# MARKET REPORT - JULY & AUGUST 2021

**Purpose:** *To provide an update on the cattle, sheep and pig markets and highlight the general economic conditions in which the red meat sector has been operating.*
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**Date:** 27/08/2021

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**Data Disclaimer:**

Accurate, timely and independent data you can trust — AHDB

All deadweight price data used in this report is supplied to QMS by AHDB, who collect the data from reporting abattoirs each week and publish a consolidated set of data, regionally within GB for cattle, and GB-wide for sheep and pigs.

## *Cattle Update*

- After peaking at an average of 428.8p/kg in late April, the prime cattle average at Scottish abattoirs declined by 5.5% over the next six weeks. Since then, prices have trended slowly higher, rising 3.4% over ten weeks, reaching 419.1p/kg in the third week of August.
- After peaking at over a quarter in late April and early May, the year-on-year increase has settled in an 8-10% range since mid-June, while the increase over the five-year average has dropped from a peak of 21% to settle at 11-13%. However, prices have moved back above their record high for the time of year from 2013, being 3-4% higher in August.
- R4L steers reached 424.3p/kg in the third week of August compared to a June low of 411p/kg and a spring peak of 432.3p/kg. Meanwhile, R4L heifers traded at 423.4p/kg in the third week of August, with a consistent premium over R4L steers which had lasted for five months disappearing in late June, and -U3 young bulls made 418.8p/kg.
- In E&W, prices had passed their spring peak by the final week of July, averaging 1.1% above it in the third week of August, at 404.9p/kg. For R4L steers, it was similar, with prices reaching 415p/kg in August compared to a spring high of 410p/kg.
- Scottish premia over E&W have been more stable in July and August, averaging 3.5% for prime cattle and 2.5% for R4L steers. These premia had been averaging around 6-7% and 4-5% from late-April before falling sharply in June, with the initial market rebound proving stronger south of the border.
- Prime cattle slaughter has fallen back again at price reporting Scottish abattoirs in August, averaging 1.4% below July levels and 8% below the year-to-date weekly average in the first three weeks of the month. After lagging well below the five-year average for much of the May to July period, slaughter was in line with the historical average in late July and the first half of August, before falling to a year-to-date low in week three.
- At E&W price reporting abattoirs, prime cattle throughput fell 3% below the July weekly average and 7% below the year-to-date average in the first three weeks of August.
- While many red meat processors are facing considerable labour shortages, learnings from the US tend to suggest that the current market values are being underpinned by tight availability, as if labour challenges were limiting slaughter, it would likely lead to backlogs on farm and downwards pressure on producer prices.
- BCMS cattle population data from July 2021 continues to point to tight supply in the short-term, particularly south of the border, before the situation improves as spring-2020 born cattle begin reaching slaughter condition and offset the continuing shortage at older ages. However, it should be noted that, at GB level, the older slaughter profile will mean that it will take longer for supplies of spring-2020 born cattle to build than in Scotland.
- The latest Defra prime cattle slaughter data for July showed continuing declines in throughput at GB abattoirs with numbers falling 12% below the albeit unusually high July 2020 kill. Nevertheless, in the first seven months, it took the total decline to 4.7%.
- Defra data shows significant divergence in prime slaughter numbers between Scotland and E&W, with the total at Scottish sites down only a fraction in the first seven months of 2021 compared to a 6% decline south of the border. However, July was the third straight month of decline in Scotland, with volumes down 8%.

- At Scottish abattoirs, the premium for R4L steers over -U4L steers widened from an average of 1.2p in the first half to 1.7p in July and 2.2p in the three weeks to August 21. For heifers, the lead for -U4L over R4L grades continued to average around 4p.

- After steadying in May and June, cow slaughter at price reporting abattoirs in Scotland picked up strongly in July, moving around 10% above the year-to-date weekly average, having been around 5% below it for two months. August has seen a further lift, running around 15% above average for the year so far. Numbers fell nearly 15% behind 2020 levels between mid-June and mid-July, but have since moved slightly ahead of 2020.

- Defra slaughter data for mature cattle showed a second month of sharply reduced cow kill relative to 2020 at GB abattoirs in July. Numbers fell 14% on the back of a 22% fall in June, taking the year-to-date total 6% behind 2020. Like with the prime kill, the data showed divergence between Scotland and E&W, with a near-9% lift over last year in Scotland in the first seven months while being 8% lower in E&W. However, the mature kill did fall back relative to last year at Scottish abattoirs in June (-3%) and July (-6%).

- Cow prices made a step higher in mid-July, with O+3 grades trading at 332-336p/kg in the five weeks to August 21 compared to an average of 318p/kg in the previous three months. This step change has seen the lead over the five-year average widen from around 14% in the first half of July to around 20% in August. The lead over 2020 levels has been more stable, averaging around 11% in July and the first three weeks of August.

- Defra meat balance sheets for Q1 2021 estimated a 7.5% fall in UK beef supply due to reduced production (-3.3%) and a larger decline in import volumes than in export volumes. However, an upward revision to imports now suggests supply fell in line with production.

- Supply is estimated to have steadied relative to last year in Q2, with a recovery in imports (+7.8%) and continuing slump in exports (-5%) offsetting a 2.3% fall in production. During Q2, beef supply rose above 2020 in April and May before declining sharply in June.

- Kantar data for the 12 weeks to August 8 shows that GB household spending on fresh beef was only 1.5% above 2019 levels – itself a weak year. Increased dining out opportunities may have caused the reduction in the share of households buying fresh beef compared to two years before. Despite considerable farmgate price increases, the average retail price was only 2.2% higher than in 2019, highlighting a significant squeeze on margins within the supply chain. Elsewhere in the beef retail portfolio, spending on frozen beef and burgers did however remain elevated, up nearly a fifth on 2019 levels.

- Although HMRC have revised UK beef import volumes in 2021 higher, the Q1 total is still showing a drop of around a quarter on 2020 and a slightly larger fall relative to the five-year average. Moving into Q2, import volumes rebounded to exceed last year's low levels, rising 8%. Imports remained below the five-year average in April and May, before slightly exceeding it in June as catering sector demand built.

- In Q2, the recovery in beef imports was driven by frozen product, with fresh beef imports taking until June to increase from 2020 levels. Frozen beef rose to 35% of imports in Q2, up from 26% last year. In Q1, the frozen share had been only marginally higher at 30%.

- Beef imports from the EU fell 20-30% through Q1 before rising 3-6% in Q2. June also saw a lift above the five-year average after continuing to lag in April and May. Imports from the EU reached a year-to-date high in June, 17% above the previous March peak, having been 10% below March on a five-year average basis.

- The run of month-on-month uplift in beef imports from non-EU countries continued in June as volumes approached 1,100t, compared to less than 200t in January. Their import share also built further, reaching 5.1% compared to January's 1.3%. However, while 4.5 times June 2020 levels, they remained slightly below June 2019.

- UK beef exports continued recover in June, with volumes reaching a year-to-date high compared to being the second lowest of the first half on a five-year average basis. Volumes exceeded year earlier levels for the first time in 2021, up 4%, and they also passed the five-year average for the first time, up closer to 9%. In Q2, volumes still trailed 2020 levels by 5%, but this was markedly less than the 40% contraction seen in Q1.

- UK exports to the EU showed a slightly different pattern to overall trade, exceeding year earlier levels for the first time in May before slipping back in June. While performance relative to the five-year average improved further, there was still a significant decline of 11%. Nevertheless, volumes were still at the highest of the year.

- The UK beef export trade with non-EU countries has been mixed so far in 2021. However, June volumes were at a year-to-date high, 23% above 2020 levels and more than double the five-year average. They accounted for 31% of the total – their second lowest share of the year after March, though still above their annual share of 24% last year.

- In the Irish Republic, prime cattle slaughter has been building towards its autumn peak, with the July weekly average up more than 13% on Q2 levels, and a new year-to-date high reached in the second week of August. While still lagging 2020 by 3-4%, numbers have been around 10% above the 2016-18 average since late July. Cow slaughter has dipped seasonally since July, but is likely to pick up again in September.

- Irish R3 steer prices rose 3% in June, but the rise in supply began to pressure the trade and the pace slowed to a crawl in July, with prices peaking only another 0.5% higher at the end of the month. Over the first three weeks of August, R3 steers then lost 2.4%; though they were still 13% higher than last year. In sterling terms, Irish R3 steers peaked at 369p/kg, slipping to 358p/kg in the third week of August – where they were in May.

- From an Easter peak of 26%, the premium for Scottish R4L steers over the Irish R3 had halved by late June, dipping a point below the 2020-weekly average. It has since reversed course, reaching 15% by the end of July and 18.5% in the third week of August.

