



Pig Market Outlook

Another year to forget?

Stephen Howarth, AHDB Pork
AHDB Outlook Conference
9 February 2016

Overview

- State of the UK market
- State of the EU and global market
- UK Outlook
- Global Outlook
- Wild Cards

State of the UK market

GB finished pig prices falling for over two years

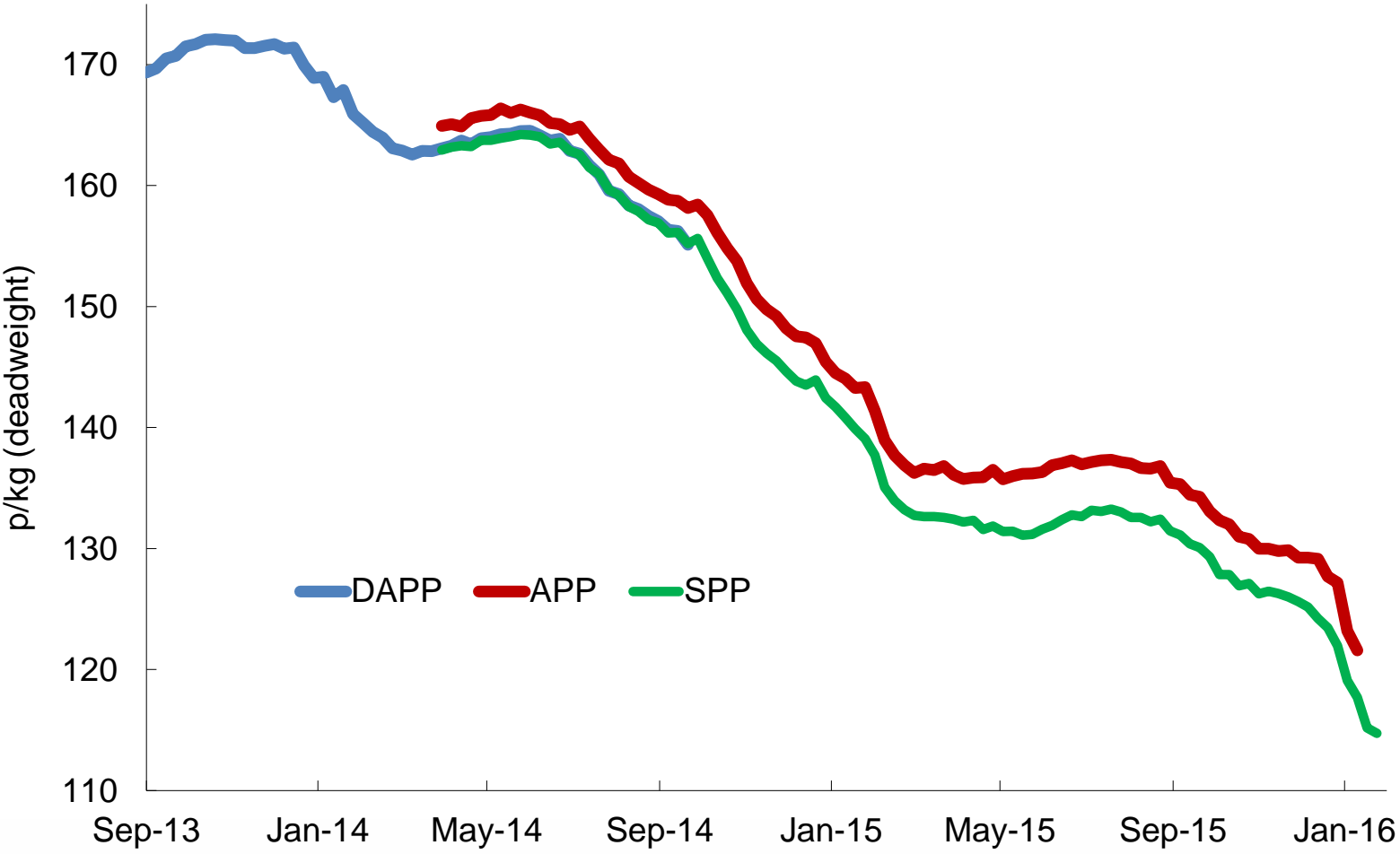
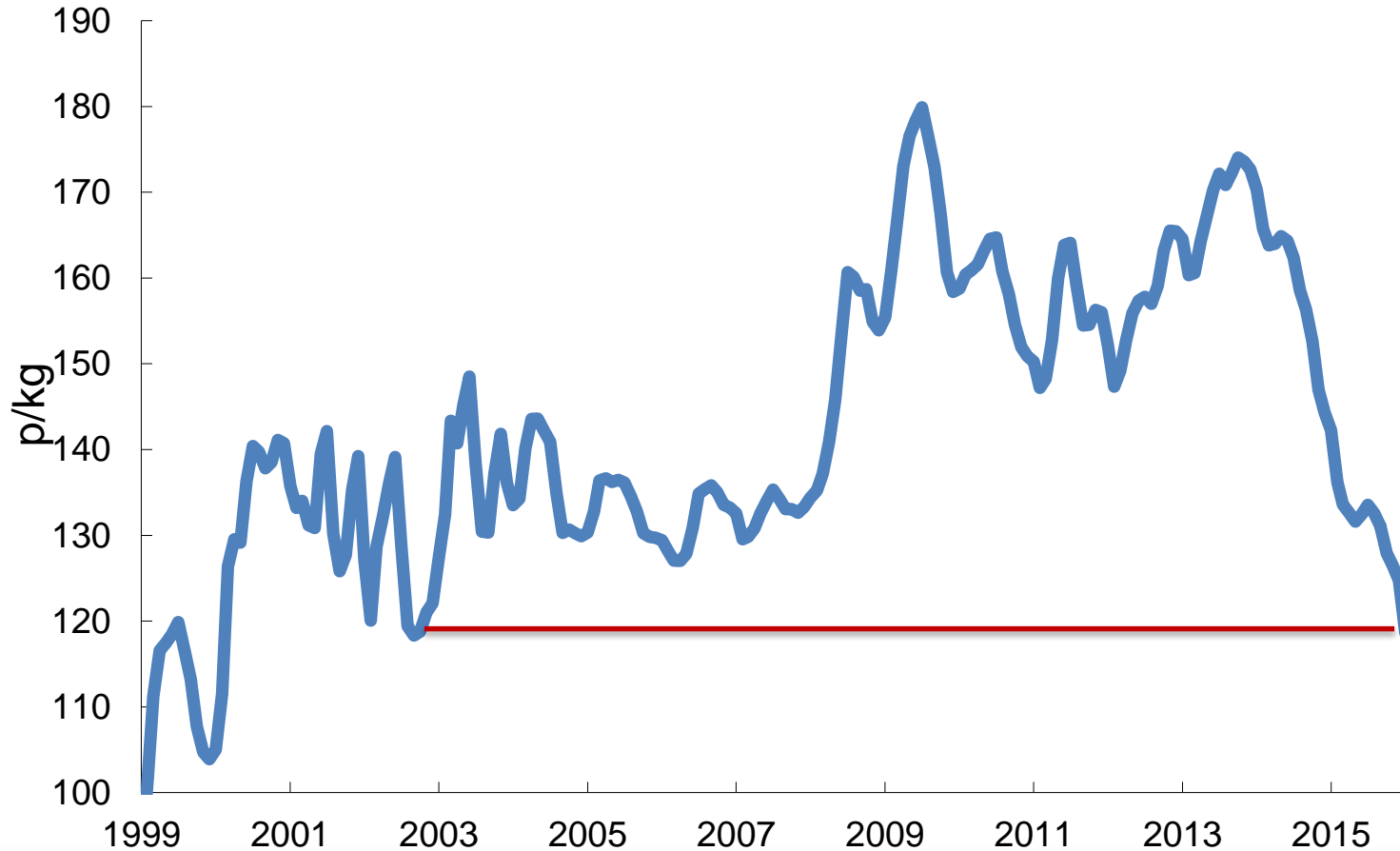
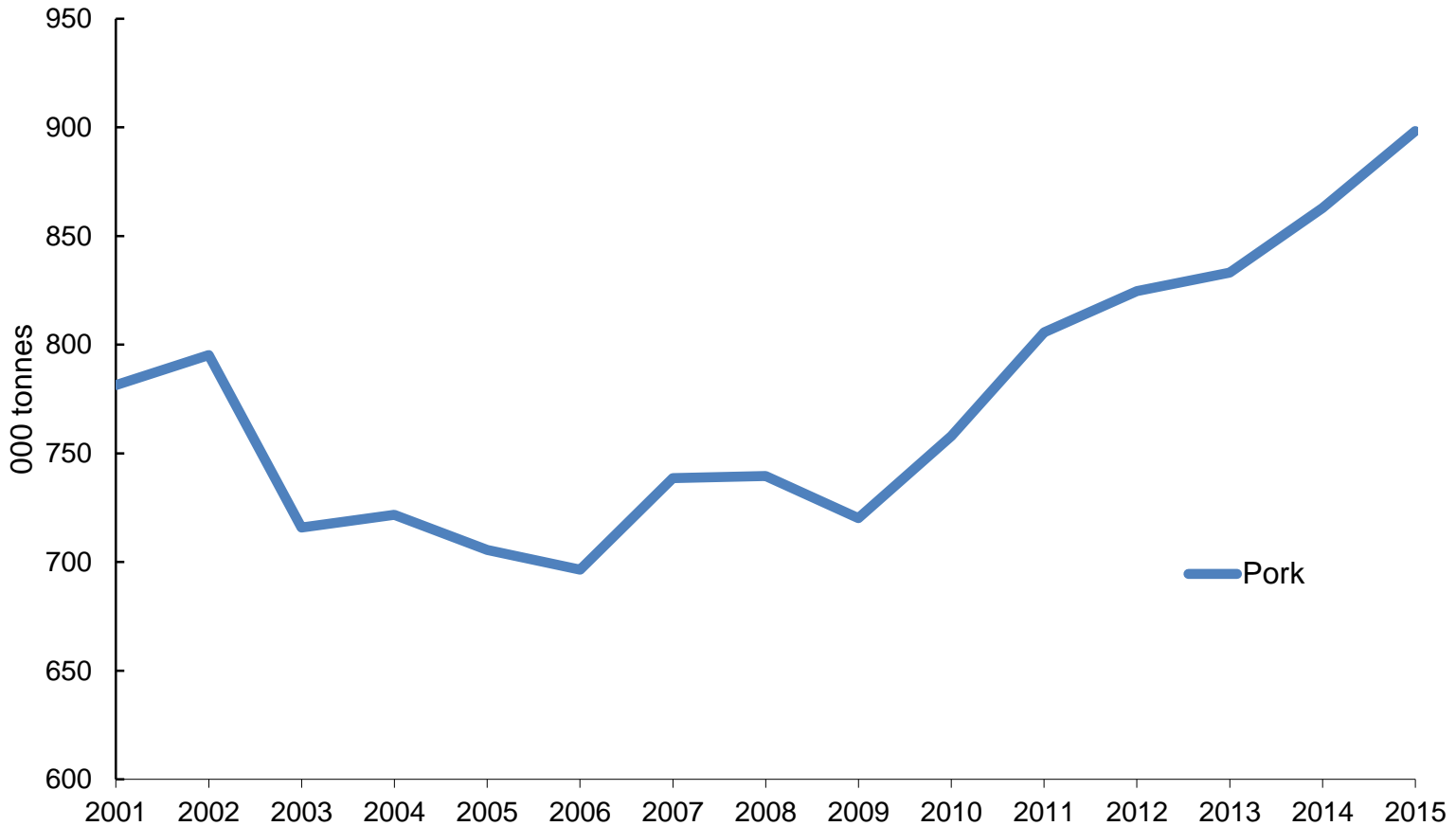


Chart: GB average pig prices - DAPP, APP and SPP (all EU-spec)
Source: AHDB Market Intelligence

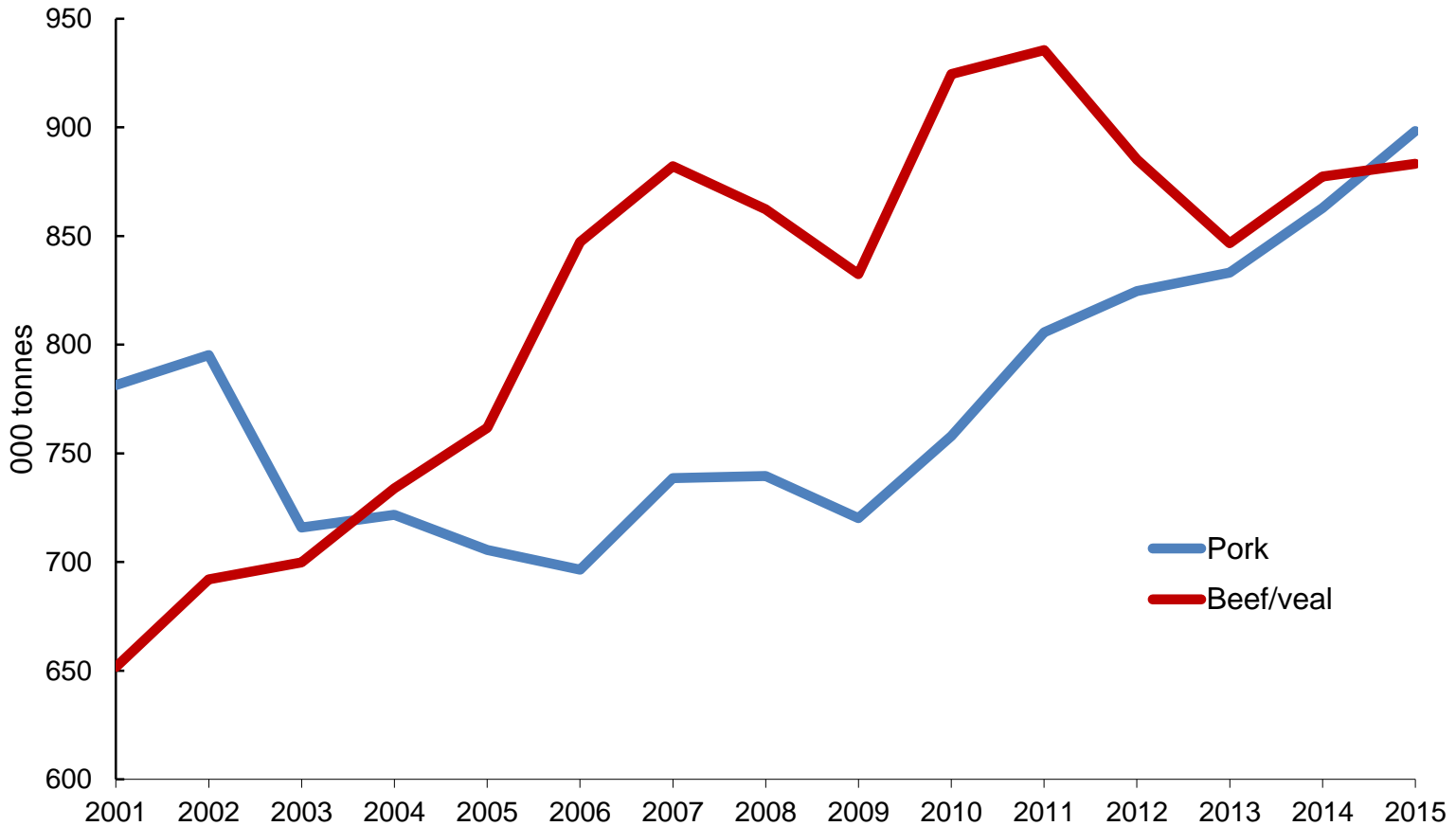
In real terms, January price lowest since 2002



Pig meat production rising for over a decade...

