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Peaking Industry Performance after Perfect Storm in 1H 2017

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Times can change—and the global poultry industry is showing this, with very good performance in most markets. The industry is currently benefiting from improved market conditions after avian influenza (AI) pressure has reduced significantly, following the northern hemisphere winter months, even though it has not moved away fully. Relatively tight supply in the aftermath of the 1H 2017 perfect storm, caused by AI and the Brazilian ‘weak flesh’ meat scandal, is another positive for the global poultry industry. On the other hand, demand is recovering as AI has faded from the headlines.

China has recovered quickly after the 1H 2017 AI crisis. Although new cases of human AI cases are still occurring (at a slower pace), demand recovery, together with very tight supply caused by GP import restrictions and environmental regulations, has shifted market conditions and lifted prices.

The Brazilian ‘meat scandal’ has had a big impact on the Brazilian industry. Exports dropped sharply (down 9%) in Q2 2017, but gradually—partly with price concessions—Brazil has regained market share in global trade, with the latest monthly export figures matching last year’s record levels.

Global meat trade has been hit hard (down 5% YOY) by the 1H 2017 perfect storm. The big winners have been Thailand and the US, which gained market share against Brazil, the EU, and China, due to the meat scandal (Brazil) and AI-related trade restrictions (EU and China).

The outlook for the global industry remains strong, with ongoing tight supply expected in most markets, as a result of AI in 1H and its possible return during the northern hemisphere winter. The possible return of AI will also keep challenging global trade, as could some other issues, such as the China-Brazil anti-dumping investigation.

Global chicken monitor*
Q1 2013-Q3 2017f

Whole chicken



Breast meat



Leg quarters



* Chicken price trend for cuts entering global trade

Strong industry performance, with profitability running well in most parts of the world

US: Strong recovery with export growth



- Strong margins on high domestic prices
- Production growth limited (+1.7%)
- Strong trade despite drop in key Mexican market

Brazil: Gradual recovery after meat scandal



- Meat scandal led to sharp drop in exports
- Industry replied by reducing production
- Trade and prices are currently recovering

EU: Positive margins on strong market balance



- Relatively strong margins on tight supply
- EU imports dropped sharply (-10%)
- Outlook positive, but AI threat remains

China: Market recovery after 1H AI crisis



- Sharp market turnaround after 1H AI crisis
- Production reduced due to GP import restrictions and environmental regulations set by government
- Reduced number of AI cases led to improved demand

Global outlook

Peaking industry performance after perfect storm in 1H 2017

The global poultry industry had a relatively strong second quarter in 2017, with significant increases in poultry prices (global index +5%, compared to Q1 2017) due to improved demand and supply restrictions. The main supply restriction has been the 1H 2017 AI crisis, with many countries in Europe, Asia, and Africa experiencing AI outbreaks. This has restricted supply in most world markets. An additional factor restricting supply has been difficulties in trading breeding stock, which has also led to relatively low supply in markets like China, Thailand, and several other Asian countries.

At the same time, the reduction of global AI cases has moved the issue away from media attention and led to a recovery in consumption in many markets. The poultry industry is also supported by better-than-expected pork and beef prices, and ongoing low feed prices, despite a short hike in wheat prices in July (see *Figure 1*).

Most major poultry markets are now performing strongly. The US is in the lead, with a healthy supply/demand situation, ongoing disciplined poultry supply, together with strong domestic and international demand. Mexico is also doing well, and the industry is benefiting from more expensive US supply after depreciation of the Mexican peso.

Both the EU and the Russian poultry industries are doing relatively well. In the EU, the main reason is low supply in the aftermath of more than 1,000 AI cases in the winter months, together with currently reduced supply from eastern Europe. In Russia, strong demand from the regions, especially the far east and east, is supportive.

The big change compared to last quarter has been the recovery of China. The impact of low breeding stock imports, together with environmental regulations, is affecting the market, while demand has recovered because AI has more or less faded over the summer.

Other Asian markets are also relatively strong, although India has been hit by a seasonal drop due to festivals, but should recover in Q4. Indonesian market conditions are recovering, with support of the government's programme to cull numbers of parent stock.

Global trade impacted by AI and trade restrictions

Global poultry trade volumes have been hit by the AI crisis, with many importers restricting trade from countries with AI outbreaks. In addition, the 'weak flesh' scandal in Brazil led to a big drop in poultry exports from March to May, as international customers reduced orders. Total global trade volumes have dropped by 4%, to 5.9m tonnes, over 1H 2017, with an exceptionally weak Q2, which saw a 7% drop in trade (see *Figure 2*).

Although trade volumes have been dropping, prices have been strong, especially for leg quarters (+16% in Q2 and +7% in Q3) and processed meat (+22% in Q2). On the other hand, Brazilian whole-bird prices dropped sharply, by 6% in Q2 and 4% in Q3 (see *Table 1*).

