



# **BIRTWISTLES**

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*Market Report*

DECEMBER 2018

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### Beef Overview

All roasting joints and stewing meat (diced beef etc.) continue to rise in value on a weekly basis due to the seasonal demand, there has been a decrease in price on certain steak cuts but this is to be short lived with the price of ribs and fillets set to increase due to the seasonal and New Year demand.

Cow prices are dropping but there is a high number of poor quality carcasses coming to market. Calf registrations coming through have suffered due to the large cull on cows due to the high prices they have been able to achieve.

Imported steak meat is still a more viable option from a consistency, availability and price point of view and the quality is equally as good as the UK.

### China close to turn market into a monopoly

The end of 2018 is approaching with a feeling of uncertainty and pessimism for most beef importing markets with one exception: China

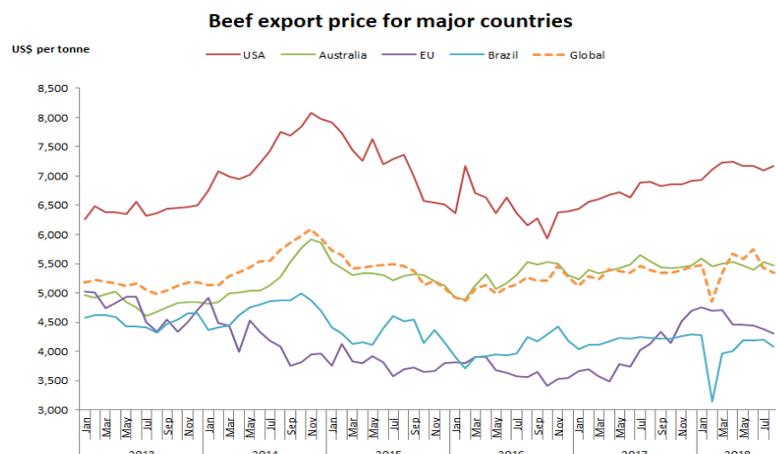
The Asian power has gained prominence in recent weeks as rarely seen before. Now it is practically the only destination that shows eagerness to acquire beef, a contrast marked with the reality faced by other options such as Europe, Nafta, the Middle East or Russia, among others.

"China is firm with demand and prices, and good expectations of increasing purchases for next year. Hopefully they are encouraged to buy more noble cuts like rump & loin to reverse the complicated circumstance in which trade of this product is immersed and became a valid alternative to Europe", said a Uruguayan exporter.

### Global beef price update

Global beef prices in the year-to-August were up almost 2%, averaging \$5,434/tonne, although they have come under pressure in the last couple of months. This is based on volumes and export prices of the world's three biggest exporters, Brazil, the US and Australia. Together, the total volume of fresh and frozen beef exported from these countries during this period was around 2.3 million tonnes, up 13% on the year.

In the year to August, beef prices in Brazil were 4% lower on the year, driven by



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challenging conditions. Following a large decline in June this year, Brazilian beef exports rebounded strongly in July and August, resulting in an 11% increase in volumes exported in the first eight months of the year. Exports to Brazil's main export markets, Hong Kong and China, have increased significantly in the eight months to August, up 18% and 44% respectively. Despite ongoing uncertainties surrounding the Brazilian economy following the general election in October, beef exports are likely to continue to grow; in part as a result of Russia recently allowing imports of beef from Brazil to resume, following its closure in December 2017.

Australian exports for the year to August were up 14% on the year at 771,314 tonnes, encouraged by strong global trading conditions and elevated slaughter. Increased demand has been led by China, with imports from Australia up 53% year-on-year between January and August.

### Brazilian beef exports overcome adversity

The Brazilian beef industry has had a less than smooth ride for much of 2018. At the start of the year a ban of Brazilian beef into Russia, a market which in 2017 amounted to 120,000 ton, affected the export price. A truckers strike followed in June, suppressing export volumes and disrupted much of the supply chain. Even so, Brazilian exports continue to grow in 2018, and production was higher again in the third quarter.

Brazilian exports in the year to date have grown 12% (+113,000 tons), this is impressive considering restricted access to a major market. Fortunately, demand in China and elsewhere in Asia has been growing significantly. Brazilian exporters have capitalised on this, with exports to China and Hong Kong growing 36% (+130,000 tons) in the year to date. JBS, a Brazilian processor, has recently announced a supply agreement with Alibaba, a huge online retailer in China. The deal sets out a supply from JBS of \$1.5 billion in beef, poultry and pork over the next three years. Russia has also now lifted the ban on Brazilian beef and pork. Going forward, it will be interesting to see if Brazilian supply again becomes available to the Russia market, and if Russian buyers are able to compete on price with growing Chinese demand.

