MARKET REPORT - January 2021

Cattle Update

- Following five weeks of stability at 381-383p/kg between late September and the end of October, the average prime cattle price at Scottish abattoirs rose towards its pre-Christmas peak, trading at 387-388p/kg in mid-to-late November, falling marginally short of their previous 2020-high above 389p/kg in late August and early September.
- Moving into December, with the peak festive procurement period passing, prices slumped, dropping by 3% over a fortnight, to a five-month low of 376p/kg. However, the market crept higher again over the festive period, before rising significantly in mid-January, returning to the pre-Christmas peak of around 388p/kg in the third week and then easing a fraction to end January at 387.4p/kg.
- After running 11-13% higher than last year between August and November, there was a dip towards 9.5% in December, but the gap widened again in mid-January, to 11.5%. Meanwhile, leads over three and five-year averages were at 4-6% between August and December, widening to 8-9% at the end of January. This widening in January reflects the move higher being against the historic seasonal downwards trend.
- Prime cattle prices reached their second highest recorded level for the time of year in mid-October, moving ahead of 2017 and 2018 levels. However, they remained 5-7% below their 2013 peak throughout Q4. Though, given that prices had been falling steeply in early 2014, the gap had closed to 2% by mid-January, then 0.6% in the third week, before reaching a new seasonal record in the final week, averaging 0.9% above the same week in 2014.
- R4L steers made 391.5p/kg in the final week of January, 3.9p (1%) below their August peak and 2.5p (0.6%) below the November high, but 14.6% above their late-April low (341.5p/kg) and 11.1% above year earlier levels (352.4p/kg). They were up 2.3% over four weeks and 0.6% over eight, but still trailed their all-time peak of 423.2p/kg in July 2013 by 7.5%.
- In England & Wales (E&W), the average prime cattle price rose more strongly than in Scotland at peak procurement for Christmas, cooled by less in December, before rebounding more strongly around the turn of the year. However, the January uplift has been smaller, and prices closed the month at 373.2p/kg after edging 0.5p lower over two weeks. This was still a year-on-year increase of 14.2%, and 2.3p (0.6%) above the 2020-peak. R4L steers traded at 384p/kg in the second half of January, halfway between the November and January highs, and 13% higher than last year.
- The Scottish premium fell significantly from 5.8% in the week to November 14 down to 3.6% at the December market low. In the first full week of January it dropped to 2.6% - the lowest for nearly eight years. However, it recovered to a seven-week high of 3.8% in the third week of January, and held stable in the final week of the month.
- For R4L steers, the Scottish premium also narrowed in late 2020, slipping from around 3% in mid-November to average around 1% for a month from mid-December, before doubling in the third week of January to 2.2%. While it slipped back to 2% at the end of the month it remained 0.2 percentage points below its five-year average.
- While a reduction in the Scottish premium is not unusual around the turn of the year, it is likely to have been influenced by a backlog of prime cattle on Scottish farms,

caused by covid-19 disruption in processing, reducing the relative level of competition for cattle. Over a six-week period from late October, Scottish abattoirs handled 7.8% fewer prime cattle than a year earlier, with weekly slaughter 1.3% below the annual average when it would normally be at its annual peak. In the following three weeks up to Christmas, an effort was made to reduce the backlog, with a 12.6% lift in kill reducing the deficit relative to 2019 from around 3,700 head to just over 1,100 head.

- Data from price reporting abattoirs (89.1% of the 2020 prime kill) suggests the backlog was carried into the New Year, partly down to public holidays affecting slaughter in three weeks rather than the usual two. However, slaughter only matched year earlier levels in the week to January 16th, rather than being higher to catch up. Significant inroads were then made into the gap in the second half of the month, in part because technical problems had reduced slaughter in the third week of the month in 2020. In the four weeks to January 30, numbers exceeded year earlier levels by 1.6%.

- BCMS cattle supply data from October pointed to a year-on-year reduction of cattle aged 12-24 months on Scottish farms of 1.5%, with sharper declines at older ages. However, the pool of younger cattle was higher, due to a lift calf registrations in Q1 2020, pointing to a recovery in supply in autumn and winter 2021/22.

- Despite considerable volatility in 2020, Scottish slaughter statistics showed a third year of relative stability in the prime cattle kill, down 0.2%. After step changes lower in 2012, 2015 and 2017, numbers were between 388,600 and 390,700 from 2017 to 2020. A 1.1% rise in heifers took their share of the kill to 40% compared to a five-year average around 39%. Male slaughter fell 1%, with steers down 0.6% and young bulls by 3.5%.

- Prime cattle carcase weights averaged 1% lighter at Scottish abattoirs in 2020, reducing prime beef output by 1.1% to 142,300t. Weights were around 1% lighter through the first third, 2% lighter between May and September, before steadying in the final quarter, with the backlog providing some support in the final weeks.

- In E&W, prime slaughter rose by 3.4% in 2020, resulting in a GB increase of 2.6%. Meanwhile, carcase weights edged up. However, slaughter did fall back by 1.5% in E&W the final quarter, driven by a reduction of over 9% in October, followed by a fall of less than 1% in November but partially offset by a 7% lift in December. Across GB, the Q4 reduction was 1.9%.

- Data from E&W price reporting abattoirs points to a relatively stable supply, with the four weeks to January 30 seeing a marginal 0.2% year-on-year reduction in prime kill. After combining with the increase in Scotland, overall GB volumes were up 0.3%.

- At Scottish abattoirs, -U4L steer prices have continued to average around 2p below R4L steers over a four-week period. For heifers, the lead for -U4L over R4L grades eased towards 2p in November and December, but widened to 4-5p in late January.

- After falling 12.5% in 2019, cow processing continued to slide at Scottish abattoirs until mid-May before sharply reversing. By the year-end, half of the 2019 reduction in mature cattle slaughter had been recovered, with a 7.2% increase. Weekly slaughter averaged over 1,400 head per week in the second half of the year, peaking at around 1,550 through October, and exceeding 2019 levels by 15.2% in Q4.

- At E&W abattoirs, mature cattle slaughter was unchanged in 2020, resulting in an overall GB lift of 0.8%. However, there was a 4.2% reduction in Q4, lowering the GB total by 2.6%.

- Cull cow prices at reporting Scottish abattoirs steadied in December after a sharp seasonal reduction during which O+3 grades dropped by around 10%. However, prices jumped higher again after Christmas, taking O+3 grades up by 10% from a low of 251-252p/kg in mid-December up to 276p/kg at the end of January. With prices traditionally trending higher at the beginning of the year, cows have been trading 7-10% dearer than last year, and 10-12% above the five-year average.

