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Strong Industry Performance with a Shake-up in Global Trade

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Global Animal
Protein Sector Team

Lead author

[Nan-Dirk Mulder](#)

Senior Analyst – Animal
Protein
+31307123822

For a full list of authors,
see back page

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Global poultry is currently performing well, with profitability in most regions in the world, despite the ongoing global pressure of avian influenza (AI), especially in Asia. The big exception remains China, where the negative impact of human AI cases has kept prices down. Global trade has reached record-high levels, but trade streams have shifted. The US and, to a lesser extent, Thailand have been the winners in this trade shake-up, due to AI-related restrictions and the impacts of the 'meat scandal' in Brazil.

Human AI cases in China are still spreading and impacting the market, although prices have recently recovered somewhat. A concern is the further spread of the virus in China, with recent movements to northern regions. Chinese local authorities have closed many live bird markets, and this has had a particularly big impact on the yellow-bird market. Imports are relatively unaffected, as they serve the processed meat market.

The Brazilian 'meat scandal' is having a significant impact on global trade. Exports from Brazil have been dropping since March (April: -23%), and this has created an additional shift in global trade streams, on top of the AI-related impact. The US has been the winner, with European exporters also taking some of the Middle East trade.

Most global markets are performing well, with a combination of strong demand, restricted supply, and ongoing low feed costs. Industries in Mexico, India, Thailand, and Japan are performing particularly well, while South Africa and the EU are on the road to recovery.

Global meat trade is highly volatile, but reached a record-high Q1 level of 3m tonnes. Aside from the changes in raw trade driven by AI, along with the meat scandal, a potentially big—but still uncertain—development could be the entry of Chinese cooked chicken into the US market.

Global chicken monitor*
Q1 2013-Q2 2017f

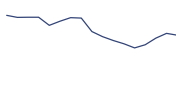
Whole chicken



Breast meat



Leg quarters



* Chicken price trend for cuts entering global trade

Improved conditions, but rising AI concerns challenge outlook

US: Strong recovery with export growth

- Improved margins with strong prices
- Strong export growth (+9%)
- Limited production growth (+1.8%)



Brazil: Meat scandal hits exports and prices

- Industry hit by meat scandal in March
- Exports dropped in March and April
- Prices under pressure, but partly offset by low feed prices



EU: Many AI outbreaks, but solid market

- Industry heavily affected by AI
- Increased exports despite many restrictions
- Solid performance expected in Q2, with strong demand



China: Human AI cases still impact market

- Ongoing new human AI cases, with a move to northern regions
- Yellow-bird market heavily hit by wet market closures, but starting to recover
- Imports of chicken largely unaffected



Global outlook

Good performance—but human AI cases are shaking up global markets

The global poultry industry had a rather strong Q1 2017, with most regions in the world performing relatively well. Global average prices have increased slightly, with firm competitive meat prices, while average feed prices remained stable (see Figure 1 and Table 1 and 2). This situation is expected to remain stable for the next two quarters, as most markets are currently in balance—partly because of the limited availability of breeding stock (a side effect of AI, especially in Asia) and partly because of ongoing strong demand in most global markets. Industries in the US, Mexico, India, Japan, and Thailand are performing well and are expected to keep performing well in the coming months, while the EU and South Africa are on the road to recovery, although there is some concern about oversupply in both regions. Russia is in a more fragile situation (because of oversupply in the meat market), as is Brazil (because of reduced export demand after the ‘meat scandal’ in March).

China: When will the recovery start?

China is still the worst-performing industry globally. Human AI cases continue to spread throughout the country, with the virus moving to northern regions over the last several months. The closure of live bird markets has a big impact—as traditionally, 60% of Chinese supply is sold in live bird markets—and this has caused prices to drop sharply, although they are showing some recent

signs of recovery. The outlook depends on how quickly the virus pressure will be controlled. The closures of wet markets throughout the country and hotter weather in the upcoming summer months will be major factors in this.

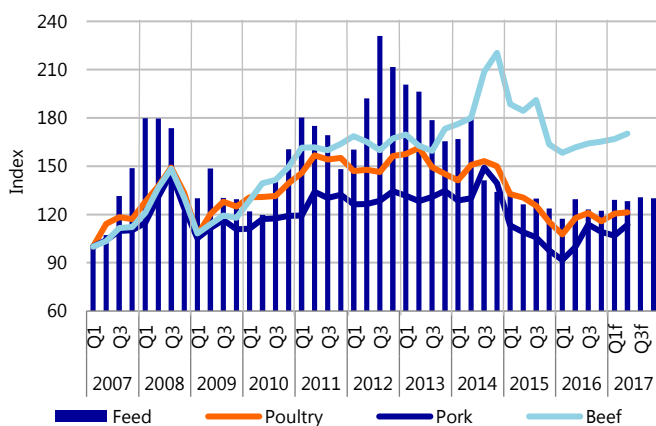
Global trade: AI and meat scandal lead to shake-up

The two biggest themes from a global trade perspective in the first five months of this year are an ongoing—probably longer-than-expected—spread of AI in Europe, Asia, and Africa, and the ‘meat scandal’ in Brazil, in which several companies have been accused of irregularities in meat inspections. These two themes continue to have a relatively strong impact on the global market.

