

QMS Monthly Market Update

October 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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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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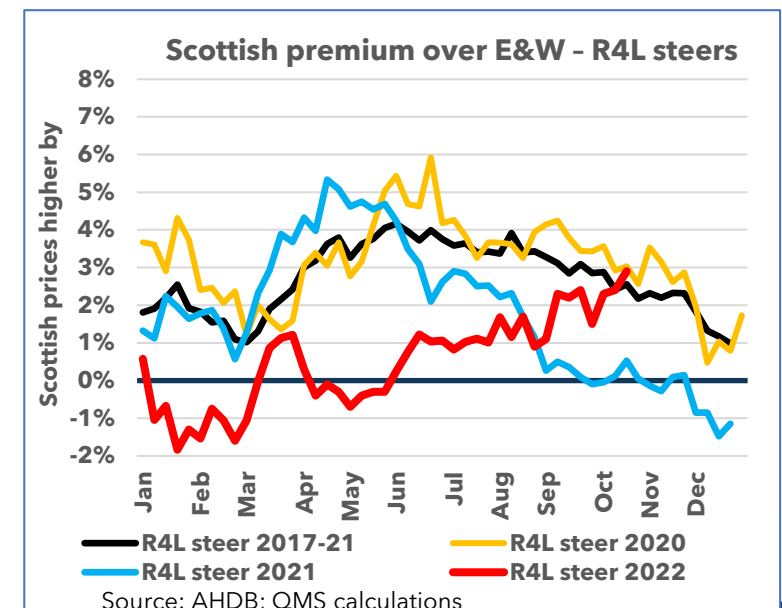
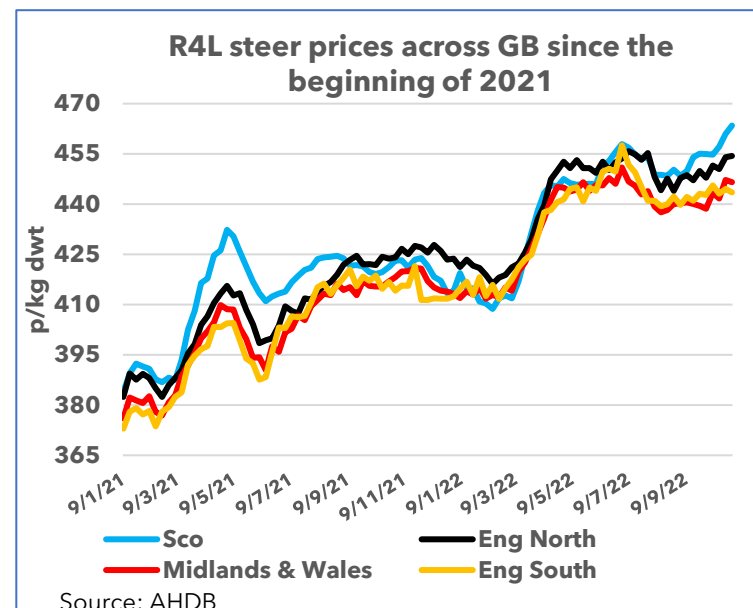
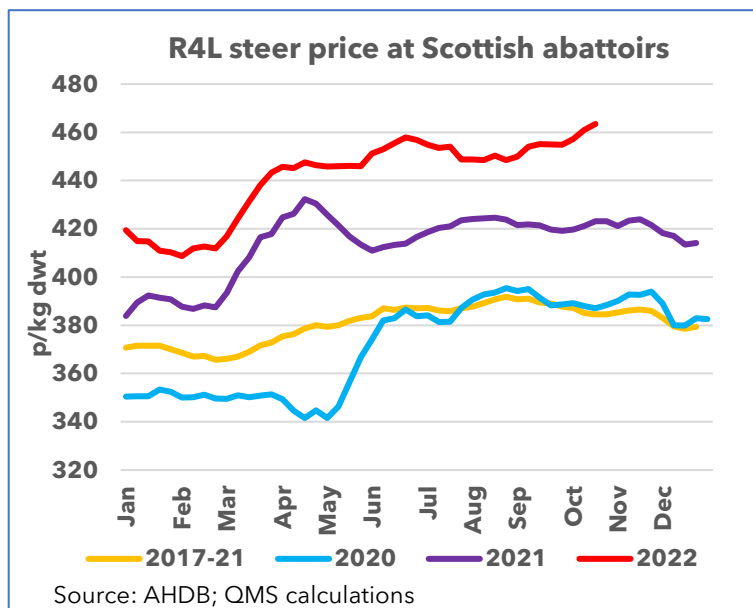
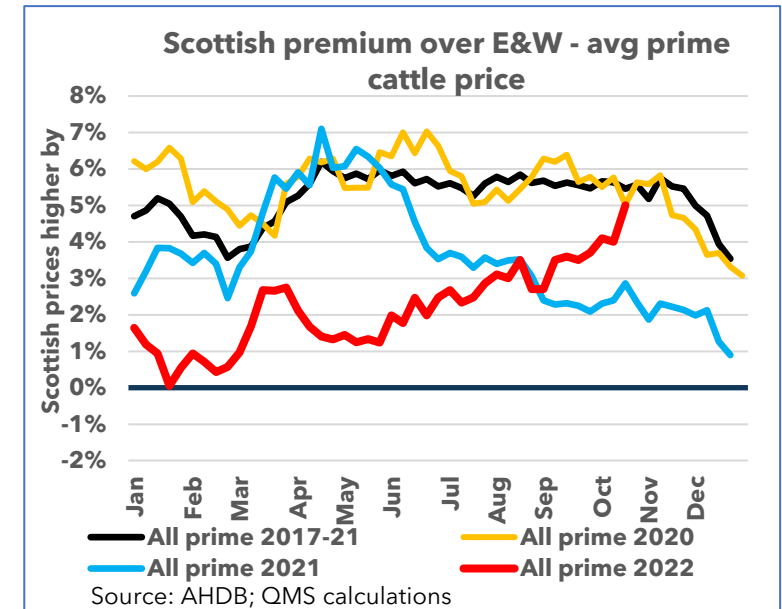
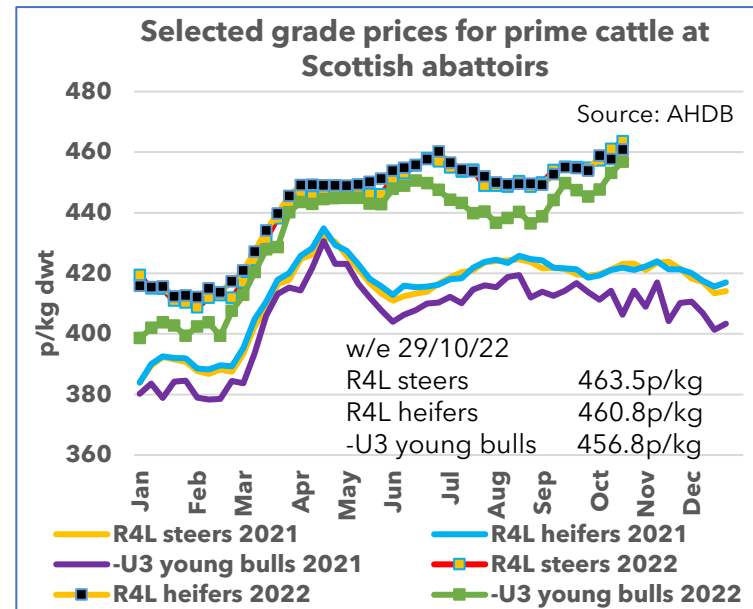
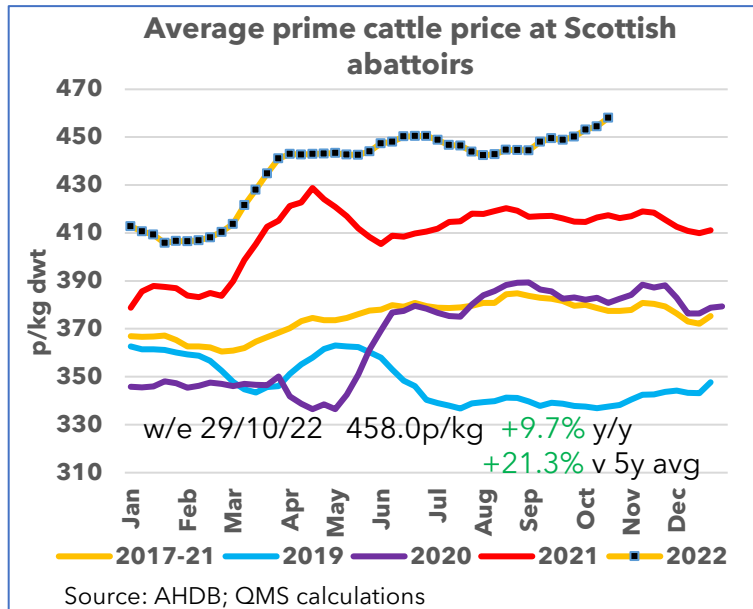
Summary of market developments – beef market



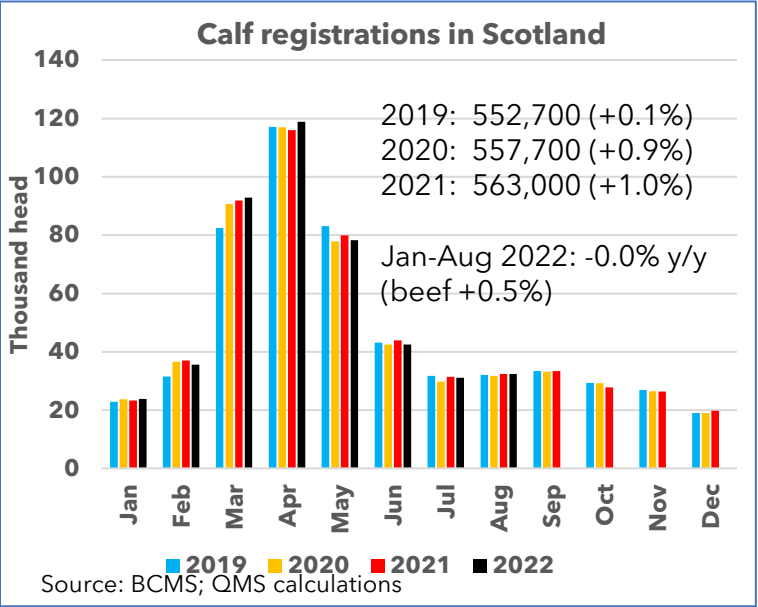
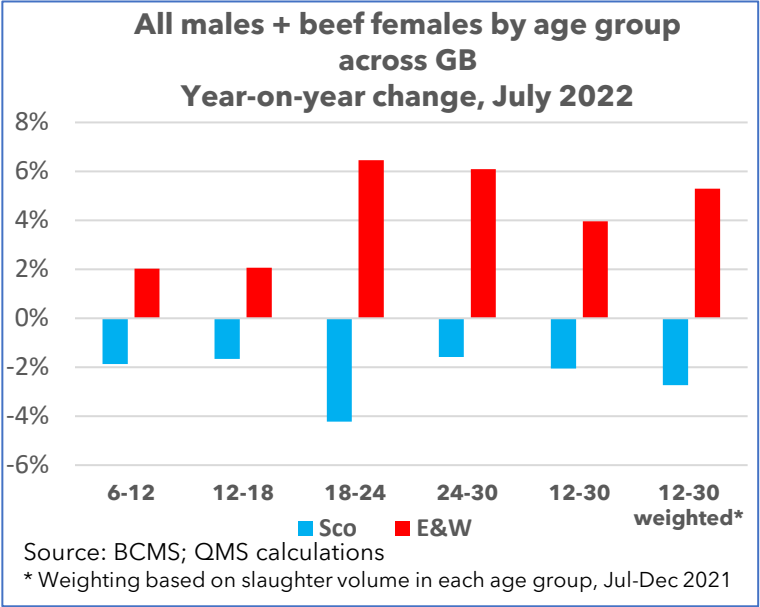
Report Category	Basis	Average price or volume	Change on week	Change over four weeks	Change on year	Change on 5-year avg
R4L steer price at Scottish abattoirs	p/kg dwt, w/e 29 October	463.5	+2.5p	+1.9%	+9.5%	+20.5%
Prime cattle slaughter at reporting Scottish abattoirs	Average in four weeks to October 29, head procured deadweight	6,119		+5.6%	-3.1%	-8.2%
Store price at Scottish auctions for steers aged 12-18 months	Average in four weeks to October 29, £ per head	£1,085		-5.2%	+3.9%	+12.6%
UK beef market supply	Tonnes in Jul-Sep 2022 (estimate)	248,100			-5.3%	-4.4%

- Prime cattle prices have risen to record highs in October, moving around 10% above year earlier levels and around 20% above the five-year average.
- Based on July population data, prime cattle availability has tightened relative to 2021 in Scotland, down 2% in the 12-30-month group, while picking up by 4% in England & Wales, partly driven by an increased flow of store cattle from Scotland to England in the first half of the year.
- During the summer, UK export volumes held firm relative to a fall in domestic production, while a reduction in imports by 14% appears to have resulted in a significant tightening of overall beef supply.
- Cow slaughter appears to have surged above 2021 levels at Scottish abattoirs this autumn, suggesting that beef herd contraction is likely to have accelerated beyond the 1.4% decline indicated in July. However, calf registrations have stabilised after three years of increases, so herd contraction is unlikely to impact supplies until mid-2024 at the earliest.
- Store cattle prices have continued to underperform finished cattle prices, shorter keep prices have continued to hold up better, while auction volumes continued to lag 2021 levels during the peak autumn selling period.

Farmgate prices - prime cattle - firming more strongly in Scotland, potentially reflecting tighter availability



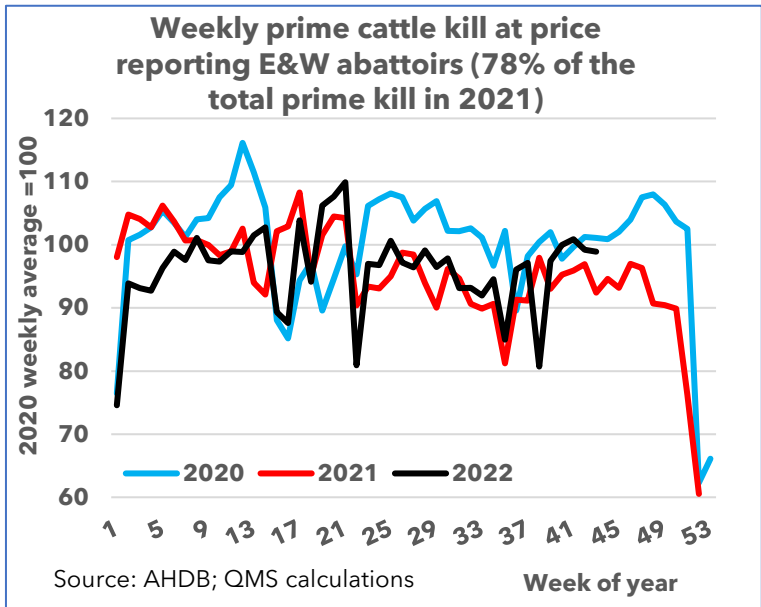
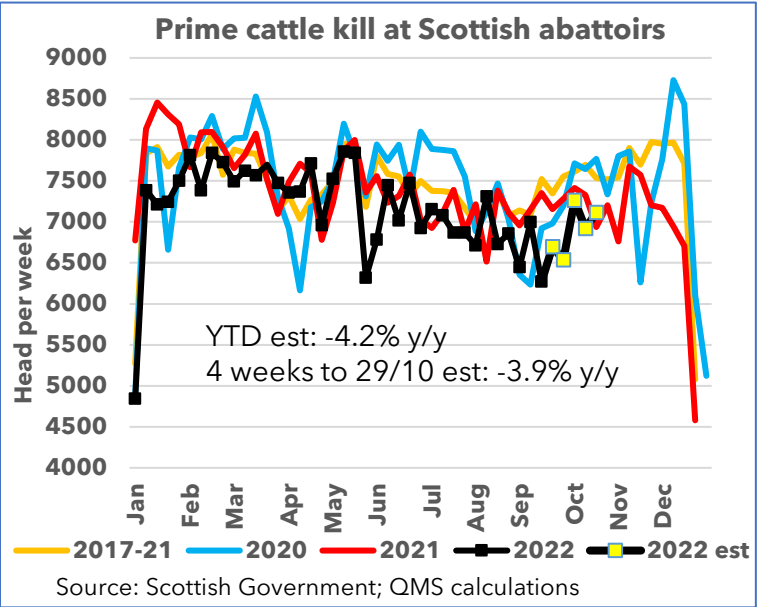
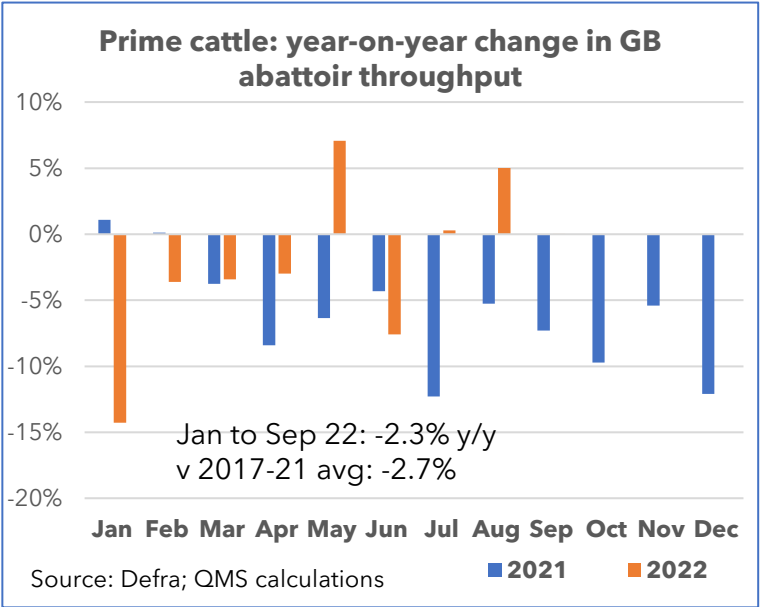
Availability and slaughter – fewer prime cattle on Scottish farms in contrast to a significant increase in E&W



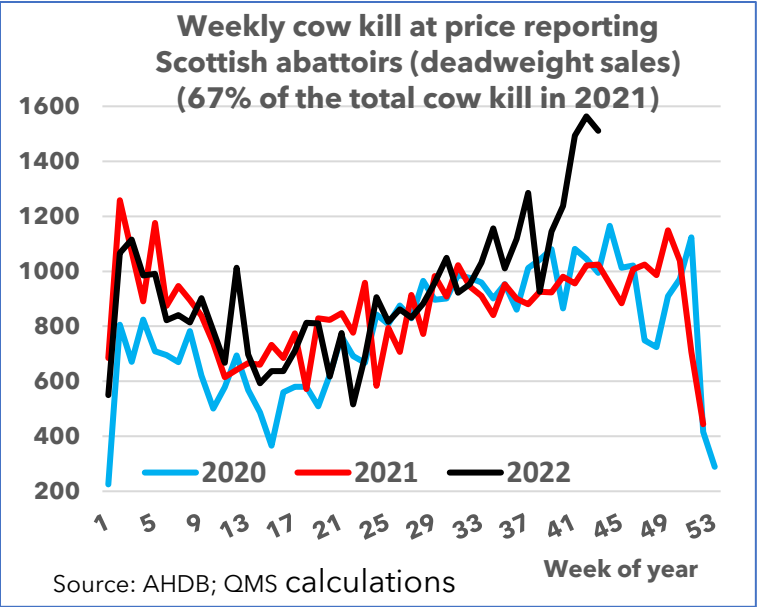
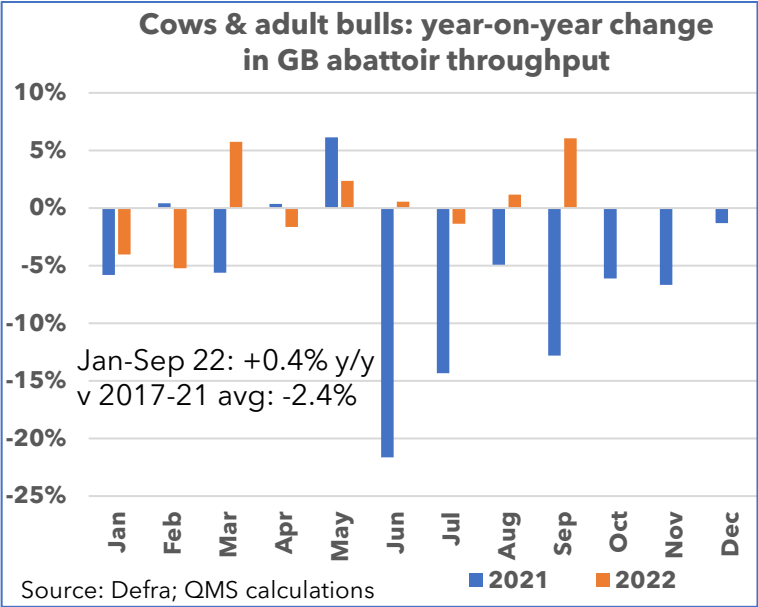
BCMS cattle population data for July indicates that prime cattle supply has fallen on Scottish farms relative to last year while now picking up strongly in England & Wales.

