



## Agri Trends

25 January 2019

### Food inflation are set to increase in 2019!

Just as prices for staples such as maize meal start to decline and lower income consumers start to enjoy the benefits of the current old season maize surplus at export price levels the current drought may change the outlook for 2019. Since a year ago white maize prices increased by 65% and yellow maize increased by 43%. The preliminary estimate of planted hectares will be published this Tuesday 29 January 2019. The general inflation of South Africa is currently at 4,5% which meet the mandate of the Reserve Bank, As a result the repo rate were kept unchanged after the previous Monetary Policy Committee meeting. The drought cause higher maize prices which impact directly on the price of maize meal and food inflation. Maize meal is the staple for the lower income group of consumers. During the 2016 drought food inflation reached double digits of above 10%. Additionally, the cost of transport increased over the past year by as much as 9% increasing the distribution cost of food. Agri SA and Grain SA called this week for the assistance to the farmer community and flag the negative impact the drought will have on the economy and agricultural employment.

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## Beef market trends

### International

For the week ending 25 January New Zealand steer prices trade 0.6% higher over the past week at 5.41NZ\$/kg and cows traded 1.8% higher at 3.97NZ\$/kg compared to a week ago. In the US, beef prices traded for the week ending 18 January on a carcass equivalent basis lower. Topside traded 4.4% lower at \$201.75/cwt. Rump traded 2.9% lower at \$327.26/cwt. Prices for striploin traded 3.7% higher to \$518.66/cwt. Chuck traded 3.4% lower at \$212.21/cwt. Brisket traded 0.4% lower at \$264.00/cwt. The carcass equivalent price was 0.1% lower at \$292.34/cwt.

#### Bullish factors

Optimism rises that the winter demand for beef and feeder cattle in the USA will increase soon. Demand is expected to remain for the remainder of the winter.

#### Bearish factors

Stakeholders are concerned that the increase in grain prices may limit the gains in the prices for weaner cattle. With the government shutdown in the US, meat inspectors do not get paid. The possibility cannot be ruled out that this may impact negatively on US meat imports.

### Local

Week on week, the beef prices reported by the Red Meat Abattoir Association for the week ending 18 January declined further across the different classes. The average Class A price decreased by 6.3% this week to R41.31/kg. Class C prices decreased by 2.27% to R38.97/kg. The decline in the average weaner calf prices bottomed out as prices only decline by 0.6% week on week to R26.17/kg. However, the average hide price declined sharply this week. The average hide price declined by 20.2% to reach R2.89/kg green.

#### Bullish factors

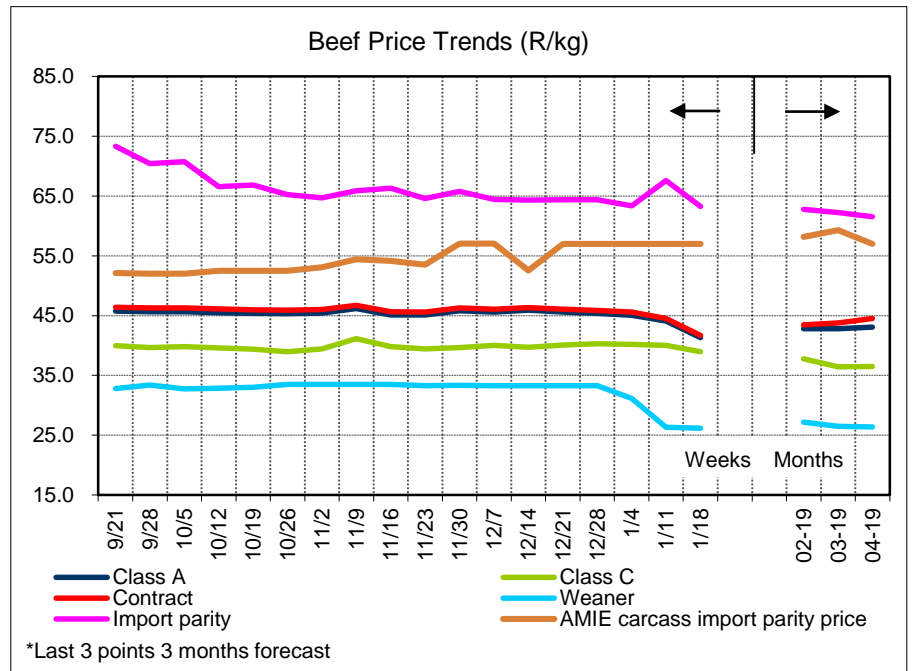
The collaboration between the private sector including the National Animal Health Forum and DAFF holds promise that South Africa may regain its Foot and Mouth Disease Free Status sooner than later. Due to the drop in prices primary producers of weaner calves start to limit their supply to auctioneers and feedlots. If the hectares planted to maize reach 2,2 million hectares it will not be necessary for South Africa to import maize and as a result the price and

