BIRTWISTLES

Market Report

FEBRUARY 2022

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Welcome to our February market report.

KEY POINTS TO NOTE & OPEN WITH THIS MONTH

- Valentine's Day Monday 14th February - Menu feedback.
- Lamb now & challenges ahead.
- LambEnomics.
- UK/Australia Free Trade Deal update.
- C02 Update.

Valentine's Day Monday 14th February 2022

With Valentine's Day just two weeks away we are expecting again a large demand for steak cuts and in particular fillet steaks & racks of lamb. Could you please feedback to us if you have not already done so your menu choices and expected volumes to avoid disappointment.

We expect the weekend of Saturday 12th & Sunday 13th also to be very buoyant.

Please do not leave any pre-orders you may have already until the last minute.

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Lamb & the challenges we currently face along with a look at Spring Lamb

As previously noted, have prime lamb cuts such as Rumps & Racks, Lamb Cannons (Loin Eye Fillets) priced themselves off menu's? Availability and cost are driving factors behind this; for example offers currently for untrimmed Lamb Rumps are in excess of £14 kg, add labour and packaging to this and it will be difficult to be affordable not only for us to buy but also because of the volatile nature of the pricing for Lamb it could well be necessary to be costed/priced on a weekly basis. And with end users unable to react quick enough to change menus already printed it does not become an option. This has in turn led to customers being more innovative and there is increased demand for diced shoulder & mince which has in turn put pressure on these primals & trims.

It's all about balancing the carcass up for producers and returning a margin, liveweight/deadweight prices currently are higher now at the start of 2022 even above what we would usually see in the spring. Inflationary pressure is also a factor and has to be included when costing primals.

At a time when many are looking at planning for Spring Lamb to feature on new menus it will come at a cost, whether we like it or not Lamb is a premium product and £ for lb is more expensive than any other protein.

LambEnomics

Below is an example of a simple wholesale costing, breaking the carcass down into its simplest form, Front, Middle, Breast & Legs (effectively 4 cuts) against at the time of writing the current carcass buying price and primal selling prices for a whole lamb. Even the simplest cut returns only an 18 % margin. This is without any associated-on costs such as labour, packaging, transport. Add this to factory running costs and it is then very easy to see that further processing these primals into Boneless Shoulders, Neck Fillets, Racks, Loin Eyes, Lamb Rumps, Shanks & Boneless Legs all will only dilute the margin further with added on costs for labour & packaging.

Lamb Cost	£ 117.00	Start Weight	20kg	Cost Kg	£5.85
		Weight Kg	% Of Carcass	Price	Value
Front		7.77	40.15%	£ 6.30	£48.95
Middle		4.00	19.30%	£ 9.00	£36.00
Legs		5.23	26.15%	£ 8.80	£46.02
Breast		3.00	14.40%	£ 3.50	£10.50
Totals		20.00	100.00%		£141.48
Margin					18.00%

As noted above Lamb is a premium product and needs to be priced accordingly in order to keep this an option. This can be very difficult in such a volatile market against supply & demand which on top of record carcass prices puts more pressure on individual cuts which seasonally come to the fore (Boneless Shoulders, Legs & Shanks) Autumn/Winter Menu items, (Lamb Rumps, Lamb Legs, Racks, Cutlets) Spring/Summer Menu Items along with demand on Valentines Menus.

Six Way Cut Lamb

There are cheaper options available to producers in terms of reducing labour intense cuts such as racks, rumps, de-nuded loin eyes which have been difficult to meet demands for due to the ongoing labour issues at all levels of the food chain.

A lamb six way cut **(pictured below)** comprising of the whole carcass for export to China with all the associated-on costs is still more profitable than breaking the carcass down into the many cuts we expect to be available here in the UK, coupled with the African Swine Fever outbreak again in China imports of Lamb along with Beef volumes have overtaken Pork in the last year as demand for new cuts increases.

The six cuts are boxed in one poly lined carton blast frozen and loaded in bulk on containers. Think of the savings being made on labour/packaging along with contracts being committed to will ensure throughput can still be at a good level.

