

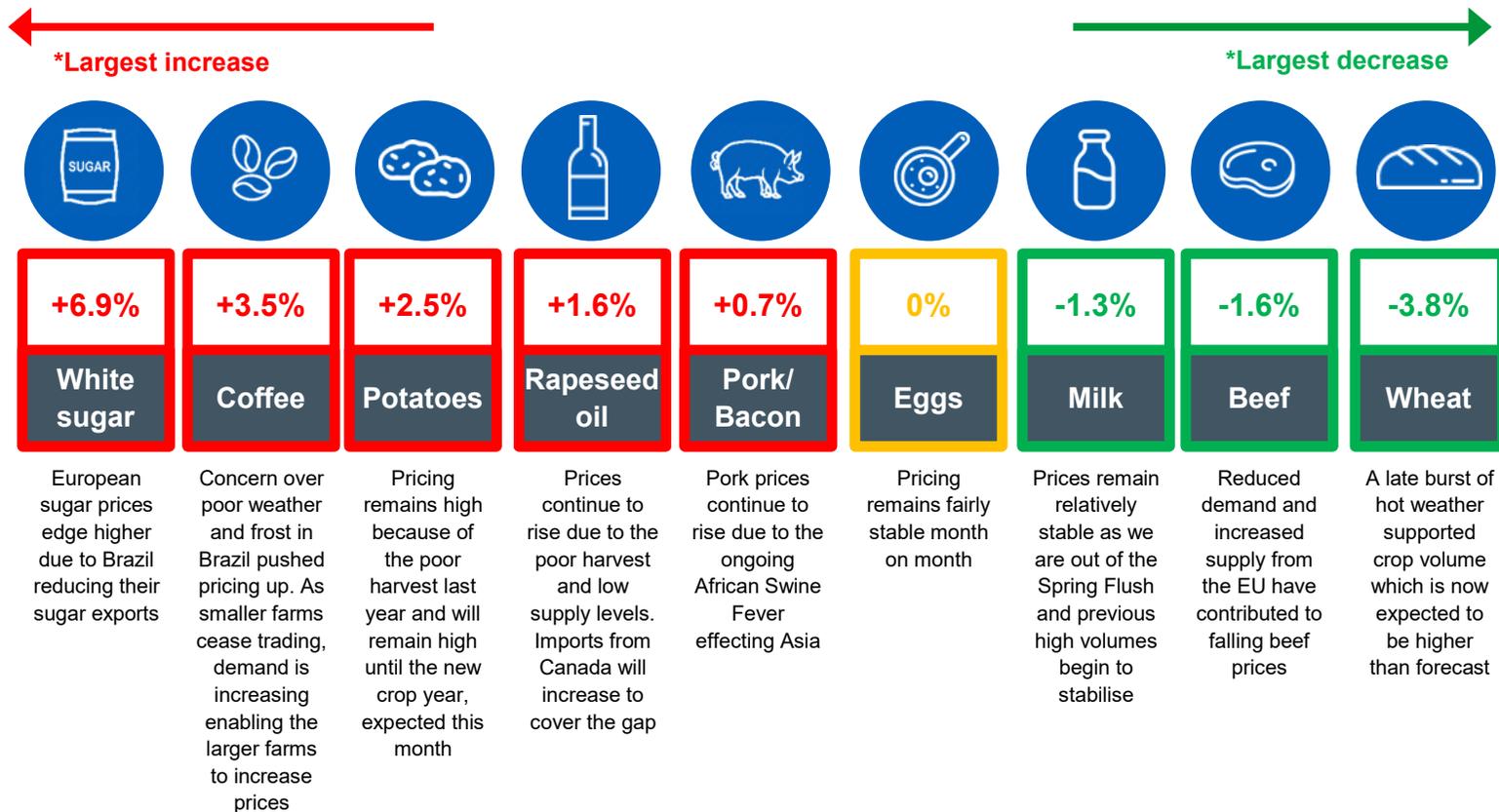
Price Watch - August 2019

NHS Supply Chain: Food



Market movers

The month on month movements below reflect raw commodity pricing movements and not actual NHS Supply Chain pricing. These products have been chosen based on spend and frequency of use within the average lunch menu. The movements below are inclusive of any potential component parts. For example, milk will impact everything from cream to a béchamel sauce within a ready meal..



