Cattle and Sheep Market Update

April 2014, Issue 22

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New production forecasts for the UK

The latest Market Intelligence/EBLEX production forecasts are published. The new forecasts for beef and veal production indicate that the supply of beef and veal in the UK this year is still expected to be modestly up on last year's position, although indications for the longer term suggest a fundamentally tight supply situation will prevail. Find further details on page 3. For sheep meat the latest forecasts indicate that the supply of sheep meat available on the UK market will increase as the year progresses. Read more about this development on page 8.

The future of suckler beef production in the EU

While the EU beef sector is very dependent upon the dairy sector, it is the suckler beef herd which is the key supplier of premium beef. Since the start of the millennium, the suckler cow herd has fallen by 4% in the EU-15. The outlook for suckler beef producers remains somewhat uncertain, both in relation to cost structures and implications of the CAP reforms. Suckler producers in the EU are very dependent upon the Single Farm Payment, changes to which are now taking place. Read about developments over the longer term and what this means for the future of suckler beef production in the EU on page 4.

EU sheep meat production to fall in 2014

The EU Commission sheep and goat meat forecasts working group met in early April. Based on results from this meeting and updated forecasts for the UK, production of sheep and goat meat in the EU is forecast to fall by 2% in 2014, after having been stable in 2013. This should offer increased opportunities for UK exporters as production in most of its major markets and European competitors is expected to decline. Read about the forecast for supplies and consumption in key member states on page 9.

Cattle	Mar	% change month	% change year
GB prime cattle price p/kg dw	361.9	-0.6	-5.3
GB cull cow price p/kg dw	233.4	+3.5	-14.9
UK prime cattle slaughter 000 head	153.8	-1.1	+4.1
UK cull cow slaughter 000 head	43.0	-8.1	+7.9
UK beef and veal production 000 tonnes (carcase weight)	69.1	-1.2	+8.1
UK frs/frz beef imports - Feb 000 tonnes (product weight)	17.1	-9.0	+7.9
UK frs/frz beef exports - Feb 000 tonnes (product weight)	8.1	+17.4	-20.6

Sheep	Mar	% change month	% change year
OSL SQQ - p/kg dw	453.8	+9.1	+4.4
Cull ewe price - £/head	67.6	+16.0	+18.9
UK clean sheep slaughter 000 head	840.2	+4.9	-6.2
UK adult sheep slaughter 000 head	133.8	-7.8	-10.7
UK sheep meat production 000 tonnes (carcase weight)	20.6	+5.3	-1.8
UK frs/frz sheep meat imports 000 tonnes (product weight) - Feb	7.3	-12.0	-23.6
Uk frs/frz sheep meat exports 000 tonnes (product weight) - Feb	6.2	-18.4	-10.6

Interested in data? Get more detail about these and other areas from http://www.eblex.org.uk/markets/

Would you like to know more?

Why not check out the **Market Intelligence news** section of the **EBLEX** website at www.eblex.org.uk/markets/news.aspx. The aim is to share more market information and provide greater insight and analysis on the latest market developments and industry issues in the beef and sheep meat sector.

Recent updates include articles about lower Uruguayan beef exports, and European lamb prices strengthening ahead of Easter.

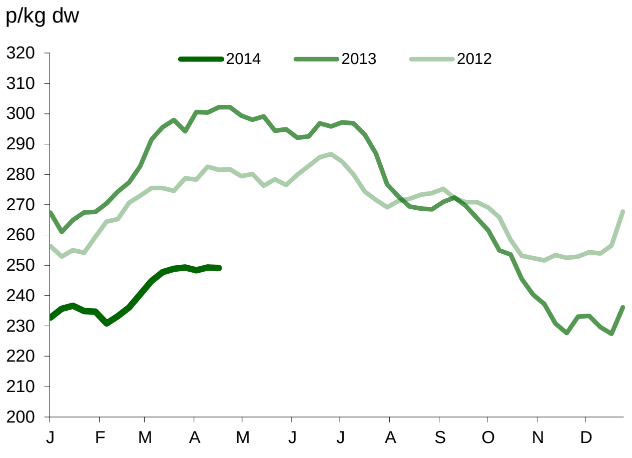
UK Beef snapshot

Processor caution subdues trade

The deadweight prime cattle trade has continued to generally ease. This comes as retail demand remains slow and the supply of cattle continues to outstrip processor demand. With caution amongst processors, in week ended 19 April, at 355.9p/kg, the all prime average price was back 6p/kg over the past four weeks. At this level, prices are at their lowest point since early November 2012. With cattle benefiting from the improved conditions and better quality forage, the number coming forward should remain relatively strong. As such, the supply/demand balance is likely to remain narrow, thus keeping a lid on the resumption of any upwards pressure on price in the short term.

The cull cow market has fared better than the prime trade since the turn of the year. With demand reportedly remaining just ahead of supply, prices have broadly strengthened. Whilst still trading well below year-earlier levels, at 249.1p/kg in the latest week, the –O4L cow price has recovered 18p/kg since the low point of the year so far in early February. With the current fine weather, spring turn out is on the horizon in some areas. This may keep numbers tight in the coming months as producers look to add condition at grass in order to take advantage of better prices on offer for well-finished cows. However, with prices for poorer quality prime cattle moving closer to those of quality cows some product substitution could take place, which may result in the upwards pressure on cow prices dissipating.

GB deadweight -O4L cow price

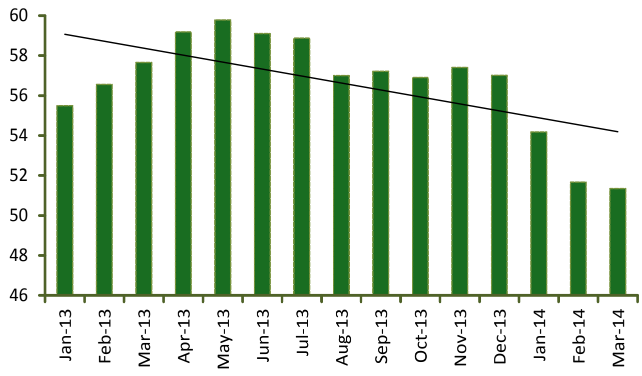


Source: AHDB/EBLEX

Price spread widens

The price spread between producers and retailers in March has widened over recent months. With farmgate beef prices falling while retail prices have broadly moved up, producers are now receiving a smaller share of the average retail price.