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.

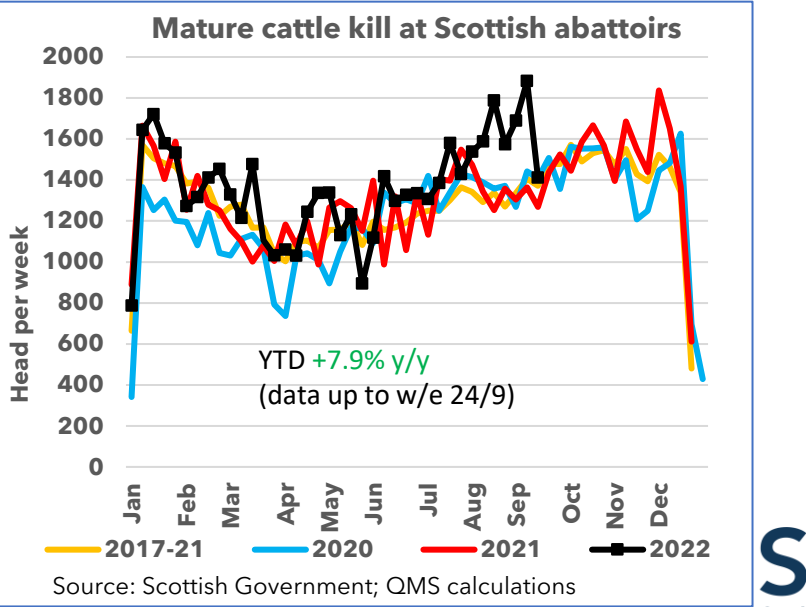
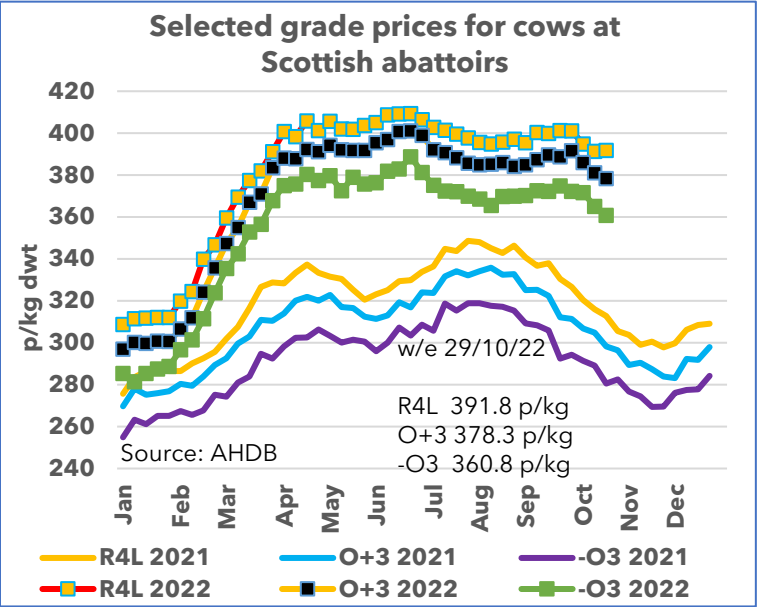
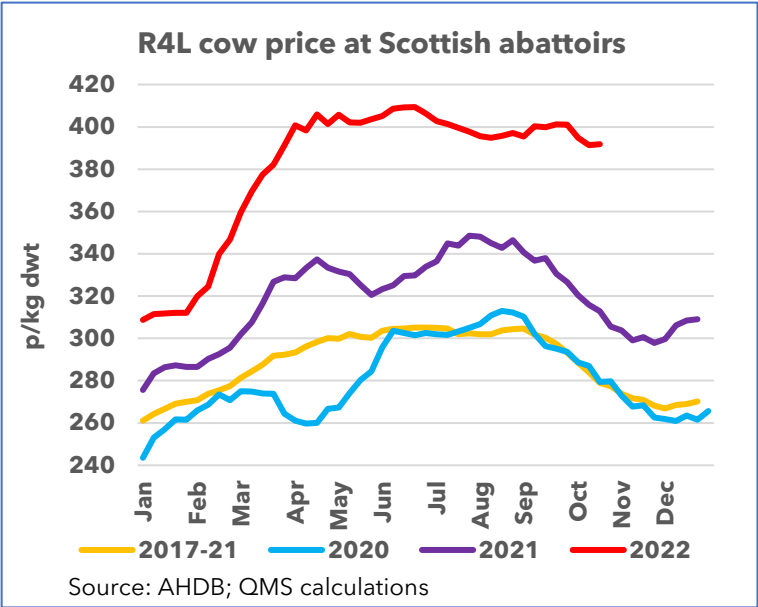


Mature cattle market – softening seasonally, but prices remain firm given a rising kill

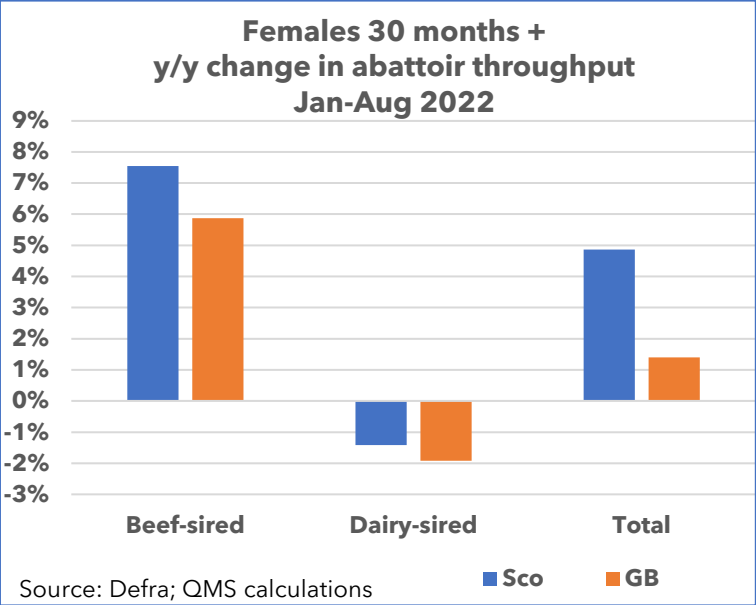


Cow prices remain historically high for the time of year and much closer to prime cattle prices, potentially driven by tight overall UK beef supply and firm demand for cheaper manufacturing grade beef due to the cost of living crisis.

A sharp increase in cow slaughter during Q3 indicates that the pace of decline in the beef herd is likely to have picked up.



Evidence that herd reduction is underway in the beef sector



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

Females aged 30 months+ on farms in England & Wales (y/y change)			
Month	Dairy	Beef	All
July 2022	-2.1%	-1.8%	-2.0%

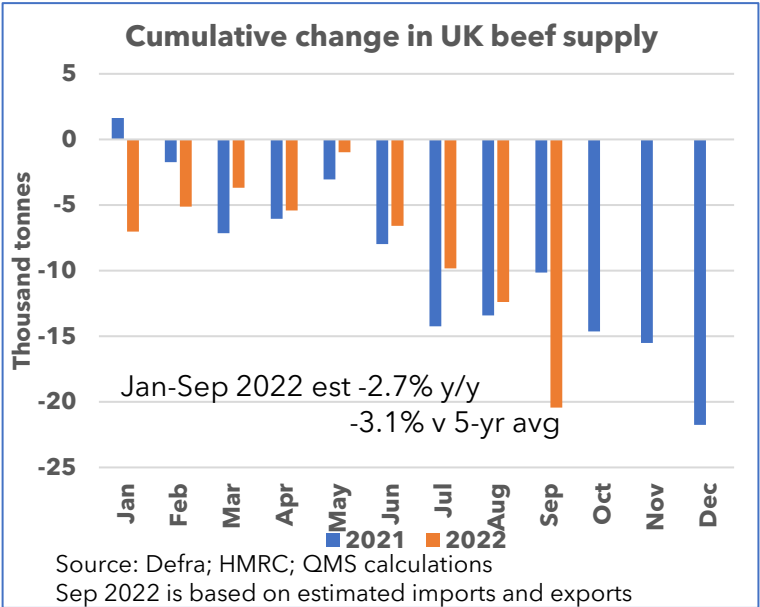
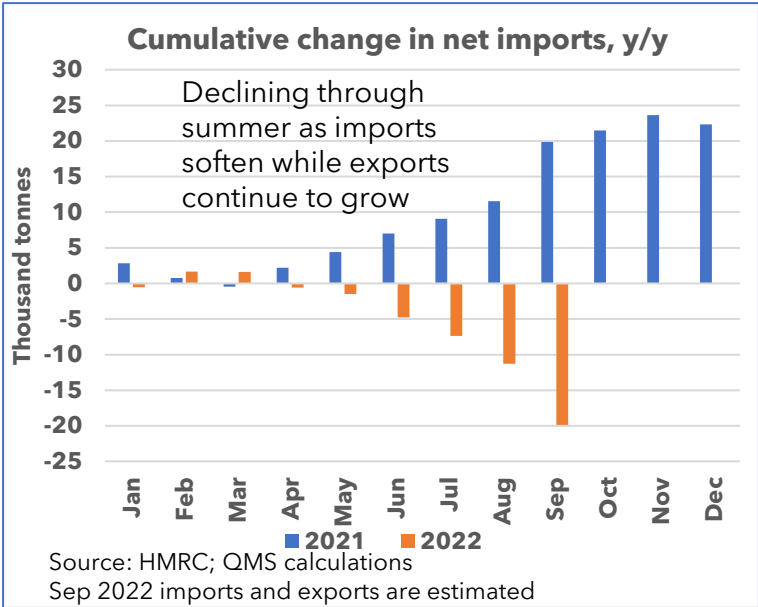
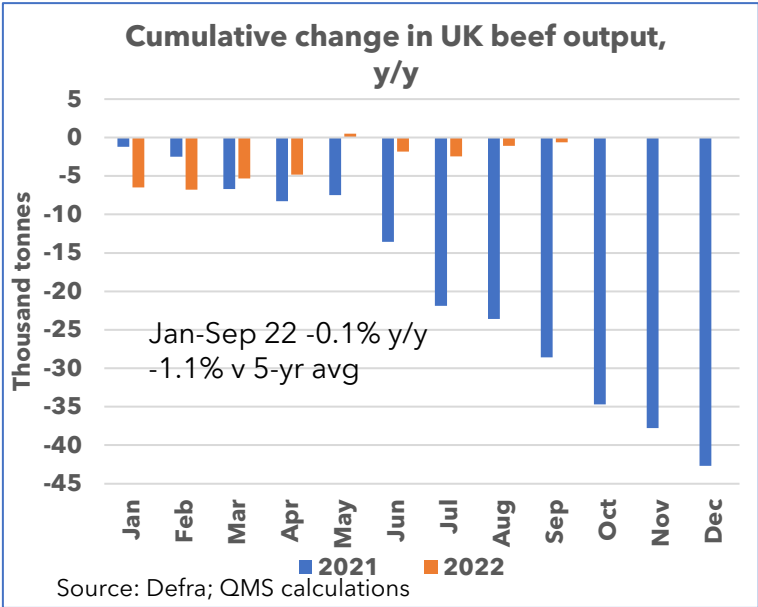
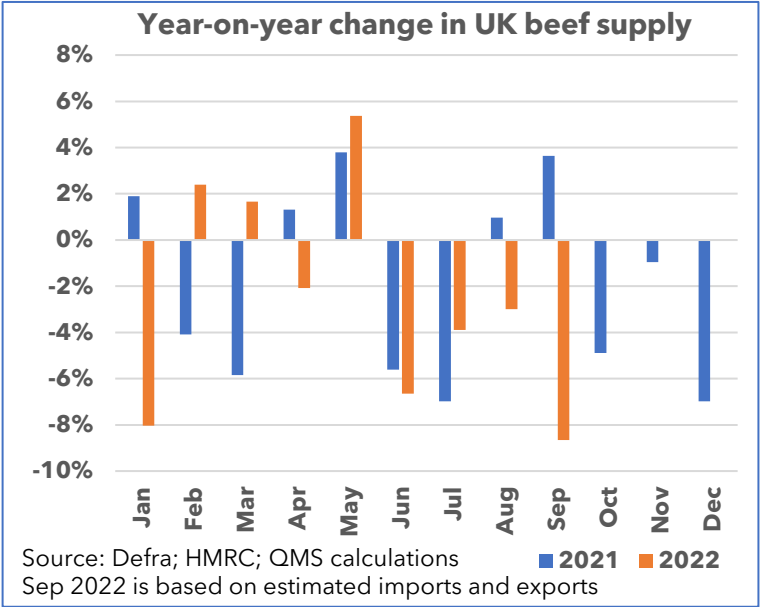
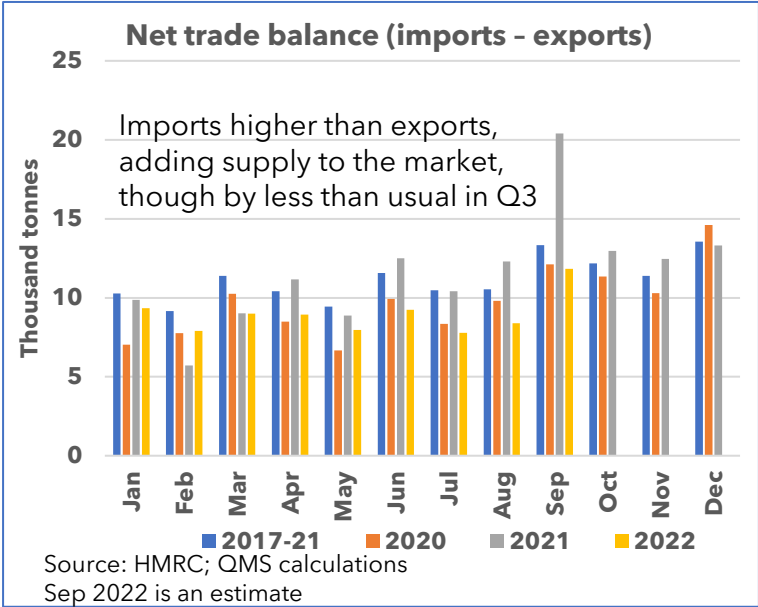
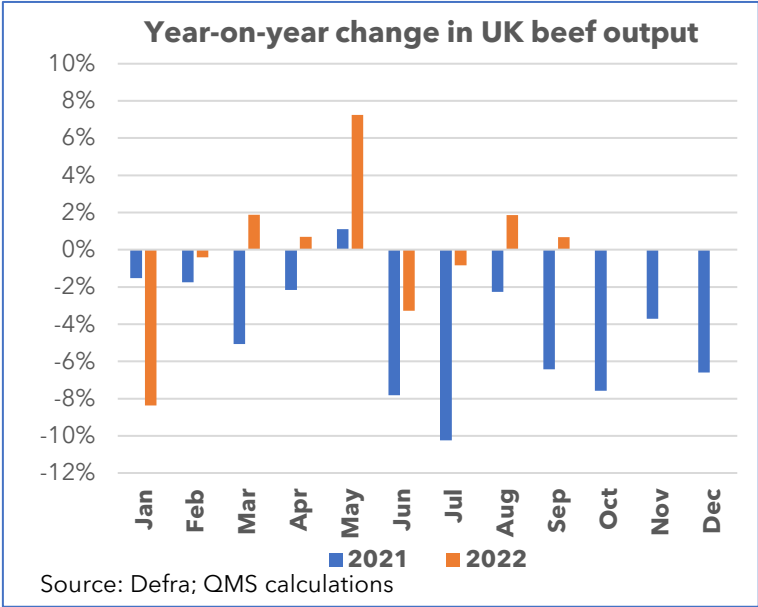
Source: BCMS; QMS calculations

The next cattle population data for October 1st is due in mid-November and is expected to show that the pace of herd decline has accelerated from the July report, following the sharp year-on-year upturn in cow slaughter at Scottish abattoirs, particularly given the rise in slaughter of beef-sired older females.

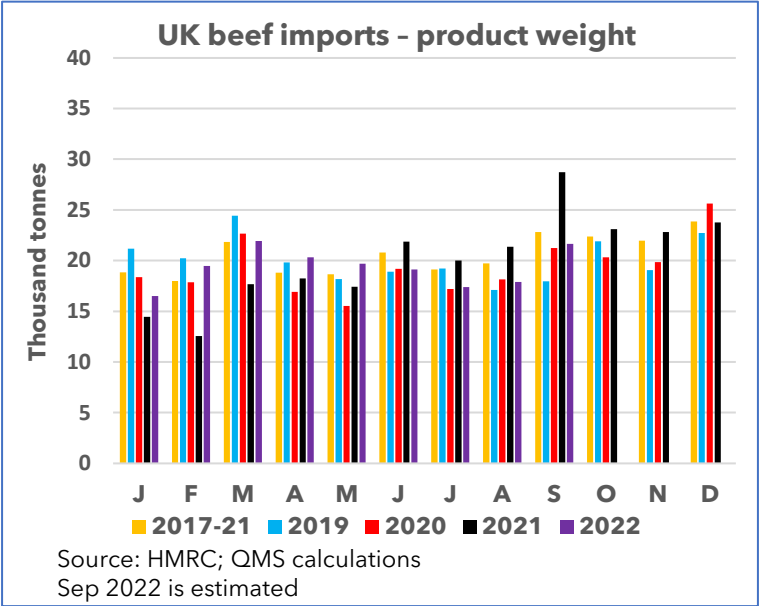
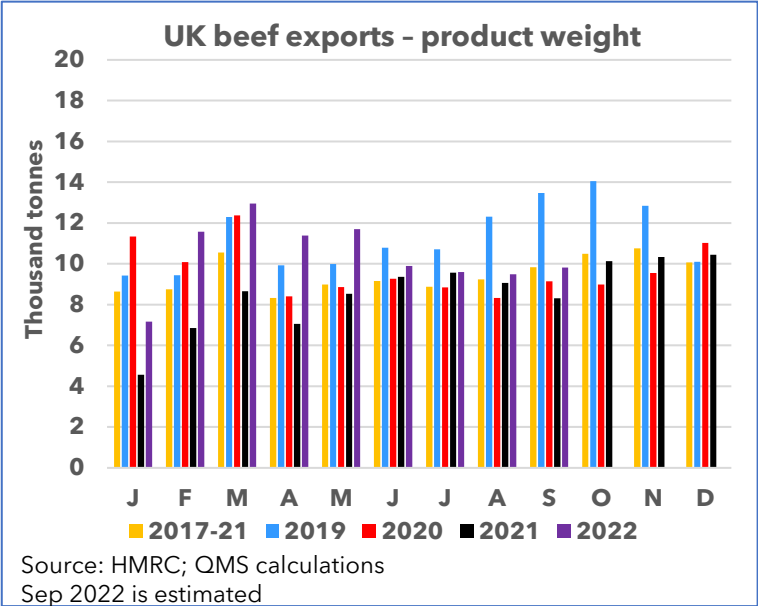
However, since calf registrations have been stable so far in 2022, the impact of herd reduction will take until mid-2024 to begin affecting supplies. In recent years, increased productivity has boosted the number of calves per cow, limiting the impact of herd decline on finishing cattle supply.

It should be noted that a proportion of the OTM kill will be older heifers.