- HMRC data indicates that UK beef import volumes were slightly above year earlier levels during the autumn of 2020, up 3.4%. However, some of this reflects the low level of imports in September 2019 when Irish processing had been disrupted by producer protests; volumes rose by more than 18% in September 2020. In addition, volumes remained below their 2015-19 average for September to November by 8.5%.

- UK beef export volumes have fallen sharply since the spring of 2020, with the impact on foodservice sector demand likely to have been the main factor until the year-end. Latest trade data shows significant year-on-year declines between August and November, with a fall of nearly 32% on 2019 levels. However, this partly reflects a surge in exports in the same period of 2019, with 2020 levels similar to the average for August to November between 2015 and 2018.

- Moving into 2021, Scottish exporters have reported trade with EU customers running at around a quarter of normal levels, reflecting the added cost, complexity and risk of exporting.

- GB retail sales data from Kantar for the final quarter of 2020, showed a renewed uplift in year-on-year sales growth compared to the 12 weeks to October 4th, when there had been more dining out opportunities, though growth remained weaker than it had been in the early summer period. Spending growth for fresh beef went from 12% to 14%, but remained well below the 24.5% for 12 weeks to July 12. It was similar for burgers, with sales up 19% compared to 18% in the period to early October and 43% to mid-July; while for cooked meats there was a recovery to 12% from 9% but down slightly on 13% in the 12 weeks to July 12th. For frozen beef, the growth rate dipped slightly but remained slightly higher than it had been in early summer, at nearly 35%.

- In the 12 weeks to December 27, fresh beef retail prices were, on average, stable on the year, having showed some inflation during the summer, but there had been deflation in 2019. The share of households buying beef remained elevated (+4%), and households bought it more often too (+7%).

- In the Irish Republic, prime cattle slaughter ended up rising 0.6% in 2020. However, numbers fell well behind 2019 levels in the final quarter (-6%), in which they had been processing through a backlog in 2019, following farmer protests. Moving into 2021, numbers remain low in comparison to a year earlier, down 8.8% in the three weeks to January 23.

- After cooling slightly between September and mid-November, Irish prime cattle prices began rising in the run up to Christmas and R3 steers closed 2020 4.8% higher than where they had been seven weeks before, edging above their previous 2020-high from the beginning of August. Into the New Year, the trend has continued, with prices rising another 1.6% over three weeks and then steadying, leaving them 12.5% above the April 2020 low and 4.6% higher than last year; a year-on-year gap that has been relatively stable at 5-7% for six months.

- Irish R3 steers were equivalent to 341p/kg at the end of January; 9.7% higher than last year, when sterling had firmed around the UK General Election.

- Scotland's R3 steer price premium over Ireland fell sharply to average 12% in December, having averaged around 18% between August and November. The weekly average for 2020 was 14.1% and, in January, it has widened to end the month at 15.1%.

- After being relatively stable since July, the EU average price for R3 young bulls began to rise in November, and by Christmas had risen by nearly 4%. The market has steadied into the New Year, holding it in line with early 2020 levels, with prices trading at a 17% discount to Scottish R3 steers. EU cow prices also picked up towards the end of last year before steadying in January; however, they have remained around 2% beind year earlier levels.

- In the USA, the spring outages in processing have not been repeated over the winter months, despite a high level of covid-19 infections across the country, and weekly slaughter has been holding slightly above year earlier levels in most weeks.

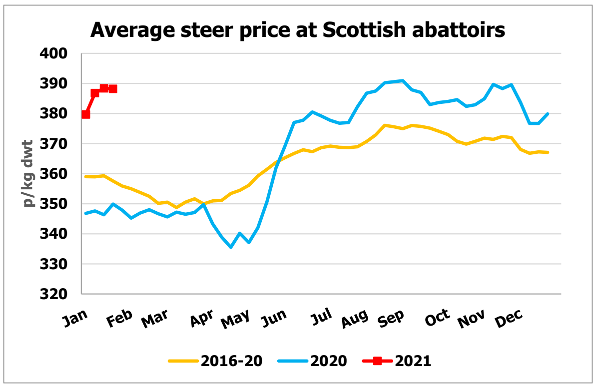
- After rising over the festive period, US steer prices eased back towards their pre-Christmas peak in January before jumping 2.9% in the final week of the month. This saw them push to their highest levels since rising briefly in May 2020. While still 9% behind 2020 levels, the gap had been 13% in mid-January. As January ended, US steers were equivalent to 286p/kg, around 27% below Scottish levels and 16% below Irish steers.

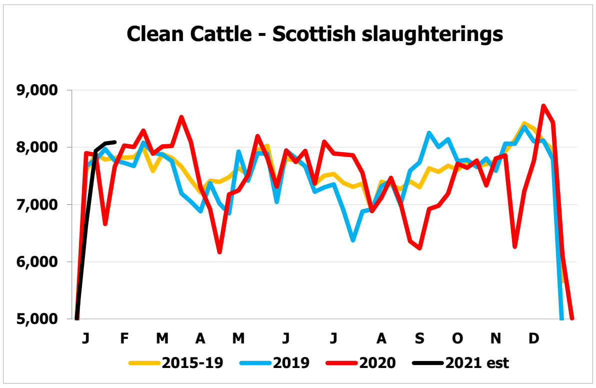
- US by-product values have continued to recover, with the value of the fifth quarter 3% ahead of year earlier levels, having closed its year-on-year deficit to 5% in mid-November from 15% in late August and 20-25% in Q2 2020. Although recovering from its spring 2020 low, the global hide market remains weak relative to pre-2019 levels, but a rise in crude and vegetable oil markets has supported the value of tallow. Nevertheless, a rise in sterling against the dollar is likely to have limited incommoditiescreases in the sterling values of globally competitive commodities.

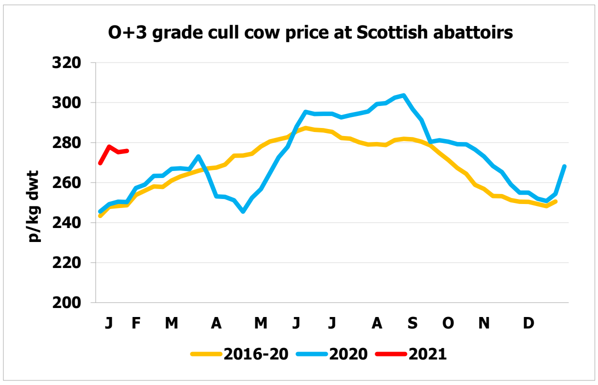
- Autumn 2020 was the first time in three years that store cattle prices had held up well relative to spring levels. The relative strength of the store trade has continued into 2021, with 6-12-month steers averaging £962 and 12-18-month steers £1,068 in January, which were respective year-on-year uplifts of 9.9% and 8.3%. It should be noted that last year had seen store values open the year above 2019 whereas finished cattle prices had remained weak.

