

# Market & Commodities update

## October 2020



# Frozen Veg

Everyday Favourites Peas

Brassicas

Sweetcorn Kernels/Mini Corn Cobs

Mixed, Pre-Prepared & Coated Veg

April and May were some of the driest months ever recorded in Northern Europe. In Southern Europe, May also has been much warmer than normal, with peaks above 35c which is very abnormal for this time in the season. Strong rainfalls more recently have since disturbed the plantations of summer crops.

The rainfall in recent weeks was more than welcome but it cannot compensate the damages experienced in previous months. Pea plants are seen to be missing many pods which is having a real impact on what is being taken from the fields. At the end of June, we see a new heatwave with temperatures around or above 30 c in the Northern growing zones. This current heatwave will be less impacting than at the beginning of June thanks to the recent rain although the soil reserves remain very low, so the situation is still very challenging. These extreme weather conditions of the last few weeks and months are creating big stresses for the crops with a real impact on yields and quality leading to price increases across the board.



# Canned Veg (Tomato Puree & 20kg BIB)

## Everyday Favourites Tomato Purees

### Riverdene 20kg Bag-in-Box Tomatoes

Conditions in the South of Italy have been dry and there has been concern about the lack of rain. Also, the inability of agricultural producers to bring foreign seasonal workers to the fields because of border restrictions resulting from COVID-19 is causing great concern amongst grower's cooperatives.

All this has lead to an impasse on pricing agreements between growers and producers with one leading supplier paying 23% more than last year. As a result we have an increase on 20kg bag-in-box chopped tomatoes



# Canned Fruit (Rhubarb)

## Everyday Favourites SP Rhubarb

We have managed to keep costs at bay for 8 years, but unfortunately inflationary pressures - cost of labour, tin and raw material has meant we have had to accept a small increase

# Canned Meat (Astra Pork)

## Astra Pork Shoulder

Increase due to currency and overall increase in the price of Pork since when we last reviewed prices last autumn

# Canned Beans & Peas

## Branston Baked Beans

Princes continue to experience inflationary cost pressures in many areas within currency, can/can ends, raw material and logistics which they have tried to mitigate where possible. However, it is with regret that they need to start to pass these on to their customer base.

## Everyday Favourites Baked Beans

## Everyday Favourites Processed Peas

Due to continued pressure relating to currency FX, raw material availability, specifically navy beans with the adverse effect of a lower dollar rate than last year (c.\$1:27), increases on sugar and tomato paste, labour and energy amongst other variables, it is with regret that the supplier Princes needs to pass on some of these on-costs leading to increase on Beans and Peas.

# Flour (Own Label)

Everyday Favourites 16kg Flour

Everyday Favourites 1.5kg Flour

The increase is being driven by the upcoming wheat harvest. This year we are looking at a reduction in wheat production of over 40%. This means that demand will outstrip supply. This decrease was caused by heavy rain during planting which meant that farmers were not able to get in to the fields to plant the crop.

