BPEX

AHDB Agriculture & Horticulture DEVELOPMENT BOARD

Pig Market Trends

February 2015, Issue 117

In this Issue

UK Outlook

The past year has undoubtedly been a challenging one for the UK, and wider EU, pig industry. This has been down to increased supplies and subdued demand. Supplies are expected to rise again in 2015, based on latest AHDB/BPEX forecasts, and demand will need to respond to avoid further price falls. To read what this could mean for the UK market and the other factors which could influence the situation, turn to **page 4.**

Christmas

Grocery sales in the Christmas period show that shoppers took advantage of lower food prices and their spending increased by 1.5% compared with Christmas 2013. However, following a successful Christmas the year before, fresh pork was the only meat category to show a fall in overall volume purchases. Further analysis of the grocery market at Christmas can be found on **page 5.**

Russia

The Russian pig market has often been unpredictable. However, even by Russian standards the last year has been unusually eventful. With pork imports banned from the EU since this time last year and from Canada & the US since the summer, supplies have been particularly tight. More recently, the devaluation of the rouble and the collapse in the global oil price have hit the Russian economy. Read our analysis of the Russian pig market on **page 7**.

Oil prices

The fall in nearby Brent crude oil futures to under $50/barrel, from over $115/barrel in mid-June, although now partly reversed, is likely to have far reaching effects on agriculture. Oil's interaction with grain and oilseed prices will have a larger impact than lower oil costs directly. To read about what lower oil prices may mean for the pig industry, turn to **page 8**.

Outlook Conference 2015

This month's AHDB Outlook Conference highlighted some of the opportunities available to the UK meat industry. Key note speakers covered consumer trends over the next five years and developments in retail markets in Asia, while the outlook for UK pig meat supplies was also covered. More details can be found on **page 10**, along with links to the presentations from the conference.

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Key data

Key data	Jan-15	Change since Dec-14	Change since Jan-14
Average GB carcase weight - kg	82.02	+1.74	na
30kg weaner price - £/head	45.78	-1.22	-9.95
7kg weaner price - £/head	34.15	-0.54	-8.33
GB APP (Euro-spec) - p/kg dw	144.06	-3.57	na
GB SPP (Euro-spec) - p/kg dw	140.70	-3.28	na
EU Reference price - €/100kg dw	129.83	-4.97	-29.86
UK Reference price - €/100kg dw	179.80	+0.24	-17.93
UK weekly clean pig kill - 000 head	192.5	-7.0	+4.4
UK weekly pig meat production - 000 tonnes	16.6	-0.0	+0.6
UK pork imports - 000 tonnes*	32.5	+0.9	+1.2
UK bacon imports - 000 tonnes*	21.5	-0.3	-0.8
UK pork exports - 000 tonnes*	15.0	+0.4	+1.7
Retail pig meat sales - 000 tonnes†	61.5	+4.8	-0.8
LIFFE feed wheat futures - £/tonne	128.03	-4.34	-26.33
CBOT Soyameal futures - $/tonne	343.86	-35.42	-85.92

** Figures relate to December 2014*
† Figures include household purchases of pork, bacon, sausages and ham and relate to 4 weeks to 4 January 2015

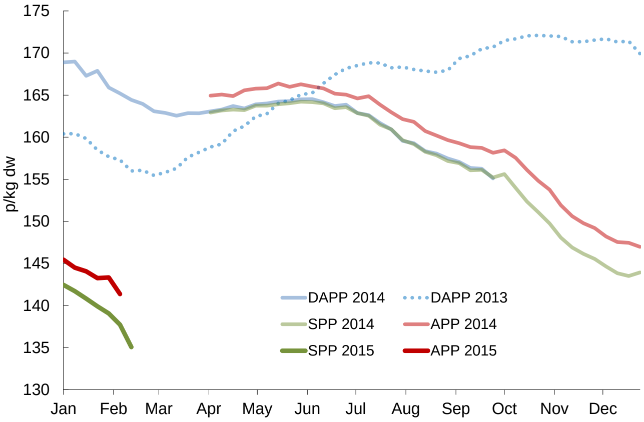
Interested in data? Get more detail about these and other areas from the BPEX website
We are now on Twitter. For regular updates about the UK pig market and related publications, follow us @HowarthStephen

UK Market Snapshot

The start of 2015 has shown a continuation of the downward trend of finished pig prices apparent since the middle of 2014. For January 2015, the EU-spec GB SPP averaged 140.70p per kg, falling 3.28p per kg on the month, the eighth consecutive monthly decrease. The DAPP for January last year was around 27p per kg higher, a similar year-on-year change as for December's prices. Higher throughputs in January, as the festive backlog was cleared, have contributed to the falling prices and demand has reportedly remained lacklustre. Moving into February, the SPP has continued to decrease week on week, standing at 135.06p per kg in the week ending 14 February.

The EU-spec GB APP in January followed a similar trend, falling 3.57p per kg on the month to 144.06p per kg. Again, this has in part been affected by high post-Christmas throughputs, as well as following the downward pressure on price evident to producers throughout the EU. The price differential between the APP and the SPP narrowed in January to 3.36p per kg, the smallest gap since September as the premium market has apparently increasingly come under the same pressures as the standard market.

GB finished pig prices

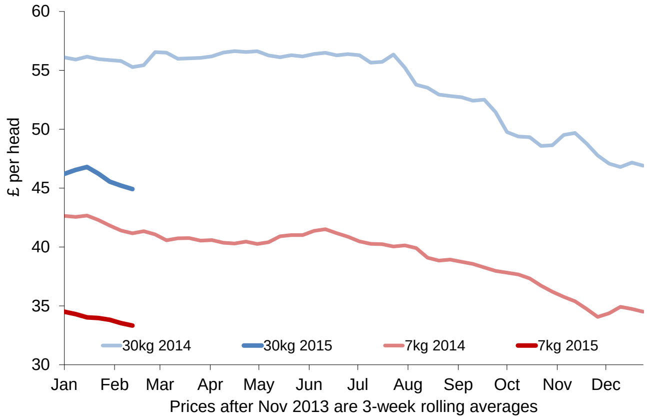


Source: AHDB Market Intelligence

Carcase weights increased from December to January by an average of almost 2kg. At the heaviest since recording began, the SPP-sample average of 83.02kg was 1kg heavier than for the APP sample, the largest difference so far seen between the two categories. Increases in both have been due to a combination of favourable feed costs in addition to some animals having been held back until processing regained momentum after Christmas. The overall average probe measurement was 11.3mm, down 0.1mm on the month but matching the average of the previous six months.

