

## **MARKET REPORT - January 2020**

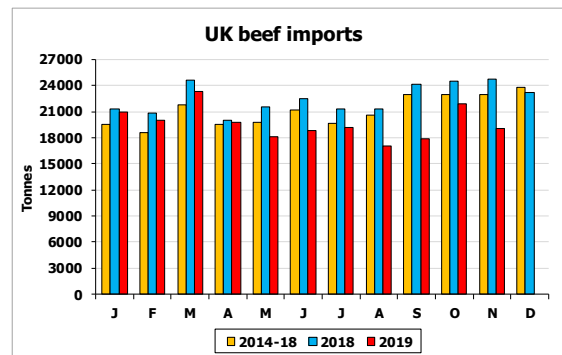
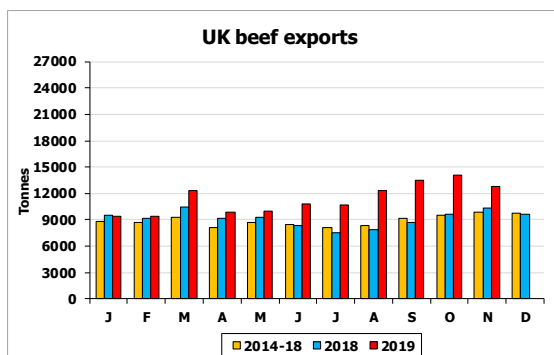
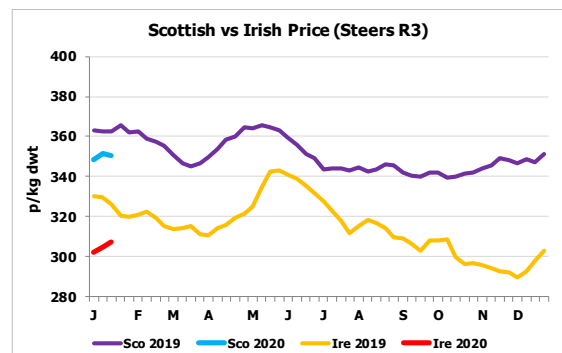
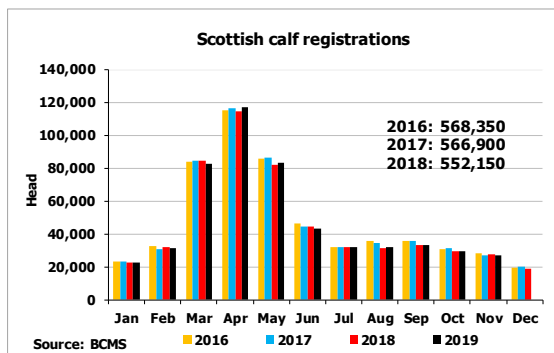
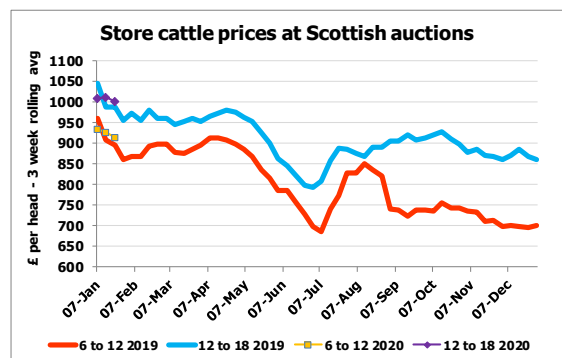
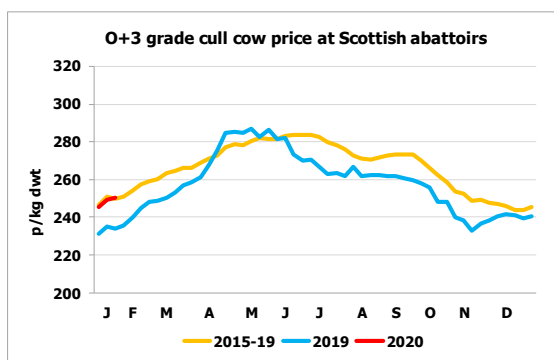
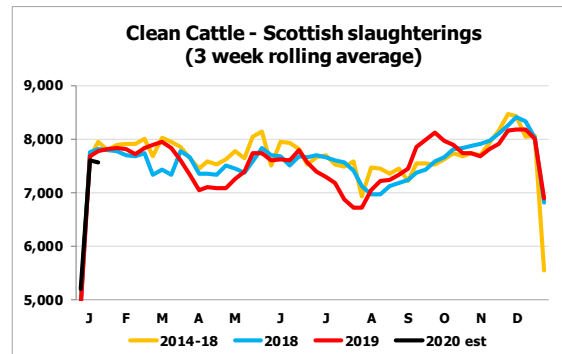
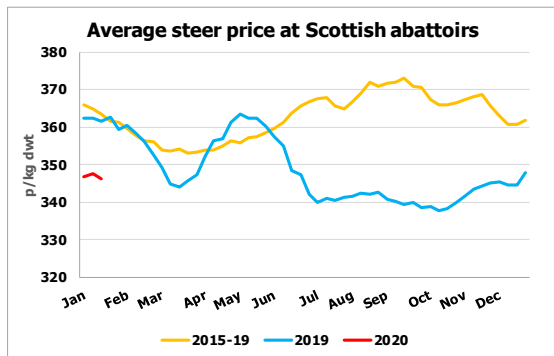


