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Outlook 2020: Can Oversupplied Global Markets Be Saved by Rising, but Volatile Asian Trade?

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The outlook for global poultry in 2020 is slightly more positive than it was in 2019, when markets suffered from relative oversupply. A key driver of the gradual recovery will be ongoing strength in trade flows to Asia in order to supply African swine fever-affected markets such as China, Vietnam, South Korea, and the Philippines. These trade flows will be positive for dark-meat prices, though they will be subject to increasing volatility. Improved beef prices (the main substitute for fresh poultry), stable global average feed prices, and more balanced supply will also all support the gradual recovery. The downside is that global whole-bird and breast-meat markets will remain pressured and have limited price upside.

African swine fever (ASF) will increasingly push chicken expansion in Asia in 2020. This will help fill the gap in local protein markets affected by ASF, but it also raises concerns about future oversupply. Strong growth in local supply – from poultry companies and pig farmers who invest in poultry farming – and rising imports are boosting supply. This will likely result in local price volatility in 2020.

Global markets will be highly volatile in 2020. Dark-chicken meat prices are expected to stay at average to high levels, but with more volatility. Supply growth in ASF-affected markets, rising availability of dark meat after Russia’s and Ukraine’s entry to global markets, and the reopening of US chicken exports to China, will all add to volatility in global trade flows.

The top-performing markets in 2020 will be China, which is expected to see short supply in the next four to five years, and Mexico, where supply will also remain short, after outbreaks of avian influenza (AI) in early 2019. The US – and, to a lesser extent, the EU and Russia – will see improvement if supply stays balanced.

Several wildcards could impact markets in 2020, including Brexit, the ongoing risk of AI, feed-price volatility (the base-case scenario indicates limited growth), and potential trade disruptions. In trade, we see more openings in Asia (partly because of AI), but also rising restrictions in Africa and the Middle East.

Global chicken monitor*
Q1 2016-Q4f 2019



* Chicken price trend for cuts entering global trade

Outlook for 2020

US: improved returns with China export opening



- Production growth of 3% in 1H 2020
- Strong leg-quarter and wing prices
- Price support from rising beef prices

Brazil: Recovering, but still troubling exports



- Production to expand by 2% in 2020
- Relatively limited 1% export growth in 2019
- High beef prices, slight increase in feed prices

EU: Fragile recovery expected



- Slowdown in production growth in eastern EU
- Ukraine quota restricts imports of fresh chicken
- Brexit concerns remain in play during 2020

China: ASF to push up chicken production



- Growth of over 15% in chicken production
- Ongoing ASF worries create volatility in markets
- US return to push up already high imports

Global Poultry Market Outlook 2020

The outlook for the global poultry industry will be challenging in 2020. The ongoing impact of ASF outbreaks in Asia – and, to a lesser extent, in Europe – will remain one of the key themes for the year ahead. This will have a big impact on total protein availability in local markets, given the expected drop in pork production in China of 15% – after the 25% drop in 2019. Pork production in Southeast Asian countries such as Vietnam, the Philippines, Cambodia, Laos, and Myanmar is also heavily affected by ASF and faces significant drops (10% to 25%). For 2020, the threat of the ongoing spread of ASF will impact production decision-making by poultry farmers.

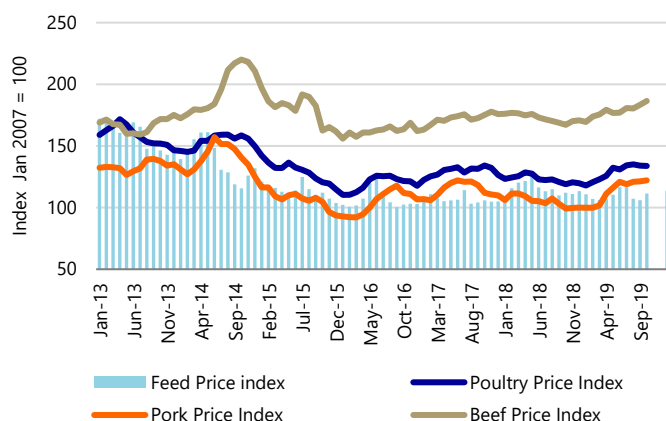
Risky Expansion of Local Asian Poultry Industry

In general, we will see a further expansion in local chicken and duck production in Asia. This will be led by local poultry integrators, with pig farmers shifting to chicken production further boosting supply. Chicken production in China has been growing strongly, and in 2019, it is expected to rise by 15%. We foresee similarly strong growth in 2020. Vietnam and other countries affected by ASF are also shifting from pork to chicken production.

These non-fundamental-driven investments are a risk for local protein industries. They are already causing volatility in markets like Vietnam, where domestic chicken prices have dropped sharply. Such volatility can also be driven by concerns about ASF among pig farmers – rumors of new ASF cases can cause sharp reactions in prices.

While initial recovery of the Chinese pork supply chain is underway, this will not compensate for pork production losses – there is enough space for all proteins to grow in order to fill the supply gap left by Chinese pork in 2020.

