



MARKET REPORT - July 2019

Cattle

- Farmgate prices continued to slide in the week to July 20th, with the overall prime average at Scottish abattoirs 1p lower at 338.0p/kg. However, R4L steers did rise by 2.1p to 347.7p/kg. Compared to the same week last year, the overall average was down by 10.4% and R4L steers by 10.3%.
- Cow prices have also been trending downwards. While the O+3 grade price steadied at 263p/kg in the third week of July, it was still 8.3% below its mid-May peak and down 8.8% on the year.
- Scottish prime cattle prices averaged 5% above the average for England & Wales in the third week of July – a 12-week low. However, the R4L price premium for Scotland over E&W recovered to 3.7%, putting it broadly in line with its May to July average. 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 numbers have been falling back since mid-June, with Scottish price reporting abattoirs seeing a 5.4% reduction in the four weeks to July 20th compared to the prior four-week period. They have also fallen 3.8% behind 2018 levels.
- Prime cattle slaughter data for June showed a year-on-year fall of 0.6% in Scotland. A reduction in steers (-4.8%) was almost offset by a rise in heifer kill (+5.4%) and a marginal lift in young bulls. Young bulls approached their seasonal peak, accounting for 13.4% of the kill, up from a year-to-date average of 6.8%.
- Prime cattle carcase weights fell seasonally from May but continued to increase on 2018 at Scottish abattoirs. A 0.6% rise offset the lower kill and meant stable production volumes compared to June 2018. Steers averaged 389.4kg, which was only 0.1% above year earlier levels, and provided little offset to the fall in per kilo prices, resulting in the average steer carcase being £129 cheaper than in June 2018.
- Overall UK beef production was up 2.1% year-on-year in June, driven by heavier carcase weights. Prime slaughter fell slightly, but the cow kill rose a fraction. In the first half of the year, UK production rose 1.2% from 2018.
- Having fallen 2.6% in 2018, BCMS data shows that Scottish calf registrations have edged up again in the first five months of 2019 by 0.3%, with beef-sired registrations running 0.6% higher.
- Store cattle marketings have picked up in July but remain at a seasonally low level. Prices fell by 8-9% for a second consecutive month in June, but July has seen a

recovery, with the 6-12-month steer trading at £808 and the 12-18-month steer at its highest in 10 weeks at £925 in the week ending July 20th. At this level, prices were 2-3% behind 2018, having averaged below 2018 by 6% and 9% respectively in June.

- During June, purchase prices for younger steers averaged 54% of the steer carcass price with 12-18-month steers trading at 59% of the carcass price.
- After a prolonged period of decline, GB retail sales data from Kantar Worldpanel indicates year-on-year spending growth on fresh and frozen beef of 0.7% in the 12 weeks to mid-June. Lower average prices meant that sales volumes rose by 2.1%, with mince being discounted to support sales volumes. Having been boosted by hot dry weather in the same period of 2018, sales of steaks and burgers fell back sharply, whereas sales of stewing beef, roasts and steak pies rose (please note processed products like burgers and steak pies are not included in the headline sales figures). Compared to two years ago, sales of fresh and frozen beef were still slightly lower.
- Provisional UK trade data for May continued to point towards rising exports but falling imports, with the former up 3.4% and the latter down 17.5%. Over the first five months of the year, net imports fell 12,500 tonnes (20.6%). With domestic production increasing by a lower margin, overall supply fell by an estimated 1.9%, so the challenging beef market points to some weakness in domestic demand.
- 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 mid-July, Irish abattoirs slaughtered 2.3% more prime cattle than in the same period of 2018, driven by a 10% lift in the heifer kill. Weekly numbers have picked up from a seasonal low in May.

Sheep

- New season lamb prices have been falling seasonally. In the week ending July 20th, prices had cooled to 415p/kg, which was 99p (19%) below the new season peak. By mid-July 2018, prices had dropped 33% below their May 2018 peak. After sharp increases in May, numbers have been rising by an average of around 5% per week since the second week of June. In the third week of July, prices trailed 2018 by 0.6%.
- Prices have also been softening at Scottish auctions and the average for SQQ lambs slipped to 181.5p/kg in the week to July 17th. This was around a quarter below the new season peak of 240p/kg. However, given that prices had fallen by around 40% from their new season peak by July 2018, prices have now moved slightly above 2018.
- A weakening sterling against the euro means that the 24.6% decline between the new season peak and the third week of July at Scottish auctions was a fall of 27.6% in euro terms. The 0.3% year-on-year increase converted into a 1.3% reduction in euro.
- New season lambs have been much quicker to come forward in 2019, boosting auction sales by 30% year-on-year in Scotland between the beginning of May and mid-July.

Sales at E&W auctions were up by more than 13% for the same period. Between late June and the third week of July, numbers increased by an average of 13.5% per week in Scotland and by 5.5% south of the border.

