

MAIN TARGET IS COST OF MEAT PRODUCTION

Industry grappling with higher feed bills – worst may be over

THE last few months have brought a substantial shift in the economics of poultry production in Europe after sharp rises in feed raw material costs.

A year ago, feed wheat had dropped to its lowest level since the mid-70s, but this autumn it is at its highest levels in the EU for six years (Fig 1).

For users of maize in the southern half of Europe the position is much the same, and the cost of soya, too, has been soaring since the summer. Higher feed costs are already hitting producers and traders have forecast more rises as the season progresses.

However, the cost of cereals may already have reached its ceiling for now. There is, fortunately, a better level of supplies available in the world at large, and prices within the EU have reached the point at which imports can enter the scenario. This would cap any more substantial increases for now and leave future movements in EU

feed costs governed by trends in world prices.

Feed formulation

This sharp hike in feed costs is forcing all companies to look hard at how to reduce the impact on their own businesses, with the cost of feeding and feed conversion coming under close scrutiny.

The price of feed is by no means the only factor, with more companies counting the cost of producing a kg of chicken meat. In the major exporting countries of North and South America where the industry is very cost driven, low nutrient density, high quality feeds are widely used to help maintain their competitive position in the global market. There is growing interest in this approach from European producers.

Ultimate driver

Within the global market place, the ultimate driver of grain prices is as usual the level of export prices for maize and wheat in the



USA. In turn, these prices reflect current expectations for the overall world grain balance. This takes into account likely production levels by major producers along with the best estimates at the time of import demand in deficit countries.

For wheat, all estimates indicate that world supplies will be down this year. Although output is higher in Canada and Australia, the damage done by hot dry weather to the wheat harvest across Europe and the former Soviet Union (FSU) is considerable.

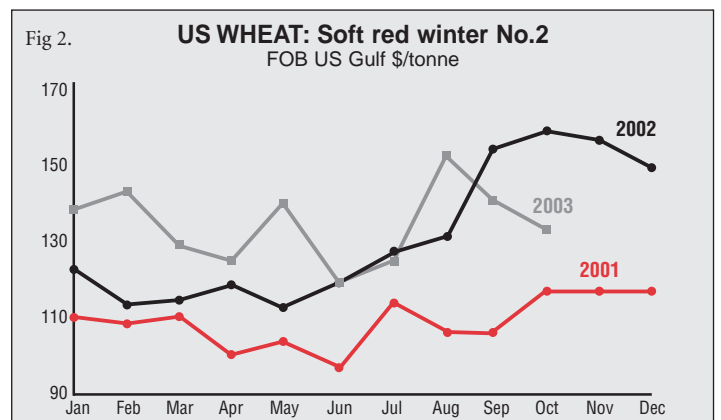
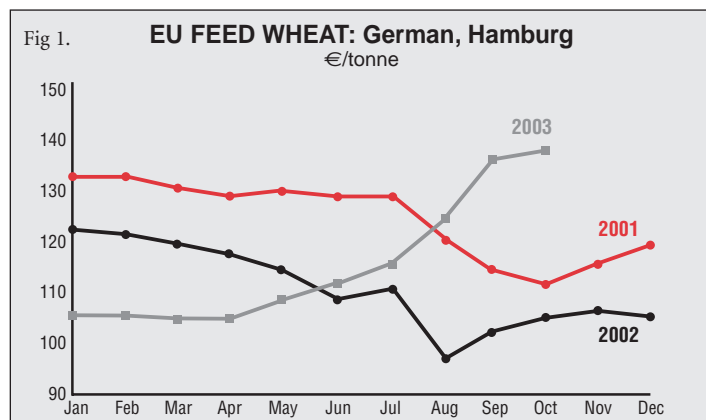
These crop losses get progressively greater from West to East: in the UK, for example, wheat yields are down by just 4% (although output is down by 9%

due to a 5% fall in acreage). In the EU as a whole, however, wheat production is thought to be down 13%; while in central and eastern Europe and Russia, including Poland and Hungary, output is estimated to be down 20-22%. The Ukrainian crop could be cut by half.

Out of equation

One effect of this is largely to take so-called 'Black Sea' wheat out of the equation for the coming season. It was the low-cost wheat from this area that had a markedly suppressing effect on EU grain prices — and hence feed prices — through last season.

