



Key Market Signals in the Egg Industry

**For the
second quarter of 2017**

2Q 2017

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1. EXECUTIVE SUMMARY

Pullets and laying hens

A total of 6 563 630 day-old pullets was produced during the second quarter of 2017 (2Q 2017). This was 6.9 % more than 1Q 2017 and 14.2 % more than 2Q 2016.

The average number of laying hens during 2Q 2017 was 24 227 900. This was a decrease of 0.35 % compared to 1Q 2017 and a decrease of 3.3 % compared to 2Q 2016.

Egg production

Total egg production during 2Q 2017 was 5 162 700 cases. This was a 0.8 % increase compared to 1Q 2017 but a 3.4 % decrease compared to 2Q 2016. The average production per week for 2Q 2017 was 397 130 cases.

Egg imports

During 2Q 2017, all but 1 kg of egg imports into South Africa were dried egg products (on three tariff lines). The dried egg products comprised 24 500 kg dried egg product (not including yolk), 14 700 kg dried egg albumin and 7 066 kg dried egg yolks. Shell egg imports (chicken) were limited to 1 kg in 2Q 2017. Total egg imports in the 2Q 2017 amounted to 46 267 kg; at a rand value of R3.74 million.

In the 2Q 2017, imports from Italy accounted for 47.6 % of total imports; whilst 46.9 % came from France, 5.4 % from Denmark, and 0.14 % from Sweden and the United Kingdom, combined.

In the 1H 2017, egg imports into South Africa totalled 110.4 tonnes; up 36 % on imports in the same months of 2016 (81.2 tonnes). The FOB value of imports in the 1H 2017 was R8.7 million.

Egg exports

During 2Q 2017, a total of 3 989 tonnes of eggs and egg products left South Africa, at a declared FOB value of R90.4 million. This tonnage increased by 10.3 % compared to the 1Q 2017 (+ 374 tonnes).

Of these total egg exports, fertile chicken eggs accounted for 978 t. This is 31 t (- 3.1 %) less than in the previous quarter and 1 228 t (- 55.7 %) less than the same quarter in the previous year (Q2 2016). The FOB value of fertile chicken egg exports in the 2Q 2017 was R40.3 million. In addition to fertile chicken eggs, SARS reports that 33 t of fertile eggs from ducks, geese or guinea fowl were imported. SAPA continues to query these non-chicken volumes; the bulk of which, this month, went to Mozambique and Cameroon.

Besides fertile eggs, a total of 2 972 t of egg products (shell eggs, liquid and dried egg products included) were exported from South Africa in the 2Q 2017, at a declared FOB value of R 49.0 million. This is 401 tonnes more than in 1Q 2017 (15.6 % increase); and 1375 t more than in

2Q 2016 (86.0 % increase). Egg product exports during the 2Q 2017 comprised: 1.7 % dried egg product; 0.4 % liquid egg product; 94.0 % shell eggs from chicken (0407.2110; 2190; 9020; 9090); and 3.9 % shell eggs from other sources excluding ostrich (0.407.2990). The total tonnage and value of egg products above excludes 5 473 kg of ostrich eggs exported under tariff code 0407.9010 at an FOB value of R110 660.

The main countries of destination for South African exports of eggs and egg products during 2Q 2017 were Mozambique (73.8 % of exports), Lesotho (7.1 %), Swaziland (7.0 %), Zimbabwe (5.0 %), Namibia (4.0 %), Côte d'Ivoire (0.9 %); Botswana (0.7 %), Cameroon (0.4 %), Rwanda (0.3 %), Saudi Arabia (0.3 %) and others (0.5 %).

Egg prices: producer

The monthly average egg producer price for June 2017 was R14.58 per dozen. Compared to May 2017, the egg price increased by 2.8 % and, on a year-on-year basis, it increased 11.4 %. The quarterly average egg producer price for 2Q 2017 was R14.24 per dozen; an increase of 7.1 % over 1st quarter 2017 prices and an increase of 12.2 % compared to the 2Q 2016.

During June 2017, the average egg price for *graded* eggs (excluding barn eggs and free range eggs) was R15.16 per dozen, an increase of 2.8 % in comparison with May 2017 and an increase of 11.1 % when compared to the same month in the previous year. The quarterly average egg producer price for *graded* eggs in 2Q 2017 was R14.80 per dozen; an increase of 6.1 % over 1st quarter 2017 prices.

The average egg price for *ungraded* eggs was R13.22 per dozen in June 2017, a 2.8 % increase when compared to May 2017 and an increase of 11.6 % on June 2016 prices. The quarterly average egg producer price for *ungraded* eggs in 2Q 2017 was R12.87 per dozen; an increase of 10.4 % over 1st quarter 2017 prices.

The average egg price for 2016 was R12.84 per dozen; an increase of 6.4 % over the average price for 2015 (R12.07). Graded eggs averaged R13.61 per dozen and ungraded eggs sold at R11.16 per dozen. In 1H 2017, the average egg price (weighted) was R13.77 per dozen.

Cull price

The average price for cull laying hens was R29.51 in June 2017, an 1.5 % decrease when compared to May 2017 but an increase of 4.6 % on June 2016 prices. The average price for cull laying hens in the 2Q 2017 was R29.67 and for 2016 was R27.84. The average price for 1H 2017 was R27.44.

Egg prices: retail

During June 2017, the average retail price for eggs, size large, was R24.95 per dozen and the average producer price was R15.52 (Stats SA). The mark-up between producer and retailer was 60.8 %.

On a quarterly basis, the average retail price for eggs, size large, was R25.36 per dozen and the average producer price was R15.31 (Stats SA). The retail mark-up on producer prices was 65.7 %.

On an annual basis, the average retail price for eggs, size large, was R23.10 per dozen in 2015 and the average producer price was R14.03 (Stats SA). In 2016, the average retail price was R24.60 and the average producer price was R14.59. The retail mark-up on producer prices was 64.6 % in 2015 and is 68.7 % in 2016. In 1H 2017, the average retail price for large eggs was R25.21 and the average producer price was R15.04.

Egg prices in comparison with chicken, beef and pork

Eggs and poultry meat remain the most affordable of all protein sources. In 2016, the average egg price was R18.29 per kg, the average beef producer price at the abattoir (A2/A3 carcass price; excluding the fifth quarter) was R37.79 per kg; the average producer price of class C2/C3 beef was R31.11/kg and the average pork price (all classes) was R24.36/kg. The average producer price for broilers (total realisation) for 2016 was R18.92 per kg.

In 2Q 2017, the average egg producer price was R20.31 per kg; the average beef producer price at the abattoir (A2/A3 carcass price, excluding the fifth quarter) was R46.36 per kg; the average producer price of class C2/C3 beef was R38.50/kg and the average pork price (all classes) was R26.40/kg. The average producer price for broilers (total realisation) for 2Q 2017 was not available from producers.

Feed prices

The monthly average feed price indicator for June 2017 was R3 346 per tonne. It decreased by 10.0 % on a monthly basis and by 19.8 % on a year-on-year basis.

The average layer feed price indicator for 1Q 2017 was R3 567 per tonne; a decrease of 10.2 % in comparison with the previous quarter and a decrease of 13.6 % in comparison with the same quarter in the previous year.

The average feed price indicator for 2016 was R4 069; an increase of 18.9 % over 2015. The average feed price for 2015 was R3 422; an increase of just 0.5 % over 2014.

International economic outlook for the egg industry

Dutch egg farmers are facing financial ruin after the banned insecticide, fipronil, was found to have contaminated production on Dutch and Belgian farms. Over 200 farms in the three countries, mostly in Holland, have been put on lock down and millions of eggs and tonnes of egg product have been removed from shelves and recalled in as many as 45 EU and non-EU countries. At the core of the scandal are two young Dutch entrepreneurs whose pest control company, Chickfriend, held numerous contracts with egg farmers to control red mites on their farms. The product they used was sourced from a Belgian supplier, Poultry Vision. Early indications are that the producers have been unwitting users of the banned insecticide but the scandal is estimated to have cost them €66 million, with losses of up to €150 million further up

the retail chain. Over 2.5 million birds have been culled and millions more birds taken out of production and force-moulted. It has been a disaster for Dutch egg farmers.

The South African egg industry is facing its own challenges with dozens of avian influenza outbreaks affecting producers in seven provinces. After an initial event in Zimbabwe, HPAI H5N8 was confirmed as the cause of high mortality in broiler breeders near Villiers in late June. A second outbreak in laying hens was then reported from Standerton. Since then, outbreaks have occurred in Gauteng, the Western Cape, KwaZulu-Natal, North West, the Northern Cape and, mostly recently, in the Eastern Cape. In addition, State Veterinarians have reported 23 “outbreaks” in wild birds and hobbyist birds in a second report to the OIE (15 September), which covers all cases listed to 1 September. A total of 351 deaths were recorded in these birds. Migrating waterfowl are thought to be spreading the virus south from Europe, since the H5N8 strain is the same one that has been identified in European outbreaks. In the 28 outbreaks reported to the OIE thus far, South African veterinary services claim that 672 000 birds have been culled, with 54 000 further deaths caused by the virus itself. However, on 21 September, the Western Cape confirmed it was dealing with 26 outbreaks of H5N8 HPAI and that two millions ducks and chickens have been culled in this province alone.

The Department of Agriculture, Food and Fisheries is considering vaccinating birds against avian influenza in an attempt to control the disease. A decision was promised by the end of September. The Minister of Agriculture has said that the Government would consider allowing the importation of fertile eggs to replace lost stock. By mid-September, DAFF had only agreed to compensate farmers for uninfected birds culled as a result of measures to prevent the spread of an AI outbreak. Detailed guidelines on how compensation will be applied are still not available from the Department.

On 24 July, Belgium reported two outbreaks of HPAI in birds belonging to traders supplying hobbyists. This event expanded and currently totals 1650 cases in West Vlaanderen. The last case in this event was recorded on 20 June. This is the first HPAI event in domestic poultry in Belgium in seven years. In France, local producers estimate that some 3.2 million birds have been lost to the disease or in pre-emptive culls through 2016/2017. On June 30, the French suffered yet another outbreak of H5N8 on the Franco-Belgian border, close to where outbreaks have been occurring in Belgium. The Dutch have officially declared that their avian-influenza free-status has been regained, under the terms of Article 10.4.3 of the OIE Terrestrial Animal Health Code (2016). Since 7 December 2016, Germany has notified the OIE of 286 outbreaks of H5N8 HPAI in wild birds and commercial poultry. Over 340 000 birds have been destroyed as part of control measures. On 11 August 2017, the Germans submitted final reports on all their HPAI events to the OIE, announcing that all have been resolved.

Since 1 December 2016, Hungary has reported 294 outbreaks (206 045 cases) of H5N8 HPAI in poultry operations housing fattening turkeys, geese and ducks. Almost 2 million birds have been culled. The Hungarians submitted final reports on their outbreak on 16 June 2016. The UK suffered renewed outbreaks in May in Pembrokeshire (Wales), Lancashire and Norfolk. A final report on this latest UK outbreak was submitted to the OIE on 13 September 2017. Outbreaks of

highly pathogenic avian influenza in Poland, Denmark, Spain and the US in 2016/2017 are all considered resolved in terms of OIE directives.

In 2017 to date, there have also been reported cases of highly pathogenic avian influenza (H5N8) in Bulgaria, Bosnia and Herzegovina, Cameroon, China, Chinese Taipei, Croatia, Czech Republic, Democratic Republic of Congo, Egypt, Finland, India, Iran, Israel, Italy, Kazakhstan, Kuwait, Lithuania, Luxembourg, Macedonia, Nepal, Niger, Nigeria, Portugal, Romania, Republic of Korea, Russia, Serbia, Slovakia, Slovenia, Switzerland, Sweden, Tunisia, Uganda, the Ukraine and Zimbabwe. In addition, the following countries have reported the H5N1 strain: Bangladesh, Cameroon, Cambodia, China, Côte d'Ivoire, India, Iran, Laos, Libya, Malaysia, Myanmar, Nepal, Niger, Nigeria, Togo, Vietnam and Zimbabwe. China, Chinese Taipei and the US have reported H5N2. There have been reports of H7N9 in China and the US. Chinese Taipei lays claim to H5N6, along with China, France, Greece, Hong Kong, Japan, Republic of Korea, Laos, Myanmar, the Philippines and Vietnam. The H5N5 strain has been reported in Croatia, Italy, Netherlands, Germany, Greece, Poland, Serbia and the Czech Republic in 2017. Mexico reported H7N3 in May. France has reported H5N9.

Table egg production in the US was 6.4 % higher in 2016 (8.565 billion dozen) than in 2015 (8.053 billion dozen), but still 0.2 % below 2014 levels (8.43 billion dozen; USDA WASDE). Production for 2017 is forecast at 8.764 billion dozen; the highest on record. Producers have now cut placements to counter falling prices and the winter months should support demand. The predicted annual egg price for 2017 remains subdued at 87 – 89 c/dozen but big producers are confident that the US egg market has bottomed.

Egg exports from the US dropped from 313.6 million dozen in 2015 to 279.2 million dozen in 2016 (USDA WASDE), but are expected to increase to 305.2 million dozen in 2017. Imports of 122.1 million eggs were received in 2016, but are expected to drop steeply in 2017 to 51.4 million dozen. US consumption of eggs recovered to 274.7 eggs in 2016 (USDA) and is set to increase to 275.7 in 2017 (WASDE).

In the EU, egg production (for consumption) in 2016 totalled 6.75 billion dozen (EC CIRCABC); 1.2 % higher than in 2015 (weight basis). Production is estimated to reach 6.79 billion dozen in 2017 (+ 0.58 %). The average weighted EU Class A egg price has increased from €101/100 kg in early August 2016 to €137.8/100 kg in September 2017. Prices have increased especially steeply in the last month because of the recall of eggs in the fipronil scandal, and the culling of laying flocks in Belgium and Holland.

The EU is a net exporter of eggs, with a trade balance of 246 947 tonnes of exports to 17 137 tonnes of imports in 2016 (egg equivalent; EU Commission); and 130 000 t exports to 9 000 t imports between January and July 2017. In the first seven months of 2017, 6 076 tonnes of egg equivalent were imported from the US into the EU, compared to 989 t in the same period in 2016. The US accounts for 64.2 % of egg imports into the EU in 2017 YTD (July). Argentina accounts for 14.4 % of EU egg imports in 2017 YTD. In the first seven months of the year, EU egg exports to third parties are 5.9 % below exports in the same period in 2016.

South African economy

Prospects for South African egg farmers had looked a little brighter for 2017 with animal feed prices dropping steadily and egg prices on the rise, pulled along by other animal protein prices and tighter laying stocks. However, outbreaks of highly pathogenic avian influenza in seven of the nine provinces may have catastrophic effects on the livelihood of some farmers while creating egg shortages and pushing up revenues for unaffected producers. In the long term, the disease could have affect replacement pullet numbers and exacerbate egg shortages.

Besides avian influenza, egg producers in some regions still face challenges from lingering drought. On September 18, dam levels in the nine provinces were as follows: Western Cape 37 % (only 27.5 % usable); Eastern Cape (56 %); Free State 76 %; Gauteng 87 %; KwaZulu-Natal 50 %; Limpopo 72 %; Mpumalanga 73 %; North West 81 % and Northern Cape 86 %. The Bloemfontein Supply System is at 38 % and the Vaal River System at 77.8 %. In its August 2017 *Seasonal Climate Watch* briefing, SAWS indicated the possibility of higher than average rainfall in the north-eastern regions of the country during the months October to December but not in the south western parts of the country. The El Niño Southern Oscillation (ENSO) remains neutral and is unlikely to have any specific influence on South Africa through the rest of 2017.

South Africa is forecast to consume R10.47 million tonnes in the 2016/2017 season (AgBiz), whilst the harvest is currently expected to be 16.4 million tonnes (Crops Estimate Committee). A total of 2.2 million tonnes of maize were imported for use in South Africa between 30 April 2016 and 27 April 2017 (SAGIS); while exports totalled almost 928 000 tonnes. South Africa will regain its status as a net exporter of maize this year but, while in excess of 4 million tonnes should be available for export, actual volumes are expected to be considerably lower.

On 20 September, maize futures for December delivery of white and yellow maize were set at R1 935/t and R2 048/t, respectively. Maize futures for March 2018 delivery were set at R1 973/t and R2 091/t for white and yellow maize, respectively. Soybean futures, for December and March delivery, have moderated to R4 843 and R 4 930/tonne respectively, as of 20 September.

