



MUTTON OUTLOOK REPORT MARCH 2016

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MUTTON PRODUCTION AND MARKETING TRENDS

INTERNATIONAL SHEEP MEAT TRENDS

Australia

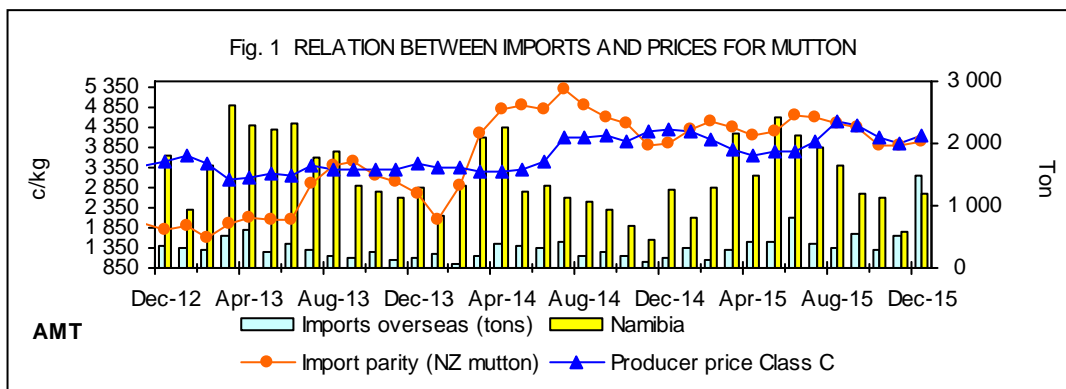
During February 2016, Australia exported 22,235 MT of lamb. This was 27.2 percent more than January and was 12.5 percent more than February 2015. Lamb exports to the U.S. during February totalled 5,850 MT, which was 36.5 percent higher than the previous month and was 32.2 percent higher from February 2015. Year-to-date lamb exports to the U.S. totalled 10,135 MT, 28.0 percent more than last year. The U.S. was the largest lamb export market for Australia with 25.5 percent of the total. During February, Australia's lamb exports to the Middle East rose 11.1 percent over the previous month and 12.1 percent over February 2015 to 5,233 MT. Total year-to-date lamb exports to the Middle East equalled 9,944 MT, which was 4.6 percent greater than last year. Australia's lamb exports to China during February equalled 3,319 MT. This was up 47.6 percent over the previous month and was up nearly 1.0 percent over February 2015. Year-to-date lamb exports to China were 4.5 percent higher than a year ago, amounting to 5,568 MT. Overall, Australia's total year-to-date lamb exports equalled 39,716 MT, 12.9 percent above the same period a year ago. Meanwhile, during February, Australia exported 14,687 MT of mutton, which was 26.4 percent higher than the previous month and was 3.1 percent higher than February 2015. Mutton exports to the Middle East during February totalled 4,221 MT. This was 9.7 percent less than January and was 10.3 percent less than February 2015. Total year-to-date mutton exports to the Middle East were 2.3 percent lower than a year ago, amounting to 8,895 MT. During February, Australia exported 2,139 MT of mutton to China. This was up 54.8 percent over the previous month but was down 33.8 percent from February 2015. Total year-to-date mutton exports to China were 53.1 percent less than a year ago, amounting to 3,521 MT. Year-to-date mutton exports to the U.S. totalled 2,961 MT, 7.8 percent more than last year. Overall, Australia's total year-to-date mutton exports equalled 26,304 MT, which was 8.7 percent less than the corresponding period a year ago.

Source: USDA Bi-Weekly International Meat, Poultry & Egg Review, 3 March 2016.

THE DOMESTIC MUTTON INDUSTRY

Imports of Mutton meat

Figure 1 illustrates the relationship between imports and local prices. Imports are based on carcass equivalent.



