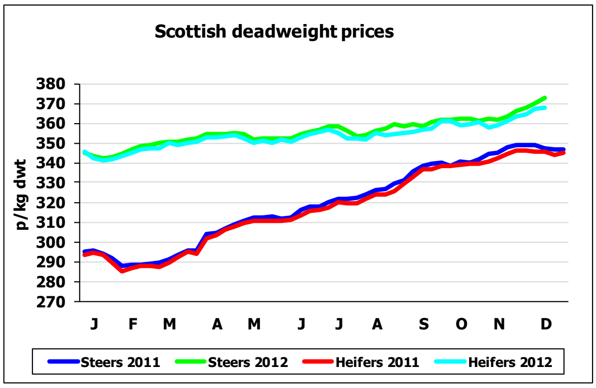
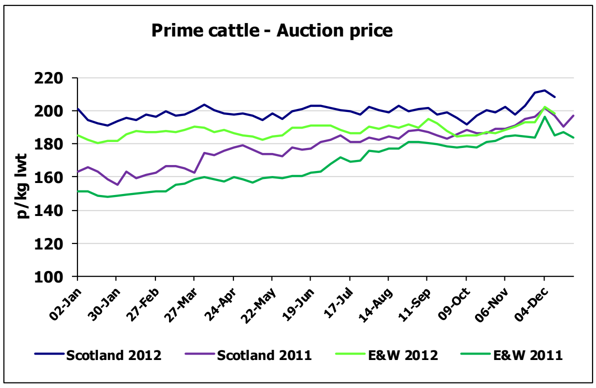
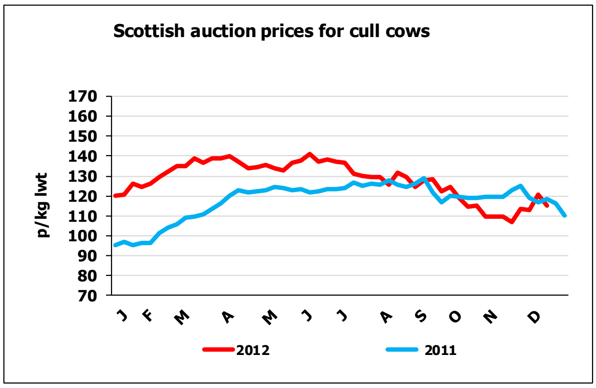
MARKET REPORT December 2012

Cattle

Prices and Supplies





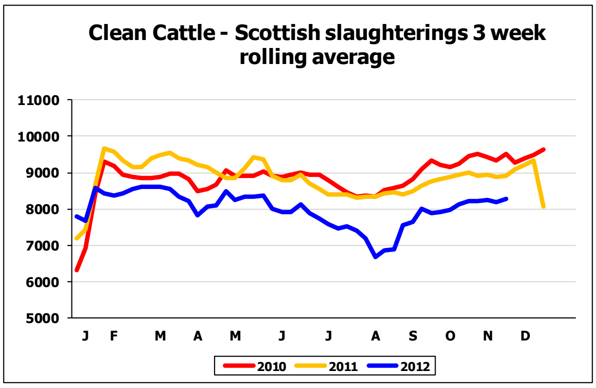


There has been a significant seasonal upswing in prime cattle prices. Having held firm around the 360p/kg dwt mark from mid-August until early-November, deadweight steer prices picked up through the last three weeks of November before passing the 370p/kg mark for the first time in the opening week of December. In the week ended 15 December, the average Scottish steer traded at 372.9p/kg dwt; up 7% on the year.

Auction prices similarly benefitted from the Christmas trade, but then eased back. The prime cattle average jumped to 211p/kg in the final week of November before edging up another penny as December commenced. As the Christmas sales drew to a close in the week ending 12 December, prices cooled, before they slipped back further in the week ending 19 December. Nevertheless, prime cattle were still 5% more expensive than a year earlier.

Cull cow prices also benefitted from festive trade; rebounding in late November having fallen sharply since the summer. At Scottish auctions, prices opened December at 120p/kg lwt; up 7p/kg on the previous two weeks and 14p/kg higher than three weeks before. This was also a ten-week high and up 3% year-on-year. However, prices eased back to 115p/kg lwt in the second week of the month and were 3% lower than the same week of last year. Cow prices at Scottish abattoirs followed prime cattle prices higher at the start of December. At 258p/kg dwt in the second week of December, they traded at an 8-week high but remained 1.5% below year-earlier levels.