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

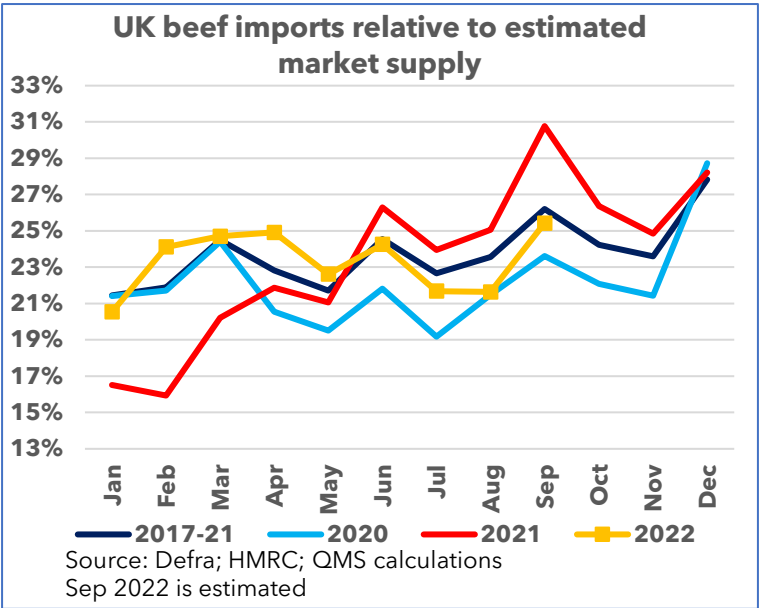
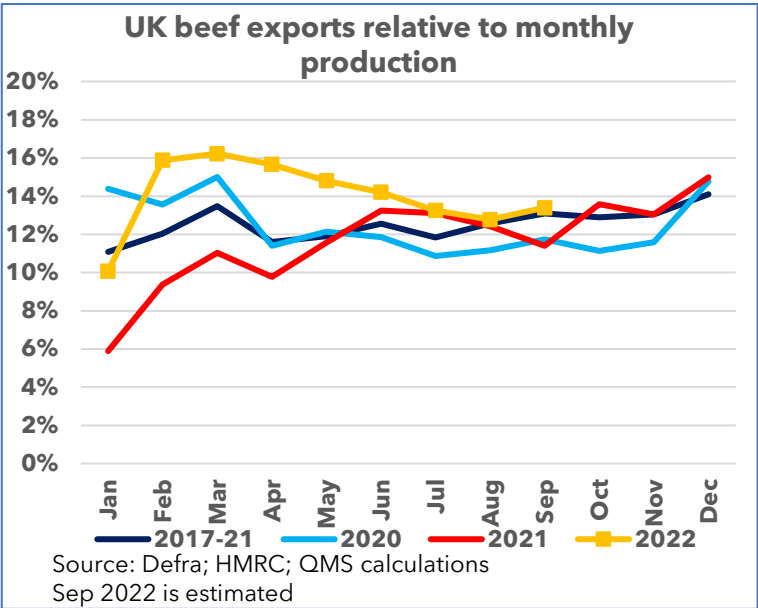


A focus on UK international trade in beef



UK exports continued to perform well through the summer, though they did soften after a very strong spring. While returning to more normal levels in the summer, volumes were limited by a fall in domestic production.

Import volumes have also fallen back in the summer after a firm spring, tightening overall supply.



Note:

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

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

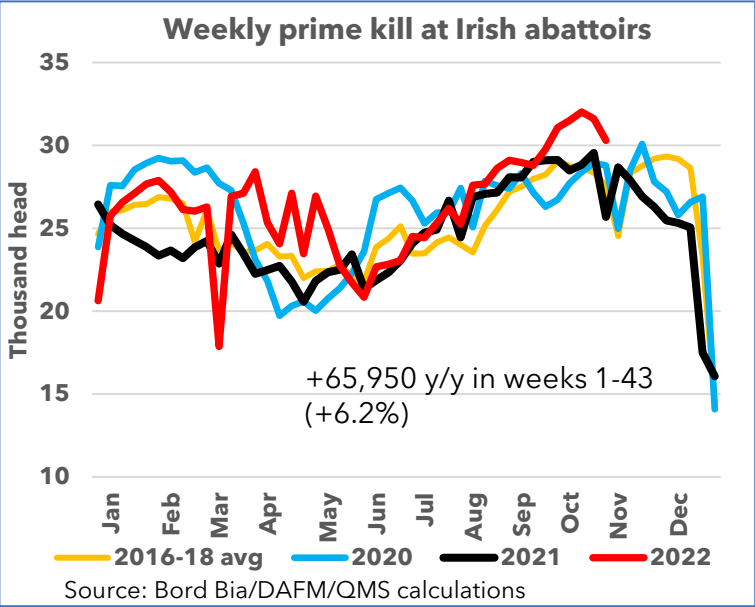
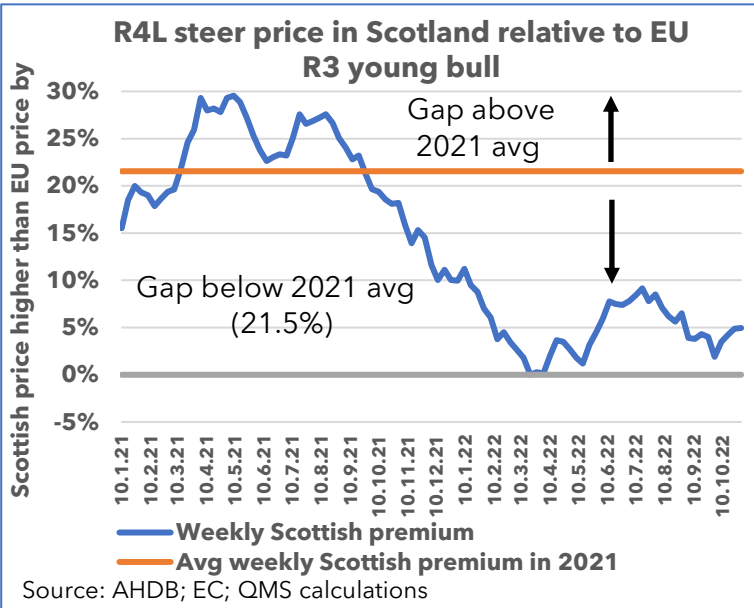
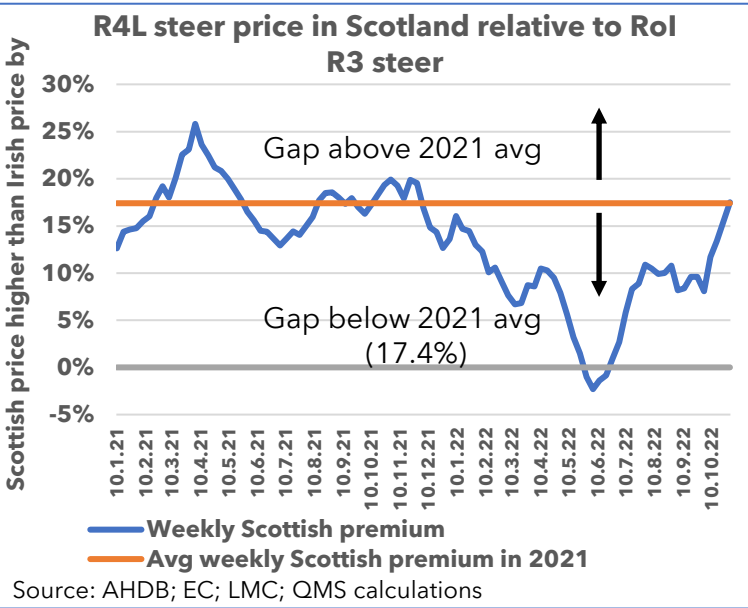
Variables influencing international trade in beef

After surging through the autumn, the Irish prime kill may now have passed its peak. As well as the surge in kill, Irish prices have also been facing pressure from softer EU retail demand (-15.1% in €/kg and -13.8% in £/kg since June peak), making Irish cattle much more competitive.

Relative stability in EU average cattle prices (in euro) since the spring masks volatility at country level. This average for R3 males is much closer to Scotland than usual and well above Rol steer prices.

Cattle on Irish farms (thousand head)			
Age group	June 2021	June 2022	y/y change
1-2 years	1,900	1,938	+2.0%
Males 2 years +	364	380	+4.5%
Cows	2,545	2,541	-0.2%

Source: CSO



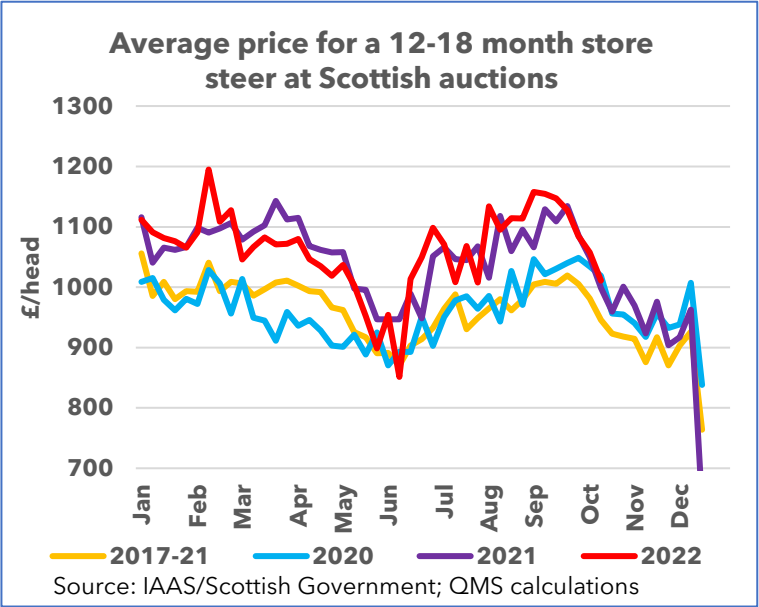
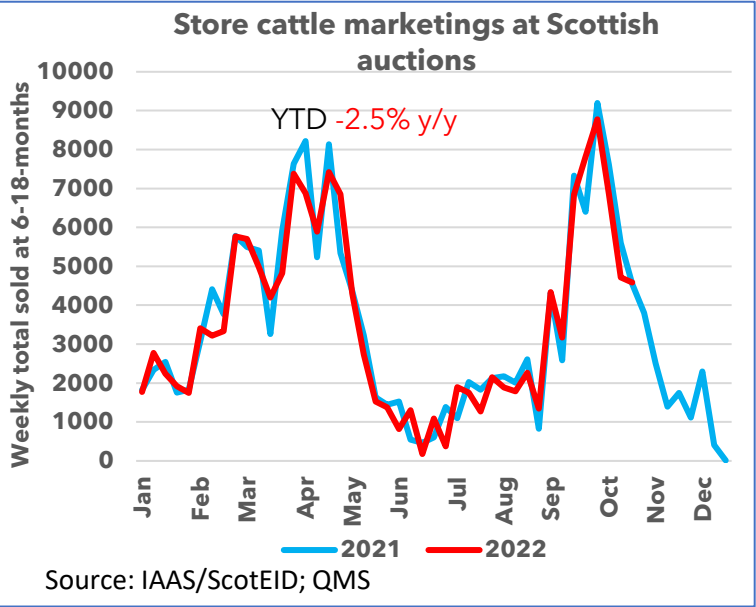
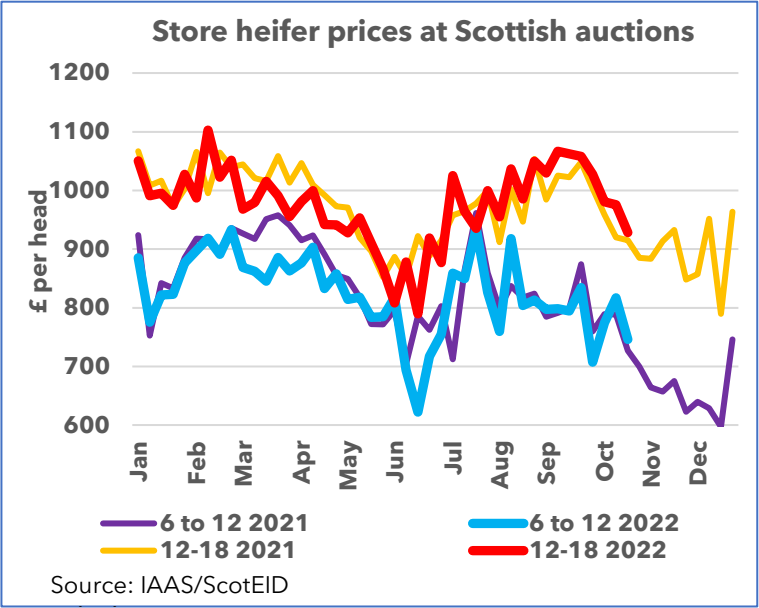
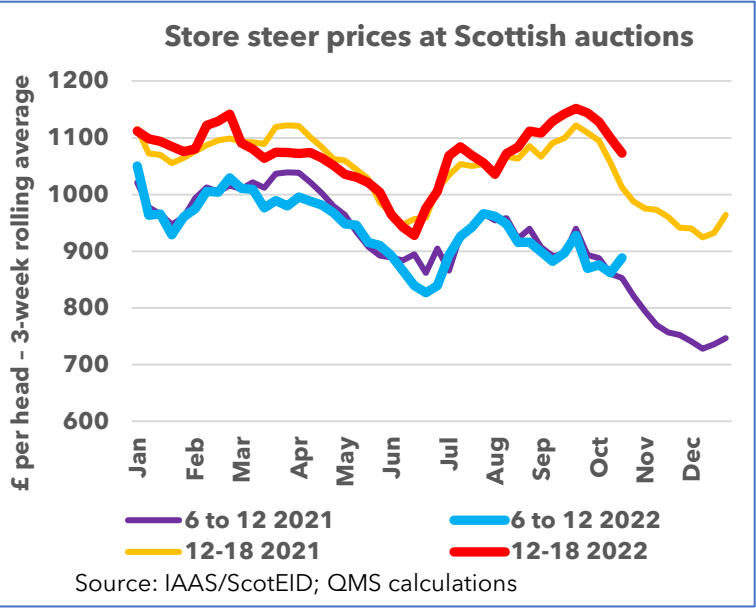
Selected EU cattle prices for R3 males, converted from euro to p/kg dwt

	Week 43 2022	Week 17 2022	Week 43 2021
Germany (young bull)	458.5	474.1	381.9
Netherlands (young bull)	421.4	459.0	320.9
Spain (young bull)	447.7	421.3	340.8
Poland (young bull)	423.4	436.6	356.9
Irish Republic (steer)	394.5	414.7	352.8
For comparison: Scotland R4L steer	463.5	447.5	423.1

Source: AHDB; EU Commission; LMC; QMS calculations

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



Volumes continued to lag year-earlier levels during the peak autumn selling period.

Prices have been following seasonal trends and but with longer keep stores continuing to fare worse, likely driven by input cost pressures for finishers.

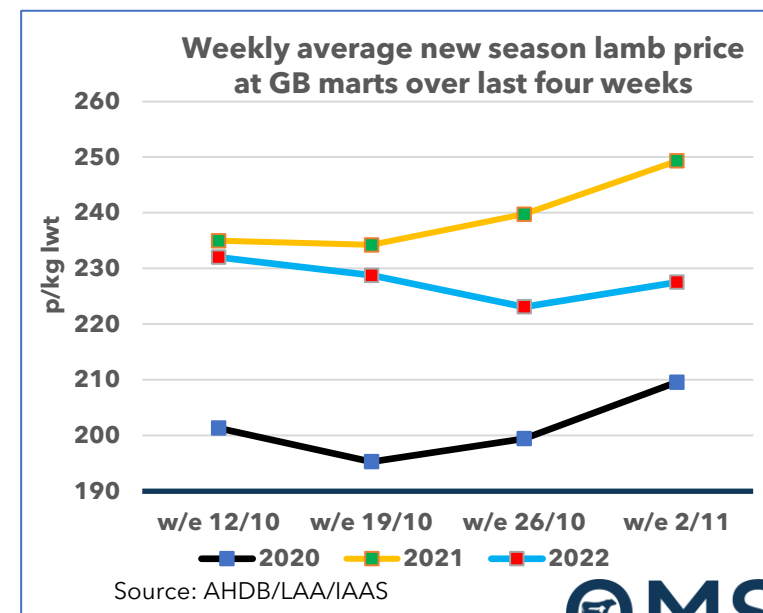
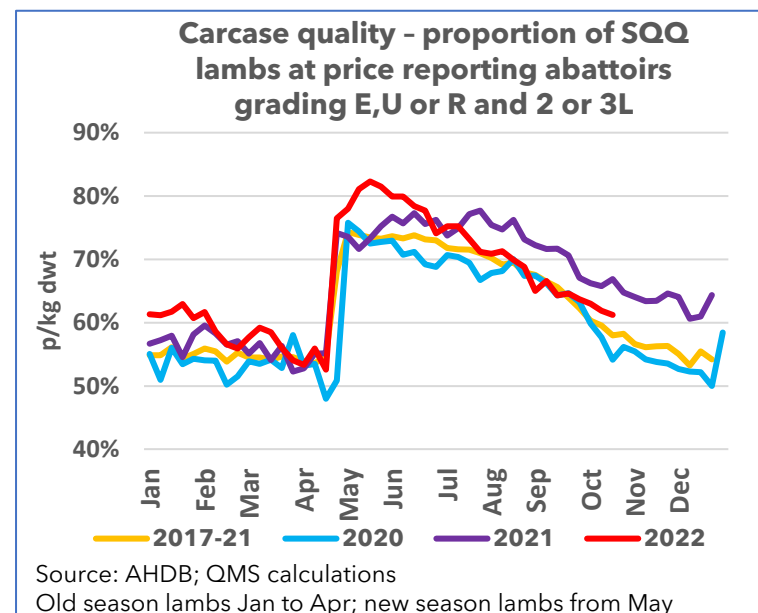
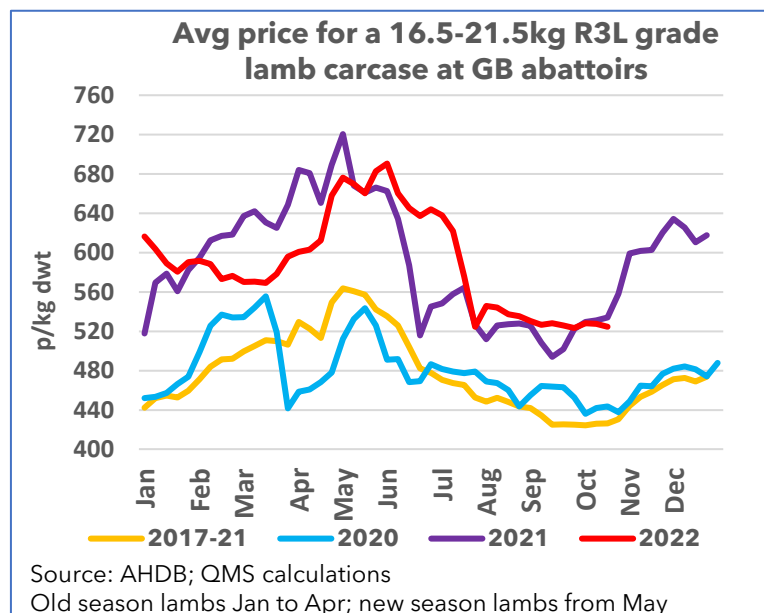
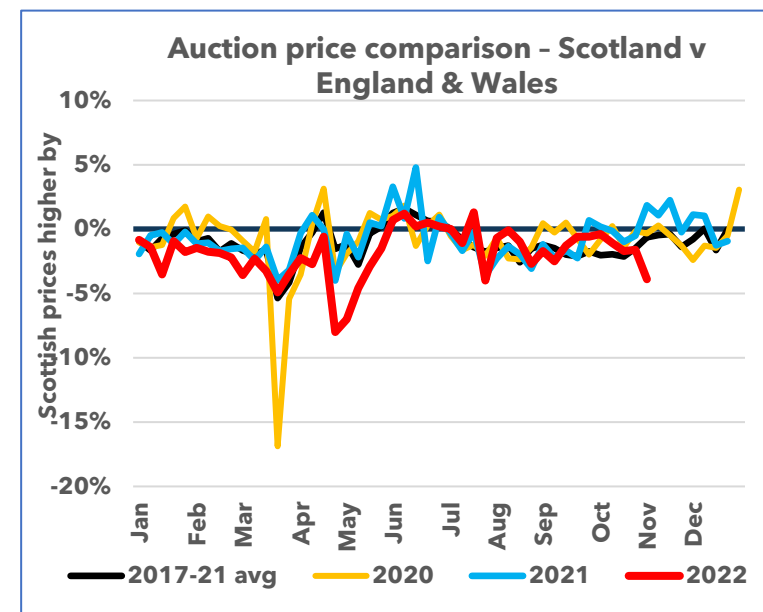
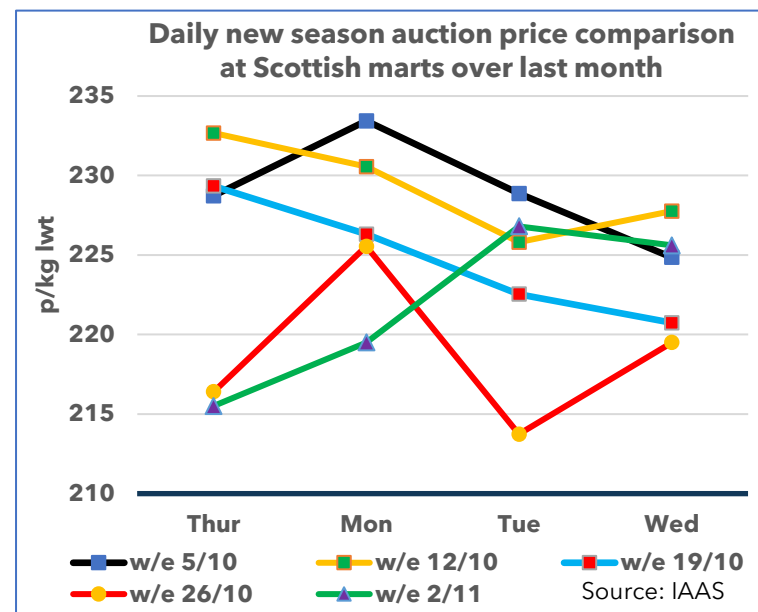
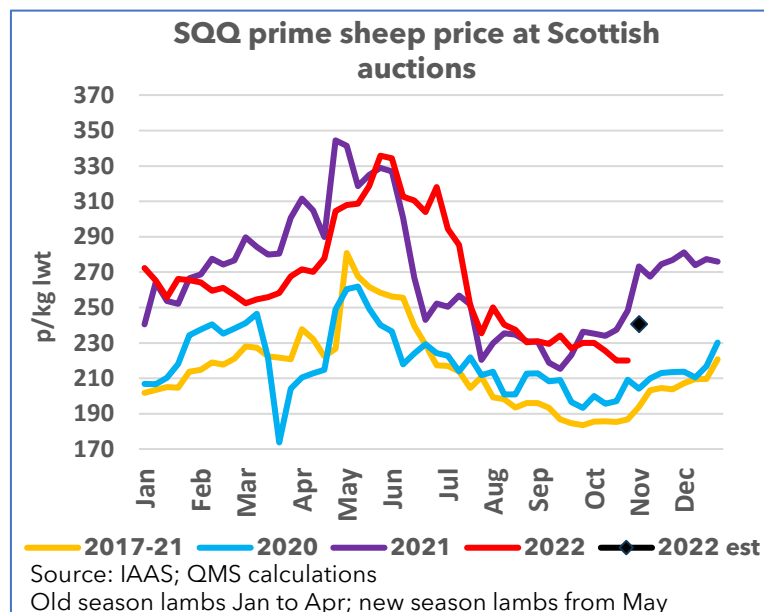
	4 weeks to 29/10	y/y change last 4 weeks
Store cattle prices		
Steers, 6-12 months	£858	+0.7%
Steers, 12-18 months	£1,085	+3.9%
Heifers, 6-12 months	£753	-2.1%
Heifers: 12-18 months	£987	+2.9%
Store cattle marketings		
All steers & heifers, 6-18 months	24,930	-7.5%
Source: IAAS/ScotEID; QMS calculations Prices rounded to nearest £1 and numbers to nearest 10		

