BPEX

AHDB Agriculture & Horticulture DEVELOPMENT BOARD

Pig Market Trends

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UK Census

English and Northern Irish pig numbers for June 2014 have now been published. The two regions account for over 90% of the total UK pig herd. The new figures paint a mixed picture. There was some positivity in the Northern Ireland pig industry, in contrast to the English pig sector which showed reductions in the herd. However, Northern Ireland's pig industry accounts for not much more than a tenth of the UK total, so the UK pig herd is likely to have declined slightly since June last year. To read more about the figures, turn to **page 4.**

Costs of production

Latest AHDB/BPEX estimates for the cost of pig production show that, on average, producers have now been making positive margins for over 12 months. The model also allows us to break costs down between breeding and feeding stages. Based on 7kg weaner prices, new analysis suggests that margins have generally been better for breeding than finishing in recent years. You can read more about production costs for different types of pig producer on **page 5**.

EU pig census

Figures from the May/June agricultural surveys carried out in the major EU Member States show an increase in the pig herd and, for the first time in nearly a decade, there was also an increase in the breeding herd. So, do the latest figures mark the end of the long-term decline of the EU breeding herd? You can find the answer to this question and read more about the figures and what they could mean for the EU pig market on **page 7**.

Global pork trade

The global pork trade has been through a turbulent period during the last few months. Disease issues, restrictions relating to the use of feed additives and, more recently, international geopolitics, have all caused disruptions. Nevertheless, despite relatively tight supplies and significantly higher prices, the amount of pork traded during the first half of 2014 was higher than a year earlier. To read about recent developments and prospects for the coming months, turn to **page 8**.

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Key data

	Aug-14	Change since Jul-14	Change since Aug-13
GB DAPP (Euro-spec) – p/kg dw	158.31	-3.19	-9.59
Average GB carcase weight – kg	79.40	+0.45	+0.27
30kg weaner price - £/head	53.38	-2.64	-0.28
7kg weaner price - £/head	39.24	-0.95	-1.85
GB APP (Euro-spec) - p/kg dw	160.63	-3.04	na
GB SPP (Euro-spec) - p/kg dw	158.13	-3.35	na
EU Reference price – €/100kg dw	164.80	-4.71	-25.27
UK Reference price – €/100kg dw	192.73	-5.34	+2.02
UK weekly clean pig kill – 000 head	194.0	-0.0	+1.5
UK weekly pig meat production – 000 tonnes	16.2	+0.1	+0.3
UK pork imports – 000 tonnes*	31.5	+1.9	+2.6
UK bacon imports – 000 tonnes*	22.2	+1.4	+1.7
UK pork exports – 000 tonnes*	16.4	+1.0	+1.4
Retail pig meat sales – 000 tonnes†	52.0	-0.3	+1.8
LIFFE feed wheat futures - £/tonne	122.29	-7.05	-34.43
CBOT Soyameal futures - $/tonne	406.26	-2.90	-22.17

** Figures relate to July 2014*
† Figures include household purchases of pork, bacon, sausages and ham and relate to 4 weeks to 17 August 2014

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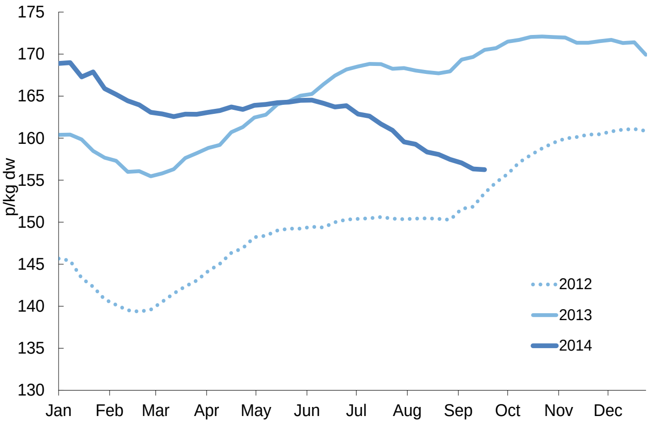
UK Market Snapshot

The EU-spec DAPP for August averaged 158.31p per kg, down by over 3p on the month before. This was the lowest monthly average since March 2013. The downward trend in EU pig prices, coupled with higher supplies and subdued demand on the UK market contributed to the recent softening in pig prices. As prices continued to decline in August, the annual gap widened to 10p below 2013 levels. In the last two years, prices have picked up from September onwards but this hasn't yet happened this year. As a result, by the week ended 20 September, the EU-spec DAPP had fallen to 156.25p per kg.

GB finished pig prices (DAPP)



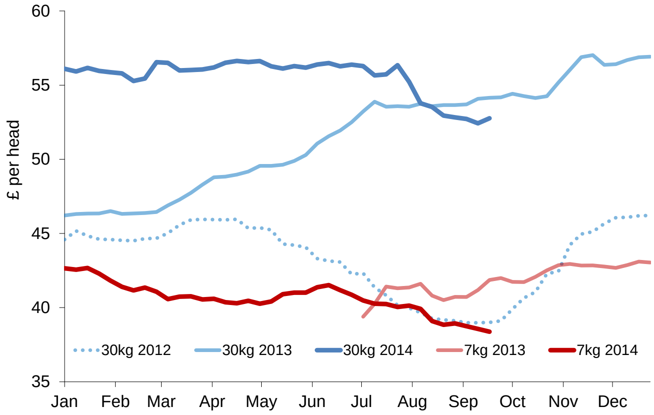
Source: AHDB Market Intelligence

The GB SPP for the same month fell to 158.13p per kg, down by 3p on a month earlier and the lowest quotation since the start of the series in April. The monthly average for the GB APP came down to 160.63p per kg.

The average weight of pigs in the DAPP sample in August rose to 79.40kg, up by 450g on the month before. This was the first increase in carcase weight since March, in line with the normal seasonal trend. Somewhat cooler temperatures lately have added to the good conditions for weight gain, with lower feed prices also encouraging producers to market pigs at heavier weights. There have also been reports of some pigs being rolled due to low demand from processors. Partly as a result of this, the average probe measurement increased to 11.2mm, up by 0.2mm from a month earlier and 0.1mm higher than in August 2013.

