Monthly Market Report

August 2014

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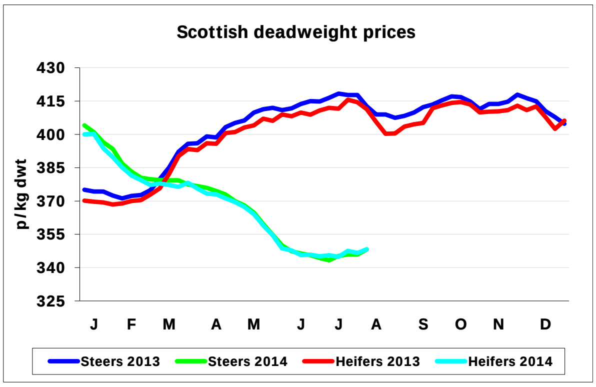
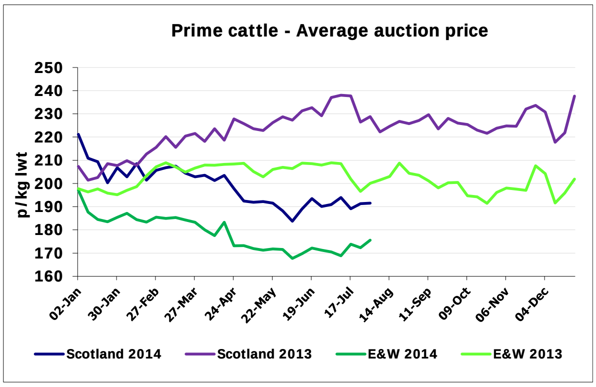
Cattle

Prices and Supplies





Deadweight prime cattle prices edged forward through July. The average steer price lifted from a 29-month low of 343p/kg dwt in the first week of the month to trade at 348p/kg in the week ending August 2. This was 15.5% lower than in the same week last year, compared with annual discounts of 17-17.5% throughout much of June and July. During four of the five weeks of July, heifers averaged more expensive than steers; an historically rare occurrence. This may well reflect that while steer supplies at price reporting abattoirs have been running well in front of 2013 levels, fewer heifers have been handled.

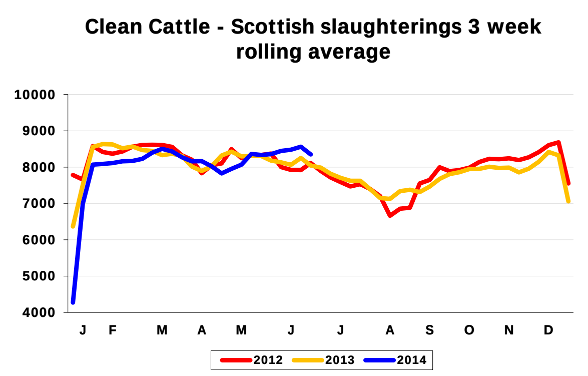
Prime cattle prices have steadied at Scottish auctions since mid-June with the overall average trading at between 189p/kg lwt and 194p/kg lwt in the eight weeks to August 6th. Since prices cooled in late July 2013, the annual price differential has narrowed from nearly 20% to 16% over the past month. However, the annual discount for young bulls has remained at 25-30%.

UK prime cattle slaughterings fell by 0.5% year-on-year in June to 150,300 head. While kill numbers were higher than last year in England & Wales and in Scotland, they fell sharply in Northern Ireland. The lower kill in NI has been linked to a decline in imports of finished cattle from farms in the Irish Republic as NI processors are struggling to sell the meat from cattle born and slaughtered in different countries since it cannot be labelled ‘Irish’ or ‘British’. Though the overall kill was lower, UK abattoirs handled around 5.5% more steers than a year earlier. This was more than offset by a 3.5% decline in the heifer kill and a 10% decline in the young bull kill. The weekly average kill slipped to a six-month low of 37,600 head.

Despite fewer prime cattle being slaughtered, record carcase weights meant that prime beef production rose by 3.5% year-on-year in June, reaching 53,350t. The average carcase weighed in at 355kg in June, exceeding the previous high set in April of 354kg, and was well above the June 2013 average of 341.5kg. Steers and heifers were 13-14kg heavier than last year while young bull weights increased by an average of 7kg.

During the first half of the year (H1), the UK prime cattle kill ran nearly 1% higher than in H1 2013 at 986,300 head. A 2% increase in the number of steers and heifers slaughtered was partially offset by a 6% decline in young bull throughput. As a consequence, young bulls accounted for 13% of prime cattle slaughterings compared with 14% in H1 2013.

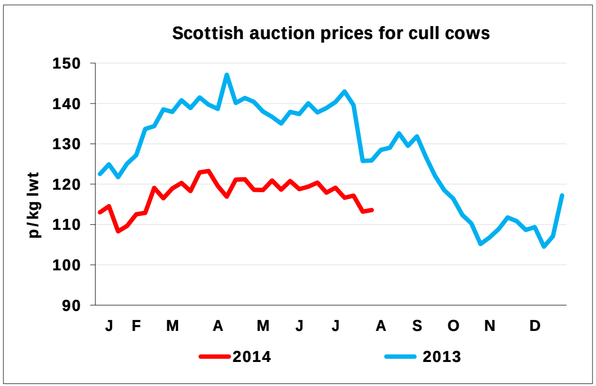
With better weather conditions and lower feed costs encouraging producers to add weight, the 1% increase in prime cattle slaughter during H1 2014 turned into a 3% rise in prime beef output as volumes reached 345,900t.



As noted previously, the prime cattle kill at Scottish abattoirs ran ahead of year earlier levels in June. Throughput increased by 4% to 33,750 head with the weekly average reaching a 16-month high of nearly 8,450 head. Driving the increase was a 7% increase in the steer kill. Meanwhile, Scottish processors handled 1% more heifers but 1% fewer young bulls than in June 2013.

With the average carcase weight at Scottish abattoirs up nearly 17kg year-on-year in June at 371kg, prime beef production rose by 9% to 12,500t. The average steer weighed 391.5kg (+16.5kg); the average heifer 339.5kg (+17.5kg); and the average young bull 372kg (+11kg).

During H1 2014, the total number of prime cattle slaughtered at Scottish abattoirs was 1% lower year-on-year at 210,500 head due to tighter heifer supplies. However, this was more than offset by higher carcase weights and prime beef production subsequently increased by 2.5% to 77,100t.



