BIRTWISTLES

Market Report

MARCH 2020

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Key Headlines

With Corona Virus very much at the forefront of people's minds the report this month is focussed mainly on the projected impact of the recent Corona Virus epidemic, a view on how the Brexit trade negotiation positions may impact markets and brief summaries of the individual protein markets.

Beef Overview

GB prime cattle prices hold their ground.

There have been some positive movements in prices in the last couple of weeks, particularly for cattle meeting specifications. However, it is too early to tell if this is a longer-term change in direction.
The GB cattle population as at 1 January 2020 fell compared to last year, according to the latest data from the British Cattle Movement Service. The number of cattle available for prime beef production in the short term (dairy males and beef animals of either sex), between the ages of 12 and 30 months, was 57,300 head lower (-3.1%) than at the same point last year. Looking further ahead, the number of these cattle under 12 months of age is 21,000 head lower (-1.1%).

After several weeks of little movement in cattle prices, the week ended 22 Feb was a little more positive with a 2p increase in the GB deadweight all prime cattle price, taking it to 335.3p/kg. Despite the increase this is still over 11p lower than last year and the 5-year average.

Overall steer prices rose 2.3p on the previous week. Carcases meeting the R4L specification moved up too but by less, 1.4p to 347.0p/kg. Overall heifer prices were up too, gaining 1.3p on the week to average 336.8p/kg. Similar to steers, carcases meeting R3 and R4L spec were up by a lower 0.5p. Overall prices for young bulls were up 0.5p, there was a drop in the price of R3 spec but this was more than outweighed by a 4.6p increase in the R4L category.

Industry reports suggest there is some export demand now which is helping to absorb some of the current kill. Domestically however reports suggest demand is still weaker. Further reports suggest that while frozen stocks are now lower post the Christmas season, there is little appetite currently to re-build them against the background of weaker demand.

Throughput in the week was up on the previous week (+800 head) to 33,200 head, with some processors reported to be expecting slightly tighter numbers in the weeks ahead.
January beef exports have started the year at a relatively solid pace, but perhaps mask the challenges that lie ahead after widespread rain over large parts of Eastern Australia in the past fortnight, and potential market disruptions in large customer countries like China.

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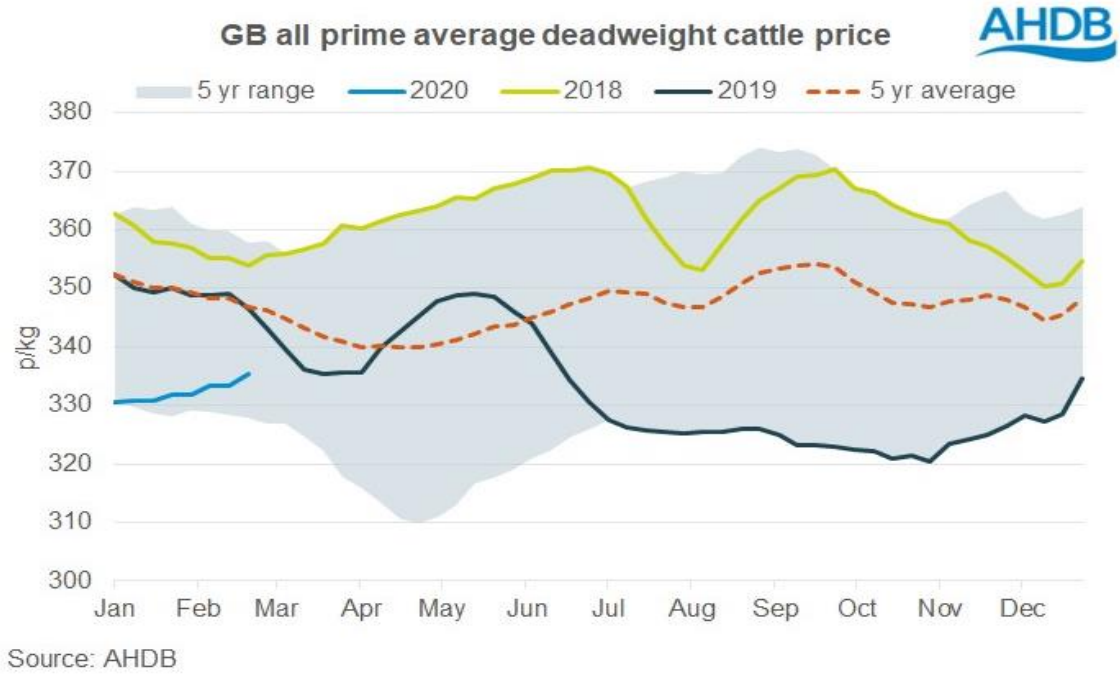
After a busy start to the 2020 processing year as dry conditions continued to push slaughter cattle to market, circumstances have changed dramatically in the past fortnight, suggesting this current month's figures may tell a different story.

