MARKET REPORT - March 2021

Cattle Update

- After nine months trading in a band of 375-90p/kg at Scottish abattoirs, the third week of March saw the prime cattle average break out from this range, jumping 8.8p to 398.7p/kg. This followed a 6.2p uplift in the previous week.
- With the historic seasonal trend still being one of decline, this saw prices jump 15% ahead of 2020 levels, having been running 10-12% higher in recent weeks, while moving 14% ahead of the five-year average, up from 8-9% earlier in the year.
- Prime cattle prices have been trading at record highs for the time of year since the final week of January, initially passing 2014 levels, when prices had been falling back from the reord highs of 2013. However, by March, prices in 2014 had fallen behind those of 2013, and the recent surge has kept values only slightly above 2013 levels, being a fraction higher in the second week of March then up 1.4% in the third week.
- Having risen 15p in a fortnight, R4L steers made 402.5p/kg in the third week of January. The recent surge meant that prices were up by 4.1% on four weeks before and 2.6% over eight. However, these increases still lagged the peak growth rates in 2020 of 10.3% in the four weeks to June 13th and 12.4% in the eight weeks to July 4th, with the four-week rate spending six weeks above 4.1% last summer.
- In the third week of March, R4L steers were 1.8% above their 2020-peak from late August (395.4p/kg) and 17.9% above the 2020-low from late April (341.5p/kg), while the deficit to the all-time peak of 423.2p/kg in July 2013 narrowed to less than 5%. Compared to the same week of 2020 it was a rise of 14.9% (350.2p/kg).
- In England & Wales (E&W), the average prime cattle price rose by 2-3p for three weeks up to mid-March, before a 6.8p increase in the third week of the month took it to 384.3p/kg. This was 15.9% higher than last year, with the year-on-year lead continuing to out-pace that seen in Scotland. Having narrowed significantly in the final quarter of 2020, the Scottish premium has remained below year earlier levels in Q1 2021, averaging 3.4% compared to 5.4% in early 2020.
- For R4L steers, the Scottish premium over E&W tends to be at its lowest levels of the year in March, with the five-year average dipping to around 1% from above 2% in January. In 2021 it has been volatile, peaking above 2% in late January before dropping below 1% at the start of March but then rebounding to a year-to-date high of 2.3% in the third week of March. At E&W abattoirs, R4L steers reached 393.4p/kg in the third week of March and this was 14.2% higher than last year. R4L prices have shown smaller year-on-year increases than the E&W average in 2021, pointing to an improvement in carcase quality south of the border.
- BCMS cattle supply data from January showed a marginally increased number of cattle aged 12-24 months on Scottish farms, but a significant decline in the 24-30-month group (-6.7%). However, the pool of cattle aged 6-12 months was 3.6% higher, due to a lift in calf registrations in Q1 2020, pointing to a recovery in supply in autumn and winter 2021/22. In the short-term, population data indicates that availability is likely to be even tighter in England, before recovering over the autumn and winter.

- Slaughter statistics from the Scottish Government indicate that any backlog in prime cattle that had built up after processing sector disruption in October and November was cleared in December and January. After a 7.8% reduction on a year earlier in the six weeks to December 5^{th}, a recovery in the following eight weeks resulted in a small increase for the period from late October up to the end of January.

- Moving into February, prime slaughter fell 0.5% on a year earlier at Scottish abattoirs. Although numbers dropped back from the weekly levels seen in the second half of January (which peaked at 8,450), the weekly average kill in February was up slightly from that in the four weeks to January 30 (8,010 v 7,920 head).

- Data from price reporting abattoirs in Scotland indicates that slaughter fell back in March, dropping to its lowest level of the year for a full processing week in the second week of the month, and then remained below the year-to-date average in the week to March 20. Numbers were down by 5.3% on the year over the three weeks, driven mainly by an 11.3% decline in heifers, whereas steer numbers were down by less than 0.5%.

- Having run 1-2% lighter than a year earlier between May and October 2020, prime cattle carcase weights were more stable relative to year earlier levels between November and February at Scottish abattoirs. The February average was down 0.2% on the year at 369.9kg, with steers around 385kg and heifers 352kg.

- In E&W, Defra slaughter statistics show that prime slaughter was flat year-on-year in February. This continued the pattern seen around the turn of the year, with the combined December and January total also unchanged. Data from the price reporting abattoirs in E&W has indicated a tightening in the three weeks to March 20. The weekly kill dipped 3.4% below the average through January and February, and by 10.7% on last year, when the three highest weekly totals of the year-to-date had been posted.

- 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 has been averaging 4-5p. Meanwhile, R4L heifers have opened a margin of around 0.5% over R4L steers since mid-February, likely down to relatively tighter supplies.

- Mature cattle slaughter opened 2021 at Scottish abattoirs with the highest weekly total for three years in the first full processing week of the year. After averaging above 1,550 head per week for four weeks, numbers were then seasonally lower in the final three weeks of February, averaging around 1,320 head. After rising strongly for most of the period between June and the year-end, throughput carried this momentum into 2021, averaging around 20% above levels up to the end of February.

- Data from the price reporting abattoirs in Scotland suggests a seasonal decline in weekly cow kill in March, with numbers around a quarter below the weekly average of the first two months. However, they still exceeded 2020 levels by over 20%.

- In contrast to a similar prime kill to twelve months before at E&W abattoirs between December and February, mature cattle slaughter fell by 5.7%, with a reduction of over 7% through December and January, and then by 2.1% in February.

- Cull cow prices at reporting Scottish abattoirs have spent much of the first quarter of 2021 following their traditional seasonal trend higher. However, the market was more stable between late January and mid-February, with sharp increases before and after that period. By the third week of March, prices were around 6-7% higher than in the third week of February, and up 10-11% from the opening week of the year. O+3 grades reached 299.6p/kg in the week to March 20, coming within 1% of the summer 2020-peak, while working out at 9.7% above year earlier levels and 13.2% above the five-year average.

- HMRC data indicates that although the UK imported more beef in the autumn of 2020 than in autumn 2019, volumes continued to lag the five-year average. However, with traders nervous about the change in trade rules in January, December imports hit a six-year high of 25,400t, putting them 6.7% above the 2016-20 average for the month and 11.8% above December 2019 levels. Unsurprisingly, January volumes then plummeted, down more than 37% on the year and nearly 42% on the five-year average.

- While beef imports to the UK from EU countries fell by 36% year-on-year in the opening month of 2021, imports from non-EU sources fell by nearly 70%, reflecting minimal foodservice sector demand.

