Pig Market Trends

April 2014, Issue 107

In this Issue

Outlook for UK supplies

With UK pigs set to remain in short supply for most of the rest of this year, the overall supply of pig meat will depend on the global market. Disease issues in both the EU and US have the potential to significantly disrupt trade flows over the coming months, providing both opportunities and threats for the UK industry. To read about how these factors will impact on supplies on the UK pig market, turn to page 4.

UK pig price premium

Since the late 1990s, UK pig producers have consistently received higher prices for their pigs than their counterparts in the rest of Europe. But why are UK prices higher than elsewhere in the EU? The premium is often attributed to the UK's better animal welfare standards, leading to higher production costs, but is this really the case? The situation is analysed on page 5.

EU forecasts

According to experts from across the EU, pig supplies are set to tighten further in 2014. Most of the major producing Member States are forecasting a decline in slaughterings, due to falling sow herds. This means that, despite the Russian ban on EU pork imports, the outlook for prices is relatively optimistic. You can read more about the forecasts and their implications for the EU market on page 7.

China

The Chinese pig industry, the world's largest, has continued to grow steadily, as has the level of pork consumption. However, the industry is currently facing low prices and poor profitability, which could lead to lower output and higher demand for imports in the medium term. Read about developments in the Chinese pig market on page 8.

PEDv in the US

BPEX has analysed the potential impact of PEDv on the US hog industry. The estimated total impact on slaughterings will be around 7% for the whole year, leading to a 3% drop in pig meat production. The impact on output will be highest over the summer and will continue into 2015. To read more about the latest situation in the US turn to page 10.

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Key data

	Mar 14	Change since Feb 14	Change since Mar 13
GB DAPP (euro-spec) – p/kg dw	162.78	-1.39	+5.82
Average GB carcase weight – kg	80.67	+0.13	+0.93
30kg weaner price - £/head	55.93	-0.27	+8.38
7kg weaner price - £/head	40.54	-0.79	na
GB cull sow price – p/kg dw	na	na	na
EU Reference price – €/100kg dw	155.57	-8.05	-15.55
UK Reference price – €/100kg dw	188.97	-6.63	+12.28
UK weekly clean pig kill – 000 head	194.5	-1.3	+2.7
UK weekly pig meat production – 000 tonnes	16.5	-0.1	+0.5
UK pork imports – 000 tonnes*	25.9	-3.7	+1.4
UK bacon imports – 000 tonnes*	19.9	+0.8	-0.1
UK pork exports – 000 tonnes*	14.0	-1.7	-0.2
Retail pig meat sales – 000 tonnes†	54.6	-0.5	-1.7
LIFFE feed wheat futures - £/tonne	165.86	+11.91	-32.22
CBOT Soyameal futures - $/tonne	459.66	+6.65	+35.14

* Figures relate to February 2014

† Figures include household purchases of pork, bacon, sausages and ham and relate to 4 weeks to 30 March 2014

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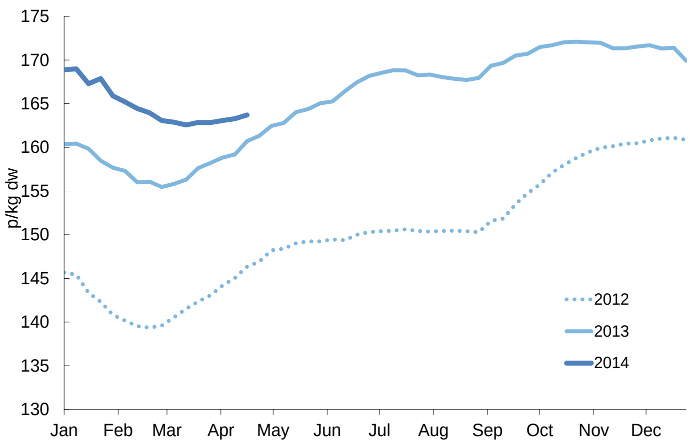
UK Market Snapshot

GB finished pig prices fell for the fifth consecutive month, with an average of 162.78p per kg in March. This was 1.39p lower compared with the previous month. Prices normally rise in March but the recent outbreak of African Swine Fever (ASF) in the EU caused prices to drop across the continent. Despite the decline, finished pig prices were almost 6p per kg higher compared with the same month last year, although the annual gap has somewhat narrowed in recent months. Pig prices in April showed the delayed seasonal increase, to reach 163.71p per kg for the week ended 19 April, up 3p on the same week a year earlier.

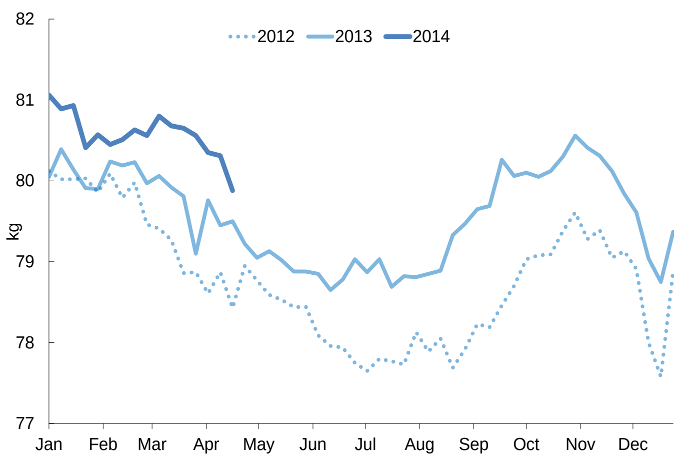
GB finished pig prices (DAPP)



Source: AHDB Market Intelligence

Carcase weights in the DAPP sample picked up marginally from the previous month, against the normal seasonal trend, averaging 80.67kg in March. This was almost a kilo higher than in March 2013. However, recent weeks showed some signs of the seasonal decline normally expected from mid-March. For the week ended 19 April, carcase weights fell to 79.88kg, their lowest point so far this year, although they often drop temporarily around Easter. However, weights remain well above last year's level, offsetting tight pig supplies, which remain similar to a year earlier.

