

# Pig Market Trends

March 2015, Issue 118

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### Physical performance

The GB pig herd's productivity improved again in 2014, according to the latest data from Agrosoft. There are, however, differences in efficiency in the stages and types of production. In particular, there is a growing divergence between the indoor and outdoor breeding herd performance, which will have an effect on the average cost of production calculated quarterly by BPEX. Our analysis of the latest data and the differences between indoor and outdoor herds can be found on **page 4**.

### Hard discounters

Aldi and Lidl continue to increase market share as mainstream supermarkets contract - the question is how far can they go? Operating across a narrow product range, the hard discounters rely on enticing an ever greater proportion of mainstream shoppers into their stores to gain market share. While it is impossible to accurately quantify the future growth of hard discounters in GB, there are some indications from trends in other EU countries. To see what these trends tell us, turn to **page 5**.

### EU census and forecasts

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 by the autumn, 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. You can read about the latest EU pig herd developments and forecasts for the coming year on **pages 7-8**.

### UK December survey

Latest figures from Defra show that in December 2014, the UK pig herd was above 4.5 million head for the first time since 2008, up 3% over the last year. This shows that productivity continues to improve, given that the number of sows was down by 2%. More details of the December survey results can be found on **page 10**.

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## Key data

	Feb-15	Change since Jan-15	Change since Feb-14
Average GB carcass weight - kg	81.85	-0.17	na
30kg weaner price - £/head	45.20	-0.58	-11.00
7kg weaner price - £/head	33.51	-0.64	-7.82
GB APP (Euro-spec) - p/kg dw	138.72	-5.34	na
GB SPP (Euro-spec) - p/kg dw	135.02	-5.68	na
EU Reference price - €/100kg dw	136.33	+6.21	-18.81
UK Reference price - €/100kg dw	179.88	+0.41	-12.98
UK weekly clean pig kill - 000 head	203.9	+12.8	+8.2
UK weekly pig meat production - 000 tonnes	17.6	+1.1	+1.1
UK pork imports - 000 tonnes*	28.7	-3.8	-1.1
UK bacon imports - 000 tonnes*	19.8	-1.7	+0.6
UK pork exports - 000 tonnes*	14.4	-0.6	-1.2
Retail pig meat sales - 000 tonnes†	54.6	-1.4	-0.5
LIFFE feed wheat futures - £/tonne	121.17	-6.86	-32.78
CBOT Soyameal futures - \$/tonne	339.52	-4.34	-113.49

\* Figures relate to January 2015

† Figures include household purchases of pork, bacon, sausages and ham and relate to 4 weeks to 1 March 2015

Interested in data? Get more detail about these and other areas from the [BPEX website](http://www.bpex.org.uk)

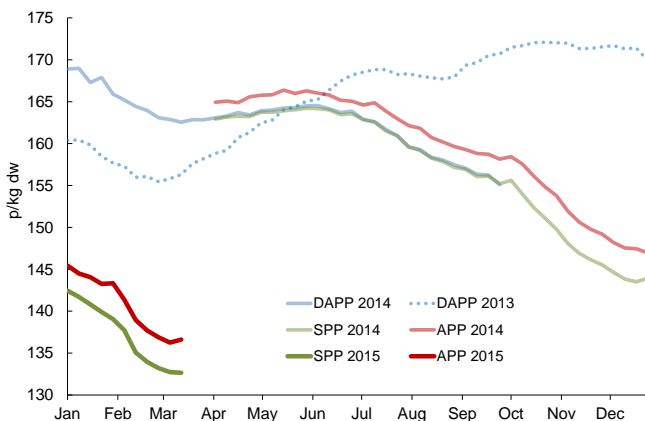
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## UK Market Snapshot

February brought little change in the downwards movement of finished pig prices. The EU-spec GB SPP averaged 135.02p per kg, 5.68p down on January. This is the equivalent of over 29p per kg below the DAPP in February 2014, a sharper fall than in previous months. Into March, the SPP has fallen further but by smaller amounts week on week, as the more recent stability seen on the continent, based on tighter supplies, begins to filter through to the GB market. By the week ended 21 March the SPP was virtually unchanged, suggesting stability could be the norm in the coming weeks.

In the same way, the EU-spec GB APP also fell in February, to 138.72p per kg, down 5.34p. This has again widened the gap with the SPP to 3.7p per kg. The APP in the week ending 14 March, however, showed an upturn, up 0.36p per kg on the week, potentially leading the way for some market stability, as reports of heightened spring demand and somewhat tighter supplies pan out.

### GB finished pig prices



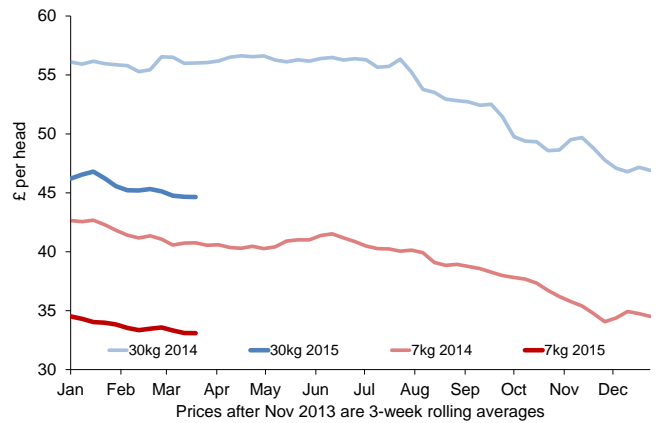
Source: AHDB Market Intelligence

It appears that carcass weights may have peaked in January, as those in the APP sample fell to an average of 81.85kg in February, although still about 1.3kg up on weights in the DAPP sample a year before. The maintenance of heavier carcasses has been achieved largely by the continuation of low feed costs, with prospects for this year's harvest still looking broadly favourable in most parts of the world. The average probe measurement was maintained at 11.3mm in February but has since fallen to 11.1mm in mid-March, an important consideration for producers as they strive to meet market specifications.