November slaughter statistics showed that although UK prime cattle supplies remained tight, the gap with 2011 levels had narrowed. Volumes fell 5% in November compared with 7.5% over the January to November period as a whole. A further decline in carcase weights suggests that with cattle slow to finish, higher feed costs continued to encourage some producers to bring cattle forward at a younger age while others may have sold at lighter weights to cover cash flow issues. At 339.9kg, the average prime cattle carcase fell 1.2kg on the year and was at its lightest since April 2009. Since supplies of heifers remained considerably tighter than supplies of steers it suggests that producers may have retained more heifers for future breeding. During November, young bull slaughterings were 2% higher than 12 months before as the sharp fall in feed costs in the autumn of 2011 coincided with higher registrations of pure bred male dairy calves and these cattle are now being presented for slaughter.

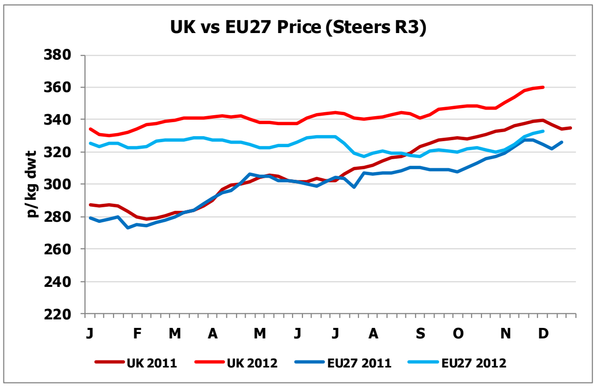


The supply situation remained tighter in Scotland than in the rest of the UK. During November, 8% fewer prime cattle were killed than a year earlier at Scottish abattoirs. Nevertheless, this marks an improvement on the January to November period during which prime cattle throughputs were down 10%. In line with the UK as a whole, Scottish data showed a clear divergence between slaughterings of heifers (down 12.5%) and steers (down 7%), but the spike in young bull slaughterings was even more significant at 27%.

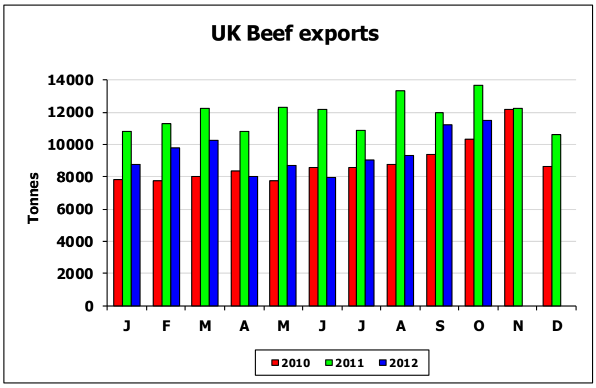
At the UK level, slaughterings of mature cows and bulls exceeded year earlier levels for the fourth time in five months. This is a marked change from the first half of the year (H1) when 7.5% fewer cows and bulls were slaughtered. Consequently, the gap in cow and bull throughput had narrowed to 1.5% at the end of November. The change in trend is likely to be linked to poor forage supplies and high feed costs, and indicates that any movement towards herd expansion due to strong producer prices has slowed significantly.

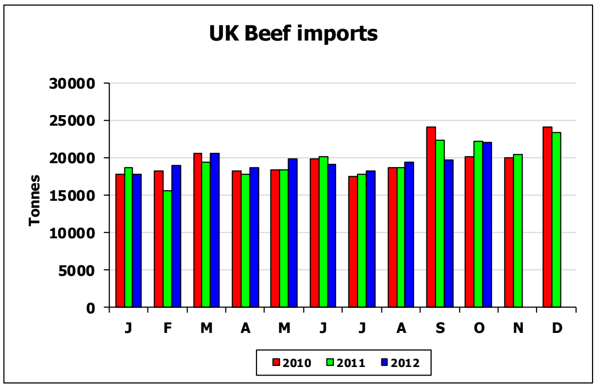
In Scotland, mature stock were also slaughtered in greater numbers than last year during November. The monthly increase was 4% and the year-to-date increase stood at 2%.

In the 12 weeks to 25 November, consumption data from market research firm, Kantar, showed that 6% less beef was purchased by UK household's year-on-year. This was driven by a significant sales decline during the four weeks to November 25. Purchases fell by 14% year-on-year, having been 1% higher in October and 2% lower in September. Though purchased volumes fell, cash spending on beef rose 5.5% year-on-year in the twelve-week period; showing the considerable impact of retail price inflation on sales volumes. Despite lower overall beef sales volumes, households bought more of the cheaper cuts.



Over the past month, EU prime cattle prices have edged higher. Prices for young bulls and heifers have risen by 1% in Euro terms with steers up 3% and cows by just 0.5%. The greater rate of appreciation in steer prices reflects the greater weighting of UK and Ireland in the EU average, where prices have experienced a stronger seasonal improvement. When prices are viewed in Sterling terms the increase is around 1 percentage point higher due to exchange rate movements. Though Irish prices have picked up significantly in recent weeks, they have maintained a competitive advantage over UK beef on the continent. Compared to December 2011 Irish prices are up 2% while UK prices have risen by 13% in Euro terms. Whereas in Italy, Spain and France cattle prices are showing similar growth to Ireland; in Holland, Germany and Denmark prices have picked up at a similar pace to UK values over the past year.





