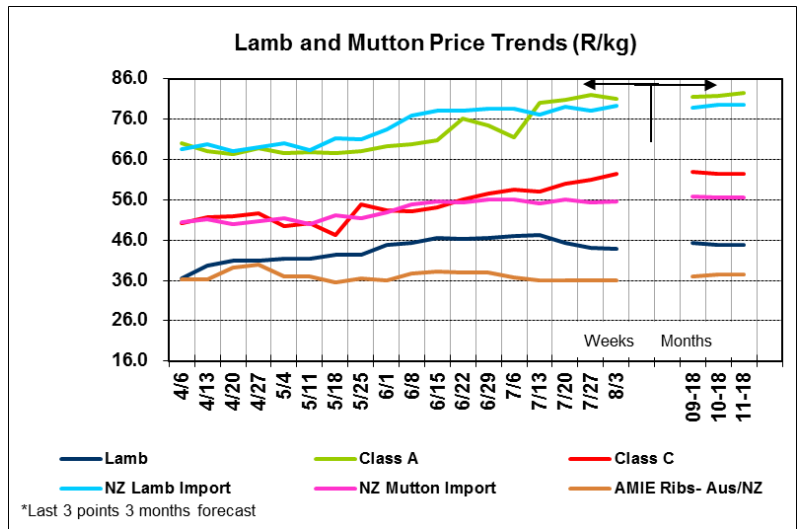
Sheep meat market trends

International

New Zealand lamb and mutton prices traded higher this week compared to last week. Lamb prices were 1.3% higher at NZ\$8.10/kg. Ewe prices traded sideways at NZ\$5.28/kg. The import parity price for lamb was 1.6% higher at R79.39/kg, while the import parity price for mutton was 0.4% higher at R55.55/kg.

Bullish factors

- New Zealand and Australian lamb prices have continued to increase, with the New Zealand price having increased for 14 consecutive weeks to the end of July.
- The key drivers for strong New Zealand prices have been increasing demand from China, combined with lower exchange rates.
- Globally, strong prices are paid for lamb on the back of strong demand. Prices are strong across key markets, reflecting generally healthy global economic growth and demand.



Bearish factors

- New Zealand farmers are responding to the record prices by keeping more younger ewes, helped by good grass growth to feed them. Strong prices are expected to provide an incentive to feed sheep.
- Even though prices are expected to remain strong, however, escalating trade tensions between the US and China poses a risk to the global economy and could reduce demand for lamb.
- The high sheep meat prices could discourage consumers from buying lamb and mutton.

Domestic

This week, lamb and mutton prices were mixed this week when compared to the previous week, on average, prices remain at high levels. Lamb and mutton prices were as follows: The national average Class A carcass lamb prices decreased by 1.3% to R80.94/kg and the average Class C carcass prices increased by 2.1% to R62.35/kg. The average price for feeder lambs traded 0.6% lower at R43.89/kg. The average price for dorper skin is 6.1% lower at R34.44/skin and merinos were 2.3% lower at R87.10/skin.

Bullish factors

- Slaughter numbers continue to remain under pressure, due to the herd rebuilding process that is underway. During June 2018, 308 685 head of sheep were slaughtered. This is 8% fewer head of sheep slaughtered month on month, and 19% less sheep slaughtered compared to the same time a year ago.
- Red meat prices are relatively strong, price increased over the past weeks mainly due to tight supplies as livestock farmers hold on to stock and avoid slaughtering, in the hope that pasture conditions will improve should seasonal rains materialise sooner.
- Due to stock theft and the expansion of mining in Mpumalanga, mutton production is limited and the main production areas shifted to the Overberg region.

Bearish factors

- Lamb and mutton remains the most expensive meat in the market. Consumer resistance to high lamb and mutton remains a risk.

Outlook

Internationally, strong international demand for lamb and mutton continue to support prices.

Locally, the industry is expected to continue to benefit from high meat and wool prices. From revenue perspective, wool benefit from high international wool prices and strong export demand. The local low herd numbers for sheep limit supply and support meat prices.

