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China and Trade Restrictions Key Drivers for an Improving, but Volatile Global Outlook

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In 2019, trade conditions in the global poultry industry will gradually start to improve, with rising global demand – especially from China – the main positive driver. China is expected to face a protein shortage this year, and poultry will be the primary substitute to fill the hole. This shortage is a result of African swine fever (ASF) outbreaks, which could lead to a 10% to 20% reduction in Chinese pork production. This scenario would be bullish for both local production and global trade. Volatility in 2019 will be driven by changing global trade access: a potential US-Chinese trade agreement that re-opens US chicken exports might shake up trade, which is also suffering from ongoing EU-Brazil and Saudi-Brazil restrictions – both impacting breast meat and whole bird prices. Other issues – such as rumors about safeguards being imposed by Mexico on US chicken, or by South Africa on Brazilian chicken – are also wild cards in 2019. Ukraine and Russia are strengthening their positions in a changing global trade landscape, with the re-opening of China for Russian poultry exports a major new decisive factor.

Chinese poultry demand will rise by 5%. ASF outbreaks have led to massive pig culling and this drives the substitution from pork to poultry. Prices and imports will increase due to limited local supply through to the end of 2019.

Global trade to stay highly volatile with changes in trade access as main drivers for change. Avian influenza is another wildcard for the outlook, but this year's pressure on trade has been lower than in past years.

Local markets are performing better than trade-focused markets. South Africa, Russia, India, and Indonesia are the best performing markets, with ongoing high prices, although rising feed prices might challenge demand a little throughout the year.

Brazilian industry keeps recovering after the perfect storm of 2018. However, Brazil still faces challenges in accessing the key Saudi and EU markets, while access to China has been secured, albeit with uncertain conditions. Industry is supported by recovering local demand.

Global chicken monitor*

Q1 2016-Q4f 2018

Whole chicken



Breast meat



Leg quarters



* Chicken price trend for cuts entering global trade

Outlook for 2019

US: Disciplined supply growth in fragile market

- Improved prices due to strong demand
- Rising export volumes, but dark meat prices low
- Supply challenges due to new upcoming capacity and high pork and beef supply

Brazil: Ongoing export challenges

- EU restrictions still in place, new restrictions on Saudi exports; China dispute (partly) solved
- Domestic market to recover due to better economic conditions
- Ongoing supply reduction needed for market balance

EU: Prices recovering, improved market balance

- Prices are recovering (from end of January)
- Intra-EU production and non-EU imports have slowed down since November/December 2018
- CEEC expansion raises concerns for 2H

China: Very bullish market with rising demand

- Domestic prices will stay high throughout 2019
- ASF to lead to protein supply shortage, with consumers buying more chicken
- Low breeding stock restricts local production

Global Poultry Market Outlook

In recent quarters, the global poultry market has gone through one of the most volatile periods in many years. Trade volumes reached record levels of 6.4m tonnes in 2H 2018 (see Figure 2), while demand dropped because of a general market slowdown and constraints on access to international markets following trade restrictions. This resulted in a period of falling poultry prices between Q1 and Q4 2018 (see Figure 1).

However, the outlook is changing. Rabobank is gradually becoming more optimistic that the market has reached a turning point, with global price levels starting to trend up (see Figure 1).

Drivers of Volatility in 2018/19

The volatility we've seen in recent quarters has been caused by a combination of factors.

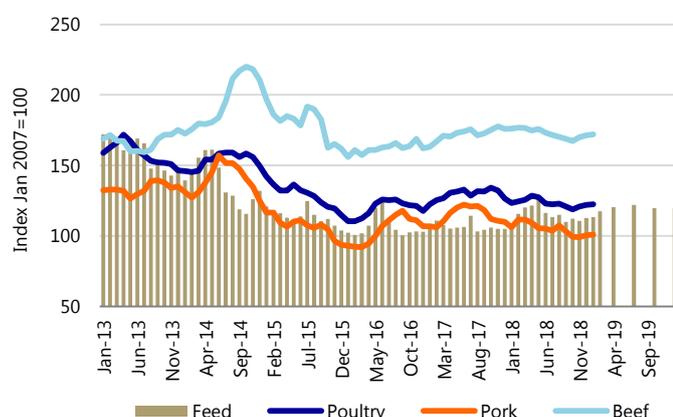
- Trade restrictions.** Several key global trade flows have been affected by restrictions. The most obvious has been the Saudi Arabian import flow, as new Halal standards were implemented. This heavily impacted the global whole bird market, as Saudi is the main export destination. The other important change has been the removal of 20 Brazilian export plants from the EU-approved lists after Brazil was found to have violated EU import legislation. Other restrictions, such as South Africa's import levy on EU countries, and China's safeguards against Brazilian poultry, also impacted markets.
- Trade war impact.** China's 25% tariffs on US soybean impacted global trade, as soybean is a major input for poultry.

- Disease-related restrictions.** The global poultry market is still affected by AI-related restrictions, such as China-US trade, and South Africa-EU imports.
- Newcomers in the market.** Ukraine and Russia are scaling up to become competitors of the traditional exporters. This has resulted in a big shake-up in global trade, with Brazil's position especially volatile (see Figure 2). Brazil's trade volume dropped sharply in Q2 2018, to a historic low, followed by record-high exports in Q3 2018 and more normal exports in Q4 2018. At the same time, competition is rising between the key exporters. The US reached its highest quarterly export level in five years. The EU is maintaining an export growth trend despite AI-related restrictions. And Thailand has gained market share from Brazil in the key value-added markets of Japan and the EU. Newcomers in global trade are also rising quickly. Ukraine grew exports by 20% in 2018 to 322,000 metric tons, and Russia grew exports by 14% to 192,000 metric tons in 2018. China has seen its export position pressured, especially in 2H when local broiler prices increased significantly (see Table 1), with poultry substituting for pork after ASF outbreaks during 2H 2018.