January is inevitably the quietest month of the year by volume for beef exports, partly due to reduced processing activity caused by annual export plant holiday closures and maintenance, and a drop off in post-Christmas demand in some customer countries.

Exports to all destinations for January reached 79,221 tonnes – a 31pc decline from December, but an 18pc rise on the same time last year.



China market under pressure

While China finished the 2019 year as Australia's largest beef export market by volume (just over 300,000t), the market is now looking like coming under some pressure.

January exports, consigned too late to arrive for the traditional Chinese New Year celebrations, reached 21,026 tonnes, back almost 39pc from December trade.

Comparisons with January last year for trade to China lack significance, because the market's historic surge following the impact of African Swine Fever on domestic Chinese pork production only started to

impact beef trade around June/July. For the record, though, exports to China in January last year were 12,155t, still about 9000t behind the month just completed. To illustrate the longer-term trend, another year before that (January 2018), volume was just 7953t.

February and March exports will provide a clearer picture of the impact of the recent beef price slump into China which started late last year, made worse by the recent crisis associated with the spread of coronavirus.

Lamb Overview

Deadweight lamb prices leap up again.

The GB OSL liveweight SQQ remained relatively steady in the week ending 19 February. Prices averaged 238.94p/kg, just 0.02p more than in the previous week. Nevertheless, prices remain almost 50p above the same week last year. Prices reached a peak on Tuesday, averaging 243.51p/kg, but then dropped back as the week closed.

Throughputs rose considerably, totalling 115,800 head, 11% (11,400 head) more than in the previous week. This uplift may reflect producers taking advantage of the current good prices. Cull ewe throughputs also saw a similar uplift, increasing by 12% (3,300 head) to reach 31,800 head.

In the week ended 15 February, the GB deadweight OSL SQQ increased by 26.2p, to average 522.8p/kg. This is the highest average weekly price since June 2018 and puts prices almost £1 above the same week last year. Estimated slaughter also rose on the week, increasing by 10,600 head (6%) to total 202,400 head.

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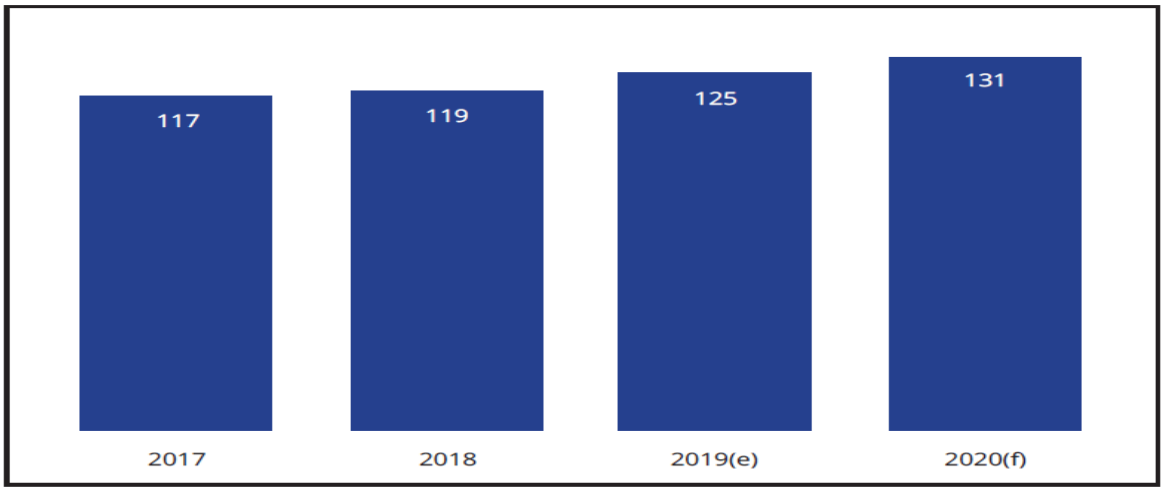
Poultry Overview

The epidemic of African Swine Fever in Asia has led to a staggering shortfall of 27 million tonnes of pork in China and 6.8 million tonnes in other Far Eastern countries such as Vietnam. Poultry is best placed to fill the huge gap and world productions will increase by more than 10% in 2019-20.

