



BIRTWISTLES

Market Report

SEPTEMBER 2019

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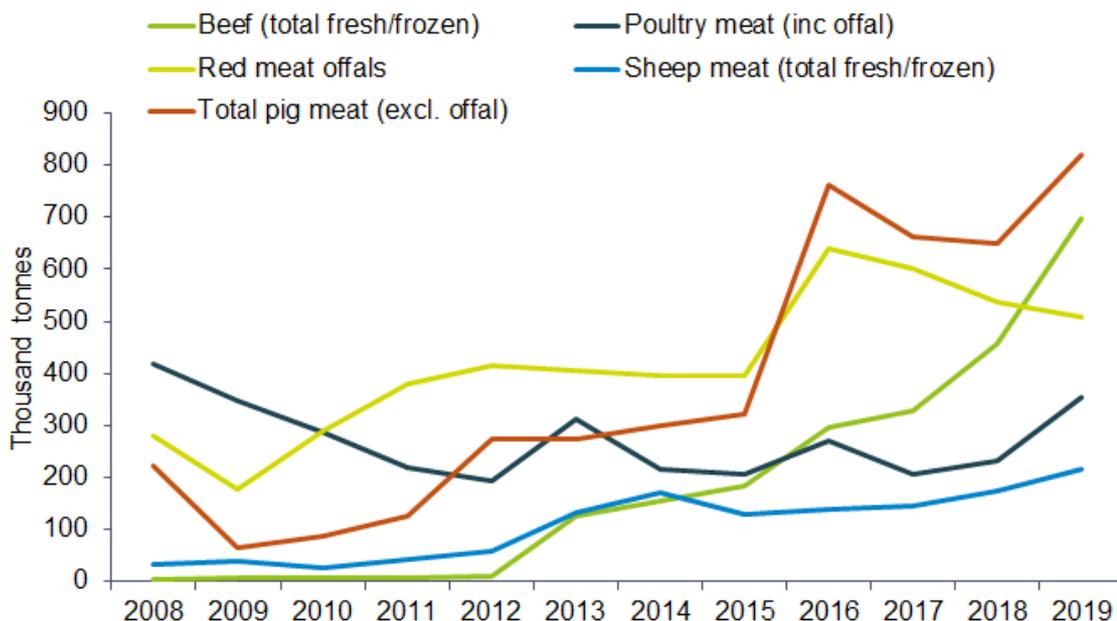
Key Headlines

As we start to move into the busy autumn trading period and a key planning phase for Christmas the impact of July and August's hot weather in Europe together with a lack of South American product in the market is hitting fresh turkey availability & prices and the fallout from the cull in pig numbers due to the African Swine Fever outbreak in China starts to bite across all pork cuts across EU and UK markets. Coupled with the uncertainty surrounding the UK's exit from the EU on October 31st the market is looking extremely volatile.

The position of turkey for Christmas is unlikely to become any clearer until producers have visited ANUGA (the main food exhibition held in Cologne, Germany in early October). We are busily continuing with our negotiations and conversations in efforts to secure volume across all protein types. Likewise, pork demand from China is driving significant market inflation and putting pressure on product availability. Since the discovery of ASF last year in its pig herd, China's demand for imported protein has surged. Imports of red meat and poultry, including offal, have increased by almost 550,000 tonnes in the first half of 2019 alone, according to official Chinese data. Imports now total 2.6 million tonne!

On a positive note chicken and beef markets remain reasonably stable however with the October BREXIT deadline looming uncertainty is very much the mood across all markets.

