



Monthly Market Report

February 2017

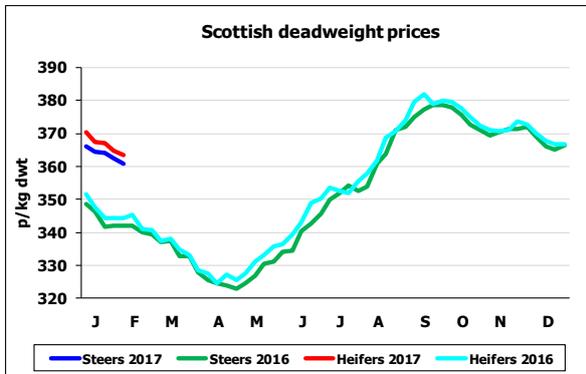
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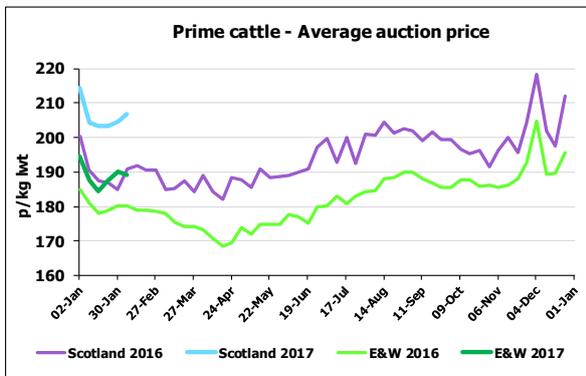
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Cattle

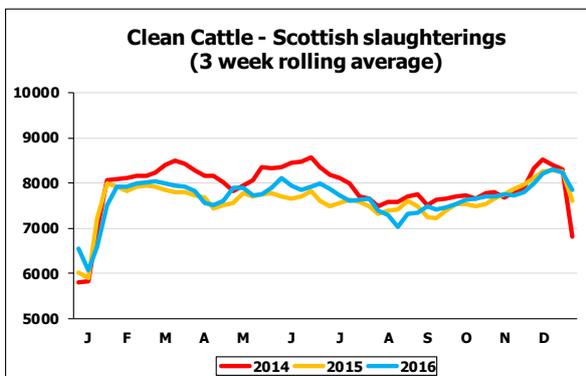
Prices and Supplies



There has been some seasonal pressure on prime cattle prices since the turn of the year. R4L grade steer and heifer prices slipped from around 370p/kg dwt over the festive period to 366p/kg and 367p/kg dwt respectively in the week ending February 4. While the number of prime cattle handled by Scottish price reporting abattoirs has edged higher each week in 2017, numbers have been trailing early 2016 levels by around 3%. Prices for most grades of steers and heifers exceeded year earlier levels by 4-6% as February began.



In contrast to deadweight prices, prime cattle auction prices have been trending higher since mid-January. During the three weeks to February 8, the average prime cattle price was 205p/kg lwt; well above the rolling average of 197p/kg for October and November. Meanwhile, weekly marketings have been slightly lower than October and November levels. Compared to early 2016, prices have been averaging 9% higher and volumes have been down by 20-25%.



In E&W, 96,900 prime cattle were slaughtered during December. Compared to the November 29 to December 26 2015 period the average daily kill fell by 5%, following nine months of year-on-year increases. December slaughter statistics for abattoirs in Scotland and Northern Ireland (NI) refer to the five weeks from November 27 to the year-end. In Scotland, prime cattle slaughterings totalled

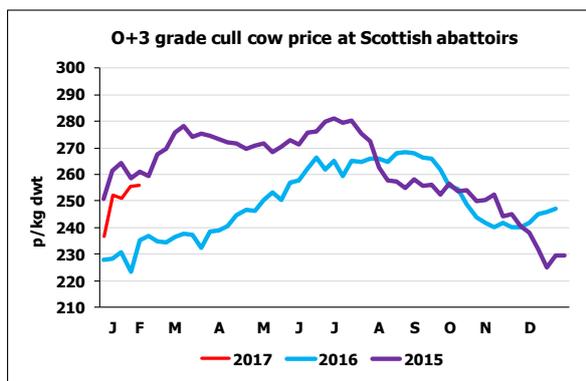
37,200 head in December. Compared to the corresponding period a year earlier, this was an increase of 2.5%. Excluding the week between Christmas and New Year, the average weekly kill was at its highest level since February of just under 8,000 head. In NI, the Department for Agriculture, Environment and Rural Affairs (DAERA – formerly DARD) reports that abattoirs slaughtered 30,600 prime cattle in December. This was up by just over 2% year-on-year.

Whereas Scottish abattoirs slaughtered nearly 6% more steers than twelve months before in December, the heifer and young bull kills fell by 0.5% and 3.5% respectively. As a consequence, steers made up a greater proportion of the total prime kill than in December 2015, rising from 52% to 53.5%. Meanwhile the heifer and young bull shares fell from 42% to 41% and 6% down to 5.5%. However, these shares were relatively similar to where they had been during November.

At 363.4kg in December, the average prime cattle carcase weight at Scottish abattoirs rose for a second month, reaching its highest level since August. Despite rising by 5.3kg on the month, it remained 2kg below its year earlier level; a decline of 0.5%. Steers continued to drive the year-on-year decline, falling by 5kg (1.5%) to 381.3kg. Young bull carcasses also averaged lighter than last year, down 1.1kg at 341.9kg. By contrast, the average heifer carcase was 0.1kg heavier than 12 months before at 342.2kg.

With prime cattle slaughterings up 2.5% on the year but carcase weights down by 0.5%, Scottish abattoirs produced approximately 2% more prime beef than in December 2015.

The average price paid to farmers by Scottish abattoirs for a steer carcase during the final five weeks of 2016 was £1,403. This was up 2% year-on-year from £1,374 as a higher price per kilo more than offset lower carcase weights.



Cull cow prices at reporting Scottish abattoirs have begun 2017 on a seasonal upturn. The O+3 grade rose by 3.5% during the first five weeks of the year, reaching an 18-week high of 256p/kg dwt in the week ending February 4. Over the same period the -O3 grade gained 5% and traded at 242p/kg dwt; its highest level for 16 weeks. As a consequence, prices opened February up 9% year-on-year. Auction prices for cull cows have been edging higher of late. In the three weeks to February

8, they averaged 114p/kg lwt. This was up by 9.5% from both the first three weeks of December and the same week last year.

6,750 mature cows and bulls were slaughtered by Scottish abattoirs in December. Once again, this was a large increase compared to last year, up 22%. Nevertheless, weekly average slaughter fell to a five-month low and was running around 200 head per week lower than in November prior to the festive period. Defra slaughter statistics for E&W suggests that cow slaughter was up by 5.5% year-on-year. According to DAERA, the adult cattle kill in NI rose by just over one-quarter from the final five weeks of 2015.