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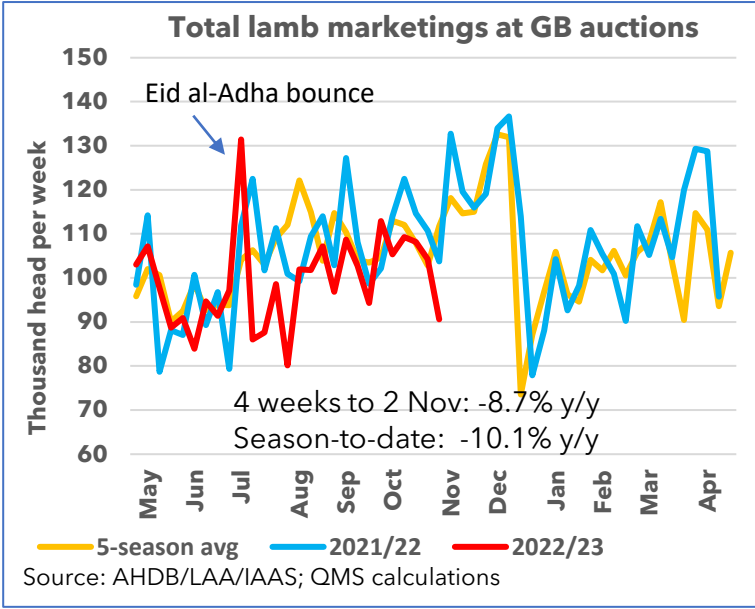
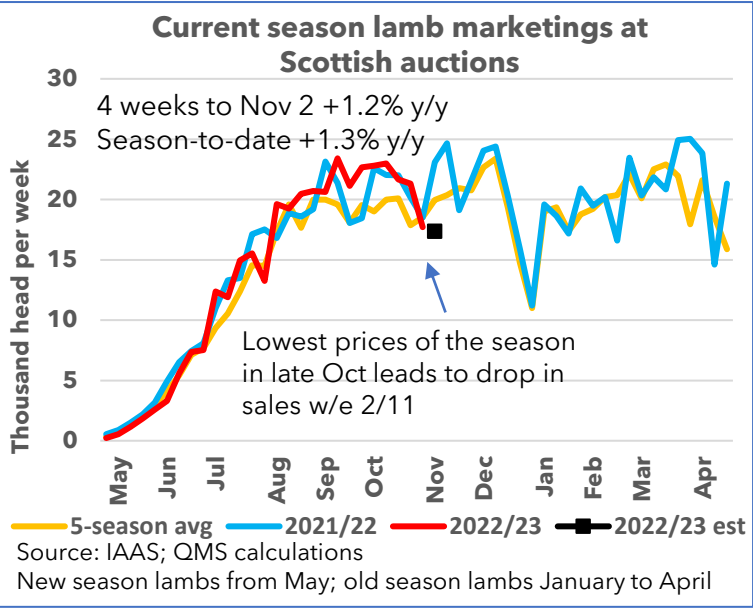
Report Category	Basis	Average price or volume	Change on week	Change over four weeks	Change on year	Change on 5-year avg
New season SQQ lamb price at Scottish auctions	p/kg lwt, w/e 2 November	220.06p/kg	-0.05p	-4.3%	-11.4%	+17.9%
New season SQQ lamb marketings at Scottish auctions	Average in four weeks to Nov 2, head	20,928		-7.0%	+1.2%	+12.9%
Total lamb marketings at GB auctions	Average in four weeks to Nov 2, head	103,100		-0.7%	-8.7%	-5.1%
UK sheepmeat market supply	Tonnes in Jul-Sep 2022 (estimate)	63,850			-2.6%	-12.0%

- New season lamb prices slumped to a season-to-date low of 220p/kg in late October but were still up nearly 20% on the five-year average and have rebounded above 240p/kg in early November.
- While lamb marketings have been exceeding year earlier levels at Scottish marts since August, they have continued to reach the market more slowly at GB level despite the English census pointing to a slightly larger lamb crop. This is signalling that we could have a large carryover of hogs into 2023 at GB level.
- After a very slow start to the season, store lamb volumes have now moved well beyond with 2021 levels, pressuring prices. Increased store sales are another sign that we may have an increased lamb crop in Scotland this year.
- 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 continued to exceed year earlier levels during the summer but these volumes were more than offset by a seasonal rebound in exports, keeping overall market supply historically tight.

Farmgate prices - prime sheep - delayed seasonal low but still nearly 20% above the five-year average

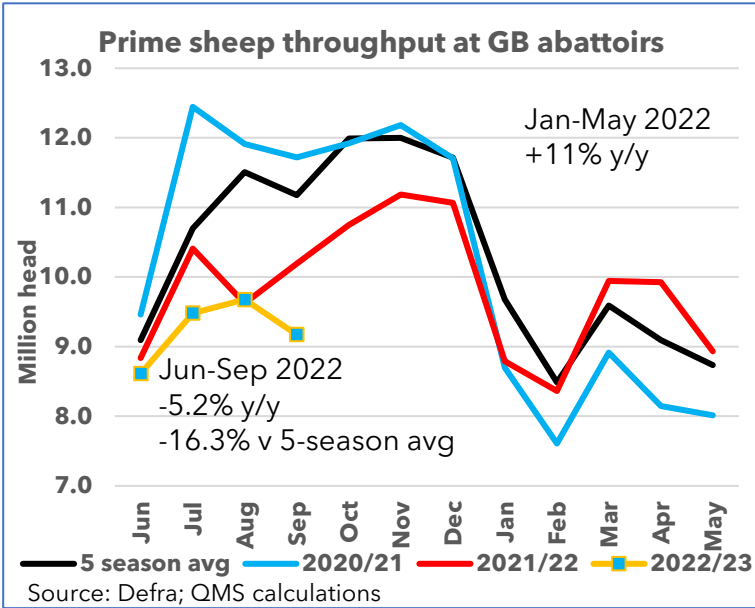
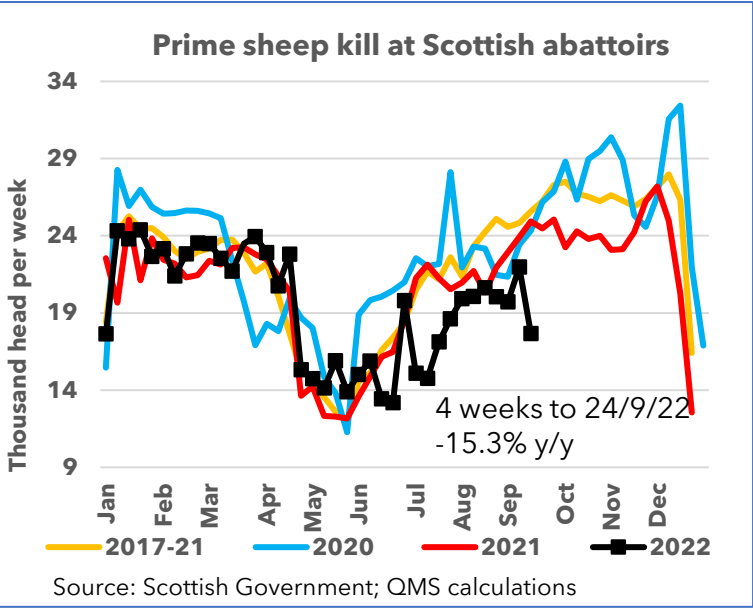


Availability and slaughter – increased auction throughput in Scotland but lambs still arriving more slowly than last year at GB level



After a slow start to the season, lamb numbers have overtaken 2021 levels at Scottish marts, suggesting that we have a better lamb crop than indicated by the reported breeding flock decline in December 2021.

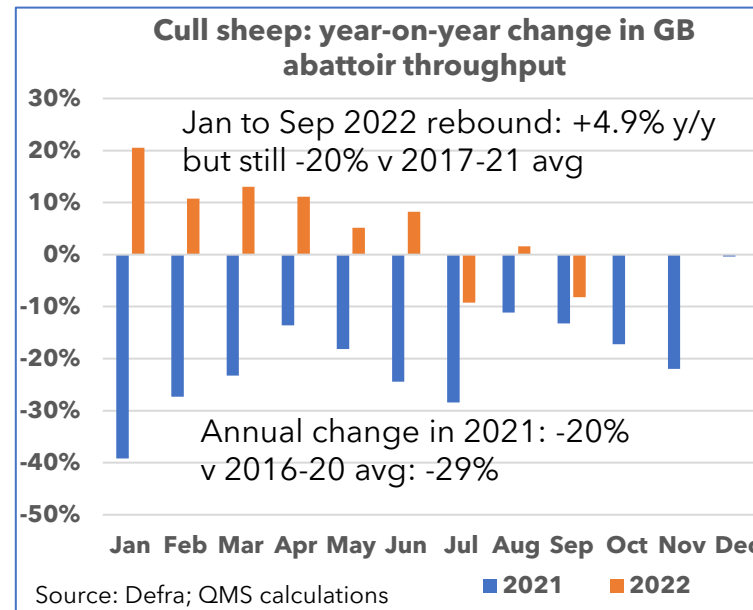
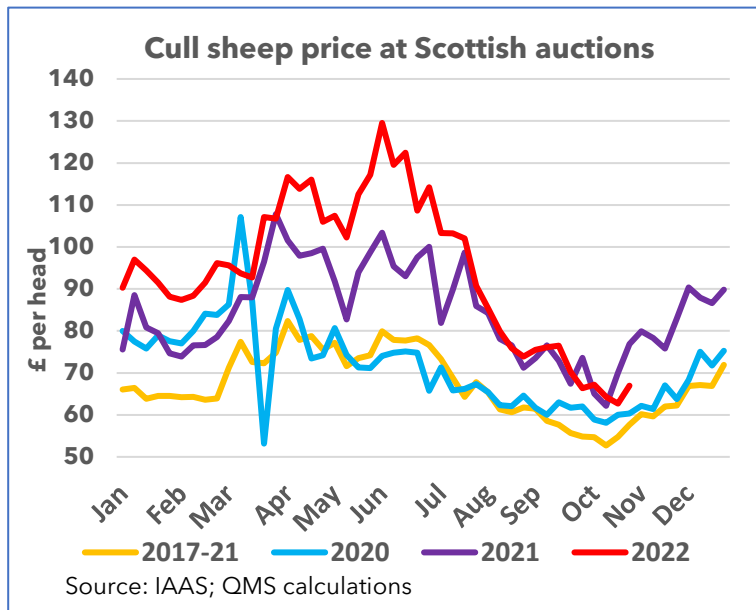
England reported an increase in lambs in June but auction volumes have continued to run well below 2021 levels through October, signalling that we may end up with a further rise in hoggs in the run up to Easter 2023.



December 2021 Sheep & Goat Inventory and June 2022 Census Results		
December 2021	Total breeding flock y/y change	Other sheep and lambs y/y
Scotland	-3.7%	+3.3%
England	-1.2%	+9.3%
June 2022	Ewes used for breeding in previous season	New season lambs
England	+1.5%	+1.5%

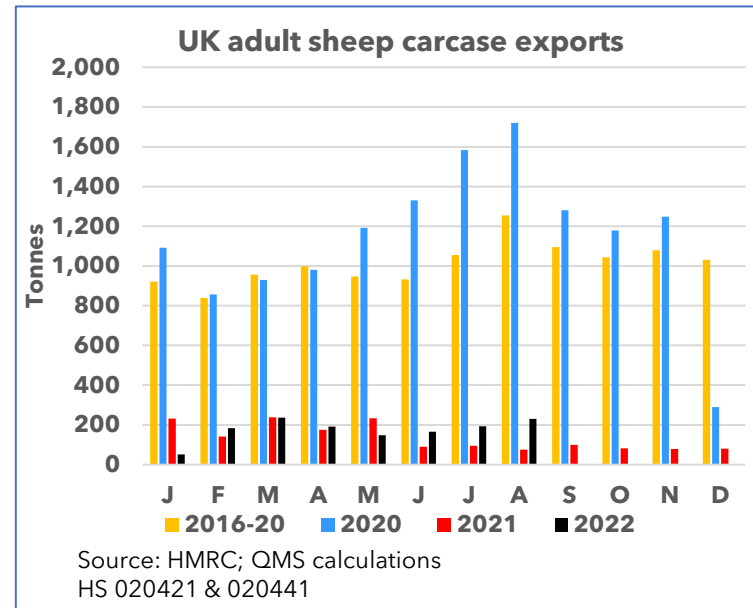
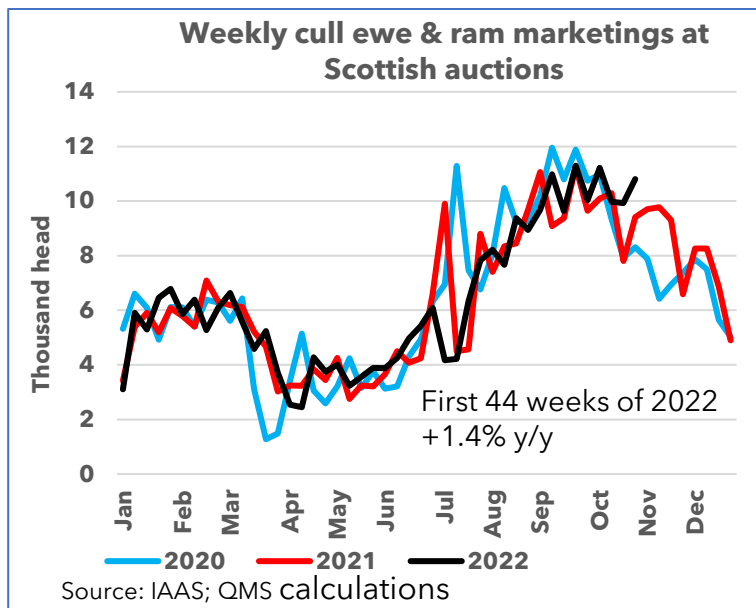
Source: Defra; Scottish Government; QMS calculations