As anticipated in our last poultry quarterly, global trade streams shifted sharply in Q2, with the biggest drop in Brazil (-9%) due to the meat scandal, and the EU (-9%) and China (-6%) because of local AI issues—and in the case of the EU, also partly because of the strengthening euro. Thailand (+9%) and the US (+5%), and to a lesser extent Argentina and Chile, have increased exports.

Outlook strong, but AI and trade restrictions are wild cards

The outlook for the global poultry industry is expected to remain strong, with a positive supply/demand balance in most global markets due to lingering effects of the 1H AI crisis. This will keep most global industries in a healthy profit situation in the coming months.

From a cost perspective, the outlook also looks promising, although crop predictions led to a short-term hike in wheat prices in July. Crop harvests in the northern hemisphere look reasonably good, especially in eastern Europe/Russia, where near-record grain harvests are expected. Plantings in Brazil indicate a positive corn and soybean harvest.

The biggest concerns for 2H 2017 are overly optimistic expansion programmes in some regions, a return of AI, and some pending trade restrictions, such as the Brazil-China anti-dumping investigations. These could all shake up global trade flows again.

Supply growth discipline has proven the best strategy under such uncertain conditions, as a situation of oversupply with suddenly altered market circumstances (like AI) can strongly impact margins.

A return of AI is the strongest wild card. AI risks will rise again in the northern hemisphere winter, starting in October, when cases usually increase due to bird

migration. Ongoing biosecurity and industry responses to any outbreaks will be key.

Trade agreements and bans can also impact trade. South Africa recently imposed increased levies on EU products as a safeguard mechanism. It is also possible that China might impose safeguard protections later this year, in response to a possible Brazilian dumping case. These sorts of actions can heavily impact global trade and

prices. On the other hand, some recent developments to open trade could lead to new opportunities, such as the EU-Japan free trade agreement, the US-China processed poultry opening, and the opening of Vietnamese poultry exports for Japan.

Although some serious concerns and wild cards exist for 2H, we are optimistic that this could be a positive year for most of the global industry.

Table 1: Global live broiler and feed ingredient monitor, Q1 2015-Q4 2017f

		2015				2016				2017				Change	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3f	Q4f	Q2-Q1	Q3-Q2
Live broilers USD/kg	EU	0.98	1.00	1.01	0.95	0.99	1.05	1.06	0.99	0.97	1.07	1.09		+10%	+2%
	Brazil	0.82	0.76	0.78	0.79	0.70	0.76	0.95	0.93	0.85	0.78	0.78		-8%	+0%
	China	1.28	1.18	1.18	1.00	1.18	1.22	1.20	1.08	0.71	0.91	1.14		+10%	+25%
Grains & oilseeds	Wheat (USD/bu)	524	505	510	493	466	471	406	403	429	435	470	460	+1%	+8%
	Corn (USD/bu)	385	365	382	373	363	391	332	348	364	368	363	370	+1%	-2%
	Soymeal (USD/tonne)	338	315	335	292	267	356	337	311	330	307	315	315	-7%	+3%

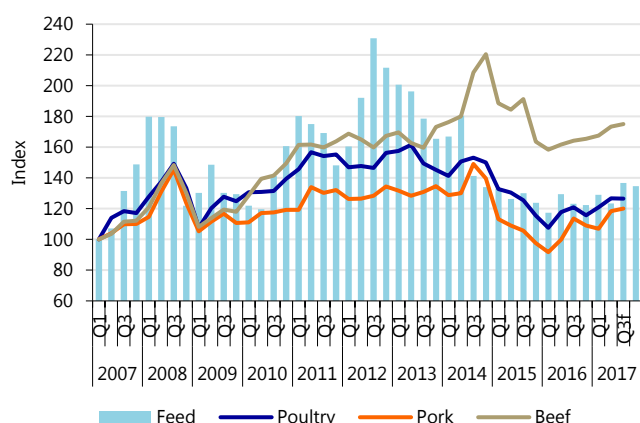
Source: Eurostat, Food and Agriculture Organization of the United Nations, national statistics, UBABEF, Rabobank 2017

Table 2: Global whole chicken and chicken cut markets (USD/100kg), Q1 2015-Q3 2017

		2015				2016				2017				Change	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q2-Q1	Q3-Q2
Whole chickens	Brazil wholesale	125.4	116.9	106.1	107.4	100.5	106.5	134.5	136.4	119.7	112.8	108.3		-6%	-4%
	EU wholesale	210.3	210.5	212.6	199.3	197.0	203.5	198.1	188.7	189.0	200.6	213.1		+6%	+6%
Breast meat	EU import price Brazil	257.5	253.7	235.2	223.2	222.1	207.4	204.1	191.2	193.6	219.3	234.0		-12%	+5%
	EU import price Thailand	328.4	340.3	320.1	273.5	268.2	248.8	243.6	244.2	243.5	233.6	247.9		0%	0%
Leg quarters	US leg quarters, north-east	84.7	70.3	55.8	52.0	60.5	73.5	73.7	72.2	75.5	87.7	93.6		+16%	+7%
	Japan import price	180.2	176.5	177.6	170.5	191.5	157.7	168.0	185.9	167.1	171.0			+2%	
Feet	China import price	160.0	211.1	224.4	221.6	202.5	204.5	217.7	220.1	220.1	215.2	218.3		-2%	+1%
Processed chicken	EU import price Brazil	302.3	301.6	283.1	229.9	236.3	211.8	216.2	213.5	193.5	236.3	235.5		+22%	0%

