BIRTWISTLES

Market Report

NOVEMBER 2023

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Welcome to our Market Report for November

Key Points to Note

- Beef Overview Production/Trade/Input Costs
- Global Beef Markets Focus on Brazil & China
- Pork Overview
- Pork Population
- Lamb Overview Production/Trade
- UK/EU Poultry Overview
- Thoughts after the Anuga Food Fair
- Increased Levy Rates
- Avian Flu Update

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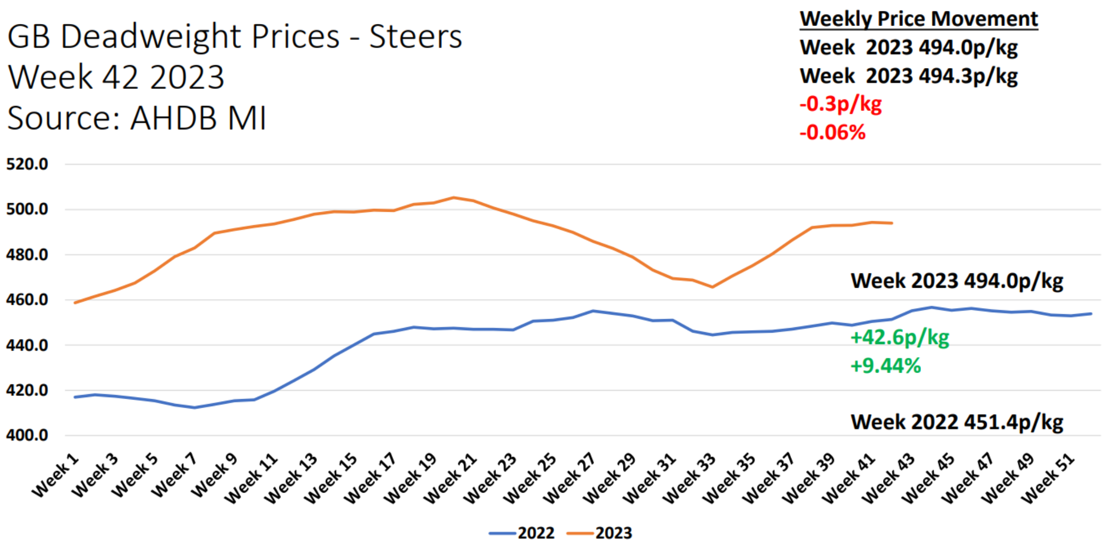
Beef Overview

We are again seeing increases again with cattle ticking up again above 4.90/kg.

Demand for retail sales is moving to the more preferred Autumn cuts such as roasting joints, diced and steak meat with rib eyes being the biggest mover. This is also being reflected in foodservice.

As the colder weather approaches, retail suppliers are seeing a boost in wholesale demand for topsides and silversides with some indicating that they have been sold out on these items however this initial demand should settle once the shelves are full.

Prime steaks continue to be sought after in particular fillets. The seasonal uptick around November when wholesalers secure year-end seasonal supplies particularly on Ribs will again lead the price based on availability and demand.



Costs

Fuel prices have again been climbing steadily over the last quarter, driven by price support in wider oil markets. Marginal monthly increases were also seen in fertiliser prices between August and September. Looking forward, any rises in natural gas prices in the months ahead are likely to translate into higher nitrogen fertiliser and fuel prices.

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Production and trade

Beef production was down slightly, both compared to last month and September of last year. We would expect to see slaughter levels increase in the run up to Christmas, as per seasonal trends.

Beef exports have generally tracked below 2022 levels over the summer. Exports were up slightly on the month, however down significantly compared to last year. This is likely driven by subdued demand for beef on the continent, and the relative price position of UK cattle. Imports of fresh and frozen beef saw marginal decline in volume terms on both the month and the year.

Global Markets

Key points:

- Brazil beef production up 7% in the first half of 2023
- China remains the most important market for Brazil exports.
- Prices are around $3 lower than the US, remaining internationally competitive.

What does beef production in Brazil look like?

Beef production in Brazil has grown by 7% year on year for the first half of 2023, to a total of 4.1 million tonnes. This can be attributed to increased availability of cattle for slaughter, with 15.7 million head slaughtered in the first half of 2023 (+1.4million from 2022). Higher feed availability has lowered feed costs, contributing to better margins for the cattle industry. Production levels are expected to finish 2023 8% higher than 2022, with an additional 2% growth in 2024.

