



MARKET REPORT - OCTOBER 2021

Purpose: *To provide an update on the cattle, sheep and pig markets and highlight the general economic conditions in which the red meat sector has been operating.*

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AHDB

All deadweight price data used in this report is supplied to QMS by AHDB, who collect the data from reporting abattoirs each week and publish a consolidated set of data, regionally within GB for cattle, and GB-wide for sheep and pigs.

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1.0 Cattle Update

1.1 Farmgate prices – prime cattle

- 1.1.1 After falling by around 1.5% between late August and early October, prime cattle prices recouped around half this decline in the second half of October, ending the month averaging 417.5p/kg at reporting Scottish abattoirs.
- 1.1.2 Prices held around 9% above year earlier levels for a fifth month in October, while the increase over the five-year average widened slightly to 13% towards the end of the month.
- 1.1.3 Prime cattle prices have remained at record levels for the time of year, holding 1-2% above 2013 levels, though are well below the record high when adjusted for inflation.
- 1.1.4 R4L steers rose to 423.1p/kg at the end of October, placing them within 0.4% of the summer peak and slightly closer to their April high (432p/kg) than June low (411p/kg). The consistent premium for R4L heifers over steers of the first half of 2021 has been less common since July, and R4L heifers ended October at 421.9p/kg. -U3 young bulls fell sharply in the final week of October, to 406.3p/kg, having fluctuated around the 415p/kg mark for three months.
- 1.1.5 As October progressed, the narrowing of Scottish premia over E&W began to reverse. The prime cattle average went from a low of 2.1% above the E&W level in the first week of the month to close October 2.9% higher. Meanwhile, having slipped marginally below E&W levels for the first time, R4L steers ended the month 0.5% higher.
- 1.1.6 Nevertheless, these premia had been around 5.5% and 3% respectively in October 2020.
- 1.1.7 A relatively tighter supply of cattle in E&W than in Scotland is likely to be a factor in the smaller price differential compared to recent years. Given this supply-side context, a more significant processing labour shortage in Scotland could be weighing on relative prices.
- 1.1.8 At auction marts in Scotland, prime steers continued to average around 230p/kg in October but heifers softened towards 230p/kg from closer to 240p/kg in September.

1.2 Availability and slaughter

- 1.2.1 BCMS cattle population data continues to point to tight supply in the short-term. In July, there were 0.9% fewer cattle aged 18-30 months on Scottish farms than a year earlier, with a 4.4% shortfall at GB level.
- 1.2.2 However, at 12-24 months, numbers were up marginally across GB and by 2.5% in Scotland, so the situation will begin to change as spring-2020 born cattle reach abattoirs in greater numbers. A younger slaughter profile will lead to an earlier build in Scotland.
- 1.2.3 The prime cattle kill at price reporting abattoirs in Scotland remained below the year-to-date weekly average and seasonal five-year average in October. Numbers were the same as September, compared to an average rise of 4.3% over the previous five-years.
- 1.2.4 Although weekly slaughter did lift by around 5% from September at E&W reporting abattoirs, it also remained below the year-to-date weekly average in October.
- 1.2.5 Defra data for September shows that prime slaughter at GB abattoirs fell by 6.2% from 2020 compared to a 4.8% fall in the first nine months. In September, a 9% decline in E&W more than offset a 4% increase in Scotland.

1.3 Mature cattle market

- 1.3.1 Slaughter of mature cattle has also been lower than in 2020 at GB abattoirs, falling 6.7% in the first nine months (though Scottish abattoirs have handled 5% more). There was a 12% decline in September, with falls of 13% in E&W and 9% north of the border.

- 1.3.2 At reporting Scottish abattoirs, where slaughter has been well above the year-to-date weekly average since July, cow prices continued to decline seasonally in October. However, the pace of decline slowed from 6-7% in September to around 4% in October. O+3 grades declined from 312/kg at the end of September to close October at 298p/kg.
- 1.3.3 Tight beef supply relative to 2020 continued to underpin cow prices, which closed October 9% higher on the year and 15% above the five-year average.

1.4 Market supply and retail demand

- 1.4.1 UK market supply (production + imports – exports) was significantly lower than 2020 levels through June and July but then rebounded 2% above year earlier levels in August as a significant increase in imports more than offset a reduction in production and slightly higher exports.
- 1.4.2 In the first eight months, net supply was 1.8% below 2020 levels with reduced production and imports more than offsetting the impact of reduced export volumes.
- 1.4.3 Kantar data for the 12 weeks to October 3rd points to a softening of retail demand for fresh beef in GB with household spend only 0.9% higher than 2019 while the share of households buying beef and the frequency of purchase fell by around 2% on 2019; likely driven by pent-up demand for dining out.
- 1.4.4 Category data signalled stronger sales for processed beef, with spend on burgers up 13% on 2019, while the amount of money spent on cooked meats remained above 2020 levels.
- 1.4.5 Fresh beef retail price inflation remained relatively weak, with prices averaging 3% higher than two years ago and down a fraction on 2020. It is possible that strong competition between retailers added to by increased levels of shopping around by consumers as public health concerns have dissipated are keeping retail prices anchored for now.
- 1.4.6 In ONS consumer price data for September (CPIH), the beef & veal index was at 96.8 on a 2015=100 scale whereas the R4L steer price was around 15.5% above 2015 levels in September, highlighting a squeeze in the supply chain.

1.5 UK imports

- 1.5.1 According to HMRC data, August was the fifth straight month of year-on-year growth in beef imports to the UK, and the third month of import volumes exceeding the five-year average. The growth rate on 2020 held at 16% for a second month while the rise above the five-year average widened to 8.5%, likely reflecting the overall tightness of supply and the rise in demand for imports from the catering sector.
- 1.5.2 Beef imports from the EU rose by around 14% on the year and by 12% on the five-year average in August.
- 1.5.3 While the strong recovery in imports from non-EU sources continued to drive overall rates of increase higher, likely reflecting demand from catering businesses for higher value cuts at competitive prices, the pace slowed in August with the non-EU share of imports easing to a five-month low of 3.7%.
- 1.5.4 For additional context, non-EU imports remain well below their five-year average, reflecting a longer-term downwards trend before the pandemic.

1.6 Irish Republic market

- 1.6.1 Prime cattle slaughter remained at a seasonally high level in October but did dip below the 2016-18 average. Increased supplies of younger cattle have been coming on stream while a previous shortage of older cattle has worked its way out of the system.

- 1.6.2 While there was a marginal trend lower in October, R3 steer prices remained well-anchored around 2-3% below their summer peak and 15% above year earlier levels.
- 1.6.3 A rise in sterling placed downwards pressure on Irish prices in October, and the R3 steer slipped from an average of 359p/kg in September to 353p/kg in the second half of October.
- 1.6.4 The Scottish premium (R4L v R3 steers) rose from 16% at the start of October to end the month at 20%, opening a more significant gap on the 2020 average of 14%.

1.7 **UK exports**

- 1.7.1 UK beef exports fell back below June and July levels in August and while still holding slightly above 2020, they did fall 3% short of their five-year average having been above it in the previous two months. Tight domestic supply remained a constraining factor.
- 1.7.2 Although exports to EU countries were at their second highest of the year in August after July, they fell 7% below 2020 levels and by 16% on the five-year average.
- 1.7.3 UK beef export performance outside the EU continued its mixed picture in August. On one hand, volumes slipped to a four-month low, but on the other hand, they were up 38% on the year and by 75% on the five-year average.

