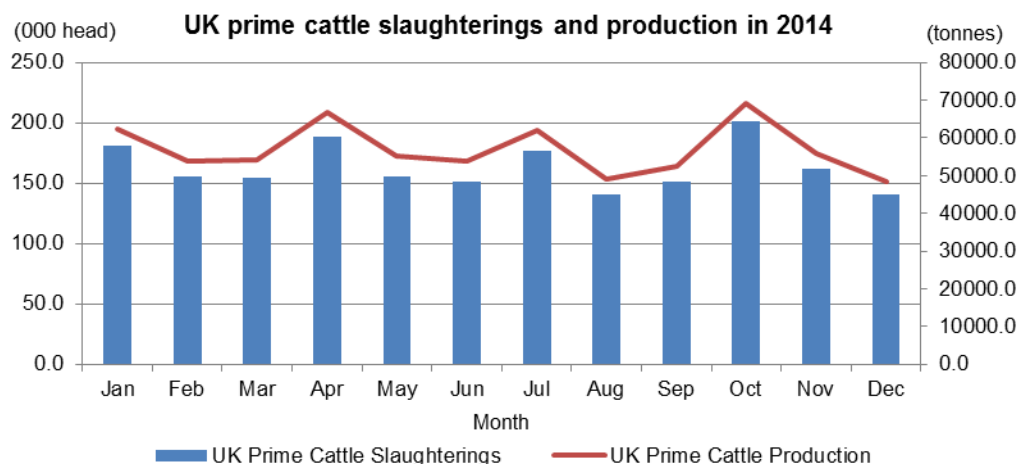


HCC Market Bulletin – February 2015

UK produces more red meat in 2014

UK beef and veal production in 2014 was ahead of that in 2013, due to higher prime cattle slaughterings and heavier carcass weights. The total number of prime cattle slaughtered at UK abattoirs in the year increased almost 2% on the year to 1.96 million head, this uplift came largely as a result of an 8% increase in steer throughputs, however was offset by a 15% decline in young bull slaughterings and heifer numbers broadly levelled, despite increased numbers in England and Wales. These developments meant the slaughter mix of prime cattle in the UK notably changed last year compared with earlier years. Steers made up over 50% of the prime cattle slaughter mix for the first time since 1997, whilst young bulls accounted for their lowest proportion of the kill since 1990.



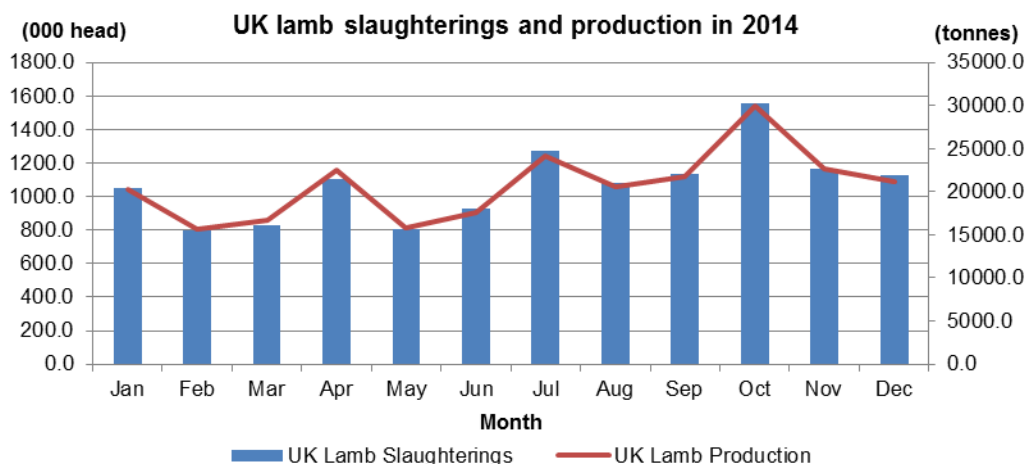
On the back of improved conditions and lower feed costs carcass weights for steers and heifers increased on the year, up 3kg and 9kg per cent respectively at 360.7kg and 315.9kg. Young bulls weighed on average 325.2kg, a drop of 14kg on the year, possibly a reflection of earlier finishing on the back of the significant age and weight penalties during last year. The combination of increased prime cattle slaughterings and carcass weights resulted in production from prime cattle increasing 4% on the year to 684,000 tonnes.

The UK adult cattle kill for 2014 fell almost 2% to total 597,000 head, with reduced numbers evident in all regions of the UK. The difficult weather conditions in 2012/13 had an impact on adult cattle supplies, high prices and limited supplies of feed, leading to an increase in slaughterings in 2013. The better situation in 2014 meant while culling's slowed down, producers were able to add some finish to those cows and consequently cull cows carcass weights averaged 302.4kg, 1kg higher than in 2013 and offsetting lower slaughter numbers. As a result production from adult cattle was actually up over 1% on the year at 188,700 tonnes. Overall total UK beef and veal production was up almost 4%, or 31,000 tonnes, on the year to 878,000 tonnes.