Global poultry trade has grown to a record Q1 level of 3m tonnes, 5% higher than the same quarter last year, despite the restrictions set by many countries due to AI cases in exporting countries, (see Figure 2). This indicates that importing countries have adjusted to the new reality of ongoing AI pressure by shifting their trade streams.

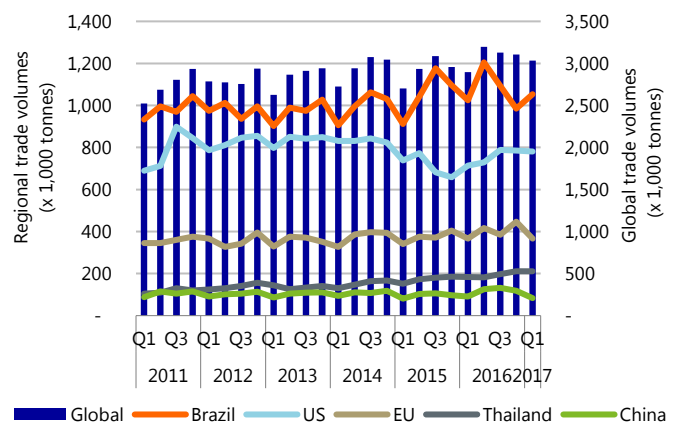
These shifting trade streams are the big theme in global trade. Until the meat scandal, Brazil was the winner in the first months of the year, with sharp rises in exports, and increased exports to Asia and Africa, where it took share from some European exporters after these countries were banned due to AI cases.

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-Q1 2017



Source: Bloomberg, national statistics, Rabobank 2017

The meat scandal changed this situation, and after a short period of country-wide import restrictions, most importing countries decided to restrict only the suspected meat plants. However, impact on trade is still significant, and poultry exports in April dropped by 25%, compared to the same month last year. Importers have been increasingly looking for alternative suppliers.

The US has been the big winner. The limited number of AI cases in the country has put export availability at a high level, and the US has been taking over some of the EU and Brazilian dark meat markets (such as South Africa). This has led to an exceptional increase of US exports—by 10% in March of this year, with increasing prices until May due to strong demand for US poultry products, both locally and internationally. The biggest change has been in the global whole broiler market, a segment which has been dominated by Brazil. The meat scandal impacted this segment, as some of the inspected plants were also supplying the Middle East, and import restrictions by the big importers from this region led to a sharp drop in Brazilian exports (Saudi Arabia -7%, UAE -10%). The EU has been able to take over some of the

lost market (+5%), but not enough to compensate for the lost Brazilian imports.

The only major importer that has not reduced Brazilian imports has been the EU. The EU itself has been heavily impacted—by more than 1,000 cases of AI all over the region, with most countries being affected. Many countries had introduced import restrictions on a regional basis, but the main export market, South Africa, as well as most Asian countries—such as China, South Korea, Japan, and Vietnam—are blocking whole countries.

From this perspective, it has been a great achievement that the EU increased its export position in the first months of this year, and it demonstrates the industry's strong flexibility in terms of export supply and market access.

The outlook: More competition

Global trade is expected to be more competitive in the coming months. The US will defend its improved market position, while Brazil will try to regain markets, possibly through some price concessions. At the same time, the

Table 1: Global live broiler and feed ingredient monitor, Q1 2014-Q4 2017f

		2015				2016				2017				Change	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2f	Q3f	Q4f	Q4-Q1	Q1-Q2
Live broilers <i>USD/kg</i>	<i>EU</i>	0.98	1.00	1.01	0.95	0.99	1.05	1.06	0.99	0.97	0.99			-2%	+2%
	<i>Brazil</i>	0.82	0.76	0.78	0.79	0.70	0.76	0.95	0.93	0.85	0.80			-9%	-6%
	<i>China</i>	1.28	1.18	1.18	1.00	1.18	1.22	1.20	1.08	0.71	0.98			-32%	+38%
Grains & oilseeds	<i>Wheat (USD/bu)</i>	524	505	510	493	466	471	406	403	429	435	445	451	+7%	+1%
	<i>Corn (USD/bu)</i>	385	365	382	373	363	391	332	348	364	370	375	365	+5%	+2%
	<i>Soymeal (USD/tonne)</i>	338	315	335	292	267	356	337	311	330	310	315	310	+6%	-6%

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

Table 2: Global whole chicken and chicken cut markets (USD/100kg), Q1 2014-Q1 2017f

