

Market and Sector Insights Covid-19 Impact on Trade:

June 26th, 2020



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Macro Economic Context

Political

Boris Johnson announced significant easing of the UK lockdown from July 4th. Pubs, restaurants, museums and places of worship can all open from July 4th. The guidance in England has been updated to encourage 1m plus distancing rather than 2m. All indoor hospitality will be limited to table service, and there are unanswered questions as to the extent that pub and restaurants will need to keep the names of all customers for contact tracing purposes.

Official figures for the week ending June 12th revealed that in England and Wales there were 559 excess deaths compared to the average for the past five years. This figure brings the UK excess deaths figure to 65,202.

Economic

The IMF has revised downwards its expectations for the world economy in an update to its World Economic Outlook publication. The IMF now expect the global economy to shrink 4.9% in 2020 - a revision from the minus 3% it was predicting in April. It is most negative on the prospects for advanced economies - a group that includes Western European states. The IMF expects their economies to contract 8% on average - with France, Italy and Spain forecast to decline 13%.

The IMF forecasts contrast data on June's activity in the eurozone which showed stronger signs of normalisation than expected in the services and manufacturing sectors as restrictions linked to the covid-19 pandemic eased and consumption resumed. The IHS Markit eurozone flash purchasing manager index for services rose to 47.3 in June from 30.5 in May.

Societal

Germany has reimposed a lockdown for the first time since it began easing its restrictions on social contact last month, following an outbreak of covid-19 at a meat-processing factory in the western city of Gütersloh. More than 1,550 employees of the meat processing company Tönnies in the town of Rheda-Wiedenbrück have tested positive for Covid-19. Authorities said the lockdown would initially last for a week.

Portugal has tightened lockdown measures in the greater Lisbon region to tackle a worrying level of new covid-19 cases that risks damaging the country's efforts to promote itself as a safe holiday destination. The maximum limit on gatherings was halved to 10 people on Tuesday in 15 districts around the capital identified as the nucleus of the problem. An 8pm curfew on serving alcoholic drinks was introduced in the same areas.

In **Beijing** high rates of testing and stringent lockdowns on areas where infections have been recorded are making everyday life difficult for residents, but the new infection rate appeared to be declining rapidly. Just nine new cases were recorded on Monday this week - down from 22 the day before, and 236 in this new outbreak overall. Since it began, over 2.3m Beijing residents have been tested.

Saudi Arabia will allow only a small number of people already living in the country to perform the Muslim hajj pilgrimage this year to limit the spread of coronavirus. With more than 2.5m people going on the pilgrimage every year, the annual ritual is one of the largest religious gatherings in the world.

Sectors Insights

Meat Summary

Beef:

The beef market has seen very little change again over the last week. Base prices for R3 steers remained at €3.60/kg across the board, with R3 heifers receiving quotes of €0.05-€0.10/kg above that. These prices exclude “in-spec” bonus payments. Quotes for O grade cows are now generally between €2.80-€2.85/kg, with R grade cows achieving prices of €3.00-€3.10/kg.

Although market prices in Ireland have remained stable over the past few weeks, prices for prime cattle in Northern Ireland and the UK continue to improve. For the week ending June 13th, R3 steers and heifers in NI were receiving average quotes of £3.59/kg (€4.01/kg). Prices paid for R3 steers in Britain saw similar increases during the same week, with steers & heifers averaging £3.65/kg (€4.08/kg). Retail demand from our main markets remains good, while not as strong as in previous weeks. This has been compensated to some degree by the growing number of quick service restaurants that have opened for business and are reporting strong demand, which is reflected in weekly increases in throughput. According to the AHDB, burger and grill beef sales in the UK are up 30% on 2019, as the favorable weather conditions led to increase in barbequing. They also highlighted the importance of online sales during lockdown, with steak volumes sold online doubling in May and June. With the recent increase in demand as many of our export markets emerge post Covid-19, weekly throughputs continue to rise steadily. Cattle throughput at meat export plants for the year to-date, has declined by 4.2%, or 37,000 head, reaching a total of 832,000. Throughput for the most recent week ending June 20th totaled 36,422 head, an increase of 1,800 head (5%) over the equivalent week in 2019.

Livestock:

Live cattle exports continue to run well below the equivalent period in 2019. For the week ending June 13th, live cattle exports reached over 5,150 head according to the Department of Agriculture, Food & the Marine. Intra community trade of calves accounted for 55% of all exports.

Sheepmeat:

Factory quotes for lambs have taken another hit this week, with farm gate prices falling by a further 20-30c/kg, as the strong producer prices experienced during the height of the Covid pandemic are but a distant memory. For the week commencing June 23rd, many factories are now quoting prices of €5.30/kg, with QA lambs securing a 10-15c/kg price premium in most export plants. However average sheepmeat prices for 2020 are 32c/kg above average sheepmeat prices for the same period in 2019.