China meat imports, by volume, Jan - Jun 2019



Source: IHS Maritime & Trade - Global Trade Atlas®, China customs

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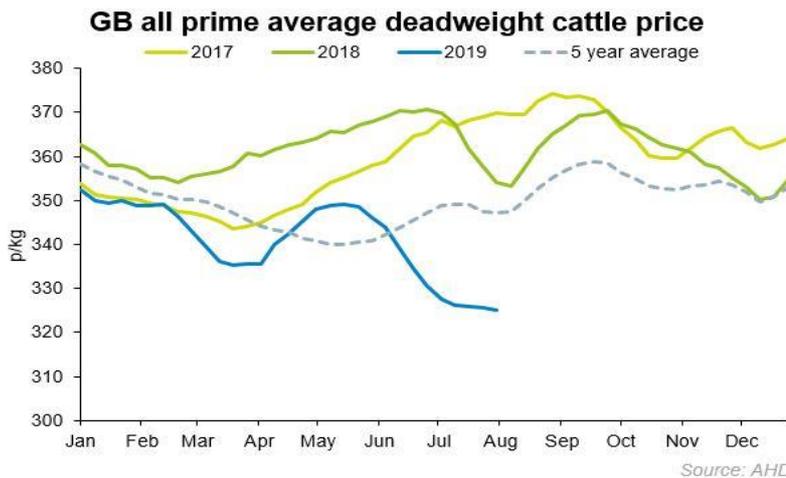
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Beef Overview

Range of factors affecting prime cattle prices



Although prime cattle producers have seen prices firm slightly in the week ending August 3rd, prices are still 8.5% below last year.

One of the contributing factors behind the current downturn in the cattle market is the general increase in supply of recent years.

Defra figures show that once UK production has been adjusted for international trade flows, the total volume of beef available in the UK has risen in each of the past four years.

In 2018, overall supply rose by another 3%, with a 5.4% in exports unable to offset a 2.2% lift in domestic production and a 6% rise in imports, driven by a sharp increase in frozen beef.

This is likely to have resulted in a significant carryover of stocks into 2019, which weighed on the market in late 2018 and early 2019.

Looking at the supply side of the equation in 2019, UK beef production grew further in the first half of 2019.

On the international trade front, although UK exports rose by around 8% and imports contracted by a similar degree in the January to May period, this was not enough to balance the market.

Consumer demand has also acted as a significant headwind to the beef trade in the summer of 2019, with the weather significantly altering the balance of retail sales.

Last year, adding together the sales of fresh and frozen beef and burgers showed an unchanged level of spending at GB retailers compared to 2017, with ideal barbecue weather boosting sales of steaks and burgers.

Seasonality of consumer demand shows that steak sales add their most value to the overall beef market during the summer months, contributing more than a third of sales value from only around a fifth of sales volumes.

Therefore, the sharp decline in demand for steaks this summer will have had a major impact on the overall strength of the market.

In 2019, it has not been just the domestic UK beef market that has been facing headwinds. The wider EU market for beef has been subdued despite relatively stable production levels and a rise in net exports, indicating an overall reduction in supply.

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As August began, EU average farmgate prices for prime cattle were trading around **5-6% below** year earlier levels, while cow prices were **down by 3%**.

Irish farmgate prices rose seasonally until late May, but have since fallen sharply, reflecting a lift in weekly slaughter numbers, leaving them down by 9% year-on-year in euro and by 7% in sterling.

