



Rabobank

# Poultry Quarterly Q2 2020

## Coronavirus and ASF to Shake up Global Poultry Markets

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The outlook for global poultry in 2020 will be materially affected by the coronavirus pandemic. Although the outlook is still moderately positive for most markets, coronavirus is adding significant uncertainty and is now expected to cause a global economic slowdown. Poultry demand could benefit among the proteins, due to its price competitiveness. In terms of markets, we expect more at-home poultry consumption and higher sales of non-perishable poultry products. Labor availability and logistics issues, such as those impacting distribution, will likely affect supply in the coming months. Coronavirus will also affect the global supply of poultry inputs (like feed additives and animal health products), due to disruptions at Chinese and other suppliers. The ongoing African swine fever (ASF) challenges in the pork industry will bring additional complexity to global markets. We expect a further drop in pork production in Asia this year, which could lead to potential growth in local poultry production and international trade, if rising supply chain challenges can be managed.

**Coronavirus to impact global and local industries.** Supply was disrupted in China (-40% in February) but is now recovering. China's input suppliers will also be affected. Global poultry demand will stay strong, with a shift from foodservice to food retail.

**ASF and avian influenza (AI) will push up volatility.** ASF will remain a major driver of volatility in poultry markets, with increasing import demand in countries like China and potential supply shocks in local markets like Vietnam and the Philippines.

**The top-performing markets** are currently Brazil and Thailand, while the EU, Indonesia, South Africa, and Mexico are currently in recovery mode. The weakest performing markets are the US (with big oversupply), India (after coronavirus rumors), and China, with China expected to improve later this year.

**Trade agreements and restrictions** are still shaking up global trade volumes. On one hand, trade liberalization via US-China and EU-Vietnam agreements will push up trade. While on the other hand, restrictions on trade in Saudi Arabia, and potentially South Africa and the UK, could restrict trade.

Global chicken monitor\*  
Q1 2016-Q4f 2019

Whole chicken



Breast meat



Leg quarters



\* Chicken price trend for cuts entering global trade

#### Outlook for 2020

##### US: Fast supply growth puts margins down



- Production growth of 8% until mid-February
- Heavy pork supply; composite chicken price down 9%
- Low breast meat prices, stronger wing and leg prices

##### Brazil: Balanced market, but trade uncertainty



- Ongoing high poultry prices
- Weaker crop conditions pushed feed prices up
- Trade is challenged by US-China deal and coronavirus

##### Europe: Fragile recovery



- Recovering market in the EU due to reduced supply
- AI has pushed down supply in eastern Europe
- Brexit remains a point of concern for the industry

##### China: Coronavirus has shaken up the market



- Move from foodservice and wet markets to retail
- Transport and labor issues challenged the industry
- Production drop in Q1 with a gradual recovery

## Volatile Outlook, but Poultry Demand to Stay Strong

The outlook for the poultry industry for 2020 will remain challenging, but, in line with our view of Q1, we see upside potential in global markets later this year. The spread of coronavirus from a regional Chinese issue to a global one will add uncertainty in a market that is already volatile. Volatility is driven by the ongoing impact of ASF and reductions in global pork production, avian influenza outbreaks in Europe, Asia, and Africa, as well as some potential trade disruptions. Trade issues include Brexit, the US-China trade agreement, new trade restrictions in the Middle East, but also the opening of trade between the US and EU and some Asian countries. All these factors point to a volatile global poultry market in 2020.

### Global Trade in 2020: Highly Volatile

Trade was tough in 2H 2019, with a drop of 1% in global poultry trade flows, despite an upswing in China's imports due to ASF. In addition to reduced overall flows, positions of some countries in the global trade matrix also changed. The leading global poultry traders, Brazil and the US, saw exports drop by 8% and 2% respectively in 2H 2019, compared to 2H 2018. Over the same period, Thailand, Russia, and Ukraine saw their exports grow by more than 7%. EU trade grew by 4% in 2H 2019.

The Q1 2020 performance to date has been mixed, with China the biggest driver of volatility. China has been heavily hit by supply shocks driven by coronavirus-related transport restrictions in early February, which restricted farmers' access to inputs (feed, medicines,

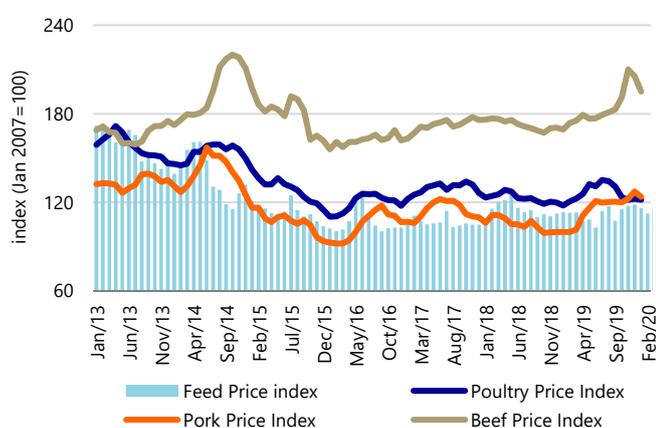
DOC) and sales of finished birds. This was more or less solved by a new regulation placing priority on food production, but the impact on supply will last for several months. The market was also hit by closures of wet markets (essential for the yellow bird suppliers) and a move away from out-of-home consumption (in which white broiler meat is the key product) to at-home consumption. Coronavirus has shaken up local markets, with local production down by about 40% in February and prices for white broilers dropping sharply and yellow broilers even further (see Table 2).

From a global trade perspective, this should offer the opportunity to add supply to reduced local production, but in reality, this has been difficult as many ports are subject to delays and traders have been forced to move to other ports (if possible), to reshipe, or to delay shipments. Furthermore, potential exporters, like the US, EU, and Brazil, are increasingly being challenged by local spread of the virus in their domestic market and also by more difficult trade conditions.

China, Africa, and some Southeast Asian markets were the major growth markets in 2H 2019. These markets have a traditional preference for dark meat, which has supported dark meat prices for those with good access, such as Russia, Argentina, and Brazil.