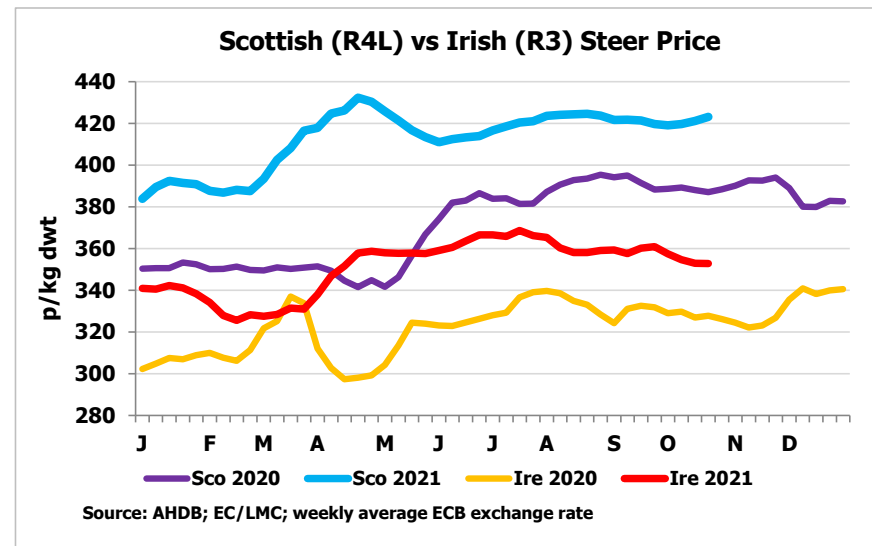
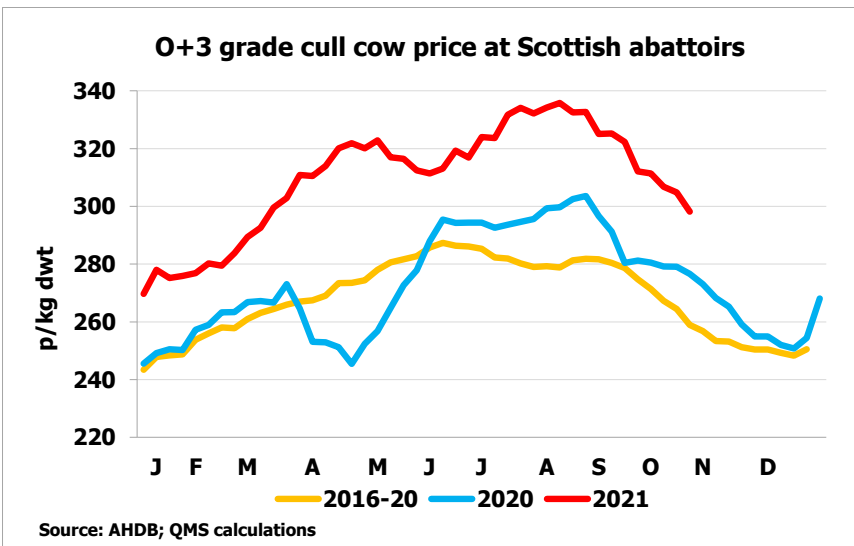
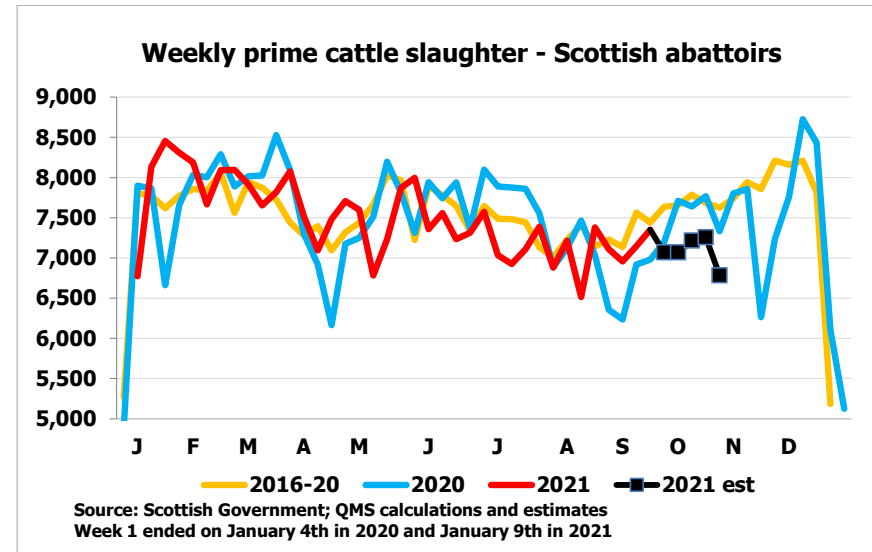
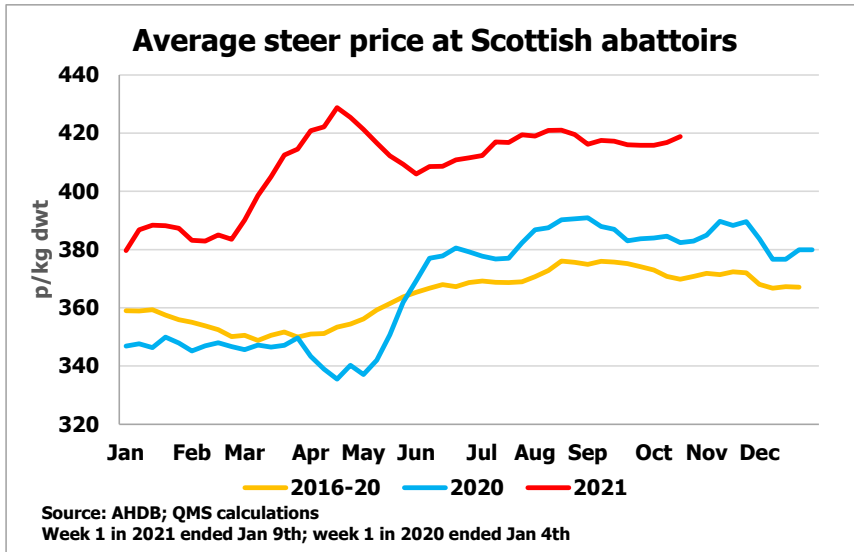
1.8 **By-product market**

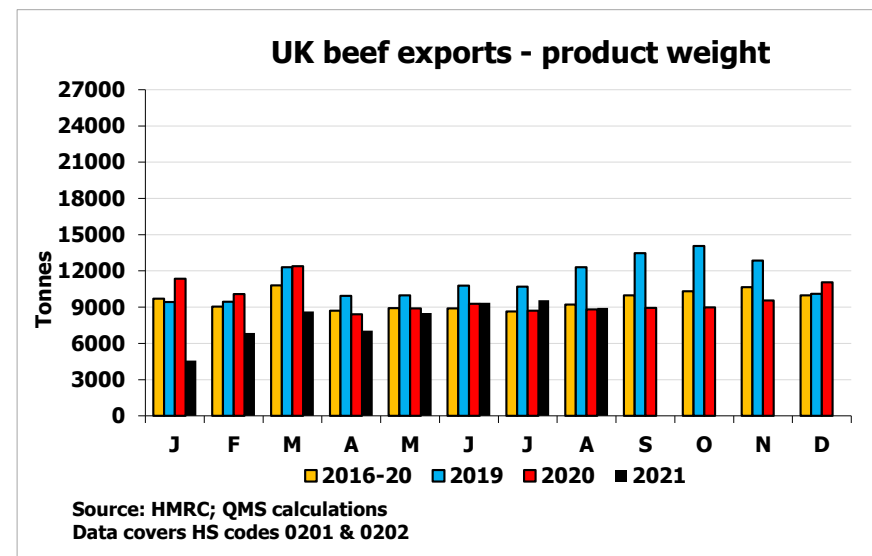
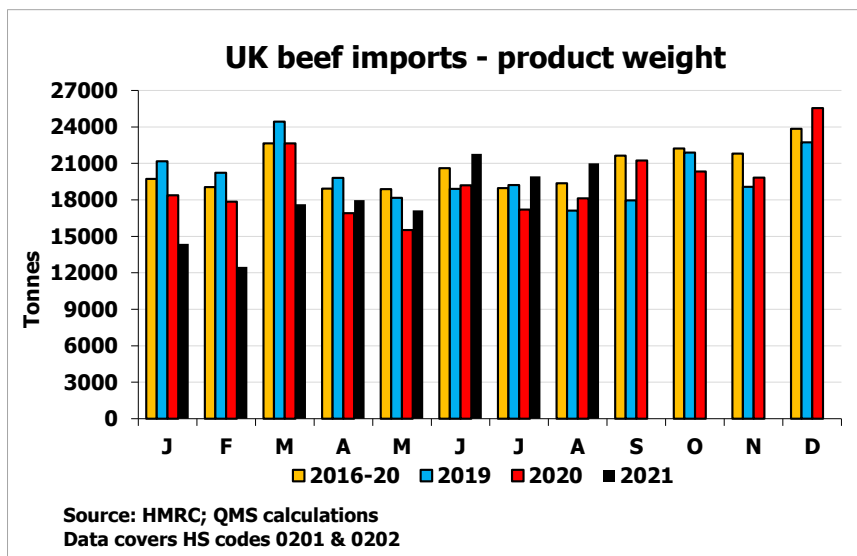
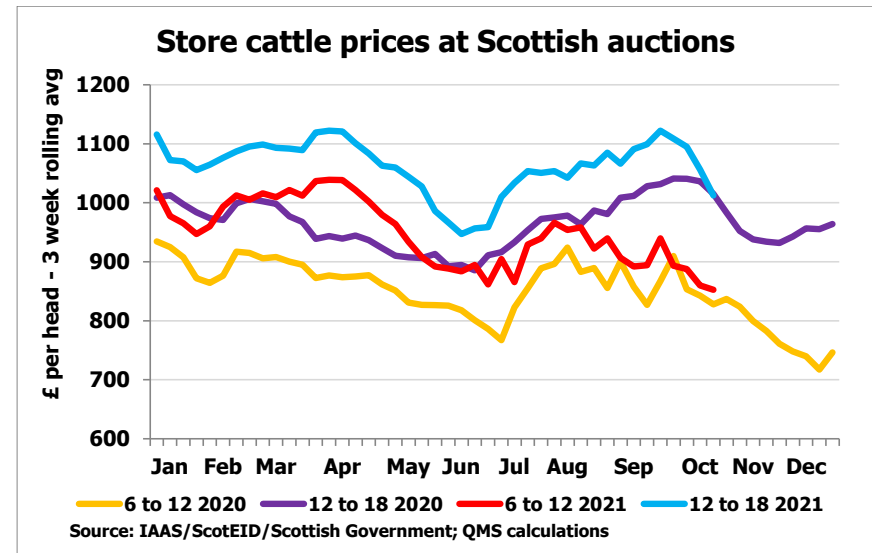
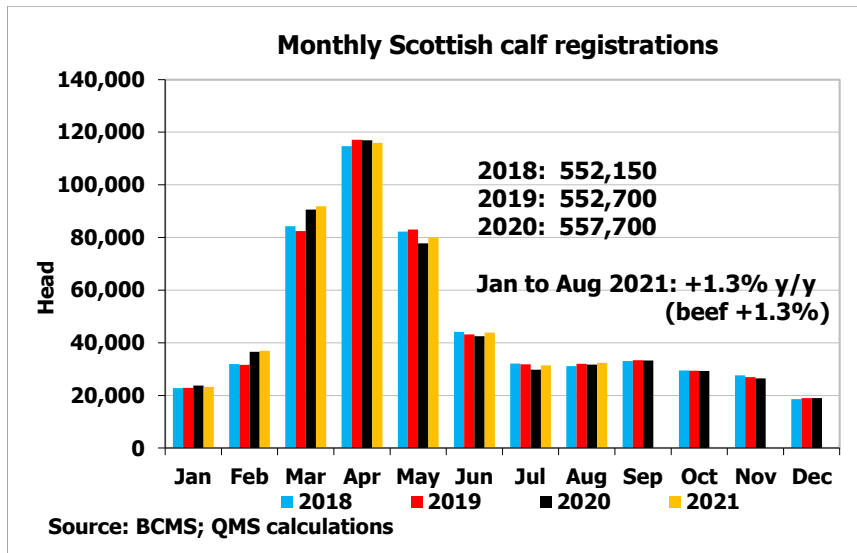
- 1.8.1 After steadying in September, the upwards trend in US steer by-product value resumed in October, rising 6% during the month, although a slightly stronger sterling softened the rise in p/kg. As October ended, by-product, including hides, offal and fats was valued at 26.2p/kg lwt, almost double 2020 levels in USD and up 85% in sterling.

