Pig Market Trends

November 2014, Issue 114

UK – EU price gap and imports

This year, the gap between UK and EU pig prices has risen to unprecedented levels. This might have been expected to lead to a surge in pig meat imports but they were only up 4% in the first three quarters of the year. It might also have led to a fall in exports as they struggled to compete on price; in fact, exports are up 11% for the year to date. So is the UK market now immune to developments in the rest of the EU? To find answers to this question and further analysis of how relative price levels affect import and export trends, turn to **pages 4-5**.

Global outlook

According to the latest forecasts published by the United States Department of Agriculture (USDA), global pork trade is likely to recover in 2015, after declining for two consecutive years. Forecasts suggest a 4% increase in shipments from the main global exporters next year. The increased trade is expected to be largely driven by a greater import requirement from China. Read more about prospects for the pig market over the coming year in key importing and exporting countries on **page 7**.

International costs of production

Latest figures from InterPIG, an international group of pig economists, show that pig production costs in Great Britain remained higher than in most other major producing countries in 2013. Since 2013, feed prices have fallen across Europe. However, EU pig prices are also much lower than in 2013. To read about the implications of these trends for the profitability of producers in GB and the rest of the EU, turn to **page 8**.

EU economic forecasts

Economic growth in the EU as a whole is likely to remain weak for the next two years, according to the EU Commission's autumn economic forecast. Estimates have been revised down following lower-than-expected economic growth and this is expected to affect consumer demand, meaning shoppers will still favour cheaper meats and cuts. You can read more about the latest economic forecasts on **page 10**.

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Key data

	Oct-14	Change since Sep-14	Change since Oct-13
Average GB carcase weight – kg	82.13	+0.64	na
30kg weaner price - £/head	48.99	-3.35	-5.27
7kg weaner price - £/head	37.16	-1.17	-5.02
GB APP (Euro-spec) - p/kg dw	156.14	-2.61	na
GB SPP (Euro-spec) - p/kg dw	152.61	-3.46	na
EU Reference price – €/100kg dw	143.49	-17.99	-36.95
UK Reference price – €/100kg dw	190.34	-0.89	-8.32
UK weekly clean pig kill – 000 head	206.0	+0.5	+3.6
UK weekly pig meat production – 000 tonnes	17.6	+0.1	+0.6
UK pork imports – 000 tonnes*	30.2	+2.5	+0.9
UK bacon imports – 000 tonnes*	23.9	+5.2	+1.1
UK pork exports – 000 tonnes*	17.9	+3.3	+0.6
Retail pig meat sales – 000 tonnes†	53.7	+1.4	-0.5
LIFFE feed wheat futures - £/tonne	116.11	+2.18	-46.65
CBOT Soyameal futures - $/tonne	343.66	-27.47	-74.40

** Figures relate to September 2014*
† Figures include household purchases of pork, bacon, sausages and ham and relate to 4 weeks to 12 October 2014

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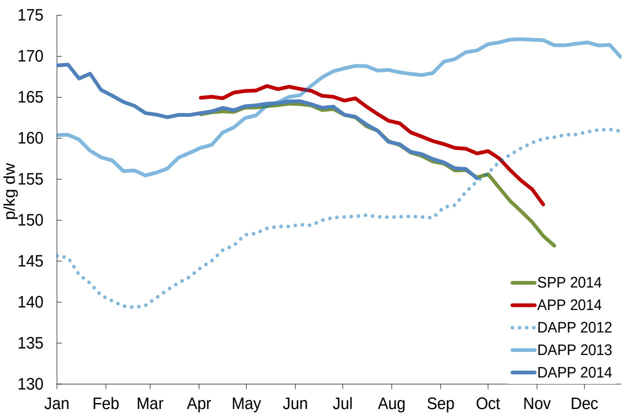
UK Market Snapshot

In October, the EU-spec GB SPP averaged 152.61p per kg, over 3p down on the previous month. This was the lowest monthly average since the SPP series began in April and the last time the DAPP series was lower was in August 2012. Higher supplies contributed to the sluggish finished pig prices, while the record gap between UK and EU prices will also have had a part to play. These have been met by subdued consumer demand, despite lower retail prices. In November, pig prices fell below 150p per kg and for the week ended 15 November, the weekly average stood at 146.89p per kg.

The average EU-spec GB APP during the same month, stood at 156.14p per kg, also a 3p decline on the month before. The difference between the APP and SPP was around 3.5p in October, the largest gap recorded so far. By the week ended 8 November, the APP had fallen further, to 151.92p per kg.

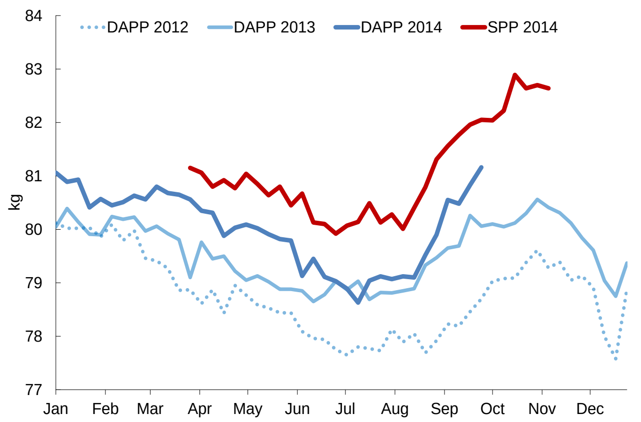
GB finished pig prices



Source: AHDB Market Intelligence

The average monthly carcase weight in the SPP sample in October rose by 700g from a month earlier, to 82.37kg. The latest average represented a record weight, helped by good weather conditions for pig growth. In fact, the high weights have continued into November and the latest weekly average, for week ended 15 November, stood at 82.64kg. Alongside carcase weights, the average probe measurement in October also increased to 11.4mm. This meant that average back fat thickness had risen by 0.4mm since April.

