

AMT
Mutton Outlook Report

August 2020

AMT



SETTING THE TREND

Report compiled by:

Pieter Cornelius

ENQUIRIES

073 140 2698 | johnny@amtrends.co.za

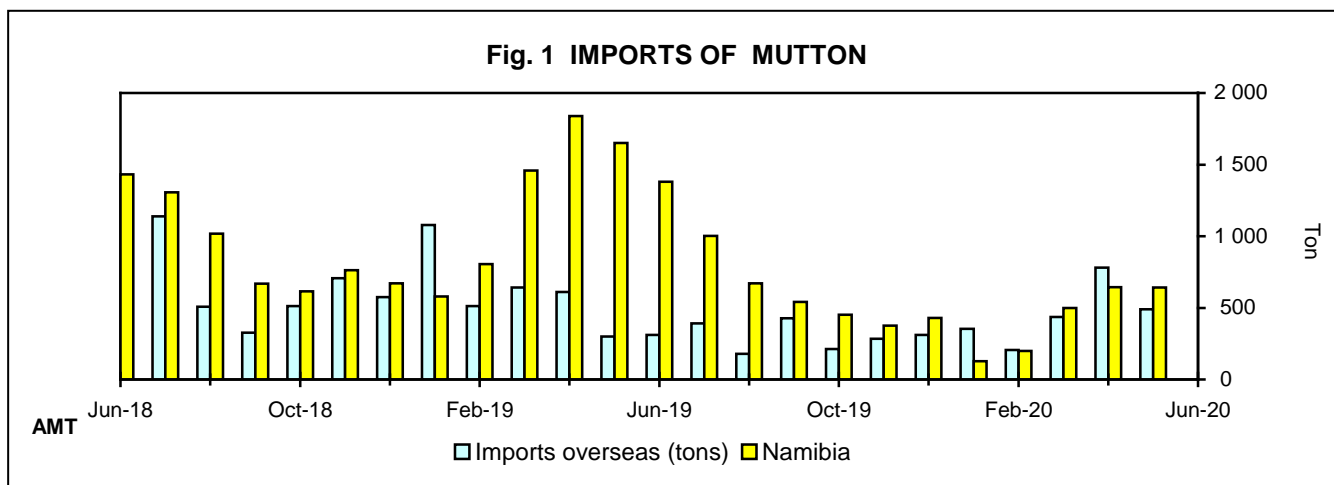
www.amtrends.co.za

AMY MUTTON OUTLOOK REPORT – AUGUST 2020

THE DOMESTIC MUTTON INDUSTRY

Imports of Mutton meat

Figure 1 illustrates the imports lamb and mutton. Imports are based on carcass equivalent.



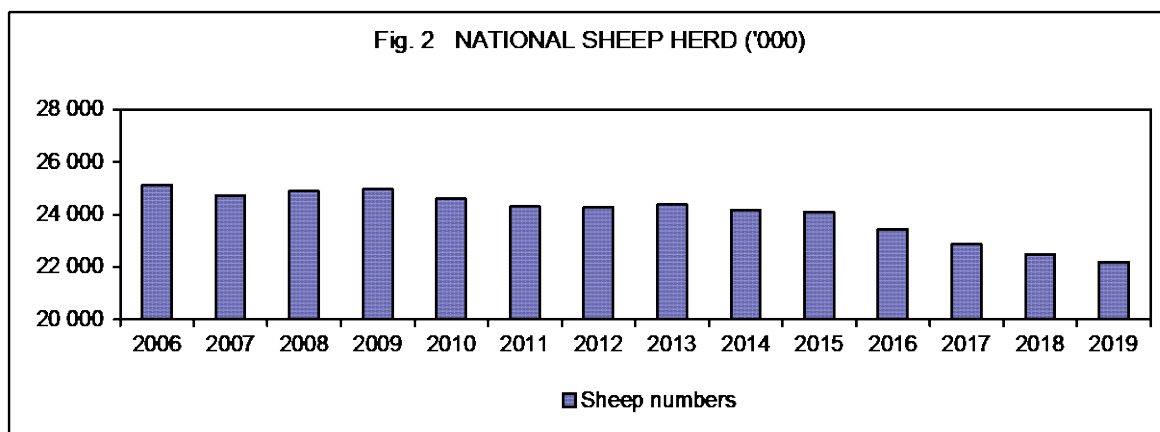
Imports from overseas and Namibia and are only available till respectively **May 2020 and June 2020**.

