

# Pig Market Trends

August 2014, Issue 111

## UK Pig Meat Exports

One of the reasons UK pig prices have reached new highs in the last couple of years is the strength of exports. Total pig meat shipments have risen from a low point of 111,000 tonnes shipped weight in 2003 to 259,000 tonnes last year. So far this year, exports have been higher still. Export growth delivers value to the UK pig industry by increasing the overall demand for UK pig meat, diversifying the customer base and providing markets for products for which there is little or no demand at home. To read our analysis of trends in UK exports, turn to **pages 4 & 5**.

## China

China holds around half of the global pig herd but domestic production is unable to satisfy demand, so China remains a key importer of pork and its significance is increasing on the global market. Weak pig prices have left producers in a difficult financial position and led to high levels of sow liquidation. This could mean supply shortages in the coming months, providing opportunities for exporters. You can read more about recent developments in the Chinese market on **page 7**.

## Brazil and the Russian ban

This month's Russian announcement that it is banning imports of most food products from the EU, US and Canada means Brazil is now the only major global pork exporter with access to the Russian market. Will it be able to fill the gap left by other suppliers and what will that mean for the global pork market? To find the answers to these and other questions, read our analysis of Brazilian trade patterns on **page 8**.

## The Barbecue Effect

With UK finished pig prices falling in recent weeks, producers have been looking for things which might help to arrest the decline. One suggestion is barbecue demand. But is there any evidence to suggest that there is a link between 'barbecue weather' and rising pig prices? New analysis, reported on **page 10**, shows that in unseasonably warm months, pig price movements were, on average, slightly less positive than normal.

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## Key data

|  | Jul-14 | Change since Jun-14 | Change since Jul-13 |
|--|--------|---------------------|---------------------|
| GB DAPP (Euro-spec) – p/kg dw              | 161.50 | -2.57               | -7.05               |
| Average GB carcass weight – kg             | 78.95  | -0.23               | +0.11               |
| 30kg weaner price - £/head                 | 56.02  | -0.37               | +2.47               |
| 7kg weaner price—£/head                    | 40.19  | -1.13               | -0.45               |
| GB APP (Euro-spec) - p/kg dw               | 163.67 | -1.84               | na                  |
| GB SPP (Euro-spec) - p/kg dw               | 161.48 | -2.33               | na                  |
| EU Reference price – €/100kg dw            | 169.51 | -1.37               | -11.58              |
| UK Reference price – €/100kg dw            | 198.08 | +0.31               | +6.94               |
| UK weekly clean pig kill – 000 head        | 194.0  | +0.8                | +1.0                |
| UK weekly pig meat production – 000 tonnes | 16.1   | -0.0                | +0.3                |
| UK pork imports – 000 tonnes*              | 29.6   | -1.2                | -1.1                |
| UK bacon imports – 000 tonnes*             | 20.8   | -0.2                | +2.1                |
| UK pork exports – 000 tonnes*              | 15.3   | -0.9                | +2.2                |
| Retail pig meat sales – 000 tonnes†        | 53.1   | +0.2                | +0.2                |
| LIFFE feed wheat futures - £/tonne         | 129.34 | -12.47              | -34.57              |
| CBOT Soyameal futures - \$/tonne           | 409.16 | -60.82              | -70.14              |

\* Figures relate to June 2014

† Figures include household purchases of pork, bacon, sausages and ham and relate to 4 weeks to 20 July 2013

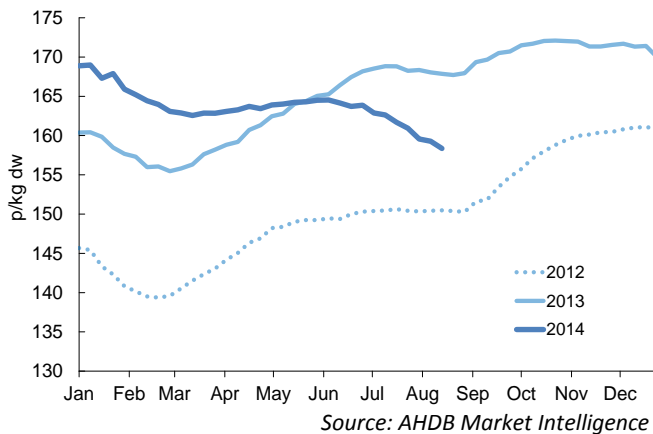
Interested in data? Get more detail about these and other areas from the [BPEX website](http://www.bpex.org.uk)

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## UK Market Snapshot

The EU-spec DAPP in July averaged 161.50p per kg, down for the second consecutive month and almost 3p lower than June. Having fallen steadily since late May, finished pig prices recorded the lowest monthly average since April last year. In addition to subdued demand in the UK market, price falls in the EU added further pressure to clean pig prices. At the same time, pig supplies were somewhat more plentiful. As such, finished pig prices were 7p per kg down on the same month in 2013. Prices continued to fall and by week ended 16 August, the EU-spec DAPP had dropped to 158.35p/kg.

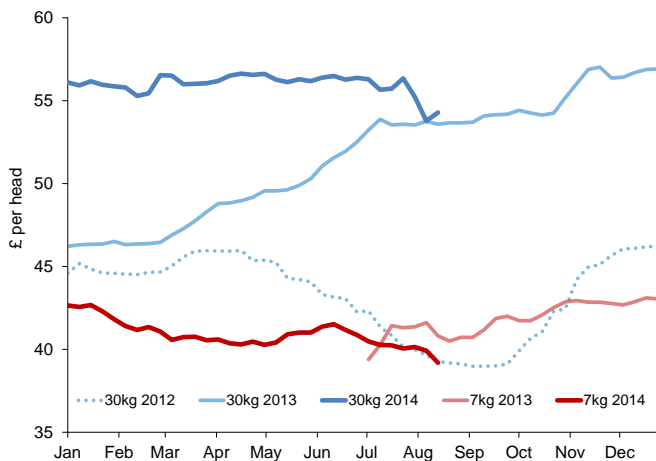
### GB finished pig prices (DAPP)



The GB SPP average for July stood at 161.48p per kg, 2p lower than the previous month. This was the lowest monthly average since the new price series began in April this year. During the same month, the GB APP fell by a similar amount to 163.67p per kg.

