

## In this Issue

### UK Census

According to latest figures released by Defra, the UK pig herd as at 1 December 2015 had decreased by 2% on the year to 4.4 million head. A downward revision to the number of fattening pigs outweighed an increase in the breeding herd, driving the decline in the total UK pig herd. However, since the start of the year the financial position of pig producers has worsened, so the modest increase recorded in the breeding herd during 2015 looks set to be offset by declines as we progress through 2016. To read more about the December survey figures and subsequent developments, turn to **page 4**.

### Cost of production

The cost of pig production in GB fell by 4p/kg in the final quarter of 2015, to an estimated 135p/kg. This is the lowest level since early 2010 but, with the pig price (APP) falling by 6p/kg from the previous quarter, producers continued to make small losses on a full economic cost basis. Moving into 2016, production costs are estimated to have remained largely stable but the pig price has continued to fall sharply, so some producers will now be losing money on a cash basis. You can read more about production costs and producer margins on **page 5**.

### EU census and forecasts

There is little doubt that the weakness of UK pig prices over the last two years has been affected by the low prices in the rest of the EU. There was a widespread expectation that many EU producers would reduce their herds or leaving the industry altogether as a result. The December 2015 pig census confirms that this has indeed happened in some Member States but expansion elsewhere, notably in Spain, has limited the reduction.

Based on this, latest EU Commission forecasts confirm that EU pig slaughterings in the first half of 2016 are likely to be slightly higher than in 2015, before they start to fall back in the second half. On **pages 7 & 8** you can read more about these trends and the implications for the pig market in the UK and EU.

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## Key data

	Feb-16	Change since Jan-16	Change since Feb-15
Average GB carcase weight - kg	83.28	+0.34	+1.43
30kg weaner price - £/head	36.62	-0.98	-8.58
7kg weaner price - £/head	29.13	-1.25	-4.38
GB APP (Euro-spec) - p/kg dw	116.66	-4.93	-22.06
GB SPP (Euro-spec) - p/kg dw	112.70	-4.67	-22.32
EU Reference price - €/100kg dw	127.66	+0.21	-9.36
UK Reference price - €/100kg dw	144.34	-9.50	-35.67
UK weekly clean pig kill - 000 head	209.3	+13.5	+4.9
UK weekly pig meat production - 000 tonnes	18.2	+1.1	+0.7
UK pork imports - 000 tonnes*	28.1	-4.2	-1.0
UK bacon imports - 000 tonnes*	18.1	-3.7	-1.7
UK pork exports - 000 tonnes*	16.9	+1.7	+2.5
Retail pig meat sales - 000 tonnes†	53.8	-1.6	-0.9
LIFFE feed wheat futures - £/tonne	104.48	-5.29	-16.69
CBOT Soyameal futures - \$/tonne	264.32	-5.27	-75.20

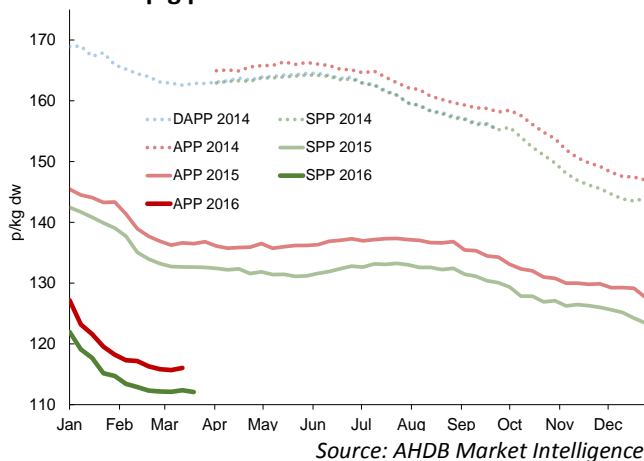
\* Figures relate to January 2016  
 † Figures include household purchases of pork, bacon, sausages and ham and relate to 4 weeks to 28 February 2016

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## UK Market Snapshot

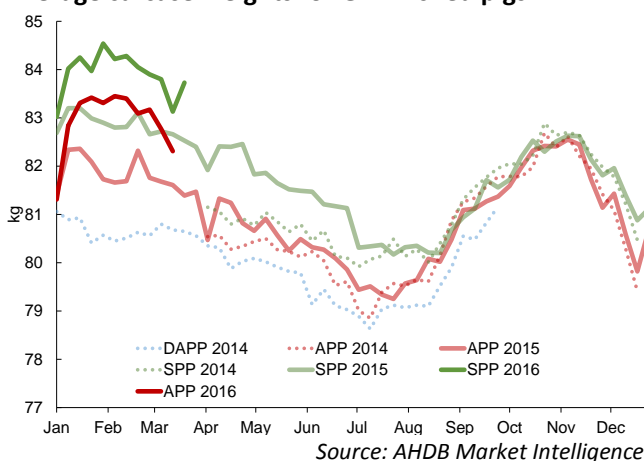
GB pig prices fell once again during February, although not as sharply as was recorded in January, with the monthly average EU-spec APP nearly 5p lower than a month earlier, at 116.66p/kg. The fall in price comes as supply is still outstripping demand, although a firmer EU market and weaker pound helped to prevent prices falling more. Into March, the price fell further, albeit by smaller amounts, with the APP recording a marginal increase of 0.25p/kg on the week in week ended 12 March, residing at 115.94p/kg. With Easter approaching, the price may fall once again as demand is expected to dip over the long weekend.

### GB finished pig prices



The SPP followed a similar trend to the APP in February, also recording a 5p fall month on month, standing at 112.70p/kg, which is the lowest monthly average price since February 2008. The gap between the APP and SPP went back under the 4p threshold in February and stood at 3.96p/kg. This is because the SPP fell at a slightly lesser rate than the APP.

