



Retail and Business Bank
Sector Economics
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Agri Trends: Livestock and Hide Report

High feed cost and constrained demand are squeezing margins

Beef: Global beef prices should find demand support throughout 2021, thus providing local price support (despite pressures on local consumer demand), This could alleviate cost pressures on producers.

Mutton: Class A, Class C and feeder lamb prices moved only marginally week on week but were substantially higher than a year ago. Given the current high level, price upside seems limited, although lamb and mutton usually see demand support during the end of the first quarter, around Easter.

Pork: After price increases throughout the second half of 2020, local pork prices seem to be levelling out. Prices could trade sideways over the next three months due to timid demand and cost pressures, squeezing margins.

Poultry: The FAO notes that poultry prices showed the largest increase of all global meat subcategories in January, underpinned by Avian Influenza outbreaks in Europe and increasing feed cost. Locally, margins are under pressure due to the increasing cost of feed and demand constraints. Prices are likely to move sideways over the next three months.

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We are implementing some changes to our Agri Trends Reports in order to improve your user experience and generate the insights in a shorter time for more timely reporting. If you have any feedback please do not hesitate to send it to Marlene.Louw@absa.africa

Reporting on Hide prices are included in a separate report. Kindly contact us to subscribe.

Disclaimer: Although everything has been done to ensure the accuracy of the information, Absa Bank takes no responsibility for actions or losses that might occur due to the use of this information.

Beef Market Trends

International Beef Market

International beef prices are showing divergent trends, with US Beef Carcass Equivalent prices increasing 4.9% w-o-w and 11.9% y-o-y, whilst New Zealand beef prices increasing marginally w-o-w but falling y-o-y. The latter is likely attributable to dampened export demand for high-value New Zealand products compared to pre-pandemic levels. In the US, prices are supported by lower slaughter numbers and strong local and export demand. Global prices are likely to be supported by a combination of strong demand and lower global production in 2021.

	R/USD	R/NZD	US Beef Carcass Equivalent USD/cwt	NZ Steers NZc/kg	NZ Cows NZc/kg	AMIE Carcass Import Parity Price for Beef Trimmings (R/kg)
Price	15.17	10.96	336.7	485	350	72.45
w/w	0.9%	1.5%	4.9%	1.5%	0.9%	-14.8%
m/m	3.6%	5.6%	19.5%	-2.5%	-3.6%	-12.7%
y/y	3.6%	14.4%	11.9%	-8.5%	-11.4%	29.4%

Local Beef Market

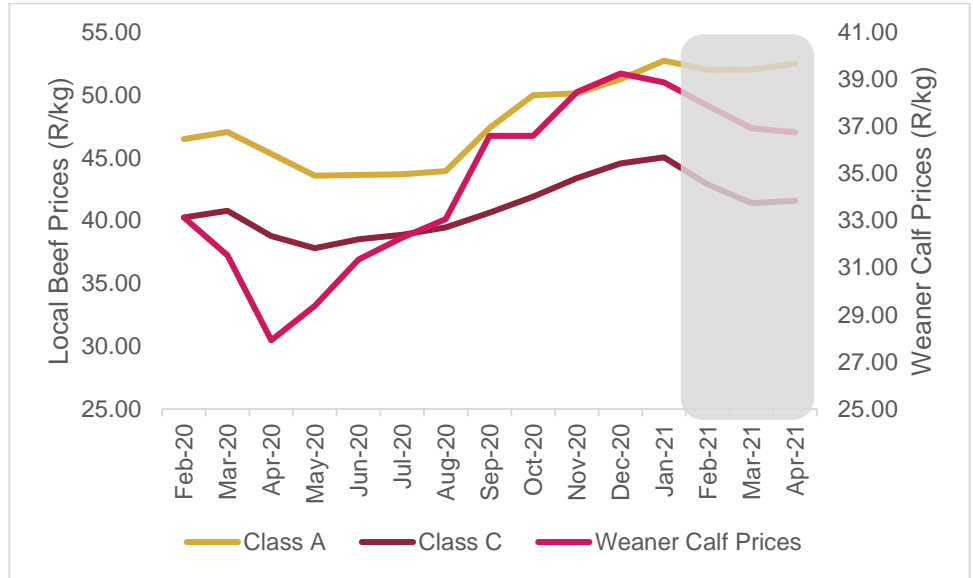
Average Class A prices increased by 2.2% week-on-week to R51.04/kg. Class C prices decreased by -0.9% to R43.70/kg week-on-week. The local weaner calf price has trended downwards compared to last week and, even more so, compared to last month. Weaner calf prices could see price support from lower availability, however, this week saw prices only moving marginally to R37.25/kg. Current weaner prices are 8% higher than a year ago.

