



Rabobank

# Poultry Quarterly Q2 2015

## Avian Flu Challenging Global Trade

Global chicken monitor\*  
Q1 2013-Q1 2015f



\* Chicken price trend for cuts entering global trade

**Global trade streams and prices are expected to remain under pressure** for the remainder of 2015. This is thanks to a global case of avian flu, with new outbreaks in the United States, Russia, China, India, Taiwan and several African countries, including Egypt, Nigeria and Burkina Faso.

**Global trade volumes dropped by 13% in Q1 2015, compared to the end of last year**, with the US and EU experiencing the biggest declines, while the biggest gains were in Thailand and Brazil. This trend is expected to continue, and exchange rate volatility will further shake up streams, with the US as the major loser.

**Poultry industry fundamentals are facing meaningful headwinds**, with stronger than expected feed prices due to a strong US dollar, increased competition from falling pork prices and restrictions on trade. Prices for whole chicken, leg quarters and chicken feet are declining further, while breast meat prices remain relatively strong.

**Producers in countries with balanced markets are continuing to enjoy healthy margins** despite these challenges. These include Brazil, the US, South Africa and Japan. Meanwhile, industries in relatively oversupplied markets are suffering from weaker fundamentals, with Thailand and Indonesia facing the biggest challenges.

**The long-term impact may be significant due to several trade bans on breeding stock** in importing countries. This may lead to long-term supply shortages in several areas such as China, Southeast Asia and Russia as soon as 2016, leading to a challenging operating environment.

**Global approaches to deal with avian flu are more important than ever**, with strict biosecurity standards and adjusted industry business models to deal with the new market reality. Governments should follow international guidelines regarding avian flu-based trade restrictions.

### Global poultry markets: avian influenza outbreak to hit regional markets

**US:**

- Wave of HPAI outbreaks, but broiler sector less impacted
- Margins still strong on robust local market demand
- Export streams pressured by trade bans
- Key concern is fowl migration in Atlantic Flyway in fall



**Brazil:**

- Competitive position in global trade
- Weak real and avian flu bans for competitors
- Weak local market due to economic situation
- Low feed costs due to abundant grain outlook



**EU:**

- Slight margin recovery
- Improved trade position due to weak euro
- No new HPAI outbreaks
- Supply/demand situation relatively balanced



**China:**

- Fewer avian flu cases, but still big impact
- Margins to lowest level in five years
- Improvement expected in Q3
- Import restriction on GPS could hit market in 2016



**Russia:**

- Less bullish market, with ongoing higher feed costs
- Sharp increase in production level: +11%
- High competing meat prices
- Key question: what happens with sanctions after August?



**Rest of the world:**

- Mexico: market affected by US trade restrictions
- Japan: ongoing bullish market with low stocks
- Thailand: oversupply despite strong exports
- India: return to profits

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# Global outlook

The margin outlook for the global poultry industry is still upbeat, but it has worsened recently, with falling global pork prices, higher than expected feed prices in many parts of the world due to a strong US dollar, and big shifts in global trade due to restrictions in exporting countries with avian flu outbreaks (see Figures 1, 2 and 3). Broadly, industries operating under balanced market circumstances—like the US, Brazil, South Africa and Japan—are still able to make healthy margins, but any change in market balance can heavily impact margins in the next few months.

The global case of avian flu has had a big impact on international markets. Especially the situation in North America has worsened, with millions of turkeys and layers lost in the US. A further spread of avian flu has also occurred in Africa, with new cases in Egypt, Nigeria and Burkina Faso. Several countries in Asia are still reporting new cases of avian flu. These include India, Taiwan and China, while Russia reported a new case in the Astrakhan Oblast region.

The human cases in China and Africa have had a major impact on local consumer behaviour. All commercial cases in North America have taken place in the turkey and layer sectors, and the impact on the broiler sector is still relatively limited. But longer-term impact depends a lot on how the outbreak evolves and if key southeastern US states can remain free of avian flu. Current US trade restrictions are already having a significant impact on dark meat prices, but local profitability remains supported by a healthy supply/demand situation in the country. There haven't been any new outbreaks of HPAI in the EU since the February outbreak in Hungary, but several LPAI outbreaks indicate that the industry should remain alert regarding possible new cases; however, the risk over the summer months might be somewhat lower.

Global poultry trade is heavily affected by avian flu outbreak-driven trade restrictions, exchange rate volatility and a downturn in economic conditions. Total trade volume dropped 13% in Q1 2015 compared to Q4 2014, and 4% compared to Q1 2014 (see Figure 4). Brazil and Thailand are the winners of the current situation and have been the only major exporters who reported higher export volumes in Q1, compared to the same period last year. The US is the big loser, as exports have been dropping by more than 10% over the first quarter, compared to the same period last year. EU exports have remained stable.

Prices for chicken products on international markets are still falling, with lower prices especially for whole chicken and chicken legs. The market for breast meat, processed meat and feet is less affected, and the weak euro is having an upward impact on prices. Feet prices are being affected by US trade restrictions, while China needs to find new sources.

Rabobank expects prices to remain under further pressure in the next months, driven by changing conditions for some of the key

fundamentals (lower pork prices, ongoing low feed prices, abundant supply) and by the big changes in global trade, driven by avian flu and exchange rate volatility. Some market segments—like leg quarters and chicken feet—will face shortages, as US restrictions will have a big impact on availability. Meanwhile, markets which are still open for exports for the US will be flooded by low-price dark meat.

That's why restrictions on US trade are having the biggest market impact on global trade. Although most countries work on a US state or even country base, several big importers (like China and South Korea) have banned the whole country, including its breeding stock. The bans on exports from some EU exporters is also impacting global markets, but less so as is the case with the US. Asian countries have already been suffering for a while as a result of the negative impact of avian flu trade restrictions on their trade. China and Vietnam have virtually been out of the raw meat market for years.