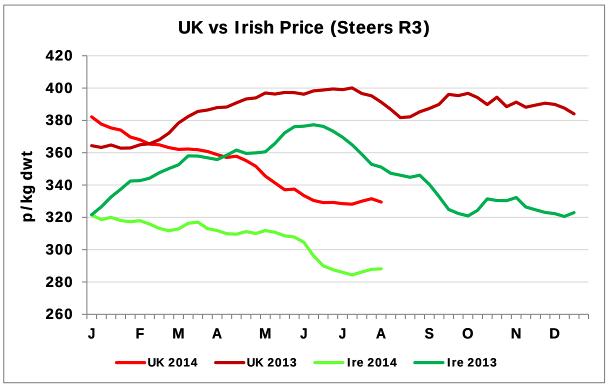
Deadweight cow prices have been averaging close to 245p/kg at Scottish abattoirs since late February. In the week ending August 2, the average cow sold for 247p/kg dwt; a 5-week high, though still 12.5% lower year-on-year. However, the average price will have been influenced by an increased quality of cows given that prices for the individual grades were generally 2-3p lower than at the beginning of July. There has been a more noticeable seasonal cooling of the cow trade at Scottish auctions with prices slipping back to 113p/kg lwt in late July, having traded at around 120p/kg lwt between March and June. Despite the recent dip, the price differential with last year has narrowed to 10%; the smallest since mid-January.

For a twelfth time in 14 months, UK abattoirs slaughtered fewer mature cattle than a year earlier during June. Supplies decreased by 6% to 38,900 head. The average weekly kill was below 10,000 head for a third month; the first time this has been the case in 3 consecutive months since the second quarter of 2010.

The annual decline in the mature cattle kill at Scottish abattoirs matched the 6% UK decrease in June. This was the 13th time in 14 months that supplies have been below year earlier levels. However, numbers were marginally higher than in May, at just under 4,000 head.

At the UK level, the lower mature cattle kill failed to offset increased prime beef production and total abattoir output grew by 2.5% year-on-year to 66,300t. However, average weekly domestic production did slip to a 6-month low.

Kantar Worldpanel data on beef consumption shows that in the 12 weeks to June 22, GB households bought a higher volume than a year earlier. With the average price 4% higher, it took an increase in cash spending of 5% to take consumption volumes 1% above year earlier levels. Higher domestic beef production resulted in the consumption of home produced beef rising by an annual rate of 7.5%. The overall increase in the volume retailed was driven by roasting joints as sales grew 15%, helped by a 2% decline in average prices. By contrast, stewing beef and mince were 3% more expensive and sales fell 16% and 0.5% respectively. The decline in mince sales volumes came despite more people buying it, suggesting higher prices led shoppers to purchase smaller quantities. Demand for steaks remained firm though, as sales volumes edged higher despite becoming nearly 10% more expensive. As a likely consequence of the good weather through the late spring and early summer, burger sales increased strongly, rising 11% year-on-year in the 12 week-period and by 14.5% in the 4-week period ending June 22.



Following their sharp decline through June, Irish beef producer prices fell further in the first half of July before showing tentative signs of recovery. The average R3 steer price reached a 6-week high of €3.64/kg dwt in the week ending July 27 before edging back to €3.63/kg (288p/kg dwt) in the week ending August 3. This was up 4c/kg on the month and 5c above the low point of the week ending 13 July. Compared to the same week last year, Irish prices closed July down 10% in euro terms. However, when converted into sterling, prices were 18% lower year-on-year, highlighting the impact of a weaker euro on Irish price competitiveness in the UK market.

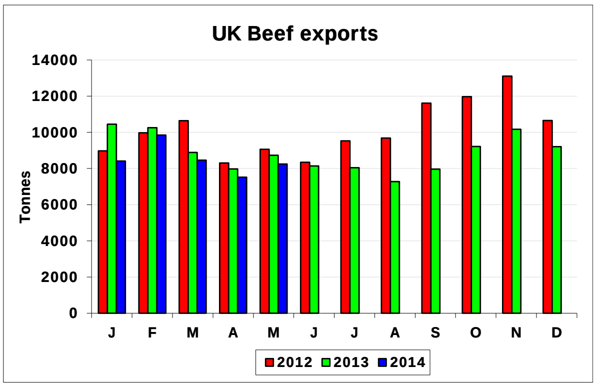
Most countries on the continent favour young bull production over steers. The average price for R3 grade young bulls closed July at the same level it had opened the month, trading at €3.60/kg dwt (285p/kg dwt). However, as sterling strengthened in value over the month, the average young bull price fell by 1% in sterling terms. Despite the overall euro-terms average flat-lining during July, prices fell by 7% in Holland, 4% in Sweden and by 2% in Spain, Belgium and Denmark. There were also small 1% moves lower in Poland and Portugal. Meanwhile, German, Austrian and French prices were broadly level on the month. By contrast, prices lifted by around 2% in the British Isles. A 5% monthly gain for Greek producers extended their lead at the top of the pricing table, taking the average R3 young bull to €4.55/kg dwt (361p/kg dwt). This was 27% higher than the EU average and 16% above the UK average.

A year-on-year comparison of R3 young bull prices shows a 4% decline for the EU average. However, when quoted in sterling, the average has fallen by 12%, highlighting the impact of currency movements on markets where competitive pricing is important. Moving back to euros, the most significant annual declines have occurred in Ireland and Sweden with prices down by 11% and 15.5% respectively. There were also above average declines for UK (-8%), Belgian (-7.5%), Dutch (-8.5%) and French (-5.5%) producers. Prices have also decreased in Austria, Germany and Spain; though to a lesser extent. By contrast, there has been some price appreciation in Poland and Portugal, up 2%, and in Greece, up 5%.

There was some seasonal pressure on O3 grade cull cow prices during July with the EU average sliding 1.5% to €2.92/kg dwt (232p/kg dwt). With adequate supplies already sourced for the peak summer burger trade, prices cooled by around 4% in a number of Member States, including Germany, Poland, Italy and Holland. However, the market was more balanced in the UK and France, and prices lifted 1% in Spain. Irish producers fared best with a 5% monthly increase (4% in sterling).

EU28 O3 cull cow prices opened and closed July running 9% behind 2013 levels. The largest annual declines have tended to be in the north west of the continent, with prices down 10% in Austria, Belgium, Holland, Germany, and France. However, there have been smaller declines of 7.5% in Italy and 4-5% in the British Isles and Poland. Only in Romania are prices exceeding year earlier levels, up 1.5%.