2. EGG SUPPLY AND DEMAND 2Q 2017

2.1 Egg production

Day-old pullet production:

A total of 6 563 630 day-old pullets was produced during the second quarter of 2017 (2Q 2017). This was 6.9 % more than 1Q 2017 and 14.2 % more than 2Q 2016.

The weekly average number of day-old pullets hatched for 2Q 2017 was 505 050; 7.1 % more than 1Q 2017 and 14.2 % more than 2Q 2016 (monthly figures given in *Figure 1*).

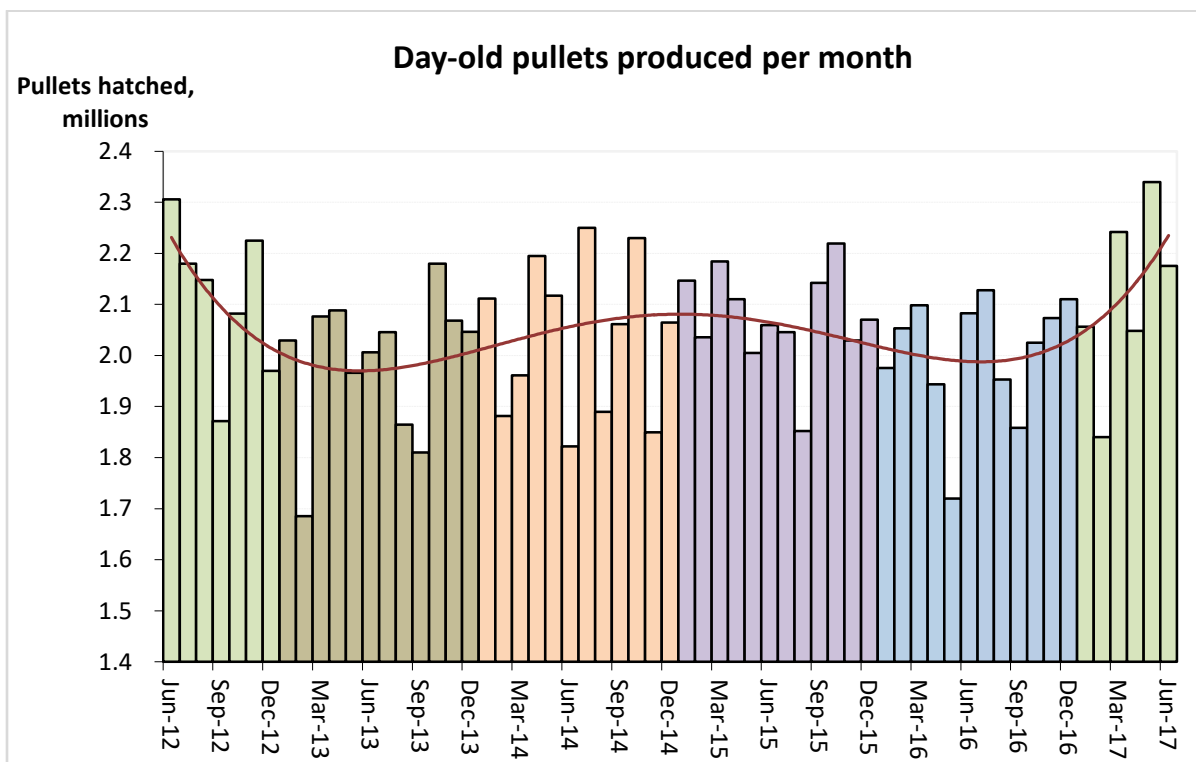


Figure 1: The number of day-old pullets produced per month.

Projected laying flock:

The average number of laying hens during 2Q 2017 was 24 227 900. This was a decrease of 0.35 % compared to 1Q 2017 and a decrease of 3.3 % compared to 2Q 2016.

The projected laying flock for October 2017 is 23 775 600 hens; a 2.4 % year-on-year decrease (*Figure 2*).

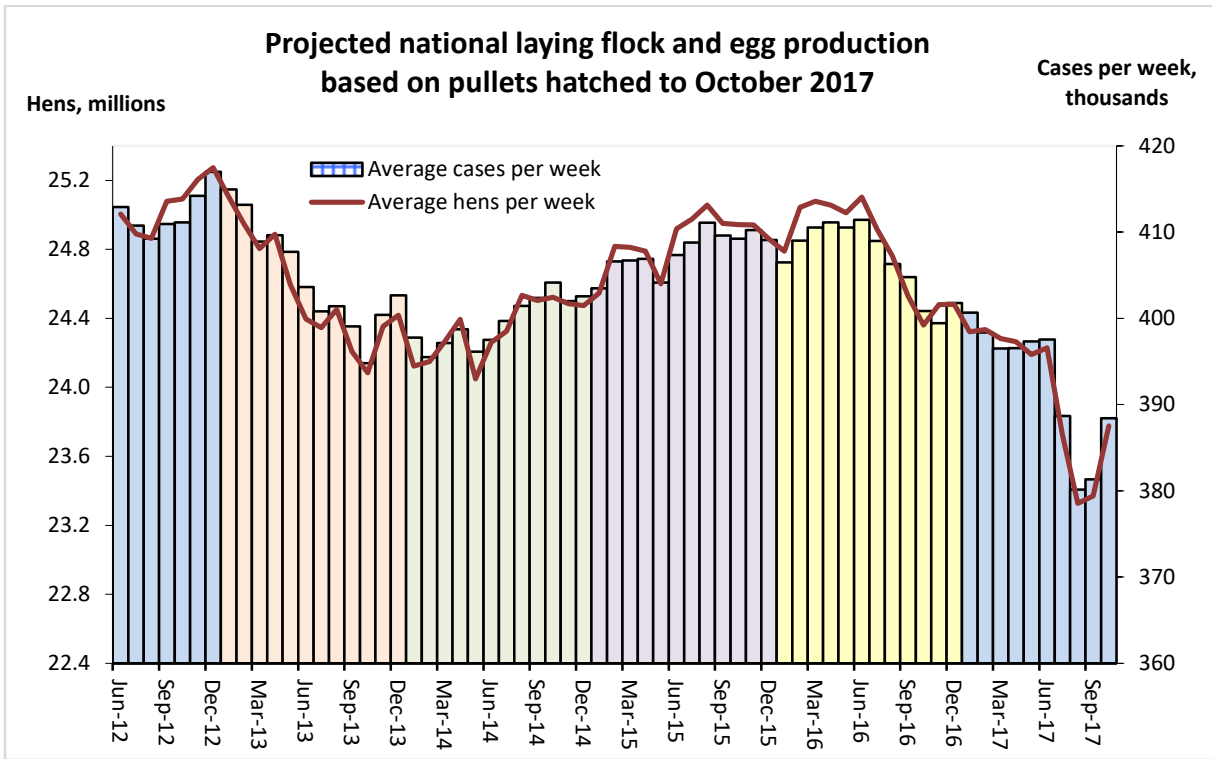


Figure 2: Projected national laying flock and egg production

Forecasted egg production:

Total egg production during 2Q 2017 was 5 162 700 cases. This was a 0.8 % increase compared to 1Q 2017 but a 3.4 % decrease compared to 2Q 2016.

The average production per week for 2Q 2017 was 397 130 cases. Compared to the 1Q 2017, there was a 0.35 % increase but compared to 2Q 2016 there was a 3.4 % decrease.

Table 1: Egg industry: key results (June 2017)**EGG INDUSTRY : KEY RESULTS - JUNE 2017****(Projections are based on day-old pullets placed per week to June 2017)**

	Hatch days	Calendar Days	Day-old Pullets placed		Laying hens	Eggs Produced (Cases)	
Month on Month	/Month	/Month	/Month	/Week	Average	/Month	/Week
June 2017	22	30	2,175,601	494,455	24,229,983	1,703,751	397,542
May 2017	23	31	2,339,857	508,665	24,189,614	1,759,546	397,317
Change			(164,256)	(14,210)	40,369	(55,795)	225
% Change			-7.02%	-2.79%	0.17%	-3.17%	0.06%
Year on Year	/Month	/Month	/Month	/Week	Average	/Month	/Week
June 2017	22	30	2,175,601	494,455	24,229,983	1,703,751	397,542
June 2016	22	30	2,082,406	473,274	25,103,172	1,763,187	411,410
Change			93,195	21,181	(873,189)	(59,436)	(13,868)
% Change			4.48%	4.48%	-3.48%	-3.37%	-3.37%
Year to date	/Period	/Period	/Period	/Week	Average	/Period	/Week
	January>June		January>June		Jan>Sept	Jan>Sept	
2017	130	181	12,701,868	488,314	24,002,090	15,325,407	392,959
2016	130	182	11,873,045	457,054	24,920,665	16,001,444	408,796
Change			828,823	31,261	(918,575)	(676,037)	(15,837)
% Change			6.98%	6.84%	-3.69%	-4.22%	-3.87%
Full year forecasts	/Period	/Period	/Period	/Week	Average	/Period	/Week
Jan>Dec 2016	261	366	24,021,063	460,740	24,799,834	21,267,831	406,762
Jan>Dec 2015	261	365	24,901,078	477,385	24,850,899	21,262,344	407,771
Change			(880,015)	(16,645)	(51,065)	5,487	(1,009)
% Change			-3.53%	-3.49%	-0.21%	0.03%	-0.25%

NOTE:

Month or Period: Refers to a calendar month or period

Week: Refers to an average 7 day week of which all 7 days fall within the specified month or period

ASSUMPTIONS

- 1: All surviving day-old pullets placed will be transferred to the laying flock at 18 weeks of age.
- 2: Depopulation age: Feb. 2006 to April 2009 - 69 weeks, April to Aug. 2009 - 70 weeks, Aug. to Nov. 2009 - 71 weeks, Nov. 2009 - 72 weeks and Nov 2013 - 74 weeks
- 3: No deviation from the accepted production standards and procedures, due to disease, changes in production planning, etc. is expected.

2.2 Egg imports

During 2Q 2017, all but 1 kg of egg imports into South Africa were dried egg products (on three tariff lines). Imports were recorded on the following tariff lines:

- 24 500 kg dried egg product (not including yolk; *tariff line 0408.9100*)
- 14 700 kg dried egg albumin (*tariff line 3502.1100*)
- 7 066 kg dried egg yolks (*tariff line 0408.1100*)
- 1 kg preserved shell eggs/cooked hen eggs (*tariff line 0408.9090*)

Total egg imports in the 2Q 2017 amounted to 46 267 kg; at a rand value of R3.74 million. Quarterly volumes of total egg imports since 2Q 2012 are given in *Figure 3*. The quarterly imports of dried egg albumin are given in *Figure 4*.

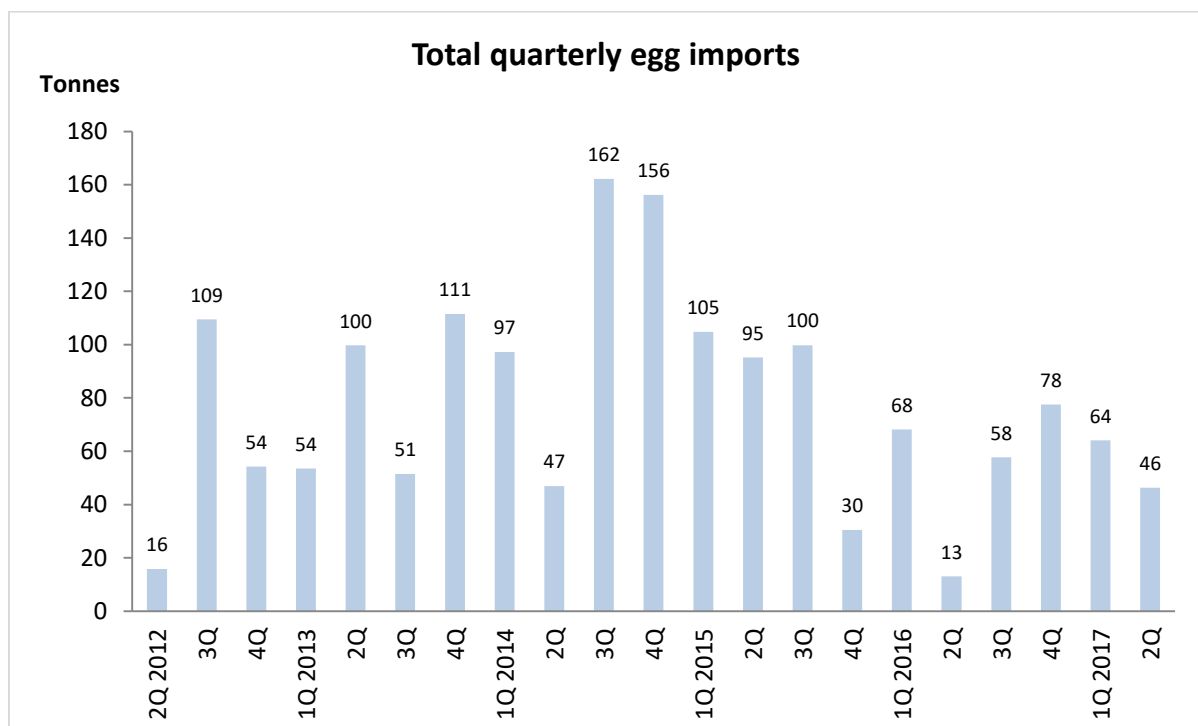


Figure 3: Total quarterly egg imports from 2Q 2012

In the 2Q 2017, imports from Italy accounted for 47.6 % of total imports; whilst 46.9 % came from France, 5.4 % from Denmark, and 0.14 % from Sweden and the United Kingdom, combined.

Through 2016, egg imports into South Africa totalled 216.5 tonnes; down 37 % on 2015 levels (342.7 t). Egg imports were valued at R26.89 million (FOB) in 2016. Dried egg products (including albumins) accounted for 99.6 % of egg imports into South Africa in 2016. In the 1H 2017, egg imports into South Africa totalled 110.4 tonnes; up 36 % on imports in the same months of 2016 (81.2 tonnes). The FOB value of imports in the 1H 2017 was R8.7 million and 99.4 % of the imports consisted of dried egg products, on three tariff lines.

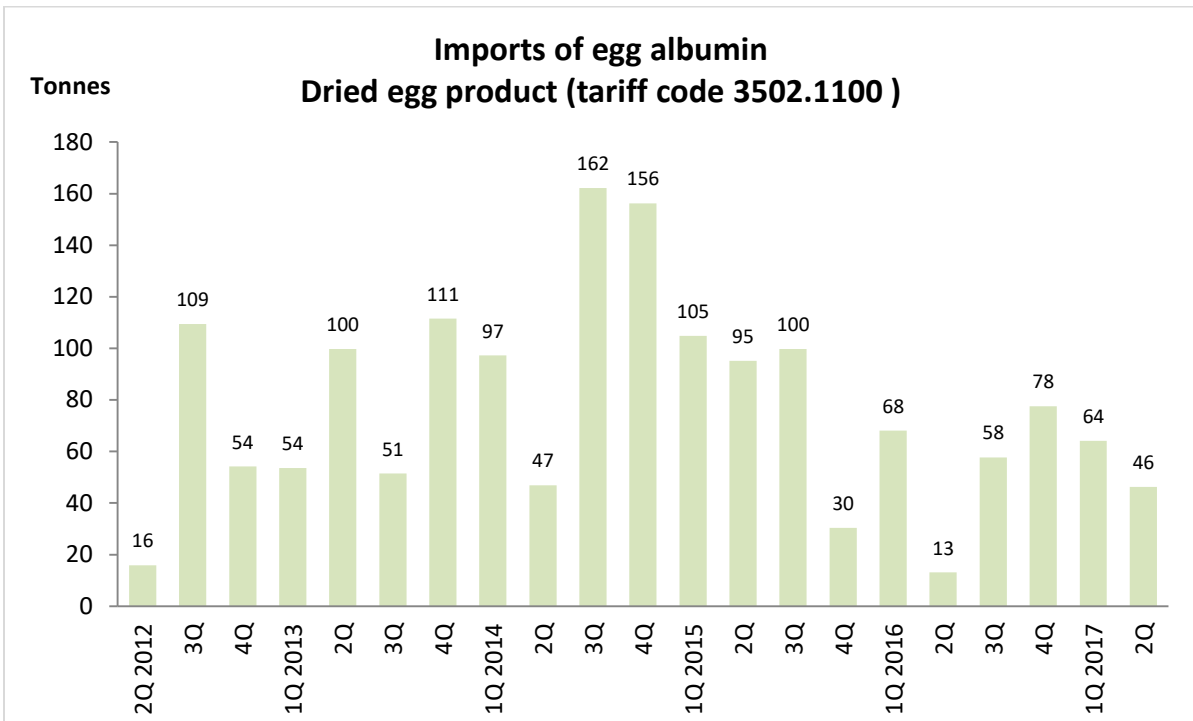


Figure 4: Quarterly imports of egg albumin from 2Q 2012

The percentage contribution by the major egg importers to total egg imports for 1H 2017 is shown in *Figure 5*.

