BPEX

AHDB Agriculture & Horticulture DEVELOPMENT BOARD

Pig Market Trends

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2014 Review

From a price point of view, 2014 will be a year to forget for UK pig producers but things could have been worse. The EU market recorded even bigger price falls, lower feed prices supported producer margins and disease problems which affected other parts of the world didn't make it to our shores. To read our review of the pig market in 2014 and what trends last year can tell us about what to expect in 2015, turn to **page 4.**

Weaner Prices

In recent months, weaner prices have followed the same downward trend as finished pig prices. This has come despite feed prices being at a relatively low level. So how do weaner price levels relate to the other two prices? New analysis looking at the relationship between weaner, pig and feed prices can be found on **page 5.**

United States

Throughout 2014, the US pig industry was dominated by the impact of PEDv. This led to a dramatic rise in piglet mortality, reducing pork supplies and taking prices to new highs. The number of PEDv cases so far this winter has been much lower so the situation in the US industry is likely to be very different in 2015. Read our analysis of prospects for the US market in the coming year on **page 7**.

Denmark

In the first ten months of 2014, Denmark's pork production decreased but both pork and live pig exports increased. The latter, in particular, continues to present a challenge for parts of the Danish industry, while price, disease, environmental and animal welfare pressures are also prominent. To read about these challenges and the impact they are having on the Danish industry, turn to **page 8**.

Outlook Conference 2015

Prospects for the pig sector, along with the other major UK livestock sectors, will come under the spotlight at the 2015 AHDB Outlook Conference on Wednesday 11 February. AHDB chairman Peter Kendall will open the conference, which will also look at emerging consumer trends and Asian markets. More details of the programme and how to book your place can be found on **page 10**.

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Key data

Key data	Dec-14	Change since Nov-14	Change since Dec-13
Average GB carcase weight - kg	80.28	-1.75	na
30kg weaner price - £/head	47.00	-2.07	-9.32
7kg weaner price - £/head	34.69	-0.15	-8.24
GB APP (Euro-spec) - p/kg dw	147.63	-2.72	na
GB SPP (Euro-spec) - p/kg dw	143.98	-2.66	na
EU Reference price - €/100kg dw	134.80	-6.05	-35.32
UK Reference price - €/100kg dw	179.56	-4.15	-20.16
UK weekly clean pig kill - 000 head	198.9	-17.6	+9.1
UK weekly pig meat production - 000 tonnes	16.6	-1.9	+1.0
UK pork imports - 000 tonnes*	31.4	+0.9	-1.6
UK bacon imports - 000 tonnes*	21.6	-2.8	-2.4
UK pork exports - 000 tonnes*	14.6	-2.8	-2.8
Retail pig meat sales - 000 tonnes†	56.7	+1.3	-1.2
LIFFE feed wheat futures - £/tonne	132.37	+8.67	-31.91
CBOT Soyameal futures - $/tonne	379.28	-4.69	-69.86

** Figures relate to November 2014*

† Figures include household purchases of pork, bacon, sausages and ham and relate to 4 weeks to 7 December 2014

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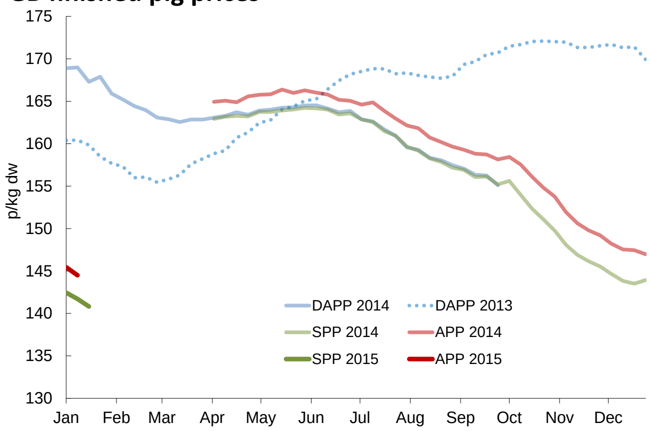
UK Market Snapshot

December 2014 did not bring any change in the trend of the year for finished pig prices. The EU-spec GB SPP averaged 143.98p per kg, down 2.66p on the month. Compared to the DAPP in December 2013, this is a fall of 27p and edging towards a 20p drop since the SPP began recording in April. However, the last week of 2014 saw a price increase of almost half a penny, the first increase in over 2 months, suggesting firmer demand than anticipated immediately before Christmas. In the New Year, though, the SPP returned to a declining trend and fell 3p in the first three weeks of 2015, to 140.82p per kg for the week ending 17 January.

The average EU-spec GB APP for December was 147.63p per kg. At 2.72p back on November, this marginally reduced the gap between the SPP and the APP to 3.65p. This is the second largest spread since the two price series began, indicating that the market for premium pigs has been slightly less subdued during the autumn.

GB finished pig prices

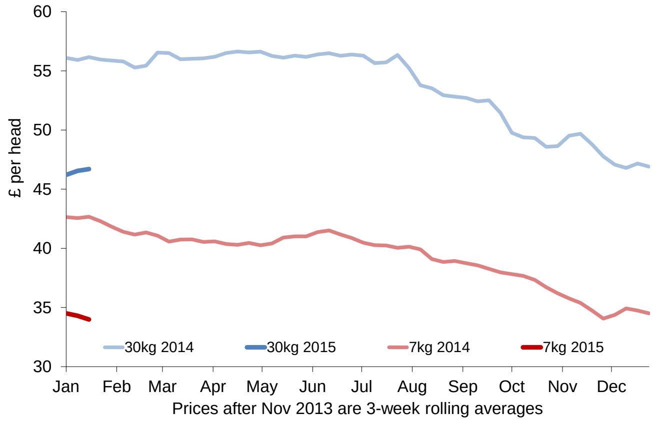


Source: AHDB Market Intelligence

December's average APP carcase weight fell to 80.28kg. Although this is the lowest weight since August, it is still well above the weight recorded for December 2013 in the DAPP sample. In part, heavy carcases have been achieved by continued reasonable feed costs and this have been achieved alongside condition being maintained, producing average probe measurements of 11.4mm, as producers are still hitting market specifications. The slight fall of weights in December is normal as producers market pigs early ahead of the festive period. In January, weights appear to be increasing again as production returns to normal.

