



# Agri Trends

31 January 2017

## Strengthening trend across the beef market

The widespread rainfall during January supported the restoration of pastures. Producers are of the opinion that there will be enough grazing to rebuild their herds. However, this might mean that heifers will be held back and less will be made available for marketing. As a result, there have been price increases in the weanercalf market. Beef prices have also strengthened across all classes. On the JSE, a notable movement was observed recently with the March 2017 beef contract price increasing to R41/kg, which is clearly indicative of the general strength in the livestock market. Beef producers suffered a great loss due to the 2016 drought. The expectation is that 2017 will deliver better weanercalf prices. We also expect the widespread rainfall and lower maize prices to support the rebuilding phase of herds.

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# Beef market trends

## International

New Zealand steers traded 0.76% lower over the past week at 5.20NZ\$/kg and cows traded sideways at 3.90NZ\$/kg compared to a week ago. In the US, beef prices for the week were higher as follows: Top side trade 5.61% higher at \$209,72/cwt. Rump was 4.68% higher at \$251.65/cwt and Strip loin was 1.28% lower at \$554.16/cwt. Chuck traded 3.71% higher at \$231,05/cwt. Brisket traded 0.07% higher at \$206,71/cwt. The carcass equivalent price was 1.04% higher at \$283.51/cwt.

### Bullish factors

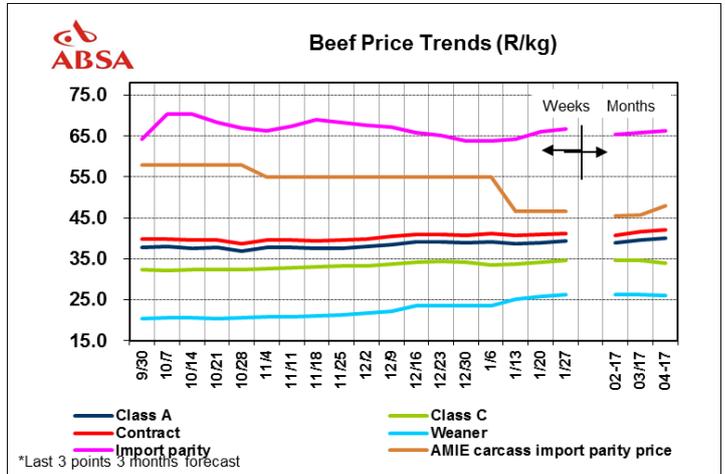
- Short term demand and supply fundamentals in the US market are positive.
- Supplies from Australia remain tight, and offerings from New Zealand are reportedly lower than typical for this time of year. This should support market prices.
- Meat & Livestock Australia’s (MLA) expect the Australian cattle slaughter to decline by 3% to 7.1 million head. This is due to the expectation that many producers will be retaining as many cattle as possible to replenish depleted herds; even though the herd is larger than last year, it is still historically low.
- US President Donald Trump has signed an executive action to pull out of the Trans-Pacific Partnership (TPP) negotiations. As a result, the US beef association is concerned producers would lose export sales and that meaningful market access gains will need to be realized. For the US beef industry trade and expanding access to foreign markets are critically important.

### Bearish factors

- Australian cattle herd is forecast to grow by 3% to 26.9 million head in 2017 according to (MLA). The herd increase is expected during the second half of 2017, and will start to impact the cattle market as the increase progresses.

## Domestic

Beef prices remain strong in January following strong gains during the month of December. Favourable rainfall across the country are helpful to prices, as producers can keep cattle longer on the ground, which limit the number of cattle to be slaughtered. The forecasted Absa beef prices are as follows: Class A prices are 1.11% higher at R39.45/kg. Class C prices are 1.03% higher at R34.60/kg. C grade prices normally follow a downward trend in December, but last year we did not see that trend due to less available supplies. The average weaner calf prices was 1,3% higher at R26.17/kg. The weaner calf market was very strong during the December month on the back of good demand and scarcity of the calves. This has led to the strength in the weaner prices, with other markets reportedly reaching levels of R30/kg. The



average hide price over the past week was 0.43% lower at R15.10/kg from the previous week's price of R15.17/kg green. The recent strength of the currency is one of the factors putting pressure on hide prices as well as pressure from the demand side. NB\* Hide prices are determined by the average of RMAA (Red Meat Abattoir Association) and independent companies.