In February 2015, the weaner markets followed suit, with prices continuing their downward trend. 7kg weaners averaged £33.51 per head, just 64p lower than in January, and fell further into March. Similarly 30kg weaners decreased by just under 60p to £45.20 a head. Consequently, prices continue to run below 2014 by around £8 and £11 respectively, as concern over demand for increased production grows. For the week ended 21 March, however, both weaner prices saw a

modest 8p per head increase, hinting that the slowdown in falling finished prices may have begun to filter through to finisher optimism. However, any significant upward price movements remain unlikely in the short-term.

### GB weaner prices

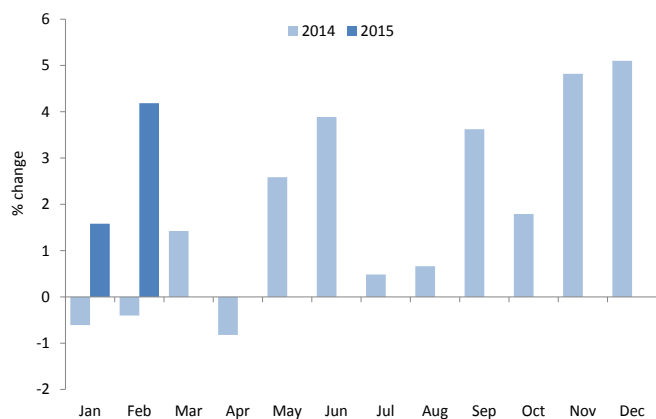


Prices after Nov 2013 are 3-week rolling averages

Source: AHDB Market Intelligence

Latest Defra data suggest that in February clean pig slaughtering in the UK was 815,800 head, 4% up on February 2014. This provides confirmation of industry reports of continued ample supplies at that time. Northern Ireland again reported the highest increase in its kill, as growth in its herd becomes evident throughout the supply chain, but all parts of the UK recorded year-on-year growth. Sow and boar slaughterings were reportedly 2% back on last February, at 19,100 head. As cull sow prices continue to be poor, increased retention is likely as sow replacement becomes less economically attractive, which could negatively impact the efficiency of production in the coming months.

### Annual change in UK clean pig slaughterings



Source: DEFRA

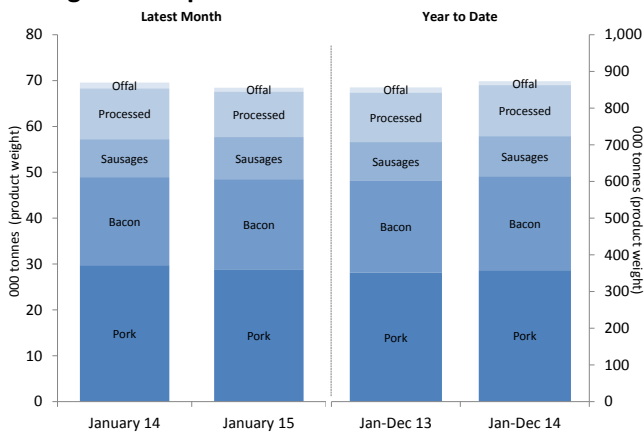
The figures also show that, although carcass weights were down marginally on January, at 82.3kg, they were over a kilogram heavier than in February 2014. This, alongside higher throughputs, resulted in a 6% year on year increase in pig meat production, to 70,500 tonnes for the month. As slaughterings for the first two months of 2015 are up on those in 2014 by almost 3%, the downwards movement of finished pig prices clearly continues to be, in part, supply driven.

# UK Market Snapshot

In January 2015, according to data from HMRC, the UK imported 3% less pork than a year before, with lower deliveries from Germany, Ireland and France. This decrease from European partners, despite the growing gap between EU and UK prices due to the weakening of the euro, concurs with the increased domestic supply and consumer preference for UK product. Denmark retained over a quarter share of the market and increased the volume of pork it delivered to the UK in January by 5%. There was also a significant increase in Polish pork imports, perhaps a remnant of redistribution of product previously destined for Russia. The other legacy of an ample supply, particularly within the EU, was 17% lower unit prices.

Bacon and sausages were also cheaper on the year and these categories did increase in import volume. A 3% rise in bacon imports was supported by Germany and Ireland, as product from the Netherlands decreased and was replaced by Danish bacon. 11% more sausages were imported, with the same key European trade partners involved. Less processed pork was imported, however, as the result of Irish, Dutch and Danish reductions.

## UK Pig Meat Imports

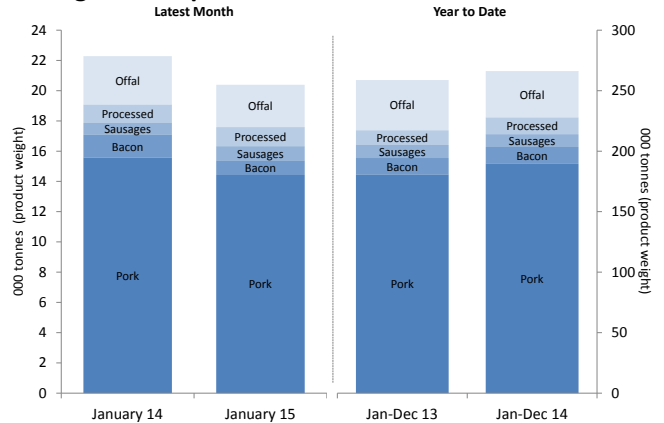


Source: Her Majesty's Revenue & Customs

Despite higher domestic supply, UK pork exports in January 2015 were down 7% on the year, even as unit prices dropped by 12%, bringing the value of exports during the month down to £14.5 million. The UK was competing with supplies from across Europe on Asian markets, as a result of the loss of the Russian market; a 42% reduction in shipments to China and 50% to Hong Kong highlights this. Also, as US production recovers from PEDv, UK exports to that market were down 13% on the year. However, smaller Asian markets like the Philippines and South Korea did take more pork from the UK than a year earlier.