Brazil and Thailand are likely the countries who will benefit most from these market changes, but the EU also has good opportunities. Their key exporters (the Netherlands, the UK and Germany) are expected to return to international markets after likely removals of avian flu-driven trade restrictions in the next months. The euro depreciation has made EU products a lot more competitive in international markets.

Thailand is also regaining its position as Asia's leading raw chicken exporter by re-opening more and more markets for its raw chicken products. Russia's new outbreak might negatively impact its short-term ambitions to develop a significant export market.

One of the most concerning implications of the current restrictions on global trade is the impact on future breeding stock supply. Russia, China and parts of southeast Asia are restricting breeding stock trade, which may have a multiplier effect in the longer term, with possibly very short local supply in these markets and prices rising sharply in 2016 and 2017. The impact of this development could also have indirect global implications via increased hatching egg and DOC trade with higher prices.

All of these significant short- and longer-term implications require a more revised approach of producers working together with governments and international organisations like OIE and FAO. Business models and biosecurity need to be improved in order to be prepared for the risk of ongoing disease pressure on the industry. Governments also need to follow international guidelines regarding trade restrictions driven by avian flu outbreaks. This should be the case for the time period of the ban and the regions which are banned, but also regarding breeding stock. Any strict ban of breeding stock input could lead local industries to shoot themselves in the foot via a multiplier effect in the longer term, with low breeding stock supply and high local prices. A more international adoption of the compartmentalisation concept could be a solution, and it fits well with the industry's business practices.

**Figure 1: Global whole chicken and chicken cuts markets, USD/hundred kg**

		2013				2014				2015		Change
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4f	Q1f	Q2	Q2-Q1
<b>Whole chicken</b>	Brazil wholesale	192.3	154.8	146.3	159.8	141.3	142.9	148.3	144.3	123.6	112.0	-9%
	EU wholesale	255.3	257.5	264.1	258.3	264.4	267.7	254.7	229.8	210.3	202.4	-4%
<b>Breast meat</b>	EU import price Brazil	334.3	309.0	328.3	309.0	322.6	303.9	296.7	283.8	257.5	254.9	-1%
	EU import price Thailand	325.4	322.0	352.1	350.8	357.7	348.9	339.9	345.6	328.4	330.7	+1%
<b>Leg quarters</b>	US leg quarters, Northeast	113.6	116.4	113.2	95.5	94.0	95.0	108.4	100.8	87.0	73.1	-16%
	Japan import price	206.7	196.7	200.4	218.8	191.5	191.8	203.8	210.0	180.2	176.5	-2%
	Russia wholesale	346.7	328.8	313.4	318.8	288.9	288.1	307.1	234.4	195.6	233.1	+19%
<b>Feet</b>	China import price	141.1	143.5	135.8	135.8	144.9	143.3	149.1	149.6	160.0		
<b>Processed chicken</b>	EU import price Brazil	368.1	380.9	351.7	361.0	356.0	357.5	333.9	323.6	302.3	301.6	0%

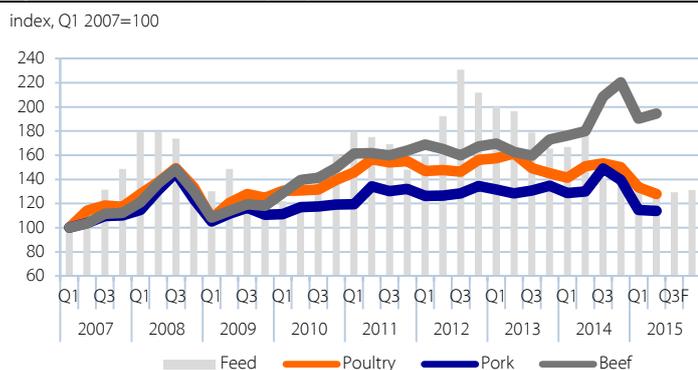
Source: Rabobank analysis based on Eurostat, FAO, national statistics, UBABEF, USDA, 2015

**Figure 2: Global live broiler and feed ingredient monitor, Q1 2013-2015f**

		2013				2014				2015		Change
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2f	Q2-Q1
<b>Live broilers USD/kg</b>	EU	1.24	1.23	1.23	1.17	1.21	1.22	1.15	1.01	0.91	0.94	-12%
	Brazil	1.42	0.94	1.19	1.15	1.03	1.00	1.07	1.02	0.82	0.75	-8%
	China	1.47	1.28	1.37	1.42	1.35	1.46	1.60	1.34	1.29	1.27	-16%
<b>Grains &amp; oilseeds</b>	Wheat (USD/bushel)	736	694	650	655	617	650	528	556	524	520	-18%
	Corn (USD/bushel)	715	662	499	430	453	480	359	372	385	390	+4%
	Soymeal (USD/tonne)	420	433	445	429	447	480	395	368	338	315	-7%

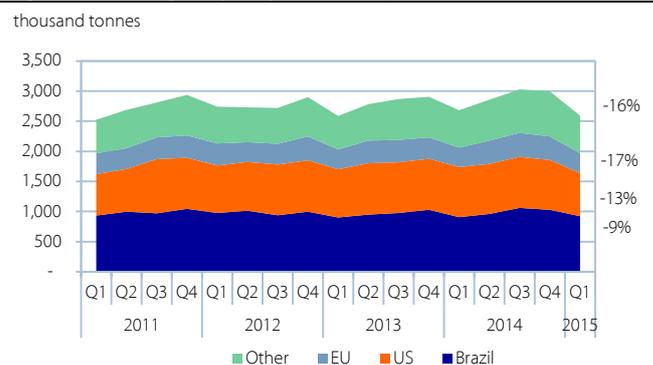
Source: Rabobank AgriCommodity Outlook, Eurostat, FAO, national statistics, UBABEF, 2015

**Figure 3: Global broiler, beef and pork prices vs. feed cost monitor, Q1 2007-Q2 2015f**



Source: Rabobank analysis based on FAO, national statistics, Bloomberg, 2015

**Figure 4: Rabobank global poultry trade monitor, 2011-2015**



Source: Bloomberg, National statistics, 2015

# Regional outlooks

## United States

Despite a myriad of challenges, the US poultry sector weathered these issues quite well, as reflected by robust producer profit margins in the first quarter of the year (see Figure 5). Challenges include a strengthening US dollar; avian influenza (AI) in the US (and the resulting trade bans); West Coast port shutdowns; shifting consumer demand for poultry production; and falling prices of some competing proteins. These headwinds were largely offset by robust domestic demand for poultry, which kept prices above 2014 levels through most of the quarter.