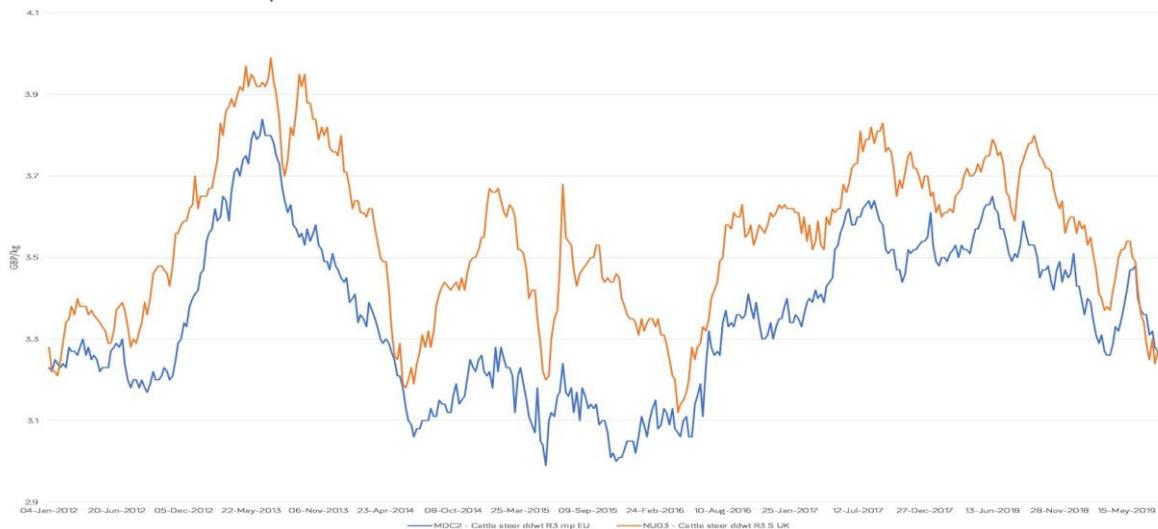
Interestingly, their average price in July 2019 was 6% lower than the levels of July 2016, but when quoted in sterling, prices were unchanged, with currency movements since the EU referendum hampering their competitiveness in the UK market.

Looking further afield, farmgate prices are looking better from a producer's perspective in the US, Brazil and Australia. However, stronger currencies have meant that farmgate prices in the US and Brazil have risen more slowly in local currency than in sterling or euro, making them less competitive internationally than in 2018.

In Australia, prices have been highly volatile in recent years, reflecting a drought-induced production cycle.

UK v EU Beef

UK and EU steer prices



In July 2019, Mintec prices for UK deadweight steer R3 grade fell below the EU price for the same grade for the first time since 2012. The average July price for UK deadweight steer dropped 2.2% m-o-m and 6.3% against the average price in July 2018. Exports of red meat and offal from the UK have enjoyed a strong start to the year with shipments surpassing 300,000 tonnes – up 13% on 2018. This equates to more than £711 million worth of beef, lamb and pork products were shipped around the world in the first six months of the year. This is a rise of 8% compared to last year, when red meat exports stood at £658 million.

The uncertainty over the UK's departure from the European Union is a key force behind the declining prices of UK beef. The Brexit deal deadline at the end of October is quickly approaching, and fears of a no-deal Brexit are rising.

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In preparation for a no-deal Brexit, a scenario which could delay supply chains and increase import tariffs, typical EU buyers of UK beef have started to purchase meat from other producers to reduce their dependence on UK products. Furthermore, on the UK side, to mitigate the consequences of a no-deal Brexit, suppliers have filled cold store stocks to help with potential supply chain congestions and shortages as the October deadline closes in.

On top of Brexit uncertainty, UK production has been rising. In July, the slaughter of all cattle types in the UK dropped 3% m-o-m but total beef and veal production in the month increased by 2%, suggesting higher cattle weights. In 2019 so far, between January and July, 536,600 tonnes of beef and veal has been produced in the UK, a 0.9% y-o-y increase. The increased production rates have added downward pressure to prices.

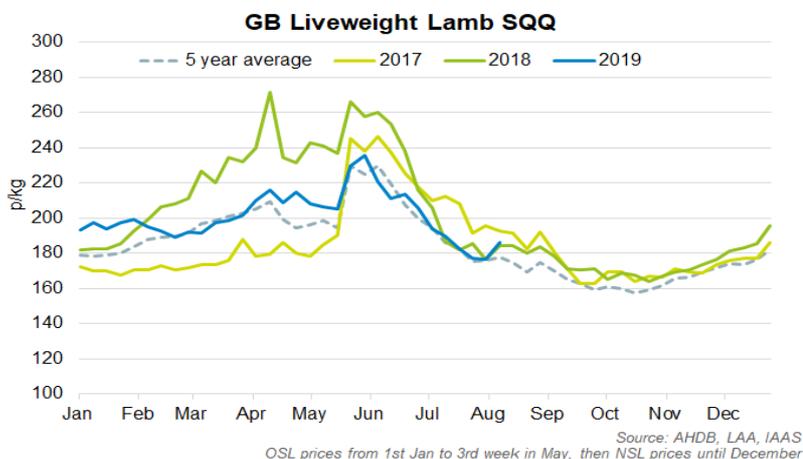
The declining UK beef price has also been symptomatic of the falling prices of EU price, although at a faster rate. Increasing imports from outside the EU and reduced demand within the EU has triggered the slide in prices.

