Pig Market Outlook

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AHDB Outlook Conference
11 February 2015

Overview

- Market Review
- Producer Margins
- Global Outlook
- UK Outlook
- Wild Cards

UK & EU PRICES
DOWN, DOWN, DOWN

GB finished pig prices have been falling for most of the last 18 months

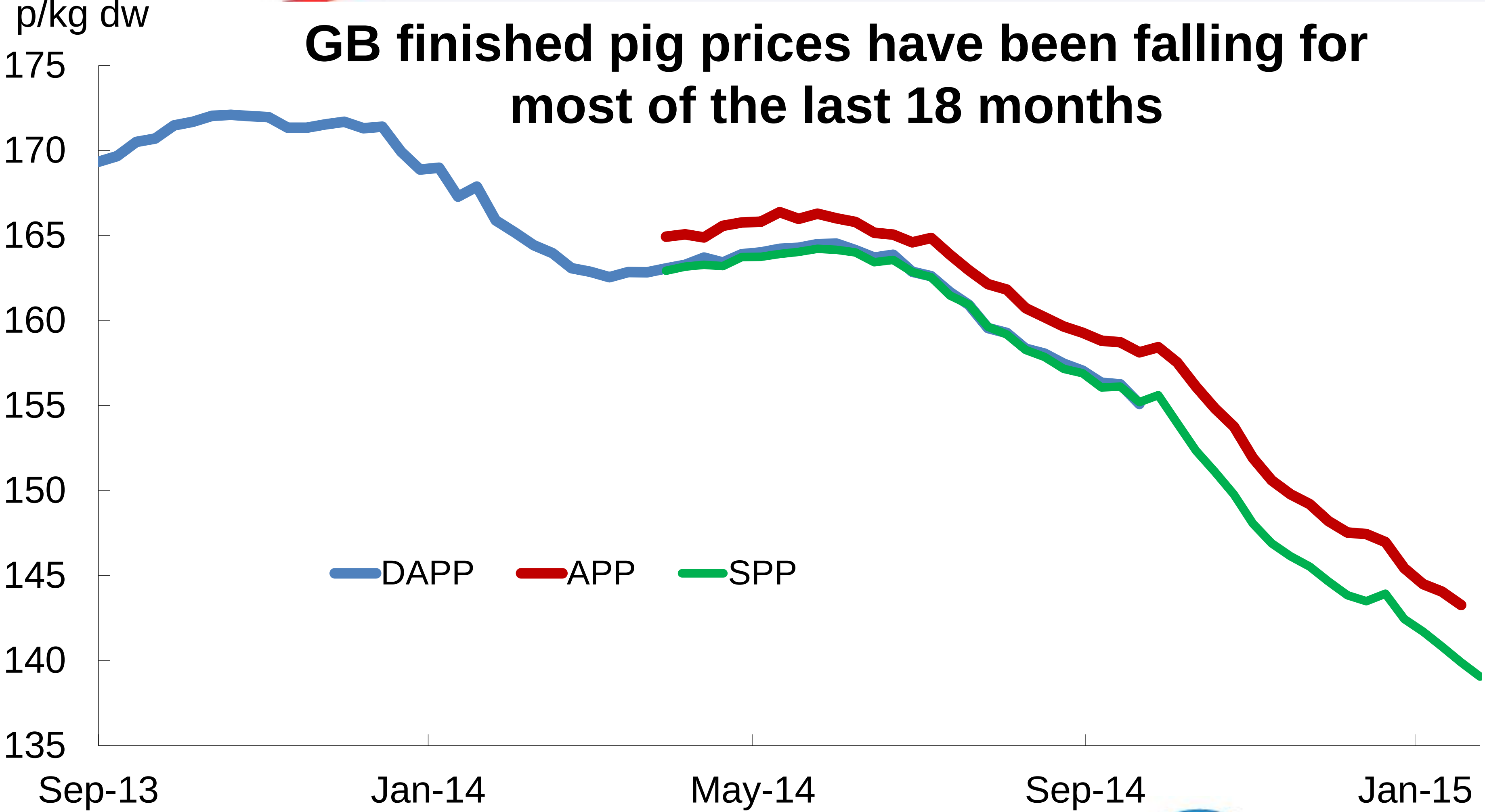

Chart: DAPP, APP and SPP (all EU-spec)
Source: AHDB Market Intelligence

Cull sow prices also falling steadily over the same period and now lowest since 2007

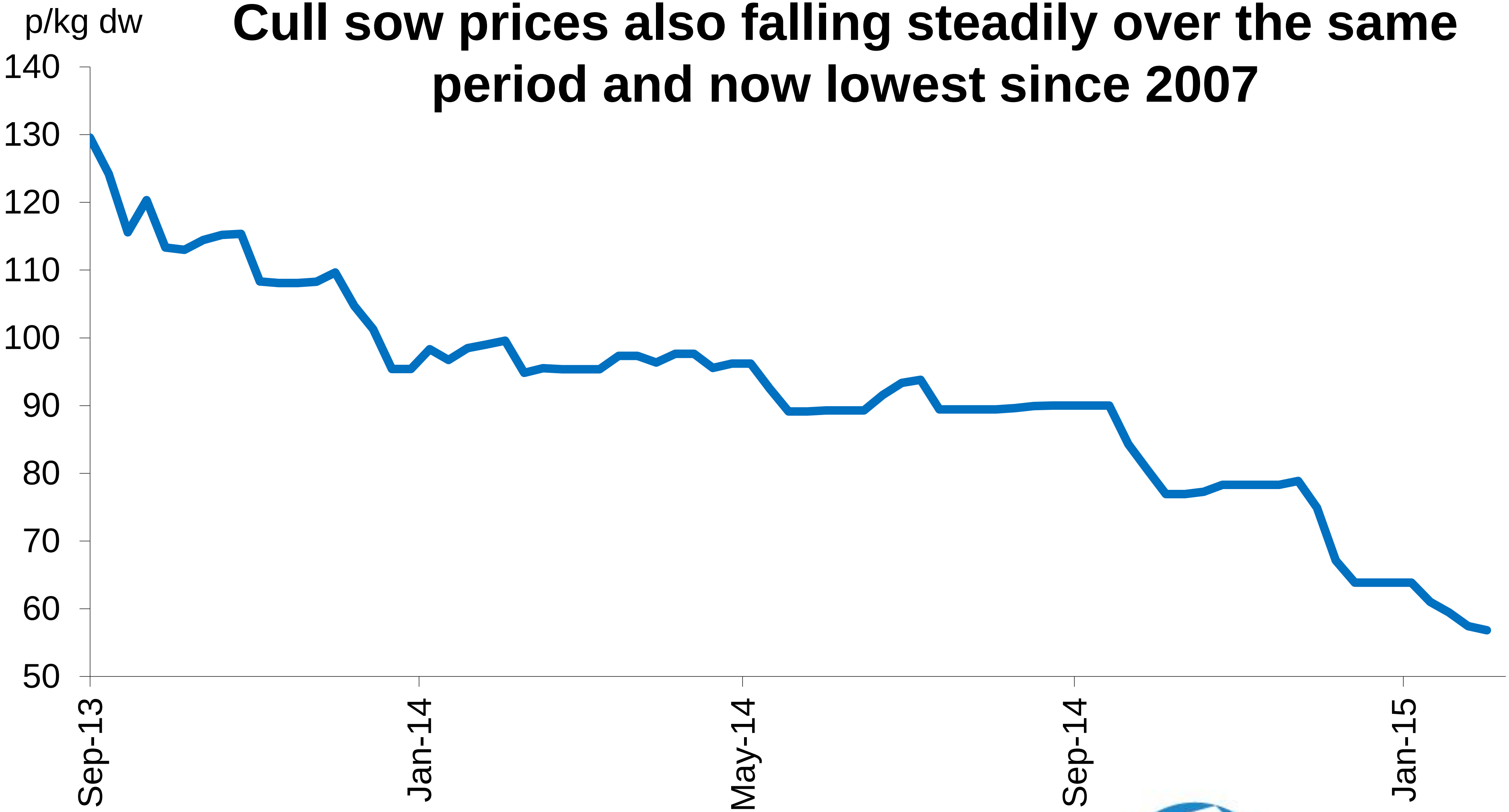

Chart: GB cull sow prices
Source: AHDB Market Intelligence (to August 2013),
Weekly Tribune (since August 2013)

Weaner prices took a while to respond but falling since the summer

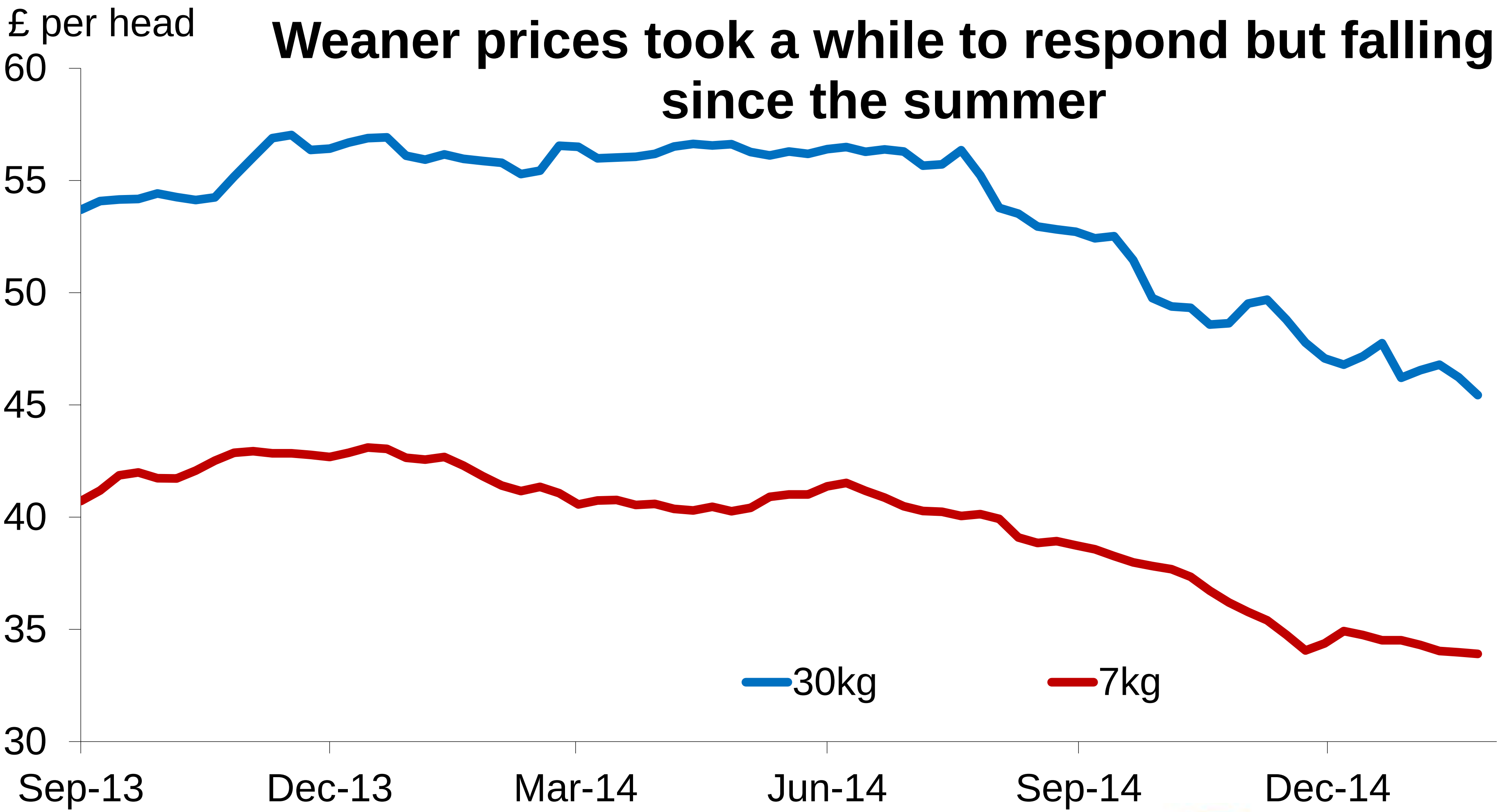

Chart: GB weaner prices (3 week moving averages from mid-2013)
Source: AHDB Market Intelligence

Even pork retail prices have fallen lately

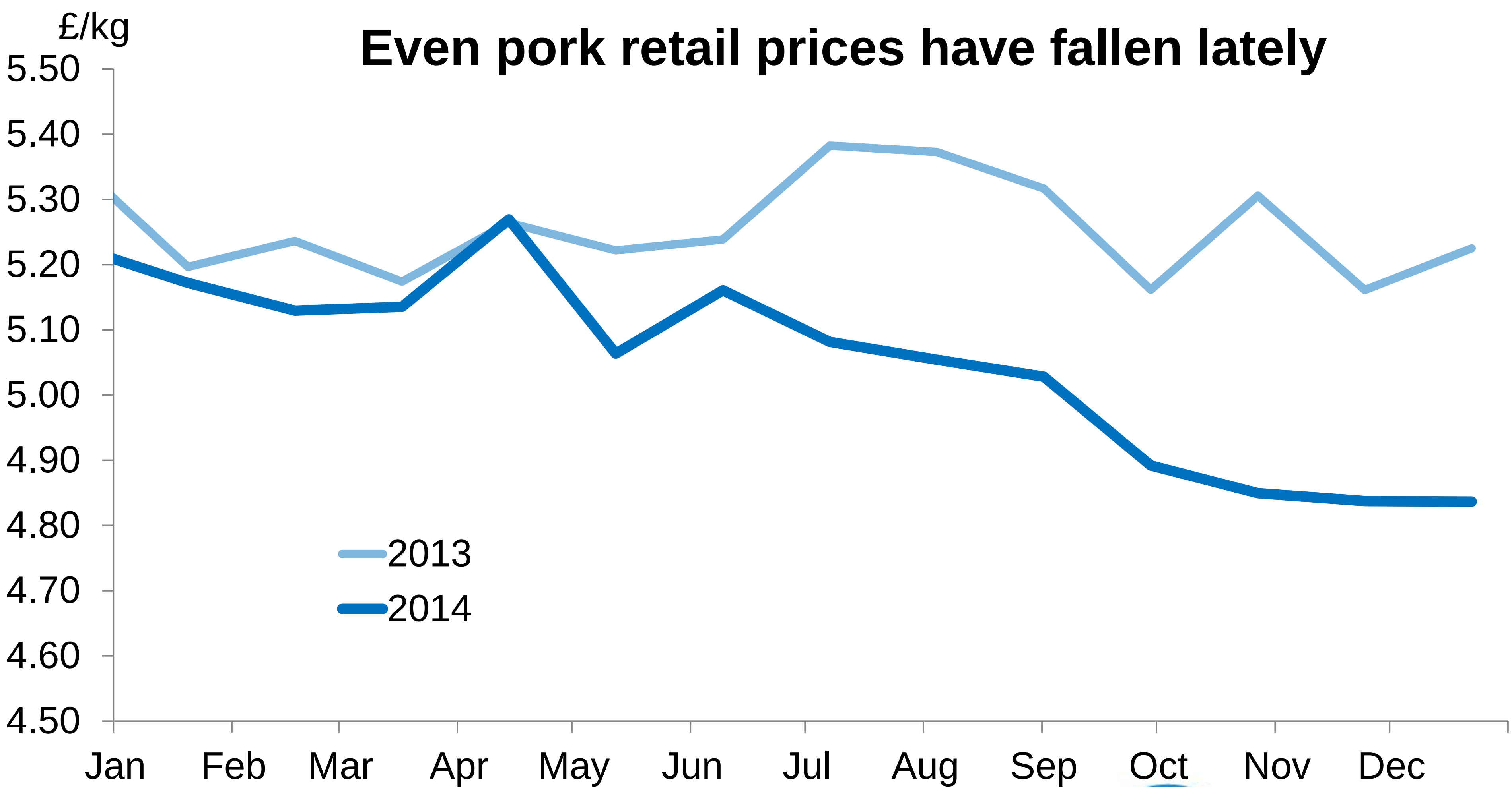

Chart: Average price paid for fresh/frozen pork
Source: Kantar Worldpanel

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EU pig prices have fallen even further than GB prices…

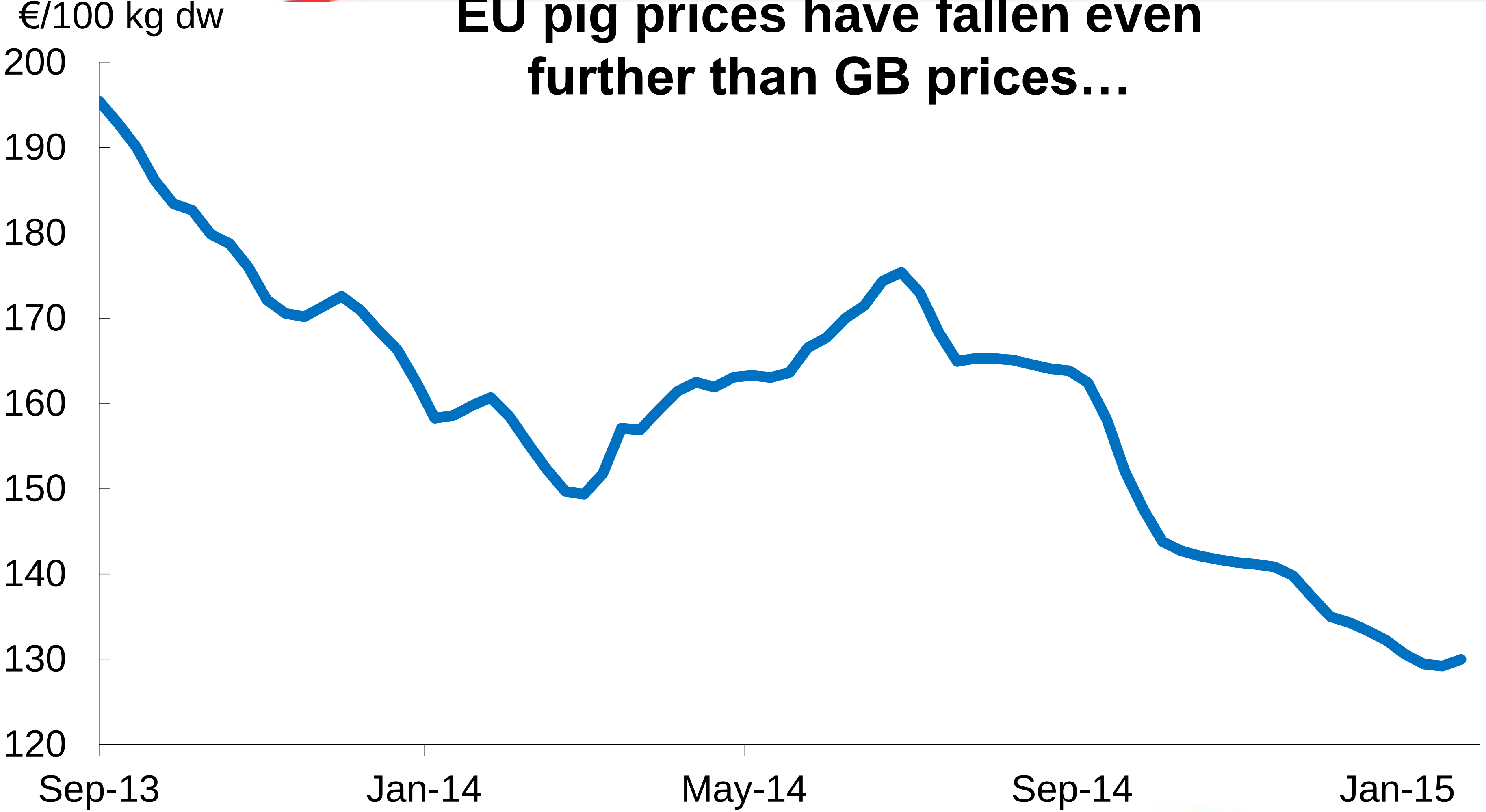

Chart: EU average pig reference price (grade E)
Source: EU Commission

…and the weakening euro means the price fall has been even sharper in sterling terms

