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Market Report

OCTOBER 2022

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Welcome to our Market report for October

Key Points to Note

- Beef Overview
- Chinas Beef Consumption Forecast
- Pork Overview
- Lamb Overview
- EU Poultry Production
- Poultry Overview
- Turkey Update
- Exchange Rates & Their Effect on UK Businesses
- CO2 Update
- Impact on Global Energy Costs
- Avian Flu Update/Summary

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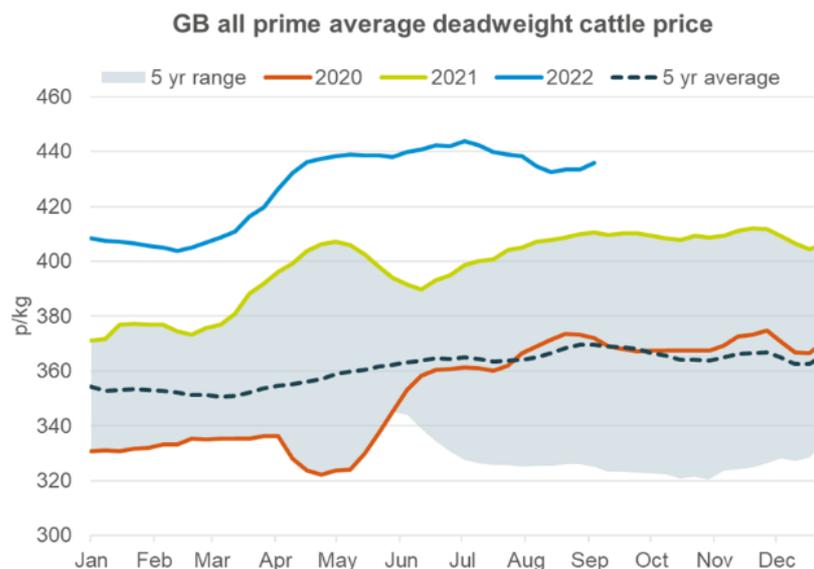
Beef Overview

GB cattle prices remain at historic highs

As the colder months loom pressure on forequarter cuts will be inevitable and at least stay firm. Ahead of the demand retailers will be looking at deep chill product ahead of the seasonal Christmas demand, which can be used when demand outstrips supply and enable them to mitigate any potential shortages whilst still offering a consistent supply when product due to price/availability becomes tighter.

For the 4-weeks ending 3 September prices for **all prime cattle** averaged 433.9p/kg, down 4.2p compared to the previous 4-week average before rising again in the final week to 436p/kg.

Despite this dip month on month, prices still remain at historically high levels. Prime cattle prices remained 24p to 25p above last year's prices throughout the 4-week period, which at the time were the highest prices since recording began in 2014.



Chinas Beef Consumption Forecast

To note and interestingly, China will continue to account for the significant share of beef imports reflecting strong demand and constraints on its own production due to limited soil and water resources in rural areas. Their projected global share of beef imports is expected to rise from 26% – 30% which may look like only 4% but is staggering when you have a population of 1.3 billion people.

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OCTOBER 2022



Pork Overview

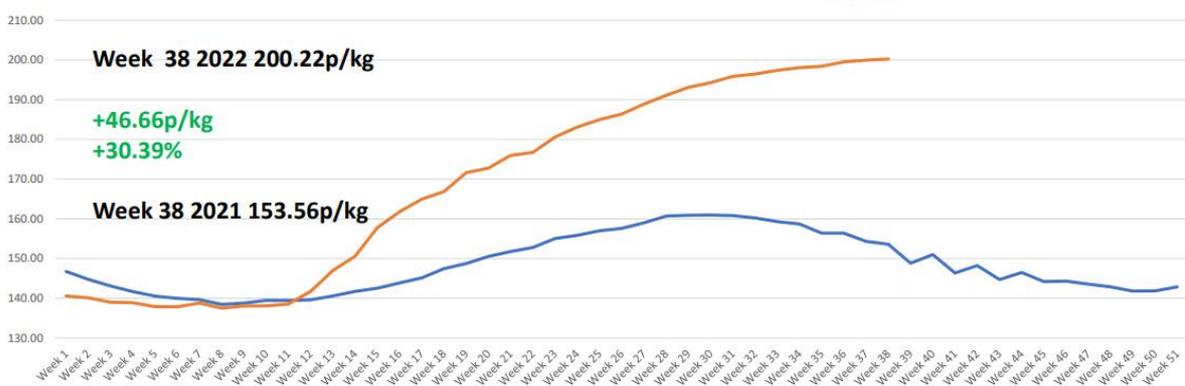
UK and EU pig prices pick up amongst a background of high costs and improving demand

Standard Pig Prices (SPP) remain some way off covering the estimated cost of production for many producers, leaving the industry in an incredibly challenging situation

In the week ending 17 September GB deadweight pig prices finally hit the elusive £2/kg with the EU-spec Standard Pig Price averaging 200.22p/kg. This may be a morale booster for many producers with prices edging closer towards the average cost of production but more still needs to be achieved.