- Since the beginning of the pandemic, the US beef market has been interesting to watch. In 2020, a large backlog of cattle on farms highlighted the potential for this scenario to pressure farmgate prices irrespective of market demand. This year, farmgate prices have been relatively steady, while wholesale beef values have surged in the late spring, and again in August. In the third week of August, wholesale carcase value traded at a premium of 68% over farmgate values – around double Q1 and mid-July levels.

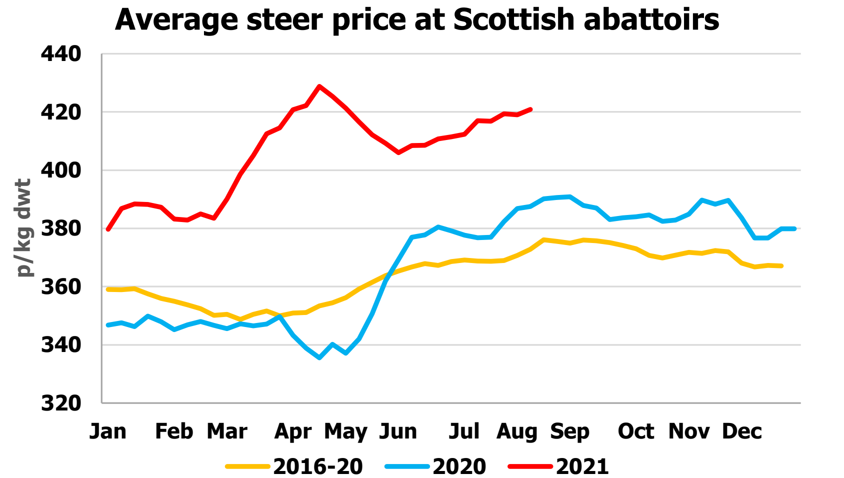
- US cattle by-product value (hides, offals, fats etc) continued to climb through July and August, supported by global economic recovery. In the week to August 21, it was valued 95% above 2020 levels in USD and by 86% in p/kg (weaker USD). By-product was worth 24p/kg lwt, up from 15p in January, 12p a year ago and 17p in August 2019.

- At Scottish auctions, store cattle marketings reached their annual low in late June, with only 300-400 steers traded at 6-18-months in the three weeks to July 2. Numbers picked up strongly in the first half of July before steadying at around 1,200 in the five weeks to August 21. This was still only a third of the average through March and April however.

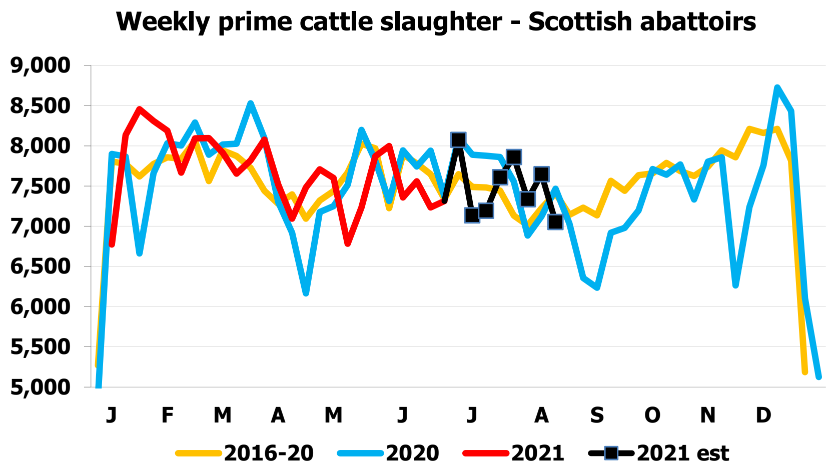
- Store cattle values rebounded in July after falling by around 13% between April and June. In the 6-12-month category, prices averaged £925 while 12-18-month steers traded at £1,040, putting them at around 10% and 5% below their spring levels. In the first three weeks of August, the recovery continued, with the younger group clearing at an average of £958 and the older group £1,067, narrowing the gap with April to around 6% and 3%.

- Store cattle remain dearer than in summer 2020, with July prices up 6.3% in the 6-12-month group and by 8.4% for 12-18-month steers. In the first three weeks of August, the average for both categories was around 8% above 2020 levels.

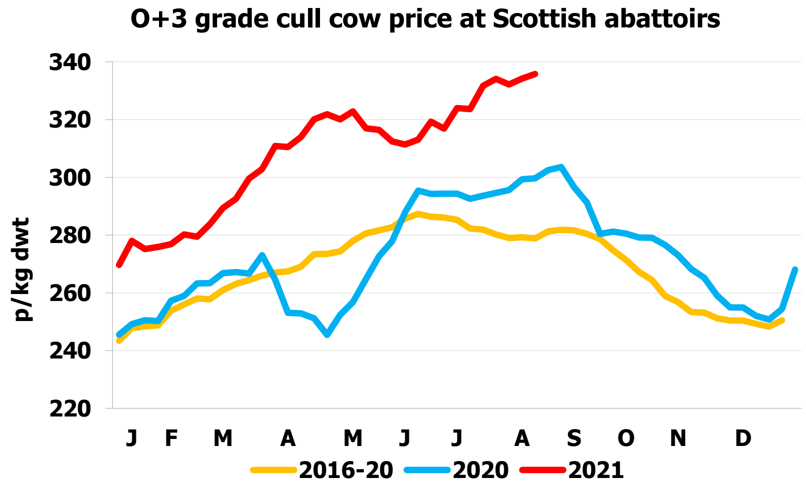
## *Cattle Charts*



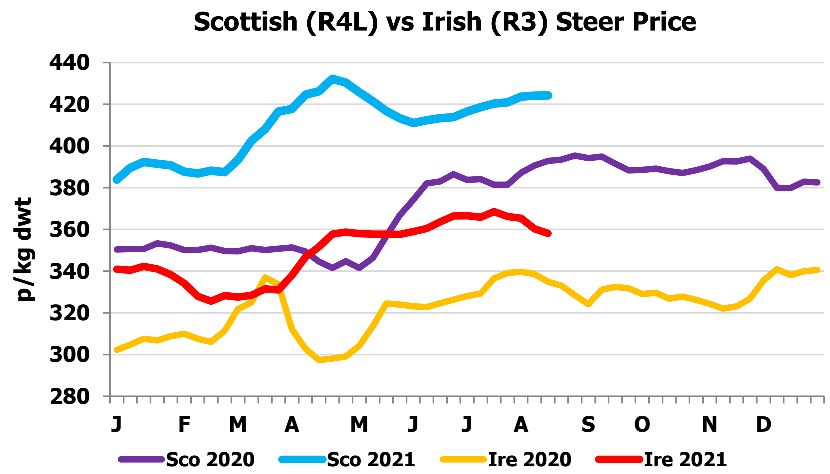

Source: AHDB; QMS calculations
Week 1 in 2021 ended Jan 9th; week 1 in 2020 ended Jan 4th



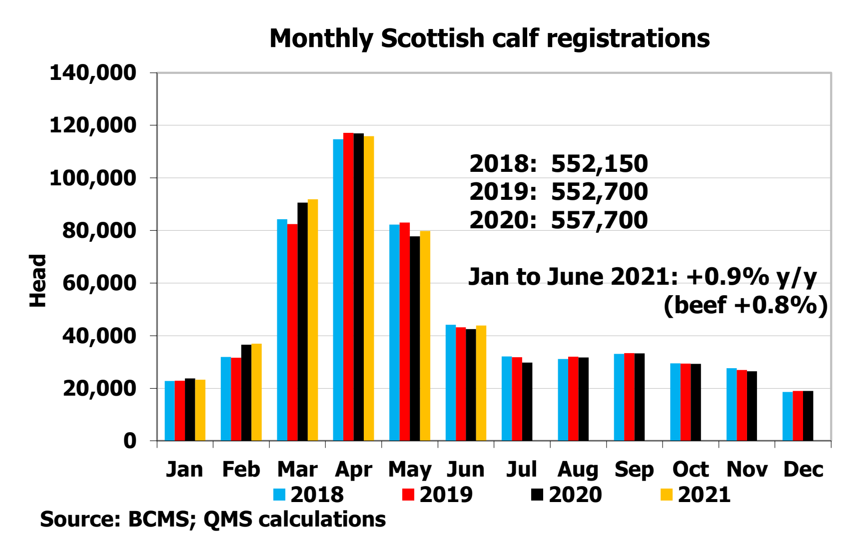

Source: Scottish Government; QMS calculations and estimates
Week 1 ended on January 4th in 2020 and January 9th in 2021

