Pig Market Trends

August 2015, Issue 123

PORK

In this Issue

Exchange rates

One of the main developments affecting UK agriculture recently has been the strengthening of the pound against the euro. Since July 2013, the euro has fallen from 87p to be worth only 70p. These movements are important for the pig industry. Historical trends confirm that there is a close relationship between pig prices and the exchange rate. Analysis shows that the GB pig price might now have been 15-20p higher had the exchange rate not moved over the last two years. More on this relationship and the factors behind it, as well as wider implications of exchange rates for the pig market, can be found on **pages 4 & 5.**

Global trade

2014 saw widespread disruption to the global pork market. This included Russia imposing sanctions on exports from many of the world's largest exporters and a series of disease outbreaks around the world. But has the first half of 2015 been more "normal" for the global pork trade? To read about trends in global pork trade so far this year and prospects for the coming months, turn to **page 7**.

North America

Just over a year ago, US hog prices were at record levels; earlier this year they dropped to a 5½ year low. Although they have recovered somewhat since then, prices remain well below levels recorded in most recent years, never mind last year's highs. Read about how this price volatility has affected the US and Canadian hog markets and about expectations for the future on **page 8.**

Chinese economy

Doubts about the state of the Chinese economy have increased in recent weeks. Although Chinese growth rates have been slowing for some time, the latest concerns were triggered by a sharp fall in the Shanghai Stock Exchange, followed by a devaluation of the yuan. These have raised doubts about the government's ability to manage the economy. More about these developments and how they might impact on the Chinese pork market and its imports can be found on **page 10**.

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Key data

	Jul-15	Change since Jun-15	Change since Jul-14
Average GB carcase weight - kg	79.42	-0.72	+0.15
30kg weaner price - £/head	44.29	+0.06	-11.73
7kg weaner price - £/head	32.85	-0.07	-7.34
GB APP (Euro-spec) - p/kg dw	137.18	+0.30	-26.49
GB SPP (Euro-spec) - p/kg dw	133.02	+0.87	-28.46
EU Reference price - €/100kg dw	144.25	-2.19	-25.34
UK Reference price - €/100kg dw	186.08	+4.39	-11.82
UK weekly clean pig kill - 000 head	200.5	-2.9	+6.6
UK weekly pig meat production - 000 tonnes	16.7	-0.4	+0.7
UK pork imports - 000 tonnes*	30.8	+3.5	+1.0
UK bacon imports - 000 tonnes*	21.2	+2.8	+0.4
UK pork exports - 000 tonnes*	14.6	+1.7	+0.9
Retail pig meat sales - 000 tonnes†	52.8	-0.7	-0.4
LIFFE feed wheat futures - £/tonne	123.70	+9.20	-5.64
CBOT Soyameal futures - $/tonne	358.01	+36.96	-51.15

** Figures relate to June 2015*

† Figures include household purchases of pork, bacon, sausages and ham and relate to 4 weeks to 19 July 2015

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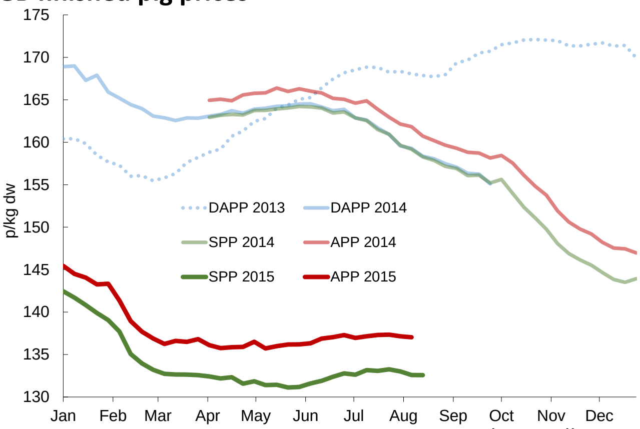
UK Market Snapshot

GB finished pig prices continued to increase, though only slightly, in July. The monthly average EU-spec APP was nearly a third of a penny higher than in June at 137.18p/kg, which is the highest price since February. This was only the second monthly rise since last May and the gap between this year's price and last year's reduced to less than 27p. However, overall the market remains finely balanced, with low EU prices, the weak euro and increased domestic supplies preventing prices from rising. The onset of the holiday season usually leads to a slight fall in demand and the APP dropped slightly in early August but remained above 137p/kg in week ended 8 August.

The average SPP also increased in July, by slightly under a penny, to stand at 133.02p/kg (EU-spec). As this was a slightly larger rise than for the APP, the gap between the two narrowed to just over 4p but this was still nearly double the gap a year ago. As with the APP, the SPP eased back in early August to stand at 132.57p/kg in week ended 15 August.

GB finished pig prices

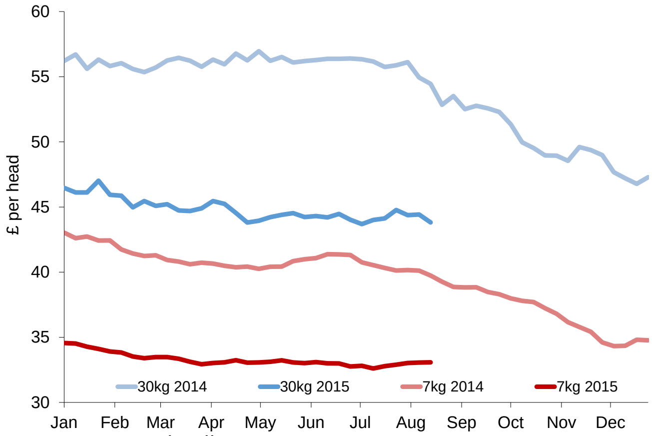


Source: AHDB Market Intelligence

The average carcase weight in the APP sample for July was 79.42kg which is a 700g drop from the previous month's average. However compared to July 2014, the average carcase weight had increased by 150g. The SPP sample experienced a slightly larger drop of nearly a kilo compared to June but this was still an increase in the weight compared to the same time last year. Carcase weights have followed the normal seasonal trend for both APP and SPP but the very hot weather at the beginning of July will have had some effect, slowing growth rates and, hence, reducing finished weights.

