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Challenging Global Supply: Rising Dark Meat Prices, Low Breast Meat Prices

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Contents

Global Poultry Market Outlook	2	South Africa	8
Dashboard	5	India	9
US	6	China	9
Mexico	6	Japan	10
Brazil	7	Thailand	10
Europe	7	Indonesia	11
Russia	8		

Looking forward into 2H 2019, the key challenge for many in global poultry will be to rebalance local markets. Only Brazil, Mexico and China are operating under relatively positive market conditions at present, while other markets face testing conditions. Global trade is gradually returning to high levels, driven by strong buying in Asia and Africa, with African swine fever (ASF) outbreaks in China and Vietnam being a major factor. This has resulted in relatively strong dark meat prices and an oversupply of breast meat. High breast meat availability is placing considerable pressure on margins for industries that traditionally focus on breast meat as the profit driver, such as the US and the EU.

Global oversupply requires a more restrictive supply strategy from industries in regions like the EU, US, Indonesia and South Africa, to restore market balance. These regions have all seen overly optimistic expansion in the last few years and need to rebalance supply to local market growth.

ASF in the pork industry will create expansion opportunities for poultry in affected countries. Indirectly, global traders with access to China and Vietnam will also benefit, especially via more dark meat exports. Rising pork prices in pork exporting countries will also support the poultry industry.

Global trade volumes are rising and shifting. Countries with access to China, like Brazil, Argentina and Thailand, are increasingly focussed on this Chinese trade, leaving room for others to focus on other markets, like Mexico, Africa and the Middle East.

Several wildcards could impact prices in 2H. Besides the ASF situation, the China-US trade war is a major wildcard, as is the WTO decision on Brazil-Indonesia trade, South Africa's pending safeguard, and a no-deal Brexit – these could all have a big impact on global trade.

Global chicken monitor*
Q1 2016-Q4f 2018



Breast meat



Leg quarters



* Chicken price trend for cuts entering global trade

Outlook for 2H 2019/Q1 2020

US: More supply but challenging demand



- Ongoing production growth (+2.2%)
- Strong dark meat, weak breast meat prices
- Export more pressured, no China access so far

Brazil: Global markets key for recovery



- Industry reduces production
- Improving domestic market
- Exports to China up, but exports to EU and Saudi still challenging

EU: Gradually improving conditions



- Ongoing oversupply concerns in Eastern Europe
- Dark meat prices improving, breast meat challenging
- Hard Brexit could shake up intra-EU market

China: ASF to support local industry significantly



- 25% drop in pork production
- Limited availability of breeding stock
- Ongoing high poultry prices

Global Poultry Market Outlook

Global poultry markets are expected to see some recovery in the coming months. However, this will be under fragile conditions (see Figure 1). Key concerns are the ongoing oversupply situations in many global markets, like the EU, US and South Africa. Actually, only disease-affected China and Mexico, and Brazil (due to the combination of supply reduction and improved export demand), are performing relatively well. Other markets are suffering from oversupply. Therefore, more disciplined supply should be the key to returning to profitability for the global poultry industry in 2H 2019.

Notable positives are the expected ASF-related strength in pork prices, and the limited feed price upside risks, given the relatively good feed grain supply position expected in Europe and Latin America. This should compensate for more troubled supply in North America.

ASF will have upside impact on global markets

Some market upside is expected to come from rising prices and demand substitution, given the impact of ASF on global pork markets. However, upside for the global poultry industry will be limited in the short term.

China buys relatively small volumes in global markets – mainly consisting of special dark meat cuts like feet, legs and wings. Breast meat is not a preferred product in China, and although demand for locally-produced breast meat may increase, there will be no interest in global traded breast meat as the price difference is too big.

Countries with access to ASF-affected China and Vietnam will see some better prices for dark meat, but a weak global demand for breast meat remains the key concern

for global companies, as for many industries this is the profit maker. In addition to the direct trade impact, there will be indirect price support for poultry industries in countries where the pork sector has good access to China, like the EU and Brazil.

2H 2019: Market rebalance needed in many regions

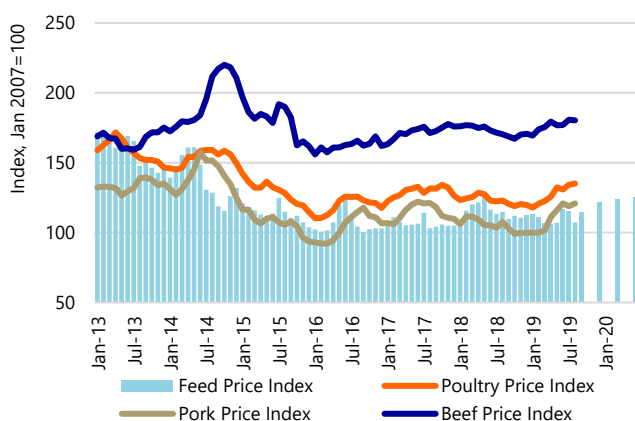
The main focus for global companies should be on restoring fundamentals through more disciplined supply growth in the coming months.

This is needed as many regions are experiencing oversupply conditions. In South Africa, Indonesia, the EU and US, margins are under pressure as local supply of poultry is at elevated levels, while in India and Russia, industries are being challenged from a cost perspective.