Producer share of final retail price, Jan 2013-Mar 2014



Source: AHDB/EBLEX

In the immediate aftermath of the horse meat revelations last year, as farmgate prices improved at a faster rate than retail prices, the producer share of the final retail price increased. At the peak in May last year, producers received a near 60% share and this had increased more than four points since the start of 2013. Following some stability in the second half of the year, at 51%, the latest figure for March indicated that the producer share of the final retail price has fallen 3 percentage points since January. It is well below their 58% share in March last year. With prices easing back this year while retail prices have levelled, this bucks the trend of the last three years when the producer's share of retail price increased in the run up to the Easter period.

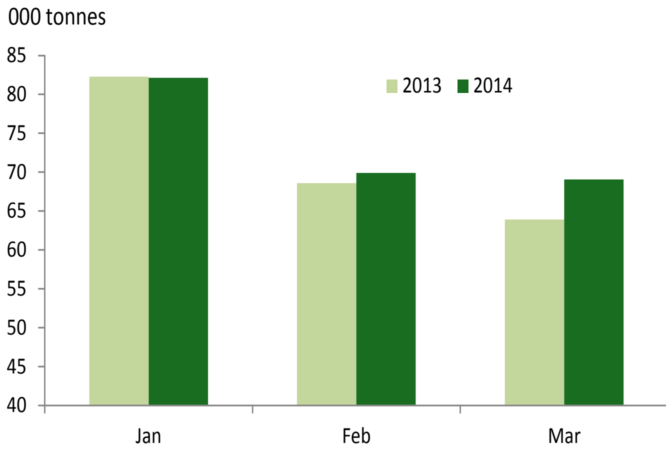
Beef and veal production up in March

As of December 2013, there were reportedly an increased number of slaughter age cattle on the ground, as weaker market conditions had given little encouragement for producers to market cattle. These results indicated the potential for a modest increase in supplies of prime cattle for slaughter in the first half of 2014. Consequently, UK prime cattle throughputs in March were up 4% on the year at 154,000 head with all regions of the UK recording higher throughputs compared with a year earlier. Continuing the recent trend, heifer throughputs were up again, being 8% higher year on year. However, in a change to recent developments, and for only the second time since late 2011, steer throughputs were also higher on the year. In contrast, young bull throughputs were back 6%. Adult cattle numbers were also higher than in March 2013, as producers may have taken advantage of better cow prices.

As expected, improved conditions have meant that carcase weights for all types of cattle were once again heavier than in the corresponding month last year. Combined with the increased throughputs, this meant that UK beef and veal production in March was up 8% on the year, at 69,100 tonnes.

Beef and veal production for the quarter was up 3% on the year at 221,100 tonnes.

Beef and Veal production, Jan-Mar



Source: Defra

Contrasting trends in beef and veal trade

According to the latest HMRC data, exports of beef and veal in February were down 21% on year earlier levels at 8,100 tonnes. Continuing to be affected by availability, price and demand on the continent, the fall was largely driven by a decline in shipments to other EU member states. Increased trade to Ireland was more than offset by a fall in shipments to the Netherlands and France. The latest data indicate a less severe drop in trade with non-EU markets. Overall volumes to these markets in the month were back just 7%. Of these, the largest destination remained Hong Kong, to which shipments more than doubled on the year.

UK beef and veal trade, February

		2012	2013	2014
		(000 tonnes)		
Exports		**9.8**	**10.2**	**8.1**
To:	Ireland	2.8	2.9	3.2
	Netherlands	3.7	3.8	2.4
	France	0.9	1.1	0.7
	Italy	0.6	0.4	0.4
	Belgium	0.6	0.7	0.3
	Hong Kong	0.1	0.1	0.2
Imports		**19.1**	**15.8**	**17.1**
From:	Ireland	13.7	10.8	12.1
	Netherlands	1.7	0.9	1.2
	Germany	0.9	0.6	0.7
	Poland	0.3	0.5	0.5

Source: HMRC, GTIS

Imports were above year earlier levels in February, being up 8% to 17,050 tonnes. Much of this uplift is as a result of increased shipments from Ireland. As expected, export availability in Ireland has been boosted by the continued increase in production. Imports from outside the EU were back 14% on the year as Australia, Namibia, Uruguay and Brazil all recorded lower shipments.

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Long term beef and veal supply still expected to be tight

The latest AHDB/EBLEX forecasts for UK beef and veal supplies are now available. They are little changed from previous forecasts and indicate that, despite supplies of beef and veal this year being up on last year's position, the longer term situation is still likely to be one of lower availability.

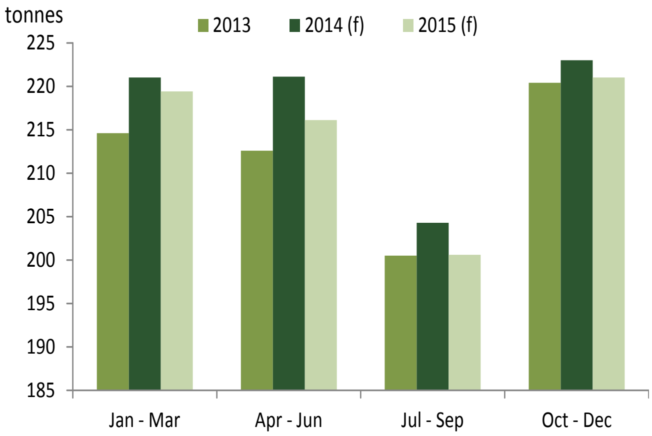
The key driver of this comes from lower cattle numbers on the ground. British Cattle Movement Service (BCMS) data show the number of cattle and calves in the UK in December was back almost 1% on the year. While the dairy breeding herd increased, being up 2% at 1.8 million head, the suckler beef herd continued its decline. With numbers falling 3% to be under 1.6 million head for the first time the UK suckler herd has now fallen by nearly 100,000 head in the past three years, reflecting the on-going concerns over confidence and profitability in the beef sector. The data indicated some potential for a fairly small increase in supply in the short term, a trend already evident in the first quarter of this year. This came as the weaker market conditions in the final few months of last year had given little encouragement for producers to market cattle. Those cattle will inevitably come forward in Q2 and Q3 of this year.

However, the BCMS data recorded fewer younger cattle on the ground and, combined with a declining breeding population, this inevitably means a continuing decline in the supply of prime cattle in the longer term. Any turnaround is unlikely before 2016 because of the length of the production cycle. In any case, it would to a large extent depend on whether suckler beef producers' confidence in the market being able to provide an adequate return improves.