With increased domestic production and increased imports the volume of beef on the UK market was higher than previous years for much of 2014. These increased supplies, at times, met a lacklustre demand, as the fine weather and strong prices discouraged consumers from purchasing beef. As a result the supply/demand balance was, on occasion, out of kilter and unfavourable for producers, with farm-gate beef prices coming under serious and sustained pressure for a large part of the year. Looking forward, UK prime cattle supplies are forecast to tighten this year, due to the long term declining beef breeding herd and reduced numbers of two year old cattle on the ground, which to some extent may support the market. However, current issues in the dairy sector could result in more beef coming onto the market, which could offer some downside risk to the trade.

Increased lamb throughputs and heavier carcass weights helped drive up UK sheep meat production in 2014. The larger lamb crop experienced in 2014, resulted in UK lamb slaughterings increasing 3% on the year to 12.85 million head, some 420,000 more lambs than 2013. During the New Season Lamb period between June and December lamb throughputs were reportedly up 5% on the previous year, whilst there were fewer slaughterings during the Easter trade in March and April. Good growing conditions and better feed availability enabled producers to gain heavier lamb carcass weights, with the UK average standing at 19.4kg, 0.5kg heavier than the previous year.

In conjunction with higher slaughterings, the heavier carcass weights witnessed through UK abattoirs resulted in UK lamb production increasing 5% on the previous year to 248,900 tonnes. This was despite cull ewe and ram slaughterings tracking 13% behind year earlier levels at 1.81 million head, due to less impetus to reduce breeding flock sizes, lower numbers were somewhat offset by increased carcass weights in adult sheep which were up 1.5kg on the year averaging 27.3kg.



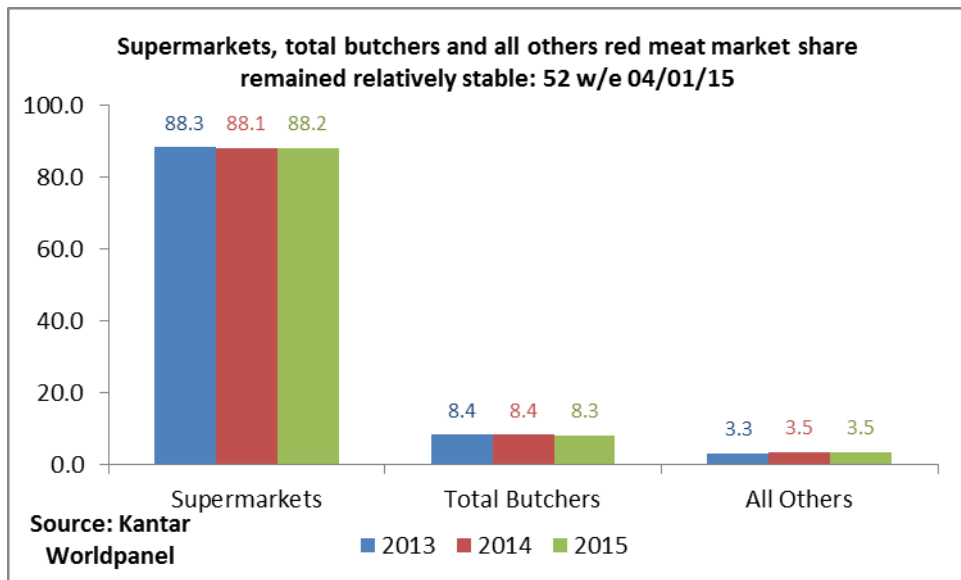
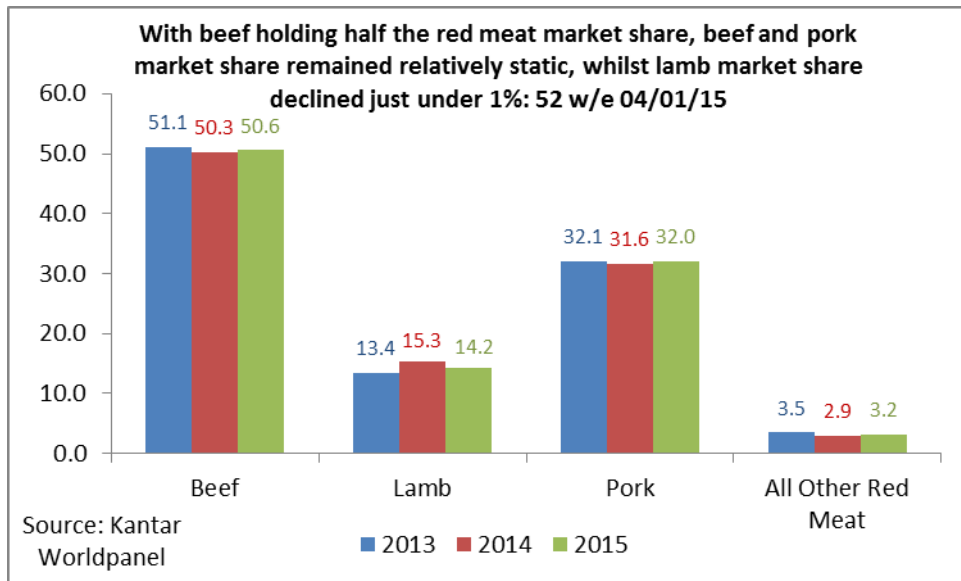
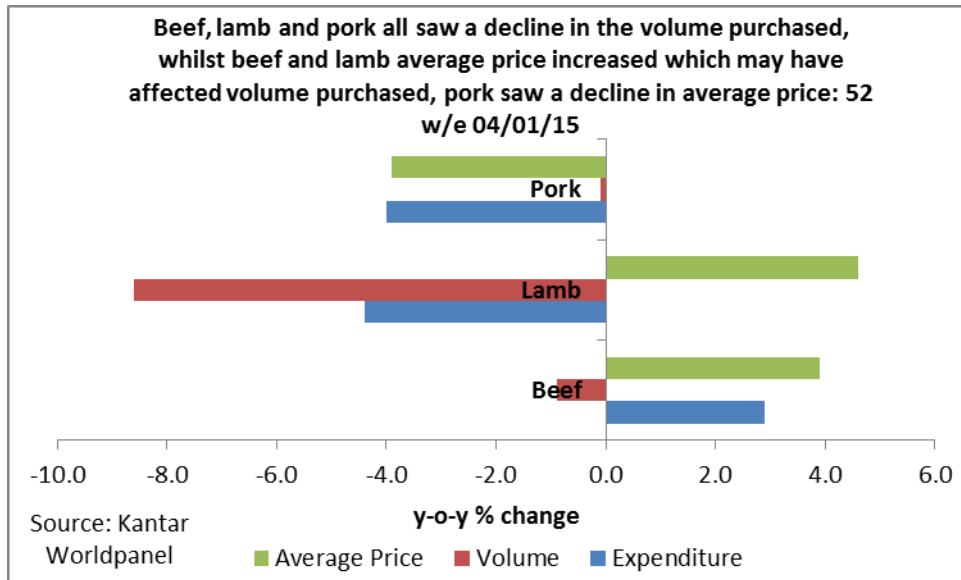
Whilst there are some questions remaining on how many lambs will have been carried over into 2015 as producers aim to target heavier weights to maximise price, it is important to remember most abattoirs set a maximum level for carcass weights. As a result, going above these weights could lead to penalties and reduced profits

