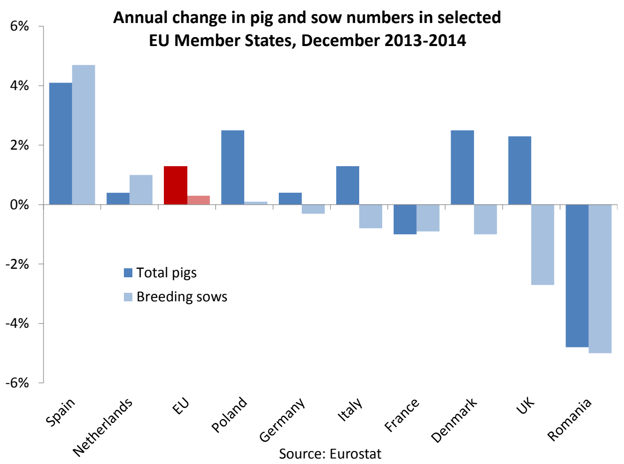
More tough times ahead for EU market

According to many predictions, 2014 was supposed to be a good year for EU pig producers. With feed prices low, supplies relatively tight and positive prospects for exports, if not for domestic demand, profitability should have been good. The Russian ban changed all that and supplies were a little more plentiful than anticipated, particularly in the second half of the year. As a result, in the autumn and early 2015, producers were losing money rapidly. Latest figures from the EU December pig census and updated forecasts suggest that the tough times will continue for much of 2015 but that things could start to improve by the end of the year.

Eurostat have now published the December 2014 pig census results from 27 of the 28 EU Member States, with Belgium the exception as it implements a change in methodology. The total number of pigs across the reporting countries was just over 1% up on December 2013. This represents the first year-on-year growth in the herd since 2006.

Amongst the key producers, Spain, Denmark and Poland recorded the strongest growth in their overall herd but most countries showed some increase. France was the most significant exception, with its herd dropping by a further 1%, representing an twelfth consecutive annual decline. The EU's largest herd, the German one, increased only marginally.



Overall, the EU breeding herd recorded a marginal increase in the year to December 2014, again the first since 2006. However, only a few countries reported increases in their breeding herd, with Spain's 5% rise the main driver of overall growth. Excluding Spain, the EU breeding herd was down 1%, with the majority of countries reporting decreases.

Given the poor profitability of EU producers in recent months, any expansion may come as a surprise. However, the main price falls only occurred in the autumn and so December would have been too early for the effect to be readily apparent, given that sows are normally only culled post-weaning. Certainly, sow slaughterings in some countries, such as Germany, have been much higher since the autumn, suggesting the breeding herd may be starting to contract again.

However, any significant herd contraction may take some time to become apparent, given that numbers of in-pig and maiden gilts were both up on a year earlier in December; again Spain was a major driver of the increase. There was also a 1% rise in in-pig sows and gilts, suggesting the piglet numbers will continue to rise in the short-term and any tightening of pig supplies is still several months away.

Looking at the feeding pig numbers in more detail, they do suggest that there would be some tightening of supply in early 2015, however, as the number of pigs over 50kg being fed for slaughter was slightly down on the year. This is supported by market reports of limited finished pig numbers in early 2015, which gave some support to prices. However, with numbers of piglets and younger feeding pigs higher in December, the tight supply situation was always likely to only be a temporary respite.

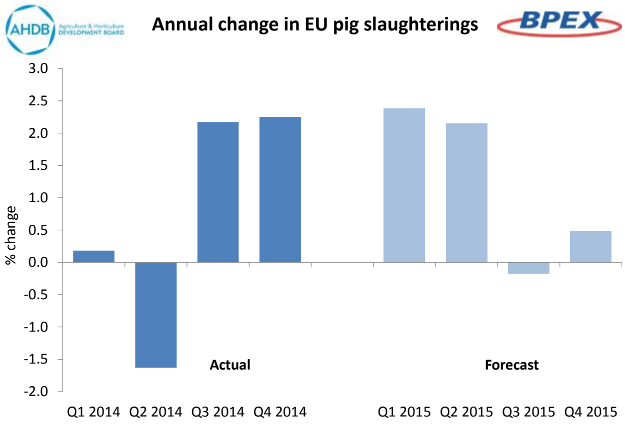
EU pig census results, December*

	2013	2014	% change
	000 head		
Total pigs	**139,890**	**141,676**	**+1.3**
Female breeding herd	**12,038**	**12,075**	**+0.3**
In-pig sows	6,651	6,682	+0.5
In-pig gilts	1,510	1,556	+3.1
Other sows	2,446	2,344	-4.2
Maiden gilts	1,432	1,492	+4.2
Boars for service	215	197	-8.6
Other pigs	**127,636**	**129,405**	**+1.4**
Under 20kg	39,210	40,160	+2.4
20-50kg	31,473	32,460	+3.1
50-80kg	26,193	26,037	-0.6
80-110kg	23,228	22,715	-2.2
110kg or over	7,533	8,034	+6.7

* Excluding Belgium Source: Eurostat

During the second half of 2014, EU pig slaughterings were 2% higher than during the same period of 2013. This brought to an end a period of falling supplies (and high prices) dating back to late 2011. With export demand affected by the Russian ban, despite strong sales to Asian markets, and EU consumers still struggling, this had an inevitable effect on pig prices. Between the end of June and the start of 2015, average prices fell by nearly a quarter, equating to over 40 cents per kg. At their lowest point, prices reached levels last seen in early 2007.

