

# QMS Monthly Market Update - July 2022

**Purpose:**

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

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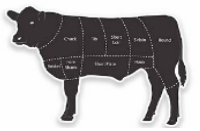
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Data Disclaimer: All deadweight price data used in this report is supplied to QMS by AHDB, who collect the data from reporting abattoirs each week and publish a consolidated set of data, regionally within GB for cattle, and GB-wide for sheep and pigs.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

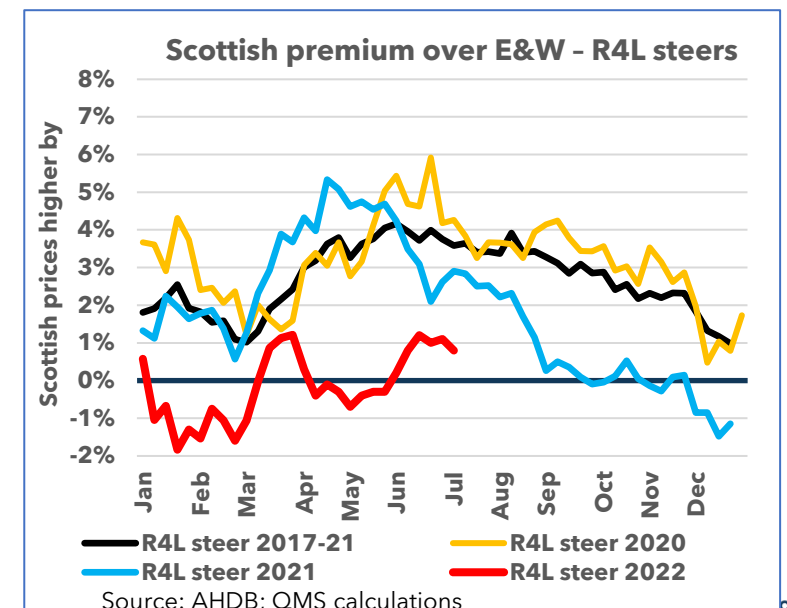
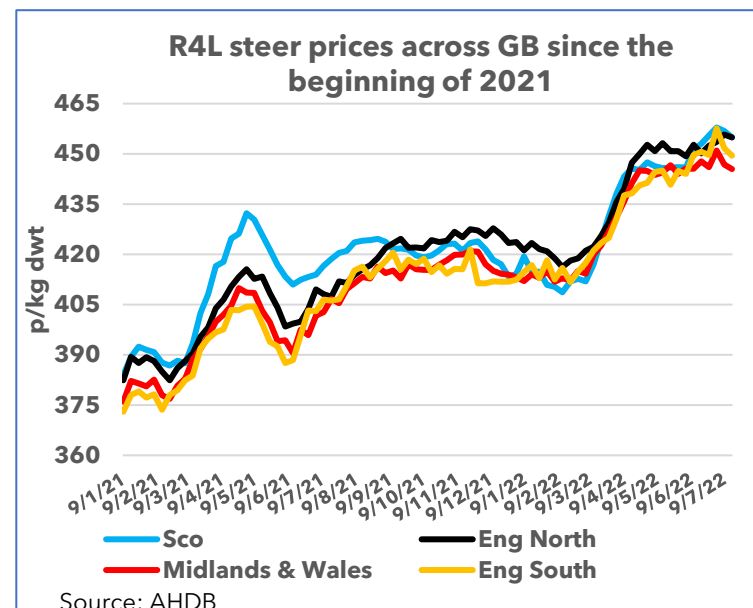
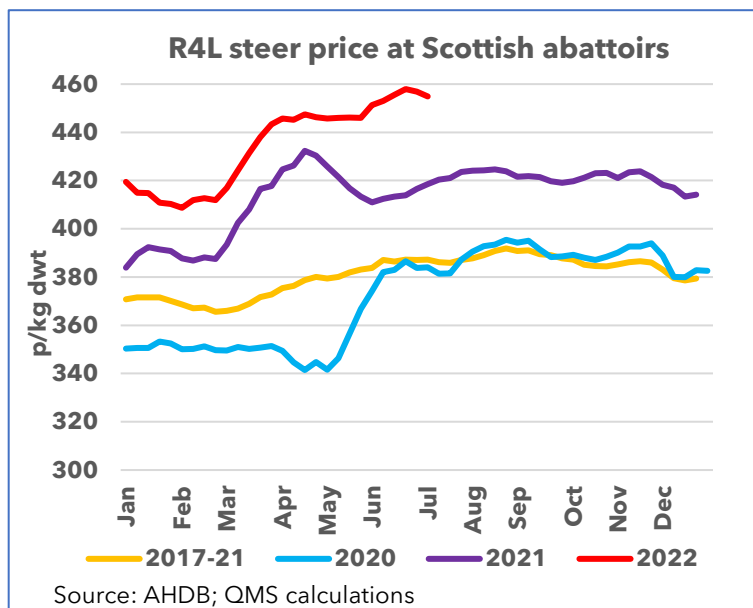
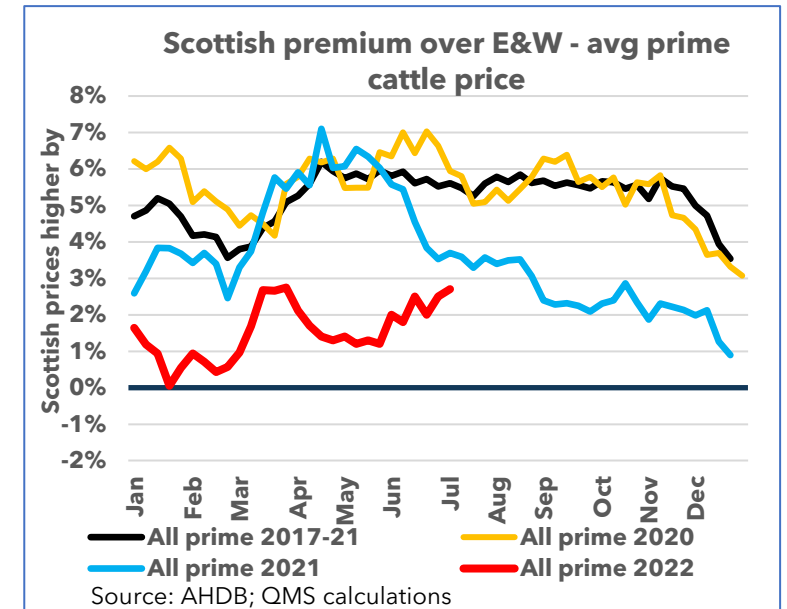
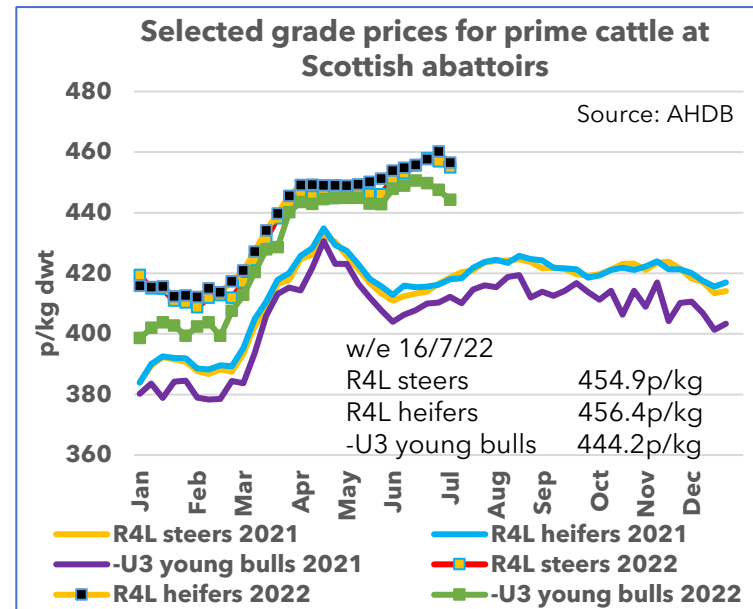
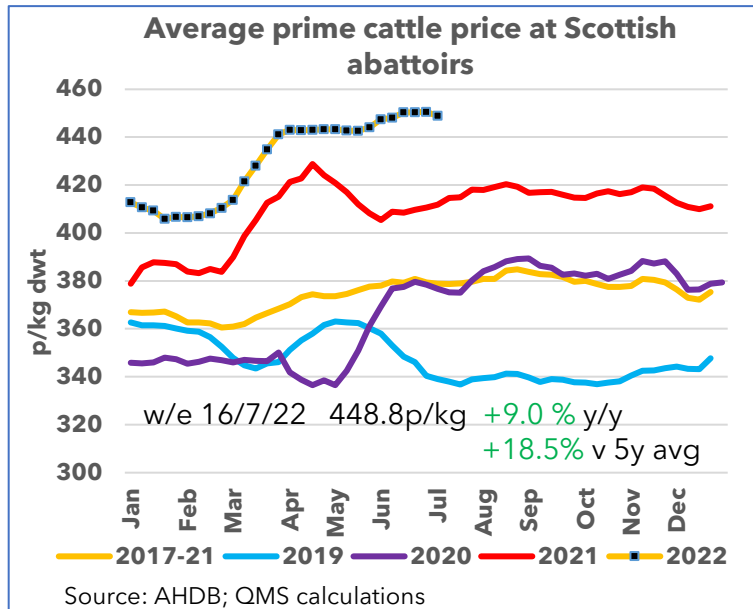


Report Category	Basis	Average price or volume	Change on week	Change over four weeks	Change on year	Change on 5-year avg
R4L steer price at Scottish abattoirs	p/kg dwt, w/e 16 July	454.9	-2.0p	+0.4%	+8.7%	+17.5%
Prime cattle slaughter at reporting Scottish abattoirs	Average in four weeks to July 16, head procured deadweight	6,308		+1.8%	+2.1%	-3.6%
Store price at Scottish auctions for steers aged 12-18 months	Average in four weeks to July 16, £ per head	£1,059		+10.2%	+3.0%	+14.1%
UK beef market supply	Tonnes in Apr-June 2022 (estimate)	250,700			+0.7%	-0.4%

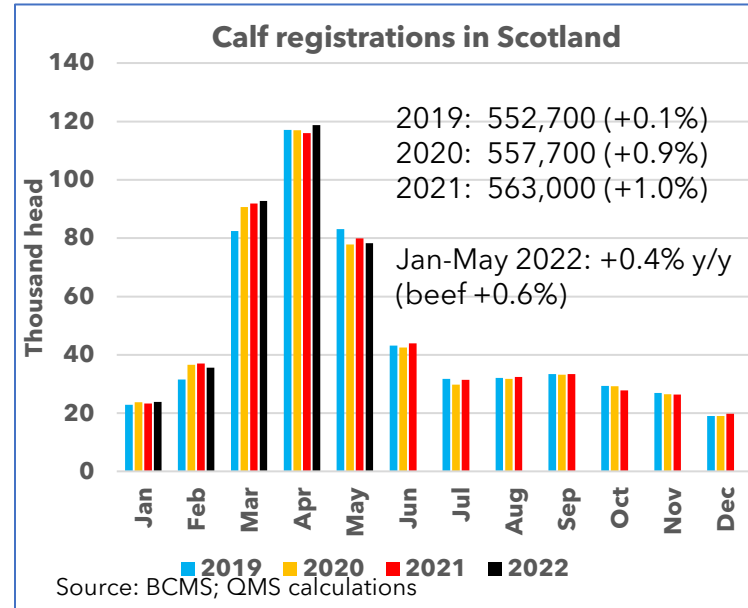
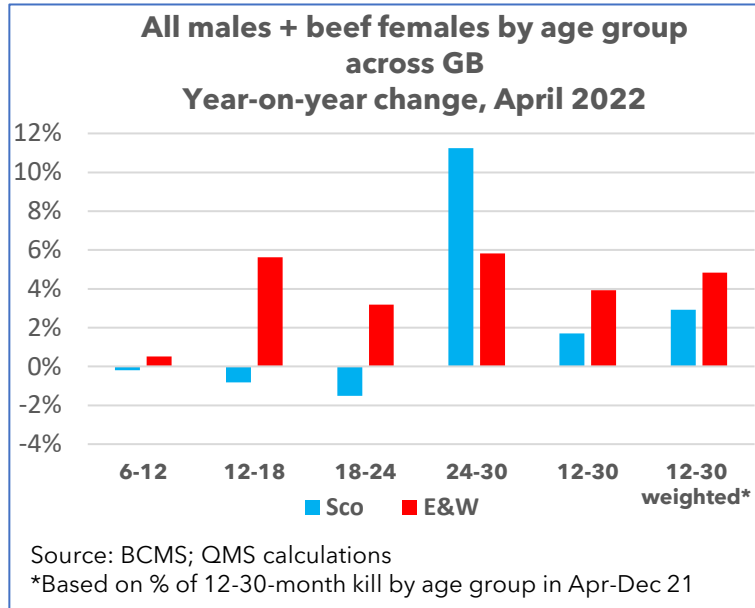
- Prime cattle prices have begun to soften in July but remain elevated well above previous levels for the time of year.
- Availability is expected to be tightening slightly relative to 2021 in Scotland now that the increased pool of spring-2020-born calves will have largely been used up. By contrast, numbers are expected to be picking up slightly in England & Wales.
- UK beef output and overall market supply are estimated to have risen slightly from last year in the second quarter but remain tight compared to the five-year average, supporting market prices.
- Cow prices have begun to soften but remain much closer to prime cattle prices than usual. However, the market data does not yet point to a significant herd contraction being underway.
- With trading at a seasonal low, store prices are showing volatility but prices for shorter-keep stores have held up better, likely reflecting a shift in demand from finishers facing sharply higher feed costs.



# Farmgate prices - prime cattle



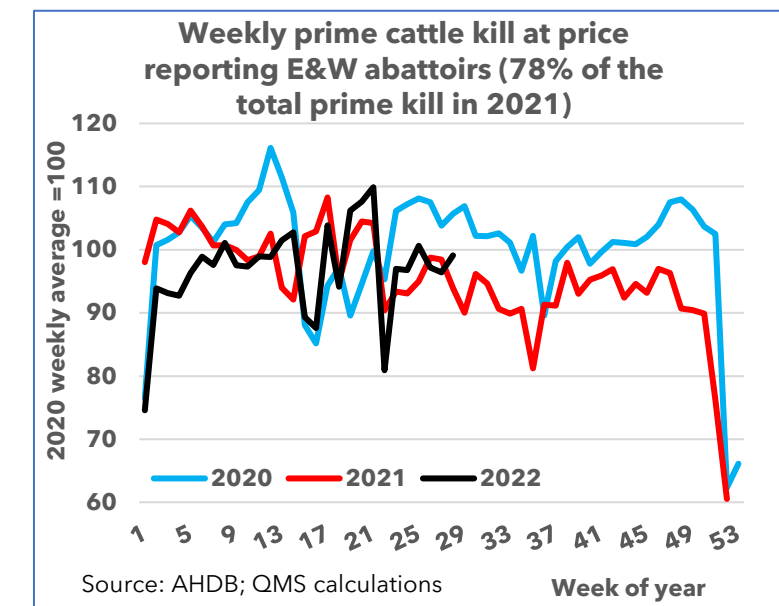
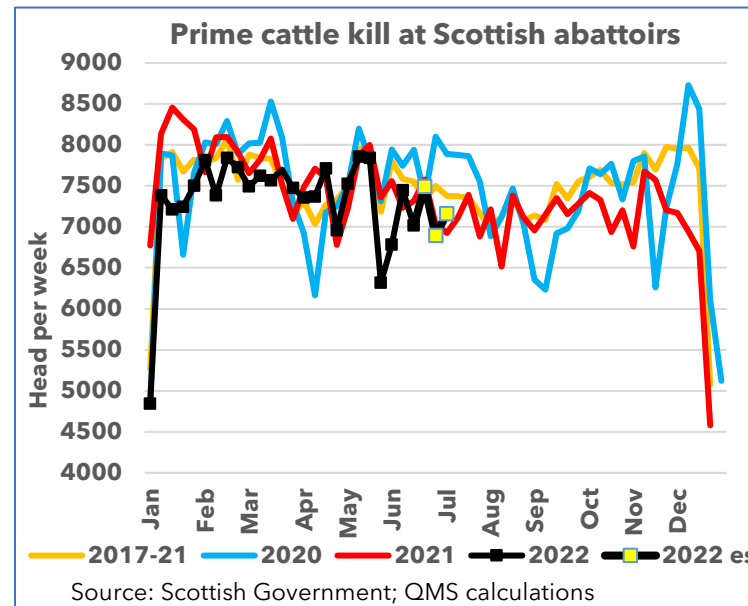
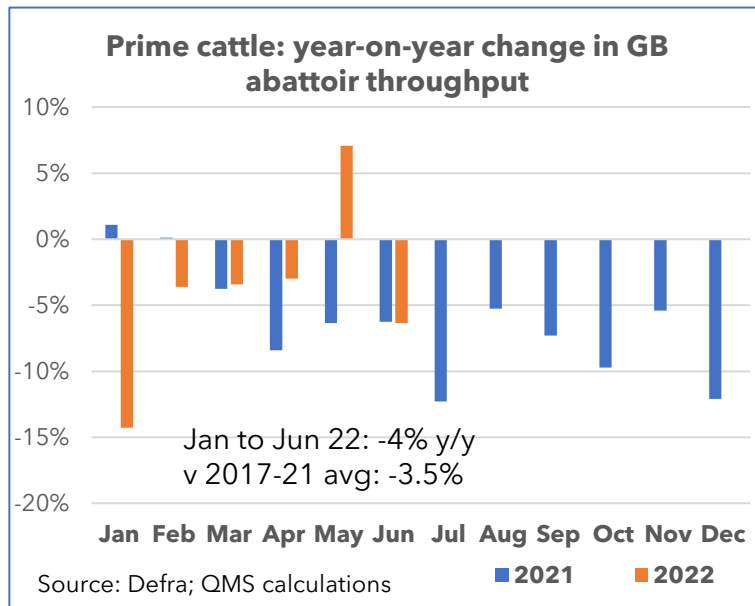
# Availability and slaughter – continuing puzzle of increased availability but reduced slaughter



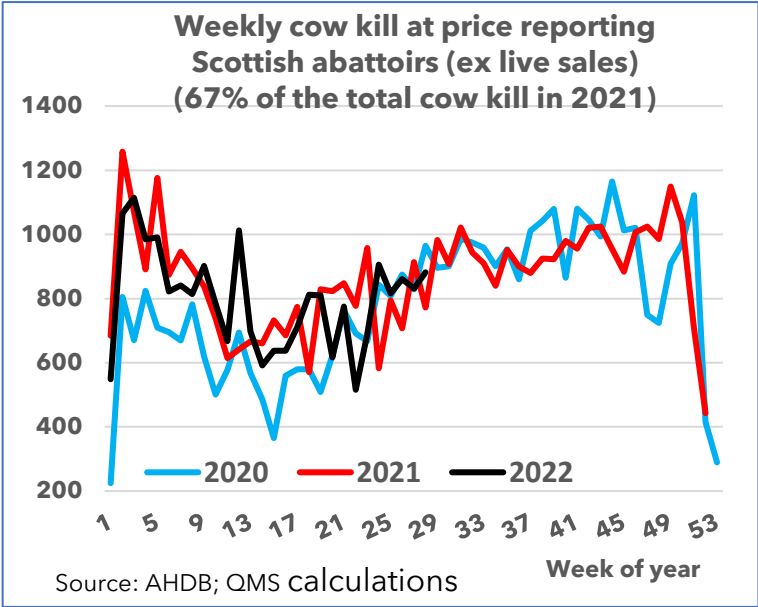
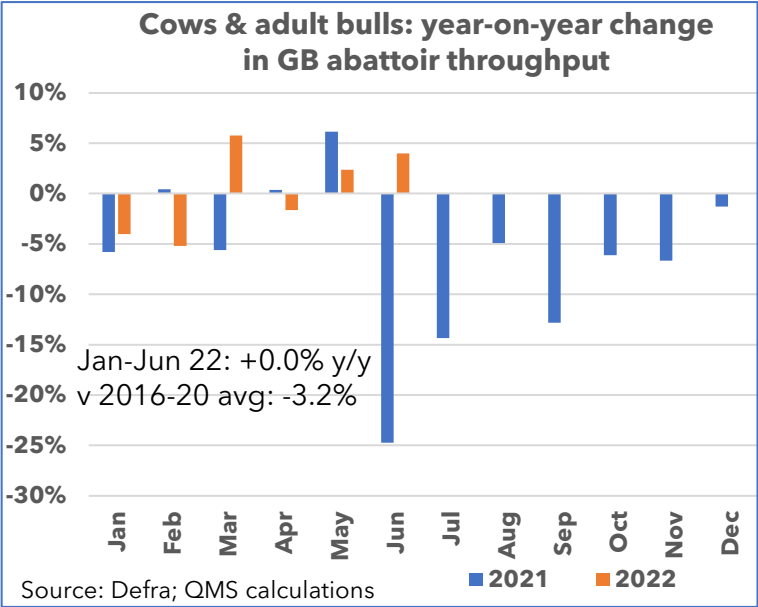
While BCMS cattle population data for April indicated a continuing strong year-on-year increase in prime cattle aged 12 to 30 months on Scottish farms, it has been driven by the pool of spring-2020 born prime cattle which have taken longer to finish, while numbers have begun to tighten at younger ages.