		2015				2016				2017				Change	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2f			Q4-Q3	Q1-Q4
Whole chickens	<i>Brazil wholesale</i>	125.4	116.9	106.1	107.4	100.5	106.5	134.5	136.4	119.7	116.3			-12%	-3%
	<i>EU wholesale</i>	210.3	210.5	212.6	199.3	197.0	203.5	198.1	188.7	189.0	190.2			0%	+1%
Breast meat	<i>EU import price Brazil</i>	257.5	253.7	235.2	223.2	222.1	207.4	204.1	191.2	193.6	233.1			+1%	+20%
	<i>EU import price Thailand</i>	328.4	340.3	320.1	273.5	268.2	248.8	243.6	244.2	243.5	256.8			0%	+5%
Leg quarters	<i>US leg quarters, north-east</i>	84.7	70.3	55.8	52.0	60.5	73.5	73.7	72.2	75.5	83.5			+2%	+5%
	<i>Japan import price</i>	180.2	176.5	177.6	170.5	191.5	157.7	168.0	185.9	167.1	158.0			-11%	-10%
Feet	<i>China import price</i>	160.0	211.1	224.4	221.6	202.5	204.5	217.7	220.1	220.1	215.2			0%	-1%
Processed chicken	<i>EU import price Brazil</i>	302.3	301.6	283.1	229.9	236.3	211.8	216.2	213.5	193.5	191.3			-9%	-1%

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

EU will return when markets reopen after the current winter-season AI outbreaks, which are now phasing out. The return of the EU and the expectation of active positions of Brazilian traders could lead to a new price war in international trade, with Brazil benefiting from its low cost base due to the current low local feed prices after a good crop harvest.

Thailand will continue to benefit from its leadership in the higher-value processed meat markets, where its competition has been relatively low—and probably even lower after the reputational damage of its main competitors, China and Brazil.

Will China enter the US chicken market?

In the longer term, there might be a big change in this market segment if China gets access to the US market as part of a current trade deal between China and the US. Under this trade deal, the US will gain access to the Chinese beef market, and China will gain access to the US processed cooked-poultry market. We recognise that this could potentially be a big development, as the US is the world's biggest cooked-chicken market, and China could be very competitive in this market segment due to its low white-meat prices, in combination with low labour costs. There are, however, some hurdles that need to be cleared. Implementation is still uncertain and will likely be mapped in the so-called '100-day plan'. One of the major issues will be the need to comply with USDA rules around Newcastle disease-free chicken production, which has been a major burden for other importers trying to gain access to the US poultry market. Another issue might be consumer acceptance of Chinese products. In theory, consumer acceptance, which has been an issue in the past, shouldn't be a big issue in the future, as China has been supplying other high-value markets like the EU and Japan for years, and many US companies are involved in these trade streams. Practice may not reflect the theory, though, if local campaigns are successful in making a case against imported chicken.

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: Oversupply has depressed EU margins, but bottom reached

<i>Production broiler</i>		<i>Export poultry</i>		<i>Import poultry</i>		<i>Whole frozen broiler price</i>		<i>Feed price</i>	
Growth in CEECs		Weak euro		More Thailand and Ukraine		Weak heavy-bird market		Lower costs	
Mar: 740	YTD: 2,165	Feb: 120	YTD: 240	Feb: 73	YTD: 146	Apr: 1.78	YTD: 1.77	Mar: 0.31	YTD: 0.32
Δ +6.1%	Δ +5.6%	Δ +4.3%	Δ +5.3%	Δ +0.1%	Δ +0.4%	Δ -1.4%	Δ -0.5%	-0.6%	-0.9%

Source: Eurostat, MEG 2017

US: Production growth slowdown to rebalance markets

<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		HPAI is the key		On the upswing		Modest decline ahead		Feed cost relief to slow	
Mar: 1,639	YTD: 4,669	Mar: 284	YTD: 786	Mar: 2.08	YTD: 1,94	Apr: 2.16	YTD: 2.07	Apr: 0.38	YTD: 0.37
+1.6%	+1.9%	+9.5%	+4.8%	+12.1%	+4.5%	+7.1%	+5.4%	-9.19%	-3.1%

Source: USDA 2017

Brazil: Strong demand challenged by sharply rising costs

<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	
Dec: 1,085	YTD: 10,039	Apr: 317	YTD: 1,053	Apr: 2.59	YTD: 2.66	Apr: 3.65	YTD: 3.76	Apr: 0.61	YTD: 0.71
-1.8%	+2.3%	-6.1%	+3.1%	-3.9%	-3.0%	-3.4%	-4.2%	-22.1%	-19.8%

Source: CECEX, MDIC 2017

US

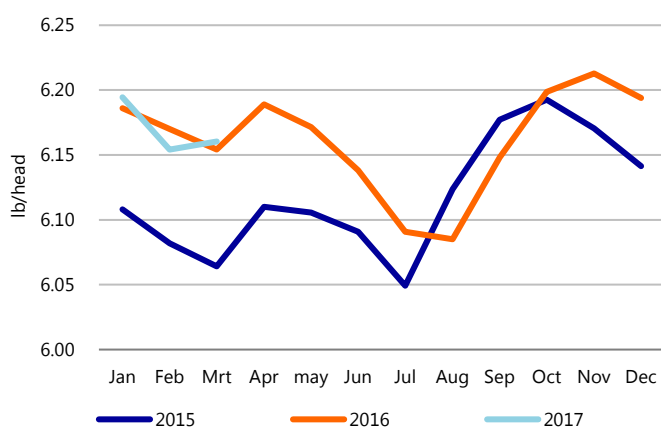
The US poultry sector saw a strong start to 2017, with climbing prices and favourable profit margins. Based on the publicly traded US poultry companies, the March quarter was the sixth straight quarter of positive profit margins. Somewhat concerning is that margins contracted a couple of percent, despite prices being flat, if not higher, than a year ago on a wholesale basis. This may be evidence of increased competition from ever-rising beef and pork supplies, putting pressure on producers.