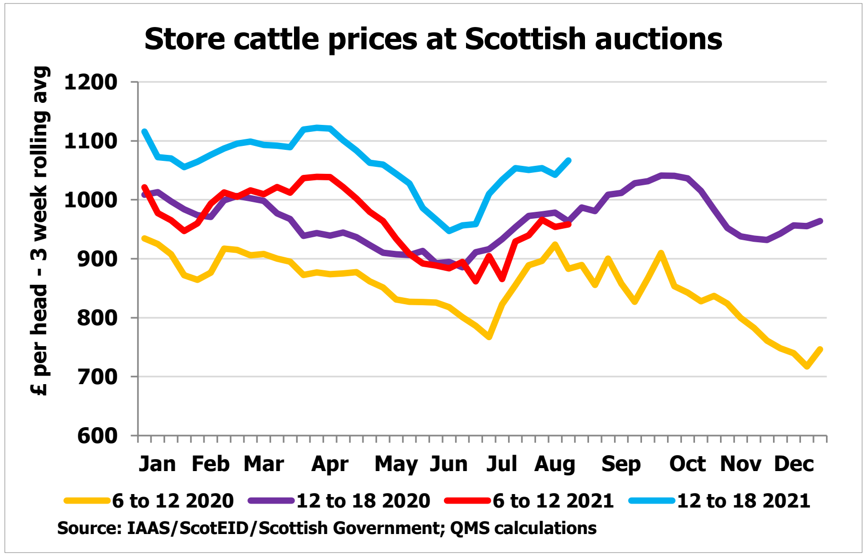


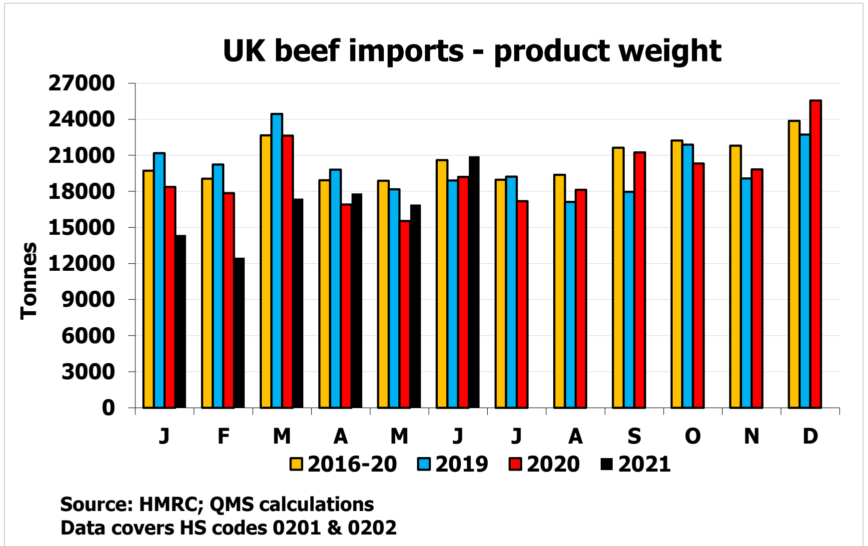

Source: AHDB; QMS calculations

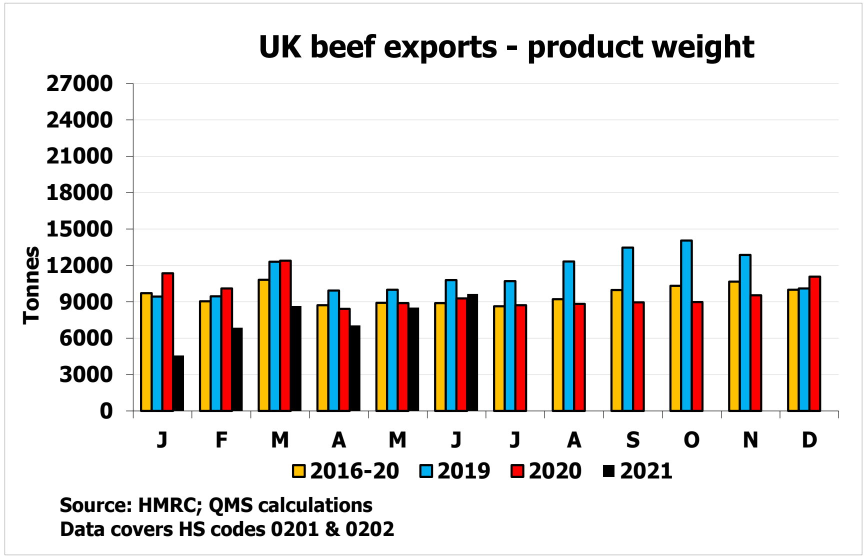



Source: AHDB; EC/LMC; weekly average ECB exchange rate


Monthly Scottish calf registrations
140,000
120,000
100,000
80,000
60,000
40,000
20,000
0
Head
2018: 552,150
2019: 552,700
2020: 557,700
Jan to June 2021: +0.9% y/y
(beef +0.8%)
Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec
2018 2019 2020 2021
Source: BCMS; QMS calculations


Store cattle prices at Scottish auctions
1200
1100
1000
900
800
700
600
£ per head - 3 week rolling avg
Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec
6 to 12 2020
12 to 18 2020
6 to 12 2021
12 to 18 2021
Source: IAAS/ScotEID/Scottish Government; QMS calculations


UK beef imports - product weight
27000
24000
21000
18000
15000
12000
9000
6000
3000
0
Tonnes
J F M A M J J A S O N D
2016-20 2019 2020 2021
Source: HMRC; QMS calculations
Data covers HS codes 0201 & 0202


UK beef exports - product weight
27000
24000
21000
18000
15000
12000
9000
6000
3000
0
Tonnes
J F M A M J J A S O N D
2016-20 2019 2020 2021
Source: HMRC; QMS calculations
Data covers HS codes 0201 & 0202

# *Sheep Update*

- While new season lamb numbers still trended higher through August at Scottish marts, the pace slowed, with numbers averaging 31% higher in the four weeks to August 25 than in the previous four weeks, having previously doubled over four weeks. In addition, there was an increase of only 9% between the week's ending July 28th and August 25th.

- At GB level, new season volumes averaged 4% lower in the four weeks to August 25 than in the four weeks to July 28, reflecting the pre-Eid peak procurement in mid-July. However, marketings were at their second and third highest of the season in the second half of August.

- This year's lamb crop is anticipated to have fallen back from 2020 levels across GB due to the cold wet spring and last year's significant increase in lambs to ewes ratios.

- In August, the auction data continued to point to a smaller lamb crop, with numbers down nearly 5% on 2020 at GB sales, following a 17.5% decline in July. In Scotland, numbers were down 16% in the four weeks to August 25, having been 10% lower in July. This decline will also reflect the early marketing profile last year after a good summer grazing.

- However, auction throughput has held up better relative to the five-year average in Scotland, being marginally higher in August, while numbers trailed by 10% at GB level.

- After rebalancing sharply lower in June, new season lamb prices had settled around the 250-55p/kg mark in July. Early August then saw a further drop in price, with lambs selling for a season-to-date low of around 220p/kg at the beginning of August. A partial recovery then followed, with prices settling into a new range around 235p/kg in mid-to-late August.

- After a period of generally exceeding prices at E&W marts between late May and early July, Scottish prices have been trading at a discount since, averaging around 1.5% lower.

- Finished lambs have been continuing to show year-on-year price increases throughout the summer at Scottish marts. While the margin has narrowed since June and been volatile on a week-to-week basis, it averaged 13% through July and August, being around 17% in mid-to-late August. Meanwhile, the lift over the five-year average has averaged 25% in July and August, extending to 30% in the week to August 25.

- Having trended sharply lower through June, lamb prices at GB reporting abattoirs partially recovered through July, with R3L carcases in the medium 16.5-21.5kg range ending the month at 564p/kg, around 22% below the new season peak having ended June 28% below it. Prices have fallen back in August, averaging 522p/kg in the first three weeks of the month and hitting a season-to-date low of 512p/kg in its second week. Through July and August, prices have averaged 14% above 2020 levels.

- At GB abattoirs, prime sheep slaughter fell sharply behind year earlier levels in July, partly down to the earlier timing of Eid al-Adha limiting availability at the point of peak procurement. Numbers fell 16% behind 2020 levels, following a 6.5% reduction in June.

- July saw similarly sharp year-on-year declines in prime sheep kill at sites in both E&W and Scotland. In E&W, numbers fell 16.5%, while the total was 14% lower in Scotland.

- Having contracted by more than 15% in 2020, ewe slaughter at GB abattoirs continued to slide sharply on a year earlier in the first seven months of 2021, falling by a quarter. It is possible that firm markets are encouraging producers to build flocks.

- After a brief spike ahead of Eid al-Adha, cull ewe marketings fell back again in the second half of July at Scottish marts. In August, numbers have averaged 29% higher than in the previous four weeks and double the total in the four weeks to July 3. Numbers have trailed last year's levels in July and August, down 20% in the four weeks to July 28 and then by 4% in the four weeks to August 25.