The 7kg weaner market reached a low point for the year so far at in August at £39.24 per head. At this level, prices for the 7kg weaners were around £2 below the same month in 2013. The 30kg weaner price for August also fell, to £53.38 per head. This was almost £3 lower than the previous month and marginally lower than August 2013. This indicates that producer intentions may have been influenced by the recent falls in pig prices, despite the lower feed costs. Reports also suggest a shortage of finishing accommodation due to rising productivity may be limiting demand for weaners.

GB weaner prices

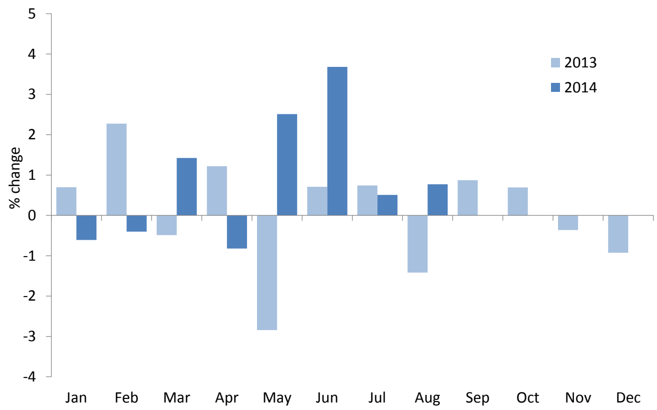


** prices after Nov 2013 are 3-week rolling averages*

Source: AHDB Market Intelligence

Defra figures for August show a 1% increase in clean pig slaughterings compared with a year earlier, to 775,800 head. This was largely a result of a 1% rise in throughputs in England and Wales. Scottish clean pig slaughterings were up by 4,000 head, which helped to offset the impact of a fall in the Northern Ireland kill (down by 5,000 head). As such, supplies in the UK for the first eight months of this year remained around 1% above last year's level for the same period.

Annual change in UK clean pig slaughterings



Source: DEFRA

At, 17,400 head, UK cullings of adult sows and boars fell by 7% in August, compared with the same month in 2013. This was the largest decline since the start of the year, which could suggest positive producer intentions, encouraged by the recent declines in feed prices. However, with cull sow prices subdued, it may just indicate a lower rate of replacement. For the year so far, sow and boar slaughterings came down by 4% compared with the January to August period in 2013. The average monthly clean pig carcase weight edged up to 80.3kg in August, which widened the annual difference to almost 2kg above 2013 levels.

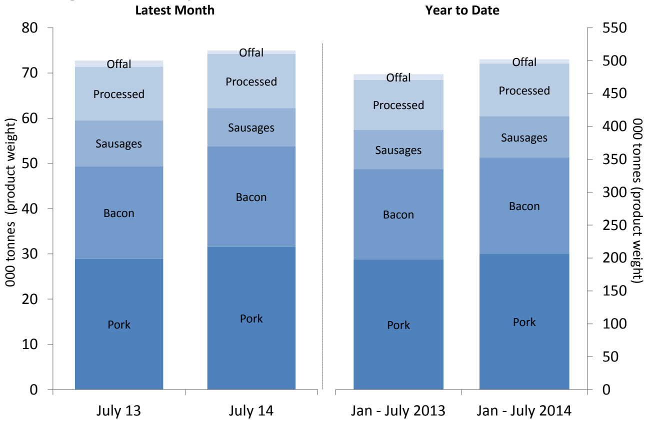
Given the higher supplies and increased carcase weights, total pig meat production in August reached 64,700 tonnes, 2% higher than the same month in 2013.

More pork and bacon entered the UK from overseas during July 2014 than a year before, according to latest

UK Market Snapshot

figures from HMRC. This added downward pressure on pig prices when combined with increased UK supplies. During the month, 31,500 tonnes of fresh and frozen pork were imported, which was 9% more than last July. Supplies from Denmark, the leading supplier, were up 20% but there was a particularly notable increase in French pork volumes, which were more than double last year's level. This made France the third largest supplier in the month – it normally ranks fifth or sixth. In contrast, imports from Germany and Ireland were lower on the year. Bacon and ham imports were also up 9% year on year, with growth from all the major suppliers. Processed hams were also shipped in slightly higher volumes but there was a drop in sausage imports on the back of sharp falls in volumes from the Netherlands and Poland.

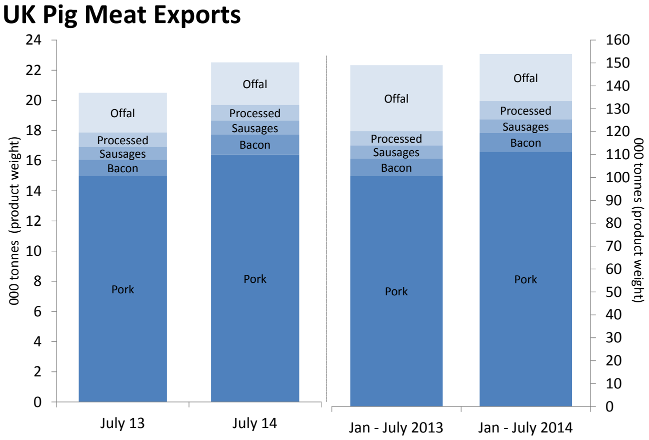
UK Pig Meat Imports



Source: Her Majesty's Revenue & Customs

Pork exports also continued to grow in July, with shipments up by 9%, in line with the trend in the first half of this year. Once again, growth was led by China, with shipments up by more than half compared with July 2013, at 3,000 tonnes. Although much smaller in scale, there was also strong growth in trade with several other Asian markets; the Philippines, Japan and South Korea all took more than twice as much UK pork as last year. In contrast, exports to the rest of the EU were slightly lower than a year before. Lower prices meant that the value of exports during the month was only 4% up on the year, at £18.7 million pounds.

