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*Market Report*

November 2020

# Market Report

## NOVEMBER 2020



### Brexit Update-No Deal Impact



#### Post-Brexit trade talks set for make or break week

The UK is entering a crucial period in post-Brexit trade talks as negotiators aim to determine an outline to an agreement this week. (Commencing 26<sup>th</sup> October 2020).

EU negotiators arrived in London on Thursday to continue talks and planned to stay until Wednesday. Talks are set to continue throughout this week, with further discussions planned in Brussels from Thursday 29<sup>th</sup> October.

This comes after Boris Johnson said the UK must be prepared to leave the EU without a deal. The BMPA (British Meat Processors Association), said would be “devastating” for the British meat industry. The EU had also said that a deal with the UK needed to be agreed by the end of October.

It is entirely possible that negotiations will not succeed and that if a deal isn't agreed, the UK will leave the EU “on Australia terms”.

Tariffs in both directions would be prohibitive in the event of no deal and it is crystal clear that the food industry needs a deal owing to the importance of two-way trade to our industry, particularly that with our neighbouring countries in the EU.

Walk into any British supermarket and you will be surrounded by European products. Around 30% of all food consumed in the UK is imported from the EU.

With the PM claiming he will take Britain out of the EU by 31<sup>st</sup> October “do or die”.

In the event of a no deal Brexit, the UK would at this stage be obliged under the (WTO) World Trade Organization rules to impose on average tariffs of 22%. Inspections at ports will lead to delays and the potential for the shortening of shelf-life on products.

For four years now, the British poultry meat industry has been warning about the implications of leaving the EU without a trade deal.

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Now, with less than 100 days until the end of the transition period, there are still many unanswered questions about how imports and exports will be managed, including rules on packaging, labelling, and veterinary checks. This will affect the import and export of poultry meat.

Although the government says it still wants to sign a trade agreement with the EU, this is looking increasingly unlikely. If no deal is agreed in the coming days, Boris Johnson says the UK will walk away.

In a leaked letter written by Michael Gove, which revealed the government's worst-case scenario for a no-deal Brexit. Gove predicted there could be tailbacks of up to 7,000 Lorries in Kent waiting for the relevant checks before being allowed to cross the channel.

In the letter Gove says between 30-50% of trucks crossing the Channel will not be ready and a lack of capacity to hold unready trucks at French ports could reduce the flow of traffic to 60-80% of normal levels.

This could lead to maximum queues of 7,000 port bound trucks in Kent and associated maximum delays of up to two days, the document says.

## Pork Overview

### UK pig meat imports remain below last year's levels

Fresh/frozen pork and processed pig meat imports both increased in volume compared to the previous month. However, despite this, import volumes for most of the major pig meat components were still lower year-on-year for the month of August. Bacon had the most notable decline with imports totalling 11,700 tonnes, down 3,100 tonnes (-21%) on last year.

Based on the first 8 months of trade for the month, pig meat import volumes are 80,000 tonnes below last year's levels.

In August, Denmark accounted for 24% of pig meat imports (including offal) into the UK, followed closely by Germany at 23%, according to HMRC.

The total value of pig meat imports fell again during August totalling £176.7 million, a decrease in excess of £27.5 million compared to the previous year.

### Exports

Most of this export increase is still due to continued strong demand for pig meat from China. Based on the first 8 months of 2020, the volume of UK pig meat exports (including offal) being shipped to China has increased by 51%.

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## UK pig meat trade



	Aug-19	Aug-20	Change y-o-y	YTD Aug-19	YTD Aug-20	Change y-o-y
	Tonnes (shipped weight)		%	Tonnes (shipped weight)		%
<b>Imports</b>						
<b>Total</b>	<b>70,139</b>	<b>60,196</b>	<b>-14%</b>	<b>607,907</b>	<b>528,313</b>	<b>-13%</b>
Fresh/frozen pork	33,892	27,800	-18%	294,632	242,673	-18%
Bacon	14,733	11,675	-21%	127,790	109,916	-14%
Sausages	10,582	9,594	-9%	90,813	82,469	-9%
Processed	9,599	9,825	2%	83,334	81,363	-2%
Offal	1,333	1,302	-2%	11,338	11,892	5%
<b>Exports</b>						
<b>Total</b>	<b>32,521</b>	<b>31,909</b>	<b>-2%</b>	<b>247,445</b>	<b>257,325</b>	<b>4%</b>
Fresh/frozen pork	21,388	21,259	-1%	157,234	170,399	8%
Bacon	1,654	1,147	-31%	12,371	8,888	-28%
Sausages	570	370	-35%	5,241	4,085	-22%
Processed	1,036	1,136	10%	8,428	8,783	4%
Offal	7,873	7,997	2%	64,171	65,170	2%