Average 30kg weaner prices dropped £2 on the month in December to £47 per head. This was both the lowest monthly average price for 2014 and a reduction for the producer of over £9 a head on December 2013. The price of 7kg weaners also continued on its downwards trend in December, averaging £34.69 a head. Whilst only slightly down on the month, this was over £8 a head back on a year earlier. Both weaner categories have dropped further in price into the New Year, as the decline in finished pig prices means that the market remains uncertain for the spring.

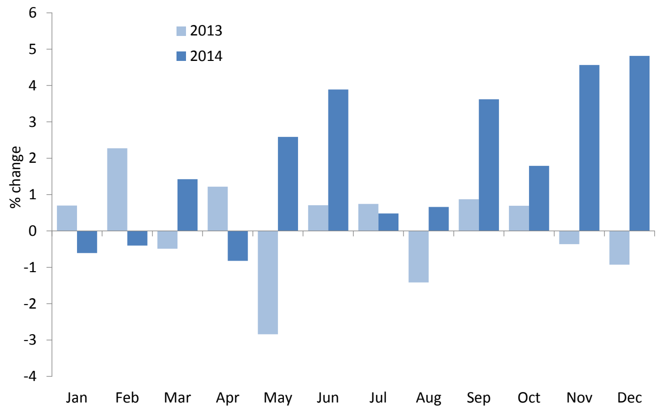
GB weaner prices



Source: AHDB Market Intelligence

Latest figures from Defra confirm that UK pigs were in plentiful supply during December. Clean pig slaughterings were 5% higher than a year earlier during the month, totalling 795,800 head. This indicates that productivity continues to improve and that growing conditions have been favourable. The figures also suggest that, as suspected, the UK breeding herd has probably been more stable than was indicated by the decline recorded in Defra's June survey results. The new figures mean that the total clean pig kill for the year was 10.22 million head, 2% up on 2013 and the highest level since 2002.

Annual change in UK clean pig slaughterings



Source: DEFRA

Throughout the second half of last year, adult sow and boar slaughterings have been below year earlier levels and this continued in December, with throughputs down 3% at 15,500 head. This meant that, at 242,600 head, 4% fewer adult pigs were culled in 2014 than the previous year. This made little difference to pig meat production, which was up 6% in December and 3% for the year as a whole. December's figure of 66,400 tonnes was the highest for this time of year since 1999, while the annual total of 862,000 tonnes was last exceeded in 2000.

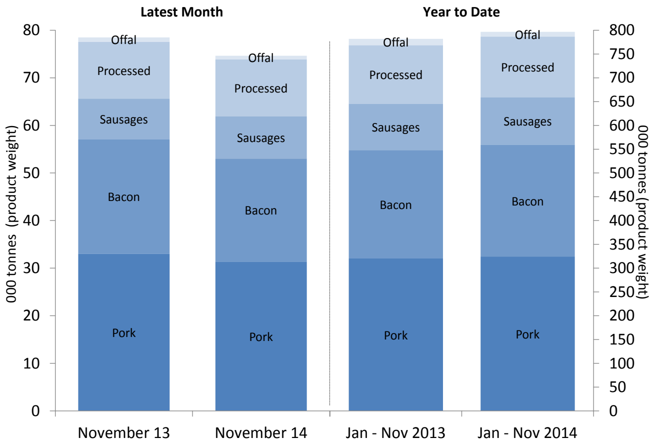
UK imports of pig meat were again lower than a year earlier in November, despite prices being well above those of the EU. Fresh and frozen pork shipments were down 5% year on year, at 31,400 tonnes, their lowest

UK Market Snapshot

level in November for six years. The decline was mainly due to reduced volumes from Germany and the Netherlands, although more Danish pork reached the UK. Unit prices were 15% lower than a year earlier, a similar scale to the decline in EU pig prices.

Bacon and ham imports also declined, with 10% less entering the UK in November than a year earlier. All three of the major suppliers experienced declines, despite prices also being down by around 15%. Sausage imports were up slightly but this is compared with an unusually low figure in November 2013 and volumes were 11% down on two years before. Imports of processed products such as cooked hams were virtually unchanged from last year.

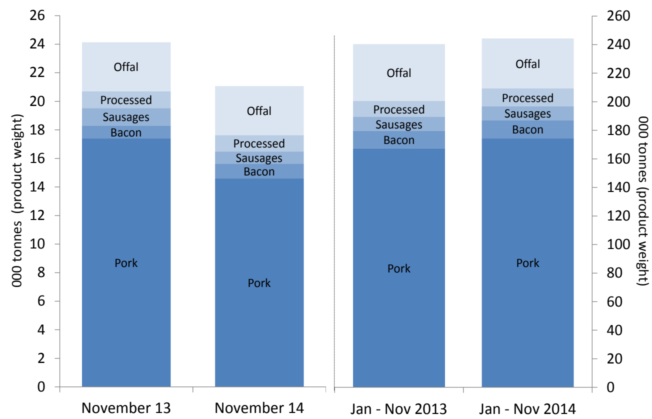
UK Pig Meat Imports



Source: Her Majesty's Revenue & Customs

UK pork exports during November were 16% down on the same month in 2013. This was largely due to some temporary disruptions which were quickly resolved, with trade returning to normal by the end of the month. These affected volumes to most of the major recipients of UK pork, although the sow meat trade to Germany was unaffected and shipments were similar to a year before. With unit prices also significantly lower, the value of pork exports during the month was nearly a quarter lower than in November 2013, totalling £16.2 million.

UK Pig Meat Exports

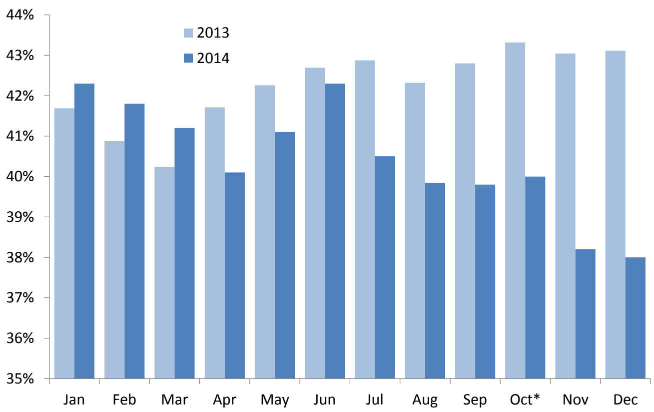


Source: Her Majesty's Revenue & Customs

The impact of any disruption on the offal trade was less apparent, with exports virtually identical to November 2013 at 3,400 tonnes. With prices higher, the value of this trade during the month was up 18% year on year at £3.3 million.