### ***Cattle Update***

- Prime cattle prices have opened 2020 averaging around 346p/kg, up from their 343-344p range in the six weeks before Christmas. R4L steers have pushed towards 351p/kg, having held at around 349p/kg in the run up to Christmas.
- Early 2020-stability has led to a further narrowing of the year-on-year price decline. At -4.3% in the third week of January, it compares with -5.2% in the third week of December. R4L steers were down 4.1%, compared to -5.5% pre-Christmas.
- Having steadied in December, seasonal demand has seen cull cow prices trend higher in January. O+3 grade cows sold for 250.5p/kg in the third week of January, up 11p (4.6%) on the month. Having moved in front of year earlier levels in December, the gap had widened to 7% for the O+3 grade by the week ending January 18<sup>th</sup>.
- Scottish prime cattle prices averaged 6.2% above England & Wales levels in the third week of January. Though down from its seasonal peak last autumn, this premium has remained well above year earlier levels (4.6%). Meanwhile, the R4L steer price premium for Scotland over E&W has continued to range from 10-13p (3-4%), it did drop to the lower end of this range in the week ending January 18<sup>th</sup>. After a brief period of relative strength between mid-October and the year-end, -U4L steers have dropped back below R4L grade steers by around 1.2p/kg in early 2020.
- Weekly prime cattle slaughter at price reporting abattoirs has averaged 0.8% below its six weeks pre-Christmas level in the first two full processing weeks of the year. Despite cattle population data pointing to a tightening in availability, slaughter numbers have exceeded year earlier levels in the first three weeks of 2020. As well as early marketing, this could also reflect a slightly higher proportion of the kill going through the large price reporting plants.
- Prime slaughter reached its 2019 peak in the final week of November at Scottish abattoirs. The first half of December then saw the fourth and fifth highest weekly totals of the year. During the month as a whole, slaughter trailed year earlier levels by 0.4% with a rise of 2.5% in steers more than offset by a 1.6% reduction in heifers and an 18.8% decline for young bulls. Carcase weights averaged 2kg higher than in November, pushing them 0.1% in front of year earlier levels at 364.1kg.
- During 2019, prime slaughter at Scottish abattoirs fell 0.4% from 2018 to total 389,300 head. However, a 0.9% lift in carcase weights meant prime beef output rose 0.5%.
- Scottish abattoirs saw their mature cattle kill rebound into year-on-year growth in December, exceeding late 2018 levels by 5.2%. This compares with an annual decline of 12.5%. This reduction saw numbers drop to 60,000 head in 2019; a five-year low.
- Defra has reported that weekly average UK prime cattle slaughter fell by 0.6% on a year earlier in December. However, the mature cattle kill rose by 2.4% - the fourth month in five to show expansion.
- In 2019 as a whole, UK slaughter rose by 0.8% for prime cattle but decreased by 1.4% for mature cattle, with carcase weights rising by 1.2% and 2.8% respectively.