UK Pig Meat Exports



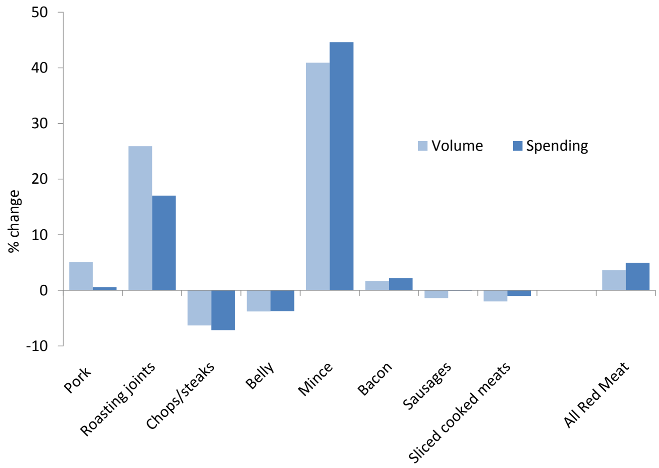
Source: Her Majesty's Revenue & Customs

Unlike most of the year to date, offal exports were also higher than a year before in July. However, this is mainly because shipments to the EU had already fallen away by this time last year, rather than there being any short-term improvement in trade. China/Hong Kong remains the dominant market, with a 60% share of exports, with shipments up by nearly half.

Shoppers' spending on pork was up 1% year on year during the 12 weeks to 18 August, according to the latest Kantar Worldpanel data. The average price for pork was down just over 4%, which helped consumers to increase the amount they purchased per shop. As a result, volumes were up some 5% year on year.

Pork mince continues to show strong growth, especially in the hard discounters, but consumers also bought a lot more roasting joints this period and, as a result, they accounted for almost a third of total pork sales. Indeed, all the main roasting joints achieved annual growth in excess of 20%, with shoulder the best performing cut. Nearly two-thirds of the actual growth in the amount of pork purchased came in the final 4 weeks, which would appear to have been driven by a promotion in one of the Big 4 Multiples. This provided vouchers offering £5 off when £10 was spent on meat and fish, which consumers could use in conjunction with their 3 for £10 offer. By contrast the amount of pork belly and chops/steaks purchased fell in the period.

Annual percentage change in retail meat purchases (12 weeks to 18 August 2014)



Source: Kantar Worldpanel

Spending on sausages was flat over the latest period, compared to a year ago, as a small increase in prices was matched by an equal fall in the amount consumers bought. The standard sector remains in growth but gains were offset by falling purchases of the premium sector, where average prices rose just over 5%. Shopper spend on ham was marginally down, though the hard discounters continue to perform well. Bacon fared better, with both expenditure and the amount purchased up by some 2%, with the hard discounters driving the growth.

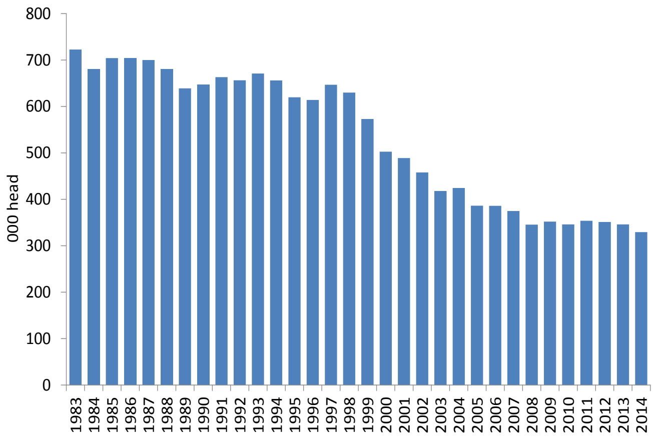
UK Market Analysis

Smaller English herd but expansion in Northern Ireland

English and Northern Irish pig numbers from the June 2014 Agricultural Survey have now been published. The two regions account for over 90% of the total UK pig herd. Scottish and Welsh pig numbers will be published later this year. The new figures paint a mixed picture. There was some positivity in the Northern Ireland pig industry, in contrast to the English pig sector which showed reductions in the herd. However, Northern Ireland's pig industry accounts for not much more than a tenth of the UK total. As such, judging from the figures available so far, the UK pig herd is likely to have recorded a small decline since June last year.

Latest figures published by Defra recorded the smallest English female pig breeding herd in around 60 years, at 329,000 head. This was 5% down compared with the same point in 2013. Despite improving profitability recently, producers were previously in a loss making situation for several years. The industry as a whole has not completely recovered from the losses incurred during that period, despite costs falling below pig prices. As a result, the latest female breeding herd figures reflect producer reluctance to make further investments in expansion at this stage.

Trends in English female breeding herd



Source: Defra

In contrast to the English pig sector, Northern Ireland reported a 3% year-on-year increase in the female breeding herd, at 43,900 head. With Northern Ireland largely dependent on imports of feed, the recent fall in global prices is likely to have encouraged producers in the region.

Northern Ireland figures do not distinguish between in-pig and other (suckling or dry) sows but English figures for sows in-pig showed a 2% reduction on the year earlier. This suggests that the number of piglets born over the summer may have been somewhat constrained. Consequently, supplies available for slaughter may tighten towards the end of the year and early next year, relative to 12 months before. Updated forecasts for UK supplies will be published in next month's Pig Market Trends.

Both the English and Northern Irish figures shared a similar trend of a reduction in the number of maiden gilts recorded. Given the subdued pig market of late, producer intentions going forward may be more cautious. Low cull sow prices will also have reduced replacement rates to some extent. As finished pig prices have fallen steadily since June and EU pig prices have also been subdued, producers in the UK are unlikely to have become any more positive. This all suggests that any significant expansion of the UK breeding herd is unlikely in the near future.

Feeding pig numbers also recorded contrasting trends for England (down 2%) and Northern Ireland (up 10%). Improvements in productivity were the key driving factor behind the fast rate of increase in Northern Ireland but imports of pigs from Ireland for finishing north of the border was also a contributing factor. Given a 3% increase in the Irish breeding herd in the year to June, imports may continue on an upward trend.

The number of feeding pigs in England declined by 2% compared with June 2013. However, it is worth noting that last year's figure was particularly (and unexpectedly) high and the increase was not reflected in subsequent slaughterings. In fact, the overall pig herd this year was 8% higher than that recorded for June 2012, which could be a better representation of the general trend in English pig numbers. Despite the lower breeding herd, productivity is pushing the overall pig herd to higher levels.

