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Global Animal  
Protein Sector Team

**Lead author**

[Nan-Dirk Mulder](#)  
Senior Analyst – Animal  
Protein  
+31 30 712 3822

# Poultry Quarterly Q4 2018

## Rising Volatility Will Challenge Industry Margins

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The global poultry market is performing relatively well in 2H 2018, but it is being challenged. The main driver is ongoing volatility in trade, mainly associated with Brazil. This includes the EU restrictions on several Brazilian export plants, changing halal standards in Saudi Arabia, the ongoing impact of the Q2 truckers strike in Brazil, and the recent safeguard on Brazilian chicken imports set by China. Rising volatility in global grain & oilseed prices, a result of drought and trade issues, is also challenging the poultry outlook. In addition, concerns about new avian influenza (AI) outbreaks are rising as we approach the northern hemisphere winter. The recent African swine fever (ASF) outbreaks in China can also indirectly impact global poultry markets. If the outbreaks spread quickly, significant liquidation of China's pig herd could occur, pressuring all meat prices in China. This could reverse in 2019, with Chinese consumers turning from pork to poultry, pushing up local prices. These challenges can paint a somewhat pessimistic picture, while in reality, poultry industry performance is still good in most parts of the world.

**An historic 20% drop in Brazilian exports in Q2 2018** highlights the ongoing challenges for the Brazilian industry. These appear likely to flow into 2H 2018, given ongoing trade restrictions and local oversupply.

**Global markets are affected by trade volatility**, with falling prices of whole chicken and chicken legs, and non-EU breast meat. The new safeguard on Brazilian chicken imports by China will challenge trade in 2H.

**Many local industries are performing well.** Industries in Asia, Africa, and Europe are currently making healthy margins, based on balanced supply/demand. The exceptions have been Brazil and, to a lesser extent, Thailand, which is challenged by oversupply.

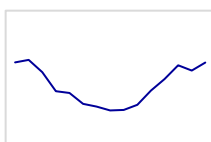
**Other factors to watch are the possible return of AI in the northern hemisphere winter, as well as potential price volatility in grains & oilseeds**, due to trade tensions such as the China-US soybean tariffs and weather issues.

Global chicken monitor\*  
Q1 2015-Q2 2018f

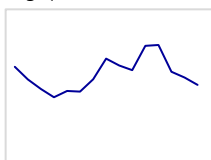
Whole chicken



Breast meat



Leg quarters



\* Chicken price trend for cuts entering global trade

**Regional Outlook for Q4 2018**

**US: Slowdown, but still profitable**



- Weakening chicken prices and margins expected to remain soft
- Rising chicken and other protein supply
- Rising exports to Cuba, Vietnam, and Taiwan

**Brazil: Perfect storm hits Brazilian industry**



- Historic drop in exports in Q2 (-20%), especially in EU and Saudi Arabia
- Production down -5% in Q2
- Weaker real could offset some trade impact

**EU: Strong conditions, with rising breast meat prices**



- Strong margins due to increasing breast meat prices
- Imports down 11% in 2H (Brazil -100,000 tonnes)
- Concerns about future impact of fast central and eastern European production growth

**China: Ongoing profitable conditions**



- Ongoing strong broiler and DOC prices
- Good margins, ongoing low GPS supply, and looming pork production challenges
- 14% increase in imports, but new duties on Brazil

# Global outlook 2018

## Historic Brazil Q2 export drop shakes up global poultry trade

Global poultry trade remains highly competitive, with big shifts in trade volumes worldwide (see Figure 2). Much of the current volatility originates in Brazil, where the industry is heavily affected by global trade restrictions, a weaker domestic market, the impact of a big truckers strike in Q2 2018, and rising domestic feed prices. This has resulted in an historic 20% drop in export volumes from Brazil in Q2 2018, compared to Q1 2018. Sharply declining exports to Saudi Arabia (changing halal standards) and the EU (removal of Brazilian export plants from the EU-approved export list) are the obvious trade issues. However, the truckers strike in Brazil has probably had even more impact on trade, with many losses of birds and problems accessing ports. This resulted in a correction in trade in July, with a temporary peak in export volumes as some pending supply finally was ready for export. But trade figures for August already show that July was a temporary improvement, as volumes are again falling.

As Brazil is the world's leading chicken exporter, this trade volatility has a big impact on global trade, especially as it creates swings in export supply and prices. On average, global poultry prices in Q2 dropped sharply, especially for whole chicken and chicken legs – both by -5% to -10% (see Table 2). The global breast meat market has also been affected, as global trade almost completely depends on exports into the EU. Breast meat prices in the EU and for exporters to the EU who are still open to exports have been increasing, while prices for Brazilian exporters banned from the EU have

dropped sharply (this product has been diverted to Mexico).

Other exporters have benefited from the problems in Brazil. Ukraine keeps increasing its export position, and total export volumes reached record levels, at 155,000 tonnes in 1H, with significantly higher prices (+15%). Latin American exporters other than Brazil have also benefited, with fast-growing exports from Chile and, to a lesser extent, Argentina, into the EU.

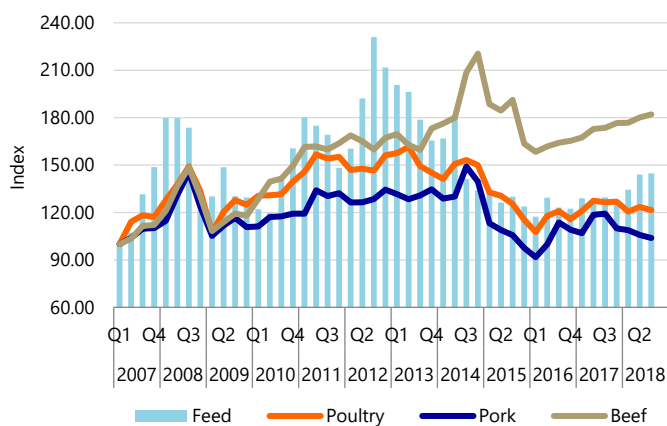
Thailand has also benefited from the weakening Brazilian trade position and increased export volumes by 11% in 1H 2018. However, Thai companies were not able to achieve better prices due to ongoing local oversupply.