US poultry producer profit margins averaged 14% in Q1 2015, as indicated by results from Tyson and Pilgrim. This is the highest margin we have on record for Q1 2015. In the midst of a 4.6% increase in US poultry production in Q1, white meat demand expanded measurably, with prices up 5% to 8% over prior-year levels. Consumers are feeling the boost of lower gas prices, which is reflected in increased restaurant demand. Wing prices—which hit a seasonal peak during the Super Bowl and March Madness periods—were quite strong this year, with prices up nearly 50% YOY. But wing prices in 2014 were sluggish, as the industry worked through a supply glut after a QSR wing campaign didn't drive the volume as expected.

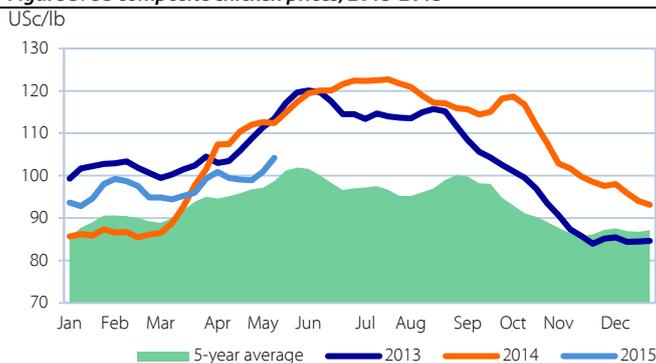
Indicative of the previously mentioned challenges for US poultry in export markets, leg quarter values were 9% below Q1 last year and 32% down in April. A number of these issues are mostly short-term in nature, but the spread of avian flu in the last six months is one that could affect US production and trade for

years to come. The first presence of AI in years was discovered in Washington State last December. It then spread south along the Pacific coast, driven by the seasonal movements of migratory birds. During Q1, AI was found in a number of Midwest states. This caught the industry by surprise, as many thought the Rocky Mountains would keep the birds and AI along the West Coast: on the Pacific Flyaway, separated from the eastern states. To date, cases in the Midwest have been focused on the turkey and egg sector and have not really affected broiler producers. With the impending summer weather across the US, AI cases will likely subside, but the risk of it re-emerging this fall will be an added risk for the poultry sector in 2016.

Exports through Q1 have struggled, declining 11% versus last year on a volume basis. The industry is continuing to feel the pain of the Russian ban that was instituted in August of last year. In addition, a number of export markets have placed bans on poultry products from the states affected by avian flu, while some markets (most notably China and Korea) have banned US poultry outright. With the lift in volume to Hong Kong and Taiwan—by 27% and 96%, respectively—it appears that at least some of that product will find its way to the Chinese market.

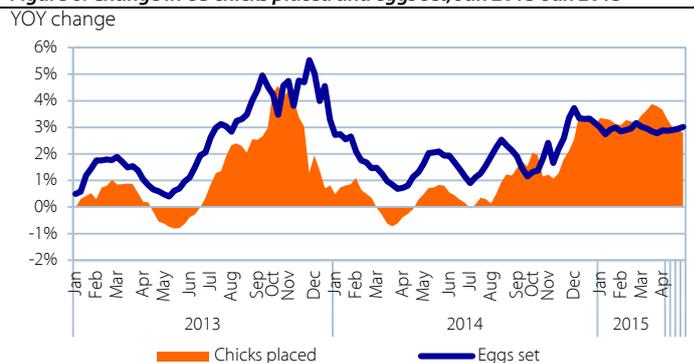
The supply outlook is mostly unchanged, with eggs set and chick placements running 2.5% to 3.0% above last year (see Figure 6). We see another 1.5% to 2.0% of growth coming from increased bird weights, which drives our view that overall poultry supplies will increase 4% to 5% on an RTC basis. The favourable feed cost environment and strong domestic demand for poultry are supportive of this level of supply growth, even with the headwinds on the export front.

**Figure 5: US composite chicken prices, 2013-2015**



Source: USDA, 2015

**Figure 6: Change in US chicks placed and eggs set, Jan 2013-Jan 2015**



Source: USDA, 2015

## Mexico

In 2015, Mexican meat production is expected to reach 3.1 million tonnes, up 3.8% over a year ago. However, this expectation may vanish as the industry continues to struggle with the H7N3 avian influenza virus. Given current conditions, production will depend heavily on fertile egg imports. In 2014, around 14% of the domestic production was supported with fertile egg imports, but this year, we expect production will need around 25% fertile egg. But the availability of US fertile eggs continues to be uncertain due to AI outbreaks in that market. As a result, imports from Brazil and the EU have increased in recent months, adding pressure to broiler costs (see Figure 7).

Chicken meat prices have lost competitiveness against other proteins, particularly against pork (see Figure 8). As a result, chicken consumption is expected to marginally increase (particularly in cheaper cuts such as thighs, legs and quarters), but breast consumption may be sluggish. Total meat consumption per capita is expected at 31.5 kilogrammes, up from 30.8 kilogrammes last year.

If Mexico is able to expand production, we anticipate a modest 2% increase in meat imports, reaching 700,000 tonnes. However, imports can intensify if AI complicates Mexican domestic production. This can change again if Mexico sees another outbreak of domestic avian flu. In that case, the country should import more poultry products from abroad. This can be complicated due to the restrictions on US trade as a result of avian flu outbreaks there.

