



Agri Trends

27 July 2018

Beef prices are at high levels, which add a bearish tone on consumption prospects.

Consumption of beef has remained stagnant and only showed modest gains over the past 4 to 5 years. Higher prices are paid to beef in relation to other meat proteins. In general, people tend to increase meat consumption when they have more disposable income. As it stands, the South African economy is growing only modestly, and consumers remain under pressure. Last week, the reserve bank lowered South Africa's growth rate for 2018. The bank indicated that GDP is expected to expand 1.2% in 2018, lower than the previous estimate of 1.7%. Increased costs such as higher energy prices and increased VAT are expected to place additional pressure on consumer's disposable income. Beef prices are at high levels due to the herd rebuilding process that is currently underway. Beef is also expected to face increased competition from lower proteins poultry and pork mainly as poor economic outlook and increasing costs encourage consumers to turn to cheaper proteins.

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Contact us at Absa AgriBusiness:

Karabo.Takadi@absa.co.za

Wessel.Lemmer@absa.co.za

Conce.Moraba@absa.co.za

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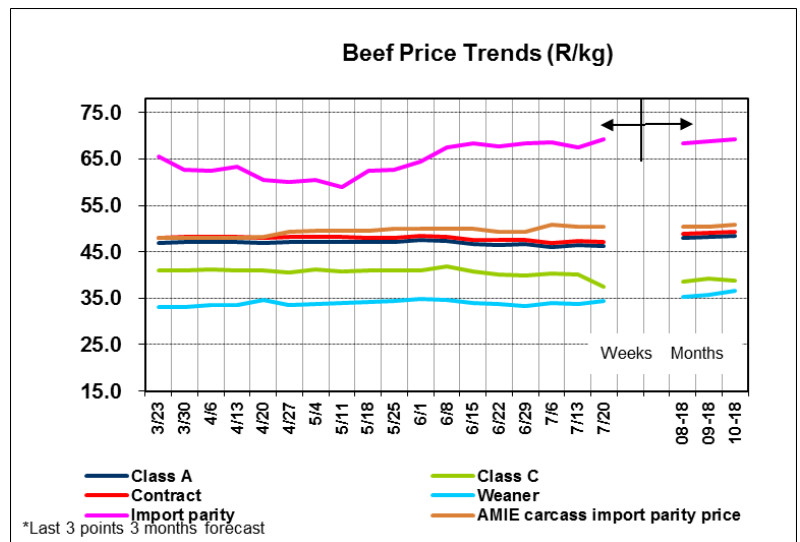
Beef market trends

International

New Zealand steers traded sideways over the past week at 5.44NZ\$/kg and cows traded 0.93% higher at 4.35NZ\$/kg compared to a week ago. In the US, beef prices for the week were mixed: Topside traded 0.13% higher at \$205.74/cwt. Rump was 1.91% lower at \$344.42/cwt and strip loin was 9.15% lower at \$615.07/cwt. Chuck traded 0.38% lower at \$219.78/cwt. Brisket traded 1.20% lower at \$223.16/cwt. The carcass equivalent price was 4.37% lower at \$302.79/cwt.

Bullish factors

- Global beef exports continue to grow speedily.
- Total world beef export volumes for the period January to May 2018 have increased over 13% year on year. Brazil, the US and Australian production all increased by 12-13% for this period.
- The average global beef prices remained strong during the times of increased supplies, strengthening by 3% on the previous year (Jan-May).
- New Zealand and Australia both recorded a 2% increase in average beef export prices across the period, whilst the US increased by 8%.



Bearish factors

- The average price for Brazilian beef exports has meanwhile declined by 1%.

Domestic

Week on week, beef prices were mostly lower across the different classes. The average Class A price was 0.14% lower this week at R46.33/kg. Class C prices were 6.97% lower at R37.40/kg. The average weaner calf prices over the past week increased by 2.3% to R34.44/kg. The hide market steadied slightly this week. The average hide price this week increased when compared to the previous week. The average hide prices traded 1.9% higher w/w at R5.85/kg green. Overall, the hide market sentiment remains bearish, in line with the weak international hide market. There is oversupply of the hides in the market currently, and demand is not holding up. The demand for low end hides has declined significantly, pulling down prices. The market remains suppressed due largely to plentiful global supplies of hides. NB* Hide prices are determined by the average of the RMAA (Red Meat Abattoir Association) and independent companies.

Bullish factors

- In general, people tend to increase meat consumption when they have more disposable income.
- Beef prices are at high levels due to the herd rebuilding process that is currently underway.

Bearish factors

- At this stage, there seems to be availability of weaner calves to keep the market going, which continue to weigh on the weaner calf market. The average weaner calf prices over the past week continued to decrease.
- Lower pork prices may continue to weigh on the beef market.
- There are reports of increased supplies of C grade cattle coming through the market. Normally, there is strong demand for C grades during the winter months.

Outlook

Internationally, Global beef exports continue to grow rapidly, however average prices have performed solidly against the backdrop of increased supply.