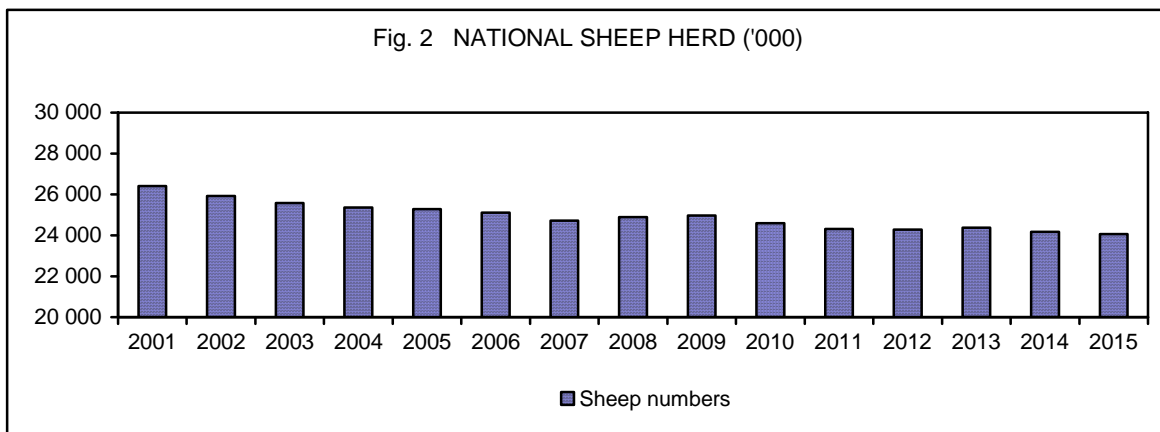
Imports from Namibia and overseas are only available till **December 2015**.

- The import of mutton from overseas in the month of December 2015 was 874,5% more than the same month in 2014.
- The import of mutton from Namibia in the month of December 2015 was 5,6% less than the same month in 2014.
- It seems that import parity price was the main driver in the volume mutton imported from overseas in the period January 2001 to December 2015, with a correlation value of $r = -0,6570$ followed by the producer price of Class C2/C3 with a correlation of $-0,6038$
- In December 2015 year-on-year, the import parity price of Australian mutton increased in total by 1,0%, but world prices are still too high to have any significant effect on the South African mutton market.

Outlook

- In December 2015, the South African Rand depreciated in total by 15,1% against the Australian dollar and looking at the performance of the South African economy in the first two months of 2016, a further weakening can be expected between the South African currency and the currencies of Australia and the USA. If this is going to happen the differential between the import parity price and the domestic price of mutton will further enlarge. The prediction is therefore that the imports of mutton from overseas are going to stay at the present relative low level during 2016.
- As far as imports from Namibia are concerned, due to inadequate rains in most of the mutton producing areas, subnormal exports in lamb and mutton to South Africa can be expected in 2016.

Production trends



Source: DAFF

Based on the latest information from the National Department of Agriculture, total sheep numbers, which exclude goats, are in the order of 24,06 million in 2015 which is 0,4% lower than in 2014 (Figure 2).

Outlook

Notwithstanding the favourable wool – and meat prices of the past three years, the high occurrence of organized theft of sheep in South Africa, sheep numbers in South Africa, the present drought is expected to have a negative effect on sheep numbers in 2016.

Table 1 Sheep per province

Province	2014	2015	% of total in 2015
Western Cape	2 810 505	2 811 456	11,7
Northern Cape	6 017 374	6 011 650	25,0
Free State	4 784 747	4 757 160	19,8
Eastern Cape	7 015 162	6 992 423	29,1
KwaZulu-Natal	755 171	737 686	3,1
Mpumalanga	1 761 110	1 737 543	7,2
Limpopo	256 966	255 302	1,1
Gauteng	98 369	100 071	0,4
North West	642 955	653 280	2,7
TOTAL	24 164 598	24 059 904	100

Table 2 shows the number of sheep being stolen over the period 2005/200p6 to 2010/2011.