	Class A (R/kg)	Class C (R/kg)	Beef Contract Price (includes hides) (R/kg)	Weaner Calf (R/kg)
Price	51.04	43.70	51.54	37.25
w/w	2.2%	-0.9%	2.2%	-1.6%
m/m	-1.0%	-2.4%	1.0%	-5.57%
y/y	12.4%	9.3%	13.1%	8%

Outlook

Seasonal patterns suggest abattoir purchase and weaner calf prices trending lower over the next three months, with the impact on Class C being more pronounced than on Class A (see figure below). However, we see significant upside price risk for class A and weaner calf prices based on fundamentals. While herd rebuilding may reduce weaner calf availability, high cost of feed, in turn, could suppress demand. The resultant price effect would depend on the extent to which cost pressures throughout the chain can be passed on to the final consumer. At present, though, the pass-through potential seems limited given income pressures. Exports could however provide alleviation to cost pressures, while the uptrend in global meat prices may also lift local prices.

Figure 1: Local Beef and Weaner Calf Prices



*Area in grey represents Absa Agribusiness forecasts

Sheep Market Trends

International Sheep Meat Market

New Zealand lamb prices were unchanged w-o-w at NZD6.45/kg and those of ewes increased 3.1% to NZD4.95/kg. Compared with a year ago, New Zealand lamb and ewe prices were down 13.8% and 3.5%, respectively. The larger decrease in lamb is likely due to muted demand for high-value export. Parity prices increased for all periods under consideration predominantly due to favourable exchange rate movements.

	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	10.96	6.45	4.95	79.20	62.26
w/w	1.5%	0.0%	3.1%	1.5%	4.2%
m/m	5.6%	-3.7%	1.5%	2.1%	7.7%
y/y	14.4%	-13.8%	-3.5%	0.0%	10.4%

Local Sheep Meat Market

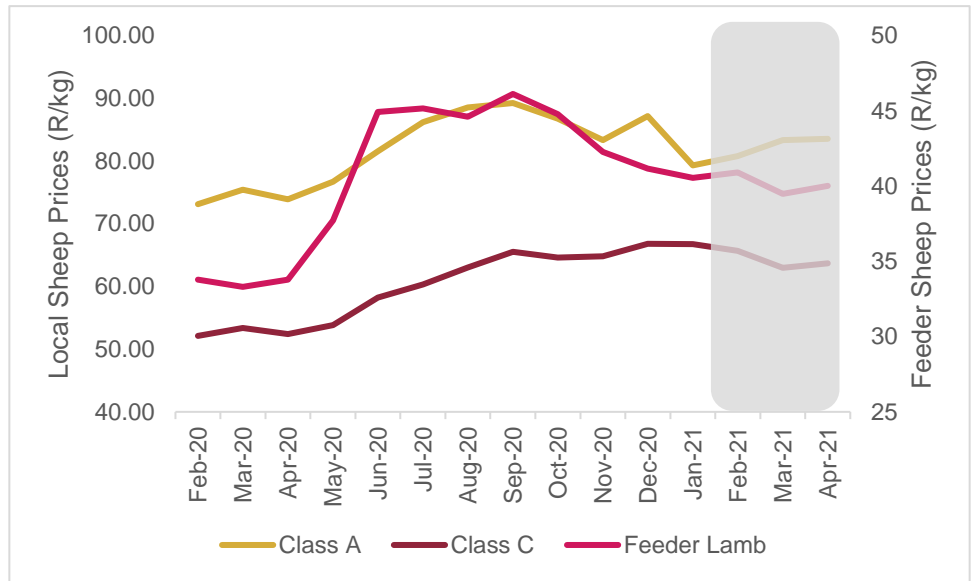
The national average Class A carcass lamb price increased 0.5% on the week to R80.77/kg, while the average Class C carcass price increased 0.8% to R68.35/kg. Feeder lamb prices were 1.6% lower from a week ago but 19% higher y-o-y. Prices of dorper skins were down 2.9% week-on-week to R33.05/skin, while prices of merino skin dropped 5.9%.