Notable export growth elsewhere includes; +10,100 tons (+113%) to the Philippines; +4,900 tons (+28%) to UAE; +9,700 tons (+38%) to Jordan, Lebanon and Palestine collectively; 76,700 tons (+150%) to other South American countries\*. Production in the third quarter of 2018 totaled 8.28 million head, a 3.6% increase compared to the same quarter in 2017.

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### Lamb Overview

UK lamb prices overall have stayed firm. Certain cuts (legs/shoulders) have risen and are in high demand due to the seasonal retail demand. Retail plants and exporting is still the preferred destination from producers. The middles of lamb (racks and cannons) are still being exported for a premium throughout Europe and Asia. Overall the lamb price has remained firmer than previous years and will continue to do so due to the premium prices producers can get by exporting various cuts. For imported lamb all indications are that we will have to pay more to compete with the stronger markets

### Imported lamb

Good prospects for sheep meat

"A strong global demand for sheep meat and limited availability will support high prices for the product in 2019", says Rabobank.

"Prices will remain firm due to a strong demand from the Middle East, China and the US".

In New Zealand, a 2.2% contraction in lamb slaughter is projected for a total of 19 million head, a record low for the world's leading exporter. The decrease responds to a fall of 2.2% in sheep stocks. "With a lower exportable balance also in Australia, the global supply of lamb in the international market will be low in 2019, supporting price rises", says Rabobank.

### Festive season brings joy to finished lamb prices

Finished lamb prices have continued to follow seasonal trends by climbing upwards. In the week ended 28 November, the GB live weight NSL SQQ gained 2.9p week-on-week, to stand at 176.47p/kg the highest level since the beginning of September. Compared to the same week last year the quote is currently 2.84p higher, as well as being almost 6p above the 5 year average. Daily live weight prices have consistently recorded week-on-week gains over the last two weeks.

Auction market throughputs were up on the week at 105,000 head, but 7% down on the year. Throughputs recording year-on-year declines was not surprising as AHDB's estimated lamb crop figure for 2018 stands 5% (990,000 head) down year-on-year. Industry reports have continued to suggest that store lambs are still in demand.

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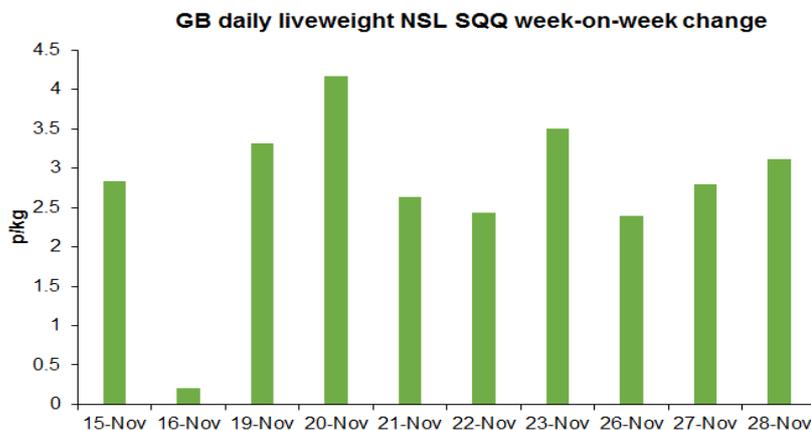
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Similar trends were recorded in the deadweight price which rose for the third consecutive week. The GB deadweight NSL SQQ gained 5.7p week-on-week during the week ending 24 November, to reach 396p/kg. However, in contrast to the live weight quote, deadweight prices are trending just under year earlier levels, although are well above the five year average. Reports have indicated that export demand is increasing, which is offering some support to prices.

Estimated slaughtering's for the week stood at 276,700 head, slightly down on the week and almost 6% down on the year.



During the week ending 24 November, average England and Wales store lamb prices remained relatively unchanged on the week, up by just 1p to £55.58/head. Compared to the five year average, prices are currently significantly higher, and while prices do often record some upwards movement during this time of year, the gains this year have been larger. Over the past four weeks, store lamb prices have increased by £4.64/head, while the five year average for this period increased by £2.37.