#### Bearish factors

The preliminary hectares planted report is due for publication on Tuesday 29 January. It remains to be seen but if the hectares planted reach about 1,9 million hectares, South Africa may need to import 1,1 million tons of yellow maize. This will result in sustained high maize and feed prices for 2019 and will impact negatively on weaner calf prices. The suspension of beef exports due to the foot and mouth disease outbreak continue to weigh on beef carcass prices.

### Outlook

Beef prices traded lower this week and indications are that a bottom is reached. Maize prices start to decline due to improved future crop conditions which may lead to increased production and less expensive feed prices. Both beef carcass and weaner prices will continue to trade sideways to higher.



## Sheep meat market trends

### International

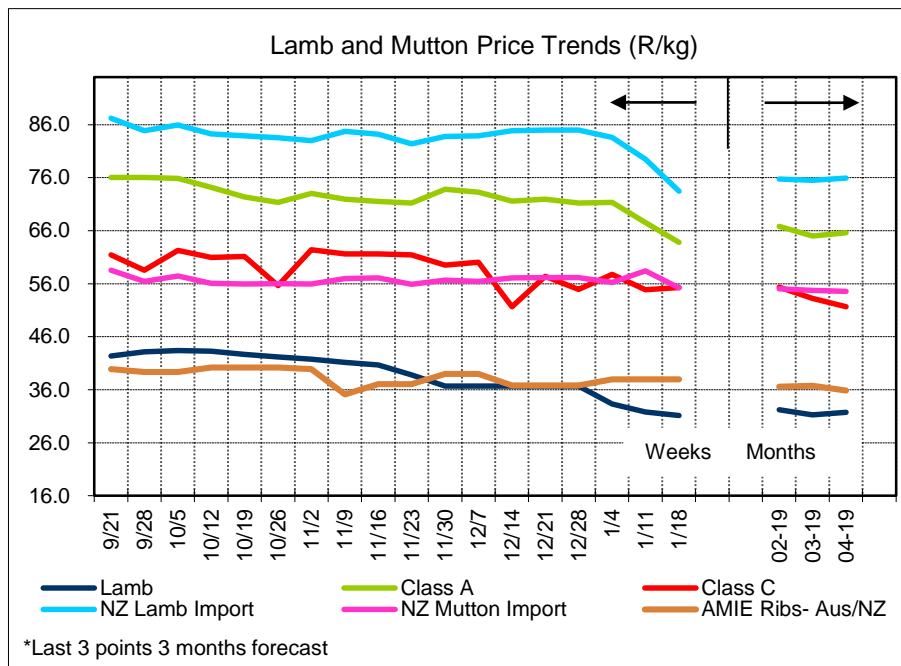
New Zealand lamb and mutton prices traded mixed this week compared to last week. Lamb prices were 1,4,% lowe at NZ\$7.10/kg. Ewe prices increased by 1,0% to NZ\$4.98kg. The import parity price for lamb was 7,6% lower at R73.44/kg, while the import parity price for mutton was 5,5% lower at R55.21/kg.

#### Bullish factors

The East Coast of Nieu Zeeland receive rain and producers lower their supply to the market. Consequently, the lower supply will limit further price declines.

#### Bearish factors

If the hot weather in Nieu Zeeland return producers will increase their supply to the market.



### Local

This week, lamb and mutton prices increased overall by 0.9% compared to the previous week. Lamb and mutton prices were as follows: The national average Class A carcass lamb price decreased by 5.6% to R63.77/kg and the average Class C carcass price increased by 0.7% to R55.27/kg. The average price for feeder lambs traded 2,2% lower at R31.13/kg. The average price for dorper skin traded 7,8% lower at R31.11/skin and merino skin prices traded 12.0% lower at R81.67/skin. The skin price contribute R3.61/kg to the meat price and this week less compared to R4.07/kg the previous week.