This will though inevitably keep product out of the UK wholesale market and demand/price firm with imports predicted in 2022 to fall by 6 % and exports to increase by 5 %.

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UK-Australia trade deal: what are the key issues & current delay?

The prospect of a tariff-free trade deal with Australia has alarmed British farmers. The chair of the new, independent Trade and Agriculture Commission (TAC) will play an important role in scrutiny of the UK's new Free Trade Agreements.

In line with the TAC Terms of Reference the chair has written to request further information on whether, or to what extent, the measures in the UK-Australia FTA – as signed on 16th December 2021 are applicable to trade in agricultural products & are consistent with the maintenance of UK levels of statutory protection in relation to;

a) animal or plant life or health,
b) animal welfare, and
c) environmental protections

This further information is required by the chair on a chapter-by-chapter basis and the deadline for return of this information is 31 s March 2022.

The message should be clear – lamb not produced to the standards our farmers must meet won't come here.

British sheep farmers are operating to some of the highest environmental and animal welfare standards in the world & should be the supplier of choice all year round with quality products that meet our principles, contributing to self-sufficiency, upholding our principles, and reducing transport related carbon footprints.

What is a free trade deal?

A policy of free trade means goods and services travel across borders unhindered and at the price set by the producer without state support.

In the short term, where market factors are unchanged, Australian exports to the UK may be subdued due to more lucrative and rapidly expanding markets closer to home.

For lamb, the model assumes Australia keeps its preferential trading arrangements with China. However, if Australia were to lose these arrangements, then Australian product would emerge onto the world stage and may undercut our domestic market, due to lower costs of production. With the UK a high-income, developed market, it will only increase its attractiveness as a destination for Australian lamb.

We may not see an immediate impact today or tomorrow from the doors of trade being flung open but further down the line changes to trade partners markets have the potential for harmful consequences to our farmers.

Looking ahead to Spring, this is a significant time in the farming calendar, as farmers get ready to care for ewes preparing to give birth.

Spring lamb is by definition an animal that is under a year old and is available from early Spring until the Summer. Typically, these younger animals are those born in late winter and once they have finished with their mother's milk at about three to four weeks, they are ready to get out in the fields to eat the new spring grass.

Lambing can start as early as December in some parts of the country but the majority of farmers will begin in early spring. The sight of lambs scattering the fields is well known as a welcome sight, representing new beginnings and the end of a long winter.

When it comes to delivery, lots of ewes will deliver their offspring unassisted out in the field. But farmers are on hand night and day to keep a close eye in case there are any problems. Some ewes, especially first-time mums, will be brought into the lambing shed to give birth in case they need a helping hand.

The number of lambs born by each ewe varies from breed to breed. First time mums are more likely to give birth to one lamb, although twins are not uncommon. There are some breeds of sheep that average more than two lambs per litter.

But while lambing is an incredibly intense time in farming, the work starts well in advance. To ensure that their flock will cope with particular types of terrain or climate, or can produce a specific end product, British farmers have to carefully examine the characteristics of ewes and rams when preparing the breeding process, adding 'genetic expertise' to their broad list of skills.

Lambs are born around 145 days (or about 4.5 months) after the ewe falls pregnant. Lambing can start as early as December and go on to as late as June. Specialist breeds will lamb all year round, satisfying demand for the Christmas and Easter trade.

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CO2 supplies update

The government has assured meat processors they will be among the first in line for CO2 should CF industries cease UK production. Pressure to secure CO2 supply has come to a head in the last week with the expiry of the government's deal with CF Industries on 31st January 2022.

The British Meat Processors Association (BMPA) shared government assurances that animal welfare and in turn meat processors would not suffer from a lack of CO2.