The main store lamb season, running from June to December, started with prices below 2017 levels until the beginning of September. Since then, prices have tracked above year earlier levels, following the expected seasonal downward trend, but holding strong despite the hot dry summer. In recent weeks, however, the effects of favourable October weather conditions have been reflected by increased store lamb prices rising above both 2016 and 2017 levels.

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## Pork Overview

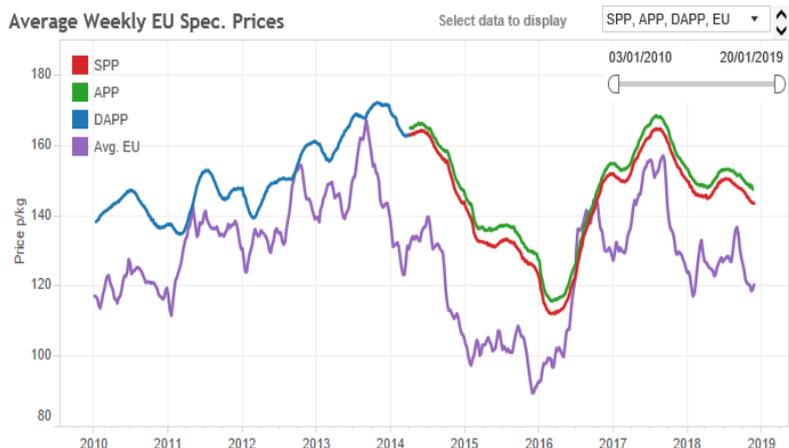
Prices are softening yet the market is unstable due to the swine fever in Europe and throughout China. This could seriously impact availability and the price going forward. The export market is still the preferred destination due to the value of the pound and more profitable markets

## Pig Prices (EU Spec)

The EU-spec SPP stabilised in the week ended 24 November, falling by just 0.05p in comparison to the previous week, to 143.52p/kg. This is the smallest weekly price decline since July, leaving the current quote under 10p back on the same week last year for the first time since April. Nonetheless, this is still the lowest weekly price since October 2016.

Similarly, throughputs were also in line with week earlier levels. Estimated slaughtering's were down just 800 head week-on-week at 187,000 head, though this was still the third highest throughput of the year. The average SPP carcass weight also fell only slightly to 84.53kg, down around a third of a kilo. The average probe measurement decreased to 11.2mm. Compared to the same week in 2017, throughputs continue to be lower (-4.5%) and weights are still running ahead, with the margin widening to almost 1kg.

The EU-spec APP for the week ended 17 November fell by 1.17p to 147.53p/kg, counteracting the slight upward movement that had been recorded the previous week. This leaves the current quote just over 9p behind the same week in 2017. The gap between the APP and the SPP for the same week fell to just under 4.0p.



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### Pig Prices (UK Spec)

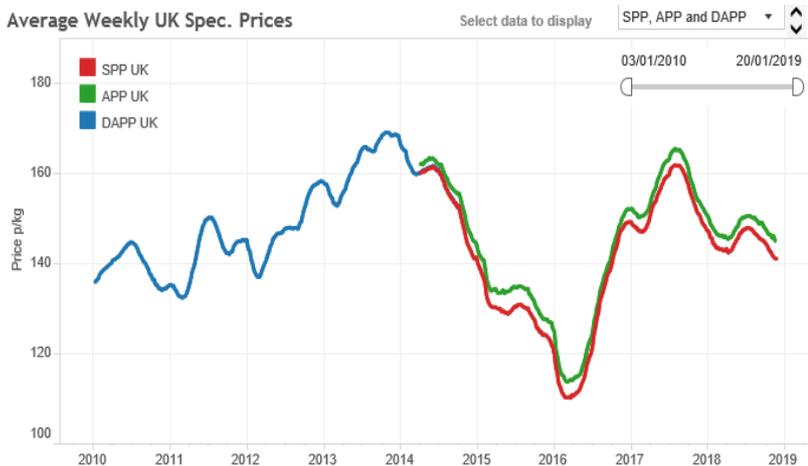
The UK-spec SPP stabilised in the week ended 24 November, falling by just 0.07p in comparison to the previous week, to 140.94p/kg. This is the smallest weekly price decline since July, leaving the current quote under 10p back on the same week last year for the first time since April. Nonetheless, this is still the lowest weekly price since October 2016.

