



# Agri Trends

07 February 2017

## Total beef slaughtering is expected to decline

Compared to the previous year (2015) total beef slaughtering is estimated to decline by 8% in 2016. It is expected that slaughtering will continue to decline until 2018 as herd rebuilding continues after the recovery of good rains and improved grazing conditions. Beef prices increased during the latter part of 2016 due to a recovery in grazing conditions leading to a decline in slaughtering. Currently, domestic beef prices were supported by higher import parity prices and a weaker exchange rate limiting imports. It is expected that producer prices will increase by more than 30% in the next three years before tapering off and following inflation. Weaner calf prices are also expected to increase substantially as producers are rebuilding herds supported by lower maize prices.

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# Beef market trends

## International

New Zealand steers traded sideways over the past week at 5.21NZ\$/kg and cows traded sideways at 3.92NZ\$/kg compared to a week ago. In the US, beef prices for the week were mostly lower as follows: Top side trade 2.18% lower at \$205,15/cwt. Rump was 10.11% higher at \$277.09/cwt and Strip loin was 3.66% lower at \$533.89/cwt. Chuck traded 2.58% higher at \$237,02/cwt. Brisket traded 0.41% lower at \$205,86/cwt. The carcass equivalent price was 0.29% lower at \$282.69/cwt.

### Bullish factors

- Herd rebuilding in Australia is supporting prices
- In New Zealand, supply issues are keeping the bull beef estimates positive,
- Better demand from China after the New Year celebrations may support prices
- Sentiment for imported beef into the US from the New Zealand market remains positive. Supply continue to be tight whilst the end user demand is strong.

### Bearish factors

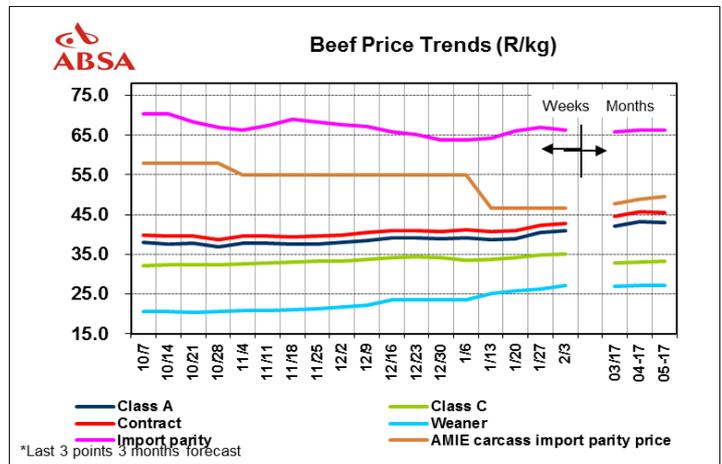
- New Zealand cow meat prices could ease as more animals are culled from the dairy herd.
- The Chinese market is quiet as New Year celebrations are underway

## Domestic

Market fundamentals continue to remain bullish for the beef industry, with beef prices having continued with the recent gains. Favourable rainfall across the country have been 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 1.27% higher at R40.77/kg. Class C prices are 0.36% higher at R34.98/kg. The average weaner calf prices continued with the latest gains and was 3,6% higher at R27.11/kg. The weaner calf market was very strong in recent weeks 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 2.45% lower at R14.73/kg from the previous week's price of R15.10/kg green. The recent strength of the currency and pressure from the demand side has been adding pressure on prices. There may also be stocks still sitting from December, which further add pressure on prices. 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*

- According to the levy admin, 22.9% more cattle was slaughtered during the month of December 2016 compared to November 2016. This figure was however 9.7% lower than in December 2015. There are normally more volumes slaughtered in December due to higher demand during that month.
- 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 calf 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 continue to support prices. Domestically, the outlook for beef prices is positive for 2017 with beef prices recording good gains over the past couple of weeks.

## 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\$77.6/head for 15kg lamb. Lamb prices were sideways at NZ\$108.7/head for 21kg lamb. Ewe prices closed sideways at NZ\$65.1/head for a 21kg ewe. The import parity price for lamb was 1.07% lower at R56.83/kg while the import parity price for mutton was 1.03% lower at R38.20/kg.

#### Bullish factors

- Global markets continue to strengthen on the back of tight supplies.
- In New Zealand, the supply gap is expected to result in firmer prices for lamb through the Easter production period. The weather induced slow supply and lower numbers has helped to prevent large quantities having to be marketed all at once
- Strong demand from the Chinese market.