UK clean pig slaughterings increased for the fifth year in a row in 2014, taking them to their highest level since 2002, to 10.22 million head. This was 2% higher than the figure for 2013 and came despite throughputs being little changed in the first four months of the year. Pig numbers gradually increased from the spring onwards, with November's average weekly kill of 216,600 head the highest since December 2000. With the breeding herd broadly stable, the increased kill was largely due to improved productivity. The relatively benign weather conditions over the last year also helped, improving growth rates and reducing mortality.

As with cattle and sheep, the weather was also a key factor in the notably heavier carcasses last year, along with relatively low feed prices. These two factors combined enabled average clean pig carcass weights to increase by 1.7kg to 80.9kg, which was the highest on record.

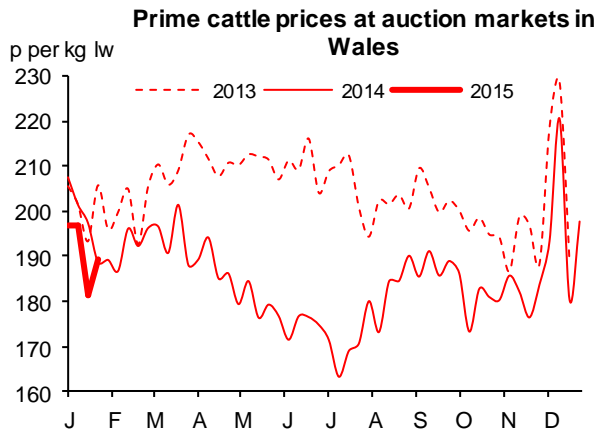
Despite adult sow and boar slaughterings being down 4% on the year, at 242,600 head. With more clean pigs slaughtered at heavier weights, UK pig meat production was up 3% year on year, at 862,100 tonnes. Again, this was the fifth straight year of increases and took output to its highest level since 2000.

GB Consumption Statistics



Cattle

Prices



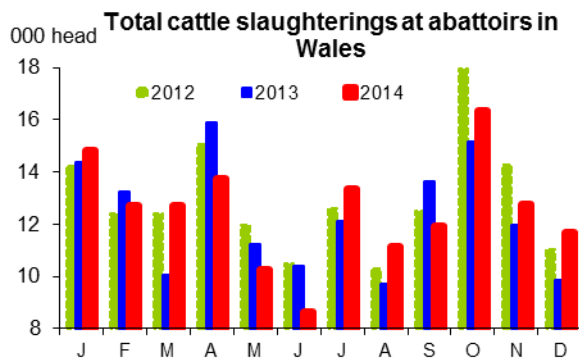
Prime cattle liveweight prices in Wales have eased slightly since the turn of the year. This reflects some seasonal movements in prices, with January normally being a month in which prices are more subdued as demand eases following the holiday season. Trade has generally been tracking below year earlier levels during the month so far. Despite this however, the differential is not as great as it was for large parts of last year and in week ended 24 January the average prime cattle price at Welsh auction marts was 189.4p/kg, a fraction ahead of the same week last year.

