BPEX
AHDB Agriculture & Horticulture DEVELOPMENT BOARD

Pig Market Trends

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UK outlook

Based on the bigger than expected fall in the UK breeding herd recorded in the June survey, UK pig meat production in the coming months may grow more slowly than previously expected. Nevertheless, with productivity continuing to improve, latest AHDB/BPEX forecasts suggest that supplies will again be higher over the coming year, with imports and exports also expected to rise. To read more about the forecasts and what they might mean for the UK pig market, turn to **page 4**.

Long-term retail trends

Over the last few years there has been much focus on the rise of the 'hard discounters' and the impact this is having on the 'big four' multiples. Looking at this and other retail trends over the past 40 years shows there is on-going structural change in retailing driven by changing shopper needs. This process is continuing, perhaps even accelerating as new technologies increase the range of options available to consumers. On **page 5** you can take a look back over the past 40 years, demonstrating that the grocery market is continually evolving.

EU forecasts

This time last year, EU pig producers were expecting 2014 to be a positive year. Then came ASF and the subsequent Russian ban on imports of EU pork products. By mid-October, the EU average price was at its lowest level since early 2011 and most EU producers were back in the red. So what does the future hold? Latest EU forecasts suggest supplies will remain relatively tight but this may not be sufficient to provide much support to prices as the Russian ban is now beginning to bite. Read more about prospects for the EU pig market in the coming months on **pages 7-8**.

Foodservice trends

In the second quarter of this year, eating out at restaurants and other food outlets grew for the third quarter running An increase in consumer confidence and a pleasant and long summer have contributed to this growth but does this really mean the end of cautious consumer spending? To read more about latest developments in the foodservice market, turn to **page 10**.

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Key data

	Sep-14	Change since Aug14	Change since Sep-13
GB DAPP (Euro-spec) – p/kg dw	156.19	-2.12	-13.88
Average GB carcase weight – kg	80.75	+1.35	+0.83
30kg weaner price - £/head	52.34	-1.04	-1.65
7kg weaner price - £/head	38.33	-0.91	-1.74
GB APP (Euro-spec) - p/kg dw	158.75	-1.88	na
GB SPP (Euro-spec) - p/kg dw	156.07	-2.06	na
EU Reference price – €/100kg dw	161.48	-3.32	-29.56
UK Reference price – €/100kg dw	191.22	-1.51	-6.02
UK weekly clean pig kill – 000 head	205.5	+11.5	+7.2
UK weekly pig meat production – 000 tonnes	17.4	+1.3	+0.9
UK pork imports – 000 tonnes*	27.6	-1.6	-0.6
UK bacon imports – 000 tonnes*	18.7	-3.5	-0.8
UK pork exports – 000 tonnes*	14.6	-1.8	-0.4
Retail pig meat sales – 000 tonnes†	52.3	-0.4	+0.1
LIFFE feed wheat futures - £/tonne	113.93	-8.36	-40.38
CBOT Soyameal futures - $/tonne	371.13	-35.13	-73.57

** Figures relate to August 2014*
† Figures include household purchases of pork, bacon, sausages and ham and relate to 4 weeks to 14 September 2014

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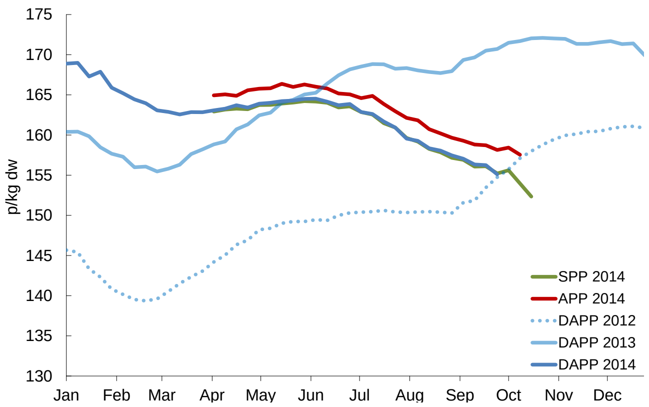
UK Market Snapshot

The EU-spec GB SPP in September averaged 156.07p per kg, 2p lower than a month earlier. This was partly a result of higher supplies domestically and EU pig prices contributed, as prices fell sharply across the continent during the month. With the exception of a marginal rise in the first week of October, likely due to changes to contracts following the end of the DAPP, the GB SPP continued to decline in October, to stand at 152.35p per kg for the week ended 18 October.

GB finished pig prices

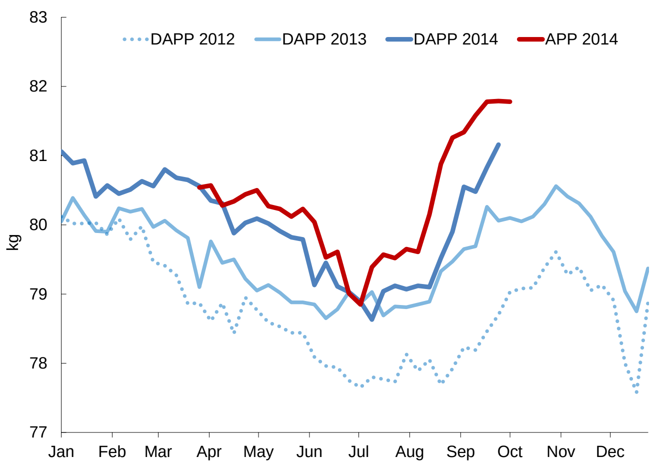


Source: AHDB Market Intelligence

The EU spec GB APP for September was the lowest since the series began, at 158.75p per kg, also a month-on-month change of 2p. This marked a difference of almost 3p between the APP and SPP in September. The DAPP series has been discontinued and the last monthly average in September stood at 156.19p per kg. This was almost 14p below the same month in 2013.

Carcase weights in September and early October reached record highs, with the average in the APP sample in September at 81.49kg. This was over a kilo higher than the previous month. Heavier pigs were a result of better growth rates and low feed costs, with reports also suggesting more pigs than normal were being rolled as supply outstripped demand. The heavier weights meant that the average probe measurement in the APP sample for September also increased, to 11.4mm, 0.4mm higher than in April this year.