While the current position still suggests no expansion in the suckler breeding herd is likely, the UK adult cattle kill last year was back 5% on 2012. This may indicate that the liquidation of breeding stock from the overall herd has slowed but this is likely to have been largely on the back of greater confidence in the dairy sector. With a smaller, younger, breeding herd and better seasonal conditions, adult slaughterings in 2014 are forecast to be modestly back on 2013 levels.

The second factor for production forecasts is slaughter weights. On the back of better conditions, carcase weights for all categories of cattle are trending higher this year. This is likely to continue for the remainder of 2014 and combined with the uplift in prime cattle numbers beef and veal production is still forecast to increase. In total, beef and veal production is expected to be up over 2% on the year at 869,000 tonnes.

UK beef and veal production, 2013-2015



Source:AHDB/EBLEX/DEFRA

The export trade, mainly for cow beef, will be influenced by price, supplies and competitiveness. Export volumes for the year as a whole are currently forecast to be below year earlier levels. While, to some extent, this is on the back of a significant drop off in trade in the first two months of the year, it is possible that exports could perform better as the year progresses. Firming demand for manufacturing beef has the potential to support export prospects but this may be eroded should the value of sterling strengthen. Imports this year are still expected to be ahead of 2013, with the uplift driven by the increase in production in Ireland. Imports of processed beef are also forecast to increase, as demand continues to recover following the horse meat revelations.

Beef and veal supplies

	2013	2014 Forecast	2015 Forecast
Production	848	869	**857**
Imports	389	400	**394**
(Fresh/frozen)	(295)	(304)	**(294)**
(Processed)	(94)	(96)	**(100)**
Exports	131	117	**126**
Total consumption	1,106	1,152	**1,125**

All production figures in the consumption table are for standard 52 week years.

Consumption figures include processed product, totals may not sum due to rounding.

Source: Defra, AHDB/EBLEX

What does this mean?

With an increase in production, lower exports and higher imports, supplies available for domestic consumption in 2014 are still forecast to be higher than last year, in particular in Q2 and Q3. Unless consumer demand picks up markedly, this makes it unlikely that there will be any resumption of upwards pressure on price in the short term. However, with clear implications for availability later this year and into 2015, GB calf registrations in 2013 were around 80,000 head back on the year. As a result of the continued fall in the suckler beef breeding herd, a drop in non-dairy calf registrations drove this decline, which further confirmed that any significant increase in beef and veal production in the medium term is unlikely. With lower production, stable exports and lower imports, supplies available on the UK market in 2015 are forecast to be lower than in 2014, meaning that firmer prices could again be around the corner.

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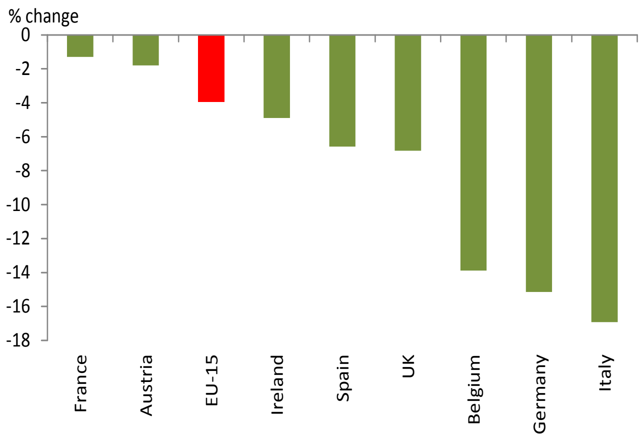
What is the future of premium beef production in the EU?

The EU beef sector is very dependent upon the dairy sector, yet it is the suckler beef herd which is the key supplier of premium beef. However, EU-28 beef cow numbers only amount to 12 million, compared with over 23 million dairy cows. There is intense interest in the EU dairy sector at present as a result of milk quotas ending next spring and the firm milk market; consequently producers are expanding. For the specialist beef sector, the situation is not helped by the fact that profitability of milk production is generally higher, while the beef sector is more fragmented. For some producers there is scope for switching from beef to dairy cows and recent census results indicate reductions in the suckler herds in major countries. Short-term forecasts indicate that this is likely to continue, potentially improving prospects for remaining premium beef producers.

Beef from the suckler herd, both from steers and heifers, enjoys a high demand in the EU; the UK is a key producer. The UK is the largest producer of steer beef (although some comes from dairy crosses); in 2013 it accounted for 52% of EU-28 output. This is followed by Ireland at 30 per cent, which has developed good export markets for premium beef. As well as on the UK market, Irish premium steer beef is also in good demand on markets across the continent. The only other significant producer of steer beef is France, which accounts for 11% of EU output. For the EU as a whole, steer beef only accounts for 20% of male beef production as young bull beef is dominant on the continent. With the main exceptions of France and Spain, young bulls from the dairy herd dominate.

Since the start of the millennium, the suckler cow herd has fallen by 4% in the EU-15. Yet in France, which has the largest suckler herd, accounting for 36% of the EU-15 total, numbers have only fallen by 1%. This is mainly due to France adopting 100% coupling of the suckler cow premium following the 2003 CAP reforms, although from 2010 coupling was reduced to 75%. Similar developments in numbers initially applied to Spain, as they also adopted 100% coupling of the suckler cow premium. However, this was then followed by a sharp decline starting in 2010, given the deteriorating profitability of suckler beef production and not helped by economic problems in Spain and drought.

Decline in beef cow numbers in the EU



(2011-13 average herd size compared with 2000-02 average)
Source: Eurostat

The 7% decline in suckler cow numbers in the UK and 5% in Ireland can, in both cases, be attributed to the end of the suckler cow premium, with adoption of de-coupling from January 2005, and pressure on profitability. Belgium and Germany have small beef suckler herds, accounting for 10% of the EU-15 total; numbers have also declined steadily since the start of the millennium. Of the other producers of any significance, only in Portugal have beef cow numbers increased - it also retained 100% coupling of the suckler cow premium. The same applies to Austria, where beef cow numbers are only down by 2%. None of the newer member states have significant beef cow herds; in total they only account for 6% of EU-28 cow numbers. Poland has the largest herd, although with only 143,000 head.