Chicken prices are up 6% in Q1 on a composite basis vs. the same period last year, which has been driven largely by improved dark-meat values, but also a slight increase in breast-meat prices. We should see strong price trends into the summer, as evidenced by the trajectory in pricing through mid-May, which is currently up by close to 10%.

Exports have been quite strong so far this year, including a 9% increase in the first quarter. Despite some challenges in poultry exports to Mexico, which fell close to 10%, exports to Angola are up 78% and Cuba up 47%. With poultry prices in Mexico having surpassed pork, there is a good chance that the circumstances the US has encountered so far this year will improve going forward.

Supply growth of US poultry is in line with our forecast last quarter, with 1.8% production growth in Q1 vs. our forecast of 1.5% to 2.0% supply growth for 2017. With bird weights flat with prior-year levels, supply growth will continue to be driven by increased bird numbers from new plant construction (see Figure 3).

Figure 3: Average live weight, Jan 2015-Mar 2017



Source: USDA, Rabobank 2017

Mexico

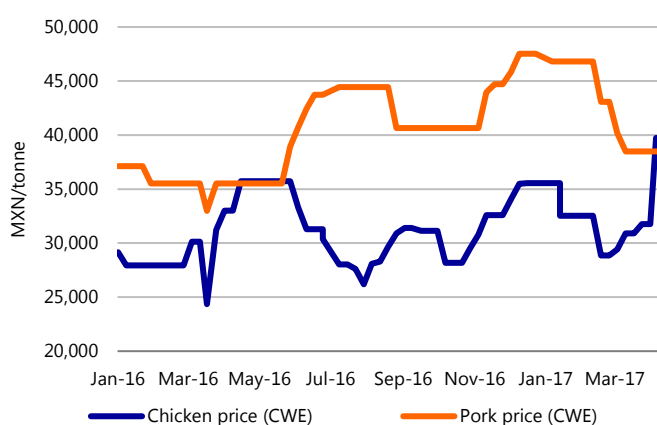
Chicken meat prices in April increased on a month-by-month basis by 22% (see Figure 4). This 22% increase in prices has pushed chicken above pork prices (carcass weight equivalent), making chicken the more expensive protein. However, given that pork continues to struggle with PEDv, we could potentially see pork meat become more expensive, leaving chicken meat prices well-supported during the summer.

Grain prices in Mexico have begun to decrease as the Mexican peso stabilises against the US dollar. Strength in the peso has caused corn prices to go from a high of MXN 4,280/tonne in January to MXN 3,820/tonne in April, an 11% decrease. High domestic prices and low input costs should support poultry producer margins.

Domestic consumption is expected to increase in the second quarter, as religious holidays come to an end. As we enter this quarter, demand for chicken meat will increase, putting upward pressure on prices. Domestic consumption is expected to increase 2.3% from previous years, to reach a total consumption of 4.2m tonnes at the end of this year.

Chicken imports from the US in January and February are down 10%, compared to the same period last year. On the other hand, Mexico has placed restrictions on imports from 21 Brazilian meat plants (with Brazil being the second biggest exporter to Mexico) because of the meat scandal. This means that demand for domestic chicken will remain well-supported if imports from the US do not accelerate for the remainder of the year and if Mexico does not lift the ban on Brazilian livestock imports. This could be an opportunity for domestic producers to gain market share against imports from other countries.

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



Source: GCMA, Rabobank 2017

Brazil

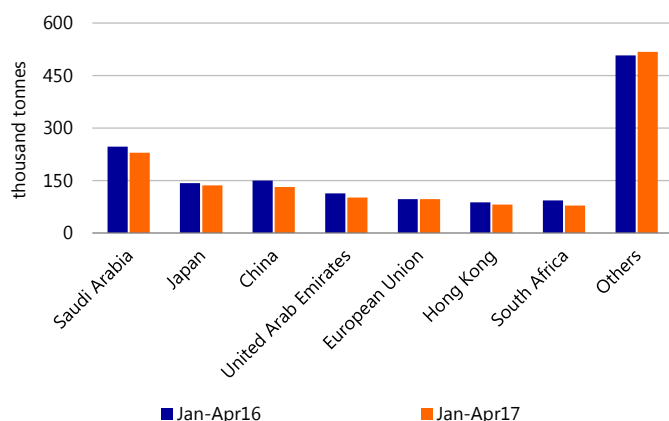
After having achieved record levels in 2016, Brazilian poultry exports declined by around 4% in the first four months of 2017, compared to the same period of 2016, in volume terms. In fact, from January to April 2017, the top 5 Brazilian poultry importers all contracted their purchases (see Figure 5).