In South Africa, the industry is trying to rebalance via suggested import restrictions on Brazil, but will likely also need to reduce domestic supply. In Indonesia, government intervention via culling programs is being requested. Several have been implemented, but the market balance has not yet been restored. In Russia, the industry has seen a historic 5% drop in production in recent months, driven by the ongoing impact of avian flu on breeding stock and the bankruptcy of some local companies. This resulted in some market improvement, but as capacity is now again in production, there are concerns about profitability in 2H.

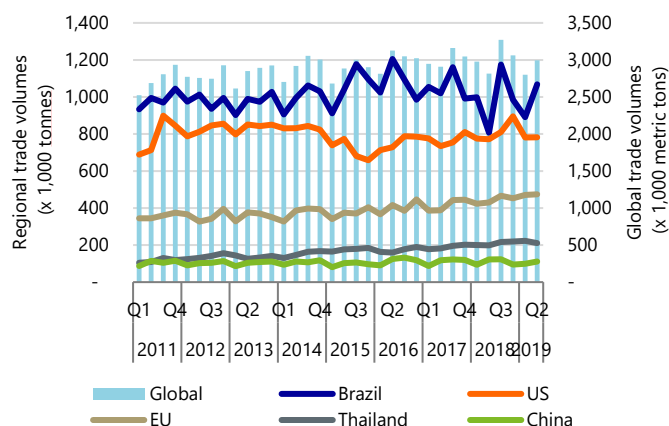
The EU has also been hit by oversupply due to expansion in Eastern Europe and Spain. Recent figures show some slowdown in growth and, together with improved demand and rising pork prices, the outlook should be for slight improvements.

Figure 1: Global broiler, beef, and pork prices vs. feed cost monitor, 2013-2019f



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

Figure 2: Rabobank global poultry trade monitor, Q1 2011-Q2 2019



Source: Bloomberg, national statistics, Rabobank 2019

After several good years, the US poultry industry has moved into a more fragile situation, with the oversupply of breast meat resulting in low prices. While dark meat prices have been good, the profitability of the industry is being challenged, as breast meat has always been the major profit maker.

The exceptions so far are Brazil and Mexico, where the local industries have better margins. This is the result of restricted supply, which in Brazil is a result of forced reductions due to the negative market conditions last year, while in Mexico, avian influenza outbreaks have impacted supply.

Recovering global poultry markets with ASF support

After years of pressured volumes of traded poultry in global markets, some recovery is happening. In Q2 2019, trade volumes rose towards their record-high seasonal level of Q2 2016 (see Figure 2). Brazil has made a remarkable comeback in global trade, benefitting from the ASF problems in China and Southeast Asia. Total exports from Brazil for the first seven months are up 3%, while value has risen 7%. Other countries benefitting from ASF-related disruption are Thailand and Argentina, both of which increased exports to China at double-digit levels.

From a demand perspective, some upside benefits will flow from the spread of ASF in Asia. China, Vietnam, the Philippines, Laos, Cambodia and Myanmar will all see

pork production declining, and new demand for imports of other proteins, such as poultry. As most of these countries restrict imports, the impact on global markets is relatively limited, except for countries with good access into Asia like Brazil and Argentina, and recently also Thailand and Russia. This also helps to explain why dark meat prices have tended to stay at relatively high levels. Some countries with limited access to China can also benefit as trade flows shift around. This is seen in Mexico, where the US is regaining market share from Brazil, and in Southeast Asia where the US and EU are shipping big volumes.

Ongoing challenging breast meat prices

On the downside, breast meat is still trading at low prices, and industries focussed on breast meat in the EU and US are challenged by these difficult conditions, as breast meat has always been a major driver of their profitability.

The combination of oversupply and gradually changing demand towards more dark meat products (wings, deboned leg meat etc.) helps explain these low breast meat prices. In the US, recent expansion is challenging the market balance, while in the EU, recent expansions in Eastern Europe have significantly added to supply. This has accelerated, while 20 Brazilian plants have been suspended from the EU approval list. Brazilian exporters have found a way to return and volumes are rising again given low prices, which is challenging EU exporters.

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

		2017				2018				2019				Change	
		Q1	Q2	Q3	Q3	Q1	Q2	Q3	Q4	Q1	Q2	Q3f	Q4f	Q1-Q2	Q2-Q3
Live broilers USD/kg	EU	0.97	1.01	1.09	1.09	1.14	1.13	1.14	1.04	1.01	1.03	1.03		+1.1%	+0.1%
	Brazil	0.85	0.78	0.79	0.84	0.75	0.66	0.77	0.79	0.79	0.90	0.87		+13.7%	-3.9%
	China	0.71	0.93	1.07	1.05	1.22	1.25	1.29	1.46	1.33	1.54	1.29		+9.3%	-11.0%
Grains & oilseeds	Wheat (USD/bu)	429	435	457	424	453	499	517	512	491	477	478	475	-2.9%	+0.2%
	Corn (USD/bu)	364	368	365	346	366	384	353	370	373	390	385	380	+4.6%	-1.3%
	Soymeal (USD/metric ton)	330	307	311	318	353	371	321	309	309	307	300	303	+0.0%	-2.3%

Source: Bloomberg, Rabobank 2019

From a global trade perspective, the low breast meat prices are a big problem, and the EU is the only breast meat market that is open for big volumes of imports. Japan also buys breast meat based products but this market is less commoditized than the EU market and therefore more difficult to target.

