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Poultry Quarterly Q3 2018

Trade Volatility, but Local Markets Bullish

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Global poultry trade has become highly volatile, with Brazil very much at the centre of the turmoil. Aside from issues surrounding the weak flesh investigation and associated trade implications, the country has also faced a major truckers' strike, which led to the massive culling of birds. We expect the global turmoil to continue in 2H 2018, as new issues are set to impact trade, such as rising US-Chinese trade tensions, the recent safeguard measures on Brazilian poultry set by China, and changes to Saudi Arabia's halal stunning requirements. This could lead to further changes in global trade, along with a risk of volatility in feed costs and trade arrangements.

Brazil's poultry industry exports (-10%) and production (-3%) are set to decline this year, and this will lead to opportunities for alternative exporters in markets in which Brazil has to step back. Ukraine, Russia, Poland, Thailand, and Argentina could benefit.

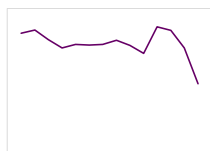
Prices for globally-traded poultry will be affected. Prices of breast meat and whole birds in international markets are set to drop due to, respectively, EU restrictions and Saudi restrictions. Meanwhile, Chinese safeguards will impact dark-meat market prices

Many local industries are still performing well, as supply in regions like the EU, South Africa, Mexico, Indonesia, and India is well-balanced, creating good, profitable conditions for the industry. The EU and Mexico are especially set to benefit from the recent tensions in trade.

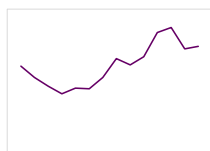
Feed prices are showing a gradual upward trend. This should be a wake-up call, especially now that China's 25% tax on US soybeans seems a likely scenario. In this case, it is likely that feed costs in China, Brazil, and Argentina will rise (due to exports to China), while rest-of-world prices will be pressured.

**Global chicken monitor*
Q1 2015-Q2 2018f**

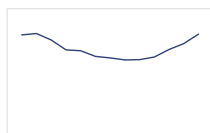
Whole chicken



Breast meat



Leg quarters



* Chicken price trend for cuts

Outlook for 2018

US: Slowdown, but still profitable

- Slower supply growth is keeping markets in balance
- Domestic prices have dropped from Q1 highs, but are still good enough to stay breakeven
- Export performance is still mixed



Brazil: Perfect storm hits Brazilian industry

- Industry heavily affected by trade restrictions, a local strike, and rising feed prices
- Export to drop at least 10%, with trade restrictions set by the EU, China, and the Middle East
- China's tariff on US soybeans would push up Brazilian feed prices



EU: Strong conditions, with rising breast-meat prices

- Restrictions on Brazilian importers have reduced EU breast-meat supply
- Breast-meat prices have been increasing significantly, supporting overall broiler prices
- The industry is expected to remain profitable in 2H



China: Ongoing profitable conditions

- Ongoing profitable conditions due to limited breeding-stock supply and AI vaccinations
- Industry to stay profitable, but with limited upside due to low pork prices and limited chicken-market growth
- Safeguards on Brazilian imports will change imports



Global outlook 2018

Trade volatility, but local markets bullish

As expected in the last quarterly, global trade has become highly volatile (see Figures 1 and 2). We have seen some major movements in trade streams and prices due to several important factors (see Figure 4).

- In April, the EU removed 20 Brazilian plants from the export allowance list due to violation of EU import requirements regarding salmonella control. This is affecting the global breast-meat market heavily, as the EU is the world's key importer of these products, and other potential buyers like the US are not open to Brazilian poultry imports. Although the EU reduced imports over Jan-Apr by only 9%, Brazil's imports were down 45%.
- Saudi Arabia is in the process of implementing its new halal allowance standards, which have already led to a drop of 30% in imports in Q1 2018. Saudi Arabia is Brazil's number-one export market and a key buyer for whole chicken.
- China has now issued a special safeguard on imports of Brazilian poultry. This will lead to implementation of company-specific import levies and will certainly impact import volumes of Brazilian poultry in China.
- In response to US taxes on Chinese imports, China has announced a set of import taxes on US agricultural products, including soybeans, as of early July. Although there is still room for negotiation, if this happens, it will also shake up global trade in the coming months, as

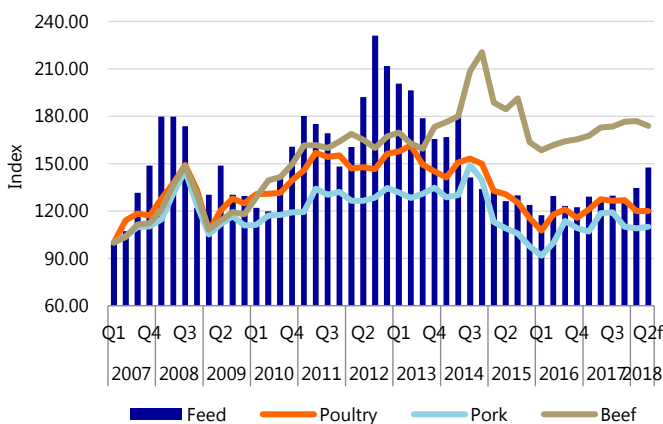
Chinese feed prices will rise. As traders will move to Brazil to source soybeans, local soybean prices will also rise, impacting the already-weak Brazilian poultry industry. Others like the US, the EU, and South-East Asia might face lower feed prices.