Similarly, throughputs were also in line with week earlier levels. Estimated slaughtering's were down just 800 head week-on-week at 187,000 head, though this was still the third highest throughput of the year.

The average SPP carcass weight also fell only slightly to 86.06kg. Compared to the same week in 2017, throughputs continue to be lower (-4.5%).

The UK-spec APP for the week ended 17 November fell by 1.15p to 144.90p/kg, counteracting the slight upward movement that had been recorded the previous week. This leaves the current quote around 9p behind the same week in 2017. The gap between the APP and the SPP for the same week fell to just under 4.0p.

Average Weekly UK Spec. Prices



### African Swine Fever Update

Rabobank expects the spread of African Swine Fever (ASF) to continue to have a global impact on pork production, proving especially harmful in China with a decline in supply, rising prices and higher imports.

Europe still faces an oversupply of pork, and this will become a particular issue if an ASF outbreak hits production and results in a drop off in export opportunities. With pork being the animal protein most at risk of disease, it's likely to impact consumer perceptions, and as a result, demand.

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### Poultry overview

We have seen an increase in demand during November/December due to seasonal demand.

We have found that chicken is becoming more popular during November/December, especially with the Christmas trade. It is more commonly being used at Christmas parties and it is proving to be an easier more cost efficient option than turkey.

### Turkey overview

UK Turkey this year is proving to be very volatile with high demand from retail meaning we are having to compete and pay higher prices to cover demand. UK turkey availability is very short and are proving to be very expensive and much smaller in size due to all processors changing to chicken during summer to capitalise on the Brazilian poultry ban. Demand on UK turkey is very high with retail getting first option. We advise that the fresh EU product would be the best option to guarantee consistency and supply.

Our main focus will be to get the volume of product required for our customers and we have no option but to pay the highly inflated prices.

### Turkey 2018

Customers are urged to pre order as much as possible to ensure availability and continuity of supply. We need to make you wary of price rises. Turkey prices are very volatile this year, reflecting the wider poultry market. Problems in Brazil, expected increases in feed costs and trade arrangements.

High demand in Europe is having an impact on poultry prices in the run-up to the festive period. UK turkey is really short and expensive. The UK turkey market currently has the lowest number of turkey producers we have ever known; there is a real lack of suppliers this year due to previous years not being able to compete with European suppliers on consistency and price.

Any Customer thinking of using UK turkey we would highly recommend that you reconsider and switch to fresh EU product to ensure continuity of supply.

The EU supply has been consistent but as seasonal demand has increased, availability is very tight causing huge pressure on the price which is increasing daily.

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## Industry News

Meat price stability 'threatened' for 2019

A 'melting pot' of risks are threatening global meat price stability, according to Rabobank's annual outlook report **Growth Slows Down...As Doubt Gears Up**.

Rabobank's report reveals that while meat markets will continue growing in 2019, the risks of an El Niño (a warm phase of the El Niño Southern Oscillation) weather system are bringing great uncertainty to the outlook for 2019.

In addition, the trade war between the US and China has played a part in shaping 2018, and if, as expected, it continues into 2019, it will alter global trade flows in the year ahead and beyond.

Justin Sherrard, global strategist for animal protein at the bank, added: "Meat producers face a melting pot of risks. Although it's possible that not all of them will come to pass, they need to be prepared for a difficult and worrying year in 2019."

## Brexit Uncertainty

**The International Meat Trade Association (IMTA) has welcomed the Draft Brexit Agreement reached by UK and EU negotiators but says that much uncertainty remains.**

Until the agreement has gone through the legislative stages in both the UK and the EU, uncertainty still remains for suppliers making it difficult to plan and agree contracts. The agreement provides for a transition period up to at least 31st December 2020 during which the UK would continue to participate in the EU Customs Union and the Single Market (with all four freedoms) and all Union policies.

This will avoid the need for any new checks between the UK and EU, or the introduction of tariffs on trade between the EU and UK. If the deal goes through this will provide some much needed certainty at least until the end of the transition period.

IMTA notes that the draft agreement also means that the UK would be bound by existing regulations. It explains this will provide assurance to export markets around the world.

During the transition period, third countries will have access to the UK market under the conditions set out in the EU's trade agreements. "This will provide certainty to our importing members that they will still be able to access a range of product, providing choice to the UK consumer," the association continued.

