LMC QUARTERLY

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PRIME CATTLE TRADE FIRM IN SEPTEMBER

THE deadweight trade for prime cattle in NI remained firm during September 2016 with an average prime cattle price of 332.6p/kg, up 11.9p/kg from September 2015 levels.

Early in 2016 R3 steer prices were notably lower than year earlier levels however they have steadily recovered since May 2016 and passed year earlier levels during August 2016 as indicated in Figure 1. During September 2016 the average R3 steer price in NI was 342.9p/kg, a 4.3 per cent increase from September 2015 levels when the average R3 steer price was 328.7p/kg. This has increased the value of a 350kg R3 grade steer carcase by £50 year on year.

The average R3 steer price in GB during September 2016 was 365.1p/kg, a 2.4 per cent increase from the 356.5p/kg paid in September 2015. This put the differential between NI and GB at 22.2p/kg or £77 on a 350kg carcase. In September 2015 the differential was 27.8p/kg which equates to £97 on a 350kg R3 grade carcase.

In ROI the R3 steer price was the equivalent of 316.3p/kg in September 2016, a 10.7 per cent increase from 285.7p/kg in September 2015. This increase was largely driven by a strengthening in the value of euro against sterling. In September 2016 €1=85.2p, a notable increase from €1=73.1p in September 2015.

Throughput of prime cattle also recorded an increase during September 2016 with 24,465 head slaughtered in local plants. This was an increase of 1,850 head from September 2015 levels and accounts for an 8.2 per cent increase year on year. This increase in throughput has occurred despite a notable reduction in the number of cattle being imported from ROI for direct slaughter in local plants as indicated in Table 1.

Some of the increase in prime cattle throughput in local plants has been offset by a reduction in the average carcase weight. In September 2016 the average prime cattle carcase weight was 338kg, a 6kg reduction from 344kg in September 2015. Cow carcase weights also declined year on year, back by 14kg to 290kg in September 2016. This decline can be partly attributed to an increase in the proportion of dairy cows in the NI slaughter mix.

Cow slaughterings in NI during September 2016 totalled 8,357, an increase of 1,250 head from September 2015 when 7,107 cows were slaughtered. This accounts for a 17.6 per cent increase year on year. An increased number of cows on the ground and reduced exports to ROI for direct slaughter will have contributed to this increase. There has also been an increase in the number of beef cattle on NI farms intended for beef production. In September 2016 the number of beef sired cattle aged 12-30 months on NI farms increased by five per cent from year earlier levels to 399,473 head. Meanwhile the number of dairy sired males in the same age category increased by a similar margin to 42,819 head.

Beef sired calf registrations during September 2016 totalled 20,686 head, a 1.6 per cent increase from year earlier levels, while dairy sired male calf registrations totalled 7,874 head, up 1.8 per cent from September 2015 levels.

Figure 1: Weekly R3 steer prices in NI January 2015-September 2016

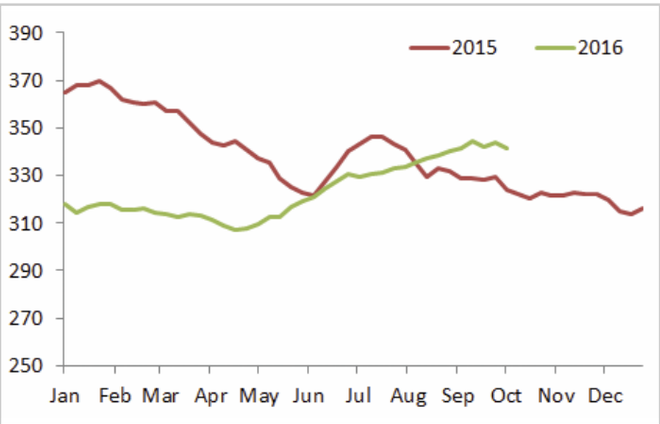

Table 1: NI Beef Industry Key Performance Indicators (September Snapshot)