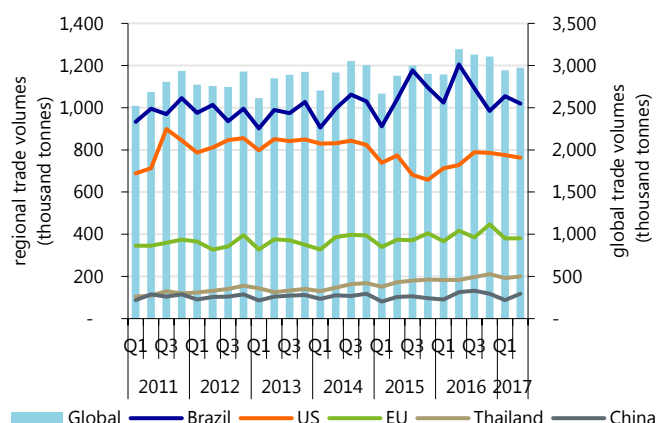
Source: Eurostat, Food and Agriculture Organization of the United Nations, national statistics, UBABEF, USDA 2016; Rabobank 2017

Figure 1: Global broiler, beef, and pork prices vs. feed cost monitor, Q1 2007-Q4 2017f



Source: Bloomberg, Food and Agriculture Organization of the United Nations, national statistics, Rabobank 2017

Figure 2: Rabobank global poultry trade monitor, Q1 2011-Q2 2017



Source: Bloomberg, national statistics, Rabobank 2017

Dashboard

Legend and units

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

Δ = year-on-year change

All prices in local currencies

EU: Strong margins driven by strong market balance

<i>Production broiler</i>		<i>Export poultry</i>		<i>Import poultry</i>		<i>Whole frozen broiler price</i>		<i>Feed price</i>	
Ongoing growth		AI impact		Lower Brazil		Ongoing strong		July wheat price peak	
Jun: 740	YTD: 4,516	Jun: 120	YTD: 774	Feb: 82	YTD: 437	Jul: 1.84	YTD: 1.81	Jul: 0.34	YTD: 0.34
Δ +5.1%	Δ +4.6%	Δ -3.0%	Δ -1.2%	Δ -7.0%	Δ -9.3%	Δ +2.3%	Δ +1.8%	0%	+0.9%

Source: Eurostat, MEG 2017

US: Production growth slowdown keeps prices high

<i>Production broiler</i>		<i>Export poultry</i>		<i>Composite broiler price</i>		<i>Whole broiler price</i>		<i>Feed price</i>	
Growth to slow		US exports recover		On the upswing		Ongoing strong		Feed cost relief to slow	
Jul: 1,588	YTD: 9,361	Jul: 268	YTD: 1,806	Jul: 2.8	YTD: 2.11	Jul: 2.16	YTD: 2.07	Apr: 0.38	YTD: 0.37
+1.7%	+1.6%	+4.6%	+6.4%	+8%	+8.9%	+7.1%	+5.4%	-9.19%	-3.1%

Source: USDA 2017

Brazil: Gradual recovery after 'weak flesh' market shake-up

<i>Production broiler</i>		<i>Export poultry</i>		<i>Live broiler price</i>		<i>Whole broiler price</i>		<i>Feed price</i>	
Slowdown in growth		Disappointing levels		Lower costs		Lower costs		Better feed grain crop	
Mar: 1,207	YTD: 3,377	Jul: 375	YTD: 2,454	Jul: 2.50	YTD: 2.57	Jul: 3.66	YTD: 3.46	Jul: 0.59	YTD: 0.65
+3.8%	+2.5%	+5.5%	-5.0%	-14.0%	-6.2%	+5.3%	-15%	-40%	-32%

Source: CECEX, MDIC 2017

US

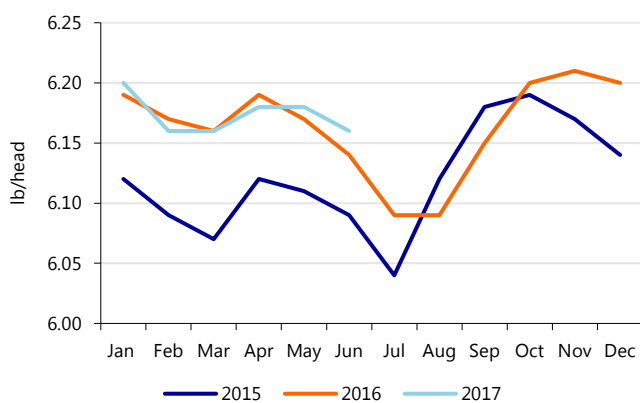
Chicken prices have seen a positive run since the beginning of the year, with the exception of January. The increase in price on a composite level has been aided by strong exports and domestic consumption. Chicken breast prices increased significantly through the summer, pushing composite prices over the three-year average.