- UK beef export volumes fell around a third below year earlier levels, and more than 10% below 2019 through the autumn of 2020. Reflecting weak demand from foodservice sector buyers on the continent. However, December did see a spike by around 10% on the year and over the five-year average, excceding 11,000t in December for the first time in nine years. However, January export sales inevitably reduced considerably, down 59% on the year and by 52% on the five-year average.

- In January, UK export volumes to EU customers were down by two-thirds on 2020 levels, while sales to non-EU countries slumped by nearly a quarter. However, if you combine the December and January volume exported to the EU, they were down by a similar level to what had been the case through the autumn of 2020.

- Scottish exporters reported trade with EU customers running at around a 20-25% of normal levels in January, improving towards 40% of previous levels in February, reflecting the added cost, complexity and risk of exporting. Beef export revenues from sales to the EU are estimated to have fallen from around £6.7m in the first two months of 2020 towards £2m in early 2021.

- In the 12 weeks to February 21, retail demand for fresh beef remained strong according to the latest Kantar data, with spending up nearly 18% year-on-year. This compares with a high of 26% in the 12 weeks to mid-May 2020 and a low point of 11% in the 12 weeks to the end of October. The share of households buying fresh beef remained elevated (+4%), and households bought it more often too (+9.5%). A slightly reduced average retail price supported demand, with no sign of increased farmgate prices passing through the supply chain.

- In the Irish Republic, prime cattle slaughter has been running sharply behind year earlier levels in the first quarter, falling nearly 15% behind 2020 in the 11 weeks to March 20th. While some of this may reflect weak foodservice sector demand in export markets, the Irish December census signalled a very large decline in availability of older prime cattle and a significant decline in those aged 12-24 months.

- Irish R3 steer prices began the year by picking up around 2% in the first half of January, but had lost this by late February. Through March the market has risen again, coming within 0.6% of its January high point in the third week of the month. Having spent much of the time between July and January 4-9% higher than a year earlier, the year-on-year lead softened to 2-3% in February and March.

- Currency movements have seen Irish R3 steer prices perform differently when quoted in sterling. After ending 2020 and starting 2021 at around 340-42p/kg, this has fallen to 326-28p/kg since mid-February. As a result, prices have gone from around 10% higher than a year earlier as 2021 began to trailing by 3% in the third week of March.

- Scotland's R3 steer price premium over Ireland went from averaging around a fith in November to 12% at Christmas. However, this lead has reopened progressively in the first quarter of 2021, reaching 22% in the third week of March. The weekly average for 2020 was 14.1%.

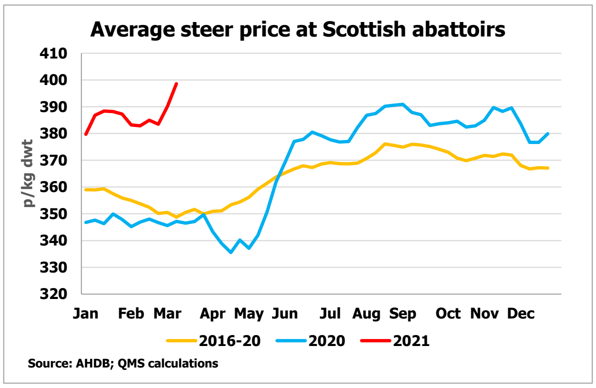
- Across the EU as a whole, R3 young bull prices have edged higher in the first quarter of 2021, rising around 2%. This followed a rise of nearly 4% in the month leading up to Christmas and has seen prices track around 3% above early 2020 levels. However, the discount to Scottish levels has grown. The EU average for O3 cows rose by 6.5% between late January and mid-March, going from 2% behind 2020 to 8% in front.

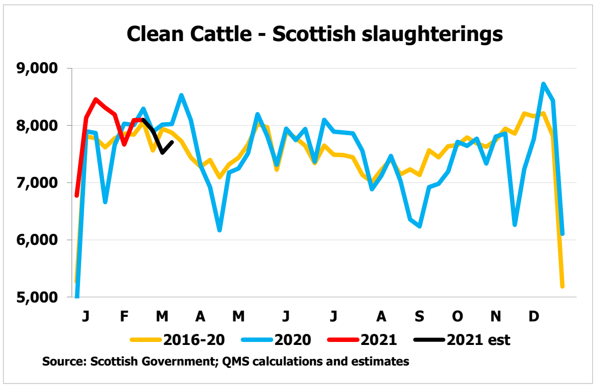
- In the US, steer prices have been trading around 10% higher than in the autumn since the beginning of February and, in mid-March, this has seen them push above year earlier levels for the first time since early 2020. At around $4/kg, prices are around their average level over the past five years. Due to a weakening US dollar, US steers have only risen slightly above their autumn average when quoted in sterling, trading at 288p/kg in the third week of March. Meanwhile, they still lagged year earlier levels by 10%, with a stable discount of around 12% to Irish prices and a growing 28% discount to Scottish levels.

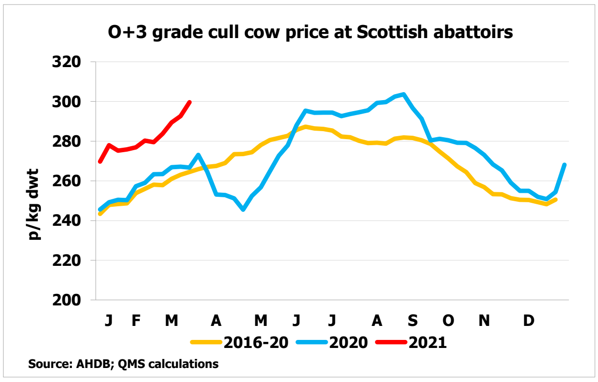
- US cattle by-product values have continued to recover in early 2021, rising by around 10% between the start of the year and third week of March, making the fifth quarter of the animal around 50% dearer than at its low point in May 2020, and around a fifth higher than in March 2020. A recovery in global manufacturing has boosted hide values while tallow prices have been supported by stronger crude and vegetable oil markets. By-product has reached the equivalent of around 16p/kg liveweight.

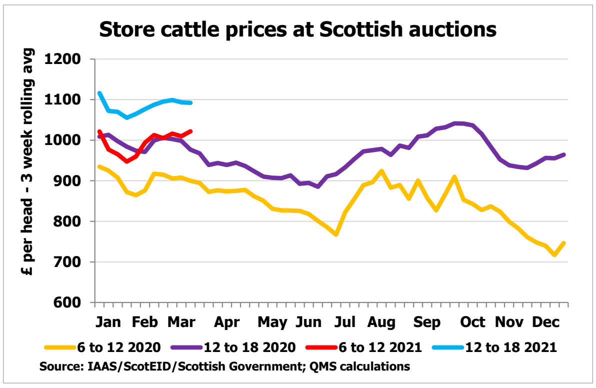
- The main store cattle spring selling period has begun without dampening prices. Having averaged £1,002 in February, 6-12-month steers sold for £1,022 in the first three weeks of March, while 12-18-month steers edged up from £1,090 in February to £1,092 in March. Having traded 9-10% above year earlier levels in February, year-on-year increases have picked up to 13-14% in March, with slightly stronger uplifts for the younger group in both months. Marketings have risen from 2020.