Meanwhile, exports to the rest of the EU were little changed from January 2014, despite the increased gap between pig prices at home and on the continent. Offal exports to China were also reduced by a third, although more was taken by Hong Kong, the Philippines and South Korea, with higher prices supporting the value of the fifth quarter.

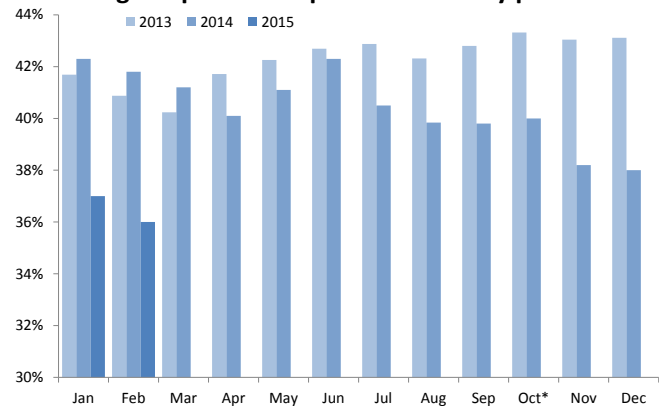
## UK Pig Meat Exports



Source: Her Majesty's Revenue & Customs

The producer's share of the final retail price of pork in February was 36% according to BPEX/AHDB estimates. This is one point down on the month, a continuation of the downwards trend since October, and six points back on the year. The most recent drop is due to the continued falling farmgate price for finished pigs, as retail prices have remained broadly stable for the last quarter. In January, the producer share for bacon was still less than pork, at 34%. Although this was just under one point up on the end of 2014, as retail prices were cut quite sharply, it is four points down on the year, reflecting the fall in farmgate prices.

## Percentage of pork retail price received by producers



\* figures from Oct-14 are based on APP

Source: AHDB Market Intelligence

Of the most popular cuts, traditional pork sausages were discounted the most in February by retailers, with prices being around 2% down on the month, according to the latest AHDB price survey. Other cuts were less affected, for example loin chops/steaks and minced pork prices were up less than 1%, while boneless leg joints and fillet prices eased by less than 1%. In a year-on-year comparison, however, the trend puts all cuts as cheaper now with the exception of loin chops. Again sausages and boneless leg joints have the biggest price differential, falling by 11% and 9% respectively.

Latest figures from Defra show that in December 2014, the UK pig herd was above 4.5 million head for the first time since 2008, up 3% over the last year. However, the number of sows was down by 2%. To read about the results of the December survey in more detail, turn to page 10.

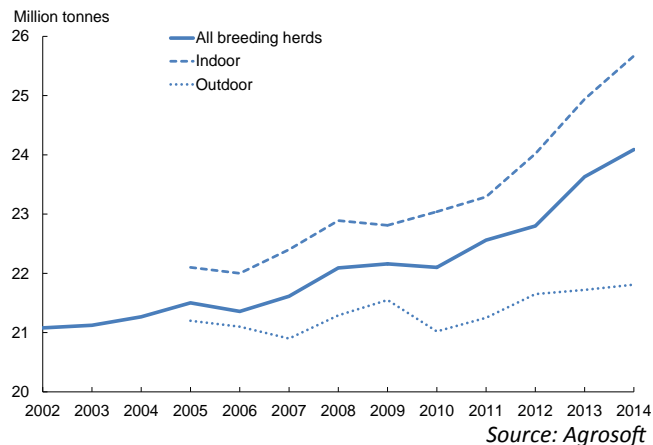
## UK Market Analysis

### Indoor herd drives improved GB productivity

The GB pig herd's productivity improved again in 2014, according to the latest data from Agrosoft. Many of the measurable physical performance attributes which underwrite the volume of finished product, as well as determining input costs, contributed to this overall improvement. There are, however, differences in efficiency in the stages and types of production (indoor/outdoor breeding, rearing and finishing). In particular, there is a growing divergence between the indoor and outdoor breeding herd performance, which will have an effect on the average cost of production calculated quarterly by BPEX.

In 2014, the average number of pigs weaned per sow per year increased by 0.4 to 23.9. However, the indoor and outdoor averages were significantly different. The indoor average was 25.7 pigs weaned, whereas outdoor sows produced nearly four pigs fewer. This is a wider gap between the two than was evident in 2013 and continues the trend of recent years; a decade ago, indoor producers were only producing one more pig per sow per year than their outdoor counterparts. Since then, indoor productivity has improved rapidly, while outdoors it has only improved slightly.

### Pigs weaned per sow per year from GB pig breeding herds



Outdoor breeding, accounting for around 40% of production, has long been the preference of a section of British consumers, if the retail price is right, on perceived welfare grounds over indoor systems. However the increasing divergence in performance and the effect this is having on producer margins, must be a cause for concern. It is worth bearing in mind that 2014 was a year of benign weather and cheap feed prices, which should have helped, not hindered, productivity in the outdoor herd.