### *Bullish factors*

- As the new marketing year kicks off from May, and maize producer deliveries start increasing, we expect weaner calve demand to increase as the maize price declines.
- Talks of a bilateral agreement between South- Africa and China to promote beef exports can also support prices. However there's uncertainty when this agreement will be finalized.
- Due to the current shortage of weaner calves, producers are also buying more weaner calves that were not usually in demand for fattening purposes. Thus stimulating prices in the short term.

### *Bearish factors*

- If we do not get follow up rains in the February- March period, maize production could be placed under strain, resulting in higher maize prices. Higher maize prices will in turn increase feed costs for feedlots ultimately contributing to weaner prices experiencing pressure anew.
- Normally the increased supply for weaner calves during the weaner calve season from March until May could strain weaner calf prices. However, this year's shortage of weaner calves and breeding animals post the 2016 drought can lead to price support. If so, prices may not trade seasonally lower as in the past.

### **Outlook**

Internationally, tight Australian and New Zealand supplies may support prices. With Trump coming into power, we are likely to see further currency volatility which will be an important driver in prices. Domestically, the outlook for beef prices is positive for 2017.

## Mutton market trends

### International

The New Zealand lamb prices were sideways this week compared to last week. Lamb prices closed sideways this week at NZ\$76.5/head for 15kg lamb. Lamb prices were sideways at NZ\$107.1/head for 21kg lamb. Ewe prices closed sideways at NZ\$64.1/head for a 21kg ewe. The import parity price for lamb was 0.86% higher at R56.72/kg while the import parity price for mutton was 0.82% higher at R38.13/kg.

#### Bullish factors

- Rising global demand in China and the Middle East support prices to stay high. Supply reaction may lead to prices declining in the future.
- New Zealand lamb prices have remained relatively steady in January, underpinned by strong domestic and international demand.
- Consumption growth in Africa is expected to increase

#### Bearish factors

- New Zealand prices typically decline at this time of year as production increases in line with seasonal trends.

### Domestic

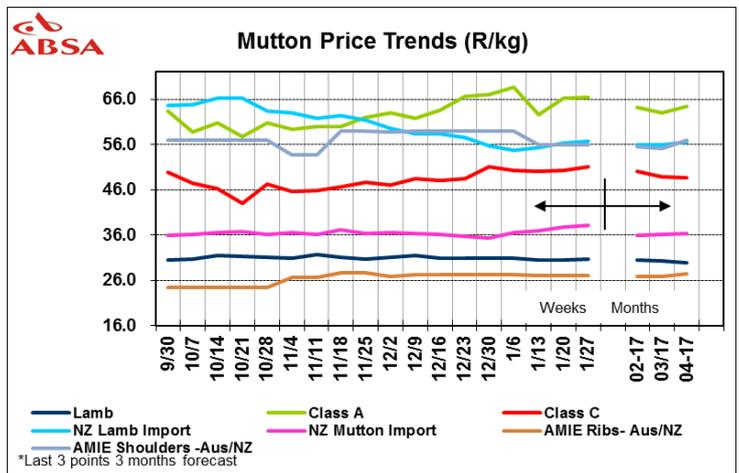
There has been a strengthening trend across all classes, with mutton prices following an upward movement. Mutton prices are expected as follows: The average Class A prices were 0.45% higher at R66.50/kg and the average Class C was 1.36% higher at R51.00/kg. The average price for feeder lambs traded 0.79% higher at R30.62/kg. The average price for dorper skin was 12.41% higher at R46.00/skin and merinos were 5.62% higher at R94.55/skin.

#### Bullish factors

- Favorable weather outlook may support the livestock market as it may revive pastures and support herd rebuilding. This may keep livestock prices high.
- Month end buying may support prices.

#### Bearish factors

- Slowdown in demand during the month of February as with previous seasonal trends.



## Outlook

Internationally, strong demand from China and the Middle East may support prices in the short term. Local prices remain supported into the New Year following strong demand during the festive season. The strengthening trend across the meat classes may be further supported by month end buying.