1.9 **Store cattle trade**

- 1.9.1 At Scottish auctions, store cattle marketings peaked in the first half of October before slipping back. Over the four weeks, sales of steers at 6-18 months were down 2.5% on the year, having been down closer to 9% in the previous four weeks.
- 1.9.2 Prices for store cattle showed a sharp season decline through October. The 6-12-month group averaged 9% cheaper than in September, at £852, while the 12-18-month group fell 6% to £1,044. However, they ended the month at £821 and £960 respectively.
- 1.9.3 Store cattle remained more expensive than in 2020, with both groups around 3.5% higher. This was similar to September for the younger group but a slowdown from 7% for the older group.

1.10 Cattle Charts





2.0 Sheep Update

2.1 Farmgate prices – prime sheep

- 2.1.1 After slumping in mid-September, lamb prices at GB reporting abattoirs rebounded at the beginning of October and trended higher through the month.
- 2.1.2 Medium R3L carcasses closed October at 534p/kg, which was around 6% higher on the month and their highest since late July; though still 26% below their new season peak.
- 2.1.3 Lamb prices spent October around 20% above year earlier levels and 40% above their five-year average, with the month often seeing the lowest prices of the season in the past.
- 2.1.4 At Scottish marts, after initial recovery at the end of September, lamb prices were more stable around the 235p/kg mark until late-October when they began to pick up strongly again. The momentum then built into November and prices averaged 248p/kg in the week to November 3, jumping to 272p/kg on Thursday 4th.
- 2.1.5 Auction prices showed similar margins over historical levels as deadweight prices through October, but the market then cleared up more than 30% on the year on November 4th.
- 2.1.6 Having averaged around 2% below E&W levels between mid-July and late September, prices at Scottish marts were more similar to E&W levels in October.

2.2 Availability and slaughter

- 2.2.1 Combining June Census results for Scotland and England points to a reduction in the GB lamb crop of 2.4% on 2020, with numbers down 3.5% on the five-year average.
- 2.2.2 In contrast to England, Scotland's lamb crop was around 1% larger than 2020, underpinned by the lambing rate matching the 2020 record, pointing to localised difficulties at lambing rather than widespread disruption like in 2013 and 2018.
- 2.2.3 Having trailed 2020 levels significantly in Q3, auction volumes at GB marts edged higher in October; they also moved 7% above their five-year average.
- 2.2.4 At GB marts, the weekly average in October was also the highest of the season-to-date, whereas in 2020, numbers had been higher than October in July and September. Numbers then dipped at the start of November, perhaps unsurprisingly underpinning market prices.
- 2.2.5 At Scottish marts, having been around 20% lower than last year in August and September, marketings rose slightly in October, moving around 15% above the five-year average.
- 2.2.6 Marketings also continued to pick up seasonally in Scotland, averaging 7% higher than September, following increases of around 10% in the previous two months.
- 2.2.7 At GB abattoirs, prime sheep slaughter remained considerably lower than 2020 levels into September, falling 17%. Over the June to September period, slaughter fell 15% on 2020 and by 11% on the five-year average.
- 2.2.8 The scale of the decline in slaughter so far this season suggests that throughput will begin to recover over the winter and into 2022, with auction data pointing to this in October.

2.2.9 In September, the year-on-year fall in slaughter at E&W abattoirs, at 18%, was much steeper than in Scotland, where the reduction was 5%. In late September, weekly slaughter approached its highest of the year in Scotland.

2.3 Mature sheep trade

2.3.1 Having contracted by more than 15% in 2020, ewe slaughter at GB abattoirs continued to fall heavily the first nine months of 2021, down 22%.

2.3.2 October saw weekly cull ewe marketings average 6% lower than September at Scottish marts. While still below 2020, the decline narrowed to 3% from 7% in the previous month.

2.3.3 Tight ewe supply into abattoirs and auctions continues to underpin ewe prices at Scottish marts, which averaged roughly 15% higher than last year in October.

2.3.4 Despite fewer ewes being traded at Scottish marts than in the previous month, prices average lower, at around £68 compared to £73 in September.

2.4 Market supply and retail demand

2.4.1 After a brief bounce higher than 2020 in May and June, the sharp decline in new supply of sheepmeat added to the UK market returned in July and August, with volumes down 9-10% as reduced domestic production was only partially offset by lower net exports.

2.4.2 In the first eight months, new supply fell by around 7% on 2020.

2.4.3 According to Kantar, GB household spending on fresh lamb was still elevated by 11% on 2019 in the 12 weeks to early October. While there is evidence of significant retail price inflation, with the average selling price up by 8% on 2019 and 4% on 2020, the volume sold was still 2.5% higher than in 2019 despite tight supply. Small increases in the share of households buying and frequency of purchase underpinned sales growth from 2019.

2.5 UK imports

2.5.1 While sheepmeat imports to the UK were above 2020 levels for a third time in four months in August, up 7%, they still trailed the five-year average by 12%.

2.6 NZ market update

2.6.1 NZ farmgate prices have made a firm start to the new season, averaging around 35% above 2020 levels. In sterling, prices have reached £5/kg in early November.

2.6.2 While Beef + Lamb NZ are projecting a slightly increased lamb crop for the 2021/22 season due to favourable weather and market prices remain attractive in Europe, the rebalancing of NZ exports towards China is likely to continue given that wholesale lamb prices remain firm at around £8/kg in early November.

2.7 UK exports

2.7.1 Although UK sheepmeat exports reached a year-to-date high in August, they showed continuing weakness, down 19% on 2020. While still 16.5% below the five-year average, this compares with an average shortfall of 22% in the first seven months.

2.7.2 Unlike 2020, UK sheepmeat exports to the EU followed their seasonal trend in August, reaching a new high for the year, with the movement of Eid al-Adha further forward into July

perhaps limiting export activity in July this year. Monthly shipments were 18% lower than last year and 17% below the five-year average. Fresh carcasses accounted for 78% of sales in August, compared to 75% in the year-to-date.

- 2.7.3 Exports to non-EU countries remained weak, down more than a third on the year and by 6% on the five-year average, accounting for only 5.5% of monthly shipments.