- Tight ewe supply into abattoirs and auctions has resulted in considerably higher prices than in summer 2020, averaging nearly 40% above last year in July and then holding around 25% higher in August.

- Ewe prices have however begun to cool seasonally, slipping to a six-month low in the second half of August. In the week to August 25, they cleared at £77 at Scottish marts, compared to an average of around £93 in July and £97 in June.

- Defra's meat balance sheets estimated a 7% contraction in UK sheepmeat supply during Q1 2021 as a rebound in net imports (in carcase weight equivalent) partially offset a 10% fall in domestic production. Supply remained tight in Q2, down 5%. While production fell 7%, a sharp fall in exports (-26%) helped limit the decline by more than offsetting a reduction in imports (-22%).

- Kantar data indicates that retail demand for fresh lamb has held firm in summer 2021 with GB households spending 12.5% more buying it in the 12 weeks to August 8$^{th}$ than in the same period two years ago. There were small increases in the share of households buying it and in the frequency of purchase, while an average price increase of around 10% means that sales volumes have only risen by around 2% on 2019.

- Sheepmeat imports to the UK remained at historically low levels in June, slipping seasonally from May and 14% below 2020 levels after a brief lift in May. Meanwhile, volumes trailed their five-year average by more than a third.

- Beef + Lamb NZ export data shows continuing reblancing of NZ lamb exports from Europe to China, where wholesale lamb prices remain firm at around £8/kg in late August. NZ farmgate prices have surged above year earlier levels in recent months, up nearly a third in late August, and are trading around the new season highs of late 2019, reducing NZ competitiveness. In sterling, they reached £4.60-70/kg in late August.

- In NZ, the ewe flock is estimated to have declined another 0.5% going into the current breeding season, meaning a contraction of almost 20% over the past decade. However, Beef + Lamb NZ are projecting a 1.6% higher lamb crop due to a good scanning and favourable weather conditions.

- UK sheepmeat exports showed continuing weakness in June, with volumes sliding to their lowest since February, down 37% on last year and by 26.5% on the five-year average. This decline relative to the five-year average was more significant than an average of -19% between February and May; though volumes had been down 44% in January.

- UK sheepmeat exports to the the EU fell to a four-month low in June and the year-on-year decline widened back towards the highs of the initial post-EU single market exit trading period, down 35%. The decline relative to the five-year average widened to 28% but remained less than the January (-47%) and February peak (-34%).

- After a weak May, UK sheepmeat exports to non-EU countries rebounded in June but were still at their second lowest of the year, down more than half on last year. They were however marginally above the five-year average.

- In France, farmgate prices have been trading slightly higher in August than their July average. Given a stronger seasonal upwards trend, this weak upturn has seen the year-on-year increase slow towards 3% from around 7% in late June. Prices have also been trading at a more significant discount to their Easter peak than usual. In sterling, they have been equivalent to around £6/kg in August.

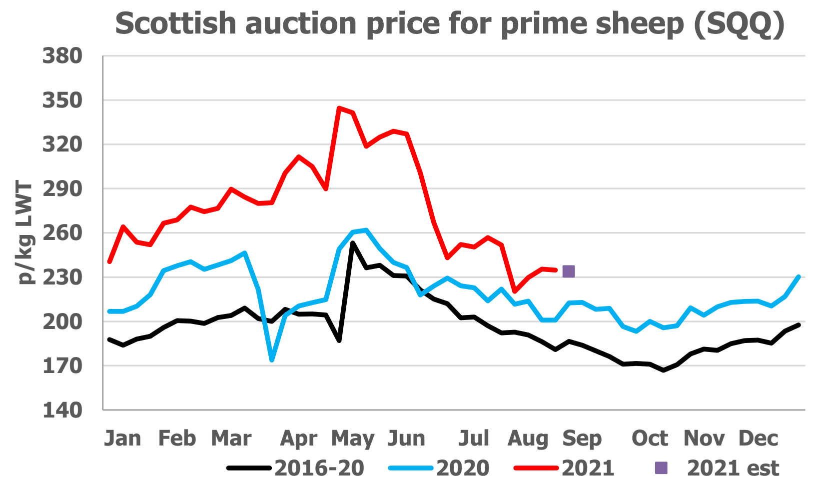
- After briefly picking up in the run up to the Eid festival in July, wholesale lamb carcase prices at Rungis market in Paris for imported R grades fell by around 8% in late July, ending the month at their lowest level of the year. However, after around three weeks of stability, there has been a small uplift moving into the second half of August, returning values to the €7/kg mark where they had opened July. While more than 20% below the Easter peak, prices are still around 15% dearer than for most of the second half of 2020.

- At the equivalent of £5.87/kg, French wholesale prices averaged 11% higher than GB deadweight lamb prices in the third week of August. For most of the year, relative prices have suggested limited opportunity for GB exporters to make a margin, with the weekly difference averaging 8%.

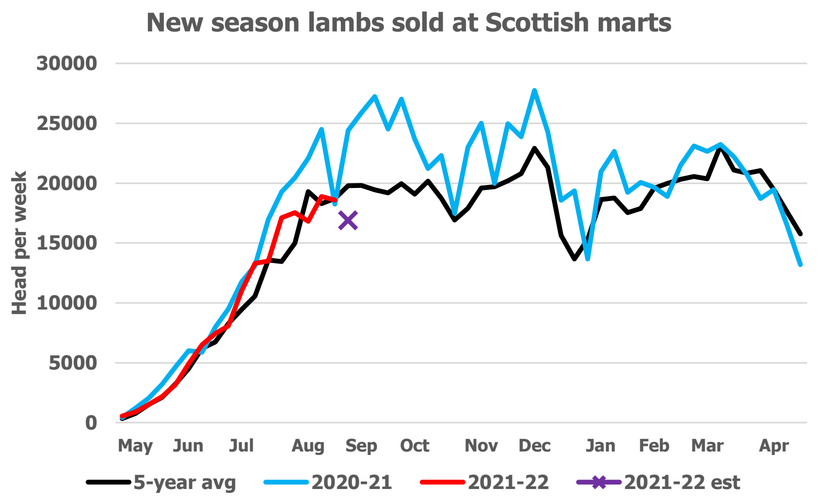
- With producer confidence high going into the store lamb season, the trade has started on a firm footing. In the first four weeks of trading, 114,800 lambs were sold at Scottish marts, down 2.4% on last year, though still well above the 93,650 head total for the same period of 2019 (+22.6%). This has not dampened market values, which averaged nearly £75, putting them well above the £65 average in the same period of 2020 (+15.2%).

- In the three weeks to August 21st, Blackface store lambs averaged around £51, Cheviots £69, Texels £78, and Suffolks £80.

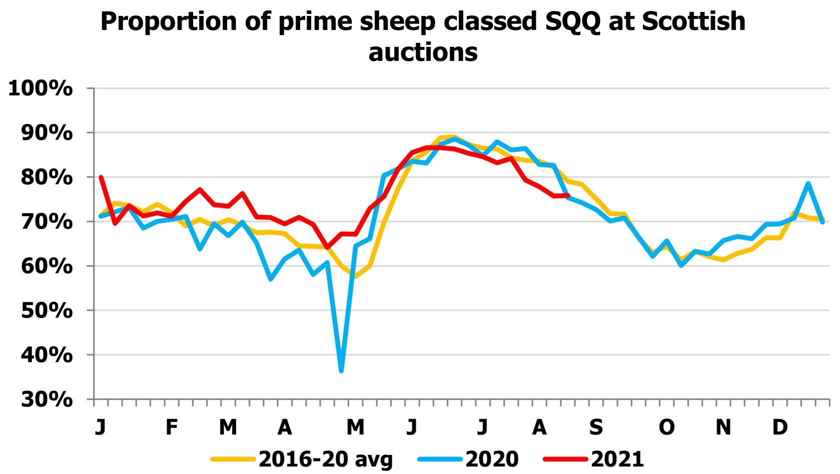
## *Sheep Charts*



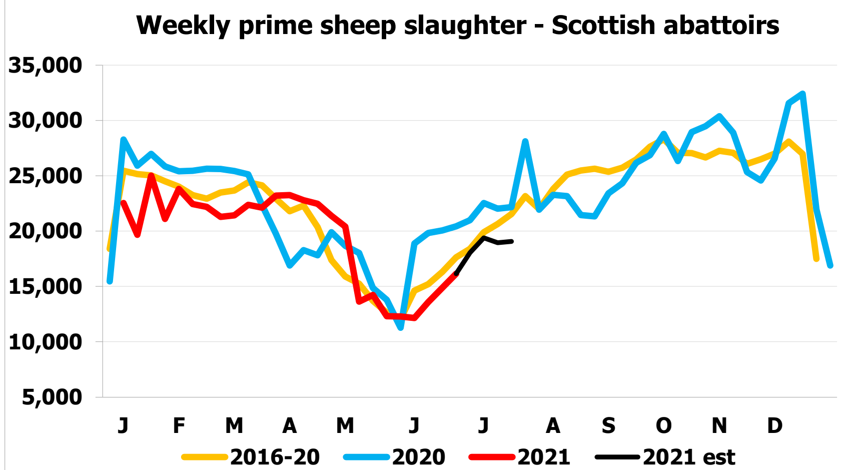

Source: weekly average created by QMS from data supplied by IAAS/ScotEID
New season lambs quoted from w/e 9/5/21