	Sep-15	Sep-16	% Change
Finished Cattle Prices (p/kg)			
Average Prime Cattle Price	320.7	332.6	3.7%
Average Cow Price	213.9	227.5	6.4%
Average R3 Steer Price **(NI)**	328.7	342.9	4.3%
Average R3 Steer Price **(ROI)**	285.7	316.3	10.7%
Average R3 Steer Price **(GB)**	356.5	365.1	2.4%
Slaughterings			
Total Clean Slaughterings (Head)	22,615	24,465	8.2%
Total Cow Slaughterings (Head)	7,107	8,357	17.6%
Average Clean Carcase Weight (kg)	344	338	-2.0%
Average Cow Carcase Weight (kg)	304	290	-4.6%
Trade (Head)			
Live Imports for Direct Slaughter	3,194	688	-78.5%
Live Exports for Direct Slaughter	1,982	1,197	-39.6%
Availability (Head)			
No. Cattle on the Ground*	421,323	442,292	5.0%
Beef Sired	380,508	399,473	5.0%
Dairy Sired (Male Only)	40,815	42,819	4.9%
Calf Births Registrations (Head)			
Calf Births	28,103	28,560	1.6%
Beef Sired	20,369	20,686	1.6%
Dairy Sired (Male Only)	7,734	7,874	1.8%
Euro / Stg Exchange Rate (€ / £)	73.1	85.2	16.5%

* Aged between 12-30 mths (Beef + Dairy Male Only)

All NI Figures Unless Otherwise Stated

FQAS Helpline

If you have had a recent inspection and need help and advice to rectify any non-conformances, contact the FQAS helpline:
028 9263 3024

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BREXIT AND UK TRADE ARRANGEMENTS

FOLLOWING the UK's decision earlier this year to leave the European Union there has been a degree of uncertainty on how it will influence the trading arrangements of the UK, and in particular the agriculture sector. The outcome of any trade agreements post Brexit will be of particular relevance in NI as we will be the only UK region with a land border to the EU when the UK officially leaves.

The bulk of the UK's agri-food exports are currently destined for the EU and the decision to leave the EU has created an uncertainty around when and how the UK's current trading arrangements within the Single Market will be disrupted or changed. A recent announcement by Teresa May has outlined a timeline which would see the UK invoking Article 50 of the Lisbon Treaty before March 2017 and officially leaving Europe by early 2019. It is worth noting however that this can be extended with the agreement of all member states. As nobody has ever left the EU this is unchartered territory and it is therefore impossible to know how it will all work and the timeline involved.

Current Situation

According to a recent report from Agra-Europe the UK, as a member of the EU, has free market access to not only the wider EU market but also to 52 other countries which have trade agreements with the EU. The agreements with these countries are either in the form of individual trade agreements or through pluri-lateral regional agreements. If the UK wishes to retain preferential access to these markets it will have to renegotiate new deals with all of them.

At present there are several countries which have trading arrangements with the EU that allow them to access the Single Market. The UK could potentially use these existing arrangements as a guide to negotiate new trading arrangements with the EU however there are some restrictions and disadvantages that will need to be overcome. It is likely that a UK specific model will be developed incorporating some aspects of each of the existing arrangements outlined below.

Norway Model

This model involves membership of the European Economic Area (EEA) which includes EU member states along with Norway, Liechtenstein and Iceland. Under this agreement the UK would have full access to the Single Market but in return would have to make financial contributions to the EU budget, accept the majority of EU laws and facilitate the free movement of people and capital.

EEA membership does not oblige countries to adopt the euro currency, the EU's common foreign and security policy or its justice and home affairs policy. It also does not involve participation in the Common Agricultural Policy (CAP) or the Common Fisheries Policy (CFP). In addition to this the UK would have free access to markets in all EEA member states however they would not be part of the EU customs union which would allow them to conduct their own trade negotiations with non EU countries.

Disadvantages of EEA membership include the costs and complexities of complying with 'Rules of Origin' on exports into the EU. The EU can also limit or restrict imports from EEA countries as part of its anti-dumping measures.

Switzerland Model

This model involves membership of the European Free Trade Association (EFTA) and is a mix of bilateral agreements with EU member states which cover some, but not all, areas of trade. This agreement does not involve EEA membership. Switzerland is currently the only country which operates this type of trade arrangement with the EU and in doing so it must make financial contributions to the EU budget on the basis of regional and other policies it operates in conjunction with Brussels. In addition it must allow free movement of people and capital, apply EU laws and implement some EU regulations to allow trade to operate.

Under current EFTA rules Switzerland has access to the Single Market for most of its industries however these exclude access to its banking and other parts of the services sector. As these currently make up 80 per cent of the UK economy, trading with the EU under such an agreement could be difficult. Switzerland currently sells 50 per cent of its exports to the EU through the 120 bilateral agreements it has agreed with Brussels.