Source: IHS Maritime & Trade- Global Trade Atlas®, HMRC

## GB deadweight pig prices (UK spec)

For the week ending 17 October, the UK-spec SPP continued on a downward trajectory. The SPP averaged 154.88p/kg, down 0.18p on the previous week. Domestic prices continued to be influenced by low prices on the continent, where African swine fever in Germany is impacting on export potential. The SPP is currently less than a penny above the same week last year as the gap continues to tighten.

Estimated slaughter for the last week totalled 181,400 head; this is still marginally up on the same week last year, but slightly down on the revised figures for the previous week.

Carcase weights averaged 88.07kg, a decrease of 180g week-on-week.

The UK-spec APP price totalled 159.26p/kg for the week ending 10 October, a minimal increase on the previous week of just 0.04p. This may represent some market adjustment after a significant price decrease of over a penny last week. The gap between the APP and SPP has now widened further to 4.20p, the largest gap since April 2019.

The APP (All Pig Price) is the GB average deadweight pig price achieved by producers each week. The SPP (Standard Pig Price) is the average price for GB standard pigs, those that have not received a premium for the production system, feed regime or breed. These prices are for carcasses dressed to UK specification. DAPP (Deadweight average pig price)

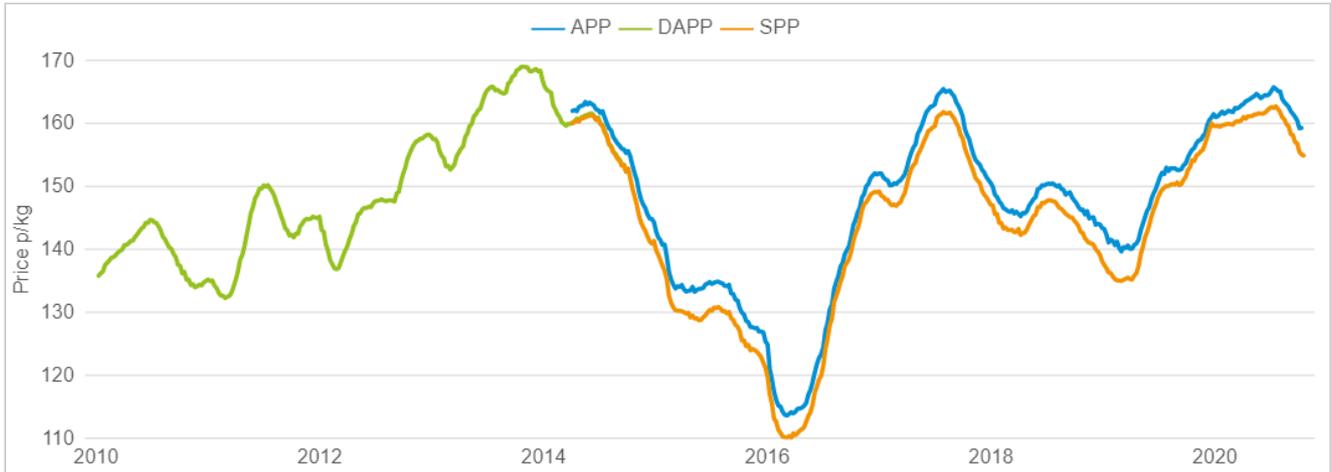
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## Beef Overview

### Uncertainty shrouds EU beef outlook

During the first half of 2020, COVID-19 measures and reduced demand from foodservice caused cattle slaughter in most member states to plateau or fall. In addition, tricky weather conditions during spring put pressure on grass growth and forage availability, leading to earlier finishing and lower carcass weights.