- Directly linked to the US-Chinese trade tensions is the introduction of a 25% tariff on US chicken imports into China, further delaying the prospect of US chicken accessing the market.
- Mexico has imposed import levies on US pork. This will indirectly impact North American poultry markets. Prices in Mexico for pork – and indirectly for chicken – will likely rise. Aside from good performance for the Mexican chicken industry, this will also result in a more bullish market environment for imports of poultry.

As many of these factors will affect the Brazilian poultry industry, it is really facing a perfect-storm scenario. And in addition to these heavy trade issues, the industry has also been hit by a two-week truckers' strike, which led to the culling of 70m broilers.

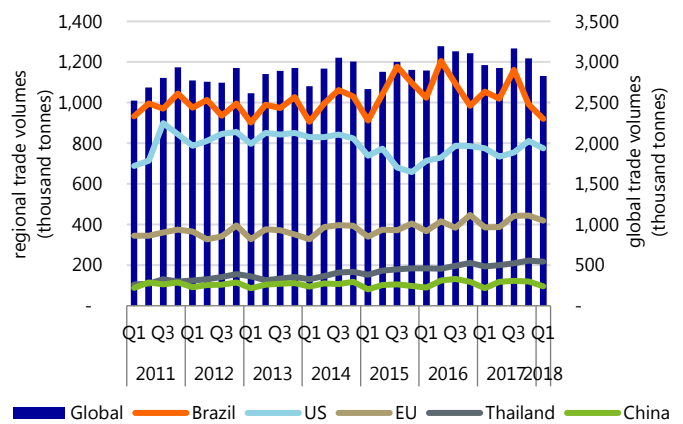
The US-Chinese trade levy dispute is therefore a key element for the outlook. If the dispute is solved, one of the scenarios is a potential return of the US to the Chinese market. The US can take over some of Brazil's more challenging exports to China, after introduction of that country's safeguards. In case the dispute is not solved, one scenario could include taxes on US agriculture products, much like the previously-mentioned soybean tariff. This really could change trade again, and it could be a real worst-case scenario for Brazil: costs might suddenly rise, as China might look to Brazil to buy soybeans – and this will raise local prices.

Figure 1: Global broiler, beef, and pork prices vs. feed-cost monitor, Q1 2007-Q2 2018f



Source: Bloomberg, Food and Agriculture Organization of the United Nations, national statistics, Rabobank 2018

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



Source: Bloomberg, national statistics, Rabobank 2018

The import-levy scenario has become more likely in recent days. It will likely lead to changes in trade streams, whereby especially eastern Europe, Thailand, the US, and the EU are well-positioned, while the position of Brazil and Argentina will be challenged. China might face a higher appetite for imports, as local feed prices – and therefore meat prices – will likely rise.

Local industries perform well

It will be no surprise that, under these shifting trade conditions, some industries will also stand to benefit. The EU market for breast meat has become very tight, and local companies have seen prices go up, which supports the margins of the EU industry. Others who can supply chicken to the EU will benefit, such as the other Brazilian companies who still can export to Europe, Ukraine, Thailand, Chile, and Argentina. They will be able to sell more chicken in the EU at better prices. Aside from all of the big global trade issues, many local industries are still performing well – despite the recent increases in grain prices – due to a fairly well-balanced market situation in most regions (see Figure 1). This gives them some power to pass on some of the price increases, such as higher feed costs. Especially the situation in South Africa, Mexico, Indonesia, and India is positive, with very healthy margins. In the case of South Africa, there are concerns surrounding the recent rise in supply due to some expansion in production and rising imports. However, the pending removal of taxes on poultry might offset some

of the negative impact. India and Indonesia are performing well. Indonesia is benefiting from last year's GPS culling programmes, while India is enjoying ongoing bullish demand for poultry and recent feed-price reductions due to the early monsoon season.

The story in Mexico is different, as the industry is benefiting from an improved trade position with the US due to the depreciation of the peso. This makes US chicken more expensive. Combined with recently-imposed import taxes on US pork, this will likely lead to rising pork prices in Mexico, improving the market position of chicken.

The improved EU situation is also partly linked to trade tensions, as breast-meat supply has become tight after the removal of 20 Brazilian facilities from export eligibility. Most companies in Europe are currently performing well. Especially eastern Europe (Poland, Romania, and Ukraine) is further expanding production, taking over more supply which was originally imported from Brazil.

Very positive for the global industry are the significantly improved conditions in China. After years of weak performance, the industry moved into a more stable market environment in which prices moved up to acceptable levels in order to be able to be profitable. Although the outlook is still positive, some challenges are arising, such as ongoing low pork prices, and the trade tensions between the US and China. An import tax

Table 1: Global live-broiler and feed-ingredient monitor, Q1 2016-Q4 2018f

		2016				2017				2018				Change	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2f	Q3f	Q4f	Q1-Q4	Q2-Q1
Live broilers USD/kg	EU	0.99	1.05	1.06	0.99	0.97	1.01	1.09	1.09	1.14	1.13			+4.5%	-1.2%
	Brazil	0.70	0.76	0.95	0.93	0.85	0.78	0.79	0.84	0.76	0.62			-9.1%	-18.7%
	China	1.18	1.22	1.20	1.08	0.71	0.93	1.07	1.05	1.22				+18%	+17%
Grains & oilseeds	Wheat (USD/bu)	466	471	406	403	429	435	457	424	453	505	490	500	+6.8%	+11.5%
	Corn (USD/bu)	363	391	332	348	364	368	365	346	366	400	410	395	+5.8%	+9.3%
	Soymeal (USD/tonne)	267	356	337	311	330	307	311	318	353	380	370	355	+11.0%	+7.6%

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

on US soybeans could especially impact local Chinese feed prices in 2H, along with pressured pork prices. It remains to be seen as to how much power the industry will have when it comes to passing on higher feed prices. The balanced local supply, together with restrictions on trade stemming from Brazil's import safeguards, could offset this to a certain extent.

