Agri Trends

27 October 2017

The impact of the credit downgrade on the agricultural sector

The expected increase in government debt to 61% of GDP by 2022 raises South Africa's risk for a credit downgrade, which will impacting negatively on the cost of production inputs such as fertilizer, fuel and agricultural technology as a result of a depreciating Rand.

Agricultural producers in South Africa do not receive government support and are reliant on access to affordable precision technology, machinery and implements. As the budget speech impacted negatively on the Rand the cost of these technologies that ensure productivity and competitiveness on global markets are impacted negatively.

The Rand weakened during the MTBPS speech from R13.75 to R13.94 as business confidence deteriorates. As a net exporter of agricultural products, the South Africa agriculture sector is hedged against increased policy uncertainty. However, a weaker Rand may paradoxically improve the rate of maize exports and earnings from agricultural exports.

Contents

Contact us at Absa AgriBusiness:

Karabo.Takadi@absa.co.za
Wessel.Lemmer@absa.co.za
Conce.Moraba@absa.co.za
https://www.absa.co.za/business/sector-solutions/agribusiness/trends-and-reports/

Maize market trends

International

Week-on-week yellow maize No 2 gulf price increased from a weekly average of US$149.72/ton to $148.34/ton.

Bullish factors

- Decent US export data may have added support to prices.
- The International Grains Council has cut its forecast for global corn stocks to a four-year low, quoting a larger estimate for industrial use in China, as the country sets off on ethanol industry expansion.

Bearish factors

- Plentiful supplies from the US harvest as well as easing concerns about weather in South America kept a bearish tone hanging over the corn market.
- Dollar strength may negatively impact on recent US corn, soy export data. A stronger dollar cuts the competitiveness of dollar-denominated exports, including many agricultural commodities.

Domestic

By 26th October , week on week new season white maize prices for delivery in Dec 2017 increased by 5.16% (R99) from R2019/ton to R1920/ton, Jul 2018 contracts increased by 4.3% week-on-week from R2062/ton to R2150/ton . Week-on-week new season yellow maize prices for delivery in Dec2017 increased by 4.97% (R100) from R2013/ton to R2113/ton. Prices for delivery in Jul2018 for yellow maize were recorded at R2218/ton.

Bullish factors

- The Rand traded at R14.18 by close of business yesterday. The Rand weakened since yesterday 12:30 short before the budget speech from R13.74 to R14.30 at 12:40 (24 hours later). This is a decline of 4%. In broad terms the movement support maize prices (Underlying strength of about R150/ton) and export parity in favour of maize exports and offer a selling opportunity for maize producers. New season maize prices increased today between R37/ton to R45/ton. Usually, plantings above market expectations would lead to a further decline in maize prices. At a R100/ton difference exporters might rush to log additional exports.

Bearish factors

- Producers indicated on the 26th October that they intent to plant compared to last year (in red brackets total production based on last year's record yield – it is unlikely to repeat but it gives a quick perspective.)
    - more hectares to yellow maize (8,2%) [7,41 million ton vs 6,85 million ton]
    - less hectares to white maize (14,5%) [8,46 million ton vs 9 89 million ton] in total 6% less maize 2 470 400 ha vs 2 628 600 ha in 2017 [15,87 million ton vs 16,74 million ton].
- Maize planting intentions still indicate a great number of farmers planning to plant maize as their main/primary crop again in the new season.

Outlook

Producers indicated on the 26th October that they intent to plant compared to last year (in red brackets total production based on last year's record yield – it is unlikely to repeat but it gives a quick perspective.)

- more hectares to yellow maize (8,2%) [7,41 million ton vs 6,85 million ton]
- less hectares to white maize (14,5%) [8,46 million ton vs 9 89 million ton] in total 6% less maize 2 470 400 ha vs 2 628 600 ha in 2017 [15,87 million ton vs 16,74 million ton].

Maize planting intentions still indicate a great number of farmers planning to plant maize as their main/primary crop again in the new season.

Easing concerns about weather in South America may add a bearish tone to this market.

Yellow Maize Futures: 26 October 2017	Dec-17	Mar-18	Jul-18	Sep-18
CBOT ($/t)	137.98	143.50	149.80	152.45
SAFEX (R/t)	2113	2183	2218	2247
SAFEX (R/t) *Change week on week (w/w)*	100	122	89	61

Dec-17			Mar-18			Jul-18		
Ask	Put	Call	Ask	Put	Call	Ask	Put	Call
2,060	44	97	2,200	177	140	2,260	239	197
2,020	30	123	2,160	155	158	2,220	217	215
1,980	19	152	2,120	135	178	2,180	195	233

Table 2: Weekly average white maize futures and estimated option prices

White Maize Futures 26 October 2017	Dec-17	Mar-18	Jul-18	Sep-18
SAFEX (R/t)	1936	1983	2075	2115
SAFEX (R/t) *Change w/w*	33	35	23	0