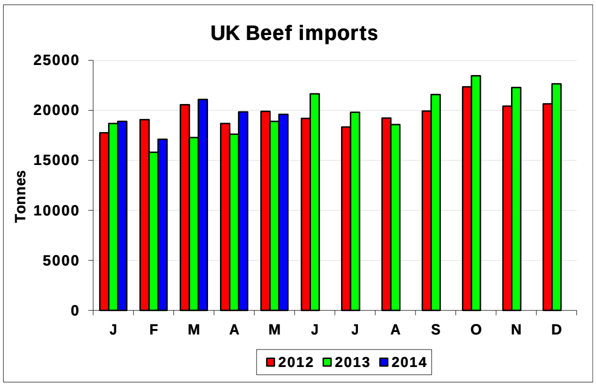
Regional price comparison across the EU			
W/e 03/08/14	Steer R3 (p/kg dwt)	Heifer R3 (p/kg dwt)	Cow O3 (p/kg dwt)
Scotland	349.1	348.0	254.7
E & W North	336.5	327.1	244.1
E & W Central	328.0	324.0	255.9
E & W South	326.7	323.5	240.8
NI	323.7	327.3	247.9
RoI	288.1	294.0	235.6
France	310.1	325.1	272.0
Germany	313.3	293.8	280.4
Holland	n/a	254.1	215.6
Spain	n/a	292.9	184.7
Poland	n/a	237.8	200.4
Italy	n/a	323.4	213.9
EU28	310.9	303.8	231.8



According to HMRC trade data, the UK exported 8,250t of beef in May. This fell 5.5% short of the same month in 2013 when more than 8,700t had been shipped overseas. 12% of domestic beef production was exported in May 2014, compared with more than 13% in May 2012 and 2013, and a high of 17% three years ago. Nevertheless, it was still a significantly higher share than in the same month between 2006 (when UK beef exports to the EU resumed following the BSE-related ban) and 2010.

There was an overall decline in sales to EU markets of 8.5% year-on-year in May 2014. However, this was not distributed evenly across markets. Indeed, trade with Belgium, France and Germany was around 40-50% lower, while sales to Holland and Sweden were a fifth lower. By contrast, exports to Denmark, Ireland, Italy, Poland and Spain increased. Shipments to Ireland totalled more than 2,900t during May, accounting for 38% of shipments to the EU. The second most important destination was Holland, with deliveries of 2,100t making up 27.5% of sales to the EU.

Looking further afield, exports to non-EU markets reached an 18-month high of almost 600t. This was driven largely by a jump in sales of frozen beef to Hong Kong. Exports to Hong Kong totalled around 370t; up from just 2t in May 2013 and an average of just over 100t per month in the opening third of this year. Meanwhile, exports to Ghana continued to run well behind last year's levels, down 40% at 70t.



The UK imported 19,600t of beef during May. While this was 4% higher than last year, it was still 300t (1.5%) short of the same month two years ago. Imports accounted for approximately 25% of the total volume of beef on the UK market in May. This was unchanged from the previous two years but slightly higher than in May of 2009-11. While the 14,650t of fresh beef exceeded May 2013 levels by 5%, imports of frozen beef were marginally lower, at 4,900t. This was also a 4-year low for the month.

During May, higher beef production in Ireland continued to feed through to higher shipments to the UK as deliveries increased by 14% year-on-year to 14,100t. This was 72% of total imports; well above the May 2013 share of 65.5%, but in line with the average share for the first five months of this year. Fresh beef imports from Ireland were up 7% year-on-year while imports of frozen beef jumped by nearly 50% as they had been adversely affected by the horsemeat incident last year. While beef from Ireland accounted for three-quarters of total UK fresh beef imports during May, it took a smaller 65% share of frozen beef imports. Other EU suppliers to deliver more beef to the UK included Holland, France, Poland, Belgium and Denmark. However, less beef arrived from Germany, Spain and Italy.

During May, beef imports to the UK from non-EU countries declined by a third year-on-year to 1,800t. Two-thirds of this beef came from Oceania with deliveries from Australia up 40% at nearly 800t and shipments from New Zealand 7% higher at more than 400t. By contrast, imports from South America and Africa fell sharply.

News Round Up

The large increase in Irish cattle supplies seen throughout the first half of this year showed the first signs of slowing in July. Indeed, the monthly prime cattle kill in export abattoirs exceeded year earlier levels by 5.5%, having been up by 21.5% in June and by 16.5% in H1. Supplies tightened considerably in the middle of the month with numbers only marginally higher in the week ending July 19th and then 3.5% lower in the following week. However, they did pick up again at the end of the month, posting a 6.5% year-on-year increase.

Russia has banned all beef imports from the EU, Norway, the USA, Canada and Australia for a year. Trade data suggests that Norway has no beef trade with Russia, while shipments from Australia, Canada and the US made up less than 2% of their total beef exports in 2013. Furthermore, beef exports to Russia from Canada and the US have already been restricted since early 2013 based on Russian concerns over the use of a growth promoter, ractopamine, in cattle feed. There may, however, be more of an impact in the EU as Member States exported around 32,400t of beef to Russia in 2013 for a monetary value of

€110.5m (£88m). Nevertheless, any initial impact is likely to dissipate over time as exporters find new markets in other parts of the world. It should also be noted that an additional 32,400t of beef would only increase the total annual supply of beef on the EU market by around 0.5%. According to Eurostat trade figures, the largest EU exporters of beef to Russia in 2013 were Poland (10,300t) and Lithuania (8,000t), while Germany, Denmark, Spain and Italy each delivered 2-3,000t and Ireland 1,400t.

In the same week that Russia banned imports from the EU, US, Norway, Canada and Australia, it granted export permits to five more Brazilian processors. During June, Russia was the largest overseas buyer of Brazilian beef, taking delivery of 29,100t; 29.5% of the 98,300t of fresh beef exported. With the average value of these shipments slightly below average at $4,435/t (£2,640/t), total receipts from trade with Russia, at $129m (£76.5m), amounted to 27% of the $471.6m (£280m) monthly total.

Chinese authorities have lifted a ban on Brazilian beef that was imposed after a Brazilian cow tested positive for BSE in December 2012. The announcement came during a visit of the Chinese President, Xi Jinping, to Brazil in mid-July and follows a Chinese inspection of Brazilian abattoirs and their animal health control measures in May. Prior to the ban, China was a relatively minor market for Brazil, with around 17,000t of mostly frozen beef exported in 2012 at a value of around $38m (£22m). However, Hong Kong was the second largest buyer of Brazilian beef in June 2014, taking delivery of 19,900t of fresh beef plus 9,900t of fifth quarter product. Once shipments resume to China, it is likely that some of the beef currently being delivered into Hong Kong will be diverted to the Chinese market. Nevertheless, only 8 Brazilian abattoirs are approved to export beef to China, limiting the possibilities for any significant expansion in trade.

With the US cattle herd at its lowest level since the early 1950s, and producers taking advantage of good weather conditions to rebuild their herds, supplies of finished cattle have fallen sharply this year. Indeed, in the final week of July, the USDA estimated that throughput at US abattoirs was 7.5% lower year-on-year at 574,000 head and in the first seven months of 2014, numbers were back by 7% at 17.649m head. One casualty of tight supplies has been an abattoir in Milwaukee, Wisconsin, owned by one of the country's largest beef processors, Cargill. As a consequence, 600 jobs have been lost at the abattoir which slaughtered around 350,000 cattle per year. However, Cargill has kept its further processing plant at the same location in operation, keeping 200 people in work, while the six remaining Cargill abattoirs across the US will also continue trading. Another consequence of tight supplies has been much higher producer prices. Deadweight steer prices traded at $5.64/kg (333p/kg) in the week ending August 3. This means that the average steer price is 3.5% higher in the US than in England & Wales, having been 23% cheaper at the turn of the year and 28% cheaper one year ago.

