



BEEF OUTLOOK/REVIEW FEBRUARY 2016

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BOTTOM LINE

WORLD BEEF TRADE OVERVIEW

Production and Trade of All Meats to Expand in 2016

Beef and Veal

Global production is forecast to rebound 1 percent higher to 59.2 million tons. Continuing herd expansion will drive production higher for major traders – particularly the United States, India, and Brazil. India continues to expand on growing foreign demand; exports account for 48 percent of production compared to only 18 percent for Brazil. Reduced slaughter will drive Australian production lower as inventories have been depleted and the return of favourable pasture conditions will spur herd rebuilding.

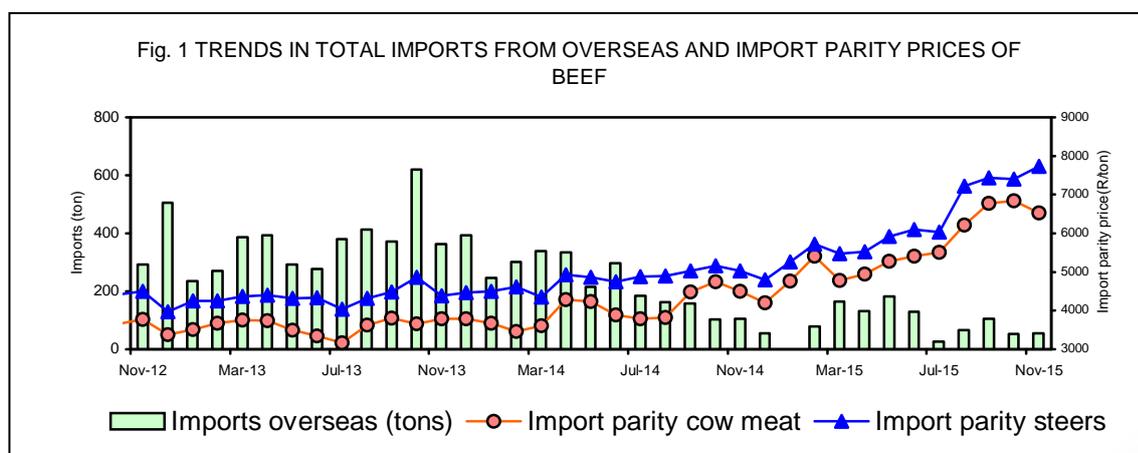
Exports by major traders are forecast 3 percent higher to 9.9 million tons on stronger demand. Gains are expected for most major traders including India, Brazil, and the United States. India will remain the top exporter as demand improves in Southeast Asia, the Middle East, and North Africa. Brazilian exports will rebound as a weaker real increases competitiveness and the reopening of the Chinese market creates new opportunities.

U.S. production is expected to rise for the first time since 2010 as cattle inventories recover on improved pasture conditions and lower feed costs. Exports are forecast 6 percent higher as growing domestic supplies put downward pressure on prices. A reduction in Australian exports will enable the United States to regain market share in Asia which will offset stagnant shipments to Canada and Mexico.

SOURCE: USDA October 2015.

SOUTH AFRICA

Imports of beef



Import figures from overseas are only available till November 2015.

The volume of beef imported is mainly a function of the import parity price, which is being influenced by factors such as the F.O.B.-price in the export country, the exchange rate, freight cost, insurance cost and the competitive meat price in the import country. Based on the period January 1995 to November 2015, a correlation of $r = -0,5907$ exist between the volume of imports (which excludes tongues and livers) and the import parity price of AU-cow meat. Due to the fact that the relations between imports and import parity is not very strong, it can be assumed that the above mentioned variables and also some others may have a simultaneous effect on the volume of beef being imported from month to month.

In November 2015, South Africa imported 54 tons of beef (excluding offal) from overseas and the main exporters were Australia (96,3%) and New Zealand (3,7%).

When liver, harts and tongues were included, total imports amounted to 1 558 tons, and the main export countries were Australia (66,5%), Britain (12,8%), New Zealand (8,3%), Ireland (8,0%) and Argentina (4,3%).

The import parity price of Australian cow meat increased in November 2015 year-on-year by 48,3% and total imports from overseas declined by 48,6% over the same period.