Volatile Prices, Especially for Breast and Leg Meat

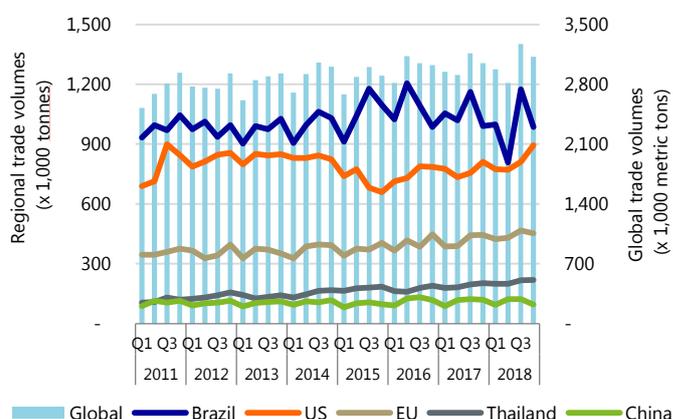
These volatile dynamics in the global poultry market had a big impact on prices, with the weakest-performing market being the non-EU breast market and the leg quarter market. The removal of 20 Brazilian plants from the EU export permission list had a big impact on the global breast market – global breast meat preference markets are limited, as potential importers like the US, Australia and Canada are effectively closed to imports. Breast meat prices in non-EU markets dropped

Figure 1: Global broiler, beef, and pork prices vs. feed cost monitor, 2013-2020f



Source: Bloomberg, Food and Agriculture Organization of the United Nations, national statistics, Rabobank 2019

Figure 2: Rabobank global poultry trade monitor, Q1 2011-Q4 2018



Source: Bloomberg, national statistics, Rabobank 2019

significantly, while plants with access to the EU benefited from attractive prices, especially in Q3 2018.

Leg meat markets have become very competitive as supply from Brazil, US, EU and newcomers Russia and Ukraine is very high. US export prices have dropped to USD 720/metric ton in Q4 2018, although they have recovered slightly in Q1 2019, to USD 780/metric ton.

The chicken feet market is relatively strong at the moment. This market mainly focuses on China and benefits from the bullish market conditions there – prices are currently around 10% above year-ago levels.

The processed poultry market is also strong, with ongoing buying from the two key markets in this segment, Japan and the EU. Especially Thailand, and to a lesser extent China and Brazil, have benefited from this bullish market condition.

Locally-Focused Industries Perform Better Than Exporters

Industries in countries focused on exports have gone through turbulent times. Industry in the US experienced lower margins due to weaker global markets and an oversupply of total protein. Brazil has gone through tough times but has reduced production, and is showing some improvement. Thailand is still suffering from oversupply despite strong export demand.

The best-performing industries are the more locally-focused ones, such as Russia, South Africa, China and India, which all benefit from a good domestic supply balance. Russia, South Africa, and India, however, are seeing feed prices rise locally, which might affect demand due to fragile economic conditions, especially in South Africa and India. In Russia, some supply and cost issues may be offset by the opening of exports to China.

Industry in the EU was hit by high import levels in 2H 2018.

2019: A More Bullish but Volatile Outlook

Global market conditions are currently changing – prices appear to have reached a bottom. The coming months will still offer challenges as global trade is usually slow in Q1, but further into 2019, market conditions should gradually improve, albeit with ongoing volatility.

Rising Global Poultry Demand, Especially From China

Global poultry demand is expected to grow between 2% and 3% this year, with China expected to be more bullish (around 5%) than in recent years due to poultry being used as a substitute for pork. The recent case of frozen food being contaminated with ASF will likely add further weight to this trend in processed meat. The shift away

from pork will benefit white broiler, as well as yellow chicken and duck (often preferred), and beef.

The growth in Chinese poultry demand will challenge the supply position, as breeding stock availability is currently limited in China, as a result of years of very low grandparent stock imports. This changed in Q4 2018, when Poland was re-opened after a ban because of Avian influenza. Current import levels of grandparent stock will support production increases later this year and especially next year. Supply, however, will be tight throughout most of the year, meaning ongoing high broiler prices and a push for more imports.

From this perspective, the current negotiations between China and the US to solve their trade dispute are important. Rumors suggest this could lead to a re-opening of US chicken exports to China. If this happens, the increased availability of chicken might help solve China's tight protein supply situation. The recent agreement between China and Brazil to overcome the safeguard by China on Brazilian poultry imports, is also positive in this regard. Most important Brazilian exporters are still able to export to China, although agreed price conditions are unknown. Also important in China's pending import growth are the (re-)openings of exports from many Eastern European countries, such as Poland and Ukraine, which could potentially export significant volumes to China. The opening of Russian poultry exports to China will be important as Russia has a big distance advantage.

Import Restrictions Will Still Impact Value-Added Markets

The rising global demand for poultry, especially in China, is an important bullish factor for the global industry. This will likely affect most poultry cut markets, but will only offer limited support to the troubled breast meat and whole bird markets. The outlook for these markets is still challenging. In terms of whole birds, the recent removal of five Saudi-dedicated export plants from the approved list is expected to impact 30%-35% of Brazil's exports to Saudi Arabia, the world's biggest whole bird market. There are few alternatives for selling whole birds, so prices will likely be hit.

The world's breast meat market will also stay pressured. We do not expect the plants removed from exports to the EU to return to the EU market this year. Brazil's exports to the EU will therefore show limited growth compared to the historic low in 2018. Other markets, including Mexico, will pay much lower prices for breast meat and this will impact global price levels and profitability for exporters.