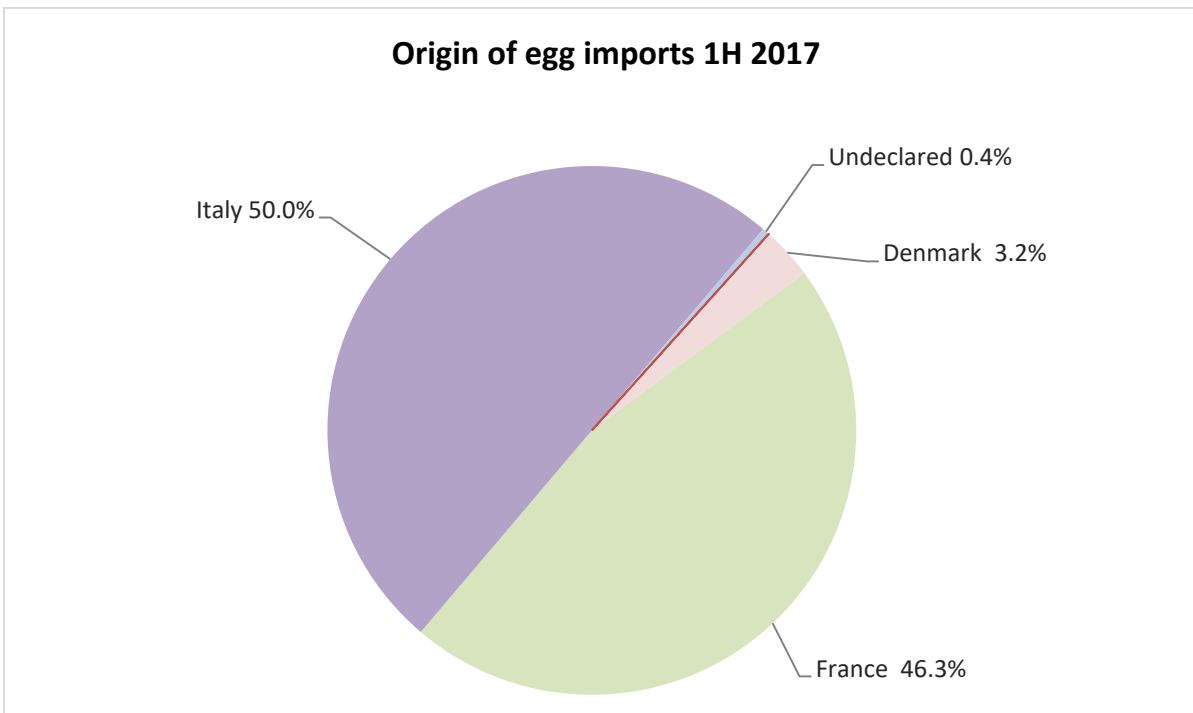


Figure 5: The main countries of origin for egg imports (1H 2017; source: SARS).

2.3 Egg exports

During 2Q 2017, a total of 3 989 tonnes of eggs and egg products left South Africa, at a declared FOB value of R90.4 million. This tonnage increased by 10.3 % compared to the 1Q 2017 (+ 374 tonnes).

Of these total egg exports, fertile chicken eggs accounted for 978 t; 24.5 % of the total export tonnage. This is 31 t (- 3.1 %) less than in the previous quarter and 1 228 t (- 55.7 %) less than the same quarter in the previous year (Q2 2016). Fertile chicken eggs were exported under two tariff codes: 144 t and 834 t were exported under codes 0407.1110 and 0407.1190, respectively. The FOB value of fertile chicken egg exports in the 2Q 2017 was R40.3 million. In addition to fertile chicken eggs, SARS reports that 33 t of fertile eggs from ducks, geese or guinea fowl were imported. SAPA continues to query these non-chicken volumes; the bulk of which, this month, went to Mozambique and Cameroon.

The quarterly exports of fertile eggs under these two tariff codes since 2Q 2012 are shown in *Figure 6*.

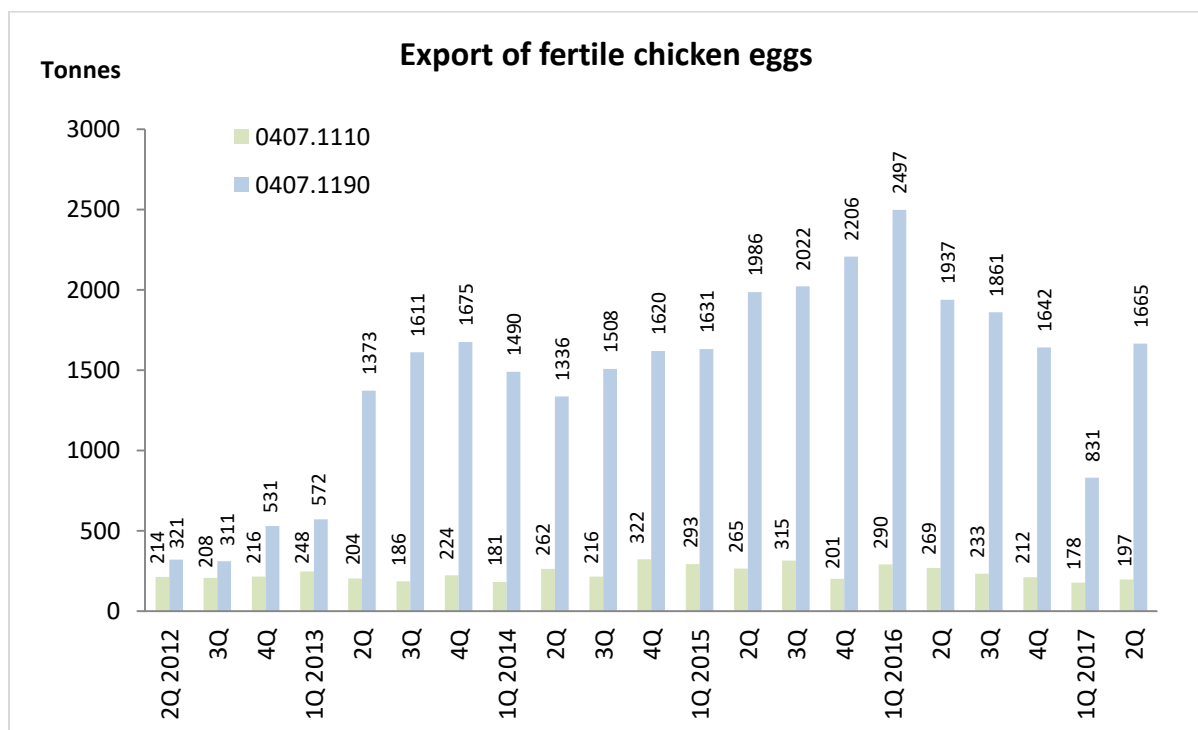


Figure 6: Quarterly export of fertile eggs

The amount of egg products exported during the 2Q 2017 under each of the most regularly used tariff codes (including fertile eggs and shell eggs (fresh, cooked or preserved)) is given in *Table 2*, along with the amounts exported in the previous quarter and in the 2Q 2016.

Besides fertile eggs, a total of 2 972 t of egg products (shell eggs, liquid and dried egg products included; *Figure 7*) were exported from South Africa in the 2Q 2017, at a declared FOB value of

R 49.0 million. This is 401 tonnes more than in 1Q 2017 (15.6 % increase); and 1375 t more than in 2Q 2016 (86.0 % increase). Egg product exports during the 2Q 2017 comprised: 1.7 % dried egg product; 0.4 % liquid egg product; 94.0 % shell eggs from chicken (0407.2110; 2190; 9020; 9090); and 3.9 % shell eggs from other sources excluding ostrich (0.407.2990). The total tonnage and value of egg products above excludes 5 473 kg of ostrich eggs exported under tariff code 0407.9010 at an FOB value of R110 660.

Table 2. Quarterly exports of eggs and egg products from South Africa

	Tariff code	units	2Q 2016	1Q 2017	2Q 2017
Fertile eggs	0407.1110/1190	t	2 206	1 009	978
Fertile eggs (ostriches)	0407.1910	kg	0	0	0
Fertilised eggs (other: not chicken/ ostrich)	0407.1990	t	13.7	29.4	33.3
Shell eggs chicken (< 150 c)	0407.2110	t	18.3	7.6	14.4
Shell eggs chicken (>150 c)	0407.2190	t	292	452	679
Shell eggs (ostrich)	0407.2910	kg	0	0	0
Shell eggs (not chicken/ostrich)	0407.2990	t	138	115	115
Ostrich eggs	0407.9010	t	0.92	4.91	5.47
Shell eggs: chicken (fresh, preserved cooked)	0407.9020	t	636	1 124	1 234
Shell eggs: other (fresh preserved, cooked)	0407.9090	t	276	728	865
Dried egg yolks	0408.1100	kg	703	1	21
Liquid egg yolks	0408.1900	t	3.6	5.9	10.7
Dried egg product (not yolks)	0408.9100	t	228	129	51
Raw yolks/whites (chicken)	0408.9910	kg	800	4 105	288
Raw yolks/white (not chicken)	0408.9990	t	1.9	5.8	0.5
Dried egg albumin	3502.1100	kg	6	5 793	1 065
Liquid egg albumin	3502.1910	kg	1000	0	733
Egg albumin, not dried but not liquid	3502.1990	kg	33	0	0

In summary, total egg exports comprised 978 t of fertile chicken eggs, 33.3 t of fertile eggs (not chickens or ostriches), and 2 972 tonnes of egg products (including shell eggs and preserved ostrich eggs). In addition, 5 473 kg of ostrich eggs were exported in the 2Q 2017 under tariff code 0407.9010.

The main countries of destination for South African exports of eggs and egg products during 2Q 2017 were Mozambique (73.8 % of exports), Lesotho (7.1 %), Swaziland (7.0 %), Zimbabwe (5.0 %), Namibia (4.0 %), Côte d'Ivoire (0.9 %); Botswana (0.7 %), Cameroon (0.4 %), Rwanda (0.3 %), Saudi Arabia (0.3 %) and others (0.5 %; *Figure 8*).

The main countries of destination during 2016 as a whole were Mozambique (68.3 % of exports), Swaziland (8.7 %), Zimbabwe (7.9 %), Lesotho (7.0 %), Côte d'Ivoire (2.2 %), Namibia (1.8 %) and Angola (1.3 %). In 2016, South Africa exported 8 941 t of fertile chicken eggs; 432 t of fertile eggs from other species; 1 409 t of fresh chicken eggs; 3 958 t of preserved/cooked chicken eggs; 931 t of dried egg products and 123 t of liquid egg products. Total egg exports (excluding ostriches) for 2016 amounted to 16 176 t, valued at R421 million. South Africa also exported 4 613 kg of ostrich eggs in 2016, which were exported under 0407.9010. Ostrich egg exports were valued at R0.264 million.

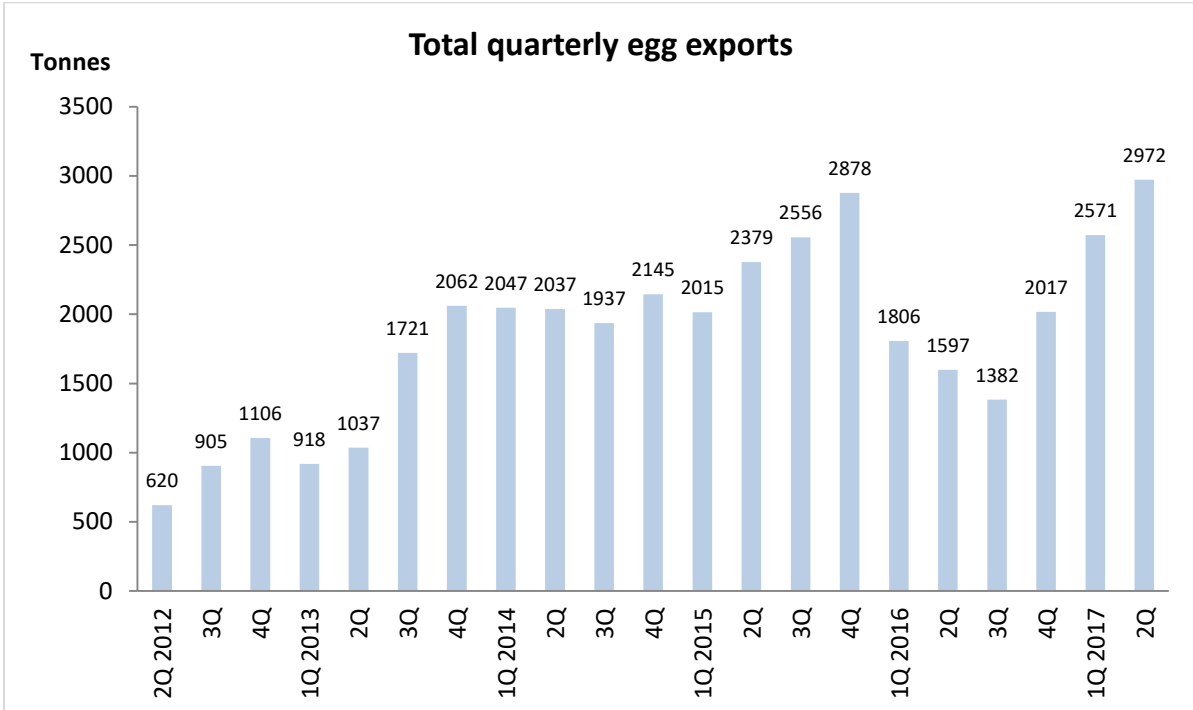


Figure 7: Quarterly total exports of shell eggs and egg product excluding fertile eggs and ostrich eggs (source: SARS)

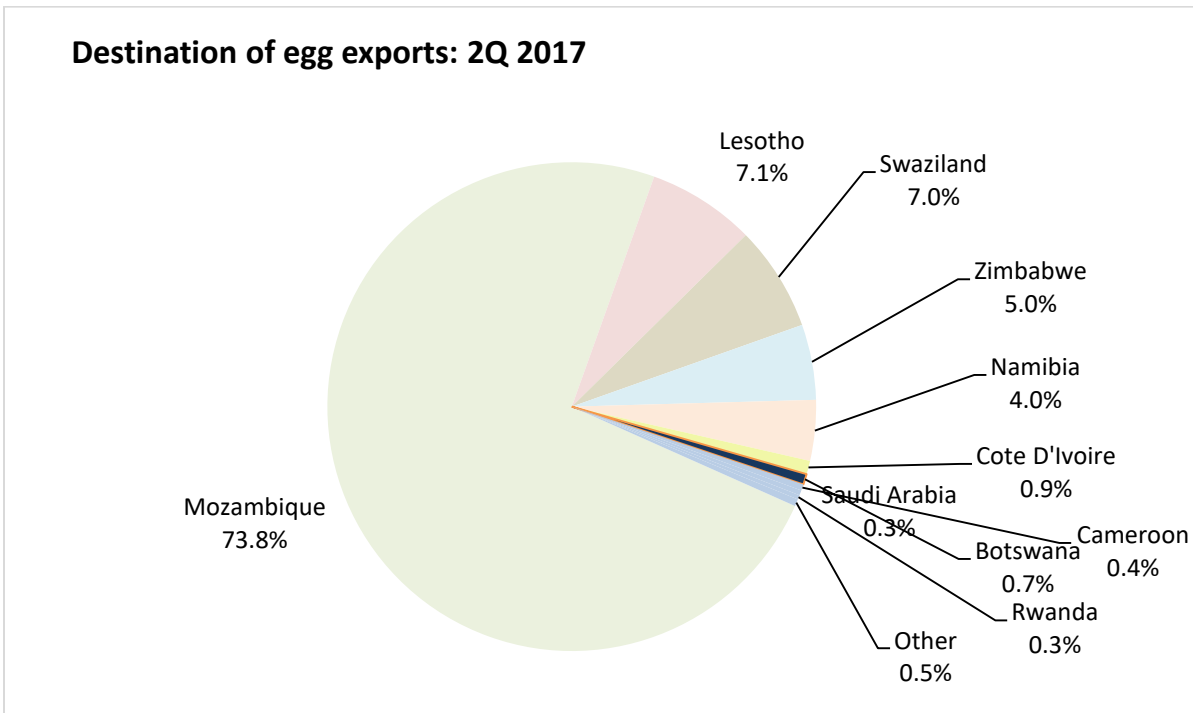


Figure 8: The main countries of destination for egg exports 2Q 2017

The main countries of destination during 1H 2017 were Mozambique (75.0 % of exports), Swaziland (7.6 %), Lesotho (6.4 %), Zimbabwe (5.4 %), Namibia (2.9 %), Côte d'Ivoire (1.1 %) and Botswana (0.4 %). In 1H 2017, South Africa exported 1 987 t of fertile chicken eggs; 63 t of fertile eggs from other species; 1 153 t of fresh chicken eggs; 395 t of preserved/cooked chicken eggs; 181 t of dried egg products and 28 t of liquid egg products. Total egg exports (excluding ostriches) for 1H 2017 amounted to 7 593 t, valued at R169 million. South Africa also exported 10 387 kg of ostrich eggs in 1H 2017, which were exported under 0407.9010. Ostrich egg exports were valued at R0.22 million.