The US and EU are also gradually increasing export volumes. The US has seen strong exports to Cuba, Taiwan, and Africa, while the EU is more focused on South-East Asia, with rising exports to the Philippines and Vietnam.

These Asian and African countries have been increasing import volumes over the last half year. Imports in Japan reached record levels of 520,000 tonnes, and this is one of the few countries that has not reduced imports from Brazil. Japanese traders have benefited from significantly lower import prices (-6%) and have increased stocks to record-high levels, which might indicate less buying activity in 2H 2018.

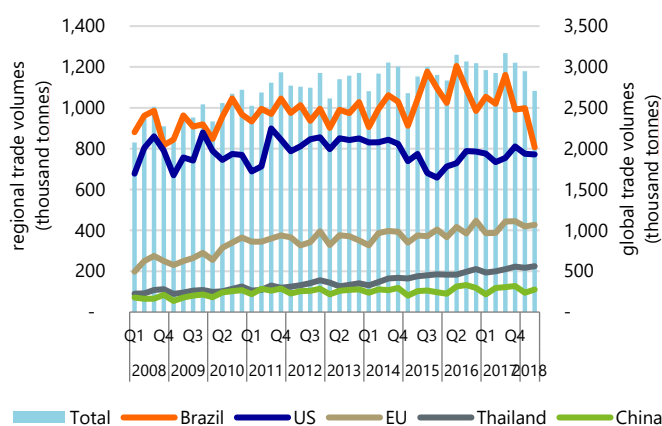
The outlook for global trade remains challenging. As the Brazilian industry currently assumes just a 1% to 2% reduction in production for the whole year, ongoing oversupply in Brazil appears likely in 2H 2018. Brazilian exports will need to show significant improvements in 2H in order to alleviate oversupply concerns, and ongoing weakness in the real might strengthen Brazil's pricing position in trade. The main problem remains restrictions

Figure 1: Global broiler, beef, and pork prices vs. feed cost monitor, Q1 2007-Q3 2018f



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

Figure 2: Rabobank global poultry trade monitor, Q1 2011-Q2 2018



Source: Bloomberg, national statistics, Rabobank 2018

in Brazil's key export markets, the EU and Saudi Arabia. The recently imposed special safeguard by China (9% of Brazil's 2017 export volume) on Brazilian exports makes this situation worse. Although prices have improved recently due to the temporary reduction in Brazilian supply, we see limited upside for price increases in 2H.

Further trade restrictions could also challenge global market conditions, and some countries, like South Africa, are considering restrictions on US chicken exports in response to the US introduction of (steel) tariffs.

Another challenge for 2H 2018 will be AI. The northern hemisphere winter season always means new challenges in terms of outbreaks, and several have already been seen in China, Russia, and, recently, Germany. These serve to remind us of the ongoing threat of AI for local and global markets.

Outbreaks of ASF in China could indirectly impact global poultry markets, due to expected stock liquidation in the Chinese pig herd in 2H. This could lead to increased pork supply in the market, pushing all meat prices lower. The demand for poultry imports in China could soften as a result. However, after this initial reaction, in 2019, the impact could reverse. A market shortage of pork could push up prices, and poultry could be expected to benefit in two ways. The first is that consumers will turn from pork to poultry, lifting demand and prices. The second is a likely need for China to buy more pork from international markets, which would have a bullish impact on global pork prices – and indirectly, on poultry prices.

## Local markets bullish, but challenged by rising feed costs

Around 13% of global chicken production enters global trade, which means 87% of supply stays in local/regional markets. Dynamics in these markets are usually different from global market conditions.

In general, most regional poultry industries have been performing well. The best-performing poultry industries are currently in South Africa, China, the EU, India, Indonesia, and Mexico, where industries are achieving healthy returns. The South African industry has been making strong margins for over a year, which has been a welcome relief after a long period of challenging market conditions. This is also the case for China, where the industry has suffered for years, with declining demand and low prices. This is gradually changing, and prices have moved up to healthy levels. The EU industry is also performing well, benefiting from a balanced market supply and restrictions on Brazilian chicken imports. This has pushed up prices by 10% to 15%. South-East Asia's performance in general is also fine – especially industries in Indonesia, India, and the Philippines, which perform well amid strong market growth and restricted supply.

Exporters – except the EU – are the weakest-performing countries. Brazil is in the weakest position, with sluggish domestic demand and rising local feed costs, in addition to restricted exports. This should result in price increases to local consumers, which is difficult under the current economic conditions, further pressuring margins.

**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	Q2	Q3f	Q4f	Q2-Q1	Q3-Q2
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	1.13		-1.2%	-0.1%
	Brazil	0.70	0.76	0.95	0.93	0.85	0.78	0.79	0.84	0.76	0.70	0.78		-7.9%	+10.6%
	China	1.18	1.22	1.20	1.08	0.71	0.93	1.07	1.05	1.22	1.25	1.44		+2.3%	+15.5%
Grains & oilseeds	Wheat (USD/bu)	466	471	406	403	429	435	457	424	453	499	540	540	+10.2%	+8.2%
	Corn (USD/bu)	363	391	332	348	364	368	365	346	366	384	385	385	+4.9%	+0.5%
	Soymeal (USD/tonne)	267	356	337	311	330	307	311	318	353	371	335	335	+5.1%	-9.7%

Source: Bloomberg, Rabobank 2018

Thailand should have benefited most from the problems in Brazil, but local oversupply challenged industry margins in 1H 2018. Some improvements in market balance have been seen recently, but the recovery is fragile. The only exporters who have improved their performance are Ukraine and Chile, both benefiting from strong demand in the EU.