Average carcase weights for GB finished pigs

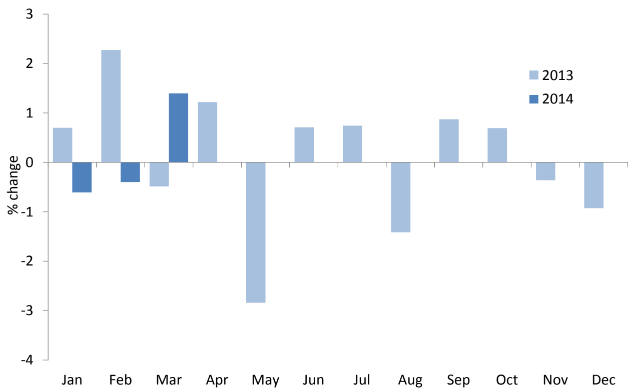


Source: AHDB Market Intelligence

The price of a 30kg weaner fell during the third month and averaged £55.93 per head. This meant that the average in March was only marginally down on the previous month but remained £8 per head higher compared with the March 2013. So far in April, the weaner price has generally increased slightly, in line with the normal seasonal trend. For the week ended 19 April, the price of a 30kg weaner reached £57.75 per head, its highest point since December. The monthly average price for a 7kg weaner edged down to £40.54 per head and prices have fallen a little further during April, averaging £39.89 per head in the latest week.

UK clean pig slaughterings in March totalled 778,000 head. This was 1% higher compared with the same month in 2013. Higher throughputs this year are partly a result of one extra working day, given the Good Friday Bank Holiday was at the end of March last year. There was a similar trend in England and Wales, whereby throughputs increased by almost 2% to 632,600 head. Pig slaughterings in Northern Ireland also rose by 2% on a year earlier, as a result of higher domestic supply. Scottish throughputs were down 8%, however.

Annual change in UK clean pig slaughterings



Source: Defra

Adult pig slaughterings in March totalled 19,800 head, almost 4% lower than the same month in 2013, continuing the recent decline. Clean pig carcase weights during the month averaged 81kg, up 2% on the same period in 2013 and only marginally lower than the record levels in January and February. Consequently, pig meat production increased by 3% year on year to 65,800 tonnes in March.

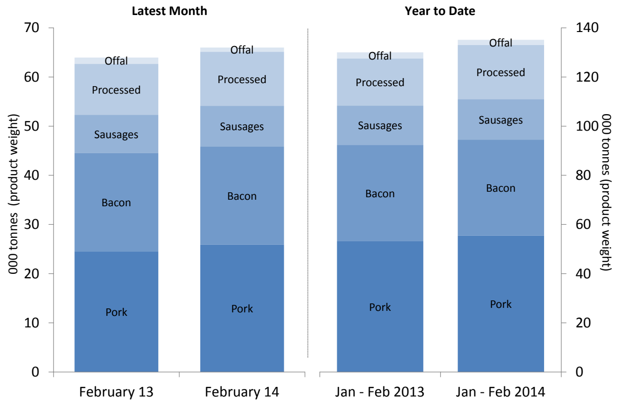
UK clean pig slaughterings in the first quarter of this year showed some stability, with only a marginal increase on a year earlier, to a fraction over 2.5 million head. However, higher carcase weights encouraged pig meat production, which was up 2% to 212,200 tonnes.

According to the latest figures published by HMRC, UK pork imports in February strengthened by 6% on the year to 25,900 tonnes. The increase was largely a consequence of higher supplies from Germany, up 22% compared with the same month in 2013. In addition, increases were recorded from some smaller suppliers,

UK Market Snapshot

including France and Spain. Higher imports in the latest month perhaps indicated that some UK buyers took advantage of the large gap between EU and UK prices, particularly after the ASF cases in Poland and Lithuania. However, Denmark as the primary supplier reduced trade with the UK by 4% year on year. Less product was also imported from the Netherlands (down 9%) and Ireland (down 4%) than in the previous February. Bacon imports were marginally down on a year earlier at 19,900 tonnes, although Danish and Dutch supplies were both up by 7%. Processed ham imports were higher by 6%, despite shipments from Ireland, the leading supplier, falling by 8%. Similarly, sausage imports were also up 7% year on year.

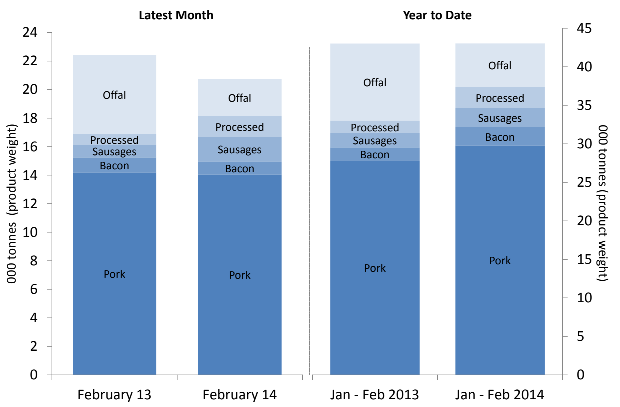
UK pig meat imports



Source: Her Majesty's Revenue & Customs

UK pork exports, on the other hand, weakened slightly in February, with shipments down 1% on the previous year at 14,000 tonnes, the first year on year decline since July 2012. This was largely a result of lower supplies to Asian countries, while the decline was somewhat offset by a 7% increase in exports to EU markets. The largest share was shipped to Germany, where trade fell by 2% on the year. Exports to other key EU markets also declined, including Ireland (down 2%) and Denmark (down 5%). However, these drops were more than offset by rises to smaller EU markets such as the Netherlands, Italy, Belgium and France. Outside the EU, UK pork exports to China and Hong Kong declined by 18% and 22% year on year respectively.