Average carcase weights for GB finished pigs

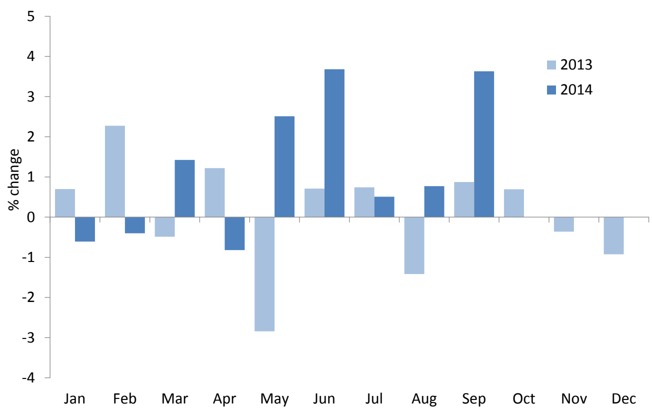


Source: AHDB Market Intelligence

The September average for the 30kg weaner price fell to £52.34 per head. This was the lowest monthly average since June last year, with a month-on-month decline of £1. The latest quotation fell below the previous year's level for the second consecutive month, indicating some weakness in the market, with the annual difference almost £2. No doubt, weaner markets have mirrored finished pig prices, despite low feed costs, with limited availability of finisher housing also a factor. For the same month, the average 7kg weaner price fell back by 91p to £38.33 per head. This was almost £2 lower compared with the same month in 2013.

September figures published by Defra show a 4% increase in clean pig slaughterings, to 821,900 head. This was the highest September figure since 2001. A similar increase in slaughterings was recorded for England and Wales, while 1% more pigs entered abattoirs in Northern Ireland.

Annual change in UK clean pig slaughterings



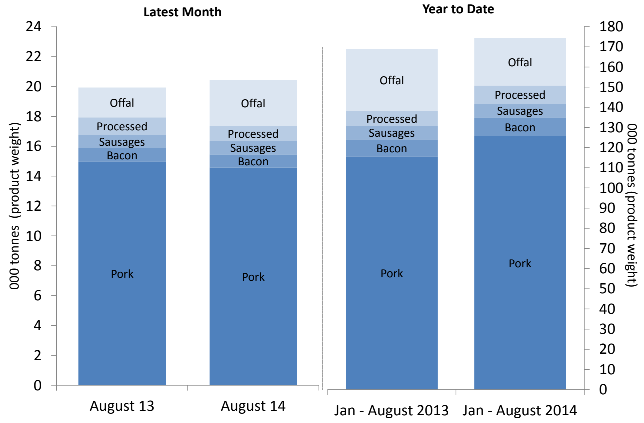
Source: DEFRA

At 18,800 head, adult sow and boar throughputs were down by 6% in September this year compared with the same month in 2013, continuing the trend of recent months. This was a consequence of lower prices this year, both for feed and cull sows, encouraging producers to retain their breeding herd. As a result of heavier pigs and higher slaughterings, pig meat production increased by 6% compared with September 2013. At 69,800 tonnes, this was the highest September production figure since 1999.

August UK pork exports were 3% down on August 2013, at 14,600 tonnes. This was the first year-on-year decline since February. The drop was largely due to lower shipments to Ireland and Germany, although they remained the two largest markets during the month. The drop in exports to Germany was due to lower sow slaughterings on the back of falling cull prices. Most smaller EU markets took more UK pork, as did non-EU buyers; shipments to third countries were up by 21%. Among smaller markets, there was big growth in exports to the Philippines, Japan and South Africa. Strong sales to China and Hong Kong meant that offal exports were up by more than half compared with last August, despite less being sent to the rest of the EU.

UK Market Snapshot

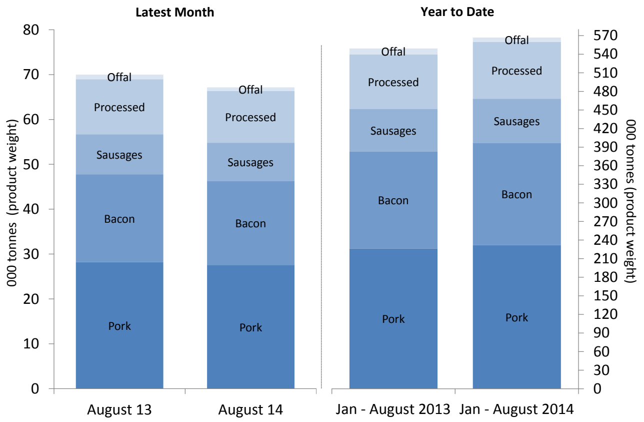
UK Pig Meat Export



Source: Her Majesty's Revenue & Customs

UK imports in August were lower than a year earlier across all the main pig meat categories. This was despite prices being significantly lower than last year, mainly due to the strengthening of the pound against the euro. The average price of pork imports, £1,970 per tonne, was 9% lower than in August 2013 but volumes were still down 2%. A sharp fall in purchases from Germany was the main reason for the drop, with other major suppliers sending more pork to the UK. Overall, it was a similar story for bacon, with 4% less entering the UK than a year before, despite a 6% drop in prices. Germany again bucked the trend of other suppliers but this time its shipments rose, partly offsetting falls from Denmark and the Netherlands. Similarly, increased imports of German processed products failed to fully offset lower purchases from elsewhere. Sausage imports were also down overall but with trends varying between suppliers.

UK Pig Meat Imports



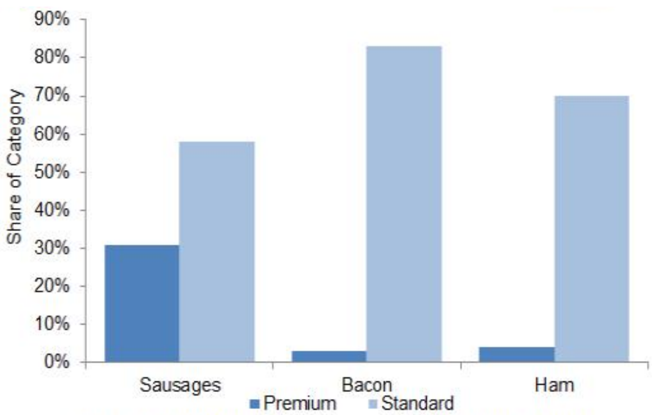
Source: Her Majesty's Revenue & Customs

Provisional UK figures from the June survey confirmed a 4% year-on-year decline in the overall breeding herd, including boars and maiden gilts, to 502,000 head. This was the smallest breeding herd recorded since 2008, largely resulting from a fall in English breeding pigs. Despite better profitability recently, producers were previously in a loss making situation for several years. The industry as a whole has not completely recovered from the losses incurred during that period, despite costs falling below pig prices. As a result, the latest female breeding herd figures reflect producer reluctance to make further investments in expansion at this stage, a situation worsened by subdued prices this year. However, despite a large decrease in the breeding herd, further productivity gains mean that feeding pig numbers were only 1% lower compared with June 2013. As such, the total number of pigs on UK farms had declined by 1% in the year to June, to 4.8 million head.