Beef exports reached their highest volume in eleven months during October (11,500t) but trailed year earlier levels by 16%. Tight supplies have limited the volumes available for export throughout the year and the UK has shipped 21% less beef in the first ten months of 2012 than it did in the same period of 2011.

In terms of the UK's main EU customers, only Germany, Ireland and Spain bought more beef than a year earlier. Most other EU nations continued to import significantly less UK product than last year; although volumes generally remain higher than 2010 levels. Looking further afield, Ghana has been making monthly purchases of around 100t of frozen beef and there has been a steady trade of around 50t per month being delivered to South Africa. Despite shipments reaching an eighteen-month high of more than 200t in October, Hong Kong and China have bought 17.5% less UK beef thus far in 2012.

The combination of tight UK supplies and a stronger Sterling have encouraged trading partners to deliver beef into the UK market. As a consequence shipments are up 2% in the first ten months. However, while 15% more frozen beef has been imported, 3% less fresh product has been delivered. This may, in part, reflect a greater need to import beef for manufacturing purposes due to the decline in slaughterings of mature stock at the UK level. However, September and October trade figures show lower volumes of frozen product and prior to that the monthly year-on-year increases had been narrowing since the start of the summer. Higher imports of frozen beef earlier in the year were therefore likely to have been related to the higher manufacturing beef requirement for the Olympic Games.

The UK's largest supplier, Ireland, has also suffered from tight supplies in 2012 and shipped 3.5% less beef to the UK in the January to October period year-on-year. Consequently, the UK has imported more beef from elsewhere in the EU. For example, during October 1,150t was purchased from Germany; an increase of 70% on the year. The UK has also looked to Brazil this year with imports more than doubling to 500t in October. Of the other third country suppliers, New Zealand grew deliveries by 90%, Australia flat-lined and purchases from Uruguay fell by a quarter.

News Round Up

Supplies of prime cattle into Irish export plants remained tight in the month of November; down 7% on a year earlier. In the first eleven months of 2012, total throughput of prime cattle is down by 14.5% at 945,000 head despite last year's December census indicating that there were more cattle under one-year of age on farms, and total live cattle exports trailing 2011 volumes.

A lab test on a Brazilian cow which died during December 2010 in the country's Parana state has confirmed the presence of a protein that is linked to BSE. The 12 year-old grass-fed animal died after showing signs of stiff limbs and a sample was sent to the World Organisation for Animal Health's (OIE) reference laboratory in the UK for testing to determine the presence of BSE after a second test in Brazil suggested that this may have been the case. This is the first time that a Brazilian animal has tested positive.

Although testing indicated that BSE was not the cause of death and the OIE has maintained Brazil's risk status as negligible, a number of countries have suspended imports from Brazil. Japan, China, South Africa, Saudi Arabia and Korea have all applied temporary bans, with Egypt preventing deliveries from Parana state. These suspensions are likely to have an impact on the Brazilian beef sector as both China and Saudi Arabia were in the top-ten buyers of Brazilian beef in October with a combined 7,500t (7.5% of the total). However, monthly shipments to Egypt from Parana have averaged just 110t so far in 2012, while Japan and South Africa totalled just 284t in October and no beef was exported to Korea. Nevertheless, with demand for Brazilian beef coming under threat, Brazil's Agriculture Ministry is to send officials overseas to assuage concerns.

One country considering suspending deliveries of beef on the back of the positive BSE test is Russia, Brazil's most important customer. More than 40% of Russia's beef imports during the first three-quarters of 2012 came from Brazil and a loss of this market would have a significant negative impact on the Brazilian cattle sector. Indeed, during October Brazil exported 16,800t of fresh beef to Russia, bringing in $66m (£41m). There has also been the suggestion that Iran is considering a suspension. During October 2012 Iran imported 13,300t from Brazil. Put together, the two nations accounted for 30% of Brazilian fresh beef exports in October.

In a separate issue, Russia has banned the import of beef produced with the use of the feed additive, ractopamine. This has particular implications for Brazil and the USA. In attempt at protecting its market access to Russia, Brazil has placed a temporary ban on the muscle-growth promoting feed additive. Only once a system that allows the separation of beef produced with the use of ractopamine for some customers and without it for others, will the ban be overturned. Assuming the Russians avoid placing BSE-related restrictions on Brazil, this could allow Brazil to win some market share from the US (which also uses of ractopamine within its beef sector). The US currently has no system in place to test for ractopamine and it looks as if the US will be effectively shut out of the Russian market. The US sent 46,500t of beef to Russia in the first ten months of the year.

