



## **Key Market Signals in the Egg Industry**

**For the  
first quarter of 2017**

**1Q 2017**

**Table of Contents**

<b>1. EXECUTIVE SUMMARY</b>	<b>4</b>
<b>2. EGG SUPPLY AND DEMAND</b>	<b>13</b>
2.1. Egg production	13
2.2. Egg imports	16
2.3. Egg exports	18
<b>3. EGG PRICE TRENDS</b>	<b>21</b>
3.1 Producer prices	21
3.2 Retail prices	23
3.3 Egg prices in comparison with chicken, beef and pork	25
3.4 Feed price indicator	27
<b>4. ECONOMIC OVERVIEW</b>	<b>28</b>
4.1 International economic outlook for the egg industry	28
4.2 The South African economy outlook and egg market	37

## List of Figures

- Figure 1:** *The number of day-old pullets produced per month*
- Figure 2:** *Projected national laying flock and egg production*
- Figure 3:** *Total quarterly egg imports from 1Q 2012*
- Figure 4:** *Quarterly imports of egg albumin from 1Q 2012*
- Figure 5:** *The main countries of origin for egg imports.*
- Figure 6:** *Quarterly export of fertile eggs*
- Figure 7:** *Quarterly total exports of shell eggs and egg product, excluding fertile eggs and ostrich eggs*
- Figure 8:** *The main countries of destination for egg exports 1Q 2017*
- Figure 9:** *Monthly egg price from January 2012 to the end of the 1Q 2017*
- Figure 10:** *Annual average egg producer price*
- Figure 11:** *Average quarterly cull prices*
- Figure 12:** *Production price and retail price of eggs (size: large)*
- Figure 13:** *Production egg price index and food price inflation (base 2008 = 100)*
- Figure 14:** *Comparison of annual producer prices of protein sources: 2015/2016/2017 YTD*
- Figure 15:** *Monthly producer prices of protein sources*
- Figure 16:** *Monthly and yearly feed price indicator*

## List of Tables

- Table 1:** *Egg industry: key results (March 2017)*
- Table 2:** *Quarterly exports of eggs and egg products from South Africa*

## 1. EXECUTIVE SUMMARY

### *Pullets and laying hens*

A total of 6 138 240 day-old pullets was produced during the first quarter of 2017 (1Q 2017). This was 1.1 % less than 4Q 2016 but 0.2 % more than 1Q 2016.

The average number of laying hens during 1Q 2017 was 24 313 611. This was a decrease of 0.5 % compared to 4Q 2016 and a decrease of 2.6 % compared to 1Q 2016.

### *Egg production*

Total egg production during 1Q 2017 was 5 123 807 cases. This was a 2.7 % decrease compared to 4Q 2016 and a 3.6 % decrease compared to 1Q 2016. The average production per week for 1Q 2017 was 398 513 cases.

### *Egg imports*

During 1Q 2017, 98.9 % of egg imports into South Africa were dried egg products (on three tariff lines). The dried egg products comprised 26 400 kg dried egg product (not including yolk), along with 22 823 kg dried egg albumin and 14 178 kg dried egg yolks. Shell egg imports (chicken) amounted to 704 kg in 1Q 2017. Total egg imports in the 1Q 2017 amounted to 64 109 kg; at a rand value of R5.01 million.

In the 1Q 2017, imports from Italy accounted for 51.5 % of total imports; whilst 45.6 % came from France and 2.9 % came from Germany, Denmark, Japan, and Taiwan, combined.

Through 2016, egg imports into South Africa totalled 216.5 t; 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.

### *Egg exports*

During 4Q 2017, a total of 3 615 tonnes of eggs and egg products left South Africa, at a declared FOB value of R79.2 million. This tonnage decreased by 13.6 % compared to the 4Q 2016 (- 568 tonnes).

Of these total egg exports, fertile chicken eggs accounted for 1 009 t. This is 845 t (- 46 %) less than in the previous quarter and 3 632 t (- 78 %) less than the same quarter in the previous year (Q1 2016). The FOB value of fertile chicken egg exports in the 1Q 2017 was R38.7 million. In addition to fertile chicken eggs, SARS reports that 29 t of fertile eggs from ducks, geese or guinea fowl were imported. SAPA continues to query these volumes; the bulk of which seems to go to Mozambique.

Besides fertile eggs, a total of 2 571 t of egg products (shell eggs, liquid and dried egg products included) were exported from South Africa in the 1Q 2017, at a declared FOB value of R 39.8 million. This is 555 tonnes more than in 4Q 2016 (27.5 % increase); and 765 t more than in 1Q 2016 (42.4 % increase). Egg product exports during the 1Q 2017 comprised: 5.0 % dried egg product; 0.6 % liquid egg product; 89.9 % shell eggs from chicken (0407.2110; 2190; 9020;

9090); and 4.5 % shell eggs from other sources excluding ostrich (0.407.2990). The total tonnage and value of egg products above excludes 4 914 kg of ostrich eggs exported under tariff code 0407.9010 at an FOB value of R109 130.

The main countries of destination for South African exports of eggs and egg products during 1Q 2017 were Mozambique (76.4 % of exports), Swaziland (8.4 %), Zimbabwe (5.8 %), Lesotho (5.5 %), Namibia (1.6 %), Côte d'Ivoire (1.3 %); Rwanda (0.4 %) and others (0.68 %).

### ***Egg prices: producer***

The monthly average egg producer price for March 2017 was R13.49 per dozen. Compared to February 2017, the egg price increased by 1.7 % and, on a year-on-year basis, it increased 13.2 %. The quarterly average egg producer price for 1Q 2017 was R13.31 per dozen; an increase of 2.2 % over 4<sup>th</sup> quarter 2016 prices and an increase of 8.0 % compared to the 1Q 2016.

During March 2017, the average egg price for *graded* eggs (excluding barn eggs and free range eggs) was R14.06 per dozen, an increase of 1.7 % in comparison with February 2017 and an increase of 10.8 % when compared to the same month in the previous year. The quarterly average egg producer price for *graded* eggs in 1Q 2017 was R13.95 per dozen; an increase of 1.3 % over 4<sup>th</sup> quarter 2016 prices.

The average egg price for *ungraded* eggs was R11.97 per dozen in March 2017, a 2.0 % increase when compared to February 2017 and an increase of 17.4 % on March 2016 prices. The quarterly average egg producer price for *ungraded* eggs in 1Q 2017 was R11.65 per dozen; a decrease of 3.2 % over 4<sup>th</sup> quarter 2016 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. During 2016, 70 % of eggs were sold graded and 30 % ungraded.

### ***Cull price***

The average price for cull laying hens was R26.40 in March 2017, an 8.0 % increase when compared to February 2017 but a decrease of 5.7 % on March 2016 prices. The average price for cull laying hens in the 1Q 2017 was R25.21 and for 2016 was R27.84; an increase of 0.22 % over the average price for 2015 (R27.78).

### ***Egg prices: retail***

During March 2017, the average retail price for eggs, size large, was R25.14 per dozen and the average producer price was R14.96 (Stats SA). The mark-up between producer and retailer was 68 %. The retail price decreased by 0.5 % on a year-on-year basis, while the producer price increased by 1.9 %.

On a quarterly basis, the average retail price for eggs, size large, was R25.02 per dozen and the average producer price was R14.67 (Stats SA). The retail mark-up on producer prices was 70.6 %. The retail and producer price increased by 2.5 % and decreased by 1.2 % 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.

### ***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 1Q 2017, the average egg producer price was R18.91 per kg; the average beef producer price at the abattoir (A2/A3 carcass price, excluding the fifth quarter) was R42.36 per kg; the average producer price of class C2/C3 beef was R35.86/kg and the average pork price (all classes) was R27.17/kg. The average producer price for broilers (total realisation) for 1Q 2017 was R20.86 per kg.

### ***Feed prices***

The monthly average feed price for March 2017 was R3 871 per tonne. It decreased by 3.2 % on a monthly basis and decreased by 2.9 % on a year-on-year basis.

The average layer feed price indicator for 1Q 2017 was R3 971 per tonne; a decrease of 3.5 % in comparison with the previous quarter but an increase of 2.8 % in comparison with the same quarter in the previous year.

The average feed price 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***

After a gradual recovery from the effects of the 2015 avian influenza outbreaks, the poultry industry worldwide faces another year of trade disruptions and challenges after HPAI once again spread across the wintery northern hemisphere. These challenges have now arrived in Southern Africa. Highly pathogenic avian influenza (H5N8) was diagnosed in commercial poultry in Zimbabwe in mid-May and, in late June, two outbreaks were reported on farms near Villiers (border of Free State and Mpumalanga) and near Standerton in Mpumalanga.

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. A few weeks later, HPAI H5N8 was confirmed as the cause of high mortality in broiler breeders at the Astral site near Villiers. A second outbreak in laying hens has since been reported from Standerton. 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.

As part of the AI control measures, traders of any more than five live birds (for any purpose other than slaughter at a licensed abattoir) must be registered with the Poultry Disease Management Agency (PDMA); and may only trade in birds certified as healthy by a veterinarian or animal health technician. At 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.

Several neighbouring countries have already closed their borders to imports of South African poultry products and live birds. Namibia, Mozambique, Botswana, Zambia and Zimbabwe all announced trade bans on Tuesday 27 June. The European Union and Switzerland have also imposed a ban on imports of poultry meat and products, including ostrich meat, from South Africa.

Since late January, Belgium has been reporting H5N8 HPAI in wild birds in the central provinces of the country, and in Limburg province neighbouring the Netherlands. Between 22 May and 20 June, the country reported 7 outbreaks of HPAI in domestic poultry in the provinces of Luxembourg, Hainut, West Vlaanderen and Namur (the southern provinces of Belgium, bordering France). There have been 127 cases out of 305 susceptible birds; with the remaining 178 birds culled. 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 in December 2016 but, since 25 November last year, they have had to report a further 484 outbreaks of H5N8 HPAI, which have resulted in the culling of over 1.29 million birds. On 30 June, the French suffered yet another outbreak of H5N8 on the Franco-Belgian border.

Final reports on both Dutch HPAI 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). The first event totalled 48 outbreaks (298 cases); and the second increased to nine farms, totalling 3 658 cases. Over 210 000 birds were culled. Since 7 December 2016, Germany has notified the OIE of 286 outbreaks of H5N8 HPAI in wild birds and commercial poultry. The last confirmed outbreak was as recent as 9 May 2017. Germany has also reported three outbreaks of H5N5 HPAI in breeding and fattening turkeys in the Shleswig-Holstein district, beginning on 22 January 2017. 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 latest case reported to the OIE was dated 18 April 2017. The event has not yet been closed officially.

The UK had reported 27 outbreaks of HPAI during the European winter outbreaks, consisting of 5880 cases in commercial birds and 178 in wild birds. 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, on 3 May 2017, the UK experienced a new outbreak of H5N8 in a backyard flock in the Wyre district of Lancashire and, within days, a second outbreak was reported nearby. All

susceptible birds were destroyed. In early June, H5N8 HPAI was recorded in a backyard flock in Diss, Norfolk.

Since November 8, Danish veterinary authorities have reported 36 outbreaks of H5N8 HPAI in wild birds (including tufted ducks, gulls, swans and goshawks) and in one small backyard poultry flock (58 birds destroyed). Denmark reclaimed its HPAI-free status on 22 February 2017. On 18 February, highly pathogenic H5N8 was found on a commercial duck farm in the Spanish province of Catalonia. A pre-emptive cull of 17 077 birds followed the death of 723 ducks. Poland reported a total of 133 outbreaks of HPAI (56 227 cases) in wild birds, backyard flocks and commercial poultry. Over 1 million birds were culled in response to these outbreaks but the last case was recorded on 15 March 2017 and Poland submitted a final report to the OIE on 20 April.

The US recorded H7N9 HPAI in two commercial broiler breeder flocks in Lincoln County, Tennessee on 1 March 2017. A preventive cull of 130 000 birds was carried out. 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, South Africa, Switzerland, Sweden, Uganda, the Ukraine and Zimbabwe. In addition, the following countries have reported the H5N1 strain: Bangladesh, Cameroon, Cambodia, Côte d'Ivoire, India, Malaysia, Nepal, Niger, Nigeria, Vietnam and Zimbabwe. China has also reported H5N6, H5N2 and H7N9. Chinese Taipei lays claim to H5N6, along with Greece, Japan and Myanmar; with the Greek outbreak being the only European occurrence of this strain. The H5N5 strain has been reported in Italy, Germany, Serbia and the Czech Republic in 2017. Mexico reported H7N3 in May. It looks certain that avian influenza will once again play a huge role in world poultry markets through much of this year.

The World Animal Health Organisation (OIE) is presently drawing up guidelines on International Laying Hen Housing Systems, as part of its complete Code for Terrestrial Animals. The International Egg Commission's position and response is being co-ordinated by the Animal Welfare Working Group which includes Kevin Lovell, the SAPA CEO, along with representatives from Canada, the US, the UK, Colombia, the Netherlands and India. A first draft is under discussion and is expected to be reviewed by the Code Commission of the OIE in September this year.

In New Zealand, under the terms of the New Zealand Government's "Animal Welfare (Layer Hens) Code of Welfare 2012", battery cages will be banned in the country from December 2022, in favour of larger colony cages or barn or free-range systems. The New Zealand industry is currently dealing with the fall-out from a scandal involving a free-range producer buying in eggs from caged-hen producers and marketing these eggs as free-range. The Serious Fraud Office has been investigating Palace Poultry for hoodwinking a number of its large customers. The Egg Producers' Federation is looking at egg-stamping at source, with a unique traceable code, in order to protect consumers.



In India, calls for cage-free production are increasing. McDonalds is coming under pressure from Members of Parliament to source eggs in its Indian stores from cage-free suppliers. The Law Commission of India has drafted “The Prevention of Cruelty to Animals (Egg Laying Hens) Rules, 2017” and the legislation has been submitted for consideration by government. The Animal Welfare Board of India (AWBI) will be watching to see whether implementation of the rules is achieved.

The UK’s RSPCA is about to embark on a programme of long-term support to advance the welfare of farm animals in China. The work will be funded by a US organisation, the Open Philanthropy Group. China is home to half the world’s pigs and a third of its poultry. The initial two-year programme will introduce the RSPCA’s codes of practice for farm animal welfare, along with related assurance schemes (farmingUK.com). China has experienced repeated food safety scares and scandals in recent years and there is a growing enthusiasm in government and amongst consumers for welfare, food assurance and labelling to improve.

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 8.749 billion dozen; the highest on record. After the 2015 avian influenza outbreaks, US egg facilities are now restocked and a glut in production has crashed prices. Overall food inflation is running at 2 %, whereas egg prices are expected to deflate by 6 % (USDA). Predicted annual egg prices for 2017 remain subdued at 83 – 86 c/dozen, respectively (Grade A, New York). Prices in June 2017 are at their lowest in over a decade.