Figure 7: Mexico chicken prices, Jan 2012-Apr 2015

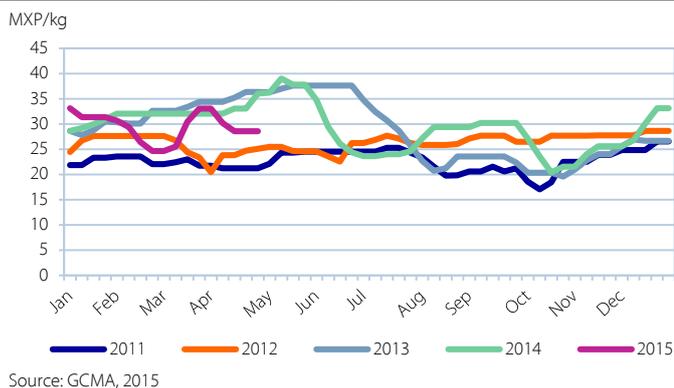
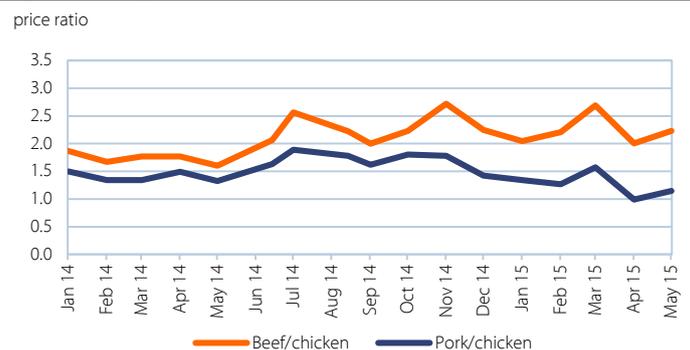


Figure 8: Mexico price ratio chicken vs. red meat, Jan 2014-Feb 2015



## Brazil

During 1H 2015, the poultry market in Brazil has been reflecting strong supply. In addition, in April 2015, poultry exports were 4% below the same month last year, which further increased chicken supply in the domestic market. As a result, in April 2015, the average price for chilled chicken was 2% below that in April 2014 in inflation-adjusted terms (see Figure 9).

Despite the decline in exports—particularly a result of January’s weak performance—Brazil’s shipments have improved, and even surpassed 2014 levels in February and March (MOM). Therefore, if we consider the cumulative total for the first four months of the year, Brazilian chicken exports decreased slightly, by 1.5% in volume, compared to the same period last year.

To put it into perspective: During the January-April 2015 period, South Korea increased its poultry imports from Brazil by 120%, while from Russia, the growth was at around 43% and at 3% from Saudi Arabia (see Figure 10). China also increased its poultry imports from Brazil by 24%. On the other hand, Venezuela decreased its imports by almost 40,000 tonnes, which represents a decline of 60% in the total exported to that country. In addition, Hong Kong also decreased its poultry imports from Brazil by 23,000 tonnes (-22%) in the same period, as did Japan, whose imports declined by around -6%.

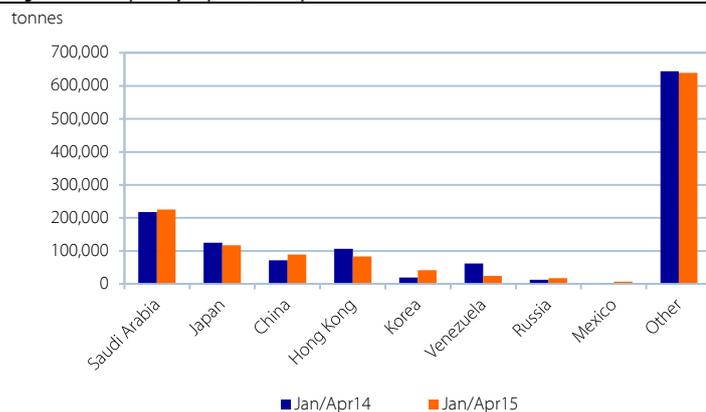
It is important to mention that Brazil has never registered any outbreak of avian influenza. This differentiates the country in international trade, and it should continue to promote exports in the coming months. Indeed, the industry is optimistic about the international market, considering the impact that avian influenza is having on international trade. An important sign that Brazil is

gaining more space in the international market has been Mexico, which has already bought more than 7,000 tonnes of poultry from Brazil, in the January-April 2015 period.

Regarding the internal market, according to official numbers, poultry production increased by 1.9% in 2014 versus 2013. As already mentioned in the first Q1 2015 Poultry Quarterly, this dynamic has been a result of the reduction in feed costs—due to further availability of grains in the domestic market—a trend which is expected to continue this year.

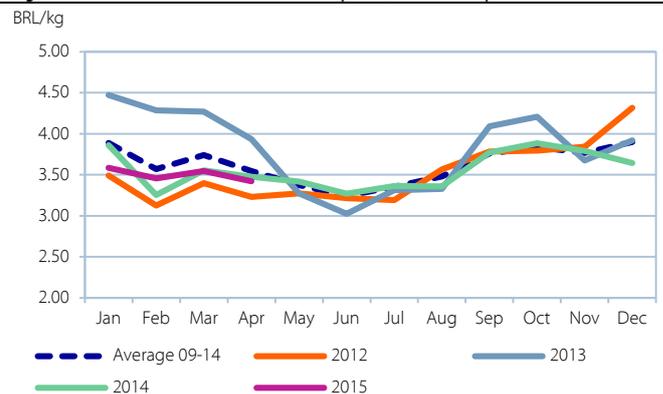
At the same time, high prices for beef have encouraged increased chicken consumption. Nevertheless, strong supply, coupled with the weak economic activity during 1H 2015, has undermined poultry prices. Looking forward, low prices are expected to continue during Q2, and a recovery is only anticipated for Q3, when competing meats (especially beef), should register new record-price levels. Also, Brazilian poultry exports will probably continue to take advantage of the international scenario, with competitors facing serious challenges when dealing with avian influenza.