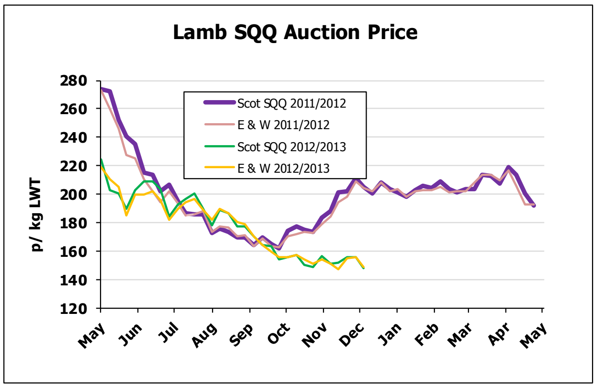
In October, Australia slaughtered 691,300 adult cattle; a 28-month high and 11% higher than a year earlier. A warm and dry spell of weather in the east of the country drove the increase with producers marketing cattle earlier than had been anticipated. Throughput increased by 8% in Queensland and by 20% in New South

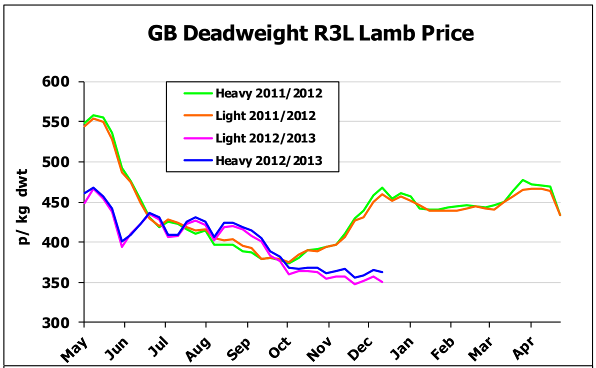
Wales but slipped back by 8% in Western Australia. In the January to October period, Australian beef production rose 9% to 199,100t.

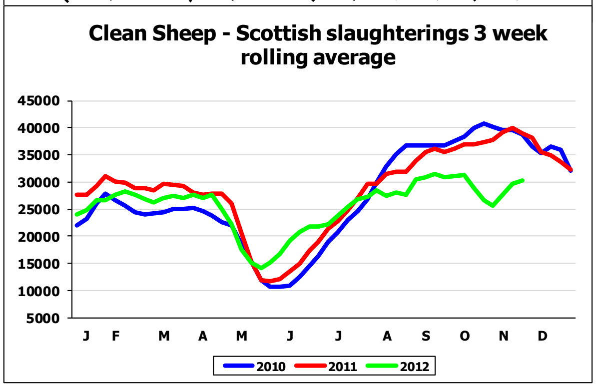
With more beef to sell, Australia has been growing its deliveries into the fast-growing economies of South East Asia this year. September trade figures showed that Taiwan purchased 7% more Australian beef than a year earlier, while shipments to both Malaysia and the Philippines rose by one-third. These three countries had combined total beef imports of 23,600t in September. Of this total, Australia supplied 32% (7,600t).

Sheep

Prices and Supplies







Lamb prices have been relatively stable over the past two months with auction prices trading in a range between 148p/kg and 157p/kg lwt, and deadweight prices trading between 350p/kg and 366p/kg dwt since the beginning of October. At Scottish auctions, lambs slipped back from 156p/kg lwt at the end of November to a three-year low of 148p/kg in mid-December, while GB abattoir prices stood at 355p/kg in the week ended December 15. With little or no seasonal pick-up in prices this year, values are well down on 2011 levels. At GB abattoirs, the year-on-year decline is 24%, while lambs have traded 28% lower at Scottish auctions.

With lambs growing much more slowly this year due to wet weather, they have been backing up on farms and abattoirs have subsequently had fewer lambs to work with. In the UK, November slaughter data shows a 4.5% decline on the same month last year. Furthermore, when lambs have been reaching the abattoir gate they have generally been 2% lighter than a year ago (18.7kg vs. 19.2kg), resulting in overall sheepmeat production falling by 7.5% in November.

At Scottish abattoirs, supplies have been even tighter than in the UK as a whole; in part due to some restructuring and plant maintenance in the abattoir sector. Throughput fell by more than 15% on the year in November. Like in the UK as a whole, carcase weights averaged 0.6kg lower per head year-on-year in November 2012 at Scottish plants (20.0kg) and this has tightened overall production to a greater degree than slaughter numbers would suggest.

However, in December, the number of lambs reaching the market has increased with both auction and price reporting abattoir numbers exceeding year-earlier levels. This improved supply scenario will have contributed to the pressure on prices.