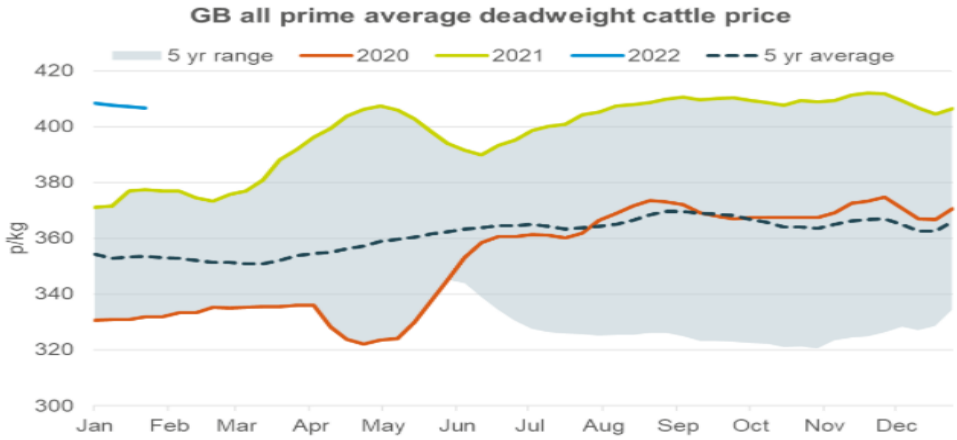
Having spoken to our suppliers we do not foresee any issues.

Beef Overview

While foodservice remains below pre-pandemic levels, catering orders have slightly improved. Retail demand remains firm, helping to support elevated prices for several categories.

Beef trim continues to perform well with considerable upward pressure noted on 70% and 85% VL trim along with surging demand reported for 95 % VL. This is partly driven by tight supplies and export demand to the continent. Two of the largest UK retail suppliers have increased prices of up 0.80 / kg. There could be concerns of carcase balance issues if demand for mince continues to surge with little or no stock available in coldstores to fill the gaps driving this price increase.

Availability of trim will remain tight throughout February keeping mince/burger prices firm. Increased offers continue to circulate at the higher end of the market in the lead up to Valentine's Day keeping beef fillets firm. Rib eye availability has improved across the board but with a surge in demand prices are yet to settle and stocks level. While total throughput numbers were up week on week alongside steady cattle supplies average deadweight prices eased slightly over the previous week, they remain well above levels witnessed this time last year



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Global beef prices

Exports to the continent out of the Republic of Ireland (ROI) continue to climb higher, subsequently tightening supplies for key beef items on the UK market.

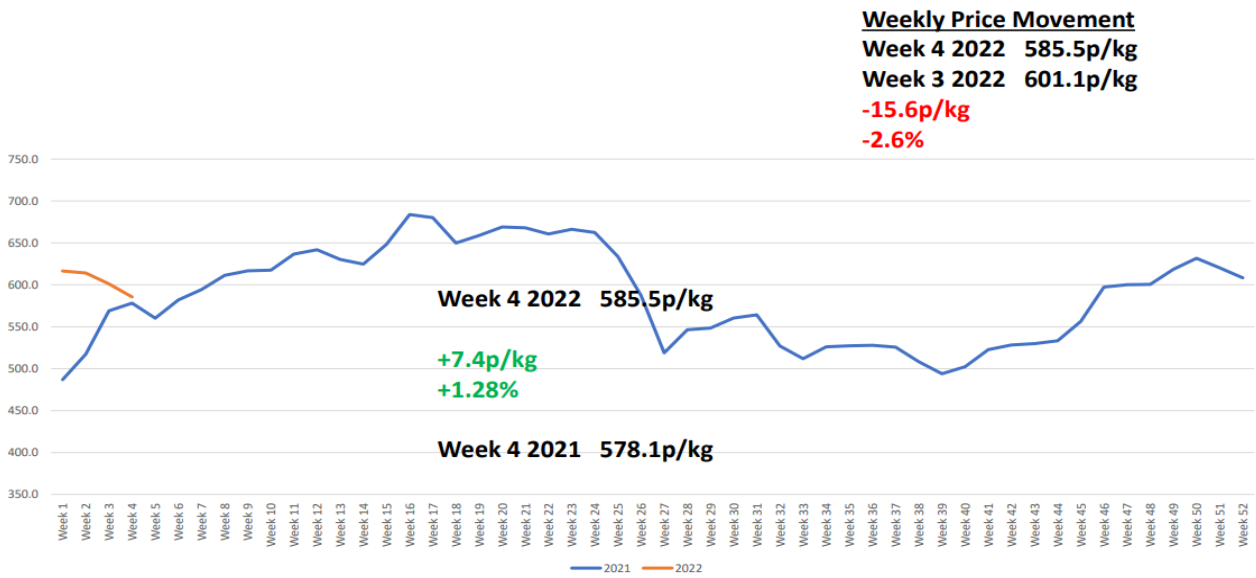
UK exporters continue to report firm demand to the US for VL's (Trims), and even greater demand to the European continent, particularly for the likes of trim, thick skirts and bavettes. Somewhat surprisingly, European offers for manufactured meat are now above UK beef quotations.