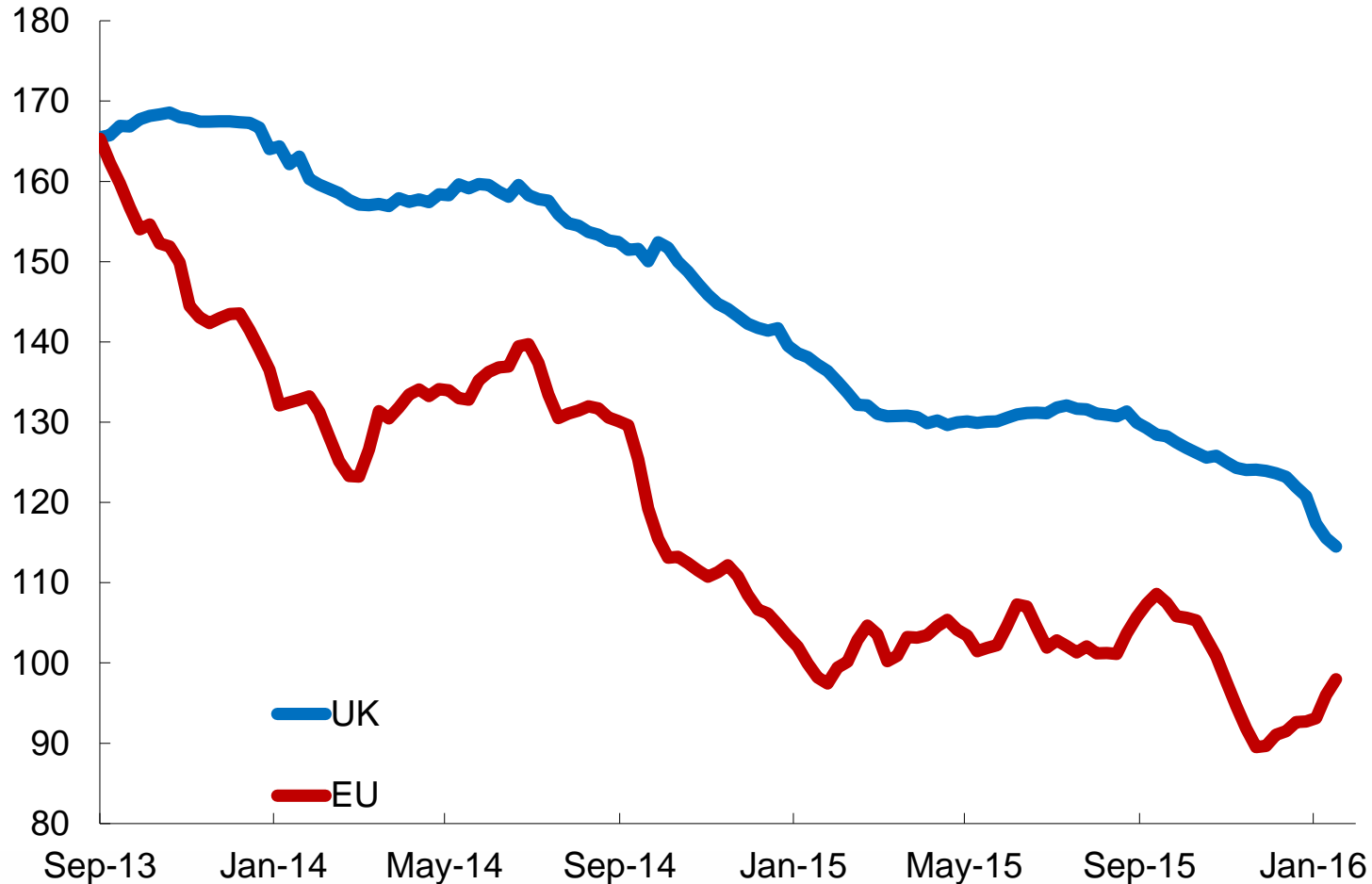


...and last year pork overtook beef

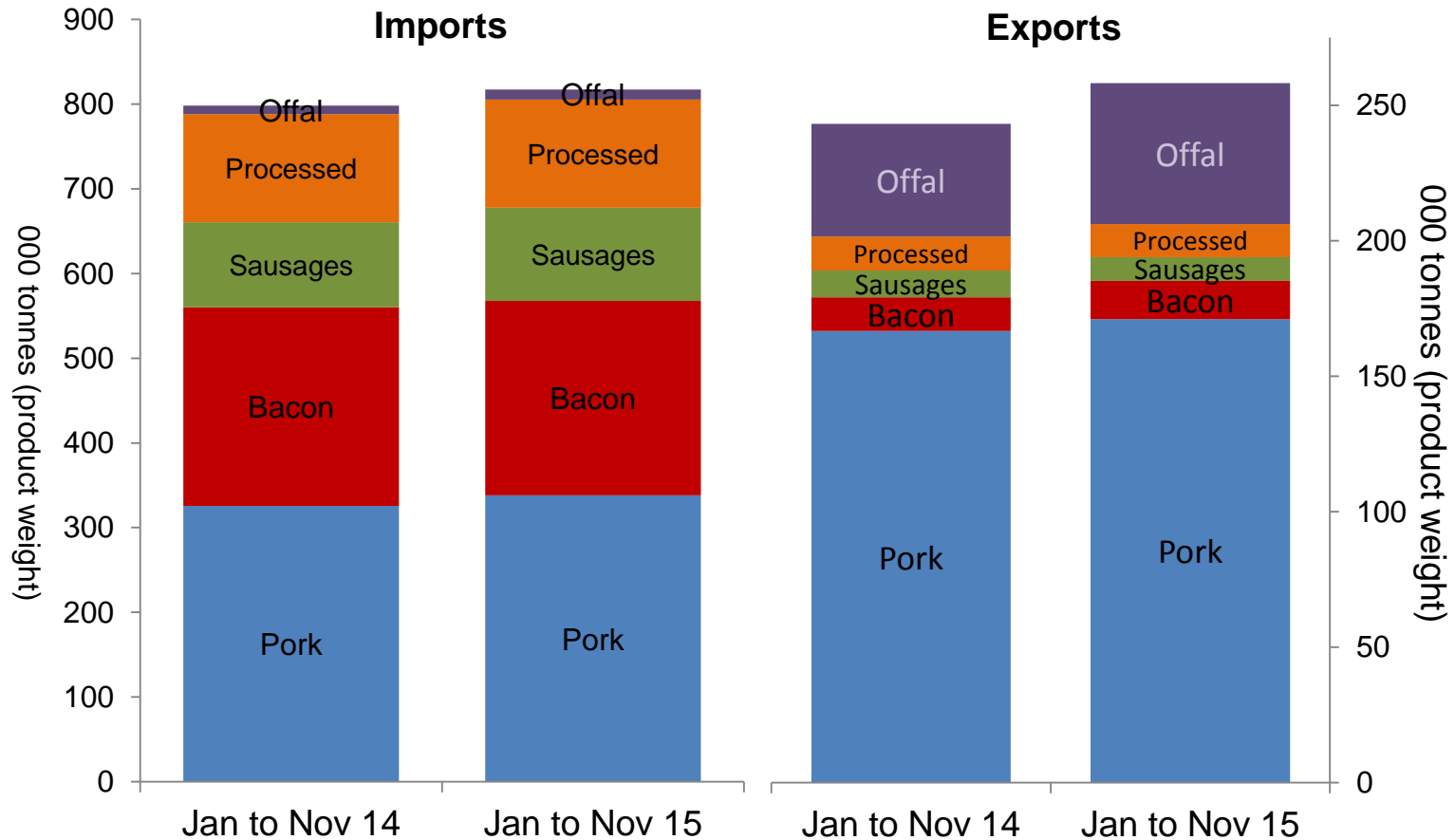


UK premium has decreased lately but still historically high

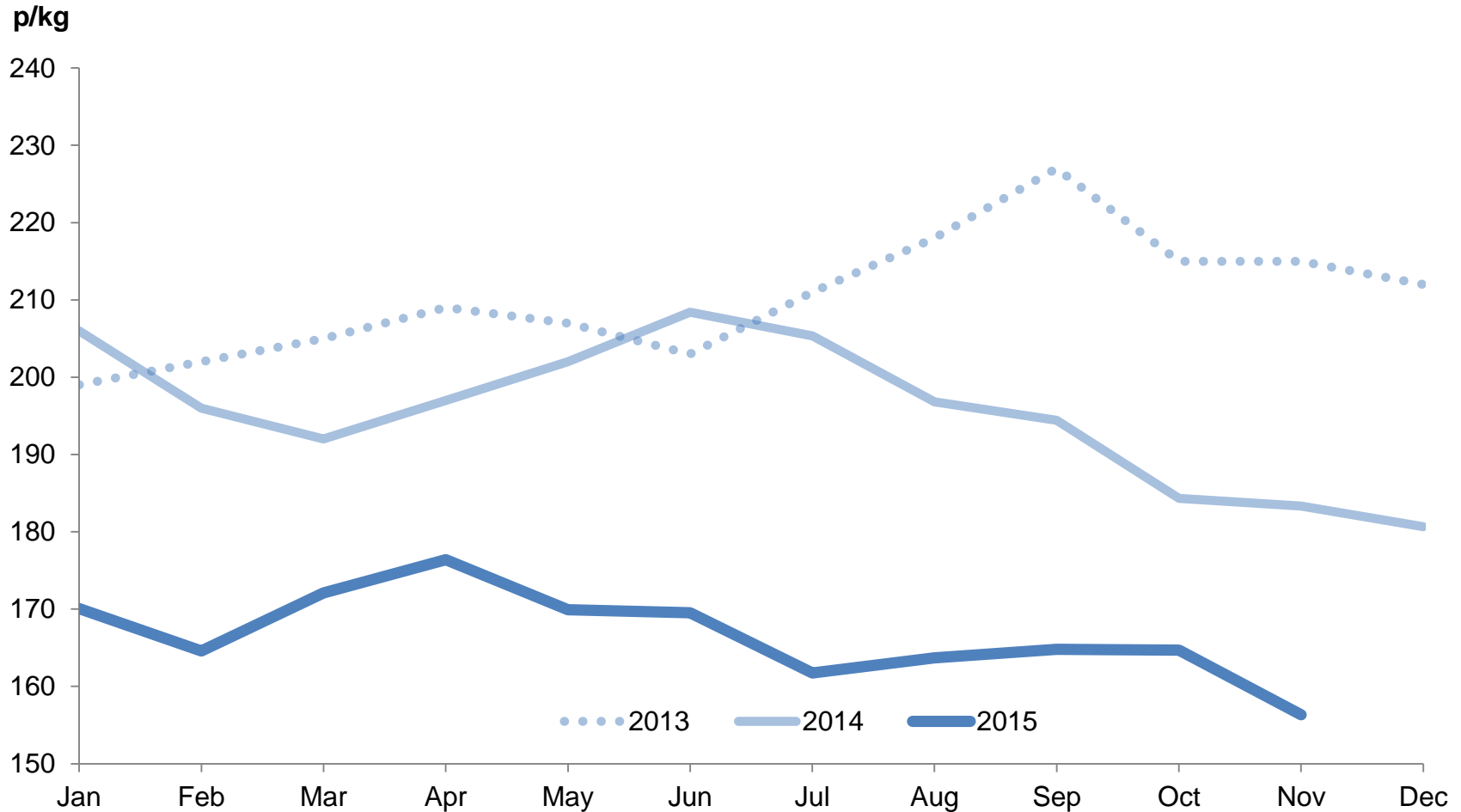
p/kg dw



Small rise in both imports and exports last year...



... but lower import prices mean domestic prices have to compete



Fresh pork sales down, despite falling prices...

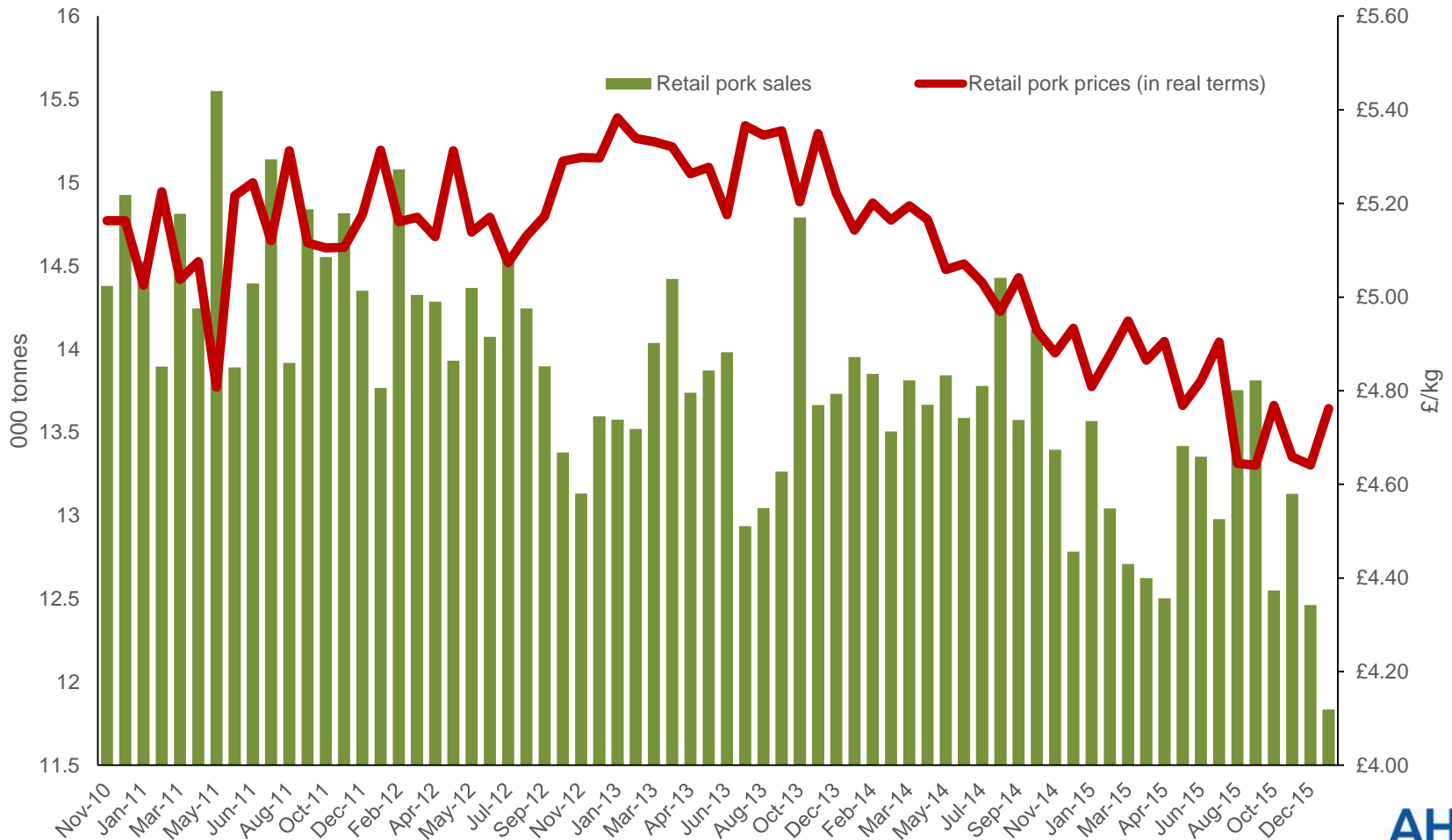
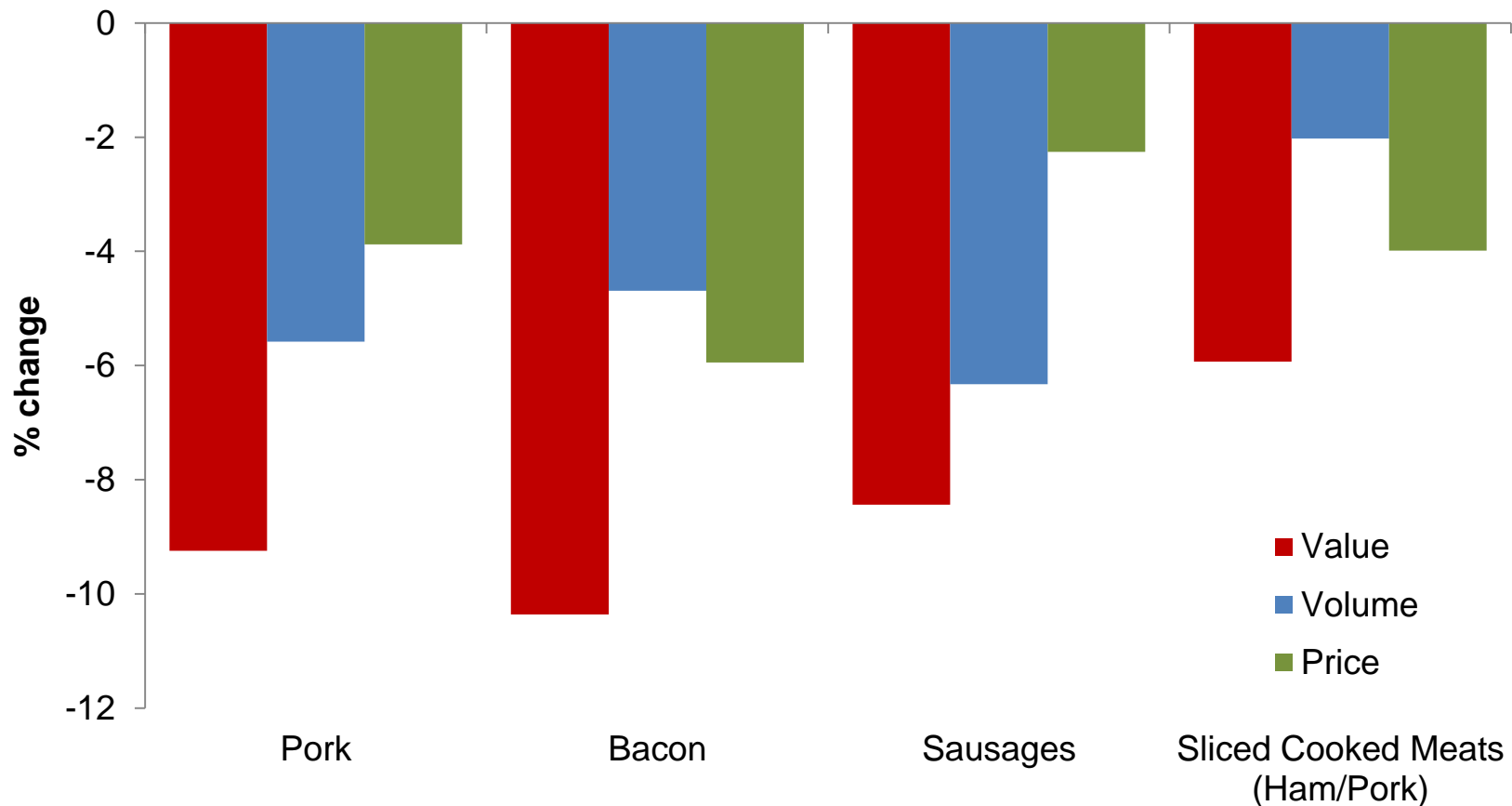


Chart: Retail purchases of pork and prices (adjusted for seasonality and inflation)

