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Pork Overview

African swine fever – A GLOBAL PROBLEM

A global issue affecting all protein chains

Over the past few weeks, the serious effects of African swine fever in China have become clear.

As per our previous updates and correspondence on the Pork market and the challenges we are facing here in the UK, across Europe and globally, we need to update you on the changes taking place very quickly since our last update.

The outbreak will reshape protein markets across the globe (it is a game changer).

We have seen 15% of the total pig population wiped in in less than a month.

In the long term, African swine fever will also force a significant restructuring of the Chinese pig industry. Modern, intensive production will likely displace farms that cannot afford good biosecurity at an even faster rate. This may help the industry move closer towards self-sufficiency over the next decade. So while opportunities for exporters look good in the short-term, in the mid to long term, they may not be sustainable. It will take up to 10 years to recover the situation back to normality.

Pig losses in China have reached critical levels, surpassing the world's ability to make up the shortfall/difference. As African swine fever moves into additional geographies within China the disruption is only going to intensify.

Pork losses of up to 16 Million MT are now a reality and global protein supply will fall short of China's expected need until production can respond, which is at best not looking stable until 2020. With this pressure on the protein we expect to see price rises continue for the next 6 months.

To put the problem into perspective China has over 50% of the total world pig numbers - that is now decimated by up to 130 million pigs culled. This in turn has wiped out most of their breeding stock. This was previously quoted at 100 million so has intensified the problem.

Imports to China are also expected to rise up to 1.5 million tons including poultry, beef and sheepmeat. This is having a cascading effect to all other proteins with price increases starting on poultry and beef as people look to move supply to other proteins.

The estimated growth in production in China of all other proteins including poultry, beef and sheepmeat is expected to grow by up to 4 million tons in 2019.

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Even with the growth of all other proteins there will still be a significant gap between demand and supply. Growth in pork imports are expected to close some of this gap but will still fall short of demand.

To also note - China has imported the total volume of pork it took from the EU over 2018-2019 in the last 4 weeks alone.

The Chinese government have pledged to feed its population of 1.38 billion, regardless of cost. They consume over 55 million tonnes per year. We have no alternative but to compete if we still want to eat pork.

As a business and an example we purchase up to 60 MT per month of bone in pork legs and have taken from the start of April to 1st May serious increases in pork leg prices - at the moment up 14.2 % in April and May pricing is already at 37.6 % more due to forward buying, shortages and demand for raw material for Gammon. We are in the market place with our partners purchasing legs at these higher prices but currently throughout April we still have had a shortfall of 20mt of bone in legs per week. Even on the spot market where higher prices can be achieved the availability very poor at best.

There is a distinct reality that even the big retailers on the high street will see very soon shortages on the supermarket shelves.

Pork producers/wholesalers will at this moment in time only fix pricing for a maximum of two weeks due to the surging increases, this could also be pulled tighter if the market moves again.

The maximum safe level we can look at for pricing at the time writing on pork products is one month ahead but will change if we cannot sustain increases of disproportionate levels in comparison.

This will impact on all pork products including Gammon, Bacon, Sausages, and Cooked Sliced Ham etc. Coupled with the upcoming BBQ season and demand for Shoulder and Belly cuts creating shortages for sausage production across Europe, this will inevitably put pressure on the price of associated products, namely sausages, going forward.

Pork prices are forecast to rise by 70% over this year so be mindful when planning menus.

The next 3 months will not be about price but about securing availability and continuity of supply.

Supply has been the tightest for pork since the Second World War due to the outbreak and rapid spread of ASF (African swine fever) across Europe/China. The demand from China to replace lost numbers has made it a more favourable destination with product being diverted at very high prices causing even more shortages across Europe and the UK.

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China along with other large import dependant nations are currently trying to form long-term trade alliances in an effort to ensure supply on a market short of raw material.

Pig slaughterings in the UK are 4% down year on year and in Scotland 5% year on year.

