



Retail and Business Banking
Sector Economics
2 August 2021



Agri Trends: Livestock Report

Red meat prices lose momentum as unrest and third COVID-19 wave weighs on economic recovery

Beef: Market stakeholders note that high red meat prices are being met by consumer resistance which is causing demand to soften. Weaner calf prices have also been moving sideways over the last month. The third Covid wave combined with the unrests in mid-July is expected to slow economic recovery which could further weigh on red meat demand and prices over the coming months.

Mutton: As with beef, market stakeholders are noting consumer resistance to high prices which could see prices softening somewhat over the coming weeks and months. A slight downturn in feeder lamb prices is already apparent compared to prices in late June and early July.

Pork: Prices have decreased significantly due to increased supply. Slaughter numbers for 2021Q2 increased by almost 8% compared to slaughter numbers in 2020Q1. Historical price trends suggest that pork prices follow an increasing trend through the third quarter of the year. Taking account of this, combined with the recent downward trajectory in prices, we only project a modest upward movement in prices.

Poultry: IQF prices decreased in weekly and monthly terms but are still more than 10% higher compared to the corresponding time last year. Chicken product prices have been under pressure for some time, as market stakeholders note weak demand. Global price increases and the weakening of the exchange rate could however lead to moderate price increases over the coming weeks.

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Beef market trends

International beef market

Data from the US suggest that the US livestock herd shrunk by roughly 1.3% compared to last year. This is keeping the prices of feeder cattle high. In fact, the prices have increased to levels last seen in 2016. Despite this, carcass prices are almost 26% lower compared to a month ago. Early July is associated with high demand as the US celebrates Independence Day and it is expected that demand softened since then in response to high meat prices (almost 30% higher compared to a year ago) and certain states reporting a resurgence of the Delta variant of the Coronavirus. High feeder cattle prices combined with a smaller herd however points to an upward trend in prices over the rest of the year.

	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	14.65	10.22	349.45	588	444	112.63
w/w	0.9%	0.7%	-9.4%	0.5%	-1.3%	-8.6%
m/m	3.3%	2.1%	-25.7%	7.3%	12.1%	-23.3%
y/y	-11.7%	-6.9%	28.9%	12.1%	12.7%	13.8%

Local beef market

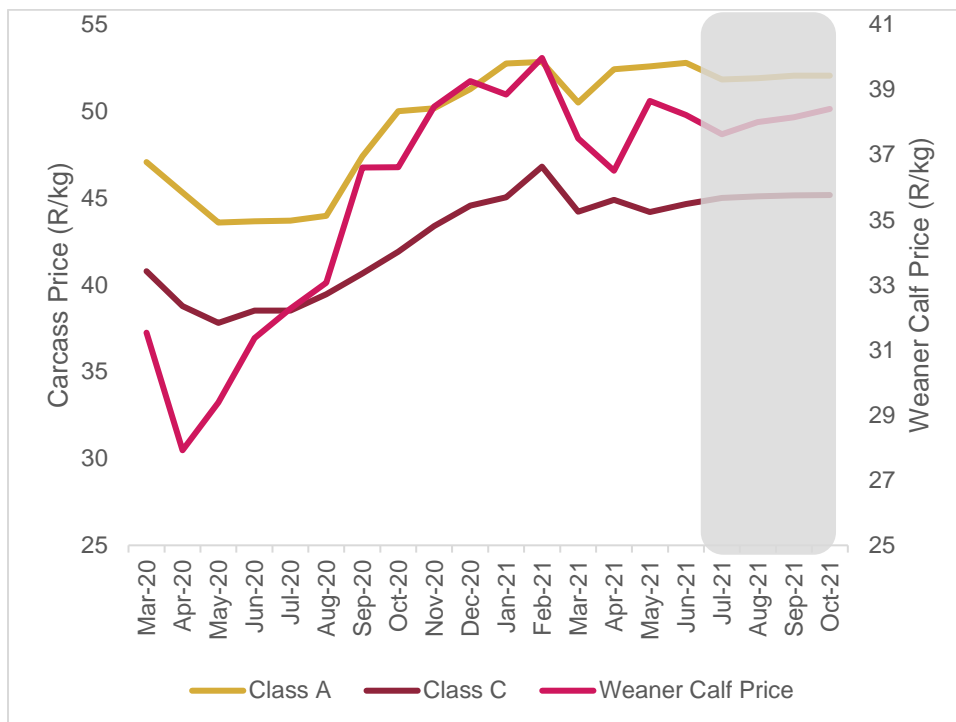
Local beef prices have decreased over the short term with monthly decreases for Class A amounting to 1.3%. The corresponding effect was less pronounced for Class C, which recorded a significant decreasing effect in the last week of July. Market stakeholders note that high red meat prices are being met by consumer resistance which is causing demand to soften. Weaner calf prices have also been moving sideways over the last month. The third Covid wave combined with the unrests in mid-July is expected to slow economic recovery which could further weigh on red meat demand and prices over the coming months.

