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Outlook 2019: Challenging Start but Gradual Recovery Throughout the Year

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The outlook for the global poultry industry is expected to gradually improve in 2019. Global trade will remain volatile and competitive in 1H 2019, with exporters competing for reduced volumes as a result of the many trade issues in 2018. Trade issues include the US-China trade tensions, the changing Saudi trade standards, the removal of some Brazilian exporters from the EU approved list and ongoing disease issues. Many of these trade issues will again challenge the industry in 2019. Under such challenging market conditions, a balanced supply strategy can help maintain profitability – this has already paid off in Brazil, Russia and South Africa, and could be followed by others, such as Thailand and the EU, where the industry suffers from oversupply.

The outlook for 2H 2019 is more bullish, especially as global markets will benefit from rising Chinese demand and prices, due to the impact of African swine fever (ASF) in this country. The key factors to watch in the global poultry markets in 2019 are:

Chinese poultry market will be very tight in 2H 2019. The impact of ASF will reduce supply in 2019, and the domestic broiler industry remains constrained by limited Grand Parent Stock (GPS) availability. This will lead to rising Chinese imports, including, potentially, from the US.

A potential US-China trade agreement could become a game changer for the outlook in global trade, as it could mean a return of the US as an exporter to the Chinese market, which would challenge Brazil's position. The removal of the soybean tariffs could create new volatility in global grain markets.

Brazil's industry is recovering from the perfect storm in 2018 via supply reduction and more focused and diversified export strategies. Ongoing pressured export volumes to the EU and Saudi Arabia will likely be replaced by growing exports to other markets, such as China, the United Arab Emirates and South Korea.

Avian influenza is another wild card for the outlook. The number of outbreaks is currently lower than in previous years, but pressure is usually high in Q1 and new outbreaks could quickly alter the outlook for the global industry, especially if there are human cases.

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: Rebalancing needed in oversupply market

- Record-high broiler and red meat production
- Low domestic prices with high cold storage levels
- Strong exports to offset some oversupply issues



Brazil: More balanced supply

- Production reduction of 2% in 2018 helps to recover prices
- EU exports peaked in Q3, but will decrease again
- Exports to Asia increasingly important



EU: Pressured margins require slower growth

- Industry margins are pressured in Q4
- Growing CEEC production with (temporarily) rising imports from Brazil are challenging prices
- Lower imports in Q1, but production needs to slow



China: Record high prices just the beginning?

- Domestic prices reached record-high levels
- ASF to lead to protein supply shortage with consumers buying more chicken
- Low breeding stock restricts growth potential



Global outlook 2019

In 2018, the global poultry industry has gone through one of the most turbulent years in decades, with volatility in global trade, rapidly shifting trade flows, and unstable global chicken prices. The outlook for 1H 2019 is for continuing volatility, although greater supply discipline by the industry in exporting regions could help to offset some of the drivers of volatility. In 2H 2019, we expect markets to gradually recover, with China in the forefront given the impact of African swine fever (ASF). This will likely lead to increasing broiler prices in China, as some consumers substitute chicken for pork, and as global poultry trade focuses on China. Wildcards for the outlook are the outcome of the China-US trade negotiations, avian influenza, and the extent of industry discipline in supply growth.

2018: A perfect storm in global trade

Global poultry trade declined in 2018, for the second year in a row (by 2%, similar to 2017). This is a result of trade restrictions (such as the US-China trade tensions and the South African safeguard on EU trade), changing trade standards (new halal standards in the Middle East), avian influenza-related restrictions (still relevant for EU and US exports), and the follow-up impact of the weak flesh scandal in Brazil.

The removal of 20 Brazilian export plants from the EU export permission list has been a major blow for global breast meat trade. The EU is the only significant importer of breast meat worldwide, as other potential markets such as the US, Canada, and Australia are more or less closed for breast meat imports. The reduction in EU imports depressed global breast meat prices, especially

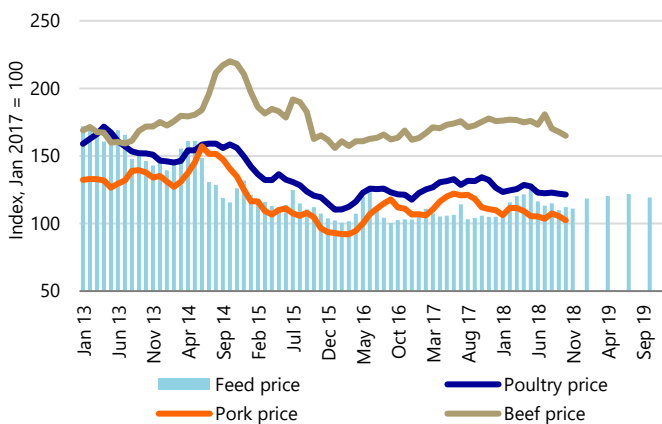
in Q2 and early Q4, and this has challenged Brazilian exports.

The removal of Brazilian plants from the EU market came at the same time as Saudi Arabia's introduction of new halal standards, in June 2018. These new standards do not allow the stunning of poultry which is shipped into Saudi Arabia. Brazil was also hit by rising domestic feed prices, as a consequence of the 25% soybean import tariff set by China on US soybeans. This forced Chinese soybean importers to shift away from the US, to Latin American origins, and especially to Brazil, which resulted in rising soybean prices for local users.