- The import of mutton (including offal) from overseas in the month of May 2020 was 37,1% less compared to the previous month and 63,7% more year-on-year and when offal was excluded the imports was 42,3% less against the previous month and 121,6% more year-on-year.
- The import of mutton from Namibia in the month of June 2020 was 5,5% less compared to the previous month and 56,1% less year-on-year.

Outlook

- In May 2020 year-on-year, the SA Rand depreciated in total by 25,2% against the U.S Dollar and 18,1% against the AU Dollar.
- Due to structural problems, the South African economy is at present in a bad shape and the expectation is that the weakening in the value of the SA Rand may continue against other currencies during the rest of 2020. Importers from overseas will therefore find it more difficult to compete on the South African market, due to a weaker Rand and the high international prices of lamb and mutton.
- As far as exports from Namibia are concerned, parts of Namibia was also subjected to drought conditions and the expectation is that they will tend to rebuild their sheep herds. To fulfil their obligation in their own country, exports to South Africa is expected to remain on a moderate level over the next six months.

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 22,18 million in 2019 which is 1,4% lower than in 2018 and 9,8% lower compared to ten years ago. (Figure 2).

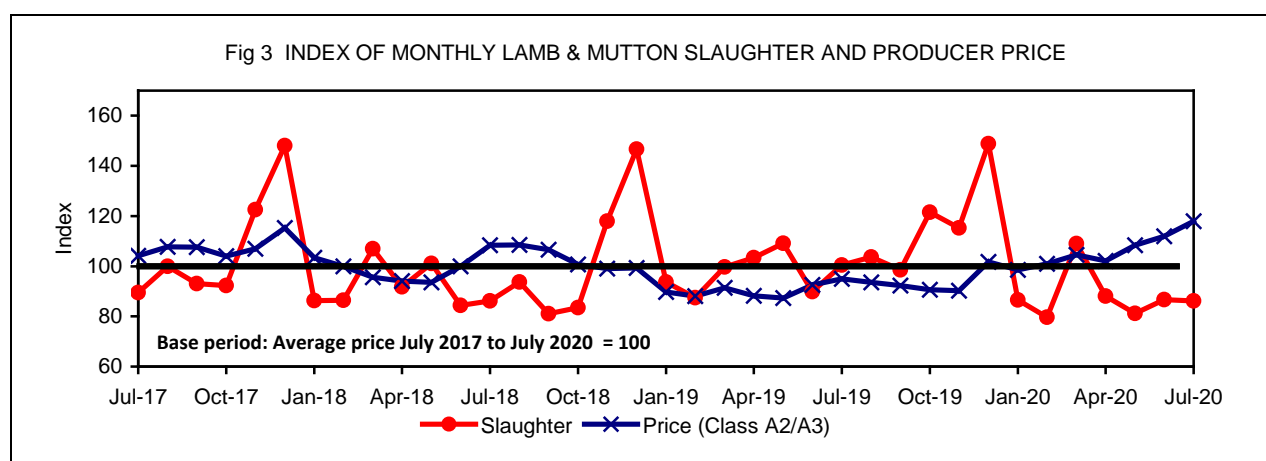
Outlook

The high occurrence of organized theft of sheep in South Africa and the present drought in the Northern Cape and parts on the Free State and Eastern Province is expected to have a negative effect on sheep numbers in sheep numbers over the next 12 months in South Africa, which may result in a further decline in the national herd in 2021.

Table 1 Sheep per province

Province	2018	2019	% of total in 2019
Western Cape	2 667 273	2 635 560	11,9
Northern Cape	5 491 662	5 350 169	24,1
Free State	4 504 368	4 525 633	20,4
Eastern Cape	6 345 073	6 187 908	27,9
KwaZulu-Natal	683 180	658 935	3,0
Mpumalanga	1 610 094	1 559 938	7,0
Limpopo	215 618	205 677	0,9
Gauteng	90 975	87 150	0,4
North West	611 214	606 973	2,7
TOTAL	22 494 457	22 184 573	100

Trends in the slaughter of sheep



Aggregate commercial slaughter Information received from of Red Meat levy Admin only available till **May 2020**. The month of June and July 2020 are estimates, calculated by means of the smoothing multiplicative technique of Holt & Winters, which gives an indication of what can be expected in the month July.