Cow carcase weights at Scottish abattoirs trailed year earlier levels for the 20th consecutive month in December, down 3.3kg (1%) at 342.2kg. However, this was the highest since June and was up by more than 7kg on November and by 13kg on October.

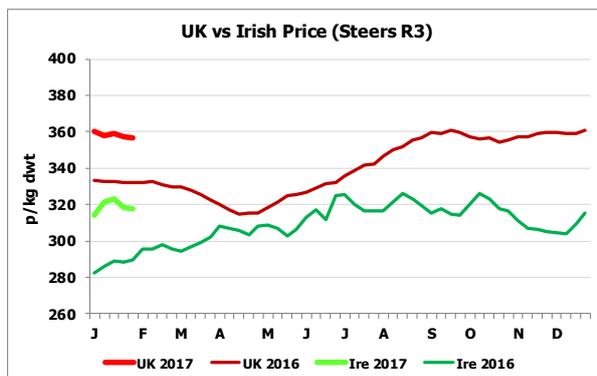
In terms of annual beef production at Scottish abattoirs in 2016, it is estimated that volumes increased by 2% from 2015 to reach a three-year high of 172,200t. With a slightly higher prime kill largely offset by lower carcase weights, nearly all of the increase was accounted for by higher cow beef production.

Store cattle have begun 2017 dearer to buy at Scottish auctions than 12 months ago. 6-12 month old steers averaged £871/head in the first three weeks of the year, 7% higher than last year, while 12-18 month steers were up 3% at £1,000/head.

According to Kantar Worldpanel data, GB households continued to take advantage of falling beef retail prices during the final 12 weeks of 2016. Indeed, a 3% increase in the amount of money spent on beef was able to purchase a 6% greater volume when compared to the same period a year earlier. Strong growth rates in sales volumes were observed for steaks, stewing beef and mince, showing respective increases of 9.5%, 12.5% and 8%. This was underpinned by price discounts relative to late 2015. By contrast, roasts were more expensive to buy and sales fell by 3%; this was despite those who bought roasts buying more on average than 12 months earlier.

On the manufactured beef product side of the market, chilled beef-based ready meals and steak pies performed well in late 2016 with sales up nearly 5%. However, sales of burgers were marginally lower while frozen ready meals and pies fell by 4.5% and 7% respectively.

During 2016 as a whole (52 weeks from January 3 2016 to January 1 2017), GB households bought 2.5% more beef than in the previous 52-week period. Like in the final 12 weeks of the year, roasting joints were less popular while sales of stewing beef, steaks and mince showed progress. Of the 283,100t purchased, 51% was mince; 18% roasts; 17% steaks; 11% stewing beef; and 3% other cuts. These were small increases in share for mince, steaks and stewing beef, but a two percentage point decline for roasts.



Consistent weekly increases saw the average R3 grade steer price in the Irish Republic rise 5% from €3.54/kg dwt to €3.72/kg between mid-November and mid-January. Since then it has edged a fraction lower to trade at €3.71/kg dwt (318p/kg) in the week ending February 5. A slight rise in sterling since mid-January has resulted in this 1c/kg fall converting into a 5p/kg fall. Compared to the same week last year, Irish prices were down 2% in euro but 10% higher in sterling. The

gap between prices in Scotland and Ireland narrowed from 18% in the opening week of the year to 14% as February began.

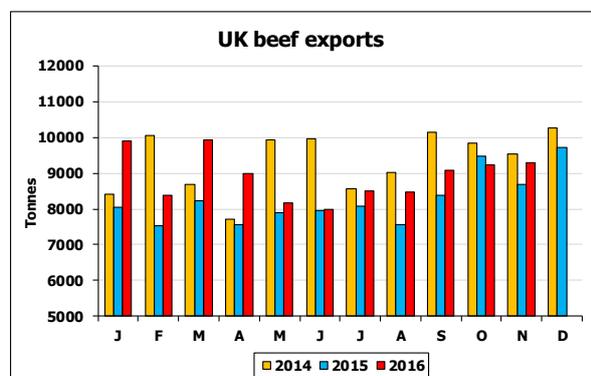
At €3.76/kg dwt (322p/kg) in the week ending February 5, the average price for an R3 grade young bull in the EU was down fractionally on the start of 2017. Most countries saw little change in prices. In France, Germany and the UK there were falls of around 1%, while Belgian prices were unchanged, and prices edged higher in Spain, Poland and Sweden. Italy saw a slightly stronger lift of 2% and Dutch prices surged by 13%.

As February began the EU average R3 grade young bull price was marginally lower than twelve months before. France and Ireland reported declines of less than 0.5% and in Belgium, Germany and Spain they traded less than 2% lower. The UK showed the largest euro terms decline of the major cattle producing nations, of 5%. By contrast, the market was a fraction higher in Italy and 3-5% ahead of February 2016 in Holland, Poland and Sweden.

The average O3 grade cow price at EU price reporting abattoirs firmed by 3% between the opening week of the year and the beginning of February, reaching €2.75/kg dwt (236p/kg); its highest level since late June 2016. The most significant increases, of 9%, were in Spain and Holland, with rises of around 4% in Poland and Sweden. The gains were more muted elsewhere, rising less than 0.5% in Italy and by 1-2% in euro terms in France, Ireland and the UK.

The rise in cow prices since the turn of the year took the EU O3 grade average 0.5% above its year earlier level. While UK prices rose by a similar amount in euro terms, there were more significant gains for producers in Germany (1%), Italy (2%), France (2%), Sweden (6.5%) and Poland (8%). However, prices remained around 2% lower in Ireland and Belgium; 6% lower in Spain; and 8% lower in Holland.

Regional price comparison			€1 = £0.8568
w/e 05/02/17	Steer R3 (p/kg dwt)	Heifer R3 (p/kg dwt)	Cow O3 (p/kg dwt)
Scotland	363.0	364.4	249.2
E & W North	356.4	353.6	243.5
E & W Central	357.7	360.7	247.1
E & W South	362.4	364.8	243.0
NI	351.8	352.9	254.5
RoI	318.0	328.9	257.0
France	309.3	333.3	261.3
Germany	374.2	312.0	241.2
Holland	n/a	236.9	212.7
Spain	n/a	338.0	180.8
Poland	n/a	268.8	222.7
Italy	n/a	351.5	218.6
Sweden	421.5	410.7	378.6
EU28	336.3	328.3	235.5
USA	333.9 (steer)	334.2 (heifer)	215.4 (Cutter – 90% lean & >225kg)
Australia (10/02/17)	389.5 (EYCI – steers & heifers)		294.5 (medium cow)

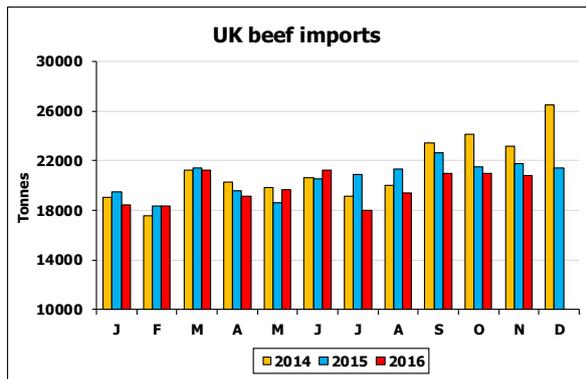


The latest HMRC trade data shows that the UK exported 9,300t of beef during November. In addition to being an 8-month high, this was up by 7.5% year-on-year; the tenth month in eleven to show an annual increase. Exports accounted for an estimated 12% of monthly abattoir production.

