Pig Market Trends

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AHDB PORK

In this Issue

Production costs and physical performance

The cost of pig production in the third quarter of 2015 was little changed from the previous three months, according to latest estimates from AHDB Pork. With pig prices also little changed, this meant that producers were again estimated to be making a small loss on each pig sold during the quarter. Although prices for feed and other inputs play a big part in determining production costs, physical performance also contributes. Latest figures suggest progress in this area may have stalled over the last year. To read more about the latest estimates of production costs and what is influencing them, turn to **page 4.**

Pig market seasonality

UK pig production is not particularly seasonal but seasonality in the pig market is an important factor to consider for both producers and processors. Historically, finished pig prices generally followed a similar seasonal trend year on year, with prices increasing from the beginning of the year until the summer then falling from August until November before stabilising in December. However, in recent years the seasonal pattern has begun to diverge away from the usual trend. Read more about this development and the possible reasons for it on **page 5**.

International pig production costs

Great Britain still has above average production costs, compared with other major EU producers, according to the latest figures from InterPIG. Lower feed prices mean that costs reduced across all countries but falling pig prices meant that most EU producers broke even or made a small loss. On **page 7** you can find more detail on the factors influencing production costs across the world and how the GB industry compares.

EU pig prices

Throughout the year we report on EU pig prices using the reference prices published by the EU Commission. However, although reference prices are supposed to be based on a consistent definition, there are a number of reasons why that may not be consistent in reality. So how do prices in different EU countries really compare? Find answers to this and other questions on **page 8.**

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Key data

	Nov-15	Change since Oct-15	Change since Nov-14
Average GB carcase weight - kg	81.97	-0.18	-0.06
30kg weaner price - £/head	41.47	-1.93	-7.60
7kg weaner price - £/head	31.46	-0.79	-3.38
GB APP (Euro-spec) - p/kg dw	129.91	-1.92	-20.44
GB SPP (Euro-spec) - p/kg dw	126.25	-1.56	-20.39
EU Reference price - €/100kg dw	132.31	-9.66	-8.52
UK Reference price - €/100kg dw	175.80	+3.51	-6.41
UK weekly clean pig kill - 000 head	221.4	+4.2	+4.3
UK weekly pig meat production - 000 tonnes	18.8	+0.3	+0.2
UK pork imports - 000 tonnes*	33.9	+3.5	+3.3
UK bacon imports - 000 tonnes*	22.9	+1.3	-1.5
UK pork exports - 000 tonnes*	17.4	-0.5	+0.1
Retail pig meat sales - 000 tonnes†	53.3	+1.9	-2.2
LIFFE feed wheat futures - £/tonne	113.31	-1.74	-10.39
CBOT Soyameal futures - $/tonne	290.61	-16.21	-93.36

** Figures relate to October 2015*
† Figures include household purchases of pork, bacon, sausages and ham and relate to 4 weeks to 8 November 2015

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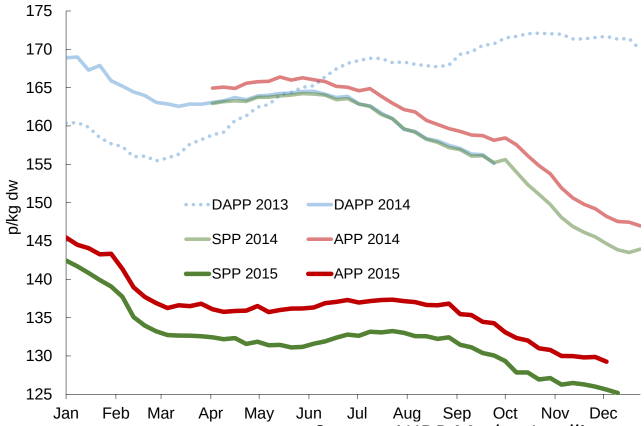
UK Market Snapshot

GB pig prices continued to drift downwards during November, with the EU-spec APP averaging around 2p lower than the previous month, at 129.91p/kg. The last time the monthly pig price was below 130p/kg was in May 2008. Nevertheless, with prices falling faster at the same time last year, prices were only 20p lower than in November 2014, the smallest gap of the year so far. The modest imbalance between supply and demand which has been apparent since August continued, in part due to a challenging consumer market for pig meat. Falling EU pig prices also contributed to the downward pressure. With the market situation similar into December, the EU-spec APP dropped a little further, to stand at 129.25p/kg in the first week of the month.

The gap between APP and SPP narrowed slightly in November, as the latter fell by only around 1.5p, to average 126.25p/kg. The difference of 3.66p/kg was the smallest since January, suggesting that prices for premium pigs may have fallen slightly more than average in recent weeks. By week ended 12 December, the SPP had fallen close to 125p/kg but the year-on-year drop was below 19p.

GB finished pig prices

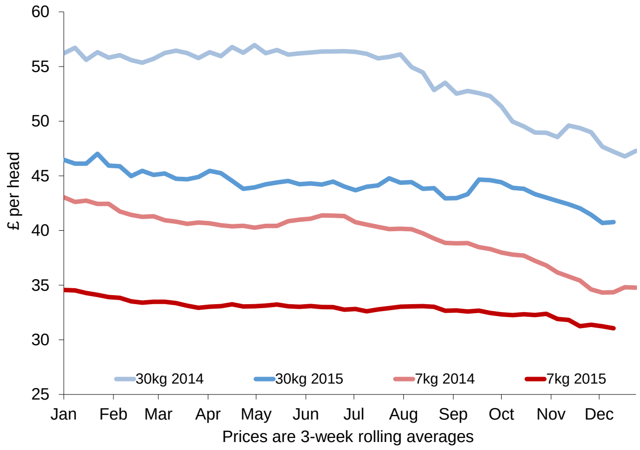


Source: AHDB Market Intelligence

The average carcase weight of pigs in the APP sample during November was a fraction under 82kg. This was around 200g lower than in October but similar to November 2014. As normal, weights peaked in early November before starting to fall as the Christmas procurement period entered full swing, building demand and leading to some pigs being pulled forward ahead of the holiday shutdowns. Having been well up on the year at the start of 2015, carcase weights have tracked close to year earlier levels since the middle of the year. Despite the slightly lighter carcases, the average probe measurement during November was 0.2mm higher than in October at 11.6mm.

