BIRTWISTLES

Market Report

OCTOBER 2019

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Key Headlines

The uncertainty surrounding the UK's exit from the EU on October 31st is the single biggest issue generating an extremely volatile set of market conditions across all proteins. A no deal scenario would be damaging in terms of availability and increased costs given the imposition of tariffs and levies on imported meat together with deficiency of UK meat production. The hope for the industry is that a suitable withdrawal agreement will still be achieved before 31st October. Whether that means Brexit will be delayed or the UK leaves without a deal remains to be seen.

The position of turkey for Christmas is becoming clearer however the forecasts for product availability and price are not positive. A more detailed summary of the market is included in this report.

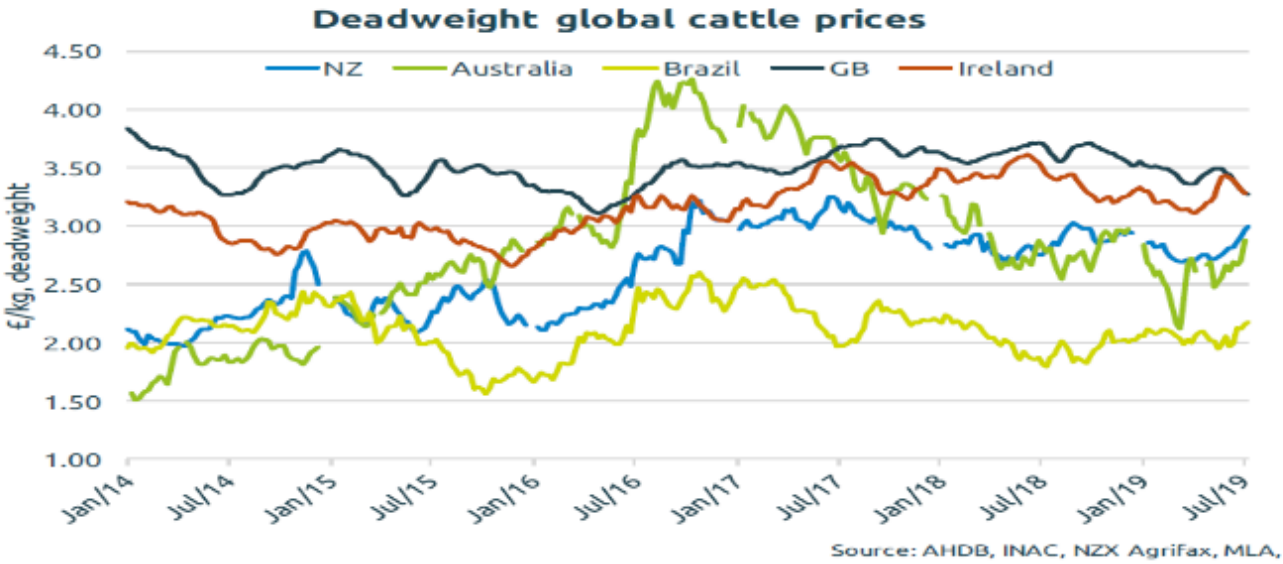
Pork likewise is still in turmoil as African Swine Fever continues to affect the market. The prognosis is that these challenges will be with us for some time yet as demand for pig meat from China shows no sign of dropping.

Beef Overview

Cattle prices remain steady

Once again, deadweight cattle prices remained stable and there is virtually no change to the all prime GB average price.

There several factors that are causing a lack of movement in the beef price despite a lower deadweight cattle price year on year, even though the UK price is still amongst the highest globally.



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Impact of imports and exports.

As you know the UK beef market imports a lot of Irish beef. Approx. 50% of all Irish beef exports currently are exported into the UK so any disturbance to the Irish supply will have an impact on price. A large factor affecting current prices is due to the farmers protesting in Ireland and effectively stopping all our Irish sites processing approx. For example, affecting 20,000 cattle over two weeks in wc05.08 and now wc26.08 and is likely to continue into next week. This will backlog even more farmers cattle that are fit for slaughter until whenever the protests cease so the cattle price being paid is unlikely to change for a few more weeks. This has effectively reduced the supply of beef without altering demand, so prices of certain cuts have gone up. Before the strikes started at the start of August, there were surpluses of beef across certain cuts which is why my August prices were the lowest that they had ever been particularly on striploins and topsides, but these have been moped up with the reduction in supply from Ireland.

Another reason for the increase in prices of certain cuts is the particularly poor trade for very low VLs such as 70vl and 75vl. These VLs account for about 15-20% of the animal and the prices being achieved for these is at an all-time low however there is limited use for this raw material in either of the retail or food service sectors. Companies are very wary about killing more cattle as they would be just adding to their stock which could create other issues such as logistical and freezer space issues so prices on other items had to increase in price to offset the negative knock on effects of building more 70 and 75vl stocks and the implications that come with that.

UK producers are also commanding a premium for their beef on the export market, helped by the weak £ making their product more competitive aboard, which is sucking up a decent amount of volume.

Quality differences between UK, Irish, South American and other EU sources vary greatly and whilst there are some cheap parcels of beef available the eating quality would not be in line customer expectations.

Carcase Balance

Another reason is the difference in demand across the whole animal across the year. As we are coming into September, we are seeing the demand increase in topsides and rounds as we do every year, whilst trims for burgers and steak cuts carry a premium and increased demand through summer months. For example, cost prices for topside price September 2018 vs 2019 are the same, while in prices for 85vl, fillets, rib-eyes, striploins and rump-hearts where between 10ppkg and 20ppkg more expensive.

Processing Costs

Costs for slaughter and processing have increased almost 40% diminishing returns.

5th Quarter Returns

Likewise returns for 5th Quarter products, offal and especially hinds which have more than halved, again diminishing overall returns.