- The average weekly kill at UK abattoirs for prime sheep was up 3.4% on 2018 in June, with carcass weights advancing by a similar degree. Although the weekly ewe kill fell behind 2018 for the first time this year, ewe carcass weights remained higher. Total UK sheepmeat production grew by an estimated 9.6% on June 2018.
- In Scotland, the rise in abattoir kill which had been evident since late 2018 ran out of steam in June, slipping 0.4% behind 2018 levels. It may have been that an increased new season lamb kill was more than offset by a reduction in hogg supplies. Nevertheless, higher carcass weights meant that production volumes still rose by 3%.
- Provisional retail sales figures from Kantar Worldpanel for the 12 weeks to mid-June reflect the better availability of lamb than in 2018, with GB households spending 16.4% more money and securing 13.9% more lamb. However, the higher average price achieved across this increased level of sales does point to robust demand.
- After a slow start to 2019, UK sheepmeat exports rose strongly relative to last year between March and May, in part reflecting tight supplies last spring due to the bad weather. Provisional sales for May were 63% above 2018 and at a six-year high for the month, with the volume sent to Germany more than doubling on a year earlier. Meanwhile, imports have fallen back for a sixth consecutive year in the January to May period. They were 5.6% lower in May, with the volume from New Zealand down by 15% and in line with the January to May decline from NZ.
- 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. With slaughter approaching its seasonal low point, prices have firmed to the equivalent of around £4.50/kg on the South Island. However, NZ prices have been averaging around 1.5% lower than last year since May.
- On the continent, French prices have been trending downwards since Easter and have slipped to their lowest July levels since 2015, down around 7% on 2018 at approximately €5.90/kg (£5.30/kg). Irish prices have slipped to around €4.50/kg (£4/kg), 2% below the GB average and 9% lower than last year.

Pigs

- The upwards trend of the prime pig market from the second quarter of 2019 continued into July, reflecting seasonality in supply plus a demand shock from overseas.
- Having opened April at 137.7p/kg, trailing year earlier levels by 5%, the SPP had climbed to 150.9p/kg by the end of Q2, averaging a 1.1p gain per week. Prices have risen more slowly in July, reaching 152.5p/kg in the week ending July 20. This was 1.4% higher than a year earlier, when the market had slipped from its annual peak.

- 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. Meanwhile, carcass weights have slipped to average 83.4kg between May and mid-July from an average of 85.1kg in the first 18 weeks of the year and a peak of 86.1kg.
- Defra UK slaughter statistics indicate that the weekly prime pig kill fell to its lowest level of the year-to-date in June and was 1% behind year earlier levels after running 1-1.5% higher in April and May. At Scottish abattoirs, prime pig slaughter continued to exceed year earlier levels in June, rising by 5.7%. Relatively consistent volumes of 6,400-6,700 head per week suggest well-functioning slaughter lines.
- UK slaughter data reported a seasonal fall in carcass weights in June but that they remained well above 2018 levels, contributing to an increase in pigmeat on the market. UK production rose 2.1% year-on-year in Q2 2019.
- At price reporting abattoirs, higher carcass weights than last year saw the carcass price rise 2% above 2018 levels to reach £127.44 in the third week of July.
- 7kg weaner values have followed the finished pig price higher since the spring, keeping them at around 30% of the final carcass price. Prices averaged £38.30 in the three weeks to July 20th.
- After a relatively stable winter, Kantar Worldpanel data has been pointing to some weakening of demand since the spring, with GB household spending down 3.5% year-on-year in the 12 weeks to mid-June, following a 3% decline in the 12 weeks to mid-May. Lower prices meant that sales volumes fell at a slower rate of 0.7%. The proportion buying pork slipped to 48.6% from 49.5% in the same period of 2018. Meanwhile, sales of bacon, sausages and deli meats all struggled, with spending falling by around 7%, 3.5% and 5%, respectively.
- UK pigmeat imports started the year well above 2018 levels, but then fell sharply relative to last year in April and May. Exports fell slightly in the first quarter before recording significant expansion in April and May.
- Growth in UK exports to China/Hong Kong has been consistently strong throughout the first five months of 2019, but the rate of expansion has been climbing, and shipments more than doubled on a year earlier in May. Sales to China accounted for 37% of total pork exports compared to a fifth in May 2018.
- Following a sudden price shock in the first half of March, the Chinese pork market showed limited further movement until June. During June, wholesale prices then rose by around 10%, before firming another 5.4% in the first three weeks of July. While this meant that wholesale prices had risen by a third from their early March low and by 37% on the year, the market was still 11.5% below its 2016 peak. Market reports suggest that price inflation has been limited by some substitution away from pork.
- Chinese Government statistics indicate that the country's sow herd was 23.9% smaller than a year earlier in May with the total pig population down 22.9%. Falling domestic supply has raised import requirements, and pork imports climbed by a fifth in the first

five months of the year. A knock-on effect of tight pork supplies has been to boost imports of other proteins, including beef, lamb, milk powder and seafood.

- EU exports of pork to China/Hong Kong rose by more than 70% year-on-year between March and May, though they did fall short of their 2016 peak. Sales of fifth quarter products also rose considerably.
- Strong demand from China resulted in a surge in EU farmgate prices in the spring. However, the monthly pace of price rises quickly slowed from a peak of 19% in April to 2-3% through May and June. After three weeks of only marginal gains, the EU average price for grade E pigs then eased slightly in the second week of July. Price forecasts for Germany signalled further declines in the third week of the month before stability in the final week of July.
- Though down from a peak premium of over 6%, the EU average was still 4% above the UK average in mid-July. For context, the EU average had run at a 15-20% discount to UK levels through much of Q1 2019. In recent weeks, a falling sterling has helped shield the UK price in euro terms from the rising farmgate price in the UK (a 10% increase since mid-April has been limited to 5.3% when prices are quoted in euro).

Iain Macdonald, July 2019