



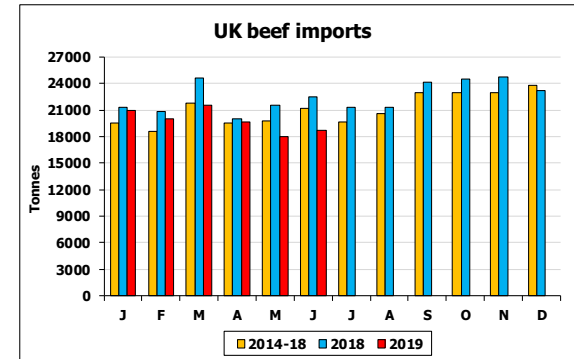
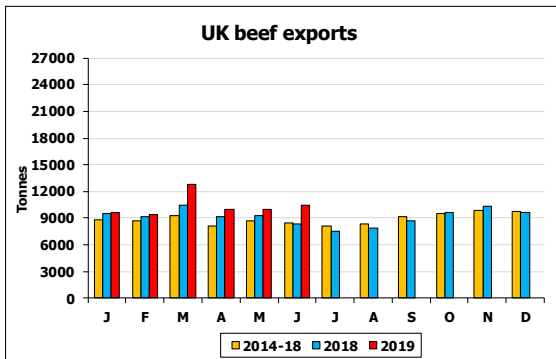
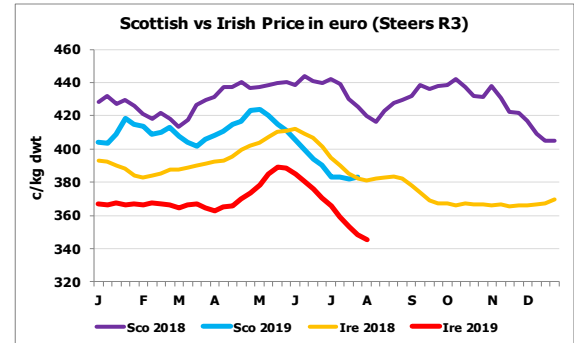
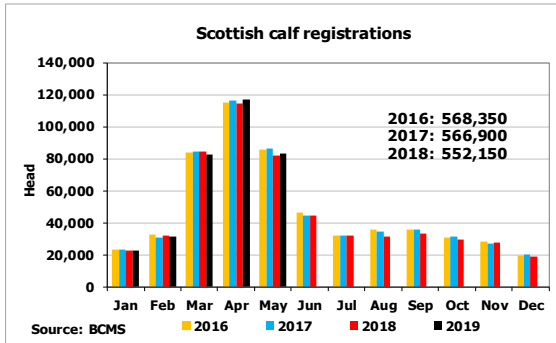
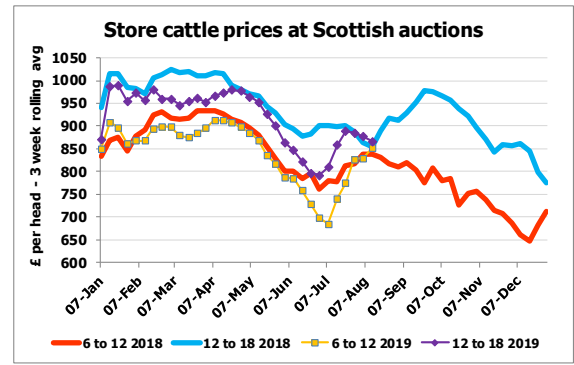
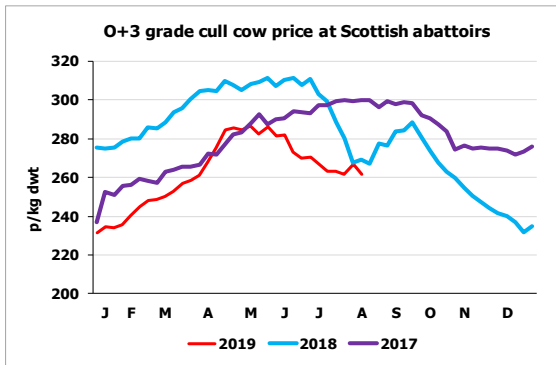
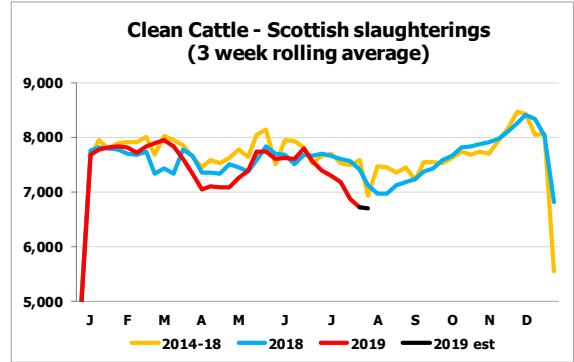
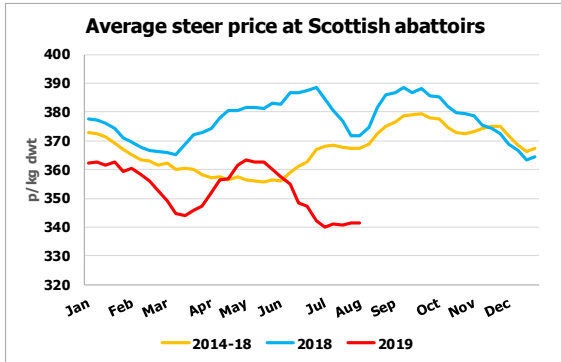
## **MARKET REPORT - August 2019**