UK pig meat exports

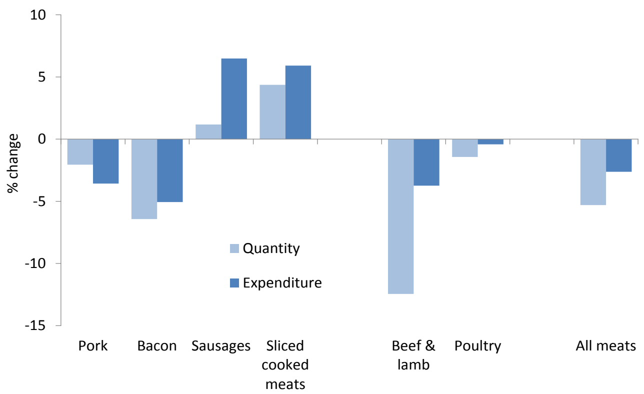


Source: Her Majesty's Revenue & Customs

Offal exports in February more than halved, down to 2,600 tonnes, mainly due to lower shipments to EU markets, which have struggled for a number of months. From 3,800 tonnes last February, supplies to the continent fell to 900 tonnes, down 76% year on year. However, exports to China remained strong, being up 23%, and supplies to Hong Kong were at similar levels to 2013.

The amount of pork sold by retailers during the first quarter of this year was more than 2% down on last year, according to the latest data from Kantar Worldpanel, but this was largely due to the difference in dates for Easter. Last year's festivities fell at the end of March, as opposed to this year's mid-April celebrations. As such, this year's first quarter sales missed the higher promotional activity associated with the run-up to the public holiday from major retailers. Compared to last year, the total amount of red meat sold was 9% lower for the three month period. Despite the overall reduction in sales, purchases of pork have been supported by consumers switching away from beef and lamb in favour of relatively cheaper meats. Consumers continue to be price-sensitive, reflected in tightened household budgets, with shoppers looking for better value for money.

Annual percentage change in retail meat purchases (12 weeks to 30th March 2014)



Source: Kantar Worldpanel

Bacon sales also fell, down 6% on the previous year for the first quarter, but again largely due to the timing of Easter. Despite this, sales of British bacon increased by 4% and now account for almost a third of total sales. The difference in dates for Easter does not seem to have had a significant impact on sausage sales, with purchases at similar levels to last year. However, the amount spent over the 12 week period was almost 6% higher compared with last year, driven by an increase in the average price. Together with general retail price inflation, there has also been 'trading-up' in quality and sales growth among the discount retailers, which tend to focus on higher quality sausages. Partly as a result of the increase in footfall, sausage sales from the hard discounters grew by more than 60% for the 12-week period compared with last year.

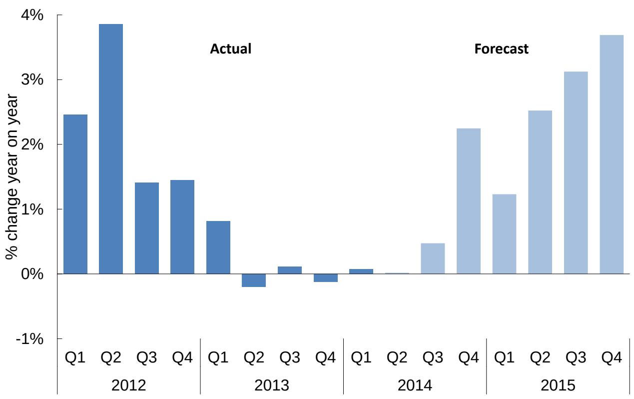
UK Market Analysis

Opportunities & threats for UK supplies from global market

With UK pigs set to remain in short supply for most of the rest of this year, the overall supply of pig meat will depend on the global market. Disease issues in both the EU and US have the potential to significantly disrupt trade flows over the coming months, providing both opportunities and threats for the UK industry.

On the domestic front, the December survey figures from Defra and its equivalents in the rest of the UK showed no recovery in the sow herd last year. This suggests that confidence has been slow to return to domestic producers and any expansion plans will be cautious. Nevertheless, if pig prices remain firm and feed costs don't rise significantly, then a slow recovery from the losses seen in 2012 might be expected this year.

Actual and forecast change in UK clean pig slaughterings



Sources: Defra (actual), AHDB Market Intelligence (forecasts)

However, any expansion won't feed through into production levels until towards the end of the year. Therefore, clean pig slaughterings are likely to continue to track close to year earlier levels until the autumn. With most retailers sticking to their commitments to source their fresh pork, at least, from the UK, demand should remain robust. To help satisfy this demand, higher carcase weights continue to offset the tight supplies to some extent. This is likely to remain the case unless rising feed prices encourage producers to market pigs a little earlier. Nevertheless, with relatively tight supplies and robust demand, signs are good that prices should remain firm for most of this year. Whether they will reach the record levels of last autumn is less certain.

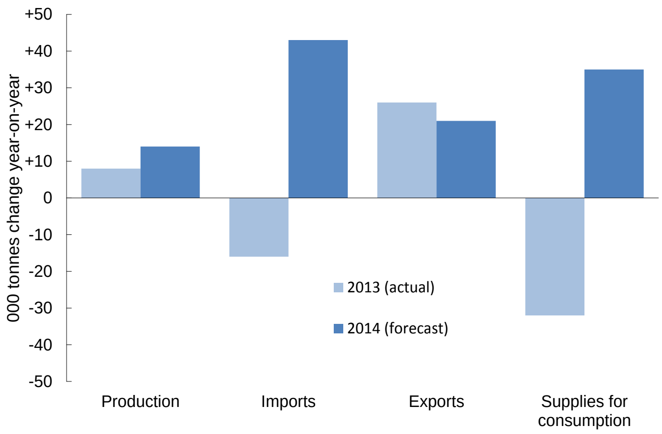
Looking further ahead, any stabilisation or modest recovery of the breeding herd, combined with ongoing productivity gains, should lead to the upward trend in slaughterings resuming towards the end of 2014 and into 2015. How this impacts on prices will depend to a large extent on how consumer demand responds to the improving economy.

Since late last year, EU pig prices have been well below UK prices, with the gap larger than it has been for many years. Despite this, there hasn't been a marked increase in pig meat imports, suggesting that pork buyers are still focused on procuring British product. Even the increased supply of pig meat on the EU market following the Russian ban only led to a modest rise in UK imports in February. Nevertheless, with domestic supplies remaining tight, any increase in consumer demand for pork will have to be satisfied by higher imports if price rises are to be avoided.

