Pig Market Trends

February 2016, Issue 129

PORK

In this Issue

UK Outlook

Supplies of pig meat on the UK market are likely to increase further in 2016, according to latest forecasts from AHDB Pork. Domestic production is forecast to rise for the seventh consecutive year. Imports are also expected to increase further, partly offset by higher exports. Overall, this will mean another rise in supplies, which will keep the pig market under pressure unless demand increases accordingly. To read more about the outlook for the UK market, turn to **page 4.**

Retail pork sales

GB pig prices have been under pressure in recent years. In part, this is because of increasing supplies on the UK market, due to both higher domestic production and rising imports. However, as always, demand is also part of the equation. Since autumn 2014, the amount of pork sold in GB has been falling, despite lower prices. You can read more about this situation and some of the factors behind it on **page 5**.

Global economy

A slowdown in growth in China, weak commodity prices, low bond yields, weak global trade and a fall in the oil price have combined to create uncertainty in global financial markets and increase volatility, with implications for the pork market. Turn to **page 7** to read about these developments and why they may not all be bad news for the UK pig industry.

Emerging Asian markets

Asia is fast becoming the dominant region in the global pork trade. As well as well studied markets like China, Japan and South Korea, there are also emerging markets, such as Taiwan, Vietnam and the Philippines. So what opportunities do these emerging markets present in 2016 and beyond? Read our analysis on **page 8.**

Christmas

The Christmas period is a key time for proteins. However, this year the category was down 1% in value terms, as slightly lower prices combined with smaller basket sizes. Pork suffered a 13% decline in both volume and value over the period. Gammon was more popular, with purchases up 5% in volume terms. To read more about the Christmas grocery market, turn to **page 10**.

CONTENTS

Key data

	Jan-16	Change since Dec-15	Change since Jan-15
Average GB carcase weight - kg	82.94	+2.33	+0.92
30kg weaner price - £/head	37.60	-3.15	-8.18
7kg weaner price - £/head	30.38	-0.53	-3.77
GB APP (Euro-spec) - p/kg dw	121.59	-7.39	-22.47
GB SPP (Euro-spec) - p/kg dw	117.37	-7.38	-23.33
EU Reference price - €/100kg dw	127.45	+1.24	-2.68
UK Reference price - €/100kg dw	153.84	-15.66	-25.63
UK weekly clean pig kill - 000 head	195.8	-9.4	+4.7
UK weekly pig meat production - 000 tonnes	17.1	-0.1	+0.7
UK pork imports - 000 tonnes*	32.3	-3.8	-0.2
UK bacon imports - 000 tonnes*	22.0	-0.2	+0.5
UK pork exports - 000 tonnes*	15.2	-1.7	+0.2
Retail pig meat sales - 000 tonnes†	55.4	-3.1	-0.6
LIFFE feed wheat futures - £/tonne	109.77	-2.83	-18.26
CBOT Soyameal futures - $/tonne	269.59	-6.07	-74.27

** Figures relate to December 2015*

† Figures include household purchases of pork, bacon, sausages and ham and relate to 4 weeks to 31 January 2016

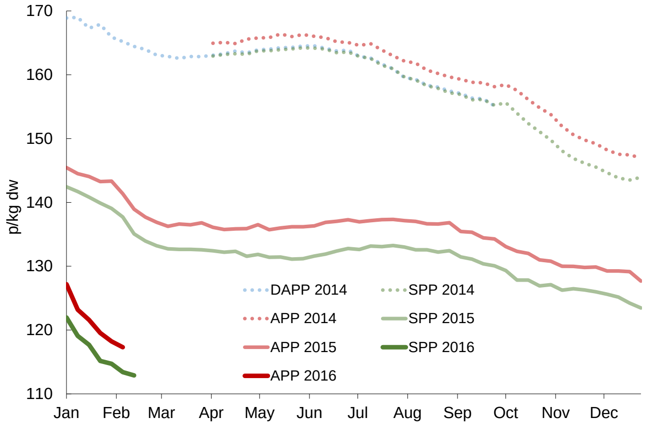
Interested in data? Get more detail about these and other areas from the AHDB Pork website

We are now on Twitter. For regular updates about the UK pig market and related publications, follow us @HowarthStephen

UK Market Snapshot

GB pig prices fell sharply during January, with the monthly EU-spec APP more than 7p lower than in December 2015, at 121.59p/kg. This was the biggest month-on-month fall since July 2003. Falling prices are not unusual at this time of year, as consumer demand is subdued following the holiday period. This year, a higher than normal surplus of pigs following the Christmas holidays contributed to the speed of the decline. At the same time, demand for pork and other pig meat products continues to struggle, despite the lower prices. The market remained under pressure into February, with the APP falling to 117.31p/kg for week ended 6 February. This was almost 12p lower than in the last full week before Christmas. The last time the pig price (DAPP) was this low was in April 2008.

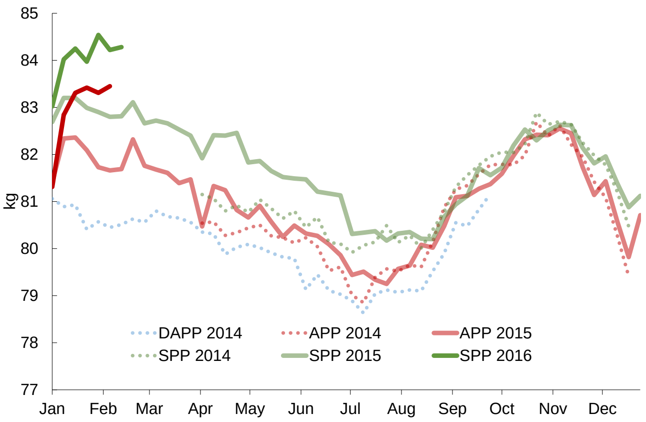
GB finished pig prices



Source: AHDB Market Intelligence

The SPP followed a similar trend during January, also losing over 7p month on month, to stand at 117.37p/kg (EU-spec). This meant that the gap between the APP and SPP was virtually unchanged at 4.22p, suggesting both premium and standard pigs were equally affected by the falling market. Nevertheless, there were signs that the price was starting to level off by early February, with the EU-spec SPP falling by only half a penny in week ended 13 February, to 112.89p/kg.