The weaner market was a little more volatile throughout January as uncertainty lingered over the direction of finished pig prices come the spring. 7kg weaners averaged £34.15 a head, the lowest since this price series began. While only 54p down on December, this is over £8 below where prices began 2014. The price of 30kg weaners followed suit, falling to an average of £45.78 per head in January, £10 down on January 2014 and over £1 down on December. However this price is higher than those reported in the second half of 2012, suggesting there is some positivity for finishers.

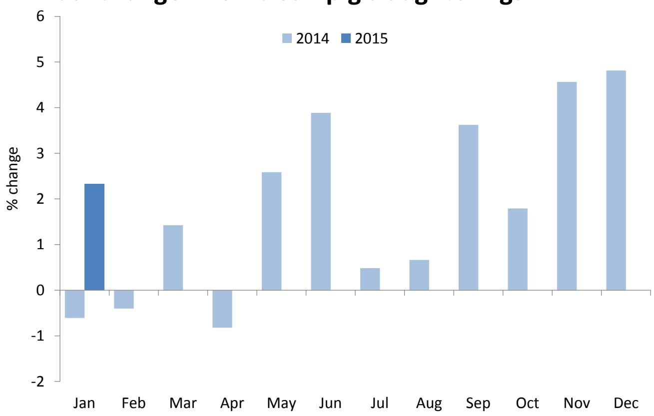
GB weaner prices



Source: AHDB Market Intelligence

In January, UK clean pig slaughterings were reportedly down 3% on January 2014, according to latest figures from Defra. However, this was due to a big fall in reported throughputs in Northern Ireland, which appears to be an error. Figures from DARDNI show a 2% rise, which seems to be more likely, given a growing NI herd. This would mean that the UK figure would be up 2% year on year at 962,600 head, as throughputs in England and Wales were also up on the year as the backlog of pigs was cleared post-Christmas. With carcase weights returning to a record average of 82.7kg, overall pig meat production was up 4% on the year, based on the revised NI figures (the published figures show a 2% decrease). At 83,200 tonnes, this is the highest January figure since 2000. With the increased supply reported, finished pig prices have remained under pressure from ample supply. The availability of pigs will need to reduce if the market is to reverse, although tighter supplies are normally apparent in the spring.

Annual change in UK clean pig slaughterings



Source: DEFRA

Sow and boar slaughterings were down on January 2014, by 6% to 23,200 head but this was an increase on the month as processing returned to a normal schedule. Cull sow prices have been very low, which has limited the willingness of producers to replace sows. However,

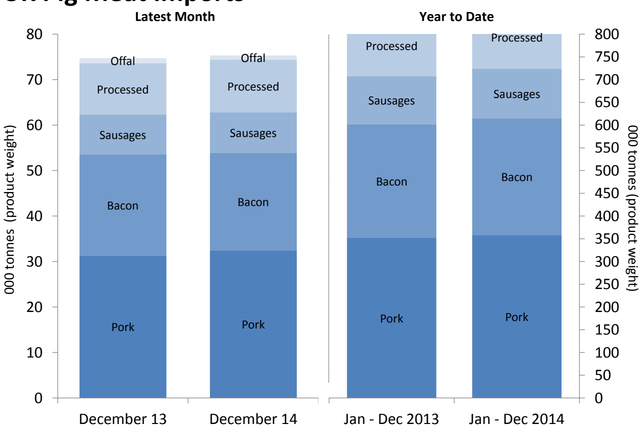
UK Market Snapshot

prices are beginning to show some positivity, which could encourage a higher kill in the coming months.

Throughout 2014, the UK imported more pork, bacon, processed pig meat and sausages than in 2013. However, in spite of the unprecedented gap between UK and EU prices, the rise was modest. Pork imports rose by 2% on the year with prices down 7% on 2013. With an increased share of pork remaining in the EU, as product was diverted from Russia throughout the year, Denmark supplied over a quarter of the total. Belgium, France and Spain also increased their shipments. For Poland trade more than doubled despite potential ASF fears. German and Dutch trade, however, was down on the year.

Denmark was also the main supplier of bacon in 2014, and its trade was up 11% on the year, whereas Dutch shipments dropped by 5%. The average import price was 9% lower. Sausage imports increased the most on the year but still by only 4%, with a notable rise from Ireland. This made it the second largest supplier, while it remained the largest for other processed products, despite a 5% decrease in this category on the year.

UK Pig Meat Imports

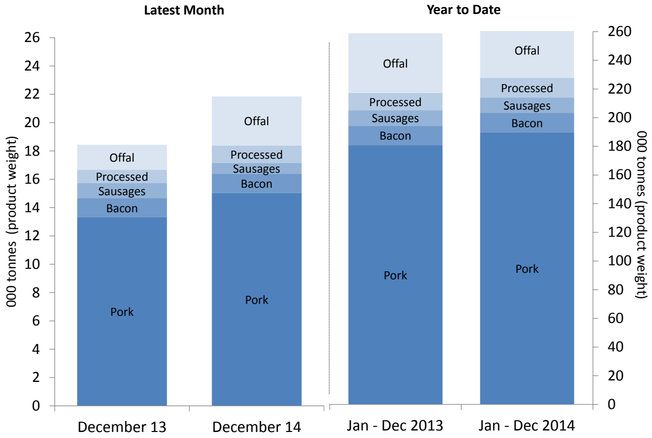


Source: Her Majesty's Revenue & Customs

Exports of pork in 2014 increased by 5%, although by value trade fell by around £4 million to £214 million. By volume there was an increase of less than 1% to the EU and market growth was predominantly to Asian markets. China imported 13% more and there was a rise of 7% for Hong Kong. Of the smaller markets there were sharp rises to South Korea and the Philippines and an increase of 5% to the US where import demand has increased because of the PEDv outbreak.

Offal exports were also led by Asian markets, with 35% of the 38,400 tonne total going to China, given a rise of almost 90% in 2014, with a smaller rise to Hong Kong. These two markets now account for 60% of UK offal exports. Shipments to the smaller markets of Japan, South Korea and the Philippines were also up. On the other hand, a fall of 50% in trade with the EU meant that total offal exports were still lower. Exports of sausages were also lower while processed products increased.

