

QMS Monthly Market Update - June 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

Contact: info@qmscotland.co.uk

Date: 21/6/2022



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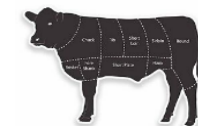
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Data Disclaimer: All deadweight price data used in this report is supplied to QMS by AHDB, who collect the data from reporting abattoirs each week and publish a consolidated set of data, regionally within GB for cattle, and GB-wide for sheep and pigs.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

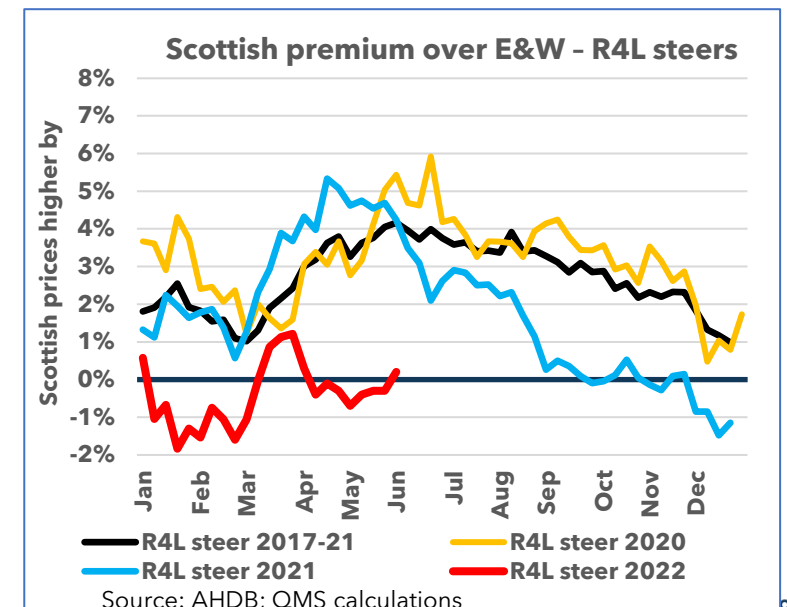
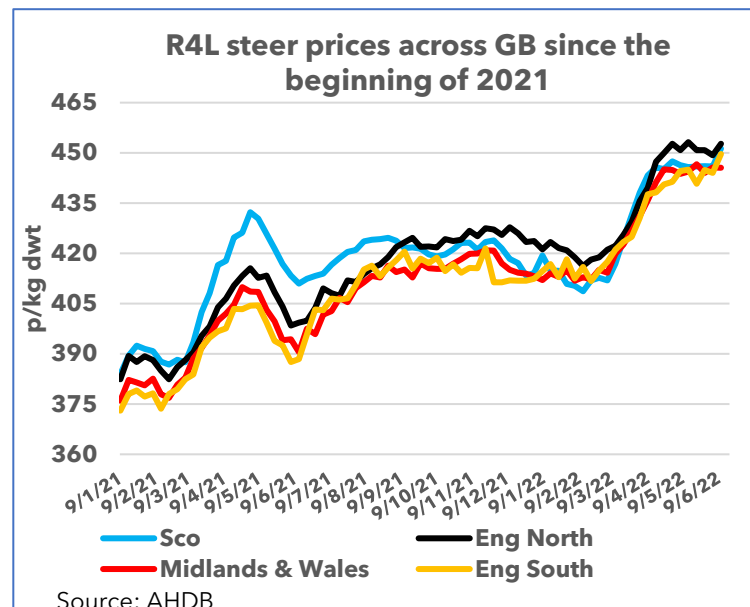
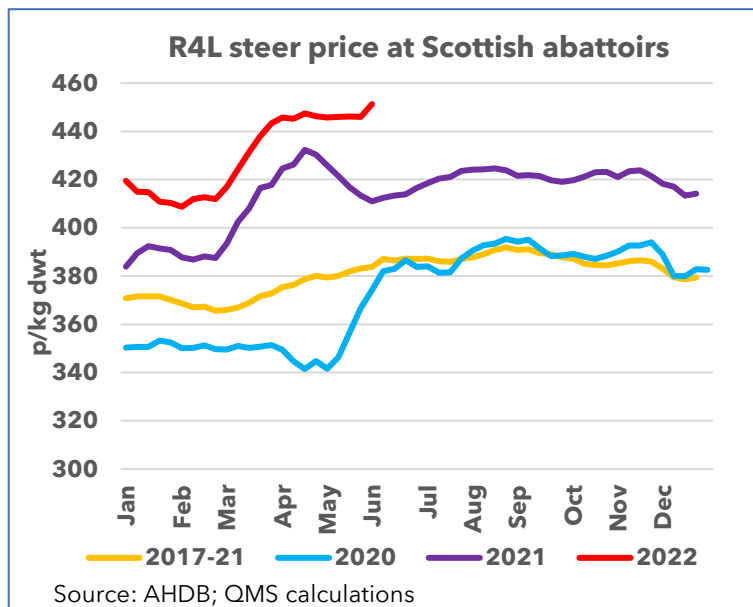
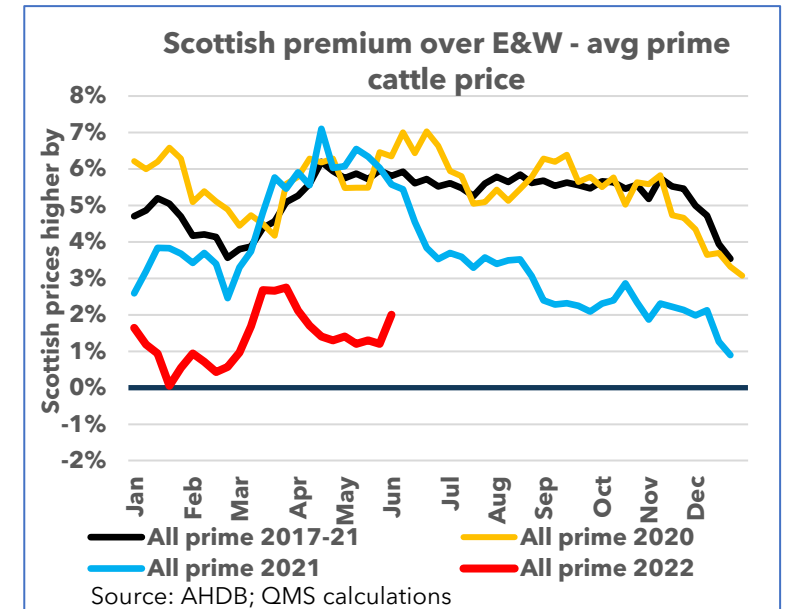
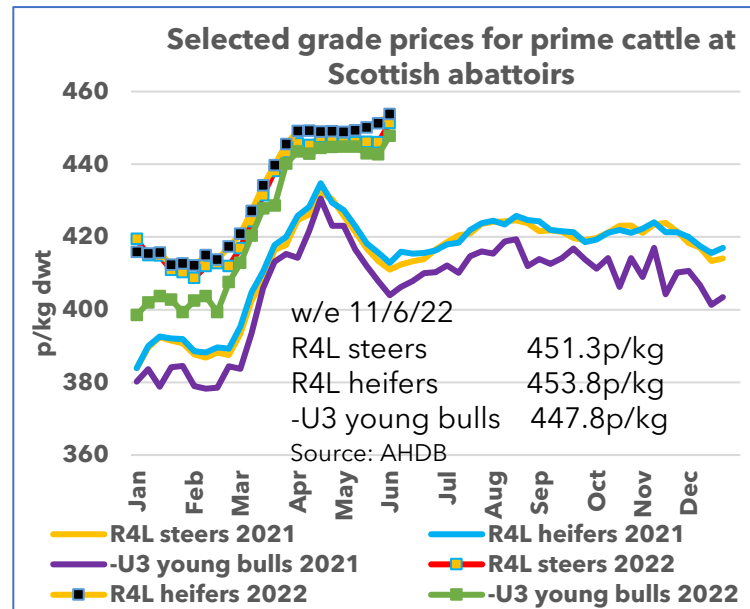
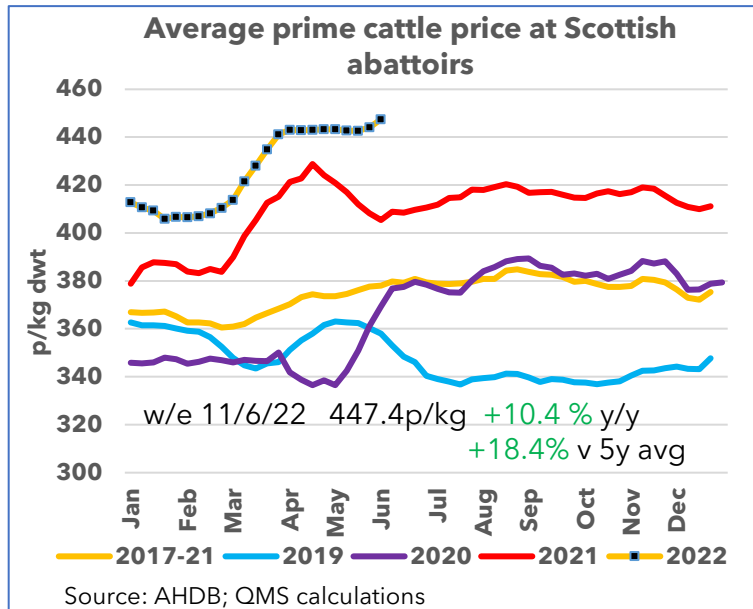
Summary of market developments – beef market



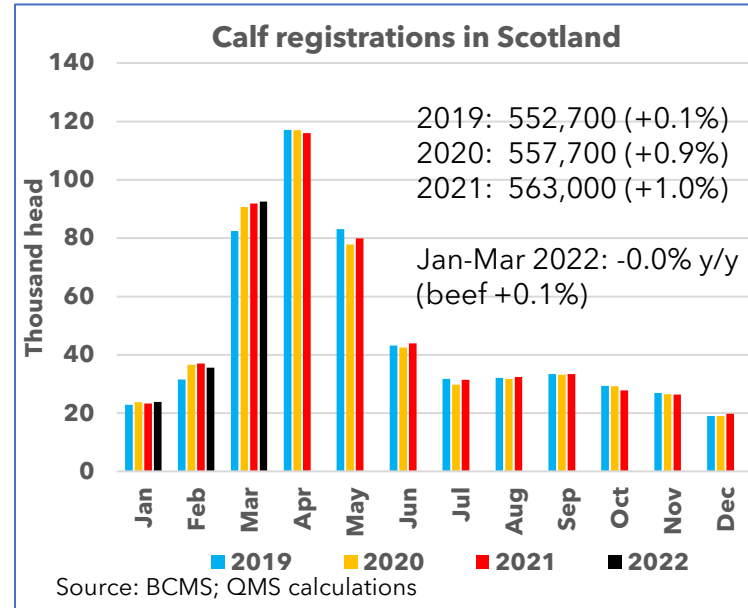
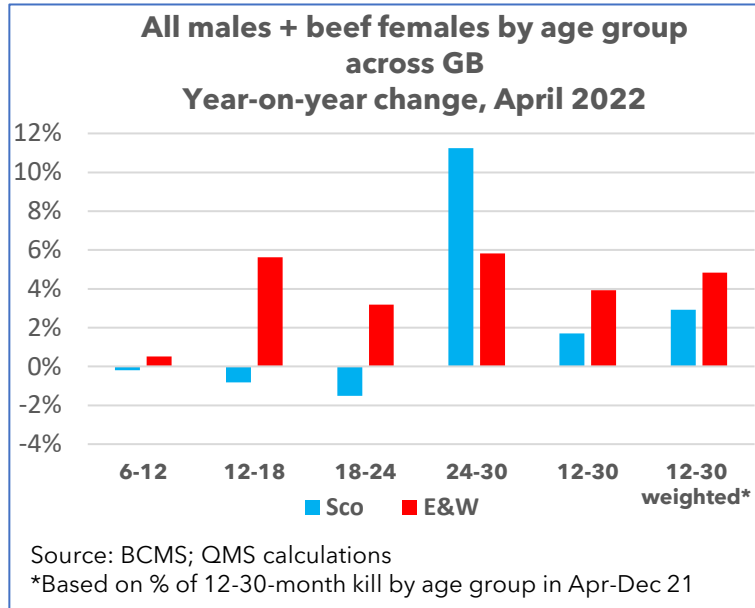
Report Category	Basis	Average price or volume	Change on week	Change over four weeks	Change on year	Change on 5-year avg
R4L steer price at Scottish abattoirs	p/kg dwt, w/e 11 June	451.3	+5.3p	+1.2%	+9.8%	+17.6%
Prime cattle slaughter at reporting Scottish abattoirs	Average in four weeks to June 11, head procured deadweight	6,312		-3.0%	-8.2%	-8.2%
Store price at Scottish auctions for steers aged 12-18 months	Average in four weeks to June 11, £ per head	£992		-5.1%	+1.3%	+9.5%
UK beef market supply	Tonnes in Mar-May 2022 (estimate)	257,000			+1.5%	-0.9%

- After a period of stability, prime cattle prices have begun to climb again in June, reaching new record levels
- It is possible that the increased pool of slow-finishing spring-2020 born cattle have been working their way out of the system, with the tighter supply of younger cattle beginning to have an impact.
- UK beef output and overall market supply are estimated to have been little changed on a year earlier in the opening five months of 2022, although a rebound in slaughter did see production rise more significantly in May.
- A rise in domestic production coupled with firm EU beef prices may have led to reduced import requirements in May, while underpinning exports.
- Store cattle prices showed weakness relative to 2021 during the peak spring selling period despite reduced marketings, likely down to the weaker demand from finishers facing sharply higher feed costs.

Farmgate prices - prime cattle



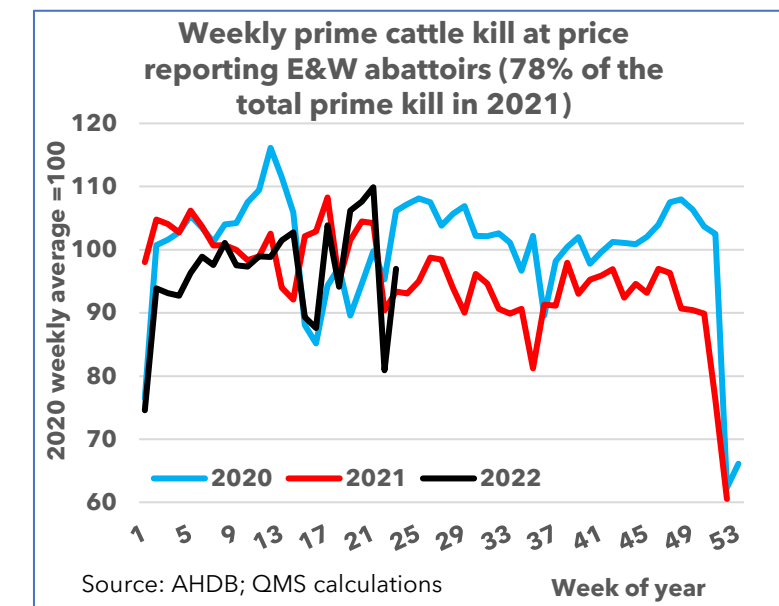
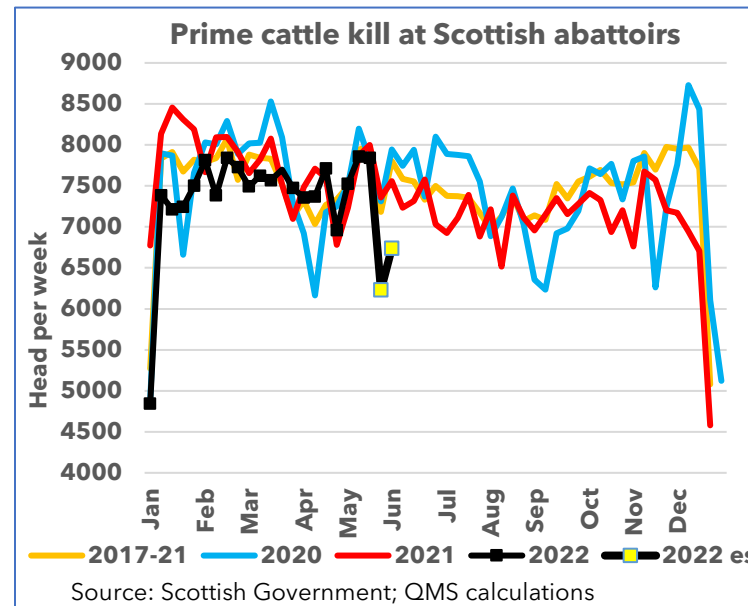
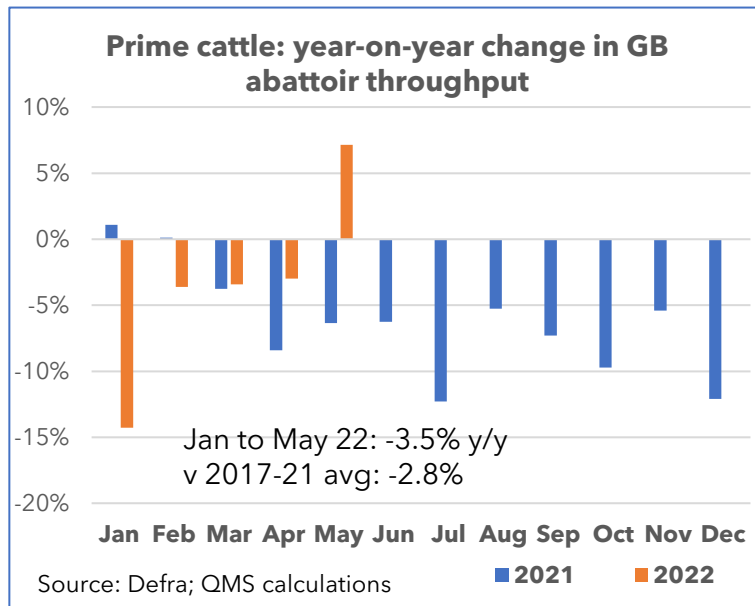
Availability and slaughter – continuing puzzle of increased availability but reduced slaughter



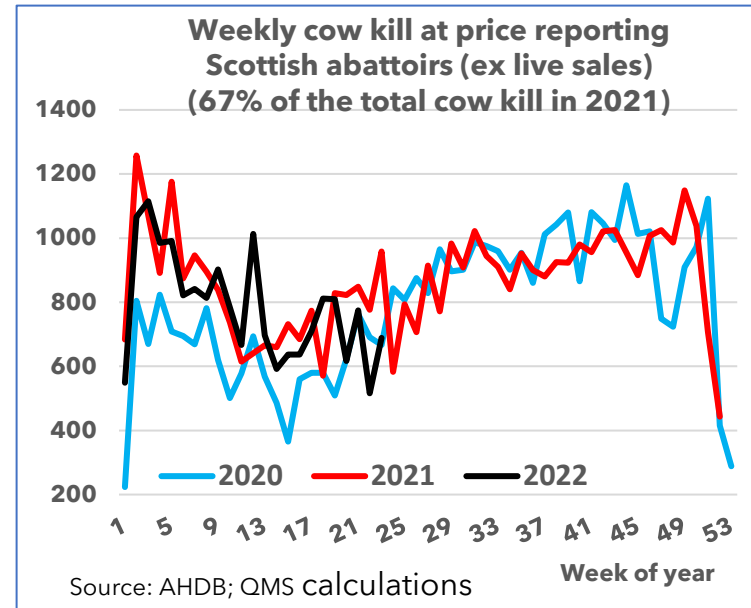
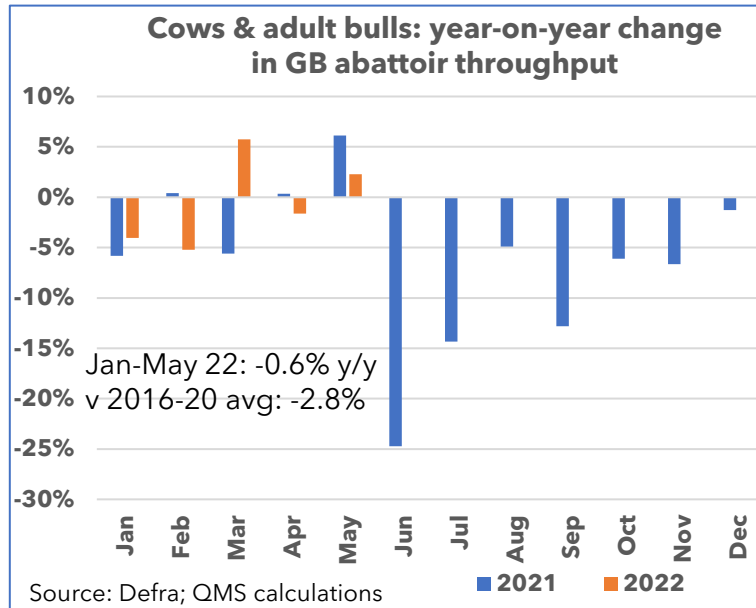
While BCMS cattle population data for April indicated a continuing strong year-on-year increase in prime cattle aged 12 to 30 months on Scottish farms, it has been driven by the pool of spring-2020 born prime cattle which have taken longer to finish, while numbers have begun to tighten at younger ages.