In November 2015, the import parity price of cow meat from Australia was R65,34/kg compared to R28,77/kg for Class C2/C3 beef.

Outlook

The domestic price of Class C2/C3 was in November 2015 well below the import parity and it is expected to stay below the import parity price over the next six months.

It is therefore expected that beef imports may stay on a low level over the next six months, due to the fact that the price differential between South Africa and the main export countries at the moment is still too wide to allow for any significant imports of beef. The Rand also appreciated in November 2015 year-on-year in total by 7,8% against the Australian dollar and depreciated by 27,4% against the US-dollar. A further depreciation can be expected in the next six months of 2015/16 against both the US-dollar and the AU-dollar, which make the entry of overseas exporters in the South African beef market more difficult.

Domestic market

Production trends

Rainfall pattern

The severe drought in the beef producing areas of South Africa since the beginning of the 2015/2016 summer has forced crease producers to offload their cattle due deterioration of grazing, which resulted in an increase in the supply of beef animals in the period October 2015 to January 2016. It can however be expected that the supply of beef to the market in the second half of 2016 will fall back, resulting in a relative sharp increase in beef prices towards the end of 2016.

Herd numbers

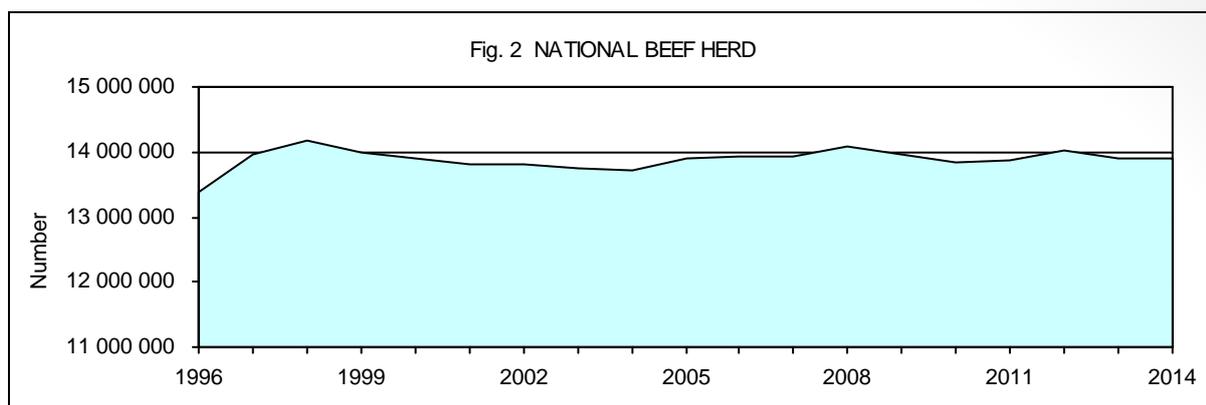


Figure 2 shows the national beef cattle numbers.

SOURCE: DAFF

Over the past ten years, the national herd increased by 0,1% in 2014 in total.

Table 2 Distribution of beef cattle in South Africa

Cattle numbers (including the non-commercial sector) per province:

Province	2014	% of total
Western Cape	560,739	4,0
Northern Cape	502,137	3,6
Free State	2,304,447	16,6
Eastern Cape	3,335,745	24,0
KwaZulu-Natal	2,738,313	19,7
Mpumalanga	1,437,548	10,3
Limpopo	1,057,234	7,6
Gauteng	254,905	1,8
North West	1,703,299	12,3
TOTAL	13,968,489	100,0