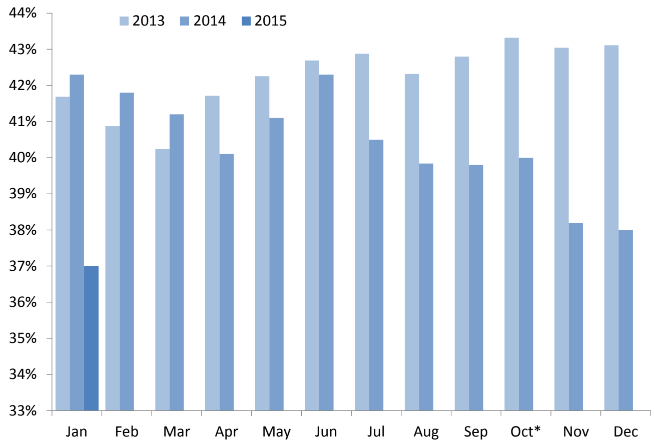
UK Pig Meat Exports



Source: Her Majesty's Revenue & Customs

January saw a drop of one percentage point on the month in the share of the final retail price of pork received by the producer, to 37%. This is the lowest proportion since January 2009 and is 5 percentage points down on the same month last year. This decrease has been driven by continued falling farmgate prices, which has increased the gap to retail prices, where some stability was evident during the month. Over the year, farmgate prices have fallen much faster than the retail price, in percentage terms, according to AHDB/BPEX estimates. The producer's share for bacon followed suit and dropped to 33% in December, down 1 percentage point since November and 3 points on the year. Farmgate prices fell, as for pork, but bacon retail prices increased on the month, creating the widest gap between the two over the year.

Percentage of pork retail price received by producers



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

After the festive sales, in January retail prices for the majority of pork cuts decreased slightly. The price of sausages, in particular, dropped by around 4%. Fillets, mince and roasting joints also decreased on the month. Loin steaks, however, increased by around 2%. All these cuts were cheaper than last January, apart from loin chops which have sustained consumer demand allowing prices to increase by 16% year on year.

UK Market Analysis

More of the same in 2015?

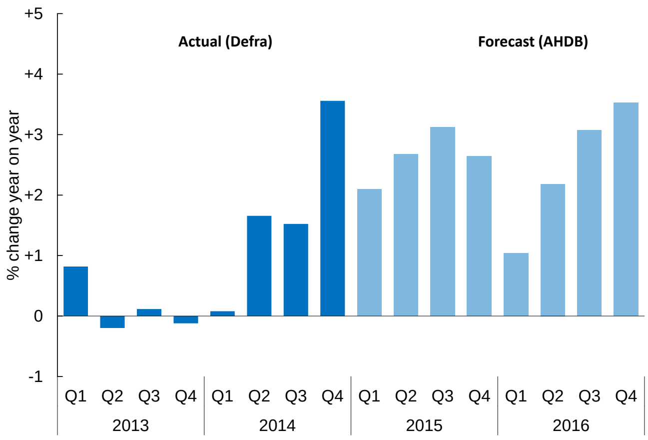
The past year has undoubtedly been a challenging one for the UK, and wider EU, pig industry. Prices have been down across the board, with a 17% decline in GB pig prices in the last 12 months and cull sow values down by nearly half. However, there have been two saving graces which have reduced the impact on producers.

First, UK prices haven't fall as far as those in the rest of the EU. The EU average price in late January was 19% lower than a year ago but, unlike GB prices, by then it had already fallen 18% from the summer of 2013. In sterling terms, the fall was even bigger, with the EU price down by a quarter in the last year and over 40% below August 2013. This means that the gap between UK and EU prices has reached record levels.

Secondly, the trend of falling prices also applied to the feed market, which helped to ensure that, until recently, most UK producers remained in the black. This contrasts with the situation in the rest of Europe, where producers have been in the red since the early autumn. There are already signs of increases in sow slaughterings there, which could lead to lower production in the second half of this year.

The decline in prices can mainly be attributed to an increase in domestic supplies, with clean pig slaughterings up 2% and heavier carcases. This meant there was over 3% more UK pig meat on the market. Again, the situation could have been worse. Despite the record price gap, UK pig meat imports were only slightly higher. This is evidently because the major retailers remain committed to sourcing as much of their product from UK pigs as possible. Nevertheless, with consumer demand remaining subdued, the increased supply was sufficient to put prices under sustained pressure.

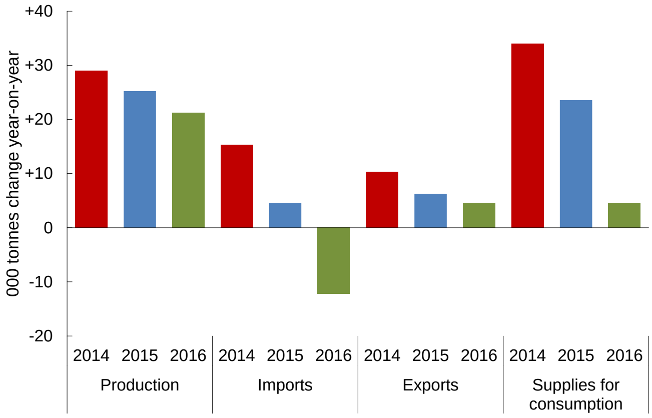
Actual and forecast annual change in UK clean pig slaughterings



Latest AHDB/BPEX forecasts suggest that the supply situation will be similar in the coming year. With a broadly stable breeding herd and improving productivity, pig meat production is expected to rise by around 3% in 2015 and by a further 2% in 2016. This is similar in scale to the increase in supplies during 2014 and means that demand will need to respond to avoid further price falls.

It seems unlikely that the required demand will be generated from international markets. The weak euro will make UK pig meat less competitive on the continent and will give EU exporters an advantage in non-EU markets. There will also be more and cheaper US and Canadian supplies this year, as the US market recovers from PEDv and Canada redirects product previously sent to Russia. Therefore, export growth may be limited. On the flip side, assuming retailers' commitment to domestic sourcing continues, there seems little prospect of a big rise in imports even if the price gap is sustained.