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 302.8 million dozen in 2017 (still 20 % below 2014 levels). Imports of 122.1 million eggs were received into the US 2016, but are expected to drop steeply in 2017 to 53.2 million dozen. US consumption of eggs recovered to 274.7 eggs in 2016 (USDA) and is set to increase marginally to 274.9 in 2017 (WASDE).

Egg consumption in the UK is soaring. The British ate 7.1 % more eggs between 2014 and 2016. Egg consumption in the UK was estimated at 193 eggs per person per year in 2016 (egginfo.co.uk). In the 4Q 2016, the farm gate price for UK eggs increased to 70.7 p/dozen and has averaged 70.9 p/dozen in 1Q 2017. The firming in prices, after years of declining prices, is in part due to strong demand but also to an AI-related shortage in free range eggs. Even before the corporate cage-free pledges gained traction in 2016, free-range production accounted for 50 % of the UK egg market.

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 forecast to reach 6.79 billion dozen in 2017 (+ 0.58 %) but forecast production for the EU in the period January to August 2017 is currently 6.1 % below production in the first eight months of 2016. The average weighted EU Class A egg price increased from €101/100 kg in early August 2016 to €133/100 kg in April 2017, but has decreased steadily since then to €117.7/100 kg in mid-June. This price remains 7.3 % below the re-based average price for 2012 – 2016. The recent drop in prices since 1Q 2017 probably reflects an easing of supply as HPAI disruptions lessen.

Imports of shell eggs into the European Union dropped by 11 % in 2016 to 17 137 tonnes (egg equivalent). The US accounts for 71.5 % of egg imports into the EU in 2017 YTD (April). 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 81 000 t exports: 4 000 t imports between January and April 2017. In 2016, EU egg exports to third parties decreased by 12 % and exports in the first four months of the year are 0.8 % below exports in the same period in 2016.

### ***South African economy***

Prospects for South African egg farmers are looking a little brighter in 2017. Good rains in the maize-growing regions of the country will support a bumper harvest this season and with global soybean prices also under pressure, animal feed costs should drop gradually from last year's highs. Egg prices have risen on tighter stocks, as operations repopulate after the perfect storm that was 2016. However, highly pathogenic avian influenza has been reported from commercial poultry farms in Harare, Villiers and Standerton and trading partners are already closing borders. As a country, South Africa has experienced a dramatic start to 2017, with a catastrophic cabinet reshuffle, credit rating downgrades, heightened political tensions, hundreds of thousands of leaked emails, landmark court rulings and the ever-present stench of state capture and corruption. It seems likely that 2017 will be another year of sluggish growth and high unemployment; an environment in which populist rhetoric can be expected to reverberate in the run up to the ruling party's elective conference in December.

In comparison with the broiler industry, which is under huge pressure from cheap imports, local egg producers will probably have an easier 2017 and certainly have the potential to increase domestic consumption and production dramatically. Egg producers still face challenges as 2017 continues, including:

#### *Lingering drought*

In its May 2017 *Seasonal Climate Watch* briefing, SAWS indicated the possibility of higher than average rainfall in the south west of the country through the winter months, but attached a low confidence level to this forecast. In addition, it warned of the possibility of a new El Niño event developing in the spring/summer months but, by the end of May, SAWS reported that the risk was diminishing. It is, however, a forecast the whole country should be watching carefully, so that appropriate plans are put in place to deal with the possibility of another season of below-average rainfall which might result if El Niño returns. Towns in the Free State and Eastern Cape are still being warned to use water sparingly and the situation in the Western Cape remains dire. Officials have warned that three winters of above-average rainfall will be needed to alleviate the current water shortage.

A total of 646 882 t of white maize and 1 592 671 t of yellow maize were imported for use in South Africa between 30 April 2016 and 27 April 2017 (SAGIS); the total exceeding 2.2 million tonnes. On June 19, maize futures for July delivery of white and yellow maize were set at R1 743/t and R1 871/t, respectively. Soybean futures, for July and September delivery, had moderated to R4 585 and R 4 665/tonne respectively, as of 19 June.

*Hen welfare*

With McDonald South Africa's announcement that it will follow its parent company's lead and "uncage the Egg McMuffin" in this country by 2025, the cage-free revolution and disposal of male chicks are no longer "horizon issues" for South African producers. The OIE's drafting of a code of practice for the keeping of laying hens is also likely to impact local producers.

Local demand for eggs remains disappointingly low (141 eggs per person per annum (2016)), despite changing views on cholesterol and the increasing popularity of high protein/high fat diets which has fuelled a resurgence in the consumption of eggs elsewhere in the world. The Mexicans eat a staggering 357 per person per year (IEC). The UK has increased egg consumption by over 7 % in two years by making use of social media and the pull of celebrity endorsements. Social media is undoubtedly a powerful tool in influencing consumer behaviour and a growing number of free range farmers in the UK are using Twitter and Facebook accounts to advertise and reassure their customers. Where welfare is compromised social media becomes a threat and its use as an advertising tool is curtailed.

*Reduced consumer spending in a recessionary environment*

Headline inflation averaged 6.4 % in 2016. Inflation peaked at 6.8 % in the 4Q 2016 but had reduced to 5.3 % in April and is expected to stay within the target range for the forecast period (SARB). Food price inflation rose from 5.9 % in December 2015 to 11.7 % in December 2016. In April 2017, food price inflation surprised at 6.7 % (NAMC). The unemployment rate in the 1Q 2017 increased to 27.7 % from 26.5 % in the previous quarter. The expanded unemployment rate, which includes discouraged work-seekers, is 36.4 %.

In May, the International Monetary Fund revised its growth forecast for the South African economy upwards to 1.0 % in 2017, in light of some recovery in the agriculture and mining sectors. It cautioned that policy uncertainty poses a downside risk and advised that reform of the country's state-owned enterprises and service and labour markets is needed to encourage investor confidence. The economy contracted by 0.3 % in 4Q 2016 and by a further 0.7 % in 1Q 2017, taking the country into its first recession since 2009. The mining sector recovered to grow by 12.8 % in the 1Q 2017. It was a happier story for agriculture too, which rebounded to grow by 22.2 % q-on-q, after eight consecutive quarters of contraction. However, manufacturing contracted by 3.7 % and trade, catering and accommodation shrank by 5.9 %. Construction shrank by 1.3 %. The tertiary sector, which includes finance, transport and personal services, contracted for the first time since the 2009 recession in the first quarter of 2017.

*A volatile South African rand*

In late March 2017, Standard & Poor's Ratings warned that political tensions, policy issues and weak growth could hamper economic reform and undermine investor confidence. The warning fell on deaf ears in the Presidency. On 31 March, the hugely respected Finance

Minister, Pravin Gordhan, and his equally competent deputy, Jonas Mcebisi, were replaced in a cabinet reshuffle. Standard and Poor's moved quickly to downgrade South Africa's sovereign credit rating to below-investment level and Fitch Ratings announced a similar downgrade on both foreign and local debt at their scheduled meeting on 7 April. At their regular June meeting, Moody's did as expected and cut South Africa's credit rating by one notch to BAA3 and assigned a negative outlook – the BAA3 level is just one notch above junk status. A few days later, Moody's downgraded the country's top five banks to the same BAA3 level.

As June draws to a close, the markets are suffering jitters yet again – this time in response to the remedial action prescribed by the Public Protector in the matter of an apartheid-era bailout of Bankorp, later bought by ABSA. The rand's value at the end of 2016 was still 22 % below its value on 1 January 2015 (R11.56 to the dollar). Through 1Q 2017, the rand had strengthened by 10.6 % over the December 31 2016 level; breaking the R13-level in mid-February and closing at R12.43 to the dollar on 26 March. Following Jacob Zuma's decision to axe the Finance Minister, the rand depreciated by 11.7 % between March 26 (R12.43 : \$1) and 10 April (R13.91 : \$1). The rand regained 9.4 % between 10 April and mid-June, to close at R12.71 : \$1 (still 2.2 % below the March 26 level). The rand had been riding local and international dramas in the 1Q 2017 thanks to recent favourable sentiment towards emerging markets and rising commodity markets - but following the Public Protector's report on the Bankorp bailout, it depreciated by 2.05 % (SARB). The local currency is also expected to lose up to 5 % against the dollar in the lead up to the ANC's elective conference in December (Moneyweb.co.za).

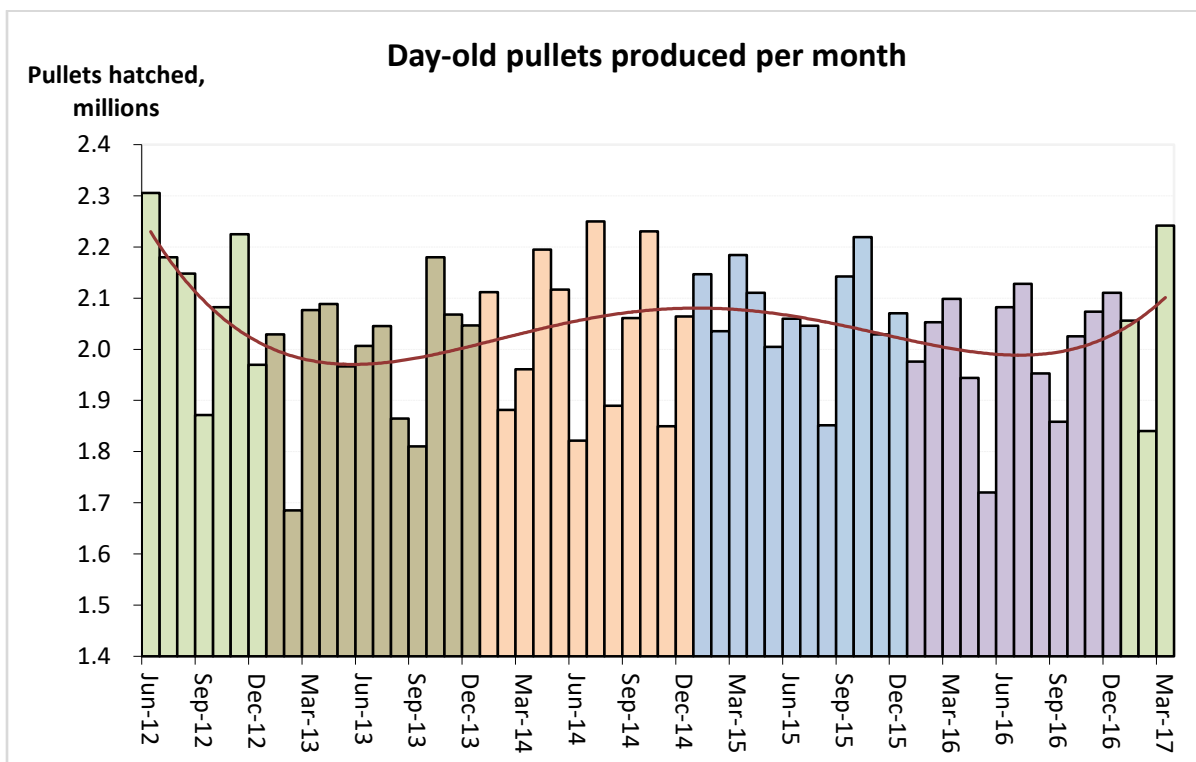
## 2. EGG SUPPLY AND DEMAND 1Q 2017

### 2.1 Egg production

#### **Day-old pullet production:**

A total of 6 138 240 day-old pullets was produced during the first quarter of 2017 (1Q 2017). This was 1.1 % less than 4Q 2016 but 0.2 % more than 1Q 2016.

The weekly average number of day-old pullets hatched for 1Q 2017 was 471 575; 1.3 % less than 4Q 2016 and 0.05 % less than 1Q 2016 (monthly figures given in *Figure 1*).

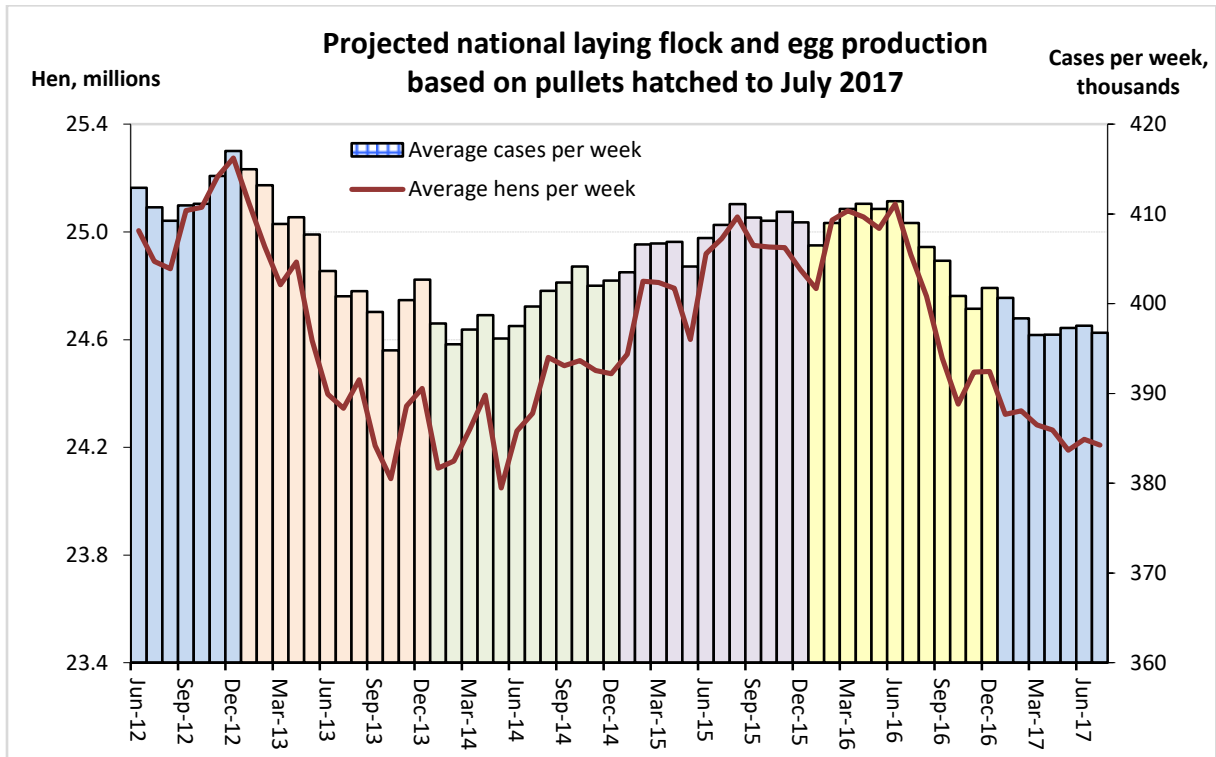


**Figure 1:** The number of day-old pullets produced per month.

#### **Projected laying flock:**

The average number of laying hens during 1Q 2017 was 24 313 611. This was a decrease of 0.5 % compared to 4Q 2016 and a decrease of 2.6 % compared to 1Q 2016.

The projected laying flock for July 2017 is 24 208 674 hens; a 2.8 % year-on-year decrease (*Figure 2*).