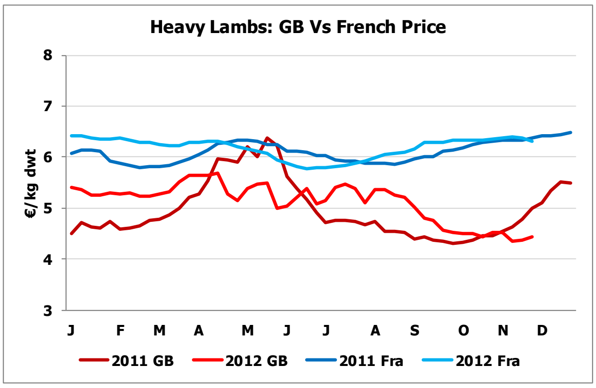
Another factor contributing to lower prices has been poorer carcase quality. In a turnaround from the start of November where carcase quality had been better than last year's levels, since mid-November, around 2 percentage points fewer lambs have been given a grading of R3L or better than a year ago. In the second week of

December 52% of lambs were graded R3L or better compared with 58% in the same week last year and 61.5% two years ago.

Kantar data for the twelve weeks to November 25 indicates that lamb sales have continued to perform better than last year. Household purchases were 5.5% higher than a year earlier as lower prices (by 3%) encouraged consumers to purchase lamb. The data continued to show that higher consumption can be attributed to increased sales of leg roasting joints; volumes rose 45% year-on-year. By contrast, steaks and stewing cuts struggled with sales falling by a respective 3% and 4%, but mince edged 1.5% higher.

Cull ewe prices traded at £46.70 a head in the first half of December. Although this was an improvement on a month earlier, when values had dropped to £40/head, it was still 35% lower than in the same week of 2011. Prices have fallen sharply despite similar auction volumes to last year.

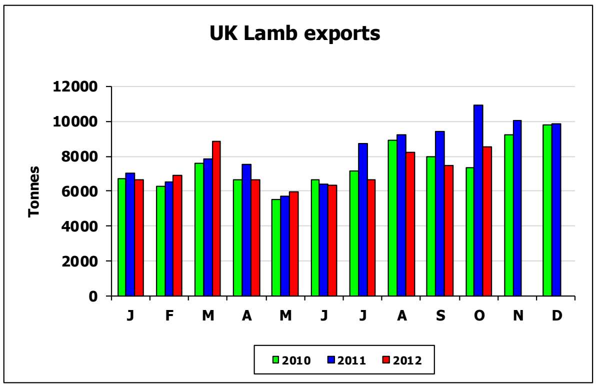
This fall in ewe prices has come in spite of a much lower ewe kill compared with last year. 148,000 ewes were slaughtered in September, down 7.5% on the year, while 10% fewer ewes were killed over the first nine months. The combination of tight supplies and low prices indicates weak demand. Since provisional June census figures for the UK showed increased ewe numbers, decreased slaughterings gives further support to the implication that producers have begun to rebuild their flocks.



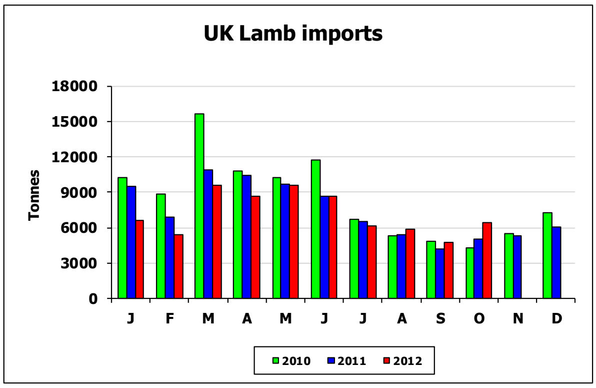
In the opening week of December, EU heavy lamb prices had fallen back 2% on the month to average €4.63 a kilo dwt. Compared to a year earlier this was down 10.5%. However, lower UK, Irish and Spanish prices have pulled the average lower as prices have been flat or shown modest improvement elsewhere. Compared to the same week last year, UK prices have fallen by 17%, Irish by 15% and Spanish by 9% when quoted in Euro. By contrast, in France and the Netherlands the average producer has seen prices slip just 1.5%, while Polish and Swedish sheep farmers have seen prices rise by 5% and 7% respectively.

A stronger Sterling against the Euro has offset some of the competitiveness gained from lower prices compared with this time last year. Whereas the Euro was worth around 81p in mid-December 2012, a year earlier it had been valued at 84p; a 4% difference. However, significant action from the European Central Bank has helped the Euro to strengthen against Sterling in recent months. The Euro has picked up from a four-year low of 78p in July, and has edged up from 80p to 81p over the past month.

