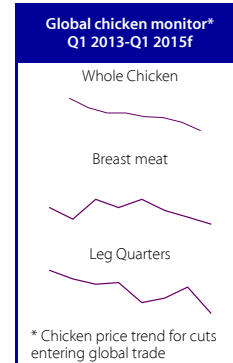




Rabobank

Poultry Quarterly Q1 2015

A Global Case of Bird Flu



Avian influenza, or bird flu, pressure is further spreading across the globe, with new outbreaks in Hungary, Nigeria and several states (i.e. Washington, Oregon and California) within the United States (US), and ongoing outbreaks in China, Japan and India. The 'globalisation' of the disease makes global industry approaches and company strategies more important than ever before.

Global poultry trade is under pressure from avian influenza outbreaks, exchange rate volatility and turmoil in regions such as the Middle East and Eastern Europe, leading to lower trade volumes, prices and shifts in trade streams.

Global fundamentals remain relatively bullish on high beef prices, relatively strong demand in most regions and ongoing low feed prices.

Russia and the US have the most profitable poultry industries, and both benefit from very healthy local market circumstances. In the US, constraints on production growth and lower pork prices are the main concerns.

Brazil and Thailand's industry performance is under pressure due to weaker global trade conditions, weaker exchange rates in export markets and pressured demand in export markets such as the Middle East, due to local turmoil.

China still has the weakest performing poultry industry, with new human cases of avian influenza (AI) and numerous wet market closures. Some improvement might occur in Q3 2015, when pork markets are expected to improve.

Global poultry markets: Avian influenza outbreak to hit regional markets

US: Favourable outlook, but uncertainties remain



- 2015 margins expected to remain high
- Downside: Pork recovery and US supply
- Upside: Strong beef market and lower weight

Brazil: Bullish despite export challenges



- Chicken to benefit from local down trade
- Lower oil price to hit Middle East demand
- Asia exports and lower feed costs to support margins

EU: Market recovery, but challenged outlook



- Tight broiler supply after AI measurements
- Ongoing AI pressure to further threaten industry
- Temporary shift in trade streams benefits France

China: Ongoing struggle with AI



- Human AI cases, live bird market closures
- Low prices in seasonal peak month
- H2 outlook better on less pork supply and imports

Russia: Very bullish on low supply



- Local market remains very tight with high margins
- Industry to benefit from export tax on wheat
- Supply to remain tight on weak credit market

Rest of the world:

- Mexico: Ongoing AI risks and lower pork prices
- Japan: Still bullish despite ongoing AI outbreaks
- Thailand: Export potential affected by strong baht

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Global outlook

The margin outlook for the global poultry industry remains upbeat, with continuing bullish drivers like high beef prices, lower feed costs and relatively strong demand in most regions except China (see Figures 1, 2 and 3). AI is having a significant impact on the global industry and outbreaks are appearing in new regions in Europe (Hungary), the US (California, Oregon and Washington) and Africa (Nigeria). Export bans and exchange rate volatility impacted global trade conditions, leading to big shifts in global trade streams, with Brazil and Thailand as big winners in Q3 2014. This trend changed in Q4 when total global trade volume declined by 2% QOQ (see Figure 4). All key exporters were hit by these weaker trade conditions. For the rest of Q1 2015, we predict a further decline (-3%), as this is usually the weakest trade season. Some recovery will occur in Q2, but the exact level depends on how fast importers lift restrictions on countries banned due to AI and exchange rate developments.

Feed prices are expected to remain at current low levels, with some slightly upward pressure for wheat prices due to new crop concerns and export restrictions set by Russia. Global corn markets and especially soymeal markets are bearish on expectations of the soybean crop harvest in South America and later in the US, after farmers rotate some crops into soybeans.

Poultry market conditions, especially in the US, Russia and Japan, are expected to remain bullish. The US industry's key delta in 2015 will be the level of production growth, while Russia and Japan will benefit from currency depreciation and therefore more expensive imports. A delta for Russia might be a potential

lifting of the one-year import ban on some western countries in August, but we see Russia keeping the ban in place for longer.

The market conditions in other regions such as Brazil, the EU, Thailand and South Africa are more mixed. Brazil and Thailand have benefitted from the turmoil in international markets in 2H 2014, but are currently negatively affected by changes in exchange rates, which makes exports in markets like Russia, the EU and Japan a lot more expensive. South Africa is benefiting from a temporary ban on imports from some key Northwest European countries after AI outbreaks. These outbreaks have impacted the EU market significantly, and although market conditions are relatively balanced in Q1 due to tight supply, expected production growth and low competing prices could affect margins in Q2 and Q3. The worst performing global poultry industry is still China, with ongoing AI outbreaks and pressure on demand. Some improvement is on the horizon in Q3, as tight pork supplies are expected to lift prices.

Global poultry trade prices are expected to be slightly bearish. Ongoing trade restrictions on exports from the US to Russia and China and the possible reopening of North Western European exports to some key countries might lead to some price pressure on products like legs, feet and mechanically deboned meat (MDM), as competition between traders will intensify. The depreciation of local currencies in key importing markets (the EU, Japan and Russia) will put a certain ceiling on price levels for exporters to remain competitive with local supply.