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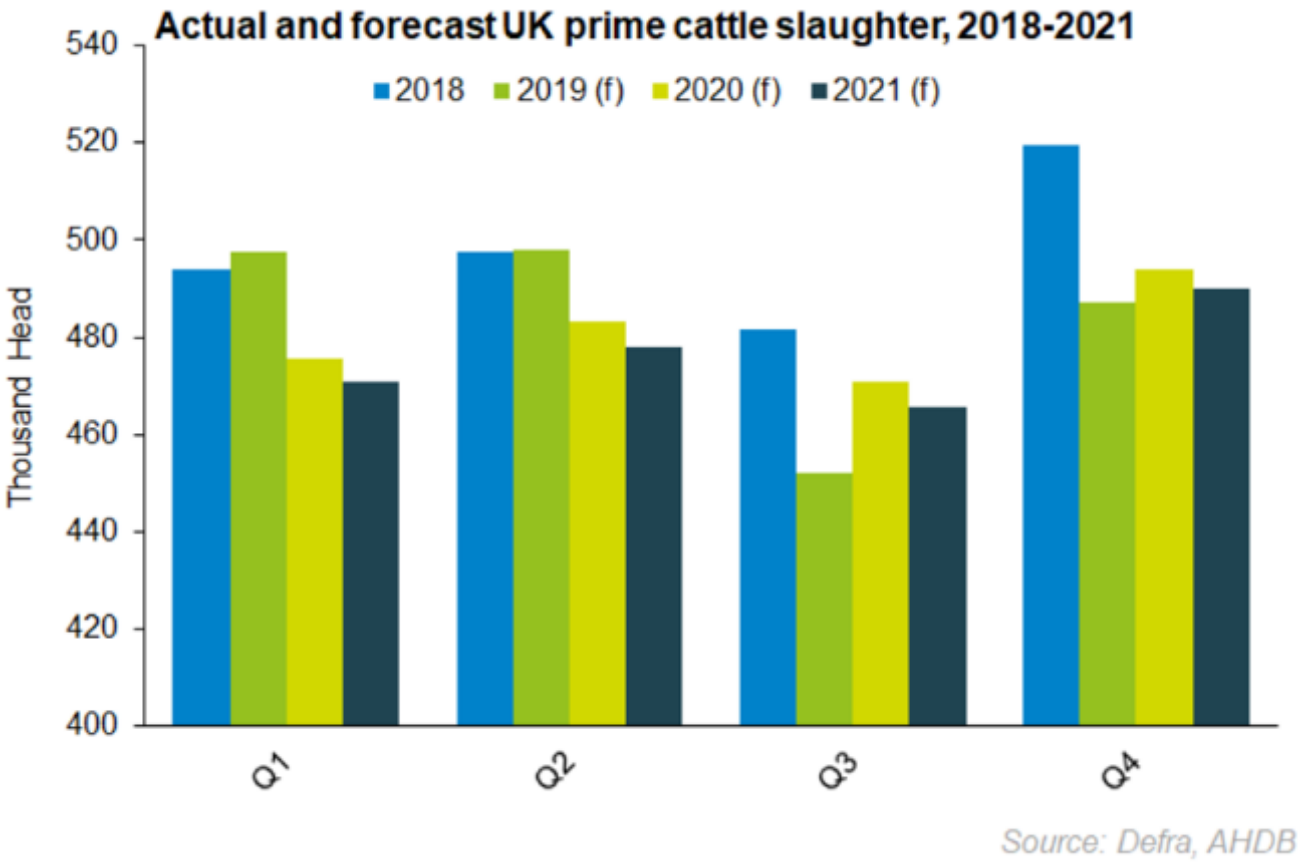
Lower Slaughter Numbers

Although prime slaughter was higher than anticipated in the first two quarters, overall for 2019 the slaughter forecast remains unchanged. Numbers on the ground, along with historic calf registrations, indicate an overall decline in prime slaughter should still expected in 2019. Total prime slaughter is estimated to be about 1.93 million head, a 3% decline on 2018 levels. Supplies of cattle are expected to continue to remain at that level if not slightly lower in 2020, as lower calving's in 2018 continue to take effect.

Cow slaughter is also still expected to decline overall in 2019. With a milk price that is relatively strong now, and fewer dairy replacements coming through, we are expecting to see fewer dairy cows being sent to kill, which will reduce the overall number of cow throughputs. However, the cow price has held up well compared with the prime price, which would encourage some farmers to cull.

Forecast for lower beef cattle slaughtering is below and paints the picture that raw material is going to tighten going in to the 3rd and 4th quarters of 2019, with little signs of recovery for 2020 and 2021.



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Irish Farmer Protests

There appears to have been some significant progress in ending the recent farmer protests at meat production sites in Ireland over the last week or so. A brief summary of the situation and an outlook are below.

Meat Industry Ireland (**MII**) agreed to enter talks with the six Farm Organisations on Saturday 14th September at the request of the Minister.

After some 35 hours of continuous talks, all parties signed an Agreement on Sunday 15th September at 3pm that committed all organisations to an immediate cessation of the protests in return for an agreed package of measures. By 6pm that day, one of the Farm Organisations reneged on the Agreement and as a result the protest and blockade persisted. However, as the week wore on, the numbers protesting diminished but nonetheless it has not been possible to resume any activities at any site that was blockaded.

In more recent days on the PR front, there has been continuing and unrelenting pressure on Beef Plan (BP)/protesters to step off the gates; numerous statements were issued at a recent Ploughing event from the President to the Taoiseach, from all the main Farm Organisations including IFA, ICMSA; Producer and Breed Groups; Bord Bia and from many politicians and opinion formers.

On Wednesday 18th September the protest was stopped at Dawn Slane and other blockaded sites are beginning to show signs that the protesters are considering stopping but there is lots of disagreements among the protesters so it's not a straight forward decision process.

MII members, with some reluctance (because of the failure of the Farm Organisations, for the second time in recent weeks, to respect an Agreement reached under the Chairmanship of the Minister for Agriculture) agreed to sit tight for another few days to allow the protesters to comply with the Agreement. It is however, evident that patience is wearing thin as we are also very conscious of the hardship being caused for production staff.

This situation has meant sites which where blockaded stock has accumulated, resulting in producers having to move the product on. Some have been able to distribute meat products to their staff that are currently experiencing temporary job loss as a result of the blockades. While other surplus stock was donated to local charities.

Despite the difficulties producers have attempted to keep their customers served from the stock they have as best as possible despite the blockade of trucks etc.

After weeks of protests, all farmer-led protests outside the country's meat processors have officially stood down.

Following 48 hours of deliberation between the remaining protesters and various mediators, Liffey Meats in Ballyjamesduff, Co. Cavan, Liffey Meats in Ballinasloe, Co. Galway, and ABP Clones, Co. Monaghan, were the last remaining protests to stand down on Sunday night, September 22.

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Beef processing recommenced at some sites yesterday, Monday, September 23 – with factories keen to maximize throughput and return to full processing capacity. All plants are expected to be fully operational this week.

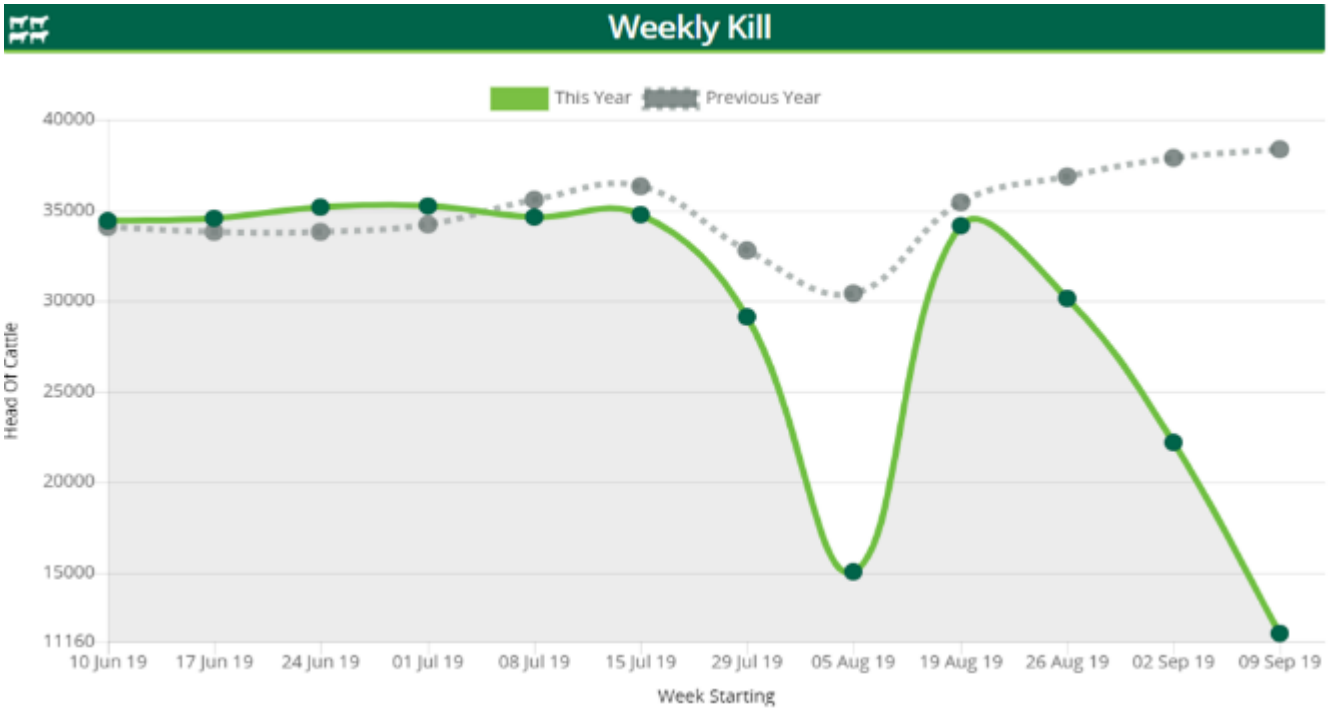
MII has said it will now commence implementation of the Beef Sector Agreement – which was established on September 15 – now that the protests have ceased.