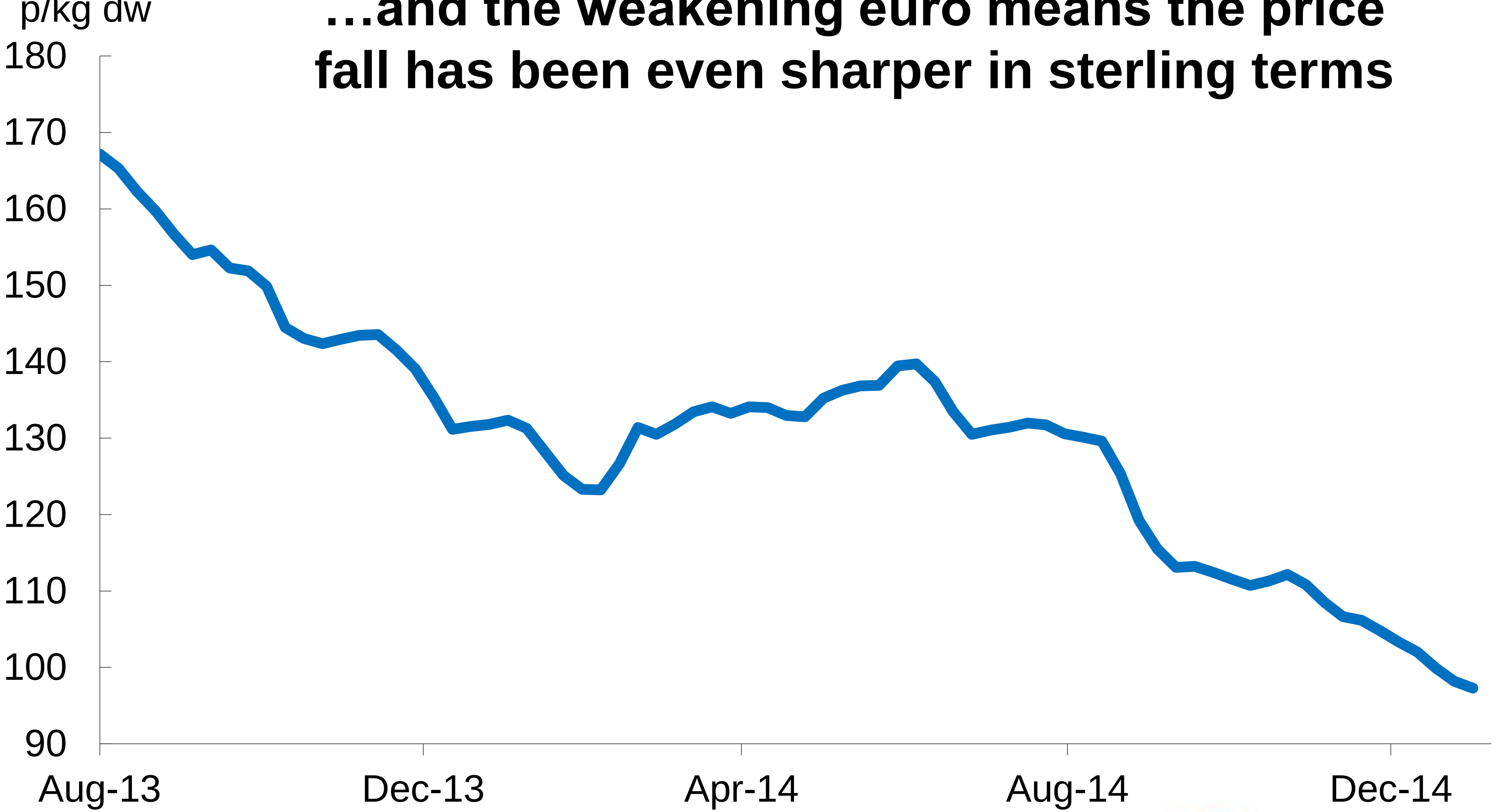

Chart: EU average pig reference price (grade E) in sterling terms
Source: EU Commission, European Central Bank

This means that the gap between UK and EU prices sustained at an all time high

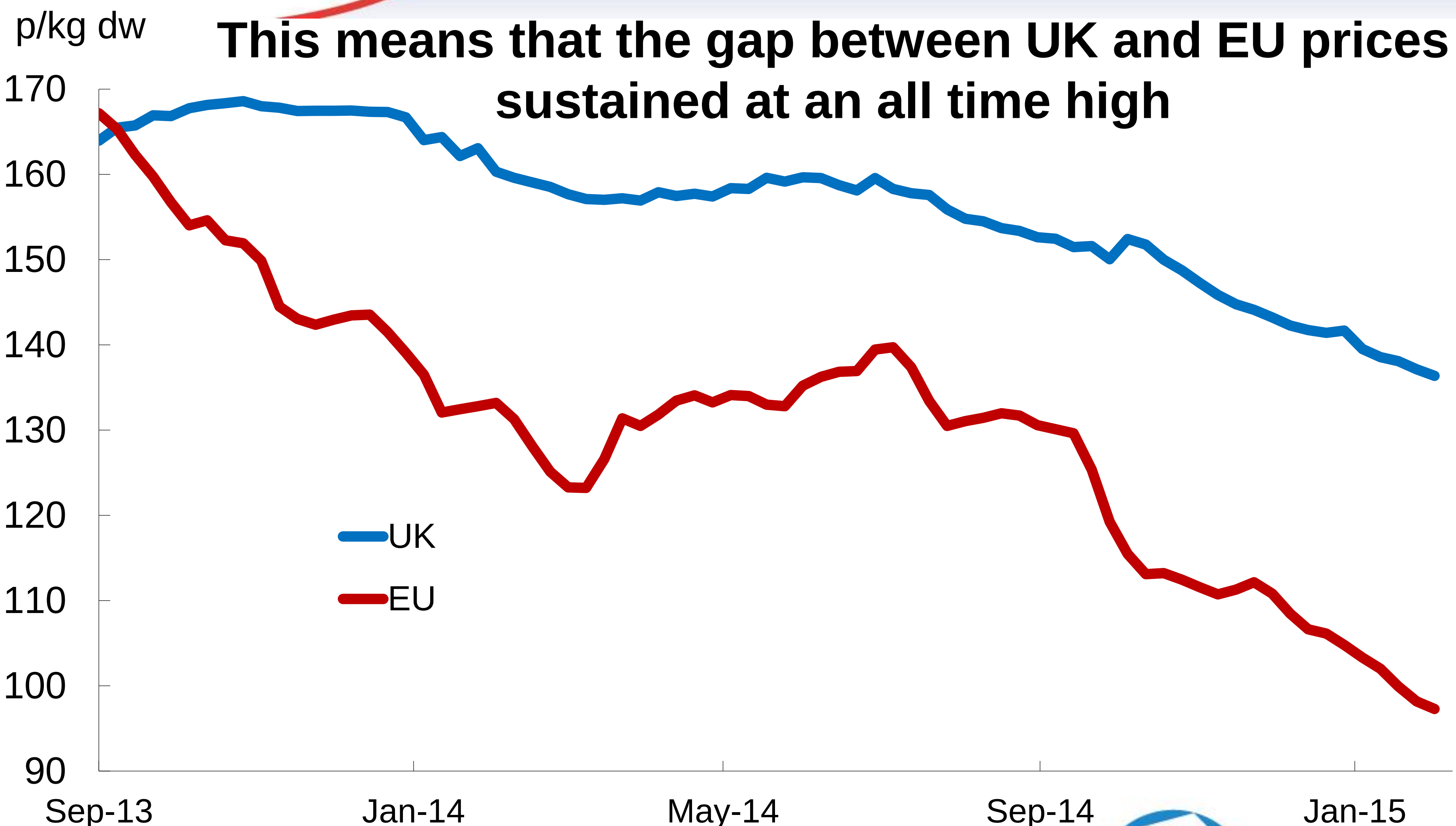

Chart: Comparison of EU and UK pig reference prices over time
Source: EU Commission

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Feed prices have been falling even longer though, although they've recovered a bit since autumn

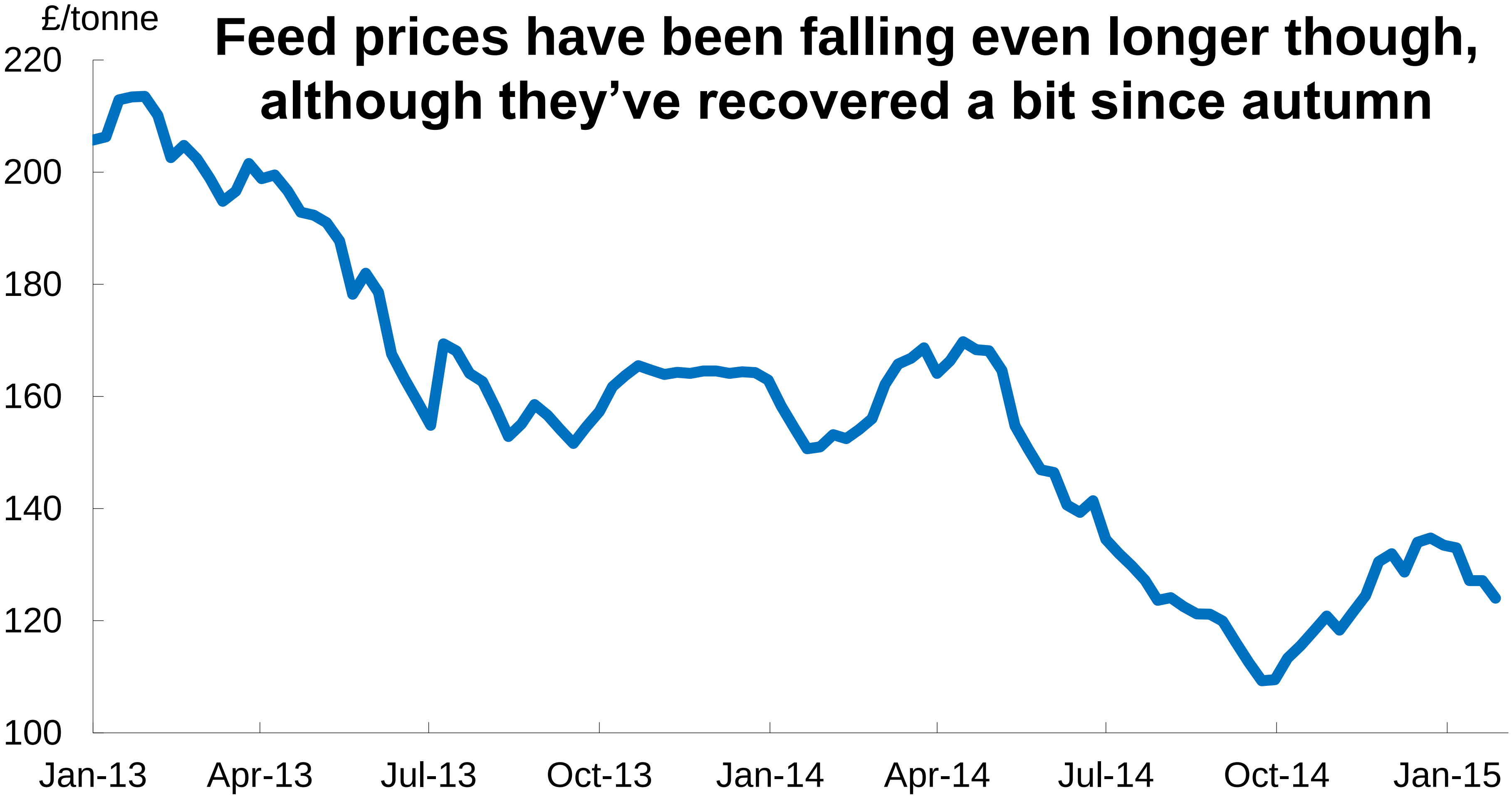

Chart: UK LIFFE feed wheat futures nearby prices
Source: HGCA

In summary – all the main pig & feed prices have fallen over the last year

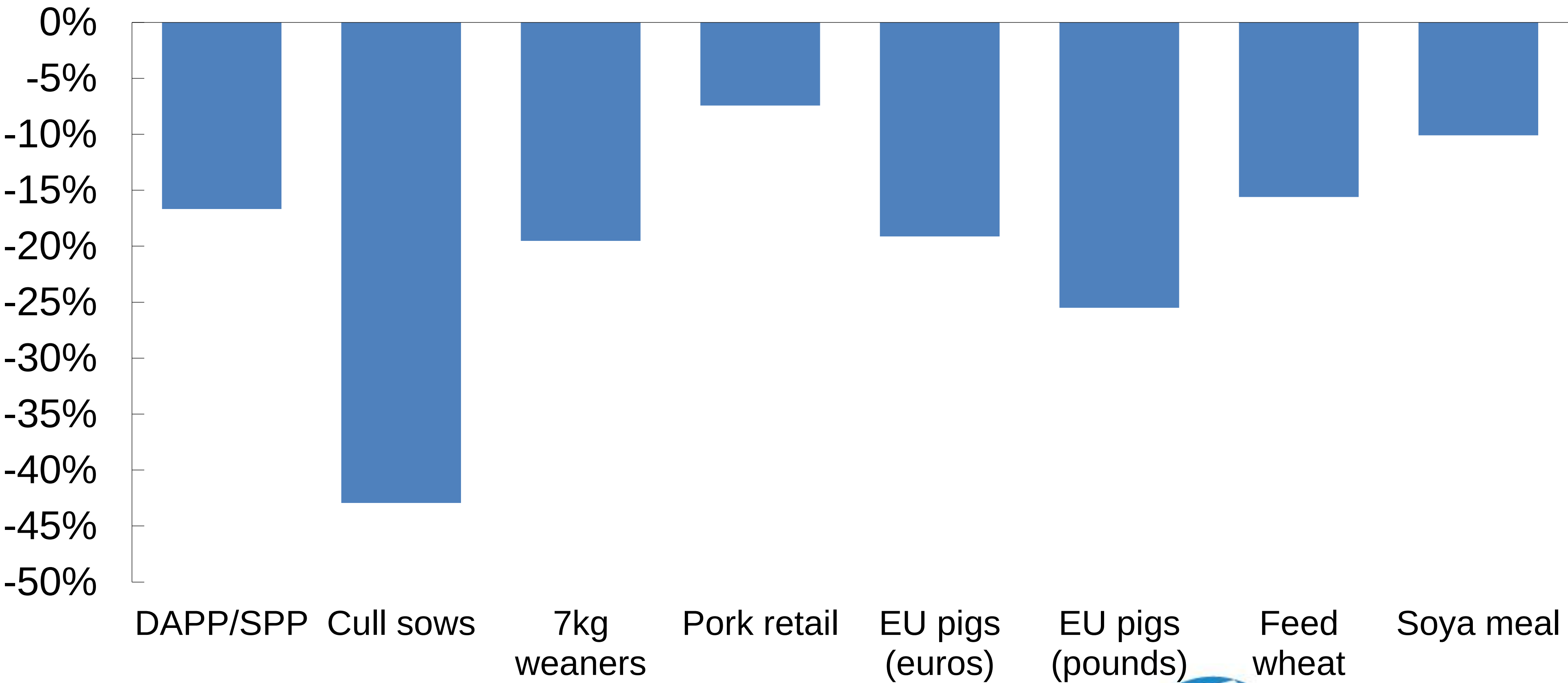

Chart: Year-on-year change in selected prices (latest available period)
Sources: AHDB MI, Kantar Worldpanel, EU Commission, HGCA

CAUSES OF FALLING PRICES

TOO MUCH SUPPLY, NOT ENOUGH DEMAND

UK pigs have been in plentiful supply since the spring - at post-FMD high by year end