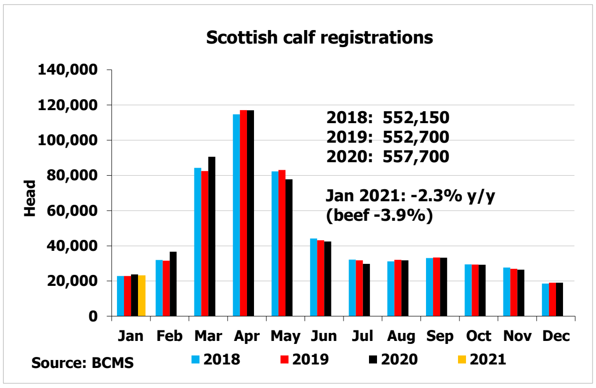
Cattle Charts

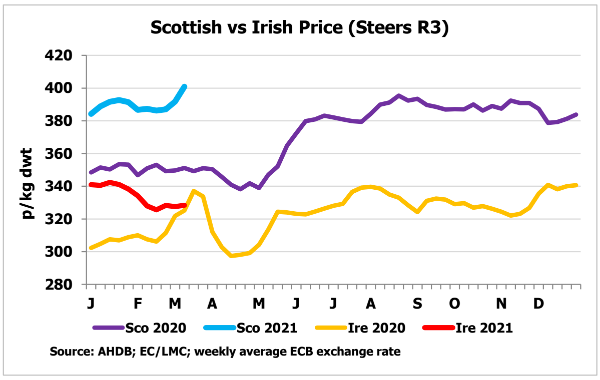


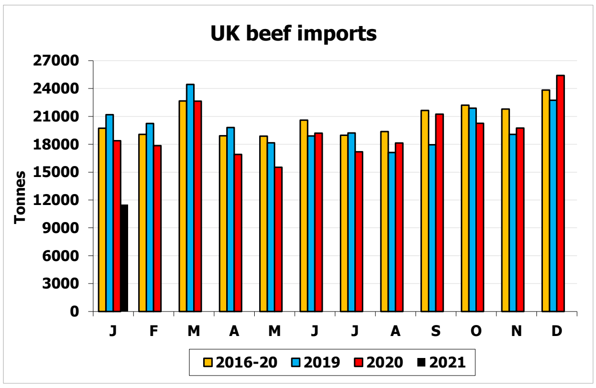


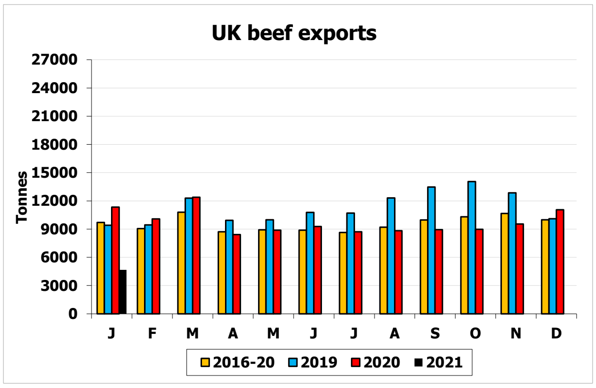












Sheep Update

- Despite being more exposed to reduced export activity than the beef or pork sectors due to the historic level of exports to the EU, the prime lamb market has made an exceptional start to 2021, spending much of the time above its early season peak.

- Having climbed sharply over the festive period, prime lamb prices have trended steadily higher at Scottish auctions through the first quarter, following a similar trend to that seen in recent years. However, prices have slipped back from a peak around the 290p/kg mark for lambs weighing 25.5-45.5kg lwt in sales from March 4-15 back towards the 280p/kg mark in the second half of the month.

- Some of the reduction in the average lamb price in the second half of March has reflected sharper price falls for light and standard weight hoggs, particularly at sales in the South West of Scotland, with medium 39.1-45.5kg hoggs holding up better and showing little difference in prices between the weeks ending March 17th and 24th.

- During Q1, lamb prices have mostly been around 15% above 2020 levels, while the lead over the five-year average has been fluctuating around 35-40%. However, the lift over 2020 has surged to around 60% since March 22, reflecting the collapse in the market from around 240p/kg to 175p/kg in late March 2020 as the pandemic hit.

- At reporting GB abattoirs, hogg prices continued to climb through the first three weeks of March, reaching an average of 638.6p/kg for carcases weighing 12-21.5kg. This is around a third higher than in the run up to Christmas and 17% above the early season peak from May. While the upturn since December has been similar at Scottish auctions, auction prices were a softer 7% above their May peak in late March.

- In Scotland's December census results, the number of lambs left on Scottish holdings was 1.2% lower than in December 2019. However, with an increase of over 14% in the number being held back for breeding, the total number of hoggs for slaughter was down 2.4% from a year earlier. Given the 2% increase in the June lamb crop and higher store lamb marketings in the autumn, this highlights how the early marketing schedule in 2020 has resulted in a tight supply in the first quarter of 2021.

- In England, where the June lamb crop was 1% lower in 2020 than in 2019, early marketing saw total hogg numbers on farms fall 5.5% on a year earlier in December.

- Early marketing in 2020 has seen the number of lambs sold at Scottish auctions in early 2021 struggle to match the August to December average, whereas on a five-year average basis, numbers were around 5-10% higher than August to December levels in February, rising to 15-20% higher in March. After continuing to exceed year earlier levels in January, sales trailed 2020 by 8.6% in the six weeks to March 17th.

- At GB sales, marketings have fallen short of year earlier levels for much of the first quarter and were down by 8.4% in the six weeks to March 17th.

- However, marketings did then exceed 2020 by nearly 50% in Scotland and 41% at GB level in the week to March 24th. This reflected the market crash of late March 2020 as the market rebalanced due to the pandemic, and buyers exited the market until April.

- A consistent feature since mid-July 2020 has been a slightly higher average price at E&W marts than in Scotland, with a weekly average difference of 1%. However, this gap has widened towards 2% since mid-February.