The main measures which contribute to overall sow productivity (the number of pigs weaned per sow per year) are listed in the table below. In 2014, the indoor herd improved or remained stable in all these key measures. In contrast, the outdoor herd saw little change in the number of pigs weaned, partly as a result of fewer litters per sow, likely as a result of reduced fertility, and

an increase in pre-weaning mortality. Piglet mortality is an issue of both welfare and economic importance. The outdoor figure of 14.2% in 2014 was the highest on record, although this may be partly due to more accurate recording of litter sizes. Nevertheless, with an absence of extreme weather during the year, the mortality rate must be of some concern.

### Comparison of KPIs for indoor and outdoor breeding herds, 2014

	Indoor		Outdoor	
Pigs weaned/sow/year	25.7	↑	21.8	↔
Litters/sow/year	2.30	↔	2.24	↓
Pigs born alive/litter	12.6	↑	11.4	↑
Pre-weaning mortality %	11.5	↓	14.2	↑
Pigs weaned/litter	11.2	↑	9.8	↑
Sow feed/sow/year (kg)	1,345	↓	1,547	↓
Feed/pig weaned (kg)	47.3	↓	72.5	↓

Source: Agrosoft. Arrows indicate change since 2013

Although the trend is up, the number of piglets born alive per outdoor litter is now more than one below that of indoor litters. A decade ago, the difference was more like half a piglet per litter, another indication that outdoor producers have struggled to keep up with their indoor counterparts.

Differences in inputs between indoor and outdoor systems also widened in 2014. Feed consumed by each outdoor sow reduced by an average of 54kg on the year, while indoors this fell by 131kg, bringing the difference to over 200kg. With fewer piglets weaned, the gap is now equivalent to around 25kg per piglet, meaning sow feed costs outdoors will be higher by around £5 per weaned pig.

One emerging concern may be around sow replacement rates. Last year saw lower rates, particularly for outdoor sows, a reverse of the long-term trend, as cull prices fell. While this may not be of immediate concern, if the trend continues, it could lead to an older, less productive herd in the coming years.

The overall improvement in performance was also apparent in the rearing and finishing herds. In particular, feed was converted more efficiently in both cases. The Feed Conversion Ratio (FCR) for rearing was down from 1.75 in 2013 to 1.71 in 2014, while the finishing FCR fell by 0.11 to 2.67. This meant around 7kg less feed was used per pig last year, contributing to reduced feed costs. Daily weight gains were, however, little changed, with a small rise in the rearing herd offset by a modest fall in the finishing stage.

More detail on physical performance trends in 2014 will be included in the BPEX Yearbook, which will be published in May. KPIs for all herd types are available on the BPEX website by [clicking here](#).

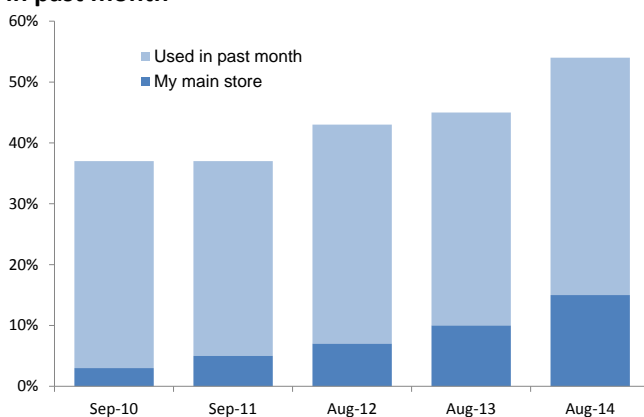


# UK Market Analysis

## The Future of Hard Discounters – Lessons from France and Germany

Aldi and Lidl continue to increase market share as mainstream supermarkets contract - the question is how far can they go? Operating across a narrow product range, the hard discounters rely on enticing an ever greater proportion of mainstream shoppers into their stores to gain market share. In GB, it is only in the last five years that Aldi and Lidl have been successful in going mainstream – with 54% of shoppers from across the socioeconomic spectrum using these stores at least once a month according to IGD.

### % of shoppers saying they have shopped at Aldi or Lidl in past month



Source: IGD Shoppervista

According to Kantar data, Aldi and Lidl now together account for 8% of the GB market. While it is impossible to accurately quantify the future growth of hard discounters in GB, there are some indications of what trajectory discounter growth might take from trends in other EU countries. In their home market, Germany, discounters such as Aldi and Lidl together account for around 37% of the grocery market share, with 85% of all shoppers using Aldi at least once a year. Here discounter growth has stalled for a number of years, despite less market competition from large multiple retailers compared to GB – suggesting a natural growth ceiling.

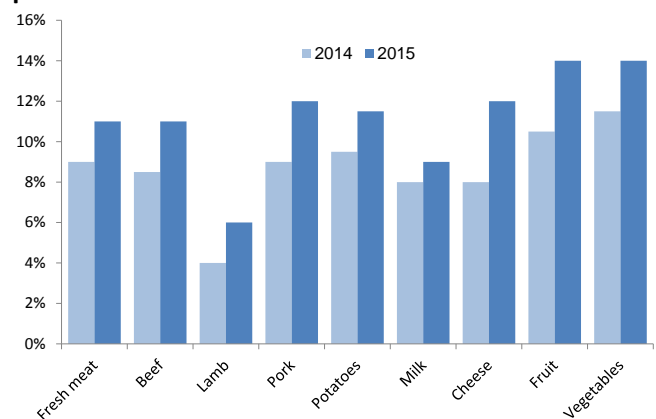
In France, mainstream supermarkets have fought back and hard discounters have declined. Here, the discounters reached a similar market share to GB (8%) in 1998. Growth continued, to reach 14% in 2009, when the proportion of shoppers using them reached 73%. French supermarkets reacted by becoming price competitive with discounters, expanding budget lines, moving away from promotions to everyday low pricing and redefining own-label tiers around clear quality and value-for-money price points. Without a strong price advantage, hard discounters have been losing market share year on year since 2009 and now account for just 12%. In this period, hard discounters in France have lost 1.2 million customers and have recently closed 150 stores.