- Scottish abattoirs handled 19.4% of the UK prime kill in 2019 and 8.8% of the mature kill. These were below their respective 2014-18 averages of 20.2% and 10.2%.
- After a 2.6% fall in Scottish calf registrations in 2018, numbers have stabilised in the first eleven months of 2019, driven by a 0.8% lift in beef-sired registrations. At GB level, registrations declined by another 0.8%, having fallen 1.8% in 2018.
- Store cattle prices have opened 2020 on a firm footing, averaging £908 for 6-12-month steers and £997 for 12-18-month steers, placing them around 3% dearer than in early 2019. Numbers were down however, by 5.7% across the two categories.
- During 2019, younger steers averaged 62.2% of the steer carcase price (£1,343) with 12-18-month steers trading at 68.9% of it – the highest since 2015 and 2016 respectively. On average, a steer carcase was worth £102 (7%) less than in 2018.
- GB retail sales data from Kantar indicates a continuing challenge for beef sales in the final quarter of 2019. There was a 3.9% lower spend than in the previous year; though a 2.5% reduction in the average retail price meant sales volumes fell by a slower 1.4% in the twelve weeks to December 29<sup>th</sup>. Weak demand for roasts continued to drive the overall decline and mince sales dropped in line with the average having held up better earlier in 2019.
- UK trade figures for November 2019 showed continued considerable decline in imports and expansion of exports compared to a year earlier, with the former up 23% and latter down 23%. Export growth was once again underpinned by non-EU countries.
- In the January to November period, net imports fell 55,600 tonnes (38%) from 2018, more than offsetting a 15,200t expansion in UK beef production. This suggests that the level of inventory built up in 2018 may have reduced, and this may have supported the slight price lift in the final quarter of 2019.
- Despite Irish abattoirs reporting increased slaughter compared to a year earlier in late 2019 as processors worked through the backlog of cattle built up during the protests of August and September, imports to the UK continued to decline into November, down 16% on a year earlier. Meanwhile UK exports to Ireland rose by 5.5%.
- Irish abattoirs have processed fewer prime cattle in the early weeks of 2020 than at the beginning of 2019, suggesting that the previous backlog has cleared and slaughter is now reflecting the tightening of supply indicated by the June census.
- After almost four months of little movement, Irish prime cattle prices began to pick up in the second week of December and have trended higher since. This pressure has seen an R3 grade steer rise by 5.3% in six weeks to reach a 28-week high of €3.60/kg dwt (308p/kg) in the third week of 2020. Given a steady market over the same period a year ago, the year-on-year deficit has narrowed from 6.7% to 2.2%.
- Having doubled to 20% during the autumn, the Scottish premium over Ireland for R3 grade steers has narrowed to 14% in January. In part, there may have been a delayed reaction in Irish prices to the rise in sterling which had boosted their competitiveness considerably through the autumn, but tighter supply in early 2020 is also likely to have factored.