	Class A (R/kg)	Class C (R/kg)	Beef contract price (includes hides) (R/kg)	Weaner calf (R/kg)
Price	51.14	44.43	52.08	37.93
w/w	-0.1%	-3.2%	-0.3%	0.1%
m/m	-1.3%	-0.1%	-1.5%	0.8%
y/y	17.9%	13.8%	19.9%	17.8%

Outlook

Historical seasonal trends suggest that carcass prices will increase from September onwards. Based on recent movements where prices decreased slightly combined with the prospects of slower economic recovery, we expect that prices will remain close to current levels. In terms of weaner calf prices, historical seasonal trends suggest that prices could remain under pressure in September but could start increasing in October in anticipation of increased red meat demand towards the festive season. As a result, we project that weaner calf prices will trend marginally higher in 2021Q4.

Figure 1: Local beef and weaner calf prices



*Area in grey represents Absa AgriBusiness forecasts

Sheep market trends

International sheepmeat market

New Zealand lamb and mutton prices continued on their upward trend, apparent since January 2021. Although seasonal increases during this time of the year are common current values are still well above the levels of previous years. These high prices are supported by strong export demand with the US, in June, recording the highest monthly imports of lamb out of Oceania. This is driven by tight supplies of both fresh lamb due to processing restrictions, and frozen lamb due to storage constraints in the US.

	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	10.22	8.75	6.43	89.43	67.21
w/w	0.7%	1.7%	0%	2.4%	0.7%
m/m	2.1%	8.7%	3.7%	11.0%	5.7%
y/y	-6.9%	25.0%	35.4%	-4.7%	8.1%

Local sheepmeat market

Local mutton and lamb prices continue to trade at elevated levels due to tight supply. As mentioned in the previous Agritrends report on livestock prices, supply remains low due to drought in key production regions. This was further amplified after a shipment of live sheep was shipped to the Middle East in June. As with beef, market stakeholders are noting consumer resistance to high prices which could see prices softening somewhat over the coming weeks. A slight downturn in feeder lamb prices is already apparent compared to prices in late June and early July.

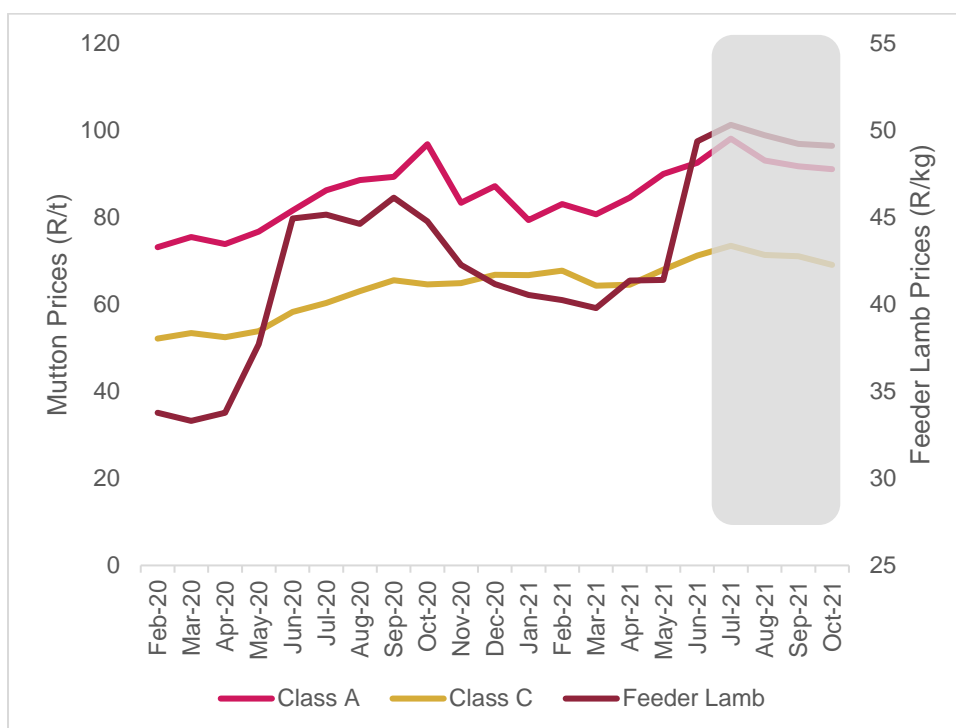
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	Class A2/A3 (R/kg)	Class C (R/kg)	Feeder lamb (R/kg)	Dorper skin (R/skin)	Merino skin (R/skin)
Price	98.53	73.15	49.67	39.00	61.00
w/w	2.8%	0.4%	0.0%	-10.0%	-9.6%
m/m	6.7%	1.5%	-2.6%	-7.6%	-7.6%
y/y	18.7%	18.7%	10.0%	52.2%	41.4%

