LMC BULLETIN

WEEKLY PUBLICATION OF THE LIVESTOCK AND MEAT COMMISSION FOR NORTHERN IRELAND

Saturday 21 March 2015 Issue No. 2361

AGRI-MARKET VOLATILITY ADDRESSED IN WESTMINSTER BUDGET

THIS week, Chancellor George Osborne announced in his budget that farmers will be allowed to average out their income over five years to calculate their tax liability. This is an improvement from the previous arrangement where producers could average their profits over a two year period for tax purposes. By allowing this provision, the Treasury has addressed the important issue of price volatility in agricultural markets.

Farmers exposed to volatility

Producers in all agricultural sectors in Northern Ireland have been exposed to increased price volatility in recent years. In the beef sector, farmers became accustomed to stagnation in prices for about 10-12 years following the BSE crisis in the mid-1990s, with UK producers dependent on the domestic market for much of that period.

However, post 2007, with global demand and supply of food finely balanced, beef prices rose sharply. It is thought that these increases were supported by speculation on commodity markets, which was thought to have driven prices even higher. However, when prices were on their way back in 2010, the rate of decline was possibly magnified by speculators short-selling and betting on falling prices.

This trend has continued in recent years. Beef prices rose sharply in 2011, before declining in 2012. Prices rose sharply in 2013, but fell sharply in 2014. Prices have generally been on an upward curve as is illustrated in Figure 1, but volatility is very much embedded in this trend with sharp swings in price since 2008.

Volatility in the market has also manifested itself in the respect that long standing seasonal expectations have had to be adjusted. With cattle coming off grass at the backend, the autumn has generally been the annual low point for prices in the past. Yet in 2014, there was a sharp increase in prices in September and October, at a time when the trade normally comes under pressure. Last Spring, at a time when the trade is normally firm, prices fell sharply.

Agricultural production generally, and beef in particular, is a long-term business. That makes the trade even more exposed to volatility. In recent years, for example, a strong beef market and tight supplies of calves helped drive up the price of younger cattle. Finishers fed these cattle only to find on some occasions that the beef trade had weakened by the time the cattle are ready for slaughter.

Meanwhile, at other times, processors have paid high prices for cattle, only to find that the market has turned quickly, leaving them with large volumes of over-valued stock. For processors and larger beef finishers who work on thin margins and high volumes, the risk of a sudden price decline is substantial indeed.

Managing risks

Over the years, producers have had different methods of mitigating the risks of unstable markets. Mixed farming was traditionally more prevalent in Northern Ireland and this helped farmers reduce risk. A good year for potatoes or barley could compensate for a soft beef or lamb market. While specialisation has improved efficiency, the move away from mixed farming means that farmers are vulnerable to a price drop in their area of specialism.

These days, part-time beef and sheep producers may be sheltered from volatile markets by the availability of off-farm incomes, which can help producers through tough times. However, this is not ideal and no part-time producer wants to be subsidising a beef or sheep enterprise from their day job, even on a short term basis. Moreover, it is hardly reasonable to suggest that the resilience of part-time producers is a long term strategy for dealing with price volatility.

Rising prices; rising costs; high stakes

Figure 1 certainly shows that the volatility in the trade has come in the context of much higher beef prices. Farmers do not need reminded that higher prices do not necessarily mean greater profits. Between 2008-2013, input costs also increased sharply and for many beef producers margins may not have improved.

In some cases, higher prices and higher costs, mean that the stakes are higher for all those in the supply chain. With more money invested in stock and other inputs, the impact of a sudden fall in prices is all the greater. As the market has demonstrated in recent years, the risk of sharp downward swing changes in the farmgate beef price has increased also. This leaves the supply chain in a more vulnerable position.

A more equitable system

It is this vulnerability that Osborne has addressed in his budget statement. He has recognised that the volatility in the market may mean that a farmer may generate a healthy tax liability in a year of high prices. However, if prices were to fall the following year, while the farmer may have no tax liability, they may have no income at all or be generating a loss. Meanwhile a tax bill for the previous year would be falling due at a time when the producer doesn't have the means to pay. Basing the tax liability on producer income over a five year period, helps even out any income volatility and seems like a more reasonable and fair approach to calculating tax for farmers. In this regard the Treasury has recognised that agricultural producers are engaged in a long-term business and are vulnerable to volatile markets.