**Figure 2:** Projected national laying flock and egg production

**Forecasted egg production:**

Total egg production during 1Q 2017 was 5 123 807 cases. This was a 2.7 % decrease compared to 4Q 2016 and a 3.6 % decrease compared to 1Q 2016.

The average production per week for 1Q 2017 was 398 513 cases. Compared to the 4Q 2016, there was a 0.5 % decrease and compared to 1Q 2016 there was a 2.5 % decrease.

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

	Hatch days	Calendar Days	Day-old Pullets placed		Laying hens	Eggs Produced (Cases)	
Month on Month	/Month	/Month	/Month	/Week	Average	/Month	/Week
March 2017	23	31	2,241,867	487,362	24,283,079	1,756,024	396,521
February 2017	20	28	1,840,163	460,041	24,335,449	1,593,465	398,366
Change			401,705	27,322	(52,369)	162,558	(1,845)
% Change			21.83%	5.94%	-0.22%	10.20%	-0.46%
Year on Year	/Month	/Month	/Month	/Week	Average	/Month	/Week
March 2017	23	31	2,241,867	487,362	24,283,079	1,756,024	396,521
March 2016	23	31	2,098,382	456,170	25,078,544	1,818,137	410,547
Change			143,486	31,193	(795,465)	(62,113)	(14,026)
% Change			6.84%	6.84%	-3.17%	-3.42%	-3.42%
Year to date	/Period	/Period	/Period	/Week	Average	/Period	/Week
	January>March		January>March		Jan>Jun	Jan>Jun	
2017	65	90	6,138,240	471,575	24,269,942	10,286,543	397,822
2016	65	91	6,127,034	471,791	25,012,869	10,656,077	409,849
Change			11,206	(216)	(742,927)	(369,534)	(12,027)
% Change			0.18%	-0.05%	-2.97%	-3.47%	-2.93%
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

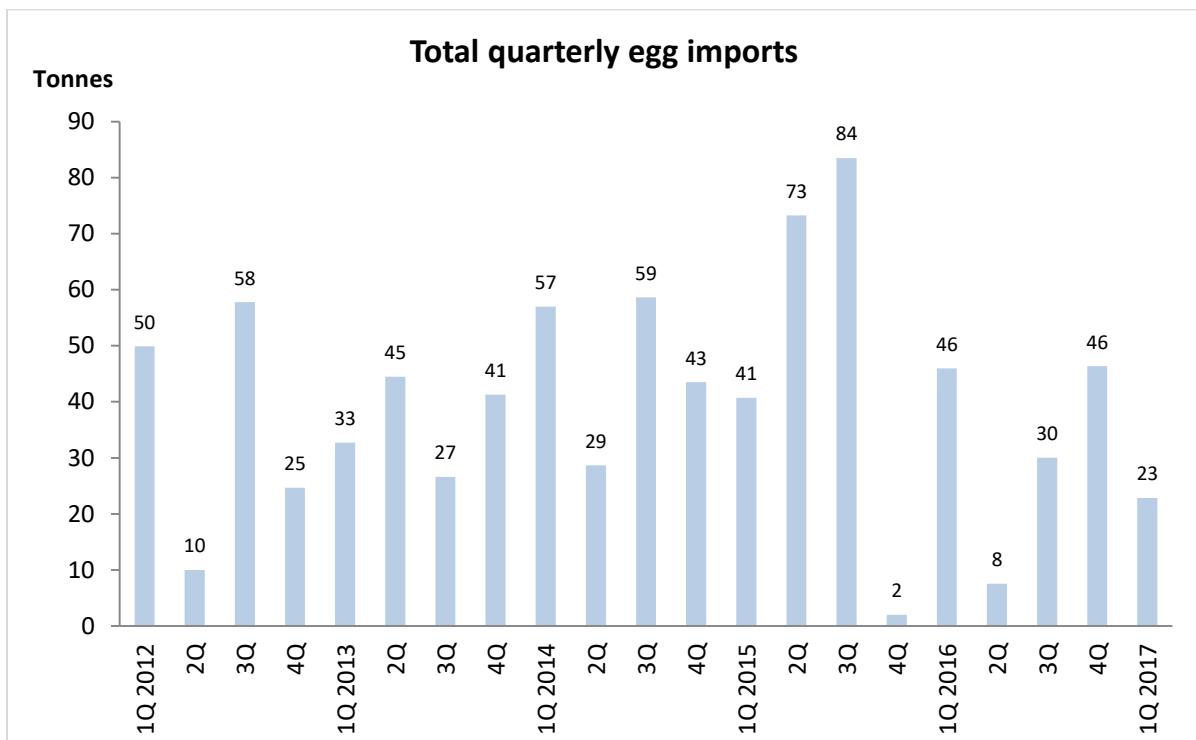
- 1: All surviving day-old pullets placed will be transferred to the laying flock at 18 weeks of age.
- 2: Depopulation age: Feb. 2006 to April 2009 - 69 weeks, April to Aug. 2009 - 70 weeks, Aug. to Nov. 2009 - 71 weeks, Nov. 2009 - 72 weeks and Nov 2013 - 74 weeks
- 3: No deviation from the accepted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

## 2.2 Egg imports

During 1Q 2017, 98.9 % of egg imports into South Africa were dried egg products (on three tariff lines). Imports were recorded on the following tariff lines:

- 26 400 kg dried egg product (not including yolk; *tariff line 0408.9100*)
- 22 823 kg dried egg albumin (*tariff line 3502.1100*)
- 14 178 kg dried egg yolks (*tariff line 0408.1100*)
- 480 kg uncooked preserved shell eggs (*tariff line 0408.9910*)
- 224 kg preserved shell eggs/cooked hen eggs (*tariff line 0408.9090*)

Total egg imports in the 1Q 2017 amounted to 64 109 kg; at a rand value of R5.01 million. Quarterly volumes of total egg imports since 1Q 2012 are given in *Figure 3*. The quarterly imports of dried egg albumin are given in *Figure 4*.

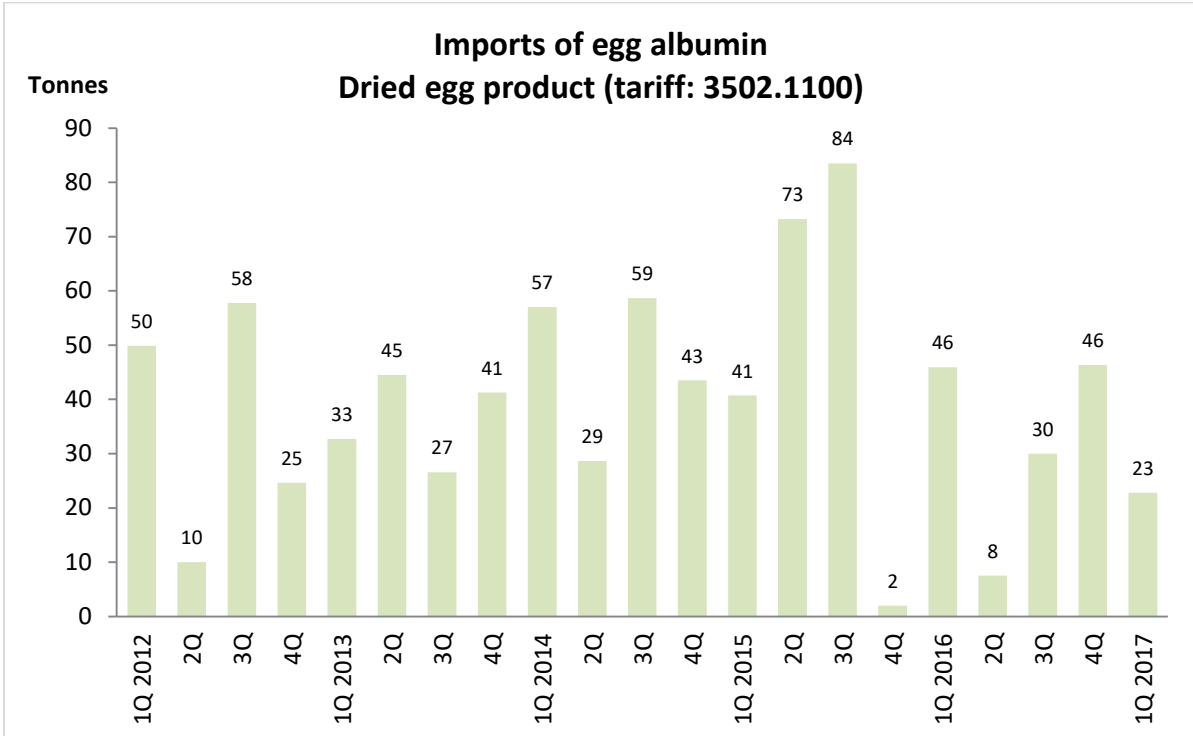


**Figure 3:** Total quarterly egg imports from 1Q 2012

In the 1Q 2017, imports from Italy accounted for 51.5 % of total imports; whilst 45.6 % came from France and 2.9 % came from Germany, Denmark, Japan, and Taiwan, combined.

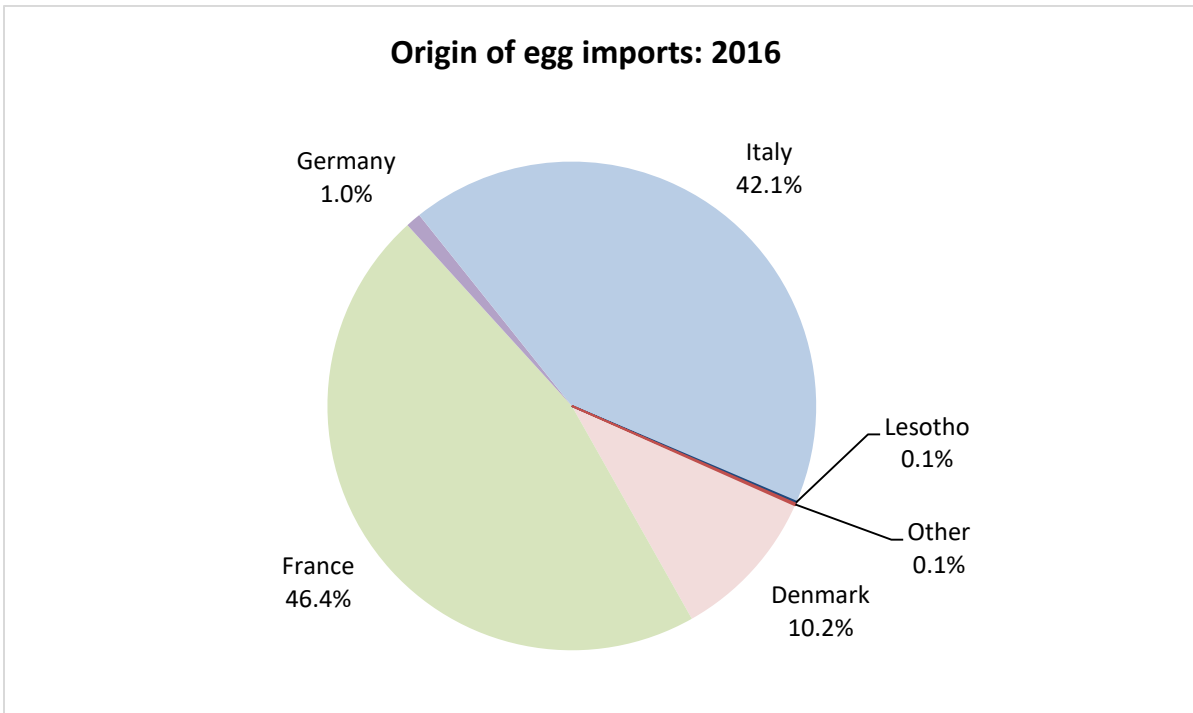
Through 2016, egg imports into South Africa totalled 216.5 t; down 37 % on 2015 levels (342.7 t). Egg imports were valued at R26.89 million (FOB) in 2016. Dried egg products (including albumins) accounted for 99.6 % of egg imports into South Africa in 2016.





**Figure 4:** Quarterly imports of egg albumin from 1Q 2012

The percentage contribution by the major egg importers to total egg imports for 2016 is shown in *Figure 5*.



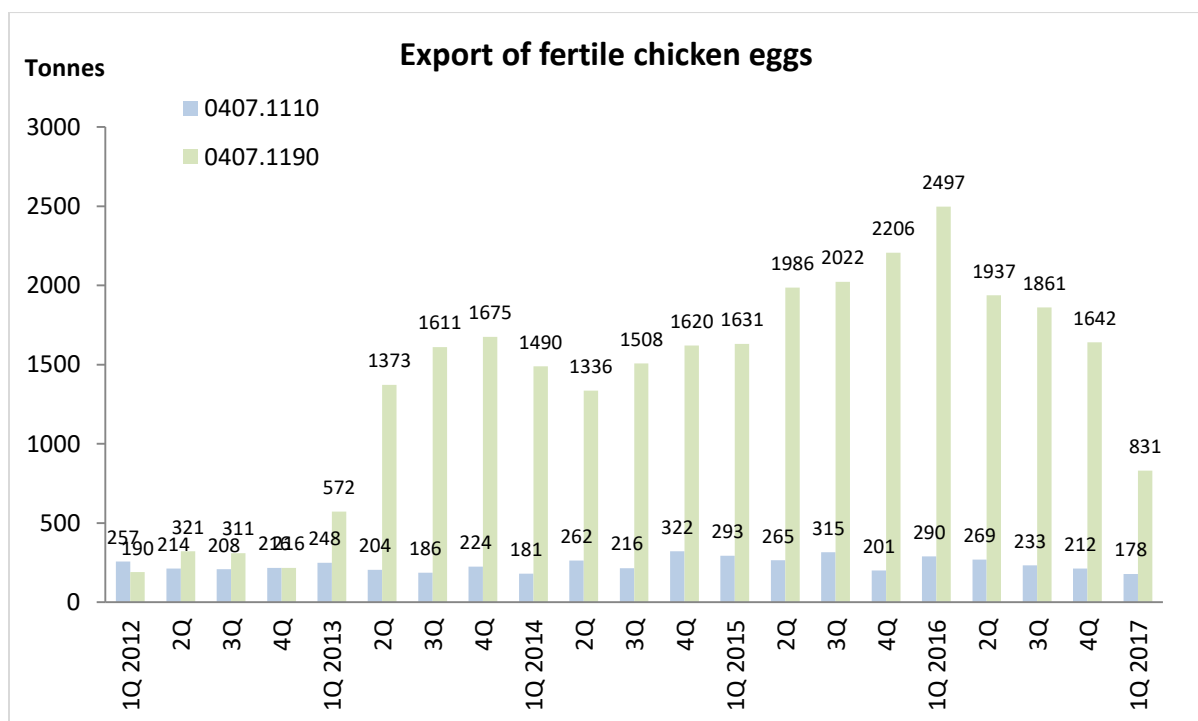
**Figure 5:** The main countries of origin for egg imports (2016; source: SARS).