This will of course allow for increased opportunities for export, particularly into China.

Brazil's main competitors - US, EU and Argentina, will be slowing their production, further enhancing the opportunity for Brazil to grow its beef production. However, this may be contingent on the growth of Australian exports, as their production is expected to grow through to 2024, and the markets they may export to could compete with Brazilian exports. This has shown already with the arrivals of Australian Beef shipments to the UK.

Lower domestic prices and improved economic conditions, combined with increased availability have led to higher domestic consumption. However, this trend may come under pressure if the economic situation changes in Brazil, with consumers opting to trade down to more affordable proteins such as poultry and pork.

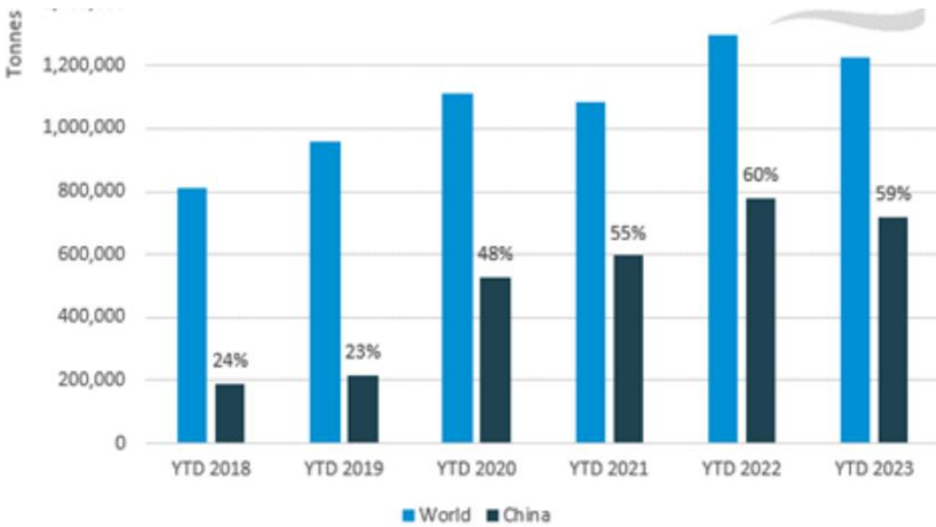
How do Brazil's prices compare?

Deadweight steer prices in Brazil have slowly fallen throughout 2023 so far, as domestic production has grown. The latest data available (22 September) shows a slight resurgence in prices, up to $3/kg, from a low of $2.70. During this period, US prices have grown up to $6.4/kg as the country struggles with lower available supplies.

Brazil’s trade situation

Brazil’s beef exports remain amongst the most competitive (volume wise) in the world, as exports to date (Jan – Aug) totalled 1.23m tonnes. This is a fall of 5% from the same period in 2022, as volumes to China fell by 8%, down to 719,000 tonnes for 2023. China remains the most important trading partner for Brazil, at **59% of its total export volume**. The market share of exports to China has grown significantly since 2019, up from 23% to a peak of 60% in 2022. This is despite multiple challenges facing export into the Chinese market, such as waning consumer demand and trade interruptions from BSE cases in Brazil.

Brazil’s beef exports, to China and the globe YTD (Jan – Aug)



Brazilian Halal Production on the Rise

The investment opportunities to improve the Brazilian infrastructure to cater to this market.

Projections on the halal market in the world based on the USDA (United States Department of Agriculture) show that, from 2018 to 2024, an increase of 24% in both imports and consumer demand is estimated in markets in the Middle East and North Africa.

Saudi Arabia appears with an increase of 35%, in the space of five to six years, and the United Arab Emirates, with an expansion of 12%. Egypt had a decrease in its consumption, but a significant increase in its production. Even so, the country still has an import need of around 32%.

In markets outside this region, such as the Philippines, 52% of beef consumption requires imports. In Malaysia, this number is even higher: 96%. Brazil, feel they have a responsibility to not only serve the Middle East and North African markets, but also all halal markets around the world.

What does this mean for the UK?

Growth in Brazil’s production is not likely to directly impact the UK. The UK has imported 13,700 tonnes from Brazil on figures available now from (Jan – July) the majority being corned beef, this is compared to our largest trading partner of Ireland at 109,000 tonnes.