The EU supplies around 60% of pig meat consumed in the UK. British produce typically attracts a premium due to higher demand in certain sectors. The UK producers should also be able to capitalise on the increasing demand from China. Already this year pork and offal shipments to that country have increased by over 40% (Jan-Feb). Therefore, with EU prices moving ahead of British prices, if they stay there, it is inevitable that the UK pig price will ultimately also have to rise, not helped with the disruption to throughput over the Easter period.

In years gone by every time the pork price looks like gathering some upward momentum its followed by a crash. This time it will follow a very different pattern and could see a long period of sustained and firm pricing.

China just keep asking for more pork and the only market that can influence this, we are led to believe based on market intelligence, is if the USA (Mr Trump) and Beijing shakes hands and drop the USA tariff which has loaded their price with import tariffs. Only then will we see some downward movement in the EU price.

Currently US pork sales to China have hit record highs despite a 62% tariff imposed during the recent trade war between the countries.

Some UK producers are also committing to contracts in Europe to fill a shortfall in pig numbers - this again will not let pricing slip and prices will remain firm.

African swine fever remains a threat in Eastern Europe and Belgium

Swine fever has been found in Belgium pigs, and as a direct result the Australia authorities have banned supplies from Belgium and looked to source from both Germany and Denmark to fill the gap on supply with substantial volumes of pork middles, taking even further volume away from bacon producers. Pressure on the price of Bacon has become a reality over the last month alone with increases of 22.2 % and further imminent increases likely.

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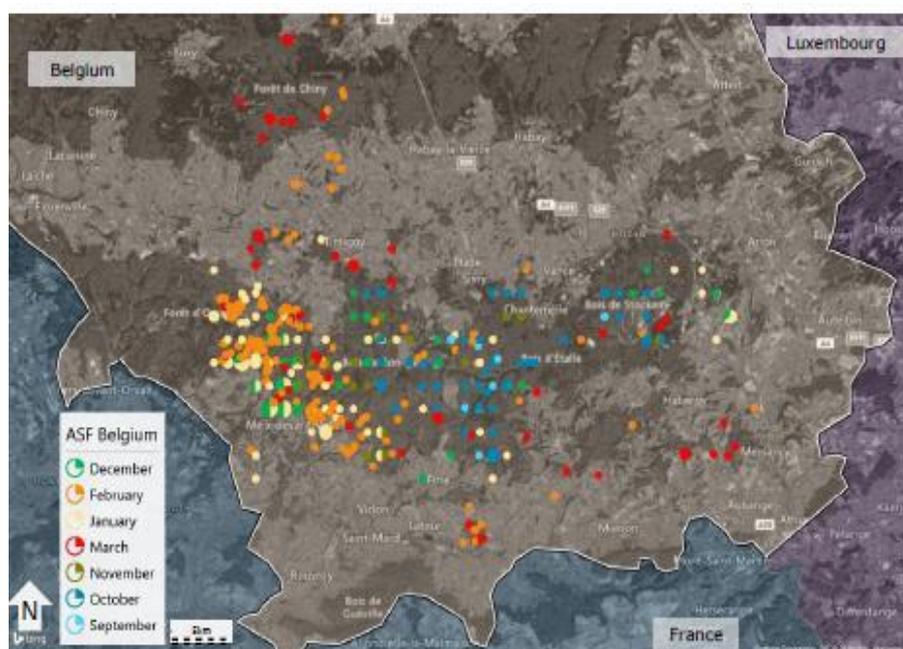
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EU Pork Prices Update

The EU dead weight pig price in the last three weeks has seen an increase of 25%.

This is without the impact of searing demand from China, thus creating the perfect storm for unprecedented price increases for Pork middles. Massive demand and very high priced contracts being sold across a range of cuts is pushing up prices and the shortage of supply.



The unpredictable nature of the way the disease is spreading has made many in Europe's pork industry nervous about the potential impacts on supply and the risk of ASF spreading further.

The risk of the situation in Belgium remains unchanged as cases continue to be reported. Recent cases in February and March have also been found outside the initial containment zone with the newest cases showing the disease spreading to the northern, southern and eastern edges of the containment zone.

Outbreaks in Belgium are now 1 km from France, 45 km from Germany and 150 km from the Netherlands. The spread to France is very possible considering the recent outbreaks so close to the border.