Currently, the weakest-performing industries are Russia and, surprisingly, Thailand. Russia's position is gradually improving, as the country's industry has been showing some supply discipline, and markets will improve in the summer months due to the football world championship. In addition, Russia could grow exports in order to capture some of Brazil's global pressured trade position.

The most interesting situation is the ongoing sluggish performance of the Thai industry. Surprisingly, Thailand's margins are not benefiting from the country's unique position in global trade after the problems of its main competitor, Brazil, in many international markets. This follows the undisciplined supply expansion of the previous years and ongoing fragmentation, which has led to deep competition between key industry players with low margins. Important for the Thai poultry industry's outlook in the coming period will be very much to become more disciplined in supply growth. If Thailand were to become more successful here, the outlook for 2H 2018 would be positive; otherwise, the industry will keep struggling.

Table 2: Global whole-chicken and chicken-cut markets (USD/100kg), Q1 2015-Q2 2018

		2016				2017				2018		Change	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q1-Q4	Q2-Q1
Whole chickens	<i>Brazil wholesale</i>	100.5	106.5	134.5	136.4	119.7	112.8	109.4	115.2	103.7	85.4	-13.5%	-17.7%
	<i>EU wholesale</i>	197.0	203.5	198.1	188.7	189.0	200.6	216.0	214.6	224.9	220.8	+4.8%	-1.8%
Breast meat	<i>EU import price Brazil</i>	222.1	207.4	204.1	191.2	193.6	219.3	240.0	256.3	276.1	287.5	+7.9%	+4.0%
	<i>EU import price Thailand</i>	268.2	248.8	243.6	244.2	243.5	233.6	257.9	277.4	301.4	284.5	+8.3%	-8.3%
Leg quarters	<i>US leg quarters, north-east</i>	60.7	73.9	73.7	72.6	75.9	88.3	93.9	83.3	84.0	86.9	+0.9%	+3.4%
	<i>Japan import price</i>	170.0	156.1	173.0	203.9	190.1	190.0	221.0	239.0	206.0		-13.8%	
Feet	<i>China import price</i>	202.5	204.5	217.7	220.1	220.1	215.2	218.3	208.9	226.3		+8.3%	
Processed chicken	<i>EU import price Brazil</i>	236.3	211.8	216.2	213.5	193.5	236.3	248.8	239.2	285.6	289.4	+19.4%	+1.4%

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>
tonnes production weight			kg	kg

Δ = year-on-year change

All prices in local currencies

EU: Tight supply leads to ongoing bullish market circumstances

<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		Recovery		Lower Brazil and Thailand		Higher		Increasing	
Mar: 1,226	YTD: 3,620	Apr: 145	YTD: 564	Apr: 58	YTD: 257	May: 1.87	YTD: 1.84	Apr: 0.32	YTD: 0.33
Δ +1.1%	Δ +3.3%	Δ +19%	Δ +11%	Δ -12.1%	Δ -9.2%	Δ +1.0%	Δ +2.6%	-1.1%	-4.6%

Source: Eurostat, MEG 2018

US: Solid margins with balanced industry growth

<i>Production broiler</i>		<i>Export poultry</i>		<i>Composite-broiler price (USD/kg)</i>		<i>Whole-broiler price (USD/kg)</i>		<i>Feed price (USD/kg)</i>	
Growth to slow		US exports recover		On the upswing		Ongoing strong		Feed-cost relief to slow	
Q1: 4,708	YTD: 4,708	Q1: 775	YTD: 775	Q1: 2.56	YTD: 2.26	May: 3.36	YTD: 3.32	May: 0.42	YTD: 0.42
+1.4%	+1.4%	0%	0%	+6%	+10%	+0.79%	+3.1%	+3.8%	-1.2%

Source: USDA 2018

Brazil: Big challenges in global trade

<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>	
Dropping production		Disappointing levels		Lower costs		Falling prices		Higher prices	
Dec: 1,104	YTD: 13,604	May: 328	YTD: 1573	May: 2.53	YTD: 2.4	May: 3.26	YTD: 3.20	May: 0.98	YTD: 0.86
-0.5	+2.7%	-4.8	-8.3%	-4.8%	-7.3%	-11.0%	-16.0%	+58.3%	+23.4%