Average carcase weights for GB finished pigs



Source: AHDB Market Intelligence

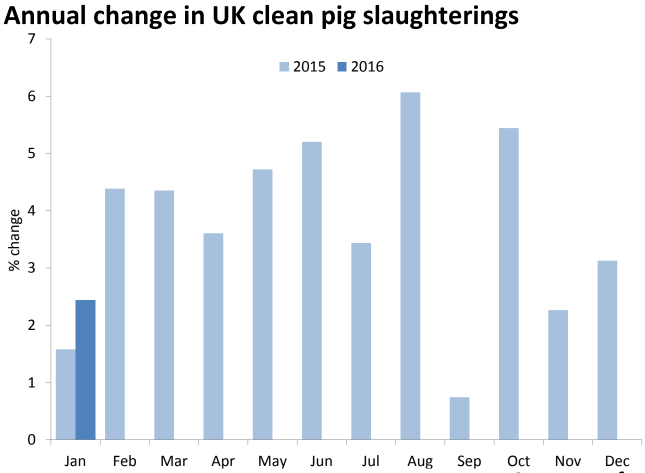
As well as adding to the supply of pigs on the market, the post-Christmas surplus also led to carcase weights reaching record levels. Average weights in the SPP sample were above 84kg in five of the six weeks since the New Year; the previous high was just over 83kg in early 2015. Similar trends were recorded in the APP sample, although at a slightly lower level. The heavier weights will have added further to supply levels and contributed to the downward pressure on prices.

GB weaner prices also followed the declining trend of the finished pig market in January. This was particularly apparent for 30kg store pigs, which lost over £3, to average £37.60 per head during the month. Despite low feed prices, this is the lowest price since mid-2008. The month-on-month fall was smaller for 7kg piglets, which fell by just over 50p to £30.38 per head but from the middle of the month, the average price fell below £30 for the first time since the series began in 2013.

Pig meat production in the UK continued to outpace beef production in January, according to the latest DEFRA figures. Output increased by 4% compared with the same period last year, to 85,700 tonnes. Higher production levels were due to a combination of factors. Clean pig slaughterings in January 2016 increased 2% on the same period last year, to 978,800 head, and the average carcase weight increased over 1% to 83.8kg. Therefore more, heavier pigs were coming forward to slaughter.

The UK production figure was slightly subdued due to a fall in clean pig slaughterings in Scotland (-32% to 18,000 head) and Northern Ireland (-2% to 158,000 head) on the same period last year. The fall in Scotland was due to the installation of new pig slaughtering facilities at the leading Scottish abattoir. This may help to increase Scottish slaughter volumes in future months and reduce the number of Scottish pigs being sent into England for slaughter.

Annual change in UK clean pig slaughterings



Source: Defra

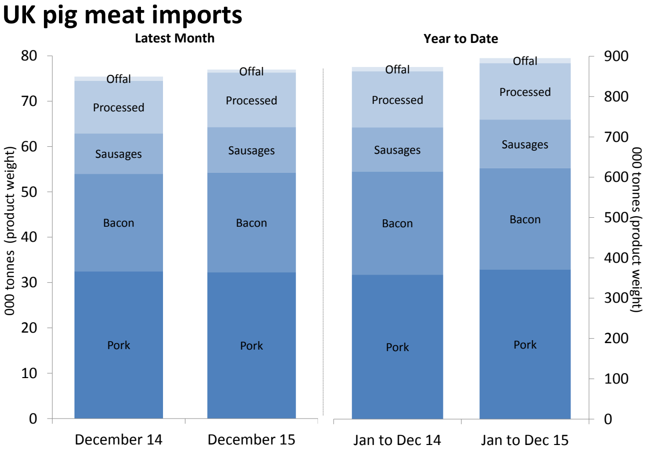
During January, average carcase weights were the heaviest on record and there were some reports that these were affecting processing machinery and breaking equipment. The average weight increased 4%, compared with the previous month, and 1% on the same month last year. Sow cullings were also up on the same period last year, by 14% to 25,200 head. This may be an early indication that the downwards

UK Market Snapshot

price pressure in the pig market is starting to force some producers to begin rationalising their breeding herds, although the figure for January 2015 was lower than normal.

Imports of fresh and frozen pork to the UK slightly decreased in volume in December, by 1% on the previous year. However, over the same time period, value fell by 18% to £47.9 million, illustrating how the value of EU pork has decreased over the last 12 months, putting pressure on UK prices. The latest figures suggest that UK buyers are sourcing slightly more of their pork from the domestic market than 12 months ago, as the price of UK pork continues to decrease and become more competitive against the European product. Through 2015, the reverse has been true at times, with UK buyers looking to source cheaper EU product, so this may be an early indication of a shift in this behaviour. During the month, increases seen in import volumes from the Netherlands and Spain were largely negated by a significant fall in German imports.

UK pig meat imports



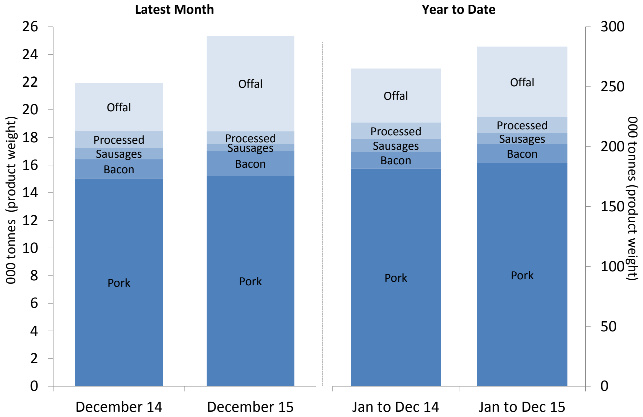
Source: Her Majesty's Revenue & Customs

Sausages once again saw an increase in volumes (+13%), bolstered by higher volumes from Germany, the Netherlands and Spain. Bacon and processed meats saw more modest increases of 2% and 4% respectively, with higher bacon shipments from the Netherlands counteracting reduced volumes from Denmark. German shipments of processed meat supported the increased volumes seen in this category.

Overall UK pork exports saw a very modest increase of 1% in December versus the same period last year (to 15,200 tonnes). For the year in total, there was also a slight growth in export volume, of 2%, despite the exchange rate disadvantage UK exporters faced during the year. Ireland and China both saw shipments increase in 2015, by 11% and 10% respectively, whilst the Dutch and Hong Kong markets saw UK pork purchases fall by 8% and 24% in that order.