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.

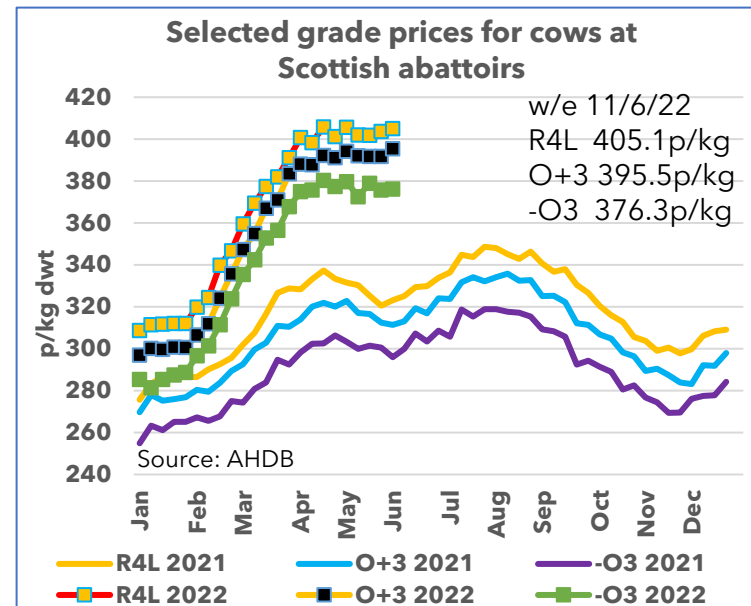
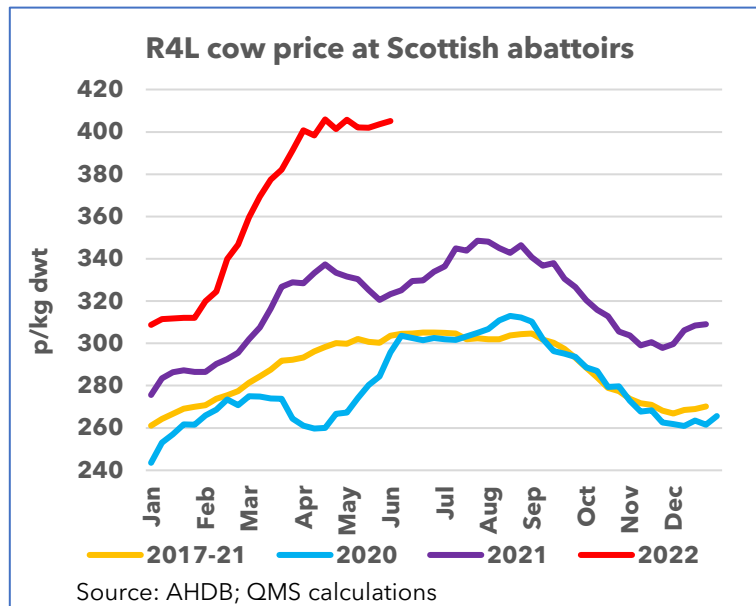


Mature cattle market – steadying seasonally after a very strong spring



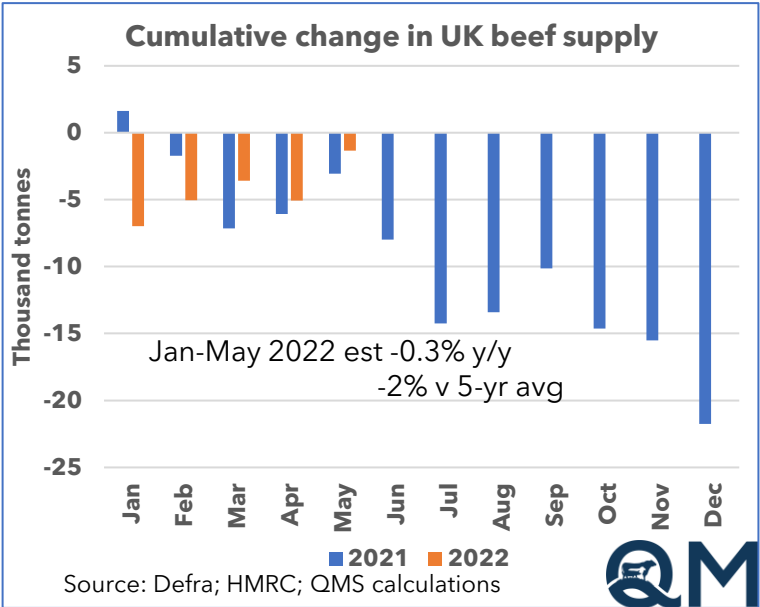
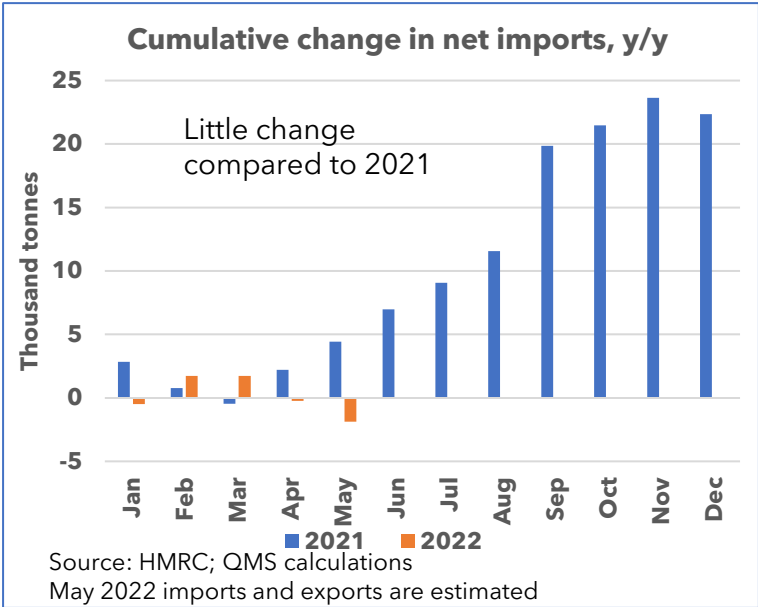
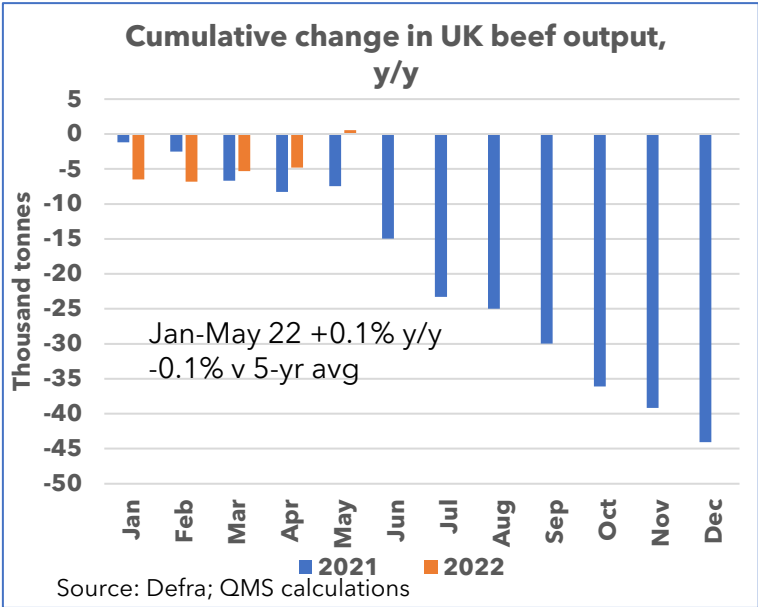
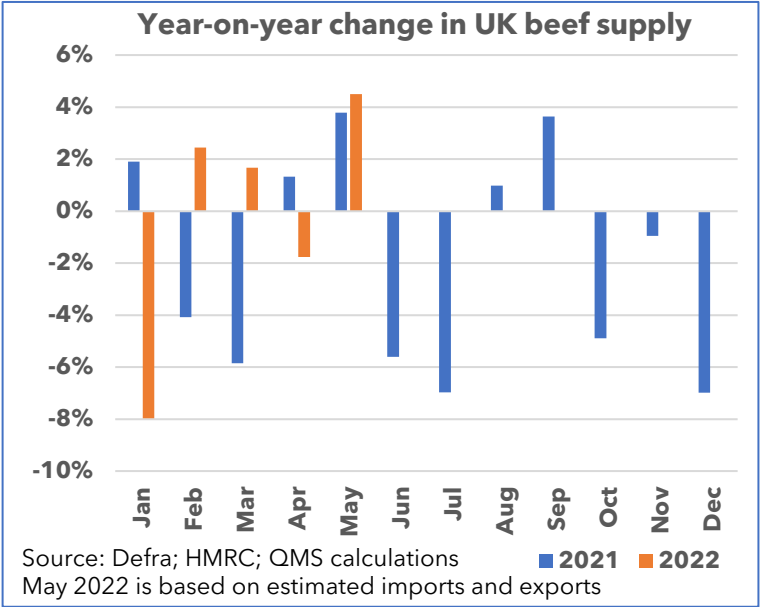
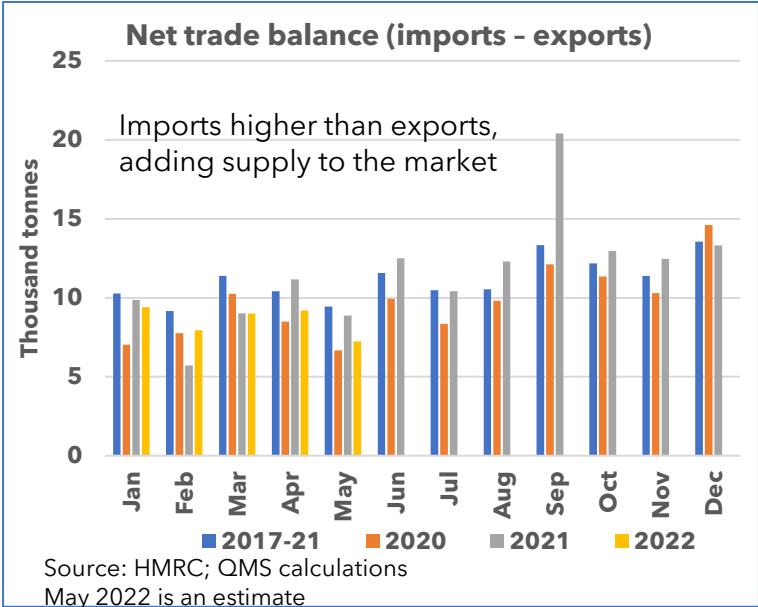
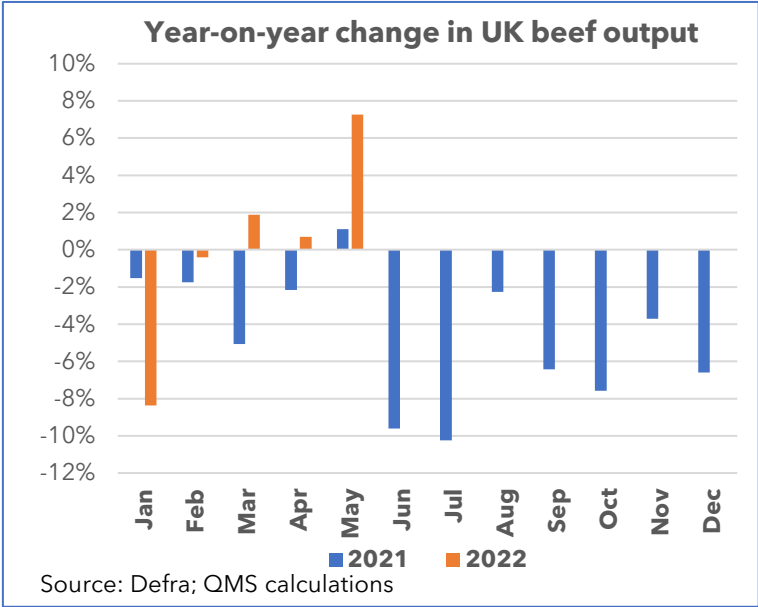
Cull cow slaughter fell slightly on a year earlier at GB abattoirs in the first five months of 2022.

However, firm prices may have drawn out some additional stock between March and May, and 11% more cows have been sold at Scottish auctions than last year.

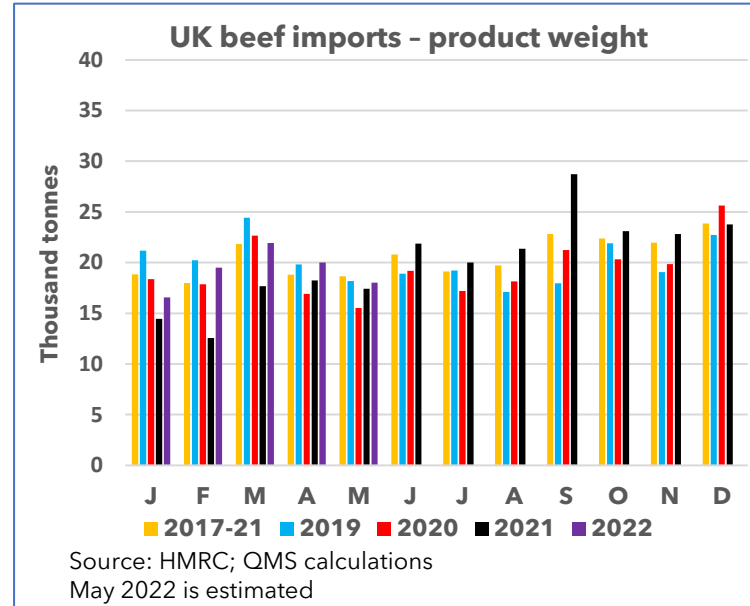
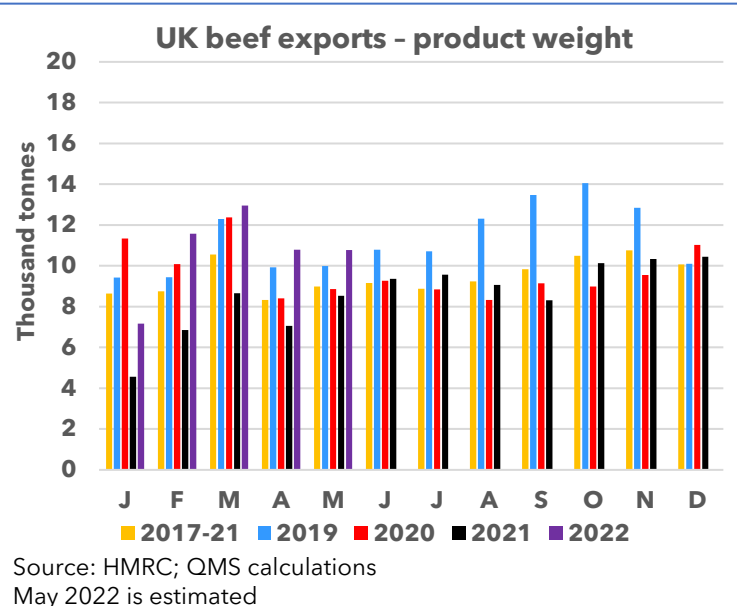


Prices continue to be underpinned by a number of factors, including a seasonal reduction in slaughter, reduced slaughter in the year-to-date compared to 2021, and the lack of cheap alternatives for manufacturing grade beef on the EU market. Economic factors may also be supporting demand.

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



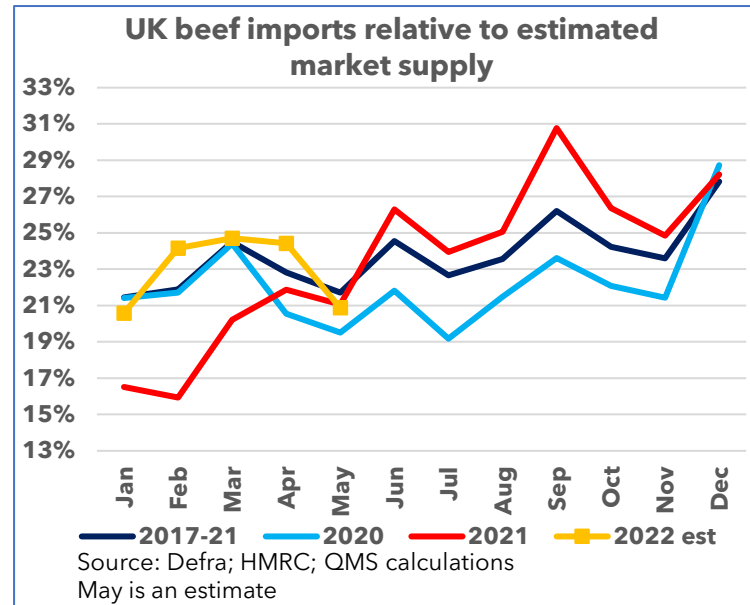
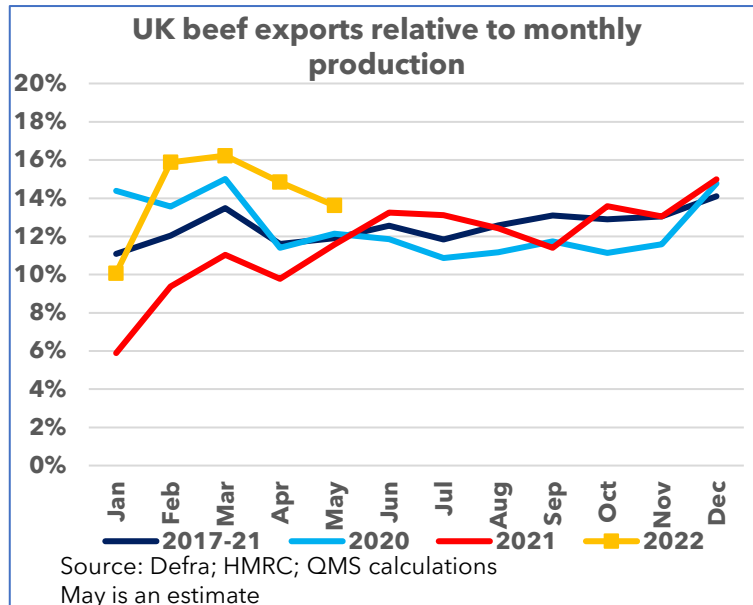
A focus on UK international trade in beef



UK exports performing well given tight supply and EU exit, highlighting the strength of EU demand for beef.

February import volumes have been revised sharply lower to a more normal level for the time of year.

Imports still rose strongly in the first four months but were only up slightly on their five-year average and may have been required to offset higher exports.