Figure 1: Global broiler, beef, and pork prices vs. feed cost monitor, 2013-2020f



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

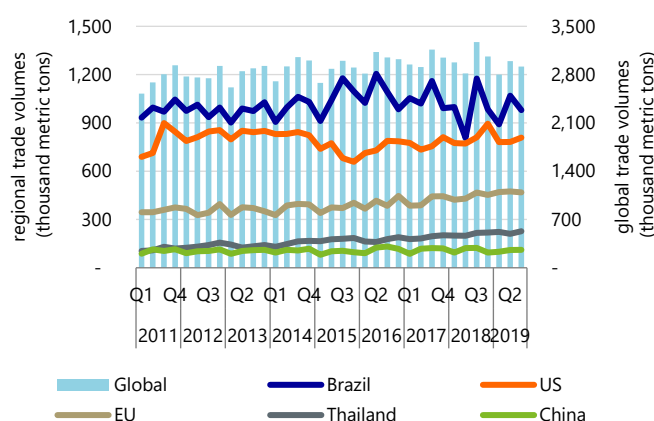
Global Trade: High, but Volatile Dark-Meat Prices

ASF is shifting the focus of global traders toward Asia, and many exporting countries have been, or will be, opened to supply ASF-affected regions – the availability of poultry for global trade will rise. The US has now regained access to China, after being out of the market for four years after a case of AI in 2015. Meanwhile, Russia and Ukraine are also gaining access to many global markets. European countries are also expected to gradually see improved access to the Chinese market, although the process has been slow. Brazil has opened the Indonesian market, with first shipments expected in 2020; meanwhile, the US started initial shipments of poultry to the Indian market after winning a WTO case.

South Africa will implement its masterplan for poultry, refocusing the industry toward more locally produced chicken and likely restricting trade (targeting Brazil). This is a similar direction to that taken by Middle Eastern countries like Saudi Arabia or the Gulf states – they are also increasing their focus on locally produced chicken. As these countries are big buyers of whole birds, this is expected to keep pressure on the whole-bird chicken market.

Trade issues between the EU and Brazil have not been solved and will likely remain in 2020, as changes are needed to Brazil’s animal-health monitoring systems. This will keep pressuring global breast-meat markets in 2020, as Europe is the only western market open to imports of breast meat. Other potential import markets such as the US, Australia, and Canada are not expected to open their markets to breast-meat imports in 2020. Therefore, Brazil needs to sell these products in much lower-priced markets such as Mexico and even China, where breast meat is not a preferred product.

Figure 2: Rabobank global poultry trade monitor, Q1 2011-Q3 2019



Source: Bloomberg, national statistics, Rabobank 2019

Asian markets, including China, and also Africa – the other big importer of chicken – will essentially buy dark chicken cuts. As ASF will cause ongoing short supply, especially in Asia, demand for dark meat is expected to remain average to strong, with ongoing average to high prices.

Continuing market shocks, combined with greater availability in the global market, are expected to make trade in dark-meat cuts volatile in 2020. This could also lead to fast shifts in trade flows, depending on price levels.

Local Markets: Some Fragile Recovery Expected

Only 14% of total global poultry demand is met via trade. This share has been dropping over recent years, but due to ASF, it is increasing again.

Some markets, such as Indonesia and India, have not been exposed to global trade and follow local fundamentals. This might change as both markets open to imports for first-time trade in 2019/20, having been forced by WTO cases to open their markets to, respectively, Brazil and the US. Other markets, such as the EU and Japan, essentially have two different markets: an import-driven frozen-meat market and a fresh local market.

Currently, the top-performing local markets are China and Mexico, which have very short supply, mainly driven by ASF in China and AI in Mexico. The outlook for both markets remains strong. Other markets such as the US, Thailand, and Japan, are seeing improvements in local conditions. In the US, this is primarily related to improved local beef prices, which make chicken more competitive. Dark-meat prices in the US are still high, but have recently dropped. The outlook for dark-meat prices is strong, mainly driven by the reopening of China, which will lead to increased US chicken exports to the country.

Thailand is benefiting from strong export growth to the EU, China, and South Korea. This is offsetting quite significant local supply in Thailand and weak exports to Japan, Thailand's traditional number-one export market. For 2020,

a recovery of exports to Japan, in combination with a more restricted supply, is key for ongoing positive margins.

The other main exporter, Brazil, has had a significantly better year than in 2018, driven by cuts in production and strong export growth to China. Having said this, total export growth is just 1% for the year until October, linked to weak demand in other traditional export destinations such as South Africa, the EU, and Saudi Arabia. For 2020, we expect similar drivers for Brazil, with the return of the US to China resulting in more competition for Brazil poultry.

The EU and Russia are on the way back, after a weak period of oversupply. In Russia, production drops have typified 2019 – a response to AI impacts on local breeding stock and various bankruptcies. The market is now improving a bit, but still a ways to go. For next year, ongoing restricted supply growth is needed in order to rebalance markets. The many openings for Russian poultry exports are positive, especially in China, which could import up to 100,000 metric tons of Russian poultry in 2020.

The EU market has been weak in 2019, but we are seeing some early indications of a recovery, with first and foremost a supply reduction. Other potential positives are the recent reduction in production growth in eastern Europe, the new quota for Ukrainian poultry imports, and some very early recovery in beef prices. Growth in the EU industry should be below 1.5% in order to really benefit from improving fundamentals. The forthcoming opening of some EU markets for trade to China will be a plus, but not a big driver of the recovery.

South Africa has had a troubling year, with rising feed prices in combination with oversupplied markets. The industry is now implementing a masterplan, which means a shift to more local supply of chicken and restrictions on imports. If this can be implemented, it will be bullish for the local outlook for 2020 and beyond.