Source: Kantar Worldpanel

...and now other pig meat following same trend



Production costs at 5-year low but pig prices even lower

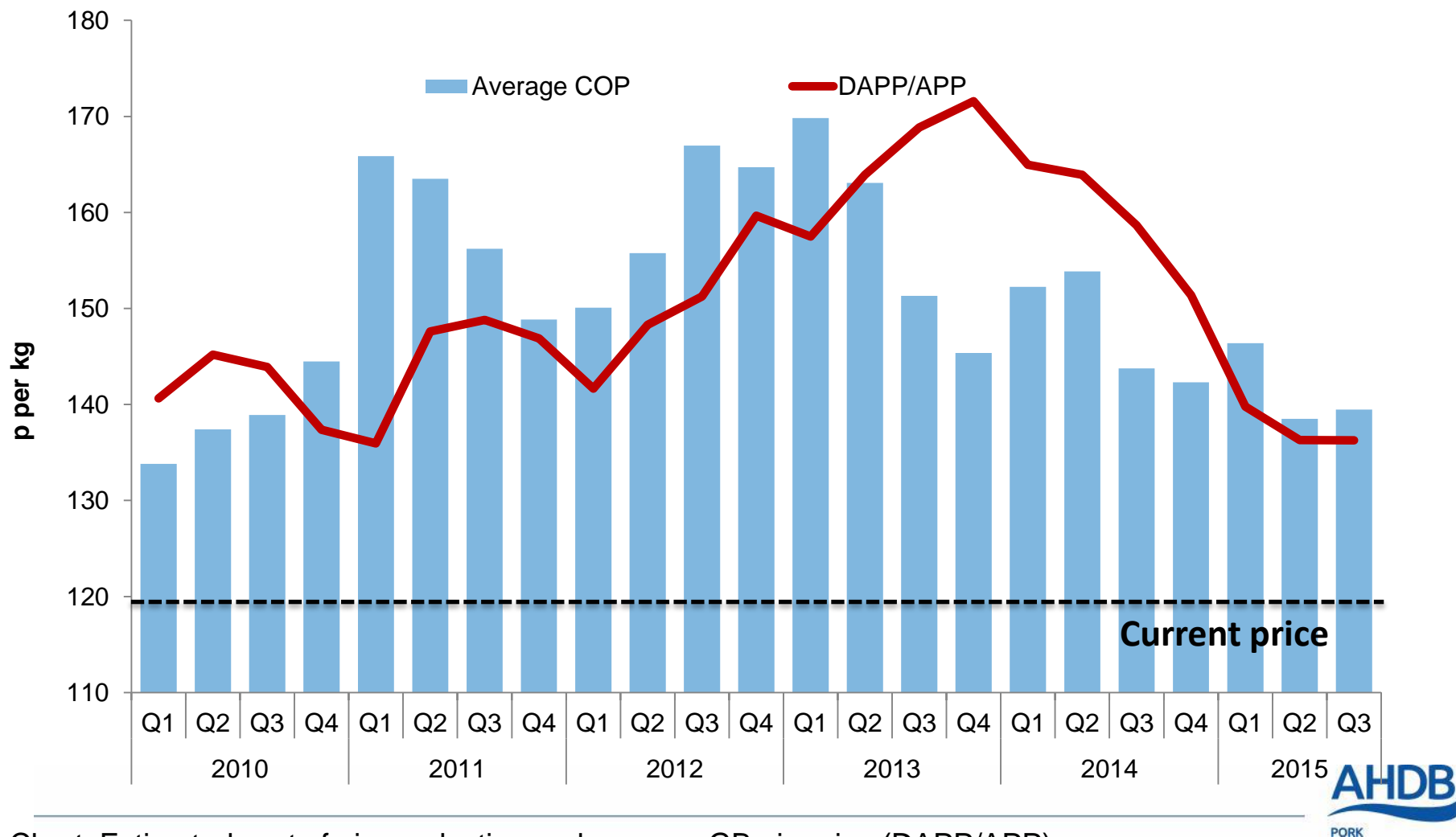


Chart: Estimated cost of pig production and average GB pig price (DAPP/APP)

Source: AHDB Market Intelligence

UK market summary

- GB pig prices have been falling for over two years, taking them from an all-time to high to a near 8-year low
- Falls due to a combination of factors including:
 - Rising domestic supplies, with UK pig meat production having overtaken beef for first time since 2003
 - Higher imports, although not by as much as might have been expected given the high UK price premium over EU pork
 - Lower import prices, meaning UK pork has to reduce in price to compete
 - Challenging export conditions due to the stronger pound against the euro
 - Subdued retail demand, with fresh pork sales falling despite lower prices
- For most of last year, producers were losing money on a full cost basis but still making a cash profit BUT recent price falls mean that many are now below cash breakeven

State of the EU and Global markets

EU pig prices firming this year but from a 10-year low

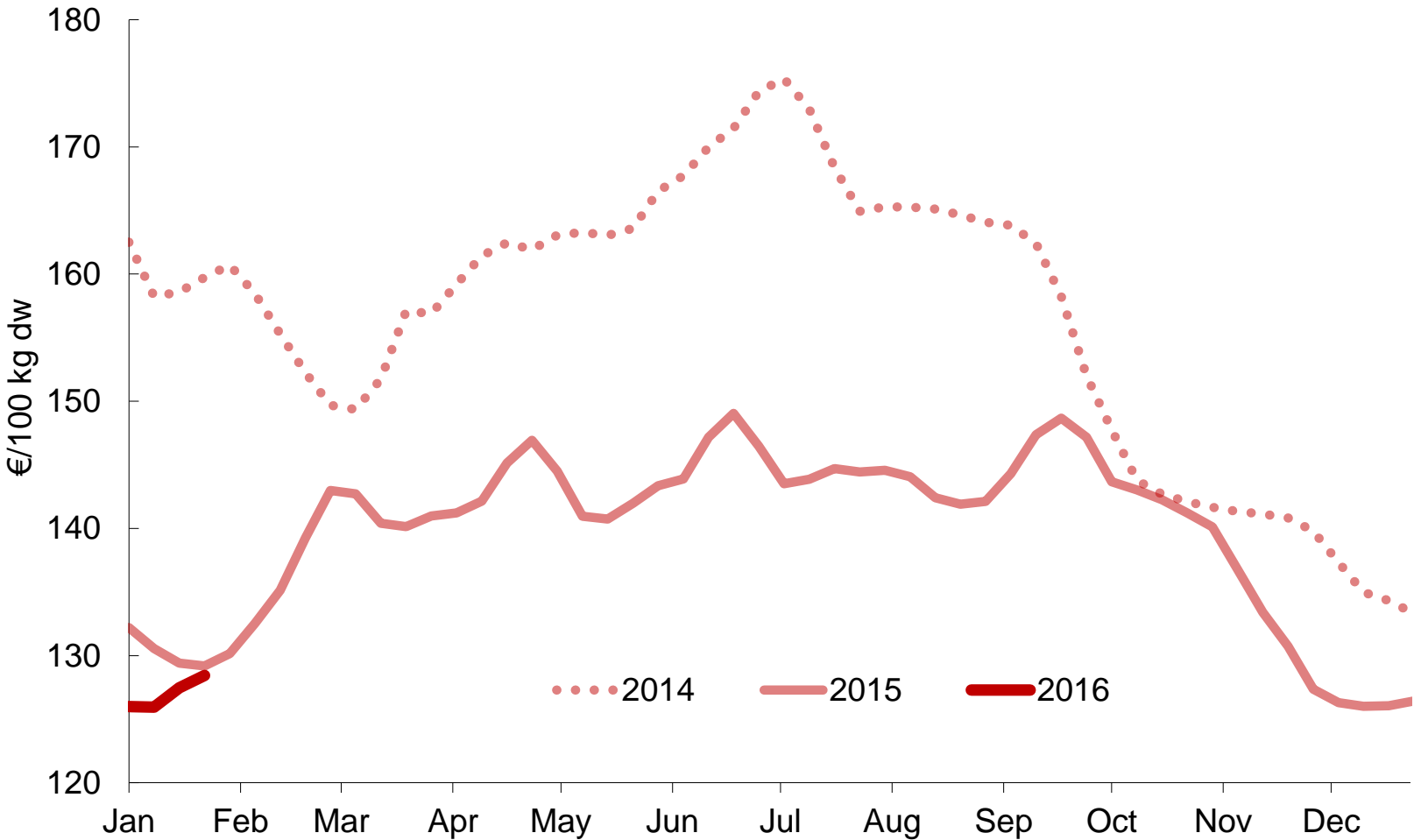


Chart: EU average pig reference price (grade E)
Source: EU Commission

EU weaner prices up more - tightening supplies ahead?

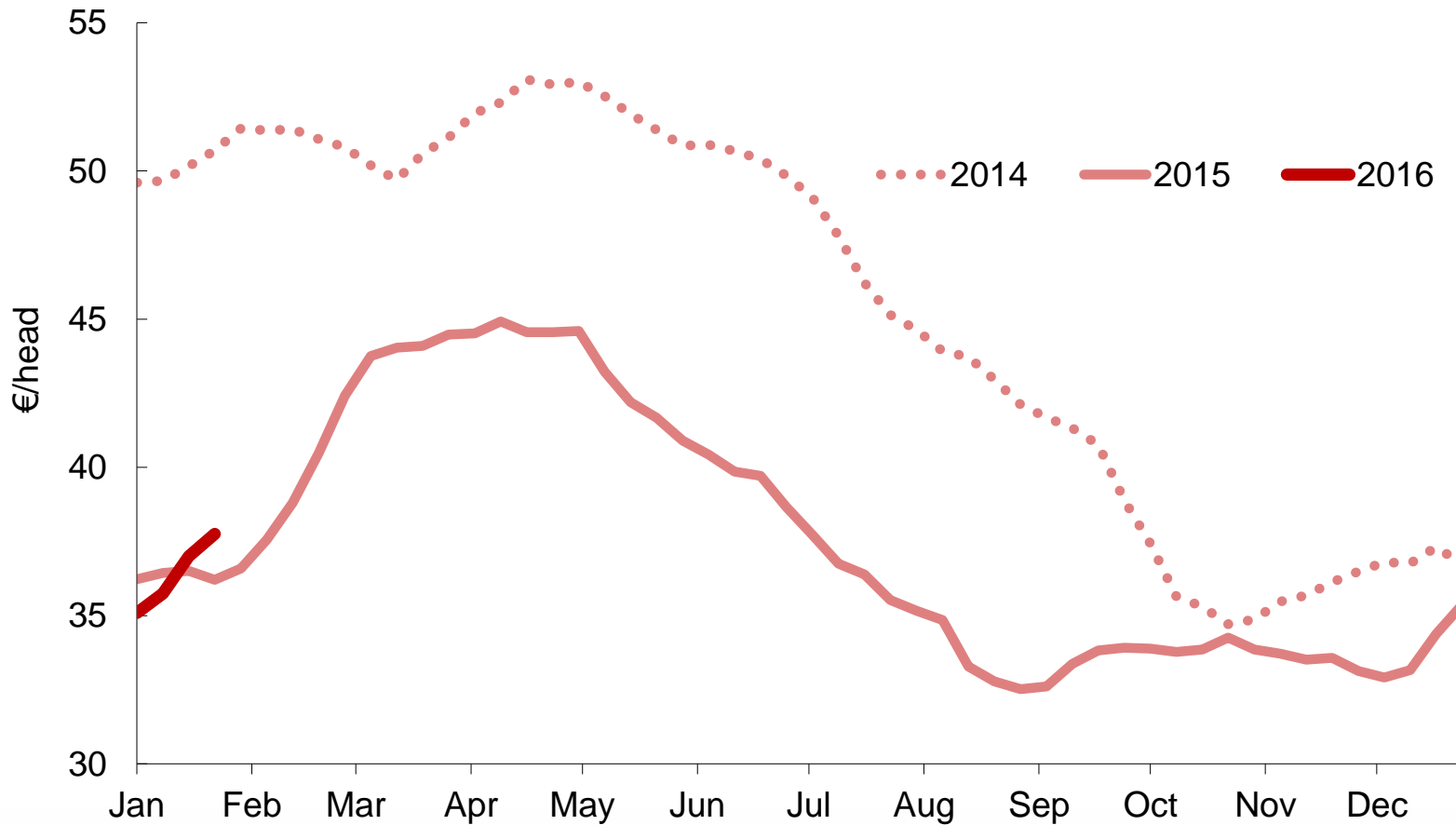
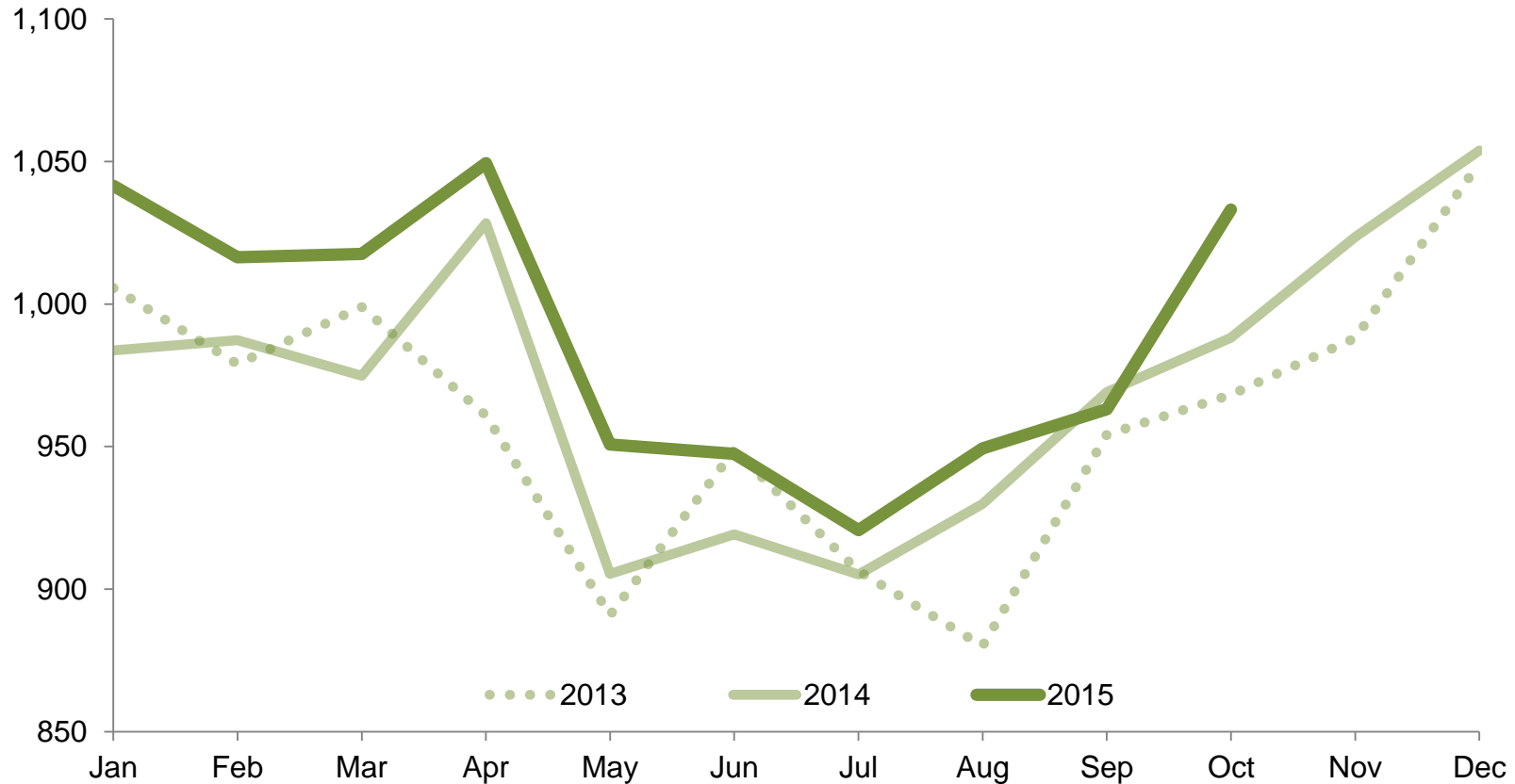


Chart: EU average weaner price (30kg)

Source: EU Commission

EU pig slaughterings up in 2015 despite low prices

000 head



EU exports fell after Russian ban...