Table 2 Sheep being stolen

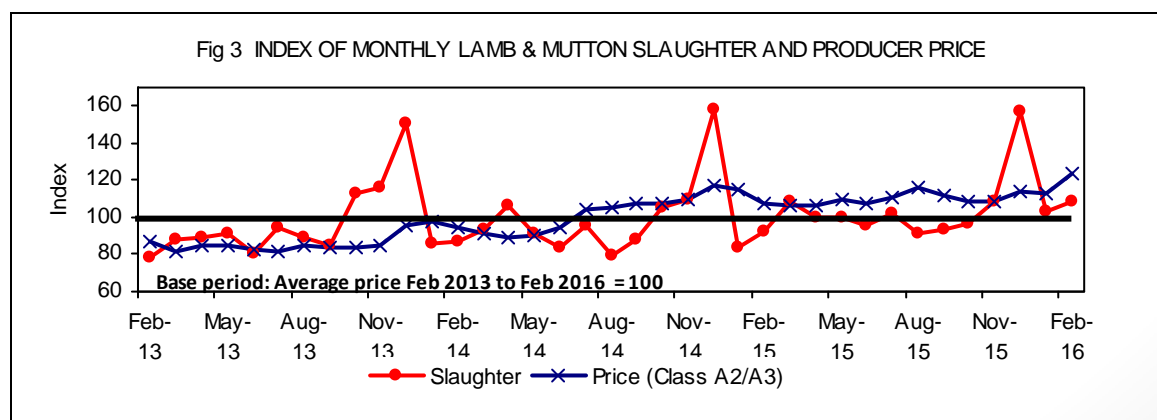
Year stolen	Stolen	Recovered	Lost
2005/6	109 368	25 963	83 405
2006/7	116 058	31 016	85 052
2007/8	113 391	31 230	82 161
2008/9	116 399	28 549	87 850
2009/10	127 647	29 672	97 975
2010/11	127 467	28 619	98 848
2011/12	94 450	23 569	70 881
2012/13	89 100	20 679	68 721

Source: RPO.

Since 2012/13, no more information is available on sheep theft.

Theft of sheep in the producing areas is one of the main factors that have a negative effect on the growth of the national herd over the past years from 2005/06 to 2009/10, but since 2009/10 to 2012/13, a decline occurred in the number of sheep being stolen. In 2012/13 the number of sheep stolen decline in total by 5,7% compared to the previous year, and 30,2% compared to 2009/10.

Trends in the slaughter of sheep



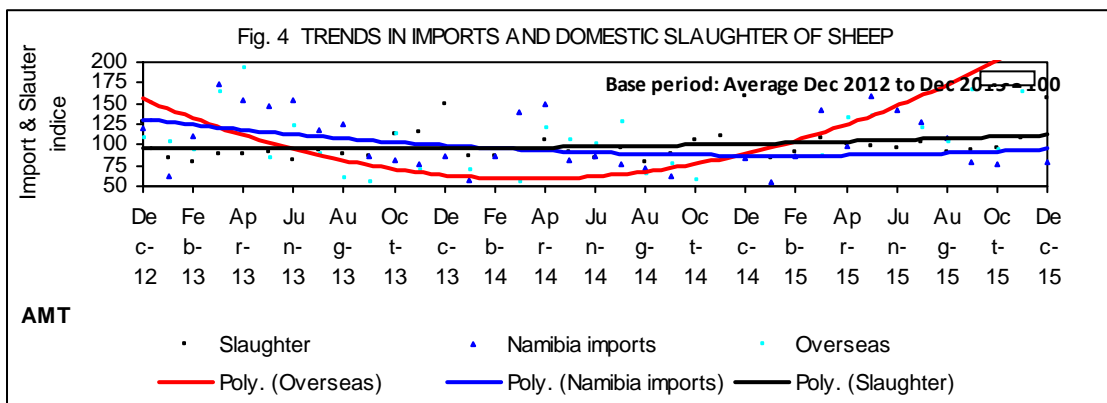
Aggregate slaughter Information received from of Red Meat levy Admin only available till **December 2015** with preliminary slaughter based on information from the Red Meat Abattoir Association for January and

February 2016. For the month of January and February we have to rely on percentage change in the total slaughter of the approximately 20 abattoirs which provide the information for the price analysis.

- In February 2016 the number of mutton and lamb slaughtered was 6,0% more compared to the previous month, 18,2% more than in February 2015 and 8,8% more than the average over the period February 2013 to February 2016 (Figure 3).
- Year-on-year, the average price of mutton (Class A2/A3) increased in total by 14,8% in February 2016.