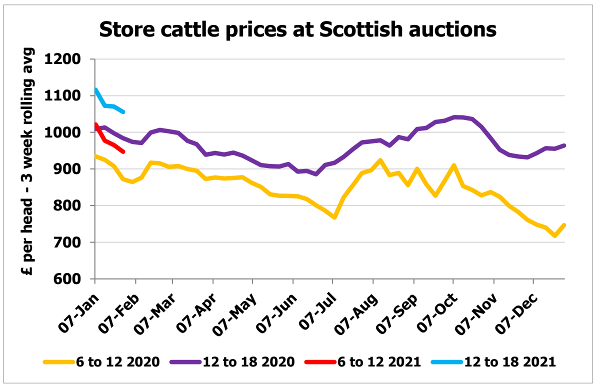
- During 2020 as a whole, 6-12-month store steers averaged 61.2% of the finished steer carcase price at Scottish abattoirs (£1,396), while 12-18 month steers averaged 69.8% of this, clearing at £975. While younger steers were around a percentage point lower than in 2019, the opposite was true for yearlings; reflecting year-on-year increases of 2.6% for 6-12-month steers and 5.3% for 12-18-month steers, compared to a 4% lift in finished carcase value.

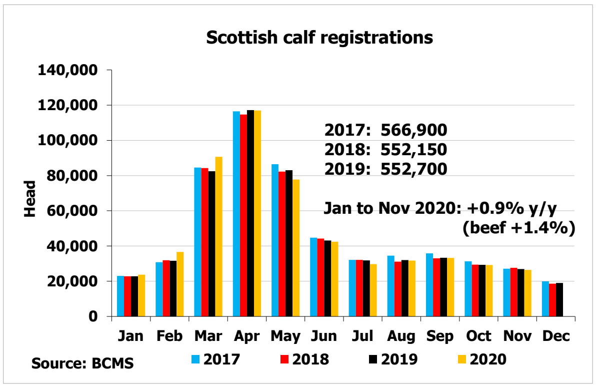
Cattle Charts

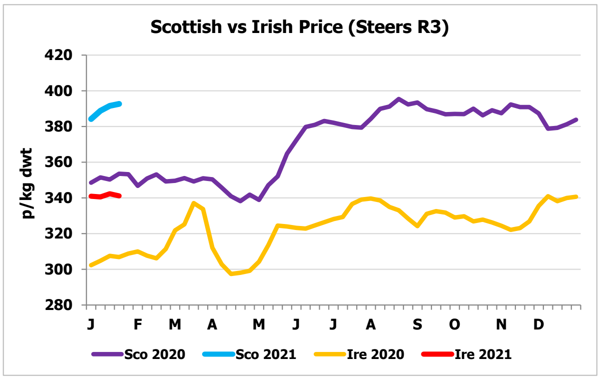


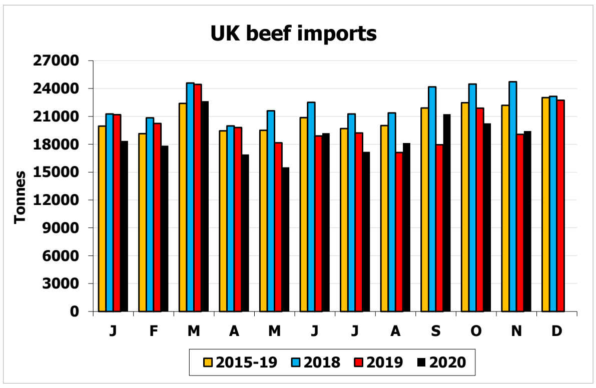


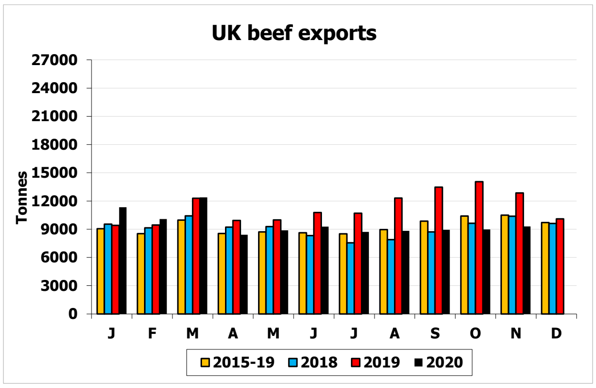












Sheep Update

- The prime lamb market has made a very strong start to 2021 despite the added cost, complexity and risk of exporting leading to a significant reduction in export activity. If around one-third of lamb production was exported in a normal year, and it has fallen to a quarter of usual levels, then that suggests that up to a quarter of production has had to find a new market.

- After trending seasonally higher from an autumn low point in October, lamb prices at Scottish auctions settled at around the 210-215p/kg mark in the month before Christmas. However, unlike recent years, prices climbed over the festive period, passing 240p/kg and averaging around 12.5% above pre-Christmas levels in the first week of 2021, compared to a five-year average lift of around 4% from pre-Christmas.

- Prices then jumped by another 10% in the second week of January and, in an unusual development for the time of year, passed their new season peak, averaging 264p/kg. Indeed, over the previous five years, prices in the second week of January have averaged 23% below the new season peak.

- After slipping back towards 245p/kg, prices began to trend higher again in the final week of January, and passed the new season peak once again, averaging 268p/kg between Thursday 28th and Tuesday 2nd February. This was a year-on-year increase of 13.5%, and around 37% above the five-year average.

- Auction volumes at Scottish marts approached their previous highs from September between mid-November and mid-December, averaging around 10% above their August to December weekly average. Between mid-December and late January, marketings then averaged 17% below August to December levels.

- Scottish auction volumes exceeded year earlier levels by 18% in the six weeks to January 27th, with this rate of increase slightly below the season-to-date's 21%.

- Across GB, there was a more significant rise in sales between mid-November and mid-December, pushing 17% above the August to December weekly average, with numbers in the first half of December only following marginally short of their pre-Eid peak fortnight. However, this was followed by a sharper reduction, with marketings averaging 24% below August to December levels in the six weeks to January 27th.