Outlook for suckler beef production

Some price correction in the EU milk market is now taking place, partly since supply, both in the EU and globally, has been expanding sharply in response to favourable grazing conditions and lower feed costs. However, the demand outlook remains favourable. At the same time, the outlook for suckler beef producers remains somewhat uncertain, both in relation to cost structures and implications of the CAP reforms. Suckler producers in the EU are very dependent upon the Single Farm Payment, changes to which are now taking place, to underpin their business. Also, under the new CAP reforms there remains only limited scope for re-coupling or ongoing coupling of support payments. To complicate matters further, member states are adopting different support policy options which suggest that, going forward, suckler beef producers in some countries will continue to be better off than in others.

It should also be noted that the expansion in dairy cow numbers is already resulting in increased number of dairy young bulls on the EU market; some member states are having difficulty in marketing these. Given also that EU veal production, which utilises large numbers of dairy calves, is also in decline, the availability of dairy calves for beef production is likely to remain high.

The UK and Ireland clearly have a competitive advantage when it comes to output of premium grass-fed beef, whether for their domestic markets or export. Especially within the EU, both Irish and UK exporters have found good markets for such product, a situation that should continue. EBLEX, for example, is involved in positioning quality assured beef from England as a premium grass-fed product on a range of export markets. However, increasing output from the UK suckler herd assumes that production is profitable; inevitably the level of market prices and support payments are a key factor in achieving this. At the current time, a further decline in beef cow numbers seems inevitable. However, in the longer term there is still scope for increasing productivity in the suckler herd, such as improving cow fertility, reducing calving periods and optimising breed and genetic selection, essential to making a beef enterprise more viable.

Lionel Colby, Consultant

Resurgence in Brazilian beef exports continues

Last year, Brazil was the largest global exporter of chilled and frozen beef. Regaining its position, lost to Australia in 2008, international trade continues to be of strategic importance for the domestic cattle sector. Therefore, developments in Brazil inevitably have the potential to impact on the global market. While it remains a marginal supplier to the UK, it still has some impact on the market, both for prime and cow beef, and also on the EU market in general.

The widely anticipated expansion in Brazilian beef export volumes, evident in 2013, has continued in the first quarter of this year with trade hitting its highest first quarter level since 2007. The market for Brazilian beef has been supported by higher demand from international markets at a time when its beef has become more competitive.

The Brazilian real has continued to lose value against the US dollar which has translated into lower prices in US dollar terms. In the first three months of the year the Brazilian average export price was back 4% on the year at US$4,400 per tonne.

Compared to the recent highs throughout 2011 and 2012 the average export price for the three month period was back nearly 10%.

Brazilian beef exports, Jan-Mar

		2012	2013	2014
		(000 tonnes)		
Total frs/frz		**187.2**	**250.5**	**305.5**
to:	**Non-EU**	**178.1**	**234.7**	**292.0**
of which:	Russia	58.5	72.8	67.6
	Hong Kong	23.2	46.5	54.7
	Egypt	23.8	17.2	39.4
	Venezuela	20.5	36.0	35.4
	Iran	3.1	6.8	35.3
	Chile	12.5	18.0	15.1
to:	**EU**	**9.1**	**15.8**	**13.5**
of which:	Italy	4.2	6.2	4.9
	Netherlands	2.3	4.7	3.3

Source: Foreign Trade Secretariat, GTIS

Exports have also benefited from some easing back in domestic demand. As real incomes have been under increasing pressure, domestic demand has waned and an increased share of production has found its way onto the global export market. Despite reports of a slight drop in production, on the back of drought in the main agricultural producing areas of the south east and west, shipments are still up over 20% on the year. However, this is largely on the back of significantly increased trade in January and February as by March, with the possibility of stocks reducing, exports were only a fraction up on the year.

Despite having gradually declined in significance since 2008, Russia remained the main export destination for Brazilian beef. However, shipments were 7% lower than in the first three months of last year. In contrast, trade to some other key markets was higher. In particular, shipments to Hong Kong were up almost 20% year on year. Egypt re-established itself as a main destination for Brazilian beef, as the political situation became more settled, shipments more than doubled on the year. Iran was a major destination for Brazilian beef up until 2011 when the trade sharply declined as a result of a deterioration of the economic situation and a breakdown in diplomatic relations. However, so far in 2014 the market has recovered significantly and shipments in the three month period have increased more than five-fold year on year.

The EU market, including the UK, which had been particularly firm last year, albeit at lower volumes in a historical context, has been less of a priority for Brazilian exporters this year so far. With China and the Middle East ready and waiting for Brazilian product, shipments to the EU were back 15% year on year.

The UK market only accounted for a fraction of Brazilian beef exports; at just 500 tonnes trade was less than half that in the first three months of last year. As recently as 2006, trade with the UK amounted to as much as 5% of all Brazilian beef exports. The UK was the third largest market for Brazil and, as such, volumes were considered a major threat to the domestic beef industry.

Although Brazilian producers are not currently major suppliers of beef to the UK and EU, the higher supplies from the region are satisfying increased demand in other parts of the world. This is helping to offset tight supplies from other major global exporters. Availability of Brazilian beef could also limit opportunities for EU exporters, meaning that more product is being retained on the EU market, possibly suppressing prices to a small extent. This inevitably has the potential to have a knock-on effect on prices in the UK, despite the limited direct exposure to South American supplies.

Market prospects for Brazil in 2014 indicate a further increase in both production and exports. This could well result in increasing exports to the EU as a whole, including to the UK, even though the number of EU-approved cattle farms is still well below the levels of 2007, when the EU imposed restrictions on trade from Brazil. However, with the drought having the potential to impact on production and the country due to start supplying the US market sometime this year, volumes are not expected to be high. The level of domestic demand will also influence export availability of beef. While this is expected to increase in 2014 on the back of the football World Cup and parliamentary election, increased prices at retail level may well be a limiting factor, as GDP growth is still expected to be subdued this year.

Relentless growth in Irish beef production

Irish beef production has continued to move up in the first part of 2014 with an especially sharp rise recorded in March. Given the small domestic market this is inevitably being reflected in increased beef exports including to the UK and so contributing to the price pressure on the UK market in recent months. Read more on the EBLEX website.

