



Rabobank

Poultry Quarterly Q1 2022

Outlook 2022: Markets Bullish on Demand Recovery and Challenging Supply

RaboResearch

Food & Agribusiness
far.rabobank.com

Published by the
Global Animal
Protein Sector Team

Lead author

[Nan-Dirk Mulder](#)

Senior Analyst – Animal
Protein
+31 30 712 3822

Contents

Outlook 2022: Improving Demand, Challenging Supply	2	Russia	7
US	5	South Africa	7
Mexico	5	India	8
Brazil	6	China	8
Europe	6	Japan	9
		Thailand	9

Global poultry markets are expected to be strong in 2022, on the back of reopening economies, increasing vaccination levels, and stronger economic conditions. This improving global market context will be a bumpy road, though, with ups and downs following Covid-19 developments. The industry will need to be ready to adjust sales channels in response to government measures. The operational side will also see challenges, as feed and other input costs, like freight and energy, are expected to stay high. The availability and cost of labor has become a big issue in many countries, restricting production in some markets. Logistics has become more complex, on limited reefer availability and high costs. High steel costs, expensive labor, and worries about higher interest rates are slowing greenfield investment and will reduce supply growth. The combination of stronger demand and these supply challenges will create an environment of stronger prices, which will push producers to focus on yields, procurement, and efficiency in the value chain to reduce feed and labor use. It will also lead to new food security efforts to reduce inflation and keep poultry affordable, especially in emerging markets.

Global poultry demand will be strong, with global growth expected to reach 2%, despite the restrictions caused by supply challenges. Wet markets have been more limited due to Covid-19 but will remain important, with modern distribution rising in importance.

Input costs are expected to stay high in 2022, with ongoing elevated and volatile feed prices and high labor, logistics, energy, and construction costs. Access to finance and operational efficiency will be key success factors to manage higher costs.

Supply growth in 2H 2021 has been restricted by high costs, avian influenza and other disease concerns, reduced capacity, and limited availability of inputs like genetics and feed additives.

Global trade will be strong but volatile given the context of relatively tight supply and ongoing Covid-19-related disruptions, avian influenza cases, and African swine fever recovery.

Global chicken monitor* Q1 2020-Q4 2021

Whole chicken



Breast meat



Leg quarters



* Chicken price trend for cuts entering global trade

Outlook for 2022: Strong demand and rising supply challenges

US: Strong profitability

- Production up 2.4%, other proteins tightening
- Ongoing strong retail/foodservice demand
- Solid export position, lower China trade



Brazil: Improving on stronger export demand

- Weaker domestic market, more beef supply
- Bullish global markets to support Brazilian exports
- Good crop harvest expected



Europe: Stronger prices, tight supply

- Strong demand, with Covid-19 market worries
- Supply growth to stay restricted in the EU and UK
- Avian influenza, high costs, labor challenges



China: Ongoing oversupply and Covid worries

- Industry performing below breakeven
- Covid-19 has hit poultry demand strongly
- Pressure to reduce supply in recovering ASF context



Outlook 2022: Improving Demand, Challenging Supply

The outlook for the global poultry industry in 2022 is positive, driven by improving demand and restricted supply growth. Faster-growing and more open economies will be a key driver of the demand recovery. The International Monetary Fund's (IMF) October 2021 World Economic Outlook is optimistic, with global GDP growth reaching 5.9% in 2021 (which is above expectations) and 4.9% growth forecasted for 2022. Higher vaccination levels, including more booster vaccines, should allow governments to gradually reopen economies, although we expect ups and downs as Covid-19 is expected to linger throughout 2022, but with fewer Covid-19-related disruptions.

Bumpy Demand Recovery With Ongoing Covid Impact

From an industry perspective, this will mean a further improvement in worldwide poultry demand – we foresee an average global growth of 2% for poultry meat in 2022.

A big challenge for producers in 2022 will be managing volatility in demand (with shifts in channels depending on local Covid-19 restrictions) in a context of supply chain challenges. There is some downward pressure on wet markets, given restrictions on people's movements during Covid-19 waves. Some cities, for example in China, have permanently closed wet markets in urban areas. This will mean an ongoing shift from an informal to a more formal chain and more processed meat demand. At the same time, we see fast growth in online food distribution and home delivery in many markets.

Managing Supply Will Be a Key Challenge in 2022

From a supply chain perspective, we expect ongoing high feed costs and feed additive prices in 2022. Rabobank expects a 5% increase in feed commodity costs [in 1H 2022](#). Furthermore, ongoing high logistical and energy costs, avian influenza (AI) pressure in Europe, Asia, and Africa, and tight global labor availability and costs will be challenges for poultry production. From a producer perspective, it will mean operating with flexible supply chains and with a strong emphasis on cost reductions and efficiency.

Limited labor availability is increasingly restricting poultry expansion. In some markets, like Thailand and the UK, the lack of labor has pushed the industry to (temporarily) reduce production. The US and EU industries have also

been affected by low labor availability. Reasons for this issue include immigrant workers not returning to plants after lockdowns and government regulations. Tight labor availability is an additional factor that will limit production growth and has become a wake-up call for the industry, which has depended too heavily on immigrant workers. In response, companies are expected to invest increasingly in labor-saving technology.