Whilst we have seen some softening of the beef price, we need to measure the market position against a significant overall decline in returns for producers, especially for cattle hinds, which have halved year on year and slaughter costs which have risen more than 40% year on year. The impact of these factors is detrimental to returns right across the supply chain and looking forward to the rest of 2019, both the UK and Ireland have forecast the availability of prime cattle to tighten, and lower calf registrations are likely to keep that supply tighter going into final quarter and into next year.

Lamb Overview

Exports on the rise leading to tight market going forward

Commentary from the industry suggests lambs are likely to go short in the coming weeks. There were mixed reports as to whether lighter/leaner lambs were in demand or not. While industry reports suggest that longer term export orders are slow, driven by Brexit uncertainty, current demand for export lambs appears to be there. Total UK sheep meat exports grew by 24% in the first half of 2019 to 47,000 tonnes, driven by EU markets, with shipments increasing by 25%.



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Pork Overview

Record price inflation across all cuts driven by Chinese demand

EU pork prices have risen sharply as the global effect of China's domestic pork shortage on the back of the African Swine Fever outbreak starts to take its toll driving both UK and European prices upward across all cuts, including sliced cooked meats and bacon. EU prices are expected to strengthen further as we head towards Christmas driven by lower pig numbers globally, increased Chinese demand and expected seasonal uplifts.

Pork leg prices as an indicator of how inflation is impacting the market, are already north of the £2.00 p/kg barrier and are expected to see a continued rise with some forecasting the price to go beyond £2.20 p/kg. To put this in context of percentage terms, is 20% to 25% plus increase year on year. The knock-on effect will be felt across all pork-based product categories including bacon, gammon and cooked meats in addition to primal pork cuts.

To emphasise how demand for pork from export markets the UK's pork export market in June was the highest since 2016 – the last time China increased its imports in such volume due to sow shortages. Again, growth in shipments to China underpinned overall exports with volumes nearly doubled compared to a year earlier, at 5,300 tonnes.

Latest HMRC figures show that exports of pork and pig meat products for the first half of the year rose from 166,000 to 183,000 tonnes, worth £268 million – an increase of 15%. Almost half of the shipments were to non-EU third-country markets.

The prevailing African Swine Fever situation has driven demand for imported pork across the Asian region, and particularly in China. From January to June, the UK saw shipments increase by 56% to 57,000 tonnes, representing 35% of total UK pig meat exports.

Given the volatility of the market price suppliers are already giving notice that pricing will need to be agreed on an order by order basis so that the price paid reflects the cost at time of slaughter and won't commit to forward prices beyond a 7-day window.