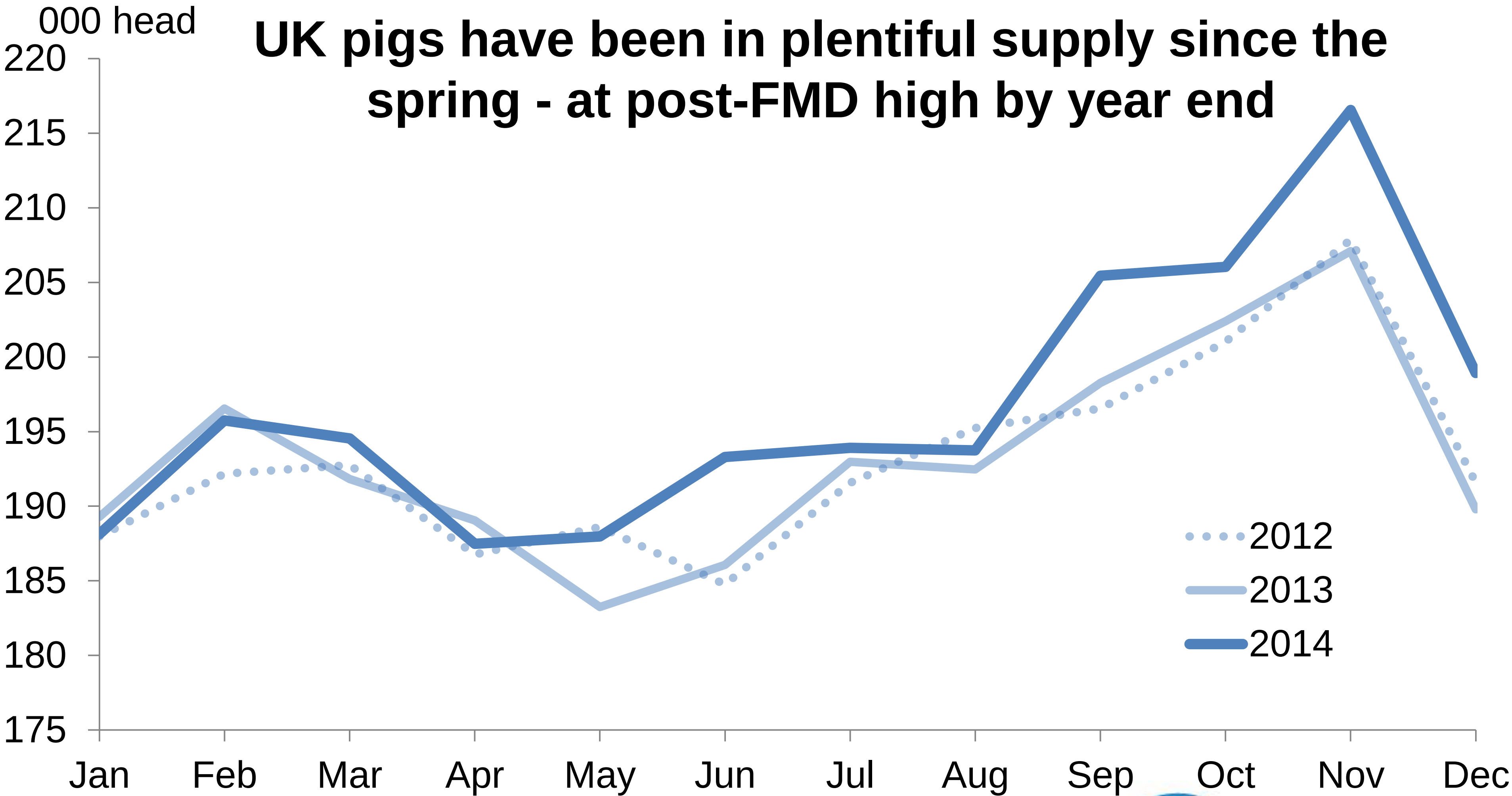

Chart: Average weekly UK clean pig slaughterings
Source: Defra

Carcase weights have been trending up and reached record levels

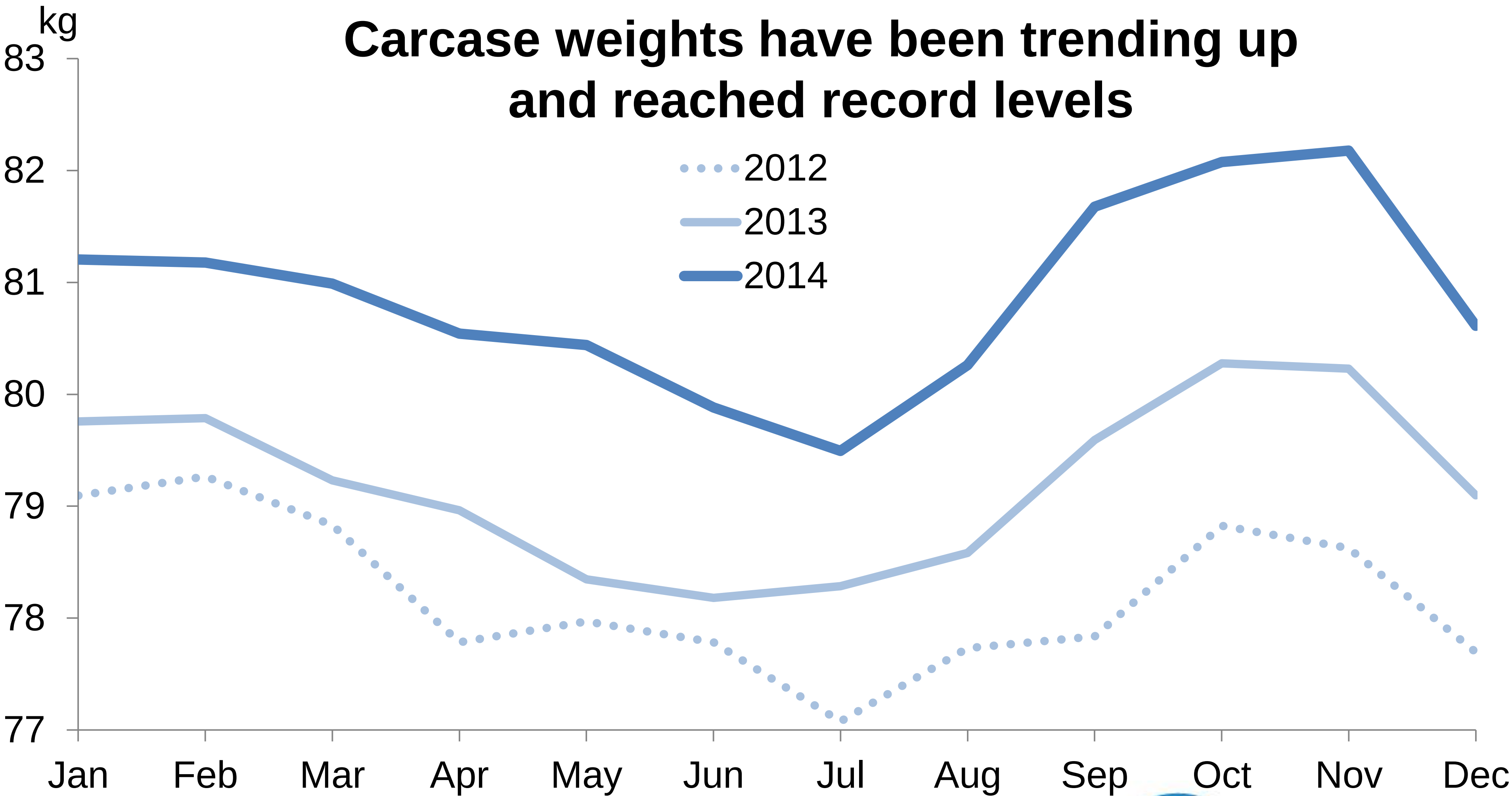

Chart: Average UK clean pig carcase weights
Source: Defra

Pig meat production consistently above last year as a result

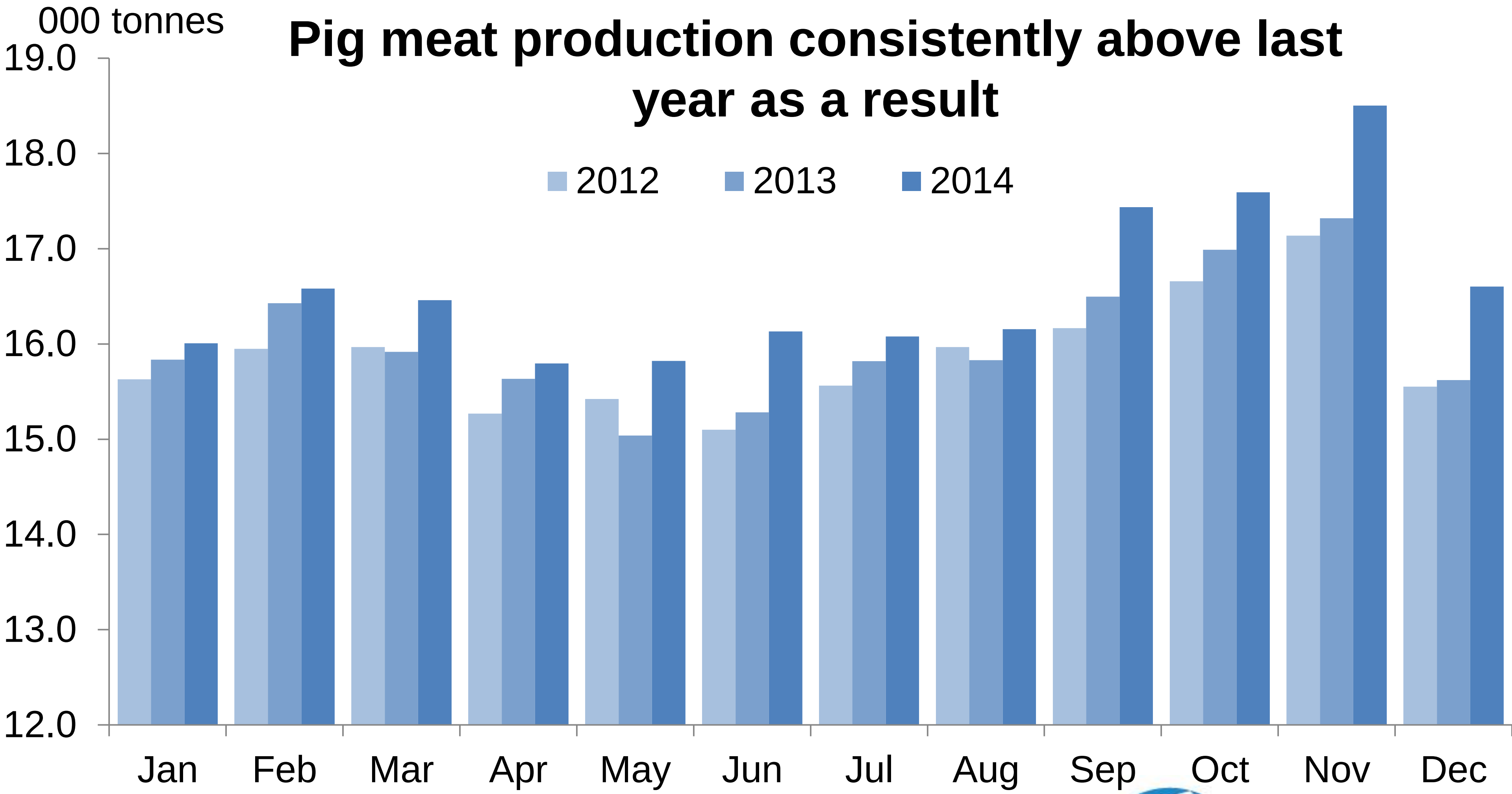

Chart: Average weekly UK pig meat production
Source: Defra

Price gap has only small effect on imports and export growth slowing on strong pound

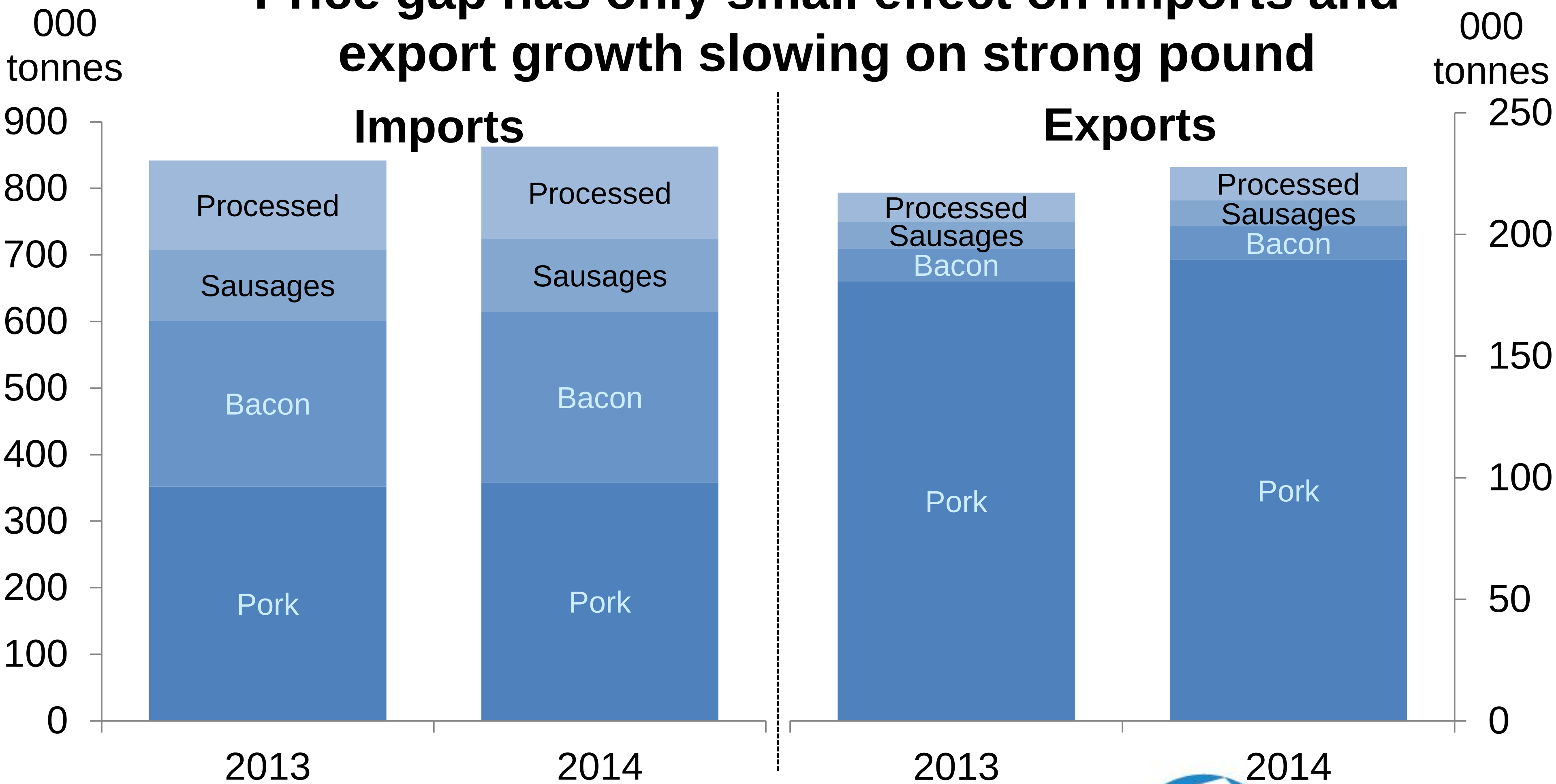

Chart: UK imports and exports of pig meat products
Source: HMRC, GTIS

Retail pig meat purchases remain subdued despite supplies being more plentiful than in 2013

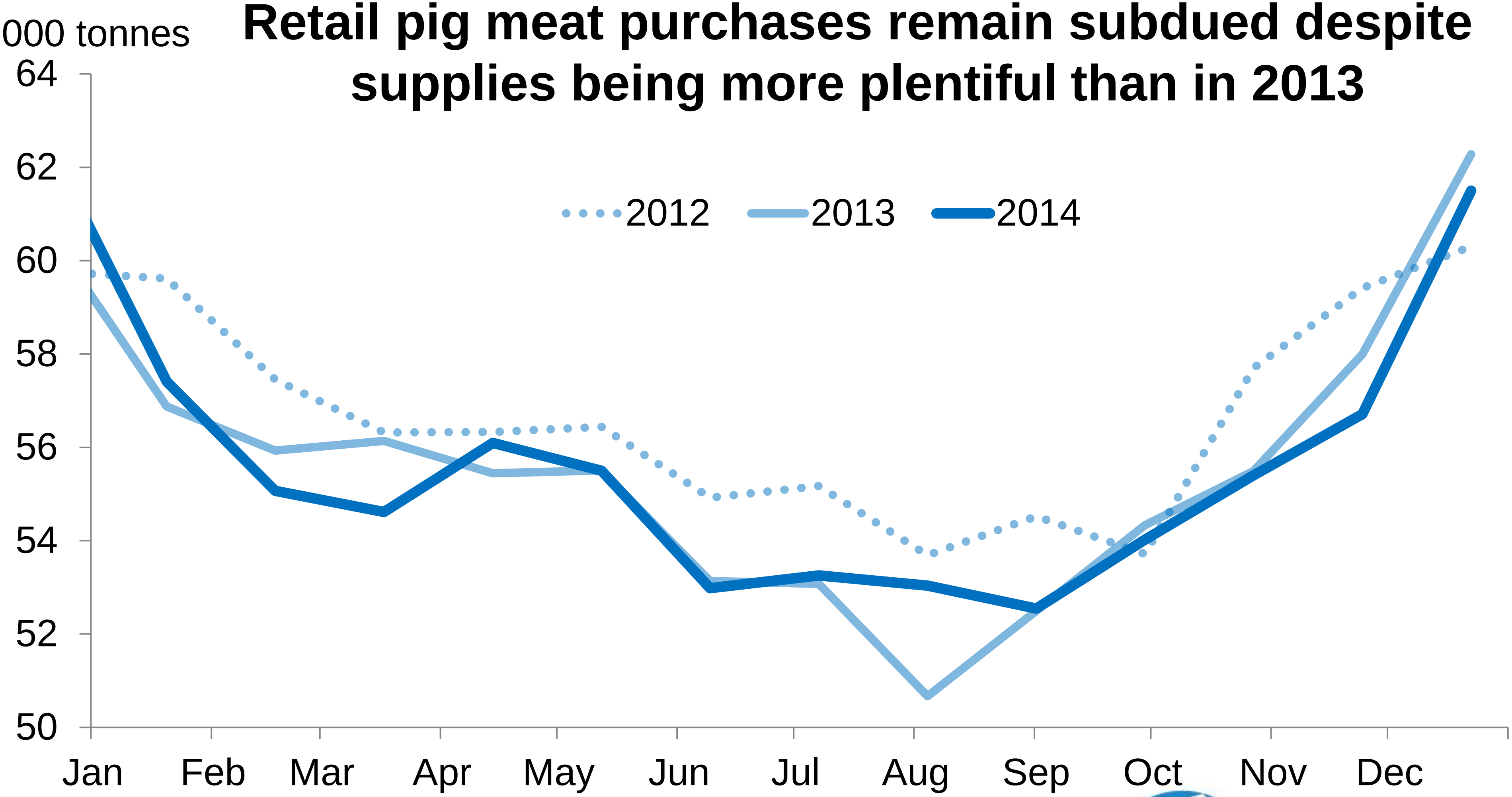

Chart: Total retail purchases of main pig meat products – pork, bacon, sausages, sliced cooked meats (4-week periods)
Source: Kantar Worldpanel