These operational challenges are already restricting production in many markets. They have also impacted production of inputs for the whole supply chain, leading to limited availability and/or high prices for inputs like fertilizer, feed additives, and genetics/breeding stock. This situation is further impacted by a difficult logistics context, with organizing shipments made more difficult by limited container availability and high transport prices. Some production facilities, especially for inputs in China, have reduced capacity, while others have been affected by high energy prices.

Changing demand caused by lockdowns has pushed several small and mid-sized players out of production, especially in emerging markets. Some will return as markets recover, but many will exit permanently because they have found other income sources or have lost sales outlets as informal markets decline and production standards increase.

It can be expected that this context will keep production in the value chain, from grains to feed to meat, relatively low. It will impact grain & oilseed production (high fertilizer prices, logistical challenges), as well as poultry production (high feed prices, limited availability of genetics, logistical challenges, high input costs). Furthermore, high steel prices, interest rate concerns, and labor costs will push down new greenfield expansion on farms and in processing capacity.

Given improving macroeconomics and rising poultry demand, the restricted supply and high input costs will, in our view, lead to relatively high global poultry prices until well into 2022 in most regions.

In response, producers will look to step up investments in new capacity, although these will be slow due to high costs and uncertain market conditions. Producers will, therefore, focus on upgrading existing facilities to increase productivity.

Global Poultry in Q4 2021: Becoming Bullish

The relatively bullish climate in global poultry markets has already been seen in many regions at the end of 2021 (*see Figure 1*). Markets are now bullish in the US, the EU, Russia, countries in South America, parts of

Africa, Pakistan, Bangladesh, and Japan, which have all seen strong conditions with rising prices (see Table 1).

Countries in Southeast Asia, like Vietnam, Malaysia, and Indonesia, have gone through a Delta variant wave in 2H 2021, with strict lockdowns and very low poultry prices. These markets are reopening and will be facing increasingly short supply conditions.

China and some export-driven countries, like Ukraine, Thailand, and Brazil, are exceptions.

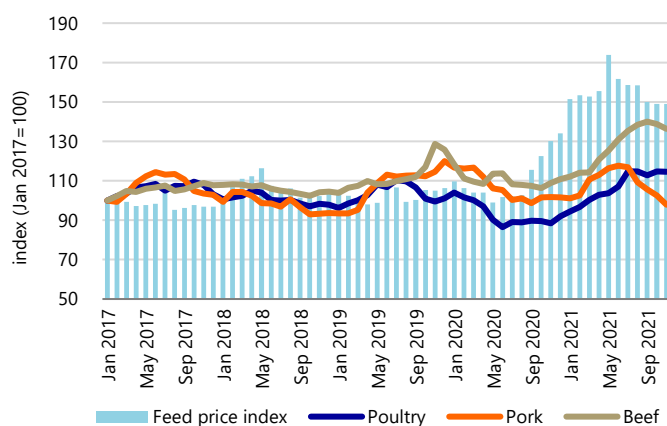
In China's case, the industry is currently performing below breakeven levels. Although falling pork prices were the main reason for low chicken prices in China in Q2 and Q3 2021, a recent increase in pork prices has not translated to higher chicken and DOC prices. Key for the current context are restaurant and catering closures resulting from China's zero-tolerance Covid-19 strategy, which affects white feathered broilers most, as these

foodservice channels are significant outlets for white feathered broilers. The expected increase in China's meat supply in 2022 will not support an improvement for poultry markets and will impact import levels and prices for companies that depend on trade with China.

Improving Global Trade, Challenges in Processed Markets

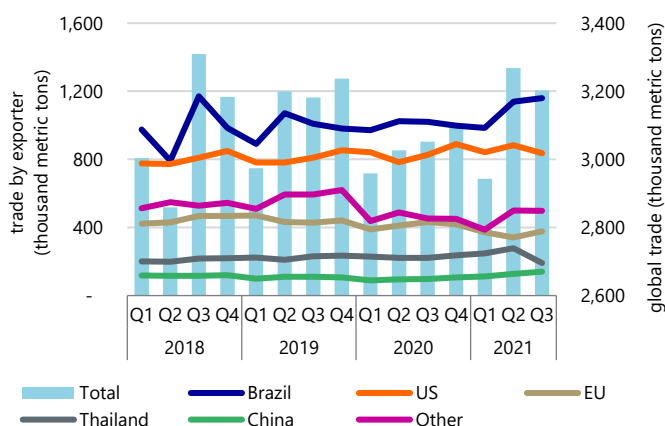
Global poultry trade will remain strong in 2022, in line with improved global conditions (see Figure 2). After a record-high trade volume of 3.3m metric tons in Q2 2021, strong global trade continued in Q3 2021, with 3.2m metric tons. US export volumes dropped slightly (5%) compared to Q2 levels, mainly due to weaker exports to China. Brazil slightly increased exports (+2%), while EU exports have been gradually recovering (+10%) due to the (temporary) reopening of exports for several countries, like the Netherlands, Poland, and France. The big change has been Thailand, which had strong exports

Figure 1: Global broiler, beef, and pork prices vs. feed cost monitor, Jan 2017-Nov 2021



Source: Bloomberg, Food and Agriculture Organization of the United Nations, national statistics, Rabobank 2021