The US poultry industry is moving towards an oversupply situation, after a period of healthy profits. Recent price pressures are caused by challenging global poultry markets and by local oversupply in the US total protein market, which has pressured prices. Margins are expected to move to around breakeven level.

## Feed price volatility to return

Average grain & oilseed prices have become more volatile during the northern summer months (see Table 1). Recent swings in soybean and grain prices are largely due to uncertainties in weather and the 25% import tariffs on US soybeans by China. This has led to more volatile conditions than seen over the past three years – and this will stay in 2H 2018, when the soybean tariff will further impact markets if Chinese stocks fall.

Weather is also having a big impact on global markets. Drought in north-western Europe and South Africa has impacted local grain markets and will challenge costs for local industries, pushing traders to import more grain.

On the other hand, grain and soybean harvests in the US are expected to be good, and the effects of the soybean tariff will dampen some exports. Overall, US grains & oilseeds are expected to be affordable, and industries that use US grains & oilseeds are expected to benefit.

In the case of Russia, rumours indicate a possible new export tax on wheat exports, which will support local poultry companies, but could lead to higher prices for importers of Russian grains in Europe, Asia, and the Middle East.

2H 2018 is expected to show increased volatility coming from the feed side, with differences in impact from region to region.

Table 2: Global whole chicken and chicken cut markets (USD/100kg), Q1 2015-Q3 2018f

		2016				2017				2018			Change	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3f	Q2-Q1	Q3-Q2
Whole chickens	Brazil wholesale	100.5	106.5	134.5	136.4	119.7	112.8	109.4	115.2	103.7	95.0	96.3	-6.4%	+1.4%
	EU wholesale	197.0	203.5	198.1	188.7	189.0	200.6	216.0	214.6	224.9	220.8	215.9	-1.6%	-2.2%
Breast meat	EU import price Brazil	222.1	207.4	204.1	191.2	193.6	219.3	240.0	256.3	276.1	272.9	283.9	+3.5%	+4.1%
	EU import price Thailand	268.2	248.8	243.6	244.2	243.5	233.6	257.9	277.4	301.4	281.7	296.7	-5.9%	+4.9%
Leg quarters	US leg quarters, north-east	60.7	73.9	73.7	72.6	75.9	88.3	93.9	83.3	84.0	85.5	75.5	-1.7%	-11.7%
	Japan import price	170.0	156.1	173.0	203.9	190.1	171.3	199.4	211.4	173.4	163.8		-5.5%	
Feet	China import price	202.5	204.5	217.7	220.1	220.1	215.2	218.3	208.9	226.3	n.a.		+8.3%	
Processed chicken	EU import price Brazil	236.3	211.8	216.2	213.5	193.5	236.3	248.8	239.2	285.6	291.8	275.6	+2.2%	-5.4%

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

# Dashboard

## Legend and units

Production	Exports	Imports	Price	Feed price
tonnes production weight			kg	kg

Δ = year-on-year change

All prices in local currencies

## EU: Strong margins due to rising breast meat prices

Production broiler		Export poultry		Import poultry		Whole frozen broiler price (EUR/kg)		Feed price (EUR/kg)	
Ongoing growth		Declining		Recovering		Higher		Increasing	
May: 1,188	YTD: 5,865	Jun: 123	YTD: 760	Jun: 21	YTD: 109	Jul: 2.03	YTD: 2.02	Jul: 0.345	YTD: 0.341
Δ +0.51%	Δ +4.19%	Δ -3.04%	Δ +6.94%	Δ +82.1%	Δ +44.6%	Δ +1.93%	Δ +2.02%	Δ +2.7%	Δ +0.5%

Source: Eurostat, MEG 2018

## US: Slowdown, but confidence prevails

Production broiler		Export poultry		Composite broiler price (USD/kg)		Whole broiler price (USD/kg)		Feed price (USD/kg)	
Increasing		Recovering		On the upswing		Ongoing strong		Feed cost relief to slow	
Q3: 4,921	YTD: 14,476	Q3: 789	YTD: 2,336	Q3: 2.16	YTD: 2.27	Jul: 2.44	YTD: 2.34	Q3: 0.27	YTD: 0.25
Δ +2.8%	Δ +2.3%	Δ +4.8%	Δ +2.9%	Δ +3.2%	Δ +7.2%	Δ +6.6%	Δ +8.6%	Δ +8%	Δ +12.5%

Source: USDA 2018

## Brazil: Perfect storm, with looming FX risks

Production broiler		Export poultry		Live broiler price (BRL/kg)		Whole broiler price (BRL/kg)		Feed price (BRL/kg)	
Dropping production		Volatile		Increasing		Increasing		Higher prices	
Mar: 1,187	YTD: 3,411	Aug: 378	YTD: 2635	Jul: 3.00	YTD: 2.58	Jul: 3.71	YTD: 3.41	Jul: 0.88	YTD: 0.86
Δ -2.5%	Δ +2.8%	Δ -7.2%	Δ -7.9%	Δ +20.1%	Δ +0.4%	Δ +7.9%	Δ -7.1%	Δ +46.2%	Δ +30.6%