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

		2013				2014				2015 Q1f	Change Q4-Q3
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4F		
Whole chicken	Brazil wholesale	192.3	154.8	146.3	159.8	141.3	142.9	148.3	144.3	130.5	-3%
	EU wholesale	255.3	257.5	264.1	258.3	264.4	267.7	254.7	229.8	221.6	-9%
Breast meat	EU import price Brazil	334.3	309.0	328.3	309.0	322.6	303.9	296.7	285.6		-4%
	EU import price Thailand	325.4	322.0	352.1	350.8	357.7	348.9	339.9	341.2		0%
Leg quarters	US leg quarters, Northeast	113.6	116.4	113.2	95.5	94.0	95.0	108.4	100.8	82.4	-7%
	Japan import price	206.7	196.7	200.4	218.8	191.5	191.8	203.8	210.0	x	3%
	Russia wholesale	346.7	328.8	313.4	318.8	288.9	288.1	307.1	234.4	192.0	-24%
Feet	China import price	141.1	143.5	135.8	135.8	144.9	143.3	149.1	149.6		-0%
Processed chicken	EU import price Brazil	368.1	380.9	351.7	361.0	356.0	357.5	361.4	321.5		-11%

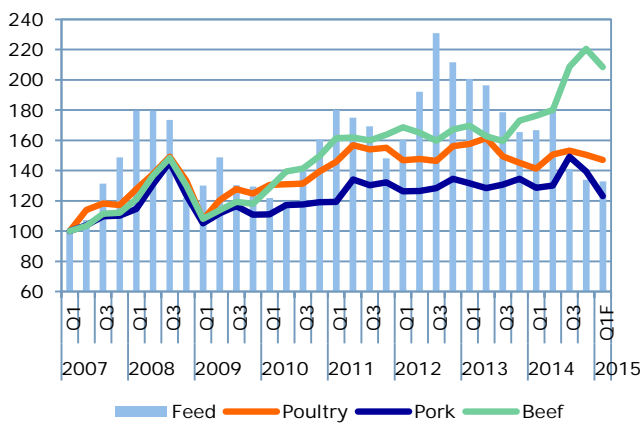
Source: Rabobank analysis based on Eurostat, FAO, national statistics, UBABEF, USDA, 2015

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

		2013				2014				2015	Change
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1f	Q3-Q4
Live broilers USD/kg	EU	1.24	1.23	1.23	1.17	1.21	1.22	1.15	1.01	0.98	-12%
	Brazil	1.42	0.94	1.19	1.15	1.03	1.00	1.07	1.08		+1%
	China	1.47	1.28	1.37	1.42	1.35	1.46	1.60	1.34	1.30	-16%
Grains & oilseeds	Wheat (USD/bushel)	736	694	650	655	617	650	528	446	450	-18%
	Corn (USD/bushel)	715	662	499	430	453	480	359	372	380	+4%
	Soymeal (USD/tonne)	420	433	445	429	447	480	405	340	359	-7%

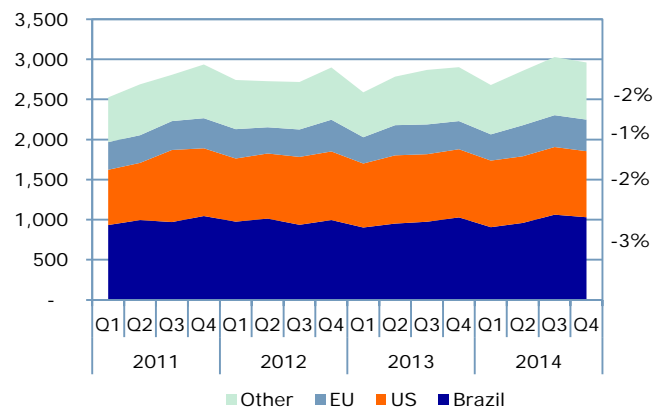
Source: Eurostat, FAO, national statistics, UBABEF, USDA, 2015

Figure 3: Global broiler, beef and pork prices versus feed cost monitor, Q1 2007-Q4 2015*
index, Q1 2007=100



Source: Bloomberg, FAO, Local statistics, Rabobank, 2015

Figure 4: Rabobank global poultry trade monitor, 2011-2014
thousand tonnes



Source: Bloomberg, National statistics, 2015

Regional outlooks

United States

After one of the most profitable years in industry history, the US poultry sector started 2015 with a high degree of optimism for strong margins and growth in the coming year. The public US chicken producers averaged EBIT margins of 13% in 2014, which is 4 points higher than 2013 levels and the highest margin in at least the last decade (see Figure 5). These returns were driven by three key factors: (1) tight domestic poultry supplies, (2) consumers trading down from beef and pork to chicken and (3) favourable feed cost trends. Looking to 2015, we expect most of these factors to remain given the decline in US beef production expected in the coming year coupled with soymeal cost relief this spring.

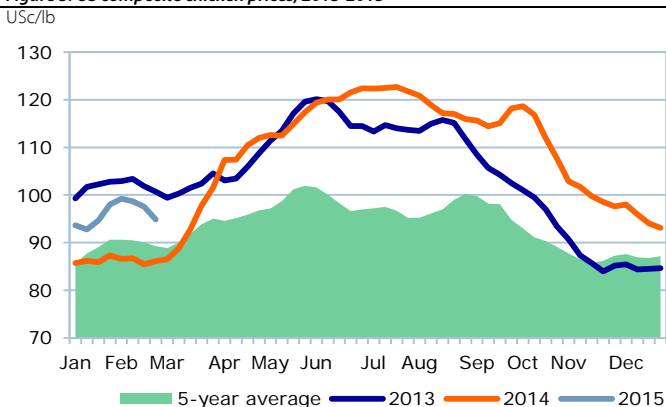
The biggest unknown in 2015 is industry expansion. There is no doubt that US chicken production will increase more than last year or in 2013, but how far above the ~2% supply increase of the last two years is the real question. What we currently know is that the industry started 2015 with a breeder flock 2% to 3% higher than last year, and it is likely to increase further (see Figure 6). In addition, the rooster issue that challenged a number of 'big bird' producers and hurt hatchability has been addressed, and hatchability has improved by 0.3% relative to this time last year. The expansion in the flock is being somewhat offset by increased exports of fertile eggs to Mexico, due to the prolonged AI issues in the Mexican chicken industry. If exports of fertile eggs to Mexico hold at levels seen in Q4 2014, US supply growth would be tempered by 2%.