Average carcase weights for GB finished pigs

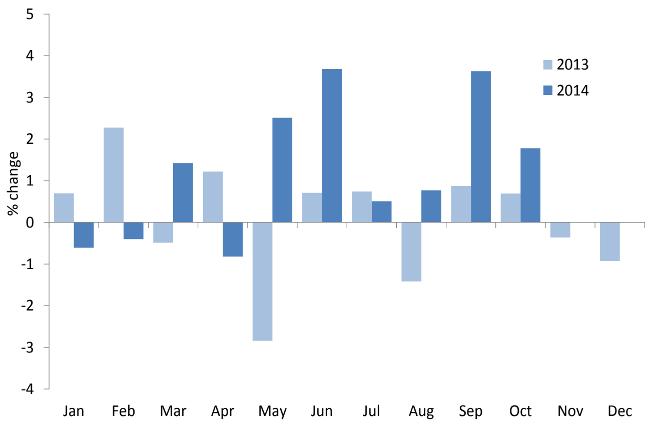


Source: AHDB Market Intelligence

The 30kg weaner price in October averaged £48.99 per head, mirroring the downward trend in finished pig prices. This marked a month-on-month decline of £3 but the annual difference was bigger, with prices weaker by £5, compared with October 2013. Producer confidence is likely have been subdued by the declining value of finished pigs, while improved productivity has meant a shortage of finisher accommodation. Similarly, the 7kg weaner price in October fell to £37.16, down by £1 on a month earlier. Weakness in the 7kg weaner market was evident, with prices £5 below last October's level.

UK clean pig slaughterings in October reached just over 1 million head. This was almost 2% above the same month last year, confirming the recent reports about higher supplies on the market. Pig slaughterings generally increase during October but the latest monthly figure was the highest since 2001. The overall increase was largely a result of a 2% increase in English throughputs. Pig slaughterings in Northern Ireland also increased by 2% compared with October 2013, while the Scottish kill was up by 5%, continuing the recent recovery following several years of declining throughputs.

Annual change in UK clean pig slaughterings



Source: DEFRA

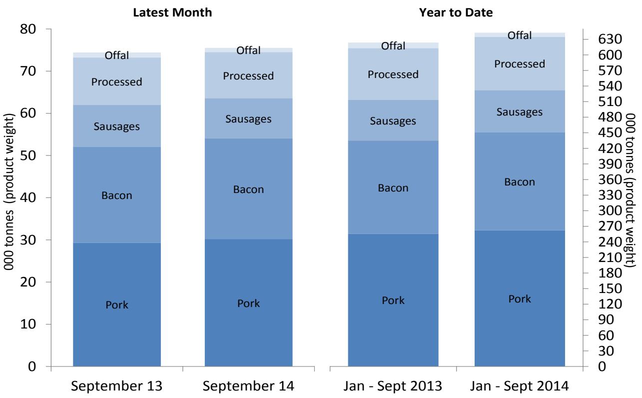
In contrast, at 23,700 head, the number of adult boars and sows culled fell by 2% compared with October 2013. This indicates that producers have continued to retain their breeding herd, with lower feed and cull sow prices the main drivers. At 82.1kg the average clean pig carcase weight for October reached another new record, being slightly higher than the September average. Pigs were almost 2kg heavier compared with the same month in 2013. As a result, with higher slaughterings and heavier carcase weights, pig meat production in October totalled 87,900 tonnes. This meant there was 4% more domestic pig meat on the market compared with a year earlier.

During September, pork imports into the UK increased by 3% on the year to 30,200 tonnes. This was the largest monthly increase since April, resulting from somewhat higher supplies on the continent. With these supplies, combined with a strengthening pound, adding further pressure on prices, this made EU pork more attractive on the domestic market. However, despite the gap

UK Market Snapshot

between EU and UK pig prices reaching unprecedented levels, the increase in imports remains modest. Imports of German pork declined by 29% compared with the same month last year but this was offset by increases from most other suppliers. The value of pork imports in September totalled £58.8 million, down 12% on a year earlier, as a result of subdued import prices. Bacon imports for September also rose, with more coming in from Denmark and Germany, in particular. However, processed and sausage imports were down by 3% and 4% respectively compared with September 2013.

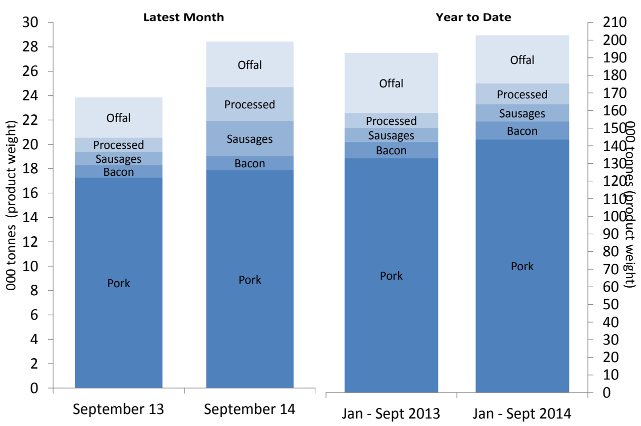
UK pig meat imports



Source: Her Majesty's Revenue & Customs

At 17,900 tonnes, UK pork exports also increased by 3% in September, compared with a year earlier. Two thirds of the pork was exported to the EU but this is lower than the previous year, when nearly three-quarters was shipped to the continent. In fact, exports to the EU declined by 7% year on year as prices were 7% higher in euro terms. Increased demand from Asian markets led UK exports, particularly from China, as exports to this market rose by a quarter in the latest month. Supplies to Hong Kong increased by more than a third on the year. The value of UK pork exports was marginally higher than last September, at £21.2 million, despite a slightly lower average price.