Source: CECEX, MDIC 2018

US

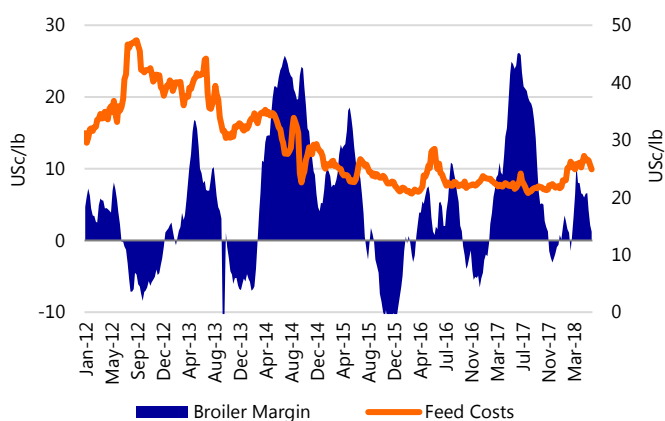
We are lowering our 2018 growth expectations for the US broiler industry by 40 basis points, to 1.8%. Our revision reflects slower growth in both slaughter and weights through 1H, and expectations for a more gradual increase in production over the back-half of the year. Ongoing hatchability issues (down 3% YOY) are gradually being offset by larger egg supplies as integrators plan for capacity expansion.

Composite chicken prices remain 7% ahead of year-ago levels, although the premium has narrowed in recent weeks. A deterioration in nearly all parts prices in recent weeks reflects weaker domestic demand as supplies of competing meats increase. Weaker leg-quarter values (-8% since April), down year-on-year, reflect weaker shipments to the Middle East. Boneless breast and wing prices have also struggled: down -22% and -8%, respectively, from spring peaks. Based on our outlook for a modest increase in supply, together with larger supplies of competing meats, we are expecting only modest improvement in the pricing outlook in 2H 2018.

A slowdown in exports in April, following a very strong March, reflects a sharp decline in exports to the Middle East. Given the current state of trade tensions, we are expecting little improvement in 2H.

Margins continue to run slightly ahead of breakeven, even as parts pricing has softened (see Figure 3). Feed costs have moderated as large US corn and soybean acreage was planted, but with concentrated planting, the risks of disruptive weather in July are heightened. Despite lower feed costs, rising labour, energy, and freight costs will likely pressure industry margins over the balance of the year.

Figure 3: US broiler industry margins, Jan 2012-Jun 2018



Source: USDA, Rabobank 2018

Mexico

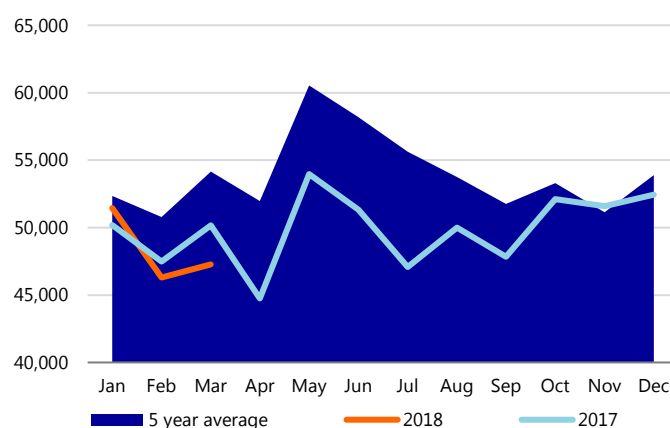
Poultry demand continues to perform well in Mexico, with the expectation that it could continue to rise over the remainder of the year. Despite chicken prices in Mexico increasing, pork prices are expected to increase faster, with some consumers partially trading down from pork in order to consume more chicken. Pork prices are rising, as Mexico has imposed tariffs on pork imports from the US.

Production levels remain as expected, with year-to-date (Jan-Apr) production up by 3.3%, compared to the same period in 2017. In the first four months of the year, chicken production grew by 33,000 tonnes, to reach 1.055m tonnes. Production costs are expected to increase, as volatility in the exchange rate is likely to make grain and feed more expensive.

Mexican poultry imports decreased by 1.7%, with US imports down 2% (January to March, compared to the same period last year) (see Figure 4). Meanwhile, Mexican imports from Brazil continue to increase year-to-date. Last year, Brazil accounted for 11% of the total volume imported. Imports of chicken from Brazil are expected to account for 14% of total imports in 2018.

Prices in the first half of the year have risen due to an adjustment in order to compensate increasing costs. National average whole-chicken prices increased by 10.7%, compared to last year (Jan-May). For the second half of the year, consumption is expected to increase as seasonal demand increases, and due to favourable dynamics with pork prices – meaning domestic prices will remain supported. Volatility in the exchange rate, due to trade tensions, will be key to the cost of feed and other inputs.

Figure 4: US imports to Mexico, Jan 2018-Jun 2018 (tonnes)



Source: GCMA, Rabobank 2018

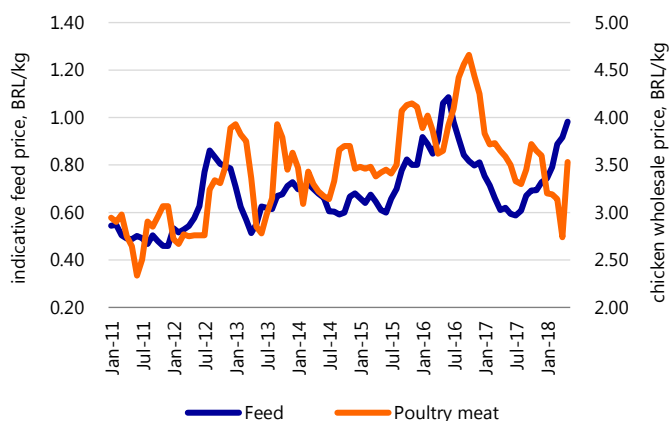
Brazil

High feed prices, restrictions in international markets, and low local prices are tough challenges faced by the Brazilian poultry industry during 1H 2018. They have all pushed around prices (see Figure 5). And in May, another crisis hit the sector. A national truckers' strike, lasting almost two weeks, affected the chicken value chain. Estimates from ABPA indicate that, during the strike, around 70m birds died due to lack of feed – including DOCs. This is expected to impact supply and exports over at least the coming two months.