### ***Cattle Update***

- After the sharp declines of June the overall average prime cattle price fell more gradually for most of July before edging higher in late July and early August. At 339.4p/kg dwt in the week to August 10<sup>th</sup>, the overall average recovered to a five-week high. R4L steers have lacked direction in recent weeks and traded at 348.7p/kg dwt in the week to August 10<sup>th</sup>. While above their recent lows, prices remained well behind 2018 levels, with the overall average down by 8.2% and R4L steers by 8.0%.
- Whereas prime cattle prices have started to recover slightly, cow prices have trended marginally downwards since the beginning of July. The O+3 grade price stood at 262p/kg in the week to August 10<sup>th</sup>, which was a year-on-year shortfall of 2.8%.
- Scottish prime cattle prices averaged 5.8% above the average for England & Wales in the first full week of August – a 6-week high and the second largest gap in 2019-to-date. The R4L price premium for Scotland over E&W also reached a 6-week high, of 14.1p (4.2%). This was 0.5 percentage points above the average premium since May. In contrast to heifer pricing, -U4L steers continued to average below R4L steers on a price per kilo basis, suggesting penalties for heavy carcasses.
- Weekly slaughter has fallen back seasonally at Scottish abattoirs since mid-June. In mid-July the fall was exacerbated by plant maintenance. Although some recovery took place in August, numbers were still 10% below the weekly average for May and June.
- Prime cattle slaughter data for July showed a year-on-year fall of 7.2% in Scotland. There were sharp declines of 10.1% for steers and 11.9% for heifers, partially offset by a 16% lift in young bulls. Young bulls approached their seasonal peak, accounting for 16.9% of the kill, up from 13.4% in June and a year-to-date average of 8.4%.
- Going against the traditional seasonal trend, prime cattle carcass weights rose at Scottish abattoirs between June and July. This saw them run 2.2% above year earlier levels, limiting the decline in prime beef production to -5.1%. Steer weights did ease by a kilo on the month but still averaged 388.3kg, which was 1.3% above year earlier levels. As a result, the average steer carcass was £142.50 cheaper than in July 2019.
- Following 2-3% growth in May and June, UK beef production fell 0.7% behind 2018 in July. A 1.3% lift in prime production, driven by higher carcass weights, was more than offset by a 7.8% fall in cow beef output. In the first seven months of 2019, UK production rose 0.9% from 2018.
- Having fallen 2.6% in 2018, BCMS data shows that Scottish calf registrations stabilised in the first half of 2019. Beef-sired registrations increased by 0.5%. At GB level, registrations declined by another 0.5%, having fallen 1.8% last year.

