

In this issue

Review of 2016

2016 was a year of highs and lows for the UK pork sector. In March prices fell to their lowest level since 2008. This was followed by 37 continuous weeks of price rises, the longest period of increases on record. Here we will recap some of the major market drivers for 2016 and suggest what might influence the market going forward. **page 4.**

Asian pork markets

The Asia-Pacific region could offer increasing opportunities for global pork exporters looking forward, including the UK. The Asian middle class is projected to expand rapidly over the coming years, with two thirds of the world's middle class living in the Asia-Pacific region by 2030, according to the OECD. The FAO expects the consequential increase in wealth to raise meat consumption in the region to around 80kg per capita by 2030. However, with low efficiency, backyard production systems still dominant in the region, it is likely that imported products will be required to meet demand. Will UK pork be able to capitalise on these growing markets? Turn to **page 6.**

US

The latest United States forecasts anticipate that pig meat output will reach a record high this year, up by as much as 5% on 2016 to nearly 12 million tonnes. The forecasts have been revised upwards given the unexpectedly large rise in pig numbers shown by the December pig count. Given these abundant supplies, exports are forecast to rise 4% to almost 2.5 million tonnes. Read our analysis of the latest developments affecting the US market on **page 8.**

Outlook Webinar

The prospects for the English beef, lamb and pork sectors as we prepare to leave the EU will be the focus of an [AHDB webinar](#) taking place at 10.30am on Tuesday 14th February. Replacing the annual Outlook Conference, the [webinar](#) will give levy payers and industry stakeholders the opportunity to hear experts from AHDB Market Intelligence give the latest outlook for their specific sector without leaving the farm or office. There will also be a presentation on the outlook for feed markets.

In addition, the [webinar](#) will include an overview of AHDB's analysis on the implications of Brexit and an insight into other areas that this work will cover in the near future. Following the presentations, delegates will have the chance to put their question to the experts during a question and answer session.

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Key data

	Dec-16	Change since Nov-16	Change since Dec-15
Average GB carcass weight - kg	81.82	-0.81	+1.21
30kg weaner price - £/head	54.60	+0.67	+13.85
7kg weaner price - £/head	38.53	+1.16	+7.62
GB APP (Euro-spec) - p/kg dw	154.54	+2.46	+25.56
GB SPP (Euro-spec) - p/kg dw	151.70	+1.78	+26.95
EU Reference price - €/100kg dw	153.09	+1.54	+26.92
UK Reference price - €/100kg dw	177.40	+7.34	+7.91
UK weekly clean pig kill - 000 head	203.6	-12.2	-7.1
UK weekly pig meat production - 000 tonnes	17.3	-1.0	-0.4
UK pork imports - 000 tonnes*	45.3	+2.5	+9.1
UK bacon imports - 000 tonnes*	22.6	+1.0	+0.4
UK pork exports - 000 tonnes*	17.3	+1.8	-0.6
Retail pig meat sales - 000 tonnes†	54.9	+1.7	+0.8
LIFFE feed wheat futures - £/tonne	136.58	-2.10	+23.98
CBOT Soyameal futures - \$/tonne	313.74	+0.13	+38.08

* Figures relate to November 2016
 † Figures include household purchases of pork, bacon, sausages and ham and relate to 4 weeks to 4 December 2016

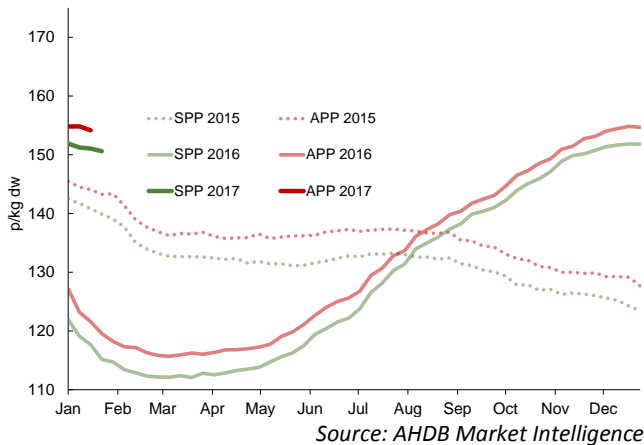
Interested in data? Get more detail about these and other areas from the [AHDB Pork website](#)

We are now on Twitter. For regular updates about the UK pig market and related publications, follow us @AHDB_Pork #PorkMarketNews

UK Market Snapshot

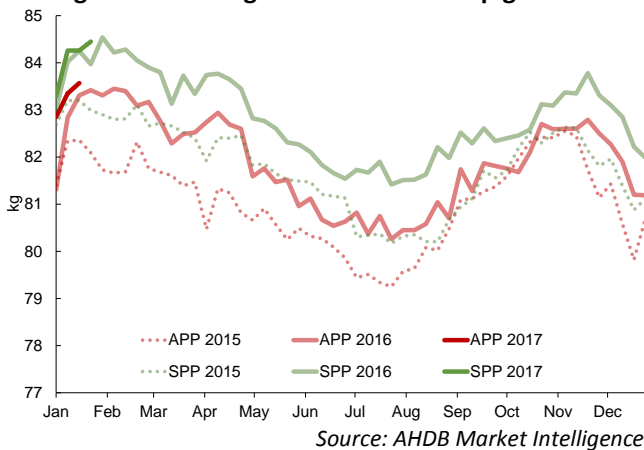
Following the trend from the previous 8 months, GB pig prices rose during December. The monthly-average EU-spec APP was up almost 2.5p on the previous month, reaching 154.54p/kg, the highest since October 2014. While tight supplies continued to support prices, the rise was more modest than in previous months. This was perhaps due to the strengthening of the pound during the Christmas procurement period.

GB finished pig prices



Increases in the EU-spec SPP were also more modest during December. The figure climbed just under 2p on the previous month to average at 151.70p/kg. This was the first time the monthly-average SPP was above 150p/kg since October 2014. This also meant the gap between the APP and the SPP widened by 0.26p during the month, to stand at 2.91p for week ended 31 December. Moving into the traditionally more difficult post-Christmas period, both price series have now begun the usual seasonal decline. However, prices have remained over 30p higher than year earlier figures. The SPP has fallen by more than 1p since the end of 2016 and stood at 150.60p/kg for week ended 21 January. The gap between the APP and the SPP has also continued to widen and stood at 3.12p for week ended 14 January.