Brazilian exports decreased by around 8% YTD (Jan-May). Moreover, the decrease could intensify due to both the anticipated decline in supply and ongoing challenges in the international market. The EU has banned 20 Brazilian poultry plants (around 30% of Brazil's export capacity to the EU). According to the EU, the restrictions were implemented due to deficiencies in the Brazilian official control system. Brazilian authorities have argued that this is a commercial barrier that they will work to reverse. Additionally, new standards on halal slaughter requested by Saudi Arabia could affect poultry exports during 2H 2018, although the sector has worked to make all necessary adjustments.

Overall, Brazilian poultry supply and exports are likely to drop in 2018. Preliminary estimates – after the strike and trade impacts – are a decline of about 3% for supply and 10% for exports, compared to 2017. However, depending on adjustments that still need to be made through the supply chain over the coming two months, the situation might be revised. On the other hand, while supply recovers, local chicken prices are expected to reach higher levels, resulting in improved margins for the local industry during 2H 2018.

Figure 5: Brazilian broiler and feed-price trend, Jan 2011-May 2018



Source: SECEX, MDIC, Rabobank 2018

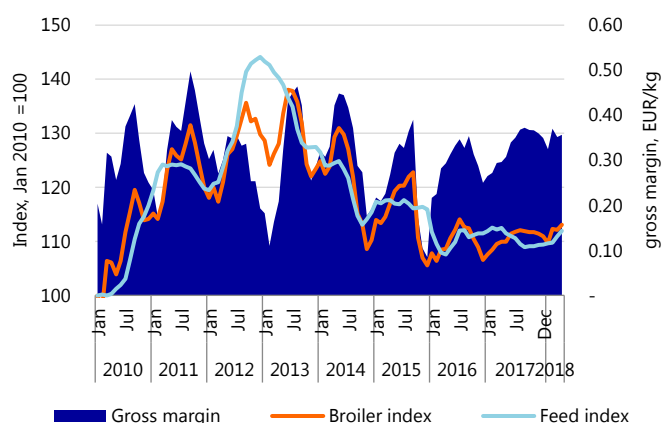
EU

The EU poultry industry is performing well – in a bullish market environment with rising broiler prices and limited supply growth (see Figure 6). Rising feed costs (+2%) are more than enough offset by rising broiler prices (+3% in Q2, compared to Q1). Broiler prices have been especially firm, due to a relatively tight breast-meat market – with prices for frozen breasts up by 10% in Q2, compared to Q1. The main reason for the high breast prices in Europe has been the significant reduction of 8% in EU imports of poultry in Q1 2018, compared to Q1 2017. The European Commission has restricted imports from some Brazilian plants since 1H 2017, as it found issues with Brazil's salmonella monitoring system. This has gradually led to a removal of 20 Brazilian poultry plants from the EU export permission list. As the final removal was in April 2018, the impact on EU imports will continue in 2018. It is now expected that total EU import will fall this year, from 800,000 tonnes to 700,000 tonnes, as alternative import destinations like Thailand, Ukraine, Chile, and Argentina will not be able to compensate for lost Brazilian exports in the EU. This will likely mean that breast-meat prices in the EU will remain high.

These are favourable conditions for the EU industry, as they will help to offset some of the rising feed costs in the EU. We can also expect to see a further rise in production (around 2% to 3%) as a result of new complexes coming into the market in eastern Europe (Poland +4% in Q1 2018).

Exports are also expected to remain strong, as former AI restrictions are gradually being removed and will support further growth in exports (after 4% growth in Q1 2018, compared to last year).

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



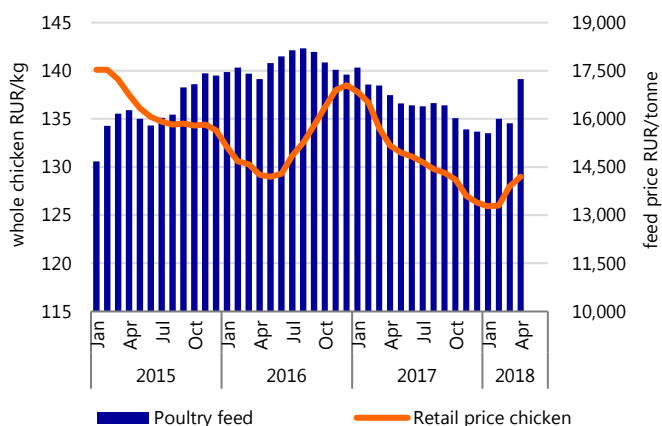
Source: Bloomberg, Rabobank 2018

Russia

The Russian poultry industry is in transition, from a stage of fast growth – backed by a combination of fast local market growth and import substitution – to a more mature market development stage, where attention should focus on value improvement and exports. This transition is still causing some imbalances in the market, with fast growth in Q1 (+4.5% compared to last year), but some positive signs of a slowdown, with March/April production levels at the same level as last year (see *Figure 7*). This improved production growth discipline is important for the outlook, as costs are rising fast, with rising local feed prices in Q2 2018 (wheat +30%, corn +20%, and soybeans +15%). Rising feed prices are linked to reduced expectations for Russian grains this year, together with rising international wheat prices and a weaker rouble.