Cull sheep market – seasonal peak in supply pressuring prices



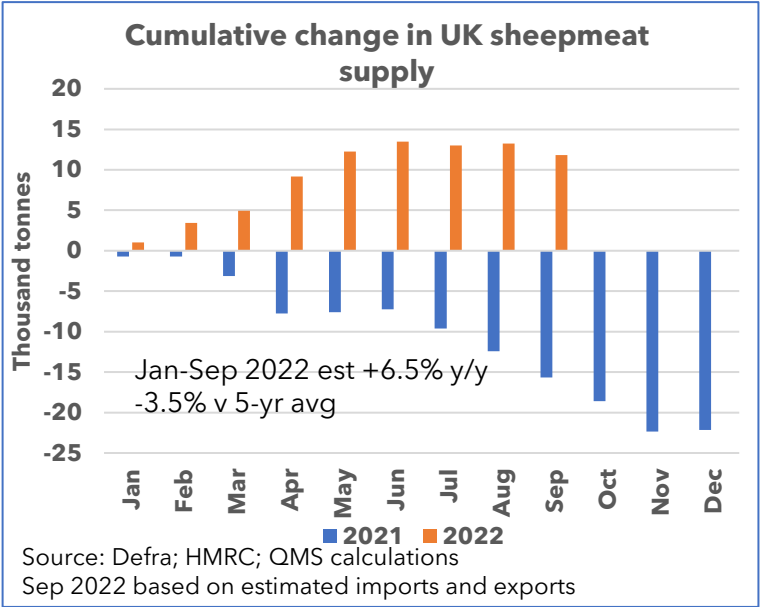
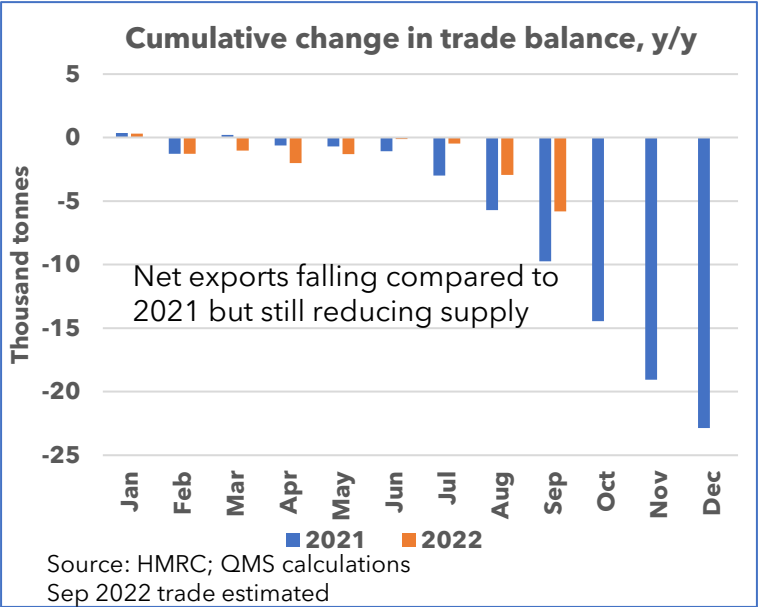
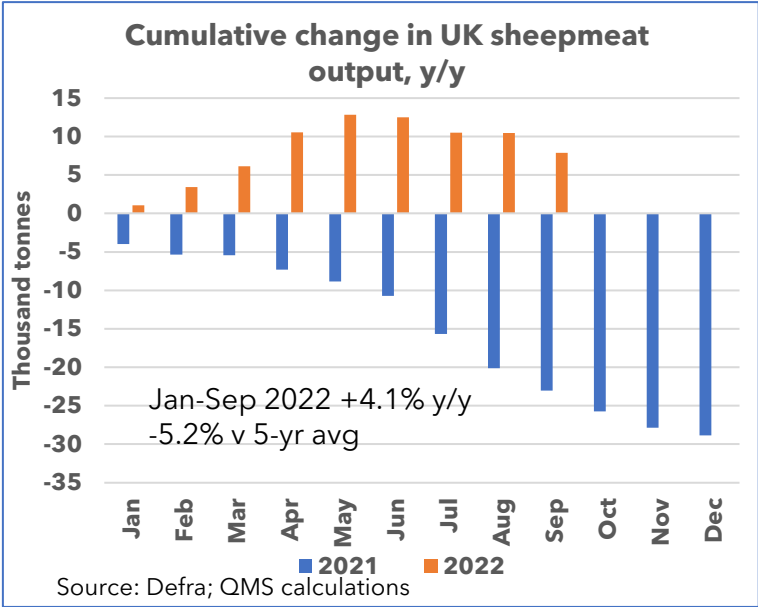
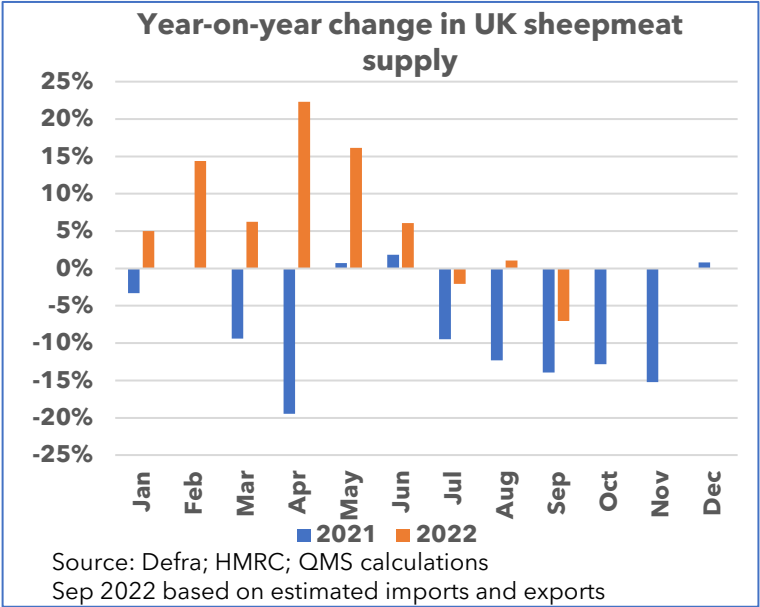
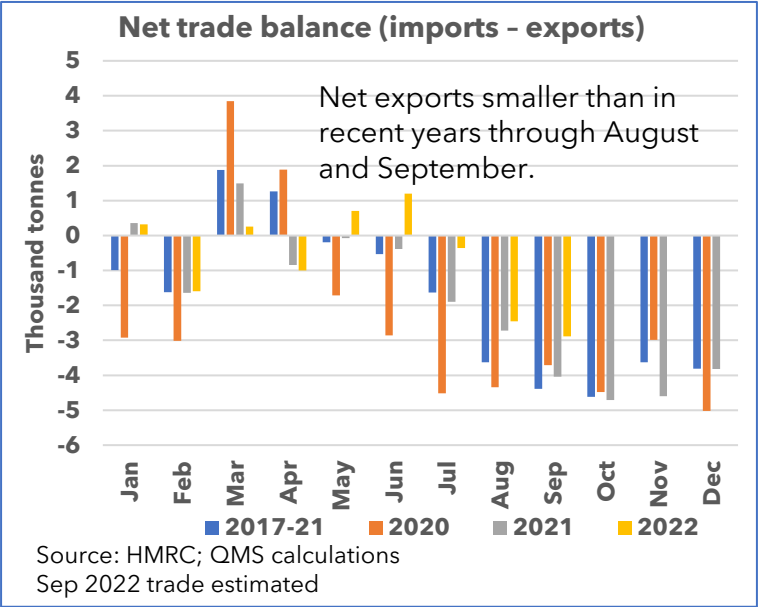
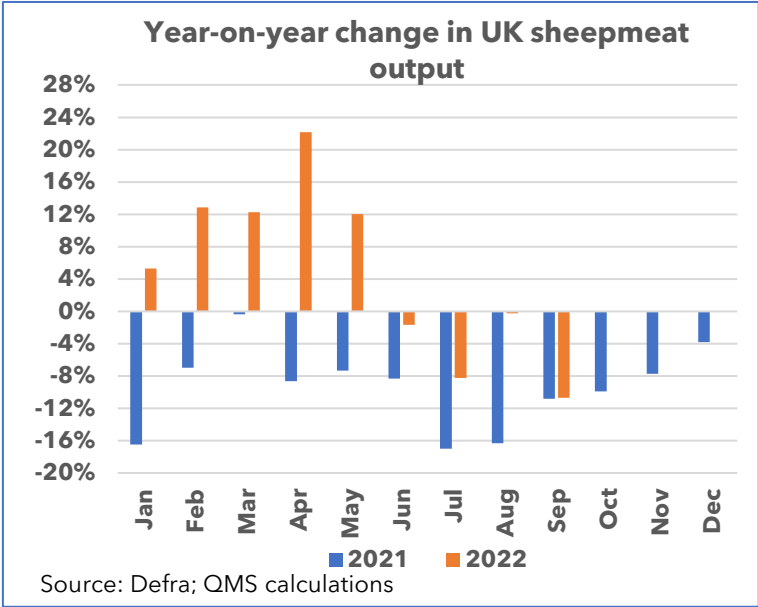
While slaughter looks to have rebounded from the lows of 2021, there are questions over the size of reduction reported by Defra last year.

Prices have been coming under pressure from the seasonal peak in supply, which has been prolonged this year, but remain historically firm.

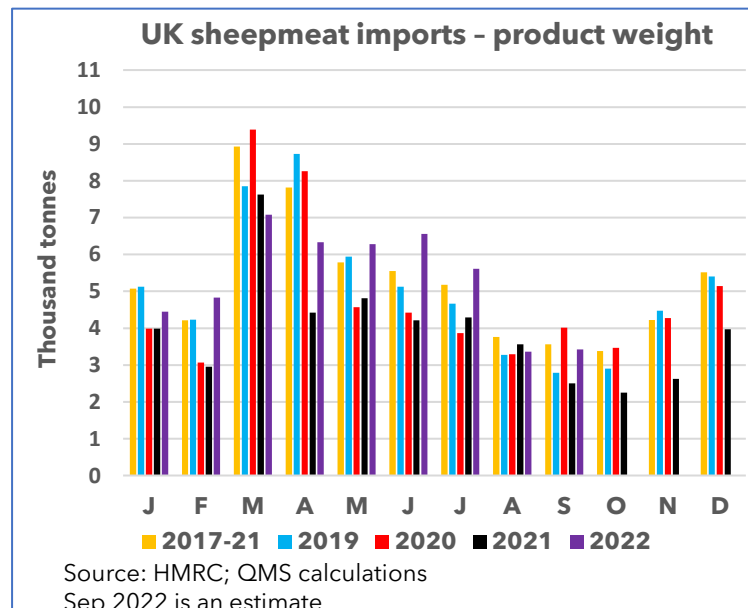
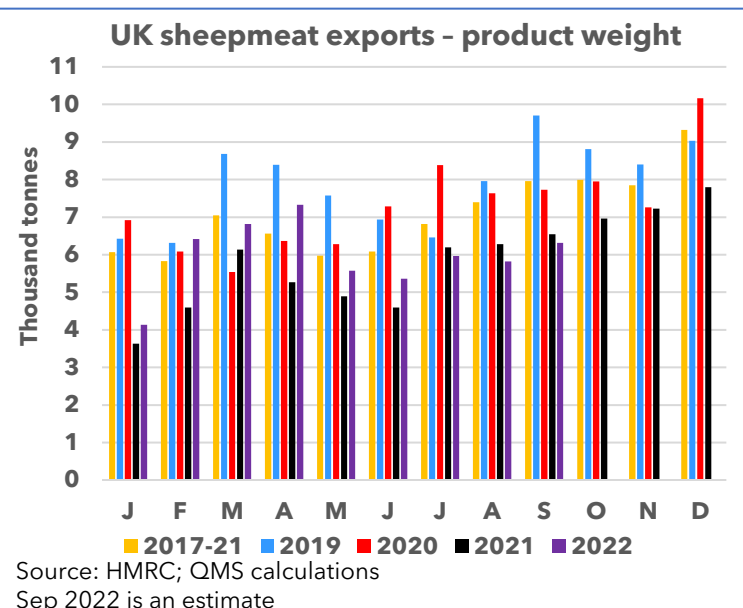


Mutton demand appears to have rebalanced from exports to the home market since late 2020. However, this could reflect improved data collection since single market exit, with export figures now based on customs declarations rather than business surveys. Nevertheless, there has been growth in shipments in 2022.

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



A focus on UK international trade in sheepmeat



Export volumes have fallen back behind 2021 levels after rebounding in the first half; though this has largely reflected tight supply.

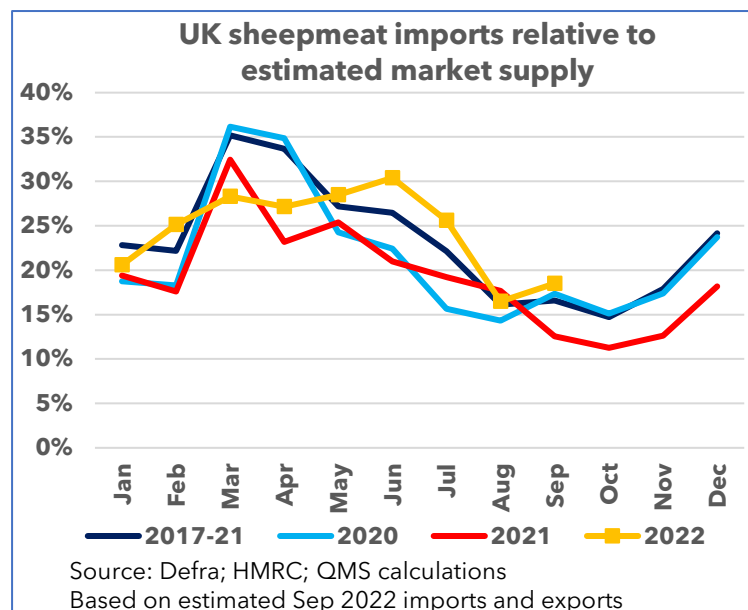
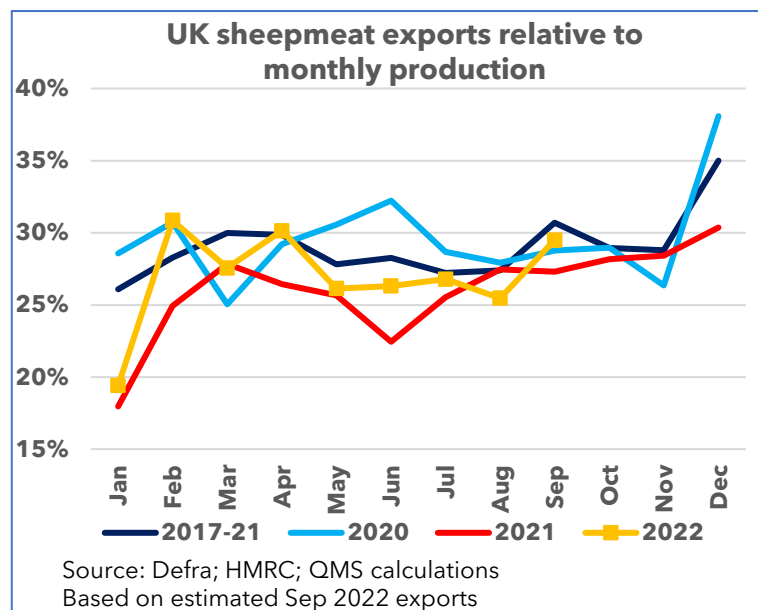
Export value remains strong with pricing in the main export market of France continuing to look attractive.

Imports fell back significantly in August after a strong June and July. While it seems likely that 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 have indicated that NZ export volumes leaving for the UK fell back further in September.

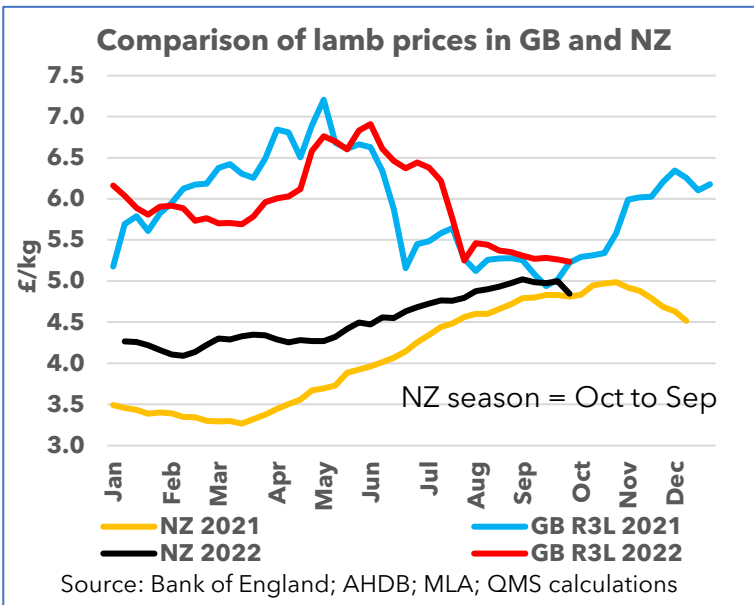
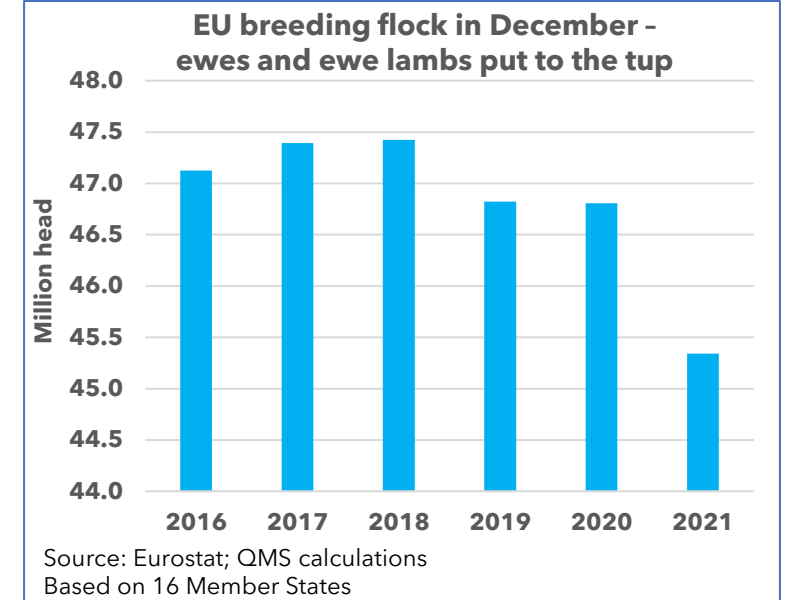
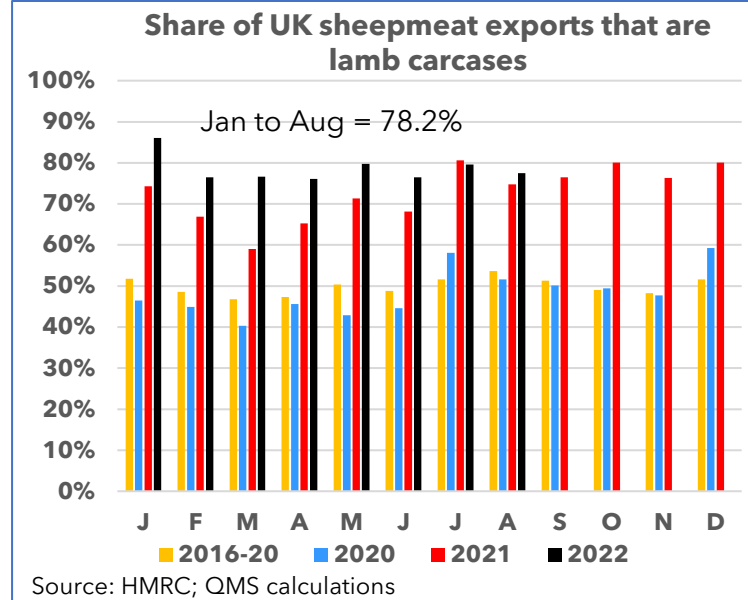
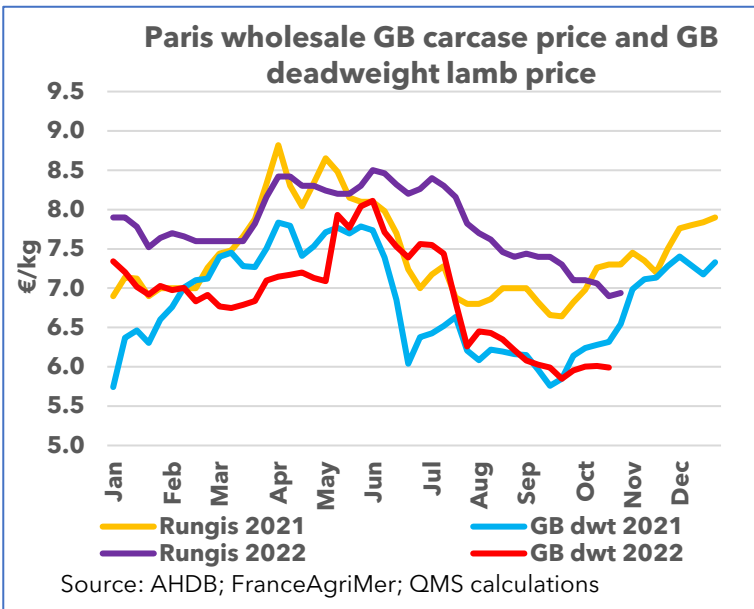
Note:

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

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



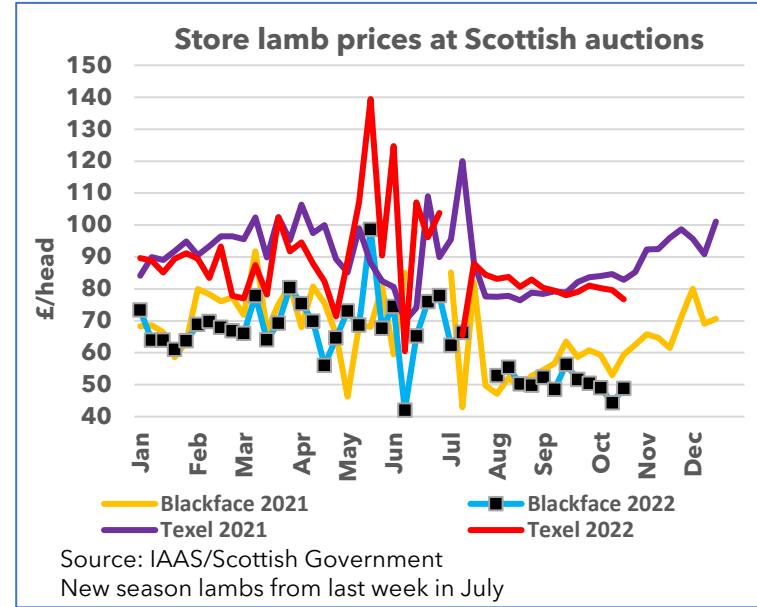
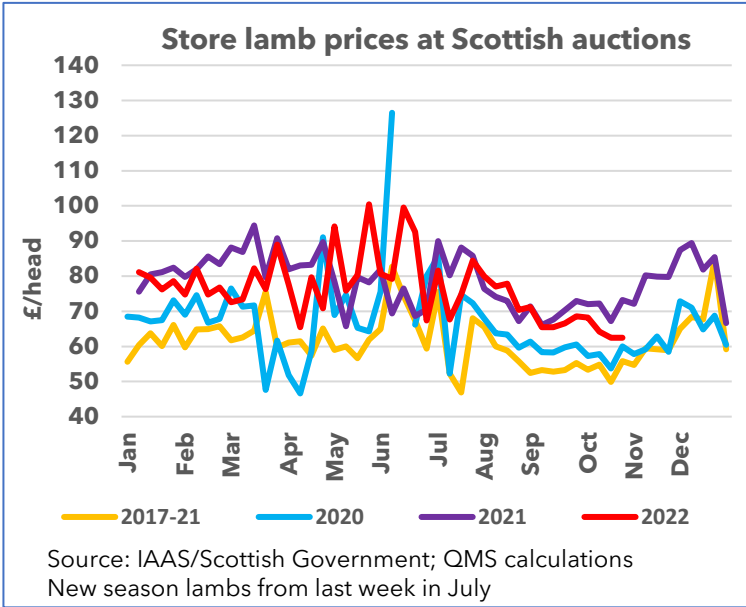
Variables influencing UK sheepmeat trade - could the rebound in sheepmeat prices in China suggest that market prospects have brightened there, potentially slowing the diversion of product to Europe?