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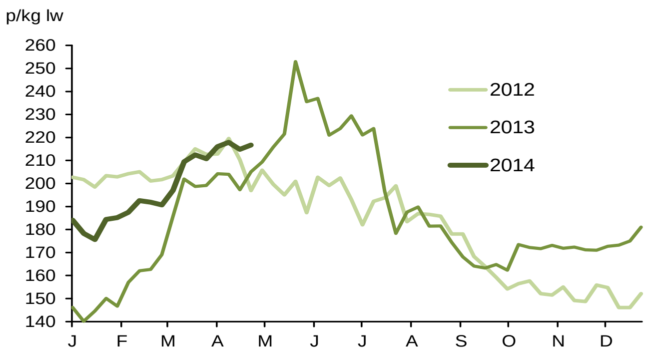
UK Lamb – snapshot

Lamb prices remain strong on Easter demand

Following the usual seasonal pattern, GB lamb prices broadly strengthened ahead of Easter as tightened supplies and seemingly robust demand continue to impact on the market. Having hit 215.5p/kg in week ended 12 April the weekly GB OSL SQQ eased somewhat immediately prior to Easter as the rest of the supply chain were likely wary of consumer demand amidst fairly sunny and warm weather. In week ended 19 April, the GB OSL SQQ fell back to 209.1p/kg. With the Easter Bank Holidays disrupting numbers, prices rebounded immediately after Easter as the usual restocking activity occurred. In week ended 26 April, the GB OSL SQQ was up 2p on the week at 211.3p/kg.

GB liveweight (combined) lamb SQQ



Source: AHDB/ELEX/LAA/IAAS

Meanwhile the spring lamb trade consistently strengthened ahead of Easter as the demand for these animals continued to outstrip supply. At 263.1p/kg the GB NSL SQQ for week ended 19 April had increased by around 40p since the middle of March. With some of the pressure coming off demand and supplies increasing, the GB NSL SQQ in week ended 26 April fell back to 256.5p/kg.

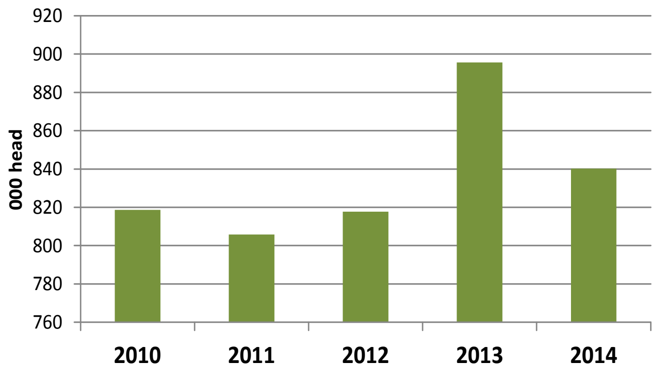
Currently both the new season and old season trades are tracking ahead of year earlier levels with the GB OSL SQQ up 12p/kg on the year and the GB NSL SQQ up 7p/kg on the year. This increase largely reflects the global situation with prices in the rest of the EU, New Zealand and Australia all higher on the year.

Lower numbers largely offset by higher weights

As expected, UK slaughterings of both lambs and adult sheep continue to track below the high levels of 2013. At 840,000 head the UK lamb kill for the month was down 6% on the year. However this is still above the levels recorded between 2010 and 2012.

These lower numbers were largely offset by higher carcase weights, following better conditions over the last 12 months and the lower stocking rates that many farms will have experienced. At 20.2kg, the average carcase weight for UK lambs during March was 5% (1.0kg) higher than it was a year ago. This is also the highest monthly average weight since April 2007 and the third highest on record (with DEFRA figures going back to Jan 1986).

UK lamb slaughterings in March



Source: DEFRA

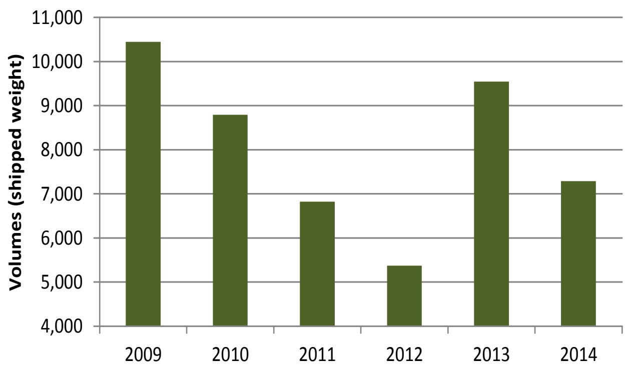
UK adult sheep slaughterings were down 11% on the year at 134,000 head. This is compared with the relatively high levels of 2013 and follows a much better season, meaning fewer animals are likely to be culled. At this level, the monthly kill is almost exactly the same as it was in March 2012. As with lambs, these lower numbers were somewhat offset by increased carcase weights. At 27.5kg the average UK adult sheep weight was 8% (1.9kg) higher than it was in March 2013.

With lower numbers being largely offset by increased carcase weights, UK sheep meat production for March was only 2% lower on the year at 20,600 tonnes. This monthly position largely reflects the trend experienced throughout the first quarter of the year.

February UK sheep meat imports well down

As expected, UK imports of sheep meat tracked well below year earlier levels during February. At 7,300 tonnes, volumes fell by 24% on the year. However, this does follow a very large uplift last year and these latest figures are still well above the low level recorded in February 2012, being over a third higher. However 2012 was a remarkably low point and current volumes are still below historic levels.

UK February sheep meat imports



Source: HMRC/GTIS

With much of last year's uplift coming as a result of increased shipments from New Zealand, this latest decline is largely on the back of lower volumes from there. At 5,200 tonnes imports from New Zealand were back 33% on the year. As with the total import volume, this figure is still higher than it was in February 2012. Shipments from Australia, the second largest supplier, were down 14% on the year following a significant rise in January.

With world farmgate prices higher on a more favourable supply and demand balance, the average cost of these shipments has risen considerably. At £4,400 per tonne, the average value of sheep meat imports during February was up 10% on year earlier levels. However this is still well below the level recording the corresponding month of 2012, with the average cost 13% lower.

UK sheep meat exports reportedly lower in February

Latest customs figures show that UK exports of sheep meat during February were down 11% on year earlier levels. This was driven by a decline in shipments to other EU member states, with volumes down 18% on the year. However, it should be noted that export data has generally undergone some upward revision over recent months. Indeed, the latest data release included a revision in January's figures. Having originally been reported as an 8% decline on the year, at 7,000 tonnes, January exports have now been revised upwards to 7,600 tonnes, almost stand on compared with January 2013.

With much of the previous revisions relating to trade with other EU member states, the latest figures to these markets should be viewed with some caution.

