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Improved But Fragile Market Conditions

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Global poultry has experienced gradually improving market conditions in 1H 2019, and this trend is expected to remain over the coming months. The main driver for the market improvement has been a more balanced supply in markets like Brazil, India, the EU and US. The gradual improvement has come despite global trade volumes being disappointing due to ongoing trade issues. China is the best performing poultry industry, with exceptionally high poultry prices due to the shift from pork to poultry as a result of the worsening situation with African Swine Fever (ASF). This extremely tight market situation in China has, to date, had limited impact on global poultry markets, as China is not especially open to poultry imports. Only countries and companies with direct access to China, or to other countries affected by ASF, will benefit. Others will see some benefits due to price support from higher pork prices (in pork exporting regions) or via pressured soybean prices (as China imports 65% of all global soybean trade). Notwithstanding the situation in China, for the most part, the outlook depends on local market conditions, which are expected to stay positive in the coming months.

Chinese poultry to stay bullish. Chinese pork production is expected to drop by at least 25% in 2019. Poultry prices are expected to stay high on substitution effects, exacerbated by the limited availability of breeding stock and limited trade access for potential exporters.

ASF impact on poultry markets to be limited to countries and individual companies with direct access to China and Vietnam, which benefit from strong demand and prices. Others will benefit indirectly from some upward impact on dark meat prices and via higher pork prices in pork exporting markets

Regional market conditions are slightly better, especially for Brazil, India and Thailand, while markets like the EU, US, Mexico and Japan are better but remain fragile. The worst-performing industries are currently South Africa, Russia and Indonesia, which all struggle with oversupply.

Global poultry trade volumes are still disappointing, with Q1 2019 registering the lowest quarterly import volume since Q1 2015. This is due to ongoing restrictions on global traders, despite lower avian influenza (AI) pressure.

Global chicken monitor*
Q1 2016-Q2f 2019

Whole chicken



Breast meat



Leg quarters



* Chicken price trend for cuts entering global trade

Outlook for 2019

US: Balanced market situation



- Balanced production growth (+2.2%)
- Strong dark meat, weak breast meat prices
- Export growth 1%, especially to Mexico and Taiwan

Brazil: Recovery on supply reduction



- Industry reduced production
- Weak domestic market with negative GDP growth
- Exports to China up, but EU, Saudi still challenging

EU: Fragile recovery



- Ongoing oversupply concerns in Eastern Europe
- Better market balance after slower growth
- Dark meat prices improving, breast meat challenging

China: Ongoing bullish market conditions



- 25%-35% drop in pork production
- Limited availability of breeding stock
- Ongoing high poultry prices

Global Poultry Market Outlook

The global poultry market has been on a rollercoaster ride in the past year, with a large oversupply in 2H 2018 and early 2019 greatly affecting prices for globally-traded poultry products (see Figure 1). The balance in the market is gradually returning, driven by stronger dark meat demand from Asia and Africa. Having said this, global trade volumes in Q1 2019 were just 2.8m metric tons (see Figure 2), and at their lowest level since 2015, indicating tough ongoing issues in poultry trade.

AI disease pressure lower, ASF impact significant

Disease pressure is still present in the industry, with a series of AI outbreaks throughout the world, including Mexico (H7N3), Vietnam, Cambodia and Nepal (H5N1), and Taiwan (H5N2). In Belgium, there are still several H3 LPAI outbreaks, causing an unusually high mortality rate. Although all these outbreaks have significant impacts on local industries and communities, the number of outbreaks is lower than in the previous years. The biggest disease impact on industry and markets is currently in pork, where ASF is significantly affecting pork production in China, since it was first reported in August 2018. Since February 2019, ASF is also affecting pork production in Southeast Asian markets like Vietnam and, more recently, Cambodia.

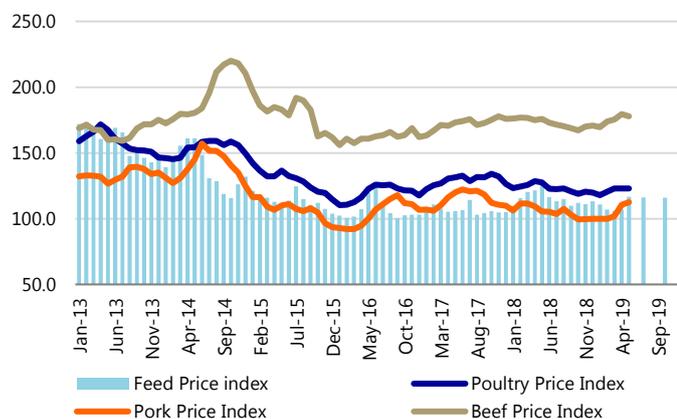
Weak breast meat markets, improving dark meat markets

Global breast meat markets are oversupplied and causing prices in Brazil, the EU and US to stay low. This is partly due to weak local demand for these products, but especially due to the pressured global market for breast meat, in which Europe, and to a lesser extent Brazil, are the main buyers. Access for Brazil to Europe became difficult after the EU set restrictions on more than 20 Brazilian plants last year. Although volumes to Europe have recovered, Brazil cannot make full use of the low-tariff salted breast quotas, depressing prices.

