

QMS Monthly Market Update - August 2022

Purpose:

To provide an update on the key industry and economic factors driving cattle, sheep and pig markets in Scotland.

Prepared By:

Iain Macdonald, Market Intelligence Manager
Abby Tong, Market Intelligence Project Officer

Contact: info@qmscotland.co.uk

Date: 31/8/2022



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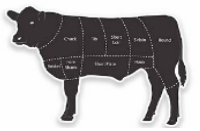
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Data Disclaimer: All deadweight price data used in this report is supplied to QMS by AHDB, who collect the data from reporting abattoirs each week and publish a consolidated set of data, regionally within GB for cattle, and GB-wide for sheep and pigs.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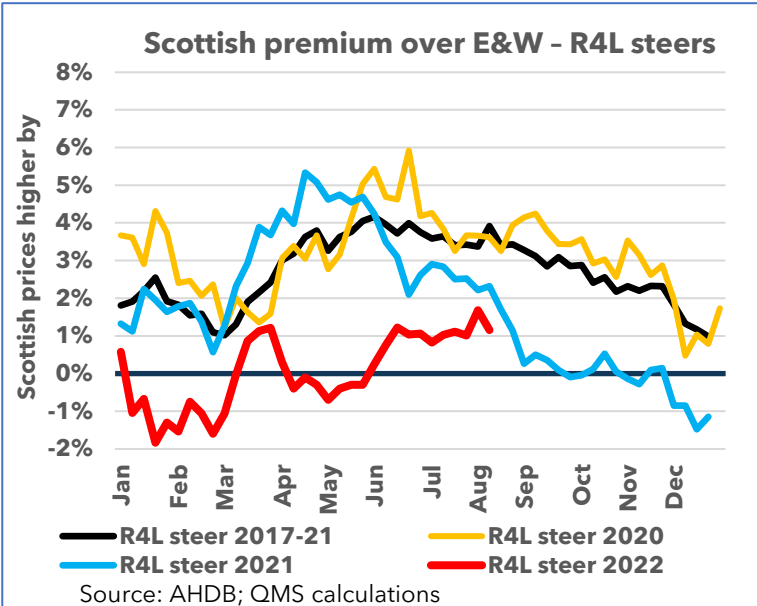
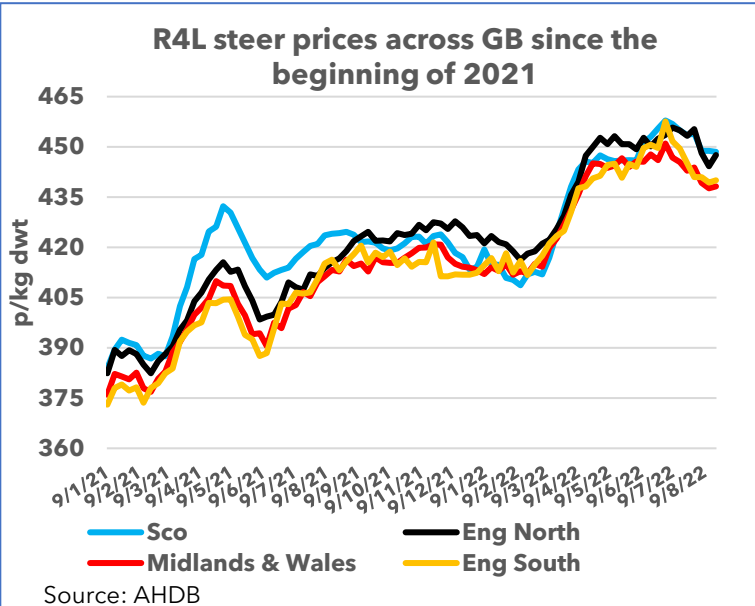
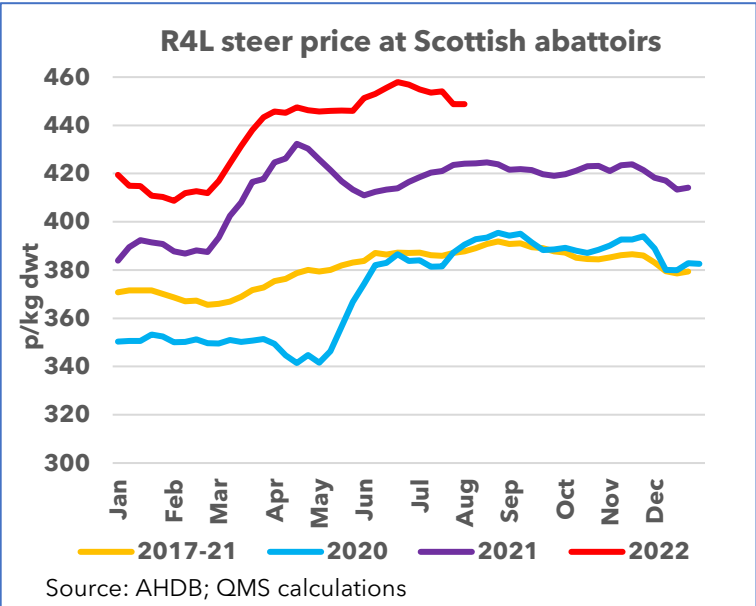
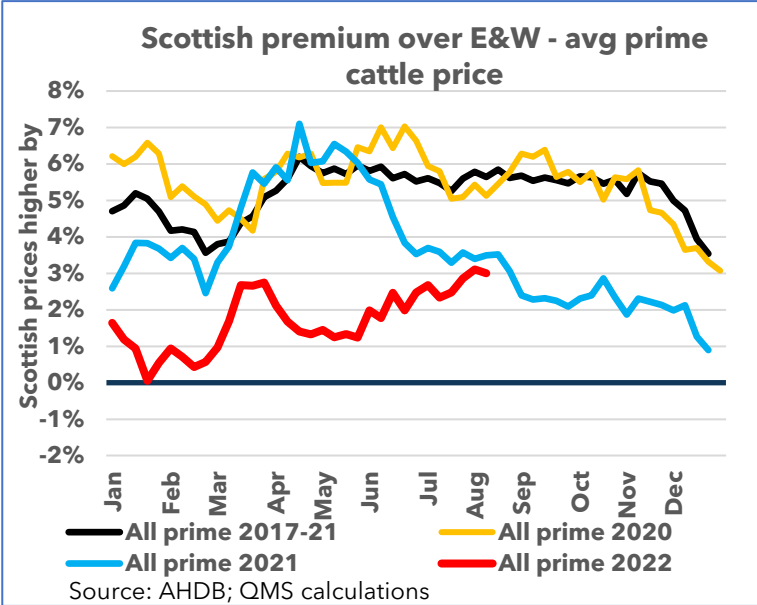
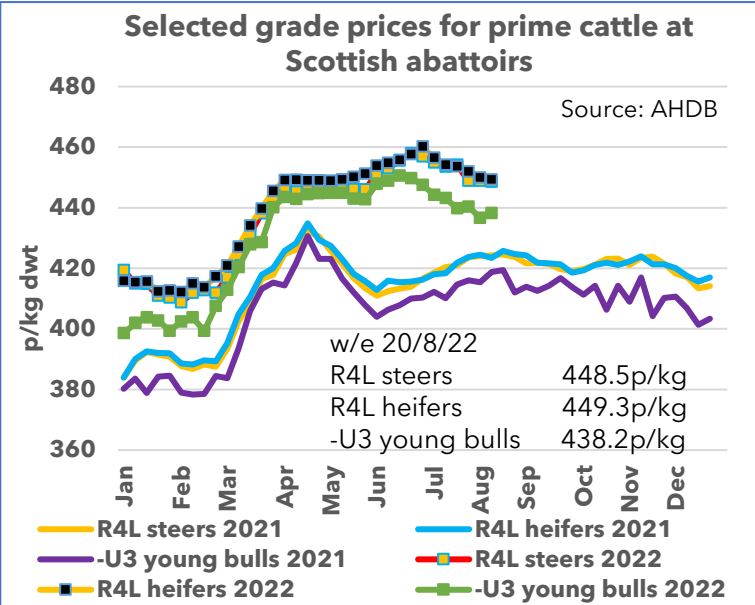
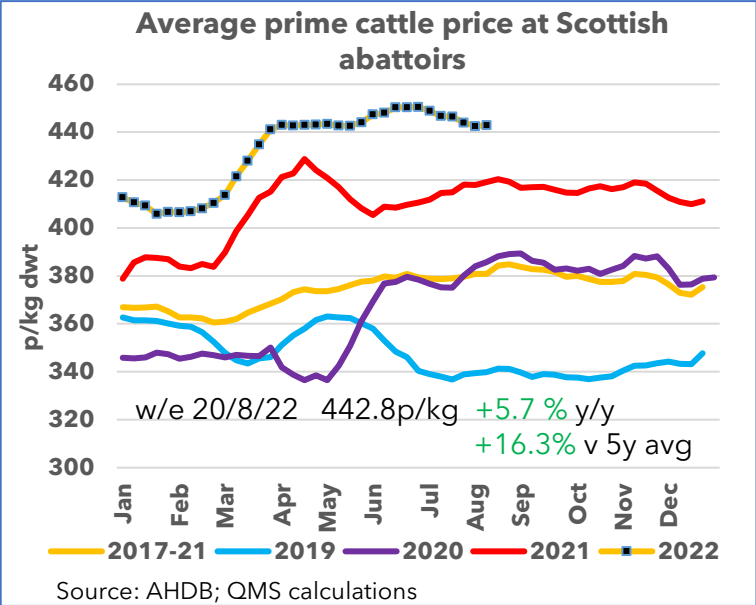
Summary of market developments – beef market



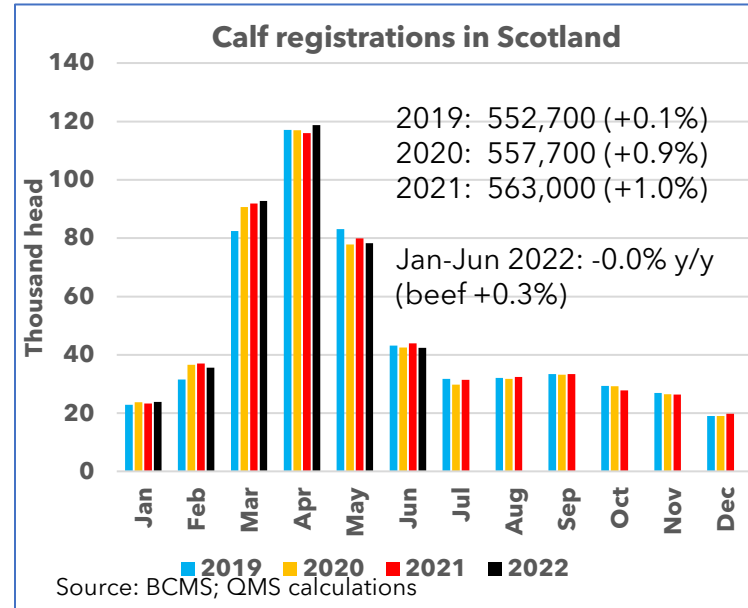
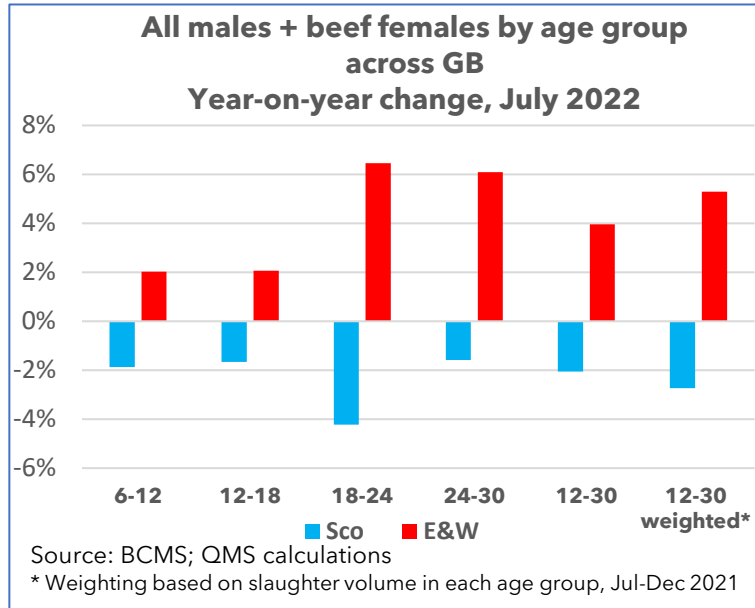
Report Category	Basis	Average price or volume	Change on week	Change over four weeks	Change on year	Change on 5-year avg
R4L steer price at Scottish abattoirs	p/kg dwt, w/e 20 August	448.5	-0.3p	-1.1%	+5.7%	+15.3%
Prime cattle slaughter at reporting Scottish abattoirs	Average in four weeks to August 20, head procured deadweight	6,111		-3.7%	-1.7%	-3.6%
Store price at Scottish auctions for steers aged 12-18 months	Average in four weeks to August 13, £ per head	£1,043		-1.5%	+2.4%	+8.9%
UK beef market supply	Tonnes in Apr-June 2022 (estimate)	246,200			-1.7%	-4.9%

- Prime cattle prices have continued softening in August but remain elevated well above previous levels for the time of year.
- Availability has tightened relative to 2021 in Scotland now that the increased pool of spring-2020-born calves been used up. By contrast, numbers are expected to have risen significantly in England & Wales, partly driven by increased store cattle movements from Scotland.
- Moving into summer, UK export volumes remained high, while imports had fallen back behind year earlier levels.
- Cow prices have continued to soften seasonally but remain much closer to prime cattle prices than usual. There is some evidence of an increase in cow throughput in 2022 so far and this may have led to an uptick in the pace of decline in Scotland's beef herd.
- Store cattle values have been struggling to match year earlier levels despite a reduction in marketings, likely reflecting weak demand from finishers facing sharply higher feed costs.

Farmgate prices - prime cattle - softening despite a dip in weekly slaughter volumes, though prices have cooled by less in Scotland, potentially reflecting tighter supply



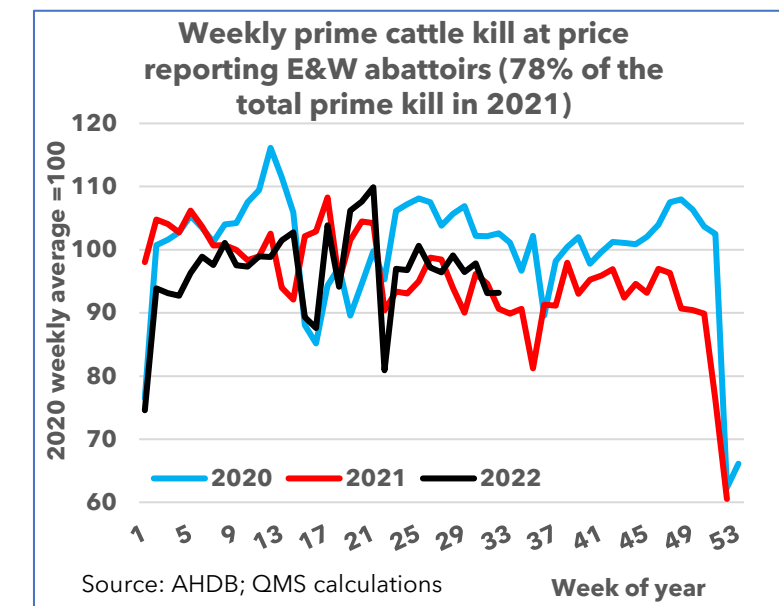
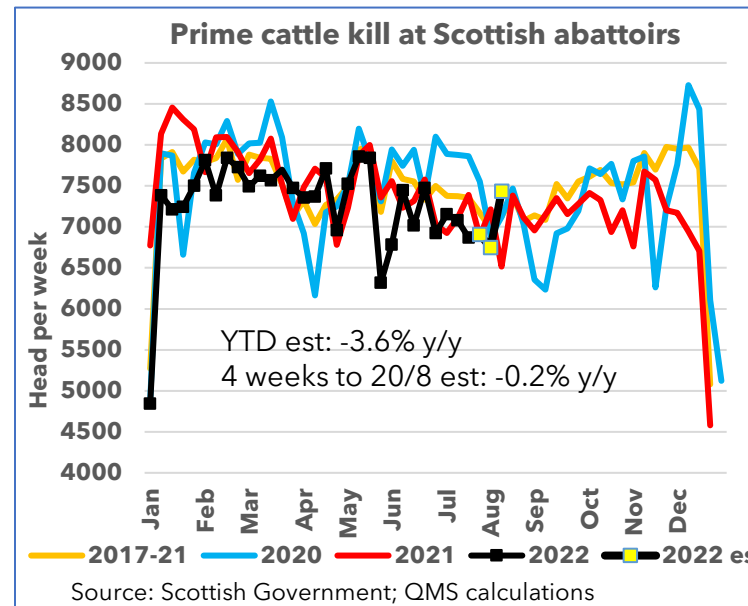
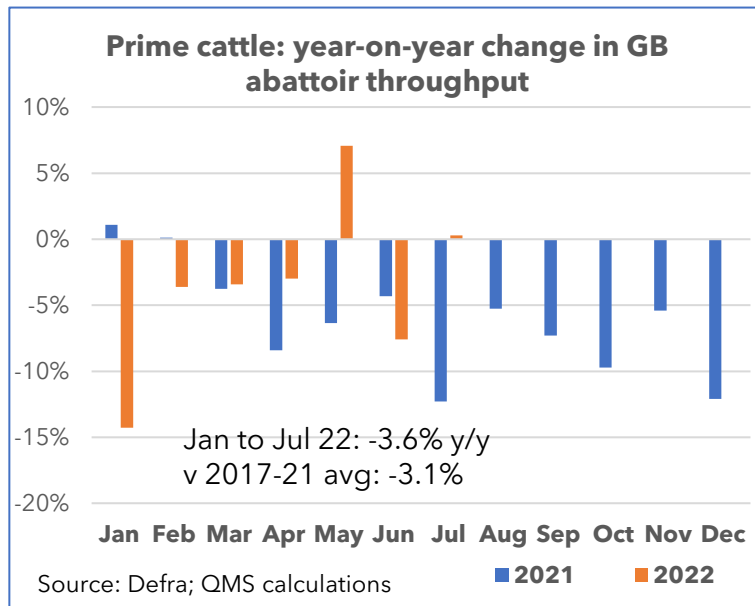
Availability and slaughter – fewer prime cattle on Scottish farms in contrast to a significant increase in E&W



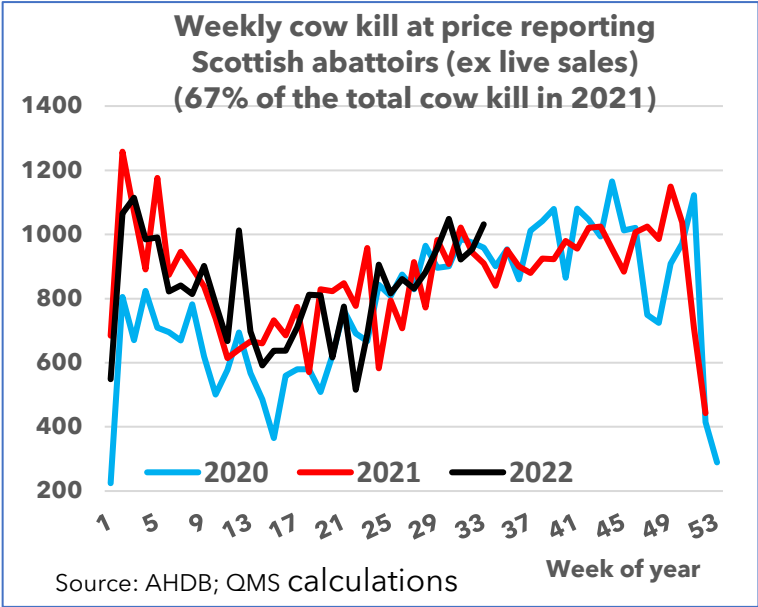
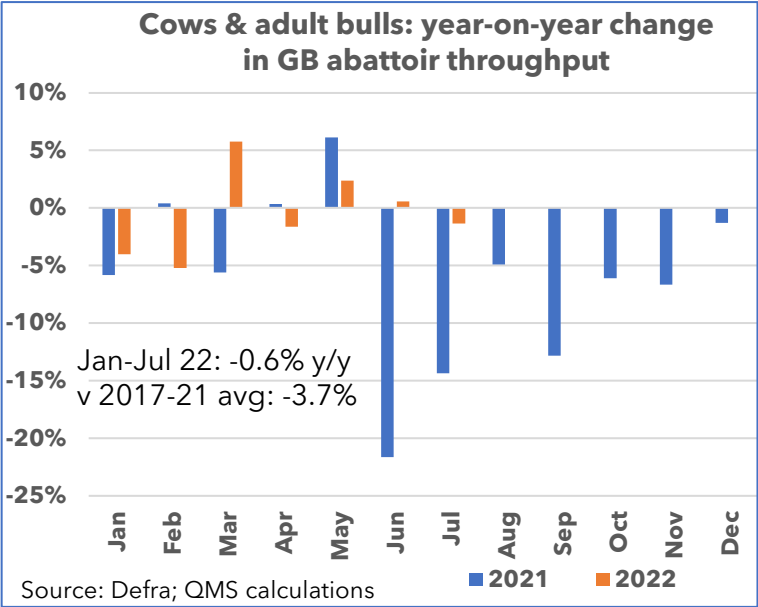
BCMS cattle population data for July indicates that prime cattle supply has fallen on Scottish farms relative to last year while now picking up strongly in England & Wales.