Wild cards for the outlook: trade disruptions

From a trade perspective, there are some potential game changers in the coming six to twelve months. The most important is the ongoing trade war between the US and China. So far, this has opened the China market to Latin America and Europe. However, if an agreement can be reached, the US would be well-positioned to supply China with meat and poultry, and grains and oilseeds, which could heavily impact global trade.

Also important over the coming six to twelve months is the pending access of Russia and Ukraine to markets in Asia, like China. Russia has been approved to export poultry while pork is pending, and Russia is also close to gaining access to Japan. The rising position of Russia and Ukraine in these markets and the Middle East will change trade streams further in the coming years.

There are other trade tensions potentially impacting global trade. The most important is South Africa, where the government is considering a safeguard protection tax on Brazilian poultry, and a new quota for Ukrainian poultry (2.5 times bigger than the old one). In addition, Indonesia lost a WTO case against Brazil imports, which could create volatility in this trade flow in the coming months.

In the EU, the upcoming Brexit is important. Even though the final Brexit format is not known, the chance of a 'no-deal' or 'hard' Brexit has risen. Such a scenario could shake up intra-EU and international poultry trade. The UK is the biggest import market for poultry for intra-EU fresh poultry trade and for frozen non-EU imports. The countries with most at stake are the Netherlands and Poland in the EU, and Brazil and Thailand outside the EU. A hard Brexit will likely increase the position of local players in the short term, and challenge the position of exporters due to uncertainty in trade, potential tariffs and increased administration at ports.

Table 2: Global whole chicken and chicken cut markets (USD/100kg), Q1 2017-Q4 2019f

		2017				2018				2019				Change	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4f	Q1-Q2	Q2-Q3
Whole chickens	Brazil wholesale	119.7	112.8	109.4	119.4	99.2	89.4	92.9	113.4	121.6	123.9	119.7		+1.6%	-0.3%
	EU wholesale	189.0	200.6	216.0	214.6	225.3	223.4	219.5	211.4	208.3	212.6	213.4		+1.5%	+1.9%
Breast meat	EU import price Brazil	193.6	219.3	240.0	256.3	276.1	277.9	283.3	263.8	249.4	239.4	230.2		-2.7%	-3.7%
	EU import price Thailand	243.5	233.6	257.9	277.4	300.4	282.7	279.8	276.3	282.3					
Leg quarters	US leg quarters, north-east	75.9	88.3	93.9	83.3	84.0	85.5	81.6	72.9	83.3	109.1	108.7		+31.1%	-0.7%
	Japan import price	190.1	171.3	199.4	211.4	178.0	162.0	175.8	174.9	146.3	159.4	166.0		+9.0%	+4.1%
Feet	China import price	220.1	215.2	218.3	208.9	223.07	230.4	234.2	233.8	249.8	278.1			+12.1%	
Processed chicken	EU import price Brazil	193.5	236.3	248.8	239.2	285.6	291.8	299.2	312.6	308.8	312.8	319.2		+1.2%	+2.1%

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
Metric tons production weight			kg	kg

Δ = year-on-year change

All prices in local currencies

EU: Too much supply is challenging market conditions despite positive demand

Production broiler		Export poultry		Import poultry		Whole frozen broiler price (EUR/kg)		Feed price (EUR/kg)	
Ongoing growth		Increasing		Recovering		Stabilized		Increasing	
Jun: 84.4	YTD: 5,834	Jun: 121	YTD: 779	Jun: +1.6	Q1: 275	Jul: 1.91	YTD: 1.87	Aug: 0.31	YTD: 0.32
Δ -7.6%	Δ +0.4%	Δ +4.8%	Δ +10.7%	Δ +5.2%	Δ +6.2%	Δ +0.7%	Δ -0.1%	Δ -1.4%	Δ +1.0%

Source: Eurostat, MEG 2019

US: Ongoing supply growth keeps challenging margins

Production broiler		Export poultry		Cold storage		Composite broiler price (USD/lb)		Feed price (lb/kg)	
Slight decrease		Stable		Softening		Ongoing strong		Feed cost relief to slow	
Aug: 1,995	YTD: 13,135	Aug: 253	YTD: 1,564	Q1: 690	Q2: 550	Aug: 0.84	YTD: 0.88	May: 0.25	YTD: 0.24
Δ +5.3%	Δ +1.5%	Δ 0%	Δ 0%	Δ +19.8%	Δ +1.5%	Δ -2.2%	Δ -1.1%	Δ +6.4%	Δ -3.7%

Source: USDA 2019

Brazil: Disciplined supply and strong export demand pushes prices up

Production broiler		Export poultry		Live broiler price (BRL/kg)		Whole broiler price (BRL/kg)		Feed price (BRL/kg)	
Volatile		Volatile		Increasing		Increasing		Softening	
Jun: 1,050	YTD: 6,780	Q2: 1,069	YTD: 1,959	Jul: 3.3	YTD: 3.3	May: +4.6	YTD: 4.6	May: 0.80	YTD: 0.81
Δ -10.8%	Δ 0.0%	Δ +34.1%	Δ +10.8%	Δ +10.0%	Δ +26.5%	Δ +24.4	Δ +33.8%	Δ -3.6%	Δ -5.1%