Dec-17			Mar-18			Jul-18		
Ask	Put	Call	Ask	Put	Call	Ask	Put	Call
2,060	90	49	2,100	184	148	2,200	264	214
2,020	67	66	2,060	162	166	2,160	241	231
1,980	49	88	2,020	141	185	2,120	219	249

Wheat market trends

International

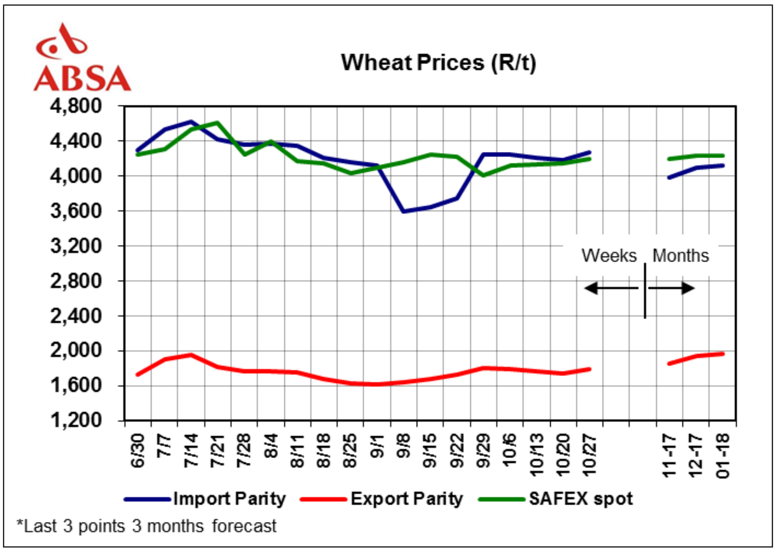
The weekly average old season HRW wheat Gulf price reduced from US$181.83/ton to US$176.73/ton week on week Global wheat stocks still remain high in Canada and The US, irregardless of the poor spring wheat weather and the reduced planted acreages. The US crop emergence is slightly behind normal. Good moisture levels are anticipated to support early crop development.

<ins>Bullish factors</ins>

- Fears of a large reduction in the Australian crop after poor weather add support to this market.

<ins>Bearish factors</ins>

- US wheat planting is reportedly going well. Improving moisture conditions in the US Plains boosted prospects for the crop that is currently being seeded there.
- Climatic conditions are still appropriate for plantings in Europe, including the Black Sea area where beneficial rains are easing the soil moisture deficit.



Domestic

On October 26th, wheat prices for delivery in Dec2017 increased by 2% (R91) from R4200/ton to R4195/ton Mar2017 prices also increased by 2% also from R4224/ton to R4311/ton, week on week.

<ins>Bullish factors</ins>

- The main wheat producing province, the Western Cape, is experiencing dryness. This is negatively impacting on wheat production expectations. The latest crop estimate committee's third production forecasts of winter crop (2017) shows commercial production of wheat at 1,655 million tons, which is 3,58% or 61 400 tons lower than the previous forecast of 1,717 million tons.
- The latest weather update form the Department of Agriculture for Sep/Oct 2017 indicate that rainfall over most areas of the province remained below normal of which the West Coast, Cape Winelands and Central Karoo experienced conditions most severe. Agriculture in the province remained dramatically affected by the harsh drought conditions due to the continuing below normal rainfall and above normal temperatures. The average level of major dams has decreased to 37% in 2017 as compared to 61% of 2016.

<ins>Bearish factors</ins>

- Crop harvests expected to be normal in Northern and parts of eastern Free State.

Outlook

Internationally wheat prices are expected to remain under pressure well into the next year, because of large global stocks & crop, thanks to the Black Sea great crop prospect.

The main wheat producing province, the Western Cape, is experiencing dryness. This is negatively impacting on wheat production expectations. The latest crop estimate committee's third production forecasts of winter crop (2017) shows commercial production of wheat at 1,655 million tons, which is 3,58% or 61 400 tons lower than the previous forecast of 1,717 million tons. Normal wheat harvests are expected in the eastern parts of the Free State and in the Northern Cape. The area received some frost during the week but no significant damage was recorded. Swartland area expected to yield between average to poor harvest in the northern parts as well as parts of the West Coast.