3. EGG PRICE TRENDS

3.1 Producer prices

The monthly average egg producer price for June 2017 was R14.58 per dozen (*Figure 9*; source: SAPA). Compared to May 2017, the egg price increased by 2.8 % and, on a year-on-year basis, it increased 11.4 %. The quarterly average egg producer price for 2Q 2017 was R14.24 per dozen; an increase of 7.1 % over 1st quarter 2017 prices and an increase of 12.2 % compared to the 2Q 2016.

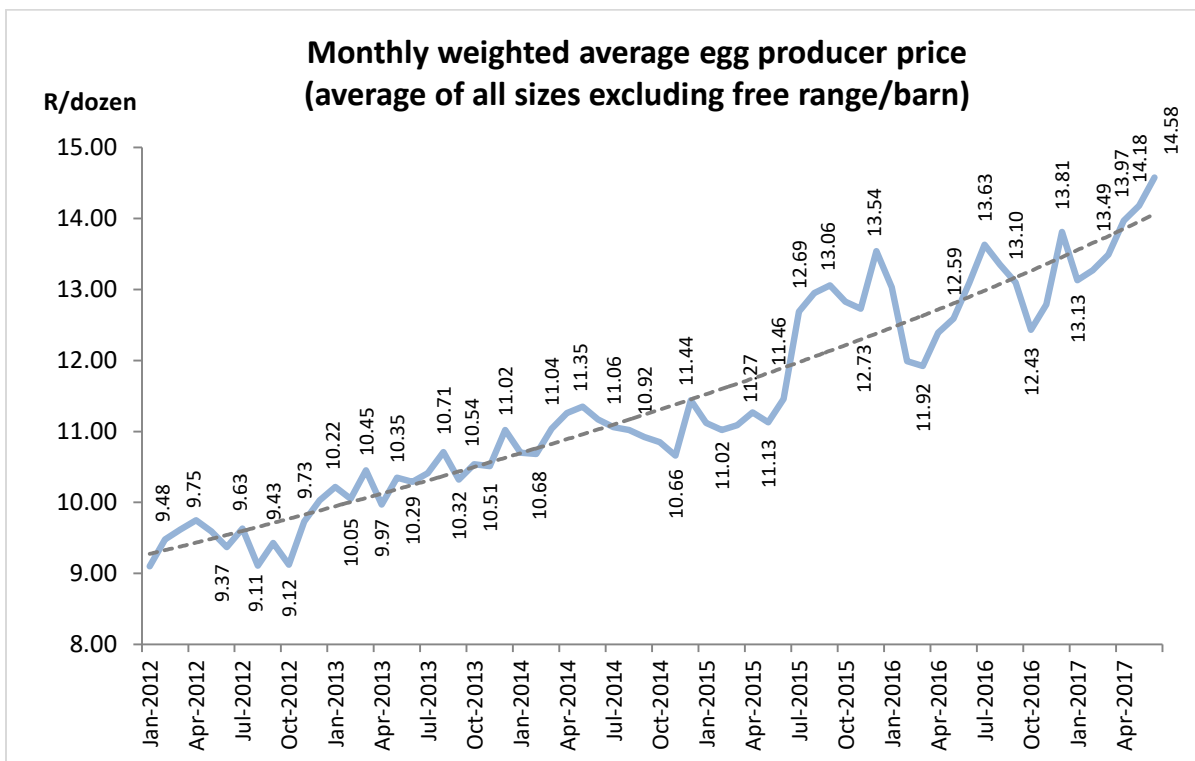


Figure 9: Monthly egg price from January 2012 to the end of the 2Q 2017

- Graded egg prices

During June 2017, the average egg price for *graded* eggs (excluding barn eggs and free range eggs) was R15.16 per dozen, an increase of 2.8 % in comparison with May 2017 and an increase of 11.1 % when compared to the same month in the previous year. The quarterly average egg producer price for *graded* eggs in 2Q 2017 was R14.80 per dozen; an increase of 6.1 % over 1st quarter 2017 prices.

- Ungraded egg prices

The average egg price for *ungraded* eggs was R13.22 per dozen in June 2017, a 2.8 % increase when compared to May 2017 and an increase of 11.6 % on June 2016 prices. The quarterly average egg producer price for *ungraded* eggs in 2Q 2017 was R12.87 per dozen; an increase of 10.4 % over 1st quarter 2017 prices.

The average egg price (weighted) for 2016 was R12.84 per dozen; an increase of 6.4 % over the average price for 2015 (R12.07); *Figure 10*. Graded eggs averaged R13.61 per dozen and ungraded eggs sold at R11.16 per dozen. During 2016, 70 % of eggs were sold graded and 30 % ungraded. In 1H 2017, the average egg price (weighted) was R13.77 per dozen (graded eggs averaged R14.38 per dozen; ungraded eggs sold at R12.26 per dozen).

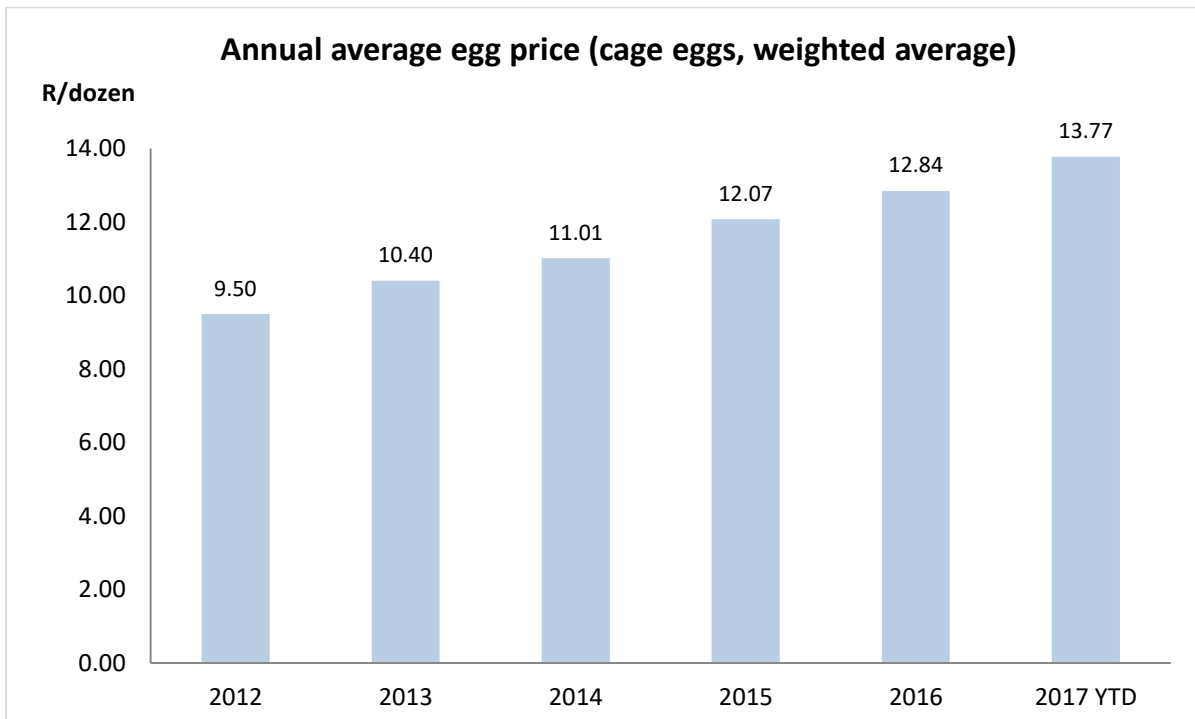


Figure 10: Average annual weighted egg producer price

Cull price

The average price for cull laying hens was R29.51 in June 2017, an 1.5 % decrease when compared to May 2017 but an increase of 4.6 % on June 2016 prices.

The average price for cull laying hens in the 2Q 2017 was R29.67 (*Figure 11*). This is an increase of 17.7 % over 1Q 2017 prices (+ R4.46 per hen).

The average cull price for 2016 was R27.84; an increase of 0.22 % over the average price for 2015 (R27.78). The average price for 1H 2017 was R27.44.

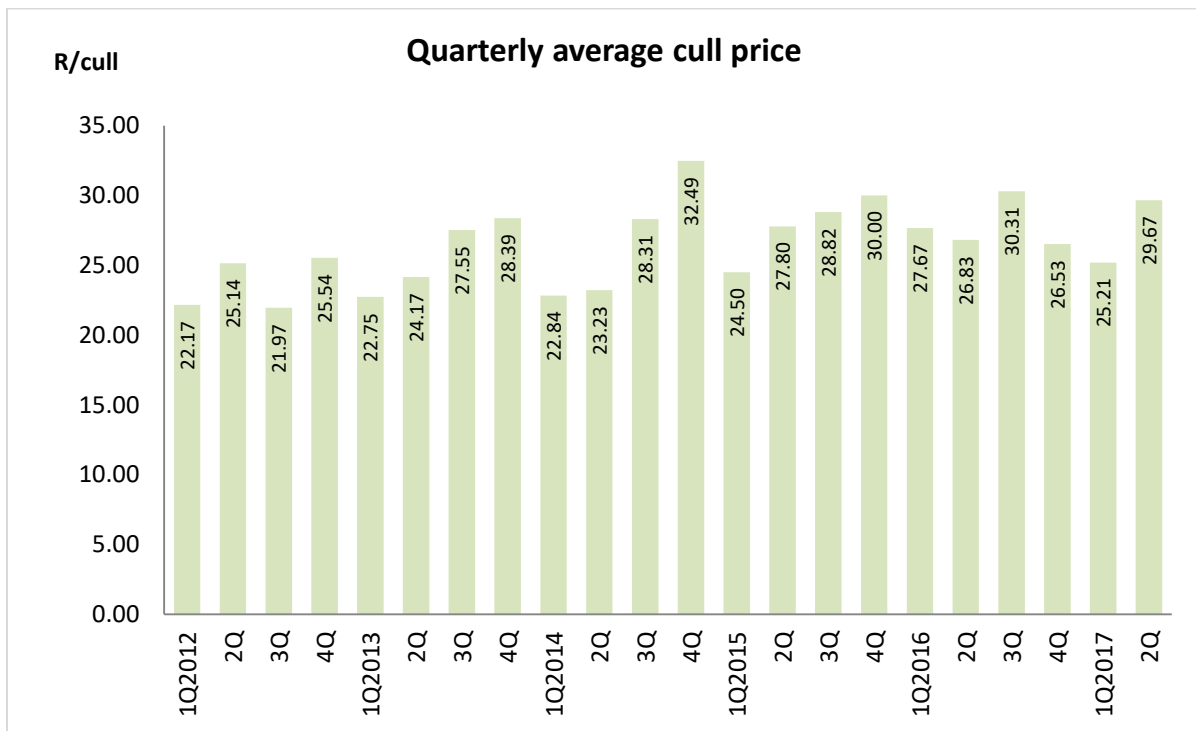


Figure 11: Average quarterly cull prices

3.2 Retail prices

During June 2017, the average retail price for eggs, size large, was R24.95 per dozen and the average producer price was R15.52 (*Figure 12*; Stats SA). The mark-up between producer and retailer was 60.8 %. The retail price increased by 1.6 % on a year-on-year basis, while the producer price increased by 5.0 %.

On a quarterly basis, the average retail price for eggs, size large, was R25.36 per dozen and the average producer price was R15.31 (Stats SA). The retail mark-up on producer prices was 65.7 %. The retail and producer price increased by 1.2 % and 3.7 % on a quarterly basis, respectively.

On an annual basis, the average retail price for eggs, size large, was R23.10 per dozen in 2015 and the average producer price was R14.03 (Stats SA). In 2016, the average retail price was R24.60 and the average producer price was R14.59. The retail mark-up on producer prices was 64.6 % in 2015 and is 68.7 % in 2016. In 2016, the retail and producer price increased over 2015 prices by 6.5 % and 4.0 %, respectively. In 1H 2017, the average retail price for large eggs was R25.21 and the average producer price was R15.04.

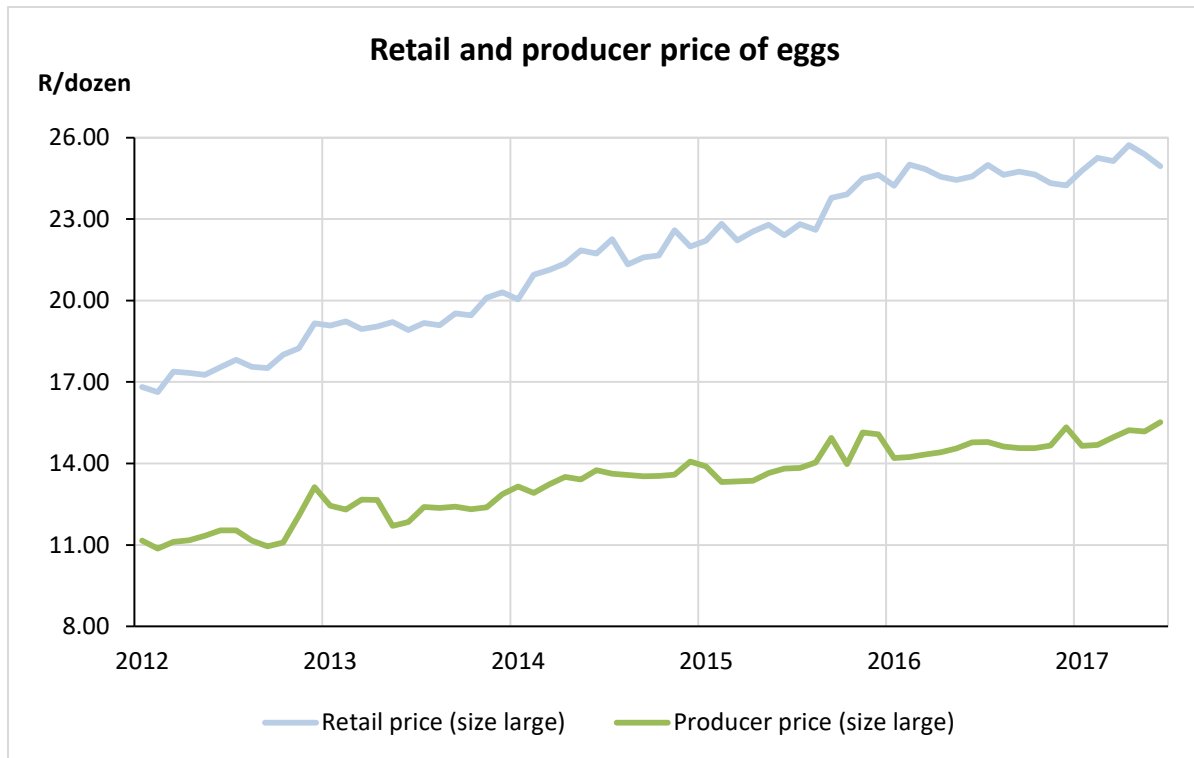


Figure 12: Production price and retail price of eggs (size: large; Stats SA)

The egg producer price index presented in *Figure 13* uses the average egg producer price in 2008 as the index base (= 100). The egg producer price index is compared to the SA food and non-alcoholic beverages (NAB) price index (base 2008 = 100; Statistics SA). Using 2008 as the base year, egg prices increased in line with inflation from 3Q 2013 to the end of 2Q 2014. If we were to take 2012 as the base year, the *broiler* price index would be greater than the food price index for almost every month through 2013, 2014 and 2015. However, where broiler producers benefited from lower input costs and price increases in excess of food inflation in 2015 (with a return to profitability), egg producers saw their prices slide in relation to overall food inflation in 1H 2015. In the 3Q 2015, a level of recovery began so that egg price inflation began to exceed the food inflation rate. This recovery continued in 4Q 2015, with the inflation rate for eggs strongly exceeding the inflation rate for food and non-alcoholic beverages. This improvement in price inflation deteriorated dramatically in the 1Q 2016, with a sharp deflation in egg prices in contrast to the increase in general food price inflation. From March to July 2016, there was an

equally sharp inflation in egg prices, steeper than the increase in the food and NAB index, but this trend reversed again in August, September and October. During these three months, producer prices deflated, whereas food inflation continued to rise. In November and December 2016, egg price inflation again accelerated above that of general food price inflation, but there was a sharp downward correction in January 2017. For the past five months, egg producer price inflation has increased at a greater rate than food price inflation.