The GB weaner market continued to take its lead from the finished pig market, with prices for both 7kg and 30kg animals easing slightly during the month. The average price of a 7kg piglet was £31.46 per head in November, around 80p lower than the previous month and over £3 below November 2014. There was a slightly bigger fall of nearly £2 for 30kg store pigs, to £41.47 per head, £8 down on the year.

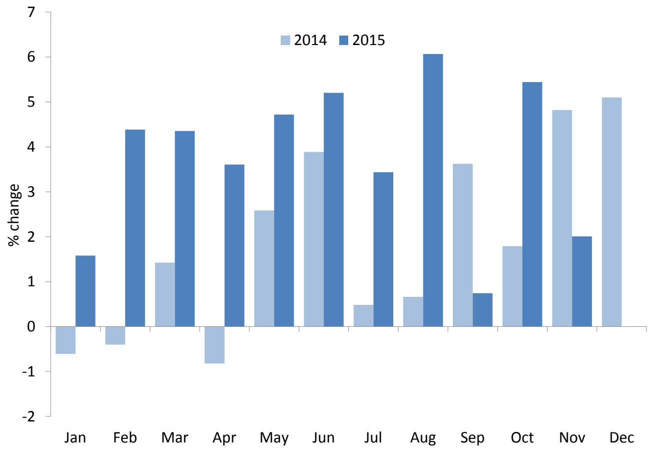
GB weaner prices



Source: AHDB Market Intelligence

UK pig meat production during November was only 1% higher than a year earlier, at 75,300 tonnes, according to latest figures from Defra. Other than September, this was the lowest growth rate since early 2014, when production was still being affected by the reduction in the breeding herd due to high feed prices during 2012. Clean pig slaughterings during the month were up 2% compared with November 2014, at 885,800 head. This meant weekly slaughterings were at their highest level for any month since November 2000. Throughputs in England and Northern Ireland were both up 2% year on year, but there was a 1% fall in the Scottish kill.

Annual change in UK clean pig slaughterings



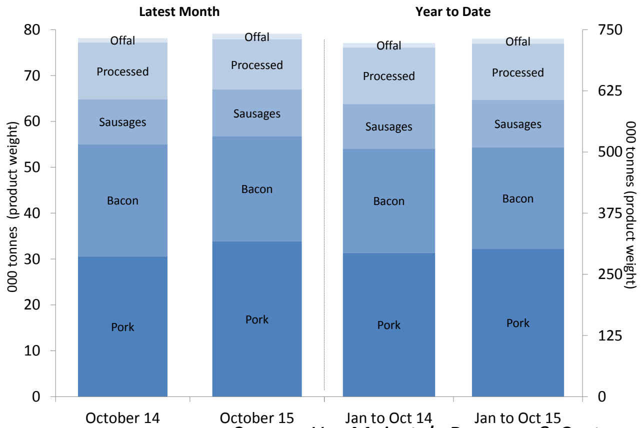
Source: Defra

The higher slaughterings were partly offset by lighter carcase weights. The average clean pig carcase weighed 81.7kg during November, around 600g less than a year before. This was the fourth month in a row when weights have been below 12 months earlier but this follows particularly sharp increases last autumn. Sow slaughterings continued the recent trend and were 5% above 2014 levels, at 19,700 head. However, that is more a reflection of the low level of cullings last year than any sign that the sow herd may be starting to shrink, as recent figures have been close to long-term averages.

UK Market Snapshot

For the third time in four months, UK pork imports rose strongly, compared with a year earlier, in October. At 33,900 tonnes, shipments were 11% higher than in October 2014. The growth was largely down to a 20% rise in imports from Denmark, mainly made up of bone-in legs, and a surge in purchases from Spain. The latter continues a recent trend, as shipments nearly doubled to 3,100 tonnes. With prices remaining much lower than last year, the value of pork imports was down 1% at £55.7 million.

UK Pig Meat Imports

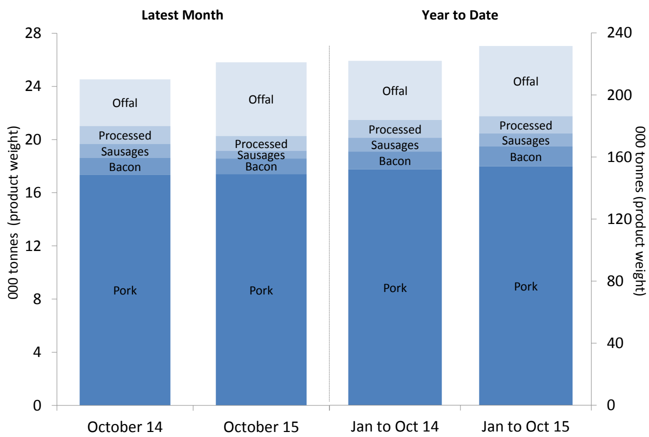


Source: Her Majesty's Revenue & Customs

In contrast, bacon imports were 6% down on the year, at 22,900 tonnes. This was largely down to lower shipments from Denmark, suggesting more pork is being imported for curing in the UK, as appears to have been the case for most of the year. There were small increases from the two other major suppliers, the Netherlands and Germany. Imports of sausages were up on October 2014 but less processed product, mainly hams, was imported.

UK pork exports in October were little changed from a year earlier, at 17,400 tonnes. Increased sales to Ireland, China and the Netherlands were offset by lower volumes sent to countries such as Germany, Denmark and Hong Kong. There were strong sales to the United States, which took three times as much UK pork as in October 2014 and accounted for over 5% of the monthly total. A 5% year-on-year fall in average prices meant that the value of exports was down by a similar amount, at £18.9 million.

UK Pig Meat Exports



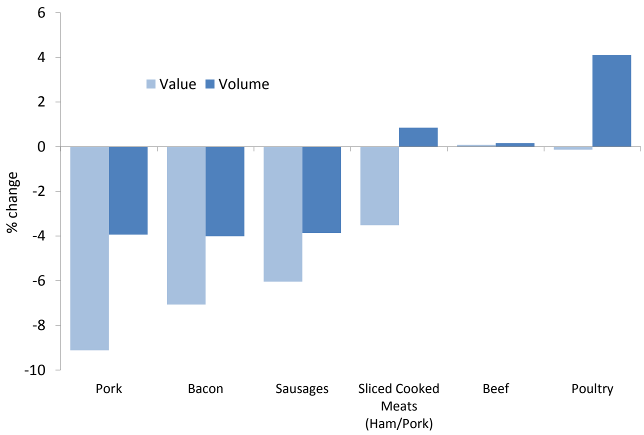
Source: Her Majesty's Revenue & Customs

Cured and processed pig meat exports were lower, mainly due to reduced sales to Ireland. However, October was another good month for UK pig offal exports, which were nearly 60% higher than a year before, at 5,600 tonnes. Apart from Ireland, all significant markets took more this year, led by an 80% rise in shipments to China.

