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Market Report

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Brexit Update

Another turbulent month as it began with uncertainty and confusion over the likely effect leaving the EU will have. Having failed again to get the Prime Ministers withdrawal deal through parliament the Government has at last published the long awaited list of tariffs to be imposed across a range of imports in the event of a no deal Brexit from 30th March 2019.

The tariffs range from protection for beef, lamb and pork to little or no protection at all for other sectors, including eggs, cereals, fruit and vegetables.

Frankly, it's a mess. The hope for most people is that a withdrawal agreement will still be achieved. Whether that means Brexit will be delayed remains to be seen.

Beef Overview

Opportunities for South American Beef in a no deal

Some initial analysis as to what implications the no deal tariff regime might have on beef imports.

Around 75,000 tonnes of beef that currently comes in tariff free, either from within the EU or from outside it under a specific quota, could now be subject to tariffs. While this may offer some amount of protection for the UK beef market, in a no deal scenario there would be a tariff free quota of 230,000 tonnes, open to all countries with a license to export the UK, on a first come first served basis. So how may this affect the UK beef market if exporters in countries like Brazil and Argentina are able to develop supplier relationships?

In the UK we currently consume around 1.2 million tonnes of beef (production plus imports, minus exports). This makes us around 80% self-sufficient in beef and so currently we rely on imports to meet our demand. In 2018, 73% of UK beef imports came from Ireland, with the vast majority of the rest being from other EU countries, with free access to the UK market.

In a no deal scenario, countries like Brazil and Argentina will have equal access into the UK beef market. Until now they were priced out by the EU external tariff policy, making their beef uncompetitive. However, South American countries have significantly lower cost of production than the UK and Ireland. As such their beef could be an attractive option for importers, especially those supplying the food service sector where provenance is not always prioritized as highly as it is in the retail sector. Further to this, we estimate shipping costs across the Atlantic to be around 20 eurocents/kg which would keep the price competitive. In a scenario where South American companies are able to build relationships with UK supplies to take advantage of the tariff free access, this could affect both the Irish export price and the UK domestic price.

We have seen demand for steak meat primals increase over the last month in particular Striploins which have risen by over 23 %.

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Lamb Overview

Some further uplift for lamb prices

During the week ended 20 March, the GB liveweight OSL (Old Seasons Lamb) price stood at 198.64p/kg, up over 1p on last week and still just below the 5-year average. This is now the second consecutive week of price increases and will continue in the run up to Easter where demand for Leg Meat from retailers for promotions over Easter will drive the price.

Total throughput was also higher than last week, up 2%. Nonetheless, numbers remain well down on the same week in 2018 (-15%).

In the week ended 16 March, the price for old season's lambs stood at 419.3p/kg, up just over 2p week-on-week. It is important to remember that Easter is late this year, and often the key procurement period has started by this point.

Demand for Leg and Middle meat will increase and drive prices with the onset of the new season's lambs coming through in April/May

Pork Overview

Bacon Prices – Unprecedented Market activity

There is never only one reason behind substantial market movements of which we have not seen for a long time.

The underlying base for the increases primarily stems from a lower kill across Europe and this would have pushed the market up by itself regardless of any other factors. Maybe not by as much as we are experiencing but still a reasonable rise. Then throw in the mix an element of Brexit planning by some pretty big players taking away more raw material than normal as they mitigate potential pitfalls after we leave EU.

To put this into perspective we as a business have had to take a 15p/kg increase to secure Pork Legs alone for April due to increase demand from Bacon and Gammon producers.

Coupled with swine fever finding its way into Belgium this then causes the third party countries to ban supplies from them and look towards Germany and Denmark to fill the gap on supply of substantial volumes of pork middles taking even further volume away from bacon production.

Contracts already in place will be delivered so will continue to impact the market for months to come.

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All this without China added on would still have seen the market for middles and bacon under severe pressure with price rises. Then add this to the pile and you have the perfect storm. Massive demand and very high priced contracts being sold across a range of cuts is pushing our prices to levels we have not seen for a long time. The consensus is that China could well be short of their own pig kill over the course of the year to the tune of up to 100 million pigs. The information is coming directly out of China so there is a good likelihood of some truth in there.

Even if China somehow resolves the issue in the short term the impact will be felt for months to come and the EU kill will not come back to normal levels for many months so I would expect the coming year to continue being a challenge with potentially further price increases in the coming months.

Exports to China have recorded significant increases, up 72% to total 4,500 tonnes and this was the second largest market in volume terms.

Prime pig prices rise as supplies remain tight

Although carcase weights are higher, domestic pigmeat production is trailing 2018 levels with production down 2.5% during February when compared to last year.