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Wheat from this source is no longer showing big discounts on US Gulf maize and wheat. At this time a year ago, Kazakhstan 'class 3' wheat was priced at \$72 a tonne; this autumn it had risen to \$130.

Even so, none of this autumn's crop deficiencies have had any noticeable impact on US FOB prices for wheat (Fig 2). US soft winter wheat in October, at \$132, had been falling for two months and was actually down by \$27 on October 2002. This year, US wheat prices had peaked in August, when the worsening harvest

feed grain market remains vulnerable. Although this year's maize harvest is more than 10% bigger than the drought-reduced crop of 2002, stocks are not expected to recover significantly.

Hostage to fortune

US end-season stocks for 2003/04 are forecast at around 27 million tonnes, compared with the 40-50m tonnes more typical of recent years.

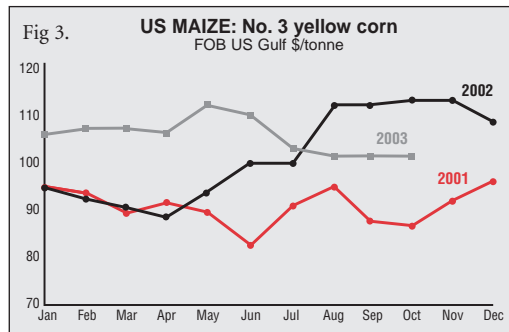
This low level of stocks makes further price falls unlikely and leaves the world grain market something of a hostage to fortune for a further season.

Back within the EU, maize prices have been far more volatile as a result of the hot weather, as in the case of Italy (Fig 4). Since June they exhibited one of the steepest

regions that count, and it is the situation with the US soya crop that is causing problems. The same hot and dry August weather that was largely shrugged off by the US maize crop has done a lot of damage to the soya harvest. Because this is the critical time when the pods are fattening, soya plants are especially vulnerable during August.

All through August, the US Department of Agriculture lowered its forecast of expected yield, and has now predicted the smallest crop since 1996; and acreage has expanded since then. Originally the crop was in good condition, but by the end of August the USDA had downgraded its yield prediction by 8%, which is 4% below the long-term average.

Since July 2002, soya prices had already been running at their highest levels since 1998, due to a tight supply balance on the world



outlook on both sides of the Atlantic had been driving them up. But the fears for the US wheat and maize crops did not materialise.

A clear factor dominating the feed grain outlook for the coming year is a near-record US maize harvest. The hot and dry weather in the US in August was too late to damage the maize crop and prices have remained flat for three months, after declining since May (Fig 3). US maize prices this autumn have been about mid-way between those prevailing in 2002 and 2001.

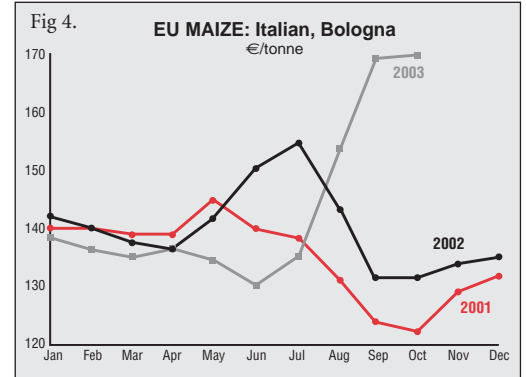
Nonetheless, the international

climbs in recent years as the hot summer began to take its toll.

In the face of this, Brussels has so far been content to let the market sort itself out. If the Commission continues to take a back seat, further price movements within the EU are likely to follow those that occur in world prices. And for the time being, international traders seem to be taking a fairly relaxed view about the supply outlook.

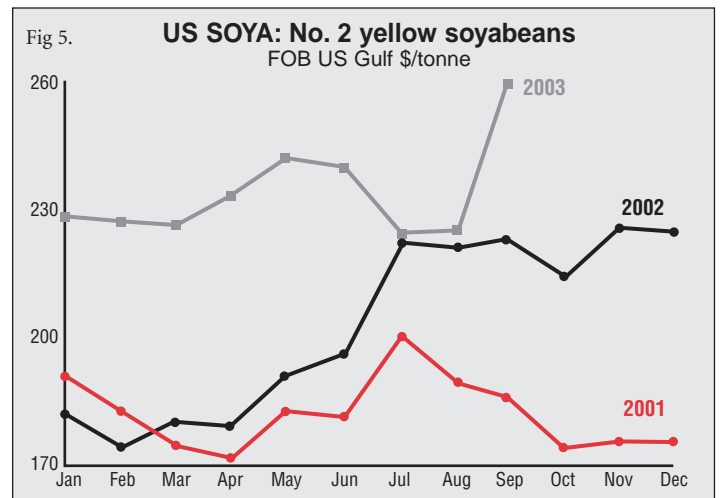
Soya vulnerable

The same cannot be said for soya. In this market, the USA and South America are the production



market. This is as much to do with the increase in demand worldwide as any crop problems.