Note:

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

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

Variables influencing international trade in beef

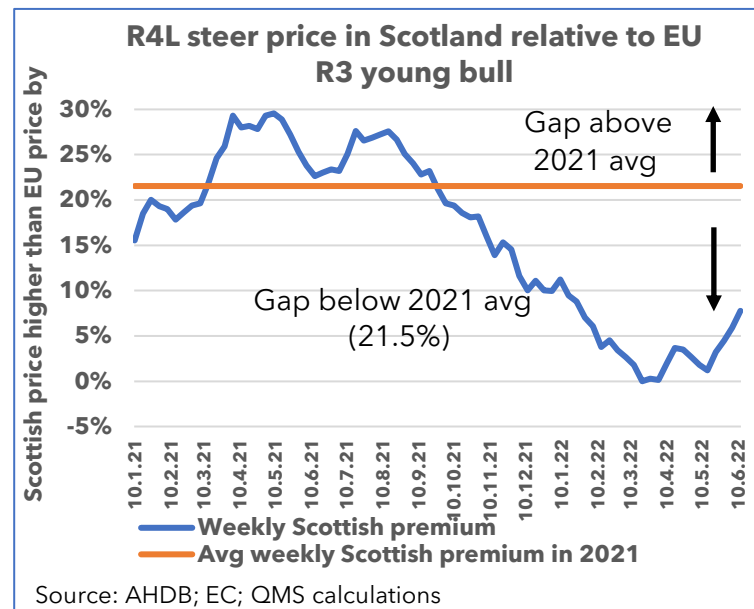
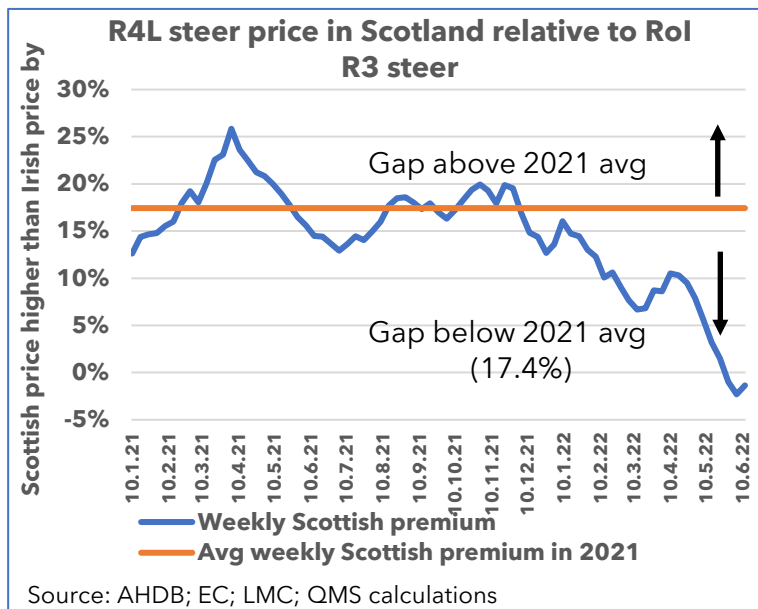
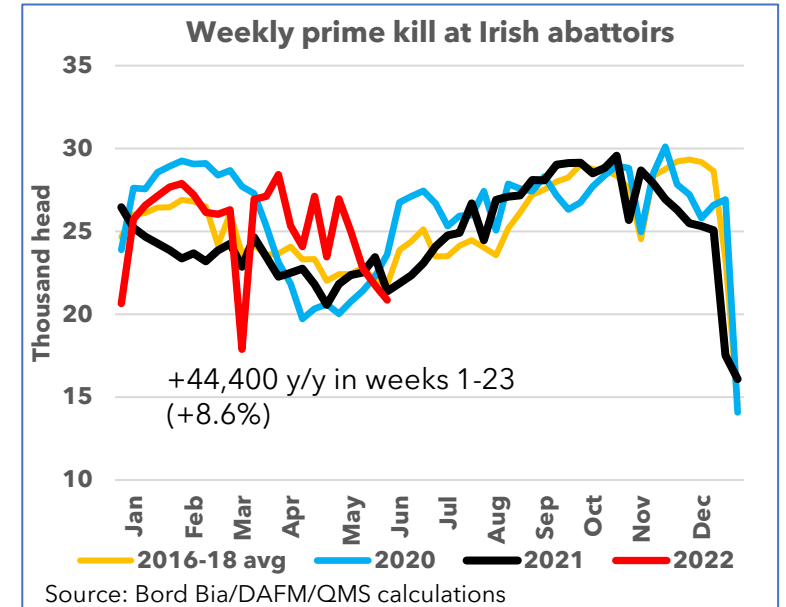
Increased supply boosted slaughter in Ireland up until mid-May but it has since tightened seasonally and relative to last year, with the increase on farm used up

A relative increase in cattle prices across the EU is likely to have supported the competitive of domestic beef at home and on the continent, but this situation has started to reverse

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

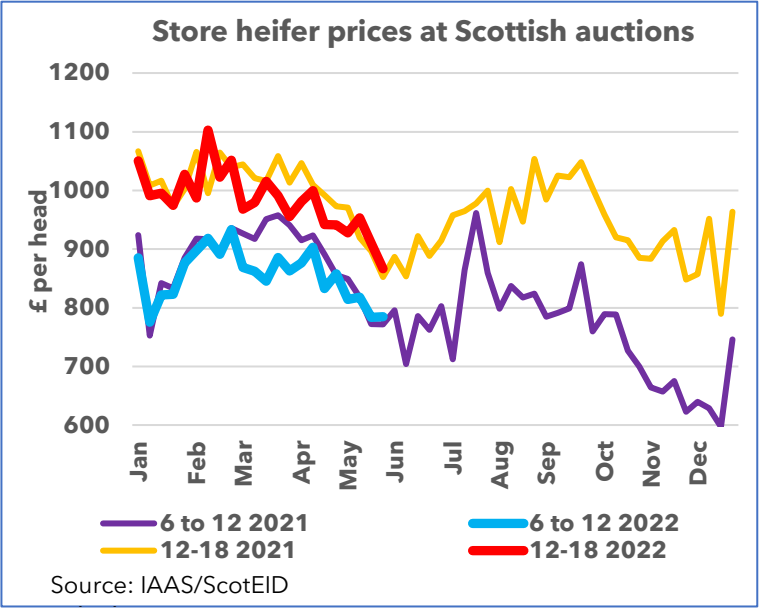
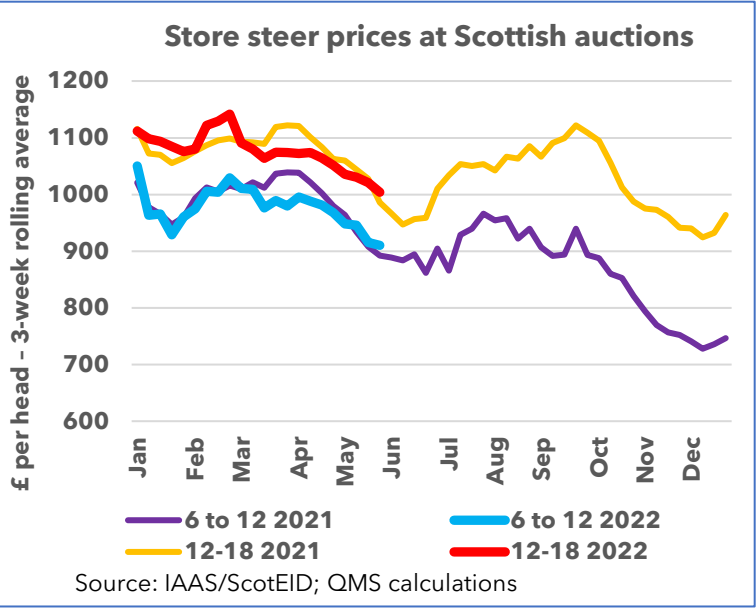


Selected EU cattle prices for
R3 males, p/kg dwt

	Week 23 2022	Week 17 2022	Week 23 2021
Germany (young bull)	395.9	474.1	347.6
Netherlands (young bull)	465.7	459.0	313.2
Spain (young bull)	422.5	421.3	320.8
Poland (young bull)	424.4	436.6	301.8
Irish Republic (steer)	457.6	414.7	359.0

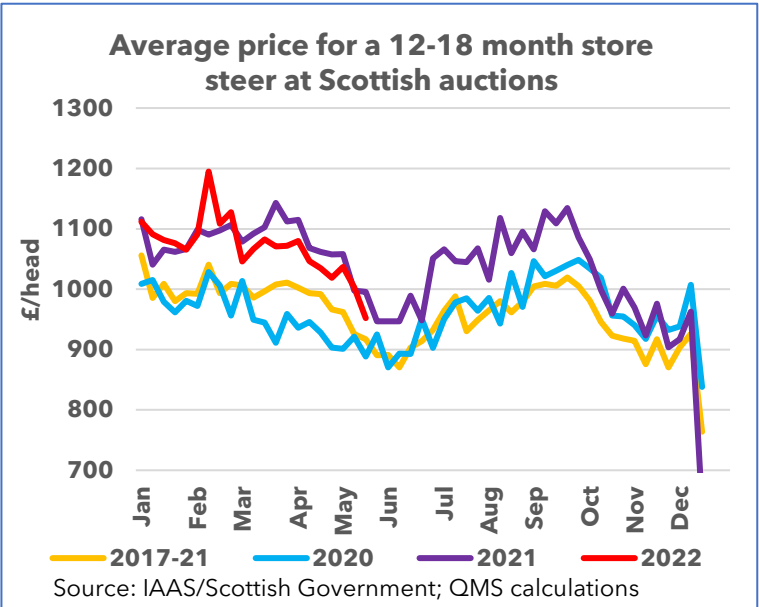
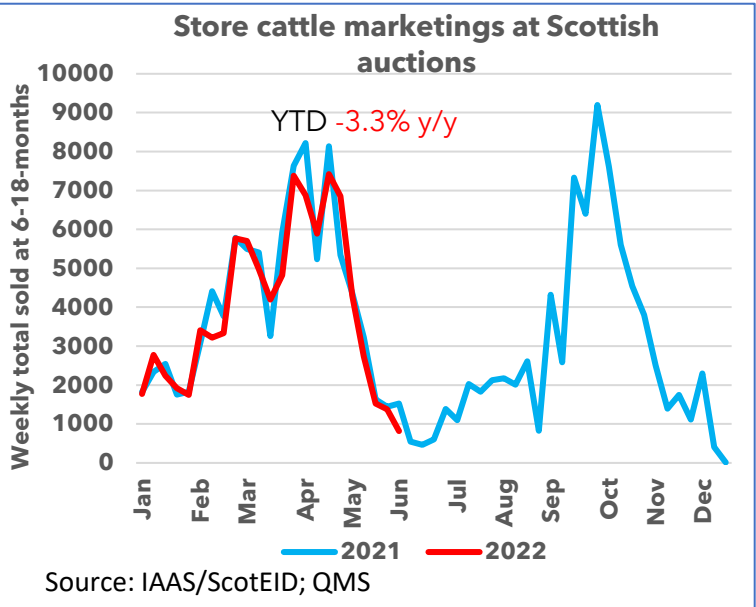
+0.6% Adjustment made to EU prices to reflect different spec and the weekly average exchange rate is sourced from the ECB

Store cattle trade



After a weak March and April, store cattle prices have edged back in front of 2021 levels, with volumes tightening seasonally and on the year.

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

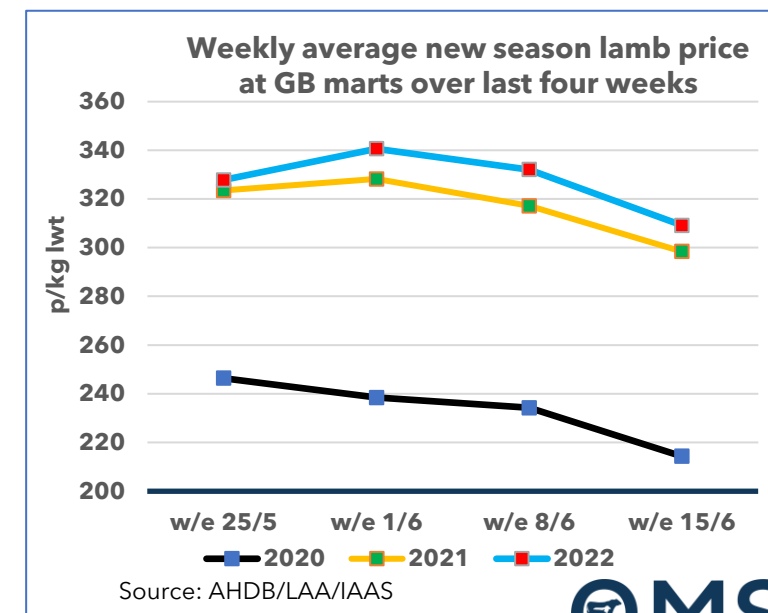
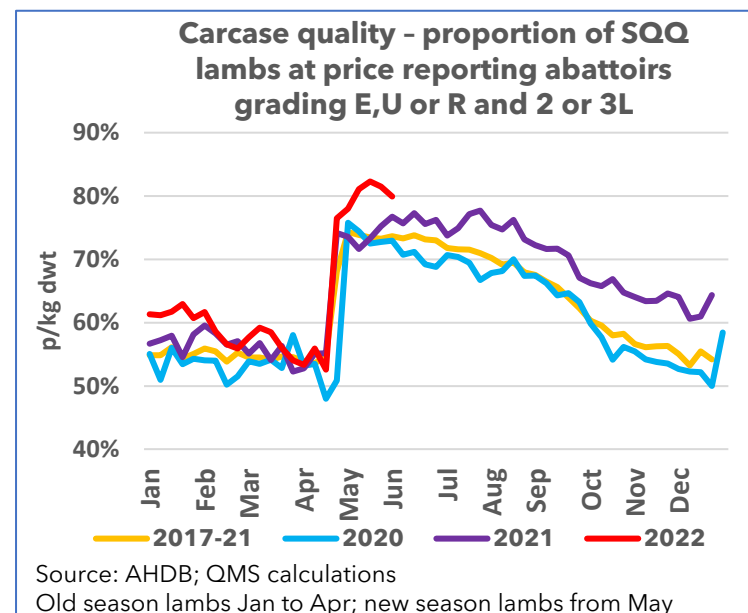
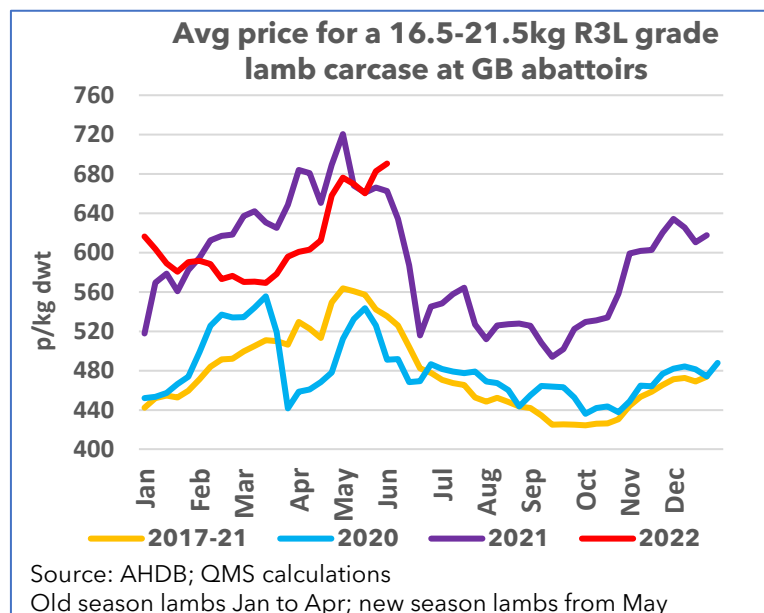
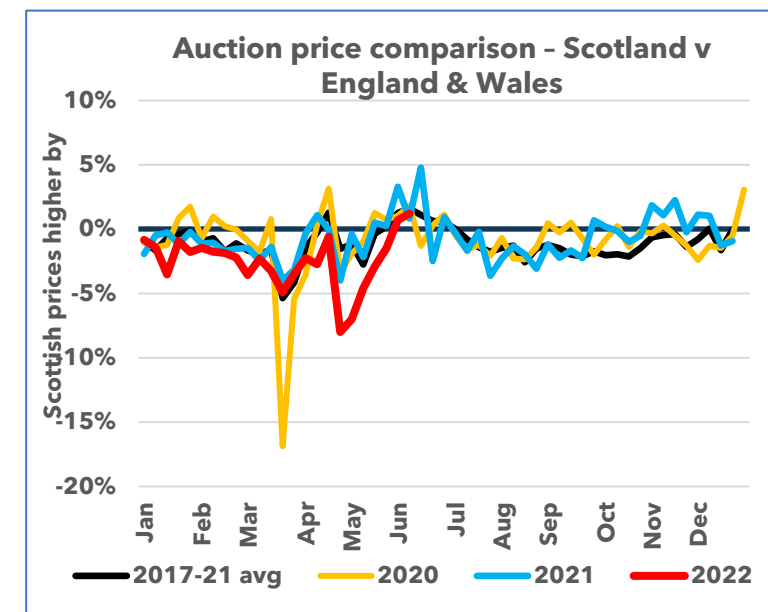
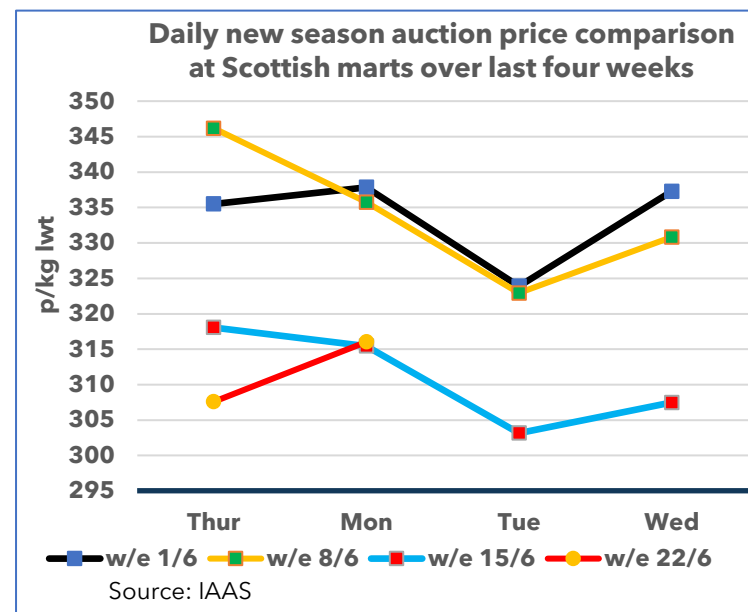
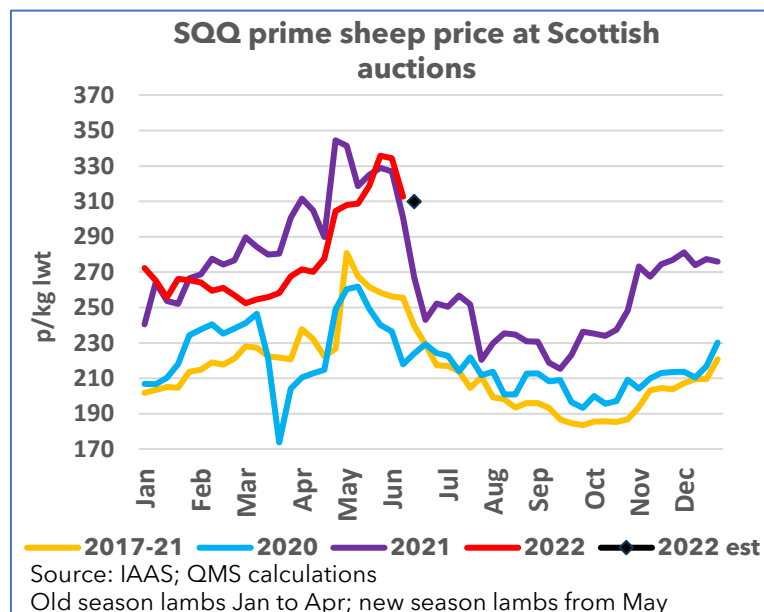


	4 weeks to 11/6	y/y change last 4 weeks
Store cattle prices		
Steers, 6-12 months	£892	+1.4%
Steers, 12-18 months	£964	+0.0%
Heifers, 6-12 months	£804	+1.0%
Heifers: 12-18 months	£906	+1.1%
Store cattle marketings		
All steers & heifers, 6-18 months	6,460	-17.4%
Source: IAAS/ScotEID; QMS calculations 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 15 June	312.7p/kg	-21.56p	+1.3%	+4%	+22.4%
New season SQQ lamb marketings at Scottish auctions	Average in four weeks to June 15, head	3,329		+6.5 times	-20.6%	-8.3%
Total lamb marketings at GB auctions	Average in four weeks to June 15, head	89,569		-18.7%	-1.9%	-4.2%
UK sheepmeat market supply	Tonnes in Mar-May 2022 (estimate)	68,500			+11.3%	-10.6%

- New season lamb prices have softened from their highs as volumes build but are showing slight year-on-year increase, while running 20-30% above 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.
- While an increased carryover of hoggs pushed up domestic production sharply this spring, imports remained low while exports recovered to a three-year high, keeping the domestic market similarly supplied to its five-year average.