Outlook

Historical seasonal price trends suggest that carcass and feeder lamb prices usually hold firm during the third quarter of the year. Recent price movements in feeder lambs combined with a slower than expected economic recovery might however suggest that prices could edge lower over the coming weeks and that carcass prices could follow suit.

Figure 2: Local sheep and feeder lamb prices



*Area in grey represents Absa AgriBusiness forecasts

Pork market trends

International pork market

US pork carcass prices increased for all the periods under consideration but do seem to have lost momentum from the rapid increases experienced in mid-June. Analysts note that disease issues, lower slaughter weights, and high feed costs will cause lower supply in the second half of 2021. Pork prices remain firm on strong demand for cuts like the belly and the ham. Global exports declined slightly through May, with weaker sales to China outweighing increases to Mexico, Canada, and Japan. The Chinese pork market is volatile, and this is also impacting the global pork market. Analysts note that disease issues are persisting in certain regions in China and Chinese demand seems to be tracking behind increasing supply which has caused Chinese prices to decrease significantly.

	R/USD	US pork carcass price (USD/cwt)	US import parity rib (R/kg)	US import parity ham (R/kg)
Price	14.65	122.31	50.2	39.63
w/w	0.9%	2.8%	-1.2%	6.1%
m/m	3.3%	11.3%	-309%	47.9%
y/y	-11.7%	79.8%	-14.4%	10.7%

Local pork market

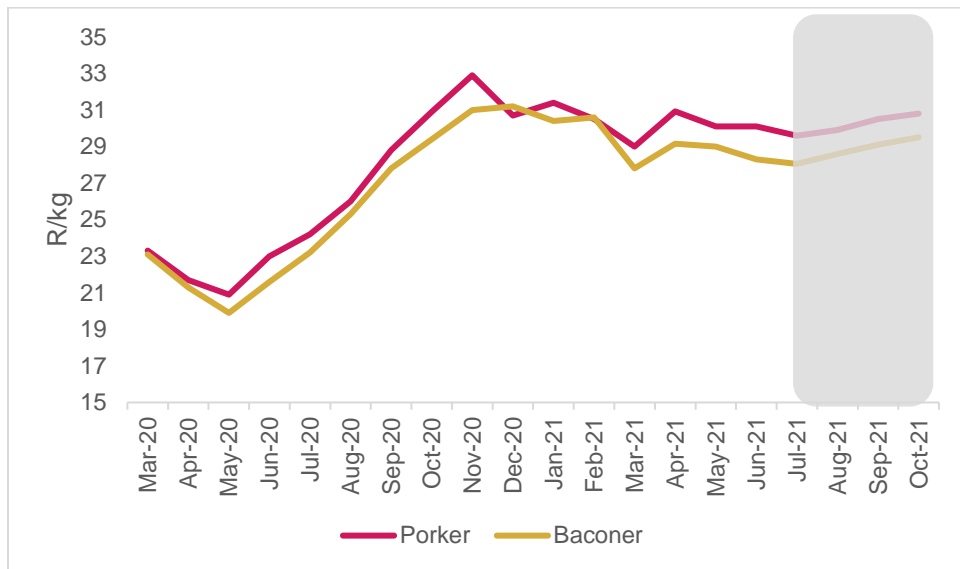
The recent unrests in mid-July have had a significant impact on intensive livestock industries. With around 14% of total pork slaughters occurring in KZN, the unrest, which included vandalization to a sizable abattoir in Cato-Ridge, could result in substantial price declines in this region. Nationally, pork prices have decreased significantly due to increased supply. Slaughter numbers for 2021Q2 increased by almost 8% compared to slaughter numbers in 2020Q1.