Source: CECEX, MDIC 2018

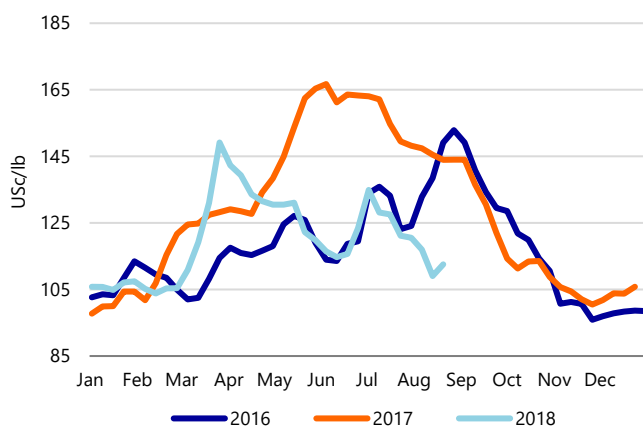
## US

Composite chicken prices in the US weakened substantially in the quarter and are expected to remain soft as domestic production increases and large supplies of competing proteins weigh on chicken values. Boneless prices, in particular, have struggled (-33% YOY) as limited retail feature activity and weaker foodservice demand dampen market values (see Figure 3). Leg quarter values (-19% YOY) are also soft, reflecting not only the larger supply, but also growing uncertainty in international markets. We believe boneless prices will remain under pressure through the year-end and early 2019.

Chicken exports were relatively strong in the quarter and are up 5% for the year. Stronger June shipments to Cuba (+60% YOY), Taiwan (+48%), and Vietnam (24%) were more than able to offset a drop in exports to Canada (-16% YOY) and Hong Kong (-14%). While US chicken escaped much of the direct trade turmoil, we believe resolution of the NAFTA negotiations should benefit exports to Mexico and Canada later this year. Recent weakness in the peso, however, is likely to slow shipments in the weeks ahead. We also expect the weakness in the real to increase competition from Brazilian poultry exports. We continue to look for mid-single-digit growth in exports in 2018.

Margins have deteriorated in recent weeks as seasonal weakness in chicken demand and larger supplies weigh on chicken values. We are expecting feed costs to offset some of this decline, with a larger-than-expected soybean crop and abundant corn supplies helping to reduce input costs. Rising labour, energy, and freight costs are also weighing on broiler margins and are unlikely to improve in the year ahead.

Figure 3: US boneless skinless breast prices, 2016-Aug 2018



Source: USDA, Rabobank 2018

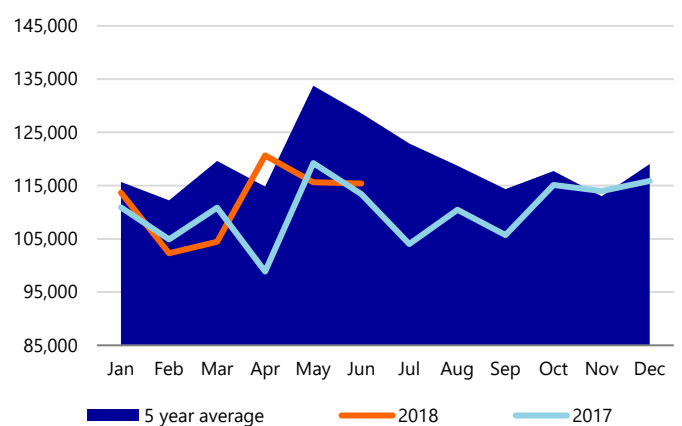
## Mexico

Mexico and the US have, in principle, reached an agreement on NAFTA, and this has been good news for the markets. However, the question remains as to whether Mexico will continue to diversify its import sources or revert to importing mostly from the US. Chicken imports from the US have recovered, with Q2 imports increasing by 6%, compared to the same period last year – 2.2% higher than YTD last year (see Figure 4). As for Brazil, imports are 87% (Jan-Jun) higher than last year, accounting for roughly 11% of total imports.

Production grew by 2.8% during the first half of the year, compared to the same period last year. For the second half of the year, production is expected to add another 1.8m tonnes, to reach a total of 3.4m tonnes for 2018. Production for 2018 is expected to grow by 2.8%. Despite challenges with feed and energy costs, production has been able to maintain growth. Producer margins should improve, as feed costs are likely to decrease and as the exchange rate becomes more stable in the coming months.

Prices have come down from their seasonal high, but whole chicken prices continue to be 7.3% higher than the same time last year. For the remainder of the year, prices should begin to see a decrease as production and imports continue to increase, putting pressure on domestic prices. However, with domestic demand continuing to grow, prices should find some support.

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



Source: GCMA, Rabobank 2018

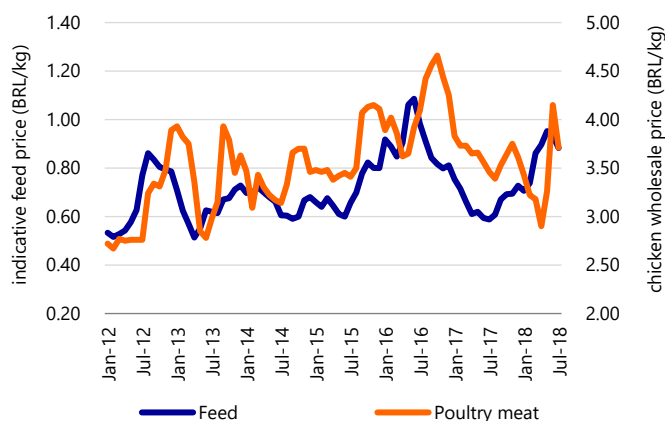
## Brazil

According to preliminary information released by the IBGE (the Brazilian Institute of Geography and Statistics), Brazilian chicken production dropped by 5% in Q2 2018, compared to Q1 2018. While several reasons lie behind this decline – such as restrictions in the international market, high local feed prices, slower domestic consumption, and the national truckers strike in late May – the adjustment in supply has been seen as necessary in order to better balance supply and demand. The ABPA (the Brazilian Animal Protein Association) also reviewed its projections and now estimates a decline between 1% and 2% in Brazilian chicken production in 2018, compared to 2017.

