



# Agri Trends

18 May 2018

## Positive sentiment in the wool market

The South African wool market is positive, driven by strong demand for quality and the finer wools. There has been good demand for quality Merino wools from China where consumers are becoming wealthier and looking less at price and more at the quality of the clothing they are buying. The Chinese middle class and increasing population are supporting demand.

For the second week of May 2018, the Cape Wools Merino indicator reached R190.70/kg, this price is 17% higher year on year. The indicator is meanwhile below the seasonal high of R197.43/kg (clean).

Wool receipts into brokers' stores as at the end of April are down about 8% compared with 2016/17. Although supply is a concern, it is evident that increased consumer demand for wool is also playing an important role in the price increases.

Strong demand for South African wool, as well as reduced seasonal delivering are all adding a bullish tone to the wool market.

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## Maize market trends

### International

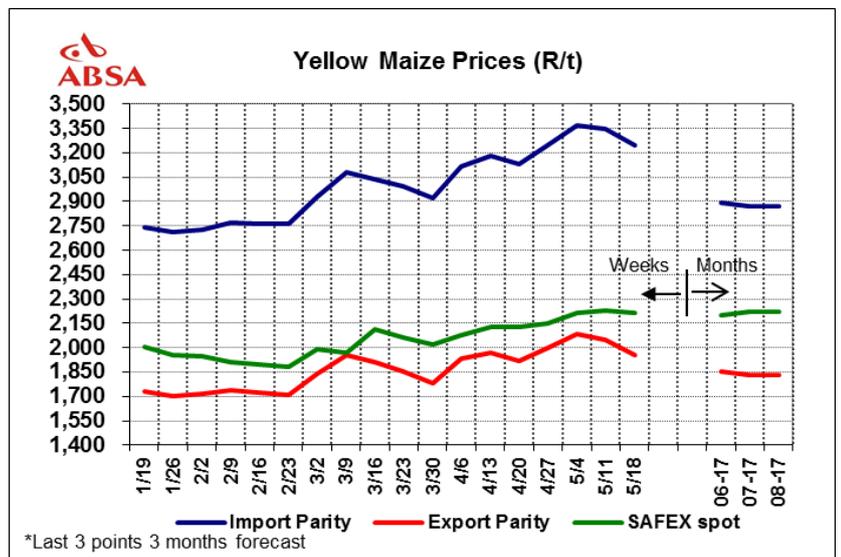
Week-on-week yellow maize No 2 gulf price marginally decreased from US\$179.98/ton to US\$178.93/ton. The US futures did not change much week on week. The market had initial declines due to spill over from other markets and rains received in Brazil, which was countered, by rains in the Midwest that hampered fieldwork, which supported an increase.

#### Bullish factors (Supporting Prices)

- Wet conditions in Argentina continued to disturb harvest process.
- World maize ending stocks forecasted lower according to the USDA.

#### Bearish factors (Suppressing Prices)

- CONAB placed Brazil's maize crop output at 89.2 million ton (0.6 million ton higher).
- Good rains expected in the major safrinha (2nd crop) states (Mato Grosso and Goias) after prolonged dryness.



### Domestic

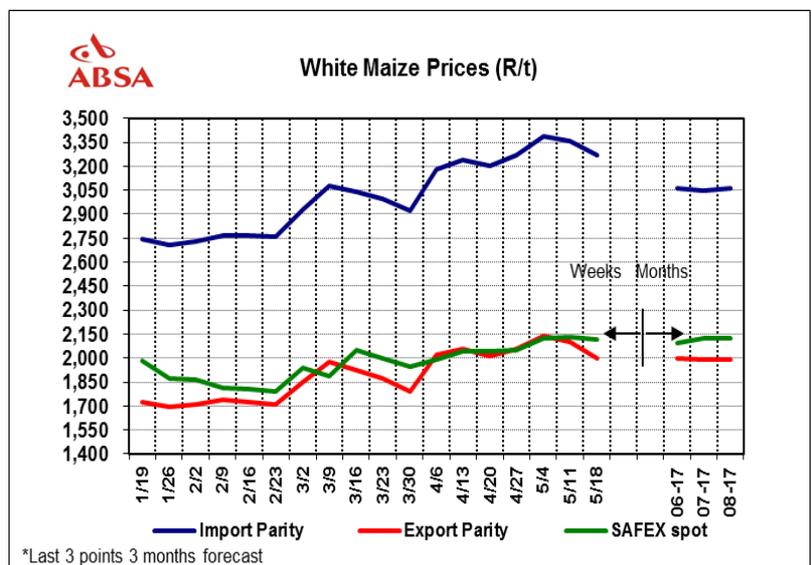
On 17 May, local maize market traded marginally higher week on week. New season white maize prices for delivery in Jul 2018 decreased marginally from R2125/ton to R2124/ton. Week-on-week new season yellow maize prices for delivery in Jul 2018 decreased marginally from R2229/ton to R2222/ton.