UK pig meat exports

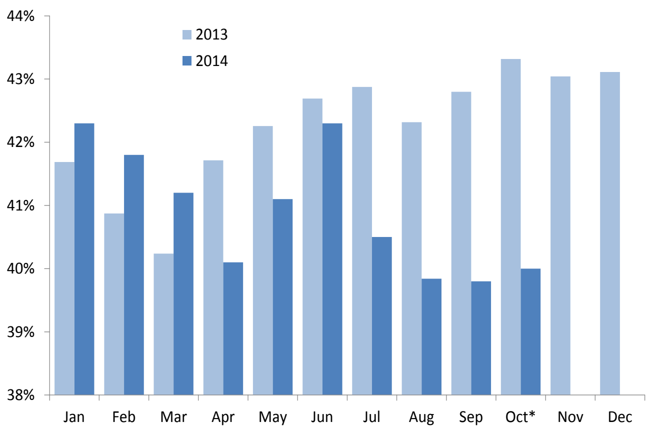


Source: Her Majesty's Revenue & Customs

Stronger growth was recorded for sausage, processed pig meat and offal exports. The first two both more than doubled, while offal shipments were up by 13% on September 2013. The EU accounted for a smaller share of UK offal exports; volumes sent to the continent fell by 23%. However, trade with China and Hong Kong grew by 31% and 50% respectively, to account for two-thirds of total volumes.

October figures calculated by AHDB/BPEX show that producers received 40% of the retail pork price, based on the APP price. The producer share is in line with the figures from the previous two months but these were based on the DAPP, which was usually slightly lower than the APP, so in reality the producer share has declined slightly. However, as with the pig price, the average retail price also fell in October, so the underlying month-on-month change was relatively small. As such, producers' share of the final price was 3% lower compared with October 2013. Bacon retail prices are not yet available for all of October. However, the gap between retail and producer prices narrowed only marginally in September, with the producer share of the average retail price remaining at 36%. This was also around 3% down on a year earlier.

Percentage of pork retail price received by producers



**Oct-14 figures is based on APP*

Source: AHDB Market Intelligence

Lower prices helped ensure that retail purchases of fresh and frozen pork were higher over recent months than they were last year. In the 12-week period ending 12 October, 3% more pork was bought than a year before, according to Kantar Worldpanel. However, consumer spending was down by 3% due to the reduced prices. Volume growth was driven by roasting joints, which were the focus of additional promotional activity. The amount sold was up 9% on last year but spending rose by only 4%.

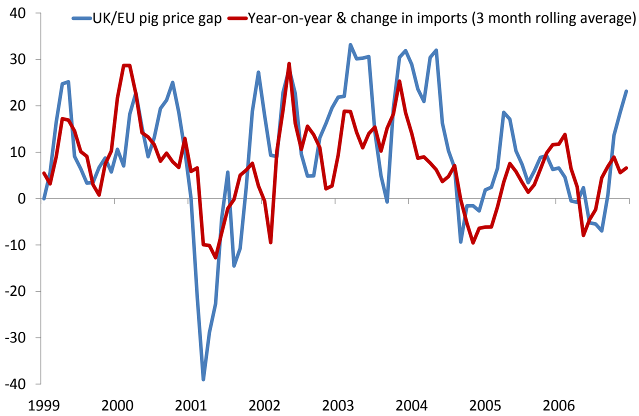
Both bacon and sausages also recorded higher purchases during the 3 months to mid-October. In volume terms, 2% more bacon was purchased and 3% more sausages, despite less use of barbecues this year. As prices were slightly below last year, spending growth was slightly lower for both categories. The long-term growth of ham and other sliced cooked meats appears to have stalled over the summer, perhaps partly because the weather was less favourable for picnics this year. Sales were down 2% in both volume and value terms as prices were similar to a year before.

UK Market Analysis

Has the link between UK and EU pig prices been broken?

This year, the gap between UK and EU pig prices has risen to unprecedented levels. This might have been expected to lead to a surge in pig meat imports but they were only up 4% in the first three quarters of the year. It might also have led to a fall in exports as they struggled to compete on price; in fact, exports are up 11% for the year to date. So is the UK market now immune to developments in the rest of the EU?

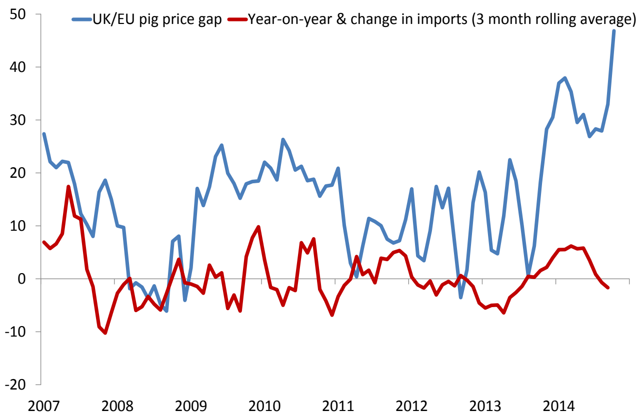
Comparison of gap between UK & EU pig prices and UK pig meat imports, 1999-2006



Source: HMRC, EU Commission

Between the late 1990s and 2006, the level of UK pig meat imports was clearly linked to the gap between UK and EU pig prices. During this period, imports were generally rising as domestic production fell. However, as the price gap increased, imports usually accelerated and when the gap decreased, growth slowed or even reversed. Trade was disrupted in 2001 and 2002 following the FMD outbreak, which caused a short-term deviation from this pattern.

Comparison of gap between UK & EU pig prices and UK pig meat imports, 2007-2014



Source: HMRC, EU Commission

However, since 2007, imports have broadly levelled off and the relationship between the price gap and import levels appears to have broken down to a large extent. Now, when the gap between UK and EU pig prices changes, the level of imports doesn't seem to be greatly affected. Even this year's exceptional and sustained price gap has not been sufficient to stimulate imports to any significant extent. Equally, in 2008 when EU pig prices were generally higher than UK ones, imports were only slightly lower than the year before.

Prior to this year, the biggest gap between monthly pig prices in the UK and EU was 33 euro cents in March 2003. In the ten years up to 2013, the gap averaged just 11 cents. Although the difference between the two prices fluctuated in the short-term, between 2007 and late 2013 it was normally between 5 and 20 cents and rarely stayed outside this range for more than two months in a row. An exception was 2008, when the very rapid fall in the value of the pound kept EU prices above UK ones for a sustained period.

This suggests that, between 2007 and 2013, the UK market was responding to EU prices in a way which ensured that import levels didn't change significantly. When the price gap got too big, the threat of higher imports was sufficient to mean that UK prices fell back, closing the gap before import levels had time to rise too much. Conversely, when the gap shrank and UK pork was relatively cheaper, there was no price benefit to using imported pig meat and demand for UK pigs rose. This pushed UK prices higher, reopening the gap and ensuring that imports continued.