Farmgate prices - prime sheep - lower than last year but well above pre-pandemic levels

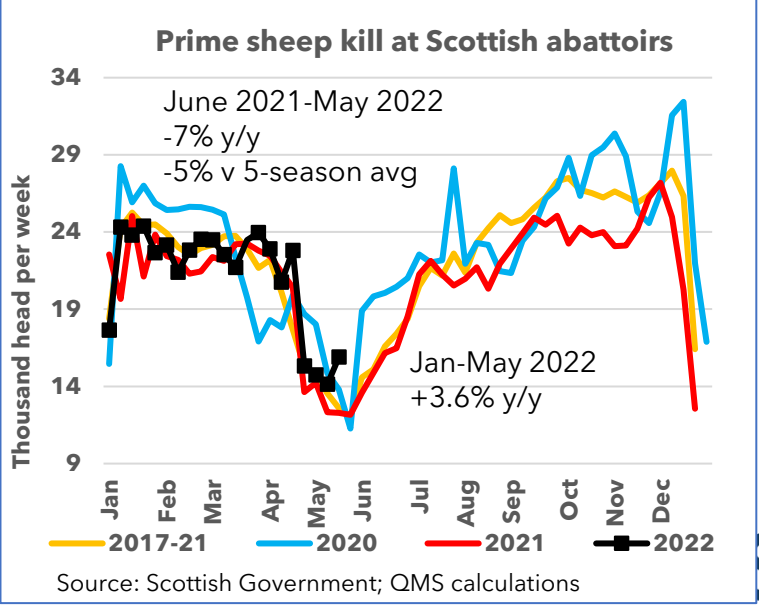
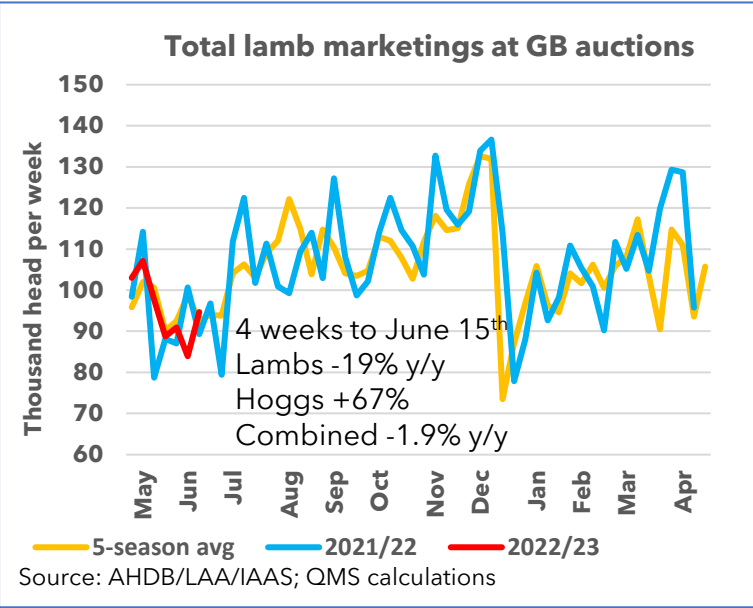
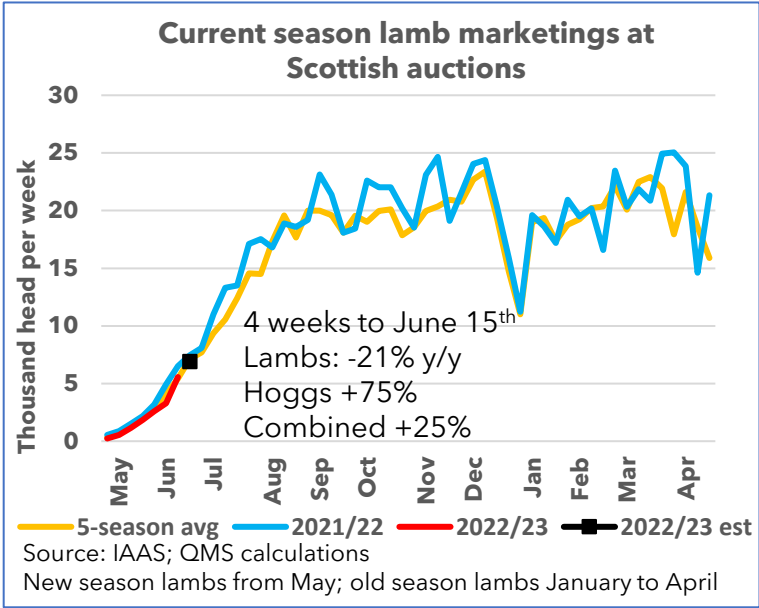
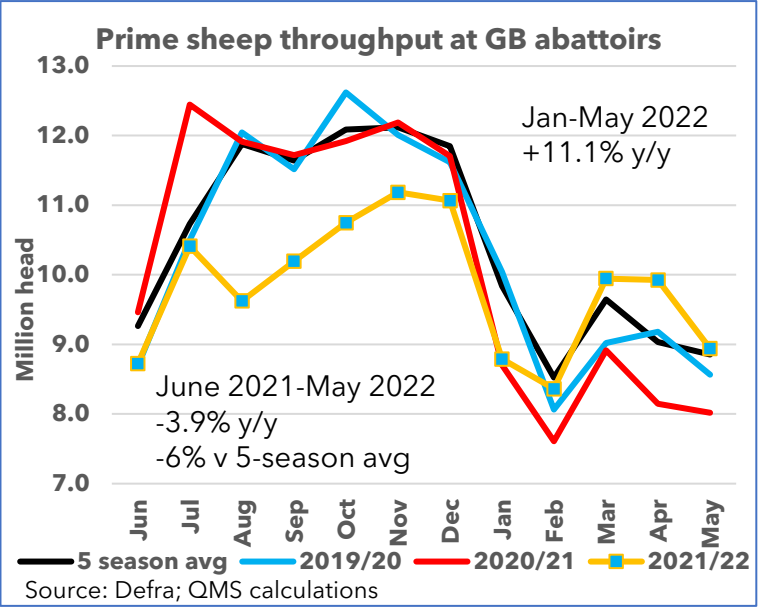


Availability and slaughter - slow start to the season for lambs while hogg availability remains elevated, though not by enough to offset fewer lambs at GB level

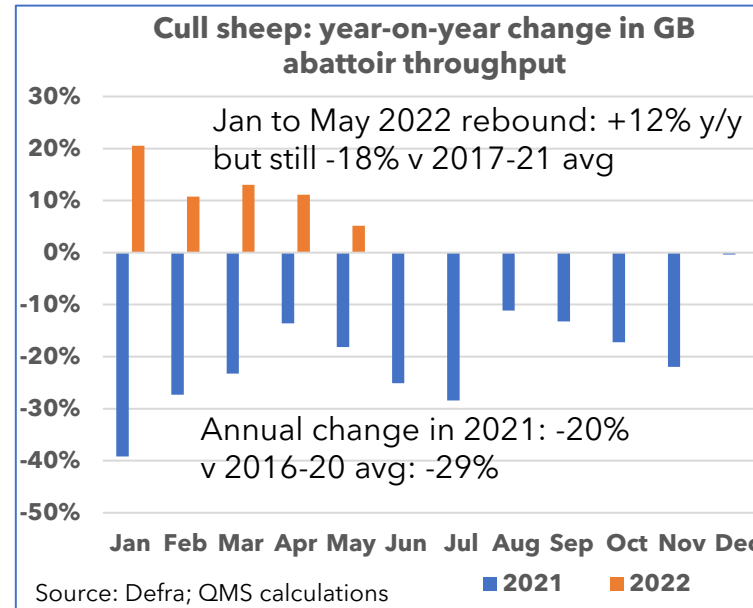
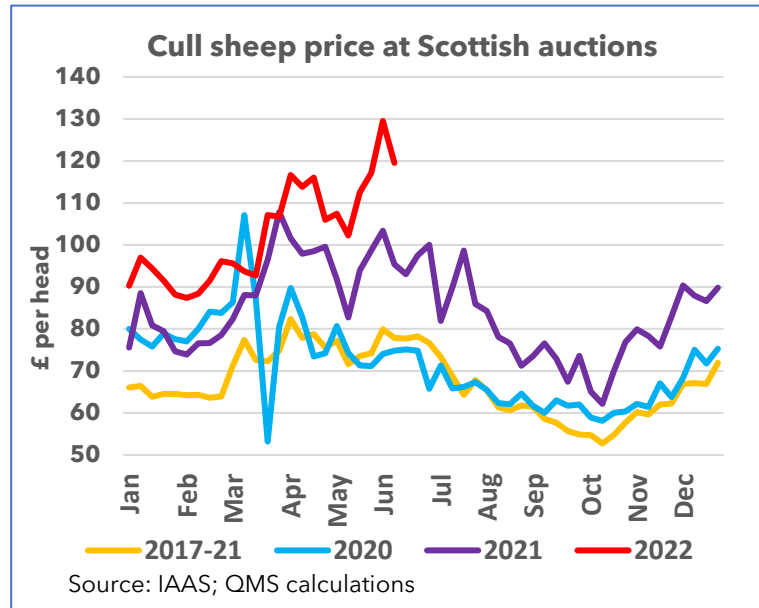
June Census, 2021		
	Lamb crop y/y change	Change v 5-year avg
Scotland	+1.1%	+1.9%
England	-3.9%	-5.8%
Wales	+3.1%	-0.4%
GB	-0.8%	-2.6%

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

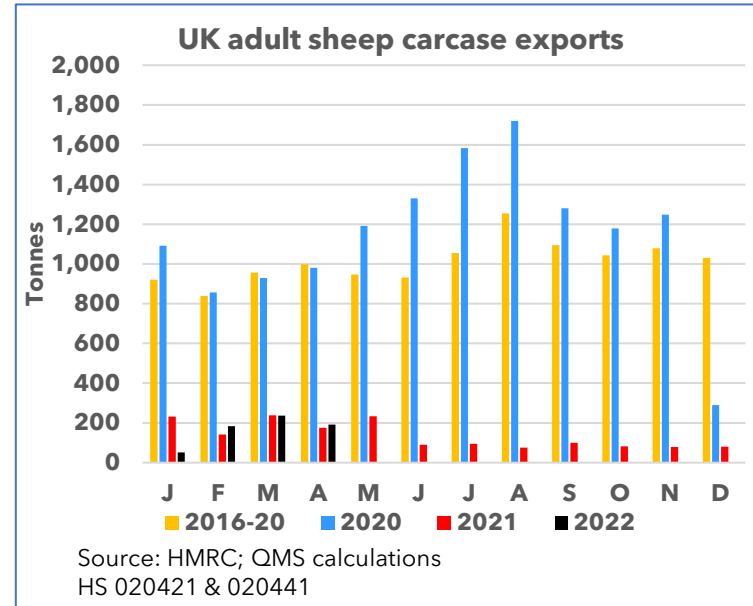
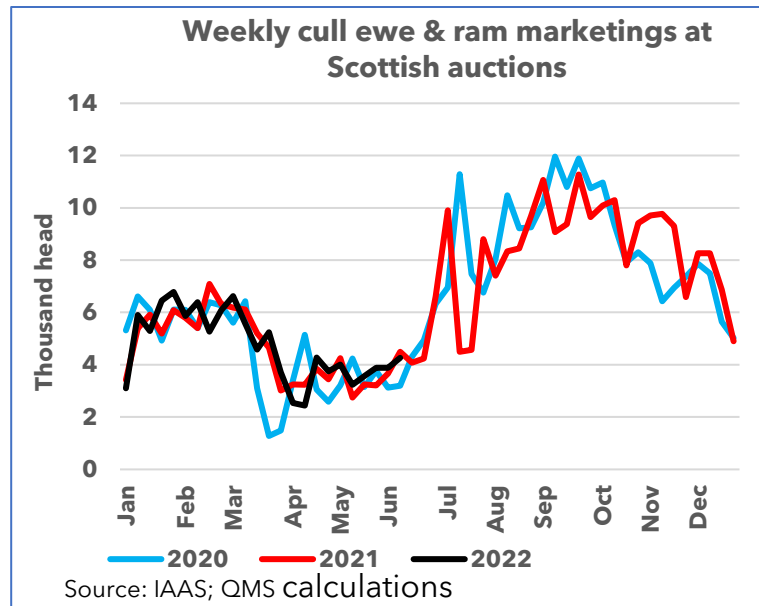


Cull sheep market – seasonally strong



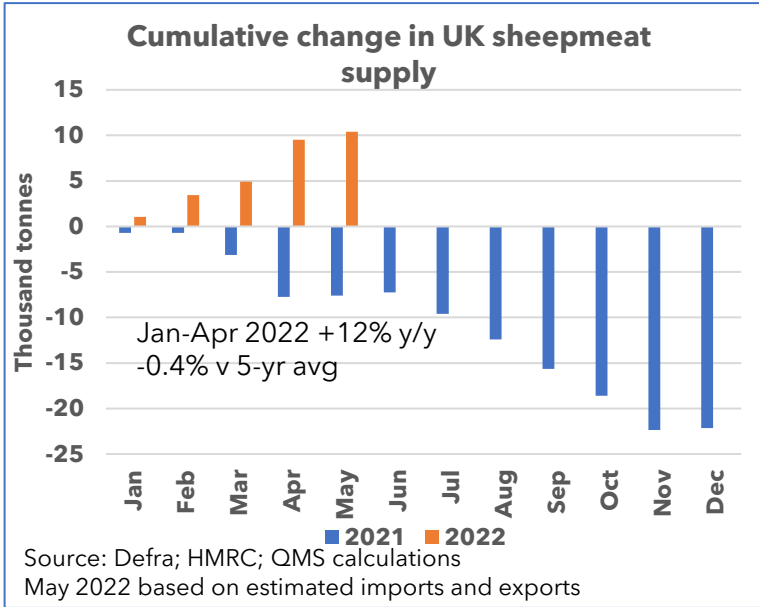
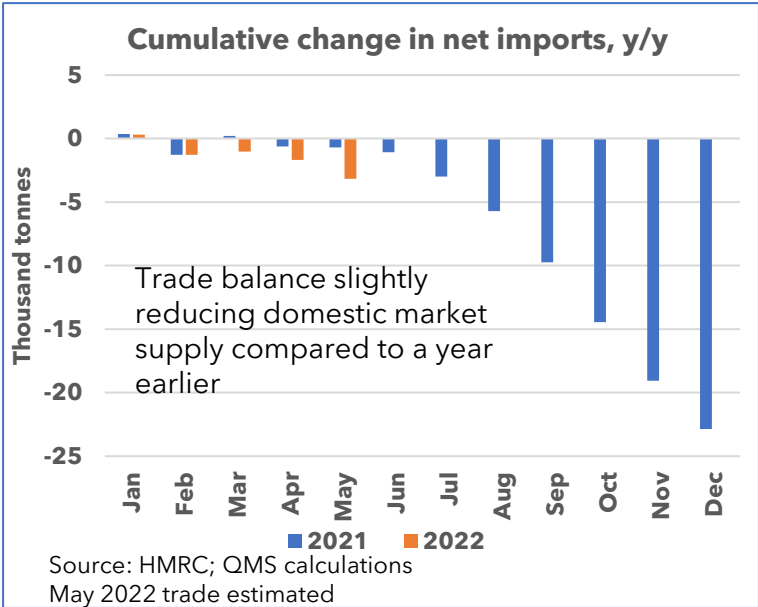
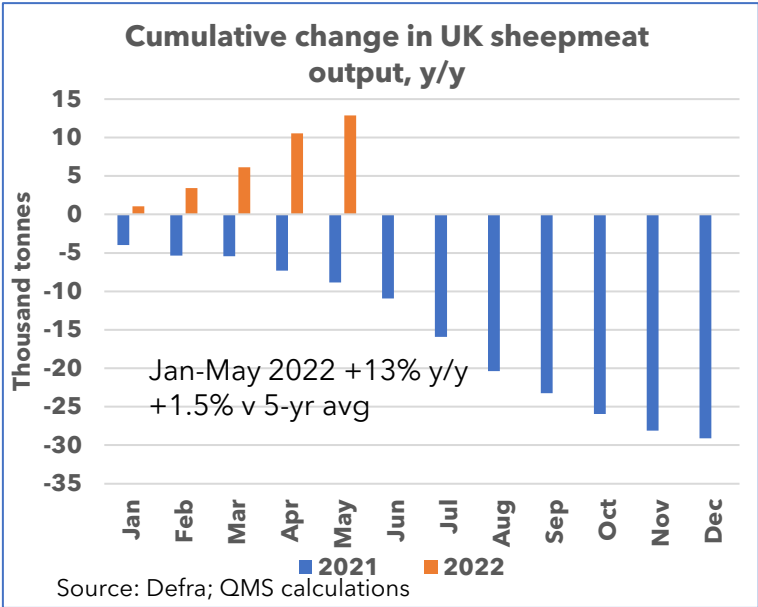
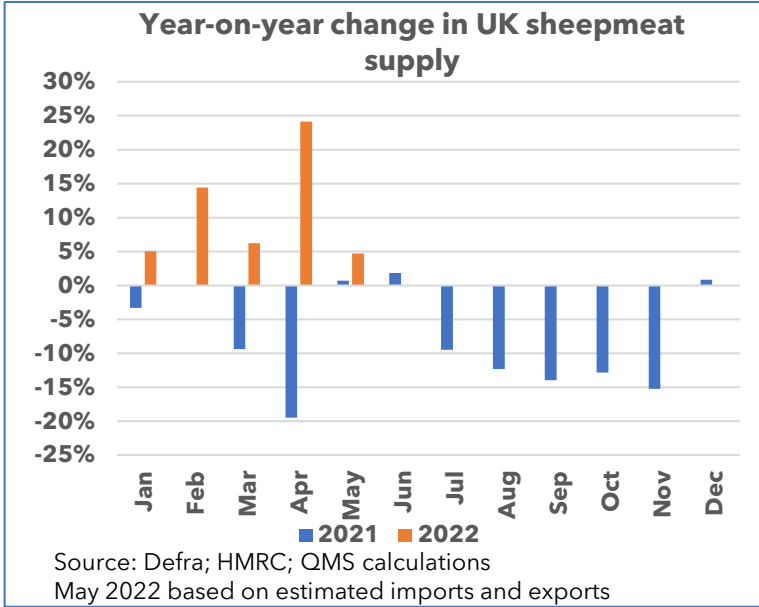
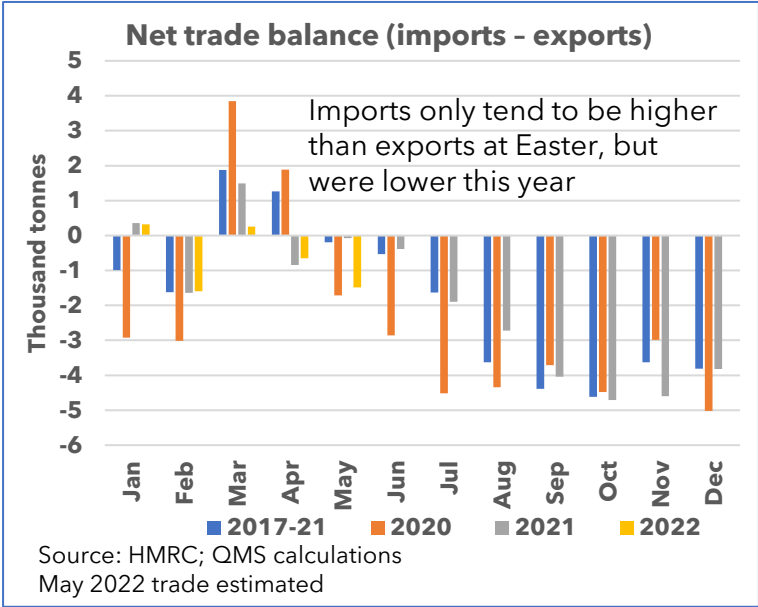
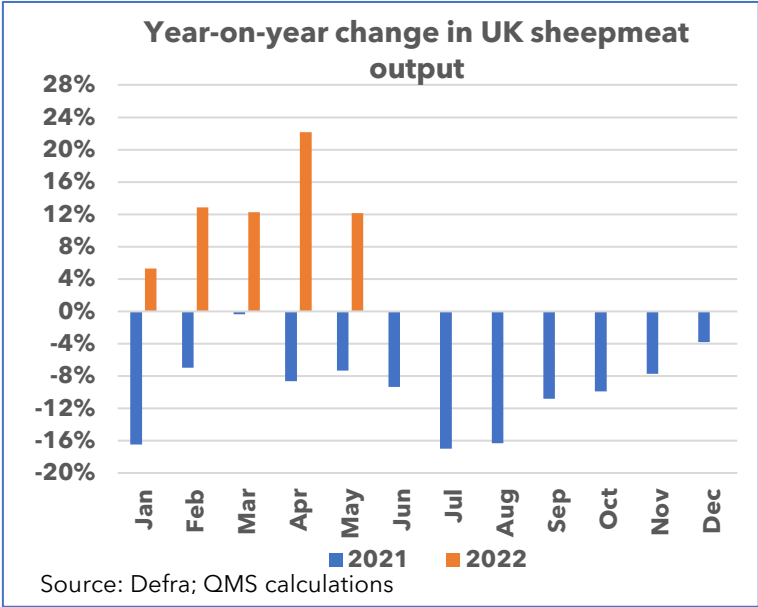
Seasonally low supply has continued to support ewe values since Ramadan and Easter.