With domestic supply remaining tight in October, lamb export volumes were down 22% from the same month last year at 8,500t. 24% of domestic production was shipped overseas in October 2012, compared with 31% in October 2011. Export volumes in the January to October period fell 9% year-on-year despite being 1% higher in the first half.



One market which has cooled is France, the UK's principal customer. October shipments were 26% lower than last year at 4,750t and made up 56% of UK exports compared with nearly 58% in October 2011. Tight supplies also restricted deliveries to other EU markets with only Holland buying more than a year earlier. Some third countries continued to show expansion, however, with Hong Kong and South Africa buying record monthly volumes of 1,050t and 125t respectively, and Ghanaian purchases held firm at 50t. Hong Kong was the second largest buyer of UK lamb in October and has been the fifth largest export destination in 2012 as a whole.



Lower domestic production and the greater availability of competitively priced lamb in the global market place continued to result in higher imports in October. After a year-on-year deficit of 14% in H1, imports were 9% higher year-on-year between July and October. Imports from New Zealand rose 15% in the July to October period and accounted for 63% of total imports compared with 60% in the same period of 2011. The average cost of lamb imported from New Zealand fell by nearly 30% from a year earlier and this helps to explain why the domestic market price has softened. In terms of other suppliers, Ireland continued to deliver more lamb than in 2011 on the back of better supplies, while Australian shipments doubled on the month and reached a sixteen month high.

News Round up

In New Zealand lamb producer prices have fallen sharply since the start of the 2012/13 season. In the second week of December, prices fell below NZ$5/kg dwt (£2.50/kg dwt). This was 12.5% lower than a month earlier and 35% lower than in the same week of 2011.

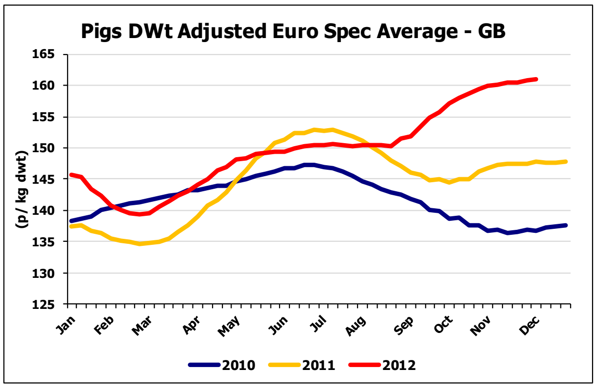
The fall in prices from a year ago is not surprising given an increased lamb crop and the subsequent increase in slaughterings. In October and November 17% more lambs were slaughtered by New Zealand plants than a year earlier. Throughput totalled 2.74m over the two-month period compared with 2.34m in the same period last year. During the first eleven months of the year New Zealand handled 4% more lambs than a year earlier. 17.97m head were slaughtered; up from 17.26m in 2011.

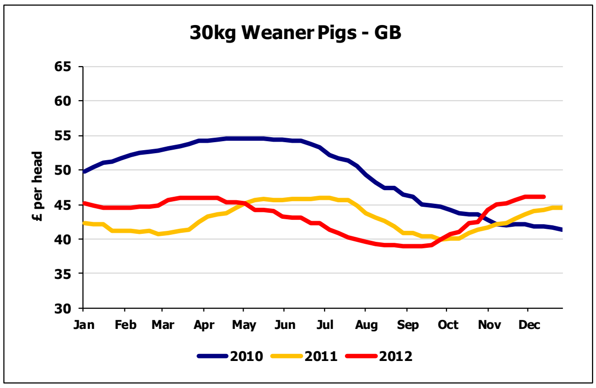
In the first eleven months of 2012, Australia delivered a record volume of lamb to the Middle East and North Africa region. Shipments totalled 50,200t; an increase of 51% on the year. In terms of the product shipped, the majority was full carcases

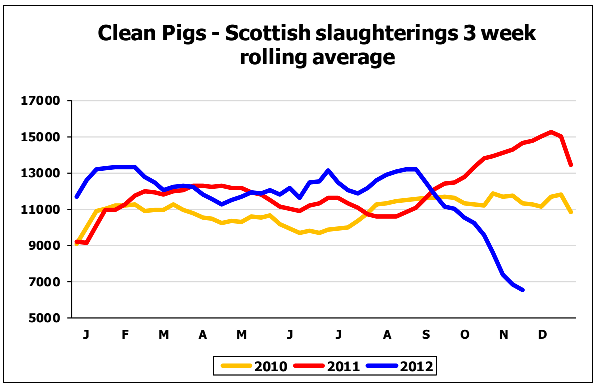
(59%), and with a further 12% being legs and 11% being shoulders. Saudi Arabia was the largest regional buyer of Australian lamb, taking approximately one-quarter (11,350t). A second prominent buyer was the UAE, with more than one-fifth of the total (11,000t), while Bahrain purchased 7,500t and Kuwait 6,000t. Mutton exports to the region have also increased significantly this year with volumes rising 22% to 43,000t. However, this slower paced growth meant that lamb exports overtook mutton in volume terms. This may well reflect the impact of economic growth on demand for higher end product.