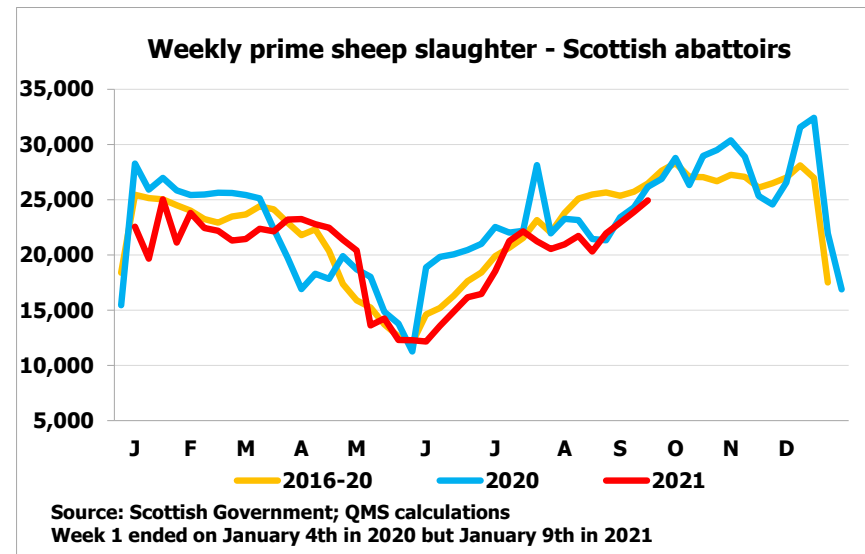
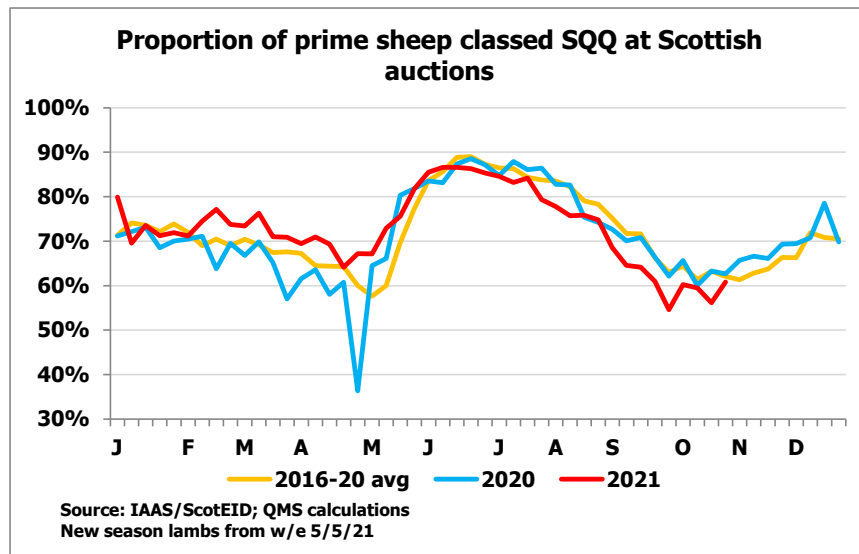
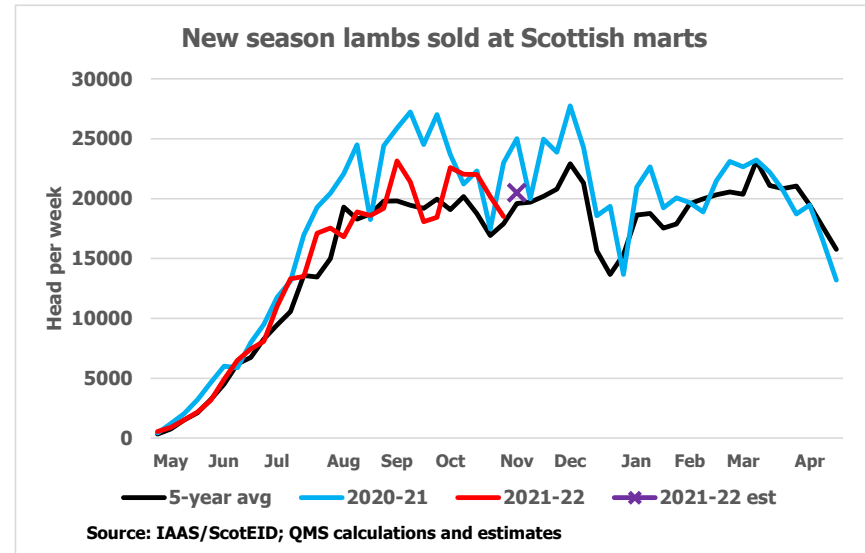
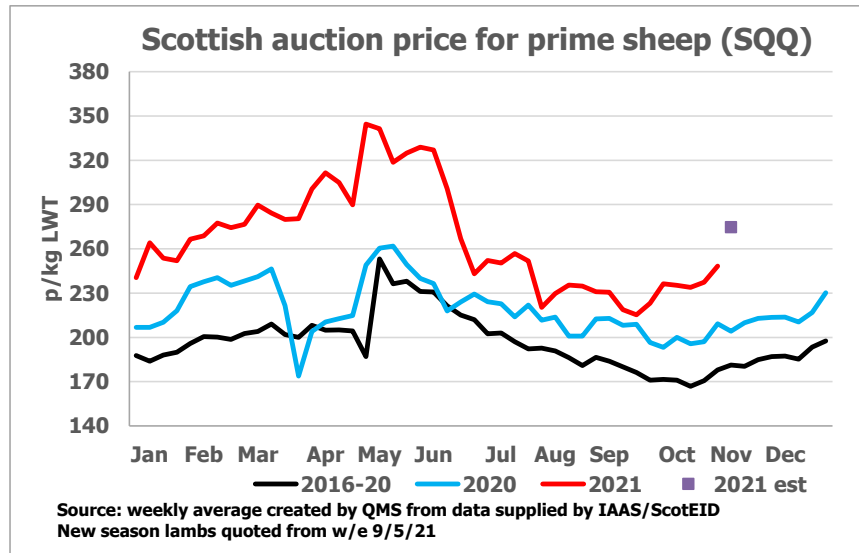
2.8 French lamb market