# ***Butter Update***

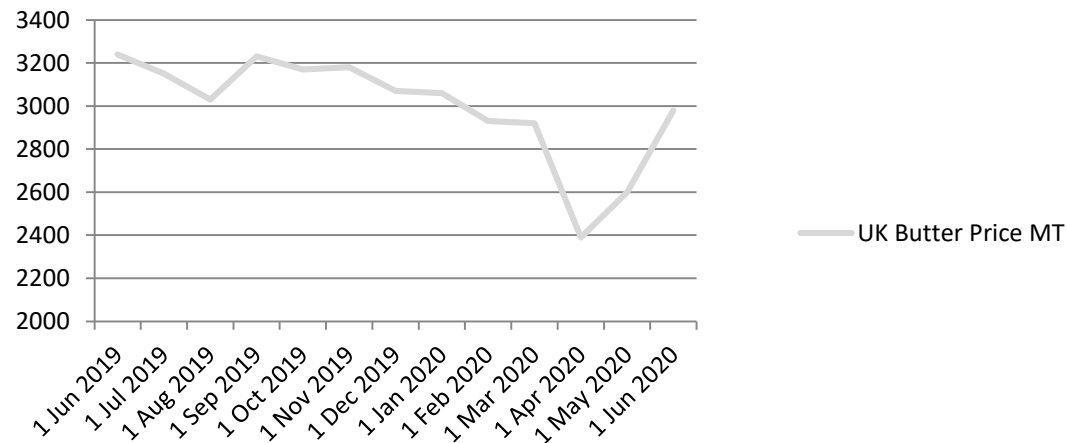
- The dairy market has seen unprecedented swing in it's value this year. Prices collapsed in April, with the closure of the hospitality sector but have now returned with hefty increases with the return of demand following the ending of lockdown. Further concerns over availability for the end of the year have pushed prices up again.
- Although the levels of increase seem high, butter prices are still around 20% less than the levels in 2019.
- We anticipate prices will remain high as UK prices are comparatively cheap compared to EU and New Zealand prices. This will reduce availability in the UK and keep pressure on prices.



# ***Butter Pricing 1<sup>st</sup> September 2020-end December 2020.***

- The dairy market fell sharply when the lockdown was announced earlier this year. And our current butter prices reflect this downturn in price. However with the reopening of restaurants and the move out of lockdown, the butter price has been rising and these new prices reflect the upwards trend that we are now seeing in the dairy market.
- Initial quotation indicted a price rise of around 25% however we have been able to negotiate these down for both packet butter and on portions and dishes.

**UK Butter Price MT**





# Fresh Milk Update

- Milk Availability. When the UK lockdown started many farmers and processors were left with an excess of milk. There were many reports that farmers were pouring milk away; with the closure of the hospitality sector there was a very sudden drop in demand. Farmers were then actively encouraged to curb milk production as supply outstripped demand.
- Bidfood was fortunate to be contracting during this time and we were able to take advantage of this drop in demand and contract at unusually low prices. These prices were fixed until the end of August 2020.

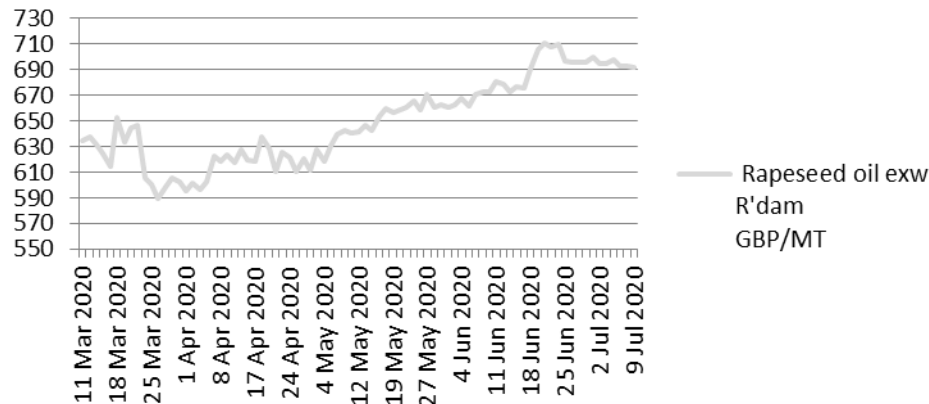
# Milk Pricing 1<sup>st</sup> September Onwards

- A combination of the dry weather in May and efforts by farmers to curb milk production, then led to a fall in milk availability in the UK. With the opening up of the hospitality industry in July demand for milk has increased (although it still remains far less than pre lockdown). Buyers have re entered the market and prices have now risen. Production levels remain less than pre lockdown forecasts.
- To support their farmers our supplier has already increased their farm gate price by 1 pence per ltr as of 1<sup>st</sup> July, a further 1 pence per ltr in August and have committed to a further 3ppl as of 1<sup>st</sup> September. The low prices of this year are not sustainable for the dairy farmers which has led to many farms retiring or switching out of dairy. To ensure the long term sustainability of the dairy market, Freshways are supporting their farmers to ensure they have adequate returns for their milk.
- These increases will be reflected in the new prices on fresh milk and cream that will be effective from the 1<sup>st</sup> September 2020.