Developments in August have now pushed them sharply higher (Fig 5). Prices typically level off or ease back after September, and much depends on the outcome of the South American harvest as we move into the early months of next year.



Broiler numbers yet to recover

WHOLESALE prices have remained at high levels throughout the summer across much of Europe in the aftermath of the Dutch avian flu outbreak.

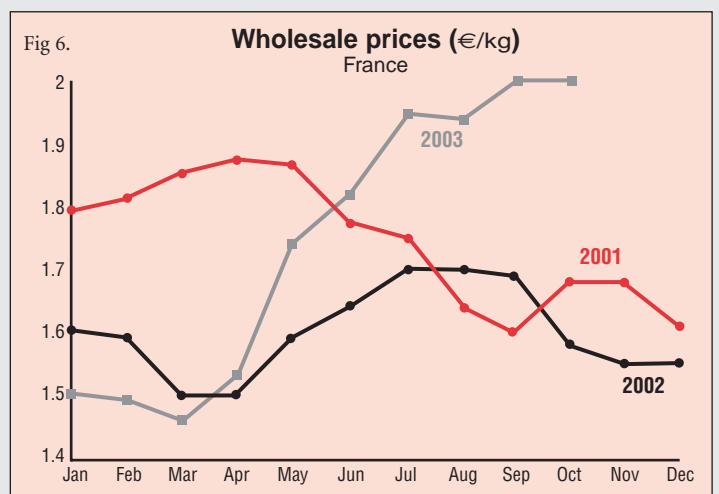
Price trends in France and Germany, for example, show an almost identical pattern (Figs 6 & 7), demonstrating how markets right across the EU were destabilised by the poultry meat shortages centred on The Netherlands.

Prices finally levelled off in July and August after their steep climb since March, and traders

believe that the market will now begin the process of returning to normal.

The sudden loss of output from such a key producing region of the EU has dispelled at a stroke the flaccid market conditions afflicting the majority of member states. The question now is how rapidly the market will adjust to the situation. Predictions that a large section of the Dutch industry will not return to production are unquantified

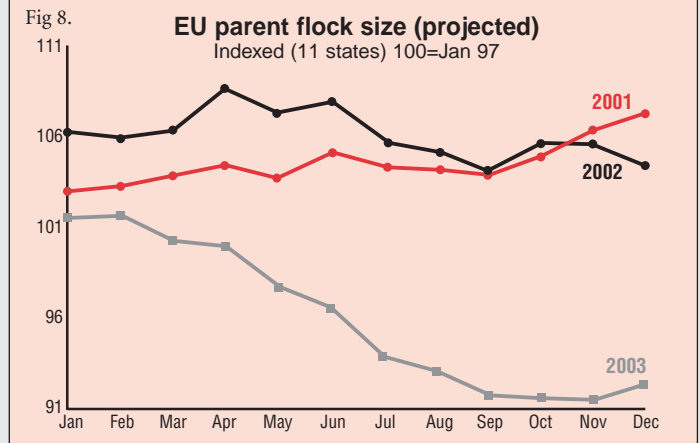
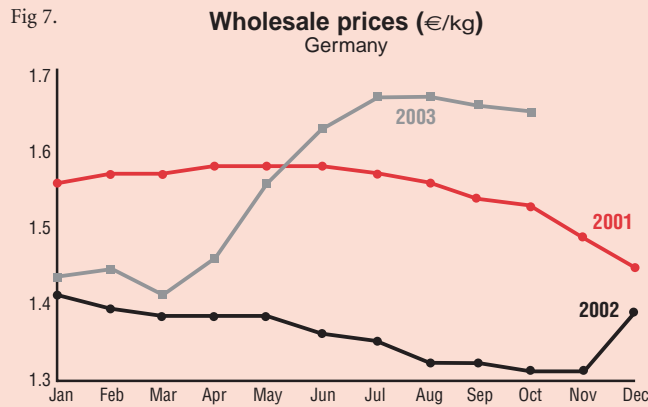
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conjecture; and the Dutch authorities have yet to come up with a 'blueprint' for the future, following the announcement by the agriculture ministry at the end of the outbreak that it would be considering the whole question of intensive poultry farming.