Slaughter and imports of mutton meat

Figure 4 shows the trends in slaughter and imports over time.



The trend lines in Figure 4 are based on polynomial regression, and show the trends in slaughter sheep, imports from Namibia and from overseas from December 2012 to December 2015.

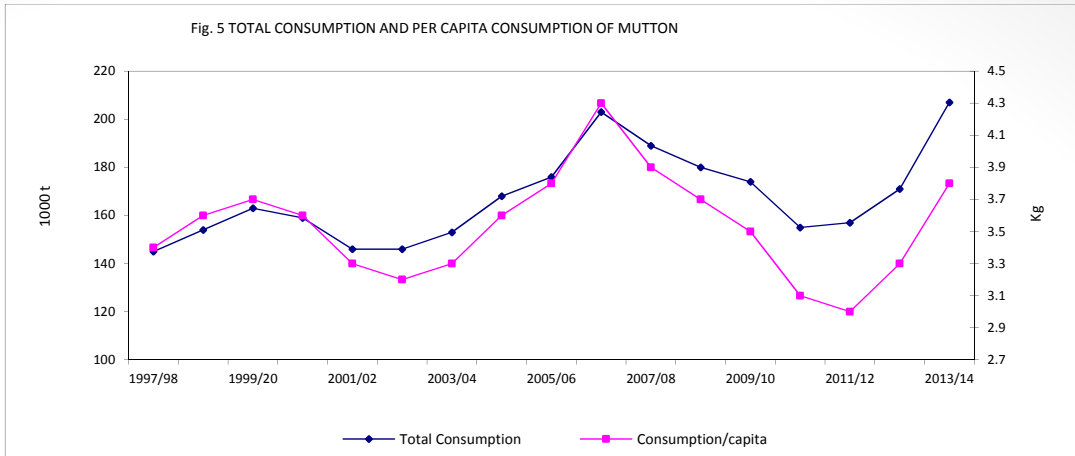
The regression lines indicate the following:

- The slaughter of sheep in South Africa shows an upward trend from March 2012 to December 2015 (black line).
- Imports from Namibia shows a downward trend from March 2015 to December 2015 (blue line).
- Imports from overseas shows a declining trend from December 2012 to April 2014, after which it started to increase (red line).

Outlook

- Notwithstanding the severe drought in the beginning of 2014 to February 2016, in the mutton producing areas in the North Western of South Africa, slaughter still shows an upward trend from December 2012 to December 2015. The long period of drought will eventually have an effect on the national herd of South Africa. The number of lamb and mutton available for slaughter is expected to come under pressure after the winter of 2016, which will result in a decline in supply and increasing market prices.
- The same drought is also affecting Namibia with the same destructive outcome as the case may be in South Africa.
- The sharp upward trend in overseas imports in 2015 as being shown in Figure 4 was mainly caused by abnormal high imports in December 2016, but since December the Rand exchange rate deteriorated sharply. With the weak South African Rand and prospects of a further weakening against other currencies during 2016, imports from overseas are expected to continue on a low level during 2016, due to higher international parity prices.