The turmoil in global trade has created considerable differences in global prices. Prices in the EU and Saudi Arabia reached record high levels, while more domestically-focused markets, such as Indonesia, India and South Africa, have also seen high domestic prices. On the other side, prices in Brazil dropped sharply in line with declining export volumes in Q2 (see Figure 2). The Brazilian industry replied to this crisis situation by reducing production, including the closure of some EU export plants. Alternative exporters like Thailand, Chile, Ukraine and China benefited from this situation in Brazil and increased exports, especially to the EU (see Figure 2).

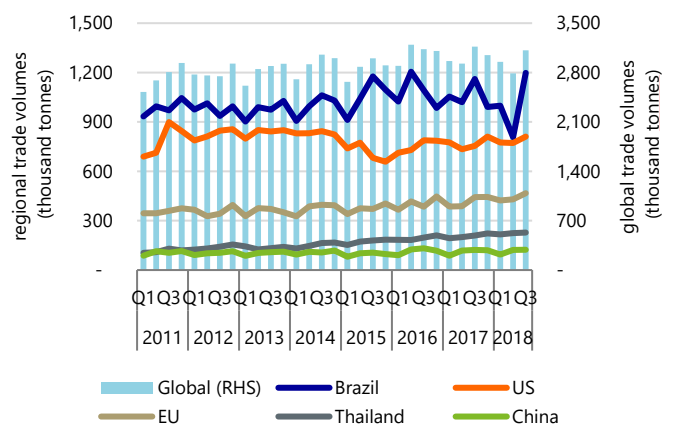
The situation started to turn in Q3, and Brazil's exports started to improve. Some leading Brazilian players adjusted their plants to the new Saudi standards and their exports recovered. In the same period, it became attractive to export frozen breast meat to the EU and pay the full import tariff, due to exceptionally high EU prices. These trade volumes have been a major contributor to the depressed prices in the EU in Q4.

Figure 1: Global broiler, beef, and pork prices vs. feed cost monitor, Q1 2013-Q4 2018



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

Figure 2: Rabobank global poultry trade monitor, Q1 2011-Q3 2018



Source: Bloomberg, national statistics, Rabobank 2018

Outlook 2019: Recovery despite ongoing trade volatility

Global poultry markets are expected to remain highly competitive in 2019, given ongoing trade volatility, further declines in trade volumes, and growing supplies of other proteins. Competition will remain high throughout 2019, and especially in 1H. Growing supply of other proteins will be most challenging to poultry in 1H, as US pork and beef production could be in an oversupply situation.

Given this level of competition, profitability in the poultry industry will depend on keeping supply balanced with demand. In this context, the move by Brazilian industry to reduce production (down 2% in 2018) has been an important step in rebalancing local and international markets. This has meant an improvement in prices in Q4 and will be important for recovery in 1H. This should also be the example for industries in, for example, the EU and Thailand, where price levels have been depressed due to oversupply. In the EU, this is a combination of new expansion in Eastern Europe together with a temporary but rapid rise in frozen poultry imports from Brazil. Other countries, such as Russia, South Africa, Indonesia and India are currently benefiting from a more disciplined supply strategy and are reporting ongoing strong profits.

China to support recovery in 2H 2019

China will be a major change factor in global poultry markets in 2019. Widespread ASF outbreaks in China are impacting the pork (and indirectly poultry) markets. Pork prices are expected to rise during 2019, varying between provinces, based on an expected ongoing supply imbalance created by the inter-provincial ban on live hog transport. This could lead to a protein shortage in the Chinese market, with rising prices across all proteins.

Chicken prices in China are already showing a sharp increase in price, driven by improved demand and limited supply (Chinese grandparent import levels have been dropping for several years in a row) (*see Table 1*). A low domestic breeding stock supply has led to high DOC prices and will reduce production growth in China in 2019. This should justify a bullish view on chicken prices in China in 2019 especially in 2H 2019. As production growth is limited, more Chinese imports can be expected. Brazil, as the main exporter to China, is expected to benefit, along with new and upcoming suppliers. This includes Russia, which has recently gained access to the Chinese market, and several Eastern European exporters, like Ukraine, which also recently gained access to China.

Brazilian exports to EU and Saudi to remain challenged

Brazilian exports to the EU and Saudi Arabia will likely remain challenged. It is expected to take at least another year for the currently banned Brazilian export plants to return to the EU market. In the case of Saudi Arabia, the changed standards have had a negative impact on cost differences between Saudi and Brazilian supply and this also impacts the attractiveness of exports to Saudi Arabia. This will keep challenging international breast meat prices, especially as the EU is expected to buy less from Brazil in the coming months as price differences between the two regions have normalised.

Avian influenza concerns remain

Avian influenza (AI) outbreaks have been a major cause of volatility in the poultry industry in recent years. Despite the lower number of cases in 2018, AI is still a major concern for the industry, especially as we're still in the early Northern Hemisphere winter season – and in previous years many outbreaks occurred in Q1. So far in 2018, the numbers of outbreaks in the EU, China and other regions in Asia has been lower and this positively supports local industry. However, the industry needs to keep biosecurity at high levels in the coming months in order to reduce potential risks of new cases.

Outbreaks of AI in recent years are still affecting major trade flows, like breeding stock to China, South African imports from Europe, US exports to China and raw chicken exports from China to other markets.

Any new outbreaks of AI, especially in exporting countries, would again shake up global markets. New outbreaks of human AI in China, as occurred several years ago, could suddenly change the outlook.