As expected, carcass weights in July followed the seasonal trend and fell to 78.95kg, as pigs struggle to convert feed into weight gain during the hot weather conditions. The latest monthly average reached the lowest point of the year so far, but pigs were marginally heavier than the same period in 2013. This remained the case into early August, with weights having stabilised at an average of just over 79kg.

### GB weaner prices



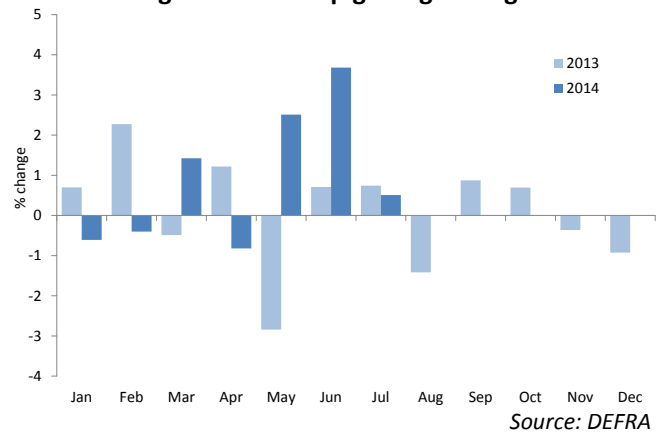
\* prices after Nov 2013 are 3-week rolling averages

Source: AHDB Market Intelligence

The easing of pig prices led to a sluggish weaner market as the 30kg weaner market in July edged down from the previous month to £56.02 per head. This may indicate subdued producer confidence, despite the lower feed prices of late, although reports suggest there was also limited finisher accommodation available. The 7kg weaner market followed a similar trend, as prices showed a monthly £1 fall to £40.19 per head and were valued marginally lower than July 2013.

Latest figures published by Defra show a marginal year-on-year increase in pig slaughterings in July, at 969,800 head. This was the highest July monthly figure since 2002, despite recent declines in the breeding herd. The number of pigs slaughtered in England and Wales increased by almost 1%, but this rise was offset by a 2% fall in Northern Ireland pig throughputs. Pig slaughterings in Scotland increased by 5% compared with the same month in 2013. This is the second straight month when Scottish throughputs have increased, following nearly two years of sharp declines.

### Annual change in UK clean pig slaughterings

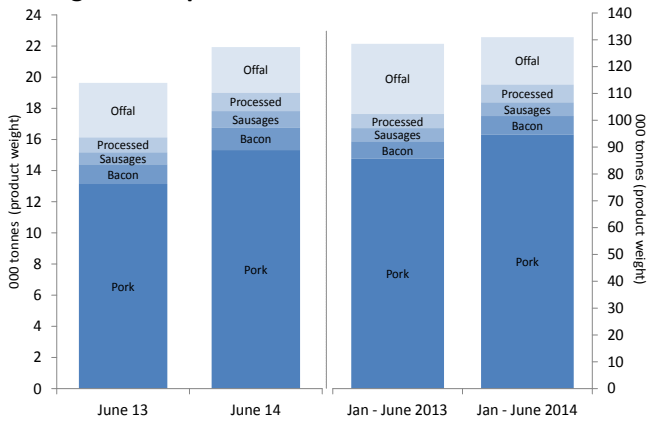


In contrast to clean pig slaughterings, the adult pig kill declined by 3% compared with July 2013. This is a likely result of lower feed prices of late, encouraging producers to retain their breeding herd. In fact, sows and boar cullings were 14% down on July 2012, a time when producers were reacting to higher feed prices. Clean pig carcass weights for July averaged 79.5kg, 2% higher than the same month in 2013. Consequently, pig meat production also increased by almost 2% on July 2013, to 80,400 tonnes.

For the fourth time in the first six months of this year, UK pork exports recorded double digit year-on-year growth in June. With the exception of Germany, which was affected by the lower GB sow kill during the month, all significant markets recorded growth. Unusually, Denmark was the largest market during the month – presumably this was product for re-export, given strong Danish export sales to Asian markets. UK exports to China/Hong Kong rose by 22% and there was also good growth in some smaller non-EU markets. The June figures mean that total pork exports in the first half of 2014 reached 94,700 tonnes, 11% up on last year and the strongest first half performance since 2000. With lower unit prices, the value of exports during the six months was only 2% higher at £105.9 million.

# UK Market Snapshot

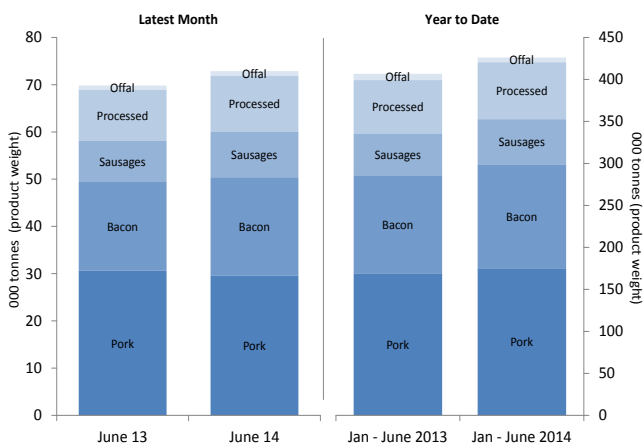
## UK Pig Meat Exports



Source: Her Majesty's Revenue & Customs

In contrast, the UK imported less pork in June than a year before. Much lower shipments from Denmark and small falls for the two other major suppliers, Germany and the Netherlands, were largely offset by increased volumes from smaller suppliers such as Spain, France and Poland. However, the total volume of pig meat entering the UK market was higher, due to increased imports of bacon/ham, sausages and processed products. Imports of Danish bacon were noticeably higher, continuing the recent trend of more product being cured before shipping, rather than being moved as pork, likely for curing in the UK. Across the first six months of the year, there was growth in imports across the main pig meat categories. Overall, shipments were up 5% at 420,400 tonnes. The value of pig meat imports rose by just 3% to £1.06 billion, helped by the stronger pound.

