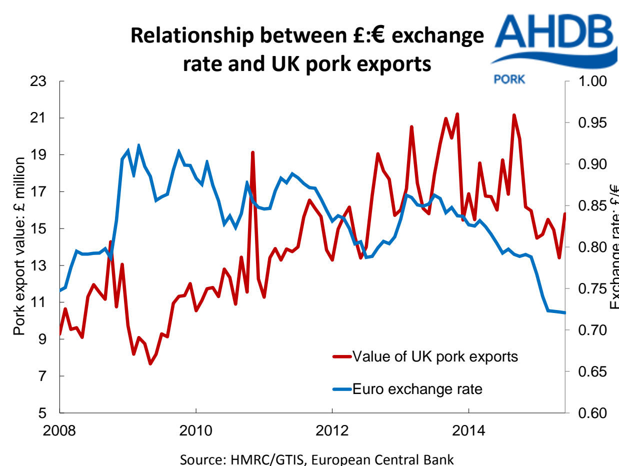
More on how the exchange rate affects the GB pig market

In a previous article we began to examine the impact of the pound – euro exchange rate on the GB pig market. That article focused primarily on import prices, which have a close relationship with GB prices. However, this is not the only way in which exchange rates could affect the UK market.

One obvious area where exchange rates might be expected to have an impact is on exports. However, analysis of long-term trends suggests that there is at best a weak relationship between the pound-euro exchange rate and exports (or export prices), even those to the rest of the EU. There is a slight tendency for the value of exports to the EU to fall as the euro weakens, as in recent months. However, even this is not consistent. The relatively weak pound of recent years must have helped drive increasing UK pork exports but there is little sign that fluctuations in exchange rates have made much difference to the upward trend.



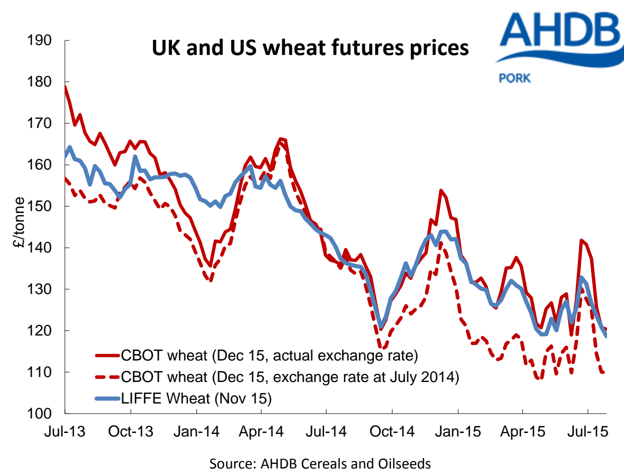
Source: HMRC/GTIS, European Central Bank

Most UK exports are made up of products with limited value on the domestic market. A variety of different items make up these exports, from sow carcases shipped to Germany to 'fifth quarter' cuts sent to China. Each will have different price trends, influenced by a range of factors, of which the euro exchange rate is only one. Therefore, while the strength of the pound may be creating challenges in the short-term, it is understandable that it is not so important driver overall.

Of course, around 30% of UK pork exports head to markets outside the EU. The opening (and closing) of these markets makes the biggest contribution to overall trends, regardless of exchange rates. For these markets the key exchange rate is with the US dollar, the currency of international trade. However, analysis shows no clear relationship between this and UK exports, even those to non-EU markets.

The dollar exchange rate, though, is important to the UK pig market in another way. It has a significant impact on production costs because many key input prices are based on global commodity markets, priced in dollars. The most obvious example is feed but energy, transport and some other categories of cost are also affected.

Unlike the euro, the dollar has strengthened against the pound over the last year, although it has lost some of the gains in recent months. Last June, the dollar was worth around 59p. By the early spring, this had risen to 67p but has since fallen back to around 64p.



Source: AHDB Cereals and Oilseeds

Since the start of the November 2015 UK feed wheat futures contract, it has generally been close to the new crop Chicago wheat futures price, although the latter has been more volatile. This means we can estimate the exchange rate's effect on UK prices. If the dollar was worth the same as a year ago, Chicago wheat would now be around £11 per tonne cheaper in sterling terms. Therefore, UK feed wheat prices would likely have been lower by a similar amount. At times earlier in the year, the gap was as high as £18/tonne.

With other feed ingredients and commodities such as oil, also priced in dollars, its strength will mean that a wide variety of prices will also have been higher than if the exchange rate hadn't moved. The precise impact on pig production costs will vary but they could be up to 10p/kg higher than if the dollar-pound exchange rate hadn't moved. This might be enough to mean the average producer was breaking even, rather than making a loss.

However, the UK situation is better than in the rest of the EU. The weak euro means that it has not benefitted from falling commodity prices to the same extent. For example, while Chicago new crop wheat futures have fallen 20% in the last year and UK ones by 13%, Paris wheat futures have only dropped 2%. Although differing specifications contribute to this, the exchange rate is the main driver.

The analysis in these two papers highlights how important exchange rates can be to pig producers. While there is nothing that the industry can do to influence the exchange rates, being aware of their impact at least means that there is an opportunity to take mitigating action.