In a reversal of the previous position, the pool of slaughter cattle on farms in England & Wales is now showing a stronger rise than in Scotland, with significant increases in each age group.

Looking forward, the population data points to a reduction in both store cattle volumes and finished cattle in Scotland, with finished cattle availability likely to tighten once the remaining spring-2020 calves have been processed. However, because slaughter was low in late-2021, it could still exceed year earlier levels in the second half.

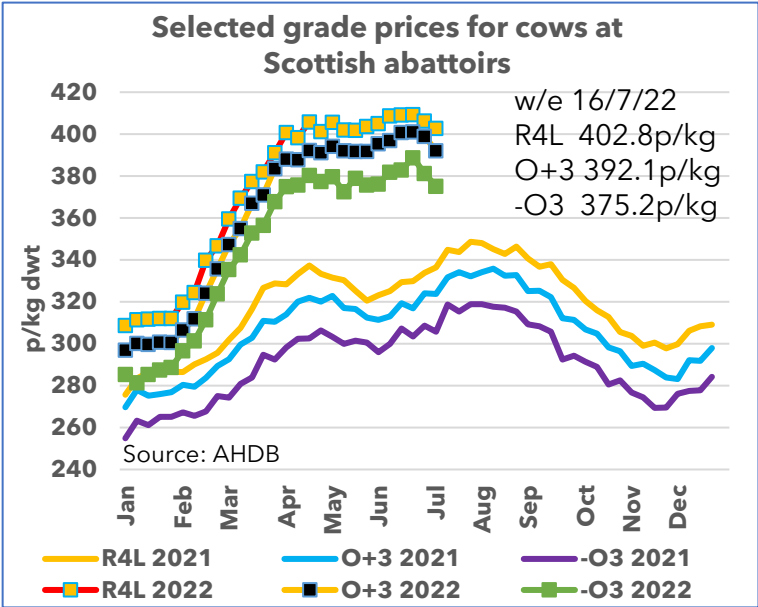
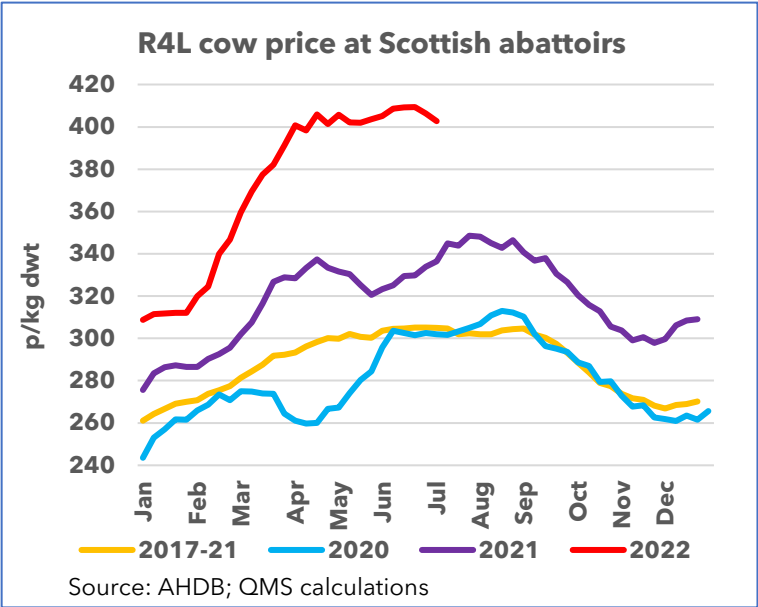


# Mature cattle market – seasonally firm, with limited evidence of significant herd reduction yet



While around 11% more cows have been sold at Scottish auctions than in 2021 so far this year, GB abattoir slaughter was flat in the first half, and the year-on-year change in females over 30 months on Scottish farms was little different between January and April.

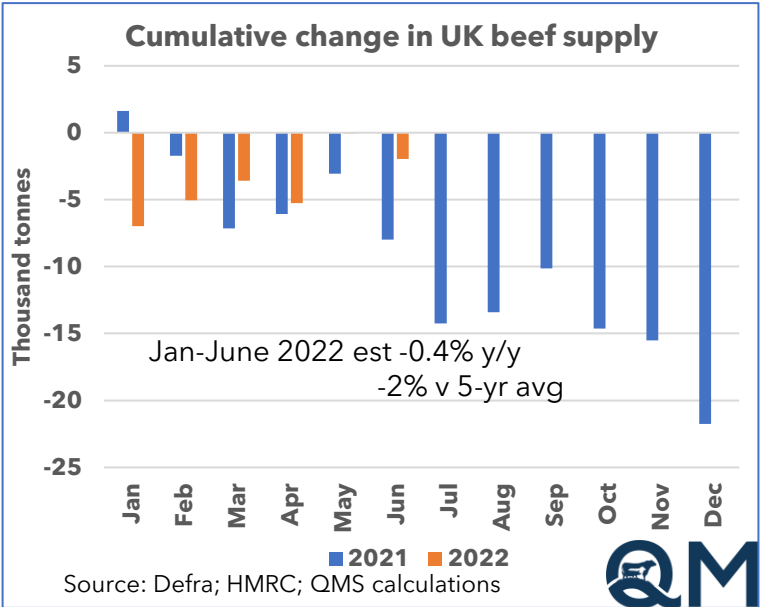
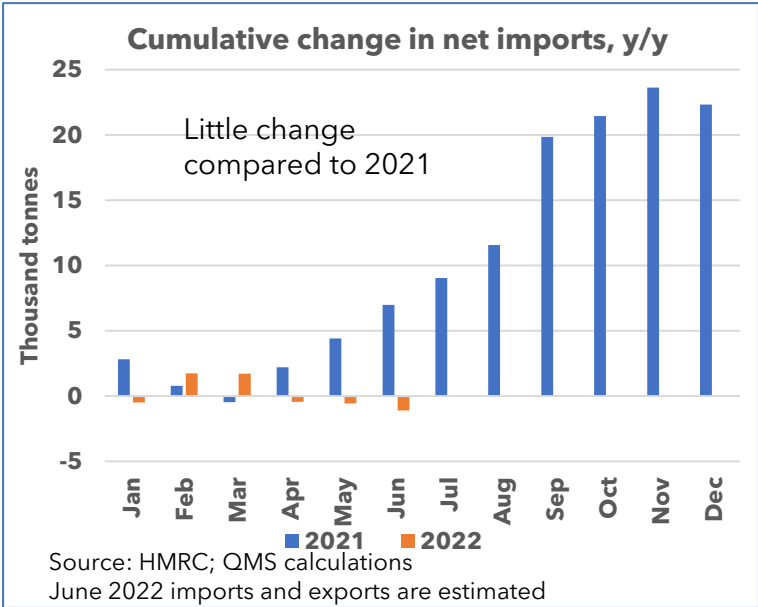
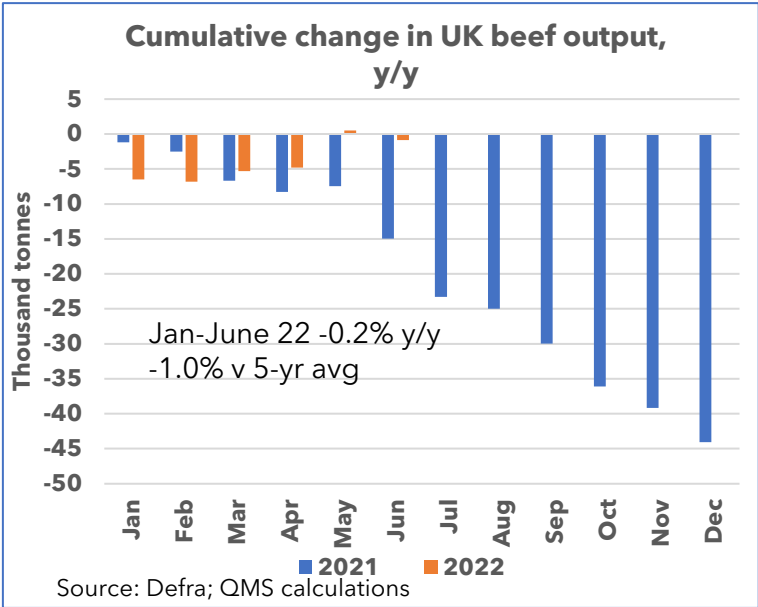
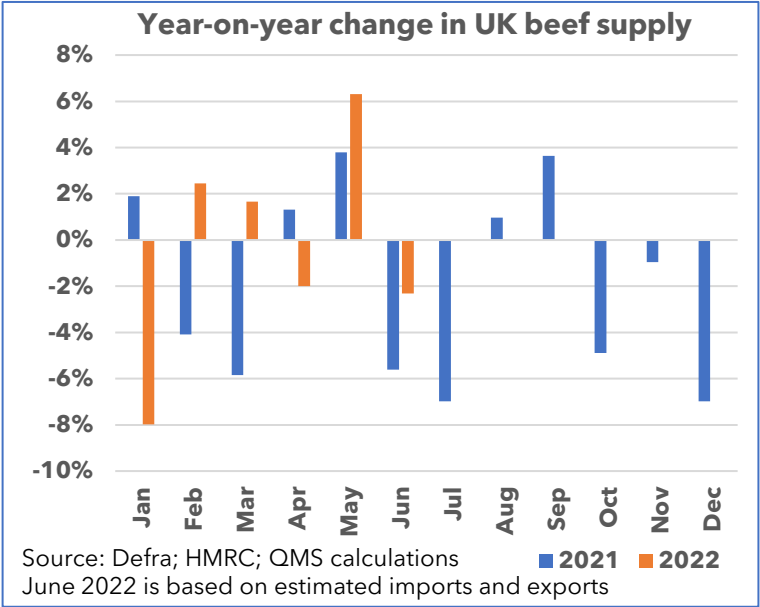
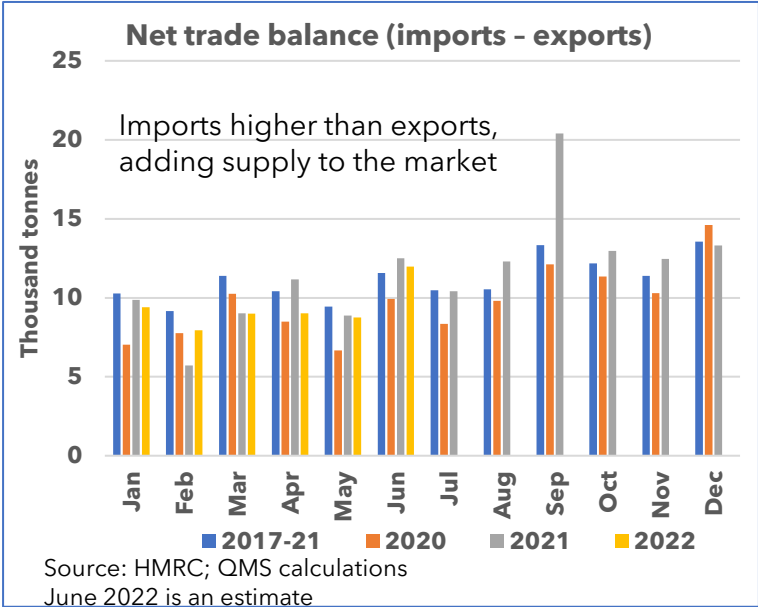
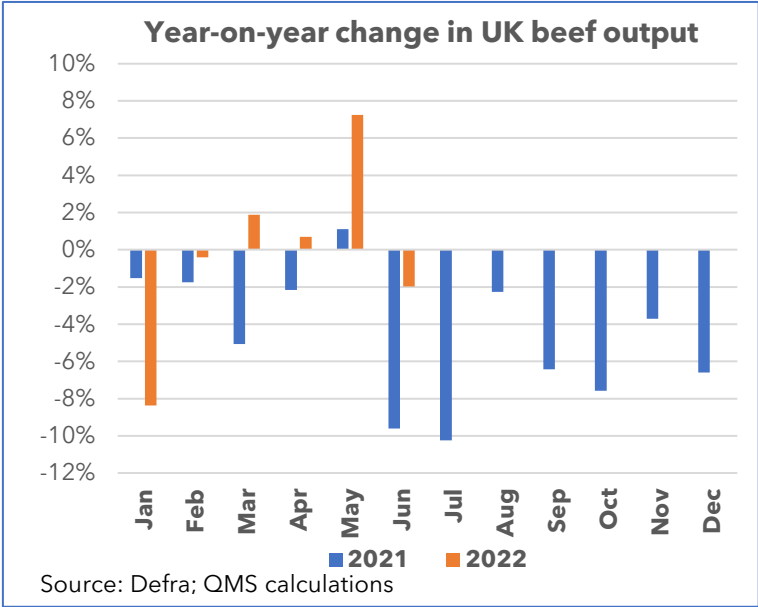
A lack of cheap alternatives from the EU for manufacturing grade beef and firm demand due to economic conditions continue to underpin prices. However, they appear to be coming under some pressure in July as slaughter climbs from its seasonal low.



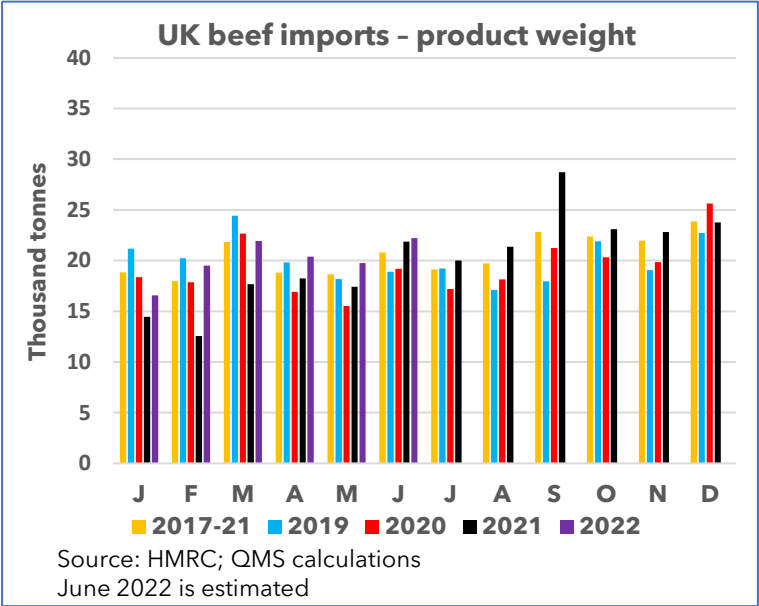
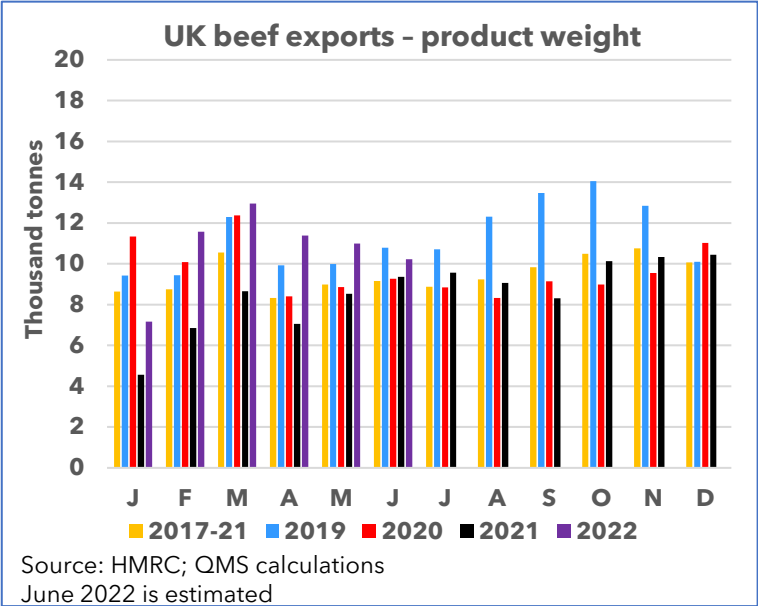
Females aged 30 months+ on Scottish farms (y/y change)			
Month	Dairy	Beef	All
Jan 2022	-1.3%	-0.4%	-0.6%
April 2022	-1.1%	-0.7%	-0.8%

Source: BCMS; QMS calculations

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

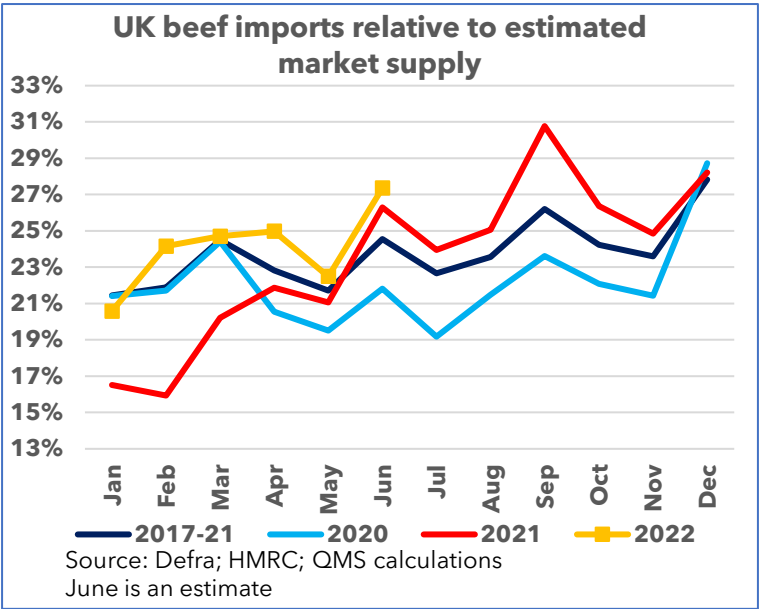
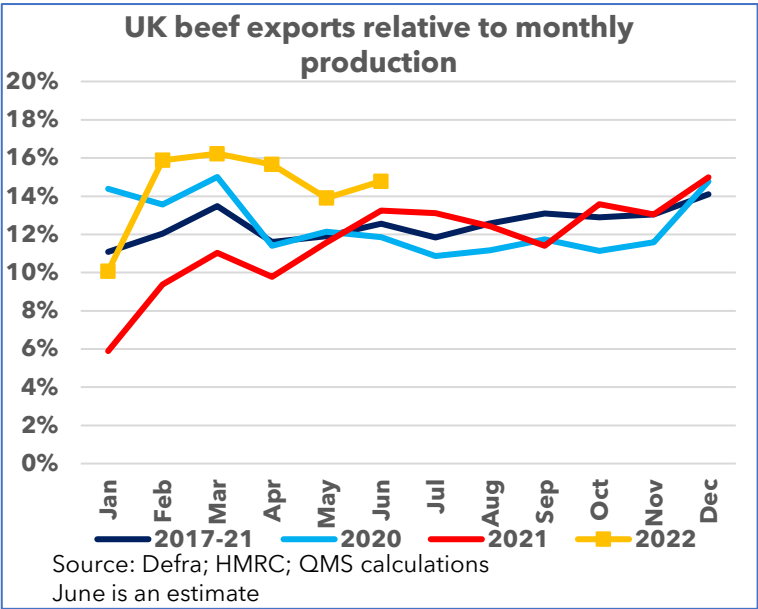


# A focus on UK international trade in beef



UK exports performed very strongly between February and May 2022 given tight supply and EU exit, highlighting the strength of EU demand for beef.

Imports have also been increasing, with some of this likely to reflect the need to offset the impact on overall market supply from higher exports.