Figures published by Kantar Worldpanel show that shopper spending on pork was up by 1% on the year in the 12 weeks ending 14 September. With prices lower than last year, growth was driven by a 7% rise in the amount of pork sold. Pork mince was a clear winner as spending increased by 44% compared with the same period in 2013. Its versatility and competitive pricing has consistently attracted more consumers. Roasting joints also performed well in the period, helped by an increase in promotional activity. Spending on leg, loin and shoulder joints were up by 26%, 19% and 14% respectively, compared with the year before. However, chops/steaks and belly continued to suffer as both cuts recorded 6% year-on-year declines in consumer spending.

GB retail sales of sausages were down 2% (18,000 tonnes) in the year ending September 2014, according to Kantar Worldpanel. With sales of standard-tier sausages increasing by 4%, the decline has been focused on premium sausages. Compared with last year, average prices paid have risen by 6% and it appears that price conscious shoppers have traded down to manage price inflation. Despite improving news on the UK economy, average wage rises continue to lag behind inflation and savvy shopping remains the order of the day.

Share of GB retails purchases by tier



52 w/e 14th Sept 2014 *Source: Kantar Worldpanel*

Premium sausages still retain a 31% share of sausage category volume. This is considerably higher than both bacon and ham. A key reason for this is the price difference between premium and standard tiers across the categories. Premium sausages are only £1.17/kg more expensive than their standard counterparts, compared to a difference of £8.51/kg for ham and £5.00/kg for bacon. This makes sausages an easier 'trade up' for shoppers who are looking for a treat.

UK Market Analysis

Lack of confidence limiting UK supply growth

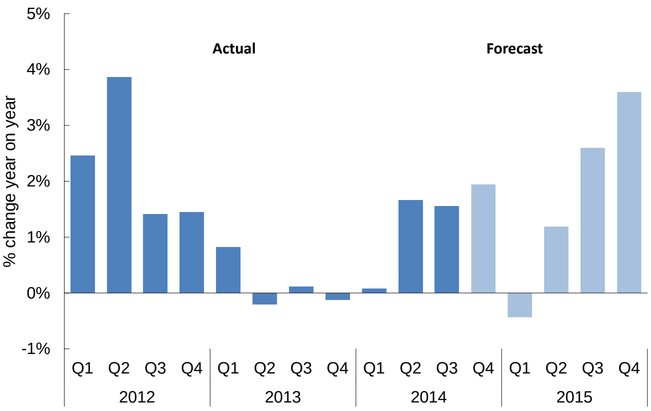
Based on the bigger than expected fall in the UK breeding herd recorded in the June survey, UK pig meat production in the coming months may grow more slowly than previously expected. Nevertheless, with productivity continuing to improve, latest AHDB/BPEX forecasts suggest that supplies will again be higher over the coming year.

Provisional UK figures from the June survey indicate a 3% year-on-year decline in the sow herd, excluding maiden gilts, to 407,000 head. This suggests that, despite better profitability over the last year, producers are reluctant to invest in expansion at this stage. With pig prices falling steadily since June, it is unlikely that this situation will have changed, so the size of the breeding herd may be stable, at best, in the immediate future. This is confirmed by the sharp reduction in gilt numbers, both those in-pig and those intended for future breeding, in the year to June.

Reports suggest producers have made some investments over the past year but these have been focused on updating buildings and equipment. This should contribute to further productivity gains. Over the last five years, productivity has improved steadily, with the equivalent of about 24 pigs slaughtered per sow per year in recent months. This rate of improvement should be sustainable in the absence of major disruptions, such as disease outbreaks.

The increase in productivity means that, for most of the coming year, pig slaughterings should grow at a similar rate to that recorded since the spring. This means that they will be up around 2% on a year earlier, although the growth may stall for a while early next year (assuming the June survey figures are accurate). If the breeding herd stabilises then growth could accelerate towards the end of next year.

Actual and forecast change in UK clean pig slaughterings



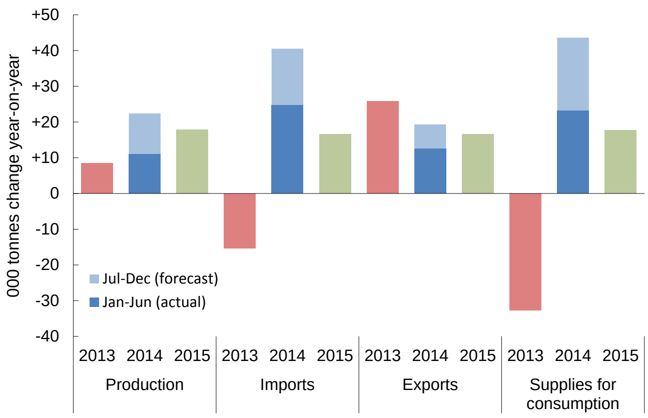
Sources: Defra (actual), AHDB Market Intelligence (forecasts)

Clean pig carcase weights have been well up this year, for the second year running. Good growing conditions, lower feed prices and relatively tight pig numbers have contributed, while recently there have been more reports of pigs being rolled by processors as supply has outstripped demand. A further modest rise in weights next year, in line with the long-term trend, would mean production rising slightly ahead of slaughterings.

With extra supplies of British pig meat on the market, prices will inevitably come under some pressure unless demand picks up. Further pressure will come from EU prices, which are expected to remain low (see pages 7-8), with the gap between UK and EU prices having been widened further by the stronger pound this year. This will increase the likelihood that imports will rise, adding further to supplies. So far this year, import growth has been modest, about 5%, as retailers' commitment to British pork remains strong. Assuming this continues to be the case, there may only be limited further growth next year. However, to some extent this will depend on the extent to which the price differential between UK and EU pork narrows.

