



Retail and Business Banking
Sector Economics
20 August 2021



Agri Trends: Livestock Report

Prices struggle to find direction - Demand weaker on third wave, supply under pressure from high input costs

Beef: Historical seasonal trends suggest that beef carcass prices and weaner calf prices usually increase towards November. Slower than anticipated economic recovery, due to the third COVID wave and unrests, combined with high input costs are however expected to limit the increases we will see over the coming months.

Mutton: Like beef, we expect that a slowdown in economic recovery could decrease demand for sheep meat, which is expected to put prices under pressure over the coming months. As mentioned above, due to tight supply the degree of price reductions in lamb and mutton prices will be limited and prices are expected to recover as we approach the festive season.

Pork: Historical seasonal trends suggest that pork carcass prices could follow an increasing trend for the rest of the year. Due to the recent price pressure on pork prices mentioned above, our forecast only follows a modest upward trajectory.

Poultry: Our outlook for poultry products follows an upward price trajectory over the next three months. As mentioned above, this is supported by higher global prices combined with a weaker exchange rate. The fact that market stakeholders are noting that frozen chicken products are in short supply further reinforces this view.

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Beef market trends

International beef market

Prices for cattle increased substantially in New Zealand and Australia on the back of strong export demand from the US and China combined with tight supply. New Zealand experienced extreme heat during June and July which reportedly resulted in some farmers facing feed concerns which prompted them to slaughter more than expected. The current high prices are also incentivizing increased slaughtering. This, combined with the effect of the spread of the delta virus could result in prices trending somewhat lower over the coming weeks.

	R/USD	R/NZD	US beef carcass equivalent USD/cwt	NZ steers NZ/kg	NZ cows NZc/kg	AMIE carcass import parity price for beef trimmings (R/kg)
Price	14.79	10.36	414.90	607	461	135.00
w/w	2.3%	2.0%	6.1%	0.7%	0.9%	8.6%
m/m	1.9%	2.1%	7.6%	3.8%	2.4%	9.6%
y/y	-15.7%	-10,1%	48.0%	12.0%	13.5%	24.8%

Local beef market

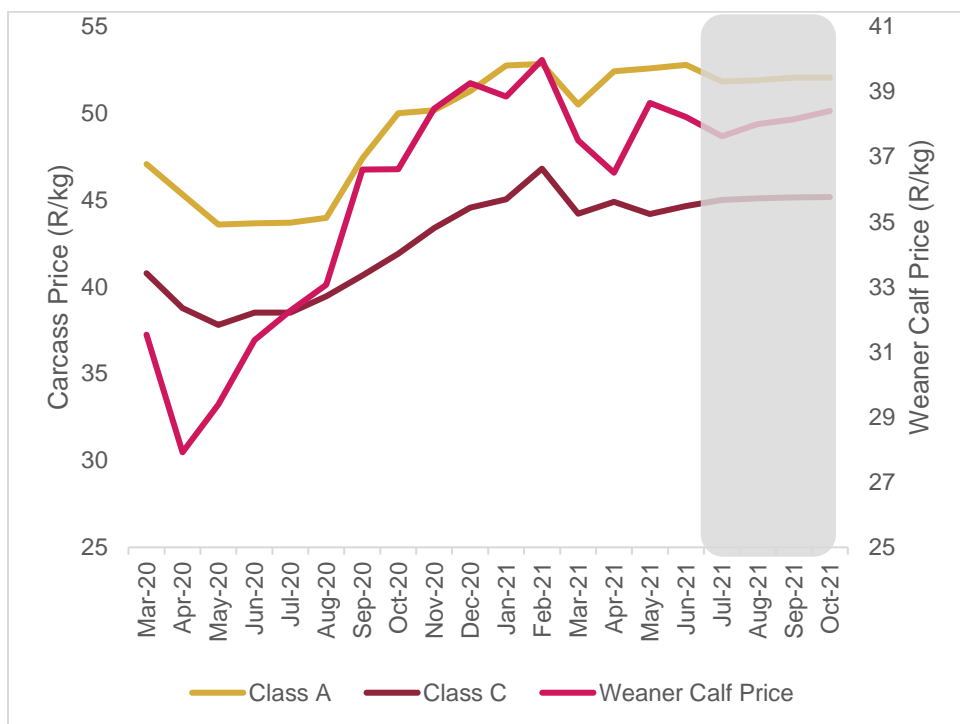
Local carcass prices of beef are struggling to find direction. In our previous Agritrend reports we noted that market stakeholders are reporting consumer resistance to high red meat prices. This induced a slight decrease two weeks ago, which was subsequently followed by a 0.5% weekly increase in class A beef prices. Prices are however still 1% higher compared to a month ago. Class C prices have had stronger decreases over the short term. Prices are however still on average 15.7% higher compared to a year ago. This is fuelling meat inflation in South Africa.