The balanced finished pig market is also reflected in weaner prices, which were again virtually unchanged in July. The average 7kg price during the month fell by 7p compared with June, to £32.85, while the 30kg price rose by 6p to £44.29. These averages were, however, well below year earlier levels, by £7 and £12 respectively, following significant price falls in the second half of last year. The broad stability continued into August, although the 30kg price did dip below £43 per head in the latest three weeks, which may suggest some softening of demand. However, 7kg prices held up, so the figures may just reflect the routine variations in the price.

GB weaner prices

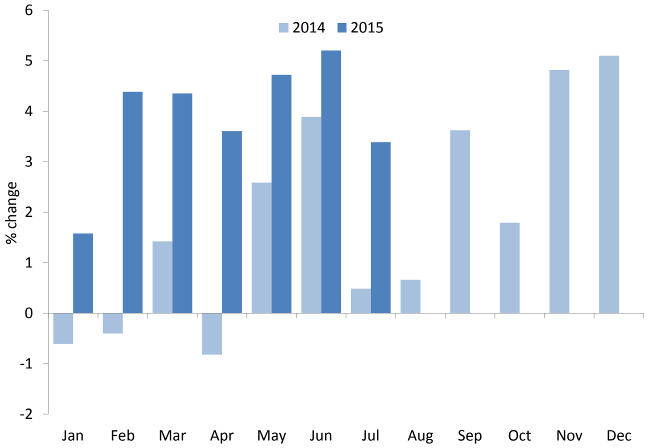


Prices are 3-week rolling averages

Source: AHDB Market Intelligence

For the sixth month in a row, UK clean pig slaughterings rose by more than 3% in July. Throughputs during the month topped 1 million head for the first time at this time of year since 2000. So far this year, over 200,000 more pigs have been slaughtered than during the same period last year, driven by further improvements in herd productivity. The growth rate in July was actually the lowest since January, which may be partly because the hot spell at the start of the month slowed growth rates, leading to marketing of some pigs being delayed. There were increases across all parts of the UK, although Scottish and Northern Irish throughputs rose slightly more slowly than those in England.

Annual change in UK clean pig slaughterings



Source: DEFRA

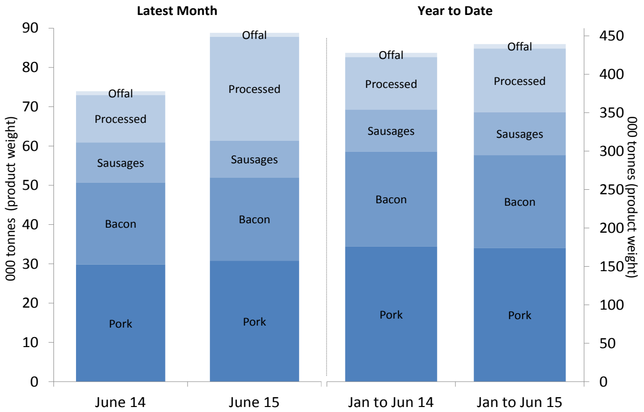
For the second month in a row, sow and boar slaughterings were above year earlier levels, albeit by only 2%. This follows a year of falling throughputs, driven by low cull sow prices. Carcase weights also increased for both clean pigs and sows but the average for the former, 80.0kg, was the lowest since last July and the year-on-year rise of less than 500g was the smallest in two years. The net result was that pig meat production was up 4% on the year, at 83,700 tonnes.

Following a sharp fall in May, UK pork imports bounced back in June, reaching their highest level of the year at 30,800 tonnes. However, this was only 3% higher than in June 2014. Growth was driven by Danish shipments,

UK Market Snapshot

which were up by a third, with most of the increase down to higher volumes of chilled legs. Most other major suppliers actually sent less pork to the UK than a year before. Despite the small increase in June, imports for the first half of this year were still lower than a year earlier, as buyers prefer domestic product. With prices well down on last year, the value of imports during the six months was 16% lower at £297.1 million.

UK Pig Meat Imports

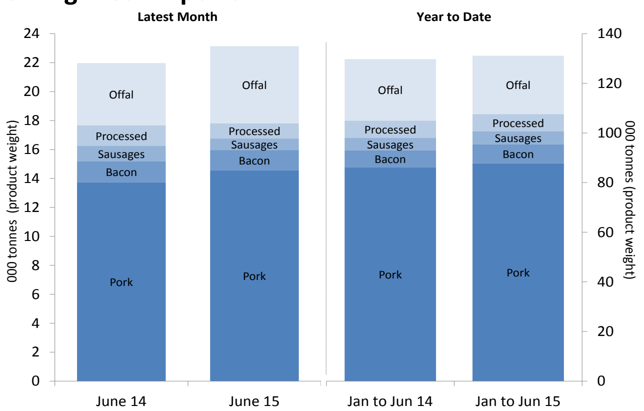


Source: Her Majesty's Revenue & Customs

Bacon imports were also higher in June, compared with a year before. However, shipments from Denmark were lower but were offset by increased volumes from the Netherlands and Germany. The latest figures show a very sharp increase in processed imports but this appears to be a data error, so the true position is unclear. However, sausage imports were lower than in June 2014.

UK pork exports were also higher in June, with sales to China up by three-quarters, although this is compared with an unusually low figure for June 2014. Germany and Ireland also took more UK pork. However, less was shipped to Denmark, the Netherlands and Belgium. This may simply be a case of more product being shipped directly to onward destinations, rather than via these countries. Despite the rise in volumes, lower unit prices meant that the value of exports was down 1% year on year in June, to £15.8 million, and by 12% for the first half of the year, at £88.8 million.