During December of last year, the producer share of the final retail price of pork remained at 38%, only slightly down on the previous month, according to AHDB/BPEX estimates. Farmgate prices continued to fall to the lowest point of 2014 but retail prices were also discounted for the festive sales. However, with farmgate prices falling slightly faster, the two prices continued to diverge in December, with the highest percentage difference between them since early 2012. This combination meant that the producer was receiving 5 percentage points less than in December 2013. The producers' share of the bacon retail price in November fell slightly to 34%, back nearly 4 percentage points on the year, as the spread between farmgate and retail prices also grew.

Percentage of pork retail price received by producers



** figures from Oct-14 are based on APP* *Source: DEFRA*

Despite a fall in average retail prices by over 6%, the amount of pork bought in the 12-week period ending 7 December fell by 4% over a year earlier. According to Kantar Worldpanel, there has not only been a fall in the number of households buying pork but consumers have also reduced the frequency of their purchases. All of the red meats had falling volume sales for the 3-month period, with consumers switching away from them in favour of convenient meal options and fish. The fall in pork sales was, in large part, spread across retailers. Only one of the Big 4 recorded a slight increase, while the Hard Discounters, which have seen their share of the grocery market grow over the year, also showed an uplift in sales.

Chops/steaks again experienced a fall in sales, whilst within roasting joints, gains in volume sales of leg and shoulder were offset by declining loin purchases. Mince, which has been a strong performer of late, registered a static performance. Following the seasonal trend, bacon and sausages both recorded a small increase in volume sales over the previous couple of months. However, sales remained down on the year and the seasonal increase, particularly for bacon, has been less marked than the previous two years.

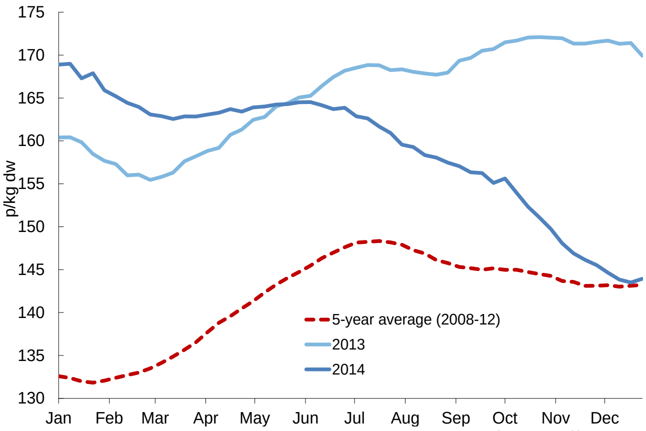
UK Market Analysis

A year to forget in 2014 – what about 2015?

From a price point of view, 2014 will be a year to forget for pig producers. A combination of factors contributed to the price declines but things could have been worse. The EU market recorded even bigger price falls and lower feed prices supported producer margins. In addition, disease problems which affected other parts of the world didn't make it to our shores.

Having started the year at a near-record 169p/kg, the DAPP experienced its usual post-Christmas decline as prices dropped below 163p/kg in March. The normal spring recovery was barely apparent, with prices staying under 165p/kg and starting to fall again from June onwards. Since then, prices have been on a steady downward trend, losing over 20p/kg to end the year at their lowest point since early 2011, at around 143p/kg (based on the SPP). Nevertheless, the average price during 2014 was the second highest ever, behind only 2013, at just under 159p/kg.

GB finished pig prices (DAPP/SPP)



Source: AHDB Market Intelligence

With 3% more pig meat produced in the UK during 2014, output was at its highest level since 2000. This was due to a combination of better productivity and heavier pigs. The former marked the continuation of the long-term improvement in herd performance, while the latter was partly driven by cheaper feed and benign weather conditions for most of the year.

The increased supply was added to by a modest rise in imports, although given the record gap between UK and EU pig prices, the growth could have been much larger. Another increase in exports only made a small difference, especially as most were still made up of products which are not in demand on the home market. The plentiful supplies were met by subdued consumer demand for pig meat (indeed for meat in general), with retail sales similar to 2013's low levels. This combination had an inevitable effect on prices and the equation will need to change for the trend to alter.

The EU market was even more depressed; the average reference price for the year was about €1.33/kg (104p/kg), more than 40 cents lower than at its peak in June. On average, the EU price in 2014 was down by more than 10% on the year before, with the weak euro meaning that the decline was 15% in sterling terms. Although the low EU prices undoubtedly added to the pressure on the UK market, the fact that prices here fell less sharply indicates that retailer commitment to UK sourcing remained strong.

The Russian import ban and low consumer confidence, given the ongoing economic woes in much of the EU, suppressed prices. This meant that EU producers didn't benefit from the record prices recorded in the rest of the world, where supplies were tight due to PEDv. At least, EU pork was more competitive on export markets, mitigating the price falls to some extent.

The drop in EU prices was sufficient to put most producers back in the red in the second half of the year. Pig breeders were most affected, with prices for weaners falling even faster than for finished pigs. The situation was better in the UK, however, where AHDB/BPEX estimates suggest that most producers remained in the black, at least until late in the year.

So what do the trends in 2014 tell us about what we can expect for 2015? Certainly, some of the factors influencing prices are unlikely to change, meaning that the coming year could again be a tough one for producers. For example, barring a major disease issue, UK pig meat production is likely to increase again; latest AHDB/BPEX forecasts suggest a 2% rise in 2015.

There is also little prospect that the Russian ban will end, at least in the first half of the year. This means that the EU market seems set to remain depressed for much of 2015, especially as economic forecasts don't look very positive. Indeed, the recovery of global output following PEDv may mean a more challenging export environment, making things even tougher for the EU industry this year. It appears that there has already been an increase in sow culling on the continent, which could mean some tightening of supplies towards the end of the year, eventually starting to push prices higher.