Although smaller in scale, offal exports showed strong growth once again, compared with December 2014, with almost 43% of all offal exports being shipped to the growing Chinese market.

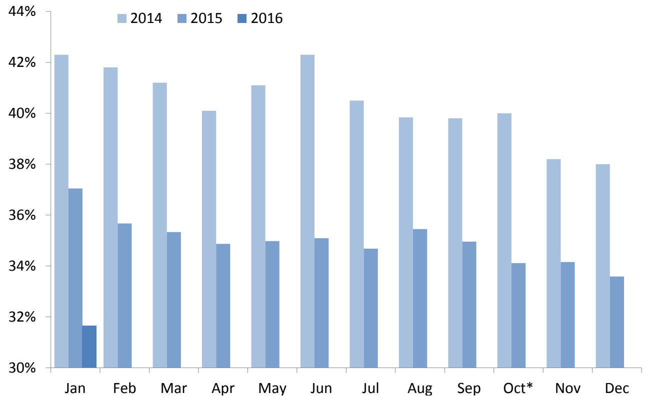
UK pig meat exports



Source: Her Majesty's Revenue & Customs

Despite the fall in farmgate prices, the average retail pork price in January stayed the same as in December. This meant that the percentage share of the retail price received by the producer in January declined further, to the lowest level in well over a decade, at just under 32%. Compared with January 2015, farmgate prices have fallen by 16%. Over the same time period, the average retail price has only fallen by 1%. This resulted in the percentage share received by producers falling by 5 percentage points from January 2015 to January 2016.

Percentage of pork retail price received by producers



** figures before Oct-14 are based on DAPP* *Source: Defra*

The average Farm Business Income (FBI) for specialist pig farms is set to fall in 2015/16 by 46% year on year, from £49,400 to £26,500, according to the latest forecasts from Defra. This is the largest year on year decrease on record and would represent the lowest FBI for pig farms since 2007/08. At that time, animal feed prices were increasing while pig prices were falling, which forced many English pig farmers out of business. With pig prices falling particularly sharply in recent weeks, the final FBI estimate may end up being lower still. However unlike in 2007/08, input costs, particularly feed, are expected to decrease through the year, which brings some comfort in what can only be described as hard times for pig producers.

UK Market Analysis

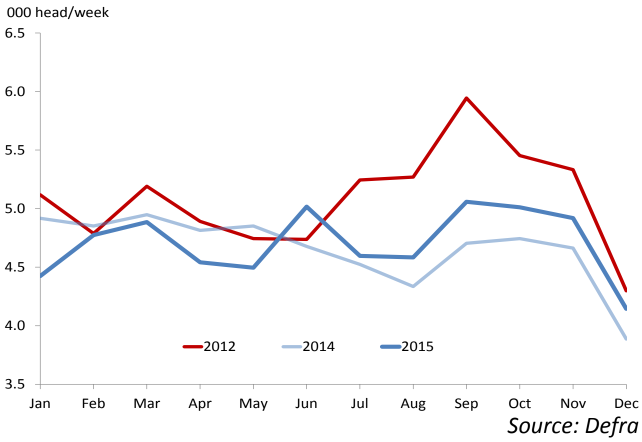
Outlook remains challenging for producers

Supplies of pig meat on the UK market are likely to increase further in 2016, according to latest forecasts from AHDB Pork. Domestic production is forecast to rise for the seventh consecutive year, albeit at a slower rate than in the previous two years. Imports of pork are also expected to increase further, partly offset by higher exports - particularly if the recent weakening of the pound is sustained. Overall, this will mean another rise in supplies, which will keep the pig market under pressure unless demand increases accordingly.

In terms of price, 2015 was a year to forget for pig producers. A combination of factors contributed to a steadily declining pig price. These included increased production, the pound-euro exchange rate, the gap between UK and EU prices and subdued consumer demand. The main saving grace was that feed prices were low too, so producer losses were limited.

Defra's June Agricultural Survey showed the UK breeding herd was stable over the previous 12 months. Other evidence supports this and suggests that it remained the case for the rest of last year. For example, sow cullings during 2015 were little changed from 2014 levels. They were lower than normal in late 2014 and early 2015, in response to low cull sow prices. They have since increased but remained within the normal range until the end of year, so are not indicative of a shrinking herd. Certainly, they have been well below the inflated levels of 2012, when high feed prices hit profitability and the breeding herd did decline.

UK adult sow/boar slaughterings



Source: Defra

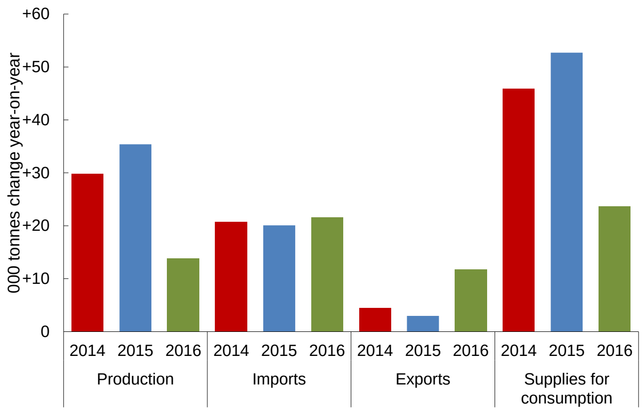
Although the breeding herd appears to have been stable so far, pig prices have fallen sharply in the New Year. Therefore, we expect the sow herd to reduce in the first half of 2016. Nevertheless, sow productivity remains the main driver of pig slaughterings in the short-term. A higher than expected kill in early 2015 means a slowdown in year-on-year growth is forecast in early 2016. Thereafter, the reducing breeding herd would mean slower growth continues into the second half of the year. Overall, the clean pig kill is now only forecast to rise by 1% for the year as a whole, to 10.7 million head.

With a drop in the breeding herd anticipated, it is likely that sow slaughterings will rise, a trend which is already apparent in the early weeks of the year. Along with a further rise in carcase weights, this will mean that UK pig meat production is expected to rise a little more quickly than clean pig slaughterings. It is forecast to be up by just under 2% for the year as a whole, to 918,000 tonnes. This would be the seventh consecutive year with increasing output.