Despite the strong pound and relatively high prices (at least compared with the rest of the EU), exports have increased again this year. With more markets opening and demand outstripping supply globally, prospects remain good for the coming year. Any export growth will mitigate the effect of rising supplies on the domestic market.

Trends in UK pig meat supplies



Sources: Defra, HMRC, AHDB Market Intelligence

Balancing all these factors out, supplies available for consumption on the domestic market have been higher this year than last. So far, this hasn't been matched by an increase in consumer demand, with retail pig meat sales similar to last year. This has created the pressure on the pig price, which has been apparent for most of the year.

Based on the latest forecasts, supply growth will be slower in 2015. Even so, consumer demand will need to rise before prices start to recover. With earnings growth still running below inflation, there is little sign of consumer spending on meat growing. This will need to change if demand for pig meat is going to rise to meet the increased supply.

To read more detail about the latest AHDB/BPEX forecasts for pig meat supplies, click here.

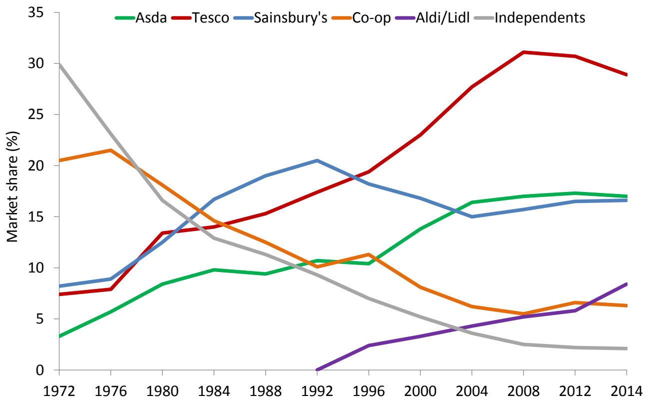
UK Market Analysis

Shopper needs drive long term retail change

Over the last few years there has been much focus on the rise of Aldi and Lidl, the 'hard discounters', and the impact this is having on the 'big four' multiples. The hard discounters have grown steadily since entering the UK in the 1990s. They now have a 7% share of the grocery market (Aldi 4%, Lidl 3%). This article looks at this and other retail trends over the past 40 years. It shows there is on-going structural change in retailing driven by changing shopper needs.

In the 1970s, there was a rapid expansion amongst the major multiples, particularly Tesco, Sainsbury's and Asda. The abolition in 1964 of Resale Price Maintenance (RPM), which allowed suppliers to fix the retail price for their products, enabled retailers to compete against each other on price terms, contributing to a drive towards larger, more efficient self-service stores. The rapid growth in women drivers and 2-car families facilitated a seismic shift to the 'out-of-town' grocery shopping format which we accept as the norm today. Shoppers frequented smaller independent retailers and butchers less as a result.

Market share of selected UK grocery retailers



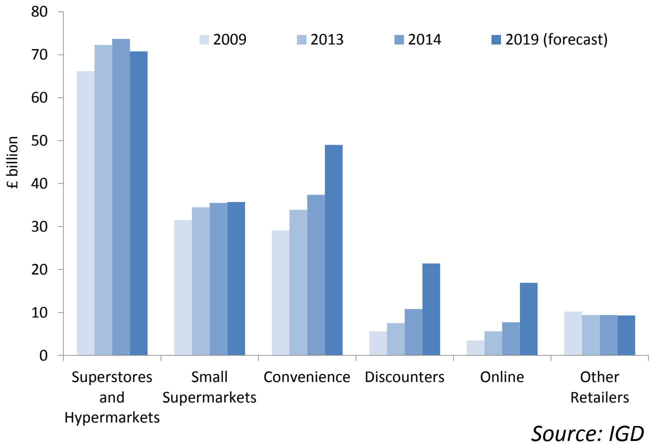
Source: Kantar Worldpanel

With more than half of all women in full-time work by the 1990s, grocery shopping increasingly became an evening or weekend activity. Longer store opening resulted, including Sunday trading in 1994. The rapid rise in fridge freezer ownership enabled groceries to be bought in bulk, with one weekly 'big shop' becoming the norm. Retailers with larger superstores performed well. Sainsbury's, in particular, benefited from this development during the 1980s, before Tesco and Asda experienced rapid growth later on.

This trend has reversed in recent years; there has been steady growth in smaller convenience stores. Shoppers are moving away from the one-stop, large, out-of-town shop as they shop around looking for the best prices. Instead, they are increasingly embracing frequent top-up trips at smaller convenience stores, which also helps them to avoid wasting money on food which never gets eaten. This trend is expected to accelerate over the next five years. Retail suppliers need to be prepared for the implications of this new direction in retailing and plan ahead to maximise opportunities and minimise supply chain risks.

Aldi, Lidl and other discount retailers have experienced similar growth, with their smaller store formats having successfully capitalised on the trend towards savvy shopping amongst more affluent consumers.

UK grocery sales by channel, year to April



Source: IGD

Online shopping has been another key growth area. It now accounts for close to 5% of grocery sales, having more than doubled in five years. Looking specifically at red meat, it is clear that shoppers have been slower to embrace this new channel. Only 4% of red meat sales are made online, although this figure is higher (6%) for beef mince, possibly because shoppers feel there is greater uniformity in the product, making in-store comparisons less important.

Looking to the future, there is a great deal of innovation in retailing. For instance, virtual stores with large touchscreens to offer consumers a 'virtual shopping experience' already operate in metro stations in Japan. UK retailers are operating systems allowing shoppers to collect purchases from lockers in offices, tube stations and other locations.

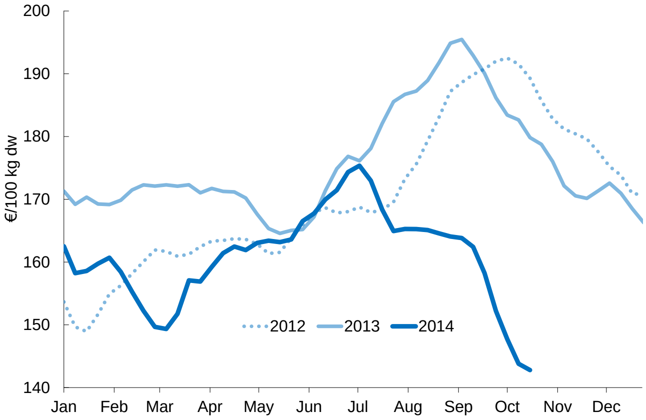
The trend of increasing innovation also applies to new product development, with a recent EU wide study showing that the choice of products available at a local level increased by 5% each year between 2004 and 2012. The strongest growth was in the discounters and convenience stores.