### Average carcass weights for GB finished pigs

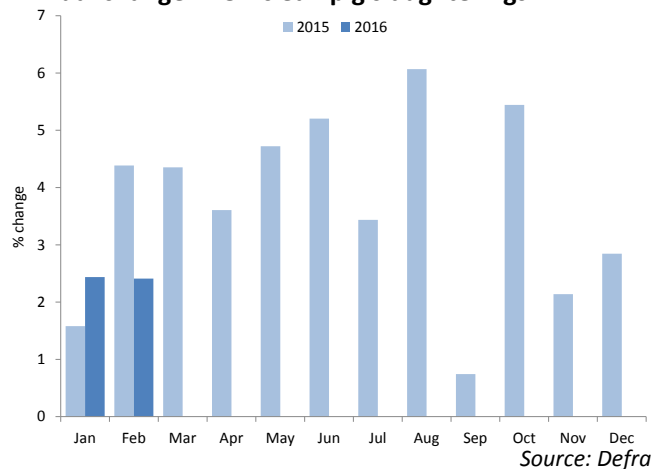


In February, the average monthly carcass weight increased once again, with the APP sample averaging 83.28kg for the month. This is the highest monthly average on record, aided by low feed prices and mild weather. However, the heavy weights may also indicate that demand remains subdued and has prevented the backlog of pigs which built up over Christmas from completely clearing.

GB weaner prices followed the downward trend of the finished pig market in February. Unlike previous months however, 7kg weaners recorded a larger decline than 30kg store pigs, losing £1.25 from the previous month, to average £29.13 per head. 30kg store pig prices decreased by nearly £1 on the month and averaged £36.62 per head in February. Furthermore, since the start of March the price for 30kg store pigs has remained relatively stable.

Latest figures from Defra appear to show a 9% year-on-year rise in UK pork production in February. However, a change in methodology means that this growth is overstated and the increase was actually around 4%. Similarly, the apparent 8% uplift in clean pig slaughterings was in reality a rise of little over 2%, similar to the increase seen in January. The explanation is that, while historically data has always been published for 'statistical months' (based on either four or five full weeks), from now onwards they will be on a calendar month basis. That means the figures for February 2016 cover one more working day than February 2015 (due to the leap year). Similar adjustments will be required for future months, to account for the differing numbers of working days from year to year.

### Annual change in UK clean pig slaughterings



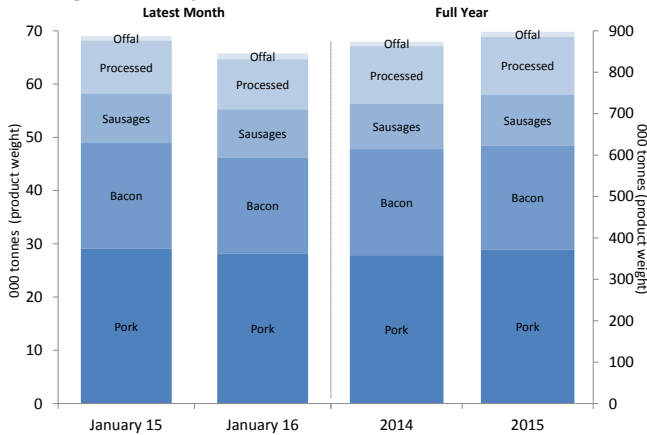
The adjusted figure for sow slaughterings shows another significant rise, of 12%, compared with February 2015. Weekly throughputs were at their highest level since November 2012. This adds further weight to suggestions that some producers may be starting to reduce the size of their herds. As well as this, heavy carcass weights continue to contribute to the growth in pig meat production. The average clean pig weight of 83.3kg was half a kilo lower than in January but still represented the second heaviest weight on record.

Imports of fresh and frozen pork in January were not only slightly down compared with January 2015 but they were also at their lowest level since May last year. Lower prices exacerbated the year on year volume fall in January, with reductions of 10 per cent in both sterling and euros and so contributed to the ongoing price pressure on UK producers.

# UK Market Snapshot

Pork volumes were well up from Denmark, by 16%, but this contrasted with sharp reductions for the Netherlands and Germany. Imports of all other categories, with the exception of offal, were also lower. Bacon shipments were reduced by a 35% fall for Danish product.

## UK Pig Meat Imports

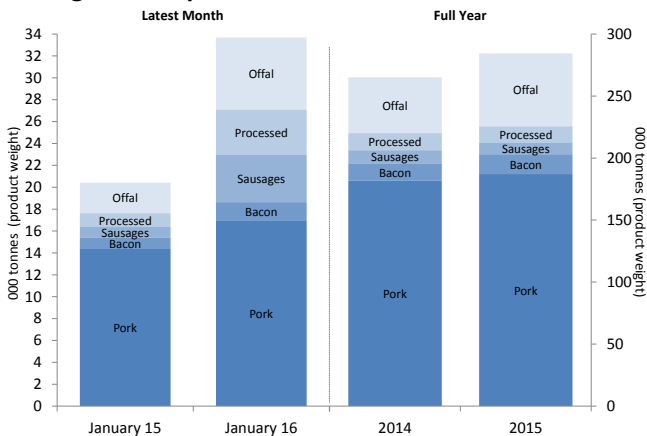


Source: Her Majesty's Revenue & Customs

UK exports of fresh and frozen pork increased by 17% in January to 16,900 tonnes, compared to the same period a year earlier. This was driven by a doubling in shipments to China. Interestingly, shipments to the US also more than doubled year on year taking its percentage share of UK trade from 2% to 4%. Australia, which in January 2014 took no product from the UK, bought in 170 tonnes of UK pig meat in January this year.

The value of UK pig meat also increased, by as much as 23% on the year in January, with exports for the month totalling £17.9 million, given an increase in the average export price. Although high, the average unit price that the US paid for UK pig meat actually decreased on the year by 4% to £2.94/kg; that for Australian increased by nearly 30% to £2.24/kg. Both are clearly higher valued markets, as the overall UK export price only averaged £1.06/kg.