Average carcass weights for GB finished pigs



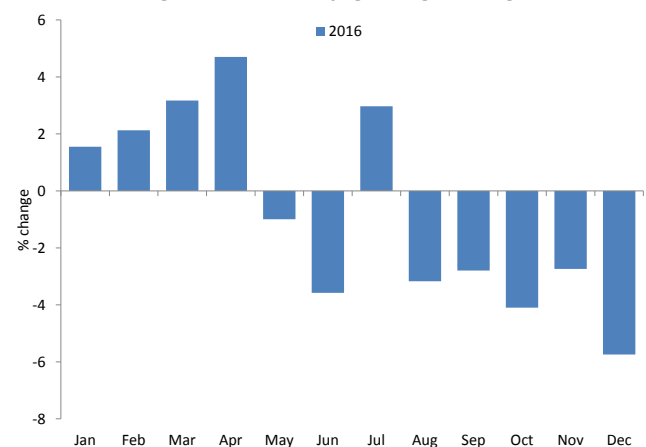
Carcass weights fell on the month during December. The average weight of the APP sample declined by over three-quarters of a kilo from November's monthly

average, to stand at 81.82kg. However, this was over 1kg heavier than December 2015. While it is normal for carcass weights to fall at this time of year, as pigs are pulled forward for Christmas, the decline last year was smaller than usual. This may be due to the tighter supply situation currently in play. Moving into January, carcass weights increased once again. For week ended 14 January, the average weight for the APP sample stood at 83.57kg - the highest figure since the series began in 2014.

Weaner prices continued to rise during December. Following the trend of the finished pig market, the monthly average 30kg weaner showed a more modest rise than in earlier months. Rising nearly 70p on November, the figure stood at £54.60 per head. This was almost £14 more than the year earlier figure and the highest price since July 2014. 7kg weaners showed a more substantial increase on the month of over £1, bringing the average to £38.53 per head. This was around £8 up on a year earlier, and the highest figure since August 2014.

The volume of pig meat produced in the UK during 2016 was the highest since 2000, according to the latest data from Defra. Once figures were adjusted to account for the change in reporting methodology earlier this year, production edged less than 1% ahead of 2015, to reach 908 thousand tonnes. However, this small increase was influenced by the extra working day in 2016. The annual increase was almost entirely driven by the first half of the year, as production actually fell behind year earlier levels for the latter five months of 2016. Overall, throughput for 2016 was stable on the year at 10.6 million head. Conversely, sow slaughter was elevated for the year as a whole, up 3% on 2015 levels at 254,000 head. Average carcass weights were higher in 2016 relative to the previous year, averaging 82.2kg.

Annual change in UK clean pig slaughtering



Source: Defra. Change to calendar months from statistical in Feb 2016

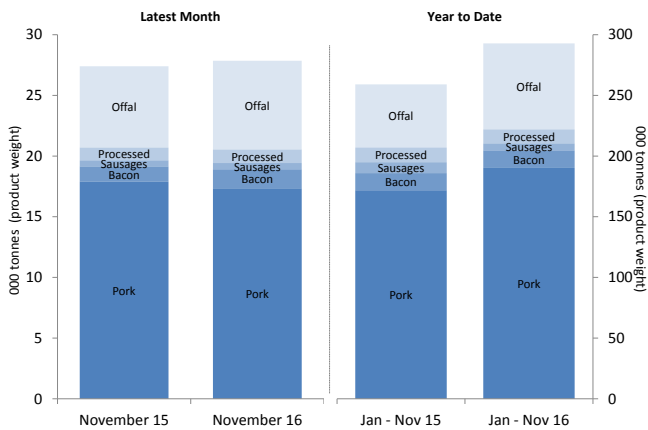
For December, clean pig throughput was 6% down on the year, contributing to a 5% year-on-year fall in production. Sow slaughtering was also 9% below 2015 levels.

UK Market Snapshot

UK pork export volume declined 3% compared to the previous month in November, to 17 thousand tonnes. This followed lower levels of domestic production for much of the year and lower demand from the continent in autumn. However, the weakness of the pound meant that the value of shipments remained significantly higher than in 2015; up by a quarter at £24.2 million. The value of shipments to most major markets saw large increases compared to the previous year, however the value of shipments going to the US was lower.

The fall in volume was driven by lower shipments to some major markets in Germany, Denmark and the Netherlands. This led to an overall decrease in exports, despite double digit increases to the two largest markets for UK pork, China and Ireland. Shipments to these destinations were up 25% and 12% respectively. Volumes to China continued to rise despite increased competition from the US and Brazil. However, the rate of export growth has slowed in recent months.

UK Pig Meat Exports

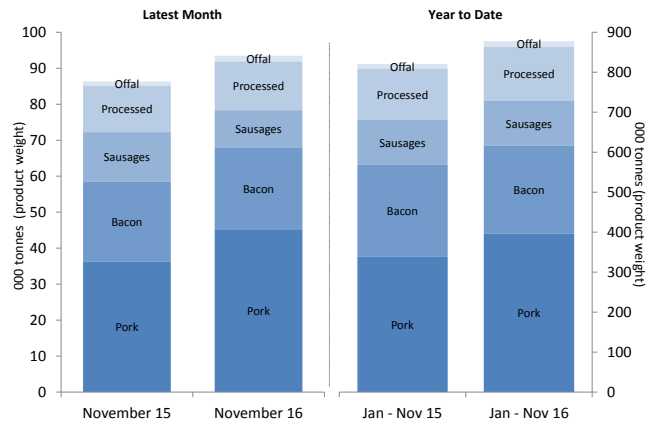


Source: Her Majesty's Revenue & Customs

Further growth has been seen in shipments of offal from the UK; volumes were up 9%, while the value increased 60% on November 2015. This was driven by higher volumes going to China and the Netherlands, while volumes going to Hong Kong fell. Bacon exports were also positive during the month, increasing in volume by 25%. Exports of sausages and other processed pig meats were also higher than 2015. Despite the rise in the volume of sausage exports, the value declined, while bacon and processed pig meat export values rose.