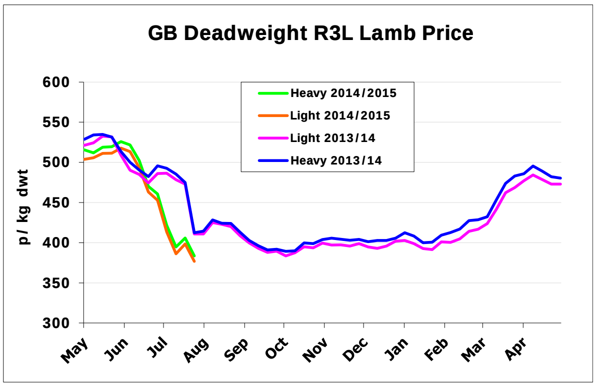
Also placing upwards pressure on the US market will have been strong overseas demand. Indeed, during the opening half of 2014, US beef exports rose by 7% year-on-year to 417,400t. This was despite shipments to the largest market, Japan, falling by 7% to 94,300t, while the Canadians bought 19% less US beef (65,650t). However, the other large export markets of Hong Kong (69,700t), Mexico (71,300t) and Korea (52,850t) all purchased much more beef from the USA than in the first half of 2013, with deliveries rising by 63%, 34% and 20% respectively. However, the pressure on supplies resulted in export shipments exceeding year earlier levels by just 230t (0.3%) during the month of June, at 78,000t.

Meat & Livestock Australia has released its mid-year projections for the country's beef industry. At the end of June this year the total cattle population was estimated to have fallen to 26.7m head; a 9% decline compared to the 3-decade peak of 29.3m head in June 2013. Going forward, a further decline is expected in the next year, taking the cattle herd to its lowest level for more than twenty years of 26.1m head. The main driver of this sharp decline has been an 18-month long drought affecting the key cattle producing regions of northern New South Wales and Queensland. With feed tight, producers have been sending more breeding animals for slaughter than usual, while the difficult conditions have led to higher mortality and fewer calves have been born. In addition, the country's live export trade has picked up again after animal welfare concerns caused the main Indonesian market to close for a while back in 2011 and 2012. Further support for the live trade to Indonesia has come through the loosening of Indonesian import barriers, aimed at reducing beef retail prices. As a consequence, in 2014, live exports are set to reach a new record of 1.13m head, up one-third year-on-year. The combination of high slaughterings and the substantial increase in live exports are believed to have pushed up cattle 'turnoff' in 2014 to 35% of the national herd; its highest level since 1979 and considerably higher than the 28-29% seen in 2011-13. It is this high level of turnoff that has driven the cattle population lower. Although tight supplies will limit slaughter and live exports in 2015, turnoff is forecast to remain above its 2011-13 level, easing slightly towards its long-term average of 32% in the next couple of years, meaning that any herd rebuilding will be a very slow process. Indeed, although MLA predicts that the herd will begin to expand again from 2016 onwards, it will remain 4% smaller at the end of the decade than it was in June 2013, reaching 28m head.

In terms of Australian beef production, MLA is forecasting that supplies will begin to tighten up in the second half of this year, pushing annual slaughterings down 0.7% in 2014 to 8.3m head. With the dry conditions leading to lighter carcase weights for a second year (down 0.7% to 278kg), this will see total beef production fall by nearly 1.5% to 2.291m tonnes. Next year, slaughter is expected to fall by nearly 11% to 7.4m head, taking it back close to its 2012 level. However, with carcase weights not expected to recover fully, beef production is predicted to still be lower than in 2012 at 2.087m tonnes. This would be a 9% year-on-year decline. The considerable tightening of supplies expected next year have led MLA to suggest that producer prices may rise by as much as 40% in 2015.

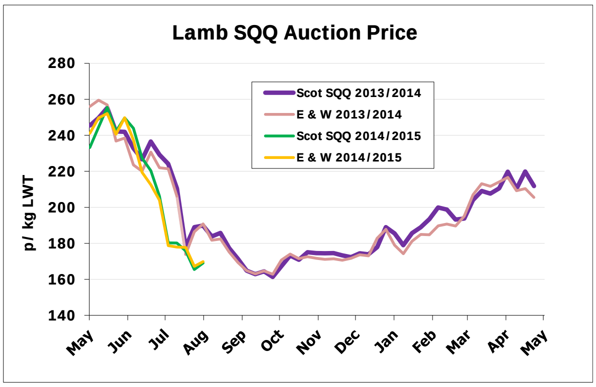
Sheep

Prices and Supplies



After cooling through June, prime lamb prices fell further in July at GB price reporting abattoirs. From a level of 460p/kg dwt in the opening week of July, prices fell sharply to trade at 382p/kg dwt in the week ending August 2. With weekly supplies steadying, it suggests that the price decline was due to a seasonal fall in demand caused by warm weather and the peak summer holiday season. Prices traded below last year's levels throughout July, closing the month at a 7.5% discount. Contributing factors will have included a 20% increase in the number of lambs being handled by price reporting plants plus an 8% stronger pound against the euro. A stronger pound meant that exporting firms would have had to have lowered their sterling prices by 8% from last year to hold their euro export prices constant, thereby placing pressure on margins.

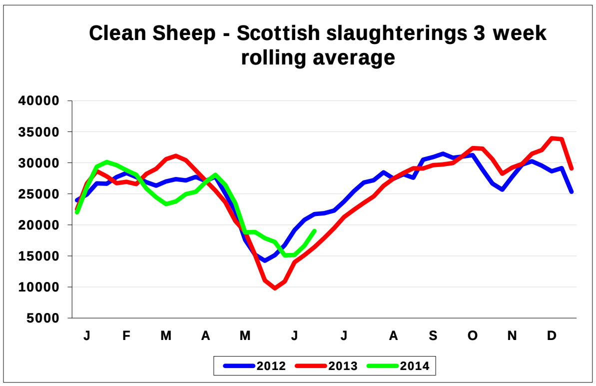
During July, 72.5% of the lambs in the GB price reporting sample reached an R3L or better grade, compared with 72% 12 months earlier. Back in July 2012, the proportion achieving an R3L or better grade was just 68.5%.



At Scottish auctions, the average SQQ lamb sold for 169p/kg lwt in the week ending August 6, up 4p on the week. Nevertheless, prices were still 11p (6%) lower than in the first half of July. Furthermore, compared to the same week a year ago, prices were down by 11%. This was despite volumes now running behind last year's levels. Indeed, having been up 76% on the year in May and by 50% in June, auction volumes were just 1.5% higher in July, before falling 26% below their year earlier level in the opening week of August. With the supply situation changing, lower prices indicate weak demand.