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

		2017				2018				2019				Change	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3f	Q4f	Q2-Q3	Q3-Q4f
Live broilers USD/kg	EU	0.97	1.01	1.09	1.09	1.12	1.11	1.12	1.02	1.01	1.02	1.00	0.96	-2.2%	-3.8%
	Brazil	0.85	0.78	0.79	0.84	0.75	0.66	0.77	0.79	0.79	0.90	0.87		-3.9%	
	China	0.71	0.93	1.07	1.05	1.22	1.25	1.29	1.46	1.33	1.54	1.36	1.66	-5.8%	+21.9%
Grains & oilseeds	Wheat (USD/bu)	429	435	457	424	453	499	517	512	491	477	488	508	+2.3%	+4.1%
	Corn (USD/bu)	364	368	365	346	366	384	353	370	373	390	390	380	+0.0%	-2.6%
	Soymeal (USD/mt)	330	307	311	318	353	371	321	309	309	307	297	306	-3.3%	+3.0%

Source: Bloomberg, Rabobank 2019

Wildcards for the Outlook: Four Trade Disruptions

The biggest wildcards for the outlook for 2020 are:

Avian influenza. The number of AI outbreaks in the northern Hemisphere has been relatively limited in 2019, with just a few cases in Mexico and Taiwan. Experiences in other years has shown high risk in the period January to April. Any outbreaks in key production areas such as the EU, Japan, or the US can impact the outlook for the whole industry. In China, where human cases had a big impact several years ago, it could make the local situation even worse. Optimal biosecurity at farm level is needed in order to reduce risks.

Brexit. The UK still plans to leave the EU by the end of 2020, and this could shake up local EU trade – along with Germany, the UK is the big intra-EU import market. Poultry industries in the Netherlands and Poland are highly dependent on trade to the UK. Under any Brexit scenario, trade will surely be more difficult, and local UK production will likely increase. Exactly how much of a difficulty Brexit will pose for the EU poultry industry remains to be seen. Industry preparations to optimize production and refocus trade flows within Europe are not easy. This could affect market conditions throughout 2020. At the same time, Brexit could also be an opportunity for potential non-EU exporters to the UK, such as Brazil, Thailand, China, and the US. Any trade agreement with these exporters could impact the competitive situation in the UK and will likely impact the frozen poultry market.

Trade agreements. In previous years, large disruptions in global trade have taken place, with openings like free-

trade agreements between the EU, the US, and Japan; the free-trade agreements between the EU, Vietnam, and South Africa; and the openings of Indonesia and India for Brazilian and US imports. The reopening of China for US poultry is equally important here. At the same time, we've seen trade between Brazil, Saudi Arabia, and the EU becoming more difficult. For 2020, there are still pending trade disputes, with US-China trade negotiations being the major one. Although chicken exports to China have already been opened, trade access could be facilitated by reducing tariffs. This could strengthen the position of US poultry and lead to changes in global trade flows, with more space likely available in traditional US export markets like Mexico, Cuba, and Angola, among others. The rise of Ukraine and Russia as global exporters, with more markets opening for their exports, is also a disruptive factor for global trade. From a market-access perspective, the shifts toward local food security in the Middle East, South Africa, Nigeria, and Ghana will likely mean lower – or at best, stable – export flows, and could hit US and EU exports.

Feed prices. There is currently little upside risk in global feed prices. Soybean stocks are still sufficient, although slightly below last year's levels, due to lower US soybean supply. However, they are offset by lower buying activity, especially in China, leading to limited upside risks. Corn and wheat markets are currently balanced, with lower US supply being compensated by higher supply from eastern Europe. For feed prices, there are some potential risks – the US-China trade negotiations, ASF, and weather could all potentially affect the outlook. A trade deal that delivers better access for US grains & oilseeds to China could be bullish for prices, while a worse ASF situation could be a downside for prices.

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	Q4	Q2-Q3	Q3-Q4
Whole chickens	Brazil wholesale	119.7	112.8	109.4	119.4	99.2	89.4	92.9	113.4	112.7	125.2	110.5	110.7	-11.7%	+0.2%
	EU wholesale	189.0	200.6	216.0	214.6	225.3	223.4	219.5	211.4	205.9	215.3	207.1	206.3	-3.8%	-0.4%
Breast meat	EU import price Brazil	193.6	219.3	240.0	256.3	276.1	277.9	283.3	263.8	243.2	242.5	224.8	236.8	-7.3%	+5.4%
	EU import price Thailand	243.5	233.6	257.9	277.4	300.4	282.7	279.8	276.3	278.7	246.8	242.9	263.8	-1.6%	+8.6%
Leg quarters	US leg quarters, northeast	75.9	88.3	93.9	83.3	84.0	85.5	81.6	72.9	82.8	110.5	102.9	82.3	-6.9%	-20.0%
	Japan import price	190.1	171.3	199.4	211.4	178.0	162.0	175.8	174.9	145.7	162.6	177.3	183.6	+9.1%	+3.5%
Feet	China import price	220.1	215.2	218.3	208.9	223.07	230.4	234.2	233.8	249.8	279.98	302.46	305.94	+9.7%	-0.6%
Processed chicken	EU import price Brazil	193.5	236.3	248.8	239.2	285.6	291.8	299.2	312.6	310.6	316.8	311.8	303.8	-1.6%	-2.6%

Source: Eurostat, Food and Agriculture Organization of the United Nations, national statistics, UBABEF, USDA, Rabobank 2019