Where we see variability is in bird weights, which will likely be a bigger contributor to supply than the increase in bird numbers. Looking at bird weights over the last 12 months, there is a clear increase starting in August 2014, where we have seen 20 straight weeks with average live bird weights over six pounds and a year-over-year increase of ~3%. It is not likely a coincidence that the increase in weights coincided with the fall in corn futures to below USD 4/bushel and a drop in production costs back to 2009 levels.

With corn futures around USD 4/bushel for the remainder of 2015, any whisper of crop issues in South America or the US will quickly lift grain prices and challenge the chicken weight increases. In addition, while US beef supply remains tight, pork is a very different story, with fewer of cases of PEDv and reduced mortality this winter bringing more pork into the US market. Hog futures are down close to 40% in the last five months, which will challenge chicken's value equation at retail this spring and summer, as the lower prices begin to show up on grocer's shelves.

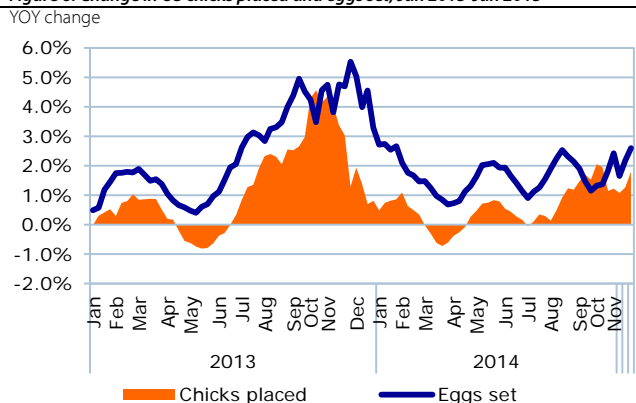
Given these factors, we continue to expect US chicken supply (RTC) to increase by 4% in 2015, but with more of the growth driven by increased bird weights than we had originally thought. We see upside to our forecast if the fertile egg trade with Mexico takes a steep decline, leaving more supply for the US market, and conversely, our forecast could be optimistic if feed costs spike and bird weights come down from current levels.

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

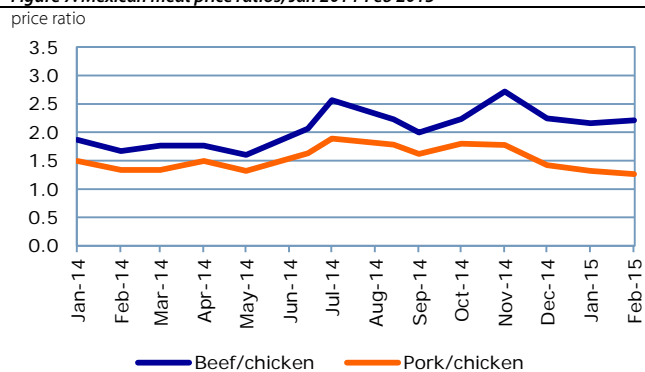
Mexico

The Mexican poultry sector continues its path towards modernisation. Biosecurity measures, in addition to the geographical relocation of farms, construction of new poultry litter facilities and mature hen slaughter houses, have driven up production costs in an attempt to address the ongoing issues of AI. Currently, around 8% of total poultry meat costs are linked to these efforts. This year, meat production expansion remains relatively constrained. In 2015, we expect production to increase around 1.9% over year-ago levels, reaching 3 million tonnes. AI remains present in certain production areas in the country, and the growing dependency on US fertile eggs remains a negative risk, as supplies are becoming limited.

Poultry is still the most competitive meat in the market (see Figure 7). However, the decline in pork meat prices will soften poultry meat consumption growth. Per capita consumption growth is expected at 30.8 kilogrammes compared to 30.9 kilogrammes in 2014.

Imports remain strong, particularly for MDM. We anticipate imports at 735 thousand tonnes in 2015, up from 705 thousand tonnes in 2014. Around 98% of this volume comes from the US and the rest comes from Canada and Chile. However, as Mexico removed tariffs on Brazilian chicken imports, we see the potential for an increase in imports from this country if Mexican chicken supplies tighten. Mexico banned imports of poultry products, eggs and day-old chicks (DOC) from California due to the presence of AI. However, if the disease extends to border states to the east, a higher negative trade impact risk is expected, adding pressures in the Mexican market.

Figure 7: Mexican meat price ratios, Jan 2014-Feb 2015



Source: GCMA, 2015

Argentina

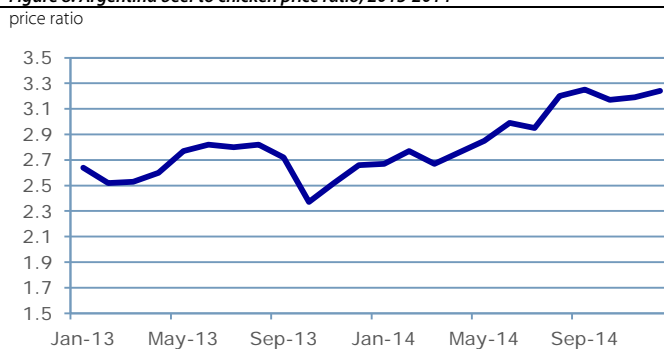
Argentine poultry production was 1.9 million tonnes in 2014, 1% lower than the previous year. Although the contraction is small, it is noteworthy that it is the first time since 2001 that production failed to grow. The weak performance is a consequence of lower margins due to an overvalued exchange rate, high domestic inflation and government-controlled retail prices. Exports, which represent approximately 18% of total production, fell by 10% in volume.