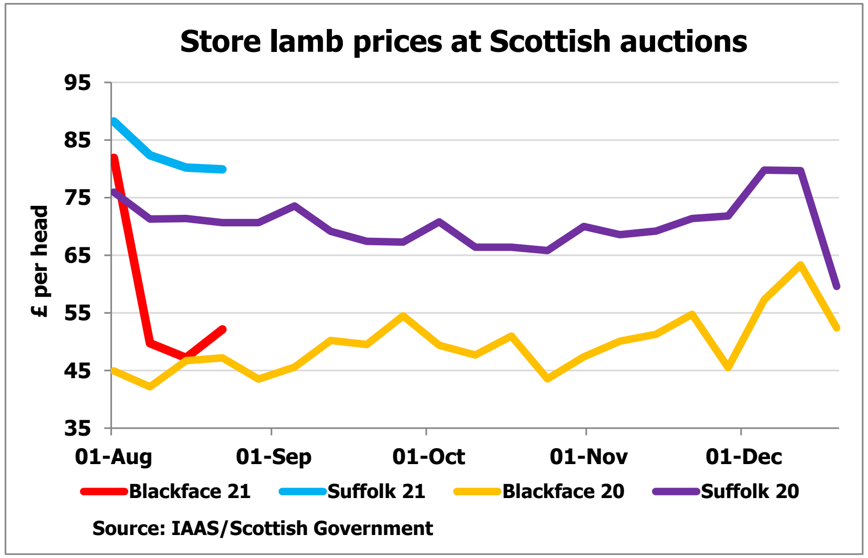

Source: IAAS/ScotEID; QMS calculations and estimates



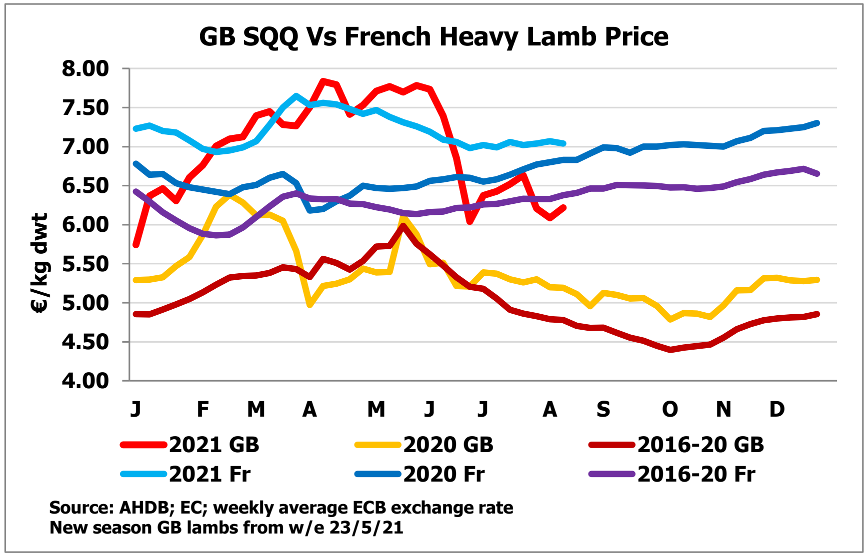

Source: IAAS/ScotEID; QMS calculations
New season lambs from w/e 5/5/21



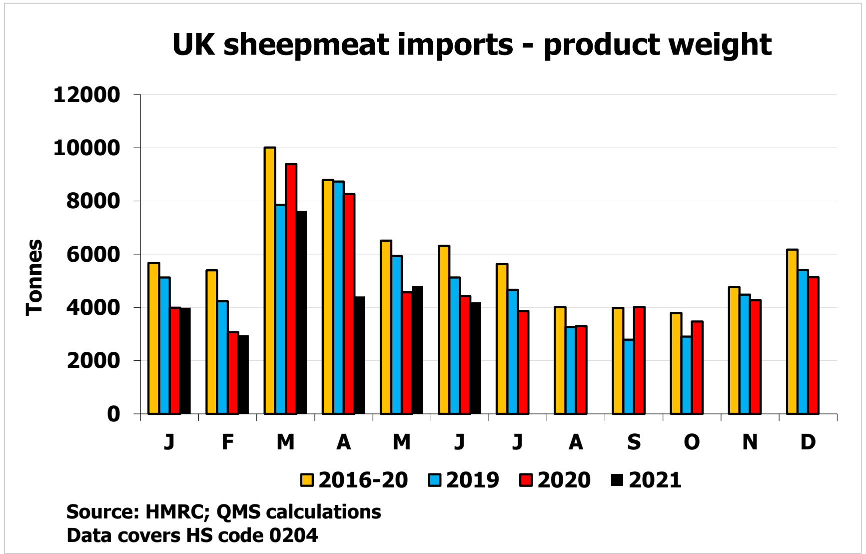

Source: Scottish Government; QMS calculations
Week 1 ended on January 4th in 2020 but January 9th in 2021



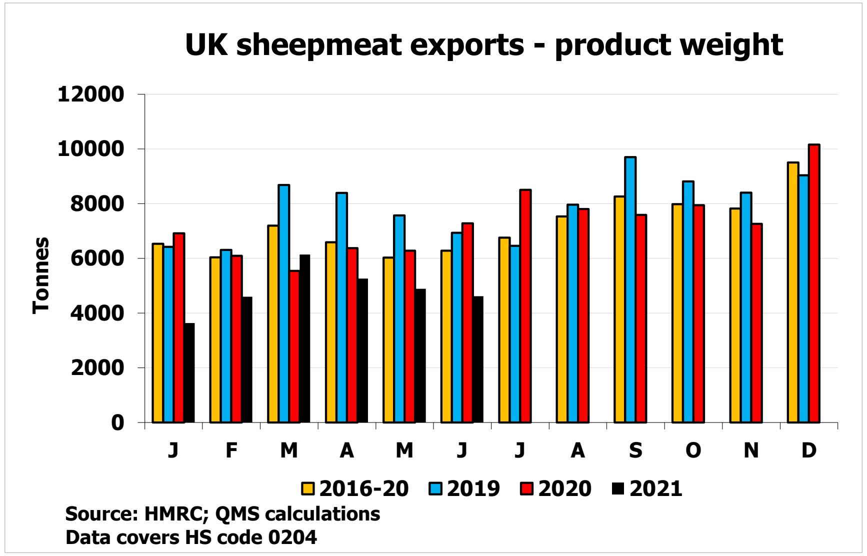
Store lamb prices at Scottish auctions
95
85
75
65
55
45
35
£ per head
01-Aug
01-Sep
01-Oct
01-Nov
01-Dec
Blackface 21
Suffolk 21
Blackface 20
Suffolk 20
Source: IAAS/Scottish Government

GB SQQ Vs French Heavy Lamb Price
8.00
7.50
7.00
6.50
6.00
5.50
5.00
4.50
4.00
€/kg dwt
J F M A M J J A S O N D
2021 GB
2020 GB
2016-20 GB
2021 Fr
2020 Fr
2016-20 Fr
Source: AHDB; EC; weekly average ECB exchange rate
New season GB lambs from w/e 23/5/21

UK sheepmeat imports - product weight
12000
10000
8000
6000
4000
2000
0
Tonnes
J F M A M J J A S O N D
2016-20
2019
2020
2021
Source: HMRC; QMS calculations
Data covers HS code 0204

UK sheepmeat exports - product weight
12000
10000
8000
6000
4000
2000
0
Tonnes
J F M A M J J A S O N D
2016-20
2019
2020
2021
Source: HMRC; QMS calculations
Data covers HS code 0204