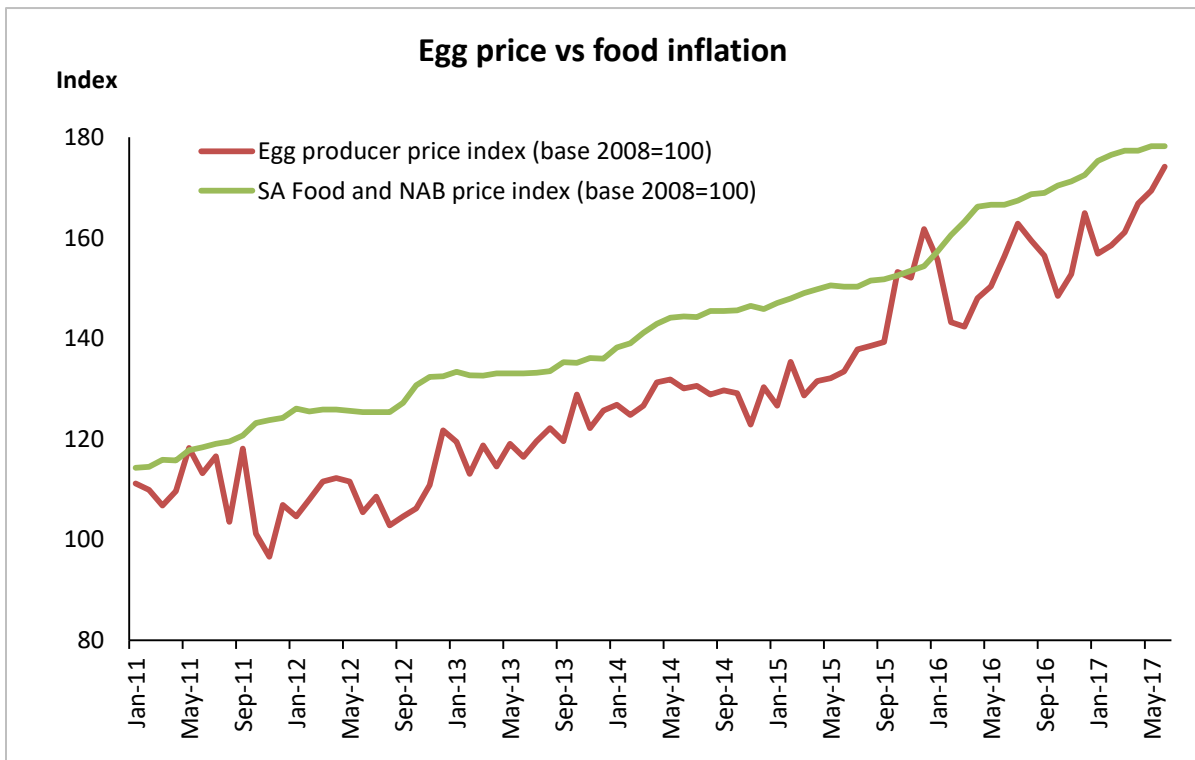


Figure 13: Production egg price index and food price inflation (base 2008 = 100)

3.3 Egg prices in comparison with chicken, beef and pork

In comparison with pork, beef and chicken: 2016

Eggs and poultry meat remain the most affordable of all protein sources described in the graph below (*Figure 14*). Please note that the mean egg weight used to calculate egg prices per kilogramme has been increased in SAPA models from 55 g to 58.2 g for 2014; 58.3 g for 2015 and 58.5 g for 2016.

The average egg producer price for 2016 was R18.29 per kg (R12.84 per dozen (SAPA; all sizes). In 2015, it was R16.65 per kg (y-on-y increase: 9.8 %). In June 2017, the egg producer price was R20.79 per kg (R14.58/dozen); an increase of 11.5 % on a yearly- and kilogramme-basis (*Figure 15*).

The average beef producer price at the abattoir (carcass price, excluding the fifth quarter) for 2015 was R34.17 per kg and for 2016 was R37.79 (+ 10.6 %). In June 2017, beef classes A2/A3 fetched R46.18 per kg; a year-on-year increase of 20.8 % (cf June 2016). The average producer price of class C2/C3 beef was R27.27 per kg in 2015 and R31.11 in 2016 (+14.1 %). In June 2017, class C2/C3 beef fetched R39.69 per kg; a year-on-year increase of 34.7 % (Source: SA Stats; SAPA).

The average pork price (all classes) was R22.83 kg in 2015. In 2016, it rose to R24.36 per kg (+ 6.7 %) and, in June 2017, pork fetched R26.80 per kg, a year-on-year increase of 10.5 %.

The average producer price for broilers (total realisation) for 2015 was R18.43 per kg and for 2016 was R18.92 per kg (+ 2.7 %). The broiler producer price for June is not available because an insufficient number of producers submitted data to SAPA. The producer price in April was R21.72.

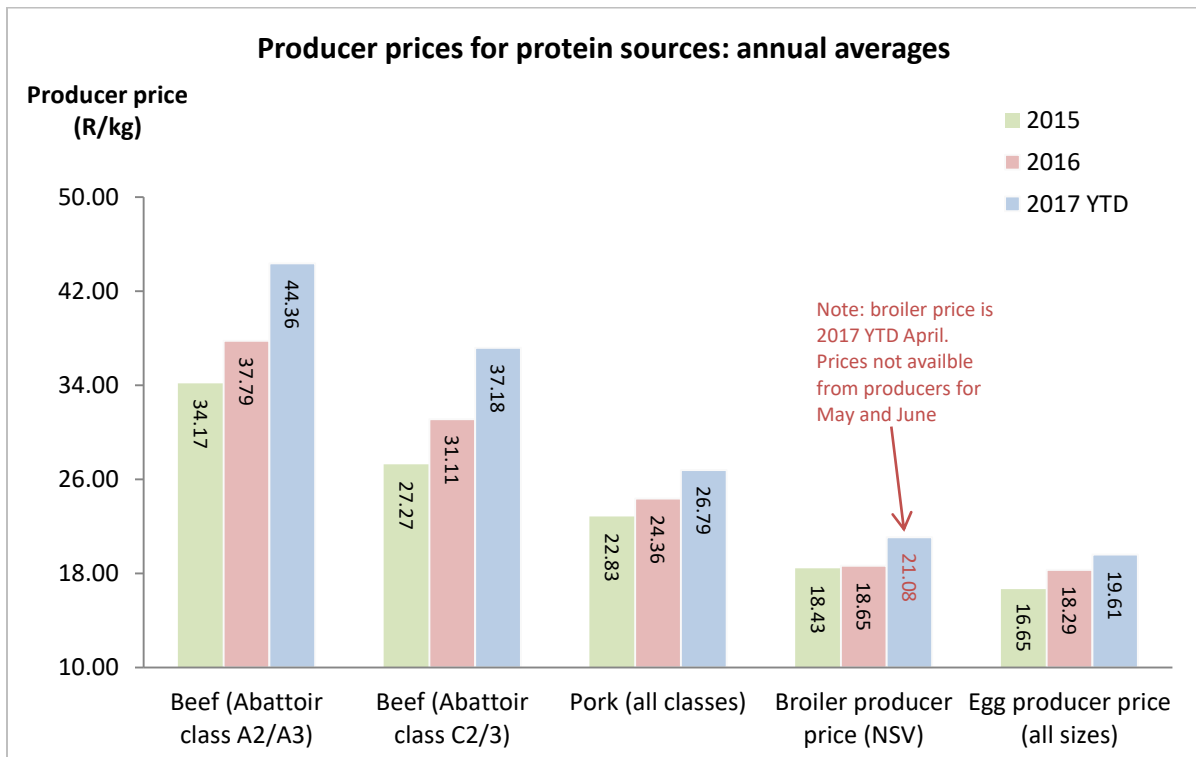


Figure 14: Comparison of annual producer prices of protein sources: 2015/2016/2017 YTD

In comparison with pork, beef and chicken during the 2Q 2017

The average egg producer price for 2Q 2017 was R20.31 per kg; a quarterly increase of 7.4 %, and an increase of 12.3 % on a year-on-year and kilogramme basis (SAPA; average all sizes).

In comparison, the average beef producer price at the abattoir (class A2/A3 carcass price excluding the fifth quarter) for 2Q 2017 was R46.36 per kg; a 9.4 % increase on a quarterly basis and a 20.9 % increase on a year-on-year basis. The average producer price of class C2/C3 beef was R38.50 per kg for 2Q 2017; a 7.4 % increase on a quarterly basis and an 31.9 % increase on a year-on-year basis (SA Stats; SAPA).

The average price of pork (all classes) was R26.40 per kg in the 2nd quarter of 2017; a quarterly decrease of 2.8 %, but a year-on-year increase of 9.4 %.

The average producer price for broilers (total realisation) for 1Q 2017 was R20.86 per kg. The 2Q 2017 broiler producer price is not available because an insufficient number of producers submitted data to SAPA in May and June.

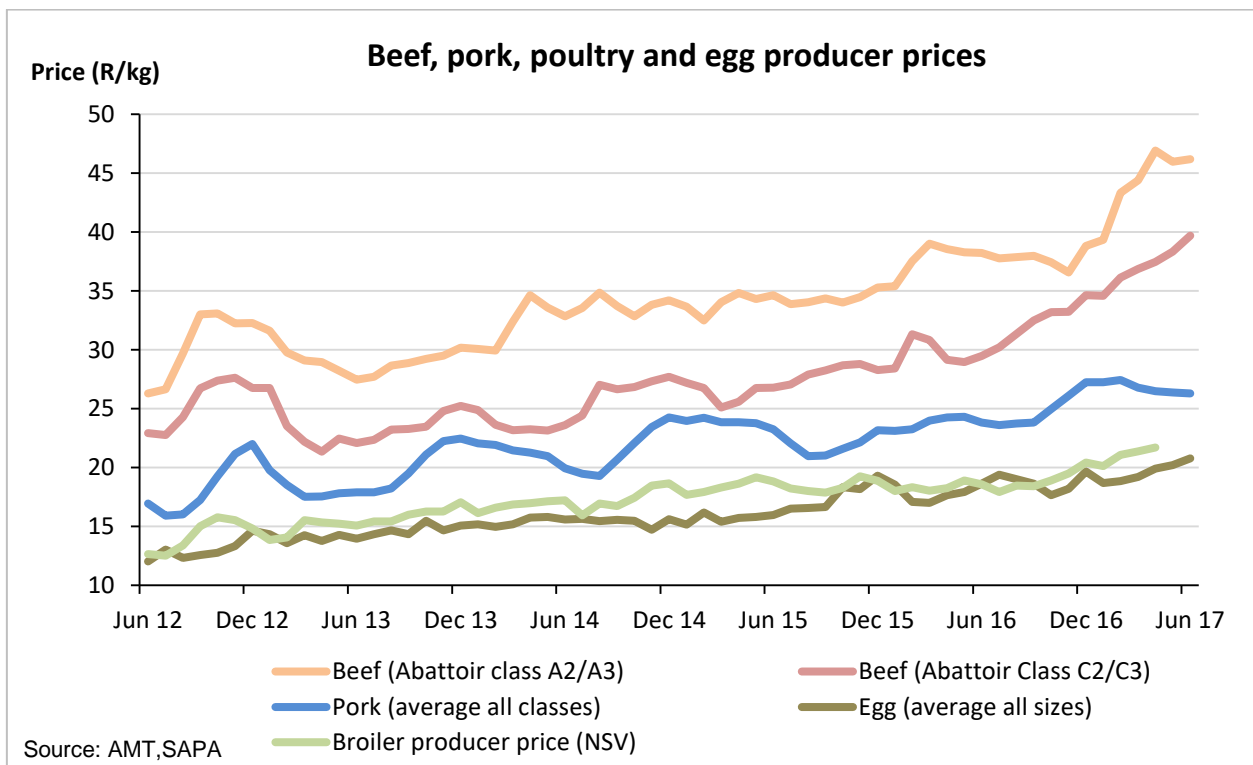


Figure 15: Monthly producer prices of protein sources

3.4 Feed price indicator

The weighted average feed price indicator includes distribution, excludes medication & additives and excludes VAT. Therefore, it should be treated as an indicator. The monthly average feed price indicator for June 2017 was R3 346 per tonne (*Figure 16*). It decreased by 10.0 % on a monthly basis and decreased by 19.8 % on a year-on-year basis.

The average layer feed price indicator for 2Q 2017 was R3 567 per tonne; a decrease of 10.2 % in comparison with the previous quarter and a decrease of 13.6 % in comparison with the same quarter in the previous year.

The average feed price indicator for 1H 2017 was R3769. The average feed price for 2016 was R4 069; an increase of 18.9 %. The average feed price for 2015 was R3 422; an increase of just 0.5 % over 2014 (*Figure 16*).

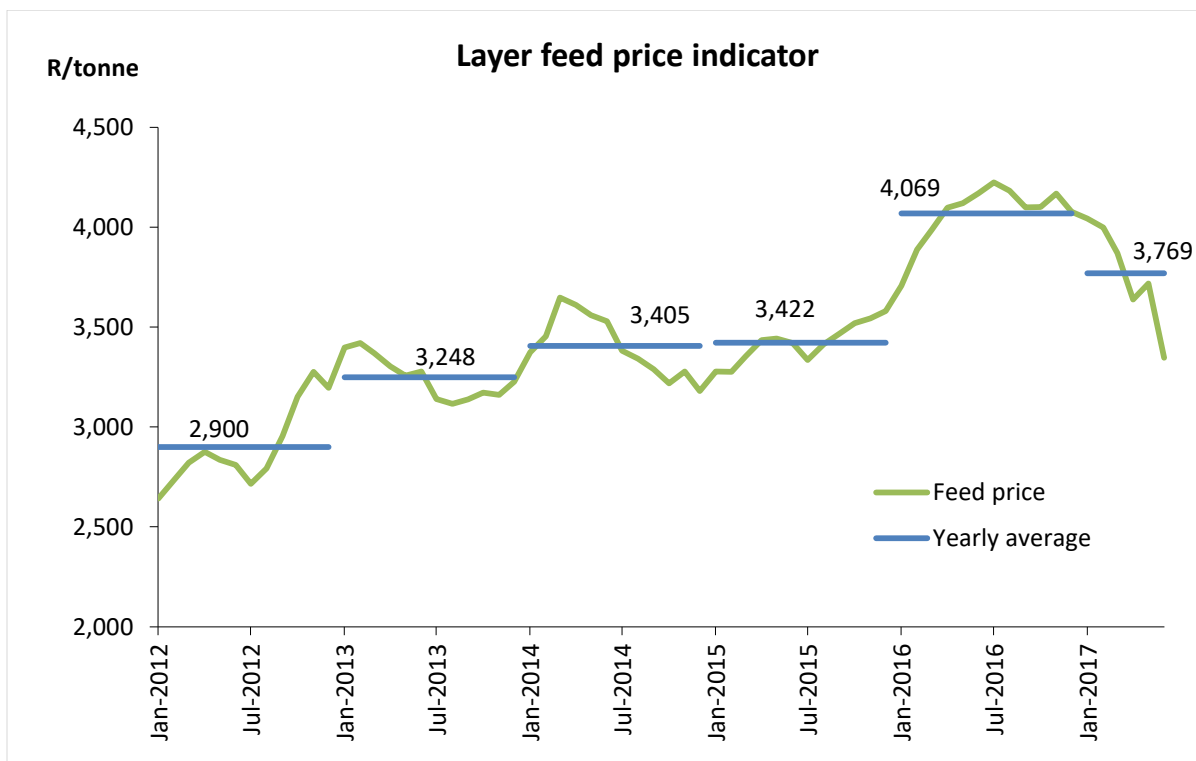


Figure 16: Monthly and yearly feed price indicator

4 ECONOMIC OVERVIEW

4.1 International economic outlook for the egg industry

Fipronil scandal

Dutch egg farmers are facing financial ruin after the banned insecticide, fipronil, was found to have contaminated production on Dutch, Belgian and a few German farms. The insecticide is commonly used in the veterinary treatment of fleas, ticks and mites but may not be used within the EU in the food industry. Over 200 farms in the three countries, mostly in Holland, have been put on lock down and millions of eggs and tonnes of egg product have been removed from shelves and recalled in as many as 45 EU and non-EU countries. Holland is one of the biggest exporters of eggs and egg product in the world, with a flock in excess of 30 million birds. Countries as far as Hong Kong, the Democratic Republic of the Congo and South Africa have purchased contaminated product (poultryworld.net).

