MARKET REPORT - April 2020

Cattle Update

COVID-19: Early Market Developments

- The economic rebalancing caused by the response to the Covid-19 outbreak has had a major impact on the beef market. The near-closure of the out-of-home foodservice sector, school closures and shift towards home-working has meant around an additional 500m meals being prepared each week in the home according to Kantar.

- Retail demand for mince and diced beef reportedly surged in March as households ensured that their freezers were well-stocked in case of a fortnight of self-isolation or limits on their movements were imposed. Demand for cheaper cuts like mince is also likely to have seen a boost from households facing income reduction due to unemployment or waiting for government support programmes for workers on unpaid leave and self-employment to pay out. Meanwhile, the plummeting of foodservice sector demand due to social distancing is likely to have increased retail demand for mince and diced beef as versatile products for cooking at home, and demand for their use in ready-to-cook meals.

- Based on household purchases data from Kantar for 2019, mince accounted for 37% of the money spent by GB households on beef and 53% of the volume retailed. Its average retail price was 30% below the overall average and 60% below the average price for steaks. Therefore a switch in demand away from steaks towards mince could lead to a significant loss in the overall value of a carcase.

- Despite the considerable rebalancing of demand, prime cattle prices continued to lack direction into the final week of March, when social distancing measures were tightened, averaging only 0.1p below their year-to-date average, at 346.4p/kg.

- Moving into the week ending April 4th, prime cattle prices climbed to 350.1p/kg. This was their highest level since the second week of June 2019, rising around 1% above their average for the year-to-date.

- The price rise was underpinned by a surge in prices for O grade cattle. For example, while the barometer R4L steer and heifer prices only edged higher by 0.6 and 0.4p respectively, there were increases of 24.5p for the O+4L steer and 20.3p for O+4L heifers, pushing them well above R4L prices. While weak demand for higher end cuts may have limited price increases for the better grades, firm demand for mince may have driven up the value of O grade cattle.

- Significant price rises for O grade prime cattle in Scotland were not matched south of the border and this helped lift the Scottish premium to a 9-week high of 5.6% having dropped to a 51-week low of 4.2% in the previous week. The overall prime cattle average fell by 1.1p in E&W to 331.5p/kg. March is often when the Scottish premium is at its lowest of the calendar year, and March 2019 had seen it drop as low as 3.5%.

- For a second week, cull cow prices fell sharply, going against their historic seasonal trend. Demand for cow beef is likely to be under pressure during the second quarter of the year due to the lack of burger orders for large sporting and entertainment events. O+3 grades fell by 11.5p to 253.1p/kg, following an 8.5p fall in the previous week, dropping them 5.6% behind year earlier levels having exceeded 2019 by around 6% until the third week of March.

- After a 1.7% increase in the third week of March, prime cattle slaughter at reporting Scottish abattoirs fell 3.9% to an eight-week low. The week-on-week rate of decline then doubled to -7.7% as April began, with increased absences and distancing within processing plants slowed down line speeds, reducing capacity. However, given the sharp reduction in slaughter in late March 2019, numbers were still 8.1% above year earlier levels. Given reports of challenges at the higher end of the market, the sharp fall in kill may have held up prices for the better-quality cattle.

- South of the border, price reporting abattoirs processed 5% fewer prime cattle, following a 4% reduction in late March.

- It is of interest though to see that the third week of March had seen price reporting abattoirs recording their highest GB prime stock kill of the year, up 5% on a week earlier. This may have been a consequence of farmers and processors seeking to pull transactions forward in case of future disruptions due to Coronavirus control measures.

- Given that the seasonal downwards trend had continued into late March last year, prime cattle prices pushed ahead of year earlier levels for the first time in 70 weeks in the week to March 14th. In the week ending April 4th they were up 1.1% on 2019.

- The store cattle trade experienced some volatility in late March and early April. Marketings fell sharply in the final full week of March before recovering as auctions put in place new operating practices. Prices rebounded to a four-week high but remained lower than last year. 6-12-month steers sold for £884, down 5% on the year, while 12-18-month steers averaged £959, 3.3% below the same week in 2019.

- On the continent, prices fell in many countries in the third week of March as coronavirus control measures introduced during the month, including school closures, restrictions on out of home eating and heightened border security, destabilised the red meat trade and demand. On average, the EU price for R3 grade males fell by 3.9%.

- In response to delays at border crossings, 'green lanes' for freight traffic were introduced, with the aim of limiting delays to 15 minutes. A regularly updated mapping tool shows that most borders are back to normal, but there are still considerable delays, particularly around Switzerland, Austria and south-eastern Europe.

- EU prices for R3 grade males then saw a small recovery in late March and early April, although the young bull indicator continued to slide. Compared to a month earlier, the R3 male price was down 2.5% with young bulls down 4.1%. On a year earlier, they were down by a respective 4% and 4.5%.

- In Poland, the average price for an R3 grade young bull was €2.73/kg (241p/kg), placing it 31% below the price of an R3 grade steer at Scottish abattoirs and 23% below Irish levels. Poland accounted for 6% of UK imports in 2019 and Ireland 78%.