	Porker (R/kg)	Baconer (R/kg)	AMIE loin (R/kg)
Price	28.29	26.06	40.99
w/w	-4.2%	-3.8%	0%
m/m	-6.5%	-7.1%	-
y/y	16.8%	11.1%	-1.8%

Outlook

Historical price trends suggest that pork prices follow an increasing trend through the third quarter of the year. Taking account of this, combined with the recent downward trajectory in prices, we only project a modest upward movement in prices.

Figure 3: Local porker and baconer prices



*Area in grey represents Absa AgriBusiness forecasts

Poultry market trends

International poultry market

Global demand for poultry remains firm on the back of a recovering foodservice industry that is benefiting from improving economic conditions. Analysts note that the global food industry accounts for up to one-third of total demand and this increase will therefore significantly boost prices. Other factors that are causing supply to recover slower than demand include disease in breeding stock and high feed prices. Global poultry prices are therefore expected to remain elevated over the course of the year.

	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	14.65	35.50	55.82	29.47	30.99
w/w	0.9%	-7.0%	-1.2%	0.0%	0.0%
m/m	3.3%	-7.6%	-3.9%	0.4%	0.0%
y/y	-11.7%	31.4%	81.5%	69.6%	14.8%

Local poultry market

IQF prices decreased in weekly and monthly terms but are still more than 10% higher compared to the corresponding time last year. Chicken product prices have been under pressure for some time, as market stakeholders note weak demand. Global price increases

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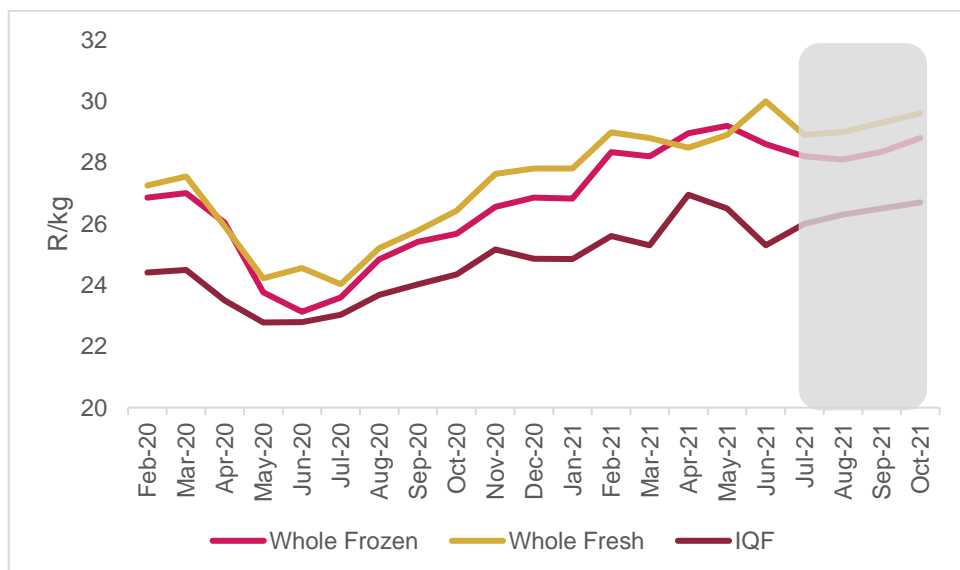
and the weakening of the exchange rate could however lead to moderate price increases over the coming weeks.

	SA whole bird, frozen (R/kg)	SA whole bird, fresh (R/kg)	SA individually quick frozen (R/kg)
Price	28.41	28.82	25.4
w/w	1.8%	-0.4%	-4.3%
m/m	1.7%	-1.5%	-1.2%
y/y	20.5%	18.4%	11.2%

Outlook

We expect prices to pick up over the coming months due to higher global prices and a weaker exchange rate combined with historical trends that suggest that prices usually increase during the third quarter of the year. This should however be seen with a caveat. Over the past months market, stakeholders have noted weak demand. Given the third wave and the economic destruction associated with the recent unrests, further pressure on demand could limit the degree of price increases.

Figure 4: Local chicken prices



*Area in grey represents Absa AgriBusiness forecasts