MARKET REPORT - February 2020

Cattle Update

- After trending slightly higher through January, prime cattle prices dipped back in the first week of February at price reporting Scottish abattoirs, averaging 345.5p/kg, leaving them marginally below their level in the first half of January. While 2.6% above their 2019-low, they trailed the same week of 2019 by 3.8%. R4L steers slipped back to 350p/kg, having reached 353p/kg in late January. While this meant they stayed slightly ahead of late 2019 levels, they were down by 4.1% year-on-year.

- Seasonal demand has seen cull cow prices trend higher since the turn of the year. O+3 grade cows sold for 259p/kg in early February, up 8.5p (3.9%) on the month and 18.5p (7.7%) since Christmas. Prices have been trading in line with their 2015-19 average so far in 2020, placing them 6-7% in front of year earlier levels. This signals a recovery in the market for manufacturing grade beef.

- In contrast to Scotland, the average prime cattle price rose in England & Wales in early February, narrowing the gap in prices to a 5.1% lead for Scotland, down from 6.3% in the previous week and 6-6.6% through January. Although a 28-week low, this differential remained well above year earlier levels (4%). The R4L steer price premium for Scotland over E&W has fluctuated significantly since the turn of the year, averaging 11.7p (3.4%). In early February it slipped to 8.2p (2.4%) – the lowest for nearly ten months. -U4L steers have been priced at an average of 1p/kg below R4L steers in early 2020, but this has been volatile, ranging from +1.7p to -2.8p.

- In the week to January 25th, prime cattle slaughter at price reporting abattoirs in Scotland was disrupted. Excluding this week, slaughter numbers have been averaging 2% in front of early 2019 levels. This has been despite cattle population data pointing to a tightening in availability. As well as early marketing, this could also reflect a slightly higher proportion of the kill going through the large price reporting plants.

- Defra reported a third consecutive month of year-on-year prime cattle kill decline in January for UK abattoirs, with numbers down 0.3%, driven by a sharp fall in young bulls. However, higher carcase weights than 12 months before saw the volume of production rise by 0.8%.

- The mature cattle kill fell by 1.3% on a year earlier at UK abattoirs in January but heavier weights saw this convert into a higher tonnage of beef, up 0.3%.

- After a 2.6% fall in Scottish calf registrations in 2019, numbers edged back up by 0.1% in 2019, driven by a 0.9% lift in beef-sired registrations. This saw beef-sired calves rise to 83.3% of all registrations; their highest share in 11 years. Dairy registrations contracted for the sixth time in seven years (-3.6%). At GB level, registrations declined by another 0.8%, having fallen 1.8% in 2018.

- Store cattle proved more expensive to buy in January 2020 than 12 months before, averaging 1.9% higher for steers and heifers aged 6-24 months. With 4.9% more being traded, this points to firm demand despite continuing weakness in the market for finished cattle. While steer prices rose 0.4% from 2019, heifers were up by 4.4%. The first week of February saw 6-12-month steers sell for £919 and 12-18-month steers for £972, which were year-on-year increases of 5.2% and 3.2%, respectively.

- GB retail sales data from Kantar indicates a continuing challenge for beef sales in late 2019 and early 2020, with GB household spending down 4.5% on a year earlier during the 12 weeks to January 26th. A 2.5% reduction in the average retail price meant sales volumes fell by a slower 2%. However, interest in burgers increased, from a low base given the time of year, with spending surging by 10% and lower prices pushing up the volume retailed by 11.5%.

- According to Kantar, more shoppers bought fresh meat and poultry than a year earlier in the 12 weeks to late January, with the overall retail volume stable, despite the high profile Veganuary campaign and shoppers being encouraged to eat less meat by regular press coverage. While spending fell by nearly 3% in this category, 3% more was spent buying processed meat and poultry. Meanwhile, the meat-free category is reported to have grown by only 4% year-on-year in spending during the four weeks to late December, despite its low base, heavy marketing and promotional activity.

- UK trade data for December suggests that the previous rebalancing in trade began to unwind. Beef imports remained lower than 12 months before, but the decline slowed to -1.9%, while exports eased to a seven-month low and fell 0.9% behind year earlier levels. Net imports more than doubled on the month to 13,200t and although still slightly below year earlier levels (-2.7%), were at their highest of 2019.

- In 2019, UK imports contracted by 11.4%, slipping to a seven-year low of 239,200t, whereas export volumes surged by 22.9% to an eight-year high of 134,800t. This saw net imports fall by 55,900t (34.9%) from 2018. With this more than offsetting the 16,000t rise in UK beef production, this suggests that the level of inventory built up in 2018 had reduced by enough to support farmgate prices in the run up to Christmas.