## 2.3 Egg exports

During 1Q 2017, a total of 3 615 tonnes of eggs and egg products left South Africa, at a declared FOB value of R79.2 million. This tonnage decreased by 13.6 % compared to the 4Q 2016 (- 568 tonnes).

Of these total egg exports, fertile chicken eggs accounted for 1 009 t; 27.9 % of the total export tonnage. This is 845 t (- 46 %) less than in the previous quarter and 3 632 t (- 78 %) less than the same quarter in the previous year (Q1 2016). Fertile chicken eggs were exported under two tariff codes: 178 t and 831 t were exported under codes 0407.1110 and 0407.1190, respectively. The FOB value of fertile chicken egg exports in the 1Q 2017 was R38.7 million. In addition to fertile chicken eggs, SARS reports that 29 t of fertile eggs from ducks, geese or guinea fowl were imported. SAPA continues to query these non-chicken volumes; the bulk of which goes to Mozambique.

The quarterly exports of fertile eggs under these two tariff codes since 1Q 2012 are shown in *Figure 6*.



**Figure 6:** Quarterly export of fertile eggs

The amount of egg products exported during the 1Q 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 1Q 2016.

Besides fertile eggs, a total of 2 571 t of egg products (shell eggs, liquid and dried egg products included; *Figure 7*) were exported from South Africa in the 1Q 2017, at a declared FOB value of

R 39.8 million. This is 555 tonnes more than in 4Q 2016 (27.5 % increase); and 765 t more than in 1Q 2016 (42.4 % increase). Egg product exports during the 1Q 2017 comprised: 5.0 % dried egg product; 0.6 % liquid egg product; 89.9 % shell eggs from chicken (0407.2110; 2190; 9020; 9090); and 4.5 % shell eggs from other sources excluding ostrich (0.407.2990). The total tonnage and value of egg products above excludes 4 914 kg of ostrich eggs exported under tariff code 0407.9010 at an FOB value of R109 130.

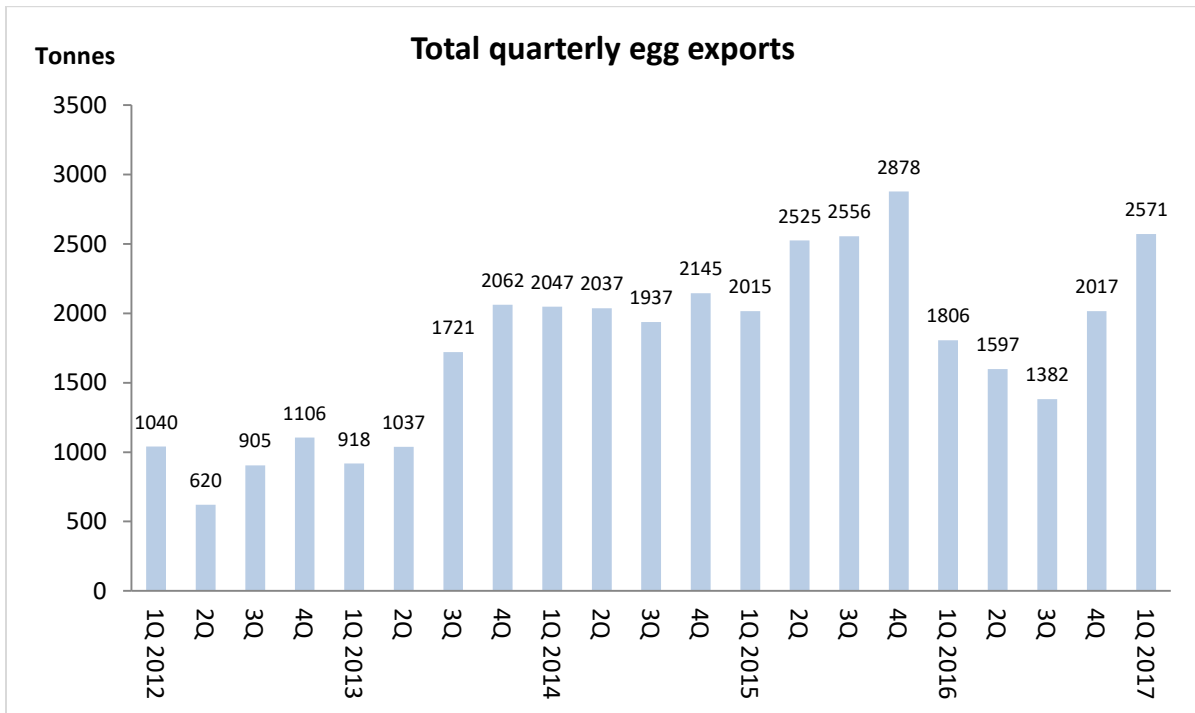
**Table 2.** Quarterly exports of eggs and egg products from South Africa

	Tariff code	units	1Q 2016	4Q 2016	1Q 2017
Fertile eggs	0407.1110/1190	t	2 787	1 854	<b>1 009</b>
Fertile eggs (ostriches)	0407.1910	kg	0	0	<b>0</b>
Fertilised eggs (other: not chicken/ ostrich)	0407.1990	t	61.1	311	<b>29.4</b>
Shell eggs chicken (< 150 c)	0407.2110	t	126.8	6.1	<b>7.6</b>
Shell eggs chicken (>150 c)	0407.2190	t	446	311	<b>452</b>
Shell eggs (ostrich)	0407.2910	kg	0	0	<b>0</b>
Shell eggs (not chicken/ostrich)	0407.2990	t	120	45	<b>115</b>
Ostrich eggs	0407.9010	t	0.35	1.54	<b>4.91</b>
Shell eggs: chicken (fresh, preserved cooked)	0407.9020	t	748	999	<b>1 124</b>
Shell eggs: other (fresh preserved, cooked)	0407.9090	t	170	388	<b>728</b>
Dried egg yolks	0408.1100	kg	491	12 939	<b>1</b>
Liquid egg yolks	0408.1900	t	2.5	77.3	<b>5.9</b>
Dried egg product (not yolks)	0408.9100	t	190	171	<b>129</b>
Raw yolks/whites (chicken)	0408.9910	kg	800	3 086	<b>4 105</b>
Raw yolks/white (not chicken)	0408.9990	t	1.8	3.2	<b>5.8</b>
Dried egg albumin	3502.1100	kg	143	970	<b>5 793</b>
Liquid egg albumin	3502.1910	kg	200	0	<b>0</b>
Egg albumin, not dried but not liquid	3502.1990	kg	0	0	<b>0</b>

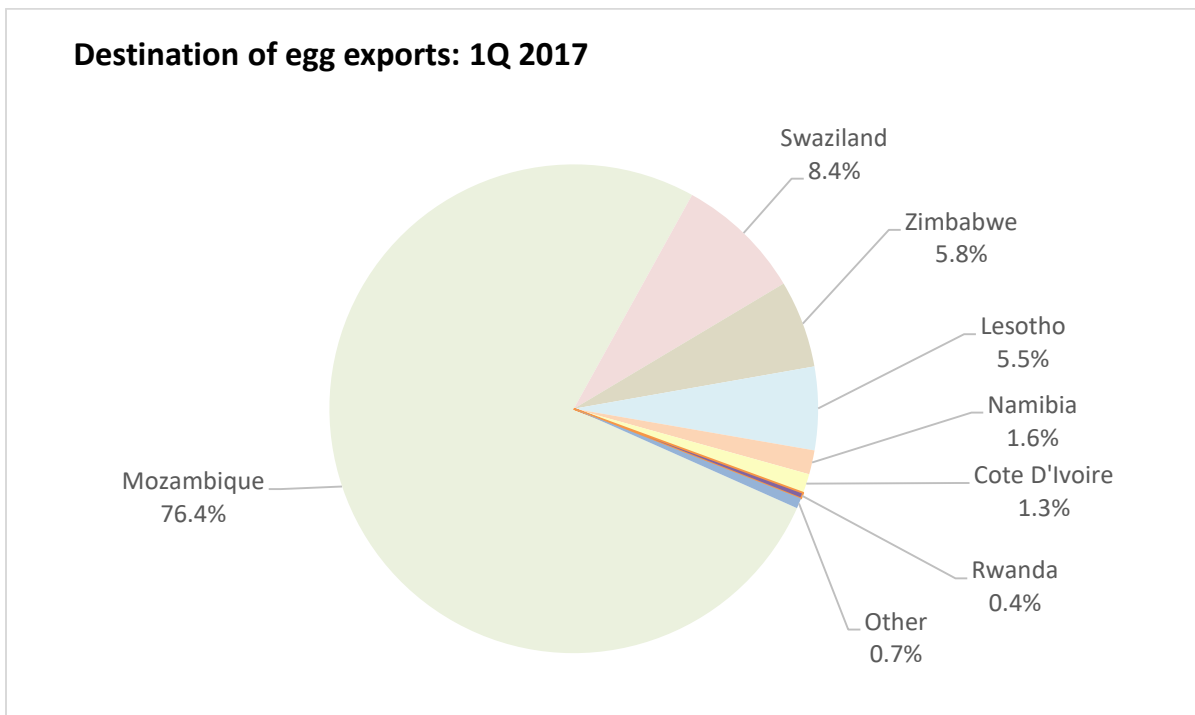
In summary, total egg exports comprised 1 009 t of fertile chicken eggs, 29.4 t of fertile eggs (not chickens or ostriches), and 2 017 tonnes of egg products (including shell eggs and preserved ostrich eggs). In addition, 4 914 kg of ostrich eggs were exported in the 1Q 2017 under tariff code 0407.9010.

The main countries of destination for South African exports of eggs and egg products during 1Q 2017 were Mozambique (76.4 % of exports), Swaziland (8.4 %), Zimbabwe (5.8 %), Lesotho (5.5 %), Namibia (1.6 %), Côte d'Ivoire (1.3 %); Rwanda (0.4 %) and others (0.68 %; *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 1Q 2017

### 3. EGG PRICE TRENDS

#### 3.1 Producer prices

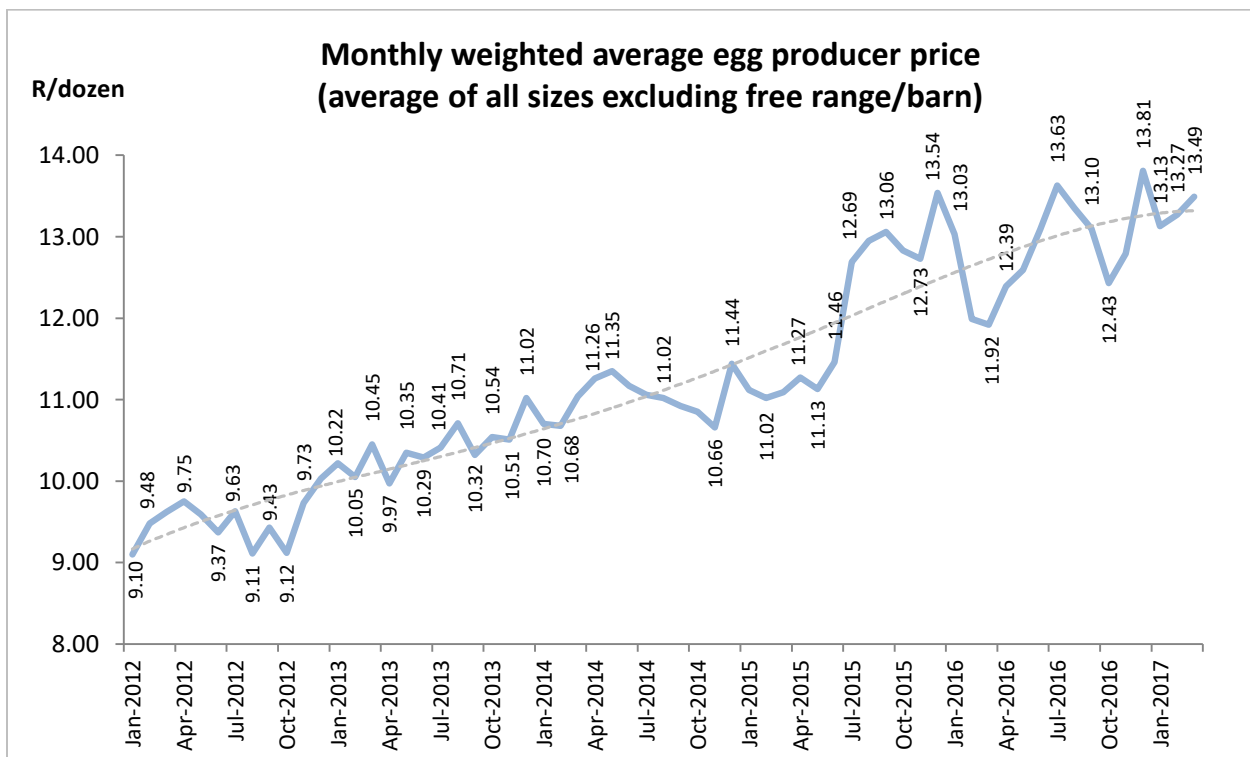
The monthly average egg producer price for March 2017 was R13.49 per dozen (*Figure 9*; source: SAPA). Compared to February 2017, the egg price increased by 1.7 % and, on a year-on-year basis, it increased 13.2 %. The quarterly average egg producer price for 1Q 2017 was R13.31 per dozen; an increase of 2.2 % over 4<sup>th</sup> quarter 2016 prices and an increase of 8.0 % compared to the 1Q 2016.

- Graded egg prices

During March 2017, the average egg price for *graded* eggs (excluding barn eggs and free range eggs) was R14.06 per dozen, an increase of 1.7 % in comparison with February 2017 and an increase of 10.8 % when compared to the same month in the previous year. The quarterly average egg producer price for *graded* eggs in 1Q 2017 was R13.95 per dozen; an increase of 1.3 % over 4<sup>th</sup> quarter 2016 prices.