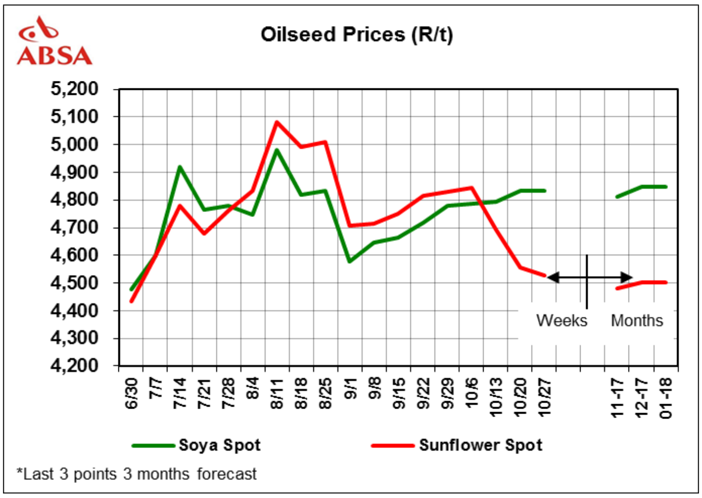
Wheat Futures 26 October 2017	**Sep-17**	**Dec-17**	**Mar-17**	**Jul-18**
CME ($/t)	165.44	170.58	181.70	188.31
SAFEX (R/t)		4236	4311	4344
SAFEX (R/t) *Change w/w*		91	87	80

Dec-17			**Mar-18**			**Jul-18**		
Ask	Put	Call	Ask	Put	Call	Ask	Put	Call
4,280	107	63	4,360	186	137	4,380	245	209
4,240	84	80	4,320	164	155	4,340	224	228
4,200	65	101	4,280	143	174	4,300	203	247

Oilseeds market trends

International

The weekly average USA soybean price decreased week on week from US$374.78/ton to US$365.04/ton. US soya oil prices increased from US$33.72/ton to US$34.43/ton and soymeal prices also traded lower from US$321.28/ton to US$314.40/ton.
Ample supplies from the US harvest as well as easing concerns about weather in South America may add a bearish tone to this market.



Bullish factors

- Higher than anticipated exports and consumption of palm oil in the world have affected the recovery process of palm oil stocks in Malaysia and Indonesia.

Bearish factors

- Ample supplies from the US harvest as well as easing concerns about weather in South America may add a bearish tone to this market.
- Expectations are broadly positive over rains to boost Brazilian soybean plantings. The improvement of rainfall and of planting conditions in central Brazil in recent days added to price pressure yesterday even though additional rainfall will be required in the near term for planting conditions to improve sufficiently.
- The recent weakness of soybean prices in China, caused by abundant supplies from the domestic crop and large imports, spilled over to the world market.

Domestic

On October 26th , sunflower seed prices (Dec17) decreased week on week by 1.2% (R55) from R4559/ton to R4504/ton while soybean (Dec17) prices increased marginally by 0.3% from R 4835/ton to R4849/ton. Sunflower seed prices fared lower than soybean prices for all future contract deliveries. Higher international soybean prices, supported by weather concerns in South America supported local positive price movements in soybeans.

Bullish factors

- The positive crushing margin for sunflower seed and consequent local demand support sunflower seed prices.

Bearish factors

- Ample supplies from the US harvest as well as easing concerns about weather in South America may add a bearish tone to this market.
- Expectations are broadly positive over rains to boost Brazilian soybean plantings. The improvement of rainfall and of planting conditions in central Brazil in recent days added to price pressure yesterday even though additional rainfall will be required in the near term for planting conditions to improve sufficiently.
- The recent weakness of soybean prices in China, caused by abundant supplies from the domestic crop and large imports, spilled over to the world market.
- US Soymeal market prices stopped moving higher and came under pressure. Traders blame the sharply higher US dollar which boosted crop prices for export buyers.
- Sunflowers seed plantings will increase by 4,7% to 665 500 ha vs 635 750 ha
- Soybean plantings will increase by 25,4% to 720 000 ha vs 573 950 ha

Outlook
International soybean prices have taken a bullish trend. The weaker Rand value supported local soybean prices.

The weather in South America will remain the major soybean price determinant in the coming weeks. Ample supplies from the US harvest as well as easing concerns about weather in South America may add a bearish tone to this market.

Oilseeds Futures 26 October 2017	**Dec-17**	**Mar-18**	**Jul-18**	**Sep-18**
CBOT Soybeans (US$/t)**	361.01	364.87	371.11	367.99
CBOT Soy oil (US c/lb)	34.50	34.88	35.28	34.82
CBOT Soy cake meal (US$/t)*	348.46	354.18	359.78	359.01
SAFEX Soybean seed (R/t)	4849	4920	5090	
SAFEX Soybean seed (R/t) change w/w	14	20	69	
SAFEX Sunflower seed (R/t)	4504	4623	4760	
SAFEX Sunflower seed (R/t) change w/w	-55	-18	-11	

Sunflower Calculated Option Prices (R/t)

Dec-17			**Mar-18**			**Jul-18**		
Ask	Put	Call	Ask	Put	Call	Ask	Put	Call
4,540	158	122	4,660	276	239	4,800	354	314
4,500	137	141	4,620	254	257	4,760	332	332
4,460	117	161	4,580	234	277	4,720	311	351