Pork imports continued to be above 2015 levels during November, rising 25% to 43 thousand tonnes. This was largely driven by Danish shipments, which were up 66% compared to 2015. Volumes from Germany were also up by 16%. The weakness of the pound led unit prices to rise and the total value of these imports rose by over a half relative to 2015, reaching £88.3 million. The volume of all other pig meat products imported, with the exception of sausages, were also greater than a year earlier.

UK Pig Meat Imports

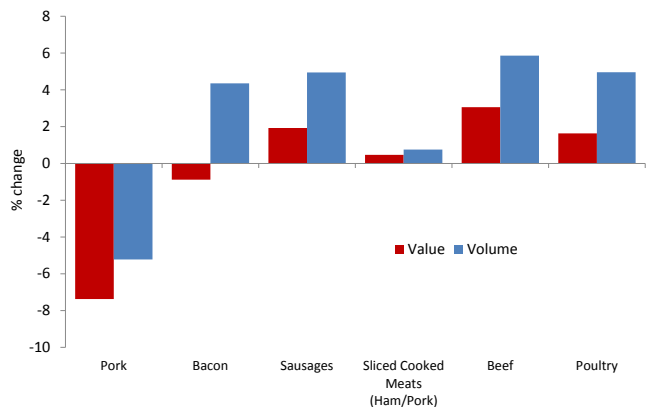


Source: Her Majesty's Revenue & Customs

In December, farm gate prices increased for the tenth consecutive month to the highest level of the year. This rise, combined with a smaller rise in average retail price, led to the share of retail prices received by producers increasing to 40.4%. This remains the largest share received by producers since July 2014 and is nearly 7% higher than December 2015. Increases in GB pig prices during December were responsible for the overall increase in producer's share.

The volume of bacon and added value products, such as sausages, sold by UK retailers in the 12 weeks ending 1 January (including the Christmas period) increased on the year, according to latest data from Kantar World panel. However, pork sales remained subdued in the same period.

Annual percentage change in retail meat purchases (12 weeks to 01 January 2017)



Source: Kantar Worldpanel

The amount spent on fresh/frozen pork over this period was down over 7% on the year, following similar trends seen over recent months. Pork volumes were again affected by consumers switching to other meats such as beef and poultry, with both recording increases in volumes sold. Volumes sales for bacon recorded a 4% increase on 2015, due to lower average prices, which meant overall spend was still down. Nonetheless, the total spend on sausages increased by 2%, driven by a rise in volumes sold and average prices.

UK Market Analysis

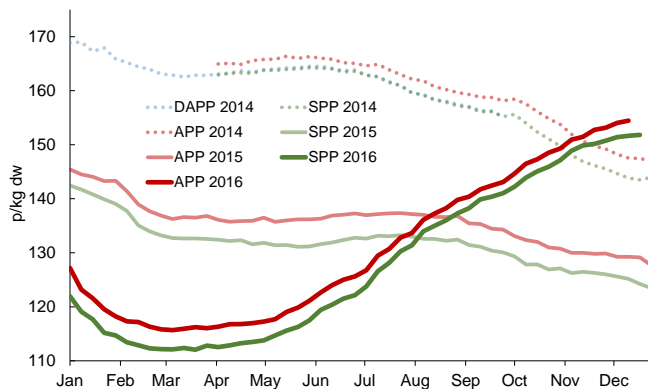
A roller coaster year with more uncertainty to come?

2016 was a year of highs and lows for the UK pork sector. In March prices fell to their lowest level since 2008. This was followed by 37 continuous weeks of price rises, the longest period of increases on record. Here we will recap some of the major market drivers for 2016 and suggest what might influence the market going forward.

The year started with slaughterings being higher than the same stage in 2015, which combined with increased average carcase weights led to higher production. This put further pressure on an already falling market and led to GB prices in March being at an eight year low.

However, the trend of increasing slaughterings which had been seen since mid-2014 came to an end in May, leading supplies to begin to tighten. At the same time Chinese import demand began to increase strongly. This combined with tightening supplies and rising prices across Europe led UK prices to begin to rise in April. This trend continued for the rest of the year. In late June the increase was accelerated by the fall in the value of the pound which followed the result of the EU referendum.

UK pig prices



Source: AHDB Market Intelligence

The fall in the value of the pound made imports to the UK more expensive, while making UK exports more competitive. Despite this, tighter domestic supplies led to a rise in UK pork imports. This was despite the EU average pig price moving above the UK price in sterling terms between September and October.

UK retail demand for pork continued to fall in 2016, with both the price and the volume of pork sold being lower for much of the year.

All of these factors have led to a different picture for UK pig prices at the end of 2016 when compared to the beginning. Even with low costs of production that were seen in 2016 producers were still losing money at the beginning of the year but by the end of the period they were back in profit.

As we look ahead to 2017 the factors driving the market have continued to shift, with cost of production, supplies and trade all likely to change compared to 2016.

The latest data from Defra shows that in June 2016 the sow herd had grown compared to June 2015. However, other evidence such as declining production of breeding pig feed and poor profitability for pig farming in the first half of 2016, suggest that the actual breeding herd has fallen in size during that period. This is likely to lead GB slaughterings to continue to fall in the first half of this year and providing some upward pressure to the market.

Falling supplies are also expected in the EU in the first half of 2017. However globally, supplies are expected to rise driven by higher production in China, the US, Brazil and Russia. Higher production in China could put pressure on exports from the EU. At the same time increased levels of production are likely to make US pork more competitive putting further pressure on EU exports. Further increases in Brazilian exports are also expected. This could potentially put pressure on both global and EU prices including on the UK market. The Chinese market in itself is one key area of uncertainty.

While UK production levels are likely to fall in the early part of 2017, the weaker pound is leading to an increase in the cost of production of pigs by driving up the cost of imported inputs and UK produced grains.