## UK Pig Meat Exports



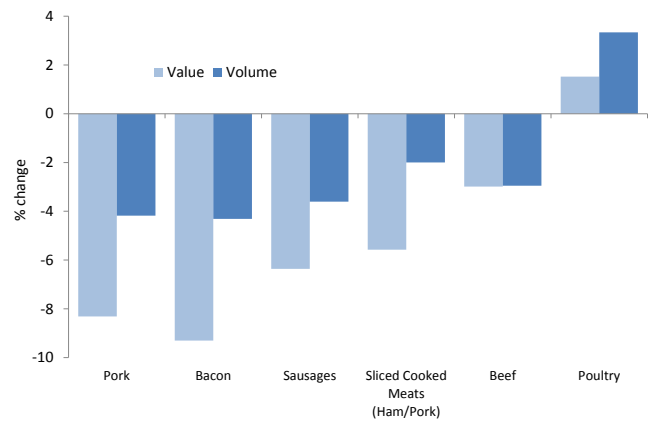
Source: Her Majesty's Revenue & Customs

Exports of offal more than doubled in January compared to a year earlier, continuing the strong export performance of recent months, with shipments now averaging 7,000 tonnes per month. Exports to China increased by 175% compared to a year earlier while

trade with the Philippines was up over four times. Exports of bacon were down 6% on December but still well up on January last year. However, the apparent sharp rise in exports of sausages and processed pig meat needs to be treated with caution and the data may well be subject to revision.

The difficulties which pork has experienced at retail level continued in the 12 weeks ending 31 January, according to the latest Kantar Worldpanel data. The volume of pork purchased continued to decline, falling 4% compared with a year earlier, with lower prices further driving value out of the market. A decline in household penetration is the main driver of volume declines, as switching to convenience categories continues to play a major role. Loin roasting joints and marinades were the only two categories to buck this trend.

## Annual percentage change in retail meat purchases (12 weeks to 31 January 2016)



Source: Kantar Worldpanel

More encouragingly, the latest four weeks did see a small increase in volume sales of fresh/frozen pork. There was growth across several categories, including belly, chops/steaks and leg roasting joints, although the trend of lower average prices meant that this was at the expense of value.

Sales of bacon, sausages and ham remained down, despite lower prices, on the back of a combination of fewer households purchasing and those that did, buying less. During the 12 weeks to 31 January, the amounts of bacon and sausages purchased were both down 4%, despite prices falling by 5% and 3% respectively. As with pork, sales of sausages did pick up in the latest four weeks, although the value of purchases was still lower due to reduced prices.

Although farmgate pig prices continued to fall in February 2016, over the same period, the average retail pork price increased by over 1%, leaving it at a similar level to a year earlier. The result of this was that the share of the retail price received by the producer fell again, to 30%, at a time when it was already at the lowest level seen for over a decade. Compared with the same period last year, the percentage share received by producers has fallen 6 percentage points.

## UK Market Analysis

### UK pig herd down in December

According to latest figures released by Defra, the UK pig herd as at 1 December 2015 had decreased by 2% on the year to 4.4 million head. A downward revision to the number of fattening pigs of 2.6% outweighed a 3.1% increase in the breeding herd, driving the decline in the total UK pig herd.

Breaking the figures for the breeding herd down, sows in pig increased by 7% year on year while gilts in pig decreased by 5%. However, the number of maiden gilts in the UK as at 1 December 2015 was 5% up on the year. This would suggest that, while the breeding herd was yet to see any rationalisation by 1 December 2015, producers may have been delaying serving some of their maiden gilts. Furthermore, the rise in the number of maiden gilts does not necessarily mean they will all end up in the breeding herd, as some of them could instead be sent for slaughter.

The apparent decline in the UK pig herd, in particular a fall in the number of pigs available for slaughter, has come at a time where total slaughterings for 2015 were up 4% on the year at 10.6 million head. Furthermore, a combination of increased pig productivity in 2015 and a slight upward revision to the UK breeding herd would suggest that an increase in the number of pigs available for slaughter is, in fact, more likely than a decrease.

The figures would also suggest that production levels would have decreased in the first quarter of 2016, as over half the feeding pigs as at 1 December should have been finished by now. However, data published by Defra actually show a year on year increase in both January and February slaughterings of over 2%.

### Pigs on UK commercial agricultural holdings, 1 December

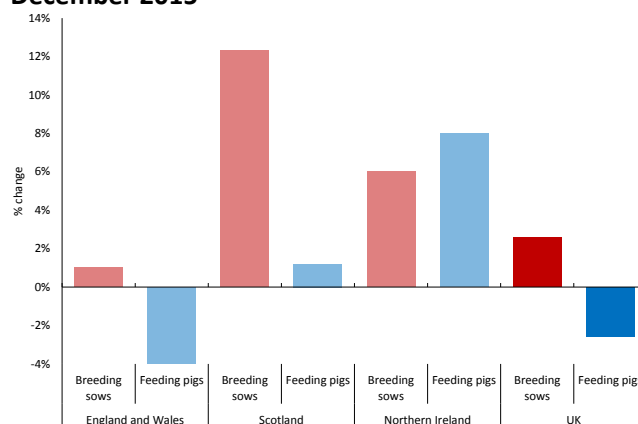
	2014	2015	% change
	000 head		
<b>Total pigs</b>	<b>4,510</b>	<b>4,422</b>	<b>-2</b>
<b>Female breeding pigs</b>	<b>390</b>	<b>401</b>	<b>+3</b>
In-pig sows	260	260	+7
In-pig gilts	56	54	-5
Other sows	74	74	-7
Maiden gilts	83	87	+5
Boars for service	13	13	+3
<b>Feeding pigs</b>	<b>4,024</b>	<b>4,911</b>	<b>-3</b>
Under 20kg	1,177	1,144	-3
20-50kg	1,158	1,130	-3
50-80kg	998	972	-3
Over 80kg	690	675	-2

Source: Defra

Upward revisions to the Scottish and Northern Irish breeding herds were largely responsible for the overall rise in the total UK number. As at the 1 December, the number of breeding pigs in Scotland was 12% higher

than a year earlier at 37,300 head, which is also 8% higher than the 10 year average of 34,600 head. The upward revision to the Scottish breeding herd comes as one of its largest abattoirs is undergoing development work to increase its slaughtering capacity. The number of sows in Northern Ireland also increased by 6% over the same period, to 43,400 head.

### Changes in pig herd by UK country December 2014 - December 2015



Source: Defra; Scottish Government; DARDNI

Despite the upward revision to the UK breeding herd as at 1 December, since the start of the year the financial position of pig producers has worsened. The current situation is reported to have led to some producers leaving the industry and others may yet follow. However, it is thought that less efficient pig producers have generally stopped farming during previous tough times over the last 20 years. Therefore, any reduction in the breeding herd may be limited, as those who remain have proved resilient before.