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



After a sharp decline in August, two months of significant year-on-year increase have seen store lamb marketings rise well beyond 2021 levels, pressuring prices.

Nevertheless, values continue to look high in an historical context.

4 weeks to 29/10:

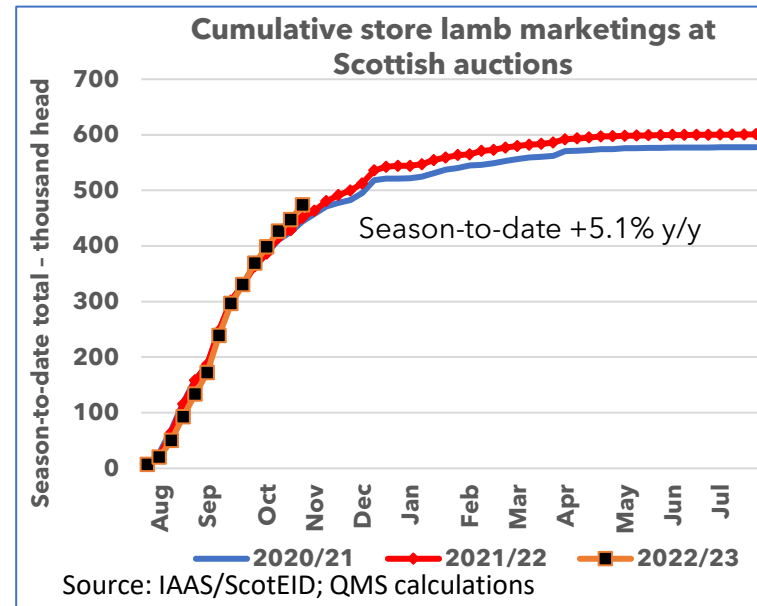
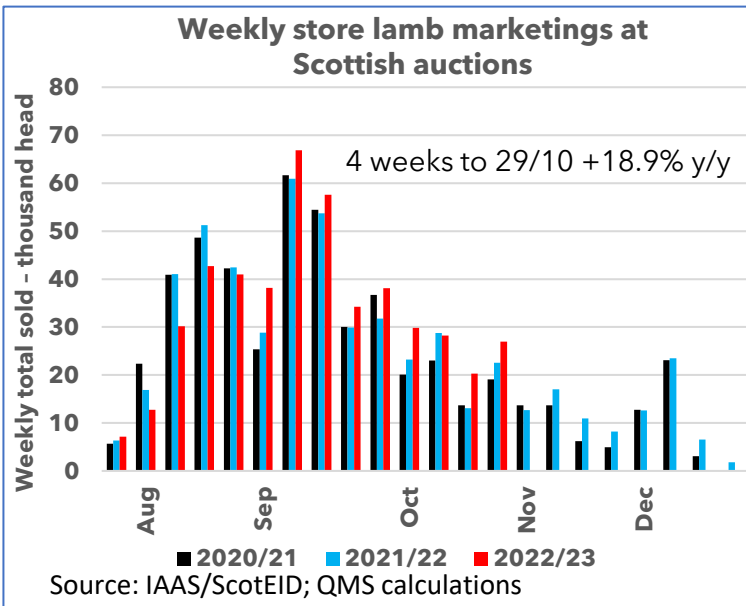
Overall average - £65.80 (-8.2% y/y)

Blackface - £51

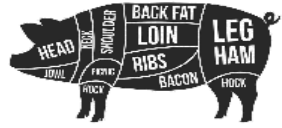
Cheviots - £58.50

Suffolks - £78

Texels - £79



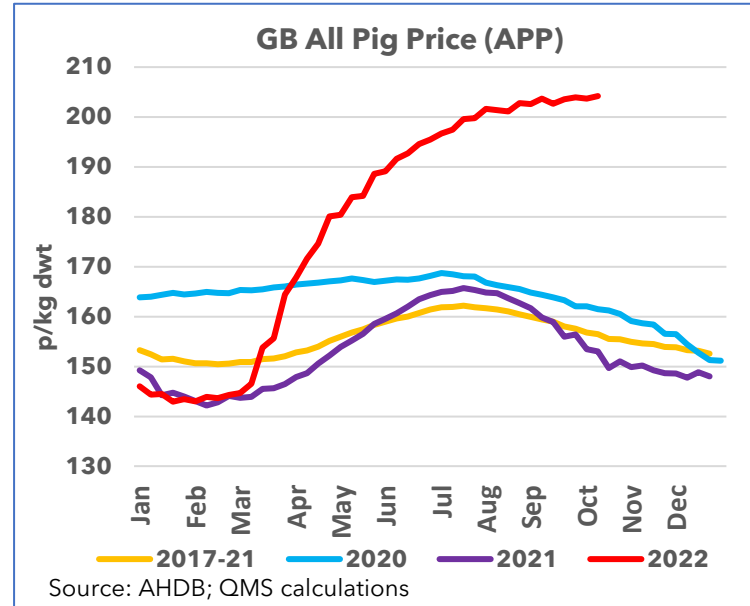
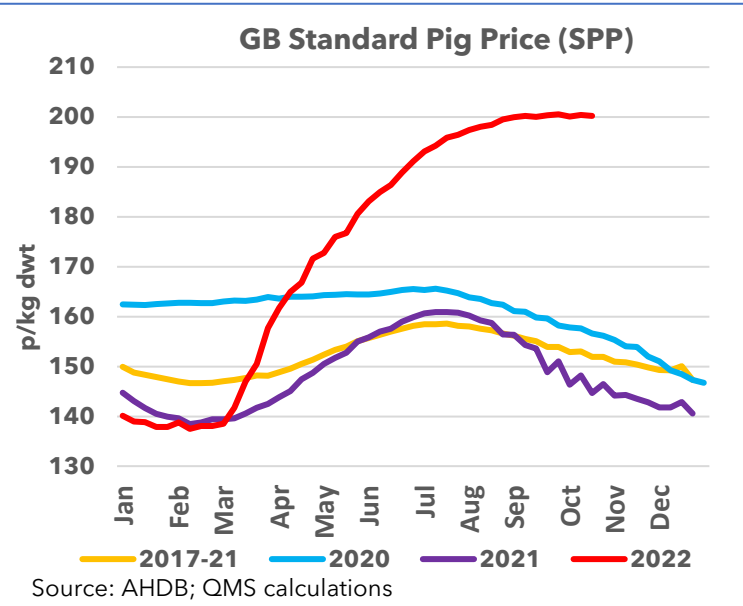
Summary of market developments – pig market



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 29 October	200.22p/kg	-0.21p	-0.1%	+38.4%	+31.8%
Average carcase weight of standard pigs	Average in four weeks to 29 Oct, EU spec	90.51		+1.0%	-0.8%	+4.8%
Prime pig slaughter at GB abattoirs	Total during September 2022, thousand head	766.0		+4.1% (change in daily avg kill Sep v Aug)	+1.3%	+4.3%
UK pig market supply	Tonnes in June-Aug 2022	321,600			-1.6%	+1.4%

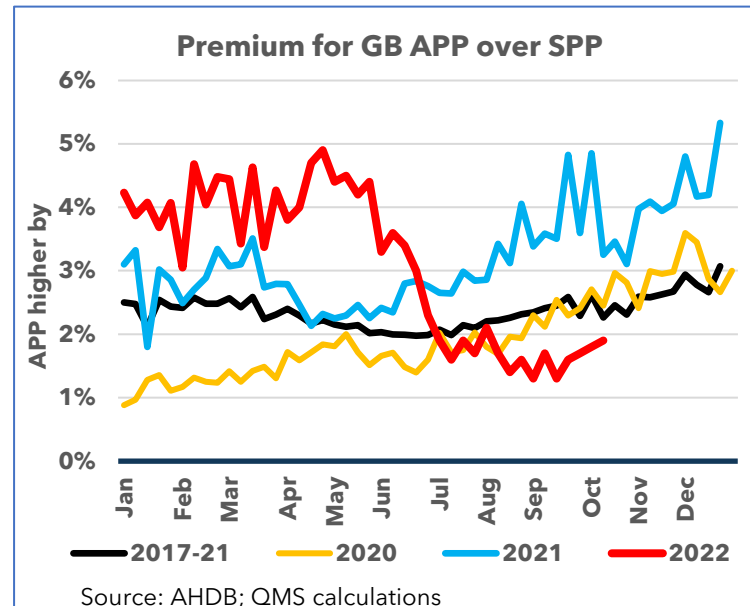
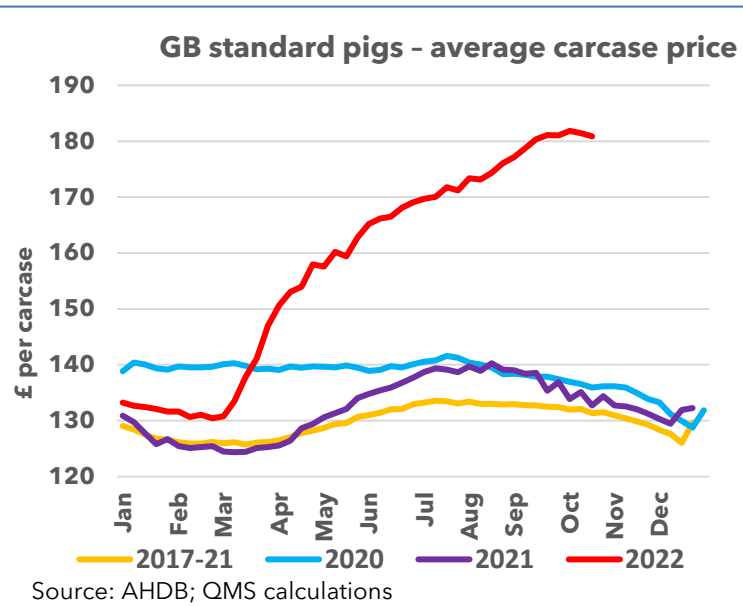
- Pig prices have been steady around the £2/kg dwt mark in recent weeks; a level still below the cost of production.
- Farmgate prices continued to trade far above their five-year average despite a well-supplied market, suggesting that the processing sector continued to support market prices in an attempt at maintaining a future supply of pork.
- While census data for England suggested that availability for slaughter could tighten sharply at GB level this autumn, GB slaughter data has yet to show that any significant decline is underway, keeping the market well-supplied.
- There appears to be a link between EU pig prices and UK pork import prices and although the EU market softened in October, imports could still be more expensive than in autumn 2021.
- Market prices in China rose further in October, suggesting that there should be some stronger opportunities for UK and EU exports, but its pork imports have yet to rebound in response, keeping pigmeat on the UK and EU markets.

Farmgate prices - prime pigs



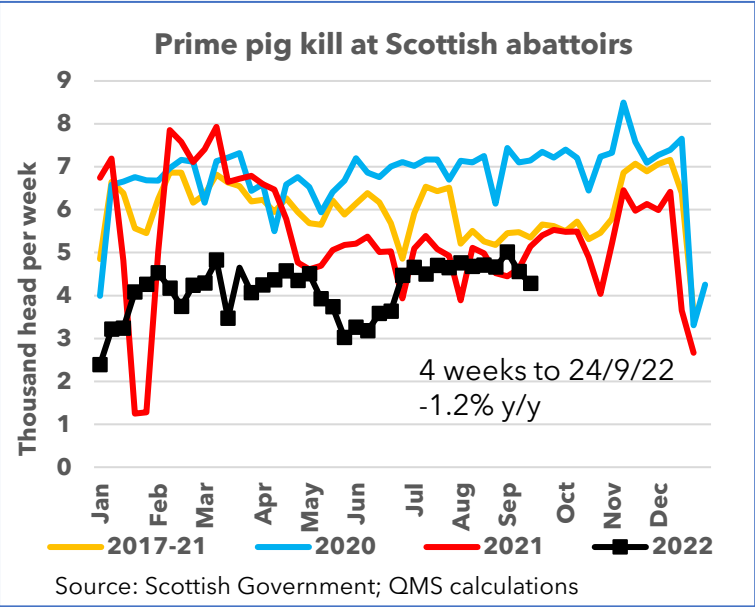
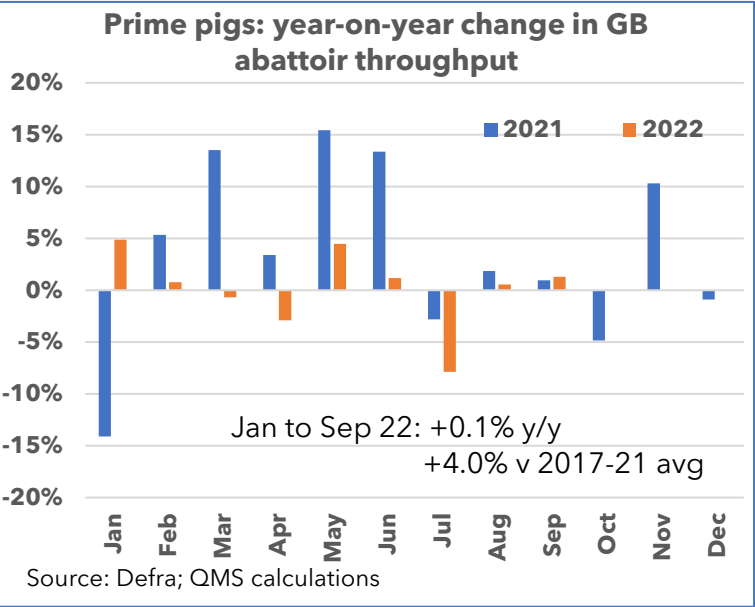
The pig market steadied through October, resulting in increased leads on 2021 and the five-year average given the traditional downwards seasonal trend.

In a sign of reduced disruption, the premium for the overall average pig price (APP) over that of standard pigs (SPP) remained well below the elevated levels of the past two autumns and winters meaning that pigs with specific production characteristics are no longer receiving exceptional premia in the marketplace.



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

Availability and slaughter

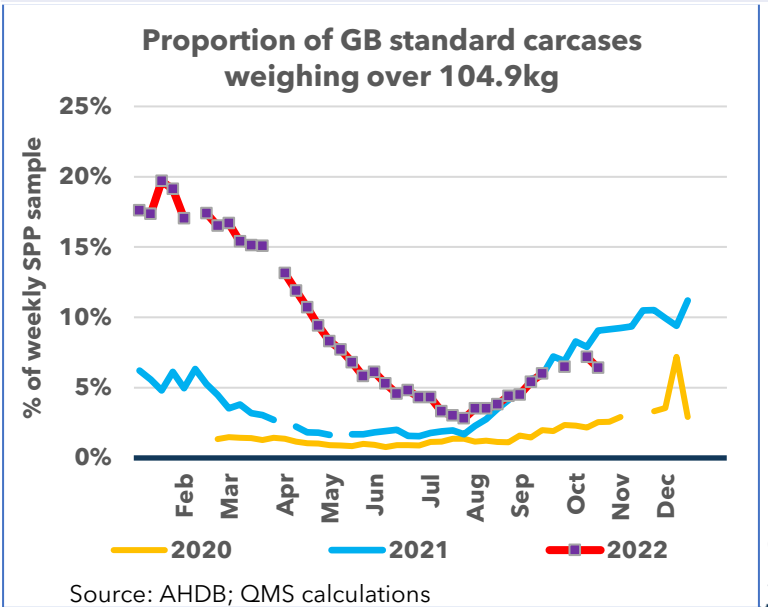
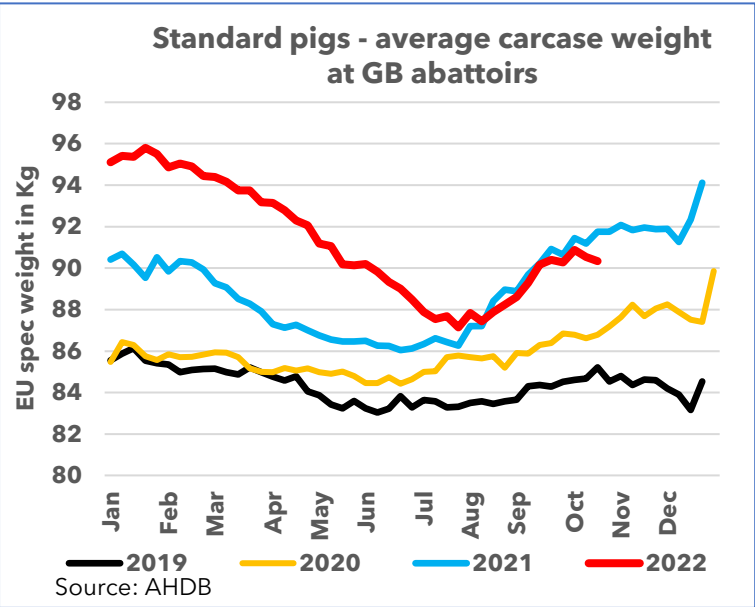
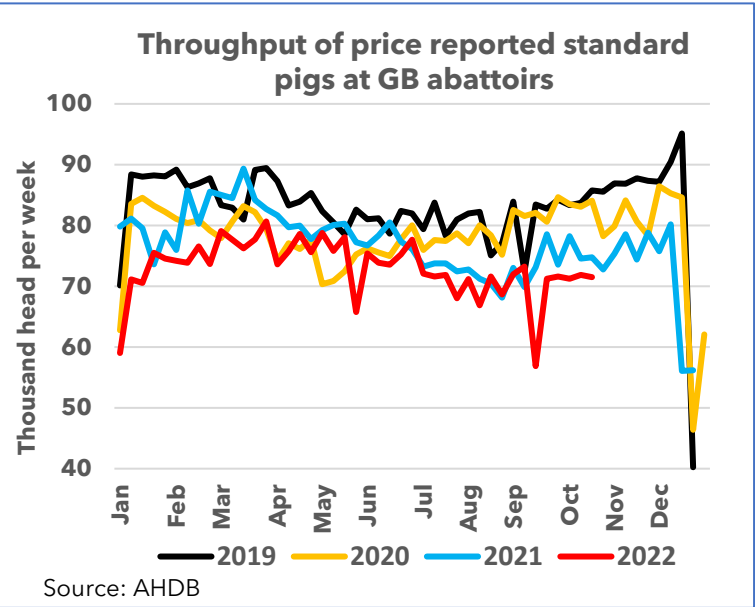


A contraction in the breeding sow herd is expected to be tightening availability across GB but slaughter numbers held up through September. Increased carcass weights through Q3 suggested that a backlog could have been growing but this may have begun to change again in October.