GB Deadweight Prices – Pigs (SPP)
Week 38 2022
Source: AHDB MI

Weekly Price Movement
Week 38 2022 200.22p/kg
Week 37 2022 199.93p/kg
+0.29p/kg
+0.15%



On the continent, as in the UK, input cost inflation is also being felt, causing a shortage of supply and pressure on prices. In the 4 weeks ending 11 September, EU deadweight pig prices increased in all key regions.

Germany saw the largest increase, with prices up nearly €18/100kg.

France, Denmark and the **Netherlands** also saw large price increases, each up by over €10/100kg while **Spain** gained just under €3/100kg over the 4-week period.

Using current exchange rates this equates to German pig prices sitting at 187p/kg, closely followed by France and Spain at 185p and 183p respectively. Denmark and the Netherlands hold the lowest prices at around 159p/kg.

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OCTOBER 2022



Production of UK pig meat is forecast to drop 6% by the end of 2022 with the breeding herd already contracted by 18% in UK. This will further tighten supplies in a period where demand typically increases, keeping prices supported. However, reduced domestic production will also impact on trade, with imports likely to increase as domestic supplies tighten – especially if UK prices remain at a premium.

Deadweight pig prices are now significantly higher than the five-year average, however as previously noted, inflation has driven up input costs. Demand from retailers for pork trims used in the production of cheaper more affordable cuts such as sausages/mince is growing. As the cost-of-living crisis grips further in the colder months ahead many shoppers are looking at cheaper options.

On top of this export demand from the US has seen a 16% rise month on month for trims and a 15% rise in the last two weeks.

As winter draws closer and seasonal demand picks up, the impact on the pork sector, especially with potential CO2 shortages on the horizon could be yet another storm on the horizon.

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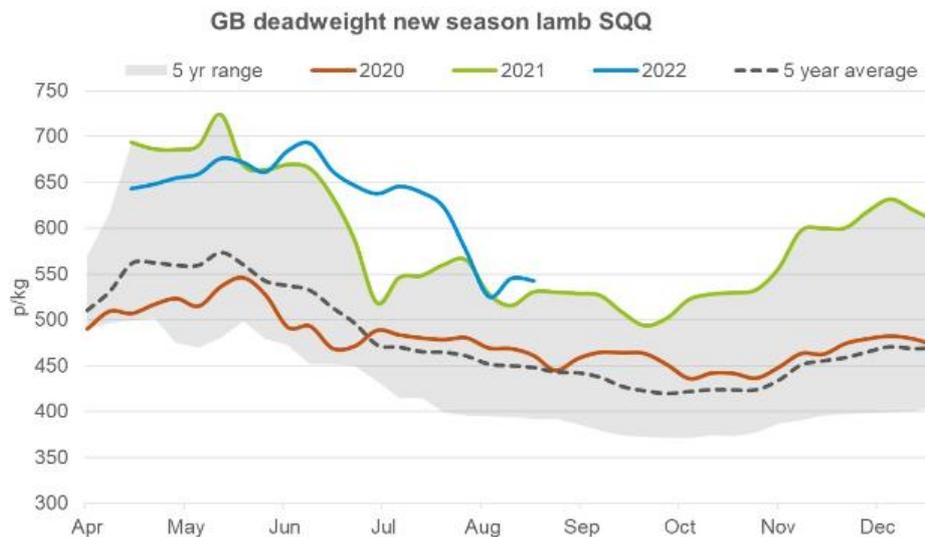
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UK Lamb Market Overview

Lamb prices ease but still above five-year average

The deadweight New Seasons lamb average eased 2.6p to average 542.8p/kg, but still massively up 94.7p on the 5-year average price which is still keeping the product of many menus due to price.



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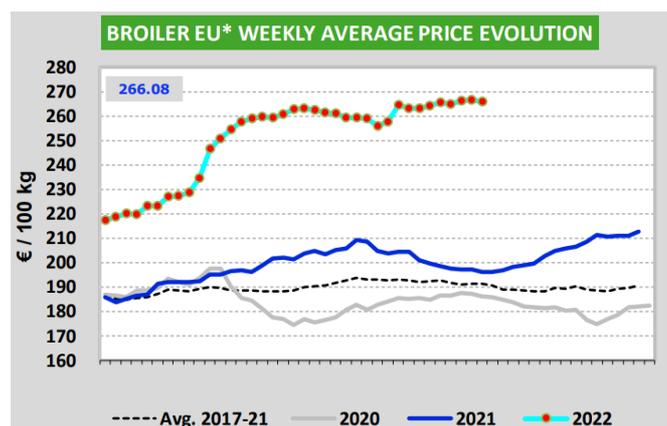
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Poultry

Demand on UK and EU poultry is still very strong. EU and UK chicken production is expected to stabilise for the remainder of 2022 but still at elevated levels. The EU Broiler price is now high enough to compensate for the input costs. Feed prices are expected to stay strong and remain high well into 2023 of which both will keep the markets and products firm, again the EU broiler price has ticked up as shown below keeping pricing as firm as its been.