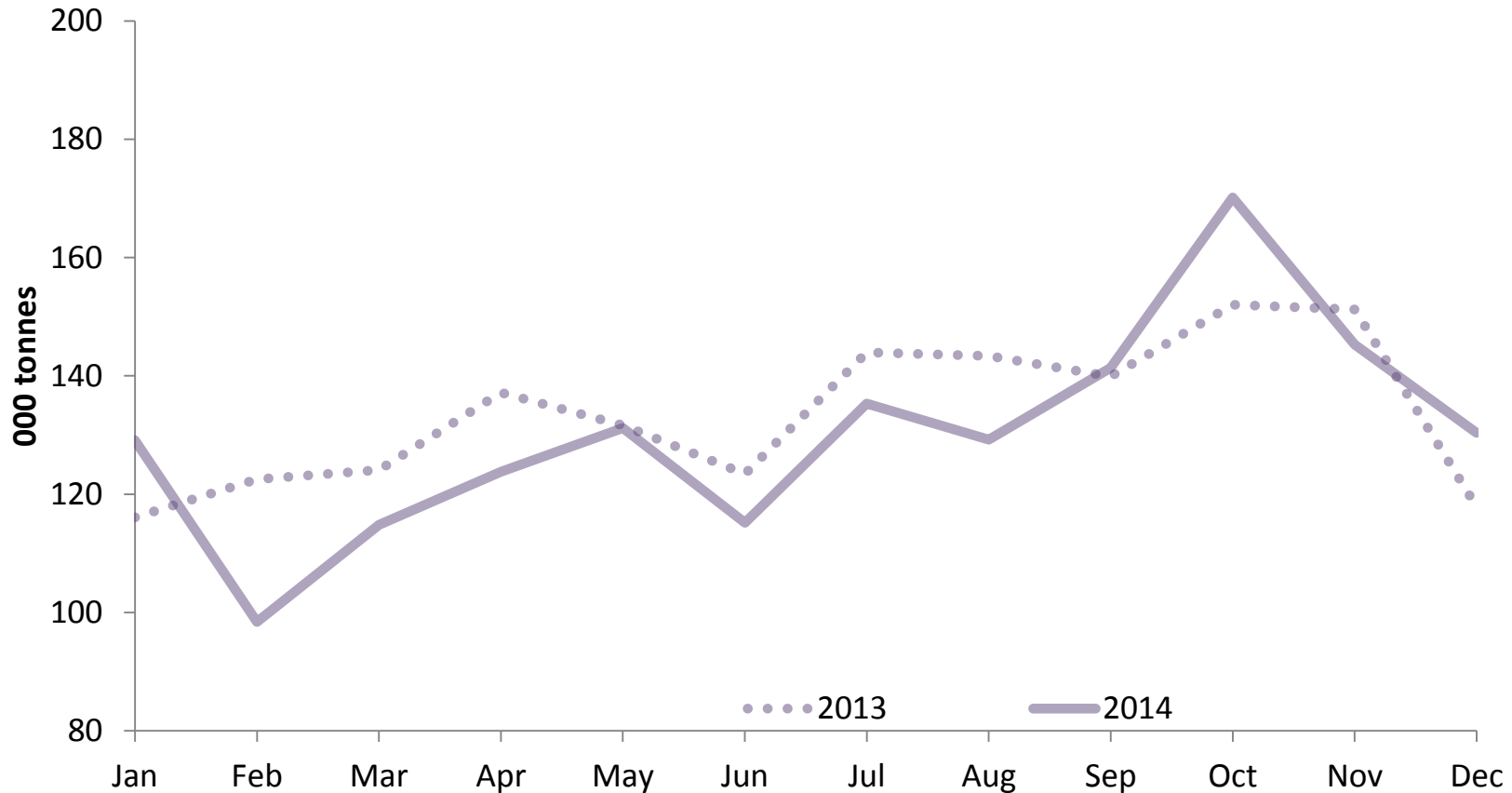


Chart: EU exports of fresh/frozen pork (product weight)
Source: Eurostat, GTIS

...but have held up well this year on strong Asian demand

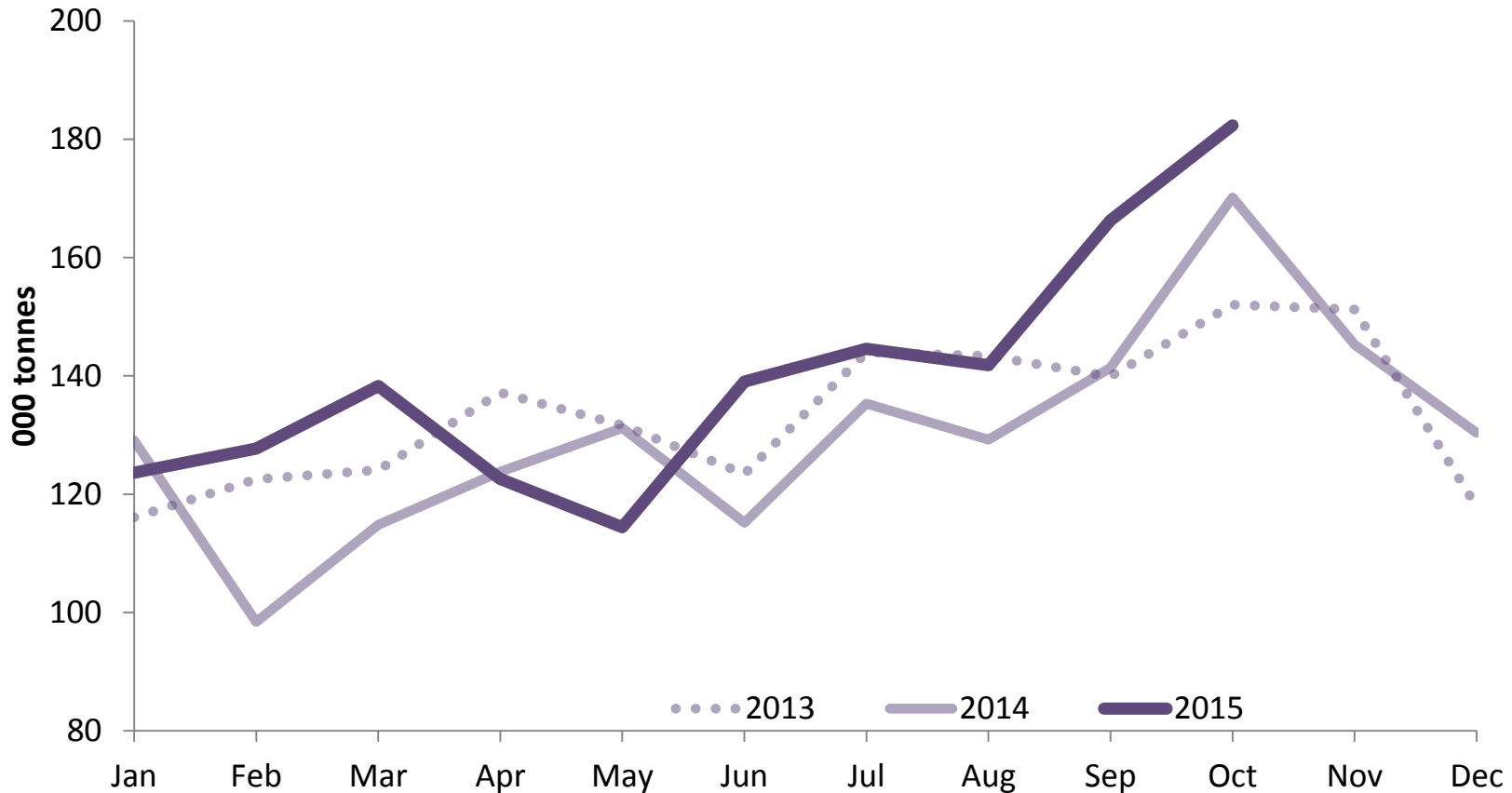


Chart: EU exports of fresh/frozen pork (product weight)
Source: Eurostat, GTIS

Global export prices have fallen from 2014 high

US\$ per kg

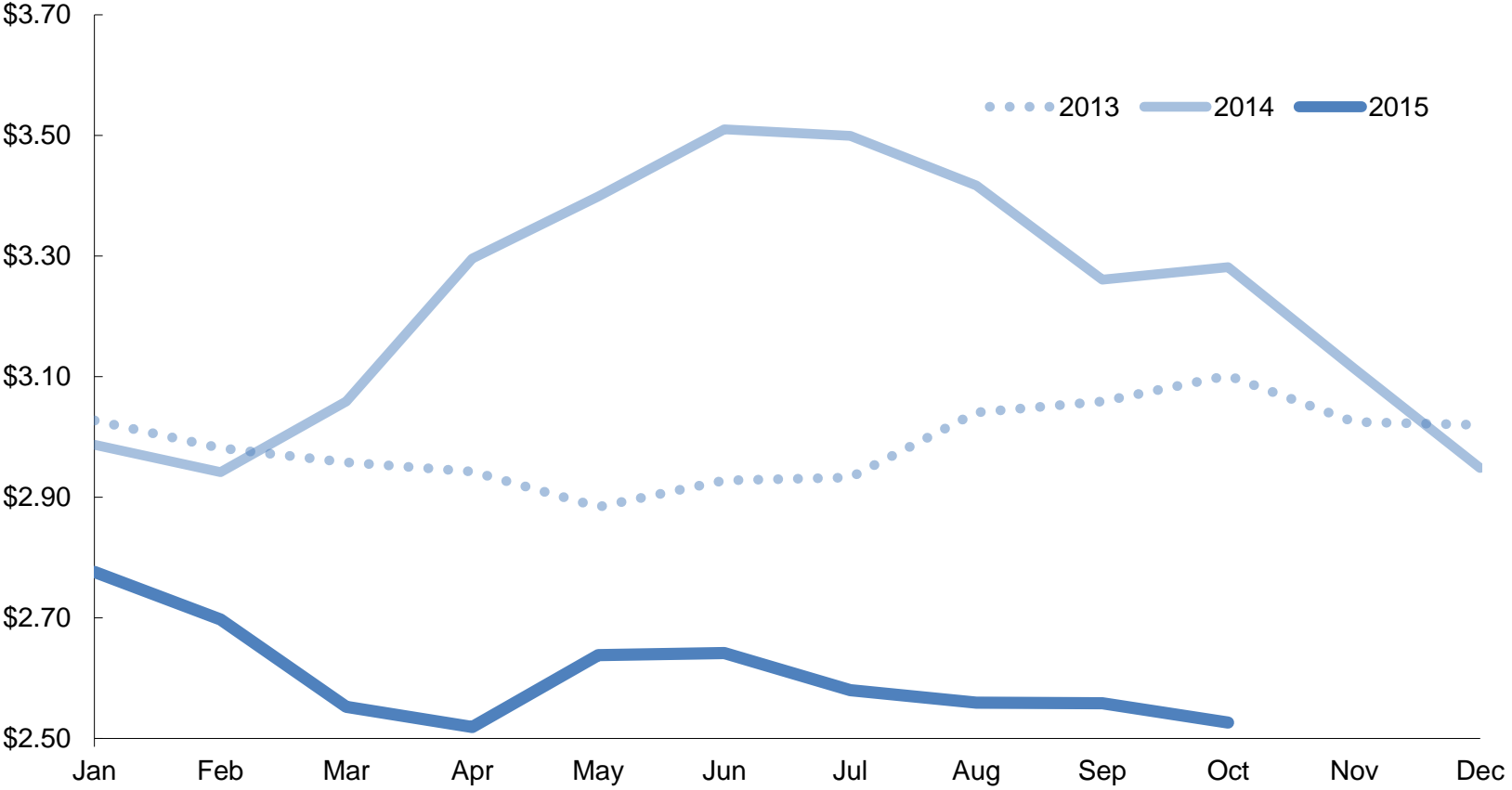


Chart: Average export price for fresh/frozen pork from major exporters (EU, US, Canada, Brazil)
Source: GTIS

Good demand from key export markets in 2015, except Russia

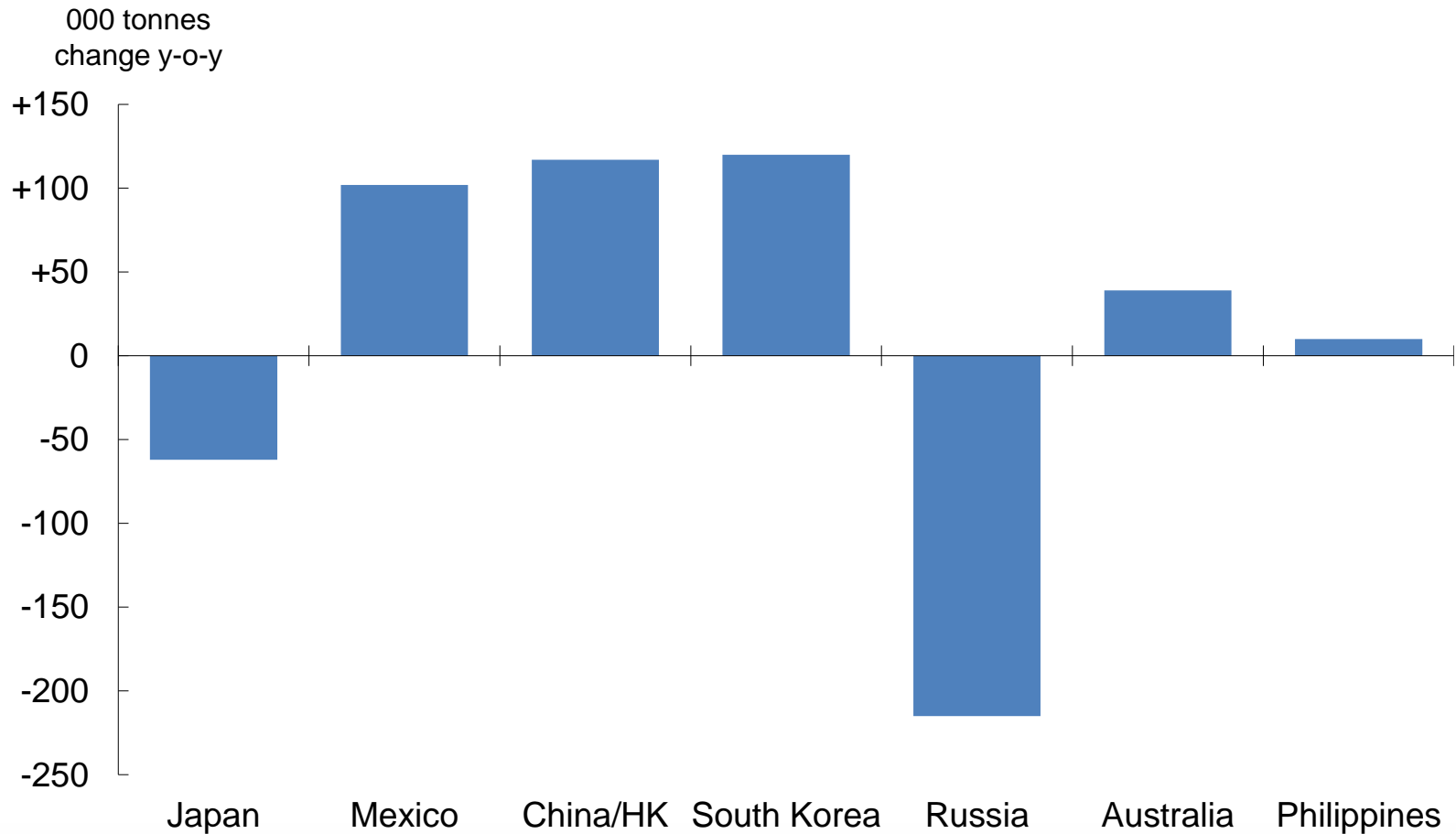


Chart: Estimated year-on-year change in pig meat imports, 2014-15

Source: USDA

EU and global market summary

- EU prices have also been very low throughout 2015 but modest rise in early 2016, partly due to PSA scheme, but not clear if this will be sustained now scheme has been closed
- Strengthening weaner prices suggest supplies may be tightening, which could lead to pig price recovery further into 2016
- High supplies, subdued consumer demand and Russian ban mean there is still an oversupply on the EU market
- Low prices apparent in other major exporters too, due to over-production, currency movements and effect of Russian ban
- Good demand from some key importers, especially China, in 2015 have helped prevent prices falling further

UK Outlook

Defra reported a stable breeding herd in year to June

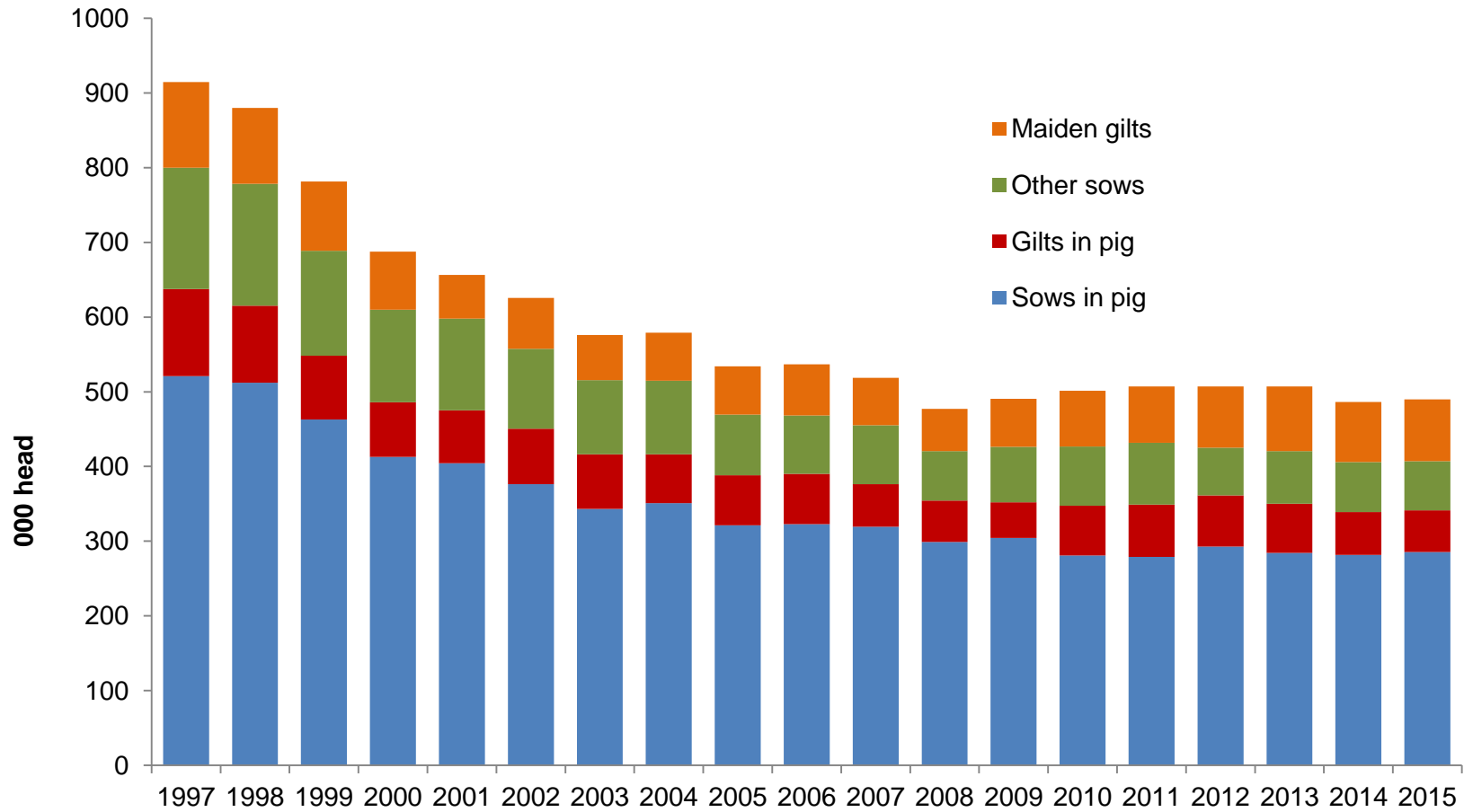


Chart: UK pig breeding herd size
Source: Defra

Sow slaughterings up on the year but from a low level...