## *Pigs Update*

- Prime pig prices continued to trend higher through July but now appear to have passed their traditional summer peak, slipping back in August. The GB Standard Pig Price (SPP) rose 1.2% July, compared to a monthly pace of 3-4% in Q2, peaking at 160.9p/kg. In the first three weeks of August, prices then fell by 1.1%, slipping to 159.25p/kg.
- After a challenging winter, the GB SPP climbed 16.2% between its February low and late July peak, compared to an increase in the 2016-20 average of around 8.5% between spring low and summer high.
- Since the SPP replaced the DAPP in 2014, prices have decreased between July and December in five of seven years, the exceptions being 2016 and 2019 when there had been a surge in the global market due to import demand from China. In the five years to see declines, the average was 8.5% by the year-end.
- Having been around 15% behind year earlier levels in February, the year-on-year decline in the SPP had eased to 3% by the beginning of July and then steadied around 2% in the first three weeks of August. Meanwhile prices went from around 2% below their five-year average in February to push ahead by 5.5% in July. However, the margin had slipped to 4% by the third week of August.
- Through July and August around 94% of standard carcases were in the 70-104.9kg weight range compared to a winter low of around 92%. However, this share fell to a five-month low in the third week of August, with an increased 2.7% exceeding 105kg. While this is still around half of the winter peak, it is a signal of a potential backlog building on farms.
- After averaging around 2% higher than last year for two months, carcase weights in the SPP sample slipped closer to 1% above 2020 levels through July. However, the increases were closer to 2% again in the second and third week's of August. Nevertheless, the increases have remained well below the winter peak of around 5%.
- Carcase weights in the SPP sample reached a summer low of just above 86kg in late June and early July. They have since begun to trend seasonally higher again, reaching 87.2kg in the second and third week's of August – their highest levels for four months.
- With per kilo prices trading around 2% below 2020 levels in August, the year-on-year increase in carcase weights of close to 2% has left carcase value trading only marginally below year earlier levels, averaging around £139 since mid-July. The recent lift in weights has meant that carcase value has yet to fall significantly below its peak.
- December census results pointed to a small reduction in the English breeding sow herd compared to a year earlier. However, there was a sharp increase reported in Scotland, leading to a combined increase of 0.4%. For fattening pigs, putting together a small fall in England with a large increase in Scotland gives the same small net increase.
- Slaughter of standard pigs at GB price reporting abattoirs has continued to trend lower through July and August. After a fall of 5% in July, the weekly average fell another 3% in the first three weeks of August, leaving it around 9% below the year-to-date average.
- Defra slaughter data indicates that after surging 11% above 2020 in Q2, prime pig throughput slipped back behind year earlier levels at GB abattoirs in July, down 2.8%. Over the first seven months, slaughter rose 4.6% from last year.

- At Scottish abattoirs, monthly prime pig slaughter in July was estimated to have fallen 30% below 2020 levels, accelerating from the declines of 23% in May and 26% in June. These heavy declines reflect a reduction in activity in Scotland's largest abattoir, which had its export approval for China suspended following a coronavirus outbreak early in 2021. As a result, increased numbers of pigs are crossing the border for slaughter in English abattoirs which have retained their access to the Chinese market, raising the relative value of these carcases compared to those handled by a facility without approval.

- In the first seven months of 2021, prime pig slaughter trailed year earlier levels by 16% at Scottish abattoirs despite a sharp increase in fattening pigs on Scottish farms reported in the December agricultural survey, highlighting greater cross-border movement this year. It also highlights the risk posed by concentration in the abattoir sector.

- Sow slaughter has been more volatile at Scottish abattoirs in 2021. While falling by around a third on 2020 in the opening seven months, throughput was higher in three of the four months between April and July, with most of the decline down to minimal activity in Q1.

- At GB level, the sow kill climbed strongly in Q2, up 13% on 2020 levels before dipping 2.5% lower in July. In the first seven months, numbers were up 5.6%, suggesting that challenging market circumstances may have led to a reduction in the breeding herd.

- Defra's meat balance sheets estimate a 5% reduction in UK pigmeat supply in Q1 2021 as a 5.5% lift in domestic production was more than offset by a sharp reduction in net imports. In Q2, the situation reversed, with production jumping further above 2020 (+12%) while exports fell 16% and imports recovered to be down a fraction, leading to an increase in supply of 13.5%.

- Kantar data for the 12 weeks to August 8th points to relatively firm GB demand for pigmeat. While well down on 2020, spending on fresh pork was around 5% above 2019 levels, while in the processed ranges, such as bacon rashers, cooked meats and sausages, spending was 10-13% above 2019; spend on cooked meats also slightly exceeded 2020. Unlike beef and lamb, slightly increased farmgate prices compared to 2019 were reflected in retail prices for fresh pork and bacon (+2-3%), with uplifts for cooked meats and sausages stronger at 8%.

- While UK pigmeat imports fell slightly in Q2, they had rebounded to growth in April before slipping slightly behind 2020 in May, with the decline widening to 4% in June. The decline relative to the five-year average slowed to 17% in April before widening again, reaching 19% in May and 21% in June.

- Pork imports drove the overall declines in May and June, falling around 4% and then 8% on last year whereas imports of bacon & ham continued to recover, climbing 8% and 4% respectively. However, both continued to fall around 20% below their five-year average.

- After peaking in mid-June, EU pig prices began sliding steadily. The grade E average declined around 3% by the end of June and then another 7% in July. Into August, the pressure continued, slipping nearly 3.5% in the three weeks to August 22. However, a forecast for the German market is now pointing to stability moving into September.

- The result of the downward trend in EU prices has been a surge in the GB premium from an average of around 9% in late May and early June to 29% in mid-August, approaching the winter peak. EU prices have slipped below the equivalent of 124p/kg, pressuring prices in the supply chain due to the option of a cheap alternative from abroad.

- However, while imported pork is looking cheap, the strength of domestic production and export market challenges mean that import requirements remain historically weak.

- On the subject of exports, the latest trade data is indicating that the headwinds returned in Q2 after a recovery in February and March from a difficult start to the year. April pork exports were down 10% on last year and by 4% on the five-year average, with these gaps widening to a respective 24% and 13% by June.

- Export statistics highlight continuing divergence in performance between EU and non-EU markets. Although exports of pork to the EU continued to exceed the lows of January and February, June saw export volumes to the still fall below 2020 levels by 42%. Meanwhile, exports to non-EU countries fell at a slower 9%.

- Exports to China/Hong Kong had been the main driver of increased non-EU trade in recent years, with its share of UK export volumes climbing from under a quarter in 2016-18 up to 49% in 2020. Exports to China conitnued to grow in Q1 despite very weak January after abattoir outages. However, Q2 then saw sharp declines, linked to reduced import requirements in China, with the quarterly total down 26% on 2020. As a result, sales to China slipped to a 44% of UK exports – the smallest since Q3 2019 – and 66% of exports to non-EU countries. In Q2 2020, the China share of the non-EU total had peaked at 88%.

- In China, the sharp decline in wholesale pork prices came to a halt in July. However, they resumed in August, with a decline of around 4% during the month. By the end of August, the market had slipped 3% below the 2016-18 average. Wholesale prices have fallen from the equivalent of £5.30/kg in January to around £2.40/kg in August.

- Live hog futures now point to stability in the Chinese pork market this autumn rather than seasonal upturn, though spring 2022 contracts are suggesting some room for slight uplift.

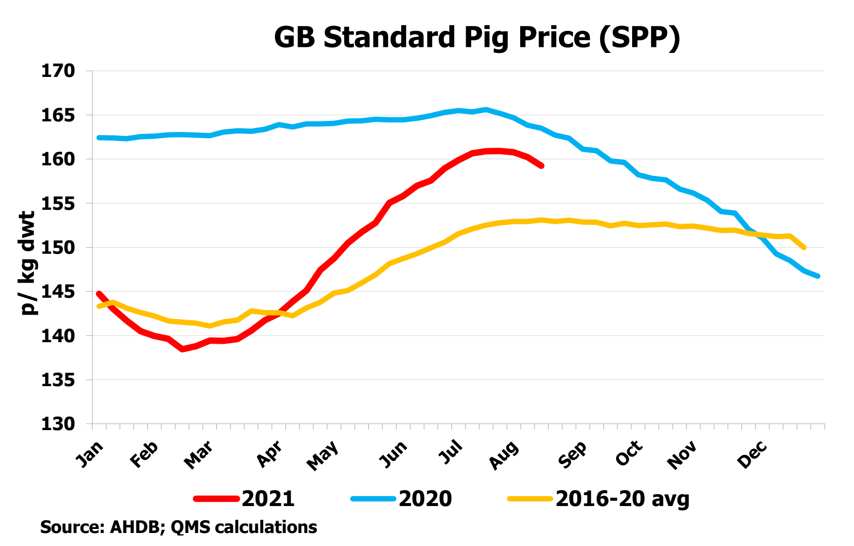
- Increased availability of imported pigmeat compared to the past plus a faster than anticipated recovery in local production are likely to have driven the market decline. It is possible that tight supply has had a lasting impact on pork demand in China, by opening consumers' minds to alternative proteins. The relative cost of pork against beef, lamb and chicken is now similar to pre-ASF crisis levels – around 70% below beef and lamb but 25% more expensive than chicken.

