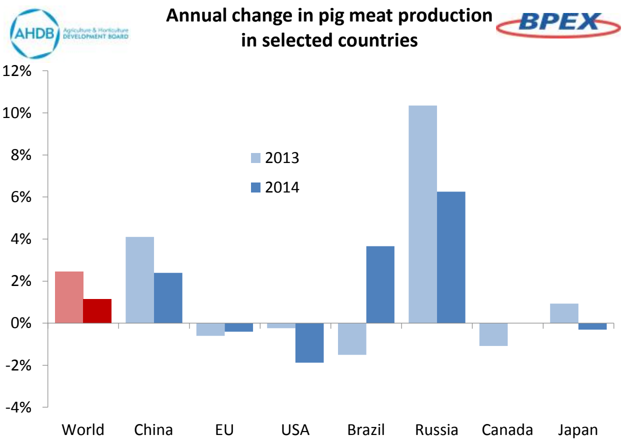
Global pork supplies tightening

According to recent forecasts, pork supplies are likely to be tight in many parts of the world this year. With the exception of China, most major importers and exporters of pig meat will experience lower volumes on their markets. In some cases this will be because of less domestic production, in others because of reduced imports. This tight supply should provide support to prices, although the extent of this will depend on how demand responds.

In its latest global outlook report, the US Department of Agriculture (USDA) forecasts that pig meat output in the major producing countries will increase by just over 1% this year, to 110.7 million tonnes. This is less than half the growth rate recorded in the previous two years and is largely attributable to production growth in China. Other forecasts suggest an even greater tightening of supplies, with global production expected to be lower than last year.

As highlighted in last month's Pig Market Trends, Chinese pig prices have been under considerable pressure. This is leading to some culling of sows, exacerbating the current oversupply in the market. The effect is likely to be lower production later this year and into next, although government intervention may mitigate this to some extent. This should create opportunities for exporters into next year. This year, imports may be little changed as there is still demand from wealthier Chinese consumers, who lack trust in domestic meat.



Source: USDA

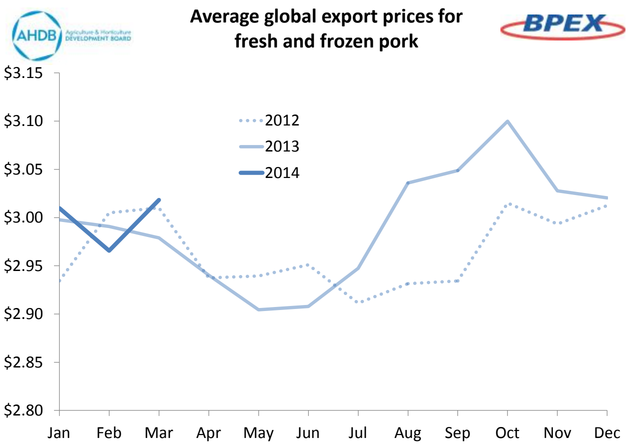
Elsewhere, the USDA report forecasts lower production in the US and some Asian countries, including Taiwan, Korea and Japan, in part due to the impact of PEDv. The disease will also affect output in Canada and Mexico; USDA forecast stable production but other commentators suggest the latter, in particular, will be harder hit than USDA suggests. Production is also set to be lower in the EU, as the impact of poor profitability and welfare changes continue to affect the market. Brazil is the only significant exporter likely to have higher pig meat supplies this year.

The tight supplies across the global pork exporters will inevitably limit the volume of pork traded globally. Brazil may export more pork but it accounts for less than 10% of world trade and the football World Cup could boost consumption on the domestic market. Therefore, it won't be able to fully compensate for lower shipments from the EU, US and, perhaps, Canada. Although there may be little extra demand from China this year, other Asian markets will be looking for more imported pork to offset declining production.

This will make it particularly difficult for Russia to find alternative suppliers to make up the gap in its pork market left by the lack of EU supplies. Therefore, it is likely to bear the brunt of the fall in global trade; USDA forecasts Russian imports will be down by a quarter. Despite much higher domestic output, with 6% growth forecast, this will mean there is less pork available for consumption in Russia, inevitably pushing up prices.

The chances are that, with not enough pork to go around, consumption will stagnate or fall in many other key markets too. USDA is forecasting declines in the amount of pork eaten in most North American and Asian markets, although not in China. EU consumption is set to rise, however, partly due to the loss of the Russian market increasing supplies and suppressing prices.

The impact of tight supplies on global prices was apparent in average export prices in March. Having fallen in February, following the Russian ban on EU pork, prices quickly rebounded in March to average US$3.02 per kg. Prices from the major exporters also converged, with the average price of US exports only fractionally lower than the EU price. This increased competitiveness should help the EU to find markets for product displaced from Russia.



Source: GTIS, AHDB Marketing Intelligence

Looking further ahead, the ongoing impact of PEDv is likely to mean supplies remain tight in early 2015. In addition, the sow culling taking place in China may lead to growth there slowing. However, as the PEDv impact eases, global production should return to growth later in the year.