Sources: Mintec and AHDB

Meat and poultry

Pork and African swine fever - African swine fever (ASF), which began in China in August 2018, is a highly contagious viral disease impacting domestic and wild pigs. The disease has spread throughout China, killing the national herd, leading to a shortage of pork. China is covering the majority of its supply shortfall with imports of pork from other countries and other proteins. Chicken is the primary substitute as it is most similar in terms of product and price. This means Chinese imports of poultry have increased by 41% month on month and reports suggest chicken prices are already on the rise due to higher demand. Imports of beef and lamb to China have also increased by 51% and 24% respectively. This increase will start to put a strain on the global market in the second half of 2019 and could carry on into early 2020. With China being a big consumer of protein, ASF is having a large impact on global protein prices.

Beef - China has finally lifted the import ban on British beef that has been in place since 1996 due to the mad cow disease epidemic in the UK. The deal is worth an estimated £230 million to UK farmers over the next five years and the first exports of UK beef to China are expected by the end of the year. Appeals from the meat and farming industry for the long term falling of British beef prices have been made to the government and to retailers. Beef prices have been slowly falling for the past couple of months whilst feed and fuel prices increase. The unions have called on the retailers as well as the companies purchasing on behalf of government contracts to stock more domestic beef. Reduced demand and increased supply from the EU have contributed to falling prices.

Turkey – Due to the unprecedented heatwave in France last month, there could be a shortage of turkey in the UK this Christmas. French hatcheries provide 25% of the UK’s turkey eggs, however the heatwave has caused a 10% reduction. It is uncertain yet whether this will have a knock-on effect on supply and pricing for turkeys this Christmas.

Key takeaways:

- China has lifted the import ban on British beef that has been in place since 1996
- There could be a shortage of turkey in the UK this Christmas due to the heatwave in France last month



Dairy

The dairy market is still experiencing high stock levels and good production. Coupled with the ‘summer lull’, where annual holidays begin across the continent and traders go on holiday, prices are relatively stable and on the low.

Cream – Cream prices in July fluctuated based on changing demand. This was due to the cold, wet start to the month which meant the expected demand for cream with summer fruits in the UK didn’t materialise. Towards the end of the month, demand increased as Europe experienced a heatwave, meaning prices increased. Overall, market pricing is down 3% month on month (MOM).

Butter – Butter prices continue to decrease, down 3% MOM, as a result of high stocks, currently outweighing the low demand.

Skimmed milk powder (SMP) – Demand for SMP over the past few months has remained high which resulted in an increase in price as well as production. This has now stabilised and pricing has eased. Production also increased because SMP is produced by drying excess milk, so it is a good way to clear the current high levels of milk in the market.

Mild cheddar – A short maturation time, coupled with high levels of milk in the market means we are expecting mild cheddar prices to have dropped by now. However the price has remained stable over the past few months with very little movement due to low demand.

UK Wholesale Dairy Prices

£/tonne	Jun-19	Jul-19	MOM (%)	Jul-18	YOY (%)
Bulk cream	1,450	1,410	-3%	2,150	-34%
Butter	3,240	3,150	-3%	4,880	-35%
Skimmed Milk Powder	1,820	1,810	-1%	1,340	35%
Mild cheddar	2,830	2,830	0%	3,050	-7%