BEEF 	2020	2021
Production	👇 -1.4%	👇 -1.5%
Exports	👈 +1.0%	👇 -4.0%
Imports	👇 -10%	👈 +0.0%
Consumption	👇 -2.1%	👇 -1.2%

Source: European Commission

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The drop in demand has also knocked imports, which the Commission expect to be down 10% year-on-year in 2020 overall. Tighter supplies anticipated in key exporting nations are also a contributor. EU27 exports are expected to be up 1% for the year, with lower shipments to the UK offset by growth to other markets, including China and Canada.

As for 2021, the Commission expects lower livestock numbers in some member states could contribute to a further decline in EU27 beef production, which may in turn limit exports. Consumption is expected to improve somewhat, which may also boost import demand.

Of course, uncertainty remains over the evolution and management of COVID-19 cases, recovery of key trading partner economies, and the outcome of EU-UK Brexit talks.

## UK beef arrives in the US

The first shipment of UK beef departed to the US on the 30 September. This **represents the first shipment** of exports of British beef to the US in 24 years, and is the first beef to be exported since market access was granted back in March.

This first volumes were exported from a plant in Northern Ireland, and included a select number of cuts, including sirloin cannon and topside mini beef joints. These will be showcased at our 'British Roast beef' launch this week, aimed at influencers and buyers from the states of New York, New Jersey and Pennsylvania.

This deal is estimated to be **worth £66 million over the next five years**, but how does this rank alongside our already established export destinations?

A simple average of the estimated £66 million over a five-year period would equate to £13.2 million/year. If realised, this would rank **US market 8<sup>th</sup>** in relation to the UK's other export markets, roughly in-line with Belgium.

## UK Beef Prices

For the week ending 10 October, the GB all prime average remained fairly stable week-on-week averaging 367.4p/kg, down just 0.1p on the previous week. Overall, prices are still generally strong for this time of year. The all prime price is up 45p/kg compared to the same week last year and is up 18p on the five-year-average.

There have been some differences in price movements across different regions of the UK. Northern regions had slight price reductions week-on-week across heifers, steers, young bulls and cows. In contrast, South and Central regions fared slightly better with minor price increases in most areas.

Estimated throughput for prime cattle was up week-on-week, totalling 33,900 head, an increase on the previous week of almost 1000 head.

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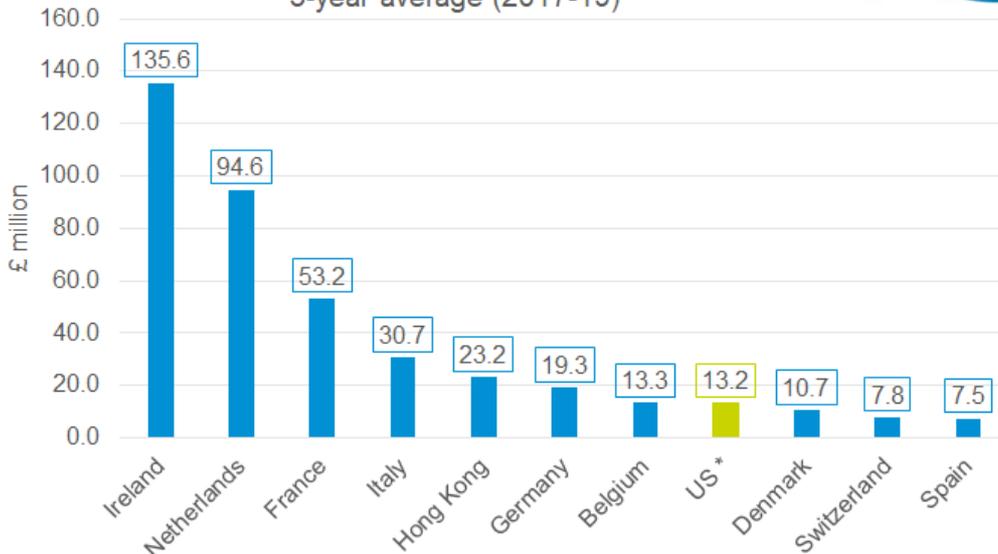
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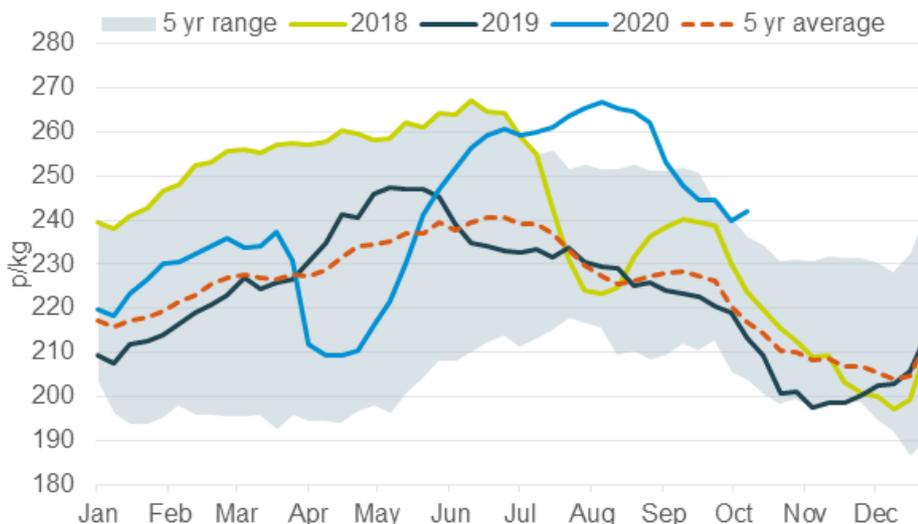
UK destinations of beef (fresh and frozen) exports by value  
3-year average (2017-19)