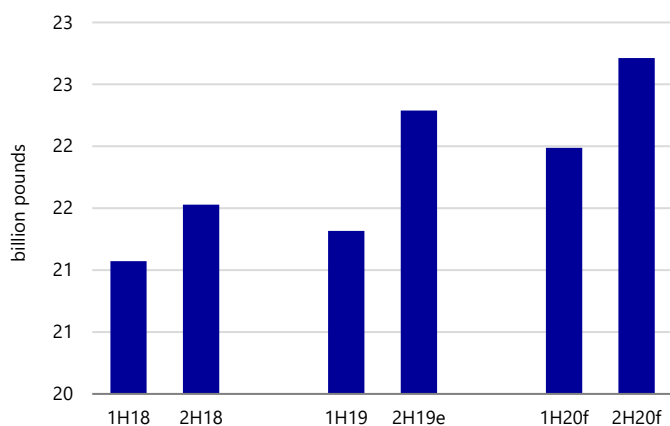
US

After a challenging 2019, the US broiler industry is expected to see improved returns in 2020. Weakness in breast-meat prices (-1% YOY) at year-end more than offset Q4 gains in leg quarters (+35% YOY) and wings (up 23% YOY), and contributed to break-even results for integrators. Price weakness in 2019 has attracted retail and foodservice interest, and bodes well for improved feature activity in coming months. Rabobank also expects tightening US beef supplies to favor chicken promotion, as sharply lower lean-beef imports increase costs and drive a reduction in burger promotions.

We expect growing global demand for chicken to remain supportive to dark-meat values in 2020, particularly as the US regains access to the Chinese market. Initial sales of chicken paws will add considerable value to integrators, while sales of wing tips and drums are being discussed. Sales will ultimately hinge on tariffs, and, to a lesser degree, labor and cold storage. Year-to-date chicken exports are essentially flat vs. year-ago levels, with gains in Mexico and Cuba offset by a sharp drop in shipments to Angola and Canada. Trade policy is likely to remain top-of-mind for the industry, particularly as USMCA remains unratified.

Strong Q4 2019 production gains (up 5% on slaughter, up 1% on weight) are expected to slow in 2020, as the industry laps recent expansion. The continued ramp-up of operations at recently completed facilities is expected to drive nearly 3% growth in 1H 2020, while a new plant should contribute to 1.5% growth in 2H (see Figure 3).

Figure 3: US biannual production volumes, 2018-2020f



Source: USDA, Rabobank 2019

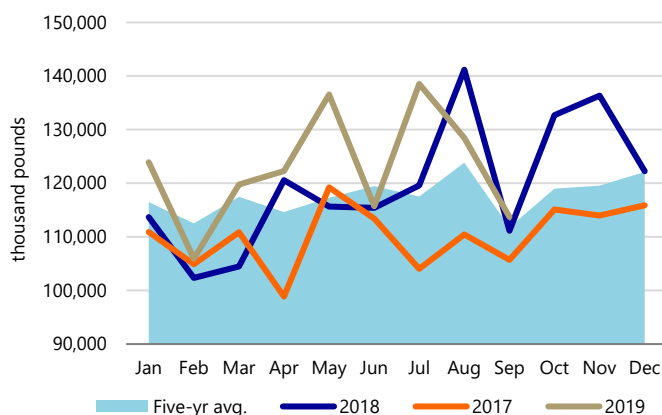
Mexico

Chicken production in Mexico should see another year of positive growth, driven by higher domestic demand. As 2020 is around the corner, chicken production in Mexico is expected to grow by 3%, to a total of 3.7m metric tons. While production continues to grow, year-on-year growth slowed down after growing 3.3% in 2019. However, despite a short rally on corn prices over the summer of 2019, feed prices for 2020 will remain stable.

Domestic consumption should see an increase of 130,000 metric tons for 2020, to a total consumption of 4.573m metric tons. As the Mexican economy shows signs of weakening, a slowdown in consumer confidence as of July has followed a month-on-month decline, after reaching a peak in February 2019. As household budget is adjusted to reflect current conditions, animal protein consumption should see a deceleration in consumption compared to previous years. Chicken should see the least impact on consumption, due to its availability and affordability compared to other proteins.

The impact of ASF continues to draw demand for poultry products in regions affected by the virus. International prices are likely to see some pressure, which could affect Mexican imports of chicken products. Imports for 2020 should increase by 2.4%, to 870,000 metric tons, keeping the average 20% relationship of imports to domestic consumption. US exports have been strong this year, while Brazil continues to increase its share of exports to Mexico (see Figure 4). However, with increasing demand from China for poultry products, availability might put pressure on breast prices.

Figure 4: Mexican poultry imports from the US, 2017-2019



Source: USDA, Rabobank 2019

Brazil

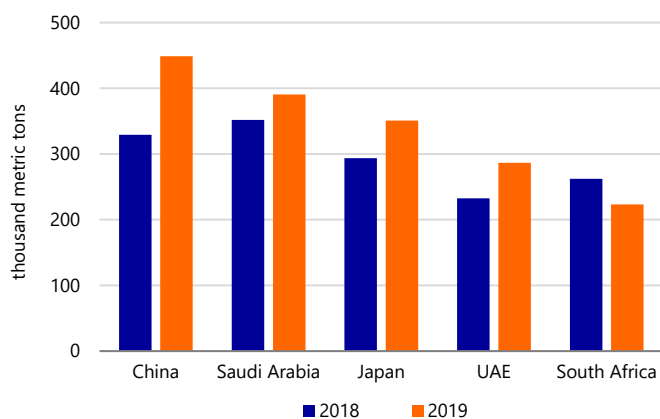
Brazilian poultry exports have increased 1% YTD, based on performance from January to October. China has continued to drive this increase and has become the leading importer of Brazilian poultry, surpassing Saudi Arabia. Other than China, countries like Japan, the UAE, and South Korea have also been boosting their Brazilian poultry imports. However, the limited increase in exports in 2019 is due to South Africa and Hong Kong, who reduced their purchases by 15% and 6%, respectively, compared to the same period in 2018.