Over the 12 week period ending 8 November, the volume of pork retail sales continued to fall, with 560,000 fewer shoppers buying than a year earlier, according to Kantar Worldpanel. Combined with average prices falling and even though there were slightly fewer promotions, this has reduced total expenditure. Chops and leg & shoulder joints were the biggest drivers of the decline, although pork steaks registered small levels of growth within the period.

As with other proteins, pork mince has seen growth, with a 5% increase in volume but, with prices falling, total expenditure was still down. The only other area of growth has been within 'pork other' which consists predominantly of marinades, with greater household penetration and a higher volume purchased per trip.

Annual percentage change in retail meat purchases (12 weeks to 8 November 2015)



Source: Kantar Worldpanel

There was a 4% decline in bacon volumes over the same 12 week period, despite a fall in price, mainly due to shoppers switching to other products and buying less. Low-fat sausages were the only category which saw gains over the latest 12 weeks. There is evidence that health is becoming a bigger driver for consumers, with a recent YouGov survey showing 34% of respondents are looking to reduce saturated fat levels in their diet. Meanwhile, ham volumes remained stable, with average price reductions lowering total spending, with switching from loose to prepacked products.

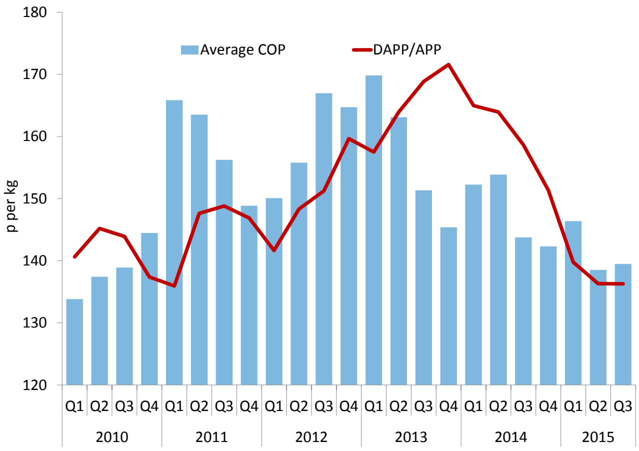
The latest revision to the DEFRA June Survey had very little impact on the provisional data which was released earlier this year. An increase of 14,000 pigs takes the total herd to 4.74 million head. However, this does not materially change the overall decline of 2% compared to the previous year, although slaughterings have been up since June. Within this, the number of breeding pigs was fractionally higher than a year before.

UK Market Analysis

Production costs and prices steady in third quarter

The cost of pig production in the third quarter of 2015 was little changed from the previous three months, according to latest estimates from AHDB Pork. The average cost in GB between July and September was estimated to be 139.5p/kg, around a penny higher than in the quarter before. Despite the small quarter-on-quarter rise, costs during the period were still close to their lowest point in five years and over 4p/kg down on the same time last year. Costs were around 30p/kg (or £25/head) lower than at their peak in 2013.

Total cost of pig production compared with pig prices



Source: AHDB Market Intelligence

Pig prices were also little changed in the third quarter, with the EU-spec APP averaging 136.3p/kg. This meant that producers were estimated to be losing, on average, around £3 per pig sold during the quarter. This is the third straight quarter when producers have been losing money, following 18 months of profitability. However, losses are still much smaller than for most of the period between late 2010 and early 2013. Nevertheless, pig prices have fallen in recent weeks, to be around 130p/kg in November, while feed prices have been fairly stable. Therefore, producer margins are likely to have worsened further.

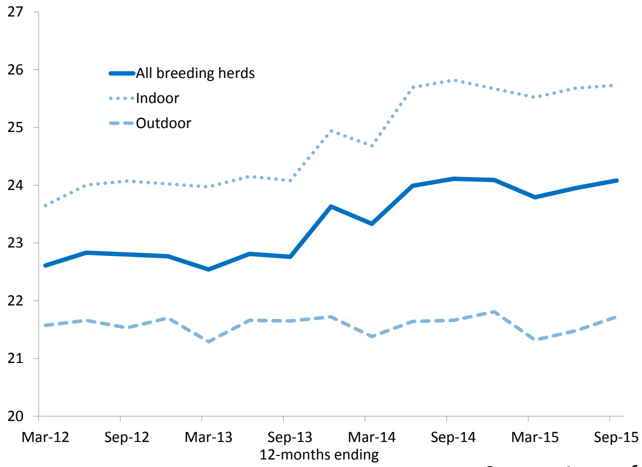
In interpreting the estimated cost of production and the net margin derived from it, it's worth remembering that it is a full economic cost. That means that the estimate takes into account some non-cash costs such as depreciation and family labour. These costs need to be included for assessing the sustainability of margins within the industry. However, as they don't affect the cash flow of businesses, producers can survive for some time with negative margins, provided prices remain above cash costs.

Estimates suggest that, on average, non-cash costs could account for 15-20p/kg of the total cost of production. Allowing for this would mean that cash costs have remained below GB pig prices in 2015. This goes a long way to explaining why we haven't yet seen any significant reduction in herd sizes. Of course, as with other categories of cost, there will be considerable variation between producers.

Turning to other types of cost, feed is the most significant, both in terms of its share of the total (about 55% at present) and its volatility. Since the peak in 2013, estimated feed costs have fallen 35p/head, while other types of cost have actually increased slightly. This decline is mainly due to lower feed prices, as the amount of feed used has been relatively stable; any reduction in feed usage due to improved feed efficiency has been offset by the extra to take pigs to heavier weights.

Although prices for feed and other inputs play a big part in determining production costs, physical performance also contributes. Latest figures from Agrosoft suggest progress in this area may have stalled over the last year. The number of pigs weaned per sow in 2014 was 24.09. The latest figure, covering the 12 months to September 2015, was 24.08. A small improvement for indoor herds was offset by a similar decline for outdoor sows. Prior to this year, productivity had improved for four consecutive years, with two more pigs weaned per sow in 2014 than in 2010.