Aggregate and per capita consumption of mutton

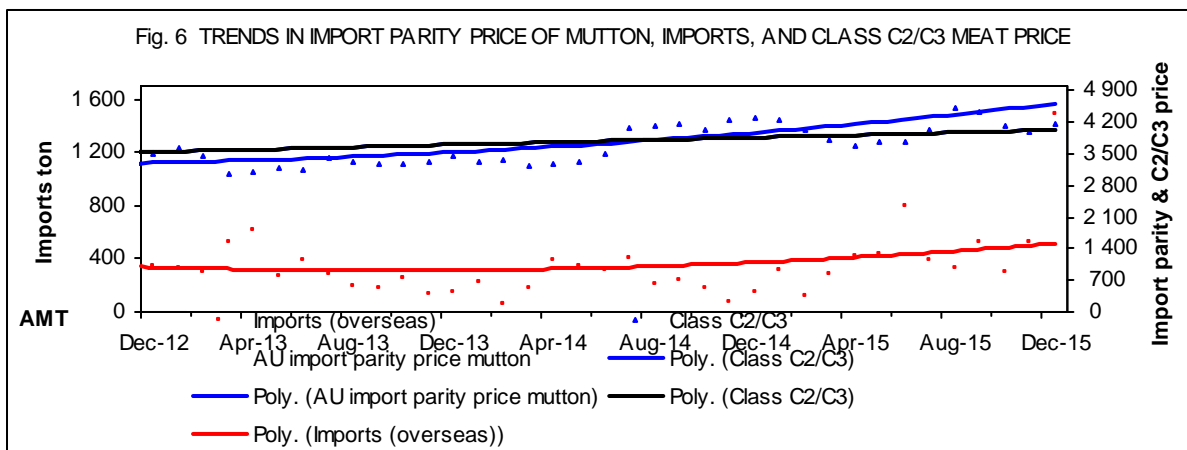


Source: Department of Agriculture Forestry and Fisheries

In 2013/14 year-on-year, total consumption of mutton and the per capita consumption increased in total by 10,1%, and per capita consumption by 5,6%.

Over the 10 years from 2005/06 to 2013/14, total consumption increased in total by 17,6%, but per capita consumption was unchanged at 3,8%.

Import parity price, imports from overseas and Class C2/C3 price



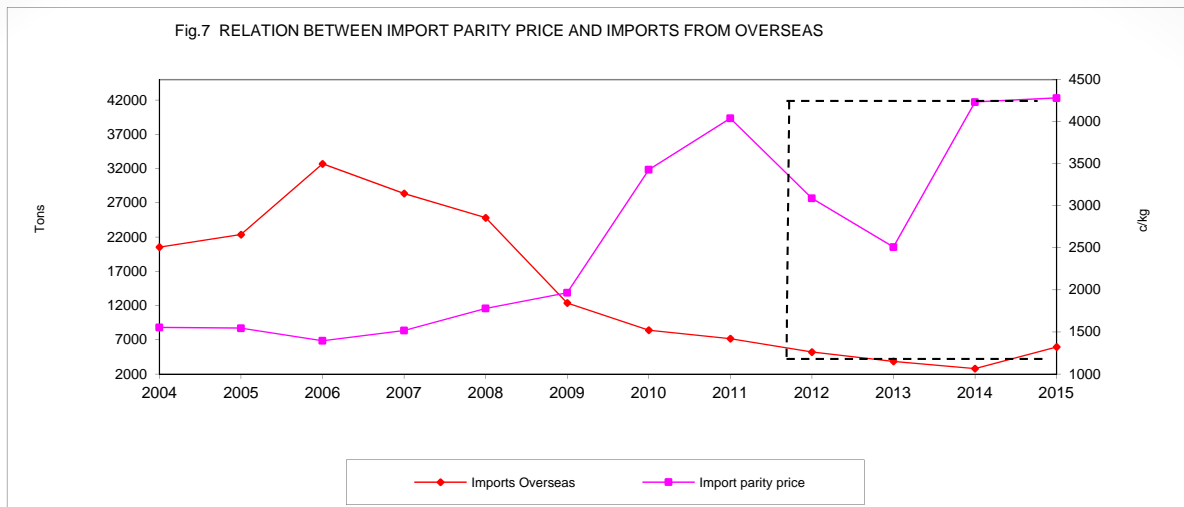
In the above graph (Figure 6), the trend line of the import parity price (black line) shows an upward trend from December 2012 to December 2015.

The trend line of the price of Class C2/C3 (blue line) shows an increasing trend from over the same period.

The imports from overseas (red line) show also a declining trend over the same period.