At just over 8,000t in November the UK's beef exports to the EU exceeded year earlier levels by 3%. Shipments to Belgium, Denmark,

France, Italy and Poland trailed year earlier levels. However, exports to the largest markets of Ireland and Holland rose by 4% and 14% respectively to total 2,950t and 2,500t. Other markets to progress included Germany, Spain and Sweden.

Non-EU markets continued to show considerable growth, rising by nearly 45% year-on-year in November to reach 1,300t. This equalled 14% of monthly exports. At 570t, exports to China/Hong Kong were once again more than double year earlier levels while another combined 460t went to Gabon and Vietnam. Closer to home, shipments to the high value but low volume Swiss market contracted by 37% year-on-year to a little over 40t.



UK beef imports trailed year earlier levels for the fifth consecutive month in November, down 4.5% at 20,800t. Imports of fresh product decreased by 4% to 15,100t while imports of frozen beef fell by nearly 5.5% to 5,700t; the lowest November import volumes for five years and four years, respectively.

The volume of beef imported to the UK from the EU fell much more slowly than overall deliveries for a third month, sliding by only 1%

to 19,650t. This meant that shipments from the EU made up more than 94% of the monthly total. A year earlier they had accounted for 91%. Imports from Ireland were down by less than 1% at 14,600t with a 2% fall in shipments of fresh beef more than offsetting a 4.5% increase in deliveries of frozen beef. Imports from Ireland accounted for 70% of the November total compared with 67.5% in 2015. Meanwhile, imports from Poland rose by 23% to 1,300t, making up 6.5% of imports compared with less than 5% a year earlier. Deliveries from Holland rose more slowly to 1,550t, but there were heavy falls in deliveries from France and Germany.

November trade data continued to show a sharp decline in beef import volumes arriving from outside the EU. Imports contracted by 40% year-on-year to 1,150t. There were declines from all of the main suppliers ranging from only 4-5% from Argentina and Botswana, to around 50% from both Brazil and New Zealand, and 80% from Namibia.

News Round Up

During the first five weeks of 2017, Irish export abattoirs slaughtered 126,300 prime cattle. This was down by 4.5% on the same period last year. A breakdown of the kill shows that while the steer kill fell by 2% and the heifer kill by 2%, 11% fewer young bulls were slaughtered than during the same period last year. This meant that the young bull share of the prime kill fell by 1.5 percentage points to 21.5%. By contrast, steers rose from 41% to 41.5% and heifers from 36% to 37%.

In NI, the final quarter of 2016 saw a significant shift in carcass conformation away from U and R grades towards O and P grades. A further data release from LMC shows that there was also a change in the levels of fat cover on prime cattle carcasses. More than half of all carcasses continued to score 3 for fat class, but the proportion fell by a percentage point to 56.5%. There was a more significant fall in the proportion with a 4 fat class, slipping by more than two percentage points to 17.5%. By contrast, the proportion scoring 2 rose from less than 21% to 23%, and those with a very lean score of 1 edged up to 2%. An unchanged 0.5% of carcasses scored a 5. For young bulls, there was similar slight movement, with a fat score of 2 increasing from 53% to 55.5%, but scores of 1 and a 3 slipping by 1 and 1.5 percentage points, respectively, to 12.5% and 30%. There was a more significant change amongst heifer carcasses. Indeed, 37% of carcasses scored a 4, down from nearly 41.5% in Q4 2015. Meanwhile, scores of 2 and 3 increased their proportion by around two percentage points to 12.5% and 45.5% of the total, respectively.

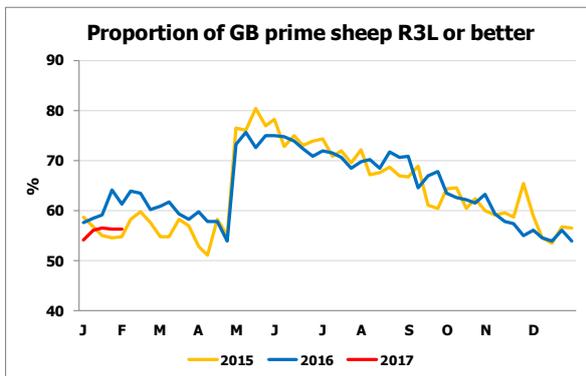
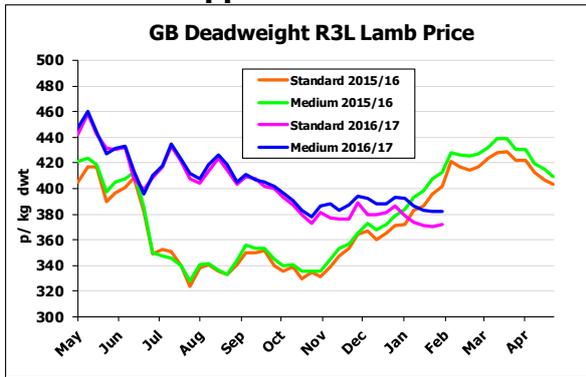
Having risen by 6% during 2016, US beef production has begun 2017 by showing further expansion. The USDA estimates that 3.471m cattle were slaughtered during the first six weeks of the year. Compared to 12 months before, this was an increase of just over 2%. However, lighter carcass weights mean that this converted into a 1.5% increase in beef production, which reached 1.299m tonnes. The average carcass weight fell by approximately 2kg to 374kg. Increased production has continued to place downwards pressure on farmgate beef prices. In the second week of February, steer prices were around 8% lower than twelve months before in US dollar terms, slipping to \$4.19/kg dwt (335p/kg).