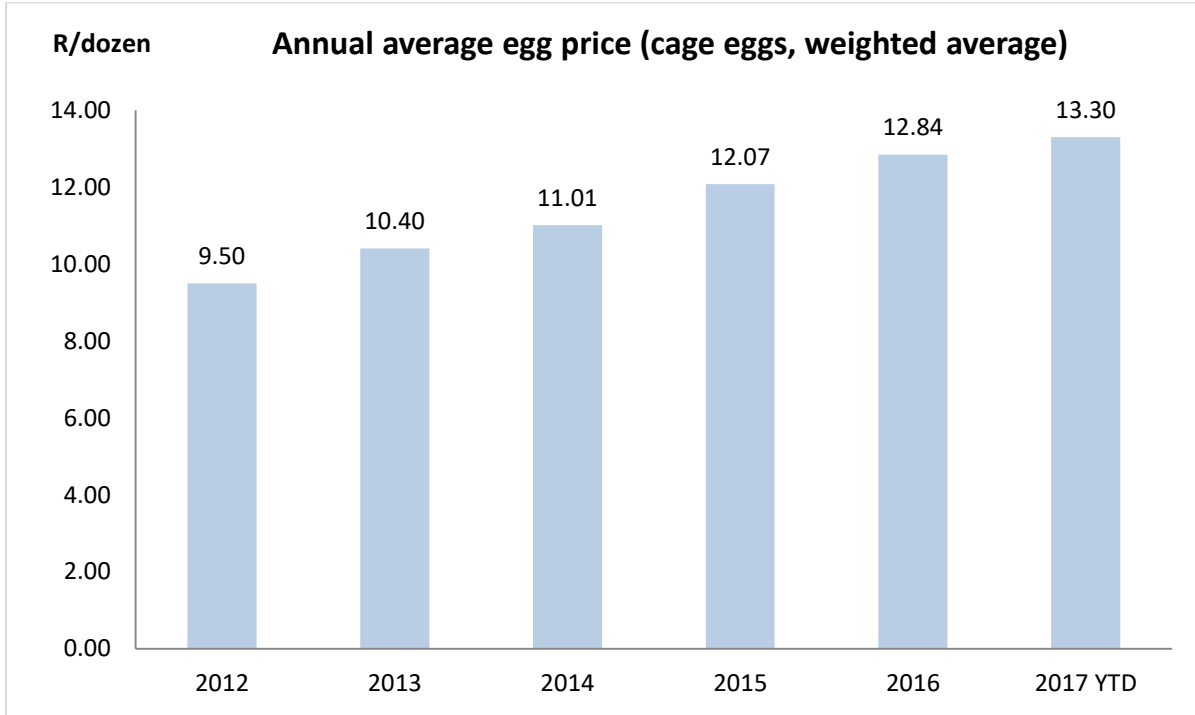
- Ungraded egg prices

The average egg price for *ungraded* eggs was R11.97 per dozen in March 2017, a 2.0 % increase when compared to February 2017 and an increase of 17.4 % on March 2016 prices. The quarterly average egg producer price for *ungraded* eggs in 1Q 2017 was R11.65 per dozen; a decrease of 3.2 % over 4<sup>th</sup> quarter 2016 prices.



**Figure 9:** Monthly egg price from January 2012 to the end of the 1Q 2017

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.



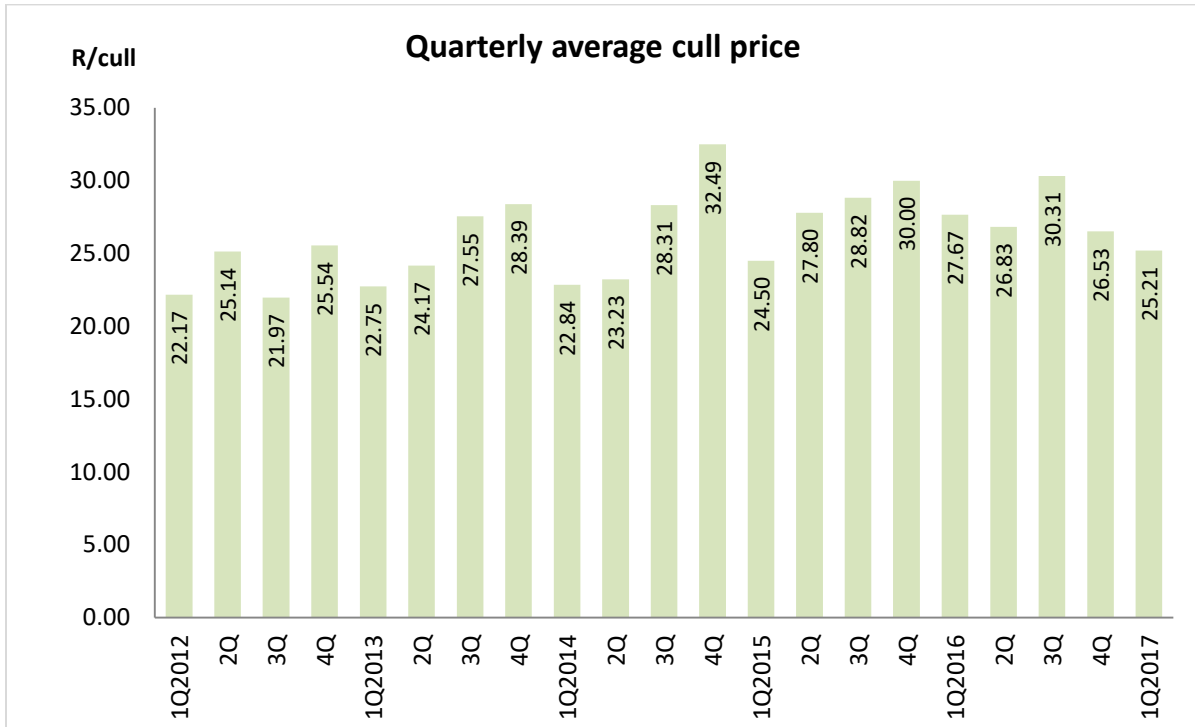
**Figure 10:** Average annual weighted egg producer price

### **Cull price**

The average price for cull laying hens was R26.40 in March 2017, an 8.0 % increase when compared to February 2017 but a decrease of 5.7 % on March 2016 prices.

The average price for cull laying hens in the 1Q 2017 was R25.21 (*Figure 11*). This is a decrease of 5.0 % over 4Q 2016 prices (- R1.32 per hen).

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



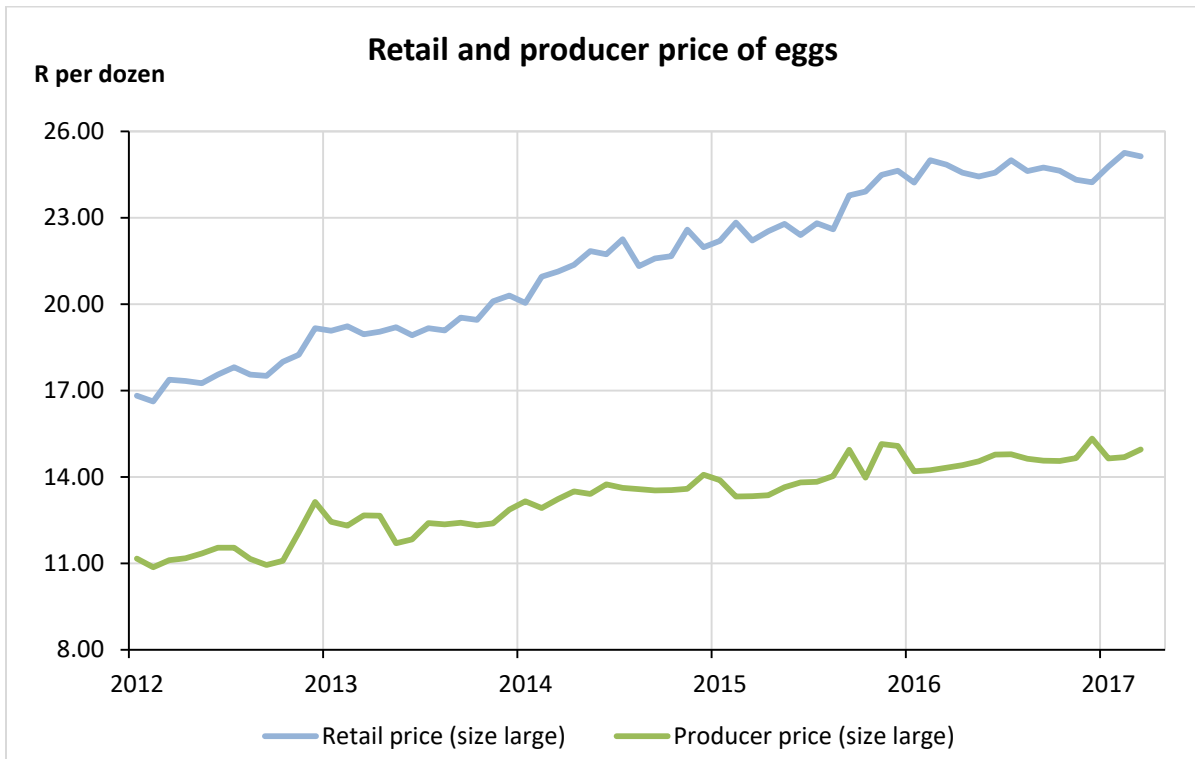
**Figure 11:** Average quarterly cull prices

### 3.2 Retail prices

During March 2017, the average retail price for eggs, size large, was R25.14 per dozen and the average producer price was R14.96 (*Figure 12*; Stats SA). The mark-up between producer and retailer was 68 %. The retail price decreased by 0.5 % on a year-on-year basis, while the producer price increased by 1.9 %.

On a quarterly basis, the average retail price for eggs, size large, was R25.02 per dozen and the average producer price was R14.67 (Stats SA). The retail mark-up on producer prices was 70.6 %. The retail and producer price increased by 2.5 % and decreased by 1.2 % on a quarterly basis, respectively.

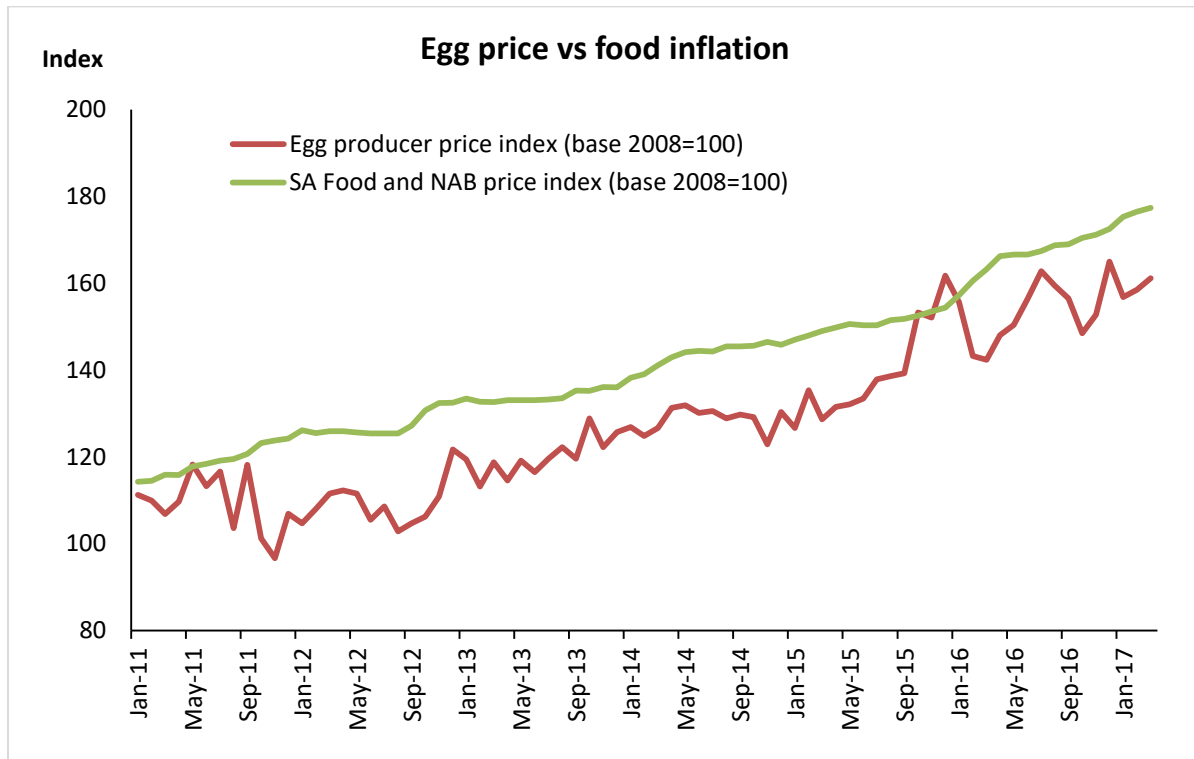
On an annual basis, the average retail price for eggs, size large, was R23.10 per dozen in 2015 and the average producer price was R14.03 (Stats SA). In 2016, the average retail price was R24.60 and the average producer price was R14.59. The retail mark-up on producer prices was 64.6 % in 2015 and is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



**Figure 12:** Production price and retail price of eggs (size: large)

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 two months, egg and food price inflation have been running in parallel.





**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, so average egg producer prices for 2014 have changed since the 3Q 2015 report.

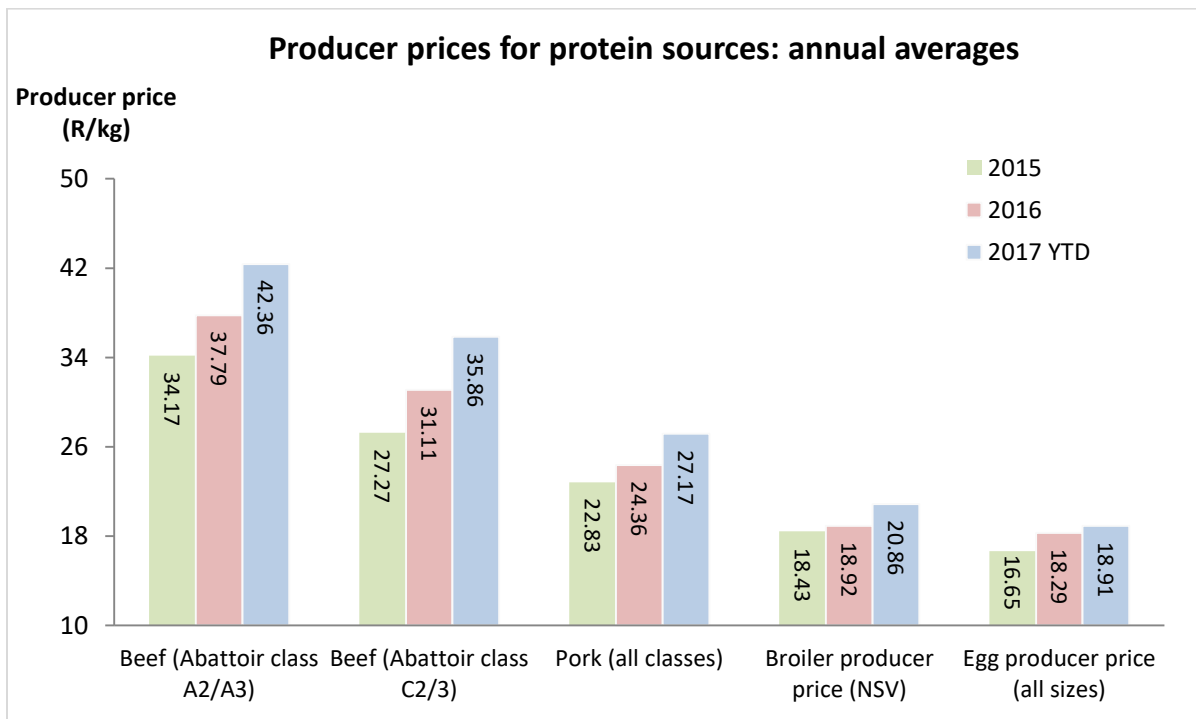
The average egg producer price for 2016 was R18.29 per kg (R12.84 per dozen (SAPA; all sizes). In 2015, it was R16.65 per kg (y-on-y increase: 9.8 %). In March 2017, the egg producer price was R19.20 per kg (R13.49/dozen); an increase of 13 % on a yearly-and kilogramme-basis (*Figure 15*).