**Figure 9: Brazil poultry exports, Jan-Apr 2014-2015**



Source: SECEX, MDIC, 2015

**Figure 10: Brazil chilled chicken wholesale prices, Jan 2012- Apr 2015**



Source: Bloomberg, 2015

## EU

The EU poultry industry has witnessed some improvement in performance in Q1 and Q2 after a difficult Q4 2014 (see Figure 11). The main reason for this has been relatively tight supply due to massive cullings in Q4 2014, after avian influenza outbreaks in the Netherlands, Germany, UK, Italy and Hungary (see Figure 12). Prices have gradually increased in Q1 and Q2, partly due to a tight supply situation, especially in Q1, and partly because of seasonal market improvement in Q2. This improved local EU demand has offset the significant impact of the ban on exports from the Netherlands, Germany and the UK, three key EU exporters. This has had a negative impact on dark meat prices in the EU—especially for the Dutch industry, with its great dependence on export.

The EU's international trade position is still improving thanks to the weak euro, which makes exports relatively competitively priced, while imports are relatively expensive. Total EU exports increased 2% in the first two months of the year, despite the trade restrictions on exports from the Netherlands, Germany and the UK. Especially exports to Southeast Asia (the Philippines and Malaysia) and Africa (Ghana, Gabon and even South Africa) are doing relatively well, and they are offsetting declines in trade to Benin and Hong Kong. The average export price of EU poultry was slightly higher (2%) than in the same period in 2014.

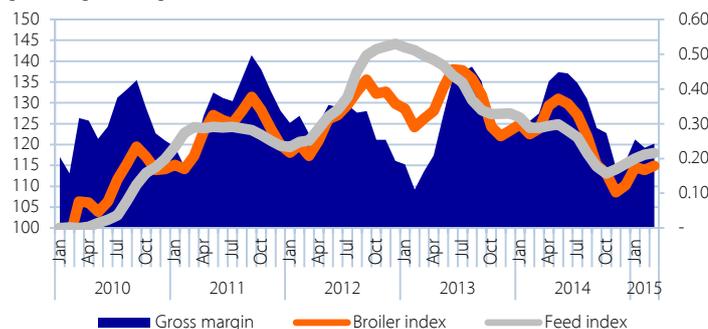
The EU's import volumes declined by 4%. Especially imports from Brazil were under heavy pressure (-23%), while Thailand further increased its export volumes to the EU (+30%). Most other smaller destinations (like China and Argentina) reported lower export volumes to the EU, while imports from Chile and

Ukraine were very strong. The ongoing difficult position of China in the EU import market—due to limited access to low-tariff quotas—recently pushed the Chinese government to file a WTO dispute concerning EU import quotas, asking the WTO for consultation.

The EU poultry market is still being negatively affected by the avian flu outbreaks in Q4 2014 and Q1 2015. Although no new high pathogenic outbreak has been found in the last months (Hungary had the last case, in February.), several low pathogenic cases have been found in the Netherlands and Germany. These recent cases indicate that there is still a disease pressure for the industry, and optimal biosecurity remains a key tool to protect the industry from potential new outbreaks. For the longer term, it will be very important for the industry to rethink its current business model and try to adjust it, to adapt to a likely period of ongoing disease pressure.

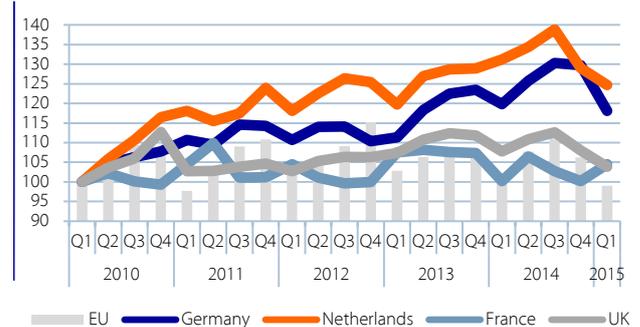
For the coming months, the outlook for the EU poultry industry remains fragile, and it will also depend on the industry's ability to protect itself against avian flu outbreaks. Current placements indicate ongoing tight supply. Taking into account a seasonally stronger demand for poultry products in the summer months, ongoing low feed prices and the likely lifting of some export restrictions, the outlook looks reasonably promising. It should at least offer the industry above-long-term-average industry margins in the coming months.

**Figure 11: Northwest European broiler, feed price and margin trend, 2010-2015**  
gross margin, EUR/kg, index 2010=100



Source: Eurostat, EMA, PVE, Igreca, Defra, Rabobank, 2015

**Figure 12: Quarterly production for the EU and for individual countries, 2010-2015**  
index, Jan 2010=100



Source: Eurostat, EMA, PVE, Igreca, Defra, Rabobank, 2015

## Russia

The Russian poultry sector is operating in a less bullish market environment than in Q4 2014 and Q1 2015, due to ongoing rising feed costs despite the introduction of export taxes on wheat (see Figure 13). Broiler prices remain high due to ongoing high, and rising, red meat prices, and because of low imports as a result of the ban on imports from the EU and the US. Brazil has been replacing some of these lost import volumes, but a continuing weak rouble has made imports expensive.

Weak economic conditions and lower purchasing power have made consumers more price-conscious. This supports the further substitution of poultry for red meat, especially as prices of red meat continue to rise. The Russian industry has replied with a significant increase in production levels. Total production levels in Q1 2015 were 11% higher than in the same period in 2014. The Russian Poultry Union is projecting a full-year increase of 8%, compared to 2014. Most of the production expansion comes from newly constructed capacity entering the market by fully utilising existing capacity in the industry.