- After rising significantly in the run up to Christmas, prime sheep slaughter at Scottish abattoirs was at its lowest levels for the time of year since 2017 and 2018 in January and February. It averaged 22,300 head per week in the eight weeks to February 27, compared to a pre-Christmas peak around 32,000 head for a fortnight in December, and 26,100 head in the same period of 2020 – a year-on-year reduction of nearly 15%.
- Lower slaughter at the beginning of 2021 at Scottish abattoirs is likely to reflect both the reduction in availability of hoggs but also reduced export activity.
- At E&W abattoirs, slaughter numbers have also been lower than 2020 in the first two months of the year, down by more than 14%. January had two fewer slaughter days, but February numbers were down by 8% across the same number of processing days. This is likely to reflect early marketing of a smaller lamb crop this season.
- Prime sheep slaughter trailed 2019/20 levels by 4.3% at Scottish abattoirs between June 2020 and February 2021, totalling 937,400 head. By contrast, the kill over the same period in E&W was still marginally higher despite a smaller lamb crop, suggesting increased cross-border movement for slaughter over the course of the season.
- Lamb carcase weights at Scottish abattoirs ended 2020 averaging around 1% above 2019 in November and December at 20.5kg. In January, weights slipped back below 20.5kg, dropping them back behind year earier levels by 0.9%, before a lift to 20.7kg in February took them 1.1% above year earlier levels.
- Cull ewe auction volumes at Scottish marts have been relatively stable in the first quarter of 2021, ranging from 5,200 head up to a peak of 7,100 head, with a slight upwards trend in the lead up to this peak in the week to February 24, and a downwards trend thereafter. In the four weeks to March 24, numbers averaged just over 5,950 head, compared to a peak of around 10,500 between mid-August and mid-October. In the six weeks to March 17, numbers were 1.9% higher than last year.
- Defra slaughter statistics pointed to a sharp fall in GB ewe slaughter of over 15% in 2020, with the declines accelerating to -33% in the opening two months of 2021.
- After opening the year around the £75 mark, cull ewe values surged in the second week of the year, averaging above £88.50. However, values then trended lower, slipping slightly below their starting point for a fortnight at the beginning of February. After edging towards £77 in the second half of February, prices then climbed through March, trading at £88 in the weeks to March 17th and 24th. With the start of Ramadan fast-approaching, values have climbed further in the final week of March.
- In the six weeks to March 10th, cull ewe prices traded around 5% behind 2020 levels. This gap then nearly tripled in the week to March 17th – a week in which values had surged to £107 last year. It is interesting to note the relative weakness of the mutton compared to lamb in 2021, possibly reflecting greater sensitivity to the export trade. However, the ewe price then crashed along with the lamb price last year, more than halving to £53 in the final week of March.
- In the 12 weeks to February 21, Kantar report fresh lamb sales across GB retail to have grown by nearly 22% year-on-year, which was its fastest growth rate since the summer (+26% in the 12 weeks to August 9th and +23% in the 12 weeks to September 6th), and up from around 18% in the autumn. The share of households buying fresh lamb jumped to almost 32% compared to under 28% a year earlier, but the frequency of purchase was only slightly higher. Despite surging farmgate prices, retail price inflation has been weak, slowing to 1.5% having peaked above 8% last summer.

- According to Kantar, the growth in spend on frozen lamb in the GB retail sector reached a new high of close to 50% in the 12 weeks to February 21, nearly double the summer 2020 peak. However, the proportion of households buying frozen lamb during the period remained very low, at under 4%.

- After edging back above year earlier levels in August and rising significantly in September and October, UK sheepmeat import volumes reported by HMRC returned to decline in November and December, falling slightly faster than the calendar year decline of 4.5%. Against the five-year average, volumes were down by an average of 13.5% in the final two months. Moving into January, volumes almost matched year earlier levels, but trailed the five-year average by 30%.

- In the final quarter of 2020, NZ lamb slaughter increased by 2% on a year earlier. However, with a reduced lamb crop and expectations of flock rebuilding, the January slaughter total fell by nearly 14% on a year earlier, bringing slaughter behind year earlier levels by 3.6% in the first four months of the 2020/21 season.

- Beef + Lamb NZ reported a 26% fall in exports to the EU + UK in February 2021, in part reflecting a jump in February 2020 when covid-19 had resulted in a short-term diversion of product away from China. Nevertheless, volumes sent to Europe were down even more steeply on the five-year average (-35%), reflecting the rebalancing of NZ trade in recent years. Total NZ lamb exports in February fell 3% from 2020.

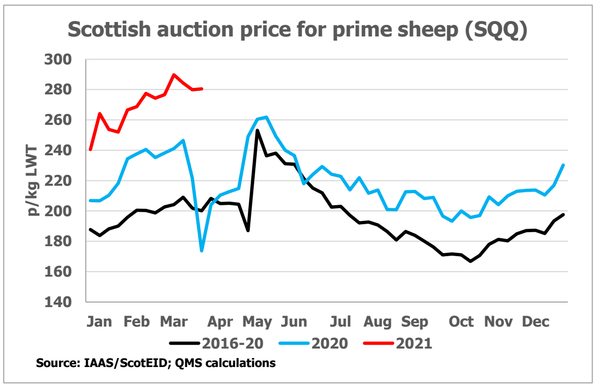
- On the export side, UK sheepmeat sales to the EU held up better than beef or pork in January, falling by 42.4% to just over 3,700t. While trade with non-EU countries also declined, it fell at half the rate of sales to EU customers, slipping to less than 360t.

- While the decline in shipments of sheepmeat to the EU in January will reflect the increased cost and complexity of selling into the EU single market from the outside, some of the decline will have also been down to reduced import demand from foodservice operators in the EU. Furthermore, there was a sharp increase in export volumes in December, likely down to some traders taking the option of moving additional product before the introduction of customs procedures on January 1st.

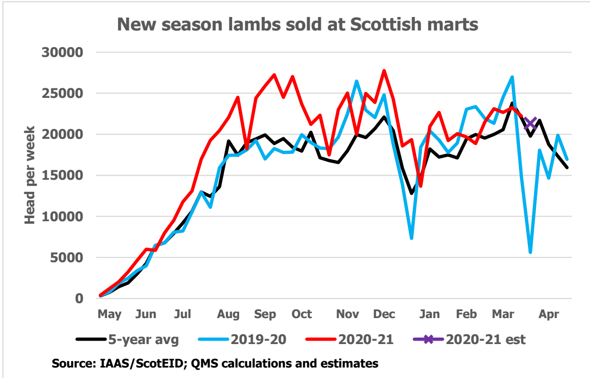
- After contracting by 17% year-on-year in the autumn, UK sheepmeat exports to the EU had jumped to exceed year earlier levels by 7.4% in December 2020, and if you look at combined volumes for December and January, they were below year earlier levels by a similar proportion to the autumn, down 14%.