Any interruption to trading dynamics for Brazil, such as further BSE cases, could shift the international beef markets. If denied or limited access to China, domestic stocks within Brazil could grow and require a new home on the international market.

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Pork Overview

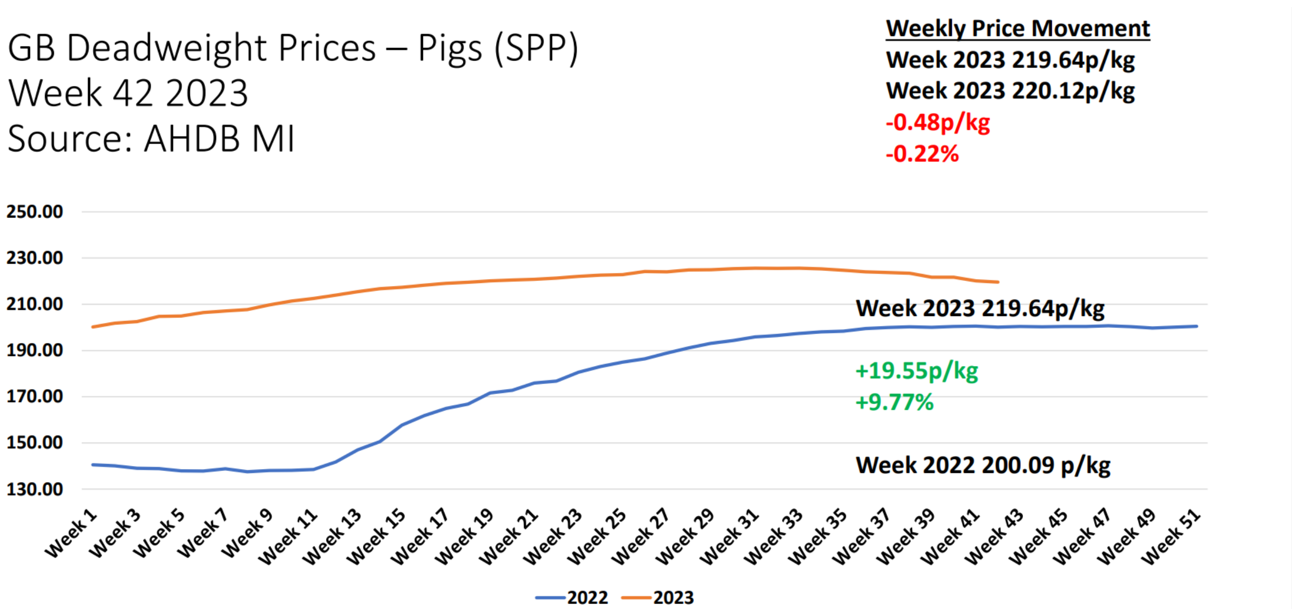
Pig prices have seen some changes, as the EU spec SPP (Standard Pig Price) has dipped slightly from its historic highs down to 220.12p/kg for the week ending 14 October.

Domestic demand is one factor influencing this drop, as fewer consumers purchasing pork reduces pressure on the market & if they are looking it is for cheaper cuts.

GB pig prices are also influenced by EU prices, impacted by falling consumer demand and industry restructuring. EU prices are now establishing a more typical discount compared to GB prices as a result, which could make EU product more attractive to buyers.

Whilst prices have been falling very narrowly, the overall cost of inputs has also been easing from the peaks seen last autumn/winter.

The Agricultural Price Index shows the rate of inflation has fallen which may ease the cost of production and improve net margins which have taken a long time for farmers to see a return albeit a very small one. There also remains some challenges with increased interest rates and continued volatility in feed, oil and gas markets as we enter the Winter months.