Seasonal improvement in domestic demand – with the onset of warmer seasons – reversed the downward price trend that occurred in the middle of 2019. Even with the slight price drop of 0.2% for whole broiler in the monthly comparison of October, meat cuts have already risen in value in the second half of the month (see Figure 5).

Regarding production costs, preliminary projections show that Brazilian grain production in 2020 should be similar to that of the previous season. Despite the slight expansion of area, lower productivity rates are expected. Thus, for 2020, animal feed costs should show a slight increase in relation to the average values of 2019 – a movement that started at the end of Q3 2019.

In the coming months, domestic prices are expected to continue to rise, with the industry testing consumer purchasing power. Significant increases in beef prices during November may cause poultry meat to appreciate, due to migration to cheaper proteins. Keep an eye on ASF worldwide, and the trade war between the US and China, as they will directly impact demand for Brazilian grains and meat.

Figure 5: Brazilian poultry exports, Jan-Oct 2019



Source: SECEX, MDIC, Rabobank 2019

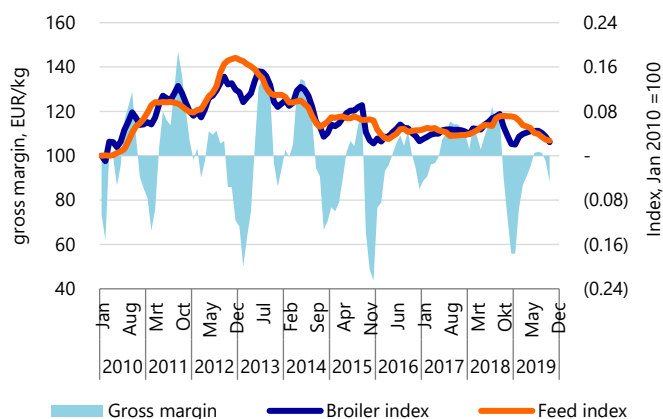
Europe

The outlook for European poultry for 2020 remains challenging (see Figure 6). The core problem in 2019 has been the fast expansion of production, combined with slower demand growth (2.2%, compared to 4% in 2018). At the same time, imports increased by 6% in 2019, compared to 2018, mainly because of higher Brazilian and Ukrainian imports. For 2020, some fundamentals are improving, like some early recovery of rising beef prices (but still below the five-year average), the new quota for Ukrainian poultry imports (which restricts import volumes), and some slowdown in European production expansion, especially in eastern Europe.

Positive for 2020 are pending openings for European poultry companies to export to China. After France and Poland, Germany and Hungary are close to opening exports to China. This should support dark-meat prices, although potential upside will be somewhat offset by the opening of the US and Ukraine for exports to China. Total exports will be bullish in 2020 – in our view, they will rise by 4% to 5%, in line with the growth we've seen in the last decade. Trade flows will move a bit further toward Asia (where the industry will benefit from the impact of ASF), while demand in Africa will stay strong.

In terms of intra-EU markets, restrictive supply growth will shape the outlook – supply growth should not be more than 1.5% in 2020, in order to keep markets balanced. This is also important, as the UK is expected to leave the EU at some time in 2020. Brexit could result in changes in intra-EU trade flows, especially as the UK is already increasing local production. Exporters like Poland, the Netherlands, Hungary, and France will need to refocus their market strategies in order to adjust to this new reality.

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



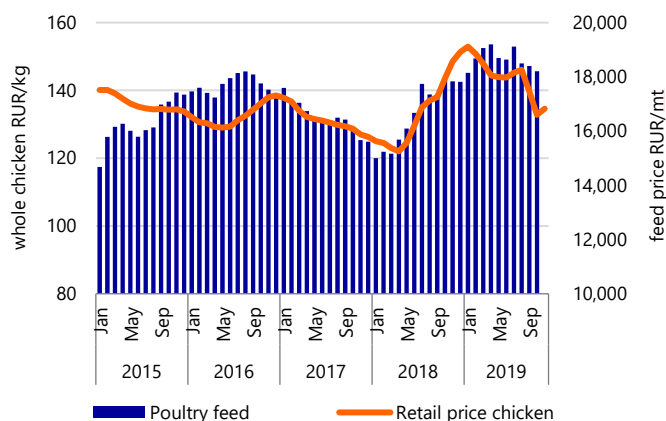
Source: Bloomberg, Rabobank 2019

Russia

The Russian meat market has changed significantly in 2H 2019, with pork production moving into oversupply after fast growth in production in 2019 (+7% until October, compared to the same period last year). Russian pork prices have seen a sharp decline since July 2019, while in the same period, beef increased 5%, to RUR 390/kg in October, its highest level in many years. To some extent, the chicken industry has followed the decline in pork prices (-7%) (see Figure 7). The fall in chicken prices has been problematic for the Russian poultry industry, as prices for feed have remained relatively stable due to the grain harvest being below expectations. According to Rostat, poultry production dropped 3% in the first nine months of 2019 – though recent months show some recovery (+2%), which is probably one reason why prices dropped. Poultry exports are expected to rise in 2019, to 250,000 metric tons, of which 50,000 metric tons are expected to go to China.