Over half of the poultry exports are destined for Venezuela, a market that has traditionally paid higher prices. China and Chile are the second and third-largest export destinations, respectively, with an approximate share of 10% of each. Exports to Russia grew in late 2014, as a result of the ban on imports from several other countries. Domestic consumption grew slightly (1.4%), benefitting from the large price difference with respect to beef, which widened in the past year as beef prices increased (see Figure 8)

In 2015, we expect lower feed prices to help compensate for other rising domestic costs, such as labour and energy, and profitability should improve as a result.

Domestic consumption will remain stable as government-implemented price controls remain in place and consumers with declining real incomes trade down from beef. However, exports will continue to suffer from lack of competitiveness and the decline in Venezuelan imports.

Figure 8: Argentina beef to chicken price ratio, 2013-2014



Source: Bloomberg, 2015

Brazil

The Brazilian poultry market began 2015 reflecting strong domestic supply and weak international demand. In January, the chilled chicken price fell by 7% against the same month last year (see Figure 9). The situation in the frozen market has been worse, as export performance has been crucial to the development of Brazilian poultry prices. In the first month of 2015, Brazilian poultry exports decreased 10% compared to January 2014 (see Figure 10).

The turbulence in the international market can be partially explained by the oil price decline worldwide, which has reduced the purchasing power of oil-producer countries. To put it into perspective, Saudi Arabia reduced its poultry imports from Brazil by almost 12 thousand tonnes (-19%), while Venezuela reduced imports by around 7 thousand tonnes, which represented an 87% decline in Brazilian poultry exports to that country (January 2015 over January 2014).

It is also important to mention that the Russian market has been affected by lower oil prices in addition to the current embargo on western countries. As a result, Brazil could face contractions in shipments to Russia. Although shipments increased by around 80% in January 2015 compared to the same month of 2014, poultry exports to that country decreased more than 30% against December 2014.

Despite the weak start, Brazilian poultry exports are expected to be strong in 2015, driven mostly by Asia. China, for instance, is expected to approve eight new Brazilian facilities, totalling 36 poultry plants allowed to export. In January 2015, Brazil exported 18.9 thousand tonnes of poultry to China, which represented

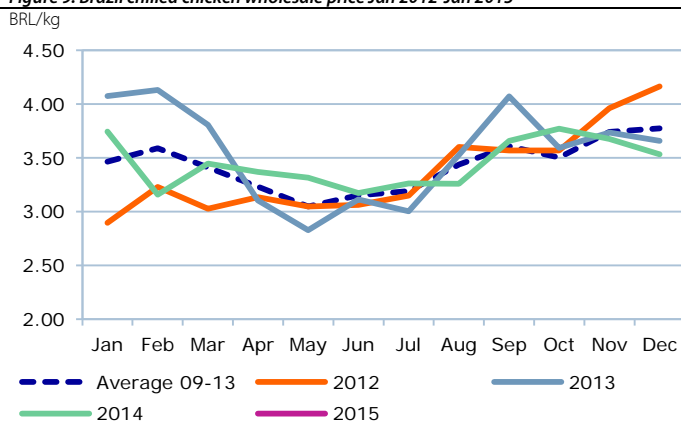
growth of around 16% compared to January 2014. Looking forward, the devaluation of the Brazilian real against the US dollar should also favour Brazilian exports during 2015.

Regarding the domestic market, current high prices for beef have encouraged chicken consumption and, by mid-February, prices rebounded and returned to 2014 levels. However, the weak economic growth anticipated for 2015 coupled with the current national energy and water crises could limit the expansion of the Brazilian poultry industry. Some important producer regions have faced the worst drought ever.

According to preliminary numbers, poultry production increased by around 3% in 2014 versus 2013. In 2015, the Brazilian Animal Protein Association (ABPA) expects growth of 3% for production and exports. Actually, poultry was the only meat in Brazil that increased its production at a meaningful pace during 2014.

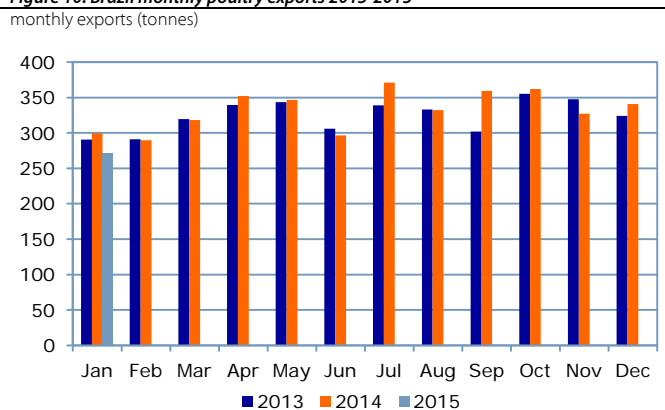
This dynamic has been a result of the reduction in feed costs—due to further availability of grains in the domestic market—which is expected to continue this year. Thanks to lower production costs and high prices for competing meats, 2015 is expected to be much better for the poultry industry than January would suggest.

Figure 9: Brazil chilled chicken wholesale price Jan 2012-Jan 2015



Source: Bloomberg, 2015

Figure 10: Brazil monthly poultry exports 2013-2015



Source: SECEX, MDIC, 2015

EU

The overall performance of EU poultry in 2014 was relatively good compared to the long-term average, but margins were under pressure, especially in Q4, when the market was hit by a combination of oversupply, export restrictions after AI outbreaks and a sudden increase in feed costs due to changed crop supply forecasts and a weaker euro (see Figure 11).

The EU industry has been affected by H5N8 outbreaks in the Netherlands, Germany, the UK and Italy in November and December. Some of the industry's core production areas, especially in Niedersachsen, have been affected by outbreaks. This has resulted in strict measurements by local authorities, including industry standstills, indoor housing requirements and bans on imports in key non-EU export destinations in affected regions.