There is also a big shake up going on in the whole bird market. Saudi Arabia removed several Brazilian exporters from the export approval list earlier this year. This impacts Brazil's position in this market, the biggest importer in the Middle East. Brazil is gradually moving to alternative markets in the Middle East and elsewhere. Traders in Saudi Arabia are gradually sourcing more from Eastern Europe and Ukraine, and recently also from Russia. In Q1, Ukraine reached a record growth in exports to Saudi Arabia, reaching almost 40,000 metric tons. This meant Saudi Arabia overtook the EU as the number-one export market for Ukraine.

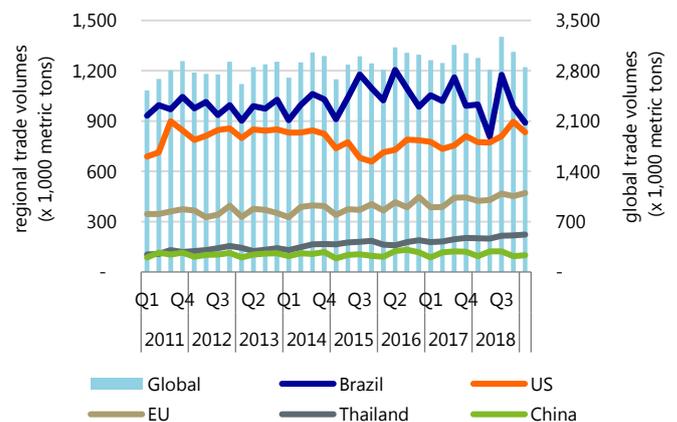
The stronger Asian demand is driven by ASF outbreaks in China and Vietnam, where poultry demand has risen. Although the volumes traded are still small compared to demand coming from importers in Latin America and Africa, they do provide some support for dark meat prices, especially for the limited number of countries with access to these markets.

Figure 1: Global broiler, beef, and pork prices vs. feed cost monitor, 2013-2019f (index Jan 2007=100)



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

Figure 2: Rabobank global poultry trade monitor, Q1 2011-Q4 2018



Source: Bloomberg, national statistics, Rabobank 2019

Gradual improvement, but volatility to remain

In the coming months, we expect the ASF-affected markets to buy more poultry. For China, the upside is limited as long as so few countries are able to export to China. Brazil will increase trade, subject to an agreement with China on pricing, which reduces Brazil's export potential to China. Other exporters, like Argentina and Thailand, will also benefit, but potential volumes are limited. The US is prevented from exporting, and given the current US-China trade negotiations, it is difficult to predict when this could change. EU access to China is also limited, with only a few companies in Poland and France able to export. A relevant development here is the recent opening of Russia for exports to China. Russia might be able to export 50,000-100,000 metric tons of poultry to China this year. This is a noteworthy sign of Russia's production growth, but is still relatively small in global terms. We don't see export volumes to mainland China moving above 600,000 metric tons this year, even in a best case scenario. We see a similar volume as the best case scenario for Vietnam, given the impacts of ASF.

These rising volumes are however relatively limited in global terms – although they will support dark meat prices, they will not overcome the volatility we expect in 2H 2019. Volatility will come from pending trade issues, of which the safeguard from South Africa on Brazilian poultry will be the most important, but the ongoing restrictions from EU and Saudi Arabia on Brazil, and potential trade issues between US and Cuba and the US and Mexico could also cause volatility in 2H 2019.

Positive in terms of global trade are the initial openings of India for US and Brazil, and of North African markets like Morocco for US trade. Volumes will not be big in 2H, but will provide traders some flexibility. Another factor which could potentially impact global trade is the move to establish an EU-Mercosur deal – rumours indicate that the EU car industry gets better access to Mercosur countries while Mercosur (e.g. Brazil) gets better access to EU beef and poultry markets via larger quotas. If this happens it will certainly impact markets, but the exact impact will depend on the final size of quotas. Current proposals have led to a lot of pressure in the EU from farmers and NGOs and it has to be seen if this will impact the final proposal.

Regional markets - better performance than in trade

As more than 87% of global poultry does not enter global trade, conditions in local markets tend to differ from global conditions. Feed cost is currently an issue (see Table 1), especially for corn from North America, given uncertainty over production levels. This could be offset by softening soybean prices as well as better grain supply in Europe and Southeast Asia.

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	Q4-Q1	Q1-Q2
Live broilers USD/kg	EU	0.97	1.01	1.09	1.09	1.14	1.13	1.14	1.04	1.01	1.02			-8.6%	-2.9%
	Brazil	0.85	0.78	0.79	0.84	0.75	0.66	0.77	0.79	0.79	0.90			+2.5%	-2.5%
	China	0.71	0.93	1.07	1.05	1.22	1.25	1.29	1.46	1.33	1.54			+12.9%	-5.2%
Grains & oilseeds	Wheat (USD/bu)	429	435	457	424	453	499	517	512	500	476	510	515	-1.0%	-2.3%
	Corn (USD/bu)	364	368	365	346	366	384	353	370	374	385	425	440	+4.8%	+5.4%
	Soymeal (USD/metric ton)	330	307	311	318	353	371	321	309	310	308	312	316	-3.7%	+0.3%

Source: Bloomberg, Rabobank 2019

The best-performing market is certainly China, with exceptionally high local prices for poultry and DOC, due to the extremely tight meat market and limited local availability of breeding stock. Although prices have softened recently, they are expected to stay high in 2H, which will make local players very profitable. Brazil is currently in better shape than last year, after supply reductions rebalanced markets. Thailand is also finally recovering, after more than a year of oversupply. India is also doing well, despite recent increases in feed costs.