Supply levels are also influenced by imports and exports. UK pig prices remained well above EU ones in 2015, meaning imported pork was cheaper than domestic product. Despite this, imports only increased slightly. The pace did increase somewhat in the second half, though, so imports are forecast to rise again in 2016. With some signs that EU prices could recover as the year progresses, potentially narrowing the gap to UK prices, import growth may slow later in the year.

The strength of the pound against the euro limited UK exports last year but, even so, some growth was achieved. Since the turn of the year, the pound has weakened, which may help to stimulate exports, if sustained. Nevertheless, the UK price premium means only modest growth is forecast for now, although more substantial growth is certainly possible if conditions are favourable.

Actual and forecast trends in UK pig meat supplies



Sources: Defra, HMRC, AHDB Market Intelligence

Overall, supplies available for consumption on the UK market are forecast to be higher again in 2016, albeit with slower growth than in 2015. This will keep pig prices under pressure, with the direction they take depending, as always, on how demand responds. Retail pork sales have been falling all year, suggesting the increased supplies are being absorbed by lower-value markets. Unless that changes, any substantial recovery in prices seems a distant prospect.

The latest forecasts suggest that market conditions in 2016 won't be dramatically different from 2015. This will probably mean another difficult year ahead for producers, especially if feed prices were to rise. However, there are some glimmers of hope, with the pound weakening and the potential that EU supplies may tighten as the year progresses.

UK Market Analysis

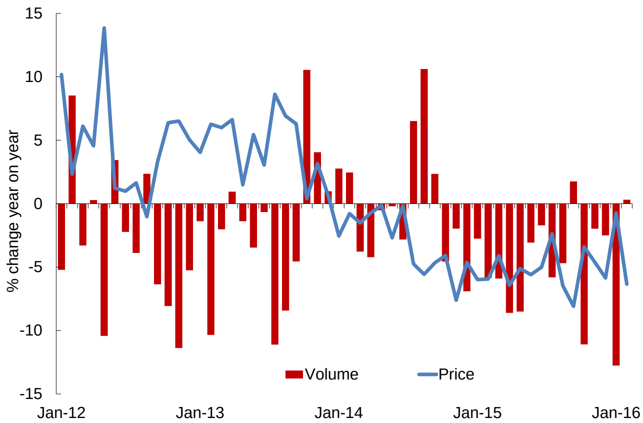
Fresh pork struggling to attract retail demand

GB pig prices have been under pressure in recent years. In part, this is because of increasing supplies on the UK market, due to both higher domestic production and rising imports. However, as always, demand is also part of the equation.

Normally, as prices for a product decrease, we expect it to become more attractive to consumers, leading to higher purchases. Conversely, as prices rise, less is bought. Usually, that is the pattern which is observed for meat products, although price changes for competing proteins and external factors like the weather can also have an effect.

Until the middle of 2014, this general pattern seemed to hold true for pork as well as for other meat products, based on analysis of data from Kantar Worldpanel. For example, through much of 2012 and 2013, retail prices were rising (as were pig prices) and, as a result, less pork was purchased. In late 2013 and early 2014, prices start to fall slowly and, for the most part, retail sales were stable or rising.

Year-on-year change in amount and price of fresh/ frozen pork purchased at retail in GB



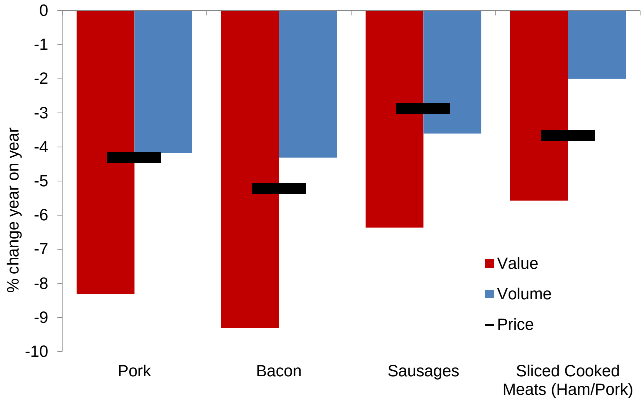
Source: Kantar Worldpanel

However, from the autumn of 2014, the normal pattern appears to have changed. Since then, prices paid for pork in retailers have been consistently lower, typically by around 5% compared with a year earlier. Despite this, with a couple of exceptions, purchases of fresh/frozen pork have also been lower than a year before. The only periods which saw year-on-year growth in the amount of pork purchased were when the price falls were largest, suggesting that price was still having some influence on purchase decisions.

Further analysis of the data shows that, in effect, the price which consumers are willing to pay for pork has decreased. Since autumn 2014, it seems that the average price needs to be around 50p/kg (about 10%) cheaper to generate the same volume of sales as before. With year-on-year falls around half that level, sales have declined. If anything, demand seems to be continuing to reduce. The most recent periods still show annual falls in both prices and sales, despite being compared with periods after the downturn in autumn 2014.

Until recently, this problem seemed to be confined to pork. Prices were also falling in other pig meat categories but purchases were stable or rising. However, in recent months that pattern seems to have changed. In the 12 weeks to the end of January, the price paid for bacon was, on average, 5% cheaper than a year earlier but 4% less was purchased. Similar trends were apparent for sausages and ham.

Change in retail purchases and prices of main pig meat categories (12 weeks ended 31 January 2016)



Source: Kantar Worldpanel

The decline in demand for fresh/frozen pork is not limited to GB. Figures from Ireland show a very similar pattern, with prices in the 12 months to 8 November averaging 9% lower than a year earlier but 5% less pork being sold. France, Germany and Italy also saw lower pork sales despite falling prices. Of the major EU consumer markets, only Spain bucked the trend, with both sales and prices higher.

So why is retail demand for pork struggling so much? In truth, we don't yet fully understand and further work is underway within AHDB to get to the bottom of the situation. There are factors which are acting against the category but none really explains why things changed during 2014.

One driver may be the rise of the convenience market. Pork is currently under-represented in this sector, which is growing and taking consumers from primary red meat. Foodservice is also performing well as people feel better off, also reducing retail sales but potentially good news for pig meat as it is well represented in some parts of the sector.

In addition to these trends, pork has an image problem among consumers, particularly in younger age groups. Many perceive it as bland, dry, unhealthy and lacking versatility. In these respects it suffers in comparison with chicken but isn't seen as a treat in the same way as beef and lamb can be. There may even be risk that falling prices make it seem a lower value product in the eyes of consumers.