## UK Pig Meat Imports

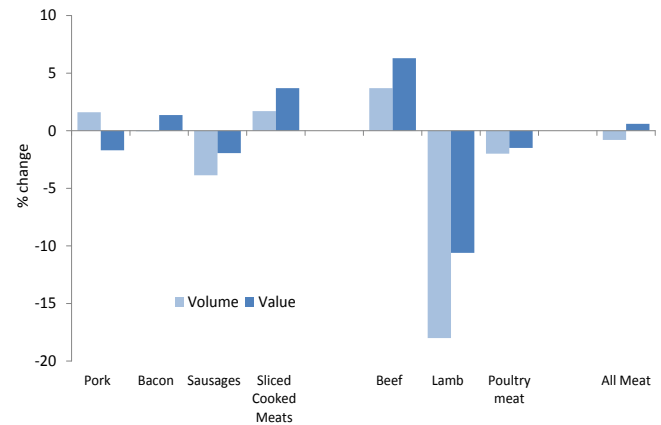


Source: Her Majesty's Revenue & Customs

Shoppers' spending on pork was down 2% year on year during May to July, according to the latest Kantar Worldpanel data. The drop was led by chops/steaks, where expenditure was down 8% against the corresponding period a year ago. A drop in promotional intensity, driven by a reduction in price promotions this year, meant that not only did fewer households buy this cut but those that did bought less often and purchased less. The one sector that continues to perform consistently well is pork mince, which enjoyed annual expenditure growth of 51% and the quantity bought

was up 45%. Indeed, the latest 12 week period saw mince reach nearly 6% of total pork sales and in the month of July, the share reached 7%. The versatility of pork mince, coupled with its attractive price proposition, means that it is increasingly finding favour with consumers.

## Annual percentage change in retail meat purchases (12 weeks to 20 July 2014)



Source: Kantar Worldpanel

Spending on sausages was down 2% over the latest period, compared to a year ago. The growth in the standard sector was more than offset by declining expenditure on the premium tier, which was down 8%. Average prices rose by 6%, impacting the number of households purchasing and the amount being bought per shop. Shopper spend on ham was fairly static, despite continued strong growth from the discounters, whilst expenditure on bacon was up 2%, helped by a small increase in prices.

According to the latest price figures, pork producers received 41% of the total retail price in July. This was nearly 2% down on the previous month, resulting from lower farmgate prices and higher retail ones. This meant the producer share was two percentage points lower compared with the same month in 2013, when it was 43%. Bacon retail prices for the whole of July are not yet available but the June figure for the producer share stood at 37%, in line with most of the year so far. The share of the retail price received by the bacon producers was 1% lower compared with June 2013.

Retail pork prices in July increased from the month before, with the exception of fillet of pork and traditional pork sausages, which declined by 1% and 2% respectively. Boneless shoulder and loin steaks recorded the largest month-on-month increase, both up by 7%. Retail pork prices in July showed mixed trends compared with the same month in 2013, whereby loin chops increased by 13%, followed by a 6% rise in fillet end leg. There were some smaller increases in other pork categories but the average traditional pork sausage price declined by 8% on a year earlier, while boneless leg and fillet of pork prices also came down, by 5% and 6% respectively.

# UK Market Analysis

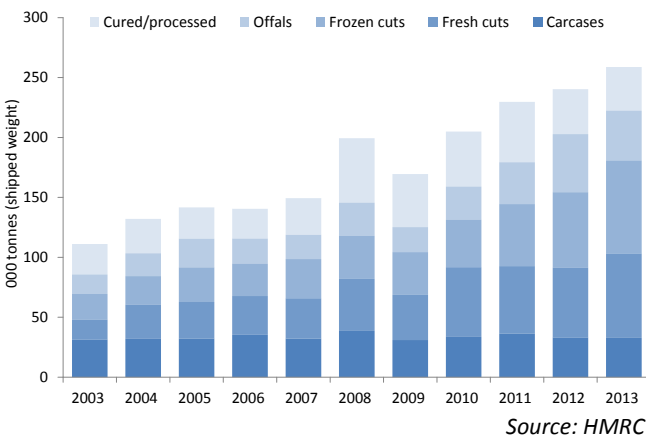
## The changing mix of UK pig meat exports

One of the reasons UK pig prices have reached new highs in the last couple of years is the strength of exports. Total pig meat shipments have risen from a low point of 111,000 tonnes shipped weight in 2003 to 259,000 tonnes last year. So far this year, exports have been higher still. Last year's figure was equivalent to 27% of UK production, nearly double the share in 2003. With export growth exceeding the rise in production, it has helped to push prices from 105p/kg in 2003 to an average of 165p/kg a decade later.

So what are UK exports made up of? Most pig meat exports are of fresh/frozen pork; last year it made up around 70% of total volumes (shipped weight). These predominantly consist of cuts where domestic demand is insufficient to match supply levels. Of the remainder, just over half is offal, with the rest made up of cured and processed products. Within the pork category, there are three main segments, each of which has shown different trends of late:

- Carcasses (including half carcasses)
- Fresh cuts
- Frozen cuts

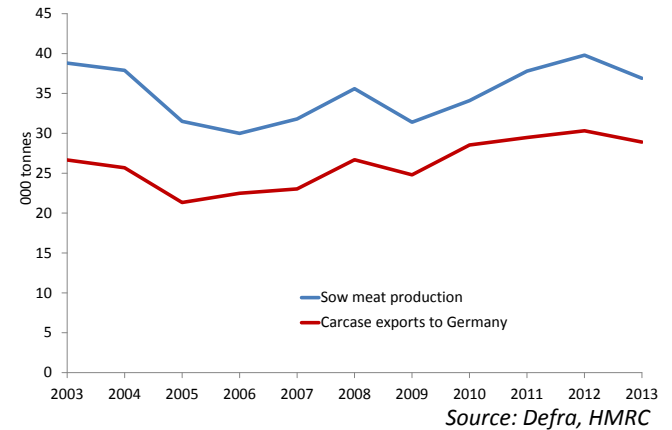
### UK pig meat exports by product, 2003-13



Ten years ago, fresh carcasses made up nearly half of pork exports. Since then volumes have been broadly stable and, with other shipments rising, they now make up only 18%. This trade is dominated by sow carcasses sent to Germany, so there is little scope for it to grow from current levels. The Netherlands and Belgium were the main secondary markets but both have taken fewer UK carcasses in recent years.