Prices so far have been weak, and many Russian companies have struggled with declining margins. The current conditions are starting to turn, with improved supply-growth discipline and some upcoming demand growth associated with the football world cup in June/July. The ongoing growth in exports is also positive. Exports are up 15% Q1 2018, or 50,000 tonnes, compared to last year, with ongoing growth in exports to the Middle East and Asia. Further, increased market access (like the recently-opened Iraq and Singapore markets) will support the expansion of Russian exports in the coming year.

Figure 7: Russian retail frozen-broiler (LHS) and feed-price (RHS) trend, Jan 2015-Apr 2018



Source: Rostat, Rabobank 2018

South Africa

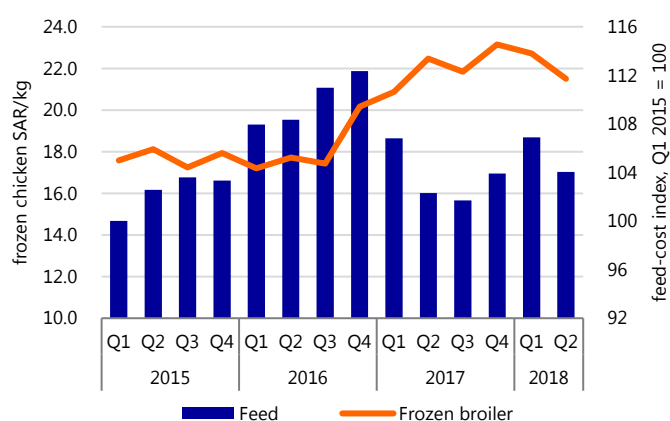
The South African poultry industry keeps performing well, amid strong domestic market conditions – with ongoing low import volumes on EU imports (due to ongoing AI restrictions) and a relatively reduced supply after the restructuring of the last few years. Furthermore, the reduction of brining allowance in South Africa has also created some additional balance in the market. The good stock situation of local feed crops has also been positive, keeping grain stock levels relatively high and feed prices relatively low.

The outlook for 2H 2018 remains relatively strong, whereby a pending removal of VAT on poultry (now in parliament) might support local demand for poultry. Consumption has been relatively price-elastic, especially among the lower-income population.

More bearish has been a rapid rise in pork production in South Africa, with around 16% higher slaughtering in April, compared to 2016. This has led to a dramatic 30% to 40% drop in pork prices in South Africa (see *Figure 8*). As a result, the competitive position of chicken in the South African grocery basket has changed a bit, and this has been the main reason chicken prices have recently dropped slightly. Positive, however, is news that the beef sector (the main protein alternative for South African people) is still in a stock-rebuilding stage, with relatively limited slaughtering and subsequent higher prices.

The outlook remains bullish, especially driven from a relatively good balance in supply/demand. Some sizeable expansion projects by the industry are therefore understandable, but should well be in balance with upcoming demand growth – or else risk ongoing oversupply, especially when imports return.

Figure 8: South African broiler and feed-price trend, Q1 2012-Q2 2018f



Source: SAPA, News24, Rabobank 2018

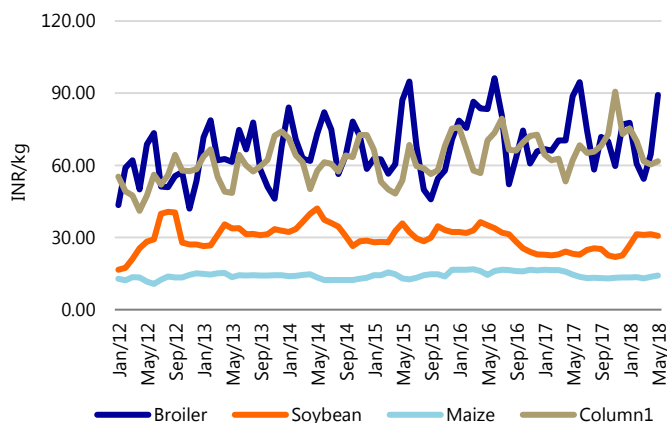
India

Broiler demand faced food scares in some locations recently, starting with carcass controversy in Kolkata in late April, followed by Nipah virus anxiety in Kerala in May. Elsewhere in the south, poultry demand remains strong, driven in part by seasonally higher seafood prices. India's average broiler prices reached a high of INR 97/kg lwt on 22 May (INR 113/kg lwt in Bangalore), due to summertime's seasonally higher mortality rate. By the end of the month, prices retreated to INR 85/kg lwt (see Figure 9). Prices may yet peak in June, as they have then averaged higher over the last two years.

Poultry margins had sequentially eased in Q1, amid lower live-bird prices in February and March, and higher soybean prices. However, this year's early arrival of the monsoon may push feed raw material (soybean and corn) prices lower over the next few months. Commercial farm margins are expected to improve in the following quarter, backed by higher broiler prices and lower feed costs.