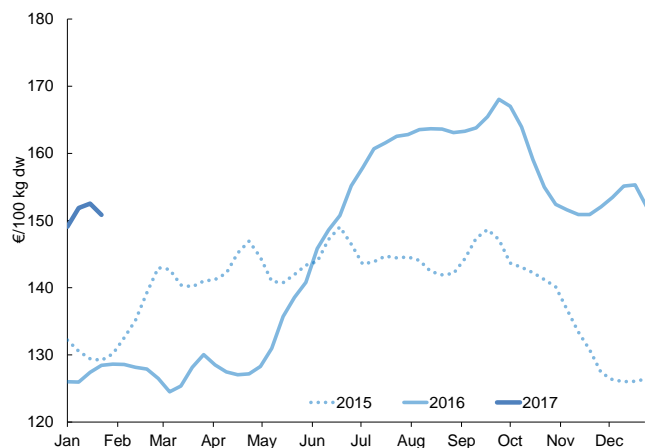
Looking further into the future, the negotiations surrounding Brexit are likely to be some of the major drivers for the pork industry in the medium to long term. The situation regarding trade will obviously be important. Other factors that will have an effect on the industry will be migrant labour, the future of agricultural policy and regulations surrounding production.

2016 was a year of two halves for the UK pig meat industry, with high supplies and falling prices characterising the situation in the first half of the year. The second half saw supplies tighten, high Chinese demand continuing and a weakening currency improve the UK's trade position. Moving forward supplies are expected to remain tight in the UK in the first half of 2017. Other than that there remains a great deal of uncertainty, particularly surrounding the UK's relationship with the EU. The weak pound, driven by this uncertainty, should continue to make UK exports more competitive as well as making imported product less competitive on the UK market. However this will also drive up the cost of inputs such as feed and fuel, making this a time when producers will need to ensure they have close control over their costs.

EU Market Snapshot

The rises seen in the EU average pig reference price from November to December were short lived. While there has been some fluctuation, prices fell by €1.25 over the past four weeks to €150.85/100kg by the week ended 22 January. Prices though are still over €22 up on the same week in 2016. The sharpest declines in recent weeks were seen between week ended the 18 December and 25 December, when the Christmas procurement period would have ended and demand would have tailed off somewhat.

EU Average Pig Reference Price



Source: EU Commission

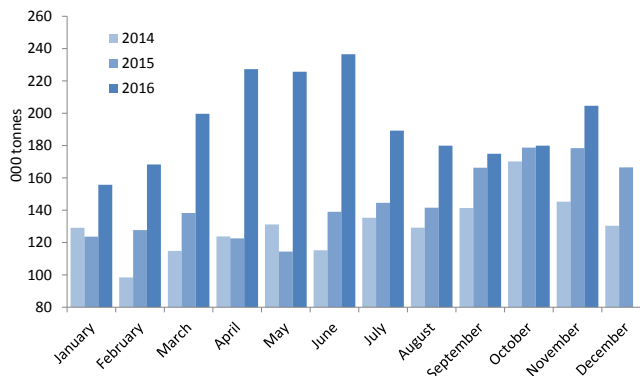
Prices in Germany, the most influential producing nation, saw a drop of over €10 in the three weeks leading up to 01 January. However, the price has since recovered somewhat, to €156.25/ 100kg for week ended 22 January, because of tight pig supplies. The overall fall in the German price is mainly due to pressure from slaughtering companies as they cut prices because their throughput requirement fell back. Overall price drops have also been seen in other major producers such as Denmark, Spain and Poland over the past month, despite varying degrees of strengthening in recent weeks.

With sterling weakening against the euro, further pressure has been on the UK reference price. As such, in sterling terms the UK reference price recorded a decline over the past four weeks whilst other key producing states have seen increases.

EU fresh/frozen pork exports returned to growth during November. At almost 205,000 tonnes, volumes were 15% above 2015. With higher pig prices, value increased ahead of volume - up 33% on November 2015 to reach €518 million. Shipments to China returned to positive growth, up 14% relative to November 2015. However, they did not match the increases seen earlier in the year. This is not unexpected given the increased competition from US pork and reduced Chinese demand. South Korean volumes also increased by almost 40%. Venezuela also emerged as an increasingly important destination, taking over 8,000 tonnes and accounting for 4% of total export volume.

Offal exports were also 12% above November 2015, at 132,000 tonnes. Accounting for almost 60% of volume, a 25% increase in Chinese shipments spearheaded this growth.

EU monthly pork exports

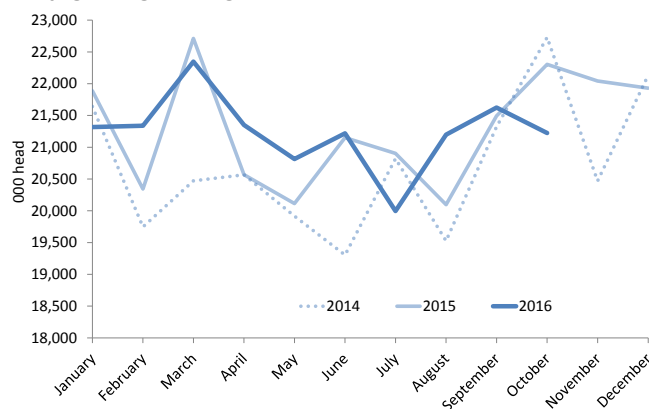


Source: Eurostat

Conversely, shipments to Hong Kong, were back 5% on the year, which led to a 4% loss in market share. Higher average unit prices promoted further growth in offal export value; up by nearly 30% on the year to just shy of €184 million.

Latest figures from Eurostat suggest that EU pig slaughterings fell by 5% in October compared to the previous year, declining to 21.2 million head. However, much of this is due to an extra working day in October 2015 compared to 2016. When accounting for this difference, slaughterings were stable on the year. A similar picture was seen for pig meat production, which was reportedly back 5% at 1.92 million tonnes. Slaughterings and production showing similar trends indicates stable carcasse weights compared to 2015. Overall, production in the first ten months of 2016 was up 2% on the same period in 2015 at 19.2 million tonnes.