This brief look back over the past 40 years demonstrates that the grocery market is continually evolving. Recent trends show that this process is continuing, perhaps even accelerating as new technologies increase the range of options available to consumers. The successful retailers and their supply chains need to understand, and respond to, their customers' needs. Businesses will need to adjust the mix of products available to match the changing retail environment and ensure that their processes allow them to meet customers' expectations on price, quality and availability.

EU Market Snapshot

EU pig prices continued to fall in September and averaged €161.48 per 100kg. EU pig prices usually drop at this time of the year but the fall has been particularly sharp this year. The average finished pig price was nearly €30 below September 2013 and prices have remained below last year's level since July. Subdued domestic consumption and the loss of exports to Russia, which normally peak during the autumn, are still putting pressure on EU pig prices. Reports also suggest a modest increase in supplies since the summer. In September, the EU pig price was €30 below the UK pig price and the gap has increased to almost €50 as EU prices continued to fall, dropping below €143 per 100kg in week ended 19 October.

EU Average Pig Reference Price



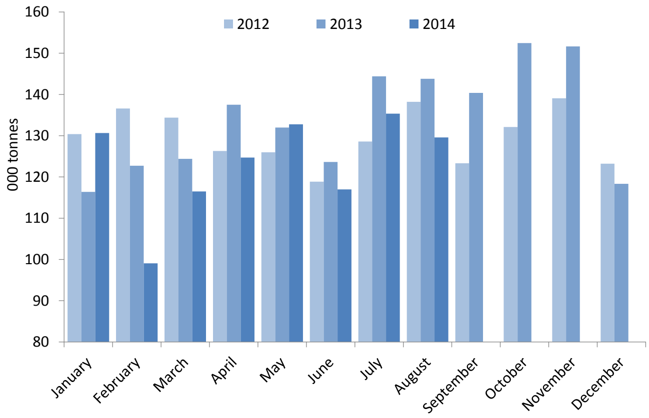
Source: EU Commission

Almost all EU countries recorded falling pig prices last month. The largest year-on-year declines were recorded in France (down €36) and Spain (down €40), where prices came down by 19% on the year earlier. Producers in Belgium received 18% less (down €31) for their pigs compared with September 2013, while Danish (down €19) and German (down €21) prices were reduced by 11%. Irish prices also came down but the decline was much smaller as the monthly average price was €7 (4%) lower compared with the same month in 2013.

Latest EU pork export figures for August highlight a 10% year-on-year reduction in shipments, to 129,600 tonnes. The decline was largely a result of the loss of the Russian market, coupled with a 13% fall in supplies to China. However, these falls were mitigated by growth in demand from other key markets. Japan was the leading destination for EU pork exports, with a market share of almost a quarter. Shipments to South Korea and Hong Kong rose by two-thirds and three-quarters respectively. The value of total supplies amounted to €313 million, down 10% from the same month in 2013.

At 86,300 tonnes, pig offal exports, on the other hand, rose by 10% in August compared with a year earlier. The main buyers of EU pig offal included China and Hong Kong and growth was driven by increased shipments to these two markets, up by 26% and 17% respectively. The total value of offal exports in August amounted to €99 million, also up 10% from a year earlier.

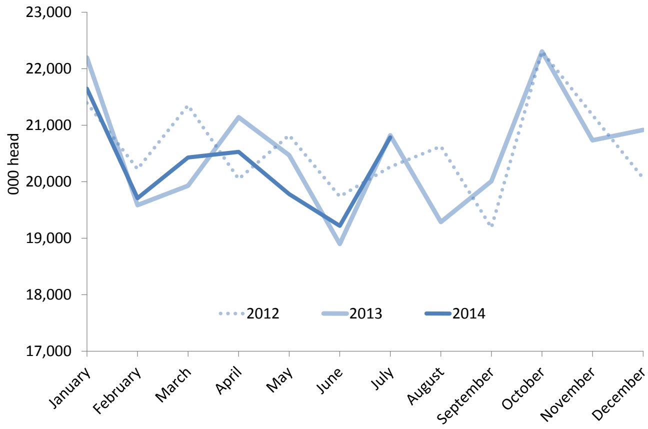
EU monthly pork exports



Source: Eurostat, GTIS

According to the latest figures published by Eurostat, EU pig slaughterings in July stood at 20.8 million head. This was only marginally down compared with the same month last year. For the year to date, throughputs showed almost a 1% decline compared with the first seven months in 2013. However, pig meat production in July was down by over 1%, at 1.8 million tonnes. This indicates that pigs were finished at lighter weights in July across the EU, so the fall in EU pig meat production was larger than the decline in throughputs. This continues the trend of the year so far, with output 2% lower overall, at 12.6 million tonnes.

EU pig slaughtering trends



Source: Eurostat

During July, pig slaughterings in Belgium were down by 4%, while the EU's leading producer, Germany, recorded a 3% decline. French throughputs fell by 2% compared with July 2013. However, these declines were largely offset by increases in some of the other key markets, including the Netherlands (up 24% as more Dutch pigs were killed at home rather than being exported), Spain (up 5%), Ireland (up 3%) and Poland (up 3%). August figures for most of the main pig producers are not yet published. Those which are, including France, Ireland and Belgium, show a mixed picture but with slightly lower throughputs overall.