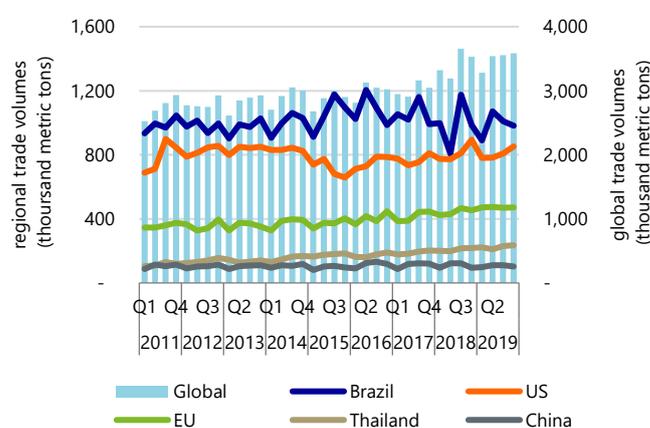
Ukraine and Russia are both significantly expanding their trade position, focusing on Asia and the Middle East. Russia reached an impressive export total of over 300,000 metric tons in 2019, with average prices rising from USD 1/kg in 2018 to USD 1.50/kg in 2019, showing the increased value creation by Russian traders. China has become the number one export market for Russia.

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 2020

Figure 2: Rabobank global poultry trade monitor, Q1 2011-Q2 2020f



Source: Bloomberg, national statistics, Rabobank 2020

## Big Regional Differences in Industry Performance

From a regional profitability perspective, global market conditions have slightly worsened, compared to the last quarter. The best performing markets are currently Thailand, Indonesia, and Brazil, while the EU is in recovery mode with increasing prices. Brazil is still benefiting from supply discipline of the industry earlier this year, where placements were reduced to rebalance weaker demand. Mexico had a tough Q4 2019, with increased supply and weak demand, but is recovering more recently. Russia benefited from strong export demand but is experiencing high local meat supply, which has pushed down chicken prices. South Africa is still facing tough market conditions, but the forthcoming production restrictions foreshadowed in the master plan and the strong local feed grains crop should lead to better conditions for the industry later this year.

The European poultry industry is currently in recovery mode. AI outbreaks in eastern Europe have led to culling and more limited poultry placements, improving the supply balance in the EU market. AI in Ukraine led to a temporary ban on poultry exports to the EU, but this now affects only one region where the outbreak took place. From a trade perspective, EU prices will be slightly higher (see *Table 2*), which will support import prices in export markets (where competition from Ukraine will be lower due to recently introduced quotas).

The weakest performing markets are currently the US, India, and China. The situation in China is related to coronavirus, while the US is experiencing significant oversupply, with broiler production up by 8% YTD and pork production also up. India was already oversupplied, and recent coronavirus-related panic about poultry consumption negatively affected prices and demand. This will gradually recover, but as the market balance is weaker than previous years, this will likely not happen before the end of the year.

The US had a tough period, with local oversupply and a search for outlets for dark meat cuts in an environment with a relatively strong US dollar. This has resulted in significant drops in leg quarter prices in the US, which are now gradually recovering but are still well below mid-2019 levels.

## Limited Upside in Feed Prices

From a cost perspective, there will be limited upside for the major feed grains and oilseeds (see *Table 1*). This is good news for poultry as it will keep feed prices at

similar levels to last year, with differences between regions due to weather-related crop harvest conditions.

On a global level, wheat is probably the crop with the tightest conditions, mainly driven by lower US and EU acreage. This will be compensated by strong crop conditions in Russia and Ukraine, which had record warm winter months.

For corn markets, stocks are driven by weaker Chinese demand and crop acreage expansion in the US.

For soybeans, Rabobank has reduced its price outlook in the latest Agri Commodity Market Outlook, based on weaker feed demand in China and ample supply in Brazil, Argentina, and the US.

The biggest impact of coronavirus will be on animal health and feed additive prices, due to China's role in markets like vitamins, threonine, and lysine. These industries have been impacted by plant closures, causing a price rally for some products.

## Coronavirus Brings Additional Uncertainty to the Outlook

The coronavirus crisis will add great uncertainty to global poultry markets for the rest of the year. We've already seen the impact on the Chinese market in January/February, and the virus is now spreading very fast globally, generating impacts on global economies and global poultry markets.

[Rabobank's view](#) is that global economic growth in 2020 will slow to 1.6%, down from 2.9% in 2019, and will recover to 3.2% in 2021. China will see more acute impacts, with growth for 2020 expected at 2.4%, down from 6.1% in 2019. While the Chinese economy will already start recovering in 1H 2020, full recovery depends on more buoyant business demand and investment globally, which will take longer.

While the number of new coronavirus cases in China has slowed, outbreaks in the rest of the world will continue to expand in 1H. Southeast Asia, the Middle East, Europe, and North America are also seeing some lockdown conditions, depending on the intensity of the outbreaks.

The global economic slowdown will impact consumer confidence and behavior, and indirectly animal protein markets and supply, through 2020. While Rabobank forecasts the world to return to economic growth in 2021, some supply chain issues could have longer-term impacts on supply and demand.

One specific effect of the global economic slowdown will be a shift from foodservice to at-home consumption. This will result from governments encouraging people to stay at home, quarantine restrictions, and changing consumer behavior to reduce risk in the coming months. In part, this also reflects typical consumer behavior during economic downturns, when consumer confidence is low and people reduce their discretionary expenditure. This will mean a shift from buying at cafes and restaurants towards home delivery and modern retail like supermarkets, hypermarkets, and convenience stores. Sales at wet markets will be highly pressured, and some will be closed by governments.