About ASF

African swine fever is a viral disease that causes high mortality in domestic and wild pigs. It spreads through close contact with infected animals or their excretions, or through feeding uncooked contaminated meat to susceptible pigs.

African swine fever affects only pigs and presents no human health or food safety risks. There is currently no vaccine to treat the swine disease.

Despite reporting what seems to be a gloomy outlook with all of the above, Pork still offers value and is still the cheapest protein available. It is just the scale of the rise from a low starting point which is unprecedented but is still value for money.

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Beef Overview

China also influencing global beef trade volumes

Global cattle prices have remained relatively steady however increased demand for beef from China has resulted in an increase in export trade amongst the major exporting countries.

Fresh/frozen beef exports from Argentina have surged in the first month of 2019, up over 40% compared to the year earlier.

Much of this increased demand has come from China, which is currently has African Swine Fever (ASF) widespread in its pig herd and as already stated, is a natural result associated with demand for all other proteins. However interestingly the increase in beef demand is reported to be supported by a genuine increase in demand from Chinese consumers and not just a replacement for pork.

Similarly, Australian exports are up 10% in the first month of the year.

GB Prime Cattle Prices

GB deadweight cattle prices were generally stable in the most recent week of price reporting. In the week ended 6 April, the overall prime cattle price remained unchanged at 335.7p/kg. Estimated prime slaughter also remained fairly steady on the week, totaling 29,900 cattle. Industry reports suggest that trade is beginning to turn a corner, although Brexit stockpiles continue to weigh on prices.

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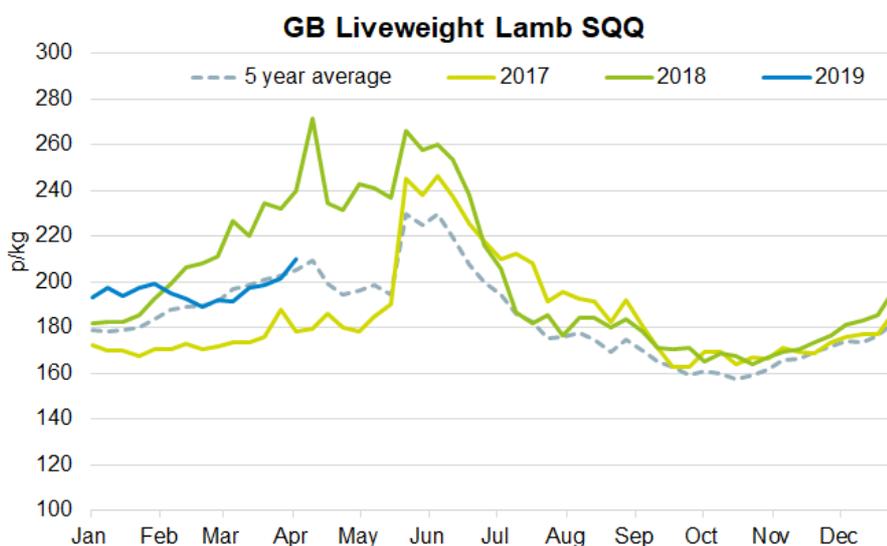


Lamb Overview

Big increase in Old Seasons Lamb price

Industry reports continue to suggest finished sheep are in short supply, which is in line with forecasts and supported by March slaughter data.

In the week ended 3 April, the GB Old Seasons Lamb price continued its upward trajectory, increasing by nearly 9p to stand at 210.22p/kg. The quote is now 5p above the five-year average.



The GB Old Seasons Lamb price also rose in the week ended 6 April, to 456.2p/kg. This is an increase of 18p on the previous week.

The New Seasons Lamb price gained a huge 16.64p, to stand at 260.01p/kg. Throughputs for the week totalled 139,000 lambs, 12% higher (14,530) than last week.

UK sheep meat imports plummet

UK imports of sheep meat have plummeted at the beginning of 2019. Shipments fell 19% year on year in February to 4,500 tonnes, continuing the dramatically lower imports seen in January. The value of February's imports was also down 19%, at £22 million. Last year recorded the lowest import volumes on record, so with this start to the year could we see volumes fall lower still?