Fish and seafood

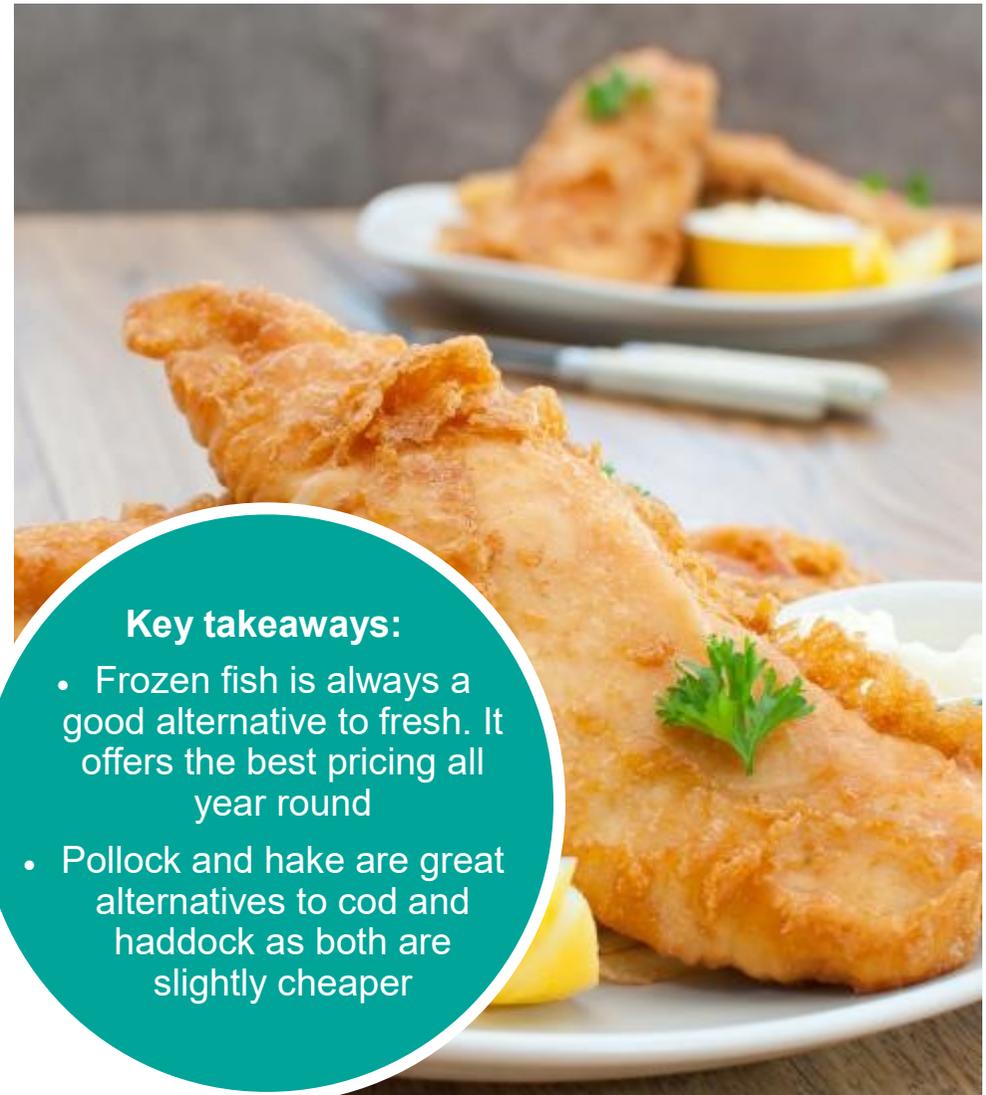
August is a mixed month for fish and seafood. Increased daylight hours mean fishermen can remain at sea for longer, however the holiday season is well underway and annual quotas have come to an end, so many fishermen have already returned for the season.

White fish – As quotas come to an end and boats return from sea, we see reduced availability. Cod prices have increased significantly as the European Commission has put a ban on commercial fishing of cod across the majority of the Baltic Sea until the end 2019. The ban is a result of stock levels plummeting, meaning cod can no longer reproduce sufficiently to maintain healthy stock levels. Pollock remains a cheaper alternative to cod and haddock, although prices have also increased slightly. Hake is another good alternative, particularly as fresh prices have eased this month.