The market pressure on the industry has been somewhat reduced in the past month, as no new outbreak has been found in Western or Southern Europe since the end of December. This has resulted in a more 'normalisation' of the market situation in Europe, with removal of restrictions in all regions. The only ongoing impact is a relatively low supply and ongoing export restrictions. This currently has a serious market impact, with a relatively tight market situation for poultry meat and relatively stable price levels in the industry. Strong demand is offsetting some of the negative export market conditions to a certain extent, although prices for some typical exported products like feet and legs are still pressured.

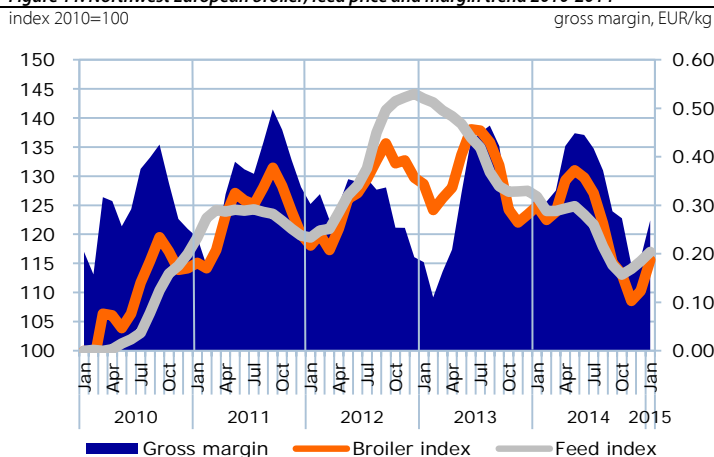
From an import perspective, full 2014 import levels have slightly increased (+2.4%) to 830,000 tonnes. Imports from Brazil kept

following the downward trend to 497,000 tonnes in 2014, compared to 615,000 tonnes in 2011. The market share of Brazil in EU imports from a value perspective further declined from 51% in 2013 to 48% in 2014, while Thailand's market share kept growing, from 38% to 40%.

The outlook for the EU poultry industry remains challenged. The industry still benefits from a relatively tight market situation as a consequence of the outbreaks in Northwest Europe and its impact on breeder supply (see Figure 12). This is supporting price levels, but the question is how long this will continue. For the time being, exports are still challenging as most of the trade from key EU exporters—the Netherlands, the UK and Germany—is still closed, which impacts dark meat prices. The French industry has been anticipating this opportunity and has recently increased local production.

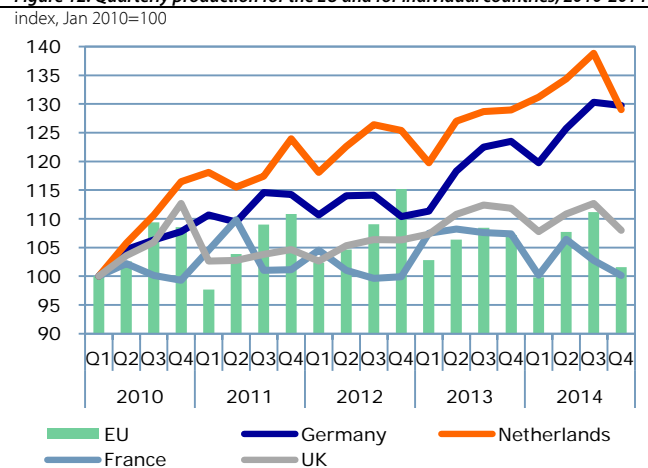
Looking forward, the base fundamentals are still challenging. The current tight market situation is temporary in our view, and we expect production to increase in the next quarter, such as we already see happening in France. Feed prices tend to be stable to slightly up on more challenged crop supply from Eastern Europe and the weak euro. Positive will be that some of the export restrictions could be lifted three months after the last outbreak, which will be in March. The ongoing AI pressure remains a key factor for the outlook. A very recent new outbreak in Hungary underlines the threat of AI and the importance of optimal bio-security as well as the fact that risk mitigation is essential in such a situation.

Figure 11: Northwest European broiler, feed price and margin trend 2010-2014



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

Figure 12: Quarterly production for the EU and for individual countries, 2010-2014



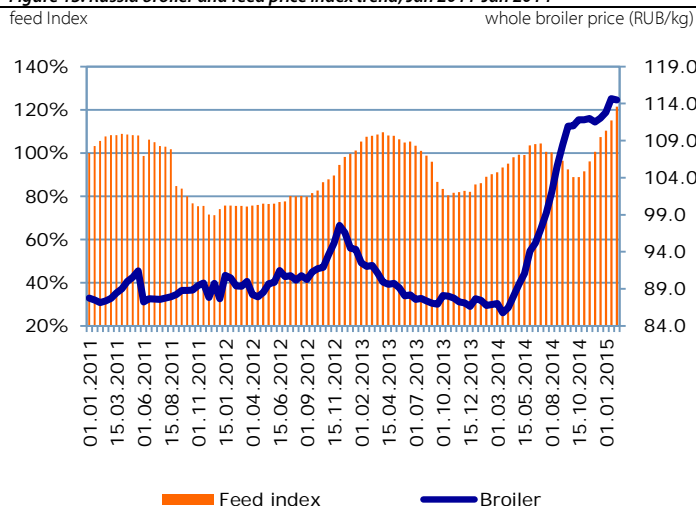
Source: Eurostat, EMA, PVE, Igreca, Defra, Rabobank, 2015

Russia

The Russian market remains very bullish and is expected to remain bullish as a consequence of low import volumes (as follow up of August 2014 introduced import sanctions mainly on US and EU poultry), more expensive imports (ruble devaluation) and restrictions on local expansion due to a weak financial market (see Figure 13). This resulted in a very good margin level in the local industry over 2H 2014, although this was challenged by fast-increasing prices for grains and oilseeds in December and January, due to the rising competitiveness of Russia in export markets for grains resulting from the ruble devaluation. This has pushed the Russian government to introduce export taxes on wheat to reduce the price increases from exports. The goal is to keep local price inflation within acceptable levels, and this will support margins for the poultry industry, as wheat is a main feed crop.