Brazilian poultry exports decreased by around 8% YTD in the first eight months of the year, as restrictions in the EU continue – the EU has banned imports from 20 Brazilian poultry plants (around 30% of Brazil's export capacity to the EU) – as well as challenges to meet new standards requested by Saudi Arabia on halal slaughter. To put this into perspective, Brazilian chicken exports to Saudi Arabia declined by 27% YTD (Jan-Aug), which represents more than 105,000 tonnes.

Moreover, the recent devaluation of the Brazilian real against the US dollar is expected to improve export competitiveness – which might support results for the sector in the coming months. However, during August, exports of chicken declined by 7%, compared to the same month last year. Additionally, it is worth mentioning that, by late August, feed prices were around 50% higher than the same period last year, which shows that margins are still pressured, even considering relatively better local prices for chicken (see Figure 5).

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



Source: SECEX, MDIC, Rabobank 2018

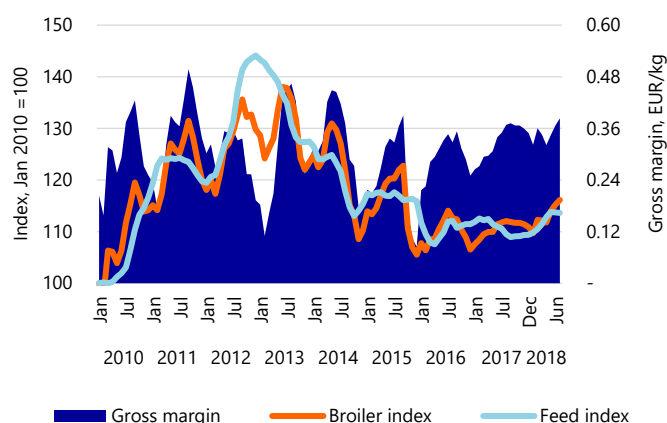
## EU

The EU poultry industry is performing well, based on a positive market balance with ongoing strong demand and tight supply. Prices for breast meat have been high, with average prices up by more than 10% in August, compared to Q1 2018 levels. Ongoing low import volumes have lifted local breast meat prices. Total EU imports dropped by almost 45,000 tonnes, to 390,000 tonnes in 1H 2018 – caused by a massive drop in Brazilian imports, of some 100,000 tonnes. This decrease is due to the removal of 20 Brazilian plants from the EU-approved export list after violations found by EU audit commissions – and some have lost confidence in other Brazilian imports. Lower Brazilian imports have been partially offset by rising Thai, Ukrainian, Chilean, and Argentine imports, but total import volumes are still 45,000 tonnes down, while import prices are higher.

Higher breast prices have indirectly supported EU broiler prices, although challenging leg meat prices partially offset this. Leg meat prices suffer in a very competitive global market for dark meat, with ongoing limits (but improving) on EU market access. It is therefore quite an achievement for EU exporters to have exported 8% more in 1H 2018 than last year, despite declining exports to traditional export destinations Hong Kong, South Africa, and Saudi Arabia. Exports to Africa, Ukraine, and South-East Asia have all grown.

The outlook for the EU industry remains positive, with ongoing restrictions on EU imports, but the upcoming opening of new/expanded facilities in eastern Europe (eight new slaughterhouses in Poland are in the pipeline) will increasingly challenge the supply situation in the EU. Having said this, the 2H 2018 outlook remains good, with ongoing positive margins (see Figure 6).

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



Source: Bloomberg, Rabobank 2018

## Russia

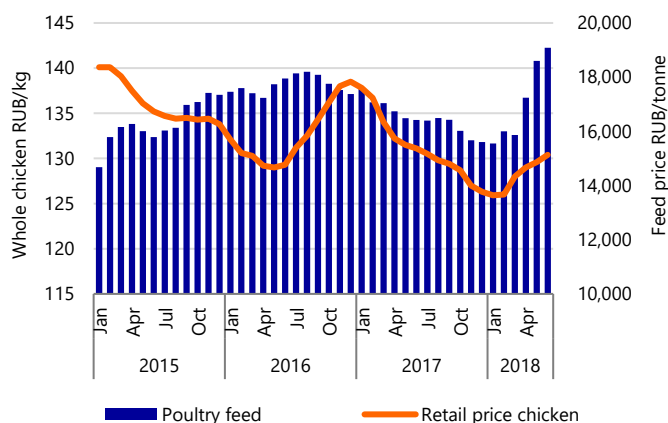
The Russian poultry industry is operating under challenging conditions – and although chicken prices have been rising since the beginning of the year, average retail prices are slightly below last year's level (-3%), while feed costs have increased by 5% (see Figure 7). The industry has been relatively disciplined in its growth this year, with only a 2% expansion, but the fast expansion of red meat production has an ongoing negative impact on market supply and offers Russian broiler companies limited upside in pricing.

The biggest challenge is the ongoing high grain prices. Domestic wheat and corn prices have increased by 30% to 35% since the beginning of the year, while Russian soybean prices have increased by 20%. Russian grain exports have remained strong despite a smaller-than-expected grain crop this year, compared to last year.

Black Sea Region grain has increasingly become an alternative for global traders, given that drought affected supply from western Europe – and this has pushed up Russian grain prices. It is therefore no surprise that market insiders are talking about the potential reintroduction of wheat export taxes in order to maintain domestic supply and keep prices more in balance.

The outlook for the Russian poultry industry is gradually improving. Production figures for the last three months indicate a slight decline in domestic broiler supply, which will positively impact the market. This is especially the case if a wheat tax is reintroduced, as this will positively affect the Russian poultry industry's cost position.