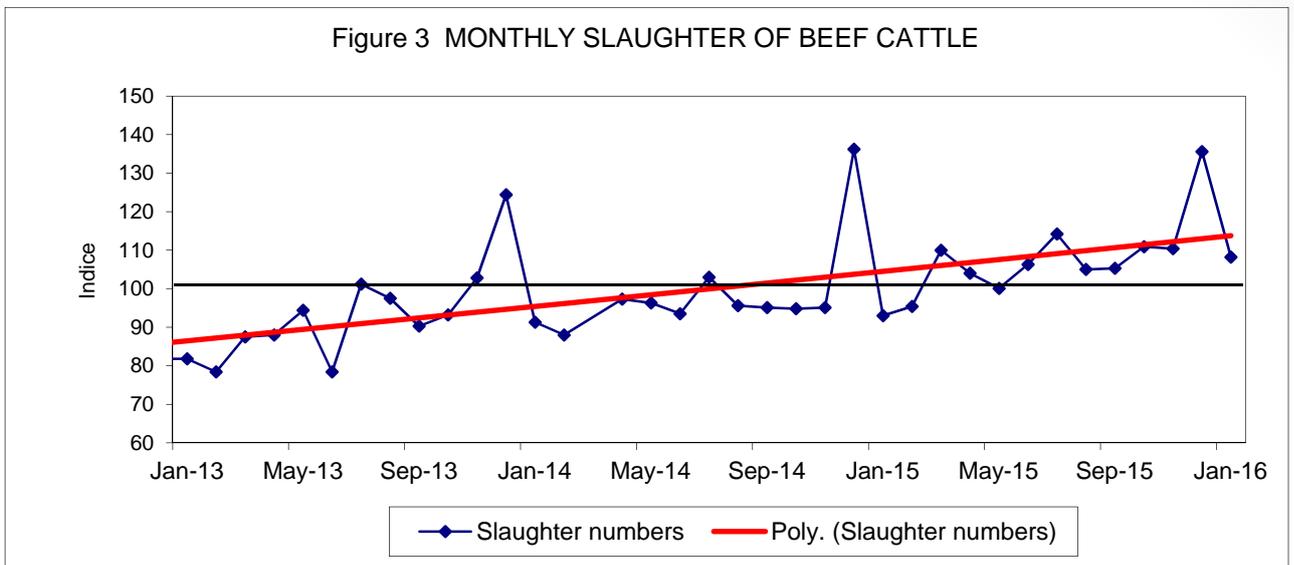
SOURCE: DAFF

Outlook

The northern beef producing areas in South Africa received well below normal rainfall during February and March 2015 after an already terrible dry period in 2014, which may lead to a rebuilding of their cattle herds over the first half of 2016. This may cause the national cattle herd to expand in 2016 compared to the previous year.

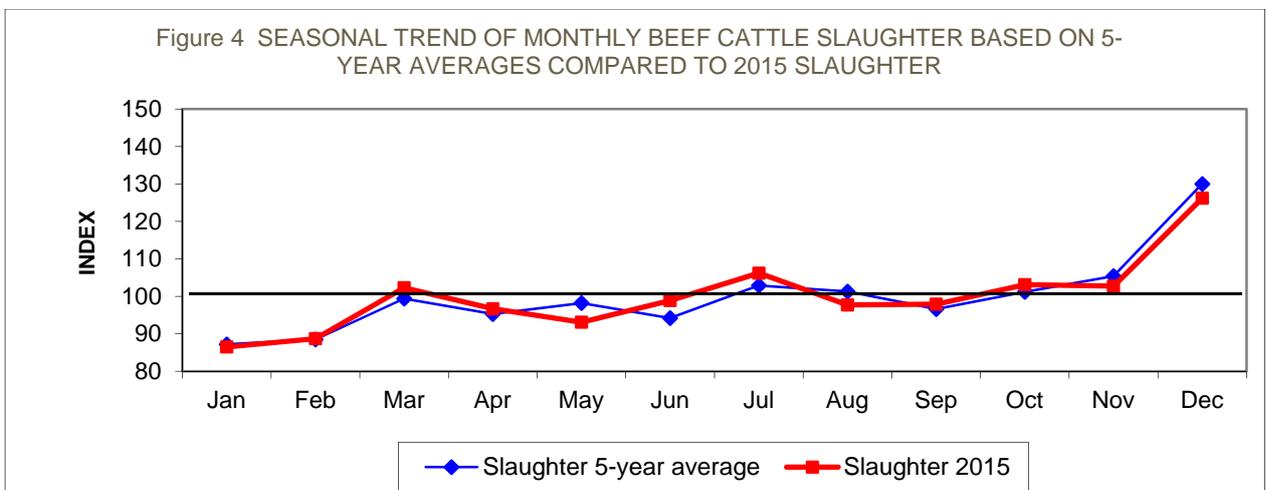
Beef production trends

Trends in slaughtering



The slaughtering index (Figure 3), increased by 16,4% in January 2016 year-on-year and was is 8,2% more than the average slaughter for the period January 2013 to January 2016.

