

Brexit and food commodities

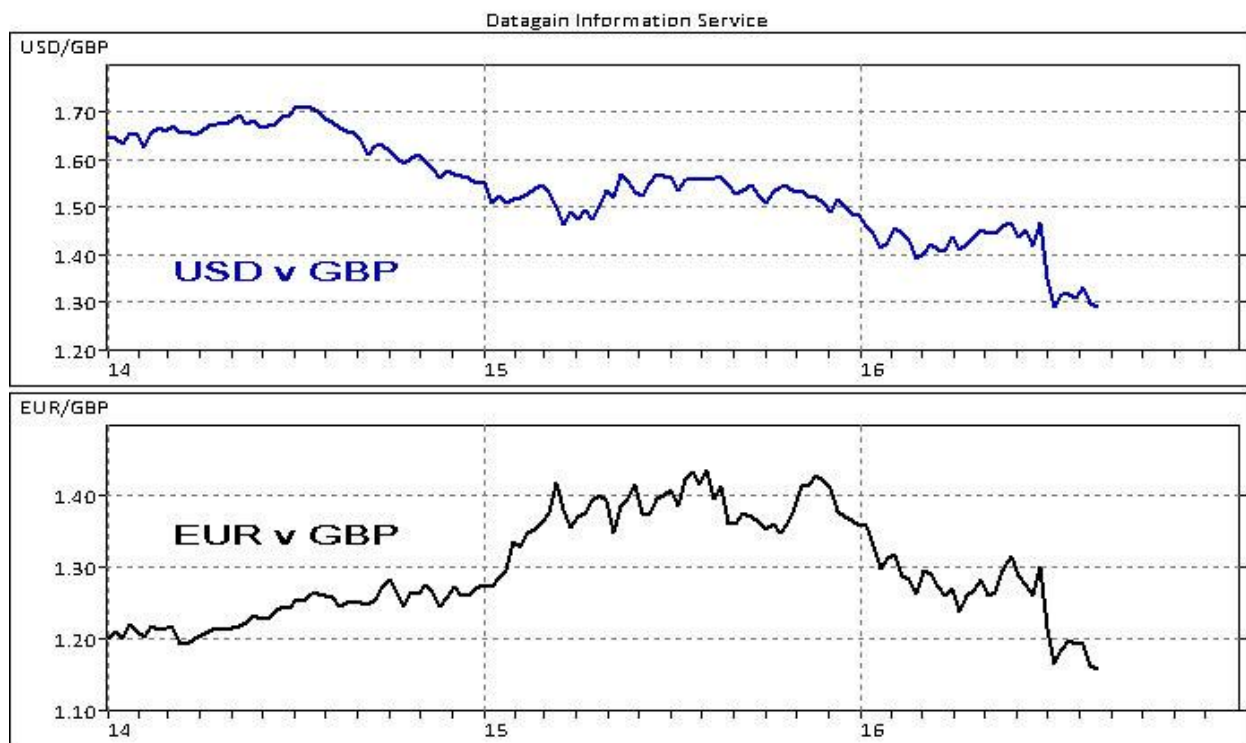
August 2016

The potential impact of Brexit has been keeping us all anxious since Great Britain voted to leave the EU on June 23rd. Britain's economy is the fifth largest in the world and the second largest in the EU. Any destabilisation at this level is likely to have an impact on all aspects of our lives. In this article, we will look at what impact Brexit has had on food commodity prices so far.

In the wake of the referendum, a range of agencies have cut the short-term economic outlook for the UK, due to the drop in investor confidence and potential loss of trade. However, the evidence coming in so far is not quite as straight forward.

The latest study by the National Institute of Economic and Social Research shows the UK economy contracting by 0.2% in the month following the Brexit vote. However, retail sales rose in July despite earlier fears, although this could be largely due to warmer weather. In addition, it is likely that food prices will be less vulnerable to economic headwinds than non-essential spending, as demonstrated during the downturn following 2009.

So far, the single most visible short-term impact has been from the well-documented weakening of Sterling. After the immediate drop in value post-referendum, the GBP stabilised against both the USD and EUR in July, but fell again in August after the Bank of England base rate was set to a new record low of 0.25%, down from 0.5%. GBP remains near a 2 year low against the EUR and a 31 year low against the USD.



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Around 40% of all food consumed in the UK is imported, and will therefore be directly impacted by the weakness of Sterling. According to the National Farmers Union (NFU), only 15% of the fresh fruit sold in the UK and 55% of the vegetables are grown here.

Top 10 UK food and drink imports (value)

Commodity	Value (1000 \$)
Wine	4,808,152
Prepared Food	3,306,005
Chicken	8,114,157
Pastry	2,225,419
Cheese	1,927,917
Chocolate Products	1,890,076
Beef & Veal	1,196,866
Soft Drinks	1,060,521
Soybeans	1,054,441
Wheat	1,031,146

Source: FAO; latest available data

Most of the UK imports come from the EU. In fact, 61% of UK food exports go to the EU, while over 71% of our total food and drink imports are from EU countries.