Trends in UK pig meat supplies



Sources: Defra, HMRC, AHDB Market Intelligence

Domestic demand, however, also remains subdued and there is little sign of this changing. One hope is that wages are rising in real terms for the first time since the financial crash in 2008. Once consumers start realising this, they may be tempted to increase their purchases of pig meat (and other meats). However, all the evidence suggests that this won't be a quick process. Therefore, a short-term demand response may rely on falling prices for pork making it a more attractive option than other meats, encouraging consumers to switch.

As always, there are various unknowns which could change the market outlook. Some of these will be unexpected but there are others which can be anticipated, even if their impact may be uncertain. There is the ever-present risk that feed prices could rise (or fall), given the volatility of recent years. In addition, the exchange rate between the pound and other major currencies is going through a period of realignment, which could have knock-on effects.

However, perhaps the biggest potential hazard is that posed by disease. PEDv and ASF have dominated the EU and global market over the last year. If they spread further, and particularly if they reach the UK, the supply and demand situation could look very different.

To read more detail about the latest AHDB/BPEX forecasts for pig meat supplies, click here.

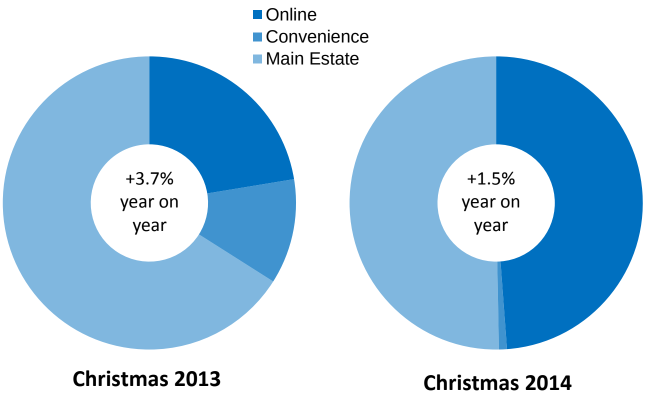
UK Market Analysis

Pork is a Turkey at Christmas

Unemployment fell throughout 2014 and consumer confidence improved. In September, wages began to grow in real terms for the first time since 2009. Fuel and energy prices fell and this meant shoppers had a little extra money for discretionary spending. The big supermarkets have responded to the impact of Aldi and Lidl by cutting prices and so annual grocery inflation stood at -1.2% for the 12 week period ending 1 February 2015. Notably, staples like vegetables, milk and bread have fallen in price. In this dynamic retail and economic environment, the trading performance of pork has been a little disappointing.

Grocery sales in the 4-week period to 4 January 2015, which incorporates the Christmas period, show that shoppers took advantage of lower prices. Total grocery spending increased by 1.5% compared with Christmas 2013. Online has growing appeal for Christmas shopping; 12% of shoppers used this channel to purchase their Christmas groceries in 2014, up from 7% in 2010. According to Mintel, though, only 15% of buyers would make meat part of their online grocery shop. The 6.4 million online grocery transactions made in the 4-week period leading up to Christmas (half of which were through Tesco) contributed almost half of the overall growth.

Contribution to total market growth by retail channel

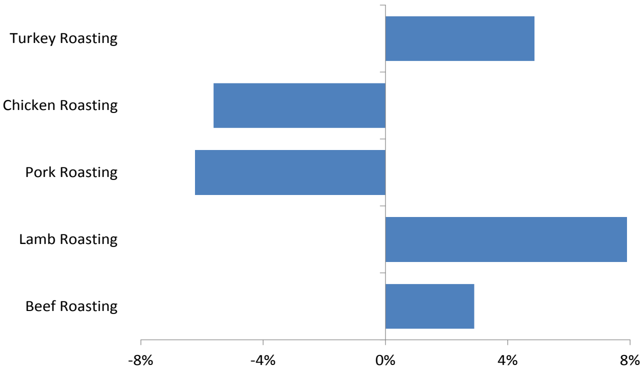


Source: Kantar Worldpanel

Despite remaining the lower priced meats, chicken and pork both saw declines in sales volume compared with Christmas 2013. Kantar Worldpanel data show some evidence that previously loyal chicken and pork customers switched into turkey and beef.

Promotions played a key part in driving beef and lamb sales. Roasting joints, in particular, were heavily promoted and both delivered volume growth. The share of beef roasting sales generated by promotions increased from 38% to 76% and the lamb percentage stood at 87%. By contrast, only 45% of pork was sold as part of a promotion. Reduced pricing on the more expensive meats (beef, lamb and turkey) moved their price point closer to that of pork, which helped to draw shoppers in and make the decision to trade up easier.

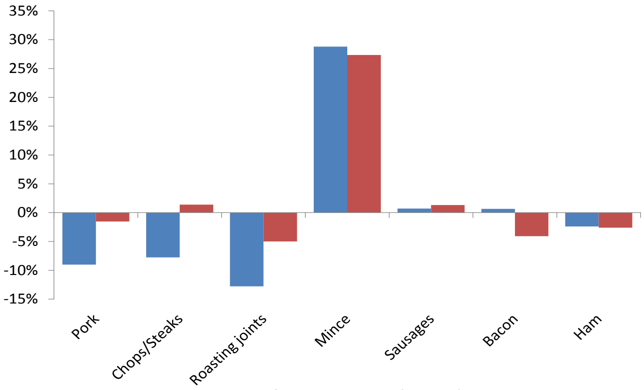
Year on year change in volume sales of roasting joints, Christmas 2014



Figures relate to 4 weeks ending 4 January 2015
Source: Kantar Worldpanel

Following a successful Christmas the year before, fresh pork was the only meat category to show a fall in overall volume purchases, down by 2% on Christmas 2013. The latest data, covering the 4 weeks to 4 January, indicate that consumers bought less fresh pork less frequently over the Christmas period. The change to modern eating habits affected the way that pork was consumed during 2014. Roast dinner occasions declined by 5%, which adversely affected sales of roasting joints. Ethnic dish occasions, particularly those from India and Mexico, increased. The growing willingness of consumers to cook and eat international cuisine presents an opportunity for dishes such as pulled pork.