GB average pigs weaned per sow per year



Source: Agrosoft

Looking at the breeding figures in more detail, litter sizes were slightly higher for both indoor and outdoor sows. However, this was offset by a reduction in the number of litters per sow per year. Pre-weaning mortality was slightly lower, driven by an improvement for outdoor piglets.

If anything, performance in the feeding herd has worsened, according to the latest figures. The rearing Feed Conversion Ratio (FCR) was 1.71 in 2014 but 1.79 in the year to September 2015. Finishing FCR was 2.72 in the latest period, compared with 2.67 in 2014. While increasing weights may partly explain this, it appears that this is another area where steady improvement may have stalled.

Despite production costs being low, falling pig prices mean that margins are likely to be worsening. Given the risk that feed prices could start to rise again, it is as important as ever for producers to control their costs. Physical performance is an important component of that and the latest figures suggest that a renewed focus may be needed if improving trends are to resume.

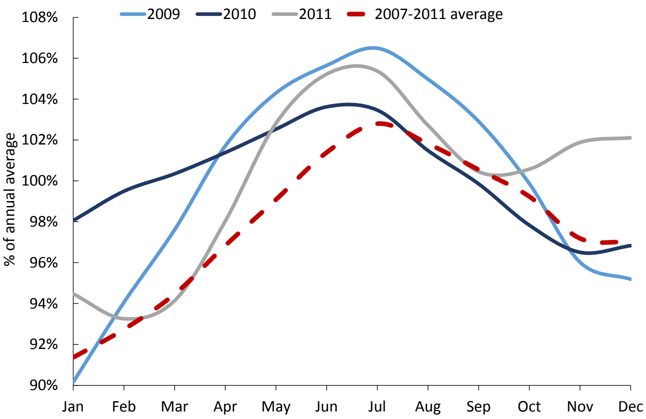
UK Market Analysis

The changing seasonality of pig prices

UK pig production is not particularly seasonal, even though there are slight changes to fertility and growth rates at certain times of the year. Nevertheless, seasonality in the pig market is an important factor to consider for both producers and processors when seeking to optimise their margins.

Historically, finished pig prices have generally followed a similar seasonal trend year on year. The price would increase from the beginning of the year up until the summer, typically peaking in June or July. It would then fall from August until November before stabilising in December.

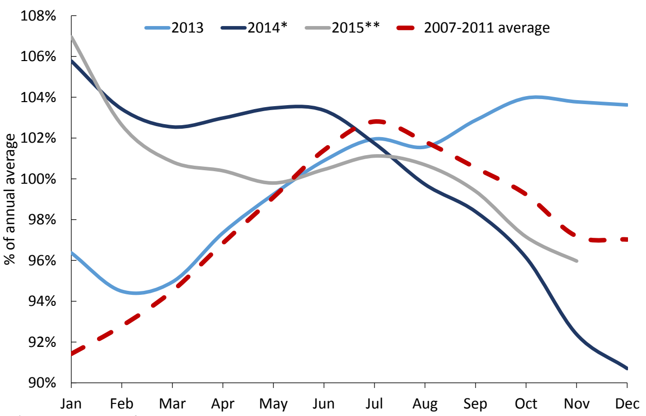
Seasonality of GB pig prices, 2009-11 (EU-spec DAPP)



Source: AHDB Market Intelligence

Since 2011, however, the traditional seasonal pattern that had been observed for many years has begun to diverge away from the usual trend. For example, throughout 2014 and for most of this year, prices have recorded a downward trend from the start of the year with only slight rises along the way. In 2012 and 2013, the reverse was true, with prices rising for most of the year, although with periods of stability.

Seasonality of GB pig prices, 2013-15 (EU spec DAPP/SPP)



*SPP price series used from Oct 14
**Annual average pig price year to date

Source: AHDB Market Intelligence

Despite the change in the finished pig price trends over the past four years, there has been little deviation away from the usual annual slaughtering pattern. Numbers reach a low point in the summer before rising to a peak in the run up to Christmas. Little change in seasonal carcase weights has been noted either. This trend explains the traditional price seasonality, as rising supplies coincide with falling prices and vice versa. This would suggest that the change in seasonality of finished pig prices is not due to a variation in supply.

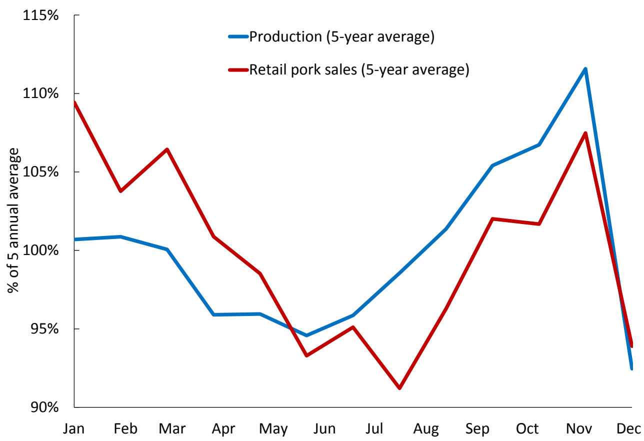
So what is causing this move away from traditional seasonality? The main factor that is changing the seasonality of the market, and has been for the last few years, is not supply, so it must be demand.

Over recent years there has been added pressure on UK supermarkets and discount retailers to source 100% British fresh produce. This has been driven by a greater consumer awareness of where their food comes from, allied to the higher welfare standards in the UK. With more retailers moving towards 100% British pork, there must be a higher proportion of British pig meat going into fresh pork at retail.

Fresh pork consumption and sales follow a seasonal trend themselves. During the colder months at the beginning of the year fresh pork consumption is at higher levels. Moving into the spring through until the end of summer fresh pig meat consumption falls and then picks back up again in the winter, before falling again at Christmas.

The trend in fresh pork consumption is roughly in line with that of pig production, where similar peaks and troughs are recorded. That being the case, it is perhaps unsurprising that seasonality has become less obvious and the finished pig price is being driven more by the underlying supply and demand in the market. At the moment the pig market is on a downward turn, with pig prices at the lowest levels in over seven years. This is because rising supply is outweighing subdued demand, driving finished pig prices down.