- EU cow prices fell more significantly in the third week of March than prime cattle and trended further downwards thereafter, leaving the O3 grade average down 7% on the month and 8.3% on the year in the week ending April 5th.

- In the Irish Republic, prices trended higher between December and late February, rising around 8% in euro. They then steadied in the first three weeks of March, averaging €3.68/kg (337p/kg) for an R3 grade steer in its third week, and trading at similar levels to March 2019.

- However, Irish prices were not immune to the wider pressures seen across much of Europe, and the R3 steer price showed declines of 1% at the end of March and then 3% as April began, leaving prices trailing year earlier levels by 2.6% and the market at levels last seen for this time of year in 2011.

- Having averaged around 305-310p/kg in sterling between the beginning of 2020 and late February, a sharp fall in sterling between the final week of February and the third week of March saw the Scottish premium over Ireland dip by around ten percentage points to just 4%. However, by the week to April 5th, a partial recovery in sterling coupled with the sharp decline in Irish prices saw the premium widen back to 12%.

- The week ending April 5th saw slaughter fall back sharply in the Irish Republic for a second week. A decline of 8.6% followed late March's 7.2% and the year-on-year decline almost doubled to -16.5%.

Wider Beef Market Information

- The R4L steer price premium for Scotland over E&W has fallen back to average 5.4p (1.6%) during March, down from 8p (2.3%) in February and 12.4p (3.6%) in January.

- At Scottish abattoirs, -U4L steers traded 3.1p/kg cheaper on average than R4L steers during March; for heifers it was the reverse - the -U4L averaged 4.3p higher.

- December census results for Scotland showed a further contraction of the beef breeding herd with suckler cow numbers down 1.6% to 400,150 head. Over the decade, numbers had fallen by 11.4%. The dairy herd showed similar movements. Meanwhile, the number of male cattle aged over a year old fell by 5.4% on late 2018.

- Despite the cattle population data pointing to a tightening in availability on Scottish farms, price reporting abattoirs have processed more prime cattle than a year earlier in 12 of the first 14 weeks of 2020. As well as early marketing, this could also reflect a slightly higher proportion of the kill going through the large price reporting plants. Nevertheless, Scottish abattoir data for February did show a year-on-year increase of 2.6% across all sites, climbing to a 9.3% lift in March.

- Carcase weights fell slightly relative to 2019 at Scottish abattoirs in February and March, limiting production growth to 1.8% in February and 8.7% in March.

- In contrast to Scotland, Defra reported a fourth consecutive month of year-on-year prime cattle kill decline in February for UK abattoirs, with the weekly average down 2.3%. Production fell more slowly as carcase weights picked up 0.7%. Similarly, the upwards trend in weight was unable to prevent a 4.1% decline in cow beef production.

- After a firm January, when prices had averaged 1.9% above year earlier levels, store steers and heifers aged 6-24 months sold for an average of £945 in February, which was up 3.6% on the year. In March they sold up 1.6% at £908.

- After four months of increases, the average price paid for a steer carcase by Scottish abattoirs slipped back slightly in March to £1,339 as the average price and weight both fell a fraction from February. Carcase values remained lower than a year earlier but the gap narrowed to 0.6%. A 0.2% higher price was more than offset by a 0.8% reduction in weight.

- 6-12-month steers were valued at 66.4% of the average carcase price in March, while 12-18-month steers were equivalent to 71.6% of the carcase price.

- Provisional UK customs data for January shows the continuing of the pattern from 2019 with growth in exports compared to the same month a year ago and reduced imports.

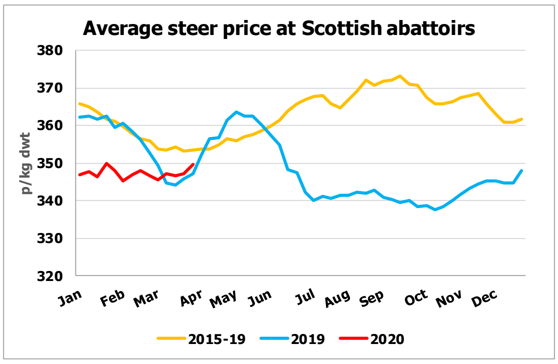
- Reports from across the world point to significant disruption in the beef sector due to Covid-19. In the US, a number of processing facilities have been closed temporarily due to cases of Covid-19 amongst the workforce. Slaughter numbers surged through March before dropping sharply into April and farmgate prices have trended downwards. In New Zealand, distancing in plants is estimated to have reduced slaughter capacity by 30%. Argentina saw its beef exports initially hit by a strong reliance on China, and now the effective closure of the foodservice sector in the EU has removed a valuable outlet for its higher-end cuts.