US-China trade negotiations

Important for the 2019 outlook is the outcome of current trade discussions between China and the US. China has offered to buy significantly more US products, and this could see US poultry once again able to export to China, as well as increased US soybean exports to China. A re-opening of US poultry exports to China would be welcomed by the currently oversupplied US industry, especially as Chinese prices are expected to rise. At the same time, this would challenge Brazil's position in international markets, as China has been one of few countries where Brazil expanded exports in 2018.

In terms of the feed cost outlook, the current US-China trade discussions are important for the outlook. In terms of supply, the outlook for new season Latin American crop looks promising, and this could relieve some of the cost pressures on the Latin American poultry industry. If China lifts tariffs on US soybeans, Latin American poultry industries could benefit from more feed price stability. In

terms of the US, the main concern will be a shift in planting from soybean to corn and wheat, and the potential for US soybean markets to become tighter.

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

		2016				2017				2018				Change	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3f	Q4f	Q3-Q2	Q4f-Q3
Live broilers USD/kg	<i>EU</i>	0.99	1.05	1.06	0.99	0.97	1.01	1.09	1.09	1.14	1.13	1.13	1.09	+0.4%	-4.3%
	<i>Brazil</i>	0.70	0.76	0.95	0.93	0.85	0.78	0.79	0.84	0.76	0.70	0.78	0.83	+11.4%	+6.4%
	<i>China</i>	1.18	1.22	1.20	1.08	0.71	0.93	1.07	1.05	1.22	1.25	1.44	1.62	+15.2%	+12.7%
Grains & oilseeds	<i>Wheat (USD/bu)</i>	466	471	406	403	429	435	457	424	453	499	517	510	+3.6%	-1.4%
	<i>Corn (USD/bu)</i>	363	391	332	348	364	368	365	346	366	384	353	380	-8.1%	+7.7%
	<i>Soymeal (USD/tonne)</i>	267	356	337	311	330	307	311	318	353	371	321	312	-13.4%	-2.8%

Source: Bloomberg, Rabobank 2018

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	Q3	Q4f	Q3-Q2	Q4-Q3
Whole chickens	<i>Brazil wholesale</i>	100.5	106.5	134.5	136.4	119.7	112.8	109.4	115.2	103.7	95.0	96.3	99.7	1.4%	3.4%
	<i>EU wholesale</i>	197.0	203.5	198.1	188.7	189.0	200.6	216.0	214.6	224.9	223.4	219.4	211.4	-1.8%	-3.6%
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	272.9	283.9	262.1	2.0%	-7.5%
	<i>EU import price Thailand</i>	268.2	248.8	243.6	244.2	243.5	233.6	257.9	277.4	301.4	281.7	279.8	274.5	1.0%	-1.9%
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	85.5	81.7	72.4	-4.5%	-11.4%
	<i>Japan import price</i>	170.0	156.1	173.0	203.9	190.1	171.3	199.4	211.4	173.4	163.8	179.6	169.1	9.6%	-5.8%
Feet	<i>China import price</i>	202.5	204.5	217.7	220.1	220.1	215.2	218.3	208.9	195.7	189.0	159.6	157.6	-15.5%	-1.3
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	291.8	299.2	310.6	+2.5%	3.8%

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: Massive supply growth in 2H has challenged margins

Production broiler		Export poultry		Import poultry		Whole frozen broiler price (EUR/kg)		Feed price (EUR/kg)	
Ongoing growth		Increasing		Recovering		Higher		Increasing	
July: 1,005	YTD: 6,818	Q3: 476	YTD: 1,320	Q3: 206	YTD: 598	Sep: 1.86	YTD: 1.87	Nov: 0.34	YTD: 0.33
Δ +4.7%	Δ +3.7%	Δ +5.5%	Δ +7.5%	Δ +20%	Δ -2%	Δ +1.6%	Δ +2.2%	Δ +0%	Δ +3.4%

Source: Eurostat, MEG 2018

US: Oversupply has pushed down prices

Production broiler		Export poultry		Composite broiler price (USD/kg)		Whole broiler price (USD/kg)		Feed price (USD/kg)	
Slight decrease		Stable		Softening		Ongoing strong		Feed cost relief to slow	
Q4: 4853	YTD: 19330	Q4: 780	YTD: 3116	Q4: 2.03	YTD: 2.25	Jul: 2.44	YTD: 2.34	Q3: 0.27	YTD: 0.25
Δ -1.4%	Δ +2.3%	Δ -1.2%	Δ +1.2%	Δ -6.1%	Δ +9.1%	Δ +6.6%	Δ +8.6%	Δ +8%	Δ +12.5%

Source: USDA 2018

Brazil: Industry recovers on supply rebalancing

Production broiler		Export poultry		Live broiler price (BRL/kg)		Whole broiler price (BRL/kg)		Feed price (BRL/kg)	
Volatile		Volatile		Increasing		Increasing		Softening	
Mar: 1,187	YTD: 3,411	Nov: 305	YTD: 3631	Oct: 3.19	YTD: 2.74	Oct: 4.25	YTD: 3.58	Oct: 0.86	YTD: 0.86
Δ -2.5%	Δ +2.8%	Δ -7.2%	Δ -7.9%	Δ +0.0%	Δ +7.0%	Δ +4.4%	Δ +1.1%	Δ -6.4%	Δ +32.3%