All meats are suffering flat sales – not just pork

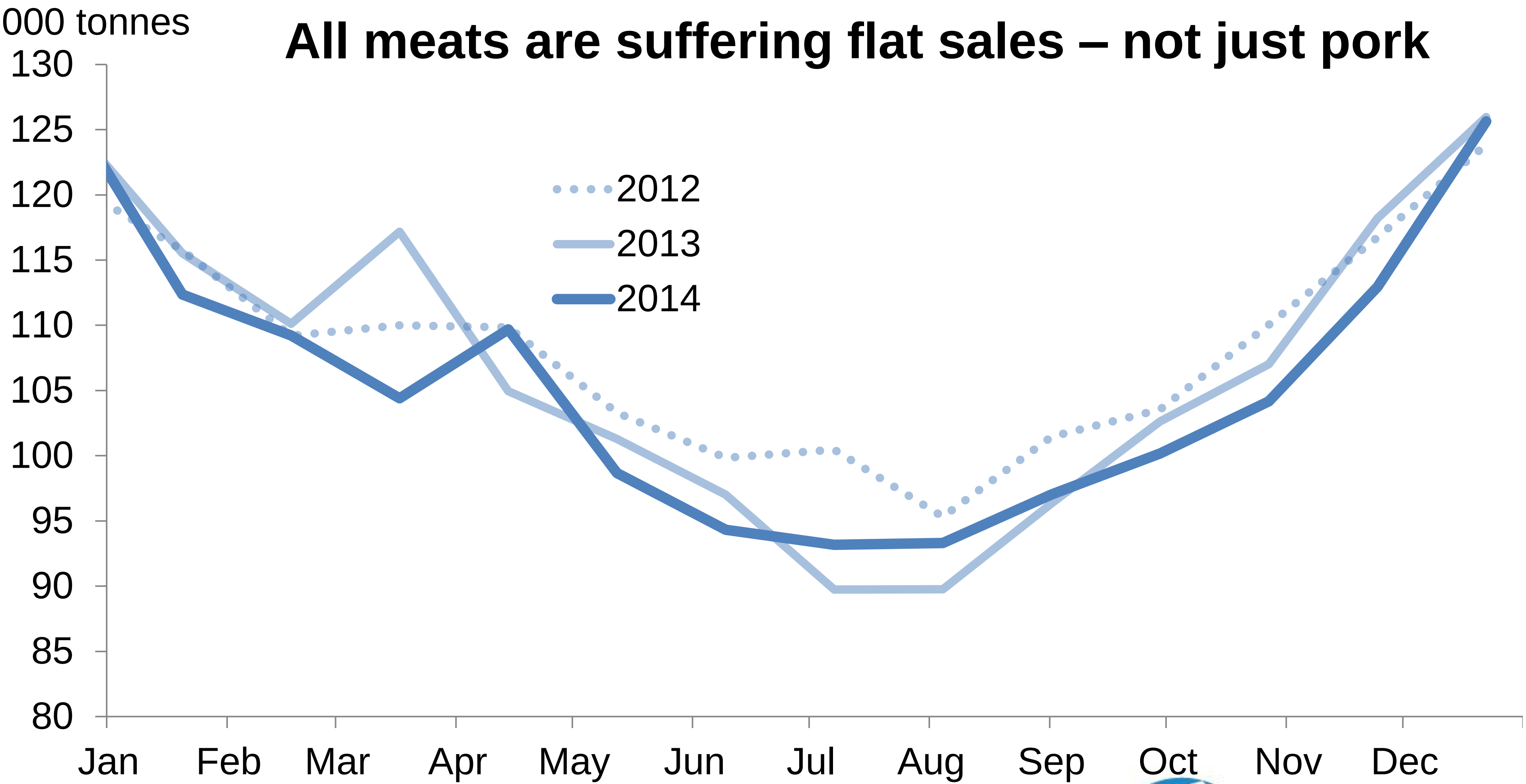

Chart: Total retail purchases of fresh/frozen meat, including bacon (4-week periods)
Source: Kantar Worldpanel

EU slaughterings also trending upwards particularly during the second half of last year

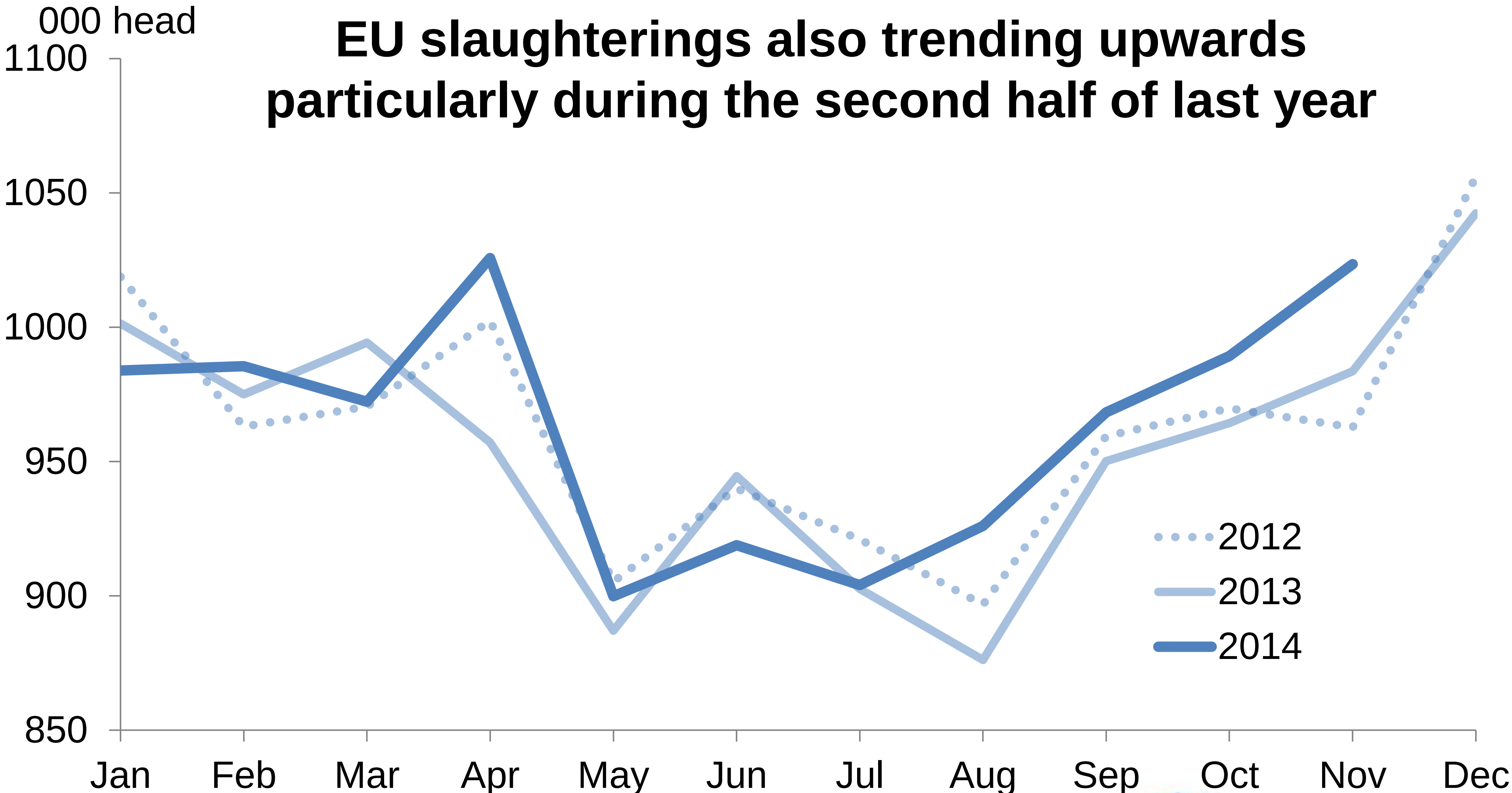

Chart: Average EU pig slaughterings per working day
Source: Eurostat

EU exports down since Russian ban but not that dramatically and recovered lately

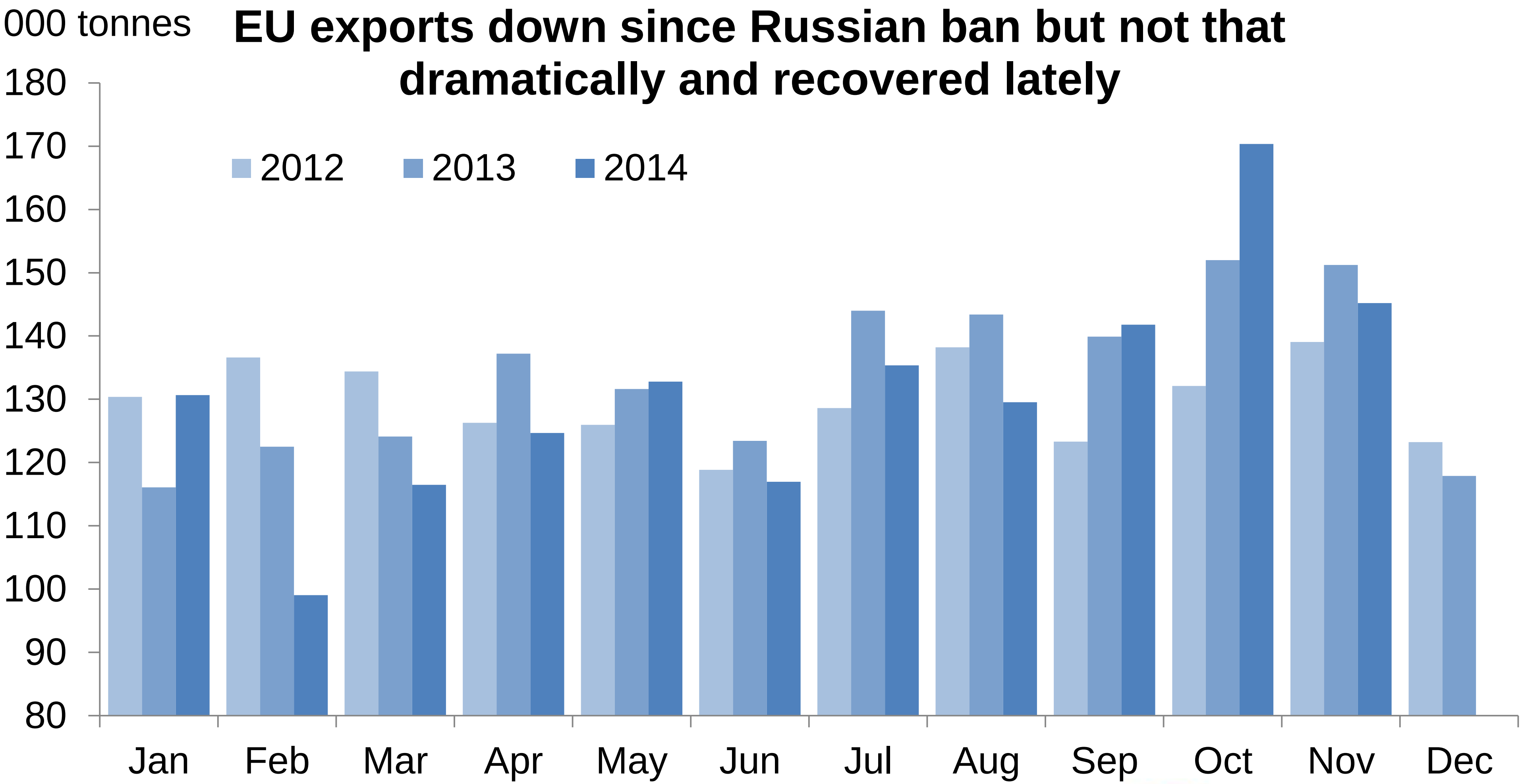

Chart: EU-28 pork exports to third countries
Source: Eurostat

PRODUCER MARGINS
UK BETTER THAN MOST

Pig production costs below pig prices for 18 months but now close to break even after price falls

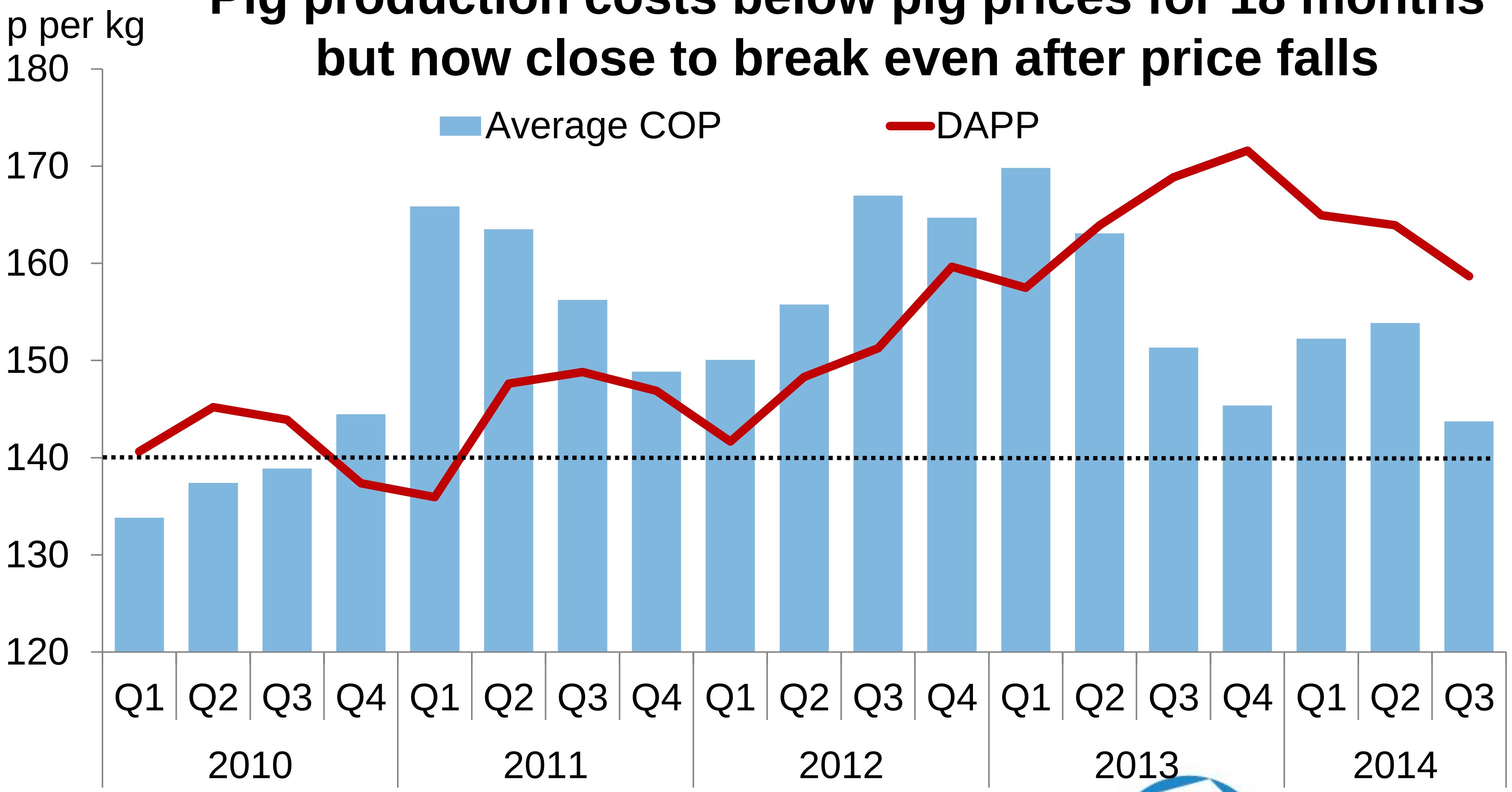

Chart: Estimated GB cost of pig production and DAPP (EU-spec)
Source: AHDB Market Intelligence

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Latest estimates for most other EU countries show producers are clearly back in the red

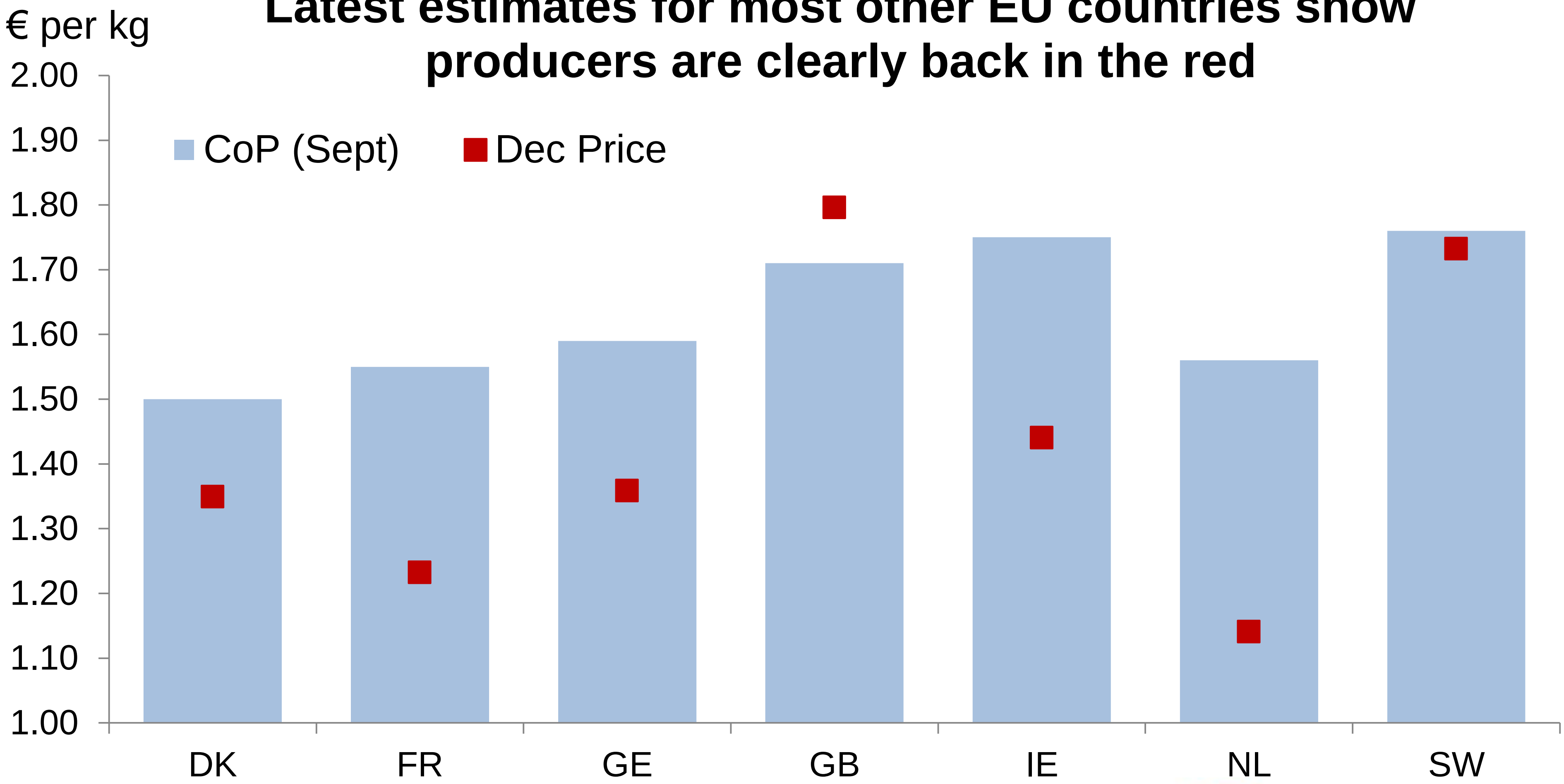


Chart: September 2014 cost of pig production in selected EU Member States compared with average pig reference prices
Source: InterPIG, EU Commission