Source: CECEX, MDIC 2019

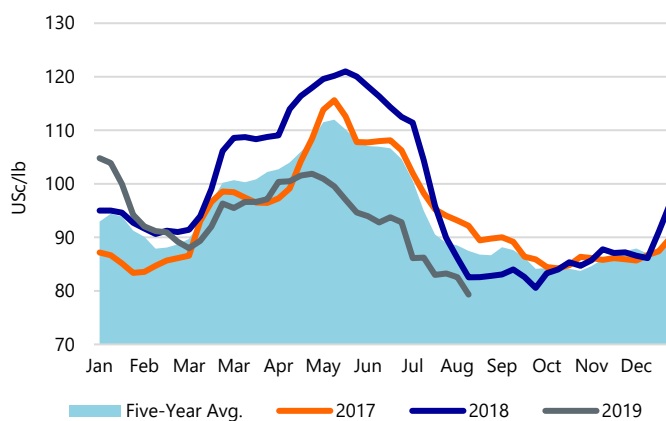
US

Broiler markets weakened seasonally, even as wing and leg quarter values remain well-ahead of year-ago levels (up 37% and 39% YOY, respectively) (see Figure 3). Boneless breast markets continue to struggle (down 4% YOY) on large supplies of competing proteins and are likely to remain under pressure given record meat supplies coming to market this fall. Even so, improved foodservice promotion of chicken should provide some support for breast meat, and should continue support for wings through the football season.

We expect growing global demand for chicken to remain supportive to dark meat values in 2H 2019 and 2020, although we recognize a stronger US dollar and ongoing trade tensions could jeopardize sales. The ban on US chicken exports to China will remain a constraint on direct sales to this protein-deficit region, although rapidly rising protein prices make potential sales to the region more likely. Export volumes in June were down modestly (-2% YOY), on weaker sales to Cuba (-4% YOY) and a combination of several smaller markets, even as sales stabilized to Mexico and Angola. Year-to-date export sales remain up 1%.

US broiler production continues to trend in line with expectations, up 1.5% YTD and moving slightly higher in coming months as new production comes on-line. Ongoing productivity issues, while improving slightly, have limited production growth and are likely to persist into the fall. We continue to forecast 2.2% production growth in 2019, with new plants adding to volumes later this year.

Figure 3: US composite broiler price 2017-2019



Source: USDA, Rabobank 2019

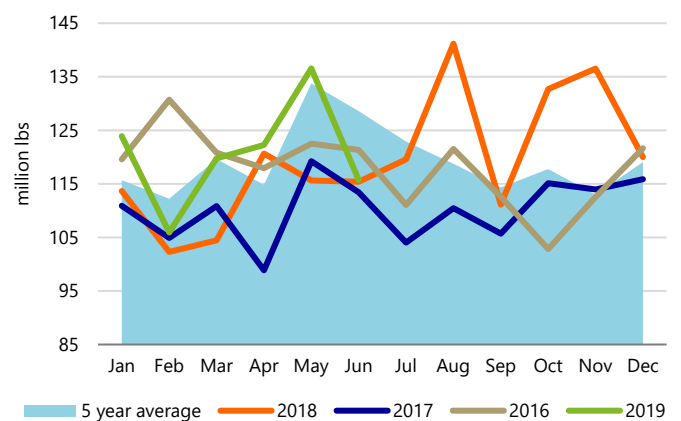
Mexico

Mexico continues to struggle with Avian Influenza (AI), as more reports of outbreaks continue to make news in the center of the country. Total outbreaks have now reached 22, so far. Lower production and imports continue to put pressure on domestic prices due to the absence of supplies. Imports from Brazil are 50% lower in the first half of 2019 compared to same period last year. While prices have come down from their highest level in July, they remain well-above last year.

While Brazil is increasing its exports to Mexico in the coming months, with the added 55,000 metric tons quota, production will remain fragile with ongoing cases of AI, and the possibility of more imports. Broiler meat imports from the US are about 8% higher from January to June of 2019, compared to the same period last year, reaching 328,000 metric tons (see Figure 4). The latest report to the OIE says that the total susceptible number of birds with AI reached 476,000 birds, with both commercial and backyard operations affected.

The number of processed birds, according to government data, shows a decrease of 9% MOM and a decrease of 3.5% YOY in the month of June. However, processed broilers saw a rebound in July, being 12.7% higher MOM and a 5% increase YOY. While the increased production in July has helped maintain prices, and imports are expected to increase, the international environment will remain challenging, with ASF and trade issues expected to increase volatility for many protein prices.

Figure 4: Mexico poultry imports from US



Source: USDA, Rabobank 2019

Brazil

Brazilian poultry exports have risen 3% YOY, as at the end of July. China has been the main driver for this increase and has become the leading Brazilian poultry importer, surpassing Saudi Arabia. Other than China, countries like Japan, United Arab Emirates and Saudi Arabia have also been boosting their Brazilian poultry imports. Strong demand for Brazilian products has resulted in a strong increase in total export value, up 9% compared to the same period in 2018.

