BIRTWISTLES

Market Report

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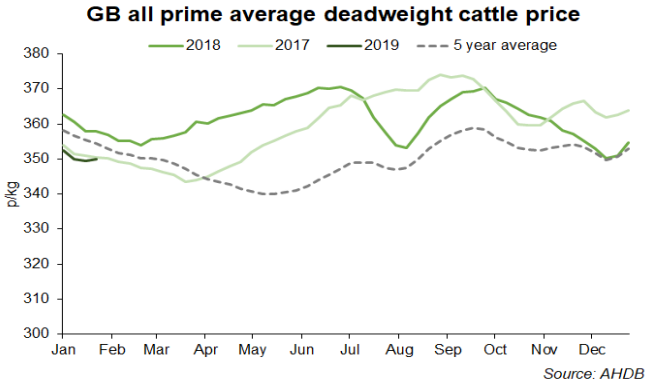
Beef Overview

Prime cattle prices steady on higher kill

In the week ending 26 January, overall deadweight cattle prices rose slightly, and have shown some stability over the last few weeks. This week's price move was due to a rise in prices for plainer types, with cattle meeting R4L and R3 specifications more likely to have lost ground.

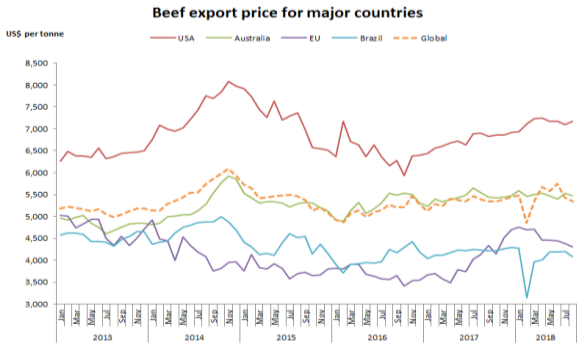
The GB deadweight all-prime average rose by 0.6p to settle at 350.0p/kg. The measure now stands around 8p below year-earlier levels. Estimated prime cattle slaughter picked up to 35,400 head, after stabilising last week. This throughput was 700 higher than last week and 4000 head higher than the same week last year. Combined with the positive move for prices, this implies slightly stronger beef demand.



Overall steer prices rose by 1.2p to 351.7p/kg, but those meeting the R4L specification fell fractionally. Heifer prices recorded a similar pattern, but with a more marginal gain overall, and a slightly larger loss for R4L carcases.
Cow prices also showed some strength, rising nearly a penny over the week to average 212.6p/kg. However, this is still over 30p lower than year-earlier levels, when prices were rising more quickly. Cows meeting the –O4L specification recorded a smaller increase of 0.7p, with the average price settling at 230.8p/kg. Estimated cow slaughter stood at 14,000 head, a decline of around 700 head on last week's throughput but still nearly 20% higher than last year.

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 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.

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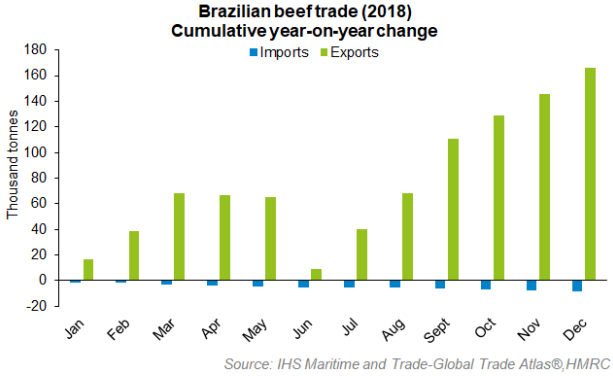
Brazilian Beef Exports overcome adversity

Brazilian beef production grew substantially in 2018. In the third quarter of 2018 alone, slaughterings stood at 8.3 million head, according to the IBGE. This is an increase of 4% (290,000 head) compared to the same period in the previous year. In the year-to-date, production has also increased by 4%, to stand at 23.8 million head.



The overall average carcase weight was report at 254.40kg/head, which is marginally heavier (1.5kg) than the same period in the previous year. Interestingly, average bull and heifer carcasses increased by around 3kg year on year.
The ratio of male to female slaughterings in Brazil has historically moved in a cyclical nature. The proportion of female slaughterings reached a five year high in Q1 of 2018, at 47%. Since then, the proportion of female slaughter has declined to 39% in Q3 of 2018. Q3 heifer slaughterings themselves have increased significantly year-on-year (22%), while cow slaughterings have remained relatively stable.