Wildcards for Outlook: New Trade Restrictions and Avian Influenza

There are some important potential trade disruptions to watch for. The most important one is a potential re-introduction of the safeguard by Mexico on US exports. As this is one of the world's biggest export flows, it can have a big impact on the dark meat export market. Another pending trade disruption is a potential safeguard by South Africa on Brazilian poultry imports, which would be similar to what South Africa has done to

European imports. If this happens, it can also impact the dark meat market as South Africa is an important import market for these products.

Avian influenza is still a concern despite the fact that we are close to the end of the Northern hemisphere winter. So far, we still see AI outbreaks in Europe, Africa, and Asia, but the number of outbreaks was lower than several years ago, and this has meant fewer disruptions to trade, although risks still exist.

Table 1: Global live broiler and feed ingredients monitor, Q1 2017-Q4 2019f

		2017				2018				2019				Change	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3f	Q4f	Q1-Q4	Q4-Q3
<i>Live broilers USD/kg</i>	<i>EU</i>	0.97	1.01	1.09	1.09	1.14	1.13	1.14	1.04	1.01				-8.6%	-2.9%
	<i>Brazil</i>	0.85	0.78	0.79	0.84	0.75	0.66	0.77	0.79	0.77				+2.5%	-2.5%
	<i>China</i>	0.71	0.93	1.07	1.05	1.22	1.25	1.29	1.46	1.38				+12.9%	-5.2%
<i>Grains & oilseeds</i>	<i>Wheat (USD/bu)</i>	429	435	457	424	453	499	517	512	500	480	470	470	-1.0%	-2.3%
	<i>Corn (USD/bu)</i>	364	368	365	346	366	384	353	370	390	410	395	400	+4.8%	+5.4%
	<i>Soymeal (USD/metric ton)</i>	330	307	311	318	353	371	321	309	310	315	322	320	-3.7%	+0.3%

Source: Bloomberg, Rabobank 2019

Table 2: Global whole chicken and chicken cut markets (USD/100kg), Q1 2017-Q3 2019f

		2017				2018				2019				Change	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4f	Q3-Q2	Q4-Q3
<i>Whole chickens</i>	<i>Brazil wholesale</i>	119.7	112.8	109.4	119.4	99.2	89.4	92.9	113.4	118.0				+22.0%	+4.1%
	<i>EU wholesale</i>	189.0	200.6	216.0	214.6	225.3	223.4	219.5	211.4	209.6				-3.7%	-0.6%
<i>Breast meat</i>	<i>EU import price Brazil</i>	193.6	219.3	240.0	256.3	276.1	277.9	283.3	263.8	249.4				-6.9%	-5.5%
	<i>EU import price Thailand</i>	243.5	233.6	257.9	277.4	300.4	282.7	279.8	276.3	282.3				-1.3%	+2.2%
<i>Leg quarters</i>	<i>US leg quarters, north-east</i>	75.9	88.3	93.9	83.3	84.0	85.5	81.6	72.9	78.2				-10.9%	+7.2%
	<i>Japan import price</i>	190.1	171.3	199.4	211.4	178.0	162.0	175.8	174.9	181.1				-0.5%	+3.5%
<i>Feet</i>	<i>China import price</i>	220.1	215.2	218.3	208.9	223.07	230.4	234.2	233.8					-0.3%	
<i>Processed chicken</i>	<i>EU import price Brazil</i>	193.5	236.3	248.8	239.2	285.6	291.8	299.2	312.6	308.8				+4.5%	-0.9%

Source: Eurostat, Food and Agriculture Organization of the United Nations, national statistics, UBABEF, USDA, Rabobank 2018

Dashboard

Legend and Units

<i>Production</i>	<i>Exports</i>	<i>Imports</i>	<i>Price</i>	<i>Feed price</i>
Metric tons production weight			kg	kg

Δ = year-on-year change

All prices in local currencies

EU: Recovering Market Conditions

<i>Production broiler</i>		<i>Export poultry</i>		<i>Import poultry</i>		<i>Whole frozen broiler price (EUR/kg)</i>		<i>Feed price (EUR/kg)</i>	
Ongoing growth		Increasing		Recovering		Higher		Increasing	
Oct: 1,086	YTD: 9,796	Dec: 134	YTD: 1,771	Dec: 73	YTD: 532	Jan: 1.83	YTD: 1.83	Feb: 0.34	YTD: 0.34
Δ +6.1%	Δ +3.4%	Δ +5.5%	Δ +6.0%	Δ +10%	Δ -4%	Δ -0.1%	Δ -0.1%	Δ +0%	Δ +8.4%

Source: Eurostat, MEG 2019

US: Improving Pricing Conditions, Lower Stocks

<i>Production broiler</i>		<i>Export poultry</i>		<i>Cold storage</i>		<i>Composite broiler price (USD/kg)</i>		<i>Feed price (USD/kg)</i>	
Slight decrease		Stable		Softening		Ongoing strong		Feed cost relief to slow	
Q4: 5,560	YTD: 22,050	Q4: 900	YTD: 3,460	Q3: 690	Q4: 550	Feb: 2.19	YTD: 2.19	Feb: 0.21	YTD: 0.22
Δ +2.2%	Δ +2.1%	Δ +1.8%	Δ +3.1%	Δ +19.8%	Δ +1.5%	Δ +5.3%	Δ +5.3%	Δ +8%	Δ +4%