#### Bullish factors (Supporting Prices)

- Old season maize prices in South Africa are at production cost levels
- Renewed interest to export maize to Far East destinations provide interim price support. Total exports for the week were 15710 tons, primarily exported white maize to Botswana and white maize to Spain.
- Relatively stronger Rand week on week.

#### Bearish factors (Suppressing Prices)

- Maize deliveries will increase from mid-May. Storage may pose a challenge for already stocked up silos from the previous season's carry over.
- Yellow and white maize deliveries started to gain some momentum during the course of this week.
- South African maize prices came under pressure during this week due to a relatively stronger Rand.



## Outlook

### Local

Prices ended slightly lower week on week. Expect prices to trade sideways to lower as harvest pressure and rate of exports increase.

### International

The US futures did not change much week on week. The market had initial declines due to spill over from other markets and rains received in Brazil, which was countered, by rains in the Midwest that hampered fieldwork, which supported an increase.

Yellow Maize Futures: 17 May 2018			Jul-18	Sep-18	Dec-18	Mar-19		
CBOT (\$/t)			155.60	158.85	162.59	166.03		
SAFEX (R/t)			2222	2263	2339	2364		
SAFEX (R/t) <i>Change week on week (w/w)</i>			-7	-13	-5	-11		
Jul-18			Sep-18			Dec-18		
Ask	Put	Call	Ask	Put	Call	Ask	Put	Call
2,260	87	49	2,300	114	77	2,380	169	128
2,220	65	67	2,260	92	95	2,340	147	146
2,180	46	88	2,220	73	116	2,300	127	166

Table 2: Week on week white maize futures and estimated option prices

White Maize Futures 17May 2018			Jul-18	Sep-18	Dec-18	Mar-19		
SAFEX (R/t)			2124	2174	2251	2283		
SAFEX (R/t) <i>Change w/w</i>			-1	-6	-5	-6		
Jul-18			Sep-18			Dec-18		
Ask	Put	Call	Ask	Put	Call	Ask	Put	Call
2,160	161	125	2,220	92	46	2,300	149	100
2,120	139	143	2,180	69	63	2,260	126	117
2,080	119	163	2,140	50	84	2,220	106	137

## Wheat market trends

### International

The weekly average old season HRW wheat Gulf price decreased marginally from US\$243/ton to US\$242/ton week on week. Weekly average SRW wheat price also decreased from US\$227/ton to US\$218/ton week on week. Ample global supplies weighed the market down.

#### Bullish factors (Supporting Prices)

- Conditions remained dry in Australia this week.
- EU (Germany) had untimely wet weather during planting time.

#### Bearish factors (Suppressing Prices)

- US export prices traded down this week, on the back off improved confidence that world wheat stocks still ample irregardless of the USDA's projected 11 million ton drop in global wheat production in last week's report.
- Forecasts for some favourable rains for the coming week in the US and Australia.
- Ukraine and Russian prices were weighed down by favourable rain forecasts for the 2018/19 wheat crop.

### Domestic

On 17<sup>th</sup> of May 2018, wheat prices for delivery in Jul2018 decreased by (R55/ton) from R3909/ton to R3854/ton, week on week. Domestic followed bearish international trends.

#### Bullish factors (Supporting Prices)

- Input costs are below break-even cost levels to be profitable. Lack of sufficient cash flow may limit the planting of wheat.
- This week brought about a cold front. This could bring some moisture to the wheat growing parts of the Western Cape and Southern Cape in the next week. We only harvest in October – still a lot to happen before then. Weather (rainfall) remains uncertain.
- The Rand was stronger this week, supporting imports.
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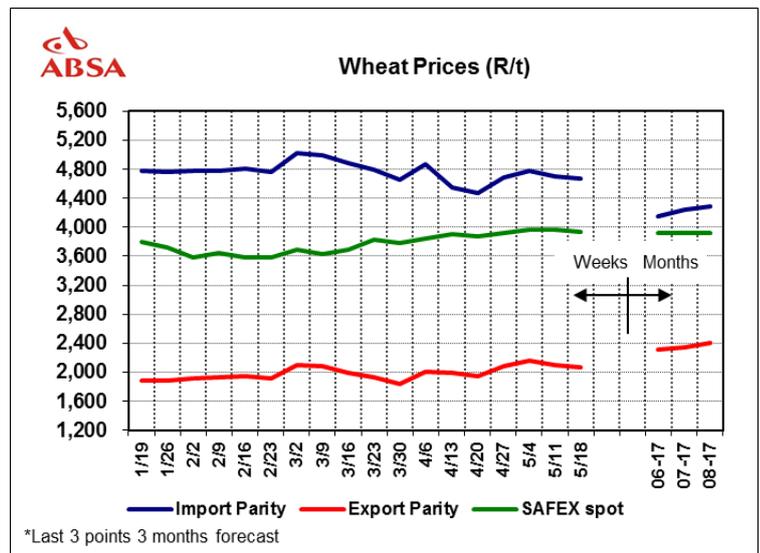
#### Bearish factors (Suppressing Prices)

- Global wheat prices to remain low due to large global stock levels and bearish WASDE report indicating larger production in the US.
- A strong Rand will limit price gains.
- Imports for the past week totalled 16 230 tons. Most of the Imports came from the US and Poland.