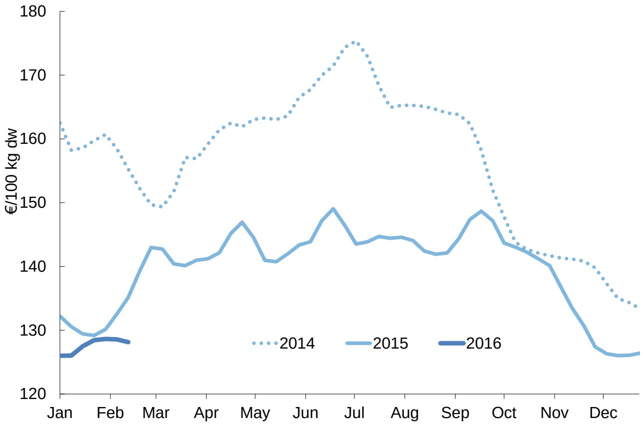
With GB supplies set to rise further in 2016, addressing the decline in retail sales will be crucial to any recovery in the pig market. In part, this will mean rejuvenating the image of pork, one of the aims of the ongoing Pulled Pork campaign.

EU Market Snapshot

Pig prices in the EU have been largely stable over the last few weeks, after firming slightly at the start of the year. The latest average price, for week ended 14 February, was €128.14 per 100kg, down slightly from the previous three weeks but over €2 higher than the first full week of the New Year. Even so, as that price was the lowest since April 2005, EU producers remain under considerable financial pressure.

The slight improvement in January must be partly due to the PSA scheme, which was open for three weeks during the month, but prices have remained steady even since it closed. This suggests that supplies may be beginning to tighten, although that may be just the usual seasonal trend at this stage. Further signs of tightening supplies come from weaner prices, which have increased by 14% since the New Year, although rising prices are normal at this time of year.

EU average pig reference price



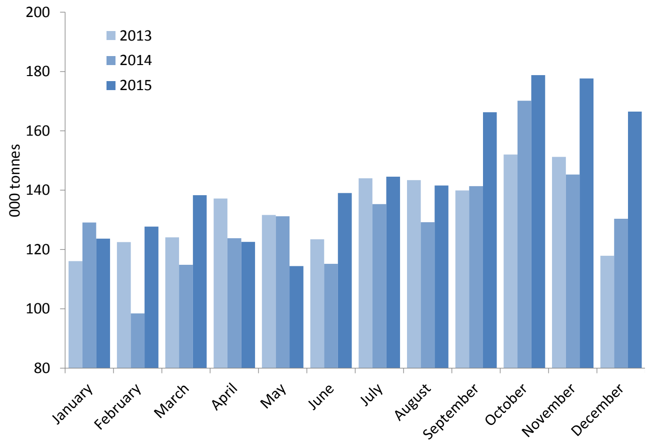
Source: EU Commission

In sterling terms, the rise in EU pig prices has been exaggerated by the weakening of the pound against the euro. The latest price is equivalent to 98p/kg, its highest level since October and over 5p up since the start of January. This means the gap between EU and UK prices has narrowed to below 15p, the lowest it has been since October 2013. This could reduce the pressure on the domestic market from imported pork, potentially helping to stabilise the GB price, particularly if the pound continues to weaken.

The general stability of the EU market was replicated across the major producing countries, with only modest movements recorded. The Dutch and Belgian prices did fall slightly in the latest week but this was offset by small rises in countries such as France and Poland.

EU pork exports ended 2015 strongly, with shipments in the final quarter up 18%, compared with a year earlier. Growth was even better in December, with 166,500 tonnes of pork exported, 28% more than in December 2014. China remained the driving force, with volumes more than doubling and this market alone accounting for over a third of the total. Shipments to Japan also bounced back from a disappointing year and were up by over 40% year on year in the final quarter. This strong performance was partly offset by lower sales to two other leading Asian markets, South Korea and Hong Kong. Elsewhere, there was notable growth in exports to the United States, up nearly 40% in the fourth quarter.

EU monthly pork exports

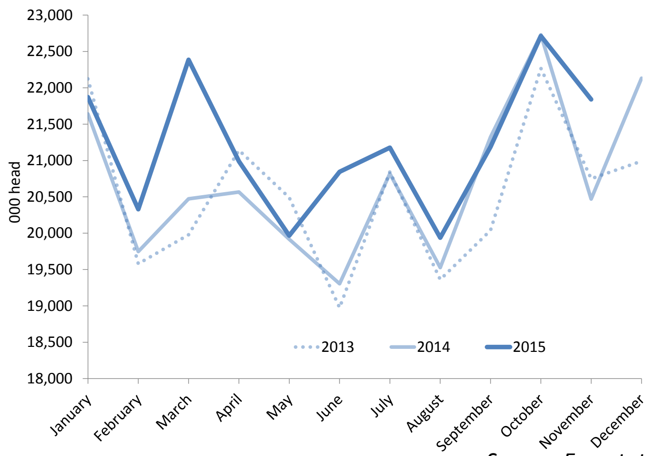


Source: Eurostat, GTIS

Pig offal exports also did well in the final three months of 2015, when they were up 7% on the year. Again China took increased volumes, as did the Philippines and Vietnam, with the latter emerging as a significant market for the first time. This was partly offset by lower sales to Hong Kong.

EU pig meat production remained high in November, with output 8% up on a year before, at 1.98 million tonnes. Although this is partly due to an extra working day during the month this year, the scale of the increase implies that supplies remained plentiful, which helps to explain why prices were falling during the month. Although carcase weights were again heavier, the production growth was mainly due to a 7% rise in slaughterings, to 21.8 million head.

EU pig slaughtering trends



Source: Eurostat

November production was higher than a year earlier in all the major producing countries except Denmark (where changes to reporting periods have distorted trends all year). There was particularly strong growth in Spain (+15%) and the Netherlands (+12%), while Germany killed 8% more pigs than in November 2014.