Source: USDA 2019

Brazil: Lower Supply Helps to Recover Markets, Exports Still Challenging

<i>Production broiler</i>		<i>Export poultry</i>		<i>Live broiler price (BRL/kg)</i>		<i>Whole broiler price (BRL/kg)</i>		<i>Feed price (BRL/kg)</i>	
Volatile		Volatile		Increasing		Increasing		Softening	
Sep: 1,061	YTD: 10,175	Jan.: 268	YTD: 278	Jan: 2.97	YTD: 2.97	Jan: 4.32	YTD: 4.32	Jan: 0.82	YTD: 0.82
Δ -3.8%	Δ -0.8%	Δ -17.5%	Δ -17.5%	Δ +8.6%	Δ +8.6%	Δ +18.1%	Δ +18.1%	Δ +16.3%	Δ +16.3%

Source: CECEX, MDIC 2019

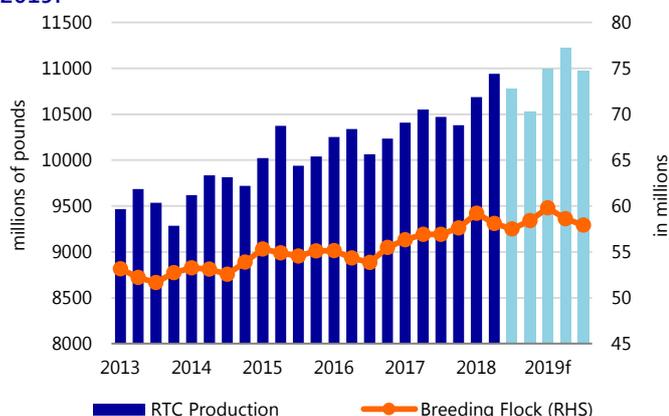
US

Better seasonal demand and lighter weights have helped boost profits for US integrators. Prices were sharply higher, with the exception of leg quarters. Boneless breast prices rose 29% from the lows (2% YOY). Improved retail and foodservice promotions helped boost demand. Good Super Bowl features drove a rebound in wings (up 31% from Q4 lows, up 22% YOY). Wing prices should remain above year-ago levels until this spring. Export demand has struggled on lower oil prices and a stronger USD. Leg quarter prices (USc 30 per pound) are expected to remain low through 1H 2019.

January RTC volumes were light (partially weather-related), but moved back toward heavier weights and production increases in recent weeks. Production growth should pick up seasonally, and as new industry capacity comes online (see Figure 3). We expect large supplies of competing proteins and challenging export markets to limit the pace of growth to 2.2% production gains for the full year.

November exports of US broiler meat were relatively strong, coming in 8% ahead of year ago at 622m pounds. This was the largest volume for November in over five years and reflected favorable currency movements in Mexico and relatively strong oil prices. The US continues to lose share in the Mexican market to Brazil and we are moderately concerned by recent threats from Mexico's chicken industry association to revisit the anti-dumping case against the US. We expect slightly less robust growth in 2019 (3.4% YOY), but acknowledge larger Chinese hog losses could provide additional upside.

Figure 3: US broiler production and breeding stock 2013-2019f



Source: USDA, Rabobank 2019

Mexico

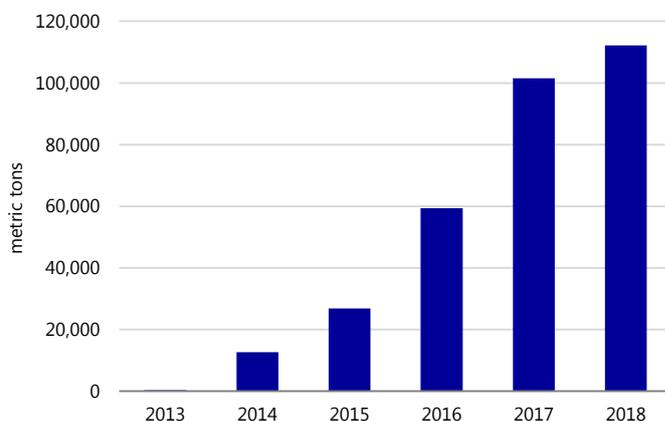
Overall, Mexico weathered the volatility of 2018 well in all fundamentals, despite a decrease in prices over the summer. In 2018, Mexican chicken production increased by 100,000 metric tons, reaching a total of 3.3m metric tons, a 3% growth compared to 2017. In 2019, production in January is already up 2.6% compared to 2018, with total production expected to reach 340,000 metric tons.

Despite the events of 2018, imports remained at a record level, at 961,000 metric tons, accounting for close to 20% of domestic consumption. The US continues to be the most important source of imports for Mexico. However, Brazil continues to increase its market share, reaching 12% of Mexico's total imports in 2018 (see Figure 4). As Brazil continues to face challenges with exports to traditional markets in 2019, its exports to Mexico are expected to increase.

Domestic consumption remains strong, despite other proteins continuing to increase domestic production. While chicken will continue to be the dominant protein, more production in pork and beef might challenge chicken. In 2019, per capita consumption is expected to reach 35kg per capita, with total consumption at 4.4m metric tons, an increase of 2.6% compared to 2018.

Whole chicken prices are well-supported compared to January of last year, with January 2019 at USD 40/kg compared to USD 32/kg. Whole chicken prices rallied from a low USD 33/kg at the beginning of the year in 2018 to a high USD 48/kg during the summer of 2018.