- Over the six-week period to late January, GB auction numbers were a fraction behind year earlier levels, compared to a lift of nearly 12.5% in the season-to-date.

- A consistent feature since mid-July 2020 has been a slightly higher average price at auctions in E&W than in Scotland, with a weekly average difference of 1%.

- In Scotland, prime lamb slaughter fell back in late November and early December, averaging 25,500 head, putting them back below the August to December weekly average by around 2%, before climbing sharply to a season-to-date peak in the second and third weeks of December, averaging 32,000 head. After four months trailing year earlier levels, this saw volumes rise 12.3% on a year earlier in December (four weeks to December 26), to reach 112,500 head.

- Slaughter numbers trailed 2019 levels by 1.6% at Scottish abattoirs between June and December, totalling 742,400 head. By contrast, the June to December kill in E&W was 3.5% higher than in 2019. Given an increased Scottish lamb crop and earlier marketing schedule, this points to increased cross-border movement for slaughter.

- Lamb carcase weights trailed 2019 levels by around 1% between June and September at Scottish abattoirs, but the reduction narrowed to 0.3% in October and weights ended the year averaging around 1% above 2019 in November and December. Weights averaged around 20kg in the summer, rising to 20.2kg in October and then 20.5kg in November and December.

- Between June and December, GB lamb slaughter exceeded year earlier levels by 3% according to Defra slaughter data. With a smaller lamb crop across GB (-1%), due to reduced numbers in England (-1%) and Wales (-3%) more than offsetting a 2% lift in Scotland, this points to a smaller hogg carryover into 2021.

- Cull ewe auction volumes trended sharply lower in November at Scottish marts and, in the second half of the month, dropped to their lowest levels since mid-July. After making a partial recovery into December, numbers fell back again at Christmas, and have been relatively stable since, averaging 5,100 head. This is around half their average between mid-August and mid-October but 14% higher than last year.

- While 7% more ewes were traded at Scottish marts than in 2019, Defra slaughter statistics pointed to a sharp fall in GB ewe slaughter of over 15% in 2020.

- After three months averaging around the £60 mark, cull ewe prices picked up in the second half of November. They averaged over £66 in the three weeks to December 9, before rising above £74 in the four weeks after that. The second week of January then saw prices spike to £88.50, before slipping back towards the £80 mark in the second half of January. As February began, prices slipped towards £75 as marketings rose to a seven-week high.

- After trailing year earlier levels by 5.5% at the turn of the year, ewe prices quickly moved 14% above early 2020 levels, before sliding back to remain barely in front of 2020 in the week to January 27th. Moving into February, prices fell 4% below 2020.

- In the 12 weeks to December 27, Kantar report fresh lamb sales across GB to have grown by 16.3% year-on-year, with this growth rate over 12 weeks varying less through the second half of 2020 than for beef and pork. In the 12 weeks to October 4, when the economy had been more open, leading to increased opportunities for out-of-home dining, spending had dipped slightly to 15.1% from 16.7% in the 12 weeks to July 12. For fresh beef and pork, growth rates for the three periods went from 24.5% to 11.7% and 13.9% for the former, and 29.6% to 13.2% to 18.4% for the latter, highlighting the wider variability.

- The share of GB households buying lamb in the 12 weeks to December 27 showed continued firm growth, up 9% (percent not percentage points), while the frequency of purchase was 3.8% higher than a year earlier and prices were stable, following inflation earlier in the year (8.6% July 12 and 4.1% October 4).

- After declining by nearly 10% in the first seven months of 2020, UK import volumes reported by HMRC edged back above 2019 levels in August before rising strongly in September (+44%) and October (+19%). However, they then fell 5% behind 2019 in November. Due to the sharp decline in imports in recent years, volumes were still down by nearly 12% on their 2015-19 average in the September to November period.

- In Beef + Lamb NZ's report on the 2020 lamb crop (born in the Northern Hemisphere autumn and reaching the market in the October 2020 to September 2021 processing season), the lamb crop is estimated to have fallen by 1.5% on the previous year as a marginal increase in the number of ewes put to the tup was more than offset by a reduced lambing ratio. However, the forecast number of export lambs to be processed in the season is for a 4.5% decline. With the October to December 2020 quarter seeing a smaller reduction of 0.6% year-on-year in slaughter, reflecting earlier marketing, this may point to even tighter availability at the peak period of lamb processing for the Northern Hemisphere spring.

- Imports to the UK from NZ declined by 6.2% y/y in the January to November of 2020 period and were down by 36.5% on the 2015-19 average (when converted to carcase weight equivalent using the coefficients for boneless cuts in the quota legislation). Based on the split UK and EU import quota, the NZ fill rate of the UK quota in 2019 would have been just over 40%.

- After falling sharply over the spring months, UK sheepmeat exports recovered to exceed year earlier levels by 5% in June and were then 13% higher in the July to August period, covering Eid al-Adha. However, volumes then fell back sharply behind year earlier levels in the autumn, declining more than 16%, and were 5% below their 2015-19 average. Volumes were around 4.5% lower in the autumn than over the summer months, whereas between 2015-19, they had been more than a fifth higher in the autumn.

- Farmgate prices across much of the EU firmed in the run up to Christmas and lifted further into the New Year, before showing signs of cooling in the second half of January. The heavy lamb average was 12.5% higher than last year in the third week of January while light lambs were 2.7% higher, with Spain's light lamb price stable.

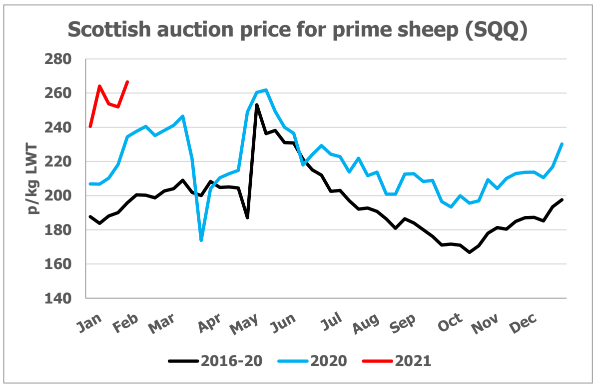
- In France, lamb prices rose by 4.3% between the beginning of November and Christmas, but this was around half the rate of uplift in late 2019, so the year-on-year increase eased from 12% down to 7%. Prices have trended downwards since Christmas, except for a brief recovery in the second week of January, but the year-on-year gap has widened towards 11% due to a faster seasonal decline in early 2020. In the final week of January, French lambs were equivalent to £6.40/kg.