# Cattle Charts

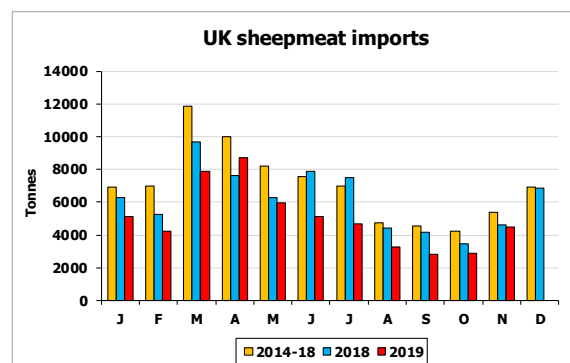
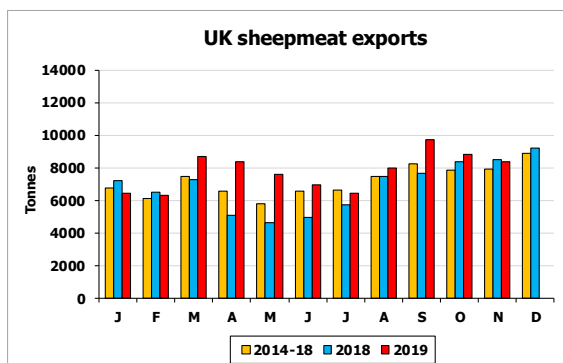
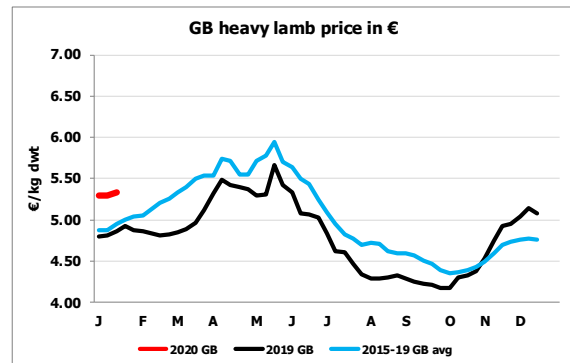
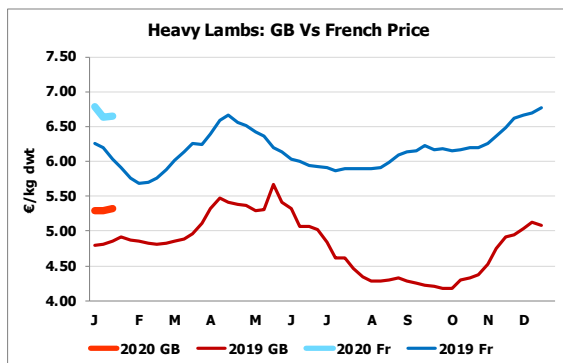
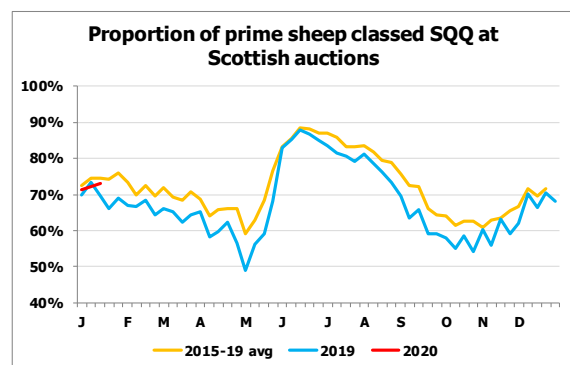
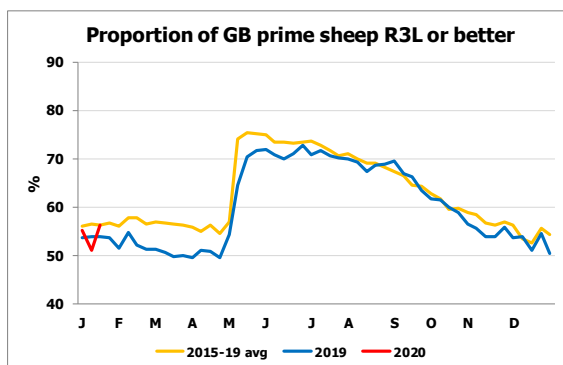
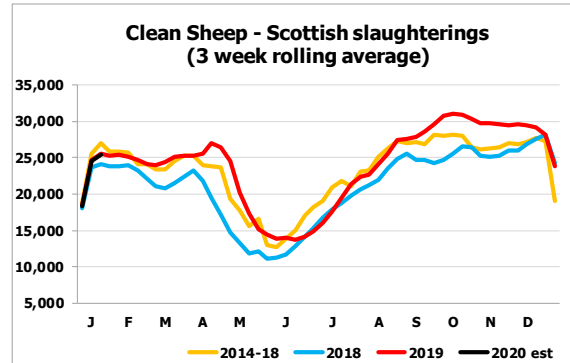
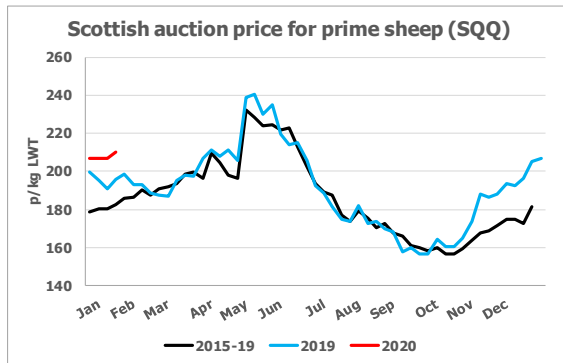


## ***Sheep Update***

- Prices paid by price reporting GB abattoirs for Standard Quality Quotation (SQQ – 12-21.5kg dwt) prime sheep have continued to trend higher into the New Year, climbing from 430p/kg in the week before Christmas, to 450p/kg in early January and then 455p/kg in the week to January 18<sup>th</sup>; a month-on-month lift of 5.8%. Medium R3L grade hoggs averaged 457p/kg. Prices have been running 4-6% ahead of year earlier levels since mid-November.
- SQQ prime sheep volumes going through price reporting abattoirs have opened 2020 a quarter below autumn levels, averaging 47,400 head in the first two full processing weeks of the year down from 63,800 in the September to mid-December period.
- Prime sheep prices at Scottish auctions have been trading above £2 a kilo in January for the first time since 2012. They averaged 207p/kg in the first half of the month before lifting to 210p/kg in the third week. This works out at an increase of around 10% on their mid-November to mid-December average and a year-on-year lift of 7%.
- In the New Year, Scottish auction marketings have returned to their August to October range of 17-20,000 per week. Though well below the 22-26,500 head sold during the five weeks to December 11, they have been around a fifth higher than year earlier levels. At GB auctions, volumes have kicked off 2020 slightly in front of 2019 levels.
- At GB price reporting abattoirs, carcase quality has begun 2020 at a slightly higher level than it finished 2019. 54.1% of SQQ carcasses graded at R3L or better in the three weeks to January 18<sup>th</sup>, up from 52.8% in December; and 53.9% a year earlier.
- At Scottish auctions, the proportion of lambs within the SQQ weight range of 25.5-45.5kg lwt has continued to rise seasonally into the New Year, reaching a five-month high of 73%. The proportion within the weight range has generally exceeded year earlier levels since November; though it has still fallen short of its longer-term average.
- Although sterling has dipped back from its post-election bounce, it is likely to be acting as a headwind to UK export margins. A euro has bought around 85p in January compared to 2019's 88p average, an August peak of 93p and December's 83p trough.
- Defra has reported a year-on-year decline in prime sheep slaughter at UK abattoirs of 0.7% in December. However, heavier carcase weights meant that this converted into a 0.8% lift in prime sheepmeat output. The ewe kill rebounded and grew relative to a year earlier for the fifth time in six months, up 1%.
- Between June and December, UK prime slaughter rose 2.3%, compared to an estimated 0.3% lift in the June lamb crop, pointing towards a smaller hogg carryover.
- UK prime sheep slaughter totalled 13.15m head in 2019 – the third highest of the decade and an increase of 2.6% on 2018. Cull sheep slaughter rose 6% to 1.7m head.
- After recovering to a six-week high at the end of November, Scottish abattoir lamb throughput dropped back to its lowest levels since the first half of September during December. Having remained above year earlier levels in the first half of December (+2%), slaughter fell behind 2018 by enough in the second half of the month (-4%) to lower the monthly kill by 0.5% from twelve months before to 100,200 head.