At the core of the scandal are two young Dutch entrepreneurs whose pest control company, Chickfriend, held numerous contracts with egg farmers to control red mites on their farms. The product they used was marketed as a mixture of natural products (such as eucalyptus and menthol) but, in fact, contained Fipronil sourced from a Belgian supplier, Poultry Vision. Poultry Vision, in turn, seems to have sourced some of the insecticide from a Romanian business. Early indications are that the producers have been unwitting users of the banned insecticide but the scandal is estimated to have cost the industry millions of euros. While officials put the initial damage at around €33 million, a Dutch farmers' federation has doubled that figure, citing ongoing loss of production. Losses of up to €150 million further up the retail chain have been conservatively suggested. Over 2.5 million birds have been culled and millions more birds taken out of production and force-moulted in an attempt to clear the toxin from their bodies.

Fipronil is classed as a WHO Class II moderately hazardous pesticide, which would have to be ingested regularly, and at quite high concentrations, to have any real effects on human health. There is no indication that any humans have been adversely affected by the contamination but the reputational damage to the Dutch product is huge.

Belgium Federal Food Safety Agency (FAVV) flagged the findings of an investigation into Fipronil contamination in egg products to other European countries through the European Alert System in July 2017. They have been accused of delaying this notification for over a month but the Belgians have retaliated by producing evidence that the Netherlands Food and Consumer Products Safety Authority (NVWA) was twice tipped off about the use of fipronil in egg production in November 2016. This information was neither fully investigated nor communicated to other EU countries at the time. While the finger-pointing continues, the two Chickfriend directors have been remanded in custody in Holland, suspected of endangering public health. Belgian authorities have also carried out a series of raids on individuals and companies thought to be involved.

Whilst the authorities will swiftly deal with removing tainted product from the market, investigating and prosecuting those responsible and tightening food safety protocols, Dutch egg farmers are left trying to save their businesses. Careless statements by the food safety authorities urging consumers to stop eating eggs exacerbated the situation early on and, although the statements were subsequently withdrawn, the damage has been done and many perfectly good eggs destroyed. Despite massive recalls of product in many countries, farmers are yet to receive any government assistance. Supermarkets are beginning to demand compensation from the producers, for both the cost of eggs and egg products recalled and for loss of profits. Packing stations have also been hard hit, with some losing the bulk of their suppliers and having to purchase on the open market in order to fulfil contractual obligations. It has been a disaster for Dutch egg farmers.

Avian influenza

The challenges posed to the global poultry industry by outbreaks of highly pathogenic avian influenza are now being felt in Southern Africa. Highly pathogenic avian influenza (H5N8) was diagnosed in commercial poultry in Zimbabwe in mid-May. The outbreak on an Irvine's site outside Harare necessitated the culling of 166 000 birds from a susceptible population of two million broilers and layers. The disease has, as at 21 September, been limited to one site in Zimbabwe,

South African poultry farmers in all areas were urged to step up their biosecurity measures. Despite these precautions, HPAI H5N8 was confirmed as the cause of high mortality in broiler breeders at the Astral site near Villiers in late June. A second outbreak in laying hens was then reported from Standerton. Since then, outbreaks have occurred in Gauteng, the Western Cape, KwaZulu-Natal, North West, the Northern Cape and, mostly recently, in the Eastern Cape. In addition, State Veterinarians have reported 23 "outbreaks" in wild birds and hobbyist birds in a second report to the OIE (15 September), which covers all cases listed to 1 September. A total of 351 deaths were recorded in these birds. The species affected included masked weavers and house sparrows in Mpumalanga; yellow-billed ducks, Egyptian geese and sacred ibis in Gauteng; and spurwinged geese, African rock pigeons, guinea fowl, blue cranes and laughing doves in the Western Cape. The birds kept by hobbyists included Chinese geese and swans.

As per South Africa's latest report to the World Organisation for Animal Health (OIE) on 15 September 2017, the outbreaks in the table below have been confirmed in domestic poultry (commercial operations, ostriches and backyard flocks). This list is not exhaustive: more recent cases in September are yet to be reported and it is likely that the scale of the culling operations has been under-reported to the OIE. In the 28 outbreaks here, South African veterinary services claim that 672 000 birds have been culled, with 54 000 further deaths caused by the virus itself.

The reported numbers above do not include more recent cases in Vryheid (30 000 Eggbert layers pre-emptively culled, end of August); in Heuningdal in the Western Cape (broiler breeders; 5 % of RCL's breeder flock culled); and in two Quantum layer flocks in the Western Cape (9 % of Quantum's laying flock culled). On 21 September, the Western Cape confirmed it was dealing with 26 outbreaks of H5N8 HPAI. Two millions ducks and chickens have been culled in this province alone. The Eastern Cape experienced its first outbreak in mid-September

and Sovereign have culled around 5 000 birds in this outbreak on their Uitenhage site, after routine surveillance detected the virus.

The Department of Agriculture, Forestry and Fisheries has been testing widely for the presence of avian influenza in all parts of South Africa and announced a ban on live bird sales from Monday 26 June. Within a week, in response to concern about livelihoods being affected in the informal sector, this policy was adjusted to allow the sale of live birds by traders registered with the Poultry Disease Management Agency (PDMA). Traders of any more than five live birds (for any purpose other than slaughter at a licensed abattoir) must be registered to sell birds; and may only trade in birds certified as healthy by a veterinarian or animal health technician. This includes commercial producers. Traders must keep records as required and sign an undertaking to agree to the terms of the registration. Registration forms are available from DAFF and the PDMA. Controlling the spread of avian influenza in countries which have widespread live-bird sales is difficult, especially where traders are not compensated for affected birds. In the US, such compensation is paid and acts as an incentive in encouraging traders to report sick birds quickly.

	Date	Prov	District	Enterprise	Birds	Culled	Died
1	19 Jun	MP	Dipsaleng	Farm	Breeders	178 976	8211
2	20 Jun	MP	Dipsaleng	Farm	Layers	62 080	25 000
3	6 Jul	GT	Ekurhuleni	Farm	Layers		39
4	9 Jul	MP	Govan Mbeki	Farm	Layers		1 000
5	21 Jul	MP	Dipsaleng	Farm		85	50
6	24 Jul	MP	Dipsaleng	Farm		413	87
7	1 Aug	MP	Lekwa	Farm			301
8	4 Aug	GT	Ekurhuleni	Farm			1 774
9	4 Aug	GT	Mogale City	Farm		4 800	236
10	7 Aug	MP	Steve Tshwete	Farm		325 789	975
11	9 Aug	WC	Hessequa	Farm	Ostriches		
12	9 Aug	WC	Hessequa	Farm	Ostriches		
13	11 Aug	MP	Dr Pixley ka Isaka Seme	Backyard	Ducks/geese	135	
14	15 Aug	WC	Saldanha Bay	Backyard	Geese/hens		42
15	17 Aug	KZN	Abaqulisi	Farm	Layers	50 000	12
16	18 Aug	WC	Hessequa	Farm	Ostriches		
17	18 Aug	WC	Cape Town	Farm	Ducks		25
18	21 Aug	WC	Hessequa	Farm	Ostriches		
19	21 Aug	WC	Cape Town	Farm	Layers	49 616	
20	21 Aug	WC	Beaufort West	Farm	Ostriches		5
21	21 Aug	WC	Hessequa	Farm	Ostriches		
22	23 Aug	WC	Cape Town	Farm	Layers	10 000	
23	23 Aug	WC	Hessequa	Farm	Ostriches		
24	24 Aug	WC	Cape Town	Farm	Ducks	5 333	
25	24 Aug	WC	Kannaland	Farm	Ostriches		5
26	25 Aug	WC	Kannaland	Farm	Ostriches		
27	28 Aug	MP	Lekwa	Backyard		89	94
28	30 Aug	NW	Maquassi Hills	Farm			

At the farm level, producers are urged to keep poultry away from wild birds (use of housing/netting, etc.); to reduce any factors which might attract wild birds on to a site; to control and reduce movement of people and equipment into and between poultry houses and sites; to maintain/upgrade sanitation of housing/personnel/equipment; to avoid introducing birds of unknown health status into existing flocks; to report any illness/death of birds to State Veterinary services; and to dispose of manure/dead birds appropriately.

The Department of Agriculture, Food and Fisheries is considering vaccinating birds against avian influenza in an attempt to control the disease. A decision was promised by the end of September. Vaccination compromises surveillance measures and affects export status. At a press briefing at the end of August, Minister of Agriculture, Senzeni Zokwana, said that the Government would consider allowing the importation of fertile eggs to replace lost stock. This could only happen once a suitable quarantine protocol was established. By mid-September, DAFF had only agreed to compensate farmers for uninfected birds culled as a result of measures to prevent the spread of an AI outbreak. It seems that compensation will not be paid for birds lost to the disease, recalled eggs, the cost of destocking and cleaning infected facilities, or for lost production during cleaning and surveillance periods. Detailed guidelines on how compensation will be applied are still not available from the Department.

Since late January, Belgium has been reporting H5N8 HPAI in wild birds in the central provinces of the country: Oost-Vlaanderen, Vlaams Brabant and Wallon Brabant; and in Limburg province, neighbouring the Netherlands. Between 22 May and 7 July, the country has reported at least eleven outbreaks of HPAI in domestic poultry in the provinces of Luxembourg, Hainut, West Vlaanderen, Liege and Namur (the southern provinces of Belgium, bordering France). Confusingly, this report is labeled “non-poultry” on the OIE site, despite being in domestic-type birds. The last reported case was on 7 July 2017 and a final report was submitted on 24 July. However, an additional event was reported to the OIE on the 24 July, which lists two outbreaks in birds belonging to traders supplying hobbyists. This event currently totals 1650 cases in West Vlaanderen. The last case in this event was recorded on 20 June. The Belgians have been very vague in describing the type of unit affected by the virus in their reporting to the OIE (describing the units as “other” and the species as “birds”), but one commentator referred to several of the units as “hobbyists” – i.e. backyard poultry keepers – and it is clear that some of the infections are in game-birds. It is not easy to tally what has been reported on the OIE Avian Influenza Portal by Belgium with what is being reported in the media in the country but HPAI has certainly entered domestic poultry populations in several regions. This is the first HPAI event in domestic poultry in Belgium in seven years.

The French suffered repeated outbreaks of highly pathogenic avian influenza through 2016 and did not export to South Africa for much of the year. The French were due to regain HPAI-free status on 3 December 2016. On 17 November 2016, a fourth HPAI event was reported to the OIE, in which 25 cases of H5N8 HPAI were recorded in wild call-ducks in the region of Pas de Calais. This event expanded to 55 outbreaks in all four corners of the country (105 deaths in wild birds); with the last positive case being reported on March 10 (follow-up report dated 3 April). Since 25 November 2016, the French have had to report a further 485 outbreaks of H5N8 HPAI. Local producers estimate that some 3.2 million birds have been lost to the disease

or in the pre-emptive culls. No recent reports had been filed with the OIE – but, on June 30, the French suffered yet another outbreak of H5N8 on the Franco-Belgian border, close to where outbreaks have been occurring in Belgium (follow-up report dated 5 July 2017).

On November 8 2016, the Netherlands reported H5N8 HPAI in wild birds; the beginning of an event which totalled 56 outbreaks (351 cases). The last outbreak was reported on 22 March 2017. On 28 November 2016, a second report confirmed H5N8 HPAI in fattening ducks in Flevoland. This outbreak increased to nine farms, totalling 3 658 cases, in Flevoland, Friesland, Overijssel, Gelderland and Zuid-Holland. Over 210 000 birds were culled. Final reports on both these events were submitted to the OIE on 17 May 2017 and the Dutch have officially declared that their avian-influenza free-status has been regained, under the terms of Article 10.4.3 of the OIE Terrestrial Animal Health Code (2016).

Since 7 December 2016, Germany has notified the OIE of 286 outbreaks of H5N8 HPAI in wild birds and commercial poultry. The outbreaks have occurred over much of Germany and over 340 000 birds have been destroyed as part of control measures. The affected commercial poultry include breeding chickens, geese and ducks; fattening turkeys and ducks; and backyard mixed flocks. Germany has also reported three outbreaks of H5N5 HPAI in breeding and fattening turkeys in the Schleswig-Holstein district, beginning on 22 January 2017. Over 1 950 birds died and a further 30 750 were destroyed. The last confirmed outbreak was on 9 May 2017. On 11 August 2017, the Germans submitted final reports on all their HPAI events to the OIE, announcing that all have been resolved.

Since 1 December 2016, Hungary has reported 294 outbreaks (206 045 cases) of H5N8 HPAI in poultry operations housing fattening turkeys, geese and ducks. Only 135 of the cases have been in wild birds. There have been 95 772 deaths amongst the birds and almost 2 million birds have been culled. The last case reported to the OIE was dated 18 April 2017. The Hungarians submitted final reports on their outbreak on 16 June 2016.

On December 11 2016, an outbreak of H5N8 HPAI was reported in housed turkeys in Lincolnshire. Over the next two months, cases were reported from Llanelli (Wales), Carmarthenshire, Exminster (Devon), Dumfries and Galloway, Abbotsbury (Dorset), Gloucestershire, Merseyside, Lincolnshire, Tyne and Wear, Conwy (Wales), Norfolk, Londonderry, North Yorkshire, Wyre (Lancashire), Suffolk and Northumberland. There were no further outbreaks from 17 February and the UK submitted a final report on this event to the OIE on 9 March 2017. However, further cases in Pembrokeshire (Wales), Lancashire and Norfolk occurred through May. Before the May cases, the UK had reported 27 outbreaks, consisting of 5 880 cases in commercial birds and 178 in wild birds. A final report on this latest UK outbreak was submitted to the OIE on 13 September 2017.

Outbreaks of highly pathogenic avian influenza in Poland, Denmark, Spain and the US in 2016/2017 are all considered resolved in terms of OIE directives. In 2017 to date, there have also been reported cases of highly pathogenic avian influenza (H5N8) in Bulgaria, Bosnia and Herzegovina, Cameroon, China, Chinese Taipei, Croatia, Czech Republic, Democratic Republic of Congo, Egypt, Finland, India, Iran, Israel, Italy, Kazakhstan, Kuwait, Lithuania, Luxembourg,

Macedonia, Nepal, Niger, Nigeria, Portugal, Romania, Republic of Korea, Russia, Serbia, Slovakia, Slovenia, Switzerland, Sweden, Tunisia, Uganda, the Ukraine and Zimbabwe. In addition, the following countries have reported the H5N1 strain: Bangladesh, Cameroon, Cambodia, China, Côte d'Ivoire, India, Iran, Laos, Libya, Malaysia, Myanmar, Nepal, Niger, Nigeria, Togo, Vietnam and Zimbabwe. China, Chinese Taipei and the US have reported H5N2. There have been reports of H7N9 in China and the US. Chinese Taipei lays claim to H5N6, along with China, France, Greece, Hong Kong, Japan, Republic of Korea, Laos, Myanmar, the Philippines and Vietnam. The H5N5 strain has been reported in Croatia, Italy, Netherlands, Germany, Greece, Poland, Serbia and the Czech Republic in 2017. Mexico reported H7N3 in May. France has reported H5N9.

