

HCC MARKET BULLETIN SUMMARY ROYAL WELSH EDITION

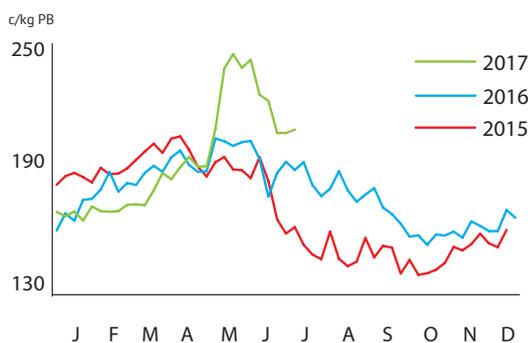
There have been favourable trade conditions for beef and sheep producers over the last few months, with prime cattle and lamb prices being considerably higher than the equivalent period last year. The underlying reasons for this varies between species even if the overall outcome is similar. This Market Bulletin produced for the Royal Welsh Show will examine the factors that have influenced the market during 2017 and considers how this may develop for the remainder of the year.

Current Situation

Prime cattle prices at auction markets in England and Wales



Prime lamb (SQQ) prices at auction markets in Wales



Average Auction Market Price for w/e 15 July 2017

	Price	Weekly Change (p/kg LW)	Year on Year Change
Prime Cattle England and Wales	193.7	+2.7	+11.7
Prime Lamb (SQQ) Wales	209.1	+1.6	+19.1

Average Deadweight Price for w/e 15 July 2017

	Price	Weekly Change (p/kg DW)	Year on Year Change
Steer England and Wales	361.0	-1.5	+38.4
Lamb (SQQ) GB	466.2	+5.0	+47.4

Supply

One of the main driving factors for price evolution within the red meat sector is the supply of prime animals onto the market. For the first half of 2017 there has been a reduction in supply of prime cattle while the number of prime lambs marketed has increased, which would have been associated with the higher carryover from last year crop combined with a better growing season for this year's lambs.

For the first six months of this year the total prime cattle throughput at UK abattoirs stands at 976,200 head, a reduction of two percent (or 20,000) on the corresponding period last year. The decline in GB throughputs is more pronounced at 3 percent (810,100 head). There have been reduced numbers across all three prime cattle types within the UK figures but the largest decline has been within the young bull category, which has seen a 9 percent fall as some processors have tightened their specification for this type of animal. Prime cattle carcass weights have been at similar levels to last year with an average of 351.3kg, some 2kg lighter than the 2016 average for the first half of the year. There has been variation between prime cattle categories as young bull weights have remained the same (325kg), while heifers are 2kg heavier at 332kg. Steer carcass weight has decreased this year by a significant 6kg to average 370kg. This highlights the movement we saw in the market last year when most major processors lowered their carcass weight bands. The reduced number of animals combined with the drop in carcass weight has meant that the supply of domestic prime beef onto the market has declined by over 2% to 343,000 tonnes.

The supply of prime lambs onto the market has increased during the first half of this year, with the total throughput at UK abattoirs standing at 5.9 million head. This is over a quarter of million (or 5 percent) more lambs than the corresponding six months in 2016. The seasonality of supply and the switchover between new and old season lambs means that two very different patterns emerged this year with market prices being below 2016 levels at the beginning of the year as increased numbers of old season lambs entered the market in the January to April period. Reports suggest that these lambs dried up sooner than in previous years and this has meant that the new season price has seen a substantial uplift during the last few months despite the numbers being brought forward being higher as producers benefited from the improved

growing year. The combined May and June prime lamb UK throughput was just over 2 million head, more than 100,000 higher than the 2016 figure. This could benefit the market moving forward due to the potential of fewer lambs being available during the peak supply period of September through to November.

Imports/Exports

There are many factors that influence the UK exporters' competitiveness in the overseas market and consequently the price seen by producers for prime animals. One of the more significant components within this complex relationship is the exchange rate, particularly between Sterling and the Euro, with over 90% of UK beef and sheep exports being sent to other EU-28 destinations. Since last year's EU referendum and the political uncertainty that followed, Sterling has weakened considerably. This has allowed UK exporters to receive improved returns from products sold onto the continent.

	20th June 2017	20th June 2016	20th June 2015
€:£	1:0.88	1:0.83	1:0.70
£:€	1:1.13	1:1.20	1:1.43

The influence of the exchange rate can be seen in the export figures that are released by the HMRC. For the first five months of the year UK sheepmeat exports totalled 33,800 tonnes. While this figure is some 5,100 tonnes (or 18%) higher than the level seen for the same period last year, the total value of these exports was £144.6 million, an increase of £26.4 million (or 22%) on the 2016 total for the same period. The impact the exchange rate has also affected sheepmeat imports. When looking at a five year period it can be seen that the NZ dollar has strengthened against Sterling since the beginning of the year. This combined with a declining Kiwi flock together with new markets for their product, means that total imports of New Zealand lamb into the UK for the first five months of the year stood at 30,500 tonnes, a decline of 21 percent. Overall sheepmeat imports to the UK up to and including May was 41,050 tonnes, 6,450 tonnes less than the corresponding period in 2016.

One of the indirect consequences of the contraction that has been seen in the supply of domestic prime beef into the UK market has been a decline in the volume of beef available to export. For the first five months of 2016 UK beef export volumes totalled 42,000 tonnes, a decline of 9 percent. With a larger throughput forecast this year it was expected that the volume of beef exported from Ireland would increase markedly. This has yet to come to fruition as the unfavourable exchange rate together with a concerted push for live cattle exports has meant that the extra volume seen from this destination has been minimal. For the five month period the total volume of Irish beef exports into the UK stood at 75,200 tonnes an increase of just under 5 percent. Volumes from other destinations

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decreased, which meant that the total exports for the period only increased by 1 percent to stand at 106,250 tonnes.

Consumption

The total volume of fresh beef sold at GB retail from the beginning of 2017 until w/e 18 June remained relatively static, with Kantar Worldpanel reporting that 128,000 tonnes had been purchased. With the average price being £7.89/kg, this meant that the value of the sales topped £1 billion for the period, a one percent increase on the year.

Since the start of the year to w/e 18 June 2017 total fresh lamb purchases at GB retail reached £270.7 million, this is a decline of nearly 5 percent on the corresponding period in 2016. This fall in value was driven by a near 11 percent drop in the volume sold to 30,800 tonnes. The average combined price for all fresh lamb products during the period was £8.77/kg, 43p higher than twelve months period.

Looking Forward

While the exchange rate remains in UK exporters favour it seems likely that the price seen for prime animals will remain at historically positive levels. The supply of animals onto the market will, as always, be one of the biggest driving factors behind any movements in price over the coming months.

With December survey data showing that the number of breeding cattle and ewes within the UK were at similar levels to the previous year it is unlikely that there will be any upsurge in domestic supply when compared to preceding years. The supply, or lack, of overseas product into the market will clearly influence prices over the remainder of this year. Historically relatively small amounts of sheepmeat would be imported however there remains uncertainty regarding the volume of beef expected.