### Outlook

#### Local

Expect prices of new season wheat to trade sideways. Global glut may put pressure on international prices throughout the year. Profitability remains a concern for dryland producers in the Western Cape. The Swartland area and Olifantsrivier remain dry.



## International

Any price movements were linked to weather affecting the 2018/19 crops. US export prices traded down this week, on the back off improved confidence that world wheat stocks still ample despite the USDA's projected 11 million ton drop in global wheat production in last week's report.

Wheat Futures 17 May 2018	May-18	Jul-18	Sep-18	Dec-18
CME (\$/t)	182.80	188.68	196.49	203.1008018
SAFEX (R/t)	3854	3917	3900	3850
SAFEX (R/t) Change w/w	-55	-41	-3	0

Jul-18			Sep-18			Dec-18		
Ask	Put	Call	Ask	Put	Call	Ask	Put	Call
3,960	78	80	3,940	105	105	3,900	124	129
3,920	38	40	3,900	65	65	3,860	84	89
3,880	0	0	3,860	25	25	3,820	44	99

## Oilseeds market trends

### International

The weekly average USA soybean price decreased week-on-week from US\$392.05/ton to US\$386.63/ton. US soya oil prices marginally increased from US\$30.84/ton to US\$30.94/ton and soymeal prices traded lower from US\$387.18/ton to US\$380.95/ton.

#### Bullish factors

##### Soybean:

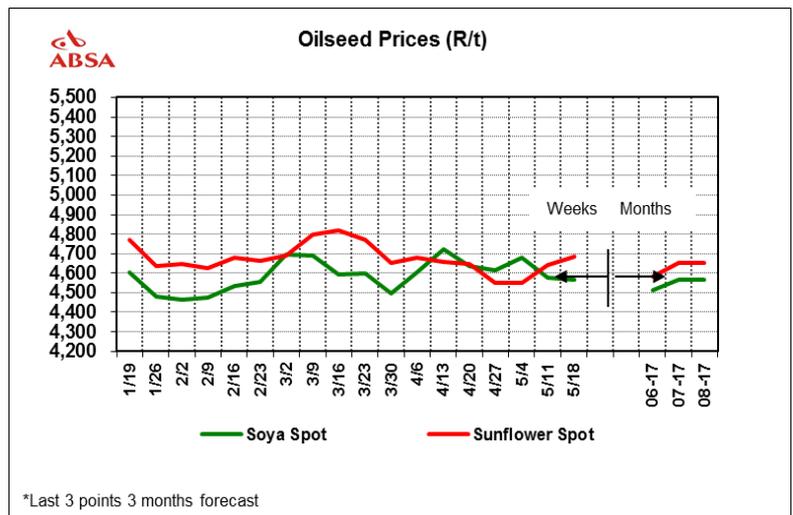
- Further soybean crop losses expected in Argentina due to heavy rainfall impeding soybean harvest progress. Uruguay production also dropping significantly due to severe drought causing soybean losses. However, this downward revision will likely be offset by increased production in Brazil.
- Favourable margins are boosting soybean crushings in EU.

##### Soymeal:

- Global soymeal exports projected to be lower. Argentinian soymeal exports were lower due to drought effects.

##### Canola:

- ICE canola futures traded higher in Canada, support stemming from dryness in the Prairies. EU canola futures also higher, due to stronger palm oil prices and stronger energy markets.



#### Bearish factors

##### Soybeans:

- Concerns about the future China-US trade relations caused a huge drop in soybean purchases by China from the US.
- Rising expectations for a bumper crop in Brazil. Brazil crop will likely offset the crop losses in Argentina.
- Current favourable weather conditions and rapid planting progress in the US Midwest putting soybean futures prices under pressure.

##### Olive Oil:

Above expected production and export supplies of olive oil have caused significant pressure on the olive oil price. EU, Turkish and Tunisian production has exceeded expected.

### Domestic

New season soybean prices (Jul2018) decreased week on week by R60/ton from R4626/ton to R4566/ton.

New season sunflower seed prices (Jul2018) decreased week on week by R80/ton from R4734/ton to R4654/ton.