The changing economic and market conditions brought by the coronavirus pandemic will have significant impacts on global poultry in 2020, including:

- From a global demand perspective, poultry is generally the least-impacted protein in a global economic slowdown, due to its price competitiveness.
- Consumer behavior will shift towards more at-home consumption, impacting poultry demand in some markets like China and the US, where poultry has a relatively large share of foodservice demand. This means that companies with good access to food retail will benefit, while foodservice suppliers are impacted. The shift towards more home delivery could receive an additional push, with this industry capturing market share in poultry and meat distribution.
- Product demand in food retail will increasingly move from fresh to non-perishable products, like frozen poultry, canned products, and shelf-stable products.
- As many wet markets are closed due to coronavirus, suppliers to these markets, like yellow chicken and traditional breeds, will be most affected. Wet markets are typically the main outlet for these products, for example in China. If coronavirus moves into Southeast Asia, it could also affect these traditional species, as wet markets represent 50% to 90% of poultry sales.
- The complex situation in China in January and February, which resulted in a sharp decline in poultry production, is expected to affect global markets until May or June. Local producers need to rebuild supply, and markets need to rebuild demand and prices, which will also push up imports. Trade volumes will rise again when port logistics are back to normal.
- The drop in poultry production in China will be bearish for grain and oilseed prices in the next months, but prices will recover when China's production picks up again later in Q2 and 2H. This might partially offset the bullish prices we see for some feed additives.
- Companies in countries that are heavily affected by coronavirus might also face some supply volatility, especially if governments impose strict quarantine and labor-force restrictions or if the labor force is affected by coronavirus cases. The situation in China could, however, highlight the importance of making exceptions for the food industry.
- Global trade will face even more volatility this year, with both destinations and origins affected, as well as pricing. Total volumes are likely to be affected temporarily, and trade should ultimately benefit from local supply issues related to coronavirus, ASF, and AI. The biggest coronavirus-related issues will be potential shocks in supply and demand driven by quarantine and logistics issues and temporary changes in consumer demand towards at-home consumption, non-perishable products, etc. As this could impact supply and demand, it has the potential to also impact global poultry markets and pricing.
- Global trade in breeding stock will also be affected, especially as many commercial flights have been cancelled. This will affect the distribution of hatching eggs and DOC to global markets and could impact local supply chains in importing countries for quite a significant time, especially if parent stock or grandparent stock is involved.
- In China, coronavirus has also disrupted farm input supply, locally as well as globally, as some major Chinese chemical plants have been closed. This is impacting prices for some Chinese-produced animal health products and feed additives. Prices for threonine, lysine, and vitamin E and, to a lesser extent, methionine, vitamin A, and vitamin D3 have increased sharply in Q1. The price hike on these products, and indirectly on prices for concentrates, premixes, and complete feed, is expected to run for the coming months.

## Ongoing Disease-Related Volatility

Ongoing disease pressures remain a major factor driving the outlook. The ongoing challenge of ASF, which is expected to see China's pork production decline by 15% to 20% in 2020 following a decline of 22% in 2019, is the biggest issue. Under normal circumstances, this would mean a further significant expansion of poultry production in China, by 15% to 20% YOY, but this will be delayed by the impacts of coronavirus.

Other countries in Asia, such as Vietnam and the Philippines, are expecting declines of 20% and 10% in pork production this year due to ASF. Chicken production in these countries has jumped in response, with big local poultry producers, pork companies

entering the chicken industry, and hog farmers turning to chicken all ramping up production. As this can be fast, it has led to oversupply, for example in Vietnam where prices tumbled to record lows. Large poultry imports earlier in 2019 worsened this situation.

Global poultry markets are currently affected by a new wave of AI outbreaks, which typically spreads in the Northern Hemisphere winter. Eastern Europe has been most affected, especially Poland and also Romania, Slovakia, the Czech Republic, Hungary, and Ukraine. As Poland and Ukraine are major global traders, it also affects global markets. In Poland, the industry can refocus trade towards the big intra-EU market. For Ukraine, the many AI-related trade restrictions can only be offset by increasing sales in the local market or by reducing production until trade is restored.

Asian markets, like China, Taiwan, and Vietnam, and Saudi Arabia have been hit by AI outbreaks. This will impact local market conditions, especially due to the impact of culling, but the trade impact is more limited.

## Trade Disruptions Will Also Impact 2020

Trade disruptions are also important change factors in 2020. Several bilateral trade negotiations will open some new trade flows, while local trade policies will restrict trade in other markets.

The most obvious trade negotiation has been the re-opening of **US poultry for export to China**. China's fast-growing USD 1.9bn import market has been the key

target for the US industry. Shipments started earlier this year but have since slowed due to coronavirus. Later this year, the US will likely benefit from recovering Chinese demand and will compete with Brazil for market leadership in China, which might push prices down.

The other trade opening is the current negotiation between the **US and India**, with chicken and dairy the major US priorities. If the US improves access to India, it could impact local industries, especially companies active in the small-but-growing Indian processed market. At the same time, it could become another potential outlet for the US's oversupply of dark meat.

The new **EU-Vietnam** free trade agreement has just been implemented. This could potentially become a two-way trade, with EU companies selling dark meat to Vietnam and Vietnamese processors selling processed breast meat to Europe.

**Russia** has been active and successful in opening markets for poultry exports. Since opening in 2019, China has become the number one export market for Russia. New openings are pending for trade to the United Arab Emirates and Japan (for some areas in Russia). These increased openings have made Russia one of the major exporters in global poultry in a short period.

On the other hand, several factors will negatively disrupt global trade while supporting local industries.