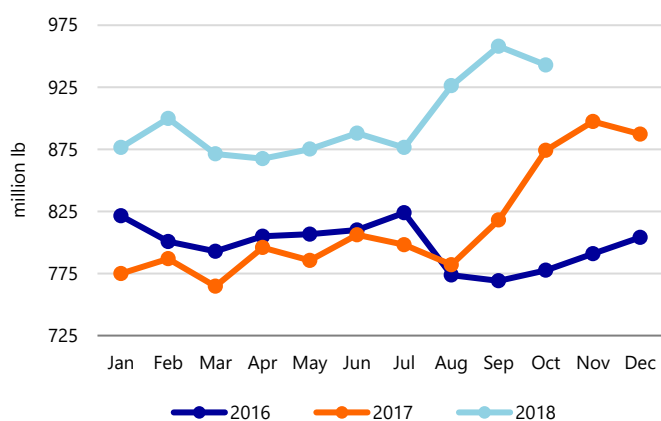
Source: CECEX, MDIC 2018

US

US broiler markets remain weak, as record RTC production (3.89bn pounds in October), combined with an oversupply of beef and pork continue to weigh on the market. Boneless breast meat prices in particular, remain well-below historical lows (-22% below five-year norm) and wing prices remain similarly depressed (-23% YOY) as plentiful supplies continue to outweigh nearby demand. Big bird operations have struggled to remain profitable, with most posting sizable losses in recent weeks. Small bird operators have fared slightly better on lower production (-8% YOY), albeit well-below earlier profit levels. With losses in the industry predicted through year-end, continued production growth and heavy inventories in cold storage, we believe it is likely that integrators will slow 2019 production (see Figure 3). Chicken demand remains weak as large supplies of competing proteins (especially pork) make for a very competitive retail marketplace. We are beginning to hear of a modest pick-up in retail interest as current prices have piqued buyer interest.

Good export demand into several key markets, and improved domestic demand for thigh meat, has strengthened values for the back half of the bird. Strong shipments to Mexico, Angola, Taiwan and Vietnam drove an 11% YOY increase in exports of US chicken in September, while lower dark meat prices resulted in a 4.5% drop in value. Only exports into Hong Kong appear indirectly affected by ongoing trade tensions. We continue to expect much stronger export markets in 2019. ASF-related hog losses in China are expected to result in a protein shortage and likely significantly boost imports in 2019, possibly driving China to consider lifting trade restrictions on US chicken.

Figure 3: US chicken in cold storage, 2016-Oct 2018



Source: USDA, Rabobank 2018

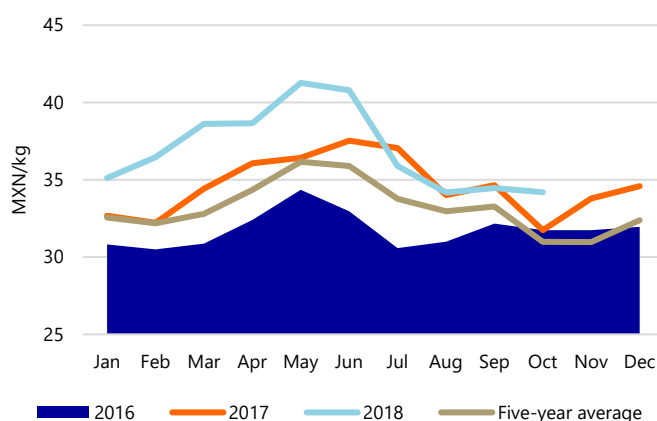
Mexico

Chicken production in Mexico increased by 3% in Q3 2018, compared to Q2, driven mainly by higher prices in 1H 2018 (see Figure 4). These higher prices prompted a decrease in whole chicken prices from July to October, going from 40.80 MXN/kg to a low in October of 34.20 MXN/kg, a decrease of 16%. Moreover, imports from the US increased by 6% in Q3, compared to Q2, adding pressure to domestic prices. Moving towards the end of 2018, prices have seen a slight recovery, relieving some of the pressure from increased production and imports.

Full-year production for 2018 is estimated at 3.5m tonnes, an increase of 100,000 tonnes compared to 2017. In 2019, more volatility is expected, as the global outlook for trade, biosecurity concerns in other animal proteins, and exchange rates, could all have an impact on production and trade patterns. In 2019, chicken production is expected to increase by another 100,000 tonnes, reaching 3.6m tonnes, an increase of 2.7%.

Imports will remain key to satisfy internal demand. In 2019, imports are forecast to increase marginally, by 24,000 tonnes to reach a total of 860,000 tonnes, compared to 840,000 tonnes estimated for full year 2018. Consumption per capita is forecast to increase 1.7%, to reach 35 kg/capita in 2019 compared to 34.5 kg/capita in 2018. As production in all three main proteins increases, this will add pressure to domestic prices and influence consumer decision making.