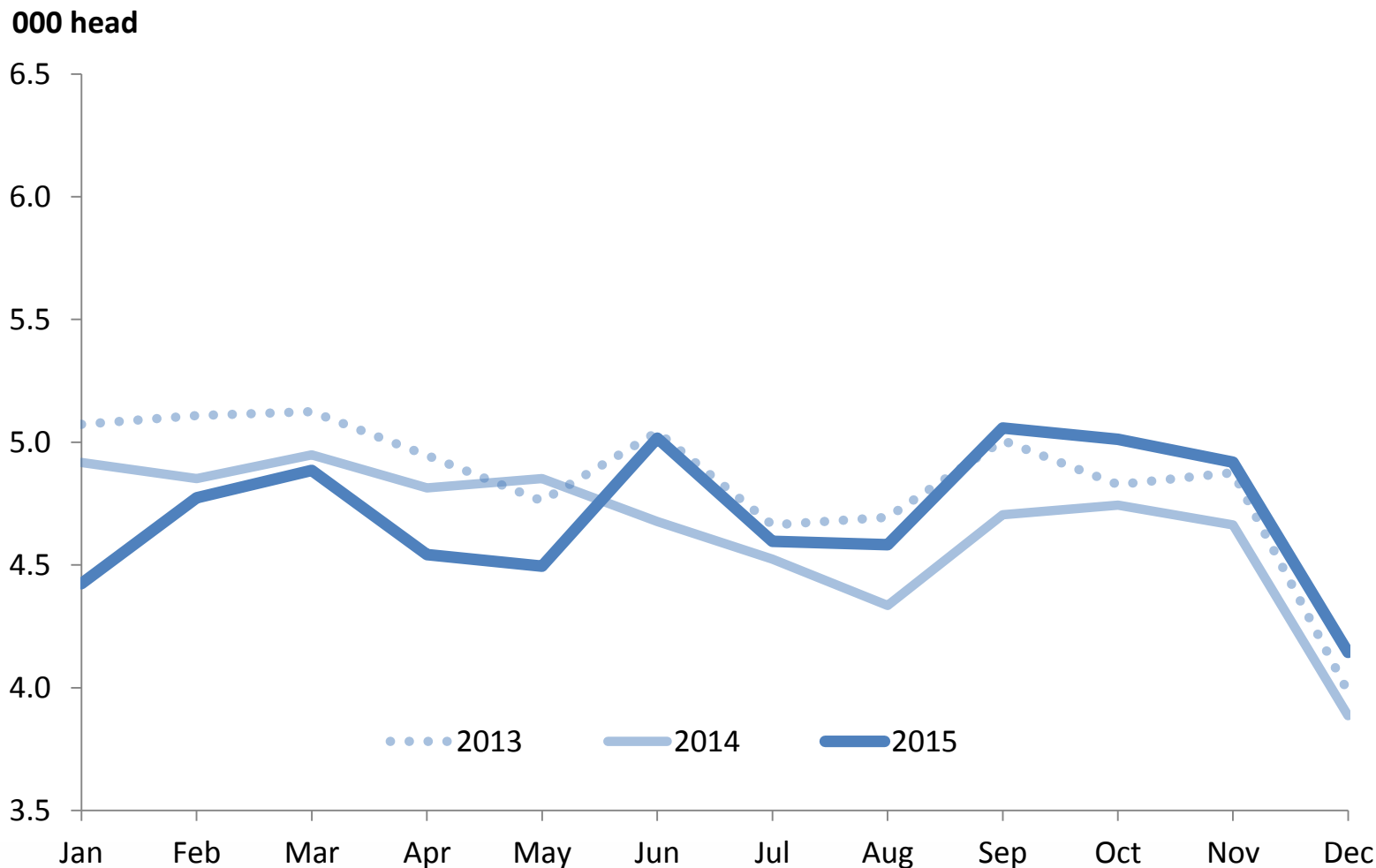


Chart: UK weekly slaughterings of adult sows and boars

Source: Defra

...and well below 2012 – no breeding herd declining (yet)

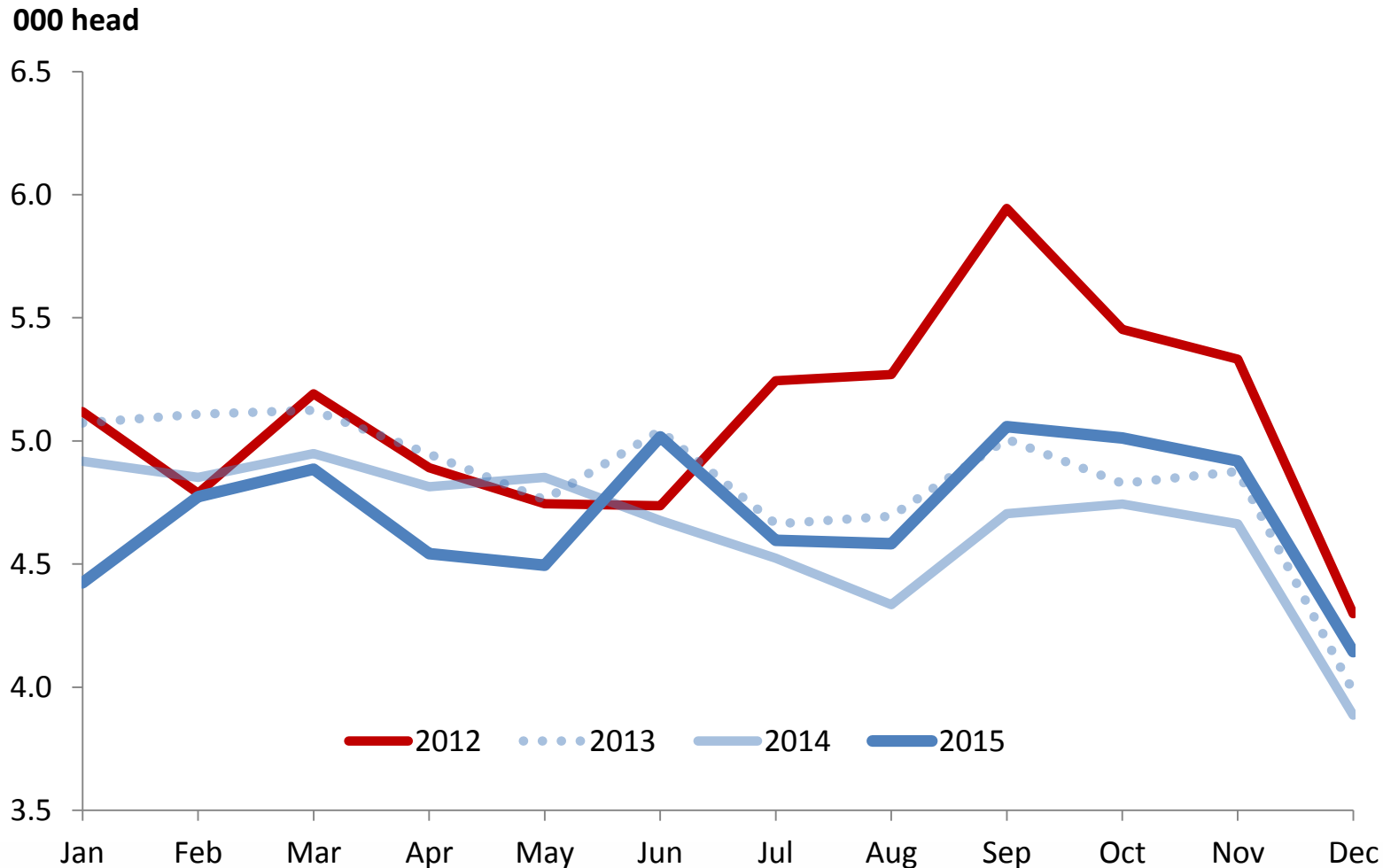
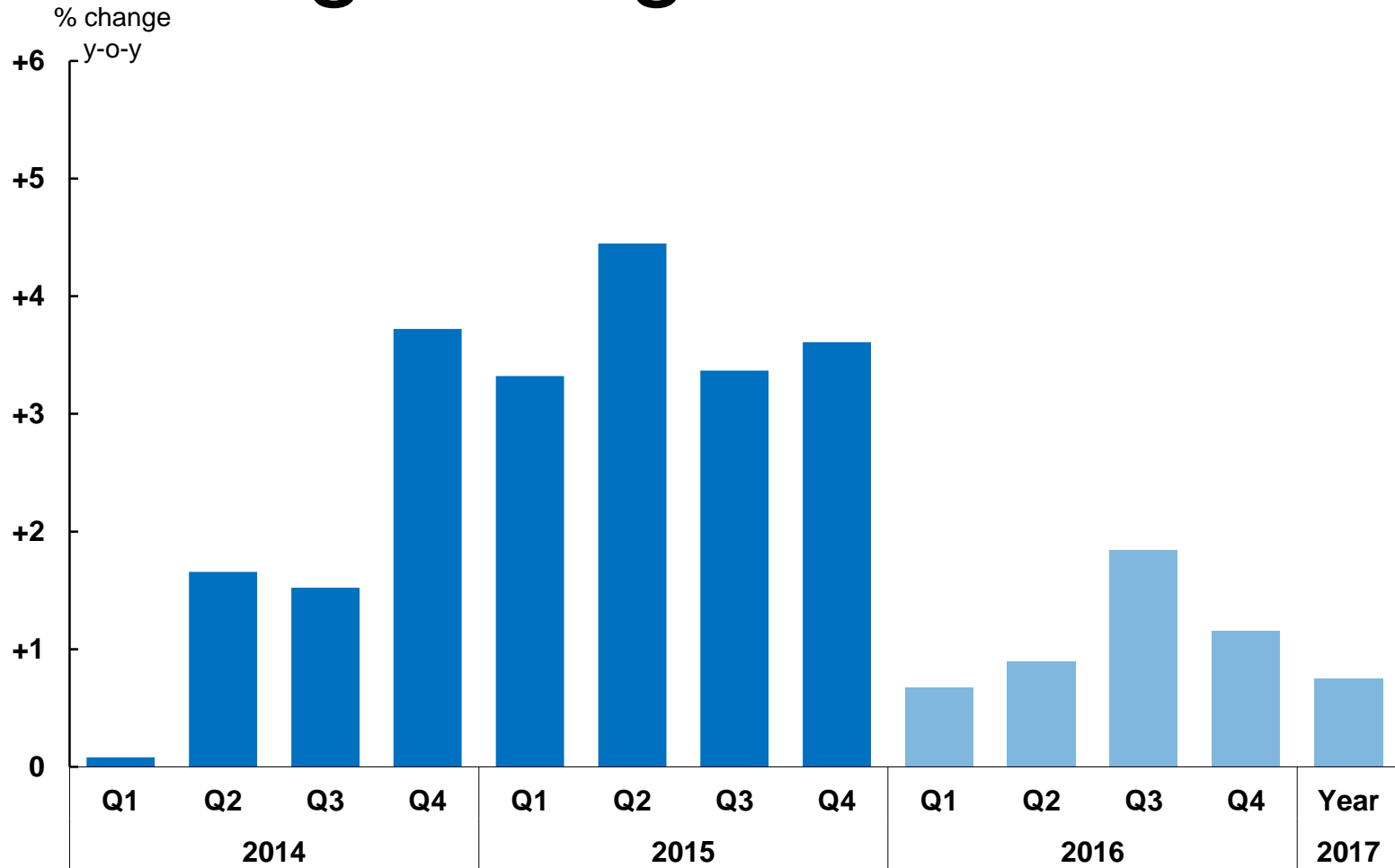


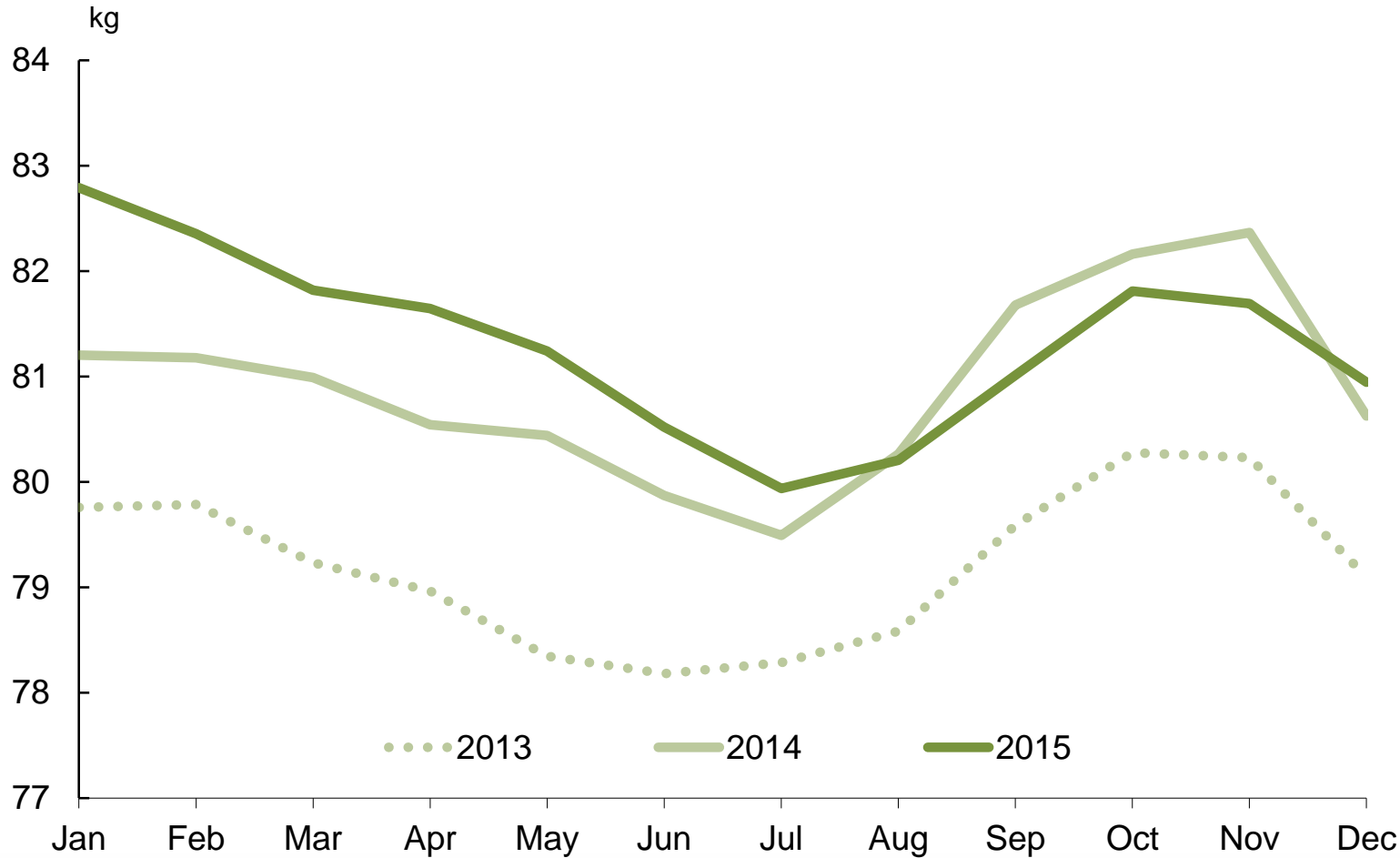
Chart: UK weekly slaughterings of adult sows and boars

Source: Defra

Productivity gains driving higher UK slaughterings



Carcase weights trending up until late 2015...



...and only modest rise expected this year

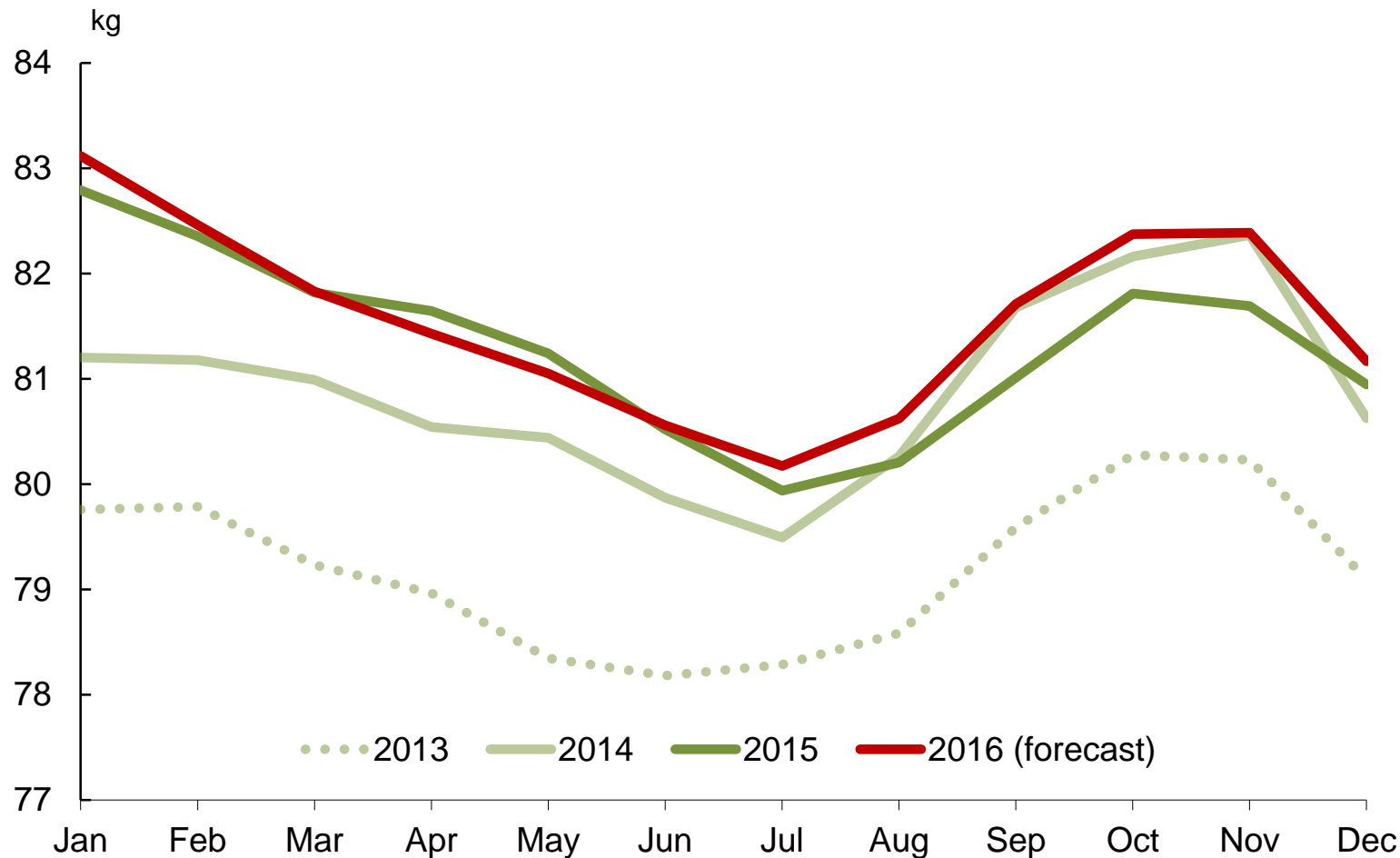


Chart: Actual and forecast UK clean pig carcass weights
Source: Defra (Actual), AHDB Market Intelligence (Forecasts)