Table 1: Global live broiler and feed ingredients monitor, Q1 2018-Q1 2020f

		2018				2019				2020				Change	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1f	Q2f	Q3f	Q4f	Q3-Q4	Q4-Q1f
Live broilers USD/kg	EU	1.12	1.11	1.12	1.04	1.03	1.04	0.98	0.96	0.96				-2.0%	+0.0%
	Brazil	0.75	0.66	0.77	0.79	0.80	0.90	0.85	0.79	0.73				-7.0%	-7.6%
	China	1.22	1.25	1.29	1.46	1.33	1.45	1.36	1.53	0.94				+11.9%	-38.9%
Grains & oilseeds	Wheat (USD/bu)	453	499	517	512	491	477	488	523	555	545	545	550	+7.2%	+6.1%
	Corn (USD/bu)	366	384	353	370	373	390	390	381	375	378	382	385	-2.3%	-1.6%
	Soymeal (USD/mt)	353	371	321	309	309	307	297	301	296	300	304	307	+1.3%	-1.7%

Source: Bloomberg, Rabobank 2019

**Saudi Arabia** has been gradually implementing stricter requirements on imports. The introduction of strict halal guidelines has been important, along with the stricter implementation of sanitary and veterinary requirements. As a result, major export plants, especially in Brazil, have been delisted, with two more Brazilian plants delisted in Q1. This will make trade into Saudi Arabia increasingly difficult.

**South Africa** is currently in the process of implementing a new poultry master plan. The ambition is to develop a strong local poultry industry that supports the South African economy (with an unemployment rate of more than 30%). The master plan includes a combination of local expansion and import restrictions. Tariffs on major exporters to South Africa can be expected in the near future, which could impact global trade flows.

**Brexit:** The UK is expected to leave the EU market at the end of 2020, and this could shake up intra-EU trade. Along with Germany, the UK is the biggest intra-EU import market, and poultry industries in the Netherlands and Poland are highly dependent on exports to the UK. Under any Brexit scenario, trade will surely be more difficult, and local UK production will likely increase. Exactly how disruptive Brexit will be 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 new trade agreement with these exporters could impact the competitive situation in the EU

**Table 2: Global whole-chicken and chicken-cut markets (USD/100kg), Q1 2018-Q4 2020f**

		2018				2019				2020				Change	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1f	Q2f	Q3f	Q4f	Q3-Q4	Q4-Q1f
<b>Whole chickens</b>	<i>Brazil wholesale</i>	99.2	89.4	92.9	113.4	117.0	120.7	114.3	117.6	114.2				+2.9%	-2.9%
	<i>EU wholesale</i>	225.3	223.4	219.5	211.4	209.3	212.7	210.9	206.4	209.2				-2.1%	+1.5%
<b>Breast meat</b>	<i>EU import price Brazil</i>	276.1	277.9	283.3	263.8	247.3	239.5	228.9	236.2	209.6				+3.2%	-11.3%
	<i>EU import price Thailand</i>	300.4	282.7	279.8	276.3	278.7	270.1	242.9	264.2	240.5				+8.7%	-9.0%
<b>Leg quarters</b>	<i>US leg quarters, northeast</i>	84.0	85.5	81.6	72.9	84.2	109.1	104.9	85.5	94.9				-18.4%	+11.9%
	<i>Japan import price</i>	178.0	162.0	175.8	174.9	145.7	162.6	178.6	184.9	173.5				+3.5%	-6.1%
<b>Feet</b>	<i>China import price</i>	223.07	230.4	234.2	233.8	249.8	279.9	307.0	318.4					+3.7%	
<b>Processed chicken</b>	<i>EU import price Brazil</i>	285.6	291.8	299.2	312.6	310.6	316.8	311.8	303.8	283.3				-4.6%	-6.5%

Source: Eurostat, Food and Agriculture Organization of the United Nations, national statistics, UBABEF, USDA, Rabobank 2020

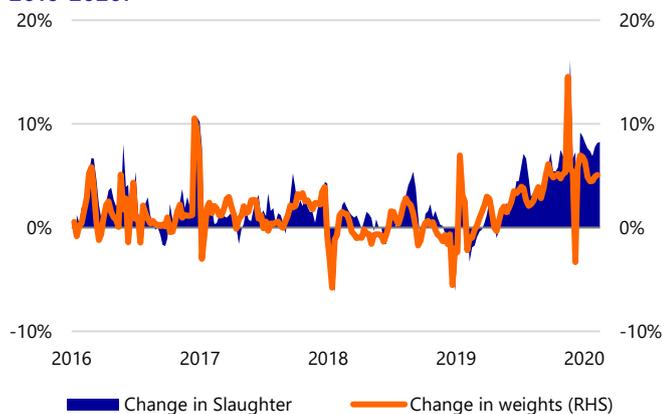
## US

US chicken production continues to exceed expectations, up 7.8% YOY through mid-February (see Figure 3). The increase has made it difficult to get much traction on prices, with composite chicken down 8.8% YOY. Boneless breast meat prices are particularly disappointing, averaging 12% YOY lower through Q1. Prices have stabilized and moved higher in recent days, as retail and foodservice interest has been piqued and is expected to remain strong through the year. We expect boneless prices to strengthen in 2H 2020 on lower production. Larger supplies have been less disruptive for wing (up 2.5% YOY) and leg quarter (up 39% YOY) values. Both products started the year well ahead of year-ago levels, but have weakened since early February.

The disruption in exports due to coronavirus during what was expected to be a strong period for exports has made burdensome inventories even more challenging. Prices on dark meat and paws are relatively stable, but any upside could be limited until there is improved visibility on exports. Likewise, wing prices are relatively flat and will now miss the expected seasonal movement around the NCAA basketball tournament season.

We expect to see Q1 production growth (currently up 5% on slaughter, up 2% on weight) to slow in 2H 2020, as the industry laps recent expansion. Based on current placements, we expect 4.8% growth in production in Q2, but more modest 3% growth in 2H 2020. Key to this outlook, however, is an improvement in exports and minimal impact from coronavirus on global economies. Domestic support for chicken at retail and foodservice is good on depressed prices, but could weaken on heavier supplies of pork (up 5.1% YOY through Q1 2020) through the summer.