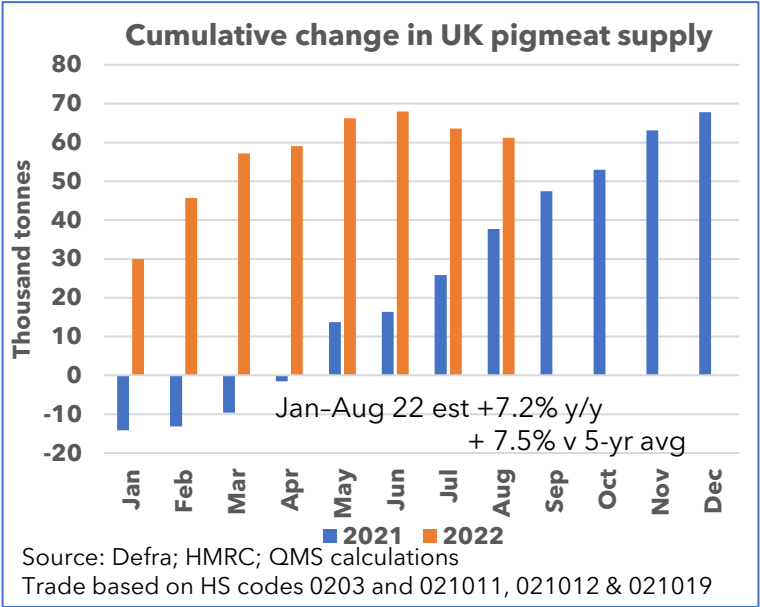
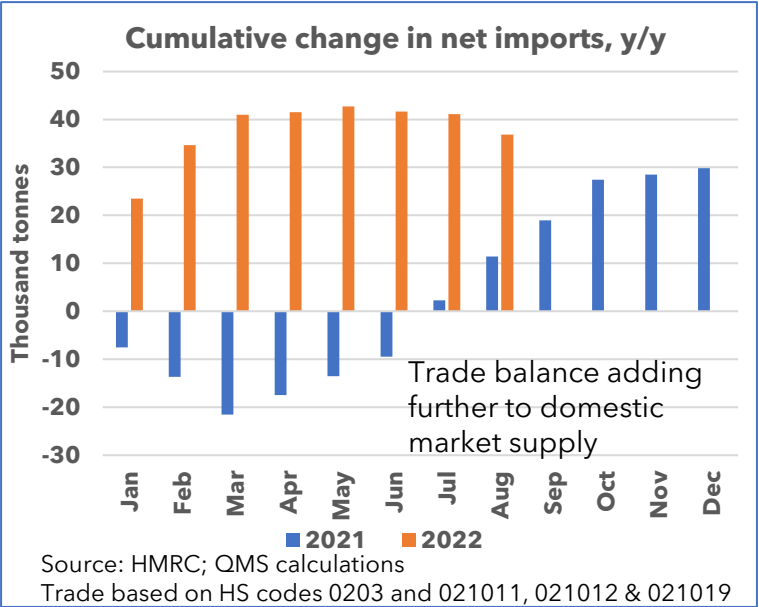
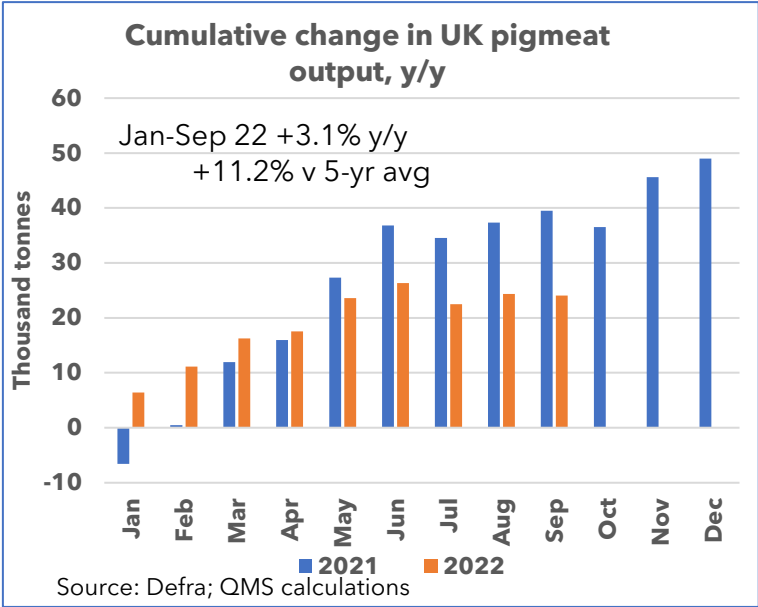
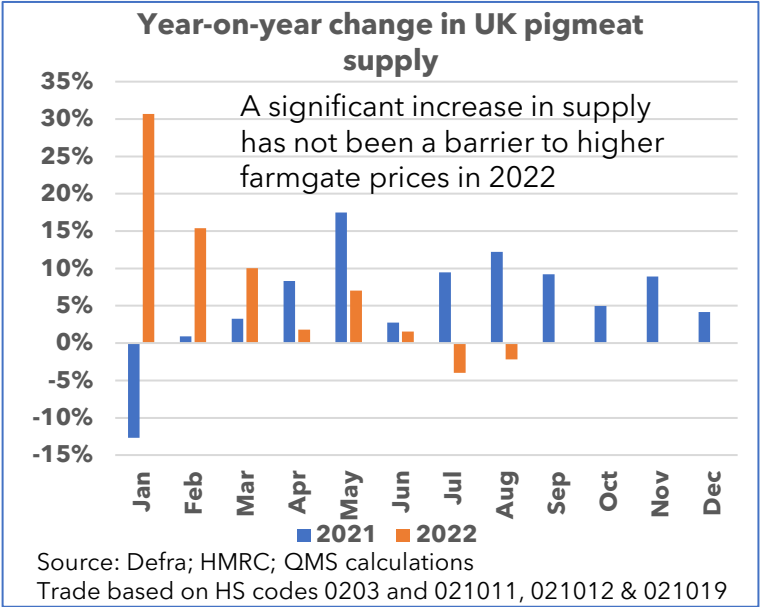
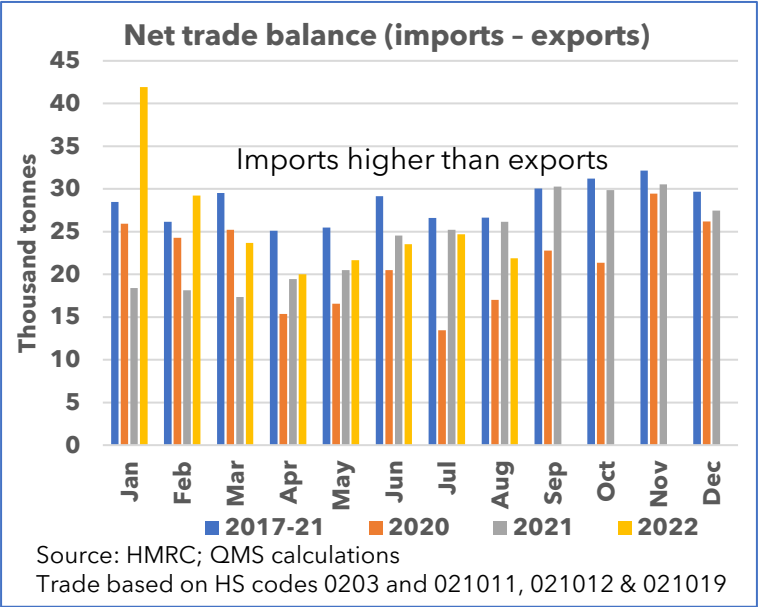
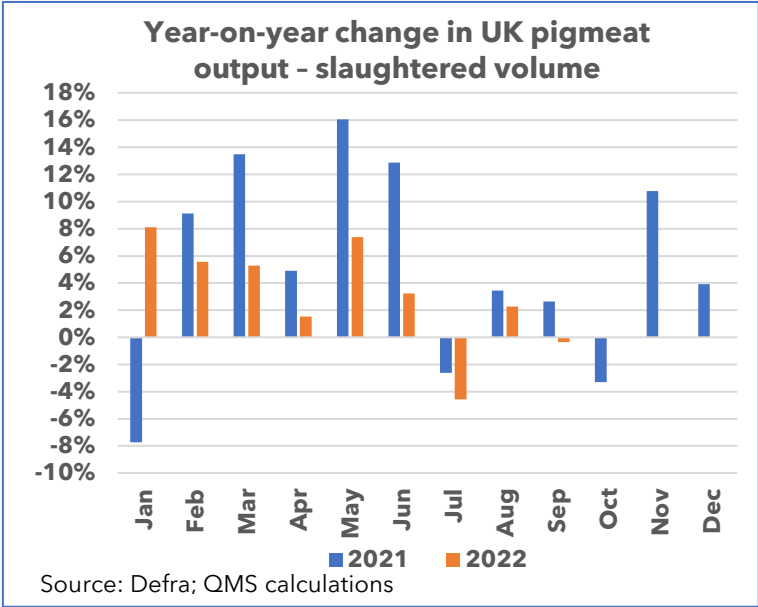
Slaughter at Scottish abattoirs began to steady at its highest level of the year in Q3 but remained well below previous levels.

June Census - England (Note: Scottish results not available)	
Female breeding herd	-16.7% y/y
Fattening pigs	-1.4% y/y

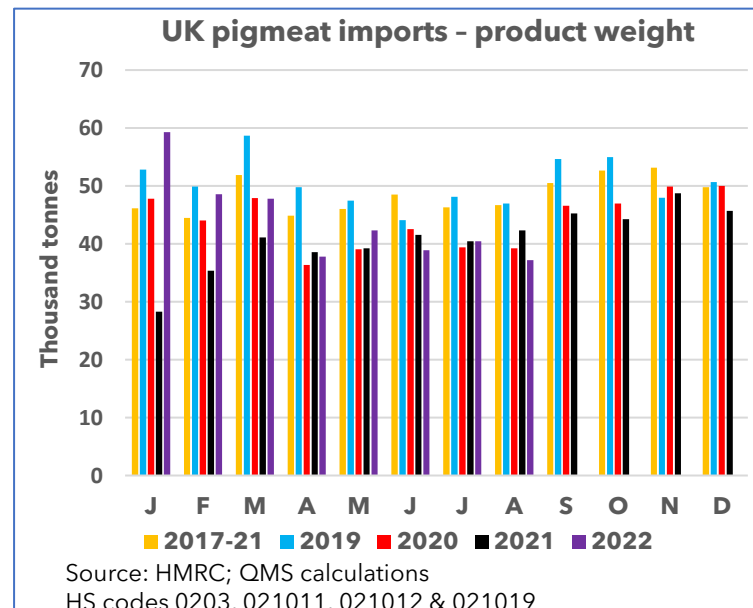
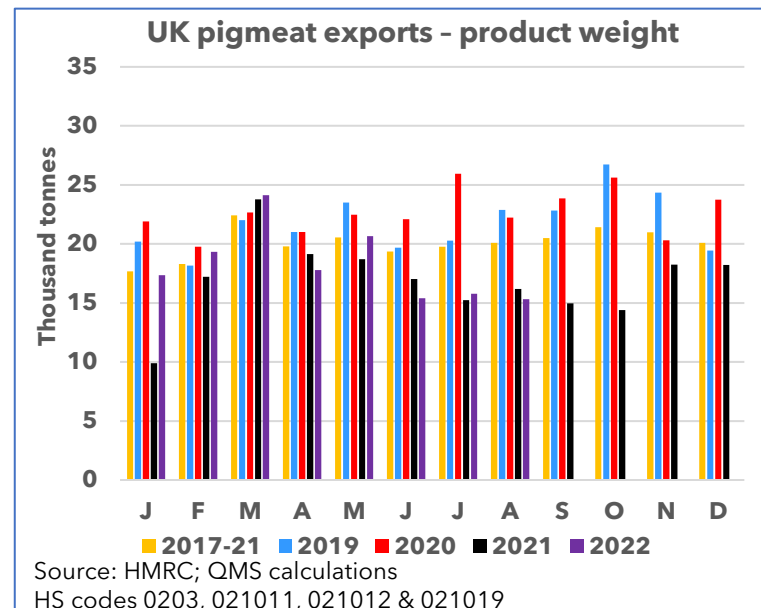
Source: Defra; QMS calculations



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

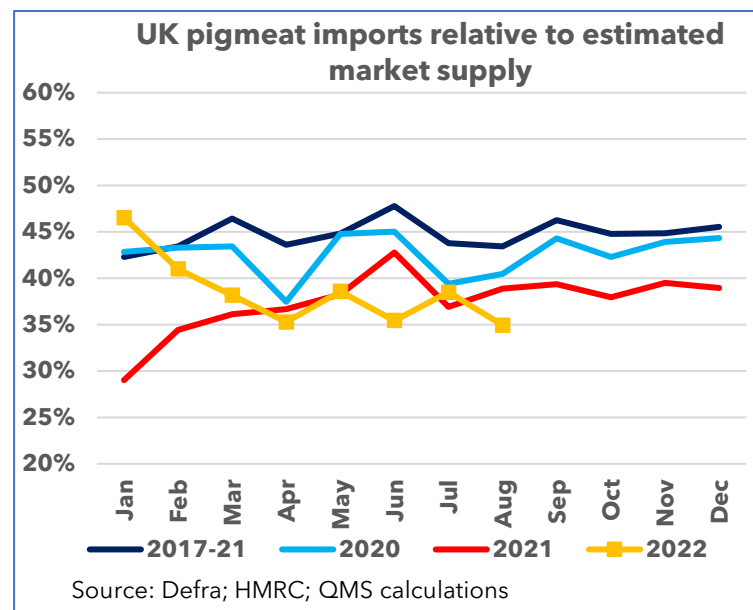
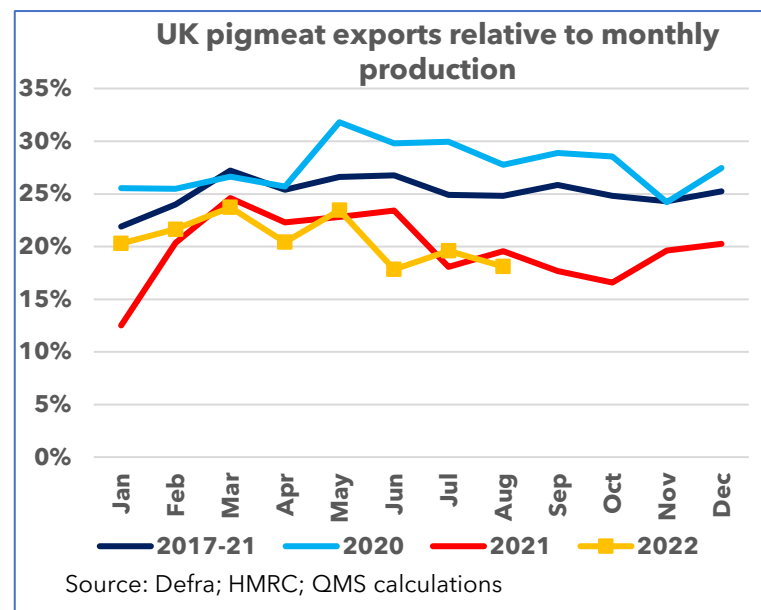


A focus on UK international trade in pigmeat



Rising domestic production and weak export demand have led to reduced import requirements relative to overall market supply but volumes still accounted for 35-40% of the market in summer 2022.

Exports to the EU have rebounded from the lows of 2021 but continue to lag well behind the five-year average despite reduced EU production - though the EU market is less tight than signalled by its fall in production because its exports have also fallen as growth to markets such as the Philippines and Korea has been unable to offset the decline to China.



Despite upwards price momentum in the Chinese market, UK exports to China dipped to their second lowest monthly volume of the year in August and were at a seven-year low for the month. Shipments to China fell by around 40% year-on-year in the first eight months.

Note:

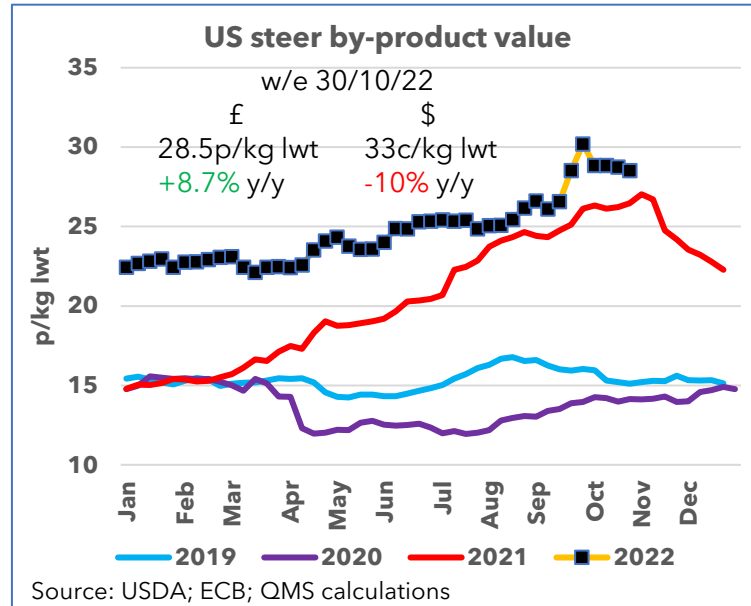
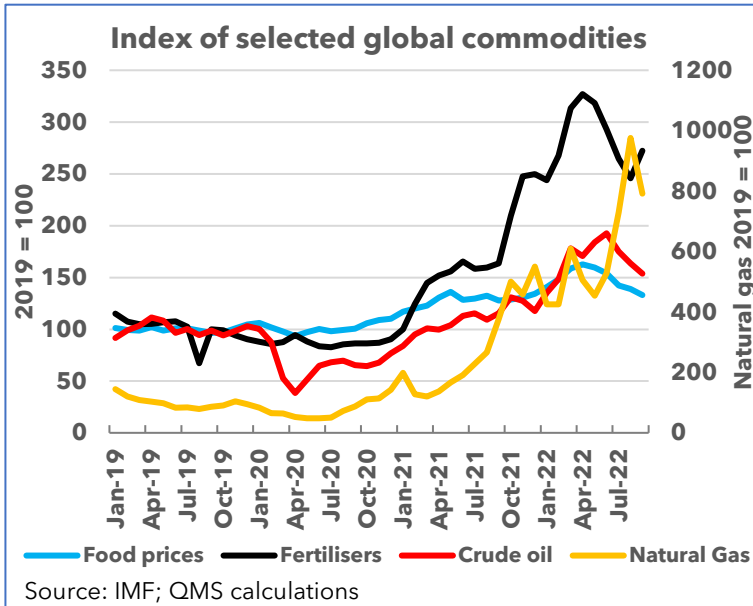
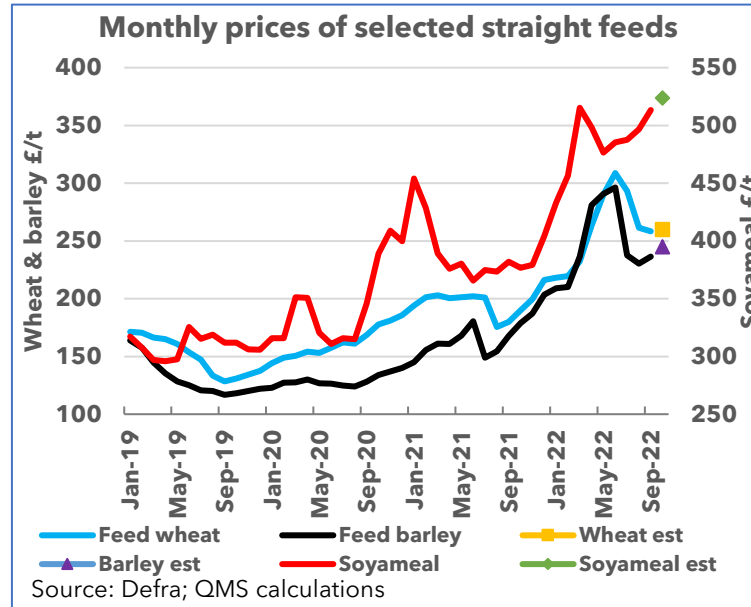
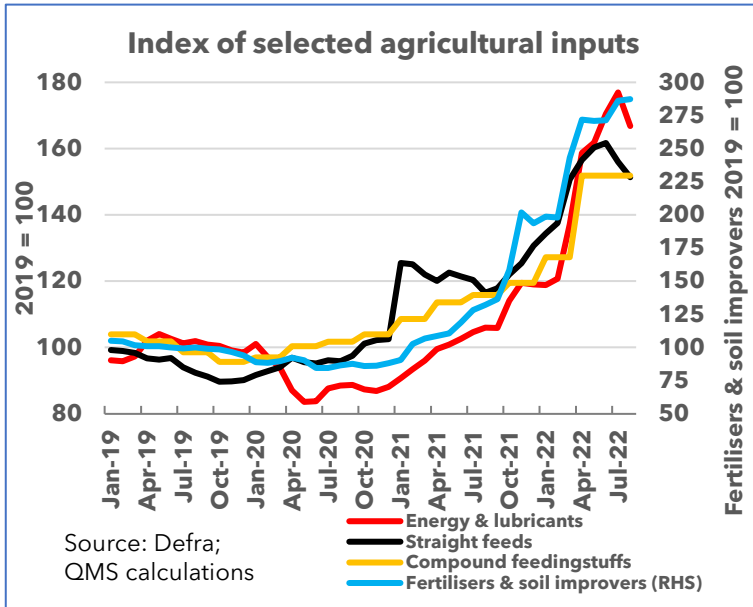
HMRC trade data used here covers HS codes 0203 (fresh or chilled & frozen swine meat) & 021011, 021012 & 021019 (bacon & ham).