#### Bullish factors

##### Soybeans

- Favourable crushing margin for soybeans compared to a more tight crushing margins for sunflower seed allowing for more soybeans to be crushed

##### Sunflower seed

- Late planted sunflower seed are susceptible to frost damage.

## Bearish factors

### Soybeans

- Relatively stronger Rand week on week.
- Expect a big old season harvest. Producers need to price now and harvest pressure may add to price pressure

### Sunflower seed

- Tight crushing margin for sunflower seed allows for less sunflower seed to be crushed
- Harvest pressure on a big sunflower seed crop may add to price pressure.

## **Outlook**

### **Local**

Soybean prices to trade sideways. Expect price support due to profitable crushing margins

### **International**

The 2018/19 US soybean outlook shows higher supplies, crushing, more exports and lower ending stocks. Erratic weather will remain a risk factor to take cognisance of in the next 3 months.

Oilseeds Futures 17 May 2018	Jul-18	Sep-18	Dec-18	Mar-19
CBOT Soybeans (US\$/t)**	365.60	367.80	370.56	366.52
CBOT Soy oil (US c/lb)	30.94	34.82	31.72	32.28
CBOT Soy meal (US c/lb)	412.20	408.35	404.07	385.60
SAFEX Soybean seed (R/t)	4566	4671	4794	4858
<i>SAFEX Soybean seed (R/t) change w/w</i>	-60	-59	-53	-42
<i>SAFEX Sunflower seed (R/t)</i>	4654	4794	4902	4900
<i>SAFEX Sunflower seed (R/t) change w/w</i>	-80	-80	-68	-34

Jul-18			Sep-18			Dec-18		
Ask	Put	Call	Ask	Put	Call	Ask	Put	Call
4,700	95.45	98.45	4,840	121.53	124.53	4,940	146.80	145.80
4,660	55.45	58.45	4,800	81.53	84.53	4,900	106.80	105.80
4,620	15.45	18.45	4,760	41.53	44.53	4,860	66.80	65.80

\*Short ton

\*\* Dec 2018 = Jan 2019

## Beef market trends

### International

New Zealand steers traded sideways over the past week at 5.33NZ\$/kg and cows traded sideways at 3.96NZ\$/kg compared to a week ago. In the US, beef prices for the week were mostly higher as follows: Topside traded 2.52% higher at \$239.21/cwt. Rump was 4.34% higher at \$365.99/cwt and strip loin was 6.96% higher at \$824.76/cwt. Chuck traded 3.31% higher at \$223.70/cwt. Brisket traded 0.77% higher at \$252.60/cwt. The carcass equivalent price was 4.40% higher at \$358.42cwt.

#### Bullish factors

- Optimism that a deal on a refurbished North American Free Trade Agreement (NAFTA) could be reached by the end of the month gave livestock markets underlying support.
- New Zealand beef farmers have been enjoying good prices for their product this season.

#### Bearish factors

- Plentiful supplies of market-ready animals in the US.
- New Zealand cow slaughter is expected to remain strong for the remainder of May.
- Increased US cattle slaughter is expected to pressure global beef trade and prices, posing a threat to New Zealand beef returns. The US is both the leading export destination for New Zealand beef, as well as a strong competitor with New Zealand in other export markets.
- Increasing Australian and US beef supply could lead to price pressure in coming months.

### Domestic

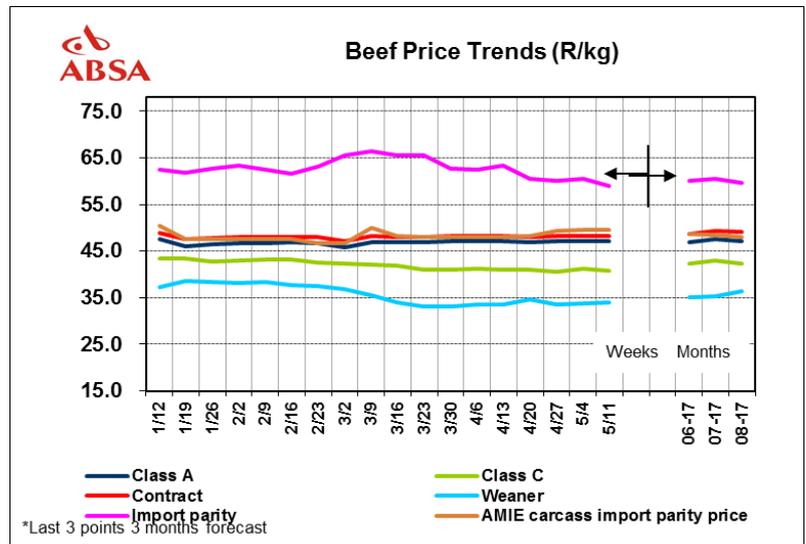
Week on week, beef prices were mixed across the different classes. The average Class A price was 0.06% higher this week at R47.22/kg. Class C prices were 0.93% lower at R40.81/kg. The average weaner calf prices over the past week increased by 0.6% to R33.96/kg. The average hide price over the past week declined. The average hide prices traded 5.3% lower w/w at R7.71/kg green. Overall, the hide market remains bearish, in line with the international weak hide market. NB\* Hide prices are determined by the average of the RMAA (Red Meat Abattoir Association) and independent companies.