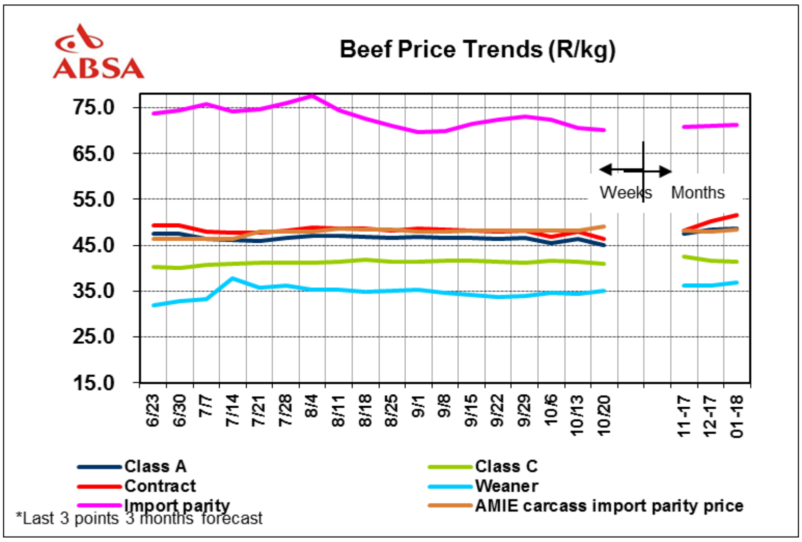
***short ton**

**** Dec 2017 = Jan 2018**

Beef market trends

International

New Zealand steers traded sideways over the past week at 5.64NZ$/kg and cows traded sideways at 4.25NZ$/kg compared to a week ago. In the US, beef prices for the week were mostly higher as follows: Topside traded 0.17% higher at $214.42/cwt. Rump was 2.41% lower at $249.58/cwt and strip loin was 0.23% higher at $508.03/cwt. Chuck traded 0.09% higher at $223.31/cwt. Brisket traded 1.22% higher at $238.45/cwt. The carcass equivalent price was 0.29% higher at $281.70cwt.



Bullish factors

- A shortfall of over 100,000 head of cattle processed in New Zealand during the 2016/17 season contributed to a much smaller beef export volume. September export data shows that New Zealand's exported 430,000 tons of beef in 2016/17, which is a decline of 36,000 tons on the previous season.
- Decent domestic and international demand for US beef adds support to US beef prices.

Bearish factors

- The combined inventory of beef, pork and poultry in cold storage at the end of September 2017 was 2.496 billion pounds, which is 2.2% higher than the previous year and the largest amount of meat in cold storage since October 2002. The total higher meat production may weigh on prices.
- The latest data showed that heifer placements in the US have increased substantially in recent months, encouraging the supply of cattle that will be available for marketing later this year and in the first half of 2018.
- US Department of Agriculture has indicated that global production may grow by almost 2% in 2018 at 62.6 million tons with the US and Brazil alone accounting for about half of the growth. In the US, production is expected up nearly 3% in 2018 to a record 12.4 million tons, as the US enters the fourth year of its herd expansion. Increased production in Brazil will be encouraged by expanding exports.

Domestic

The latest beef prices show a slight retreat from last week. Over the past week, beef were mostly lower across the different classes. The average Class A prices are 3.1% lower at R44.93/kg. Class C prices were 0.71% lower at R41.06/kg. The average weaner calf prices over the past week were 1.6% higher at R35.08/kg. The average hide price over the past week continued to remain under pressure, and was 0.94% lower at R12.12/kg green. NB* Hide prices are determined by the average of the RMAA (Red Meat Abattoir Association) and independent companies.

Bullish factors

- Beef prices are expected to gain support from increased uptake during month end.
- Grazing conditions already improved in some areas and as the summer progresses it will have a strong re-growth that will enable farmers to rebuild their livestock herds.
- It a norm for producers to hold back onto their animals during rainy season, with the hope that the rains would improve grazing conditions. The retention of animals during the rainy season leads to an even smaller herd. Neutral to weak La Niña conditions are still favoured for the season up until at least March/April 2018.

Bearish factors

- Consumers are under pressure and some may not be willing to pay more for beef. This may result in a switch to other cheaper products.