Source: IHS Maritime and Trade-Global Trade Atlas®, HMRC  
\* US value is estimated based on simple average

The GB deadweight cow price had the most notable increase week-on-week, averaging 241.9p/kg overall, an increase of 1.9p, which has taken the price above the 5-year-range again.

GB overall average deadweight cow price



Source: AHDB

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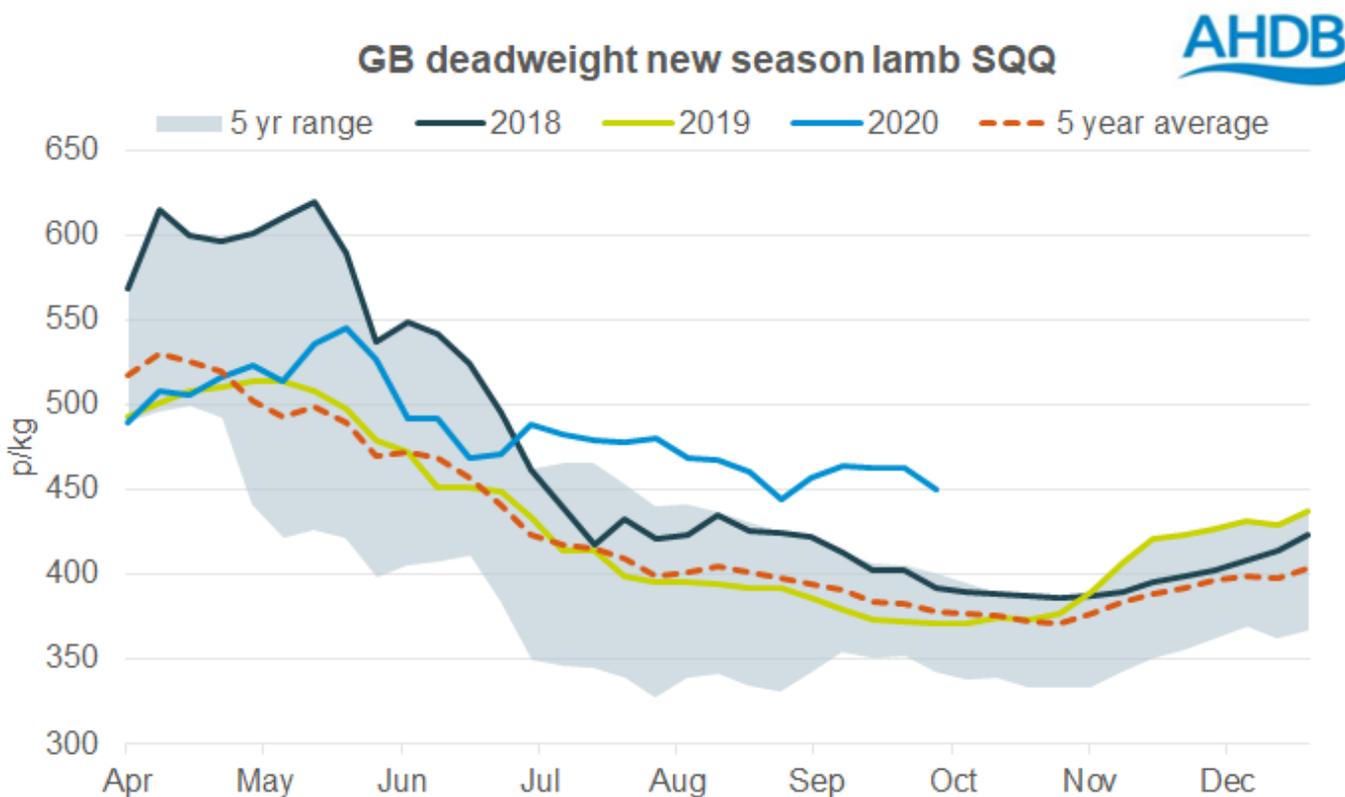