Pig population: lowest in over a decade

- Total pig numbers at lowest level since 2011
- Pig numbers have fallen by almost half a million since June 2022
- The breeding pig population has remained flat year-on-year.
- In the latest Defra release the total pig population in England on 1 June recorded the lowest number for 12 years at 3.63 million head. This is an 11.6% decline year-on-year, nearly half a million animals (477,000). This is unlikely to come as much of a surprise to those in the industry, who are only just beginning to recover after **10 consecutive quarters of loss making.**

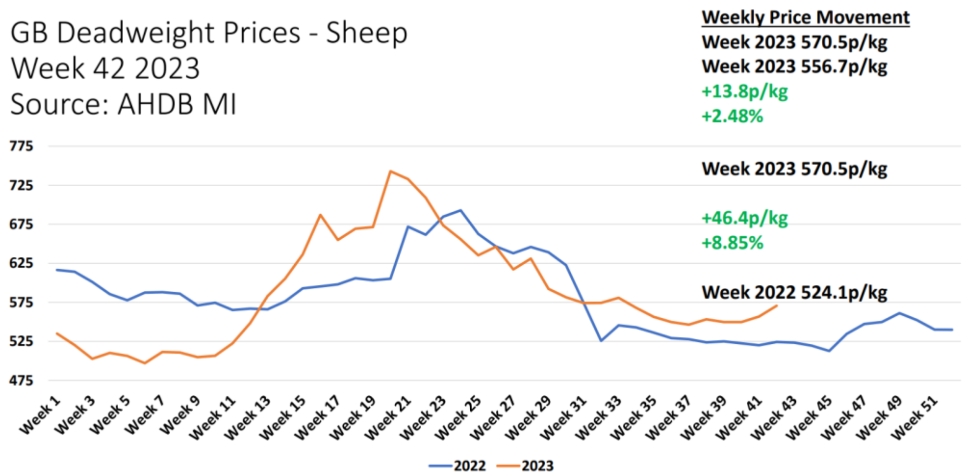
The drop in the total pig population has been driven by a substantial fall in the numbers of fattening pigs. Fattening pigs are at the lowest number since 2012, at 3.30million head, a fall of 12.6% compared to June 2022. This evidences the historically low slaughter throughputs and pig meat production volumes being seen in 2023 along with record prices.

Although we do not expect to see the industry bouncing back to the heights of 2021 in terms of pig numbers, throughputs and production, if demand remains steady and producer net margins continue on a positive track from a mere +£22 a head then we can anticipate some welcome growth for pork farmers with pork finding a new and well earnt level of pricing.

UK Lamb Market & Overview

The deadweight price averaged 549.7p/kg in the week ending 22nd October. Prices peaked at 570.5p/kg towards the middle of the month before easing to 556.7p/kg. The monthly average was still up 46p against October 2022.

Demand for seasonal lines such as Racks and Lamb Rumps for hospitality are gathering pace but with demand from export for Haunches and promotions in EU supermarkets on Saddles a priority for producers who can increase volume and balance the carcass puts the hospitality sector at a disadvantage on volume/availability and price.



Production

UK sheep meat production for September 2023 totalled 22,700 tonnes, declining by 7% since August. This fall has been driven by a decrease in slaughtering, sitting at 994,000 for the month.

Trade

In terms of trade, August sheep meat import volumes were higher than 2022 rates for the first time this year. Increased amounts of sheep meat have been imported from New Zealand and Australia, where prices are extremely competitive. Meanwhile, export levels have risen by 21% since last month to 6,400 tonnes, also sitting above last year's export levels by 8%.

Poultry Overview

UK poultry exports to Japan secured following market access approval.

A new market access deal that will benefit UK farmers, meat processors and exporters has been secured. The industry estimates that this market could be worth over £10 million in the next five years, as UK poultry producer Moy Park is the first to officially register and export its produce to Japan from one of its facilities in Grantham, Lincolnshire.

UK poultry meat has been exported to Japan since a market access deal for fresh and cooked poultry was secured in 2021, but Avian Influenza outbreaks in the UK have led to restrictions on the trade.

The market access agreement is one more positive step forward for the UK poultry industry and is testament to the quality of UK Poultry.