Abattoir capacity in Scotland has continued to face challenges from tight labour supply while the increased flow of store cattle to English farms seen in 2021 has accelerated in 2022, potentially driven by the reduction in the suckler herd in England in recent years.

A reduced pool of slaughter cattle in Scotland compared to last year is likely to generate firm competition for stock, although demand for cattle on Scottish farms from English abattoirs may soften given the significant increase in availability in England & Wales.

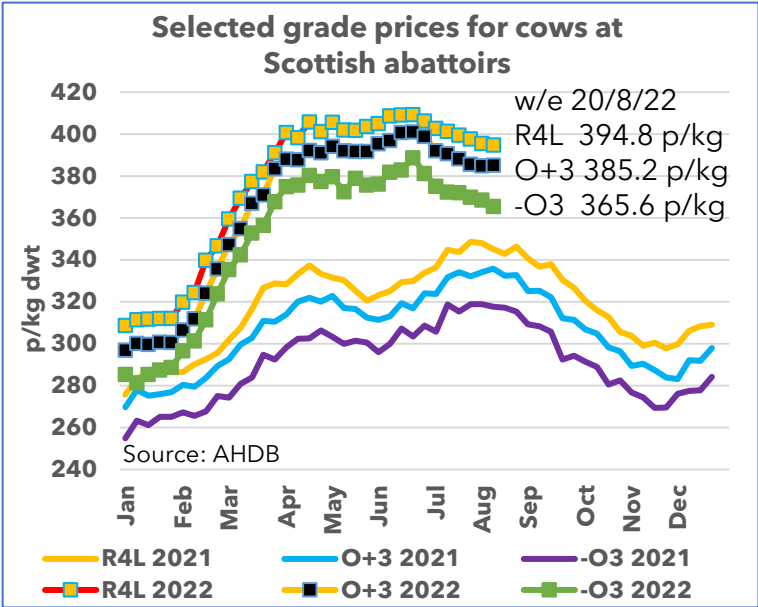
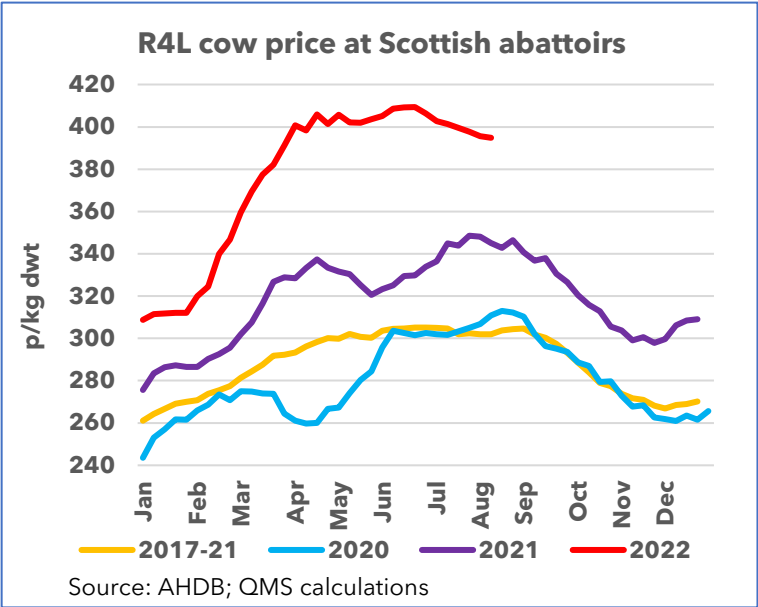


Mature cattle market – softening seasonally, with some evidence of herd reduction



While around 9% more cows have been sold at Scottish auctions than in 2021 so far this year, GB abattoir slaughter fell slightly in the first seven months, and the year-on-year decline in females over 30 months on Scottish farms has risen gradually rather than dramatically.

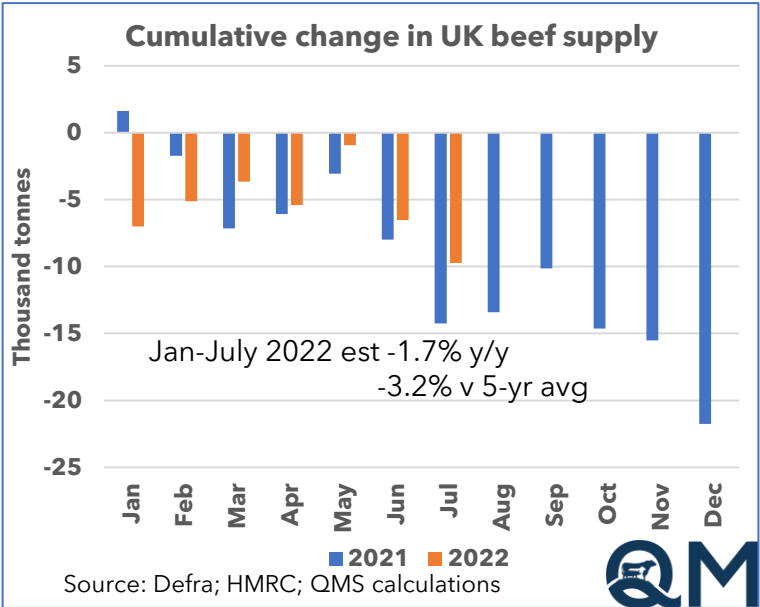
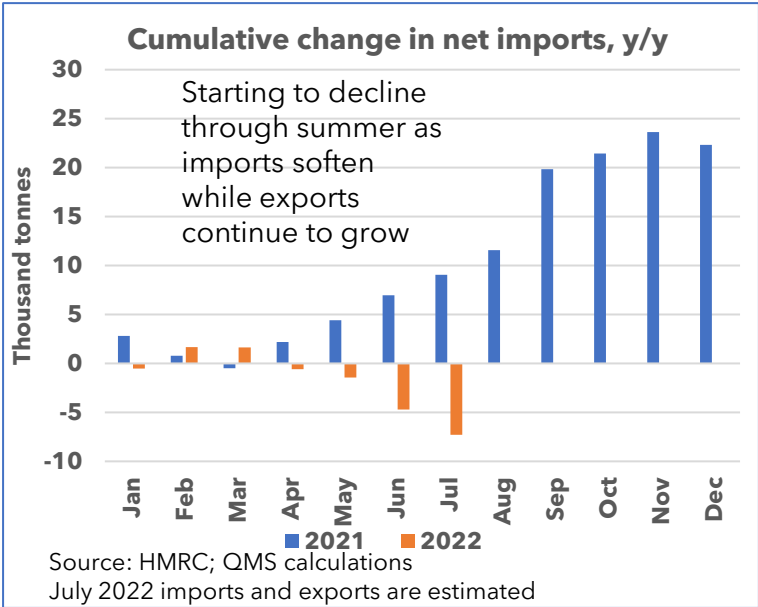
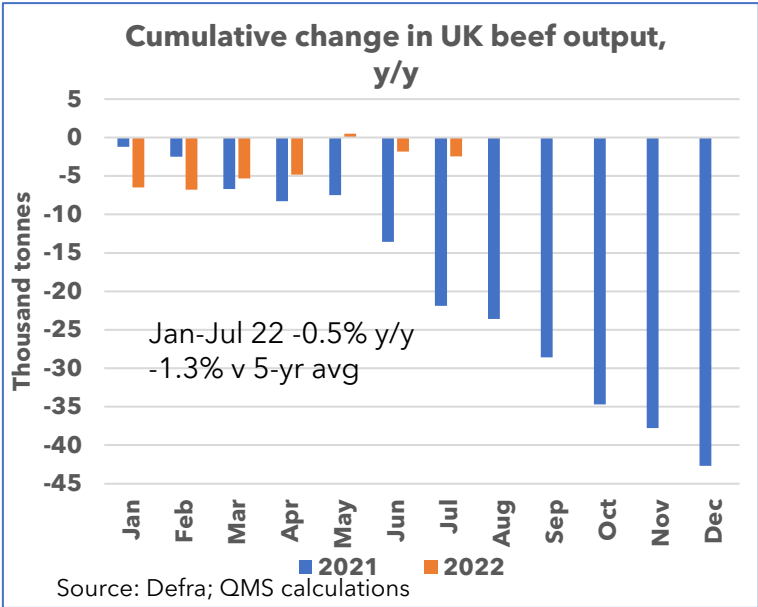
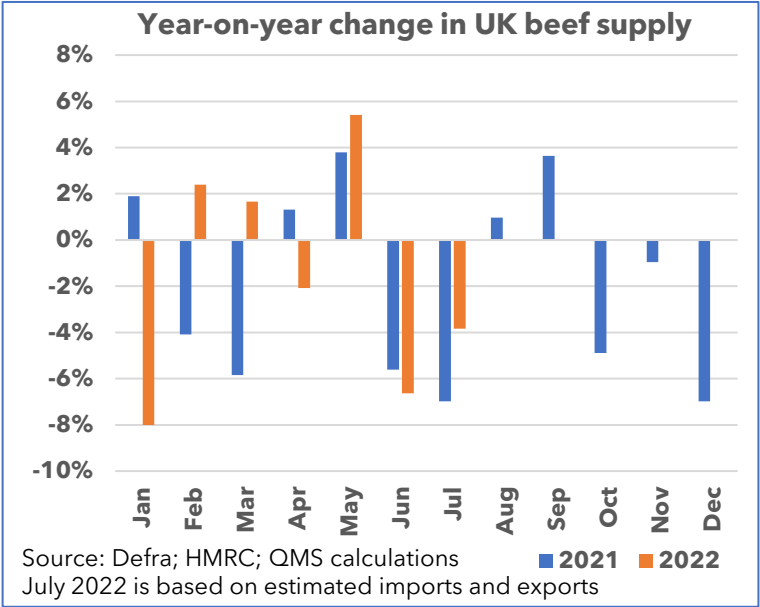
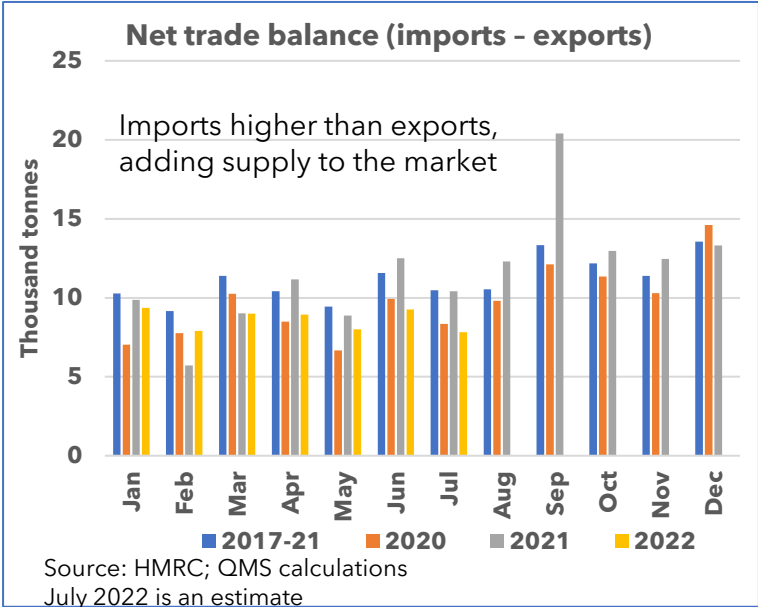
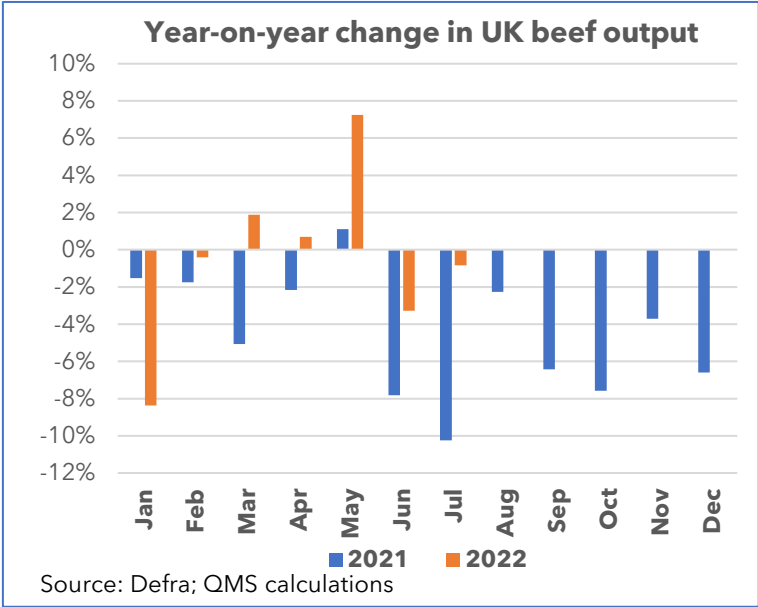
A lack of cheap alternatives from the EU for manufacturing grade beef and firm demand due to economic conditions continue to underpin cow prices. However, they have been coming under some pressure as slaughter climbs from its seasonal low, while demand is likely to have softened with the summer events season drawing to a close.



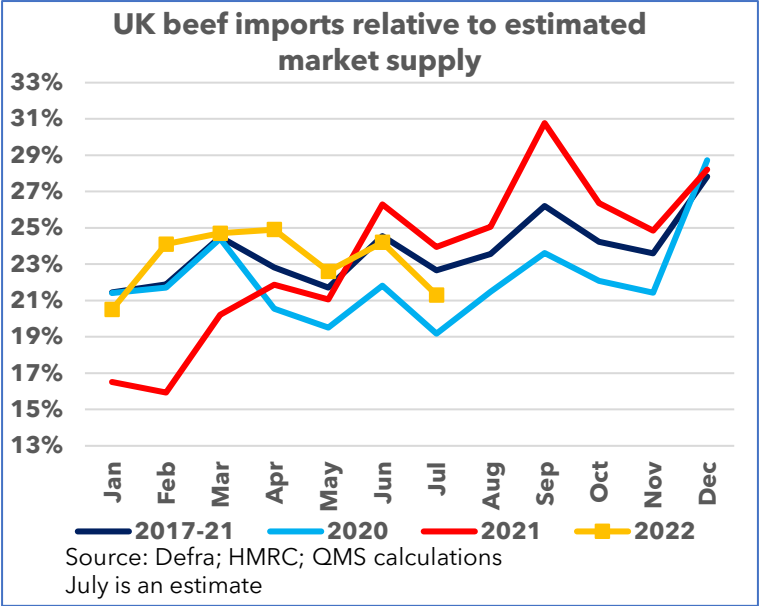
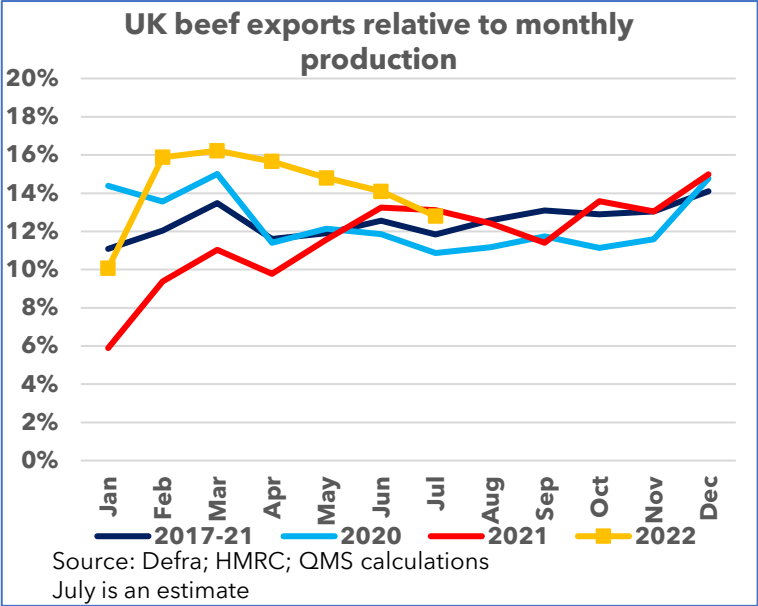
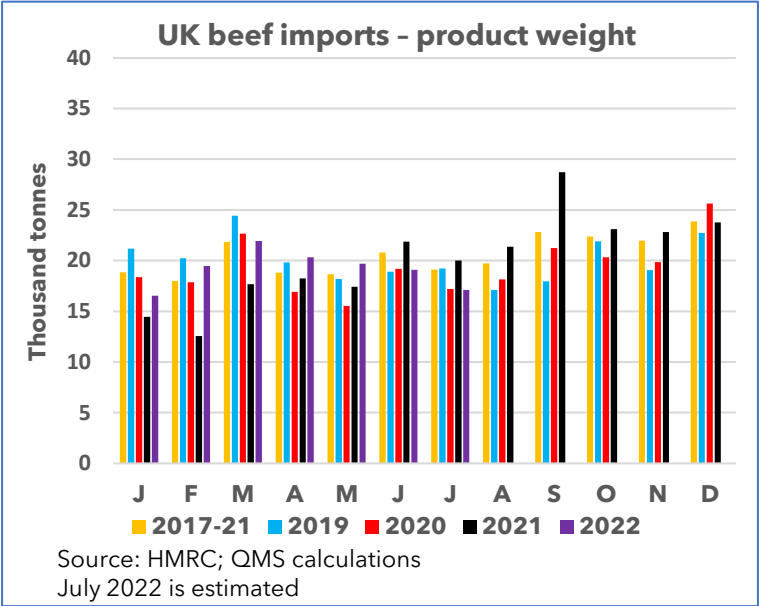
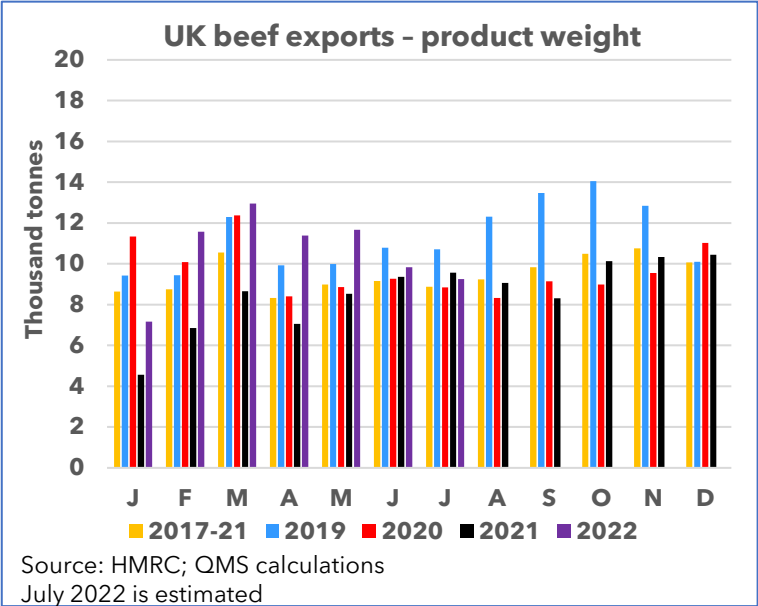
Females aged 30 months+ on Scottish farms (y/y change)			
Month	Dairy	Beef	All
Jan 2022	-1.3%	-0.4%	-0.6%
April 2022	-1.1%	-0.7%	-0.8%
July 2022	-1.0%	-1.4%	-1.3%

Source: BCMS; QMS calculations

UK beef market supply: domestic production + (imports - exports) = supply



A focus on UK international trade in beef



UK exports performed very strongly between February and May 2022 given tight supply and EU exit, highlighting the strength of EU demand for beef. However, there were signs of a slowdown in June.

Import volumes also eased back in June after a firm spring, with some of that previous strength likely influenced by the impact of higher exports on domestic supply at a time of reduced abattoir production, plus less hesitancy to dine out.