Other things could change too, either for better or worse. Eventually, the gap between UK and EU prices, which has been above 30p/kg since September, may prove too much for retail buyers to resist. If this means a sharper than expected rise in imports, it would pull UK prices down towards those elsewhere in the EU. Certainly, it seems unlikely that imports will fall very far while the gap is so high, even with more UK pork available.

On the flip side, any recovery in consumer demand would support prices. With the UK economy improving and wages now rising faster than inflation, purse strings may start to loosen. How quickly this translates into retail meat sales remains to be seen and the relative price of pork and other meats will influence which benefit most. Most indications are that consumer demand will remain relatively subdued this year, however. Therefore, 2015 could easily be another year that producers will want to forget.

UK Market Analysis

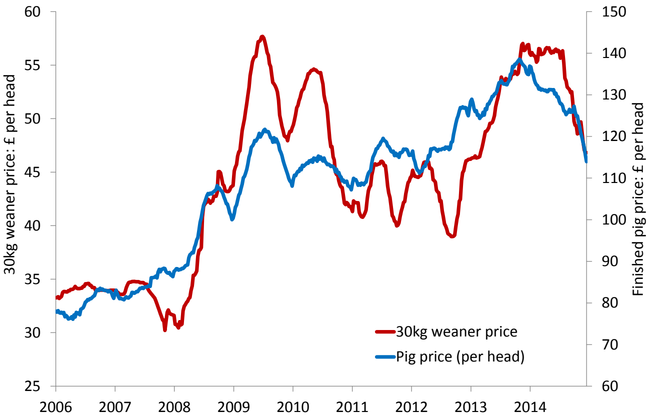
How do weaner prices respond to pig & feed prices?

In recent months, weaner prices have followed the same downward trend as finished pig prices. This has come despite feed prices being at a relatively low level. It is unsurprising that these two factors are the main determinant of weaner prices. Feed represents at least 70% of costs for finishers, other than the cost of the weaners themselves, and finished pig prices determine their income. So how do weaner price levels relate to the other two prices?

The analysis below covers 2006 to 2014, when prices were much more volatile than in the preceding years. It focuses on 30kg weaner prices. Although more animals are now traded at 7kg, prices for the heavier category have been collected for much longer.

30kg weaner prices are quoted in pounds per head, so we have converted finished pig prices to a similar basis using average carcase weights. During the nine year period, weaner prices ranged from just over £30 per head to over £57. This is a slightly greater percentage variation than that seen in finished pig prices, which have ranged from just over £75 per head to nearly £140. Weaner prices have often shown more short-term volatility too.

Comparison of weaner and finished pig prices

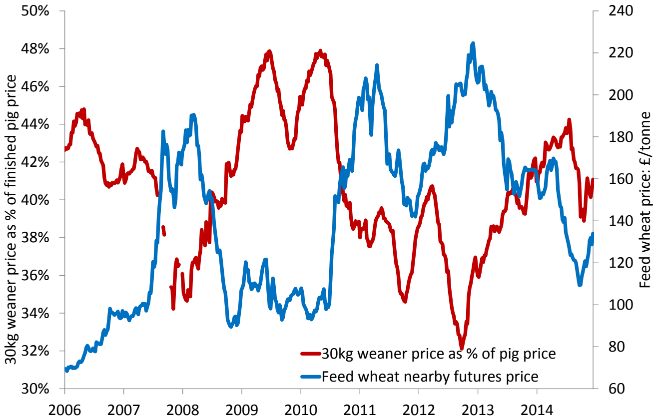


Source: AHDB Market Intelligence

Comparing the two pig price series shows that, as expected, there is a broad relationship between them. On average, the 30kg weaner price was around 40% of the finished pig price during the nine years covered. However, there were periods when it was higher than this and periods when it was lower. The percentage reached as high as 48% in 2009 and again in early 2010 and fell as low as 32% in late 2012.

Not surprisingly, the variation in the relationship between weaner and finished pig prices can largely be explained by the price of feed. During 2009 and early 2010, feed prices were relatively low, with nearby UK feed wheat futures fluctuating around £100 per tonne. In late 2012, feed prices were very high, with feed wheat futures reaching record levels. Looking across the whole time period, it is clear that as feed prices rise, finishers are not prepared to pay the same price for weaners in order to protect their margins.

Impact of feed prices on weaner prices



Source: AHDB Market Intelligence, HGCA

To get a more detailed understanding of the relationship between prices for weaners, finished pigs and feed, we can model weaner prices based on the other two. A simple model shows that, on average, every £1 added to the finished pig price (in £/head) adds around 50p to the weaner price. Equally, every £1 added to the nearby UK feed wheat futures prices reduces the weaner price by about 9p/head. This would mean that, for example, a 10p/kg fall in the pig price would need to be offset by around a £45 per tonne fall in feed prices to leave weaner prices largely unchanged.

The model does indicate that, although most of the variation in weaner prices can be explained by pig and feed prices, there is also an element of seasonality. Weaner prices in the spring tend to be around £2 per head higher than can be explained by the two other prices, with the opposite true in the autumn. This reflects the seasonality of supplies which mean that finished pig prices tend to peak in the summer, when the spring weaners will be sold, and be lowest at the start of the year, when the autumn weaners are marketed.

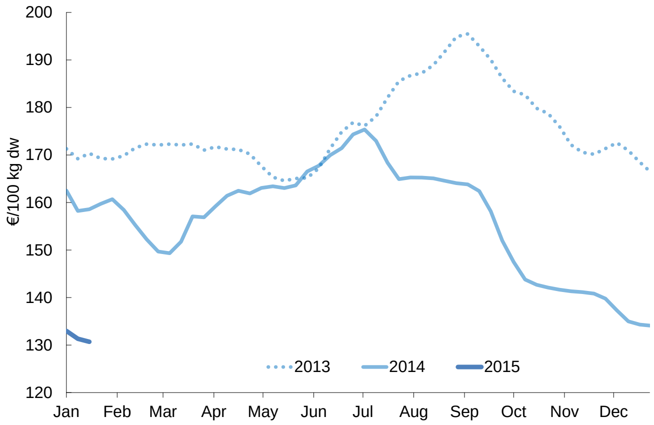
This seasonality suggests that finishers may take into account the expected direction of finished pig prices when setting a price for the weaners they buy. Perhaps unsurprisingly, it seems that industry sentiment has a part to play too. Weaner prices have been lower than predicted by the model at times, including the second half of 2011 and the autumn of 2012, both periods when producers were losing money and were concerned for their future. Equally, prices were higher than expected in the summer of 2009 and for much of 2010, periods when profitability had been good, for the first time in many years, and producers were in a positive mood.