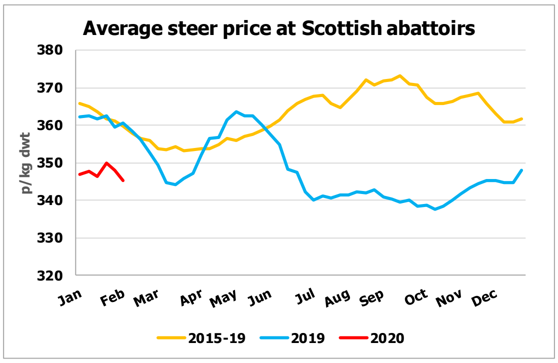
- While overall UK beef imports remained lower than year earlier levels in December, imports from Ireland were up by a quarter on late 2018. Deliveries of fresh and frozen beef both rose significantly from previous months and exceeded December 2018 levels by 17.5% and 47% respectively. Meanwhile UK exports to Ireland slumped to a 2019-low and were down 18.1% year-on-year.

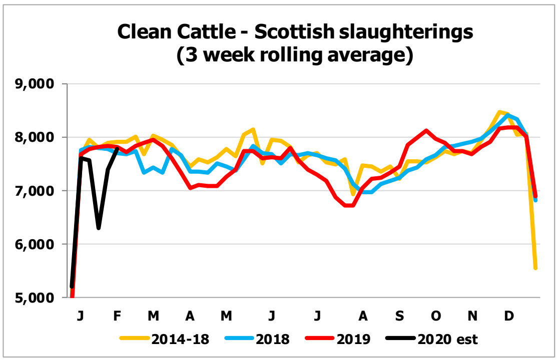
- Irish abattoirs processed 2.5% fewer prime cattle than a year earlier in the five weeks to February 9th, with slaughter now reflecting the tightening of supply indicated by the June census. Along with an improved trade position with the UK in December, this helps to explain recent upwards price pressure on the Irish market.

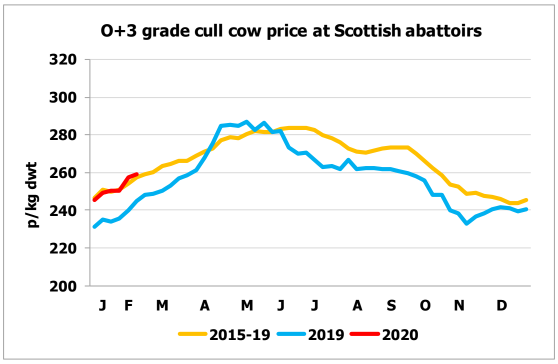
- Indeed, after almost four months of little movement, Irish prime cattle prices rose between early December and late January, then stabilised in the first week of February. An R3 grade steer opened February at €3.66/kg dwt, up 7.1% from two months earlier, returning prices to within a fraction of year earlier levels. While a relatively stable currency meant a similar increase in Irish prices quoted in sterling terms since December, a stronger sterling than in early 2019 has boosted the competitiveness of Irish beef on the UK market relative to last year, with prices around 3.5% lower.

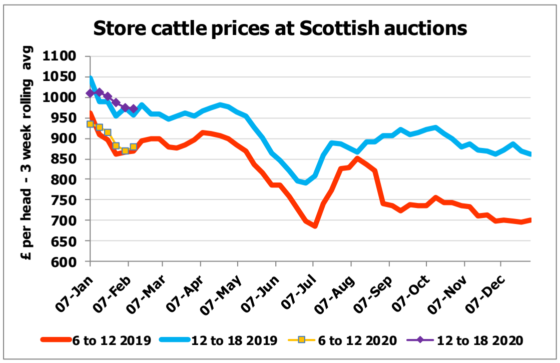
- Having doubled to 20% during the autumn, the Scottish premium over Ireland for R3 grade steers narrowed to run at 14-15% during January. A fall in prices paid by Scottish abattoirs in early February saw this gap then drop to 12% - the lowest for four months but similar to a year before.