Figure 2: Rabobank global poultry trade monitor, Q1 2018-Q3 2021



Source: Bloomberg, national statistics, Rabobank 2021

Table 1: Global live broiler and feed ingredients monitor, Q1 2019-Q4 2021e

		2019				2020				2021				Change	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4e	Q2-Q3	Q3-Q4e
Live broilers USD/kg	EU	1.03	1.04	0.98	0.96	0.96	0.92	1.00	0.94	1.02	1.11	1.13	1.14	+8.4%	+3.2%
	Brazil	0.80	0.90	0.85	0.79	0.72	0.58	0.72	0.81	0.80	0.98	1.14	1.06	+19.8%	+15.7%
	China	1.33	1.45	1.36	1.53	1.03	1.13	1.04	1.09	1.36	1.35	1.22	1.10	-0.7%	+7.6%
Grains & oilseeds	Wheat (USD/bu)	491	477	488	523	550	518	529	602	646	680	698	788	+2.6%	+12.9%
	Corn (USD/bu)	373	390	390	381	375	323	340	417	538	659	560	570	-15.0%	+1.8%
	Soymeal (USD/mt)	309	307	297	301	302	288	301	386	434	400	352	345	-12.0%	-2.0%

Source: Bloomberg, Rabobank 2021

in 1H 2021 (+16%), primarily driven by strong Japanese and Chinese demand, but saw a sharp drop (31%) in Q3 due to Covid-19-related plant closures and labor availability issues. China jumped into this market gap and increased exports significantly in Q3 2021 – exports are already 31% higher than the first three quarters of 2020.

Looking ahead to 2022, we expect further improvements in global markets but with some Covid-19-related volatility in global trade. Furthermore, processed chicken markets will face the greatest challenges, due to the supply situation in Thailand. Although producers in Thailand are currently increasing volumes, they are still struggling to supply labor-intensive poultry products. This will especially hit exports to Japan, the EU, UK, and Singapore. Until Thailand solves the labor issue, this will leave an opportunity for other producers, especially in China but also newcomers like Vietnam and Indonesia, to jump into this market.

Other poultry markets are expected to stay strong. Breast meat prices should stay high and might even increase further, with Europe and Japan as the driving forces.

Chicken dark meat markets might be more volatile but could become a solution for the tight market conditions expected in Asia and Africa. The key wildcard here will be the situation in China, which became a key outlet for these products during the African swine fever (ASF) crisis. China's expected production recovery will push imports further down and necessitate development of other

markets for legs. Chicken paws is a more premium product that is less likely to be impacted by this recovery process (see Table 2).

Feed Prices to Stay High and Volatile

We expect grain & oilseed prices to stay at high levels throughout 2022 (see Table 1). Demand is expected to remain strong and stock levels to stay low for all main crops: wheat, corn, and soybeans. For key food staples, like wheat, exporting countries have increased export taxes to cool domestic prices, while importers have tried to front-load their import programs to keep food inflation under check.

In 2022, it is highly unlikely that food prices will go back to their five-year averages, as commodity prices are now supported by inflation in the general economy, including high shipping costs and energy and fertilizer prices, as well as by labor shortages in many countries. Urea prices almost tripled in the US and might impact fertilizer use, especially in regions with low access to finance.

Prices for corn and soybeans are expected to peak in Q3 2022 and ease slightly thereafter. Wheat, on the other hand, will be relatively tight in 1H 2022 but will cool down slightly in 2H 2022, when new northern hemisphere crops enter the market. On average, we expect prices to stay high during 2022, with ongoing volatility and some changes in the positions of the different commodities during the year.

Table 2: Global whole chicken and chicken cut markets (USD/100kg), Q1 2019-Q4 2021e

		2019				2020				2021				Change	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4e	Q2-Q3	Q3-Q4e
Whole chickens	<i>Brazil wholesale</i>	117.0	120.7	114.3	117.6	98.8	75.3	97.2	112.5	107.8	122.8	149.7	141.6	+21.8%	-5.4%
	<i>EU wholesale</i>	209.3	212.7	210.9	206.4	209.8	199.2	219.5	215.2	228.7	243.8	235.7	234.5	-3.2%	-0.5%
Breast meat	<i>EU import price Brazil</i>	247.3	239.5	228.9	236.2	247.3	217.2	228.9	178.6	173.3	180.9	174.2	224.1	-3.7%	+28.5
	<i>EU import price Thailand</i>	278.7	270.1	242.9	264.2	240.6	245.2	285.6	238.6	228.3	238.1	217.3		-8.7%	
Leg quarters	<i>US leg quarters, northeast</i>	84.2	109.1	104.9	85.5	92.2	79.1	66.7	68.3	88.5	116.5	112.6	101.3	-3.4%	-10.0%
	<i>Japan import price</i>	145.7	162.6	178.6	184.9	170.5	168.7	163.5	166.2	159.2	162.4	181.5		+11.7%	
Feet	<i>China import price</i>	249.8	279.9	307.0	314.0	292.0	243.2	255.4	259.6	256.4	263.1	298.5	300.3	+13.4%	+0.6%
Processed chicken	<i>EU import price Brazil</i>	310.6	316.8	311.8	303.8	281.7	263.3	225.5	200.7	189.7	194.1			-5.5%	