Global Market Analysis

Uncertainty in global markets could present opportunities

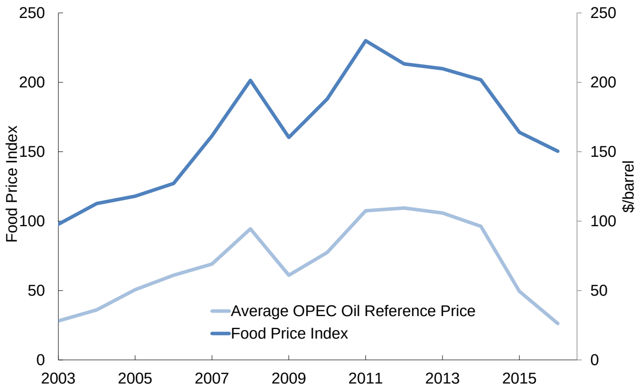
A slowdown in growth in China, weak commodity prices, low bond yields, weak global trade and a fall in the oil price have combined to create uncertainty in global financial markets and increase volatility, with implications for the pork market.

China's growth has slowed as it attempts to transition from a state-led investment and manufacturing economy to one more dependent on consumption and services. This was widely predicted and should have come as no surprise to the markets. However, it has been the pace of the slowdown that has made investors nervous. It is also widely accepted that China's official figures may overstate growth, making the slowdown even sharper than reported.

This drive to a more consumption-led economy may present more trade opportunities with China. There has already been a significant increase in the amount of pork and offal exported to China, exacerbated in 2015 by a significant reduction in the Chinese domestic herd. Many Chinese consumers are showing a preference for imported pork, amidst several domestic health scares. So a push towards a more consumer-led society with a predilection for imported products over domestic could be a continued source of opportunity for the UK pig industry.

China has enjoyed a prolonged period of growth, with huge government-funded infrastructure projects fuelling demand for oil, steel and other commodities. These have been hard hit by the slowdown, meaning a drop in commodity prices. Along with weak industrial output, this has resulted in a slowdown in global trade. Combined with an OPEC decision not to control the supply of oil but maintain its market share, driving higher cost producers out of the industry, oil prices have dropped dramatically, reaching lows of $27 a barrel.

Relationship between oil price and global food prices



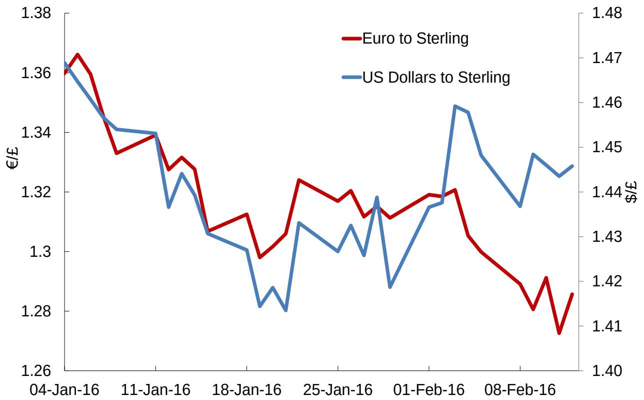
Source: UN FAO, OPEC

There has historically been a relationship between oil prices and global food prices. With the oil price falling over the past two years, the food price index has followed the same trend. Whilst this means that producers have received a lower price for their product, it has also translated into lower input costs. For pig producers, feed costs have reduced significantly over the last three years and there have also been lower costs for fuel, heating and lighting. So, whilst falling pig prices have not been welcomed, the blow has been slightly softened by decreases in the cost of production.

The lower price of oil for transport, heating and lighting should have given households an unexpected boost in their real incomes, with cash freed up to spend on other goods and services. With this benefitting the least well off the most, economic theory would suggest that this would boost consumption. However, for this to happen, all other things should remain equal. In reality, with interest rates at historic lows and share prices tumbling, consumers everywhere have been very cautious about any increases in spending.

Here in the UK, the prospect of Brexit has compounded uncertainty on the markets, affecting the exchange rate. Sterling has weakened against the euro since mid-January and also lost ground against the US dollar, as the Federal Reserve announced an interest rate rise and investors looked for "safe" options amidst market volatility.

Sterling exchange rates January-February 2016



Source: Xudlers

The weakening of the pound against the euro has come as some welcome news for UK pig producers. It has resulted in the narrowing of the gap between EU and UK prices, helping to make UK pork more competitive both domestically and abroad. The UK price premium has been historically high over the past two years but has been falling of late and now sits at a more normal 12p/kg.

In summary, although worrying at first sight, the current economic uncertainty could present opportunities for the UK pig industry. Although China's growth is slowing, it is moving towards a more consumer-led market with an appetite for imported products. Falling commodity prices have translated into decreased costs of production, helping to soften the blow of falling pig prices. The UK's impending EU referendum has compounded uncertainty on the markets, weakening the pound against the euro and the US dollar, thereby making UK pork more competitive both domestically and abroad.

Global Market Analysis

Emerging Asian markets provide opportunities

China is undoubtedly a key export market for both the UK and Europe and Asia is fast becoming the dominant region in the global pork trade. Japan and South Korea's markets have grown significantly in recent years and become major markets for EU exporters. There are also emerging markets, such as Taiwan, Vietnam and the Philippines. China, Japan and Korea are often looked at in detail but what opportunities do the emerging markets present in 2016 and beyond?

Taiwan has the highest level of meat consumption per capita in Asia, with pork at around 39kg per head. Much of this is served by domestic production, with self-sufficiency in 2013 around 93%. However, in 2013/14, Taiwan was hit with an outbreak of PEDv, which resulted in a loss of 150,000 piglets and a rise in the domestic pig price to a 10-year high. Since then, production in Taiwan has become more concentrated and will continue to do so as controls around pollution are tightened. Domestic production is vulnerable to inefficiencies, since feed conversion and sow productivity are significantly worse than for the world's major exporters. This presents an opportunity for UK and EU exporters.

Taiwan fresh/frozen pork imports

Total (tonnes, product weight)	2012	2013	2014
World	24,089	30,160	47,808
EU	4,719	2,380	24,170
Denmark	*2,371*	*239*	*11,215*
Netherlands	*1,186*	*1,201*	*7,211*
Hungary	*796*	*360*	*2,738*
Canada	13,223	19,321	16,822
United States	6,148	8,459	6,815

Source: Taiwan Directorate General of Customs

Pork imports to Taiwan doubled between 2012 and 2014. Data for January to October 2015 show shipments continuing to grow, reaching 71,000 tonnes, up from 38,000 tonnes a year earlier. This is largely driven by EU and Canadian exports (although none from the UK yet). The rise in avian influenza cases and lower import prices have helped to drive this growth. Currently, pork containing Ractopamine is banned in Taiwan but there is talk of relaxing this, providing opportunities for US exporters. However, there is a large pushback from domestic producers against this U-turn.