Note:

HMRC trade data covers HS codes 0201 & 0202 (fresh or chilled & frozen beef)

Estimates for June are based on seasonal trends in trade volumes and domestic production

Variables influencing international trade in beef

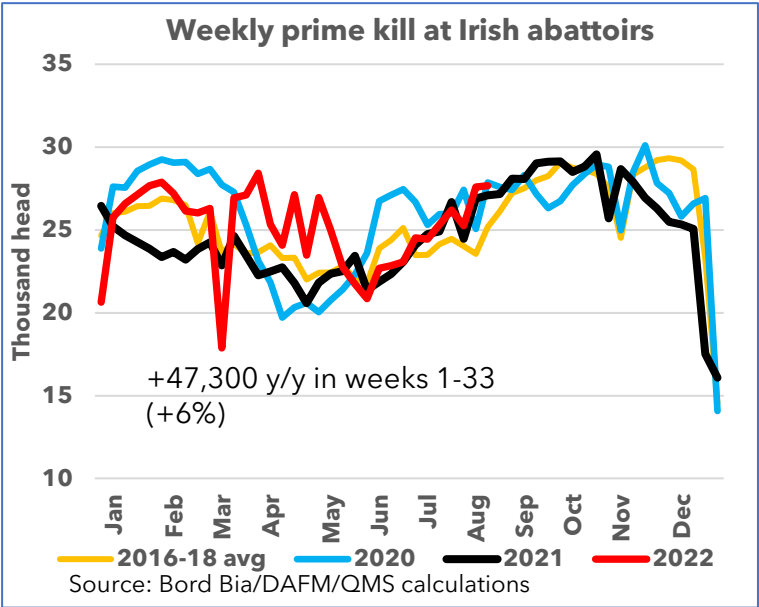
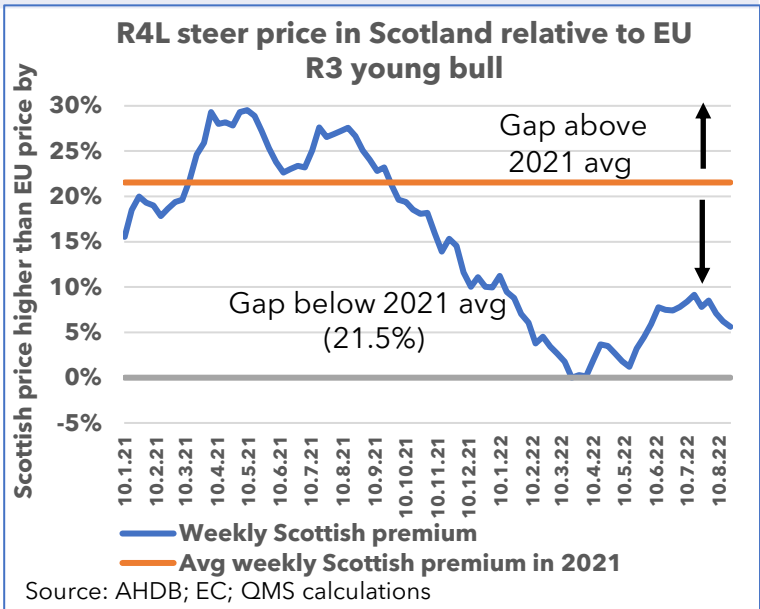
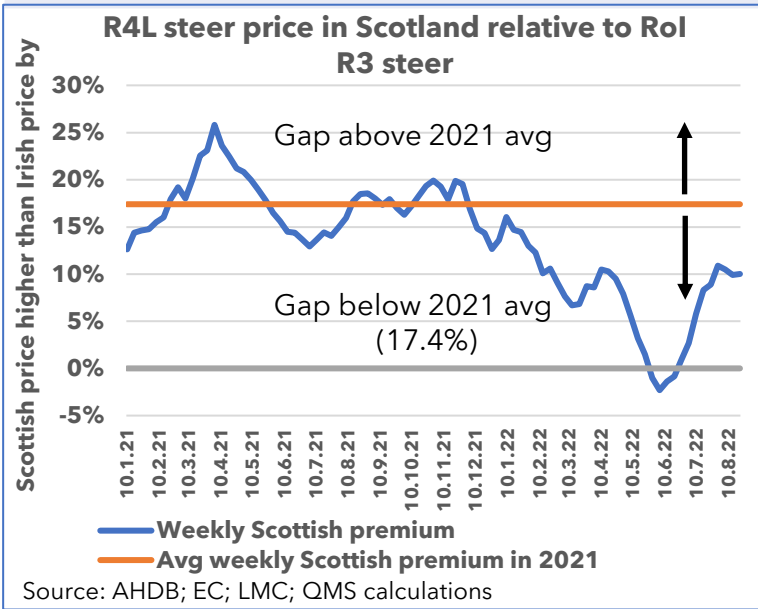
While most of the increase in Irish prime cattle at the end of last year has now been worked through, slaughter has moved ahead of last year again in August, up 2-3%.

The rebalancing of Irish prices is likely to have been driven by a seasonal rebound in slaughter plus a dip in retail demand from the EU.

A relative increase in EU cattle prices between autumn 2021 and spring 2022 has partially reversed, but Scottish premia do remain smaller than usual, supporting competitiveness.

Cattle on Irish farms (thousand head)			
Age group	Dec 2020	Dec 2021	y/y change
1-2 years	1,699	1,767	+4.0%
>2 years (cattle for slaughter and future breeding)	346	332	-4.0%

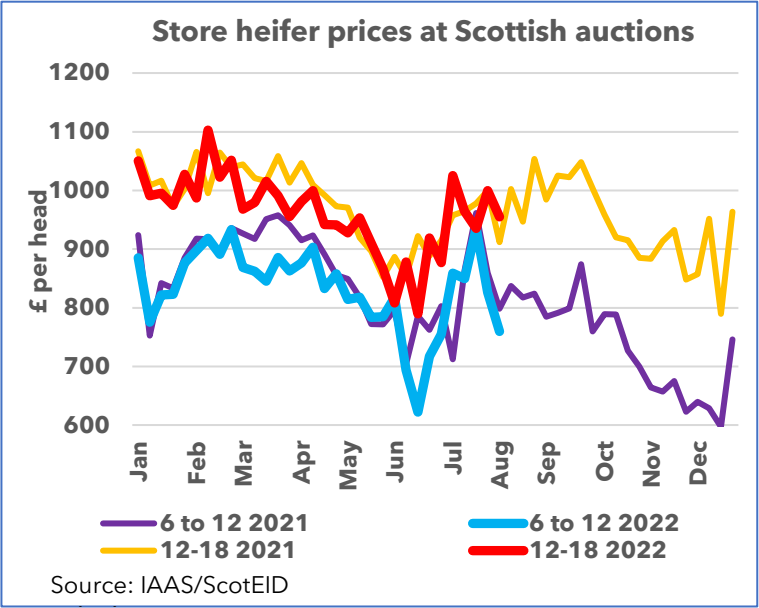
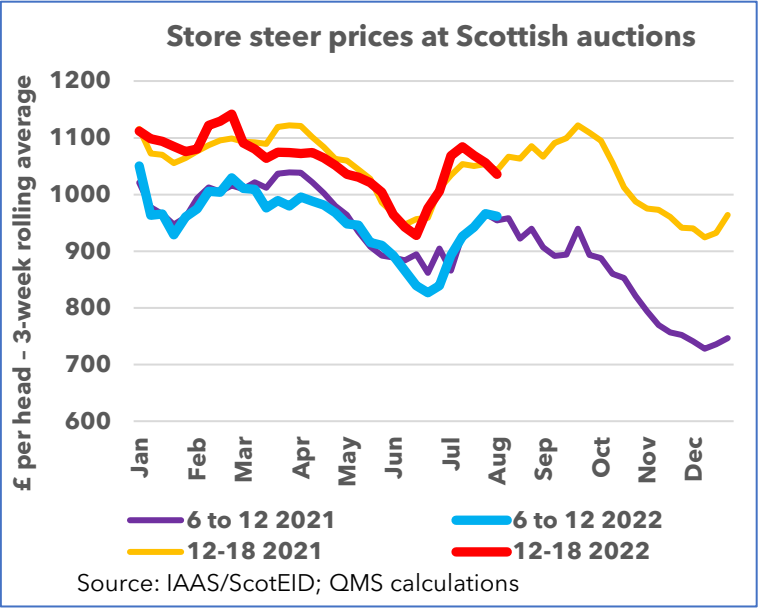
Source: CSO



Selected EU cattle prices for R3 males, p/kg dwt			
	Week 33 2022	Week 17 2022	Week 33 2021
Germany (young bull)	431.3	474.1	351.1
Netherlands (young bull)	451.0	459.0	339.1
Spain (young bull)	417.3	421.3	315.3
Poland (young bull)	427.1	436.6	315.8
Irish Republic (steer)	407.6	414.7	358.1

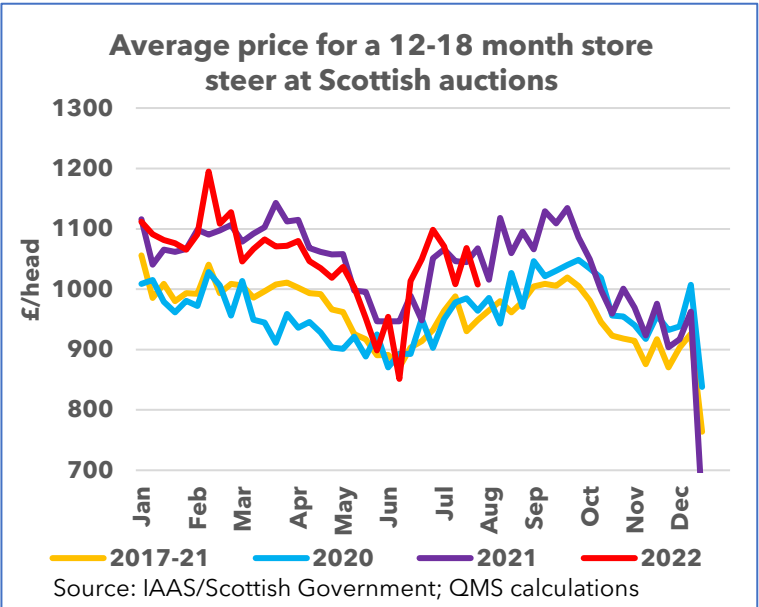
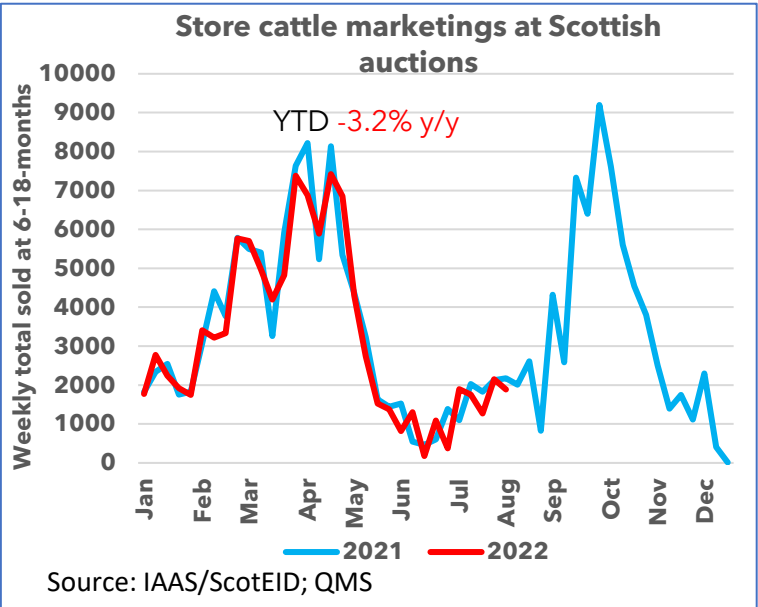
Please note that a +0.6% adjustment has been made to EU prices to reflect different spec and the weekly average exchange rate is sourced from the ECB

Store cattle trade



Store cattle volumes have begun to edge above their summer low, with the main autumn selling period about to kick off in September.

Surging input costs are likely to have resulted in reduced demand from finishers, limiting upwards pressure on prices despite a reduction in marketings.

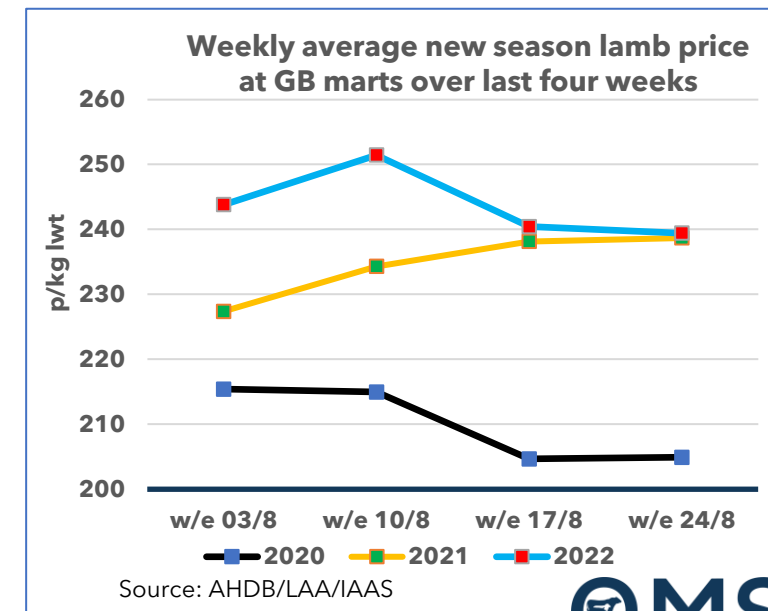
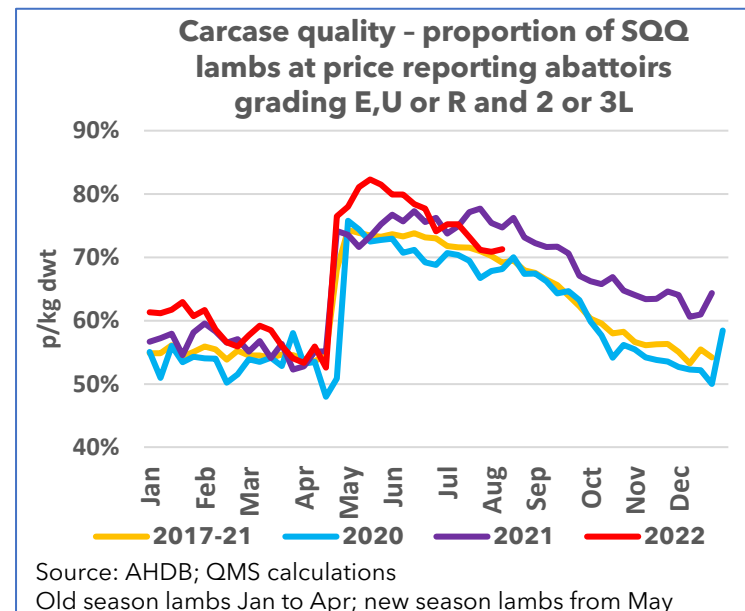
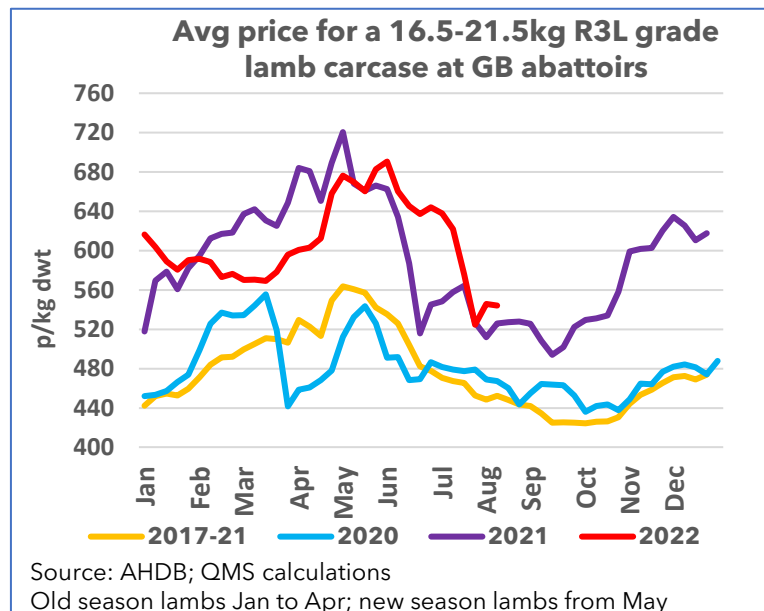
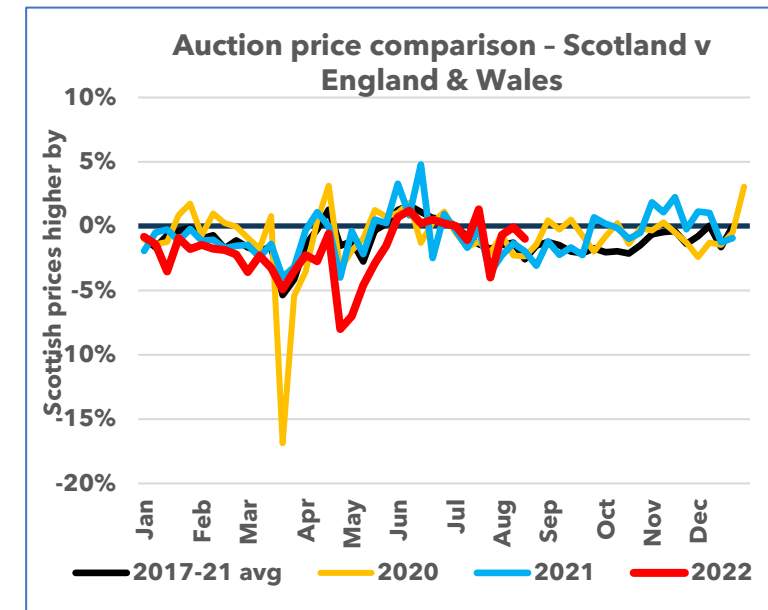
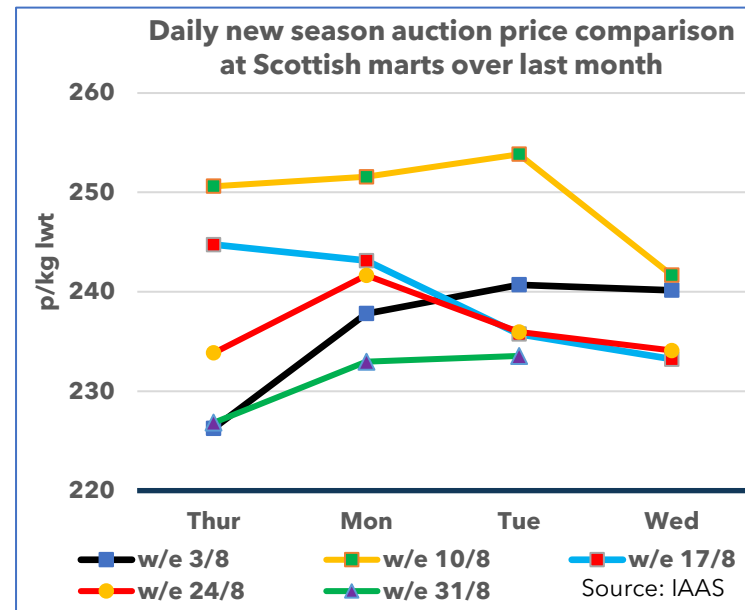
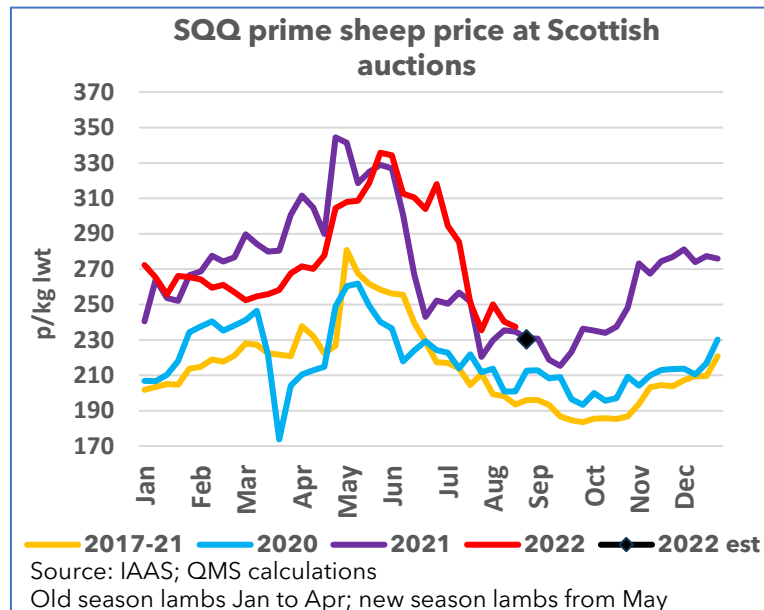


	4 weeks to 13/8	y/y change last 4 weeks
Store cattle prices		
Steers, 6-12 months	£953	-1.9%
Steers, 12-18 months	£1,043	+2.4%
Heifers, 6-12 months	£835	-3.3%
Heifers: 12-18 months	£968	+0.5%
Store cattle marketings		
All steers & heifers, 6-18 months	7,063	-13.4%
Source: IAAS/ScotEID; QMS calculations Prices rounded to nearest £1 and numbers to nearest 10		