Other markets like the US, EU, Japan and Mexico tend to be OK, but are more fragile. In the case of the US, this is mainly driven by strong dark meat prices coming from food service and exports to Mexico and Taiwan. The EU situation is fragile due to ongoing Eastern European expansion, coupled with ample available imported poultry, despite restrictions on Brazil and Ukraine (pending). Mexico has seen more US imports, but ongoing demand growth, together with restricted supply growth (also related to AI outbreaks this year) has kept markets in balance and the industry in good shape. Japan still has high stocks levels, which has pressured the market in 1H (including lower import volumes). This will be welcome in 2H when ASF will impact global pork markets, in which Japan is a big buyer. In this situation, Japan will have a better negotiating position with suppliers given current stocks.

Other markets, like Indonesia, Russia and South Africa are in a less favourable position. Indonesia has worries over rising supply in 2H, after a relatively successful culling program set by the government from Q1 2019. In Russia, the industry is now expanding again after a year of supply reduction due to AI impacts on production and the bankruptcy of a leading player. This producer is operational again and this will challenge performance in 2H, especially as Russian feed prices have increased and local pork supply is also rising. South Africa is also struggling with oversupply in combination with higher feed costs. The industry is blaming this on imports and hopes to introduce a safeguard on Brazilian poultry. If this happens, it will certainly lead to better performance of local industry, although it will be partially offset by the return of EU poultry.

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	Q4-Q1	Q1-Q2
Whole chickens	<i>Brazil wholesale</i>	119.7	112.8	109.4	119.4	99.2	89.4	92.9	113.4	121.6	121.9			+7.2%	+0.3%
	<i>EU wholesale</i>	189.0	200.6	216.0	214.6	225.3	223.4	219.5	211.4	208.3	211.4			-1.5%	+1.9%
Breast meat	<i>EU import price Brazil</i>	193.6	219.3	240.0	256.3	276.1	277.9	283.3	263.8	249.4				-6.9%	
	<i>EU import price Thailand</i>	243.5	233.6	257.9	277.4	300.4	282.7	279.8	276.3	282.3				+0.4%	
Leg quarters	<i>US leg quarters, north-east</i>	75.9	88.3	93.9	83.3	84.0	85.5	81.6	72.9	83.3	103.7			+15.3%	+23.7%
	<i>Japan import price</i>	190.1	171.3	199.4	211.4	178.0	162.0	175.8	174.9	146.3	155.2			-18.1%	+6.3%
Feet	<i>China import price</i>	220.1	215.2	218.3	208.9	223.07	230.4	234.2	233.8	249.8	272.1			+7.0%	+8.7%
Processed chicken	<i>EU import price Brazil</i>	193.5	236.3	248.8	239.2	285.6	291.8	299.2	312.6	308.8				-4.5%	

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

Dashboard

Legend and Units

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

Δ = year-on-year change

All prices in local currencies

EU: Recovering Market Conditions

<i>Production broiler</i>		<i>Export poultry</i>		<i>Import poultry</i>		<i>Whole frozen broiler price (EUR/kg)</i>		<i>Feed price (EUR/kg)</i>	
Ongoing growth		Increasing		Recovering		Stabilized		Increasing	
Apr. 905	YTD: 3,405	Q1: 470	YTD: 470	Q1: 225	Q1: 225	May: 1.86	YTD: 1.85	May: 0.32	YTD: 0.33
Δ+1.8%	Δ+2.8%	Δ+12.3%	Δ+12.3%	Δ+13%	Δ+13.0%	Δ0.0%	Δ-0.1%	Δ+0%	Δ+4.7%

Source: Eurostat, MEG 2019

US: Improving Pricing Conditions, Lower Stocks

<i>Production broiler</i>		<i>Export poultry</i>		<i>Cold storage</i>		<i>Composite broiler price (USD/kg)</i>		<i>Feed price (USD/kg)</i>	
Slight decrease		Stable		Softening		Ongoing strong		Feed cost relief to slow	
Apr: 1.846	YTD: 7.214	Apr: 269	YTD: 781.1	Q3: 390	Q4: 385	May: 2.10	YTD: 2.32	Feb: 0.21	YTD: 0.22
Δ+3.4%	Δ+0.8%	Δ-2.5%	Δ+0.8%	Δ-1%	Δ-4%%	Δ1-4%%	Δ-9%%	Δ+8%	Δ+4%

Source: USDA 2019

Brazil: Lower Supply Helps Markets to Recover

<i>Production broiler</i>		<i>Export poultry</i>		<i>Live broiler price (BRL/kg)</i>		<i>Whole broiler price (BRL/kg)</i>		<i>Feed price (BRL/kg)</i>	
Volatile		Volatile		Increasing		Increasing		Softening	
Q1: 3,390	YTD: 3,390	May: 360	YTD: 1,593	May: 4.0	YTD: 3.11	May: 4.81	YTD: 4.52	May: 0.78	YTD: 0.81
Δ-2.1%	Δ-2.1%	Δ+9.6%	Δ+1.2%	Δ-5.2%	Δ+9.9%	Δ+49.1%	Δ+29.9%%	Δ-3.5%	Δ-2.4%