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.

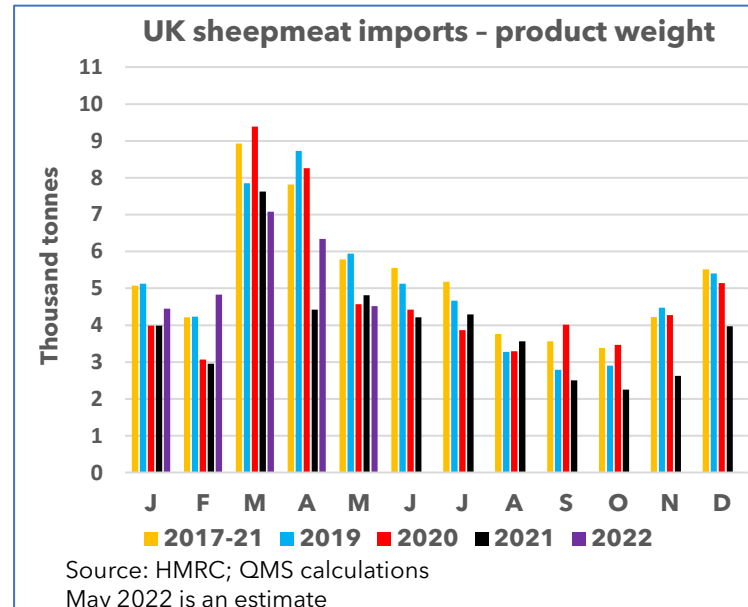
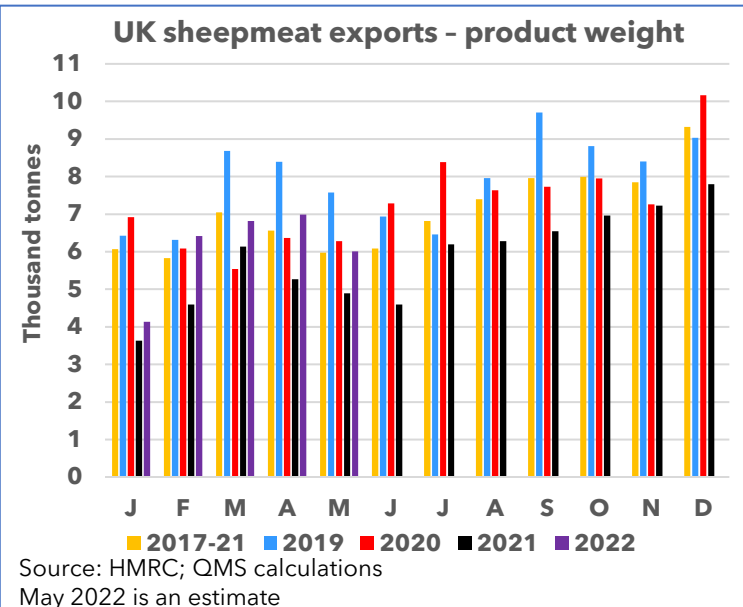


Mutton demand appears to have rebalanced from exports to the home market since late 2020 without dampening prices.

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



A focus on UK international trade in sheepmeat

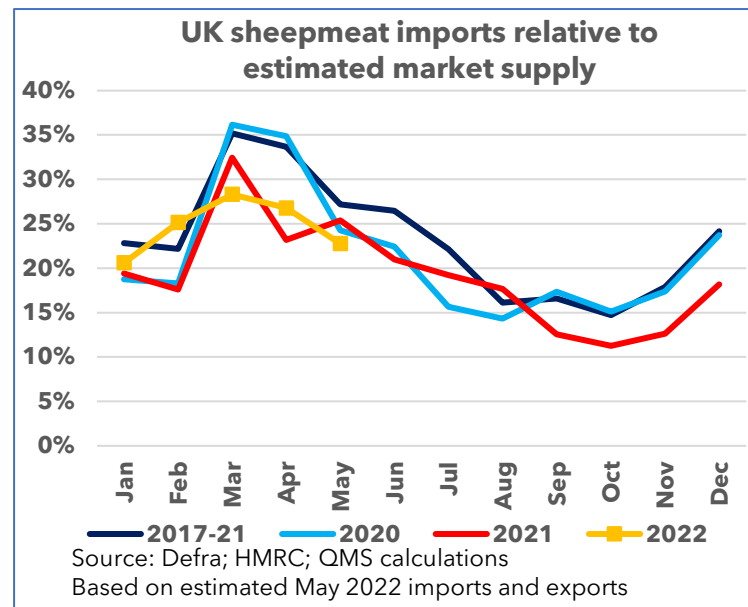
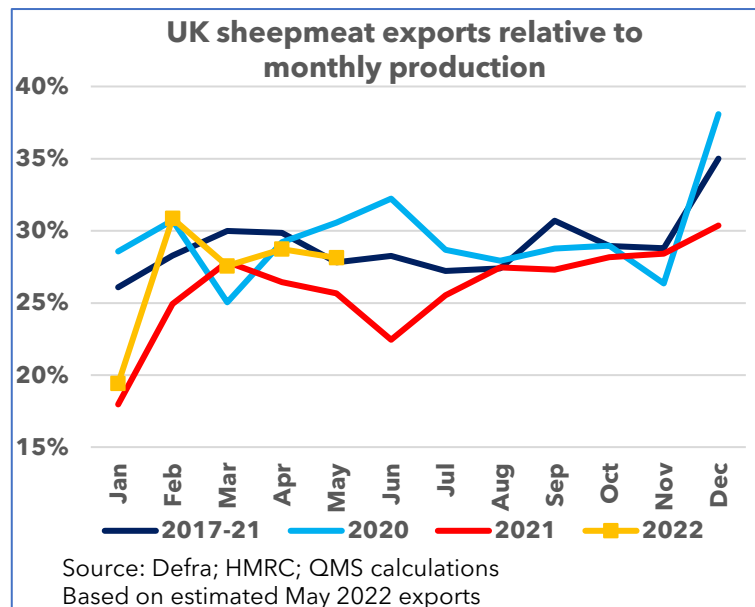


Trade flows were relatively weak at Easter with exports as a share of production lagging the five-year average while the increased carryover of hogs may have limited import requirements.

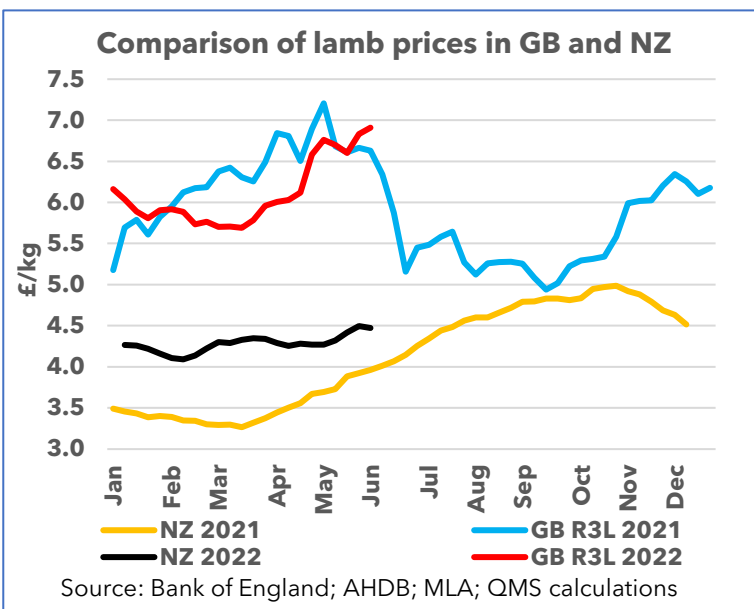
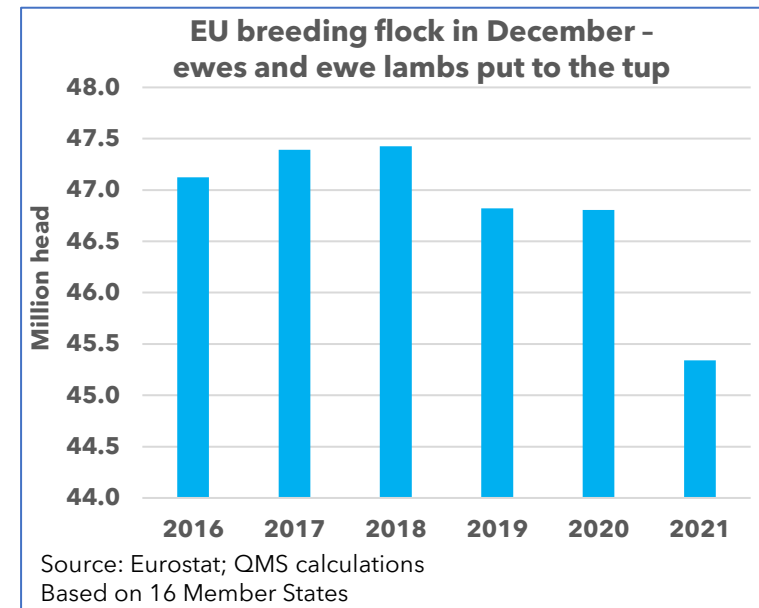
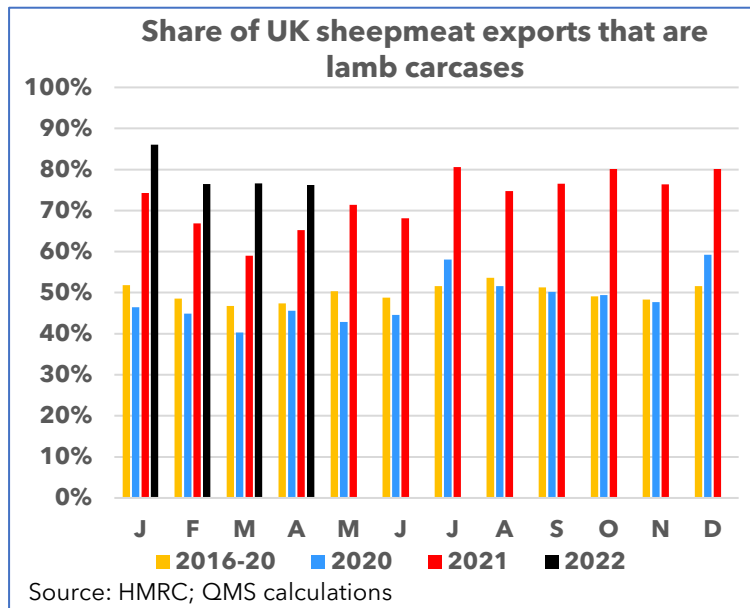
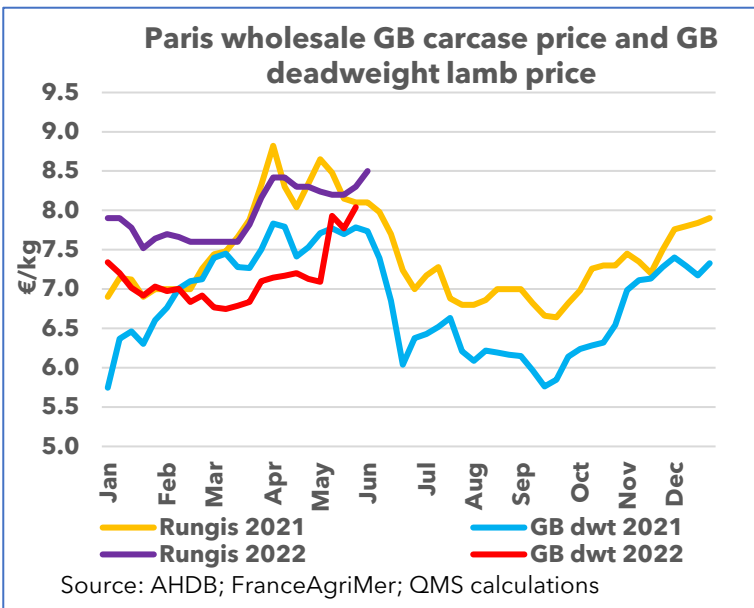
Note:

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

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



Variables influencing UK sheepmeat trade

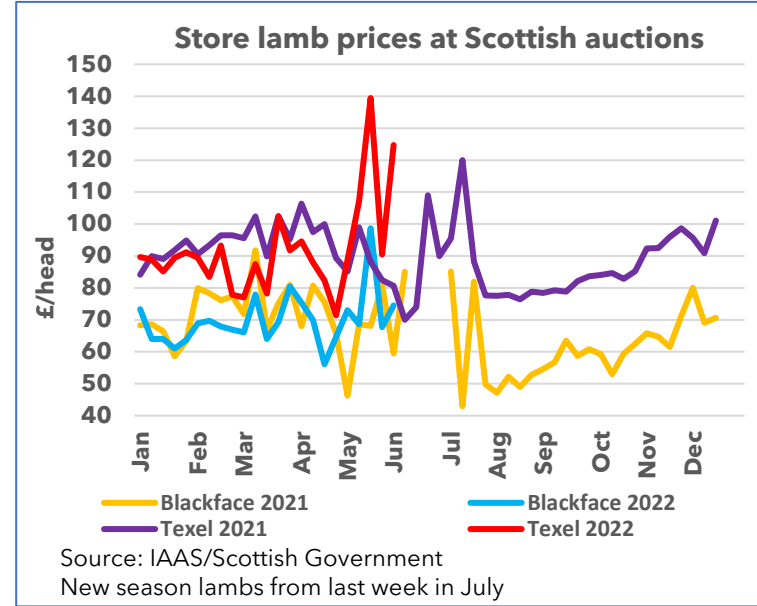
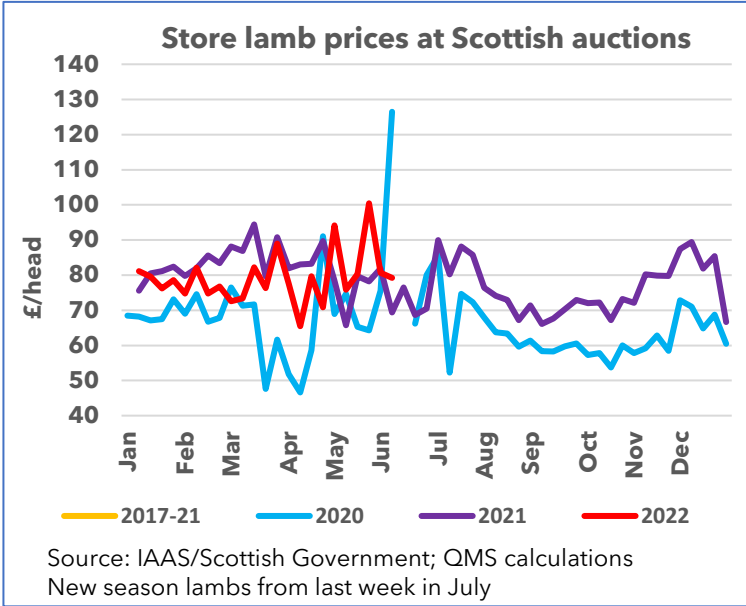


Oceania lamb production forecasts

	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%

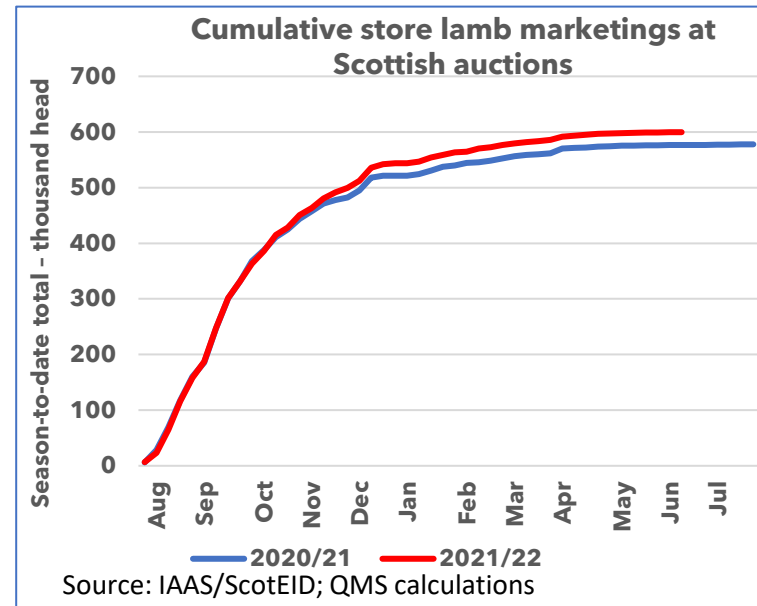
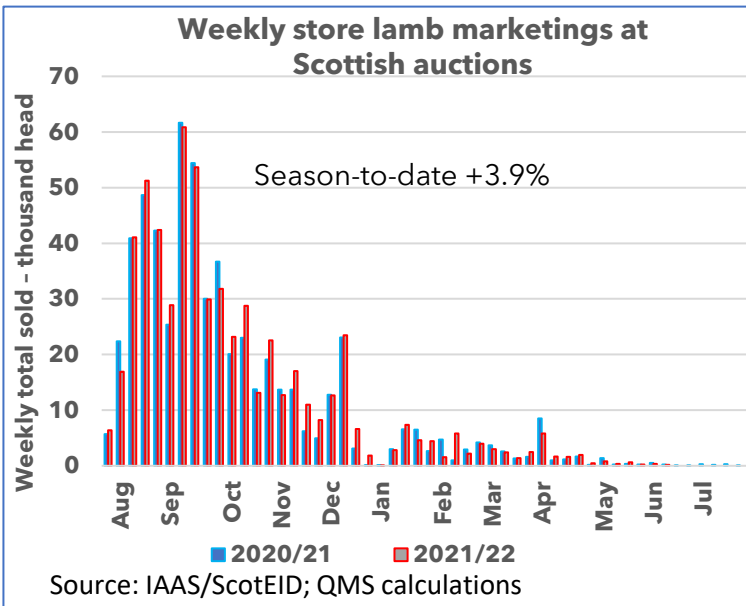
Source: MLA; Beef + Lamb NZ; QMS calculations

Store sheep trade

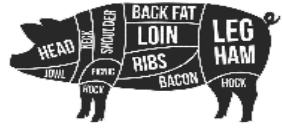


With limited trading, store hogg prices have been volatile but they have shown increases relative to 2021 having previously failed to match year earlier levels.