Outlook

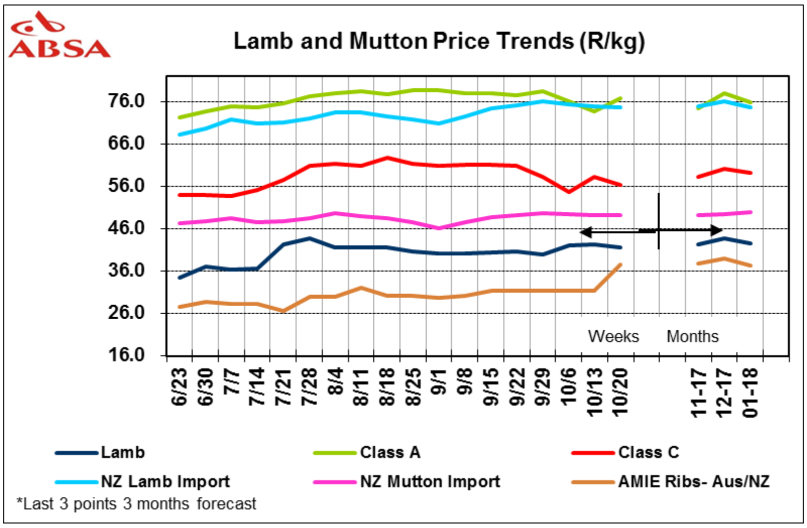
Internationally, higher expected global beef production in 2018 may weigh on prices.

Domestically, beef prices will be supported by increased uptake during month end and in line with seasonal trends.

Sheep meat market trends

International

New Zealand lamb prices traded sideways this week compared to last week. Lamb prices closed the same at NZ$107.6/head for 15kg lamb. Lamb prices were the same at NZ$150.7/head for 21kg lamb. Ewe prices traded 0.55% higher at NZ$90.8/head for a 21kg ewe. The import parity price for lamb was 0.47% lower at R74.68/kg, while the import parity price for mutton was sideways at R49.15/kg.



<u>Bullish factors</u>

- Demand for New Zealand's lamb and mutton from China is strong. This may be in preparation for the Chinese New Year.
- Demand for New Zealand's sheep meat from the EU market remains very strong, but demand is mainly driven by low supply as opposed to demand fundamentals. A price correction is expected once supply increases.
- Saleyard lamb prices in Australia are expected to increase in 2017/18 as a result of firm export demand and continued flock rebuilding.

<u>Bearish factors</u>

- There is a growing concern that consumer resistance to the continuing high prices in New Zealand may weigh on prices.
- Alternative proteins are cheaper and pose a constant threat to this market.
- Greater volumes of Australian sheep meat are reported in the market, which has the potential to weigh on the market.

Domestic

Lamb and mutton prices were mostly higher across the different classes over the past week. Lamb and mutton prices were as follows: The national average Class A lamb prices increased by 4.3% to R76.84/kg and the average Class C prices decreased by 2.9% to R56.48/kg. The average price for feeder lambs traded 1.5% lower at R41.73/kg. The average price for dorper skin is 5.09% lower at R37.30/skin and merinos were 14.43% lower at R94.32/skin.

<u>Bullish factors</u>

- Strong seasonal demand during the warmer months may add support to prices. Compared to this time a year ago, lamb prices have increased by roughly 33%.
- The sheep meat market may be supported by increased buying activities during month end.

<u>Bearish factors</u>

- Consumer resistance to high lamb and mutton prices may increase price risk. Lamb and mutton remain the most expensive meat on the market. The South African consumer is currently under pressure.

Outlook

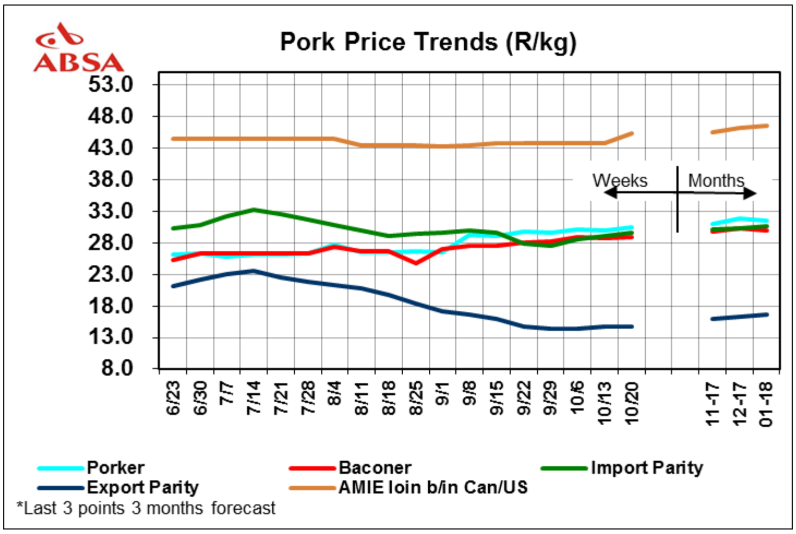
Internationally, the demand for the sheep meat market remains strong, however, there is growing concern that consumer resistance to the continuing high prices may weigh on prices.

Locally, lamb and mutton prices may gain support as the warmer temperatures are supportive to outdoor grilling. Month end buying activities are also expected to support this market.

Pork market trends

International

The average weekly US pork prices were mostly higher over the past week. Carcass prices were 1.1% higher at US$73.97/cwt, loin prices were 1.3% higher at US$74.11/cwt, rib prices were 1.7% higher at US$117.21/cwt and ham was 3.4% higher at US$65.68/cwt.