The outlook for the industry remains relatively strong, but a lot depends on what will happen with the sanctions, which officially end in August 2015. If sanctions are removed, this will mean pressure on margins, although the impact will be somewhat offset by a weak rouble. If sanctions remain in place, we expect some recovery in 2H thanks to the industry's strong price-positioning, compared to red meat. Recent news of the possible removal of the wheat export tax is also an extra concern, as it will raise costs. Supply discipline will be key in these uncertain times.

## South Africa

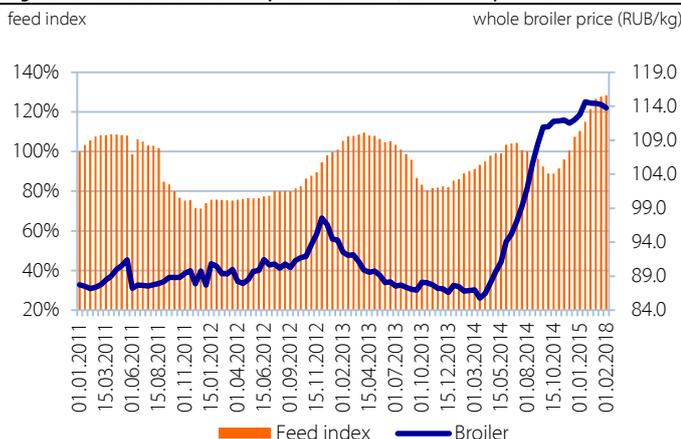
The South African poultry industry has been benefiting from import restrictions on EU poultry trade, especially the ban on imports of poultry from the Netherlands, the UK and Germany: the main EU exporters of poultry to South Africa. This has resulted in a sharp drop in imports in Q1 (20%), compared to Q4 2014.

This is the reason markets have become more balanced, as production has also been declining since Q3 2014, after several South African poultry companies restructured their businesses (with some even going out of business entirely). This has resulted in rather strong prices and better margins, as feed costs remain comparatively low with a relatively good grains supply in South Africa (see Figure 14).

Avian flu is also a concern in South Africa, and recently, some low pathogenic outbreaks were found in Mosselbay, Oudtshoorn and Hessequay. This should act as a wake-up call for the industry to increase biosecurity.

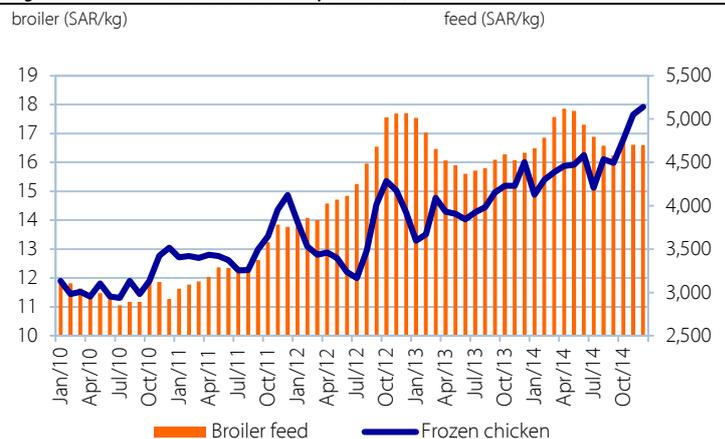
The outlook for the industry is still challenging. A lot will depend on how imports will evolve. The UK, the Netherlands and Germany will have possibly been free of high pathogenic avian flu for three months in Q2 2015, and this might lead to a return of the old import levels. A possible easing of import restrictions for US poultry in South Africa might also affect the local industry. The current expansion mode of the industry, as placement levels indicate, are a bit concerning and will place the industry in an even more fragile position if market conditions change.

Figure 13: Russia broiler and feed price index trend, Jan 2011-Apr 2015



Source: Rostat, 2015

Figure 14: South Africa broiler and feed price trend, 2010-2015



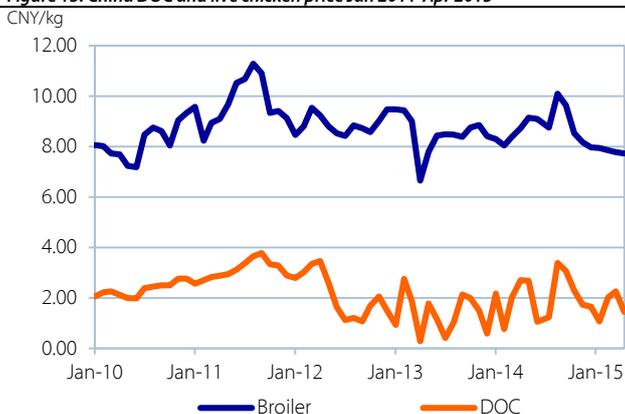
Source: SAPA, 2015

## China

Entering Q2 2015, the market demand for poultry products remains sluggish. Although the reported AI cases have gradually diminished, concern surrounding the disease still lingers on the consumer market. Many live bird markets continue to be closed in Q2. Consumers in regions where live bird markets used to be the major distribution channel still need some time to adjust to fresh and chilled poultry products. Many of them are reported to have simply reduced poultry consumption. In addition to AI impact, the slower economic growth is another major factor for sluggish demand. GDP in Q1 2015 grew by 7%, the lowest in the past six years. The economic slow-down is particularly impacting demand from institutional buyers, as it resulted in the decrease of factory numbers and in workforce redundancies. Prices of Day Old Chick (DOC), live bird and poultry at wholesale market decreased in the first four months of 2015, compared with the same period of 2014 (see Figure 15). In April, dressed chicken at wholesale market was USD 2/kg, down 5.8% compared with the same period in 2014 and down 8% compared with the previous month. The price of live bird for slaughtering decreased by 10%, compared with the same period in 2014, and DOC prices fell sharply, by 40%. Farmers and breeding companies are making loss at the current price level. Due to the AI outbreaks in the previous months, the mortality rate of bird grow-up has been high, adding extra pressure to the loss-making business. The gross margin of broiler farming has hit the lowest end for the same period over the past five years. Slaughterers face the same challenge. Fujian Sunner, the largest white bird player, as well as a fully vertical integrator, reported a loss of USD 30 million in Q1, due to the decreasing market price. In comparison, poultry