Production continues to increase, driven mainly by slaughter numbers more than weights, as current weights are running only 0.1% above last year (see *Figure 3*). Slaughter numbers are up by 1.6% YOY. Chicken meat production is on track to meet end-of-year expectations: a 1.7% increase on 2016.

Trade remains important to support prices, especially as competition from other proteins is expected to continue for the rest of the year. On the bright side, the US is enjoying increased market share in export destinations like Angola and South Africa, as other exporters are affected by AI-related export bans. Notwithstanding this, exports decreased by 5.4% in Q2, compared to Q1 this year. However, total exports year-to-date are up 4.3%, compared to last year.

The industry outlook for the remainder of the year is positive, with healthy margins, as feed costs are expected to remain stable, export growth is right on target at around 4%, and supply growth, at 1.7%, is slightly higher than last year.

Figure 3: US average live weight, Jan 2015-Jun 2017



Source: USDA, Rabobank 2017

Mexico

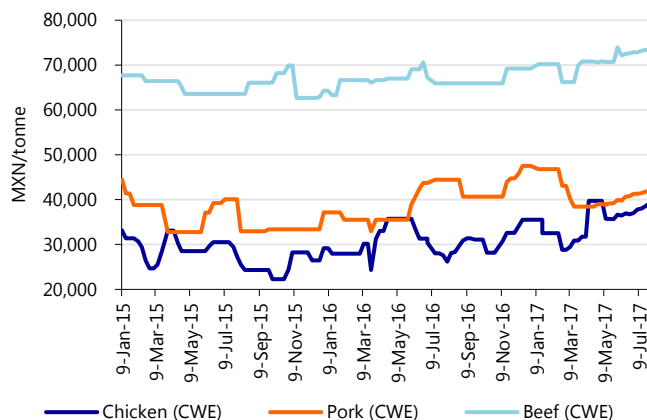
The Mexican poultry flock has recovered from the effects of AI experienced in 2016. In a year with worldwide cases of AI, Mexico, along with a few other countries, has not been affected by the virus this year. As the domestic flock is back on track, chicken meat production has increased to levels not seen before. Chicken meat production is 2.7% higher this year, compared to last year.

Year-to-date Mexican imports from the US are down by 10% on last year's levels. Despite higher US production, high US prices, in combination with a weaker Mexican peso, have made chicken imports more expensive, even though the peso has gained some ground, compared to the beginning of the year. The US continues to be the number-one source for chicken imports for Mexico; however, Brazilian imports continue to increase, accounting for 5.8% of total imports year-to-date.

Chicken prices (CWE) are up 13% this year, compared to last year (January to July). Although there has been an increase in year-to-date carcass prices for beef and pork (beef 6%, pork 10%), chicken prices have increased at a faster pace than the other proteins (see *Figure 4*).

Overall, year-to-date production, up 2.7%, is already running higher than the 2.5% we forecast at the beginning of the year. As the summer is over, domestic demand should ease in Q3, while prices decrease. Feed costs are expected to remain stable for the rest of the year, as long as the peso remains stable.

Figure 4: Mexican meat prices, Jan 2015-Jul 2017



Source: GCMA, Rabobank 2017

Brazil

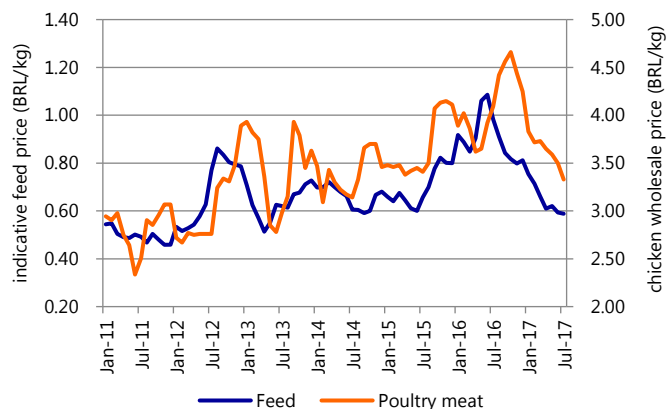
Poultry exports suffered a significant setback in 1H 2017, as a result of the *carne fraca* ('weak flesh') police investigation, concerning alleged fraud to evade regulatory supervision in a number of meat processing plants. However, following the initial wave of temporary import bans, it became clear that the investigation concerned just 0.5% of total processing capacity—and with considerable effort invested in providing transparent information to importers, the negative impacts on exports began to dissipate early in 2H 2017.

In July, Brazilian poultry exports were around 5% above July 2016, by volume. However, they declined by 5% YOY during the first seven months of the year. Going forward, poultry exports are expected to recover during 2H 2017, finishing the year slightly above 2016 levels. In fact, preliminary numbers for the first three weeks of August already indicate a small increase, compared to last year.