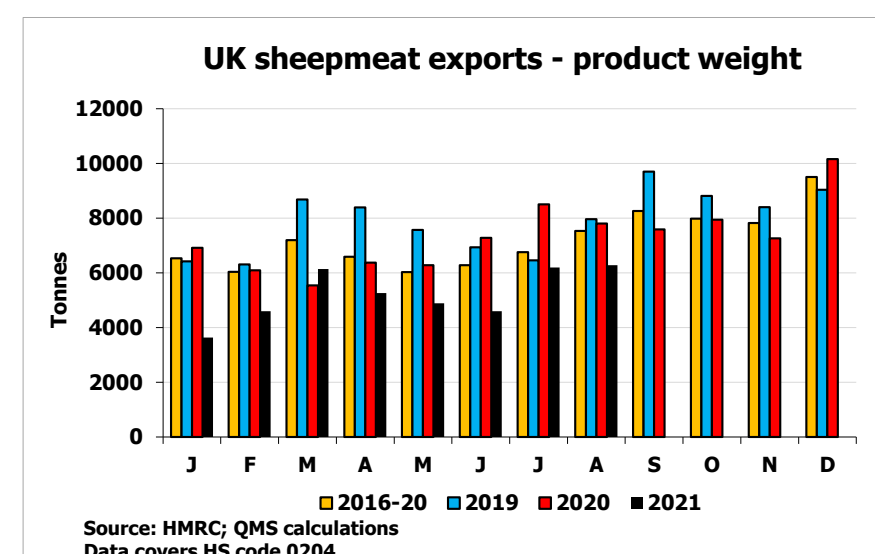
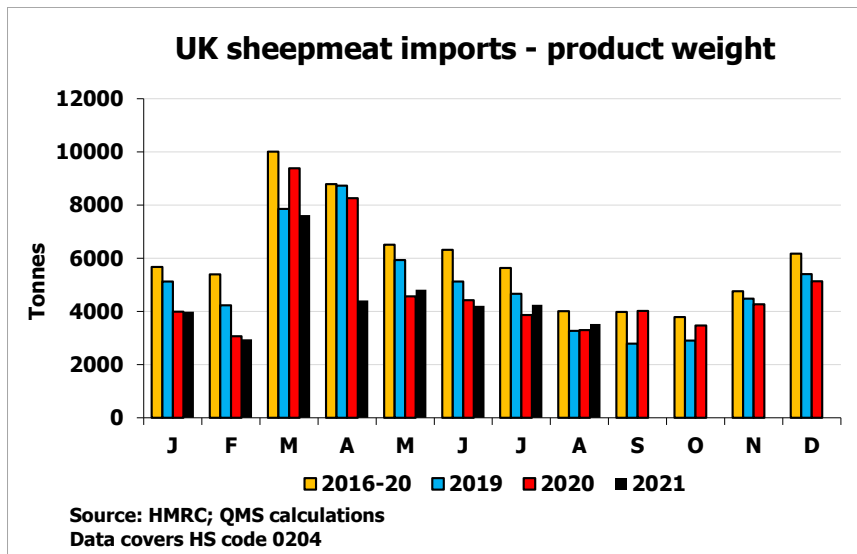
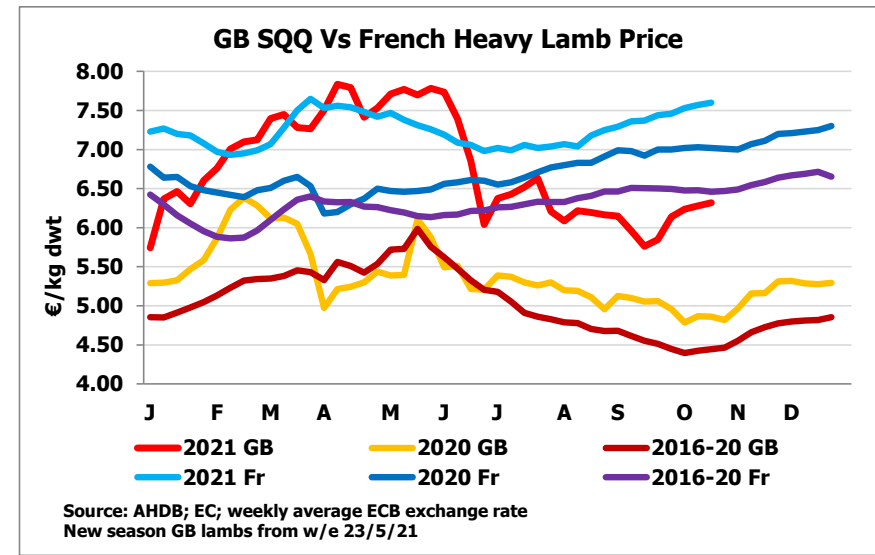
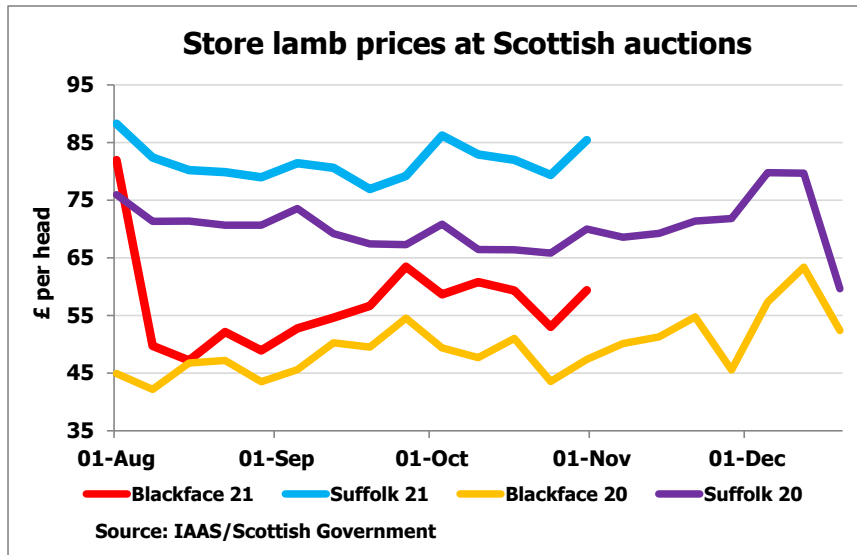
- 2.8.1 In France, farmgate prices continued to climb seasonally through October, with local sources pointing to tight supply. Heavy lambs ended the month 20% dearer than GB lambs, equivalent to £6.41/kg.
- 2.8.2 The wholesale price of imported R grade carcasses at Rungis market in Paris rebounded from a year-to-date low in the first half of October, before steadying at a level around where the market had reached at Eid al-Adha. Imported carcasses were 24% more expensive than a year earlier compared to an 8% lift for French farmgate prices.
- 2.8.3 GB export competitiveness in the French market held firm in October, as prices at Rungis traded 11-16% higher than the GB deadweight price, compared to an average gap of 9% in the first nine months. However, the difference is expected to have returned to its prior average in early November, with imported carcasses trading at £6.20/kg.

2.9 Store lamb trade

- 2.9.1 After running roughly 15% higher than 2020 through August and September, the margin widened to around 25% in October, with values 40-50% above the five-year average.
- 2.9.2 During October, 5% more store lambs were sold at Scottish marts than last year, taking numbers around 1% higher than last year for the season-to-date, in line with the slightly increased lamb crop in June.
- 2.9.3 Store lamb prices cleared 23% higher than last year in October, averaging £72.20, up from £58.50.
- 2.9.4 Blackface store lambs averaged around £59, Cheviots £69, Texels £83, and Suffolks £84 during October, with these all being higher than in September and 20-23% higher than last year. Blackface numbers continued to fall short of autumn 2020 levels, but the other three breeds remained higher.

2.10 Sheep Charts





3.0 Pigs Update

3.1 Farmgate prices – prime pigs

- 3.1.1 While October saw prime pig prices continue to slide, with a seasonal trend added to by the combination of an increased pig supply but an insufficient labour supply to cope with it, there was considerable week-to-week volatility in the GB Standard Pig Price (SPP).
- 3.1.2 Having ended September with a record weekly price decline of 4.75p/kg, the next four weeks saw alternating sizeable movements. However, as the declines, averaging just over 4p, outweighed the increases, averaging just over 2p, the SPP closed October 2.8% lower than at the end of September, at 144.7p/kg.
- 3.1.3 At the end of October, the SPP was down just over 10% from its annual peak in the final week of July. Between 2014 and 2020, the SPP decreased between July and December in five of seven years, averaging 8.5%. In 2016 and 2019, a surge in the global market driven by import demand from China had led to unusual upwards pressure.
- 3.1.4 Prices have gone from around 2% behind 2020 levels in late-July and early August to trailing by 7% in late October. Meanwhile, having been 5% above the five-year average, they closed October 5% below it.

3.2 Evidence of market disruption

- 3.2.1 Highly productive pig farming leads to fast growth rates and delays in processing quickly result in pigs exceeding target carcass weights, leading to heavy price discounts. Carcasses weighing over 105kg generally trade around 20% cheaper on a price per kilo basis than those weighing 80-89.9kg.
- 3.2.2 In July and August, only around 1.5% of standard carcasses had weighed over 105kg but by late-October this had passed 9%. In the distressed market conditions of early 2021, due to the temporary closure of some processing sites, this proportion had been 5-6%.
- 3.2.3 This year's increase in carcass weights between summer and autumn has out-paced the historical average, with a lift of 6.6% from around 86kg at the beginning of July to nearly 92kg in late October much faster than the 2.3% average in the previous five years.
- 3.2.4 Having peaked at around 5% last winter, year-on-year increases in carcass weights had dipped below 1% by late July. However, they exceeded 5% again in October.
- 3.2.5 Until late-September, higher weights had been holding the average carcass price in front of 2020 levels and 8-10% above the five-year average. However, carcass value trailed 2020 levels throughout October, ending the month down 2.5%, while the margin over the five-year average dropped below 3%.

3.3 Availability and slaughter

- 3.3.1 England's June census results showed a 6% increase in fattening pigs compared to 2020, while Scotland's reported a lift of 2%.
- 3.3.2 Defra slaughter data has shown a 4% increase in GB abattoir throughput over 2020 in the first nine months. However, in Q3, numbers were only up marginally on 2020, quickly leading to a backlog on farms given the strong increase in supply.

- 3.3.3 Slaughter of standard pigs at GB price reporting abattoirs had edged higher in September from its year-to-date low in August, with a more significant lift in weekly throughput of around 4.5% taking place in October.
- 3.3.4 Labour shortages are believed to be more significant in butchery than in slaughter, limiting the ability of processors to break carcasses down into a range of cuts and maximise overall carcass value. Exporting minimally processed carcasses for butchery abroad is one option under these market conditions, but this would reduce economic value added domestically.
- 3.3.5 At Scottish abattoirs, the year-on-year decline in prime pig slaughter continued to accelerate in September, reaching 37%, with weekly slaughter averaging below 5,000 head for a fifth month, compared to an average of 6,900 in the same period of 2020. While the suspension of Scotland's largest pig site's approval for China has made it less economic to process pigs there, labour shortages elsewhere may see this calculus change.

3.4 Cull sow trade

- 3.4.1 While sow slaughter at Scottish abattoirs was 29% lower than last year over the first nine months as a whole, throughput was 2.5% higher between April and September.
- 3.4.2 At GB level, the sow kill returned to year-on-year expansion in September after two months of declines, running 14% above 2020. Over the first nine months, slaughter exceeded 2020 levels by 2.6%.
- 3.4.3 Based on UK trade data, after a weak start to the year when exports fell sharply, sow prices are estimated to have rebounded in March and exceeded year earlier levels between May and August. However, export prices dropped to a six-month low in August.