Source: CECEX, MDIC 2019

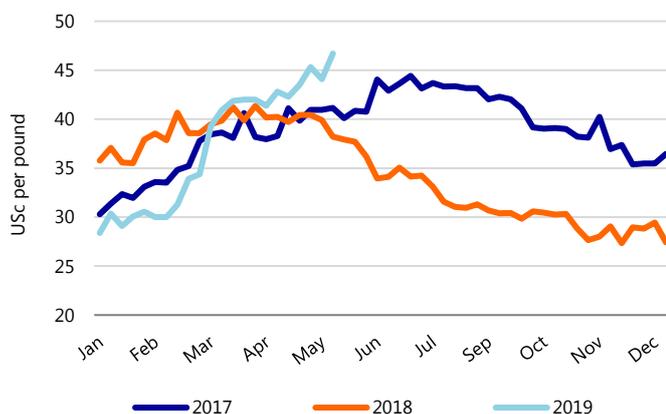
US

A cool, wet spring contributed to improved productivity in recent weeks, but has also dampened demand. Even with a disappointing grilling season, retail and foodservice support for chicken is good and should improve in coming weeks. Despite the slow start to the year, we continue to look for 2.2% YOY growth in production. Strong consumer interest has been supportive to returns. Boneless breast prices are the exception, down 12% from their high, and down modestly from year-ago. Other cuts remain strong. Leg quarters are particularly strong (up 22% YOY), with exports strengthening and good demand from Mexico (see Figure 3). Tenders and wings are both up sharply from year-ago as foodservice interest remains high.

We believe strong global demand should remain supportive to dark meat values, despite ongoing trade restrictions on US exports to China. Current trade uncertainties could result in more volatility, yet markets should trend higher. Potentially declining supplies of competing proteins will also be helpful. There is limited risk of more aggressive expansion given market volatility, rising feed costs and ongoing productivity issues.

Export volumes through Q1 2019 were up modestly (+1% YOY), driven by a gain in shipments to Mexico (+9.1% YOY), Cuba (+3.5% YOY) and Vietnam (+55% YOY). Sales were down double-digits to key markets in Angola, Canada, and Hong Kong. Exports fell 2% in March, even as sales to Mexico accelerated (+14% YOY). We expect strong export demand to boost shipments over the back half, particularly to markets impacted by disease. Given the current status of trade relations we are not expecting China to reopen to US chicken in the near term.

Figure 3: Weekly leg quarter prices 2017-2019



Source: USDA, Rabobank 2019

Mexico

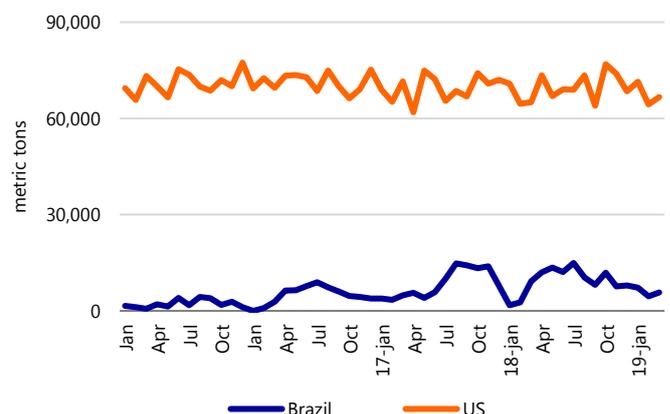
The Mexican government recently announced that it has increased the amount of tariff-free quota imports from the usual 300,000 metric tons to 355,000 metric tons for 'other' countries with whom Mexico does not have a bilateral or regional agreement. Brazil is a specific beneficiary of this quota. Avian Influenza outbreaks have spread in different regions in the country causing some culling.

Import demand has been strong in Q1 2019, up 3% YOY. This included the US, up 1% YOY, and Brazil, which recorded a 27% increase over the last year (see Figure 4). This year, Brazilian imports are up 27% in Q1, YOY. It is important to note that imports from other origins, such as Argentina and Chile, are also increasing. This is a sign that Mexico is looking for new markets to source chicken.

Domestic production continues to increase. Rabobank forecasts chicken production to reach 3.6m metric tons in 2019, compared to 3.5m metric tons last year. As Mexico's dependence on grain imports for animal feed continues to grow, and with the US planting progress lagging, grain prices have begun to price-in the effect of a lower planted area. Corn prices are expected to put pressure on producer margins as feed cost increases.

Demand for poultry remains favorable in the coming months, with full-year consumption for 2019 estimated at 4.4m metric tons, an increase of 3% compared to last year. Demand for further processed chicken remains positive, with increasing consumption of these products within Mexico.

Figure 4: Mexico poultry imports from US and Brazil



Source: SIAVI, Rabobank 2019

Brazil

Brazil's benchmark live broiler price reached a new record in May, having risen 27% since January. This increase has been driven by accelerated export shipments of all major animal proteins. Increased exports in part reflect subdued domestic consumption, as a result of subdued economic growth – Brazilian GDP growth for Q1 2019 was actually negative, at -0.2%.