Bull and steer slaughter in Q3 in 2018 both showed a 3% increase year-on-year, by 125,000 and 10,000 head respectively. Looking ahead, production is forecast to continue expanding in 2019, with the USDA forecasting a 3% increase in production in 2019, to reach 10.2 million tonnes.

Brazilian beef imports in 2018 were recorded at 37,000 tonnes, it is the lowest level since 2011 and an 18% decline year-on-year. However in value terms, beef imports increased by 10% on the year. The majority of the volume decline has come from a fall in imports of fresh or chilled boneless product. Meanwhile, Brazilian beef exports grew significantly during 2018. In value terms, beef exports totalled R$ 23.5 billion (Brazilian real), a 24% increase year-on-year, while volumes increased by 12%, at 1.6 million tonnes. This is particularly impressive considering that export levels ground to a near halt during the truckers strike in June.

Lamb Overview

Prime sheep prices remain 5% higher than a year ago

Comparing the prime sheep kill in the six months from June to December 2018, it shows a decline of 5% on the same period in 2017, which is broadly the same as the size of the fall in the lamb crop reported in the June 2018 UK census. European prices are also showing some firmness, sitting around 2.5% higher than last year.

Consequently, the proportion of lambs sold before the turn of the year is broadly the same as last year.

The number of hoggs being carried forward into 2019 is 3-4% lower than last year which, in itself, and everything else being equal, will support farmgate prices.

Lower lamb throughputs have been accompanied by slightly higher carcase weights, and sheepmeat production has also been affected by changes in ewe slaughtering.

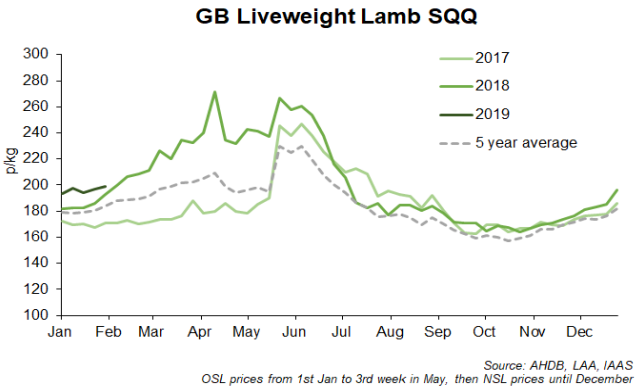
There has also been a sizeable increase of 5% in ewe and ram slaughterings, which means that the volume of sheepmeat produced in the UK in the second half of 2018 declined by 3.5%.

Sheepskin prices have, however, come under pressure in the second half of 2018 offsetting some of the strength in the meat market.

Additionally, the strengthening of sterling in the past week will also, in the short-term, squeeze export competitiveness.

Although the second quarter of the year (April to June) is usually the quarter with lowest dependence on exports, they still account for 30% of production.

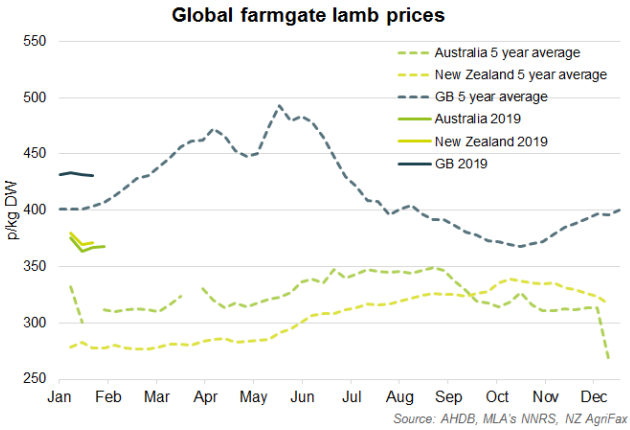
If this trade is disrupted, or has to face tariff barriers, prices will inevitably come under pressure.