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

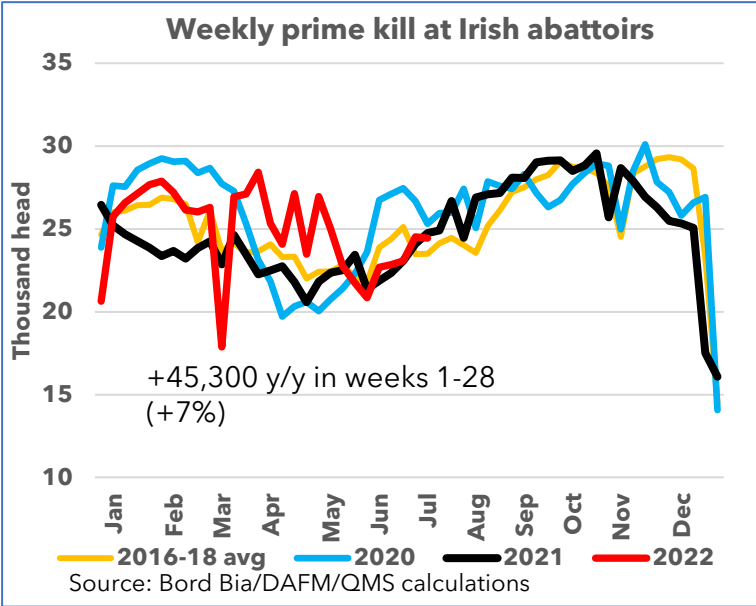
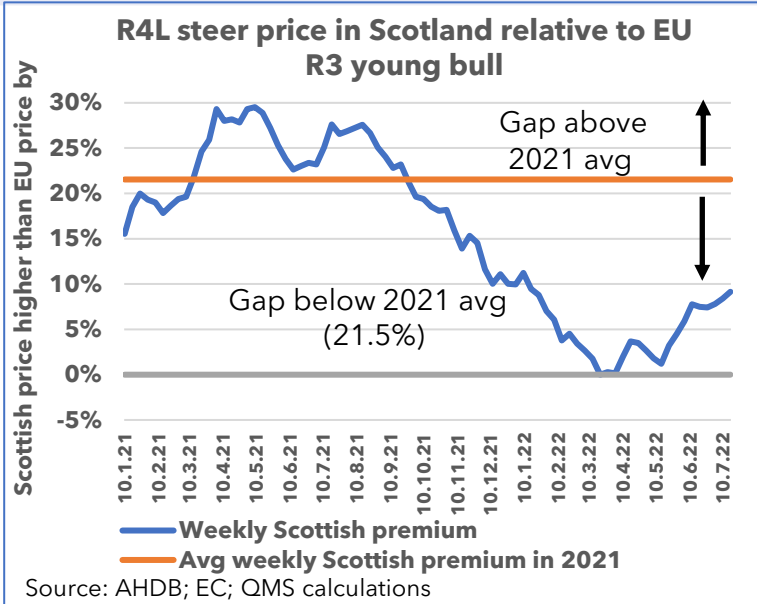
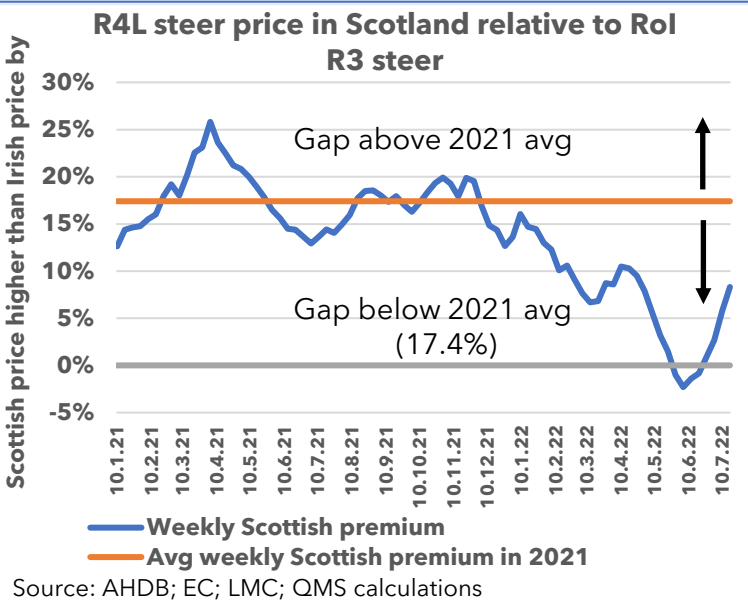
The increase in prime cattle on Irish farms in December 2021 is now used up and slaughter has been similar to 2021 since mid-May.

Irish prices have cooled due to softer EU retail demand and a seasonal rebound in slaughter (-7.4% in €/kg and -8.2% in £/kg since June peak).

A relative increase in EU cattle prices between autumn 2021 and spring 2022 has started to reverse, 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

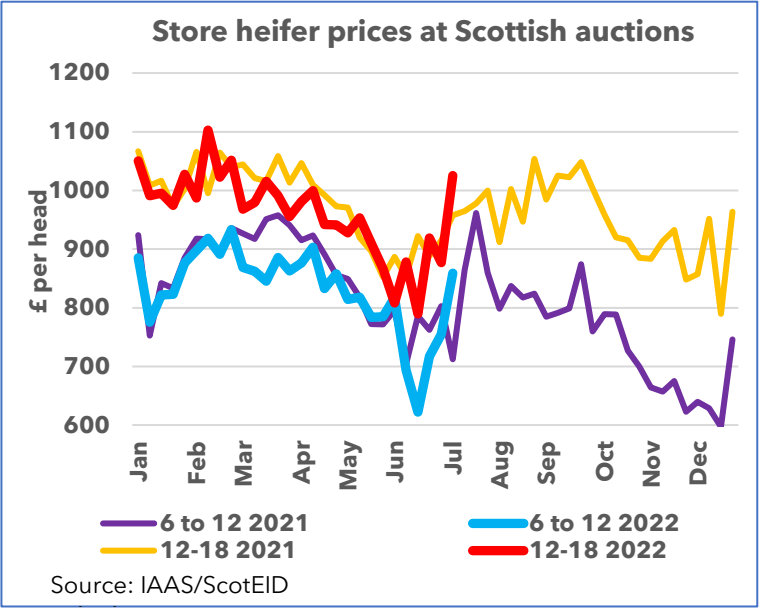
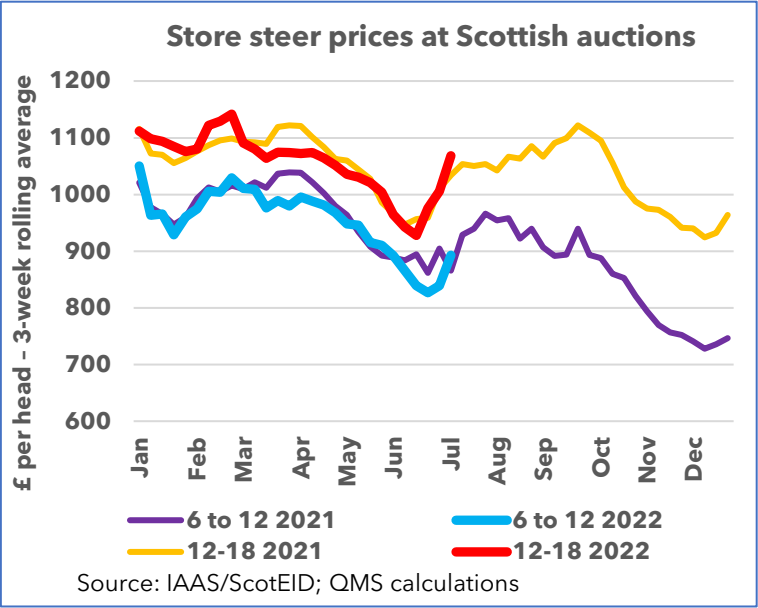


Selected EU cattle prices for R3 males, p/kg dwt			
	Week 28 2022	Week 17 2022	Week 28 2021
Germany (young bull)	416.9	474.1	336.6
Netherlands (young bull)	451.4	459.0	322.8
Spain (young bull)	422.4	421.3	320.2
Poland (young bull)	384.0	436.6	291.9
Irish Republic (steer)	419.9	414.7	365.8

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

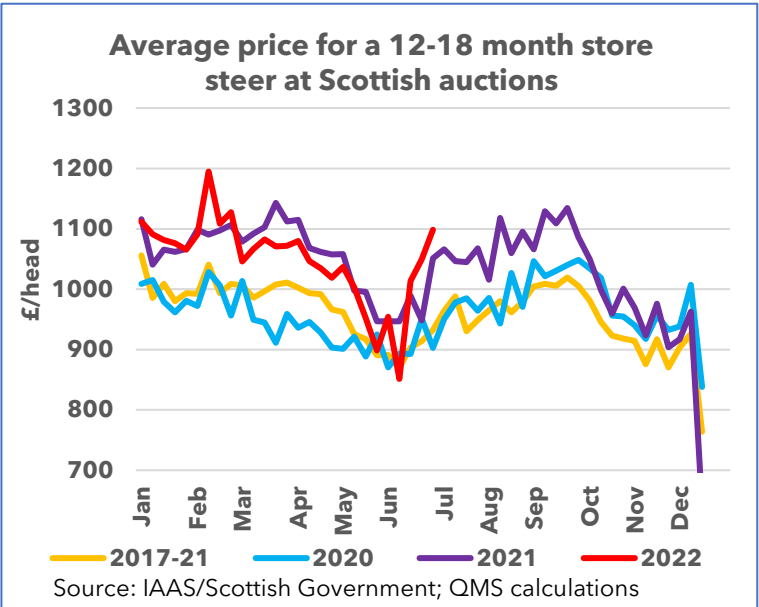
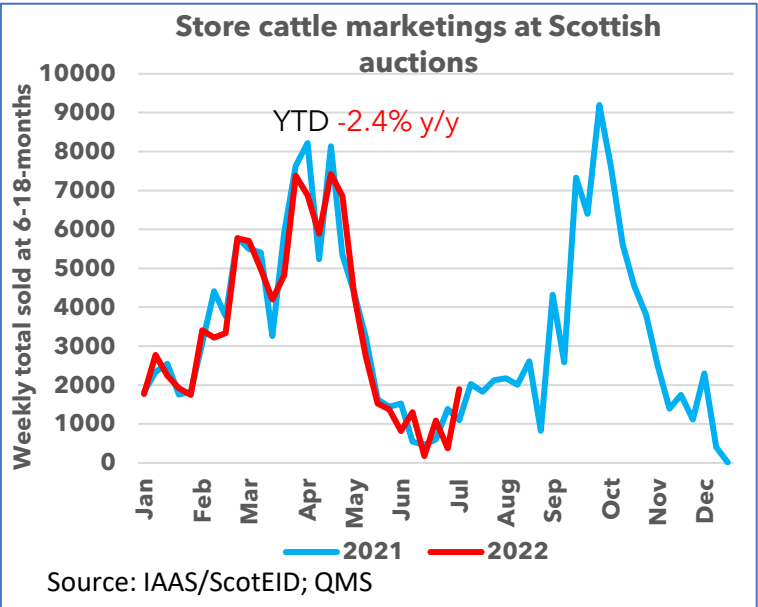


# Store cattle trade



Seasonally low volumes mean volatile pricing but numbers continue to run behind year earlier levels. Prices for older stores appear to be holding up more than for the younger group.

Surging input costs are likely to have resulted in reduced demand from finishers, limiting upwards pressure on prices, especially for longer-keep stores.



	4 weeks to 16/7	y/y change last 4 weeks
Store cattle prices		
Steers, 6-12 months	£883	-0.7%
Steers, 12-18 months	£1,059	+3.0%
Heifers, 6-12 months	£788	+3.0%
Heifers: 12-18 months	£965	+4.4%
Store cattle marketings		
All steers & heifers, 6-18 months	3,536	-0.4%
Source: IAAS/ScotEID; QMS calculations Prices rounded to nearest £1 and numbers to nearest 10		

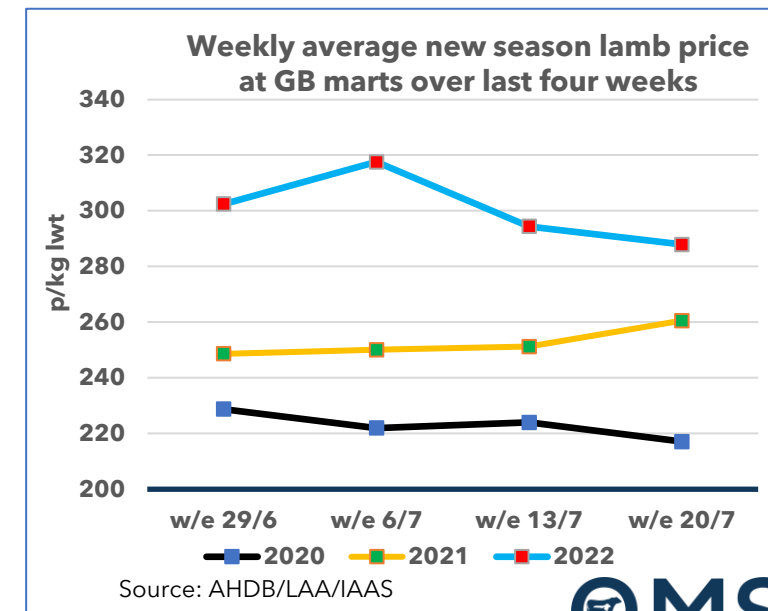
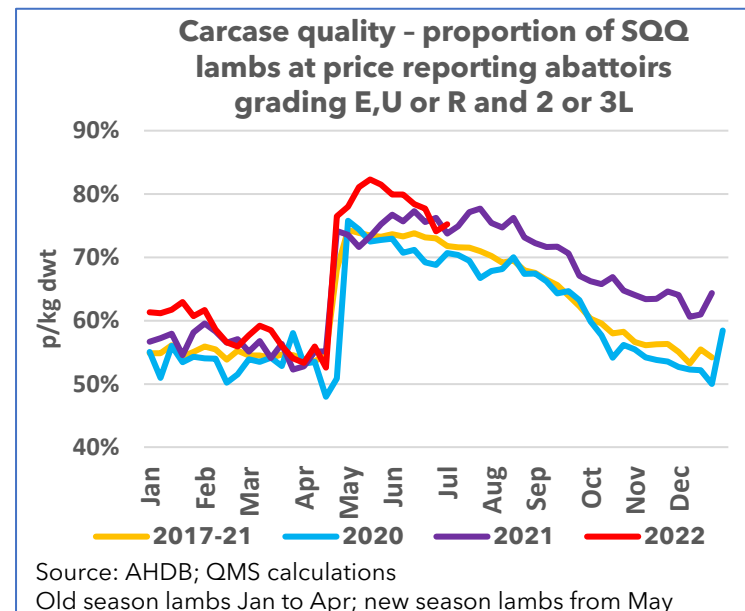
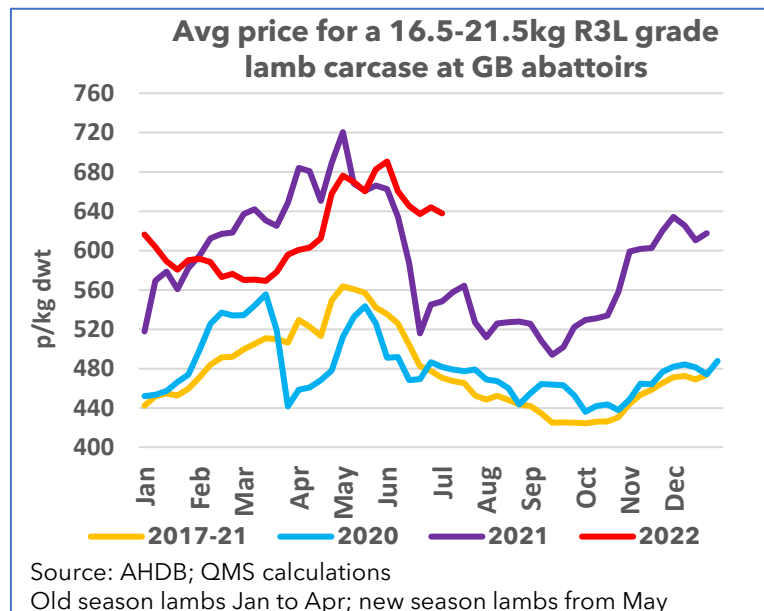
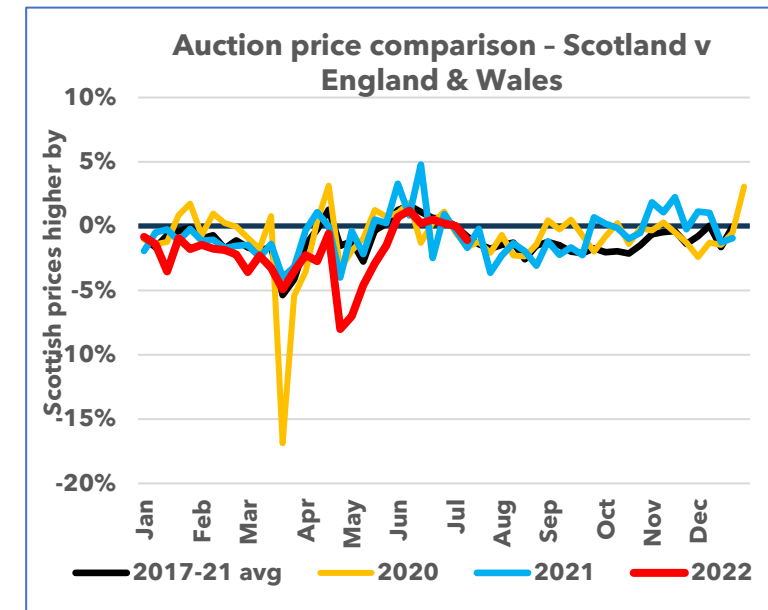
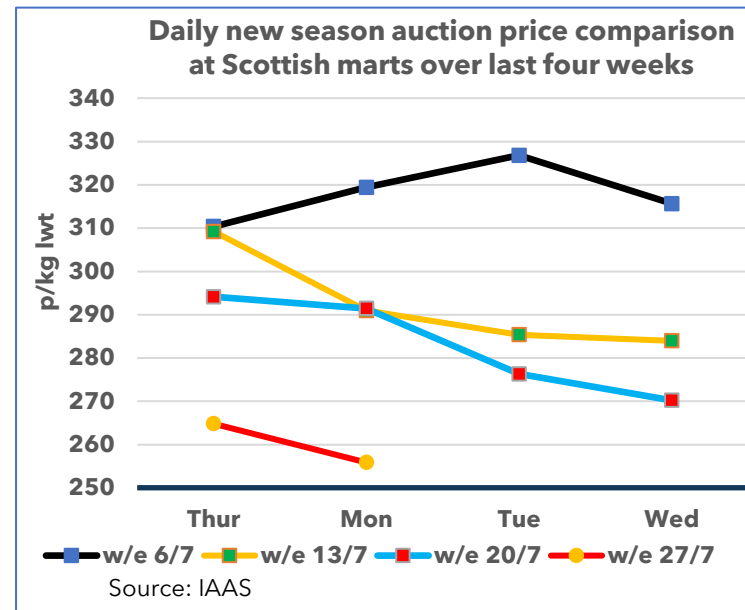
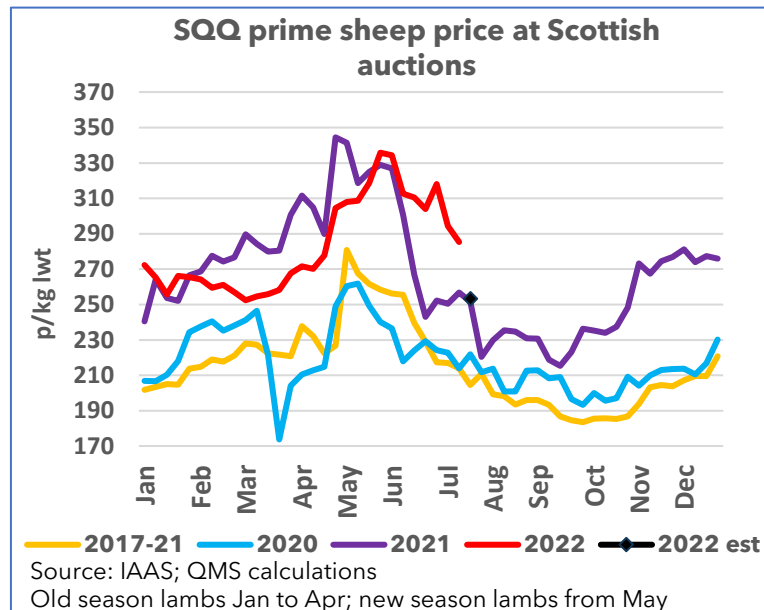
# Summary of market developments – sheep market