However, over the last 12 months, the relationship between UK and EU pig prices seems to have broken down. The difference between the two prices has been 27 cents or higher in every month since last November. It has surpassed the previous record high in four months and in October it was nearly 47 cents, easily the highest figure ever.

So, what has changed? The main answer appears to be that UK pork buyers have shown an increased preference for sourcing domestically. In the past, their preference for British pork was price dependent. If imported pig meat was cheap enough, relative to the UK equivalent, they were prepared to switch. That no longer seems to be the case for many.

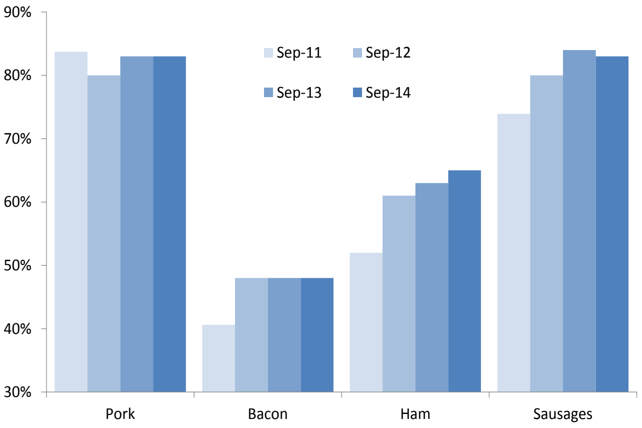
The change of attitude can probably be attributed to the horse meat revelations of early 2013. This led to a desire among the major retailers to shorten and simplify supply chains, to minimise the risk of similar issues arising in the future. More retailers have committed to sourcing all their fresh pork from the UK. Even those which haven't are looking to procure as much British pork as they can. Other pig meat products are also affected by the increased preference for UK sourcing, although carcase balance issues mean a higher proportion of bacon and ham still has to be imported.

Retailer commitment to UK pig meat is confirmed by figures from AHDB/BPEX's bi-monthly PorkWatch

UK Market Analysis

survey. This measures how much supermarket shelf space is allocated to British products across each of the main pig meat categories. It reveals that the British share has risen over recent years for most categories. Latest figures show that between September 2013 and September 2014, there was little change in the position, despite the pig price gap rising from 6 cents in September 2013 to 33 cents a year later.

British share of supermarket facings by pig meat category



Source: PorkWatch

Whether buyer commitment to UK pig meat will stay strong in the face of the sustained price premium remains to be seen. The record price gaps in early 2014 certainly didn't lead to a dramatic ramping up of imports. However, the sharp fall in EU prices this autumn has taken the differential to new levels. The impact won't be clear until trade data for October and November are published. However, there will be a point when the price gap becomes too large for buyers to ignore. It remains to be seen whether we have reached that point yet.

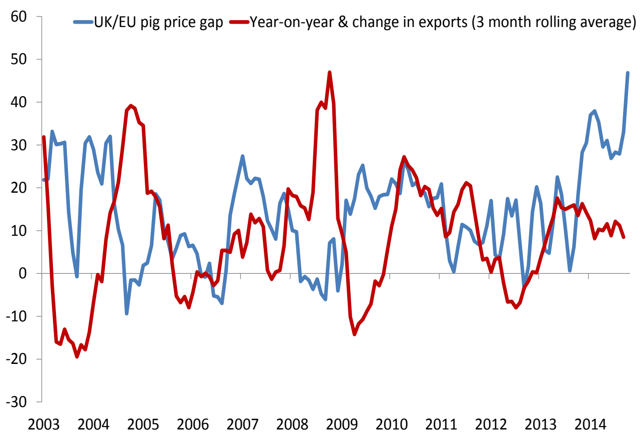
The fact that UK pig prices have fallen steadily during the autumn suggests there may be some more imported pig meat on the market. However, in mid-November the gap to EU prices remained nearly 45 cents, suggesting that any increase in shipments probably remains modest.

This year's widening of the gap between UK and EU prices is mostly due to the weak EU pig market. However, exchange rate movements have also contributed. Last autumn one euro was worth about 84p. This year, it was around 79p. Had the exchange rate not moved and pig prices been the same, the gap between EU and UK prices in October would be 33 cents – still among the highest ever but not as extreme.

The change in the euro-sterling exchange rate in the last year has been more down to the weakness of the euro than the strength of the pound. Against other major currencies, including the US dollar, the pound has been little changed over the last year or so, even weakening somewhat against the dollar in recent months. This means that, from an export point of view, recent exchange rate movements will have had more effect on shipments to the rest of the EU than those to non-EU markets.

However, with most exports destined for other EU Member States, the gap between UK and EU prices might still be expected to have an influence. Indeed, historically, this appeared to be the case, to some extent at least, with exports peaking when the gap was lowest. It is perhaps unsurprising that the relationship is less strong than for imports, though, given that exports are mostly made up of cuts with limited value on the UK market. Prices for these cuts may not follow the trend of pig prices, being driven more by demand on export markets.

Comparison of gap between UK & EU pig prices and UK pig meat exports, 2003-2014



Source: HMRC, EU Commission

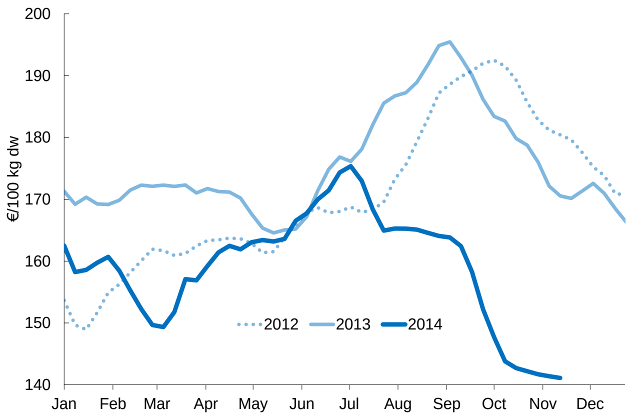
However, as for imports, the relationship between relative prices and export volumes seems to have broken down completely, in this case since around 2010. For most of the period since then, exports have risen strongly regardless of the price premium for UK pigs. In part, this may be due to the rise in third country exports, which accounted for 18% of shipments in 2010 but 32% so far in 2014. These exports are less sensitive to pig price movements than those to the EU.