On the other hand, in mid-August, China announced an anti-dumping investigation into imports of poultry from Brazil. While the full investigation is expected to take as long as a year, a provisional anti-dumping tax could be implemented after a preliminary analysis in the coming two to four months. Brazil's authorities have argued that the country's AP industry has had access to low-priced local feedstuff, particularly in 2017, enabling it to export profitably at lower prices (see Figure 5). Furthermore, in the past, Brazil has faced similar challenges, in 2012 (South Africa) and 2010 (Ukraine), winning both cases.

Moreover, ongoing low corn and soybean prices will continue to provide low feed costs, which will support the industry in sustaining positive margins. Overall, Brazilian poultry production is expected to increase slightly this year.

Figure 5: Brazilian broiler and feed price trend, Jan 2011-Jul 2017



Source: SECEX, MDIC, Rabobank 2017

EU

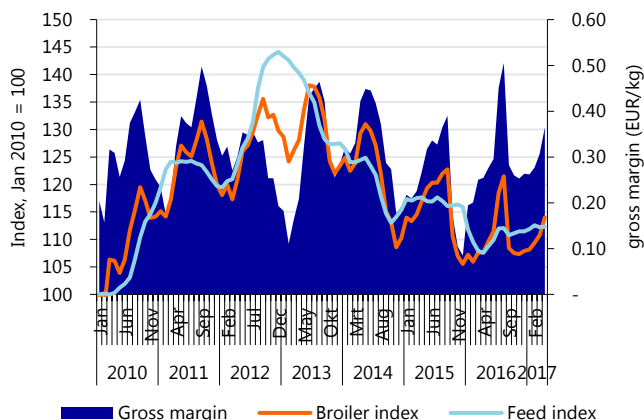
The EU poultry industry has gone through a turbulent period between Q4 2016 and Q2 2017, with more than 1,000 cases of AI across the continent. This saw a significant culling of birds, a tightening of expansion, and many restrictions on trade. The number of AI outbreaks has significantly declined since Q2, but a few recent cases have occurred in France (June) and Italy (July)—a reminder that the AI threat is still present in the region.

From a market perspective, prices of poultry have stayed firm—and, in fact, increased (especially in May) when supply in Europe became relatively tight after a period of restrictive growth in eastern Europe (Poland, Hungary, and Romania) and key production countries (the Netherlands, Germany, and France). Furthermore, total imports into the EU dropped by 10% in 1H 2017, compared to last year. This has more than compensated for the EU industry's relatively weak export performance, which saw a 1% decline in exports in 1H, compared to last year.

The mere 1% drop in exports is a good achievement, taking into account the challenging market conditions, with many AI-related export restrictions. The industry has shown great flexibility in compensating for drops in exports to key markets: South Africa (-65%), the Philippines (-22%), Saudi Arabia (-15%), and Benin (-18%), via increased exports to Hong Kong (+18%), Ukraine (+40%), Ghana (+70%), and other destinations in Asia and Africa.

The outlook is still pretty strong, with ongoing low supply and expected stable feed costs (see Figure 6). Key wild cards will be how disciplined the industry will be in growth (especially in eastern Europe) and AI pressure, which will rise again from October.

Figure 6: Broiler feed price and margin trend in north-western Europe, Jan 2010-Apr 2017



Source: Bloomberg, Rabobank 2017

Russia

The Russian poultry industry is operating under weaker, but still positive, market conditions, compared to 1H 2017, when prices rose sharply and feed prices dropped significantly (see Figure 7). This has pushed some of the bigger integrations to expand production.

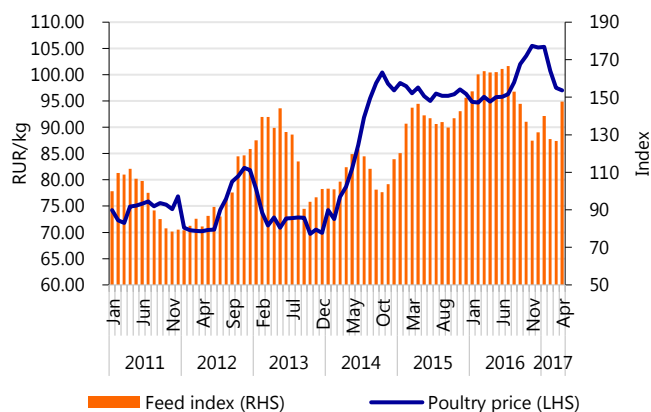
Current market conditions are still positive, but face competition from rising pork supply (+5% for Jan-Jul 2017), but also from new production capacity entering the poultry market, especially expansion in the Tambov region (+55,000 tonnes), Belgorod (+30,300 tonnes), Tula (+19,900 tonnes), and Stavropol (+19,900 tonnes). In the coming months, more expansion can be expected—for the whole year, expansion of about 5% to 6% is expected, which is higher than earlier expectations of 2% to 3% for this year.