	Class A (R/kg)	Class C (R/kg)	Beef contract price (includes hides) (R/kg)	Weaner calf (R/kg)
Price	51.7	44.5	52.90	38.20
w/w	0.5%	-1.0%	0.4%	0.8%
m/m	1.0%	-3.1%	1.3%	0.8%
y/y	18.0%	13.4%	20.6%	16.2%

Outlook

Our outlook from our previous Agri trends Livestock report remains unchanged. Historical seasonal trends suggest that beef carcass prices and weaner calf prices usually increase towards November. Slower than anticipated economic recovery, due to the third COVID wave and unrests, combined with high input costs are however expected to limit the increases we will see over the coming months.

Figure 1: Local beef and weaner calf prices



*Area in grey represents Absa AgriBusiness forecasts

Sheep market trends

International sheepmeat market

International prices for sheepmeat remain high with the two largest producing countries, Australia and New Zealand recording lower slaughter numbers as the demand for ovine meat in the world increases. New Zealand lamb prices are almost 6% higher compared to a month ago and more than 25% higher compared to the corresponding time last year. Parity prices are also higher on the back of higher global prices and a depreciated exchange rate.

	R/NZD	NZ lamb price (NZD/kg)	NZ ewe price (NZD/kg)	Import parity NZ lamb (R/kg)	Import parity NZ ewe (R/kg)
Price	10.36	9.08	6.60	94.07	69.88
w/w	2.0%	0.6%	0.00%	2.6%	2.0%
m/m	2.1%	5.6%	2.6%	7.8%	4.7%
y/y	-10.1%	27.2%	37.5%	3.1%	6.1%

Local sheepmeat market

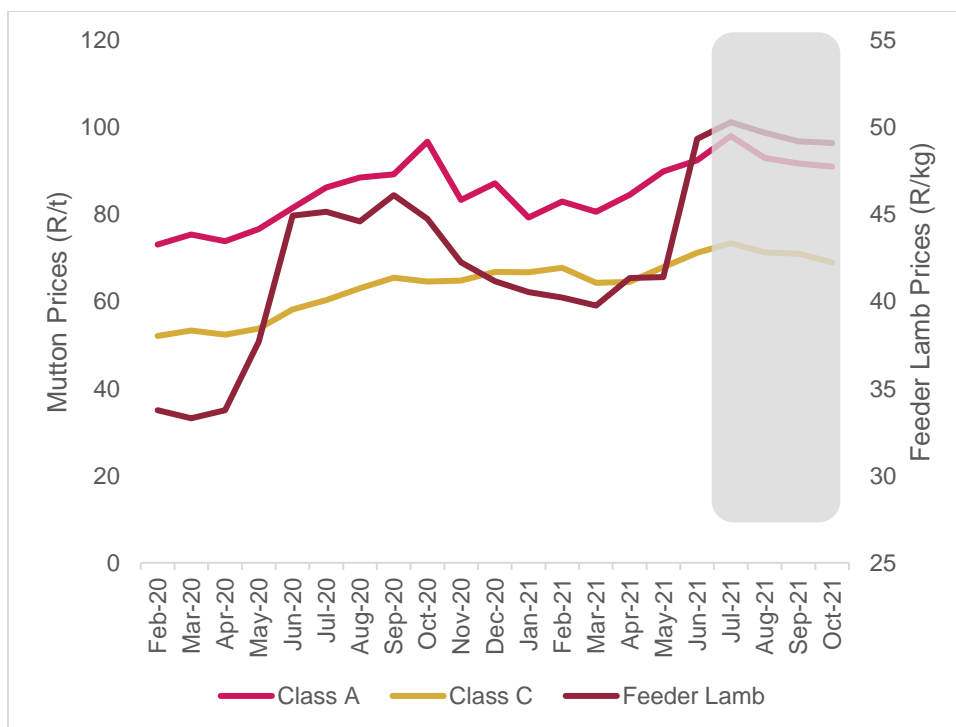
Sheep meat and feeder lamb prices have decreased from the highs apparent in July. As with beef, market stakeholders noted that they experienced consumer resistance to high red meat prices and as a result prices eased somewhat. The ongoing drought in key lamb production regions does however provide a limit to price decreases as supply remains tight.