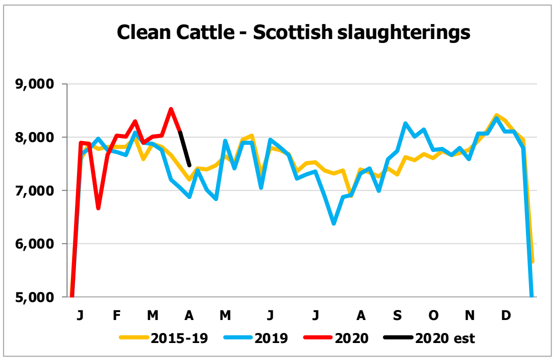
- With global manufacturing supply chains for clothing and cars slowing down or even stopping production, demand for hides is going to be weak for a prolonged period; and hide prices had already fallen sharply last year.

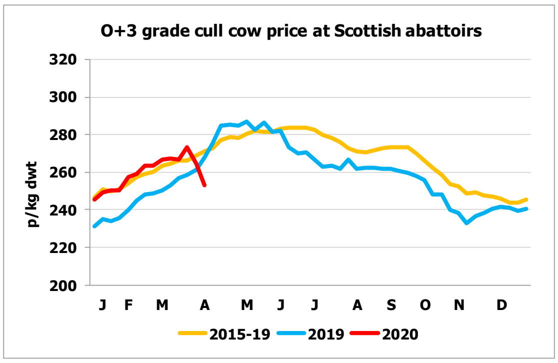
- In March it had seemed almost inevitable that a low oil price would drive down the price of tallow given its use as a feed stock for biofuel production. Indeed, the UN's FAO reported that a drop in demand for biodiesel had already contributed to a fall in the global prices of vegetable oil and maize in March. Nevertheless, in late March, industry sources suggested that tallow values had yet to follow these markets lower. Moving into April, this changed, forcing traders to look for new opportunities overseas.

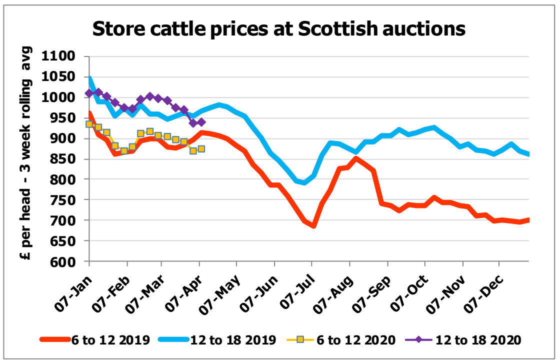
- A general slowdown in global trade and foodservice may lead to weak demand for edible fifth quarter products in Asia and Africa.

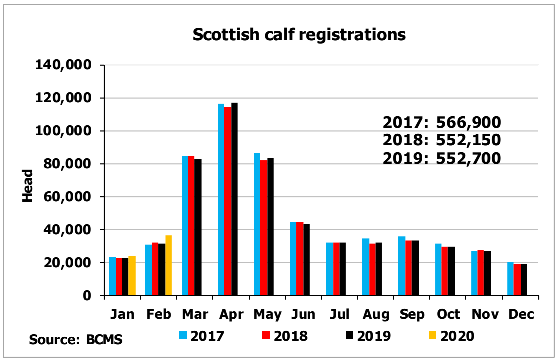
Cattle Charts

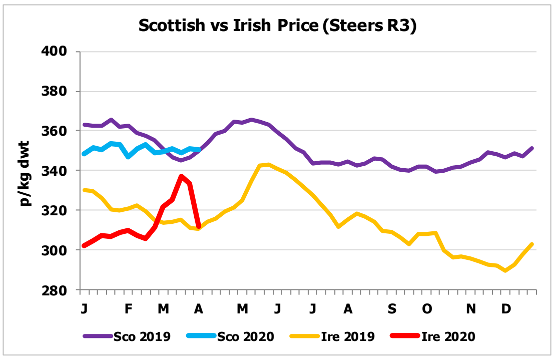


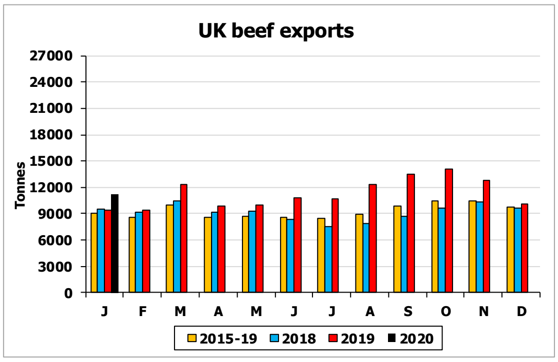


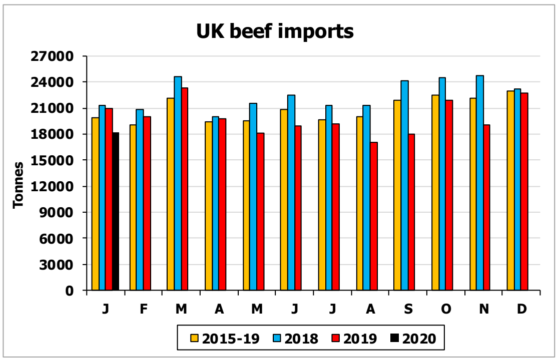












Sheep Update

- Measures taken to control coronavirus across the UK and Europe have led to significant volatility in the sheep market. In early March, and despite high numbers of prime sheep reaching abattoirs, farmgate prices were strong and rising. At Scottish auctions, in the middle of March, SQQ prime sheep had been trading at prices 25% higher than a year earlier, by the final week of the month they were trading 12% lower than a year earlier. However, in the week before Easter there was some recovery in auction prices to similar levels seen a year ago.