Even though two of the major importers of Brazilian poultry, Saudi Arabia and EU, are currently imposing restrictions on imports, rising Chinese imports have more than compensated for this, and Brazil's exports for 2019 to date are well-above last year's performance. In the coming months, there are hopes that China will overtake Saudi Arabia as the leading destination for Brazilian poultry exports, given the increased Chinese demand for animal protein imports due to ASF. Furthermore, there is likely to be an increase in exports to India and Egypt, given that both countries have recently granted better access to Brazilian poultry.

Given continuing uncertainty regarding demand, the slaughter rate declined in the first quarter of the year, maintaining a trend that has been in place since 2H 2018.

Feed prices have fallen over the last months, improving margins on poultry meat production (see Figure 5). The poultry industry is taking advantage of improved margins to pay down debt, rather than expanding output. As a result, in the coming months, the industry expects prices to remain firm or to rise further, even with the current sluggish domestic demand. The recent increase in CBOT corn prices could slightly impact margins and should be monitored in the coming months.

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



Source: SECEX, MDIC, Rabobank 2019

Europe

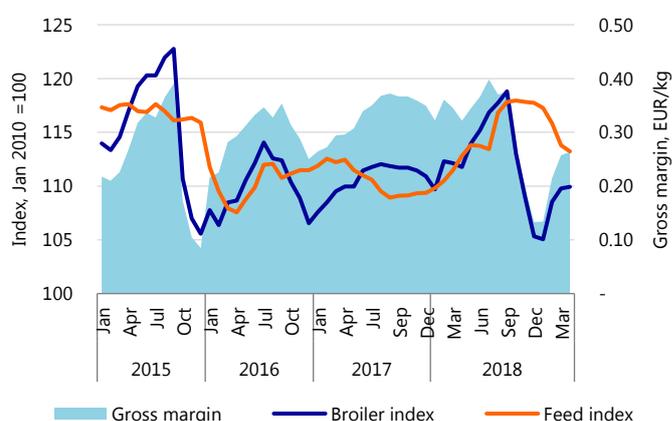
The poultry market in the EU is currently rebalancing after pressure in 2H 2018 and Q1 2019. Demand is gradually increasing (1.5%-2% increase expected this year), while production growth has been reduced in recent months. Growth in Poland was only +4% in Q1, despite two new processing plants opening in the last half year. Growth was also relatively low in Germany (-0.4%), France (-2.5%) and the Netherlands (+0.1%). Belgium, a key trading country, has had production heavily hit by outbreaks of LPAI of H3 strain, which has caused unusually high mortality (>50%).

The outlook for the EU market is moderately positive, given ongoing demand growth, but potential oversupply is raising concerns. Proposed expansion in Eastern Europe (with five new processing plants in the pipeline in the next one or two years) is behind these concerns. Import volumes are also rising, notably through strong imports from Thailand, Ukraine, China and Chile, and a gradual return of Brazil. Rising total import volumes are still depressing breast meat prices in the EU, although they are higher than several months ago.

Additional positives for the outlook are firm EU market demand (supported by high pork prices), while exports are set to stay strong. Lower trade restrictions with South Africa support dark meat prices. And Southeast Asian markets like the Philippines and Vietnam (affected by AI and ASF) remaining strong, are supportive.

In terms of costs, few upside risks are foreseen (see Figure 6). The EU wheat crop looks positive (recently upgraded to 44m metric tons), while soybean prices will remain pressured due to good south American supply (with lower buying from China due to ASF).

Figure 6: Broiler feed price and margin trend in Northwestern Europe, Jan 2010-May 2019



Source: Bloomberg, Rabobank 2019

Russia

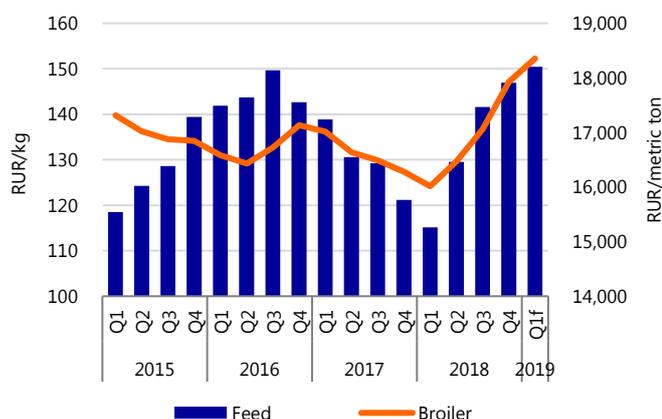
The performance of the Russian poultry industry has slipped in Q2 this year, after a period of rising prices that lasted until January. Reduced supply, caused by AI-related culling and the bankruptcy of some Russian poultry companies, caused production to drop by 6% in Q1, YOY.

The market is now changing. Some of the bankrupt assets have been bought by leading Russian poultry players and this capacity is again in production. This will lead to a recovery of supply and likely total production growth of 2%-3% for Russia this year.

This rising supply of poultry is challenging. In part this is because pork production is currently moving into oversupply, due to local production growth (3%-4% this year) together with a gradual return of Brazilian pork exports, which has led to a drop in pork prices. In response, whole broiler prices have dropped 15%-20% since January. This has been unwelcome as feed prices have risen in the same period by 10% (see Figure 7).