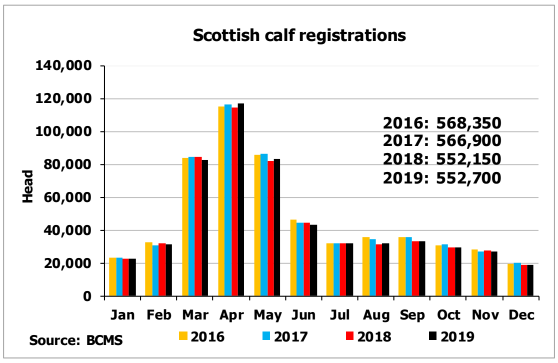
Cattle Charts

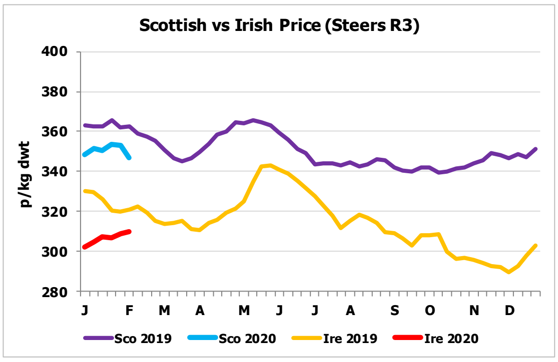


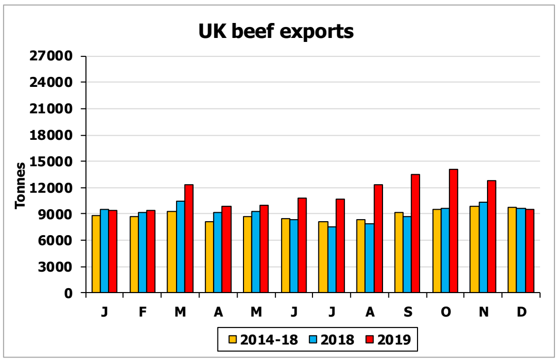


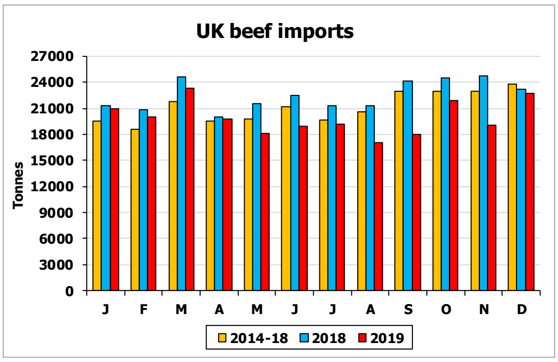












Sheep Update

- Prices paid by price reporting GB abattoirs for Standard Quality Quotation (SQQ – 12-21.5kg dwt) prime sheep rose by around 6% between mid-December and mid-January. After rising by nearly 2% per week in the second half of the month, the market then jumped by another 5.4% at the beginning of February, averaging 497p/kg. Medium R3L grade hoggs averaged 499p/kg.

- After averaging 5% higher than a year earlier for ten weeks, the rate of annual increase picked up to 10.8% in late January and then 16.6% as February began.

- SQQ prime sheep volumes going through price reporting abattoirs have been trending downwards. Three weeks of 4-6% decreases were followed by a 9.3% reduction at the beginning of February, leaving volumes below their level in the New Year holiday week and around 40% below their autumn 2019 average.

- Having opened 2020 at around 205p/kg lwt, prime sheep prices trended slightly higher for three weeks before gathering pace, rising 14% over a three-week period to average 240p/kg in the second week of February. The daily average price on Thursday 13th reached 243p/kg, rising further to 245p/kg on Monday 17th, placing values above their 2019 new season peak and close to 30% in front of year earlier levels.

- In the early weeks of 2020, marketings at Scottish auctions had returned to their August to October range of 17-20,000 per week. However, the week ending February 12 saw numbers jump back above 23,000 head, placing them within their peak range seen between mid-November and mid-December, with firm prices encouraging finishers to sell. However, this lift was not seen south of the border, where June census results suggest tighter supplies.

- Marketings of hoggs have remained well above year earlier levels, running 11% higher in the first six weeks of 2020 at Scottish auctions. Across GB as a whole, volumes showed a smaller 2.7% increase.

- While carcase quality has been fluctuating at GB abattoirs since the turn of the year it has shown a stable trend. Although the proportion grading at R3L or better has been up 0.6 percentage points on the year at 54.2% in the first six weeks of 2020, this compares with a 2015-19 average of around 57%.

- At Scottish auctions, the proportion of lambs within the SQQ weight range of 25.5-45.5kg lwt has been relatively stable around the 70% level since the turn of the year. The proportion within the weight range has generally exceeded year earlier levels since November; though it has fallen short of its longer-term average.

- After a slight weakening of sterling in early February, a change in UK Chancellor saw sterling rise strongly on February 13th, edging above its post-election peak, with a euro buying 83.4p. A year ago a euro was valued at just under 88p, meaning sterling is currently around 5% stronger, making the rise in farmgate prices look even more exceptional.

- Between June and December 2019, UK prime slaughter rose 2.3%, compared to an estimated 0.3% lift in the June lamb crop, pointing towards a smaller hogg carryover.

- However, Defra's UK slaughter data for January pointed to a 0.7% rise above year earlier levels for the hogg kill, with a 5.5% increase in Scotland and a sharp 29% rise in Northern Ireland more than offsetting a 0.7% fall in England & Wales.