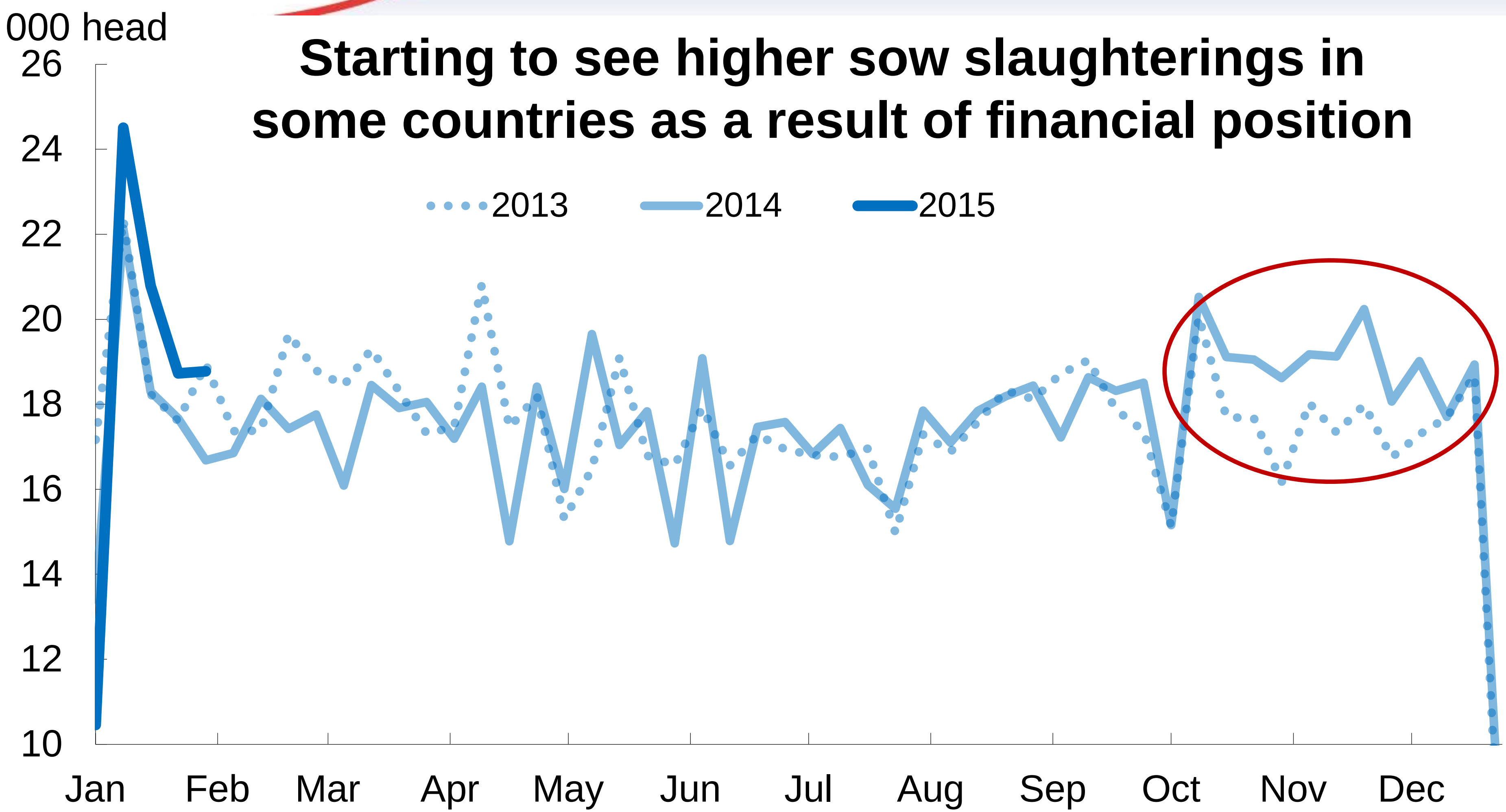


Chart: Estimated weekly German sow slaughterings
Source: AMI

GLOBAL OUTLOOK

RETURNING TO NORMAL – EXCEPT RUSSIA

Global export prices hit new highs last summer but now easing

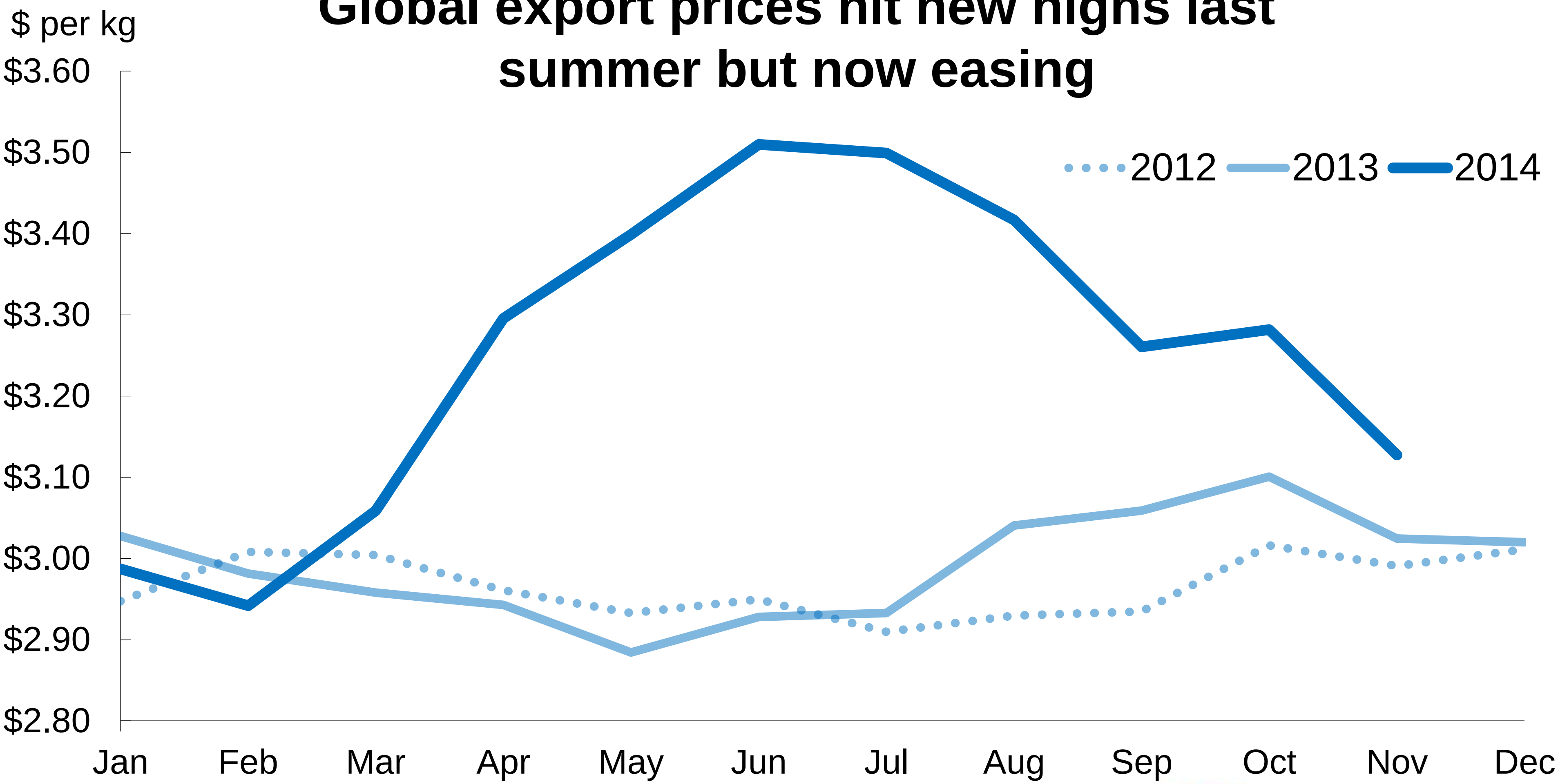


Chart: Unit price for pork exports from four major global exporters (EU, US, Canada & Brazil)
Source: GTIS

PEDv cases in US rising but below last winter – now cases in Ukraine and could spread to EU

Chart: Number of new US cases of PEDv reported each week
Source: American Association of Swine Veterinarians

US expected to return to production growth this year – Brazil/Russia also increasing

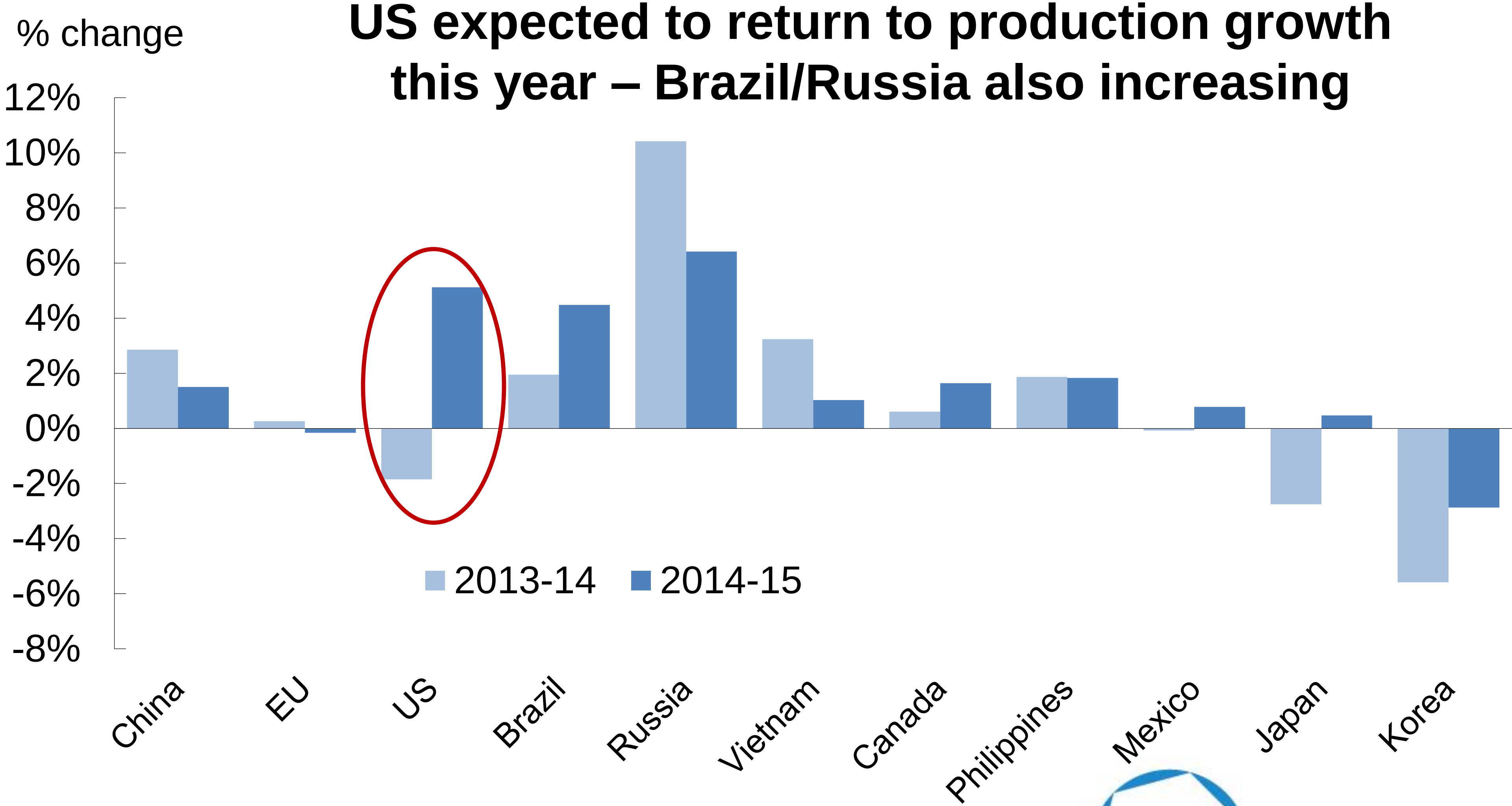


Chart: Estimated and forecast change in pig meat production
Source: USDA

Russian import ban means lots of pork needing to find a new home

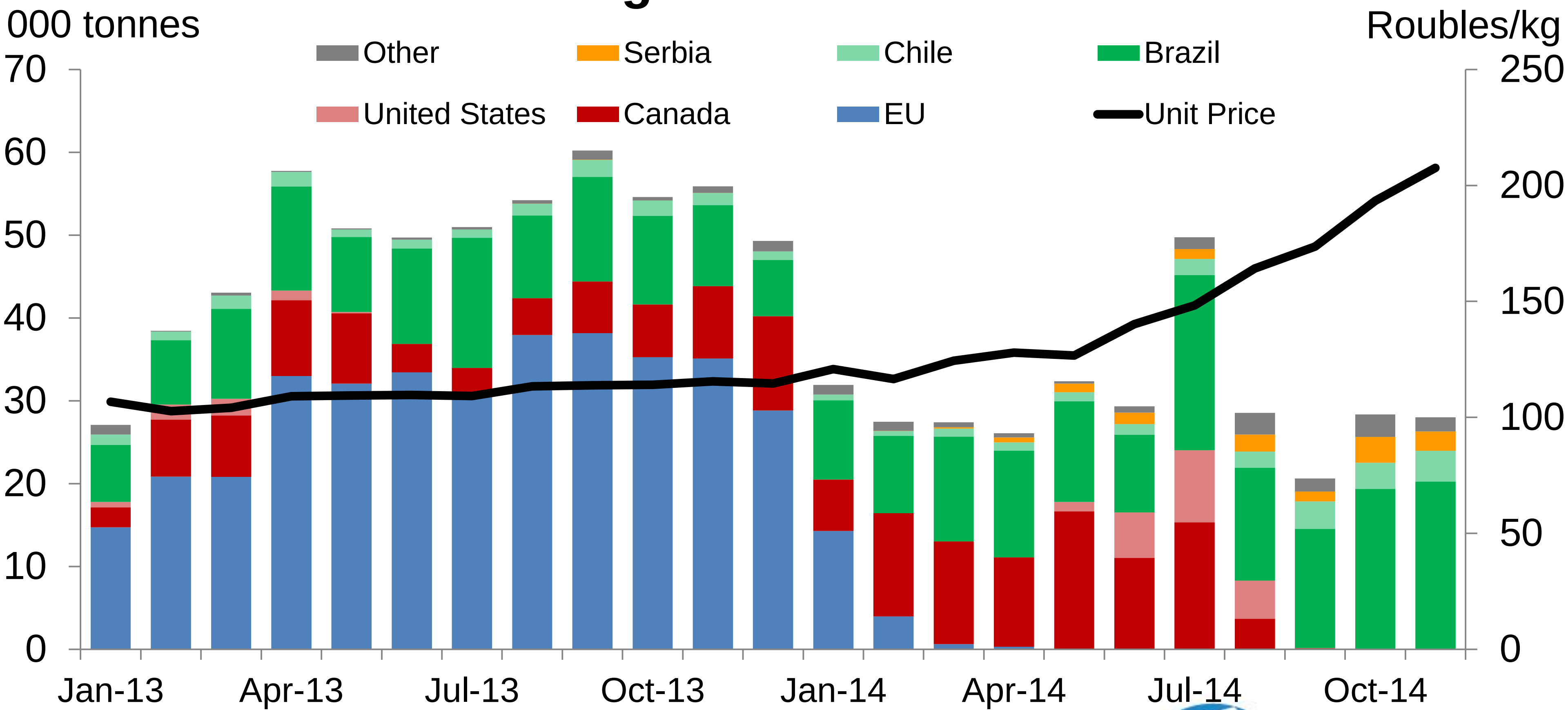


Chart: Russian imports of fresh & frozen pork by source
Source: Customs Committee of Russia

China main growth market for exporters this year but EU exports not likely to rise much

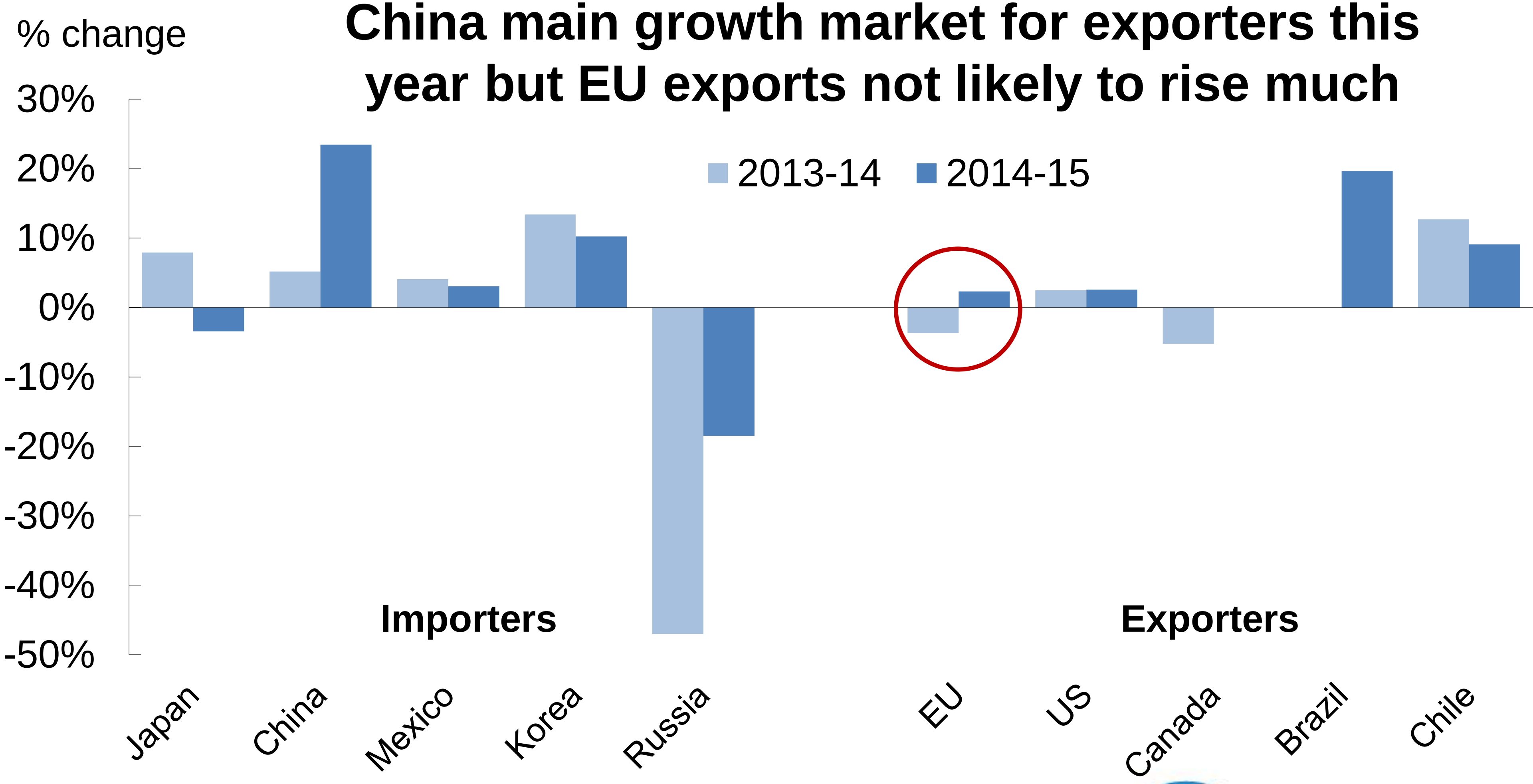


Chart: Estimated and forecast change in pig meat trade
Source: USDA

UK OUTLOOK

MORE OF THE SAME?