Lamb slaughter at UK abattoirs exceeded its year earlier level by 70,100 head (8.5%) in June. At 906,700 head, numbers reached a 6-year high for the month, reflecting the (likely) increased lamb crop and better seasonal conditions. The weekly average kill was at its highest level of the year so far; the first time this has been the case in June for 3 years. Furthermore, this was only the third time in the past 17 years that this has occurred.

The average carcase weight of the lambs slaughtered at UK abattoirs in June was 0.2kg lighter than a year earlier, at 19.0kg. This was a 7-month low as well as being a three-year low for the month. Given the beneficial growing conditions, it suggests that producers may have sold their lambs to abattoirs at younger ages than in the past couple of years.



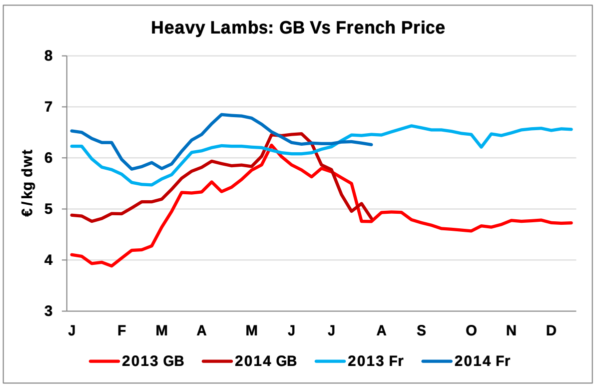
Lamb throughput at Scottish abattoirs rose by 13.5% on the year to 71,350 head in June, exceeding slaughter growth in the UK as a whole. Nevertheless, supplies remained tighter than in the same month two and three years ago. After such strong start to the season in May, the monthly increase in throughput between May and June slipped to a 10-year low of 3,800 head. By contrast, last year, supplies had risen by nearly 16,500 head between May and June. At 19.6kg, carcase weights were down fractionally on both the month and the year.

The latest GB household purchasing data from Kantar Worldpanel does not make good reading on the lamb side. In the four weeks to June 22, sales volumes declined by 18.5% year-on-year as households spent 13% less money buying lamb and prices averaged 7% higher. This continues a trend that has seen consumption fall back from last year's levels throughout the first half of 2014, with volumes down 13.5% in the year-to-date. However, a closer look into the data shows that the overall decline reflects a decline in imports. Indeed, the volume of home produced lamb purchased in the four weeks to June 22 was up by 27.5%, while it was 7.5% higher in the year-to-date. Furthermore, the average price of this home produced lamb was marginally lower than a year earlier in the most recent period. By contrast, the volume of New Zealand lamb retailed fell 53% and it was nearly 10% more expensive to buy.

As August commenced, cull ewe prices rebounded, matching their level of two weeks before. While this £7 (14%) increase to £56.80/head may have been partly down to fewer ewes being marketed, the previous week's average price was held down by one sale in particular. Excluding this poor sale, prices have steadied in late July/early August, placing them broadly in-line with year earlier levels.

Slaughterings of ewes and rams at UK abattoirs were behind 2013 levels throughout H1 2014. June was no exception with numbers back 10% year-on-year at 132,500 head. However, the average weekly kill lifted seasonally in June, reaching a three-month high of 33,100 head, compared with 30,800 in May and 31,800 in April.

UK sheepmeat production totalled 21,000t during June. This exceeded the June 2013 volume of 20,000t by 5%. While the volume of prime lamb rose by more than 7.5% to 17,300t, mutton supplies tightened by 6.5% to 3,700t.

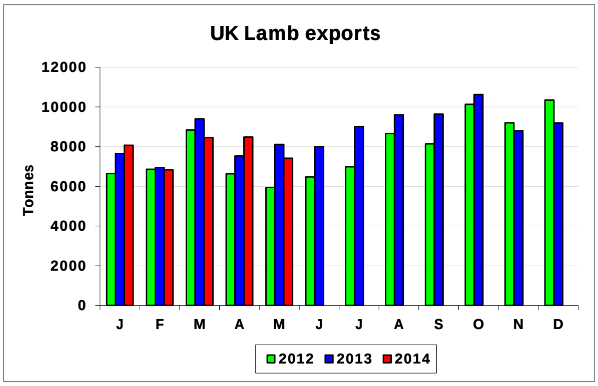


The EU28 average price for a heavy lamb opened August at €4.89/kg dwt (388p/kg). On the month, prices cooled the most in the British Isles with an 18% decline in GB and a 14% decrease in both the Republic and Northern Ireland. The only other Member State to see a large decline was Cyprus, down 10.5% while Belgian prices fell 6%. Meanwhile, there were smaller falls of 2% in Germany and Holland and marginal declines in France and Romania. By contrast, prices edged higher in Poland and Austria and rose by 2.5% in Spain.

Compared to 12 months before, the EU heavy lamb average was up by 0.5%. Due to currency movements, prices in GB and NI were little different to a year earlier in euro terms, rising 1% in GB and cooling 1.5% in NI. Prices in the Irish Republic moved similarly to those north of the border, and Spanish prices were also 1% lower. Meanwhile, prices in Germany and Holland were around 7-8% higher year-on-year.

The trade in light lambs was relatively stable during July when viewed at a southern-Europe level. The average price edged up 0.5% through July, reaching €5.84/kg dwt (463p/kg dwt). Prices levelled in Spain, Italy, Portugal and Bulgaria and rose by 2% in Croatia and Greece. Slovenian producers gained the most with light lambs closing the month 5% more expensive.

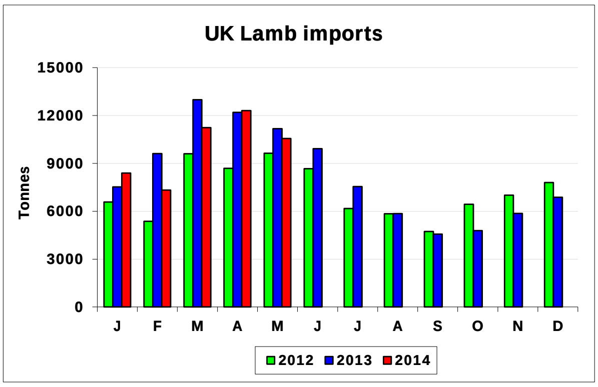
However, compared to the same week last year, the average light lamb price was lower, mainly due to a sharp 14.5% decline in Spain. Nevertheless, the market was also down in Italy (-0.5%), Greece (-3%) and Hungary (-4%). By contrast, producers saw an annual price lift of 3% in Slovakia, 4% in Portugal, 11.5% in Slovenia and a quite considerable 27% in Bulgaria.