- In contrast to late 2018, lamb carcase weights rose 0.1kg (0.6%) between November and December at Scottish abattoirs. This meant they recorded a season-to-date high of 20.4kg, but also that carcasses remained lighter than a year earlier, down 0.2kg. Carcase weights were a kilo above the UK average.
- In 2019 as a whole, the prime sheep kill at Scottish abattoirs jumped by 13.4% to a four-year high of 1.25m head. Carcase weights rose by 0.8% to 20.4kg, pushing lamb output 14.3% higher. Throughput accounted for 9.5% of the UK total, putting it slightly ahead of the five-year average of 9.3%. Only 20,100 ewes were processed by Scottish abattoirs. This was 1.2% of the UK total, matching the 2014-18 average.
- Retail sales data from Kantar indicates that GB household spending on fresh and frozen lamb proved weak in the latter part of 2018, declining by 4% on a year earlier in the 12 weeks to December 29<sup>th</sup>. With lamb remaining just over 1% dearer than a year earlier, volume sales fell at a faster rate of 5.2%. A polarised picture has been reported with lamb legs roasts, steaks and stewing cuts driving the decline whereas shoulder roasts and lamb mince showed some growth.
- Provisional November data indicates that UK sheepmeat exports fell 1.9% short of year earlier levels after eight months of growth. However, they were still 5.9% above their five-year average for the month. Trade with the EU reportedly fell slightly; although in October it was revised to show marginal growth.
- Sheepmeat imports to the UK picked up seasonally to their highest level since July in November. They remained below year earlier levels, although the gap did narrow to 3.5%. The volume imported from NZ fell 5.2% on last year, compared to a year-to-date decline of 24.5%, but imports from Australia rose for a second month, up 12.3%.
- Beef + Lamb NZ have revised their forecast for the 2019/20 NZ lamb crop, estimating a 2.4% reduction on the previous year. Due to record farmgate prices at the beginning of the season (October 2019 to September 2020), the export lamb slaughter is forecast to decline 2.7% as more gimmers are set to be retained. The ewe flock fell by another 1.1%, as higher cull prices drew out stock at the lower end of the performance range, and the national lambing percentage was 1.5 points lower at 127.1%.
- NZ slaughter was up 2% year-on-year in November but remained low relative to the longer-term average. Meanwhile, NZ exports to the EU were down more than a third on a year earlier, and almost half on the five-year average, in December, reflecting a shift in trade towards the booming Chinese market.
- The French lamb market had a firm end to 2019, with farmgate prices trending higher through November and December. Peaking at €6.78/kg in the final week of the year, the market exceeded its pre-Easter high and showed a year-on-year increase of 7.1%. Although prices have cooled back from their recent high, they were still up 10.3% on a year earlier in the third week of January, clearing at €6.65/kg (£5.69/kg) dwt. Spanish light lamb prices have similarly taken a seasonal slide into the New Year, but remain well above year earlier levels, running 7.9% higher at €6.41/kg (£5.49/kg).
- Irish lamb prices rose in the run-up to Christmas and have trended higher into the New Year, averaging €4.80/kg (£4.11/kg) in the third week of January. However, this was only a fraction higher than last year.