Information from processor procurement managers, seems to suggest it's a case as you were when it comes to base quotes available in beef processing plants. Factory agents have noted that there is a large pool of cattle to process as a result of the protests.

The recent spell of heavy rainfall will also put pressure on farmers to come out with cattle.

The weekly kill impact of the protests took circa 20k animals out of the system weekly. These are likely to be moved through over the coming weeks although it is expected that the raw material will be filtered in to the market rather than flooded in order to maintain prices.

Figures from Department of Agriculture - Ireland



UK v EU Beef

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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. 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.

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Lamb Overview

Increased supply of lamb impacts market

An increased supply of lambs has acted as brake on prime sheep prices over the past couple of months with prices well below last year's levels in the UK and Europe, according to the latest market analysis from Quality Meat Scotland (QMS).

During week ending 9th August, prices were more than 5% lower than last year in Germany, Spain, France and the Netherlands. Ireland fared slightly better with prices down just over 2%.

The UK price in Euros was nearly 9% lower however, there is some indication that prices are now stabilising.

Data shows that during June and July, UK abattoirs slaughtered nearly 5% more lambs and that carcase weights were higher, compared with last year. This has significantly increased the volume of domestic sheepmeat available.

The number of lambs reaching the market has continued to rise seasonally into August but because of the delays to marketing in 2018 caused by last year's weather, slaughter numbers are now like last year rather than well ahead of last year.

"The importance of Muslim festivals continues to be illustrated by the lift in prices, despite good marketing, in the run up to the "Eid al Adha" only for them to dip away again in the following week.

However, this week prime lamb prices have seen some modest firming to bring them to very similar levels to last year. Also helping the market is the weakness of sterling in response to concerns that a no deal Brexit is increasingly likely.

Over the past month, the sterling exchange rate with the Euro has gone from around 89p to one Euro in Mid-July to 92p per Euro in mid-August and has been weaker than a year ago since late May. As such an unchanged Euro price would realise just over 3% more sterling value.

The weak sterling and a lack of interest from New Zealand in the European market has helped the UK increase its exports of sheepmeat to Europe over the past quarter with strong growth to Germany but also increased deliveries to France, Belgium and the Netherlands.

On the home market, Kantar Worldpanel retail sales data also shows some growth in the volume of fresh and chilled lamb bought by UK consumers in recent months compared to last year. This may be associated with the very different weather conditions this year compared to last, although there has been some minor reduction in retail prices.

Despite the growth in exports and, in comparison to last year, a modest increase in retail sales providing some short-term positivity, which has perhaps helped support short keep store lamb prices at early sales, the uncertainty over terms of trade in November remains as a dark cloud on the horizon.

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Pork Overview

China now a pillar to global meat markets

While African Swine Fever (ASF) has dominated headlines over the last year, and added further fuel to imported meat demand, the growing importance of China as a global meat market has been underway for the past decade.

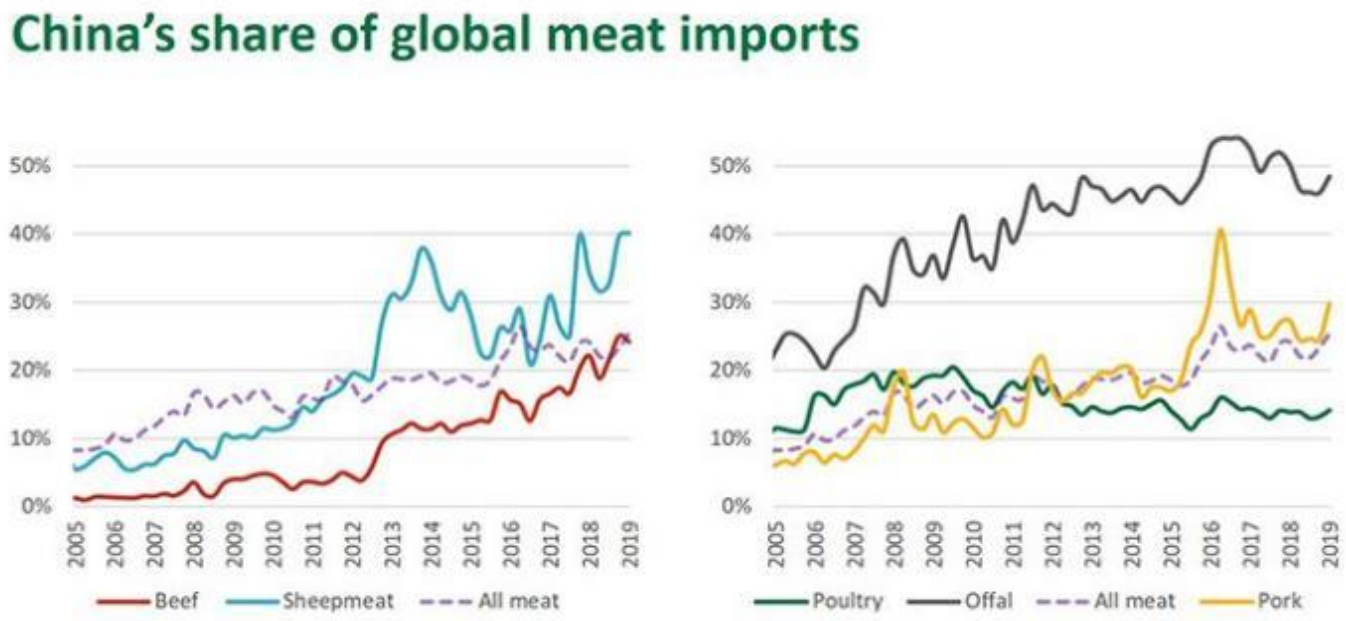
Inclusive of Hong Kong, China is now the world's largest destination for beef, sheepmeat, pork, poultry and offal, pulling in close to one quarter of total meat traded on international markets.

Never in modern history has the global meat trade centered so much on a single country.