Brazilian meat exports have been under pressure since March 2017, due to the Brazilian federal police investigation into irregularities in meat inspections (the Brazilian 'meat scandal'). As an immediate response, a number of countries placed temporary restrictions on imports of Brazilian meat. However, following detailed information provided by the Brazilian authorities, most importers limited import restrictions to the specific processing plants under investigation (21 units). It is too early to judge the medium-term impacts of these investigations on consumer perception worldwide and the possible knock-on influences on meat exports.

Turning to supply, Brazilian poultry production increased by around 1% in 2016 against 2015, exceeding 13.2m tonnes. Despite the ongoing challenges in international markets, poultry production is expected to increase by around 3% in 2017, particularly in response to lower feed costs. Moreover, given the ongoing political turmoil and its effect on the exchange rate, we expect that exports will receive a boost. On the other hand, local consumption improvements that were expected to happen during 2H 2017 may start later, given this current political crisis and its potential effect on the local economy.

Looking ahead, costs are likely to remain low during the year, particularly due to the great availability of corn expected during this year in the local market. Therefore, the ratio between meat and feed prices is likely to remain attractive from the poultry industry's point of view.

Figure 5: Brazil chicken exports, Jan-Apr 2016 vs. Jan-Apr 2017



Source: SECEX, MDIC, Rabobank 2017

EU

The EU poultry industry has been hit heavily by a wave of AI outbreaks all over the continent, with more than 1,000 cases in commercial poultry and 1,400 cases in wild birds. 23 of the 28 EU member states have been hit by AI, with France and Hungary the hardest-hit countries, with 465 and 235 cases, respectively, in wild poultry (until April).

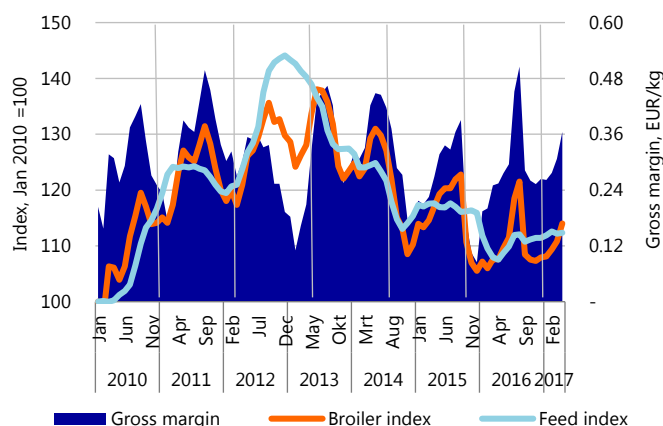
The large amount of AI cases has had relatively limited impact on the market, with 6% more production in Q1 in the EU, compared to Q1 2016, and prices around 2% higher.

The biggest impact on the industry has been the closure of export markets, especially South Africa and China, which implemented nationwide import bans after AI cases were found in a country. Most other countries use regional restrictions. Only Angola has fully banned EU exports. Despite the many restrictions on EU exports, the industry has demonstrated its strength and flexibility, as total EU exports increased in January and February by 5%, largely due to sharply rising exports to Hong Kong, Ukraine, Saudi Arabia, and the African markets of Ghana, Congo, and Benin.

Margins are currently increasing, with higher prices especially in April and May, as the summer season approaches with its seasonally stronger poultry demand (see Figure 6).

We expect a moderately positive outlook for the EU poultry industry in Q2/Q3, with seasonal strong demand and the expected reopening of export markets. The key wildcard for the industry will be disciplined supply growth after restocking of affected farms—but also in Central and Eastern Europe, where many new facilities have been built.

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 has been on a rollercoaster ride in the past year, with a long, difficult period followed by recently improved conditions, along with rising broiler prices and sharply falling feed prices due to Russia's large wheat harvest. Russian market conditions are now weakening, given increased supply, with a 3.5% rise in poultry production, 7% more pork, and 1% more beef at agricultural holdings in Russia over Q1 2017. This has resulted in price reductions for all proteins, but especially for poultry (-7% compared to January) and pork (-4% compared to January).

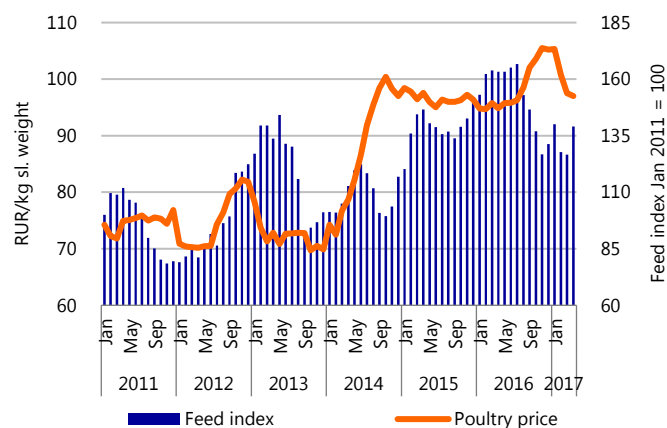
These price declines have resulted in shrinking margins, despite stable feed prices (see Figure 7).

