Pig Market Trends

June 2016, Issue 133

PORK

In this issue

EU referendum result

Following the results of the EU referendum showing a decision to leave the EU, AHDB CEO Jane King has released a statement that can be found here. In the statement she said, "The AHDB focus remains unaffected by the decision to leave the EU – to equip levy payers with the tools to become more competitive and sustainable". Further information and analysis on the implications of the leave decision with be published over the coming weeks by AHDB.

Feed prices and cost of production

The estimated cost of production, which is published by AHDB quarterly, showed that, on average, producers continued to lose money in Q1 2016. Feed prices make up a significant proportion of the cost of production and indications are that, while they have been falling over the last couple of years, they are starting to turn. Analysis of the potential effect of rising feed ingredient prices can be found on **page 4**.

Industry structure

The English pig industry has become increasingly concentrated over time, a trend that is expected to continue. Production is significantly more consolidated than for other livestock sectors, while the rest of the supply chain is also increasingly concentrated. Although it has a mixed effect on competitiveness, the industry's structure could make it more resilient to the challenges it faces. To read more, turn to **page 5.**

EU pig meat demand

Demand for pig meat in the EU has been under pressure in 2015 and early 2016. This has had an impact on pig prices, with only export demand providing a degree of optimism to the EU market. In recent weeks, however, the situation has improved. To read more about the EU pig meat demand situation, turn to **page 7**.

Poland

Poland has been steadily increasing its presence on the UK pig meat market, which seems set to continue. To read an in-depth analysis of some of the factors behind this, turn to **page 8.**

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Key data

	May-16	Change since Apr-16	Change since May-15
Average GB carcase weight - kg	81.43	-1.08	+0.88
30kg weaner price - £/head	38.56	+1.12	-5.71
7kg weaner price - £/head	29.18	+0.33	-3.91
GB APP (Euro-spec) - p/kg dw	119.46	+2.63	-16.56
GB SPP (Euro-spec) - p/kg dw	116.01	+2.82	-15.27
EU Reference price - €/100kg dw	136.85	+9.28	-5.18
UK Reference price - €/100kg dw	147.73	+6.06	-32.58
UK weekly clean pig kill - 000 head	196.2	-16.6	-0.6
UK weekly pig meat production - 000 tonnes	16.6	-1.7	+0.0
UK pork imports - 000 tonnes*	26.9	-3.1	-1.1
UK bacon imports - 000 tonnes*	18.0	-1.5	-2.0
UK pork exports - 000 tonnes*	17.2	-2.2	+2.6
Retail pig meat sales - 000 tonnes†	53.1	+1.1	-1.4
LIFFE feed wheat futures - £/tonne	106.44	+0.81	-2.92
CBOT Soyameal futures - $/tonne	369.68	+72.39	+60.81

** Figures relate to April 2016*

† Figures include household purchases of pork, bacon, sausages and ham and relate to 4 weeks to 22 May 2016

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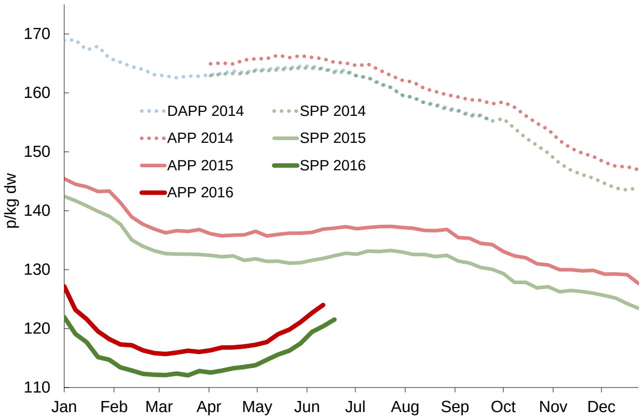
UK Market Snapshot

In May, GB pig prices continued to increase, albeit at a relatively modest pace. The monthly average EU-spec APP was 2.63p ahead of April, at 119.46p/kg. However, this was still over 16.5p behind the same month last year. After eleven consecutive weeks of price increases, it can be assumed that the market has now turned to a relatively positive trend. The first two weeks of June have continued this movement, with the APP now north of 120p/kg for the first time since the beginning of January. By week ending 11 June, the APP stood at 124.01p/kg, which was a price that had not been recorded since the end of 2015.