	Class A (R/kg)	Class C (R/kg)	Feeder Lamb (R/kg)	Dorper Skin (R/skin)	Merino Skin (R/skin)
Price	80.77	68.35	38.25	33.05	50.83
w/w	0.5%	0.8%	-1.6%	-2.9%	-5.9%
m/m	5.6%	0.7%	-7.1%	-3.9%	-1.6%
y/y	14.4%	27.0%	19.0%	-0.5%	7%

Outlook

Domestic demand for lamb and mutton products was slow in January as consumers and was under pressure and this was reflected in lower prices. Class A, C and feeder lambs prices could however trend upwards over the next three months, in line with seasonal demand support close to the Easter holidays. The effect is less prominent in Class A, which is likely to be affected by consumers facing disposable income pressures.

Figure 2: Local Sheep and Feeder Lamb Prices



*Area in grey represents Absa Agribusiness forecasts

Pork Market Trends

International Pork Market

The US pork carcass price decreased by 9.2% w-o-w versus the slight upward movement seen in mid-January. African Swine Fever is still dampening export trade from Europe, while US exports have also been on decline since 202Q3 with Chinese pork production coming back online, restricting US exports to China. This is resulting in US carcass prices to trend lower. Import parity prices, in turn, showed divergent trends. Pork rib import parity prices increased 13.9% week-on-week, whereas that of ham decreased 4.3%. Month-on-month and year-on-year prices for both however are substantially higher.

	R/USD	US Pork Carcass Price (USD/cwt)	US Import Parity Rib (R/kg)	US Import Parity Ham (R/kg)
Price	15.17	70.98	75.44	33.71
w/w	0.9%	-9.2%	13.9%	-4.3%
m/m	3.6%	2.2%	22.5%	15.2%
y/y	3.6%	-1.5%	16.7%	3.9%

Local Pork Market

Local prices seem to have levelled out in February after strong demand from local and export markets supported pork prices in December and January. Pork, as a more affordable meat alternative, has seen significant price growth in 2020. Constrained income levels of final consumers, combined with increased input cost, could weigh on pork demand and production margins over the coming months. As can be seen from the table below, abattoir purchasing prices for porkers is 22.4% higher y-o-y, whilst baconer prices are 18% higher.

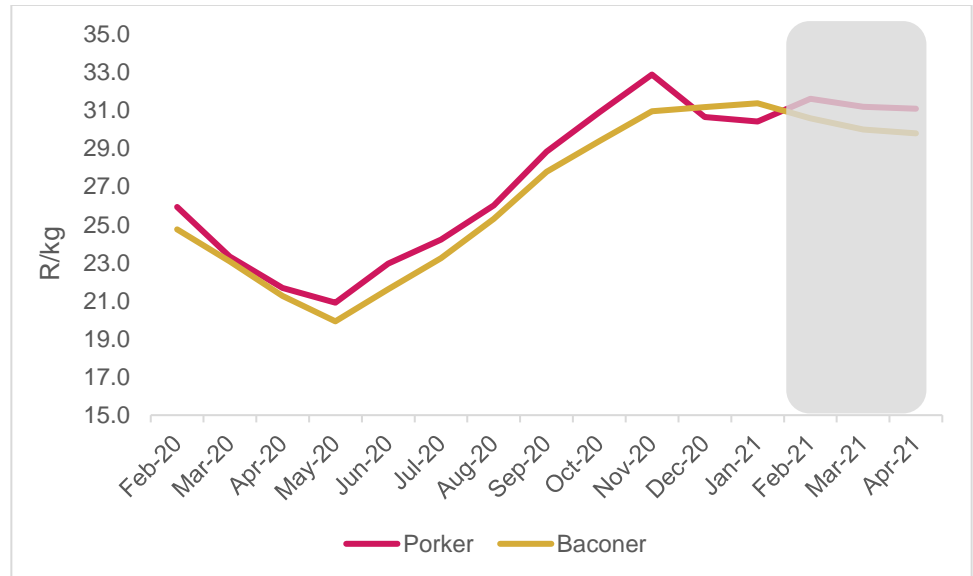
	Porker (R/kg)	Baconer (R/kg)	AMIE Loin (R/kg)
Price	32.88	29.59	46.99
w/w	-2.6%	-0.6%	0.0%
m/m	-5.4%	-4.6%	0.0%
y/y	22.4%	18%	3.3%

Outlook

As mentioned earlier, exports are lower likely due to ASF outbreaks and increased production from China.