The Russian poultry market will keep growing this year, with an estimated 3% growth. It will again outpace growth in pork and beef.

Russia has successfully expanded its export position. Total 2016 exports were 173,000 tonnes, with Eastern Ukraine the largest export destination (48,000 tonnes), followed by EU countries (41,000 tonnes). Russia is now supplying 40 countries, and this number is constantly increasing with the support of the government, with Qatar recently being opened for exports.

The outlook for the Russian industry is more challenging, as supply is currently increasing, while the rouble has recently appreciated, which will make exports more difficult. Furthermore, the outlook for the 2017 grain harvest is less optimistic, with a +10% drop in supply possible, based on first estimates. In this more challenging market situation, a more balanced supply growth is important to keep profitability in the industry.

Figure 7: Russian broiler and feed price trend, Jan 2011-Apr 2017



Source: Rostat, Rabobank 2017

South Africa

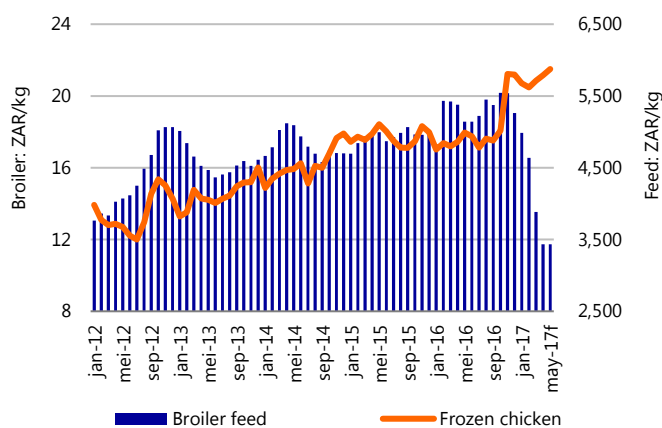
The South African poultry industry is gradually moving into a fragile recovery after a very weak 2016, which was characterised by overproduction and high import levels. This turned gradually, after changes in brining rules were introduced in Q4 2016, and production growth slowed over the first months of this year, as some major South African producers reduced capacity.

Total production growth was only 0.5% in Q1 and is expected to be 1% in Q2. Imports fell sharply in Q1 (-5%), after South Africa implemented nationwide import bans on EU countries—the biggest exporter to South Africa—with cases of AI. The situation gradually moved back to normal when big South African traders shifted imports from Europe to the US, with the US moving fast, from only 5,000 tonnes to imports of 25,000 tonnes in March/April. Brazil also benefited from reduced EU imports, but volumes were negatively impacted after the Brazilian meat scandal.

The key positive for the South African industry is declining feed prices after the drought last year, with yellow corn prices now falling from ZAR 3,100/tonne in November to ZAR 1,940 /tonne in May, and soybeans from ZAR 6,500/tonne to ZAR 4,800 /tonne over the same period (see Figure 8).

The outlook is moderately positive for the industry, with more disciplined local supply and—given the strong grain supply in the 2017/2018 season—ongoing low feed prices. The big wildcard will be on the import side, with EU imports likely to return later this year.

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



Source: SAPA, Rabobank 2017

India

The Indian poultry industry's performance has been improving since Q4 2016, driven by a combination of relatively low supply with high DOC prices, relatively strong demand, and lower feed prices (see Figure 9).

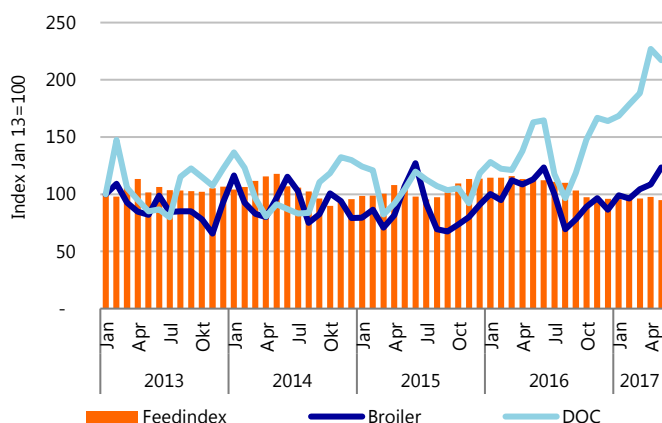
Supply has been relatively low after the end of last year's AI outbreaks in the country, when breeders reduced supply as a precaution, and it has not really improved since then. Supply has also been tight due to the relatively harsh weather circumstances in India during the summer season and a ban earlier this year on 500- and 1,000-rupee notes. Industry sources indicate that supply was temporarily reduced by 15% to 20% during the summer months.