# Oil Update

- Both the EU & UK harvests have been poor this year, recent forecasts predict the harvest to be as low as 16.54 million tonnes, which would be the lowest figure since 2006.
- The oil market is very quiet at present as the recent lockdowns has suppressed demand and the demand for oil for biodiesel. However prices have risen since we contracted.
- We are closely monitoring our demand for oil and the market and will look to update you later in the year on pricing for 2021.

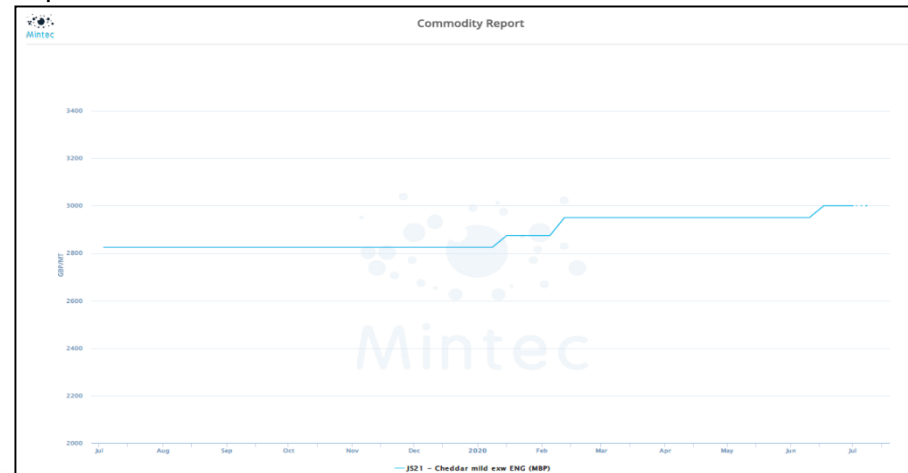
**Rapeseed oil exw R'dam  
GBP/MT**



# Cheese

- **Market Update**

- The Cheese market was flat for most of 2019, particularly on Mild Cheddar, however since early 2020 prices have started to rise.
- Although the weather in the first quarter was mild, the long spells of dry weather in April, May and June have affected the grass quality for the cows to feed on.
- The lower prices on Cream and consequently Butter has resulted in Cheese prices holding firm, as the dairy producers balance the returns on the various dairy commodities
- Mozzarella prices have been very volatile in the past 6 months with prices low in April due to excess availability post-lockdown, to much high prices more recently as milk prices rise and demand increases
- Brexit uncertainty has returned has also returned with Irish suppliers wary of potential high tariffs on imports in to the UK from January 2021 onwards, which is also keeping British Cheddar prices firm
- Pricing is expected to be stable, with no significant changes anticipated



# Branded Fish & Seafood

## Fish & Seafood Update

- Increased demand for minced product has pushed pricing up and limited availability.
- As a by-product of fish processing, the volume of mince available to buy is determined by demand of H&G raw material.
- Only 0.5% of the fish is processed into mince block. The less H&G raw material processed, the less mince in supply.
- Reduced demand of H&G Fish in the Foodservice market and an increase in demand of mince product in the retail market during Covid lockdown has created a perfect storm, leading to even less availability of mince block.
- In summary, current demand is outstripping supply.
- Exchange rate volatility from the beginning of the year have pushed prices up across some product areas. The rate was \$1.32/£ at the beginning of 2020, as of the 17<sup>th</sup> July the rate sits at \$1.25/£, a 5.3% decrease.

## Bidfood

- Proposed increase across 21 Young's lines.
- Mitigated proposed increases down to circa 4% average decrease across 17 Young's lines.
- 4 of these products are minced based.