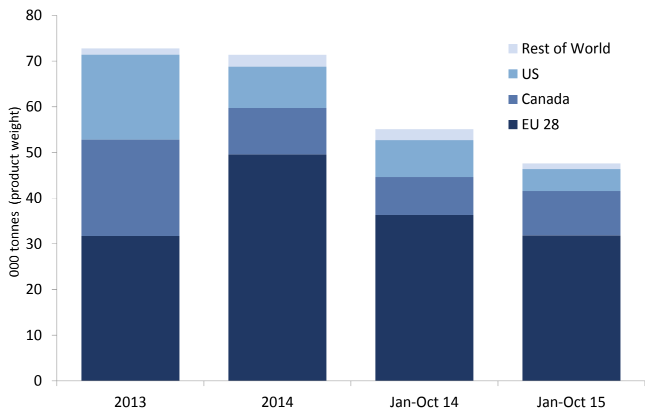
Vietnam also has high levels of pork consumption per capita. These are forecast to continue rising as the country's economy grows. At the same time, domestic production is increasing. Between January and June 2015, production was up 4%, compared with a year earlier, to 2.05 million tonnes. Pig prices were at a level that was profitable for producers. The USDA has forecast a 1% increase in pork production for 2016 but increases are likely to stay muted due to relatively fragmented production – small livestock farms still account for 65-70% of all pigs marketed. With demand forecast to rise, coupled with an increased appetite for imported product and domestic supply not keeping pace with demand, the opportunity for imported pork should continue to grow.

Only patchy Vietnamese trade data is available for recent years but commentators suggest that there have been rising imports since 2014, albeit from very low levels. Market access is likely to be easier once the Trans-Pacific Partnership and EU-Vietnam Free Trade Agreements are ratified. Long term projections from OECD-FAO forecast pork imports to increase as a share of consumption from 4% to 7% by 2025, a projection which could prove to be conservative.

Domestic production in the Philippines increased in 2015 by over 4% to 2.12 million tonnes and has been rising steadily for a number of years. This looks set to carry on after the government said it was focusing its attention on developing the livestock and poultry industries, as they were less affected by the negative effects of El Nino.

This growth has meant that there was a drop in imports last year. For January-October 2015, there was a 14% fall in the volume of pork imported to the Philippines to 47,600 tonnes, compared with the same period in 2014. There were reduced volumes imported from both the EU and US. This could mean lower export opportunities to the Philippines as increased domestic production moves to meet a largely stable demand. However, the nature of local production means there are likely to be times when there is a need for more imports.

Philippine pork imports



Source: Philippines National Statistics Office, GTIS

In summary, there could be export opportunities in these emerging Asian markets but they are not going to present the same scale as China, Japan and South Korea in the medium-term. Relatively high levels of pork consumption across the region have historically been largely satiated by the domestic supply. Growing GDP and population, along with changing consumer demographics will put further strain on relatively inefficient domestic production, creating a steadily growing need for imported pork to fill the gap.

Feed Market

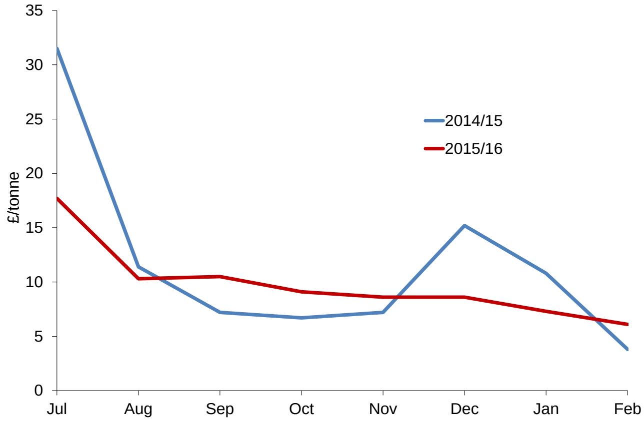
UK feed wheat futures for May-16 contract fell £6.85 (6%) over the month, closing at £106.65/t on Wednesday 17 February. May-16 Paris wheat futures also fell 6% over the same period, to close at €160.75/t. Chicago wheat futures prices (May-16) peaked on 26 January at $180.05/t, the highest price since 18 December. Prices did drop $5.70/t over the month, though, to close at $174.35/t on 17 February. However, May-16 Chicago maize futures prices remained very stable for the month, closing at $146.25/t, a decrease of only 20 cents.

Chicago wheat prices were down largely in response to the latest USDA world supply and demand report. It forecast global wheat closing stocks 7Mt higher than January's estimates due to a reduction in demand forecasts for China and India, adding pressure to an already weighty global stock situation. On the other hand, global maize stocks remained broadly unchanged from January's report, despite an upward revision to production. Higher animal feed usage in China, Mexico, India and Turkey outweighed the rise in output.

Latest Defra data show that animal feed production for the first half of the season (Jul-Dec) has increased marginally on last year, to 6.59Mt. Looking at the ingredients used, cereal inclusions to date have decreased by 2% year on year. One of the biggest falls was for maize, where inclusions fell by 8%. However, the use of pulses has increased again, with season to date usage now 150% more than this point last season.

UK grain exports have started to accelerate. In December, the UK exported over 250Kt of wheat, the highest monthly figure since last February. Wheat exports totalled just under 988Kt in July-December, 50Kt more than the previous year. Exports of barley were also higher and 80% (699Kt) of them were to EU countries, considerably more than the first half of last season. The UK imported less maize in December but season to date imports are still up on 2014/15.