UK Pig Meat Exports

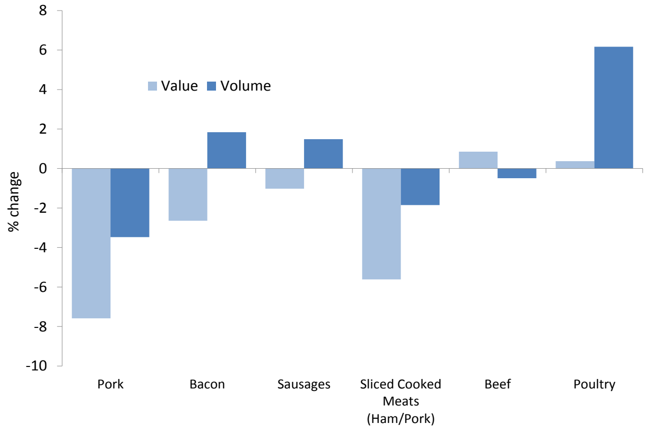


Source: Her Majesty's Revenue & Customs

After a difficult start to the year, offal exports appear to be recovering, with a 24% year-on-year rise in June. Shipments to China reached a record 2,900 tonnes, 80% up on a year earlier. There were also strong sales to several smaller markets in Asia and Africa. These were only partly offset by lower volumes sent to Hong Kong and a small fall in sales to other EU countries.

Despite a 4% drop in the average retail price, the amount of pork purchased was down by a similar amount in the 12 weeks to 19 July, resulting in expenditure being down 8% year-on-year, according to Kantar Worldpanel. Switching away from pork to chicken and chilled ready meals again impacted performance. Fresh chicken prices fell slightly more over the last year and so the price differential has widened. Fresh chicken is now, on average, just over 50p/kg cheaper than fresh pork. The amount of chops/ steaks bought fell, despite a 5% drop in average prices which further impacted on spending. A 6% decrease in the proportion of households buying them, to 35% of households, was the key driver.

Annual percentage change in retail meat purchases (12 weeks to 19 July 2015)



Source: Kantar Worldpanel

Pork roasting joint sales were also down more in value than volume overall, as the result of lower average prices. Pork shoulder was the only joint to register any volume growth and was up 12% year on year. Its performance this period will again have been boosted by the pulled pork promotional campaign which ran until the beginning of June and included a 4-week TV ad campaign. Leg roasting joints had the biggest volume decline of 14% year on year, as the amount sold on deals fell from 63% a year ago to 49% this year.

More bacon and sausages were sold, although lower prices meant that spending on them was still down. Sales volume growth for sausages was driven by a 17% increase for premium products. Despite a 5% fall in price, total expenditure on premium sausages increased by more than 6% in the latest period. According to Kantar, the introduction of free school meals is impacting the performance of the cooked meats market. Ham is the leading product in this category, constituting some 55% of expenditure (£1.2billion) in the year to July and volume sales were lower as a result.

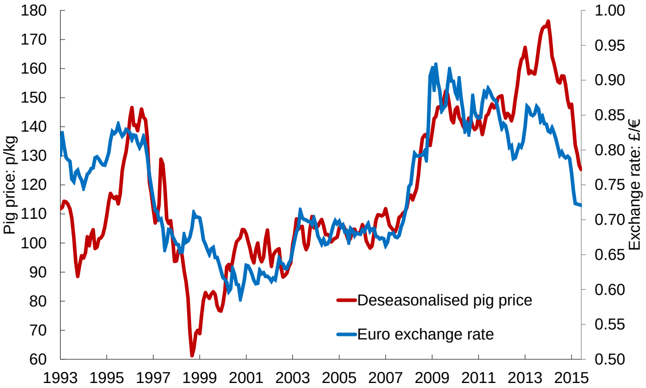
UK Market Analysis

How does the exchange rate affect the GB pig price?

One of the main developments affecting UK agriculture recently has been the strengthening of the pound against the euro. The recent highpoint for the value of the euro was in July 2013, when it was worth 87p. Between then and the end of 2014, the euro gradually reduced in value, reaching the end of last year worth about 78p. Then in January and February the euro devalued significantly. Since then the exchange rate has fluctuated but overall the euro has weakened still further and has recently been worth only 70p.

These movements are important for the pig industry. Historical trends confirm that there is a close relationship between pig prices and the exchange rate. Analysis shows that over 60% of the variation in pig prices can be explained by the exchange rate alone. There are times when supply and demand factors outweigh the exchange rate, such as in 2012 and 2013, when prices were higher despite the euro being somewhat weaker than in 2009-11. However, the long-term relationship is normally re-established fairly quickly.

Relationship between £:€ exchange rate and GB pig price



Source: AHDB, European Central Bank

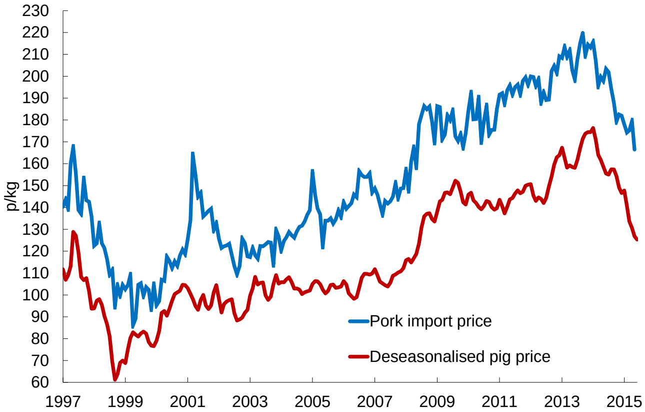
On average, for every 1p decrease in the value of the euro, the pig price falls between 2p and 3p. Therefore, a fall of 17p, such as the one seen over the last two years, might be expected to coincide with a fall of around 40p in the pig price. The actual fall over that period has been of about that size, confirming that the exchange rate probably had a significant influence on the price drop.

The close link between the exchange rate and the GB pig price is mainly because of its impact on the UK's pork trade. With more than half of the pig meat consumed in the UK imported from the rest of the EU, the price of imports is particularly influential on the domestic market.

Normally, when considering the impact of imports on the domestic market, we compare UK and EU pig reference prices. These have the advantage of being available on a weekly basis and within a few days of the pigs being sold. However, EU farmgate prices don't necessarily follow the same trend as the price of UK pork imports. It is the latter which will have the biggest influence on the UK market.