- Store cattle marketings have picked up from their seasonal low between mid-June and mid-July but remain well below their peak. In July, average prices reversed the ground lost in June, rising 10-11%, and this pushed them marginally in front of 2018 levels. In the week to August 10<sup>th</sup>, 6-12-month steers sold for £877 per head, compared to a July average of £822, and 12-18-month steers for £896, up £2 from July.
- During July, purchase prices for younger steers averaged 62.5% of the steer carcass price with 12-18-month steers trading at 67.9% of the carcass price.
- GB retail sales data from Kantar Worldpanel indicates year-on-year spending growth on fresh and frozen beef of 1.4% in the 12 weeks to mid-July as although a marginally reduced proportion of households bought beef, they bought it slightly more often. Sales volumes rose by 3.3%.
- A cooler wetter summer has altered the balance of beef sales in GB this year, with higher spending on roasts, stewing beef and mince whereas steaks declined by 8.6%. Adding sales of burgers (which surged last summer but fell back heavily this year) to the total spend on fresh and frozen beef, reveals a 2.7% fall in overall spending by GB households, having flat-lined between the same periods in 2017 and 2018. The average retail price fell by 1.8% with roasts and mince being discounted, but less promotional activity pushed up steak prices by 5%.
- Provisional UK trade data for June continued to point towards rising exports but falling imports, with the former up 26.3% and the latter down 16.8%. Over the first half of the year, net imports fell 18,200 tonnes (24.3%). With domestic production increasing by a lower margin (5,400t), overall supply fell by an estimated 2.4% (12,800t), so the challenging beef market points to weak domestic demand.
- Total beef supply on the UK market is estimated to have risen by another 3% last year, on the back of three successive annual increases between 2015 and 2017. It is therefore likely that the UK carried a high level of inventory into 2019, underpinned by strong growth in imports of frozen beef last year. This overhang of supply may help explain the general weakness of the beef market since the second half of 2018.
- Since reaching a seasonal peak in May, Irish prices have fallen sharply. From €3.89/kg in the week ending May 26, the Irish R3 grade steer had slumped 7.6% to €3.59/kg by the second week of July. As well as being a 32-month low, it left prices trailing 2018 by 7.8% in euro terms and by 6.3% in sterling (at 323p/kg dwt). The recent weakening of sterling means that this was only a 10-week low when quoted in sterling.
- In the four weeks to 28<sup>th</sup> July, Irish abattoirs handled their highest weekly volumes of prime cattle since mid-April. However, the year-on-year increase slowed to only 0.8% compared to an average of 4.3% for the first seven months.
- In early August a group of Irish farmers began to demonstrate outside a number of abattoirs, resulting in a reduction in slaughter. The week ending August 4<sup>th</sup> saw a week-on-week fall of 17%, and then there was a 48% decline in the week ending August 11<sup>th</sup>. Over the two weeks, 32% fewer prime cattle were processed than a year earlier. Following talks between stakeholder organisations and the Irish Government, slaughter is believed to have returned to normal in the week ending August 18<sup>th</sup>.