Bullish factors

- The increase in US pork production has reinforced US exports. The large inventory in cold storage underscores the need for robust US meat protein demand, both from domestic and export sources this coming quarter.
- Strong international demand may support the pork market.

Bearish factors

- The combined inventory of beef, pork and poultry in cold storage at the end of September was 2.496 billion pounds, 2.2 per cent higher than the previous year and the largest amount of meat in cold storage since October 2002. The seasonal increase in pork inventories during September outpaced that of recent years. At the end of September there were 616.3 million pounds of pork in cold storage, a 7.1% increase from the previous month.
- China's pork production is expected to increase for the second consecutive year in 2018 as producers respond to positive returns. Additions to the sow herd and higher finished weights will both drive production during 2018.

Domestic

Pork prices continued to strengthen week on week. In general, pork prices have strengthened recently, and are trading at favourable levels. The latest average pork prices are as follows: The average porker prices are 1,4% higher at R30.45/kg, while the average baconer prices are 0.2% higher at R28.87/kg. The average cutters prices were 1.71% higher at R29.7/kg whilst the average heavy baconer price was 1.1% higher at R27.35. The SAU price was R21.41/kg.

Bullish factors

- Prices may gain support from increased uptake during month end.
- Pork prices may be supported by seasonality and underlying support from higher lamb, mutton and beef prices.

Bearish factors

- Lower feed costs will support the intensive pork industry, improving profitability. The lower feed costs are encouraging to the fattening of pigs. The pork industry is very sensitive to maize prices, with the lower prices positive for this industry as it lowers input costs.

Outlook

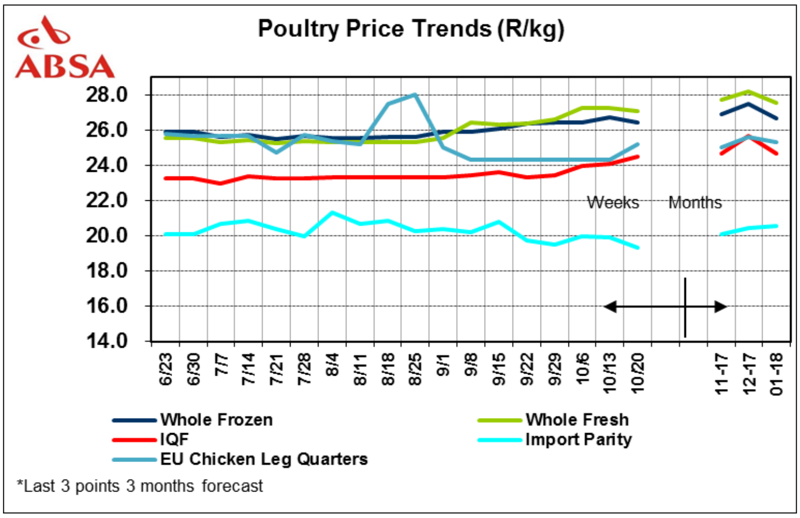
Internationally, the strong global demand for this market may support pork prices during the time of plentiful supplies. Pork production is expected to increase in 2018 primarily on expansion in China and to a lesser extent the US.

Locally, pork prices may gain underlying support from the higher lamb, mutton and beef prices as well as improved demand as the warmer weather encourages braaing.

Poultry market trends

International

Poultry prices in the US were mostly lower over the past week. Whole bird prices were 2.64% lower at 82.21USc/lb. Breast traded 0.49% higher at 102.50USc/lb, while leg quarters traded 3.90% lower at 37.00USc/lb.



Bullish factors

- Tight international supplies on the back of bird flu outbreaks are supportive to poultry prices.
- Improved international demand during the time of supply restrictions may support prices.
- The poultry market is also supported by the better than expected pork and beef prices, as well as continued low feed prices.
- The impact of low breeding stock imports, as well as environmental regulations continues to affect the poultry market.
- As Brazil recovers from a slow first half of 2017 following quality issues, exports are forecast almost 4% higher in 2018.

Bearish factors

- Global poultry trade volumes have been negatively affected by the Avian Influenza (AI) outbreak, with many importers restricting trade from countries with AI outbreaks. Trade reductions were also restricted by the Brazilian meat scandal earlier in the year.
- Chicken supplies remain burdensome. Disruptions from Hurricanes Harvey, Maria and Irma may have significantly impacted US chicken trade in September and caused product to be backed up in storage.

Domestic

The average poultry prices over the past week were mostly lower. The average prices for frozen birds were 1.09% lower at R26.42/kg during the week. Whole fresh medium bird prices were 0.80% lower at R27.05/kg, while IQF prices were 1.60% higher at R24.49kg.