Availability issues in Poland continue to be reported as extremely tight & struggling to source 70% VL trim for less than £3/kg. An uptick in shipments to north-western Europe is also noted this week with the Netherlands now reopened.

Export demand remains strong, with availability across the continent still tight. Production concerns in Poland were reported this week with a major producer in talks over a financial bailout. Container shortages and elevated freight charges continue to be reported.

UK Lamb Market Overview

The GB deadweight price dropped 15.6p, to 585.5p/kg during the week ending 22 January. This was reflective of the trend recorded for liveweight prices during the same week. This does also mark the first time the price for the 2021 crop of lambs has fallen below the £6/kg mark since mid-November. Despite the recent declines, the measure remains over 11p above year earlier levels. Estimated kill for the week was still 4% below the same week last year.



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Brexit and the Covid-19 pandemic have both rocked the boat for lamb trade over the past two years. Import volumes have been under pressure for over almost five years now, from lower production in both New Zealand and Australia, and higher demand in Asia.

This has then been coupled with the disruption caused by Covid-19, especially the disruption to the shipping industry. The latest indications suggest that higher freight prices and delays to shipping are likely to remain for at least the coming year. This, added to Asia continuing to offer an attractive market, is likely to restrict UK sheep meat import volumes.

The recently signed a free-trade agreement with Australia, expected to come into force later this year could mean in the long term we see an increase in the volume of Australian lamb, but this volume is likely to be at the expense of volumes from other nations.

Pork Overview

The Standard Pig Price (SPP) has remained relatively steady, dropping slightly by 0.15p to 138.85p/kg for the week ending 22 January.

The estimated slaughter was down 0.8% on last week. This is up 2.6% from the same time last year.

Carcase weights dropped slightly this week to 95.36kg. This is 0.6kg down from last week and is the first decrease in weight we have seen since mid-December when animals were left on farms due to the labour/skill shortages. The lack of butchery capacity in Britain relative to the number of live pigs available continues, with some farms still experiencing severe difficulty with the number of pigs on farm.

Poultry overview

In the **UK** a similar tone is again prevalent with issues still remaining around staffing and reduced capacity and as a result being the biggest drivers in terms of firm pricing. We are yet again to see any downward movement this month and would expect this not to improve until labour availability improves, intelligence somehow assumes it will be June / July (who has that crystal ball) at the earliest. Breast fillets 5-6 oz remain scarce with retail demand still commanding the lions share at premium prices. Foodservice and hospitality are as usual further down the pecking order in terms of supply.

In the **EU** poultry has been hit hard due to Avian Flu. Poland and Netherlands have been hit the hardest. Small birds are almost non-existent due to culling as well as staffing and capacity in factories. It's almost been a perfect storm, some increases are being touted around and requested. Not for the first time it will be the case of who pays the price will get priority on products, certainly not ideal/sustainable in terms of supplier relationships.

Other News

Inflation reaches 30-year high as meat prices rise

As we are all feeling and seeing inflation is heavily impacting business and markets. The input costs (fuel, energy, feed and labour) across the major meat supply chains are increasing exponentially, with tough trading decisions needed to be made about what cost increases can be passed onto the end consumer and what will be absorbed to maintain category volumes.

It is reported that Central Banks, not Covid, will drive global economies in 2022.

In the UK, ONS data shows increases on products such as air travel +46.5%, electricity +44% & fuels +31%.

On top of all the inflationary drivers above businesses look like they will have to contend also with the 1.25 % rise in NI contributions.