UK sow herd continues to decline but fall in June figures was probably too big

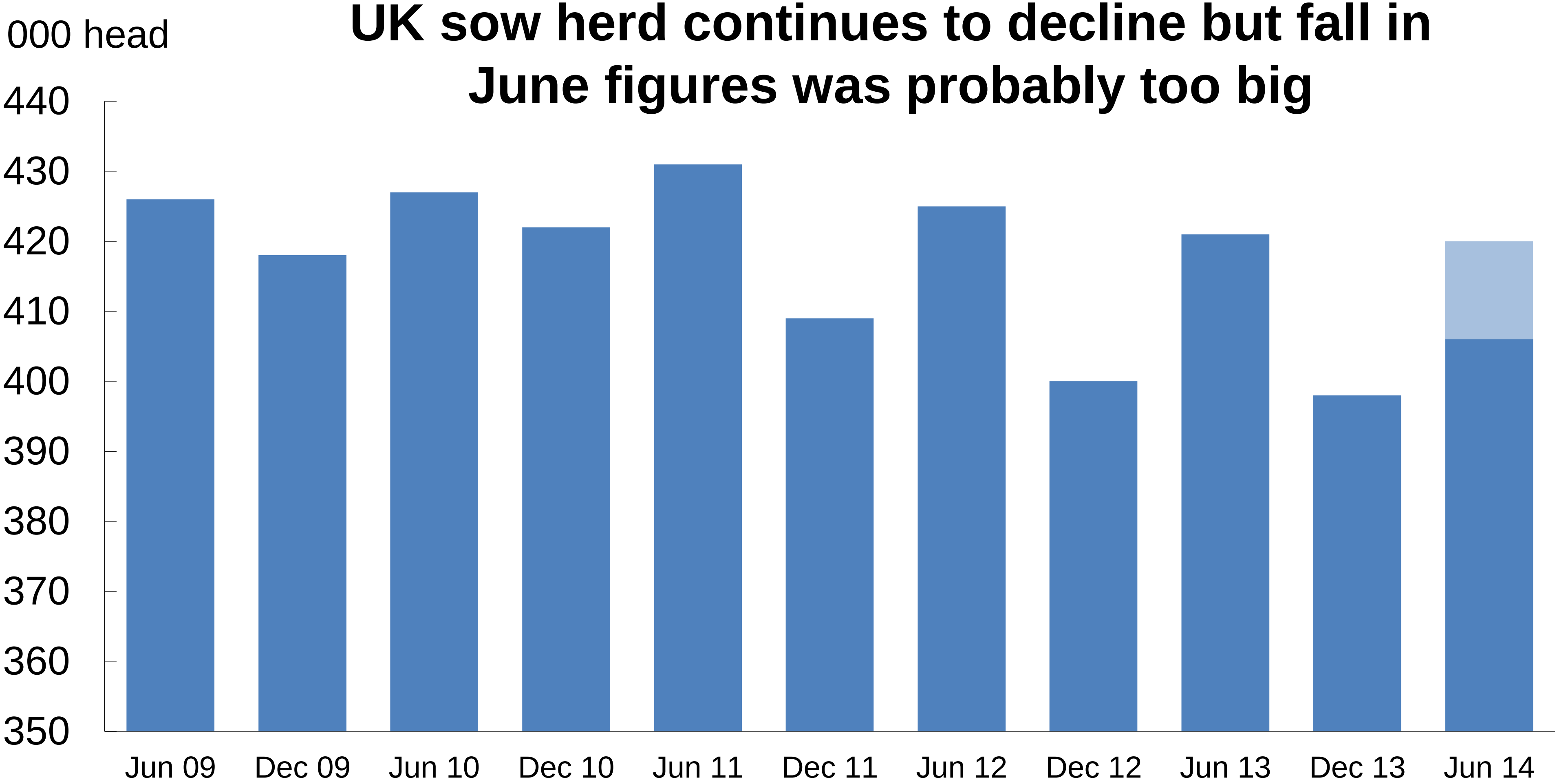


Chart: Number of sows and in-pig gilts on UK commercial farms
Source: Defra, DARD NI, Scottish Executive, Welsh Government

Indications are that breeding herd will be stable, at best, in the near future?

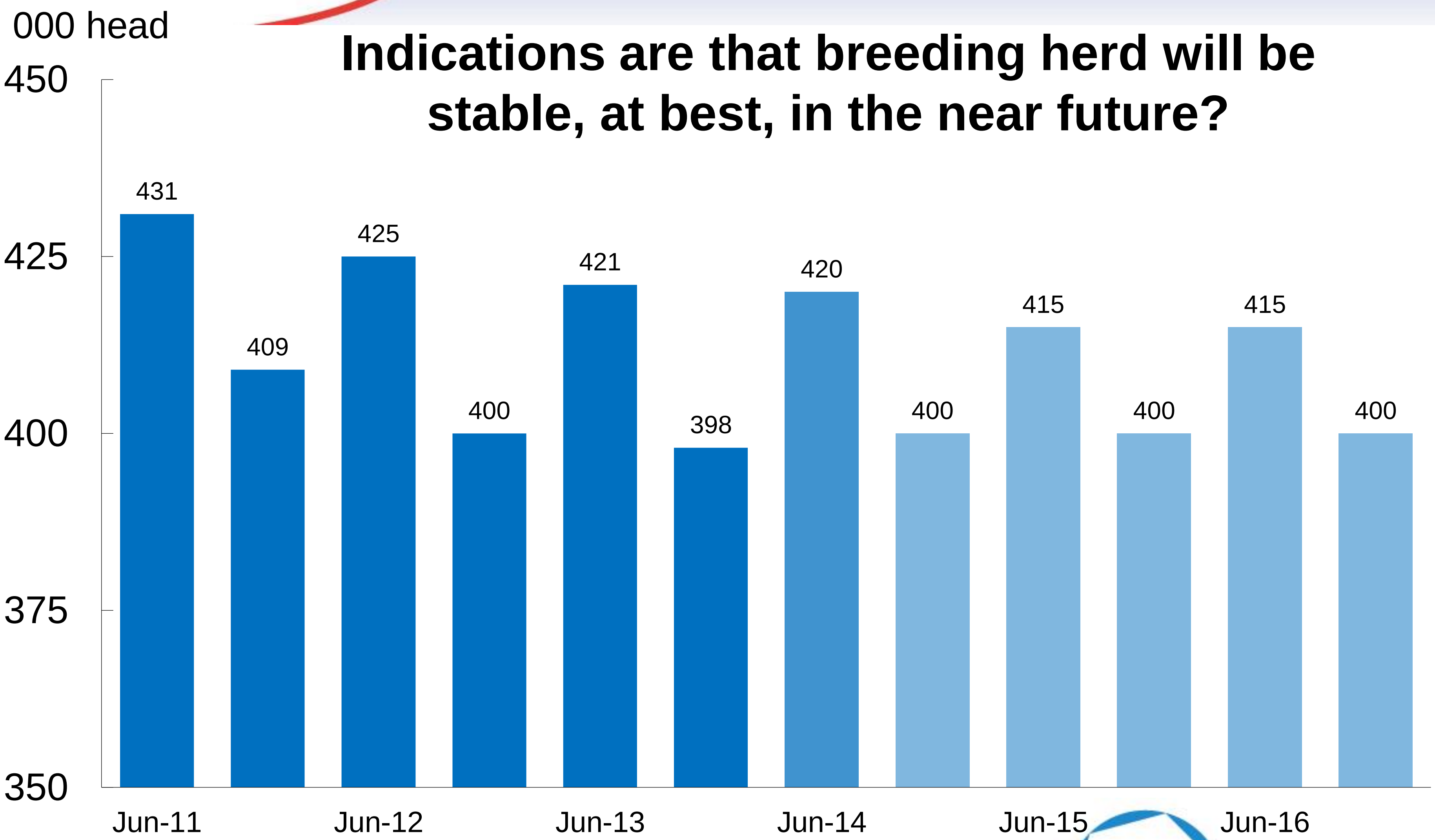


Chart: Actual & forecast figures for the size of UK sow herd
Source: DEFRA (Actual), AHDB Market Intelligence (Forecasts)

The consistent growth in productivity seems to be continuing – no reason to expect change

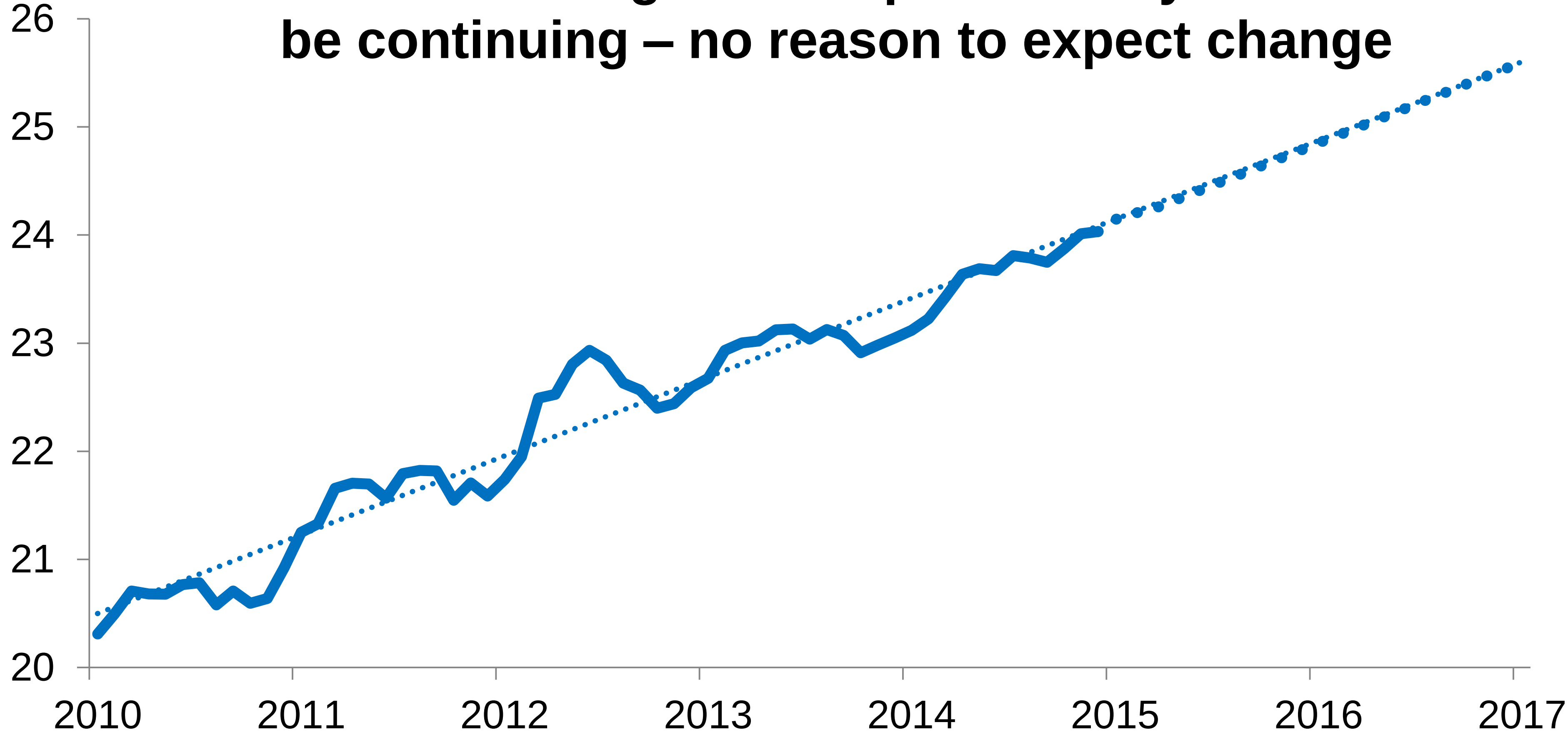


Chart: Number of pigs slaughtered per sow per year in the UK (deseasonalised and smoothed)
Source: AHDB Market Intelligence estimates based on DEFRA data

Slaughterings expected to rise again in 2015, with growth continuing the year after too

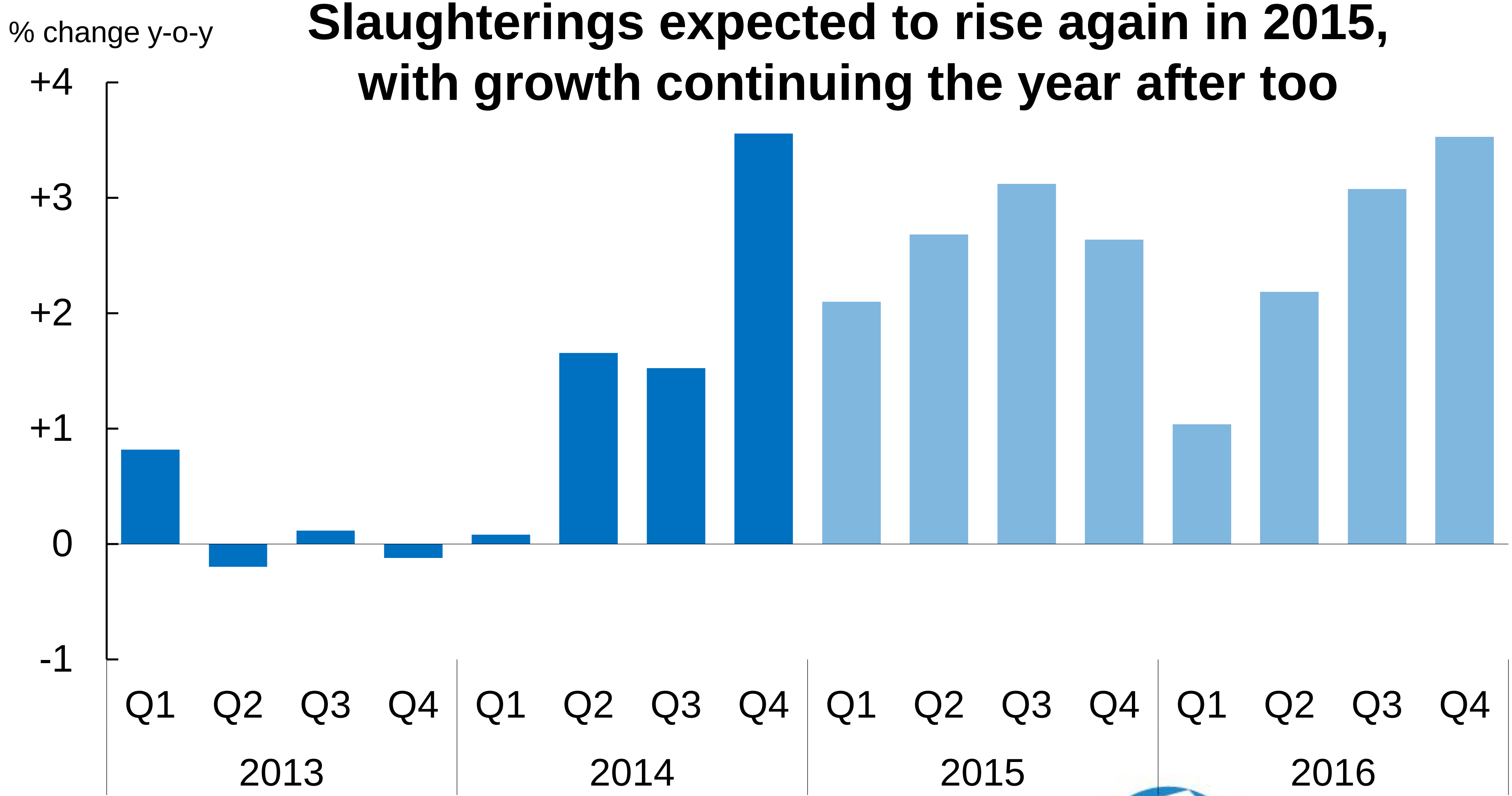


Chart: Actual & forecast year-on-year change in UK clean pig slaughterings
Source: DEFRA (Actual), AHDB Market Intelligence (Forecasts)