GB is a tough market for the discounters and most retail market analysts do not foresee them reaching a similar

market share to Germany. They do predict that discounters could achieve a share of between 15% and 20%, as has already happened in Ireland. In terms of speed of growth, according to retail analysts, the UK will be the fastest growing European market for hard discounters, growing at an 11% compound annual growth rate between 2013 and 2018. This prediction is underpinned by rapid investment and expansion plans – Aldi plans a 67% expansion to 1,000 outlets by 2022. Meanwhile, Lidl has long-term plans to more than double its number of stores in the UK to around 1,500.

In lessons learnt from experience in Germany and France, hard discounters are now looking to also grow share by increasing average shopper spend through trading up. They are achieving this by working with a select number of brand leaders and adding premium quality tiers to their private-label fresh product ranges. Aldi, in particular, has seen an opportunity to expand its premium British-sourced fresh produce offering - meat, dairy products, fruit and vegetables with some stores opening in-store bakeries. The discounter now stocks a range of organic fruit and vegetables as well as speciality meat cuts and dairy products. Latest 52-week Kantar data shows that Aldi and Lidl have strong growth rates and are overtrading in these categories at a time when the overall market volumes are static or in decline.

### Discounters' GB market share by volume for fresh products



Figures relate to 52 weeks ended 1 March

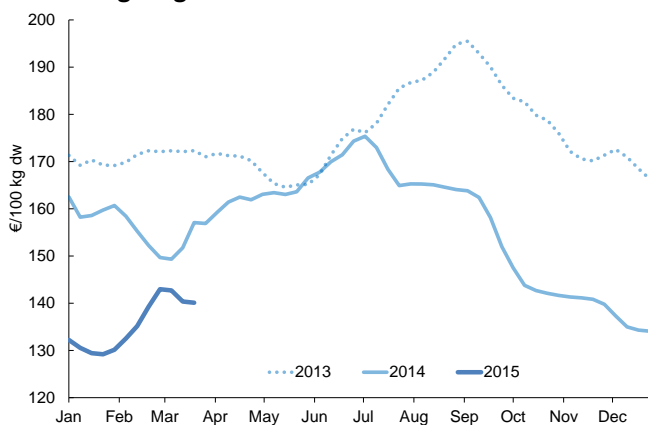
Source: Kantar Worldpanel

Meanwhile, there are some clear boundaries in terms of where discounters can develop further share. It is unclear how far discounters can go in their quest to mimic the large multiples before diluting the strength of their low cost model. They have no share of the growing online grocery channel and risk losing share to other discounters if they move too far away from their original credentials. Also, in similarities to France, mainstream GB retailers are increasingly responding to the threat of future discounter growth. Morrisons have launched 'Match and More' and Tesco and Asda have reduced prices on everyday product lines. However, it is unclear how far large multiple retailers can go to compete with the discounters on price without some major restructuring, as happened in France.

## EU Market Snapshot

Throughout February, the EU average pig reference price showed some significant upwards movement. In the week ended 1 March, the average price reported by the EU Commission was €143 per 100kg dw, up nearly €4 on the week. For the four weeks to the 1 March, the price had increased by over €12 per 100kg, although the weakening euro meant this was equivalent to just 7p/kg. The speed of such an upturn has not occurred since the middle of 2013 and it has narrowed the gap with prices this time last year to around €7 per 100kg, in contrast to a €30 difference at the start of 2015. This change in direction can in part be attributed to some tightening of supplies, although this may only have been a short-term situation, as by week ended 22 March prices were back down to just over €140 per 100kg.

### EU Average Pig Reference Price

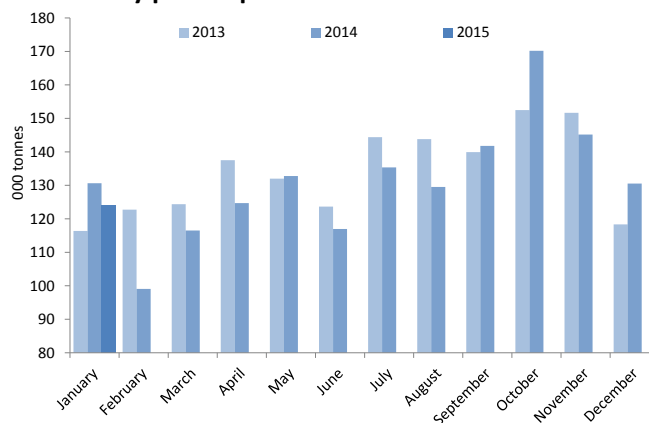


Source: EU Commission

Spanish finished pig prices increased by over €12 per 100kg during February, while Germany also remained a driver of price trends, up €17 per 100kg. Belgium, France, Poland, the Netherlands and Austria also all increased by over €10 per 100kg and Danish prices rose by €8. Ireland, however, only recorded an increase by €2 in the month, meaning its price fell below the EU average for the first time since September.