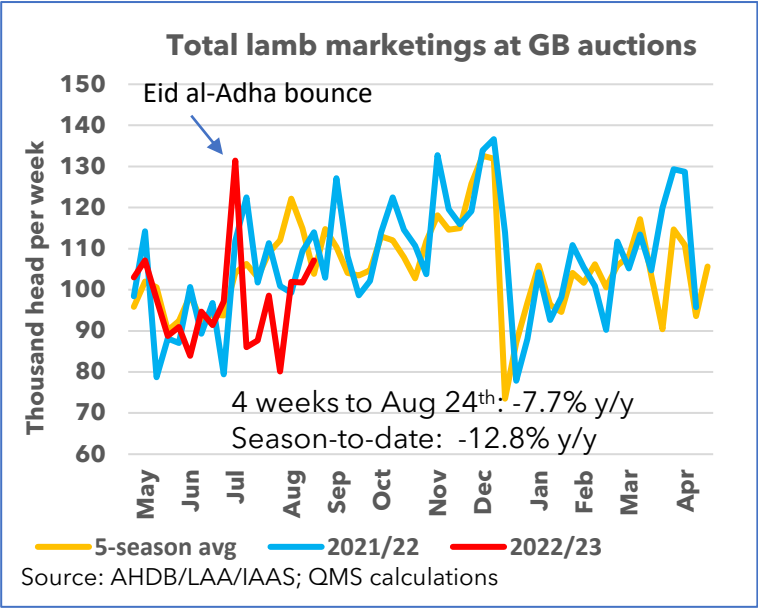
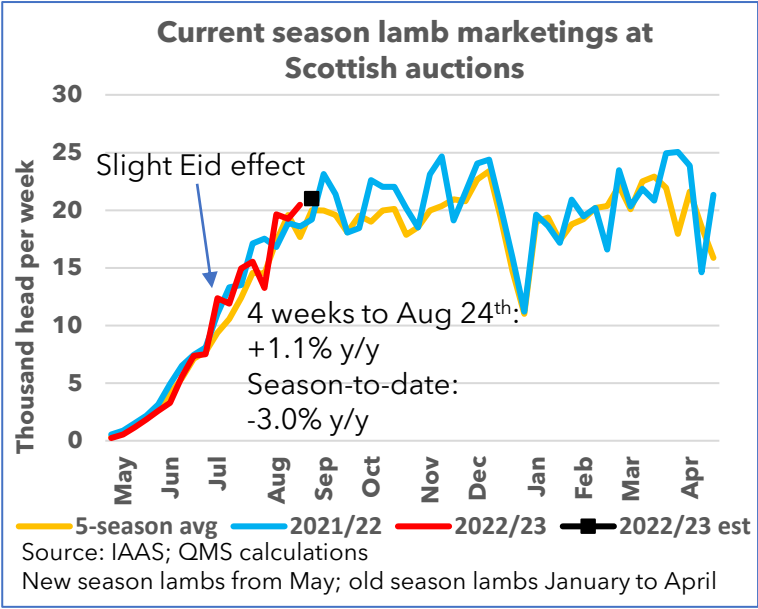
Report Category	Basis	Average price or volume	Change on week	Change over four weeks	Change on year	Change on 5-year avg
New season SQQ lamb price at Scottish auctions	p/kg lwt, w/e 24 August	237.46p/kg	-2.78p	-5.4%	+1.2%	+22.8%
New season SQQ lamb marketings at Scottish auctions	Average in four weeks to Aug 24, head	18,155		+32.6%	+1.1%	+5.1%
Total lamb marketings at GB auctions	Average in four weeks to Aug 24, head	97,744		-3.2%	-7.7%	-13.7%
UK sheepmeat market supply	Tonnes in May-Jul 2022 (estimate)	66,800			+8.4%	-2.6%

- Following the seasonal slide in July, new season lamb prices have been trading above their late-July low through August, holding above 2021 levels and well above the five-year average.
 - So far, new season lambs have been slow to reach the market, fitting with the December census results which pointed to a smaller breeding flock, although numbers have started to exceed year earlier levels at Scottish auctions in August.
 - Store lambs have also made a slow start to the season, with volumes down roughly 15% on 2021 at Scottish auctions between late-July and mid-August.
 - Retail sales data is signalling that GB household spending has fallen significantly behind year earlier levels, with most of this driven by a reduced share of households buying lamb.
 - UK lamb imports increased in late-spring and early summer as New Zealand's exporters diverted product from a weak Chinese market towards Europe and although export volumes also increased, they remained below the five-year average.
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Farmgate prices - prime sheep - slower seasonal decline leading to historically firm prices



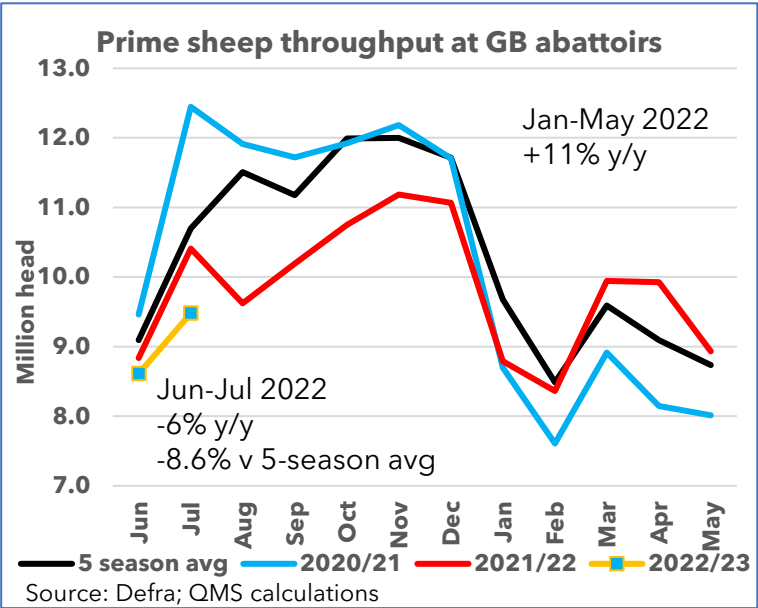
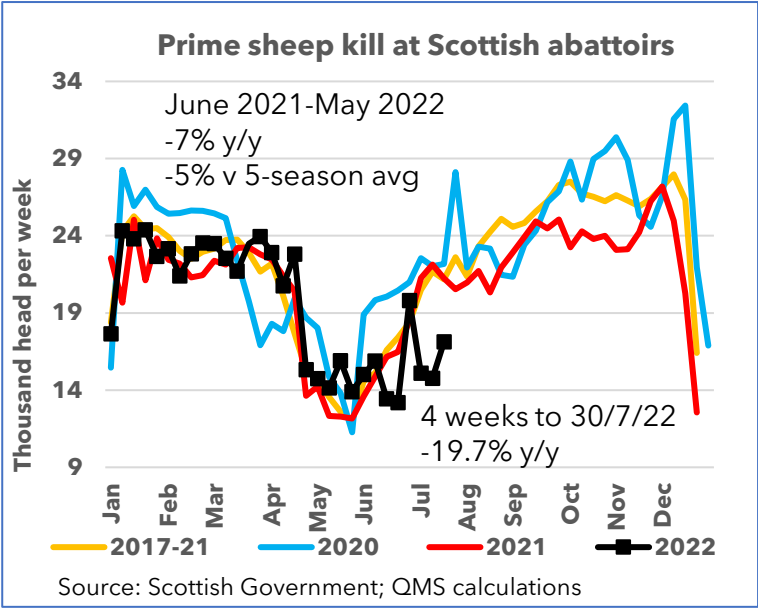
Availability and slaughter – lambs arriving slowly at GB auction sales



Slow start to the season for lambs at GB level, fitting with a reduced breeding flock in December, and supporting farmgate prices.

Hogg numbers, which have been elevated throughout 2022-to-date, are now dwindling.

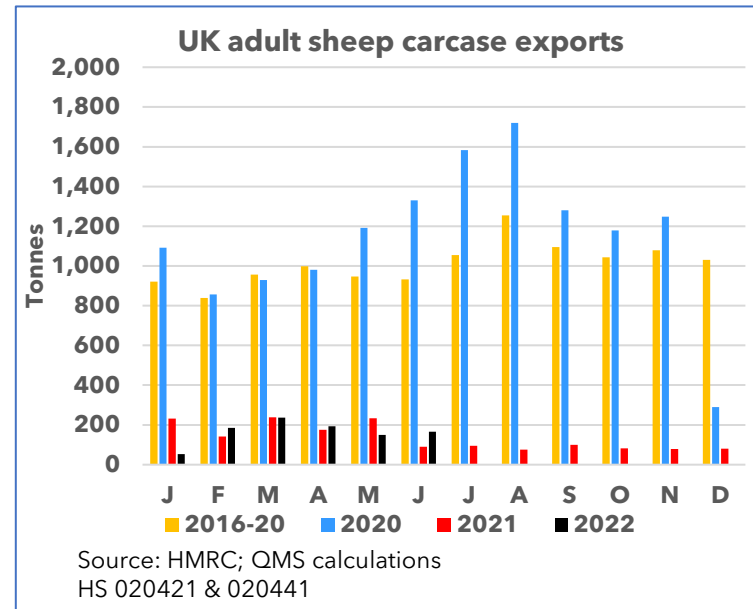
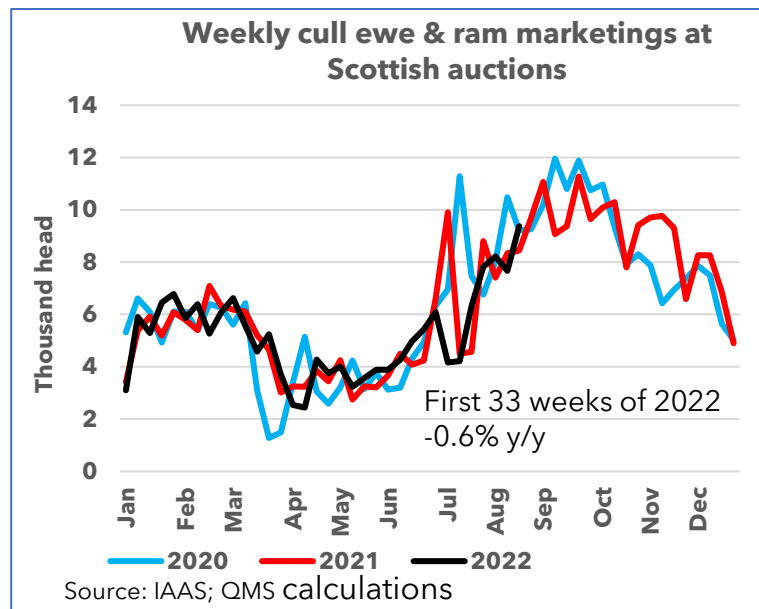
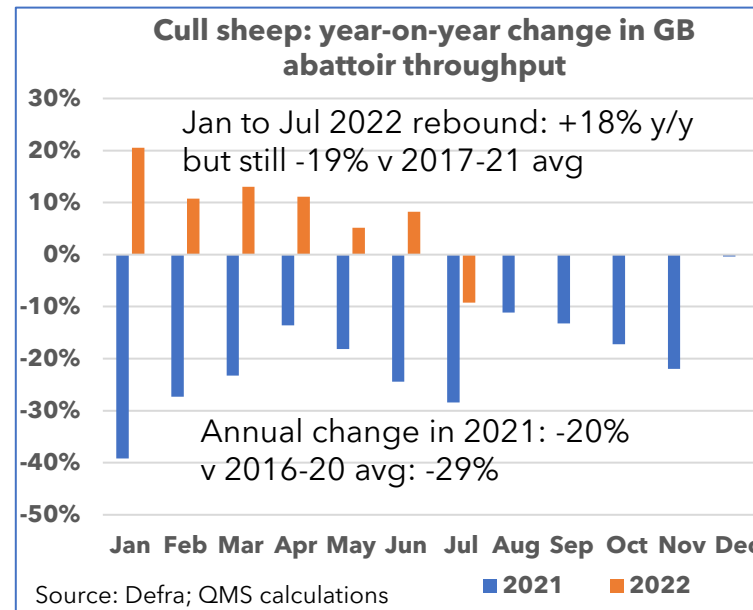
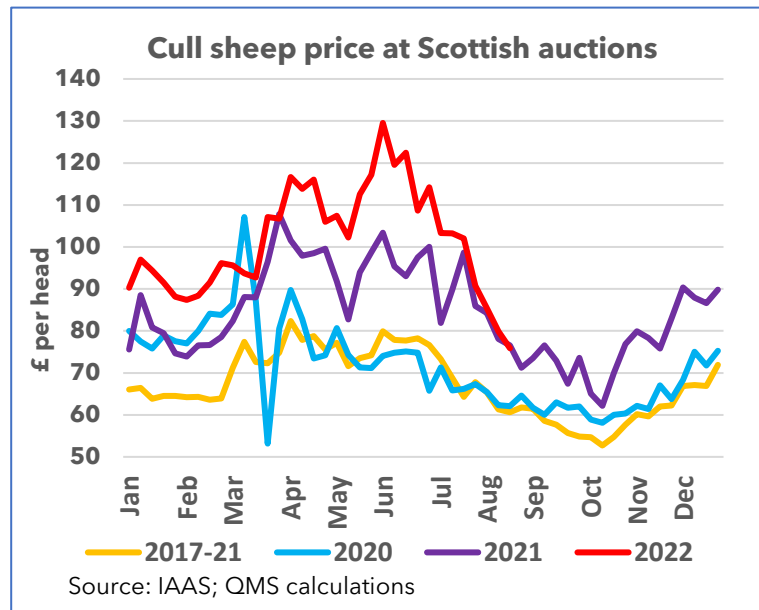
Lamb numbers have now picked up in Scotland, having previously trailed 2021 levels.



December 2021 Sheep & Goat Inventory		
	Total breeding flock y/y change	Other sheep and lambs y/y
Scotland	-3.7%	+3.3%
England	-1.2%	+9.3%

Source: Defra; Scottish Government; Welsh Government; QMS calculations

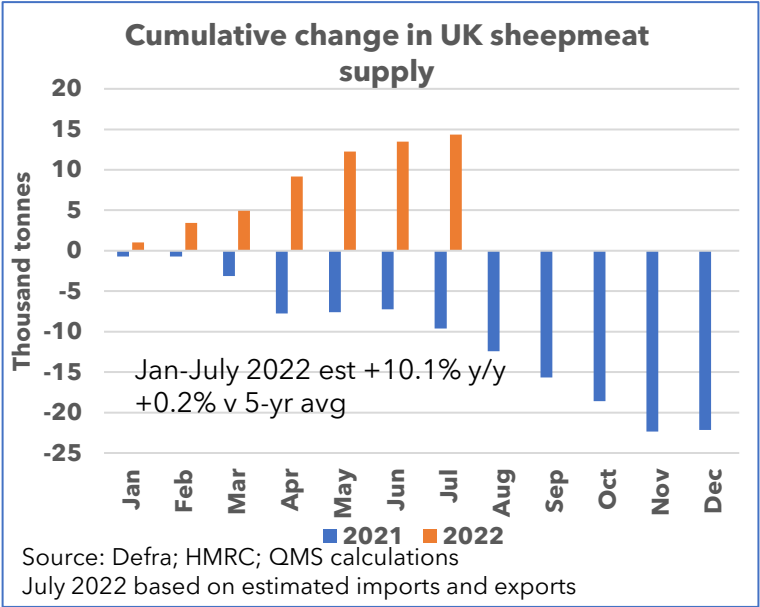
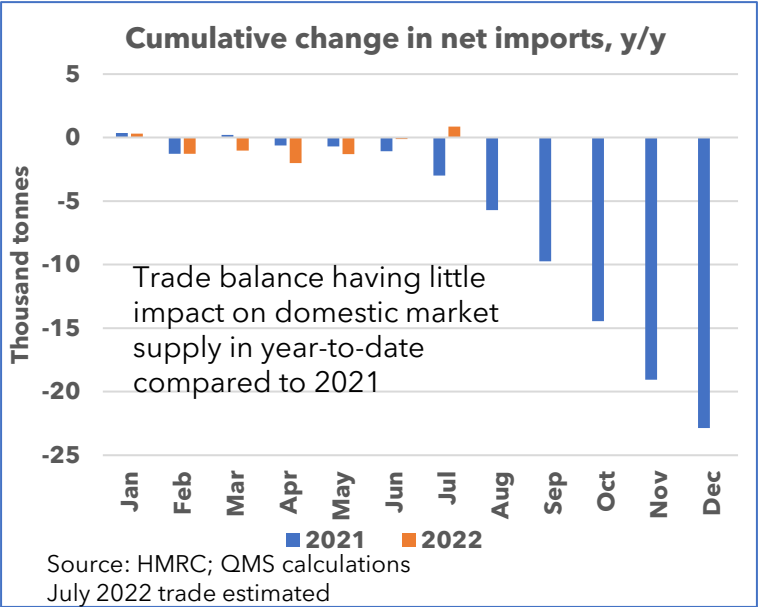
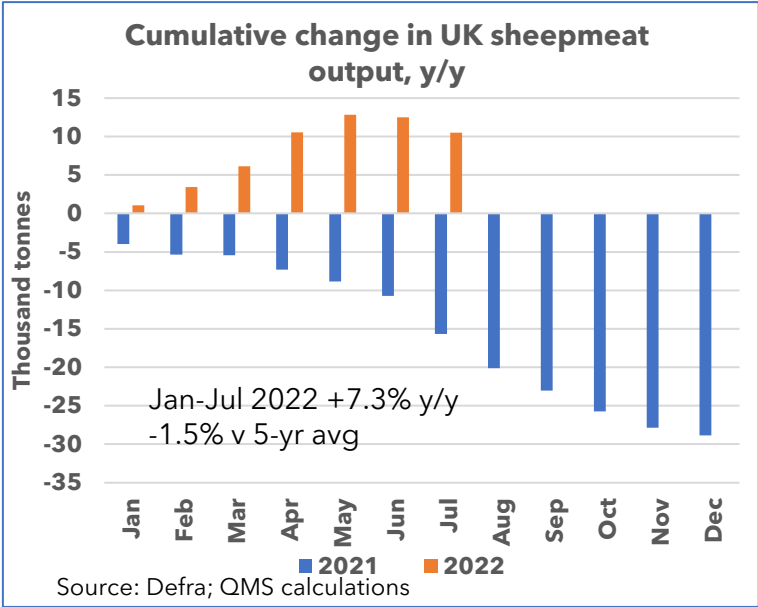
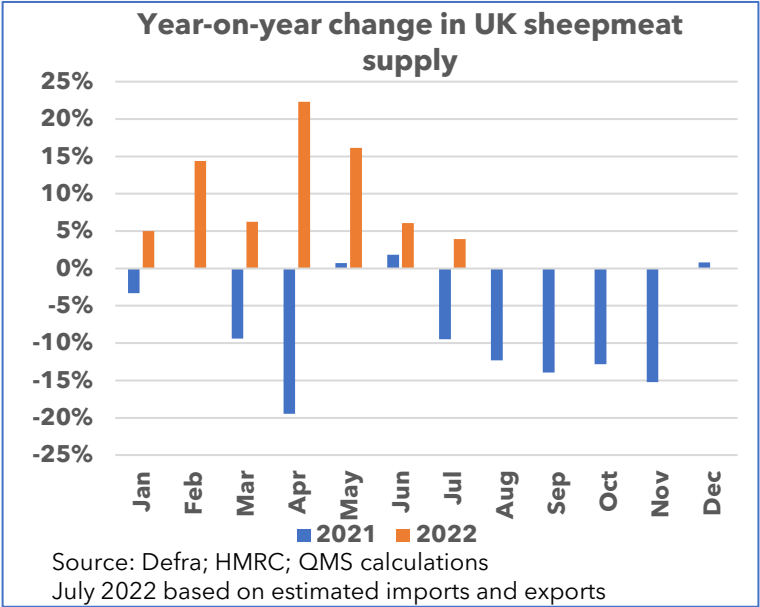
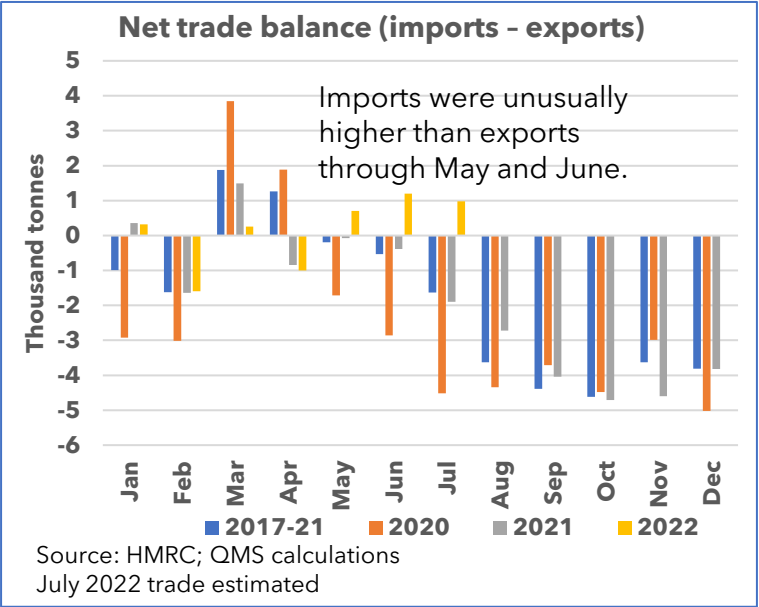
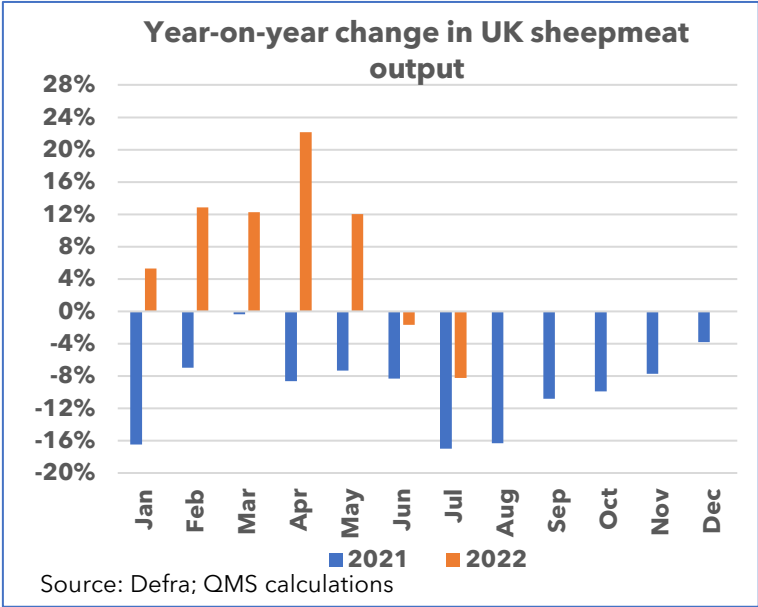
Cull sheep market – seasonal build in supply pressuring prices