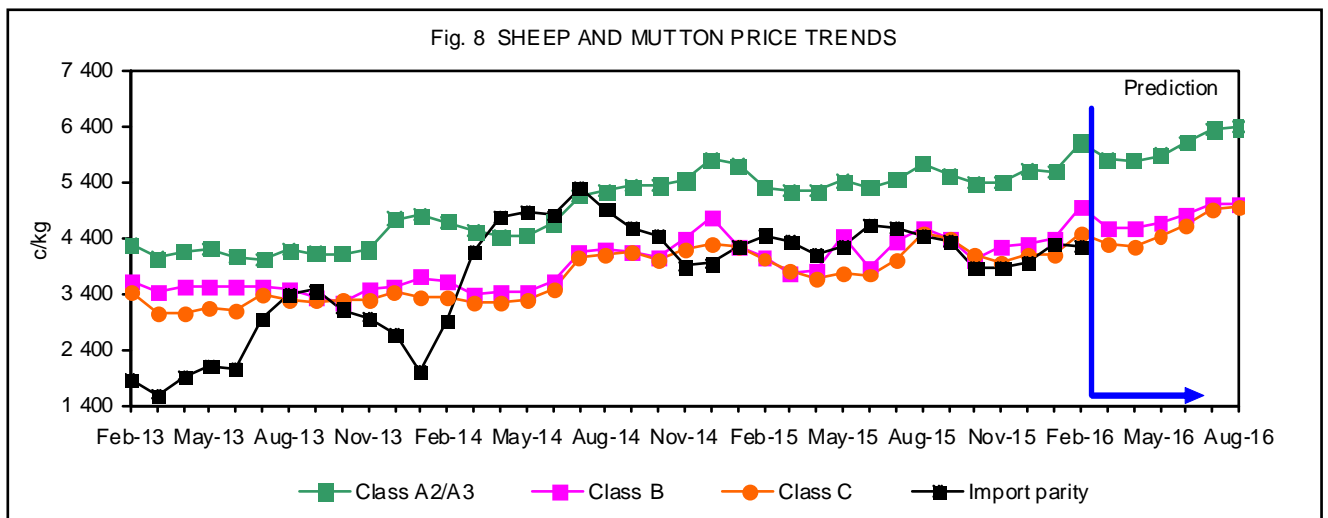
Due to the high level in the world price of mutton and a weak South African Rand against the US-dollar and AU-dollar, and the expectation of a further deterioration of the South African exchange rate, imports of mutton is expected to stay on low levels over the next six months.

Figure 7 shows the relation between imports from overseas and the import parity price on an annual basis.



In 2009, the import parity price started to increase, while the imports from overseas declined over the same period, and in 2015 compared to the previous year imports moved sideward and import parity increased. The import parity price seems to be still on a too high level to have meaningful impact on imports.