However, it is worth noting that EU supplies remain relatively tight and current forecasts suggest this will continue (see page 7). PEDv has led to sharp price rises in the US since February and is likely to reduce the availability of product for it to export for much of this year. Therefore, much of the pig meat which would have been shipped to Russia in the past will find a home in Asia or elsewhere on the global market. As a result, any growth in UK imports is likely to be modest. If the Russian market does re-open to (some) EU pig meat, then imports could even drop later in the year.

The shortage of US product (and high prices) will also create further opportunities for UK exporters. Having shown strong growth last year, despite the tight supply situation, prospects look good for the year ahead. Relatively high UK prices and the stronger pound will dampen export growth to some extent. Nevertheless, further increases in shipments seem likely during the year.

Trends in UK pig meat supplies



Sources: Defra, HMRC, AHDB Market Intelligence

The combination of higher production and increased imports should leave more pig meat available for consumption on the UK market, even allowing for higher exports. However, the forecast rise in availability is relatively modest, roughly the same as the decline recorded last year. The supply situation is, therefore, still relatively tight, especially given that the improving economy may encourage more consumer demand. Hence, while there may be less upward pressure on pig prices than last year, they should remain firm throughout 2014.

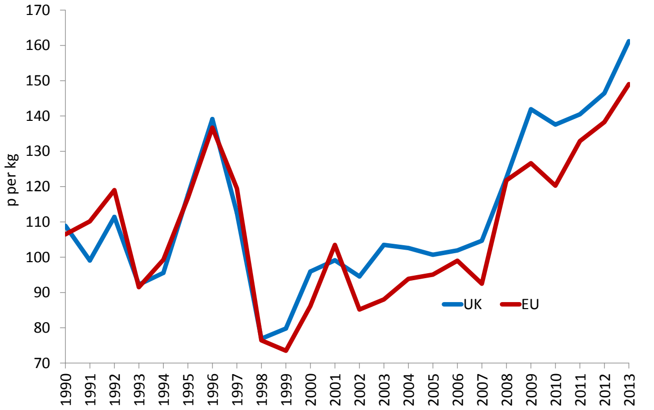
To read more detail about the latest AHDB/BPEX forecasts for pig meat supplies, click here.

UK Market Analysis

Understanding the UK pig price premium

Since the late 1990s, UK pig producers have consistently received higher prices for their pigs than their counterparts in the rest of Europe. The last year when the average UK price was lower than the EU average was 2001, when prices elsewhere were inflated following the FMD outbreak. Since then, prices were only similar in 2008, following the sharp fall in the value of the pound against the euro. However, in most other years the UK premium averaged at least 8p/kg and often much more than that. As prices fluctuate, the gap can increase even more for short periods; for example, it reached over 30p/kg during January and February 2014.

Comparison of annual average UK and EU pig prices



Source: EU Commission

So, why are UK prices consistently higher than elsewhere in the EU? The premium is often attributed to the UK's better animal welfare standards, leading to higher production costs, but is this really the case? Certainly, the premium first became apparent at about the same time as the UK stall and tether ban came into force in the late 1990s.

The partial ban on sow stalls across the EU means that, since the start of 2013, the welfare gap is arguably smaller than it has been for some time. Therefore, if welfare alone was the explanation for the UK price premium, it should have been smaller in 2013. However, that wasn't the case. On average, the UK price was 12p/kg higher than the EU price in 2013, a larger gap than in the two previous years. By the end of the year, the gap was at its highest level for a decade.

Sweden also has high welfare standards, having introduced its own stall ban before the UK did. However, the Swedish pig price has averaged slightly below the EU price over the last decade. It was, however, well above the EU average in 2013, despite the EU stall ban closing the welfare gap.

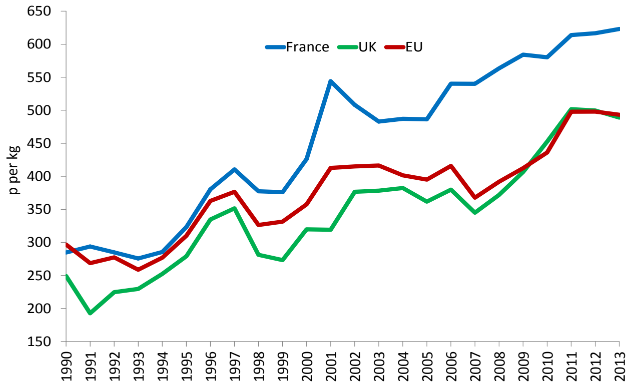
So, if welfare standards aren't the (whole) story, then what is? One other thing that changed in the late 1990s is that the UK pig herd began to decline sharply. As a result, we moved from being largely self-sufficient in pig meat to being a substantial net importer. This meant that domestic supply was insufficient to meet UK consumer demand. This, in itself, wouldn't automatically lead to a price premium as consumers could simply switch to imports. However, in combination with a consumer preference for British product, it would mean demand for domestic pigs would outstrip supply and, hence, prices would be higher.

The existence of the consistent price premium suggests that UK consumers do, indeed, have a preference for British pork. Of course, this may be partly due to perceptions that our welfare standards are higher than elsewhere, a situation which is unlikely to have significantly changed immediately in response to the EU stall ban. Indeed, the preference was likely reinforced by the horse meat scandal, which may help to explain why the premium actually increased last year.

For confirmation of this explanation, it is perhaps worth looking at other situations where a country is a substantial net importer but its consumers have a marked preference for domestic product. One such example is the French lamb market. France is around 50% self-sufficient in sheep meat following a long-term decline in its breeding flock. It is a substantial importer from the UK and Ireland, among others.

Most observers would consider that sheep welfare standards are at least as high in the British Isles (where virtually all sheep are grass-fed) as in the rest of Europe, including France. Despite this, French consumers show a strong preference for domestic lamb. This has led to higher farmgate prices for lambs in France than elsewhere in the EU. The gap has widened over the last decade, despite no significant change in animal welfare regulations.