- UK slaughter during February was reportedly lower than a year ago, but auction data suggests a strong upturn at the beginning of March. Indeed in the week ending 18th March, Scottish auctions handled one third more prime sheep than a year earlier. Volumes then surged on Thursday 19th. Given high prices and the potential for disruption, it is likely that lambs were sold early in order to ensure income at farm level, while abattoirs may have acted to ensure meat supplies.

- At the same time measures introduced across Europe to control coronavirus immediately disturbed the demand for lamb and the ease with which sheepmeat could be moved from country to country. With demand immediately hit and high volumes of sheepmeat on the market, stocks built up quickly and farmgate prices collapsed.

- Highlighting the challenge faced in export markets, in France, wholesale price reductions of around 10-20% compared to the previous week were reported at the key Rungis market in Paris on Thursday 27th March. Poorer quality carcases saw the largest price falls. However, prices then steadied at Rungis on Tuesday 31st March before showing a recovery on Friday 3rd April.

- In the final week of March, the number of SQQ hoggs traded is estimated to have fallen around 80% from the week before, and their selling price fell substantially.

- One week later with Easter approaching there was some recovery in both the number of animals in the marketplace, although they remained historically low. Market prices still struggled to match the prices of a year ago but did climb from the lows of late March.

- Auction market data points to a more significant price falls in Scotland than in England & Wales. Market data then signalled an earlier recovery south of the border and hoggs continued to sell at a significant discount in Scottish markets up until Easter, although the gap did appear to have narrowed on Easter Monday.

- December 2019 census estimates placed slaughter lamb numbers 4.7% higher than a year earlier in Scotland, but 1.5% lower in England. Combined with the later seasonal marketing profile in Scotland, this may help explain some of the recent price divergence. However, it may also be linked to the recent volatility in demand if abattoirs south of the border were able to secure adequate supplies closer to home.

- Auction market data also revealed widening premia on farm assured hoggs, with the premium widening more significantly at Scottish sales than in England & Wales. In Scotland, farm assured hoggs sold for around 4% more than non-assured hoggs in mid-March, but this gap rose to 13% in the week to April 4th; south of the border it widened to 6%.

- While slaughter data for Scottish abattoirs signalled a considerable fall in numbers processed in the second half of March, the falls were less severe than those seen in auction marketings. In addition, the surge in auction marketings seen in mid-March was not repeated at Scottish abattoirs. The first half of the month saw slaughter numbers average around 3% below the weekly average through January and February. They then fell by 11-12% for two weeks.

- Volatility in the slaughter sheep market has been exceptional in the UK, but across Europe prices have also come under pressure. Prime sheep pricess reported by the European Commission show delines over the past month of around 5% in Ireland and France and 7.5% in Italy.

- In Spain, the lamb market is reported to have been hit hard by the closure of hotels and restaurants. According to the USDA, a public support scheme is under consideration, where €30 would be paid per lamb slaughtered at under four months of age during the 'state of emergency' period between March 14th and April 26th. However, farmgate prices published by the EU Commission suggest that farmgate prices had held stable through March before dipping only slightly at the beginning of April, leaving them around 9% above 2019 levels.

- GB retail sales data from Kantar Worldpanel for the quater ending in mid-March shows that lamb sales continued to struggle to match the levels of a year ago. Unlike retail beef where buying patterns associated with coronavirus development had boosted sales there is little evidence of such an effect on sheepmeat. However, there had been some increase in retail prices for all lamb cuts as firm farmgate prices were passed on.

- Provisional January data indicates that UK sheepmeat exports increased slightly from year earlier levels. Shipments to the main EU markets of France, Germany, Belgium Italy all declined slightly compared to a year ago but growth in expoprts to Ireland and outside of the EU offset these.

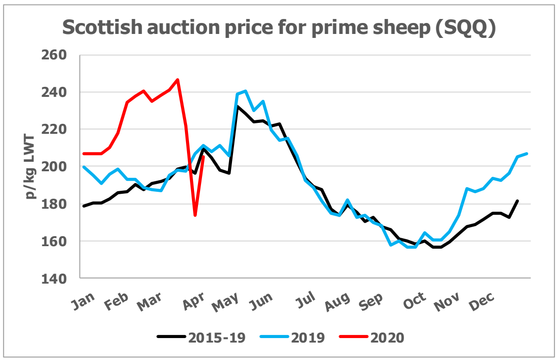
- Sheepmeat imports to the UK continued to be lower than year earlier levels during January. However, early indications are that there was some increase in deliveries during February from New Zealand as it adjusted to challenegs in the Chinese market. Nevertheless, although increased shipments are reported by New Zeland to the UK, they do remain below historic levels.