The outlook remains strong, with expected ongoing tight market conditions due to expensive, limited imported volumes and restrictions on growth. The key deltas will be if import sanctions are eased in July when the one-year ban ends, potential support programmes from the government and economic conditions, which can affect local demand. We believe that these deltas will have limited impact on margins as the reopening of markets will keep imports expensive (ruble devaluation) and poultry usually benefits from relatively weak economic conditions. Furthermore, with this low ruble exchange rate, exports are taking off and offer a new growth platform for the Russian poultry industry.

Figure 13: Russia broiler and feed price index trend, Jan 2011-Jan 2014



Source: Rostat, 2015

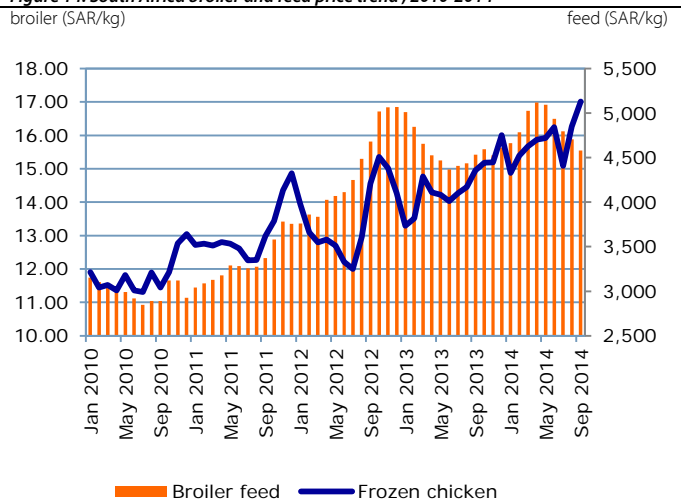
South Africa

The South African poultry industry is currently benefiting from a slowdown in import volume growth after import restriction on exports from the Netherlands, the UK and Germany due to AI outbreaks in November and December (see Figure 14). These are some of the biggest exporters into South Africa and sell mainly dark meat products and MDM.

Positive is that supply growth has been disciplined over the last few quarters, with production levels consistently averaging 2% lower over 2014 compared to 2013. Several companies have restructured their businesses and several plants have gone out of business. Having said this, imports have been a constant headache for the South African industry. Although total imports declined significantly in Q3 after the anti-dumping measures, import volumes recovered to very high levels in October and November (as official implementation was slow), which again challenged margins for the industry.

The current restrictions provide the local industry some relief, and it can also benefit from ongoing lower feed costs due to good South African grain availability. This recovery remains fragile due to the possibility of EU exports returning as early as March (three months after the last outbreak) and also as the US keeps knocking on the door to open the South African market.

Figure 14: South Africa broiler and feed price trend, 2010-2014



Source: SAPA, 2015

China

Entering Q1 2015, AI continued to negatively impact China's poultry market. In response to the disease situation, live bird markets have been temporarily closed in many cities. However, purchasing habits are not easily changed. In Guangdong Province, which has reported 50 human cases of H7N9 infection in 2015—the highest among all the regions—consumers continued to purchase live birds until all the live bird markets within the province were shut down, between 19 February and 28 February. In other regions, live bird sales are gradually retreating from the market. In Shanghai, chilled poultry products have made good penetration in the recent two years, with sales volume already accounting for almost half of the total poultry supply in the city. However, in smaller cities and rural areas, live bird markets remain the major distribution channel for the local poultry market.

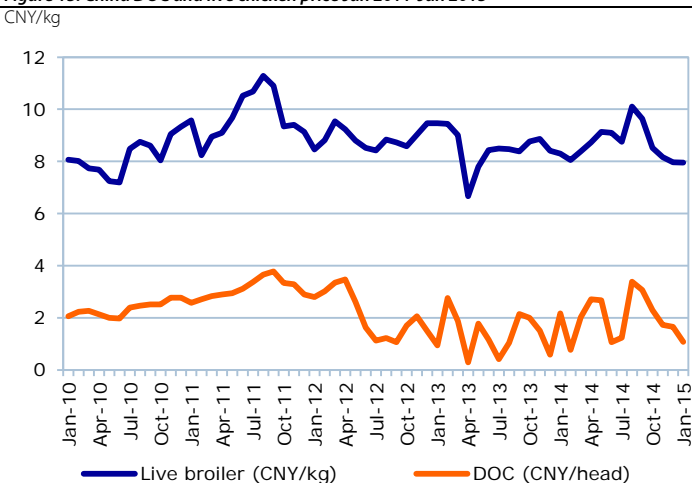
Weak poultry prices reflect the impact of bird flu as well as weaker market demand compared to previous years due to a slower economy and the decreasing sales of corporate gifts due to anticorruption policies (see Figure 15). January and the first half of February 2015 should have been the peak season for poultry products, as consumers tend to stock food for the week-long Chinese New Year holiday. However, poultry retail prices remained flat during the period. At supply side, live bird prices decreased by 4% compared with the same period last year, and DOC prices fell sharply in January. These examples indicate that the poultry market is not yet bottoming out from the market depression of 2014. Poultry players still need a bit time to see the full recovery. We expect that the poultry market will likely

rebound strongly from the end of Q3 2015, as pork supply may have a shortage by then.

The white-feathered bird company alliance will continue to impose self-regulated measures. Following the 22% drop in breeder imports in 2014, the whole industry has reached agreement to continue shrinking breeder imports by 8% in 2015 on a YOY basis. As the industry had continuously expanded from 2011 to 2013, the over capacity has already dragged down profitability across the supply chain, and this becomes more challenging when economic growth slows down.