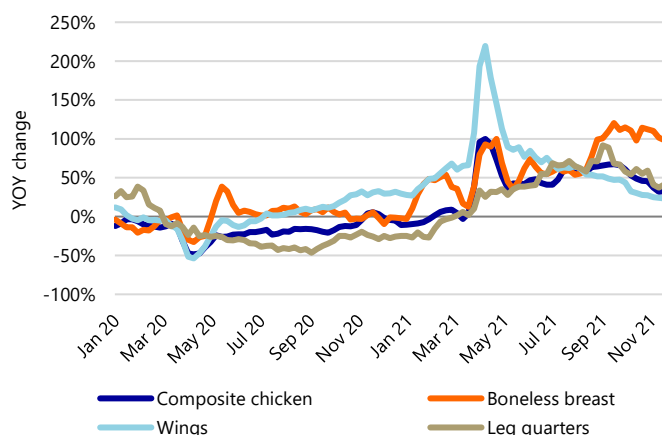
Source: Eurostat, Food and Agriculture Organization of the United Nations, national statistics, UBABEF, USDA, Rabobank 2021

US

We continue to expect a modest 0.2% YOY growth in ready-to-cook chicken production in 2021 but anticipate a rebound to 2.4% YOY in 2022. Our outlook reflects modest expansion in the breeding flock, some improvement in hatchability, and gradual stabilization and growth in weekly chick placements vs. the prior year. The production increase is likely in response to the strong improvement in chicken prices and the outlook for continued demand strength, despite ongoing labor constraints at plants. Good retail support for chicken as a value item in Q4 2021, together with strong foodservice sales, are driving the increase in consumption. Export sales also remain robust, with year-to-date volumes up 1% YOY but export value up 25% vs. a year ago. Despite expectations for modest production growth, we expect prices to remain above historic averages. Our outlook not only reflects the strength in demand, but also lower supplies of competing proteins, chicken's relative value, and tight inventories of chicken in cold storage.

In the near term, we are seeing some counter-seasonal strength in boneless breast meat markets (prices are up 98% YOY, to near-record levels) as demand continues to run ahead of supply (see Figure 3). Chicken remains an attractive retail option and is finding continued support from quick-service promotions. We see no immediate softness, with chicken expected to gain seasonal support in Q1. Wing prices have pulled back on a seasonal buildup in inventory but remain record-high and 23% above a year ago. Export volumes to China are expected to remain low (-3% YOY), but volumes to Mexico, Cuba, and the Philippines will remain strong. Strong pricing is helping offset higher operational costs. At current price projections, producers are expected to remain profitable through 2022.

Figure 3: US broiler prices, Jan 2020-November 2021



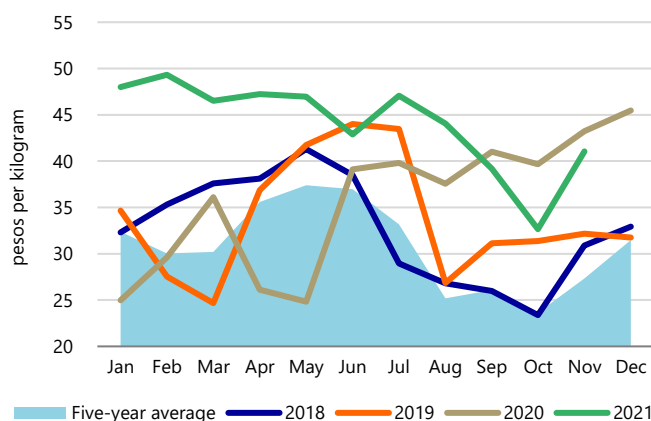
Source: USDA, Rabobank 2021

Mexico

Mexican chicken prices are rebounding, up 43% from their lows (see Figure 4). After maintaining record highs for much of the summer, chicken prices moved closer to seasonal averages in August. The shift lower reflected higher domestic availability and lower-than-expected demand. Demand is relatively stable but has trailed our expectations, as tourism has yet to recover. We are cautious on the outlook given new strains of the coronavirus and the potential for the critical holiday travel season to fall short of expectations. In response to sluggish demand projections and higher corn prices (+35% YOY), the industry is expected to slow production and shift to smaller, whole birds. While we continue to expect steady retail growth, especially given the high cost of competing proteins, we expect foodservice to see more modest growth in the coming year. At current prices, many producers are operating just above breakeven levels and should remain disciplined until markets stabilize.

The 2022 outlook for pricing and production remains tied to a recovery in tourism receipts and is expected to trail historic growth. We are currently forecasting 2% YOY growth. Production growth slowed in September (+2.0% YOY) but increased total pounds in October, putting pressure on prices and resulting in a more meaningful cut to production in recent weeks. We expect Q4 2021 industry growth at 1% to 2%, given the recent shift. Chicken imports are also higher, with the latest reported volume up 15% YOY. Imports from the US (87% of total) are 5.6% higher, while Brazil has grown to 10% of the market and reported a five-fold increase in import sales. We expect some moderation in reported imports over the balance of the year given recent price pressures and our outlook for demand.

Figure 4: Mexican chicken carcass prices, Jan 2018-Nov 2021



Source: GCM, Rabobank 2021

Brazil

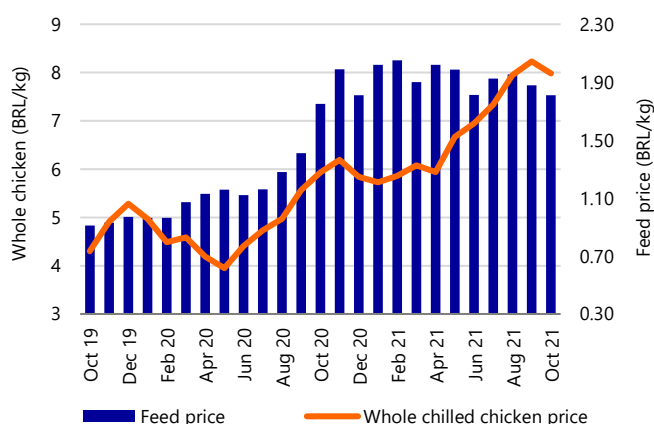
After five consecutive months of increases in chilled chicken prices (see Figure 5), October registered a drop of 3% MOM, due to lower domestic demand, devaluation of grains, and greater price competition from beef. With this, chicken and live broiler prices may have peaked for the year.