Slaughter growth main driver of production in 2016

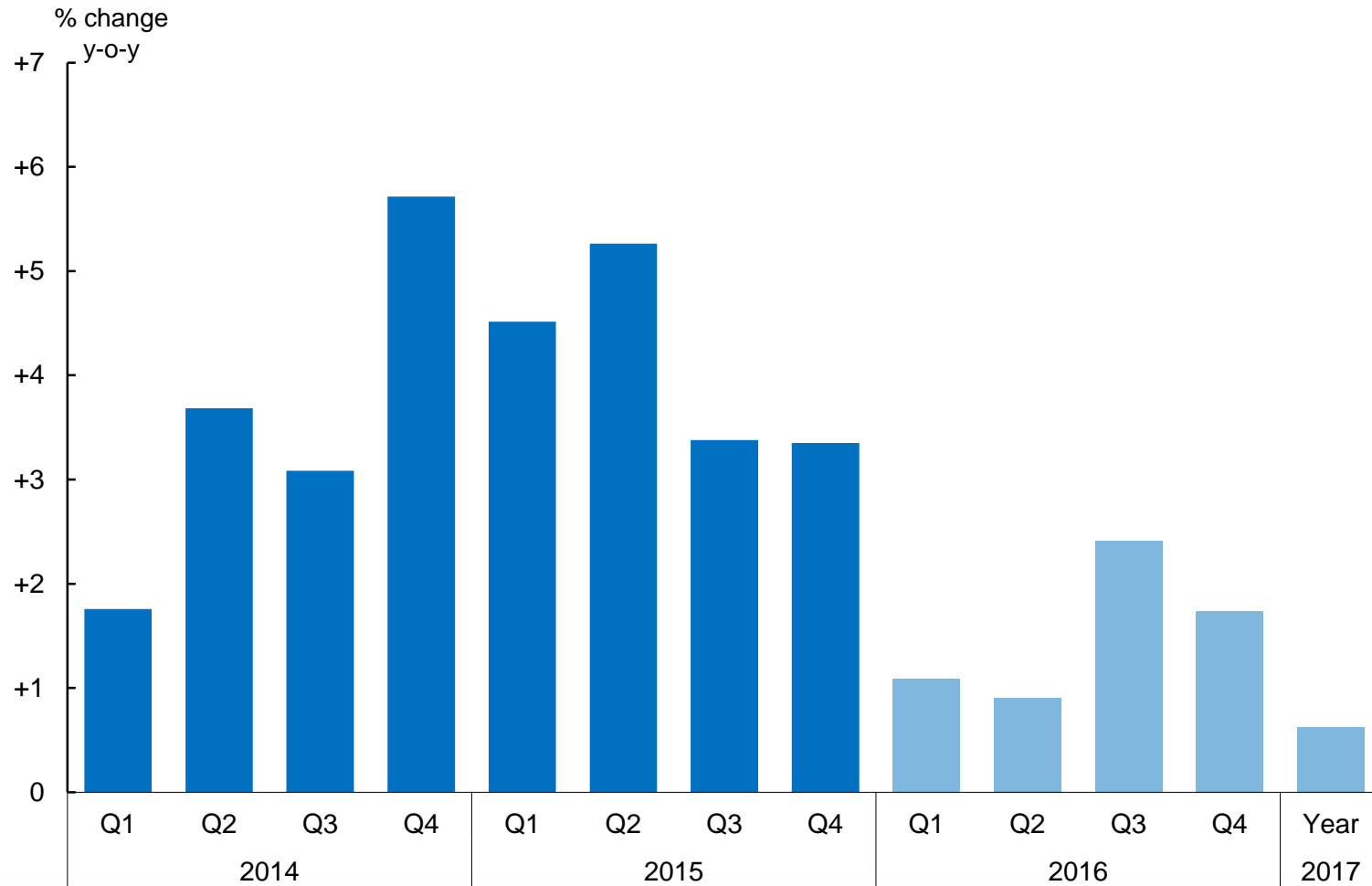


Chart: Actual and forecast year-on-year change in UK pig meat production

Source: Defra (Actual), AHDB Market Intelligence (Forecasts)

More pork on UK market in 2016 - more price pressure

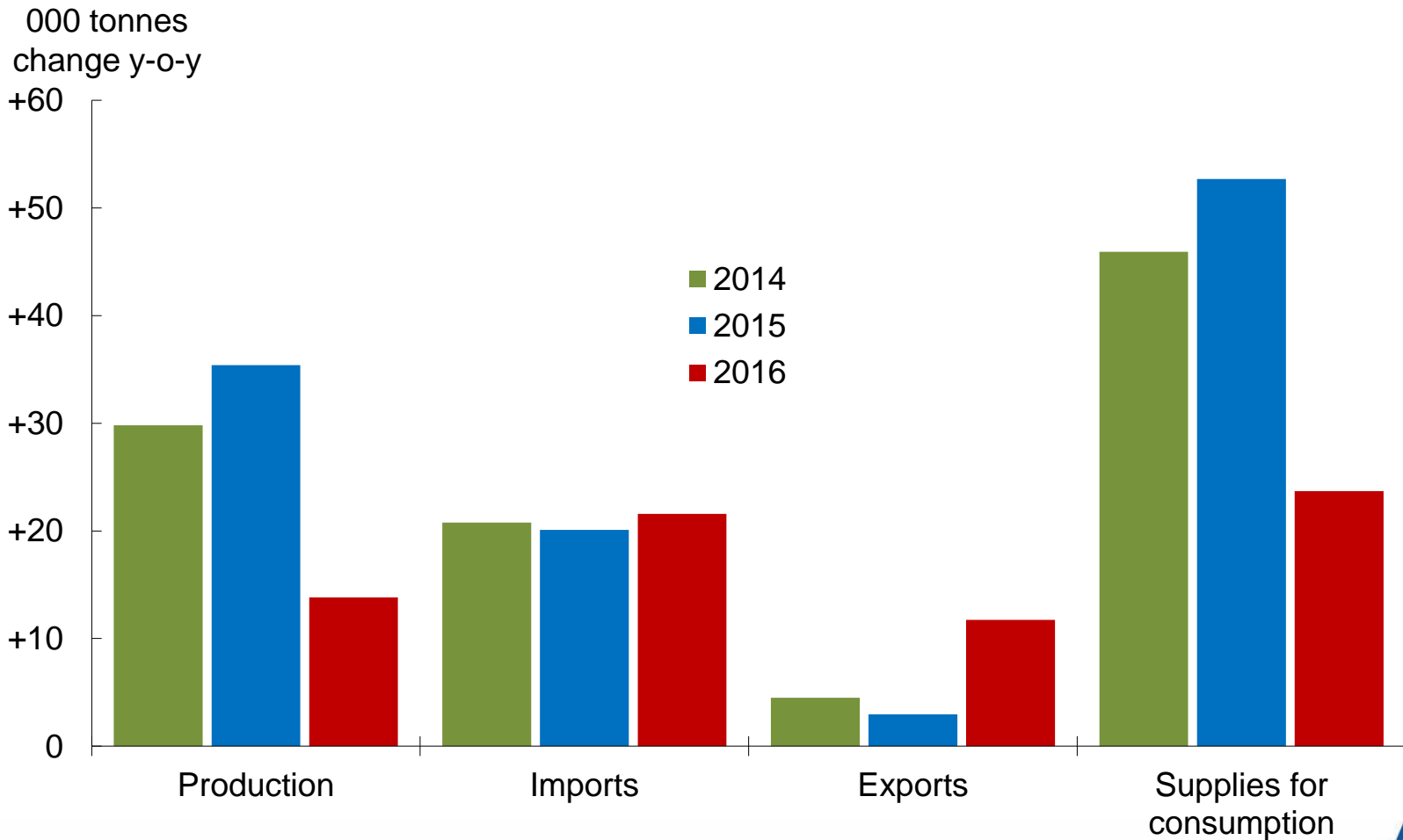


Chart: Actual and forecast year-on-year change in UK pig meat supplies
Source: Defra, HMRC, AHDB MI (actual), AHDB MI (forecasts)

UK outlook summary

- Stable breeding herd (so far at least) means improved productivity will again be main driver of slaughterings in 2016, although growth forecast to be slower than in 2015
- Carcase weights forecast to edge up in 2016, so pig meat production expected to rise in line with slaughterings
- Imports expected to grow again but only slowly, especially if UK price premium decreases due to weaker pound
- Exchange rate may also enable stronger growth in UK exports in 2016, removing some product from the domestic market
- Further growth forecast in supplies on the UK market, keeping prices under pressure unless demand picks up

EU & global outlook

EU breeding herd starting to decline in June...

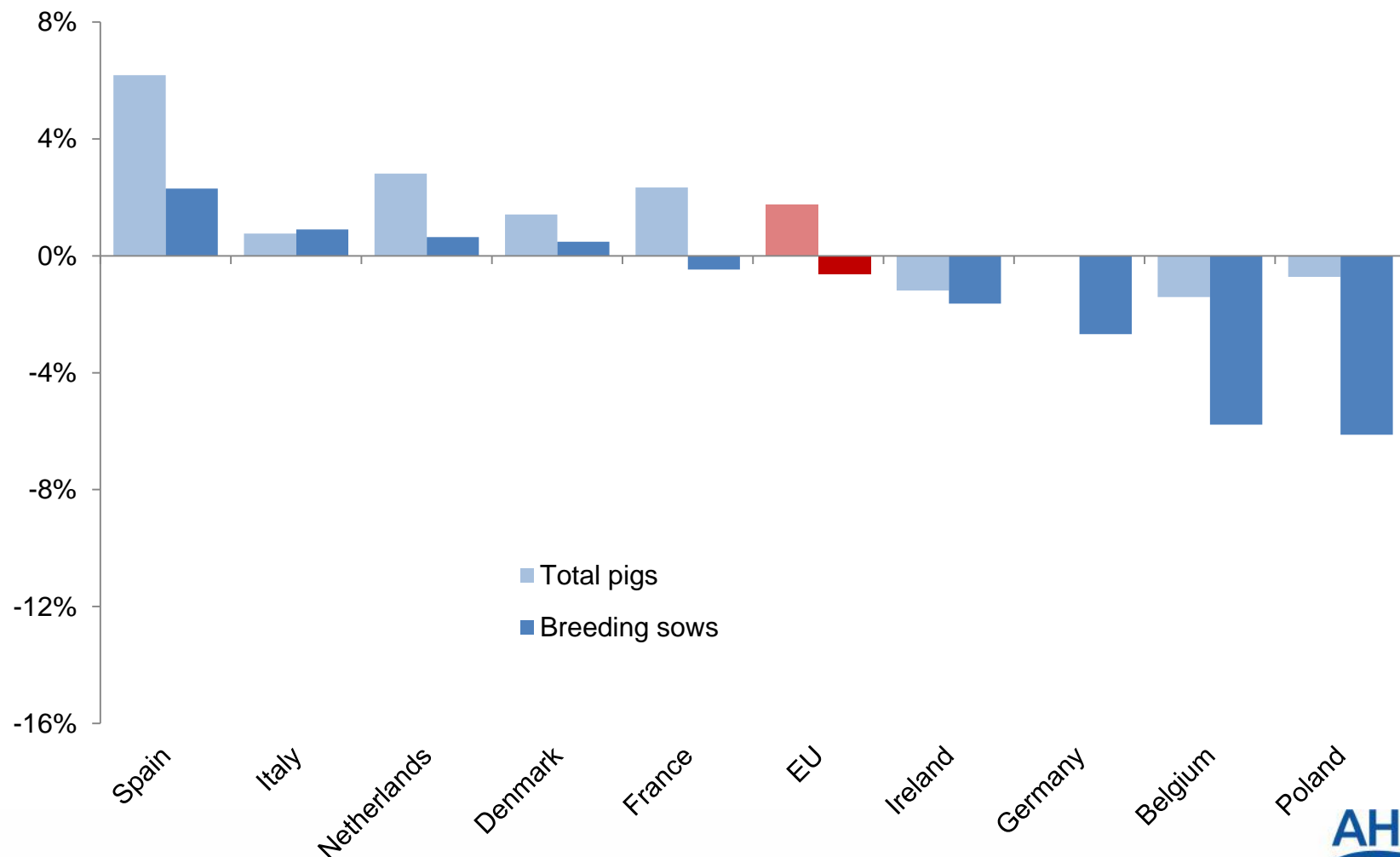


Chart: Year-on-year change in EU pig and breeding sow numbers, June 2014-June 2015 (Dec 2014-Dec 2015 in green)

Source: Eurostat

...but bigger fall likely by December based on early results

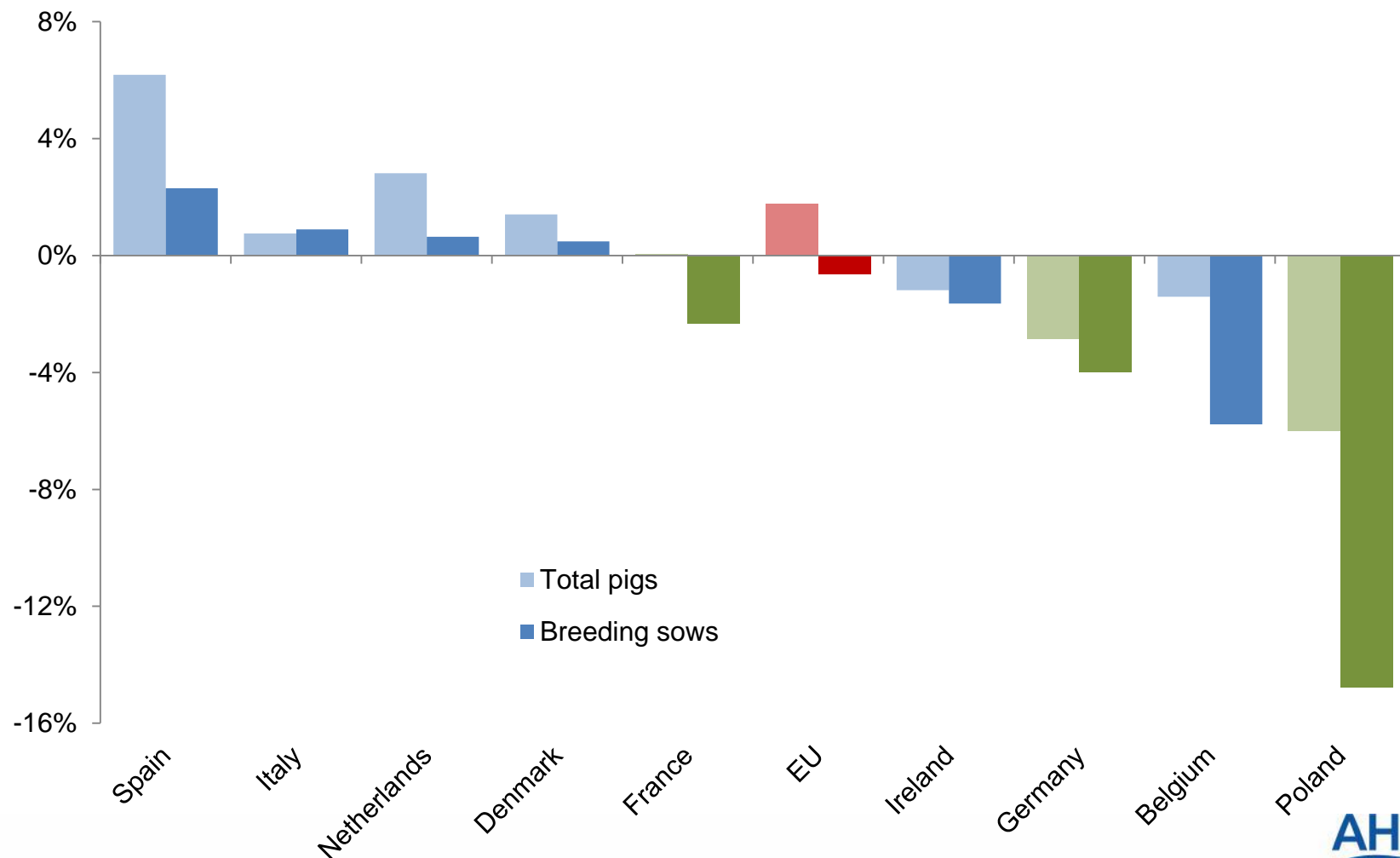


Chart: Year-on-year change in EU pig and breeding sow numbers, June 2014-June 2015 (Dec 2014-Dec 2015 in green)

Source: Eurostat

EU growth slowing but no fall before middle of year

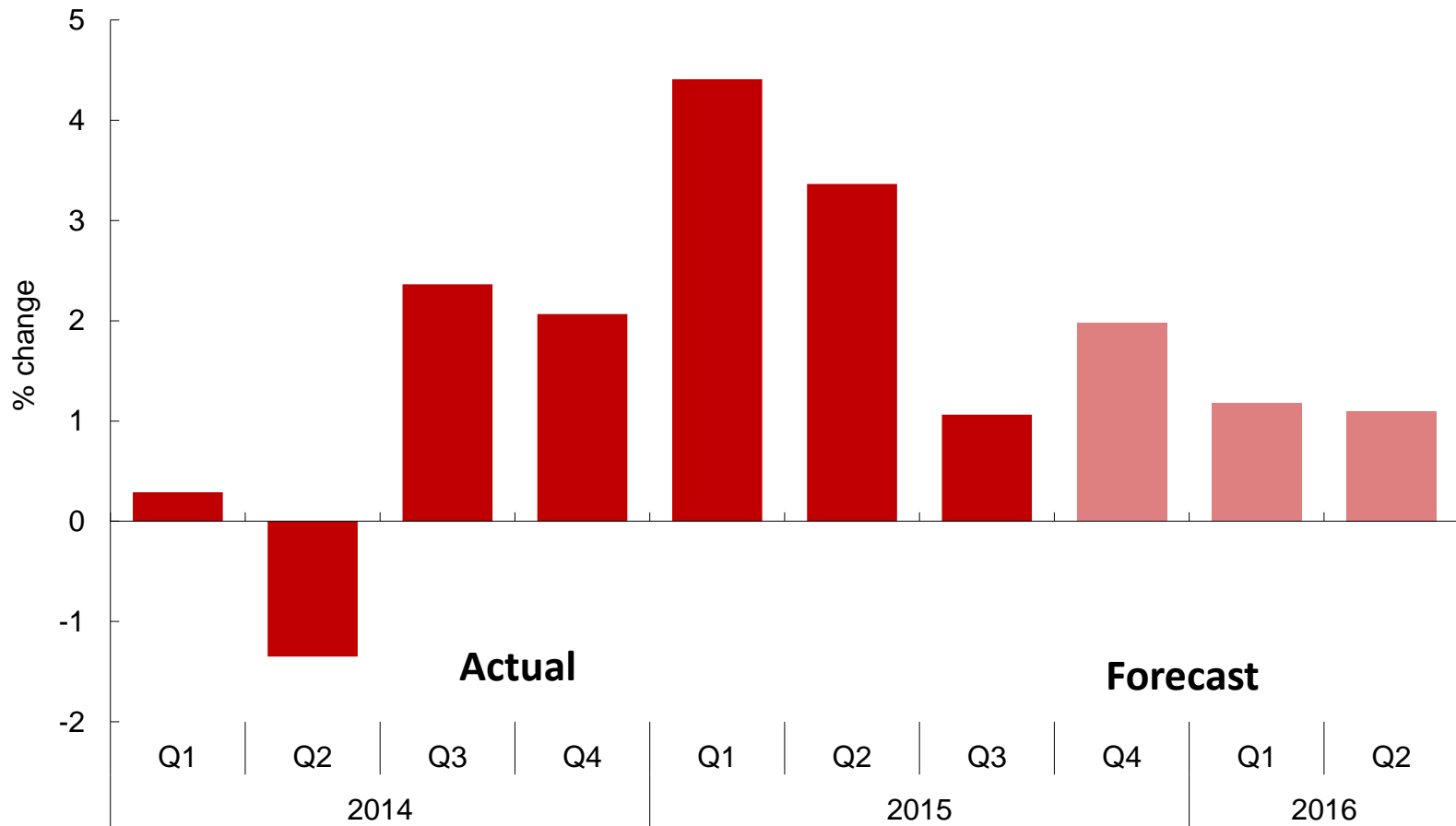


Chart: Actual and forecast annual change in EU pig slaughterings
Source: Eurostat, AHDB analysis of data from EU Commission FWG for pig meat