This analysis suggests that weaner prices are set in a rational way, with the market weighing up the balance between finished pig and feed prices. Therefore, with a view about the future direction of those two markets, producers should be able to assess the likely direction of weaner prices too.

EU Market Snapshot

The close of the year did not bring good news for European pig producers, with continual price drops seen in most of 2014, concluding at an average €135 per 100kg dw during the 4 weeks ending 28 December. This is about €25 less than in the first month of the year. Pressure has been kept on the market by disease issues, the Russian ban and, latterly, ample supplies. Average prices did recover a little from April to July, in part as opportunities arose while US exports were limited by PEDv losses and markets expanded in Asia. However, this was short lived, with prices consistently falling week on week from July onwards, leading to 2014 prices persistently tracking below 2013. The New Year has brought no change, with prices averaging below €131 per 100kg in the week ended 18 January, down €28 on this week last year.

EU Average Pig Reference Price

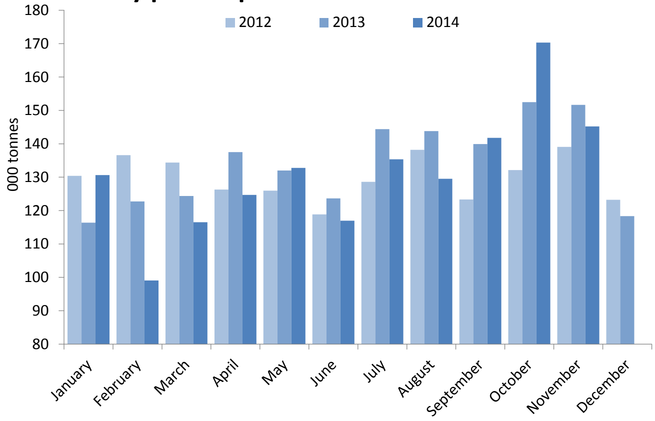


Source: EU Commission

Key producing countries have played a large role in driving the decline; many have dropped around €10 in the last 2 months, including the UK. German prices ended 2014 at €135 per 100kg, €22 lower than a year earlier, and fell again in the New Year. Danish, Belgian and Dutch prices have shown similar movements over the previous 12 months but prices have been stable in the former in the early weeks of 2015. As the euro weakens in the New Year, this could be enough to push the EU average price below £1/kg in sterling terms for the first time since early 2008.

Exports of pork from the EU were down on the year in November 2014, by 4% to 145,000 tonnes, which was 25,000 tonnes less than October's peak. South Korea was the second largest market for EU pork in November, having more than doubled its purchases on the year, as its own herd continued to suffer from PEDv, as well as some cases of FMD. China, however, remained the leading recipient of EU pork, despite a 1% fall on the year. With a unit price increase of 11% compared with last November, the value of shipments to China increased to €46million for the month. Unit prices for Japan, on the other hand, fell by nearly 3% as supply from the US regained momentum and EU shipments decreased by 19%. Hong Kong took 7% less pork on the year but prices increased by 10% as higher value cuts are in demand by the food service sector. As the impasse with Russia remains, emerging Asian markets continue to be the key alternative destination for EU pork, with the Philippines and Taiwan prominent during the month. Venezuela is also taking more from the EU as its main supplier, Brazil, is focused on Russia.

EU monthly pork exports

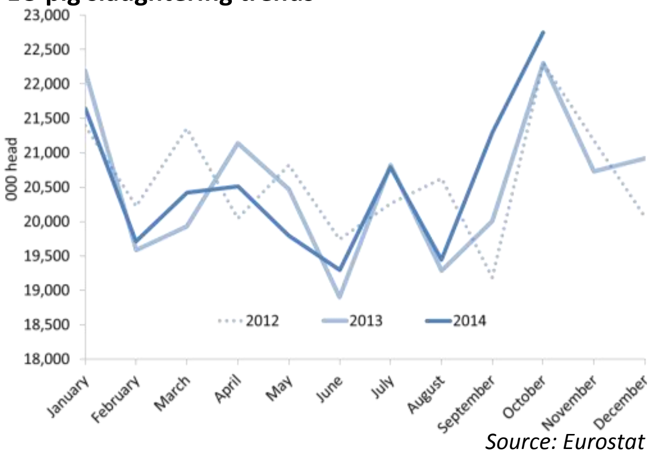


Source: Eurostat, GTIS

In contrast, overall pig offal exports increased for the period January to November 2014, reaching over 100,000 tonnes. Asia continues to dominate, with the top five market destinations for offal. As with fresh and frozen pork, trade to China led the way in November, with a value of €59million.

EU pig slaughterings data for October from Eurostat indicate an increase on the year of 2%, to 22.7 million head. This is the highest monthly kill recorded since 2008, although there were 23 working days in October 2014, more than in most months. With increasing carcase weights as well, EU pig meat production in October reached over 2 million tonnes for the first time since January 2013. For the first 10 months of 2014, EU production totalled 18.3 million tonnes, which was just 30,000 tonnes more than the same period in 2013.

EU pig slaughtering trends



Source: Eurostat

Feed and pig prices remained favourable in the first half of last year, encouraging major producing countries to finish more pigs, including Poland, up by 11%, Spain, Germany & the Netherlands by 6%, 3% and 2% respectively. The Danish kill, however, fell, as more weaners were exported.