EU pig slaughtering trends



Source: Eurostat

Production was reported to be back in most of the major EU producing countries. However Production in Poland was level with the same stage in 2015. Large movements in production in the UK (-21%) and Denmark (-14%) are likely to be a result of different reporting methods being used in the two years.

Global Market Analysis

Asia- are UK pork exports up to the challenge?

The Asia-Pacific region could offer increasing opportunities for global pork exporters looking forward, including the UK. The Asian middle class is projected to expand rapidly over the coming years, with two thirds of the world's middle class living in the Asia-Pacific region by 2030, according to the OECD. The FAO expects the consequential increase in wealth to raise meat consumption in the region to around 80kg per capita by 2030. However, with low efficiency, backyard production systems still dominant in the region, it is likely that imported products will be required to meet demand. Will UK pork be able to capitalise on these growing markets?

During 2016, China was the big news on the global pork market. Imports more than doubled on year earlier figures, exceeding 1.5 million tonnes shipped weight (sw). This followed from considerable restructuring in their domestic pig herd, resulting in a fall in production which elevated prices. However, as was previously discussed [here](#), the extent of Chinese demand for imported pork in 2017 remains uncertain.

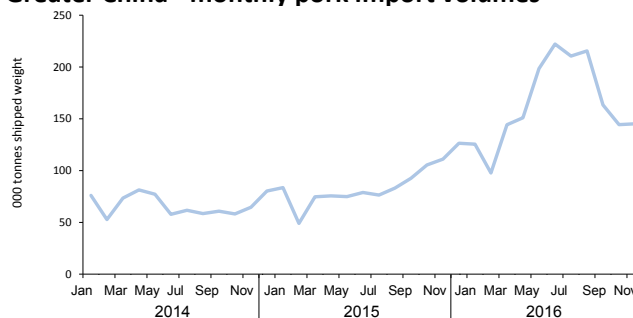
China grew to be the number one destination for exported UK pork during the first eleven months of 2016, exceeding 37,500 tonnes sw. A further 10 thousand tonnes were sent to Hong Kong, an important hub for the re-export of product to the Asian region. The increase in shipments of pork cuts reflects not only the decline in domestic pig meat production, but also an increasing demand for muscle as opposed to more traditional offal-based dishes. Virtually all of the pork imported into China and Hong Kong is frozen, as the infrastructure required to support the transport of chilled product is limited. As such, much of the imported product currently makes its way into manufacturing and local food service sectors, as well as traditional markets. Looking forward, as China becomes increasingly able to support a temperature controlled supply chain, opportunities to export premium fresh pork for the high-end retail and foodservice sectors may also progress.

Nonetheless, offal shipments to the region remain important for the UK. Volumes were also above year earlier levels between January and November 2016, at 47 thousand tonnes for the Greater China area. This accounted for over 75% of total UK pig offal export value. Offal is considerably more valuable on the Asian rather than UK market, as it is often considered a delicacy in this region.

However, even if import demand remains strong in China, competition between pork exporters is becoming increasingly tight. While competitive prices and plentiful supply enabled the EU to spearhead increases to pork shipments during 2016, supplies are now tightening and prices elevated. Conversely, US supplies are now abundant and prices are falling, which is expected to enable further increases in shipments to China and Hong Kong (where levels of the growth hormone Ractopamine are not restricted) this year. Competitive Brazilian pork also

considerably expanded its presence on the Chinese market in 2016, with volumes up over 15 times on 2015 levels last year. Shipments to Hong Kong, where it was already the number one exporting nation, also increased 29%.

Greater China - monthly pork import volumes

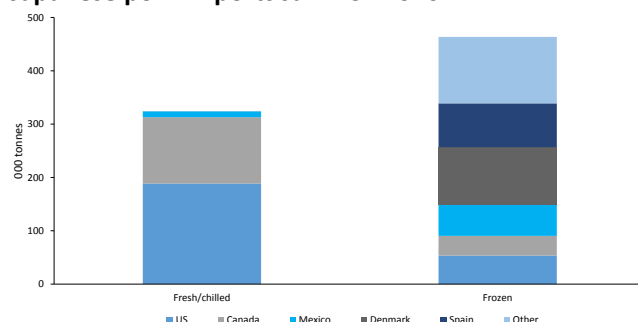


Source: HIS Maritime & Trade - Global Trade Atlas ©

While the Chinese market may become more challenging, other developing Asian destinations could offer opportunities for expansion. The UK currently has access for pork exports to the Philippines, South Korea and Japan, though these destinations only account for a small percentage of export volumes at present.

Japan is a top three global pork importer, with imports estimated to exceed 800 thousand tonnes sw during 2016. As a developed country with a wealthy population, the market is potentially of high value. Also, with production in long-term decline as aging farmers retire without replacement, import volume is expected to increase modestly, by less than 1% per annum up to 2021, according to GIRA forecasts.

Japanese pork imports Jan-Nov 2016



Source: HIS Maritime & Trade - Global Trade Atlas ©

Despite these enticements, the UK does not currently export pork to Japan, based on Japanese import figures. The market is crowded and highly competitive. Equally, UK producers can receive better prices for loin cuts, popular with both Japanese and British consumers, on the domestic market. Japan receives around half of its imported pig meat from the US and Canada, while Denmark and Spain send a further 25%. Due to shorter shipping times, the US focuses on sending price competitive fresh volumes, which is likely to continue given the heavy supply situation at present. Conversely, EU countries send largely frozen volumes for use in further processing. However, despite frozen shipments rising on year earlier levels in 2016, consumer demand for processed products has been weakening. Hence, these shipments may decline looking forward. Given these factors, it may remain difficult for the UK to

Global Market Analysis

make gains in this market.

South Korea is also already a strong global pig meat importer. It is expected to have received the fifth largest volume of pork last year, at just under 500,000 tonnes sw. As with China, the bulk of this imported pork is frozen, though in Korea this is more commonly utilised within the modern retail sector. South Korea has a particularly strong appetite for imported belly cuts, which are unpopular in the UK, and so fully exploiting this market could potentially provide a more valuable outlet for this cut.