Sheep throughput for the week ending June 20th stood at 61,777 head, increasing on the previous weeks figure to become the largest sheep throughput of 2020. Throughputs for the year continue to run 5% above 2019 levels, with spring lamb throughput up over 43,000 head on 12 months ago. Recent data published by Kantar stated that lamb sales in the UK over the Easter and Ramadan religious festivals were lower than expected, with consumer spend on lamb decreasing by 15%. With lamb regarded as the meat of choice around these festivals, lamb sales for 2020 are expected to decline due to the impact of Covid-19 in Q2 of 2020.

Pigmeat:

Across Europe, the pigmeat market remains challenging, as global markets continue to rebalance from the impact of Covid-19. After successive weeks of price drops to the average Irish price, it has now stabilized. Irish pig prices are running 11c/kg below prices for the same week in 2019. The latest reported Irish pig price is making between €1.64-1.68 inclusive of VAT. Irish prices have fallen by around 25c/kg in the past 3 months, with European prices showing an even greater decline during this period.

A total of 70,880 pigs were sent for processing during the week ending June 20th 2020. This was an increase of over 7,000 on the same week 12 months ago. So far for 2020, pig throughput levels are currently running slightly above 2019 levels, with 1,637,762 pigs sent for processing in the Republic so far this year. This is less than a 1% increase in the throughput figure compared the first 25 weeks of this year. (+10,518)

European suppliers have benefitted from the safety valve that is International markets. For the first four months of 2020, European pigmeat exports increased by 8% to 1.9 million tonnes compared to prior year levels. The importance of the Chinese market continues to grow, with 55% of total European exports now destined for this market. In 2016, only one third of overall European exports were destined for the Chinese market.

Poultry:

Poultry supplies remain largely unaffected by Covid-19 at meat plant level. For the 1st four months of the year, poultry throughput is around 7% higher at 37 million head compared to the corresponding period last year. Demand remains firm, as consumers shop the category more frequently and purchase more per trip in response to lower prices. Given the decline in the foodservice category, poultry imports have declined by 28% to 29,000 tonnes in the first four months of 2020 compared to prior year levels.

Dairy Sector Summary

EU Internal Measures

At time of writing, tonnage offered in respect of aid for private storage total:

- **SMP:** 13,202mt offered by nine member states.
- **Butter:** 54,978mt offered by 17 member states (incl. UK). Largest volumes of product offered is in The Netherlands, Ireland and Germany which combined has a total 42,608mt (~77% of total in PSA).
- **Cheese:** 48,772mt with Ireland, Spain, Italy, Sweden, Lithuania and the UK offering their respective total permissible quantities.

Pricing Overview

There are signs of stabilisation in European pricing, while USA Cheese prices continue at pace. Butter continues to perform well with positivity peppered throughout the main core cheese and powder commodities. Oceania pricing is more bearish. There is a potential stock

overhang as we enter H2 as well as inter country governmental supports likely to have a bearing on market sentiment.

EU Pricing

Week 26 Dutch Dairy prices hereunder – up .5% overall.

Butter up €30, SMP down €20 and WMP up €50/mt.

Week 26/2020	WHEY €/tonne	BUTR €/tonne	SMPE €/tonne	SMPA €/tonne	WMP €/tonne	WOW % Diff
	€ 730	€ 3,150	€ 2,180	€ 2,020	€ 2,680	
WOW +/- EUR/PMT	⇒ €0	↑ €30	↓ -€20	⇒ €0	↑ €50	0.56%

USA Pricing

Block cheese continues to rally outstripping year on year prices by over 46% (young grades). Week 25 closed +5.16% on the previous week. The re-opening of foodservice / QSRs may be a contributory factor with some reports suggesting that sales in some outlets are particularly heavy on Dairy Ingredient in their offering (e.g. Pizza restaurants) for April and May, which are up anywhere between 15 – 30% year on year. Butter prices on CME are up over 3% week on week at €3630/mt. Caseins are slightly back week on week on CME: €7500/mt and €7772 for Acid and Rennet respectively.

Oceania Pricing – (GDT Event 262, +1.9%)

Just under 22,000mt offered with WMP and SMP, the lions share between them accounting for over 16,000mt and both were up on previous event by 2.2% and 3.1% respectively. Lactose and Cheddar also got a bounce of 0.4% and 1.4% respectively.