Year on year change in GB retail pork purchases



Figures relate to 4 weeks ending 4 January 2015
Source: Kantar Worldpanel

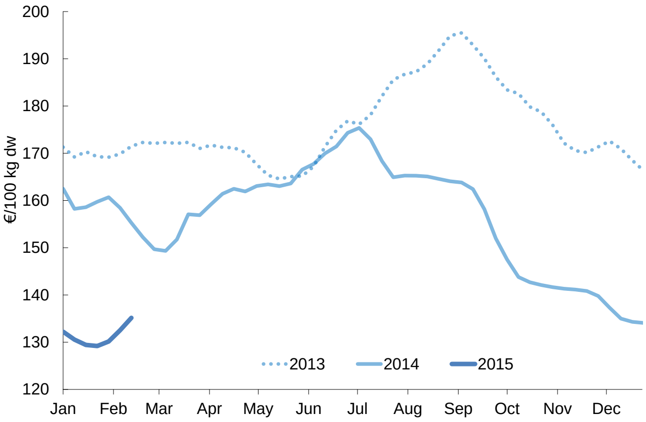
Sausages, bacon and ham all saw small value and volume declines. A detailed examination, though, shows that premium sausages and, in particular, bacon, performed very well at Christmas. Premium bacon volumes were 40% ahead of Christmas 2013 and sales have not dropped off nearly as quickly as in previous years. Consumers of these products have traded up within the category.

Premium sausage sales volume grew by 6% compared with 2013. The growth was driven by discounters and premium retailers who both increased sausage sales ahead of the market. The leading four multiples saw volume and value fall during 2014. Butchers shops had a strong final quarter and, after the big four multiples, are the leading sausage channel by both value and volume.

EU Market Snapshot

The EU finished pig reference price dropped over €2 per 100kg through January. At week ended 25 January, the price was €129.19 per 100kg, over €30 down on the year. However, in the following three weeks the price increased by around six euros to €135.16 per 100kg, the first rises since the start of August. The normal seasonal trend is for rising prices after a short New Year slowdown and this appears to be the case this year. The recent depreciation of the euro against the pound means the decrease equated to 6p/kg throughout January and the subsequent recovery has added less than 3p. These changes mean the gap between UK and EU prices remains high, at 34p (45 cents).

EU Average Pig Reference Price

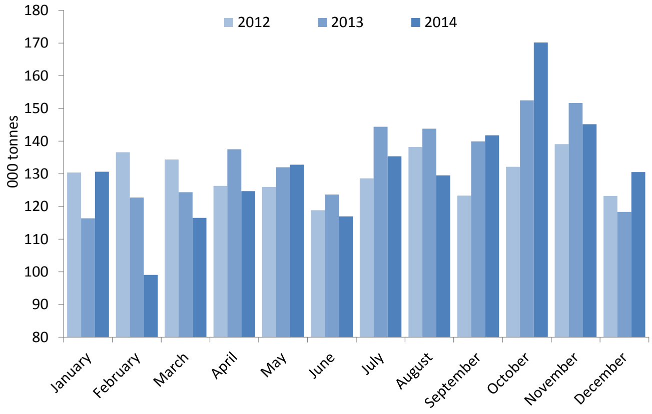


Source: EU Commission

As ever, the larger producers have led the trend in price. Most notably in January, Denmark dropped more than €9 and France by €4. Thereafter, German prices have since increased by €10 in the three weeks to 15 February. Dutch and Polish prices followed suit. French and Danish prices have remained more stable, however, while Spanish ones have been slow to react, although they increased by three euros in the latest week. Despite any recent gains, prices in most major producers were still around €15-25 per 100kg lower than a year before, with Spanish prices €45 lower.

December trade figures from Eurostat indicate that EU-28 fresh and frozen pork exports were up on a year earlier at 130,500 tonnes. However, exports for 2014 as a whole experienced a fall of 2% compared with 2013, to less than 1.6 million tonnes. As has previously been reported, the impact of the Russian ban resulted in a 95% decrease in EU exports to this market last year. However, it is evident that the majority of this product found alternative markets in Asia. In December and over the year, the top four destinations for EU pork were Asian markets, accounting for over 60% of the market share. Consistent, rapid growth has been seen in South Korea partly due to disease affecting its own production. China imported slightly less on the year and Japan overtook it, increasingly choosing EU pork over US product because of a change in price relativity. Exports to Australia also increased on the month and the year. Unit prices were down on the year by 1%. Consequently, the value of exports for 2014 fell 3% to €3.7 billion.

EU monthly pork exports

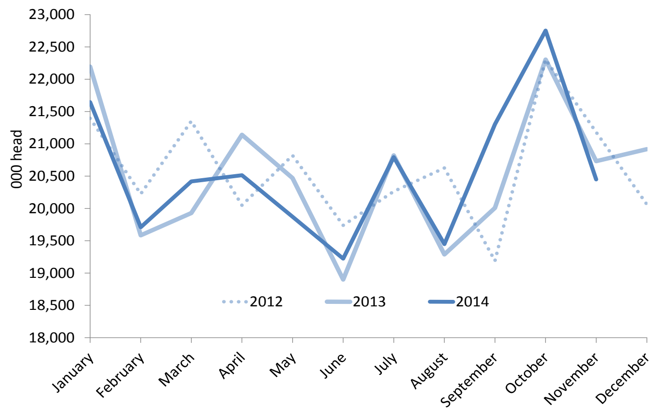


Source: Eurostat, GTIS

Offal exports were up 8% on the year to nearly 1.1 million tonnes, with even stronger growth in December. China continued to be the main recipient, increasing both in December and over the year. The Russian ban appears to have had less of an impact on EU offal exports than on fresh and frozen pork, as Asia readily absorbed larger quantities, some of which was higher in price, increasing the value of offal exports in 2014 to over €1.2 billion.

In November last year, 20.4 million pigs were slaughtered in the EU, according to data from Eurostat. This was 10% down on the previous month, when there were three more working days. Throughputs were also back on November 2013 due to one less working day in 2014, although the underlying trend was still upwards. Throughputs fell by over 1% but, as carcase weights were higher, helped by lower feed costs, the production fall was smaller.

EU pig slaughtering trends



Source: Eurostat

Year on year declines in slaughterings in November were especially pronounced in two of the largest pig producing countries, with Denmark down 8% and Germany showing a reduction of 5%. In contrast, slaughterings were up 6% in Spain in response to an increasing herd and as much as 10% in the Netherlands as live exports have been falling. Early figures for December show a year-on-year increase in slaughterings, partly due to an extra working day this year.