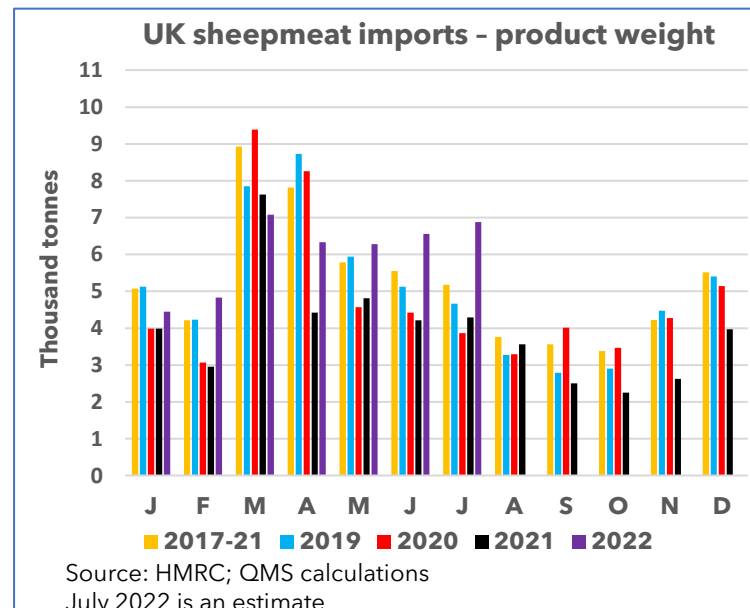
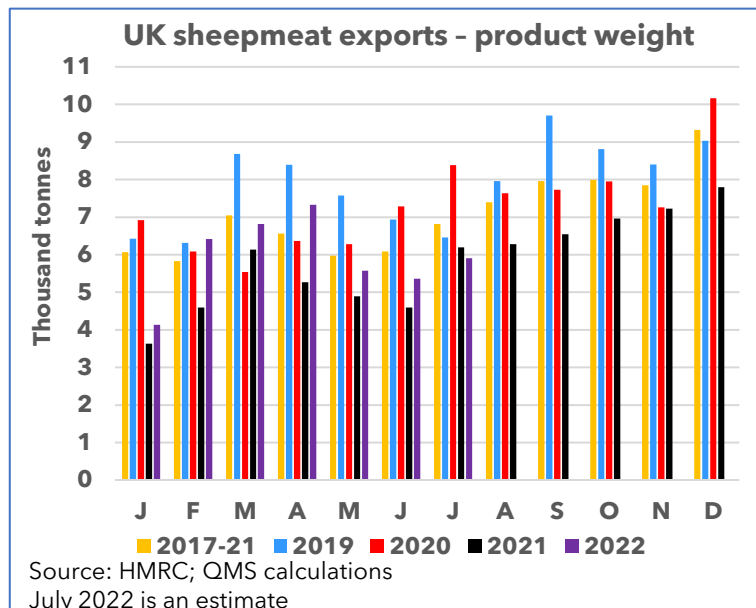
While slaughter looks to have rebounded strongly from the lows of 2021, there are questions over the size of reduction reported by Defra last year.

Mutton demand appears to have rebalanced from exports to the home market since late 2020. However, this could reflect improved data collection since single market exit, with export figures now based on customs declarations rather than business surveys.

UK sheep market supply: domestic production + (imports - exports) = supply

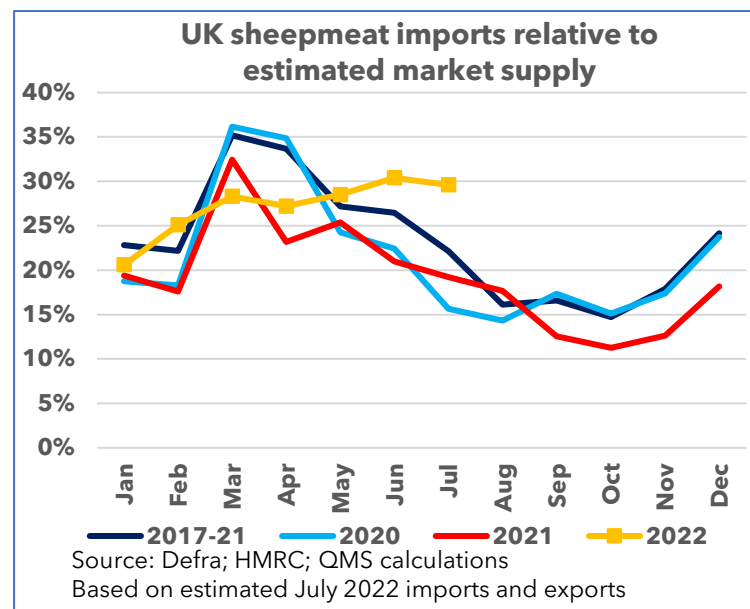
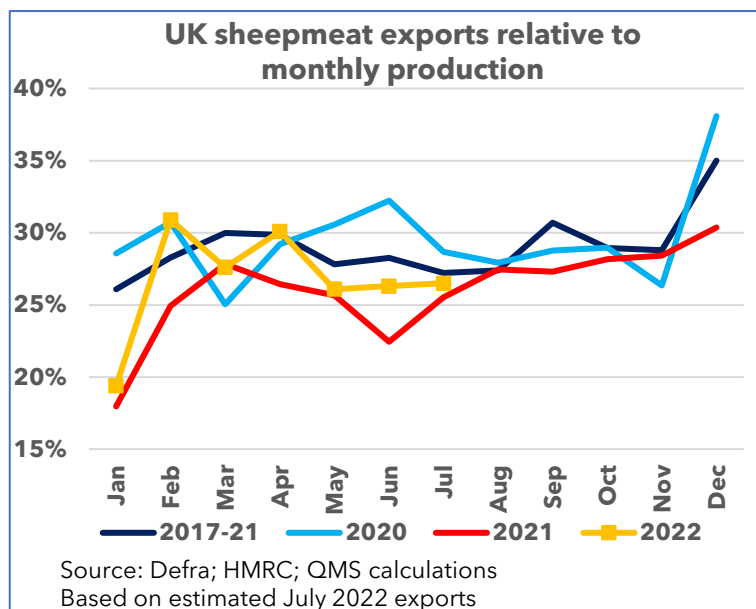


A focus on UK international trade in sheepmeat



Export volumes are expected to have continued to recover from the lows of 2021 but remained below the five-year average in June, with some of the weakness reflecting tight supply.

Imports appear to have recovered from a weak Easter. As well as a general tightness of supply supporting import demand, it is possible that some sheepmeat has been diverted towards Europe from China due to weaker foodservice sector demand and the heightened level of market risk to exporters caused by covid-19 lockdowns. Beef + Lamb NZ indicate that export volumes leaving for the UK remained well above year earlier levels in June and July.

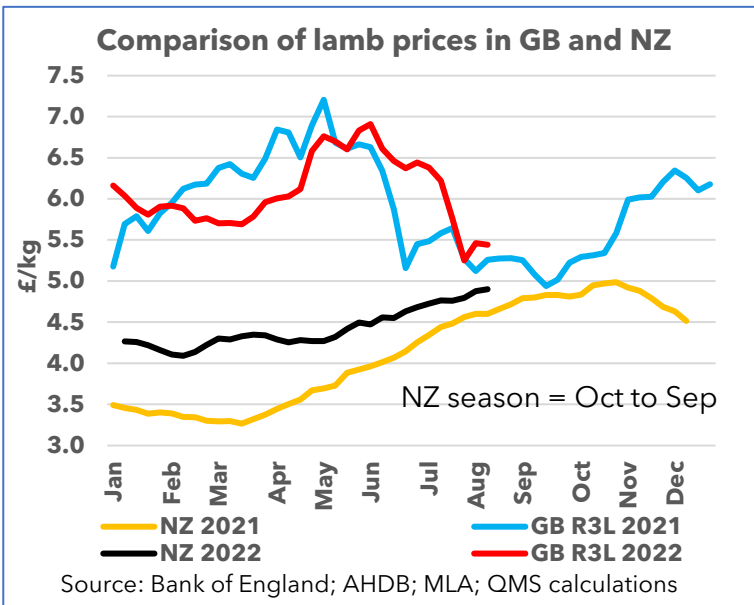
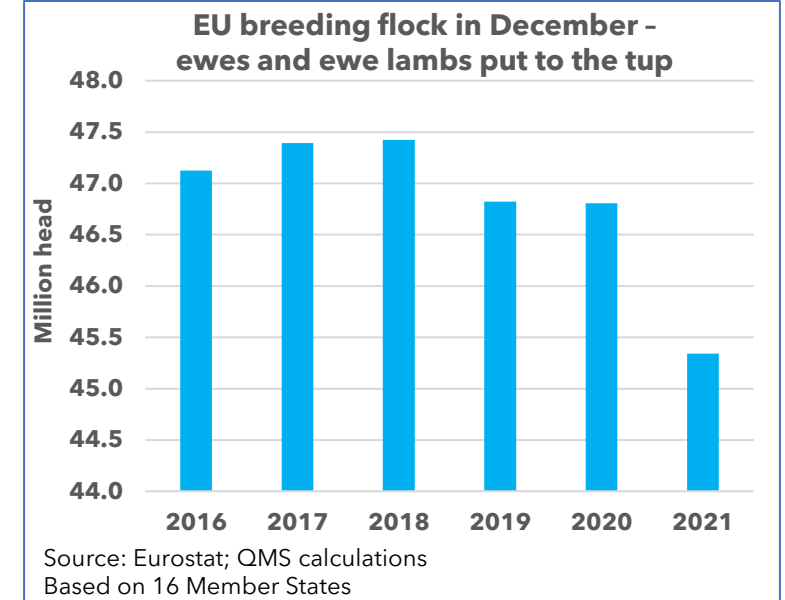
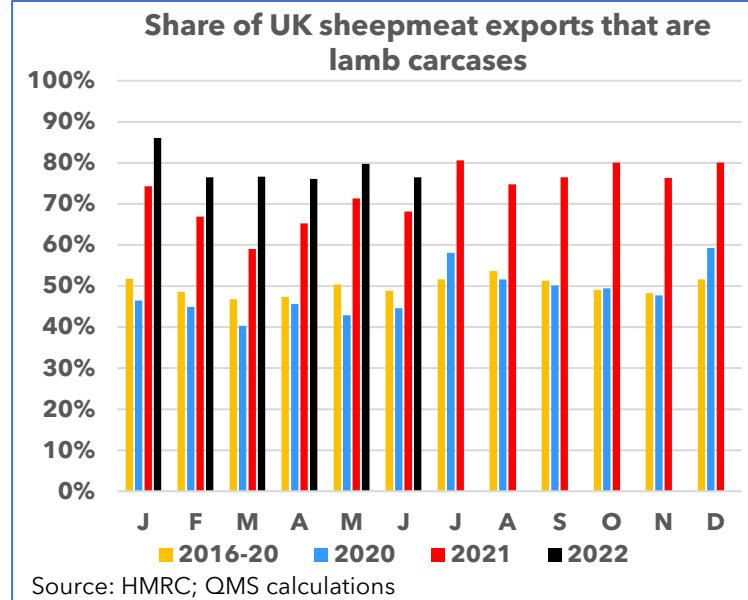
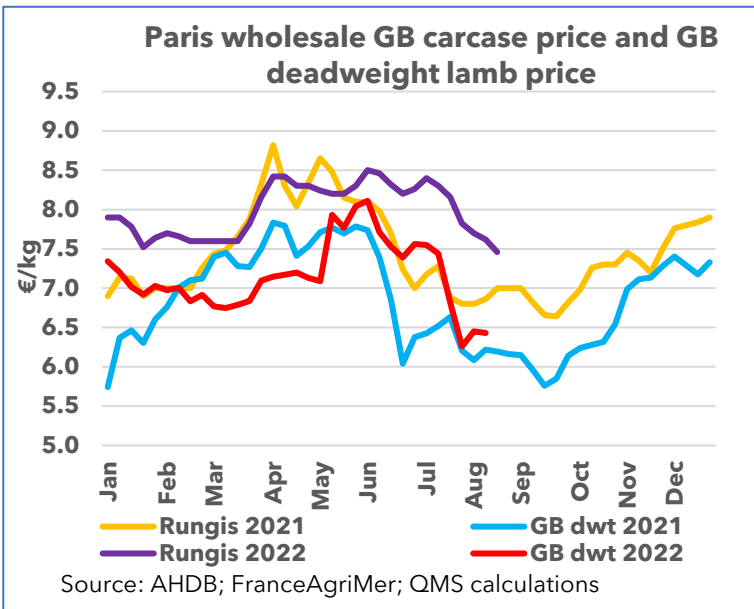


Note:

HMRC trade data covers HS codes 0204 (fresh or chilled & frozen sheep and goatmeat)

Estimates for June are based on seasonal trends in trade volumes and domestic production

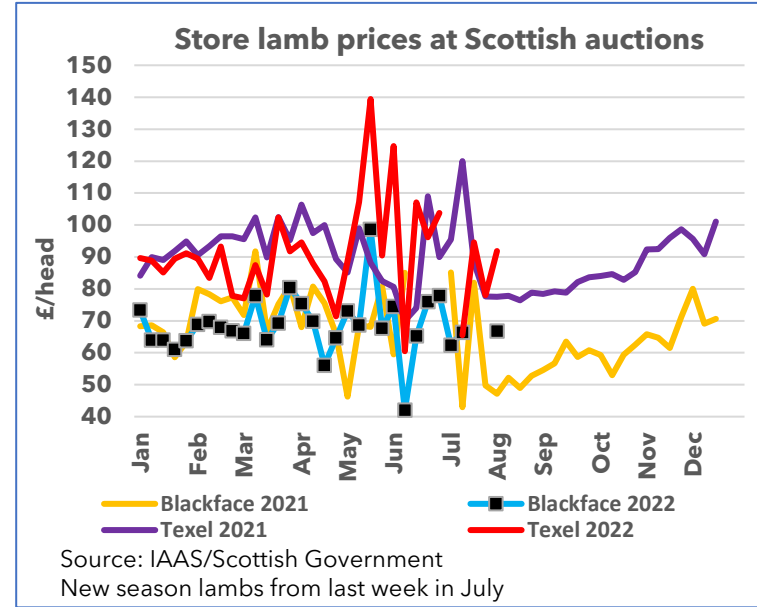
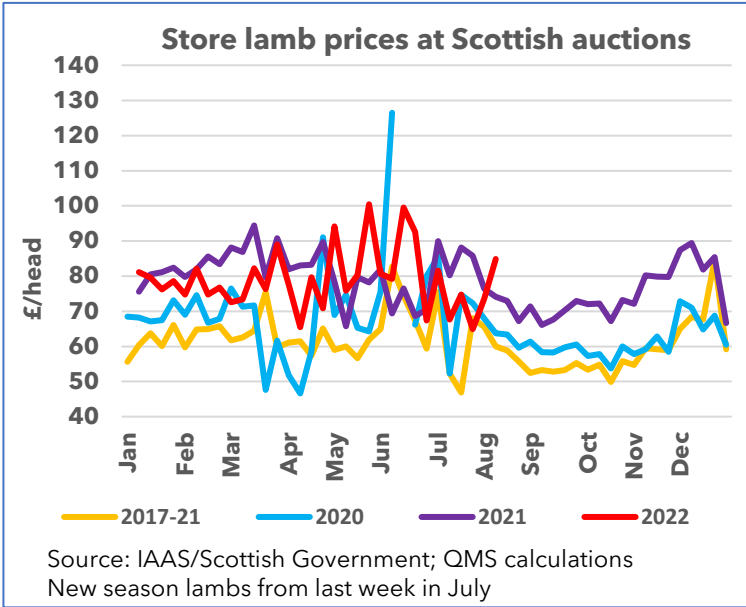
Variables influencing UK sheepmeat trade - could the rebound in sheepmeat prices in China suggest that market prospects have brightened there, potentially slowing the diversion of product to Europe?



Oceania lamb production forecasts			
	2021	2022	y/y change
Australia (thousand tonnes)			
Lamb production	508	549	+8%
Lamb exports (product weight)	283	308	+9%
New Zealand (head) (October 2021 - September 2022 season)			
Lamb crop	22.57m	22.70m	+0.6%
Export lambs	18.3m	18.5m	+1.0%

Source: MLA; Beef + Lamb NZ; QMS calculations

Store sheep trade

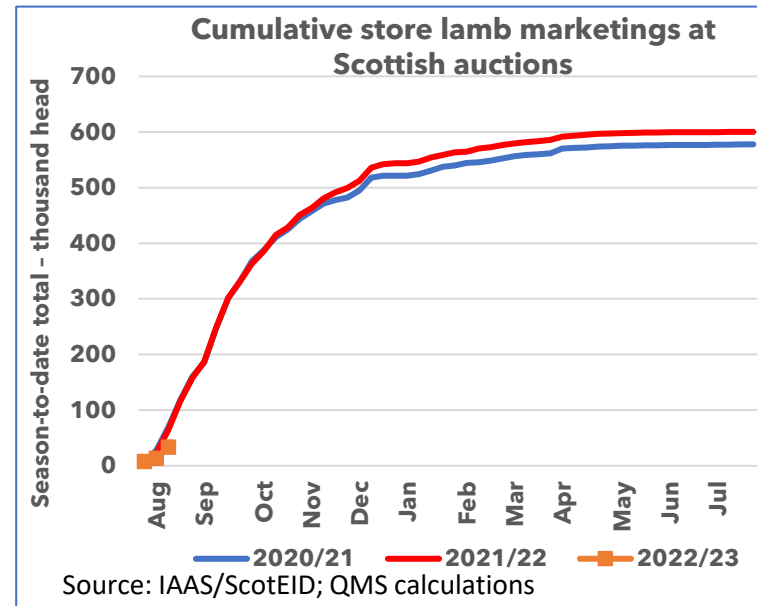
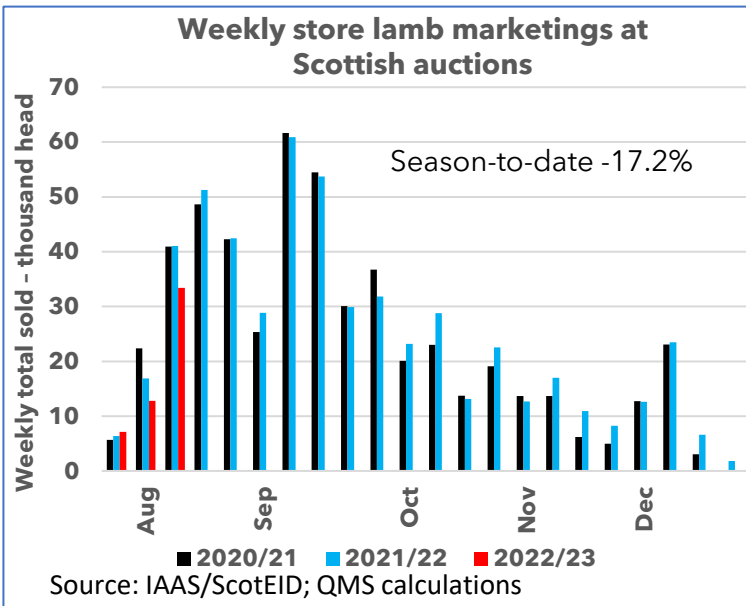


In the first three weeks of new season store lamb sales, provisional data shows that numbers trailed year earlier levels significantly (-17%).