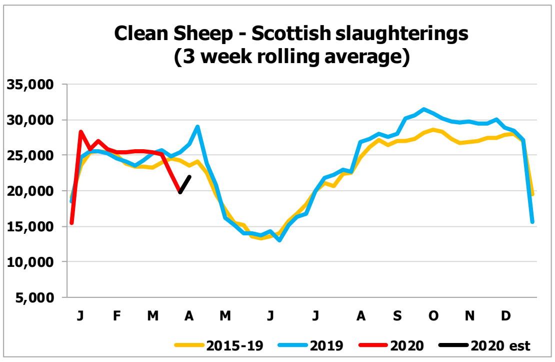
- New Zealand lamb slaughter numbers through January and February were 6% higher than a year ago and since the start of the new season in October 2019, up 3%. This conflicts with a forecast 2.7% decline in slaughter during the 2019/20 season, with drought conditions in parts of the country leading to early marketing, suggesting tightening supplies as the season progresses.

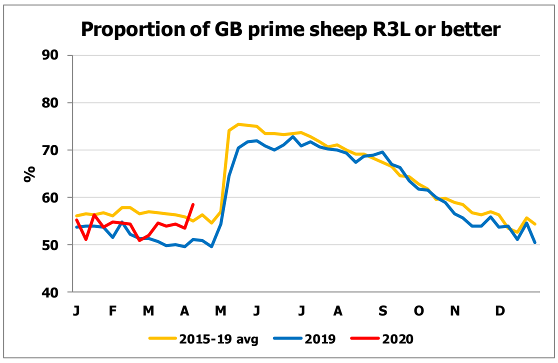
- However, distancing rules in NZ abattoirs have been forecast to reduce capacity through April and May by as much as 50%, so there could be a backlog of lambs to process later in the season.

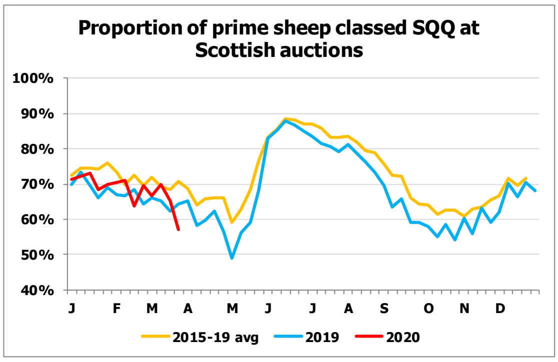
- Beef + Lamb New Zealand indicate that the country's total exports of lamb in the 2019/2020 marketing year-to-date are broadly unchanged on 2018/19. When set against higher slaughter numbers, this would suggest some building of stocks in New Zealand.

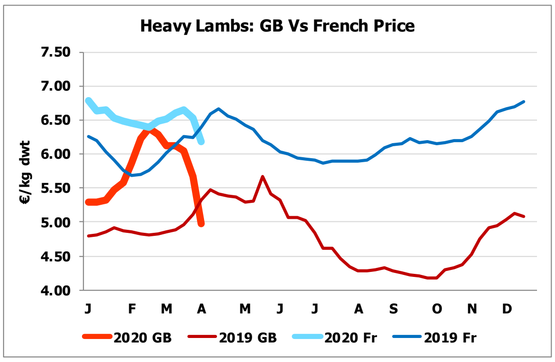
Sheep Charts

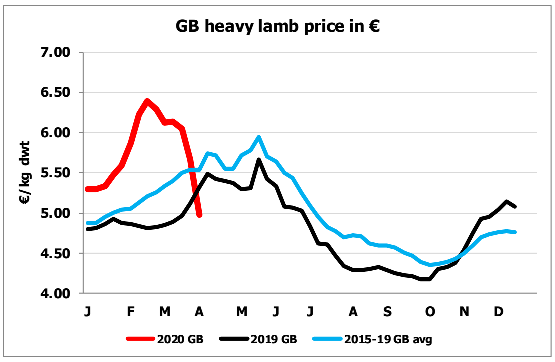


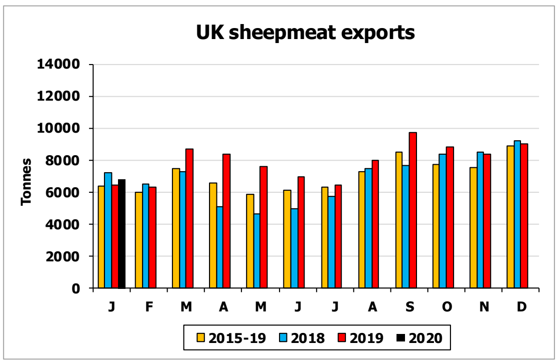


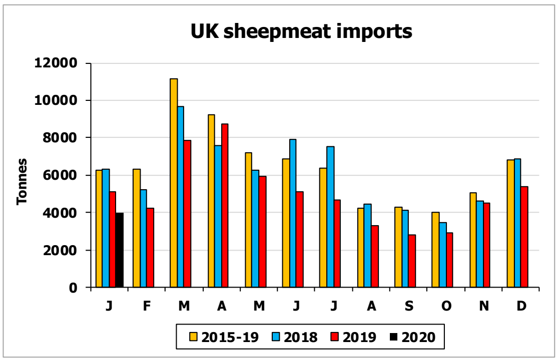












Pigs Update

- Compared to the volatility in the beef and lamb sectors, the Coronavirus pandemic appears to have had minimal impact on GB producer prices for prime pigs; although currency volatility is likely to have had some impact on the sow trade.