Pigs

Prices and Supplies







In contrast to their historic seasonal trend, ex-farm pig prices have increased throughout the final third of the year. Each week since the beginning of October the GB DAPP has been setting a new record high. In mid-December it reached 161.02p/kg dwt. This is nearly 13.5p/kg (9%) ahead of the same week last year and 24p/kg higher than two years ago. A small part of the recent increase reflects supplements offered by a number of processors to help ease the burden of sharply higher feeding costs.

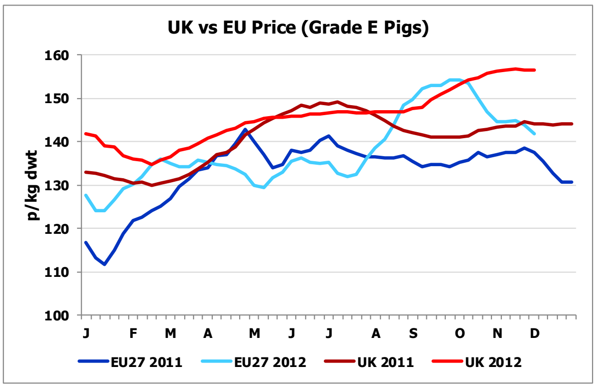
Clean pig slaughterings at UK abattoirs rose fractionally year-on-year in November to 830,000 head. This was a 10-year high for November. Despite high feed costs carcase weights were almost no different to November 2011 (at 78.6kg compared with 78.8kg a year earlier) and UK pigmeat production totalled 68,400t during the month; up 150t year-on-year. In the first eleven months of 2012, slaughterings rose 2% to more than 9.26m head. Production volumes also increased by 2% and reached 762,100t.

November was the first month that the full impact of the closure of the pig slaughtering facility in Broxburn can be seen in the Scottish slaughter data. 26,600 prime pigs were killed at Scottish abattoirs in November, down from 58,800 in the same month last year.

Kantar data shows a 3% fall in UK pork consumption during the year to October 28. Consumption volumes fell despite cash spending on pork increasing by 3% due to higher prices. However, more detailed data available for the month of September indicated that the market had improved as 1.5% more pork was purchased than in the same month of 2011. Lower prices during September helped drive sales growth.

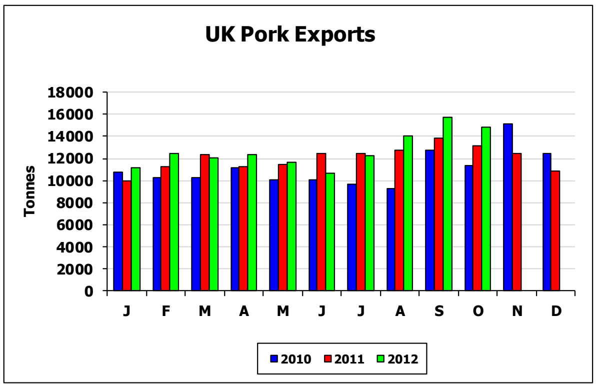
Weaner prices have followed finished pig prices higher, reflecting increased confidence amongst producers that a return will be possible in the New Year. In mid-December, weaners traded at more than £46 a head; their highest since September 2010 and up nearly £7.50 from their September 2012 low. Compared with one year ago, prices are up a more modest £2 a head (4.5%).

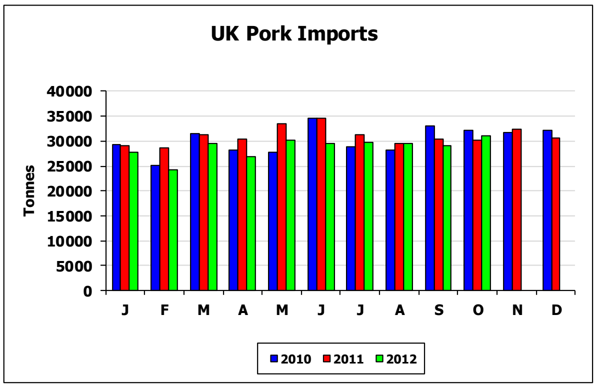
In contrast to the market for weaners and finished pigs, the cull sow trade has been relatively flat since the end of August. Prices have traded between 111p/kg and 114p/kg dwt with a gradual rise through September and early October before a slow decline through November and into December. The sow trade has been softer due to higher numbers and its sensitivity to the market on the continent. With production picking up and prices cooling across the EU, the UK sow price has had to cool for UK processors to remain competitive. Fortunately, a rise in the Euro against Sterling over this period has softened the required decline. At 111p/kg, cull sows opened December 4% lower year-on-year in Sterling terms but little different when quoted in Euro.