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



Source: Rostat, Rabobank 2018

## South Africa

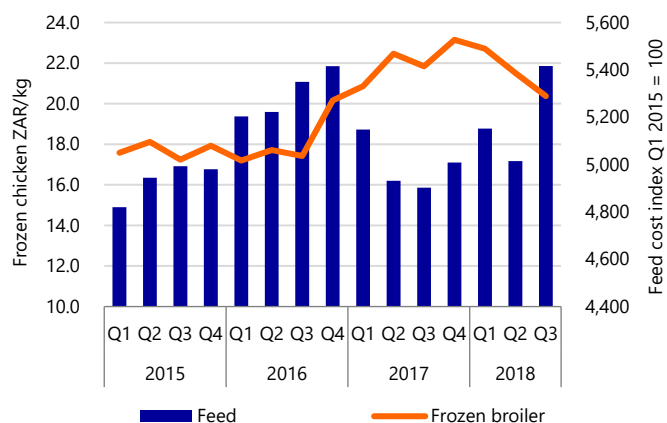
The industry keeps performing well, with ongoing strong, but slightly lower prices. Conditions have been slightly less bullish than earlier this year, mainly due to non-poultry factors. The main one has been lower pork prices, resulting from the listeria outbreak earlier this year, which led to a big drop in pork prices in Q2 2018 (as people moved away from processed meat). Rising feed costs, due to drought in combination with a weaker rand, have also contributed to the situation (see Figure 8).

Having said this, on average, the industry is still doing well, with strong, profitable price levels and very disciplined supply growth. Production is up by only +0.3% in 1H 2018, and imports declined (-5%) in 1H 2018. The weaker rand, which makes imports more expensive, and ongoing restrictions on EU imports have contributed to the import decline.

The industry also receives price support from strong and rising South African beef prices, as local supply is still affected by the long period of drought in South Africa.

The outlook remains positive, as industry growth remains disciplined. The biggest worry is rising feed prices, which start to flow into the poultry chain. Domestic economic conditions are still challenging, and the industry will find it difficult to pass higher chicken prices on to consumers. The industry has been lobbying for import restrictions on US chicken as part of possible countermeasures to the US steel tariffs. If this happens, it could reduce the US supply which enters South Africa now via the 65,000-tonne import quota. On the other hand, South Africa is gradually lifting EU poultry import restrictions (such as Poland), and this will lead to more EU imports.

**Figure 8: South African broiler and feed price trend, Q1 2012-Q3 2018f**



Source: SAPA, News24, Rabobank 2018



## India

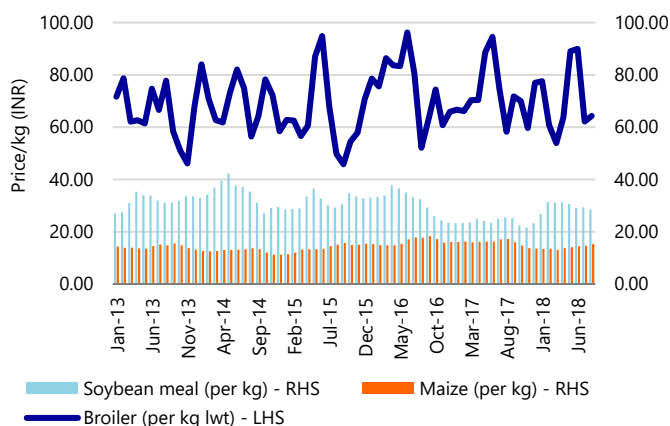
Despite the increase in the minimum support price for the Kharif corn crop (to INR 17/kg) and a below-average monsoon season so far this year, much of the corn-growing areas have received adequate rainfall. India's corn prices have risen since mid-August and are currently quoted in excess of INR 16/kg – raising concerns of higher poultry feed costs. However, Rabobank expects corn prices to ease once harvesting gets underway (Oct-Jan). Similarly, a larger soybean harvest than last year should result in lower meal prices in the coming months.

Average broiler prices for the month of August ranged from INR 53/kg lwt to INR 68/kg lwt – lower than the INR 62/kg lwt to INR 75/kg lwt seen in July, in line with seasonally lower consumption patterns (see Figure 9). Integrated poultry farms are expected to book lower profits in Q3, following the strong peak in Q2. Compared to the same period a year ago, Rabobank expects margins to remain stable in Q4, backed by steady feed costs and broiler prices. Since the end of August, average broiler prices have recovered and are now off their lows of the year.

Recent floods in Kerala have caused some supply disruptions in certain parts of the state, as close to 10% of the broiler population has reportedly perished. The situation is expected to be temporary, as gaps should be filled with supplies from Tamil Nadu with some lag time. Kerala accounts for 3% of India's broiler population, according to the 18th Livestock Census.

The WTO arbitration process with regard to imports of US poultry products has been delayed, and a decision is now expected to be issued in October 2018.

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



Source: Poultry Bazaar, NCDEX, NECC, Rabobank 2018

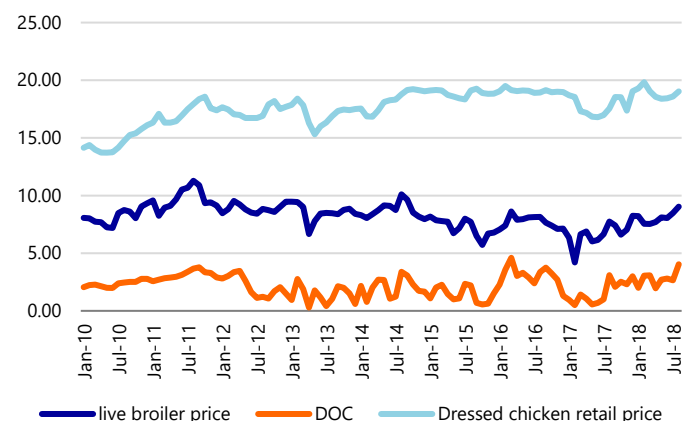
## China

The white-feathered broiler market continues to perform strongly, with live bird prices breaking CNY 9/kg, hitting their highest level since March 2016 due to tight supply. This is reflected by the stronger DOC price which increased by 40% YOY in August. At current broiler prices, farmers can make profits of around CNY 4/bird. It is expected that the tight supply situation will continue for the balance of this year and into 2019, if the imports of GP stock remain low. We maintain our view that production will decline slightly in 2018. However, due to strong broiler prices, slaughterhouses are increasingly pressured, as they cannot pass all costs to consumers. Retail prices of dressed chicken increased 10% YOY in August, while live bird prices increased by 30% YOY (see Figure 10).