During 2016 Australia exported 1.018m tonnes of beef. With the cattle herd transitioning from a period of liquidation into a period of rebuilding, this was a 21% decline from the previous year. Moving into January 2017, exports continued to contract, falling at an annual rate of 13%, slipping to 50,800t. Japan was the main destination in January, taking 14,300t, equating to 28% of monthly shipments. Compared to January 2016, this was a sharp increase of 23%. A reduction in Japan's import tariff on Australian beef (from 38.5% to 30.5% for fresh and to 27.5% for frozen) from April 2016, that followed a 2015 trade agreement, is likely to have been one factor stimulating shipments. By contrast, the US, which had been the largest market for Australian beef in January 2016, bought 31% less, with volumes totalling 11,600t. This was 23% of exports. Korea was the third largest market, taking 9,200t and an 18% share. Compared to a year earlier, this was down by 3%. The other country to have a double-digit share was China, on 10.5%. Shipments to this market fell marginally on a year earlier to 5,300t.

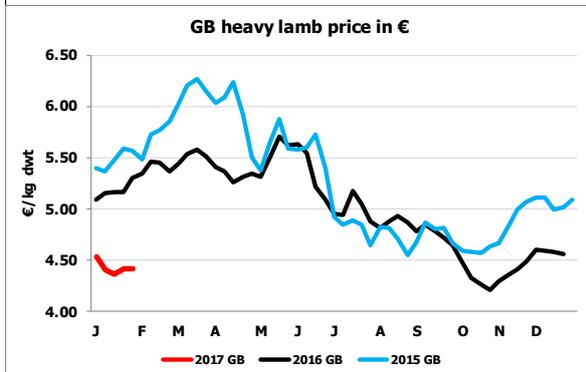
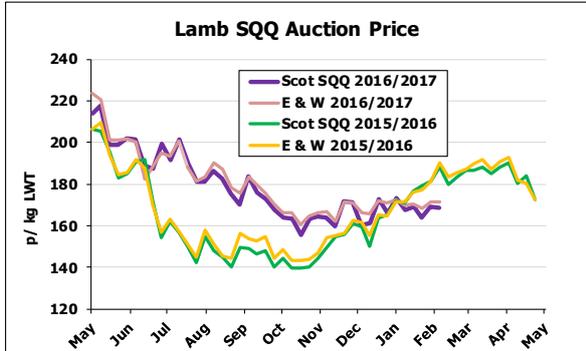
On February 6, Russian authorities announced that they had banned imports of beef and beef offal from New Zealand (NZ). Russia's food safety body, Rosselkhoznadzor, stated that it had initially found traces of the banned feed additive ractopamine in imported NZ beef in the autumn of 2016 and had found more traces in recent weeks. This growth promoter is also banned in NZ and the country tests for it.

Sheep

Prices and Supplies



opening five weeks of the year, down from just over 60% a year earlier.



At reporting GB abattoirs, the average SQQ¹ prime hogg price has fallen since the beginning of 2017. Prices slipped by 10p/kg dwt during the first three weeks of the year, before falling another 2p during the next two weeks. This left the prime sheep average at a 14-week low of 378p/kg dwt and down 7.5% year-on-year. As can be seen in the deadweight price chart, a price spread has opened between standard 12.5-16.5kg carcasses and medium 16.5-21.5kg carcasses. R3L grade medium hogs averaged 12p higher than standard R3L hogs during the first five weeks of 2017. A year ago, the differential averaged 11p.

Carcase quality fell behind year earlier levels at GB price reporting abattoirs in the final two months of 2016 and this has continued to be the case at the beginning of 2017. Less than 56% of hogs graded at R3L or better in the

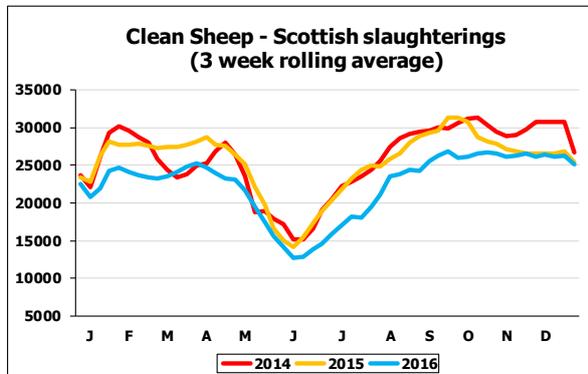
Prime sheep prices have broadly lacked direction at Scottish auctions since the beginning of 2017. Indeed, the average SQQ hogg price has been between 167.5p/kg lwt and 169p/kg lwt during four of the first five full weeks of the year. The week ending January 25 did see prices slip back to an average of 164p/kg, but producers responded by selling fewer hogs at markets in the following week and this pushed prices higher again. However, because the market had firmed in early 2016, prices have slipped behind year earlier levels, trading 10% lower during the first week of February.

A weak sterling has continued to support farmgate prices into the New Year. Although producers will note that hogg prices have been trading 5-10% below early 2016 levels, when converted into euro, prices are down by 15%;

and have been consistently lower than 12 months before since October. This suggests that the weaker sterling may well have shielded UK producers from a challenging market in recent months. A weak sterling has also pushed up the price of imports from New Zealand.

¹ SQQ (Standard Quality Quotation) are lambs weighing 12-21.5kg dwt and 25.5-45.5kg lwt

GB auction market data indicates that prime sheep marketings fell by 3% year-on-year during January. In the five weeks to February 1, 487,700 hoggs were sold. At Scottish auctions, numbers fell by just over 1%. In terms of weights, 71.5% of the hoggs sold at GB auctions were within the 25.5-45.5kg lwt SQQ range during January 25, down slightly from 72.5% a year earlier. In Scotland, the proportion fell by more than two percentage points to 76.5%.



December was the only month of 2016 to see the prime sheep kill exceed year earlier levels at Scottish abattoirs. At 120,300 head, around 200 more prime sheep were slaughtered than in December 2015; an increase of 0.1%. An average weekly kill of 26,300 head during the first three weeks of the month was similar to September to November levels. It then fell back over Christmas and New Year.

After a slow start to the season, carcass weights exceeded year earlier levels for the first time in December. On average, a lamb carcass weighed 20.4kg in December 2016, up from 20.1kg in both the previous month and the same month of 2015. This was a 1.5% increase. As a result, the volume of lamb produced increased by just over 1.5% year-on-year.

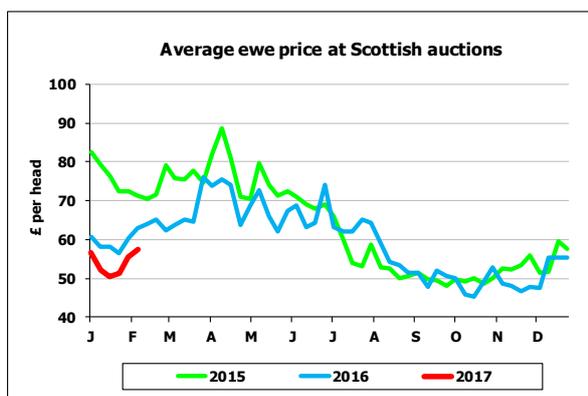
In the calendar year of 2016, Scottish abattoirs are estimated to have produced 13% less sheepmeat than in 2015. This reflected an 11.5% decline in prime sheep slaughterings and a 1.5% decline in the average carcass weight. Mutton production also fell sharply.