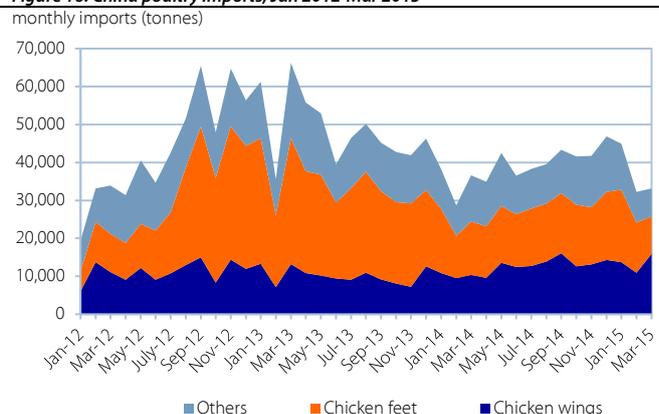
prices at retail market have been stable. In April, the average retail price of dressed chicken was USD 2.8/kg, up 7% over the same period in 2014. This suggests that the poultry retail market is not very price-sensitive, and downstream players have stronger bargaining power against those in upstream. In the coming quarter, we expect market demand to continue depression. But we hold the view that prices will likely start to rise as of the end of Q3 2015, as pork prices are expected to strongly rebound by then. Following the ban on US poultry products in January 2015, the imported volume from the US started to decrease sharply in March. Consequently, China substantially increased imports from Brazil, Argentina and other nations, and import prices increased in March as a result of the supply structure change. Due to the weak domestic market, the ban on US poultry products has not yet been felt by China's market. However, the sub-sector of genetic stock is already the centre of attention. As China used to rely on the US for imports of white-feathered grandparent stocks, the ban is expected to result in great shortage of commercial birds, from 2H 2016 through 2017. It is reported that Chinese breeding companies have managed to source grandparent stocks from European market. But whether the supply from Europe can meet the demand of this sheer-sized market remains a big question. In the first three months of 2015, imported poultry products (excluding breeders) increased by 9% YOY, to 190,000 tonnes in total (see Figure 16). In terms of product category, frozen chicken feet imports have been flat, while imports of chicken wings and other frozen cuts have increased by 32% and 6%, respectively.

Figure 15: China DOC and live chicken price Jan 2011-Apr 2015



Source: MOA, Rabobank, 2015

Figure 16: China poultry imports, Jan 2012-Mar 2015



Source: China Customs, Rabobank, 2015

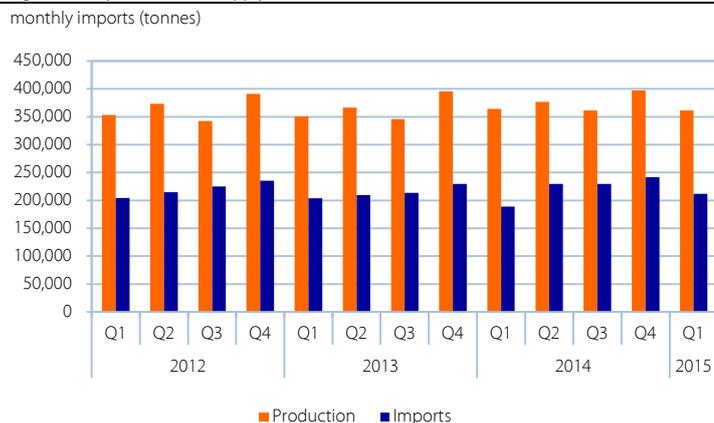
## Japan

The Japanese market is still relatively strong, with increasing prices for legs and breast meat in Q1 2015, compared to Q4 2014. Especially breast meat prices have reached historic high levels. The high local prices are a reflection of the ongoing weak yen compared to the US dollar, which results in imports being comparatively expensive amid relatively good demand (see Figure 17). This should usually push more local production, but in reality, Japanese production fell in Q1, to its lowest level since 2013. Some avian flu outbreaks in breeding flock earlier this year have had impact on supply, but the outlook seems better, as Japan has now been officially free of avian flu since the end of April.

Japanese trading houses are still relatively reluctant in their buying behaviour, despite ongoing low stock levels. One of the key reasons is relatively expensive imports from China and Thailand (due to their strong currencies). Some traders have moved from buying processed products from these traditional suppliers to raw meat from Brazil, which is competitively priced against Thai and Chinese supply. China has been the big loser in Q1, with sharply declining export figures to Japan.

The outlook for the Japanese market remains strong. Supply is still relatively tight, and imports—especially from Thailand and China—are expensive. This should support margins for local suppliers, as feed costs are expected to remain around current price levels. Brazil remains well-positioned to benefit from its relatively good pricing position in the Japanese market.

Figure 17: Japan domestic supply, 2012-2015



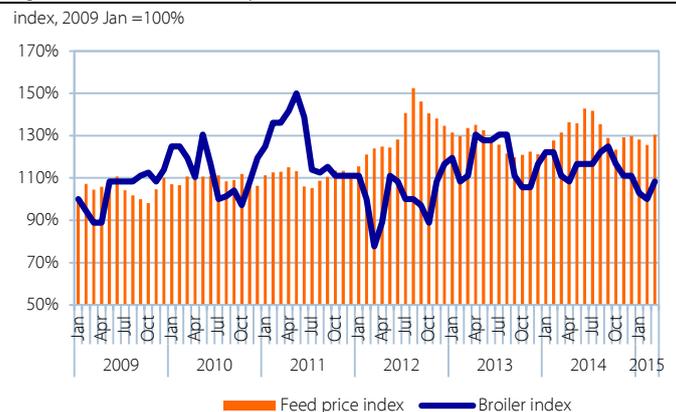
Source: ALIC, 2015

## Thailand

The Thai poultry industry is still being challenged by difficult market fundamentals. The local economic situation has declined, and this has made consumers more price-conscious. Prices for competing proteins (beef, pork and egg) have declined sharply in the previous months, and this has also pushed chicken companies to reduce prices. Feed prices in Thailand now tend to be stable after earlier drops in Q2 2014 and Q3 2014, while DOC prices have recently started to increase amid worries over future supply (see Figure 18).