The importance of the German market for UK cull sows is apparent from the clear relationship with domestic sow meat production. Although they are not entirely made up of sow meat, carcass exports to Germany are equivalent to around three-quarters of UK sow meat output and the two series follow similar trends. With cull sow prices having risen since 2003, the value of carcass exports has grown from £22.7 million to £41.8 million last year.

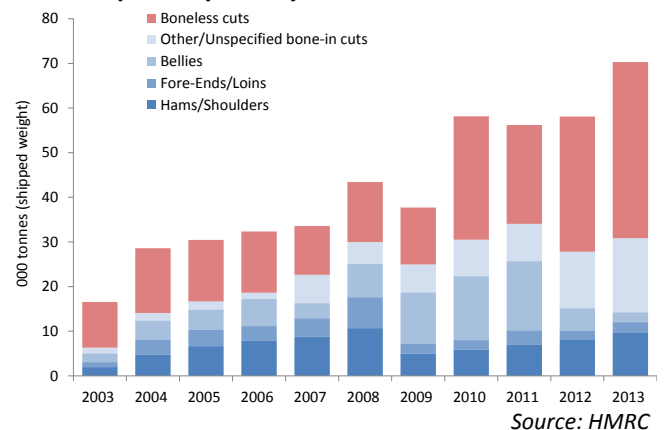
## UK sow meat production and carcass exports to Germany



Until the last two years, fresh pork cuts have made up the largest share of UK pig meat exports. Having reached 58,000 tonnes in 2010, volumes then plateaued until last year, when they increased to just over 70,000 tonnes. Virtually all of the fresh pork cuts are destined for other EU markets (over 99% last year). The most significant is Ireland, which accounted for just under a third of exports in 2013. Volumes to Ireland have trebled since 2003 but have been more stable of late.

The other major destination for UK fresh pork cuts is the Netherlands but it is unlikely that it is the final destination in most cases, given that it is a major pork exporter. Instead, it probably just means that Rotterdam is the main port through which UK product reaches a variety of EU markets (or is shipped on to non-EU markets). Unfortunately, trade data do not tell us where this product eventually ends up. The same is true of pork exported to Denmark, the third largest buyer in 2013, most of which will also have been re-exported.

### UK fresh pork exports by cut, 2003-13



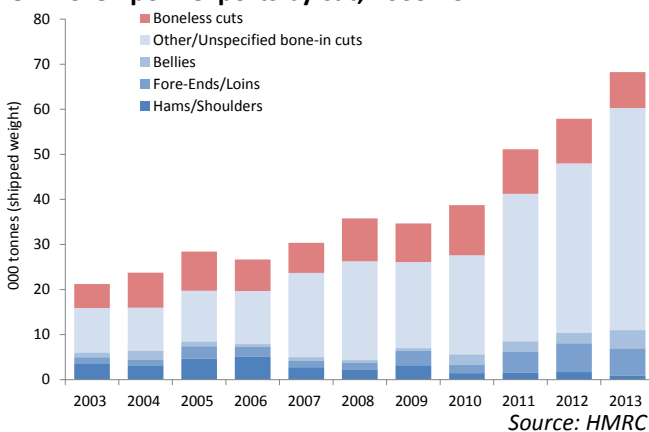
The growth of fresh pork exports in recent years has been driven by boneless cuts. Volumes of these have trebled since 2009, while bone-in shipments have only grown by 17%. Between 2007 and 2011 there was a steady rise in exports of bellies, mainly to the Netherlands and Belgium, but this trade has apparently since declined sharply. In part, this may be due to a revival in domestic demand for bellies but it could also indicate a change in recording, as

## UK Market Analysis

volumes of 'other bone-in cuts' rose in the last two years. While this mainly covers cuts not included in other categories, it is probably sometimes used for consignments made up of a mix of cuts.

These 'other bone-in cuts' are also of increasing significance among frozen exports, which have now overtaken fresh in volume terms. Having made up less than half of frozen exports until 2006, the 'other cuts' category's share rose to almost 75% in 2013. Other than this category, volumes of frozen cuts have risen only slowly and stabilised since 2011.

### UK frozen pork exports by cut, 2003-13



The growth of 'other cuts' has implications for the value of UK exports as prices are generally lower than for other cuts. For frozen cuts, the average in this category was just 82p/kg in 2013, compared with £1.65/kg for other frozen cuts. The gap was even bigger for fresh cuts, with the miscellaneous category averaging just 65p/kg and other cuts at £1.63/kg.

While, at face value, these unit prices seem like a negative, it is worth remembering that many of these cuts will not previously have found a market for human consumption at all. In some cases, they may even have been sent for rendering, thereby incurring a cost. Therefore, these values are considerably higher than what could be realised otherwise and so even these low prices add to carcase value.

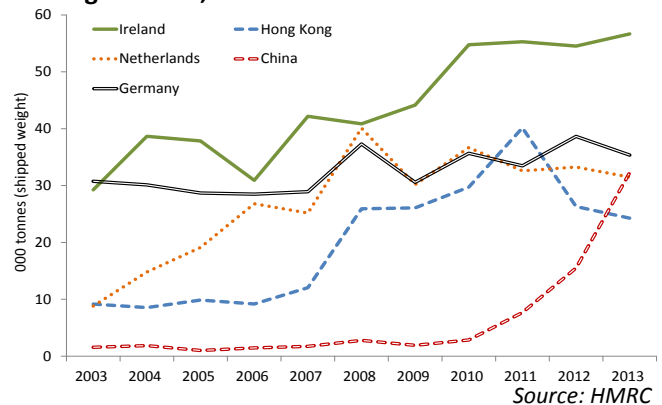
Unlike fresh exports, most frozen shipments are destined for markets outside the EU. Less than a third were sent to other EU countries and more than half of those went to Denmark and Holland, so the ultimate destination was probably outside the EU. This is in marked contrast to a decade ago, when over half of frozen pork exports stayed within the EU.