In comparison, the deadweight prime cattle trade has demonstrated some robustness in the year so far. In the first few weeks trading following the holiday period, despite estimates indicating that throughputs of steers are still higher compared with last year, prices have continued to move up. This indicates that

firmer demand is continuing to filter through to the market, with reports suggesting cattle with better conformation are more prevalent in the market place. In contrast demand for bulls, is reported to be a little slower, with significant penalties still in force for young bulls coming forward over 16 months of age. In week ended 24 January, at 360.7p/kg the overall England and Wales steer price had increased 4p since the turn of the year and almost 40p since end of August.

Despite expectations for a regular Christmas slowdown, the cow trade performed relatively well and has broadly levelled in January so far. Although trade is currently demonstrating robust demand, reports are starting to suggest that cow prices are becoming more wide ranging, as significant differentials are emerging between beef and dairy sired cows, especially for those with a good level of finish. While trade appears to be firm, it is possible that the challenges in the dairy sector may start to increase the number of cows coming forward. With estimates in the latest week suggesting the number of cows available was ahead on the year, however it is too early to ascertain a realistic picture of developments. At 236.7p/kg in the latest week, the -O4L cow average in England and Wales was above year earlier levels.

Slaughter



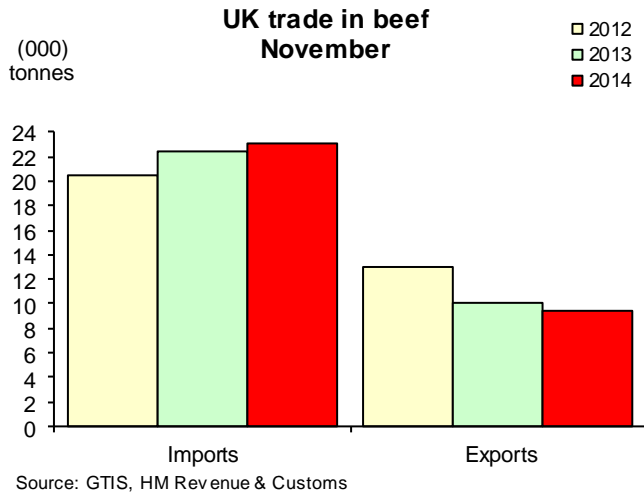
Source: Defra

Following the increased throughputs in October and November, cattle slaughtering at abattoirs in Wales in December were 18% ahead of year earlier levels at 11,700 head, with it likely that increased numbers of steers have driven this uplift. Production increased by over 19% to 3,300 tonnes, with the continuing trend in the year of increased carcase weights when compared to the corresponding month in 2013, as was the case in the rest of the UK.

Despite the festive disruptions, UK prime cattle slaughterings in December were up 3% on the year again at 140,500 head. Higher steer throughputs in all regions of the UK continued to primarily drive the year-on-year increase, although heifer numbers also tracked above year earlier levels except in Scotland. For another month,

young bull throughputs were back on the year to 12,500 head, down by over a third in comparison to December 2013 and the lowest monthly level recorded since records began in 1985. To note, young bull throughputs have been significantly behind the year previous for most of 2014. With a compensatory increase in the steer kill, it has become clear that more males have been castrated as a likely reaction to the significant age and weight penalties for un-castrated males. In addition, overall adult cattle throughputs in the UK were also up significantly on the year. With steers and heifers over wintering well on reasonably priced fodder, carcase weights were heavier than in December 2013 combined with the increased throughputs, at 63,400 tonnes, beef and veal production for the UK was up 7% year on year.

Trade

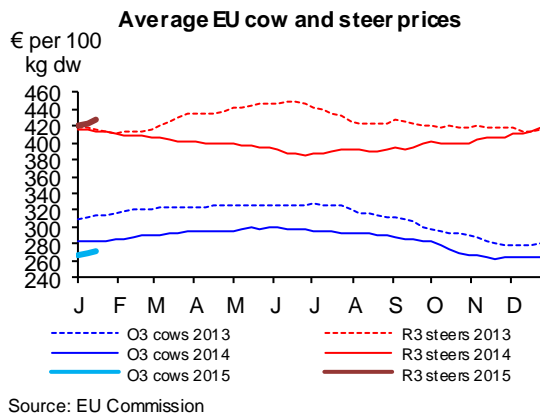


Latest data from HMRC indicates that beef and veal imports were once again above year-earlier levels in November, up 3% at 23,100 tonnes. Despite this, the notable uplift in product from Ireland which has been evident for much of 2014 has appeared to slow down. In addition, the price of Irish product was only a fraction cheaper than in the corresponding month last year. There were reduced volumes from a range of smaller suppliers, with the exception of Botswana and Poland, with shipments more expensive than in November last year in most cases. In the case of Botswana, there was a notable increase in frozen boneless product, most likely destined for the food service sector.

Beef and veal exports in November are recorded as being down 7% on the year at 9,400 tonnes. Shipments to Ireland

increased, while those to the Netherlands were back a quarter. Trade to smaller markets was varied, lower to France and Germany but higher to Italy, Hong Kong and Spain. Despite the overall fall, the shift away from carcass shipments to higher-priced cuts was evident again, meaning the unit value of exports was up on the year. At £30.4 million, the value of trade in November was back just 3% on the year. The more positive performance in recent months means that in the year to date at 102,000 tonnes, exports are still up 6% on the year, returning £340 million to the UK industry.