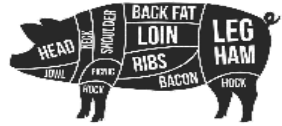
Prices have opened the season averaging 5% higher than in 2021 (£80).

3 weeks to 13/8:

Cheviots - £76
Suffolks & Texels - £84



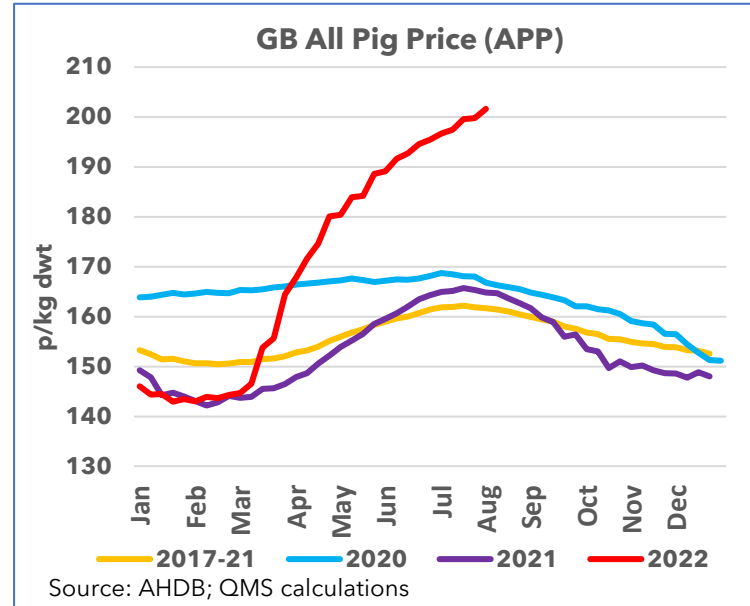
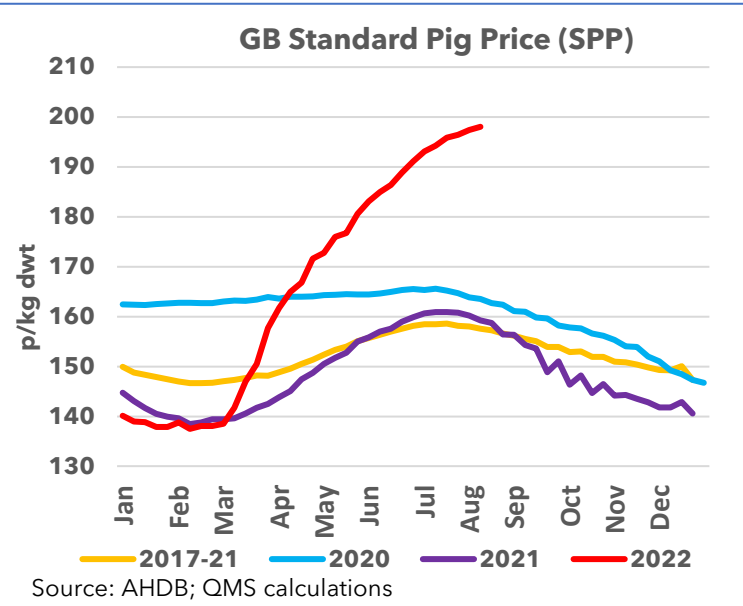
Summary of market developments – pig market



Report Category	Basis	Average price or volume	Change on week	Change over four weeks	Change on year	Change on 5-year avg
GB Standard Pig Price (SPP)	p/kg dwt, w/e 20 August	198.06p/kg	+0.66p	+1.9%	+24.4%	+25.7%
Average carcase weight of standard pigs	Average in four weeks to 20 August, EU spec	87.53		-0.8%	+0.9%	+3.8%
Prime pig slaughter at GB abattoirs	Total during July 2022, thousand head	722.7		-3.2% (change in daily avg kill Jul v Jun)	-7.9%	-3.5%
UK pig market supply	Tonnes in Apr-June 2022	331,600			+4.9%	+7.2%

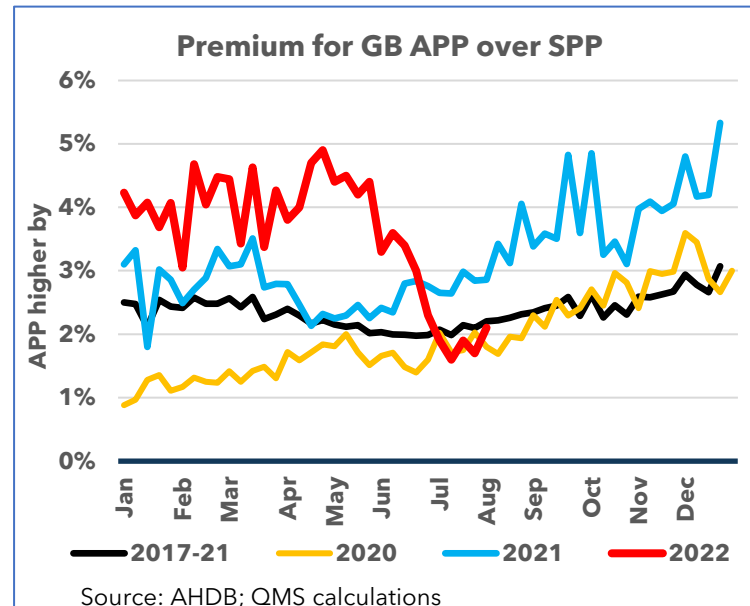
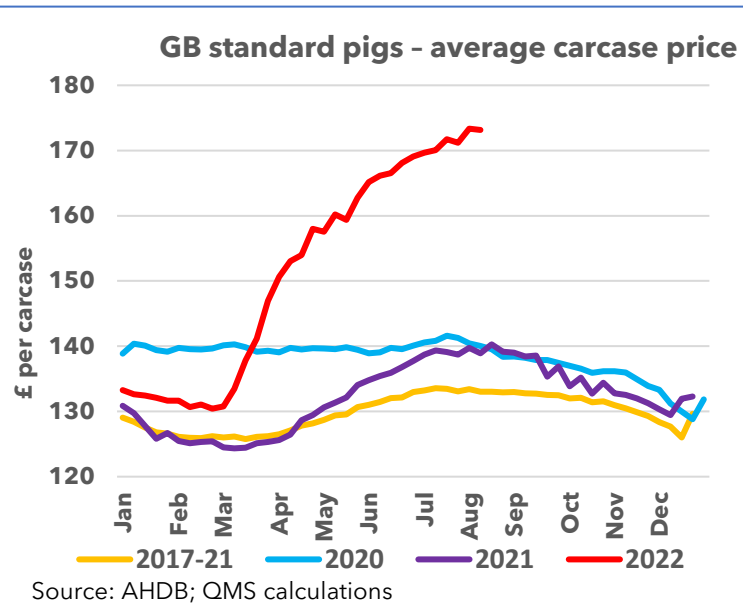
- Farmgate pig prices have continued to increase at a steady pace, beyond the traditional seasonal peak in late-July/early-August and indicators that were signalling significant market disruption have fallen back.
- Prices have held well above their five-year average despite a well-supplied market, suggesting that the processing sector is supporting farmgate prices in an attempt at maintaining a future supply of pork.
- Spot feed prices have fallen back from their highs but remain elevated well above year earlier levels.
- EU pig prices have risen strongly in August, narrowing the gap to GB prices, suggesting a reduction in the availability of cheap imports at a time when increased domestic supply is likely to be limiting import demand.
- Market prices in China have eased back a little after surging between mid-June and mid-July, but are still well above the levels of 2021, suggesting there are some stronger opportunities for exports.

Farmgate prices - prime pigs



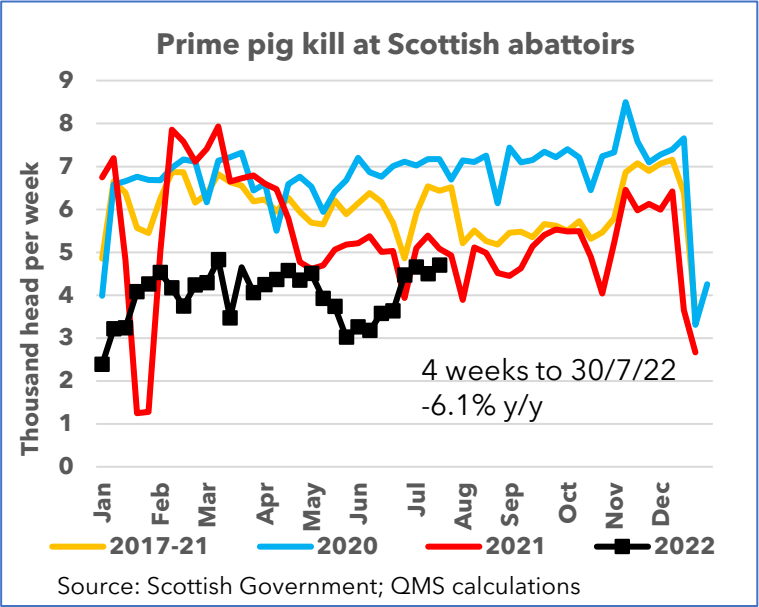
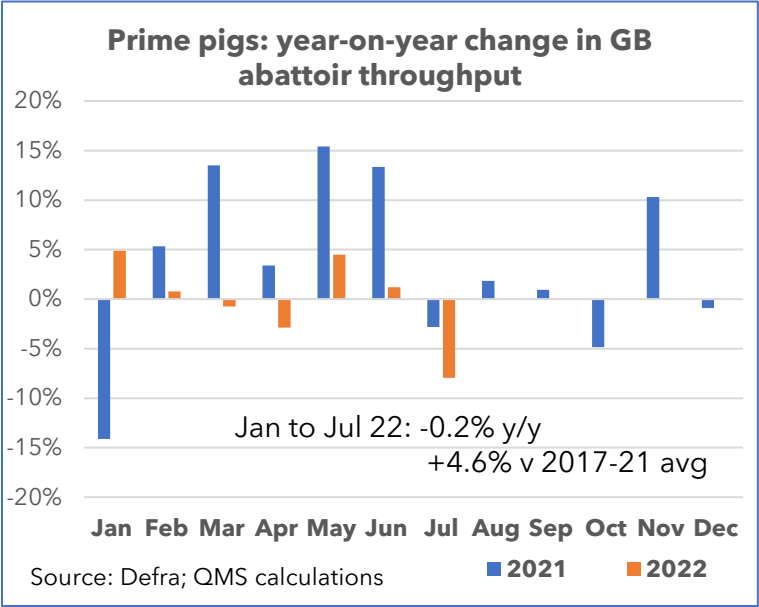
The pig market has continued to trend higher beyond the traditional seasonal peak in late-July/early August. Prices have risen by more than 40% from their low and are around 25% above their five-year average.

In a sign of reduced disruption, the premium for the overall average pig price (APP) over that of standard pigs (SPP) has fallen to a more normal level, meaning that pigs with specific production characteristics are no longer receiving exceptional premia in the marketplace, suggesting a more balanced market.



Nevertheless, production costs are still estimated to have held well above £2/kg.

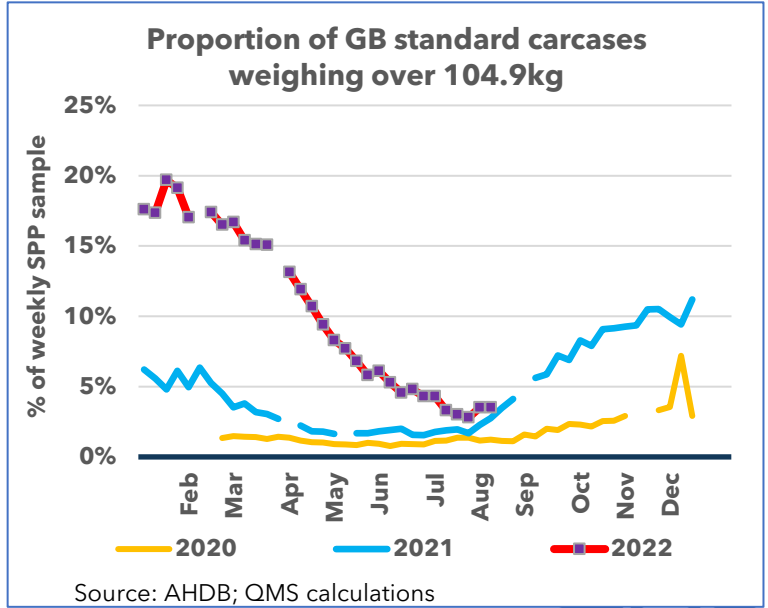
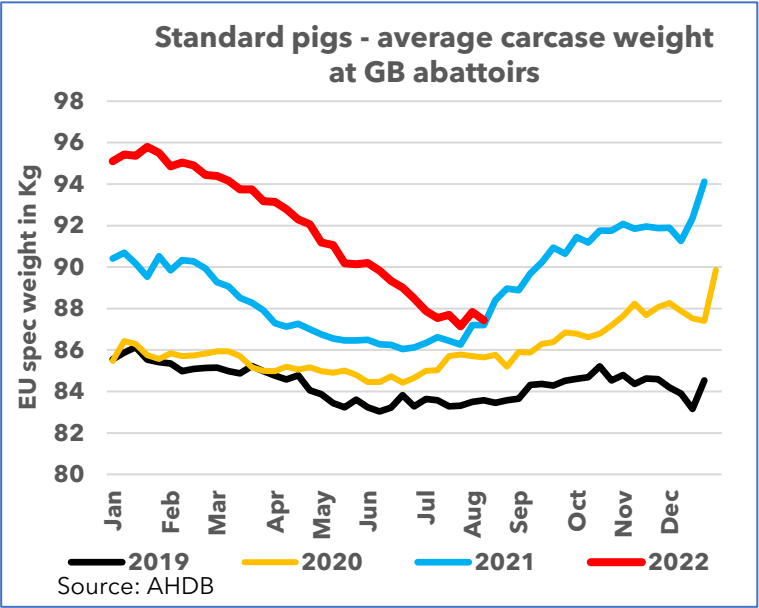
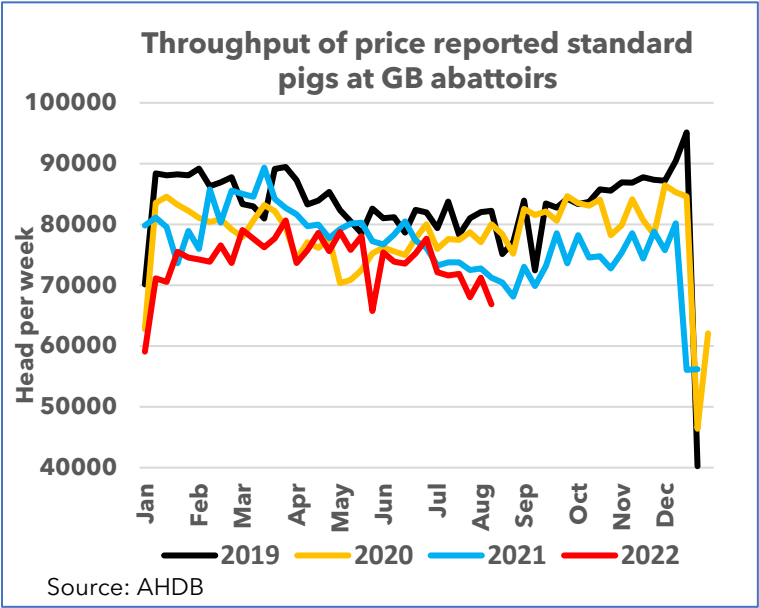
Availability and slaughter



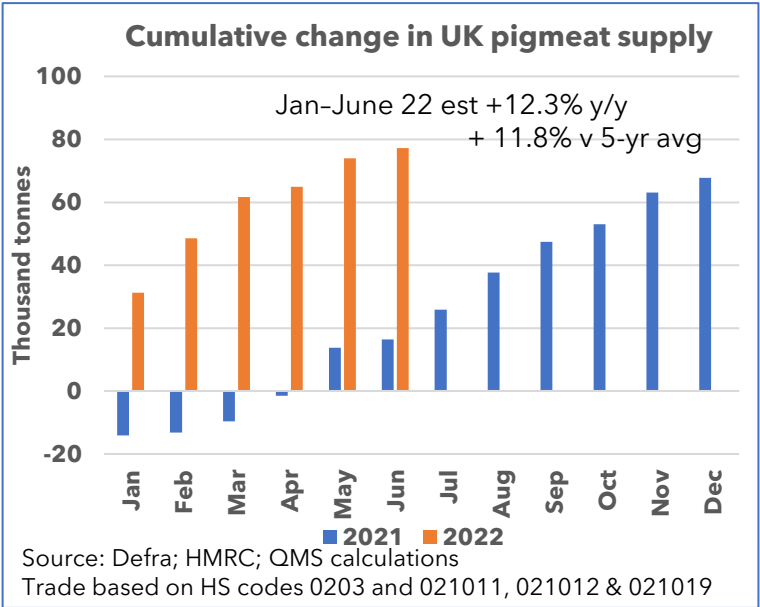
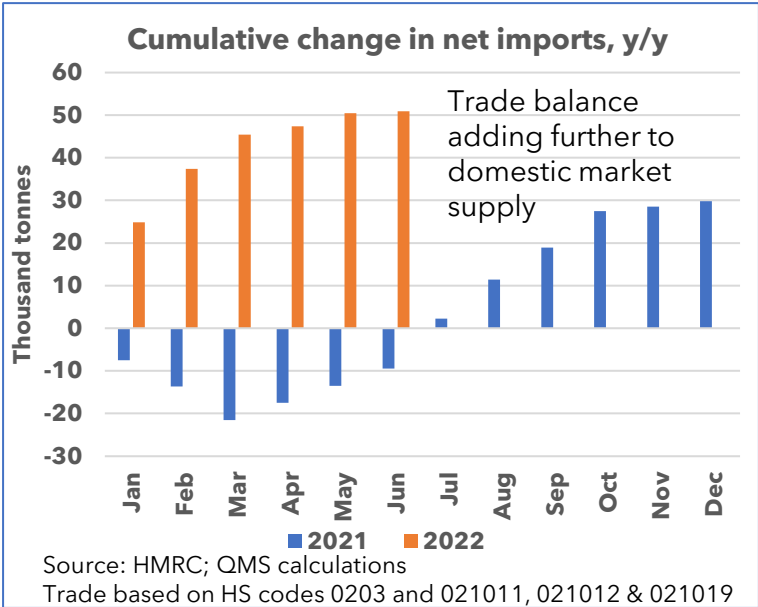
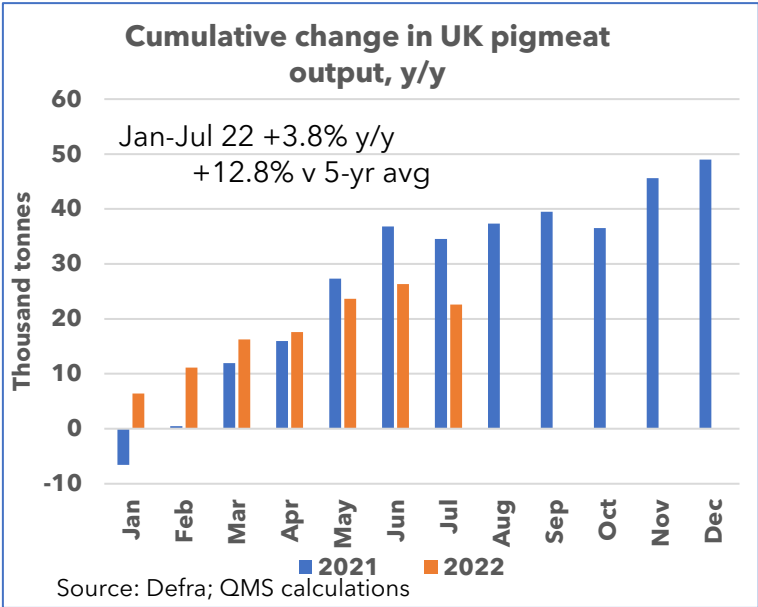
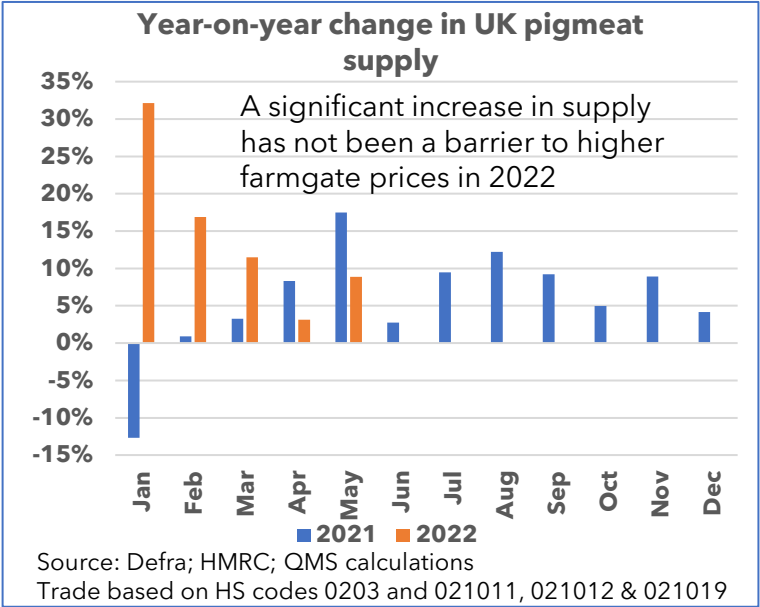
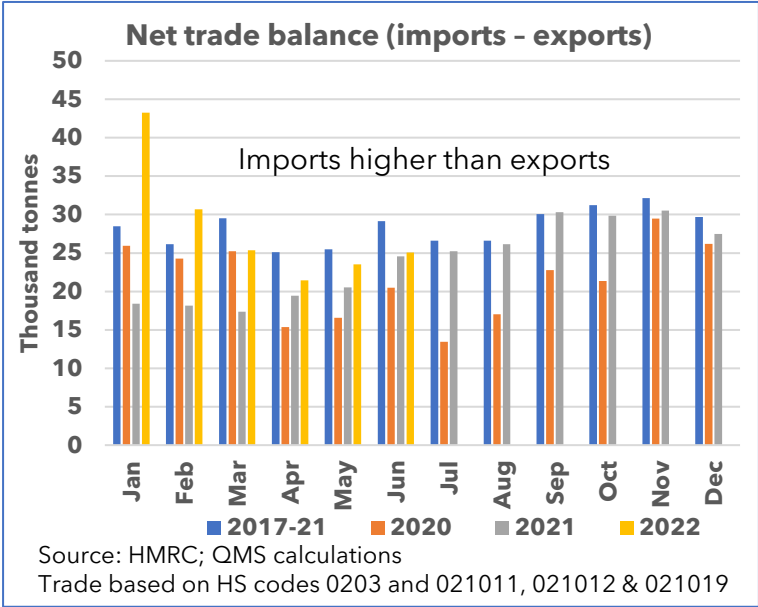
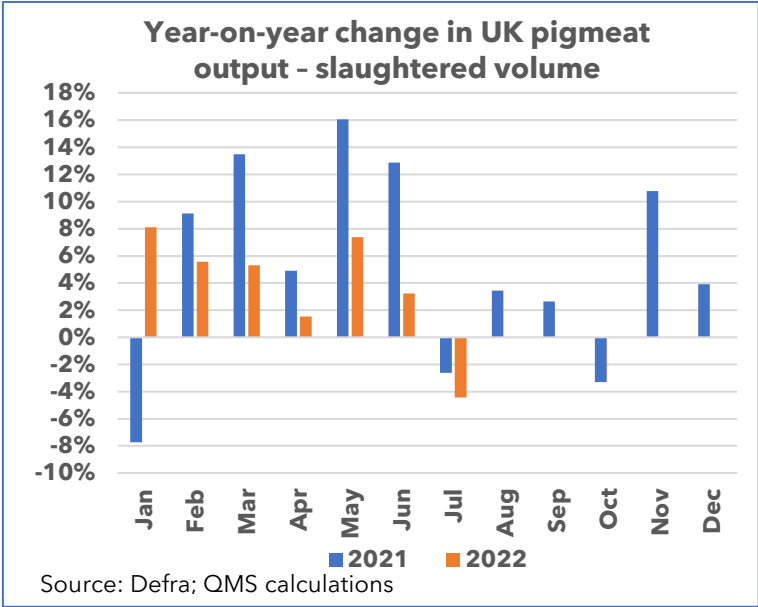
A contraction in the breeding sow herd appears to be passing through to reduced slaughter volumes at GB level, while a reduced backlog helped carcase weights to rebalance lower.