Global Market Analysis

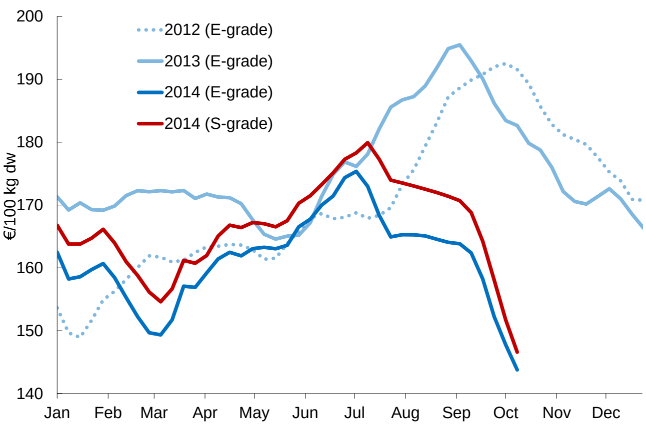
Challenging times for EU pig producers

This time last year, EU pig producers were expecting 2014 to be a positive year. Although pig prices had fallen back from last summer's near-record levels, they were still historically high. At the same time, feed prices had fallen and, with PEDv affecting production in many parts of the world, export markets looked favourable. All this meant that profitability seemed set to be better, after several difficult years.

Then came confirmation of ASF in Poland and the Baltic States and the subsequent Russian ban on imports of pork products from the whole EU. While this had an immediate impact on EU pig prices, they quickly bounced back due to the strength of other export markets. Better weather conditions in northern Europe even stimulated some demand from consumers there. In fact, prices picked up so well that they were close to year earlier levels at the half way point of the year. At this stage, producers' expectations of a good year looked to be on track, with feed prices still falling.

However, unlike the previous two years, when prices continued rising throughout the summer due to tightening supplies, the onset of the holiday season led to falling quotes. Then, in early August, Russia announced its ban on a wide range of agricultural products from the EU and other western nations, in response to the situation in Ukraine. This meant that the prospect of being able to clear stocks from freezers and chillers within the next few months disappeared. At the same time, the global impact of PEDv was beginning to wane, leaving the market on a knife edge.

EU pig reference price

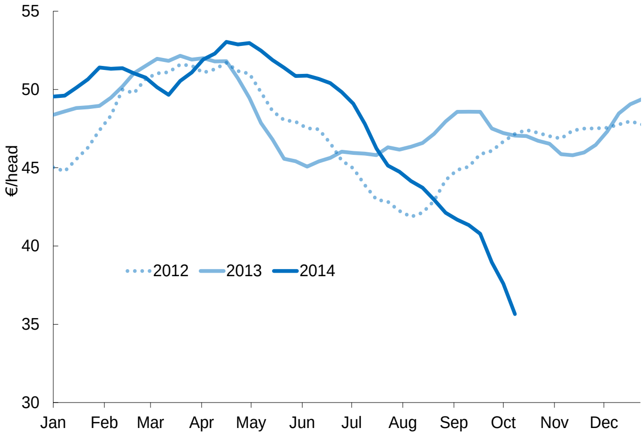


Source: EU Commission

A modest increase in pig supplies in September was all it took to send prices tumbling. The EU average price lost over 20 cents per kg in five weeks, reaching its lowest level since early 2011, when the industry was affected by a dioxin scare in Germany. Despite feed prices also being at a 4-year low, this meant that most EU producers were back in the red.

The situation was particularly bleak for EU pig breeders. Since peaking in the spring at €53 per head, its highest level since EU expansion in 2004, the EU average weaner price has dropped by nearly a third. By mid-October it stood at little over €35 per head. Given the low level of feed prices at the moment, this indicates a particular lack of confidence about the future direction of pig prices.

EU weaner prices



Source: EU Commission

The subdued market this year has largely been demand driven. Pig supplies remain relatively tight, with EU slaughterings down by 1% on a year earlier in January to July 2014. Reports suggest there has been a modest increase in supplies this autumn but, even so, this is likely to be the third straight year of declining throughputs.

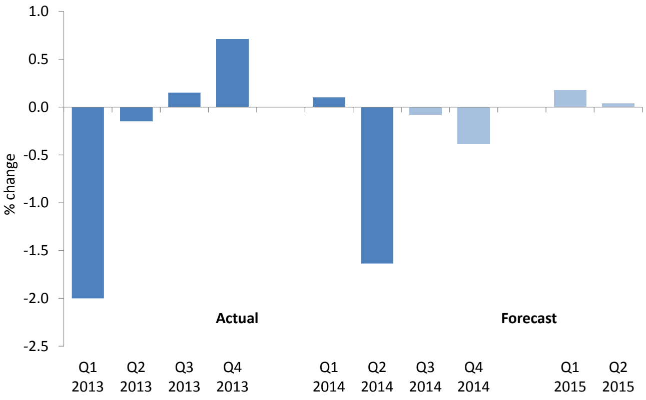
So what does the future hold? As reported last month, figures from the May/June agricultural surveys carried out in the major EU Member States show a 1% increase in the pig herd. More significant in a historical context was a rise in the EU breeding herd; the number of sows increased by nearly 1% compared with June 2013, the first rise since about 2005.

Despite these results, the tight supply situation is set to continue, according to members of the EU Commission's working group on pig meat forecasts. The group forecasts that pig slaughterings across the EU are set to remain close to year earlier levels through the rest of 2014 and the first half of 2015. The group's figures suggest a small year-on-year decline in slaughterings through the remainder of this year, with throughputs down about 0.5% for the year as a whole.

Furthermore, throughputs in the first half of 2015 are forecast to be only marginally up on this year. Most major producing Member States are forecasting little change in production. German output, for example, is forecast to track only slightly higher than a year earlier, while Danish slaughterings may fall, despite higher piglet production, as weaner exports continue to rise. Spanish forecasts also suggest little change in production from domestically born pigs, despite a bigger sow herd, although a rise in weaner imports will mean its kill increases. This may prove pessimistic, however, which may mean a slightly bigger than anticipated rise in EU slaughterings.

Global Market Analysis

Actual and Forecast annual change in EU pig slaughterings



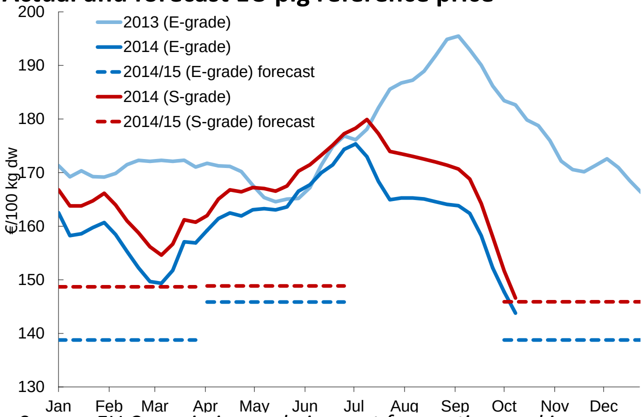
Sources: Eurostat, EU Commission pig meat forecasting working group

However, the relatively tight supply situation may not be sufficient to provide much support to prices. Having previously had only a modest effect on prices, the Russian ban on imports of EU pork is now beginning to bite. The autumn was previously the peak season for exports to Russia and, with freezers and cold stores reported to be full of supplies which might previously have been sent there, demand for slaughter pigs is lower than normal.