In contrast to the liveweight price, deadweight prices fell once again in the week ending 26 January. The GB SQQ fell away by just over a penny to average the week at 430.4p/kg. It is worth noting however that even though the price is falling slightly, it is still relatively high compared with historic prices. The measure is currently around 15p above the 2018 price and almost 27p higher than the 5 year average. Estimated slaughterings in the week totalled 242,200 head, similar week-on-week but around 3,700 less (-1.5%) than the same week

Imported Lamb

Will imports of lamb from New Zealand return to normal in 2019?



For the past two years, UK imports of lamb from New Zealand have tracked below historic normal levels while at the same time the global supply and demand balance has tightened, and global prices have continued to trend significantly above the five year average as we enter 2019.

Total volumes of imports of sheep meat into the EU-28 (including UK) from third countries between January and October 2017 declined 14% year-on-year, while the value of these imports remained stable, according to Eurostat. This indicates that the price per tonne was higher. During January to October 2018, import volumes recorded growth of 2%, which meant they remained significantly below typical levels. Looking closer to home, UK imports have been declining consistently in recent years, recording an 11% volume decline year-on-year in 2017, and a further 3% decline in 2018, according to HMRC data.

Whether New Zealand shipments to the UK return to a more typical volume this year would be influenced by both availability of product and price. During the first two months (October and November) of the New Zealand lamb production year, production of sheep meat has been stable.

However, Beef & Lamb NZ reports that the New Zealand lamb crop is around 1% smaller year-on-year, and expects around 4% fewer lambs to be slaughtered for export purposes. This could be used as an indicator that New Zealand exports will decline in 2019. However, if total volume declines, by itself this does not mean that less will be shipped into the EU or the UK in particular.

Brexit will inevitably have an effect on UK trade during 2019 and beyond. If UK prices are low, there is the potential that New Zealand exports to the UK will reduce, with at least some product being directed into mainland EU instead. AHDB has done some analysis into this data exploring what potential affect this would have sheep meat volumes available on the market. The price achieved would also be an import consideration for New Zealand exporters, therefore even in this situation it is likely the UK may continue to receive some product, most likely leg joints.

In total during 2017 the EU not including the UK, imported 145,800 tonnes product weight of sheep meat. 71,200 tonnes of this came from the UK and 64,400 tonnes came from New Zealand, according to Eurostat data. In carcase weight equivalent this is 74,000 tonnes and 75,000 tonnes respectively, reflecting that fact that more product from New Zealand is shipped boneless.

Pork Overview

As 2019 gets underway, ‘uncertainty’ created by complex diseases and trade issues is looming for pigmeat.

The year will be full of potential for global pork supply, with growth in production and demand in many parts of the world on the cards, however this is overshadowed by rising disease pressures.

African swine fever (ASF) stands out as the single biggest challenge facing global pork in 2019.

The changes ASF will bring create opportunities for some, and threats for others.

Looking at the EU pork market specifically, the report shows mixed signals entering 2019.

While the expected higher imports by China encourage production expansion, Belgium and Eastern Europe are still shrouded in ASF threats.

Rising piglet prices in recent months signal tight piglet supply, but also strong production intentions.
The report shows that Brexit is another wild card for EU trade, which is expected to play out in Q2 and beyond.
Referring back to disease pressures challenging the global market, they are expected to affect global animal protein in two ways.

Firstly, severe disease outbreaks can lead to local production losses, especially in cases where there is no cure, no vaccine, or limited vaccine stocks for the disease. This impact can last for some time – in the case of ASF in China, infected zones are prohibited from restocking animals for at least six months.

The second area of impact is trade – and this is arguably more significant than production losses. The outbreak of disease brings restrictions on trade from the affected country, in order to manage the risks of the disease spreading.

Production is expected to increase similarly, reaching 948,000 tonnes. This maintains the original assumption of a little expansion in breeding sow numbers, driven by the integrated outdoor sector. However, there remains a risk that producers struggling in the current more difficult financial conditions will instead reduce herd numbers.”

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UK imports were higher than expected towards the end of last year, likely reflecting the competitive prices available at the time and some stockpiling activity in light of Brexit. Without clarity on Brexit, it is difficult to anticipate how imports will develop this year. Nonetheless, higher production levels should deter an increase, but this will depend on the prices on offer.