The key markets for frozen pork exports are now China and Hong Kong, which accounted for over half of shipments last year. For 'other bone-in cuts' their share was as high as 64%. Some smaller markets are emerging as important secondary destinations. These include Cote d'Ivoire, the Philippines and South Africa, which together accounted for 8% of shipments in this category last year, up from 1% two years ago.

Cured exports have been somewhat volatile in recent years but ended the decade at a similar level to where they began. Processed shipments (including sausages) have increased steadily during the period, roughly doubling in volume between 2003 and 2013. However, at just under 23,000 tonnes, volumes are still much lower than for pork. Ireland is the leading market for all cured and processed products, currently taking around two thirds of UK exports.

Pig offal exports have more than doubled over the last decade. Until last year, growth rates had been similar for fresh and frozen offal, with virtually all of the former remaining within the EU and most of the latter leaving it. However, in 2013, fresh offal exports fell by nearly half, while frozen shipments continued to grow strongly. As a result, China and Hong Kong rose in importance to the offal trade; their share increased from 23% in 2012 to 37% last year.

### Total UK pig meat and edible offal exports to the five leading markets, 2003-13



Taking all edible pig meat products together, Ireland is the UK's largest export market. It played a key role in export growth up to 2010 but, as with the rest of the EU, shipments have stabilised since. Recent growth has been dominated by non-EU markets and particularly China. Last year, China moved up two places in the league table of export markets to third; so far this year it is second behind Ireland.

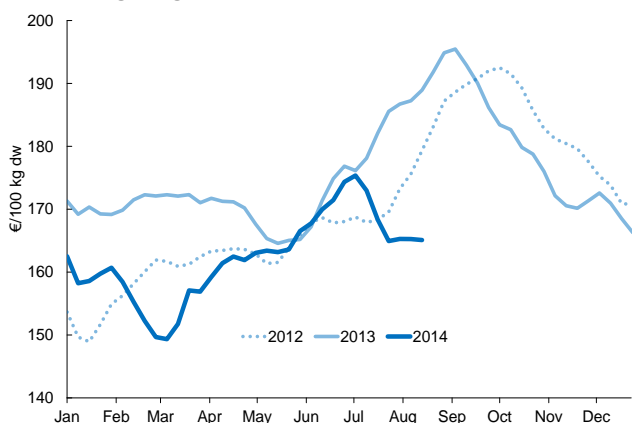
One consequence of the growth of the Chinese market is that unit prices of UK exports have not risen very quickly and last year, they fell slightly. As explained above, this is not necessarily a bad thing. However, it does mean that value growth, in real terms, has not been as strong as for volumes. Taking account of inflation, 2013's export earnings of £330 million were around 80% higher than in 2003 but volumes more than doubled over that period.

Export growth delivers value to the UK pig industry in two key ways. First, it increases the overall demand for UK pig meat and diversifies the customer base. This helps to strengthen prices throughout the supply chain. Secondly, it provides markets for products for which there is little or no demand from the domestic market, thereby increasing the value of the carcase as a whole. Therefore, maintaining and developing export markets should continue to be a priority.

## EU Market Snapshot

According to figures published by the European Commission, EU finished pig prices in July averaged €169.51 per 100 kg. This was around €1 lower than the previous month. Slow demand in the European Union was the key driver of lower prices in recent weeks, although the Russian ban on imports of EU pork continued to weigh on the market. The current level was around €12 below pig prices in July 2013. In the most recent week, ended 17 August, EU finished pig prices stood at €165.20 per 100 kg. For the same week, the difference between the UK and EU pig prices fell slightly to €27 per 100 kg.

### EU Average Pig Reference Price



Source: EU Commission

Over the month, pig prices in the EU were largely subdued as a result of lower demand in the market. This situation was relevant to Germany, where summer holidays suppressed demand, and prices were down by 4% on July 2013 and by 3% on June 2014. Despite some improvement in prices during the holiday season, French and Spanish quotations were below last year's level by 8%. Price falls were recorded across the other key EU pig producers during July, including the Netherlands (down 4%), Poland (down 1%) and Denmark (down 2%). In contrast, Irish pig prices in July were up by 7% compared with a year earlier. Prices were generally stable across most of the major member states in early August.

According to the latest figures from Eurostat, at 19.8 million head, EU pig slaughterings were down by just over 3% in May, compared with the same month in 2013. However, there was one less working day in the fifth month of this year, which meant that throughputs actually increased slightly from a year earlier on a per working day basis. Pig meat production in May declined at a similar rate compared with a year earlier.

The country breakdown showed most of the major producers slaughtering fewer pigs in May. The largest year-on-year decline was recorded in Italy, down 16%, followed by France (down 9%). Irish and German throughputs were down by 5% and 4% respectively. In contrast, pig slaughterings in Spain and Poland rose by 1% and 4%. With prices in the EU stabilising again, early

June figures, from countries including France, Ireland and Romania, showed increases in supplies, partly due to an extra working day this year, while Ireland recorded a larger 8% increase on a year earlier.

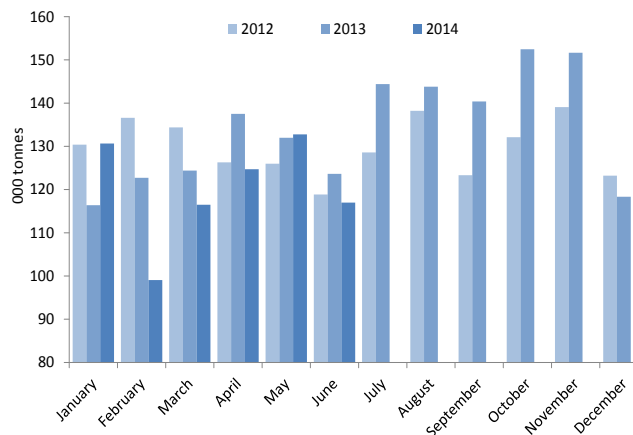
### EU pig slaughtering trends



Source: Eurostat

Latest figures for June show a 5% fall in EU pork exports and there was a similar trend recorded for the first half of the year, as supplies fell to 720,600 tonnes, also down by 5% compared with 2013. This was a direct consequence of the Russian ban, imposed earlier this year, on the back of ASF found in Poland, Latvia and Lithuania. Prior to the ban, the EU sent almost a fifth of its exports to Russia and volumes declined from 165,600 tonnes in January to June 2013 to 17,400 tonnes this year. The EU successfully diversified into other international markets but suppliers were unable to place all of the excess volumes. Japan displaced Russia as the primary destination and Asia remained the key market for EU pork exports. The value of pork exports in the first half of the year totalled €1.68 billion, down 6% on the same period in 2013.