Figure 3: US poultry slaughter and average weight, 2016-2020f



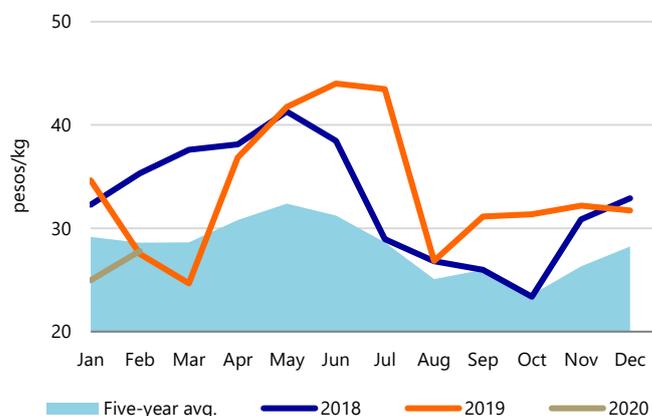
Source: USDA, Rabobank 2020

## Mexico

Rabobank expects chicken production growth in Mexico to slow after a weak price environment in Q4 2019 and early 2020, and is lowering its expectation for production growth from 3% YOY to 2.5%, at 3.5m metric tons. Chicken carcass prices were up 9% to 32 pesos/kg in Q4 2019, but they were down 28% in January to 25 pesos/kg, before recovering to 28 pesos/kg following the cut in production. Losses due to a comparatively challenging outbreak of AI have helped tighten supplies, but producers, who acknowledge earlier supply levels were ahead of demand, worked to slow production. Weaker economic trends to start the year exacerbated an already challenging situation, as has unusually sticky pricing at retail. Rabobank expects stronger seasonal demand to help stabilize the market.

The appreciation of the peso has helped lower production (feed) costs, which may slow the decline in production. A stronger peso is also likely to support stronger US chicken imports, particularly given the recent weakness in leg quarter prices and favorable year-over-year tariff comparison (see Figure 4). Rabobank currently estimates Mexican chicken imports of 875 metric tons, up 3% from year-ago levels, with the US providing an estimated 90% of the volume. Based on the current tariff rate quota (Coupos), we see significantly lower imports of Brazilian breast meat in 2020, which should help stabilize breast meat prices in the coming months. Domestic consumption should see an increase of 120,000 metric tons for 2020 to a total consumption of 4.571m metric tons.

Figure 4: Mexican poultry imports from the US, 2018-2020



Source: USDA, Rabobank 2020

## Brazil

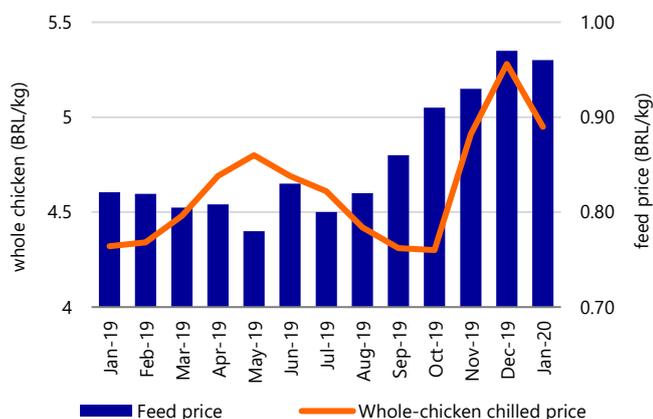
Q4 2019 was marked by significant increases in external and internal demand, which generated record increases in poultry prices. On the other hand, climate problems in the planting and development phases of the first corn crop at a time of elevated demand have increased the price of feed above market expectations. The beginning of the year registered more pressure on poultry prices, especially with the seasonal decline in domestic consumption.

In January 2020, poultry prices were up 22% YOY in the domestic market, while live chicken was up by 18% in the same period (see Figure 5). However, in relation to December 2019, broiler prices decreased 6%, due to less liquidity, and live chicken declined by 0.6%. The slight drop in live chicken prices is related to increases in feed prices, which has led producers to positively readjust the values of the animal for slaughter.

On the demand side, broiler suffered less pressure, compared to other meats, as it is the most consumed animal protein in the country. With the end of the Carnival holiday and the beginning of the school year, a more significant resumption in domestic demand is expected. It should be noted that the improvement in domestic consumption is related to administrative and tax reforms that are expected to be voted on by the congress in the coming months.

Regarding exports, February generally sees an improvement in shipped volumes, but expectations are down in relation to China, as coronavirus and the US-China trade deal mean China has yet to reach the levels of import demand expected by exporters.

Figure 5: Brazilian chicken and feed prices, Jan 2019-Jan 2020



Source: Bloomberg, Rabobank 2020

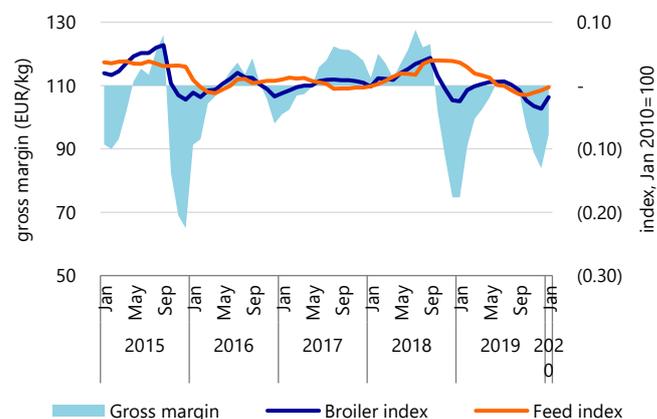
## Europe

The EU poultry industry had a tough 2019. It faced oversupplied market conditions throughout the year, which challenged industry margins. This was a result of expansion in production, especially in eastern Europe, and higher imports from Ukraine.

The situation is now turning, with prices increasing since early February, partly due to the AI outbreaks earlier this year and now highly impacted by coronavirus. Prices are now more than 5% above the 2015-2019 average (see Figure 6). AI outbreaks in eastern Europe have turned around the market. Several eastern European countries, like Poland, Hungary, the Czech Republic, Slovakia, Romania, and Ukraine, have faced a large number of outbreaks since December, and cases have spread through the countries. As a result, some countries that import from the EU have banned products from the regions with AI outbreaks or, in some cases, banned whole countries. In addition, significant culling of birds and more conservative placement have taken place, reducing local supply. Although bans on Poland's exports to many markets could upset the market balance, flexibility in shifting exports to other EU countries reduces the overall impact.