- The French market for lambs has followed its traditional seasonal trend in the first quarter of 2021, falling back until mid-February and then climbing in the run up to Easter. After three weeks of small increases, there was a more notable lift in the third week of March, taking the price of heavy lambs to its highest of 2021-to-date and 9.5% above the same week in 2020. Heavy lambs were equivalent to 624p/kg.

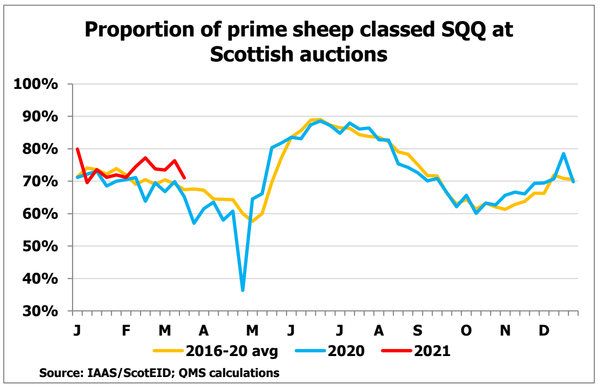
- After increasing 15-20% between mid-December and mid-January, the wholesale price of imported R grade lamb carcases at Rungis market in Paris stabilised for six weeks at €7/kg, before rising steadily through March to reach €7.70/kg late in the month. This is around 12% above the pre-Easter peak in April 2020. However, given a GB deadweight price equivalent to €7.45/kg in the week to March 21 and the increased cost and complexity of exporting to the EU, it suggests there is little margin available for GB traders.



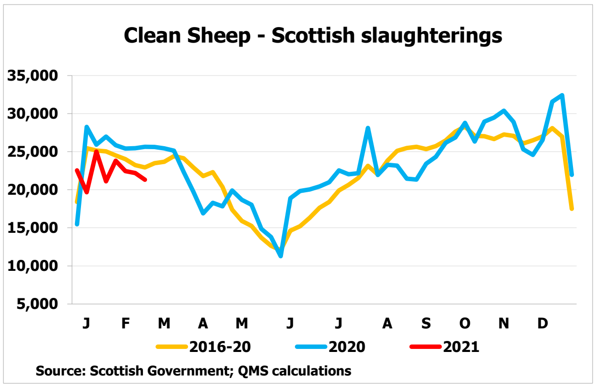
Scottish auction price for prime sheep (SQQ)
300
280
260
240
220
200
180
160
140
p/kg LWT
Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec
2016-20
2020
2021
Source: IAAS/ScotEID; QMS calculations



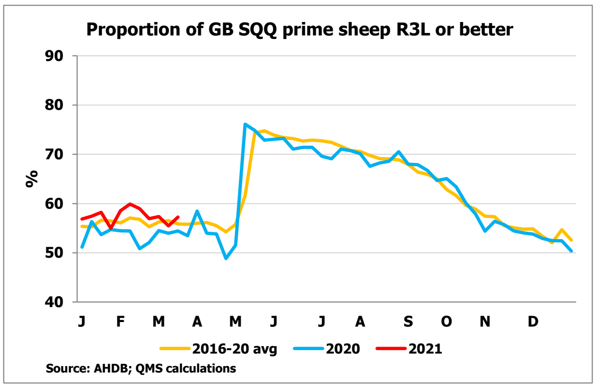
New season lambs sold at Scottish marts
30000
25000
20000
15000
10000
5000
0
Head per week
May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar Apr
5-year avg
2019-20
2020-21
2020-21 est
Source: IAAS/ScotEID; QMS calculations and estimates



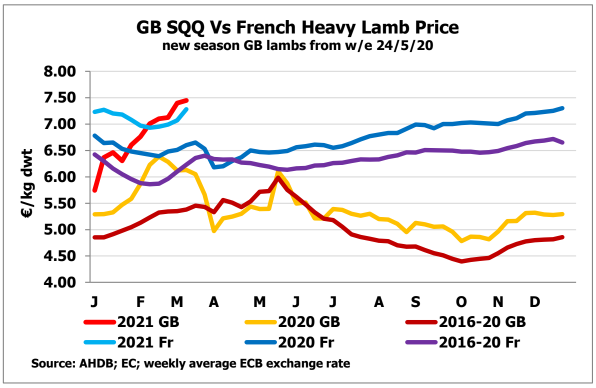
Proportion of prime sheep classed SQQ at Scottish auctions
100%
90%
80%
70%
60%
50%
40%
30%
J F M A M J J A S O N D
2016-20 avg
2020
2021
Source: IAAS/ScotEID; QMS calculations



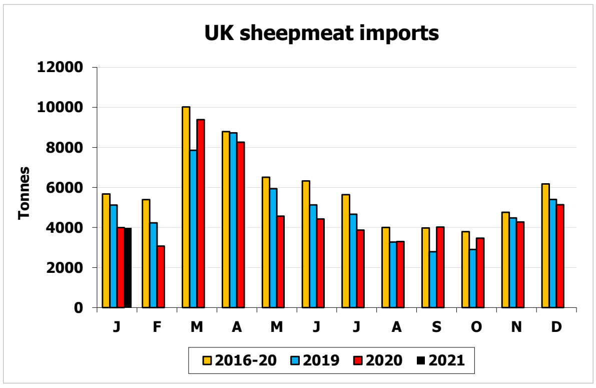
Clean Sheep - Scottish slaughterings
35,000
30,000
25,000
20,000
15,000
10,000
5,000
J F M A M J J A S O N D
2016-20
2020
2021
Source: Scottish Government; QMS calculations



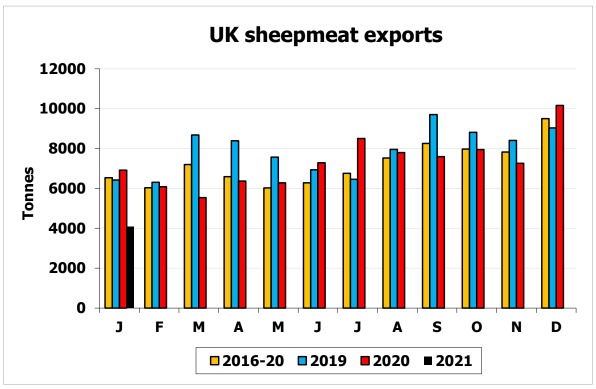
Proportion of GB SQQ prime sheep R3L or better
90
80
70
60
50
40
%
J F M A M J J A S O N D
2016-20 avg
2020
2021
Source: AHDB; QMS calculations



GB SQQ Vs French Heavy Lamb Price
new season GB lambs from w/e 24/5/20
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



UK sheepmeat imports
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



UK sheepmeat exports
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

Pigs Update

- After a very challenging autumn and winter, the pig market is showing signs of a traditional seasonal rebalancing in the spring, with the GB Standard Pig Price (SPP) beginning to slowly recover from its low point.