Global Market Analysis

Trade bans disrupt Russian pig sector

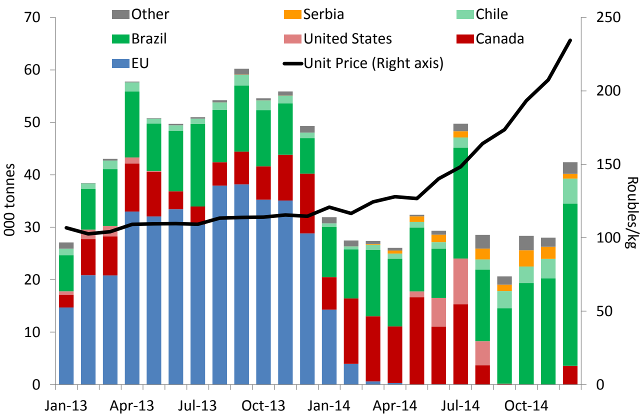
The Russian pig market has often been unpredictable. However, even by Russian standards the last year has been unusually eventful. With pork imports banned from the EU since this time last year and from Canada & the US, among others, since the summer, supplies have been particularly tight. More recently, the devaluation of the rouble and the collapse in the global oil price have hit the Russian economy.

Russian trade data have recently become available for the first time since April. The new figures show that, while Russia imported 592,000 tonnes of pork in 2013, during 2014 this dropped by 220,000 tonnes, or nearly 40%, to 372,000 tonnes. This decrease has been stepped, due to the successive trade bans based on product safety and international politics.

Firstly, imports from the EU were banned in February due to concerns over ASF; shipments decreased from 361,000 tonnes in 2013 (over 60% of all imports) to just 19,000 tonnes (5% of the total) last year. Canada and Brazil subsequently increased their deliveries but they could in no way fill the deficit.

In August, sanctions were enforced on Canada and the US, among others, on political grounds. This allowed Brazil to expand shipments, going some way to compensating for the loss of US and Canadian pork but leaving the deficit from the EU untouched. Russia expanded trade with some of its smaller partners as well, including Chile and Serbia. Deals with China, India and South Korea are thought to be in progress but had not come into effect by the end of the year.

Volume and price of Russian pork imports

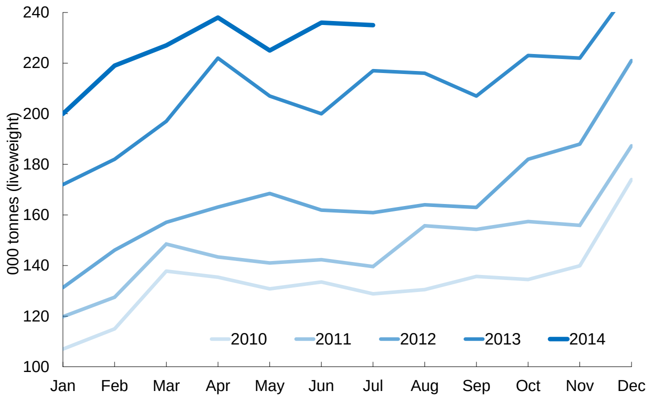


Source: Customs Committee of Russia

As a result of the bans, import prices rose steadily and by December, they were more than double those a year earlier in rouble terms, partly due to the devaluation of the Russian currency. This has inevitably driven pig prices higher on the Russian market. Reports suggest that pig prices are currently over 100 roubles per kg (liveweight); this time last year they were around 70 roubles. Inevitably, rises on this scale mean that retail pork prices will have increased too, at a time when Russian consumers will be feeling the pinch from economic slowdown and currency devaluation.

Price rises might have been even more dramatic had it not been for another sharp increase in domestic production. Pig slaughterings in 2014 were reportedly 12% up on 2013, continuing the strong growth trend of recent years. This has been driven by major investment in modern production, encouraged by the Russian government, which aims to become self-sufficient in the next few years. New operations are gradually replacing "backyard" production, which has been badly affected by African Swine Fever in recent years. The switch means improved productivity and heavier carcase weights, so pig meat production is growing even faster.

Russian pig meat production from agricultural establishments*



* Excludes production from backyard producers and small family farms

Source: USDA

However, developments in the Russian economy in recent months may limit further investment in pig production, despite the strong returns currently on offer. The sharp decline in the value of the rouble means many Russian investors will have moved their money out of the country. In addition, the falling oil price has reduced one of Russia's main sources of income. This could slow or even stop production growth in the years ahead.

These developments are important because the Russian market will eventually reopen for exports. When it does, it is likely to require less pork (and other pig meat products) than it did historically. However, any slowdown in investment may extend the time before Russia becomes self-sufficient in pork production, meaning export opportunities could be available for some years to come.

From an EU perspective, this will be welcome, given the impact the Russian ban has had on pig prices. This is partly because Russia was a particularly important market for by-products, such as fats, for which there are few other buyers globally. Without these sales, the value of pig carcases is lower, affecting everyone in the supply chain. Anything which gives hope that the market for these products could return, even on a smaller scale than before, will be welcome.

Global Market Analysis

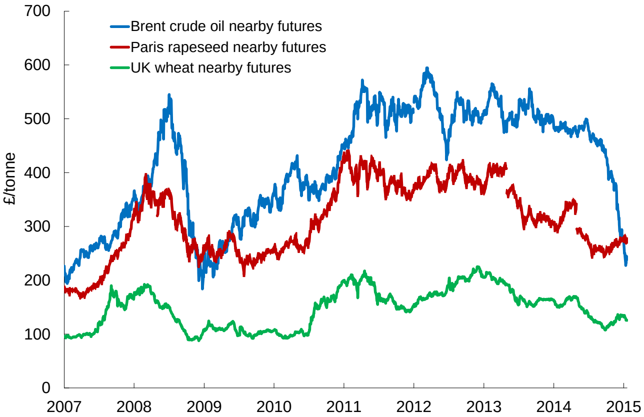
The far-reaching effects of low oil prices on agriculture

The fall in nearby Brent crude oil futures to under $50/ barrel, from over $115/barrel in mid-June, although now partly reversed, is likely to have far reaching effects on agriculture in the UK and worldwide. Despite currency movements, crude oil prices in sterling terms also lost over half their value since June. This has come on the back of strong increases in world oil production. Oil's interaction with grain and oilseed prices will have a larger impact on margins for both arable and livestock farmers than lower oil costs directly.

For livestock sectors, the effects of lower oil prices on grain and oilseed prices will have a significant influence on feed costs. For pig production especially, feed costs represent over half the cost of production, so it is through this channel that lower oil prices will have a greater impact on margins than through lower energy costs.