Pork market trends

International

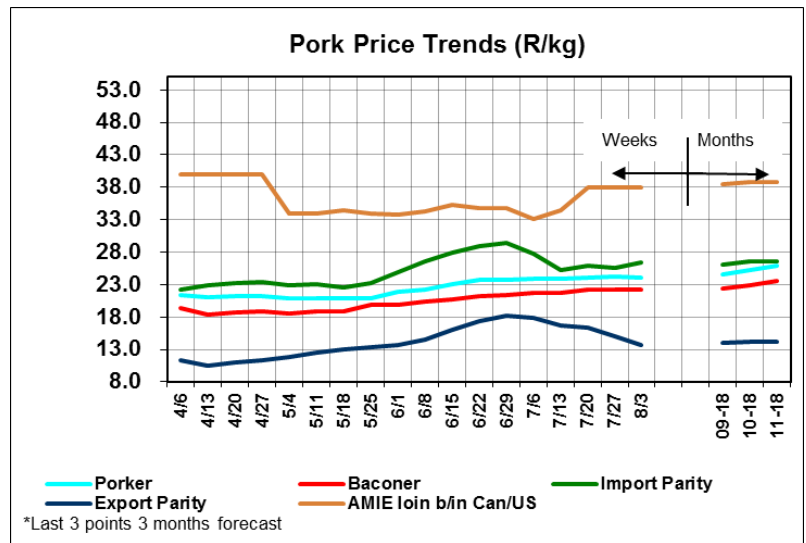
The average weekly US pork prices were mixed over the past week. Carcass prices were 5.8% lower at US\$72.62/cwt, loin prices were 0.8% lower at US\$74.84/cwt, rib prices were 2.2% higher at US\$119.19/cwt and ham was 5.9% higher at US\$55.98/cwt.

Bullish factors

- China has culled 1,000 pigs after confirmations of a case of African Swine Fever in northeast China.
- As pork prices continue to weaken in the US, buying interest could be supported.

Bearish factors

- Record levels of beef, pork and chicken coming to market are adding pressure to the meat market.
- Increasing meat production and tariffs levied by major importing countries weigh on the US market. Tariffs on US-produced meat, meanwhile, threaten to erode demand. Duties implemented by Mexico and China have forced meat companies to lower prices to prevent products from piling up. These countries are the two major markets for US pork. Significant headwinds remain ahead for US pork exports in the second half of the year.



Domestic

This week, pork prices lost some ground, and traded mostly lower across the different categories. The latest average pork prices are as follows: The average porker prices are 0,9% lower at R24.07/kg, while the average baconer prices are 0.1% lower at R22.25/kg. The average cutters prices were 0.3% higher at R22.7/kg and the average heavy baconer price was 2.8% higher at R21.00. The SAU price was 12.6% lower at R14.3/kg.

Bullish factors

- The Listeriosis outbreak has passed, but consumer confidence is still recovering at a slow pace. The current low prices of pork may increase consumer uptake of pork products
- The pork industry may benefit from the underlying support from the higher red meat prices.

Bearish factors

- The industry suffered losses due to the Listeriosis outbreak in the ready to eat meat market, which saw prices decline. There are plentiful supplies of pork in the market, which needs to clear before seeing the strong pork prices. The lower product prices are expected to continue to support sales, and therefore add support to pork prices.

Outlook

Internationally, record levels of beef, pork and chicken coming to market and trade concerns are weighing on the market.