# Drinks

- **Aimia (Own Label Dilutes)**
  - Part of own label tender with price held for 18 months
  - Increase due to price rises in raw material, blackcurrant and lime syrup
  - Also impacted by increased labour cost
- **Belvoir**
  - Increase delayed for over 6 months
  - First increase in 2 years with cost pressure on packaging, distribution and input costs
- **Fentimans**
  - Higher than inflation increases on ginger and sugar, over the last 12 months
- **Fevertree**
  - Increase delayed for over 6 months
  - Inflationary pressure dictating price increase on range.
- **Innocent**
  - Increase on 5 lines across a range of 45
  - Increase delayed from March to October
  - Price increase due to packaging used on 330ml packsize

# Drinks - Continued

- Johnson Chilled Juice (Hains Daniels)
  - Increase on half of the range (3 of 6)
  - Delayed for over 6 months
  - Increase on raw material, orange and lemons
- Marlish
  - Increase due to change of route to market meaning the supplier can deliver nationally apposed to regionally
- Refresco (Calypso and Cott Beverages)
  - Increase on selected lines due to changes in legislation, plastic to paper straws.
  - Increase on cost of Packaging Recovery Notes
- Villa Soft Drinks
  - Increase delayed for over 6 months
  - Increase driven by packaging, raw material, labour and transport costs

## Snacks

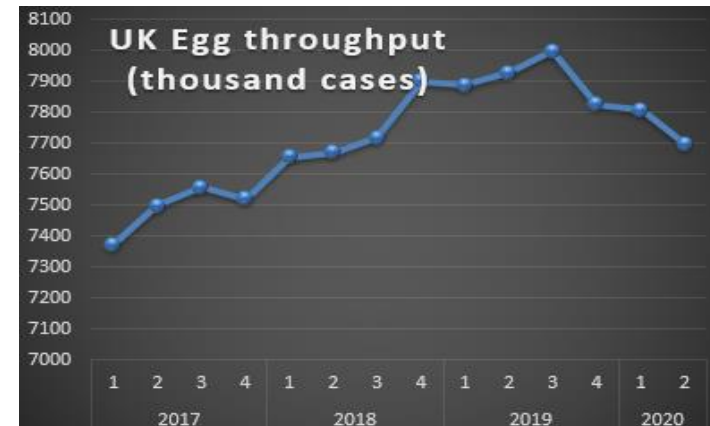
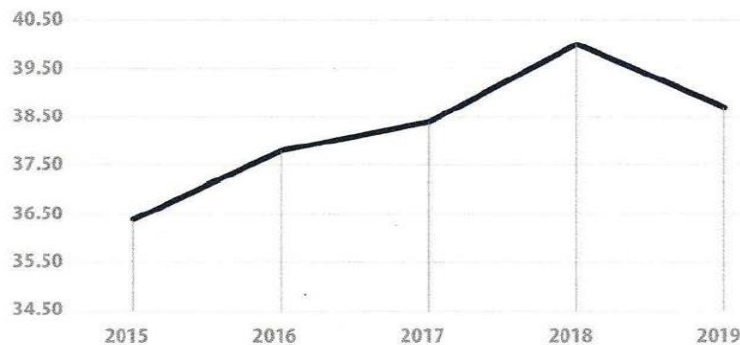
- Pipers
  - Increase delayed for over 6 months
  - Increase in key ingredients and commodities



# Shell Eggs

- A substantial drop in egg availability has been compounded by a huge increase in demand, pushing prices up.
- **Avian Influenza (AI)** at the beginning of the year across Europe and parts of the UK saw hundreds of thousands of birds culled. There were outbreaks reported in:
  - Poland
  - Slovakia
  - Ukraine
  - Hungary
  - UK Northern Ireland
  - UK Scotland
  - UK Suffolk
- A **rebalancing of the egg market**, which has seen an oversupply in free range and reduced producer returns as a result has slowly been coming about. Many producers put additional free range flocks down in anticipation of greater demand after most of the food retailers made pledges to move to 100% cage free eggs. This led to an over supply in the market up to mid 2019, by which time many producers had actively stopped producing and were not replacing flocks when they were at the end of their laying cycle, after the returns they were getting were so low and in many cases not covering costs. The result of this is that there were fewer producers, fewer flocks and fewer eggs.

