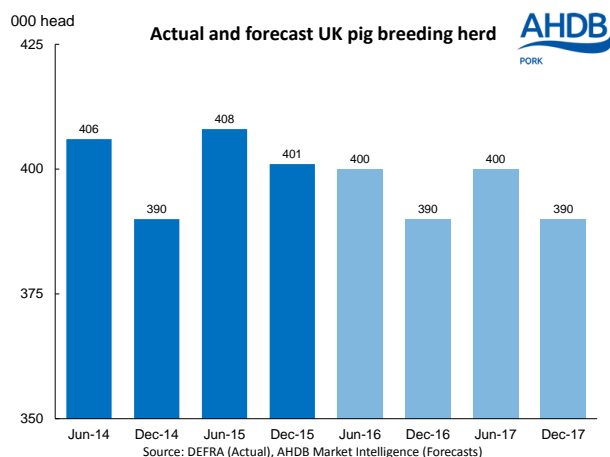


Improved trade balance set to reduce UK supplies

Domestic pig meat production growth is still expected to outstrip demand in the coming months. However, an improvement in the balance of trade, with lower imports and higher exports, could reduce the supply-demand imbalance. These are among the conclusions of the latest AHDB Pork forecasts for UK supplies, published today. This could result in the pig market being more stable than in recent years and there is even the possibility that prices could rise at times.

The UK's pig meat production has risen for six consecutive years and this is expected to increase to seven straight years in 2016. There was a, somewhat unexpected, rise in the breeding herd recorded in the December survey. The increase was mainly in the Scottish and Northern Irish herds, with only a small increase in England. Since then, pig prices have fallen sharply, which has led to some reports of producers deciding to quit the industry. Others may have made the decision to reduce sow numbers.

Despite this, sow slaughterings have only increased slightly so far. They are still well below the levels of late 2012, the last time the herd fell significantly. Therefore, only a modest drop in the UK herd is expected in the short term. If pig prices fall further or feed prices rise, a more substantial herd reduction is possible. If not, any decline may remain modest, given that those producers left in the industry have survived even tougher times.



With a rise in the breeding herd last year and only a modest fall expected for this year, the number of pigs being slaughtered is forecast to remain above year earlier levels throughout 2016. This may reverse in 2017, although by how much will depend on herd developments from now on. These trends are based on the assumption that the long-standing upward trend in sow productivity will continue.

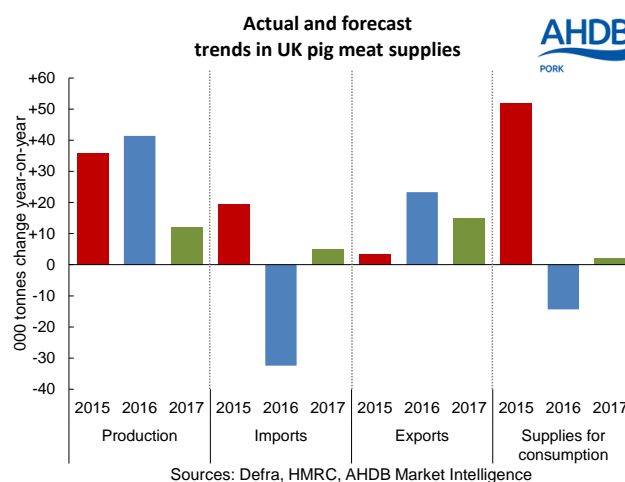
As well as higher slaughterings (of clean pigs and sows), heavier carcass weights have been contributing to increased pig meat production this year. This trend is expected to continue, with producers seeking to add weight to partially

compensate for the low prices. This equation may change if feed prices rise, making it less economic to chase weight.

With domestic production set to continue rising at a similar rate to recent years and consumer demand still subdued, the UK market could remain under pressure. However, supply levels are also affected by the balance of trade. Last year, the strong pound and weak EU market meant that UK pig prices remained well above those on the continent. This meant a small rise in imports, although it could have been much worse in the circumstances, and constrained exports.

This year, prospects for international trade look better. In large part, this is because of the weakening of the pound against both the euro and the US dollar. The gap between UK and EU prices has narrowed significantly and now stands at around 10p/kg, more in line with historic norms. This reduces the price incentive for buyers to source imported pork, potentially raising demand for domestic pigs. Furthermore, reductions in the EU pig herd mean that production is expected to fall in the second half of the year. This could reduce the availability of supplies for export to the UK. Overall, therefore, imports are expected to be lower than last year, in line with the trend seen in January and February.

Exports have started 2016 strongly. As well as the improved exchange rate, this is being driven by the strength of the Chinese market. Demand for EU pork in China is very strong and UK exporters are benefitting from this. Reports suggest that any recovery in Chinese production will be slow, so import demand will remain strong for the rest of this year and probably beyond. This should mean that exports perform much better in 2016 than in 2015.



These lower imports and higher exports are now forecast to offset the rise in production, leaving supplies on the domestic market little changed from last year. If anything, they may even be slightly lower. This could mean that, even if consumer demand remains subdued, the pig market will be firmer than in the last two years. There is even the prospect that prices may strengthen at times.