# Cattle Charts



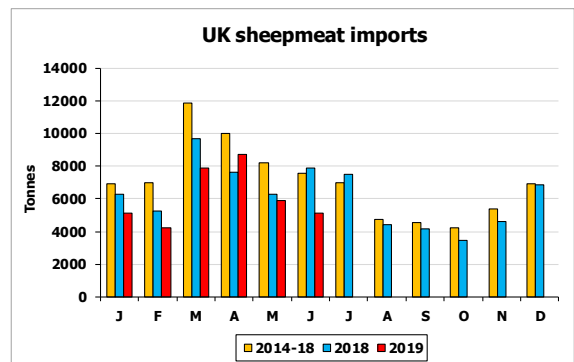
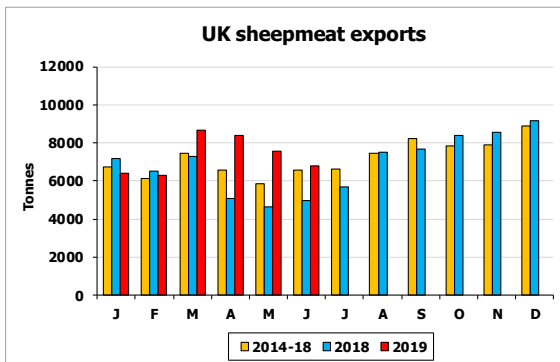
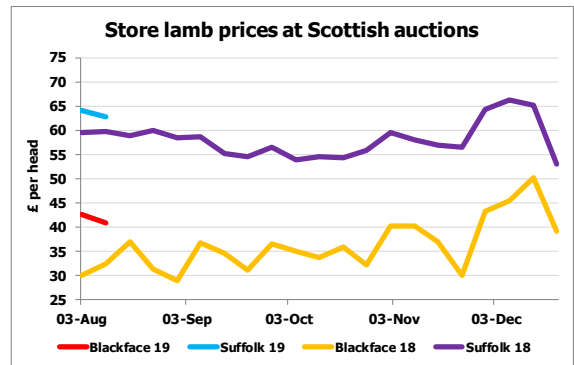
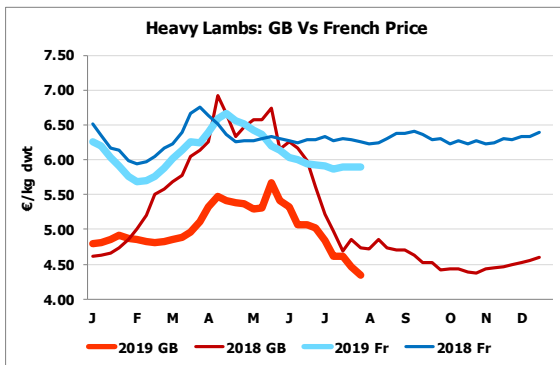
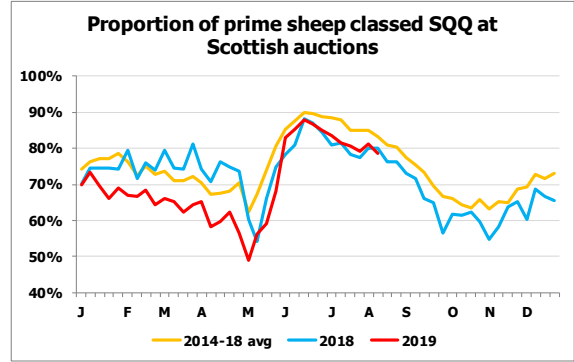
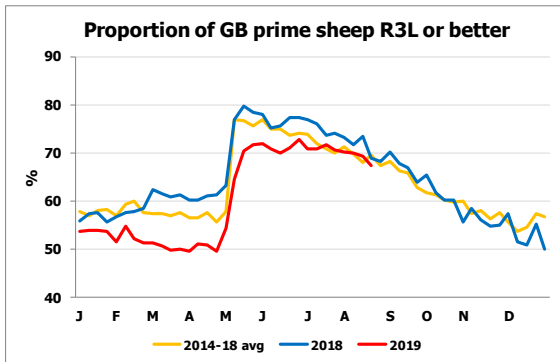
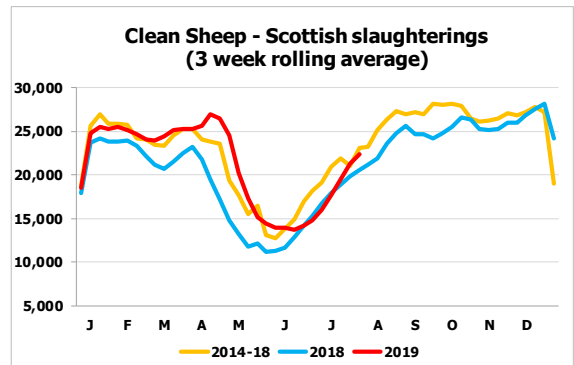
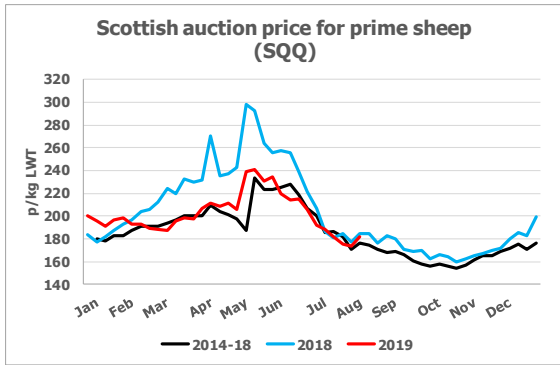
## ***Sheep Update***