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



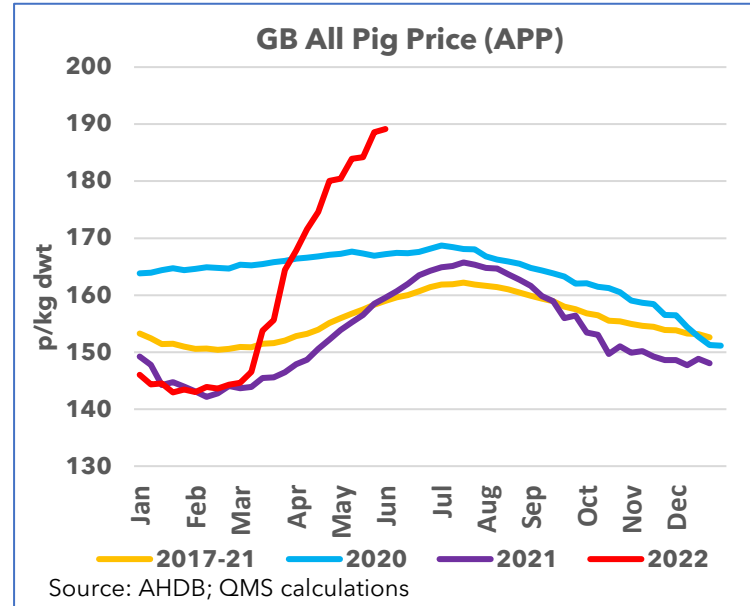
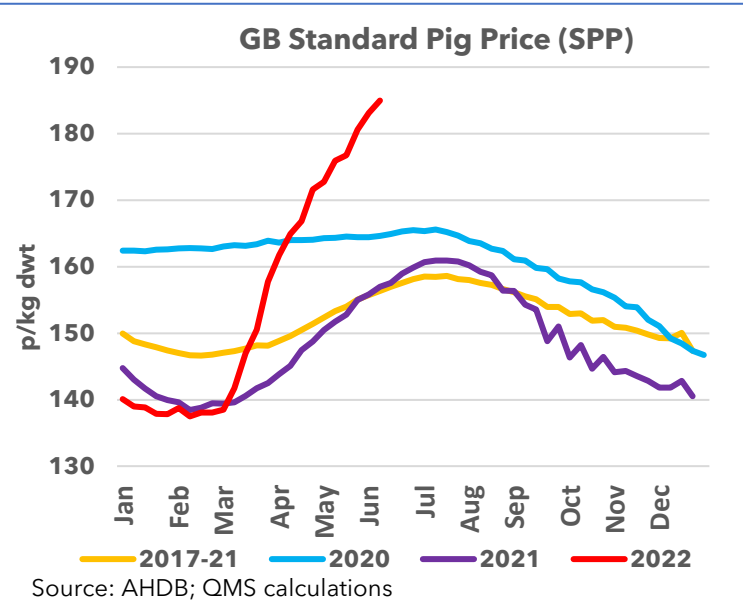
Summary of market developments – pig market



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 11 June	183.1p/kg	+2.53p	+6%	+17.5%	+17.6%
Average carcase weight of standard pigs	Average in four weeks to June 11, EU spec	93.45		-1.8%	+4.5%	+7.2%
Prime pig slaughter at GB abattoirs	Total during May 2022, thousand head	782.4		-7.4% (change in daily avg kill May v Apr)	+4.5%	+6.2%
UK pig market supply	Tonnes in Feb-Apr 2022	357,300			+11%	+12.6%

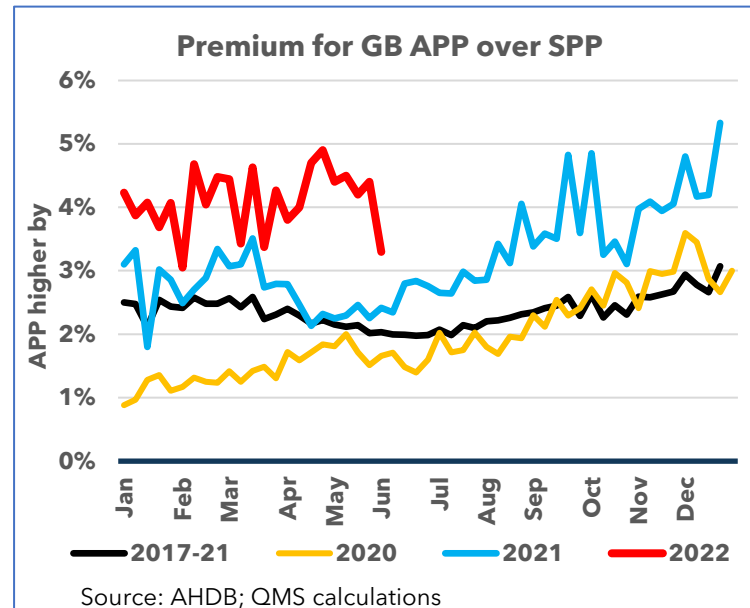
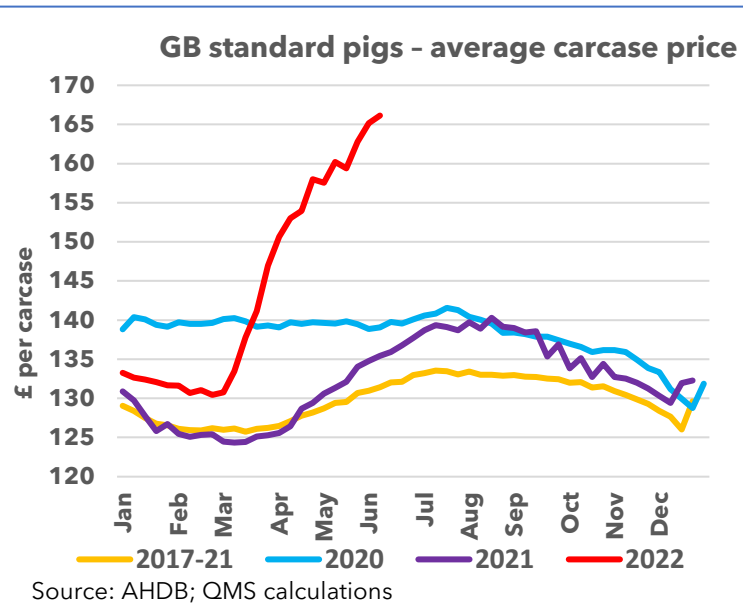
- The pig market has surged since March and farmgate prices have held well above their five-year average despite a well-supplied market.
- With 6% of standard carcasses weighing over 104.9kg in mid-June compared to less than 2% a year earlier, it suggests that a backlog remains on farm.
- After disappearing in March, the gap between GB and EU pig prices has re-opened, approaching 15%.
- After a strong start to the year, imports from the EU fell back below their five-year average in the spring.
- Pork prices in China have risen since the spring, approaching their pre-ASF average and export opportunities remain stronger than before ASF.

Farmgate prices - prime pigs



The pig market has continued to trend sharply higher, reaching record high levels and climbing nearly a third since March.

However, production costs are likely to be well above £2/kg, so margins remain heavily squeezed.



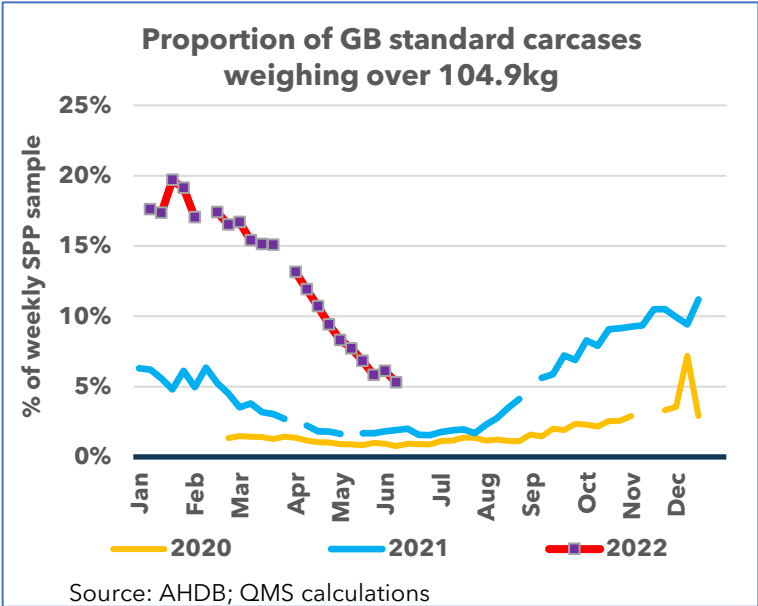
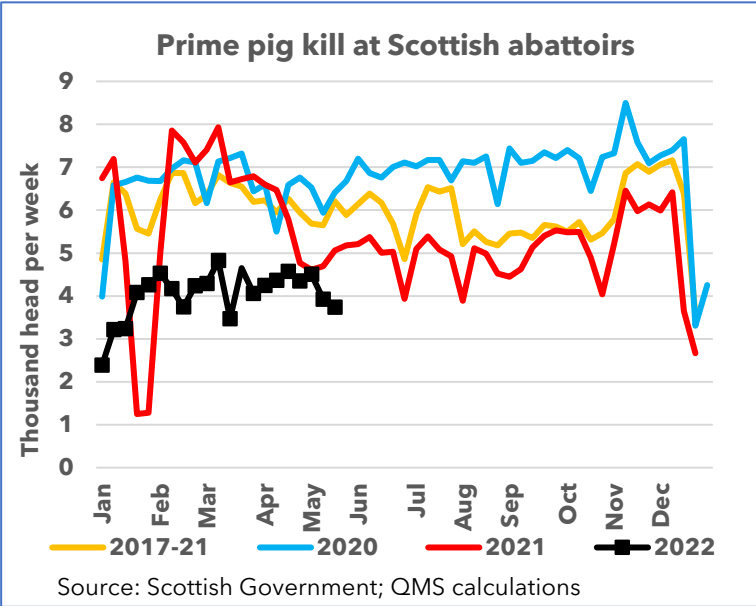
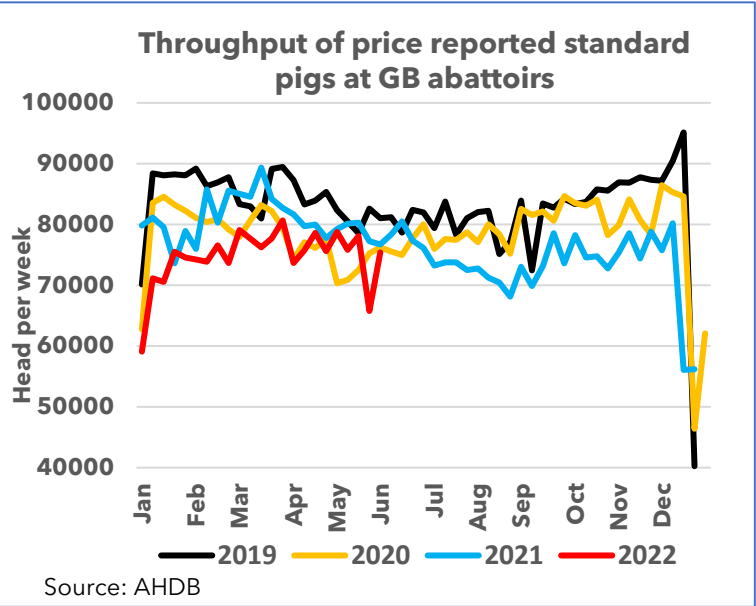
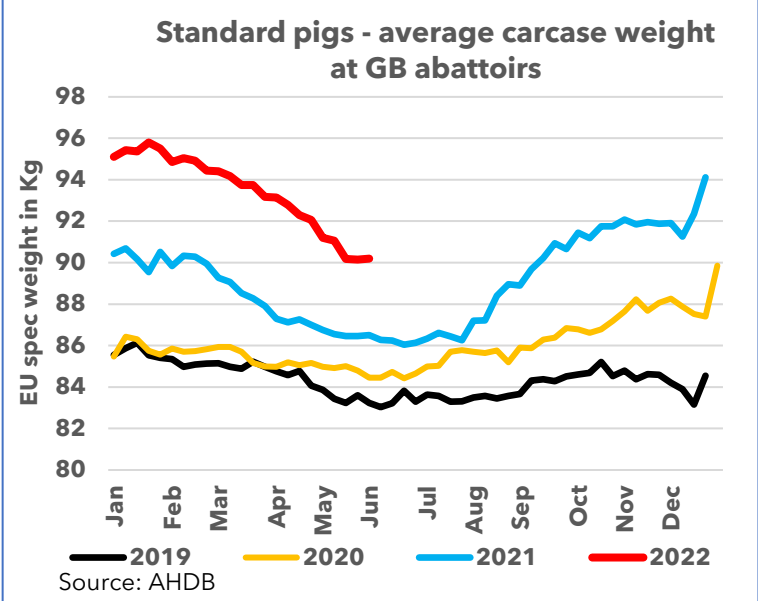
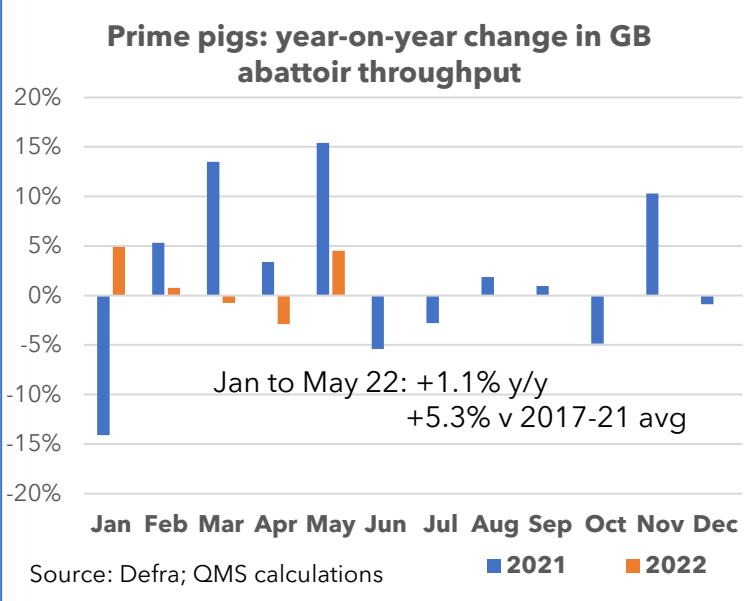
An elevated premium for the overall average pig price (APP) over that of standard pigs (SPP) suggests that market conditions remain disrupted, with considerably higher prices still being paid for pigs with specific production characteristics.

Availability and slaughter - although slaughter appears to have picked up from a slow start to the year and carcase weights have fallen sharply, they remain elevated, suggesting that a backlog remains on farm

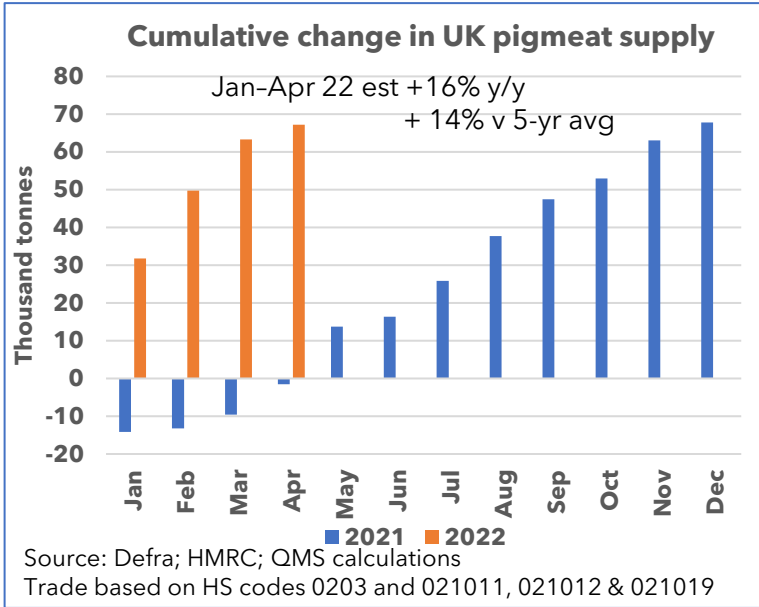
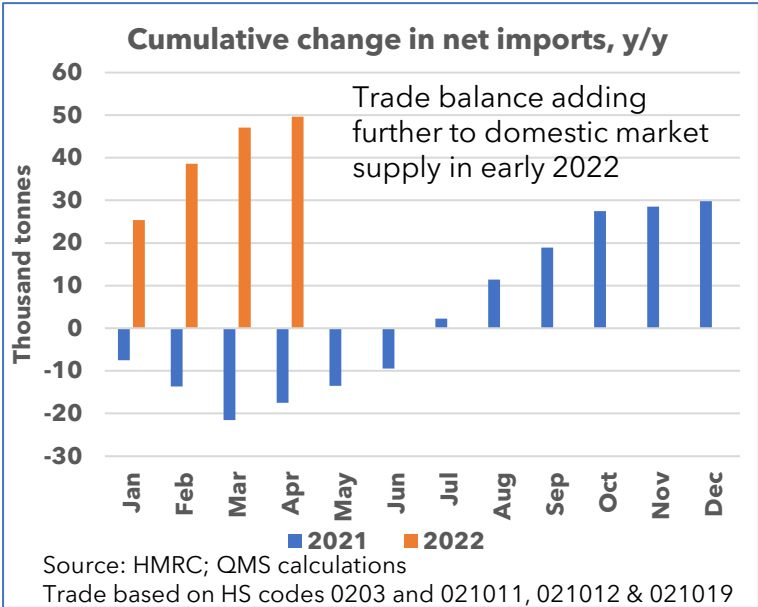
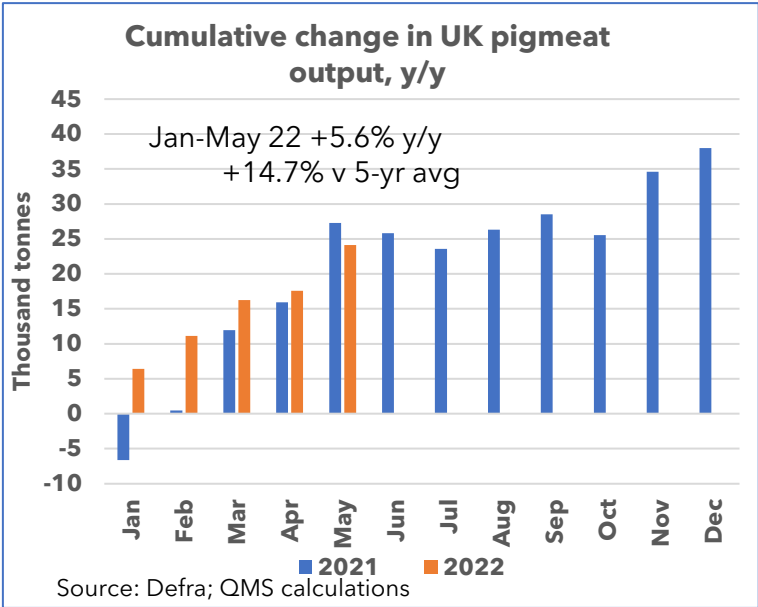
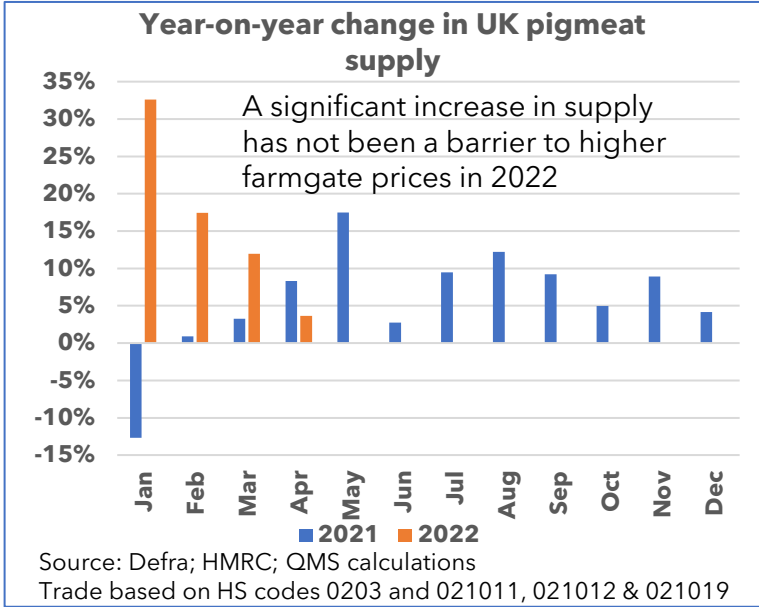
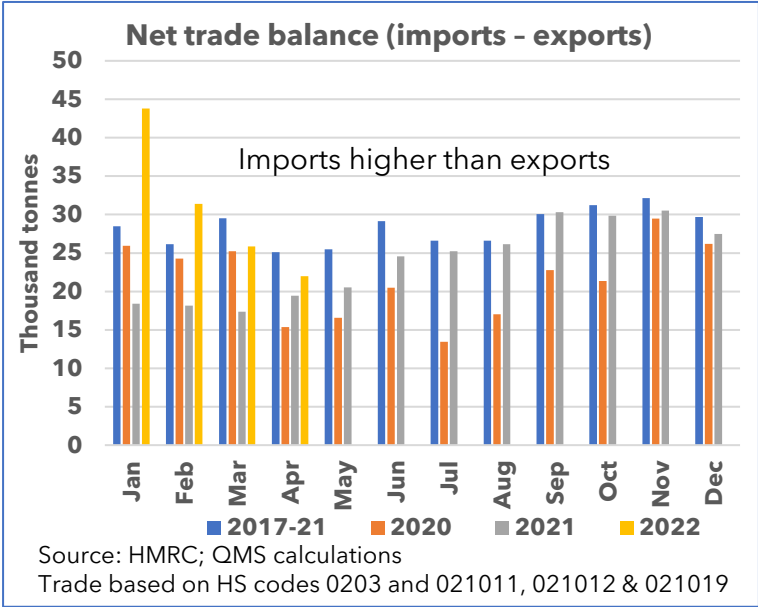
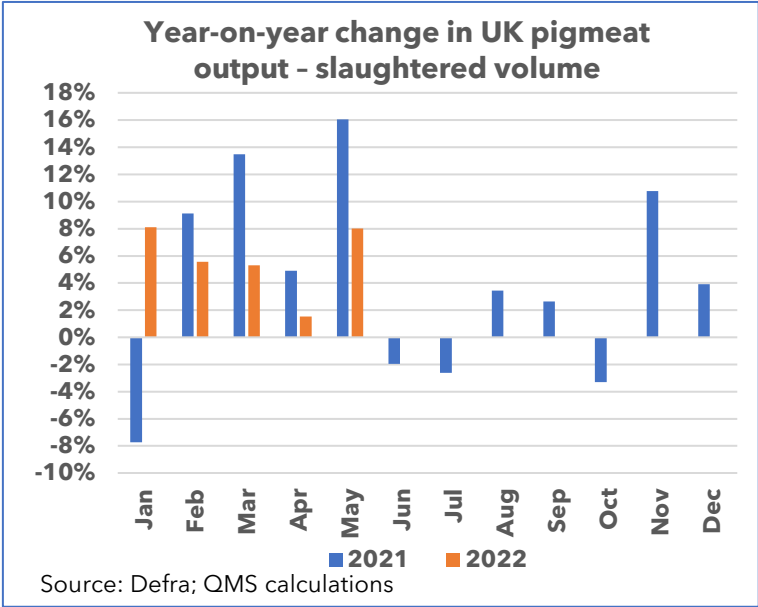
June Census, 2021		
	Female breeding herd y/y change	Fattening pigs y/y change
Scotland	-8.7%	+1.9%
England	-1.8%	+6.1%