#### Bullish factors

- Demand for C grades normally improves during this time.
- Decline in available supplies after the weaner calf season may add a bullish tone to prices.

#### Bearish factors

- During March 2018, 204 617 head of cattle were slaughtered. This is 8.4% more head of cattle slaughtered month on month, but 17% less cattle slaughtered compared to the same time a year ago. Significant year on year declines in cattle slaughter is an indication of herd rebuilding process, following drought induced slaughter during 2015/16 season.
- Seasonally, we are moving into a colder winter period which is not supportive of outdoor grilling. This may weigh on demand prospects for beef, lamb and mutton.
- Normally, the increased supply for weaner calves during the weaner season from March until May weigh on weaner calf prices. This will improve the price margin for feedlots.
- Lower pork prices may weigh on the beef market.



## **Outlook**

Internationally, US prices may gain support in the medium term as relatively strong demand is expected to absorb expected increases in supplies.

Locally, the lower feed price together with the lack of weaner calves to rebuild the national herd in the medium term may result in carcass prices to remain elevated for a long time period to come.

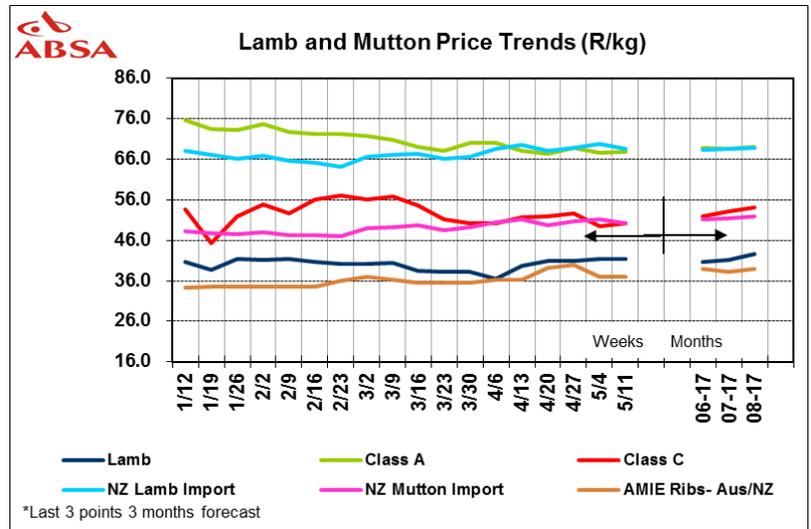
## Sheep meat market trends

### International

New Zealand lamb prices traded higher this week compared to last week. Lamb prices closed 1.0% higher at NZ\$109.9/head for 15kg lamb. Lamb prices were 1.0% higher at NZ\$153.8/head for 21kg lamb. Ewe prices traded 1.0% higher at NZ\$105/head for a 21kg ewe. The import parity price for lamb was 1.7% lower at R68.65/kg, while the import parity price for mutton was 1.7% lower at R50.28/kg.

#### Bullish factors

- Steady increases in New Zealand producer lamb prices expected through winter.
- In the North Island of New Zealand supply is expected to be tighter for the remainder of the season compared to both last year and five-year average trends.



#### Bearish factors

- Supply for the remainder of the season in the South Island of New Zealand is expected to be significantly higher compared to historical trends following a very slow autumn.

### Domestic

This week, lamb and mutton prices were mostly higher this week when compared to the previous week. Lamb and mutton prices were as follows: The national average Class A carcass lamb prices increased by 0.2% to R67.86/kg and the average Class C carcass prices increased by 1.6% to R50.15/kg. The average price for feeder lambs traded 0.3% higher at R41.50/kg. The average price for dorper skin is 5.2% higher at R30.50/skin and merinos were 13.4% higher at R82.22/skin.

#### Bullish factors

- Demand for C grades normally improves during this time.

#### Bearish factors

- During March 2018, 371 643 head of sheep were slaughtered. This is 17% more head of sheep slaughtered month on month, but 20% less sheep slaughtered compared to the same time a year ago. Significant year on year declines in sheep slaughter is an indication of herd rebuilding process, following drought induced slaughter during 2015/16 season.
- Seasonally, we are moving into a colder winter period which is not supportive of outdoor grilling. This may weigh on demand prospects for beef, lamb and mutton.

### Outlook

Internationally, market conditions continue to support prices, due to tight global supplies.