Seasonality of supply and demand of GB pig meat



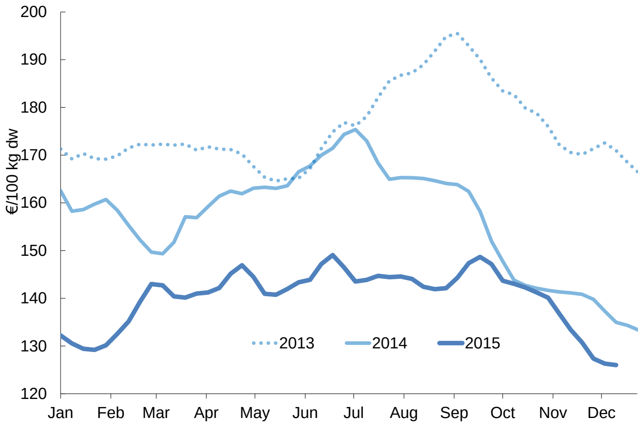
Source: Defra, AHDB, Kantar Worldpanel

At least for the time being, seasonality is looking to be less of an influencing factor on the GB pig market and supply and demand aspects are the likely driver behind changes to pig prices. Therefore, we should not necessarily expect prices to pick up in the spring, as was the case in previous years, if the current market situation continues.

EU Market Snapshot

Since its most recent peak in late September, the EU average pig price has fallen for 12 consecutive weeks, losing nearly €23 per 100kg during that time. The latest quote, for week ended 13 December, was €126.02 per 100kg, the lowest level recorded since April 2005. In sterling terms, the average price has now dropped below 90p/kg. Reports suggest that the recent declines have mainly been demand driven, as EU consumers continue to buy less pork and other pig meat products. In the latest weeks there has been some sign of prices stabilising but the market usually falls further post-Christmas. Whether that happens this year may depend on how successful the EU's Private Storage Aid scheme (see page 10) is when it opens on 4 January.

EU Average Pig Reference Price

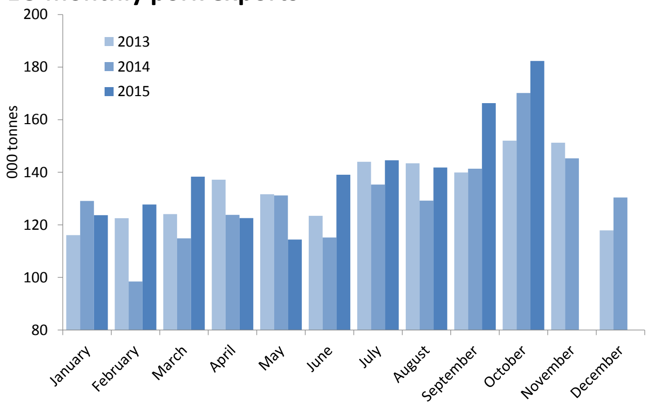


Source: EU Commission

Price falls were apparent over the last month across all the major producing Member States. Even Danish prices were forced down by €5 in late November. Prices in Germany stabilised over the last two weeks but were nearly €11 lower than a month before, with similar trends in Belgium, the Netherlands and Poland. Spanish prices followed the same direction but the monthly fall was slightly lower. French prices continued to fall, though, recording the largest drop among major producers, of €14 compared with five weeks before. With UK prices broadly stable in euro terms, the gap to the EU average was up to around €45 per 100kg (33p/kg).

As has been the case in most recent months, the Chinese market dominated EU pork exports in October, taking them to a record level. A doubling of shipments to China meant that total volumes reached 182,300 tonnes, 7% above the previous record level of October 2014. The Japanese market also performed strongly, taking over 40% more EU pork than a year before. Between them, China and Japan accounted for over half of exports during the month. Apart from the US, most other major buyers of EU pork took significantly less than a year before. There were particularly sharp falls to South Korea and Hong Kong. With the decline in prices slowing, so the average was only 4% lower, the value of exports was 3% up on the year, at €413 million.

EU monthly pork exports

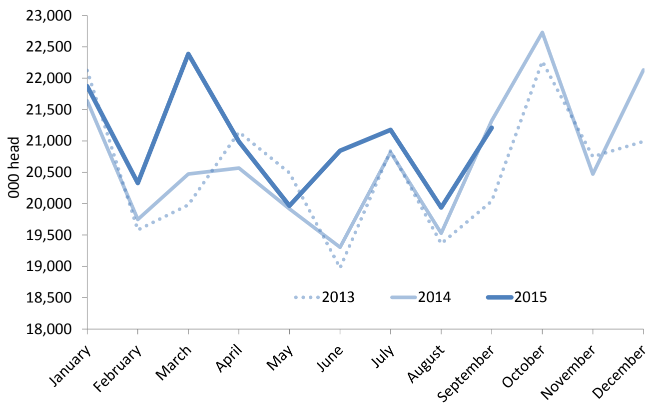


Source: Eurostat, GTIS

EU offal exports performed less well in October, with 10% growth in shipments to China more than offset by a drop of a quarter in sales to Hong Kong. This meant that overall volumes were down by 6% compared with October 2014, at 106,200 tonnes. With unit prices also lower, the value of this trade was 10% down on the year, at €126 million.

For the first time this year, EU pig meat production was lower than a year earlier in September, albeit only marginally, at 1.89 million tonnes. This continued the slowdown of previous months and meant that less than 2% more pork was produced in the third quarter than a year earlier, compared with 5% growth in the first half of the year. Pig slaughterings during September were down 1% on the year, at 21.2 million head, also the first decline of the year to date. EU pig prices were relatively firm during September, reflecting the reduction in supplies but have since fallen sharply. Although partly demand driven, this suggests that volumes may have picked up again since September.

EU pig slaughtering trends



Source: Eurostat

To some extent the fall in production during September was due to a sharp 20% drop in Danish output; Danish figures have been unusually volatile this year, perhaps due to some change in reporting periods. However, there were also declines reported by Germany, Belgium and Poland, among others. These were largely offset by further growth of Spanish output, up 4% year on year in September, along with rises elsewhere, including France, Italy and the Netherlands.