- Industry sources have indicated that overall demand for home-produced pork has held up relatively well since it tends to be sold by the retail sector, whereas demand for imported pork has softened because foodservice buyers would tend to favour imported product. Nevertheless, domestic processors have reported a backlog in some cuts.

- After a relatively stable start to the year, the GB SPP appeared to take a slight upswing through March, leaving it around 1.3p above its year-to-date average in the week to April 4th, at 163.9p/kg. This saw the year-on-year increase climb to 19%, having opened the year at 16%.

- While per kilo prices have firmed slightly, the average price per carcase opened April below its year-to-date average, being reported at £139.31. Carcase weights had held up more than in recent years, averaging above 85.9kg in the first half of March before dropping back. While some of this fall is likely to be seasonal, the 1.1% decline in weights over a three week period from mid-March may also reflect some early marketing due to fears around disruption.

- The recent fall in carcase weights has seen them move back in line with year earlier levels after nearly two months running around 1% higher.

- Prime pig slaughter numbers reported by Defra, showed a modest year on year increase through January and February although numbers in the price reporting abattoirs were below year earlier levels. Carcase weights also increased, leading to higher domestic pigmeat availability during January and February.

- During March, after a fall in the opening week, price reporting abattoirs saw a significant lift in kill of over 3% in the second and third weeks of the month, with numbers recovering to their highest levels since January. However, increased absences and distancing at processing sites may have contributed to two consecutive weekly declines thereafter.

- 7kg weaner values remained stable throughout the first quarter of the year. An average of around £42 means that weaners are worth just over 30% of the final carcase price and 17.5% more than a year earlier.

- In China, the pork market had begun the year on a traditional seasonal trend, with wholesale prices rising in the run up to the lunar New Year holiday, with this year's celebrations due to take place on January 25th. However, the Covid-19 outbreak saw the holidays extended by a week and significant disruption in the food supply sytem. When large parts of the country returned to work in mid-February, prices had risen by a further 5%, whereas usually they would soften following the holidays.

- Since the initial period of strength in mid-February, pork prices in China have trended lower, and by mid-April they had slipped by 10%, dropping below the 45 yuan/kg (£5.13/kg) mark for the first time since early January. Nevertheless, pork was still more more than twice the price of April 2019 and this rise in cost has placed continuing downwards pressure on consumer demand. Meanwhile, it is reported that the release of pork from public stocks has also placed downwards pressure on the market.

- EU pig prices have fluctuated significantly during the first quarter of 2020. After falling back just before Christmas, the downwards trend continued in the early weeks of the year before the market rebounded through February, almost recovering to its pre-Christmas peak, reaching €1.95/kg (170p/kg) at the beginning of March. Prices then cooled, opening April at a seven-week low of €1.86/kg (164p/kg). Moving into the second week of the month, the weekly forecast for the key German market pointed to a further drift lower.

- Except for a brief period in January and February 2020, EU prices have averaged above UK levels for a year. However, the gap had closed to less than 1% in early April and if the German price forecast is representative, EU prices may be falling back behind UK levels in mid-April.

- During the first two months of 2020, UK exports continued to be underpinned by strength in demand from China. Whereas volumes sold to EU countries declined by 6% to 18,900t, this was more than offset by a 74% lift in volumes sold to China, which reached 16,000t. Global pork price inflation due to the shortage of supplies in China was evident in the average value per tonne shipped, rising 18.5% to the EU and by 56% to China.

- Pork imports to the UK from the EU fell sharply in volume in the first two months of 2020, down 14.5% at 61,200t. However, this pork was much dearer to buy, averaging 35% more expensive per tonne than in early 2019.

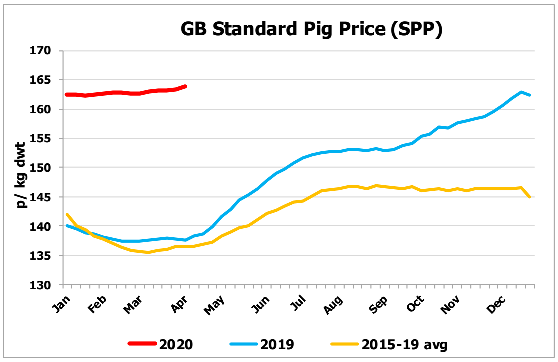
- The US pork market has been volatile in recent weeks. In March, farmgate and wholesale prices had surged, but they have since plummeted in early April, with the farmgate price down nearly a third on its recent peak and by around 20% on its year-to-date average. Despite some plant closures, slaughter remained slightly above year earlier levels in the second week of the month, having run 5% higher in the year-to-date.