Seafood Sector Summary

The recent outbreak of Covid-19 linked to the fish markets in Beijing has the potential to negatively impact the already fragile recovery of the seafood market in China. The outbreak has caused both of the large markets in Beijing to be shut down for decontamination and the market in Guangzhou has also had to close temporarily. The knock-on effect of these closures has already been felt in Ireland, with orders for oysters and brown crab being either cancelled or drastically reduced in the days that followed, but it is to be hoped that it is a short-term phenomenon and that trade will resume in the near future. It is also hoped that the incident will not deter Chinese consumers from purchasing high value raw seafood imports in the future.

Sales of Irish organic salmon have not been impacted. Irish salmon has successfully managed to hold its price and in fact Irish producers have increased their staff numbers to cope with the growing demand for their fresh and frozen prepack formats.

Alcohol Sector Summary

According to Drinks Industry Ireland (quoting Nielsen), sales in the off-trade for the 4 week period to 17th May 2020, achieved growth of 66% year-on-year, volume of 22m litres. While this offers significant relief to suppliers, it falls significantly short of the total sales across on-

trade and off-trade year-on-year, which was recorded as 38m litres. Among spirits, gin had an outstanding performance with growth at 69%, while stout sales increased by 151% and cider by 101%. Nielsen's data shows that alcohol was the fastest growing category of all grocery, and this trend is expected to continue as the weather gets warmer in July and August.

Diageo has announced a €14m fund to assist pubs in their re-opening efforts. All pubs in Ireland will be eligible and the fund will be dedicated to compliance with social distancing through funding of PPE, training and technology. The support will be extended over a 2 year period.

Prepared Consumer Foods Sector Summary

The growth in the number of foodservice outlets opening in the UK and on the continent has resulted in a weekly growth in volume. This demand is being driven by an increase in the numbers of consumers visiting outlets and by foodservice distributors rebuilding stock. Client companies in both frozen and value added meats are reporting growth from the European QSR sector. Foodservice volumes in the Irish market are also showing growth. This is being driven by the easing of lockdown restrictions. Farmers markets have been open for a number of weeks. These markets provide a key sales outlet for a diverse range of local artisan food producers. The social distancing requirements relating to Covid have resulted in changes to trading practices with more space required between stalls, this has proved challenging in some locations. Our smaller producers are reporting that consumers are happy that the markets have returned. While volumes have not recovered fully, they are stable and are providing a regular revenue stream to traders.

The demand for retail products is still showing year on year growth. Consumers continue to minimise their trips to the shop and have reduced their time in-store. On-line retail sales continue to grow as a result. The demand for larger pack sizes remains strong as more meal occasions are consumed in the home.

Horticulture Summary

Edible Horticulture

Demand in the multiple retail channel continues to be strong, Irish tomatoes and strawberry season is in full swing, with growers reporting strong sales. There is a noticeable upsurge in sales of fresh produce and microgreens into foodservice with more take-out and full service restaurants operating in the take-home channel. The biggest issue now for growers is lack of rain, we are officially in drought. Mushroom demand has been good to date because of a strong performance from the UK retail trade. The foodservice sector in the UK market, while less important than the retail segment, is nonetheless an important outlet; this, however, continues to be impacted negatively as a result of the foodservice shutdown. Amenity exports to UK and Holland have resumed.

Amenity / Ornamental Horticulture

Nurseries continue to report brisk orders from all sales channels with consumer demand for plants high with retailers reporting 100% sell through in 24 hours. This brings a number of challenges with a large number of growers having cancelled orders for seedlings/inputs (ingredients) to mitigate against further losses, or their suppliers have ceased production due to uncertainty of sales. This has led to stock shortages in some categories.

Market Insights

Topline Takeouts:

- Cautious Consumers move out of lockdown
- Foodservice waits for recovery
- Discounters prove attractive
- Innovative online shopper tools
- Early mover S. Korea sees foodservice improvement

Retail

Cautious Consumers

As shoppers increase engagement with retailers, convenience stores in the **UK** are experiencing sales growth (+17%) while visits to supermarkets have also increased over the past four weeks according to Nielsen and Kantar.

Polish shoppers are balancing fewer visits to supermarkets with expenditure as once-a-week visits become the new normal and while **Russian** consumers are gaining confidence, Romir reports that 33% indicate that they will never again spend as much in restaurants, entertainment, and travel.

Having arrived in store, **China** Mintel reports that consumers are more likely to trade-up to food categories perceived as healthy; while in the **Middle East** Frost & Sullivan report that consumers are looking to boost immunity with fresh foods, focusing on dairy products, fruits and vegetables.

Working-from-home eating habits in the **Netherlands** have seen growth in the cheese and dairy categories; the assumption being that more people are consuming cheese sandwiches as well as specialty coffees; cheese is also being incorporated more into home cooking and salad-building.