Asian needs are compounding the rising world demand for poultry of around 1.7% per year due to the growth of consumption in developing countries such as India, Pakistan and Indonesia. This high demand is partly met by the increase of production in exporting countries such as Brazil, USA and the Ukraine. [*Ukraine's deputy economy minister said on Friday that the European Union had lifted the ban on Ukrainian poultry meat, which had been introduced in January after Kiev had reported about an outbreak of highly pathogenic bird flu*].

World poultry production (2017-2020f, million tonnes) (Source: GIRA)



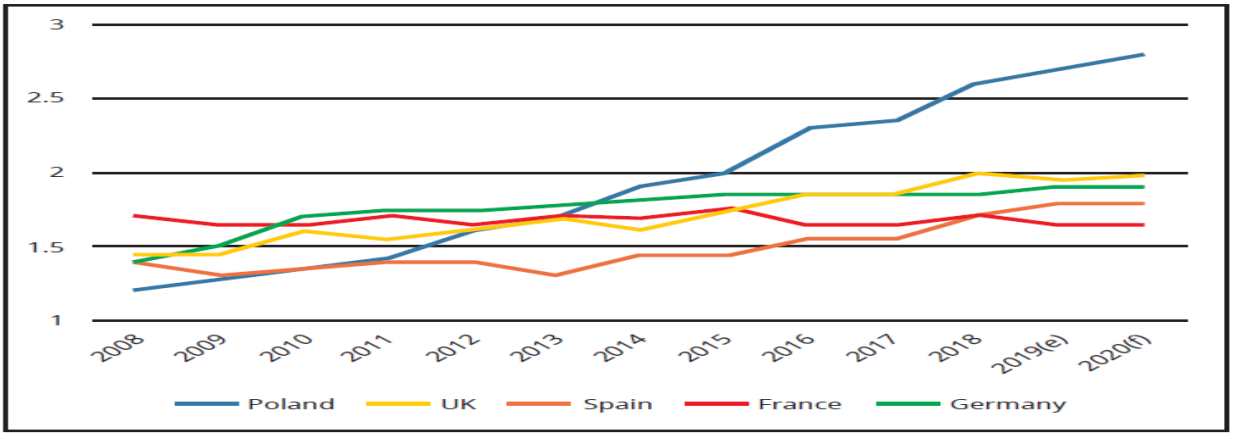
Whilst poultry production has been largely stable in France, Germany, Italy and the Netherlands, Polish output has more than doubled over the last ten years with the country now the undisputed European leader. Poland's large-scale chicken production benefits from low input costs and government support. It is increasingly successful with exports within and outside the EU.

Meanwhile, production in the UK has overtaken Germany and France and is now the second largest chicken producer in Europe and could well pass the 2 million tonnes mark in 2021. The European Commission forecasts an increase of consumption of 1.6% in 2020. This follows a rise of 2.5% in 2019. Europe now exports twice as many poultry products as it imports. Export volumes are rising fast: by 4.5% in 2019 and a forecast 2.5% in 2020. Poland and France are now approved to export to China and should

ship good volumes in 2020. Poland is expected to benefit most, as it has a higher number of approved plants and competitive prices. Still, world poultry prices are comparatively low, and the competition is widespread.
Ukraine is expanding its production fast with the main processor MHP rapidly becoming an important supplier of cheap poultry to the EU. In November, the EU agreed an additional tariff-free import quota of Ukrainian poultry in order to close a legal loophole. It is too early to ascertain what will be the effect of the closure of the EU market due to an outbreak of H5 Avian Influenza this January.

The new EU-Mercosur trade agreement for a tariff-free quota of 180,000 tonnes of poultry phased over 6 years will certainly be discussed further this year as Britain leaves the EU.

Broiler production in key European countries (2008-2020f, million tonnes)



Buoyant British market

According to the British Poultry Council, 1.899 million tonnes of poultry were produced in the UK in 2019 (-2% against 2018) made of 1.638 million tonnes of chicken, 148,000 tonnes of turkey and 29,000 tonnes of duck. Over recent years, the sector has benefited from the low Sterling and from the public support for domestically produced chicken. Still, imports are rising with Poland overtaking the Netherlands and Thailand as the largest supplier to the British market in 2019 and displacing Brazilian imports. Last year's poultry imports should top 900,000 tonnes with frozen chicken breasts from Thailand and Brazil the main product.