Upward trend in carcase weights to continue into 2015 but slowing down

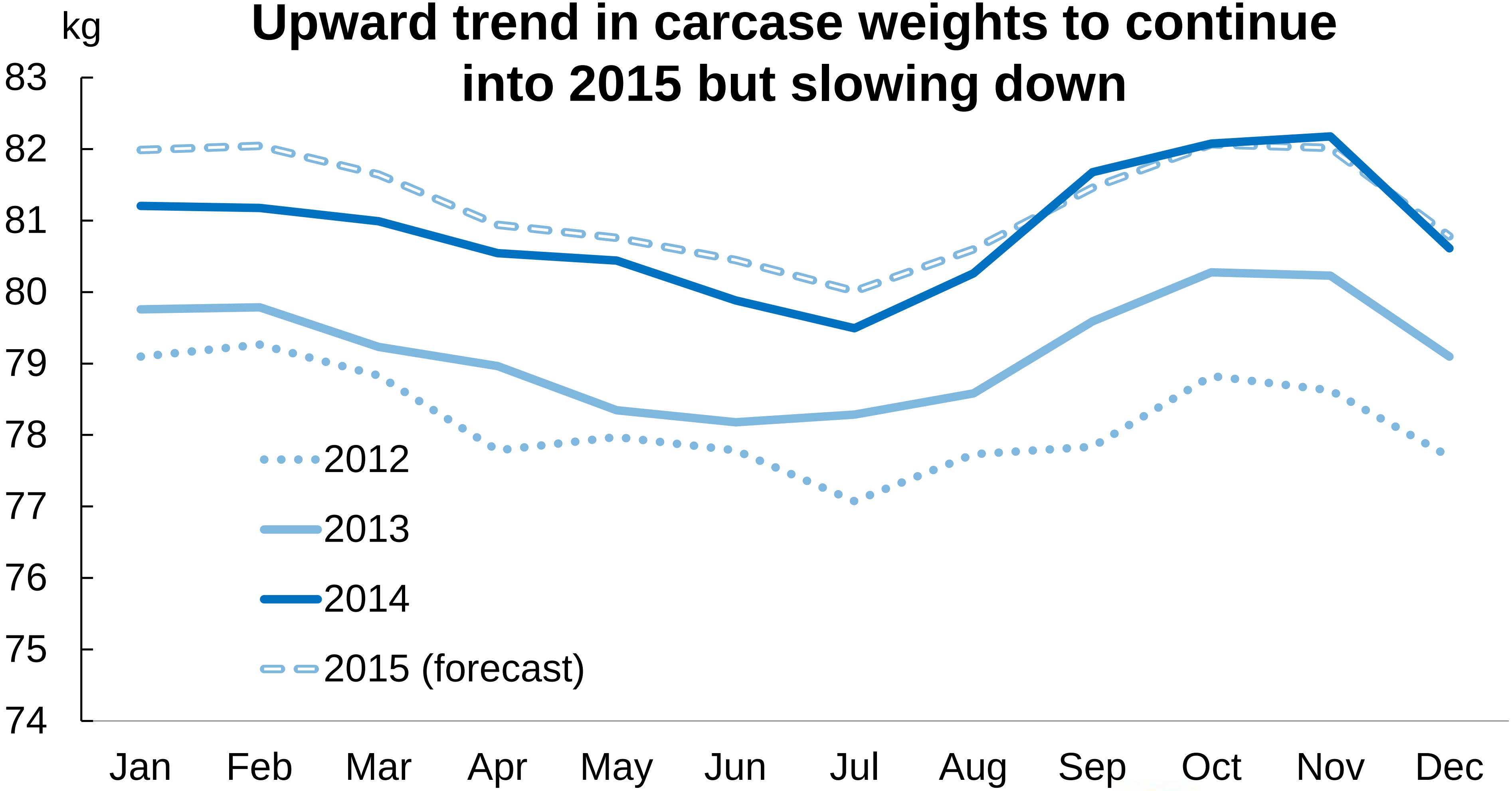


Chart: Actual & forecast UK clean pig carcase weights
Source: DEFRA (Actual), AHDB Market Intelligence (Forecasts)

Production forecasts largely mirror developments for clean pig slaughter

Chart: Actual & forecast year-on-year change in UK pig meat production
Source: DEFRA (Actual), AHDB Market Intelligence (Forecasts)

2013 was a year of tight supplies and higher prices

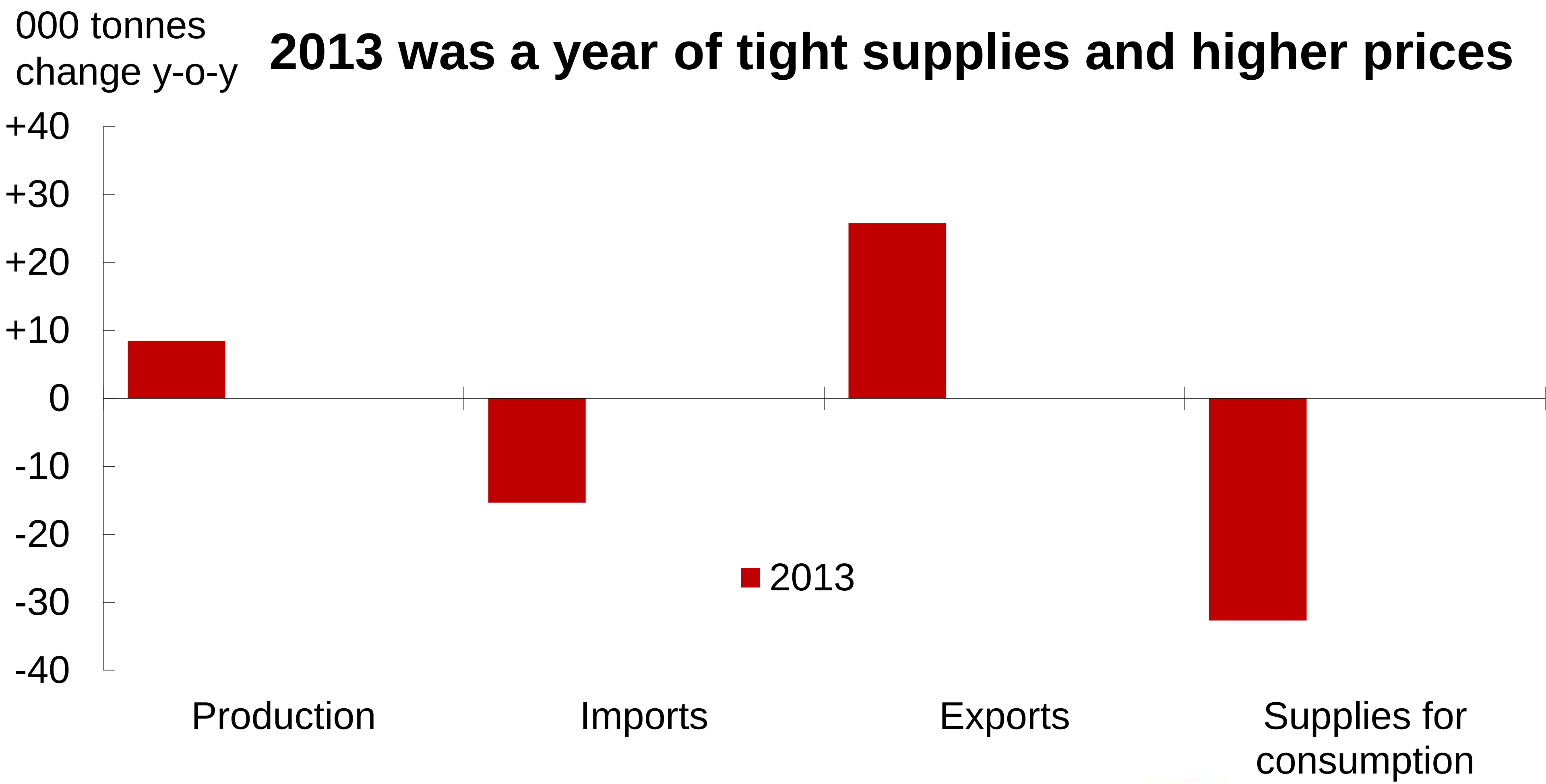


Chart: Actual and forecast year-on-year change in UK pig meat supplies
Source: Defra, HMRC, AHDB MI (actual), AHDB MI (forecasts)

In 2014, supplies were higher and prices lower

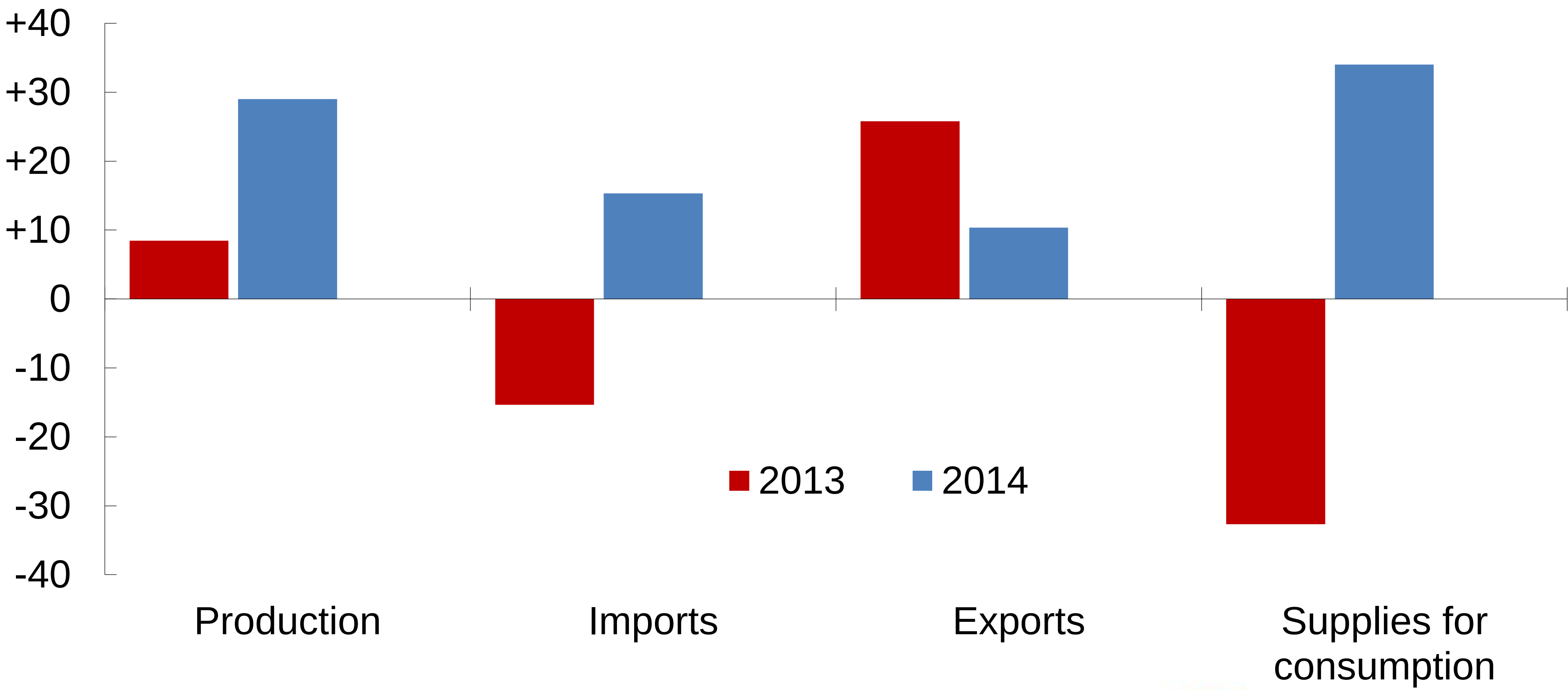


Chart: Actual and forecast year-on-year change in UK pig meat supplies
Source: Defra, HMRC, AHDB MI (actual), AHDB MI (forecasts)

Supplies are forecast to rise again in 2015 mainly due to increased production

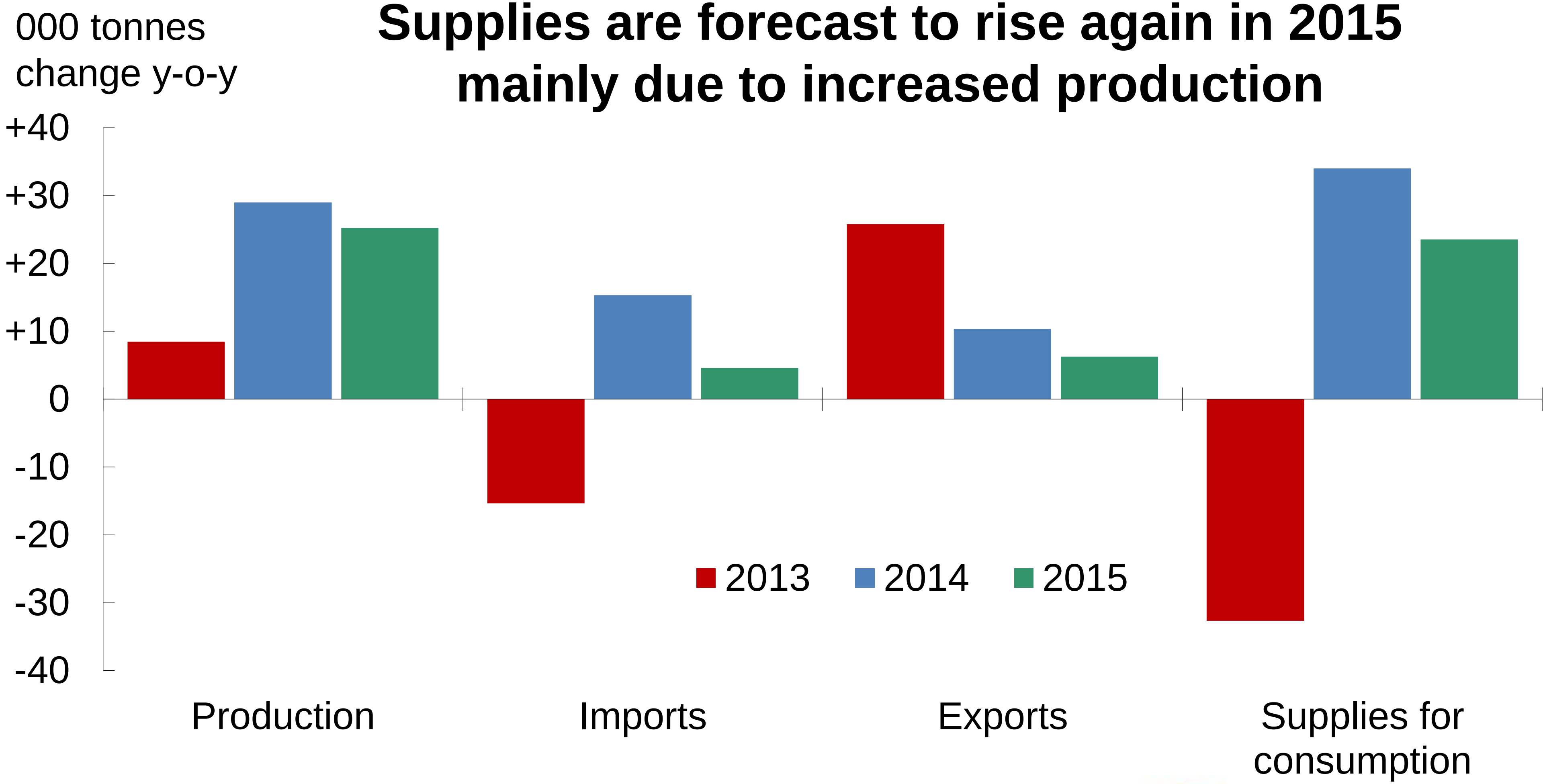


Chart: Actual and forecast year-on-year change in UK pig meat supplies
Source: Defra, HMRC, AHDB MI (actual), AHDB MI (forecasts)

Earnings growth above inflation for first time since 2009 – will it lead to more spending?

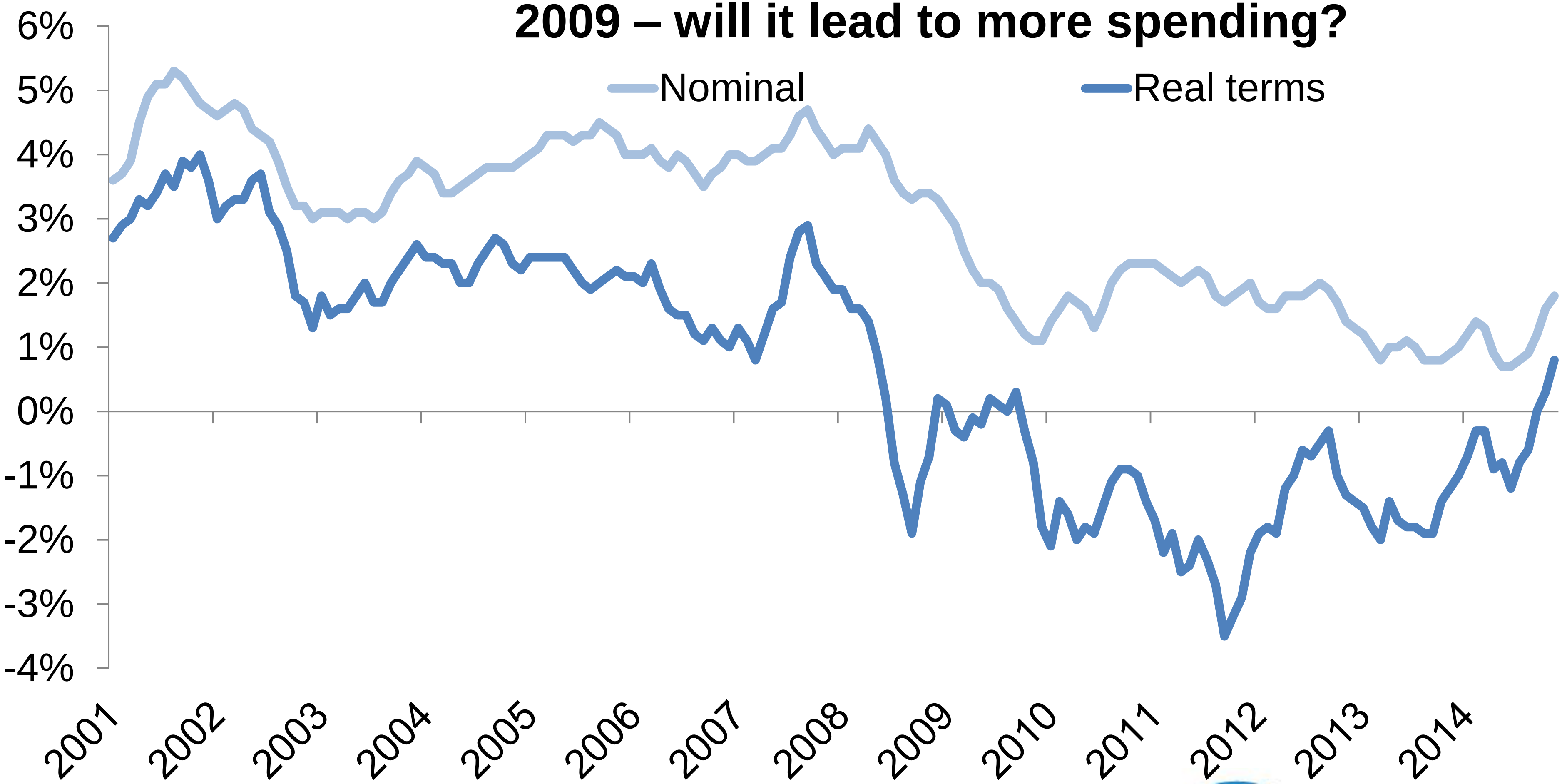


Chart: UK earnings growth in nominal and real terms
Source: Office for National Statistics

WILD CARDS

WHAT COULD CHANGE?