The outlook for EU poultry for the rest of 1H 2020 is relatively positive, but under more volatile conditions due to coronavirus. This will change market conditions, with poultry capturing market share during an EU economic slowdown. Products will be sold more in supermarkets and home delivery. Supply will be increasingly impacted by disruptions in distribution and reduced labor availability, given the rise in coronavirus cases and government interventions to reduce the spread.

Figure 6: Broiler feed price and margin trend in northwestern Europe, Jan 2010-Jan 2020



Source: Bloomberg, Rabobank 2020

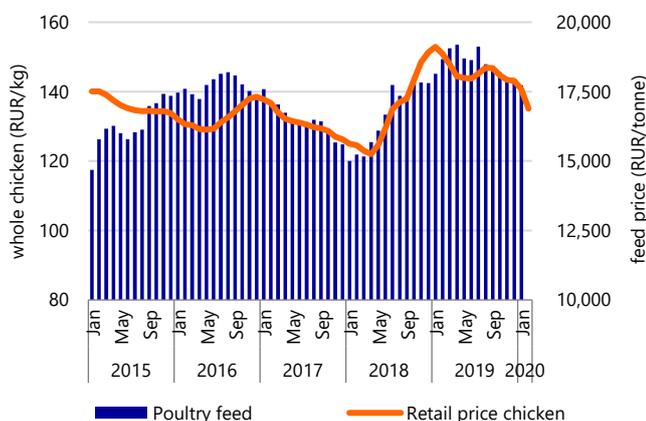
## Russia

The Russian poultry industry had a mixed year in 2019, with a strong start and high prices gradually returning to the more familiar pattern of oversupply, especially given the expansion of pork. For the whole year, poultry production grew by 1.3% to 5.05m metric tons, while pork production grew by 3% to 3.85m metric tons.

Over recent years, the Russian government and poultry industry have put a high priority on developing export markets. Poultry exports reached 305,000 metric tons in 2019, 10% more than in 2018. An interesting additional development here is the significantly higher export prices of USD 1.56/kg in 2019, more than 50% above 2018 levels. This reflects the changing export mix, with an increased focus on China and the Middle East instead of Central Asia and eastern Europe. Imports remained fairly stable around 227,000 metric tons, meaning Russia was a net exporter for the second year in row.

The outlook for the Russian poultry industry is moderately positive. In terms of markets, the biggest risk is the ongoing expansion in pork, which can challenge the Russian meat market. On the other hand, high beef prices and a positive Russian crop outlook, which will likely keep feed prices relatively flat, are more positive (see Figure 7). In addition, new openings for Russian poultry in trade markets will push up trade. The UAE is now open, and some Russian regions are pending for exports to Japan. China, now Russia's number one export market, will likely slow trade in the next month, due to coronavirus, but will return in Q2 and 2H, with 11 new Russian companies licensed to export, further pushing up trade.

Figure 7: Russian retail frozen broiler (LHS) and feed price (RHS) trend, Jan 2015-Feb 2020



Source: Rosstat, Rabobank 2020

## South Africa

The South African poultry industry had a tough 2019. The implications of the weak 2018/19 crop harvest, caused mainly by drought, were an ongoing challenge. The situation looked little improved for this crop year, but this changed last month when South Africa experienced one of its heaviest rainfalls in years. This has pushed up 2019/20 crop production expectations and resulted in falling futures prices at Safex markets. Maize is now 10% and soybeans 2% below end-of-2019 levels.

This is turning the outlook for the poultry industry. While margin levels in Q4 2019 were still challenging, with feed prices 19% above Q4 2018 levels while broiler prices were only 11% up (see Figure 8), feed prices will now fall in the coming months. Experience from earlier years means this should be bullish for industry margins. A restrictive supply expansion is needed to deliver these improved margins. In the short term, the market will benefit somewhat from a ban on eastern European imports resulting from AI outbreaks but might face negative impacts from a slower South African tourism season, due to coronavirus-based travel restrictions.

The South African poultry master plan was recently signed and is now moving into implementation. The most obvious short-term change is an expected new levy on imports of up to 82% for key exporters, except the EU which has a free trade agreement with South Africa. At the same time, the industry will start to develop local sanitary/veterinary systems to meet EU requirements for exports, which could facilitate further exports of cooked poultry to the EU. The South African poultry master plan is a big move for the industry, which in turn is supposed to develop new jobs to help reduce the high unemployment rate of over 30%.

Figure 8: South African broiler and feed price trend, Q1 2015-Q1 2020f



Source: SAPA, News24, Rabobank 2020

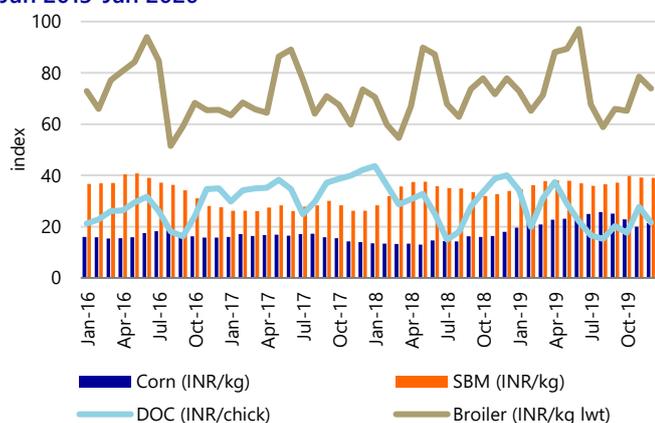
## India

The Indian poultry industry had a tough 2H 2019. High feed prices in Q3 were the main issue, caused by a delayed monsoon that led to delayed sowing and in turn delayed supply of kharif harvest in the market. Broiler prices were also low, due to increased supply (see Figure 9). Prices of chicken (broiler prices) collapsed from INR 75/kg to INR 30/kg in early February, when rumors were spread by social media about chicken and coronavirus impacts. Even though the rumor had no substance, it had a strong impact on consumption. The government of India subsequently announced that chicken consumption is safe. This initially helped chicken consumption to recover, but increased coronavirus infections in India have now reversed the trend, with prices going as low as INR 10/kg.