Market demand has been relatively strong, although the recent alcohol ban temporarily reduced demand in April.

Prices for feed are expected to remain low due to expected strong harvests for soybeans, corn, and wheat crops. This should make chicken relatively affordable for Indian consumers for the rest of this year, and it could stimulate demand growth.

The outlook for the Indian poultry industry remains positive, with strong fundamentals, such as ongoing high DOC prices (which will reduce industry expansion), ongoing low feed prices, and expected improved demand. There will be a seasonal slowdown in Q3 due to the festival season, but this should recover quickly later this year.

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



Source: Bloomberg, Rabobank 2017

China

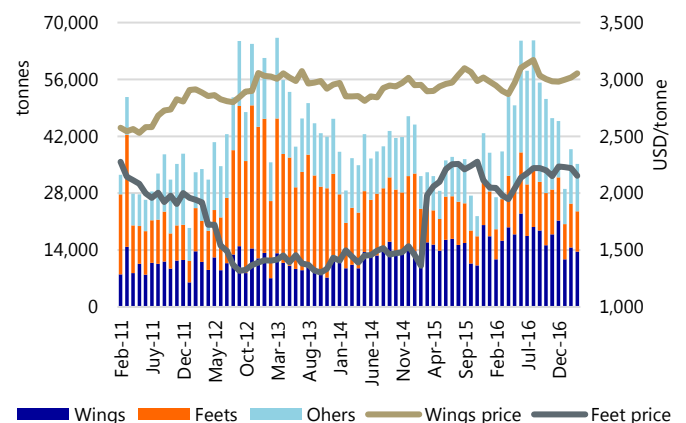
New human cases affected by the H7N9 AI strain have again caught public attention in China. There were new human fatalities in specific regions in April and May. It is not common to witness the disease outbreak at this time of year. In response, several regional governments announced closures of live bird markets once again. Among them, the Macao government decided to ban the import and sale of live birds starting on 1 May, while most other provinces on the mainland have closed live bird sales for a certain period or until further notice.

The avian influenza outbreaks mean poultry demand remains weak. The average price of white-feathered live bird was CNY 6.9/kg in April, down 13% YOY. The DOC average price was CNY 1.05/bird, down 65% YOY. Breeding companies again made losses in the first four months of 2017, after a positive performance in 2016.

The yellow-bird market was hit more seriously than the white-bird market. Due to the suspension of live markets, yellow birds have been slaughtered and sold as chilled, or even frozen, meat, at a discounted price. The rising stock of slaughtered yellow birds increased the supply of poultry meat. This resulted in temporary oversupply, although white-bird production is estimated to be lower than in the same period of last year. This situation would improve if disease outbreaks stopped and live bird markets were opened again. However, there is a high level of uncertainty surrounding the development of the disease.

Poultry imports in Q1 were flat with the same period of last year, at 103,000 tonnes, with Brazil still accounting for 81% of total imports (see Figure 10). Given the Brazilian meat scandal in March, imports in April and May might be impacted.

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



Source: China Customs, Rabobank 2017

Japan

The Japanese poultry industry has benefited from ongoing positive dynamics in a market which is again expected to increase by 1% to 2% this year, with gradually expanding domestic production and a gradually expanding import level.

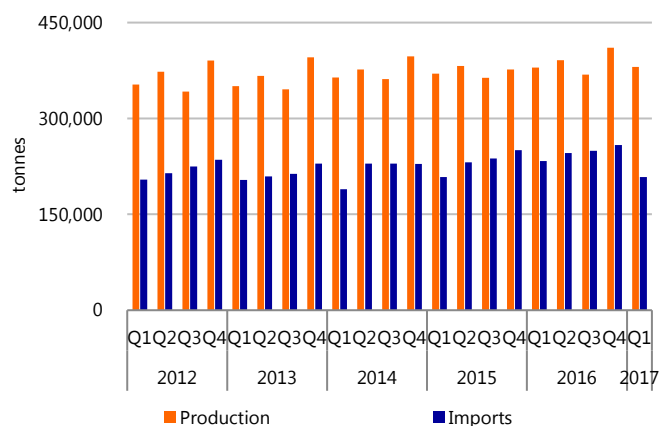
Current conditions are tighter than in Q3 and Q4, when stock levels were relatively high, and Japanese trading houses bought large quantities of poultry meat in response to temporary strength in the Japanese yen and weakness in the Brazilian real. This resulted in falling stock levels and again a below-average import level in Q1 2017 (-10% compared to the same period in 2016).

Production has also been relatively tight in Q1, with virtually no growth, compared to the same period last year—due to AI concerns after several recent cases in Japan (see Figure 11).

Prices in this changed market situation are again increasing, with legs now being traded at JPY 680/kg (+10% compared to September) and breast meat at JPY 330/kg (+25% compared to September).

The outlook for the Japanese industry, therefore, remains positive, with relatively strong fundamentals such as ongoing tight supply, low stock levels, and a weaker Japanese yen. Prices are expected to remain relatively strong, with gradually increasing activity from Japanese trading houses pushed by current stock levels. They will, however, be less active than in Q3/Q4, due to the weaker Japanese yen.