Prices of imports are higher than GB farmgate prices because they are mainly made up of cuts, so include the costs associated with initial processing. The gap between the two has been fairly consistent over time, with import prices around 30% higher, albeit with some short-term fluctuations.

Relationship between GB pig price and price of UK pork imports



Source: AHDB, European Central Bank

The price of pork imports will be affected by a number of different factors. As well as prices on both sides of the channel, the exchange rate is obviously important. In sterling terms, import prices in the first five months of 2015 were 16% lower than two years earlier and GB pig prices fell at about the same rate. The importance of the exchange rate, though, is emphasised by the fact that the import price in euro terms was only 4% down over the same period.

One interesting feature is that the import price has diverged from the EU pig price in sterling terms. In the late 1990s, import prices were around 30p/kg higher than the EU pig price; the gap is now closer to 70p/kg. This is partly because the mix of products has changed. In particular, fresh boneless cuts (which have a high unit price) now make up around 30% of imports; in the late-1990s they accounted for less than 10%.

While the prices have diverged over time, over the last decade or so this appears to have happened in a series of jumps. Between 2006 and 2009, the import price was around 50p higher than the EU price. From around the start of 2010 the difference increased to about 60p and then from the middle of 2013 to about 70p. This progression may help to explain how the UK price premium over EU pig prices has been maintained, since it means that import prices haven't fallen as far as EU prices.

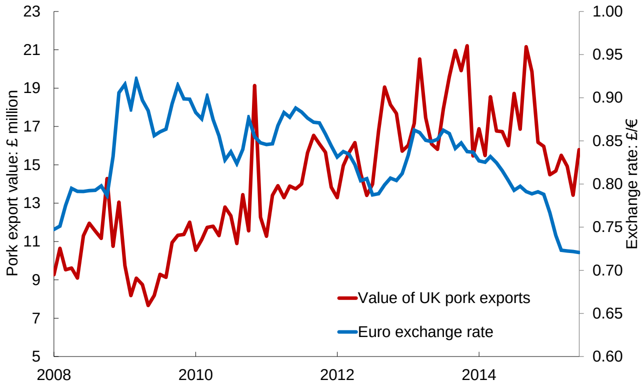
Based on this analysis, it is possible to estimate what the GB pig price might have been had the exchange rate not moved. The increased supply in both the EU and UK would have meant that it still moved down. However,

UK Market Analysis

the fall would have been smaller and GB prices in recent months might have been around 15-20p higher than they are. This does suggest that, with the euro apparently unlikely to strengthen against the pound in the near future, it will be difficult for GB prices to regain lost ground, especially if EU pig prices stay low.

Although import prices are the most important way in which exchange rates affect the UK market, they are not the only way. 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.

Relationship between £:€ exchange rate and UK pork exports



Source: HMRC/GTIS, European Central Bank

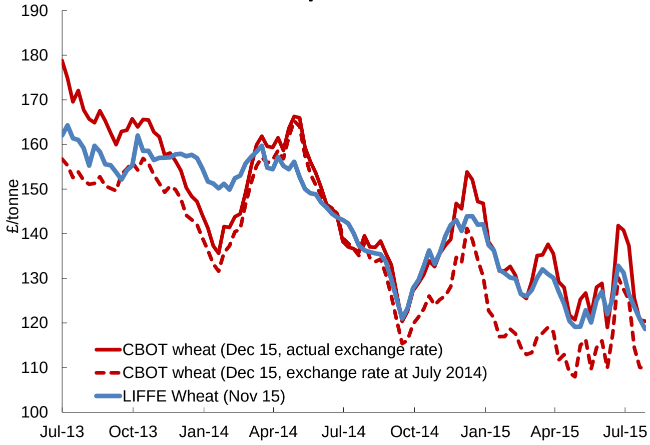
Most UK exports are made up of products with limited value on the domestic market. A variety of different items make up these exports, from sow carcases shipped to Germany to 'fifth quarter' cuts sent to China. Each will have different price trends, influenced by a range of factors, of which the euro 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 such an 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.

UK and US wheat futures prices



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 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.

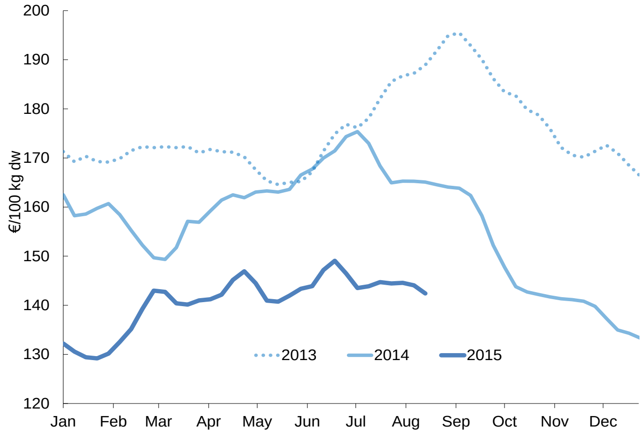
However, the UK situation is better than in the rest of the EU. The weak euro means that it has not benefitted from falling commodity prices to the same extent. For example, while Chicago new crop wheat futures have fallen 20% in the last year and UK ones by 13%, Paris wheat futures have only dropped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

The analysis above 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.

EU Market Snapshot

In common with the UK market, the EU pig price has been relatively stable since the beginning of March. Prices have picked up briefly on occasions but any increases have been short-lived. This stability has continued in July and early August, with the average price fluctuating around €144 per 100kg. It did drop below this level in the latest week, ended 16 August, to stand at €142.41, the lowest level since May. With both markets flat, the gap between the UK and EU prices has stayed at around 30p over the last month, still very high by historical standards.