Demand from China has been critical in supporting the value of Australian beef and sheepmeat, especially during recent drought-induced elevated livestock turnoff, but the dominance of a single market poses risks as well as opportunities amidst the current turbulent global trade environment.

While China has always been a large animal protein market due to its sheer size (representing an estimated 46% of global pork consumption, 15% of poultry, 11% of beef and 33% of sheepmeat in 2018), its growing importance as an importer is evidenced across most meat proteins. This rise has been underpinned by environmental and resource constraints limiting production capacity and consumers shifting, as they become more affluent, from carbohydrate grain-based diets to protein-rich foods derived from animal products.

As highlighted below, China's share of global beef imports increased from 4% to 23% between 2009 and the most recent 12-months of available data, while sheepmeat jumped from 10% to 36%. Pork imports have lifted from 12% to 26%, while offal has increased from 38% to 47% over the same period. China's share of the global poultry trade has remained flat due to expanding domestic production.



Source: IHS Markit, MLA calculations
Figures are quarterly series and include external trade to China and Hong Kong from major exporting countries

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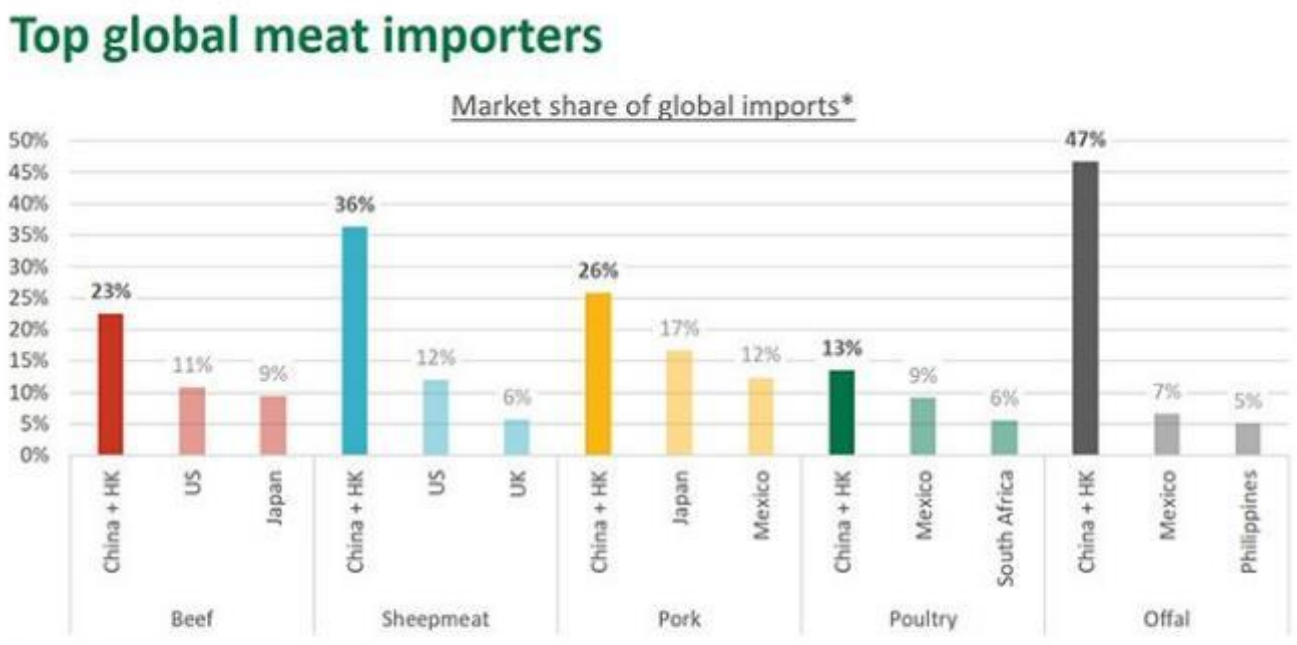
China's expanded presence as a major meat buyer has been critical to supporting global prices at a time of record meat production and trade, especially for key exporting nations such as Australia. However, as the importance of China grows, so does its influence upon the market.



Source: IHS Markit, MLA calculations
*estimates based off available export data over the period Q2 2018 – Q1 2019, *Poultry* inclusive of poultry offal, *Offal* includes offal from all other species

China's pork imports rose 76% in August from the same month a year earlier, as the world's top consumer of the meat stocked up on supplies after a deadly disease decimated its pig herd.

China took in 162,935 tonnes of pork last month, data from the General Administration of Customs shows, up 76% from August 2018 but down from July's 182,227 tonnes.

A year-long epidemic of deadly African swine fever has reduced the world's biggest pig herd by almost 40%, according to official data, pushing up meat prices to 41.9 yuan ($5.89) per kg ($2.67 per pound) and driving the country's food price index to its highest level since January 2012.

China's pork imports for the first eight months of the year were 1.16 million tonnes, up 40.4% from a year earlier.

Beef imports reached 130,619 tonnes, up 32%, bringing volumes for the first eight months to 980,334 tonnes, a 54% jump from a year ago.

Imports of chicken in August rose 51% to 67,074 tonnes, with total volumes so far this year at 483,743 tonnes, a 48% rise.

Meat imports are forecast to rise further, with the commerce ministry saying higher shipments and the release of frozen pork reserves would help ensure supplies.

China's official Xinhua news agency said earlier this month that the country will buy more agricultural products from the United States including pork, waiving tariffs on the imports, which it hoped would release some of the pressure on demand from EU and UK. However, the news report did not give further details and to date there has been no confirmation from the Chinese Government.

Two major and potentially competing, forces will dictate global trade flows and imported meat demand in China in coming years: ASF and the economic impact of the escalating trade tensions with the US.

The gap left by ASF

ASF will leave a massive hole in China's domestic meat supply, with estimates for the 2019 decline in pork production ranging from 20-40% (or 10-20 million tonnes). Even if a conservative decline were to come to fruition, there would not be enough meat traded on the global market to fill the gap. After rising steadily in 2019, wholesale pork prices in China have surged in recent weeks, surpassing the ¥30/kg ceiling previously tested in 2016.

Over the past year, the price of pork meat rose more than 40% in China.

African swine fever disease has blighted the country's pig herds, reducing the livestock population by a third.

Analysts warn that a full recovery is still five years away.

The continued rise in pork prices, which hit new highs in recent weeks, has now forced the State Council, the country's cabinet, to act.

In August wholesale price of pork, a key consumer product, had increased by 26% from a month earlier, reaching 30.79 yuan per kilogramme, according to the data from the Agriculture Ministry. In response the State Council decided to validate the pork price subsidy linkage mechanism, which allows local authorities to increase the subsidies on offer in line with rising consumer price inflation.

Radobank Report

The recent Radobank report highlights how the rising instances of African Swine Fever (ASF) are challenging the global pork market.

As ASF continues to threaten the global pork market not only by causing a production drop in Asian countries but also by adding uncertainty to trade and production globally. Live pig prices are moving upwards, almost 40% more year on year. The price increases reflect not only the supply shortage but also producers holding back pigs to take advantage of further anticipated price rises later in the year as pork meat prices have experienced even stronger growth than market analysts expected.

Even with summer heat slowing down production in Europe, also contributing to higher prices exports have increased for most of the EU Member States driven by much stronger than predicted demand from China.

How China has impacted the market is illustrated in the slides below taken from the Radobank report.