Disease outbreaks of ASF in the pork industry will complicate poultry demand for the foreseeable future. In the short term, ASF outbreaks may lead to weaker pork prices in the affected provinces, due to herd liquidation. But in regions that rely on hogs being transported from other parts of the country, pork prices would be supported by temporary supply shortages, as live hog transport is restricted. As poultry is an important substitute for pork in meat processing, pork price changes will directly impact poultry prices. But the retail market would be different, and poultry demand will benefit from lower pork consumption.

Poultry imports in the first seven months of 2018 increased by 14.8% YOY. China's government is implementing temporary anti-dumping measures on Brazilian chicken, effective from 9 June. The impact is not yet seen, given the limited time. The investigation was supposed to end by 18 August, but has been extended by six months, to February 2019.

**Figure 10: Chinese poultry prices, Jan 2010-Aug 2018 (CNY/kg)**



Source: China Customs, Rabobank 2018

## Japan

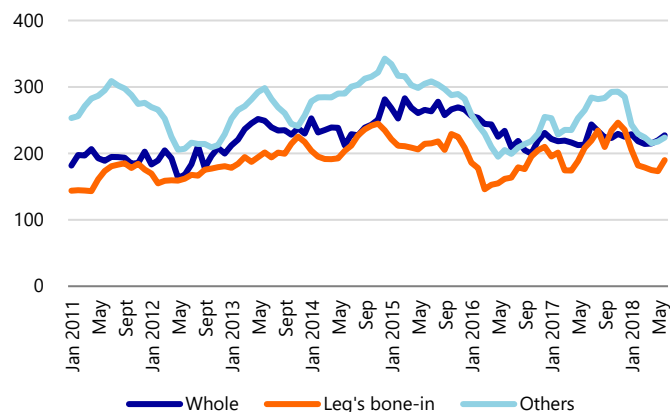
The Japanese poultry industry's performance has remained relatively solid, but the market is increasingly affected by rising imports against relatively low prices (see Figure 11). Although domestic market conditions are still relatively good in the fresh-chicken segment, rising imports put some price pressure on the market and lead to rising stock levels, which is bearish for the price outlook.

Japanese traders are currently benefiting from changes 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. In 1H 2018, Japan imported a record 520,000 tonnes of poultry, 8% more than in the same period in 2017. Prices of imported chicken in Japan have dropped sharply. For example, leg quarters are -9% in Q2 2018, compared to Q2 2017, and other cuts are -13% in Q2 2018, compared to Q2 2017.

These record-high import volumes have led to a fast stock rebuilding by Japanese traders. Current stock levels increased by 35% in Q2 2018, compared to the same period last year, reaching a record-high level of 178,000 tonnes.

Although Japanese (domestic) fresh and further processed markets are operating quite independently, the current high stock levels and falling import prices have some indirect impacts on domestic suppliers. Some restaurants, for example, might change sourcing from local fresh chicken to cheaper imported chicken. This could affect the reasonably good performance of the domestic chicken industry in the coming half year.

Figure 11: Japanese import prices, Jan 2011-Jun 2018 (JPY/kg)



Source: ACLI, Rabobank 2018

## Thailand

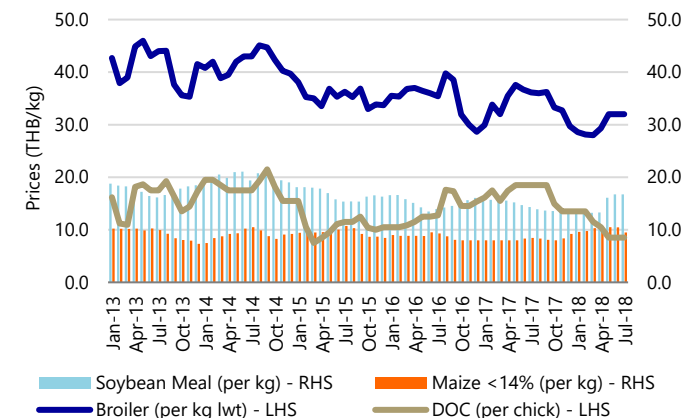
As a reflection of weaker farm business, listed integrators' Q2 2018 poultry segment contribution showed declines. Poultry farm margins likewise turned negative for most producers, given declining domestic prices and higher raw-material costs.

The oversupply situation is currently slightly offset by a seasonal pick-up in exports, but export prices haven't benefited, despite Thailand's strong market position. This is mainly a consequence of local oversupply, which gives Thai exporters limited negotiating power, despite the difficult position faced by Brazil.

Thailand's exports have increased by 11% Jan-May in volume (to 342,000 tonnes) and in value (to USD 1.28bn). Thai export destination growth was limited; EU shipments increased by 7%, but this is related to the EU quota which constrains Thai import possibilities. Exports to Japan increased 9%. Most growth has come from smaller destinations like Malaysia, Laos, Hong Kong, and South Korea. In the near future, exporters might benefit from new market openings in Saudi Arabia (from February) and China (from March).

In August, broilers are priced at an average of THB 36/kg lwt. This is above the breakeven cost – up from THB 32/kg lwt in July. This might signal a recovery, with the industry finding a new balance, but concerns remain, as Q4 demand is usually weak, and this could easily again lead to an oversupply situation. To date, imported soybean prices have risen due to baht depreciation, but they are offset by declining prices in USD terms. Corn prices have also eased, because earlier strength has prompted some producers to switch to feed wheat and barley. Rabobank expects feed raw material costs to trend lower over the next three months.