EU Average Pig Reference Price



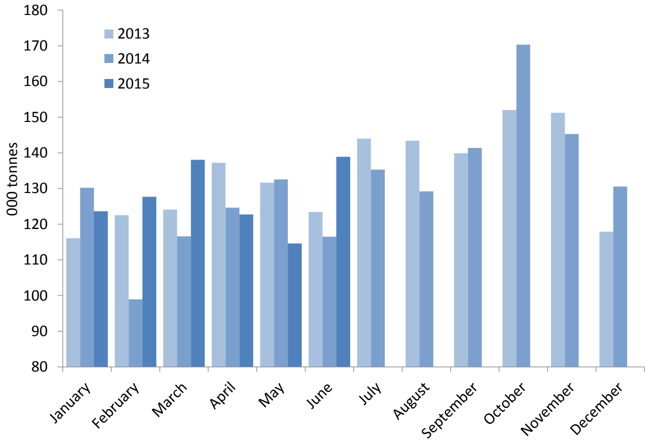
Source: EU Commission

In recent weeks, prices have generally been weaker in northern Member States than further south. For example, the German price fell by €3 per 100kg in the latest four weeks, while the Danish price was down nearly €6. Dutch and Polish prices also dropped, as did the Irish quote. In contrast, the Spanish market has been largely static, while the French price has risen by €5. This was partly in response to farmer protests which increased demand for French pork and led to the government imposing a target price for pigs. As a result, French prices are now well above the EU average. Italy has also recorded strong price rises of late.

EU pork exports in June reached almost 139,000 tonnes, 21% higher than a year earlier and a record for the time of year. The strong performance was driven by shipments to China, which were nearly double their level a year earlier. Reduced domestic production has led to an increased demand for imports, with the EU well placed to respond to this, given the weak euro and plentiful supplies.

Although China was the main growth driver, there were also increased shipments to South Korea, Australia and a range of smaller markets. On the flip side, the difficulties in Hong Kong were reflected in a halving of sales to that market. Japan and the Philippines also bought less EU pork, although in both cases volumes remained well above those in June 2013. The unit price of exports was only 3% lower than a year before in euro terms (but 20% down in US dollars), so the value of shipments was up 16% year on year, at €325.9 million.

EU monthly pork exports

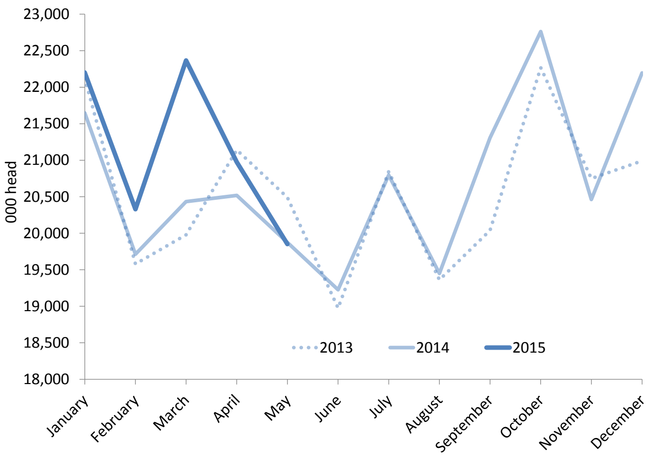


Source: Eurostat, GTIS

There was a similar picture for pig offal exports, with growth in China dominating, offset by lower shipments to Hong Kong and the Philippines. Again, smaller Asian and African markets performed strongly, contributing to overall growth of 10% on the year. Unit prices were higher than in June 2014, so the value of offal exports rose by 17% to €109.5 million.

In May, EU pig slaughterings dipped below year earlier levels for the first time since November. However, with one fewer working days in the month, the marginal fall still meant that average daily throughputs were 4% higher than in 2014. The total of 19.9 million head was only 65,000 lower than a year before, despite the shorter month. With carcase weights again higher, pig meat production was up 1% year on year in May, at 1.79 million tonnes.

EU pig slaughtering trends



Source: Eurostat

Many of the major producers increased throughputs in May. Most notably, Spain killed 5% more pigs than in May 2014, with other big increases recorded in Netherlands and Poland. German slaughterings were up by less than 1%. These increases were offset by falls in, among others, France (down 6%), Belgium (-5%) and Denmark (-23%). Figures from the latter have shown extreme variations this year, with the May fall following a 27% increase in April. The reasons for this are not clear and the figures could still be subject to revision.

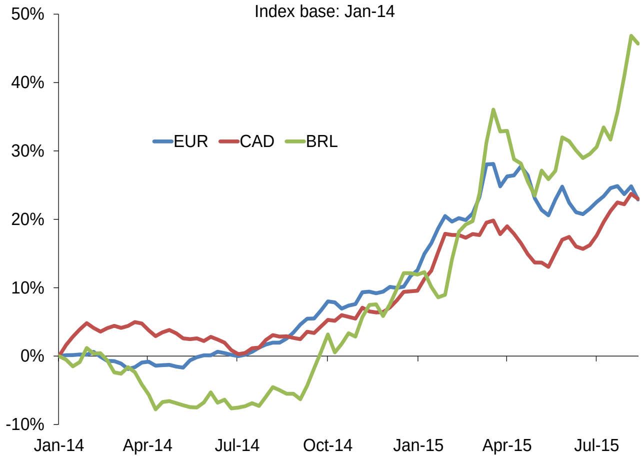
Global Market Analysis

Trends in the global pork trade

2014 saw widespread disruption to the global pork market. This included Russia imposing sanctions on exports from many of the world's largest exporters and a series of disease outbreaks around the world. But has the first half of 2015 been more "normal" for the global pork trade?

The four most important exporters in the global pork market are the EU, the US, Canada and Brazil. Each has experienced different factors influencing its export trade in the first six months of 2015. Only the EU has seen an increase in shipments, with volumes up 7% at 765,600 tonnes. This has come as EU exports have recovered from the Russian ban imposed in January 2014, while the current weakness of the euro has made European exports more competitive.

Indexed exchange rates vs US dollar



Source: Pacific Exchange rate service

Volumes being shipped from the US have fallen, despite a recovery from the PEDv that was affecting the industry this time last year leading to increased domestic production. Export volumes have declined by 5% to 764,200 tonnes, as the strength of the dollar has reduced the competitiveness of US pork on the world market.