European Prices



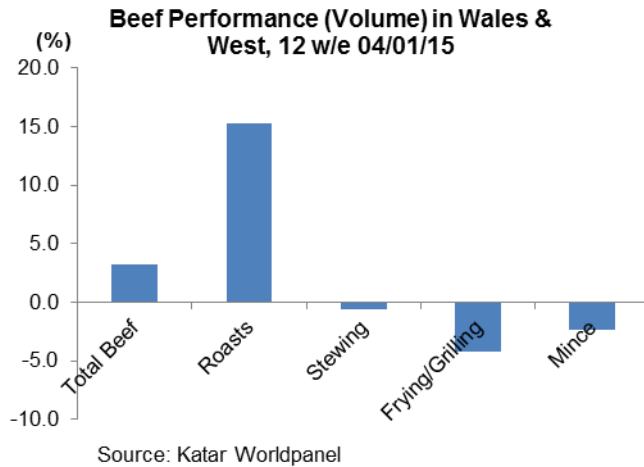
The R3 steer price for the EU as a whole has continued to move up in the new year. At €427/100kg in week ended 18 January the price was up €7 over the past 3 weeks to be trending ahead of year earlier levels. This marks a turnaround from most of 2014 when the differential on the year earlier was significant at times. This apparent robustness in average prices continues to be largely influenced by firming of prices in the UK, however some uplift in prices on other markets has been evident. Irish R3 steers moved up in late November/early December and have continued to strengthen in January so far, trading above year earlier levels. At €393/100kg in week ended 17 January, Irish steers have moved up €40 since early October. At the turn of the year, French steers levelled to €376/100kg, however they are still behind prices at this time in 2014. Demand across the Continent is reported to still be somewhat

lacklustre in many parts.

The cow market across the EU was under some pressure in the second half of last year, with prices falling sharply in the autumn to their lowest level since before 2011. While lower demand for cow beef across the continent has been mainly confined to hindquarter cuts, the introduction of the Russian ban on imports of EU agricultural products in August has been significant. Germany and Poland, for example, exported modest quantities of cow beef to Russia and this trade had been increasing during the course of 2014.

However, towards the end of the year the market became more stable and has shown some strength in 2015 so far, at €270/100kg the EU average price of grade O3 cows was up €4 over the past three weeks. Despite this the average is still behind on the year. UK prices have held up well and in week ended 17 January at €315/100kg were around €25 ahead on the same time last year. Prices on the key French and German markets have stabilised in early 2015 trading, however it remains to be seen what the impact of the difficulties in the dairy sector has on culling rates, and consequently farmgate prices in the early part of this year.

Household Purchases

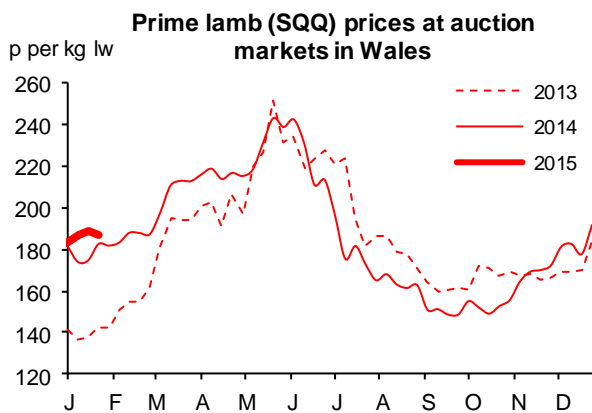


Household purchases of beef in Wales increased by 3.3% to 6,516 tonnes in the 12 weeks ending 4 January 2015, coupled with a 1% increase in average price to £7.62p/kg, expenditure of beef increased 4% for the period to £49.6 million. Beef was the only red meat to experience growth in both value and volume, which was a key contribute to the softening in the on-going decline in red meat purchases.

Roasts were the only beef cut to experience growth in volume purchased in Wales, increasing 15% on the period due to consumers purchasing higher value cuts in the Christmas period. Stewing, frying/ grilling and mince all saw marginal declines in the volume purchased.

Sheep

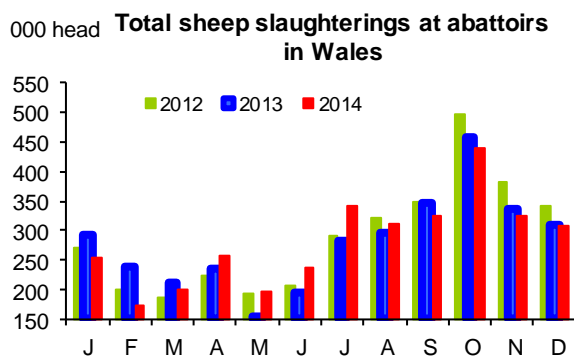
Prices



The SQQ for Welsh liveweight lamb in week ended 24 January was 186.6p/kg, tracking above last year by 4p and an increase of almost 4p in the first three weeks of the year. As prices have exceeded those witnessed before Christmas, price increases imply the marketplace has remained active with firm demand. With lambs reportedly slower to finish, there is the possibility that support in the market could be maintained in the run-up to Easter. However, as always, liveweight prices will depend on the degree of demand at home and abroad. Welsh cull ewe prices, unlike in GB markets where prices have fallen in the last week, have continued their upwards trend, reaching £67.82 a head in the third week of January. This is the highest price since June 2014 as trade remains positive in light of seasonally tighter supplies.