However, while it is straightforward to assume that oil-induced movements in grain prices will reflect in lower feed prices, the impact from oilseeds is more complex. If rising liquid fuel consumption supports demand for vegetable oil due to biofuel mandates, demand for oilseeds to crush would be supported. All other things being equal, however, this would increase oilmeal supply, putting downward pressure on the price of these key feed ingredients.

Comparison of agricultural and crude oil futures price trends



Source: Reuters

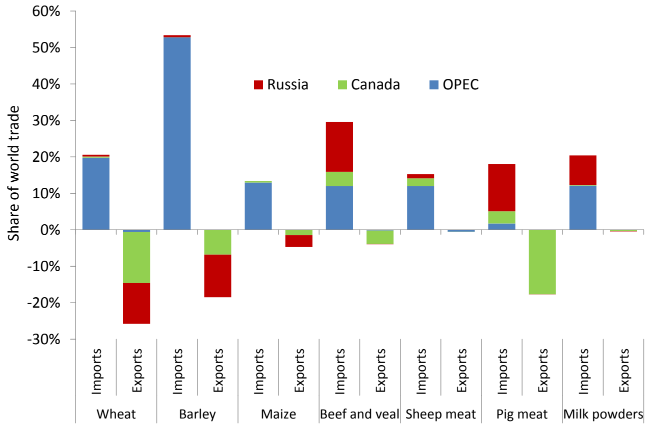
Lower oil prices also play a role in lowering fuel and energy prices. If lower fuel prices prevail, it should take some pressure off farm cash flows due to lower costs for running machinery and for heating, lighting and drying crops. The costs of product transport can also have an impact on margins, both directly and indirectly. Directly, it can help reduce the disparity between the price a purchaser pays and that which a farmer receives (both for inputs and outputs).

Fuel costs are also the largest cost item of the highly competitive global shipping industry, suggesting that fuel savings will likely result in lower international freight rates. By increasing the distance a product can be moved at a set cost, this exposes all farmers to greater competition – essentially making the world feel smaller. Depending on costs of production relative to elsewhere in the world, this can present both an opportunity and a challenge.

Oil prices are largely influenced by supply. The increases in production in 2014 came predominantly from North America (driven by fracking) and are forecast to continue. Thus, it is other oil producing areas that will be expected to suffer the largest reductions in oil revenues, which will put pressure on those economies that particularly rely on oil exports.

For oil exporters which are also exporters of certain agricultural products, such as Russia for feed grains, the effects are arguably already being seen, with grain export tariffs, for example, helping support diminishing state revenues. For agricultural importers in the category, especially OPEC members (which account for half of global barley imports, for example), reduced funds to pay for imports could lower some demand for agricultural products, although imports of higher-end products will likely feel the worst effects from this.

Selected major crude oil exporters' share of world trade in agricultural products, 2013



Source: USDA, FAO

On average, however, and for the UK and Europe in particular, lower oil prices are expected to benefit economic growth. Estimates by the IMF suggest a 0.3-0.7% addition to global GDP in 2015 from the existing fall in the oil price. The flipside of many agricultural products being 'necessities' for consumers, however, is that any upside effects to demand felt by agriculture may be limited.

It's clear that lower oil prices are likely to have far-reaching effects across the global agricultural markets. For UK pig producers, the impacts are likely to be largely beneficial. Direct cost of production gains from fuel costs may be limited but the interaction of crude oil prices with feed grain and oilseed prices may mean a noticeable reduction in costs. Furthermore, the wider economic impacts will, if anything, mean improved global demand for pig meat and, through reduced freight costs, greater competitiveness of UK (and EU) product on key export markets, such as China.

Feed Market

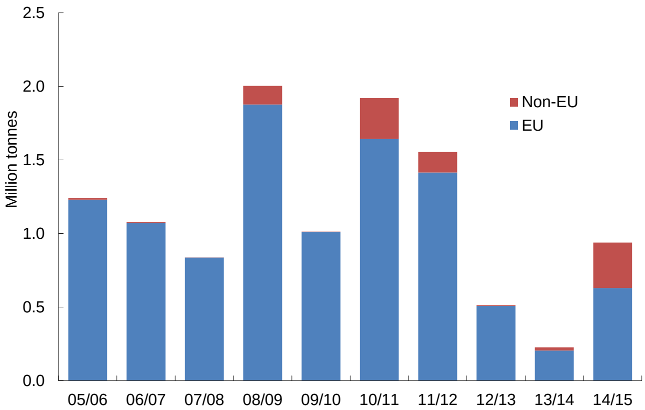
Grain markets have been relatively quiet throughout the last month. After falling sharply towards the end of January, UK feed wheat futures prices have been generally stable during much of February. May-15 UK feed wheat futures closed at £123.00/t on Friday 20 February, up 50p since the beginning of February but down £7.50 compared with 20 January 2015.

The February USDA report contained relatively small changes from the estimates made in January, offering little direction to the markets. Despite small production uplifts for both wheat and maize (by 1.6Mt and 3.2Mt respectively), demand was also upgraded, offsetting to an extent the fundamentally bearish theme of the report.

Defra's latest feed statistics for December revealed a drop in the cereal incorporation rate to 39.7%, the first time it has dropped below 40% in nine months. Between July and December 2014, 1.2% more wheat was used in the production of GB animal feeds than the same period last year, while 1.4% less barley and 1.9% less maize was used.

The latest UK trade data revealed continued strong exports of wheat (167Kt) in December, taking the season to date total to 959Kt. While the data showed strong non-EU exports, cumulative wheat exports continue to be weaker than needed given the size of the UK crop this year. The HMRC data also revealed further the strength of the barley export campaign to date. Between July and December, 743Kt of barley was exported, equating to 36% of the estimated surplus available for either export or free stock this season.