Figure 4: Mexico whole chicken prices, Jan 2018-Oct 2018



Source: GCMA, Rabobank 2018

Brazil

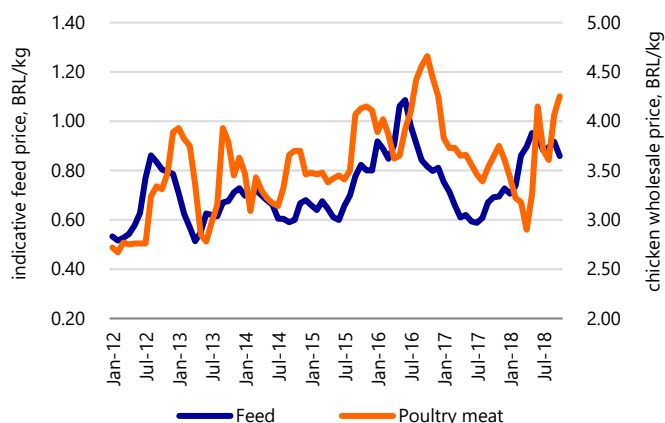
Responding to a challenging year – that included several restrictions in the international market and high local feed prices – Brazilian chicken production is expected to decline by around 2% in 2018, compared to 2017. Going forward, we expect a better landscape for the chicken industry in Brazil during 2019.

In the domestic market, animal protein consumption is expected to continue recovering in 2019, after the modest improvements registered in 2017 and 2018, following the 2015-16 recession. As consumer confidence and purchasing power improves, per capita consumption of meat is recovering to pre-crisis levels.

Regarding costs, preliminary estimates show that Brazilian grain farmers intend to increase production area during 2019, which is expected to enhance feedstuff availability, and lower production costs. Lower feed prices have already been registered during Q4. Additionally, chicken prices have improved due to a more balanced supply and demand (see Figure 5). As a result, the Brazilian chicken industry delivered improved results in Q4 2018 after months of negative margins.

On the international market, Brazilian poultry exports are expected to recover in 2019, after having declined around 7% during 2018 (Jan-Oct). Saudi Arabia and China should remain the main destinations for Brazilian poultry. Brazilian poultry exports faced significant challenges in 2018. However, given some adjustments (e.g. the new standards requested by Saudi Arabia on halal slaughter), exports are expected to approach 2017 levels in 2019.

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



Source: SECEX, MDIC, Rabobank 2018

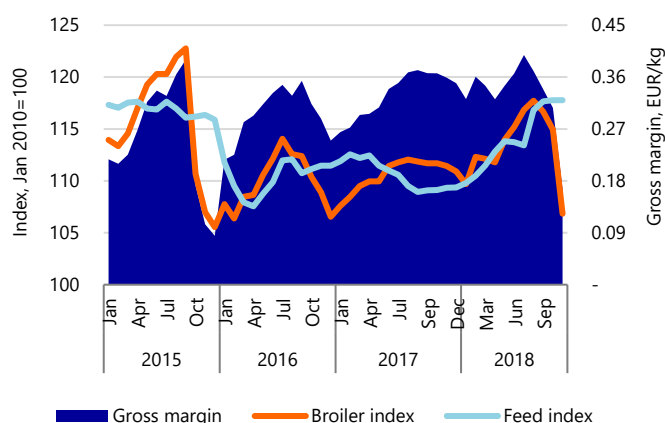
EU

The EU poultry industry has experienced a more difficult period in Q4 2018 (see Figure 6). The exceptionally high breast meat prices triggered higher live broiler prices and indirectly supported rising production in the EU. Poland, specifically, has increased production in Q3 2018 compared to the same quarter last year (+6%) and new Polish capacity which is now entering into production will further increase supply in the coming months.

At the same time, the high breast meat prices made it attractive to buy cheaper in-natura non-EU breast meat even with the full import tariff. Frozen breast imports meat increased in Q1-Q3 2018 from 60,000 tonnes to 100,000 tonnes, while salted breast imports dropped from 165,000 tonnes to 125,000 tonnes due to restrictions on several Brazilian exporters. Total imports over Q1-Q3 2018 are now 1% down compared to last year, with increased imports from Thailand, Ukraine, Chile and China compensating for lower Brazilian imports (-29%).

The EU poultry industry outlook for Q1 2019 will be challenging due to increased Eastern European supply and ongoing low pork and beef prices. Key for the outlook will be a balanced supply expansion strategy. The extraordinarily high breast meat price pushed up production in the EU very quickly and the industry needs to rebalance supply and demand. If this is successful, the performance from Q3 2018 to 2H 2019 should improve. This will also be helped by EU pork prices rising in 2019 due to ASF-related export opportunities to China. The main wildcards for the outlook beside supply are AI, potentially impacting supply, and trade tensions, which could shake up the feed price outlook.

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



Source: Bloomberg, Rabobank 2018

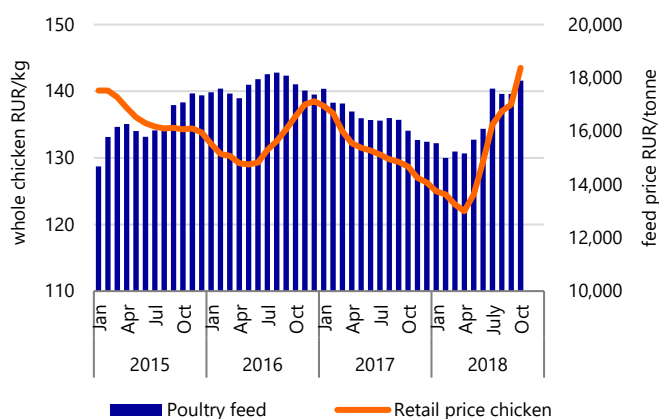
Russia

The Russian poultry industry benefits from a very restrictive expansion strategy, with only 0.9% growth in production until October 2018 compared to last year. Production has been especially restrictive since summer, with a decline in production of 3% recorded in October compared to last year. Russian imports of poultry dropped 28% in the first nine months of 2018, and beef and pork imports are also significantly down (by 76% and 8% respectively), while poultry exports have increased by 25% in this period.