Consumption in South Korea is anticipated to expand, by under 1% per annum up to 2021, according to GIRA forecasts. However, domestic production is also forecast to expand by a similar degree, as it recovers from previous FMD outbreaks. In fact, production has been increasing since 2015, spurred by high pork prices, which has depressed the demand for imported product. Volumes stood on year earlier levels during the first eleven months of 2016, and with growth in the sow herd, there is likely to be continued pressure on imports moving forward. Despite this generally depressed market, shipments from the UK increased 75% relative to the previous year during this period, albeit from a small base. UK pork may have found a successful niche in this market, supplying high welfare premium produce. So, there might still be potential for further expansion despite generally unfavourable market conditions.

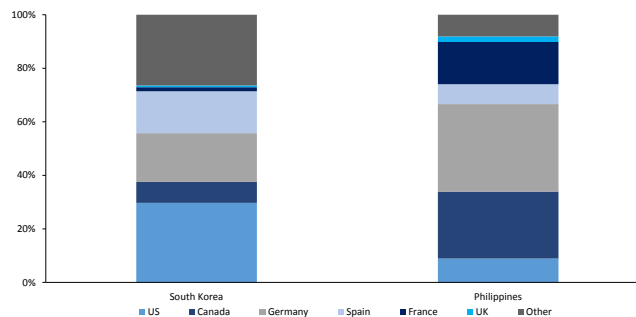
Though a smaller global pork importer, the UK currently holds a proportionally greater share of the Philippine import market. During the Jan-Oct 2016 period, the Philippines reported receiving over one thousand tonnes sw of largely frozen pork cuts from the UK, accounting for 2% of their total import volumes. This was largely low-end product destined for local markets. However, the premium retail sector is growing. Since production in the Philippines is dominated by backyard systems, there may be opportunities for imported pork in the growing modern retail and the food service sectors, where local systems are unable to meet the specifications required.

GIRA forecasts pork consumption in the Philippines to grow by just over 2% per annum until 2021, with imports increasing ahead of production to meet this demand. However, the success of imports during 2016 could hamper further expansion in this market. Official figures suggest Philippine pork imports increased 33% on year earlier levels, exceeding 63 thousand tonnes during the 2016 Jan-Oct period. The actual volume is likely to be higher due to smuggling. This level of imported product exceeded local demand, depressing pig prices and reducing the profitability of local producers. This led to pressure on the government to cancel import permits in November last year.

Particularly concerning was the suggested introduction of 35% tariffs on offal, to limit pork being smuggled as offal. This is a concern for the UK, who sent over 5,000 tonnes of offal, worth £3.5 million, between January and October last year according to figures from the

Philippines. If the Philippine government does take a more protectionist stance, the future success of UK product on this market may be somewhat uncertain.

Imports of pork by South Korea and the Philippines, Jan-Oct 2016



Source: HIS Maritime & Trade - Global Trade Atlas ©

Other countries in the Far East could be promising pork export destinations for the UK in the future, if access can be obtained. Vietnam is a key example. Pork is the dominant protein in this country, with 38 kg carcass weight equivalent (cwe) per capita consumption in 2015. This is anticipated to grow almost 5% per annum over the next five years, according to GIRA. While a consumer preference for warm, fresh meat from local markets could restrict the reach of imported product, limitations to local production may buoy import demand as consumption grows. The product mix is likely to be similar to China, with frozen volumes being utilised in the manufacturing and local food service sectors.

The EU has agreed a free trade agreement with Vietnam that allows access for meat and the UK are hoping to obtain certification in the near future. If this comes to fruition, the UK could be in a position to capitalise on this market as it develops.

Another market of future interest is Taiwan, where again a growing population is anticipated to spur an increase in meat consumption. Taiwan is anecdotally regarded to already be a large importer of pork, though actual figures are not published for political reasons. While exporting to this market could be potentially lucrative for UK pork, access has so far not been granted and progress has been slow.

Overall, while it is clear there are opportunities for pork exporting nations to target the Far East region in the coming years, these opportunities will not be without challenge. For the UK, it will not only be necessary to obtain further low tariff/tariff-free access to up-and-coming markets, but also to carve a product niche that competes successfully against lower cost producers such as the US and Brazil. Possible strategies could be targeting the premium market, based on high animal-welfare credentials, or a focus on adding value to cuts undesirable to UK consumers. Nonetheless, gaining market share will not be easy, as Japan currently illustrates. Despite this, with the uncertainty surrounding the future of UK-EU trade relations in light of Brexit, exploiting the opportunities presented by the growing Asian markets where possible, may become increasingly important for the future of UK pig meat exports.

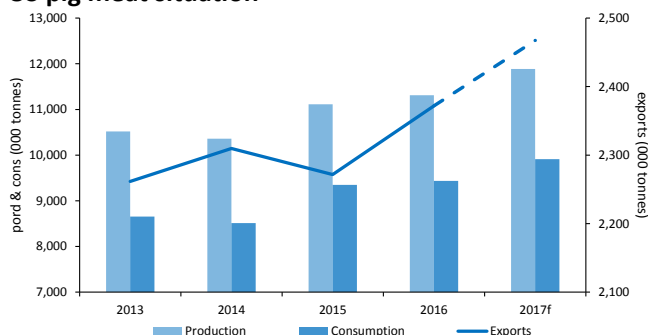
Global Market Analysis

Will US pork mountain prove insurmountable for UK exports?

The latest United States forecasts anticipate that pig meat output will reach a record high this year, up by as much as 5% on 2016 to nearly 12 million tonnes. The forecasts have been revised upwards given the unexpectedly large rise in pig numbers shown by the December pig [count](#). Given these abundant supplies, exports are forecast to rise 4% to almost 2.5 million tonnes.

The question is, how much will this extra pig meat threaten the position of other global exporters, such as the EU and including the UK? In fact, could the 2017 export forecasts from the USDA actually prove to be too low? This is a concern given the sharp production growth and doubts regarding whether the domestic market can absorb much of the surplus. Especially since pig meat demand is not currently very strong.