Most of the market growth is being driven by new expansion of retail and QSR chains into the eastern and far eastern regions of Russia. Demand in the more traditional markets in European Russia is still relatively soft.

Export markets are still growing, but probably less quickly than expected, with about 130,000 tonnes now predicted for 2017, which is still slightly up, compared to last year. The industry continues to push in this direction, and negotiations are taking place to open the Chinese market for Russian poultry.

The outlook for the industry is still relatively positive, with rapid production growth the biggest risk, taking into account the more saturated market conditions in Russia. Another positive is the historic crop harvest forecast, which should keep feed prices low.

Figure 7: Russian broiler (LHS) and feed price (RHS) trend, Jan 2011-Jul 2017



Source: Rostat, Rabobank 2017

South Africa

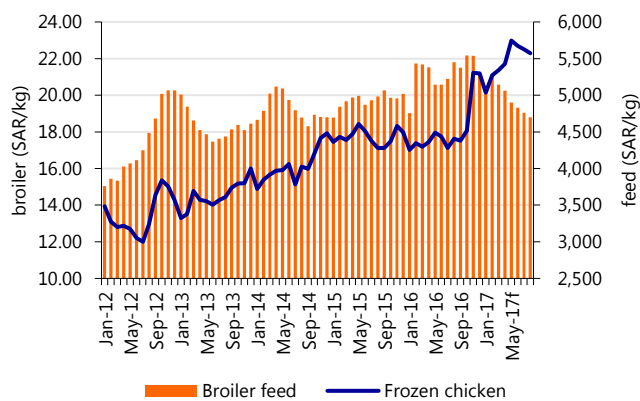
The South African poultry industry has been affected by earlier AI outbreaks in Mpumalanga province and the Western Cape, and new outbreaks are still occurring. This has resulted in significant culling, strict sanitary conditions (including indoor housing requirements), and closure of export markets. This has a significant impact on the industry in terms of trade, but also on the sizeable smallholder industry in South Africa.

The culling and housing restrictions impact the market, with production levels currently low, which is supporting poultry price levels (+12%, compared to the same period in August last year) (see Figure 8). A tight supply situation in the beef industry is also positive for poultry prices, as the beef industry is in a rebuilding phase after last year's drought (with massive stock liquidation), with relatively low supply to slaughterhouses. Prices for beef in South Africa are currently 25% higher than last year.

Ongoing restrictions on imports from countries affected by AI earlier this year—especially in the EU—are also positive for the local industry. This is reducing current market pressure, but given most EU countries are now officially free of AI, a return can be expected in 2H 2017.

The possible return of EU supply, together with the ongoing pressure from AI, will be the main factors influencing the outlook in the coming months. The poultry industry will keep receiving support from the ongoing high beef prices and a solid crop harvest outlook, which should keep feed prices relatively stable.

Figure 8: South African broiler and feed price trend, Q1 2012-Q1 2017e



Source: SAPA, Rabobank 2017

India

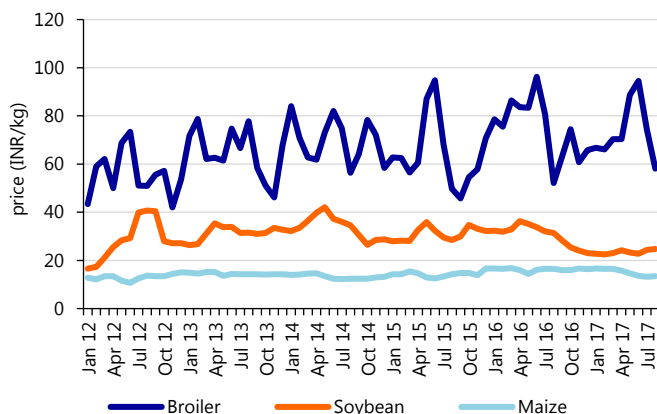
In general, poultry producers have enjoyed margin improvements this calendar year. Having peaked in June, Indian broiler prices have come down since July (currently between INR 55/kg and INR 68/kg), in line with seasonally low consumption months. We expect broiler prices to recover from September.

Feed raw materials (corn and soymeal) have indicatively dropped by 15% to 20% YOY this year, thanks to a good 2016 monsoon season and the end of speculative hoarding following the banknote demonetisation (see Figure 9). This helped to lower broiler production costs, to around INR 60/kg to INR 65/kg currently. The good monsoon also helped to increase demand, which translated to strong prices year-to-date. Commercial broiler farm margins have thus been very strong in Q2.

Feed costs are expected to remain favourable for the remainder of the year. With the exception of wheat, the USDA recently downgraded India's current season harvest estimates for soybeans and corn due to reduced year-on-year acreage and yields. However, corn and soybean prices are still well below last year's levels, due to large opening stocks and strong global supplies. In the longer term, faster soymeal and corn demand growth for the poultry feed industry will challenge ongoing price stability and self-sufficiency in poultry feed production.