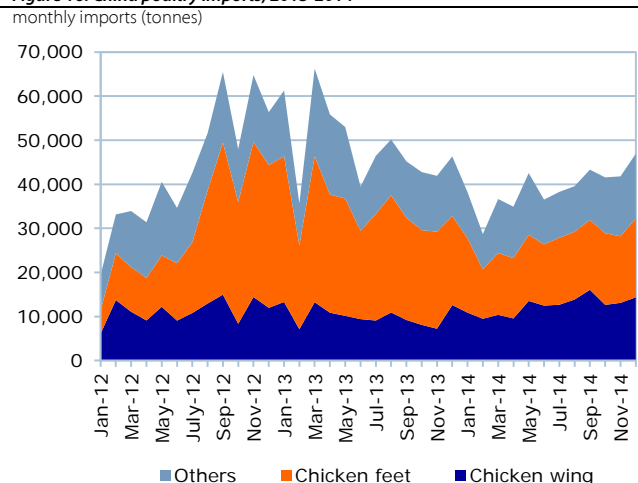
In 2014, China's imported poultry products (excluding breeders) decreased by 20% YOY, to 468 thousand tonnes in total (see Figure 16). Brazil and the US remain the major suppliers, together accounting for 90% of total imports. In terms of product category, frozen chicken feet imports have decreased sharply by 40% YOY, while chicken wing imports have remained stable, with a slight increase over the previous year. However, in January 2015, the Chinese government suspended poultry imports from the US, due to the AI situation in the States. As the US is the most important supplier of broiler breeders and chicken feet for the Chinese market, the ban will impact the supply of these two products. With uncertainty as to how long the ban will be imposed, Chinese breeding companies could be negatively impacted, since market demand for breeder stock usually increases after Spring Festival as farmers resume production.

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



Source: MOA, Rabobank, 2015

Figure 16: China poultry imports, 2013-2014



Source: China Customs, Rabobank, 2015

Japan

Japanese poultry prices have increased significantly (+10%) in line with seasonal strong demand and ongoing expensive imports due to the weak Japanese yen. Imports are usually strong in Q4, as supply is needed to support seasonal market demand. Despite the weak yen, total imports reached 240,000 tonnes in 2014—the highest level of the last five years. Brazil and Thailand have especially benefitted from this import growth, while Chinese exports have been under pressure due to some food scandals.

The Japanese market has not really been affected by several high pathogenic AI outbreaks, as most cases took place on relatively small farms or layer farms, often on islands. Japanese local production reached a new record level in Q4 2014 of 400,000 tonnes. However, one concern is a recent AI outbreak at a large breeder farm, which could have some temporary negative impact on the market.

The outlook for Japan's poultry industry remains strong, with strong local demand, low stock levels in the market and expensive imports. Local supply follows demand growth, but growth is restricted and disciplined (see Figure 17). The AI outbreaks have market impact, but it is not significant, as consumers trust the high-quality standards of Japanese producers.

Thailand

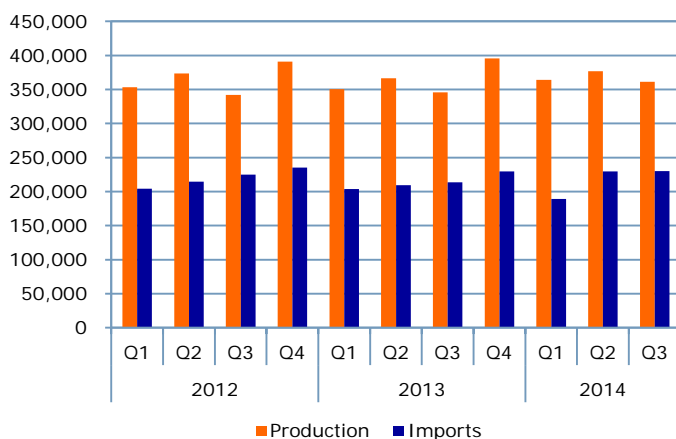
The Thai poultry industry has again been able to significantly increase total export volumes by 10% to 580,000 tonnes in 2014. Interestingly, this was due to a shift from further processed chicken exports to raw chicken exports. Total further processed chicken exports declined by 3%, while raw chicken exports increased by 75%, mainly due to the reopening of these markets in the EU and Japan. The EU remains Thailand's biggest export market, with total exports of 270,000 tonnes (+10%), followed by Japan, with 250,000 tonnes (+18%). The export volumes to other destinations have declined.

The industry has been challenged by a depreciation of the euro and the yen in Q4 2014, which has made products more expensive for importers from these regions and reduces the pricing power of the industry. Also, local prices have been under pressure due to weaker economic conditions, with pressure on protein consumption (see Figure 18). Prices of competing proteins (pork, shrimp and eggs) have been falling in local Thai market.

The outlook for the Thai industry remains challenging. Thailand should have a strong position, as its main competitor, China, suffers from a damaged reputation after several food safety scandals, but a strong Thai baht is supporting the Thai export position and will affect export volumes and prices in the next quarter. Local market conditions are also expected to remain pressured. A new opportunity will rise from the reopening of Korea for raw chicken exports and could potentially take 40,000 tonnes.