US pig meat situation



Source: USDA

The US pig industry has been undergoing a period of rapid expansion over the past two years. This has occurred on the back of strong producer profitability in 2014, alongside planned increases to slaughter capacity. Two large integrated plants are due to come on stream in the second half of this year, with pig production already being ramped up to supply them. Another plant is due to come on stream in 2019. Such developments will overcome the current lack of slaughter capacity.

Per capita pig meat consumption is forecast to rise 4% on 2016 levels this year, reaching 23.5kg retail weight, the highest level for over 10 years. However, beef and poultry supplies are also expected to be plentiful this year. Per capita growth is forecast at 1% in both cases, so competition between meats will be intense. As such, rises in pig meat consumption are expected to be at the expense of value, with plentiful supplies translating into lower retail prices. The abundant supplies will likely also negatively impact on demand for imported pork, as has already started to happen including for supplies from the EU. This encompasses the UK, with the US being its eighth largest market.

Inevitably, the pressure to raise exports will be intense. The latest figures for November already indicate substantial growth in pork shipments that reached a record 158,000 tonnes. This was a 21% growth on the year. Of particular concern for the EU was the expansion in exports to the

Asian markets, notably China and Japan, which are key destinations for EU pork. In January-November the US nearly doubled its share of the Chinese pork import market relative to a year earlier, in contrast to a fall for the EU.

Competitive prices compared to European pork have been key to driving the buoyancy in the US export market in 2016. The abundant supplies of slaughter pigs in the US led prices to fall dramatically in the latter half of last year, not helped by the tight slaughter capacity. The ongoing plentiful supplies are expected to result in prices being even more depressed over the coming year. This is even despite some uplift in recent weeks, with strong export demand actually elevating pig prices above year earlier levels. Overall, the USDA is forecasting producer prices in 2017 as a whole to average 15% below year earlier levels.

However, the full impact of low US prices on EU exports has been partly offset by the strength of the US dollar, especially following the election of Donald Trump early in November. Thus, US pork has not been as competitive as it might have been. This helped mitigate the recent loss of Asian export market share by EU suppliers. Looking forward, an ongoing strong dollar, especially if President Trump raises US interest rates, may well continue to support EU export prospects.

Despite this, the protection offered to EU exporters by the relative strength of the US dollar should not be overstated. If US export growth is to be significant pig prices might be driven to fall even further. The ability of low US prices to counteract a poor exchange rate is exemplified by the 24% growth in US pork exports to Mexico last November, despite a 6% depreciation of the peso during the month.

Aside from exchange rates, other factors could also restrict the impact of increasing US production on UK and EU export prospects. Processing plants require individual approval if they are to be licensed by the importing country and this can take time. Equally, US producers might use the growth hormone Ractopamine but this is not acceptable on some markets.

These difficulties could mean that some US exports will have to focus on alternative markets which are less important to the UK and EU such as Mexico. However, trade relations between the US and Mexico could be compromised during the Trump presidency.

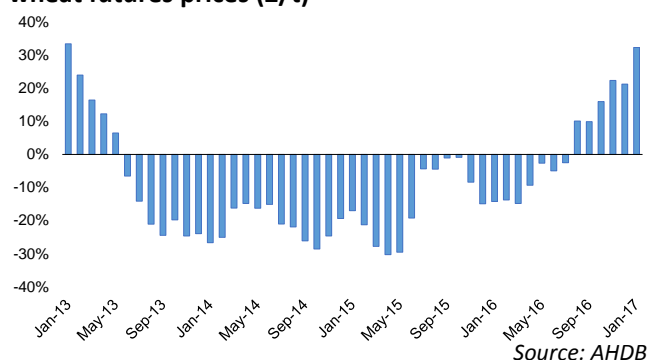
Overall, it seems inevitable that there will be increased competition between UK/EU pork and US product this year, given the extra 575,000 tonnes of US pig meat expected to be produced. The Asian market could well be a critical one for both the US and the EU, including the UK. If demand for imported product in China does fall back, as is currently expected, this could be particularly concerning. The knock-on effect of this for the EU is that it could then increase supplies within the EU at a time when demand is not very buoyant. On the other hand EU production could be slightly lower this year. The situation should become clearer as the year develops and whether in fact there are any implications for the UK in particular.

Feed Market

Since the middle of December (16 December), UK feed wheat futures (nearby) have gained 9%, closing at £148/t on Wednesday 25 January. As it stands to date (25 Jan), January is on track to be the sixth consecutive month that UK nearby feed wheat futures have gained on the year. The monthly average nearby UK feed wheat price for January is currently at £145/t, 32% higher than the same month a year ago.

Furthermore, 2016 was the first calendar year that this price series has recorded an annual average gain since 2012, despite a fourth consecutive year of record global grain output. This is also in contrast to US markets, which saw another year of declines in 2016.

Year-on-year change in monthly nearby UK feed wheat futures prices (£/t)

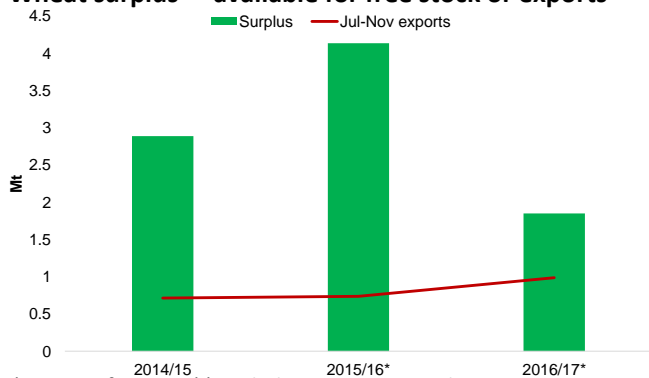


There is no denying that currency volatility, especially in the midst of Brexit, has helped to support UK prices. Since 23 June, we have seen sterling fall 10% against the euro and 15% against the US dollar, which on the surface has been supporting UK feed wheat prices.