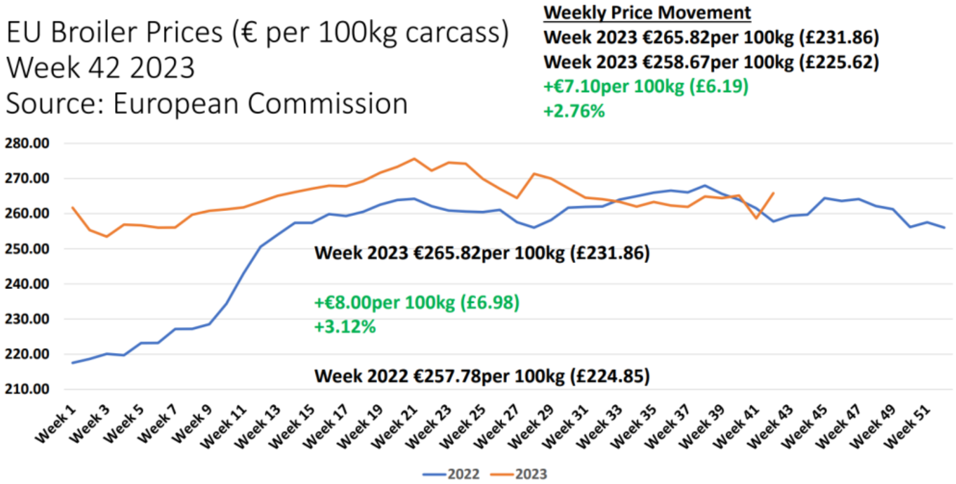
In the face of ongoing challenges posed by Avian Influenza, it is a real achievement to have secured a deal which allows the exports of these valuable UK poultry products.

The new agreement enables smoother trade of cooked poultry meat, meaning that additional high value exports to Japan can be made.

UK supply has been constant in remaining firm with UK demand from foodservice still strong with supply still meeting demand thigh meat & wings have remained very prominent some pressure will be taken of producers when the seasonal demand for turkey kicks in but throughputs will be adjusted to compensate for this keeping prices as they have been on UK and EU poultry steady.

EU Poultry

CHICKEN: EU chicken production is forecast to grow 2 percent from 2019 through 2024. However, exports as a percent of production are forecast at 16 percent in 2024, down from 20 percent in 2019. Highly Pathogenic Avian Influenza (HPAI) has constrained production growth and hence exportable supplies. HPAI-related trade restrictions have curtailed exports.



Avian Flu Update

Romania and Bulgaria have reported outbreaks of highly pathogenic avian influenza among poultry, Reuters reported, citing the World Organisation for Animal Health (WOAH) on Friday 27th October, as Europe again faces a seasonal upturn in the deadly disease.

The spread of avian influenza, commonly called bird flu, has raised concerns among governments and the poultry industry after it ravaged flocks around the world in recent years, disrupting supply, fuelling higher food prices.

In Romania, the H5N1 virus was detected in a flock of 120 backyard poultry in the village of Tiganesti near the border with Bulgaria, causing the death of 28 birds, the Paris-based WOAH said, citing a report from the Romanian authorities.

Bulgaria, meanwhile, reported earlier this week outbreaks of an H5-type avian influenza virus on two poultry farms, WOAH said in a separate notice.

One outbreak in Malko Konare in the Pazardzhik region killed 380 birds out of a flock of 171,911, while another outbreak in Debelets in the region of Veliko Tarnovo killed 5,420 out of 395,045 farm poultry, WOAH said, quoting details from the Bulgarian authorities.

The intergovernmental body last week also reported that Poland, the European Union's largest poultry producer, had detected H5N1 bird flu virus among poultry in the north of the country which could have repercussions for exports to the UK if not contained.

Thoughts after the Anuga food fair

Anuga 2023 was larger than ever before this year with 300,000 square metres of hall space containing ten trade shows under one huge exhibition. More than 7,800 exhibitors from 118 countries took part in the event, which ran from 7 to 11 October.

Anuga is prime time for negotiations between food suppliers and retailers.

The pressure on prices is high, but producers are determined to protect their margins as they have not yet recovered all the ground lost in previous years. On the other hand, higher prices are also resulting in lower volumes for certain categories, making any pricing decision even more complex.

What we heard: About prices, volumes, and margins

Anuga takes place during the prime negotiating period for retailers/ buyers and their suppliers regarding the purchases for the coming year. Such negotiations are always tough, but since 2022 they have been more complex than ever. Expected demand, costs for the producers, input availability, competition and bargaining power are the key factors determining final agreements.

Most Agri-commodity prices are now cheaper than a year ago, but we have been reminded by producers that there are many nuances (slight degrees of differences)

It is important to understand that commodity prices do not automatically translate into input costs due to existing contracts and stocks, as producers need to buy in advance to secure sufficient availability this can limit commitment with the unknown risks ahead in the current markets and ultimately reduced production outputs when forecasting.

Can food suppliers maintain their current prices?