Seasonal trend in cattle slaughtered



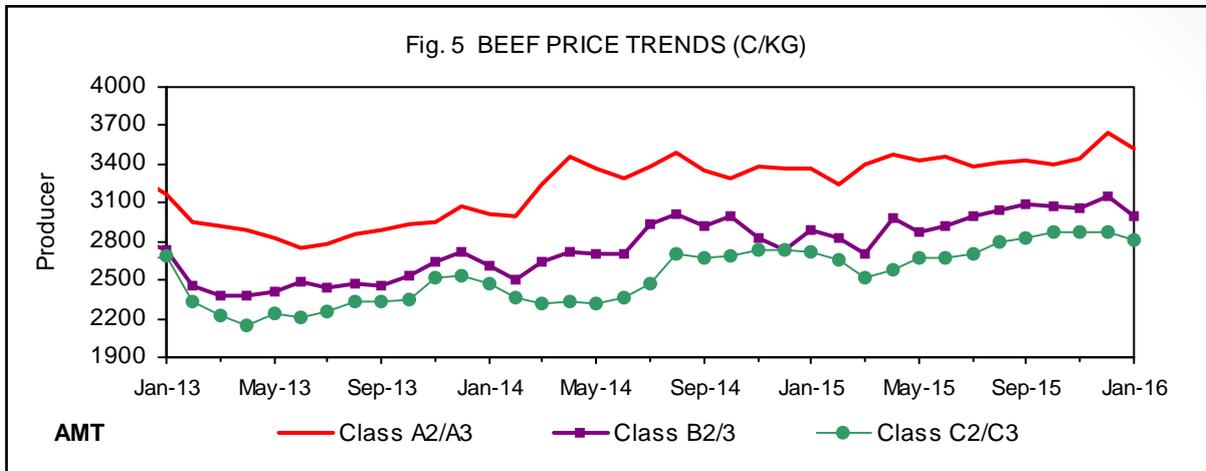
The indices is based on the average slaughter from January to December = 100.

Figure 4 represents the seasonal trend of slaughter based on a five year average monthly slaughter and the 2015-slaughter.

A sharp increase occurred In December in both the 5-year average and 2014-slaughter This was mainly caused by the increased demand for beef over the festive season in December.

Beef price trends

Figure 5 shows the average weighted producer carcass prices of class A2/A3, B2/B3 and C2/C3 beef from January 2013 to January 2016.



In January 2016 year-to-year, the average producer prices of Class A2/A3, B2/B3 and C2/C3 beef increased in total by respectively 4,7%, 4,0% and 3,9%.

In January 2016, the monthly price of the A2/A3's was 9,5% higher compared to the long-term average over the period January 2013 to January 2016.

The following graph (Fig.6), shows the predicted monthly trend of Class A2/A3 beef over the next six months from February to July 2016 in comparison with the three year average price trend of Class A2/A3.