The outlook for the Russian industry is challenging. Rising oversupply concerns in the Russian market due to ongoing poultry and pork production growth is the main cause. The poultry industry is now focusing on export opportunities. In this context, the recent opening of China for poultry and pork exports is very welcome. Given the ASF crisis in China and the distance benefit Russia has in supplying the West/Central Chinese market, exports could become material. The positive wheat outlook for Russia is another positive. Wheat is expected to reach 118m metric tons this year, which should limit feed grain price increases.

Figure 7: Russian retail frozen broiler (LHS) and feed price (RHS) trend, Q1 2015-Q1 2019



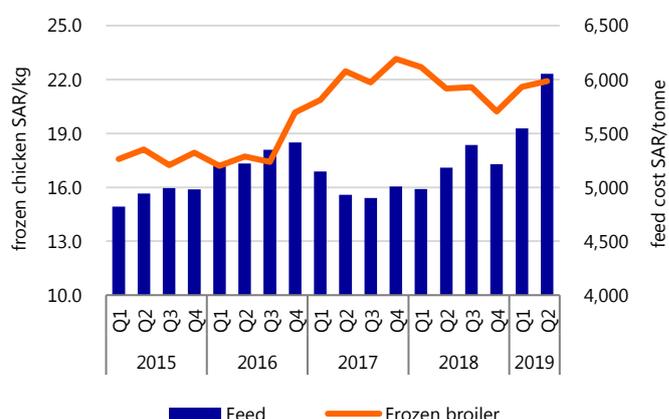
Source: Rostat, Rabobank 2019

South Africa

The South African poultry industry has gone through a more challenging environment in 1H 2019 than the same period last year (see Figure 8). This year, the industry experienced rising feed grain prices (June 2019 soy and maize prices are up 20% and 30%, respectively, YOY), while EU imports are again flowing into the market (EU imports doubled to 35,000 metric tons, but still sit at half of the levels of two years ago). At the same time, some South African poultry players have started to expand after several years of restructuring. As a result, the industry has had limited pricing power – prices are up only 2% in June 2019, YOY, while feed grain prices have increased by more than 20%.

The outlook remains challenging. Recent feed grains have been driven by rising global prices as domestic white maize yield expectations have improved, given better-than-expected conditions. Grain futures prices in South Africa indicate limited relief in the coming months. The industry should anticipate higher feed grain prices needing to flow through the value chain. In this situation, disciplined supply growth will be needed to maintain market balance. This should come from both the local industry, in terms of poultry placements, and from trade. The current proposal for a safeguard on supply from Brazil with significant tax increases will support the struggling local industry. However this could also impact consumer prices, which could depress demand slightly.

Figure 8: South African broiler and feed price trend, Q1 2012-Q2 2019f



Source: SAPA, News24, Rabobank 2019

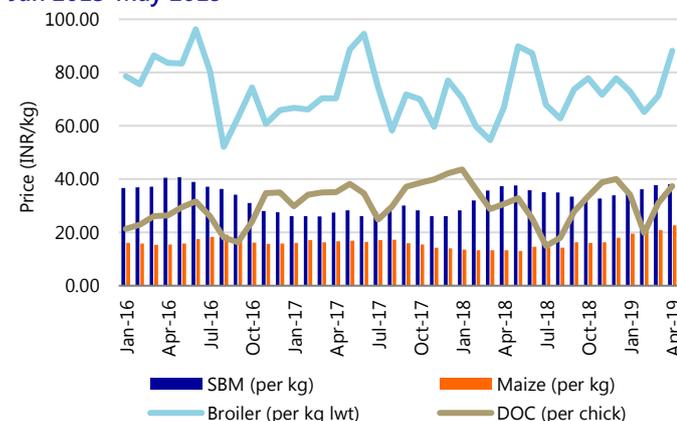
India

Indian broiler prices averaged INR 70/kg lwt in Q1 2019 (+13% YOY; -8% QOQ). Following the steep seasonal drop in February, prices recovered strongly to reach INR 88/kg lwt in April 2019 (see Figure 9). The strong recovery was partly a result of higher costs of production following a 23% QOQ spike in corn prices in Q1 2019. Reduced chick-ins were evident in the drop of DOC prices, which averaged INR 28 in Q1 2019 (-22% YOY; -24% QOQ). DOC prices recovered to INR 37 in April 2019, driven by the recovery in broiler prices.

Poultry integrators had reported lower Q1 2019 earnings versus the same period last year as a consequence of both lower DOC volume and prices, while commercial farm margins are estimated to have turned negative. We expect both integrators and commercial farms to book a sequential margin improvement in Q2 2019, based on continued strength in broiler prices and peak seasonal demand.

Feed millers have shifted to cheaper feed wheat to get around domestic corn shortages. In April 2019, corn prices remained elevated at INR 22.7/kg, as calls for 0.5m metric tons of duty-free import were only partially approved (i.e. 100,000 metric tons). Even then, the state trading agency MMTC has postponed the tender for corn imports from May 8 to June 12, due to the lack of favorable offers for GM-free varieties. Q1 2019 domestic soymeal prices also increased to INR 36/kg (+13% YOY; +10% QOQ) on weather concerns.