Freedom of movement however remains a major issue for Switzerland with current bilateral trade deals under threat following a referendum in the country in 2014 opting to limit the number of EU workers in Switzerland. While no restrictions on the number of EU workers in Switzerland have as yet been put in place it has caused issues between Switzerland and the EU.

Turkey model

This model involves a Customs Union with the EU which means the UK wouldn't have to pay any tariffs or quotas on industrial goods exported to EU countries however they would have to apply the EU's external tariffs on any industrial goods imported from countries outside the EU.

This customs union does not apply to agricultural goods or services so agricultural produce exported from the UK to the EU would be subject to tariffs. Turkey also has no say on the rate of the tariffs set by the EU, it is simply bound to apply them.

Image 1: Uncertainty remains around the UK's trading arrangements following Brexit

Canada Model

The Comprehensive Economic and Trade Agreement (CETA) between the EU and Canada has been under development for seven years and as yet has not been implemented. This agreement eliminates most tariffs on goods but excludes some sensitive food items and services. There are also firm rules about the country of origin of goods traded with Canada currently having to prove goods are entirely 'Made in Canada' to prevent non-Canadian goods entering the EU through the back door. This can add significant costs to companies wishing to export goods to EU markets.

The services sector is only partially covered by a CETA agreement which could create problems for the UK since its economy is largely services based. Firms exporting to the EU would also have to comply with EU product standards and technical requirements without having any say in setting them. In addition CETA is strictly a trade deal and the UK would have to negotiate new arrangements with the EU in other areas.

Operating WTO Rules

The World Trade Organisation (WTO) sets rules for International Trade that apply to all members. Under these rules the UK would not be obliged to allow free movement of people from the EU, or have to make a financial contribution to the EU and there would also be no obligation to apply EU laws. However goods traded with the EU under such an agreement would have to meet EU standards, some tariffs would be applicable for trade with EU countries and there would be restrictions in trade in services.

If the UK fails to reach an agreement with the EU prior to Brexit, trade regulations would default to WTO rules. Both regions would then be obliged to enforce tariffs and other trade restrictions that apply to the rest of the world. These tariffs are most significant in the food and agriculture sectors- more than 35 per cent on dairy products, up to 30 per cent on confectionary and 20 per cent on average for meat products.

On leaving the EU the UK will also have to update the terms of its WTO membership as any commitments it agreed to in the past were on an EU wide basis. This would be a complicated process in the absence of a new agreement with the EU.

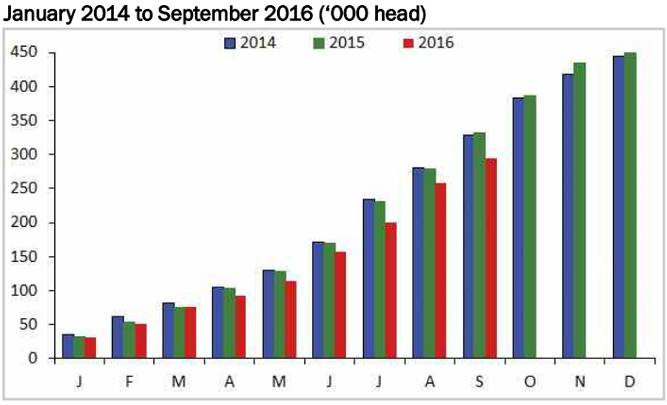
WEAKER STERLING HELPS FIRM NI LAMB TRADE

THE average deadweight lamb price in NI during September 2016 was 380.2p/kg, a notable increase from September 2015 when it was 311.5p/kg. This is an increase of £14.40 on a value of a 21kg carcase year on year.

This strong increase in deadweight lamb prices has been driven primarily by a weakening in the value of sterling against the euro. A weaker sterling makes NI lambs more attractive for processors in ROI and thereby increases competition for local lambs with the local processors.

In addition to this a weaker sterling makes NI lamb products much more price competitive when compared to lamb from other lamb producing regions of the EU. In particular a weaker sterling makes it easier for NI processors to compete against processors from ROI for contracts in the valuable French market.