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Summary: Scope of ASF Now Clearer, Prices Reach Record in China

Hog losses in China have reached critical levels, surpassing the world's ability to make up the difference. As African swine fever moves into additional geographies, the disruption will intensify.

Rabobank

ASF continues to spread – in China, other parts of Asia, and Europe

- *There is no way to stop the spreading of the disease, only to mitigate its impacts.*
- *We expect production losses of 25% in China in 2019, along with losses of 15% to 20% in Vietnam.*
- *Given the rapid spreading of ASF, risks remain of the disease spreading to other countries in Asia.*
- *We do not see ASF materially affecting production in Europe.*
- *Rebuilding of production remains complicated due to the risk of recontamination.*

The scope of the ASF epidemic is now clearer – this will be a multi-year and multi-region issue that brings structural change to global animal protein

- *The disease has continued spreading through Asia over the past year, with few signs of success to date in controlling its movement.*
- *New cases of ASF in Europe show that managing the spread of the disease is challenging in most geographies.*
- *It remains our view that it will take years – at least five years – for herds to be rebuilt and for production to recover in the worst-affected countries.*

The price response to the impacts of ASF in China is now being seen, with prices topping records

- *Record prices for live pigs and pork in China have been recorded in August, with higher prices expected to follow.*
- *Piglet prices have not reached records, reflecting the risks of recontamination despite high prices.*
- *Frozen inventories in China remain elevated, but high prices for fresh meat will bring stocks down, increasing demand for imports.*

The trade response to China's pork deficit remains complicated

- *The EU is the major exporter, but its relatively high prices and cautious production response will limit the amount of pork shipped to China.*
- *The US-China trade war limits the role of US exports, despite the US being best-placed to ship additional pork to China.*
- *In Canada, a leading pork exporter to China, politics are complicating exports.*
- *Brazil could ship more pork to China, as supply increases.*

Source: Rabobank 2019

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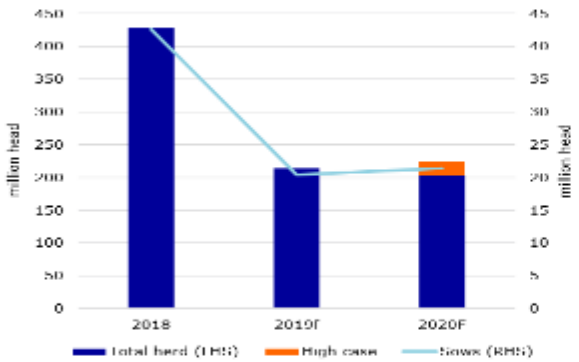
We Expect China's Pork Meat Output to Drop by 25% in 2019

The scale of the decline expected in China in 2019 is unprecedented – and will lead to even lower pork production in 2020. And this will continue to have effects into the coming years.

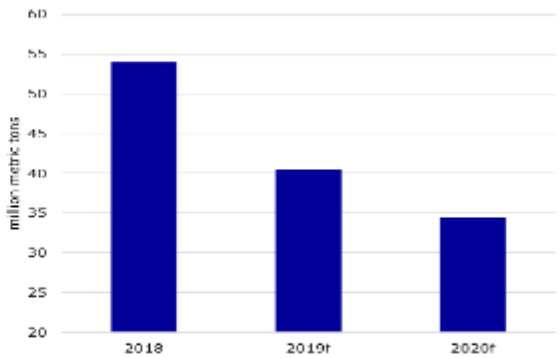
Rabobank

Herd decline drives production losses



- *Herd loss is expected to be 50% for the whole year 2019.*
- *ASF has swept the whole country, but its impacts vary from region to region. In the northeast and north, the regions hit first by the disease, the loss has been severe due to lack of experience, slow reaction, and weak biosecurity. In the south, which was exposed to the disease at a later stage, culling of affected herds and panic liquidation jointly contributed to a sharp decline.*
- *The government has launched a series of policies to control the disease, but this is proving to be a challenge.*

Unprecedented decline forecast in China's pork production



- *Due to the large liquidation in 2H 2019, pork production decline is slower than herd loss. We expect a 25% drop in pork meat output for 2019.*
- *Given the declining sow herd, pig supply in 2020 will be lower than 2019. We expect a further 10% to 15% drop in pork production in 2020.*
- *Restocking has been tried on a small scale in 2019, but very few have succeeded. We expect large-scale restocking in 2020, as pig population density declines sharply, along with the chance of disease infection.*

Source: National Bureau of Statistics of China, Rabobank 2019

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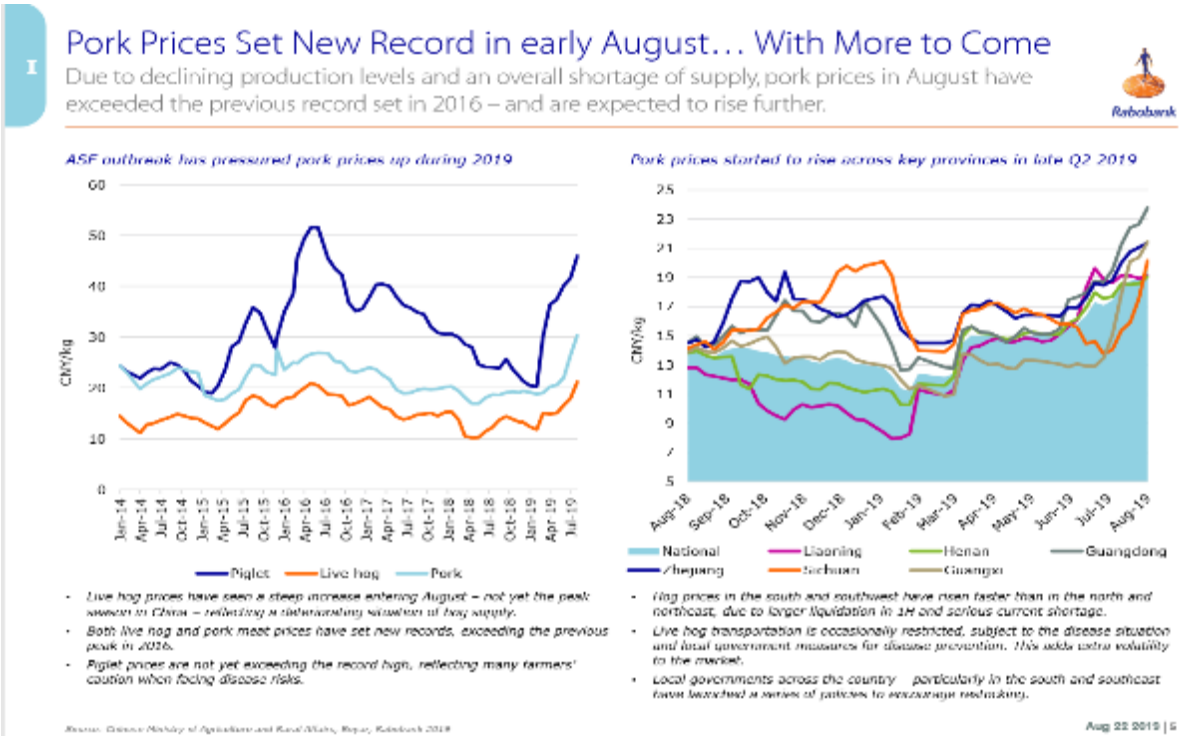

Pig Prices

UK Prime pig producer prices running above 2018 levels.