Canadian volumes were down by 6% at 415,100 tonnes, as the industry has been strongly affected by the Russian sanctions placed on Canadian pork exports in August 2014. In the first half of 2014, 18% of Canadian pork exports went to Russia and volumes have fallen to zero since the ban was imposed. With strong competition from the EU, Canada has struggled to find alternative markets for the surplus pork.

Brazilian shipments were down 4% at 193,600 tonnes, with much of the fall in shipments to secondary markets, while volumes going to its major buyers, notably Russia, were actually up on last year.

Volumes going to Japan, the world's largest importer (excluding intra EU trade), fell in the first half of the year as domestic production continues to recover from PEDv, while stocks are reported to be high. This has led to a fall in volumes form the EU, the US and Canada.

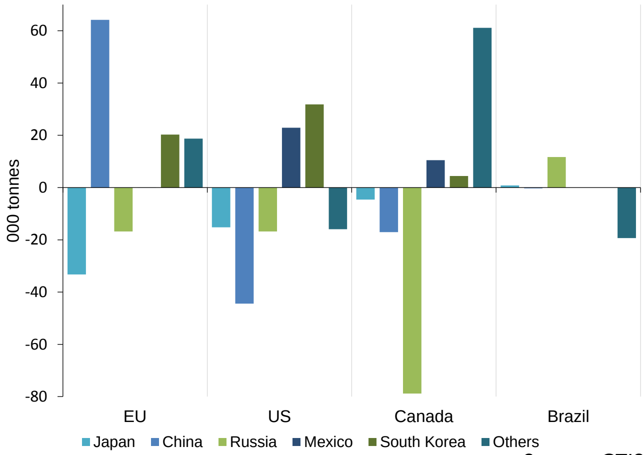
In China, widespread culling of the Chinese herd in the past 18-months has led to a fall in domestic production and an increase in imports. Almost all of this increase came from the EU, from where volumes were almost 50% higher than in 2014. This came at the expense of pork from elsewhere, with volumes from the US down by almost half, while Canadian volumes were 43% lower. Brazil only shipped a small quantity to China as it has only recently received approval to resume exporting, so volumes could increase in future.

With Russia imposing bans or sanctions on three out of the four big exporters it is no surprise volumes from all three fell sharply in the first half of the year. Canada was the hardest hit by the sanctions, particularly as the EU was already excluded for most of the first half of 2014. Volumes going to Russia from Brazil were up in the period but fell well short of replacing the quantities previously sourced from elsewhere.

Mexican imports increased in the first half of the year, as it continued to suffer from PEDv. The majority of the higher volumes came from the US, the major supplier of pork to Mexico. Shipments from Canada to Mexico were also up in the period.

The effects of outbreaks of PEDv and FMD persist in South Korea, limiting domestic production. This led to a rise in volumes coming into the country from the EU, the US and Canada, with the US seeing the largest gain in volume.

Year-on-year change in export volumes, Jan-Jun 2014-15



Source: GTIS

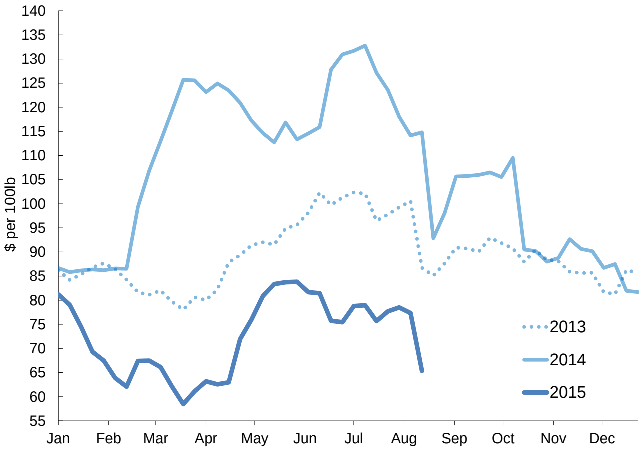
Overall, it seems that global trade continues to be heavily affected by the events of last year, combined with the changing currency situation. This means other countries have been better able to compete with US prices, changing where pork is sourced from. However, with US export prices having fallen to be close to those from elsewhere, the dynamics of the global trade may switch again for the rest of this year. China is set to be the main growth market as other buyers recover from disease-related shortages, so much will depend on whether other suppliers can dent the EU's strong position there.

Global Market Analysis

What a difference a year makes

Just over a year ago, US hog prices were at record levels; earlier this year they dropped to a 5½ year low. Although they have recovered somewhat since then, this is the normal seasonal trend and prices remain well below levels recorded in most recent years, never mind last year's highs. Putting some numbers to that, the national barrows and gilts price peaked at almost $100 per 100lb liveweight (about 160p/kg deadweight). By April 2015, this had fallen by more than half to $45 per 100lb (about 85p/kg). As usual, Chicago lean hog futures followed very similar trends.

US lean hog futures prices



Source: CME Group

Of course, last year's price spike was due to the impact of the PEDv outbreak during the previous winter. The mortality this caused led to a 5% reduction in clean pig slaughterings last year, with even bigger shortfalls in the spring and summer. However, with feed prices low, producers responded by finishing pigs at heavier weights, so pig meat production was only down 1% for 2014 as a whole. As a result, prices fell back and ended last year close to year earlier levels.

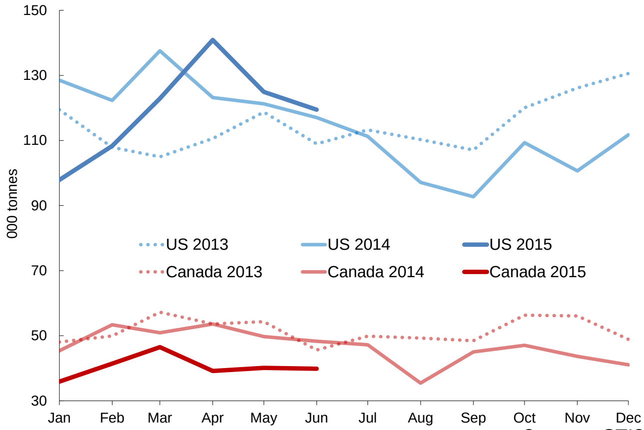
One of the consequences of last year's high hog prices (and low feed prices) was that producers not affected by PEDv experienced positive margins. Many took the opportunity to expand their herds. By December, US breeding sow numbers were up 4% on a year earlier. Coupled with lower PEDv losses this year, this meant that the pig crop between December and May was 9% larger than a year before.