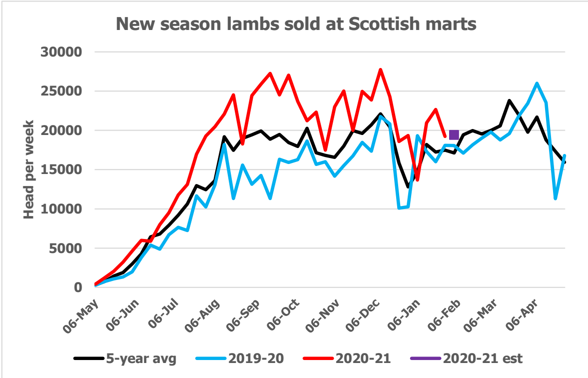
- Wholesale lamb prices at the Rungis market in Paris began to trend higher in December, with a further uplift in the week leading up to Christmas following disruption at the border. Prices then took another slight increase in the middle of January, before falling back and then steadying in the final week of the month. In early February, R grade 16-22kg carcases with medium fat cover traded at €8.10/kg (£7.13/kg) for French origin, and €6.90/kg (£6.08/kg) for imports. Compared to the beginning of December, local lamb was 6.6% dearer while imported lamb was 15% more expensive.

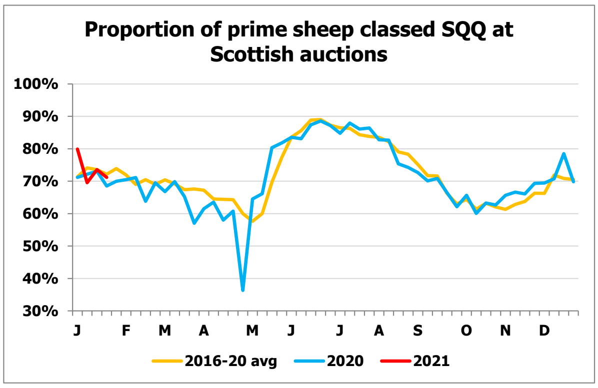
- Between the final week of July and December, the total number of store lambs traded exceeded 2019 levels by 7.4%. This amounted to an additional 35,800 lambs, accounting for 51% of the increased lamb crop reported in the June census. Regional analysis of the census results highlighted significant increases in lamb numbers in Tayside (including Perthshire) and Highland regions, helping to explain the strong increase in store volumes.

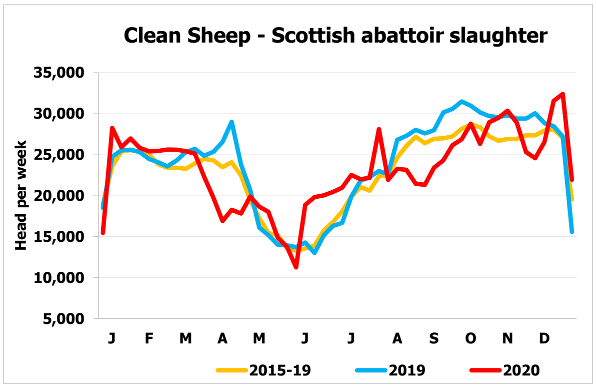
- Store lamb selling prices averaged £10-13 and 21-26% higher than in 2020 for the main breed groups, suggesting year-on-year finished price increases of 50-65p/kg dwt would be needed to maintain finishing margins, before factoring in changes in input costs.