Comparison of annual average French, UK and EU heavy lamb prices



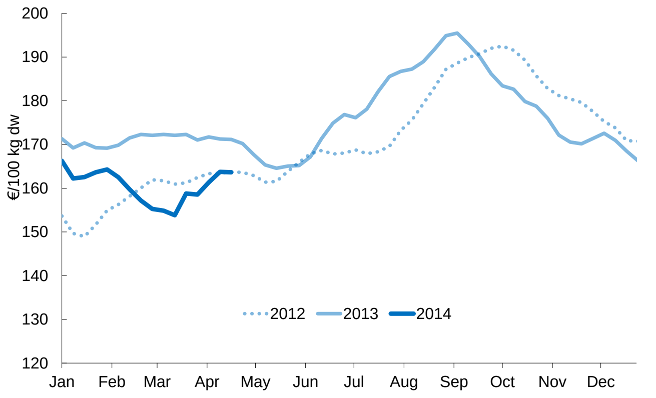
Source: EU Commission

The analysis above suggests that the price premium which UK producers receive won't be directly threatened by the recent welfare changes elsewhere in the EU. What matters is ensuring that domestic consumers continue to have a preference for British pork, whether that is driven by perceptions of welfare or otherwise. If that preference continues then the premium should be sustainable, unless the UK's pork production increases substantially.

EU Market Snapshot

EU pig prices declined to average just under €156 per 100 kg in March. This was largely due to the impact of the Russian restrictions on EU pork imports. The EU pig market reached the lowest point for the year so far in early March at €151.39 per 100kg, over €20 below last year's level. However, in the last few weeks, the impact of the Russian ban has started to fade away, as prices strengthened to around €164 per 100kg for the week ended 20 April. This meant that the price differential between the EU and UK market narrowed from a peak of €40 to around €27 per 100kg. These rises came in response to favourable weather conditions, which stimulated EU consumer demand, and better prospects on Asian markets given the sharp rise in US prices.

EU average pig reference price



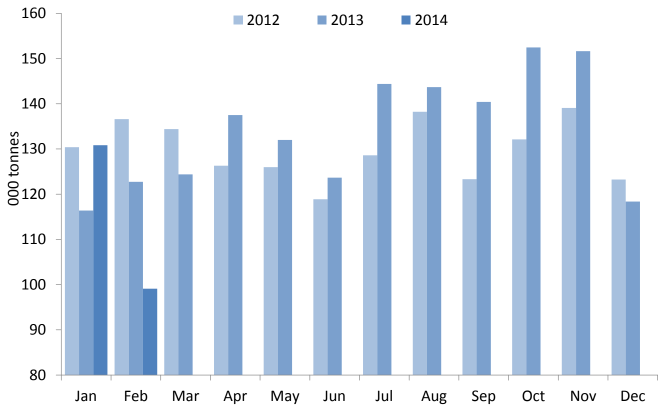
Source: EU Commission

Surprisingly, the recent recovery was most evident in Poland, where prices in the week ended 13 April were €27 per 100kg above their low point. Poland has been free of new ASF cases for over a month, as reported by the World Organisation of Animal Health; this could be a factor encouraging Polish prices as of late. Elsewhere, amongst the key producers, prices generally strengthened by between €10 and €20 compared with the low point, although Danish prices had only increased by €5 per 100kg.

EU pork exports fell by almost a fifth in February to 99,000 tonnes. This was a direct consequence of the Russian ban on EU pork after the outbreak of the ASF in Poland and Lithuania. Exports to Russia declined from 24,000 tonnes in February 2013 (20% of total exports), to 400 tonnes in the latest month. Shipments to Belarus and Ukraine were similarly affected. Exports to China declined by 23% year on year, partly due to its ban on Polish pork. In contrast, other Asian markets performed well, with higher requirements from Japan (up 18%) and South Korea (up 49%). The value of pork exports fell by 23% to €225.6 million.

Offal exports improved from the previous month but remained at a similar level to February 2013. Amongst the key countries, there were increases to China (up 2%), Hong Kong (up 22%) and the Philippines (up 79%). The value of offal exports in February amounted to €85.7 million, down 8% on the year.

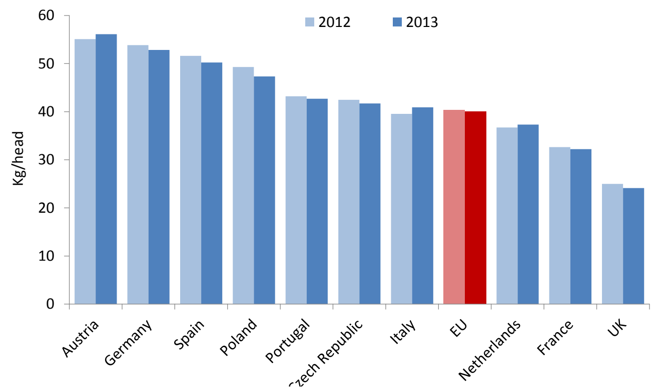
EU monthly pork exports



Source: Eurostat, GTIS

According to the latest figures from Eurostat, in the first month of this year there was a 4% decline in EU pig slaughterings, compared with January 2013, to 21.2 million head. Some decline in carcase weights during the month meant that the overall pig meat production in the EU was down by 5% compared with last January, at 1.9 million tonnes. Most major producers slaughtered fewer pigs; Denmark and Italy recorded 23% and 16% declines in throughputs respectively, although declines on this scale are very unlikely to be sustained. In contrast, Poland was the only major producer that recorded a sizeable increase in slaughterings, up by around 4% year on year.

Per capita pig meat consumption in selected EU Member States



Source: AHDB calculations based on data from Eurostat, GTIS

Latest AHDB/BPEX estimates, based on EU production and trade, show that the per capita pork consumption was estimated to be 40.0kg, down 300g compared with 2012, as lower production pushed prices higher. Consumption is now over 3kg per person below its level in 2007, as the difficult economic climate continues to impact on demand. As well as falling production, robust demand from export markets meant that there was a slight increase in the share of production destined for non-EU consumers.