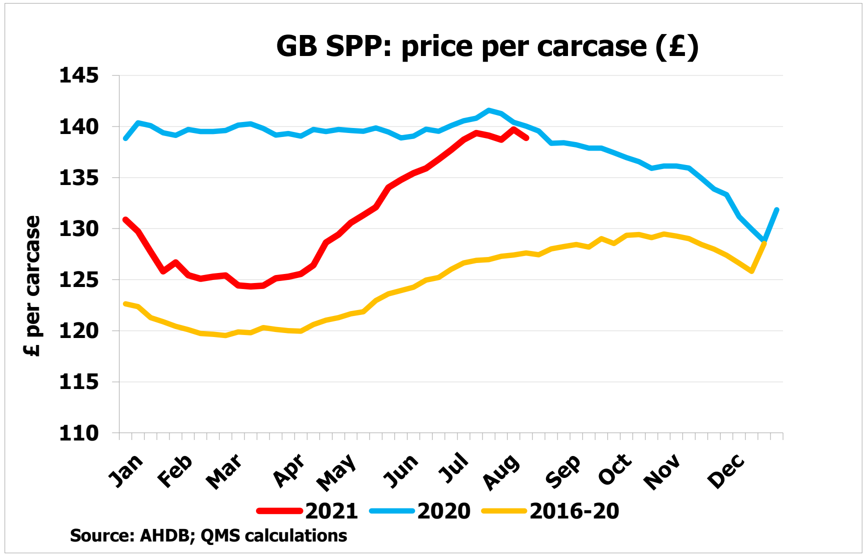
- Defra's monthly straights prices point to continued stability in feed wheat prices in July, whereas the cost of barley dropped by more than 17% and was at its cheapest since January. While soyameal rebounded, it was still priced at its second cheapest since September 2020. Year-on-year increases were around 20-25%, although the inflation rate for barley more than halved from June.

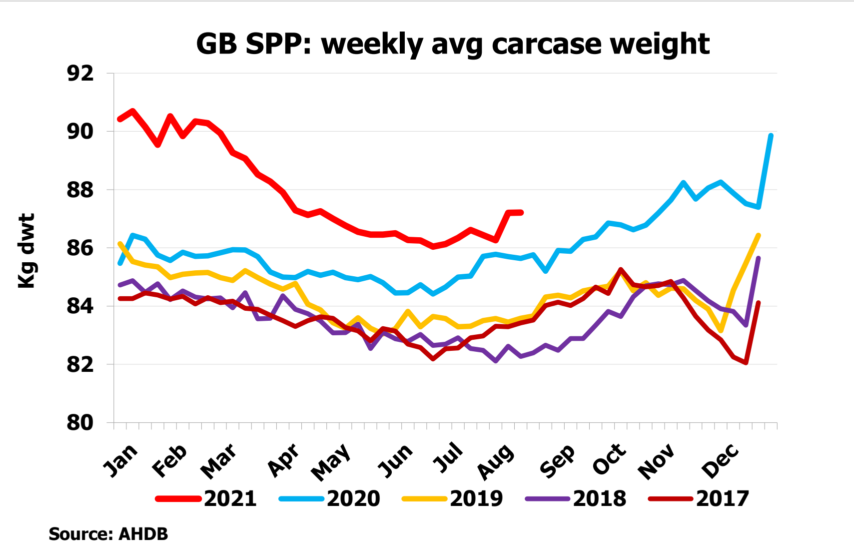
- Wheat futures prices for autumn delivery had been well below nearby prices earlier in the summer, but this position changed in August after global grain production forecasts were cut sharply. As a result, feed wheat and barley are now likely to remain more expensive than a year ago this autumn.

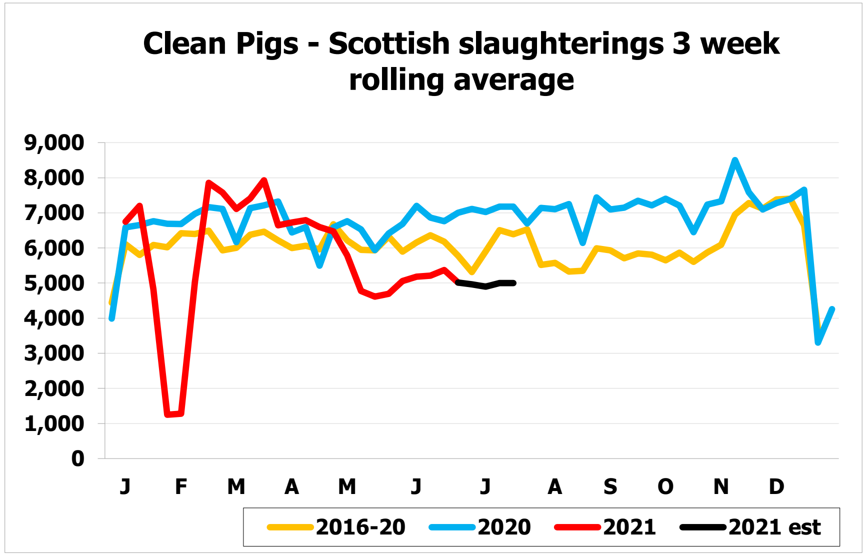
- Soyameal remains cheaper than at the early 2021 peak and has been trading in a similar range since March. Looking forward, Chicago futures are pointing to continuing relative stability, but exchange rate movements will be a factor. Chinese import volumes have been strong due to recovering pig production.

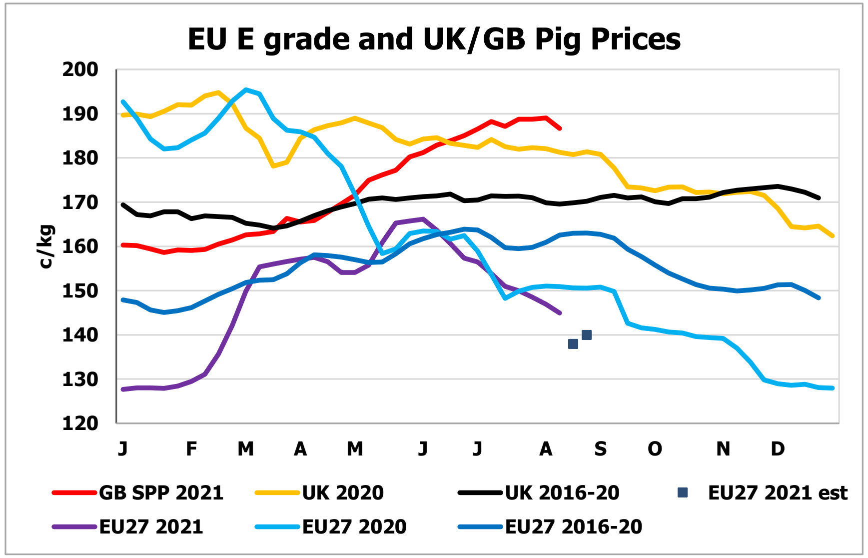
## *Pig Charts*

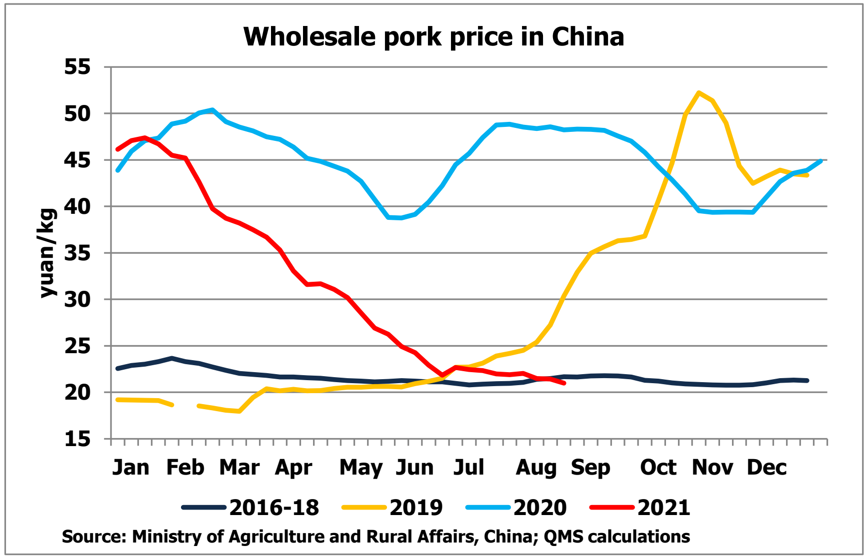

GB Standard Pig Price (SPP)
170
165
160
155
150
145
140
135
130
p/ kg dwt
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
2021
2020
2016-20 avg
Source: AHDB; QMS calculations