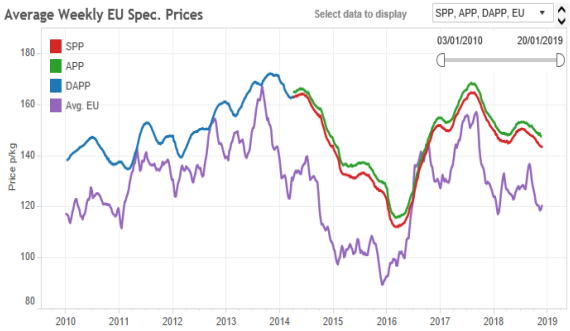
Exports also picked up strongly in the latter part of 2018, particularly to China. China is expected to continue providing opportunities this year, as its domestic industry struggles with African swine fever. However, again it is difficult to tell how UK exports will fare overall without knowing how the UK will be trading with the EU, which is still the destination for over half of UK pig meat exports."

As well as the uncertainty surrounding Brexit and herd performance, the potential for further spread of African Swine Fever also risks significant disruption to both the global and UK pig market.

Pig Prices (EU Spec)

For the week ending January 26, the measure was virtually the same as the previous week at 138.71p/kg. The price is still 8.1p below the 2018 level, with industry reports suggesting demand for pork products remains poor.

Estimated slaughterings in the same week totalled 183,900 head. Although similar to the previous week, this is over 10,000 head above the equivalent week in 2018. The average carcase weight dropped by 610g on the week to average 85.53kg. This has narrowed the gap to 760g compared to the previous year's level, which it has been considerably above for a number of weeks. Meanwhile, average probe measurements are now in line with the 2018 level, at 11.3mm.

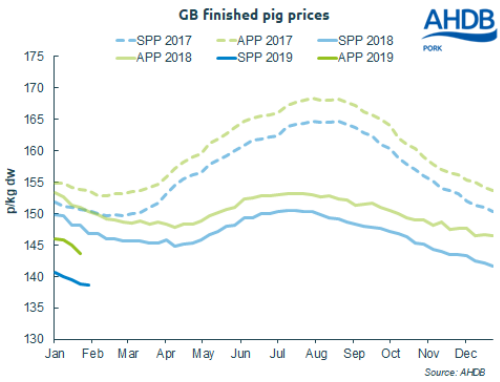


In the week ending January 19, the EU-spec APP fell by 1.28p to average 143.64p/kg. The SPP dropped by less in the same week and as such the gap between the APP and the SPP narrowed again, to 4.86p

Pig Prices (UK Spec)

The UK-spec SPP took a slight respite from downward movement in the most recent week. For the week ending 26 January, the measure was virtually the same as the previous week at 136.24p/kg. The price is still 8p below the 2018 level, with industry reports suggesting demand for pork products remains poor.

Estimated slaughterings in the same week totalled 183,900 head. Although similar to the previous week, this is over 10,000 head above the equivalent week in 2018. The average carcase weight dropped by 610g on the week to average 87.08kg. This has narrowed the gap compared to the previous year's level, which it has been considerably above for a number of weeks. Meanwhile, average probe measurements are now in line with the 2018 level, at 11.3mm.



In the week ending 19 January, the UK-spec APP fell by 1.26p to average 141.09p/kg. The SPP dropped by less in the same week and as such the gap between the APP and the SPP narrowed again, to 4.77p

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Japan opens market to British beef and lamb

UK exporters are set to benefit from a multimillion pound boost as Japan today opened its market to imports of UK lamb and beef.

The agreement, signed during Prime Minister Abe's visit to the UK, is estimated to be worth a total of £127 million over the first five years of access – approximately £75 million for beef and £52 million for lamb.

Japan, a major importer of beef with a growing demand for high quality lamb, has lifted its two-decade long ban on imports of these products with immediate effect.

The deal follows a year of global successes for UK exporters, which included China lifting its ban on UK beef, Taiwan opening its market to pork and India preparing to import UK sheep meat.

Farming Minister George Eustice said: "The opening of the Japanese market is an excellent result for beef and lamb producers across the UK and demonstrates confidence in our high standards of food and drink. As we enter a new era as a global exporter, unlocking this market marks a major step for future trading relationships and signals our commitment to supporting our food and drink industry to export more British produce."

The lifting of the ban follows a series of visits and negotiations between UK and Japanese officials, which culminated in an inspection of UK beef and lamb production systems in 2018, successfully hosted by Defra and the Animal and Plant Health Agency, the Food Standards Agency, Food Standards Scotland, DAERA, the Agriculture and Horticulture Development Board (AHDB) and the UK Export Certification Partnership.