The first estimate of UK sheepmeat exports during May indicated that they were down by 9% year-on-year at 7,400t. This would suggest that 38.5% of monthly domestic production was exported, compared with 45.5% in May 2013 but only 32% in May 2012. However, HMRC have tended to upwardly revise export figures when better information about sales to the EU becomes available. The initial estimate of trade with the EU for May is showing an annual decline of 21% to 5,500t. By contrast, sales to non-EU markets increased by 57% to 1,900t.

Initial export figures for May showed that Sweden and Italy bought more sheepmeat from the UK compared to a year earlier while sales to Austria were flat. Other markets, including the key destination of France, were considerably lower, but this is likely to be revised.

As noted above, deliveries to non-EU countries picked up sharply in May 2014 compared with the same month of the previous year. The 700t increase was driven by a jump in sales to Hong Kong which rose by more than 550t (70%) to nearly 1,350t. Other growth markets included Ghana, the Philippines, Thailand and Singapore. However, trade with Norway and Switzerland contracted relative to May 2013.



With domestic sheepmeat production rising strongly in May and exports subdued, fewer imports were required. Consequently, volumes fell by 5% on the year to 10,550t and accounted for around 47% of total market supplies compared with 53.5% a year earlier. Though monthly imports were still higher than in May 2010, 2011 or 2012, they were well below the levels of 2004 to 2009.

Sheepmeat from New Zealand (NZ) made up 80% of imports during May; an 11-month high. However, the 8,400t delivered from NZ was 5.5% lower than in the same month last year. Pushing down on imports from NZ was a rebalancing of their trade from the EU towards China, plus a lower UK import requirement given the higher level of home production. Although the average value of imports from NZ slipped to a 7-month low of £4,400/t, this was 11.5% more expensive than in the same month a year ago, and may have placed downwards pressure on trade. Meanwhile, imports from the second largest UK supplier, Australia, were up by more than 40% year-on-year to 1,200t; a 7-year high for the month of May. Expansion came despite the headwind of an average price 16% above its year earlier level, at nearly £4,350t. Closer to home, imports from the Irish Republic halved on the month and on the year, slipping below 300t for the first time since 2006. Of the smaller suppliers, only the Falklands and Chile provided more sheepmeat than 12 months before.

News Round up

In Spain, sheepmeat consumption was almost a fifth below its year earlier level during May 2014. Spanish households consumed 5,500t of sheepmeat during the month compared with 6,800t a year earlier. A significant headwind to sales will have been higher retail prices, which averaged more than 4% higher year-on-year at €9.60/kg (£7.60/kg). A further headwind will have been tight supplies; sheepmeat production fell 16% year-on-year during May. Sheepmeat accounted for just under 3% of all meat sales volumes in Spain during the month compared with around 3.5% in May 2013. With sheepmeat a relatively expensive protein, this level of consumption in volume terms required a higher proportion of the money spent on meat. Indeed in May 2013, spending on sheepmeat accounted for 5% of spending on meat, slipping to 4.5% a year later. In the first five months of the year, sheepmeat consumption fell 13% to 33,000t as the average price picked up by more than 2.5% to €9.70/kg.

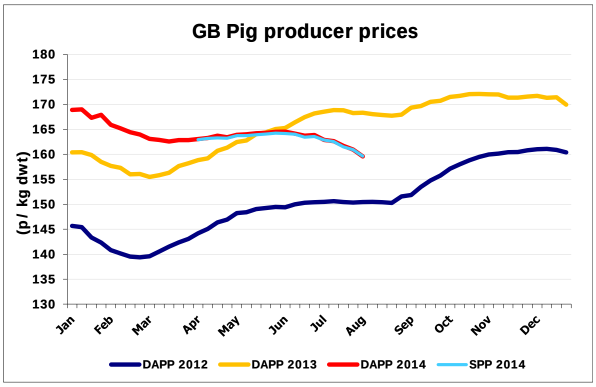
Slaughter statistics from Statistics NZ show that supplies have recently picked up in New Zealand. Lamb throughput at NZ abattoirs increased at an annual rate of 6% in May and then by 7% in June, having been lower in three out of the first four months of the year. Moreover, with much heavier carcases, the volume of lamb produced rose to an even greater extent, up 11.5% in May and by 12.5% in June at 32,500t and 20,700t respectively. In part, the increase reflects low kill levels and lighter carcase weights in these months last year, when drought conditions of the first quarter had pulled forward slaughter and poor grazing conditions had lowered growth rates. As a consequence, compared with 2012, numbers were still down by 18.5% in May and by 0.5% in June, while volumes were 22% and 3.5% lower, respectively, as despite the rise in carcase weights this year, they remain below 2012 levels. The average export lamb weighed 18.4kg in June 2014 compared with 17.6kg in June 2013 but 19.1kg in June 2012.

MLA has released its mid-year industry projections for the Australian sheep sector. It has forecast lamb slaughterings to decline by 3% from last year's record level of 21.886m head to 21.2m head. However, this will still mean historically high slaughter levels. The decline is largely the result of producers reacting to weather conditions. After a prolonged drought between 2005 and 2009 led to a significant decline in the country's ewe flock, two years of above average rainfall in 2010 and 2011, coupled with strong global lamb prices, saw producers expand. Then in early 2013, drought struck once again, leading to a lower retention rate against an increased lamb crop. As a consequence, lamb slaughter levels rose 9.5% in 2013. At the same time the drought conditions saw ewe slaughter rise by a third and caused problems with mating, and, with fewer gimmers and ewes on the ground, the lamb crop contracted. However, with a relatively dry start to 2014 leading to earlier marketing, kill numbers remained above 2013 levels throughout the first quarter before falling back in April and May. The effect of the 2013 drought on sheep numbers is expected to continue lowering lamb supplies in the next two years with MLA forecasting a 2.5% decline in 2015 and a 1% decline in 2016. However, from 2017 onwards, a recovery has been predicted. Nevertheless, assuming that annual rainfall is around the average in the coming years, lamb slaughterings would still fall around 0.5% short of their 2013 level at the beginning of the next decade.

The reduced lamb numbers reported in MLA's mid-season update was reflected in their June survey of producers. Survey responses indicated that there were 6% fewer lambs on Australian farms in June than in the same month last year while expected lamb sales in the July to October period were down 5% on the year. However, with a majority of respondents reporting better weather conditions than in 2013, an increased proportion of producers reported an intention of flock expansion in the next year. 27% of producers reported an intention to expand, compared with 20.5% in June 2013. In addition, only 9% of producers intend to cut down their ewe flock, compared with 23% last year.