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 March 2016, beef classes A2/A3 fetched R44.39 per kg; a year-on-year increase of 13.8 % (*cf* March 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 March 2017, class C2/C3 beef fetched R36.86 per kg; a year-on-year increase of 19.6 % (Source: SA Stats; SAPA).

The average pork price (all classes) was at R22.83 kg in 2015. In 2016, it rose to R24.36 per kg (+ 6.7 %) and, in March 2017, pork fetched R26.80 per kg, a year-on-year increase of 11.7 %.

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 %). During March 2017, the broiler producer price was R21.27 per kg. The March producer price has increased by 18.4 % in comparison with the same month in the previous year.



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

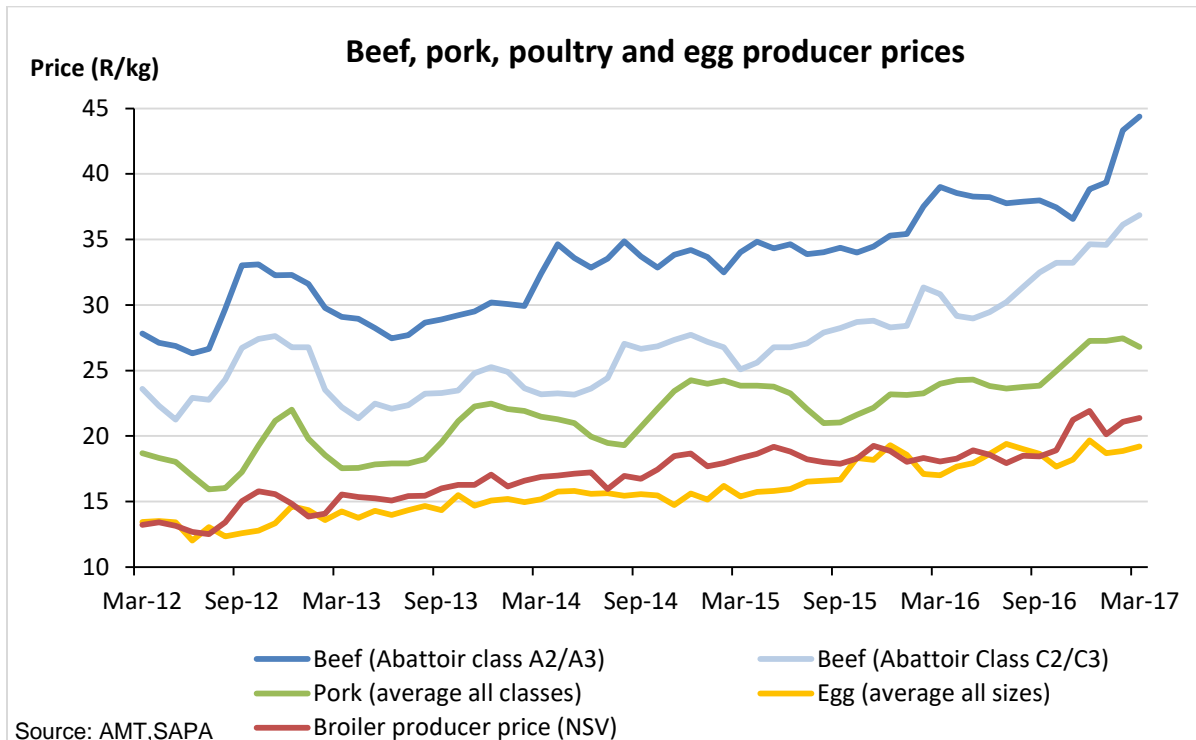
#### ***In comparison with pork, beef and chicken during the 1Q 2017***

The average egg producer price for 1Q 2017 was R18.91 per kg; a quarterly increase of 2.2 %, and an increase of 7.8 % 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 1Q 2017 was 42.36 per kg; a 12.6 % increase on a quarterly basis and a 13.5 % increase on a year-on-year basis. The average producer price of class C2/C3 beef was R35.86 per kg for 1Q 2017; a 6.4 % increase on a quarterly basis and an 18.8 % increase on a year-on-year basis (SA Stats; SAPA).

The average price of pork (all classes) was R27.17 per kg in the 1<sup>st</sup> quarter of 2017; a quarterly increase of 4.1 %, and a year-on-year increase of 15.8 %.

The average producer price for broilers (total realisation) for 1Q 2017 was R20.86 per kg; an increase of 0.9 % on a quarterly basis and a 15.1 % increase on a year-on-year basis.



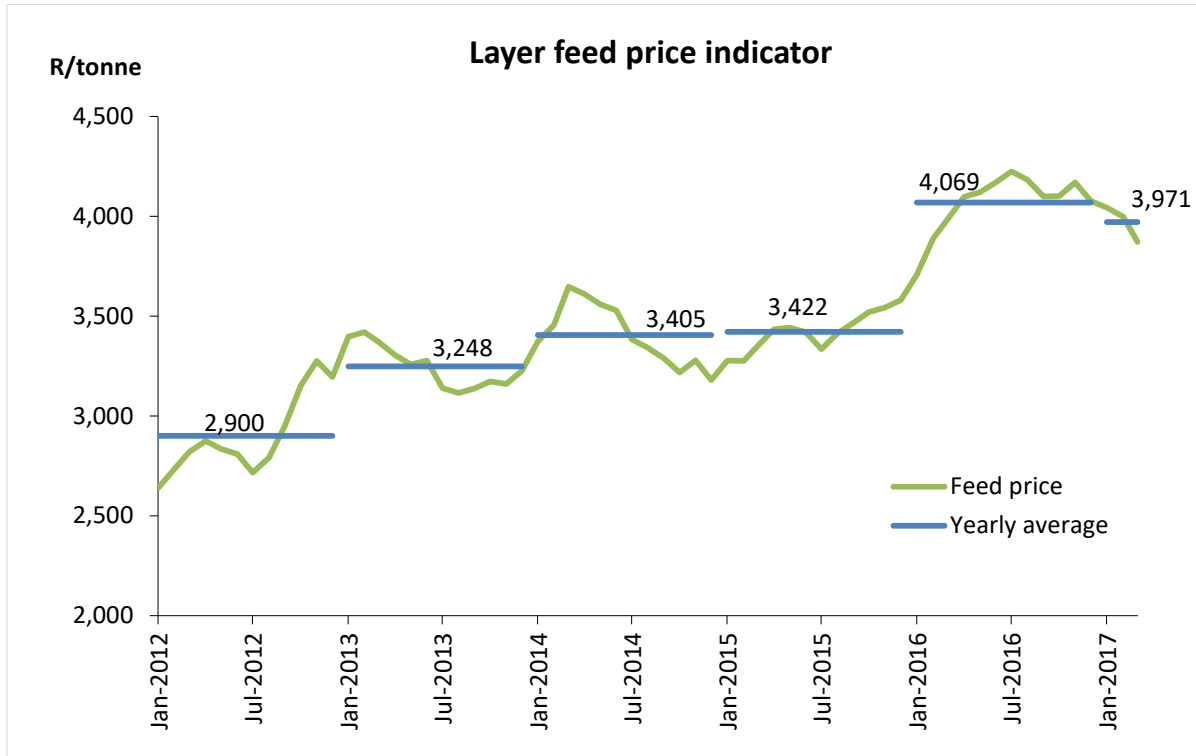
**Figure 15:** Monthly producer prices of protein sources

### 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 for March 2017 was R3 871 per tonne (*Figure 16*). It decreased by 3.2 % on a monthly basis and decreased by 2.9 % on a year-on-year basis.

The average layer feed price indicator for 1Q 2017 was R3 971 per tonne; a decrease of 3.5 % in comparison with the previous quarter but an increase of 2.8 % in comparison with the same quarter in the previous year.

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

#### **Avian influenza**

After a gradual recovery from the effects of the 2015 avian influenza outbreaks, the poultry industry worldwide faces another year of trade disruptions and challenges after HPAI once again spread across the wintery northern hemisphere. These challenges have now arrived in Southern Africa. Highly pathogenic avian influenza (H5N8) was diagnosed in commercial poultry in Zimbabwe in mid-May and, in late June, two outbreaks were reported on farms near Villiers (border of Free State and Mpumalanga) and near Standerton in Mpumalanga.

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 was limited to three houses and had not, as at 19 June, spread to five other houses on the same site. For the past few years, there have been zero imports from Zimbabwe on meat and egg tariff lines but South Africa has nevertheless suspended all trade in live birds, poultry meat, table eggs and other non-processed poultry products from its northern neighbour.

Checks on vehicles at borders were tightened and producers, especially in the Limpopo region, were asked to be vigilant and to reduce contact between commercial poultry and wild birds. 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. A second outbreak in laying hens has since been reported from Standerton. 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. The Villiers site is close to the Vaal River. The affected sites will be depleted of all birds; estimated at around 260 000.

The Department of Agriculture, Forestry and Fisheries is set to test 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. By the 29<sup>th</sup>, in response to concern about livelihoods being affected in the informal sector, this policy had been 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. Vaccination will not be used as a control measure at this stage, as it compromises surveillance measures and affects export status.

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.

Several neighbouring countries have already closed their borders to imports of South African poultry products and live birds. Namibia, Mozambique, Botswana, Zambia and Zimbabwe all announced trade bans on Tuesday 27 June. The European Union and Switzerland have also imposed a ban on imports of poultry meat and products, including ostrich meat, from South Africa.

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 484 outbreaks of H5N8 HPAI, totalling 15 900 cases, which have resulted in the culling of over 1.29 million birds (OIE) in the districts of Landes, Hautes-Pyrenees, Gers, Deux-Sevres, Pyrenees-Atlantique, Lot-et-Garonne, Aveyron and Tarn. The last positive outbreak reported was on 21 March 2017

(follow-up report dated 19 April 2017). 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.

On November 8 2016, the Netherlands reported H5N8 HPAI in wild birds in Noord- and Zuid-Holland, Flevoland, Overijssel, Noord-Brabant, Utrecht, Friesland, Groningen, Zeeland and Gelderland. This event 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. A trade ban on Dutch imports into South Africa has been in place. 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 as recent as 9 May 2017.

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 latest case reported to the OIE was dated 18 April 2017. The event has not yet been closed officially.

On December 11 2016, an outbreak of H5N8 HPAI was reported in housed turkeys in Lincolnshire. In Wales, the disease has been confirmed in a dead wild Eurasian wigeon (14 December, Llanelli) and, on the 30 December 2016, in a backyard flock of chickens and ducks (Carmarthenshire). Throughout the UK, wild birds have tested positive for HPAI in natural parks in Exminster (Devon), Dumfries and Galloway, Abbotsbury (Dorset), Gloucestershire, Merseyside, Lincolnshire, Tyne and Wear, Lancashire, Conwy (Wales), Norfolk, Londonderry, and North Yorks. On December 28 2016, there was an outbreak in a backyard flock near Settle, North Yorkshire, followed by three January outbreaks, totalling 77 000 birds, in breeding pheasants and mixed game birds, in the Wyre area (Lancashire). On 15 January, there was an outbreak in fattening turkeys in Louth (Lincolnshire) in which 400 birds died and 6 240 were culled. On 25 January, 19 500 rearing turkeys died or were culled in Boston, Lincolnshire. On 12 February, 20 276 broiler breeder hens were culled in Redgrave, Suffolk after 2 941 birds died on the same farm. On 17 February, H5N8 was reported in a backyard chicken flock in 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, a separate report was submitted on 3 March 2017 confirming H5N8 HPAI in a wild European wigeon in Pembrokeshire in Wales. On 3 May 2017, the UK experienced a new outbreak of H5N8 in a backyard flock in the Wyre district of Lancashire and, within days, a second outbreak was reported nearby. All susceptible birds were destroyed. In early June, H5N8 HPAI was recorded in a backyard flock in Diss, Norfolk. A 3 km protection zone and a 10 km surveillance zone are in place around this property. Before these latest cases, the UK had reported 27 outbreaks, consisting of 5 880 cases in commercial birds and 178 in wild birds. The Department for the Environment, Farming and Rural Affairs (DEFRA) revised its nationwide AI preventative measures at the end of February. Poultry keepers in high-risk areas, as defined on the DEFRA website, had to continue to keep birds housed until further notice. In low-risk areas, poultry could be released, provided biosecurity steps had been taken to keep wild birds away from domestic poultry (such as netting over ponds, and restricted access to stored feed). The regulations were expected to be relaxed from May 15. However, with the May outbreaks, prevention zones remain in place in Lancashire, Cumbria and Merseyside.

On 28 December 2016, a wild wigeon suffering from HPAI was found in County Wexford, in the Republic of Ireland. Eight further cases in wild birds had been reported under this event by 21 February, in Galway, Tipperary, Roscommon, Leitrim and Cork. No commercial were reported, allowing the Irish to continue exporting to South Africa.

Since November 8, Danish veterinary authorities have reported 36 outbreaks of H5N8 HPAI in wild birds (including tufted ducks, gulls, swans and goshawks) and in one small backyard poultry flock (58 birds destroyed). The 3 km protection zone around the affected farm was lifted on December 13 and Denmark reclaimed its HPAI-free status on 22 February 2017.

On 3 January 2017, Spain reported a single case of H5N8 HPAI in a wild greylag goose to the OIE; found in the central north of the country. On 18 February, highly pathogenic H5N8 was found on a commercial duck farm in the province of Cataluna. A pre-emptive cull of 17 077 birds followed the death of 723 ducks.

Poland reported a total of 133 outbreaks of HPAI (56 227 cases) in wild birds, backyard flocks and commercial poultry. On 27 January, Poland added 2 cases of H5N5 in wild swans, reported from the west of the country. Over 1 million birds were culled in response to these outbreaks but the last case was recorded on 15 March 2017 and Poland submitted a final report to the OIE on 20 April. The species of domestic bird affected in the outbreaks is not specified in the OIE report.

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 20 June, the country reported 7 outbreaks of HPAI in domestic poultry in the provinces of Luxembourg, Hainut, West Vlaanderen and Namur (the southern provinces of Belgium, bordering France). There have been 127 cases out of 305 susceptible birds; with the remaining 178 birds culled. 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. This is the first HPAI event in domestic poultry in Belgium in seven years.

The US recorded H7N9 HPAI in two commercial broiler breeder flocks in Lincoln County, Tennessee on 1 March 2017. A preventive cull of 130 000 birds was carried out. 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, South Africa, Switzerland, Sweden, Uganda, the Ukraine and Zimbabwe. In addition, the following countries have reported the H5N1 strain: Bangladesh, Cameroon, Cambodia, Côte d’Ivoire, India, Malaysia, Nepal, Niger, Nigeria, Vietnam and Zimbabwe. China has also reported H5N6, H5N2 and H7N9. Chinese Taipei lays claim to H5N6, along with Greece, Japan and Myanmar; with the Greek outbreak being the only European occurrence of this strain. The H5N5 strain has been reported in Italy, Germany, Serbia and the Czech Republic in 2017. Mexico reported H7N3 in May. It looks certain that avian influenza will once again play a huge role in world poultry markets through much of this year.