Brexit threats

Just like other sectors in food and farming, Brexit will have a large impact on British poultry. One can foresee three major threats:

• With 60% of the 91,200 people employed in the sector born outside the UK, access to foreign labour is essential. Recent discussions within government are rising hope that the minimum £30,000 wage condition will be dropped, and a point system established that would allow the employment of foreign poultry workers. This, certainly, will be amply discussed during this year.

• Will the fabled chlorinated chicken reach the shelves of British supermarkets in 2021? This is a good question that few people, if any, in Government will answer. We can be certain that the importation of cheap poultry produced to low standards will damage the industry economically and will affect the reputation of the product with consumers. Again, this will be a hot subject for the next few years as trade talks develop.

• Poultry like red meat is not produced 'in balance' and, in the UK, white meat has a greater demand than dark meat. Hence, exports to the EU, which represent about 70% of total shipments, worth about £340 million a year, are a critical part of the economy of British poultry production and continued access to the EU market is needed.

Czech Authorities to Cull Nearly 140,000 Birds at Poultry Farm Where Bird Flu was Detected

Czech authorities will cull nearly 140,000 turkey and chickens at a poultry farm where bird flu was detected, according to Agriculture Minister Miroslav Toman.

The infection, east of Prague, was the country's second case of the H5N8 bird flu virus this year after a farm in the east of the central European country was affected in January.

Testing proved that it is the highly pathogenic H5N8 bird flu version that is deadly for birds, however its transfer to humans has not been registered so far.

Bird flu cases have also appeared in other countries in the region since the start of the year.

It is also noted that another farm with 120,000 birds was in a 3-kilometre sanitary radius around the affected location, and authorities would decide on possible culling there in due course.

Pork Overview

The current coronavirus outbreak in the Chinese city of Wuhan has contributed to renewed concerns over economic growth prospects, particularly in China, causing distress to the global economy. According to media reports, deaths worldwide have reached at least 1,370, with over 60,000 confirmed cases. Since the start of the epidemic, many commodity markets have been inundated with a high level of uncertainty. According to market participants, the coronavirus outbreak is expected to have a worse impact on the global economy than 2003's SARS outbreak. This is highly likely, as China has grown from being the world's sixth-largest economy (representing 4% of the global GDP) in 2003, to the second biggest now (16% of

the world's GDP), highlighting that any slowdown in China's economy has a high probability of reflecting on the world's economy.

Mintec has analysed and dived into some of the commodity markets [pork & chicken] that are highly susceptible to the current epidemic.

China, the world's largest pork consuming country previously faced shortages due to the occurrence of the African Swine Fever (ASF), the coronavirus outbreak is further aggravating the market situation. The low domestic supply has been exacerbated by the coronavirus, as roadblocks and lockdowns disrupted the flow of the meat to consumers. Furthermore, the launch of new pig breeding facilities has been delayed by the epidemic. With regards to imports, there are reports that pork shipments from the US to China have been delayed as a result of slower unloading of the meat at ports. As a result, Mintec reported Chinese pork prices had skyrocketed at 167% y-o-y and 11% m-o-m just for the first week of February.

Additionally, according to the USDA, Chinese imports are forecast to be up 42% y-o-y in 2020 as a result of shrinking domestic production. Therefore, interruption in the revival of the pork industry due to the coronavirus coupled with higher reliance on imports is likely to result in firmer pork prices in 2020.

Apart from pork, chicken is the other meat impacted by the coronavirus. US and China recently signed a phase-one agreement, putting a halt to the prolonged trade war. China has been a lucrative market for US chicken, and the recent revocation of tariffs indicated positive signs of trade between these two giants. However, ships carrying refrigerated cargo containers of chicken from the US to mainland China are being diverted to ports in Hong Kong, South Korea, Taiwan and Vietnam which may cause delays and result in lower exports from the US to China. There's currently no evidence that this has impacted US prices because of the interruption to trade. However, if the disruption continues, the US chicken prices are expected to fall in the short term. Furthermore, Chinese chicken prices are currently falling on the back of poor domestic demand and the outbreak of the deadly H5N1 bird flu.