Locally, Lamb and mutton remains an expensive meat in the market. Seasonally, we are moving into a colder winter period which is not supportive of outdoor grilling. This may weigh on demand prospects for beef, lamb and mutton, but stewing cuts tend to benefit during this time.

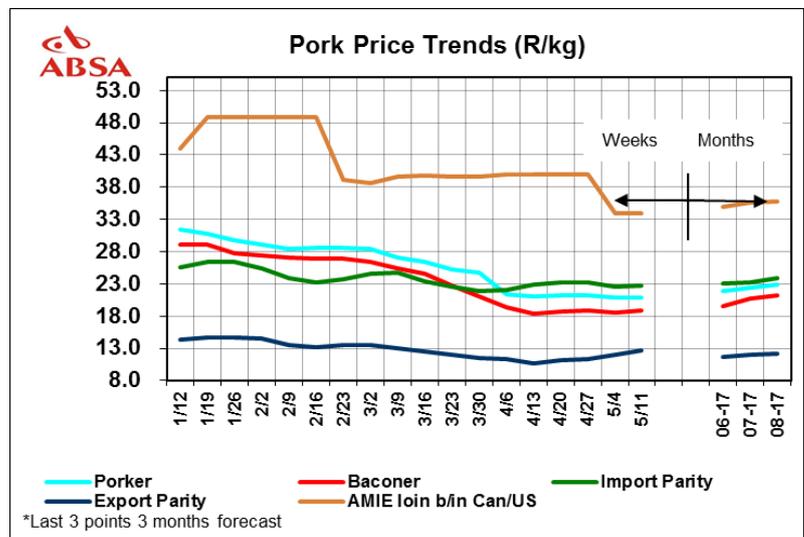
## Pork market trends

### International

The average weekly US pork prices were mostly higher over the past week. Carcass prices were 4.1% higher at US\$71.39/cwt, loin prices were 2.7% higher at US\$74.76/cwt, rib prices were 6.5% higher at US\$139.01/cwt and ham was 2.1% higher at US\$50.12/cwt.

#### Bullish factors

- The Chinese market has been characterized by low domestic pig prices in early 2018. The rate of the pig price decline did slow somewhat following the Chinese government's announcement that an additional 25% import tariff would be placed on US pork imports from 2 April, AHDB (Agriculture and Horticulture Development Board) reports.
- Further talks between China and the US may see the trade dispute resolved.
- Barbeque season is expected to boost demand for pork in the US.



#### Bearish factors

- Chinese pig meat imports declined 10% compared with 2017 levels during the first quarter of this year, according to AHDB. The decline in shipments reflects low domestic pig prices that have characterized the Chinese market in early 2018.

### Domestic

Average pork prices have shown a steady declining trend since January 2018. Average pork prices have declined by between 30% and 40% during the second week of April 2018, compared to the second week of January 2018. In recent weeks, pork prices started to show signs of recovery.

This week, pork prices were mixed. The latest average pork prices are as follows: The average porker prices are 0.2% lower at R20.90/kg, while the average baconer prices are 2.2% higher at R18.86/kg. The average cutters prices were 0.7% lower at R19.65/kg and the average heavy baconer price was 3.7% higher at R18.52. The SAU price was 1.8% higher at R14.30/kg.

#### Bullish factors

- Sappo has indicated that most retail groups have reported increase in demand for fresh pork.
- Marketing and promotion campaigns by the pork industry drive increased pork sales.
- The current low prices of pork may increase consumer uptake of fresh pork cuts.

#### Bearish factors

- During March 2018, 237 346 head of pigs were slaughtered. This is 9.8% higher month on month, but 4.5% lower compared to the same time a year ago.
- Plentiful pork volumes in the market.

### Outlook

Internationally, pork prices in the US may continue to benefit from increased demand during the barbeque season. Locally, lower product prices are expected to boost sales, and therefore add support to pork prices.

## Poultry market trends

### International

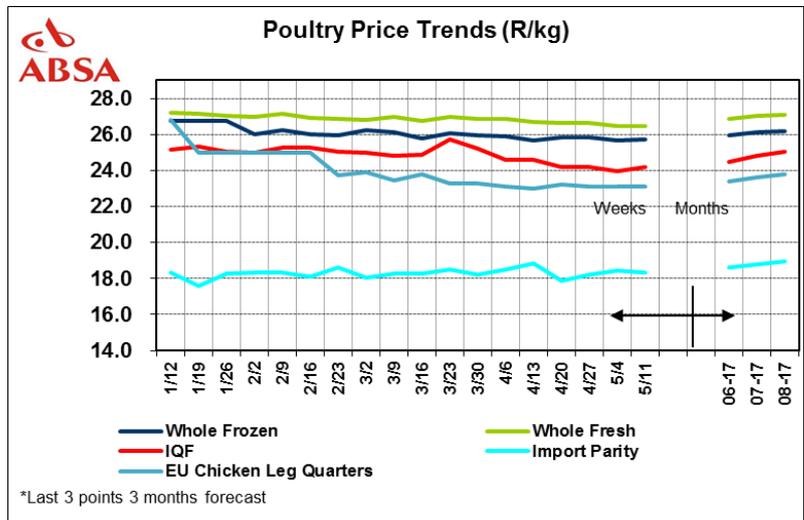
Poultry prices in the US were mixed over the past week. Whole bird prices were 2.2% higher at 116.42USc/lb. Breast traded 3.0% lower at 114.50USc/lb, while leg quarters traded sideways at 36.50USc/lb.