Salmon – Following a recent algae scare for Norwegian farms, we're yet to hear of any further updates, so we're hoping for no further impact on price and supply. However, salmon prices are largely dependent on the actions of Norwegian farms. It's expected that Norwegian farms will continue to harvest throughout August, resulting in stable prices for the month.

Seabass and seabream – We've seen mixed pricing across the market with some suppliers choosing to fix prices ahead of the new generation of fish coming into the market in the coming months. We've also seen some increases as the weakening exchange rate has negatively impacted the price, typically for fish sourced from Greece and Turkey.

Marine Conservation Society (MCS) ratings – MCS ratings are in the process of being reviewed. The revised ratings are scheduled to be released in September so look out for an update in the next edition of Price Watch.



Key takeaways:

- Frozen fish is always a good alternative to fresh. It offers the best pricing all year round
- Pollock and hake are great alternatives to cod and haddock as both are slightly cheaper

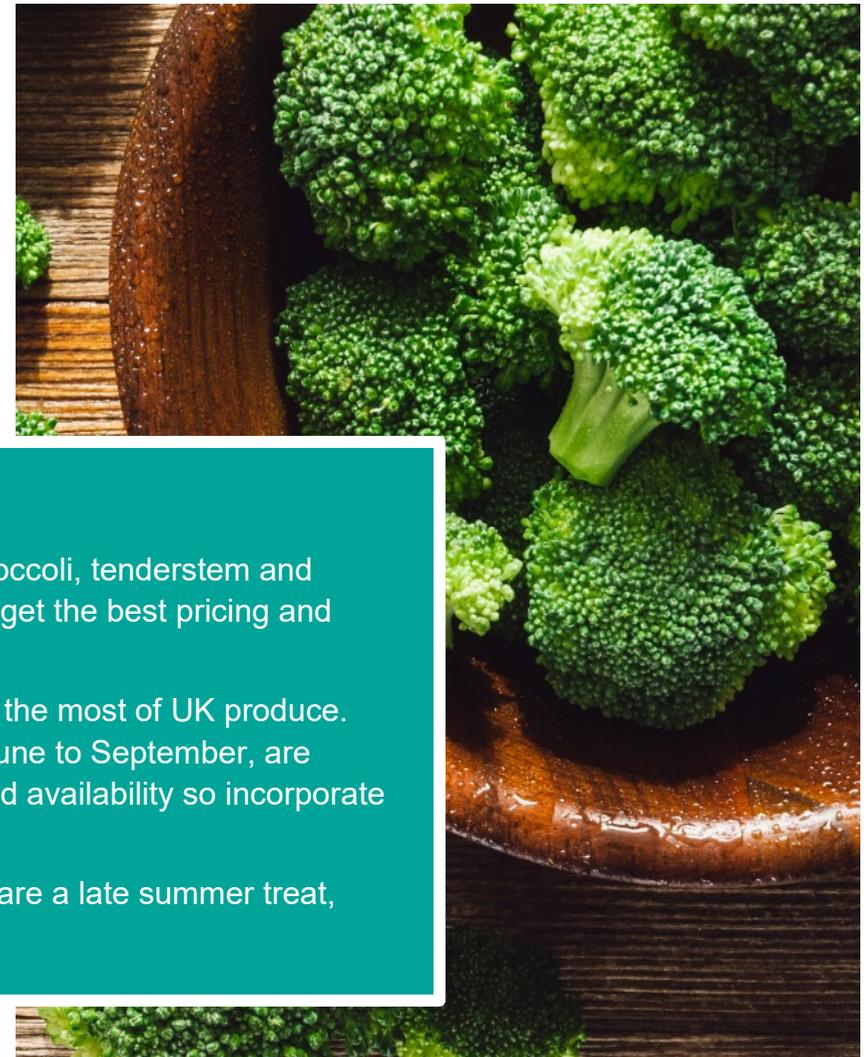
Fruit and vegetables

Broccoli and cauliflower – Heavy rain in Lincolnshire in June has had a big impact on the availability of broccoli, tenderstem and cauliflower. This has meant suppliers are having to import broccoli from Spain and tenderstem from Kenya to recover shortages. This is likely to be an issue for the next few weeks and as a result, market pricing will increase. We recommend switching to frozen to help ease the pressure on demand.