### EU monthly pork exports



Source: Eurostat, GTIS

At 83,000 tonnes, EU offal exports in June rose by 1% compared with the same month in 2013. The bi-annual figures showed the same percentage increase, as volumes reached 497,800 tonnes.

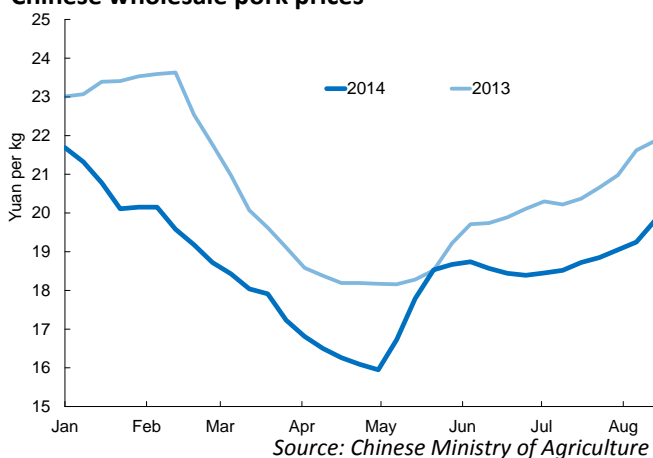
# Global Market Analysis

## Liquidation of the Chinese pig herd continues

The pork powerhouse of the world, China holds around half of the global pig herd. Yet, the growing population in China and pork being a staple food means domestic production is unable to satisfy demand. As such, China remains a key importer of pork and the significance of the country is increasing on the global market. Chinese demand for imported pork will be even more evident going forward as the latest inventory indicates a sharp reduction in the pig population. June figures, provided by Ministry of Agriculture, show an 8% year-on-year drop in the sow herd to 45.9 million head, the lowest level in 2 years. The total pig herd stood at 428.2 million head, down 4% from June 2013.

Weak pig prices in China, combined with production challenges related to diseases and cold weather conditions, have placed farmers in a difficult financial situation. Latest figures show reductions in profit margins, with feed prices in China not falling as much as elsewhere. Farrow to finish farms are reportedly losing around RMB 200 (about £20) per market pig. Consequently, producers have been sending increasing numbers of sows for slaughter, as small scale farmers, in particular, look to leave the industry altogether.

## Chinese wholesale pork prices

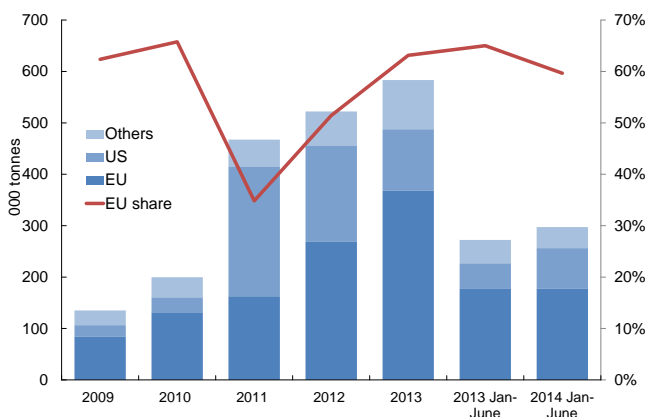


These trends could lead to supply shortages in the near future, which are likely to add value to pig and pork prices, ultimately raising the consumer price index (CPI). The shortages are already feeding into the Chinese pig market, as live pig prices have strengthened recently but even this has failed to slow down herd liquidation. Plans to stabilise pig prices by buying pigs from the market to store in frozen pork reserves have had little impact, due to the relatively small quantities involved. Further actions will need to be taken to secure stable long-term pig meat production in China.

No doubt, with rising pig meat demand from the Chinese population coupled with the country's supply shortages, this will turn higher focus to the global market for pork imports. The US is the main supplier of pork to China, and according to the latest semi-annual figures, the country accounted for around 26% of total trade. However, the

US market share has halved since 2012, with the EU gaining more significance in the Chinese market. By the month of June, US shortages resulting from PEDv were starting to impact on trade, with volumes from there down by 14% on the year, while EU shipments were up 5%, increasing its market share to 65%.

## Growth of Chinese pork imports and of EU share of the total



Source: China Customs, GTIS

Whilst consumers are generally looking for more protein in their diet, the focus remains on prices for the average Chinese consumer. Hence, lower June imports from the US were due to a combination of reduced availability and higher pork prices. As such, this offers the EU an opportunity to strengthen trade with the world's largest pork market.

Within the EU, Spain Germany and Denmark are the key suppliers of pork to China. Figures from the first half of this year show imports from Spain and Denmark rose by 41% and 9%, while German supplies came down by 34% on a year earlier. The UK accounts for a smaller market share, around 5%, but the latest figures indicate progress, as China imported 43% more UK pork than in the first half of 2013.

In addition to pork being the nation's favourite protein, recent avian influenza outbreaks have led consumers to switch from poultry meat to other protein sources, including pork and beef. However, beef accounts for a small share of consumption and therefore does not provide much threat to the Chinese pig industry. Pork consumption is expected to increase by 2% this year to 56.2 million tons.

Going forward, China has turned to a five year growth plan to compensate for the declining pig population in recent years and to secure the country's pig production. The plan targets efficiency, food safety and environmental protection, with emphasis on large production units. Higher investment in test systems and control programmes will secure the food safety issues. However, the level of training and expertise of farm managers and attendant veterinarians is often low and government will need to focus on strategies which will tackle such challenges. Therefore, China is likely to remain an important export market for the foreseeable future.