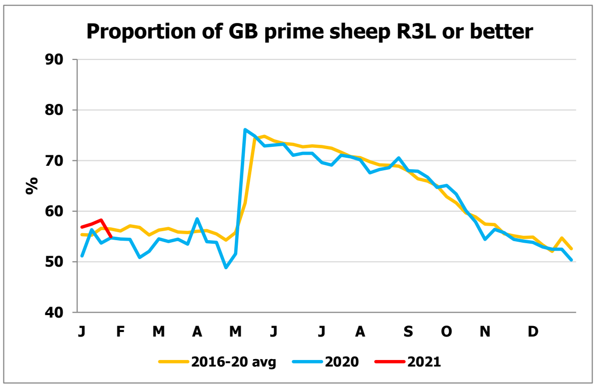
Sheep Charts

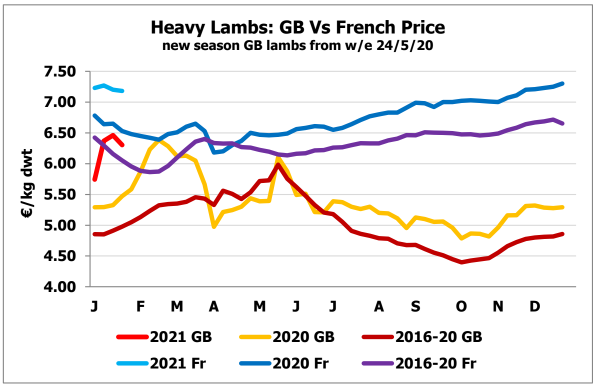


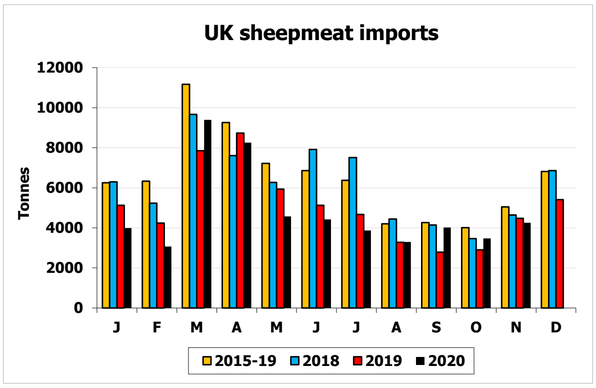


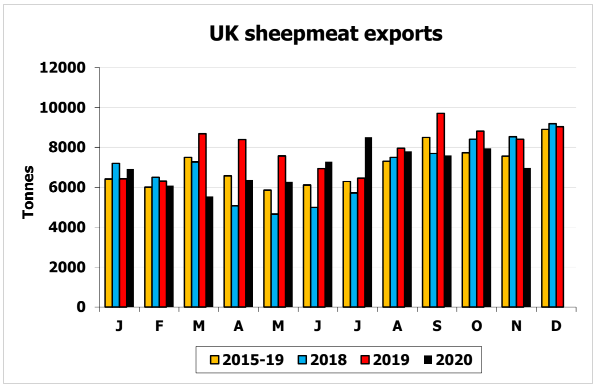












Pigs Update

- The prime pig market has been facing significant headwinds since early in the final quarter of 2020, with the combination of rising supply on farm but reduced abattoir throughput due to covid-19 outbreaks in the processing sector, resulting in a large backlog of pigs. As we learned from the USA in the spring of 2020, even when retail demand is firm, an inability to process these pigs can place downwards pressure on market prices due to reduced competition for pigs, while delays in getting pigs processed results in greater numbers falling out-with market specifications.
- Having fallen each week from the mid-July high point of 2020 to the year end, the GB SPP has continued falling into the New Year. The average weekly decline in the SPP in the second half of 2020 was 0.8p/kg, but this almost doubled in January 2021.
- At 140.5p/kg in the week ending January 30, the GB Standard Pig Price (SPP) was 15.2% below its mid-July 2020 peak and 13.6% below the same week in 2020. After opening the year 1% above their five-year average, prices had slipped 1.5% below it by the end of January. Meanwhile, the average price for 70-104.9kg carcases was 14.3% below its summer peak, averaging 142.5p/kg, with carcases outside this weight range facing more significant declines.
- However, rising carcase weights have offset some of the reduction in per kilo prices, underpinning overall carcase value. At £125.81 in the final week of January, the average SPP carcase was valued 11.1% less than at its July 2020 peak and 9.6% lower than in the same week of 2020. Compared to late October, when production problems began to bite, carcase value has fallen 7.6%, compared to a 10% fall in per kilo prices.
- Carcase weights at reporting abattoirs began to show significant increases of around 1.5% year-on-year between May and July, rising to 2.5% growth between August and October. As the backlog built in the final two months of 2020, carcase weights stabilised rather than showing a traditional decline before Christmas, and the gap widened to around 4% in November and then towards 5% in December and January. As a result, the average weight has been over 90kg in January 2021, compared to just over 86kg in early 2020 and just under 86kg in early 2019.
- While higher carcase weight pigs are reportedly in demand from the export market, if a site temporarily loses export approval for China, then weight requirements reduce.
- Defra slaughter figures showed a year-on-year decline of 1.1% in prime pig throughput at UK abattoirs in Q4 2020. This contrasts with AHDB forecasts of 2.4% more pigs to process, and therefore fits with the reports of considerable numbers of pigs backing up on farms since late last year. Looking forward to 2021, AHDB had forecast a further lift in slaughterings of 2.6%. Factoring in the backlog, there may be an additional 4-4.5% prime pigs to handle this year, with higher weights adding significantly to the potential increase in production.
- At Scottish abattoirs, prime pig slaughter rose by 3.8% to 355,200 head in 2020, with weekly slaughter averaging over 6,800 head (median of 7,100), up nearly 1,100 head on the average in the first four years after the closure of Broxburn abattoir (2013-16).
- In the final quarter, the year-on-year increase in slaughter slowed to 3.3%. The median week saw 7,300 prime pigs processed, up from 7,150 during Q3 and a median week of less than 6,700 head in the first half of the year.

- Sow slaughter at Scottish abattoirs rose by 4% in 2020 to 15,700 head, suggesting that there is the capacity to process the majority of Scottish sows in Scotland.

- Kantar data for the 12 weeks to December 27th points to a renewed upturn in retail spending growth on pigmeat products as public health restrictions tightened. The growth rate in retail spending on fresh pork climbed to 18.4%, having dipped from almost 30% in the 12 weeks to July 12 to around 13% in the 12 weeks to October 4, when there had been increased dining out opportunities. However, the rise in spend on frozen pork did ease further, but it had more than trebled in early summer, and still rose by over 80%. The upturn in late 2020 for fresh pork was supported by a higher growth in the share of households buying and how often they bought it.

- Of the more processed products reported by Kantar, spend on bacon rashers and sausages showed slower increases of around 12% in late 2020, down from 16-17% in the period to October 4 and nearly 40% in early summer, but cooked meats showed a recovery to 12% from 9%, and had risen much more slowly in the summer (13%).

- After a strong June and July for UK pork exports, likely supported by major abattoirs in Germany and the Netherlands temporarily losing export approval for China, HMRC trade data points to a more challenging period. Following a slight year-on-year fall in August, volumes were flat in September, fell 6% in October and then 18% in November. Over the September to November period, export volumes fell by 8% on 2019 levels, but following strong growth in 2019, remained nearly 12% above their autumn 2015-19 average. There were also year-on-year declines for bacon & ham exports, of nearly 30%, and sausage sales were 10% lower. However, there was an 11% increase in exports of prepared and preserved pigmeat from autumn 2019.

- Although UK pork export growth to China/Hong Kong began to slow in the autumn, shipments continued growing until October. After rising nearly 29% in September and 14% in October, November volumes were down by nearly 12% year-on-year, likely linked to increased numbers of sites having to halt exports to China due to cases of covid-19 in their workforce. Nevertheless, in the first eleven months, exports were still 43% higher than in 2019, with the share of exports going to these destinations climbing to 48.7% from 35.8% a year earlier and 22.5% in 2018. Exports to Germany and the Netherlands went from being 5.5% lower in the first seven months, to a fifth lower between August and October, and then falling almost 40% in November.

- Chinese wholesale pork prices began to cool slightly in the late January having risen by a fifth since late November. Having closed 2020 and opened 2021 around year earlier levels, prices fell slightly behind at the end of January. It is possible that frozen pork has been released onto the market ahead of the Chinese New Year celebrations, to help affordability. Nevertheless, pork remains twice the price at wholesale level as it had averaged in late January between 2016 and 2018.

- In the USDA's updated global pigmeat market forecasts, Chinese pork production is projected to recover strongly in 2021, rising 14.5% on 2020 to push 2% above 2019 levels. However, this would still be only 80.5% of 2018 production, highlighting the continuing challenges. Local consumption is expected to begin recovering, rising 11.5% this year to be 7% above 2019 levels. Though this would still be nearly 15% below 2018, with the continuing shortage compared to historic supply continuing to make pork a much more expensive protein. Given the anticipated jump in local production, driven by the profitability of pig production and investment in a more industrial model, import requirements are forecast to slip back 10% from their record high in 2020; nevertheless, they would still be three times higher than in 2018.

- EU pig prices have been more stable since the fourth downwards price shock of 2020 in November, which was linked to foodservice sector closures in many countries as the second wave of covid-19 took hold. Similar to the UK, rising covid-19 cases led to some outages in production and a backlog of pigs on farms, weighing on the market. In Germany, while easing in January it was reportedly still at nearly 900,000 pigs (weekly slaughter averaged 1.06m in 2019).