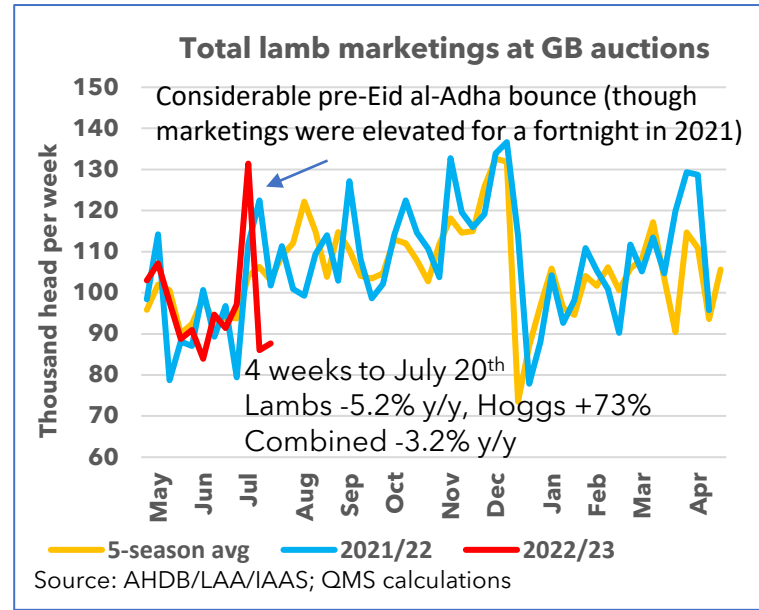
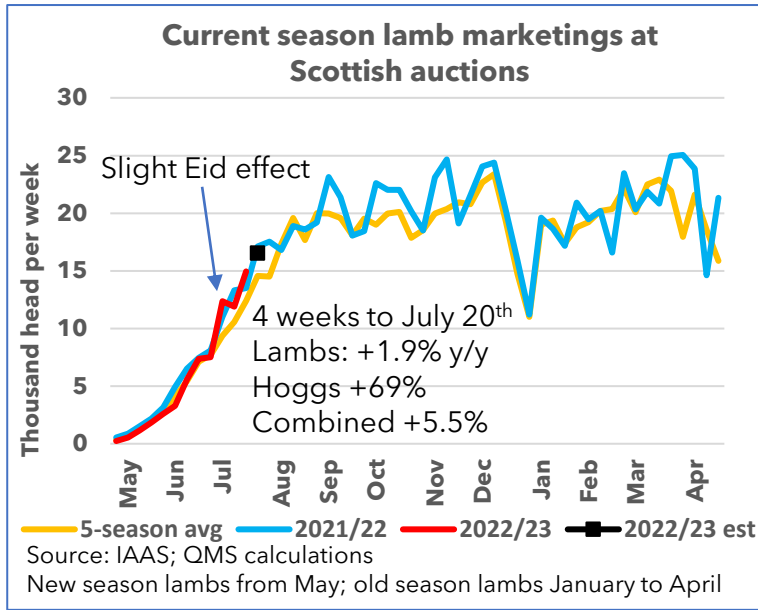
Report Category	Basis	Average price or volume	Change on week	Change over four weeks	Change on year	Change on 5-year avg
New season SQQ lamb price at Scottish auctions	p/kg lwt, w/e 20 July	285.34p/kg	-9.03p	-8.1%	+11.1%	+33.4%
New season SQQ lamb marketings at Scottish auctions	Average in four weeks to July 20, head	11,690		+148%	+1.9%	+16.9%
Total lamb marketings at GB auctions	Average in four weeks to July 20, head	100,570		+11.5%	-3.2%	-1.2%
UK sheepmeat market supply	Tonnes in Apr-June 2022 (estimate)	66,000			+13.5%	+0.7%

- The seasonal slide in new season lamb prices resumed after a pre-Eid al-Adha boost at the beginning of July but market prices have held well above 2021 levels and even further ahead of the five-year average.
- The December Sheep and Goat Inventory indicated breeding flock reductions of around 4% in Scotland and 1% in England, so it seems unlikely that there is a significantly increased lamb crop this year.
- So far, fewer new season lambs have been sold at GB auctions than last year.
- However, given the slower marketing profile in 2021, production volumes may end up exceeding last year's levels through the summer and into autumn, and this scenario appears to be developing in Scotland in July.
- While a shift in trade balance is estimated to have seen overall market supply continue to hold above the lows of 2021 into June, supply remained at a relatively low level in historic terms, underpinning market prices.

# Farmgate prices - prime sheep - slower seasonal decline leading to historically firm prices



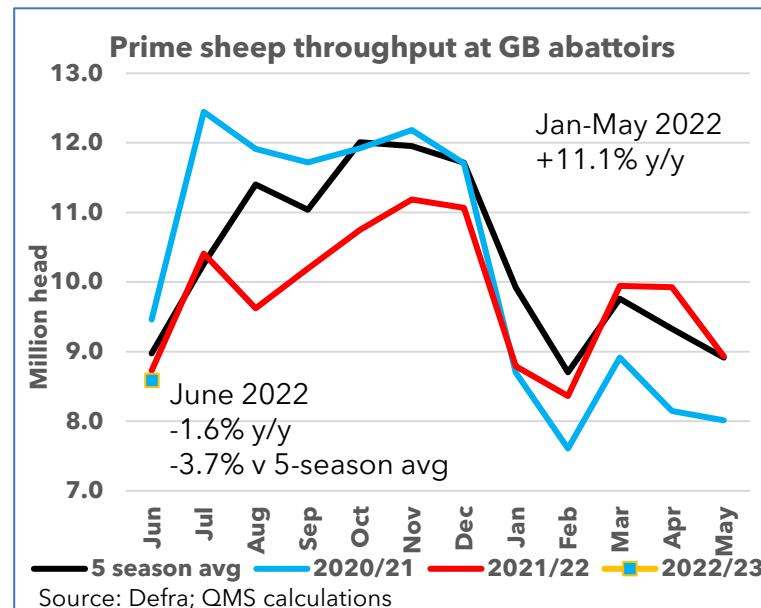
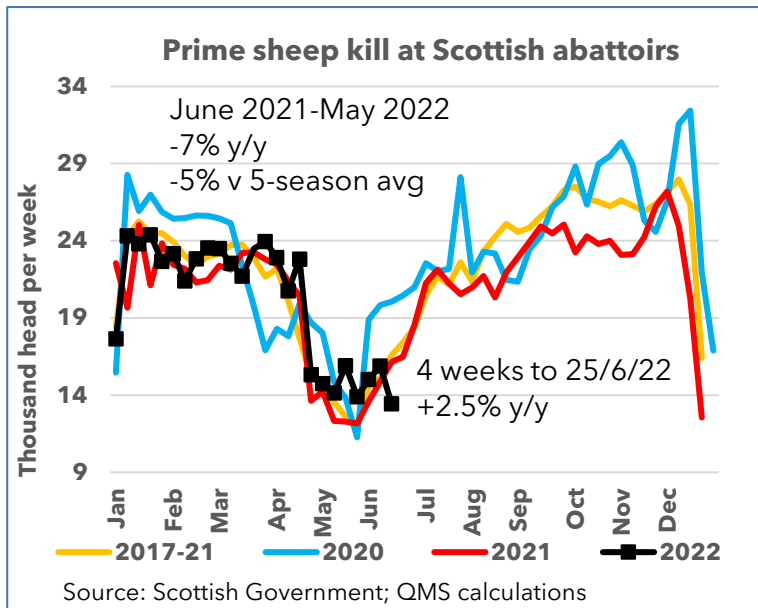
# Availability and slaughter



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.

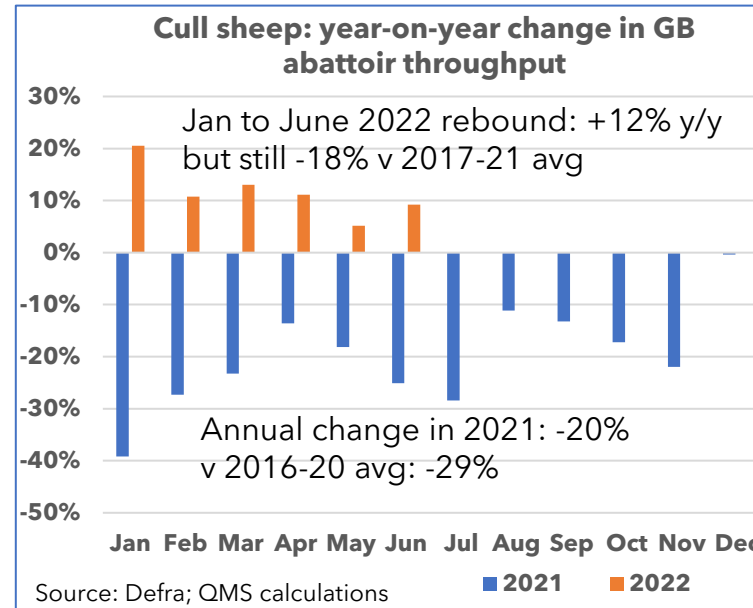
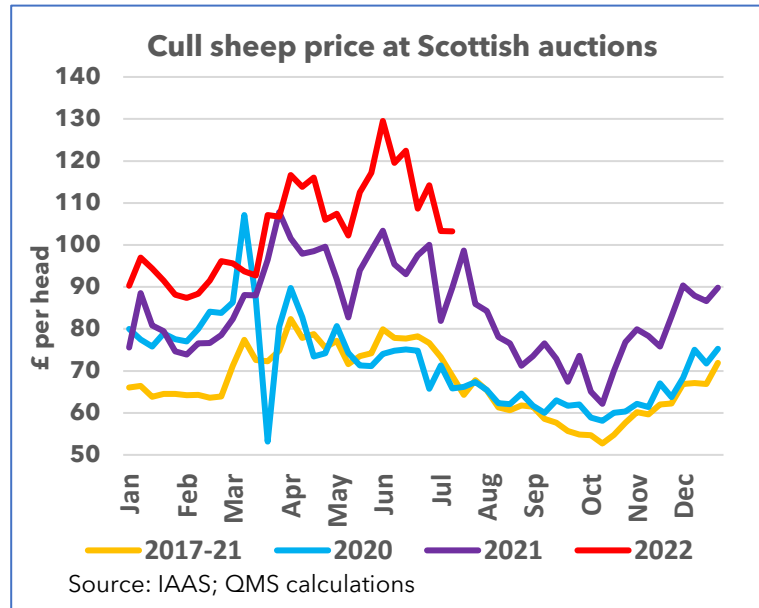


December 2021 Sheep & Goat Inventory		
	Total breeding flock y/y change	Other sheep and lambs y/y
Scotland	-3.7%	+3.3%
England	-1.2%	+9.3%

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

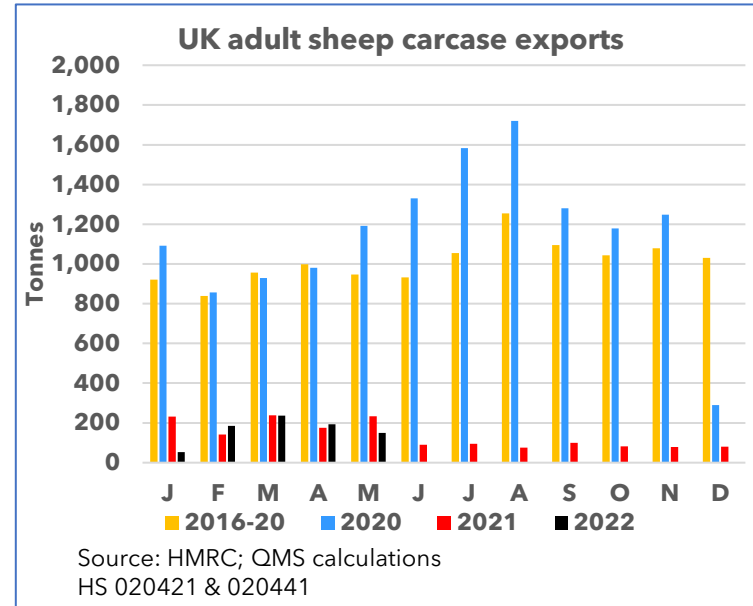
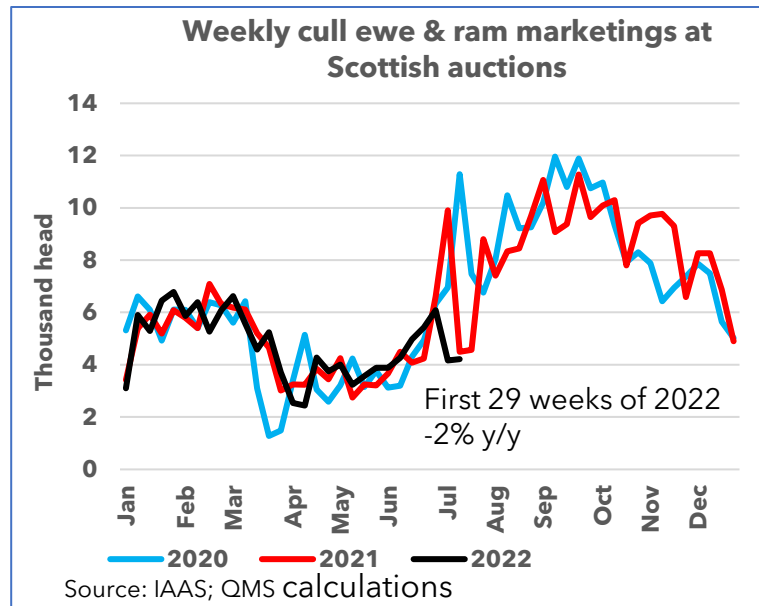


# Cull sheep market – seasonally strong but below peak



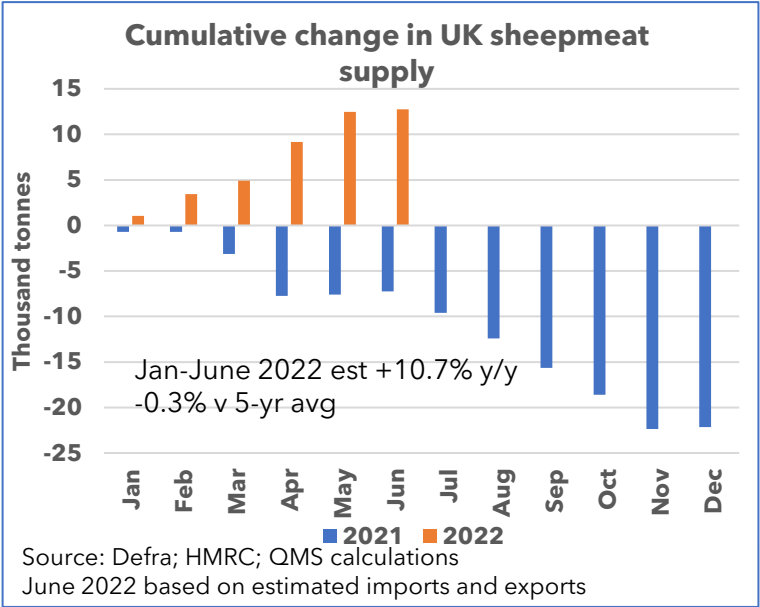
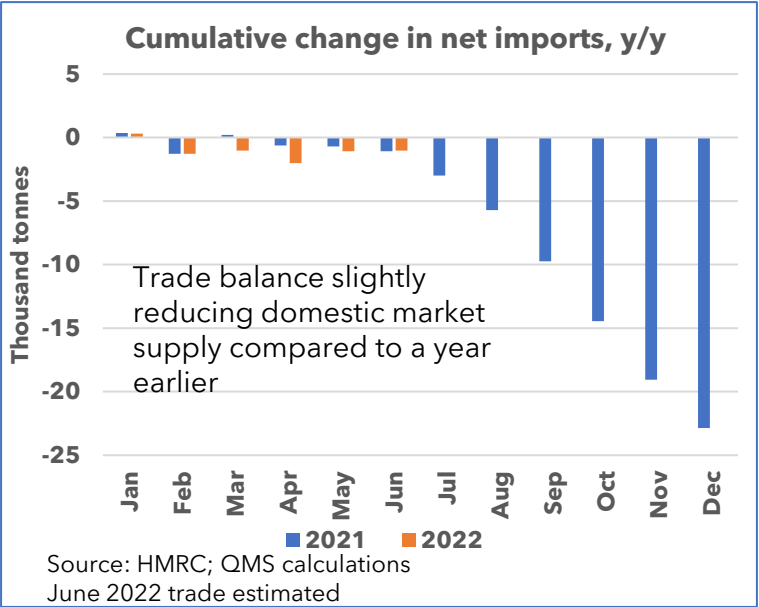
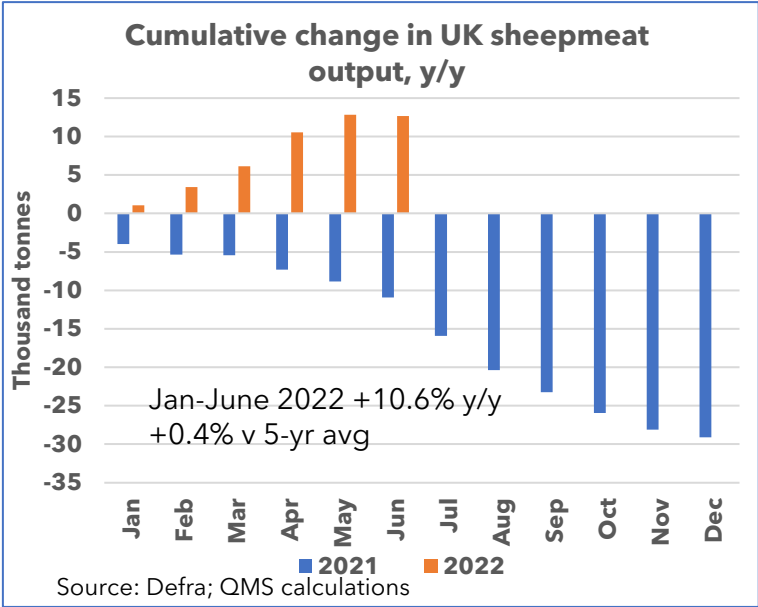
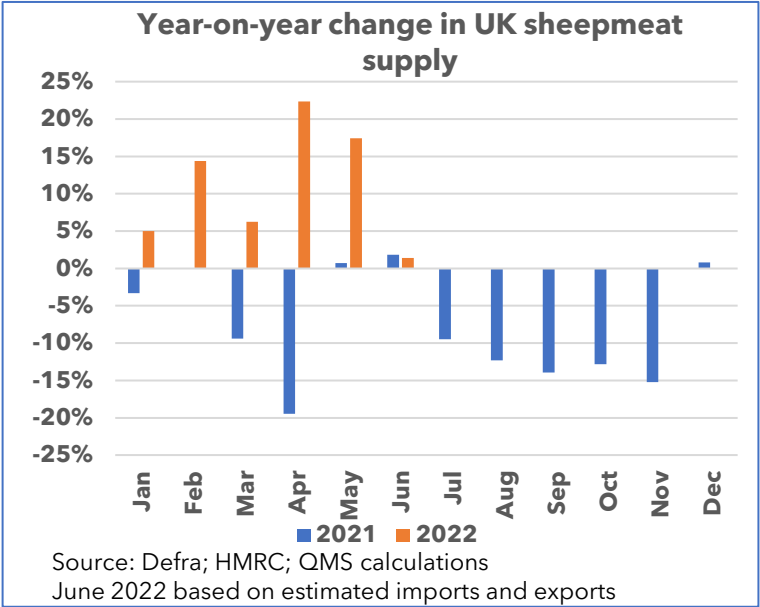
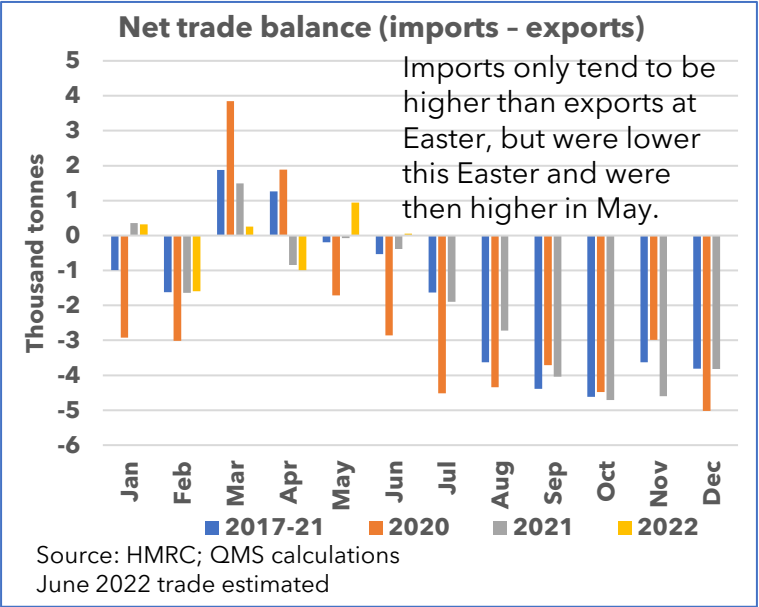
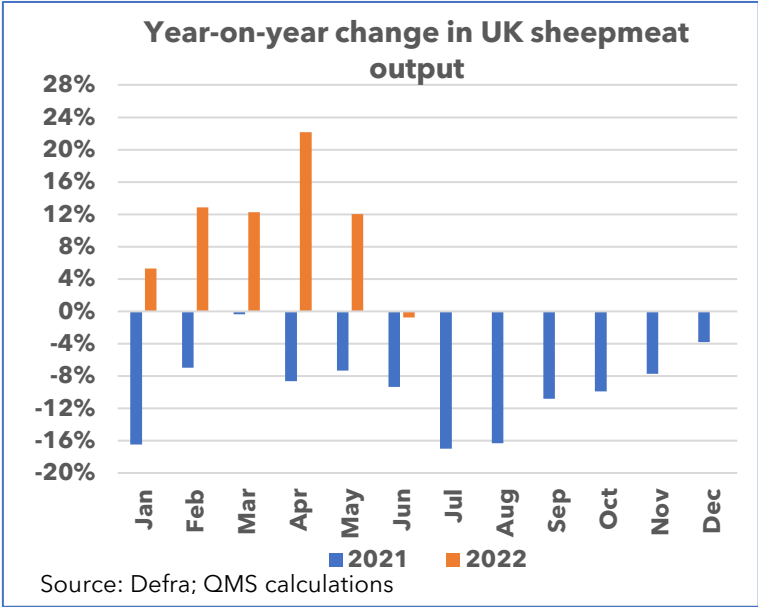
Seasonally low supply has continued to support ewe values, although they are off their peak as marketings start to trend higher.