## Lamb Overview

### Finished lambs drop back, but still remain up on last year

In the week ending 7 October, the GB liveweight NSL SQQ averaged 196.96p/kg, down 0.85p on the previous week. Despite this minimal decrease, prices still remain up by in excess of 29p/kg compared to this time last year.

The gap remains tight between prices for store lambs and finished lambs. The potential re-closure of parts of the food service sector in some regions will make levels of demand an interesting watch point for the weeks ahead.



Source: AHDB

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## Poultry overview

### Global poultry industry faces volatility

The pandemic will continue to shake international poultry markets for the next six months. But it will also lead to some permanent changes.

2020 has been a volatile year in the global poultry industry, with huge disruption to the foodservice and wholesale markets, and increased demand from retail.

This volatility is likely to continue for at least the next six months, but the COVID-19 pandemic will also lead to more permanent changes. There will be a permanent shift to more online grocery shopping, with Tesco predicting demand will be up to 1.8 million shops per week by the end of the year, compared to 600,000 in January.

In addition, the breakthrough of remote working will change poultry markets forever, with foodservice outlets catering to office workers becoming redundant.

European poultry markets have been disrupted like never before with foodservice demand down 40% in 2020 compared to 2019. Predicted sales for 2021 show foodservice sales will be down 10% compared to 2019.

There are still big challenges in balancing supply and demand. The gradual easing of restrictions since July led to some increase in foodservice demand, although it is still down significantly. The forthcoming recession is likely to benefit sales of poultry meat as consumers trade down from more expensive proteins.

## ASF (African Swine Flu Update)

ASF's progression into Germany would be significant; Germany is the largest European pork producer and exporter. Many key importers outside the EU tend to place a total ban on pork imports from ASF infected countries, even if the disease is just in wild boar. The EU approach is both regional and graded:

- Unaffected regions can continue to trade with other EU countries
- If the disease is only present in wild boar, farms within affected areas may also still be able to trade with other member states, provided appropriate biosecurity measures are followed

This means German pork previously exported to most third countries would effectively be trapped on the EU market, boosting EU supplies. This would depress pig prices across the EU. Note that although the UK has officially left the EU, our trading relationship remains the same during the transition period. So, we will continue to follow the EU's regional approach to trading with ASF-infected countries during this period. This means we would still be able to import German pork.

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## Covid News

The Government announced a new three-tier system for England, which came into force on 14<sup>th</sup> October. Each tier has varying rules regarding the foodservice sector:

- **Medium** - All pubs, bars, restaurants, cafes and other hospitality venues in England permitted to operate must close by 10pm. Table bookings limited to a maximum of six.
- **High** - As above, and people from different households are not allowed to mix indoors, including pubs or restaurants.
- **Very high** - Foodservice outlets cannot open unless they “operate as if they were a restaurant” and serve “substantial meals”. Alcohol can only be served part of those meals.

These represent the minimum rules for each tier, and so regional councils may introduce additional measures to control the spread of the virus within their area. As such, with different rules now in place for different parts of the country, it is very challenging to predict what impact this is going to have on foodservice demand. However, we are likely to see some regional challenges with this new system in place.

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