The big question now is whether import and export trends will remain immune to the gap between UK and EU prices, as they appear to have been in recent years. For exports, the answer may well be yes – future trends will mainly be driven by demand, particularly from emerging markets in Asia. For imports, the answer is less certain. It will largely depend on how the big pork buyers, mainly the leading retailers, respond. If their commitment to sourcing from the UK wavers then the price gap will have to close to avoid a sharp rise in imports (which would, in turn, reduce prices). However, if support for UK pork remains strong then supply and demand on the domestic market will remain the key price drivers, with the EU market having only a limited effect.

EU Market Snapshot

EU pig prices dropped for the fourth consecutive month in October, to average €143.49 per 100kg. This was €18 less than the month before, resulting from a growing pig meat surplus on the continent following the Russian import ban. This meant the October average pig price was €37 per 100kg below 2013's level. As EU values continue to fall, the gap between the UK and EU pig price has widened and the latest month showed a record differential of €47. Prices stabilised from mid-October onwards. Small declines in early November took the price to €141.11 per 100kg for week ended 16 November, its lowest level since February 2011.

EU average pig reference price

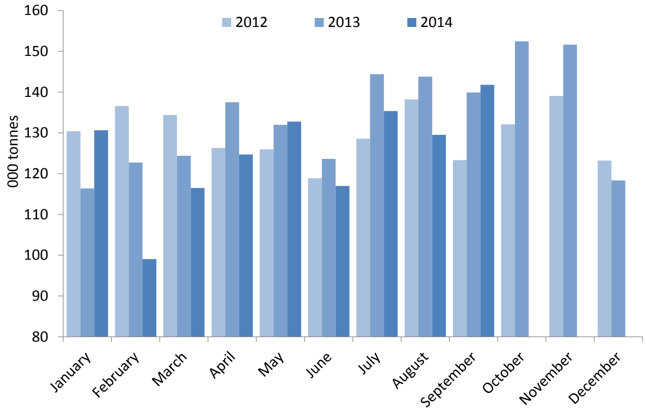


Source: EU Commission

The drop in the average EU pig price resulted from declines in all major markets. The largest fall in the year to October was in Spain, where prices were down by €51 per 100kg compared with the same month in 2013. Prices in Belgium and the Netherlands fell year on year by €43 and €39 respectively. French and Polish quotations declined by €36, while Danish and German prices were down €33. However, as has been the case recently, Irish pig prices declined at a slower rate, although in the latest month they were still €19 below October last year.

EU pork exports in September rose by 1% compared with a year earlier, to 141,800 tonnes, only the second monthly increase since the Russian import ban was imposed. Exports to all other key markets recorded increases. Volumes to China/Hong Kong were up by 5% year on year, although less pork was shipped direct to the mainland. Shipments to Japan rose by 18% compared with September 2013, while growth in many other markets was even more dramatic. South Korea emerged as an important market for EU exports, accounting for a tenth of the total and supplies more than doubled in the month. Philippines and Australia also bought twice as much EU pork as last year. Tight supplies in the US have helped boost demand for EU pork and, as such, volumes shipped there were up by 71%. The value of total EU pork exports in September was down by almost 2% compared with the same month last year, at €329.9 million.

EU monthly pork exports

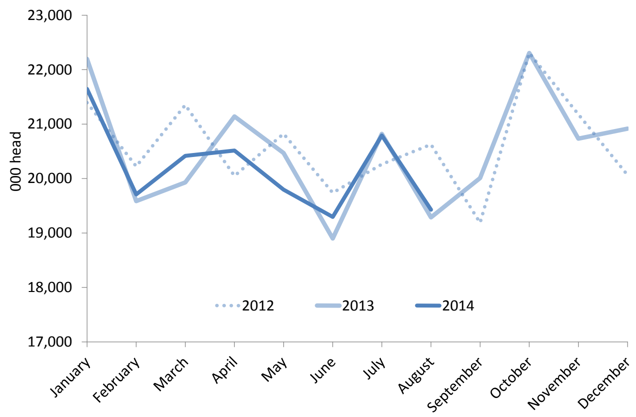


Source: Eurostat, GTIS

EU pig offal exports performed strongly, as volumes rose by 13% year on year to 103,800 tonnes. The increase was mainly driven by a 31% rise in export to China, while shipments to Hong Kong were down. Volumes sent to the Philippines more than doubled compared with last year.

August figures published by Eurostat show a marginal rise in EU pig slaughterings compared with August 2013, to 19.4 million head. However, it is worth noting that there was one less working day in the month this year. As a result, on a per working day basis, pig slaughterings in the EU were actually 5% higher compared with a year earlier. This increase in supply contributed to the fall in pig prices which has been apparent since the summer. Pig meat production across the EU in August was also slightly higher than a year earlier at 1.71 million tonnes.

EU pig slaughtering trend



Source: Eurostat

During August, Denmark recorded the largest year-on-year decline in pig slaughterings, by 7%. Declining throughputs are partly a result of a continued rise in weaner exports, leaving lower availability for the Danish slaughterhouses. In France, pig slaughterings declined by 4% on the year. However, higher throughputs in the other key markets offset these declines, leading to an overall stability. For example, German and Spanish pig slaughterings both increased by 1% on a year earlier and Irish abattoirs slaughtered 4% more pigs. Rises were even more evident in Poland and the Netherlands, where throughputs increased by 7% and 8% respectively.