- Having declined by around 11% between the mid-July 2020 market peak and the end of 2020, there was a further decline of nearly 5.5% in the average price for carcases weighing 70-104.9kg by the final week of February. This saw prices slip to a low point of just under 140.4p/kg, compared to a 2020-high of 166.3p/kg and 148.5p/kg at the year-end. Prices firmed slightly in March, reaching 140.9p/kg in its third week.

- Given a much more stable market in early 2020, the price discount to year earlier levels at reporting abattoirs widened from just under 10% in the final week of 2020 to a peak decline of -14.9% in the third week of February. While the declines have eased in March, they were still at 14.4% in the third week of the month.

- However, the market had been strong in early 2020 so the decline relative to the five-year average has been much smaller, running at around -1.5% in February and March.

- One indicator of a substantial backlog of pigs on farms over the winter months was a significant year-on-year increase in carcase weights. Through January and February, carcase weights in the SPP reports were averaging above 90kg and around 5% higher than in early 2020. With inroads being made into the backlog, weights have fallen in March, dipping towards 89kg and 4% heavier than in 2020. In the first eight weeks of the year, 5.7% of carcases weighed above 105kg, dipping to 3.9% in the three weeks to March 20; though still well above the 1.4% in the same period last year.

- Heavier carcase weights than last year have seen the overall average carcase price in the SPP fall slower relative to 2020 than per kilo prices, ending 2020 down 5% and accelerating to -10.3% in the same week as the peak per kilo price decline. However, the fall in carcase weights through March has seen carcase prices continue to slide, and the year-on-year decline widened to 11.1% in the week to March 20, with prices at £124.34 compared to just over £125 in late February. In contrast to per kilo prices, this remained above the five-year average, by 3.8%.

- 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 2.4% in prime pig throughput at UK abattoirs in Q4 2020 at a time when increased supply had been forecast. Moving into 2021, slaughter numbers fell sharply on a year earlier in January at GB abattoirs, by 13.4%, in part down to two fewer processing days, before rebounding higher than 2020 levels by 6.4% in February.

- While the increase in slaughter from 2020 in February may have helped reduce the backlog, one is likely to have remained given an overall reduction in slaughter of 5.1% in the opening two months. However, the weekly average kill at abattoirs reporting into the SPP rose 6% in the three weeks to March 20 compared to February which, along with reduced weights, suggests inroads have now been made.

- At Scottish abattoirs, prime pig slaughter fell by nearly a quarter on 2020 levels in the eight weeks to February 27th. After one full processing week in January, numbers were reduced for four weeks due to covid-19 outbreaks in processing sites, with the final week of January and first week of February seeing reductions of around 80% on last year and the weeks either side nearly 30% lower than last year. However, slaughter then surged in the second half of February, averaging 7,700 head per week and 8% higher than last year, beginning to reduce the backlog of slaughter-ready pigs on Scottish farms

- While prime pig slaughter recovered at the end of February, sow slaughter remained at a minimal level at Scottish abattoirs, compared to an average of around 400 per week in early 2020.

- At GB abattoirs, sow slaughter fell by nearly 30% year-on-year in January, before recovering in February and jumping a fifth above 2020 levels. Over the two months, numbers fell in line with prime pig slaughter, down just over 5%.

- Kantar data for the 12 weeks to February 21st unsurprisingly points to a renewed upturn in GB retail spending growth on pork as public health restrictions tightened. The growth rate in retail spending on fresh pork climbed to around 26% compared to around 16% in the autumn, returning it to the highs of last summer. Meanwhile, the surge in spend on frozen pork also returned to its highs. Sales growth for fresh pork was supported by a higher share of households buying and to a slightly lesser extent, the frequency of purchase. Meanwhile, retail price inflation slowed, as falling farmgate and import prices passed through the supply chain.

- Sales of processed meat products reported by Kantar showed no uplift in year-on-year growth over the winter despite a strong increase in the frequency of purchase. Growth in spend on cooked meats, bacon rashers and sausages held around the 12-16% band in which they had been in the 12 weeks to the end of November.

- After a weak November, UK pigmeat exports rebounded in December, with most of this driven by a recovery in exports to non-EU countries. However, there was a small increase in sales of pork to EU countries ahead of the change in trade rules on January 1st, but this was much less significant than in the beef or lamb trade data. Export volumes went from being nearly 17% below 2019 in November to a rise of 22% in December, with volumes also exceeding the five-year average by 19%.

- Moving into January, UK pigmeat exports to the EU contracted by 64% from December. This left them 71% down on a year earlier, as pork trade contracted by 69% while sales of bacon & ham declined by 84%. Meanwhile, trade with non-EU countries also contracted, but at a slower rate of -27%.

- After recovering strongly in December from a sharp year-on-year decline in November, UK pork exports to China/Hong Kong once again fell heavily in the opening month of 2021, down more than 37% on January 2020. December had seen volumes grow at their strongest (56%) since July, having slowed below the calendar year increase of 44% in September and October, and then contracted by 12% in November. This volatility since the middle of 2020 may reflect the temporary loss of export approval of processing sites which had recorded outbreaks of covid-19.

- After rising by around a fifth between late November and mid-January, Chinese wholesale pork prices began to fall as the lunar New Year holiday approached. After the celebrations, the declines gathered pace, with a 12% reduction in the second half of February, before a more normal downwards seasonal trend took over in March, with a further 8% decline. As a result, in late March, pork is at its cheapest for 18 months and is down more than a fifth from March 2020. Nevertheless, it remains 68% dearer than its average for late-March between 2016 and 2018.

- In China, local analysts have indicated that the country's recovery in pig production production volumes has paused over the winter, with outbreaks of a new variant of ASF leading to renewed contraction in the breeding herd. As a result, import demand may hold up more than had been previously forecast, and for longer. In an indication of a generally tight protein supply, beef and lamb traded 9% and 13% dearer than last year on the wholesale market in late March while chicken was 5% more expensive.

- UK pork imports from the EU spent much of 2020 running 10-15% behind 2019 levels. However, volumes were more stable in November and December, after reaching their highest levels of the year. After dipping 2-3% lower than 2019 in September and October, the average value of pork imports from the EU fell nearly 7% below 2019 levels in November and was then 17% cheaper in December, with the reduction in EU farmgate prices passing through the supply chain.

- In January, pork imports then nearly halved on the month and year, reflecting a well-supplied home market. Imports remained much cheaper than 12 months before, down nearly 16% on average.

- EU pig prices have been resurgent since the end of January, with the average grade E carcase price climbing 21% in seven weeks and recovering to its highest level since the second of 2020's four downwards price shocks in July.