- In July 2020 it seems that the number of mutton and lamb slaughtered was 0,5% less compared to the previous month, 14,2% less than in July 2019, and 13,8% less than the average over the period July 2017 to July 2020. (Fig. 3). This decline in slaughter was caused by years of drought in the main mutton producing areas of South Africa, which had a destructive effect on the national sheep herd.
- In July 2020 year-on-year, the average producer price of lamb (Class A2/A3) increased in total by 24,0%. This increase from March 2020 to July was mainly caused by the measures taken by Government to combat to corona virus pandemic.

Outlook

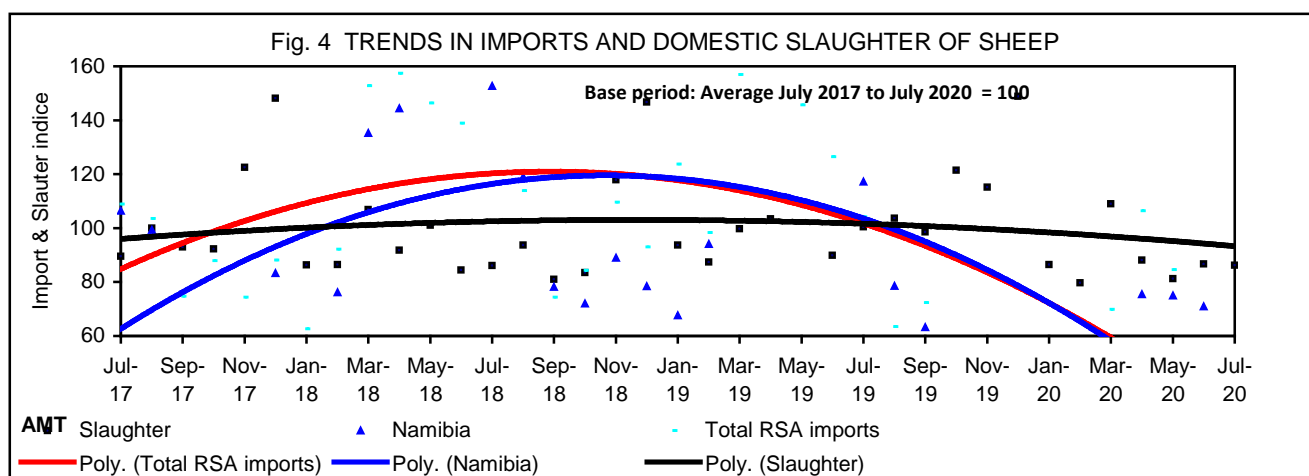
Slaughter is expected to stay on a relative low level till the end of 2020. Although good rains fell in most of the drought stricken areas, producers are still in a herd rebuilding phase.

We are also still under Government measures in controlling the pandemic and the duration of the control and the closure of International borders is going to have a significant effect on the price level in the coming months .

The average producer price of lamb is therefore expected to maintain the present high level for the rest of 2020, depending on the effect of the uplifting from 25 August of the corona restrictions on alcohol being served in the hospitality business in South Africa. .

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 July 2017 to July 2020.