The first shipment of US poultry arrived in India on 16 April, after import restrictions were eased. Given the small initial volume and import tariffs (reportedly 30% for whole chicken and 100% for all other chicken), it remains unclear whether demand from the foodservice industry will build significantly. The US has not withdrawn its request for authorisation from the WTO Dispute Settlement Body to suspend concessions (i.e. retaliate), amounting to USD 450m (to be updated annually).

Figure 9: Indian broiler, DOC, and feed-price index, Jan 2013-May 2018



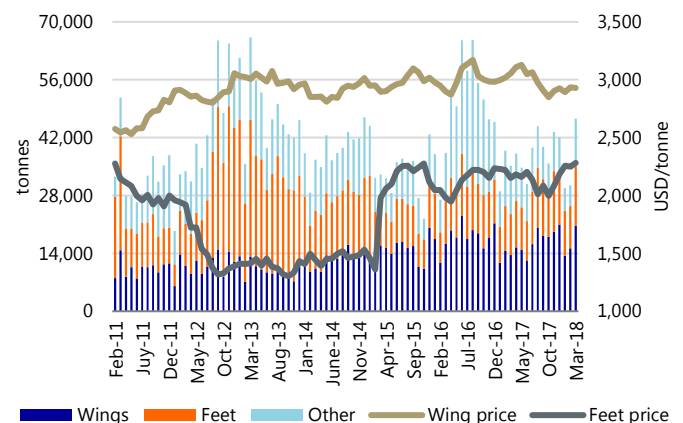
Source: Bloomberg, Rabobank 2018

China

China's white-feathered broiler market has performed steadily, with live bird prices firmly standing above CNY 7.5/kg. Farmers were able to make a profit of around CNY 2/bird in May. Due to slow imports of breeding stock in the previous the years, the inventory of grandparent stock is low. However, due to forced moulting practices, the total stock available for production is higher than the same period last year. But, in any case, there is a low chance of poultry prices surging this year. The key reason is that market demand for poultry products has not seriously improved. The stable price performance is mainly driven by tight supply, instead of demand. While the retail market has shown improvement – with consumers less concerned about avian influenza – the meat processing sector, which used to be an important user of white-feathered broilers, is going back to pork due to low pork prices this year.

China's poultry-import pattern will likely change dramatically in 2018. On 8 June, the government announced it was taking temporary anti-dumping measures on Brazilian poultry products, effective as of 9 June. This will be taken in the form of deposits from importers, of which the rates vary, subject to different Brazilian companies. The total value of Brazilian poultry shipments to China is about USD 1bn every year. Brazil accounted for 85% of China's total poultry imports in 2017. It's still unclear as to whether China would grant access to US poultry. If yes, we would see a big import diversion of chicken paws and leg meat, shifting from Brazil to the US. The US used to be the leading supplier of breeding stock to China. Therefore, if there is a re-entry of US poultry, it will not only impact the trading pattern, but also impact China's domestic production. We would see a recovery of breeding stock import, and poultry production would increase in the coming years.

Figure 10: Chinese imports of poultry in volume (tonnes) and prices (USD/tonne), Feb 2011-Mar 2018



Source: China Customs, Rabobank 2018

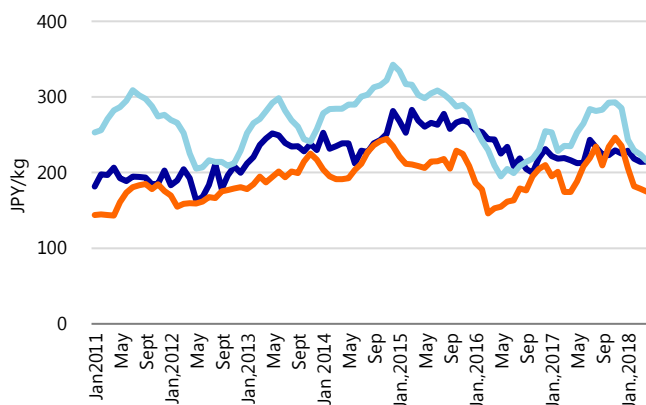
Japan

The Japanese poultry industry's performance has remained relatively solid, but the industry has been affected by rising imports against relatively low prices (see Figure 11). Although domestic market conditions are still relatively good in the fresh-chicken segment, rising imports put some price pressure on the market and lead to rising stock levels, which is bearish for the price outlook. Japanese traders are currently benefiting from turbulence in international poultry markets, with Brazil looking for new markets, the US and China returning to exports, and Thailand searching for outlets for its local oversupply. Japanese traders have gradually increased imports this year, to 45,000 tonnes per month for processed meat and 50,000 tonnes per month for raw meat.

In Q1, the industry was challenged by a new outbreak of the H5N6 AI strain at a farm in Kagawi, but the impact has remained relatively limited to date.

The outlook for the industry is increasingly challenging. The rising stock levels might affect domestic prices in 2H 2018, especially as seasonal demand is also usually lower in Q3. The ongoing competition between poultry exporters might push traders to continue importing chicken, especially as South Korea has now opened the door for exports of processed meat to Japan. This is not a very solid situation for maintaining current margins, especially as feed prices tend to slightly increase in line with international trends.