## Pork market trends

### International

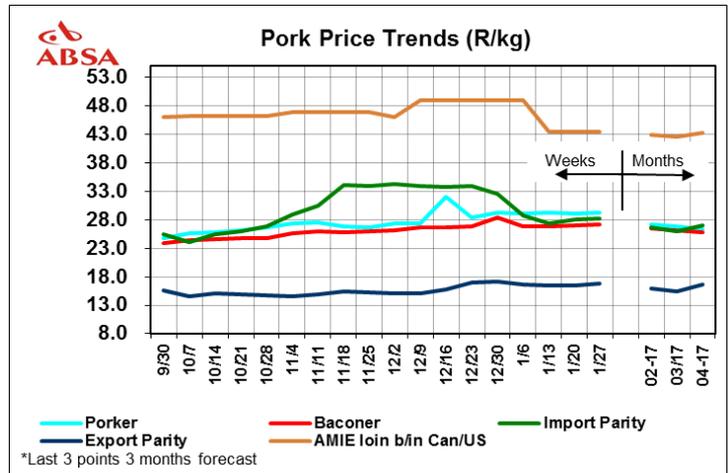
The average weekly US pork prices were mostly higher over the past week. Carcass prices were 2.9% higher at US\$81.30/cwt, Loin prices were 3.3% lower at US\$77.86/cwt, Rib prices were 1.2% higher at US\$118,75/cwt and ham was 2.3% higher at US\$62.16/cwt.

#### Bullish factors

- The demand for US pork gained momentum and reached a monthly record in November

#### Bearish factors

- Lower global prices for red meat backed by declines in feed cost.
- Pork supply continues to remain large. The large supplies are likely to cap the extent of the strength the market can sustain.
- US pork processing industry profits have supported a number of new processing plants.



### Domestic

Domestic prices continued to strengthen week on week. Prices remain high since gaining momentum during the festive season on the back of good demand. The Absa forecast prices were as follows: Porker prices are 0,3% higher at R29.18/kg while Baconer prices are 0.2% higher at R27.10/kg.

#### Bullish factors

- Pork prices remain supported following improved demand during the festive period.
- Pork remains the cheaper protein when compared with beef and mutton, and this may support the demand side of the product.
- Prices are expected to be supported by month end buying.

#### Bearish factors

- The strengthening Rand and improvement in feed costs due to expected good crop may add pressure on prices.

## Outlook

Internationally, the large supplies may limit the extent of the strength the market can sustain. Locally, the outlook for the pork industry is more positive from May onwards, especially with the bigger maize crop that is expected. The bigger crop will bring relief in feed costs.

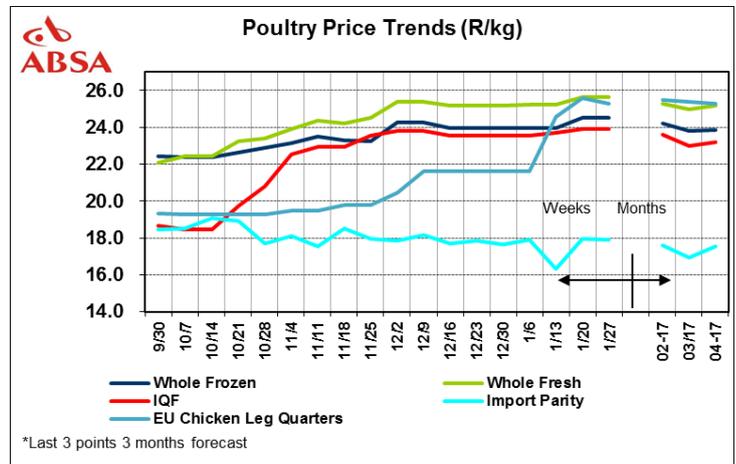
# Poultry market trends

## International

Poultry prices in the US were mostly higher over the past week. Whole bird prices were 2.08% lower at 83.38USc/lb. Breasts traded 1.06% higher at 95,50Sc/lb, whilst Leg Quarters traded 1.56% higher at 32,50USc/lb.

### Bullish factors

- Bird Flu in the EU and the related ban on imports support prices.
- Ongoing Chinese supply side shortage will result in Chinese imports to remain high benefitting countries such as New Zealand and Spain to directly exporting poultry to China. Chinese consumers pay high prices for preferred products such chicken feet and wings.