Pigs

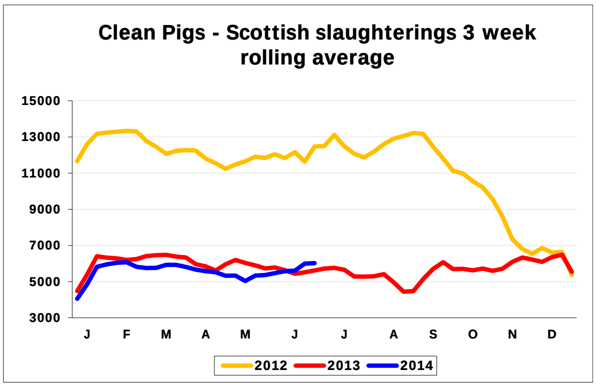
Prices and Supplies



The downwards trend in pig producer prices that emerged in June accelerated through July. Both the GB DAPP and SPP[1] have fallen back significantly in recent weeks, sliding by 4p/kg over a five week period ending August 2. At 159.6p/kg dwt, the GB DAPP fell below the 160p/kg mark for the first time since the second week of April 2013, and traded 5% lower year-on-year.

Following May's 2.5% annual increase in prime pig slaughterings at UK abattoirs, the June kill showed a faster rate of expansion, rising more than 3.5%. Throughput lifted to 771,700 head compared with a June 2013 total of 744,300 head. The average weekly kill reached a 3-month high of 192,900 head, contrasting with the historic trend which has usually seen this slip to an annual low in June.

There was a further seasonal decline in the average carcase weight of prime pigs slaughtered at UK abattoirs during June. The average pig weighed 80kg; down 0.4kg on the month and 1.2kg lower than the historic peak reached back in January and February. Nevertheless, it remained well above its year earlier level of 78.2kg. Combined with the increase in throughput, this pushed prime pigmeat production up to 61,750t, 6% ahead of last year.



June 2014 was the first month since slaughtering finished at Broxburn in October 2012 that the prime pig kill exceeded its year earlier level at Scottish abattoirs. Throughput increased by 7.5% to 24,100 head. In the final week of June, slaughter numbers reached their highest of the year to date, totalling nearly 6,150 head. The weekly average kill surpassed 6,000 head for the first time since November.

Kantar Worldpanel household consumption data for pork continued to show a subdued market in the 12 weeks to June 22. The volume retailed was 2% lower than in the same period of 2013 despite pork becoming a less expensive protein with the average price decreasing by 1.5%. Drilling down into the data shows some switching between cuts of pork. Indeed, while the overall decline was largely driven by lower sales of chops and steaks (down 8%), sales of leg and shoulder roasts were flat, and the volume of loin roasts

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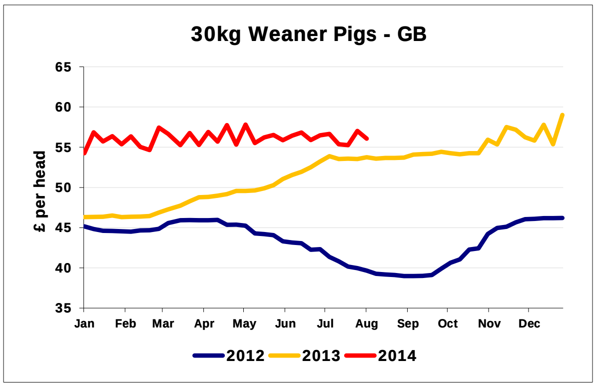
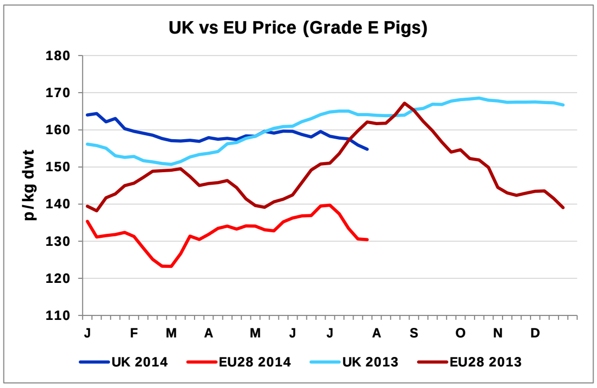
[1] The SPP (Standard Pig Price) is based on a sample of standard pigs killed at GB abattoirs. Standard pigs are defined as those where no explicit premium is paid for a specific attribute other than weight and grade. Examples of specific attributes would include organic production systems and breeds. The SPP price is taken before deductions for transport, insurance and levy and does not include bonus payments. The DAPP will no longer be published from the beginning of October and QMS will thereafter quote the SPP to reflect developments in the market for prime pigs. As can be seen in the pricing chart, it has closely matched the DAPP ever since it was first calibrated at the beginning of April. The SPP sample has generally been around 30-40% larger than the DAPP sample.

purchased increased by 6%. The shift towards pork loin came despite its position at the more expensive range of pork cuts plus a slight annual increase in price.



Weaner prices remained on a level trend that has seen the market clear at between £55 and £58 per head since the turn of the year. At the end of July, the average price stood at £56/head, up nearly 4.5% on the same week last year. However, the 7kg weaner market cooled in July, trading at around £40 a head, compared with £41 a head in June.

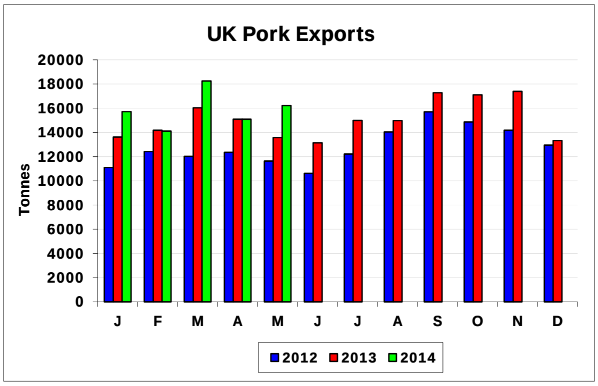
UK abattoirs produced a total of 64,500t of pigmeat during June. This compared favourably with the 61,100t of output a year earlier. The 6% rise in prime pigmeat production was partially offset by a 6% decline in sow meat production, leaving overall output 5.5% higher.



The average price for a grade E pig across the EU fell sharply in July, sliding from an eight month high of €1.75/kg dwt in the first week of July back to €1.64 in the week ending August 3. This was its lowest level since late May. Compared to the same week last year the average was down by 12%. The GB average, at €1.95/kg dwt, was nearly 19% higher than the EU average compared with 13% at the beginning of July and just 1% as August 2013 commenced. Currency movements have added to the loss in price competitiveness of UK pigs, with the UK average running 3% ahead of last year's levels in euro terms but nearly 6% lower when quoted in sterling.