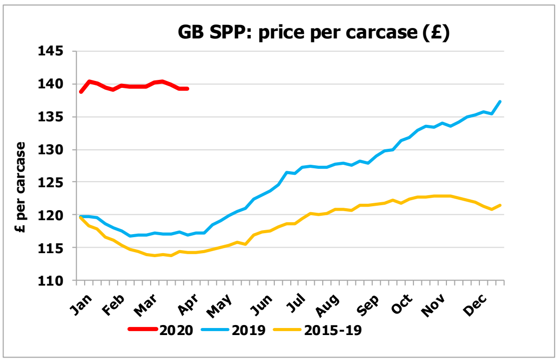
- The Covid-19 outbreak has led to some destabilisation in the arable sector, with potential knock-on impacts on input costs. Wheat and barley prices for North East Scotland reported by the Farmers Weekly firmed through the second half of March but have since eased back, with the former at £147/t and the latter at £128/t on April 8th.

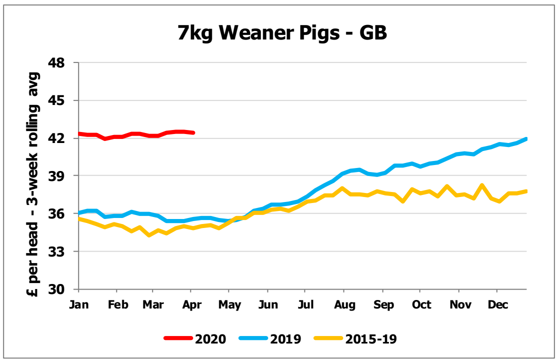
- On the supply side, global grain production is forecast to be ahead of demand, although there are some worries over drought in the Black Sea region while a wet winter delayed planting in parts of the EU. One factor influencing the demand-side of the equation will be weak demand for biofuels.

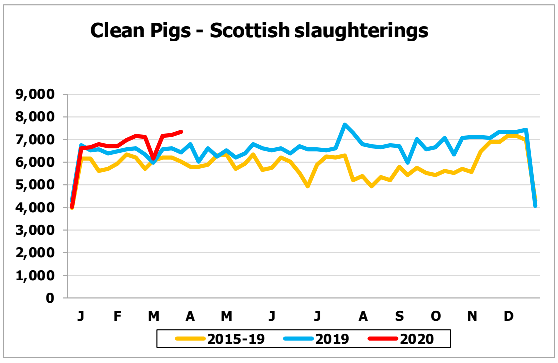
- A sharp fall in sterling against the US dollar in March saw the price of imported soyameal surge above its average of around £315/t through February. At its high, prices approached £400/t, but they had dropped back to £363 on April 8th. The global market for soyabeans has softened due to weak demand for vegetable oils and adequate production levels in South America, suggesting that UK import prices may continue to rebalance.

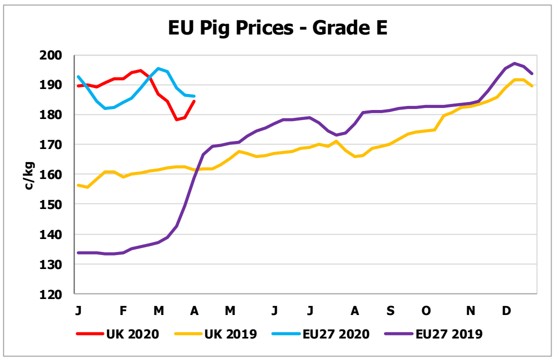
Pig Charts

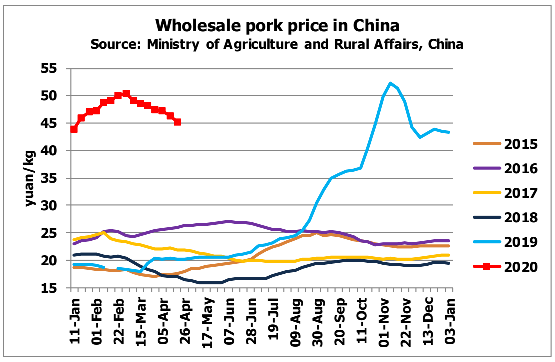

GB Standard Pig Price (SPP)
p/ kg dwt
170
165
160
155
150
145
140
135
130
Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec
2020
2019
2015-19 avg

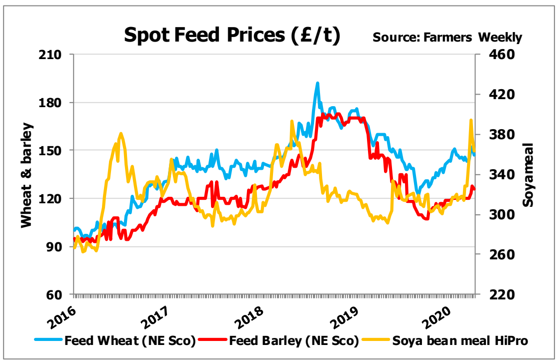

GB SPP: price per carcase (£)
£ per carcase
145
140
135
130
125
120
115
110
Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec
2020
2019
2015-19