December Pig Survey, 2021		
	Female breeding herd y/y change	Fattening pigs y/y change
England	-6.9%	+10.6%

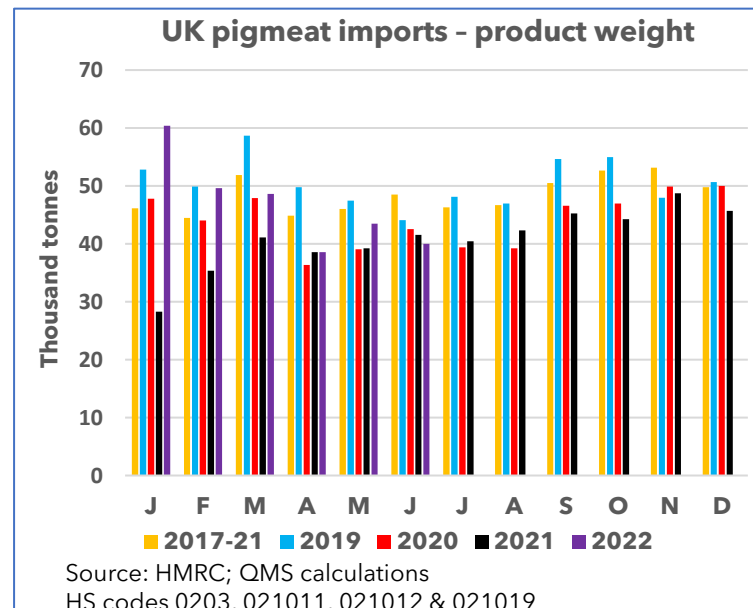
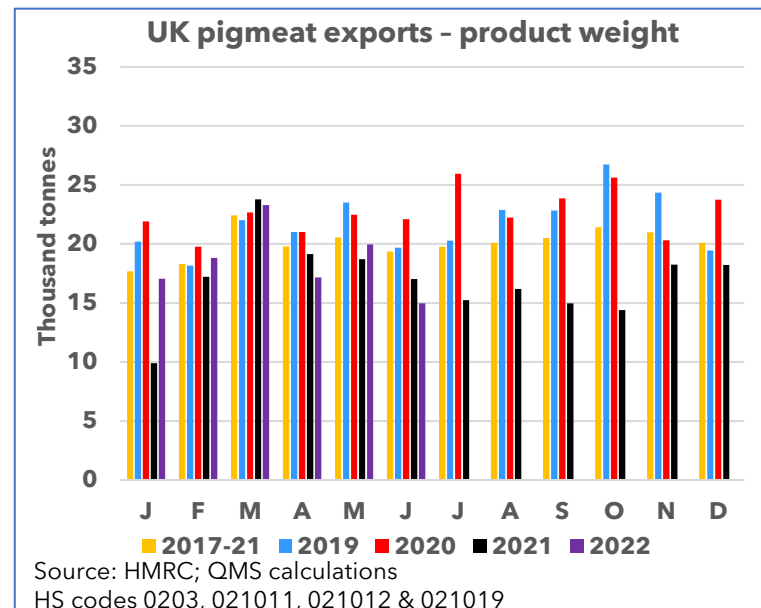
Source: Defra; Scottish Government; QMS calculations



UK pigmeat market supply: domestic production + (imports - exports) = supply



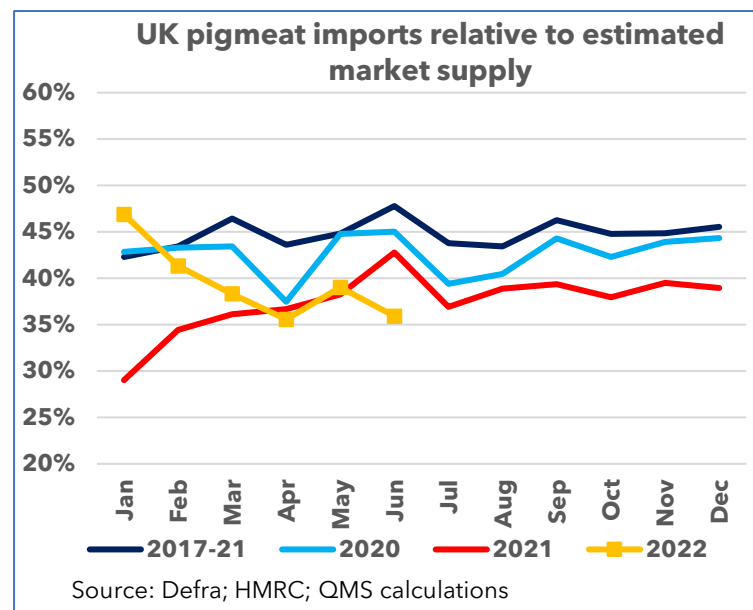
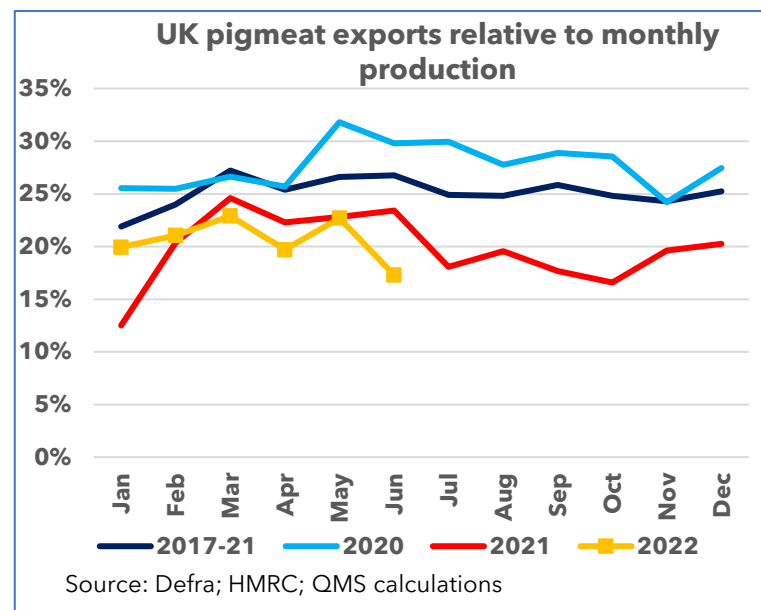
A focus on UK international trade in pigmeat



Rising domestic production and weak export demand have led to reduced import requirements. In addition, a rise in EU pork prices in March and April passed through to import prices in April and May, likely weighing on import volumes.

Exports to the EU have rebounded sharply from the lows of early 2021 but continue to lag well behind the five-year average despite reduced EU production.

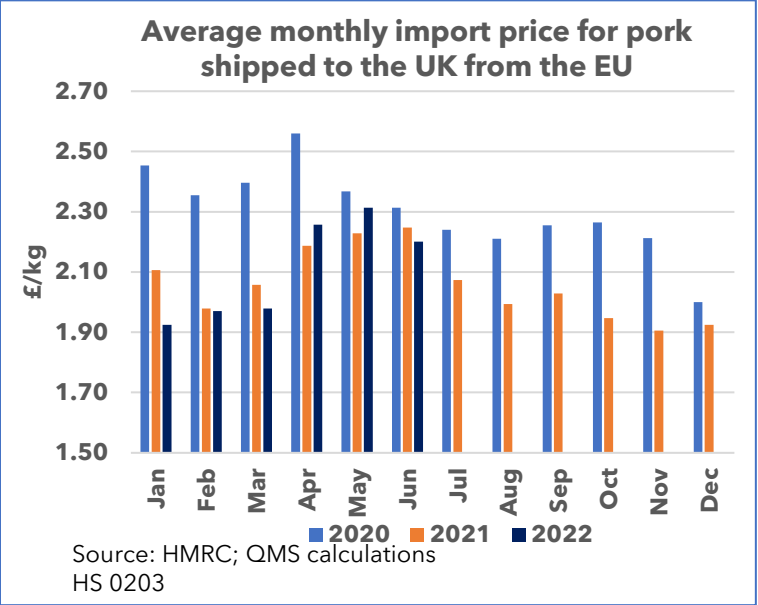
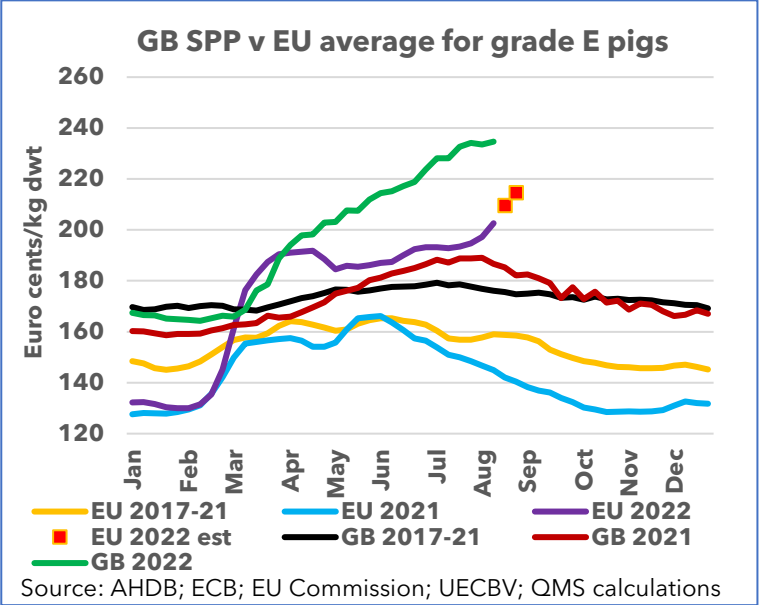
Though at a four-year low for the month, the volume exported to China still accounted for 30% of total shipments in June and it will be interesting to see if the surge in Chinese wholesale pork prices in July helped UK exports rebound.



Note:

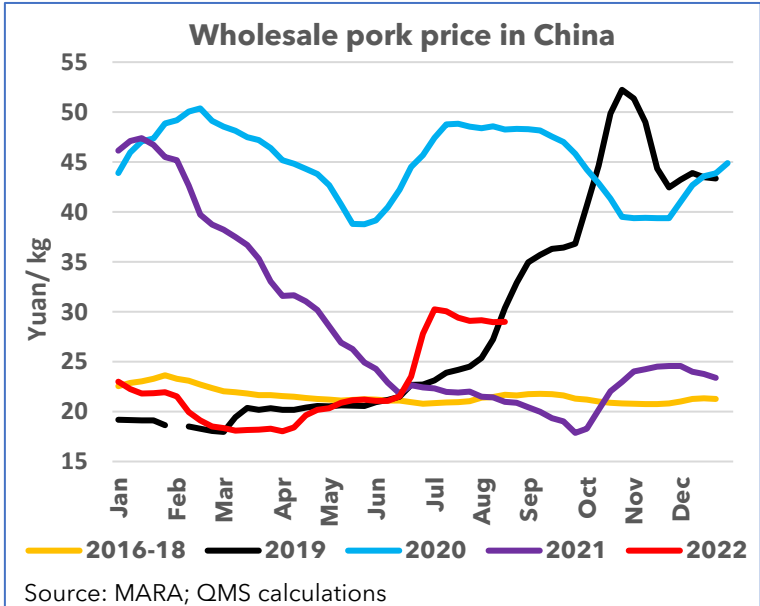
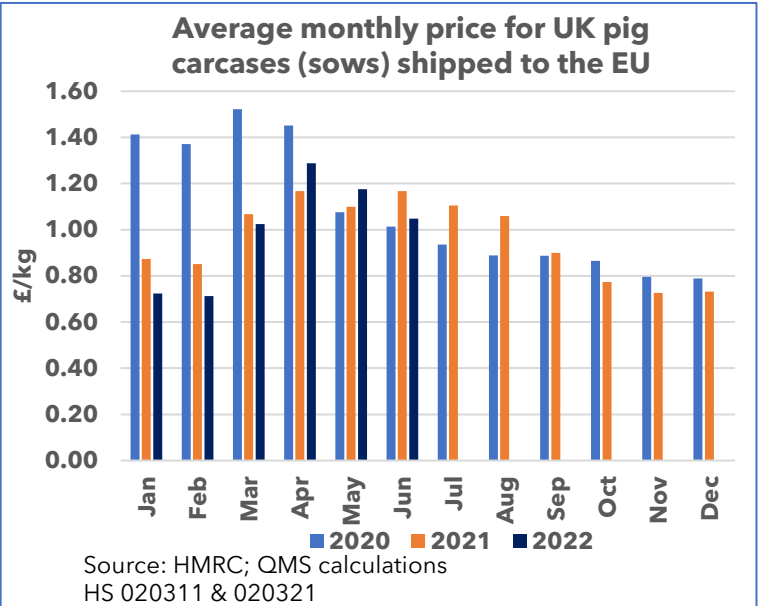
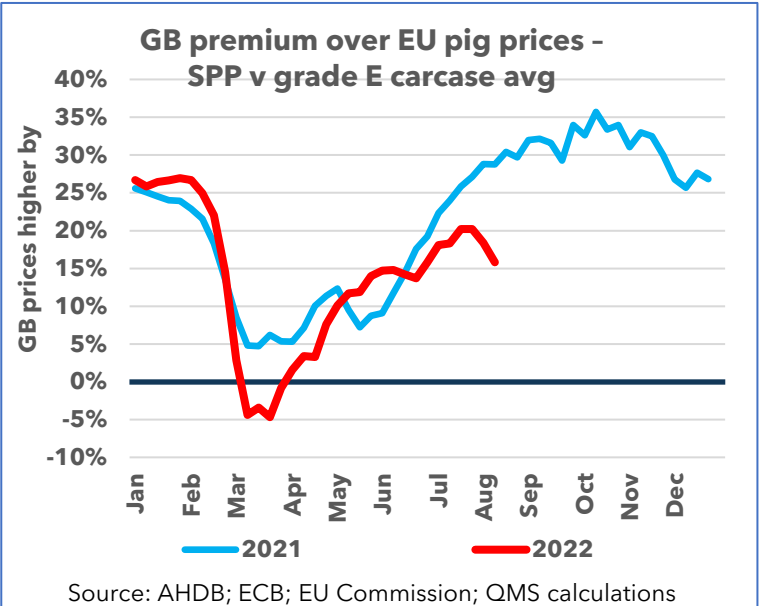
HMRC trade data used here covers HS codes 0203 (fresh or chilled & frozen swine meat) & 021011, 021012 & 021019 (bacon & ham).

Factors driving UK international trade in pigmeat – Chinese pork prices have steadied after surging in July while EU prices have begun to climb strongly in August



USDA Global Pork Market Forecasts, July 2022 (million tonnes carcass weight)					
Key indicators	2018	2019	2020	2021	2022
World, production	111.9	101.0	95.8	107.6	110.7
China, production	54.0	42.6	36.3	47.5	51.8
All countries, imports	8.6	9.4	11.7	11.6	9.7
China, imports	1.46	2.45	5.28	4.33	2.15
EU, production	23.2	23.0	23.2	23.7	22.6

Source: USDA Foreign Agricultural Service

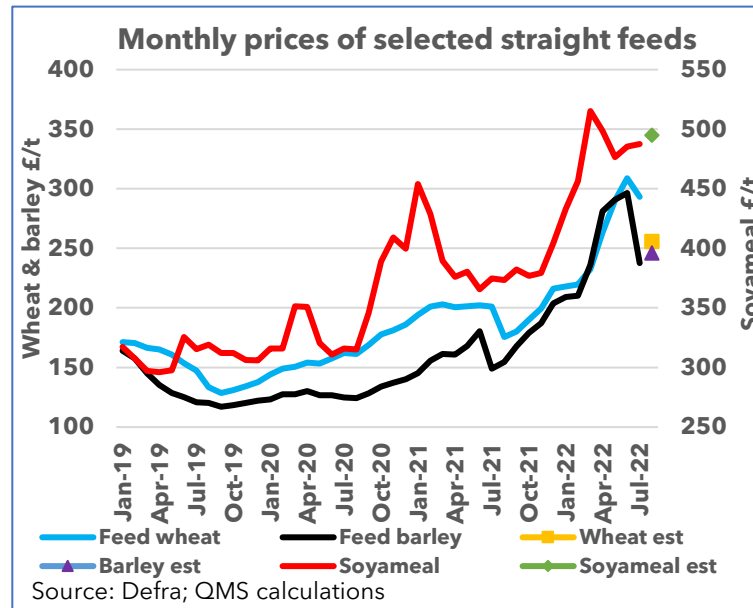
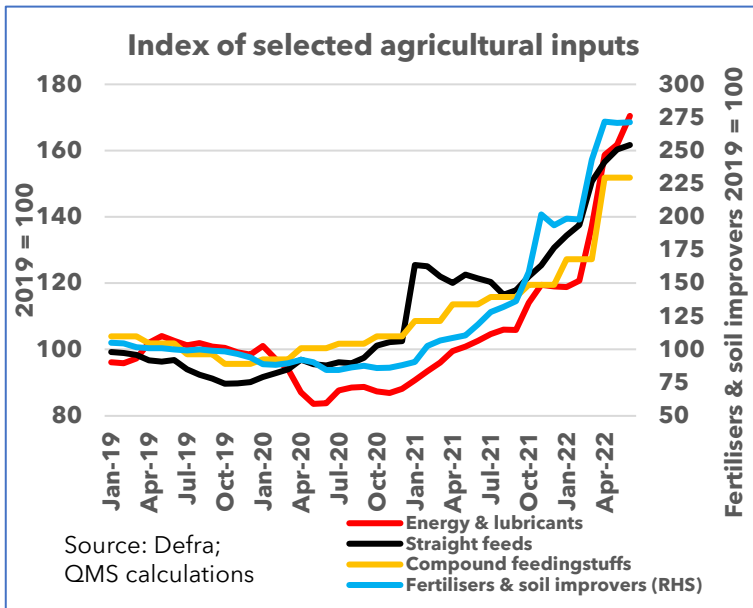


Summary of economic developments



- While off their highs, global commodity prices have continued to push up production costs for farmers and processors with past rises in raw material prices passing through to the cost of end products.
- A strong US dollar is limiting any declines in the price of imported commodities and the dollar is expected to remain strong during the period of global economic uncertainty and rising US interest rates.
- Consumer confidence is sliding as the cost of essentials increases faster than wages.
- Despite weakening consumer confidence, retail spending has risen since the spring, although significant inflation still meant that volumes lagged well behind year earlier levels at food stores in July.
- Business activity growth has now slowed and demand for staff may have passed its peak.