	Class A2/A3 (R/kg)	Class C (R/kg)	Feeder lamb (R/kg)	Dorper skin (R/skin)	Merino skin (R/skin)
Price	93.94	72.38	49.67	41.00	64.00
w/w	-1.8%	-1.6%	0.0%	9.8%	0.00%
m/m	-2.0%	-0.7%	-2.6%	-5.4%	-5.2%
y/y	8.5%	15.3%	10.0%	43.5%	46.9%

Outlook

Like beef, we expect that a slowdown in economic recovery could decrease demand for sheep meat, which is expected to put prices under pressure over the coming months. As mentioned above, due to tight supply the degree of price reductions in lamb and mutton prices will be limited and prices are expected to recover as we approach the festive season. In preparation for the festive season, feeder lamb prices could find price support in the coming months.

Figure 2: Local sheep and feeder lamb prices



*Area in grey represents Absa AgriBusiness forecasts

Pork market trends

International pork market

Seasonal trends suggest that there will be an increase in slaughter weights for key pork producers such as the US over the coming weeks. This combined with waning demand from China caused US pork carcass prices to ease by 2.3% over the past week. Analysts note that pork prices could however benefit from increases in beef prices over the coming weeks and note that US demand is still firm, especially for belly and ham.

	R/USD	US pork carcass price (USD/cwt)	US import parity rib (R/kg)	US import parity ham (R/kg)
Price	14.79	120.37	51.4	28.55
w/w	2.3%	-2.3%	-6.9%	-14.0%
m/m	1.9%	2.3%	1.1%	-23.5%
y/y	-15.7%	75.7%	-21.0%	-12.2%

Local pork market

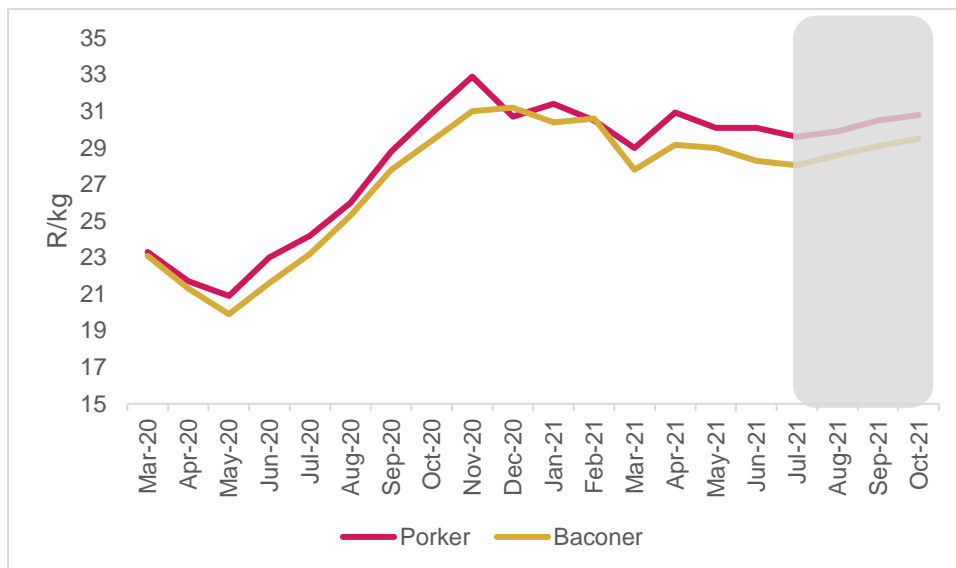
During June, prices for porkers traded above R30 per kg despite to comparatively high slaughter numbers. This suggests that there was firm demand. Since then, prices have decreased significantly trading just below R27 per kg at the time of writing. Over the past three months, porker prices decreased by 11% whilst baconer prices decreased by 11.5%. In our view, this is a combination of economic conditions which is also affecting other meat categories, such as beef and mutton mentioned above, and a correction between pork prices and that of other meats. Since mid-2020, pork prices have increased more than the prices of beef and chicken. The reduction in prices apparent now brings price ratios between pork and other meat products closer to their long-term averages.