#### Bullish factors

Crop conditions improved for the grain production regions. Lower maize prices will improve the feed margin and will underpin feeder lamb prices.

#### Bearish factors

The higher feed prices and the suspension of meat exports will have a long term effect into the mutton market keeping mutton prices under pressure.

### Outlook

Internationally, the improved rainfall conditions in Nieu Zeeland is expected to underpin lamb prices. Locally, sheep meat prices should reach a bottom and follow beef prices sideways to higher next week.

## Pork market trends

### International

The average weekly US pork carcass prices traded lower over the past week. Carcass prices were 0,2% lower at US\$68.75cwt, loin prices were 2.2% higher at US\$63.20/cwt, rib prices were 1.6% lower at US\$121.12/cwt and ham was 4.3% higher at US\$48.63/cwt.

#### Bullish factors

The US has a hefty pork supply in the short term with stock levels being high. In China smaller pork producers exit the industry due to the negative impact of African Swine Fever. The liquidation of the pork herd lead to increased supplies and lower pork prices in China.

#### Bearish factors

US hog prices are still under pressure in the short term but expect tight global and Chinese stocks in the second half of the year.

### Domestic

This week, pork prices declined further and traded mostly lower across the different categories. The latest average pork prices are as follows: The average porker prices are 6,3% lower at R27.89/kg, while the average baconer prices are 4.4% lower at R26.51/kg. The average cutters prices were 3.8% lower at R26.90/kg and the average heavy baconer price was 2,4% lower at R26.14. The SAU price was 4.0% lower at R18.70/kg.

#### Bullish factors

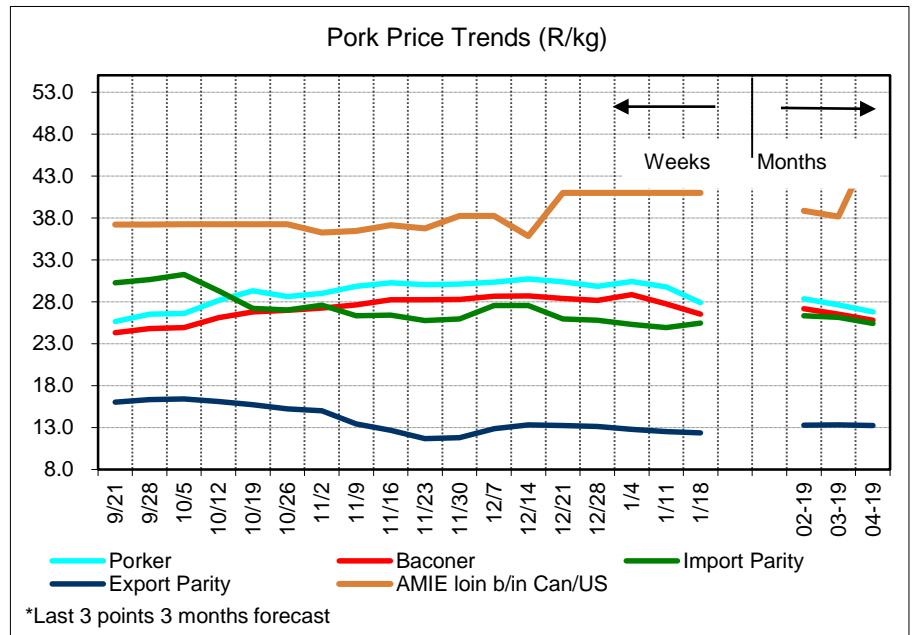
Consumer confidence in the consumption of pork recovered.

#### Bearish factors

The increase in maize prices due to the drought and the indirect impact of foot and mouth disease that leads to a suspension of beef exports weighed heavily on beef prices this week spilling over to the pork industry and leading pork prices lower.

### Outlook

Internationally, the impact of African Swine Fever in China increase the supply of pork in the short term as small producers exit the industry. In the second term China will have to import pork and this will underpin prices globally. Locally, the supply of pork recovered after the December festive season but the sharp decline of beef prices over the past two weeks start to lead pork prices lower.



## Poultry market trends

### International

Poultry prices in the US were lower over the past week. Whole bird prices declined by 5.7% to 94.22 USc/lb. Breast traded sideways at 92.00 USc/lb, while leg quarters declined by 3,0% at 24.00USc/lb.

#### Bullish factors

The world's largest poultry exporter's (Brazil) anti-dumping dispute with China are resolved. US demand remains good.