Hen welfare

The Humane Society of the United States (HSUS) has recently introduced a ballot initiative in California, called The Prevention of Cruelty to Farm Animals Act. "Initiatives" allow individuals or organisations to be directly involved in writing new legislation. If enough signatures can be garnered on an issue, the proposed legislation will be put to the ballot and voted on by the public during normal elections. The proposed Prevention of Cruelty to Farm Animals Act would mean that all Californian egg production would be cage-free. The act would strengthen Proposition 2 (2008) and bill AB-1437 (2010), which moved all egg producing birds out of small cages into housing which allowed them to stand up, lie down, turn around and extend limbs, and forced producers in other states to abide by these conditions in order to sell eggs into California. In May, the US Supreme Court of Appeal turned down an application by attorney generals and governors from six states petitioning to overturn AB-1437, which is the part of California's hen welfare legislation preventing the *sale* of any battery-produced eggs in California. The new legislation proposed under the ballot initiative will force producers wishing to sell eggs into the massive Californian market to adjust their production to cage-free. If passed, it will be likely to have a significant influence on animal welfare legislation in other states.

Animal welfare organisation, Compassion in World Farming, has launched a cage-free progress report, Egg Track (ciwf.com/our-campaigns/eggtrack), to hold corporations to their pledges to source cage-free eggs within specified timeframes. Their webpage argues that setting goals for improving hen welfare is a positive first step, but that implementation is equally important to investors. They are encouraging transparency as companies transition to cage-free egg supply, to demonstrate commitment to improving welfare and honouring pledges. Compassion in World Farming will present an annual infographic of how far along the path to cage-free each of the companies promising to go this route has progressed. The new vice president of animal welfare for the United Egg Producers (UEP) of America claims that 229 US companies have made the commitment to source cage-free eggs within the next 8 to 10 years (WattAgnnet.com). Cage-free production in the US currently stands at less than 10 % of total production and will need to increase to over 70 % within seven years if all the pledges to be made by grocery stores, restaurants and food service companies are to be honoured. While some companies have already completed the transition, others are dragging their heels and waiting for the supply of caged-free eggs to reach the point where prices begin to drop. This situation puts producers under pressure to invest in the cage-free infrastructure needed to meet supply once all the

corporate pledges reach their implementation date - without a stable market for the product. A recent survey in the US found that 58 % of consumers claim to be more concerned about animal welfare than they were a few years ago but the fact that only 31 % consider themselves to be well-informed about the meaning of the term “cage-free” may explain why so many consumers remain confused about exactly what it is they are buying. Consumer education and a more supportive retail environment might both be needed to smooth the transition for egg producers.

In New Zealand, retailers claim to be working more closely with suppliers to make the transition to cage-free production a smoother process for producers and consumers alike. Food retailer Foodstuffs recently committed to selling only cage-free eggs within the next 10 years. The company has pledged to work with suppliers to gradually reduce the caged-egg options on its shelves and to actively promote the sale of cage-free eggs during the transition period. Although farmers continue to argue that consumers want cheap eggs, the retailer has decided that sales of barn and free range eggs now support a transition to only cage-free options and seeks to balance hen welfare with issues of availability, environmental sustainability, traceability, cost to the consumer and food safety. They claim to recognise that farmers who have invested heavily in colony cages in recent years will be given space to recoup their investment before making further infrastructural changes. However, WattAgnest reports that members of the Egg Producers’ Association are aggrieved at having to restructure their facilities yet again. New Zealand’s other supermarket chain, Countdown, has already pledged to sell only eggs from cage-free hens in its North Island stores by 2024, and in South Island stores by 2025. This retailer again claims to have been working with suppliers for two years to plan the transition. An Egg Producer Programme started by Countdown is supposed to guarantee farms a market for their produce if they make the leap to cage-free production (businesscoop.co.nz).

In 1Q 2016, the Canadian egg industry announced its intention to phase out conventional cages by 2036. The National Farm Animal Care Council has accelerated this move away from caged egg production, in legislation aimed at phasing out battery cages five years ahead of schedule (www.nfacc.ca/pdfs/pullets_and_laying_hens_code_of_practice.pdf). The Egg Farmers of Canada organisation, which represents 1000 regulated egg producers across the country (90 % of Canada’s production) has set targets under the new Code of Practice for 85 % of the national flock to be housed in alternative housing systems (from conventional battery systems) within 15 years of 2017. No more battery cages can be installed after 1 April 2017 and any hens remaining in cages after 15 years will have to be provided with more space. The Code of Practice also includes regulations for cage-free production, ensuring the provision of perches, nest boxes and foraging space. The Code allows for colony-type caging, with regulated specifications for space and enrichments (perches, dust bathes, nesting boxes, etc.). In British Columbia, egg farmers are proactively setting up displays to demonstrate enriched colony housing to consumers, engaging with their market on the pros and cons of caged vs non-caged production and highlighting the features of enriched cages which allow birds to express more of their natural behaviours (<http://vancouver.sun.com/news/local-news/b-c-egg-farmers-shelling-out-for-new-kind-of-chicken-cage>).

As more and more producers transition to cage-free eggs, research into breeding, rearing, housing and feeding birds under these conditions is inevitably increasing. Penn State College of Agriculture has a team in the Department of Agricultural and Biological Engineering looking at housing and ventilation designs to optimise production, health and welfare. They hope to have recommended building configurations published by mid-2018 (agsci.psu.edu). WattAgnnet reports that the World Wildlife Fund (WWF) will be conducting research into the environmental sustainability of egg production systems around the world, including caged, cage-free and enriched colony systems. While the study is funded largely by the American Egg Board, producers are hoping that an independent and respected third party like the WWF will add weight to any findings, should enriched colonies be shown to be more environmentally sustainable than cage-free systems.

Australia has a laying flock of approximately 18 million hens (RSPCA Australia) and is in the process of revising its Animal Welfare Standards and Guidelines for Poultry. Draft guidelines are expected to be published for public consultation in mid- to late-2017 (animalwelfarestandards.net.au/poultry). In Australia, more than 50 % of eggs sold through retail outlets are cage-free but, overall, more than 70 % of the industry's production, supplying retail and food processors and fast-food outlets, is from battery cages. The industry will balk at any RSPCA-driven suggestion that caged production be phased out but recent legal proceedings will not have done egg farmers any favours in the court of public opinion. Snowdale Holdings, one of Australia's biggest egg producers has been fined AUS\$750 000 for misleading the public about eggs it marketed as free range. The company was also ordered to pay AUS\$300 000 costs. Along with the word's "free range", packaging of eggs sold from farms in Perth and Carabooda included pictures of hens in grassy meadows. Consumers pay a premium for free range eggs and the reality on the farms reported was found to very different from a reasonable person's expectation of what "free range" means. Stocking densities on the farm were found by the court to be too high and access to the range severely limited by the number of pop-holes.

Global production

Table egg production in the US was 6.4 % higher in 2016 (8.565 billion dozen) than in 2015 (8.053 billion dozen), but still 0.2 % below 2014 levels (8.43 billion dozen; USDA WASDE). Production for 2017 is forecast at 8.764 billion dozen; the highest on record. After the 2015 avian influenza outbreaks, US egg facilities restocked and a glut in production crashed prices. Low feed prices helped sustain the price drop but producers have cut placements to realign supply and demand and the winter months will support further demand as Americans tuck into traditional hot breakfasts. Volume buyers of Grade A eggs paid 85.7 c per dozen in New York in 2016 (USDA WASDE) and the predicted annual egg price for 2017 remains subdued at 87 – 89 c/dozen; in comparison with 2015 prices during the avian influenza epidemic (181.8 c/dozen average; USDA WASDE). However, executives at Cal-Maine are confident that falling production and firming prices signal that the US egg market has bottomed. Urner Barry's prices for Midwest eggs averaged 91.3 c/dozen for 2016 and 89.1 c/dozen for 2017 YTD (September). Until last year, the annual average had not been below the \$1 mark since 2006. Prices in

August and September 2017 average over \$1.05 c/dozen (Urner Barry; Midwest), supporting the notion that the worst is over for US egg producers.

Egg exports from the US dropped from 313.6 million dozen in 2015 to 279.2 million dozen in 2016 (USDA WASDE), but are expected to increase to 305.2 million dozen in 2017. Imports of eggs into the US reached 123.5 million dozen in 2015, up from the 34.7 million dozen imported in 2014 (USDA WASDE). Imports of 122.1 million eggs were received in 2016, but are expected to drop steeply in 2017 to 51.4 million dozen (September projection). US consumption of eggs recovered from 256 eggs per person per year in 2015 to 274.7 eggs in 2016 (USDA) and is set to increase to 275.7 in 2017 (WASDE). Before the AI outbreaks, per capita egg consumption was 267 (in 2014).

In November and December 2016, UK egg prices finally began to climb again, after a long-term collapse between 2010 and 2016. DEFRA reported farm gate prices at 69.3 p per dozen in both the 2Q and 3Q 2016 (down from 72.6 p in 1Q 2016). In the 4Q 2016 and 1Q 2017, the farm gate price averaged 70.7 p/dozen and 70.9 p/dozen, respectively. In the 2Q 2017, the average price has increased to 71.1 p/dozen. Free range eggs commanded 86 p/dozen while eggs from enriched colonies fetched 53 p/dozen. The UK packed 7.5 million cases of eggs in 2Q 2017; up 1.7 % on 1Q 2017 production and up 3.9 % on 2Q 2016 levels. UK egg producer organisations will be making the most of the Dutch Fipronil scandal and salmonella traced back to Poland, to encourage consumers and food companies to “buy British”. In a recent survey by the British Lion Egg Processors, UK consumers were shown to believe more strongly that only British eggs should be used in processed egg products and that all food products containing egg should be labelled with the country of origin. Provenance is easier to follow with UK shell eggs. Consumers can use the code stamped on to the egg to track its origin on the Foodmiles website (foodmiles.com/egg-miles.cfm).

In its September 2017 report, the EU Commission reports that 55.9 % of European production is in enriched cages, 25.6 % is in barns, 13.9 % free range and 4.5 % organic. In the EU, egg production (for consumption) in 2016 totalled 6.75 billion dozen (EC CIRCABC); 1.2 % higher than in 2015 (weight basis). Production was estimated to reach 6.79 billion dozen in 2017 (+ 0.58 %) but forecast production for the EU in the period January to August 2017 was 6.1 % below production in the first eight months of 2016 in the Commission’s mid-year report. The production graphs presented in the September report are of poor quality with inappropriate axis scales and no labelling. With no access to the relevant spreadsheet data sets, it takes a bit of guesswork to figure out what the EU thinks is happening with egg production in the coming months. It would seem though that, while egg production in the first six months of 2017 was below that found in 2015 and 2016 (month for month), shell egg production is expected to exceed 2015/2016 levels for 2H 2017. The average weighted EU Class A egg price increased from €101/100 kg in early August 2016 to €133/100 kg in April 2017 (week 15), but then decreased steadily to €115.4/100 kg in mid-July (week 26) as AI challenges lessened. Prices have turned since mid-year, and now sit at €137.8/100 kg in week 37 (September); most likely because of the recall of eggs in reaction to the fipronil scandal, and the culling of laying flocks in Belgium and Holland. This price is 27.8 % higher than the same week in 2016 and now 6.2 % below the re-based average price for 2012 – 2016. This is the first time since September 2015

that prices have exceeded the long term average. Egg prices at EU packing stations averaged €124/100 kg in both the 1Q and 2Q 2017; the difference being that prices were increasing in 1Q and decreasing in 2Q. The average EU egg price for July, August and half of September 2017 is €123.6/100 kg but for September alone is €135/100 kg, giving an idea of how steeply prices have risen in recent weeks.

The EU is a net exporter of eggs, with a trade balance of 246 947 tonnes of exports to 17 137 tonnes of imports in 2016 (egg equivalent; EU Commission); and 130 000 t exports to 9 000 t imports between January and July 2017. In 2016, EU egg exports to third parties decreased by 12 % and exports in the first seven months of the year are 5.9 % below exports in the same period in 2016. Increased exports to Japan (+ 49.7 %), Thailand (+ 97 %), Taiwan and Korea are countered by lower exports to Israel (- 38 %) and the UAE (- 23 %).

Imports of shell eggs into the European Union were up 42 % in 2015, to 19 304 tonnes (egg equivalent) but dropped by 11 % in 2016 to 17 137 tonnes (ec.europa.eu). In the first seven months of 2017, 6 076 tonnes of egg equivalent were imported from the US into the EU, compared to 989 t in the same period in 2016. The US accounts for 64.2 % of egg imports into the EU in 2017 YTD (July). Argentina accounts for 14.4 % of EU egg imports in 2017 YTD. The big loser in the face of these American imports is the Ukraine (- 91%; 451 tonnes *cf* 5000 t in same period in 2016). In 2016, the Ukraine accounted for 46.9 % of total EU egg imports, benefiting from lower feed prices, less regulation and lower costs in terms of hen welfare than EU counterparts. However, the Ukrainian egg industry is struggling with continuing outbreaks of HPAI which impact on trade.

4.2 The South African economic outlook and egg market

The political drama in South Africa continues as we move into the last quarter of 2017. Tensions remain high, especially in KwaZulu-Natal and the Eastern Cape, and threaten to derail the ANC's December elective conference. Despite improved economic growth in the second quarter, forecast growth for the whole year remains below 1 % and pundits see the second quarter results as an agricultural recovery, rather than firm evidence of a growing economy.

In January 2016, South Africa's credit rating sat one notch above "junk status" (BBB-; below-investment grade; Standard & Poor's Global Ratings and Fitch Ratings). A third agency, Moody's, put South Africa one notch above the other two agencies. South Africa narrowly avoided downgrades by all three agencies in mid- and late 2016. After the Finance Minister, Pravin Gordhan and deputy, Jonas Mcebisi, were replaced in a cabinet reshuffle in late March, Standard and Poor's and Fitch's downgraded South Africa's sovereign credit rating to below-investment level ("junk status"; BB+). Moody's also cut South Africa's credit rating by one notch to BAA3 (one step above non-investment grade) and assigned a negative outlook. The downgrades increase South Africa's debt-servicing costs, channelling government funds away from service delivery. International funds, which may be prohibited from holding sub-investment grade securities, will sell South African bonds. South Africa is already dropped from the JP Morgan Emerging Market Bond Index and the Reserve Bank Governor has warned that if either

Moody's or S&P Global were to downgrade the country's local currency rating further, SA would no longer meet the inclusion criteria for the Barclays Group Index. The disinvestment impact of expulsion from this index would amount to R39 billion. If *both* agencies were to downgrade the currency rating, exclusion from further global indices would cause additional disinvestment in South Africa to the tune of R100 billion. In mid-year, Fitch and Standard and Poor's affirmed South Africa's BB+ rating, attaching a stable and negative outlook, respectively. The country also survived a further downgrade by Moody's to below investment grade and Moody's stood by their BAA3 (lowest investment grade) rating in August and September; albeit it with a negative outlook. The agencies all cite political tensions, policy issues and weak GDP growth as factors which hamper economic reform and undermine investor confidence. All three agencies will be carefully watching the ANC's December elective conference.

Despite steady recovery though 2016 from post Nene-gate lows, the rand's value at the end of 2016 was still 22 % below its value on 1 January 2015 (R11.56 to the dollar). The rand continued to strengthen going into 2017, finally breaking the R13-level in mid-February and moving on steadily towards the R12-level through March. Following Jacob Zuma's unilateral decision to axe the Finance Minister, the rand depreciated by 11.7 % between March 26 (R12.43 : \$1) and 10 April (R13.91 : \$1). On September 16, the currency closed at R13.18 : \$1. Much of the rand's performance since April has been attributable to a weak dollar, rather than to positive domestic catalysts. The relationship between the rand and the dollar has been a series of peaks and troughs since the cabinet reshuffle, with the currency strengthening below the R13-level on April 23 (French vote against far-right Le Pen), mid-June (poor US inflation/CPI data; Chinese talk of infrastructural development), the end of July (Mining Charter suspended; drop in US retail sales); and the first week of September. Conversely, the rand was weakest in early May (cabinet reshuffle on March 26), early-July (the introduction of the Mining Charter; Public Protector's suggestion of remedial action against the Reserve Bank), and mid-August (Zuma survived vote of no-confidence). Whenever the rand strengthened, it was almost always tracking all emerging currencies against a US dollar weakened by sluggish economic growth and geopolitical tensions centred round North Korea. The US dollar depreciated by 6.4 %, year on year, in 1H 2017, as Europe's economy picked up steam. The rand has weakened steadily through September as the dollar begins to strengthen - US CPI data came in better than expected. Long term, the risks to the downside for the currency are high and include the likelihood that South Africa will be downgraded further by the credit rating agencies in 2018.