In October 2021, exports registered a year-to-date increase of 9% in volume and 24% in value. This strong rise occurred because shipments were above average in September and October, due to sales to the UAE, Japan, and the Philippines. China remains the main destination (representing 15% of total shipments) but has been reducing purchases, which were 3% lower in October, year-to-date. Mexico stands out, with a year-to-date jump from 14,000 metric tons last year to 99,000 metric tons in 2021 (+622%).

On the cost side, the price of feed, which recorded a strong climb in 2020 and 1H 2021, reached its maximum price in February and has followed a downward trend since then, improving production margins. However, the recent appreciation of fuel and electricity prices is directly impacting costs. In October, the feed price was 3% lower MOM.

The beginning of 2022 should be a challenge for the production sector, with a seasonal reduction expected in external demand, mainly for China and Saudi Arabia. It's worth remembering that, in addition to seasonality, Saudi Arabia suspended the exports of 11 of the 20 plants in May 2021, which should further reduce the volumes shipped in January 2022, year-on-year. Domestic demand will also be under negative pressure during this period, which could lead to both chicken and live broiler prices softening.

Figure 5: Brazilian chicken and feed prices, Oct 2019-Oct 2021



Source: Bloomberg, Rabobank 2021

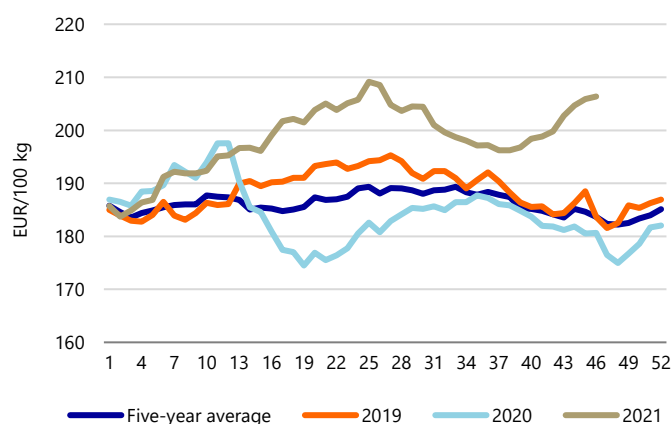
Europe

Conditions in the European poultry market have continued to improve, with prices for live poultry now 20% to 25% above Q4 2020 to Q1 2021 levels (see Figure 6). Prices for chicken cuts have not yet kept pace with this price increase, with breast now around 15% above Q1 2021 levels and legs up by 20%. This illustrates the relatively tight supply situation in the European market, driven by ongoing AI pressure, low profitability during the first year of Covid-19, salmonella issues in eastern Europe, and high input prices, especially for feed. Total chicken placements in the EU for Q1 through Q3 2021 were 2% to 3% below (pre-Covid-19) 2019 levels. On the other hand, the UK has benefited from Brexit, with placements rising by 13% in 1H compared to 2019, but it has suffered due to labor and logistical issues in Q3, with placements only growing by 4% compared to Q3 2019.

The tight supply situation in the EU has not resulted in higher imports. Total imports from Q1 to Q3 2021 dropped by 5%, due especially to reduced imports from the UK (-8%), Ukraine (-12%), and Chile (-85%). In Q3, Thai imports also dropped, from 42,000 metric tons in Q1 and Q2 to only 28,000 metric tons in Q3, due to Thai supply challenges.

The outlook for 2022 is relatively strong. The current wave of AI outbreaks, together with ongoing high feed and other input costs, will keep live chicken production relatively low in 1H 2022. The challenge will be for processors to convert higher costs and lower supply into higher sales prices. The current fourth wave of Covid-19 and the potential for new lockdowns could hamper the optimistic outlook, though, given poultry's dependence on foodservice sales.

Figure 6: Weekly EU whole chicken price, 2019-2021



Source: Eurostat and national statistic sources 2021

Russia

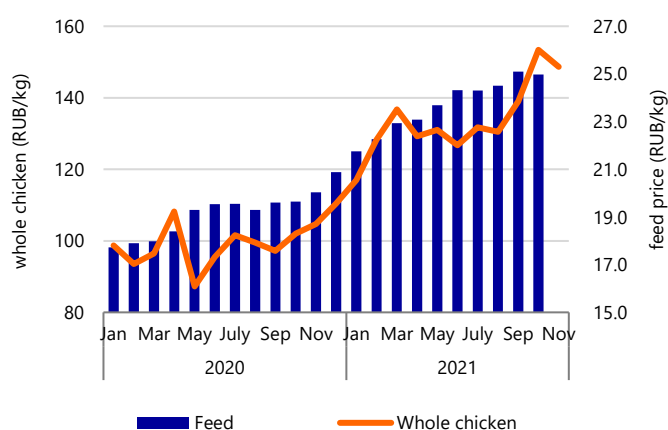
Russian meat supply is expected to drop by 0.6% this year for the first time in more than 15 years. Reduced poultry production (-2.7% from Q1 through Q3 vs. 2020) is the main driver. Other meat production will be stable, with pork production slightly down and beef slightly up. The key drivers of lower supply are high feed and other input costs and the combined impacts of ASF and AI on local production. Total imports of hatching eggs from January through October 2021 dropped by 13% vs. 2020, resulting in a 1.2% drop in hatching eggs.