	Porker (R/kg)	Baconer (R/kg)	AMIE loin (R/kg)
Price	26.94	25.20	40.99
w/w	0.2%	-0.5%	0%
m/m	-8.7%	-6.9%	2.4%
y/y	8.9%	0.6%	-3.5%

Outlook

Historical seasonal trends suggest that pork carcass prices could follow an increasing trend for the rest of the year. Due to the recent price pressure on pork prices mentioned above, our forecasts follow a modest upward trajectory.

Figure 3: Local porker and baconer prices



*Area in grey represents Absa AgriBusiness forecasts

Poultry market trends

International poultry market

Prices of global poultry products remain firm on the back of strong demand from east Asia and disease concerns in certain countries. Firm global prices of red meat and pork during the first half of 2021 supported demand for poultry which has resulted in prices increasing significantly. As a case in point, leg quarter parity prices from the US are more than 70% higher than a year ago, whilst similar cuts from the EU are roughly 15% higher over the corresponding period.

	R/USD	US MDM fresh (USD/lb.)	US MDM frozen (USD/lb.)	AMIE US leg quarters (R/kg)	AMIE EU leg quarters (R/kg)
Price	14.79	36.19	55.88	28.31	30.99
w/w	2.3%	-11.0%	2.3%	0.0%	0.0%
m/m	1.9%	-5.2%	-1.1%	-0.6%	0.0%
y/y	-15.7%	36.5%	81.9%	70.3%	14.8%

Local poultry market

Local poultry product prices are on average 12.4% higher compared to a year ago but have been struggling to find direction over the past weeks. Market stakeholders are reporting a shortage of frozen poultry products which could cause prices to increase over the coming

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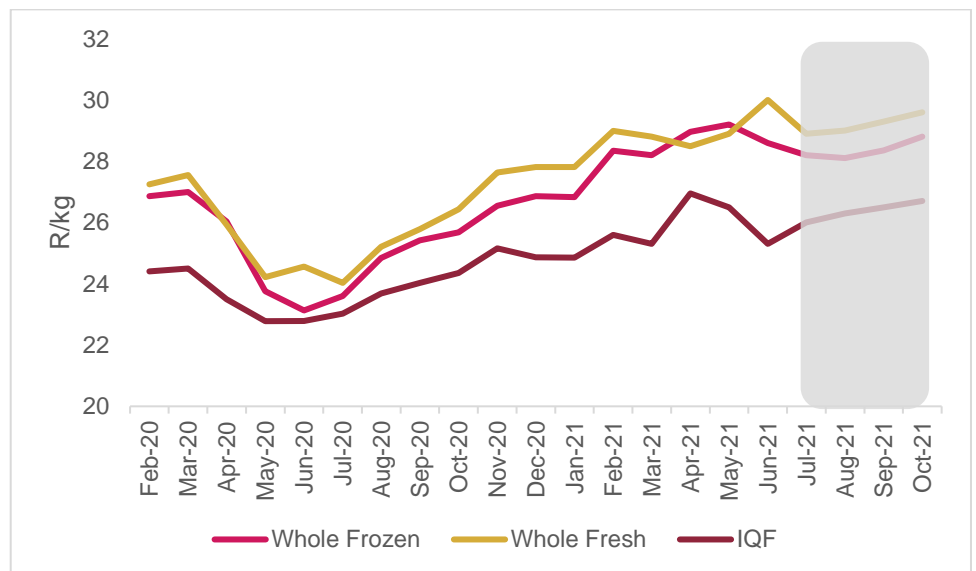
weeks. This, combined with an increase in world prices and a depreciating exchange rate is expected to support prices as we approach the last quarter of the year.

	SA whole bird, frozen (R/kg)	SA whole bird, fresh (R/kg)	SA individually quick frozen (R/kg)
Price	27.81	28.99	26.49
w/w	5.5%	-1.9%	-2.1%
m/m	-0.3%	0.2%	-0.2%
y/y	11.2%	14.2%	11.8%

Outlook

Our outlook for poultry products follows an upward price trajectory over the next three months. As mentioned above, this is supported by higher global prices combined with a weaker exchange rate. The fact that market stakeholders are noting that frozen chicken products are in short supply further reinforces this view.

Figure 4: Local chicken prices



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