### Bearish factors

- Russia poultry production growth stagnates due to an oversupply for the past two years. Producers are making losses.

## Domestic

The average poultry prices over the past week remained steady. The average prices for frozen birds were sideways at R24.50/kg during the week. Whole fresh medium bird prices were sideways at R25.65/kg while IQF prices were sideways at R23.89/kg.

### Bullish factors

- Increasing trade protectionism by the South African government may improve the sustainability of the South African industry.
- Underlying support from the higher livestock prices
- In order to limit losses, there are planned temporary or permanent closures of less efficient plants. Other plants reduce the number of shifts in order to limit losses and save jobs. This limits the output and supply of broiler meat which may lead to future price support.
- Improved demand during month end.

### Bearish factors

- The new temporary import levy of 13.9% on frozen on the bone poultry meat from the EU expires by the 3rd of July 2017.
- Increasing trade protectionism by other exporting countries may divert exports to countries such as South Africa with comparatively less trade protection

- In expectation of a lower new season maize price and feed costs, consumers may expect that the price of broiler meat should decline as well from May 2017 onwards. This may add pressure on prices.

## Outlook

Internationally, the emergence of avian flu will prove challenging for the poultry industry going forward. Concerns regarding bird flu will pose as a challenge for the global poultry outlook, and will likely limit international trade. Locally, the largest contributor in the short term to support domestic broiler prices is the outbreak of Bird flu in the EU. The lower prices for maize from May onwards will improve the sustainability of broiler production.

Livestock Prices (R/kg) week ending 27 January 2017	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	1.11	39.45	39.02	0.45	66.50	66.20	0.3	29.18	29.09	0	25.65	25.65
ClassC/ Baconer / Frozen birds	1.03	34.60	34.25	1.36	51.00	50.31	0.2	27.10	27.05	0	24.50	24.50
Contract / Baconer/ IQF	0.91	41.27	40.90	0.29	67.10	66.91	0.3	28.14	28.07	0	23.89	23.89
Import parity price	0.88	66.66	66.07	0.82	38.13	37.82	0.9	35.1	34.8	0	17.9	17.9
Weaner Calves/ Feeder Lambs/	1.3	26.17	25.83	0.79	30.62	30.38		-	-			
Specific Imports: Beef trimmings 80vl/b/Mutton Shoulders/Loin b/in /chicken leg1/4	0	46.57	46.57	0	56.00	56.00	0	43.50	43.50	-1.17	25.30	25.60

## Wool market trends

### International

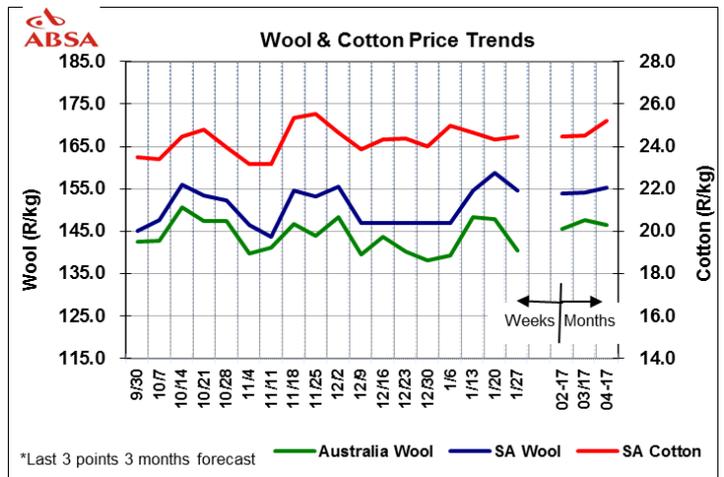
The Australian wool market prices were higher and closed 1.53% lower at Au1412c/kg at the recent auction.

#### Bullish factors

- Wool prices were relatively unaffected by Chinese New Year demand concerns this week

#### Bearish factors

- Lower quality clips tended cheaper this week at the Australian auction.
- The continued strengthening of the Australian dollar against the US dollar continued to add pressure to prices.



### Domestic

Domestic wool market prices were 2.61% lower at the most recent sale of the season to close at R154.70 (Clean).

#### Bullish factors

- The quantity of wool delivered to market is declining. 30.55% less volumes were offered at this week's auction compared to the volumes at the previous auction.
- The competition between buyers particularly on the finer wool was good at the recent auction.