- New season lamb prices have been falling seasonally across GB. In the week ending August 10<sup>th</sup>, prices had cooled to 395p/kg, which was 119p (23%) below the new season peak. By the same point in 2018, prices had dropped 32% below their May 2018 peak. Weekly slaughter began to show signs of stabilising in July at price reporting abattoirs before surging in the first full week of August reflecting peak demand for the Eid al-Adha festival. In early August, prices trailed 2018 by 6.7%.
- The second week of August saw new season lamb prices dip to their lowest of the 2019/20 season so far at Scottish auctions; 173p/kg lwt. This reflected a further lift in marketings in the week following peak demand for the Eid al-Adha festival. At this level, the market cleared 6.2% lower than last year; though prices had been underpinned in the second week of August in 2018 by the later Eid al-Adha.
- Auction market throughput continued to trend higher at Scottish auctions into mid-August. Over the four weeks to mid-August, sales were 8% above year earlier levels. While weekly marketings have also trended higher at GB level, they did slip back relative to 2018, mostly down to a smaller pre-Eid al-Adha peak this year.
- Carcase quality has been falling seasonally at price reporting GB abattoirs. However, the proportion grading at R3L or better has been more stable than in recent years, so having started the season well behind 2018 levels, the gap has narrowed. In the four weeks to August 10<sup>th</sup>, 69.1% graded at R3L or better, down from 73.1% last year.
- At Scottish auctions, the proportion of lambs within the SQQ weight range of 25.5-45.5kg lwt has been slightly above last year's levels since June. However, this has left it well below the five-year average. In the mid-July to mid-August period, the proportion of heavy lambs on the market was higher than at the beginning of the season but steadied at around 20%. The five-year average for the same period was around 15%.
- While the supply side continues to weigh on market prices, a fall in sterling to its lowest level against the euro in over a decade continues to boost export competitiveness and export orders in the short-term.
- Weekly average prime sheep slaughter at UK abattoirs hit a 2019-high in July and was up 5.7% on July 2018. Carcase weights exceeded last year by 2.5%, adding to the volume of production.
- At UK level, the weekly ewe kill rebounded to exceed 2018 for the sixth time in 2019 in July and carcase weights were significantly higher.
- Adding together the rise in prime sheep and mature sheep production, total UK sheepmeat production grew by an estimated 9.9% on July 2018.
- In Scotland, prime sheep slaughter returned to year-on-year growth in July, rising 4.6%. After a prolonged period of growth, carcase weights fell by 0.2kg on the month and were unchanged from 2018.
- Retail sales data from Kantar Worldpanel for the 12 weeks to mid-July reflect the better availability of lamb than in 2018, with GB households spending 11.2% more money

and securing 12.7% more lamb. On average, lamb was 1.1% cheaper to buy than in the same period of 2018, providing further support to sale volumes. The proportion of households buying lamb rose only slightly but the frequency of purchase rose more significantly.

- After a slow start to 2019, UK sheepmeat exports rose strongly relative to last year between March and June, reflecting increased supply. Provisional volumes for June were up 36% on 2018 and at a five-year high for the month. Exports to France rose by nearly a fifth and trade with Germany almost doubled relative to a year earlier.
- Meanwhile, sheepmeat imports continued to contract heavily, down 35.4% year-on-year in June and by 14% in the first half of 2019. The volume imported from NZ was 36.2% lower on the year in June while imports from Australia more than halved; imports from both sources were 19% lower in the first half of the year. The average value per tonne rose by 2% year-on-year on shipments from NZ in the January to June period.
- Export data for NZ continued to signal sharp year-on-year declines into the EU, and the UK in particular, in June. Since the start of the 2018/19 lamb season last October, NZ exports, which have risen marginally overall, have been rebalanced away from the UK towards China; although the two markets buy different parts of the carcass.
- NZ slaughter fell significantly in Q2 2019 both seasonally (-36% from Q1) and year-on-year (-19%). With slaughter approaching its seasonal low point, prices have firmed to the equivalent of around £4.20/kg on the South Island. However, NZ prices have been tracking 1-2% below year earlier levels since May.
- On the continent, French prices have stabilised at around €5.90/kg (£5.40/kg) since the beginning of July. However, this has left them down by around 5% on last year.
- Irish prices reached their new season peak in the third week of June but then fell significantly for six weeks. The first full week of August saw prices rebound, likely driven by demand for Eid al-Adha. At €4.35/kg (£4/kg), Irish prices moved 1% in front of the GB average having trailed it by around 5% since late June.
- Light lambs reached a 9-week high of €5.23/kg (£4.80/kg) in Spain but this still left them 9% lower than last year.