Figure 11: Japanese import prices, Jan 2011-Apr 2018



Source: ACLI, Rabobank 2018

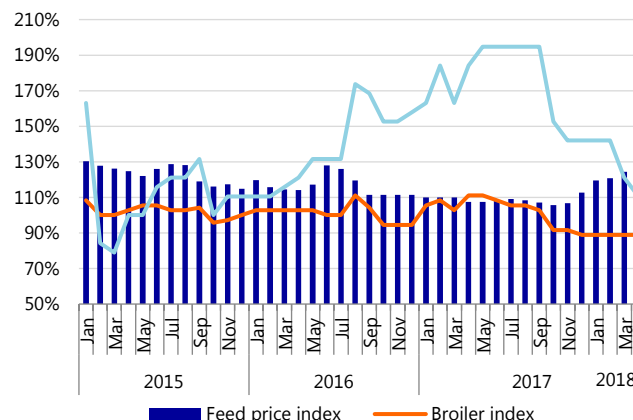
Thailand

The Thai poultry industry is well-positioned to benefit from the turmoil in global trade, with Brazil being pushed back in some key global import markets like the EU, China, and the Middle East. This volatile global poultry-market environment has supported the Thai industry to grow to record-high export levels of 270,000 tonnes between January and April 2018 (+15% compared to last year). The EU and Japan have been particularly strong markets, but exports to South Korea and Laos are also doing well. Thailand is experiencing attractive market conditions, especially in the EU market, as breast prices increased significantly after the removal of 20 Brazilian export plants from the EU export approval list.

From this perspective, it is remarkable that the industry is still struggling with domestic oversupply, after production expanded so quickly in the past few years (see Figure 12). Prices haven't improved from the lows seen earlier this year, despite a strong export market. The falling DOC prices also illustrate the ongoing oversupply situation with Thai poultry production.

A more balanced supply situation is key for the outlook. Further, the Thai industry requires more discipline in terms of growth among poultry companies. If it is successful with supply discipline, it could be a good year, as Thailand is well-positioned to benefit from the displacement of Brazil from some international markets. Furthermore, the recent opening of the Chinese market could offer the Thai industry an opportunity to receive better prices for chicken wings, as China has a clear preference for these products.

Figure 12: Thai broiler-to-feed price monitor, Jan 2015-Apr 2018 (Index)



Source: Bloomberg, Rabobank 2018

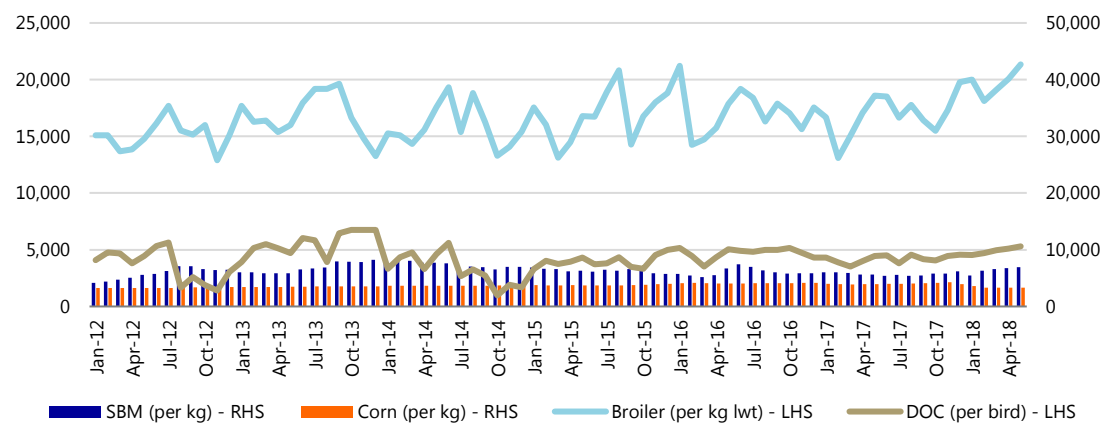
Indonesia

Broiler demand is at the tail end of the peak Lebaran season. Despite tighter monitoring, broiler retail prices ranged between IDR 35,500/kg cwt and IDR 39,250/kg cwt in May 2018 – well above the government reference price of IDR 32,000/kg cwt (temporarily changed to IDR 31,500/kg to IDR 34,000/kg cwt on 22 May through 16 June). Mandatory parent stock (PS) culling in Q3 2017 may have impacted DOC output of smaller breeders, while removal of AGP this year also raised the breakeven cost for some farmers. In May 2018, broiler prices averaged IDR 21,345/kg lwt (+15% YOY) in key markets of West Java, while day-old-chick (DOC) prices rose to IDR 5,300/chick (+19% YOY) (see Figure 13). We expect prices to moderate by the end of June, as demand normalises.

Listed poultry integrators reported improved Q1 2018 profitability, largely driven by lower corn costs and strong broiler/DOC prices. We anticipate Q2 2018 feedmilling and commercial farm margins to further improve on modestly lower feed costs and seasonally higher volume. On the lookout are seasonally lower demand during the Javanese month of Suro (starting 21 September), ongoing rupiah weakness, and rising feed prices – as higher landed soymeal costs are assigned.

Following the October 2017 WTO panel recommendations in favour of Brazil, the Indonesian Ministry of Agriculture is drafting a revision to Ministerial Regulation 34/2016, in order to address importation requisites (i.e. positive list, licencing procedures, intended use). We do not anticipate this to result in significant import volumes, as chicken imports remain subject to halal certification in accordance with Indonesian national standards (i.e. manual slaughtering without stunning).

Figure 13: Indonesian broiler, DOC, and feed-ingredient prices, Q1 2015-Q2 2018



Source: Bloomberg, Rabobank 2018

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