The fallout from the demonetisation law has now abated, as farmers have started to undertake most transactions through the banking channel. This year's grandparent stock population is expected to recapture last year's 15% to 20% reduction (due to oversupply). This may boost broiler supply next year, which could have an adverse impact on prices.

Figure 9: Indian broiler, DOC, and feed price index, Jan 2013-July 2017



Source: Poultrybazaar, Rabobank 2017

China

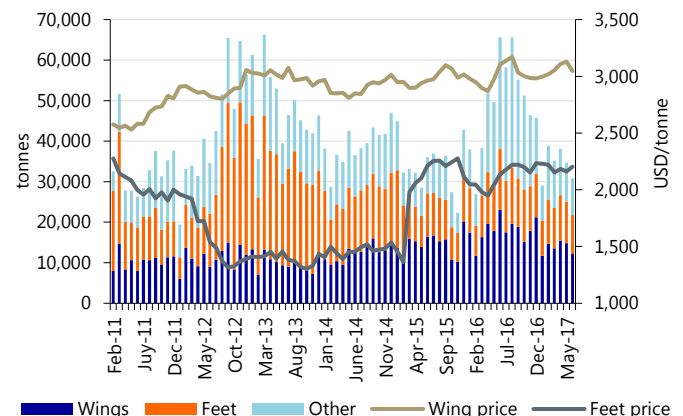
China's broiler prices are strongly supported in August. Supply is believed to be tighter than previous months, as production declined under the pressure of sluggish market demand. The accelerated implementation of environmental policies in recent weeks has resulted in the closure of many farms in specific regions, particularly in Shandong, Henan, and Sichuan, where livestock and poultry production is relatively concentrated. This further step has been taken by regional governments to reduce pollution in water and land since the launch of environmental measures in 2015. Consequently, there is a declining demand for DOC, with falling prices due to the decrease of farming units.

With live bird prices returning to CNY 7.8/kg in August, existing farmers can make a good profit of around CNY 3/bird. Vertically integrated companies benefit most from the strong market price, while off-takers may struggle to maintain a certain number of contracted farmers. Given the tighter supply in the coming months, we expect poultry prices to rise further in the coming months.

Other poultry species also benefit from the situation. Prices of yellow bird and water fowl have gone up strongly, with positive profits to farmers. Market demand is gradually recovering as AI outbreaks fade, although there still have been some AI cases in different regions in recent months.

Poultry import in 1H 2017 has declined by 20% YOY, to 205,000 tonnes, with Brazil still accounting for over 80% (see Figure 10). We believe the weak domestic market in 1H is the key reason for the decline. On 18 August, the Chinese government launched an anti-dumping investigation into Brazilian poultry imports, which may add more uncertainty to future imports.

Figure 10: Chinese imports of poultry in volume (tonnes) and prices (USD/tonne), Feb 2011-Jun 2017



Source: China Customs, Rabobank 2017

Japan

The Japanese poultry industry is still affected by a relatively tight domestic market situation. Prices for breast meat have increased sharply, compared to last year, in part also due to a recent sharp increase in beef prices in Japan.

The tight market situation stems from the end of 2016 and Q1 2017, when Japanese meat traders were reluctant to buy due to a relatively weak Japanese yen, which led to a 6% drop in total imports (see Figure 11). This changed in March/April of this year, when Brazilian traders were desperately looking for sales following the *carne fraca* meat scandal. Japanese trading houses took advantage and bought significant volumes of poultry meat, especially legs. Total import volumes in Q2 increased 7.4%, compared to last year, and reached a new Japanese quarterly record level of 264,000 tonnes. Thailand has also benefited from the increase in Japanese imports and remains dominant in the processed meat import market.

The outlook for the Japanese poultry industry is positive, especially due to the current relatively low stock levels. This will keep the market relatively tight in the coming months, while traders will be pushed to keep buying imports, which will be positive for exporters such as Brazil and Thailand. The EU might be able to gradually gain some position in Japanese import markets thanks to the recent developments in the free-trade agreement.

Thailand

The Thai poultry industry has been performing relatively well, thanks to an ongoing low supply situation with high DOC prices, and strong domestic and Japanese demand. This has compensated for a sharp drop of exports to the EU in 1H 2017 (see Figure 12).

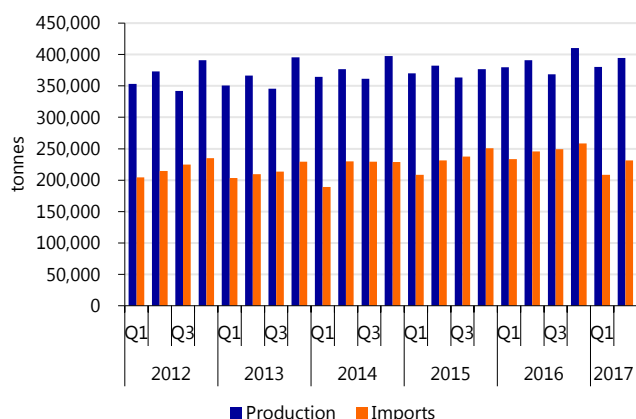
Despite weak EU exports, Thailand exported 393,000 tonnes of poultry in 1H, which is 30,000 tonnes more than in the same period in 2016. The low stock situation in Japan, together with Japanese concerns over Chinese chicken, has put Thailand in a very strong position in Japan, and this has resulted in Thailand enjoying a long period of growing exports to Japan.