# Sheep Charts



## ***Pigs Update***

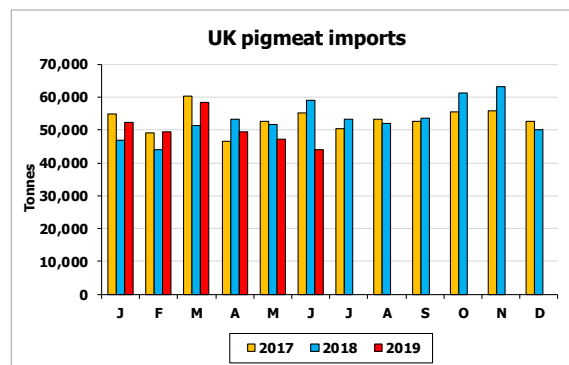
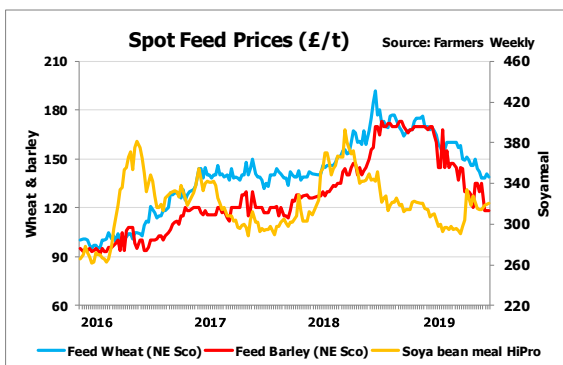
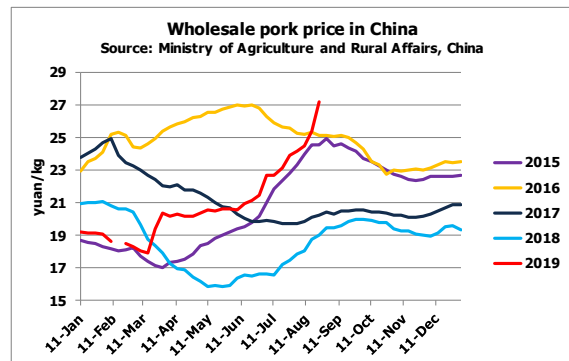
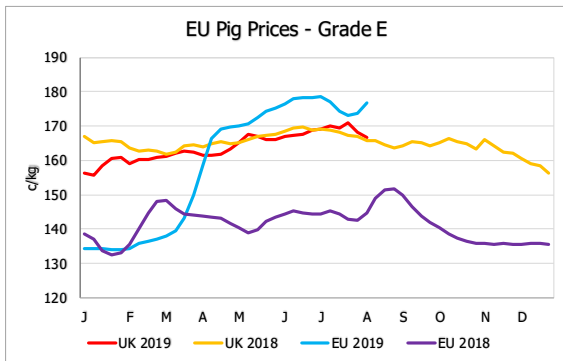
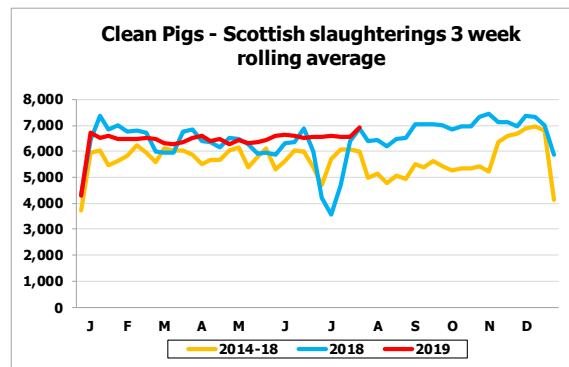
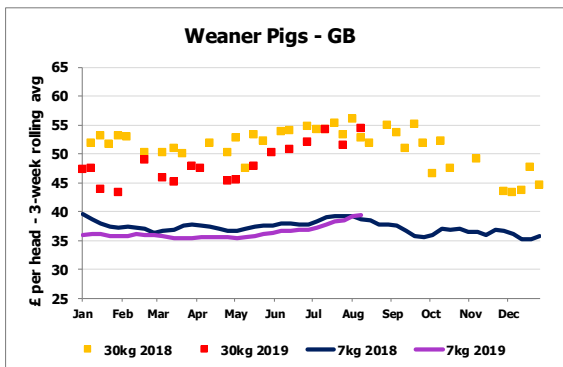
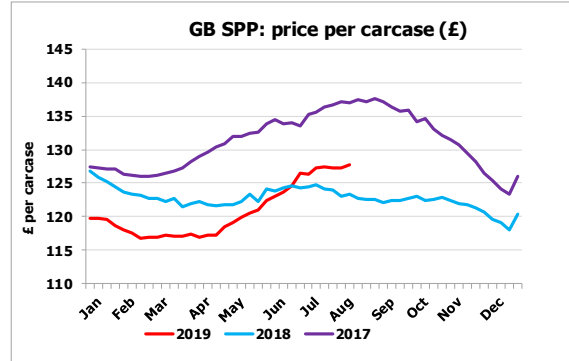
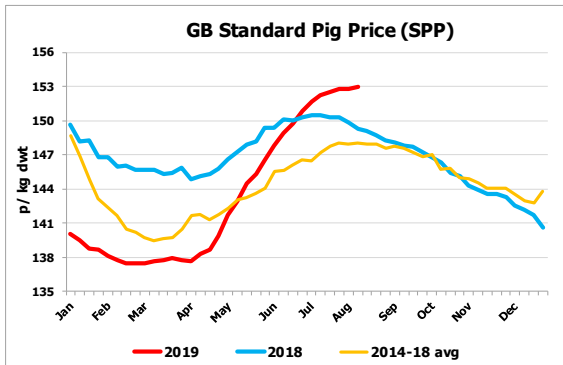
- The prime pig market has continued to trend higher into August. Though the pace has slowed since early July, historically, prices have often begun to fall back by August as the seasonal balance between supply and demand changes.
- After an average increase per week of more than 1p between late April and early July, the pace slowed to an average of 0.2p/kg over the next month. This saw the SPP reach 153p/kg in the week ending August 10<sup>th</sup>. As well as being a year-on-year increase of 2.5%, this was its highest since late November 2017.
- Market prices have been influenced by a seasonal tightening of supply. Weekly slaughter at GB price reporting abattoirs has been averaging approximately 81,000 head per week since early May, down from an average of more than 85,000 head in the first third of the year and a peak of 89,500. Carcase weights have also been relatively stable since May, averaging around 83.4kg. This compares to an average of 85.1kg in the first third of the year and a peak of 86.1kg.
- Defra UK slaughter statistics indicate that the weekly prime pig kill returned to year-on-year growth in July, rising 2.9%. In the first seven months of 2019, slaughter numbers were up marginally on last year. At Scottish abattoirs, the strong year-on-year increase of almost a quarter was influenced by technical problems in the summer of 2018, meaning a smaller base level to compare against.