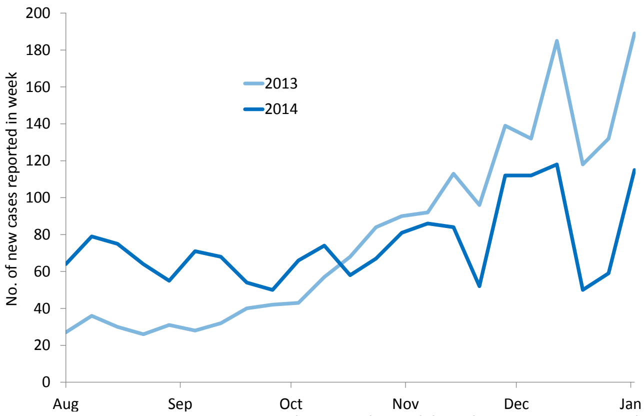
Global Market Analysis

US production set to boom in 2015

Throughout 2014, the US pig industry was dominated by the impact of Porcine Epidemic Diarrhoea Virus (PEDv). This led to a dramatic rise in piglet mortality, reducing pork supplies and taking prices to new highs. Although PEDv is still around, the number of cases so far this winter has been much lower. Assuming this remains the case, the situation in the US industry is likely to be very different in 2015.

By the end of 2014, the number of PEDv cases confirmed in the US was approaching 10,000, including a number of secondary outbreaks. However, since the middle of October, the number of new cases has been running well below year earlier levels; during that period there have been 1000 cases, compared with over 1400 in the same period of 2013. Although last year's peak wasn't reached until February, this suggests the impact of PEDv in the coming year will be lower.

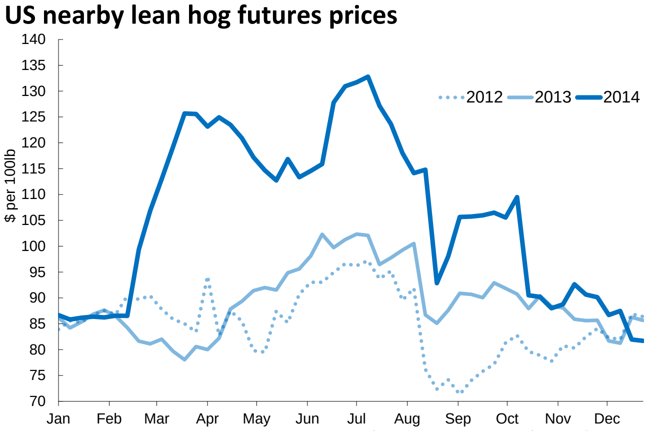
Number of new US cases of PEDv confirmed each week



Source: US National Animal Health Laboratory Network

As a direct consequence of PEDv, US slaughterings were well below 2013 levels throughout most of 2014. Between March and December, nearly 5 million fewer pigs were slaughtered, equivalent to around 6% of the total. Prior to the outbreak, expectations were that slaughterings would rise by 1-2%, so the overall impact was the loss of around 7-8% of the pig crop. The market impact would have been even more severe had it not been for a significant rise in carcase weights, which meant that pork production was only 2% lower.

US nearby lean hog futures prices



Source: Chicago Mercantile Exchange

Of course, this sort of supply reduction caused a price reaction. Hog prices soared to record levels in March and stayed there until the summer. Although they have since returned to levels similar to those at the end of last year, it is worth remembering that these were still high by historic standards. With feed prices falling at the same time, producer profitability reached unprecedented levels, at least for those who managed to avoid PEDv. Estimates suggest that producers were making profits of $50 or more per head for pigs sold over the summer.

Inevitably, this prompted many producers to expand. The latest USDA Hog Inventory reports a 4% rise in the breeding herd in the year to December, the fastest increase since 1998. With PEDv set to have less impact than last year, this is likely to mean an even faster rise in the pig crop in the coming months, perhaps by 5-6%. In turn, this will lead to a similar rise in slaughterings through most of 2015. With feed prices remaining low, at least until prospects for the 2015 harvest become clearer, carcase weights are expected to stay high. Therefore, pork production is expected to rise sharply in 2015, more than offsetting the modest decline in 2014.

As well as the impact of PEDv, US pig prices were given extra support by the shortage of beef, one of its main competitors for domestic consumers. The US cattle herd has been hit hard in recent years by drought and poor profitability. As a result, beef production was down 6% in 2014 and is projected to decline by a further 2-3% this year. Indeed, USDA forecasts that pork production could overtake beef production for the first time in 2015. This means that beef prices have risen even faster than pork ones, meaning that pork consumption has held up remarkably well.

With beef prices set to stay high in 2015, consumer demand for pork is likely to remain strong. With export sales also holding up well – volumes are likely to be little changed in 2014 – price prospects look reasonable. Therefore, although they won't reach the highs of 2014, prices could stay close to levels in the preceding three years. If feed prices remain low, this will be enough to keep producers in profit. This might lead to some further herd expansion in the year ahead, with fewer PEDv cases ensuring further production growth ahead.

From a European perspective, expansion in the US presents a considerable threat. EU exporters have benefitted from the tight supply situation on the global market during 2014. Next year (and beyond), they will face greater competition from the US, where prices may again be similar to or below EU levels. Further down the line, the Transatlantic Trade & Investment Partnership (TTIP) could mean more direct competition from US pork on the EU market. Therefore, as always, the EU (and UK) industry will need to keep an eye on developments across the Atlantic.

Global Market Analysis

Danish industry having to adapt to new challenges

With the Danish pig industry focused almost entirely on exports, its strategies undoubtedly affect other countries, including the UK – the largest importer of Danish bacon. For the first ten months of 2014, Denmark's pork production decreased but both pork and live pig exports increased. The latter, in particular continues to present a challenge for parts of the Danish industry, while price, disease, environmental and animal welfare pressures are also prominent.

Improved breeding success, achieved by industry-wide initiatives and research investment, has kept Danish pig producers at the top of the EU productivity list, weaning 30 pigs per sow in 2013 for the first time. The cost of production is among the lowest in the EU, at €1.68 per kg in 2013. As a result, Danish piglet production has increased steadily over the years. Yet ever increasing weaner exports are risking the future of finishers, abattoirs and processing stakeholders.