**ANNUAL CHICK PLACINGS TREND**



- Most of the food retailers and indeed many other food businesses have pledged to **move to cage free eggs** by 2025 or in some cases earlier.
- In an attempt to be ready to meet this expected increase in demand for cage free eggs, producers have been **converting** existing enriched colony sheds to either barn or free range. Because both barn and free range stipulate that birds kept in these systems have more room (a lower stocking density), the sheds hold far **fewer** birds and therefore while the number of sheds remains the same, there are fewer birds and eggs. Systems with birds out of cages also tend to have a higher number of damaged eggs because they can be laid anywhere, whereas enriched colony systems have conveyor belts that collect them.
- In addition to the lower stocking density, the conversion of sheds from enriched colony has had another negative impact on production and availability. It takes approximately **6 months for a shed to be converted** and for those 6 months it cannot house any birds. Therefore every conversion means a 6 month period of time that the shed is producing no eggs.
- The cost for converting sheds runs into millions of pounds and also has an impact on egg pricing. Producers are having to charge more so that they can invest in their businesses. Many producers have not yet recouped the multi million pound investments (£400 million across all UK suppliers) that had to be made prior to January 2012, when an EU directive that came into law meant that all battery cages had to be replaced. Most UK producers moved to what is known as an Enriched Colony system, which shares some similarities with caged but with notable improvements in welfare for the birds. The new system adopted saw cages include enriched features such as a scratch area, perch and nest box and birds kept in colonies because the number of birds kept in these significantly larger cages was typically up to 80.

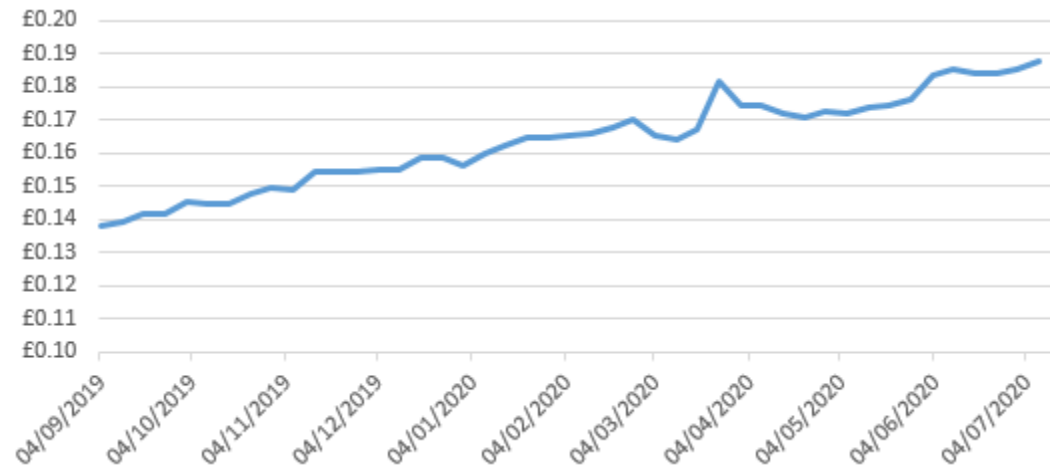
## **Tesco to stop sourcing eggs from caged hens by**

**2025**

## **All major retailers to go cage-free by 2025**

**Every major UK supermarket has now made a commitment to end the sale of eggs produced by caged hens by 2025.**

- Feed prices have been increasing steadily since last year, with wheat, which makes up about 80% of a birds feed, having increased since Jan 20.