Unsurprisingly, with lower commodity prices, there is a strong pressure from buyers to bring prices down. But manufacturers are also building their case, they point to higher labour costs and interest rates, the loss of profits taken in 2022 when they couldn't pass their cost increases on to buyers for quite some months, the higher price of some of their inputs and their below historic average margins.

Interestingly prices are less important with securing supply a key priority for buyers.

Suppliers are generally optimistic – perhaps overoptimistic – about their capacity to maintain current prices for next year. Yet some food suppliers whose final products have a strong correlation with a now cheaper commodity indicated that they have already reduced their selling prices as from the summer.

Yet, such decisions are not easy, and some players are concerned about the impact that higher prices may have on their competitive position if industry leaders don't also increase their selling prices. The alternative is absorbing the higher costs themselves, which may not always be a viable option.

Declining volumes are also important in pricing decisions. As prices kept rising, food sales volumes have been declining in most markets, with certain products, such as the more expensive items, suffering more than others. Food suppliers directly affected by such volume contraction are confronted with a difficult choice: To maintain prices to protect margins, but risk further volume losses?

Its margins, not prices that really count.

We also got the impression that there was quite some margin recovery taking place at present and that suppliers may be able to protect their margins even if they had to lower some prices. For further processing (think about ingredients for ready meals) they indicated that, so far, they have been able to protect their margins, despite lowering their selling prices.

Other manufacturers indicated that their margins currently benefit from lower input costs compared to those in place when they closed their current selling tariffs. This could be interpreted as a door for price reduction, but we must not forget that for some manufacturers margins are still below 2020 levels, limiting their room for manoeuvre.

What we saw (or didn't see)

It was very busy on the floor, but the crowds were not equally distributed: Halls hosting large suppliers were very busy. Visitors numbers at the country-oriented areas, which often host smaller companies, were more random.

In the UK, for example, some large supermarkets are sizing up opportunities in stocking a strong Australian beef or lamb brand – working against the theory that the UK consumer is not interested in buying imported beef at supermarket level.

There were also more stands than two years ago, but were fewer plant-based animal protein alternatives on show, even if it was busy at those that did attend. It seems that the number of manufacturers trying to make a place for themselves in the segment has also declined as demand projections have cooled down.

"Don't buy from me, Argentina".

There was a huge presence at Anuga this year from Argentina. Heavily backed by funding from the Argentine government, about 30 Argentine beef exporters were present. Part of the reason for the prominent Argentine display this year may be 'damage control', following the country's earlier temporary ban on its own beef exports, designed to moderate local beef prices, leading up to a national election.

Conclusion

Brand attribute messaging around sustainability, animal welfare, carbon footprint and methane are becoming increasingly evident – although sustainability claims are now almost a 'given' in large parts of the EU market.

Every major animal protein display at Anuga – whether representing a nation, a protein type, or a corporate entity – had a strong sustainability message at its core.

Costs and uncertain demand trends make it complex for both buyers and sellers to close agreements for the coming year. While in 2022 price increases were generalized, the reverse trend may be more random, but we believe that there may be opportunities. Protecting operating profits either through volume or margin is a key priority for all, but the weakest players, those that lack pricing power, may struggle if consumer spending remains lethargic.

AHDB have announced plans to increase levy rates from April 2024 across all four of its sectors.

Discussions have begun around increasing levy rates from April 2024 as AHDB claims the board's spending power has been significantly reduced by inflation and rising costs, limiting its ability to deliver valuable services to the agriculture sector.

The prices, many of which have remained unchanged for more than a decade, could be introduced from April 2024, and will see cattle producers paying £5.06/head of cattle; a slaughterer/exporter being charged £1.69, up from £1.35/head of cattle. Sheep producers will see an increase of 15p per head while, pig producers will see a rise from £0.85 to £1.02 - a price that has been in place since 1996. Cereal growers can expect to pay 58.00p/tonne as opposed to 46p/t. For OSR (Oil Seed Rape), the rate moves to 94p/tonne.

Although the organisation has made significant cost savings in recent months, including exceeding a two-year target of £7.8m by £700,000, rising costs are continuing to add pressure on sector budgets.

There have been no increases for over a decade, inflation has eroded the value of the levy by around 40% in this time and there needs to be a significant step taken to close this gap.

Final Thought

"Optimism doesn't wait on facts.
It deals with prospects".