Figure 2: Cumulative monthly lamb throughput by local processors January 2014 to September 2016 ('000 head)



The weaker sterling has resulted in a slight increase in proportion of NI lambs being exported to ROI for direct slaughter. In the 12 week period ending 01 October a total of 91,489 NI origin lambs were exported to ROI for direct slaughter, accounting for 40 per cent of total lamb production in NI. In the corresponding period in 2015 90,147 lambs were exported, accounting for 38 per cent of total NI lamb output.

Figure 2 outlines the cumulative lamb/hogget slaughterings in NI plants from January 2014-September 2016. As indicated in the chart throughput in local plants for the year to date is running behind 2015 levels. During the period June-September 2016 a total of 191,656 lambs were killed in local plants, a 24,384 head reduction from year earlier levels. This accounts for an 11 per cent decline year on year.

The preliminary results of the June Agricultural Census 2016 indicated an increase in breeding ewe numbers in NI to 950,100 head, their highest levels since June 2007. The census also recorded a two per cent increase in lamb numbers on the ground when compared to year earlier levels.

Lower output from the NI sheep flock in terms of local slaughterings and exports for direct slaughter since these figures were collected would indicate that there are more lambs on the ground this autumn than in previous years. Reports from industry sources would appear to confirm this with good numbers of store lambs also passing through the marts.

The unsettled weather conditions this summer will have impacted lamb performance at grass and increased finishing periods which has resulted in more lambs still being on farm. Average carcase weights also appear to have been impacted by the unsettled summer weather with an average carcase weight during September 2016 of 20.8kg, back from 21.4kg in September 2015.

INCREASE IN COW THROUGHPUT IN LOCAL PLANTS

COW throughput in NI during 2016 to date has remained strong with 68,808 cows slaughtered during the period January to September 2016. This is a 12 per cent increase from the 61,636 cows killed locally during the corresponding period in 2015.

The DAERA Agricultural Census recorded increases in both dairy and suckler cow numbers on NI farms in June 2016. The report outlined that dairy cow numbers increased by two per cent to total 317,100, the highest number on record, while suckler cow numbers increased by four per cent to 269,700. This increase in the number of cows on farm has been one factor behind the increased availability of cows for slaughter.

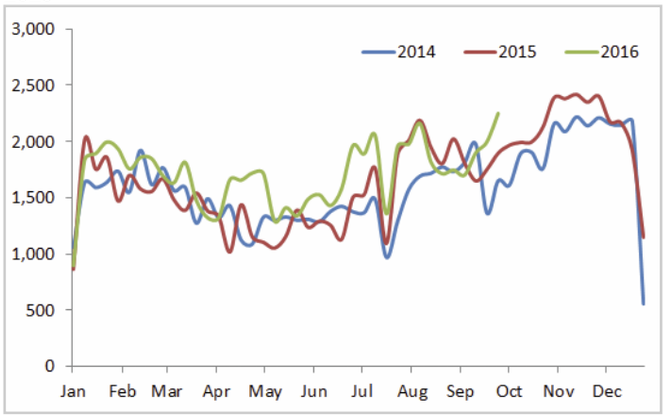
Exports of cows to ROI for direct slaughter were back by 18 per cent during 2016 to date when compared to year earlier levels which has further increased the availability of cows for slaughter in local plants. The level of export has shown a notable decline in the period July-September 2016 with 1,431 cows exported during this period compared to 3,275 cows in the corresponding period in 2015. During June-September 2016 58.7 per cent of price reported cows were of dairy origin, a slight increase from the corresponding period in 2015 when 56.7 per cent of cows killed locally were sourced from the dairy herd. Meanwhile the proportion of suckler origin cows declined from 43.3 per cent of the cow kill in the 2015 period to 41.3 per cent in the 2016 period.

The average cow carcase weight in NI during June-September 2016 was 298.6kg, a notable 9.6kg reduction from 308.2kg during the corresponding period in 2015. This can be partly attributed to an increase in the proportion of dairy cows in the slaughter mix but changeable and unsettled weather during summer 2016 will also have negatively influenced finished carcase weights.

The reduction in average carcase weights has helped to offset some of the increase in cow throughput in local plants. During the period June-September 2016 a total of 7,389 tonnes of cow beef was handled by local processors. This is a 1.2 per cent increase on the 7,302 tonnes handled by local processors in the same period in 2015 despite cow throughput being up by four per cent year on year.

Image 2: There has been an increase in cow throughput in local plants during 2016 to date.