Summary of economic developments



- Farmers and processors are having to cope with unusually high levels of input costs and past rises in raw material prices will still be filtering through to end prices, with a strong US dollar underpinning costs.
- Though energy costs have been capped on a price per unit basis, the era of low interest rates is over, raising debt servicing costs significantly across the economy.
- Consumer confidence remains very weak due to concerns about rising energy, food and mortgage costs.
- Strong average earnings growth has continued to support increased retail sales in cash terms, but much higher prices are leading to reductions in purchased volumes.
- The meat retail market is experiencing significant volatility, driven by trading down towards cheaper products.
- UK businesses have started to report a fall in demand but have still been taking on staff to fill gaps in their workforce.

Production costs and by-product revenues



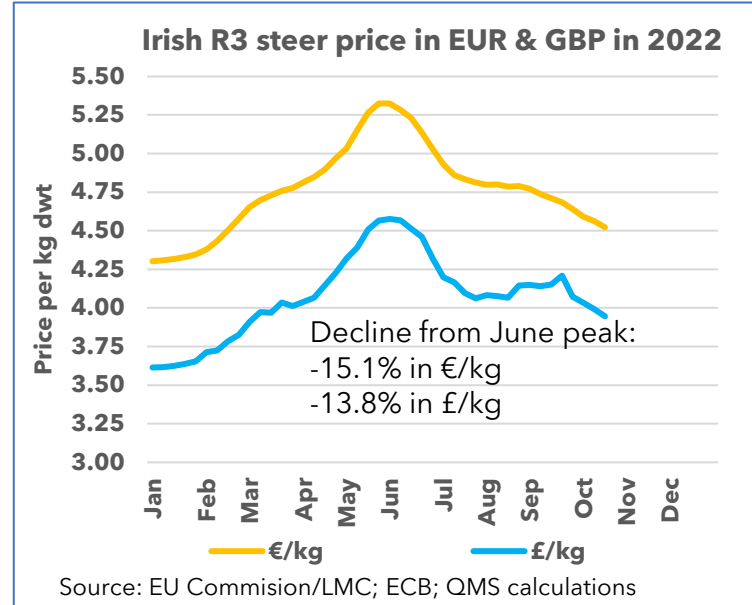
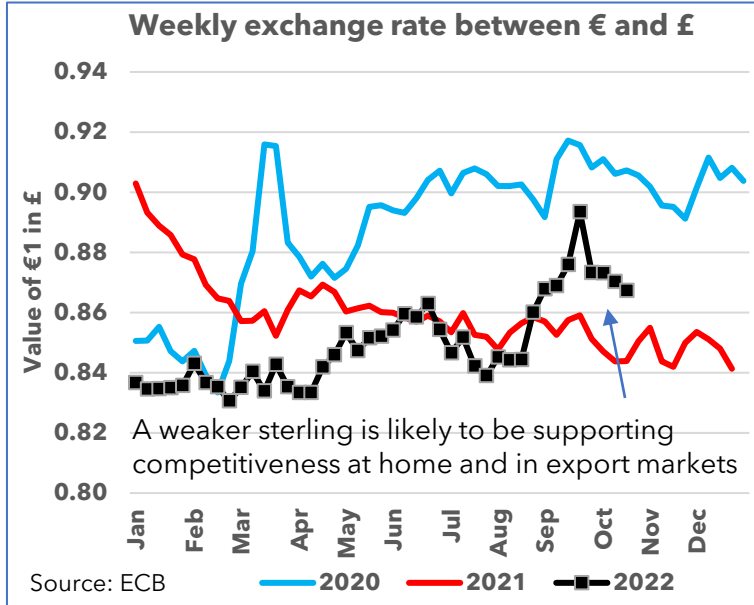
Though some commodities are trading below their peak, levels are still much higher than we have been used to, with consequences for energy bills and the cost and availability of related products such as fertiliser and CO₂. Businesses will face cost rises at a different pace and time due to contract pricing of inputs.

Spot feed prices continue to fluctuate due to news around the extension of the Black Sea grain export deal, weather conditions in South America and currency movements. Year-on-year increases have slowed towards 20% for grain but have passed 40% for soyameal.

Prime cattle carcase weights fell behind year earlier levels in Q3 at Scottish abattoirs, with feed costs likely at play along with grazing conditions.

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 (-40% in USD; -28% in GBP).

Exchange Rate Movements - USD boosted by safe-haven status; the euro is weak but the pound is even weaker and the NZD even weaker again

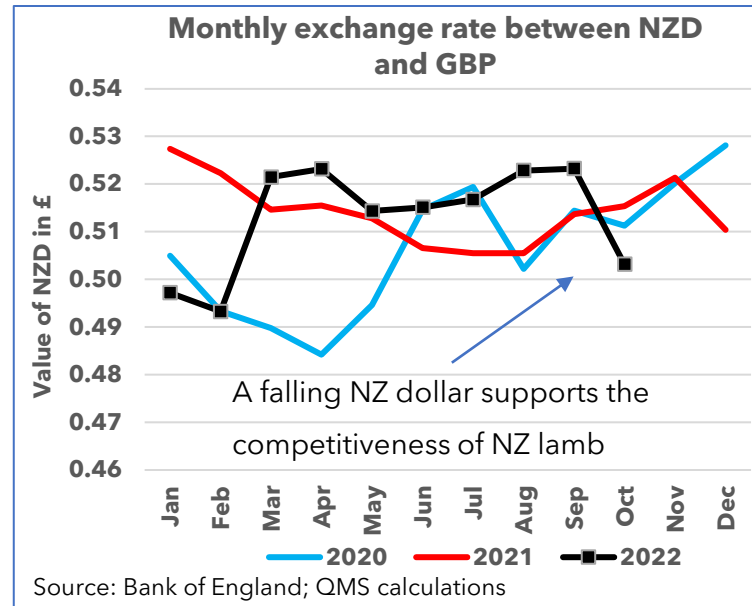
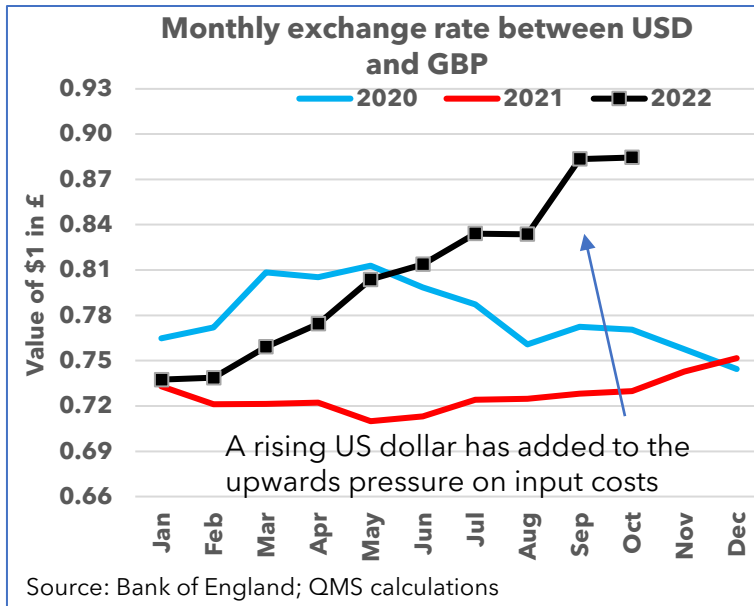


Sterling weakness has slightly softened the seasonal fall in Irish prices since June.

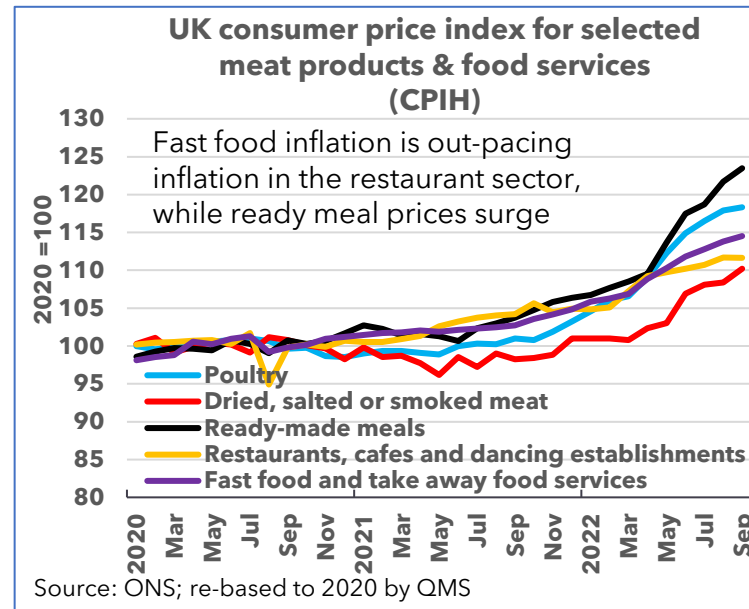
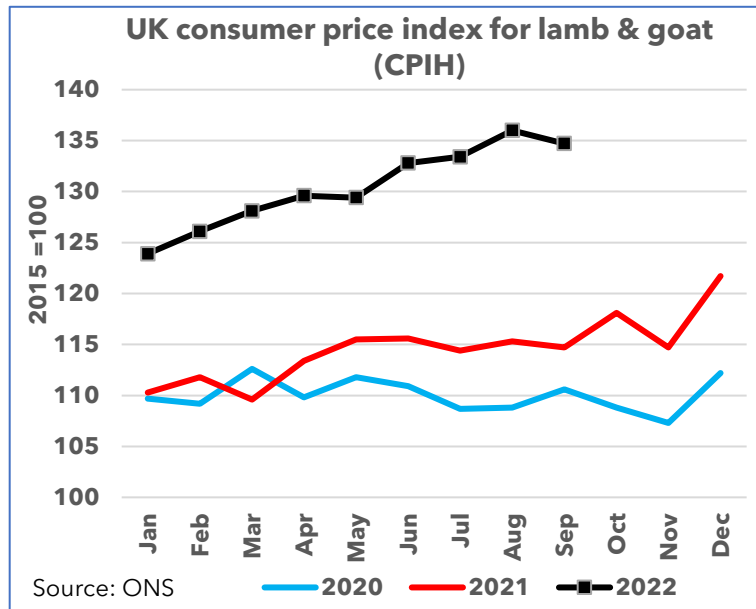
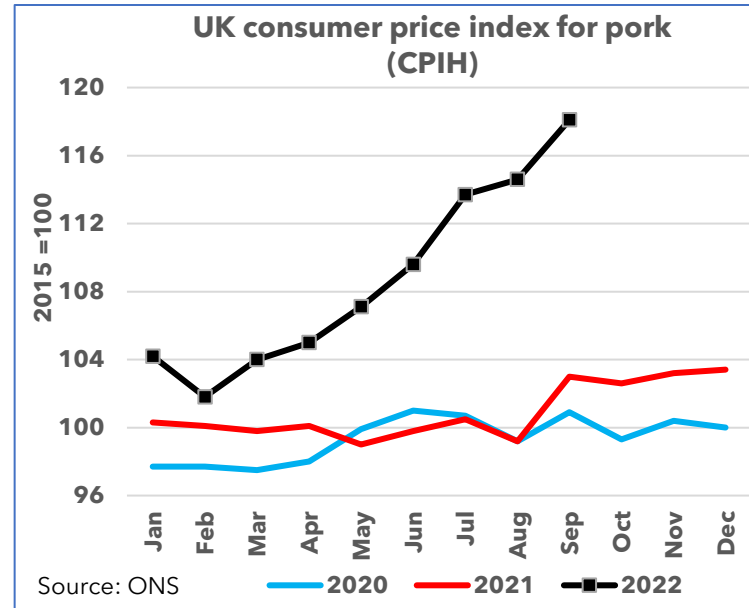
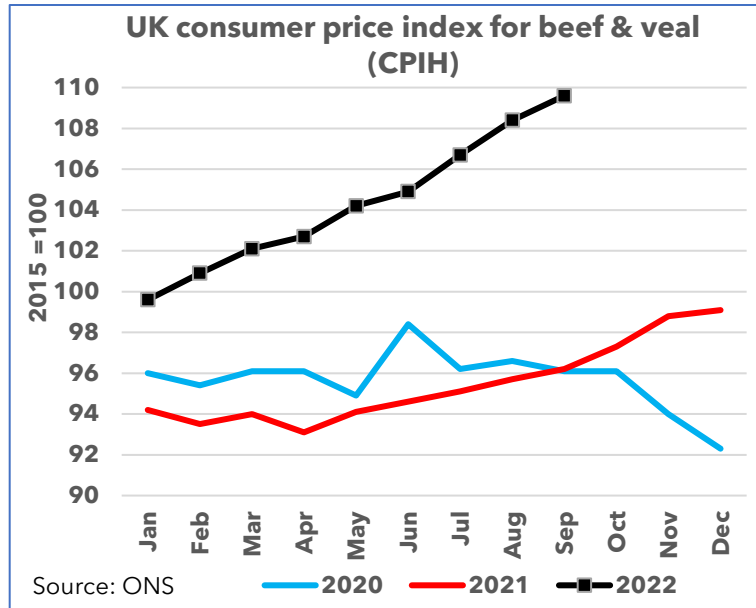
The US dollar continues to receive support from the US position as a safe-haven for investment, added to by a path of rising interest rates due to the country's tight labour market.

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

An unchanged export price of \$5,000/t would have returned £3,650 in October 2021 but £4,420 in October 2022 (+21%).



Retail demand and prices



Retail demand remained under pressure during the third quarter, with some of this likely to have been driven by increased overseas travel and less hesitancy to dine out than in 2021.

Nevertheless, falling real incomes and significant meat retail price inflation are likely to have been the main drivers.

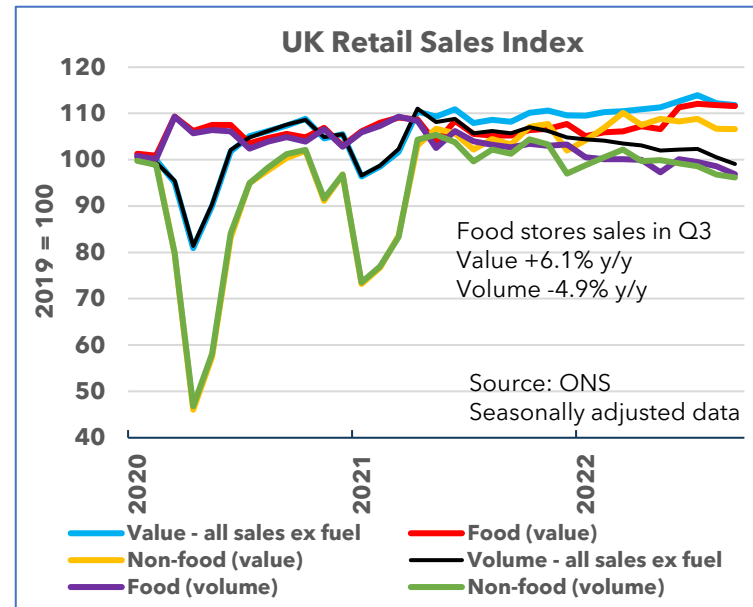
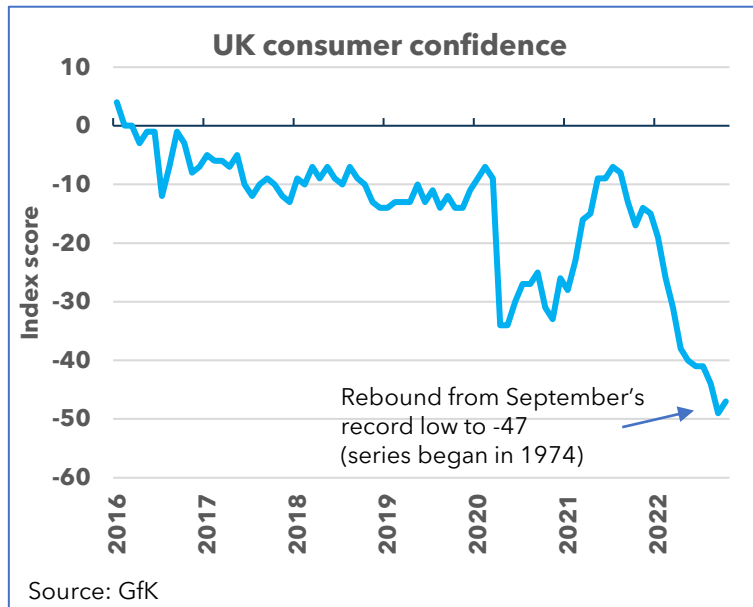
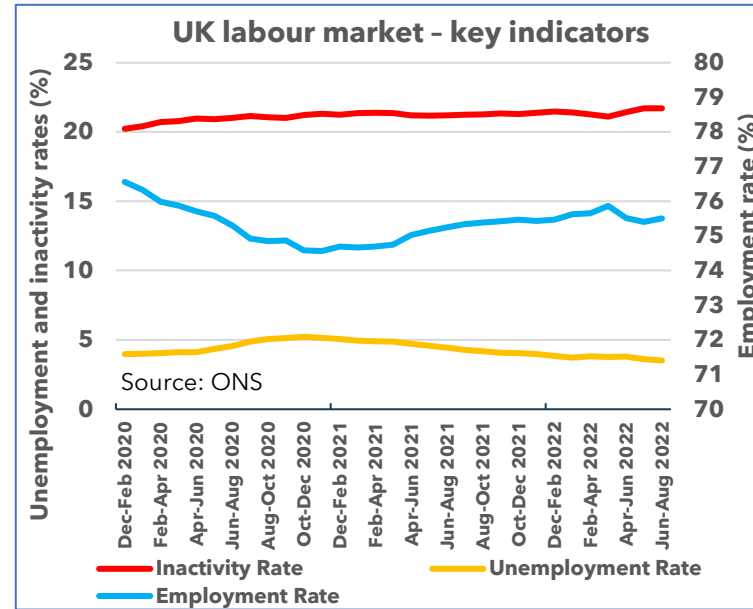
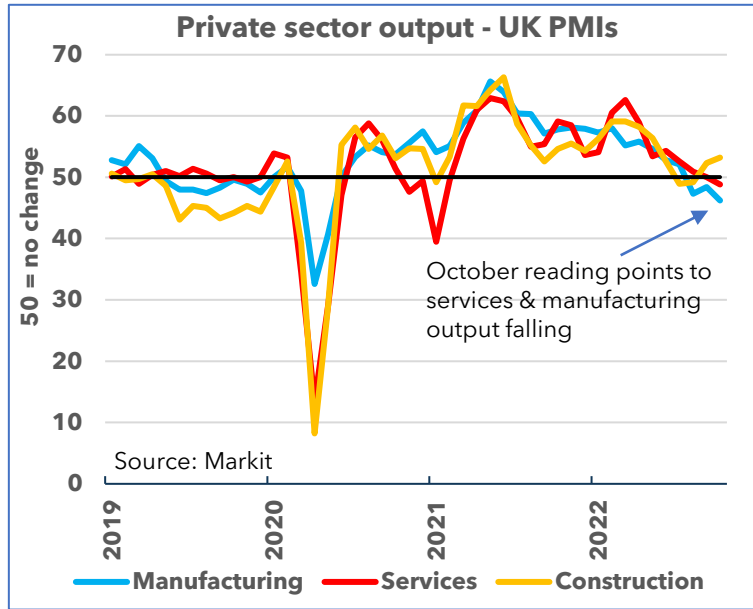
Within product categories, there has been a shift in spend towards cheaper cuts, such as beef mince.

Y/Y Change in GB retail sales reported by Kantar in 12 weeks to 2/10/22

	Value	Volume	Avg price per kilo
Fresh beef	-1.5%	-10.6%	+10.1%
Fresh lamb	-18.8%	-26.0%	+9.7%
Fresh pork	+3.8%	-4.3%	+8.5%
Fresh poultry	+10.4%	-4.3%	+15.4%
Total market	+4.1%	-4.4%	+9.0%

Source: Kantar

Economic indicators



With wage growth averaging around 7% in the private sector and 2.5% in the public sector this year, household spending power is under pressure with inflation approaching 9%. While UK Government policy is capping per unit energy costs, these prices are still at unusually high levels, with electricity already up 54% year-on-year in September, and gas by 96%. Fuel prices are off their peak but remain elevated while the upwards trend in food prices has shown no signs of slowing, up almost 15% on September 2021.

Sharply higher interest rates will also be raising the cost of variable mortgages and fixed rates on renewal, while raising the cost of capital for firms.

Retail sales continue to look strong in value but weak in volumes due to high inflation.

PMI survey results are now pointing to a decline in demand in both manufacturing and services sectors, driven by economic and political uncertainty, although firms continued to add to staffing levels as labour shortages still exist.