Locally, consumer confidence is still recovering, and pork prices are expected to benefit from improved uptake for pork in the market. This industry may benefit from the underlying support from the higher red meat prices

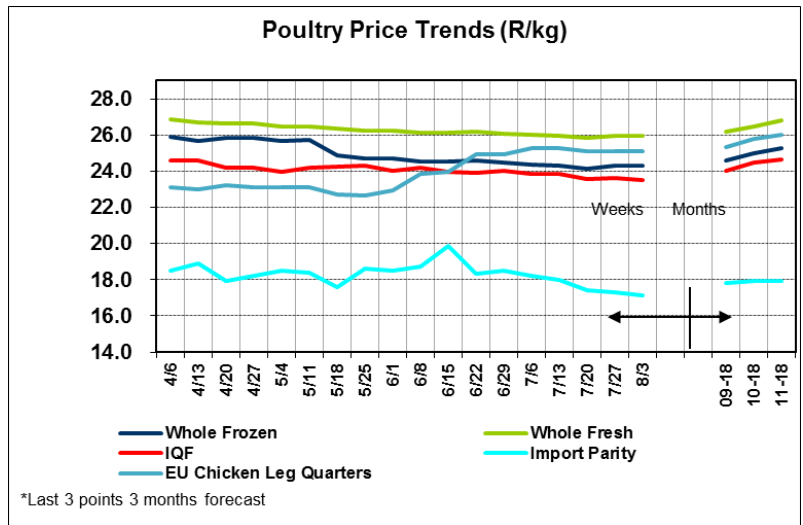
Poultry market trends

International

Poultry prices in the US were mostly lower over the past week. Whole bird prices were 8.1% lower at 95.90USc/lb. Breast traded 4.9% lower at 98.00USc/lb, while leg quarters traded 1.7% lower at 29.50USc/lb. Record levels of beef, pork and chicken coming to market are weighing on the poultry market prices.

Bullish factors

- Escalating feed costs due to the drought affecting much of Europe has prompted German egg producers to call on supermarkets for price increases.
- Statistics released by the US Department of Agriculture (USDA) predict growth of 2% in the broiler sector and 1.7% in the egg sector. USDA says the major reason for the increases in the 2 commodities are increased domestic consumption, growth in the broiler export market and an increase in stock and use of table eggs.



Bearish factors

- Record levels of beef, pork and chicken coming to market are weighing on the market.
- Low-priced beef and pork are competing with chicken.

Domestic

The average poultry prices over the past week were mostly sideways. The average prices for frozen birds were 0.1% higher at R24.30/kg during the week. Whole fresh medium bird prices were 0.04% higher at R25.94/kg, while IQF prices were 0.6% lower at R23.51kg.

Bullish factors

- White meat remains the cheaper protein in the market, which may aid consumption for this product.
- Improved demand towards the festive season may benefit demand and prices.

Bearish factors

- The poultry industry remains under pressure due to indications of availability of large stocks in the market coupled with slow consumer uptake. The consumer's buying power is being eroded by high costs such as increases in fuel, vat etc, which further adds a bearish tone to the market.
- Lower pork prices may weigh on the poultry market.

Outlook

Internationally, the higher combined inventory of beef, pork, chicken and turkey may add a bearish tone to the protein market.

Locally, prices remain subdued due to higher supplies in the market, but are expected to start improving due to better demand and in line with seasonality. Improved demand towards the festive season may benefit demand and prices.

Livestock prices (R/kg) week 9 August 2018	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	0.32	46.45	46.30	-1.3	80.94	82.01	-0.9	24.07	24.30	0.04	25.94	25.93
Class C/ Baconer/ Frozen birds	0.33	40.63	40.50	2.1	62.35	61.06	-0.1	22.25	22.27	0.1	24.30	24.29
Contract/Baconer/ IQF	0.29	47.16	47.03	-1.5	81.72	82.99	-0.5	23.16	23.28	-0.6	23.51	23.65
Import parity price	1.36	69.95	69.01	0.4	55.55	55.31	-4.7	32.75	34.1	-1.0	17.1	17.3
Weaner calves/ Feeder lambs	-0.3	34.55	34.65	-0.6	43.89	44.17	-	-	-	-	-	-
Specific imports: Beef trimmings 80vl/b/ Mutton shoulders/Loin b/in/ chicken leg 1/4	1.98	51.40	50.40	0	63.65	63.65	0	38.00	38.00	0	25.10	25.10

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