Figure 3: Weekly cow throughput in NI plants January 2013 - September 2016



INCREASE IN CALF EXPORTS IN 2016

CALF exports from NI are primarily dairy sired male calves destined for further production in mainland Europe. Exports also tend to follow a seasonal pattern with the level of export peaking in the spring and autumn to mirror the calving pattern of the NI dairy herd. During September 2016 a total of 1,918 calves under 42 days of age were exported out of NI according to the latest available data from APHIS taking total calf exports for the year to date to 14,266 head.

Calf exports from NI during September 2016 were 13 per cent higher than September 2015 levels when 1,693 calves were exported, with calf exports during 2016 to date running five per cent ahead of 2015 levels. They do however remain behind the level of export recorded in the corresponding period in 2014 when 17,848 calves were exported.

Calf exports during 2016 to date are running ahead of 2015 levels despite a drop in the availability of dairy sired male calves in NI. During the first nine months of 2016 a total of 58,459 dairy sired male calves were registered in NI, a six per cent reduction from the corresponding period in 2015 when 62,214 dairy sired male calves were registered.

This decline in the availability of dairy sired calves has occurred despite continued growth in dairy cow numbers in NI. The DAERA June Agricultural Census recorded 317,100 dairy cows on NI farms, a two per cent increase from June 2015 levels. The drop in dairy sired calf registrations can therefore be attributed to an increase in the proportion of dairy cows being served using beef sires to maximise the value of the drop calf.

A decline in the value of sterling against euro has made NI origin dairy calves much more attractive to exporters servicing markets in mainland Europe. During 2014 and 2015 calves in NI were expensive in euro terms with sterling trading so strongly against the euro and as a result more of these dairy origin calves stayed in NI for further production.

As a result of reduced levels of calf exports during 2014/15 the number of dairy sired male cattle on NI farms aged 12-18 months in September 2016 totalled 18,517 head, a 17 per cent increase on year earlier levels. However with exports showing some recovery in 2016 combined with reduced numbers of dairy sired male calf registrations the number of dairy males aged 0-6 months and 6-12 months on NI farms in September 2016 were back on year earlier levels as indicated in Figure 4.

Spain continues to be the largest single market outlet for NI calf exports with 96 per cent of calves exported during 2016 to date destined for Spain. This is almost unchanged from year earlier levels when 95 per cent of calf exports were destined for Spain. During 2016 to date calves have also been exported from NI to France, GB, ROI and Italy although the numbers involved have been very small.

Figure 4: Dairy sired male cattle on NI farms by age category September 2014-16

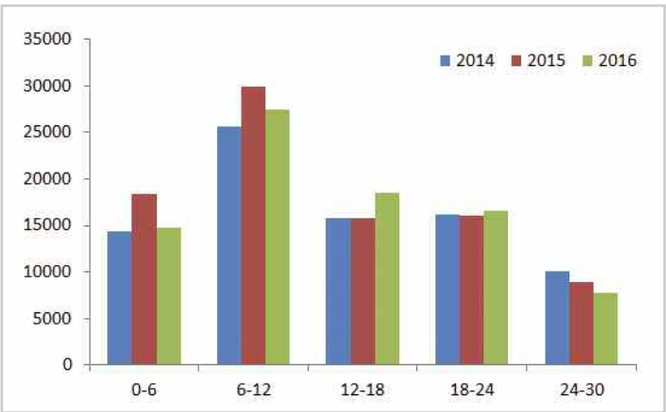


Image 3: NI calf exports during September 2016 were 13 per cent higher than September 2015 levels

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

FARM QUALITY ASSURED NORTHERN IRELAND

Information Point

LMC BULLETIN:

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LMC Price Reports Weekday Mornings & Evenings on BBC Radio Ulster

LMC MARKET INFORMATION

LMC'S Market Information Services are designed to support, examine and inform the NI red meat industry. The service aspires to support producers and processors with their decision making by producing accurate and timely information that creates a better understanding of the trade.

LMC is committed to creating an environment where our stakeholders are well-informed whether this is through our Market Information publications, the provision of basic statistics, further analysis of this data or the delivery of information through public events.

LMC encourages all of its stakeholders to utilise the Market Information section of the LMC website which provides a valuable source of statistics relating to beef and sheep meat production. If you require any further information or analysis please contact us directly via email at bulletin@lmcni.com or via telephone at 028 9263 3000.

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