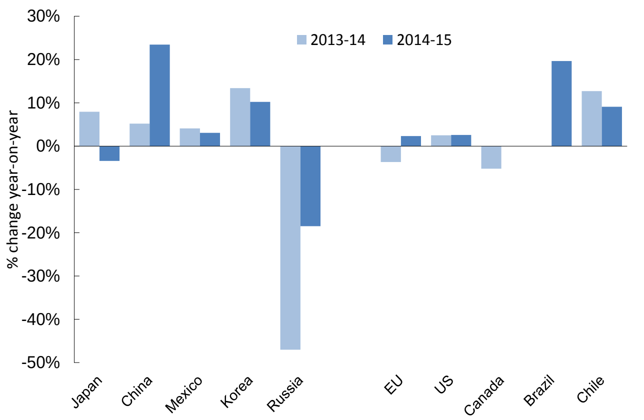
Global Market Analysis

Global pork exports likely to recover in 2015

According to the latest forecasts published by the United States Department of Agriculture (USDA), global pork trade is likely to recover in 2015, after declining for two consecutive years. Forecasts suggest a 4% increase in shipments from the main global exporters next year.

The increased trade is expected to be largely driven by a greater import requirement from China. Its pork purchases are expected to increase by 23% in 2015, to around 1 million tonnes. This could provide opportunities for UK exporters, given that they currently supply around 5% of Chinese pork imports. Despite higher pig prices of late, Chinese farmers have been unable to make positive returns, as local feed costs have reached their highest level since August 2006. As a result, liquidation of breeding sows over the last year will slow production growth. Pork consumption in China is forecast to increase by 2% in 2015, to 58.2 million tonnes.

Global pork trade forecasts



Source: USDA

The US is a key exporter of pork and USDA forecasts suggest a 3% increase in shipments, to 2.4 million tonnes. This is on the back of the expectation of a 5% increase in US production to 10.9 million tonnes, despite PEDv-related disturbances. Higher farrowings and a gradual recovery in productivity, combined with heavier carcase weights have contributed to the expectation of higher domestic production. The rise in the breeding herd has been encouraged by high prices, driven by increased demand for exports from Asia and Mexico. There is some uncertainty about the impact of PEDv this winter, however, although recent vaccine launches may help reduce losses in 2015, compared with this year.

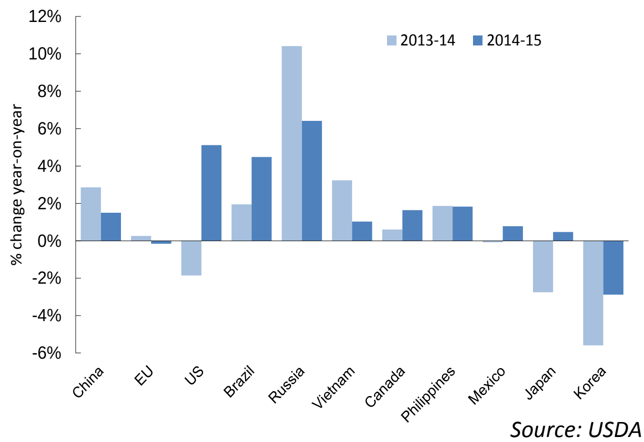
The Mexican pig industry has suffered hugely this year on the back of the PEDv outbreak. Some estimates suggest that throughputs in Mexico are likely to decline by 11% in 2014. With such damage to the Mexican pig industry, coupled with a 2% increase in consumption, imports into Mexico are likely to grow by 3% in 2015, following a similar rise this year.

Asian markets are also attracting increased volumes of pork. Along with China, imports are set to increase in South Korea, Hong Kong and the Philippines, among others. In Korea, the PEDv outbreak has reduced production levels this year and, with the sow herd smaller than a year earlier, supplies next year are likely to remain subdued. As such, the import requirement of South Korea in 2015 is likely to increase by 10% year on year. Japan is the only key market within Asia where import forecasts indicate a slowdown for 2015, by 3% year on year. This is based on the assumptions that pork consumption will edge down, combined with recovering domestic production and, with little signs of the yen strengthening in the near future, more expensive imports.

The European Union is another key exporter of pork to the global market. Export forecasts for 2015 indicate a 2% year-on-year rise, to 2.2 million tonnes, despite a predicted slowdown in production, following poor returns in 2014. Stronger exports are largely driven by diversification into Asian markets to offset of the loss of the EU's largest market, Russia. Russia imposed import restrictions on EU pork in February 2014 when ASF cases were detected in Poland and Lithuania. It accounted for a quarter of the EU's pork exports and this raised supply levels on the continent. Competition on global export markets intensified when Russia also placed restrictions on the US and Canada. However, in contrast to the US, EU pig prices have been under pressure from the extra supplies, making EU pork more attractive for importers.

As a result of the Russian bans, Brazil has gained massively and Russia now represents half of Brazil's pork export value. With restrictions imposed on all the other major exporters, industry reports suggest that Russia is strengthening trade with Brazil. This trend is likely to continue into next year and Brazilian production and exports are forecast to increase in 2015. Despite this growth, Russian imports are forecast to decline by a further 19% next year, having dropped by nearly half in 2014. While this will be partly offset by a forecast 18% rise in production across the two years, Russian pork consumption is still set to decline.

Global pork production forecasts



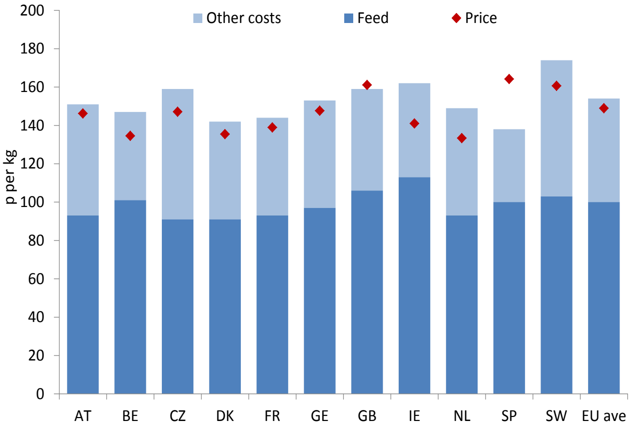
Source: USDA

Global Market Analysis

GB margins positive despite above average costs

Latest figures from InterPIG, an international group of pig economists, show that pig production costs in Great Britain remained higher than in most other major producing countries in 2013. Across the year, the average production cost in GB was £1.59 per kg, around 5p more than the average for the EU as a whole. However, GB costs increased more slowly between 2012 and 2013 than in other countries, rising by 6p/kg, compared with an EU average of 9p.