Mushrooms – Recent warm weather in Poland has impacted the temperature of the compost production, resulting in smaller yields of brown mushrooms. As a result, availability is likely to be impacted so we recommend switching to other types of mushrooms such as white button mushrooms.

Avocado – High winds are causing major delays to shipments of avocado from Peru and South Africa, leading to shortages here in the UK. The delay also means the quality of the avocados has deteriorated before arriving in the UK. As a result, availability will be low and market prices will increase.

Potatoes – After a very tough year, the new potato crop is in sight. The remainder of the old crop is likely to have scabbing and scarring due to the natural deterioration over time. The new crop looks promising, but it is still early days. Growing conditions have been favourable with a good balance of sun and rain, however, farmers are being cautious as the cool overnight temperatures and dry soils are causing some delays to the new crop.



Key takeaways:

- Where possible, switch to frozen broccoli, tenderstem and cauliflower for the coming weeks to get the best pricing and ease the pressure on demand
- August is a great time to be making the most of UK produce. Courgettes, grown in the UK from June to September, are currently good in terms of quality and availability so incorporate into your menus where possible
- Raspberries, also grown in the UK, are a late summer treat, perfect for your summer menus

Hot beverages

Coffee - the coffee market remains turbulent with significant price hikes in the first half of 2019. In fact, the price of coffee peaked to its highest in 12 years – c.\$1.15 for Arabica, up from consistent lows of \$0.95. This has been primarily driven by cold weather warnings across the coffee growing regions of Brazil, one of the world’s largest producers of coffee, potentially causing a harmful frost. There were concerns this would cause significant damage to crops which prompted prices to rise, however fortunately there was no sign of frost.

Supply of both Robusta and Arabica beans remains good, which has stabilised pricing slightly, however, the real challenge for the industry is that coffee farming is proving unprofitable for many growers. More and more growers are now looking to farm other more profitable commodities such as cocoa. This means the larger coffee growing regions are increasing their prices due to higher demand. We are monitoring the situation closely and will provide updates in the coming months.

Despite some unpredictable coffee bean pricing, UK coffee shops are booming, showing 20 consecutive years of growth. The UK coffee shop market is said to be worth £10.1bn. Many hospitality businesses suffered closures and losses in 2018, however the total UK branded coffee shop segment bucked the trend by adding over 1,300 stores in 2018.

Tea – Kenya has the highest levels of tea production in the world, however it is also predominantly sourced across Africa, India, Sri Lanka & China. Although 80% of all UK tea sales come from black tea, this is in decline as consumers are starting to enjoy fruit and herbal blends. Green tea is well known for its health benefits, but consumers are now buying peppermint, vanilla and fruit teas, which surprisingly don’t contain any tea at all! As popularity increases, we are seeing price rises across peppermint, rooibos, and vanilla due to short supply and high demand.

Consumer demand for plastic free is also increasing. Many tea manufacturers are working towards solutions for plastic free teabags, however, this is driving inflation as expensive research into new teabag production is required. Remember you don’t have to use a teabag; easy plastic free tea is available the ‘old fashioned’ way, with loose leaf tea leaves served in a teapot.



Trends that will help drive revenue for 2019:

- Promoting health and wellness through hot beverages, particularly among younger consumers, is vital
- Offering seasonal ranges continues to engage new, and retain loyal, customers
- Improvements in technology such as loyalty apps, smart payment systems, interactive menus can make a big difference in maintaining footfall
- Displaying tea and coffee credentials, certification and sourcing programmes for consumers to see
- Bundle deals continue to drive sales as more brands promote lunch and afternoon deals

Grocery

Tinned tomatoes – The extremely hot weather in Italy last year, coupled with flooding during the planting season in May and June this year, has resulted in the market price of tinned tomatoes increasing by 3% year on year (YOY). This has not been helped by the weakness of exchange rate for UK importers from the EU. The 2019 harvest is expected to be lower than forecasted, mainly due to the flooding, which will result in further price increases.