In January 2015, at just shy of 124,000 tonnes, the EU-28 exported 5% less pork compared to the previous year, which was before the Russian ban was imposed, according to data from Eurostat. Unit values remained relatively stable but the decrease in volume resulted in a fall in overall income from fresh and frozen pork exports to €287 million. Asia continued to dominate the market, despite a 4% decrease in deliveries to China and less to Hong Kong. South Korea took 60% more EU pork as disease continued to hinder its own production. The US, despite beginning to recover from PEDv, also took more EU pork to satisfy consumer demand, while Japan showed more production recovery and decreased its need to import. Australia continued to become an increasingly important recipient of EU pork, edging towards 7% of the total, double its share last January.

### EU monthly pork exports

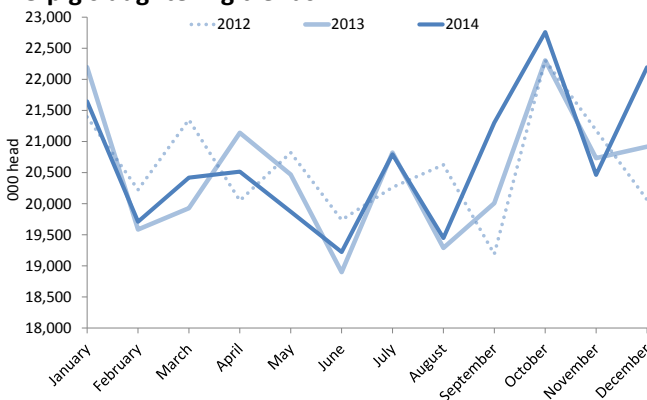


Source: Eurostat, GTIS

Offal exports from the EU were also lower in January 2015 than last year, by 6%, reducing the value of this trade to €94.6 million. With a 5% increase, however, China took over half of all EU offal exports as demand also supported a 14% increase in unit price. The Philippines and South Korea also received more, while Hong Kong reported a 42% reduction.

2014 data for EU pig slaughterings and pig meat production from Eurostat confirm industry reports from across the continent that supply was plentiful throughout the year, courtesy of improving physical performance and favourable feed costs. In December 2014, 22.2 million pigs were slaughtered, up 8% on November and up 6% on December 2013, partly because of an extra working day during the month. Cumulatively in 2014, 248.4 million pigs were slaughtered, almost 1% more than 2013. As a result of this increased kill, production was up by a similar amount and totalled 22.1 million tonnes, as average carcase weights were largely unchanged overall.

### EU pig slaughtering trends



Source: Eurostat

For 2014 as a whole, slaughterings were largely unchanged in Germany and France. In contrast they were up by as much as 4% in Spain and the Netherlands, the latter partly due to lower exports of pigs to slaughter in Germany. The growing weaner trade between the two countries meant that in Poland slaughterings were up by 7%, while in Denmark throughputs fell by 2%. The UK, with the ninth highest kill, was up on the year by 2% while Ireland expanded by 5%.

## Global Market Analysis

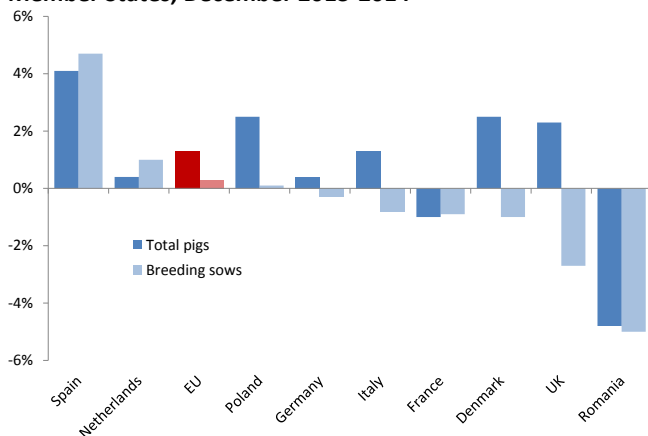
### More tough times ahead for EU market

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.

#### Annual change in pig and sow numbers in selected EU Member States, December 2013-2014



Source: Eurostat

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 slaughtering 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, 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		
<b>Total pigs</b>	<b>139,890</b>	<b>141,676</b>	<b>+1.3</b>
<b>Female breeding herd</b>	<b>12,038</b>	<b>12,075</b>	<b>+0.3</b>
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
<b>Other pigs</b>	<b>127,636</b>	<b>129,405</b>	<b>+1.4</b>
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

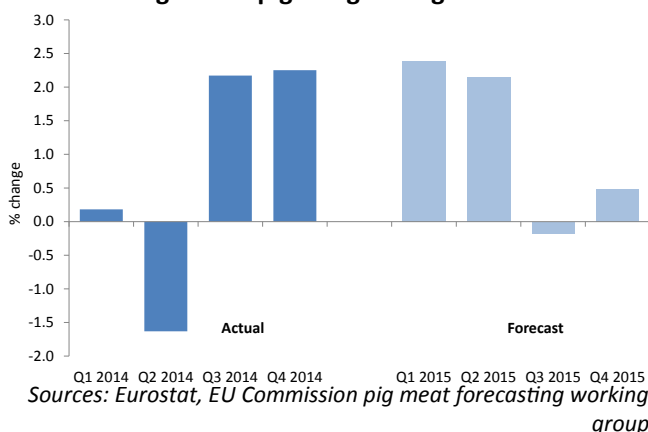
Source: Eurostat

During the second half of 2014, EU pig slaughtering 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.

## Global Market Analysis

Taking into account the December census results, new estimates from the members of the EU Commission's working group on pig meat forecasts suggest that increased supply levels will continue in the first half of 2015. Based on the group's figures and official estimates from those Member States not represented, pig slaughtering 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.

### Annual change in EU pig slaughtering



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 PEDv 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.