- While EU pig prices continued to trade around 30% lower than last year through February, the declines have narrowed in March, easing to 18% in its third week.

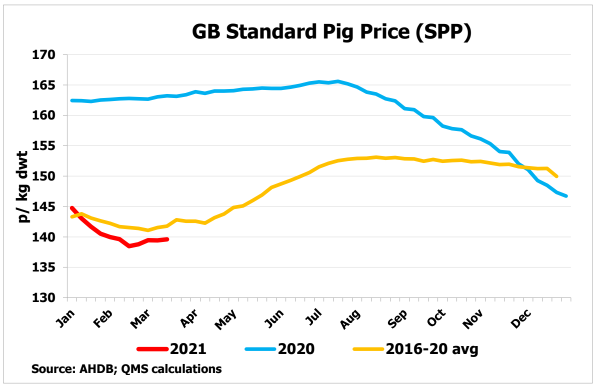
- Meanwhile, the deficit to the GB SPP has closed to within 5% compared to an average of 19% between July and the end of February, with EU prices climbing from a low of 113p/kg in early February to 133p/kg in March's third week. Weekly prices forecasts for Germany point to a stabilisation in late March.

- Recovering EU prices will have had an impact on negotiations in the supply chain, particularly in price sensitive food manufacturing markets, with limited room to undercut domestic produce with cheaper imports.

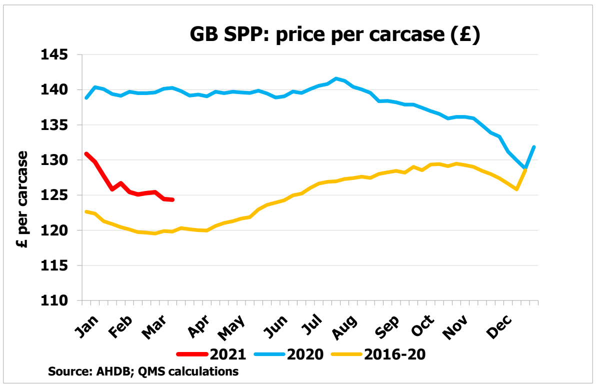
- Nearby feed wheat futures have settled below their January peak of £211/t, falling to around the £200/t mark in the third week of March. Nevertheless, this is still around 5% higher than in November and 30% more expensive than a year ago. In North East Scotland, ex farm prices for feed wheat peaked above £200/t in late January and again in early March, but had slipped to £196.50/t on March 26th. This makes it 9% dearer than in November and up 30% on the year. Feed barley has risen more strongly since the autumn, narrowing its discount to wheat, likely due to some substitution away from the relatively dearer wheat. At £161/t in North East Scotland on March 26th, barley was nearly a fifth more expensive than in November and up 31% on the year.

- While the grain market remains elevated, soyameal prices have fallen sharply from their January highs, going from a peak of around £460/t back down towards £380/t in late-March. Given considerable volatility in global currency markets in March 2020, prices may be about to fall behind year earlier levels having been up close to 50% on a year earlier in January. Harvest prospects in Brazil have brightened, while forecast levels of Chinese import demand have reduced after reports of a resurgence in ASF.

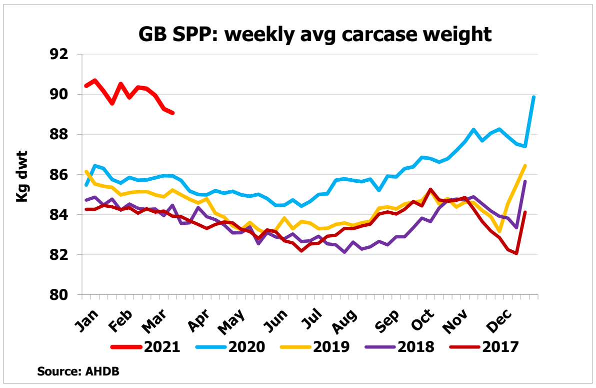
_Pig Charts



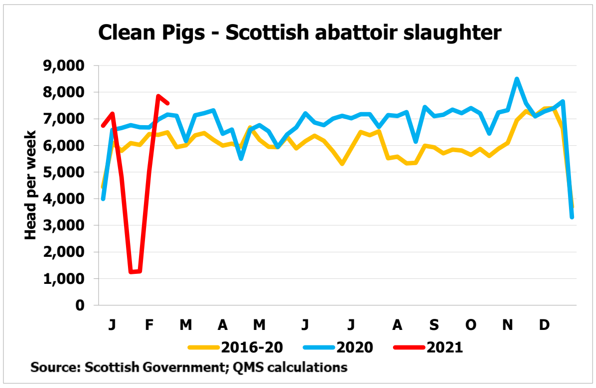
GB Standard Pig Price (SPP)
p/ kg dwt
170
165
160
155
150
145
140
135
130
Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec
2021
2020
2016-20 avg
Source: AHDB; QMS calculations



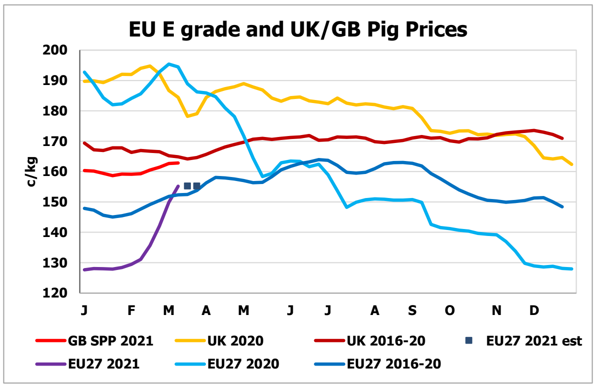
GB SPP: price per carcase (£)
£ per carcase
145
140
135
130
125
120
115
110
Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec
2021
2020
2016-20
Source: AHDB; QMS calculations



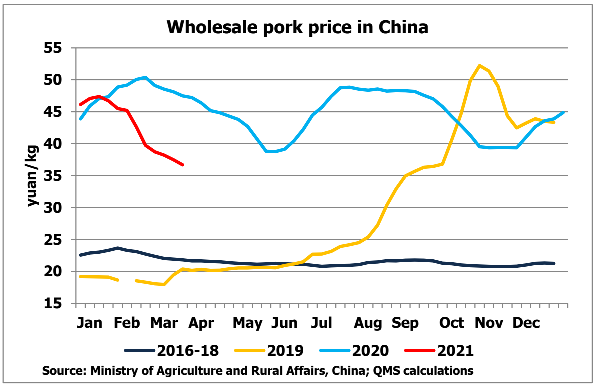
GB SPP: weekly avg carcase weight
Kg dwt
92
90
88
86
84
82
80
Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec
2021
2020
2019
2018
2017
Source: AHDB