Defra slaughter statistics indicate that 1.067m lambs were slaughtered at abattoirs in E&W during December. A working-day adjustment puts this around 1% below year earlier levels, but at the highest level of the season-to-date. DAERA reported that 38,000 prime lambs were slaughtered at NI abattoirs during December. This was up nearly 1% year-on-year, but the weekly average was significantly lower than in November.

Defra's estimate of the average prime sheep carcass weight at UK abattoirs fell back to a three-month low of 18.9kg in December. However, for the first time in 2016, this exceeded its year earlier level, rising by 0.2%.

The average daily kill of mature sheep at E&W abattoirs rose by 9.5% on the month in December and was 0.5% ahead of its December 2015 level.

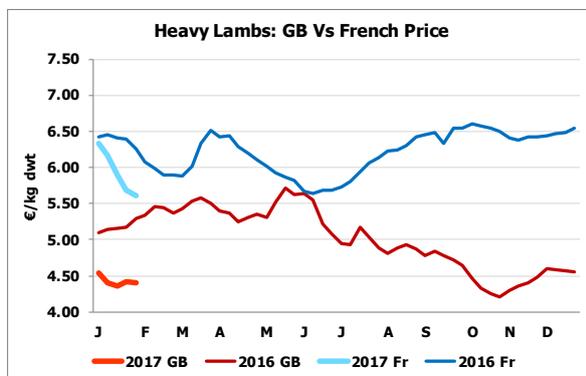
At Scottish auctions, the average cull ewe price has followed a seasonal pattern in recent weeks, rising in the run up to Christmas, falling back in the first half of January, before recovering the lost ground in late January and early February.



In the first week of February, ewes sold for £57.50 per head. This was around £2 higher than at Christmas and a six-month high. Nevertheless, prices continued to trade 8.5% lower than last year. The first week of February saw a seasonal lift in numbers as well as prices, signalling stronger demand.

According to Kantar Worldpanel data the final 12 weeks of 2016 was a poor period for lamb sales to GB households. With the average price of lamb rising by around 2.5% year-on-year, households spent 6% less money on lamb, buying 8.5% less in volume. Although lamb mince returned to growth for the first time since the 12 weeks to late March, rising 4%, this was more than offset by significant declines of nearly 6% in chops/steaks; 10.5% in leg roasts; and 18% in shoulder roasts. In contrast to the fresh and frozen lamb market, sales of lamb-based ready meals continued to progress, up 12.5% year-on-year.

During 2016 as a whole, GB households bought 5% less lamb than they had in 2015. In part, this may have been influenced by a 1.5% increase in the average retail price during a period characterised by competition between retailers pushing prices for competing proteins down. Annual sales of lamb at multiple and independent retailers totalled 74,500t. Leg roasts accounted for 40% of annual sales volumes with a further 26% being chops/steaks. However, due to the seasonal nature of consumption, leg roasts accounted for nearly 70% of total sales around Easter and 60% at Christmas, but only 28% in the summer.



At €4.53/kg dwt (388p/kg), the EU average price for heavy lambs² was 4% lower in the first week of February than it had been in the opening week of 2017. This is likely to reflect a seasonal dip in demand following the festive period. Driving the overall decline were prices in Spain and France, down 9% and 11.5% respectively. Supplies are reportedly weighing down on prices in France. Meanwhile, euro terms prices have shown smaller declines of 1.5-3.5% in the Irish Republic, GB and

Holland. Prices in NI have steadied. By contrast, there were small increases in Belgium and Germany, while prices have risen by a respective 6% and 10% over the past month in Romania and Sweden.

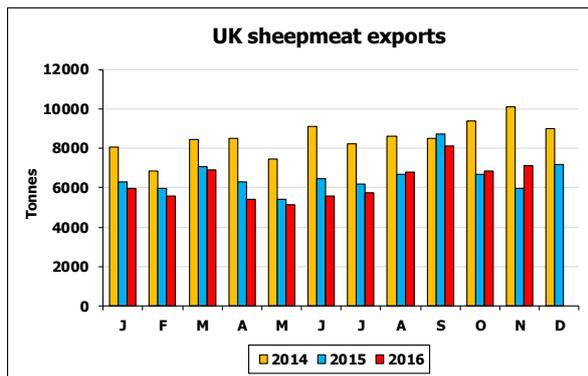
Recent declines in the EU heavy lamb average have seen it slip 12% behind year earlier levels and to its lowest level for almost four years. This was mostly down to year-on-year euro terms declines of 14% in the Irish Republic, 15% in NI and nearly 17.5% in GB. Despite increasing in early 2017, Romanian lambs traded 11.5% cheaper than last year while Swedish prices were down by 5%. Elsewhere, the declines were between 3% and 8%.

During the first week of February the EU light lamb³ average fell 8.5% short of its 2017 opening level, slipping to €5.41/kg dwt (463p/kg). There were above average declines of 10% in Italy, 11% in Spain - the main light lamb producer - and 22% in Hungary. Meanwhile, Portugal and Greece have seen smaller decreases of 6-7%. However, Bulgarian prices have stabilised and the Croatian average remained a fifth higher than at the beginning of the year, despite falling back from a late January peak.

EU light lamb prices traded 7% lower than last year as February began. Prices have fallen below 2016 levels in most countries, including Greece (-4%), Croatia (-5%), Spain (-7%), Bulgaria (-7.5%), Portugal (-8%), Italy (-10%) and Hungary (-14%).

² The EU defines a heavy lamb carcase as weighing greater than 13kg

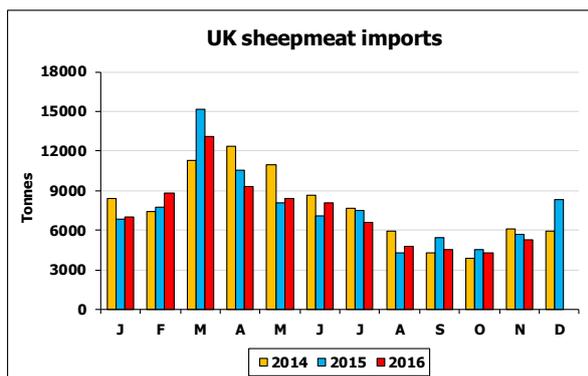
³ The EU defines a light lamb as a carcase weight of less than 13kg



For the third time in four months, UK sheepmeat exports exceeded year earlier levels during November. Volumes rose by 19% to 7,100t. Nevertheless, they failed to recover back to November 2014 levels. Export volumes worked out at 26.5% of UK abattoir production for the second consecutive month. The UK exported 6,600t of sheepmeat to the EU during November. Relative to 12 months before this was an increase of 12.5%. Trade was underpinned by a 17.5% rise in shipments

to the largest market, France. At 3,600t, sales to France worked out at 56.5% of the monthly total, up from 52% a year earlier. Of the medium markets, volumes rose strongly to Germany, Belgium and Holland, but declined slightly to Ireland and Italy. Spain was the only small EU market to grow. By contrast, deliveries to Austria, Denmark, Portugal and Sweden fell significantly.