Producer price trends

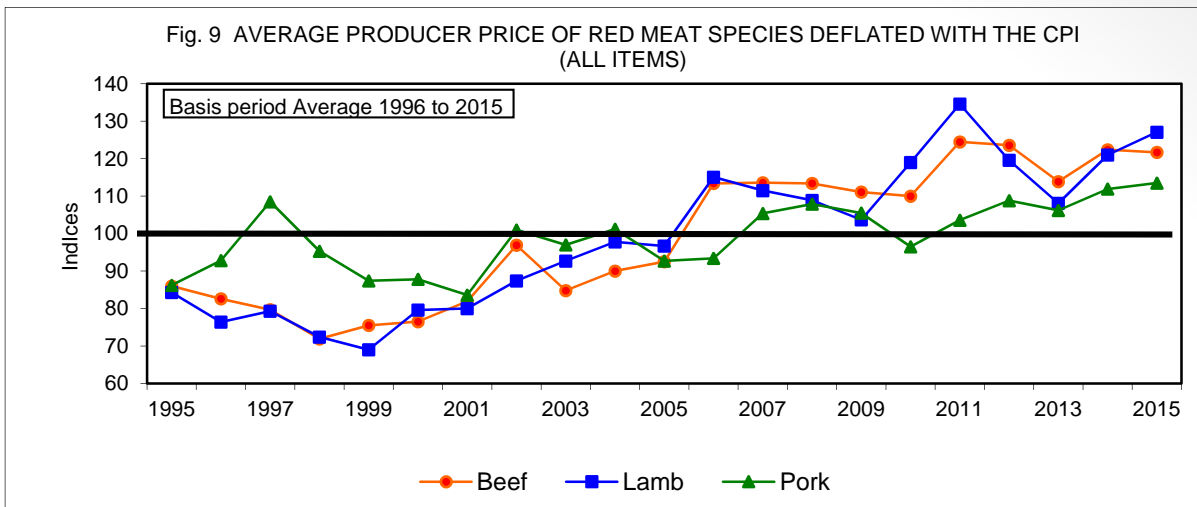


- In February 2016 year-on-year, the average producer price of lamb (Class A2/A3), Class B2/B3 and Class C2/C3 were respectively 14,8%, 22,8% and 11,4% higher (Figure 8).
- Over the same period the import parity price of Australian mutton declined in total by 4,8%, and the average price of Australian lamb declined by 21,7%.

Outlook

An increase is prediction in the prices of lamb and mutton from February to August 2016. Based on expectation that the Rand may further depreciate against the AU-dollar, the import parity price of mutton may move further upward over the next six months. When the present drought is being taken into account the price increases from February to August can even be higher.

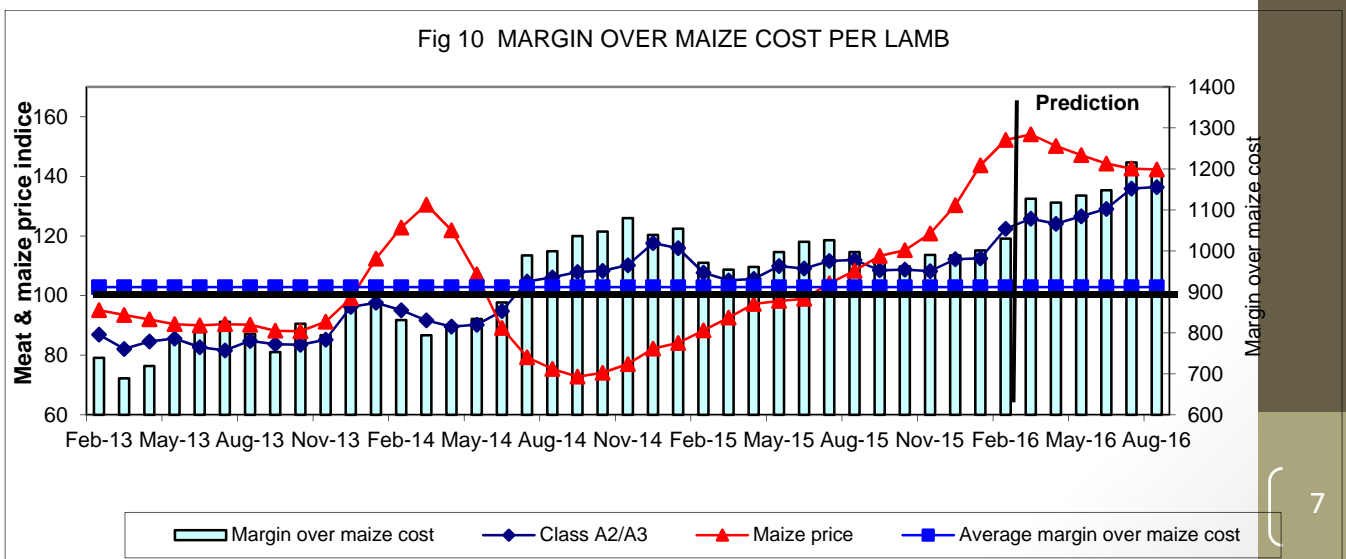
Comparison in long term trends in the prices of sheep, beef and pork



- In 2015 the real price (where the effect of inflation was removed from the time series data) increased in total by 5,1 and 1,4% for respectively mutton and pork compared to the previous year, but beef declined by 0,6%. It is however important to note that the average prices of all three species (beef, lamb and pork) were in real terms above the 100-line, which means that the average prices in 2015 were respectively 21,7%, 27,1% and 13,5% for beef, mutton and pork above the average price over the past 19 years with due allowance for inflation.
- Compared to 1996, the real price of beef and lamb increased in total by respectively 47,3%, 66,4% and 22,3% in 2015.