Figure 4: Mexico poultry imports from Brazil, 2013-2018



Source: SIAVI, Rabobank 2019

Brazil

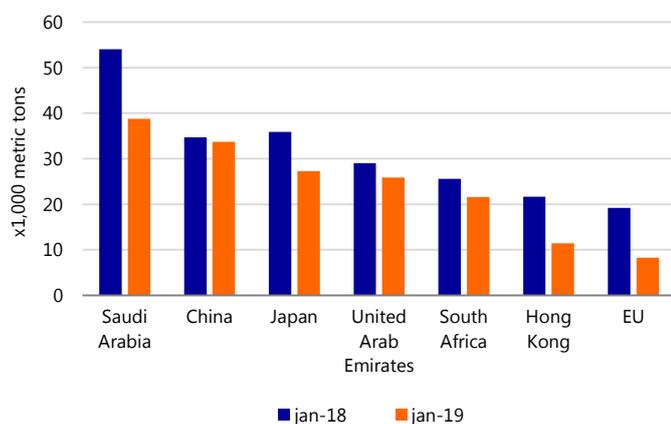
After an already tough 2018, Brazilian exports started 2019 with significant challenges (see Figure 5). In January, Saudi Arabia reduced the number of certified plants allowed to export poultry, from 30 units that were effectively exporting in 2018, down to 25 units. Additionally, the restrictions imposed during 2018 for only 12 Brazilian chicken plants to export to the EU are still in place, and are impacting exports negatively.

One relatively positive outcome in trade was announced recently. After months of negotiations, China exempted 14 Brazilian chicken exporting companies from the imposed anti-dumping tariffs, including all big companies. However, the agreement requires these companies to commercialize at not lower than an agreed minimum price. With these challenges, chicken exports declined by 17% in January but preliminary figures show some improvement in February.

In the domestic market, a faster recovery is expected in consumption during the year due to the improved economic landscape, which in turn could take animal protein consumption towards pre-crisis levels. Additionally, Rabobank expects higher corn availability in the local market due to the expected increase in planting area and yields during the winter crop, compared to last year. It is worth noting, however, that weather conditions in the coming weeks will be decisive for confirming estimated corn yields.

All in all, even considering the challenges in the international market, the likelihood of lower feed costs coupled with higher local consumption is expected to benefit the local industry. However, it is still too soon to say that 2019 will be less challenging than 2018.

Figure 5: Brazil poultry imports by country, Jan 2019 vs Jan 2018



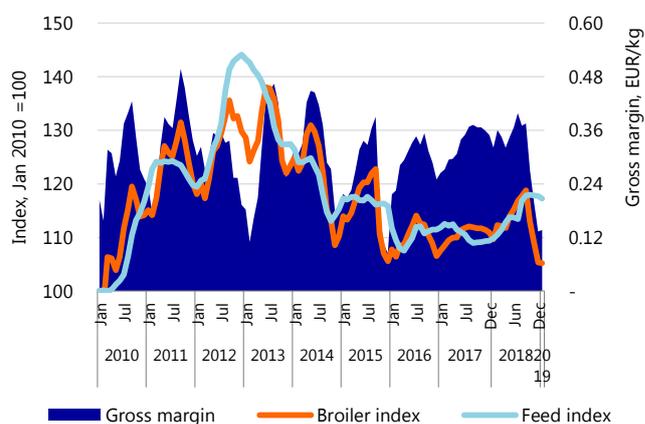
Source: SECEX, MDIC, Rabobank 2019

EU

The EU had a rollercoaster year in 2018, with very high prices due to a shortage of frozen breast meat supply, triggered by the removal of 20 Brazilian plants from the export approval list. These high prices pushed expansion of EU production, especially in Eastern Europe. Prices rose so much that it also became attractive for non-EU exporters, especially from Brazil, to export raw breast meat out-of-quota and pay the full import duty. This resulted in massive increases of poultry imports from August to November 2018, with monthly import volumes of around 70,000 metric tons to 90,000 metric tons. This higher supply pushed EU prices down very sharply, with the fall in prices finally stopping in the second half of January (see Figure 6). Producers in the EU became loss-making, resulting in lower DOC placements from November 2018. Imports also declined in December (to just 37,000 metric tons) due to a too low price difference between Brazilian and EU prices.

The EU poultry market finally turned in January and prices have started increasing, and have now reached 2018 levels or even higher. This is likely a sign of a fragile recovery. During the coming months, the key to maintaining more stable markets will be disciplined supply growth. The main concern here is ongoing expansion in Eastern Europe, which might affect the fragile EU market balance. Imports are expected to stay limited as restrictions on Brazil are still in place. EU poultry demand is expected rise by about 1.5%-2%. Exports are expected to follow the rising trend of the last year (2018 exports were up by 6% YOY), and are expected to continue growing this year, especially to Asia (China, Hong Kong, and Vietnam) and Africa.

Figure 6: Broiler feed price and margin trend in north-western Europe, Jan 2010-Jul 2018



Source: Bloomberg, Rabobank 2019

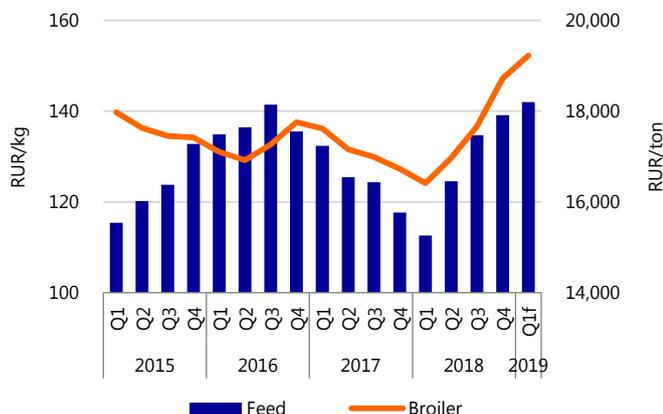
Russia

The Russian poultry industry had a significantly better year in 2018 than 2017. This was mainly due to a combination of limited supply growth (production growth was close to zero) and relatively tight competing red meat markets due to restrictions on Brazilian imports. This resulted in an increase of more than 20% in poultry prices throughout the year. The very limited growth in poultry production in Russia is related to cullings due to AI outbreaks, as well as a response to weaker industry performance in recent years which caused some financial problems, especially among smaller and mid-sized players. Poultry market conditions are currently still tight, with a drop in production of almost 4% in January compared to last year, and broiler prices up 22%.