- UK slaughter data reported a seasonal fall in carcase weights in July. Nevertheless, they remained well above 2018 levels, contributing to an increase in pigmeat on the market. UK production rose 2.4% year-on-year in the May to July period.
- At price reporting abattoirs, higher carcase weights than last year saw the carcase price rise 3.6% above 2018 levels to reach £127.76 in the week ending August 10.
- 7kg weaner values followed the finished pig price higher between spring and summer, generally trading at around 30% of the final carcase price. More significant rises in late July and early August saw this approach 31% at the beginning of August. Prices averaged £39.40 in the three weeks to August 10<sup>th</sup>.
- Retail sales figures from Kantar Worldpanel have pointed to a weakening in demand for pork since the spring. Household spending declined by 5% on a year earlier in the 12 weeks to mid-July, with fewer households buying pork and those that did, buying it less frequently. In volume terms, sales were down 3.4%, with the average retail price down 1.7%. It is possible that the weather has had some impact on sales with the balance of sales shifting away from chops and steaks towards roasting joints. Meanwhile, sales of bacon, sausages and deli meats continued to struggle, with spending falling by around 5%, 3% and 8%, respectively.
- After a strong first quarter, UK pigmeat imports fell sharply in Q2, more than offsetting the earlier increases. Exports fell slightly in the first quarter before recording significant expansion in April and May, and then rose by 6.6% in June. In the first half, export volumes rose 7.3%.
- Although UK exports to China/Hong Kong eased from their highs of April and May, sales to this market continued to underpin overall export demand in June, with