#### Bullish factors

- US broiler exports are expected higher in 2019 on the back of expected continued gains in foreign demand.

#### Bearish factors

- Brazil's third largest poultry processor, Aurora Alimentos, is set to pause work at one of its eight poultry production plants for a period of 30 days starting on the 2<sup>nd</sup> of July in an attempt to adjust capacity to demand. This follows a move by the EU Commission to ban poultry meat imports from 20 Brazilian processors.



### Domestic

The average poultry prices over the past week were mostly higher. The average prices for frozen birds were 0.2% higher at R25.70/kg during the week. Whole fresh medium bird prices were 0.1% higher at R26.49/kg, while IQF prices were 0.8% higher at R24.16kg.

#### Bullish factors

- The possibilities of new occurrences of bird flu towards winter continue to be a risk factor in the broiler industry.

#### Bearish factors

- Lower pork prices may weigh on the poultry market.
- Favourable feed price environment contribute positively to feeding margins.

### Outlook

Internationally, increasing broiler supplies and competition from expanding red meat supplies may weigh on poultry prices.

Locally, the lower pork market may pose competition to the poultry market.

Livestock prices (R/kg) week 17 May 2018	Beef			Mutton			Pork			Poultry		
	%	Current week	Prior week	%	Current week	Prior week	%	Current week	Prior week	%	Current week	Prior week
<b>Class A/ Porker/ Fresh birds</b>	0.06	47.22	47.19	0.2	67.86	67.69	-0.2	20.90	20.94	0.1	26.49	26.46
<b>Class C/ Baconer/ Frozen birds</b>	-0.93	40.81	41.19	1.6	50.15	49.37	2.2	18.86	18.45	0.2	25.70	25.65
<b>Contract/Baconer/ IQF</b>	0.12	48.23	48.17	0.3	68.45	68.26	0.9	19.88	19.70	0.8	24.16	23.97
<b>Import parity price</b>	-2.61	58.88	60.46	-1.7	50.28	51.17	2.3	29.9	29.2	-0.5	18.3	18.4
<b>Weaner calves/ Feeder lambs</b>	0.6	33.96	33.76	0.3	41.50	41.37		-	-			
<b>Specific imports: Beef trimmings 80vl/b/ Mutton shoulders/Loin b/in/ chicken leg 1/4</b>	0	49.50	49.50	0	59.50	59.50	0	34.00	34.00	0	23.10	23.10

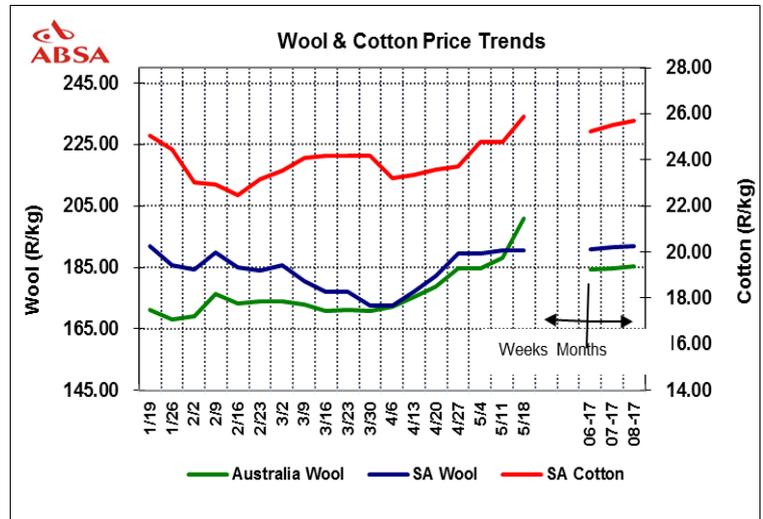
## Wool market trends

### International

The Australian wool market traded higher week on week. Prices traded at Au1943 c/kg up by 2.8%. The declining wool supply in the major growing countries, and growing demand is supporting prices.