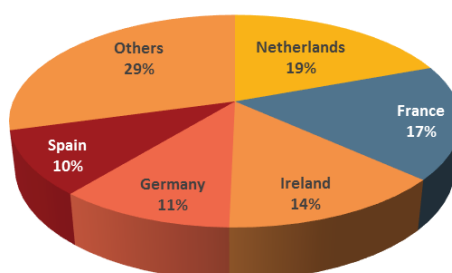
The Netherlands is the top EU exporter to the UK, accounting for 19% of total EU food exports. Add in France (17%), Ireland (14%), Germany (11%) and Spain (10%), and together these 5 countries supply over 70% of the food the UK imports from the EU.

Top 10 UK food and drink imports from the EU (volume)

Commodity	Imports ('000 tonnes)
Wheat	1,244
Maize	1,099
Prepared Food	939
Beer of barley	749
Wine	661
Pigs	574
Soft Drinks	571
Potatoes, frozen	543
Pastry	534
Waters, ice etc	501

Source: FAO; 5-year average based on the latest available data

EU food imports to UK





Data 2015

A weaker pound means a wide range of commodities have become more expensive for the UK food industry, although any impact on retail prices is yet to be seen. The table below shows price movements for a range of commodities, in both their home currencies and the pound, in the weeks following the referendum. We can see that prices in GBP terms rose significantly across most markets.

Price movements of key commodities

Food	Price GBP/ tonne	Change %	Native currency/ tonne	Price	Change %
Coffee Robusta ICE EU	1421	22.1%	USD	1848	8.2%
Chicken TH	815	20.3%	THB	38000	8.6%
Palm Oil EU	530.4	19.4%	USD	690	5.7%
Butter NZ	2363	19.0%	NZD	4400	8.1%
Beef BR	2088	17.9%	BRL	8400	-4.5%
Rapeseed EU	616.6	17.7%	EUR	718	5.3%
Coffee Arabica ICE NY	2413	15.1%	USD	3138.24	1.9%
Soyabean Oil EU	614	14.9%	EUR	715	2.9%
Sultanas TR	1249	14.7%	USD	1637	2.3%
WMP EU	1838	14.6%	USD	2425	2.9%
Pork EU	136.6	14.6%	EUR	1630	5.1%
Sugar ICE London	410	14.4%	USD	533.4	-0.1%
Wheat Euronext Paris	145.8	14.1%	EUR	169.75	2.1%
Rice TH	327.5	13.7%	USD	432	2.1%
Olive Oil ES	2649	13.4%	EUR	3090	1.6%
Pepper IN	8844	13.0%	USD	11500	0.0%
SMP EU	1488	12.8%	USD	1962.5	1.3%
Pork DK	122.4	11.7%	EUR	1461	2.5%
Lamb NZ	2824	11.0%	NZD	5260	0.9%
Vanilla MG	179854	10.3%	USD	237210	-0.9%
Desiccated Coconut EU	1555	9.7%	USD	2038	-2.1%
Potato NL	18.93	7.1%	EUR	230	0.0%
Chicken EU	1486	6.7%	EUR	1770	-2.4%
WMP NZ	1680	6.1%	NZD	3130	7.9%
Cocoa Butter London	5635	5.6%	GBP	5533	3.7%
Durum Wheat IT	182.1	5.6%	EUR	212	-5.5%
Cocoa Powder London	1697	5.6%	GBP	1696	5.5%
Coconut Oil EU	1137	4.4%	USD	1480	0.0%
Eggs NL	605.7	-1.1%	EUR	738.6	-7.3%

Non-food	Price GBP/tonne	Change %	Native currency/tonne	Price	Change %
Aluminium LME	1273	14%	USD	1657	1.4%
Cotton ICE NY	1219	27%	USD	1586	12.3%
Copper LME	3750	17%	USD	4879	3.8%
NBSK Pulp EU	624.3	13%	EUR	726.98	1.2%
Steel Coil EU	365	10%	EUR	425	-1.2%
Crude Oil Brent	255.7	-1%	USD	332.7	-12.2%
Diesel EU	298.8	-1%	USD	388.75	-12.3%

Source: Mintec; *Change of the latest available data compared to 22.06.2016

Another source of concern could be a potential rise in input costs, such as energy and labour. Crude oil is traded in USD, and therefore exposed to currency risk. However, as we can see from the table above, prices have remained relatively unchanged in GBP terms for crude oil and products. Prices for crude oil fell over summer, driven by good supply and reduced expectations for global demand growth, ironically partly helped by Brexit concerns. However, due to the weakness of the pound, those of us in the UK have not seen any benefit from this drop in USD.

The UK food industry relies heavily on seasonal EU workers, both for the production and harvesting of raw materials, and also in food processing. However, at least in the short-term, any disruptions or changes to the supply of labour are unlikely until Article 50 of the Lisbon treaty is triggered. Broadly speaking, the same applies to the supply of imported food commodities. Currency, however, will remain a significant factor, especially as the recent interest rate cut will only add to downward pressure on the pound.

Yuliya Nam-Wright

Company profile

Mintec Limited

Mintec has a long and successful history of working in partnership with sales, purchasing and supply chain professionals, primarily in the retail, manufacturing and food service sectors. We deliver unique understanding and valuable insight into a vast range of worldwide commodity and raw materials markets.

Using innovative technology and a highly experienced and knowledgeable team of specialists, we have the proven ability to provide independent insight and trusted, authoritative data, and to translate this into expert analysis. This expertise helps the world's most prestigious brands to make the intelligent, informed decisions needed to reduce costs, manage risks and realise commercial opportunities in order to reach their business objectives.

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