Scottish figures are due to be published in early October, with provisional UK ones out later in the month. The Scottish pig herd has declined sharply in recent years, with the closure of Halls of Broxburn plant in late 2012 reducing slaughter capacity. However, December figures showed a small increase in the Scottish breeding herd which may indicate the start of a recovery. Nevertheless, given the relatively small size of the Scottish herd, this is unlikely to be sufficient to offset the drop recorded in the English figures. The Welsh herd is even smaller and any changes in its size will have minimal impact on the overall UK position.

Pigs on English and Northern Irish Farms - June

	England			Northern Ireland		
	2013	2014	% Change	2013	2014	% Change
Total pigs	**4066**	**3954**	**-3**	**480**	**526**	**+9**
Breeding pigs	**434**	**411**	**-5**	**48**	**50**	**+3**
Sows	293	284	-3	36	37	+3
In-Pig gilts	53	46	-13	6	7	+3
Maiden gilts	75	70	-7	5	5	-2
Boars for service	13	12	-6	1	1	0
Fattening pigs	**3632**	**3542**	**-2**	**432**	**476**	**+10**

Source: Defra, DARDNI

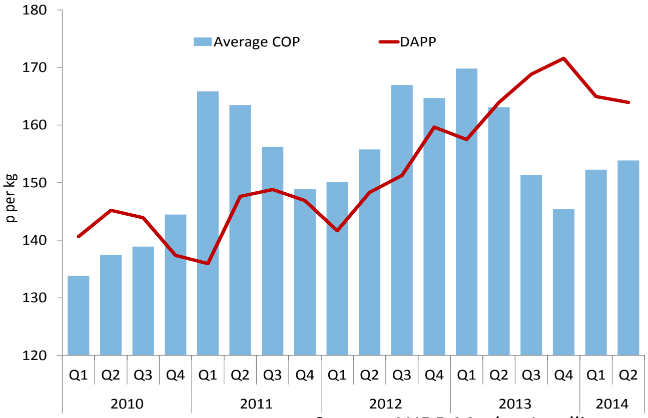
UK Market Analysis

Margins remain positive for most pig producers

Latest AHDB/BPEX estimates show that the cost of pig production in the second quarter of 2014 averaged 154p/kg. At this level, costs averaged around 10p per kg below the DAPP during the quarter, equivalent to a profit of £8 per pig. Feed made up around 60% of total costs, lower than the share when feed prices were at their peak.

Producers have now been making positive margins for over 12 months. With feed prices having fallen further since June, costs in the third quarter are likely to be lower still so, despite the recent fall in pig prices, most producers should still be making positive margins. The production cost model assumes a sustainable level of investment, with buildings and equipment updated regularly. As such, the current estimates suggest that there is scope for producers to make a profit, even after such investments are taken into account.

Total cost of pig production compared with pig prices



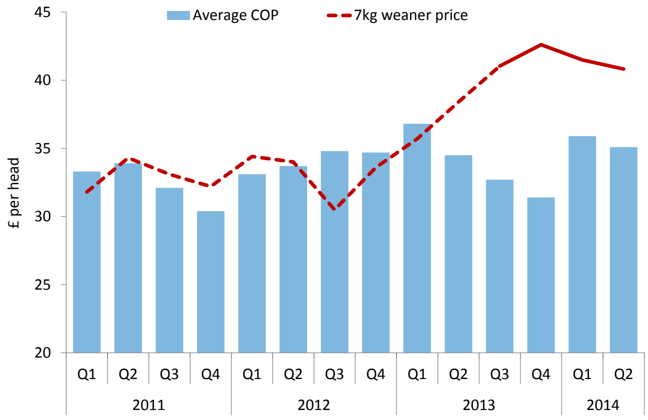
Source: AHDB Market Intelligence

Although some changes in the model mean that the latest estimates are not directly comparable with earlier years, it is clear that costs are lower than for most of the last three years. However, they haven't yet returned to the levels recorded up to 2010. As such, it would only take a relatively modest rise in feed prices or fall in pig prices for margins to be squeezed significantly.

The overall cost of production estimate covers the whole pig production cycle, from service to slaughter. However, the model also allows us to look at different production stages. For example, we can isolate the costs associated with breeding, allowing us to estimate the cost of producing a weaned piglet. In the second quarter of 2014, this was around £35 per head. This figure has varied less over time than the overall cost of production. This is partly because feed, the main source of volatility in the estimates, makes up a lower proportion of costs at this stage, around 37% in the most recent quarter. Although the latest figures appear to be higher than previously, this is largely down to a change of methodology.

This estimated cost of piglet production is currently below the average price for a 7kg weaner, which is around £40 per head. This suggests pig breeder margins are also positive. Since 7kg weaner prices have only been collected since last year, we can't be certain about margins before that. However, based on trends in 30kg weaner prices, it is likely that breeders were losing money when feed prices were at their highest in 2012-13. Nevertheless, even then, margins may not have been as bad as for farrow to finish producers.

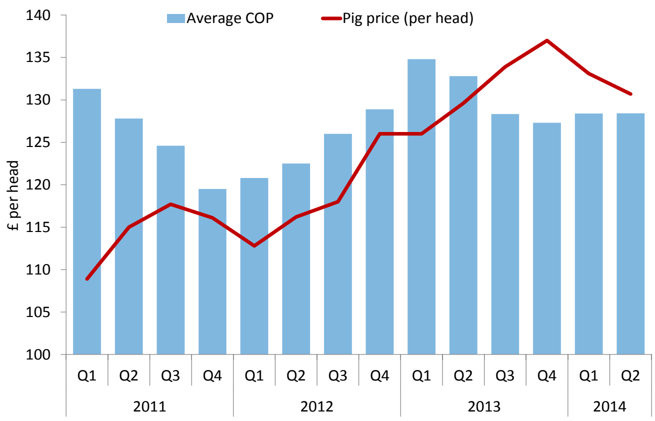
Total cost of piglet production compared with weaner prices



Source: AHDB Market Intelligence

The model estimates that the cost of raising a pig from weaning to finish averaged £88 per head in the second quarter of 2014. This means that the total cost to a finisher buying in weaners at 7kg would have been about £128 per head. This compares with an average sale price of £131 per head, based on the DAPP and average carcase weight for the quarter. This suggests that, for the moment at least, finishers are also able to make a modest profit, although it wouldn't take much to tip the balance against them.