Pig prices on the continent continued to slide through November and into the first week of December. In the week ending December 9 the averge ex-farm pig price in the EU stood at €1.75/kg; down from €1.81 a month earlier and 17c/kg below its 2012 high reached two months before. However, since GB prices have continued to rise, they are now 10% above EU levels when quoted in Euro; up slightly from an 8% premium in November. Compared to a year ago GB prices have risen 15% while the EU average has gone up by 9%. Of the large pig producing nations Spain has seen its prices rise 15% year-on-year with above average gains also accruing to Danish producers. While most others have seen more modest increases of around 6-7%, Italian producers have seen no improvement.

Exports continued to run ahead of last year's levels in October. Monthly deliveries were up 13.5% on the year, and after three months of significant growth the total exported in the year-to-date has moved 5% ahead of 2011 levels to 127,100t. The opening of the Chinese market after several years of negotiations has provided one source of growth in recent months, with China and Hong Kong accounting for 75% of UK shipments outside of the EU in October.





In October, pork imports surpassed year earlier levels for the first time in 2012. 31,100t were brought in from overseas; an increase of 900t (3%) over October 2011. Nevertheless, deliveries in the first ten months of 2012 continued to trail 2011 levels with total volumes down 7% at 287,500t.

Having moved forward significantly in November, feed prices fell back sharply after the USDA released its monthly report for December on global supply and demand. The main contributor to the decline was a downward revision to US wheat exports which pushed forecasted year-ending inventories higher. A lower estimate of EU wheat consumption added to the downwards pressure on prices. On December 19 feed wheat traded at £215/t in North East Scotland; down from £230/t at the beginning of the month but level with mid-November levels. Compared with last December, prices have moved 50% higher. Soyameal prices have moved higher in recent weeks as rain has disrupted some planting in Argentina and strong demand from China has tightened the market. Hi-pro soyameal cost approximately £490/t in mid-December. This was £25 higher than a month earlier but around £15 short of its September peak.

News Round up

EU Commission figures for the degree of compliance of the impending sow stall ban for each Member State were presented to the Standing Committee on Food Chain and Animal Health on December 5. Less than a month before implementation, only five countries are fully compliant (UK, Estonia, Luxembourg, Sweden and Austria) with a further six States over 90% compliant. Of the major pig producers, Denmark and Poland are the nearest to being ready with 85% and 80% compliance, respectively. Spain and Italy are next in line with a respective 70% and 69%. Below them come Holland and Ireland, with 63% and 57%, while Germany, Belgium and France are all less than 50% of the way to full implementation (48%, 45% and 33%).

Provisional EU pigmeat production figures for October indicate that the sharp fall in prices from September's peak was caused by an expansion of supplies. Of the 15 countries to have reported, 12 saw volumes exceed year earlier levels, including Germany, France, Denmark, Belgium and Ireland. Ireland showed the largest gain with its tonnage rising 11% on the year while France and Belgium saw volumes expand by 10% and Danish production increased by 7%. In Germany, the EU's largest pigmeat producer, monthly volumes increased by 49,000t to 491,000t. This was an increase of 3.5% year-on-year and followed two months during which production had been 8% tighter than a year earlier. Nevertheless, German production in the first 10 months of the year was 2% below 2011 levels. Across the EU, production was 2% below 2011 levels in the first nine months of the year.

Provisional Danish census figures show that the country's pig herd contracted by 2% on the year in October but was flat when compared with July numbers at 12.49m head. Within the figures, sow numbers fell by 3% year-on-year to approximately 1m head while prime pigs fell back by 5% as more piglets have been exported; particularly to Poland.

During October the US exported 168,900t of pork. This was up by 4.5% on the year. This came despite a large decline in shipments to what was its third largest market in October 2011, China, as this fall was offset by increased shipments to Mexico. While exports to China fell 67% to 11,650t, Mexico purchased 40,700t; an increase of 10,500t. Japan held on to first position with deliveries totalling 42,200t; down slightly on October 2011's 42,600t. One market of particular significance was Russia which doubled its imports from a year earlier to 12,700t. However, the ban on use of ractopamine applies to pork as well as beef and this is likely to effectively stop US deliveries from December onwards. In the first ten months of the year, the US exported 1.51m tonnes of pork; an increase of 6% on the 1.42m tonnes exported in the same period of 2011. Russia accounted for 84,500t – 5.5% of the total.

Iain Macdonald and Stuart Ashworth – December 2012