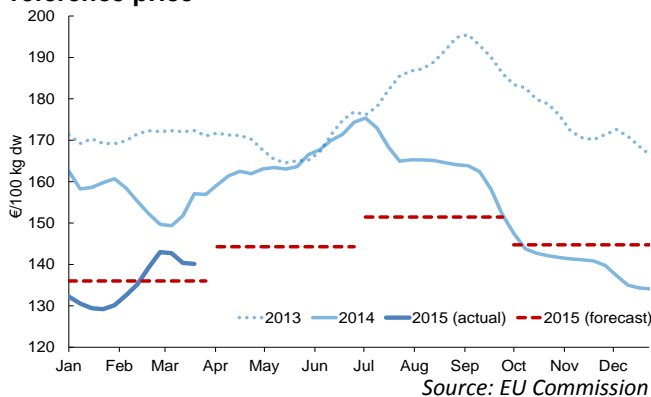
Pig prices have picked up somewhat in early 2015, perhaps prompted by some short-term tightening of supplies. However, they remain subdued, with the average price during the first quarter likely to be around €1.36 per kg. To some extent, the price movement is probably a seasonal development, with EU 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 set 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 will 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.

### Actual and forecast grade E EU average pig reference price



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.

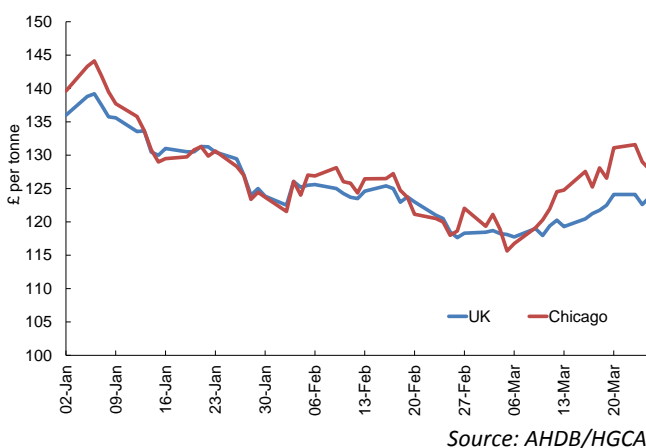
Given these forecasts, it seems unlikely that the EU market will provide much support to UK pig prices this year, especially if the euro continues to weaken against the pound. On current exchange rates, the EU average price for the year would be equivalent to little more than £1/kg, so UK producers will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



## Feed Market

March has been a bullish month for UK grain prices. New crop (Nov-15) futures in London closed at £133/t on Friday 20 March, up £4.80 on the week and a £7 rise since the start of the month. Chicago May-15 wheat futures have seen a slight increase since the beginning of the month. However, currency movements have weighed down on US prices, as the strengthening dollar has put increasing pressure on the value of wheat in order to remain export competitive. As at 26 March, May-15 Chicago futures prices had increased \$6.98/t since the beginning of the month, as dry conditions for key US winter wheat crops are a key factor at present lending some support to prices.

### US (Chicago) and UK May-15 wheat futures prices



Further price volatility may be around the corner, with quarterly US stocks and prospective planting data out from the USDA on 31 March. A year-on-year fall in the US maize area is anticipated but this could well be offset by the emergence of warm conditions, which will be supportive of maize plantings ahead of the later-sown soyabean crop.

As at 1 December 2014, Scottish wheat plantings stood at 104.9Kha, up 2.3% on a year earlier. This goes against the trend of England and Wales and might be linked to farmers responding to the three crop rule. This could well result in reduced price differences between England and Scotland, continuing the trend seen this season.

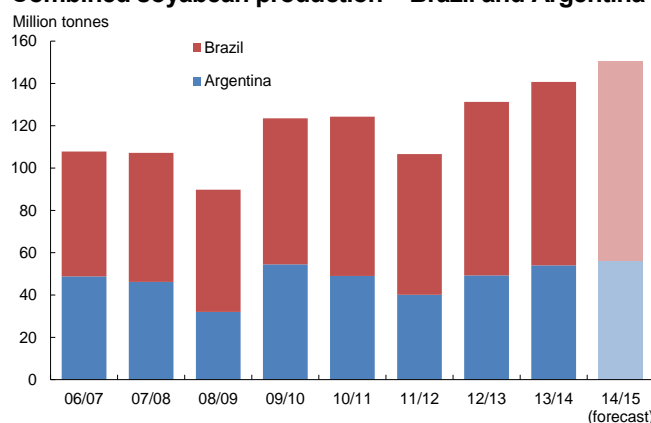
Across Europe, the crop outlook remains positive according to the latest EU (MARS) Crop Monitoring report. Based on conditions to date, the report included its first projections of EU yield potential in 2015. While down from the high levels seen in 2014, potential to date for nearly all crops is still projected above the previous 5 year average

As a result of strong supplies and a weak euro, French maize has seen increased sales to the world market - EU maize exports usually struggle to compete against the likes of the US. With falling freight rates too, Reuters suggests multiple export cargoes will be shipped to Asia. The non-GM nature of French maize was also cited as a factor for some importers.

Russia's agriculture ministry remains optimistic towards 2015 grain production with current forecasts at 100Mt, down slightly from the 105.3Mt in 2014 and above the 92.4Mt in 2013. Damage to the winter crop is less than expected, according to the Interfax news agency. Spring has apparently arrived two weeks ahead of last year, allowing planting to commence. The region will need to be closely monitored as always this growing season, in order to gauge ongoing weather impacts and whether farmers have sufficient resources to grow the crop.

Chicago May-15 soyabean prices have fallen marginally since the beginning of the month (3%). As harvest gets underway in South America, the market is becoming more confident that record production forecasts will be met.