Feedlot margin over maize cost

The margin over maize cost per kilogram lamb meat is based on a finishing off ration consisting of 60% concentrates and 40% roughage. The concentrate part of the ration consists of 55% yellow maize. The average intake per lamb per day is 1,5 kilogram of the total ration and the A.D.G is taken as 280 grams per day. It should however be emphasized that feeder-lamb slaughtering represents only a very small part of total lamb slaughtering in South Africa. The graph below is also based on the assumption that the energy portion in the concentrate part in the ratio consists of only maize.



The margin over maize costs is calculated by subtracting the average maize price of the past three months from the present gross value per lamb. The gross value is calculated by multiplying the average carcass mass with the producer selling price per kilogram carcass mass.

The 100-line represents the average maize price and the producer selling price of lamb (Class A2/A3) over the period February 2013 to February 2016.

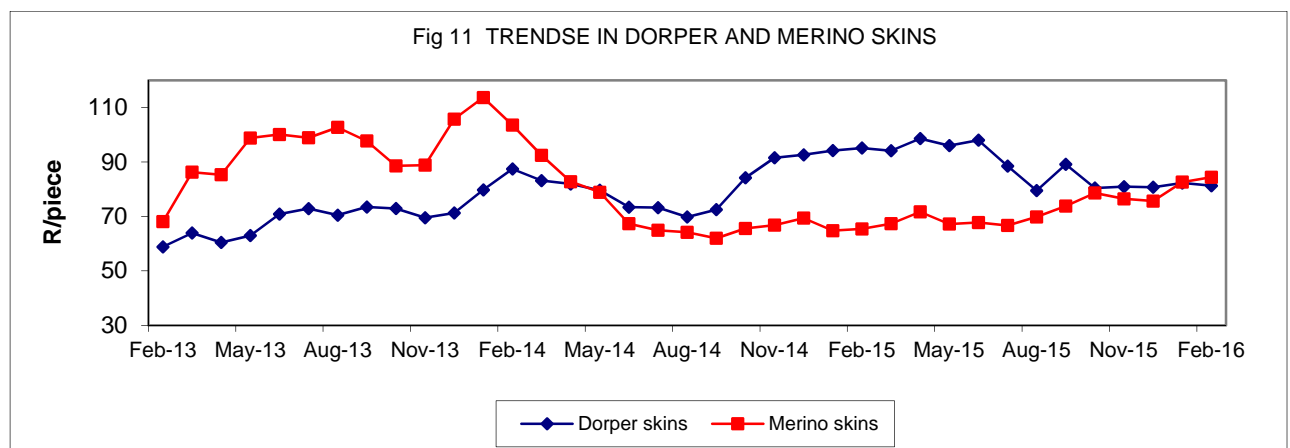
The horizontal average margin over maize cost line (blue) represents the average margin over maize cost over the period July 2012 to January 2015, and on the above graph it lies above the 100-line.. This is also the line against which each monthly margin over maize cost is being measured. A dip in the producer price of lamb or an upheaval in the price of maize caused logical a decline in the margin.

In the months where the average meat price drops below the 100-line the average margin over maize cost falls below the average margin over maize cost line (blue line). This happened in the periods February 2013 to May 2014.

Outlook

In the period March 2015 to August 2016, the margin over maize cost is predicted to be well above the average margin over maize (blue line), due to the relative high meat prices and notwithstanding relative high maize prices. With other words a period of relative high margins over maize costs. Compared to February 2016, the average margin over maize cost in August is predicted to increase in total by 15,4% due to a predicted decline of 6,6% in the price of maize and a predicted increase of 11,5% in the price of A2/A3-beef over the same period.

Trends in skin prices



In February 2016 year on year, the average price of dorper skins declined in total by 14,6% and merino skins increased by 29,0%.

Sources:

- Aginfo & Aginfo collaborators
- Australian Bureau of Agricultural and Resource Economics (ABARE)
- South African Meat Industry Company (SAMIC)
- Red meat Abattoir Association (RAA)
- National Department of Agriculture (NDA)
- South African Future Exchange (SAFEX)
- Meat and Livestock Australia (MLA)