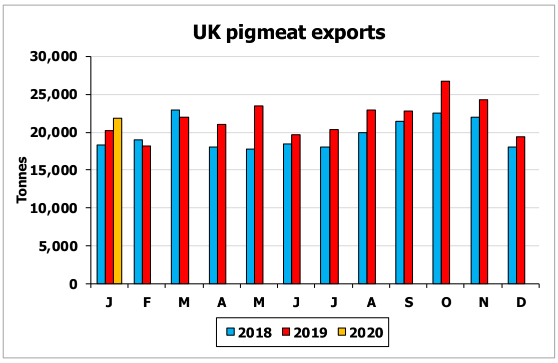

7kg Weaner Pigs - GB
£ per head - 3-week rolling avg
48
45
42
39
36
33
30
Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec
2020
2019
2015-19


Clean Pigs - Scottish slaughterings
9,000
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000
0
J F M A M J J A S O N D
2015-19
2019
2020


EU Pig Prices - Grade E
c/kg
200
190
180
170
160
150
140
130
120
J F M A M J J A S O N D
UK 2020
UK 2019
EU27 2020
EU27 2019


Wholesale pork price in China
Source: Ministry of Agriculture and Rural Affairs, China
yuan/kg
55
50
45
40
35
30
25
20
15
11-Jan 01-Feb 22-Feb 15-Mar 05-Apr 26-Apr 17-May 07-Jun 28-Jun 19-Jul 09-Aug 30-Aug 20-Sep 11-Oct 01-Nov 22-Nov 13-Dec 03-Jan
2015
2016
2017
2018
2019
2020


Spot Feed Prices (£/t)
Source: Farmers Weekly
Wheat & barley
210
180
150
120
90
60
Soyameal
460
420
380
340
300
260
220
2016 2017 2018 2019 2020
Feed Wheat (NE Sco)
Feed Barley (NE Sco)
Soya bean meal HiPro


UK pigmeat exports
Tonnes
30,000
25,000
20,000
15,000
10,000
5,000
0
J F M A M J J A S O N D
2018
2019
2020

Business Environment

Economic Activity:
Before the partial shutdown of the UK economy in March, Purchasing Managers Index (PMI) surveys from Markit Economics had been showing a strong upturn in activity levels and business confidence, with a more stable political environment and smooth EU exit boosting demand. Services firms had reported rising staff headcounts and nine months of job cuts came to an end in manufacturing.

This all reversed in March with containment measures to slow the spread of COVID-19 effectively stopping tourism, education, leisure, foodservice and non-essential retail, while pushing many firms to become home-working organisations. This had knock-on consequences for supply sectors. Many employed workers were laid off or placed on unpaid leave and in many instances, the self-employed saw business dry up, lowering disposable income across a large proportion of the population, even after factoring in government income support measures, some of which will come at a lag.

Meanwhile, areas of the economy to remain open had to quickly adapt to a considerable rebalancing in demand, while increased absences and distancing rules within premises have slowed productivity. The global nature of the public health crisis and many supply chains has resulted in a struggle to access inputs and components from overseas producers, while reduced global trade will have also led to weaker export demand.

PMI scores for March already show sharp falls in activity below the 50 score indicating no change, coming in at 47.8 for manufacturing, 39.3 for construction and 34.5 for services.

Consumer Confidence
Unsurprisingly, GfK NOP's monthly consumer confidence survey reported a sharp reduction in confidence during March. Th index had already been in negative territory for a number of years but quickly deteriorated further in the second half of March. After a 16-month high of -7 in February it had slipped to -9 in mid-March and the -34 by the end of the month.

Unsurprisingly, households felt that it wasn't the time to be making large purchases, having recorded a positive net balance on this measure in February, while confidence over personal finances also went from net optimism to net pessimism and expectations around the general economic situation plummeted further, from an already weak position.

Exchange Rates:

	w/e 12/04/20	March 2020			w/e 14/04/19	March 2019		
		Low	High	Avg		Low	High	Avg
€:£	87.9p	86.7p	93.0p	89.5p	86.2p	85.1p	86.7p	85.8p
$:£	81.0p	76.3p	87.0p	81.0p	76.5p	75.3p	79.3p	76.1p
NZD:£	48.5p	47.8p	49.9p	49.0p	51.6p	51.4p	52.6p	51.9p

After reaching its strongest level against the euro since 2016 in mid-February, sterling fell sharply at the end of the month as fear that COVID-19 was spreading across the world saw financial markets rocked. March saw considerable volatility in the value of sterling, in part reflecting financial market volatility, but also factors such as the UK's slow public health response to the crisis relative to European peers but quicker monetary policy response.

A global economic downturn has seen the US dollar receive safe-haven support whereas the New Zealand dollar has softened due to its correlation with global trade and commodity values.

Iain Macdonald and Stuart Ashworth, April 2020