### ***Hen welfare***

The World Animal Health Organisation (OIE) is presently drawing up guidelines on International Laying Hen Housing Systems, as part of its complete Code for Terrestrial Animals. Laying hens are currently the only sector not covered by the OIE welfare codes of practice. The International Egg Commission (IEC) is working with the OIE in the drafting of this new code. The IEC’s position and response is being co-ordinated by the Animal Welfare Working Group which includes Kevin Lovell, the SAPA CEO, along with representatives from Canada, the US, the UK, Colombia, the Netherlands and India. A first draft is under discussion and is expected to be reviewed by the Code Commission of the OIE in September this year. The WTO likes trade measures to be based on science and to be harmonised with intergovernmental standards – to facilitate safe trade and to avoid unnecessary trade barriers (OIE). The OIE standards are the only global, science-based welfare standards agreed to by the trading nations of the world.

Australia is in the process of revising its Animal Welfare Standards and Guidelines for Poultry, which should lead to consistent legislation across territories. Draft guidelines were expected to be published for public consultation in 2017 but the process was delayed when the Agriculture Minister in Victoria promised an independent scientific review of the draft guidelines. The promise was made in response to pressure from the RSPCA which is challenging the guidelines, arguing that any document that does not include a legislated phase-out period for battery cages (as has happened in the EU, Canada and New Zealand) cannot be said to be based on community expectations (Sydney Morning Herald). The Victorian Minister has since back-tracked and reduced the scope of the review, after reaction from other territories, and the RSPCA remains unhappy with the guidelines as they stand. 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.

In contrast, the New Zealand egg industry seems better positioned to embrace future trends in egg production than its Antipodean neighbours. Under the terms of the New Zealand Government's "Animal Welfare (Layer Hens) Code of Welfare 2012", battery cages will be banned in the country from December 2022, in favour of larger colony cages or barn or free-range systems. The supermarket chain Countdown (a Woolworth's subsidiary) has been working with suppliers for two years to plan the transition to selling only eggs from cage-free hens in its stores by 2025. The store's own-brand eggs will be cage-free by 2022. Countdown's rival, Foodstuffs, has not used caged eggs for one of its own-brand egg lines for over 10-years and will also move away from battery-caged production on all other lines by 2022; and to cage-free production by 2025. The New Zealand industry is currently dealing with the fall-out from a scandal involving a free-range producer buying in eggs from caged-hen producers and marketing these eggs as free-range. The Serious Fraud Office has been investigating Palace Poultry for hoodwinking a number of its large customers. The Egg Producers' Federation is looking at egg-stamping at source, with a unique traceable code, in order to protect consumers who choose to pay a premium for free-range eggs and need to be able to trust that this is what they are purchasing. The Federation has reacted angrily to one rogue producer tarnishing an entire industry's reputation and is taking steps to prevent a reoccurrence of this type of fraud.

New Zealand producers are benefitting from the kind of relationship with retailers which is necessary for cage-free pledges to work: one in which buyers agree to purchase cage-free eggs if producers will commit to change their production systems, in line with consumer demands. There seems to have been less forethought and co-operation in the US, where up to 70 % of the country's egg purchasers have now signed up to make the transition to cage-free production, without interim purchasing agreements in place with their suppliers. Welfare activists and producers in South Africa and Australia would be well-advised to join forces in putting pressure on supermarkets, fast food chains and food service corporations to enter into serviceable agreements and programmes to provide the necessary incentive and financial security for producers to make costly changes to their production systems.

In India, calls for cage-free production are increasing. McDonalds is coming under pressure from Bharatiya Janata (BJP) Members of Parliament to source eggs in its Indian stores from cage-free suppliers. The Law Commission of India has drafted "The Prevention of Cruelty to Animals (Egg Laying Hens) Rules, 2017" and a similar code for broiler chickens. The legislation has been submitted for consideration by government, and the Animal Welfare Board of India (AWBI) will be watching to see whether implementation of the rules is any more successful than it has been in the past. Last year, the AWBI applied to the Supreme Court of India to have the government explain why the existing rules have not been implemented.

Animal welfare in China? As unlikely as this may seem, the UK's RSPCA is about to embark on a programme of long-term support to advance the welfare of farm animals in China. The work will be funded by a US organisation, the Open Philanthropy Group. China is home to half the world's pigs and a third of its poultry. The initial two-year programme will introduce the RSPCA's

codes of practice for farm animal welfare, along with related assurance schemes (farmingUK.com). China has experienced repeated food safety scares and scandals in recent years and there is a growing enthusiasm in government and amongst consumers for welfare, food assurance and labelling to improve. David Hughes, a welfare expert from the Imperial College, London has said that animal welfare is not a concept which is understood in China. He argued that any concern for animals in China is likely to be a concern over food safety; but this concern, whatever its root, can be successfully channelled into improving farm animal welfare in China's huge populations of poultry and pigs (farmingUK.com).

### **Salmonella outbreaks**

There has been an on-going outbreak of *Salmonella enteritidis* across European countries since 2016. Between May 2016 and June 2017, fourteen EU nations reported 280 confirmed cases of the poultry-borne salmonella, with almost as many suspected cases – and two deaths. There had been hope that the outbreak, linked to eggs from three packaging plants in Poland, was easing in early 2017. However, there have been 63 confirmed cases since March and 47 of these have been in the UK (foodqualitynews.com).

In the US, a father and son have been sentenced to three months in jail after being held personally liable for an outbreak of *Salmonella enteritidis* caused by contaminated eggs from their Iowa-based company, Quality Egg. It is estimated that 56 000 people were affected by the 2010 outbreak and 550 million eggs were recalled. This is a prosecution and sentencing that has sent shockwaves through the corporate world as it is unusual for executives to be held personally liable for the marketing of unsafe food. The jail term and a \$6.8 million fine for Quality Egg have been handed down as deterrents against selling contaminated food.

### **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 8.749 billion dozen; the highest on record.

After the 2015 avian influenza outbreaks, US egg facilities are now restocked and a glut in production has crashed prices. Overall food inflation is running at 2 %, whereas egg prices are expected to deflate by 6 % (USDA). Low feed prices are helping to sustain the price drop, and summer is traditionally a time of lower consumption in the US, with less hot breakfasts served. It is estimated that the number of laying hens would have to drop by up to 8 million birds in order for supply and demand to realign (Buzzfeed.com) and some commentators feel this reduction is now being achieved. Predicted annual egg prices for 2016 and 2017 remain subdued at 85.7 and 83 – 86 c/dozen, respectively (Grade A, New York); in comparison with 2015 prices (181.8 c/dozen average; USDA WASDE). Urner Barry's prices for Midwest eggs average 91.3 c/dozen for 2016. This is the first time the annual average has been below the \$1 mark since 2006. Prices in June 2017 are at their lowest in over a decade. Private operators who have moved to cage-free production are currently operating at a loss, and this situation is unlikely to improve until purchasers begin to honour the pledges made to convert to cage-free supply. The industry

is finding itself in a quandary. Does it reduce pullet placements to control the glut in production, or increase cage-free supply in order to service the pledges made by big corporations?

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 302.8 million dozen in 2017 (still 20 % below 2014 levels and a 6.8 % decrease on the 2017 forecast made in February). 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 53.2 million dozen. 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 marginally to 274.9 in 2017 (WASDE). Before the AI outbreaks, per capita egg consumption was 267 (in 2014).

Egg consumption in the UK is soaring. The British ate 7.1 % more eggs between 2014 and 2016. Egg consumption in the UK is at the highest level since the late 1980's, with per capita consumption estimated at 193 eggs per person per year in 2016 (egginfo.co.uk). 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, the farm gate price increased to 70.7 p/dozen and has averaged 70.9 p/dozen in 1Q 2017. The firming in prices may be temporary as the UK expected a shortage in free range eggs from March because, under EU rules, eggs from birds housed indoors for more than 12 weeks cannot be classified as free range. DEFRA avian influenza measures forced free range producers to keep their birds housed through the UK winter – but these birds have now been released. The UK packed 7.4 million cases of eggs in 1Q 2017; up 2.2 % 4Q 2016 production and up 2.8 % on 1Q 2016 levels.

Retailers and producers in the UK are tackling the transition to cage-free production as a partnership. In recent ADAS research, all the big retailers (Tesco, Aldi, Lidl, Sainsbury's, Morrisons, etc.) have agreed that the 2025 transition date will not be brought forward, because a number of producers are still paying for enriched-cages and the approach to the transition still needs to be negotiated between producers and retailers. Retailers expect the demand for 'value' eggs to continue beyond the 2025 cage-free resolutions. They foresee that barn-reared hens will provide these value eggs. Some market growth in free range production is still expected in the interim, but barn-egg production is more likely to increase from its current base of 2 % of the UK market. Eggs from enriched colonies are dropping continually in the UK mix: to around 30 – 40 % of total UK production at the moment. Even before the corporate cage-free pledges gained traction in 2016, free-range production accounted for 50 % of the UK egg market. The transition to cage-free production in the UK will be very much easier than in the US.

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 forecast to reach 6.79 billion dozen in 2017 (+ 0.58 %) but forecast production for the EU in the period January to August 2017 is currently 6.1 % below production in the first eight months of 2016.

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 has decreased steadily since then to €117.7/100 kg

in mid-June (week 26). This price is 10.8 % higher than the same week in 2016 but remains 7.3 % below the re-based average price for 2012 – 2016. 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 1H 2017 is 6.3 % below the rebased average price for 2012 – 2016. The recent drop in prices since 1Q 2017 probably reflects an easing of supply as HPAI disruptions lessen. The year-on-year price increase is due to strong demand.

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 four months of 2017, 3 204 tonnes of egg equivalent were imported from the US into the EU, compared to 403 t in the same period in 2016. The US accounts for 71.5 % of egg imports into the EU in 2017 YTD (April). The big losers in the face of these US imports are the Ukraine, India and Argentina. 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.

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 81 000 t exports: 4 000 t imports between January and April 2017. In 2016, EU egg exports to third parties decreased by 12 % and exports in the first four months of the year are 0.8 % below exports in the same period in 2016. Increased exports to Japan (+ 115 %) and the UAE (+ 9 %) balanced lower exports to Switzerland (- 4 %) and Israel (- 41 %). In 2015, the EU exported 49 557 t of eggs to the US (from an almost zero base in 2014) because of the effect of AI on local egg production, but these exports shrank to 18 923 t in 2016.

### ***Agricultural facts and figures on Twitter***

If you haven't come across Wandile Sihlobo yet, follow his Twitter feed for lots of interesting facts and figures relating to agriculture (twitter.com/WandileSihlobo). If you want to know dam levels, agricultural production, unemployment data, land usage, etc., this is the site to visit. You don't need to be a registered Twitter user to read his tweets on the Internet – just use the link above. Wandile is an agricultural economist and Head of Agribusiness Research at the Agricultural Business Chamber (AgBiz). He is also a columnist for Business Day and Farmer's Weekly and has a refreshingly objective and data-centred approach to agricultural issues. Here's a link to a recent article on land redistribution: [www.businesslive.co.za/bd/opinion/2017-06-06-land-policies-try-to-solve-imaginary-issues-at-expense-of-real-problems/](http://www.businesslive.co.za/bd/opinion/2017-06-06-land-policies-try-to-solve-imaginary-issues-at-expense-of-real-problems/)

## 4.2 The South African economic outlook and egg market

Prospects for South African egg farmers are looking a little brighter in 2017. Good rains in the maize-growing regions of the country will support a bumper harvest this season and with global soybean prices also under pressure, animal feed costs should drop gradually from last year's highs. Egg prices have risen on tighter stocks, as operations repopulate after the perfect storm that was 2016. However, highly pathogenic avian influenza has been reported from commercial poultry farms in Harare, Villiers and Standerton and trading partners are already closing borders. As a country, South Africa has experienced a dramatic start to 2017, with a catastrophic cabinet reshuffle, credit rating downgrades, heightened political tensions, hundreds of thousands of leaked emails, landmark court rulings and the ever-present stench of state capture and corruption. It seems likely that 2017 will be another year of sluggish growth and high unemployment; an environment in which populist rhetoric can be expected to reverberate in the run up to the ruling party's elective conference in December.

In January 2016, South Africa's credit rating sat one notch above "junk status" (BBB-; below-investment grade) after a December 2015 downgrade by the rating agencies Standard & Poor's Global Ratings and Fitch Ratings. A third agency, Moody's, put South Africa, albeit precariously, one notch above the other two agencies. South Africa narrowly avoided downgrades by all three agencies in mid- and late 2016, although the attached negative outlooks effectively put South Africa on warning. Standard and Poor's retained its negative outlook on the BBB- rating but warned again, in late March 2017, that political tensions, policy issues and weak growth could hamper economic reform and undermine investor confidence. The warning fell on deaf ears in the Presidency. On 31 March, South Africans woke up to find that the hugely respected Finance Minister, Pravin Gordhan, and his equally competent deputy, Jonas Mcebisi, had been replaced in a cabinet reshuffle. The rand and markets went into free-fall in the days and weeks that followed. Unlike other credit rating agencies, Standard and Poor's are not constrained to six-monthly reviews and moved quickly to downgrade South Africa's sovereign credit rating to below-investment level ("junk status") at an emergency review meeting on 3 April. Fitch Ratings announced a similar downgrade on both foreign and local debt at their scheduled meeting on 7 April. At their regular June meeting, Moody's did as expected and cut South Africa's credit rating by one notch to BAA3 and assigned a negative outlook – the BAA3 level is just one notch above junk status. A few days later, Moody's downgraded the country's top five banks to the same BAA3 level. The downgrades will almost certainly increase South Africa's debt-servicing costs, and cause international funds, which may be prohibited from holding sub-investment grade securities, to sell South African bonds. The increase in cost of servicing foreign debt will channel government funds from service delivery, hitting the poorest of the poor hardest. Tax increases may be inevitable to refill coffers but will serve to drive skilled professionals out of the country.

As June draws to a close, the markets are suffering jitters yet again – this time in response to the remedial action prescribed by the Public Protector in the matter of an apartheid-era bailout of a bank, later bought by ABSA. The remedial action seeks to change the mandate of the Reserve Bank, to do away with inflation-targeting, and the Governor of the Reserve Bank, Lesetja Kganyago, has filed papers in the North Gauteng High Court, taking the report on

review, and highlighting the catastrophic effects of further credit downgrades if the report is allowed to stand. In the Reserve Bank affidavit, the Governor warns that if either Moody's or S&P Global were to downgrade the country's local currency rating further, it 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. It's the stuff of nightmares.

