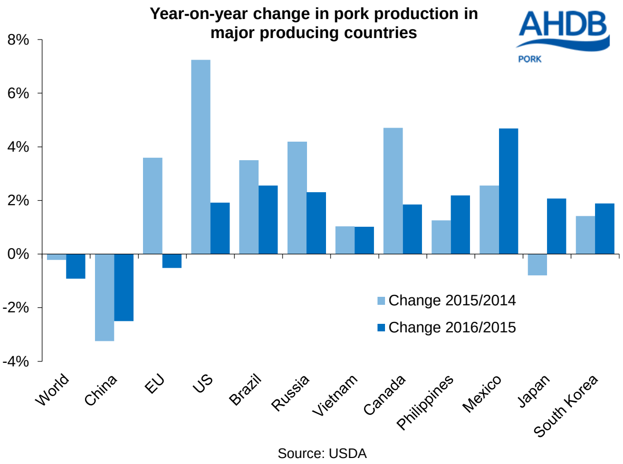
Global production forecast to be down slightly in 2016

According to latest forecasts, global pork production is set to be slightly down in 2016, after levels were little changed in 2015. Global trade is forecast to increase in 2016, although at slower rates than those recorded the year earlier.

In its latest global outlook report, the US Department of Agriculture (USDA) forecasts that pig meat output from the major producing countries will decrease by 1% in 2016, to 109 million tonnes. This would be the first decrease in global production since 2006. The driving factor is the continued decrease in Chinese production, although this is forecast to be less severe than the decline experienced in 2015.

USDA also expects that the EU will record an overall decrease in production in 2016, although EU Commission forecasts do not see this happening until the end of the year, with production levels still increasing in the first half of 2016. While all the other major producing countries are forecast to increase production again in 2016, the majority are doing this at a slower rate than the year before, with Mexico, Japan and the Philippines the notable exceptions.

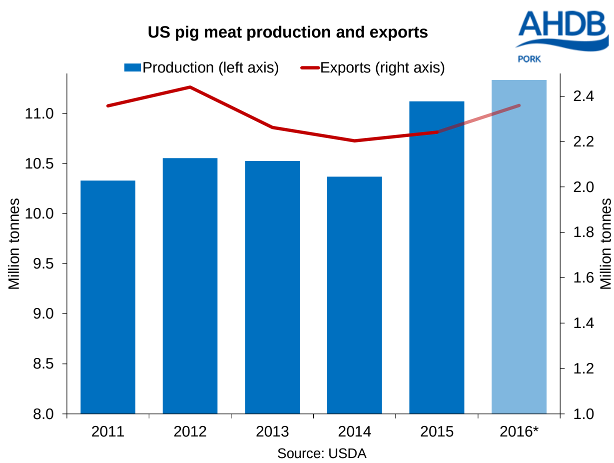


The continued contraction of the Chinese breeding herd has led to a reduction in production. However, better genetics imported into the Chinese herd have increased the number of piglets per sow, so production declines are not at the same rate as herd size. Chinese production looks set to be muted throughout 2016, despite the increasing pig prices, due to several factors. Pig production in coastal provinces, where land is more expensive, will be under pressure to close, as local government seeks a more profitable use for the land. Environmental legislation also assists local governments in being able to close producers or move them to other regions, particularly where they are located close to population centres.

The slowing Chinese economy has had an impact on the domestic consumption of pork and it is forecast to decline again in 2016, impacted by continuing high prices. However, it remains the traditional meat in the Chinese diet and looks set to be so for the foreseeable future. On the face of it, high pig prices and decreasing feed prices would look likely to attract producers to increase production. However, many pig producers, particularly the smaller ones, do not have access to capital to expand their herds and take advantage of these market dynamics.

The increase in EU production in 2015 is forecast by USDA to be slightly reversed in 2016. The breeding herd in most EU countries was reduced, according to the December census, which will have a tightening effect on supplies going forward. However, the Spanish herd is continuing to grow, which may mitigate the impact of tightened supplies from other major EU producers. EU forecasts state that production levels will not start to fall back until the second half of the year, and the EU market will remain well supplied throughout 2016. Further insight into the EU outlook can be found here.

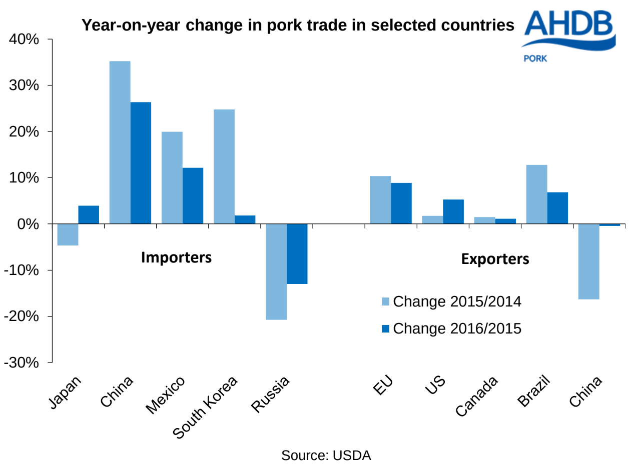
US pig meat production is forecast to reach record levels in 2016, at 11.3 million tonnes, according to the latest data from USDA. The updated estimate is 2% ahead of 2015 volumes, which was already a bumper year. If the 2016 forecast is realised, US production would account for over 10% of global pig meat production. However, production looks set to increase at a slower rate than last year, when producers capitalised on inflated prices following the PEDv epidemic in 2014. A decrease in the cost of production is helping to incentivise producers to increase production.