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



Source: ALIC, Rabobank 2017

Thailand

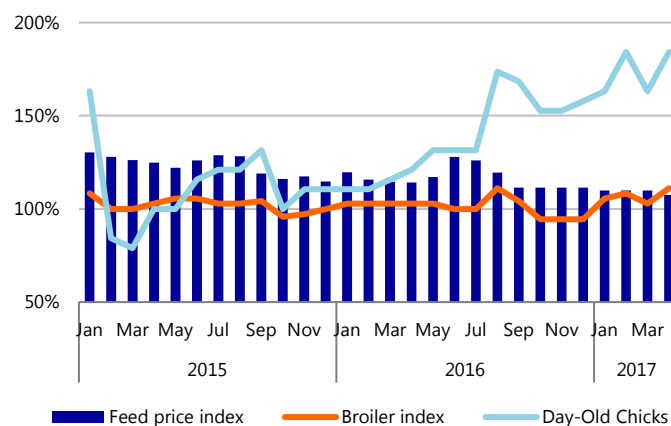
The Thai industry has been operating under improved conditions this year, with local broiler prices increasing from THB 34/kg in Q4 2016 to THB 40/kg in April 2017. Meanwhile, feed prices have been slightly declining (especially soybeans), from THB 16.6/kg in Q4 2016 to THB 15.5/kg in April 2017 (see Figure 12). The main reason for the improved market circumstances is relatively limited supply growth, driven by high DOC prices (which increased to THB 17/head in April, from THB 15.5/head in 2016 Q4). This is a result of the restrictions on imports of breeding stock into Thailand.

The industry has also benefited from a relatively strong domestic market for animal protein in general, with local pork and shrimp prices increasing since Q4 2016.

International markets have been more challenging, with pressured prices and a relatively slow demand on imports from Japan and Europe (Thailand's two main markets).

The outlook for the Thai poultry industry remains relatively strong. The industry is well-positioned to keep its leadership in the value-added poultry market, especially in international markets, after China was forced to step down following recent food safety issues, and Brazil's reputation as an exporter was damaged by the meat scandal. This will be a good basis for further growth. The recent reopening of raw meat exports to South Korea and Singapore will be an additional growth source for the industry in the coming period, and the industry's target of reaching 750,000 tonnes in export volume this year looks realistic.

Figure 12: Thai broiler-to-feed price monitor, Jan 2012-Apr 2017



Source: Bloomberg, Rabobank 2017

Indonesia

The Indonesian poultry industry is still affected by the ending of the parent-stock culling programme, the new strategy for the future—which the government has been taking with regard to allocating DOC to independent farmers—and about communication of market information about DOC demand. Broiler prices in Indonesia have been declining since Q2 2016, and the industry has been uncertain about the consequences for future supply models, as the availability of independent farmers is relatively limited.

The current market conditions are relatively mixed, with ongoing high supply and, on average, lower prices, although these slightly increased in May. There has been an oversupply of DOC during Q1 2017, and this reduced prices and created oversupply of broilers—especially as demand in Indonesia has been pressured by weaker economic performance, with a negative impact on the middle class, who are important buyers of poultry.

On the positive side, there's a relatively good supply of domestic corn and imported soymeal, and this has resulted in a gradual decline of feed prices in Indonesia, partially offsetting relatively weak domestic broiler prices in Indonesia.

The industry has also been struggling with several AI outbreaks. The government is still working to reorganise live-bird sales in city centres to reduce risks for human health. The expectation is that this will lead to more centralised poultry processing facilities.

The outlook for the industry for the rest of 2017 is fragile, with ongoing volatility in margins. Key would be a restricted supply growth. We can expect DOC production to drop after a relatively weak Q1 2017, with oversupply and pressured demand. The current industry expansion (triggered by a strong 1H 2016) is a concern for 1H 2017, as new capacity at feed and processing levels will come on-stream, and this could easily lead to another period of overcapacity.

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far.rabobank.com

RaboResearch Food & Agribusiness Animal Protein Global Sector Team Analysts

Justin Sherrard	Global Strategist	justin.sherrard@rabobank.com
Nan-Dirk Mulder	Europe	nan-dirk.mulder@rabobank.com
Gorjan Nikolik	Europe	gorjan.nikolik@rabobank.com
Albert Vernooij	Europe	albert.vernooij@rabobank.com
Beyhan de Jong	Europe	beyhan.de.jong@rabobank.com
Will Sawyer	US	william.sawyer@rabobank.com
Pablo Sherwell	US	pablo.sherwell@rabobank.com
Don Close	US	don.close@rabobank.com
Andrick Payen	Mexico	andrick.payen@rabobank.com
Adolfo Fontes	Brazil	adolfo.fontes@rabobank.com
Chenjun Pan	North-East Asia	chenjun.pan@rabobank.com
Angus Gidley-Baird	Australia	angus.gidley-baird@rabobank.com
Blake Holgate	New Zealand	blake.holgate@rabobank.com

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