### Combined soyabean production – Brazil and Argentina



In the EU, attention has now turned to the prospects for the 2015/16 rapeseed crop. Early projections from Strategie Grains indicate a smaller area planted to rapeseed for harvest 2015 (down 3%) compared with 2014. The smaller area suggests that supplies may be tighter, which has added some support to European futures prices, in combination with a weaker euro over recent weeks. As at last Wednesday's close (25 March) Paris May-15 rapeseed futures prices were €366/t, up €0.75 since the beginning of the month.

Informa Economics trimmed its forecast of the US soyabean area for harvest 2015. The firm now projects the area at 35.4Mha, down from 35.6Mha in January but still up from the 33.9Mha planted for harvest 2014. Its maize area projection was virtually unchanged at 35.83Mha (35.86Mha in January) – the USDA estimates that 36.7Mha were planted for harvest 2014.

In the US, the discovery of a virulent strain of bird flu (H5N2) at a turkey farm in Arkansas has given rise to concerns about domestic soyameal demand. Arkansas is the third largest turkey producing state in the US and there are concerns that the discovery may dent demand for US poultry overseas. A number of poultry importing countries have restricted imports from US states where previous outbreaks have occurred.

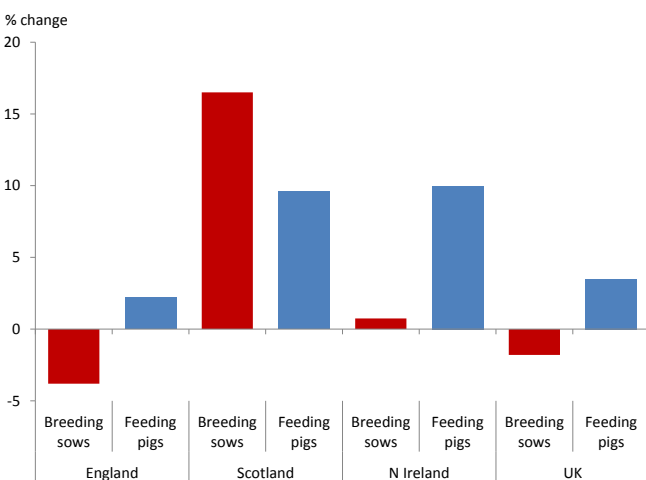
## In Brief

### UK herd at 6-year high but uncertainty ahead

Latest figures from Defra show that in December 2014, the UK pig herd was above 4.5 million head for the first time since 2008, up 3% over the last year. This shows that productivity continues to improve, given that the number of sows was down by 2%. The overall increase is, therefore, due to a 4% rise in the number of feeding pigs. The biggest increase was in the top weight band, consistent with the heavier carcass weights of late. The slowest growth was recorded in the 20-50kg group, which may indicate a modest tightening of supplies in March and April. However, with stronger growth returning in the lightest weight band, any tightening may be short-lived.

The rise in feeding pig numbers is in line with AHDB supply forecasts, which will be updated next month. The figures support the expectation that supplies will remain plentiful for most of the coming year. The smaller breeding herd figure may indicate that supplies will tighten later in the year. However, there is some uncertainty, given that a similar fall in the June survey figures didn't lead to any tightening of supplies.

### Changes in pig herd by UK country December 2013 – December 2014



Sources: Defra, Scottish Government, DARD NI

The trends described above largely reflect the situation in England, which makes up 80% of the UK herd. After many years of decline, the Scottish breeding herd rose by 17% to reach its highest level since 2010 and the total herd increased for the first time in four years. The Northern Irish breeding herd only rose marginally but improved productivity and increased weaner imports from Ireland meant that the overall herd was up 9%.

### EU Commission launches Private Storage Aid for pig meat

Earlier this month, the EU Commission moved to introduce Private Storage Aid (PSA) for pig meat. The scheme provides support for storage costs of certain cuts for between 90 and 150 days. PSA has been introduced to ease the pressure on the EU pig meat market, with pig prices having been more than 15% below the 5-year average for over 6 months, largely due to the Russian import ban. By 23 March, applications to enter 38,500 tonnes into PSA had been received, the majority for boned legs.

### Global prices back to normal

Price hikes driven by the impact of PEDv in the US and Asia on global supplies took the average export price for pork to US\$3.50 per kg last summer, 13% above the previous record of \$3.12. However, with the impact of PEDv waning and signs of production expanding in 2015, the average export value in December was down to \$2.95, in line with levels for much of 2012 and 2013. EU prices were largely unaffected by the rises elsewhere, mainly due to the Russian import ban, so EU pork was the cheapest among the major exporters in 2014, the opposite of the usual position.

### EU meat production expected to increase

The latest [EU Commission short-term outlook report](#) alludes to production being set to grow for all meats in 2015. The sector will benefit from lower costs given record cereals harvests. The weak euro against the US dollar has allowed meat products to be exported at competitive prices. With the latest EU census reporting an increase in the breeding pig herd, increased production looks set to continue in 2015 and 2016. With stable consumption, this will mean more product being exported, offsetting the decline recorded in 2014.

### Danish focus on live exports expanded in 2014

In 2014, Denmark exported 1% more pork but for a lower value than the year before. Intra-EU trade expanded by around 2%, driven by a similar increase to Germany, while the UK imported almost 16% more Danish pork. Non-EU trading showed a 3% decrease overall, due to the Russian ban, but other major non-EU countries received more Danish pork. Denmark continues to increase its exports of weaners for finishing in neighbouring EU countries. Germany took almost 7 million head in 2014, up 5% on the year, but Poland remained the main growth market and took a third more weaners on the year.

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