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.

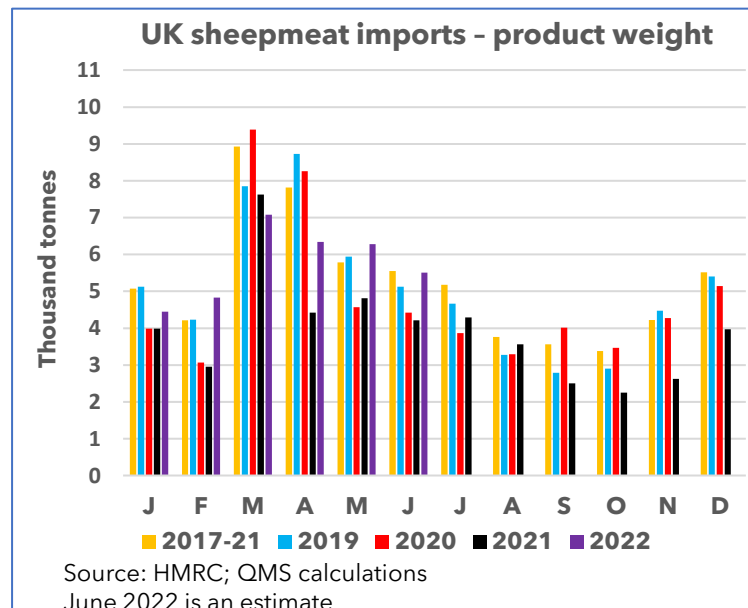
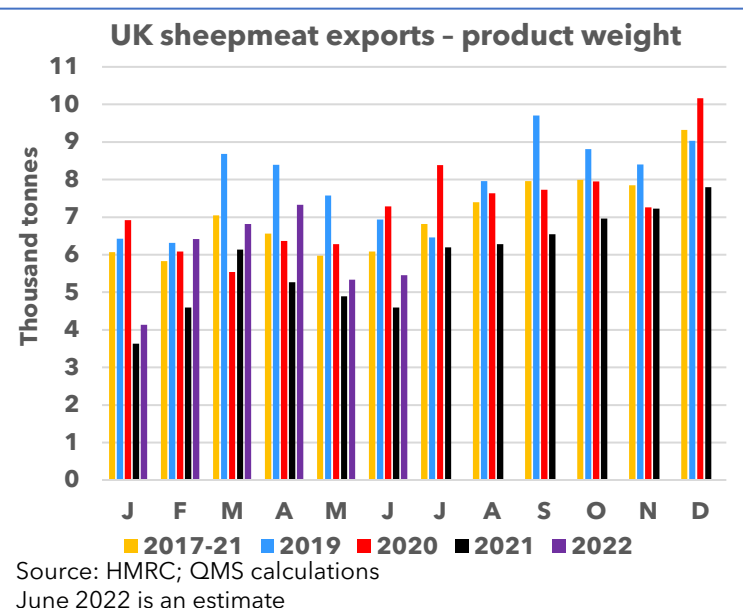


Mutton demand appears to have rebalanced from exports to the home market since late 2020 without dampening prices.

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

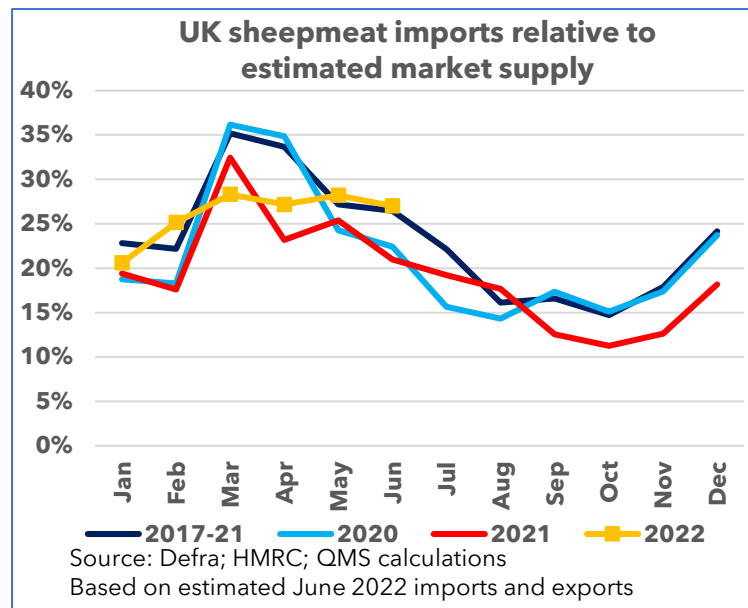
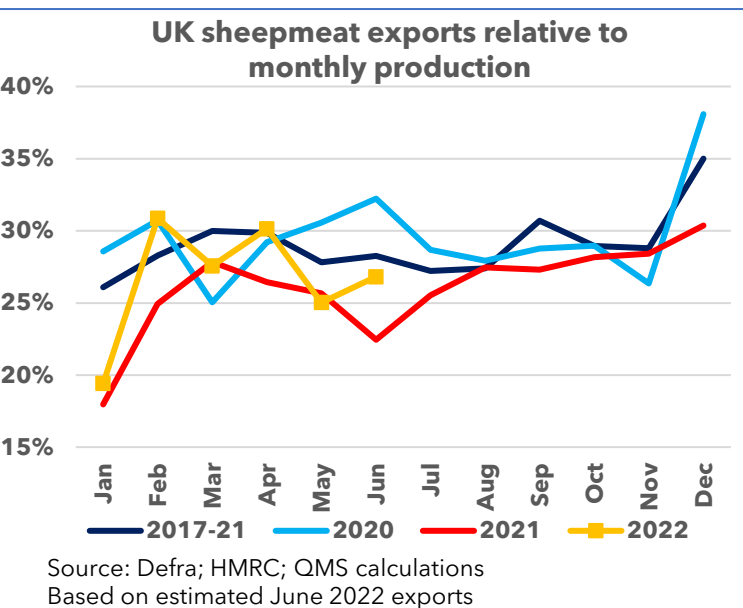


# A focus on UK international trade in sheepmeat



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, it is possible that some sheepmeat has been diverted towards Europe from China due to the heightened level of market risk caused by covid-19 lockdowns.

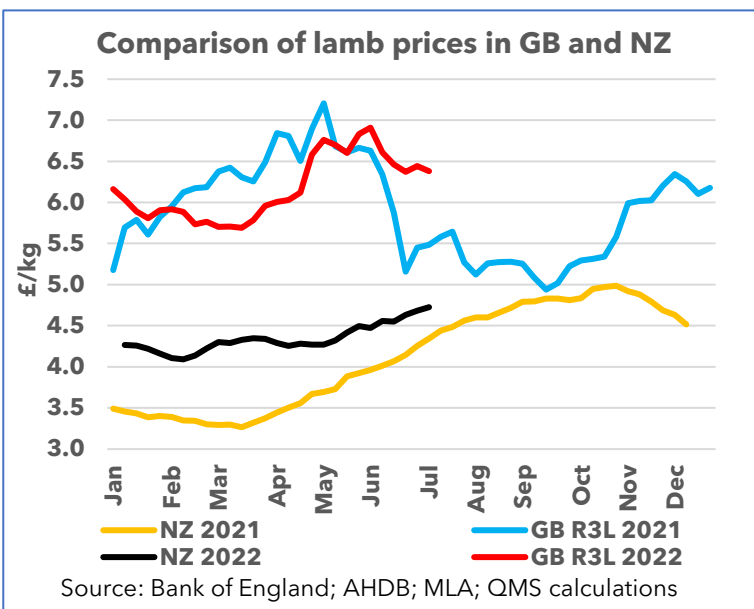
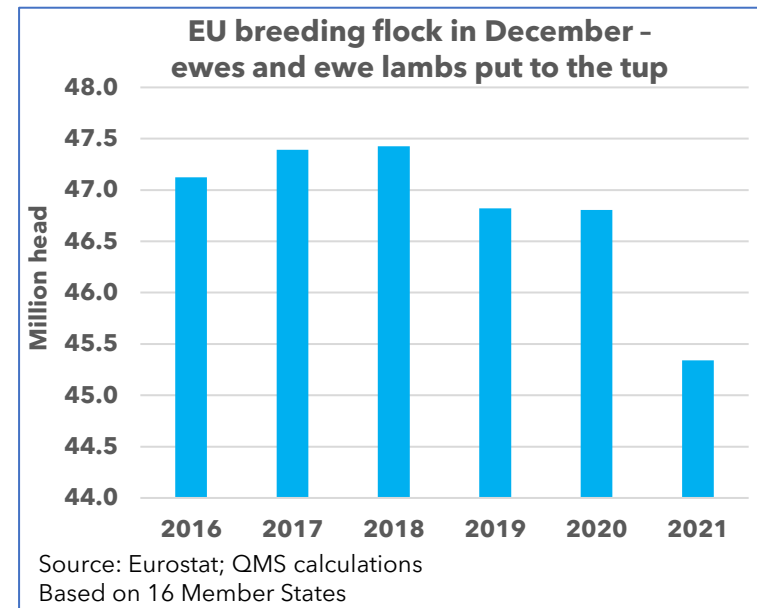
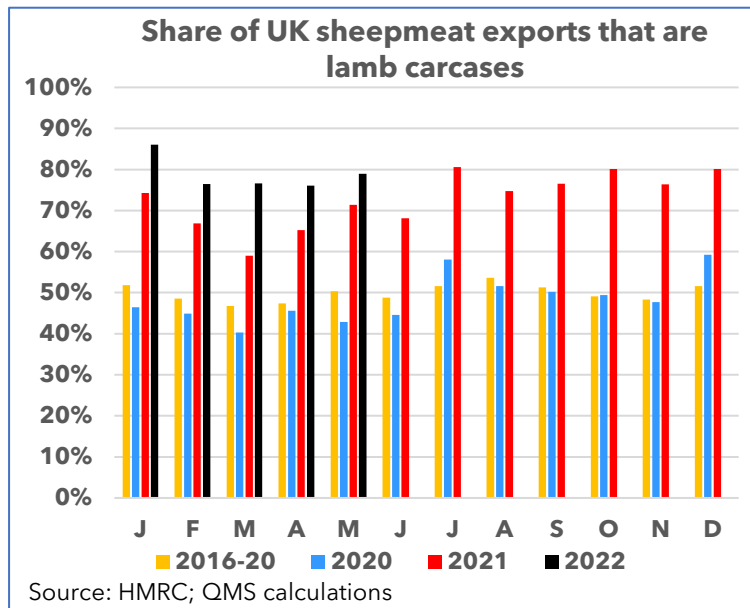
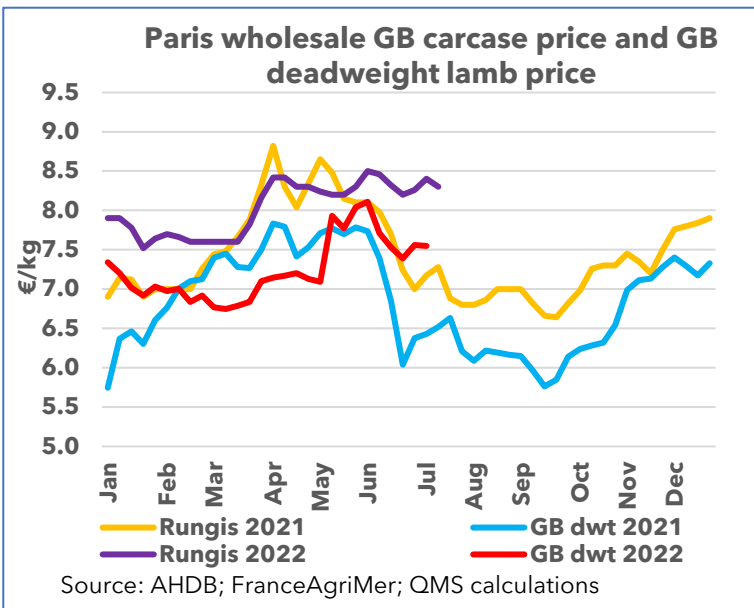


Note:

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



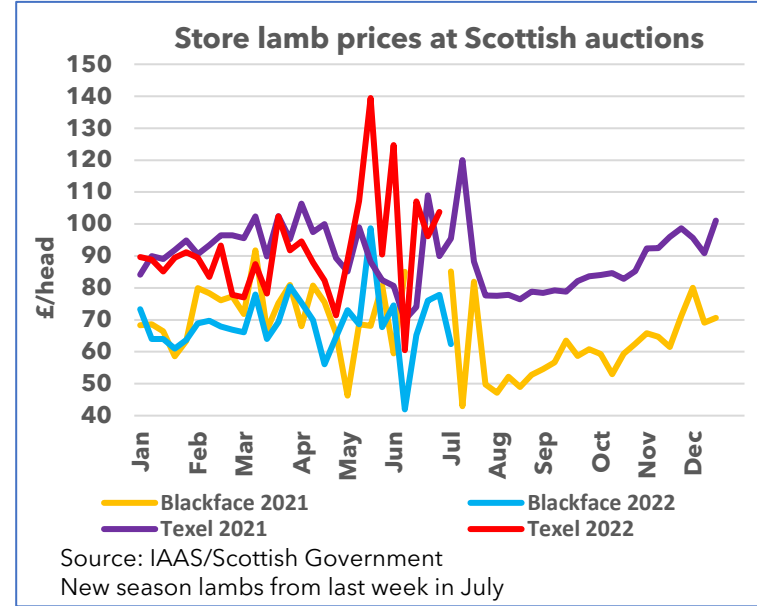
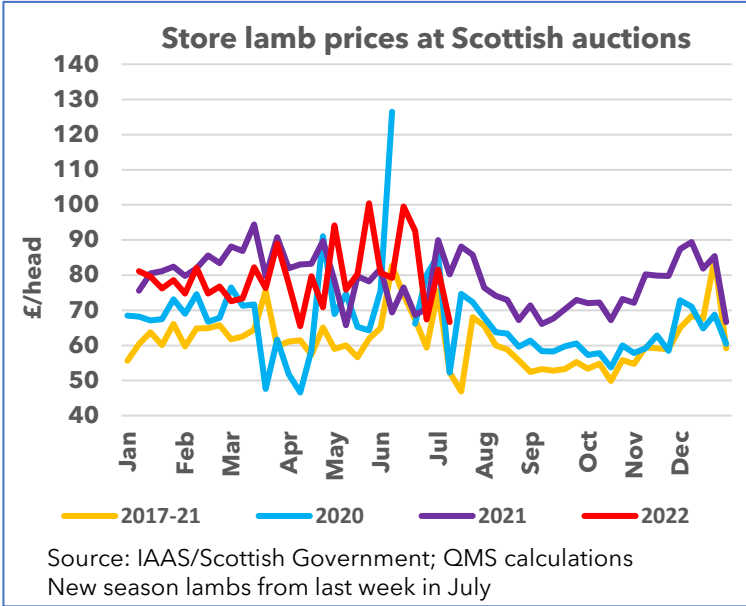
## Oceania lamb production forecasts

	2021	2022	y/y change
Australia (thousand tonnes)			
Lamb production	502	540	+7.6%
Lamb exports (product weight)	283	307	+8.5%
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



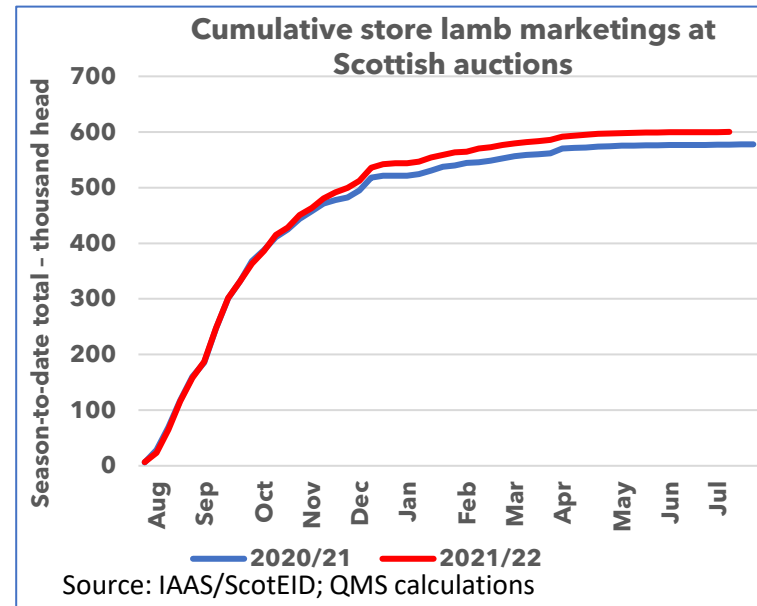
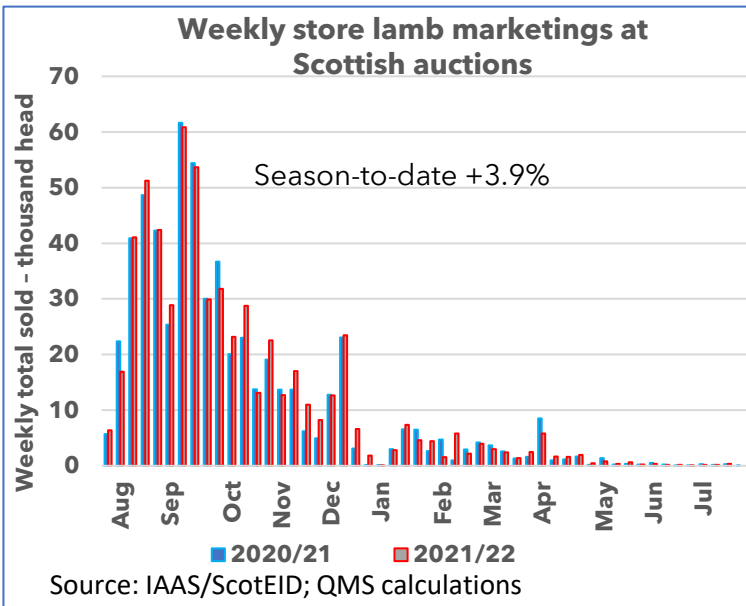
# Store sheep trade



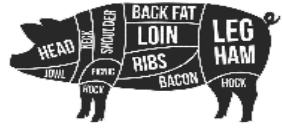
With limited trading, store hogg prices have been volatile but they have tended to show increases relative to 2021 having failed to match year earlier levels during the spring.