EU prices forecast to be close to last year in early 2016

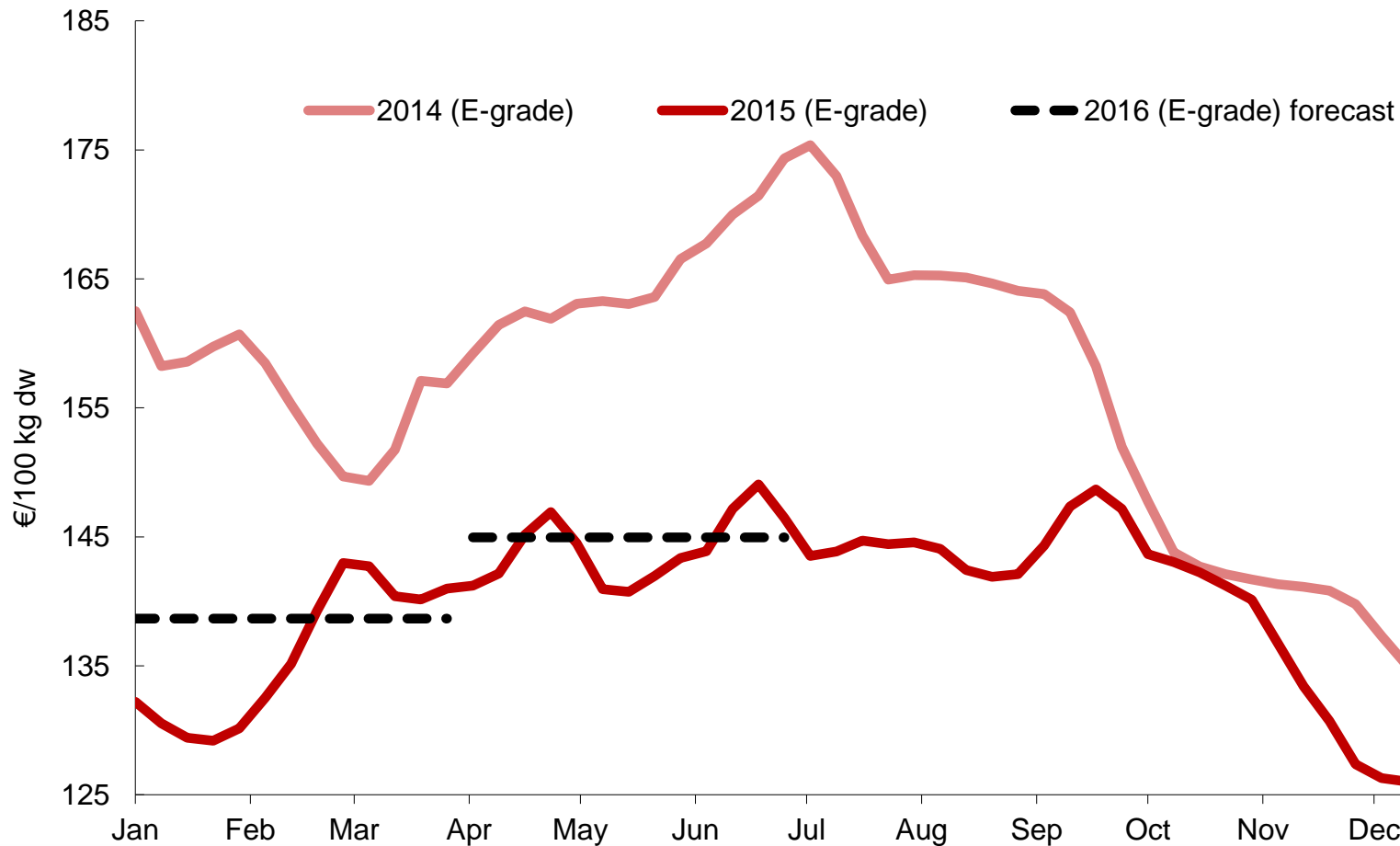


Chart: Actual and forecast EU pig reference price (grade E)
Source: EU Commission and pig meat forecasting working group

Growth in major exporters slowing but production still up

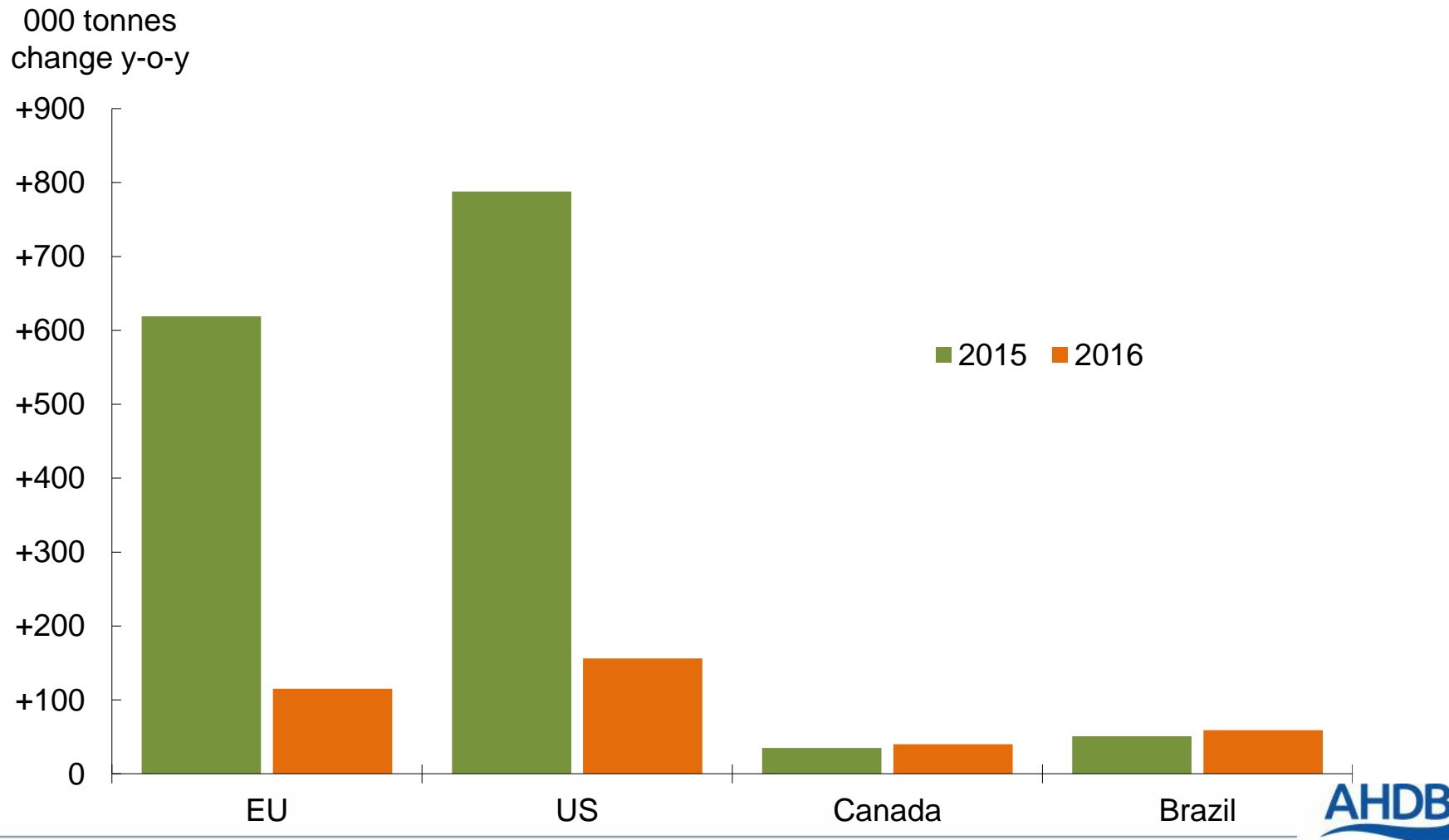


Chart: Forecast year-on-year change in pig meat production & consumption, 2015-2016

Source: EU Commission, USDA

But where is import demand coming from?

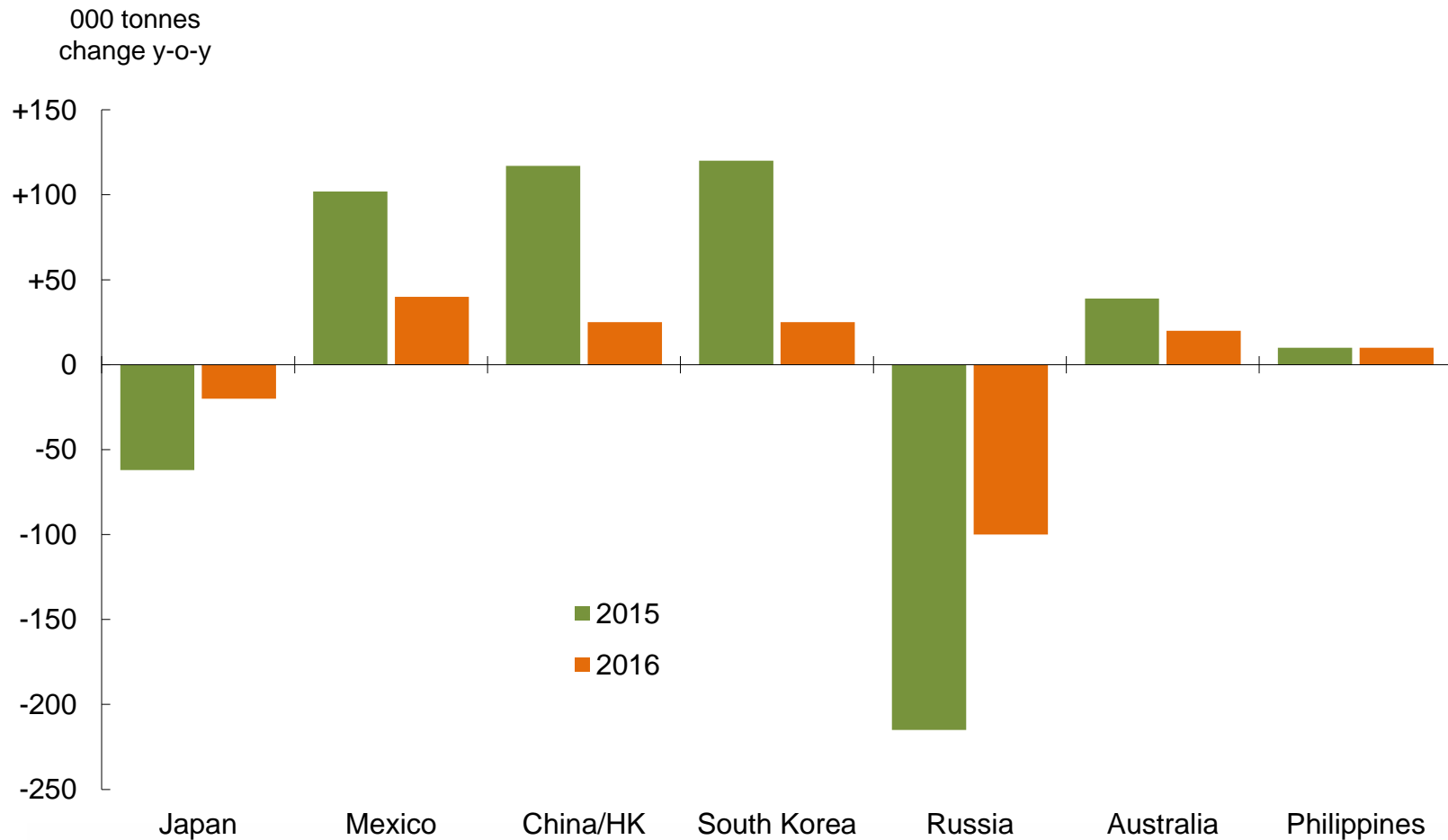


Chart: Forecast year-on-year change in pig meat imports

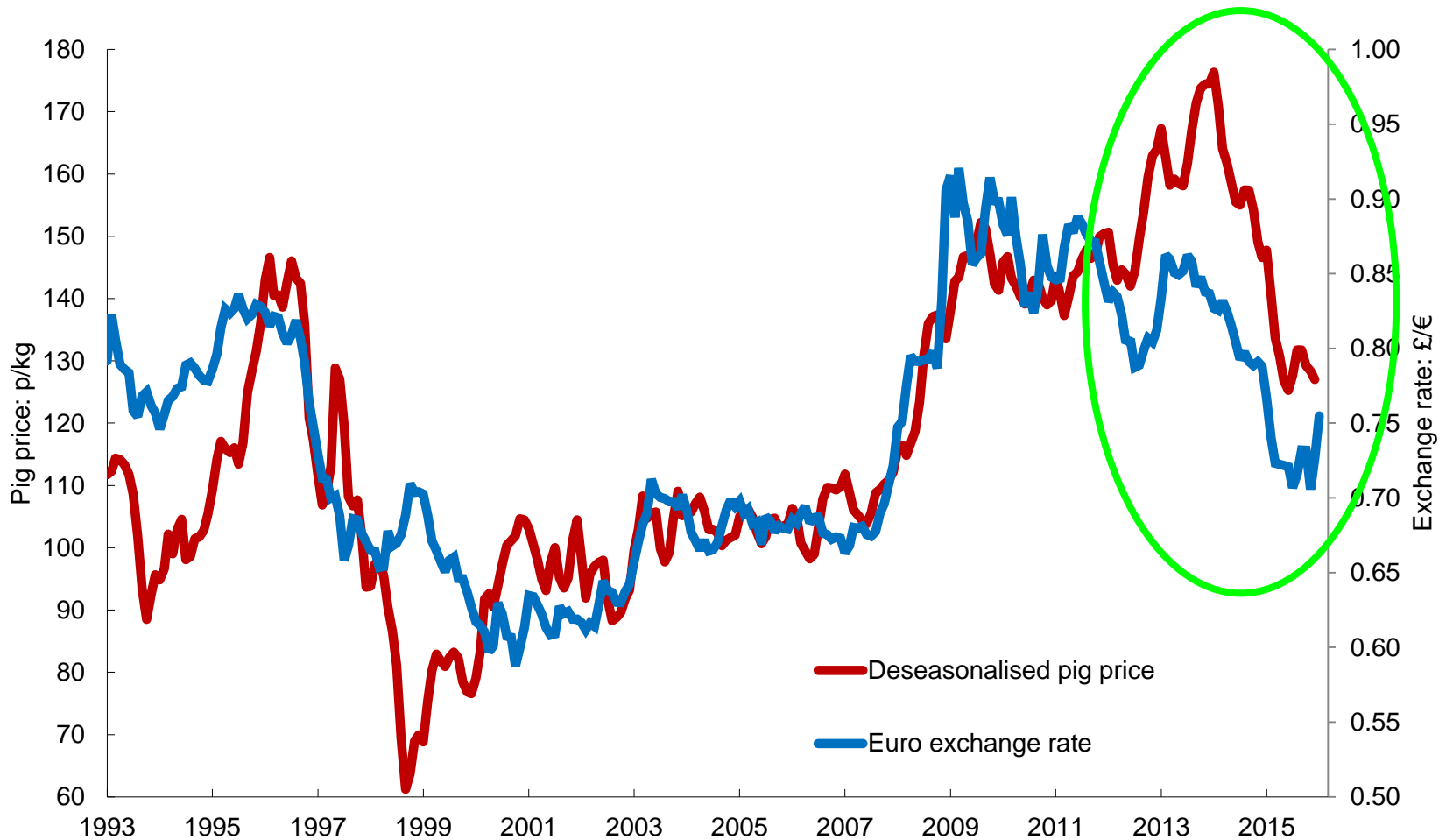
Source: USDA

EU and global outlook summary

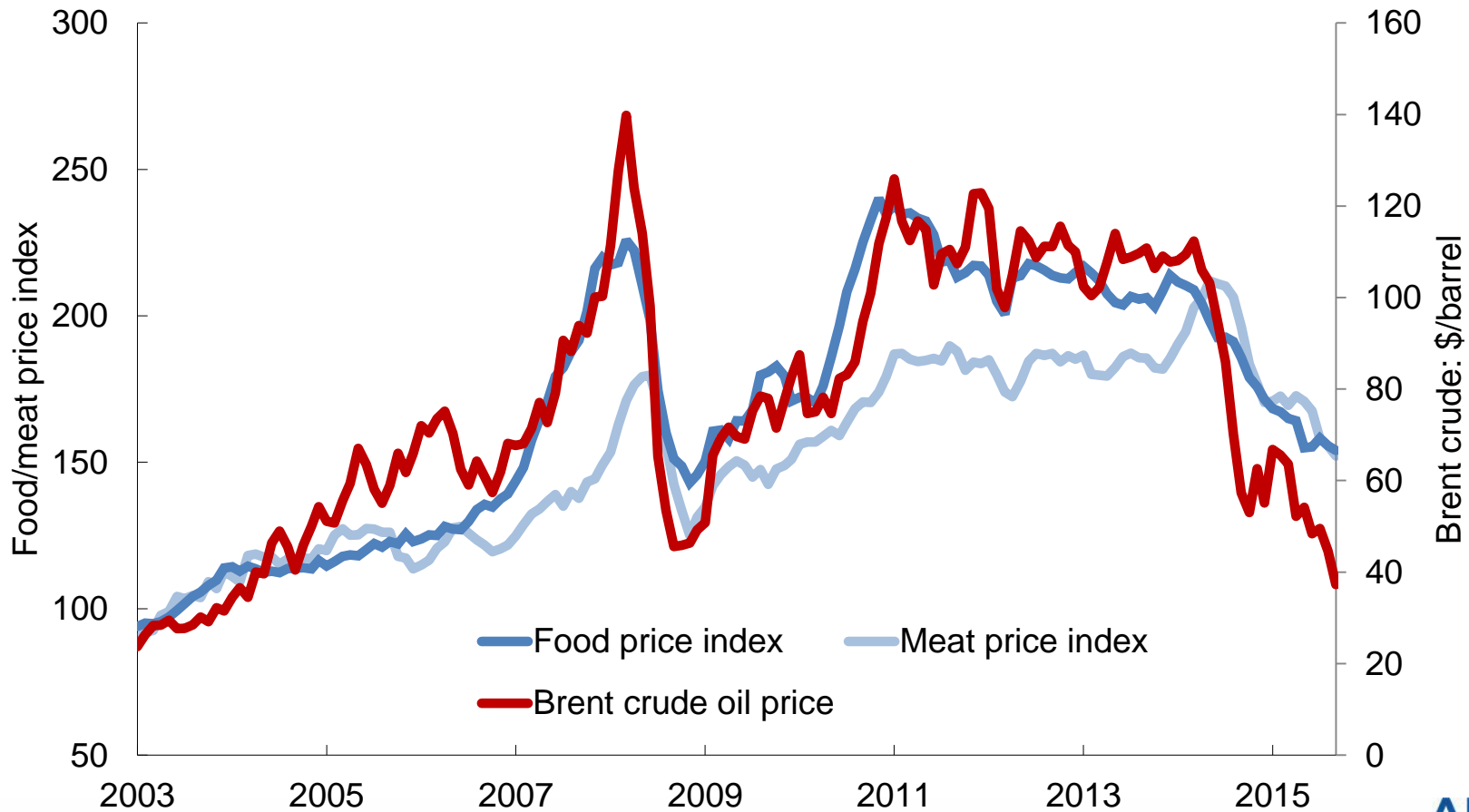
- Small fall in EU breeding herd by June not enough to significantly tighten supplies
- Early results suggest bigger fall by December, so good chance that EU pig supplies will tighten as we progress through 2016, so possibility that price recovery could happen in second half
- Supply growth also expected in other major exporting countries, although not as much as in 2015
- Demand from key importers not likely to be as strong as in 2015 and further fall in Russian import requirements could keep global prices under pressure