The export market is being challenged by a strong baht. Compared to competing exporters (especially Brazil), this provides Thai exporters with very limited pricing power in international markets. Having said this, export volumes from Thailand have remained strong, and the industry has gained market share from other competing exporters like Brazil, the US, the EU and China. Especially raw chicken exports have been strong, doubling compared to Q1 2014, to 64,000 tonnes, with strong demand from the EU and Japan. Cooked exports increased 1%, whereby lower EU exports have been compensated by strong exports to Japan. Prices for both cooked and raw chicken exports declined, with especially weaker prices for exports to the EU (-4% for cooked meat and for raw poultry). The outlook for the Thai poultry industry remains challenging and depends a lot on the strength of the baht and the local economic situation. Based on current indications, the outlook for Q2 and Q3 remains challenging, and supply reduction should be the key tool for margin improvement.

Figure 18: Thai broiler-to-feed price monitor, 2009-2015



Source: Bloomberg, 2015

## India

Poultry prices increased sharply in Q2, after falling to the lowest points in March this year, driven by better seasonal demand and shortage caused by avian flu outbreaks in some regions. The industry witnessed a profitable Q2, in which profitability returned to a five-year average level (see Figure 19).

India imposed a ban on beef in its western states. This also happens to be the key poultry consumption belt. The ban on beef could lead to higher consumption of poultry in the region. India suffered avian flu in Telangana, and this impacted poultry consumption within the state. Avian flu continues to hurt the industry regionally; however, so far, there hasn't yet been a big scare to derail the consumption sentiment at a larger level.

Domestic soymeal prices increased by 35% in Q2, against the previous quarter, due to lower domestic supplies. Domestic prices remain more than USD 200/tonne higher than global soymeal prices. India could look to the option of importing soymeal, as explored in the past (in which no significant volumes were imported). The industry was able to absorb not only the price hike in soymeal, but also to capture margins driven by high poultry prices, which are hovering around INR 80/kg to INR 90/kg (live bird), the highest levels since 2013. High prices could be counterproductive for the industry, as this will discourage demand for poultry products. We think these high prices are unsustainable and will have to come down in order to maintain demand in the coming quarter. Given the current feed commodities prices, a poultry price above INR 70/kg would be required to maintain profitability in the industry, which is facing a tough time in Q3, with high feed prices on the cards. This will require strong supply discipline.

The industry outlook remains challenging for the rest of the year, due to increased feed prices and subdued demand. Higher poultry prices could result in lower-than-expected growth for 2015, which was initially pegged at 6%.

## Indonesia

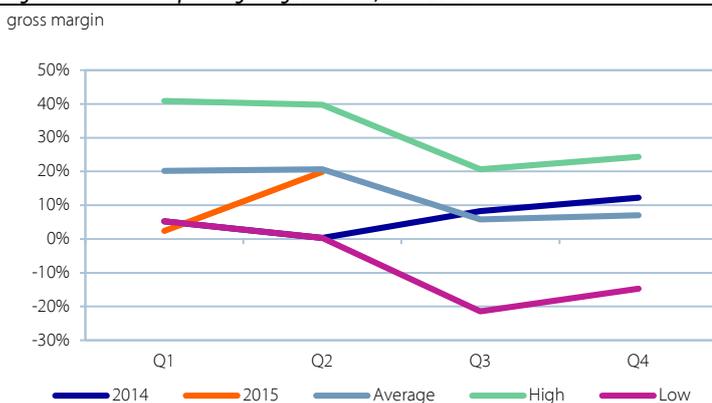
The industry continued to limp through the supplies market in Q1. The oversupply situation still prevails in 2015, which has resulted in a correction in poultry prices of almost 9% since the beginning of the year (see Figure 20). Lower prices made it very challenging for producers, impacting industry profitability hard.

The industry witnessed negative margins throughout Q1 and into Q2, driven by lower poultry prices and high input costs. Although a recent increase in DOC is seen as a sign of reduction in DOC supply, challenging conditions will continue to prevail in Q2, and the industry will require strong supply discipline.

Poultry companies continue to undercut each other in order to capture higher market share, resulting in margin pressure. The leading poultry players witnessed significant declines in profit as a result of an oversupplied market and challenging market conditions. The industry will also feel pressure on feed prices, driven by the government focus on reduced corn imports, compared to last year.

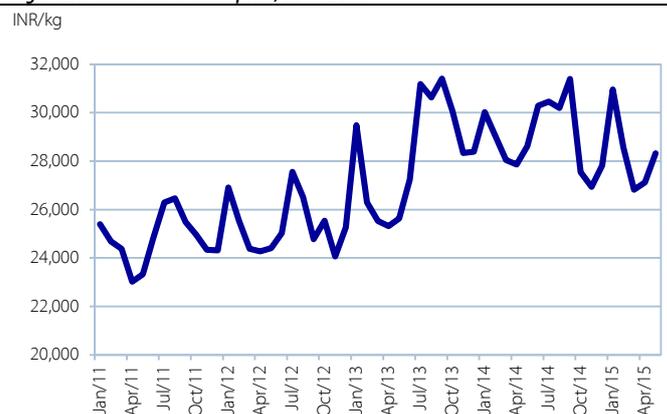
Demand for chickens is expected to increase by the end of Q2 and Q3, driven by relatively lower inflationary pressures and festive demand on the back of Ramadan.

**Figure 19: Indicative operating margins in India, 2014-2015**



Source: ALIC, 2015

**Figure 20: Indonesia chicken price, 2011-2015**



Source: Bloomberg, 2015

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