Bullish factors

- At this stage there is significant impact on particularly egg supply due to bird flu outbreaks. As a result of the bird flu, consumers can expect to as much as R3 more per dozen of eggs in the coming months due to supply shortages caused by the continued culling of chickens. The cost impact could flow further to producers of goods that use eggs as ingredients and ultimately to the consumer.
- Poultry remains the least expensive protein meat, which may encourage consumer demand.
- Underlying support from the beef industry is supporting the poultry market.
- Ongoing import restrictions from the EU, (on the back of Avian Influenza) remain a supporting factor for the poultry industry.

Bearish factors

- The return of imports from the EU may weigh on prices
- Exports of chicken products have been negatively affected by Avian Influenza outbreak.
- Reasonable compensation of producers affected by the bird flu outbreak is important to prevent further spread of this disease. Non compensation may discourage producers to report the disease, which may lead to further spread. SAPA had an engagement with DAFF and they have indicated that they have made a further request to National Treasury for funding to facilitate compensation.
- Feeding margins have improved on the back of lower maize prices this season.

Outlook

Internationally, the aftermath of Avian influenza outbreaks and strong international demand may continue to support poultry prices. The risk for Avian Influenza to return in the northern hemisphere during winter may support prices.

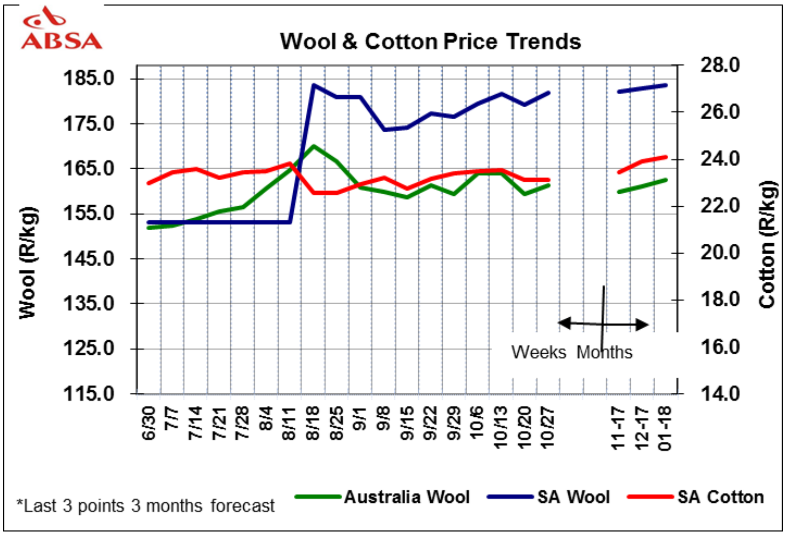
Locally, prices may follow an upward trend based on seasonal trends and as the impact of bird flu may start to influence production. The low feed prices are positively contributing to poultry margins.

Livestock prices (R/kg) week 27 Oct 2017	Beef			Mutton			Pork			Poultry		
	%	**Cur-rent week**	**Prior week**	**%**	**Cur-rent week**	**Prior week**	**%**	**Cur-rent week**	**Prior week**	**%**	**Cur-rent week**	**Prior week**
Class A/ Porker/ Fresh birds	-3.1	44.93	46.37	4.3	76.84	73.70	1.4	30.45	30.03	-0.8	27.05	27.27
Class C/ Baconer/ Frozen birds	-0.71	41.06	41.35	-2.9	56.48	58.18	0.2	28.87	28.81	-1.09	26.42	26.71
Contract/Baconer/ IQF	-3.03	46.44	47.89	5.9	77.36	73.04	0.8	29.66	29.42	1.60	24.49	24.11
Import parity price	-0.47	70.23	70.56	0.0	49.15	49.15	0	32.8	32.8	-2.8	19.35	19.91
Weaner calves/ Feeder lambs	1.6	35.08	34.52	-1.5	41.73	42.37		-	-			
Specific imports: Beef trimmings 80vl/b/ Mutton shoulders/Loin b/in/ chicken leg 1/4	1.7	49.00	48.20	-1.0	59.00	59.60	4	45.40	43.80	3.7	25.20	24.30

Wool market trends

International

The Australian wool market prices averaged higher this week and closed 0.64% higher at Au1578c/kg at the recent auction.



Bullish factors

- Analysts have reported that demand for Australian Merino wool strengthened further this week due to strong demand.
- Prices remain underpinned by solid demand, particularly from China. The increase largely reflects growth in China's domestic demand for woollen apparel in response to strong economic growth and rising incomes
- The deterioration of the Australian currency supported prices at the recent auction.

Bearish factors

- High wool prices may weigh on future demand.
- The market is expecting plentiful supplies to be on offer at the next auction in Australia, which might weigh on prices.
- In 2017/18, Australian shorn wool production is forecast to increase by 4% to 353,000 tons. There is as an expected increase in the number of wethers and the maturation of recent additions to the national flock, which is expected to partly offset declines in yields.