Prices for all meats increased in November compared to 2020, with poultry, pork, and beef up 42%, 23%, and 15%, respectively (see Figure 7). On the input side, feed costs are up 21%, mainly driven by higher soybean and sunflower meal prices. Russia's feed cost increase has been below international norms thanks to Russia's export taxes and subsidies to support local grain & oilseed supply. This resulted in relatively low local wheat prices, though these have increased recently. These high prices have raised some concerns among authorities and have led to, for example, a temporary move to allow zero-tariff imports for pork and beef.

Poultry export volumes stabilized at 220,000 metric tons from Q1 through Q3 2021. Exports to China dropped, but exports to Saudi Arabia, Vietnam, and Belarus all rose.

The outlook for the industry is relative positive. Supply is expected to stay restricted due to ongoing cost and supply challenges, while domestic demand remains strong. Early predictions for wheat harvest are also optimistic, with a slight increase in production. Support programs for local grain & oilseed supply are expected to stay in 2022. Further opening of new poultry export markets will support a more diversified export focus.

Figure 7: Russian wholesale frozen broiler and feed price trends, Jan 2020-Nov 2021



Source: Rosstat, Rabobank 2021

South Africa

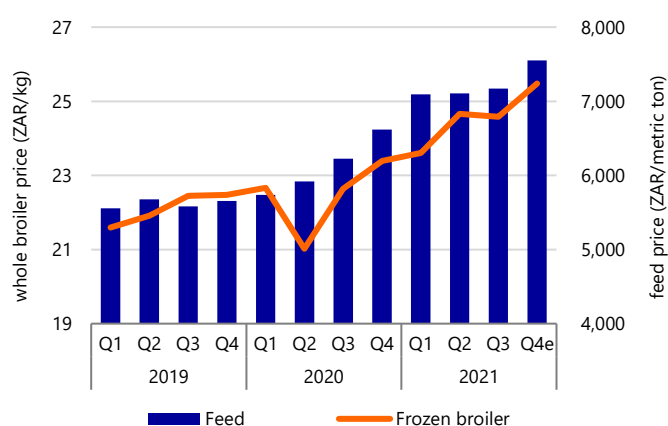
South African industry is still struggling with balancing its challenging supply situation with Covid-19-related volatile local demand. Key challenges at the supply side are higher input costs, AI, and the lingering impact of labor strikes from earlier in the year. Prices in November 2021 were 10% above November last year, but feed prices were up by 15%, squeezing margins (see Figure 8). The industry expanded production in 1H 2020, up 6% compared to 2019, partly because of commitments in the Poultry Master Plan. We currently see some increased supply discipline, with lower production levels due to market uncertainty, higher costs, and recent outbreaks of AI in South Africa. This should support market prices and profitability, especially as imports are down by 9% YOY.

The outlook for the South African poultry industry depends on keeping markets balanced. The current threat of the new Covid-19 strain and its potential market impact could change conditions quickly.

From a cost perspective, the industry has seen a 15% increase in corn prices over recent months and also a slight increase in soybean prices, due to international parity and a weaker ZAR despite a relatively good crop harvest in 2021. Expectations for the 2022 South African crop are strong, on good rainfall in production regions. A good local grain harvest could help the industry to reduce its global exposure to bullish grain markets.

The ongoing low supply of beef (due to stock rebuilding) will be positive for the chicken industry, with higher beef prices keeping poultry the most affordable protein in the country. This is particularly important in a period of high price inflation, economic uncertainty, and high unemployment in South Africa.

Figure 8: South African broiler and feed price trends, Q1 2019-Q4 2021e



Source: SAPA, News24, SAFEX, Rabobank 2021

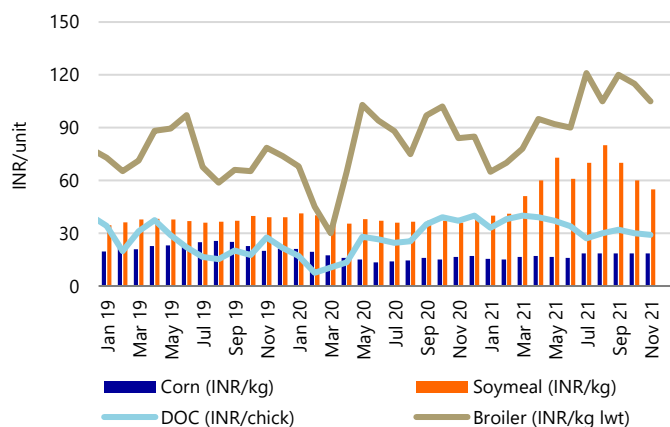
India

Business operations in India are moving towards normalcy and are now better managed. As a result, poultry demand has seen continual improvement in recent months. Consumer demand remained strong with business-to-business demand expected to end the year on a strong note.

Most leading poultry companies recorded double-digit growth in 1H FY 2021 (April-September) over the previous year, with improving demand and relatively higher broiler prices (see Figure 9). Margins have softened, though, on higher feed costs. Most of the leading fast-food chains in India also recorded strong growth in the first half over last year. Supply has seen gradual improvements over the last few months, with DOC placements coming back to pre-Covid levels. Some players are even recording higher placements than pre-Covid levels.