UK pork exports rise in 2019 while imports fall

Latest trade data from HMRC shows UK fresh/frozen pork exports in 2019 rose by 12% on the year, while imports were down 2%.

Exports

UK pork exports increased again in December 2019 to 17,600 tonnes, up 1,500 tonnes (9%) from the same month in 2018.

Shipments to China during December followed the trend of recent months, doubling in size year-on-year to total 7,400 tonnes. This was, however, down from the highs of the previous month. Shipments to the EU overall were down on the year, although there were mixed movements for individual markets.

Exports of fresh/frozen pork for 2019 reached just over 244,400 tonnes, up 12% on 2018.

As in December, shipments to China for the full year of 2019 doubled on the year before, totalling 81,400 tonnes. Exports to the Netherlands also grew on the year by 58%, potentially as some UK products are exported on from there to other destinations.

Shipments to other EU countries like Ireland and Germany remained flat in comparison. Overall, shipments to the EU were down 6% from 2018.

Imports

UK imports of fresh/frozen pork in December stayed relatively stable year-on-year, rising by just 0.2% to 36,300 tonnes. However, there were noticeable declines in imports of other pig meat products, meaning total pig meat imports were down 8% overall.

This brought fresh/frozen pork imports for the full year to 447,800 tonnes, down 2% from 2018. Again, larger declines were seen for further processed products, meaning total pig meat imports were back 7% for the year overall.

CORONAVIRUS UPDATE

The new coronavirus outbreak in China has hit global supply chains hard and spurred sourcing away from the world's manufacturing hub — a shift that started amid the U.S.-China tariff fight.
As business activity and transportation has been restricted in many Chinese cities, companies unable to fulfil contractual obligations are applying for force majeure certificates issued by China's Council for the Promotion of International Trade.

Companies that present such certificates to the counterparties of their deals could — depending on the clauses of their contracts — be absolved from paying penalties for being unable to fulfil agreed upon terms due to circumstances beyond their control. China's total trade reached 30.51 trillion Chinese yuan ($4.4 trillion) in 2018.

Since it announced the availability of these slips at the end of January, the council has issued 1,615 of these certificates in just two weeks, Xinhua state news agency reported, citing data from the council. Those certificates cover a total contract value of 109.9 billion Chinese yuan ($15.8 billion) worth of goods that could be cancelled or for which fulfilment could be deferred, Xinhua reported.

Most of the applications for the force majeure certificates had been from Chinese exporters, although there were a few inquiries from importers, Reuters reported, citing an unnamed source.

The demand for these slips — which Xinhua reports stretches over 30 sectors — underscores the impact that extended city shutdowns and factory closures have on international supply chain, trade and shipping in China.

Dun and Bradstreet estimate that there are around 22 million businesses — or 90% of all active businesses in China — within the regions impacted by the new coronavirus, now formally named COVID-19. This in turn, would impact at least 56,000 companies around the world with suppliers either directly or in the first and second tiers, said the commercial data and analytics consultancy.

Impact of coronavirus on global markets

Coronavirus is currently a global talking point, although reliable data is hard to come by in terms of its impact on agriculture. Trade data will show us the impact for product going into China, but information on trade is always a few months behind, so it will be a while before we see the impact flowing through that. However, here we do have a round-up of what we do know and share our perspective on the impacts.

Economic activity in China was much reduced for the New Year holiday, and then beyond as the government tried to limit the spread of coronavirus. While some businesses were starting to operate again from 10 Feb, the recent increase in cases and deaths from the virus are likely to hamper their performance. China is very disease conscious, so even if businesses are operating, consumers will still avoid public contact and social occasions where possible.

The key impacts at present are:

•Chinese frozen food stocks are at very high levels. Every year, during the run up to Chinese New Year, the volume of food in storage increases. Due to the quick spread of coronavirus, several Chinese New Year celebrations were cancelled, and, as a result, frozen stocks were not depleted as usual.

•With Chinese frozen stocks at such high levels, temporary suspensions of imports have been reported, and further suspensions are possible.

•Out of home consumption is the most severely impacted, with many restaurants temporarily closed. However, some of the eating out losses will be offset by home delivery, and an increase in retail sales as people stock up on the necessities.

•The Chinese government is encouraging supermarkets to remain open, although reports suggest retail food prices are rising. There are reports of an increase in online food shopping, although this is being limited by the capacity of online retailers to cope with the increased demand.