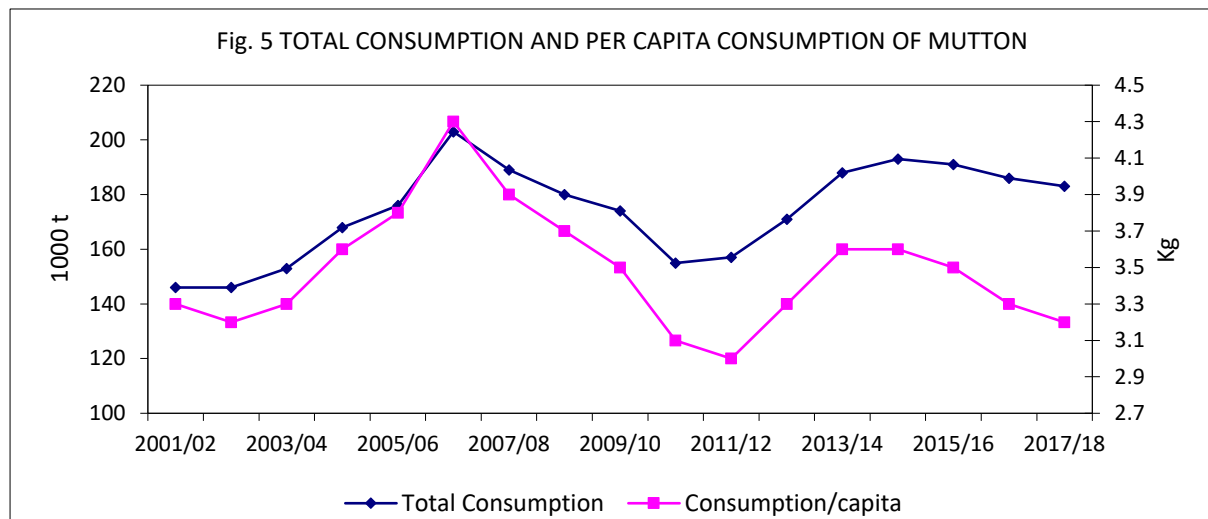
The regression lines indicate the following:

- The slaughter of sheep in South Africa shows a downward trend from May 2019 to July 2020 (**black** line).
- Imports from Namibia show a downward trend from December 2018 to July 2020 (**blue** line).
- Total RSA imports (overseas plus offal and Namibia) shows a downward trend from October 2018 to July 2020 (**red** line).

Outlook

- The sheep market is still suffering due to the severe drought, which started in 2016 and was still present in 2019 in some of the sheep production areas in South Africa.
- Imports from Namibia, which constitute for 56,7% of total imports (including offal) in May 2020, shows a declining trend since December 2018. The sheep industry in Namibia is however also submissive to the same drought conditions as is the case in South Africa, and due to herd building in that country, may led to lower exports to South Africa for the rest of 2020.
- Imports from overseas are dwindling due to the relative high world price of mutton.
- South Africa started the export of live sheep to the Mid-East.
- Putting these three factors together, the domestic prices of lamb and mutton in South Africa is going to stay on relative high levels till the end of 2020.

Aggregate and per capita consumption of mutton



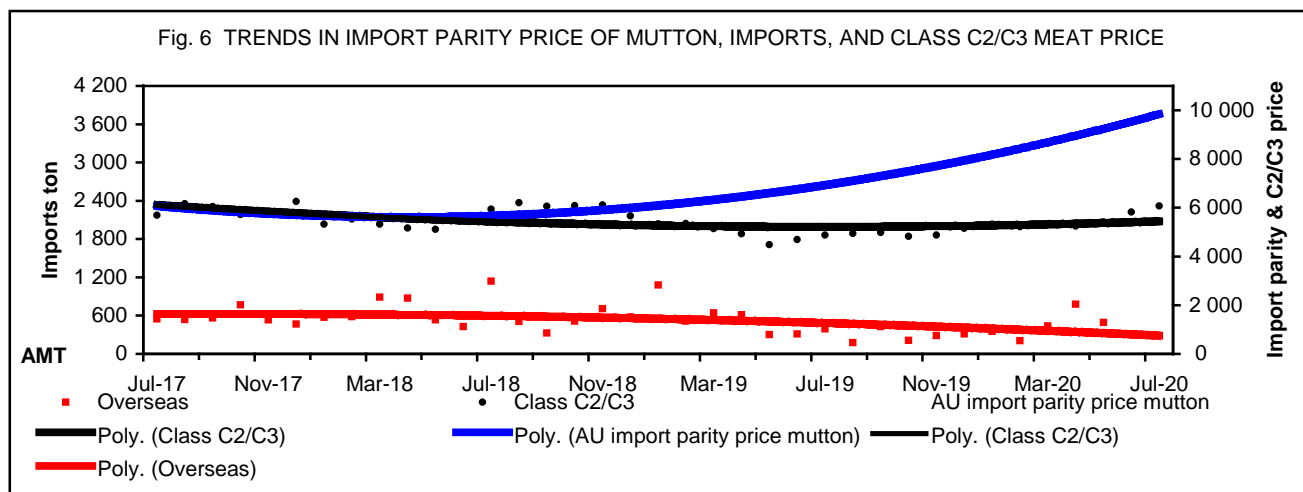
SOURCE: Department of Agriculture Forestry and Fisheries

Due to the lockdown by Government the DAFF was at present not able to provide the Abstract of Agricultural Statistics for 2020.