After switching to old season lamb marketing in the New Year, the deadweight lamb trade across GB has also been robust, with the SQQ averaging 424.3p/kg in week ended 24 January, an increase of 1p on the week earlier. To add R3L lambs averaged 429.9p/kg, demonstrating the reward to producers for marketing in-specification lambs. Furthermore, prices are tracking around 30p ahead on the year, suggesting some continued buoyancy in the market as we look forward to the Easter effect.

Slaughterings



Source: Defra

In December 306,500 lambs were slaughtered at Welsh abattoirs, 4,000 less than in December 2013. As a consequence Welsh sheep meat production in December declined 2% on the year to 5,500 tonnes, in conjunction with reduced slaughterings, carcase weights were also lower on the previous month with the UK average standing at 18.8kg. In contrast to the Welsh figures, at 1.13 million head, UK lamb slaughterings in December were 5% up on the year. The uplift was entirely as a result of an increase in lamb slaughterings in England, as throughputs in Wales, Northern Ireland and Scotland were all lower than in 2013. December represents the ninth consecutive month in which UK throughputs have been higher

year on year and in the June to December period, lamb slaughterings increased 5% to 420,000 head on year earlier levels, supporting reports of a larger lamb crop this season in comparison to the last.

With less pressure to sell than in 2013, UK adult sheep slaughterings in December were back over a quarter on the year at 123,000 head. Despite this, reflective of the increased lamb throughputs and higher average carcase weights in the UK sheep meat production was still up 1% on the year at 24,500 tonnes.

Trade



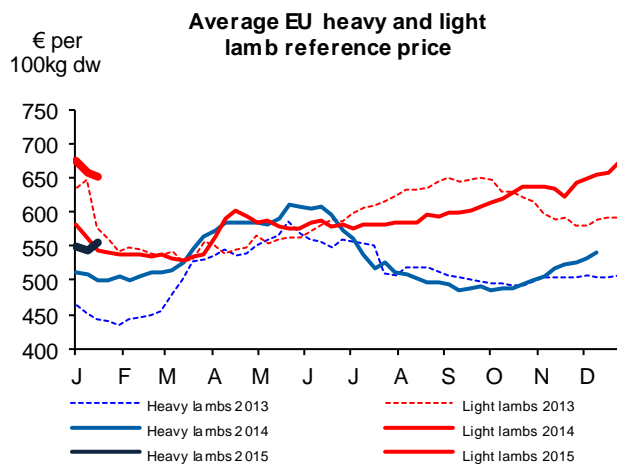
Source: GTIS, HM Revenue & Customs

The latest data indicates that UK sheep meat exports in November were ahead of year earlier levels, at just over 10,000 tonnes, exports were reported to be up 14% on the year. Fresh/chilled carcase shipments to France performed particularly well, as did bone-in chilled shipments to all the main destinations. At £3,660 per tonne, the average price was 11% higher than in November last year which meant that the value of the export trade increased over a quarter on the year to £37 million.

The data also indicates that UK sheep meat imports in November were 2% ahead of year earlier levels at 5,950 tonnes, largely a result of a 13% increase in volumes from New Zealand driven by increased shipments of both frozen and fresh/chilled legs. In contrast, Australian, Irish and Spanish shipments were all lower compared with November 2013. The

consequence of the increased volumes of legs from New Zealand meant that they accounted for 55% of the overall import mix, significantly more than the 40% share in the corresponding month of the past two years.

European Prices



Source: European Commission

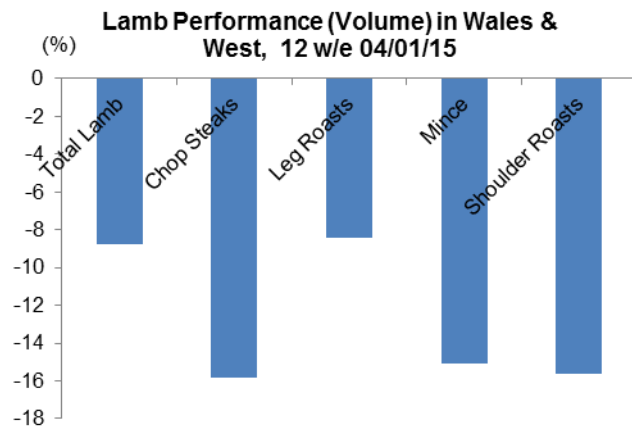
For the start of 2015, the EU-25 heavy lamb trade has continued to show some firmness, supporting the upward trend in prices seen in the last quarter prices are notably ahead of those at this time last year. In the week ended 18 January the EU-25 heavy lamb reference price was recorded as €5.54/kg dw. This is an increase of 5 cents since the start of the New Year, despite a 4 cent drop between the first and second week of January, prices have so far been on average 43 cents ahead of last year.

