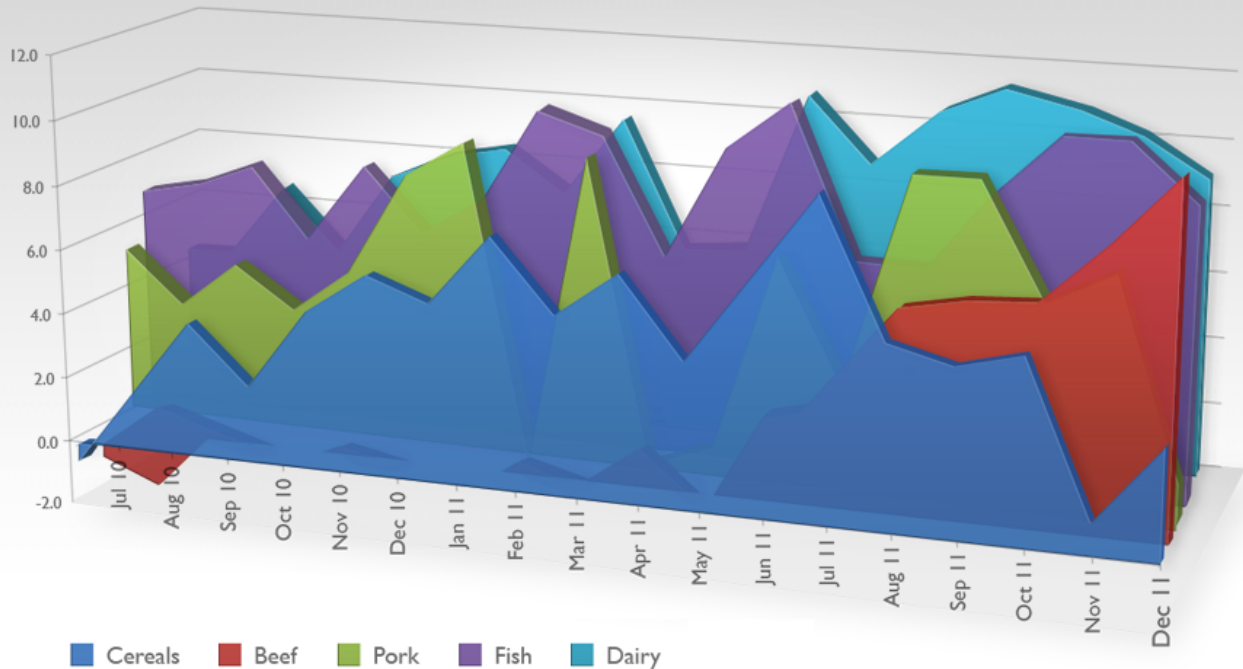




WINTER 2012

## MARKET REPORT

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



### ◆ RPI SUMMARY

Though the majority of commodity prices are continuing to rise year-on-year, there is a clear shift in the pattern. This last quarter has seen increasing economic and financial troubles as a result of debt crises in Italy and Greece in addition to political instability in Libya and Syria. This change has been most apparent in agricultural products such as cereals, beef and pork.

### ◆ GRAIN

Defra data released on the 10th January 2012 showed an 11% decrease in wheat usage by UK millers in November 2011 than November 2010. Wheat used by brewers, maltsters and distillers, however, demonstrated a 20% increase on the same period in 2010/11 with gains in the grain used in distilling offsetting declines in that used for malting. Total barley usage was also up at 6% higher than 2010/11. Compound feed production is 2% lower than the same point last year at around 4Mt, with a small increase in pig compounds unable to offset reductions in the amount of cattle, poultry and sheep compounds produced.

In general, grains are up year-on-year, with prices tending to mostly peak around May. In the last few months, reasonable harvests and the slowdown of the global economy has seen a drop in grain prices with improved supply and reduced demand expected for the year ahead.

### ◆ DAIRY

The milk price of just under 33p/litre for October reflects the enormous gulf between the prices received by UK dairy farmers and the real value of the milk they produce. The retail price for four pints of milk stands at just £1.25, which is 30p lower than in January 2011. With daily milk production 400,000 litres below this time last year, the hope is that this will galvanise retailers and processors into paying a fairer price. Meanwhile on the other side of the world droughts in Oceania reduced milk supplies, leading to a spike for skimmed milk powder and butter. Since the middle of 2011 the market has settled down somewhat as the EU released nearly 100,000 tonnes of skimmed milk powder intervention stocks and a decline was seen in Chinese demand.