The outlook for Russian poultry for 2020 remains challenging. Weaker market conditions are still causing some bankruptcies, while the bigger players keep reporting challenging financials. Recovery of the industry depends on rebalancing supply and demand. Key here will be restricted supply growth, in combination with the further development of domestic poultry markets and export markets. Exports are expected to remain strong: Rabobank believes exports could rise to 300,000 metric tons to 350,000 metric tons in 2020, especially as market access for Russian products keeps increasing. More companies have access to markets that are already open (China, Vietnam), and other import markets are opening to Russian supply (Hong Kong and the UAE).

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



Source: Rostat, Rabobank 2019

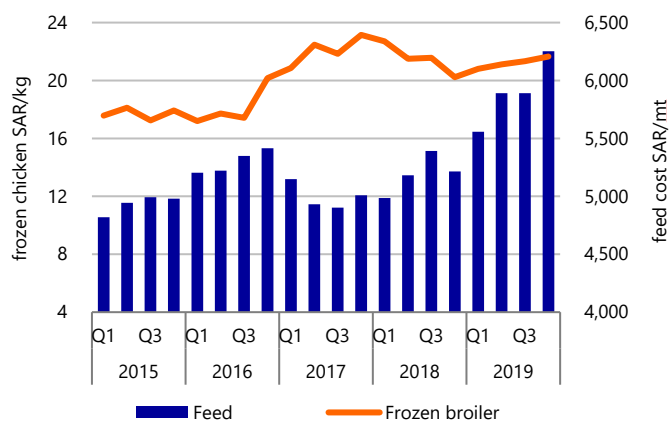
South Africa

The South African poultry industry's financial performance has been challenging in 2H 2019 (see Figure 8). The industry has been experiencing difficulties in passing on higher feed prices to the consumer, especially as economic conditions have been more challenging. Higher feed prices are a consequence of the smaller grain crop in 2019, due to more adverse weather. Although imports into South Africa in the first nine months of 2019 dropped by 6%, the production increase of 2.6% in the same period offset this impact on the market. Brazilian exports dropped 22%, while the EU returned as a sizeable exporter, with 100,000 metric tons exported in this period. This change in the origin of imports also led to a change in products, with 28% fewer chicken bone-in thighs, but 32% more MDM.

The outlook for the South African industry remains challenging, as the country is again experiencing drought. Future prices for corn, wheat, and soybeans indicate ongoing high feed prices for 2020, which will keep chicken prices at high levels.

A notable positive for the poultry industry is the recently agreed poultry masterplan for South Africa. A key element of the plan is to increase poultry consumption via more domestically produced chicken, while also developing export markets. The government and industry agreed on a plan to expand at all stages in the value chain – from grains to feed production to poultry production. Restrictions on imports will be part of the new direction, with Brazil the first exporter named. If this happens, it could improve the supply balance and margins in the industry, but could negatively impact price affordability.

Figure 8: South African broiler and feed price trend, Q1 2012–Q4 2019f



Source: SAPA, News24, Rabobank 2019

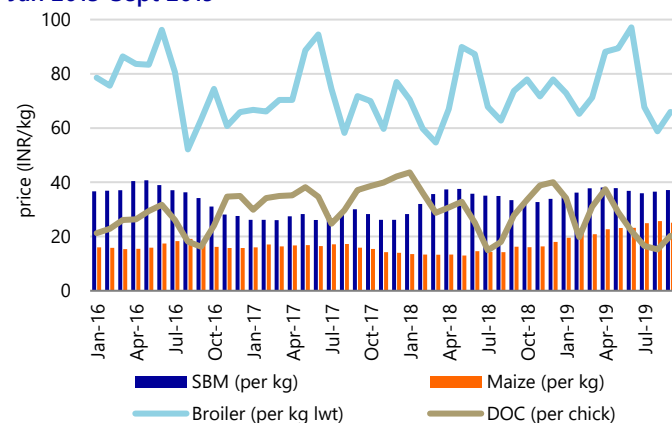
India

Listed poultry integrators reported sequentially lower Q3 2019 earnings, in line with a low-demand season and margin contraction. Live broiler prices averaged INR 64/kg in Q3 2019 (-6% YOY; -30% QOQ) (see Figure 9). In response to the corn price spike year-to-date, feed millers have substituted some corn with wheat – whenever there is cost advantage vs. corn – to manage price shocks and to have better control on raw material supply.

Q4 2019 chick-in volumes are expected to recover on seasonally higher demand – so are breeding and feed-milling volumes. However, poultry integrators' Q4 2019 and Q1 2020 profitability is expected to decline compared to the previous year – as higher feed raw material inventory costs are realized. Rabobank anticipates soybean prices to remain elevated – at INR 30/kg to INR 35/kg through March 2020 – due to flood damage this year. Corn prices eased to INR 19/kg to INR 20/kg in November 2019, and they are expected to remain stable through March 2020, on supplies from new-corn crop.

In response to a recent WTO ruling, we understand imported chicken cuts have entered India earlier this year. Imported chicken leg quarter could increase competition in the long run, given consumers' preference for dark meat. However, a significant share of India's chicken sales is still through live markets. Imported chicken cuts may find channels such as modern trade and quick-service restaurants with established cold chain infrastructure... but their volumes are expected to remain immaterial.