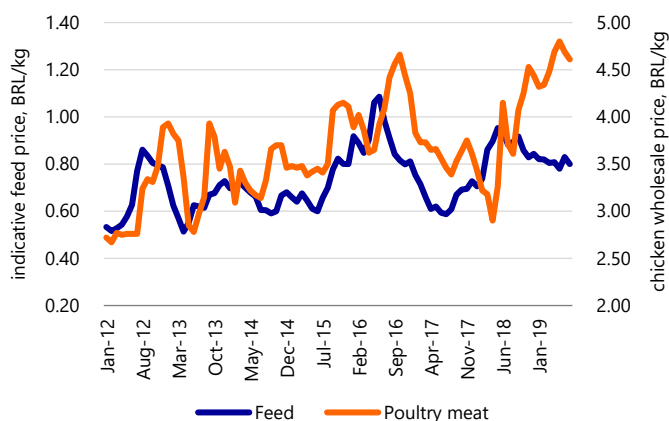
These external sales have caused domestic market prices to rise, mainly in states where production is export-oriented. Meanwhile, in states where output is oriented towards local sales, chilled broiler prices have actually fallen due to a seasonal reduction in consumption and because economic growth is still slow.

Although broiler prices in supermarkets have decreased, live broiler prices are still stable due to reduced broiler slaughtering. This decline is related to independent producer scepticism regarding any significant pick-up in demand from the local market. Meanwhile, the export-oriented part of the industry is taking advantage of increased external demand to sell at high prices and good margins.

On production costs, Brazil's second corn crop has broken records, and feed prices have been under pressure. Feed prices have fallen over around 5% YOY, improving margins on poultry production (see Figure 5).

In the coming months, domestic prices are expected to remain firm, owing to reduced production by independent producers, which could compensate for any decline in local consumption caused by higher domestic prices.

Figure 5: Brazil broiler vs feed price, May 2015-July 2019



Source: SECEX, MDIC, Rabobank 2019

Europe

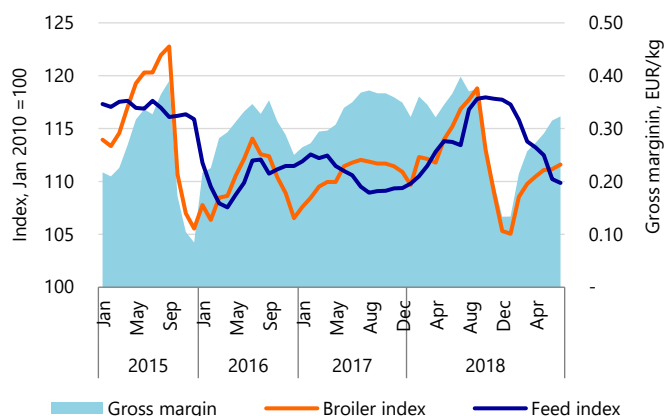
The poultry market in the EU has fallen back after some recovery in Q2, on increasing supply with lower feed prices (see Figure 6). The current competitive market conditions are affected by further increases in Eastern European production and a gradual return of imports from Brazil (+23% in 1H compared to last year) at competitive prices. Ukrainian imports have also increased (+9%), but will likely become subject to a pending import quota.

Exports are performing well and this helps to explain why leg prices in the EU are relatively high. Total exports to third countries increased by 11% in 1H 2019 compared to 1H 2018, with especially strong demand in the Philippines (+26% – now number one EU export destination), Ghana (+13%) and Vietnam (+29%). In addition, South Africa is returning with 72,000 metric tons of exports in 1H – double the size of last year's exports but far behind the export volumes of earlier years.

In 2H 2019, the industry should benefit from gradually improving conditions. Seasonal demand improvement, some supply reduction, expected strong pork prices due to ASF, and the good grain harvest which should keep feed costs relatively low, will all help. Global markets for dark meat are expected to stay fierce, while breast meat prices remain challenging but with some upside due to these market factors.

Also important is Brexit, which could see the EU poultry market impacted in case of a hard Brexit, as the UK is, together with Germany, the number one EU intra-trade import market. The Netherlands and Poland could be affected most by changes in trade access under a hard Brexit.

Figure 6: Broiler feed price and margin trend in north-western Europe, Jan 2010-July 2019



Source: Bloomberg, Rabobank 2019

Russia

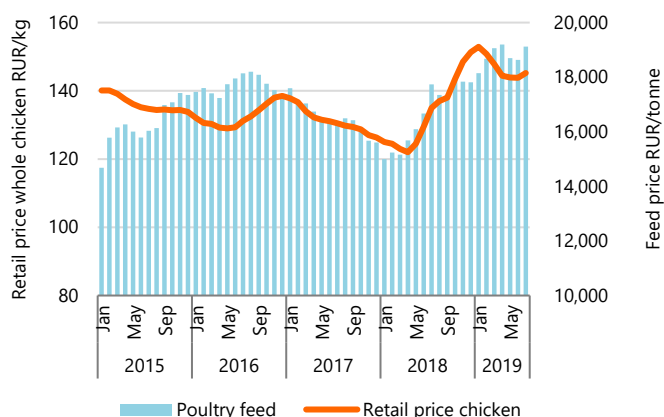
The performance of the Russian poultry industry is mixed. Prices have gradually recovered through the summer months but started to drop in August (see Figure 7). Feed prices have remained high in Russia, driven by relatively tight stock conditions of the old crop and ongoing export demand for Russian grains.