At just over 520t, UK sheepmeat exports to non-EU markets reached a 21-month high in November. Relative to a year earlier, shipments grew nearly three-fold. Shipments to Hong Kong exceeded 400t compared with only 60t a year earlier and worked out at 77% of the non-EU total.



On the import side, tight early season supplies in New Zealand (NZ) placed downwards pressure on volumes. Total sheepmeat imports decreased by 7% to 5,300t, with NZ deliveries down 9.5% at less than 3,050t. This was a 57% share of the total for NZ compared with 59% a year earlier. The average price of imports from NZ rose seasonally and, at £4,730/t, was 2% dearer than 12 months before. Part of the decline in NZ volumes was

offset by a small increase in imports from Australia; though, at £3,900/t, imports from Australia were significantly cheaper, on average, than shipments from NZ. Imports from Australia rose by 5.5% to 1,500t and accounted for 28% of the monthly total, up from one-quarter in November 2015.

In terms of the smaller suppliers, imports from Ireland fell by more than a third to 300t and there were also declines from Spain, France, Holland and Uruguay. However, imports from Chile rose strongly while there was a 23.5% increase in the volume arriving from Iceland to reach 170t.

News Round up

An increased 2016 lamb crop in the Irish Republic coupled with delayed arrival on the market has seen a sharp year-on-year increase in prime sheep slaughterings at Irish export plants since November. In the final two months of 2016, slaughterings rose by 13% to 422,700 head. During the first five weeks of 2017, slaughterings have continued to run well ahead of 12 months before, up 12% at 216,200 head. However, the average weekly kill in the first five weeks of the year fell 13.5% from the five weeks before Christmas, compared with an 11% decline between the same two periods 12 months ago.

Initial FranceAgriMer estimates of the volume of sheep and goat meat available for consumption in France during 2016 point towards a 3.5% decline, with volumes slipping to 164,500t. Meanwhile, based on Kantar Worldpanel data, estimated consumption at supermarkets and butchers is estimated to have fallen by 4.5%. The average retail price of sheepmeat is estimated to have risen marginally over 2015 to reach €14.35/kg (£12/kg). Falling consumption came despite a 3% increase in lamb production at French abattoirs, which reached a four-year high of 67,900t. While imports were broadly stable overall, there was a rebalancing away from NZ and the UK towards Spain and Ireland. The UK remained the largest supplier with 44% of the total, down one percentage point on 2015.

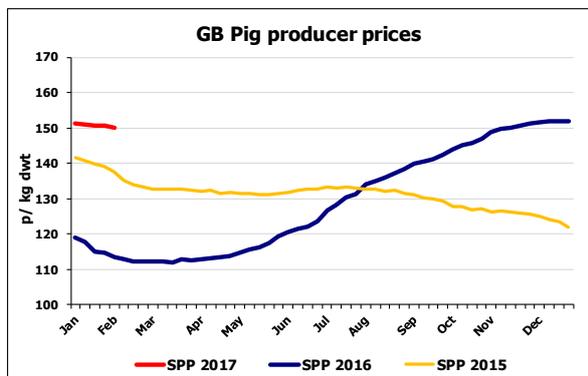
NZ slaughter statistics for Q4 2016 show the fourth consecutive quarter of year-on-year decline in lamb throughput. Numbers fell by 13% to 4.454m head. This was also below the Q4 2015 figure of 4.77m head. Production fell at a slightly lower rate of 12% in Q4, to 81,700t, as better grazing conditions contributed to a 1% increase in the average lamb carcass weight, which reached 18.3kg. During the calendar year of 2016, NZ abattoirs slaughtered 19.605m lambs, down by more than 2m head (9.5%) on 2015. Production volumes fell by 7.5% to 360.8m tonnes as the average carcass weight lifted by 2% to 18.4kg.

The adult sheep kill also fell significantly at NZ abattoirs in 2016. Throughput fell by 14% in Q4 to 1.304m head. In the calendar year, slaughterings of adult sheep fell by 16% to 3.74m head. Relative to the June 2016 ewe flock, this was just over 20.5%. In 2015, adult sheep slaughter had equated to 23.5% of the ewe flock.

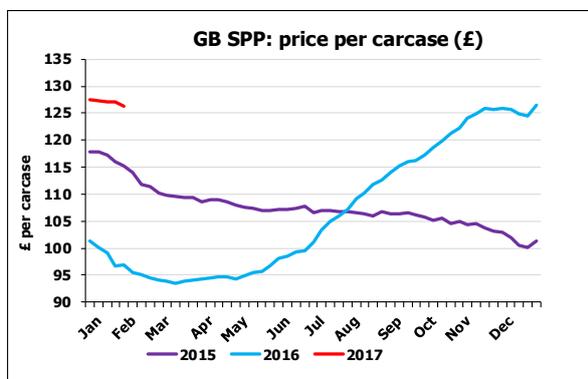
China customs data indicates that the country imported 16,200t of sheepmeat during the final month of 2016. A seasonal increase in import volumes mean that this was the highest level since July. \$46.7m (£37m) was spent to bring this sheepmeat into China, working out at an average value of £2,900/t (£2,300/t). This took the annual import volume to just over 220,000t, costing \$573.9m (£460m) at an average value of \$2,600/t (£2,100/t). Compared to 2015, import volumes contracted by 18.5% with the average value of deliveries rising by approximately 5%. Interestingly, the average value of sheepmeat imported into China was only slightly more expensive than pigmeat. However, in the Chinese wholesale market, sheepmeat is almost twice the price of pigmeat. This indicates that sheepmeat imports tend to be of lower value cuts. The relative price of sheepmeat imports also look cheap when compared against beef.