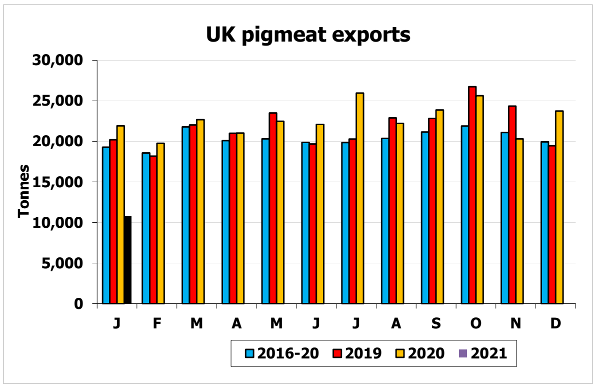
Clean Pigs - Scottish abattoir slaughter
Head per week
9,000
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000
0
J F M A M J J A S O N D
2016-20
2020
2021
Source: Scottish Government; QMS calculations



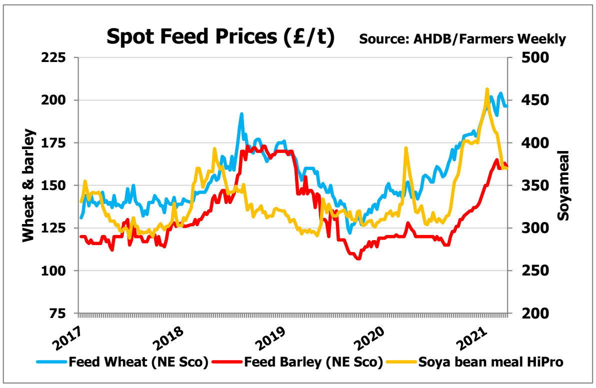
EU E grade and UK/GB Pig Prices
c/kg
200
190
180
170
160
150
140
130
120
J F M A M J J A S O N D
GB SPP 2021
UK 2020
UK 2016-20
EU27 2021 est
EU27 2021
EU27 2020
EU27 2016-20



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
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



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 the weakness of the UK service sector in early 2021 due to public health restrictions. Having been slightly below the index score of 50 indicating no change in late 2020, the service sector dipped below 40 in January, but it did recover towards 50 in February. In contrast, the manufacturing sector continued to expand, with scores of around the 55 mark being slightly softer than at the end of 2020, when firms had been building stockpiles of completed goods due to EU exit. Construction activity firmed in February as businesses re-started delayed projects, but costs were up sharply due to global increases in shipping costs and raw material prices, while problems with global shipping capacity led to delays in the arrival of materials.

Provisional results for March signal a strong return to growth for services, approaching 57, with manufacturing picking up further, towards 58, as plans for a phased reopening of the economy boosted orders and transactions as business customers and consumers plan ahead.

After a reduction in employment in January, increased jobs in manufacturing almost offset further small declines at service providers in February. The decrease in services employment was the smallest since the pandemic began, supported by the furlough scheme plus some optimism towards the reopening of the economy, and the upturn in forward-looking demand in March has seen firms add to their labour force, with some reporting tight labour supply.

Scotland's composite PMI indicator remained in negative territory in the first two months of 2020 and although its deficit to the UK score widened again, it remained below the peak gap from last summer's more cautious reopening.

The tightening of public health controls in late 2020 led to a sharp rise in the number of people in the UK on furlough at the beginning of January, with the total rising above 5m compared to 4m at the year-end. However, there was a reduction at the end of January and a further fall of around 5% in February to 4.65m. Though almost double their low point at the end of October the total was still only slightly above half (52.5%) of the May 2020 peak.

In the Scottish Government's latest business survey results for 22 February to 7 March, only 33% of firms in accommodation and food services were currently trading compared to 80-90% between mid-August and mid-October. Of the firms in this sector still trading or temporarily closed, 92% had staff on furlough (83% of the firms still trading had staff on furlough), with 66% of staff furloughed. The proportion furloughed was close to double its autumn low point and more than three times higher than across all business sectors (21%).

Consumer Confidence and Spending

In February and March, GfK NOP reported significant improvements in UK consumer confidence, with net pessimism falling to its lowest levels since the start of the pandemic. Indeed, after a two-point dip in January, the index improved by five points in February and another seven in March, recovering to -16, nine points ahead of the previous high in September. The success of the UK vaccination programme, a pathway to fewer restrictions and prolonged extension of the furlough scheme are likely to have helped.

On balance, people now expect their finances to improve in the coming year, while pessimism around the general economic environment has reduced sharply. Negativity around making major purchases also eased further; though people are, on balance, still delaying large purchases and building savings.

According to the ONS, UK retail sales turnover contracted in January and February, down 7.1% and 4.4% respectively year-on-year. Spend in non-food stores was down by around a quarter, while sales in food stores rose by 4.7% in January and 7.3% in February, with the latter being the strongest since May 2020 and around double the July to October average. Online spending growth jumped to 47-48% compared to 42% in Q4 2020, returning close to its June 2020 peak of 50.6%.

Exchange Rates:

	w/e 28/3/21	February 2021			w/e 29/3/20	February 2020		
		Low	High	Avg		Low	High	Avg
€:£	86.1p	86.0	88.2	87.3	91.5p	83.0	85.3	84.1
$:£	72.6p	70.8	73.4	72.1	84.1p	76.6	78.3	77.2
NZD:£	51.0p	51.6	52.7	52.2	49.1p	48.6	50.0	49.3

Sterling rose by around 2% against the euro between the beginning of the year and the end of January and then increased by a further 2% in February before proving more stable in March. This move has been linked to the relative success of the UK's vaccination programme, raising optimism around economic prospects and the investment outlook, and reducing the probability of a further cut in interest rates to zero or below. However, a number of analysts are suggesting that sterling has now become overvalued relative to economic fundamentals.

With a euro buying around 86p, this is the strongest sterling has been since the end of February 2020, after which it rebalanced sharply as financial market participants became concerned about the potential impact of coronavirus on economic prospects. While an historically weak sterling has continued to underpin the competitiveness of domestic product at home and overseas, exports are facing greater trade frictions than imports in early 2021.

The NZ dollar continues to see support from the much reduced level of public health restrictions compared to other developed economies. However, after weakening in November and then steadying for two months, sterling has seen some recovery more recently.

A consistent downwards trend in the US dollar from September to February has come to an end in March now that the new Administration's economic stimulus measures have begun to filter through to the economy. While the central bank is expected to maintain its supportive monetary stance in the short-to-medium term, the scale of the stimulus will have analysts looking out for signs of inflation and subsequent changes in the central bank's outlook.

Iain Macdonald, March 2021