However, it is not just currency volatility that has been influencing UK feed wheat markets this year. A tighter supply and demand situation domestically has also had its part to play.

In the first official [Defra UK supply and demand](#) update published in December, the wheat surplus available for either export or free stock was pegged at 1.85Mt, 55% lower than 2015/16. Furthermore, from July to November, the UK exported 987Kt of wheat, leaving 864Kt to either export in the remainder the season (December – June) or carry over into 2017/18.

Wheat surplus** available for free stock or exports

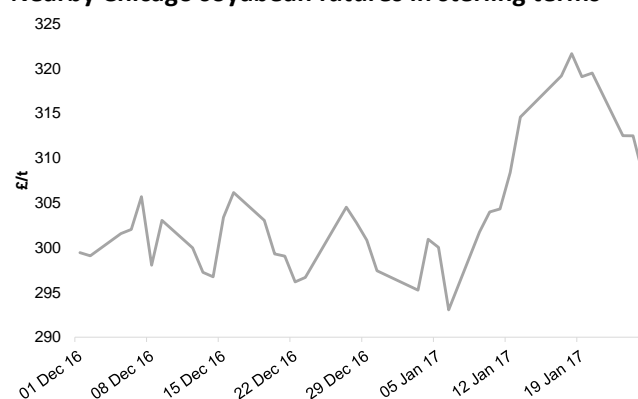


Despite the tighter supply situation for wheat this season, demand for wheat for animal feed production is forecast to be 2% higher on the year at 7.219Mt. This is largely driven by a rise in poultry feed demand.

Proteins

Since 16 December, nearby Chicago soyabean futures prices have increased by 2%, to close at \$388/t on Wednesday 25 January. Despite the overall increase on the month, the price series has fallen by \$7/t from the peak seen on 18 January (\$395/t). In sterling terms, the increase on the month was just 1%, mainly due to currency movements. Due to a combination of currency volatility and upward movements in global markets, UK feed ingredient prices have also climbed. Between 16 December and 20 December soyameal prices (spot, Brazilian 48%, ex-store, Liverpool) increased by 9% to £354/t on 20 January. Likewise, UK delivered rapeseed prices (spot, Erith) have increased by 3% over the same time frame to £372/t on 20 January.

Nearby Chicago soyabean futures in sterling terms



The rises in global oilseed futures prices have been driven by a combination of factors, including weather issues for soyabeans. Heavy rains across parts of Argentina's key soyabean growing regions has led to further concerns over its crop this season. This follows a reduction in area planted to the oilseed for harvest 2017, with maize and wheat cashing in on the extra acreage, driven by the scrapping of its export taxes on these two grains.

While the weather in Argentina is causing concern over soyabean output, South America's largest soyabean producer, Brazil, is set for a record harvest this season at 104Mt (USDA). Furthermore, smaller South American producers, Paraguay and Uruguay, are also set for a year of record output. With this in mind, these increases in output could outweigh any loss in production from Argentina, restricting the impact in an already amply supplied global soyabean market.

In Brief

Sterling firms following announcement of Brexit

Rather than compounding the declining value of sterling against the euro, the announcement of the government's plans for exiting the EU have instead provided some reassurance to markets. This pushed sterling back above €1.15 (17 Jan) after a week of declining values. The gain is mostly a reflection that there is now some certainty around the government's priorities, making market traders somewhat less nervous. The largest boost to the pound was reported to be in response to the announcement that parliament would be given a vote on the final terms of the exit plan.

Global meat prices fall again

Latest figures from the UN FAO show that global meat prices in 2016 were, on average, 7% lower than in 2015. After reaching a six-year low during March, there was some modest recovery during the middle of 2016. However, prices then stagnated, dropping back 2% after reaching a peak in August. The largest price falls for the year as a whole were recorded for bovine and poultry meat, due to challenging trade and too much supply in the market. Pig meat was less affected, due to falling supplies and strong demand from China. However, pork prices are likely to experience more pressure looking forward, as Chinese demand slows while abundant US supplies enter the global market.

Dutch exports back further in Q3

Fresh/frozen pork volumes exported from the Netherlands were back 6% on the 2015 figure during the first nine months of 2016, at 610 thousand tonnes. This decline was particularly driven by the third quarter, where shipments were back 20% on the year. In terms of trading partners, the third quarter continued trends seen earlier in the year. The EU, while remaining the largest destination for Dutch pork, went from a 78% market share in 2015 to only 67% during Q3 of 2016. Shipments to the key European destinations of Italy, Germany, Greece and Poland were all notably back during this period. Interestingly, volumes to the UK fell particularly sharply between July and September (-56%), likely due to the reduced competitiveness of European pork following the post-Brexit vote devaluation of sterling.

German pig meat demand under pressure

Consumer demand for pig meat in Germany has been under considerable pressure in the last five years. Recent data published by the German market information agency, AMI, indicates it is taking a major hit including in relation to other meats.

Such developments inevitably impact on the EU pig meat market as a whole with Germany being its largest producer and consumer. It is also key to EU trade, being the second largest importer and the largest exporter.

Per capita pig meat consumption in 2016 amounted to 35.8 kg excluding bone, down from a peak of 40.1 kg in 2011, which represents a decline of 11%. Fresh pork in particular has been under pressure with steady falls in household purchases but even processed products have struggled. Pig meat has been losing market share to both poultry meat and beef and with demand for the latter in particular showing some improvement in recent years. Health concerns surrounding pig meat in its various forms have been building up for example among older consumers, who are traditionally large pork consumers. In addition much of the growth in the German consumer market is focussed on Muslim consumers whose meat protein intake mainly revolves around beef and poultry meat.

If German consumers continue to move in favour of poultry meat and even beef it may well prove a challenge to prevent a further decline in pig meat consumption. This could have implications for import demand for pork used in both the fresh market and in processed products. The UK is a small but significant supplier to the German market with a 4% share. Falling domestic demand also increases export availability of German pig meat. It should be noted that the German Ministry of Agriculture is due to create a quality assurance scheme for meat that is beyond regulatory requirements. Pork is expected to be the first beneficiary with implementation planned for 2019.



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