# Sheep Charts



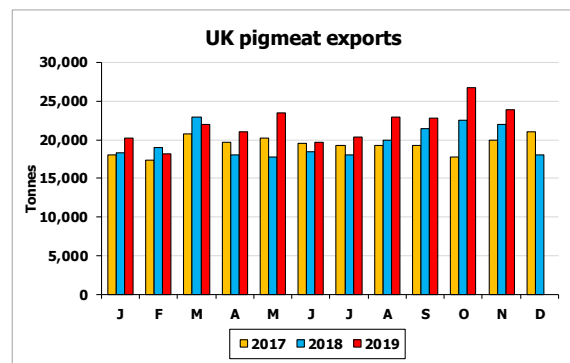
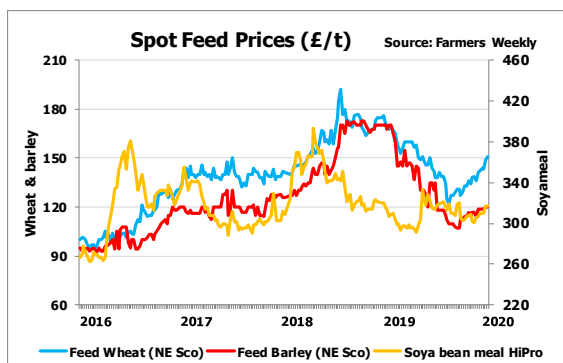
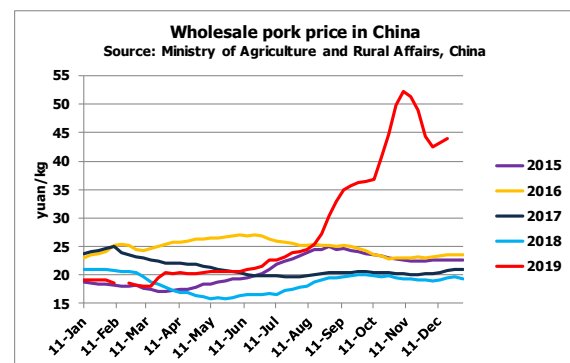
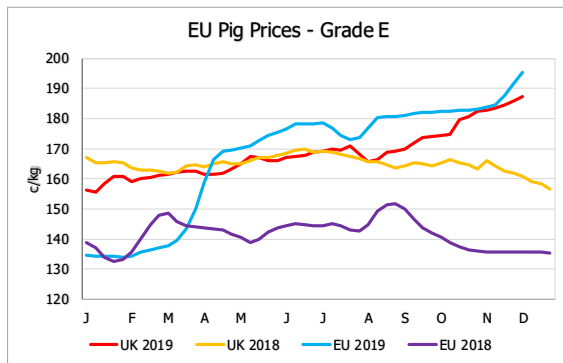
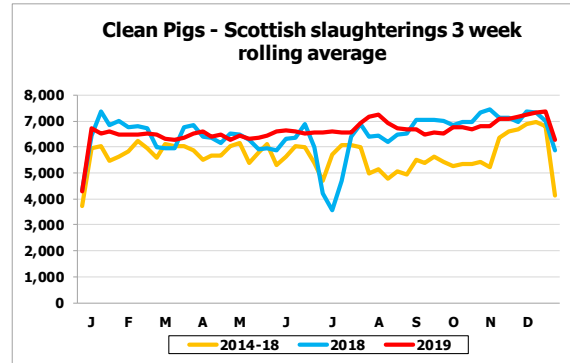
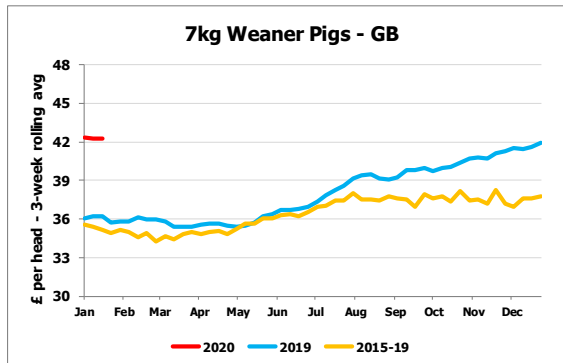
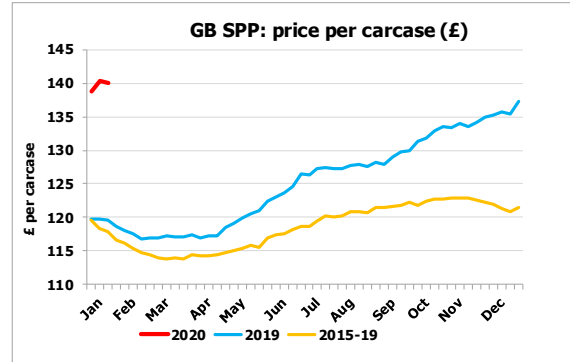
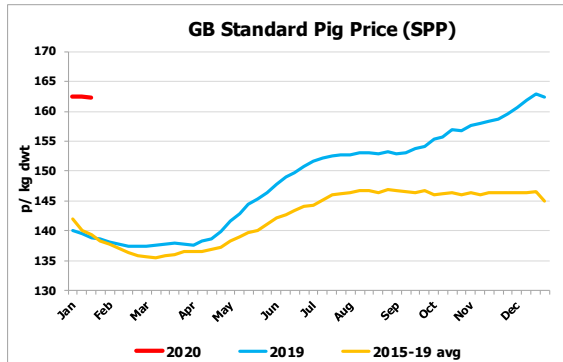
## ***Pigs Update***