The pattern of commercial

chick placings in the EU as a whole (see back page) indicates that there has been a substantial decline in the number of birds grown this summer. Zero figures have been entered on the chart for Dutch placings since March, and for Belgium since April, because no data has been released by Brussels, but the former in particular will be



massively down and even those for Belgium in April were down by over 50%.

The cut backs are not confined to these two countries. Placings in both Germany and France were down by around 10% in the first half of the year, and French producers have been cutting back every month this year.

The steady contraction of the parent flock (Fig 8) indicates the

cut-backs in the EU industry are more widespread and deep-seated. The peak month for EU parent placings was as long ago as November 2001 (see back page).

The short broiler cycle means it doesn't take long for production to be stepped up, but so far there is no sign that anyone has had the confidence to do so.



Fewer checks on Thai poultry

TESTING for nitrofurans on poultry meat from Thailand was relaxed this summer after EU officials were satisfied that practices and controls have been tightened up at the exporters' end of the production chain.

The tests will now only be applied to 20% of consignments, instead of the 100% testing that has been in force. This regime, carried out in importing member states, was imposed after the discovery of the nitrofurans in March 2002. Residues from nitrofurans antibiotics have been linked to cancer.

The Thai authorities have put in place their own 'quality control' system by which consignments of poultry have to be checked and certified before export. Brussels says that the EU testing regime has confirmed that the Thais have taken the necessary steps.

Despite these problems, Thai poultry exports have continued to rise over the last two years. Thai poultry exports were up

again in the first quarter of this year and Germany took the bulk of this increase. Exports from Thailand to Germany in January-March rose by 170% compared with the same period of 2002, an increase of over 13% to 21,000 tonnes. All of this was in the form of frozen portions.

Total Thai poultry exports worldwide during the first three months of the year came to 137,000 tonnes, primary and processed taken together. This was an increase of 12% on 2002 and 35% on 2001. Frozen portions amounted to 98,000 tonnes, and processed poultry to 39,000 tonnes.

Japan is by far the largest customer for Thai poultry meat but volumes declined in the first quarter. Japan took 60% of all Thai exports in the first three months of 2002 but only 43% this year.

Dutch importers also took less, with the total down from 9,300 tonnes to 8,800 tonnes. However, imports of processed chicken to the UK were up 47% to 9,700 tonnes.



Dying days for Brazil's ban on GM soya

ONCE again, Brazilian farmers are thought to be preparing by the thousand to plant genetically modified (GM) soya crops, in defiance of the existing Government ban on the use of GM soya seed.

However, this defiance is virtually now just a technicality, because a new law to legalise the use of GM soya is already at an advanced stage; and in any case the Government granted a derogation earlier this year to allow farmers to sell illegally-grown GM soya on the open market.

The reason for the latter was to avoid rural hardship in the south of the country, where up to 80% of the soya crop was believed to be illegally planted seed of GM origin — virtually all from seed smuggled in from Argentina — but it was also seen as affirmation that the Government was not really committed to enforcing the ban

on GM crops.

Last year about 12% of the Brazilian soya crop was probably of GM origin, amounting to around 6m tonnes out of a total harvest of 50m tonnes. However, because there is little active segregation of the GM material, a much higher proportion of the Brazilian soya crop is now contaminated to one degree or another.

With the battle to hold back GM cultivation manifestly lost, there has been a clamour from the Brazilian farming sector to pass an emergency law to legalise the plantings which are going to take place anyway.

There is a bill to legalise the planting and sale of GM crops that has already been passed by the lower assembly, but the final draft of the 'biotechnology bill', that will spell out how the use of