Looking at the wider picture, the latest data continues to show a strong uplift in the trade with non-EU member states. Overall volumes to these markets for the month were up 22% on the year at nearly 1,500 tonnes. Of these markets the largest remains Hong Kong, with just under 1,200 tonnes, which remains the second largest destination by volume for UK sheep meat exports. This market has continued to grow with volumes up 14% on year earlier levels.

While Hong Kong remains the main non-EU market there are a number of other destinations showing increased volumes. In the latest figures, Thailand and Ivory Coast were in the top ten destinations for UK sheep meat exports. Other markets that took increased volumes in February were Ghana, Afghanistan, Singapore and Liberia.

Reflecting stronger farmgate prices in the UK, the average value of sheep meat exports has risen so far this year. At £3,500 per tonne, the average unit value of exports in February was 11% higher on the year. This resulted in the total value of UK sheep meat exports for the month being only slighter lower than year earlier levels at £21.9 million. However, if volumes do get revised upwards then this total value figure should also increase.

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UK production forecast higher

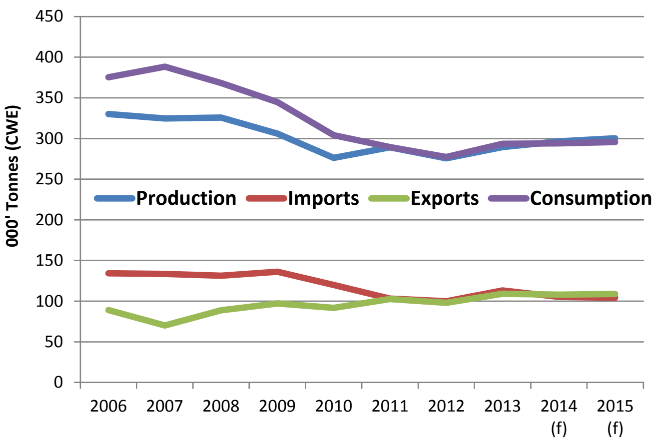
Latest AHDB/EBLEX forecasts for the UK sheep sector continue to indicate that as the year progresses supplies should increase.

With a larger breeding flock and much better conditions over the past 12 months, the 2014 lamb crop should show some considerable increase on the year. As a result, following the year on year declines at the start of the year, the UK lamb kill should track above year earlier levels from May/June onwards.

While some of this increase is likely to be offset by lower adult sheep slaughterings, overall sheep meat production for 2014 is forecast to be up over 2% on the year at almost 297,000 tonnes. This is expected to be followed by further growth of 1% in 2015, with volumes reaching just over 300,000 tonnes. However this is reliant on fairly good conditions throughout the period and will be influenced by the weather, the condition of the national flock and the state of the general market.

Despite production rising at this rate, overall consumption levels are expected to increase at a much slower pace as imports should be reduced over the course of the year and exports remain largely unchanged. However there is expected to be some variation across the year.

UK sheep sector balance chart



Source: AHDB/EBLEX/DEFRA/HMRC

What does this mean?

While production is forecast to increase, it is still at a relatively low level when looking at the longer term.

At this level, production remains below pre-2010 levels and well below pre-2009 volumes. With imports also still well below historic levels and exports continuing to perform strongly, the UK market is still set to experience a broadly tight supply situation.

Already in 2014, both the market and the weather have been largely favourable for producers with prices showing a relatively strong uplift and tracking above year earlier levels.

However with supplies in the latter half of 2014, in particular, due to be higher, some of the pressure on the market could ease. However, the expectation would be for prices to adhere to the seasonal pattern. The major deciding factor is likely to continue to be the level of consumer demand, both in the UK and further afield. Current projections for economic performance in most of the key markets are for improvement. However, whether this filters down into a rise in consumer confidence remains to be seen. The current difficulties in the beef trade are ample proof that consumers are still price sensitive and that there are options to switch proteins and trade down into more affordable products.

With global supplies expected to remain very tight, this increase in UK production is likely to prove a relatively minor factor in the short term. If production continues to increase, there does need to be a corresponding level of demand growth somewhere in the market; whether this is from domestic consumers or from the export market is largely immaterial. Looking at the two key global exporters, New Zealand and Australia, prices are currently robust, with those in Australia at their highest levels in almost three years. With supplies likely to tighten in these markets for the remainder of the year, there should be some support to the global market in general.

In the longer term, there remains the potential for supplies in these markets to increase, with Australia in particular forecast to increase production. As such, there needs to be stronger demand globally in order to balance the market. Currently much of this appears to be coming from China and both the Australian and New Zealand industries are increasingly focussing on this trade. However, despite this market evolving there is still a reliance on the more traditional markets in North America and Europe for the trade in chilled product and higher value cuts. As such there remains the potential for some volatility in the UK market.

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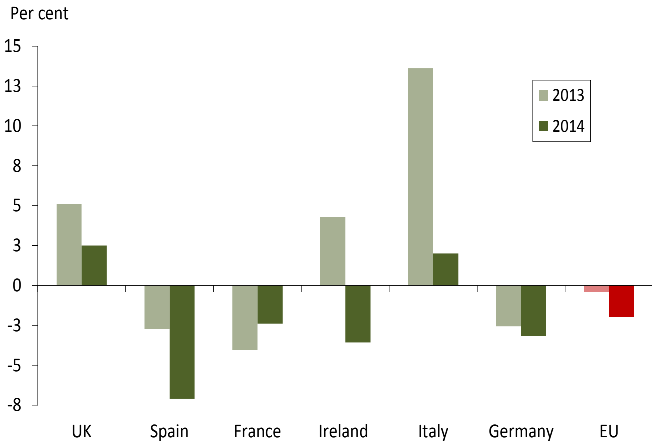
EU sheep meat production forecast to fall in 2014

Sheep meat production developments in the EU will continue to have a major bearing on the UK sheep sector, as it retains its dominant position as the largest exporter within the EU. The EU Commission sheep and goat meat forecasts working group met in early April. Based on results from this meeting and updated forecasts for the UK, production of sheep and goat meat in the EU is forecast to fall by 2% in 2014, after having been stable in 2013. This should offer increased opportunities for UK exporters as production in most of its major markets and European competitors is expected to decline (see graph). Further analysis of the French, Irish and Spanish results are available on the EBLEX website.