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

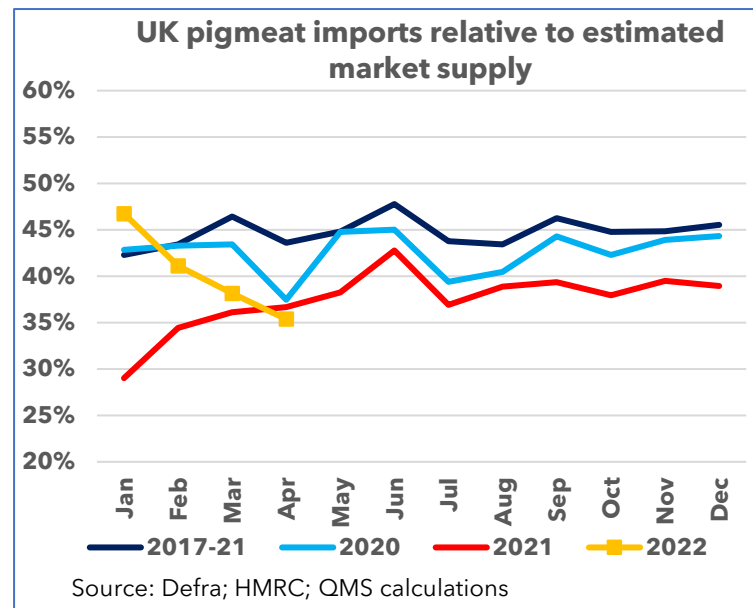
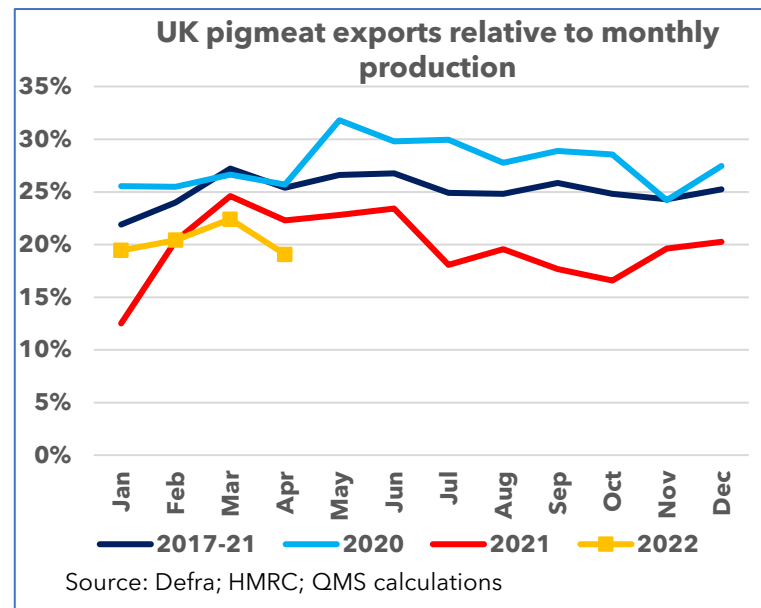
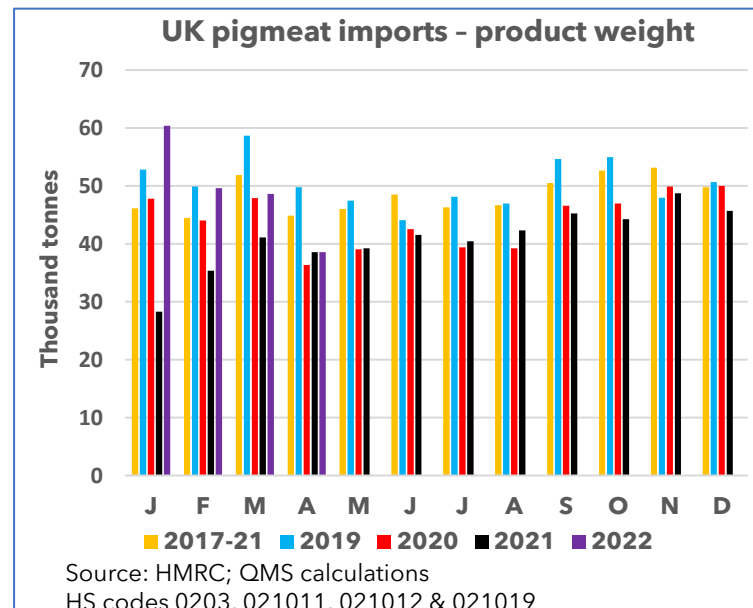
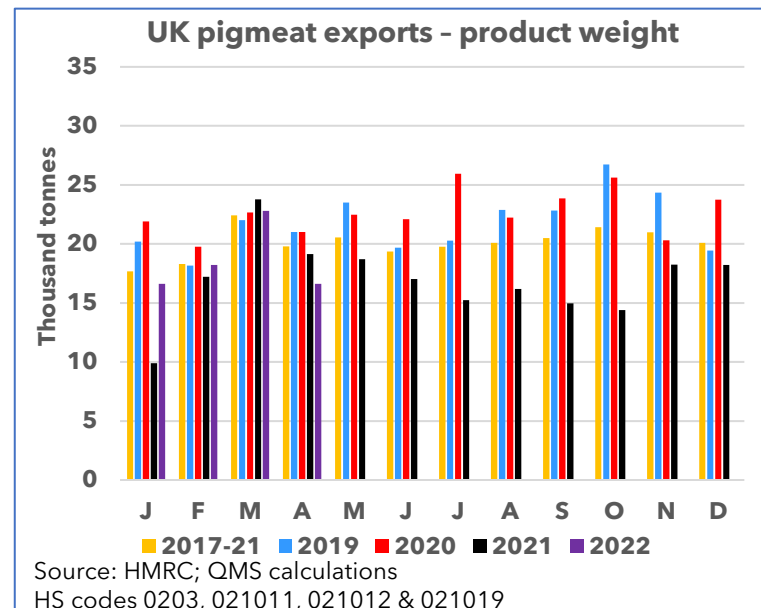
Source: Defra; Scottish Government; QMS calculations



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



A focus on UK international trade in pigmeat



With domestic production rising further, boosted by higher carcass weights, exports have been weak, resulting in sharply reduced import requirements.

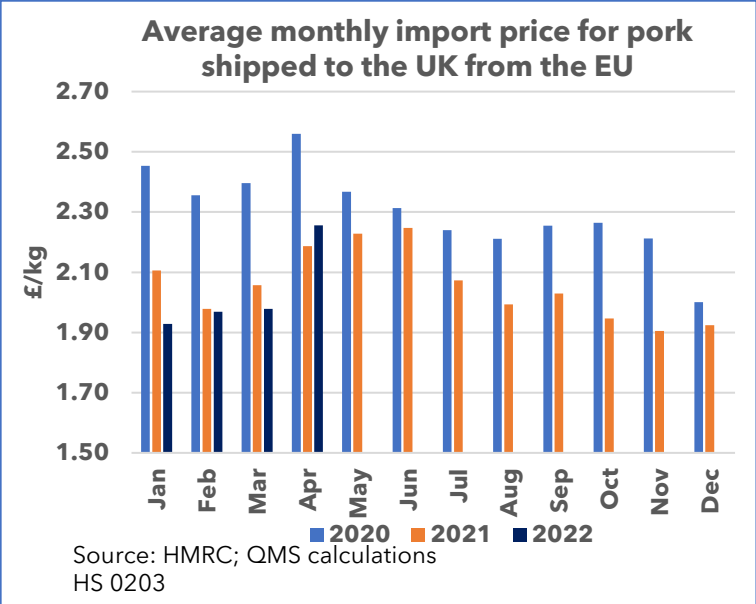
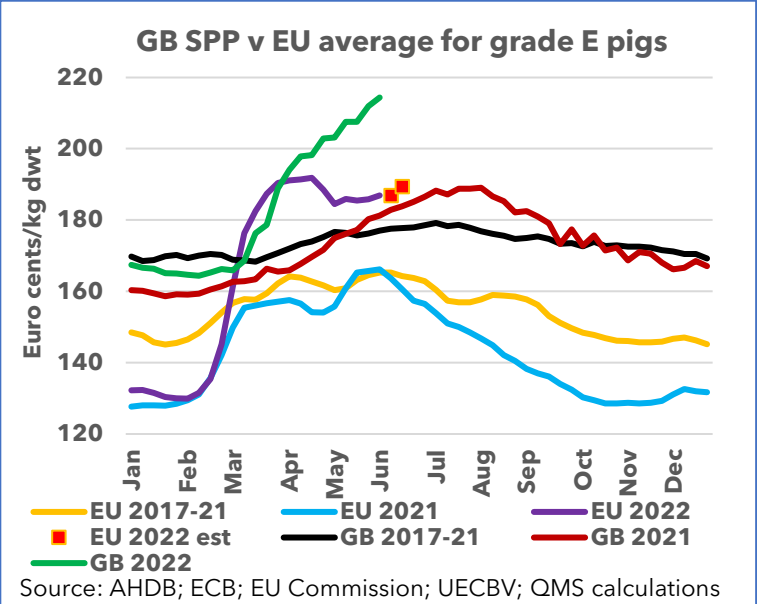
Rising EU pork prices in March and April are also likely to have weighed on imports.

Exports to the EU have rebounded sharply from the lows of early 2021 but they continue to lag well behind the five-year average. Sales to China have continued to rebalance lower but still accounted for over 31% of export volumes.

Note:

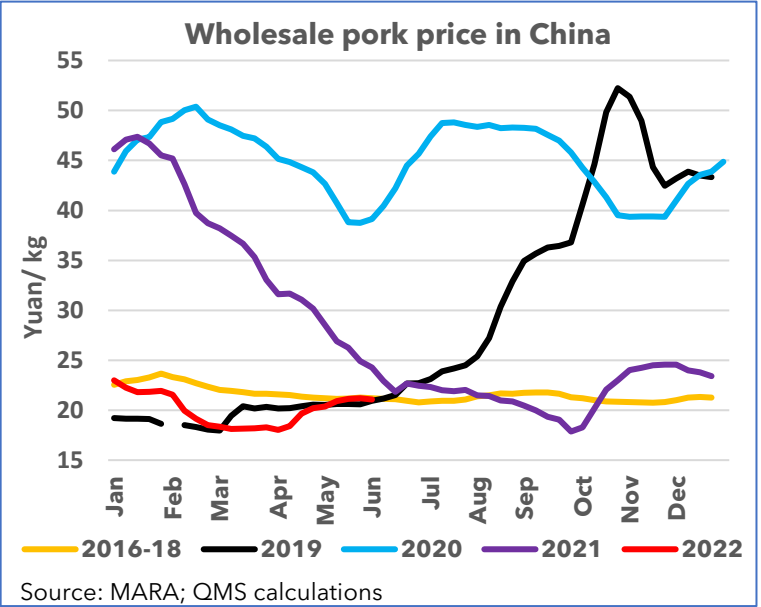
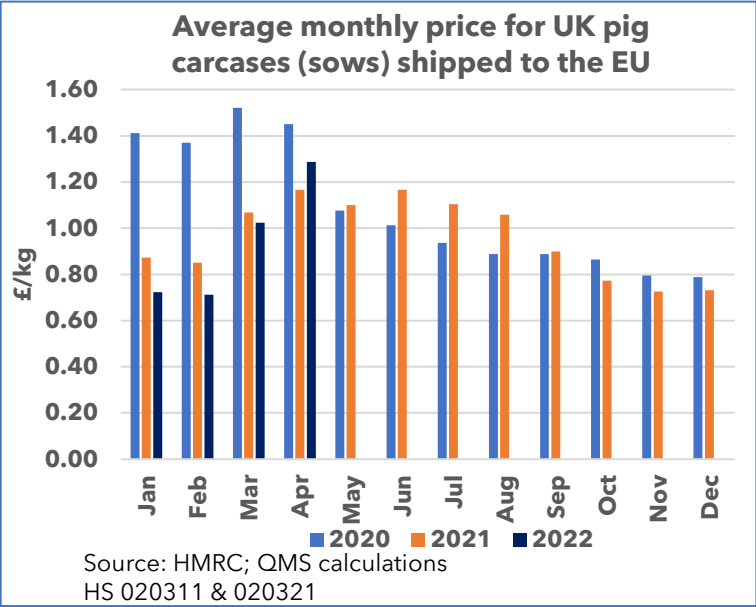
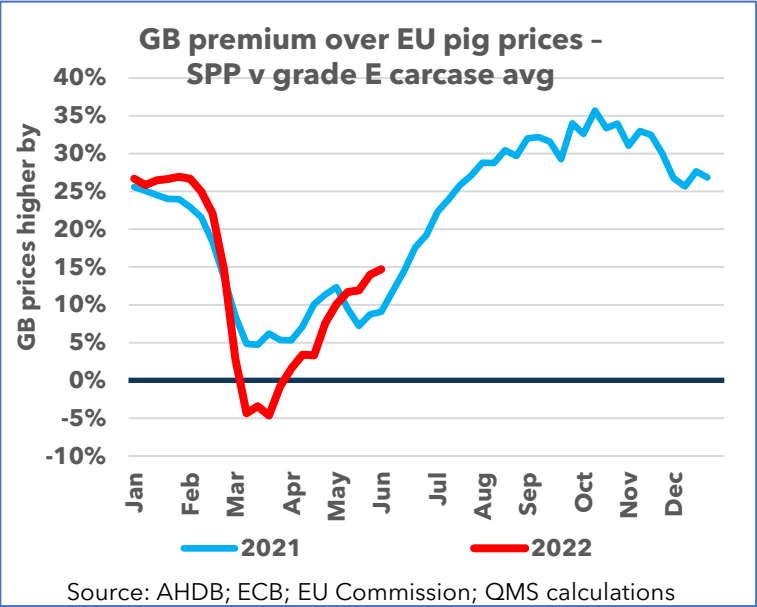
HMRC trade data used here covers HS codes 0203 (fresh or chilled & frozen swine meat) & 021011, 021012 & 021019 (bacon & ham).

Factors driving UK international trade in pigmeat



USDA Global Pork Market Forecasts, April 2022 (million tonnes carcass weight)					
Key indicators	2018	2019	2020	2021	2022
World, production	111.9	101.0	95.8	107.7	110.5
China, production	54.0	42.6	36.3	47.5	51.0
All countries, imports	8.6	9.4	11.7	11.6	11.0
China, imports	1.46	2.45	5.28	4.33	3.50
EU, production	23.2	23.0	23.2	23.7	23.2

Source: USDA Foreign Agricultural Service

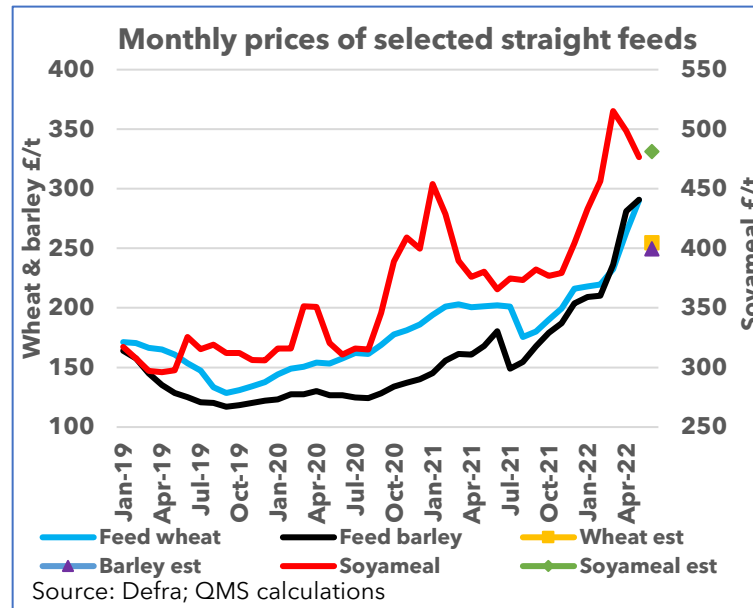
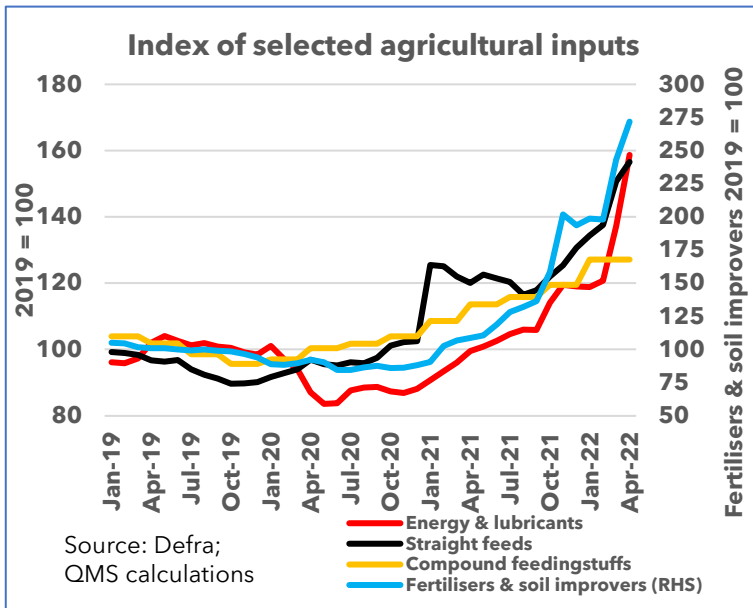


Summary of economic developments



- Global commodity price inflation continues to push up production costs for farmers and processors.
- Consumer confidence is sliding sharply as the cost of essentials increases faster than wages.
- Rising prices and weakening confidence have been pressuring retail sales, although there was a bounce higher in April at food stores.
- Business activity growth has now slowed after a strong opening quarter but demand for staff remains very high.
- One factor squeezing staff availability is that a significant proportion of the working age population that left the labour market during the pandemic have yet to return.