In 2017/18 year-on-year, total consumption of mutton declined in total by 1,6% and the per capita consumption declined in total by 3,0%.

Over the 10 years from 2008/09 to 2017/18, total consumption increased in total by 7,2%, and per capita consumption declined in total by 2,7%.

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 (blue line) shows an increasing trend from June 2018 to July 2020.

Although the trend line of the price of Class C2/C3 (black line) shows a declining trend overall from July 2017 to July 2020, an increase however occurred from November 2019 to July 2020.

The imports from overseas (including offal) (red line) show also a declining trend over the period July 2017 to July 2020.

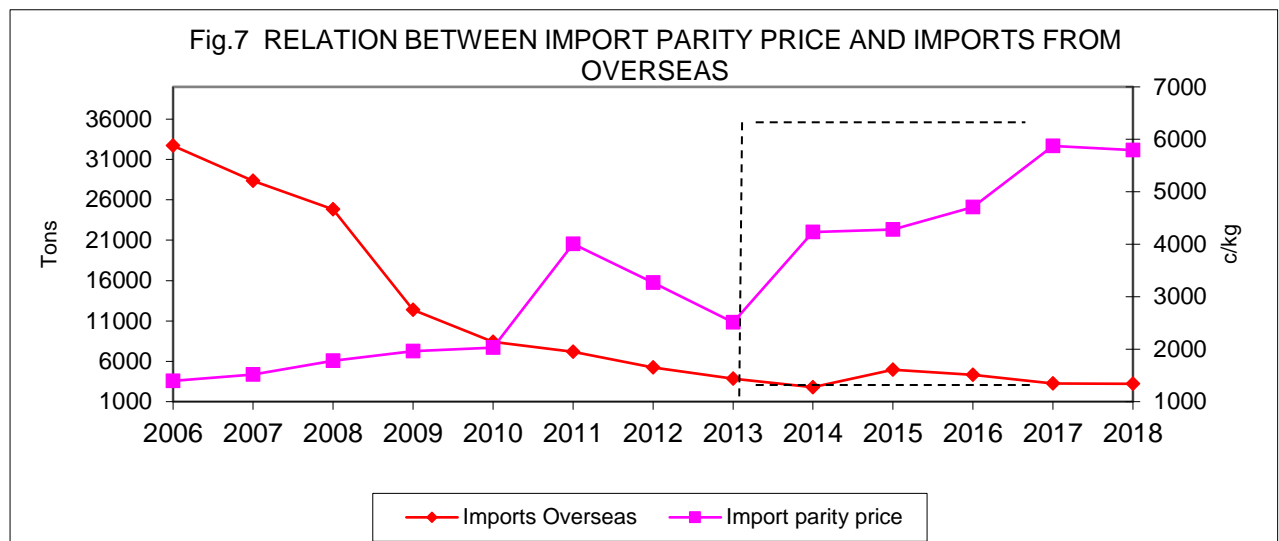
Outlook

Given the high level in the world price of mutton, the weaker African Rand against the US-dollar and AU-dollar at present, a further decline can be expected in the import of mutton from overseas which is going hand in hand with the possibility a further upward trend in the import parity price of imported mutton.

Total imports from overseas in the period July 2018 to November 2019 accounted for approximately only 1,5% of total mutton production in South Africa and 4,3% when offal is included.