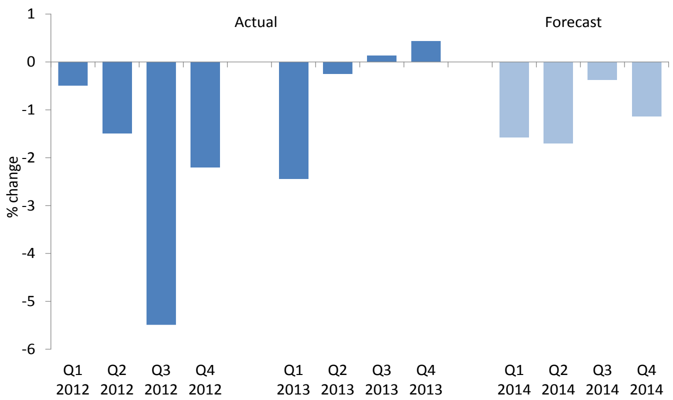
Global Market Analysis

EU supplies set to remain tight this year

According to members of the EU Commission's working group on pig meat forecasts, pig supplies are set to tighten further in 2014. The group of experts from across the EU gather in Brussels twice a year to discuss short-term forecasts for pig meat supplies and pig prices.

The group's figures suggest another 1% decline in slaughterings this year, compared with 2013, although the rate of decline may slow down in the second half of the year. This is supported by figures from January, which show a 4% year-on-year fall in throughputs, with provisional figures from selected countries showing the decline continued into February and March. If realised, this would be the third straight year of declining production, driven by poor profitability and new welfare regulations.

Annual change in EU pig slaughterings



Sources: Eurostat, EU Commission pig meat forecasting working group

Expectations that slaughterings will continue to fall are driven by another drop in the EU breeding herd, although, at 2%, the rate of decline was slower than in the two previous years. Other pig numbers were also lower, albeit by only 0.3%, but there was an equally modest rise in piglet numbers, which may herald slightly less tightness of supply in the summer. The forecasts suggest that any recovery of the herd in the short-term is not expected. Profitability remains an issue in much of Europe, given that pig prices have fallen as well as feed prices.

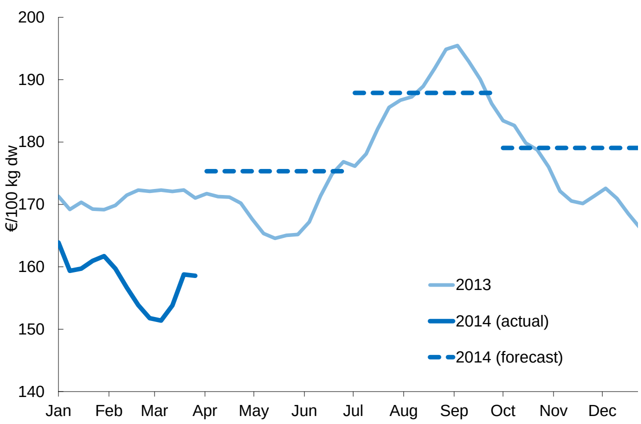
Most of the major producing Member States are forecasting a decline in slaughterings, usually due to a fall in piglet production from the smaller sow herds. With more stable breeding herds than elsewhere, there are expected to be rises in weaner output in Denmark and the Netherlands. However, these are set to be more than offset by further increases in live exports. This will help to support slaughterings in Germany and Poland, among others, which might otherwise decline significantly.

Since last summer, EU pig prices have been falling, attributed to a modest increase in supplies and relatively weak consumer demand. With pig numbers declining in the New Year and better demand in the offing, prices were starting to edge upwards before the ASF cases. However, the Russian block on imports from the EU, affecting products such as fats and offals as much as pork, stopped that recovery in its tracks. This means that in most Member States, prices in the first quarter of 2014 have been well below their level a year earlier.

However, the outlook now appears to be more optimistic, even without any re-opening of the Russian market. With mild weather leading to an earlier start to the barbecue season in Northern Europe and some improvement in the economy, EU consumer demand is showing signs of picking up. Added to this, demand from Asian markets has been strong. The impact of the PEDv outbreak has meant a sharp rise in US pork prices and expectations of supply shortages as the year progresses, reducing competition for EU exporters in the Far East.

These factors mean that working group members expect prices to rise through the second and third quarters, although perhaps not reaching the same peaks as seen in the last two summers. Prices are set to remain firm in the fourth quarter, with any decline not on the same scale as last year.

Actual and forecast EU pig reference price



Source: EU Commission and pig meat forecasting working group

These forecasts are based on an assumption that the EU does not start to export pork to Russia again. Talks to reopen the market have so far made relatively little progress and the EU has now referred Russia to the WTO. Nevertheless, with good demand from elsewhere, if the Russian market were to reopen, some group members suggested that prices could rise by 10-15% (or around 20 cents per kg), meaning prices could even surpass last year's peak.

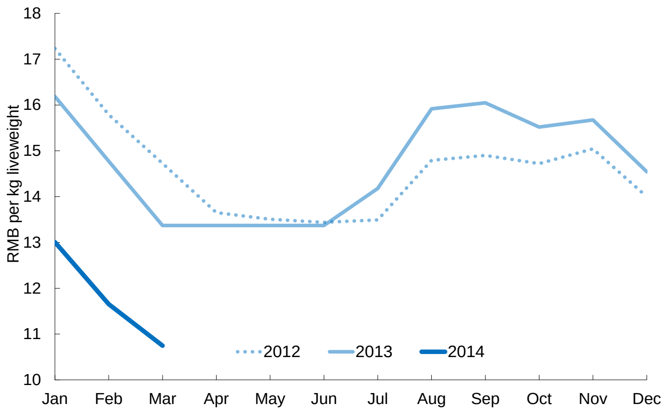
If the forecasts prove to be correct, the relatively firm EU market would probably mean that the gap between EU and UK prices narrows. This should provide support to UK prices, especially since relatively tight supplies and good export demand are also expected to be apparent on the domestic market (see page 4).

Global Market Analysis

Chinese pig producers facing profitability concerns

China is the largest producer and consumer of pork globally, accounting for around half of the world's total pig population. However, recent figures from the Ministry of Agriculture indicate a drop in pig numbers, and in the breeding herd, in recent months. The downturn is mainly a result of profitability concerns in the Chinese pig industry, given low pig prices and some rise in feed costs. The latest estimates from mid-April indicate negative margins for farrow to finish operations of around RMB350-400 (around £35) per market pig. This meant that returns had fallen rapidly since the start of the year. Reports suggest that the current losses are the worst in 15 years.