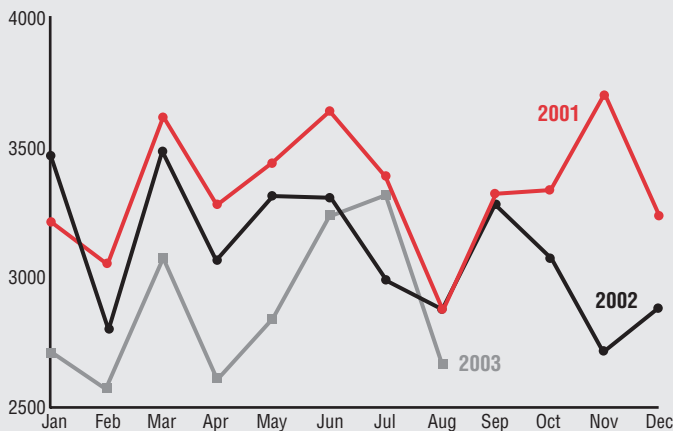
MARKET TRENDS

Feed ingredient prices

National currency/tonne	Current (Sept)	3 months ago (June)	6 months ago (Mar)	9 months ago (Dec)	Year ago (Sept)
US wheat (\$) soft red winter	140	118	129	149	153
US maize (\$) No 3 yellow corn	101	109	107	108	111
US soya (\$) No 2 yellowbeans	260	239	226	225	223
EU feed wheat (£) UK - national average	84	72	61	58	57
EU feed wheat (€) Rotterdam	140	119	114	117	111
EU feed wheat (€) Hamburg	134	110	104	105	102
EU maize (€) Bologna	169	129	134	138	130
S American soya (\$) Argentina/Brazil	268	218	207	223	250

EU female parent chick placings

11 states, thousands



EU broiler prices

€/kg liveweight (except UK & Denmark)

	Current (Sept)	3 months ago (June)	6 months ago (Mar)	9 months ago (Dec)	Year ago (Sept)
Belgium	0.72	0.87	0.83	0.51	0.84
France	0.82	0.83	0.84	0.84	0.86
Germany	0.74	0.72	0.70	0.70	0.71
Italy	1.27	0.91	0.82	0.88	0.85
Netherlands	0.68	0.65	0.66	0.67	0.67
Spain	1.44	0.95	1.16	0.74	0.99
Denmark (DKr)	4.11	4.11	4.11	4.11	4.11
UK (£)	0.50	0.49	0.47	0.48	0.48

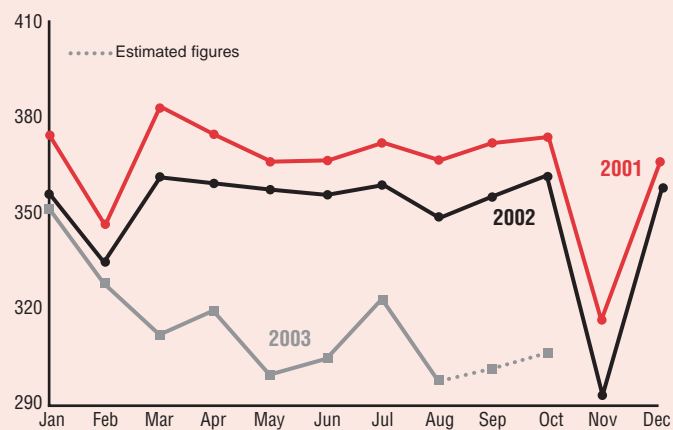
EU average wholesale prices

per/kg, whole oven-ready chicken

	UK (€)	Germany (€)	Italy (€)	France (€)
Sep '02	1.55	1.32	1.45	1.69
Oct	1.56	1.31	1.45	1.58
Nov	1.54	1.31	1.45	1.55
Dec	1.53	1.38	1.45	1.55
Jan '03	1.49	1.42	1.46	1.50
Feb	1.47	1.44	1.35	1.47
Mar	1.45	1.41	1.37	1.45
Apr	1.19	1.45	1.43	1.53
May	1.21	1.56	1.46	1.74
Jun	1.29	1.63	1.54	1.82
Jul	1.30	1.67	1.67	1.95
Aug	1.32	1.67	1.81	1.94

EU chick placings, 11 states

commercial broilers, millions



Exchange rates

	Current (Sept)	3 months ago (June)	6 months ago (Mar)	9 months ago (Dec)	Year ago (Sept)
£ / €	1.44	1.43	1.46	1.54	1.58
\$ / €	1.13	1.18	1.06	1.03	0.97
£ / \$	1.62	1.69	1.55	1.58	1.53

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Dying days for Brazil's GM ban

GMOs is to be regulated, has yet to go before the upper house.

There is still a groundswell of resistance in the upper house, centred on the environment ministry, to ending the GM

ban, which was introduced in 1998. The country is the last of the world's leading crop products exporters to be enforcing a ban on GM agriculture.



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