This has had an inevitable effect on production. Clean pig slaughterings in the first half of 2015 were 7% up on the same period last year and 4% above 2013 levels, at a fraction under 55 million head. With feed prices still low, weights have remained around the same, high, level as last year, so pig meat production was also up 7%. Output is expected to remain high for the rest of the year, meaning that the US is set to produce more pork than beef for the first time ever.

Lower hog prices have reduced producer confidence, although reports suggest that margins are still reasonable, given feed prices remain low. This means that producers are scaling back farrowing intentions, which could limit supplies into next year. However, with productivity improving, output may still be level or even slightly higher than this year. As a result, USDA forecasts that prices will remain low through most of next year.

Despite the extra production and lower domestic prices, the strength of the US dollar has made exports challenging since the middle of last year. In the first six months of this year, shipments were down 5% year on year. This was mainly due to a 15% decline in the first quarter, when trade was also disrupted by labour disputes at west coast ports. The recovery in the second quarter is expected to continue and USDA forecasts that, for the year as a whole, shipments will be up 4% on last year.

US and Canadian pork exports (excluding cross-border trade)



Source: GTIS

The slowdown in exports has also affected Canada, even though the Canadian dollar has weakened against the US currency. This was largely due to the loss of the Russian market, Canada's largest other than the US in the first half of last year. It has struggled to find alternative markets for the displaced pork, given the competitive price of EU pork on global markets. Increased shipments across the US border have helped but volumes sent to the rest of the world were down by almost a fifth in the first half of this year.

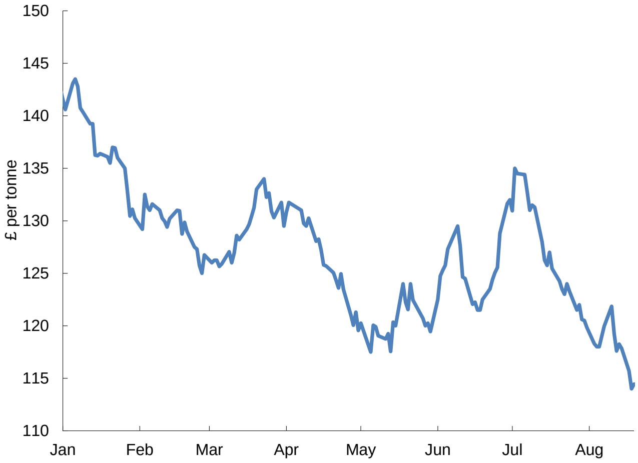
Canadian hog prices typically follow the US trend but the exchange rate has ensured that price falls since last summer have been less severe. Nevertheless, the Canadian industry is more cautious and there was only a very small expansion last year. Therefore, slaughterings have only been 2% higher so far this year, driven mainly be improved productivity.

The increased production and lower prices in North America inevitably creates more competition for EU exporters on global markets. To date, the strong US dollar has mitigated this but with export prices having fallen so they are now at similar level to those from the EU, competition is likely to intensify. Whether this affects EU prices will depend on how demand develops, particularly in China.

Feed Market

UK feed wheat futures have continued to decline over the past month, aside from a brief rally early in August. The Nov-15 contract closed at a new low of £114/t on 18 August, £7.85 below the peak of the latest rally on 10 August. Paris maize futures remain above UK wheat, with the Nov-15 contract closing at £124.12/t on 18 August. This suggests that wheat remains a more competitively priced feed grain.

Nov-15 UK feed wheat futures



Source: AHDB Cereals and Oilseeds

French maize crops continue to be a concern for the market, with condition ratings being lowered by FranceAgriMer for an eighth consecutive week. As at 10 August, only 55% of the French maize crop was in 'good' or 'very good' condition, following extreme heat at a key growing stage. There are signs that maize crops elsewhere in the EU could also be affected. Although France is a key growing region, there is much more to the maize market – US weather conditions are a key watch point, while the outlook for Ukrainian and Russian maize is relatively favourable.

Although fears over the French maize crop supported French maize prices, feed grain prices in the UK have been capped by the imported prices of maize from alternative origins.

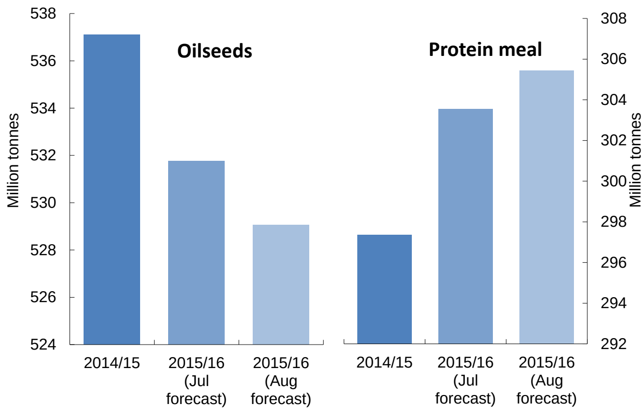
On a global scale, the latest world supply and demand estimates from the USDA (released 12 August) revised total supply forecasts for both wheat and maize in 2015/16 upwards. This was the main reason behind declines in grain prices, especially in the US, since early August. Though European prices followed the trend, the declines have been less pronounced – the extent to which issues with the European maize crop provide resistance against any further global price falls will be important to watch.

