



Agri Trends

10 November 2017

RAND WEAKENS ON INCREASED UNCERTAINTY BUT INTEREST RATES MAY BE KEPT UNCHANGED

There is concern that Government may introduce free tertiary education to avoid another “fees must fall” strike by students. The expansion of the allocation of funds towards free education has traders worried that the already stretched public finances may increase public debt. Governor Kganyago says anchoring inflation expectations around mid-point (4,5%) of the target range of 3% - 6% is one of the most important medium term goals. Monetary policy takes the weak economic growth into account but policy uncertainty and corruption cannot be fixed by the latter. Furthermore, the exchange rate remains the biggest single risk to the inflation outlook. This is amidst weak consumer and business confidence and an expected increase in electricity tariffs. It is rumoured that Moody’s is visiting South Africa currently. Given all the uncertainty mentioned it is not expected that the Monetary Policy Committee will increase interest rates when they meet again in two weeks’ time.

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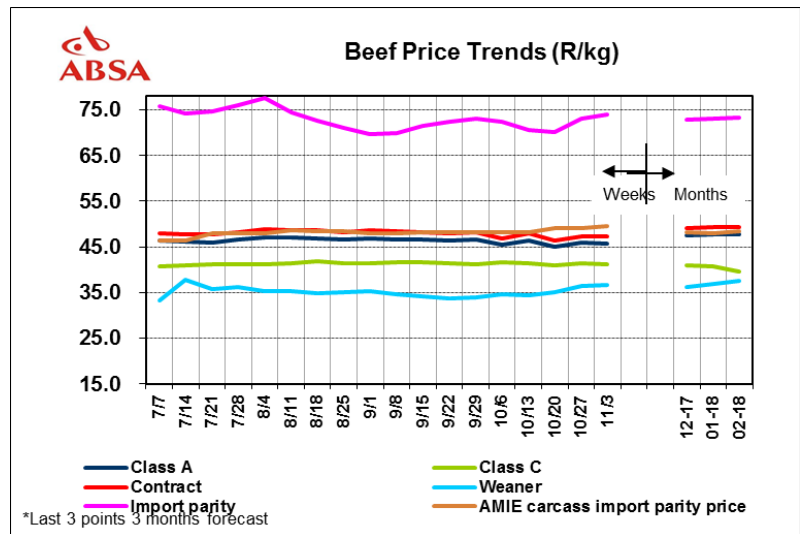
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Beef market trends

International

New Zealand steers traded sideways over the past week at 5.64NZ\$/kg and cows traded sideways at 4.32NZ\$/kg compared to a week ago. In the US, beef prices for the week were mixed as follows: Topside traded 3.21% higher at \$222.85/cwt. Rump was 6.32% higher at \$273.71/cwt and strip loin was 0.76% higher at \$510.48/cwt. Chuck traded 1.74% lower at \$218.93/cwt. Brisket traded 4.82% lower at \$226.15/cwt. The carcass equivalent price was 0.92% lower at \$279.01/cwt.



Bullish factors

- Analysts reported that strong global economic conditions will support demand for beef and prevent the extent of downward pressure on beef prices out to early 2018.
- US September beef exports increased in volume and also improved substantially in value, according to statistics released by USDA. Although lower than the previous month, September beef export volume improved 2% from a year ago to 103,552 tons
- Beef export forecasts for 2017 and 2018 are increased from the previous month due to expected strong global demand for US beef (¹USDA Wasde Nov 2017)

Bearish factors

- Strong slaughter in the US and Australia are expected to dampen demand for imported beef from New Zealand.
- Beef production is has been increased from last month as higher expected placements in the latter part of 2017 and first-half 2018 are expected to support higher marketings and fed cattle slaughter in 2018.(USDA Wasde Nov 2017).

Domestic

Over the past week, beef were mostly lower across the different classes, and lost some gains recorded the previous week. The average Class A prices are 0.2% lower at R45.75/kg. Class C prices were 0.75% lower at R41.21/kg. Weaner calf prices remained strong over the past week. The average weaner calf prices over the past week were 1.2% higher at R36.78/kg. The average hide price over the past week continued to recover slightly, and was 0.40% higher at R12.24/kg green. NB* Hide prices are determined by the average of the RMAA (Red Meat Abattoir Association) and independent companies.