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



Source: NCEDX., Rabobank 2019

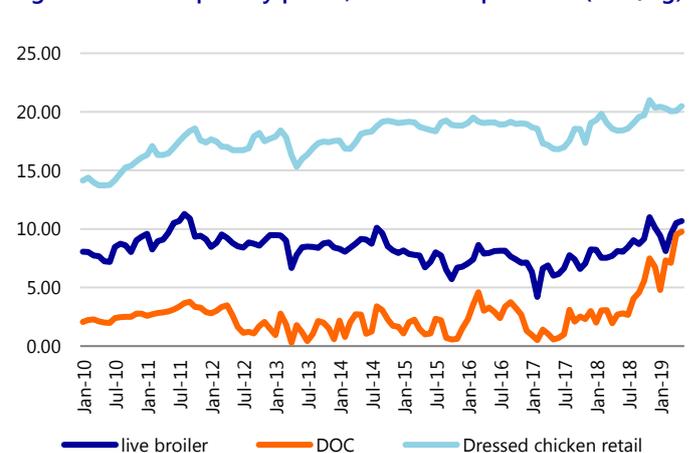
China

China's white-feathered bird prices have softened since the last week of May, dropping about 10% in just two weeks, and DOC prices went down further, by over 25%. Despite this recent change, poultry prices have actually been strong for months, and are still well-above the average levels of 2018 (see Figure 10). We see the recent change as a correction to the soaring prices in the previous months. DOC prices have kept on breaking records in the past three months, reflecting not only a tight supply of DOC but also the strength of enthusiasm among producers in the light of ASF impacts on pork production. Despite the recent drop, we believe that poultry prices will remain supported as the shortage of pork supply will quickly widen in the coming months.

The momentum of strong Grandparent (GP) stock imports continued in May, with total imports and domestically-produced breeding stock reaching around 450,000 sets, up 57% YOY, according to Boyar statistics. With France just being added to the supplier list, we expect GP stock imports to continue at high levels for the rest of the year.

Poultry imports in April maintained their strong growth in 2019, up 62% YOY. Total imports in the first four months of 2019 reached 213,000 metric tons, up 44% YOY. With the increasing diversification of supplying countries, Brazil's share has decreased from over 80% in 2018, to 70% now. Other countries, such as Thailand and Argentina, are quickly gaining share. The gloomy US China trade talks, however, add some uncertainty to Chinese poultry imports. Despite this, we maintain the view that poultry imports will see a significant rise in 2019.

Figure 10: China poultry prices, Jan 2010-April 2019 (CNY/kg)



Source: Bovar, Rabobank 2019

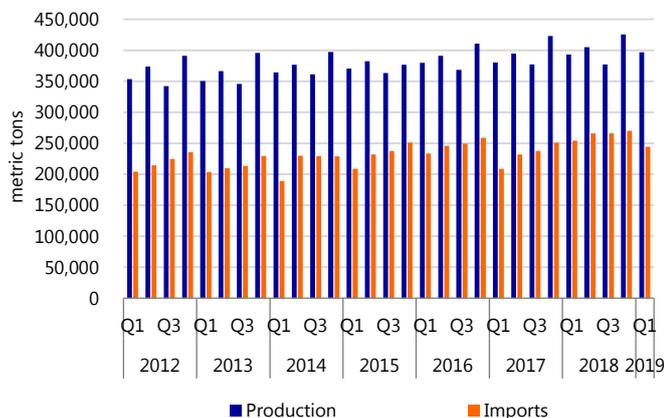
Japan

The Japanese poultry industry is still struggling from relatively high but declining stock levels in the local market, which caused prices to fall below seasonal low levels in Q1. Imported leg quarter prices have fallen by 15%-20%, to JPY 159/kg in Q1 this year, compared to the last two years. The current low has only been seen before in Q1 2011 and Q1 2016. Also, domestic breast meat prices have tended to fall below levels of the last few years.

The industry is currently rebalancing the market through reduced imports (-4% in Q1) but this may not be enough to compensate for gradually rising local poultry supply (+1-2%) in 1H (see Figure 11). The lower imports have especially impacted Brazil, which is the main supplier of raw chicken to Japan. Processed meat imports have, by contrast, remained fairly stable.

The situation in the coming months will likely change a bit. Global pork markets will focus increasingly on ASF-affected markets in China and Southeast Asia, causing pork prices to rise. Although poultry is not a full substitute for pork, it will feel some price support as some users shift from pork to poultry. From a global procurement perspective, global dark meat prices will likely increase further due to ASF outbreaks in Asia. We expect some countries, such as China and Vietnam, to buy more dark meat, which will impact the market position of Japanese trading houses. The ongoing high stock levels, which provide Japanese trading houses some flexibility in terms of sourcing, will help to overcome an expected exceptional rise in pork prices and will therefore also keep chicken prices in balance.