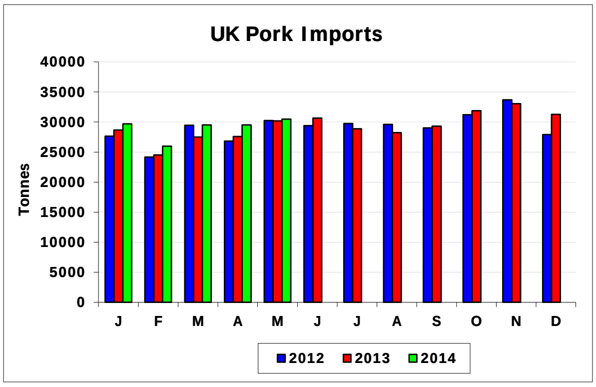
During July, the largest price decline of 14.5% came in Holland while grade E German and Belgian pigs became 8-9% cheaper. Meanwhile, prices fell 5-7% in Denmark, Austria and Poland; and by 3.5% in Ireland. There were smaller declines of 1% in Spain and 2% in France, matching the UK euro terms decline. Just 3 countries saw a rising market during the month - Sweden, Romania and Greece.

Compared to a year ago, pig producer prices are much lower in most member states, led by Belgium, down 15% and Holland, down 19%. There have also been double-digit declines in Spain, France, Latvia, Lithuania and Poland; and 9% declines in Denmark, Germany and Austria. In only the UK, Ireland and Bulgaria are prices higher than a year ago in euro terms (up 3%).



Following the weak export growth of April (1%), UK pigmeat sales to overseas markets jumped in May, rising 16% year-on-year to 17,250t. Growth was driven by shipments of fresh and frozen pork which were up nearly a fifth, while bacon & ham sales fell back by 21% to just over 1,000t and accounted for just 6% of total pigmeat exports.

Increased trade in pork with China & Hong Kong, Holland and Denmark offset lower sales to Ireland and Germany. While the former were up by around 50% year-on-year, the latter were approximately 10% lower. The largest single market during May was China, taking delivery of 2,650t of pork; 16% of the total. Germany was the second largest with 2,400t and a near-15% share.



The UK imported 51,300t of pigmeat during May 2014. Although 4.5% higher than in the same month of 2013, deliveries fell short of their May 2012 level. Breaking down pigmeat imports shows that pork imports increased by 1% year-on-year in May to 30,500t; their slowest growth since declining last November. Meanwhile, imports of bacon & ham were up by more than 10% at 20,800t. This meant that bacon & ham accounted for 40.5% of pigmeat deliveries for a second consecutive month. This was around 1 percentage point below their average share in the January to May period but up 4 percentage points from May last year.

Overall imports of pork edged higher despite the three largest suppliers to the UK all delivering less. Trade with Germany, Denmark and Holland fell 1%, 5% and 8.5%, respectively. The difference was covered by rebalancing towards product from France, Belgium, Ireland and Spain.

Growth in imports of cured pigmeat came mainly from Denmark and Germany with deliveries rising by 30-40% year-on-year to reach 10,150t and 2,650t, respectively. This more than offset a 15% decline in volumes arriving in the UK from Holland. Imports from Holland slipped to a 9-month low of 6,900t.

News Round up

Ex-farm new crop feed wheat and barley prices traded well below last year's levels in the opening week of August. In North East Scotland, wheat traded at £113/t while barley could be purchased for £92/t. In the same week last year they had traded at £166/t and £132/t, respectively. Current market conditions have therefore seen prices slide by nearly a third over the past year. Beneficial growing conditions across the northern hemisphere have boosted crop production, placing pressure on the market. It has been a similar case on the soyameal side with record global soyabean production forecasts lowering prices by 20-25% relative to a year ago. Currency movements will also have benefitted feed buyers in the UK. Not only will a strong pound have reduced the cost of importing soyameal, but it will also have made UK wheat and barley exports less competitive, thereby lowering export demand and placing further downwards pressure on prices.

The German pig census carried out during May of this year showed an expansion in the sow herd. Numbers increased by 19,700 head on the year (1%), reaching 2.075m head. This was despite a decline in the number of holdings keeping breeding pigs, implying a concentration of the herd amongst larger farms. Indeed there were 197 sows on the average holding with breeding pigs in May 2014, up from 188 in November 2013. Although the sow herd increased in size, it was still 4.5% smaller than it had been two years earlier, prior to the EU ban on sow stalls. Despite the sow herd expanding, the total number of fattening pigs fell by 1% to 12.029m head. However, there were 8% more pigs on the ground in the 20-50kg weight category, suggesting a contraction in the live export of weaner pigs. The number of piglets (less than 20kg) increased in line with the sow herd, up 1%.

African Swine Fever (ASF) is becoming a growing issue in the Baltic States. Between July 22 and August 4 there were 22 separate outbreaks reported to the World Organisation for Animal Health (OIE) by Latvia. Of these cases, ten were discovered on pig farms and 12 in wild boar. While initially the outbreak had affected areas close to the border with Belarus, and were linked to cross-border movements of infected wild boar, 4 of the cases in late July were on farms in Valka County, on the border with Estonia, more than 150 miles from the regions bordering Belarus. In total, 16 pigs and 18 wild boar have tested positive for ASF in Latvia. 5 of these pigs and 11 of the wild boar have died due to ASF while a further 64 pigs and 7 wild boar have been culled. Meanwhile, the deaths of two wild boar from ASF in Poland were reported to the OIE in late July. The largest outbreak of ASF in the EU was reported to the OIE on July 24. It was on a large farm in Lithuania, owned by a Danish company, and located around 20 miles from the border with Belarus. All 19,411 pigs on the farm tested positive. As a consequence, Lithuanian authorities implemented a 3km protection zone within a 10km surveillance zone around the farm which includes control measures such as a ban on all pig movements and a census of all pig farms. Investigations are being carried out into how the pigs contracted ASF.

While the recent Russian ban on imports of meat will have no direct effect on EU pigmeat trade given that a ban has already been in place for six months, it may be felt more significantly across the Atlantic. US trade figures for Q2 2014 showed that Russia accounted for 4% of US pork export volumes compared with just 0.75% a year earlier as a relaxation of import controls had seen trade pick-up again having been heavily curtailed in 2013 due to the presence of residues of the feed additive, ractopamine, in US pigmeat. However, excluding trade with Russia, US pork exports were up 1% year-on-year in June so there would appear to be no shortage of alternative overseas customers for US exporters, particularly given the tightness of domestic supplies. However, for Canada, the ban may have more impact given that the value of pork exports to Russia expanded by 143% year-on-year during the first half of the year to C$268.2m (£146m), and accounted for 17% of total overseas pork receipts. This made Russia the third largest buyer of Canadian pork behind the US and Japan.

During June 2014, Brazil exported 44,000t of pigmeat. This was up 8% on the year. However, with the average price per tonne rising by 57% year-on-year in dollar terms to $3,800/t (£2,100/t), sales generated a 70% higher monetary value than in June 2013, reaching $167.25m (£99.5m). In the first half of 2014, Brazil exported 235,900t of pigmeat. Although the volume exported in the first six months was lower by 2% year-on-year, the average price was 13% higher, meaning that export revenues rose by 11% to a total of $698.9m (£415m). The growth in average price came only in May and June; indeed, prices had been little different in the opening third of the year.

Iain Macdonald and Stuart Ashworth – August 2014

QMS