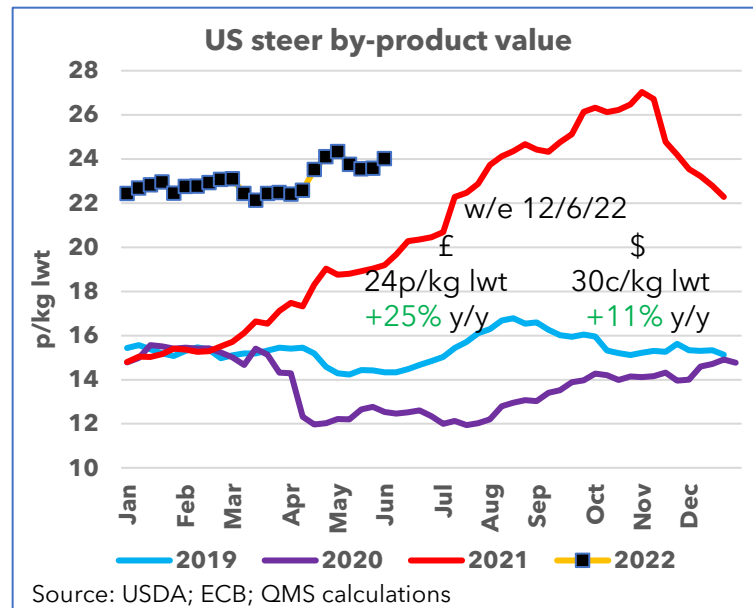
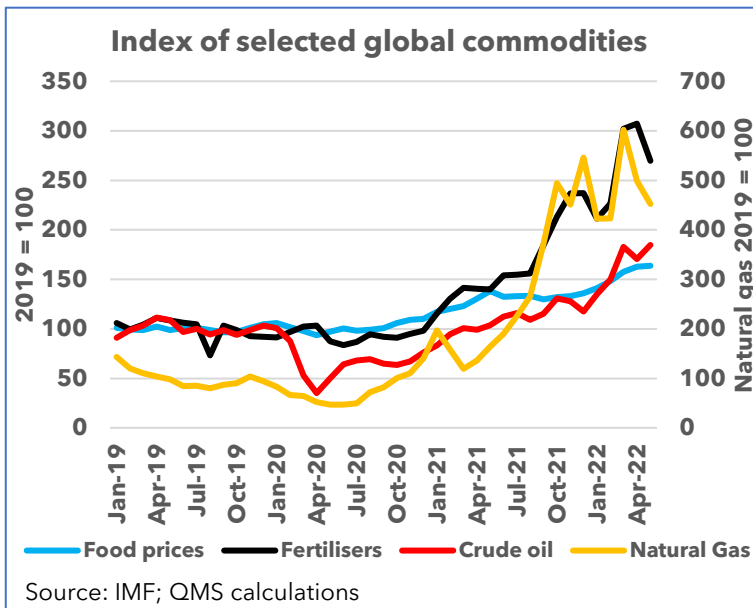
Production costs and by-product revenues



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

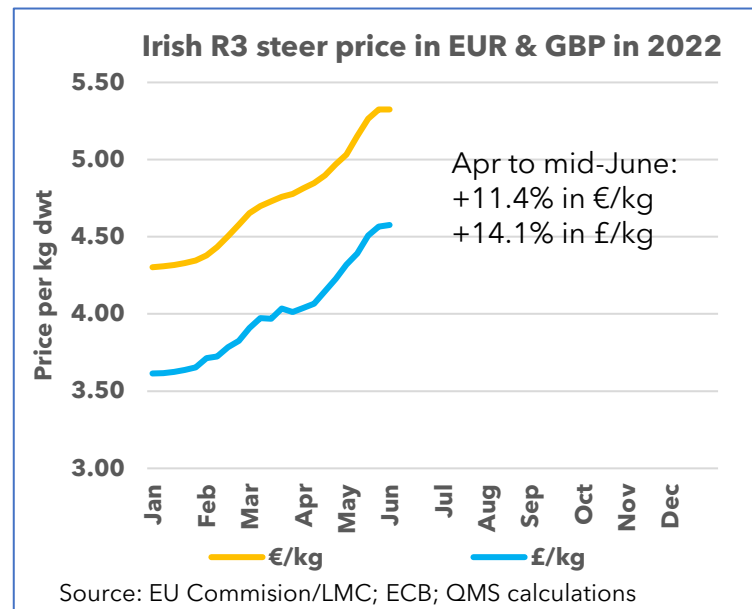
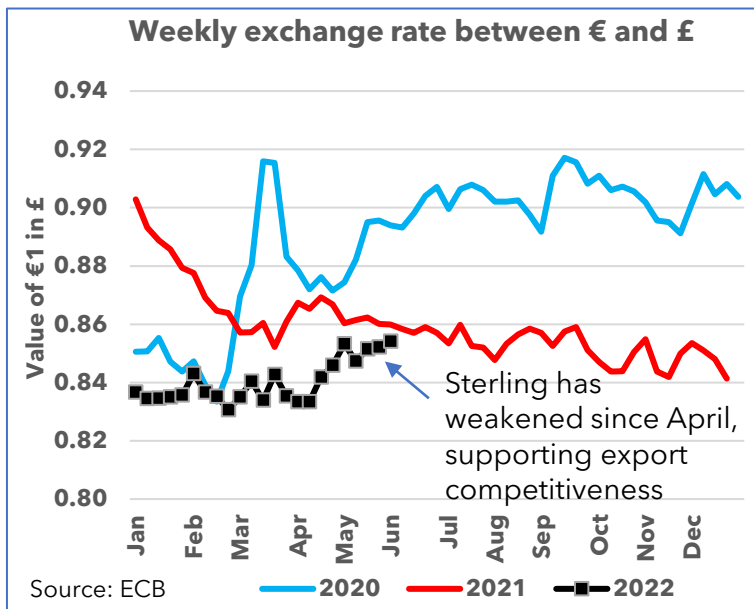
Some commodity markets have however softened from previous highs moving into summer although a weaker sterling will have offset some of these downwards pressures.

Raw material/commodity price spikes will pass through to end product prices over time as contracts are renewed/renewed and will affect spot purchases more significantly in the short-term.



By-product value has been supported by firm commodity markets and a weaker sterling over the past year but hide value has remained well below its autumn 2021 peak and continues to trail year-earlier levels (-42% in USD).

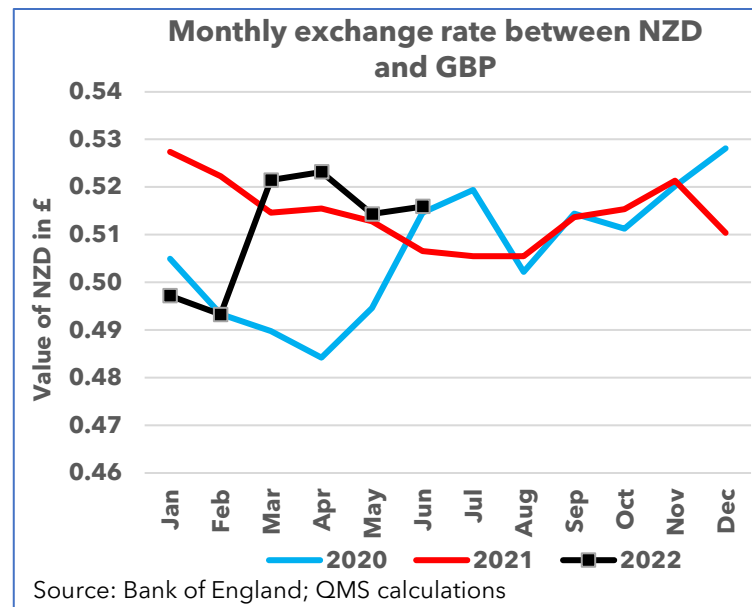
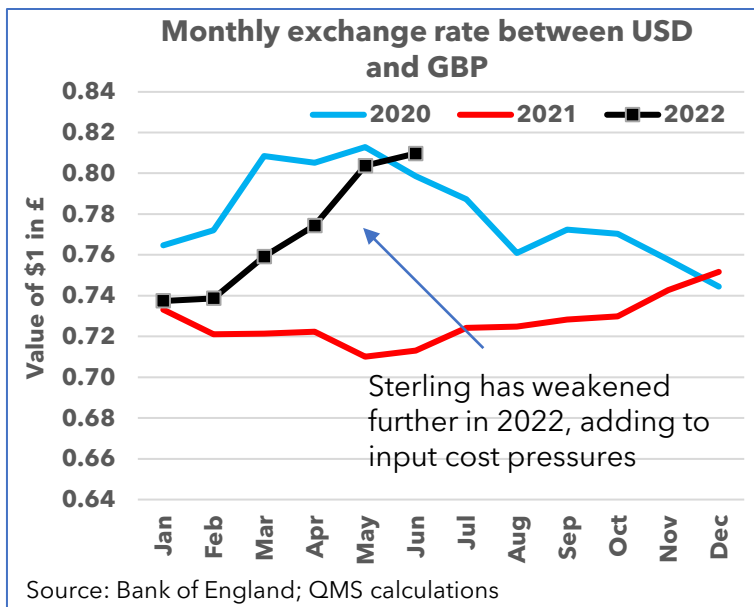
Exchange Rate Movements



A weaker sterling against the euro is likely to have supported export competitiveness in the second quarter while adding to the rise in Irish beef prices.

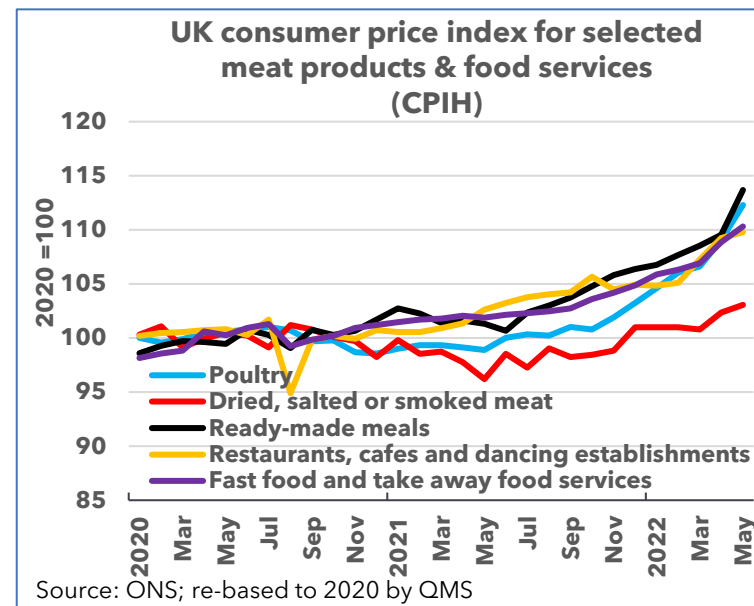
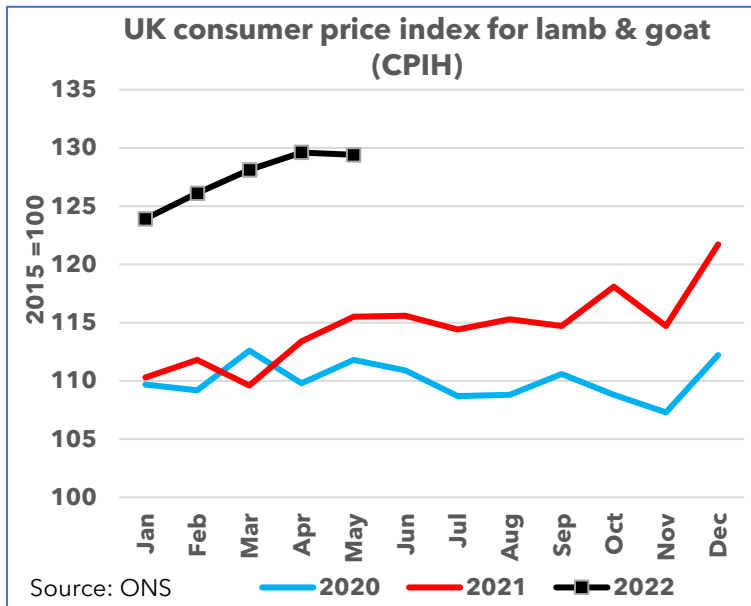
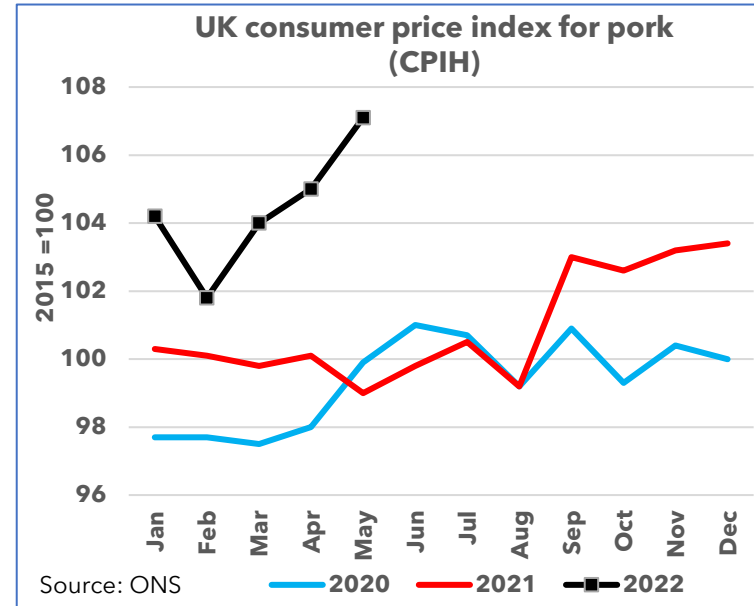
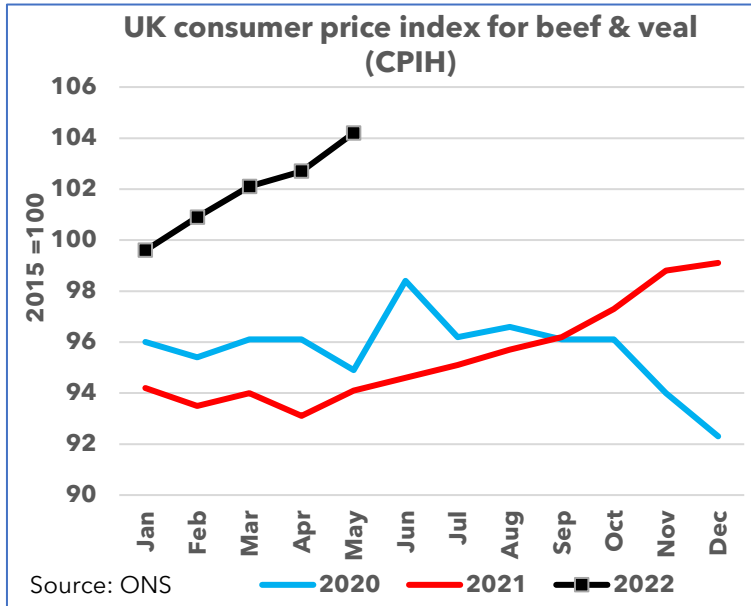
However, sterling is still a little stronger than a year ago, and significantly stronger than in 2020, pressuring competitiveness over a longer period

With global economic sentiment softening and US interest rates rising sharply, the US dollar has recovered the ground it lost following pandemic response economic stimulus measures, adding to the pressure on the cost of imported inputs.



The New Zealand dollar has also weakened on global markets in Q2 and is similar relative to sterling as in summer 2020 and 2021.

Retail demand and prices



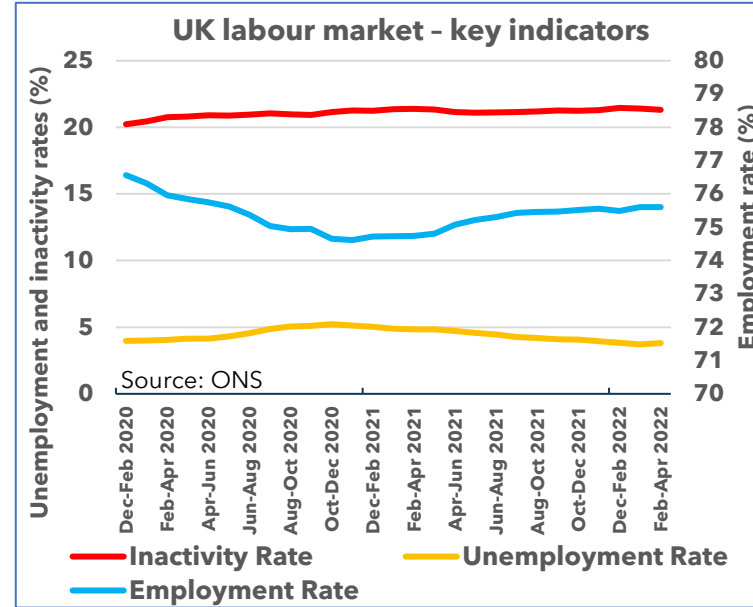
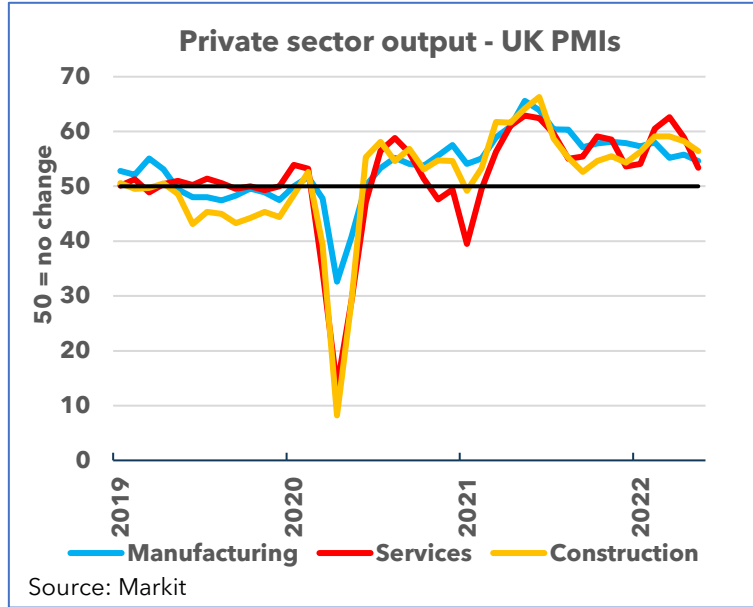
Retail demand has rebalanced lower this spring with covid restrictions no longer in place.

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 above 50% in April and May. Meanwhile, fuel prices were up by 36% and food price inflation reached 8.6%.

However, April did see some improvement, particularly at food stores.

Business activity growth has cooled but demand for staff remains high. Some people who left the labour market during the pandemic have yet to return, tightening supply.