Supermarket commitment to British pig meat sourcing still strong but will it continue?

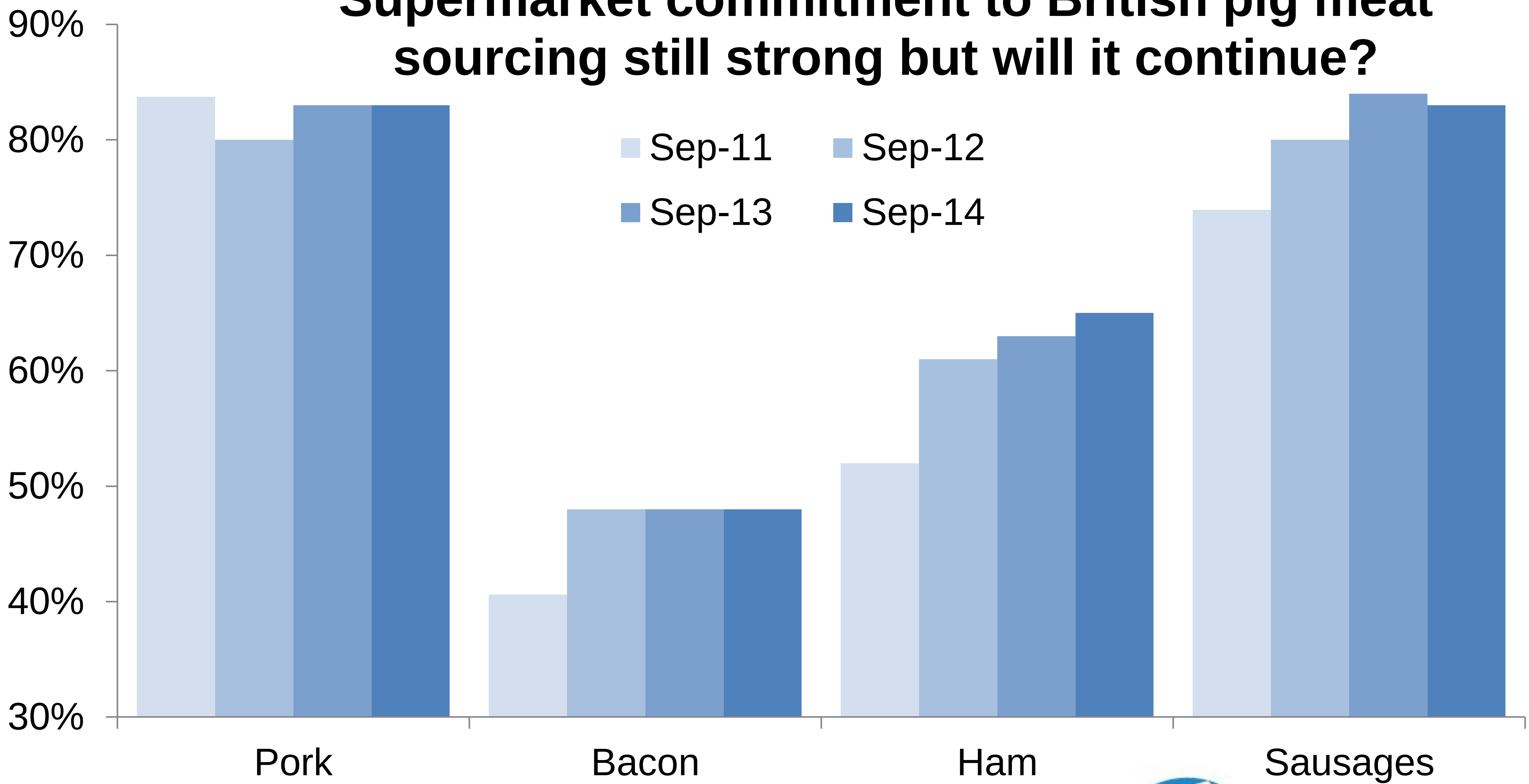


Chart: British share of facings in major supermarkets by category
Source: PorkWatch (AHDB/BPEX)

Stronger pound v euro makes exports less competitive and imports cheaper

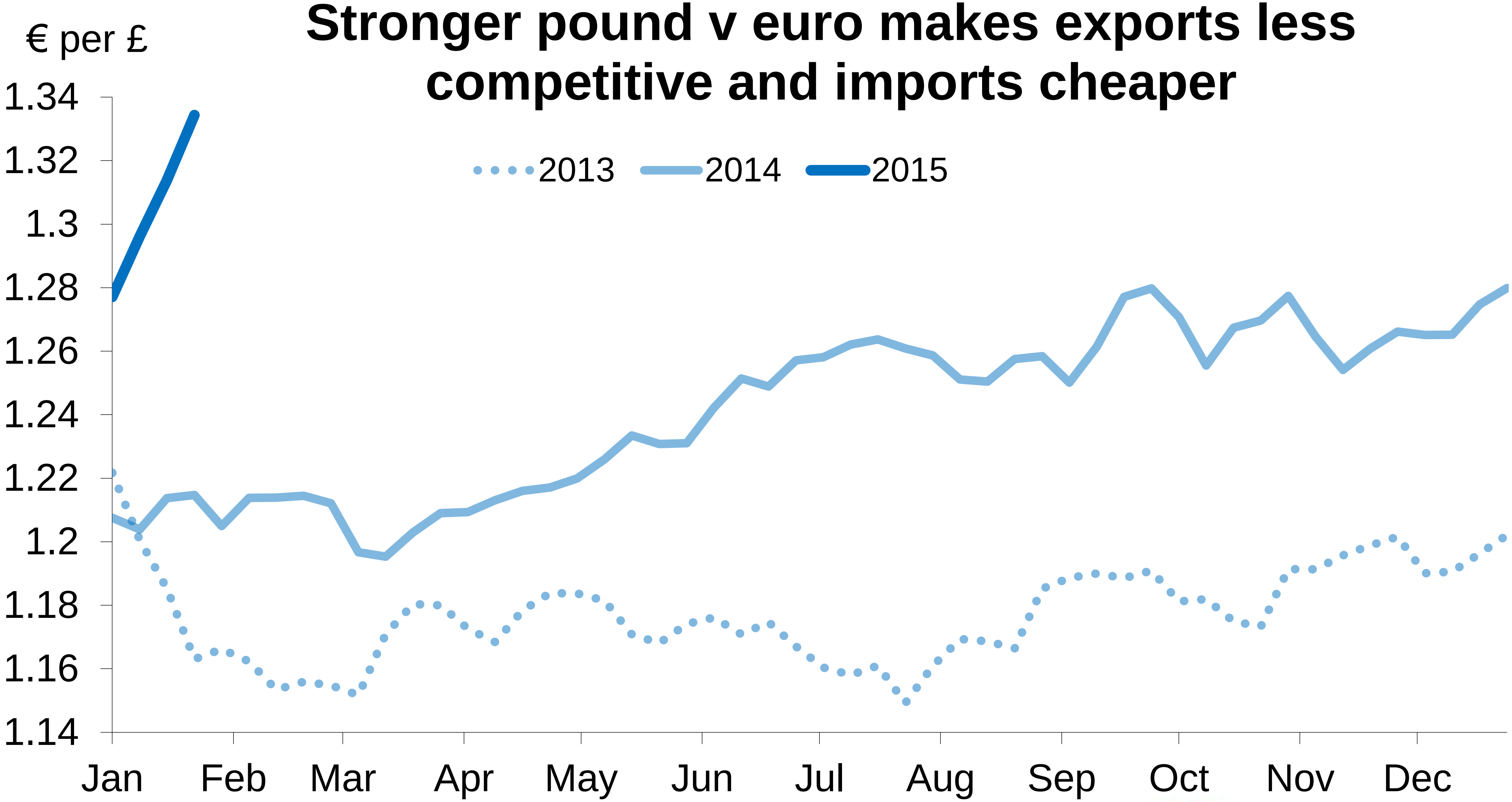


Chart: Exchange rate between UK pound and EU euro
Source: UBC Pacific Exchange Rate Service

Always a risk that feed prices will be volatile - prices for 2015 crop already higher than for 2014

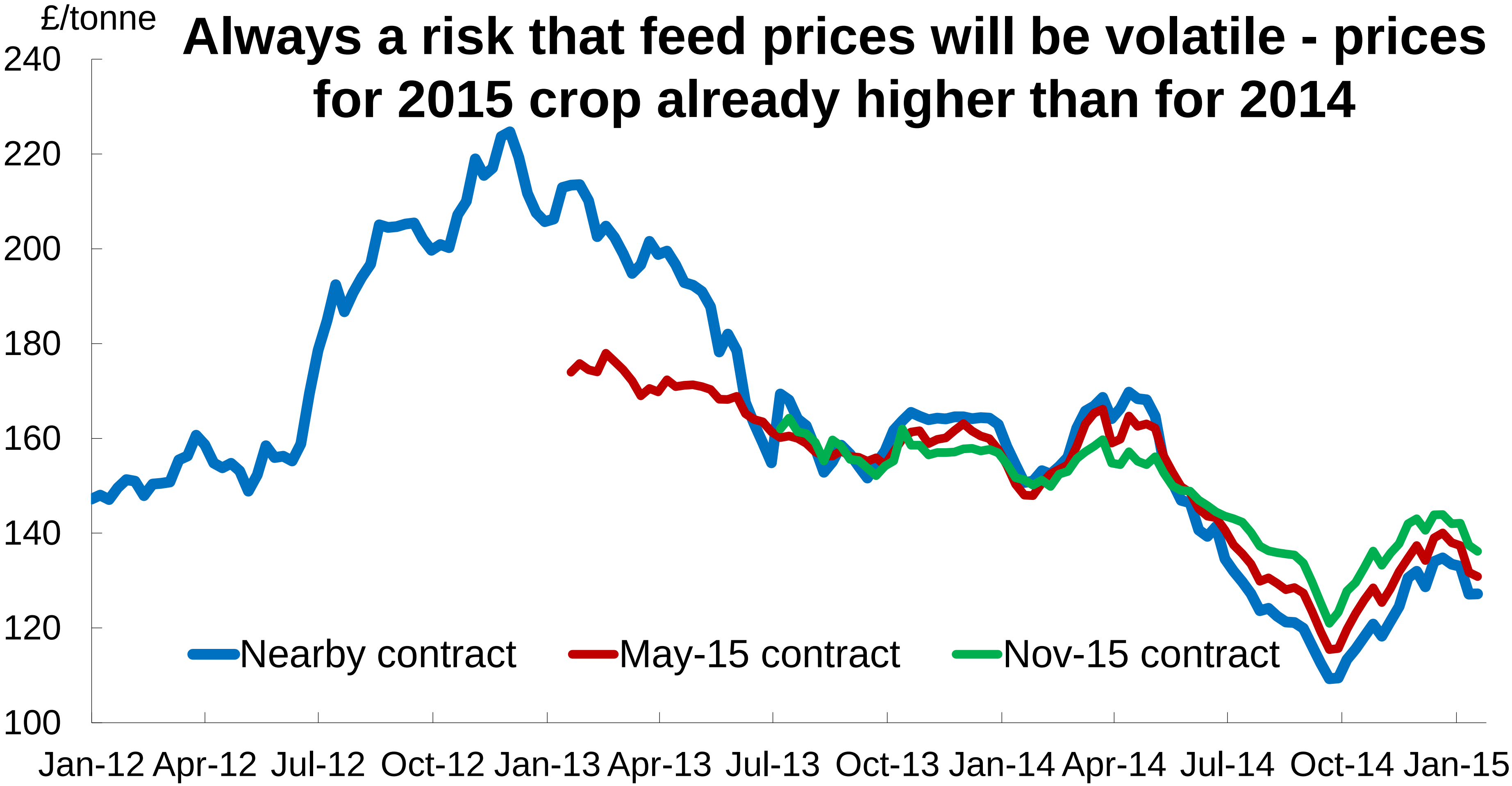


Chart: UK LIFFE feed wheat futures nearby, May-15 and Nov-15 contract prices
Source: HGCA

Disease risk high right now and impact could be big – US kill down by 5 million head last year

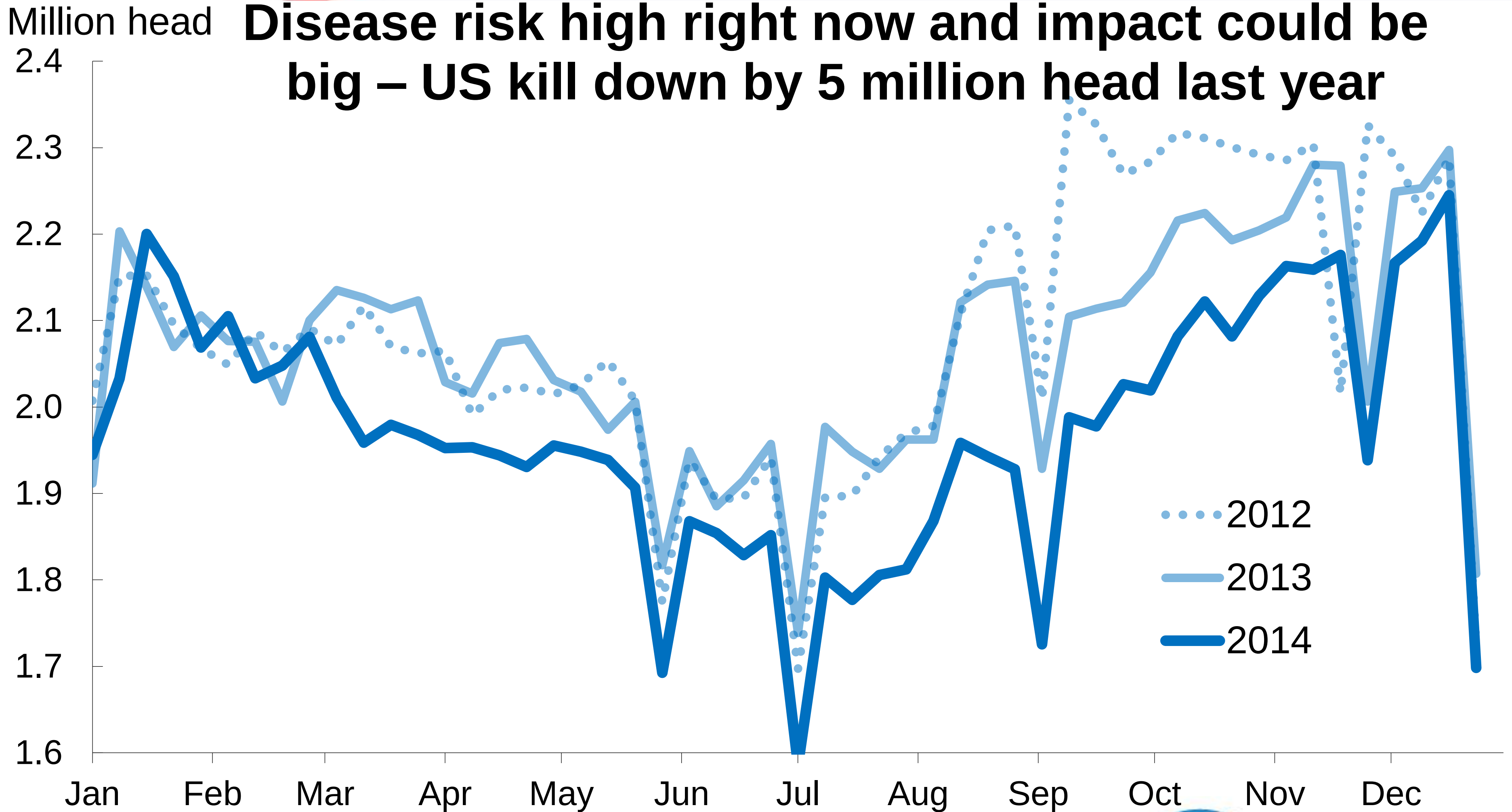
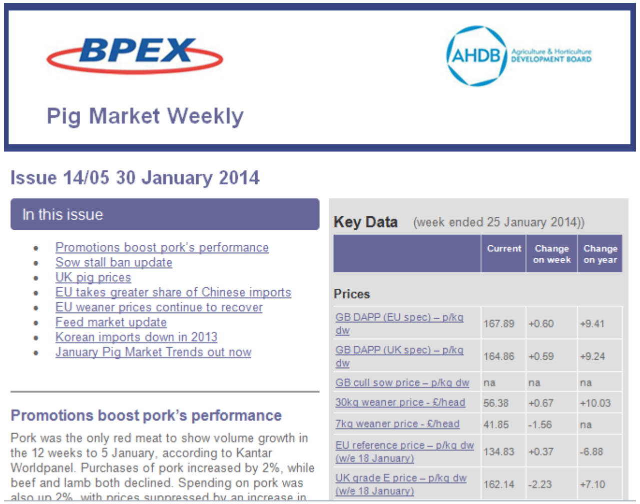


Chart: US barrow and gilt slaughter at federally inspected plants
Source: USDA

In summary…

- Supply ahead of demand in UK and EU last year, pushing prices down
- UK supply to remain strong in year ahead so demand will need to respond for prices to firm
- Global market more competitive this year as more US & Canadian pork available
- Risks include disease, retailer commitment, feed prices and currency

Thank You



BPEX

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Pig Market Weekly

Issue 14/05 30 January 2014

In this issue

- Promotions boost pork's performance
- Sow stall ban update
- UK pig prices
- EU takes greater share of Chinese imports
- EU weaner prices continue to recover
- Feed market update
- Korean imports down in 2013
- January Pig Market Trends out now

Promotions boost pork's performance

Pork was the only red meat to show volume growth in the 12 weeks to 5 January, according to Kantar Worldpanel. Purchases of pork increased by 2%, while beef and lamb both declined. Spending on pork was also up 2%, with prices suppressed by an increase in

Key Data (week ended 25 January 2014))

	Current	Change on week	Change on year
Prices			
GB DAPP (EU spec) – p/kg dw	167.89	+0.60	+9.41
GB DAPP (UK spec) – p/kg dw	164.86	+0.59	+9.24
GB cull sow price – p/kg dw	na	na	na
30kg weaner price - £/head	56.38	+0.67	+10.03
7kg weaner price - £/head	41.85	-1.56	na
EU reference price – p/kg dw (w/e 18 January)	134.83	+0.37	-6.88
UK grade E price – p/kg dw (w/e 18 January)	162.14	-2.23	+7.10

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