Despite a significant reduction in household spending on pork and cured pig meat products, GB prime pig producer prices were running 3.5% above 2018 levels at the end of August, according to the latest market analysis by Quality Meat Scotland.

In addition to this, data from HMRC shows a 21% lift in exports during the second quarter of 2019 (Q2), with a strong surge in demand from China due to severe pork shortages.

Exports have been growing strongly on the back of a surge in demand from China. Indeed, data from HMRC shows that the 21% lift in exports during the April to June period was almost entirely down to a near-doubling of sales to China/Hong Kong, with exports to other destinations rising only 1.5%.

The reason for this strength in demand from China has been a severe pork shortage caused by African Swine Fever. In the spring of 2019, the first signs of shortages pushed up China's import requirements, raising global market prices. According to the Chinese Ministry of Agriculture, pork imports climbed by more than a quarter in the first half of 2019, with imports of beef, lamb, milk powder and seafood also growing strongly to make up the shortfall in protein supply.

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Latest data from China points to a year-on-year reduction in pig numbers by around a third, while wholesale pork prices surged by around a third in August alone, pushing them more than 80% above their February low point and nearly 70% above year earlier levels.

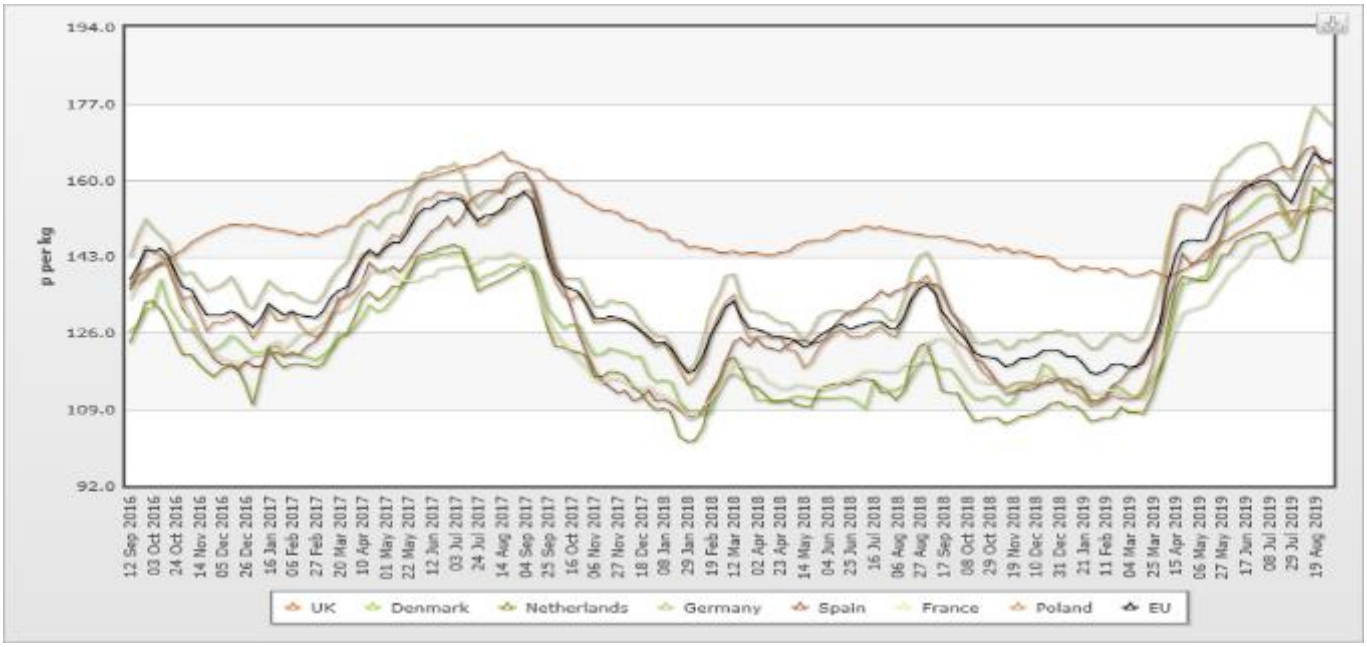
As a major supplier of pork to China already, with export approvals much easier to come by than in the beef and lamb processing sectors, several EU countries, including the UK, were well-placed to meet this demand. EU exports of pork to China/Hong Kong rose by nearly 70% year-on-year in Q2 2019. Sales of processed pig meat, fats and offal's also rose considerably, supporting carcase balance.

As well as market access, UK and EU processors have also benefited indirectly from the ongoing trade war between China and the US, with higher tariffs on US pork giving EU and UK pig meat a significant competitive advantage.

The latest round of tariff hikes on US pork happened at the beginning of September. For example, US companies, which had already been facing tariffs as high as 62% for frozen bone-in cuts of pork, are now facing a 72% tariff wall compared to a 12% tariff for EU and UK exporters of these products.

Firm demand from China has boosted EU pig prices, which are around 20% higher than last year and have been trading above the UK average price since mid-April. Given the high level of imports to the UK from the EU, higher import prices will have boosted the competitiveness of home-produced pig meat on the UK market, providing further support to farmgate prices.

EU Reference Price over last 36 months is graphically illustrated below



Prices across the EU are at their highest since summer of 2017 and are expected to climb further as shortage of supply and the rise in exports continues. A good example is how Spain's exports have grown. In quarter two,

Spanish pig meat (and offal) exports strengthened by 11% compared to the year before. Growth was only 4% in Q1. For the first half of the year overall, volumes were therefore 8% higher at 1.08 million tonnes. The growth was primarily driven by increased demand from China, due to the ongoing ASF crisis. The value of Spanish exports in the first half of the year totaled €2.64 billion, up 12% from a year earlier.
Expansion in the Spanish pig herd has boosted production by 2% (+48,500 tonnes). As such, more pork has been available for export in the first half of this year. When converted to carcass weight equivalent, exports are around 40,000 tonnes higher. In product weight, the increase is much larger (+76,000 tonnes), as much more offal has been exported this year.
Most of the additional pork production has now been channeled into the growing export market. However, some also seems to have displaced import market share. In the first half of 2019, imports of pig meat declined by 10%, a drop of 8,700 tonnes.

Turkey Overview

Market availability tightening driving prices up.

Latest government statistics highlight graphically how lower turkey numbers are driving a market shortage. 2 key points for the UK are that both turkey chick placings and turkey sent for slaughter we down significantly

- Turkey chick placings were down by 3.4% at 2.3 million chicks.
- The number of turkey ready for slaughtering was down 8.0% at 1.0 million birds.

The Turkey Market will continue to strengthen over the summer and running into the final quarter of 2019. This is due to large number of factors the most significant is that many European turkey farmers have switched to chicken production.

This has reduced the turkey placements and extreme weather in Central Europe has caused increased mortality which has decreased potential supply. The reduction of value of the Pound against the Euro has increased prices further. We believe that there are limited live birds UK and the prices will continue to increase.