- After edging above year earlier levels in December, cull ewe slaughter is estimated to have dropped 10% behind year earlier levels at UK abattoirs in January.

- UK abattoirs reported an average hogg carcase weight of 20kg in January. This was up by 0.6kg from December, broadly in line with historical increases for the time of year. This kept weights in front of year earlier levels, up 0.2kg, adding to the volume of prime sheepmeat on the market, which rose by 1.7%.

- Retail sales data from Kantar indicates that after a weak autumn, GB household spending on fresh and frozen lamb was more stable in the 12 weeks to late January, dipping 0.2%. However, the average retail price rose, converting this into a 2.1% lower volume, highlighting the potential challenge for sales volumes in the spring of 2020 if the sharp uplift in farmgate prices passes through the supply chain.

- Provisional December data indicates that UK sheepmeat exports fell considerably from year earlier levels, down 17.3%. This was the second month of declines and contrasts with growth in exports of 12.7% during the year as a whole. Shipments to EU markets are reported to have decreased broadly in line with the overall average, driven by France, down 28%, although Italy continued to show strong growth.

- Although sheepmeat imports to the UK rose to a seven-month high in December they continued to trail year earlier levels, down by more than a fifth, and were smaller than UK exports. The volume imported from NZ fell 17.8% on last year, compared to a calendar year decline of 23.9%, while imports from Australia fell by 45%.

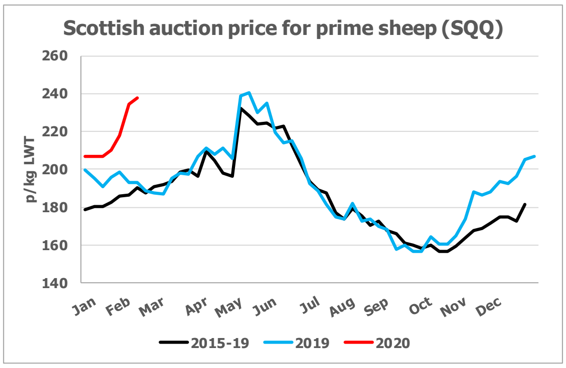
- NZ slaughter exceeded expectations in the final quarter of 2019, falling by only 0.2% on a year earlier to 4.54m head, compared to a forecast decline of 2.4% in the 2019/20 lamb crop and a 2.7% reduction in lamb slaughter. This suggests that availability will tighten further as the October 2019 to September 2020 marketing year progresses. After a slow start, slaughter climbed sharply in December, with dry weather and strong farmgate prices having some influence.

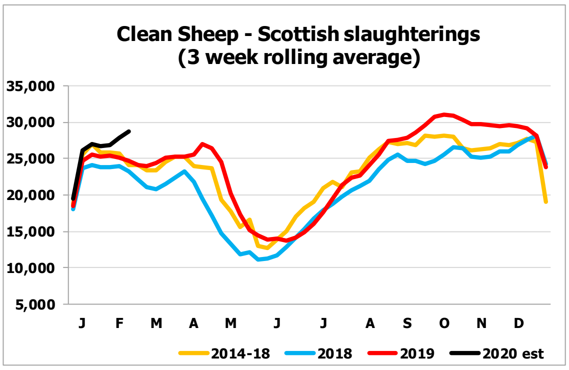
- NZ exporters have reported challenges over the past month in delivering product into China, with the extended lunar New Year holidays resulting in backlogs at ports, while foodservice sector demand has weakened significantly. In response, some NZ companies have reportedly looked to other markets, so there is the prospect for some rebalancing of imports towards the EU and UK this spring.

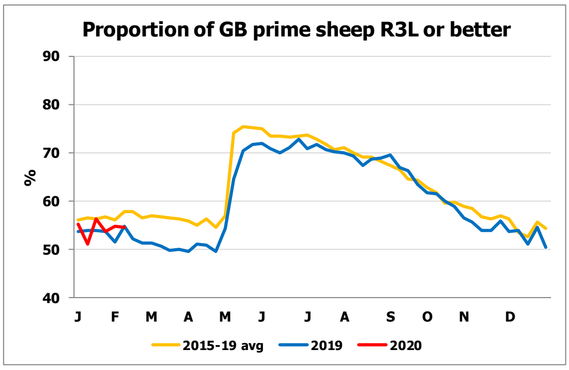
- Traditional seasonality has seen downwards pressure on the French lamb market since the turn of the year, with heavy lambs selling for a 12-week low of €6.45/kg (£5.35/kg) in early February. Nevertheless, the market still cleared 13.4% ahead of the same week in 2019. It has been a similar start to 2020 for Spanish light lambs, cooling seasonally but still running 10.9% higher than last year, at €6.11/kg (£5.07/kg).