# Global Market Analysis

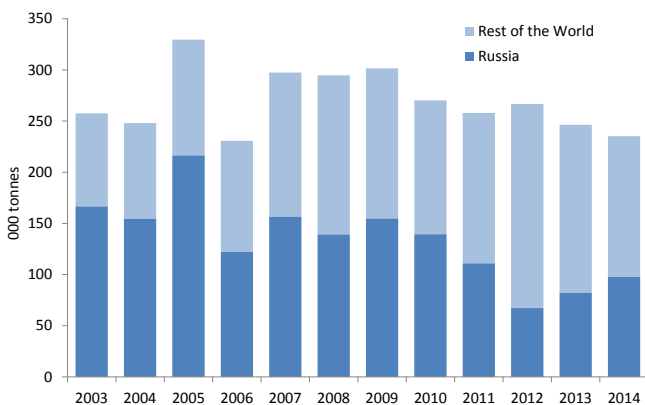
## Russian ban provides opportunity for Brazilian pork

This month's Russian announcement that it is banning imports of most food and agricultural products from, among others, the EU, US and Canada, has focused attention on the Brazilian pig industry. Brazil is now the only major global pork exporter with access to the Russian market. Will it be able to fill the gap left by other suppliers and what will that mean for the global pork market?

Brazil's pork exports in the first seven months of this year were the lowest recorded for this period since 2006. At 235,000 tonnes, they were 5% down on a year earlier and 22% lower than in January-July 2009, the recent peak. This suggests some scope to increase shipments to Russia. This is supported by forecasts that Brazilian pork production will be higher in the second half of the year. Furthermore, domestic consumption could fall back slightly, having been supported by the World Cup in June and July.

Following the earlier ban on EU pork, Russia's share of Brazilian exports rose to 46% in the second quarter, the highest level in three years. Prior to 2011, Russia regularly accounted for half of Brazilian pork exports and a decade ago, the share was higher still. However, in mid-2011, Russia imposed restrictions on Brazilian pork which meant shipments fell from over 100,000 tonnes in the first half of that year to less than 20,000 tonnes in the second half.

### Russian share of Brazilian pork exports January - July



Since the ban in 2011, shipments have not fully recovered as the number of Brazilian plants approved for export to Russia was restricted. However, since the latest ban was announced, Russia has increased the number of approved plants, which is another indication that more pork will move between the two countries in the coming months.

However, last year, Russia imported nearly 450,000 tonnes of pork from the EU, US and Canada. This was already over 100,000 tonnes lower than the previous year, as Russian production growth reduced import demand to some extent. Even if all of Brazil's exports were diverted to Russia, they would not make up this

shortfall. In reality, commitments to other markets will prevent this from happening anyway.

With Russia already short of pork, it is likely that Brazilian exporters were sending as much there as they were able to. The approval of additional plants will allow shipments to increase but it is unlikely that they could rise dramatically from their recent levels. Even if volumes doubled, the extra supplies would only amount to around 150,000 tonnes annually, well below the shortfall on the Russian market.

### Unit price of Brazilian pork exports 2010 - 2014



High prices could constrain exports to some extent. Already, export prices for Brazilian pork have risen by a quarter since the start of the year. Prices for shipments to Russia have risen even faster and the depreciation of the rouble means that import prices on the Russian market have increased by more than half. With less competition from Canadian pork, rouble prices for Brazilian pork could rise further still in the coming months, which would be likely to limit demand.

Any Brazilian pork diverted to Russia could provide opportunities for other exporters. The other major pork markets for Brazil are Hong Kong (17% of supplies so far this year), Angola and Singapore (both 9%). Some of these volumes may be replaced by Canadian pork; Canada supplies all three of these markets but quantities are much smaller.

However, there will probably also be opportunities for EU exporters. EU shipments to these destinations have risen sharply in the first half of 2014 (Hong Kong +17%, Angola +44%, Singapore +63%), suggesting there may already have been some replacement of Brazilian pork diverted to Russia.

Any realignment of trade could take a few months to settle down, during which time there may be some pressure on prices in the EU and North America. However, indications are that any impact will be fairly short-lived, especially as supplies are relatively tight globally due to the impact of PEDv in North America and Asia. This suggests that, while Brazil may gain from the Russian ban, other major exporters won't experience too much damage.



## Feed Market

Domestic grain and soyameal prices are revisiting low levels not seen for four and two years respectively. Although further downward potential does remain, care should be taken not to become complacent. These ultra-low prices only seem to be a feature of this season with forward prices showing relative strength.

### Domestic feed wheat and soya prices



Source: AHDB/HGCA

With the majority of the Northern Hemisphere wheat harvest nearing completion, the optimistic production forecasts of recent months are becoming reality. In its latest monthly report, the USDA upped its forecast of global production to an all-time record, unpinning the old adage that *'big crops just get bigger'*. Recent increases in production have stemmed from Russian and Ukrainian harvest forecasts. The unrest between these key exporters has potentially fuelled the pace of exports, as operators experience greater than normal cash flow constraints through a reluctance of financiers.

Elsewhere, production uncertainty remains in the Southern Hemisphere, where both Argentina and Australia are disproportionately large exporters relative to production. Australia is the main focus but a supportive start to the growing season is currently trumping the threat of El Nino, which could bring drought.

Closer to home, key Western European wheat producers, notably France, have had a difficult and wet harvest. This has fuelled the sentiment that a much larger proportion of wheat crops will be downgraded to feed quality, further swelling feed grain supplies. This is likely to maintain downward pressure on spot prices, despite the re-instatement of EU import tariffs after an absence of four years and following the decline in global prices.

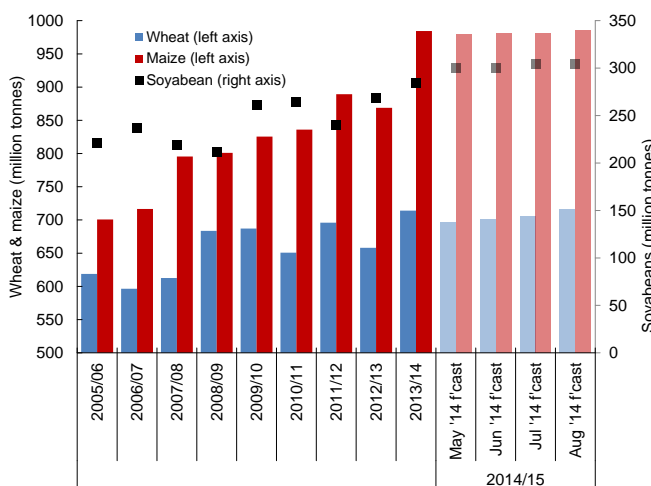
After a strong and early start, which led to much of the UK winter barley and oilseed rape crops being harvested without the need for drying, a proportion of the wheat harvest has been dogged by rain.