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



Source: Thai Feedmill Association, Rabobank 2018

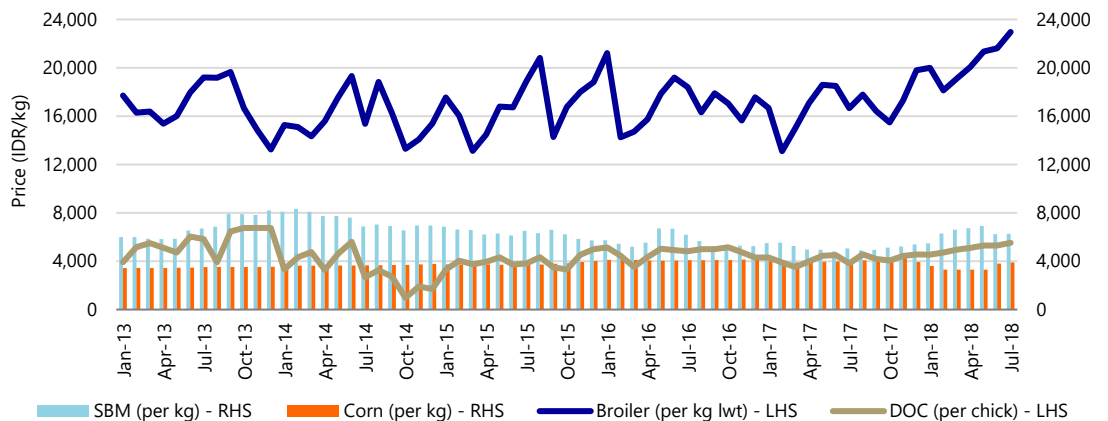
# Indonesia

Larger-than-usual government transfers (IDR 35.8 trillion) to civil servants for mandatory religious holiday allowances (paid in May) and 13th-month salaries (paid in July) helped lift broiler demand during Ramadan and Lebaran. By the end of August, broiler meat prices remained elevated (IDR 36,600/kg to IDR 39,250/kg) – relatively unchanged since May. This trend reflected similar strength in live broiler prices in key markets of West Java, which averaged IDR 22,960/kg lwt in July (+38% YOY), up 8% vs. May (see Figure 13). Rabobank does not expect 2H 2018 broiler prices to fall significantly – even as demand seasonally slows down. Broiler balance has tilted towards a slight undersupply, given mandatory parent-stock culling (3m birds) last year. The impact of AGP removal in feed also remains a challenge in open-house farms, but is largely negated in closed-house farms.

Strong live broiler/DOC prices and bumper corn harvests boosted listed integrators' Q2 2018 profits. But further processing suffered from higher costs and intense competition in lower-priced products. 2H corn harvests are typically smaller than 1H, and prices now have rebounded to IDR 4,000/kg, from IDR 3,300/kg in Q2 2018. Q3 2018 farm margins should see depletion of low-cost corn inventory, higher-priced soymeal (rupiah depreciation), and seasonally lower volumes.

The trade dispute with the US continued in August, when the US sought WTO authorisation to suspend tariff concessions/MFN obligations to Indonesia, commensurate with the trade impacts on US interests (estimated at USD 350m in 2017). While chicken cuts/MDM imports are allowed per four revised ministerial decrees, they are subject to competitive pricing and non-tariff measures. Indonesia's exports to the US, however, may be adversely affected.

**Figure 13: Indonesian broiler, DOC, and feed ingredient prices, Jan 2013-Jul 2018**



Source: Industry sources, Bloomberg, USDA, Rabobank 2018

# Imprint

## **RaboResearch**

Food & Agribusiness  
far.rabobank.com

### RaboResearch Food & Agribusiness Animal Protein Global Sector Team Analysts

Justin Sherrard	Global Strategist	<a href="mailto:justin.sherrard@rabobank.com">justin.sherrard@rabobank.com</a>
Nan-Dirk Mulder	Europe	<a href="mailto:nan-dirk.mulder@rabobank.com">nan-dirk.mulder@rabobank.com</a>
Matz Beuchel	Europe	<a href="mailto:matz.beuchel@rabobank.com">matz.beuchel@rabobank.com</a>
Adolfo Fontes	Brazil	<a href="mailto:adolfo.fontes@rabobank.com">adolfo.fontes@rabobank.com</a>
Andrick Payen	Mexico	<a href="mailto:andrick.payen@rabobank.com">andrick.payen@rabobank.com</a>
Ben Santoso	South-East Asia	<a href="mailto:ben.santoso@rabobank.com">ben.santoso@rabobank.com</a>
Chenjun Pan	China	<a href="mailto:chenjun.pan@rabobank.com">chenjun.pan@rabobank.com</a>
Christine McCracken	US	<a href="mailto:christine.mccracken@rabobank.com">christine.mccracken@rabobank.com</a>
Angus Gidley-Baird	Australia	<a href="mailto:angus.gidley-baird@rabobank.com">angus.gidley-baird@rabobank.com</a>
Beyhan de Jong	EU	<a href="mailto:beyhan.de.jong@rabobank.com">beyhan.de.jong@rabobank.com</a>
Blake Holgate	New Zealand	<a href="mailto:blake.holgate@rabobank.com">blake.holgate@rabobank.com</a>
Don Close	US	<a href="mailto:don.close@rabobank.com">don.close@rabobank.com</a>
Gorjan Nikolik	EU	<a href="mailto:gorjan.nikolik@rabobank.com">gorjan.nikolik@rabobank.com</a>
Jan Peter van Ferneij	EU	<a href="mailto:Jan.peter.van.ferneij@raobank.com">Jan.peter.van.ferneij@raobank.com</a>

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