This decline in pig numbers is repeated across the European Union where the European Commission report the pig herd to be at its lowest level for two years.

UK pork trade

Prices typically strengthen from February onwards, reflecting some tightening in pig supplies and improving demand following the post-Christmas lull.

UK pork trade in 2019 got off to a flying start, with both exports and imports increasing year on year.

All categories of pig meat recorded increases, while the increase in imports have been driven by fresh/frozen pork and bacon which you can read above from our market intelligence.

Uplift in the EU market

The EU pig price increased steadily during February, averaging €135.92/100kg across the month. This was €1.65 higher than the January average this will no doubt put pressure on prices for cuts/trims coming into the UK from the EU

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Poultry overview

Imported chicken fillet prices seemed to have levelled out at the moment, but there maybe a little movement downwards going forward post Brexit in what could be a much stressed market. Chicken Thigh meat could be a good alternative in terms of cost.

Boneless Turkey breast prices are firming across Europe with increases in prices anywhere between 3-10 p per kg

British poultry meat producers are calling on the Government to ensure feeding people remains at the heart of society.

Continuity of British food production and supply will be critical to ensuring that British food, and the quality it represents, stays affordable and available for all. A dignified food system means that everyone has access to the same choice of safe, wholesome, and nutritious produce; yet Brexit threatens to create a two-tier food system based on affluence.

To secure our future food production the British poultry meat sector wants to work with Government to develop a robust transition plan that means we have access to the workers they need and to avoid any disruption in the smooth movement of perishable products across the EU.

As the prospect of a 'no-deal' Brexit looms, Britain's poultry meat sector has warned of the devastating impact on the cost of food if the UK loses essential workers.

British poultry meat businesses, which rear a billion birds for food every year, are planning for a crisis scenario where non-UK labour falls by half in case of a 'no-deal' Brexit. British Poultry Council members are reporting a sharp decline in the availability of these crucial workers even ahead of Brexit.

The British poultry meat sector is incredibly dependent on non-UK labour. Nearly 60% of our workforce are EU nationals. Access to skilled workers is imperative for the sector to carry on feeding the nation with safe, wholesome and affordable food.

In the event of a no-deal Brexit, current economic modelling suggests that there will be massive increases in the costs of production. This could eventually be passed on to the consumer through the price of fresh UK chicken. We estimate in the worst case no-deal scenario, the price of breast meat could rise by 25%.

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Industry News

New research gives boost to Red Tractor

At a time of great uncertainty for British food exports, and consumer confidence at home because of Brexit, an international benchmarking study of global farm assurance schemes has concluded that the UK Red Tractor farm and food assurance structure offers some of the highest standards world-wide.

Red Tractor standards are world-class as is evidenced by this research and increases their determination to be the flagship of British food and farming. Their vision and the work they are already implementing to develop standards in certain areas will place Red Tractor firmly at the centre of UK agriculture worldwide. However, their focus remains working hard to ensure that every standard is in place on every farm, every day.

The study looked at prominent global schemes, some of which compete with the UK, and the results show the breadth and depth of Red Tractor especially in areas such as traceability and food safety. The organisation believe that the findings strengthen its position as the fully embracing scheme which can act as the flagship for quality British food both at home and abroad. In the food safety arena, Red Tractor performs well against all other schemes. Especially noted is the provision of specific and detailed standards. Red Tractor also performed very well in terms of staff training standards.

Industry views on Brexit

International Meat Trade Association (IMTA) responded by saying: "Agreement last night at The European Council to offer the UK two different potential extensions past the 29th March eases the pressure a little for next week. However, there is no guarantee that more time will mean May's deal gets through, no deal is still a possibility on 12th April if her deal fails for the third time and no alternative course of action is agreed."

Association of Independent Meat Suppliers (AIMS) said: "Parliamentary arithmetic is too close to call, if May's plan goes down and a no deal is in prospect, who knows what the EU will do. Barnier said yesterday there was nothing more for them to do, all down to London. Macron is dismissive one minute and changing position the next. Might they again if push comes to shove? Probably, but only under severe pressure to avoid no deal."

National Sheep Association (NSA) Expressed the ongoing frustration of farmers: "What we all feared, but hoped wouldn't happen, is becoming a real possibility. While there may be no shortage of people in the UK that seem prepared to crash out and just get the job done, all evidence suggests that for the sake of the UK's sheep industry something needs to give quickly to prevent our industry having a devastating shake up. We have been repeatedly warning of the risks of a no deal Brexit, and it now seems more likely than ever that our concerns may be realised."

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