Online

Online shopping continues to prosper post lockdown. In **China**, JD's online fresh food business "JD Fresh" recorded an 800% increase in sales year-on-year in the first hour of its grand promotion on 18 June according to Food Navigator Asia.

Retailer Reaction

Increasing **UK** retail footfall is sharpening competition for shopper business and is evident from Tesco's launch of its own-label price-matching campaign intended to compete with the discounters Aldi and Lidl. In **Poland** Tesco is selling its 301 stores, head office and distribution centre to the Danish Salling Group for £181m due to challenges in the market according to its **CEO**.

Supermarkets in the **Netherlands** have now begun to promote “buy one get two free” offers - a rare phenomenon and an indication of competition in categories such as beverages.

Lidl in **Germany** lowered retail prices this week (22 June), eight days ahead of the government VAT reduction while supermarket chain Edeka is claiming a greater share of the retail market due to their strong focus on fresh, organic and high-quality produce.

Sustainability issues are re-emerging post-Covid with Lidl in **Belgium** deploying climate experts to its main suppliers as it aims to reduce its CO2 emissions by 36% by 2030.

In **France**, specialized organic stores increased their customer base by 22% during the lockdown; 31% introduced new online systems and 83% adapted their offer to support French producers by reaching out to local suppliers, according to LSA.

In **China** PR News Wire reports that WPIC Marketing + Technologies has placed a call for applications under “Batch II” of their accelerator programme in time for the 11.11 shopping festival. The programme aims to assist organizations around the world seeking rapid APAC market access.

Food Navigator Asia reports that in **China**, Huiyuan, one of the largest juice brands, has joined the Pinduoduo platform in response to the growth in e-commerce in recent months. The brand already has stores on the other two main platforms, JD and Tmall.

Innovative Online Shopper Tools

Coop **Sweden** has started previewing “Cooper”, a web based Artificial Intelligence virtual retail assistant. “Cooper” has been programmed to handle enquiries on approximately 125 different topics relating to recipes, store information, membership and online shopping.

“Grab **Malaysia**”, an Uber-style response to consumer demand for “safe, instant deliveries for food, drinks, snacks and other essential goods” says participating grocery retailers have seen a 300% rise in sales after joining the platform.

Meanwhile Coca-Cola vending machines on around 2000 sites in **Australia** and **New Zealand** are accepting bitcoin to reduce contact during Covid-19.

Foodservice

Early mover South Korea sees foodservice improvement

Foodservice continues to rebuild as guidance on social distancing and consumer confidence evolves. A positive indicator comes from **South Korea**, which has seen sales in McDonalds grow 9% in the first four months of this year.

China Mintel’s latest consumer impact report found that discretionary spending is still slow to recover in June although confidence can be seen in supermarket operator Carrefour’s plan to open 100 restaurants at its existing stores there.

Turnover across the **German** hospitality industry fell sharply (76%) terms y-o-y. Hotels and accommodation providers were hardest hit by the pandemic, reporting a reduction of 88.6% in sales in April while in **Poland** and **Central Europe** the index for the dining sector is still down almost 30 points, according to latest statistics from CSO Poland.

Online responses continue to provide solutions to flagging demand in the sector. An online drinks platform “Legal HomeDelivery.com” supported by two Dubai off licenses MMI and African + Eastern offers (for the first time ever) alcohol products for delivery across the **Dubai** region to ex-pats and non-Muslim customers.

In the **UK** Foodservice Wholesalers Bidfood and Brakes have introduced job cuts. Brakes initiated plans to make hundreds of staff redundant while Bidfood is looking to restructure its business to cope with the downturn in trade. The sector continues to adapt to make businesses viable. Westminster Council announced it will enforce temporary road closures in the Soho area to enable hospitality businesses trade outdoors.

Local Manufacture and Logistics

Germany's Westfleisch and Tönnies, the biggest meat processors in Germany, have announced cancellation of their service contracts in order to switch to permanent in-house employees. This follows the closure of “Tönnies” due to more than 1,000 new Covid-19 infections. The company has 30% market share and an average daily slaughtering throughput of 30,000 pigs.

In the **Netherlands** brewers re-commenced operations with the reopening of the on-trade. Despite Dutch people consuming more beer at home, it cannot compensate for the reduction due to café and restaurant closures. Beer sales dropped by 36% in March, a further 32% in April and again by 7% in May.

The global transport and logistics provider SV Panalpin with services based in **Denmark** has finalized a sale and leaseback arrangement with the French investment company Corum Asset Management for the new DSV International Shared Services Center in the business district of **Warsaw's** Mokotów.