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



Source: NCEDX., Rabobank 2019

China

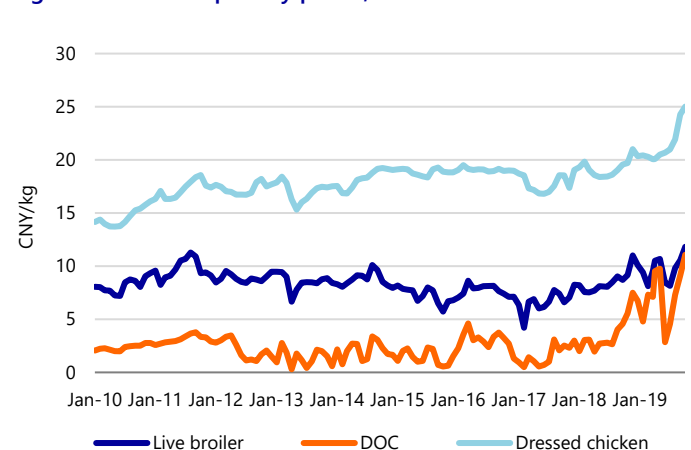
China's poultry market has greatly benefited from the pork supply issue in 2019, but poultry prices have experienced a few ups and downs. Poultry prices peaked in October 2019, immediately after the steep jump of pork prices, with the DOC price reaching RMB 14/bird – more than double the price a year ago – and live-bird prices exceeding RMB 10/kg, up 33% YOY (see Figure 10). However, entering November, poultry prices dropped significantly, following the decline in pork prices, which were impacted by liquidation, given the fear of another round of ASF outbreaks.

Poultry production is estimated to have increased by 15% in 2019, driven by the increase in all species, including white bird, yellow bird, hybrid bird, and waterfowls. Given capacity expansion in 2019, we expect poultry production to grow at an even faster rate in 2020.

The momentum of strong grandparent (GP) stock imports has continued in recent months, with total imports and domestically produced breeding stock reaching around 650,000 sets, according to Boyar – up 50% YOY. We expect to see stronger imports of GP stock in 2020, due to the ban on US poultry being lifted.

Poultry imports in the first ten months of 2019 increased by 52% YOY, reaching 628,000 metric tons, while average import prices reached a record high in October. With the increasing diversification of supplying countries, Brazil's share has decreased from over 86% in 1H 2018 to 69% now. China recently lifted the ban on US poultry, during the 'phase one' negotiations for a US-China trade deal. We expect the momentum of strong imports into China to continue in the next months.

Figure 10: Chinese poultry prices, Jan 2010-Oct 2019



Source: Bovar, Rabobank 2019

Japan

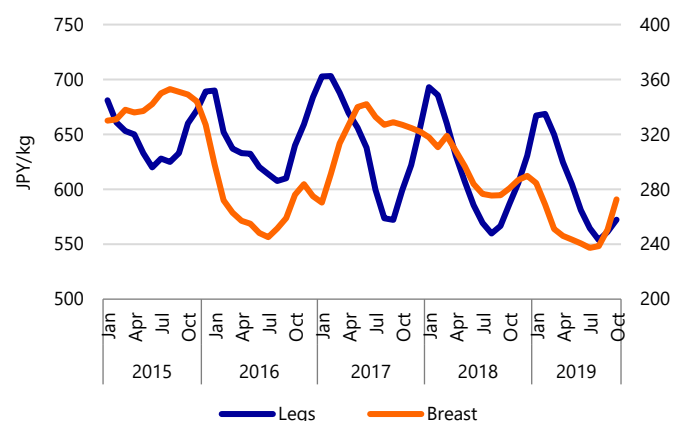
Japanese poultry prices have been low this year. Q3 2019 average leg prices are 1.5% below last-year levels, while breast-meat prices dropped 8.4% compared to Q3 2018 levels (see Figure 11). A key reason for the relatively low prices in Japan is increased trading activity, especially for breast meat. The relatively low stock levels in Japan – together with good availability in global markets – also contribute. Traders significantly benefited from low global breast meat-based products and increased imports.

Domestic chicken supply in Japan is also expanding, with production up by 2.8% for the first nine months of 2019 2.8%, to higher levels than in other years.

Prices for imported beef in Japan have dropped as well compared to Q3 2018 (-5%). Only prices for imported pork are now showing an increase (+1% in Q3 2019 vs. Q3 2018). This increase is driven by ASF-related turmoil in global trade. The price impact in Japan is, however, much lower than in other markets.

The outlook for the Japanese poultry industry should be better in 2020, especially as beef and pork prices are tending to stay high, based on tight global supply. But we will see ongoing volatility in markets – caused by the ASF situation – and by new production capacity in pork and chicken coming onto the market. Trade disruptions will impact the Japanese market, due to its large trade dependence. There are also ongoing worries about ASF in Japan, as several neighboring countries have been hit (like South Korea and Russia).