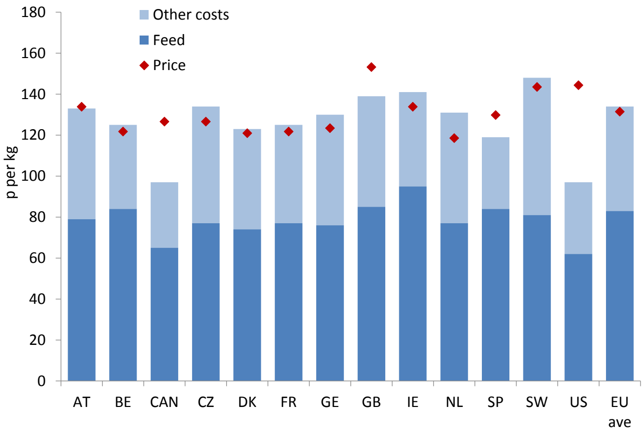
Global Market Analysis

GB margins positive despite above average costs

Despite still having above average production costs, Great Britain was one of only two major producing countries in the EU where pig producers made money in 2014. This is among the key conclusions of the latest analysis of pig production costs from InterPIG, an international group of pig economists, on which AHDB represents GB. In most EU countries, sharply falling pig prices in the second half of the year meant that what had promised to be a good year for producers turned out not to be. The more favourable position of GB producers is because of the significant price premium which was apparent throughout the year.

The only other profitable EU country was Spain, which had the lowest costs and above average pig prices. In most other countries, producers were around break even for the year as a whole or made a small loss, when all costs are taken into account. The report also covers Brazil, Canada and the US. In these countries, lower costs meant that producers made substantial profits, particularly as pig prices were unusually high during 2014.

Cost of pig production and average pig prices in selected countries, 2014



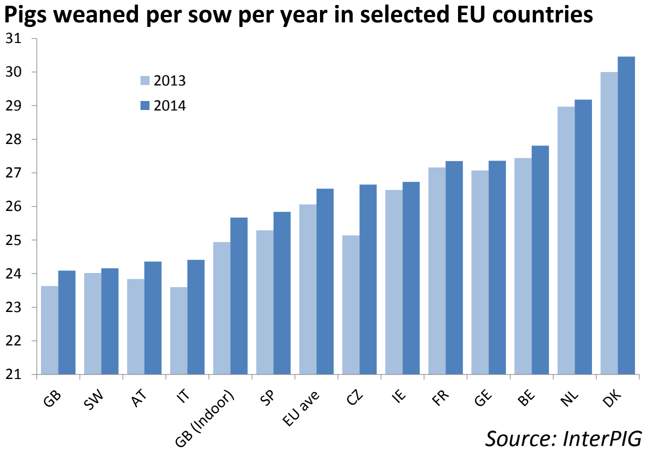
Source: InterPIG, EU Commission

Across all the countries covered by the report, production costs were significantly lower in 2014 than in the three previous years. This was mainly the result of feed prices falling during the year, having already declined from early 2013 onwards. On average, feed prices were down by 16% in sterling terms, with the fall in GB slightly larger than average. As a result, total production costs were 13% down on 2013 in both GB and across the EU. Declines were even sharper in North America, contributing to the improved margins there.

Despite this year's fall, GB costs remain around 5p/kg above the EU average, at an estimated 139p/kg in 2014. However, compared to some of the major suppliers of pig meat imports to the UK, the gap is significantly bigger. Average costs in Germany and the Netherlands were 130p and 131p respectively, while in Denmark they were as low as 123p/kg. In Spain, a small but growing supplier to the UK, costs were 119p/kg, maintaining its position as the EU's lowest cost producer. Ireland, though, had slightly higher costs than GB, at 141p/kg, as did Sweden and Italy.

There are a number of reasons why GB production costs were higher than those elsewhere. Higher feed prices (due to expensive finisher feed), low carcase weights and the cost of providing straw or other bedding are among the factors. However, the relatively low productivity of GB sows remains an important contributor to high costs. The number of pigs weaned per sow per year in GB was 24.1, well below the EU average of 26.5. Even GB's indoor producers only weaned 25.7, while the top performing Danes managed 30.5.

Pigs weaned per sow per year in selected EU countries



Source: InterPIG

Herd productivity is not everything, though. Spain only weaned slightly more piglets per sow than GB indoor producers and its other physical performance indicators were unremarkable. Carcase weights were nearly as low as in GB too, while feed prices were also similar. That all means that feed costs in Spain were above the EU average and only slightly lower than in GB. Instead, Spain's low total was down to control of other costs, with elements like labour and capital costs well below those in other EU countries. Although it may be impossible for GB producers to match the low levels of some Spanish costs, this does emphasise the importance of considering all input costs, not just feed.

The figures analysed above all relate to 2014. However, since then the financial position of producers has worsened across all of the countries covered. There have been no dramatic movements in feed prices since the start of 2015, although the precise position in individual countries will depend on exchange rate movements, which have been significant. However, pig prices have declined sharply everywhere, meaning producers are likely to have lost money in most countries during 2015, with some making large losses.

Information on production costs and physical performance across the world's major pig producing countries are analysed in more detail in the annual AHDB Pork report *Pig Cost of Production in Selected Countries*. The 2014 edition will be published shortly on the AHDB Pork website.

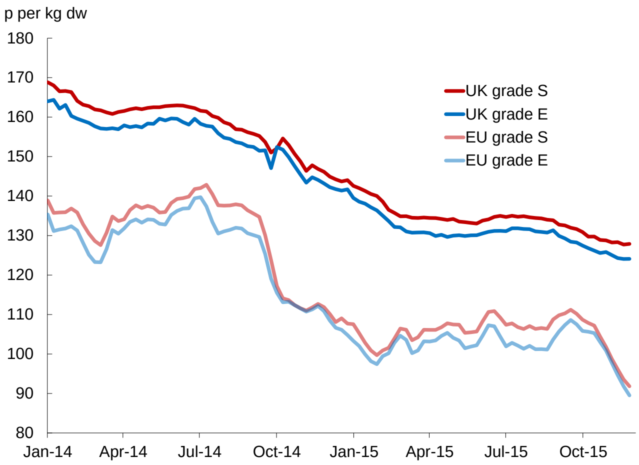
Global Market Analysis

How much do pig prices really vary between EU countries?