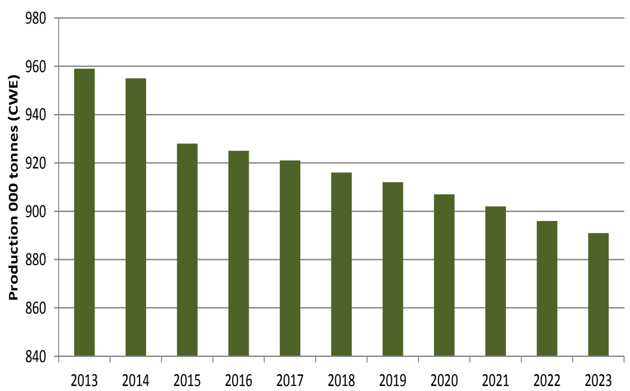
Change in EU net sheep meat production by country



Source: AHDB/EU Commission

These short term production forecasts for the EU are in line with the long term forecasts of a slow but steady decline for the EU as a whole made by the European Commission in December last year (see Issue 19 - January 2014).

Forecast change in EU-28 sheep meat production 2013-2023



Source: European Commission

Excluding the UK, EU sheep numbers at December 2013 were marginally higher than a year earlier.

However, the breeding flock was 1% lower, which is the main driver behind the expected production fall in most countries in 2014. Sheep producers in the EU remain under considerable pressure from the generally low profitability of sheep production and competition from other land uses. This was exacerbated by recent lower prices; during 2013, the EU average heavy lamb price was 1% lower than in 2012, with a reduction of 2% for light lambs. However, pressure on the EU market from low-priced New Zealand product did at least ease during the course of2013. In addition, the feed situation was somewhat better after the problems of 2012.

With a tightening supply situation the working group expects a small recovery in lamb prices in 2014, with the heavy lamb price forecast to be up 2% on 2013. There has already been a good start to the year, with prices well above the depressed levels of a year earlier. In the latest week, the [EU-25 heavy lamb reference price] was 9% ahead of year earlier levels.

However, despite better prices this year, those flocks that have been experiencing decline are expected to continue doing so, with the Spanish and French flocks in particular forecast to fall much further.

Consumption levels to fall further

With production levels set to decline, expectations are for further falls in consumption levels in some regions. High retail prices relative to other meats are not helping sheep meat demand on many markets, especially as consumer budgets remain constrained. Latest estimates of supplies available for consumption indicate on-going falls in France of about 3% per annum. However, consumption is holding up in other northern markets such as Germany and the Netherlands. In the case of Spain, domestic demand continues to fall considerably as the economic woes impact on consumer budgets. However, this is helping exporters by increasing availability in spite of declining domestic production, with live exports in particular performing well.

While lamb consumption looks to be under pressure in the short term, any future increase in demand is likely to be filled by the UK as European production declines, with little sign of recovery. Forecasts made by AgriMer indicate that French import requirements will again fall. Despite this, the UK could well increase its market share as export availability for its major competitors, especially Ireland and New Zealand, is expected to be lower in 2014. Sheep meat imports to Germany, the UK's second largest EU export market, are forecast to increase further in 2014. In contrast, Italian import demand could well remain subdued but, as with France, less competition could mean that the UK can rebuild volumes to this market.

While the UK remains the dominant exporter on the EU, the market price differential between the UK and the rest of the continent will continue to play a major part influencing trade flows and prices paid in the UK. This, in turn, will be partly influenced by the value of sterling which has been moving up against the euro and by late April was 4% higher year on year. This development could well continue, given the expectation that the UK economy will continue to out-perform that of the Eurozone. This would make UK lamb somewhat more expensive on export markets, although the impact of this is on volumes may be limited.

Lionel Colby, Consultant

Chinese sheep meat import growth showing signs of slowing

Chinese import demand for sheep meat has grown rapidly over recent years as the economy grows, incomes rise and consumers look to consume more and, increasingly, different proteins. In 2013, Chinese imports of sheep meat totalled 254,400 tonnes, more than double 2012 levels and more than four times the volume imported in 2010.

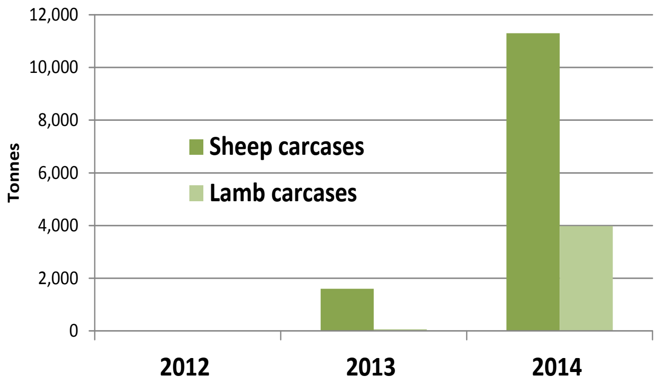
However, with a relatively small volume of sheep meat available on the global market it now appears that this growth is slowing considerably. In the first quarter of this year, volumes were only 36% higher on the year and in March they were only 13% above year earlier levels.

Within the March figures, volumes from New Zealand were 15% higher on the year while those from Australia were only marginally higher. Despite sending considerably lower volumes than New Zealand and Australia, shipments from Uruguay continued to increase sharply, with volumes during March increasing more than threefold on year earlier levels.

This slowing of Chinese import growth was largely expected as the ultimate limiting factor was always likely to be the supply of lamb from the key trading partners, rather than Chinese demand. From here, it is expected that Chinese imports will struggle to grow at the same rate as in recent years but there is still considerable room for evolution, which is already well underway.

Looking at the first quarter of 2014, while total shipments were 36% higher on the year, the growth in carcase shipments was much higher. In the first quarter of 2013 carcase (or half carcase) shipments accounted for less than 3% of Chinese imports (up from zero in the first quarter of 2012). In the first quarter of 2014, these shipments accounted for almost 19% of the total. Already, in the first three months of the year, imports of carcases have exceeded the volume recorded in the whole of 2013.

Chinese Q1 sheep meat carcase imports



Source: China Customs/GTIS

Additionally reports from both Australia and New Zealand continue to indicate that within the trade for cuts there is an increasing proportion of higher value product such as legs. All of this points to the fact that the Chinese import market now has an appetite for the whole of the carcase, rather than just the lower quality (and cheaper) cuts, as has previously been the case.

This is somewhat reflected in the average value of Chinese imports, which are currently 10% higher on the year. While this is partially as result of rising values globally, the figures for Australian and New Zealand exports show that China is ahead of the global growth. In the first two months of the year, the average value of New Zealand sheep meat exports was 16% higher on the year, while the average to China was 21% higher. For the same period Australian unit values were 24% higher on the year, while the average value of shipments to China increased 30%.