#### Bearish factors

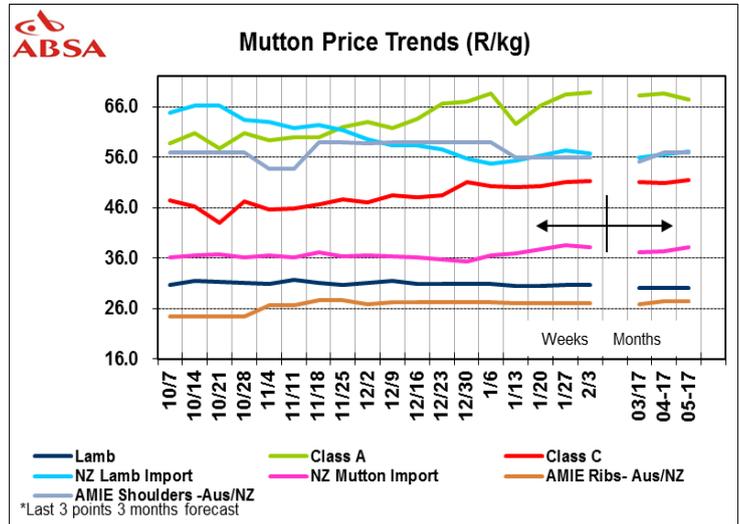
- New Zealand prices typically decline at this time of year as production increases in line with seasonal trends.

### Domestic

Mutton prices continued to see strong gains over the past week. Prices are expected to remain steady in the short term in line with favourable weather conditions which encourage herd rebuilding. Mutton prices are expected as follows: The average Class A prices were 0.57% higher at R68.90/kg and the average Class C was 0.34% higher at R51.30/kg. The average price for feeder lambs traded 0.23% higher at R30.69/kg. The average price for dorper skin was 1.63% lower at R45.25/skin and merinos were 5.81% lower at R89.06/skin.

#### Bullish factors

- 24.36% more sheep was slaughtered during December 2016 compared to December 2015. However, 19.48% less sheep was slaughtreted during December 2016 compared to the same time in 2015. The Northern Cape saw the highest number of sheep slaughtered in the country during December 2016. A total of 208434 sheep was slaughtered in that region alone. (levy Admin)
- Favorable weather outlook may support the livestock market as it may revive pastures and support herd rebuilding. This may keep livestock prices high.



### *Bearish factors*

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

### **Outlook**

Internationally, lamb prices may be supported as they start to respond to supply shortages. The mutton market is expected to remain bullish in the near term. Local prices remain supported into the New Year following strong demand during the festive season.

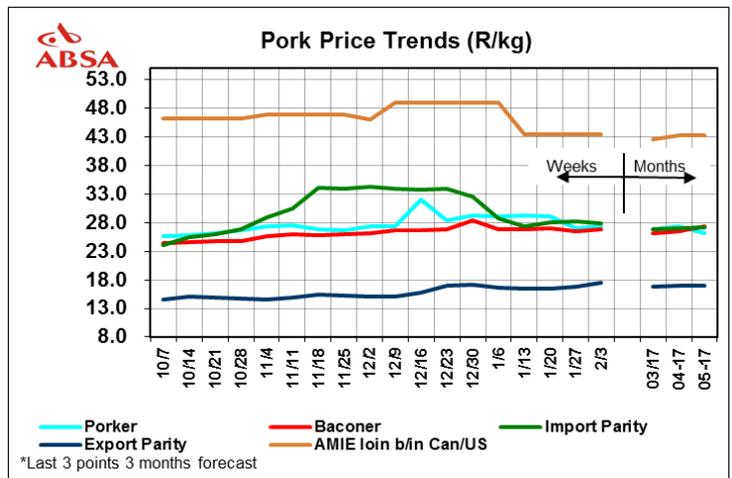
## Pork market trends

### International

The average weekly US pork prices were mixed over the past week. Carcass prices were 2.3% higher at US\$83.19/cwt, Loin prices were 4.4% lower at US\$74.43/cwt, Rib prices were 1.1% higher at US\$120,08/cwt and ham was 2.8% lower at US\$60.43/cwt.

#### Bullish factors

- Positivity for pork imports continue to emerge from China. The continuing impact of environmental policies on industry restructuring will limit expansion in China. The slow recovery of domestic production in China will keep prices high.



#### Bearish factors

- There were large volumes of slaughter hogs which made their way to market in the US during the fourth quarter of 2016
- 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.

### Domestic

Domestic prices lost some ground week on week. This might be due to consumer resistance from higher prices. Prices are however expected to remain steady moving forward with underlying support from the higher livestock prices. The Absa forecast prices are expected as follows: Porker prices are 1,1% higher at R27.38/kg while Baconer prices are 0.9% higher at R26.80/kg.