Bullish factors

- Exports of beef are impacted as a result of the lack of supplies. Total beef exports have since followed a declining trend from the beginning of 2017, due to lack of domestic supplies. Total volumes exported (fresh or chilled & frozen) for the first three quarters of 2017 is 19% lower compared to the same period a year ago.
- During September 2017, 12% less cattle were slaughtered compared to August 2017. A total of 209322 head of cattle were slaughtered during September 2017. The September 2017 slaughter figure is also 13% lower than the same time a year ago.
- Grazing conditions already improved in some areas and as the summer progresses it will have a strong re-growth that will enable farmers to rebuild their livestock herds.

¹ USDA Wasde Nov 2017- US Department of Agriculture World Agricultural Supply and Demand Estimates

Bearish factors

- The beef market may be weighed by subdued buying activities during mid- month.
- Consumers are under pressure and some may not be willing to pay more for beef. This may result in a switch to other cheaper products.

Outlook

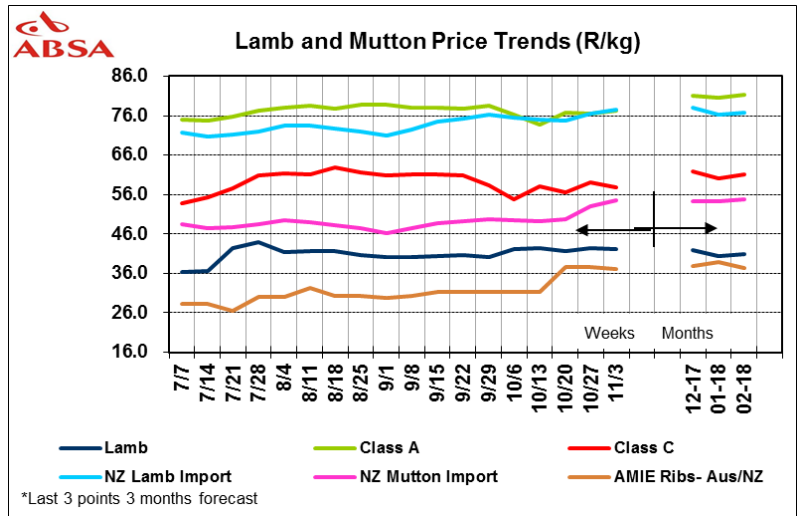
Internationally, analysts reported that strong global economic conditions will support demand for beef and prevent the extent of downward pressure on beef prices out to early 2018. This may bring some price support during the time of higher expected global beef production.

Domestically, the outlook for livestock prices remains bullish in line with seasonal trends.

Sheep meat market trends

International

New Zealand lamb prices traded higher this week compared to last week. Lamb prices closed 0.37% higher at NZ\$108.0/head for 15kg lamb. Lamb prices were 0.33% higher at NZ\$151.2/head for 21kg lamb. Ewe prices traded 2.17% higher at NZ\$98.7/head for a 21kg ewe. The import parity price for lamb was 1.52% higher at R77.63/kg, while the import parity price for mutton was 3.00% higher at R54.58/kg.



Bullish factors

- New Zealand lamb has experienced good growth in US market. US lamb imports from January to August 2017 increased by 19% on the same period last year. While Australia is by far the larger supplier, New Zealand imports have experienced strong growth in the period from January to August this year, with volumes increasing by 40% year on year. Lower Australian lamb production through this period has been one of the contributing factors to this growth.
- In Australia, overall spring pasture growth in 2017 is expected to be less favourable than in 2016, and as a result, the rate of flock rebuilding is expected to slow.

Bearish factors

- There is a growing concern that consumer resistance to the continuing high prices in New Zealand may weigh on prices.
- Alternative proteins are cheaper and pose a constant threat to this market.
- The Australian national flock is forecast to rise by 3% to around 73 million head by the end of June 2018.

Domestic

Lamb and mutton prices were mixed over the past week. Lamb and mutton prices were as follows: The national average Class A lamb prices increased by 1.0% to R77.28/kg and the average Class C prices decreased by 2.3% to R57.83/kg. The average price for feeder lambs traded 0.2% lower at R42.23/kg. The average price for dorper skin is 8.07% lower at R37.00/skin and merinos were 5.71% higher at R101.75/skin.

Bullish factors

- Strong seasonal demand during the warmer months may add support to prices.

Bearish factors

- The sheep meat market may be weighed by subdued buying activities during mid-month.
- Consumer resistance to high lamb and mutton prices may increase price risk. Lamb and mutton remain the most expensive meat on the market. The South African consumer is currently under pressure.

Outlook

Internationally, the demand for the sheep meat market remains strong, supporting prices.

Locally, lamb and mutton may experience subdued demand during mid-month, but the overall outlook points to strong prices as improved seasonal demand as the warmer temperatures are supportive to outdoor grilling.