Figure 11: Japan poultry supply, Jan 2011-Mar 2019



Source: ACLI, Rabobank 2019

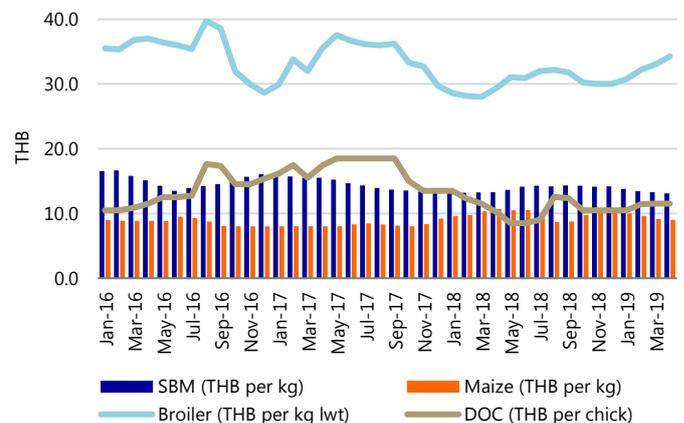
Thailand

Live broiler prices have strengthened steadily since January 2019, and were quoted at THB 35/kg lwt in May, slightly above the cost of production (see Figure 12). Higher prices were supported by rising live hog prices and improved export demand for chicken, bringing Thai supply closer to a balance – even though DOC prices remained flat. Q1 2019 Thai poultry exports expanded 11% YOY, to 232,030 metric tons, based on UN ComTrade data. Exports were led by increased shipments to Greater China (+421% YOY to 22,235 MT), EU (+10% YOY to 59,927 MT) and South Korea (+49% YOY to 9,769 MT); while exports to Japan remained flat at 106,439 MT. While exports to China have been largely low value-added dark meat cuts, we expect exports to China to continue to grow this year, driven by pork shortage due to ASF.

Listed integrators had reported sequential improvements in Q1 2019 broiler EBIT margins. Better broiler prices, marginally lower feed costs and consistent export volume growth were supportive (see Figure 12). On the prospect of continued price strength and seasonally higher export demand, we expect Q2 2019 broiler margins to expand further.

Mill-gate corn prices continue to track lower to THB 9.0/kg in April from an average of THB 9.6/kg in Q1 2019. The price decline was attributable to higher off-season corn supply on increased acreage, slower demand for layer/swine feed, increased feed-wheat usage, and tariff/quota-free corn imports from Laos, Cambodia and Myanmar (window between 1 February and 31 August). Soybean meal prices also eased to THB 13.1/kg in April from THB 13.5 in Q1 2019.

Figure 12: Thai broiler-to-feed price monitor, Jan 2015-Apr 2019



Source: Thai Feedmill Association Rabobank 2019

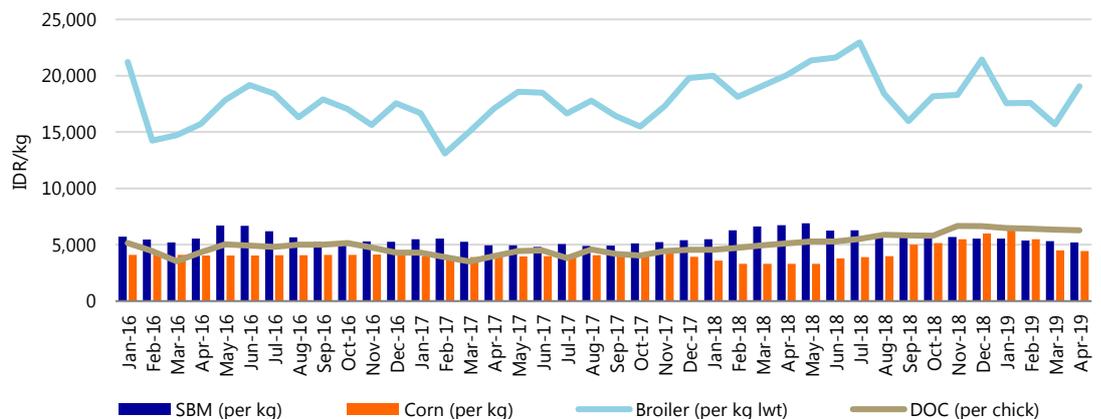
Indonesia

While corn prices have eased since January, average millgate prices are still in the IDR 6,000-7,000/kg range. Strong Q4 2018 broiler prices had encouraged higher-than-expected chick-ins in first two months of the year. This prompted a steep price decline in March – when seasonal demand drivers were lacking. Q1 2019 broiler prices averaged IDR 16,940/kg lwt (-11% YOY, -12% QOQ) – below cost of production (see Figure 13). To stabilise prices, the government had mandated nationwide hatching eggs (HE) withdrawal by 10% between March 21 and April 8, 2019. While Lebaran peak demand briefly supported broiler prices in Q2 2019, prices have since weakened again – driven by rising supply from higher 2018 GPS imports. A further 30% reduction in weekly HE output in Java was subsequently announced on June 19, and the country's 39 breeders had until June 21 to respond with their respective culling schedules.

Poultry integrators reported lower Q1 2019 earnings compared to same period last year. Lower breeding margins and losses in commercial farms had offset the recovery in feed margins. We expect earnings to rebound in Q2 2019, backed by lower feed raw material costs, peak seasonal demand and broiler price recoveries. Domestic corn prices have also progressively declined YTD, as average prices in May were indicatively 36% lower than those in January.

Broiler meat retail prices averaged IDR 35,233/kg cwt in May 2019; seasonally rising from an average of IDR 33,360/kg cwt in April 2019 – comparable to May 2018 prices. Seasonal peak demand remained firm this year, bolstered by annual bonuses (disbursed in May and July) and a 5% wage increase for civil servants in April. However, we remain on the lookout for potential overproduction issues in the remainder of the year.

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



Source: Industry sources, Bloomberg, Rabobank 2019

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