It is difficult to see in the short term for at least the remainder of 2022 where any softening will come from across all products although some retailers are promoting whole birds.



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OCTOBER 2022



Price surge puts EU poultry meat production at risk

Poultry producers are affected all along the supply chain by an unprecedented increase in costs of energy (especially natural gas, fuel, and electricity), CO₂, packaging, and external labour, which threaten the continuity of production.

Energy and gas supply are particularly critical for the primary breeding of poultry to maintain the welfare of the birds. The Russian invasion of Ukraine has also resulted in a substantial rise in the price of feed, which represents 70% of the production cost of poultry. This has led to a situation where farmers may opt to stop production in the coming weeks rather than take the risk of big financial losses. There are huge difficulties in passing the additional costs through the supply chain when it is already at historically high levels

Turkey

Early indications from our supply chain are that any wholesale pricing ahead of the festive period will not be forthcoming until at least mid-late October for both UK and EU products.

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OCTOBER 2022



Exchange Rates and their likely effect on UK businesses

We have seen the Pound collapse. With what seems to be unrelenting uncertainty, we will probably see even further weakness in Sterling, especially versus the Dollar.

When the pound goes down it is cheaper to export, but up goes the price of imports which have a massive effect on margin and the bottom line. We experienced a very similar situation back in 2016 as a result of the referendum to leave the EU.

There are of course other variables that make this simple analogy a little more complex like the price of fuel and the price of imported components that make up part of the manufactured export product.

The main reason behind the current fall in sterling is traders losing their confidence in the UK's ability to pay its debt as the debt to GDP ratio continues to increase.

It is quite clear that the currency fluctuations in the range we are witnessing at the moment play a huge part not only in a company's profitability, but in the UK economy as a whole.

Businesses will inevitably have to pass the higher cost of imported goods on to the end users. Alternatively we can try to cut operating costs further which will impact on service levels that are still recovering from the pandemic. The speed with which sterling has fallen is going to prove a huge challenge going forward if it continues.

CO2 Update

British CO2 Plant will close production

CF Fertilisers UK has announced it will temporarily halt Ammonia production at its Billingham Complex due to "uneconomical" market conditions.

The move will of course have consequences for the UK food industry which uses CO2-by product of Ammonia production for meat processing & packing.

CF Fertilisers have noted that at current gas and carbon prices its ammonia production has become uneconomical with costs above £2,000 per tonne and global ammonia prices about half that.

Current costs are twice as high as they were a year ago with suggestions that this will rise in the coming months putting yet more unwanted pressure on the supply chain.

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Global Energy Cost Impact- yet another challenge

As we are all by now well aware of what as businesses we will be paying for the next six months. Let us not forget the impact that this is having right across the supply chain and the impact on pricing which is rightly so needed to alleviate disaster. No one in the food chain will go unaffected from the farm gate to your tables.

Avian Flu Update

Further cases of avian influenza confirmed in England

Defra has confirmed several more cases of avian influenza (AI) in England, as autumn approaches.

Highly pathogenic avian influenza (HPAI) H5N1 was confirmed on 18 September in chickens at a premises near Clacton on Sea, Essex. A 3km Protection Zone and 10km Surveillance Zone were put in place around the premises. Affected birds on the infected premises have been culled.

Highly pathogenic avian influenza (HPAI) H5N1 was confirmed on 17 September in chickens at a premises near Bury St Edmunds, Suffolk. A 3km Protection Zone and 10km Surveillance Zone were put in place around the premises and affected birds on the infected premises have been culled.

Since last October, the government has confirmed a total of 123 cases of highly pathogenic avian influenza H5N1 in England.

Duck Meat/Game from France

The latest information we have is that October is still going to be difficult. Indications are approximately a 50% supply on Duck Breast and 70% on Duck Legs, which is an imbalance and will probably be nearer 50% for both as stocks are very low.

We are expecting no more than 60-70% supply on Breast until end of Jan 2023, with legs also at the same level until 2023

It's the reality of where we are currently with product coming out of France, they just can't grow Duck fast enough at the moment

Corn fed chicken has improved more quickly with supply predicted to be back to normal from October but Guinea Fowl is still very challenging.

Please bear this in mind when planning menus.

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OCTOBER 2022



Final Thought

“Be Kind ... Even On Your Bad Days”

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