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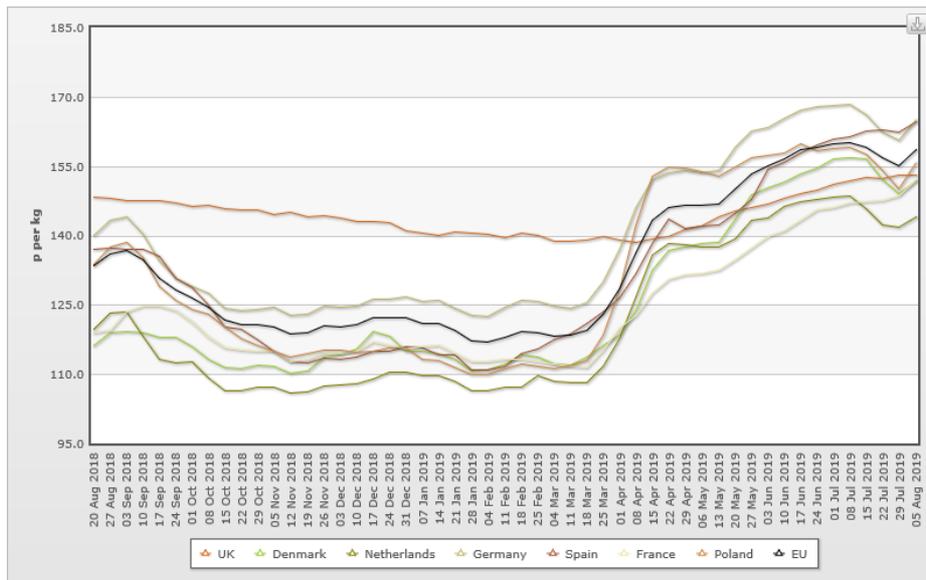
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Pig Prices

EU Reference Price over last 12 months is graphically illustrated below



Turkey Overview

Heatwave in Europe could lead to UK Shortage of Christmas Turkeys

French breeders say high temperatures have led to eggs being lost and UK supplies could be hit.

France provides about a quarter of eggs hatched in the UK that go on to become the birds that form the centrepiece of festive dining tables. The UK could face a turkey shortage this Christmas as a heatwave in France has resulted in dwindling supplies of eggs for farmers. Supplies are about 10% down on expected levels after temperatures have topped 40C (104F) in France. The potential egg shortages come as turkey farmers also face potential cost rises from a shortage of labour partly caused by uncertainty over Brexit which has put off workers coming to the UK.

Pricing movement is significant with prices up between £0.35 and £0.70 p/kg, the effect is being felt across primary and further process products including sliced cooked meats. There is little doubt that this will be an extremely tough Christmas on turkey as capacity in the market will be very limited keeping prices higher year on year.

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Poultry overview

Predictions for global poultry market in Q3: improved but fragile market conditions

Global poultry has experienced gradually improving market conditions in the first half of 2019, and this trend is expected to remain over the coming months, however the cautionary note needs to be that there is significant unknown looming on the horizon in the form of BREXIT.

According to research from the food & agribusiness bank, the main driver for the market improvement has been a more balanced supply in key trading markets like Brazil, Thailand, the US and the EU. China is the best performing poultry industry, with exceptionally high poultry prices due to the shift from pork to poultry as a result of the worsening situation with African Swine Fever (ASF) and very low breeding stock levels, which has pushed parent stock (PS) and day-old chick (DOC) prices up to historically high levels. The bullish Chinese market situation will have to be watched carefully as increasing demand may mean that China enters the EU and UK markets to meet their volume requirements.

The global poultry market has been on a rollercoaster ride in the past year, with a large oversupply in the second half of 2018 and early 2019 greatly affecting prices for globally-traded poultry products. The balance in the market is gradually returning, driven by stronger dark meat demand from Asia and Africa. Having said this, global trade volumes in Q1 2019 were just 2.8m metric tonnes, and at their lowest since 2015, indicating ongoing tough issues in poultry trade and ongoing low breast meat prices.

Brazilian global poultry exports year on year for the first half of 2019 have risen in both value and volume – according to statistics from the Brazilian Association of Animal Protein (ABPA) total exports in volume terms, including fresh and processed rose 5.8% at 2.433m tonnes with sales value up 10.8% at US\$4bn. The average export tonnage for the period stood at 347,600 tonnes. The overall rise in is attributed to rising prices and a resurgence in demand for Brazilian poultry meat. The average price for export has gone beyond us\$1,700 per tonnes over a US\$100 up year on year, with China being the main destination driving increases taking 52.7k tonnes up 15% year on year whilst Mexico, the largest importer in the Americas saw a 3% increase, taking 14.04k tonnes of product.