The industry had hoped that reduced production would help to restore margins (1H 2019 was -5%, YOY), but it led to a less-than-expected recovery. The outlook for the industry remains challenging, as poultry supply recovers, with some capacity that had been retired due to bankruptcy, now returning to production.

The historic high prices for sheep and beef in Russia are providing the industry with some price support. This is needed as pork has been in expansion mode this year, with production up 9% in 1H 2019. The ongoing rise in poultry exports (with ASF-affected countries Vietnam and China both open for Russia) is another positive, with Russian industry expecting to export 250,000 metric tons this year (+35%).

In terms of feed costs, some positive signals are coming from the rising Russian production outlook (2019 crop harvest slightly larger than 2018 (+1%)). The seeded grains area this year is bigger (+1.4m ha) than last year and for soybeans, 10,000 ha more was planted in 2019 compared to 2018, with significantly (+50%) higher yields expected this year. In combination with increasingly bearish conditions on global grain markets, this should support the poultry industry through lower feed costs.

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



Source: Rostat, Rabobank 2019

South Africa

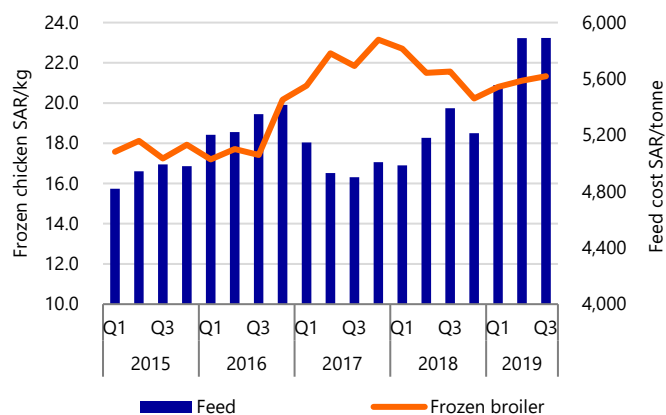
The South African poultry industry is still operating under oversupply conditions, with domestic production up almost 3% in 1H compared to 1H 2018, while imports increased 34% to 282,000 metric tons, with especially MDM (mainly from Brazil) increasing very fast (+5% to 108,000 metric tons).

This increased domestic supply is having a significant impact on the market, with domestic players having difficulties in passing the ongoing high feed grain prices on to the market (see Figure 8). The big South African listed poultry companies have reported weaker performance in 1H compared to last year.

The outlook for the industry is still challenging. Supply is still strong and a reduction is needed to rebalance the market. The industry is trying to reduce supply through the pending proposal to implement safeguard taxes on imports from Brazil. This is still under discussion and there is an ongoing debate between the interests of the local poultry industry, which argues this could increase employment in South Africa, while importers are claiming price benefits for consumers.

For the time being, this has not been solved and the industry should again consider more disciplined domestic supply to rebalance market conditions. This is especially important as feedgrain markets are expected to stay around current price levels. Rain in wheat production areas in the West Cape looks positive for the next period, which should support the upcoming grain harvest.

Figure 8: South African broiler and feed price trend, Q1 2012-Q3 2019f



Source: SAPA, News24, Rabobank 2019

India

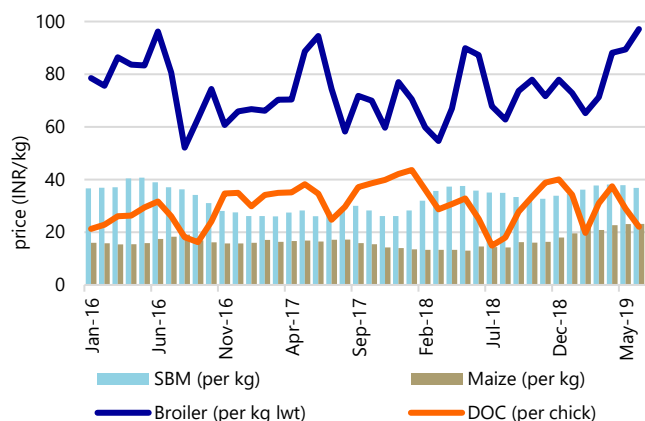
Indian broiler prices averaged INR 92/kg lwt in Q2 2019 (+12% YOY; +31% QOQ) (see Figure 9). In Q3 to date, broiler prices continued to strengthen towards INR 97/kg lwt. Swings in broiler prices are seasonal, although this year's peak demand is accompanied by higher costs of production – following a 23% QOQ jump in corn cost in Q1 2019.

Listed poultry integrators reported lower Q2 2019 earnings compared to the same period last year, partly due to higher YOY corn costs. Some of the large integrators have kept slightly higher levels of inventory of poultry feed raw materials, and are able to manage price risk vis-à-vis small commercial farmers.

Cost of feed has remained elevated YTD, and is expected to stay at higher levels in the remainder of the year. While higher feed costs have been passed on through higher feed prices, we believe further increases are unlikely, as they would negatively affect broiler demand. Reduced chick-ins were evident in the drop of day-old-chick prices since June. This is expected to lower integrators' margins for the remainder of the current financial year.