3.5 Pigmeat supply and retail demand

- 3.5.1 UK pigmeat supply is estimated to have continued rising strongly in August, up 12% on a year earlier, as imports returned to marginal growth while exports continued to slide sharply and elevated carcass weights underpinned domestic production.
- 3.5.2 Kantar retail category data for the 12 weeks to October 3rd signalled that pigmeat demand held firm in GB. Spending on fresh pork was around 10% above 2019 levels, supported by small increases in penetration and frequency. In the processed ranges, 12% more was spent buying fresh sausages and cooked meats, though demand for bacon rashers was more muted, with spending growth slowing to 3%.
- 3.5.3 While average prices for fresh pork, cooked meats and sausages were 7-8% higher than 2019, most of the inflationary pressure came in 2020. Meanwhile, bacon rashers were barely higher in price than in 2019 and were 5% cheaper than in 2020.

3.6 UK imports and EU market conditions

- 3.6.1 UK pork imports fell slightly relative to last year for a fourth month in August but the pace decelerated further, with volumes down 1%. Nevertheless, they remained nearly 20% below the five-year average.
- 3.6.2 Although, imports of bacon & ham held above 2020 levels for a fifth month, and the margin widened to 20%, volumes still fell short of their five-year average by 14%.
- 3.6.3 The net result was a second month of increased pigmeat imports from 2020, up 5%, but a continuing substantial shortfall on the average for 2016-20 (-17%).

- 3.6.4 EU pig prices have declined steadily since mid-June, with the grade E average falling 23% over 20 weeks, including a 4% reduction in October. However, forecasts for Germany point to greater stability in November, while wholesale prices have started firming.
- 3.6.5 The GB premium over the EU pig price averaged 34% in October, more than four times its mid-March to mid-June average. EU prices have slipped to 108.5p/kg, pressuring prices in GB supply chains due to the option of a cheap alternative from abroad.
- 3.6.6 After trailing year earlier levels by 14-16% between January and April, the decline in the average price of pork imports from the EU slowed sharply to 6% in May and 2% in June, reflecting the EU market rebound. However, with EU prices declining from mid-June onwards, the gap opened again in July and August, averaging 7% and then 10% cheaper.
- 3.6.7 While imported pork is looking cheap, the strength of domestic production and export market challenges mean that import requirements remain historically weak.
- 3.6.8 Nevertheless, the option of a cheaper alternative from abroad will be exerting downwards pressure on prices in the supply chain, particularly in the most price sensitive segments.

3.7 UK pigmeat exports

- 3.7.1 While UK pork exports edged above July levels in August and remained well above their January low, volumes still trailed 2020 levels by 28% and the five-year average by a fifth.
- 3.7.2 Although monthly trade with the EU was at its second highest of the year in August, volumes were still down 40% on last year and by 42% on the five-year average.
- 3.7.3 Exports to non-EU countries were down more than a fifth on August 2020 levels but past growth meant they still held 10% above the five-year average and accounted for 58% of shipments compared to a five-year average of 43%.

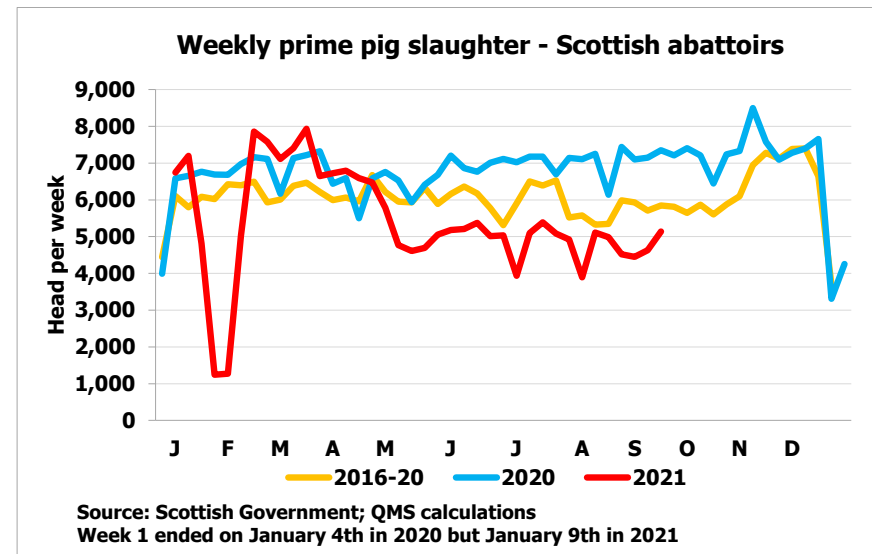
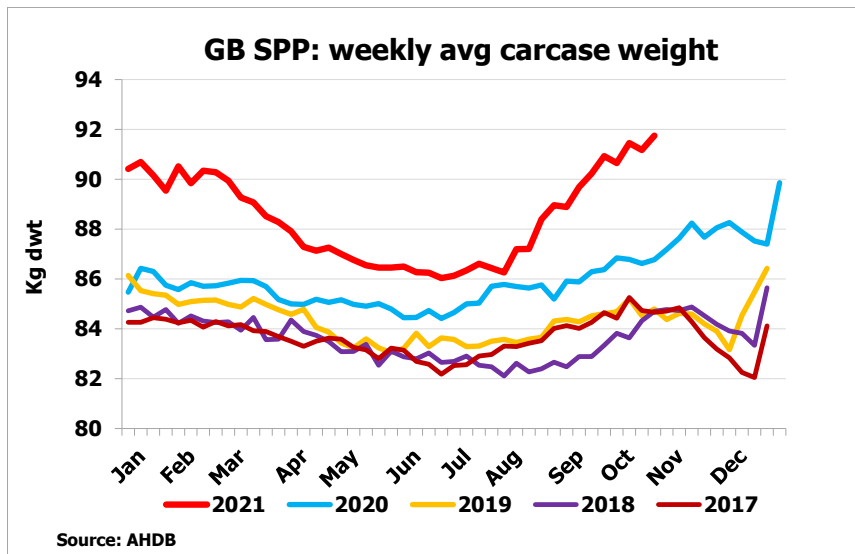
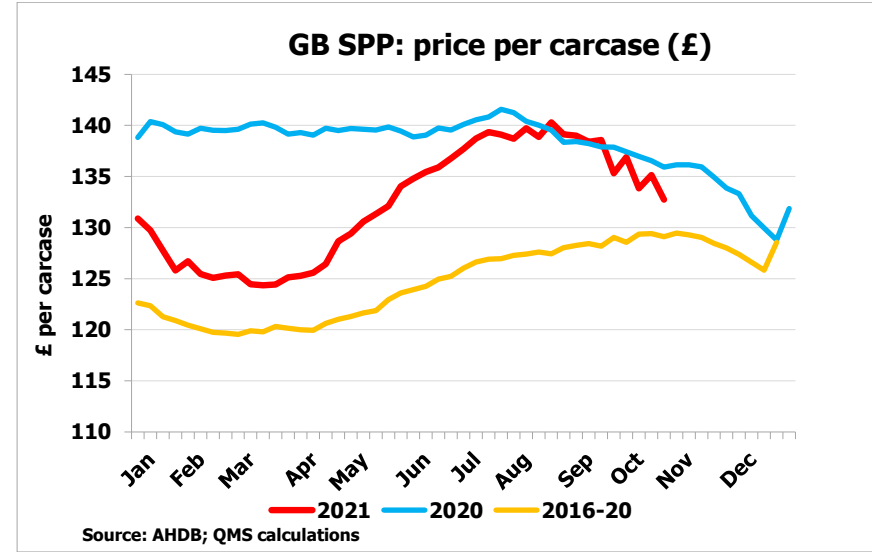
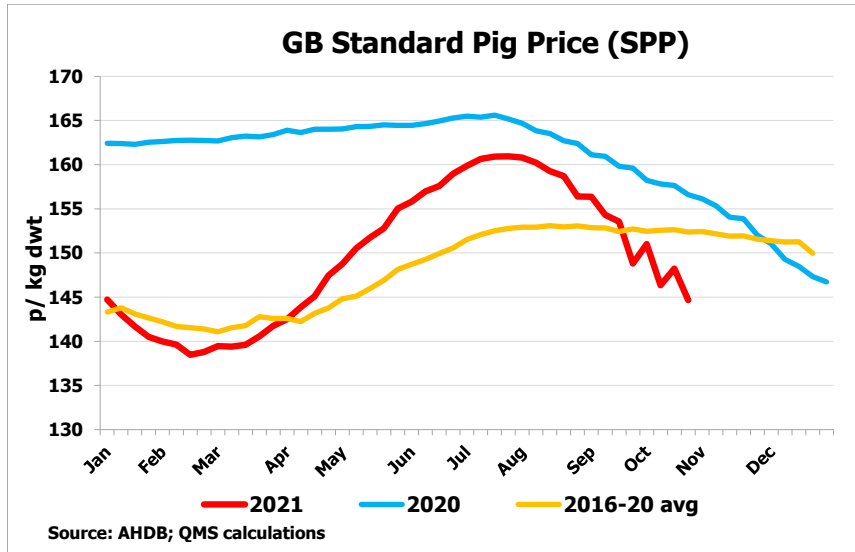
3.8 Chinese pork market rebalancing