UK sow and boar slaughterings for January and February 2016 were 25,200 and 22,400 head respectively. Combined, breeding pig slaughterings in January and February were 15% ahead of the pace at the same point last year. Despite the increase on the year, these levels are not as high as those recorded in 2012, when high feed prices hit producers' profitability, forcing some to exit the industry.

Currently UK feed grain prices are low compared to previous years. However, in January, GB breeding pig feed production recorded an 8% decrease on the same point in 2015. The combination of increased sow slaughterings and lower feed production is further evidence that some pig producers are reducing the size of their herd or leaving the industry.

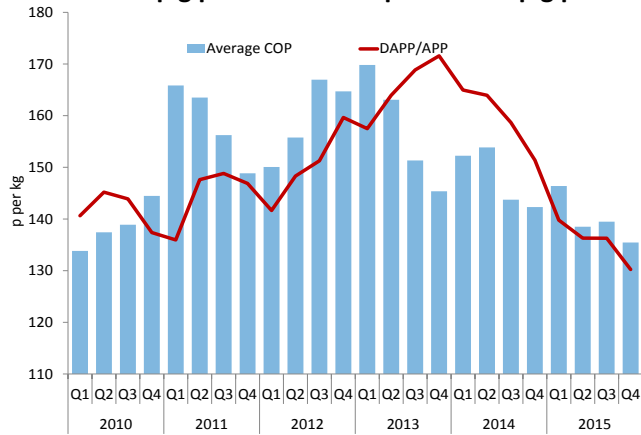
The modest increase recorded in the breeding herd during 2015, therefore, looks set to be offset by declines as we progress through 2016. This may lead to a further rise in production through much of 2016 but some slowdown later in the year. More detail on how supply levels are likely to develop, taking all this information into account, will be clearer following the release of AHDB Pork's updated forecasts next month.

# UK Market Analysis

## Cost of production still falling but slower than pig prices

The cost of pig production in GB fell by 4p/kg in the final quarter of 2015, to an estimated 135p/kg. This is the lowest level since early 2010, as falling feed prices combined with improved productivity to reduce costs. Even so, with the pig price (APP) falling by 6p/kg from the previous quarter, to 130p/kg, producers lost an average of 5p/kg (or £4 per head) during the last quarter of 2015. This continued the trend of most of 2015, with producers making small losses on a full economic cost basis.

### Total cost of pig production compared with pig prices



Source: AHDB Market Intelligence

Feed costs account for around 55% of the cost of production. Whilst this is significantly less than the 67% in early 2013, it is still a substantial part of production costs, so any changes in feed prices will have a big impact. Average feed prices fell throughout 2015 and were 14% lower in December 2015, compared with a year earlier. These falling feed prices have been driven by plentiful global stocks of key feed ingredients, following three years of good harvests. Volumes of feed used have remained little changed, with any increase in efficiency offset by heavier finished pig weights.

Among other inputs, the cost of fuel has also reduced in 2015, with the falling global oil price having an impact. The oil price decline continued into 2016, dropping to under \$30 a barrel in February 2016. There will be further savings here, although these may be short-lived as the oil price has started to move north again since then. The majority of other input costs have shown little movement over the past 12 months.

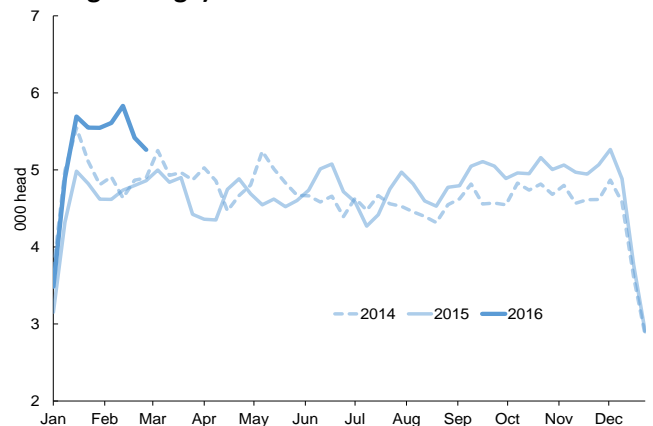
It is important to remember that, while prices for feed and other inputs play a significant role in determining cost of production, physical performance also plays a part. Latest figures show a slight improvement in 2015. The numbers of pigs weaned and sold per sow increased on 2014 (by 0.29 & 0.39 pigs respectively). However, the rearing feed conversion ratio (FCR) increased by 0.18 to 1.89. This was coupled with a decrease in the daily live weight gain in this stage of almost 40g/day, compared with 2014. There was little change in finishing herd performance. Both the overall slight improvement in

physical performance and heavier carcass weights will have reduced the cost of production per kg. This is because they mean fixed costs are spread more widely.

Moving into 2016, production costs are estimated to have remained largely stable, at least in the short term. Feed prices have shown relatively little movement, falling only slightly, during the first two months of the year and other input costs have remained largely static.

However, during this time, the pig price (APP) has continued to fall sharply and now sits at around 115p/kg. This is almost 15p lower than the average price in the final quarter of 2015. Then, producers were making small losses on a full economic basis but most will still have been above cash breakeven. The expectation is that losses have grown and some producers will now be losing money on a cash basis. This level of downward pressure may be large enough to push producers out of the industry or at least encourage them to rationalise their breeding herds. There are already signs of this, with sow slaughtering estimates up 15% on a year earlier in the first two months of 2016.