Monthly average Chinese pig prices



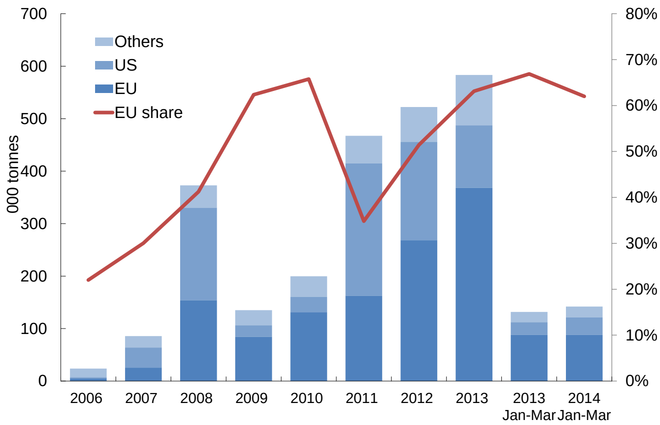
Source: Genesus

Consequently, China's pig industry is currently struggling, with some serious threats to expansion in the near future, unless measures are taken to tackle the issues. Despite the profitability problems, USDA's production forecasts indicate a 2% increase in 2014 to 57.0 million tonnes. These estimates were based on fewer swine disease outbreaks and better animal nutrition, which continue to improve carcase weights. However, the current difficulties may feed through into lower production later in 2014 and into 2015.

These difficulties mean there will likely be a higher requirement for imports in the medium term. Trade figures for the first quarter are published, which indicate an 8% increase in Chinese pork imports between January and March compared with the same period in 2013. The EU and the US are the largest suppliers of pork to China, accounting for 62% and 23% of imports respectively. Volumes from the US rose by 38% on the previous year, while EU shipments were almost unchanged. USDA's 2014 forecasts suggest a 3% increase in imports for the year as a whole.

While prosperity in China is attracting higher quality meat products, the average Chinese consumer continues to search for cheap meat. Pig prices in the US, inflated since the outbreak of PED virus, will make its pork more expensive for typical consumers in China. This may change some of the dynamics in the Chinese import market. Last year, almost a fifth of the total EU pork exports were destined for China. The US faces strong competition from EU suppliers and the Russian ban on EU pork imports, following the recent ASF cases, is likely to strengthen this competition.

Growth of Chinese pork imports and of EU share of the total



Source: China Customs, GTIS

The recent avian influenza outbreak in China has shifted some consumer demand from poultry to red meat and fish. Consequently, USDA's pork consumption forecasts for China indicate a 2% increase in 2014 compared with the previous year, at 57.4 million tonnes. However, per capita pork consumption is expected to increase by just 1%, to 41kg, mainly a result of the slowdown in economic growth, with more stable per capita incomes.

Health concerns continue to impact consumer pork purchases, after incidents such as the dead pigs floating from Zhejiang province to Shanghai Huangpu River. There were more cases recorded in recent months, where dead pigs were found in a different river. This has been positive for beef and sheep meat consumption, with imports of the former up nearly five-fold last year and the latter nearly doubling. Further strong growth has been apparent so far this year too.

The full impact of the industry's financial difficulties will depend on government policies to aid the Chinese pig industry in the long-term. The government monitors the pig to grain price ratio to decide if domestic pork purchases for government reserves are required. The ratio is currently below the threshold for intervention and the government has been buying into store since mid-February. However, given the over-supply of pork and the limited scale of government intervention, a dramatic recovery in pig prices is unlikely in the first half of the year. A second policy entails a trial government subsidy to pig farmers to manage production fluctuations and, hence, pig prices in the industry. However, this policy is only implemented in some areas. Therefore, maintaining production will largely depend on a more positive Chinese pig industry in the second half of the year.

Feed Market

UK feed wheat futures have declined recently for both May-14 and November-14 contracts, to £167.90/t and 157.40/t respectively. Markets followed a downward trend after the Easter weekend as much needed rain was welcomed to major US growing states. Values declined sharply on the Tuesday after Easter, as the UK market caught up with the US market that was not closed for Easter Monday. May-14 contracts for wheat had reached a six month high on 16 April as prices touched £170.25/t, the top price seen since October 2013. November contracts also saw a four week high, as prices reached £161.00/t, the highest price since 25 March.

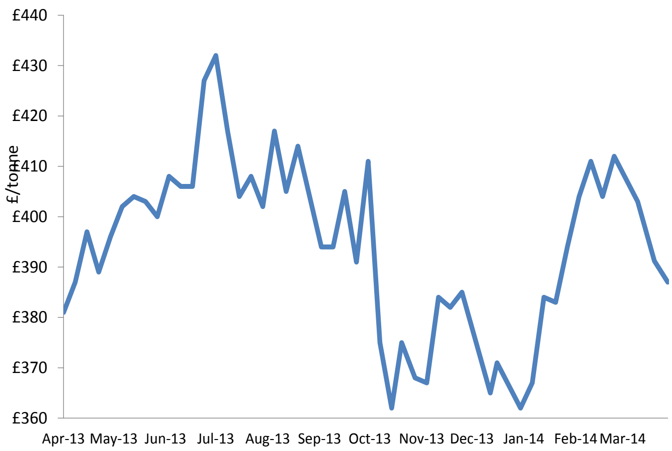
The latest trade data from HMRC showed the largest drop in maize imports for the season so far between January and February. At 172Kt in February, UK maize imports were 45% lower than in January. Wheat imports, at 82Kt in February, were 34% lower compared with January and brought the cumulative total for July-February to 1.55Mt. Barley exports from the UK, at just under 80Kt, were only slightly higher than January's total.

Paris MATIF futures maize contracts for June-14 have stayed around £150/t since February. Prices closed at £152.94/t on Wednesday 23 April, slightly lower than the previous week when prices were at £156.03/t.

Almost all Ukrainian spring wheat, barley and oats are now in the ground, with 100%, 96% and 97% of the intended area planted by 18th April respectively. Maize plantings are ahead of the previous seven seasons' progress, with 10% planted. Risks still exist in terms of acquiring fertilisers and other inputs but with the crop in the ground, the weather is likely to be the key factor for Ukrainian spring crops.

Winter wheat conditions in the US are similar to last year, with 33% rated poor or very poor. Crops are approaching their reproductive stage; 9% of winter wheat has headed compared to 7% last year. However, markets appear to be optimistic that the weather will help the wheat crop.