Tinned tuna – Last month, tuna prices dropped to record lows of \$1,000 per tonne, down 29% YOY. This is due to surplus stock and very little storage space coupled with low demand. As tuna is sourced from countries like Thailand, Ecuador and Ghana, the recent weak exchange rate coupled with customers taking advantage of low stock value, has contributed to month on month (MOM) increases of c.20%.

Rapeseed oil – Rapeseed oil, predominantly sourced from the UK, has experienced a poor harvest and a 13-year low in supply levels. The total European crop forecast for 2019 is down 9% year on year. This is partly due to the recent dry weather and lack of rain in Europe. This means prices will increase over the next few months.



Key takeaways:

- The 2019 harvest of tinned tomatoes is expected to be lower than forecasted, which will result in further market price increases
- Last month, tuna prices dropped to record lows of \$1,000 per tonne, down 29% year on year
- Rapeseed oil has experienced a poor harvest and a 13-year low in supply levels

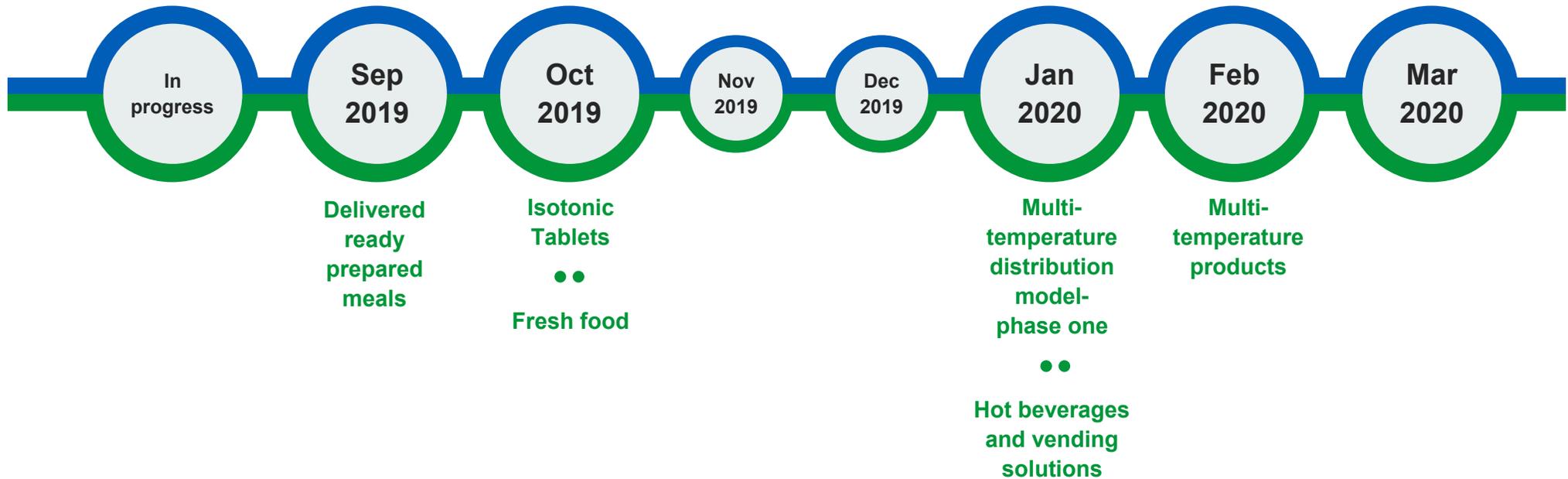
Activity calendar

Our sourcing calendar provides you with an overview of all our food procurement activity. Above the line, in blue, shows when our procurement team will begin our sourcing strategy. Below the line, in green, is our anticipated launch date to trusts.

Key:

- Sourcing strategy begins
- Anticipated launch to trusts

Isotonic Tablets



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