The two largest heavy lamb producing countries, the UK and France, both reported increased prices in the first three weeks of the year reaching €5.44/kg dw and €6.72/kg dw respectively. Irish prices have currently trended almost 70 cents below UK prices to date in 2015, a significant differential to this time last year. As the Euro depreciates in the current climate, the price gap between the UK and the EU

price series is likely to widen. Heavy lambs in the EU context are defined as lamb carcasses weighing more than 13kg.

The EU-27 light lamb reference price has taken its seasonal downward turn in the New Year as demand drops off. At €6.52/kg dw in the week ending 18 January the EU average has fallen 24 cents in the past three weeks. Despite this, average prices are still over €1/kg more than this time last year. Downwards pressure on prices in Greece and Italy has largely been responsible for the declining average, as both markets continue to struggle in the tough economic climate. Light lambs in the EU context are defined as lamb carcasses weighing less than 13kg.

Household Purchases



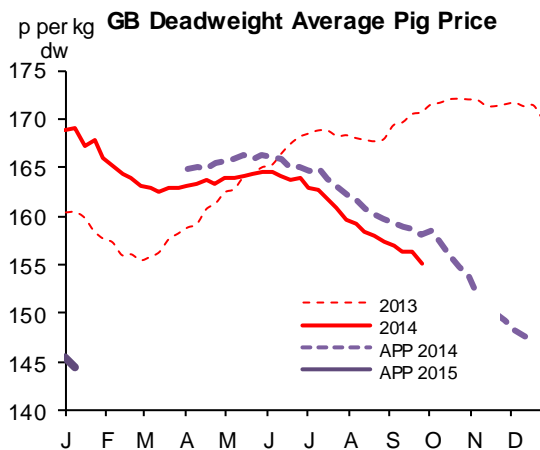
Source: Kantar Worldpanel

Lamb household purchases in Wales decreased almost 8% to 1,644 tonnes in the 12 week ending 4 January 2015. The volume of all lamb cuts were down with leg roasts having the lowest decrease of 8% to 750 tonnes and with leg roast joints holding the majority share of lamb sales in Wales of 45% this had a large effect on the total volume of lamb purchased in Wales.

During the same period average price for lamb only increased 1% to £7.95p/kg, therefore the decline in lamb expenditure by 8% to £13.1 million, could have been related to consumers purchasing other proteins for the Christmas period.

Pigs

Prices



December 2014 did not bring any change in the trend of the year for finished pig prices, with the EU-spec GB SPP averaging 144.0p/kg, down 3p on the month. Compared to the DAPP in December 2013, this is a fall of 27p and edging towards a 20p drop since the SPP began recording in April. However, the last week of 2014 saw a price increase of almost half a penny, the first increase in over 2 months, suggesting firmer demand than anticipated immediately before Christmas. In the New Year however, the SPP returned to a declining trend and fell 4p in the first three weeks of 2015, to 139.9p/kg for the week ending 24 January.

The average EU-spec GB APP for December was 147.6p/kg, 3p back on November marginally reducing the gap between the SPP and the APP to 4p. This is the second largest spread since the two price series began, indicating that the market for premium pigs has been slightly less subdued during the autumn.

December's average APP carcass weight fell to 80.28kg, the lowest weight since August, although it is still well above the weight recorded for December 2013 in the DAPP sample. In part, heavy carcasses have been achieved by continued reasonable feed costs alongside condition being maintained, producing average probe measurements of 11.4mm. The slight fall of weights in December is normal as producers market pigs early ahead of the festive period. In January, weights appear to be increasing again as production returns to normal.

Average 30kg weaner prices dropped £2 on the month in December to £47 per head, the lowest monthly average price for 2014 and a reduction of £9 a head on December 2013. The price of 7kg weaners also continued on its downwards trend in December, averaging £34.69 a head. Whilst only slightly down on the month, this was over £8 a head back on a year earlier. Both weaner categories have dropped further in price into the New Year, as the decline in finished pig prices means that the market remains uncertain for the spring.

Slaughtering



Source: Defra

Pig slaughterings at Welsh abattoirs returned to the upward trend recorded in most of the second half of the year in December 2014. At 2,700 head, throughputs were 3% up on December 2013, meaning that the total for 2014 as a whole was almost unchanged from the previous year, at 32,500 head. With carcase weights remaining heavier, pig meat production at Welsh plants during the month was up 8% year on year to 218 tonnes. Taking output for the year to 2,615 tonnes, an increase of 9% on 2013, although this still represented only 0.3% of UK pig meat production.

Latest figures confirm that UK pigs were in plentiful supply during December, with UK clean pig slaughterings 5% higher than a year earlier during the month, totalling 795,800 head, indicating that

productivity continues to improve and that growing conditions have been favourable. The figures also suggest that, as suspected, the UK breeding herd has probably been more stable than was indicated by the decline recorded in Defra's June survey results. The new figures mean that the total clean pig kill for the year was 10.22 million head, 2% up on 2013 and the highest level since 2002.