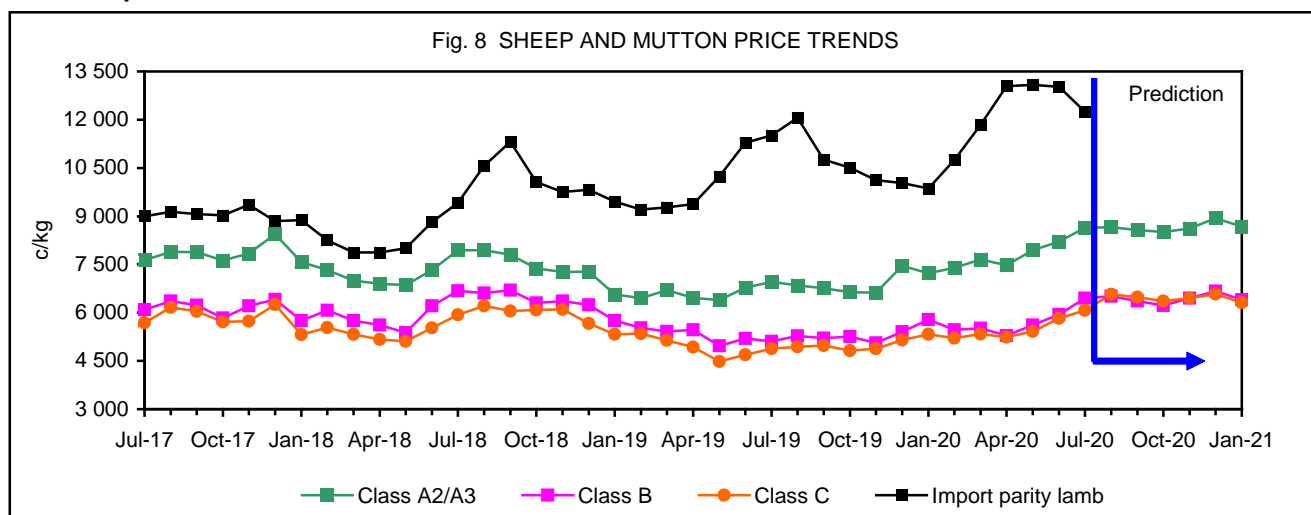
Over the next six months, imports from overseas can therefore be considered as none-influential as far as domestic prices are concerned.

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



In 2013 to 2019, the import parity price started to increase, while the imports from overseas moved sideward/downward on a low level over the same period. The import parity price seems to be on a too high level to have meaningful impact on imports.

Producer price trends

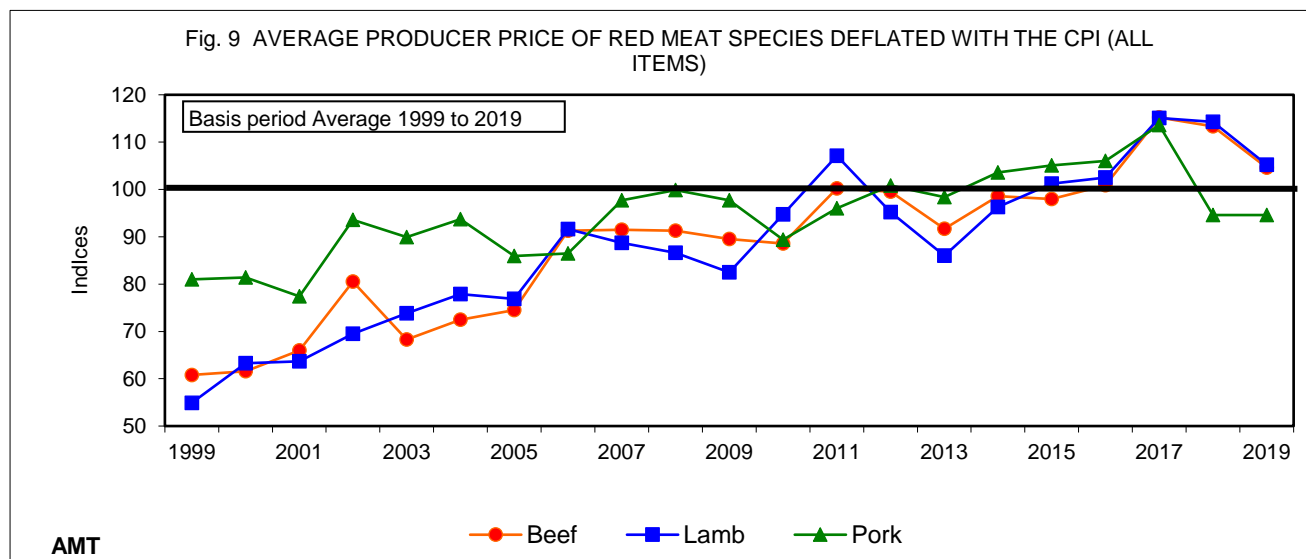


- In July 2020 year-on-year, the average producer price of lamb (Class A2/A3), Class B2/B3 and Class C2/C3 was respectively 24,0% 26,3% and 24,6% higher. (Figure 8).
- Over the same period the import parity price of Australian lamb increased in total by 6,4%, and the average price of Australian mutton increased by 22,8%.