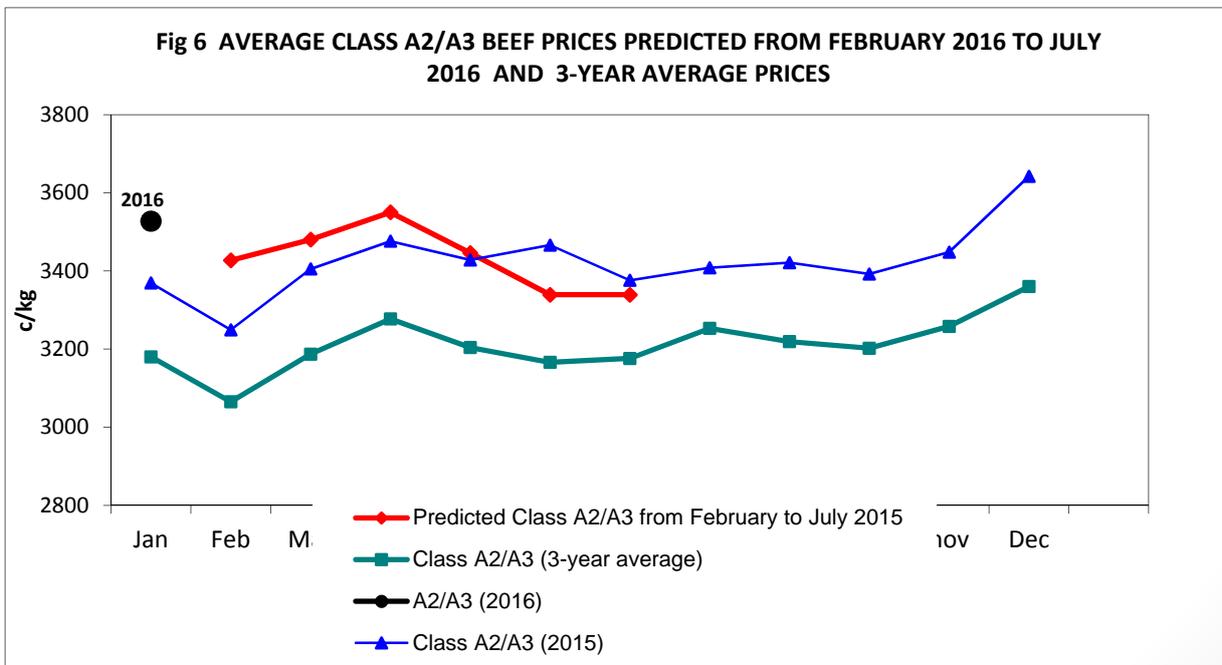


Figure 6 shows a 3-year average monthly price trend of Class A2/A3 beef, the average monthly prices in 2015 and the average monthly predicted prices of beef from February to July 2016.

The average price of the Class A2/A3 was in total 3,1% lower in January 2016 compared to the previous month.

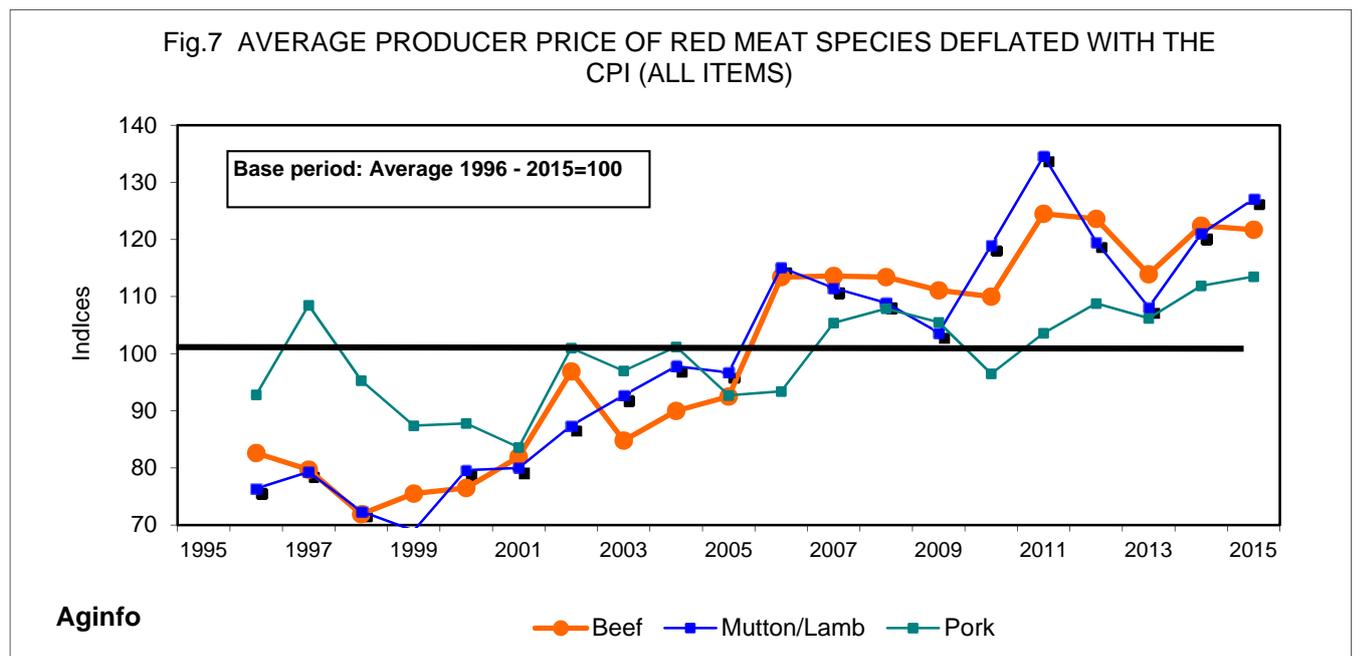
Outlook

Based on the present price indicators, the average price of Class A2/A3 beef is expected to move upward from February 2016 to April 2016. April is normally the month of school- and Easter holiday which lead to an increase in the demand for beef.