#### Bullish factors (Supporting Prices)

- Global supply of wool is unlikely to increase in the short term. Unfavourable seasonal conditions are largely supporting the continuous lower production.
- Growing consumer demand, underpinned by economic growth in the EU and China keeps supporting wool prices globally.
- In Australia, the following factors are contributing to the lower supply and higher prices: high lamb and mutton prices, few Merino ewe stock, and limited land suitable for Merino wool production, unfavourable seasons and increased predation.



#### Bearish factors (Suppressing Prices)

- Global demand for broader crossbred wool dropped significantly.

### Domestic

The last auction was on 9 May 2018. Domestic wool market prices remained unchanged at R190.70 (clean) at the sale. Prices remain high due to lower supply and strong demand.

#### Bullish factors (Supporting Prices)

- Excellent demand for quality long and fine wool at the recent auction.
- Reduced seasonal deliveries, lower volumes were offered.
- The development of some of the areas for mining has reduced land available for Merino wool farming, therefore reducing supply.
- Some of the factors underpinning prices in South Africa include Predation and changing politics.

#### Bearish factors (Suppressing Factors)

- Analysts do caution that some degree of a downward correction is to be expected. The direction of the wool market will be discussed at the Market Intelligence Forum during the International Wool Textile Organization's Congress this week.

### Outlook

Internationally, the wool: cotton ratio has improved significantly over the past 5 years. Consumers perceive wool higher than cotton, nylon polyester and acrylic fibres. The Australian, New Zealand, South African and Argentinian wool supply is currently on the low, supporting prices. Major wool producing countries are faced with unfavourable seasonal conditions, predation, various land and political conditions limiting supply.

Locally, lower supply, strong demand for South African wool, coupled with lower seasonal delivering are all adding a bullish tone to the wool market.

## Cotton market trends

### International

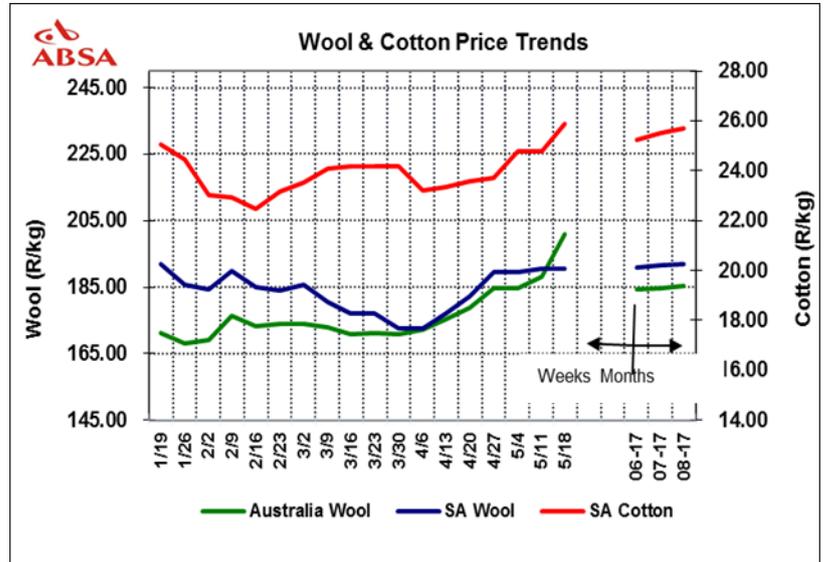
Cotton prices traded 1.63% higher over the past week and closed at US\$1.53c/lb up from US\$0.22c/lb.

#### Bullish factors (Supporting Prices)

- World production is set to fall marginally due to lower area planted.
- India (the largest producer) will not change the production from the previous year. However Australia, the US and China are expected to decline production.

#### Bearish factors (Suppressing Prices)

- Higher prices expected to impact planting decisions to expand area under cotton for the 2018/19 season.
- Brazil, Turkey and Pakistan expected to raise their cotton production.
- Canadian cotton area planted expected to pick up. Planting progress currently at the same rate as last years.



### Domestic

The derived SA cotton prices traded 0.11% higher to close at R25.91/kg.

### Outlook

Internationally, world cotton production is set to fall marginally due to lower area planted.

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

Fibres market trends  
Week ended 18 May 2018

Wool prices	%	SA prices (c/kg)	%	Australian prices (SA c/kg)	%	Australian future May 2018 (AU\$/kg)	%	Australian future Jul 2018 (AU\$/kg)
Wool market indicator	0.00	19070	5.08	18381		-		-
19µ micron	0.00	20344	4.67	20938	2.65	21.30	-0.24	20.70
21µ micron	0.00	18921	6.59	20140	3.08	20.10	1.04	19.35
Cotton prices 27 April 2018		SA derived cotton (R/kg)		New York A Index (US\$/kg)		New York future May 2018 (US\$/kg)		New York future Jul 2018 (US\$/kg)
Cotton prices	0.11	25.91	0.91	2.08	0.00	1.86	0.1	1.86

**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.