Pork market trends

International

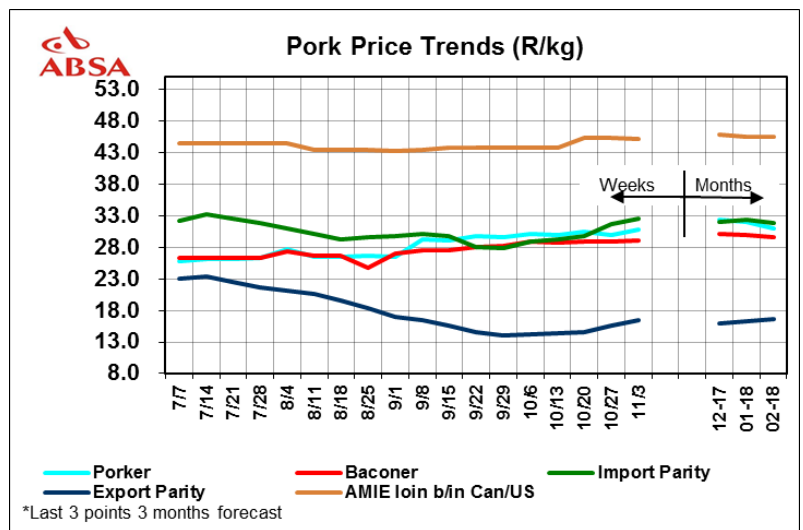
The average weekly US pork prices were mostly higher over the past week. Carcass prices were 2.8% higher at US\$78.11/cwt, loin prices were 1.2% lower at US\$74.31/cwt, rib prices were 2.2% higher at US\$122.41/cwt and ham was 1.8% higher at US\$69.46/cwt.

Bullish factors

- The US pork production forecast has been increased as the lower expected fourth-quarter commercial hog slaughter more than offsets slightly heavier carcass weights. (USDA Wasde Nov 2017)

Bearish factors

- The 2018 pork production has been increased from last month due to higher expected first-quarter slaughter and slightly heavier carcass weights; no changes are made to outlying quarters (USDA Wasde Nov 2017). As a result of higher pork production, prices are expected to soften.
- The 2017 and 2018 pork export forecasts have been reduced from the previous month on slower-than-expected export demand in the third quarter which will carry forward into 2018 (USDA Wasde Nov 2017)



Domestic

Pork prices were higher over the past week. The latest average pork prices are as follows: The average porker prices are 2.9% higher at R30.81/kg, while the average baconer prices are 0.2% higher at R29.05/kg. The average cutters prices were 1.2% higher at R29.8/kg whilst the average heavy baconer price was 0.3% higher at R27.32. The SAU price was R21.26/kg.

Bullish factors

- Pork remains a cheaper protein compared to beef and sheep meat, which may continue to support demand in this market.
- Pork prices may be supported by seasonality and underlying support from higher lamb, mutton and beef prices.

Bearish factors

- The pork market may be weighed by subdued buying activities during mid-month.
- Lower feed costs will support the intensive pork industry, improving profitability. The lower feed costs are encouraging to the fattening of pigs. The pork industry is very sensitive to maize prices, with the lower prices positive for this industry as it lowers input costs.

Outlook

Internationally, global pork supply is expected to increase further in quarter 4, mainly driven by China, the US, Canada, and Brazil. The expected increases in production may pressure prices.

Locally, pork prices may gain underlying support from the higher lamb, mutton and beef prices as well as improved demand as the warmer weather encourages braaing. Pork remains a cheaper protein compared to sheep meat and beef, which makes it favourable.

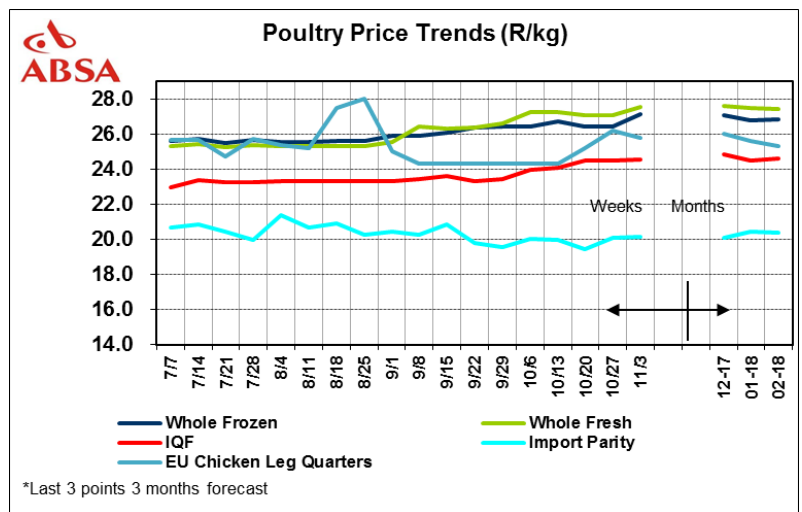
Poultry market trends

International

Poultry prices in the US were mostly lower over the past week. Whole bird prices were 1.82% higher at 86.35USc/lb. Breast traded 8.29% lower at 94.00USc/lb, while leg quarters traded 1.32% lower at 37.50USc/lb.