This policy will help producers cope with sharp swings in price, profitability and income. This is likely to mean larger producers in sectors that are typically more profitable. This may not include many small or unprofitable beef producers, who while exposed to volatile markets, do not generate a significant tax liability even at the best of times, due to their small scale and the thin margins involved.

Volatility remains an issue

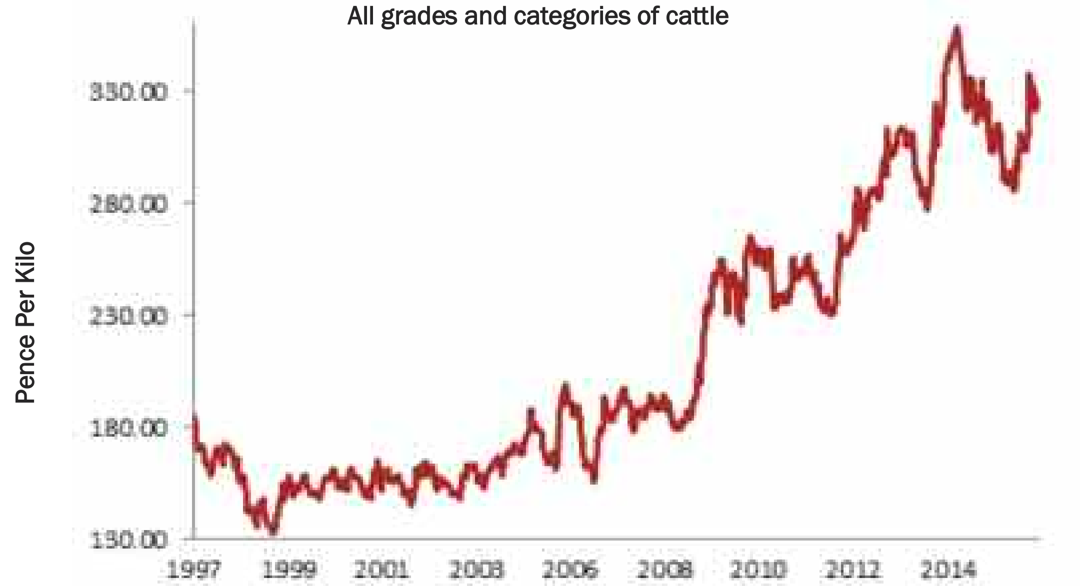
Volatility is now seen as an inevitable feature of agricultural markets and notwithstanding the impact of this new flexibility provided by the treasury, unpredictable markets still have the capacity to create significant difficulties on the supply chain.

Producers and processors will continue to manage risk and for some businesses this will involve putting something in reserve during the good times to see it through a crisis. Given the margins involved however, this is not always possible.

At a more strategic level, one area that would certainly help to reduce the risk of volatility, is increased market access. The UK industry is dependent on a relatively narrow pool of markets, namely the UK, Europe and a few other countries in Asia and Africa. Access to a wider pool of markets, including the USA, China and other key Asian markets would help to reduce the risk of difficulties in a specific market. This is a key focus for industry at the moment and one issue which government is working closely with industry to resolve.

Figure 1. Rising Beef Prices and Increasingly Volatile Market

Northern Ireland Weekly Average Farmgate Beef Price 1997 - 2015
All grades and categories of cattle



FQAS NOTICE ONLINE PAYMENTS

LMC has launched an online payment system for the Farm Quality Assurance Scheme. This allows producers to pay annual membership renewal and initial registration fees through the LMC website.

www.lmcni.com

LMC QUARTERLY

SIGN UP NOW TO RECEIVE IT FREE BY POST
CONTACT:
028 9263 3000

WEEKLY BEEF & LAMB MARKETS

CATTLE TRADE

NI FACTORY QUOTES FOR CATTLE

(P/KG DW)	This Week 16/03/15	Next Week 23/03/15
Prime		
U-3	344 - 350p	340 - 346p
R-3	338 - 344p	334 - 340p
O+3	332 - 338p	328 - 334p
	Including bonus where applicable	
Cows		
O+3 & better	230-250p	230-250p
Steakers	140-170p	140-170p
Blues	120-130p	120-130p

Cow quotes vary depending on weight and grade.

Pricing policies vary from plant to plant. Producers are advised to check pricing policies before presenting cattle for slaughter.