More of last year's lamb crop were sold store, supporting hogg supplies in 2022.

The final week of July tends to mark the beginning of the store lamb season, so the first of the sales are about to start.



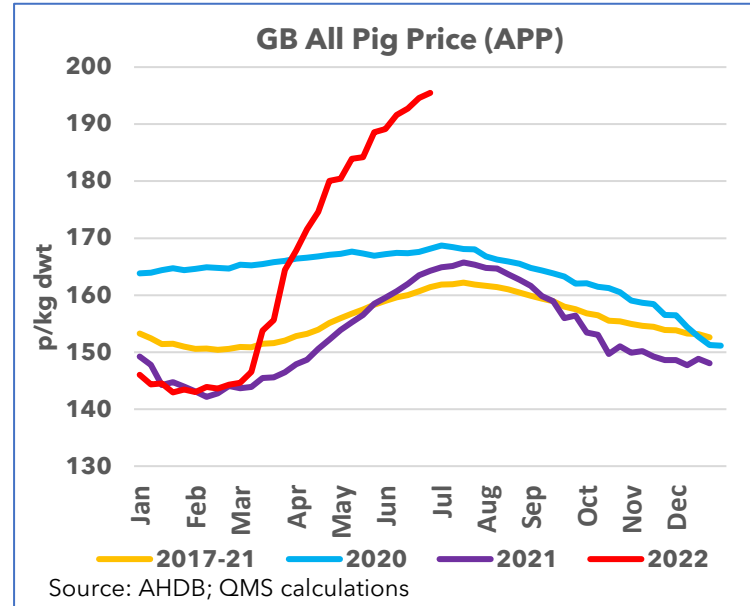
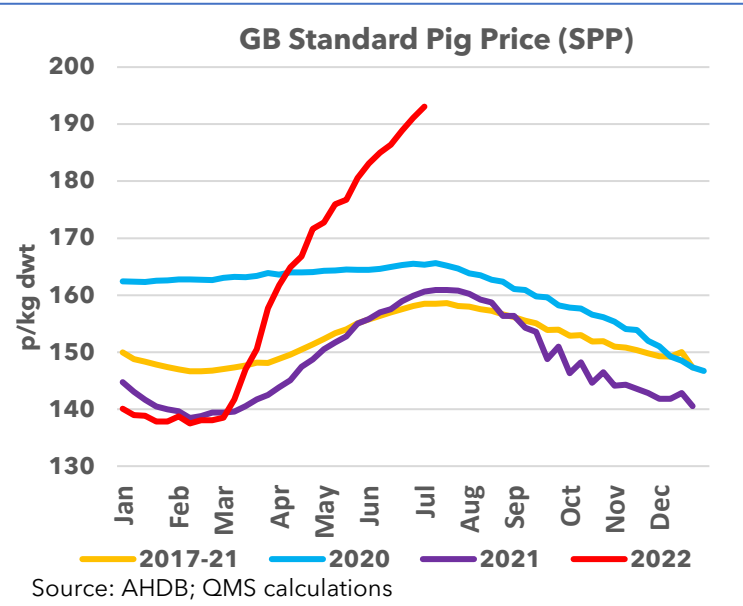
# Summary of market developments – pig market



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 16 July	193.1p/kg	+1.98p	+4.4%	+20.2%	+21.8%
Average carcase weight of standard pigs	Average in four weeks to July 16, EU spec	88.68		-1.6%	+2.9%	+5.6%
Prime pig slaughter at GB abattoirs	Total during June 2022, thousand head	780.9		+0.9% (change in daily avg kill Jun v May)	+21.1%	+2.9%
UK pig market supply	Tonnes in Mar-May 2022	347,200			+7.9%	+9.3%

- Farmgate pig prices have continued to increase at a steady pace as we move towards the traditional summer peak in the market.
- Market indicators of disruption (carcase weights and the differential between the APP and SPP) have continued to ease back, but they do still remain slightly elevated.
- 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.
- GB prices have continued to hold a premium of around 15% over the EU average but while import prices are likely to have increased in competitiveness since May, import volumes are likely to have been limited by increased domestic supply.
- While market data and forecasts continue to point to a well-supplied pork market in China, prices surged between mid-June and mid-July, indicating a sudden shortage and, potentially, increased export opportunities.

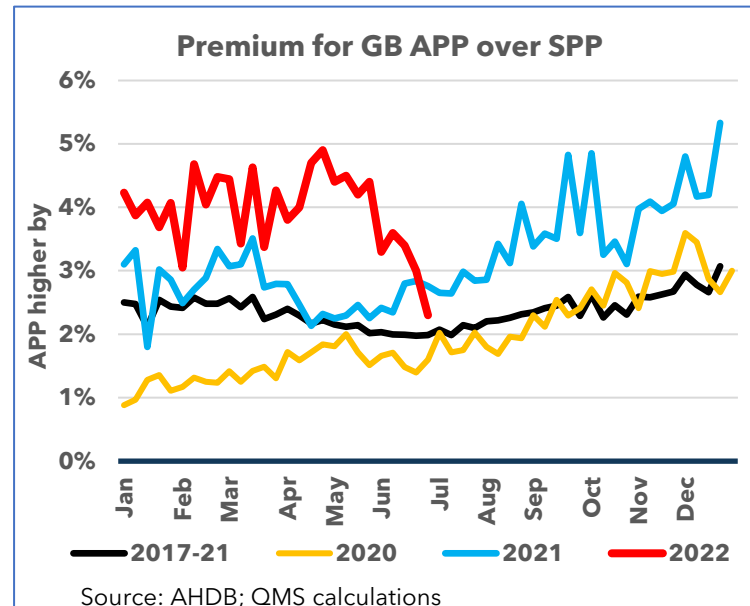
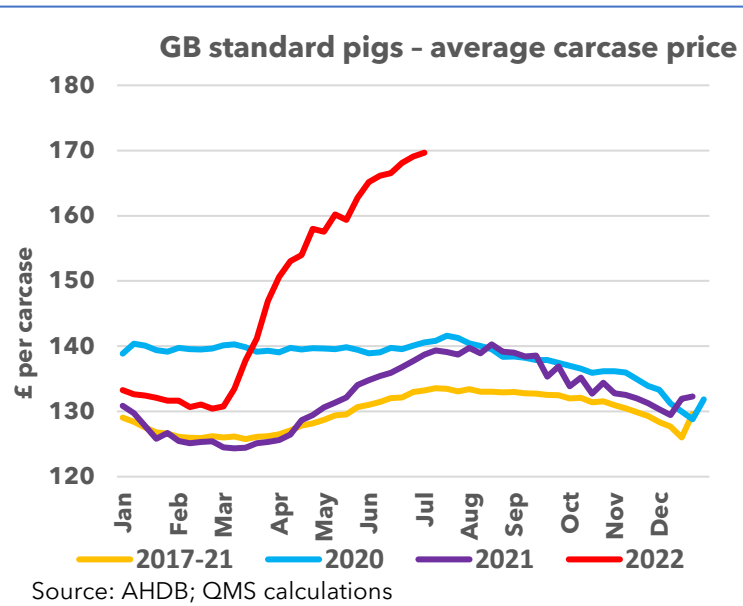
# Farmgate prices - prime pigs



The pig market has continued to trend sharply higher, reaching record high levels and climbing 40% since March and moving around 20% above the five-year average.

However, production costs are likely to be well above £2/kg, so the losses for producers continue to mount.

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



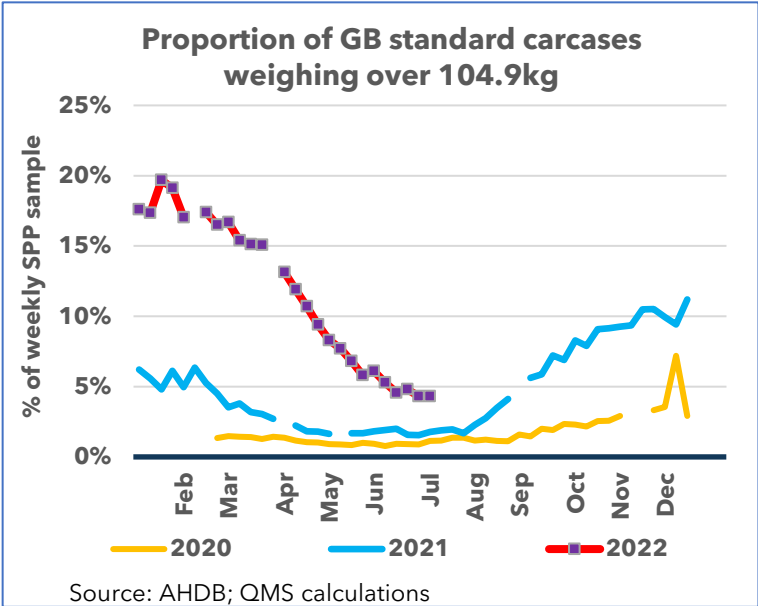
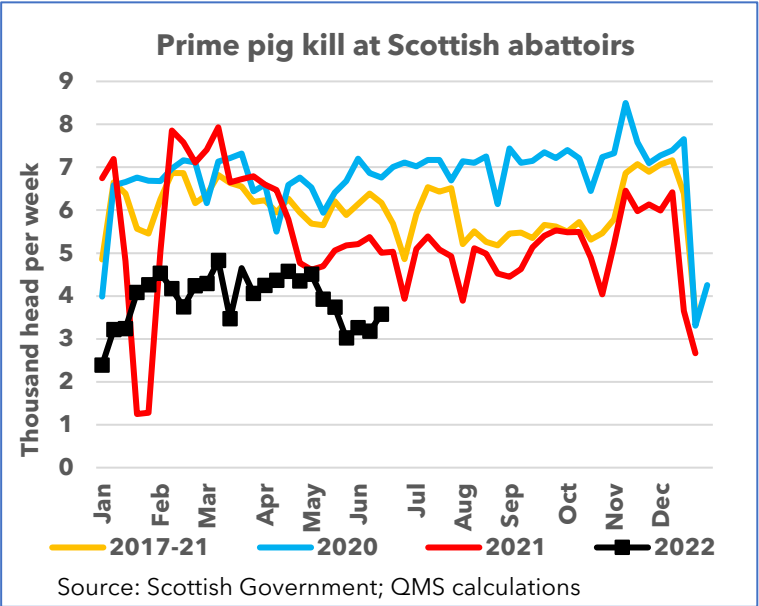
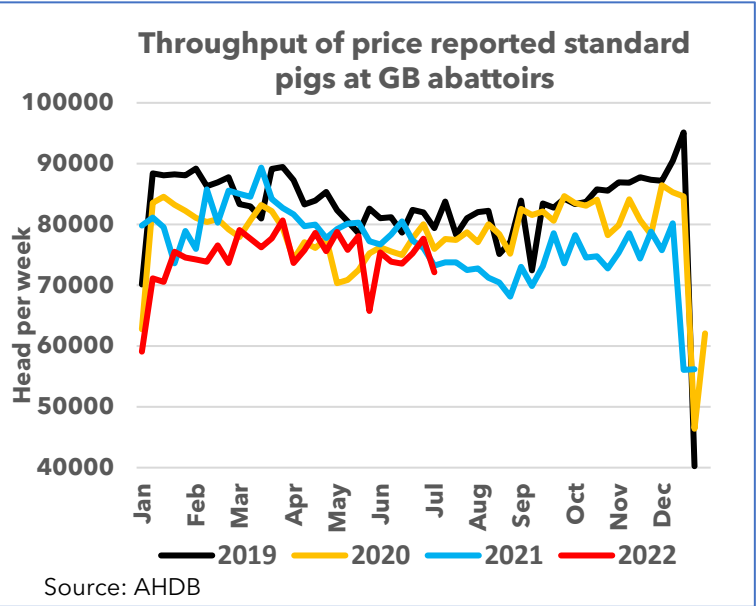
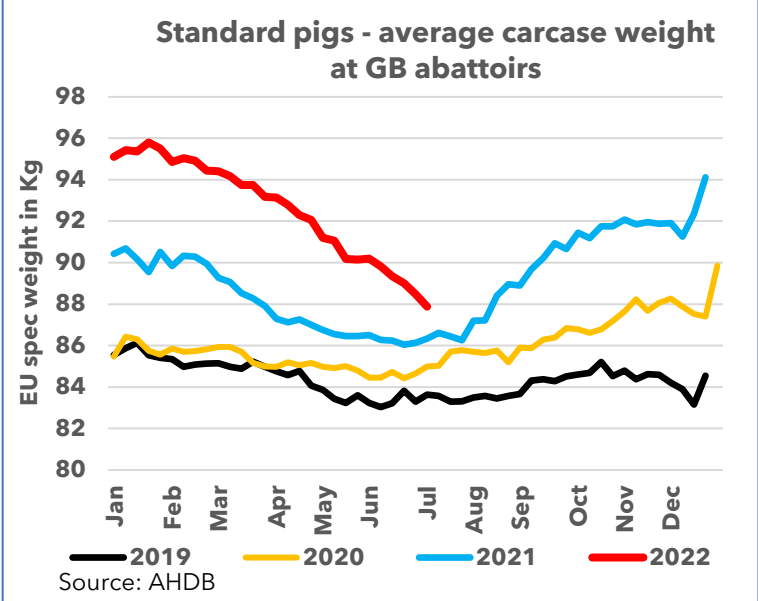
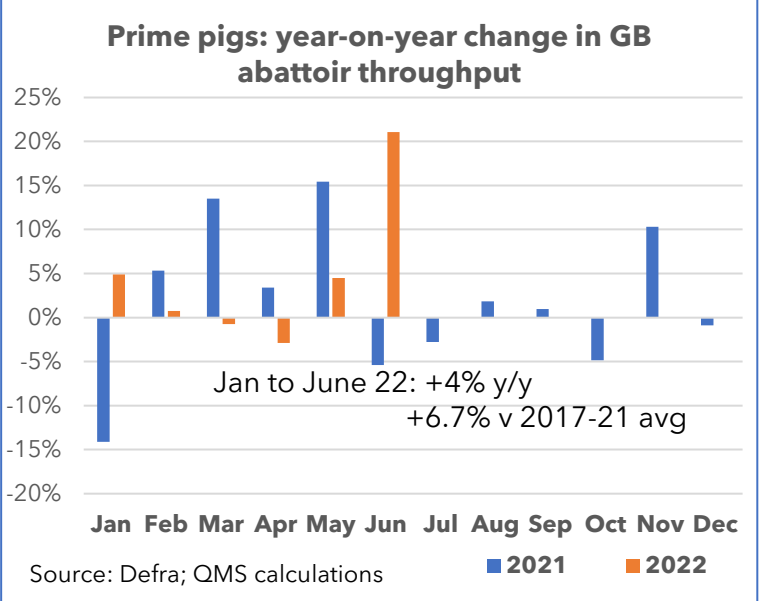
# Availability and slaughter

-slaughter appears to have picked up from a slow start to the year and carcase weights continue to trend lower, suggesting that a much-reduced backlog on farm

June Census, 2021		
	Female breeding herd y/y change	Fattening pigs y/y change
Scotland	-8.7%	+1.9%
England	-1.8%	+6.1%

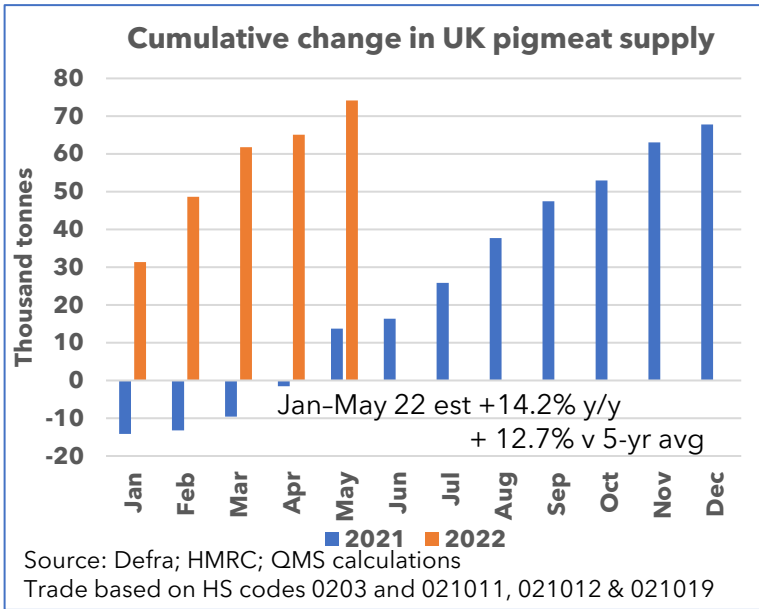
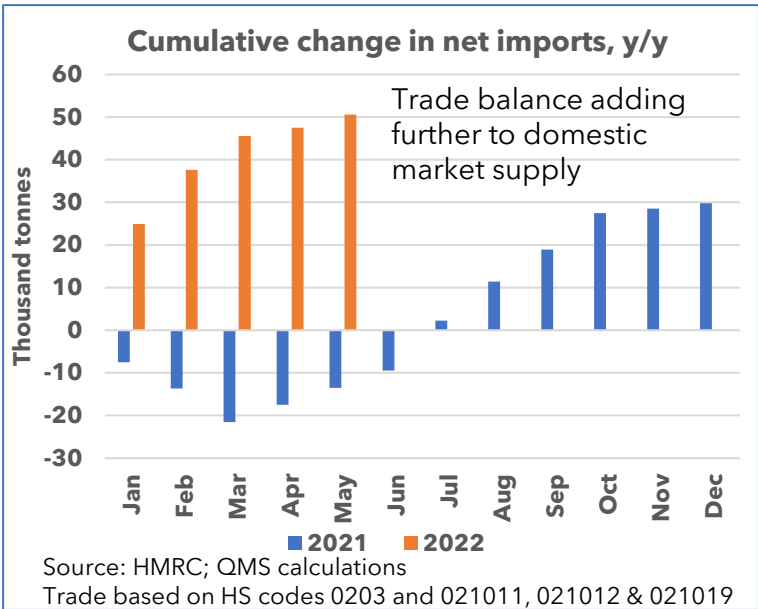
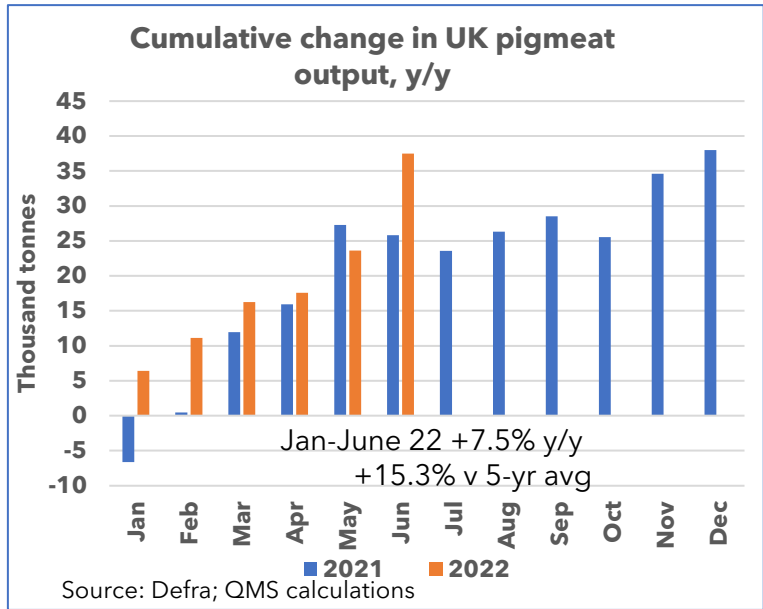
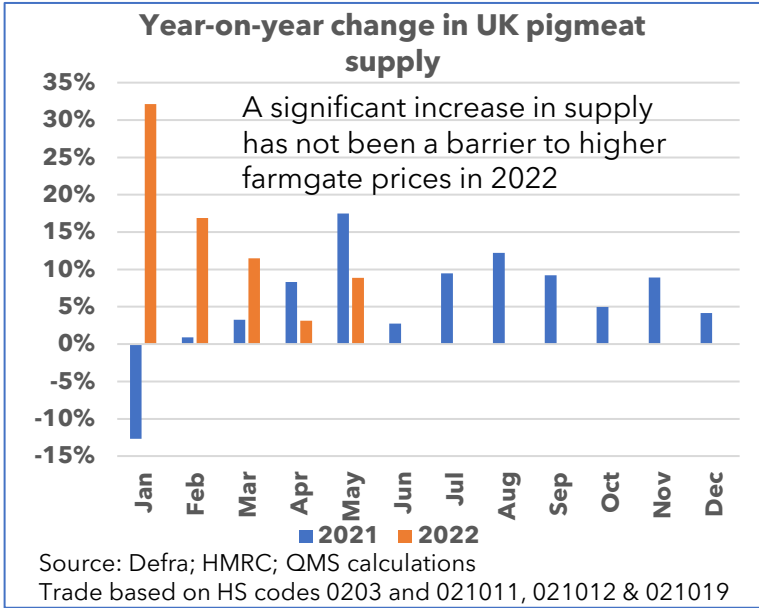
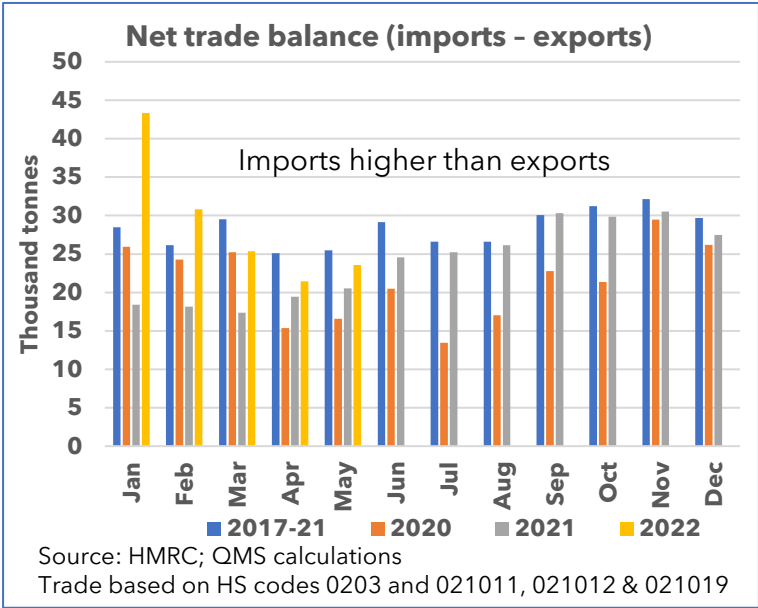
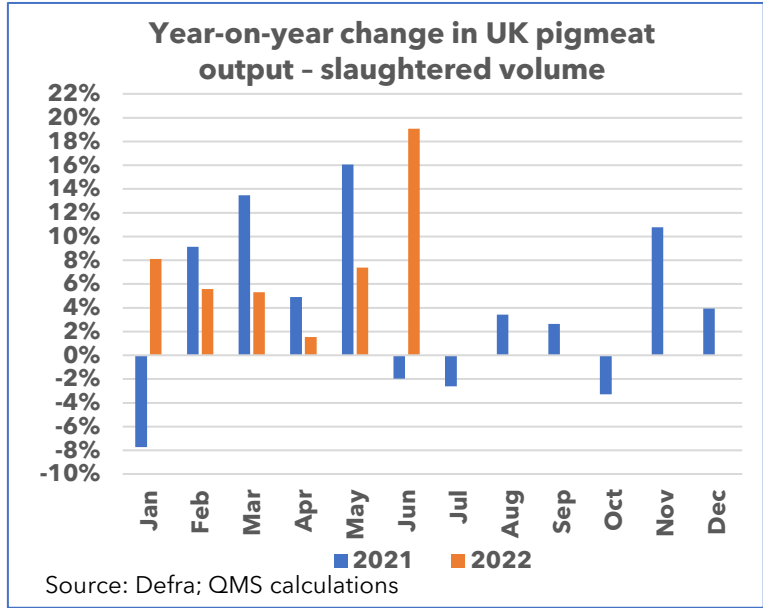
December Pig Survey, 2021		
	Female breeding herd y/y change	Fattening pigs y/y change
England	-6.9%	+10.6%