We expect prices to stay reasonably stable through September and early-October, but it remains uncertain as what impact BREXIT will have. Given the reliance of the UK on imported breast meat this is a risk to the market post October 31st.

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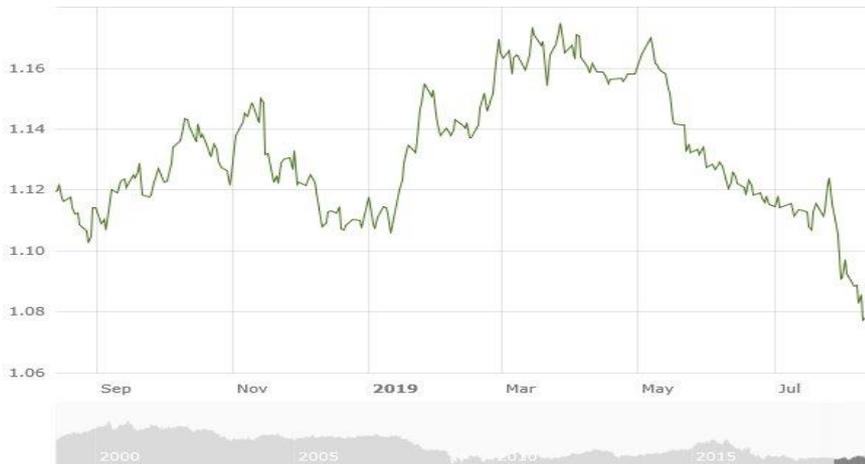
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Currency Overview



GBP vs. EUR

Impact of currency movements from May are also having a detrimental effect on prices. Since March we have seen up to 6% erosion of the £'s value against the Euro putting pressure on EU producers returns on exports to the UK. A similar level is seen for the value of Sterling against the US\$ putting some pressure on imported beef prices, especially those from South America.

Brexit Update

Delays and disruption expected to lead to some major EU Countries seeking alternative markets

Uncertainty is the word being used by most suppliers, importers and traders as we approach the October 31st deadline for the UK's exit from the EU. At the current time it is still unclear as to how this exit will be executed – "Deal or No Deal". What is clear that if it is a no deal scenario, we can expect significant disruption to the supply chain especially with long delays and rejections expected at border points. Given this there is a danger that some exporters will seek alternative markets for their goods rather than risk being held up or refused entry at port.

Only this week in meetings between government officials, Germany's Agriculture Ministry told Britain that the country's food producers would likely sell elsewhere rather than face border queues after a no-deal Brexit. German officials have expressed their frustration at how the Brexit negotiations had gone and said that food businesses in **Germany "expected" huge delays at the borders**. They said that despite the industry's efforts to prepare, the delays, coupled with any rise in tariffs, could persuade food producers to focus on other markets.

The warning will add to fears of food shortages in the UK in a disruptive no-deal scenario. Although the government has taken steps to keep cross-channel trade flowing — including temporarily removing tariffs on most imports from the bloc, even though they will apply to British goods heading in the other direction — trade experts say there's a serious risk that food supplies will be disrupted. Around 30% of British food comes from the EU, including nearly 40% of fruit and vegetables.

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Recently leaked Cabinet Office documents, named Operation Yellowhammer, stated that the flow of freight lorries could be reduced to "40-60%" of current levels on the main crossing between Britain and France. The documents also stated that supplies of certain types of fresh food would decrease, while the food production chain – especially fisheries, dairy, produce and meat product categories – would be hit hardest, with impacts also likely on packaging, seasonings and preservatives.

To put this in context, Germany is one of the major food exporters to Britain, responsible for around 14% of major food and drink imports. It exports over €700 million worth of meats, and the same value of fruit and vegetables, to the UK every year.

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