The more balanced supply situation has provided Russia the power to pass on rising grain prices to its customers. Retail prices are currently at the highest level in more than three years. This certainly supports margins but is partly offset by higher feed costs (+18%) compared to Q1 2018 (see Figure 7). Prices for Russian grains have increased significantly since Q2 2018. This is due to rising exports to the EU after a disappointing grain harvest in Europe, especially in Romania, Poland and northern Germany. Also, Russia's grain harvest is significantly lower than in 2017 (110m tonnes compared to 135m tonnes in 2017). Although despite the decline, 2018's harvest is still one of the largest Russian grain harvests in years.

The outlook for the Russian poultry industry will depend on how disciplined the industry will remain in terms of expansion over the coming months. Rising prices for beef and pork, and a stable grain harvest outlook for the new crop year, should provide the industry with a solid base for 2019. Exports will maintain their ongoing growth of recent years, with the opening of China providing a big opportunity for 2019.

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



Source: Rostat, Rabobank 2018

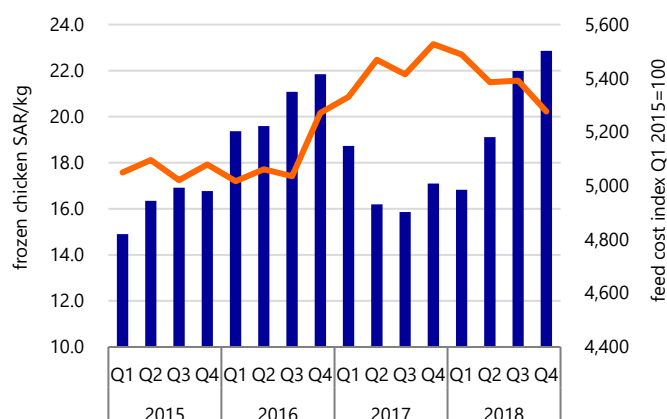
South Africa

The South African industry has benefited from a good supply balance situation in the local market since Q4 2017, with lower imports and reduced supply. Over the period Q1-Q3 2018, South African production levels were below 2017 levels while import growth was moderate (+5%), despite some re-openings of imports after the 2016/2017 AI outbreaks in the EU.

The situation is currently changing with rising feed prices in South African rand terms. The feed price ratio is currently 10% up compared to Q2 2018, partly as a result of rising global grain prices together with ZAR depreciation (see Figure 8). Notwithstanding, it will be challenging under current economic conditions to pass these increased costs through to the South African consumer. Chicken prices in South Africa are gradually declining, but have been high since Q1 2018. These prices indicate the difficulty in passing on higher costs under current market circumstances.

The outlook for 2019 will be more challenging after a positive 2018. An ongoing restrictive supply strategy by the industry, as implemented in the last 2 years, will be helpful. Rising grain prices will flow through the supply chain in the coming months, while economic conditions are still challenging. The current lobby to add poultry to the zero VAT tariff food basket in South Africa could lead to increased affordability of poultry, stimulating local demand. From an import perspective, the recently introduced safeguard on EU poultry will reduce competition from imported chicken in the South African market.

Figure 8: South African broiler and feed price trend, Q1 2012-Q4 2018f



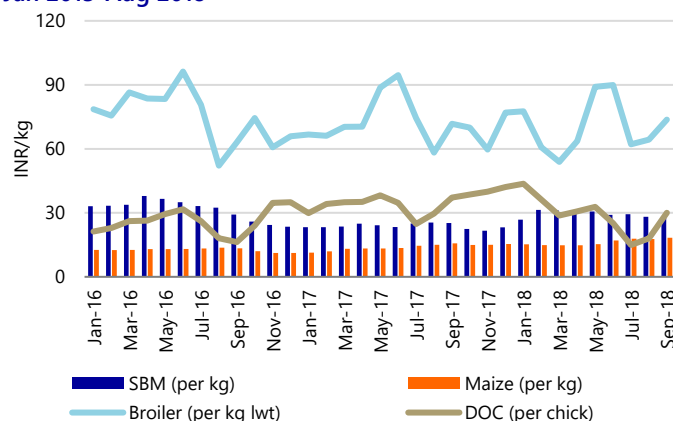
Source: SAPA, News24, Rabobank 2018

India

Poultry integrators owed their poor Q3 2018 performance to seasonally weak day old chick (DOC) prices, which had normalised in comparison to strong Q3 2017 levels (likely due to the proposed cattle slaughter ban in May 2017). However, DOC prices rebounded steeply in September 2018 to INR 30/chick and steadied in October 2018 (see Figure 9). The volatility was to some extent driven by increased exports of hatching eggs (HE) to Oman. Based on UN ComTrade data, India's HE export volume to Oman grew 39% CAGR between 2015 and 2017 (due to AI outbreaks in Europe), and continued into 2018. In comparison to 2017, India's broiler market was relatively stable. Prices have seasonally recovered from INR 64/kg lwt in August 2018 to INR 74/kg lwt in September 2018.