- In the third week of January, the average EU price for grade E carcases was 30% below year earlier levels and a fifth below the GB SPP, at the equivalent of £1.14/kg. Weekly prices forecasts for Germany point to continuing stability well into February. While GB import demand is likely to have remained soft at the beginning of the year due to reduced foodservice sector demand, the potential to import pork at a lower price from the EU is likely to be having an impact on negotiations in the supply chain, particularly in price sensitive food manufacturing markets.

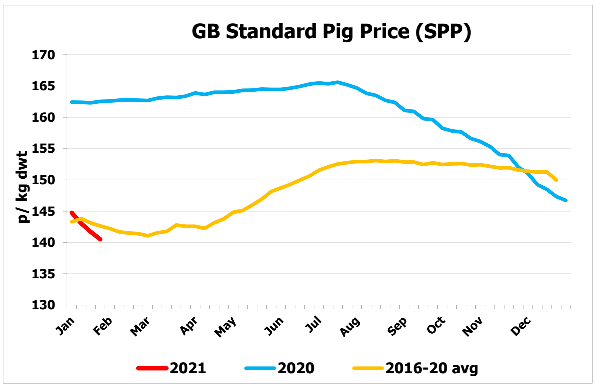
- UK pigmeat imports from the EU showed a seasonal uplift in the autumn of 2020, with monthly imports of pork averaging 16.5% higher than between June and August. While some of this upturn may reflect the partial opening of the economy, volumes remained well behind 2019 levels and the five-year average, down 12.2% on both. Bacon & ham volumes were lower by 16% on the year and 28% on 2015-19.

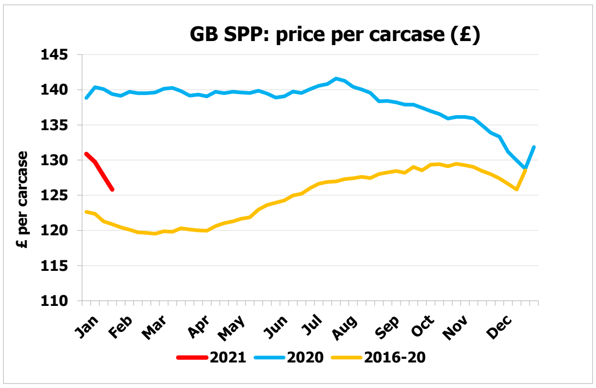
- Meanwhile, imports of sausages fell more slowly, by 9% on 2019 and 3% on the five-year average. Although prepared and preserved pork imports were 5% below their 2015-19 autumn average, volumes did jump by over a fifth on the year.

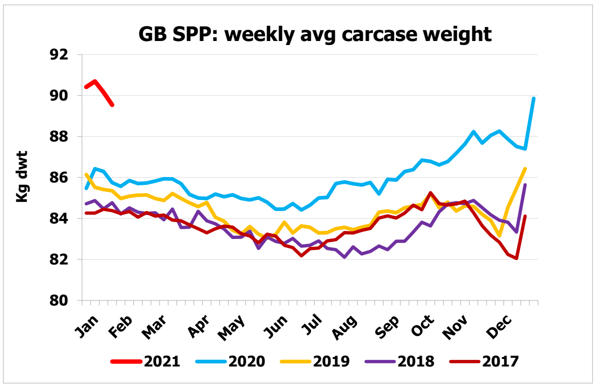
- After signs of steadying around the £190/t level in November and December, London wheat futures returned to an upwards trend at Christmas, reaching £211/t in the third week of January. This was 38% higher than last year. In North East Scotland, ex farm prices for feed wheat have followed the general wheat market higher, with prices climbing from around £180/t in December to push beyond the £200/t mark in late January. Feed barley approached £160/t in late January, up from £135-140/t in late 2020, pushing around 30% above year earlier levels. Early signs for the 2021 global grain crop are more optimistic, with limited winter kill reported in the Black Sea region.

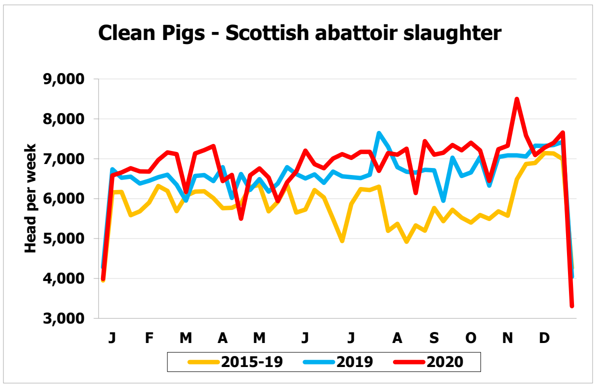
- Similar to wheat, the soyameal market steadied in late 2020 before spiking again in the New Year, going from around £400/t up to above £460 in mid-January; and from 30% higher on the year to 50% higher. However, prices have cooled a little in the second half of the month, slipping back towards £440/t, with traders in financial derivatives closing-out some positions to realise profitable trades. A rising sterling is likely to have placed some pressure on import costs too. Drought in South America has reduced output and crop quality, while Chinese import demand remains strong.

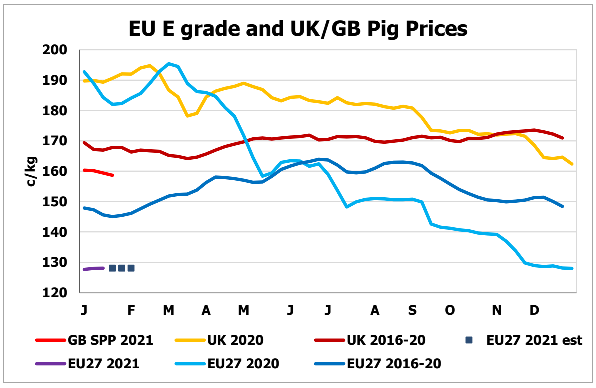
Pig Charts

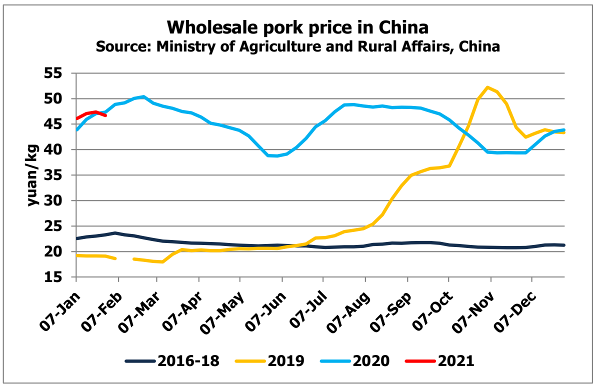

GB Standard Pig Price (SPP)
p/ kg dwt
170
165
160
155
150
145
140
135
130
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
2021
2020
2016-20 avg