The rand's performance through 2016 was a series of peaks and troughs (caused by internal and external political events), the severity of which reduced as the year progressed. Between January 1 and December 15 2016, the rand appreciated by 9 % from post-Nenegate levels of over R16 to the dollar. However, the rand's value at the end of 2016 was still 22 % below its value on 1 January 2015 (R11.56 to the dollar). Through the first three months of 2017, the rand strengthened by 10.6 % over the December 31 2016 level; breaking the R13-level in mid-February and closing at R12.43 to the dollar on 26 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). The rand regained 9.4 % between 10 April and mid-June, to close at R12.71 : \$1 (still 2.2 % below the March 26 level) but the recovery in the rand in recent weeks has been anything but steady. The currency has regularly been hit by internal and external political and economic events, such as the credit rating agency downgrades; the US Federal Reserve policy announcement; the country's slide into recession; Minister Zwane's introduction of the new Mining Charter, etc. The rand had been riding these dramas thanks to recent favourable sentiment towards emerging markets and rising commodity markets - but following the Public Protector's report on the Bankorp bailout, it depreciated by 2.05 % (SARB). The local currency is also expected to lose up to 5 % against the dollar in the lead up to the ANC's elective conference in December (Moneyweb.co.za).

On 14 June, the US Federal Reserve raised interest rates for the second time in 2017 (following a 0.25 % increase in March) and only the fourth time in ten years. The 0.25 % increase was widely expected and will not be the last this year. The US Reserve Bank Governor has signalled one further hike ahead in 2017. Emerging markets with high dollar-delimited debt now face increased costs in servicing this borrowing but, as with the March increase in the US lending rate, South African markets had largely factored in the increase and the rand held steady after the announcement.

In mid-May, the International Monetary Fund revised its growth estimate for the South African economy upwards to 1.0 % for 2017, in light of some recovery in the agriculture and mining sectors. It cautioned that policy uncertainty poses a downside risk and advised that reform of the country's state-owned enterprises and service and labour markets is needed to encourage investor confidence. The Treasury had been more optimistic in its forecast for 2017, but has now revised its estimate of 1.3 % down to 1.0 %, in line with IMF predictions. Growth in 2018 is expected to be 1.5 % (SARB; down from earlier 1.8 %). Both institutions may be proved overly optimistic as South Africa crashed into recession in the first quarter of the year; the first period of recession since 2009. In the 4Q 2016, the economy contracted by 0.3 %, followed by a further q-on-q contraction of 0.7 % in the 1Q 2017. The mining sector shrank by 11.5 % in the

4Q but recovered to grow by 12.8 % in the 1Q 2017. It was a happier story for agriculture too, which rebounded to grow by 22.2 % q-on-q, after eight consecutive quarters of contraction. In the secondary sector, manufacturing contracted by 3.7 % and was one of the largest contributors to the overall contraction, along with trade, catering and accommodation which shrank by 5.9 %. Construction shrank by 1.3 %. The tertiary sector, which includes finance, transport and personal services, contracted for the first time since the 2009 recession in the first quarter of 2017.

In May, the IMF again adjusted its 2016 estimate for weighted average growth in sub-Saharan countries to 1.4 %, down from 5 % in 2014 and 3.4 % in 2015. Two-thirds of the countries in the region experienced slower growth. Growth in sub-Saharan Africa is forecast to average 2.6 % in 2017; 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. The Fund continues to paint a picture of multispeed growth in the region, and it is clear that non-resource economies are experiencing higher growth rates than those dependent on the commodity markets. Five countries experienced growth in excess of 6 % in 2016: Tanzania, Kenya, Côte d'Ivoire, Ethiopia and Senegal. Many sub-Saharan African countries have been slow or indecisive in adapting fiscal policy to cope with lower prices for exported resources. The IMF has advised the bloc that improved growth can be achieved with careful changes to monetary policy. Ethiopia is expected to record growth in excess of 8 % in 2017 and even Zimbabwe will grow by 2.3 %. The 2017 IMF forecast for sub-Saharan Africa has been revised downwards to 3.2 %; from 3.8 %. Globally, the IMF forecasts growth of 3.5. % for 2017 and 3.6 % for 2018.

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 had shown steady recovery since October (93.0), reaching 97.7 in January 2017. Since then, the confidence index has slipped back, reaching 94.9 in April and crashing further to 93.2 in May. Business confidence has been impacted by heightened political tensions, credit rating downgrades and economic policy uncertainty sparked by the March 2017 cabinet reshuffle. The index is however higher than the 91.8 recorded in May 2016, because of lower consumer inflation rates and a stronger currency.

The Merchantec CEO Confidence Index, which had climbed steadily to the 50-index point neutral level through the 2Q and 3Q 2016, declined again in the 4Q to 47.9 points. In the 1Q 2017, the index rose by 7.2 % to 51.4, slightly above the neutral level of 50. All six sectors measured shared this positive sentiment, especially CEOs in the basic resources and industrials sector but, of course, this survey was conducted before the events of March 26.

The FNB/BER Consumer Confidence Index dropped back to -10 in 4Q 2016, from -3 in the 3Q; pounded by soaring food prices and constrained consumer spending. The 1Q 2017 index was due for release in April 2017, but this has been delayed to the end of June. The index will undoubtedly remain below the long term average of +4; despite an easing in food inflation in the first quarter. A delay in publishing confidence indexes also seems to be affecting the Nielsen Consumer Confidence, with no data available yet for 1Q 2017. In 4Q 2016, this index recorded

a big downswing in confidence, decreasing from 87 to 77 index points. Globally, consumer confidence increased by 2 index points between 3Q and 4Q 2016 and, at 101, was above the optimistic baseline of 100 (Nielsen CCI Report). Five of the top ten world economies posted optimistic scores, exceeding 100: the US, Germany, the UK, China and India. Other markets reaching or exceeding the optimistic benchmark of 100 basis points in the 4Q 2016 were the Philippines, Ireland, New Zealand, Indonesia, Denmark, Thailand, Czechoslovakia, Pakistan, Switzerland, Vietnam and the United Arab Emirates. Going into 2017, all regions except for Africa/Middle East were reporting a general upswing in consumer confidence.

The unemployment rate in the 1Q 2017 increased from 26.5 % in the previous quarter to 27.7 %. The 1Q rate is the highest since 2003. The expanded unemployment rate, which includes discouraged work-seekers, was slightly lower, q-on-q, at 36.4 %. The unemployment rate has not dropped below 21.5 % in the last 15 years.

Inflation averaged 4.6 % in 2015 and 6.4 % in 2016 (Stats SA). Inflation is expected to average 5.7 % in 2017 (from earlier 6.2 %) and 5.3 % in 2018 (SARB). South Africa's headline inflation breached the upper end of the Reserve Bank's target range (6 %) in January 2016 and did not return to the target range until August (5.9 %). This return was short-lived, with the inflation rate increasing to 6.8 % in December. In January, February, March and April, inflation was recorded at 6.6, 6.3, 6.1 and 5.3 %, respectively. It is now expected to remain within the target range (below 6 %) for the forecast period (SARB).

Food price inflation rose from 5.9 % in December 2015 to 11.7 % in December 2016 (SARB). In April 2017, food price inflation surprised at 6.7 %, compared to 11.4 % in January, 9.9 % in February and 8.7 % in March (NAMC). In April, year-on-year price inflation for bread was 6.4 %; maize meal 2.6 %; fats and oils 3.3 %; milk 6 %; eggs 4.7 % and rice 4.9 %. April's inflation in the price of vegetables and fruit moderated to -21.3 % and -0.9 %, 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 April 2016 because of changes to the measured basket (NAMC), but it is clear that price inflation in IQF portions is minus 0.2 % year-on-year.

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 rose again to 174.6 in January and 175.5 in February 2017, before moderating through March and April to 172.6 in May. The meat price index has risen from 145.2 in January 2016 to 171.7 in May 2017; compared to 168.1 in 2015. In this index, poultry prices have remained stable. Cereal prices averaged 162.4 in 2015, dropped to 146.9 in 2016, and reached 148.1 in May 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 50 basis points in January 2016, to 6.75 %, and by a further 0.25 % to 7.0 % in March 2016. The Reserve Bank steered away from increasing interest rates through the rest of 2016 and in January, March and May 2017,



because the domestic growth outlook is constrained and consumers are under pressure. At the Monetary Policy Committee meetings in May 2017, the Committee affirmed that the current hiking cycle is at an end and suggested that interest rates could be reduced if a sustained improvement in the inflation rate is witnessed. At the March meeting, SARB governor Lesetja Kganyago warned that domestic political developments are affecting exchange rate uncertainty and, in turn, increasing risks to the inflation outlook. Interest rate cuts may be taken off the table if the political turmoil continues.

In a November 2016 deal, OPEC and non-OPEC oil producing nations pledged to reduce output by 1.2 million barrels per day from January 2017, to bring down the glut of 300 million barrels of oil currently in global supply. Despite this agreement, and its recent nine month extension, the oil price is once again pulled down by persistent concerns over oversupply; hitting six-month lows in mid-June. In January, the World Bank offered a forecast for the 2017 crude oil price of \$55 a barrel, which would have represented a 28 % increase on the 2016 average of \$43 a barrel. However, surging supplies and exports from US shale oil producers have forced prices down around the \$45 a barrel level. Producers from the US, Canada, Mexico, Nigeria, Libya and Kazakhstan have all upped production this year - and tensions between Qatar and its neighbours in the Middle East (which might threaten the self-imposed quotas agreed to in November 2016) have also contributed to the glut in supply. As recently as April, the World Bank held steady on an average crude oil forecast price of \$55 a barrel for 2017, despite the 1Q 2017 price averaging \$52.9/barrel. Some commentators now feel that prices are unlikely to exceed \$50/barrel in the foreseeable future.

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 30c/litre increase in the fuel levy on April 1 but, the Central Energy fund announced an average decrease of 23 c a litre in the price of diesel in early June and an average decrease of 25 c in petrol prices. By June 7, petrol prices were on average 1.8 % higher than in January 2017, but 10 % higher than in January 2016. Diesel prices in June are, on average, 1.5 % higher than in January 2017, but 15 % higher than in January 2016. Prices are expected to drop again in July, by up to 60 c a litre on diesel and 68 c a litre on 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.

A more reliable electrical supply has been experienced over the past two years, reducing the need for producers to install expensive alternatives in their operations. 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.

In this difficult economic climate, the South African egg industry should still enjoy a more profitable year, but on-going challenges include:

- Continued drought in some regions of the country and an uncertain rainy season ahead*
- Reduced consumer spending and high food prices 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*

Wetter and cooler conditions were experienced over much of the summer rainfall areas of the country as the drought finally began to break. By the beginning of March, several dams had overflowed: the Vaal (103 %); Grootdraai (103 %) and Spitskop (126 %). The Gariiep Dam also overflowed in early April, but was at 88.6 % in late May. Towns in the Free State and Eastern Cape are still being warned to use water sparingly and the situation in the Western Cape remains dire. An unusually warm autumn took Cape Town's dams down to 11 % in mid-May, and the Premier declared the Western Cape a disaster area. The huge storm experienced at the beginning of June raised dams by no more than 2 % and officials have warned that three winters of above-average rainfall will be needed to alleviate the current water shortage. Dams in Mpumalanga and Swaziland received good rains, but many are still not full and some remain below last year's levels. The uMngeni catchment area in KwaZulu-Natal is clearly under pressure and restrictions still apply in Durban and surrounding urban areas. On 2 June, Midmar Dam stood at 81 %, Albert Falls at 34 % and Inanda at 68 %. In its May 2017 *Seasonal Climate Watch* briefing, SAWS indicated the possibility of higher than average rainfall in the south west of the country through the winter months, but attached a low confidence level to this forecast. In addition, it warned of the possibility of a new El Niño event developing in the spring/summer months but, again, the accuracy of the summer forecast is still low and, by the end of May, SAWS reported that the risk was diminishing. It is, however, a forecast the whole country should be watching carefully, so that appropriate plans are put in place to deal with the possibility of another season of below-average rainfall which might result if El Niño returns.

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 15.63 million tonnes (Crops Estimate Committee). South Africa will regain its status as a net exporter of maize this year, and is expected to export in excess of 3 million tonnes; the largest volume in two decades. These volumes, however, are keeping maize prices low for local farmers and with good crops in Zambia and Malawi and restrictions on genetically modified crops in several East African economies, African export markets are scarce. Producers will be looking to Asian markets to take their maize and, with prices currently at or below the cost of production, plantings may well decrease in the coming season in favour of more lucrative crops such as soybean. The white maize crop has been estimated at 9.47 m

tonnes (+ 178 % over 2016 crop: 3.41 million tonnes) and the yellow maize crop at 6.16 million tonnes (+ 41 % over 2016 crop: 4.37 million tonnes).

A total of 646 882 t of white maize and 1 592 671 t of yellow maize were imported for use in South Africa between 30 April 2016 and 27 April 2017 (SAGIS); the total exceeding 2.2 million tonnes. Exports totalled almost 928 000 tonnes, making South Africa a net importer of almost 1.33 million tonnes of maize.

On June 19, maize futures for July delivery of white and yellow maize were set at R1 743/t and R1 871/t, respectively. Maize futures for September delivery were set at R1 802/t and R1 922/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 July and September delivery, had moderated to R4 585 and R 4 665/tonne respectively, as of 19 June. Soya prices had reached R 6 520/t in mid-January. Bumper US and South American harvests and the possibility of weakening demand in China are expected to put downward pressure on soybean prices in 2017.

Local demand for eggs remains disappointingly low (141 eggs per person per annum (2016)), despite changing views on cholesterol and the increasing popularity of high protein/high fat diets which has fuelled a resurgence in the consumption of eggs elsewhere in the world. The Mexicans eat a staggering 357 per person per year (IEC). The UK has increased egg consumption by over 7 % in two years by making use of social media and the pull of celebrity endorsements. Social media is undoubtedly a powerful tool in influencing consumer behaviour and a growing number of free range farmers in the UK are using Twitter and Facebook accounts to advertise and reassure their customers. South African producers should be spending time trawling through and researching these sites – there are probably some very useful tricks out there to increase consumption and acceptance of eggs. Here's links to some of them:

<https://twitter.com/iantayloreggman>  
<https://twitter.com/lovefreerange?lang=en>  
<https://twitter.com/tradeggco?lang=en>  
<https://twitter.com/egginnovations?lang=en>

And, if you think selling eggs in Africa is tough, have a read of this article on the hoops US egg advertisers have had to jump through to satisfy the USFDA on the wording used in campaigns.

<https://www.viva.org.uk/egg-advertising-it-cracks-you>

Here's a link to an interesting article on food bloggers visiting a poultry farm, housing laying hens in enriched colony cages. It harks back to what Professor Temple Grandin wrote about producers needing to ask themselves whether they could explain their production system to ten random people in an airport lounge and have this audience be comfortable with what is being explained. This Canadian producer was social-media ready and was able to open up his farm to ten influential food bloggers and survive their commentary online. Is your farm social media-ready? Could you invite ten random members of the public to visit your facilities and send them away convinced? It's food for thought.

<http://www.eggfarmers.ca/2016/09/the-6-lessons-these-food-bloggers-learned-on-an-egg-farm/>