Cost of pig production and average pig prices in selected EU countries, 2013



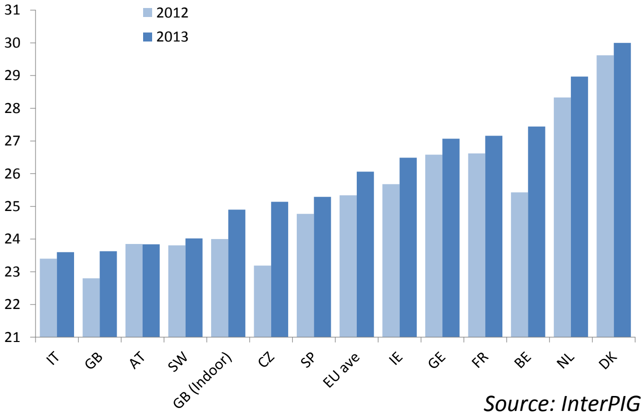
Source: InterPIG, EU Commission

Despite having above average costs, the financial position of GB producers was among the best in Europe. UK pig prices averaged 12p above the EU level during 2013. This gave GB producers a small positive margin during the course of the year, while their counterparts in most other EU countries broke even or made a small loss. The main exception was Spain, which had the lowest costs and highest prices among the European members of InterPIG.

Spain's position as the EU's lowest cost producer was largely a result of its fixed costs; labour rates were relatively low and less labour was used, while buildings also cost less. Feed costs were higher than in some countries, despite low feed conversion ratios. This was partly because Spain's productivity was unremarkable and carcase weights were relatively light, meaning Spain produced less meat per sow per year than many other countries.

As in previous years, the other countries with low production costs were those with the most productive herds. Danish breeders weaned 30 pigs per sow for the first time, while Dutch, Belgian, French and German producers all topped 27. In contrast, the GB figure was just 23.6, with even indoor breeders achieving only 24.9 pigs weaned per sow. This does represent a slight closing of the gap compared with 2013 but, among InterPIG members, only Italy and Canada weaned fewer pigs per sow than GB. The relatively poor GB performance was mainly down to small litter sizes; the average was 11.87 piglets born alive per litter, while the EU mark was 13.03 and Denmark achieved 15.44 per litter.

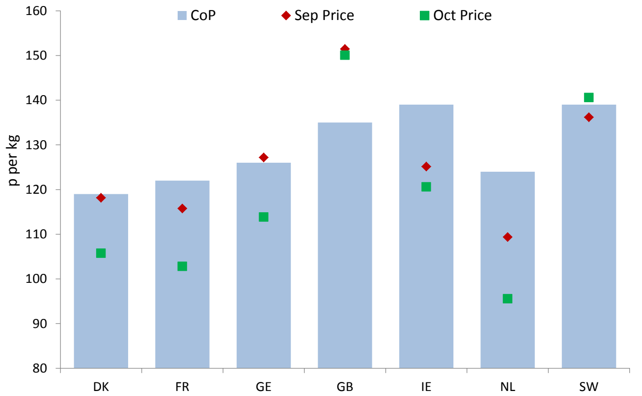
Pigs weaned per sow per year in selected EU countries



Source: InterPIG

Since 2013, feed prices have fallen across Europe. This means production costs would be significantly lower, if all other factors remained unchanged. Based on updated figures from some members of the InterPIG group, by September 2014, the effect on costs would be between 20p and 30p per kg compared with the 2013 estimates. However, with pig prices also much lower than in 2013, this wouldn't be sufficient to leave most EU producers with positive margins. With prices falling even further by October, average EU producers would have been well into the red. In contrast, UK prices have held up relatively well and GB producer margins have been much more positive than those elsewhere.

Approximate cost of pig production and average pig prices in selected EU countries, Sept/Oct 2014



Source: InterPIG, EU Commission

These estimates paint a relatively positive picture for GB producers, despite their above average costs and some decline in domestic prices. However, the situation has been dependent on an unprecedented pig price premium over other EU countries. This may well prove to be unsustainable, putting margins under increasing pressure. To protect themselves from further price falls, producers will need to continue to do as much as they can to control their costs and close the performance gap on their European competitors.

Information on production costs and physical performance across the world's major pig producing countries are analysed in more detail in the annual AHDB/BPEX report *Pig Cost of Production in Selected Countries*. The 2013 edition of this report will be published in early December.

Feed Market

May-15 UK feed wheat futures closed at £130.10/t on Wednesday 19 November, up £3.55 since the beginning of the month. A number of weather issues have emerged in global grain markets over the past few weeks, which, combined with a weakening of sterling against both the euro and US dollar, helped to support UK prices.

Cold and snowy weather across the US Midwest raised fears about damage to winter wheat crops and potentially lower yields, if plants are pushed into dormancy earlier than usual. Similarly, cold and dry weather in parts of Russia and Ukraine have caused speculation about the level of winter kill that may occur. Additionally, with Australia's harvest underway, issues from the dry spring in South Australia are also coming to light. Although these issues are not as significant as those seen in previous dry years, heavy rainfall in Western Australia is now increasing concerns over the quality of wheat and barley crops.

In contrast, Chicago May-15 wheat futures closed at $201.06/t on 19 November, down $3.67 from the level seen at the start of the month. Chicago May-15 maize futures closed at $151.57/t, also down slightly from the beginning of November. Global end stock estimates for both wheat and maize for the 2014/15 season were revised upwards in the latest USDA forecasts. Despite reduced production forecasts for both grains, global usage was revised downwards more.

The latest trade data published by HMRC revealed that UK wheat exports in September increased by 21Kt compared with August's figures, to 150Kt, and included the first appreciable shipments to non-EU countries. Wheat imports remained strong in September, with 188Kt coming into the UK, mainly from France, Germany and Canada. UK maize imports have also remained relatively high; the cumulative total from 1 July until the end of September was 301.1Kt, a historically strong level. This suggests that, despite the large domestic wheat crop, maize may still be a prime contender for animal feed demand.

Strategie Grains increased their forecast for EU soft wheat exports this season by 2.6Mt, to 26.8Mt, in their latest report published last Thursday. With quality issues in France, German and Polish wheat are expected to drive the increase.