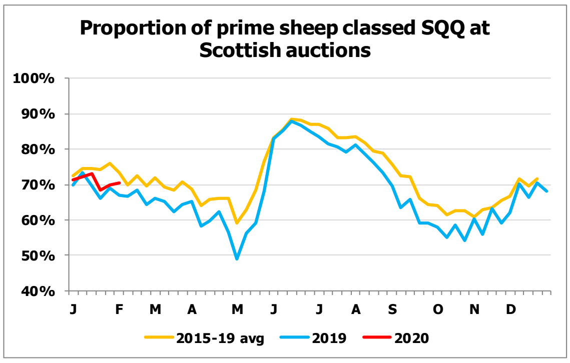
- After rising between late October and the year-end, Irish lamb prices have continued trending higher in the early weeks of 2020. In the opening week of February, heavy lambs sold for an average of €5.09/kg dwt (£4.23/kg). This was a 9.9% increase from the first week of the year, but a more modest year-on-year lift of 1.7%.

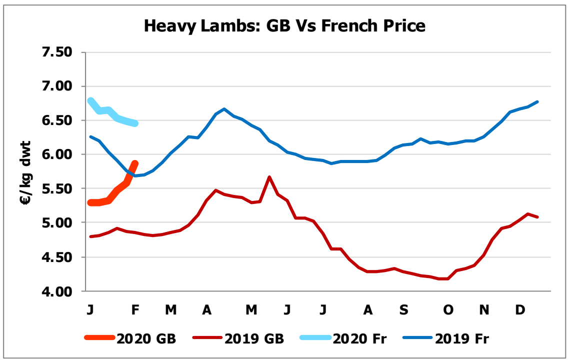
Sheep Charts

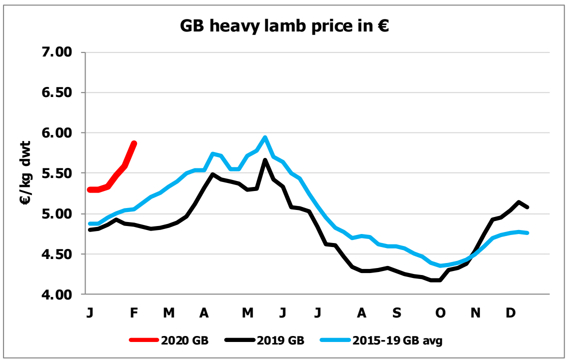


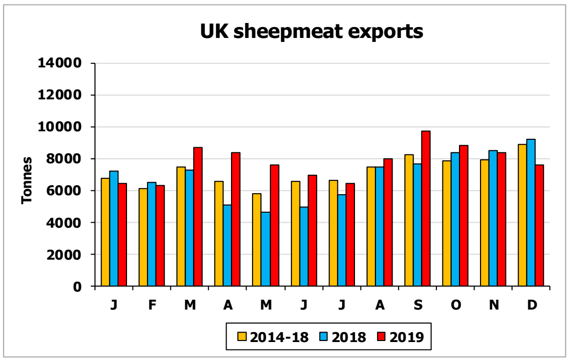


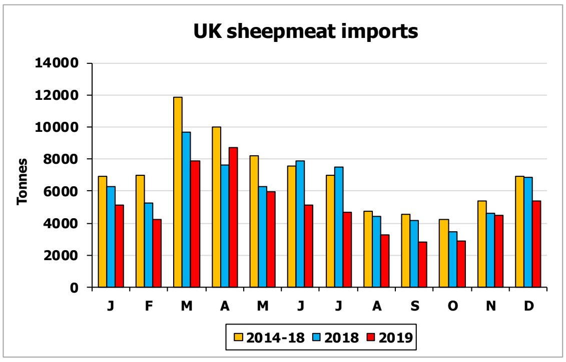












Pigs Update

- Prime pig prices have seen a relatively stable start to the year following the strong upwards momentum through the autumn and into winter. The GB Standard Pig Price (SPP) has edged higher since mid-January but remained 0.2p below its pre-Christmas high of 162.9p/kg. Meanwhile, prices in the 70-99.9kg carcase weight range have been relatively stable around the 163.7p/kg mark.

- Given a seasonal tendency for falling prices in the early part of the year, stability has seen prices push 18.2% in front of 2019 at the beginning of February from 16% at the start of the year.

- In early 2020, weekly slaughter at GB price reporting abattoirs has been trending downwards. By the first week of February, numbers had fallen 15% behind their pre-Christmas peak and were only 1% in front of their summer 2019 average. In the same week of 2019, they had been 2.4% below the festive peak and 8.6% ahead of the previous summer's average.