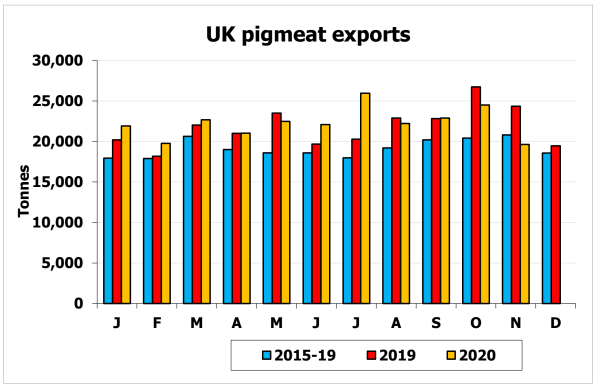

GB SPP: price per carcase (£)
£ per carcase
145
140
135
130
125
120
115
110
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
2021
2020
2016-20

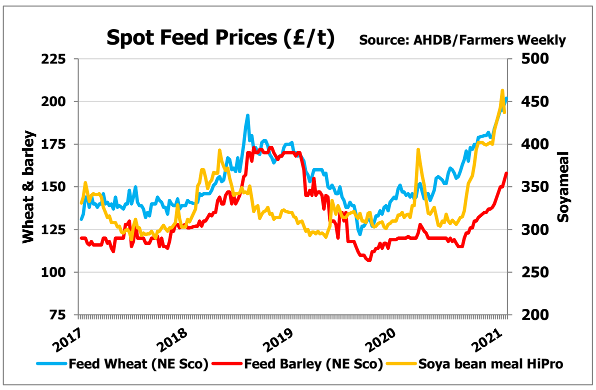

GB SPP: weekly avg carcase weight
Kg dwt
92
90
88
86
84
82
80
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
2021
2020
2019
2018
2017


Clean Pigs - Scottish abattoir slaughter
Head per week
9,000
8,000
7,000
6,000
5,000
4,000
3,000
J
F
M
A
M
J
J
A
S
O
N
D
2015-19
2019
2020


EU E grade and UK/GB Pig Prices
c/kg
200
190
180
170
160
150
140
130
120
J
F
M
A
M
J
J
A
S
O
N
D
GB SPP 2021
UK 2020
UK 2016-20
EU27 2021 est
EU27 2021
EU27 2020
EU27 2016-20


Wholesale pork price in China
Source: Ministry of Agriculture and Rural Affairs, China
yuan/kg
55
50
45
40
35
30
25
20
15
07-Jan
07-Feb
07-Mar
07-Apr
07-May
07-Jun
07-Jul
07-Aug
07-Sep
07-Oct
07-Nov
07-Dec
2016-18
2019
2020
2021


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
2015-19
2019
2020


Spot Feed Prices (£/t)
Source: AHDB/Farmers Weekly
Wheat & barley
225
200
175
150
125
100
75
Soyameal
500
450
400
350
300
250
200
2017
2018
2019
2020
2021
Feed Wheat (NE Sco)
Feed Barley (NE Sco)
Soya bean meal HiPro

Business Environment

Economic Activity:

Purchasing Managers Index (PMI) scores highlighted a challenging end to 2020 for businesses. In services, tighter public health restrictions led to a renewed contraction of activity in November and December, although it was small compared to the spring and the option to furlough staff helped employment to stabilise. In manufacturing, orders were boosted by stockbuilding ahead of EU exit, pushing the sector index to a three-year high. However, firms were hit by higher freight costs and the delayed arrival of inputs due to problems at UK ports. Construction output was supported by strong housing demand but tight supplies of materials raised input costs.

Early survey returns for January point to a steeper reduction for services due to heightened public health measures, and a stabilisation of manufacturing as stocks are wound down and exports to the EU face new barriers. However, firms remained optimistic, mostly down to the roll-out of covid-19 vaccinations.

Scotland's composite PMI indicator remained in negative territory in the final two months of 2020, but its deficit to the UK score fell below its average since the onset of the pandemic.

Consumer Confidence and Spending

GfK NOP reported a sharp decline in consumer confidence in the autumn, as the second wave of covid-19 took hold, almost returning to its spring 2020 low. However, following a sharp uplift in December and a more minor dip in January, the index was five points higher than November's at -28. Most of the recovery since November has been driven by personal finances, but people are still, on balance, holding off large purchases and building savings.

While the number of people in the UK on furlough at the year-end (3.82m) was 59% higher than at the end of October, it was still at less than half (43%) of its May 2020 peak.

UK retail sales turnover growth slowed to around 1% in November and December from 3-5% in September and October as restrictions tightened. However, excluding fuel, spending was still around 5% higher than in late 2019. Food store spending growth was at around 3.5% year-on-year in the second half of 2020, except for November, when it rose to around 6.5% as dining out options were curtailed; though this was slightly softer than seen between March and June 2020. Online spending growth held above 40% after dipping towards a third in Q3.

Exchange Rates:

	w/e 31/1/21	**January 2021**			**w/e 2/2/20**	**January 2020**		
		Low	**High**	**Avg**		**Low**	**High**	**Avg**
€:£	88.6p	88.4	90.6	89.3	84.4p	84.2	85.8	84.9
$:£	72.9p	72.8	74.1	73.4	76.6p	75.8	77.1	76.5
NZD:£	52.5p	52.2	53.6	52.7	49.8p	49.1	51.1	50.5

After volatility in the run up to the UK EU trade agreement, sterling has since risen slightly, taking a step-change in mid-January, but the agreement appears to have had limited impact on financial market participants' collective outlook for investments in the UK. An historically weak sterling has continued to underpin the competitiveness of domestic product at home and overseas; although exports are facing greater trade frictions than imports in early 2021.

The NZ dollar firmed against sterling after the NZ election in mid-October, supported by the lack of public health restrictions within the country, but has lacked direction since late November. However, the US dollar has continued to soften into 2021, with the new Administration expected to launch a large economic stimulus and expectations that monetary policy will remain supportive.

Iain Macdonald, February 2021