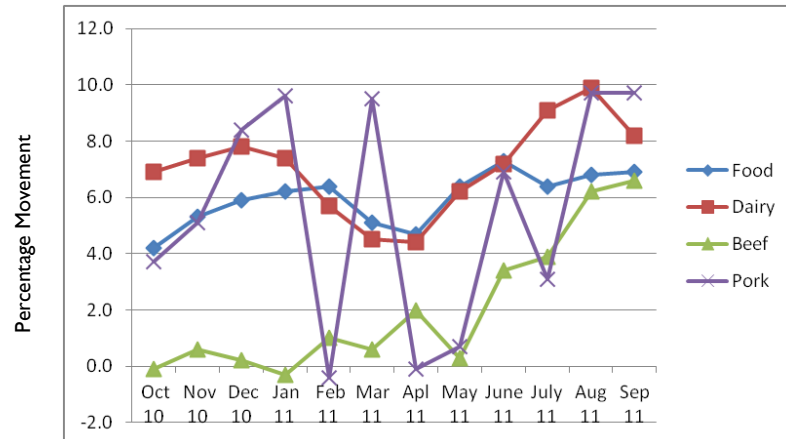


# Market Report for Autumn 2011

## RPI - 12 Monthly % Movements in Food, Dairy, Beef and Pork



## RPI Summary

## Gap Widens Between Livestock Producers

## Biofuels may push 120 million into hunger

## How Does Global Food Security Affect the UK?

- ◆ Food prices have fluctuated over the last 12 months with peaks in February and June, a low in April and a slight dip in July. However, the overall trend demonstrates a steady rise in prices since October of last year. Along with food prices in general we have tracked beef, pork and the highly sensitive dairy market in order to provide you with the latest information on those specific commodities. As can be seen pork prices are volatile, alternating substantially, whilst the once stable beef market has started to rocket. Despite its 5 month period of decline, dairy prices are still comparatively high next to the other key commodities.
- ◆ Higher beef and lamb prices have helped many producers back into the black over the past year, but the financial gap between the top and bottom third continues to widen, according to EBLEX (The English Beef and Lamb Executive). Results for the average performing enterprises showed cattle herds were the worst off, with sheep units generally showing an improvement compared with the previous year due to higher input prices.
- ◆ Efficiencies in production methods are reported, resulting in a marked improvement in physical performance among beef and sheep enterprises. Notably there were fewer calf and lamb deaths, fewer barren cows and more calves and lambs reared in the year to March 2011, than in the previous 12 months. In addition to high input costs, strong export demand for both lamb and beef will keep prices firm or subject to further increases.
- ◆ The new Biofuel policies of some of the world's leading economies threaten to push 120 million people into hunger by 2050 whilst doing little to halt climate change, said Qatar's advisor for their food security program, Mahendra Shah. The use of crops for biofuels is forecast to raise food prices by 30 % according to a study by the OFIID (OPEC fund for International development). We know that the first generation biofuels are not sustainable in the long run as they increase the prices of cereals, thus threatening global food security. Research into third generation biofuels are currently in their infancy, however funding and research must be increased if we are to make a difference any time soon.
- ◆ Despite the UK having a highly successful agricultural industry, many domestic and international factors affect food production and prices for consumers. Britain is not a nation that is self-sufficient in food production, as it imports 40% of the total food consumed. Furthermore, this is a figure that is continuously rising.
- ◆ Therefore, as a food-trading nation, Britain relies on both imports and thriving export markets to feed it and drive economic growth. Supply chains are highly sensitive to economic and environmental events. The UK is also exposed to volatile global markets for products such as animal feed that have strong impacts on supermarket prices. In the interconnected world, it's consumers that have to pay more downstream.

# MARKET REPORT for Autumn 2011

## European Dairy Market Overview

- ◆ It was another turbulent period for European dairy markets. The cash butter market continues to move towards the indications of the Eurex (Europe's global financial market place) butter futures, with the official figures from Germany, Netherlands and France averaging €3938/tonne for butter (down 1.33% week on week). This continues the trend of butter price decline since its recent high of €4212 at the beginning of July. Indications are that the butter market will remain stable until Christmas, though there is much uncertainty as to what may occur in the New Year.
- ◆ UK supermarkets have begun dropping their prices too. Asda dropped the price of four pints of whole, skimmed and semi-skimmed milk to £1.18 – the lowest mark in more than a year. Tesco matched Asda, selling four pints of standard own-label milk for £1.25, although it is offering four pints for £1 through its Creamfields tertiary brand. Sainsbury's and Morrison's are both selling four pints for £1.25.
- ◆ However, these drops in dairy prices may prove to be a short lived advantage. If the government go ahead with plans to increase fuel taxes then logistic costs may offset any real savings made. Therefore, it appears that forward buying could be the best way to exploit these current price falls. Similarly, these decreases must be put into context and as can be seen in the graph above, though dairy prices have dropped, there is an overall trend of increased prices since last year.
- ◆ Hog prices are set to remain elevated, and retail pork values "unusually high", thanks to a slide-off in production at a time when demand is being stoked by China, whose own prices have hit record highs. Currently, the UK is one of the biggest sufferers as its comparatively greater welfare standards result in British farmers being unable to compete with their European counterparts.
- ◆ The welfare of pigs in the UK is generally better than in the rest of Europe and many other large producers across the globe. A significant proportion of pigs in the UK have access to the outdoors as well as policy changes that have banned the use of sow stalls that cruelly limit the ability of pregnant sows to move. However, as Continental rivals became subject to stricter welfare standards due to come into force in 2013, the price differential with UK producers would narrow, said Mick Sloyan, Director of BPEX (British Pig Executive). Thus, allowing Britain to reclaim some of the market share it has lost since 1998.
- ◆ Diners are shunning their Chinese eatery after an urban myth spread around the area that a woman choked on a dog's identification chip as she ate her meal. The rumour has become so widespread that the 30-year-old restaurant could go out of business. It claims that both police and paramedics were called to the restaurant to deal with the incident, and that it is part of an elaborate scam to get rid of retired greyhounds from trainers in nearby Sheffield. – *Perhaps some of the wealthy professional footballers, who are said to be regulars, can start chipping in...*
- ◆ All indicators point to high inflation in commodity markets creating rising prices in both the retail and foodservice. The weak Euro creates a perfect market place for British products from China and other Rapidly Developing Economies. Increasing demand for the confidence of safely grown food creates a shortage of our own home grown produce. Producers may ultimately become price makers not price takers. Our only response is to understand the value of our food choices and pay the appropriate price.
- ◆ Inflation will be further exacerbated by the additional £75 million the Treasury is adding to national debt. The previous quantitative easing of £200bn added 2% to GDP and 5% to inflation over the past year. All things being equal, the additional £75 million will contribute 1% to GDP and a further circa 2% to inflation in the forthcoming period.

*Whilst every reasonable effort has been made to ensure the accuracy at the date of publication, this document is intended for general information only and does not constitute legal or professional advice.*

## Hog Prices to Remain High

## Welfare Responsible for Loss of Market

## In Other News...

## PIP Conclusion

Diana Spellman - PIP MD