- After an initial lift in carcase weights in the New Year in response to the disruption to marketing patterns over the festive period, weights have dropped back from their peak. In the first week of February, the average carcase weight at price reporting abattoirs was 85.85kg, compared to 86.43kg in the week ending January 11th; though well above the 83.16kg pre-Christmas low. Compared to a year earlier, weights have begun 2020 marginally heavier.

- Given that the price per kilo has been relatively stable in early 2020, the average price per carcase has moved in line with the change in carcase weights. It has therefore slipped back from a high of £140.36 in the first full week of the year but picked up to a three-week high of £139.71 at the beginning of February. Carcase prices have been running around £4 (3%) in front of December levels and moved 18.8% in front of year earlier levels at the beginning of February.

- Defra slaughter data points to a sixth month of year-on-year UK prime pig slaughter growth in January, with the weekly kill up 2.2%. However, sow slaughter fell back by 17%, having jumped 15% from a year earlier in December.

- Defra figures point to a 3.8% year-on-year increase in prime pig slaughter at Scottish abattoirs in the opening month of 2019, reaching 28,900 head. The sow kill is estimated to have continued to trend higher, up 70% on the year at nearly 1,800 head.

- 7kg weaner values have fluctuated between £41 and £43 per head in the early weeks of 2020, lacking direction after steadily increasing between September and the year-end. 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.

- Latest household purchasing data from Kantar indicates a very sluggish home market around the turn of the year, with spending on pork contracting by 8.6% year-on-year in the 12 weeks to January 26th. With farmgate price rises beginning to pass through to retail prices, this saw sales volumes slide by 10%. Some of this price pressure has come in the form of a sharp reduction in promotional activity.

- Kantar data indicates that processed pork products have performed better than fresh pork in recent months. Although fewer shoppers have been buying bacon and purchasing less of it on each trip, retail price inflation has seen a 2.6% lift in spend needed to buy a 5.6% lower volume than 12 months before. Meanwhile, a 1.8% increased spend on sliced cooked meats bought a 4.2% smaller volume, but a 7.5% increase in spending on sausages was sufficiently large to see volume growth of 1.5%.

- After some growth in early 2019, UK pigmeat imports fell sharply for much of the remainder of the year. Although imports of pork showed a small recovery in December, imports of bacon & ham continued to fall heavily. Exports have been strong since April and were up 7.1% year-on-year in December.

- Although UK pork exports to China/Hong Kong dropped back in December after two months at over 11,000t, they were still more than double year earlier levels at 7,700t. This dip in December fits with reports from across the world that it became more of a challenge to sell product into China at the end of last year. With sales to all other destinations declining by 18.2% year-on-year, China/Hong Kong accounted for 43.9% of all shipments compared to a 23.4% share in the final month of 2018.

- With demand building ahead of the lunar New Year celebrations on January 25th, Chinese wholesale pork prices rose by around 9% over a three-week period until imported pigmeat and stocks released from intervention steadied the market in the week leading up to the festival. The Covid-19 outbreak led to an extension of the New Year holidays, meaning price reporting was disrupted for two weeks, but when it returned on February 10th pork had become 5% dearer at 49.65 yuan/kg (£5.46/kg). Over the next week, prices edged upwards, passing 50.50 yuan/kg (£5.55/kg). This compares with 18.47 yuan/kg (£2.03/kg) 12 months before.

- Prices have returned to an upwards trend in the EU, having fallen by 7.7% between mid-December and late-January. Grade E pigs averaged €1.84/kg (156p/kg) in the first week of February, up 2c/kg from their low but still 6.7% short of their pre-Christmas peak. A price forecast for the key German market suggests significant upwards momentum in the second week of the month.

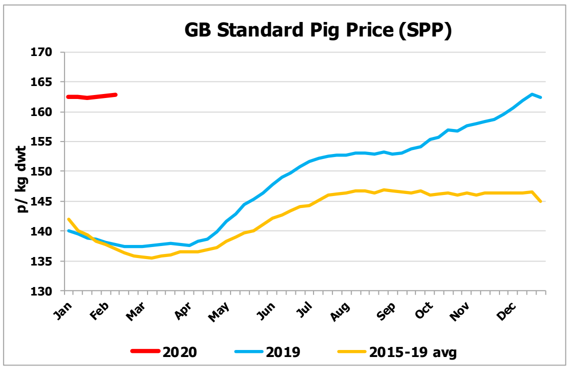
- While still below recent highs, EU prices showed substantial year-on-year growth in early February, up 37.7% on a year earlier.

- The downwards pressure on the EU market around the turn of the year led the EU average price for grade E pigs to drop behind the UK average for the first time in eight months. After widening for two weeks, the deficit has steadied at 4-5% since late January. This remains well below the 16-17% deficit seen over the same period last year.