## Wheat price rises on lower harvest estimates

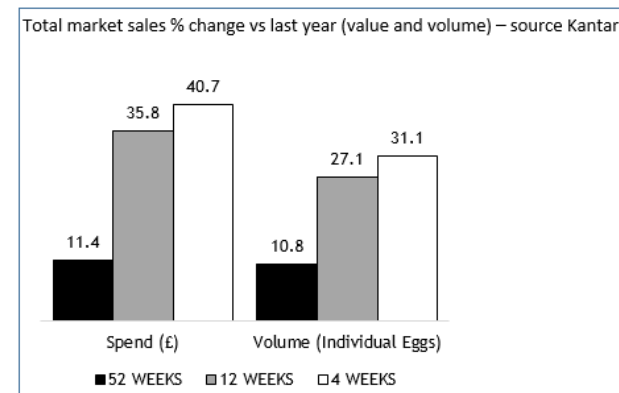
Following the AHDB's final plantings survey showing the UK wheat area down 25% on 2019, the French agriculture ministry this week reduced its forecasts for the French wheat crop to 31.3m tonnes, compared with last year's 39m tonnes-plus.

Early yield reports from Russia have also prompted consultancy IKAR to revise its expectation for the country's wheat crop down by 1.5m tonnes to 78m tonnes.

- **Higher demand** in retail has far exceeded production, While demand for eggs in foodservice declined during the recent national lockdown, retail demand from March onward was akin to Christmas, with consumers forced to cook and eat at home rather than eating out and it being reported that the year on year sales of eggs in the UK are up by about 30%.
- The UK consumes approximately 35 million eggs a day, 60% of which was purchased through retail. The remaining 40% was split evenly between foodservice and the processing industry. Simply switching the egg normally intended for restaurants, pubs etc into retail is difficult, with much of the egg used in foodservice (not Bidfood) and processing being imported, meaning those businesses such as ours and the UK retailers (who have committed to selling only UK Lion egg could not necessarily take it).
- Indeed availability for UK lion eggs has been so tight that it was recently reported that Sainsbury's has had to source eggs from Italy and Spain in an attempt to fill shelves.
- Demand is so high that to incentivise producers to put new flocks down again, keep producing and sell their eggs to them, packers are having to pay higher and higher prices to secure eggs. Because of the surge in demand, all the UK packers are desperately chasing around for eggs and while packers have contracts with their producers, other packers are approaching these same producers and offering them even more to secure their eggs. Unfortunately there is little packers can do to stop this except to outbid the other packers, with legal action taking months and not securing them the eggs in the meanwhile. Producers are taking advantage of this and making hay while the sun shines, which could also be described as profiteering.

## Sainsbury's looks to foreign eggs as demand surges

Egg prices rise following surge in retail demand



- Following **Covid 19** a nationwide lockdown was introduced in the UK in late March, the foodservice market stopped ordering eggs overnight. Suppliers faced huge uncertainty and many decided that rather than continue to operate as normal, incurring huge costs to feed and produce eggs without anyone to sell them to, that they instead close their sheds, cull the birds and wait to see what happens with foodservice.
- While free range can be diverted to retail because most supermarkets have either already gone 100% free range or are a long way down the road to, with no major improvement in demand from foodservice, suppliers are reluctant to replace the enriched colony birds that they culled, which has only made egg availability tighter.
- The Coronavirus led to **panic buying** and a surge in demand for eggs that saw many supermarket shelves empty as suppliers could not keep pace. Tesco for example had 11 of the 18 shell egg sku's it sells listed as unavailable and this was a constant theme across the other retailers.
- Because of the difficulty retailers had in keeping shelves full with eggs and in an effort to avoid a repeat, whereas they have traditionally taken large eggs, they have now been taking any egg sizes and offering suppliers much enhanced pricing. The supermarkets operate on much bigger margins and they are therefore able to pay substantially higher prices for eggs. This has resulted in everyone else having to pay higher prices to compete and secure eggs.
- We did successfully mitigate several cost increases in April, with suppliers looking for increases of up to almost 40% on some products