Production costs and by-product revenues



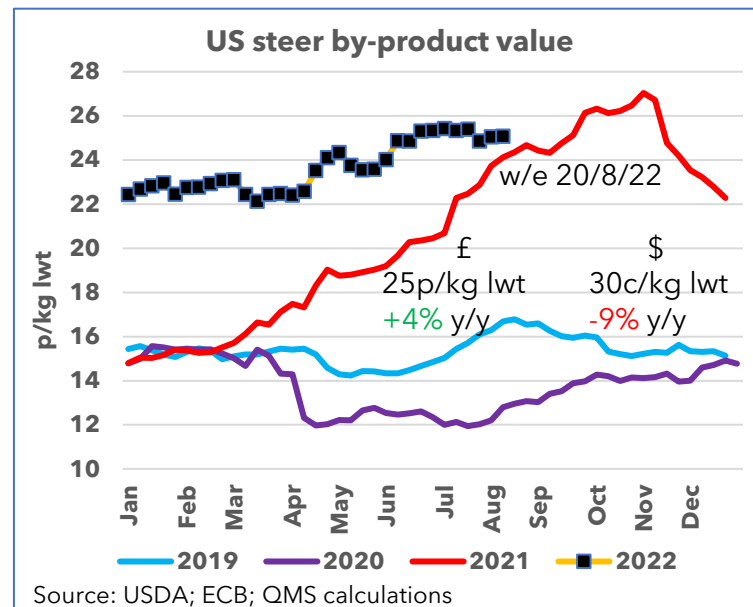
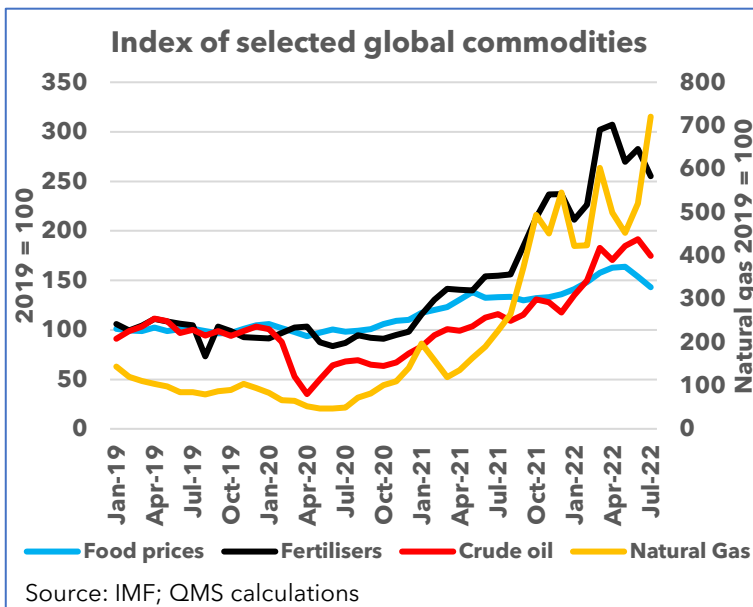
Costs have been rising sharply for farmers and processors for much of the past two years and while some commodity markets have softened, gas prices have surged again, with consequences for energy bills and the cost and availability of related products such as fertiliser and CO₂.

Spot feed prices have rebalanced lower due to the resumption of grain exports from southern Ukraine; though prices remain elevated, 40-50% higher than last year.

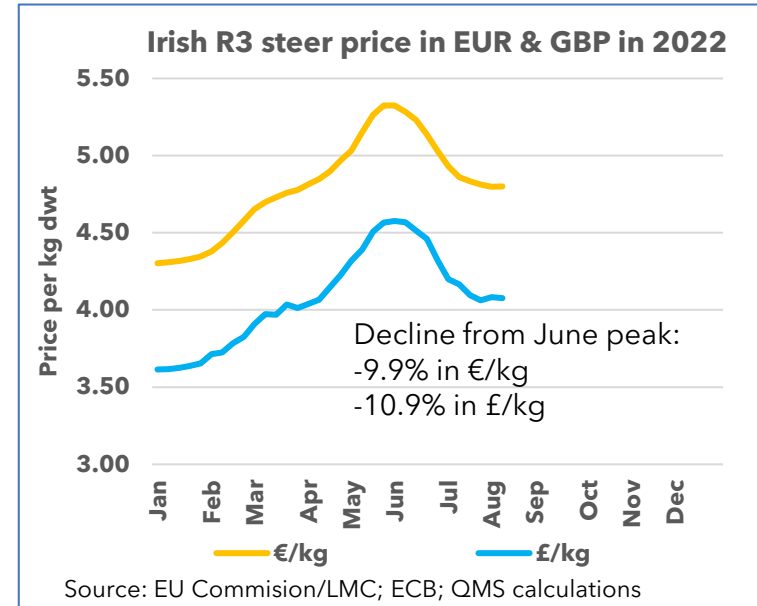
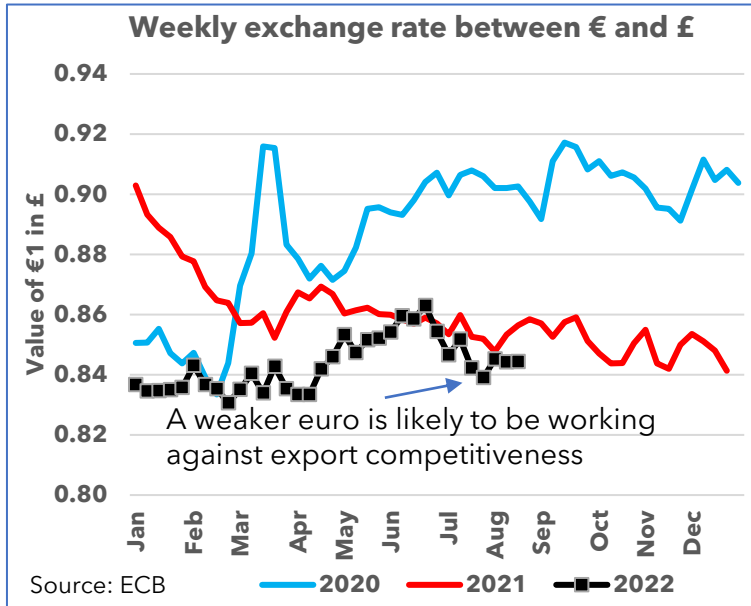
Higher feed prices have not led to a reduction in prime cattle carcase weights at Scottish abattoirs this summer, with weights edging above 2021 levels.

Since commodity price spikes pass through to end product prices over time as contracts are renewed, businesses will face cost squeezes at a different pace and times.

By-product value has been supported by firm commodity markets and a rising US dollar but hide value has remained well below its autumn 2021 peak and continues to trail year-earlier levels (-46% in USD; -37% in GBP).

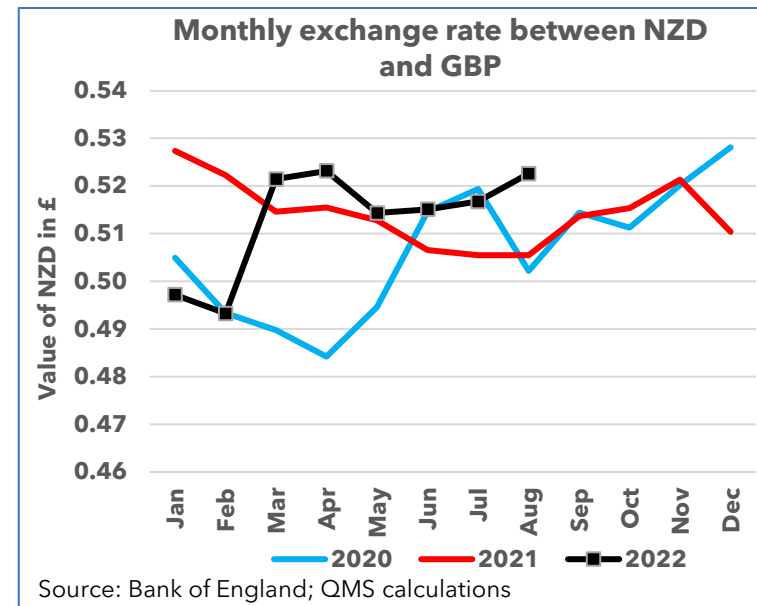
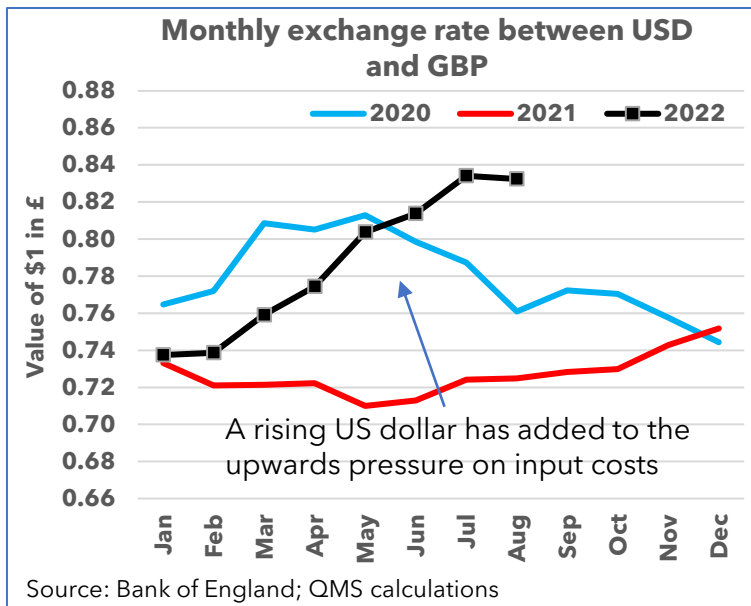


Exchange Rate Movements – weak pound, but an even weaker euro



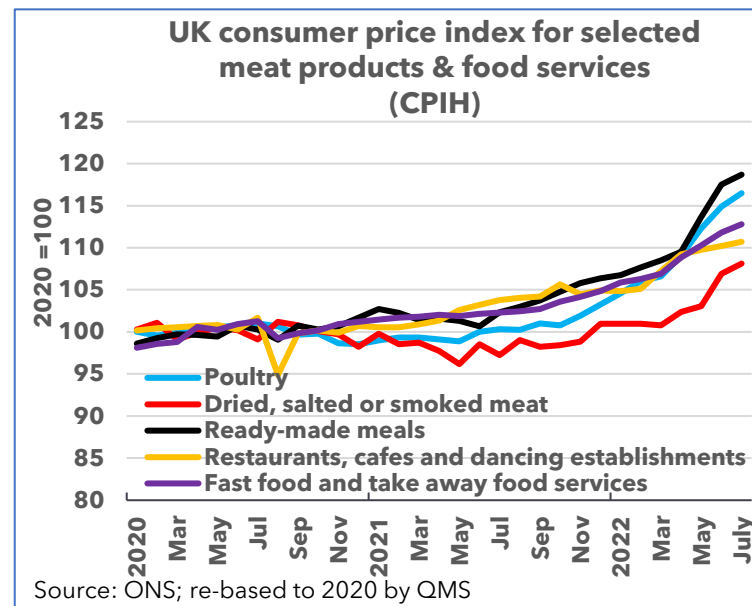
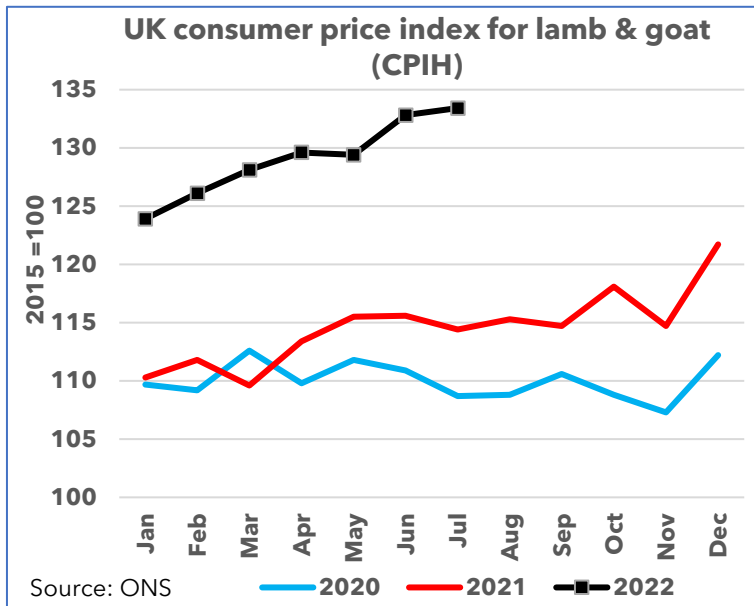
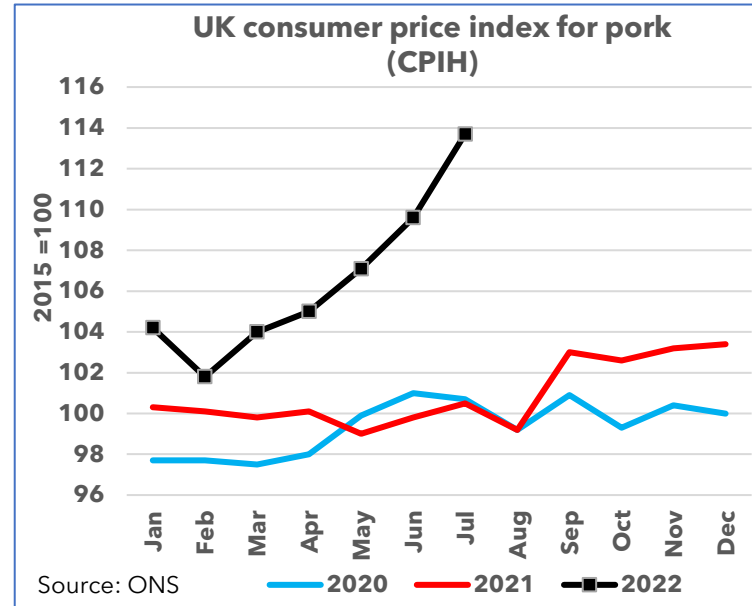
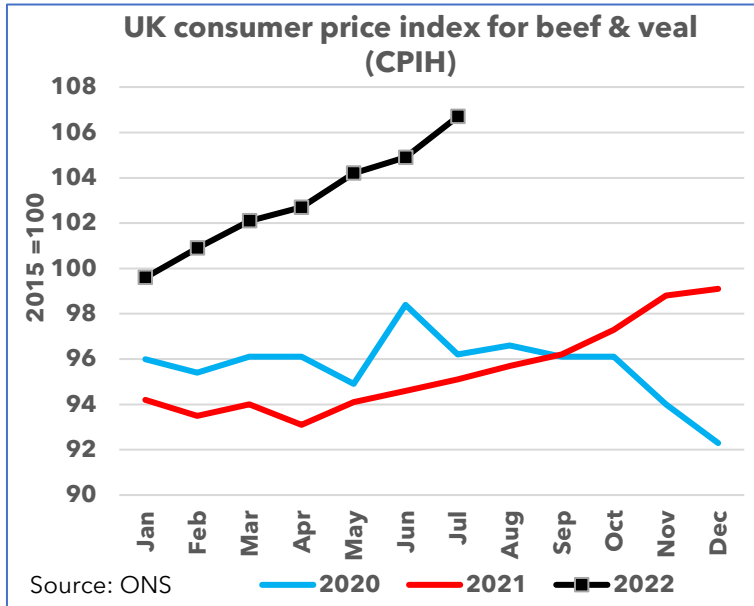
A weaker euro is likely to have worked against GB export competitiveness since June, and has added to the decline in Irish beef prices. Meanwhile, the rise in sterling after the zero tariff and quota trade deal with the EU has continued to pressure competitiveness over a longer period.

The US dollar continues to receive support from the US position as a safe-haven for investment, added to by a path of rising interest rates due to the country's tight labour market and inflation in consumer services prices.



A strong USD adds to the pressure on the cost of many imported inputs while supporting returns on dollar-denominated exports to third countries.

Retail demand and prices

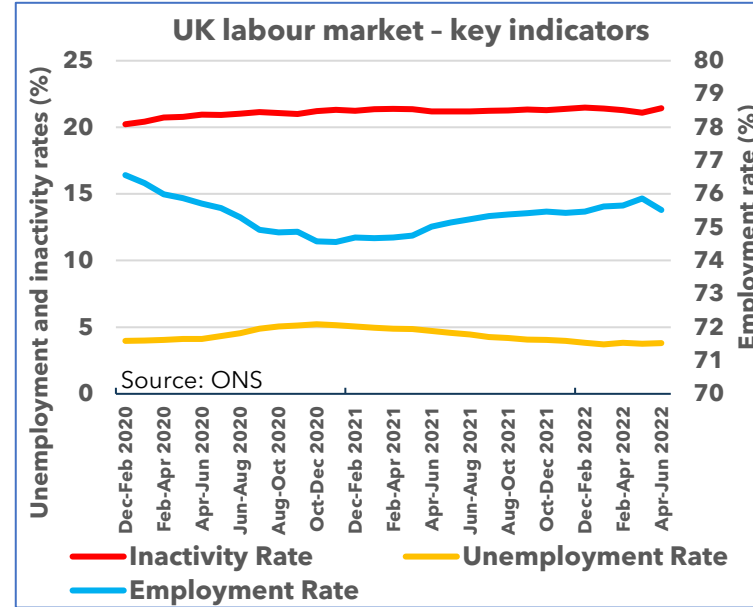
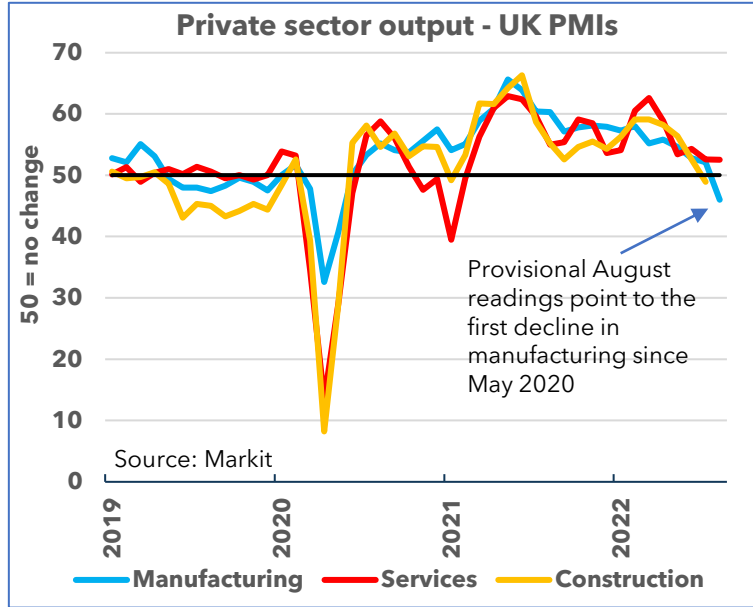


Retail demand has continued to soften moving into summer with people less hesitant to dine out and more people going on overseas holidays.

Retail prices have continued to trend sharply higher, for both meat and food services. This has added further to the downwards pressure on retail sales volumes, particularly for lamb, which has seen a significant fall in the share of households buying it (though sales have held up amongst those still buying it).

Coupled with a spike in the price of many other essential purchases, rising prices have been driving a shift in spend towards cheaper cuts and proteins.

Economic indicators



With wage growth averaging around 7% in the private sector and under 2% in the public sector this year, households are feeling the squeeze from rising prices for essential goods and services. Meanwhile expectations of a further surge in energy bills over the winter are adding to concerns.

Energy price inflation surged after April's price cap rise, reaching 58% in July. Meanwhile, July saw the cost of petrol and diesel rise by a respective 43% and 46% on a year earlier and food price inflation approached 13%.

Retail sales have been trending higher since the spring, but despite a brighter July, inflation meant that volumes were still down by 3% on the year overall, and by 4.4% at food stores.

Business activity growth has cooled and demand for staff may have passed its peak, particularly in manufacturing. Provisional PMI survey results for August point to a slowdown in input cost rises and that softer demand has limited the ability of firms to pass on their higher cost base to end prices.