Wildcards

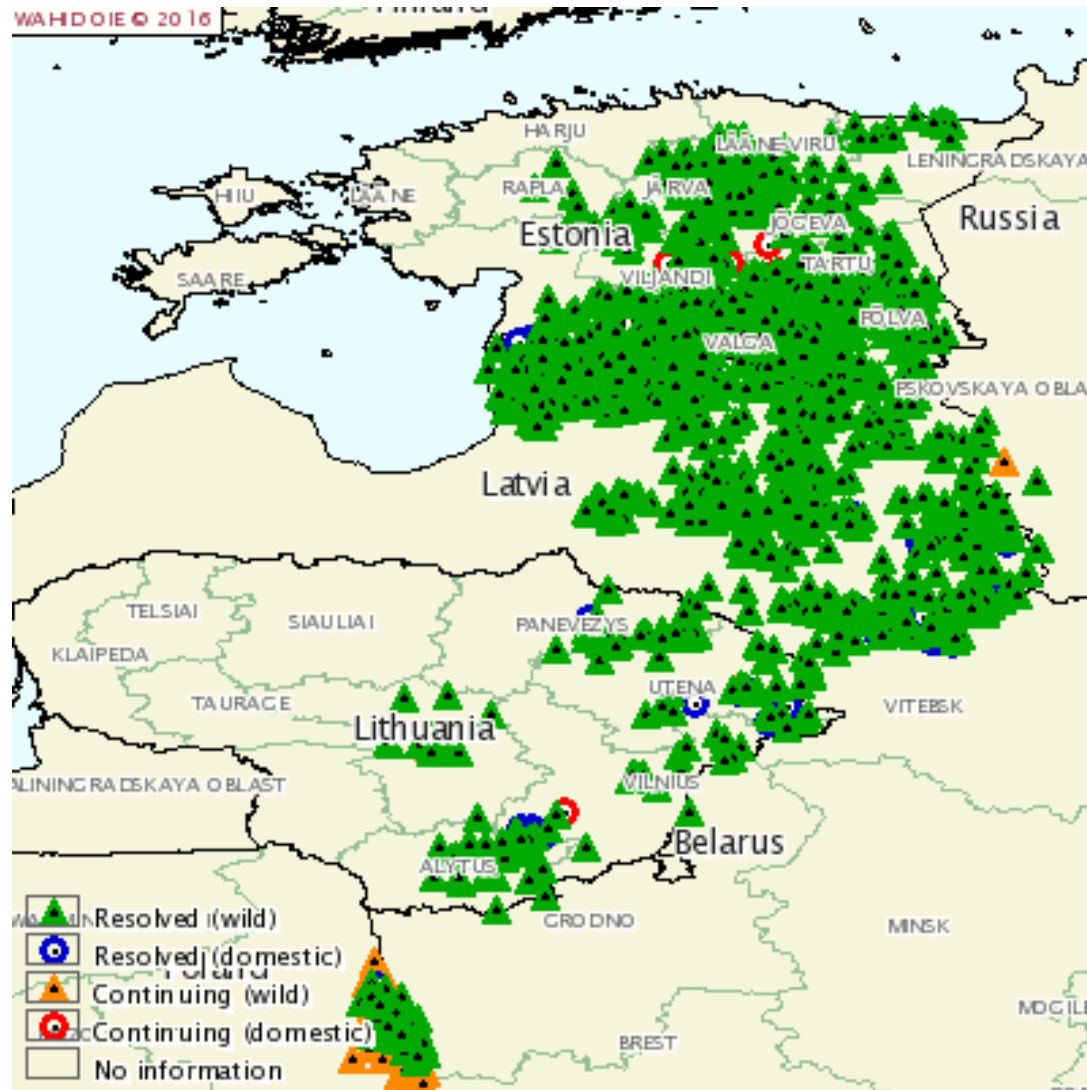
GB pig price usually closely related to exchange rate



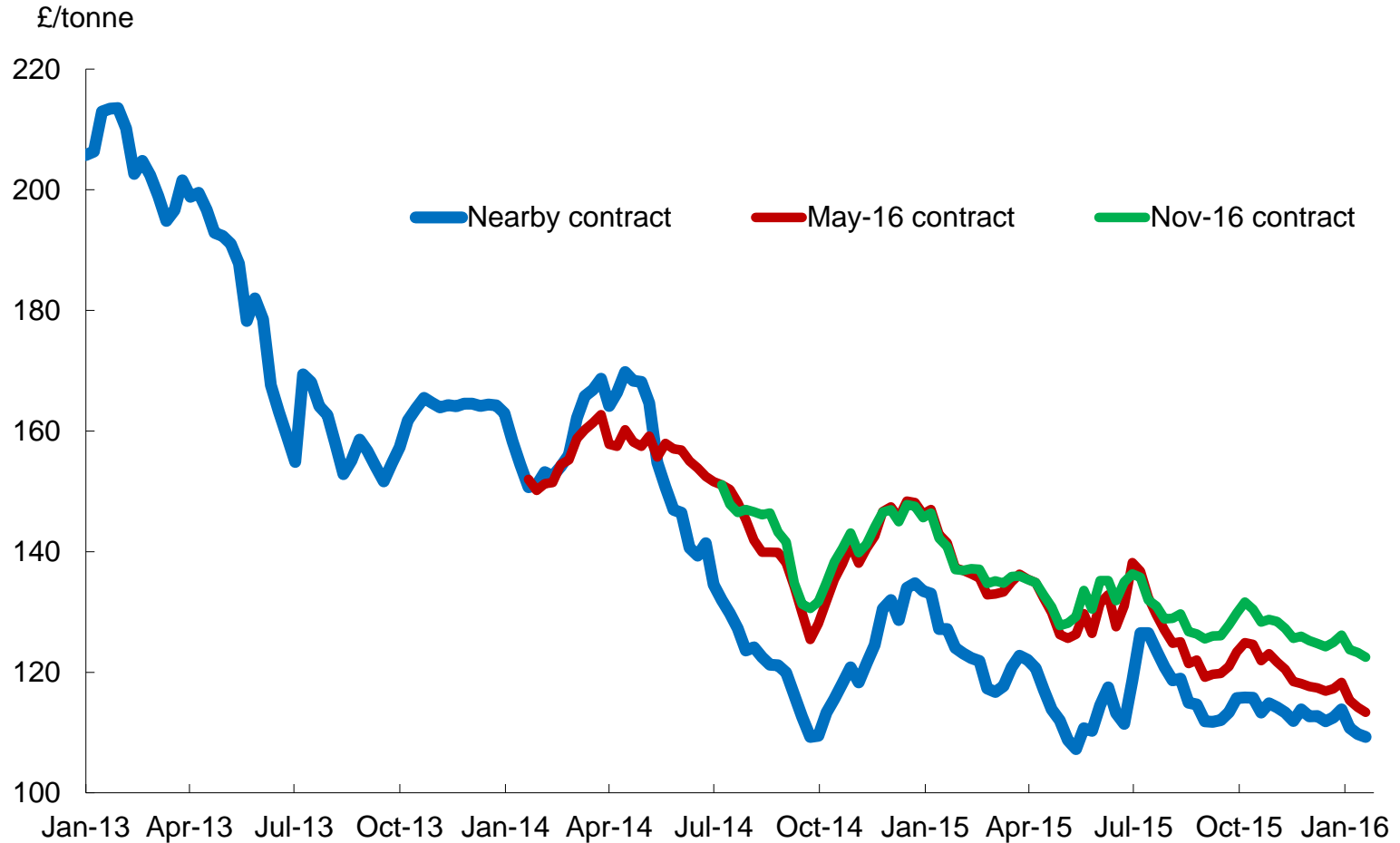
Risk from falling oil price, given link to food prices



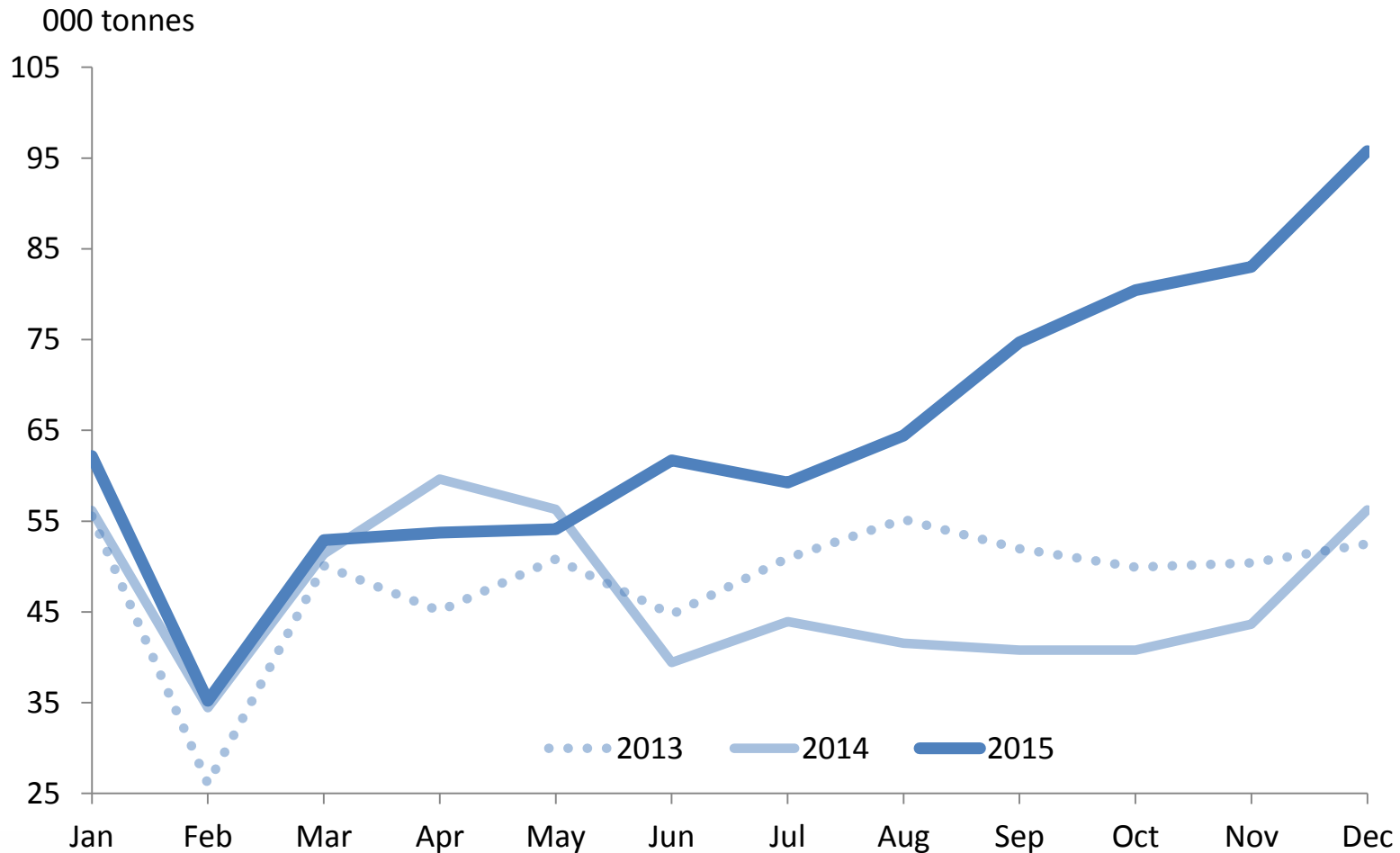
Threat of disease is ever present



Feed prices still low but risk they may rise again

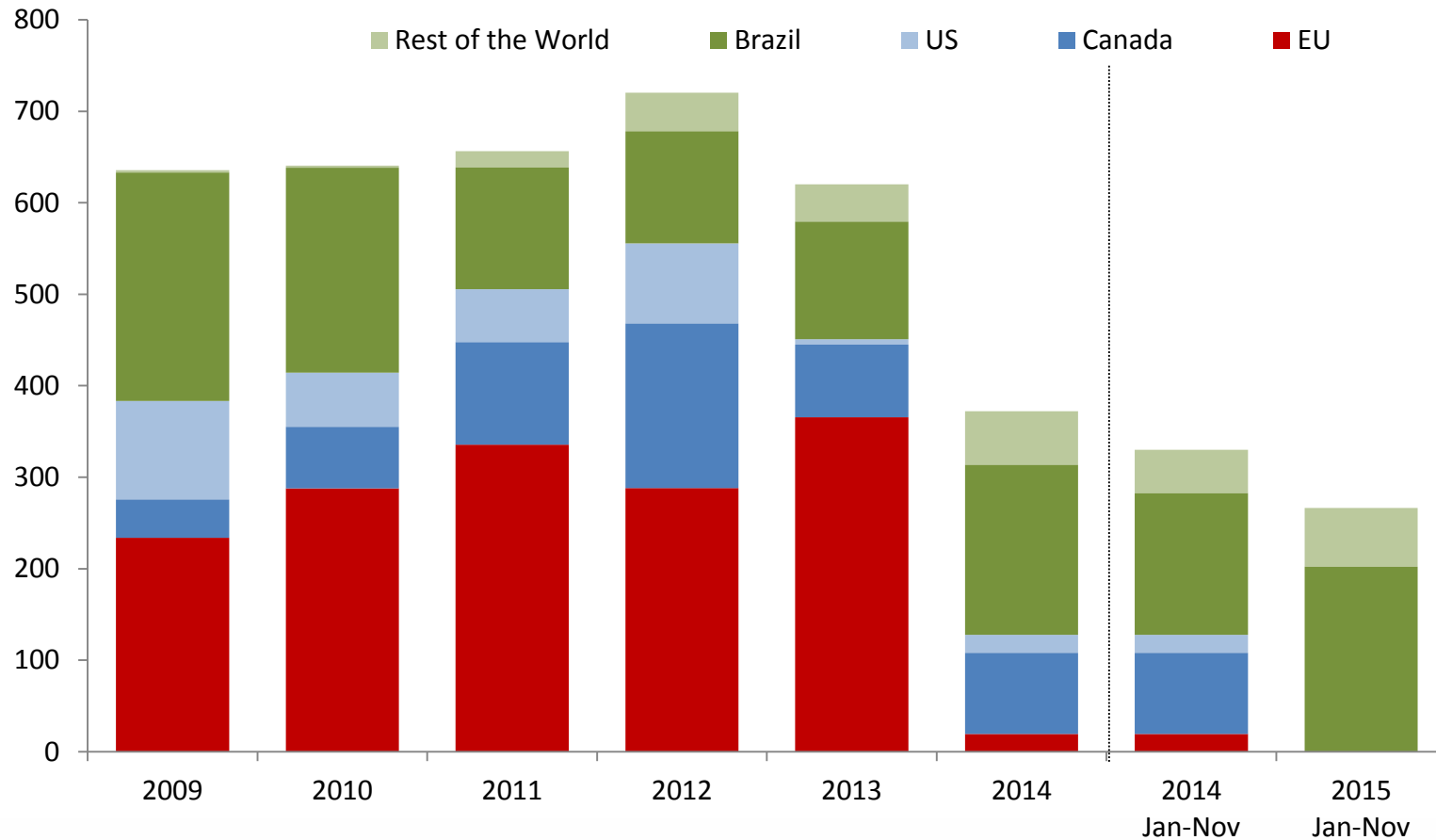


Chinese imports strong recently but how long will this last?



Will the Russian market reopen and, if so, how much pork will it need?

000 tonnes



Wildcards summary

- Macro-economic factors such as exchange rate and commodity prices could alter the pig market outlook. Any weakening of the pound could support UK prices but weak oil price may limit recovery
- There is always the threat of a major disease outbreak at home or abroad which could seriously disrupt supply levels and have a big impact on the market
- Feed prices remain low but there is always the risk that they might rise, which would be particularly serious given the low level of pig prices at present
- Chinese demand has supported global markets this year but uncertainty about how long that will last, especially with concerns about wider Chinese economy
- Uncertainty about the length of the Russian ban but even if the market does reopen, unlikely to require as much pork as before.

In summary...

- Rising supply and subdued demand mean prices low in UK, EU and globally in 2015
- Market conditions similar in 2016, so another difficult year in store
- Possibility of EU-led price recovery later in the year but pace and scale uncertain
- Economic, political and disease risks could all alter outlook

Thank you



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Pig Market Weekly



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- [Feed market update](#)
- [EU pig feed production forecast down for 2016](#)
- [EU production up in October](#)

Key Data (week ended 23 January 2016)

	Current	Change on week	Change on year
Prices			
GB SPP (EU spec) - p/kg dw	115.17	-2.52	-24.73
GB SPP (UK spec) - p/kg dw	113.10	-2.47	-24.27
GB APP (EU spec) - p/kg dw (w/e 16 January)	121.59	-1.60	-22.47

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