Figure 11: Japanese poultry prices, Jan 2015-Sep 2019



Source: ACLI, Rabobank 2019

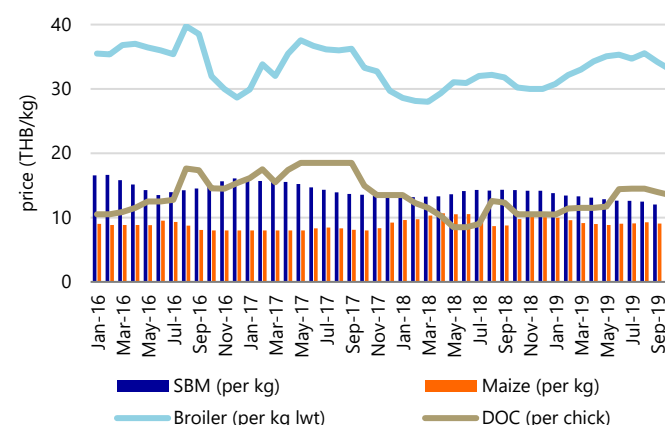
Thailand

Thailand's poultry export volumes expanded 7% YOY, to 610,400 metric tons in the first eight months of 2019, based on UN Comtrade data. Continued strong demand from the EU (+6% YOY, to 159,340 metric tons), Greater China (six-fold increase YOY, to 46,110 metric tons), and South Korea (+55% YOY, to 28,270 metric tons) has fueled the increase. This was only partially offset by a 2% YOY drop in exports to Japan, to 286,970 metric tons.

The strong exports, broiler price recovery, and higher feed-milling margins have contributed to the sequential improvement in Q3 2019 profitability of listed poultry integrators. Average live broiler prices eased in October 2019, to THB 33/kg lwt – from THB 36/kg lwt in August – in part dragged down by the 27% drop in live hog prices since June (see Figure 12). Both live chicken and hog prices have indicatively recovered in November. We expect poultry feed costs to decline marginally in Q4 2019, supported by declining soymeal prices (which averaged THB 11.8/kg in October, down from THB 12.4/kg in Q3 2019) and feed wheat imports. We expect Q4 2019 profitability to sequentially expand, on the prospect of consistent broiler prices and seasonally higher domestic demand.

Thai poultry consumption is forecast to grow by 3%, to 2.42m metric tons cwt in 2020 – translating to per capita consumption of 35.7kg cwt. In 2020, Thai poultry exports are expected to expand by 7%, to 1.02m metric tons, driven by strong demand in Asia. Pork shortages, due to ASF impacts, will help fuel some substitution by poultry.

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



Source: Thai Feedmill Association, Rabobank 2019

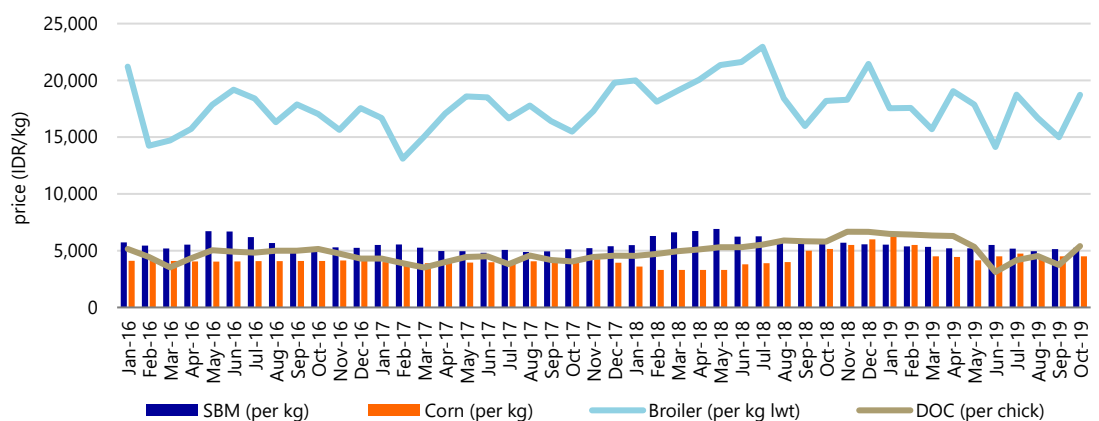
Indonesia

In dealing with the oversupply situation, Indonesia's government issued more culling instructions (final and parent stock) to be undertaken through December 2019. However, we expect oversupply to persist in 2020, given continued expansion in allocated GPS import quotas in 2018 and 2019. Moreover, in response to the recent WTO ruling, there may be competitive risk from cheaper imported cuts and mechanically deboned meat (MDM) in 2020. However, this will remain subject to Indonesian Halal certification and logistical infrastructure. The share of imports would also remain confined to further-processing and foodservice industries. Rabobank forecasts Indonesia's 2020 per capita poultry consumption to expand 4% YOY, to 13.6kg cwt – translating to total demand of 3.67m metric tons cwt (+5% YOY).

Losses in commercial farms and a weaker breeding segment continue to drag overall Q3 2019 margins. Rabobank anticipates poultry integrators' Q4 2019 earnings to recover, as broiler end demand seasonally picks up and broiler prices return above cost. But while quarter-to-date better broiler pricing should increase chick-ins and feed uptake, sequential margin expansion will remain driven on feed cost pass-through. Processed chicken margins may not be materially impacted by the slight increase in broiler costs, as we expect some rollback of promotions offered in Q3 2019.

Dressed broiler retail prices averaged IDR 34,290/kg cwt in November 2019 (flat year-on-year), climbing 3% from an average of IDR 33,360/kg cwt in October 2019 – reflecting improvement in the live-bird market. Prices are expected to ease again in the Q1 2020 low season (see Figure 12).

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



Source: industry sources, Bloomberg, Rabobank 2019

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