- Prime pig prices have stabilised between mid-December and mid-January following the strong upwards momentum through the autumn and into winter. While the GB Standard Pig Price (SPP) has slipped 0.6p from a high of 162.9p/kg, prices in the 70-99.9kg carcass weight range have been stable at around 163.8p/kg.
- Strong demand from China has prevented a traditional seasonal decline in the early weeks of the New Year, pushing prices further in front of historical averages. Compared to a year earlier prices were up 17% in the week to January 18<sup>th</sup>.
- In early 2020, weekly slaughter at GB price reporting abattoirs has dropped back to levels last seen in October. In the first two full processing weeks of the year an average of 84,050 prime pigs were handled, down from an average of around 87,000 through November and a peak at 95,150 in the third week of December.
- Carcass weights dipped sharply pre-Christmas as pigs were marketed early, but have since risen strongly into the New Year as marketing schedules re-adjusted. In the third week of January, the average carcass at reporting abattoirs dipped slightly to 86.3kg but was still more than 3kg above its December low. Compared to a year earlier it was up marginally.
- The evolution of carcass weights through December and January has seen the average price per carcass continue to trend higher while the per kilo price has stagnated. Carcasses have exceeded £140 in the second and third weeks of January, making them around £4.50 dearer on the month. On the year, they were up 17.2%.
- UK abattoir slaughter ended 2019 with a fourth successive month of year-on-year growth, running 11.8% higher in December. Sow slaughter was also strong, up 15% on the year. During 2019 as a whole, prime slaughter rose 2% to 10.89m head; a 19-year high. However, sow numbers were down 5.5%.
- Scottish abattoirs processed 4% more prime pigs than a year earlier in December. The first three weeks of the month saw processing numbers near their annual peak, averaging 7,365 head. During 2019, slaughter climbed 2.7% to a seven-year high of 342,300 head. This was 3.1% of the UK total, up from a five-year average of 2.8%. Sow slaughter jumped again, reaching 15,100 head; 6.2% of the UK total.
- 7kg weaner values have steadied in the early weeks of 2020 having trended slowly but steadily higher between September 2019 and the year-end. At an average of £42.25, prices were 17% above year earlier levels and 30.2% of the final SPP carcass price. This proportion has dipped back a little in early 2020.
- Home market demand closed 2019 in a weak position with GB pork sales reported to have fallen by 7.8% year-on-year in the final 12 weeks. A small average price increase meant that volumes fell 8.6%, reflecting less promotional activity. Pork mince was one bright spot, with demand improving.
- In contrast to the fresh pork market, processed products performed better in late 2019. According to Kantar, spend on sliced cooked meats and bacon rose by 1.2-1.3% while sausage sales rose 5.4%. However, average selling prices were significantly higher, meaning only sausages saw slight volume growth.