#### Bullish factors

- Import parity prices strengthened week on week on the back of the weaker exchange rate.
- During December 2016, 2.88% less pork was slaughtered compared to November 2016. This figure is 15.7% lower than what was slaughtered in December 2015. (Levy Admin)
- Underlying support from livestock prices.

### *Bearish factors*

- The strengthening Rand and improvement in feed costs due to expected good crop may add pressure on prices.
- Prices may ease following increased update during month end.

### **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.

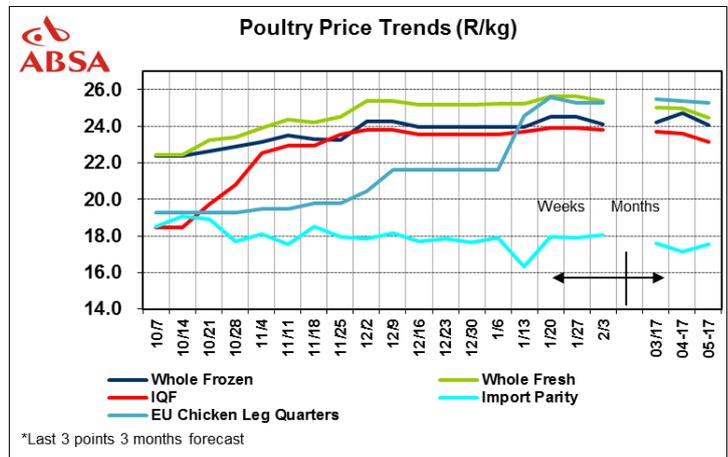
# Poultry market trends

## International

Poultry prices in the US were mostly higher over the past week. Whole bird prices were 0.24% higher at 83.56USc/lb. Breasts traded 4.19% higher at 99,50Sc/lb, whilst Leg Quarters traded sideways at 32,50USc/lb.

### Bullish factors

- Rising Economic Growth in the US may support demand.
- Risks associated with the bird flu outbreak add a bullish tone to the poultry market. There is uncertainty on the export demand effects of avian influenza outbreaks in several important EU and Asian countries.
- Predictions for US broiler production in the first quarter of 2017 were slightly increased due to recent strong hatchery data and an apparent recovery in bird weights during the fourth quarter



### Bearish factors

- Low feed prices support favourable poultry production.
- Uncertainty in the US trade relations with Mexico and Cuba could become a problem for exports of US leg quarters.

## Domestic

The average poultry prices over the past week lost some ground. This may be due to pressure from consumers in response to the higher prices as prices seasonally decline during the January and February months. Even with this pricing pressure, it seems the industry is doing their best to maintain the price. The average prices for frozen birds were 1.61% lower at R24.11/kg during the week. Whole fresh medium bird prices were 1.15% lower at R25.36/kg while IQF prices were 0.41% lower at R23.79/kg.

### Bullish factors

- Increasing trade protectionism by the South African government may improve the sustainability of the South African industry.
- Poultry prices are enjoying underlying support from the higher livestock prices
- Planned temporary or permanent closures of less efficient plants may limit supply.

### Bearish factors

- Lower import prices
- 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. After that, the return of exports to the local market may pressure prices.

- There may be pressure from producers for the poultry industry to reduce prices as prices are seasonally lower during January and February. Demand may ease slightly after increased spending during month end.
- 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, 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 3 February 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	0.70	40.77	40.49	0.57	68.90	68.51	1.1	27.38	27.09	-1.15	25.36	25.65
ClassC/ Baconer / Frozen birds	0.36	34.98	34.85	0.34	51.30	51.13	0.9	26.80	26.57	-1.61	24.11	24.50
Contract / Baconer/ IQF	0.56	42.60	42.36	0.97	70.00	69.33	1.0	27.09	26.83	-0.41	23.79	23.89
Import parity price	-1.07	66.28	67.00	-1.03	38.20	38.59	2.9	36.1	35.1	0.63	18.0	17.9
Weaner Calves/ Feeder Lambs/	3.6	27.11	26.17	0.23	30.69	30.62		-	-			
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	0	25.30	25.30