Chicago May-15 soyabean prices reached a 3-month high on 11 November at $393.49/t, although prices closed at $374.11/t on 19 November. Paris May-15 rapeseed futures prices closed at €338.25/t on the same date, down €7.25 since the beginning of November. UK rapemeal (34%, ex-mill, Erith, Nov delivery) was reported at £170/t on 14 November, the same level as the end of October. The Hi-Pro soyameal price (ex-store, East Coast, Nov delivery) was £350/t, up £1 since the end of October.

Strong export demand for both US soyabeans and soyameal, compounded by rail and barge logistical issues, has been a key supportive factor for both oilseed and oilmeal prices this month.

Accumulated exports of US soyameal for the current marketing year had reached 841Kt by 6 November, behind the amount exported by the same time last year (1.1Mt). However, total export commitments (outstanding sales plus accumulated exports) stood at 6.3Mt, ahead of the 5.2Mt committed by the same point in time in 2013/14.

US soyabean export commitments at end-October

Source: USDA

USDA's season total estimate for US soyabean exports was revised 0.5Mt higher earlier this month to a record 46.8Mt, reflecting the strong export sales. Total export commitments for US soyabeans in the 2014/15 marketing year reached 35.6Mt as at 30 October, 7% higher compared with the same point in 2013/14. China is once again the US's main customer, accounting for 62% of export commitments.

The latest USDA forecast for global soyabean production is 312.1Mt, up 0.9Mt from the previous monthly estimates. The change is driven by higher output expected in the US due to greater yields; the US crop is now estimated at 107.7Mt by the USDA. In their latest monthly estimates, Informa Economics reduced their forecast for US soyabean production to 108.6Mt, compared with 109.3Mt in October, due to a slight reduction in the estimated yield.

The German oilseeds industry association, UFOP, has estimated that the German winter oilseed rape (WOSR) area is expected to be 5.2% lower for harvest 2015. Of the farmers who took part in the survey (4,809), 11% decided against planting WOSR due to lower prices obtained for the crop. WOSR did not feature in the long term crop rotation plans of 38% of the farmers who took part and 10% said they were unable to plant the crop due to poor weather in the autumn.

According to the Early Bird Survey, the first snapshot view of planting intentions for harvest 2015, the UK oilseed rape area is seen down 4%, at 649Kha. This projected area would be the lowest since 2010. Lower rapeseed prices are one of the factors behind the decline. The survey results also suggest a 5% reduction to the wheat area in the UK. Winter and spring barley, pulse and fallow areas are estimated to be higher on the year, potentially showing the impact of the 3-crop rule on planting decisions. Going on previous results, the survey gives a good intention of areas for key autumn sown crops in the UK.

In Brief

Only slow improvement in EU economy

Economic growth in both the EU as a whole and the euro area is likely to remain weak for the next two years, according to the EU Commission's autumn economic forecast. Forecasts have been revised down from the previous report following lower-than-expected economic growth, on the back of weak domestic demand and persistent unemployment. This is expected to continue to affect consumer confidence and demand, meaning shoppers will still favour cheaper meats and cuts. The slow economic improvement in the EU contrasts with the strong rebound in the US economy, including in domestic demand.

For the largest economy in the EU, economic growth in Germany is expected to improve in 2015 and 2016, following a weak performance this year. This will be supported by growing domestic consumption and improved export performance. The labour market is predicted to benefit from government policies, which will help lower unemployment and drive wage growth. These are expected to support consumption trends and an increase in household spending.

France's economy has been weak since mid-2011, with only moderate growth expected over the next two years. Domestic demand has been constrained. Job creation has been slow, although it is expected to improve, but consumer confidence is likely to remain low, which will affect shopping preferences.

Italy has experienced another year of recession, although both the economy and domestic demand are expected to record modest growth next year. However, unemployment is set to remain at high levels and household spending under pressure. Economic recovery in Spain is projected to gain momentum over the next two years, with improving consumer confidence and better labour market prospects. Domestic demand growth is the main driver behind this.

Growth in the UK economy is predicted to continue to be among the highest in the EU, driven by domestic demand. The labour market is expected to further improve and unemployment to fall. Household consumption growth is, however, forecast to slow slightly, as wage growth remains low and households appear likely to build on savings.

Reduction in Chinese imports in year to date

Latest figures show a 2% decline in Chinese pork imports in the first nine months of this year. The EU maintained its position as the dominant supplier, accounting for 63% of the total. While the UK accounts for around 5% of imports, there was a 38% rise in its shipments. The US is the other key supplier of pork to China and imports increased by 15% on the year. However, by the third quarter, its shipments were down by nearly half, further strengthening the EU's market share.

Sharp decline in US slaughter offset by higher weights

US pig slaughterings in the first nine months of this year were 5% lower than a year earlier. PEDv has reduced the number of pigs available. The shortfall reached as much as 14% in August. The average carcase weight was, at 97kg, around 4% higher than last year, largely offsetting the sharp decline in the kill. As a result, pork production was only 1% lower. The supply shortages meant the US barrows and gilts price averaged $79 per 100lb liveweight (equivalent to about 140p/kg deadweight) during the period, nearly $15 above the previous year's level.

Pig farm incomes up in 2013/14

According to new figures, average Farm Business Income (FBI – essentially the same as net profit) on specialist pig farms rose sharply in 2013/14, to an average of £65,200. This was the highest since 2009/10, also the last time that pig farm incomes were higher than the average for all types of farm. Despite the overall improvement, around one in seven pig farms still had negative FBI but this is only half as many as in 2012/13. The improvement in profitability of pig farms was largely down to increased output, due to higher pig prices and improved herd productivity. Input costs were little changed.

Higher pig numbers in Denmark

On 1 October, total Danish pig numbers had increased by 4% compared with a year before, to 12.8 million head. This was the largest herd since 2011 and was due to more pigs being kept for slaughter. This is partly because of pigs being kept to heavier weights this year but also suggests a slowdown in weaner exports. The Danish breeding herd was unchanged from a year previously and slightly lower than on 1 July, which could be the first sign that recent price falls are hitting producer confidence.

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