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

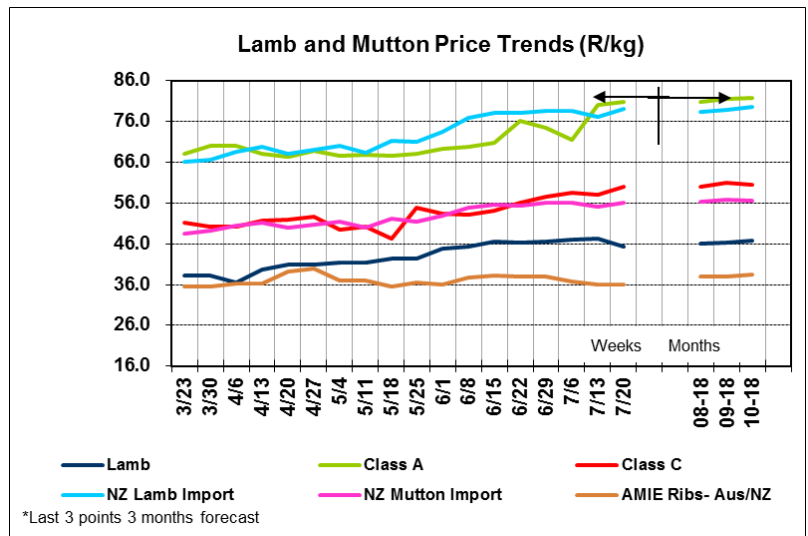
Sheep meat market trends

International

New Zealand lamb and mutton prices traded higher this week compared to last week. Lamb prices were 1.0% higher at NZ\$7.93/kg. Ewe prices traded 0.4% higher NZ\$5.25/kg. The import parity price for lamb was 2.6% higher at R79.14/kg, while the import parity price for mutton was 2.0% higher at R56.16/kg.

Bullish factors

- 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.
- Strong export markets are expected to keep prices supported.
- Operating price (schedule plus premium) continue to firm in New Zealand driven by procurement competition for the limited supply.



Bearish factors

- Strong prices are expected to provide an incentive to feed sheep.

Domestic

This week, lamb and mutton prices were mostly higher this week when compared to the previous week, on average, prices are at high levels. Lamb and mutton prices were as follows: The national average Class A carcass lamb prices increased by 1.0% to R80.92/kg and the average Class C carcass prices increased by 3.4% to R59.92/kg. The average price for feeder lambs traded 3.9% lower at R45.33/kg. The average price for dorper skin is 0.2% lower at R40.56/skin and merinos were 1.6% higher at R96.83/skin.

Bullish factors

- After recent good rains there is a huge demand for good/quality breeding ewes. The availability of ewes of any breed is currently very limited and if available also very expensive.
- 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.
- Strong demand for sheep meat has been reported across the board.
- Feeder lambs are scarce, which is adding support to prices.
- Strong demand for feeder lambs is supporting this market.
- High meat prices and low feed costs are supporting the profitability of the sheep industry.

Bearish factors

- Lamb and mutton remains the most expensive meat in the market. Consumer resistance to high lamb and mutton remains a risk. Consumption during 2017 declined by roughly 3% compared to 2016. This follows extensive increases sheep meat prices as the herd rebuilding process continues, and supply availabilities declined.

Outlook

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

Locally, red meat prices are expected to trend higher from now until December due to tight supply and expected increased demand from consumers during the festive season.

Pork market trends

International

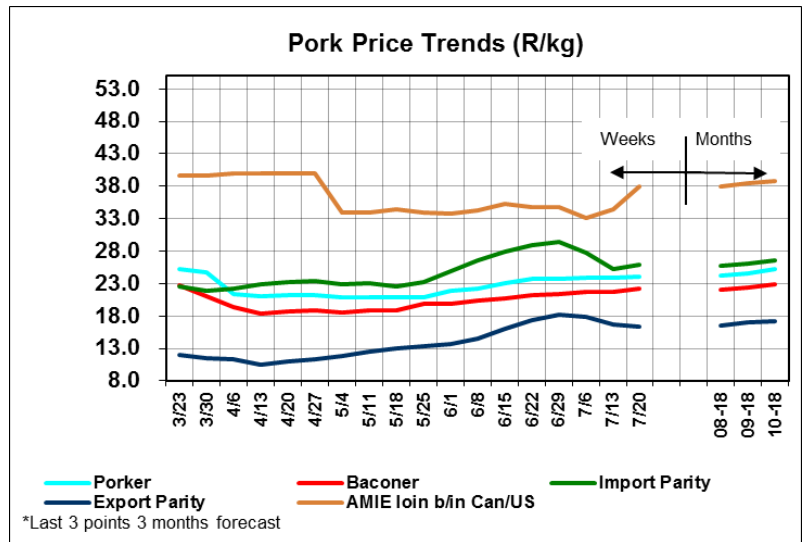
The average weekly US pork prices were mostly lower over the past week. Carcass prices were 1.1% lower at US\$81.84/cwt, loin prices were 3.2% lower at US\$76.99/cwt, rib prices were 0.5% lower at US\$115.42/cwt and ham was 4.5% higher at US\$53.93/cwt.

Bullish factors

- Lower US pork product prices are expected to help offset increased competition in key markets in 2019.