Pigs

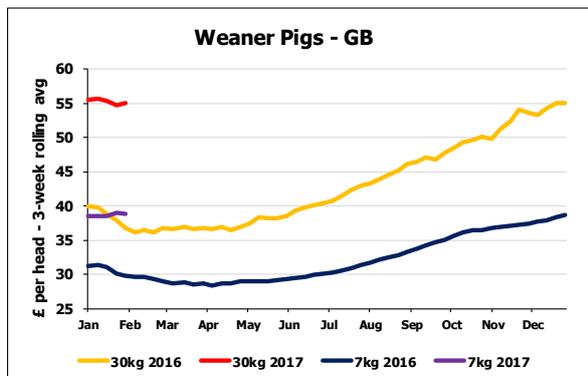
Prices and Supplies



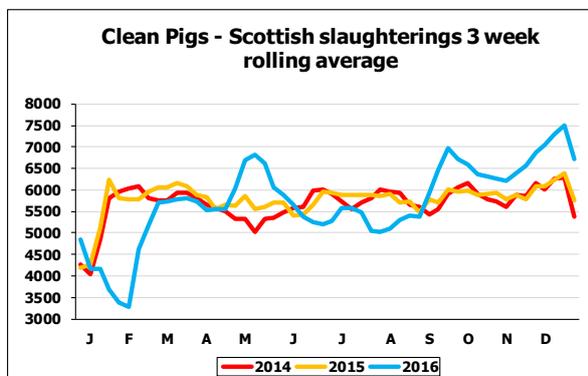
Following the consistent increases of the final nine months of 2016, the SPP has fallen back in early 2017. Five consecutive weekly price declines resulted in the SPP slipping under the 150p/kg dwt mark, having ended 2016 at 151.9p/kg. Nevertheless, this was still a year-on-year increase of 32%; and this gap has been widening in the New Year as the market had fallen at a faster rate in early 2016.



A seasonal lift in carcass weights meant that the average price of an SPP carcass rose strongly in the first week of 2017. However, since then it has too drifted lower, slipping to a six-week low of £126.33 in the week ending February 4. With carcass weights averaging similar to early 2016, this was also a 32% year-on-year increase.



The average price for a 30kg weaner pig rose sharply at Christmas and New Year before settling back down again during January. In the week ending February 4, the three-week rolling average edged over the £55 a head mark and was in line with mid-December levels. Compared to the corresponding week last year, this was up by 52%. Meanwhile, the three-week rolling average for the 7kg weaner market has stabilised at just under £39 a head. This was up by 31.5% year-on-year. Relative to the finished pig price, the 30kg weaner was worth 43.5% as February began, up six percentage points on the year. Meanwhile, a 7kg weaner remained at 30.5% of the average SPP carcass price. Industry sources suggest that weaner supplies are tight relative to demand.



The final quarter of 2016 saw a consistent rise in the prime pig kill at Scottish abattoirs. Throughput exceeded year earlier levels by 6.5% in October and then by 13.5% in both November and December. Weekly throughput picked up from 6,300 head in October to 6,500 head in November and then ran at 7,500 head

in the first three weeks of December, before sliding over the festive period.

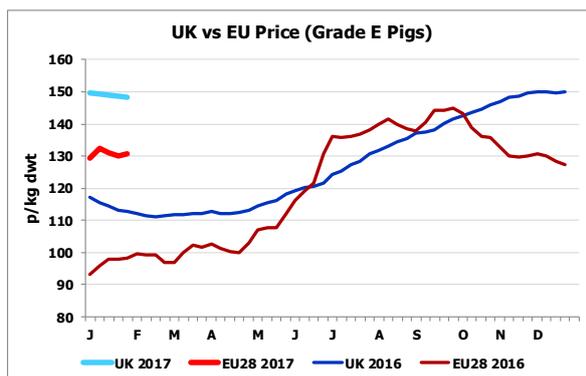
In 2016 as a whole, pigmeat production at Scottish abattoirs is estimated to have fallen by 1%. This was down to a 1.5% decline in slaughterings coupled with a small increase in the average carcass weight by just over 0.5%.

E&W abattoirs slaughtered 697,300 prime pigs during December. After applying a working day adjustment, December throughput is estimated to have contracted by 5% year-on-year; the fourth consecutive month to show a decline. Meanwhile, the sow kill is estimated to have fallen relative to a year earlier for the fifth time in six months, sliding by 3.5% in December. DAERA figures indicate that the total prime pig kill at NI plants rose by 5.5% year-on-year to 150,300 head in December. However, whereas the slaughter of NI-reared pigs rose by 11.5%, 9% fewer pigs were imported for slaughter. Home pigs accounted for 75.5% of the kill, up from 71.5% a year earlier.

The average prime pig carcass weight at UK abattoirs fell seasonally in December, down 0.7kg from November to 82.1kg. However, this left it 1.1kg ahead of its year earlier level; an increase of nearly 1.5%.

The latest Kantar Worldpanel data points to a continued decline in pork sales to GB households in the final 12 weeks of 2016. Household spending on pork fell by 7.5% and, with falling prices, sales volumes fell by 5% relative to the corresponding period a year earlier. Pork sales were driven lower by a 5% decrease in sales of chops/steaks plus heavier declines of 16% for loin roasts and 19% for shoulder roasts. However, this was partially offset by increases of 4.5% in pork mince and 15.5% for leg roasting joints. In terms of processed products, cheaper prices for bacon and sausages saw their sales rise by nearly 5% year-on-year, while there were more muted gains for pork pies, sausage rolls and sliced cooked meats.

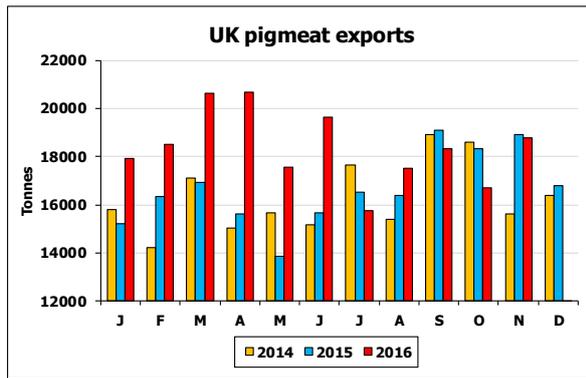
GB households purchased 163,000t of pork during 2016; a decline of just over 2.5% from 2015. There were declines of nearly 2% for chops/steaks and 6% for loin and shoulder roasts. By contrast, leg roasts saw an increase of 4.5%. Other cuts tended to decline, including pork mince (-6.5%) and pork belly (-2.5%). Chops/steaks accounted for 38% of the annual total, with a further 38% being roasts and 24% in the form of other cuts.



The EU average for grade E pigs has been relatively stable since the turn of the year, trading in a tight range between €1.51/kg dwt and €1.53/kg dwt (130p/kg). This lack of direction points to a well-balanced market.

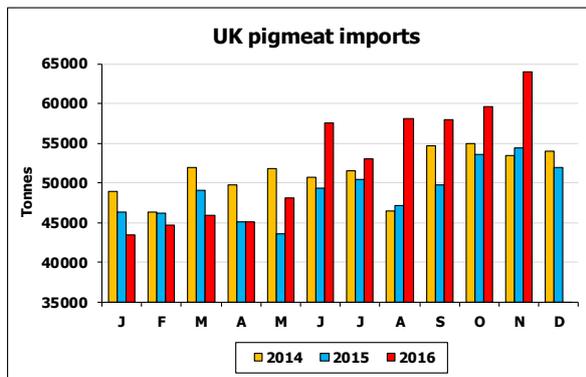
In the week ending February 5, Grade E pig prices were down slightly on the month in euro terms in Denmark and Germany, and by around 1.5% in Italy and the UK. However, prices were 1-2% higher in Holland, Poland, France and Spain. The UK average has been trading 13-14% above the EU average in 2017.