REPORTED NI CATTLE PRICES - P/KG

W/E 14/03/15	Steers	Heifers	Young Bulls
U3	359.2	362.5	349.7
R3	356.1	355.2	344.4
O+3	345.9	344.6	334.2

*Prices exclude AA, HER and Organic cattle

REPORTED COW PRICES NI - P/KG

w/e 14/03/15	Wgt <220kg	Wgt 220-250kg	Wgt 250-280kg	Wgt >280kg
P1	137.8	146.0	155.1	161.7
P2	156.3	184.0	194.9	213.2
P3	174.3	198.0	215.4	230.6
O3	150.0	208.0	229.7	248.5
O4	-	141.1	237.4	253.6
R3	-	-	241.0	271.1

Deadweight Cattle Trade

THIS week factories were quoting 344-350p/kg for U-3 grade prime cattle. On Monday it is expected that quotes will be lower, with plants quoting 340-346p/kg. As usual producers would be advised to shop around as better prices may be available. It is expected that cow quotes will range from 230-250p/kg, although some plants have reduced quotes within that range.

Last week NI factories slaughtered around 7,150 prime cattle. This was up by almost 10 per cent on the same week last year. One theme that has been very much in evidence this year has been the increased steer kill and reduced young bull kill. This is a consequence of producers shifting from bull to steer production over the course of the last year. Last week almost 4000 steers were slaughtered. That was up by 1,200 head or 42 per cent on the same week in 2014. Meanwhile, the young bull kill was down by 570 head, a 48 per cent decline. Last week the heifer kill was similar to 2014 levels, in line with the trend for the year to date.

Imports of cattle from the south for direct slaughter have remained reasonably steady with 500 head imported last week. This is similar to the same week last year. Meanwhile about one lorry load of cattle was exported from NI to Great Britain last week, some what lower than the 212 head exported in the same week last year. Over 300 head were exported from NI to ROI for direct slaughter, most of them cows.

Last week there was general pressure on NI steer and heifer prices. The reported R3 steer price in Northern Ireland was stable at 357p/kg, marginally back on the previous week. The R3 heifer price was 355.5p/kg, 2.4p/kg lower than last week. However, the R3 young bull price was up by 3.6p/kg, with young bull prices generally higher than previous week levels.

Prices back in Great Britain

Steer prices in Great Britain have eased back in recent weeks with the R3 steer price back 3p/kg in Northern England and 5p/kg in the Midlands and Wales. There was a sharper decline in heifer prices, with an average price decline of 4p/kg across GB for R3 grades. Southern England recorded a 10p/kg drop in the R3 heifer price, with a 5p/kg decline in the Midlands.

Northern Ireland R3 steer price remains close to equivalent prices in England, where the average is around 360p/kg. Scottish prices are somewhat higher at 370p/kg. R3 heifer prices in Northern Ireland are about 5p/kg lower than those in Northern England and the Midlands, but 2p/kg higher than equivalent prices in Southern England.

Exchange rate developments last week meant that ROI farmgate prices were lower in sterling terms. R3 steer prices averaged 288p/kg, 6p/kg lower than the previous week. There was a similar decline in R3 heifer and young bull prices. This is generally explained by the weaker euro, with steer and heifer prices generally stable in euro terms.

LAST WEEK'S DEADWEIGHT CATTLE PRICES (UK / ROI)

W/E 14/03/2015		Northern Ireland	Rep of Ireland	Scotland	Northern England	Midlands & Wales	Southern England	GB
Steers	U3	359.3	296.7	374.4	369.8	371.8	367.4	371.3
	R3	357.0	287.6	369.8	359.1	359.9	360.1	362.6
	R4	354.6	288.3	368.8	372.7	362.0	359.8	367.1
	O3	338.8	274.2	354.3	338.0	336.4	332.6	340.9
	AVG	346.6	-	367.0	360.5	352.4	347.1	357.9
Heifers	U3	362.5	306.6	376.9	373.6	375.2	371.7	374.8
	R3	355.5	296.0	366.8	360.6	360.3	353.7	361.3
	R4	352.7	296.0	367.6	362.6	361.2	357.9	363.1
	O3	342.6	283.1	347.5	340.1	324.9	329.0	336.6
	AVG	350.2	-	366.4	359.3	353.9	343.3	357.4
Young Bulls	U3	349.7	288.1	357.0	343.5	357.4	357.2	351.4
	R3	342.8	280.3	360.0	332.9	350.8	349.4	343.6
	O3	327.2	267.8	321.5	305.6	320.6	320.9	317.3
	AVG	327.5	-	322.6	321.3	329.1	320.9	324.1
Prime Cattle Price Reported		5976	-	6193	5520	5067	3723	20503
Cows	O3	246.1	239.5	267.5	254.0	242.7	240.4	253.5
	O4	252.5	241.2	268.9	257.8	255.0	248.2	258.7
	P2	198.6	209.4	196.0	213.3	193.0	186.1	196.5
	P3	225.6	234.8	228.8	228.0	204.3	214.2	217.8
	AVG	227.7	-	257.1	233.9	214.2	214.3	231.7