The outlook for the industry is still moderately positive, but much will depend on the level of supply discipline. Some factors are turning negative. The grain outlook for 2019 is positive, with a crop of 127m metric tons expected, but this is below last-year levels and stocks have been shrinking (see Figure 7). This has already affected feed prices and will keep pressure on the feed cost side. Conditions in the competing pork market are weakening due to overly-optimistic industry expansion (2018: +5.4%), which has caused some oversupply concerns, especially as Brazil returned as a pork exporter to Russia in Q4 2018 which increases domestic supply.

The outlook also depends on how successful the industry will be in developing exports. Exports reached 190,000 metric tons in 2018, which is up 12% on 2017 levels. The recent opening of China is very promising, especially given the close distance to China's western markets. This could offer Russia a new growth platform.

Figure 7: Russian retail frozen broiler (LHS) and feed price (RHS) trend, Q1 2015-Q1 2019



Source: Rostat, Rabobank 2019

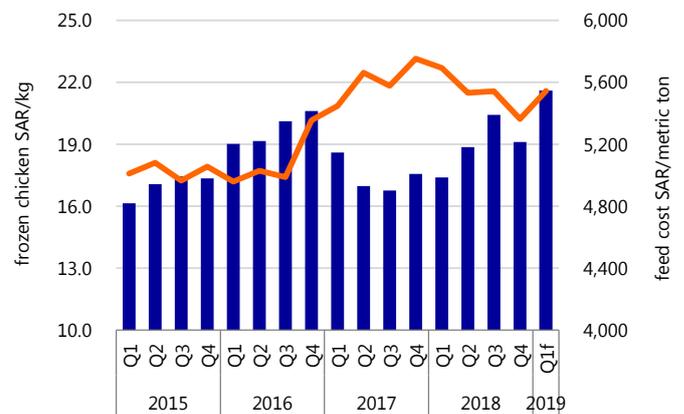
South Africa

South Africa's poultry market has changed since Q3 2018, when feed prices started to rise (see Figure 8). The industry has remained profitable but less than in the peak period of 2H 2018-1H 2019 when several bullish factors came together, like lower supply of chicken, high beef and pork prices, low feed prices and lower imports due to AI-related restrictions on EU countries.

This changed in 2H 2018, when economic conditions in South Africa became more challenging and the meat industry lost some pricing power. Beef and pork prices in South Africa have dropped by 12% and 15% respectively. The poultry industry has been able to increase prices by 6% thanks to good supply discipline, with low local supply still restricted. Quarterly production is still below 2015 and 2016 levels (around 50,000 metric tons) due to plant capacity reductions and lower imports resulting from duties on EU exports. This made Q4 2018 the lowest quarterly import period for imports since 2015.

The outlook is more challenging, with rising local corn prices due to dry conditions in central and western parts of South Africa. These higher prices will flow through the supply chain throughout 2019. Under such conditions, ongoing supply discipline will be important, and the industry in South Africa has a good track record on this. This is particularly important as weak economic conditions offer little scope for pricing upside. South Africa is now looking to implement similar safeguard levies on Brazilian imports as they did on EU imports. If this indeed happens it could support local industry and price levels, but by allowing higher prices it might negatively impact local demand.

Figure 8: South African broiler and feed price trend, Q1 2012-Q1 2019f



Source: SAPA, News24, Rabobank 2019

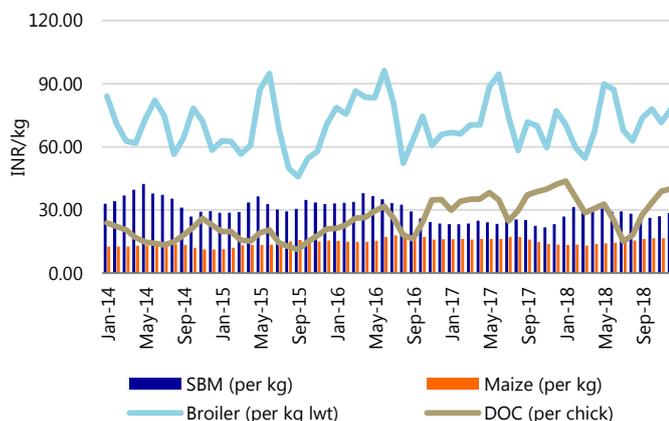
India

Rabobank expects poultry feed costs to rise in Q1 2019 in response to a bounce in feed raw material prices from January (see Figure 9). Corn prices in the south of India increased to INR 22.0/kg in mid-February 2019, from INR 16.3/kg in October 2018 (+35%). The spike was in response to a shortfall in production (actual kharif harvests came in at 15m-16m metric tons vs. earlier estimates of 21.5m metric tons) due to unfavorable weather and crop damage from fall armyworm. Soymeal prices have also increased to INR 31.7/kg in mid-February 2019 from INR 26.0 in October 2018 (+22%).

In response to requests made to import corn at reduced/zero duty under tariff-rate quota (vs. 60% out-of-quota tariff), state-owned MMTC (Metals and Minerals Trading Corporation) has asked buyers to provide requirement details and consent, authorizing MMTC to import on their behalf. About 500,000 metric tons of corn are expected to be brought in. The poultry industry is the largest user – which we estimate will require 13m tons this year. Rabobank believes corn imports may not lead to any significant near-term reduction in feed costs, given the slower releases by traders.