Figure 17: Japan domestic supply, 2012-2014

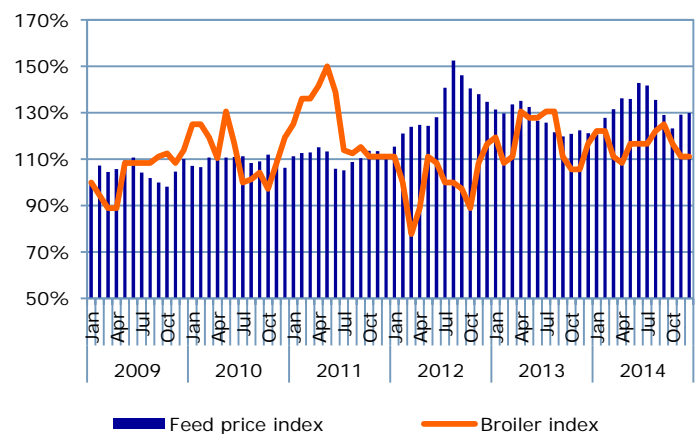
monthly imports (tonnes)



Source: ALIC, 2015

Figure 18: Thai broiler to feed price monitor, 2009-2014

Index, Jan 2009=100



Source: Bloomberg, 2015

India

Although India's average industry profitability over the whole year was 75% higher than the five-year average, margins came under pressure in December (see Figure 19). Broiler prices started softening in Q4 after peaking in October, due to sluggish demand.

Cost of production increased in Q4 after hitting the lowest point in October, due to increases in soymeal prices. India again witnessed a relatively lower soybean crop and availability was further constrained due to reserved selling by farmers in hopes of getting better prices. Indian soymeal prices are ruling at USD 460/tonne, much higher than the global price of USD 370/tonne.

Overall, 2014 remained another challenging year as the industry worked to maintain supply discipline, which helped prevent major losses, such as those witnessed in 2013. Although the industry received some support from lower soymeal prices in the latter half of the year, the demand growth was relatively low.

The current price point of INR 60 to INR 65/kilogramme (live bird) should trigger better demand among the rural population. Improved demand and lower feed cost hold promising prospects for the industry in the near term. Demand is still subdued, leading to marginal profitability in Q1 2015 and the weakest Q1 in the last five years. Although we expect demand to improve going into Q2, the industry has to be wary of an oversupply situation.

Cost of production is expected stay at a relatively lower level despite reserved soybean selling from farmers. Global soymeal

prices are under a lot of pressure, which should limit any upside in Indian domestic meal prices. Corn prices are also expected stay lower as global prices are USD 40 to USD 50/tonne below Indian corn prices.

India has decided to challenge the WTO ruling calling India's ban on chicken imports from the US unscientific. India has approached the WTO appellate authority against the order. The move comes as result of protest by the industry which provides livelihood to millions of people. It is expected to take a year or two before any decision is made.

Although AI incidents spiked in recent months, there were few cases reported in the south and north, and there was no serious impact from these incidents as these cases were reported in water fowl.

Indonesia

Indonesia's poultry industry went through a tough 2014 due to subdued demand and an oversupplied market. It is estimated that the industry grew marginally at 2% to 3% last year, which is significantly lower than the growth in the previous five-year period. The lower purchasing power—the result of a depreciated rupiah and 2014 being an election year—negatively impacted demand in 2014.

Live bird prices have been volatile, driven by the oversupply situations. Prices corrected by almost 15% in January, after touching the lowest point in October 2014 (see Figure 20). Prices plummeted an additional 10% in February 2015, but still remain at a level which is profitable for the industry.

Figure 19: Indian poultry operating margin, 2012-2015

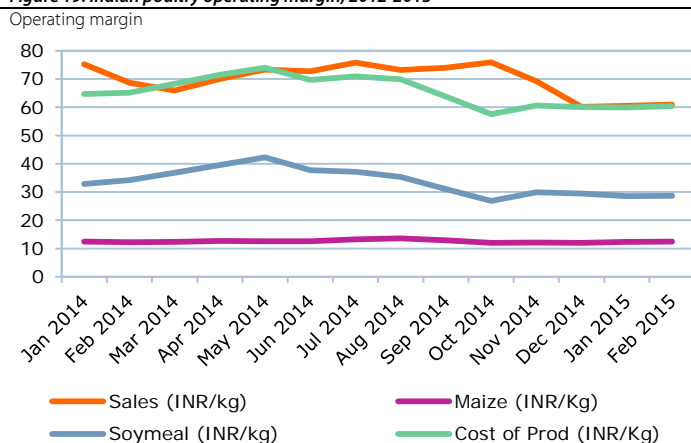
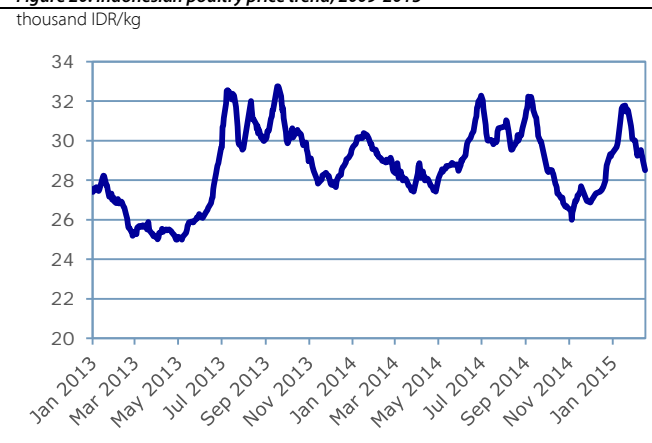


Figure 20: Indonesian poultry price trend, 2009-2015



The industry continues to have overcapacity on breeder stock and an increased level of competition intensity is resulting in poultry companies undercutting each other in order to capture higher market share. The leading poultry players witnessed significant declines in profit as a result of an oversupplied market and challenging market conditions.

The outlook for 2015 is better, with lower feed commodities and stable exchange rates. The key challenge is that the oversupply situation still prevails in 2015, and the industry will need to ensure that supply is kept as per demand or else prices can crash again.

There is an increased level of interest in the poultry industry in Indonesia, resulting in a large number of investments across the supply chain. Japan lifted a ten-year old ban from Indonesian poultry, providing Indonesian players an opportunity to participate in poultry trade, which has been largely dominated by Thailand. However, things may take some time to start rolling and would need supply chain process alignments. Quality standards can be expected to improve, with local players moving up the learning curve on processed products and participation by global players such as Brasil Foods.

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