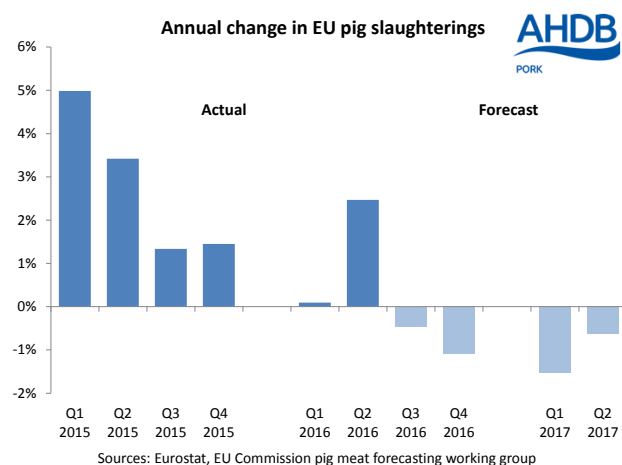


Tighter supplies ahead in EU but limited price support

The reduction in the EU pig breeding herd recorded in the year to June 2016 is expected to lead to some reduction in supplies over the coming months. However, uncertainty about future export prospects and subdued EU consumer demand may prevent prices rising any further. These were among the conclusions drawn from this week's meeting of the EU Commission's pig meat forecasts working group.

EU pig prices spent much of the last two years at very low levels, compared with the recent past. This was driven by increased supply, coupled with lower domestic demand and the ongoing impact of the Russian import ban. As a result, many pig producers suffered from negative margins, with some choosing to leave the industry or reduce their herds as a result. This particularly affected backyard farms in Eastern Member States.

As reported last month, the number of breeding sows in the major EU producers in June was 4% lower than a year before. The total number of pigs was also down year on year. As a result of this, total pig slaughterings are expected to be lower in the second half of this year and the first half of 2017. Not all countries forecasted numbers for the second half of next year but those which did suggested numbers would remain below this year's level in the third quarter before starting to recover in the final three months of next year.

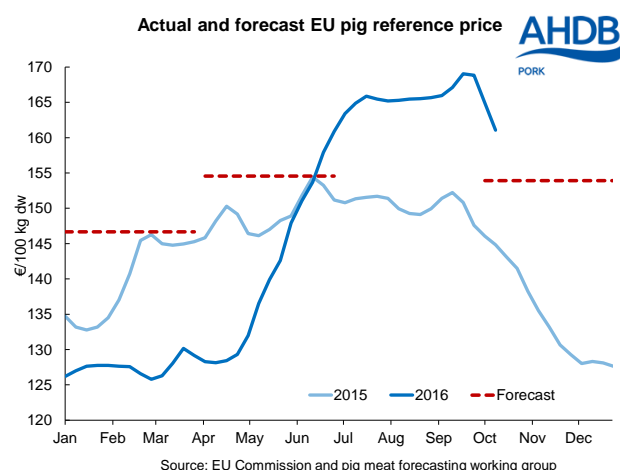


Given the extent of the breeding herd fall, a drop in slaughterings over the coming year was inevitable. Indeed, the fact that it is forecast to be a relatively modest 1% indicates further improvements in productivity across Europe. Among the major producing Member States, only Spain and the Netherlands are forecasting increased indigenous production between July 2016 and June 2017, compared with a year earlier. Some other countries may increase their slaughterings due to higher live pig imports.

In contrast, Germany, France and Denmark are all forecasting drops in pig production of around 2%. Poland expects to

produce 9% fewer pigs, although this will be largely offset by higher imports of weaners, particularly from Denmark, so its pig meat production may only reduce slightly.

The working group also forecasts prices. Here there is more uncertainty but the general view was that prices would fall seasonally between now and early next year, a trend which has already begun. However, they are expected to remain comfortably above the low levels recorded last winter.



How the market develops as we move through next year will depend in large part on export demand. This year, the market has been supported by booming exports to China. The EU was well placed to respond to increased Chinese demand for imports in 2016. EU pork was competitively-priced and the Chinese ban on Ractopamine limited imports from the US. However, with more hormone-free production across the Atlantic and falling US prices, EU exporters may not get such an easy ride next year, even if Chinese demand doesn't reduce. Good demand is expected from some other export markets, though.

On top of this, EU consumer demand remains a challenge. Most major markets are seeing falling consumption and sales of fresh pork are particularly struggling. Processed products are generally faring better, due to a bit fit with busy modern lifestyles, but often deliver lower value to the industry.

Based on these concerns, forecasts suggest that seasonal price gains may be more modest next year than in 2016. Despite starting the year well above this year's level, prices are not expected to reach the same peak and are forecast to fall below 2016 levels in the second half of the year.

While these forecasts do suggest a reasonable year ahead for EU producers, there appears to be little prospect of a return to the high prices recorded in 2013 and early 2014. Of course, how this impacts on the UK market will depend, among other things, on the pound-euro exchange rate. However, if the pound remains weak or weakens further, a firm EU market could give support to UK prices.