Until this agreement is secured at a political and legislative level suppliers still face uncertainty about what happens from March 29th 2019 at 11pm. Although the UK Government could take unilateral steps on tariff policy to avoid them, if no action is taken there is the risk that the UK defaults to WTO tariffs on imports which are as high as 60% in the case of beef imports.

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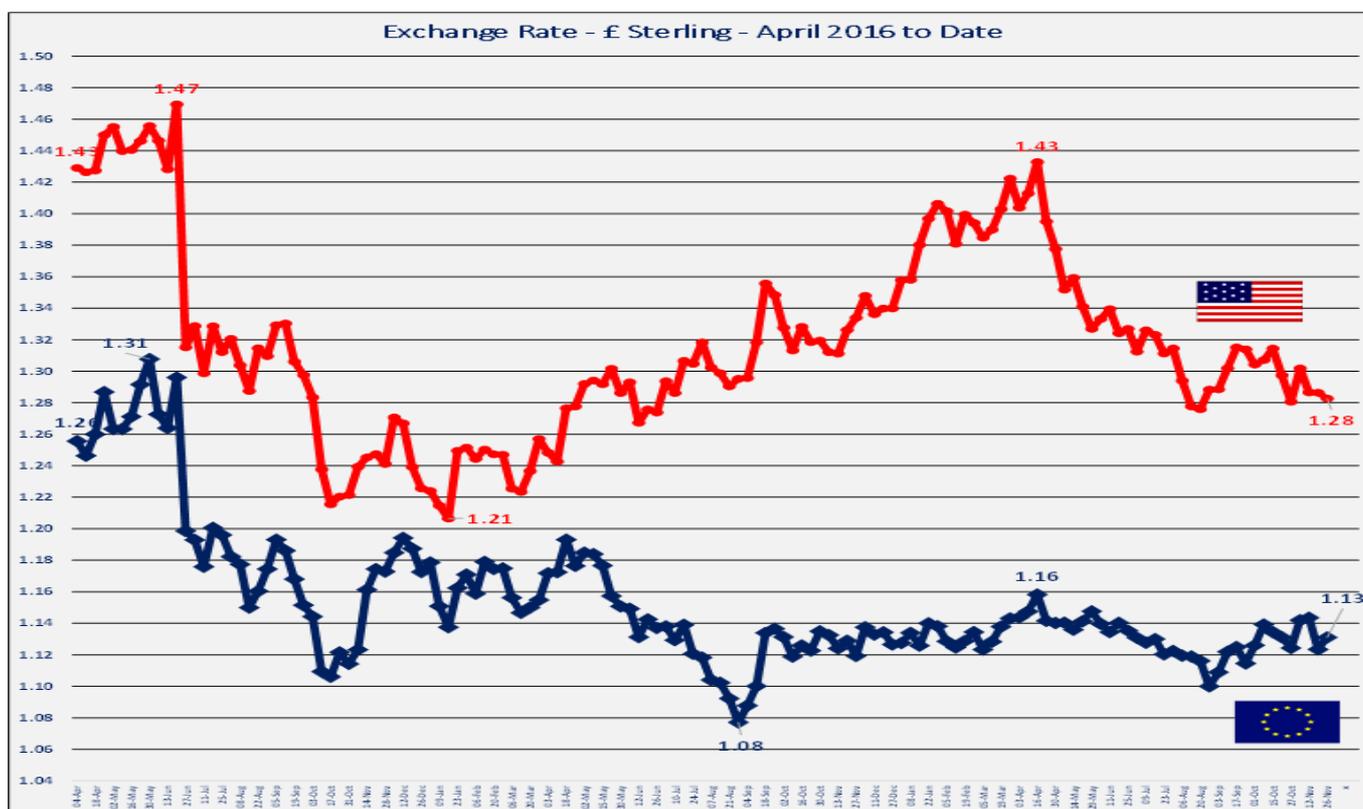
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IMTA also asserts that there is great uncertainty about UK meat export approval to the EU in this scenario, stating: "We note that although the EU will treat the UK as if it were a Member State, there is an exception regarding the UK's participation in the EU institutions and governance structures. We believe this will be a loss as the UK has traditionally been an active and engaged member state in contributing to EU policy."

"We hope the UK and UK based businesses and associations will continue to be able to be engaged in the EU legislative process throughout the transition period."

## EXCHANGE RATE



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