Throughout the second half of last year, adult sow and boar slaughterings had been below year earlier levels and this continued in December, with throughputs down 3% at 15,500 head. This meant that, at 242,600 head, 4% fewer adult pigs were culled in 2014 than the previous year. This made little difference to pig meat production, which was up 6% in December and 3% for the year as a whole. December's figure of 66,400 tonnes was the highest for this time of year since 1999, while the annual total of 862,000 tonnes was last exceeded in 2000.

Trade



Source: GTIS, HM Revenue & Customs

UK imports of pig meat were again lower than a year earlier in November despite prices being well above those of the EU. Fresh and frozen pork shipments were down 5% year on year, at 31,400 tonnes, their lowest level in November for six years. The decline was mainly due to reduced volumes from Germany and the Netherlands, although more Danish pork reached the UK. Unit prices were 15% lower than a year earlier, a similar scale to the decline in EU pig prices.

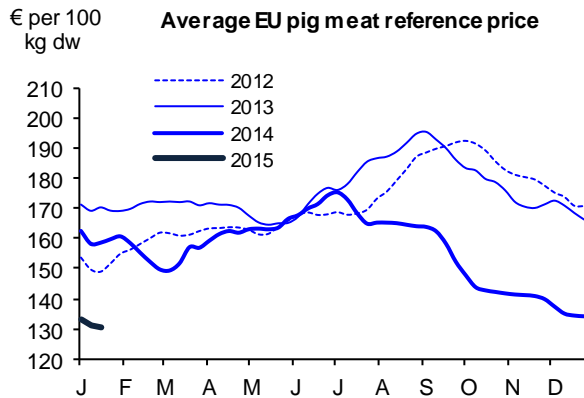
Bacon and ham imports also declined, with 10% less entering the UK in November than a year earlier. All three of the major suppliers experienced declines, despite prices also being down by around 15%. Sausage imports were up slightly but this is compared with an unusually low figure in November 2013 and volumes were 11% down

on two years before. Imports of processed products such as cooked hams were virtually unchanged from last year.

UK pork exports during November were 16% down on the same month in 2013. This was largely due to some temporary disruptions which were quickly resolved, with trade returning to normal by the end of the month. These affected volumes to most of the major recipients of UK pork, although the sow meat trade to Germany was unaffected and shipments were similar to a year before. With unit prices also significantly lower, the value of pork exports during the month was nearly a quarter lower than in November 2013, totalling £16.2 million.

The impact of any disruption on the offal trade was less apparent, with exports virtually identical to November 2013 at 3,400 tonnes. With prices higher, the value of this trade during the month was up 18% year on year at £3.3 million.

EU prices



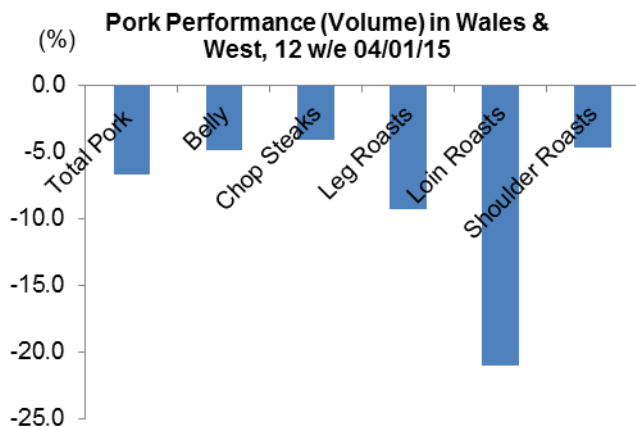
Source: EU Commission

including the UK. German prices ended 2014 at €135/100kg, €22 lower than a year earlier, and fell again in the New Year. Danish, Belgian and Dutch prices have shown similar movements over the previous 12 months but prices have been stable in the former in the early weeks of 2015. As the Euro weakens in the New Year, this could be enough to push the EU average price below £1/kg in sterling terms for the first time since early 2008, increasing the gap between UK and EU prices further.

European pig producers witnessed continual price drops throughout the most of 2014, concluding at an average €135/100kg dw during the 4 weeks ending 28 December, around €25 less than in the first month of the year. Pressure has been kept on the market by disease issues, the Russian ban and of late ample supplies. Average prices did recover a little from April to July, in part as opportunities arose while US exports were limited by PEDv losses and markets expanded in Asia. However, this was short lived, with prices consistently falling week on week from July onwards, leading to 2014 prices persistently tracking below 2013. The New Year has brought no change, with prices averaging below €131/100kg in the week ended 18 January, down €28 on this week last year.

Key producing countries have played a large role in driving the decline; many have dropped around €10 in the last 2 months,

Household Purchases



Source: Kantar Worldpanel

Purchases of pork in Wales declined some 7% in the 12 weeks ending 4 January 2015, with the total volume of pork purchased equalling 3,832 tonnes for the period. A decline in purchases of all pork cuts, with loin roasts experiencing the highest decline of 21%, followed by leg roasts and shoulder roasts of 9.3% and 4.7% respectively.

Despite average price of pork declining by 4.6% to £4.78p/kg, consumers in Wales were not encouraged to purchase pork and as a result expenditure declined 11% to £18.3 million.