UK wheat export destinations, July-December



Source: HMRC

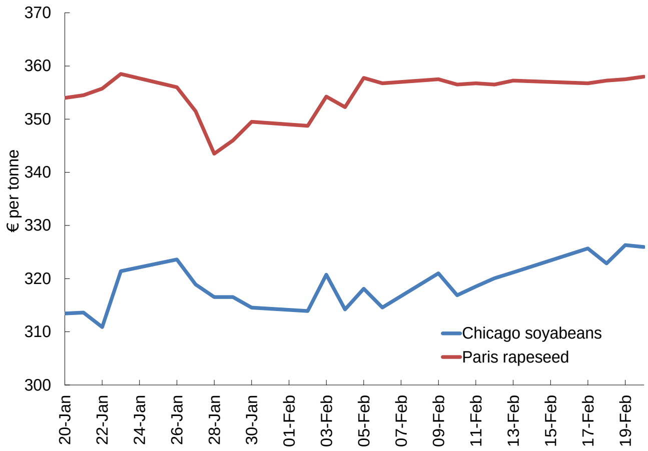
From a new crops perspective, the IGC are forecasting a drop in 2015/16 global wheat production, bringing the potential for a tighter-supplied season than the current one. Also looking ahead, the FAO have described early indications for 2015 crops as 'favourable' and Russian forecasting agency IKAR have described its first projection of the country's grain crop as 'moderately optimistic'. Nevertheless, it should be remembered that there is still a long way to go and spring crops are still to be planted.

News for the oilseeds complex has also been relatively quiet in recent weeks. Market focus is now concentrated on awaiting the outcome of the South American soyabean harvests, which are expected to account for 31% of global oilseed supplies this season.

French rapeseed futures prices have stabilised somewhat in the last couple of weeks, after having experienced a sharp dip and subsequent bounce back at the turn of the month. May-15 Paris rapeseed futures settled at €358.00/t on Friday 20 February, up €4 on the previous month, and an increase of €14.50 compared with 28 January's close.

US soyabean prices are also higher over the month, May-15 Chicago soyabean futures settled at $368.23/t on Friday (20 Feb), up $5.33 on the previous month. The weaker euro meant that the upward movement was exaggerated when converted to euro terms, providing some support to European oilseed markets.

May 2015 soyabean and rapeseed futures



Source: AHDB/HGCA

In the latest USDA report, the Argentine crop forecast was raised by 1Mt to 56Mt, as a result of improved prospects from favourable weather. Conversely, Brazil's soyabean production was revised downward by 1Mt to 94.5Mt, as a result of the impact of dry weather in the country. Physical rapeseed markets are beginning to resemble 'oilseed poker' – both buyers and sellers are prepared to hold off, expecting to have the winning hand.

UK delivered rapeseed spot prices for Erith delivery were £263.00/t on 20 February, down £3.50 on a month earlier, but up £5 on the 30 January price.

Rapemeal (34%, Ex-mill Erith, January delivery) is currently £187/t (as at 13 February), down by £3 compared with the price at 23 January. Hi-Pro soyameal (Ex-store, East Coast, February delivery), was £315/t on 13 February, down £15 on the end-January price.

Markets continue to absorb the fundamentally bearish conditions of ample EU and international supplies.

In Brief

Opportunities in focus at Outlook Conference

This month's AHDB Outlook Conference highlighted some of the opportunities available to the UK meat industry. The conference was opened by new AHDB Chief Executive, Jane King, who spoke of the role of the organisation in enabling UK agriculture to improve productivity to compete with the leading nations.

The first keynote speaker, Richard Nicholls from the Future Foundation, considered key trends for consumer markets over the next 5 years. Among the areas covered was the re-emergence of health issues, although salt and sugar seem to be more of a focus than fats at the moment, which could benefit the red meat sector. He also considered how new technologies were changing the way consumers shopped and their rising expectations, for example around personalisation.

This theme was developed further by the second speaker, Nick Miles from the Institute of Grocery Development (IGD). His presentation focused on Asian markets and, in particular, the rapid development of modern retail in the region. With four markets in the global top 10 and ten in the top 30, Asia has great and growing importance.

The conference concluded with three breakout sessions, including one covering pigs and poultry. This featured presentations on the outlook for pig meat supplies and an overview of the state of the poultry sector. The former included analysis of the latest AHDB/ BPEX supply forecasts. Short video summaries of each of the conference presentations are now available, by clicking here.

Pig farm business incomes slip in 2014/15

According to latest forecasts from Defra, the average farm business income (FBI - essentially net profit) for specialist pig farms in 2014/15 is set to slip back slightly. However, at £51,500, the provisional estimate for the current year is still the second highest in the last six years. Specialist pig farm incomes have been hit by falling pig prices, with an average drop of 7%, partly offset by improved productivity and heavier weights. However, input costs are also projected to be lower, particularly for feed. This has limited the fall in FBI and helped ensure that the position of pig farms has stayed relatively strong.

US had less pork to export in 2014

Throughout 2014, pork trading in the US followed the trend of the previous year, with imports increasing by 18% while exports were down 1%. This reflects a growing domestic demand, which could not be met by disrupted domestic production due to disease. However, with limited availability but sustained demand, unit export prices for US pork were up 11% on the year and by much more than this in the middle part of the year. This brought the total value of pork exports in 2014 to $4.9billion.

Denmark reports increased breeding herd

As at 1 January 2015, Statistics Denmark reported a 2% increase in the country's total number of pigs, to 12.7 million head. The breeding herd increased by 1% on the year, with more in-pig sows suggesting an increase in the number of young pigs can be expected in the next quarter. Piglet numbers were reported to be similar to last year in January. Weaners (under 50kg), though, were more abundant, at 5.7 million head, up 7% on the year. As slaughter pig numbers, however, continue to fall, it is evident that the weaner export industry remains robust.

PEDv shaped 2014 for Japanese industry

At the end of 2014, Japan further strengthened its position as the world's largest pork importer as its own production was hugely disrupted by widespread outbreaks of PEDv. Imports increased by 12% on the year to 829,400 tonnes. Unit prices were up an average of 4% on the year, following an increase in the gate price as domestic prices rose rapidly. As such, in conjunction with increasing volumes, the total value of pork imports in 2014 was ¥456.4 billion. 38% came from the EU, a third from the US and 18% from Canada.

EU maintains two thirds share of Chinese imports

Chinese pork imports decreased by 3% in 2014, bucking the trend of the previous four years. The US, the single largest pork trader with China, shipped almost 2% less pork, as production was affected by PEDv. In contrast, the EU increased its deliveries marginally to 368,700 tonnes, accounting for 65% of the market. At 27,500 tonnes, the UK was the fourth largest EU supplier to China (and sixth overall) with a market share of nearly 5%. As volumes fell, unit prices also dropped on the year by 2%, despite global pork export prices increasing. The total value of pork imports therefore fell by 5% to RMB6.5 billion (£635 million).

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