Source: Defra; Scottish Government; QMS calculations

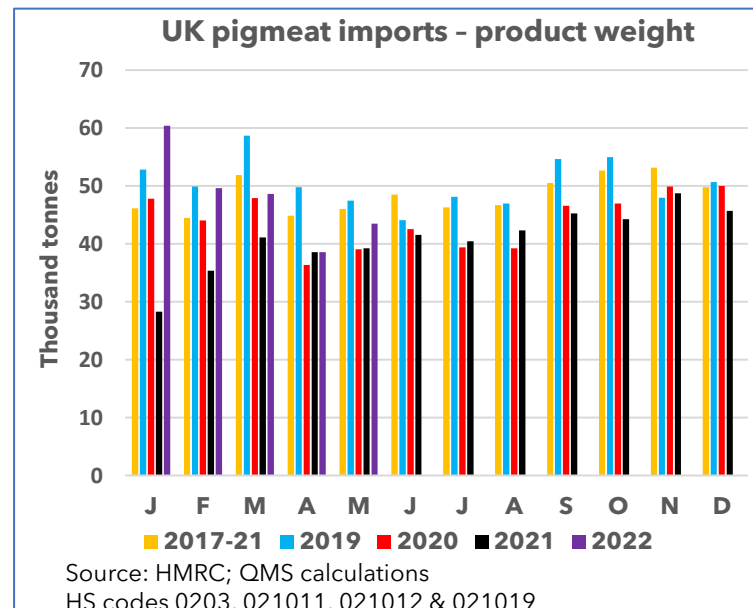
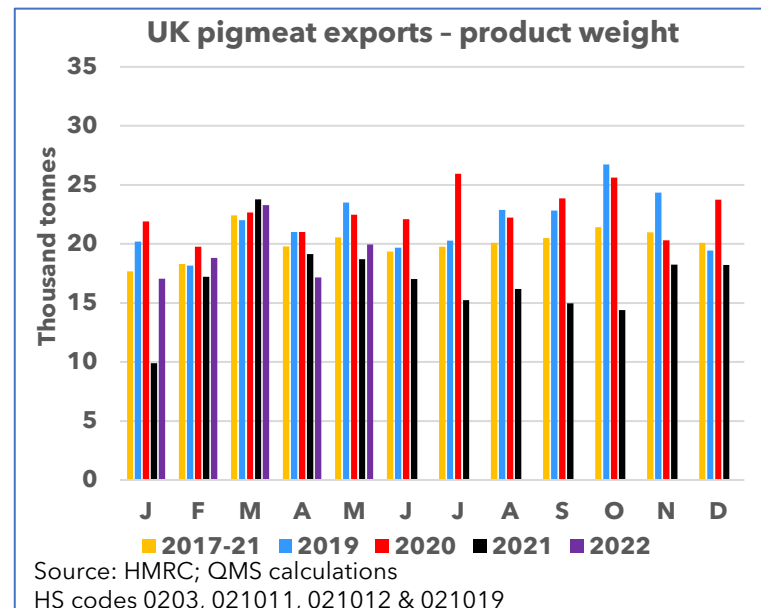




# UK pigmeat market supply: domestic production + (imports - exports) = supply



# A focus on UK international trade in pigmeat



Rising domestic production and weak export demand have led to reduced import requirements relative to total market supply.

A rise in EU pork prices in March and April passed through to import prices in April and May, likely weighing on import volumes.

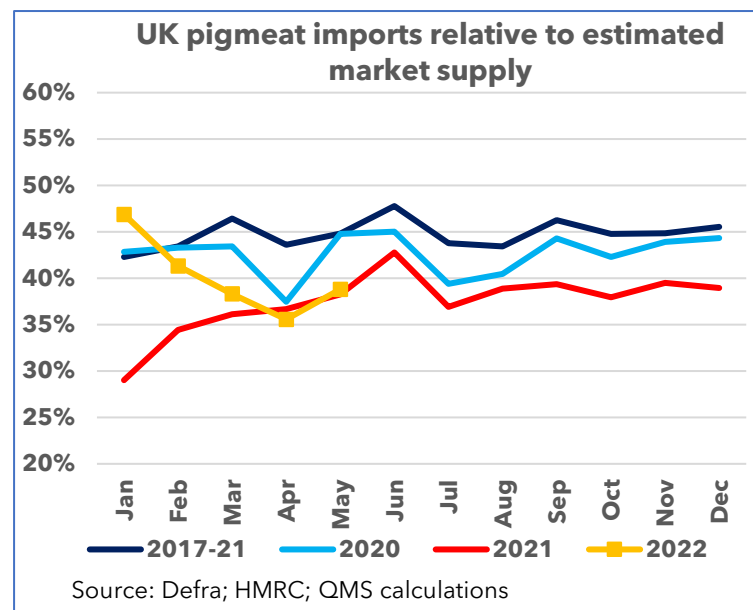
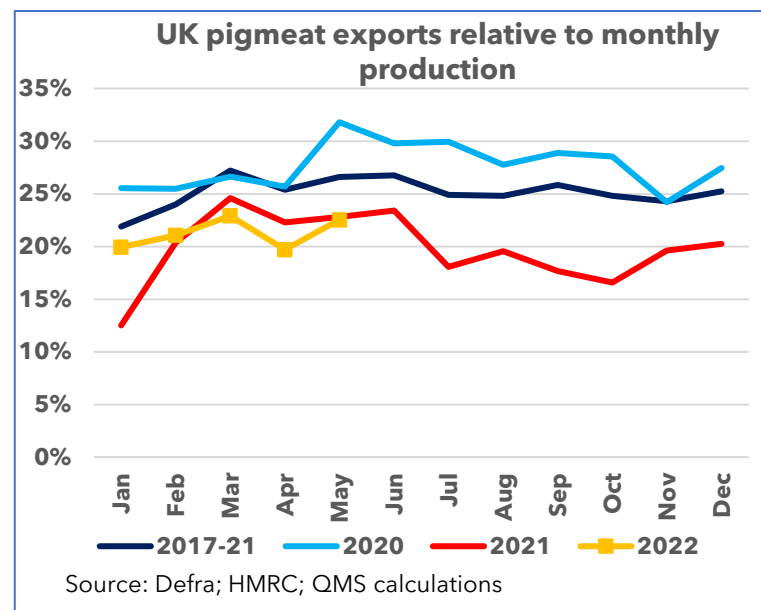
Exports to the EU have rebounded sharply from the lows of early 2021 but they continue to lag well behind the five-year average despite reduced EU production.

Sales to China have continued to rebalance lower but still accounted for over 31% of export volumes.

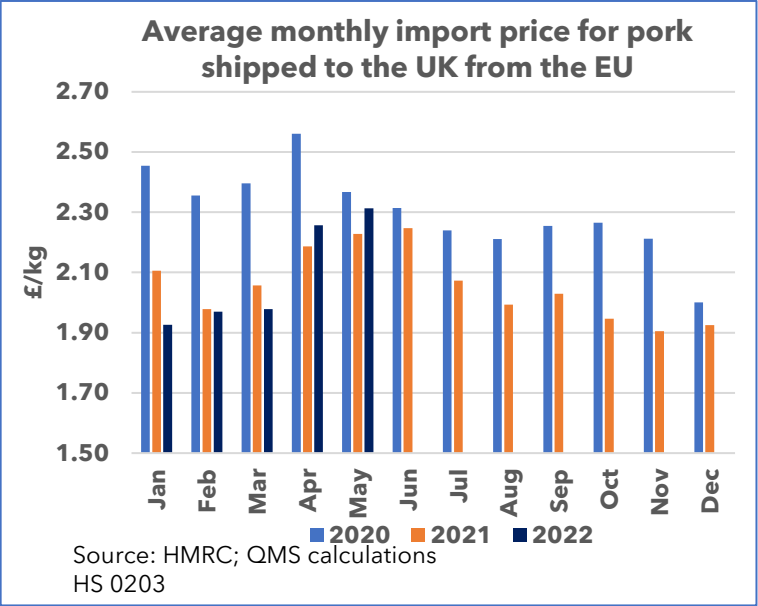
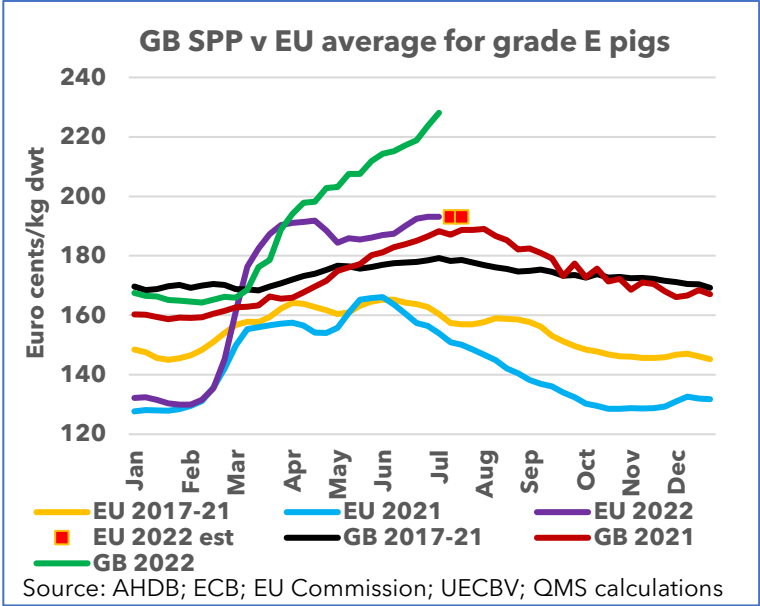
It will be interesting to see if the surge in Chinese wholesale pork prices in June and July has been accompanied by a rebound in UK exports.

Note:

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



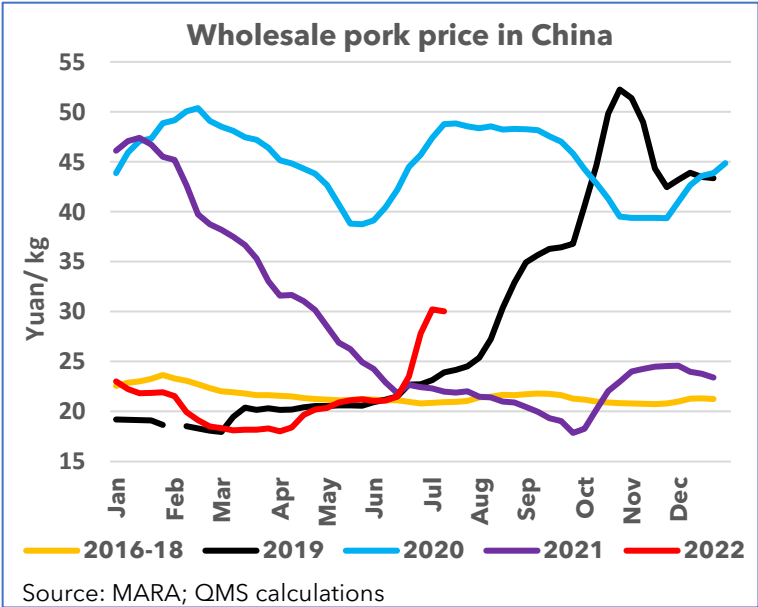
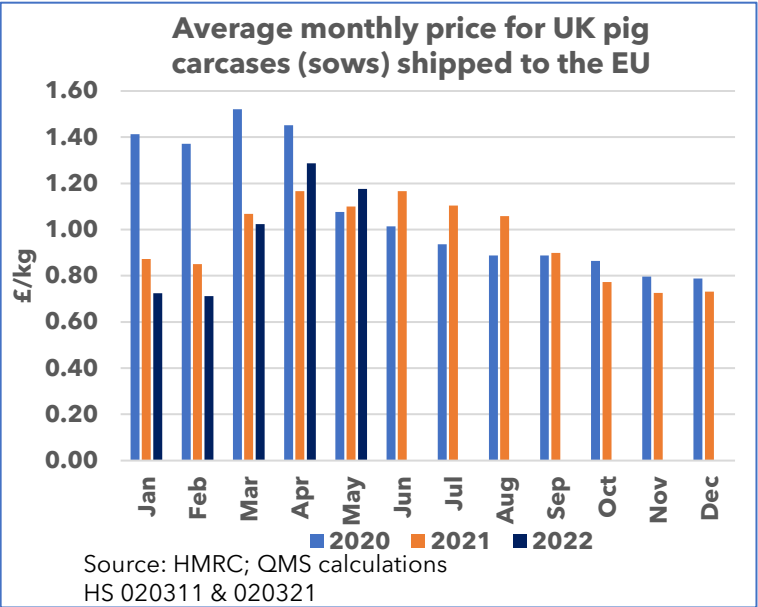
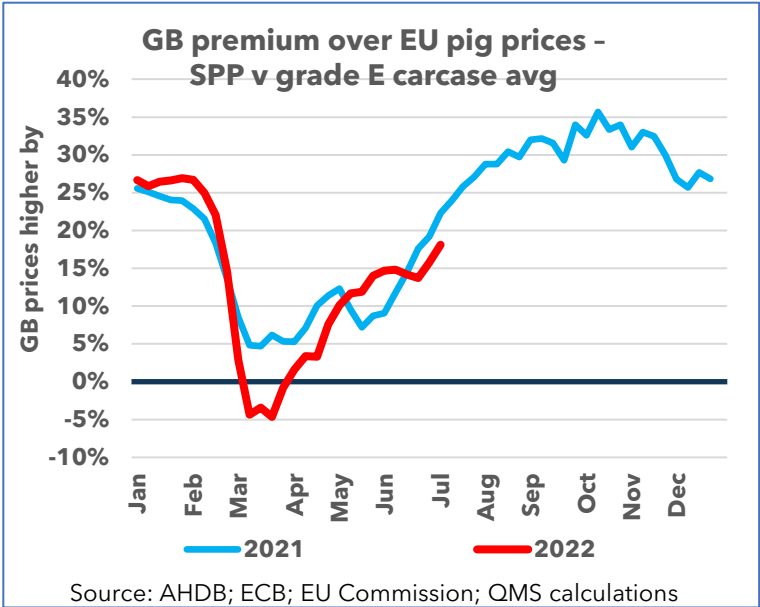
Factors driving UK international trade in pigmeat – price surge in China despite revised USDA forecasts signalling a stronger recovery in production and reduced import requirements in 2022, while EU production is now expected to fall sharply this year.