Throughout the year we report on EU pig prices using the reference prices published by the EU Commission. However, although reference prices are supposed to be based on a consistent definition, there are a number of reasons why that may not be consistent in reality. Most significant is that they exclude any retrospective bonus payments, such as those paid out by the Danish co-operatives to their producer members. In addition, the range of different marketing approaches across Europe (some countries sell most pigs on a liveweight basis, for example) inevitably introduce some inconsistencies. So how do pig prices in different EU countries really compare?

The reference price usually used is for grade E pigs, since this was the class which was historically published; until recently, it was the predominant class across most of Europe. However, in the last two years, the EU Commission has begun publishing prices at grade S as well, although it is only in the last year that all the main producing countries have contributed to this price. As grade S pigs make up the vast majority of UK slaughterings and are they now the largest category in Europe, this might be a better basis for comparison going forward. Having said that, the two series follow very similar trends and it is arguably these trends which are most important, not the absolute price level.

Grade E and Grade S reference prices – EU average and UK



Source: EU Commission

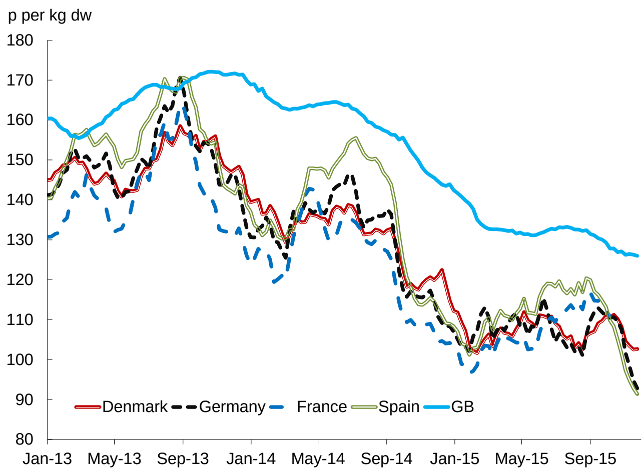
Regardless of which reference price is used, inconsistency between countries will remain. This risks distorting analysis of relative price levels in different EU countries. For example, in late November 2015, the reference prices for the leading EU producing countries ranged from €1.07 (76p) per kg in the Netherlands to €1.29 (91p) in Denmark and Germany. Is it realistic to think that there would be such a wide spread of prices, especially in neighbouring countries with free movement between them? Prices in all these countries are well below the UK price of 124p (€1.77) but is that gap a true reflection of relative price levels?

To answer these questions, reference prices aren't the ideal starting point, as the methodologies used aren't necessarily transparent. However, other price series are available in many countries. As well as the SPP and APP in Great Britain, other examples include the Danish Crown price in Denmark, the Marche du Porc Breton Plérin price in France, national average prices from AMI in Germany and the Mercolleida price in Spain. All these have published specifications and all are widely used in their respective countries.

As the specifications for these price series are known, they can be converted to a consistent basis. Calculations of this kind are carried out on a regular basis by the Danish Agriculture and Food Council, using a range of price series including those listed above. Their formulae are adjusted annually to ensure they remain consistent.

Using the Danish calculations, we can convert each of these price series to a basis which is largely consistent with the GB SPP. The results for the last three years show that the GB price has indeed been well above those in other major EU producers for more than two years. However, at times the gap has been smaller than suggested by the reference price, at least to the highest priced competitors.

EU pig prices adjusted to match DAPP/SPP specification



Source: AHDB, Danish Agriculture & Food Council

One other conclusion from the analysis is that continental prices are closer together than the official reference prices would suggest. Although tourist demand tends to mean Spanish prices are the highest in the summer, the differences reduce during the winter months. Since the start of 2013, the gap between the highest and lowest reference prices from Denmark, France, Germany and Spain has averaged 22p. The average range of the adjusted prices was just 13p.

This analysis confirms that, while EU reference prices are useful for tracking trends, the absolute level should be treated with caution. Nevertheless, the sizeable gap between UK and EU prices is still apparent, so the UK price premium does appear to be real and significant.

Feed Market

UK feed wheat futures prices have fallen slightly over the past month, with most of the decline recorded in the first two weeks of December. The May-16 contract closed at £116.50/t on 16 December, down from £118 on 18 November, a total fall of 1%.

Despite the USDA increasing its global wheat production forecasts and Argentina cutting export tax on wheat and maize, US grain futures prices closed slightly up on the month. This is partly due to the US dollar weakening against several currencies over the past week. Both May-16 Chicago wheat and maize futures prices recorded a very slight increase over the period, of $0.28 and $0.69/t.

Global wheat stocks are still heavy, which was reiterated by the latest world supply and demand estimates from the USDA. World wheat stocks forecasts were revised up by 2.6Mt on the previous month to 229.9Mt. The upward revision on the November estimate is due to higher production estimates for Canada and the EU, which had forecast increases of 1.6Mt and 0.4Mt respectively month on month. Global wheat production for 2015/16 is forecast at 734.9Mt, 1% higher than 2014/15.

Despite the later than usual end to the UK harvest, mild and drier weather conditions at the end of September and through October meant most winter cereals were planted by the end of October, according to ADAS's 2015 Autumn Crop Report. An estimated 37% of the total winter wheat area was drilled in September, 8 percentage points down on the year before. However, good progress in October pulled plantings back on track with 2014, at 91% complete.

Demand for cereals used in animal feed is forecast down by 2% for 2015/16, compared to the previous season, according the latest Defra UK balance sheet. Nevertheless, usage of wheat in rations is forecast to increase, due to its current price competitiveness compared with other feed grains. The inclusion of barley, maize and oats in animal feed rations is expected to decline for 2015/16, compared to the previous season.

According to updated trade data from HMRC, the UK exported over 195Kt of wheat in October, which was the biggest monthly tonnage since March. October's results take the 2015/16 cumulative exports to 518Kt (July-Oct); wheat imports to end-October equated to 574Kt, meaning that the UK is still a net importer of wheat so far this season. Additionally, cumulative maize imports reached 557Kt at the end of October, the most at this point in the season since 2007/08.