Q4 2018 poultry feed costs are likely to remain flat QOQ. Kharif corn prices have increased slightly since August 2018, and are priced INR 16.5-INR 16.6/kg in October-November 2018. This reflected reserved farmer selling in response to higher minimum support prices by the government of India. Rabobank expects corn prices to ease approaching the end of 2018 as harvest picks up and market arrivals increase. Soybean meal prices on the other hand, remained on a declining trend, indicating the current season's anticipated bumper crop.

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



Source: Industry sources, NCDEX, Rabobank 2018

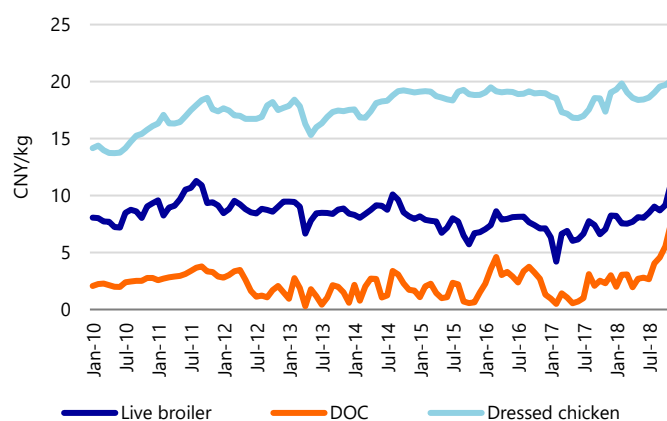
China

China's white-feathered broiler prices continue their strong performance in Q4 2018 (see Figure 10). DOC prices had a steep upward curve entering November, hitting the record high of the past decade, at over RMB 8 kg per bird. This reflects the positive view farmers have in increasing production in the light of the ASF outbreak, but also the low supply of grandparent stock and parent stock.

Live broiler prices reached record-high levels not seen since 2011, peaking at RMB 11 per kg in mid-November. The prices of some poultry cuts, particularly those used to cater for group dining, have also reached historic highs. ASF outbreaks have resulted in a consumption shift away from pork due to food safety concerns. Along the supply chain, breeding and farming have seen great profits, while slaughtering sees thin or even negative margins. This is because the price increase at the upstream end of the chain is faster than downstream, squeezing the slaughtering margin.

China's poultry imports in the first ten months of 2018 increased by 13% YOY, to 411,000 tonnes. Brazil remains the largest supplier to China, with an 80% market share. The outcome of anti-dumping investigations into Brazilian poultry will be reported in February 2019. Meanwhile, imports from Thailand and Poland have started to build up in recent months. On 1 December, the US and China agreed to suspend the escalation of the trade war. China agreed to purchase a substantial amount of goods including agricultural products from the US. This raises the possibility that China will reopen for US poultry exports, which have been banned since 2015 due to AI. If this happens, global poultry trade flows will likely change in 2019, and the US would take market share from Brazil in exports to China.

Figure 10: Chinese poultry prices, Jan 2010-Nov 2018



Source: China Customs, Rabobank 2018

Japan

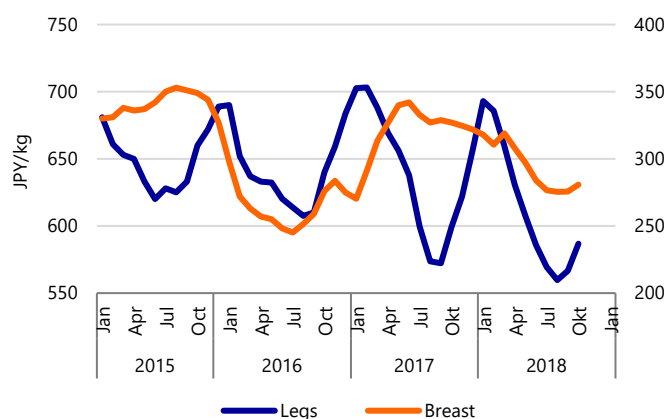
Although the local industry for fresh poultry operates quite independently from the frozen poultry import industry, rising import levels in the first nine months of 2018 have certainly challenged market conditions in Japan.

Japanese prices have dropped significantly. Leg prices in Q3 2018 are 20% below Q1 levels and breast meat prices are almost 15% below Q1 levels (see Figure 11). Japanese traders have benefited from the turmoil in global poultry trade by buying large volumes of poultry meat and by stock building in Japan.

Stock levels in Japan are already, and have been for more than a year, above 165,000 tonnes, which is significantly above historic levels. The high stock levels provide Japanese trading houses with significant procurement market power in global poultry trade.

The outlook for the Japanese poultry industry for 2019 will be again highly competitive, with price pressure due to high stock levels. The competitive global trade conditions will provide Japanese trading houses with ongoing market power, and, as a result, prices for Japanese importers are expected to be competitive. This also will indirectly impact the poultry industry in Japan, but limited growth in local production will gradually offset this impact, especially as Japanese consumers pay high premiums for locally-produced fresh products.

Figure 11: Japanese Tokyo prices, Jan 2011-Oct 2018



Source: ACLI, Rabobank 2018

Thailand

Listed integrators' Q3 2018 broiler EBIT margins sequentially improved. Lower feed costs, better prices and a 9% QOQ increase in Q3 2018 export volumes were supportive. However, Rabobank expects margins in Q4 2018 to be challenged by rising feed costs.