From April to July beef prices normally tend to decline. This decline in the average price of beef is caused by an increase in the supply due to the expectation of insufficient grazing in the coming winter. Since the present summer started in 2015, rainfall in most of the beef producing area was well below average with some areas very near zero. A lot of animals have been offloaded due to insufficient grazing, which is going to have a severe effect on the supply side in the coming winter, which may therefore counteract the above price prediction. The predicted price level from April to July in the above Graph may shift upwards.

Long-term trend in beef prices in relation to the other meats

Figure 7 shows the average annual producer prices of beef in relation to the prices of mutton and pork deflated with the consumer price index (all items), to remove the effect of inflation in the prices. Basis year = average of 1996 to 2015.

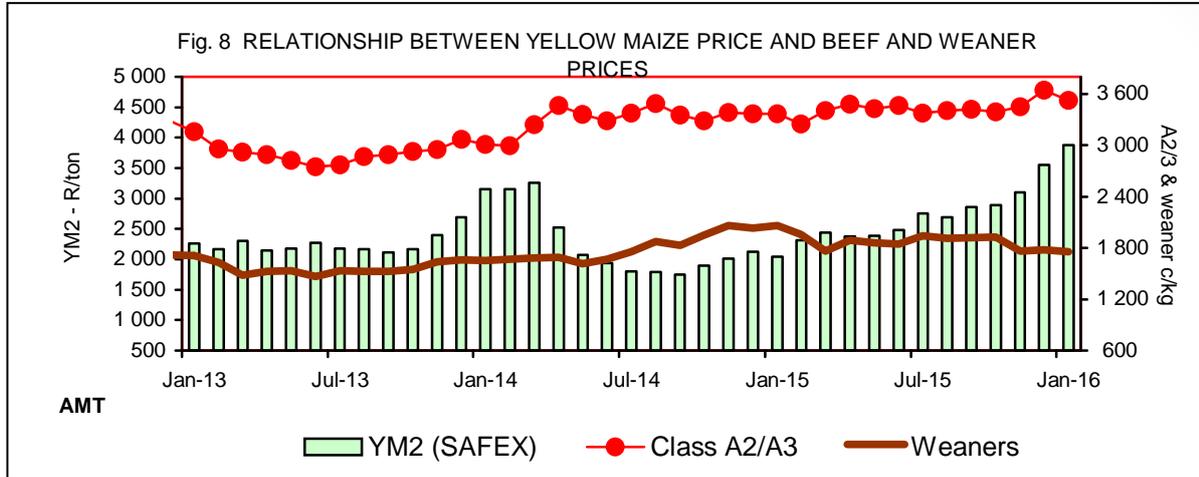


In 2015 year on year, annual price of beef was in real terms were 0,6% lower, but lamb and pork were 5,1% and 1,4% higher. The decline in the price of beef in 2015 compared to lamb and pork may be a result of an increase in the supply due to the drought.

When compared to the long-term average over the period 1996 to 2015, the annual prices of beef, mutton and pork in real terms were respectively 21,7%, 27,1% and 13,5% higher. The average prices of beef, mutton and pork are well above the 100=line which implies that the average prices of beef, lamb and pork increased at a faster rate over the past ten years as was the case with the inflation rate.