volumes exceeding year earlier levels by over 80%. Sales to China accounted for 31% of total pork exports compared to 19% in June 2018.

- Wholesale pork prices rose steadily in China between early June and early August. June saw a 10% price lift, with the pace slowing to 6.6% through July.
- The first half of August then saw Chinese pork price growth begin to accelerate, showing an upturn of 12.5% between the 1st and 15th of the month. As a result, pork was nearly a third more expensive than in late May, up 51% on its spring low, and by 42% on the year. Furthermore, prices have now surpassed their 2016 peak. Regional differences in prices widened considerably in early August reflecting local imbalances between supply and demand, with some areas seeing prices rise by almost 20% between Monday 5th and Friday 9th August.
- While recent price pressures may have some seasonal element, the market is reflecting the sharp decline in China's pig population, reported at close to a third by Chinese Government statistics for July. Pork imports climbed by more than a quarter in the first half of 2019, with imports of other proteins, including beef, lamb, milk powder and seafood also growing strongly.
- EU exports of pork to China/Hong Kong rose by nearly 70% year-on-year in Q2 2019, though they did fall short of their 2016 peak. Sales of processed pigmeat, fats and offals also rose considerably.
- The EU average price for grade E carcasses fell by 3% during July, trading at a 10-week low of €1.73/kg in the week to July 28. However, the market firmed in the next two weeks, taking the average price up to €1.77/kg, leaving it slightly below its June peak.
- Price forecasts for Germany signal further increases in the third week of August, making it likely that prices will reach their highest levels since 2013. EU prices often increase through August and into September, reflecting peak holiday season demand and the impact of hot temperatures on pig growth rates.
- In recent weeks, a falling sterling has helped shield the UK price in euro terms from the rising farmgate price in the UK (an 11.1% increase since mid-April has been limited to 3.2% when prices are quoted in euro). The EU average for Grade E pigs first moved ahead of the UK average in the second week of April. This gap widened to a peak of 6% in June, before narrowing back to 1% in late July. However, it widened again moving into August, lifting to 6.1% in the week ending August 11th. By contrast, the same week last year had seen a lead of over 14% for the UK average.
- Feed grain prices eased during the first half of 2019. Feed wheat in North East Scotland has settled at around £140/t since mid-July while barley has dropped below £120/t. At these levels, grain is 20-30% cheaper than last year, reflecting a well-supplied global market. However, imported soyameal has risen from its 2019-low point, trading at around £320/t, with a weaker sterling having some impact.



# Pig Charts



## ***Business Environment***

### **Economic Activity:**

Monthly Purchasing Managers Index (PMI) surveys from Markit Economics point to a subdued UK economy, growing at a marginal pace in July. At 51.4 in July, the service sector signalled a weak expansion (>50 means business growth) whereas both manufacturing (48.0) and construction (45.3) contracted. In services, political uncertainty was reported to have slowed decision making but a weaker exchange rate supported exports. However, manufacturers reported weak export demand, despite the beneficial exchange rate, due to a softening global economy. With production levels outpacing sales, manufacturers' inventory levels also rose. While services firms continued to add staff, albeit at a slower rate, manufacturers cut staff.

### **Consumer Price Inflation:**

CPIH, the most comprehensive measure of consumer price inflation published by the ONS, edged up to 2.0% in July but held within its 2019-range of 1.8-2.0%. Goods price inflation (1.7%) remained below that of the service sector (2.2%). Food price inflation remained below average (1.4%), with meat prices falling behind year earlier levels for an eleventh month (-0.6%). Petrol and diesel were almost unchanged on July. On the other hand, electricity (9.6%), gas (3.3%), council tax (4.7%) and social care (3.3%) all placed upwards pressure on living costs. Foodservice sector inflation remained stable at 2.6%.

### **Wage growth:**

According to ONS data, average earnings in the UK began to trend higher in the summer of 2018 and have been growing at around 3.5% year-on-year since last autumn. The three-month average hit an eleven-year high of 3.7% in June. Excluding bonuses, regular pay growth averaged 3.9% year-on-year in the three months to June. Regular pay growth remained muted in the manufacturing sector, however, at 2.4%, while regular earnings in 'wholesaling, retailing, hotels & restaurants' rose by a below average 3.1%.

### **Retail sales:**

Supported by earnings out-pacing the rise in cost of living, overall UK retail sales rose strongly in the three months to July. Household spending rose by 3.7% in cash terms and the volume of sales by 3.2%. Online sales continued to underpin overall retail performance, rising at an annual rate of 16.5% in cash terms and 17% after adjusting for inflation. In predominantly food stores, spending growth eased to 1.2% while volumes fell fractionally, in part reflecting the difference in weather this year.

### **Exchange Rates:**

	<b>w/e 11/8/19</b>	<b>July 2019</b>	<b>w/e 12/8/18</b>	<b>July 2018</b>
€:£	92.2p	89.9p	89.7p	88.7p
\$.£	82.4p	80.2p	77.6p	75.9p
NZD:£	53.5p	53.6p	51.9p	51.5p

The value of sterling has weakened further as financial markets adjust expectations to reflect an increased probability of a no deal Brexit. This downwards pressure on sterling has more than offset downwards pressures on the euro, US dollar and NZ dollar from changes in monetary policy stance, including significant interest rate cuts in the US and NZ, due to signs of a weakening global economy. In theory, this should have helped boost the competitiveness of domestic produce both at home and in export markets.

**Iain Macdonald, August 2019**