Feed prices stayed high in the last two to three months. Maize prices went to INR 22/kg a month ago to INR 19/kg now. Maize prices are expected to go down to around INR 15/kg, when the rabi crop harvest comes into the market around May. Soybean meal prices have gone down, with current pricing of INR 34/kg to INR 38/kg. Soybean meal prices are expected to soften slightly to around INR 30/kg to INR 34/kg in May.

Key poultry integrators are expected to show lower profitability in FY20 (April to March), compared with the previous year. Bad performance in the fourth quarter will only compound this, with demand slippage and reduced margins due to the impacts of the coronavirus rumor. Small poultry farmers will face significant impacts, and some businesses will fail. Rabobank expects coronavirus to impact Q1 (April to June) performance, with April showing similar trends as March (low broiler prices, low margins, and possibly losses for some companies).

Figure 9: Indian broiler, DOC, and feed price index, Jan 2013-Jan 2020



Source: NCEDX, Rabobank 2020

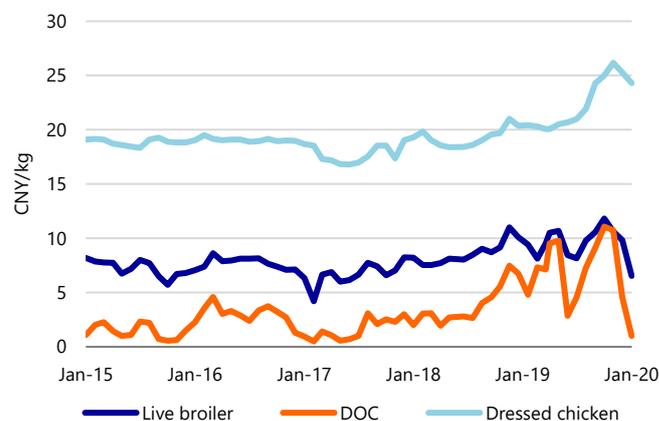
## China

China faced great challenges during the coronavirus outbreaks in the first two months of 2020. Roadblocks have disrupted the supply chain, from breeding to processing. It is reported that some day-old-chicks (DOC) and live birds had to be destroyed due to transport and labor shortages in feed mills and slaughterhouses. The logistics situation started to improve in mid-February, when the government included livestock and feed, together with food and medical items, in the list of necessary supplies. As a result, DOC prices rebounded from a low of CNY 0.5/bird in early February to CNY 6.0/bird in mid-March, and live bird prices grew from CNY 5/kg to CNY 8.5/kg (see Figure 10).

Six AI cases have been reported in Xinjiang and Hunan this year. AI outbreaks added more uncertainty to the complicated situation, leading to stricter measures on live bird sales. We expect farms and slaughterhouses to be back to full operations by the end of March. However, production in February/March and likely April will decline, due to the lower supply of DOC and hatchery eggs in February. On the other hand, demand for poultry meat will not recover until April, as consumer markets, such as group dining in schools and factories and foodservice, will not fully reopen in Q1. We expect to see a shortage of poultry supply in Q2 and prices to rise as a consequence. However, given the expanded capacity in 2019, there is still a high chance that production for the full year will increase, with over 10% increase in white bird and over 10% drop in yellow bird.

Poultry imports in 2019 increased by 54% YOY, reaching 795,000 metric tons. Despite the challenges of slow operations at ports and cancellation of some shipping routes to China at the beginning of 2020, we still expect total imports to increase by over 20% in 2020.

Figure 10: Chinese poultry prices, Jan 2010-Jan 2020



Source: Bovar, Rabobank 2020

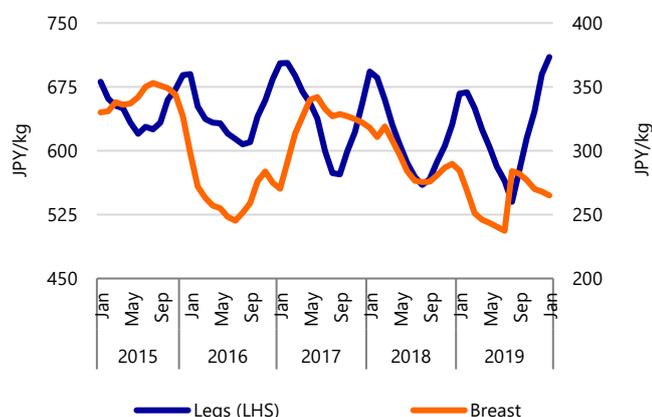
## Japan

The poultry market in Japan saw challenging conditions in 2019, but improved through the year as stock levels moved from a relatively high level in 1H 2019 to more normal levels. Japanese poultry production and imports have grown moderately by 1% in 2019, compared to 2018. Imports of raw chicken grew by 0.5% to 562,000 metric tons, while imports of cooked dropped by 0.5% to 508,000 metric tons.

Japanese poultry prices have been challenging, with leg prices in 2H 2019 on average 2% below 2H 2018 levels and breast prices 7% below (see Figure 11). Market prices are currently challenged by exceptionally low pig carcass prices of JPY 365/kg in January, which is the lowest level since 2013. Beef prices have stayed relatively strong, which supports breast meat price levels. Breast meat prices have increased since Q4 2019 and are now at levels similar to early 2019.

The outlook for the industry remains challenging. The current trade turmoil will likely keep imported prices low. This will challenge domestic market conditions and the profitability of the local Japanese industry. Current stock positions are at average levels, but the current price levels will likely push Japanese traders to increase inventories. The big uncertainty here is what will happen with the summer Olympics, scheduled to take place in Tokyo, as tourism might be affected by coronavirus. The growth of tourism in Japan has been a major driver for the growth in poultry consumption, and any reduction in this market might negatively impact Japanese market balance.