Danish pig production by destination January-October

Source: Eurostat

Investment needs have been identified for improving these stages of the supply chain, so that Denmark can process more of its own pigs. This would allow it to retain a greater share of income and would buffer it from variables in its market partners. Despite this, slaughterings dropped another 2% on the year in the first 10 months of 2014 due to a further increase in the number of weaners being exported for finishing. These pigs are still primarily going to Germany, where finishing costs are cheaper but demand growth comes mainly from Poland, where labour and land are cheap and the domestic herd needs supplementing.

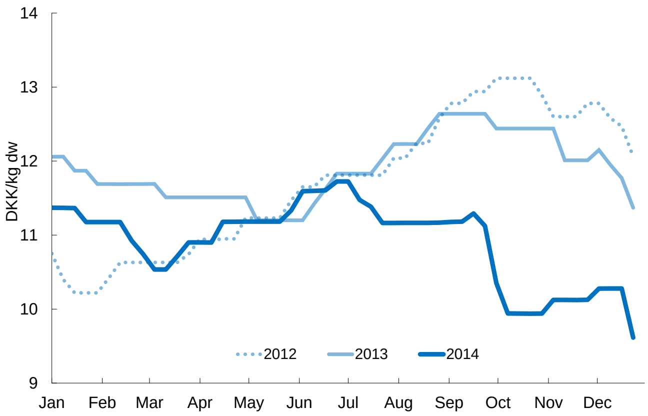
As well as the long-standing issues that the weaner trade generates, it now poses a threat in the form of disease risk. Poland is one of the four EU countries which have confirmed cases of African Swine Fever (ASF) and returning lorries could bring the disease back with them. To minimise this risk, Denmark has invested in state of the art lorry washing facilities at border crossings. With Russia not the only export market which would restrict shipments if ASF hit Denmark, the industry knows it can't take any chances with biosecurity.

In light of recent identification of high MRSA levels in Danish pigs, alongside a phased plan to halve antibiotic use, there is no room for mistakes. The issue has received a lot of media attention in Denmark, although the strain of MRSA involved has only caused a small number of human infections, in people coming into regular contact with animals. Even so, as a country vocally committed to raising welfare standards, the pig sector is often under the spotlight. Agriculture minister Dan Jørgensen has also challenged the industry over pig welfare. This led to an agreement to reduce piglet mortality, increase use of free farrowing and phase out castration, among other things. All will require innovative solutions if the Danish industry is going to remain competitive.

Environmental constraints also remain an issue, particularly for finishers. The requirement that producers have enough land to dispose of the slurry they generate, or contracts with other landowners to do so, is limiting investment and contributing to production declines. In such a small country, land is expensive and financing investment has been difficult. Planning permission is also becoming harder to obtain.

All of these challenges come at a time when pig prices are low, in common with the rest of the EU. The Danish reference price for grade E pigs dropped below DKK10 per kg in late 2014 for the first time since early 2011. Overall though, exports have remained favourable, increasing 1% on the year in January-October 2014 despite the Russian ban. Denmark previously sent around 7% of its pork to Russia but the ban has had more of an effect on by-products such as fats, where it was a more significant market.

Danish pig reference prices



Source: EU Commission

Despite all the challenges it faces, the Danish industry has been resilient and adaptable in the past and will no doubt deal with the current situation too. Although the present difficulties suggest expansion is unlikely, the herd probably won't contract dramatically either. This should mean the upward trend in piglet numbers continues, although whether this will translate into more domestic production or whether German and Polish slaughterhouses will benefit most is uncertain. Either way, Denmark will remain influential.

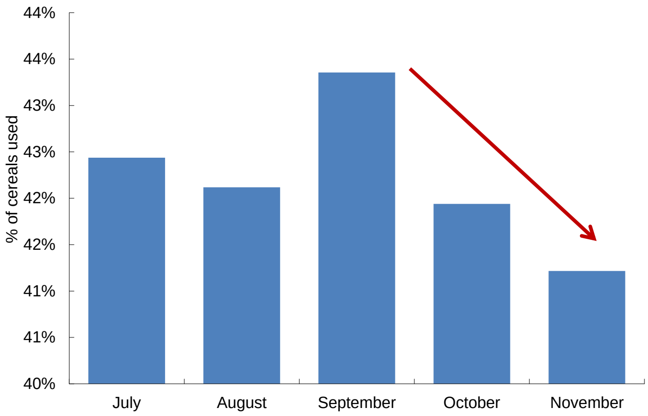
Feed Market

May-15 UK feed wheat futures closed at £131.30/t on Wednesday 21 January, a drop of £4.70 since the start of the month and £7.70 lower than 22 December. In the run up to Christmas, prices peaked at £140.75/t, in response to market concerns about restrictions to Russian exports. However, prices have been on a downward trend during January. As of 1 February, Russia will impose export duties, although it has not been disclosed how long they will last. A 15% export duty plus €7.50/t will be introduced on wheat, or at least a €35/t duty. Tougher quality checks and administrative delays are reported to be further complicating Russian exports.

The USDA's January update of agricultural supply and demand estimates reaffirmed large global supplies. This helped to bring market attention back to the headline bearish conditions of this season, after some time focusing on geopolitical issues and early threats of potential winter kill for US winter wheat crops.

Defra's latest animal feed statistics for November, showed a 20% drop in barley used in GB compound feed production compared with a year earlier. The data also show the cereal incorporation rate declined again to 41.2%, compared with 41.9% in October, and down from a record 43.4% in September. This decline in the usage of cereals perhaps reflects the gains in grain prices between September and November, compared with relatively smaller movements in oilmeal prices over the same period.

Cereal incorporation rate in the production of GB compound animal feed, 2014



Source: Defra

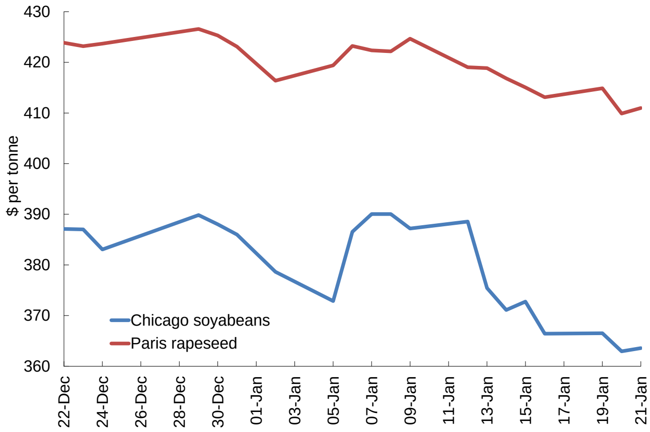
UK trade data for November showed higher maize imports than expected. The latest HMRC data suggest that maize continues to be a popular grain for use in UK animal feed. A total of 231Kt was imported in November, bringing the season to date imports up to 717Kt, compared with 738Kt at the same point last year. With such large quantities of feed wheat available this year, this increases the reliance on exports of wheat/barley to avoid stock build up come the end of the season.