Japan recently approved imports from a company in Vietnam, and this could become a new competitor to Thailand in Japan—although it will take a while before this new company can ship sizable volumes to Japan.

The domestic Thai market remains relatively strong, with chicken prices also being supported by ongoing high domestic shrimp and pork prices.

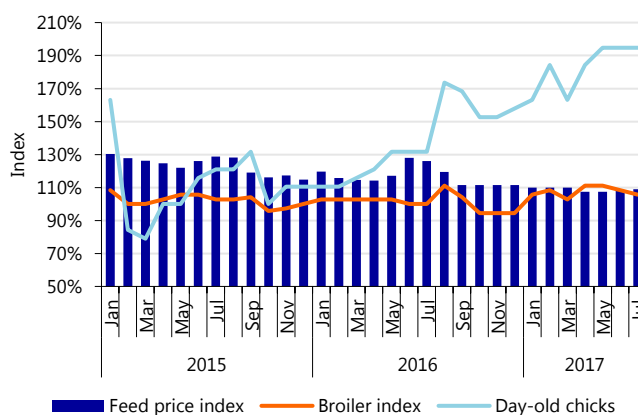
The outlook for Thailand remains relatively strong, although the recent drop in exports to the EU raises some worries, given the importance of this trade flow to the Thai success in poultry trade. Having said this, most fundamentals are still positive (cost, competition, quality, and supply), which indicates ongoing good industry performance.

Figure 11: Japanese domestic supply, Q1 2012-Q2 2017



Source: ALIC, Rabobank 2017

Figure 12: Thai broiler-to-feed price monitor, Jan 2015-Jul 2017



Source: Bloomberg, Rabobank 2017

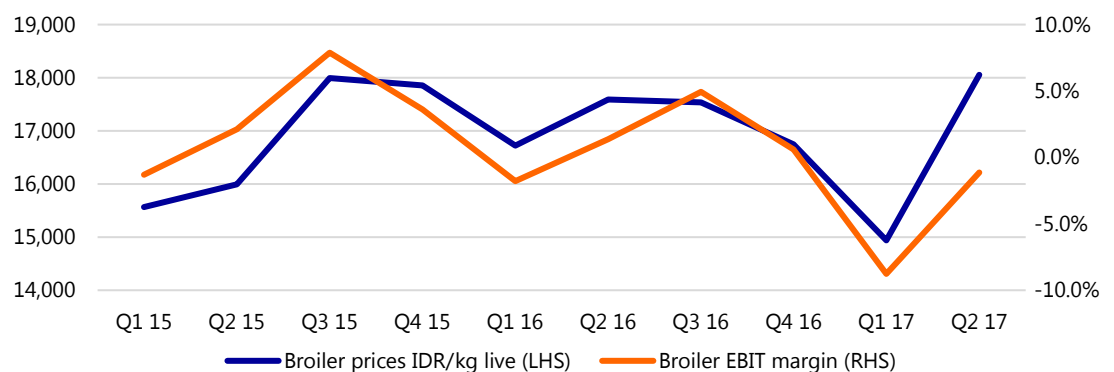
Indonesia

In June 2017, the government issued nationwide instructions to cull 3m parent stock in anticipation of a seasonal slump in post-Lebaran demand. The culling was the third mandate this year, after earlier directives to cull broiler and layer stocks (in March and May) failed to lift prices above cost for most independent farmers. Following an initial dip in July (as the market had to absorb culled birds at one go), broiler prices have recovered and now sit at around IDR 18,000/kg live—roughly the same as the government’s wholesale reference price. We expect prices to remain steady for the remainder of the year, as we understand the government continues to monitor breeders’ final stock output every two weeks.

Poultry integrators’ Q2 2017 broiler EBIT margins showed sequential improvements, as seasonally higher Lebaran demand helped to raise May and June prices, enhanced by feed price competition (see Figure 13). We expect poultry feed prices to increase slightly in Q3 2017, leading to potentially lower margins. Yet, there could be some relief in Q4. We understand the government had agreed to temporarily issue cheaper feed wheat imports to cover a potential shortfall in domestic corn supplies until the second harvests, which could potentially be later than October-November. Broiler output will likely expand by 10% to 15% this year, despite the culling programmes.

There have been no further developments from the WTO Appellate Body (regarding Indonesia’s appeal to the panel’s ruling on 18 measures challenged by New Zealand and the US). Imported frozen dressed chicken/parts are typically cheaper, thus allowing imports to substitute domestic raw materials in processed foods and quick-service restaurants—although halal certification remains an issue.

Figure 13: Indonesian integrator broiler EBIT margins, Q1 2015-Q2 2017



Source: company data, Rabobank 2017

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