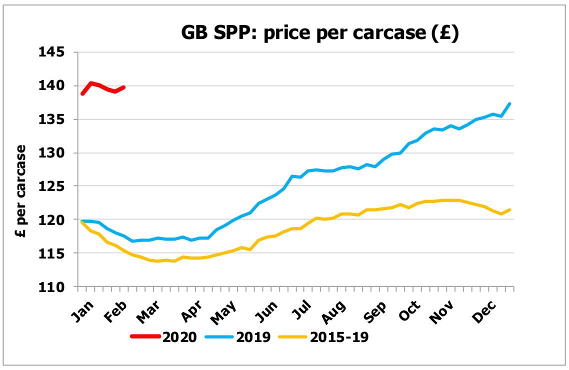
- In North East Scotland, spot wheat prices had begun 2020 trending higher. However, the market has cooled since late January, driven by competition in the global market, with prices dropping from a marketing season peak of £151 back to £145 by mid-February. Meanwhile, barley prices have steadied at £120/t. A well-supplied domestic market continues to see barley trade at a significant discount to wheat. Prices remain well below 2019 levels – wheat by 13% and barley by 27%.

- Imported soyameal has been trending flat in the early weeks of 2020, varying around the £315/t level. A commitment by Chinese authorities to raise imports of US soyabeans has provided some demand-side support, but ideal harvesting conditions in South America have added some downwards supply-side pressure to the market. Prices have been running 1-2% in front of 2019.

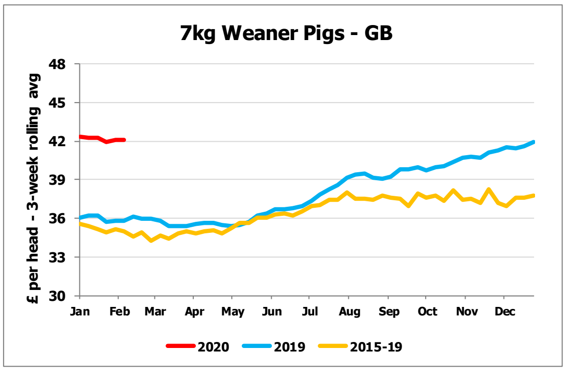
Pig Charts



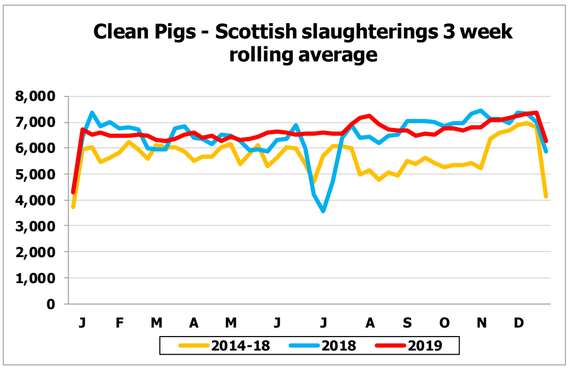
GB Standard Pig Price (SPP)
p/ kg dwt
170
165
160
155
150
145
140
135
130
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
2020
2019
2015-19 avg



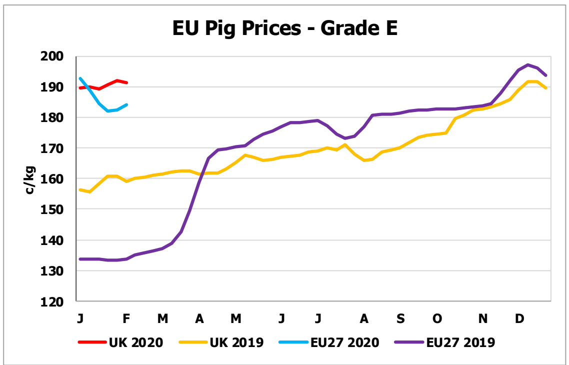
GB SPP: price per carcase (£)
£ per carcase
145
140
135
130
125
120
115
110
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
2020
2019
2015-19



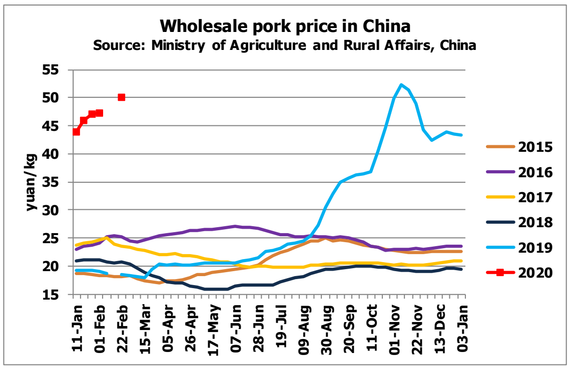
7kg Weaner Pigs - GB
£ per head - 3-week rolling avg
48
45
42
39
36
33
30
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
2020
2019
2015-19