Total cost of raising pig from wean to finish compared with pig prices



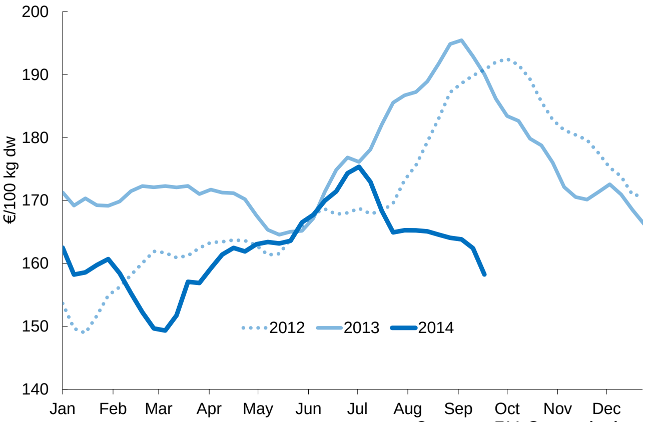
Source: AHDB Market Intelligence

The cost estimates show that, although pig producer margins remain positive, even relatively small movements in pig or feed markets could wipe out any finisher profits. Movements within the range seen in recent years could return farrow to finish or breeding producers to deficit. With market volatility likely to be here to stay, producers should consider whether and how they can use the current favourable position to limit the impact future volatility could have on their businesses.

EU Market Snapshot

The EU pig price average for August fell for the second consecutive month to €164.80 per 100kg. This was down €25 per 100kg (13%) compared with the same month in 2013. While pig prices globally have risen, this was not evident in the EU. The slowdown in European prices is a function of market imbalances, with rising supplies outstripping subdued demand, partly due to the Russian ban on EU pork imports. The gap between EU and UK pig prices stood at €27 per 100kg. Having been stable through August, EU prices began to fall again in September as pig supplies rose further following reportedly good growing conditions this summer.

EU Average Pig Reference Price



Source: EU Commission

Amongst the key markets, the year-on-year decline in pig quotations was sharpest in Spain and Belgium, where prices were down by €32 and €29. This was followed by the Netherlands and France, where pig quotations fell by €26. Higher supplies in Germany pushed prices down in the latest month, falling €23 below last year's level, while Danish prices were €16 lower. Ireland was the only notable producer to record an annual increase in price. However, even there, pig prices have fallen by €8 in the latest month.

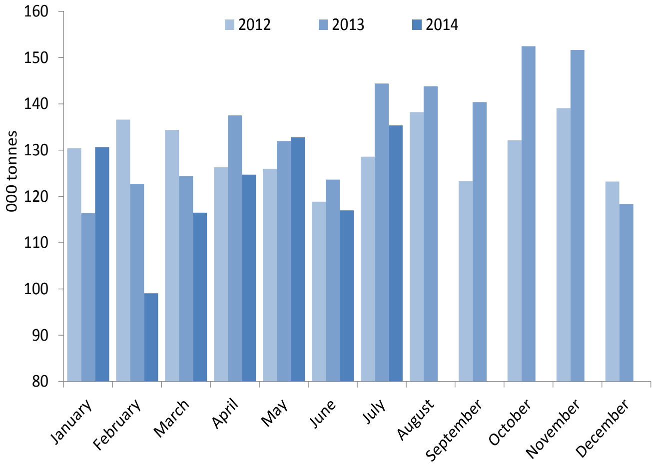
EU pig slaughtering trends

Source: Eurostat

With an extra working day in the month this year, EU pig slaughterings in June were 2% higher than last year at 19.2 million head. Overall, throughputs in the first half of the year were 1% lower than in 2013. Pig meat supplies were tightened further by a small drop in carcase weights overall, meaning that production was up only 1% in June and was down 2% for the year to date. If sustained for the rest of the year, this would mark the third straight year of falling output across the EU.

Although the overall trend was downwards, there were differing trends in the main Member States. Among the larger producers, Poland, Spain and the Netherlands all recorded rises, of 7%, 2% and 1% respectively. The Polish pig herd has begun to stabilise but the rise in production is mainly due to increased imports of weaners. The live trade also impacted on Dutch figures, with more pigs slaughtered at home rather than being exported to Germany. This contributed to a 2% fall in German slaughterings in the first half of the year, while Danish throughputs fell by 3%. During the six months, France killed 1% fewer pigs.

EU monthly pork exports



Source: Eurostat, GTIS

Latest figures from Eurostat show a 6% year-on-year fall in EU-28 pork exports in July, at 135,400 tonnes. Japan took 70% more pork from the EU this July, accounting for almost a quarter of EU exports. This time last year, Russia was the key export destination, with a similar share of the market. South Korea and Hong Kong also increased EU pork imports, by 61% and 19% respectively. Shipments to China, on the other hand, declined by 13% compared with July 2013. These four Asian destinations now account for well over half of the total export market. The value of pork shipments in July 2014 was €326.9 million, down 2% on the same month in 2013.

At 88,900 tonnes, EU pig offal exports increased by 6% in July, compared with a year earlier, indicating a recovery from the recent slowdown. Export growth was evident in the main Chinese market, which recorded an 18% year on year rise. In contrast, supplies to Hong Kong came down by 11%, compared with July 2013. Several other Asian markets recorded strong growth, offsetting the loss of the Russian trade. The price of offal exports in July came down by 5% and, therefore, the value of these shipments totalled €96.8 million, almost the same as a year earlier.