Brazilian production is forecast to continue increasing in 2016, although at a slightly reduced rate from the year before. The Brazilian pig sector has been under pressure in recent months, with the need to increase exports vital to the profitability of the industry. Falling domestic demand, at the same time as increasing production, has created a surplus, which needs to be liquidated on the export market. Previous investment in pig production is resulting in increasing levels of production, up almost 5% in early 2016, and contributing to lower pig prices.

At the same time, production costs are increasing sharply, as the devaluation of the real results in increasing export demand for Brazilian maize and soya, the main feed sources for the pig sector. This has resulted in rising feed prices in the domestic market. This increase in feed costs has muted the forecasted increase in production levels for 2016, although there is still a level of optimism amongst producers, mostly due to high export levels.

Despite an expected decrease in global production in 2016, USDA forecasts an increase in global trade levels. However, the rate of growth is forecast to slow on the year before. This is largely because 2015 was an exceptional year for imports to the Far East and, while these countries are key markets to the major exporters, growth in exports may not sustain the same rate as previously.

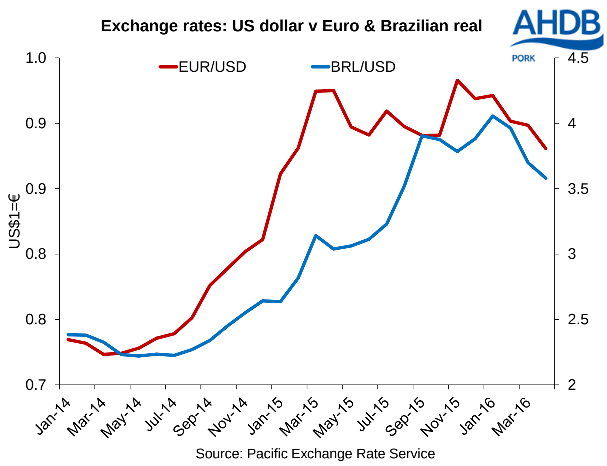


Chinese imports are forecast to be 26% up on 2015 and imports from the EU account for an 80% market share. Imports from the US are restricted by China's zero tolerance policy towards Ractopamine. However, towards the end of 2015, China relisted 16 US processing plants involved in a Ractopamine-free programme and these plants are now eligible to export to China. Imported meat predominantly goes into the food processing industry and two inland ports have recently been established that are able to import meat directly. These will provide more direct access to China's interior, and potentially reduce costs, compared with coastal facilities.

Imports to Russia are forecast to fall again in 2016, although at a lower rate as actual volumes are well down on pre-2014 ban levels. Brazilian imports to Russia are set to increase slightly but, despite calls for the EU to restart negotiations with the Russian Federation to lift the trade embargo, this has yet to commence. Even if the trade embargo is lifted, it looks dubious that Russian import levels will return to pre-2014 levels, as Russia has invested heavily within its agricultural industry in a move towards self-sufficiency.

The EU and US are the leading pork exporters, together accounting for nearly two thirds of the world's pork trade. In 2015, the EU overtook the US as the world's leading exporter and is forecast to retain this position in 2016. The euro remains relatively weak against the US dollar, providing a challenge for US exporters competing against the EU. However, the strong demand from key markets will still facilitate a growth in export volumes from the US.

The euro has, however, lost ground against the Brazilian real, which is crucial as Brazil now has direct access to the lucrative Chinese market. The real has devalued by 38% over the past twelve months. As previously stated, export markets are vital to the profitability of the Brazilian pig industry, and negotiators have been working hard to develop new markets and increase volumes to established export destinations. One example of this is South Korea, which has opened its market to Brazilian pork after ten years of negotiation.



Since the turn of the year, the US dollar has started to weaken against both the euro and the real. This will help to make US pork exports more competitive on the global market, if it's sustained.

With a fall in global production, coupled with an increase in global trade, there may be a glimmer of hope for global pork prices towards the end of 2016. They fell steadily from October 2014 and global export prices averaged $2.38 per kg in December 2015, nearly 20% lower than a year earlier. Since then, the EU price has stabilised and going forward this may provide some support to global prices.

In summary, 2016 looks set to be another challenging year for the major exporters in the global pig industry. Production is still largely increasing in these countries and, while exports can provide an outlet for oversupply, these levels are not growing at the same rate as 2015. This may cause the global price to remain under pressure, although this may ease slightly towards the end of the year as decreases in production levels are realised.