Bullish factors

- The broiler production forecast in the US has been increased on third-quarter slaughter data, but no change is made to the fourth-quarter forecast. (USDA Wasde)
- Tight international supplies on the back of bird flu outbreaks are supportive to poultry prices.



Bearish factors

- Both 2017 and 2018 US broiler export forecasts are reduced from the previous month due to an expected slower pace in global demand. (USDA Wasde).
- Global poultry trade volumes have been negatively affected by the Avian Influenza (AI) outbreak, with many importers restricting trade from countries with AI outbreaks. Trade reductions were also restricted by the Brazilian meat scandal earlier in the year.

Domestic

Poultry prices recovered week on week. The average poultry prices over the past week were mostly higher. The average prices for frozen birds were 2.62% higher at R27.11/kg during the week. Whole fresh medium bird prices were 1.92% higher at R27.57/kg, while IQF prices were 0.31% higher at R24.57kg.

Bullish factors

- Poultry remains the least expensive protein meat, which may encourage consumer demand.
- Underlying support from the beef industry is supporting the poultry market.

Bearish factors

- Exports of chicken products have been negatively affected by Avian Influenza outbreak.
- Feeding margins have improved on the back of lower maize prices this season.

Outlook

Internationally, tight international supplies on the back of bird flu outbreaks are supportive to poultry prices.

Locally, prices may follow an upward trend based on seasonal trends and as the impact of bird flu may start to influence production. Poultry remains a cheaper protein compared to sheep meat and beef, which makes it favourable.

Livestock prices (R/kg) week 09 Nov 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	-0.2	45.75	45.84	1.0	77.28	76.51	2.9	30.81	29.95	1.92	27.57	27.05
Class C/ Baconer/ Frozen birds	-0.75	41.21	41.52	-2.3	57.83	59.19	0.2	29.05	29.00	2.62	27.11	26.42
Contract/Baconer/ IQF	-0.18	47.27	47.36	1.0	77.84	77.09	1.5	29.93	29.48	0.31	24.57	24.49
Import parity price	1.18	73.91	73.05	3.00	54.58	52.99	3.5	36.0	34.8	0.1	20.13	20.11
Weaner calves/ Feeder lambs	1.2	36.78	36.34	-0.2	42.23	42.30		-	-			
Specific imports: Beef trimmings 80vl/b/ Mutton shoulders/Loin b/in/ chicken leg 1/4	1.0	49.50	49.00	3.4	62.35	60.30	-0.3	45.25	45.40	-1.53	25.80	26.20

Wool market trends

International

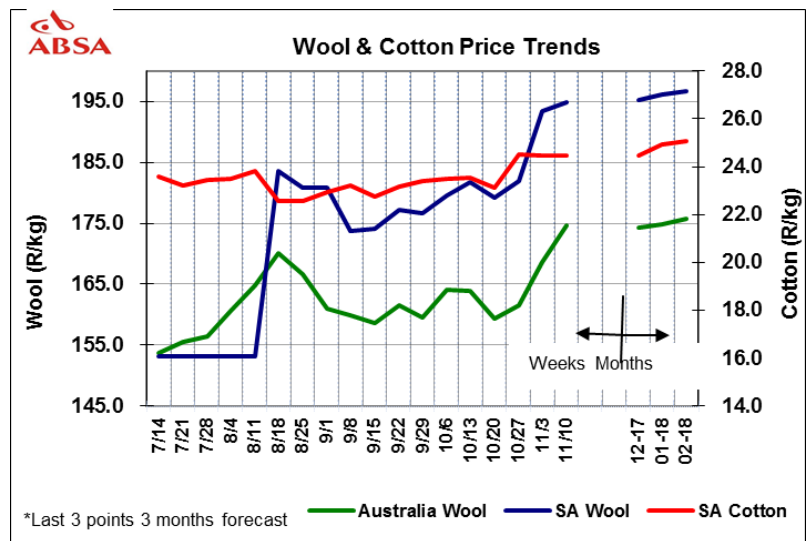
The Australian trade witnessed another all-time high weekly closing price. The Australian wool market prices averaged higher this week and closed 3.57% higher at Au1681c/kg at the recent auction.