Notes: (i) Prices are p/kg Sterling-ROI prices converted at 1 euro=71.19p Stg
(ii) Shading indicates a lower price than the previous week.
(iii) AVG is the average of all grades in the category, not just those listed

LATEST LIVEWEIGHT CATTLE MART PRICES NI

	1st QUALITY			2nd QUALITY		
W/E 14/03/15	From	To	Avg	From	To	Avg
Finished Cattle (p/kg)						
Steers	200	204	201	137	194	170
Friesians	-	-	-	-	-	-
Heifers	205	216	212	148	204	176
Beef Cows	149	178	163	100	148	124
Dairy Cows	106	126	112	60	105	82
Store Cattle (p/kg)						
Bullocks up to 400kg	200	234	220	158	184	171
Bullocks 400kg - 500kg	213	234	220	175	212	194
Bullocks over 500kg	213	240	224	170	212	191
Heifers up to 450kg	204	230	215	173	203	188
Heifers over 450kg	201	228	212	163	200	182
Dropped Calves (£/head)						
Continental Bulls	290	410	330	180	288	235
Continental Heifers	270	395	306	100	268	185
Friesian Bulls	100	175	138	35	98	68
Holstein Bulls	70	168	105	2	68	35

SHEEP TRADE

HOGGET QUOTES

(P/Kg DW)	This Week 16/03/15	Next Week 23/03/15
Hoggets	410-415>22kg	410-415>22kg

REPORTED HOGGET PRICES - P/KG

(P/KG DW)	W/E 28/02/15	W/E 07/03/15	W/E 14/03/15
NI Liveweight	359.7	364.5	366.0
NI Deadweight	397.0	399.2	413.6
ROI Deadweight	377.2	388.2	
GB Deadweight	428.1	437.4	442.8

Deadweight Sheep Trade

THE deadweight sheep trade was steady this week with factory quotes of 410-415p/kg. Similar quotes are expected on Monday morning. The recent improvement in the trade is reflected in the price report for the week ending 14 March, which shows an average increase in the deadweight price of 15p/kg to 414p/kg. GB prices remain ahead of NI levels at 442.8p/kg. Last week the domestic sheep kill was 5,800 head. This was similar to previous weeks, but down by over a 1,000 head on the same week last year. Meanwhile, 7,000 head were exported from NI to ROI for direct slaughter, reflecting an increase in live exports for direct slaughter over the first fortnight of March.

This Week's Marts

THIS week the liveweight hogget trade was steady with prices remaining firm. In Masserene on Monday a larger sale of 1,062 hoggets sold from 355-391p/kg, similar to the last week. In Saintfield the trade was slightly softer with 530 hoggets selling from 345-400p/kg, compared to last week when 525 head sold to 356-410p/kg. In Rathfriland on Tuesday evening, a larger entry of 725 head sold to an average of 363p/kg, This was on average 5p/kg higher than the previous week. There were also 36 spring lambs in Rathfriland and these sold to an average of 410p/kg (388-420p/kg). Meanwhile in Ballymena there was a large entry of 1670 hoggets which sold to an average of 360p/kg. This compared to 1150 head last week selling to an average of 356p/kg.

LATEST SHEEP MARTS

From: 14/03/15		Hoggets (P/KG LW)			
To: 20/03/15		No	From	To	Avg
Saturday	Omagh	777	350	397	-
	Swatragh	622	345	388	-
Monday	Massereene	1062	355	391	-
	Kilrea	530	355	413	-
Tuesday	Saintfield	534	345	400	-
	Rathfriland	725	341	383	363
Wednesday	Ballymena	1678	340	431	360
	Enniskillen	895	368	412	380

Contact us:
Website: www.lmcni.com
Telephone: 028 9263 3000
Fax: 028 9263 3001
FQAS Helpline: 028 9263 3024
Answerphone: 028 9263 3011
Comments: bulletin@lmcni.com