Defra has provisionally estimated the English wheat area for harvest 2015 at 6% lower year on year. This is a bigger drop than indicated by the AHDB Planting Survey and slightly below the 5-year average. The barley area was estimated to have increased by 6% year on year in the latest Defra figures. The UK winter barley harvest is now nearing completion, with the wheat harvest getting underway. Early indications suggest relatively good yields but it is too early yet for any definitive figures.

Soyameal prices have generally followed the downward trend of soyabean markets over the month, while rapemeal prices have risen. Soyameal (Brazilian, 48%, ex-store Liverpool, spot delivery) was £283/t on 14 August, down £13 since the end of July, while rapemeal (34%, ex-mill Erith, spot delivery) rose £5 over the same period to £179/t. This suggests that soyameal is increasingly price competitive over rapemeal. The movements in protein meal prices reflect the trends in oilseed markets, with relatively tight rapeseed supplies compared to ample availability of soyabeans.

Total global production of oilseeds was reduced in the latest USDA estimates. However, production of soyabeans was revised higher, while rapeseed and sunflower estimates were reduced. As such, total production of protein meal has been increased, given the higher yields of meal from soyabeans. US soyabeans are forecast to account for 20% of global oilseed production this season and so yield potential is being closely watched. Against expectations that US soyabean production would be revised lower after wet weather, USDA actually raised its forecast. The market's surprise resulted in the biggest weekly fall this year for US (Nov-15) soyabean futures, which closed £19.18/t lower.

Global oilseed and protein meal production



Source: USDA

Brazilian soyabean plantings have been forecast up 3% year-on-year by Oilworld, to a record 32.8Mha. Planting in the world's second largest producer is due to start in October.

China's recent currency devaluations have kicked oilseed prices further downward, essentially reducing the buying power of one of the most important soyabean importers.

The supply and demand outlook for rapeseed this season continues to be much tighter than that for soyabeans, with Paris Nov-15 rapeseed futures closing only £9.77/t lower in the week after the USDA report. On top of tightening outlooks for European and Canadian 2015 rapeseed crops, Ukrainian production in 2016 could decline for the fourth consecutive year following issues with planting.

In Brief

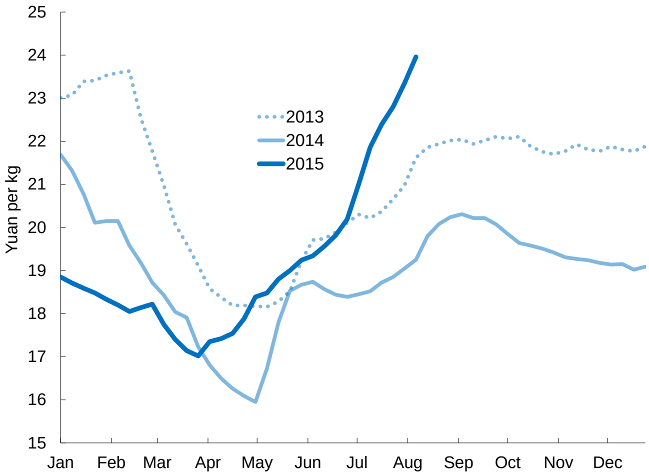
Chinese jitters create risk for pork exporters

Doubts about the state of the Chinese economy have increased in recent weeks. Although Chinese growth rates have been slowing for some time, the latest concerns were triggered by a sharp fall in the Shanghai Stock Exchange, followed by a devaluation of the yuan. These have raised doubts about the government's ability to manage the economy.

While the fall in stock values and the currency devaluation will have a modest impact on the Chinese economy on their own, they could erode consumer confidence. This could be a cause for concern for global pork exporters. Many are hoping that higher Chinese demand will support global trade in the second half of this year, traditionally the peak period for imports.

Most forecasts anticipate an increase in Chinese pork imports this year and imports were up 9% in the first half of the year. Reports suggest they have remained strong since then. This is down to a drop in production after a fall in the pig herd, driven by poor profitability last year. Chinese pork prices have increased by a third since March and are at their highest level for over two years, meaning the production decline may reverse next year.

Chinese wholesale pork prices



Source: China Ministry of Agriculture

While current prices suggest that demand is still running ahead of supplies and there should still be scope for higher imports, the economic concerns may temper expectations to an extent. Slower economic growth may also hit consumption levels in the longer-term. It is probably too early to say how much impact this will have on pork imports in the short-term. Many exporters will be hoping it won't make much difference, given demand in some other key import markets has begun to cool.

US pork exports begin to recover

In the first six months of 2015, US pork exports were down 5% on the same period last year but had begun to recover by the second quarter. The fall came despite US pork production being up 7% compared with last year, when output was affected by the PEDv outbreak. The dollar has remained strong against the euro, leaving the US facing stiff competition from EU exporters. Shipments to Mexico and South Korea were up however volumes to Japan, Canada and China were all down on the year.

Greek economic situation affecting pig market

Greece's annual domestic pig meat production is in the region of 100,000 tonnes and per capita consumption around 30kg per head. It produces only a third of the pig meat that it consumes, making it the third largest net importer in the EU. The leading supplier is the Netherlands, with Germany and France also significant. Reports suggest that the recent crisis has affected the ability of Greek importers to pay for product resulting in trade drying up. Since the end of May, the Greek reference price has risen as the lack of imported pork leads to increased demand for domestic pigs.

Small fall in Danish sow herd

The number of breeding sows in Denmark fell slightly in the year to July. In-pig sows and gilts were down by 1%, with a smaller reduction in lactating sows, contrasting with small increases in the April census. However the figures also show a rise of 9% in maiden gilt numbers suggesting that the overall situation remains one of broad stability. Weaner exports were up another 10% in the first five months of 2015 so, while the number of young pigs were higher, there were 3% fewer finishing pigs (over 50kg) than a year before.

Book now for Grain Market Outlook

Bookings are now open for AHDB Cereals & Oilseeds annual Grain Market Outlook Conference. It takes place on Wednesday 14 October in London. Speakers will analyse the impact of changing policies and politics, from Chinese import protocols and Russian export tariffs to the potentially game-changing Transatlantic Trade and Investment Partnership (TTIP). For more details and to book a place at the conference, click here.

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