### ◆ BEEF

2011 has been a remarkable year for the European beef trade with substantial price increases over the course of the year. In the UK in the week ending 11 December, GB prices were broadly similar to mid-November levels at £3.39/kg. However, during that intervening period prices peaked at £3.41/kg. It may offer some reassurance that Greek, Spanish and Italian prices have increased since then and displaced GB prices at the top of the pricings table. However, the ongoing slide in the euro will continue to cause concerns about the competitiveness of the UK beef trade since a weaker euro will render UK prices higher relative to Eurozone levels.



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**MARKET REPORT**

#### ◆ PIG INDUSTRY FINISHES STRONG IN 2011

Despite turmoil in eurozone countries, producers are reminded of the instant effect any changes in the value of the euro can have on the price of imports and the value of cull sow exports. Piglets prices continued to recover after hitting a very flat spot in the middle of the year with the latest Agriculture and Horticulture Development Board 30kg ex-farm piglets average rising to £44.12/head now that finishers have been able to lock in to cheaper rations due to falling cereal and soya prices. The latest HGCA ex-farm feed wheat price is now £139/tonne and those who claim to know about these things are not suggesting any sharp price rises in the next few months, but bear in mind that currency movements or the Chinese clicking their fingers for an extra few boat-loads can soon move the market one way or the other.

#### ◆ SALMON BRIDGING THE GAP

Employment in the salmon farming industry increased by 15% in 2010 and, when official figures for 2011 were confirmed last month, they demonstrated another healthy increase, bringing the total number of jobs created to over 400 during the last two years. The rise in demand for salmon has been helped by over £150million being invested over the last five years and substantial further investment is planned for 2012.

Global demand for fish is increasing as a result of increases in the population and a rise in the average consumption per person. However, almost 90 per cent of global fish and shellfish farming takes place in China and the Far East. Without farming, which now provides over half of the global supply of seafood, there would be severe shortages in fish supplies.

#### ◆ WHAT IS MOOD FOOD?

It has long been known that food can affect the way you feel. A warm, hearty broth can dispel the misery of a bitter, cold day or mother's home cooking warm the cockles of your heart and take you back to your childhood or a cup of coffee remove the mornings drowsiness. However, until recently, people have not really been paying attention to the science behind 'mood food'. With the theme at the Footprint Forum on the 22nd March being all about 'mood food', we make a brief attempt to describe what it's all about.

Changes in mood and energy can be affected by the fluctuations in our blood sugar levels, which in turn are affected by the types of foods we consume. Similarly, chemicals such as serotonin and dopamine set off triggers in the brain that can influence the way we think, feel and behave, again controlled by what we eat. It, therefore, appears increasingly important for buyers to understand the overall dietary profile of their customers in order to purchase the foods that hold the greatest influence. *The Mood Food Forum will take place on the 22nd March 2012 from 3pm-6.30pm at Deutsche Bank's HQ in the City of London*

#### ◆ GIANT BLUEFIN TUNA SOLD FOR £472,000

A Japanese restaurateur has paid an unbelievable £472,038 (56.49 million Yen) for a 593 lb bluefin tuna at Tokyo's Tsukiji fish market. The fish, caught off of Japan's northeast coast, has topped last year's record of 32.5 million Yen despite weighing 161 lbs less. The winning bidder, Kiyoshi Kimura, said he was determined to outbid foreign buyers who had beaten him in recent years also remarking that the decision to make the bid had been his sole choice and he was breaming with joy over his win...

#### ◆ CONCLUSION

The rate of price inflation has softened in response to reduced demand for commodities in most areas by comparison with the turn of the year into 2011. Reduced debt demands with personal budget inclination to cut back disposable spending suggests inflation will abate further. Caution in forecasting is required toward price instability linked to potential Iranian political or policy changes to oil sanctions. Additional quantitative easing will also increase the supply of sterling inferring an increase to inflationary pressures from the US dollar priced global food commodities.

Our summary of inflationary estimates indicate an annual inflationary budget of 3-3.5% will be realistic for 2012 provided either fuel prices or exchange rates do not spiral costs into speculative trading spikes and panic activity. We forecast inflation will be further mitigated by menu reviews, recipe engineering and slow moving stock.

As the high street suffer from reduced sales, we predict the consumer treating themselves through eating out rather than buying high value ticket items and following fashions. Lifestyle will drive grab n go and takeaways style foods, thus shifting eating out away from traditional mealtimes to lighter refreshment occasions thus reducing sales value.

PIP is the only organisation who benchmark using fully traceable prices.