Feedlots / weaner industry

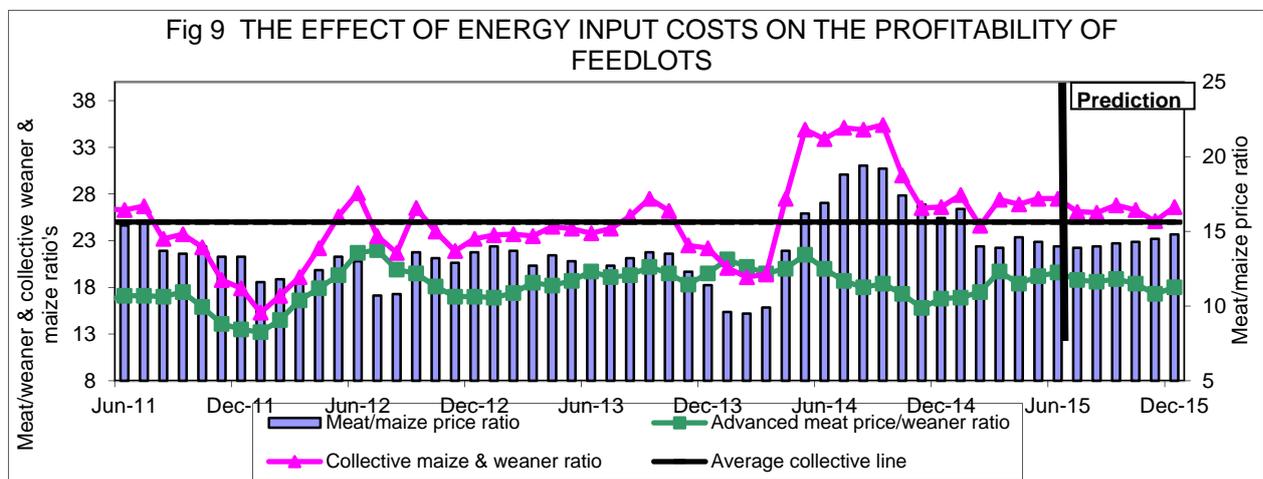
Figure 8 shows the relation between the maize price, meat price and weaner price.



In January 2016 year-to-year, the average price of yellow maize increased in total by 90,4%. Over the same period the average price of light weaners declined by 14,9% and Class A2/A3 beef increased by 4,7%.

Price ratio

Figure 9 shows the price ratios of meat/maize and meat/weaner.



The meat/maize price ratio is the kg of maize that can be bought with the value of one kg of meat.

The advanced meat price/weaner price ratio is the ratio between the present weaner price and the selling price of the meat three months into the future. (This ratio is also multiplied by 10 to fit on the graph).

The collective ratio (which includes the maize and weaner prices) is the ratio between the price of beef and the collective effect of the maize price and weaner prices.

The average collective line is the average of the collective ratios over the period January 2013 to January 2016.

In January 2016 year-on-year, the average maize price increased by 90,4% and the meat price (Class A2/A3 carcass price) increased by 4,7% with the result that the meat/maize ratio weakened over the same period by 45,0%.

The advanced meat price/weaner price ratio improved by 19,9% in January 2016 compared to January 2015, based on a predicted price of R35,50/kg Class A2/A3 beef in April 2016 and an average price of R17,54/kg for weaners in January 2016.

The collective effect of both maize price and weaner price indicated a weakening in the ratio by 34,1% from January 2015 to January 2016 due to the weakening of 45,0% in the meat/maize price ratio and the improvement of 19,9% in the meat price/weaner price ratio.