The US Federal Reserve is not expected to increase interest rates at its September meeting despite a statement from the Governor in June that there would be one more increase in 2017. Inflation remains below the 2 % target level, signalling caution in adjusting interest rates. Some commentators now believe a third hike in 2017 will not happen but the Reserve Bank Governor is keeping the dollar strong by hinting that a hike will happen in December. In June, the US Federal Reserve raised lending rates by 0.25%, following on from a 0.25 % increase in March. Whilst any increase in US interest rates hits emerging markets with high dollar-delimited debt, the March and June increases seem to have been largely factored into local market sentiment and the rand held steady after these announcements.

In July, the International Monetary Fund held its growth estimate for the South African economy at 1.0 % for 2017, on the back of a bumper maize harvest and some increase in output in the mining sector. By the middle of September, it had slashed this forecast to 0.6 %, citing declining productivity and lack of investment in research and development. The Fund's report noted that GDP growth over the past 4 years has been less than the population growth. The IMF adjusted its forecast for growth in 2018 down 0.5 % to 1.1 %, because of increasing political uncertainty and weakening consumer and business confidence. The Treasury had been more optimistic in its forecast for 2017, but eventually revised its estimate of 1.3 % down to 1.0 % by May, in line with IMF predictions. At its July Monetary Policy Meeting, the South African Reserve Bank drastically reduced its forecast for 2017 to 0.5 % but revised this upwards to 0.6 % in its September statement, following higher than expected growth in the second quarter (+ 2.5 %). The Reserve Bank's forecast for 2018 was reduced in July to 1.2 % from 1.5 % previously, and this remains unchanged in the September statement. The higher than expected growth in the 2Q 2017 pulled South Africa out of the technical recession it had descended into in the 1Q 2017 but the Reserve Bank warns that second quarter performance is unlikely to "have a significant impact on the annual growth rate". The second quarter growth is attributed to a recovery in the agricultural sector (mostly field crops and horticultural products; + 33.6 %). The mining sector also grew by 3.9 %; manufacturing by 1.5 %; electricity by 8.8 %; and finance, real estate and business services by 2.5 %. Construction contracted by 0.5 %. In general, the primary, secondary and tertiary sectors all showed positive average growth, with the greatest movement occurring in the primary sector.

In July, the IMF adjusted its 2017 forecast for growth in the sub-Saharan region upwards by 0.1 % to 2.7 %; supported by recovery from drought in South Africa, resumption of oil production in Nigeria and higher public spending in Angola ahead of its election; all of which are one-off occurrences. Growth will be negative for almost a third of the economies in the region and will barely exceed population growth in others. In contrast, several countries are expected to build on growth rates which exceeded 6 % in 2016 (Tanzania, Kenya, Côte d'Ivoire, Ethiopia and Senegal). A recent IMF paper reports on a study of growth accelerations and decelerations in sub-Saharan Africa since the 1960's. The IMF concluded that growth accelerations are linked to improved external conditions; increased investment and trade openness; decreases in inflation; better fiscal balances; and improvements in the institutional environment. To sustain growth spells requires more effort than does triggering a growth acceleration; requiring fiscal policy that prevents excessive public debt accumulation; policy geared towards lower inflation; outward oriented trade policies and improvements in democratic institutions. The report makes for interesting reading; at <https://www.imf.org/en/Publications/WP/Issues/2017/09/08/Growth-Breaks-and-Growth-Spells-in-Sub-Saharan-Africa-45067>.

After hitting an historic 23-year low in September 2016 (90.3 rebased index points), the South African Chamber of Commerce and Industry (SACCI) Business Confidence Index showed steady recovery, reaching 97.7 in January 2017. Since then, it dipped as low as 93.2 in May before recovering to 95.3 in July. August saw it crash 5.7 index points to 89.6; the lowest level since the mid-1980s - a level of negativity not reflected in the similar RMB-BER index. The index in August was 3.3 % lower than in August 2016. The RMB-BER index dropped from 40 to 29 index points in 2Q 2017 but increased by 6 points to 35 in 3Q 2017; still way below the 50

point neutral mark that would indicate expansion. This “improvement” should thus be seen in the context of “weak domestic demand, subdued business activity, low profitability amongst many respondents and heightened political uncertainty”.

The Merchantec CEO Confidence Index ended 2016 on 47.9 points. In the 1Q 2017, the index rose by 7.2 % to 51.4, slightly above the neutral level of 50 but, after the events of March 26, the index plunged by almost 25 % in 2Q 2017 to 38.7 points. The survey indicated that most CEO’s felt that political instability, rating downgrades, tax increases and ineffective black economic empowerment strategies would dampen growth in 2017 and prevent South Africa realising the 1% growth forecast by the IMF.

The FNB/BER Consumer Confidence Index ended 2016 on -10, pounded by soaring food prices and constrained consumer spending. It climbed to -5 in 1Q 2017, after good rains, easing food price inflation and a stronger rand; but nevertheless remained below the long term average of +4. After the cabinet reshuffle and axing of Pravin Gordhan and Mcebisi Jonas, this consumer confidence index slid back to -9 in 2Q 2017. Consumers reacted strongly to the credit rating downgrades and weaker rand with the index essentially saying that 41 % of the surveyed consumers feel it is a good time to buy durable goods, compared with 59 % who do not. The current negative index score indicates consumers are concerned about the future in terms of job security, inflation, the cost of living, pay increases, bonuses, etc. and are likely to spend cautiously going forward. In 2Q 2017, there was little movement in the Nielsen Global Confidence Index amongst South African consumers. It currently sits at 78. For Africa/Middle East as a whole, the index is 85. Globally, consumer confidence increased to 104 from 101 in the 4Q 2016; remaining above the optimistic baseline of 100 (Nielsen CCI Report). Markets reaching or exceeding the optimistic benchmark of 100 basis points in the 2Q 2017 were the Philippines (highest at 130), India, Indonesia, the US, Vietnam Denmark, China, United Arab Emirates, Turkey, Thailand, Germany, New Zealand, Canada, Ireland, the Netherlands, Italy, Pakistan, Hong Kong, Romania and Czechoslovakia (at 101).

The unemployment rate in the 2Q 2017 remains at the 27.7 % reached in 1Q 2017. Unemployment is at the highest level since 2003. The expanded unemployment rate, which includes discouraged work-seekers, was slightly higher, q-on-q, at 36.6 %. The unemployment rate has not dropped below 21.5 % in the last 15 years. Growth in agricultural production is not expected to translate into lower unemployment as the level of mechanisation increases.

Inflation averaged 4.6 % in 2015 and 6.4 % in 2016 (Stats SA). CPI inflation is expected to average 5.3 % in 2017 (from earlier 6.2 %) and 5.0 % in 2018 (SARB). In January, February, March and April, inflation was recorded at 6.6, 6.3, 6.1 and 5.3 %, respectively; steadily dropping as food price inflation eased. In May, June, July and August, inflation was recorded at 5.4, 5.1, 4.6 and 4.8 %, respectively. It is now expected to remain within the target range (below 6 %) for the forecast period (SARB) but downside risks to this outlook include food price inflation and higher than expected electricity tariff hikes.

Food price inflation rose from 5.9 % in December 2015 to 11.7 % in December 2016 (SARB). In July 2017, food price inflation was 6.8 %, compared to 11.4 % in January this year. In July,

year-on-year price inflation for bread was 2.9 %; maize meal -11.9 %; fats and oils 0.2 %; milk 0.7 %; eggs -0.6 % and rice 4.1 %. July's inflation in the price of vegetables and fruit moderated to -5.6 % and -5.2 %, respectively. Price inflation in animal protein (as measured in the NAMC basket of frozen and fresh chicken portions, chicken IQF portions, beef chuck and tinned fish) cannot be compared to July 2016 because of changes to the measured basket (NAMC). In August, food price inflation surprised on the downside, dropping to 5.7 % (SARB). Lower cereal prices have balanced increases in meat prices.

Global food prices increased steadily through 2016. The FAO Food Price Index began the year at 149.3 and closed at 170.3 (+ 14.1%); with an annual average of 161.5. This is 1.5 % lower than the 164 recorded in 2015. The index increased steadily to 178.9 in July 2017 before moderating to 176.6 in August, some 10 points (+ 6 %) higher than in August 2016. The meat price index has risen from 145.2 in January 2016 to 172.4 in August 2017; compared to 168.1 in 2015. In this index, poultry prices have remained stable in recent months. Cereal prices averaged 162.4 in 2015, dropped to 146.9 in 2016, and reached 153.4 in August 2017. The FAO forecasts broadly stable food prices through the next decade.

With both the food inflation and exchange rate outlooks deteriorating badly in early 2016, the Reserve Bank increased the repurchase rate by a total of 75 basis points in the first half of last year. The Reserve Bank steered away from increasing interest rates through 2H 2016 and 1H 2017, because the domestic growth outlook is constrained and consumers are under pressure. At the Monetary Policy Committee meetings in July 2017, the Committee cited the improved inflation outlook and constrained growth as reasons to reduce the lending rate by 25 basis points to 6.75 %. At the September 2017 meeting, the Committee felt that risks to the currency, inflation and growth had increased since the previous meeting and elected to keep the interest rate unchanged.

In a November 2016 deal, OPEC and non-OPEC oil producing nations pledged to reduce output by between 1.2 and 1.8 million barrels per day from January 2017, to bring down the glut in oil supply. Talks are underway which will likely see the agreement extended beyond March 2018. In September, oil prices have climbed to their highest level in months, on the back of strong demand and outages in some key production sites, including the Gulf Coast and Libya. Brent oil has reached \$55 a barrel, while the West Texas Intermediate (WTI) price is hovering around the \$50 level. The OPEC nations have kept a lid on production this year but, every time the oil price climbs around the \$50 mark, more US shale rigs are brought on-line, so there has not been the big climb in oil prices OPEC may have hoped for. Nigerian production has also come back on-line strongly and makes it harder for the OPEC alliance to reduce the glut (Nigeria is currently exempted from cuts in production). The International Energy Agency has recently forecast demand to accelerate this year more quickly than previously expected, and this will support higher oil prices going forward. The World Bank's April prediction of an average crude oil forecast price of \$55 a barrel for 2017 is looking more sensible than it did at the end of the 1Q 2017. However, according to the Bank, crude oil prices averaged \$49.40 in 2Q 2017.

In South Africa, the unleaded petrol price in December 2016 was 4 % higher than in January 2016 and the diesel price averaged 9.5 % higher. Motorists were hit with a 30 c/litre increase in

the fuel levy on April 1. Cuts in the price of fuel in June and July were negated by increases at the pump in August and September, as the rand weakened against the dollar. By September, petrol prices were on average 3.0 % higher than in January 2017, and 13.3 % higher than in September 2016. Diesel prices in September are, on average, 2.5 % higher than in January 2017, and 11.7 % higher than in September 2016. Prices are expected to rise steeply again in October, by over 30 c a litre on both diesel and petrol.

The average wage increase was 2.2 and 1.0 % in 2015 and 2016, respectively, and in real terms (adjusted for inflation). South Africans are expected to realise wage increases between 0 and 1.5 % in 2017 (in real terms; ECA International). The global average, in real terms, is forecast at 1.5 %. The national minimum wage for farm labourers in 2017 is 8 % higher than in 2016; but inflation ran at 6.4 % in 2016 and is expected to run at 5.7 % in 2017; eroding this increase significantly if considered in real terms. The national minimum wage will be R20/hour from May 2018.

Eskom was granted a 2.2 % increase for the 2017/2018 year by the regulatory body, NERSA; effective 1 April 2017. This is lower than the 9.4 % tariff increase granted in 2016/2017. Eskom is seeking a 19.9 % tariff increase from NERSA for the 2018/2019 year, effective April 2018. The SOE has been granted permission by NERSA to consult on this proposed tariff hike. It is reported that electricity supplied by municipalities could increase by as much as 27.5 %.

Prospects for South African egg farmers had looked a little brighter for 2017 with animal feed prices dropping steadily and egg prices on the rise, pulled along by other animal protein prices and tighter laying stocks. However, outbreaks of highly pathogenic avian influenza in seven of the nine provinces may have catastrophic effects on the livelihood of some farmers while creating egg shortages and pushing up revenues for unaffected producers. In the long term, the disease could have affect replacement pullet numbers and exacerbate egg shortages. Besides avian influenza, on-going challenges for the industry include:

Continued drought in some regions of the country

Reduced consumer spending in a recessionary environment, as discussed above

A volatile South African rand, as discussed above

Disappointingly low local consumption of eggs (141 per person per year)

Weak export demand

Hen welfare and social media

On September 18, dam levels in the nine provinces were as follows: Western Cape 37 % (down from 62 % y-on-y; and only 27.5 % usable); Eastern Cape (56 % cf 65 % y-on-y); Free State 76 % (cf 54%); Gauteng 87 % (cf 81 %); KwaZulu-Natal 50 % (cf 43 %); Limpopo 72 % (cf 49 %); Mpumalanga 73 % (cf 52 %); North West 81 % (cf 61 %) and Northern Cape 86 % (cf 62 %). The Bloemfontein Supply System is at 38 % and the Vaal River System at 77.8 %. Consumption in Cape Town remains almost 25 % higher than the 500 million litre per day target (87 litres per person per day). In its August 2017 *Seasonal Climate Watch* briefing, SAWS indicated the possibility of higher than average rainfall in the north-eastern regions of the country during the months October to December. Sadly, there is no indication of higher than

average rainfall in the south western parts of the country during the spring/summer period. The El Niño Southern Oscillation (ENSO) remains neutral and is unlikely to have any specific influence on South Africa through the rest of 2017. The chances of a further El Niño event have reduced since the last SAWS briefing.

The South African maize crop for the 2015/2016 season was revised upwards to 7.778 million tonnes (Crop Estimate Committee); 22 % down on the 2014/2015 season's crop (9.942 million tonnes) which was already 30 % lower than the 2014 harvest. South Africa is forecast to consume R10.47 million tonnes in the 2016/2017 season (AgBiz), whilst the harvest is currently expected to be 16.4 million tonnes (Crops Estimate Committee). The white maize crop has been estimated at 9.65 m tonnes (+ 183 % over 2016 crop: 3.41 million tonnes) and the yellow maize crop at 6.76 million tonnes (+ 55 % over 2016 crop: 4.37 million tonnes). A total of 2.2 million tonnes of maize were imported for use in South Africa between 30 April 2016 and 27 April 2017 (SAGIS); while exports totalled almost 928 000 tonnes. South Africa was a net importer of almost 1.33 million tonnes of maize in the 2016/2017 season. South Africa will regain its status as a net exporter of maize this year but, while in excess of 4 million tonnes should be available for export, actual volumes are expected to be considerably lower (www.agbiz.co.za). Good crops in Zambia, Zimbabwe and Malawi have reduced export options for South African producers and, globally, demand for white maize is low (www.agbiz.co.za).

On 20 September, maize futures for December delivery of white and yellow maize were set at R1 935/t and R2 048/t, respectively. Maize futures for March 2018 delivery were set at R1 973/t and R2 091/t for white and yellow maize, respectively. Maize prices had peaked at around R5 300/t for white maize and R4 100/t for yellow maize in 2016. Soybean futures, for December and March delivery, have moderated to R4 843 and R 4 930/tonne respectively, as of 20 September. Soya prices had reached R 6 520/t in mid-January 2017.

Local demand for eggs remains disappointingly low (141 eggs per person per annum (2016)). In the UK, the Happy Egg Company found sales floundering because of a reduced spend on advertising in recessionary market conditions. In late 2016, the company decided to use a television marketing campaign to reboot its status in British households as the largest supplier of free range eggs. The campaign pushed forward messages of high welfare standards and tasty eggs. It was a bold move in a country where animal rights organisations are aggressively vigilant but the company was obviously confident in its welfare standards and auditing procedures. Viewers were directed to the company's website and encouraged to take virtual tours of the free range farms (thedrum.com). The campaign has been a big success in terms of household penetration and brand awareness (poultryworld.net) and points to what can be achieved when facilities stand the scrutiny of social media.