This continued growth and evolution of the Chinese market has two potential impacts on the UK market. Firstly, the changing dynamics of world trade have resulted in the rising importance of China over more traditional markets such as Europe. As such, product has been diverted away from these markets in order to fulfil Chinese orders. As the Chinese market evolves, this will increasingly encompass larger volumes and more high value product, such as chilled lamb leg joints. With product being diverted away from the UK and Europe, there is likely to be less competition from New Zealand product in particular. With the Chinese market growing, its importers should look increasingly further afield for supplies.

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World lamb trade remains stronger year on year

Global lamb prices continue to track well above year earlier levels as the supply and demand balance remains much more favourable. China likely remains the strongest driver on the demand side, although demand in both North America and Europe does appear to be somewhat better.

In Australia, lamb prices reached a near three year high in April having hit the 600 cents per kg mark once again. At this level, prices have risen by nearly 50% since the turn of the year and are 50% higher than year earlier levels. Meanwhile, New Zealand lamb prices are holding steady and are roughly a quarter higher than they were a year ago, with forward contracts for the winter looking stronger too. In the United States prices are still tracking well above year earlier levels, with the average price for March in San Angelo (the largest lamb market in the US) 57% higher on the year.

In Europe, prices are roughly 9% higher on the year as UK and French prices in particular are well above year earlier levels.

While supplies in Europe have generally been tighter, the supply of lamb on the world market has not been as tight as expected, with both the Australian and New Zealand kills holding up well recently. Current indications are that supplies will tighten as the year progresses which could potentially add further upwards pressure to the world trade. However, this is very much reliant on continuing strong demand. Recent years have shown there is a ceiling to lamb prices and with options to trade into other proteins, the consumer cannot and will not continuously absorb higher prices at retail level.

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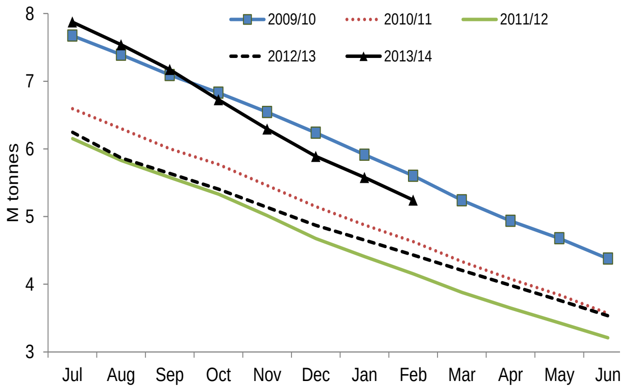
Barley - to feed or not to feed

With the largest barley crop in 15 years and little chance of intervention being used to balance the surplus, this has been a significant season for UK barley. The challenge for the UK barley market this season has been to deal with high production without the aid of intervention – a first in this modern era. The market has reacted rationally without the distortion of intervention, with domestic and export demand stimulated to offset much of the additional production. Although the theoretical 2013/14 balance started the season above 2009/10 levels (another big barley season), it has since moved below. This has been driven by both commercial feed demand and exports being ahead of 2009/10 levels to date. However, the remaining four months of the season (Mar-Jun) provide enough time for a change in these trends.

Theoretical UK Monthly Barley Balance*

***opening stocks + production - monthly GB feed demand - monthly integrated poultry usage - monthly brewers, distillers & malters usage + monthly imports - monthly exports. (does not include NI feed use)**



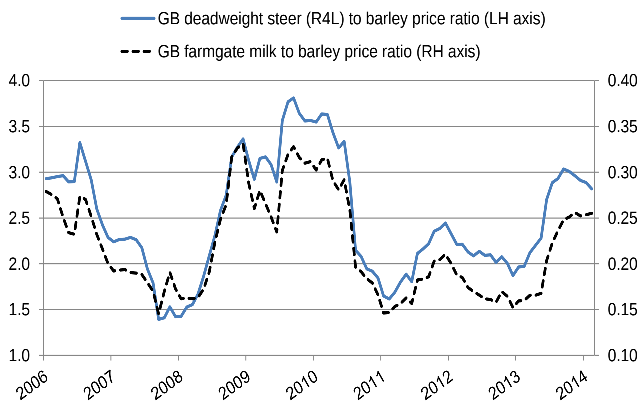
Source: Defra, HMR&C, AHDB/HGCA

The reason the monthly balances have been cited as theoretical is that they do not account for a key area for demand, for which there are no official statistics – fed-on-farm usage. Year-to-year, the amount fed on farm is not consistent and is influenced by many factors; for a season like this it creates uncertainty for stock levels come the end of the season. Certainly there is economic evidence to support strong levels of fed-on-farm usage this season. The higher ratio between the GB beef and milk prices and the average ex-farm barley price indicates a better the return to the livestock producer by using barley. The ratios have reached levels this season not seen since the last big barley year of 2009/10.

Cereals provide cattle with a good source of energy and starch which can, when fed with care, have a very positive effect on animal performance. Different cereals vary in their nutritional composition with maize tending to have the greatest starch and energy content and oats the lowest.

GB beef & Milk to Barley Price Ratios

the higher the ratio, the higher the return on using barley



Source: Defra, AHDB

Barley is a palatable feed with high levels of energy and starch. It is low in fibre and has modest protein levels. However, it is not just the amount of starch that needs to be considered when choosing feed grains.

When feeding more rapidly fermented starch in wheat or barley grains then care should be taken to just crack the grains and not to grind them too finely which can cause digestive upsets. In contrast, maize starch has the advantage of being more slowly fermented than starch in wheat or barley and is therefore more rumen friendly. Oats contain more digestible fibre than other cereals which helps slow fermentation in the rumen. However, despite often being cheaper than other cereals, oats do not generally enable the same cattle performance levels of other cereals.

Given the different composition of the different cereals and their nutritional value in cattle rations it is important for farmers to compare the cost of the different cereals in relation to the energy and protein that they provide. Growing and finishing cattle requires attention to detail at all stages to be able to match market needs and make the best return on your investment.

The best returns come from cattle that are well grown and efficiently finished. Feeding not only determines animal performance but also contributes to animal health, cost of production and therefore profit margins. Further information on the use of cereals in production systems can be located on the EBLEX website.

In addition, more information on the range of methods for harvesting, processing and storing cereal crops destined to be fed to beef cattle and sheep is available in the EBLEX Cereals Directory.

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