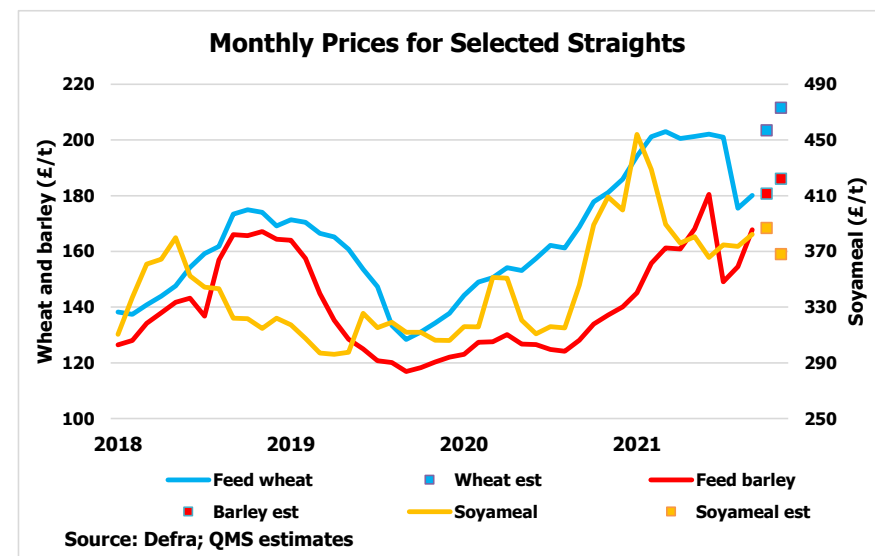
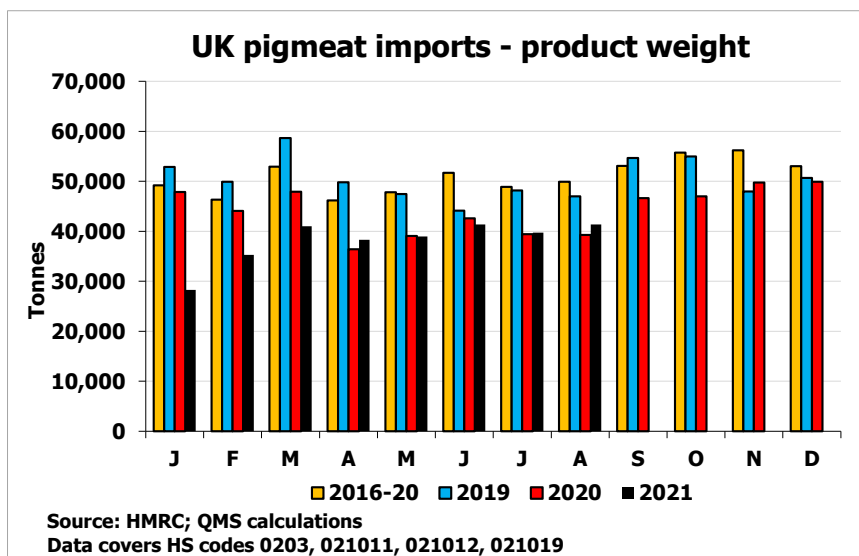
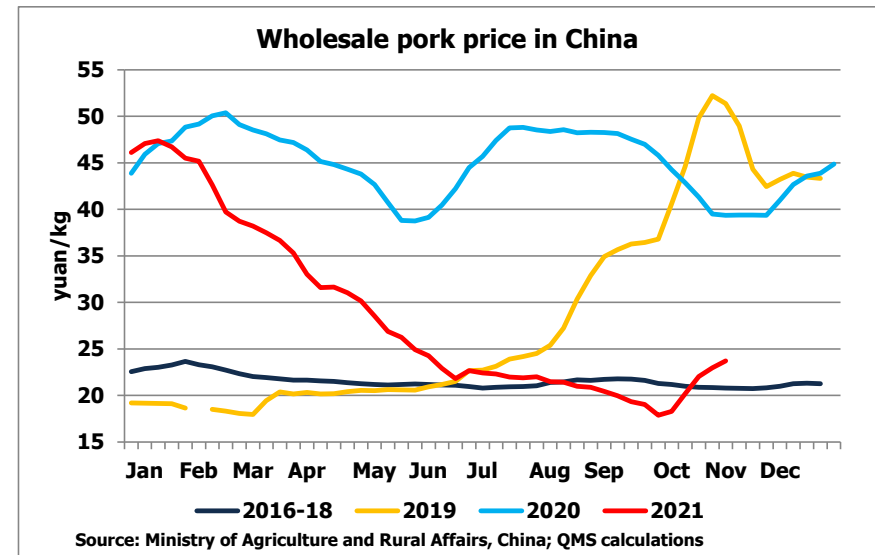
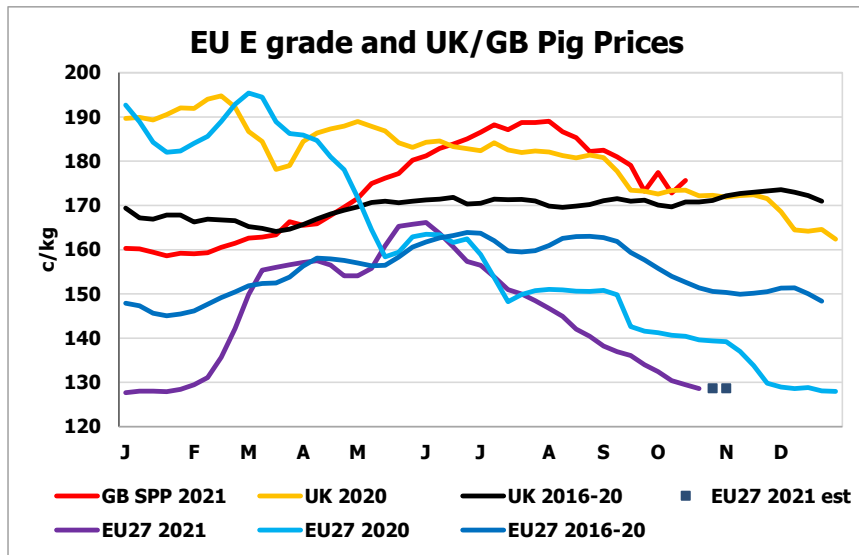
- 3.8.1 Exports to China/Hong Kong had underpinned overall pork export activity in recent years, with its share of UK export volumes climbing from below 25% in 2016-18 to 49% in 2020.
- 3.8.2 However, Chinese import requirements have fallen sharply since the spring and August was the fifth straight month of sharp year-on-year declines in UK exports, with volumes down more than a third. Nevertheless, they were still up 40% on their 2016-18 average.
- 3.8.3 Sustained declines in Chinese wholesale pork prices since January have ended and the market has rebounded sharply since the China Day holiday week in early October.
- 3.8.4 Local sources point to an improvement in demand as secondary processors have begun to build stocks of products like cured meats and sausages for the winter months, plus national pork reserve has reportedly been increased. Meanwhile, herd liquidation, which had driven the recovery in production is now leading to reduced availability for slaughter.
- 3.8.5 Wholesale pork prices have gone from 16% below their 2016-18 average in early October to 10% higher at the start of November, with the cost of pork recovering from a low of just over £2/kg up to around £2.60/kg. However, it had been worth £5.30/kg in January.
- 3.8.6 Live hog futures prices in China point to some further room for recovery in farmgate prices in late 2021.

3.9 Feed costs – additional pressure on margins

- 3.9.1 Defra's monthly straights prices for feed wheat and soyameal rose by 2-3% in September while barley jumped by closer to 9%. As a result, prices continued to exceed year earlier levels, with wheat up 7%, soyameal 10.5% and barley by 31%.
- 3.9.2 Since then, forecasts of the global grain market balance have been revised to suggest a tighter position forcing up futures prices beyond the highs of early 2021.
- 3.9.3 However, soyameal futures in Chicago have remained below their peak as global supply is expected to be well above demand in the coming year and the price of imported soyameal has fallen below November 2020 levels.
- 3.9.4 Defra figures for Q3 2021 indicated that compound pig feed was slightly cheaper than in the April to June period. While its year-on-year increase slowed slightly as a result, it was still considerable at 13%, and even if it were to stabilise in Q4, the increase would be 8%.
- 3.9.5 It should be noted, however, that the cost of compound pig feed remained slightly below the record highs of Q4 2012 to Q2 2013.