## Wool market trends

### International

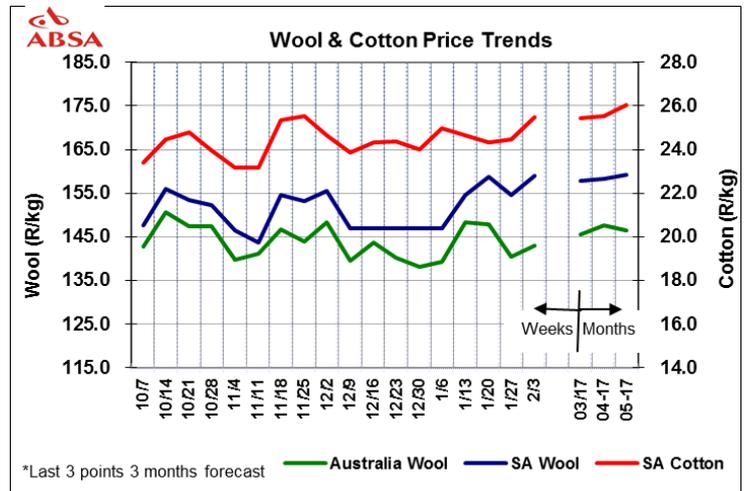
The Australian wool market prices were higher and closed 0.71% higher at Au1422c/kg at the recent auction.

#### Bullish factors

- Global competition ensured prices remained predominantly strong at the recent auction.
- Chinese buyers also starting to return to their offices after the holidays should support prices at the coming auction.

#### Bearish factors

- China is celebrating a national week holiday for their New Year which may weigh down on prices. China is Australia's biggest consumer of wool.
- Resistance from the buyers in response to the higher prices might have added pressure to prices.



### Domestic

Domestic wool market prices were 2.71% higher at the most recent sale of the season to close at R158.90 (Clean).

#### Bullish factors

- The Rand weakened by 1,3% against the US Dollar compared with the average rate at the previous sale.
- Good competition from the buyers.
- Smaller lots of top quality long wool delivered excellent returns to sellers.
- The quantity of wool delivered to the market is declining. 21.39% less volumes were offered at this week's auction compared to the volumes at the previous auction.

#### Bearish factors

- New Year festivities in China may have added pressure on demand.

### Outlook

Internationally, demand may be boosted as the Chinese return to the market after the New Year holiday. 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

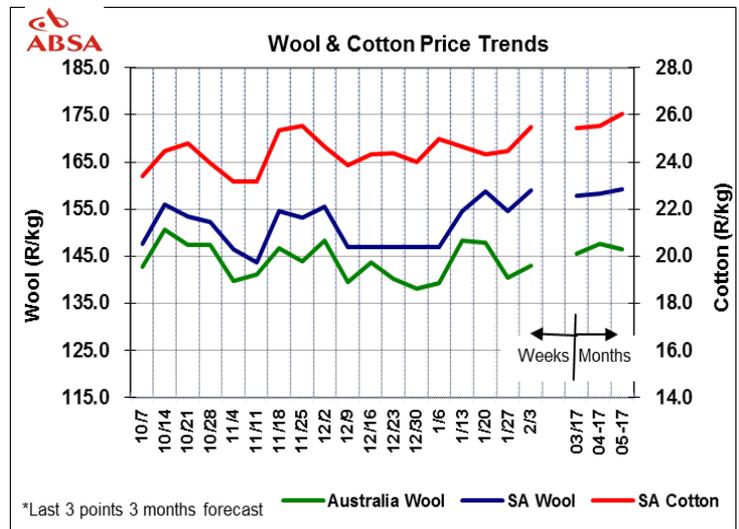
Cotton prices traded 1.27% higher over the past week and closed at US73.18c/lb.

#### Bullish factors

- US export sales data came in at 328,700 running bales for last week, which was strong. Market participants are blaming the increases in prices on purchases ahead of the expiry of the March futures contract.

#### Bearish factors

- The cash shortage in India is disruptive to the cotton market. Producers are withholding supply from the market, unwilling to sell, due to the uncertainty to receive payment for delivery.



- The International Cotton Advisory Committee (ICAC) acknowledged the prospect of higher sowings, seen growing by 5% year on year to 30.6million hectares encouraged by higher cotton values.
- International Cotton Advisory Committee forecast another drop in world inventories next season.

### Domestic

SA cotton prices traded 4.08% higher to close at R25.49/kg. The increases in prices were in line with the weakening of the South African currency over the past week and also supported by the higher international prices. The Rand weakened by an average of 0.99% week on week. The domestic cotton industry remains a net exporter of cotton; therefore there industry will be influenced by the currency movements.

### Outlook

Internationally, pressure from heavy stocks in the US may impact prices negatively. Locally, the exchange rate will continue to affect market prices as the cotton market is export driven.

**Fibres Market Trends**
**Week ending 3 February 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>	2.71	15890	2.56	14504		-		-
<b>19µ micron</b>	-3.06	17542	2.96	17727	0.60	16.80	-2.16	16.30
<b>21µ micron</b>	2.89	14703	2.15	14589	1.43	14.20	0.00	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>	4.08	25.49	3.06	1.89	3.7	1.70	3.8	1.71

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