Outlook

Based on the present price information, the average price of Class A2/A3 lamb is predicted to increase in total by 3,5% from July to December 2020 to an average of R89,39/kg, and over the same period Class B2/B3 may increase by 3,3% and Class C2/C3 is expected to increase by 8,4%.

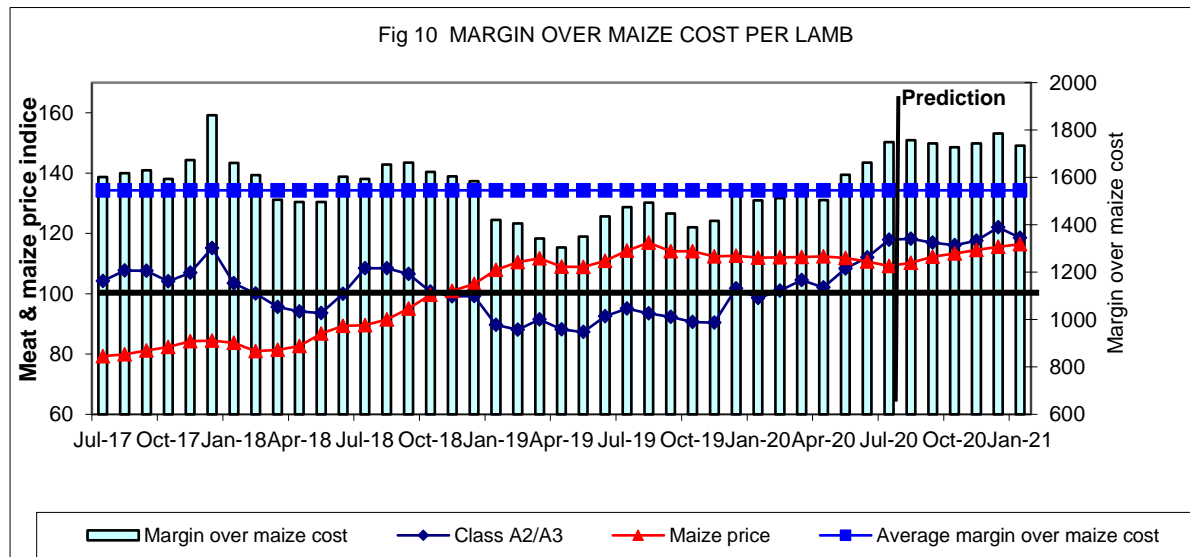
Comparison in long term trends in the prices of sheep, beef and pork



- In 2019 year-on-year, the real price (where the effect of inflation was removed from the time series data) declined in total by 7,7 and 8,0% and unchanged for respectively beef, lamb and pork.
- It is however important to note that the average prices two of the three species (beef and lamb) were in real terms above the 100-line, which means that the average prices in 2019 were respectively 4,6% and 5,2% above the average price over the past 20 years with due allowance for inflation, but pork was 5,4% below the average 100-line.

Feedlot margin over maize cost of feeder lambs

- Assuming the finishing off the feeder lambs stretches over a period of 61 days.
- 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 1,7 kilogram of the total ration and the A.D.G is taken as 320 grams per day. 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 feeder 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 July 2017 to July 2020.