Although the market has shown signs of stabilising lately, further falls are still possible. The EU Commission's working group forecasts that the average price for E-grade pigs during the last quarter of this year and the first three months of next year will be below €140 per 100kg. This is around €5 below the level in mid-October. If realised, these would be the lowest quarterly averages since the final three months of 2010. Only a modest recovery is expected during the spring, with prices set to remain well below this year's levels.

Prices for S-grade pigs are expected to hold up slightly better, averaging around €145 per 100kg in the final quarter of this year, close to their current level. However, the gap between the grades is forecast to narrow in the spring. This is based on reasonable weather conditions stimulating demand, meaning that processors will be less choosy about the pigs they take.

Actual and forecast EU pig reference price



Source: EU Commission and pig meat forecasting working group

Of course, these forecasts are based on the Russian market remaining closed to most EU pig meat products. It now seems certain that the ban will remain in place until August 2015, at least. Some estimates suggest that prices would have been 10% higher without it. However, one glimmer of hope relates to fats (e.g. lard), one of the main product groups which was previously exported to Russia. They are not included in the Ukraine-related ban (so the US and Canada can still send fats to Russia) but were covered by the earlier ASF one. With the EU its dominant supplier and others unable to fill the gap, Russia is short of fats. Although it doesn't seem likely at the moment, there is therefore a chance that Russia could be encouraged to reopen its market to some EU fat suppliers before next summer. This would add value to the EU market and give some support to prices.

With Russia still closed and little sign that domestic demand is going to increase dramatically, EU price prospects depend on developments on other export markets. Tight global supplies, because of PEDv in North America and Asia, have helped EU exporters to find alternative markets this year. Prices in other major exporters have been high, which means that EU pork has been more competitive than in previous years. This has prevented prices from dropping much more than they actually have done this year.

At this stage, it is unclear how global markets will develop. The key uncertainty is over PEDv. The number of cases has dropped away significantly over the summer but this is a winter disease. Much will depend on how cases build up again as the weather turns colder. Latest USDA forecasts suggest a strong rebound in US production next year but this is based on PEDv having much less impact than this year. If USDA is right, EU exporters will face more competition than they have this year. However, if not, US supplies could remain tight, leaving EU exporters still in a good position.

Global demand will also depend on how PEDv develops in other markets, such as Mexico, Japan and Korea. It is likely there will be less import demand from these countries than earlier this year but how much less is uncertain. However, this could be offset by increased Chinese imports, as production there is expected to be constrained following a reduction in the pig herd this year. Recent announcements that several Chinese companies have been approved to export to Russia may add to its need to draw in additional imports.

Overall, it is quite likely that global export demand will be lower next year, while exportable supplies could be higher if PEDv has less impact. This could make the challenging conditions on the EU market even more difficult. All in all, any optimism which EU pig producers had a year ago is likely to have dissipated and it would be no surprise to see a resumption of the downward trend in the breeding herd.

Feed Market

Nov-14 LIFFE wheat futures prices closed at £116.50/t on Tuesday 21 October, up by £8 since the beginning of October. The upward trend in UK wheat futures followed trends in global grain contracts throughout the month. A downgrade to the forecast increase in global wheat end-stocks due to increased demand and delays to the US maize harvest have been key factors. Re-positioning by speculators in US futures markets may also have added some support.

Recently, the momentum for Chicago maize futures prices has declined somewhat, as forecast drier weather in the US grain belt allowed harvest to pick up pace. However, prices are almost $14/t higher than at the beginning of the month, with harvest progress for US maize (as at 19 October), at 31%, still 22 percentage points behind the 5-year average.

Provisional figures released by Defra this month confirmed historically high UK yields and production. The 2014 UK wheat crop is provisionally estimated at 16.6Mt, a 4.7Mt increase from 2013 and the highest volume since 2008, while total barley production (7.0Mt) is provisionally at a similar level to last year's 7.1Mt. Record yields for wheat (8.6 t/ha) and barley (6.5 t/ha) were also reported, as well as the second highest yields on record for oats (6.1 t/ha); read more in Grain Market Daily, AHDB/HGCA's new daily publication.

AHDB/HGCA's Early Balance Sheet 2014 showed that, for wheat, despite lower imports and increased domestic consumption, the higher supplies point to a large surplus. This means a strong export programme will be required to prevent a large carry-over of stocks into the next season, a sentiment which was verified in the latest trade data from HMRC. For barley, total availability is estimated to be 319Kt higher than last year, at 8.5Mt due to larger production.

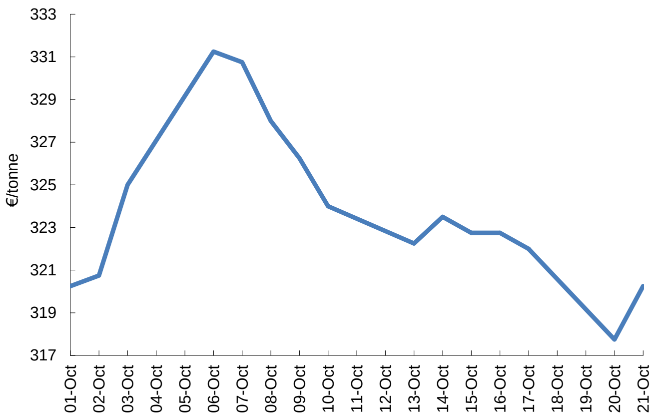
Total animal feed demand for cereals is estimated to be lower than in 2013/14, based on the assumption of 'normal' weather conditions, the removal of last year's supporting factor of higher milk prices and ample forage availability. However, the proportion of wheat used in animal feed is expected to be higher because of its more competitive price against other feed grains.