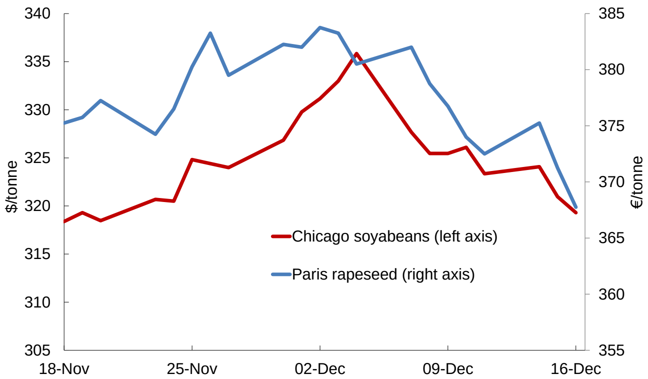
Defra's final crop production and yield figures released on 17 December revealed an upward revision of 250Kt to UK wheat production, compared with estimates made in October. This takes UK wheat output to 16.4Mt, the fourth biggest harvest on record, reflecting the favourable growing conditions for harvest 2015. While the wheat area was down by 5% year-on-year, production has only shown a decline of 1%, with record yields the driving force behind the second consecutive 16Mt+ crop.

May-16 Chicago soyabean futures prices closed at $319.31/t on 16 November a small gain of $0.92 from 18 November. From 27 November, the contract rose for 6 consecutive days to $335.84/t on 4 December, before falling again until 16 November.

The fall in soyabean prices from the start of December can be partly attributed to the new President of Argentina's decision to cut export taxes on soyabeans, in a bid to try and rejuvenate the nation's agricultural sector. As export taxes have been cut by five percentage points to 30%, it is expected that greater volumes of Argentinian soyabeans will be available in the international export market.

This sentiment was reiterated by the latest USDA supply and demand estimates released last week. The forecast for global soyabean trade was increased by 0.5Mt from the November forecast, following the expectation of greater supplies coming forward from Argentina.

Paris rapeseed and Chicago soyabean futures (May-16)



Source: AHDB Cereals & Oilseeds

Over the same time period (18 November – 16 December), Paris rapeseed futures prices (May-16) fell by 2% (€7.50) to €367.75/t. UK rapemeal prices (34%, ex-mill, Erith) were £139/t on Friday 11 December, £11 lower than 13 November.

Although Paris rapeseed futures declined over the last month, during the last week of November they received a boost on the back of palm oil markets. A combination of a stronger palm oil market and currency influences supported Paris rapeseed futures prices; as at 26 November, the Feb-16 contract closed at the highest level since 10 August and was almost €10/t up on the week. However, prices have been in decline since then.

Domestically, ADAS's latest Crop Development Report for Autumn 2015 suggested that almost all winter oilseed rape (OSR) crops are in good condition heading into winter, despite cabbage stem flea beetle (CSFB) being a key priority for farmers. The mild conditions and moist seedbeds allowed the winter OSR crop to establish very well during the autumn so far. Looking ahead, factors affecting prospects for the crop include the ability to control pigeons effectively, manage large crop canopies, disease and pest pressure, such as slugs, going into the spring.

In Brief

January start confirmed for EU Private Storage Aid

Earlier this month, EU Member States approved plans to open Private Storage Aid (PSA) for pig meat from Monday 4 January 2016. This reflects the ongoing weakness in the EU pig market, with prices having fallen sharply last month and now at their lowest level for over a decade. The pig market is normally weak early in the New Year, so further price falls might have been expected. For the moment though there are signs that at least in northern Europe the market, led by Germany, has started to stabilise, helped by festive demand.

It is hoped that the PSA scheme may stabilise the market, at least, and may even help it to rise as demand picks up through the spring. Storage periods are 90, 120 or 150 days but product can be removed from storage after a minimum of 60 days if it is intended for export. As well as a full range of pork cuts, the new scheme will also cover unprocessed fats, albeit at lower rates of aid. The value of these products was particularly affected by the Russian ban, with a knock-on effect on overall carcase prices.

Aid rates for pork cuts are 20% higher than in the previous scheme, which was open for two months in the spring. That scheme had little effect on the EU pig market, which has been attributed to a combination of timing (pig prices had started to rise before it was opened) and coverage (it only covered pork cuts and not fats). A total of just 64,000 tonnes was entered into storage and it is thought that most of this was product destined for export. Earlier schemes were more successful, with larger volumes stored and a noticeable impact on the market.

Slow growth forecast for EU pig meat output

EU pig meat production is expected to grow only slowly over the next decade, according to the EU Commission's newly published Medium-term Outlook report. Pig meat output in 2025 is projected to be less than 2% higher than in 2015, at 23.8 million tonnes. Only a slow recovery from the current low price level is anticipated, as domestic demand remains subdued, although the market is likely to see spells of both low and high prices during the period. The modest growth in supplies will still be too quick to match subdued EU consumption, so exports will need to rise to reflect the additional availability.

Outlook Conference date confirmed

The AHDB Outlook Conference 2016 will take place on Tuesday 9 February, at One Great George Street in London. Key note speakers will focus on the referendum on the UK's membership of the EU and the relative competitiveness of UK and global livestock sectors. The conference will, as usual, also include separate breakout sessions covering each of the three sectors. The Pork session will cover the outlook for the pig market, including the latest AHDB forecasts for UK supplies, and an overview of feed market developments.

For further information, including the provisional programme for the conference, click here, while places can be booked by clicking here.

Global pork prices remain at low levels

Global pork export prices have been under pressure throughout 2015, with the lowest point of the year in April at $2.51/kg. Prices picked up slightly during May and June, only to continue the downward trend in the third quarter. The average price, based on export prices from the four major exporters (the EU, US, Canada and Brazil), fell to $2.56/kg in August and $2.55/kg in September. The latest quote remains back by $0.71/kg (over 20%) on the same month in 2014.

Russian imports run lower than 2014

In the first nine months of the year, Russian pork imports were down by 22% year on year. With restrictions preventing imports from the EU, US and Canada, amongst others, Russia turned to Brazil and Ukraine to meet its demand for pork. Brazil was the dominant supplier of pork, with imports up by 38% year on year, taking its market share to three quarters. Imports in the third quarter of 2015 were ahead by 15%, however, making it the largest quarterly volume since the beginning of 2014, when the first ban on EU pork was introduced.

Further rise in Spanish pork exports

Spanish pork exports in the first nine months of 2015 increased by 17% year on year, setting yet another record. Investment in the Spanish pig industry has meant large increases in domestic production, which was up 8% on a year earlier over the same period. Intra EU trade increased by 13%, while trade outside of the EU remained strong, with demand in some Asian markets, notably China and South Korea, increasing sharply.

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