Global Market Analysis

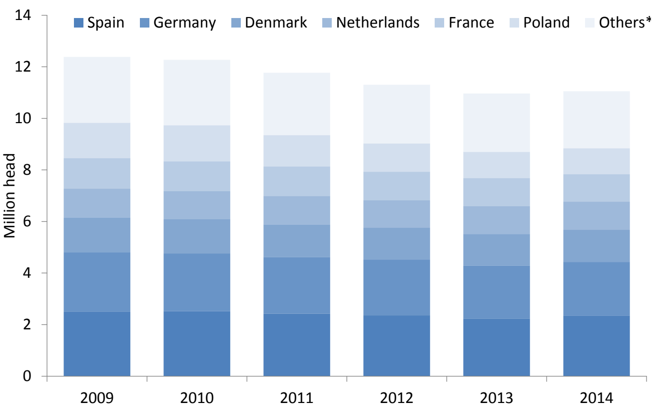
Is the decline in the EU breeding herd over?

Figures from the May/June agricultural surveys carried out in the major EU Member States show an increase in the pig herd and, for the first time in nearly a decade, there was also an increase in the breeding herd. Many of the smaller Member States only carry out surveys in December but those which do a summer one cover over 90% of the pig herd. Therefore, these results should hold for the EU as a whole.

The total pig herd in the EU Member States carrying out a survey increased by 1% to 131.6 million head in the year to June 2014. However, the herd was still smaller than in 2011 or 2012, since when the industry has been impacted by new welfare regulations (including the partial sow stall ban) and high feed prices. With both these issues now in the past, however, the herd has been able to stabilise.

More significant in a historical context is the rise in the EU breeding herd. The number of sows increased by nearly 1% compared with June 2013. Although the list of countries conducting a June survey has changed over time, this seems to be the first rise since 2005. Certainly, the December figures for the whole EU have declined every year since 2006.

Breeding herd trends in major EU Member States



** Others covers Belgium, Ireland, Italy, Hungary, Austria, Romania and Sweden*

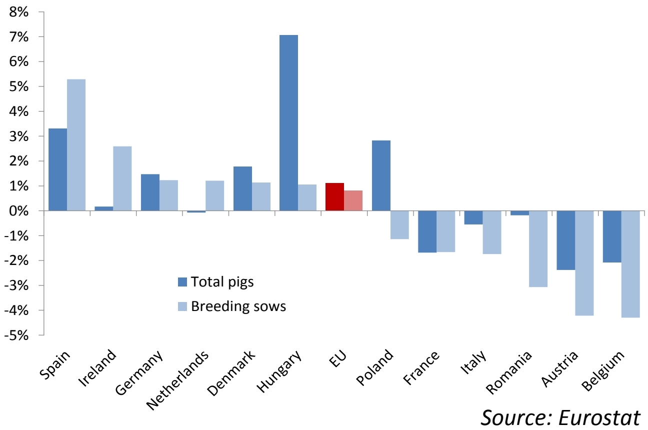
Source: Eurostat

Looking at the figures in more detail, the number of in-pig gilts was almost unchanged from last year. However, maiden gilt numbers were up 4% overall, suggesting that some producers were still looking to expand. This was particularly the case in Spain, where gilt numbers were up very sharply, hinting at particular optimism among its pig producers.

Piglet numbers were up 2% across the Member States supplying data, indicating that productivity continues to improve, although possibly at a slower rate than in some previous years. Numbers of pigs in the feeding herd were also slightly higher, albeit by less than 1%. This suggests a modest upturn in supplies from the summer onwards, a development which is already starting to become apparent.

The four largest breeding herds, Spain, Germany, Denmark and the Netherlands, all recorded increases in the latest year. Growth was most obvious in Spain, where there were 5% more sows than a year ago, confirming its position as the EU's largest pig breeder. Relatively low input costs and high pig prices mean that Spanish producers have been in a better financial position than those elsewhere, encouraging them to expand. Having fallen sharply since it joined the EU, the Polish breeding herd looks to have stabilised, with only a 1% year-on-year fall. France and Italy were among other countries whose breeding herds were still declining.

Annual change in pig and sow numbers in selected EU Member States, May/June 2013-2014



Source: Eurostat

Trends in the pig herds of some individual countries were affected by the weaner trade as well as the evolution of their breeding herds. For example, a 25% (400,000 head) jump in Polish weaner imports was largely responsible for a 320,000 head rise in its pig herd. Similarly, higher imports and lower exports of weaners contributed to the 7% increase in the Hungarian herd.

So, do the latest figures mark the end of the long-term decline of the EU breeding herd? Not necessarily. The figures came after a year when higher pig prices and lower feed costs mean that profitability has been better. Most producers will have been making money, at least for part of the year. However, pig prices this summer failed to reach the high levels of the last two years and the market is now starting to fall sharply. Despite feed prices dropping even lower, this is bound to be affecting producer margins.

The figures suggest that EU pig meat production will rise in the short-term and, with a bigger breeding herd and better productivity, growth may accelerate next year. Details will become clearer following the EU Commission's forecasting working group meeting, outcomes from which will be reported next month. Demand for pork from EU consumers is still subdued and the Russian market is now set to be closed to EU exporters until at least next summer. Therefore, any increase in supplies is likely to put pressure on price. The herd numbers suggest that growth could be fairly significant, making the outlook for prices appear relatively pessimistic. If that turns out to be the case, the upturn in the EU breeding herd may end up being a blip rather than a turning point.

Global Market Analysis

A turbulent period for the global pork trade

The global pork trade has been through a turbulent period during the last few months. Disease issues in various regions, restrictions relating to the use of feed additives and, more recently, international geopolitics, have all caused disruptions. Nevertheless, despite relatively tight supplies in many parts of the world and significantly higher prices, the amount of pork traded internationally during the first half of 2014 was higher than a year earlier.

Last year, traded volumes fell slightly as lower shipments from the Americas, partly due to the use of the feed additive Ractopamine, could not be fully offset by higher EU supplies. Among importers, the biggest decline was in Russia, which excluded US and Canadian pork for periods during the year. Higher domestic production also reduced its need for imports.

In January 2014, there was little sign of the disruptions ahead. Prices were similar to a year earlier and volumes were higher, as both the US and EU increased exports. There was also more pork traded between EU Member States during the month.