#### Bearish factors

- The Rand strengthened by 1,9% against the US Dollar compared with the average rate at the previous sale.
- Concerns on the declining supply of good quality wool on offer held back the market
- New Year festivities in China may add pressure on demand.

### Outlook

Internationally, prices are expected to move sideways as the volumes on offer are expected to be met by fairly good demand. Locally, the market is expected to remain within these levels for the remainder of the season. The movement of currency will continue to drive the domestic market.

## Cotton market trends

### International

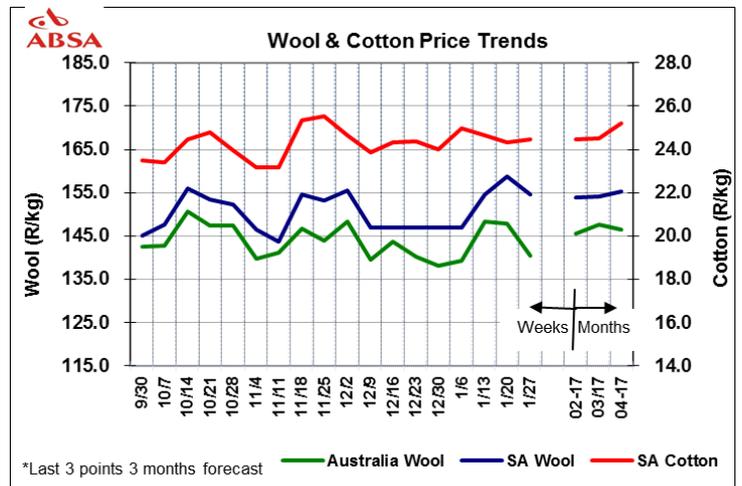
Cotton prices traded 1.89% higher over the past week and closed at US72.26c/lb.

#### Bullish factors

- Big export sales supported cotton prices over the past week. Net upland cotton sales for 2016/17 came in at 457,000 running bales, up 65% from the four week average.
- The strong Chinese demand for US cotton is currently lending support to the cotton price.

#### Bearish factors

- In a monthly report out on Friday, Cotlook lowered its forecast for the world cotton deficit from 1.58million tons to 1.24million tons. Production continues to surprise to the upside.



### Domestic

SA cotton prices traded 0.66% higher to close at R24.49/kg. The increases in prices were in spite of the strength in the South African currency over the past week, but in line with the higher international prices. The Rand strengthened by an average of 1.40% weeks on week. The cotton industry remains the net exporter of cotton, and the industry will therefore be influenced by the movement of the currency.

### Outlook

Internationally, increased cotton supplies are expected to weigh down on prices. Cotlook expects world cotton production in 2016/17 to increase by 8% to 22.8million tons, which may lead to pressure on prices during the latter half of the season. Locally, the exchange rate will continue to affect market prices as the cotton market is export driven.

**Fibres Market Trends**
**Week ending 27 January 2017**

<b>Wool prices</b>	<b>%</b>	<b>SA prices (c/kg)</b>	<b>%</b>	<b>Australian prices (SA c/kg)</b>	<b>%</b>	<b>Australian Future – Mar 2017 (AU\$/kg)</b>	<b>%</b>	<b>Australian Future Jun – 2017 (AU\$/kg)</b>
<b>Wool market indicator</b>	<b>-2.61</b>	15470	<b>-3.55</b>	14142		-		-
<b>19µ micron</b>	<b>-0.08</b>	18096	<b>-3.18</b>	17217	<b>1.21</b>	16.70	<b>3.48</b>	16.66
<b>21µ micron</b>	<b>-4.05</b>	14290	<b>-4.53</b>	14282	<b>-0.71</b>	14.00	<b>-0.72</b>	13.70
<b>Cotton prices</b>		<b>SA derived Cotton (R/kg)</b>		<b>New York A- Index (US\$/kg)</b>		<b>New York future Mar- 2017 (US\$/kg)</b>		<b>New York future May-2017 (US\$/kg)</b>
<b>Cotton Prices</b>	<b>0.66</b>	24.49	<b>2.09</b>	1.83	<b>2.1</b>	1.64	<b>2.0</b>	1.65

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