#### Bearish factors

Saudi Arabia has barred five Brazilian chicken processing plants from exporting to the Middle Eastern country due to "technical" reasons.

### Domestic

The average poultry prices over the past week were lower. The average prices for frozen whole birds were 0.8% lower at R24.47/kg during the week. Whole fresh medium bird prices were 0,6% lower at R25.26/kg, while IQF prices were 0,9% lower at R22.80/kg.

#### Bullish factors

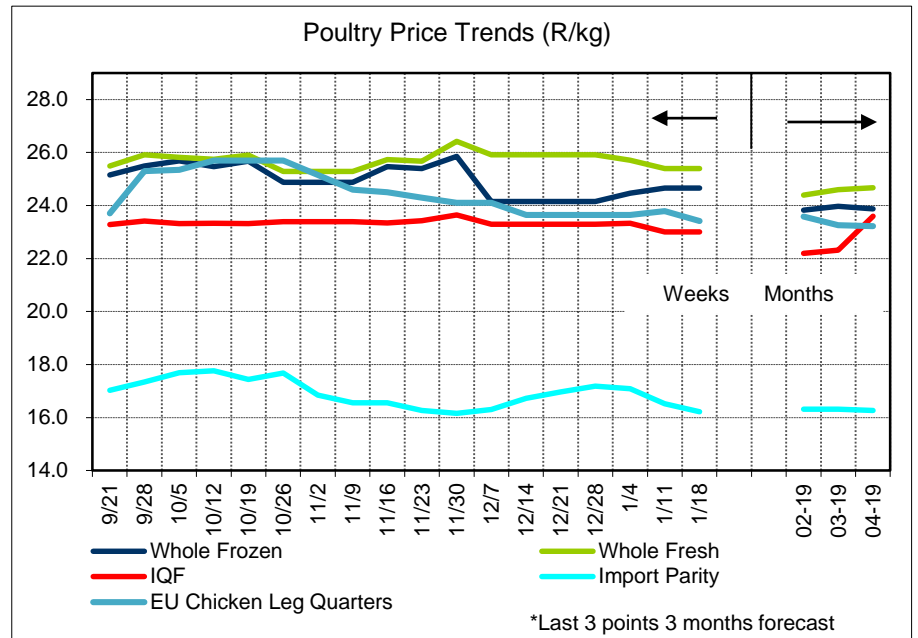
In the longer term, depending a positive outcome of the SA Poultry Association call for an increase in the ad valorem tariff on bone-in and boneless frozen chicken portions will underpin prices.

#### Bearish factors

The lower beef, mutton and pork price weigh on poultry prices and the strong Rand support imports. US leg quarters is 3% cheaper than a week ago and 8% cheaper than a month ago. US mechanically separated chicken is 20% and leg quarters 37% cheaper than a year ago. Local transport costs increased year on year by 9% and additional cost to improve biosecurity to lower the potential future impact of Bird Flu and Listerioses impact the competitiveness of South African producers and processors to more competitive imports.

### Outlook

Internationally, US poultry meat prices continue to trade lower this week and the Rand remain strong favouring potential imports. Locally, the decline in red meat and pork prices weigh on poultry prices while the expected increase in feed costs will impact negatively on the future profit margins of local poultry producers.



## Livestock prices (R/kg) for the week ending 18 Jan 2019

	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	-6.3	41.31	44.08	-5.6	63.77	67.55	-6.3	27.89	29.78	-1.2	25.26	25.40
Class C/ Baconer/ Frozen birds	-2.7	38.97	40.04	0.7	55.27	54.89	-4.4	26.51	27.74	0.8	24.47	24.66
Contract prices /Avg Pork / IQF	-6.4	41.67	44.53	-4.0	65.30	68.04	-5.4	27.20	28.76	-1.4	22.80	23.00
Import parity price / Ham / US Leg 1/4	2.1	64.58	63.24	-5.5	55.21	58.40	2.1	48.63	46.64	-1.2	16.00	16.20
Weaner calves/ Feeder lambs	-0.6	26.17	26.34	-2.2	31.13	31.83		-	-			
Specific imports: Beef trimmings 80vl/b/ Mutton shoulders/Loin b/in/ chicken leg 1/4	0.0	Na	57.00	0.0	Na	37.95	0.0	Na	41.00	0.0	Na	23.42