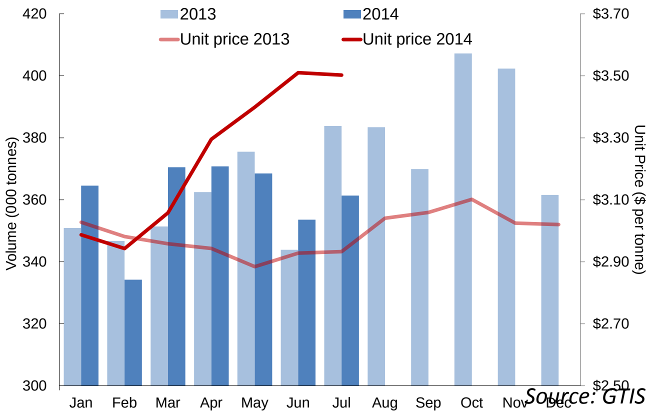
However, at the end of January, Lithuanian authorities confirmed the first ever case of African Swine Fever on the EU mainland. Further cases quickly followed and the disease has now spread to three other EU countries, Poland, Latvia and Estonia. This led to Russia, the largest buyer of EU pork, and several of its neighbours banning all imports of pork from the EU. As a direct result, EU pork exports in February were down 19% year on year, dropping below 100,000 tonnes for the first time since January 2011. Although they have since recovered some ground, the amount of pork leaving the EU during the first half of the year was down 5%.

Soon afterwards, the impact on the pork market of PEDv in North America and Asia started to become more apparent. Supplies began to tighten and prices to rise, notably in the US, Mexico, Japan and Korea. With three of these countries major importers, this actually led to an increase in exports, even from the US. The main effect, however, was on prices. Having fluctuated around $3 per kg for most of the last three years, average prices for pork exports from the four main global exporters began to rise in March. By June they had reached a record $3.51 per kg, 20% higher than a year earlier.

The extra demand from Asian markets, in particular, absorbed much of the EU pork displaced from Russia. There was still a 5% drop in shipments between March and June but this was much lower than in February. With some excess left in the EU, trade between Member States was somewhat higher than last year, being up 2% overall in the first half of the year. Most notably, 21% more Polish pork was sent to other Member States, as it was also excluded from export markets such as China and Japan.

By July, there were signs that the impact of tighter supplies and higher prices was starting to limit global trade. All the main exporters recorded lower volumes than a year earlier, with combined shipments down 6%. The average price was very similar to June, suggesting it may have reached a level high enough to bring demand into line with supply.

Pork exports from four leading exporters



Source: GTIS

In early August, Russia announced that it was banning imports of most agricultural and food products from a number of countries in response to sanctions imposed over the situation in Ukraine. The countries affected include the EU, US and Canada, the three largest pork exporters; between them they make up over 80% of global trade (excluding intra-EU trade).

So where does this leave the global trade going forward? With the EU already banned from Russia and US shipments at a low level, the latest ban will mainly impact on Canada and Brazil. Canadian pork will need to find a new home but there should be opportunities in the US and Mexico, where PEDv means supplies are tight. Demand from Asian markets tends to be higher in the second half of the year so, with the US short of supplies and Brazil focusing on Russia, both Canada and the EU should be able to find markets there for their exports.

There will be increased demand for Brazilian pork from Russia but Brazil will struggle to match its requirements (click here for more). Russia is, therefore, looking to other potential suppliers, notably China, which could leave gaps for other exporters on the Chinese market. Overall, while there may be some short-term disruption, global trade should realign fairly quickly.

The impact of the Russian ban could be felt more as we move into next year and global supply levels increase as the impact of PEDv wanes. Unless demand picks up, there could be some oversupply on the global market, driving prices back towards $3 per kg and perhaps even lower. Demand from Asia may remain robust, especially if lower Chinese production stimulates import demand. However, this could be insufficient to match available supplies, if demand doesn't improve elsewhere. Even if Russia's market does re-open next summer, its requirements are likely to be lower than before as its production expands rapidly. All in all, the turbulence in the global trade looks to be far from over.

Feed Market

LIFFE Nov-14 UK feed wheat contract prices closed at £109.05 per tonne on Thursday 25 September. Prices have declined £12.50/t since the beginning of September. Additionally, over the same period, Nov-14 Paris maize contracts have fallen by €15.75, settling at €136/t.

LIFFE UK feed wheat futures nearby contract price, 2014

Source: HGCA

Feed grain prices in the EU, hit by strong domestic and global supplies, may get some support from the rise in EU maize import duties. The duty has increased to €10.44/t from €5.32/t. Although this may offset some of the decline in global prices, it is unlikely to offer complete protection.

Defra's final supply and demand balance sheet estimates for cereals in the UK in 2013/14 show that that, despite wheat closing stocks being 10% lower than in 2013/14, increased year-on-year closing stocks for barley, oats and maize contributed to overall cereals stocks of almost 4Mt.

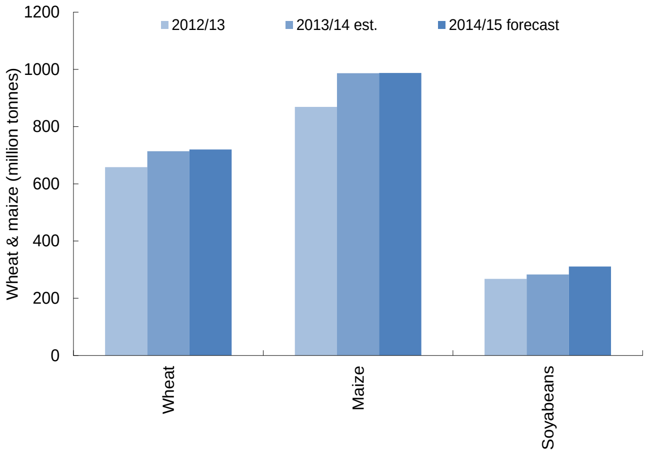
The latest USDA world supply and demand estimates revealed further increases to both supply and demand but the level of demand is still not large enough to offset the record crops. Consequently, on a global scale end-season stock projections were increased for both wheat and maize. Global wheat production was revised upwards to 720Mt, a new record. Although, demand was increased to 710Mt, this was not large enough to counterbalance the increase in production. Global maize production was also increased to a record 987.5Mt, boosted by a 3% increase in US production.