Figure 11: Japanese poultry prices, Jan 2015-Jan 2020



Source: ACLI, Rabobank 2020

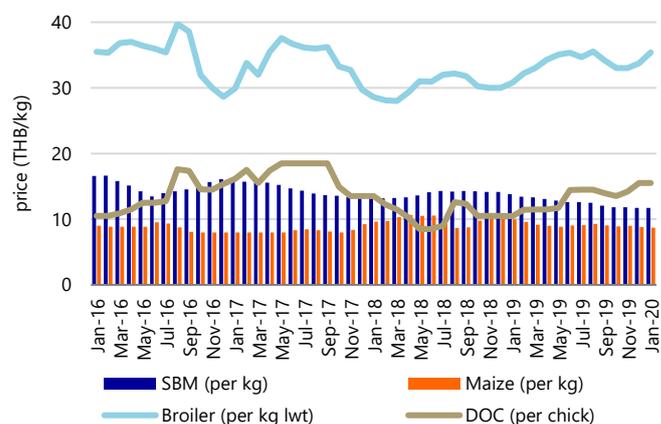
## Thailand

Coronavirus in China is affecting Thailand's tourism and retail sectors, and has so far deflated hog prices from THB 80/kg lwt in the last week of January to THB 67/kg lwt to THB 74/kg lwt in the second week of March. Broiler prices remained stable at THB 35/kg lwt to THB 36/kg lwt over the same period, supported by sizeable export demand and contract volumes.

Thailand's poultry export volumes expanded 7% YOY to 934,000 metric tons in 2019, based on UN ComTrade data. Demand from the EU expanded 4% YOY to 237,700 metric tons, while that from Greater China (including HK) and South Korea jumped 147% and 35%, to 91,500 metric tons and 41,200 metric tons, respectively. These increases were partially offset by a 0.4% YOY decline in exports to Japan, to 441,400 metric tons.

Thailand currently has 16 poultry plants approved for exports to China, and an additional 12 plants are reportedly awaiting approval. While China's poultry imports are still expected to expand in response to the pork shortage this year, port congestion and strict quarantine measures have caused delays in shipments to China in Q1 2020. While we expect Thai poultry exports to recover in 2H 2020, our forecast is for 2% YOY growth in 2020 (from 7%). Any potential adverse impact on demand in the EU and Japan (for example, the Tokyo Olympics) from coronavirus would add a downside risk to our expectations. Rabobank expects poultry integrators' margins to remain stable in Q1 2020, but the impact of coronavirus on export volumes would have a dent on profitability.

Figure 12: Thai broiler-to-feed price monitor, Jan 2015-Jan 2020



Source: Thai Feed Mill Association, Rabobank 2020

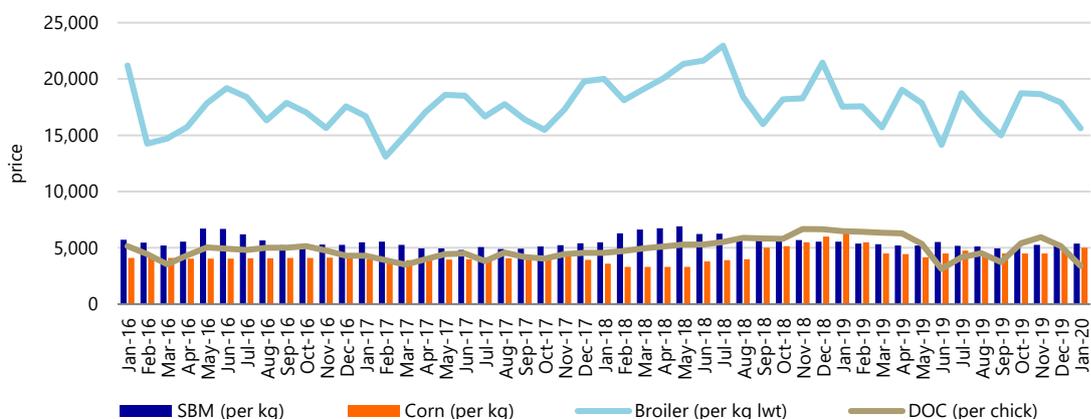
## Indonesia

To address oversupply, the Ministry of Agriculture has issued multiple mandates to the country's breeders and integrators with the intent of culling the final stock hatching-eggs (aged 19 days) by 13m to 15m per week from January 1 through February 29, 2020, followed by less aggressive cuts in March and April to accommodate peak Lebaran demand. In addition, 15m final stock hatching-eggs are to be withdrawn per week from January through December 2020 (subject to monthly review and less aggressive in March and April), while parent stock maximum age is set at 60 weeks throughout the year. Broiler and DOC prices have responded positively to these measures (see Figure 13). However, we believe supply restrictions will need to be actively managed to maintain prices as we see downside risk to demand, due to the trickle-down impacts of coronavirus.

While breeding and commercial farms' poor margins in January and February will drag on integrators' Q1 2020 performance, their contributions are small relative to feed milling, which we expect to remain stable. Rising domestic corn prices should not have a significant impact on feed margins, given lower-priced inventory and eventual cost pass-through. The main corn harvests have begun in March, indicating a slight delay. Army worm has not had much impact on production, as dry conditions have led some farmers to switch from rice to corn in Q4 2019.

Chick-ins are due to pick up from the end of March, boosting Q2 2020 DOC and feed demand. However, we do not anticipate a significant YOY boost to Lebaran demand this year, given the lack of strong economic growth. Dressed broiler retail prices averaged IDR 33,470/kg cwt in February 2020 (+1% YOY), rising 1% from an average of IDR 33,260/kg cwt in January 2019. Price increases are expected to extend into the Q2 2020 peak season.

Figure 13: Indonesian broiler, DOC, and feed ingredient prices, Jan 2013-Jan 2020



Source: industry sources, Bloomberg, Rabobank 2020

# Imprint

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