3.10 Pig Charts

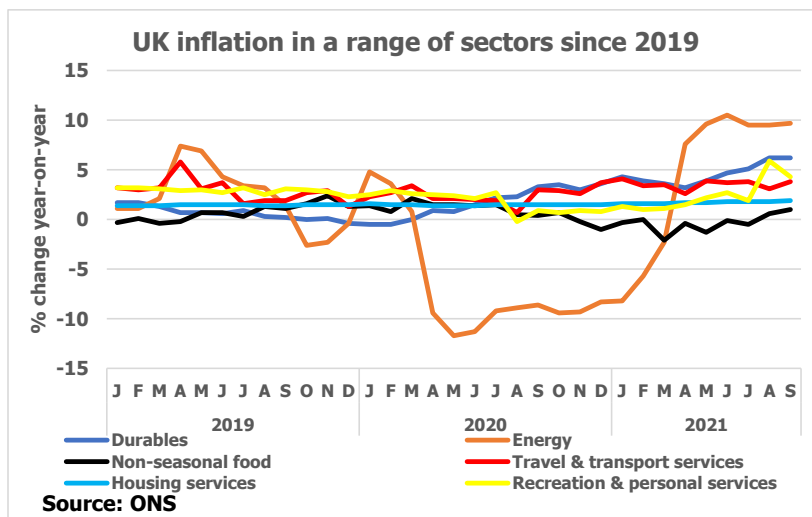




4.1 Business Environment

4.1 Supply chain pressures, a rising cost of living, consumer confidence and interest rates

- 4.1.1 Based on the International Monetary Fund's Primary Commodity Price System data, global commodity prices had surged by around 30% between March and September 2021, leaving them around 60% higher than twelve months before.
- 4.1.2 Prices for raw materials and components in manufacturing and construction first began to pick up in autumn 2020 as the global economy began to recover from the impact of the lockdowns of spring 2020, which drove up demand and spending on consumer goods while sharply reducing spending on consumer services.
- 4.1.3 Continuing imbalances between supply and demand due to a shifting consumption has led to prolonged shortages and delays in many sectors of the economy, and has clogged up ports across the world, where more goods are arriving than there is the capacity to unload and distribute. As a result, rising commodity prices have been passing through to consumer prices.
- 4.1.4 Rising production costs tend to pass through to final prices paid by end users at a lag and to a more limited extent. However, given that both the raw material prices and the cost of labour appears elevated in some sectors, the potential for pass-through must surely be elevated. Furthermore, strength of demand for many goods and elevated inflation expectations may lead retailers to feel greater power than normal to pass through higher costs to customers.

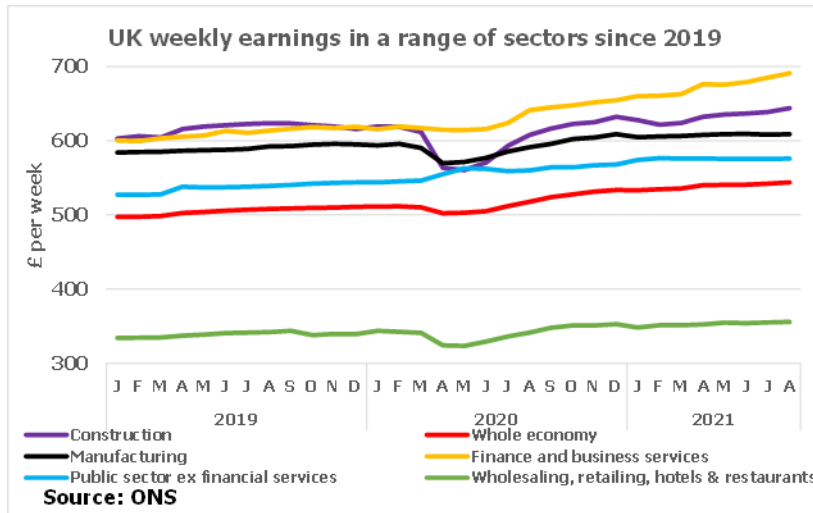


4.1.5 While UK inflation is expected to lift above 4% in late 2021 by the Bank of England, the overall rise in inflation is likely to be limited by weaker inflation in services prices than for goods prices, and services account for 56% of the inflation index. Services inflation tends to be more reflective of general economic trends like consumer spending than the cost of providing

services, and is less volatile. Between 2011 and 2020, annual services inflation ranged from 1.7% to 3.3%, with goods inflation ranging from -2% to +4.6%.

- 4.1.6 The more permanent elevated inflation appears, the faster the Bank of England will begin to increase interest rates from their emergency low levels of the pandemic. In early November, The Bank of England held interest rates and maintained its stock of asset purchases, with the prevailing view clearly being that inflation will begin to fall back after peaking at around 5% in the spring of 2022. However, it did provide guidance that interest rates increases will be needed to return inflation to its targeted level in two years' time.

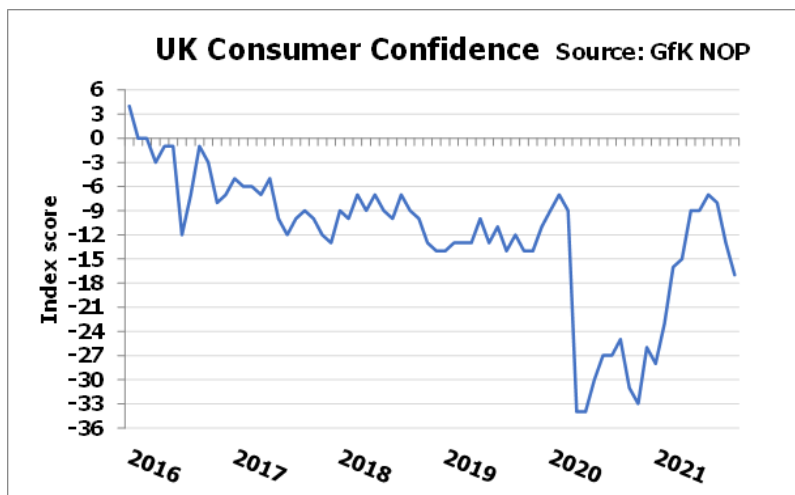
4.1.7 Policymakers will be closely monitoring wage data as a potential driver of elevated inflation. Indeed, if a tight labour market and rising inflation expectations lead on to higher pay settlements, and the knock-on increase in spending power then translates into increased spending, it could add further upwards pressure to the price of these goods and services.



4.1.8 While wage growth does appear to have surged between the spring and early summer of 2021, these pressures had dissipated somewhat by August, with a significant contributor to the growth rate being the fall in wages during the initial period of lockdown in 2020, in part down to the furlough scheme.

4.1.9 Earnings appear to be back on their previous steady upwards trend, and spikes due to labour shortages appear to be specific to small industry sectors rather than broad industry groups.

4.1.10 However, if the evidence points towards wage pressures becoming more broad, then the MPC will likely act more quickly than currently expected.



4.1.11 A further variable being monitored will be consumer confidence. The GfK/NOP's long running survey has signalled a sharp fall in confidence this autumn, likely linked to the fuel shortages of late-September/early October, press stories about potential problems with food supplies at Christmas, and rising energy costs. There have also been concerns about rising covid-19 cases in

England. If weaker consumer confidence leads to a reduction in spending growth then this will soften demand-side pressures on inflation, likely slowing the tightening of monetary policy.

4.2 Exchange Rates:

	w/e 7/11/21	October 2021			w/e 8/11/20	October 2020		
		Low	High	Avg		Low	High	Avg
€:£	85.1p	84.2	85.7	84.7	90.2p	90.2	91.4	90.7
\$:£	73.6p	72.4	73.9	73.0	76.8p	76.0	77.7	77.0
NZD:£	52.5p	50.9	52.3	51.5	51.5p	50.7	51.6	51.1
Euro rates sourced from the ECB; averages for USD and NZD rates calculated by QMS from daily rate published by the Bank of England								
Note: an increased value in pence means a fall in the relative value of sterling								

- 4.2.1 After spending most of Q3 2021 fluctuating between 85p and 86p, the value of the euro weakened against sterling in October, with the range easing to 84-85p. In October, sterling averaged 7% stronger on the year and up 6% on where it had closed 2020.
- 4.2.2 The outlook for monetary policy has become an increasingly important driver of the value of sterling. The growing expectation that the Bank of England would raise interest rates at its November Monetary Policy Committee meeting in order to soften inflationary pressures had bid up the value of sterling. However, sterling then fell back after Bank Rate was left unchanged, with the euro rising to around 85.5p.
- 4.2.3 Although a stronger sterling in 2021 coupled with greater trade frictions on exports to the EU than on imports has reduced the competitiveness of domestic products, sterling is still significantly weaker than its mid-2014 to mid-2016 peak.
- 4.2.4 In early October, interest rates were increased in New Zealand and the NZD has firmed by around 3.5% against sterling in the month since, leaving it around its highest levels of the pandemic, weakening the competitiveness of NZ sheepmeat exports.
- 4.2.5 The US dollar has trended higher against sterling since June due to a shift in monetary policy expectations in the US, with the focus moving towards a reduction in stimulus measures. Although US interest rates were also left on hold in early November, the dollar received a boost against sterling due to the UK decision being a greater surprise to financial market participants. However, the dollar remains weaker than before the US Presidential Election.
- 4.2.6 While input cost inflation has been a significant challenge for UK farming and red meat processing businesses, a weaker dollar has softened the lift in global commodity prices over the past year when converted into sterling. In a case of bad timing, this is now beginning to reverse, adding upwards pressure to input costs.