In Russia, grain production this season could reach 104-106Mt, including 60Mt of wheat, according to local analysts SovEcon. If confirmed this would be Russia's largest harvest since 2008, when a new post-Soviet record of 108Mt was set. However, it is worth noting that unlike previous years, the 2014 estimate includes 1.2Mt for the Crimean peninsula.

Chicago Dec-14 soyabean future contracts closed at $339.02/t on Thursday 25 September, down $17.91 on the previous week. Furthermore, soyabean prices have declined $40.14/t since the beginning of September.

UK delivered rapeseed prices for Erith (February delivery), were £251/t (19 September), down £2 on the previous week.

World Grain and Oilseed Production Estimates



Source: USDA

Bearish news was also felt by the oilseeds market in the September USDA report, with global soyabean production forecasts pushed further into record territory. Although demand projections were also increased, based on current output forecasts, it would not be sufficient to prevent a large stocks build up.

According to Defra's final arable area data, released on 18 September, the area of oilseed crops in England decreased by 9.1% compared with 2013, to 648,000 hectares in 2014. While the area sown to oilseed rape has reduced, trade data from HMRC shows that UK exports of rapeseed in July were 75Kt, compared with 4.6Kt in July 2013.

The Australian canola crop is projected 0.3Mt lower at 3.5Mt. Below average rainfall in July and August has caused concerns and, though recent rains in New South Wales have helped, regular rainfall will be needed in all regions during the key months of September and October.

The harvest of Ukraine's soyabean crop is progressing at a much faster pace than last year, according to UkrAgroConsult, with 1.1Mt of soyabeans harvested as at 18 September, compared with 396Kt at the same point last year.

Planting of South American soyabeans will commence over the coming weeks and the price relationship between maize and soyabeans continues to favour the oilseed. The USDA last week upgraded its production projection for Brazil by 3Mt to 94Mt, and for Argentina by 1Mt to 55Mt; output in 2013/14 was 86.7Mt and 54Mt respectively.

Weather forecasts indicated potential for frosts in key US growing areas last week. For immature crops, frosts could stop any unfulfilled yield potential from being realised. Little damage has materialised but the market is likely to remain sensitive until harvesting of this key part of global oilseed output is well underway.

In Brief

Irish exports strengthen despite Russian ban

Latest figures show strong Irish pork exports in the first half of the year, at 71,400 tonnes they were up 15% from last year and the highest bi-annual figure since at least 1997. The EU accounts for around 60% of trade; exports to the UK increased by 5% but volumes to Germany came down by 15%. Outside the EU, the Asian markets strengthened their position among Irish pork sales, while supplies to Russia fell. Overall, the value of exports reached €171 million, up 17% on a year earlier.

German exports weaken in January to June

Germany recorded a 4% year-on-year decline in pork exports. This was partly a result of a 2% fall in domestic production during the period, while there was a lower requirement from some non-EU markets, notably China and Russia. Just over a fifth of the German pork was destined for Italy, as volumes increased by 9%. Other leading markets, including Poland and the Netherlands, took less German pork. Non-EU exports relied on growth in smaller markets like South Korea, the Philippines and Japan. German pork imports also weakened in the first half of this year, down by 1% compared with the previous year.

EU missing out on global pork price surge

During the second quarter of this year, pork prices in many parts of the world rose rapidly (see page 8). The average price in June, $3.51 per kg, was 13% above the previous record and 20% up on a year earlier. In contrast, EU exporters did not experience the same rises, as the Russian import ban limited gains. At $3.30 per kg, EU export prices were only marginally higher than their level in late 2013. Therefore, the EU, normally the highest priced of the major exporters, has become the lowest priced, helping it to achieve strong growth in export volumes to Asian markets.

Strong pound increases gap between UK and EU prices

The UK's economic recovery appears to be well-established now but, in comparison, the Eurozone continues to be weighed down. As such, there has been an overall strengthening of the pound against the euro over the past year. This makes imported products cheaper on the UK market and UK exports more expensive overseas. To illustrate this, the EU average pig price in late August was equivalent to just under 132p/kg but if the pound had remained at its low point, it would have been 143p/kg, closing the gap between EU and UK reference prices to just over 10p rather than 22p.

Indoor breeders drive productivity growth

Latest physical performance data from Agrosoft show a further improvement in GB breeding herd performance, with 23.6 pigs weaned per sow per year in the 12 months to June 2014, up from the 22.9 a year before. The increase was driven by indoor producers, who weaned 25.6 pigs, up 1.5 on a year earlier. In contrast, productivity of outdoor sows was slightly lower on the year, averaging 21.6. More detailed figures for these and other performance indicators can be accessed by clicking here

Chilean and Brazilian exports to Russia increase

Following the Russian ban on EU, US & Canadian imports, Brazil and Chile are the main pork exporters with access to Russia. Chilean pork exports in January -July 2014 fell by 9% but in July, before the ban, exports to Russia doubled. The price of these exports rose from under US$3 per kg a year ago to nearly $5 this July. Brazilian pork exports were 7% down on last year in January-August. Russia accounted for 41% of total volumes, compared with just over a quarter in January to August 2012. By August, the year-on-year rise in export prices had reached 33% and shipments to Russia were over 50% more expensive.

Global food prices falling but meat prices continue to rise

The UN FAO food price index for August fell for the fifth consecutive month, to its lowest point since September 2010. The index was almost 4% down from both July 2014 and August 2013, mainly a result of falling dairy prices in the latest month, along with lower sugar, cereals and vegetable oil prices. However, meat prices continued to rise in August, with the FAO meat price index 1% higher than the previous month and 14% above a year earlier. Pork and sheep meat prices fell back slightly, while poultry was almost unchanged but there was a surge in beef prices, particularly in Australia.

Save the date for AHDB Outlook Conference

The 2015 AHDB Outlook Conference will be on Wednesday 11 February at One Great George Street, London. The conference will be opened by AHDB Chairman, Peter Kendall, with other key note speeches on future consumer trends and China and other Asian markets. There will be three breakout session, one of which covers the outlook for the pig and poultry markets.

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

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