Based on the December census results, new estimates from the members of the EU Commission's working group on pig meat forecasts suggest that the increased supply levels will continue into the first half of 2015. Based on the group's figures and official estimates from those Member States not represented, pig slaughterings in the first two quarters of this year will again be up by over 2% year on year. Provisional slaughtering figures from certain Member States confirm that this appears to be the trend so far this year, although more data from a wider range of countries will be required before firm conclusions can be drawn.



Sources: Eurostat, EU Commission pig meat forecasting working group

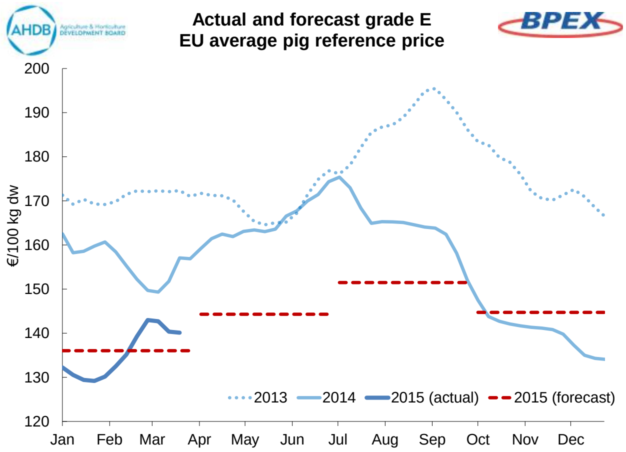
The situation in the second half of the year is more difficult to forecast. Supply levels will depend on the extent to which recent negative producer margins have led to reductions in sow herds. There is evidence that this has happened in some Member States at least and the effect could start to be felt from the third quarter onwards. As a result, the working group forecasts that EU production in the second half of 2015 will be little changed from the same period last year. However, there is considerable uncertainty in these figures and the true situation will probably only become clear once the June census figures are released over the summer.

One uncertainty is the extent of any disruption caused by outbreaks of PEDv. While the virulent strain which has caused havoc elsewhere in the world hasn't yet reached the EU, there have been reports of outbreaks in several Member States. Most appear to have been on finishing farms, where the disease will have little effect on the market. However, there are unconfirmed reports of greater disruption in Spain and Portugal, which might have some effect on supply levels.

Pig prices have picked up somewhat in early 2015, perhaps prompted by some short-term tightening of supplies. However, they remain subdued, with the average price during the first quarter likely to be around €1.36 per kg. To some extent, the price movement is probably a seasonal development, with EU prices typically picking up from February onwards, reaching a peak over the summer. The forecasts working group expects prices to follow a similar trend this year but any price rises are expected to be modest, with the group suggesting an average price of around €1.44 for the second quarter. This is similar to the increase recorded during the spring of 2014 and would keep the drop between the two years at around 20 cents per kg.

This forecast suggests that the market impact of the recently introduced Private Storage Aid (PSA) scheme will be limited. The working group's view was that the PSA rates are too low to remove sufficient volumes from the market. It appears that the scheme will mainly be used for product destined for export, allowing it to be stored until seasonal demand strengthens later in the year. This might allow small volumes of product to be diverted from EU to export markets but not enough to make much difference to prices.

PSA would probably not be used for products previously sent to Russia as there isn't much likelihood that the market would reopen in the 3-5 month timescale of the scheme. This would mean that the value of these products is unlikely to increase, so there is little point in storing them.



Source: EU Commission

The Russian situation creates uncertainty about price trends in the second half of the year. Much will depend on whether and to what extent the Russian market reopens. This means that some Member State experts are more optimistic than others about prices. However, most saw prices increasing slowly in the third quarter before falling back in the final three months of the year; the group's forecasts put average prices at €1.51 and €1.45 per kg respectively. This means prices would end the year back above 2014 levels but would remain low by recent standards. The subdued prices come despite the forecasted tighter supplies, as increased competition is expected from cheaper US pork on export markets, although the strong dollar may mitigate this.

Given these forecasts, it seems unlikely that the EU market will provide much support to UK pig prices this year, especially if the euro continues to weaken against the pound. On current exchange rates, the EU average price for the year would be equivalent to little more than £1/kg, so UK producers will be hoping that the price gap remains at its current unprecedented level, driven by retailers' continuing commitment to sourcing British pig meat.