Discount of UK average ex-farm feed barley prices to feed wheat

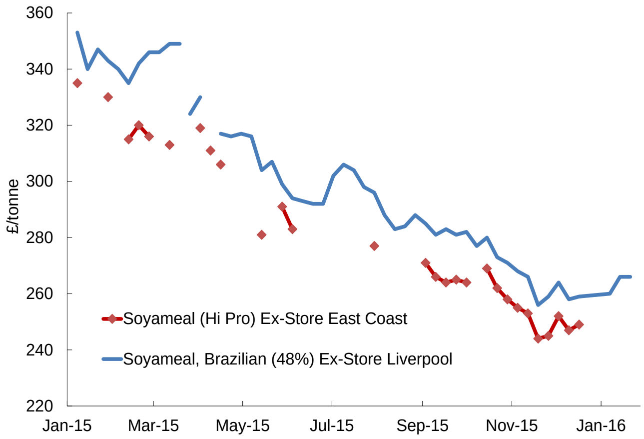


Source: AHDB Cereals & Oilseeds

The spread between ex farm UK feed wheat and barley prices has decreased by £11.60/t since the start of the season, to stand at £6.10/t in February. The gap between the two in February 2015 was £3.80/t.

May-16 Chicago soyabean futures rose $0.83 over the month to 17 February, to close at $325.28/t. May-16 Paris rapeseed futures fell by €3.50 (1%) on the month to €356.75/t. The latest (12 Feb) UK rapemeal price (34%, ex -mill, Erith) was £140/t. This is £12/t less than last month. The Brazilian soyameal price (48%, Ex-store Liverpool) on 12 Feb was £258/t. Soyameal (Hi pro, ex-store East Coast) was £244/t for February delivery. Prices have started to rise again through January and into February.

UK soyameal prices



Source: AHDB Cereals & Oilseeds

The USDA forecasts a higher soyabean production for Argentina, increasing the estimate by 1.5Mt from January's report to 58.5Mt, following beneficial rains. Higher domestic crush demand is expected as a result (+0.7Mt). Brazilian production was left unchanged at 100Mt. However, this is still 3.8Mt higher than production levels in 2014/15. US soyabean stocks were also increased by 0.3Mt due to a reduced crush demand. Export sales of soyameal from the US were down year on year and are unlikely to recover due to the increased competition, particularly from Argentina.

China's soyabean imports in January fell 18% from last year, according to the General Administration of Customs. They were at 5.66Mt in January, down from 9.12Mt in December. February imports are thought likely to decrease further, to 4Mt, as crushers in China shut down for the New Year.

Heavy rains in Brazil due to El Nino have caused a bottleneck in the number of ships waiting to load soyabeans and maize. The total volume waiting to be exported towards the end of February was estimated at 9.73Mt (approximately 163 ships). This time last year, 4.1Mt was waiting to be loaded.

The EU-28 rapeseed area estimate for harvest 2016 was reduced by 100Kha by Strategie Grains, to 6.35Mha, in light of official area data and winter kill in Germany and Poland. This puts the area now 120Kha below that harvested in 2015 and Strategie Grains project output could fall 3% year on year from the 22Mt harvested in 2015/16.

In Brief

Lidl the big winner at Christmas

With shoppers taking advantage of grocery price deflation, volume increases were evident across the 4-week Christmas period, supporting marginal growth in total market spend (+0.3%). Both Aldi and Lidl capitalised on this, stealing market share from the Big 4 Grocers. Premium ranges and in-store deals were key influencers in the Christmas campaigns.

Spend on Christmas retailer advertising campaigns by no means dictated festive performance, however, as some focused on promotional campaigns that proved a big hit with shoppers. Lidl demonstrated this through utilising coupons in the national press whereby shoppers that spent £50 or more saved £10, which helped it to pull in consumers and capture the large Christmas shop.

Premium ranges were a key part of Christmas 2015. Consumers traded up for the festive occasion, with up to 50% of shoppers buying into the premium ranges within Lidl. This trading up was also evident among the retailers, with Marks & Spencer doing well during the festive period.

The Christmas period is a key time for proteins. However, this year the category was down 1% in value terms, as slightly lower prices combined with smaller basket sizes. The one red meat that did do well was lamb, which was up 4% on the back of a very strong performance in leg sales in Lidl. In addition to lamb, chicken and fish were the other big winners, all up by at least £2 million in value sales.

Pork suffered a 13% decline in both volume and value over the period. Gammon was more popular, with purchases up 5% in volume terms. The drive towards roasting joints increased spend and volume of pork loin joints but legs and shoulders were down in spend, partly due to fewer retailer promotions.

There has been a general trend away from turkey at Christmas for the last few years and this year expenditure was down 4% year on year. Switching from turkey into chicken is the main driver, with a 29% volume increase in extra-large whole chickens, replacing the turkey as the meal centrepiece. With turkey out of favour, this presents an opportunity for other proteins to gain market share going forward.

Chinese imports continue to rise in 2015

Chinese pork imports rose 38% in 2015, totalling 778,000 tonnes. 2015 was an exceptional year for pork imports to China, exacerbated by the significant rationalisation of the Chinese herd in the first half of the year. Exports from the EU increased 57% compared to 2014 making up almost three-quarters of the total. EU pork was particularly attractive as the euro had weakened against the US dollar. Imports from non-EU countries stayed largely stable.

AHDB gathers UK industry to tackle market volatility

AHDB has embarked on an ambitious new initiative to tackle volatility in agricultural commodities markets. Experts from across the industry gathered at the launch of the AHDB Volatility Forum in late January. The event saw farmers, processors, retailers and trade associations come together to seek practical solutions for businesses affected by market uncertainty across agricultural supply chains. A long-term work programme will be determined by a Steering Group and AHDB is interested in hearing from anyone who would like to know more about the Volatility Forum and about the skills and knowledge they could offer the initiative. Contact Jack Watts (jack.watts@ahdb.org.uk).

Limited growth in US & Canadian exports

US pork exports increased by 2% in 2015 to just over 1.5 million tonnes. Mexico was the largest importer of US pork, with 35% of total shipments but exports to most Asian markets were lower. The unit price of exports decreased by 19%, as the strength of the dollar hit competitiveness. Canadian pork exports recorded a smaller increase of 1%. The US remained the main destination for Canadian pork, with 40% of total exports. Unlike the US, shipments to China and Japan both increased. This enabled the Canadian industry to offset the loss of the Russian market.

Brexit and competitiveness in focus at Outlook 2016

This month's AHDB Outlook Conference focused on some of the major international political developments which will affect the industry in the coming months. These include the referendum on the UK's membership of the EU and the livestock sector's global competitiveness in the light of developments in Free Trade Agreements (FTAs). Presentations from the conference, which also include the latest outlook for the pig market (see page 4), can now be downloaded from our website. The entire event was also filmed and videos will be available soon.

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