Broiler prices range between INR 95 to INR 105, down slightly compared to previous months. One reason is increasing supply in the market. Broiler prices are expected to remain stable at these levels in the coming months, given growing demand. High feed prices will remain a challenge, with average annualized prices (particularly for soymeal) higher than last year. Soymeal prices have come down to INR 40 to INR 50/kg levels, with kharif harvest and imports coming into the market. Soymeal prices have been volatile of late, with farmers holding on to stocks in expectation of better prices. In addition, exports went up over the last few months, with lower domestic prices creating an export opportunity. Soymeal prices are expected to remain volatile in the coming months, ranging between INR 45 and INR 60/kg, and to maintain export price parity.

Figure 9: Indian broiler, DOC, and feed price index, Jan 2019-Nov 2021



Source: NCEDX, Rabobank 2021

China

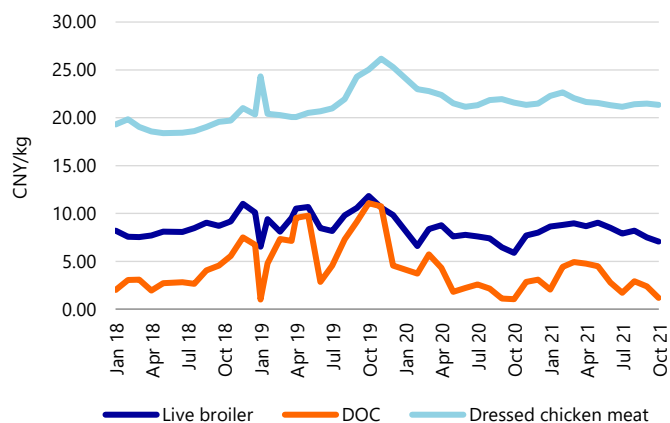
China's white broiler prices remained weak in October and November 2021, with prices fluctuating below breakeven levels. Live bird prices dropped to CNY 6.7/kg in early October, normally the high season for animal protein consumption, reflecting the generally weak demand this year (see Figure 10). Supported by rising pork prices, which have seen a 50% increase since October, poultry prices moved upwards but slowly. In November, live bird prices returned to CNY 7.6/kg, still below breakeven but showing some signs of recovery. The Covid situation, and particularly China's zero-tolerance policy towards Covid, has impacted consumer demand, particularly in group dining and some food catering channels. With swift actions by local governments, the situation was under control entering November, but it will remain uncertain given the complexity of the virus's spread. Based on the current situation, we expect to see poultry demand improve in the near future.

Pressured by low prices in Q4 2021, replenishment has slowed down, which is reflected by DOC prices dropping from over CNY 2 per bird in September to below CNY 1 entering Q4. Slower replenishment suggests white broiler production may see negative growth in the early part of 2022.

Yellow bird prices had a relatively stronger rebound entering Q4. We view this as mainly attributable to the tight supply following the decline in production in the previous months, given the policy restrictions on live bird markets in some big cities.

Poultry imports have been weaker in 2H, compared with 1H 2021, with October import volumes down 4.5% YOY. Total imports in the first ten months were 1.2m metric tons, down 4% YOY.

Figure 10: Chinese poultry prices, Jan 2018-Oct 2021



Source: Industry sources, Rabobank 2021

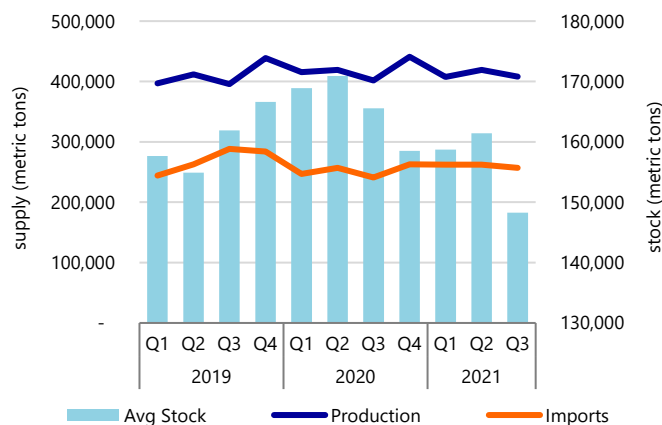
Japan

Japan's poultry market has seen a significant recovery in 2H, with breast meat prices moving to record-high levels of JPY 350/kg and leg quarter prices also staying firm at levels lower than last year. Poultry consumption in Japan is strong, with an increase of 2% in Q1 through Q3 2021 compared with the same period last year. This is despite declining local production, down by 0.1% during the same period (see Figure 11). The lower production levels are mainly the result of AI outbreaks in 1H 2021, which pressured production down by 1% in 1H. Production picked up in Q3 (+1.7% compared to Q3 2020), but new AI outbreaks have again challenged local production. This is expected to impact local prices, especially as Covid-19 has resulted in an average 10% to 15% increase in at-home consumption (which supports local production) and a 15% to 25% drop in foodservice demand (which impacts imports more).

The Japanese poultry industry has reacted by importing more poultry in 1H (+5%) to compensate for weak local supply. Thailand, in particular, has seen increased exports to Japan in this period. The situation has become more complex in 2H, as Thailand is now suffering from labor shortages and Covid-19-related production shutdowns. This is leading to declining imports from Thailand and a shift to other suppliers, like China.