Aside from wheat, downward price pressure is coming

from the maize market, which is becoming the increasingly dominant global grain. Until the late 1990's global wheat and maize production were at level pegging. Now though, for the current year, maize is expected to dwarf wheat production by some 269Mt and it is a divide which continues to grow.

The USDA haven't shown the same level of confidence toward to the size of the US maize crop as other analysts and commentators, adopting the usual 'wait and see' approach. If weather conditions remain supportive, further increases in the US maize production estimate is likely. However, the USDA's forecast of both Chinese and Ukrainian production have remained unchanged so these are both watch points as there have been reports of dry weather at times.

### World Grain and Oilseed Production Estimates



Source: USDA

The scale of the global grain production forecasts plus EU wheat quality issues have forced UK wheat futures (Nov-14) close to £120/t, which currently appears to be offering a level of support but may well be breached in the coming days and weeks. Further forward and prices for the 2015 crop (Nov-15) are at unusual premiums to the spot price, underlining the extreme nature of the current market conditions.

Similarly to the feed grain side of things, protein meal prices have recently set low prices not seen for a number of years. In general, the fundamentals remain the same – good production prospects.

Recent dryer weather in the US, although raising some concern doesn't appear to have impacted confidence in US soyabean production this year. As such, and following a good South American harvest at the beginning of 2014, prices have been forced lower. However, given the more even nature of oilseed production between Northern and Southern Hemispheres (as opposed to grain), South American output will soon be on the horizon. There is a question over how farmers will respond to lower prices, particularly with 'double crop' soyabeans – although this is a relatively small part of overall production.

## In Brief

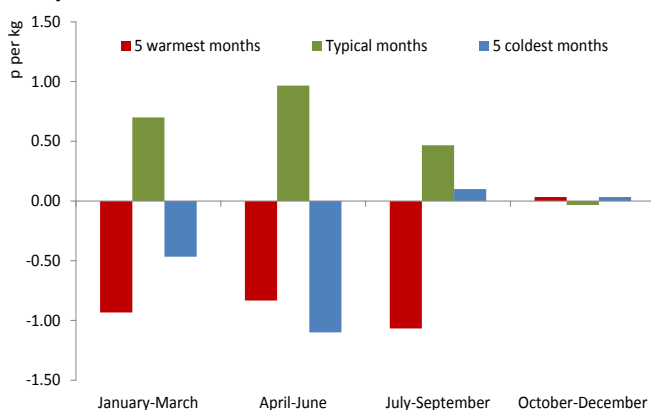
### Don't rely on the 'barbecue effect'

With UK finished pig prices falling in recent weeks, producers have been looking for things which might help to arrest the decline. One suggestion which is often cited during warm spells, is barbecue demand. But is there any evidence to suggest that there is a link between 'barbecue weather' and rising pig prices?

We have compared average monthly temperatures against pig price movements. To take out the effect of other market conditions, the analysis needs to cover a long enough period, in this case 20 years (1993-2012). As with temperatures, pig prices follow a seasonal pattern, so we have looked at whether prices moved more positively or more negatively than they normally would during each month. This can then be compared against temperatures to see how weather conditions influence prices.

During the last 20 years, 46 months were more than a degree warmer than the seasonal average, including 20 in the spring and summer months (April – September). During these months, pig price movements were, on average, slightly less positive than normal (either rising more slowly or falling faster). The difference wasn't large, 0.4p/kg overall and 0.6p/kg in the spring/summer months. However, this shows that hot weather, even in the barbecue season, doesn't mean higher prices.

### Comparison of pig price movements by average temperature, 1993-2012



Figures show how pig price movements differ in the 5 warmest and 5 coldest years for each month (and more typical years) from the average movement for the same month

Source: AHDB MI, Met Office

Similarly, 45 months have been a degree or more colder than average, 24 in spring and summer. During these months, price movements were also slightly less positive than average. This suggests that 'normal' seasonal conditions are actually the most

beneficial for pig prices. The effects are small, though, showing market fundamentals are far more important than the weather.

The lack of a positive 'barbecue effect' should really come as no surprise, given the seasonality of pig meat purchases. Less fresh pork (especially roasting joints) and bacon are sold during the summer months, particularly in warm years. Higher sales of ham and sausages mitigate this to some extent but the value of these products to UK processors is much lower than fresh pork cuts.

### Pig market news now on website

It is now even easier to keep up with the latest news and analysis on the pig market through the new [market news section](#) of the BPEX website. This will include all stories from Pig Market Weekly and articles from Pig Market Trends. The news will be available quicker, often on the day when data come out, and will be accessible to everyone, not just publication subscribers.

### More African Swine Fever cases in the EU

Over the last month, several new cases of ASF have been reported from Latvia, Lithuania and Poland. The most significant outbreak was in a large Danish-owned farm in Lithuania, where 19,400 pigs had to be slaughtered. The new reports also include the first case in farmed pigs in Poland. The new Latvian cases include some in the north of the country, near the Estonian border and well away from the border with Belarus.

### Russian food import ban will have limited impact

Russia has banned imports of agricultural and food products from the EU, US and Canada, among others, in response to sanctions imposed over the situation in Ukraine. However, with EU and US pork already banned from the Russian market, the impact on the pork market may be limited. The biggest impact will be on Canadian exporters, who will have to find alternative markets, which may have some knock-on effect on the EU.

### Russian ban hitting some EU countries hard

Although EU pork exports in January-May were down, trends in sales to non-EU markets varied between Member States. For example, German shipments were down by 20%, while Danish ones were up 6%, so it regained its position as the EU's top exporter. The Dutch also increased shipments, while French and Spanish ones were little changed. Unsurprisingly, Poland was the hardest hit, with its pork exports to non-EU countries down by nearly half.

Read more about these and other stories in Pig Market Weekly. To view past editions or to subscribe, [click here](#).

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