### Estimated weekly GB sow slaughterings (3 week moving average)



Source: AHDB Market Intelligence

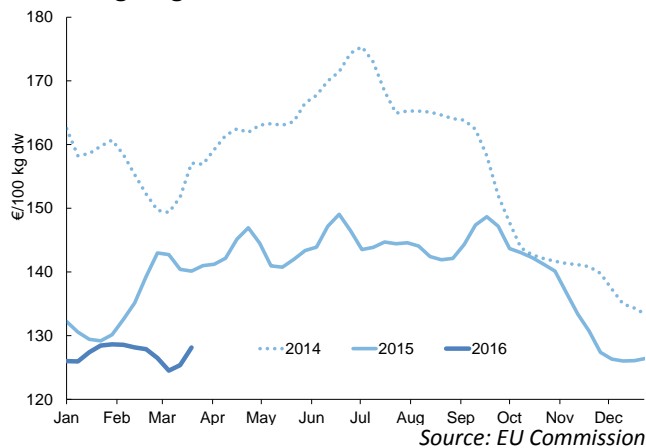
Pig meat production has been increasing year-on-year over recent years. Increased efficiencies and better genetics have played a large part in this. Even after times of negative margins, such as 2011 and 2012, production has continued to rise. This accelerated during 2014, as producers capitalised on positive margins. However, with a return to negative margins in 2015, the rate of these production increases has started to slow, particularly in the second half of the year.

In summary, lower costs of production have helped to soften the falling pig prices during much of 2015, with average producers making only small losses on a full economic basis. With the pig price falling further into 2016, some producers will be losing money on a cash basis, which may cause them to rationalise their breeding herds or exit the industry altogether. This could slow pork production growth but past experience suggests that losses will need to be sustained for some time before output starts to fall significantly.

## EU Market Snapshot

Pig prices in the EU fell slightly during February, following a short period of stability, but began to recover as March progressed, with reports that demand was being stimulated in the run up to Easter, notably in Germany, due to low prices. The latest average price, for week ended 20 March, was €128.14 per 100kg, up by nearly €4 compared with two weeks previously but still down on late January, when the PSA scheme was still open. With prices at their lowest level for eleven years, EU producers remain under considerable financial pressure.

### EU Average Pig Reference Price

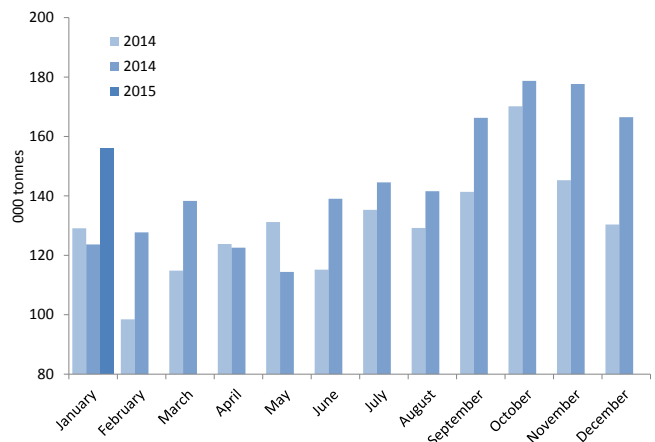


In sterling terms, the fall in EU pig prices has been softened slightly due to the weakening of the pound against the euro. The latest price equivalent is 100p/kg, which is above the level at the end of last year. The gap between the EU and UK price has now fallen to just under 12p/kg (week ending 20 March 2016). This meant that the difference was the lowest since October 2013.

The fall in EU pig prices during February was largely driven by decreases seen in the German and Spanish prices, with the former recovering in the latest two weeks. The Dutch and Belgian quotes also recorded small falls and subsequent rises, while the Danish price was largely stable before dropping in week ended 13 March. Of the major pig producing member states, only France saw price increases across the whole period, albeit modest ones.

The strong performance of EU exporters in the final months of 2015 continued into January, with pork shipments up by more than a quarter, compared with a year before, at 156,000 tonnes. This represented comfortably the best start to the year on record, despite the ongoing Russian ban. China remains the key driver of the growth, with shipments more than double their level in January 2015. Most other Asian markets took more EU pork this January, with South Korea the only significant exception. This indicates that demand remains strong, despite the slowdown in economic growth, and EU product remains competitive. This has come at the expense of a 7% fall in unit prices but the value of exports was still up 17% year on year, at €335 million.

### EU monthly pork exports

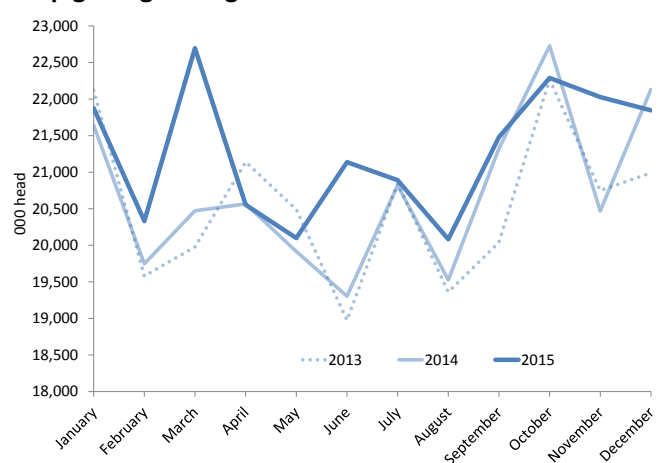


Source: Eurostat, GTIS

The positive trend was also apparent for other products. Offal exports were 30% higher than a year earlier, at 105,900 tonnes, with stronger sales to most Asian markets. Pig fat sales remain well below their level before the Russian ban but even they were up 23% year on year. China, Georgia and the Philippines were the key buyers, although lower prices wiped out virtually all of the growth in value terms.

EU pig meat production was up 4% for 2015 as a whole, despite a 1% decline in output in December. At 22.9 million tonnes, the total was 800,000 tonnes higher than in 2014. Growth was driven by a combination of a 3% rise in slaughterings, to 255.3 million head, and an increase in carcase weights, to average a fraction under 90kg. As with production, December slaughterings were also 1% lower than in December 2014, confirming the slowdown in production growth apparent in the second half of the year.

### EU pig slaughtering trends



Source: Eurostat

Production growth in 2015 was led by Spain, with an 8% rise, taking its share of the EU total to 17% (from 15% two years before). All the other major producers recorded increases, with Germany, France and Denmark all up by 1% and several other Member States by more. January figures from selected Member States suggest a modest rise in production, once a reduction in working days is taken into account.