Rabobank sees lower broiler prices in 2H 2019, driven by seasonally lower demand (due to religious festivals) as well as by the new corn crop, which is expected to lower the cost of feed. Despite seasonal volatility, the industry is expected to expand capacity over the long term, driven by rising income.

Figure 9: Indian broiler, DOC, and feed price index, Jan 2013-Jun 2019



Source: NCEDX., Rabobank 2019

China

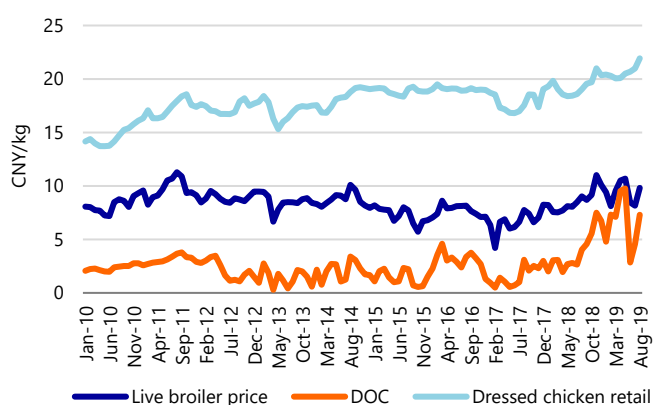
Along with the soaring pork prices, poultry prices have been pressured up (see Figure 10). DOC prices of white feathered birds have jumped to the range of above RMB 8 per bird – they were around RMB 2 one month ago. Strong volatility of DOC prices reflect the tight supply, as well as farmers' willingness to replenish. Live bird prices are also back to their previous high level, standing at RMB 10 per kg. Retail chicken prices have reached record highs, to RMB 22 per kg, up 16% YOY.

The momentum of strong Grandparent (GP) stock imports continued in recent months, with the total imports and domestically-produced breeding stock reaching around 570,000 sets, according to Boyar, up 49% YOY. We expect the strong imports of GP stock to continue throughout the year, indicating a stronger growth in the white bird production in the coming years.

After several years of slow new investment, this year the industry has lifted the pace of investment, particularly in white bird production. This shows the market is favouring efficient meat production, given the pork supply issue expected to impact the market in the next couple of years. Listed poultry companies have reported very positive interim financials for 1H 2019. Breeding firms have increased their profitability tremendously in 1H 2019, while primary processing companies have shown reasonable improvement.

Poultry imports in the first seven months of 2019 increased strongly, by 51% YOY, reaching 424,000 metric tons, while average import prices reached a record high in July. With the increasing diversification of supplying countries, Brazil's share has decreased from over 86% in 1H 2018 to 70% now. Thailand and Argentina have each increased their shares to 10% in China's total imports.

Figure 10: China poultry prices, Jan 2010-Aug 2019



Source: Boyar, Rabobank 2019

Japan

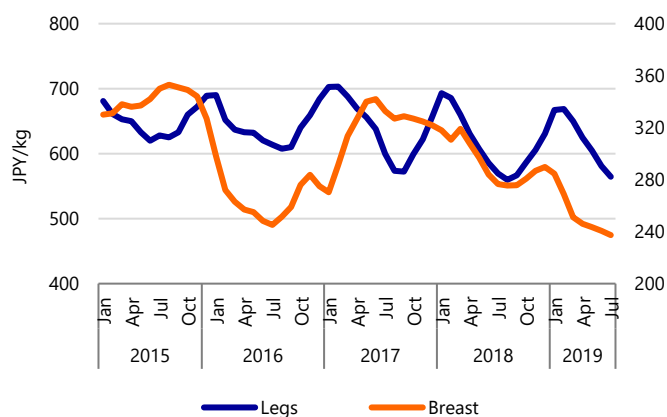
Production in Japan has been fairly stable over 1H 2019 versus 1H 2018. This is in line with slower growth in the domestic market after several years of fast growth. One of the reasons for this situation might be ongoing supply of competitively-priced other proteins, especially beef. Pork carcasses are trading at 10% lower price levels compared to Q3 in the past two years, despite the impacts of ASF in China.

These slower market conditions have pushed traders to reduce imports in 1H 2019 compared to 1H 2018. Raw chicken has been especially impacted, with a drop of 19,000 metric tons to 260,000 metric tons, which has been almost fully attributed to lower Thai poultry imports. Brazil has been able to keep up its poultry export volumes due to its ongoing competitiveness of supply in terms of pricing.

The reduction in imports has resulted in significantly lower stock levels in Japan, at 152,000 metric tons in June 2019, compared to levels of 160,000-170,000 metric tons last year. This would usually trigger prices to go up, but in reality, prices of breast meat, especially, and also leg meat, have moved to historic lows (see Figure 11).

The outlook for the industry should improve, taking into account the low stock levels in Japan, seasonal improvements in demand for chicken in 2H, and the rising impact of China on procurement of chicken dark meat and pork. On the other hand, there is not a lot of upside in breast meat prices in the coming months, taking into account a massive international supply. This could push domestic buyers to buy more breast meat based products.