Domestic

The last sale was on the 25th of October 2017. Domestic wool market prices were 1.56% higher to close at R181.99 (clean) at the past sale. The next sale is scheduled for 01 November 2017 where approximately ±10 013 bales will be on sale.

Bullish factors

- The Rand was 2,1% weaker against the US Dollar and 2,2% weaker against the Euro, compared with the average rate at the previous sale
- Strong competition between buyers continued to support prices.

Bearish factors

- 7.3% more volumes were offered at the latest auction, compared to the previous sale.

Outlook

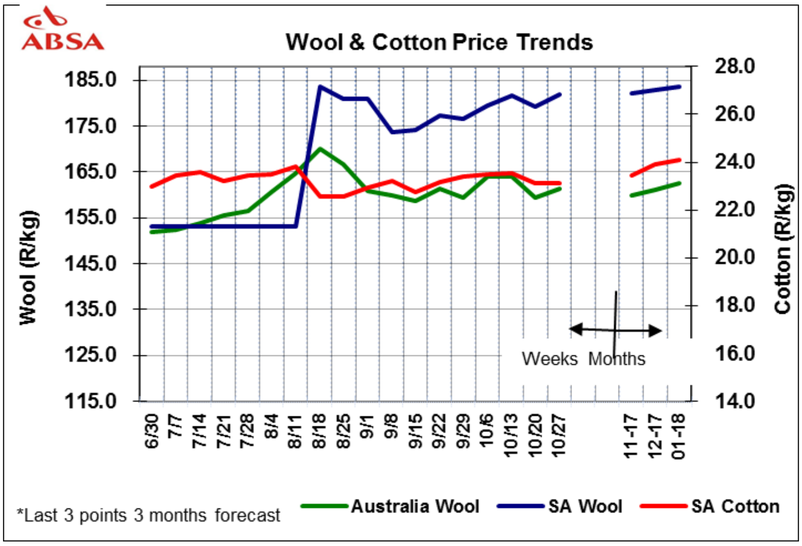
Internationally, wool prices are forecast to increase in 2017/18 as growth in global demand for fine wool outpaces growth in supply.

Locally, wool prices may remain strong on the back of strong demand for South African wool.

Cotton market trends

International

Cotton prices traded 1.61% lower over the past week and closed at US65.96c/lb.



Bullish factors

- Cold weather, including freezing temperatures is expected for the southern Plains of the US, including the top US producing state of Texas, which may negatively impact on yields.
- Good demand for US supplies is supportive to prices. Recent data on Thursdays showed strong export sales.
- There are some talks of strong Chinese demand for the cotton fibre.

Bearish factors

- Rabobank kept a short-term bearish outlook on New York cotton futures, saying that the US crop "came away relatively unharmed" from recent hurricanes, and saying that "fundamentals continue to point towards higher world supplies".
- Cotton production forecasts has been increased about 100,000 bales by the US department of Agriculture as larger expected crops in Argentina, Brazil, and Greece more than offset the reduction in the forecast for the US.

Domestic

The derived SA cotton prices traded 1.84% lower to close at R23.10/kg. The declines in prices were in line with the decreases in international prices, and pressure from the strength in the South African rand. Some maize producers may switch their maize planting area to cotton to leverage off better profit margins. Maize prices are low, due to the surplus and large carry-over stocks are expected for the new season due to low export activities. As a result, producers are under pressure to plant less maize this coming season. The cotton production experienced increases for the past two seasons, and the same is expected for the 2017/18 planting season. Prices that producers can realise are now known beforehand at planting time as they are able to hedge prices in advance, which gives producers certainty.

Outlook

Internationally, cotton prices may enjoy support from cold weather, including freezing temperatures expected this coming weekend for the southern Plains and the top US producing state of Texas, which may negatively impact on yields.

Locally, the exchange rate movement may continue to affect the domestic market prices.

Fibres market trends Week ended 27 October 2017								
Wool prices	**%**	**SA prices (c/kg)**	**%**	**Australian prices (SA c/kg)**	**%**	**Australian future Dec 2017 (AU$/kg)**	**%**	**Australian future Mar 2018 (AU$/kg)**
Wool market indicator	1.22	16729	1.56	18199		-		-
19µ micron	1.59	20206	2.04	20780	0.54	18.50	-1.11	17.80
21µ micron	1.38	16517	-0.90	16676	0.00	15.30	-2.00	14.70
Cotton prices		**SA derived cotton (R/kg)**		**New York A Index (US$/kg)**		**New York future Dec 2017 (US$/kg)**		**New York future Mar 2018 (US$/kg)**
Cotton prices	-1.84	23.10	-1.08	1.72	-1.2	1.477	1.0	1.500

Disclaimer: Although everything has been done to ensure the accuracy of the information, Absa Bank takes no responsibility for actions or losses that might occur due to the use of this information.