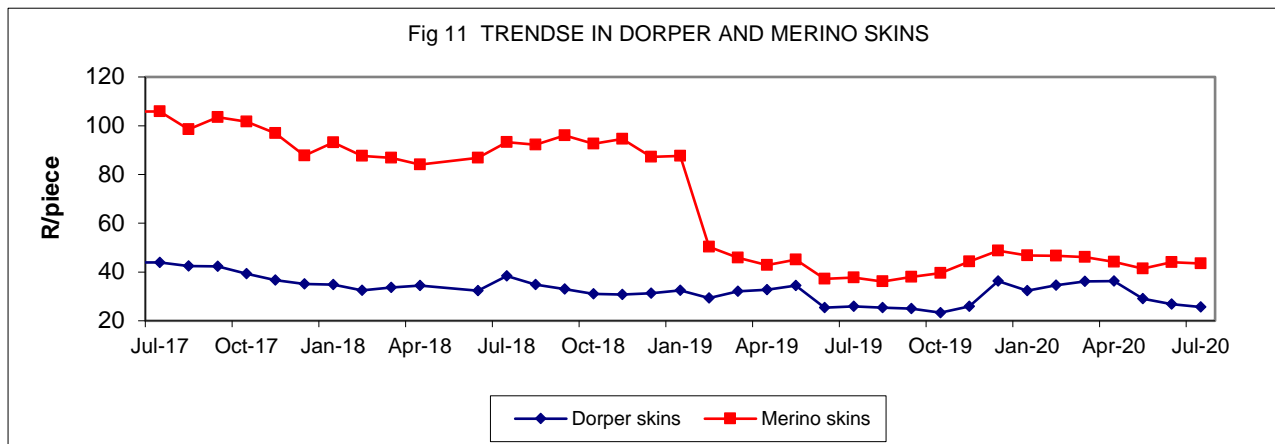
The horizontal average margin over maize cost line (blue) represents the average margin over maize cost over the period July 2017 to July 2020.

Outlook

Based on the assumptions that the producer price will stay on the present high level and the maize price on the moderate low level due to the bumper maize crop, what can be expected over the coming six months till January 2021.

From June 2020 to January 2021, the margin over maize costs is well above the long term average margin over maize costs from July 2017 to July 2020, which indicates a most profitable period for feeder lamb producers.

Trends in skin prices



In July 2020 year on year, the average price of Dorper skins declined in total by 0,9% and merino skins increased by 15,4%. The sharp decline in the price of merino skins since January was caused by the outbreak of FMD in Limpopo, which led to a ban on the export of merino skins. The Dorper skin market is also under a lot of pressure due to the sharp decline in demand overseas, which is being caused by changing fashions. The leather market is losing its market share to synthetic products.

INTERNATIONAL SHEEP MEAT TRENDS

Australia

Sheep projections

A recovery in the national flock is underway, with sheep producers in key regions now in a position to consider increasing flock numbers. However, estimates for June 2020 pin the national flock at 63.5 million head, its lowest level in more than a century.

The recent improvement in conditions has instilled an element of confidence in producers looking to rebuild depleted flocks, particularly in New South Wales. A lift in weaning rates and weights should help support lamb supply towards the end of the year. However, the impact and severity of consecutive drought years will hinder overall sheep and lamb supply in 2020, especially during the winter. Following back-to-back years of excessive turnoff, sheep slaughter is forecast to decline by 30% to 6.5 million head in 2020. Driven by a reduced breeding ewe flock and subsequent decline in the national lamb crop, lamb slaughter is anticipated to decline to 20.6 million head, back 5% on year-ago levels.

Lamb carcass weights are forecast to increase in 2020, assisted by improved feed availability, a greater number of lambs in lot feeding programs and strong price incentives to finish lambs to heavier weights. Increasing weights will not be sufficient to offset the fall in slaughter. As a result, lamb production in 2020 is forecast to decline 2% year-on-year, to 492,000 tons carcass weight (cwt). Underpinned by a substantial decline in sheep slaughter, mutton production is forecast to fall sharply to 161,000 tons cwt, back 29% year-on-year.

Global market conditions have been particularly volatile in the past few months, as the spread of COVID-19 has fostered instability, created logistical hurdles for trade and slowed foodservice industries around the world. This year, exports of lamb are forecast to fall slightly on 2019 volumes, to 282,000 tons swt, while mutton exports are expected to reach 129,000 tons swt, back 31% on 2019.

Encouragingly, growing retail demand, a soft A\$ and the African Swine Fever induced protein deficit continue to drive export prices for sheep meat, particularly as key markets such as China and the US compete for shorter supplies. However, many key export markets now face economic recession as a result of the COVID-19 outbreak, which could lead to tighter disposable incomes and switching of consumption to lower-priced alternatives.

Overall, sheep and lamb prices are expected to remain at historically high levels for the remainder of the year, given the expectation for fewer lambs and sheep available for slaughter, strong restocker demand for ewe lambs, limited competition from New Zealand, generally strong demand (despite some disruptions) and a low A\$.

SOURCE: Meat & Livestock Australia Limited, 11 August 2020.

Sources:

- AMT & AMT 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); and
- Meat and Livestock Australia (MLA).