# Global Market Analysis

## EU market recovery still some way off

There is little doubt that the weakness of UK pig prices over the last two years has been affected by the low prices in the rest of the EU. These have been driven by rising production which coincided with subdued consumer demand for pork across Europe and the loss of the Russian export market. Strong demand from Asian export markets and the weak euro have helped to prevent prices falling even further. Nevertheless, EU prices have recently hit their lowest level since EU expansion in 2004.

There was a widespread expectation that, despite relatively low feed prices, the weakness of the pig market would lead to many producers reducing their herds or leaving the industry altogether. Results from the December 2015 pig census confirm that this has indeed happened in a number of Member States. However, expansion elsewhere, notably in Spain, has limited the reduction.

The net result is that the total number of pigs in the EU in December was actually slightly higher than a year earlier, with all categories of feeding pigs stable or growing. This suggests that the number of pigs available for slaughter in the early months of 2016 will have been slightly above the levels of last year.

### EU pig census results, December

	2014	2015	% change
	000 head		
<b>Total pigs</b>	<b>148,330</b>	<b>149,069</b>	<b>+0.5</b>
<b>Female breeding herd</b>	<b>12,542</b>	<b>12,328</b>	<b>-1.7</b>
In-pig sows	6,998	6,925	-1.1
In-pig gilts	1,605	1,507	-6.1
Other sows	2,432	2,406	-1.1
Maiden gilts	1,506	1,490	-1.1
Boars for service	204	203	-0.6
<b>Other pigs</b>	<b>135,584</b>	<b>136,539</b>	<b>+0.7</b>
Under 20kg	41,831	41,801	-0.1
20-50kg	33,949	34,301	+1.0
50-80kg	27,546	27,658	+0.4
80-110kg	24,224	24,241	+0.1
110kg or over	8,034	8,538	+6.3

Source: Eurostat

If carcase weights have continued on their recent upward trend (as has been the case in the UK), there will have been more pig meat on the EU market. The EU's Private Storage Aid (PSA) scheme removed some product from the market and export sales to key Asian markets like China and Japan have reportedly remained strong. Despite this, the increased supply helps to explain why EU pig prices have struggled to recover from their current low level.

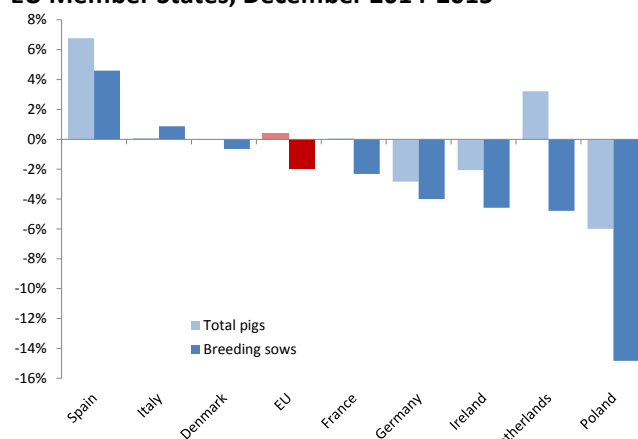
The Census results do show a decline in the EU breeding herd in the year to December 2015. However, the drop

was less than 2% overall. Looking at the figures in more detail shows a similar 2% fall in the total number of in-pig sows and gilts, although there was a bigger fall for the latter. However, maiden gilt numbers were only down 1%, which doesn't support a dramatic fall in sow numbers in the near future. The likelihood of further productivity gains means that this is small enough to prevent the number of pigs being produced falling dramatically. Therefore, the hoped for decline in EU production may be some way off yet.

At Member State level, the census figures show a mixed picture. Most key producing countries recorded declines in their breeding herds. In some cases, particularly in Eastern Europe, the declines were significant. This is particularly true in Member States which still have a large number of small producers, such as Poland and Slovakia, suggesting the loss of many of these farms.

### Annual change in pig and sow numbers in selected

#### EU Member States, December 2014-2015



Source: Eurostat

However, these losses were largely offset by the ongoing rapid expansion of the Spanish herd. The number of sows in Spain was again up by nearly 5% on the year, consolidating its position as the EU's largest breeding herd. Indeed, so rapid was the growth been that there are now more pigs in Spain than Germany, although imports of weaners means the latter will still slaughter the most pigs.

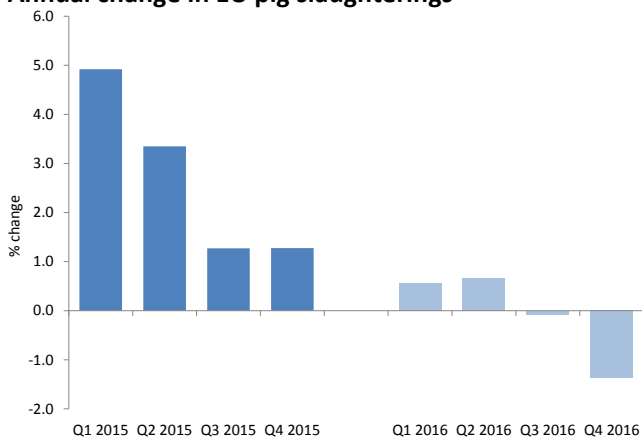
The extent of vertical integration in the Spanish industry has given it some protection against low pig prices. It has also helped it to keep its production costs down, making it the lowest cost producer in the EU. Significant recent capital investment also makes it more difficult for producers to scale back production, as debts need to be serviced. This is also a factor for many of the larger producers elsewhere in Europe, helping to explain why supply levels have been slow to respond to the low prices. The increasing consolidation in EU pig production suggests that this may be a persistent feature, making EU production less responsive to price signals and leading to increased price volatility.

## Global Market Analysis

Based on the December census results, the EU Commission's forecasting working group for pig meat updated its forecasts at a meeting in Brussels in mid-March. The new estimates from group members, coupled with official ones from those Member States not represented at the meeting, confirm the expectation that EU pig slaughterings in the first half of 2016 will be slightly higher than in the same period of 2015. Growth is expected to be less than 1%, though, noticeably slower than during the first half of 2015.

For the second half of the year, the latest forecasts show production starting to fall back, albeit only marginally in the third quarter. By the final three months of the year, slaughterings are predicted to be over 1% below their level in 2015, although, as always, there is less certainty about the exact position further into the future.