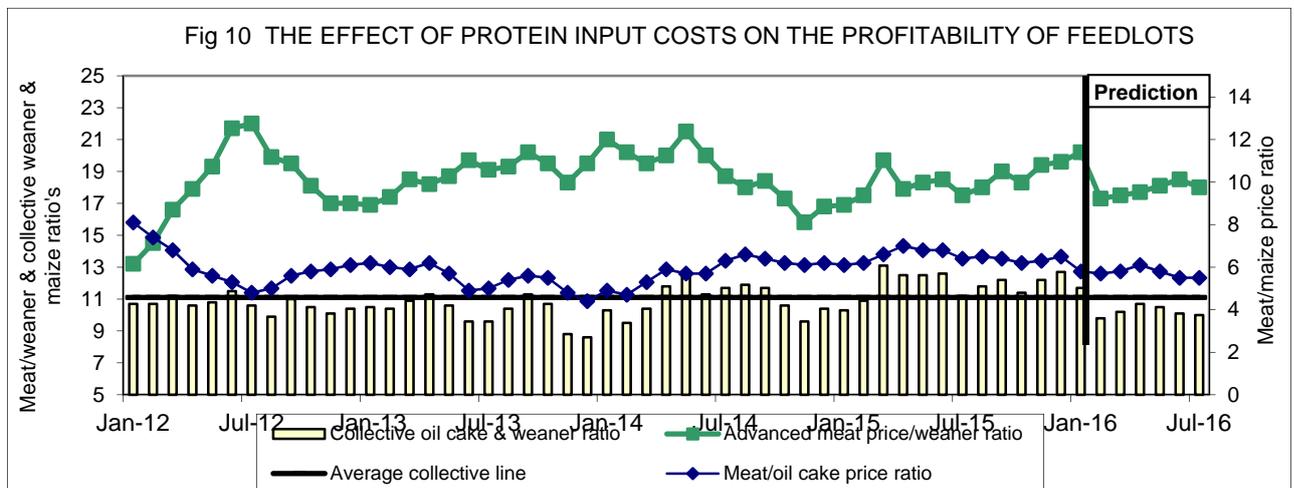
In January 2016, the collective ratio (which include both maize and weaner prices) was 24,0% below the collective line over the period January 2013 to January 2016.

The assumption can therefore be made that feedlots are economically 45,0% more worst off in January 2016 compared to January 2015, and 24,0% worst off when compared to the average period from January 2013 to January 2016 as far as energy supplementation is concerned.

Outlook

If the price of yellow maize should decline by 7,3% from January to July 2016, based on the contracts for yellow maize on the JSE Securities Exchange (SAFEX) for the month of January 2016, and the price of A2/A3-beef declined by 5,3% from January to July 2016 as predicted and the weaner price increase by 10,9% from January to July as predicted, the collective effect of both maize price and weaner price versus the beef price should weaken by 8,7% in July 2016 compared to January 2016.

Figure 10 shows the price ratios of meat/oil cake and meat/weaner.



The meat/oil cake price ratio is the kg of oil cake that can be bought with the value of one kg of meat.

The advanced meat price/weaner price ratio is the ratio between the present weaner price and the selling price of the meat three months into the future. (This ratio is also multiplied by 10 to fit on the graph).

The collective ratio (which includes the oil cake and weaner prices) is the ratio between the price of beef and the collective effect of the oil cake price and weaner prices.

The average collective line is the average of the collective ratios over the period January 2012 to January 2016.

In January 2016 year-on-year, the average price of soy oil cake meal increased by 10,6% and the meat price (Class A2/A3) increased by 4,7% with the result that the meat/oil cake ratio weakened over the same period by 5,3%.

The advanced meat price/weaner price ratio improved by 19,9% in January 2016 compared to January 2015, based on a predicted price of R35,50/kg for Class A2/A3 beef in April 2016 and an average price of R18,86/kg for weaners in January 2016.

The ratio between the beef price and the collective effect of both soy oil cake price and weaner price improved by 13,5% in January 2016 year on year.

When compared to the long term, the collective ratio in January 2016 was 5,4% above the collective line based on the average over the period January 2012 to January 2016.

The assumption can therefore be made that feedlots as far as protein costs are concerned, had an economic advantage in January 2016 compared to January 2015 and were also better off in January 2016 when compared to the average collective ratio over the long term period from January 2013 to January 2016, notwithstanding the weakening in the average meat/soy oil cake price ratio in January 2016 compared to January 2015.

Outlook

From January 2016 to July 2016, based on the present price information, the meat/soy oil cake ratio is expected to weakened by 5,2%. This is based on a predicted weakening of 5,3% in the price of beef and a predicted decline of 0,9% in the soy oil cake price from January to July. When also being taken into account the predicted increase of 10,9% in the weaner price and the expected decline of 5,3% in the price of A2/A3-beef over the same period, the meat/collective weaner & oil cake price ratio is expected to weaken by 14,5% in July 2016 compared to January 2016.

The prediction is that the collective ratio may decline over the next six months.

SOURCES:

- Red Meat Abattoir Association;
- National Department of Agriculture;
- Meat and Livestock Weekly
- AMT information collaborator;
- USDA Outlook Reports; and
- Meat and Livestock Australia.

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