Table 2.3: Chicks and poults placed per month in the UK by UK Hatcheries

				millions	
	July 2018 5 weeks	May 2019 4 weeks	June 2019 4 weeks	July 2019 5 weeks	yr on yr % change
Commercial broilers [a]	103.3	83.0	85.0	101.6	-1.7%
Female broiler breeders [b]	0.8	0.7	0.7	0.8	-1.0%
Turkey poults [c]	2.3	0.8	1.5	2.3	-3.4%
Commercial layers	3.6	2.7	3.2	3.1	-14%

(a) Includes 'by-product' chicks
(b) Female parents only. Excludes grandparent chicks and 'by-product' chicks. Includes imported female parent chicks
(c) Including female breeder poults

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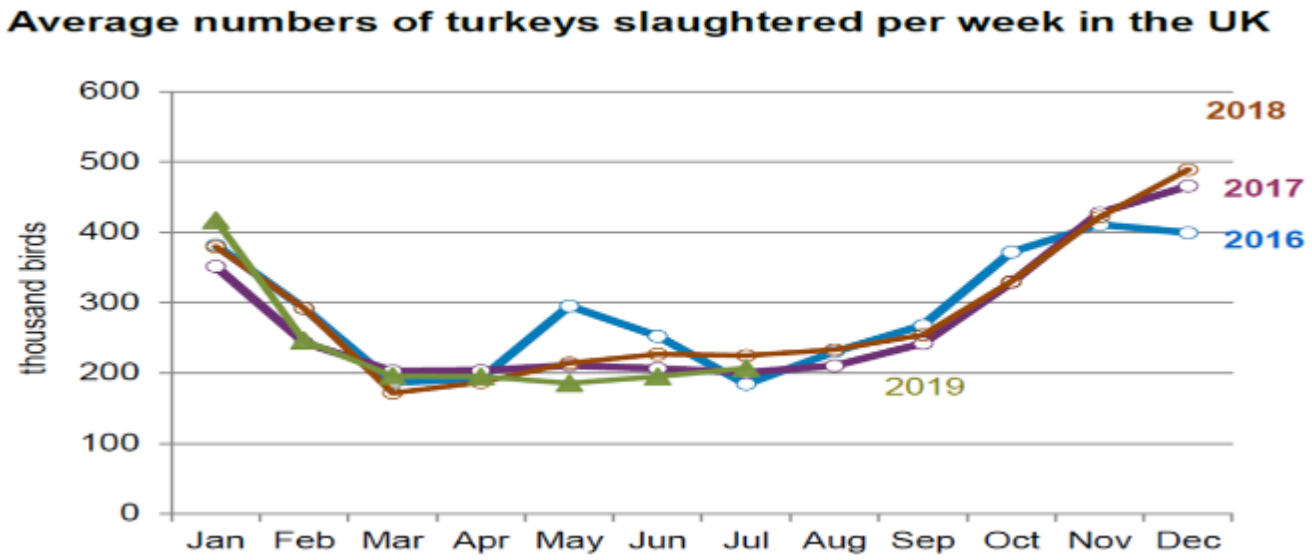


With virtually no product coming out of South America (Brazil & Chile) the demand for UK and EU turkey has produced a market shortage driving prices upwards. Since May we have seen prices increase before over 30%. Looking ahead to Christmas the availability of turkey is going to be challenging and prices are at record levels.

The supply of Turkey in the last quarter of 2019 is going to be particularly challenging.
This is due to a unique combination of factors:

Last year, proved to be a very difficult year for the Turkey industry. Bernard Matthews lost over 15 million pounds and many of the European producers also posted heavy loses.

The net effect of these losses is that many of the larger producers transferred their Turkey sheds into Chicken production. As the growing cycle of Turkey production takes 6 months the implications of these strategic production changes have just started to impact the market.

The supply of live birds has been influenced by the hot summer weather in the UK and Europe.

The hot weather has reduced supply of Turkeys:

- Breeding flocks have died in Central France due to heat stress, the UK sources 20% of its Christmas birds/ eggs from these hatcheries.
- The extreme heat in August has caused high mortality on the farms.
- The high temperatures have reduced food conversion ratios and the birds arriving at the factory are well below their target weights.

Alongside this we have seen increased incidents of disease.

Turkeys suffer from Blackhead, a soil-based protozoon that has thrived over the summer due to hot weather followed by intense rain. Blackhead has the potential to wipe out a whole flock over a couple of days. One of our main suppliers of growers, has been particularly badly hit and lost over 10,000 on one site. The disease is highly contagious, and it is thought to have influenced many other farms in East Anglia. The concern is that there is no medication to treat the birds.

This combination of factors means that the UK & Europe are producing 20% less turkey that this time last year.

On the other side of the equation, the demand for poultry and particularly turkey has increased. ASF in pig production has pushed up pork prices and the restrictions on Turkey imports from South America has made the demand for fresh Turkey more acute.

The reduced supply of livestock has pushed up live birds' prices by over 18% in the last couple of months.

We have tried to absorb as many of these increases as possible. However, we now have no other option but to pass these prices on to our customers. The expect the market to continue to strengthen and we believe prices running into December for Turkey Breast could be in excess of 6.50 £/Kg

Poultry overview

Poultry is positioned to become the world's most consumed protein in 2019.

The upheaval across all meat proteins driven by ASF in pig herds means total pork production globally is set to decline in 2019. China for example produces 98% of its own pork so the forecasted drop of between 30% and 50% will lead to a total decline in world protein supplies and it is predicted poultry will the lead protein to be used as a replacement.

Radobank have released their latest poultry market report and expect poultry to be the winning protein over the next decade. The report says the prospects are bright for the global poultry industry despite the current turbulent environment and the challenge of meeting a 30% rise in global demand in the next decade. Players from Brazil and other emerging markets have started to internationalize and diversify the global poultry industry as markets in Europe and the U.S. become saturated. The result is a changed competitive environment, with new players entering new markets and equity players taking up positions in the industry hoping to benefit from the opportunities.

Poultry meat is already the most consumed meat in the UK, with almost a billion poultry birds consumed annually.21 It makes up over half of all meat eaten by Brits each year, with the average consumer eating chicken twice a week and almost 13 whole birds a year.

In 2019, trade conditions in the global poultry industry will gradually start to improve, with rising global demand – especially from China – the main positive driver. China is expected to face a protein shortage this year, and poultry will be the primary substitute to fill the hole. This shortage is a result of African swine fever (ASF) outbreaks, which could lead to a 10% to 20% reduction in Chinese pork production. This scenario would be bullish for both local production and global trade. Volatility in 2019 will be driven by changing global trade access: a potential US-Chinese trade agreement that re-opens US chicken exports might shake up trade, which is also suffering from ongoing EU-Brazil and Saudi-Brazil restrictions – both impacting breast meat and whole bird prices. Other issues – such as

safeguards being imposed by Mexico on US chicken, or by South Africa on Brazilian chicken – are also wild cards in 2019. Ukraine and Russia are strengthening their positions in a changing global trade landscape, with the re-opening of China for Russian poultry exports a major new decisive factor.

In recent quarters, the global poultry market has gone through one of the most volatile periods in many years. Trade volumes reached record levels of 6.4m tonnes in 2H 2018 (see Figure 2), while demand dropped because of a general market slowdown and constraints on access to international markets following trade restrictions. This resulted in a period of falling poultry prices between Q1 and Q4 2018 (see Figure 1). However, the outlook is changing. Rabobank is gradually becoming more optimistic that the market has reached a turning point, with global price levels starting to trend up.