### Annual change in EU pig slaughterings



Sources: Eurostat, EU Commission pig meat forecasting working group

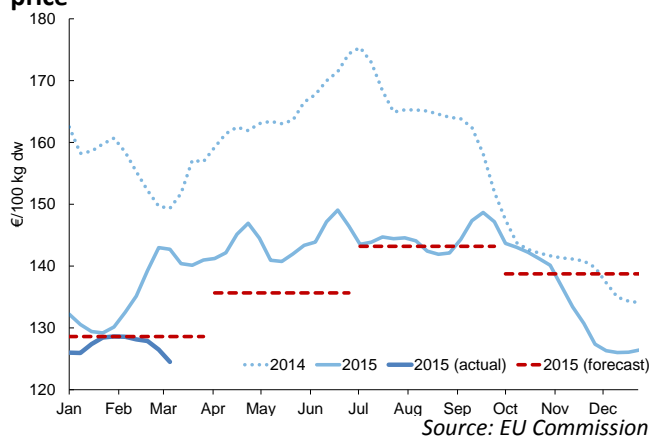
The group's forecasts suggest the EU market will remain well supplied over the coming year. Slaughterings for the year as a whole are expected to be virtually unchanged and any rise in carcase weights would mean that production actually increases. Only towards the end of the year are supplies likely to fall below last year's levels and, even then, probably only marginally once weights are taken into account.

That means that the hoped for tightening of the EU market still looks to be some way off, unless there is a significant increase in demand. However, prospects for the demand side of the equation don't look particularly positive. Within the EU, consumer confidence remains fragile and retail meat purchases have been subdued as a result. Pig meat, particularly fresh pork, has suffered more than some other meats. Despite falling prices, volume sales have been down in most of the main markets, with the exception of Spain, based on consumer panel data. There is little sign of a reversal of fortune in figures for early 2016 either.

The other component of demand is exports. The euro remains relatively weak against the US dollar, although it has strengthened a little since late 2015. However, it has lost ground against the Brazilian real, a more important factor now that Brazil has direct access to the

key Chinese market. With the global market still well supplied and signs that Chinese demand may ease back from the inflated levels of late 2015, matching last year's export performance may be challenging. Of course, this could be helped if progress can be made on the Russian import ban, at least for products, such as fats and offals, not covered by the political embargo.

### Actual and forecast grade E EU average pig reference price



Source: EU Commission

With the balance between supply and demand remaining unfavourable, it is little surprise that EU prices have remained under pressure in early 2016. Any support during the period of the PSA scheme has not been sustained. The EU's forecasting working group also produces quarterly price forecasts for the coming year. These anticipate that the market will remain challenging in the year ahead. Prices are forecast to rise during the spring and summer, assuming reasonably favourable seasonal demand. However, they are not expected to get any higher than they did last summer. With supply tightening to some extent in the latter part of the year, prices are not expected to fall back as sharply as in the last two years, meaning they could move above year earlier levels. Nevertheless, the market is set to remain well below the levels seen in 2014 and before.

How these trends affect the UK market will, of course, also depend on the exchange rate between the pound and the euro. At last summer's peak, the EU average price was equivalent to less than 110p/kg. Since then, the pound has weakened and, at current exchange rates, the peak would have been equivalent to around 115p/kg. If, as widely anticipated, the pound weakens further in the run up to the EU referendum, the EU price may be even higher in sterling terms. This could give some support to the domestic market, even in advance of any supply tightening on the continent.

The latest forecasts confirm that expectations of a recovery in the EU market in the short-term may be premature. This may add weight to calls for further market support measures from the EU Commission, such as reopening Private Storage Aid. However, even with these implemented, it looks likely to be another difficult year for EU producers.



## Feed Market

UK feed wheat futures have fallen slightly over the past month, with the May-16 contract closing at £104.75/t on 23 March, down from £105.50 a month before. However, prices are higher than the contract low of £101.25/t on 2 March. Chicago wheat futures (May-16) closed at \$170.12/t on 23 March, increasing by \$2.66 over the month. Maize futures followed a similar trend, with the May-16 contract also closing up on the month at \$145.07/t on 23 March, an increase of \$0.69. The rally was due to a combination of a weaker dollar, less than ideal weather in key wheat growing regions in the US and stronger maize export sales.

USDA reduced global ending stock estimates for wheat and maize in their WASDE report. However, despite the revisions, the stocks are still at record levels, signifying little change to global market fundamentals for both grains and oilseeds.

UK wheat exports in January totalled 310Kt, according to HMRC trade data, the highest monthly level since December 2011. This brings season to date (from July) wheat exports up to 1.3Mt, 21% ahead of the pace to the same point last season. Exports have been helped by the weakening of sterling against the euro since the start of the year, resulting in UK wheat becoming relatively more competitive in euro-priced markets. However, given the size of this season's surplus available for export or free stock, the pace required needs to hit around 350Kt each month for the rest of the season to prevent any further increase to stocks ([see here](#)).

UK pig feed manufacturing in January was 2% behind the same point last year at 140Kt, according to Defra's usage data. However, season to date production has increased by 1%. Pig grower feed production increased in January by 3% year on year but starter, breeder and finisher feed production decreased, by 12%, 8% and 2% respectively.

### Difference between UK average ex-farm feed wheat and feed barley prices



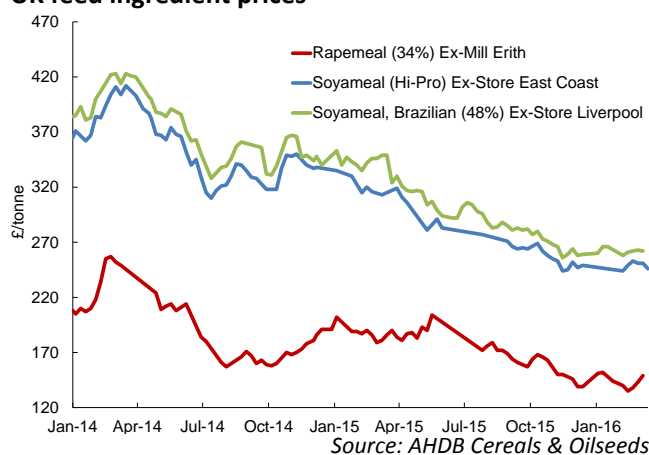
The gap between ex-farm prices for feed wheat and feed barley has narrowed to £3.50/t as at the week ending 17 March. While feed barley prices have remained relatively stable over the past few months, feed wheat prices have been falling, which has narrowed the gap. The average feed wheat price for

week ended 17 March was £99.80/t, the first time it has been reported below £100/t since 24 June 2010. The smaller premium could mean that wheat is more attractive to use as a feed ingredient than barley.