UK Hi-Pro soyameal prices, ex-store East Coast



Source: HGCA

UK feed ingredient prices have seen volatility over the last month and have been following a downward trend since the end of March. Hi-pro soyameal prices reached an eight month high on 21 March, with prices reaching £412/t. However, prices settled at £387/t a month later (22 April).

Lower EU rapeseed supply, due to strong demand, provided support to UK and EU rapeseed prices in February and March. By 7 March, delivered rapeseed prices into Erith reached £342/t, the highest value seen this season. Rapemeal Prices closed at £241/t on 22 April, a four week high. For most of March and April prices settled around £238-239/t.

Defaulted cargoes by China may be attributed to the decrease in global soyabean prices. The redundant cargoes coincide with abundant supplies from Brazil and Argentina also hitting the market. China is the largest importer of soyabeans, importing 60% of all soyabeans traded. The world market is increasingly reliant on these imports, so what happens in China will consequently have an impact on global protein feed prices.

Recent shipments of soyabeans to the US from Brazil have also captured ubiquitous attention. The US has traditionally been a key exporter of soyabeans, and only a notable importer on rare occasions. Recent speculations of lessening soyabean stocks for the US could be calmed if imports continue to gather pace. Brazilian soyabeans going to the US will act as a cap on price as previously the tightness of US soyabean stock had been the driver of the price rally. New crop prices will all depend on growing, and ever changing, weather conditions.

US processors crushed around 136Kt of soyabeans per day in March and could easily accommodate the 55-80Kt that have arrived from Brazil so far. As well as Brazilian imports, the US is also receiving imports from Canada; January to February shipments from Canada have been record highs, despite concerns and criticism over Canadian logistical issues. When combined with the 170Kt of rapeseed also imported over the same time period, import levels equal more than 280Kt. If import rates continue at this pace, US processors may see soyabean tensions decreasing and allow demand to be met without aggressive competition for input supplies.

The soyabean harvest in Argentina has got underway again thanks to drier weather. As at 16 April, only 21% of soyabeans were harvested, compared with 39% gathered at the same point last year. There are some concerns that the heavy rainfall may have damaged some of the soyabean crop and losses are expected. However, for the time being, the Buenos Aires Grain Exchange is maintaining its estimate of 54Mt (4.7Mt higher than in 2012/13).

In Brief

Estimating the effects of PEDV in North America

Rabobank has recently published a report estimating the effect of the ongoing outbreak of PEDv on the US hog industry. The report estimates a 9% fall in slaughterings in 2014 compared with 2013, with a 12 million head (11%) shortfall from affected producers, offset by an increase from producers which are not infected. Increased slaughter weights would mean that pork production was only down by 7%. The impact of the disease is projected to peak in September, when slaughterings might be as much as 25% down year-on-year.

BPEX has now undertaken its own analysis of the potential impact of PEDV on the US hog industry, based on published information, including Rabobank's report, along with data about the spread of the disease and evidence gathered by BPEX Head of Research & Development, Derek Armstrong, on a recent fact finding visit to North America.

Based on our analysis, the estimated total impact of the disease in 2014 will be a year on year shortfall of 7-8 million slaughter pigs. This would be equivalent to a shortfall in slaughterings of about 7% and a fall in overall pork production of around 3% for the year as a whole, allowing for higher carcase weights. BPEX forecasts the impact on slaughterings will be much greater than this in the summer and autumn, as the pigs born during the peak of the disease over the winter reach the market. We expect that the impact will continue to be felt in lower slaughterings through much of 2015, as further cases are likely next winter. Quantifying the impact in 2015 is difficult at this stage, as it will depend on how the disease spreads.

The BPEX analysis is supported by the US Department of Agriculture's Quarterly Hogs and Pigs report, published on Friday 28 March. It shows a year on year fall of 2.2 million (4%) in pig numbers (excluding breeding pigs) on 1 March. More importantly, the number of pigs weaned per litter during the December to February quarter fell from 10.08 to 9.53. Given that this measure has been increasing steadily, this represents an average loss of around 0.7 pigs per litter across the whole industry. If replicated across a whole year, that would be equivalent to a shortfall of about 8 million pigs.

Lower Danish pork exports in 2013

Danish pork exports fell for the second straight year in 2013, although the reduction was much less than in 2012. Shipments to the EU were down but exports to non-EU markets increased, mainly due to higher purchases by Russia and China. Danish live pig exports increased again, up by 4% to 10.4 million head. Exports have risen sharply over the last ten years as in 2003 they were nearer 2 million head.

Contraction in the US pig herd

According to USDA, the US pig herd fell by 3% in the year to 1 March. This reflects the impact of PEDv on the country's pig industry. There was a 4% fall in the number of pigs for slaughter but breeding pig numbers were marginally up. Winter sow farrowings were 3% higher than a year before but the pig crop was down by 3%. Looking ahead, producers intend to farrow 2% more sows in the spring and summer quarters than last year.

Stable pork trade within the EU

Over 5 million tonnes of pork is traded between EU Member States annually, far more than is shipped to non-EU markets. Last year, volumes were almost unchanged, despite a small fall in pig meat production. About 85% of shipments originate from just six Member States, with 21 being net importers of pork from elsewhere in the EU.

No sign of an end to Russian ban on EU pork

There is still no sign that the Russian ban on imports of EU pig meat will be lifted in the near future. Reports suggest that Russia is prepared to accept imports from countries considered to be at low risk for ASF but the EU Commission has refused to agree to this approach. The Commission has now filed a lawsuit against Russia at the WTO as a result of the situation.

USDA makes PEDV reportable

USDA has made PEDv and Swine Delta Coronavirus (SDCv) reportable. Until now, reporting was voluntary but, even so, the number of positive cases of PEDv had reached 5,790 by 12 April, with 29 states affected. Although hog prices appear to have stabilised lately, they are around 50% higher than at the start of the year and well above previous record highs. Cases of PEDv have also been reported from Canada, Mexico, China, South Korea and Japan, among others.

Read more about these and other stories in Pig Market Weekly. To view past editions or to subscribe, click here.