Global poultry demand is expected to grow between 2% and 3%this year, with China expected to be more bullish (around 5%) than in recent years due to poultry being used as a substitute for pork. The recent case of frozen food being contaminated with ASF will likely add further weight to this trend in processed meat. The shift away from pork will benefit white broiler, as well as yellow chicken and duck (often preferred), and beef. The growth in Chinese poultry demand will challenge the supply position, as breeding stock availability is currently limited in China, as a result of years of very low grandparent stock imports. This changed in Q4 2018, when Poland was re-opened after a ban because of Avian influenza. Current import levels of grandparent stock will support production increases later this year and especially next year. Supply, however, will be tight throughout most of the year, meaning ongoing high broiler prices and a push for more imports. From this perspective, the current negotiations between China and the US to solve their trade dispute are important. Market analysts suggest this could lead to a reopening of US chicken exports to China. If this happens, the increased availability of chicken might help solve China's tight protein supply situation. The recent agreement between China and Brazil to overcome the safeguard by China on Brazilian poultry imports, is also positive in this regard. Most important Brazilian exporters are still able to export to China, although agreed price conditions are unknown. Also important in China's pending import growth are the (re-)openings of exports from many Eastern European countries, such as Poland and Ukraine, which could potentially export significant volumes to China. The opening of Russian poultry exports to China will be important as Russia has a big distance advantage.

The EU had a rollercoaster year in 2018, with very high prices due to a shortage of frozen breast meat supply, triggered by the removal of 20 Brazilian plants from the export approval list. These high prices pushed expansion of EU production, especially in Eastern Europe. Prices rose so much that it also became attractive for non-EU exporters, especially from Brazil, to export raw breast meat out-of-quota and pay the full import duty. This resulted in massive increases of poultry imports from August to November 2018, with monthly import volumes of around 70,000 metric tons to 90,000 metric tons. This higher supply pushed EU prices down very sharply, with the fall in prices finally stopping in the second half of January. Producers in the EU became lossmaking, while imports also declined due to a low-price difference between Brazilian and EU prices. The EU poultry market finally turned in January and prices have started increasing and have now reached 2018 levels or even higher. This is likely a sign of a fragile recovery. During the coming months, the key to maintaining more stable markets will be disciplined supply growth. The main concern here is ongoing expansion in Eastern Europe, which might affect the fragile EU market balance. Imports are expected to stay limited as restrictions on Brazil are still in place. EU poultry demand is expected rise by about 1.5%-2%. Exports are expected to follow the rising trend of the last year (2018 exports were up by 6% YOY), and are expected to continue growing this year, especially to Asia (China, Hong Kong, and Vietnam) and Africa.

Market Report

October 2019

Outlook for 2019

US: Disciplined supply growth in fragile market

- Improved prices due to strong demand
- Rising export volumes, but dark meat prices low
- Supply challenges due to new upcoming capacity and high pork and beef supply

Brazil: Ongoing export challenges

- EU restrictions still in place, new restrictions on Saudi exports; China dispute (partly) solved
- Domestic market to recover due to better economic conditions
- Ongoing supply reduction needed for market balance

EU: Prices recovering, improved market balance

- Prices are recovering (from end of January)
- Intra-EU production and non-EU imports have slowed down since November/December 2018
- CEEC expansion raises concerns for 2H

China: Very bullish market with rising demand

- Domestic prices will stay high throughout 2019
- ASF to lead to protein supply shortage, with consumers buying more chicken
- Low breeding stock restricts local production

RaboResearch | Poultry Quarterly Q2 2019 | March 2019

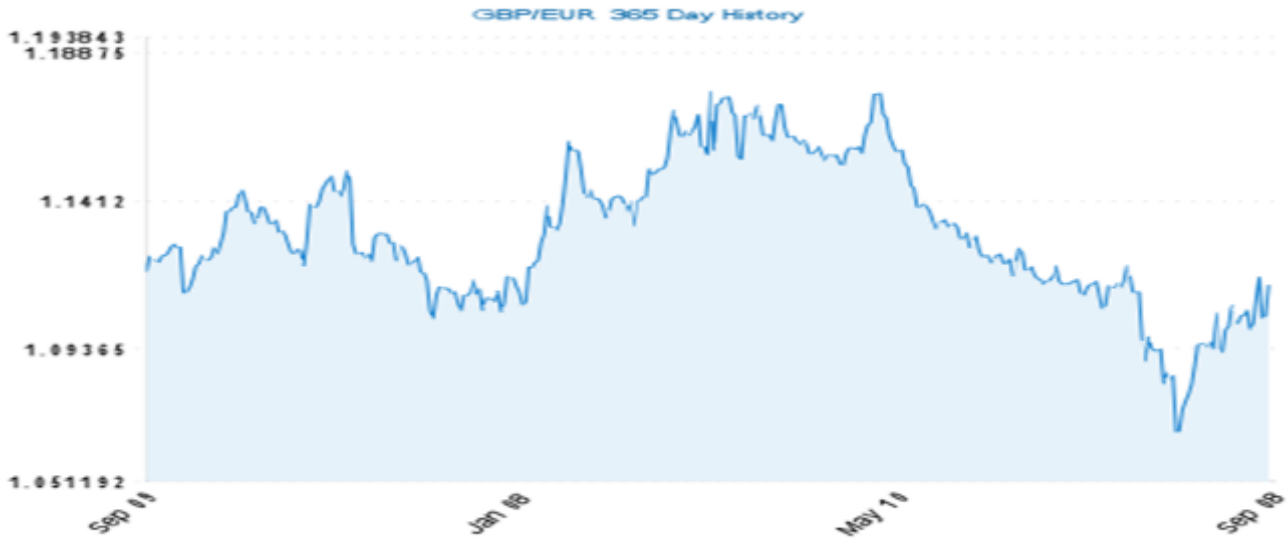
At present, the UK is the fourth-largest poultry meat producer in the EU and is about 60% self-sufficient. The carcass balance, or import-export balance, with the EU is an important issue for the industry in the context of Brexit. UK consumers prefer to eat white breast meat, rather than dark cuts like wings, legs and thighs. This means that the UK is a net importer of poultry – predominantly of chicken breast - whilst producers must export surplus dark meat to maximise revenue. The UK imports an estimated 35-40% of the poultry meat it consumes. 95% of all these poultry imports, both fresh and frozen, are of whole chicken breast or made-of-chicken-breast products. Most of these imports come from the EU, and they reached 456,000 tonnes last year. The profitability of the sector is therefore dependent upon finding a market for 75% of the bird that is left over after removing the breasts. At present about 70% of our dark meat exports are to the EU and most of the poultry meat that is imported into the UK, including fresh chicken breast, comes from the EU. In recent years, dark meat exports have been between 250,000 to 300,000 tonnes a year, or approximately 20-25% of production, with around 70% of these exports headed to the European Union.

Looking ahead the reliance on imports of poultry, especially breast meat is a major concern should there be no deal Brexit as imposed tariffs will drive prices higher.

Market Report

October 2019

Currency Overview



Despite the uncertainty around Brexit Sterling has recovered slightly from its 12-month low point of 1.0672 in August to position close to 1.13 however, it is still some way below the 1.1758 levels seen in H1 of the 2019. This has been driven more by disappointing German factory order numbers in July which has increased fears the EU's largest economy is in a recession than any strengthening of the UK economy.