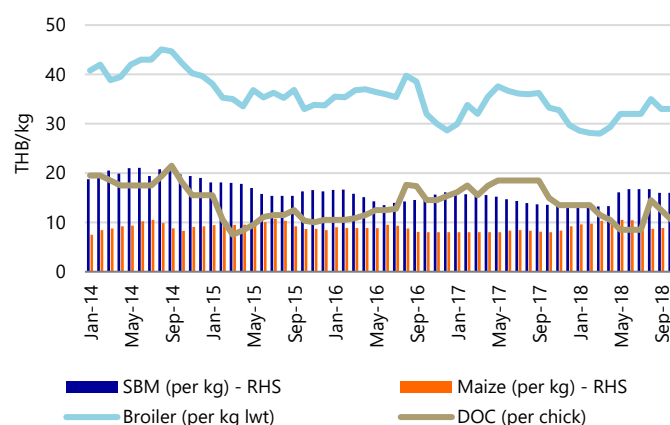
Mill-gate corn prices bounced back from THB 8.7/kg in August 2018 to THB 9.7/kg in October 2018, and are currently priced at THB 10-THB 11/kg (see Figure 12). The higher corn prices followed the reinstatement of the 3:1 domestic corn absorption ratio to feed wheat imports – after a 2:1 ratio was applied between mid-June and mid-August 2018. Soybean meal prices have remained relatively stable at THB 16/kg since August 2018.

By October 2018, broiler prices had also fallen back to THB 33/kg lwt (slightly below cost of production,) after a seasonal export-driven recovery in August 2018. Reduced placements from September 2018 and seasonal pick up in year-end domestic demand should keep live broiler prices stable for the remainder of the 2018.

In the first nine months of 2018, Thai poultry export volumes expanded 10% YOY to 642,000 tonnes, based on UNComTrade data. Increased exports were led by increased shipments to Japan (+6% YOY to 330,000 tonnes) and UK (+10% YOY to 118,000 tonnes). Meanwhile, exports to China have also picked up pace since May 2018, with cumulative volume of 7,700 tonnes up to September 2018.

The outlook for the Thai industry remains challenging. Managing production growth to solve last year's oversupply challenge will be critical to profitability. This will not be easy, given some plant expansion entering production in 2019.

Figure 12: Thai broiler-to-feed price monitor, Jan 2015-Oct 2018



Source: Thai Feedmill Association, Rabobank 2018

Indonesia

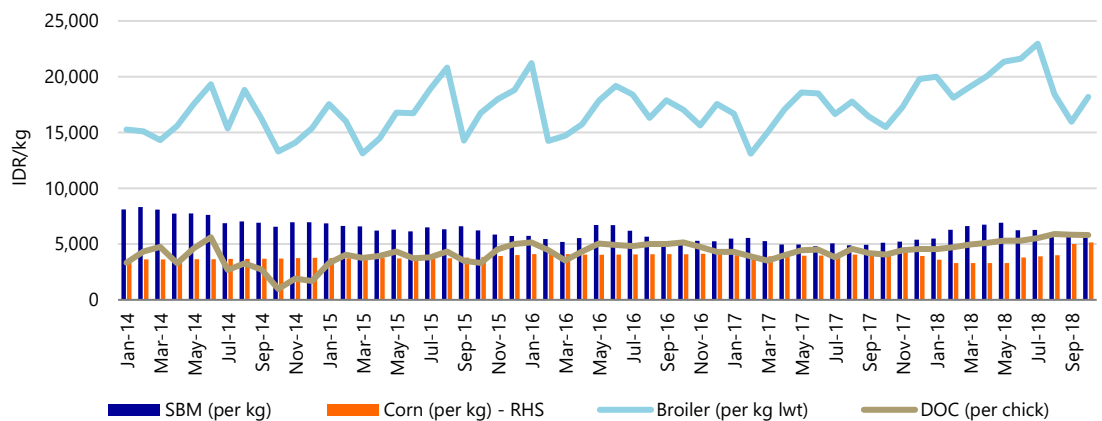
Poultry integrators reported sequentially lower earnings in Q3 2018. Higher profits from breeding were offset by lower feed milling, broiler farm and processed food contributions. The breeding segment continued to deliver strong margins in Q3 2018 due to ongoing DOC scarcity. However, faster recognition of input cost increases, and delayed cost pass-through, was pressuring margins elsewhere in the chain.

The drier-than-normal weather and typically lower corn crop in August-September 2018 lifted domestic corn prices from Q3 2018. In November, the average cost for corn was quoted at IDR 5,500/kg, up from IDR 4,000/kg in August. Yet, listed poultry integrators all reported unusually higher inventories at end of September 2018. This suggests that a gradual cost pass-through in feedmilling will continue into Q4 2018 to maintain a relatively stable margin. However, with expectations of flat broiler prices, elevated DOC prices and weight underperformance due to AGP removal in feed, open-house commercial broiler farms are likely to sustain margin erosion.

Broiler meat retailed between IDR 33,600-IDR 34,700/kg in October, declining 9% from August's average (see Figure 13). Over the same period, live broiler prices declined by 1% to IDR 18,190/kg lwt – indicating thinner margins for retailers in the short term.

Rabobank expects DOC scarcity to continue into 1H 2019, as GP import quotas have been further reduced from 2017. An estimated 9% YOY increase in GP import quota for 2018 should start to take effect in 2H 2019. On this prospect, there may be an opportunity for more imports, but elevated prices may also keep 2019 demand growth flat.

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



Source: Industry sources, Bloomberg, USDA, Rabobank 2018

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