•Supply chains are significantly disrupted, due to restrictions on movements into and out of infected areas, and workers staying at home to avoid contracting the disease.

The challenge for meat and dairy is the different foods consumed at home compared with at restaurants. Just over half of imported beef and almost two-thirds of imported sheep meat is consumed out of the home in China. That means the closure of many restaurants will hit these sectors hardest. Pork and dairy consumption are also being impacted by the closure of restaurants, although retail sales are only reported as showing marginal reductions.

On the supply side, farmers are having to slow production to deal with the transportation issues, particularly in getting feed in as well as product out. In some cases, they are also having to deal with a reduction in the number of workers. All industries are being impacted by supply chain logistics, although this is a bigger challenge for the more perishable products such as raw milk.

Impact in Europe

The impact on **beef** in Europe is likely to be limited, as the European market (including the UK) is self-contained, neither importing nor exporting large volumes. There are also few options for imports to increase due to the quota limits, and high tariffs on volumes outside of quota limits.

For **lamb**, if New Zealand's exporters are confident, they can continue to achieve higher prices in China than in Europe then the impact on lamb is also likely to be minimal. However, logistical challenges and the loss of out of home sales will be impacting lamb sales. If exporting to China becomes difficult, even temporarily, then Europe could be a good alternative for this product. The Middle East and the US would probably see imports increase also. It is worth noting that freight between New Zealand and China is approximately two weeks, compared to the six weeks to the UK. Overall, whether we see a rise in UK imports of lamb will depend on how New Zealand exporters need to manage their position.

For **dairy**, the reduced footfall at grocery retailers will be increasing the stock levels at retailers leading to the potential for increased food waste. For the UK, trade with China is still small compared with domestic and EU sales. It is more likely that the EU and UK will see a knock-on impact from New Zealand being unable to ship product into China and looking for other outlets instead.

For **pork**, during the first week of February China suspended pork trading and the US hog futures market reacted negatively to the news. While trading has re-started, coronavirus is compounding supply chain issues associated with African Swine Fever (ASF) and it is likely that further logistical problems will emerge going forward. However, it is also likely that it will now be more difficult for attempts at herd rebuilding to get underway. This could mean Chinese pork production declines by more than expected this year, generating an even larger supply gap, which may ultimately encourage imports.

Some exporters also believe the coronavirus outbreak could increase demand for imported products longer term. Clearly, with the situation still developing, any possible impact is difficult to anticipate currently.

BREXIT

Whilst the UK Government won a stunning electoral victory pronouncing “Get Brexit Done” we are far from that being the case. The recent announcements on the proposed new immigration points system have been met with stark warning for the food industry, particularly from the meat trade. The British Meat Processors Association [BMPA] have stated that the new system “will not deliver what the meat industry needs in order to maintain adequate staffing levels”. Many UK meat processing plants are in areas that have very low unemployment which means the candidate pool which is already small will be further stretched. This is on the back of for many years being unable to attract and retain domestic workers.

The BMPA have also criticised the Governments suggestions to mitigate the lack of access to staff. Investing in technology as one suggests route is not easy to apply to meat processing operations as animals sent to slaughter come in all different shapes and sizes hindering the use of a standardised, automated process on any kind of scale. Another suggestion was to improve working conditions to make the industry more attractive to domestic workers. However, whilst this might be possible in other manufacturing environments the nature of the meat industry with the strict laws governing hygiene, temperature and food safety mean working conditions are going to be more challenging.

The British Poultry Council (BPC) go further with their criticism, stating the current immigration proposals limit access to labour and have the potential to cripple food businesses and make access to quality British food very hard for the vulnerable. Their fear is a two-tier food system where the UK imports food produced to a lower standard and only the affluent can afford high quality British produce.

Likewise, the National Farmers Union (NFU) are also highly critical of the proposals. They are disappointed that there is no recognition that farm businesses need a full range of skills – from pickers and packers to meat processors and vets. Conceding that automation has a role to play but there is currently no viable alternative to replace the number of people needed especially during seasonal harvest peaks. For the UK horticulture industry alone, there is a need for approximately 70,000 seasonal workers.

Latest indications are that trade talks are likely to fraught and the potential for deadlock increased. However, both outcomes seem to remain on the table – leaving with a trade or leaving with the much feared no deal position. There is still a lot of work to be do on both sides to meet the UK’s drop-dead date for exit on 31st December this year.