- After some growth early this year, UK pigmeat imports have fallen sharply and were down more than a fifth in November. Exports have been strong since April and were up 8.8% year-on-year in November.
- UK pork exports to China/Hong Kong edged up further in November after surging to a year-to-date high in October, lifting to 11,150t. This was 49.9% of the monthly export total, compared to 27.9% in November 2018 and 35.3% in the first 11 months of 2019. Whereas exports to China/Hong Kong more than doubled relative to last year in November, sales to all other destinations actually declined 21.2%.
- Having traded at 43-44 yuan/kg through December, the wholesale price of pork in China trended higher for the first three weeks of 2020, climbing by around 9% with demand building ahead of the lunar New Year celebrations (January 25<sup>th</sup>). However, once festival buying had drawn to a close, large volumes of imported pigmeat and stocks released from intervention began to weigh on the market and prices eased back slightly in the week leading up to the festival, trading at 47.21 yuan/kg (£5.19/kg) on January 23<sup>rd</sup>. This compares with 19.11 yuan/kg in the same week of 2019 (£2.10/kg).
- Latest pig population statistics from the Chinese Government point to a stabilisation in the herd in October. Nevertheless, numbers were still close to 40% below October 2018 levels, with this effectively meaning a 20% reduction in the global pig herd. In the January to October period, pork imports are reported to have risen by nearly 50% from the same period of 2018, with large gains for other proteins.
- EU exports of pork to China/Hong Kong nearly trebled relative to 2018 in the August to October period of 2019. Sales of processed pigmeat, fats and offals rose at a much slower, though still significant, rate of around 30%.
- Prices have fallen back on the continent following a near-7% uplift between mid-November and mid-December. Grade E pigs averaged €1.84/kg (158p/kg) in the third week of 2020, down from a peak of €1.97/kg and their lowest for ten weeks. However, a price forecast for the key German market suggests a new balance has been found.
- Despite falling sharply in recent weeks, EU prices still showed a year-on-year increase of 37% in the week ending January 19<sup>th</sup>.
- Downwards pressure on the continent saw the EU average drop below the UK average for the first time since the opening week of April 2019 in the second week of 2020. In the third week of the month the deficit widened to 2.5%. Nevertheless, in the same week of 2019, the EU price had traded at a 15% discount to UK levels.
- In North East Scotland, spot wheat prices have opened 2020 at their highest levels of the marketing year, climbing to £150/t. Meanwhile, barley prices have edged up to £120/t. Some caution over potential supply in western Europe due to wet weather at planting has accounted for some of the upwards pressure. A well-supplied domestic market continues to see barley trade at a significant discount to wheat. Despite increasing, wheat remains 11% cheaper than last year with barley down 29%.
- After falling by around £10/t in mid-October, imported soyameal steadied at around the £305/t mark for the remainder of 2019. It has since returned to around £315/t in the early weeks of 2020, in part down to a recent breakthrough in trade talks between the US and China, which have targeted a strong lift in imports of US soyabeans to China. Soyameal has been slightly dearer than in early 2019.



# Pig Charts



## ***Business Environment***

### **Economic Activity:**

Purchasing Managers Index (PMI) surveys from Markit Economics indicate that the UK economy continued to contract in December, with only the service sector narrowly avoiding a fall, matching the 50 index of no change. The index for manufacturing (47.5) and construction (44.4) both declined further, slipping to their lowest levels for four and three months, respectively. While services firms reportedly saw some boost in domestic demand in late 2019, export sales remained weak. Meanwhile, manufacturers reported further unwinding of finished product inventories that had been built up ahead of a potential no deal Brexit at the end of October, plus weak demand from home and overseas; though consumer goods firms did report some improvement. While services firms took on staff, manufacturers cut back.

### **Labour Market:**

After signs of a stagnating labour market during the spring and summer, UK employment reached a record high in the autumn, exceeding year earlier levels by 1.0%.

### **Household Spending Power:**

CPIH, the ONS' most comprehensive measure of consumer price inflation, eased through the second half of 2019, ending the year at a 38-month low of 1.4%. Meat prices rose at a slightly above average rate, with beef and poultry 1.5% cheaper than last year but pork, lamb and cured meats more expensive. Although earnings growth reported by the ONS did ease back slightly in the autumn, it was still nearly two percentage points ahead of the inflation rate and should in theory, be providing a considerable boost to household spending. However, growth in the value of retail sales has been trending lower since last spring, dipping to 1.9% in final quarter, with even spending online at its weakest of the year.

### **Consumer Confidence**

GfK NOP's monthly consumer confidence survey continues to find weak confidence amongst UK households despite the notional growth in disposable income and has signalled net pessimism since early 2016. Confidence did however rise to a five-month high of -11, driven by reduced negativity over the coming year (note survey period pre-General Election). Perceptions of personal finances remain more balanced between optimism and pessimism, with feelings about the general economic environment being the drag on overall confidence.

### **Exchange Rates:**

	<b>w/e 26/01/20</b>	<b>December 2019</b>	<b>w/e 27/01/19</b>	<b>December 2018</b>
€:£	84.7p	84.7p	87.4p	89.8p
\$:£	76.5p	76.3p	76.8p	79.0p
NZD:£	50.5p	50.3p	52.0p	53.5p

With the EU Withdrawal Bill passing into UK law and the UK leaving the EU in an orderly fashion at the end of January, sterling has firmed back to its December average. This followed some weakening over the UK's inflexible approach to the scheduled end to the implementation period, increasing the probability that the UK and EU may not have signed a trade agreement by the end of the transition, potentially resulting in WTO tariffs being applied to trade in 2021.

The US dollar received a boost in mid-January after the US came to an initial trade agreement with Chinese authorities, potentially raising US exports to China. Meanwhile, weak euro area economic data has seen the euro come under pressure since the New Year. The NZD firmed in late 2019 on improving economic data, signalling an end to interest rate cuts.

**Iain Macdonald, January 2020**