Figure 11: Japan poultry prices, Jan 2015-Jun 2019



Source: ACLI, Rabobank 2019

Thailand

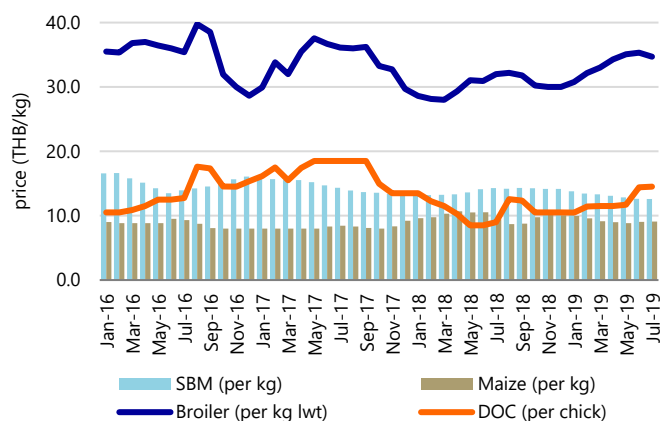
Live broiler prices averaged THB 34.7/kg lwt in July – dipping slightly from THB 35.3/kg lwt in June – tracking steeper losses in live hog prices in eastern and western regions, although there are no reported incidences of ASF (see Figure 12). While we expect broiler prices to remain supported through improved chicken export demand, any ASF case could have a temporary impact on broiler prices.

Year-to-date broiler price recovery had contributed to sequentially higher Q2 2019 profitability of listed poultry integrators. On the prospect of stable prices and increased exports, we believe there is room for improvement in commercial broiler farms' profitability in Q3 2019.

In Q2 2019, Thai poultry export volumes grew 6% YOY to 206,936 metric tons, based on UN ComTrade data. Exports were led by a jump in shipments to Greater China (+227% YOY to 23,245 metric tons), South Korea (+67% YOY to 10,654 metric tons); EU (+4% YOY to 57,753 metric tons) and Russia (to 1,315 metric tons from near absence), while exports to Japan dropped 4% YOY to 99,968 metric tons. Any expansion in the list of plants permitted to export to China (from seven currently) would further expand exports to China.

Millgate corn prices remained stable at THB 9.1/kg in July from THB 9.0/kg average in Q2 2019. With main corn harvests underway, prices are expected to remain stable in the coming months. We expect feed costs to decline marginally in Q3 2019, supported by declining soybean meal prices, quoted at THB 12.6/kg in July from THB 12.9 average in Q2 2019.

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



Source: Thai Feedmill Association Rabobank 2019

Indonesia

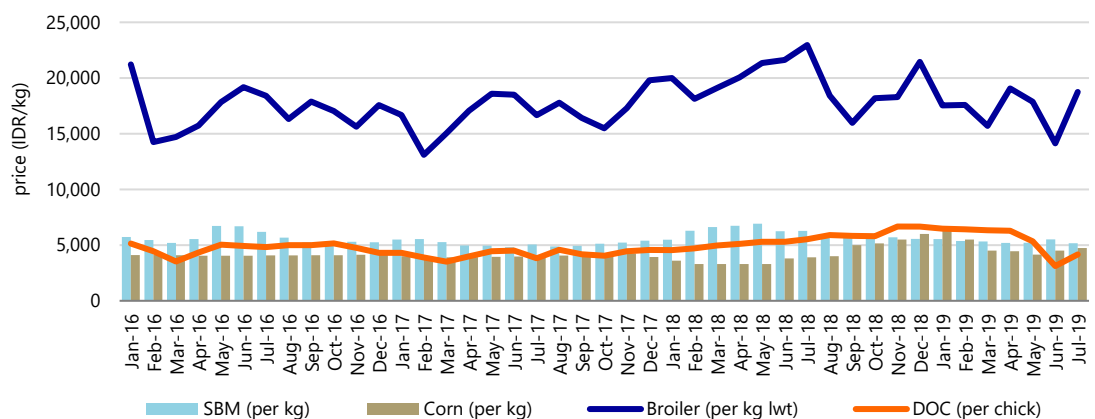
Following the government-mandated withdrawal of 30% of hatching eggs in Central Java and the culling of PS older than 68 weeks nationwide in July, both broiler and DOC prices recovered, but the extent of this recovery has been uneven, limited and temporary (see Figure 13). In the quarter-to-date, broiler prices in and outside Java have weakened again since mid-August, and have dipped below cost of production in some areas. We anticipate price volatility to remain in Q3 2019 – typically a low demand season – particularly in September. Yet, no new culling instructions have yet been communicated.

Dressed broiler retail prices averaged IDR 32,738/kg cwt in August 2019, down from an average of IDR 34,917/kg cwt in July 2019. Subject to government intervention, we expect overproduction to remain an issue in consumers' favor.

Listed integrators have mostly reported sequentially better Q2 2019 earnings, even though they are lower compared to the same period last year. Losses in commercial farms and a weak breeding segment continue to drag overall margins. Rabobank expects poultry integrators to book sequentially lower earnings in Q3 2019, driven by seasonally lower feed volume and soft broiler prices.

The domestic poultry market may also face increased level of imports as a consequence of Indonesia's loss in a WTO case brought by Brazil. Import quantities remain insignificant relative to overall demand (taking into account logistical costs and dominance of the fresh market), but we believe integrators would eventually need to compete with imports in foodservice and further processing.

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



Source: Industry sources, Bloomberg, Rabobank 2019

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