Compared to the corresponding week of January 2016 the EU average grade E pig price was 19% higher. Most of the major producing nations showed increases of 16-22%; though the Italian increase was an even stronger 27%. Due to currency movements, the UK average was 17.5% higher than last year when quoted in euro, compared with a sterling terms increase of 32%.



UK pigmeat export volumes fell short of 2015 levels for a third successive month in November, down 1% at 18,750t. Exports of fresh and frozen pork fell by 2.5% to 17,200t, but this was partially offset by a 28.5% increase in exports of cured pigmeat, which, at 1,500t, were at their highest in any month since October 2013. Pigmeat exports were equivalent to 23% of monthly UK abattoir production during November. This was up slightly on the previous month.

The overall decline in UK shipments of fresh and frozen pork during November was influenced by lower sales to Denmark, Germany and Holland. Volumes fell by 16%, 12.5% and 0.5%, respectively to 1,600t, 2,300t and 1,600t. However, there was a 12% increase in exports to Ireland, which reached 2,900t. Outside the EU, the Far East continued to be a growing outlet. Exports to China/Hong Kong were at their highest for seven months and, at 4,900t, exceeded November 2015 volumes by 10.5%. This was 28.5% of monthly exports compared with 25% a year earlier.



November trade figures point to a continuing expansion of UK pigmeat imports. At 64,000t, volumes were up 17.5% year-on-year and were the highest monthly total since June 2010. Whereas imports of bacon & ham rose by a muted 3.5%, pork shipments continued to surge, rising by 26.5% to 42,100t. This was the highest volume of pork imported since June 2007.

Pork imports to the UK from Denmark continued to build, reaching 17,500t. This was 41.5% of the monthly total and was a year-on-year increase of 64%. A likely explanation is that this pork is being imported for further processing as part of a cross-border supply chain. Imports from Germany also rose strongly to reach 7,100t, up 22% on the year and at their highest since January 2014. Belgium, Ireland and Spain similarly delivered around a fifth more pork than twelve months previously, but imports from France and Holland fell by 15-20%.

Imports of bacon & ham to the UK from Denmark also grew strongly in November, rising by 10% year-on-year to 9,350t. Meanwhile, shipments from Holland rose by 7.5% to nearly 8,300t. By contrast, trade with Germany contracted by more than a fifth, slipping to 2,700t.

Feed Market

Having stabilised around the £130/t mark in the final quarter of 2016, ex-farm feed wheat prices rose by around £15/t in North East Scotland during the first half of January. Since then prices have steadied again, trading at £145/t on February 8. This placed it 52% ahead of its year earlier level. While global wheat production and stock levels continue to look favourable, rising feed demand from the poultry sector has underpinned the domestic market. Furthermore, the availability of maize in the EU is reported to have fallen to a nine-year low, leading to a substitution effect on wheat. From a position of looking cheap at the global level last summer, UK wheat is now relatively expensive. Barley prices have been more stable since the beginning of December, holding close to the £120/t mark. In early February, ex-farm prices stood at £118/t in North East Scotland, up 27% year-on-year.

Prices for Brazilian soyameal have been fluctuating from week-to-week since the turn of the year, ranging from £331/t to £355/t. In early February, soyameal traded at £340/t. Relative to a year earlier this was an increase of 30%, mostly down to a lower valued sterling. Whereas the Brazilian soyabean harvest is reportedly progressing better than a year ago, the area planted by Argentine farmers has contracted by 5%.

News Round up

Despite a contraction in its pig herd, Danish pig production increased by 2% year-on-year in the September to November period of 2016. Although total slaughterings fell by 3.5% to 4.673m head, this was more than offset by live exports, which rose by 11% to 3.255m head. When looking at production volumes, the decline in pigmeat output was smaller than in slaughterings, down 1.5% as the average carcass weight rose by 1.9kg (2%) to 89.7kg.

French abattoirs increased their pig kill in Q4 2016 with throughput rising by nearly 2% to 5.919m head. However, numbers still trailed Q4 2014 levels. Prime pigs accounted for 97% of slaughterings and also rose by nearly 2%. However, the average prime pig carcass weight dipped back by 0.3kg to 83.5kg, resulting in a slower production increase of 1.5% to 479,500t. Nevertheless, previous gains to carcass weights meant that pigmeat production was at its highest total for Q4 since 2011.

According to US Meat Export Federation figures, the USA exported 168,700t of pork during December 2016. Compared to a year earlier this was a considerable increase of 14.5%; stronger than the 5% export growth achieved during the calendar year. Higher exports are a partial reflection of rising pigmeat production, which rose by 2% in 2016. Mexico is the main export destination for US pigmeat, underpinned by tariff-free access under the NAFTA agreement. Shipments grew by 22% year-on-year in December to reach 66,700t; 39.5% of the monthly total. Japan remained the second largest market for the US, but at 28,800t, volumes were down by 6% on the year. This was 17% of shipments, compared with 21% a year earlier. Canada was the third largest destination in December and volumes crossing the tariff-free northern border rose by 7% to 17,400t (10.5% of the total). Other important growth markets included Korea, China, Australia and Colombia.

Hong Kong (HK) customs data for December 2016 shows that 31,800t of pork was imported during the month. This was up by nearly 4% on the final month of 2015. Of the December total, 97% was frozen product; the same share as in the year as a whole, but down by one percentage point from December 2015. Brazil was the largest supplier, delivering 8,900t during December; 28% of the total. In second was the US, with 5,300t (17%), while a further 3,900t (12%) flowed across the border from China. The main European suppliers of Spain, Holland, Germany and Poland delivered a collective 29.5% of the monthly total, with volumes of around 2-3,000t each. Imports from the UK were reported to have totalled just over 400t; their lowest of any month in 2016.

In early 2017 the wholesale pork price in China has followed a seasonal trend higher, supported by increased demand due to the Chinese New Year celebrations at the end of January. Prices opened February 6% higher than they had traded at in the final week of 2016, reaching 24.95 yuan/kg (£2.90/kg). However, the seasonal uplift has been less pronounced than that seen a year ago when the market firmed by 12% over the same period. As a consequence, prices slipped 1% behind year earlier levels as February began, having been running 2-4% higher since November. Pork continued to be priced very competitively against beef and sheepmeat, trading at 45% and 54% of their respective wholesale prices. However, it was 65% dearer than chicken.

Iain Macdonald – February 2017

QMS