May-16 Chicago soyabean futures closed at \$332.63/t, up 4% on the month. May-16 Paris rapeseed futures also rose over the month. Global oilseed markets were supported by bullish news with regards to palm oil output, global soyabean stocks, export data and currency movements.

UK rapemeal prices (34%, ex-mill, Erith) were £158/t on 18 March, up £23 compared to 19 February. Brazilian soyameal (48%, ex-store, Liverpool) was £262/t on 11 March which is up £4 on the month. Although rapeseed and soyabean prices have risen in the last month, protein feed ingredient prices have generally been falling over the last two years.

### UK feed ingredient prices



Several experts speaking at a conference in Malaysia revealed downward projections for global palm oil output in 2016. If realised, this would be the first annual decline in 18 years and has been attributed to the impact of El Nino, which has reduced rainfall in key producers Indonesia and Malaysia.

USDA's WASDE report contained [a surprise 272Kt increase for US soyabean ending stocks](#), due to falling domestic soyameal demand. On a global basis, soyabean stocks were trimmed to a, still record, 79Mt because of higher estimates for crushing in Brazil, as well as more exports from Argentina.

Global soyabean production in 2015/16 is expected to match last year's bumper harvest of 321Mt, according to the latest report published by the International Grains Council on 25 February. Total global consumption of soyabeans is expected to increase by 4% on the year, driven by increased demand from the livestock, poultry and aquaculture sectors.

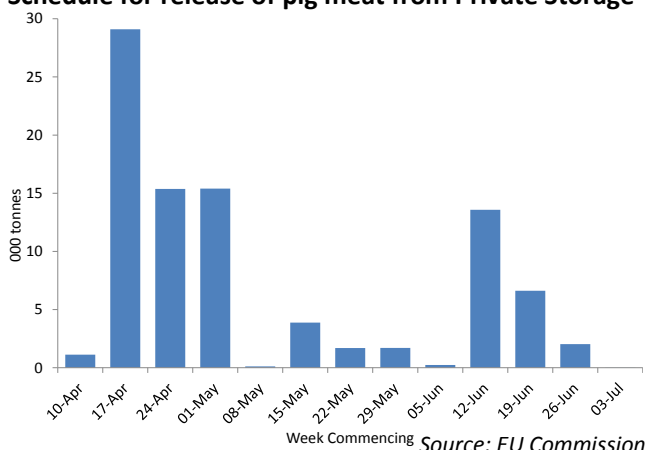
UK winter oilseed rape is ahead of the usual crop development pace according to the latest [ADAS Spring Arable Crop Report](#). The advanced crop development, which also applies to cereals crops, is due to this year's mild winter.

## In Brief

### Release of product from Private Storage starts soon

The 90,000 tonnes of pig meat products which were accepted into the EU Commission's Private Storage Aid (PSA) scheme in January will soon start to be released. Around two-thirds of the total volume was stored for the minimum three months. Most of this will be released back onto the market in the three weeks starting 17 April. The remaining product, which was stored for four or five months, will be released later in May or during June.

### Schedule for release of pig meat from Private Storage



EU pig prices have started to show signs of upward movement as demand picks up in the run up to Easter. However, there must be some concern that the extra supplies released from storage will curtail this trend. The volume to be released during April and early May is equivalent to around 3% of monthly EU production. This would be enough to move prices if demand (either domestic or export) is insufficient to absorb the quantity involved. Most of the stored pig meat is likely to be intended for export but, even so, it may displace other product, which will then have to be sold on the EU market.

If the release of supplies from the PSA scheme does suppress prices, it would increase the pressure on the EU Commission to open a new PSA scheme. This is already under consideration as part of a package of support messages announced earlier in the month by Commissioner Hogan.

Among the other proposals relevant to the pig sector were:

- Establishment of a Meat Market Observatory to monitor and share information on market trends

- Additional funding for promotion of pig meat products in the EU and on third country markets
- Continuing efforts to lift the Russian ban and address other measures limiting access to export markets
- Consideration of temporary acceptance of state aid support to a maximum of €15,000 per farmer per year

### Spanish exports see strong growth

For 2015, exports of Spanish pork increased 17% to 1.23 million tonnes. In euro terms, the value of these shipments also grew, although at a lesser pace, up by 6% to €2.65 billion. Domestic production levels were up 8%, with the December 2015 census showing that the Spanish pig herd is now the largest in Europe, overtaking Germany's. Shipments from Spain to the rest of the EU grew by 12% in 2015, with France being the main recipient. Sales to the UK increased by 16% but growth was much stronger in the second half of the year. Non-EU trade saw 30% growth in 2015, largely driven by a 72% increase in shipments to China.

### Global pig prices remain subdued in 2015

Global pig prices fell steadily throughout 2015, following an exceptionally high year for prices in 2014. Based on the prices of the four major exporters, the average export pork price finished 2015 at the lowest level for over six years and over a dollar below the peak in June 2014. The Russian ban and increased production levels in the face of subdued consumer demand have negatively impacted prices. The strong dollar against other currencies has also affected prices. Depressed global prices will provide little comfort to EU producers, as export prices will need to stay low to compete.

### Germany and Spain lead EU exporters

Traditionally, Denmark has been the leading EU exporter of pork to third country markets but in 2015 it was overtaken by both Germany and Spain. These three accounted for 60% of EU pork exports between them, up from just over half two years before. Overall, just under a quarter of pork exported from the 28 EU Member States was destined for a non-EU market. UK pork accounted for only 3% of all EU exports but among the 10 leading exporters, the UK had the second highest share of its exports leaving the EU, at 31%.

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