USDA Global Pork Market Forecasts, July 2022  
(million tonnes carcase 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



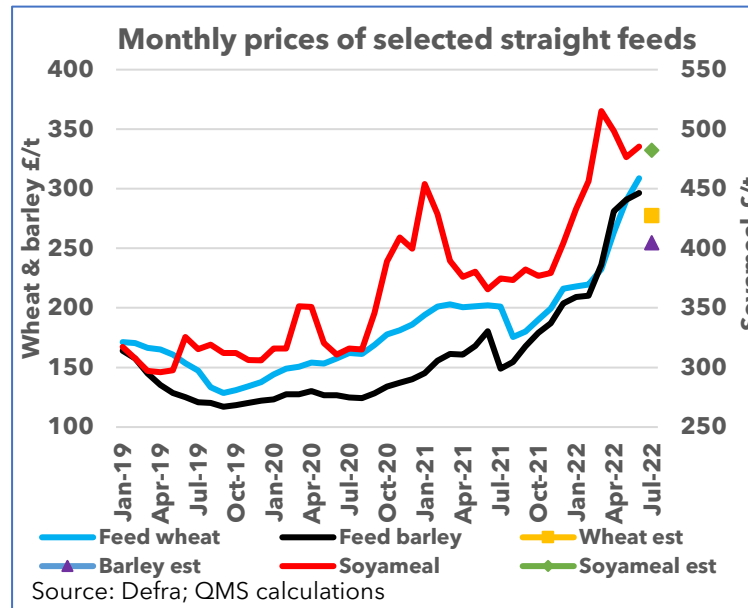
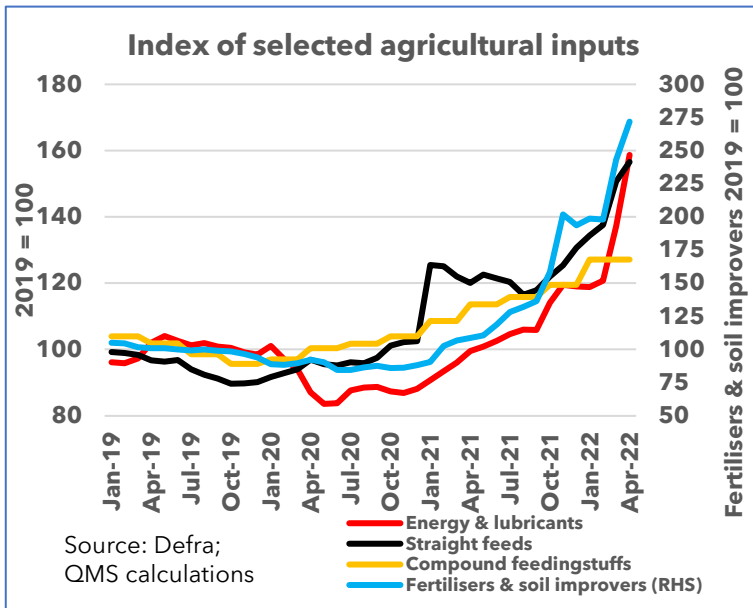
# Summary of economic developments



- 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.
- Rising prices and weakening confidence have been pressuring retail sales, and sales volumes at food stores continued to slide significantly relative to 2021 in June.
- Business activity growth has now slowed after a strong opening quarter but demand for staff remains very high.



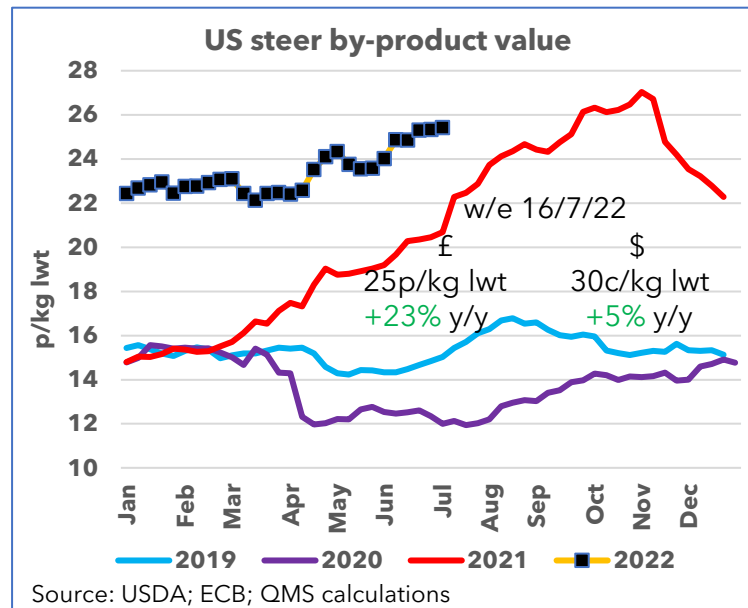
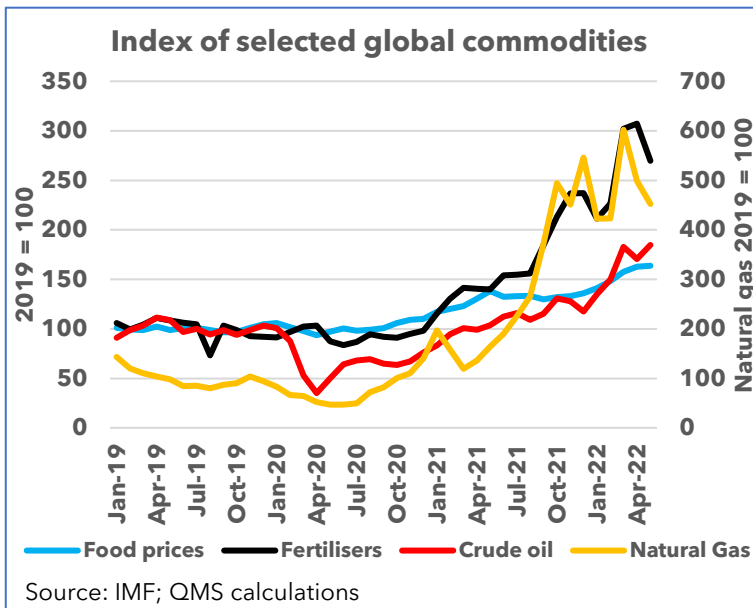
# Production costs and by-product revenues



Costs have been rising sharply for farmers and processors for much of the past two years.

Some commodity markets have softened from previous highs although a strong US dollar will have offset some of these downwards pressures.

Spot feed prices have softened due to optimism around the resumption of grain exports from southern Ukraine; though prices remain elevated from pre-war levels.

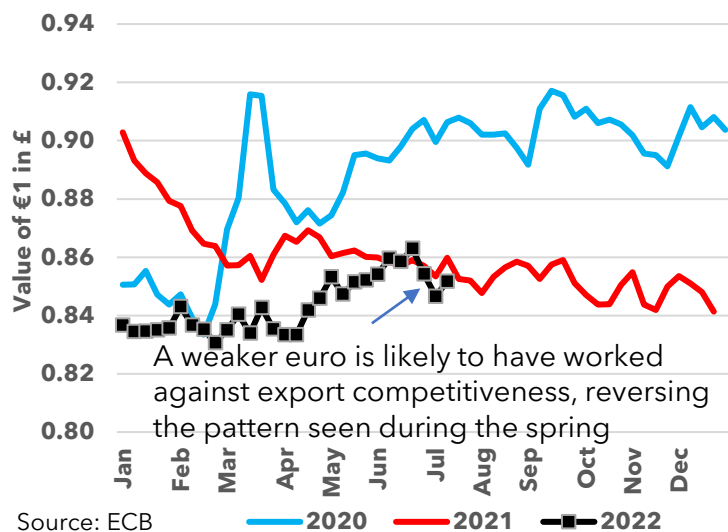


Raw material/commodity price spikes will pass through to end product prices over time as contracts are renewed/renewed.

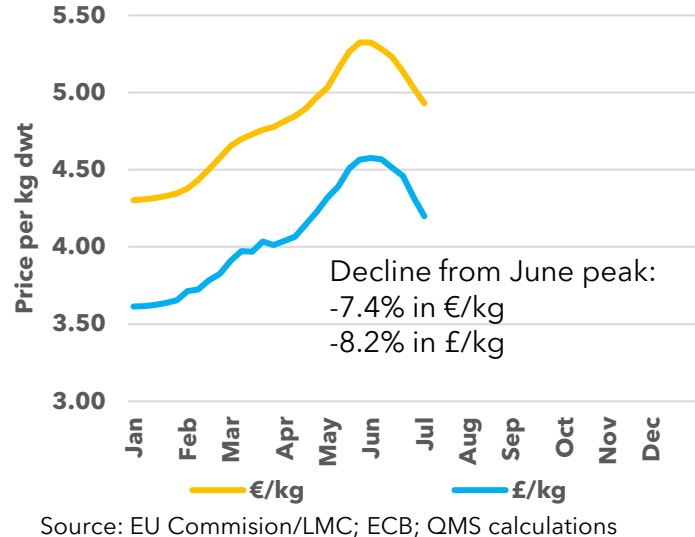
By-product value has been supported by firm commodity markets and a rising US dollar but hide value has remained well below its autumn 2021 peak and continues to trail year-earlier levels (-42.5% in USD; -34% in GBP).

# Exchange Rate Movements

Weekly exchange rate between € and £



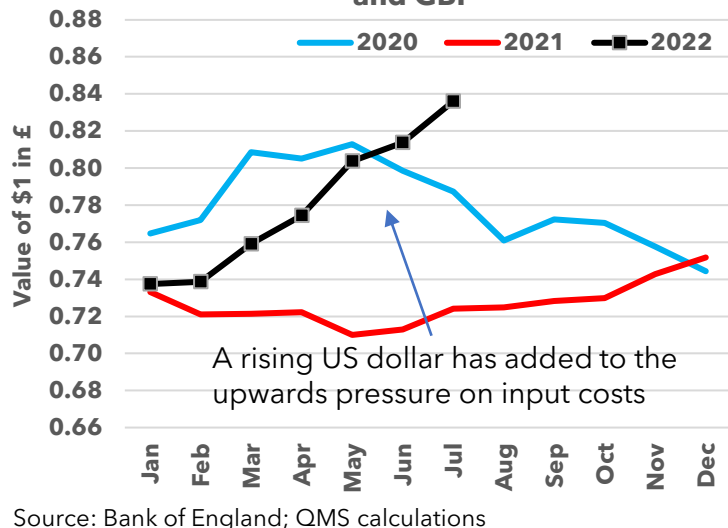
Irish R3 steer price in EUR & GBP in 2022



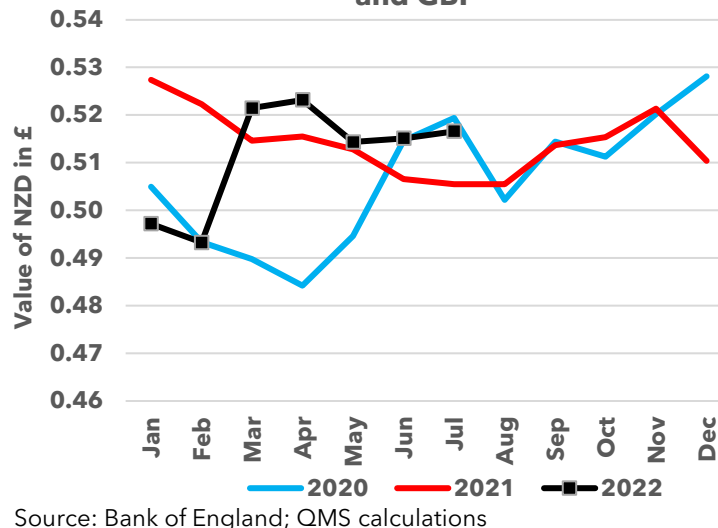
A weaker euro is likely to have worked against GB export competitiveness over the past month while adding to the pace of decline in Irish beef prices. Meanwhile, the rise in sterling after the zero tariff and quota trade deal with the EU has continued to pressure competitiveness over a longer period.

The US dollar has surged in 2022 for two reasons. One is the US and its safe-haven investment status at time of global economic turmoil. The second factor is rising US interest rates; and this is set to continue as inflation broadens into the service sector and the labour market remains tight, suggesting that US inflation is becoming domestically-generated. A strong USD adds to the pressure on the cost of many imported inputs.

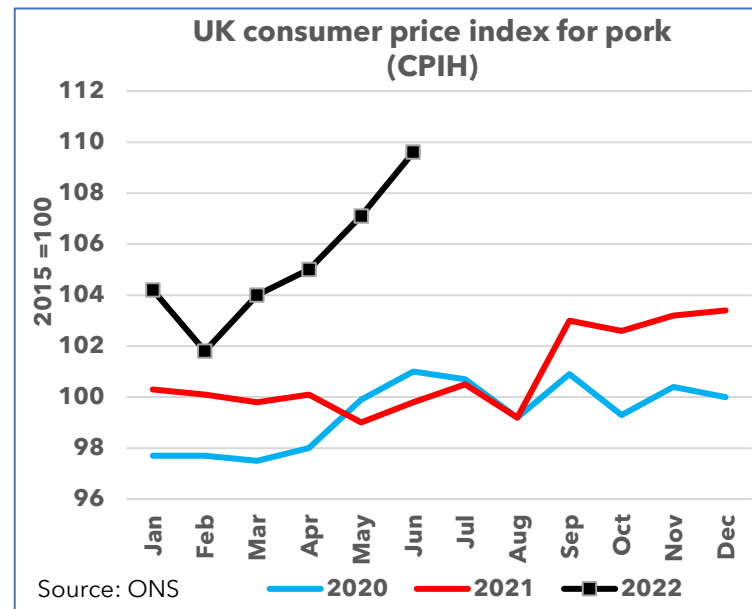
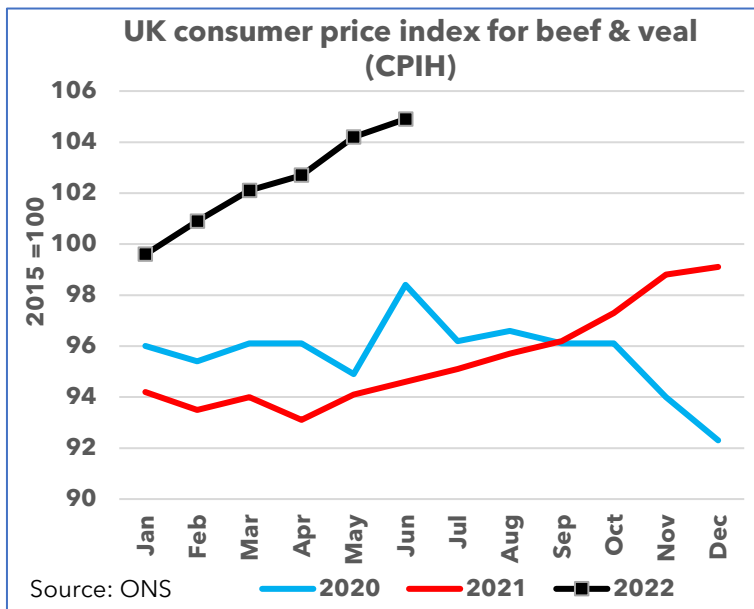
Monthly exchange rate between USD and GBP



Monthly exchange rate between NZD and GBP



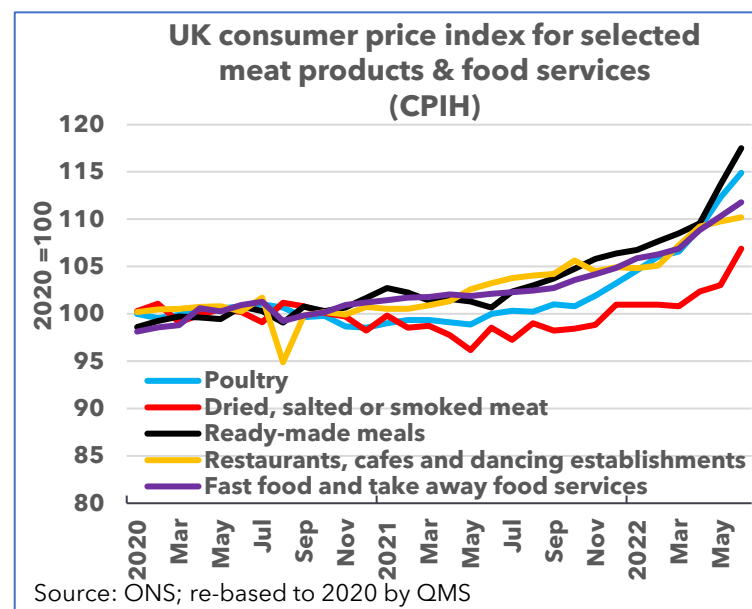
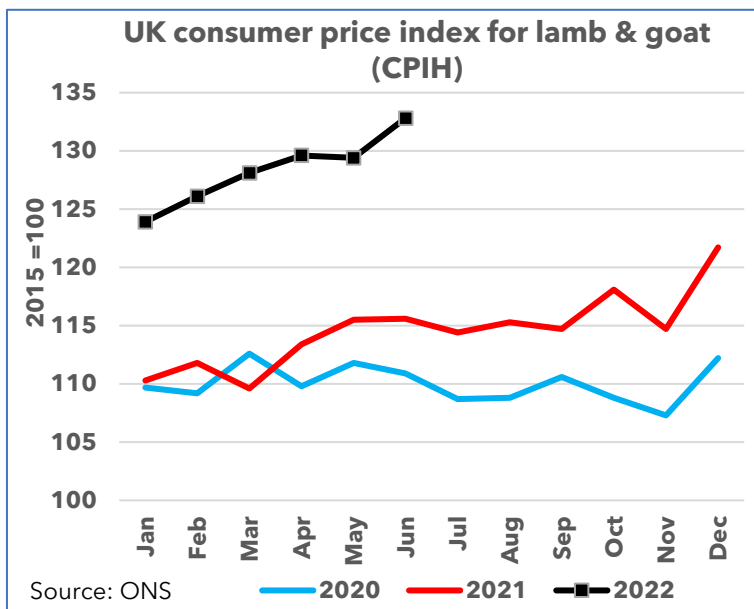
# Retail demand and prices



Retail demand has rebalanced lower this spring with covid restrictions no longer in place.

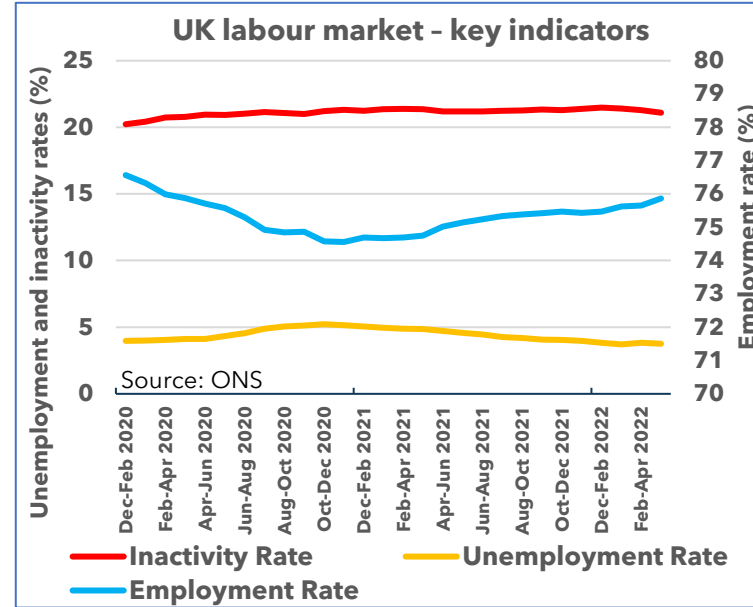
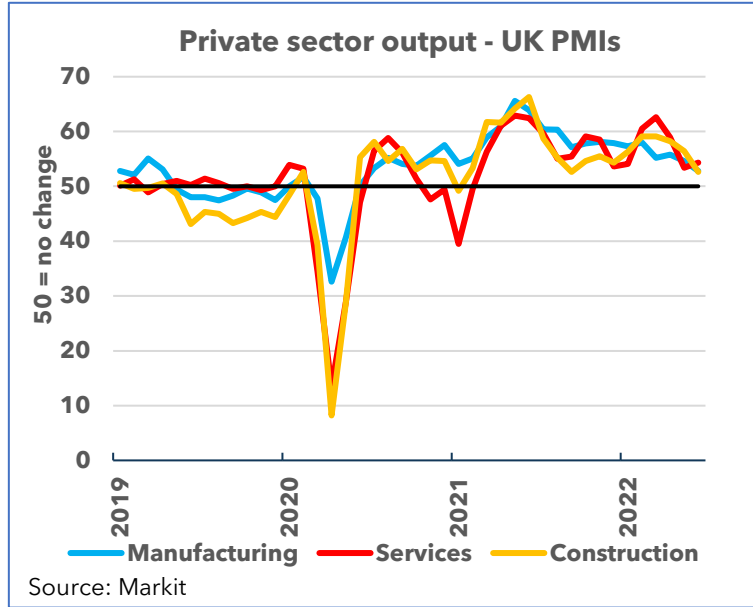
Retail prices have continued to trend sharply higher, for both meat and food services.

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.



For example, Kantar data showed a sharp y/y decline in spend on beef steaks and roasts in spring 2022, with spend on stewing cuts down slightly and spend on mince up slightly.

# Economic indicators



Households are feeling the squeeze from rising prices for essential goods and services, weakening confidence and leading to reduced retail sales volumes.

Following the energy price cap increase, energy price inflation surged, reaching 57% in June. Meanwhile, June saw the cost of petrol and diesel rise by a respective 42% and 44% on a year earlier and food price inflation almost hit 10%.

Retail sales did see a better June, particularly at food stores, possibly linked to the Jubilee celebrations, but inflation meant that volumes were still down by 6% on the year.

Business activity growth has cooled but demand for staff remains high and there has been a shift towards being employees from self-employment. Some people who left the labour market during the pandemic have yet to return, tightening the supply of workers.