Japan is renowned for its stringent food safety and import controls regime and opening this market is expected to send positive signals to other countries, particularly in Asia, regarding the safety of UK exports.

Poultry overview

British poultry meat farmers and producers are calling on the Government to take action to prevent the UK from leaving the EU with no-deal.

In the absence of even the most basic Government plan to ensure a secure and trusted supply of British food, the British Poultry Council has warned of the consequences of a no-deal Brexit on the affordability and availability of British poultry meat and the sector's ability to flourish and feed the nation.

A no-deal Brexit would be incredibly damaging for our sector, for our ability to trade, for our workforce and for British consumers of poultry meat.

Almost three quarters of our imports (£2bn/year) and exports (£500m/year) are with the EU – ensuring a continuation of trade with that market is essential.

We are concerned that leaving with no-deal could effectively result in a trade embargo; in the import of products produced to lower standards; and in export tariffs being imposed on poultry meat that goes to the EU (27% increase on chicken).

In the event of a no-deal Brexit, there will be increases in the costs of production which would be reflected in the price of fresh UK chicken. We estimate in the worst case no-deal scenario, the price of breast meat could rise by 25%.

If the Government is serious about making Brexit work, then it must avoid running the risk of creating a two-tier food system where only the affluent can afford to eat British poultry that meets British standards from farm to fork.

Industry News

Meat industry responds to Brexit deal rejection

Following the news that Prime Minister Theresa May's Brexit deal was rejected in Parliament by 230 votes, the meat industry has voiced its concerns.

We've suffered the effects of the concept of Brexit since 2016, and the actuality of leaving will be worse. The only sensible option now is to abandon Brexit as a failed project.

In the British poultry meat sector we've suffered a lack of labour and increasing production costs, and seen our country's food standards being challenged by other nations eyeing a quick profit at our long-term expense.

Brexit and food comes down to a very simple concept. Any departure from the EU means affordability and availability of food will be compromised. The burden of that will fall on those who can least afford it.

A no-deal Brexit could lead to huge disruption as a result of an effective trade embargo on the export of animals and animal products to the EU, leaving many livestock farmers with no market for their produce. At the same time, we know that the Government would choose to unilaterally lower import tariffs on food. Let's be clear about that, if that happened Britain would be actively encouraging food imports from all over the world potentially produced to food standards lower than is legally allowed by UK farmers.

Brexit Uncertainty No deal challenges across beef and lamb

With the Brexit clock ticking, new insights look into the potential impacts on the UK's trade in agricultural and horticultural goods.

Brexit prospects for UK agri-food trade examines in detail how both an orderly withdrawal and a no-deal scenario will affect trade across the UK's main farming sectors and a 'bite-size' versions has been produced for beef and lamb.

Using the latest data, the full report looks at the current trade situation, potential tariff levels and the size of the domestic production base to reveal a complex picture for UK agriculture and horticulture after Brexit. It provides ready comparisons between sectors in terms of imports and exports, self-sufficiency and tariff levels.

UK exports of agricultural and horticultural products are likely to be rendered uncompetitive if World Trade Organization (WTO) tariffs come into play on our exports to the EU. By plotting the value share of particular food products in imports and exports markets against its ad valorem tariff, the report visualizes which goods would be most affected by the imposition of WTO rules if the UK defaults to no-deal.

In addition, if the Government decides to drop all tariffs on imports from the EU this would have to apply to the rest of the world, meaning UK products could face increased competition on the domestic market. In many sectors, UK costs of production are high when compared with those of key international competitors. No deal could mean the loss of tariff barrier protection and more competition from global producers.

The prospect of a no-deal scenario cannot be ignored. This would have a seismic impact on UK trade, with major implications for the farming sectors.

Other key findings include:

The **sheep meat sector** is likely to be the worst hit by a no-deal Brexit. UK exports would suffer considerably if WTO tariffs of up to 50 per cent of the price of meat were put in place – a huge blow to the UK's competitiveness. In addition, around 90 per cent of UK sheep meat exports are to the EU, meaning no deal is likely to hit sheep farmers' incomes.

For **beef**, exports to the EU would also be limited considerably if tariffs, which are sometimes as high as the price of the product itself, came into play. Again, if the UK Government drops tariffs on imports, UK beef could see increased competition, meaning lower prices and returns for farmers