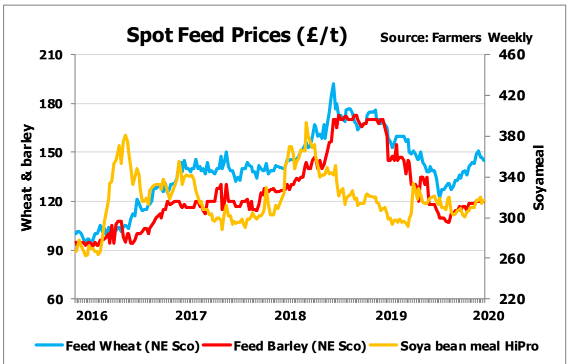
Clean Pigs - Scottish slaughterings 3 week rolling average
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000
0
J
F
M
A
M
J
J
A
S
O
N
D
2014-18
2018
2019



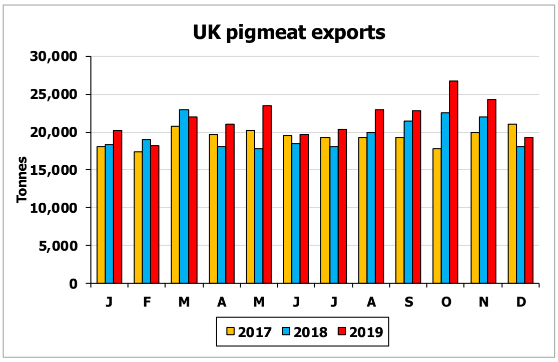
EU Pig Prices - Grade E
c/kg
200
190
180
170
160
150
140
130
120
J
F
M
A
M
J
J
A
S
O
N
D
UK 2020
UK 2019
EU27 2020
EU27 2019



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
2017
2018
2019

Business Environment

Economic Activity:
Purchasing Managers Index (PMI) surveys from Markit Economics indicate a significant boost to UK economic conditions in early 2020. Index scores for services, manufacturing and construction all increased, leading to a 4 point rise in combined score to 53.3 (50= no change). Services rose sharply (53.9), with manufacturing steadying after eight months of declines and construction contracting by its least since March 2019 (48.4). Firms reported that a decisive General Election result had ended delays to decision making, boosting demand. However, overseas demand remained weak for manufacturers. In a positive development, services firms took on staff for a third month and nine months of job cuts came to an end in manufacturing.

Labour Market:
After signs of a stagnating labour market during the spring and summer, UK employment reached a record high in the autumn, exceeding year earlier levels by 1.0%. However, a slightly higher proportion of those people working in temporary or part-time roles did report that this was down to the lack of availability of full-time positions.

Household Spending Power:
CPIH, the ONS' most comprehensive measure of consumer price inflation, eased through the second half of 2019, ending the year at a 38-month low of 1.4%. Meat prices rose at a slightly above average rate, with beef and poultry 1.5% cheaper than last year but pork, lamb and cured meats more expensive. Although earnings growth reported by the ONS did ease back slightly in the autumn, it was still nearly two percentage points ahead of the inflation rate and should in theory, be providing a considerable boost to household spending. However, growth in the value of retail sales has been trending lower since last spring, dipping to 1.9% in final quarter, with even spending online at its weakest of the year.

Consumer Confidence
GfK NOP's monthly consumer confidence survey continues to find weak confidence amongst UK households, with January marking four years of net pessimism. However, two months of improving sentiment saw the score at its least negative in 16 months. Households felt better about both their personal finances and the UK economy than in December; however, despite improving, attitudes towards the general economic environment were still very negative.

Exchange Rates:

	w/e 16/02/20	**January 2020**	**w/e 17/02/19**	**January 2019**
€:£	83.9p	84.9p	87.8p	88.6p
$:£	77.0p	76.5p	77.8p	77.5p
NZD:£	49.5p	50.5p	52.9p	52.6p

Early February saw initial positioning for EU-UK trade talks signal the almost inevitability of trade frictions in goods and financial services from the beginning of 2021. This tempered any strength in sterling from the UK's orderly exit from the EU and a Bank of England decision to hold interest rates when a cut had been likely. However, sterling received a boost from the change in Chancellor on February 13th, signalling an expansion of public spending.

Weakening global economic sentiment and political unrest has seen the US dollar receive safe-haven support. By contrast, weak euro area economic data has seen the euro come under pressure since the New Year, while fears over the impact of coronavirus on the global economy have seen commodity-linked currencies like the NZD soften since late January.

Iain Macdonald, February 2020