Rabobank expects broiler prices to sequentially increase in Q1 2019 due to higher feed cost, in addition to the upswing in DOC prices from September 2018. However, as Q1 broiler demand is typically lower, a slower pass-through in raw material costs by feedmillers may adversely impact poultry integrators' margins.

Figure 9: Indian broiler, DOC, and feed price index, Jan 2013-Dec 2018 (INR/kg)



Source: Industry sources, NCDEX, Rabobank 2018

China

China's white bird prices have softened in January 2019, after soaring in November and December 2018. This is mainly due to weakness in the pork market during the same period, and also a correction to the fast-rising prices. In January, live broiler prices dropped to RMB 9.4 per kg, from the historic record high of RMB 11 per kg in Nov 2018, and DOC price dropped to RMB 4.8 per bird from the peak of RMB 7.5 per bird in November 2018 (see Figure 10). Despite the decline, prices are well-above average prices in the previous three years, and live broiler and DOC prices in January 2019 were up 15% and 140% YOY.

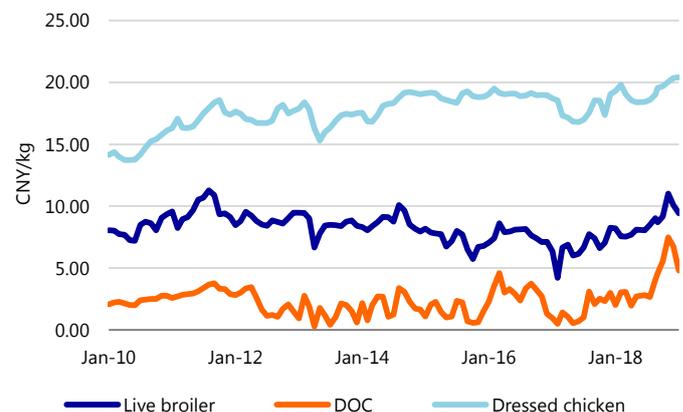
We believe recent news related to frozen food contaminated by ASF will impact pork consumption further. Food processors will strengthen the inspection of pork sources and will substitute pork with poultry where possible. This will keep up the poultry demand signal.

Imports of GP stock have increased strongly since September 2018, which will have a boost on white bird production in Q4 2019. Although production in the first three quarters of 2019 may still be low, overall annual production will likely increase. With the expected growth in yellow bird and water fowl production driven by the substitution effect, total poultry production in 2019 will likely increase by 5% in 2019. However, due to the sheer size of China's pork market, the incremental poultry supply is far from meeting the gap left by pork decline. Prices will stay strong throughout the year.

China started anti-dumping tariffs on Brazilian poultry on 17 February 2019, but exempted 14 exporters who promised a 'minimum price' for exports to China. Poultry imports are expected to continue to grow in 2019, following a 13% volume increase in 2018.

Whether US poultry could get access to China remains the largest wildcard.

Figure 10: Chinese poultry prices, Jan 2010-Jan 2019 (CNY/kg)



Source: China Customs, Rabobank 2019

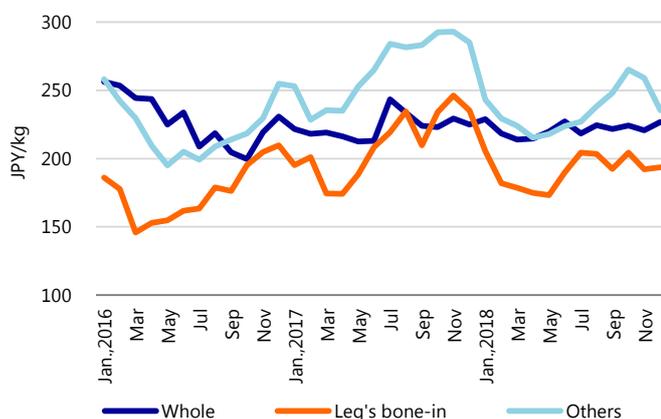
Japan

The Japanese poultry industry experienced a relatively strong Q4 2018, with rising domestic prices due to a combination of improved demand and lower inventories after lower raw meat imports. Q3 2018 saw a record-high consumption level in Japan, which is in line with the long-term rise in Japanese poultry consumption. This resulted in strong leg prices, while breast meat prices kept their high levels of the last few years. This was due to ongoing substitution – from a traditional dark meat consumption preference to more use of breast meat, due to health considerations.

Japanese trading houses significantly reduced raw meat imports in Q4 2018 (-10%), which impacted Brazil's export volume to Japan (see Figure 11). Japan has had very high stock levels after massive imports in 1H 2018. The decline in raw meat imports has been partly offset by rising processed meat imports (+12%) in Q4. This import substitution has benefited Thailand and China, traditional exporters of these products to Japan.

The outlook for the Japanese poultry industry is moderately positive. Poultry demand is expected to grow by around 2% in 2019, while local production remains restricted. Most expansion nowadays comes from big local Japanese vertically-integrated companies as many traditional farmers face succession issues. This expected growth will be a solid base for the industry with the lower stock levels providing some upside in market prices for the coming months.

