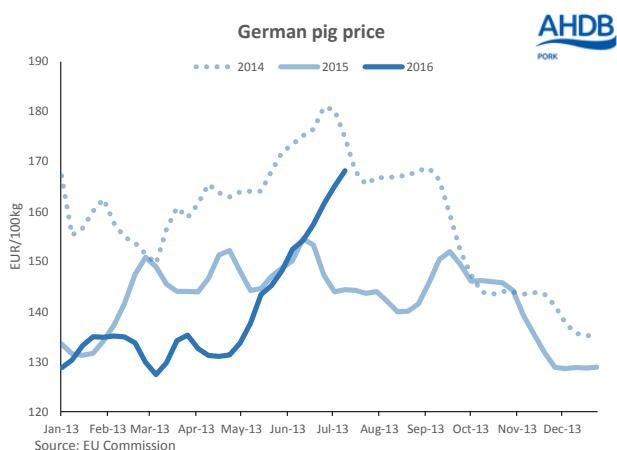


German pig price on the rise

German pig prices have been increasing significantly since May, following two years of declining prices. The deflationary effect on the German pig price has been well documented, with the impact of the Russian import ban, subdued consumer demand across Europe and increasing production all being contributory factors. However, the price now seems to have turned a corner, with strong Asian export demand and tightening supplies supporting this, and current signs are that it may continue to increase through the second half of the year.

Having fallen to a low of €1.27 per kg in March 2016, the German pig reference price increased steadily through April before accelerating through May and June. In the latest week, ended 14 July, it stood at €1.68 per kg, which is almost €0.24 higher than the same point in 2015, and only just under €0.07 behind 2014 levels.

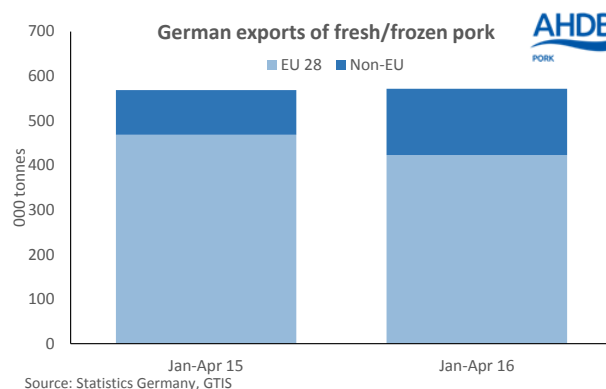


German piglet prices have followed a similar trend, although the increase has been more gradual since the beginning of the year. They currently stand at almost €55 per head, having started 2016 at just over €37 per head. Some of this recovery can be attributed to seasonal fluctuations but the decreasing pig herd, which has led to a tightening of supplies, and increased confidence in the longer-term outlook, has also affected it. Cull sow prices have also increased since May following two years of decline, with the latest price of €1.15 per kg being 18 cents higher than 2015 levels.

This improving picture is a result of a combination of factors. Strong demand from China is undoubtedly a driving force, with German shipments in the first four months of 2016 doubling on the same period a year earlier. Not only have the volumes to China increased but so have the value of these shipments. They have forged ahead, at over 150% more than 2015 levels. The surging Chinese pig price, exacerbated by a shortage of domestic supply in the face of increasing demand, has seen the value of German exports to China soar.

The growing trade with China has helped support overall export levels, as intra-EU trade has declined in the first four

months of 2016, when compared with a year earlier. Fellow member states have also been affected by large production volumes and have therefore managed to satiate a greater proportion of their domestic demand.



The euro was starting to strengthen against the US dollar in the first quarter of 2016, after largely weakening throughout most of 2015. However, this movement has begun to reverse in recent weeks, compounded by the uncertainty the Brexit vote brought to markets. While the weakening euro will help export sales, it could mean that feed prices may increase, as these are generally priced in US dollars. This comes on top of the increasing price that is being recorded for soyameal, with restricted supplies from Argentina causing this. While producers will not welcome an increase in production costs, they may be largely softened by the improving pig price, so the impact on margins may be mitigated.

A tightening of supply has also supported the German pig price. From the latest census, released in May, the German pig herd had fallen a further 4%, to 27 million head. Within this, the breeding herd was back 6%, which will result in a further tightening of supplies in the second half of the year.

Production levels in 2016 to date have been similar to a year earlier, with slightly lower slaughterings offset by heavier carcass weights and a small rise in sow cullings. However, as the year progresses, it is expected that production levels will start to fall back, as the effect of dwindling supplies is felt. Therefore, this could further support the German pig price through the second half of the year.

With Germany remaining at the heart of the EU pig market, developments there will continue to influence the rest of the EU. Whether the increasing price and strong export demand from the Far East will have an effect on the size of the German pig herd remains to be seen but any changes in numbers will take time to work through the system. This period of rising prices comes as a welcome respite after a tough time, and may offer producers a chance to recover some losses and reinvest in the industry to help buffer against future difficult periods. It will also be helping to ensure that prices in other EU Member States, including the UK, are supported.