The outlook for the Japanese industry for 2022 is positive, given tight stocks (the lowest stock position since 2015), expectations of low production, ongoing high beef prices, and strong local demand. This is expected to lead to strong local prices and margins and an eager buying strategy among trading houses in international markets.

Figure 11: Japan supply and stocks, Q1 2019-Q3 2021



Source: ALIC, Rabobank 2021

Thailand

The Thai poultry industry is going through one of its most challenging periods in 2H 2021. This is the result of a local lockdown, Covid-19-related plant shutdowns, and limited labor availability at plants. The labor issue, in particular, is still challenging local producers. Many plants are still running with low worker numbers due to reduced immigrant workers, especially from Cambodia.

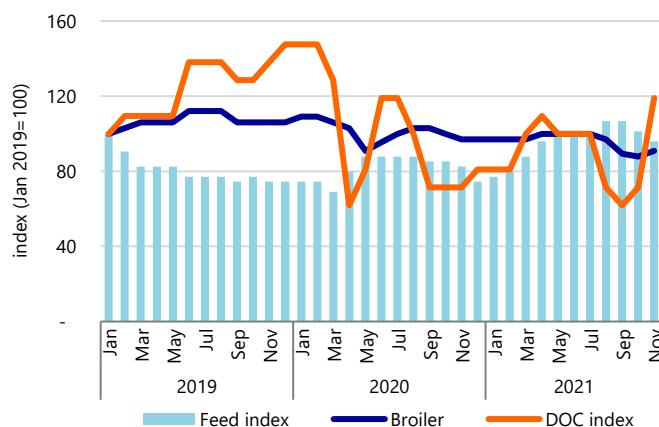
Production dropped significantly in August (by about 10% to 15%), but this is gradually being resolved by producing fewer labor-intensive products. DOC prices and live broiler prices fell in response during 3Q, a situation worsened by low pork prices and high feed prices, but is now recovering due to strong local and export demand (see Figure 12).

Poultry export volumes were strong in 1H, due to very strong Japanese, Chinese, and European demand, but dropped sharply from 280,000 metric tons in Q2 to only 190,000 metric tons in Q3. The Q4 figure will see some volume recovery, but its assortment will be less diversified, meaning lower prices and returns.

The outlook for 2022 is for the Thai industry to improve. Market fundamentals will be better, on an improving local economy, the gradual reopening of the tourism market, and higher vaccination rates. This should support local demand, and we think the industry could return to pre-Covid-19 domestic consumption levels.

In terms of exports, we expect very strong demand for Thai products from the EU, UK, and Japan, as these markets face tight local supplies and strong prices. The challenge for the Thai industry is to resolve the labor shortage – the industry needs to maintain its flexible, high-quality, tailor-made product supply. If the industry can manage this, it could be a relatively strong year.

Figure 12: Thai poultry and feed prices, Jan 2019-Nov 2021



Source: Thai Feed Mill Association, Rabobank 2021

Imprint

RaboResearch

Food & Agribusiness
far.rabobank.com

RaboResearch Food & Agribusiness Animal Protein Global Sector Team

Justin Sherrard	Global Strategist	justin.sherrard@rabobank.com
Nan-Dirk Mulder	Europe	nan-dirk.mulder@rabobank.com

Chenjun Pan	China	chenjun.pan@rabobank.com
Christine McCracken	North America	christine.mccracken@rabobank.com
Matz Beuchel	Europe	matz.beuchel@rabobank.com
Shiva Mudgil	India	shiva.mudgil@rabobank.com
Wagner Yanaguizawa	Brazil	wagner.yanaguizawa@rabobank.com

Angus Gidley-Baird	Australia	angus.gidley-baird@rabobank.com
Don Close	North America	don.close@raboag.com
Eva Gocsik	Europe	eva.gocsik@rabobank.com
Gorjan Nikolik	Europe	gorjan.nikolik@rabobank.com
Genevieve Steven	New Zealand	genevieve.steven@rabobank.com
Novel Sharma	Europe	novel.sharma@rabobank.com

© 2021 – All rights reserved

This document has been prepared exclusively for your benefit and does not carry any right of publication or disclosure other than to Coöperatieve Rabobank U.A. ("Rabobank"), registered in Amsterdam. Neither this document nor any of its contents may be distributed, reproduced or used for any other purpose without the prior written consent of Rabobank. The information in this document reflects prevailing market conditions and our judgement as of this date, all of which may be subject to change. This document is based on public information. The information and opinions contained in this document have been compiled or derived from sources believed to be reliable, without independent verification. The information and opinions contained in this document are indicative and for discussion purposes only. No rights may be derived from any potential offers, transactions, commercial ideas et cetera contained in this document. This document does not constitute an offer or invitation. This document shall not form the basis of or cannot be relied upon in connection with any contract or commitment whatsoever. The information in this document is not intended and may not be understood as an advice (including without limitation an advice within the meaning of article 1:1 and article 4:23 of the Dutch Financial Supervision Act). This document is governed by Dutch law. The competent court in Amsterdam, The Netherlands has exclusive jurisdiction to settle any dispute which may arise out of or in connection with this document and/or any discussions or negotiations based on it. This report has been published in line with Rabobank's long-term commitment to international food and agribusiness. It is one of a series of publications undertaken by the global department of RaboResearch Food & Agribusiness.