Bearish factors

- Ample pork supplies in the US
- Worries that trade tensions with China and Mexico will reduce US export demand, causing US supplies to increase.
- Cheaper grain is still available and increased (hog) weight potential can be expected in the US.



Domestic

This week, pork prices continued hold, and traded mostly higher across the different categories. The latest average pork prices are as follows: The average porker prices are 0,7% higher at R24.09/kg, while the average baconer prices are 2.3% higher at R22.29/kg. The average cutters prices were 1.6% lower at R21.7/kg and the average heavy baconer price was 0.6% higher at R20.20. The SAU price was 9.4% lower at R15.9/kg.

Bullish factors

- According to the pork producer association, the situation regarding listeriosis has improved considerably since March. Major supplier of fresh pork report that fresh pork is in a growing curve. Sales of processed meat products have also improved.
- Marketing and promotion campaigns by the pork industry drive increased pork sales. The pork industry reported that the past few months have seen an intense frequency of in-store promotions, conducted jointly with retail groups.
- The current low prices of pork may increase consumer uptake of fresh pork cuts.

Bearish factors

- 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, trade concerns continue to weigh on the international pork market.

Locally, there still are plentiful supplies of pork in the market, which needs to be cleared before seeing the strong pork prices.

Poultry market trends

International

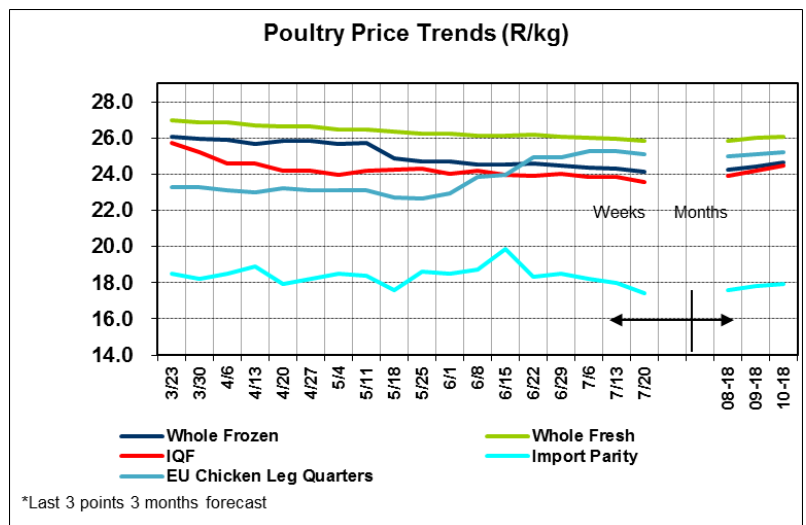
Poultry prices in the US were mostly lower over the past week. Whole bird prices were 1.0% lower at 111.41USc/lb. Breast traded 8.1% lower at 102.00USc/lb, while leg quarters traded 4.7% lower at 30.50USc/lb.

Bullish factors

- Exports are strong in the EU due to increased shipments. EU broiler prices have seen an increasing trend supported by strong export.

Bearish factors

- Poultry production in the European Union increased by nearly 4% in the first quarter of the year due to fewer outbreaks of avian influenza and new poultry units coming on stream.
- Forecast broiler and egg production is also increased from the previous month, as higher prices and lower expected feed prices support continued expansion, according to the latest US department of Agriculture's world agricultural supply and demand estimates.



Domestic

The average poultry prices over the past week were mostly lower. The average prices for frozen birds were 0.5% lower at R24.15/kg during the week. Whole fresh medium bird prices were 0.4% lower at R25.83/kg, while IQF prices were 1.3% lower at R23.54kg.

Bullish factors

- The poultry industry is expected to enjoy support from low feed costs and high broiler and egg prices, positively improving margins and benefiting profitability.
- The possibilities of new occurrences of bird flu during winter continue to be a risk factor in the broiler industry.
- White meat remains the cheaper protein in the market, which may aid consumption for this product.

Bearish factors

- The consumer's buying power is being eroded by high costs such as increases in fuel, vat etc, weighing on demand. The broiler market has been under pressure in recent weeks.
- 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, 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.

Livestock prices (R/kg) week 26 July 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	-0.14	46.33	46.39	1.0	80.92	80.11	0.7	24.09	23.91	-0.4	25.83	25.93
Class C/ Baconer/ Frozen birds	-6.97	37.40	40.20	3.4	59.92	57.96	2.3	22.29	21.79	-0.5	24.15	24.29
Contract/Baconer/ IQF	-0.49	47.04	47.27	1.3	81.90	80.86	1.5	23.19	22.85	-1.3	23.54	23.84
Import parity price	2.66	69.19	67.40	2.0	56.16	55.07	-1.6	35.7	36.3	-2.9	17.4	18.0
Weaner calves/ Feeder lambs	2.3	34.44	33.67	-3.9	45.33	47.18		-	-			
Specific imports: Beef trimmings 80vl/b/ Mutton shoulders/Loin b/in/ chicken leg 1/4	0	50.40	50.40	0	63.57	63.57	10	38.00	34.50	-0.5	25.12	25.25

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