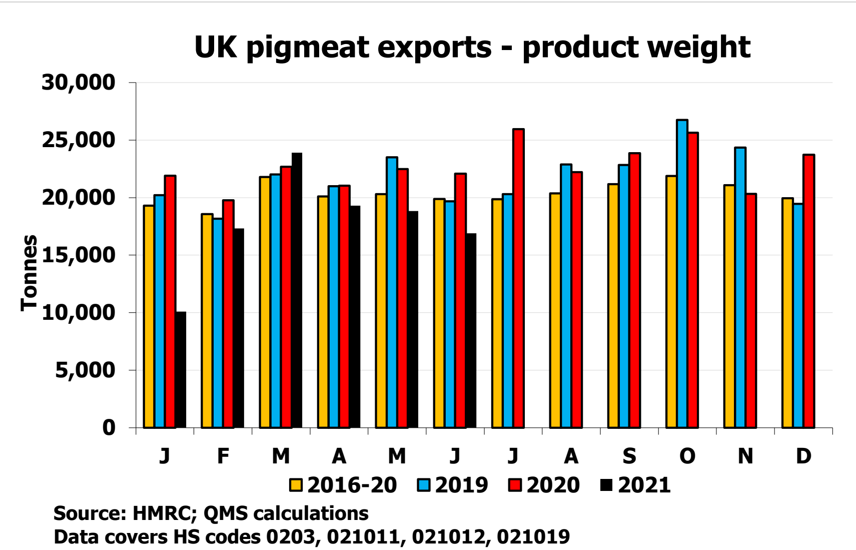

GB SPP: price per carcase (£)
145
140
135
130
125
120
115
110
£ per carcase
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
2021
2020
2016-20
Source: AHDB; QMS calculations

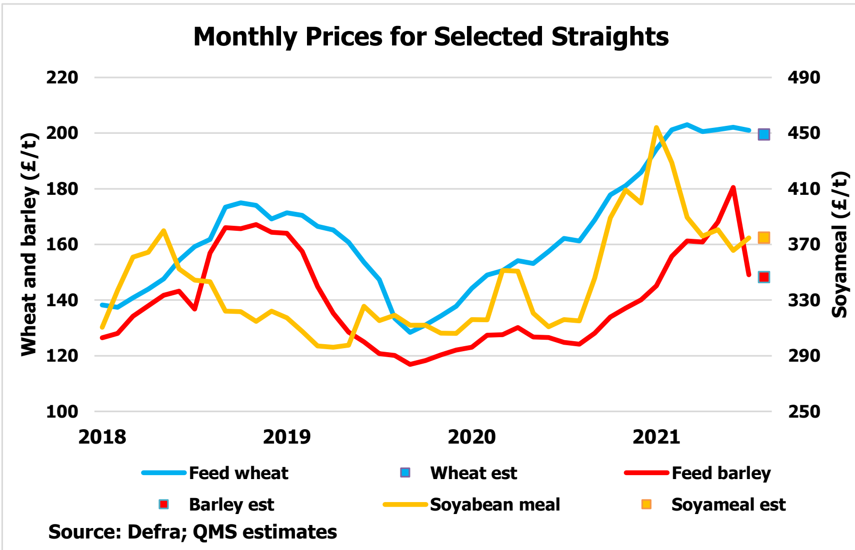

GB SPP: weekly avg carcase weight
92
90
88
86
84
82
80
Kg dwt
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
2021
2020
2019
2018
2017
Source: AHDB


Clean Pigs - Scottish slaughterings 3 week rolling average
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
2016-20
2020
2021
2021 est


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


UK pigmeat exports - product weight
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
2016-20
2019
2020
2021
Source: HMRC; QMS calculations
Data covers HS codes 0203, 021011, 021012, 021019


Monthly Prices for Selected Straights
Wheat and barley (£/t)
220
200
180
160
140
120
100
Soyameal (£/t)
490
450
410
370
330
290
250
2018
2019
2020
2021
Feed wheat
Wheat est
Feed barley
Barley est
Soyabean meal
Soyameal est
Source: Defra; QMS estimates

# *Business Environment*

**Economic Activity:**

In June, the ONS estimates that UK GDP was still 2.2% below February 2020 levels.

Purchasing Managers Index (PMI) scores for July and provisional figures for August indicate a softening of the economic recovery in the UK. In August, while holding well above the 50 score indicating stable activity, the manufacturing score has provisionally slipped marginally to a five-month low of 60.1 while, in services, it has slumped to a six-month low of 55.5. While demand is reported to have slowed a little, most of the fall in activity growth has been linked to labour shortages relative to current demand levels. However, despite continuing problems with accessing raw materials, input cost inflation is reported to have slowed from its high. Meanwhile optimism about the year-ahead rebounded to a three-month high.

Scotland's composite PMI indicator fell back for a second month in July from May's record high. However, it remained firm at 57.5 and its deficit to the UK PMI score narrowed to 1.7 points, compared to an everage deficit of 5.1 points since March 2020. Services activity picked up more strongly than manufacturing, reflecting the reduction of restrictions. With demand exceeding supply, backlogs increased further and firms continued to add new staff. Production costs surged however, particularly in manufacturing.

In the Scottish Government's latest business survey results for the 26$^{th}$ of July to August 8$^{th}$, there was a continued increase in activity in accommodation and food services, with 94% of firms trading, up from 90% in June, three-quarters in early May, and around a third in the January to April period. The proportion of staff on furlough reduced further from its peak at around two-thirds between January and April, slipping below 10% after holding around 15-20% for much of June and July. Nevertheless, nearly half of accommodation and food services firms were still making use of the scheme.

**Consumer Confidence and Spending**

GfK's monthly survey has indicated that consumer confidence has begun to stabilise at around Q1 2020 levels, with the score ranging from -7 to -9 between May and August, dipping a point to -8 in August. At this level, confidence is above the 2019 range of -10 to -14.

While optimism around personal finances held steady, with the forward-looking score at +11, sentiment around the general economic situation continued to trend slightly further into negative territory (-6) and there was renewed pessimism around large purchases (-2).

According to the ONS, UK retail sales turnover dipped back by 2.3% in July after passing its previous peak from April in June. There were declines of 2.6% in spend at food stores and of 3.6% in non-food stores, but online sales and spending at fuel stations edged higher.

Spending in food stores held above its May low point and remained above the levels of July 2020 (+1.5%), February 2020 (4.4%), and July 2019 (+5.2%). After adjusting for price changes, fuel sales slipped to their lowest since May, despite reduced restrictions and remained below pre-pandemic levels. July was the third straight month that non-store retail spending fell short of year earlier levels, while its growth over 2019 slowed to around 31%, having exceeded 50% in the first third of the year.

**Exchange Rates:**

| | w/e 22/8/21 | July 2021 | | | w/e 23/8/20 | July 2020 | | |
|---|---|---|---|---|---|---|---|---|
| | | Low | High | Avg | | Low | High | Avg |
| €:£ | 85.3p | 85.1 | 86.5 | 85.6 | 90.3p | 89.6 | 91.3 | 90.5 |
| $:£ | 72.9p | 71.6 | 73.5 | 72.4 | 76.1p | 76.2 | 80.3 | 78.8 |
| NZD:£ | 50.3p | 49.9 | 50.9 | 50.6 | 49.9p | 50.8 | 52.4 | 51.9 |
| Euro rates sourced from the ECB; averages for USD and NZD rates calculated by QMS from daily rate published by the Bank of England<br>Note: an increased value in pence means a fall in the relative value of sterling | | | | | | | | |

Sterling continued to trend slightly higher against the euro in July, ending the month at around the previous year-to-date high from late March. It then strengthened further into August, reaching an 18-month high on the 10th, before falling back towards the mid-May to late-July average in the third week of the month. In July, sterling averaged around 5% stronger than it had closed 2020 and closer to 6% higher than a year earlier.

Sterling continues to be underpinned by the reopening of the economy but a renewed uplift in covid-19 infections and an unexpectedly low inflation rate in July led to the mid-August softening, reducing the likelihood of an earlier interest rate increase. Meanwhile, EU economic prospects have brightened as its vaccination rates have converged on UK levels.

The rise in sterling in 2021 coupled with greater trade frictions on exports to the EU than on imports will have hampered the competitiveness of domestic products at home and overseas. However, sterling is still significantly weaker than its mid-2014 to mid-2016 peak.

A mid-August lockdown saw the value of the NZ dollar fall towards its lowest levels against sterling since the start of the pandemic, boosting the competitiveness of NZ sheepmeat in the UK. While NZ has been more open than most economies for much of the pandemic, its relatively low vaccination rates have left it exposed to the highly infectious delta variant.

Since the US dollar rebounded to a four-month high in mid-June, as a surge in inflation brought forward the likely slowing of economic stimulus measures and higher interest rates, its rate against sterling has held relatively stable, buying 72-73p. Nevertheless, the large scale of the stimulus measures means that the dollar is still considerably weaker than in Q3 2020.

While input cost inflation has been a significant challenge for UK farming and red meat processing businesses in 2021, a weaker dollar has softened the lift in global commodity prices when converted into sterling.