Bullish factors

- Australian wool prices increased to record levels this week, due to strong export demand from China.
- Strong prices over the past weeks may be an indication of a concrete change in demand.

Bearish factors

- High wool prices may weigh on future demand.



Domestic

The last sale was on the 8th of November 2017. Domestic wool market prices were 0.81% higher to close at R194.95 (clean) at the past sale. The next sale is scheduled for 15 November 2017 where approximately ±12 657 bales will be on sale.

Bullish factors

- A solid market characterised by good demand supported prices at the recent auction
- The Rand was 0,5% weaker against the US Dollar and 0,2% weaker against the Euro, compared with the average rate at the previous sale

Bearish factors

- 8.4% more volumes were on offer at the recent auction, which may have weighed on the market.

Outlook

Internationally, prices remain supported on the back of strong demand for wool in the global market during times of supply concerns.

Locally, wool prices may remain strong on the back of strong demand for South African wool.

Cotton market trends

International

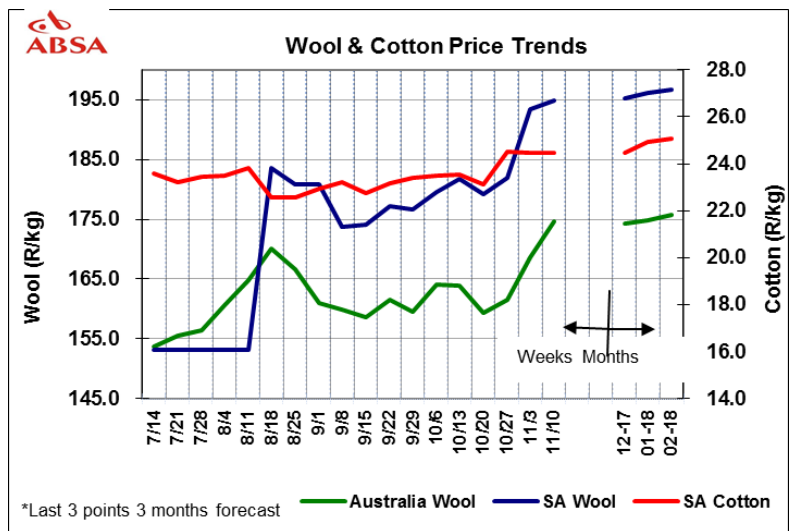
Cotton prices traded 0.01% higher over the past week and closed at US66.92c/lb.

Bullish factors

- The 2017/18, world cotton forecasts include lower beginning stocks, higher consumption, and lower ending stocks. (USDA Wasde Nov 2017)
- World 2017/18 consumption is forecast 1.2 million bales higher than last month, with increases of 300,000-550,000 bales in the forecasts for Uzbekistan, China, and Bangladesh. (Wasde)

Bearish factors

- World production of cotton has been increased 596,000 bales, as larger expected crops in China and the US offset a 200,000-bale decline in the forecast for Australia. (USDA Wasde Nov 2017)
- This month's 2017/18 US cotton estimates include higher production and ending stocks, as a smaller crop in the West is more than offset by gains in the Southwest and other regions.



Domestic

The derived SA cotton prices traded 0.10% lower to close at R24.47/kg. The decreases in prices were in spite of slight increases in international prices, but supported by the weakness in the South African rand. Some maize producers may switch their maize planting area to cotton to leverage off better profit margins. The 10th estimate for the 2016/17 production year indicates a total crop of 84 611 lint bales, up 67% from the previous season.

Outlook

Internationally, cotton prices may be pressured by larger expected world crop.

Locally, the exchange rate movement may continue to affect the domestic market prices.

Fibres market trends
Week ended 09 November 2017

Wool prices	%	SA prices (c/kg)	%	Australian prices (SA c/kg)	%	Australian future Dec 2017 (AU\$/kg)	%	Australian future Mar 2018 (AU\$/kg)
Wool market indicator	0.81	19495	4.15	18323		-		-
19µ micron	0.04	22404	2.98	21789	2.66	19.30	2.15	19.00
21µ micron	-0.50	17886	3.26	17912	2.58	15.90	1.62	15.70
Cotton prices		SA derived cotton (R/kg)		New York A Index (US\$/kg)		New York future Dec 2017 (US\$/kg)		New York future Mar 2018 (US\$/kg)
Cotton prices	-0.10	24.47	-1.37	1.74	1.31	1.523	1.34	1.521

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