During the last week, the value of the euro has plunged, with the currency hitting a 10 year low against the US dollar and at its lowest level against the pound since March 2008. A weaker euro means that UK prices need to fall relative to EU values to remain competitive. Given most of the UK's trade is with the Eurozone, this is likely to weigh on UK prices.

The latest USDA data brought a bearish tone back to the oilseed markets, after a period of relative support. Headlines included the highest US soyabean stock figure for the time of year since 2006 and an increased Brazilian crop forecast.

US soyabean prices have been in decline for most of January, with May-15 Chicago soyabeans closing at $363.54/t on 20 January, $9.28 lower than at the start of January. However, during the same period, May-15 Paris rapeseed futures have risen by €8.75, closing at €354.50/t on 21 January.

May 2015 soyabean and rapeseed futures



Source: AHDB/HGCA

Although the fundamentals are now back in focus, currency movements continue to be a strong influence. European rapeseed values were somewhat insulated from the falls in US soyabean markets by the weakness in the euro. As well as currency movements, forecasts for a smaller 2015 EU rapeseed area are reportedly a contributing factor, as well as short-term tightness in EU supplies caused by reports of reserved farmer selling.

UK delivered values initially followed the recent EU price trends, rising to £277/t (spot delivery, Erith) by 9 January. However, recent declines in Paris rapeseed futures have led to steeper falls in UK prices due to the weak euro, with spot prices for Erith delivery down to £270/t on 16 January. Rapemeal (34%, Ex-mill Erith, January delivery) is currently £197/t, up by £11 from the middle of December. Hi-Pro soyameal (Ex-store, East Coast, January delivery), was £319/t on 16 January, down £19 on the mid-December price.

With planting of 2014/15 South American soyabean crops now largely complete, crop conditions in Brazil and Argentina are a focus of market attention. Weather conditions are generally supportive of crop development but under increasing scrutiny.

In Brief

Industry prospects in focus at AHDB Outlook 2015

Prospects for the pig sector, along with the other major UK livestock sectors, will come under the spotlight at the 2015 AHDB Outlook Conference. The conference – hosted by AHDB's three livestock divisions, BPEX, EBLEX and Dairy Co, as well as AHDB Market Intelligence – will be held at One Great George Street in Westminster on Wednesday February 11. It is a must for all involved in the red meat, livestock and dairy industries.

Trade developments and emerging opportunities are due to be examined, with experts also giving an overview of the market outlook for each sector represented at the event. AHDB chairman Sir Peter Kendall will open the conference. Other keynote presentations will feature Richard Nicholls from the Future Foundation on Future Consumer Trends and Nick Miles of the Institute of Grocery Development on China and other Asian Markets. There will also be three breakout sessions, including one covering pigs and poultry, at which the outlook for the coming months will be discussed.

Although places are going fast, there are still some available, so if you are interested in attending you should book as soon as possible to avoid disappointment. For more details and to book your place at the conference, click here.

US pig herd recovery continues

Latest figures from the USDA confirm the recovery of the US pig industry from PEDv is well underway. The new hog inventory shows a 2% rise in pig numbers in the year to 1 December 2014, which is a 7% increase compared with the figures for March and June 2014. The US breeding herd increased even more rapidly, with a 4% rise year on year, taking it to its highest level in nearly 6 years. This is reflected in farrowing intentions for the next six months, with the number of litters also expected to be up 4%.

Little change in German pig numbers

Provisional figures from the November pig census show that German pig numbers were little changed from a year earlier. The herd as a whole increased marginally, largely due to a 5% rise for young pigs, partly due to higher weaner imports. In contrast, there was a reversal of the growth in the breeding herd recorded earlier in the year, with sow numbers down 1% since May and slightly lower than in November 2013. Gilt numbers were down even more sharply, as finances have been very challenging since the summer.

Danish and Dutch exports expanding

In contrast to last year's trend, total Danish pork exports were up 2% on the year between January and September 2014. However, lower prices meant the value of shipments fell by over 1%. Increasing volumes of pork exported to Germany, Italy, Japan, China, Australia and the US helped to offset the loss of the Russian market. Poland also took 11% less Danish pork as it continued to increase its purchases of weaners instead.

The Netherlands also increased pork export volumes, by 7% on the year. Germany, however, took marginally less than the previous year, as did Greece. Exports to several Asian markets increased on the year as demand continues to develop, more than offsetting the loss of last year's limited sales to Russia.

Brazil continues to increase exports to Russia

Total pork exports from Brazil were 5% lower in 2014 than 2013. However, the end of the year saw no let-up in exports to Russia, as Brazil filled the space left by banned EU & Canadian product. Latest figures show 38% more pork was sent to Russia in 2014 and it took over half of Brazilian exports in quarter 4, despite prices having nearly doubled in rouble terms compared with a year earlier. This has been possible partly due to the redirection of pork previously destined for Ukraine. With the Brazilian real continuing to weaken and global supplies tight, pork prices were consistently up on the year. Accordingly, the value of exports was almost 28% more than in 2013, despite the fall in volumes.

BPEX website re-launched

A new version of the BPEX website was launched last week. As well as a new look to the site, it aims to be more intuitive to use and make it easier to find information. The new Prices & Stats section includes the same range of data, commentary and reports as the old site. This includes back issues of Pig Market Trends and our other regular publications and a Market News section, where you can keep up-to-date with developments in the UK, EU and global pig market. We have also updated our MeatStats tables, which provide a summary of key data about the UK and global meat sector, covering the markets for beef, lamb and poultry meat as well as pork.

Read more about these and other stories in Pig Market Weekly. To view past editions or to subscribe, click here.