Figure 11: Japan import prices, Jan 2011-Dec 2018 (JPY/kg)



Source: ACLI, Rabobank 2019

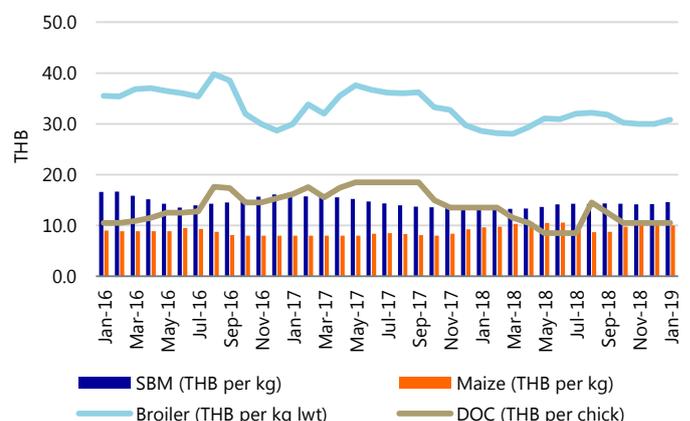
Thailand

Millgate corn prices remained elevated at THB 10/kg in January 2019. Although second-season harvesting began in February with expanded corn acreage – thanks to government incentives and strong prices – crop quantities are not expected to sufficiently lower prices. This increases the prospect for higher feed prices in Q1 2019. So far, prevailing broiler market prices remain below breakeven costs (prices averaged THB 31/kg lwt in January 2019) (see Figure 12).

Thai poultry export volumes rose by 11% YOY in 2018 to 892,000 metric tons. Increased exports were led by shipments to China, the UK and Japan. Japan remained top importer at 440,400 metric tons (+3% YOY). However, its share of volume had been diluted to 49%, from 53% in 2017, as exports to the EU expanded by 17% YOY to 327,900 metric tons. The surge of exports to the EU was driven by an ongoing preference for Thai products over Brazilian imports among EU traders. The removal of Brazilian plants from the EU export list has further accelerated this development. Thai poultry exports to China, which commenced in March 2018, continued to accelerate in Q4 2018, reaching 21,100 metric tons for the full year. Although Thai exports to China are essentially low-value-added dark meat cuts, the industry should be able to benefit from the expected rising protein prices in China in 2H 2019.

Rabobank expects Q1 2019 feedmilling and broiler margins to remain challenging. Key for the outlook will be to bring back balance in the market after the production expansion of recent years. This will require a more restrictive supply growth. The experience is that this process is slow, but with expected bullish international markets, some margin improvement should be seen later this year.

Figure 12: Thai broiler-to-feed price monitor, Jan 2015-Jan 2019 (THB)



Source: Thai Feedmill Association, Rabobank 2018

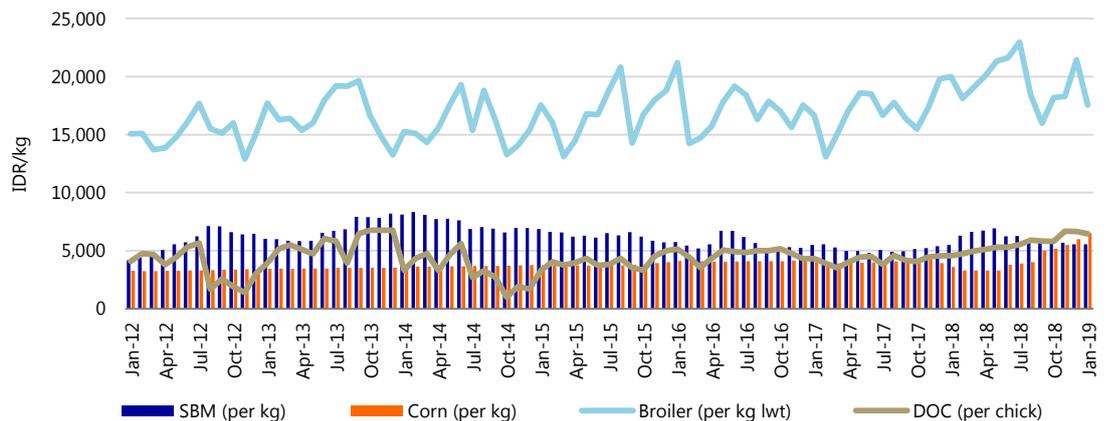
Indonesia

While corn prices have eased since January, average millgate prices are still in the IDR 6,000-7,000/kg range, and are only expected to decline towards IDR 4,000-5,000/kg during peak harvesting (see Figure 13). Since Q4 2018, feed prices have escalated in tandem. Corn harvests have started in key producing areas, but the bulk of the crop is not expected to arrive until April 2019. To address feed shortages, the government has allowed cumulative imports of 280,000 metric tons between November 2018 and March 2019 (vs. an annual feed demand of approximately 9.0m metric tons this year). Rabobank expects feedmilling margins to weaken in Q1 2019 – based on higher-priced inventory and slower pass-through.

As live broiler prices enter the seasonally-low-demand quarter, commercial farm margins face near-term pressure before recovering in Q2 2019 – peak demand season is May-June 2019. Broiler production is forecast to remain flat at 3.3m tonnes cwt this year – as the increase in 2018 GPS import quota should improve DOC supply in 2H 2019. Consumption is expected to remain stable at 3.3m tonnes cwt this year – translating to 12.4kg cwt per capita.

Broiler meat retail prices averaged IDR 33,500/kg cwt in February 2019, seasonally declining from an average of IDR 36,200/kg cwt in January 2019 – but 4% higher YOY. At the end of January 2019, the government lifted reference prices by IDR 2,000/kg for live broiler to IDR 20,000-22,000/kg lwt; and broiler meat to IDR 36,000/kg cwt from IDR 34,000, reflecting rising feed costs.

Figure 13: Indonesian broiler, DOC, and feed ingredient prices, Jan 2013-Jan 2019



Source: Industry sources, Bloomberg, USDA, Rabobank 2018

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