Retail demand for sheep meat is dwindling and this could affect the future market in the UK keeping prices high.

Imports from New Zealand fell 30% to 2,600 tonnes. Around a third of imports from New Zealand are leg cuts, which are important in balancing the UK sheep meat market especially around Easter and Christmas when these are heavily promoted by retailers.

Imports from Australia were also down 18%. Although Ireland is a smaller supplier of sheep meat to the UK, these shipments increased 71% from last year to 795 tonnes, still not filling the gap.

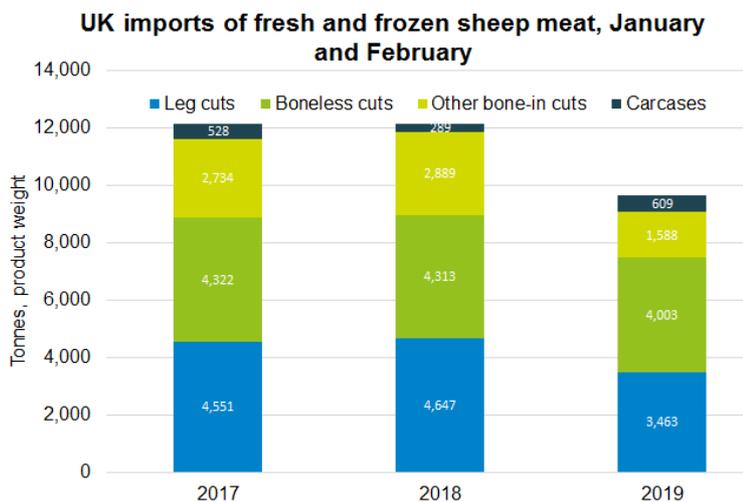
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Meanwhile, the UK sheep meat export market was more stable and is still a preferred destination for whole carcasses. Exports were up 1% year-on-year in February (6,600 tonnes), although across the first two months of the year shipments were 7% lower. This trend reflects shipments to France, the UK's biggest export market, with higher figures for February but lower figures for the year to date. In contrast, exports to Germany and the Netherlands were higher than last year across the first two months of 2019.

Poultry overview

UK fresh chicken prices remain the same but at this time of year traditionally back end and wings become in higher demand with the onset of the warmer weather and BBQ season. Therefore, we will probably see an increase in price.

Imported fresh breast meat seems to be rising a little but looking back to last year, this is in line with year on year pricing. Prices will probably be dependent on demand for other proteins associated with the ASF in Pork.

Supplies of fresh imported product will be tight and tested due to numerous Bank Holidays across Europe in the next month as well as our two scheduled for May.

Finally turkey, prices are rising at the moment and demand is high due to the "asparagus season" in Germany which over the Easter Period is equivalent to our Roast Lamb and mint sauce tradition.

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Industry News

World Pork Expo 2019 cancelled due to ASF

The National Pork Producers Council's (NPPC) board in the USA has announced its decision to cancel the World Pork Expo 2019. This is a precaution as African swine fever (ASF) continues to spread in China and other parts of Asia. The World Pork Expo, held each June at the Iowa State Fairgrounds in Des Moines, hosts approximately 20,000 visitors over three days, including individuals and exhibitors from ASF-positive regions.

African swine fever affects only pigs and presents no human health or food safety risks. There is currently no vaccine to treat the swine disease.

"The health of the U.S. swine herd is paramount; the livelihoods of our producers depend on it. Prevention is our only defence against ASF and NPPC will continue to do all it can to prevent its spread to the United States."

To end on a lighter note

We promised no Brexit news in this edition but could the below be like putting in the same room a group of remainers and leavers, Security may have to be "BEEFED" up in the meat isles across the country, be careful out there.

Retailer to offer vegan foods in the meat aisle

Plant-based alternatives in general have become so high in quality that most life-long meat eaters are now including these foods as part of their diet. It makes sense to range them next to each other in the same aisle and bring a wider breadth of options available to choose from.

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