Locally, pork prices could trade sideways over the next three months due to cost and demand pressures. Given the price run in 2020, we see some downside risk. Having increased more than some of the other meat categories, pork prices could lose demand support. Even according to seasonal trends, pork prices usually trend lower this time of year.

Figure 3: Local Porker and Baconer Prices



*Area in grey represents Absa Agribusiness forecasts

Poultry Market Trends

International Poultry Market

The price of fresh and frozen MDM increased 1.6% and 1.1% week-on-week, respectively. On the other hand, the price of US leg quarters decreased by 0.9%, with the price of EU leg quarters also tending lower by 1.8% to R27.49/kg. The FAO notes that poultry prices showed the largest increase of all global meat subcategories in January, underpinned by Avian Influenza outbreaks in Europe and increasing feed cost.

	R/USD	US MDM Fresh (USD/lb.)	US MDM Frozen (USD/lb.)	US Leg Quarters (R/kg)	EU Leg Quarters (R/kg)
Price	15.17	26.00	32.5	16.98	27.49
w/w	0.9%	1.6%	1.1%	-0.9%	-1.8%
m/m	3.6%	3.5%	3.2%	13.7%	8.3%
y/y	3.6%	23.8%	23.5%	-4.8%	-3.4%

Local Poultry Market

The average price of frozen whole birds decreased marginally by -0.3% to R26.63/kg. Fresh whole birds decreased more by 3.7% to R26.83. Individually quick frozen (IQF) poultry prices were however 1.8% higher at R26.06/kg week-on-week. The domestic poultry industry is under pressure as high feed costs are squeezing margins. IQF, which can be considered a budget/value product compared to other poultry products, is showing a rising price trend. We believe the growing economic constraints could be driving up demand for budget/value products.

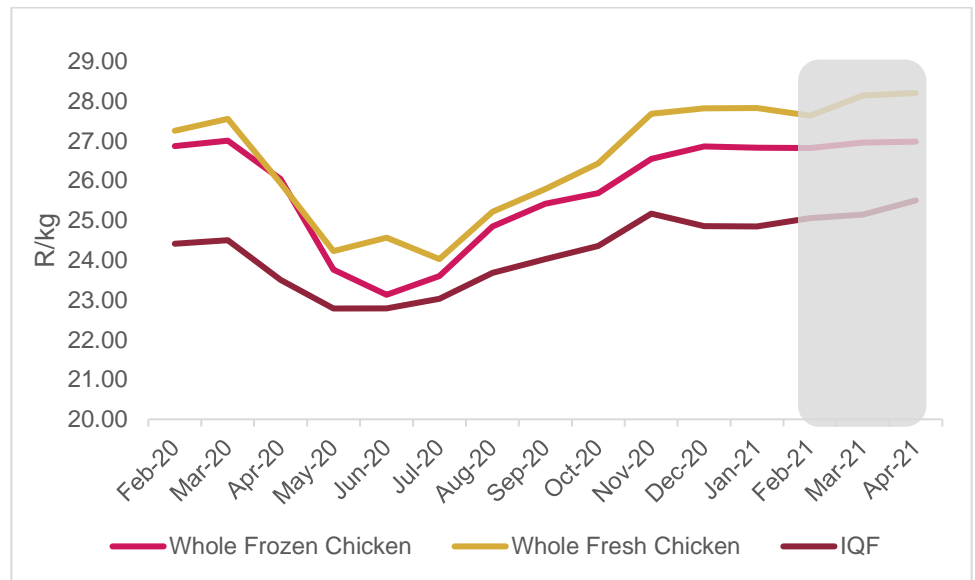
	SA Whole Bird, Frozen (R/kg)	SA Whole Bird, Fresh (R/kg)	SA Individually Quick Frozen (R/kg)
Price	26.63	26.83	26.06
w/w	-0.3%	-3.7%	1.8%
m/m	-0.9%	-3.6%	4.8%
y/y	2.1%	-3.4%	7.5%

Outlook

The international poultry industry is under pressure due to the bird flu outbreaks and resulting trade restrictions, leading to increased poultry prices.

Members of the poultry industry remain highly concerned about increasing costs, particularly of feed components such as maize and soybeans, and note that reduced demand is making it increasingly difficult to pass through the cost pressures. Therefore, poultry prices could trade sideways over the coming three months, with some upside potential as we enter the Easter holiday period.

Figure 4: Local Chicken Prices



*Area in grey represents Absa Agribusiness forecasts