Estimates for EU soft wheat, barley and maize production were all increased in the October edition of Strategie Grains' grain report, resulting in an upward revision to total grain production this year to a record high of 322Mt (up from 319Mt last month). The private analysts also presented their initial estimates for the 2015 EU harvest area. While these first estimates should be treated with caution, they predict a reduction to the total EU cereals acreage next year, because of decreased winter barley and maize areas.

The world is still expecting a second consecutive season of global grain surpluses and the recent factors adding support to grain prices do not fundamentally alter the bearish global outlook. For a more in depth look at the global grain market situation click here to read the papers from AHDB/HGCA's Grain Market Outlook Conference, or alternatively click here to watch the videos from the conference.

Nov-14 Chicago soyabean futures prices closed at $354.27/t on Tuesday 21 October, up by $17.45 since the start of October. Paris rapeseed futures (Nov-14) closed at €320.25/t, unchanged from the beginning of October but down from the €331 reached on 6 October.

Nov-14 Paris Rapeseed futures prices

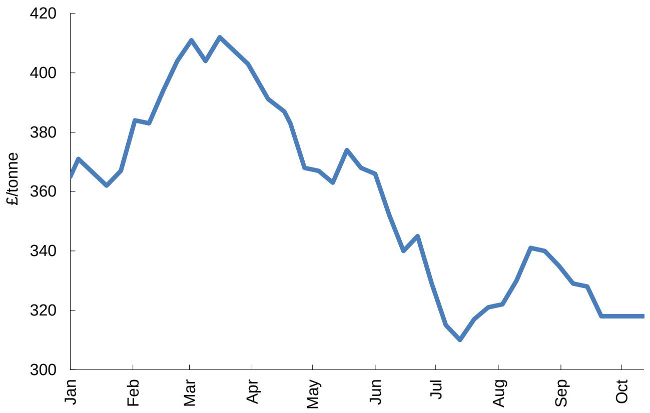


Source: HGCA

Weather is a key driver of prices currently, with the US soyabean and Canadian canola (rapeseed) harvests behind schedule and soyabeans being planted in South America.

Rapemeal (34%, ex-mill, Erith, October delivery) was reported at £160/t on Friday 17 October, up £1 since 3 October. The Hi-Pro soyameal price (ex-store, East Coast, October delivery) was unchanged on the month, at £318/t.

UK soyameal prices, 2014 Hi Pro, ex-store East Coast



Source: HGCA

Provisional estimates from Defra show that UK oilseed rape yields for the 2014 harvest were, at 3.7 t/ha, the second highest on record behind 2011. The oilseed rape harvest was up 17% on last year, amounting to 2.5Mt, despite a 5.8% reduction to the total area of oilseed rape.

In Brief

Burgers Drive Growth in Eating Out

In the second quarter of this year, eating out at restaurants and other food outlets grew for the third quarter running, but does this really mean the end of cautious consumer spending? Visits to restaurants have increased 1% while spending has gone up 2% compared with last year, according to data from NPD Crest. This is equivalent to an additional 130 million visits and £1 billion spend. An increase in consumer confidence and a pleasant and long summer have contributed to this growth.

Growth has been driven by quick service restaurants, which hold a 50% share of overall traffic. It appears consumers still want to treat themselves but financial constraints are pushing them towards cheaper fast food options. While the good weather encouraged more consumers to eat out through all outlets, fast food restaurants have benefited the most.

The largest growth in eating out has been by families with children, who made 4% more visits compared with last year. This has been driven, in part, by increased promotions, with offers like 'kids eat free/half price' being taken up in almost a third of outings. While the number of adult only visits has also increased, they still remain below those in 2010.

Looking at the different proteins, beef has seen the largest growth in meals, being up 4%, primarily through growth in beef burger purchases. This is unsurprising, given the popularity of burgers at fast-food outlets. However, the recent fashion for 'gourmet burgers' has resulted in them increasing their significance on pub and restaurant menus. Although pig meat is chosen in a large number of restaurant visits, the majority involve bacon or ham. The 2% drop in pig meat meals comes on the back of reductions in pork as a main meal or roast. Lamb continues to suffer at food service outlets, due to a poor perception of quality and value for money. However, lamb may gain from the popularity of 'gourmet burgers', which could bring it back to menus in an affordable and attractive way.

Growth in the food service sector is a sign that consumers are relaxing their budgeting. However, good weather is known to encourage eating out and is likely to have contributed to the growth that has occurred so far this year. The true test will be whether growth continues into the next two quarters; recovery to pre-recession levels of eating out still remains far off.

Reduction in number of UK pig farms

New figures from the 2013 June Survey show a 1% fall in the number of pig holdings, to 11,000. However, the number of holdings with 1,000 or more pigs was 5% up and they accounted for 85% of the UK herd. There was also a 2% drop in the number of breeding farms. The number of holdings with feeding pigs was almost unchanged. Another new dataset confirms that over half of English pigs are in Yorkshire and East Anglia. North Yorkshire had more pigs than any other county but Norfolk had the highest number of breeding pigs.

Russia now the key export market for Brazil

Latest figures for Q3 2014 show an 18% decline in Brazilian pork exports. This was mainly due to the collapse of the Ukrainian market, somewhat offset by a strengthening position in Russia. By September, exports to Russia rose by 77%, taking its share to nearly half as Brazil is the only major global exporter which still has access to this market. There has been a sharp increase in Brazilian pork export prices; by September unit prices were up 43% in Real terms, at R$9.29 per kg, with shipments to Russia reaching R$12 per kg.

USDA forecasts growth in global pork trade in 2015

USDA's latest global outlook report estimates an increase of 2% in world pig meat output in 2014 and a further, albeit slower, increase in 2015 to 111.8 million tonnes. China continues to dominate and is the key driver of overall trends. Production in the rest of the world is set to be little changed this year and growth next year relies on a rise in US output which will depend on PEDv having less impact. After declining for two years, USDA forecasts that global pork exports will increase by 4% in 2015, driven by robust demand from Asia. To read the full USDA report, which also covers beef and poultry meat, click here.

Producer share of retail price unchanged in September

Farmgate and retail price figures for September showed the producer share of the pork retail price at 40%, virtually the same as a month earlier. This was because retail prices fell at a similar rate to the farmgate pig prices in September. However, the share received by producers was three points lower than in September 2013.

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