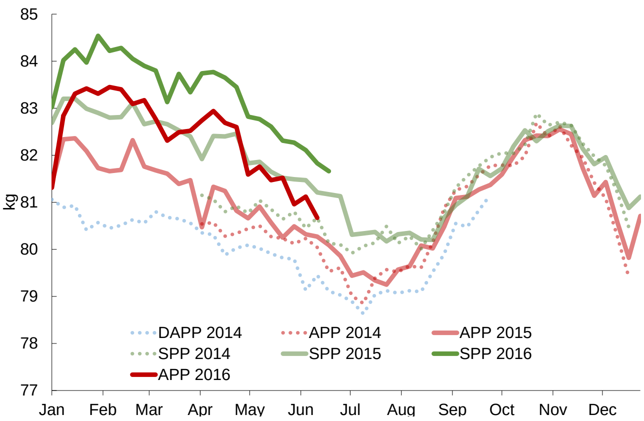
GB finished pig prices



Source: AHDB Market Intelligence

The SPP followed the same trend as the APP in May, with the price increasing by almost 3p during the month, to end at 116.01p/kg. The gap between the APP and SPP grew marginally as the month progressed, starting the month at just over 3p, and ending May at 3.6p/kg, showing the APP growing at a slightly stronger rate than the SPP. The latest SPP, for week ending 18 June, stood at 121.53p/kg.

Average carcase weights for GB finished pigs



Source: AHDB Market Intelligence

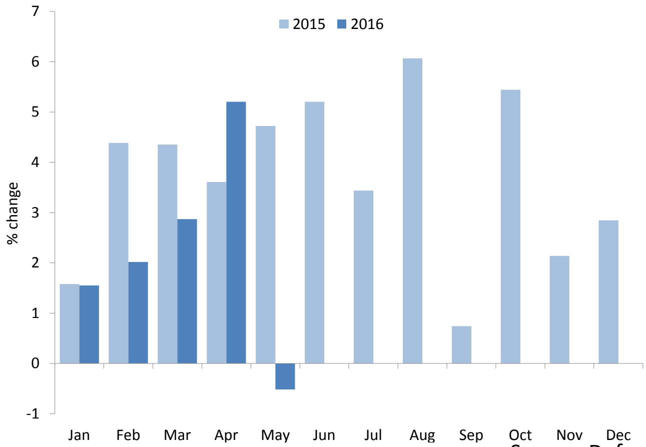
In May, the average carcase weight fell by over 1kg from the previous month, with the APP sample averaging 81.43kg. There was a decreasing trend in carcase weights throughout the month, suggesting that supplies are beginning to tighten and producers are sending their pigs forward for processing in a timely fashion. Weights are still 0.9kg heavier than this time a year earlier, although the difference is beginning to narrow.

The GB weaner market showed a modestly increasing trend during May, with a few fluctuations. 30kg prices responded more positively, with a price increase of £1.12 during the month, to average £38.56 per head. 7kg weaners recorded a more modest price increase of £0.33, to average £29.18 for May.

According to the latest DEFRA figures, pig slaughterings for May were up on the same period a year earlier, to 863 thousand head. However, if you allow for a change in reporting periods, the latest figure actually represents a 0.5% fall in slaughtering levels on May 2015. If sustained, this decline in slaughterings may start to provide a tightening of supplies, which will further support the UK pig price, which has been slowly recovering since April.

In addition to fewer pigs coming forward to slaughter, the average carcase weight from the SPP sample fell in May, to 81.3kg. This is the first time this year that the average carcase weight has fallen below 82kg, and is now at a similar level to May 2015, only 0.1kg heavier.

Annual change in UK clean pig slaughterings



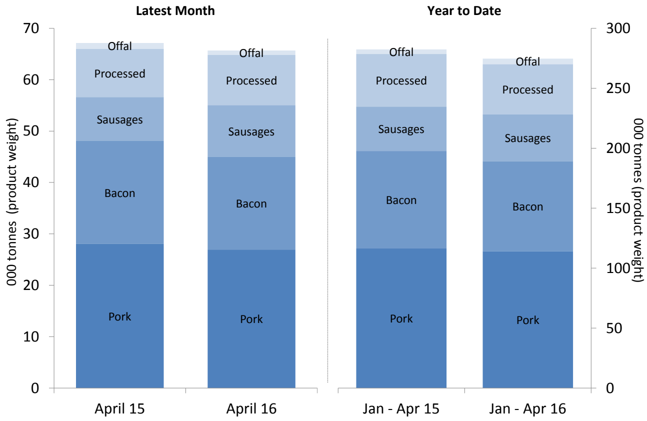
Source: Defra

Sow slaughterings continued to be ahead of 2015 levels, 4% more than the adjusted figure, at 20,700 head. This continues the trend that has been recorded in 2016 to date, supporting the expectation of a contraction in the breeding herd, resulting in a tightening of supplies in the future. Some of this tightening may already be being experienced, with adjusted production levels down modestly by 0.3% in May, compared with the same period a year earlier.

Imports of fresh/frozen pork were 4% down on April 2015, to 26.9 thousand tonnes. With the UK pig price premium now under 10p/kg, imported pork is no longer significantly cheaper, thus helping to dampen down import levels. Despite rising pig prices in the UK and EU, average unit prices remain down on April 2015, resulting in the value of imports being almost 16% less than the same period a year earlier, at £41.7 million. The decline in bacon imports continued in April, mainly given an ongoing sharp fall for Denmark, down 22%.

UK Market Snapshot

UK Pig Meat Imports

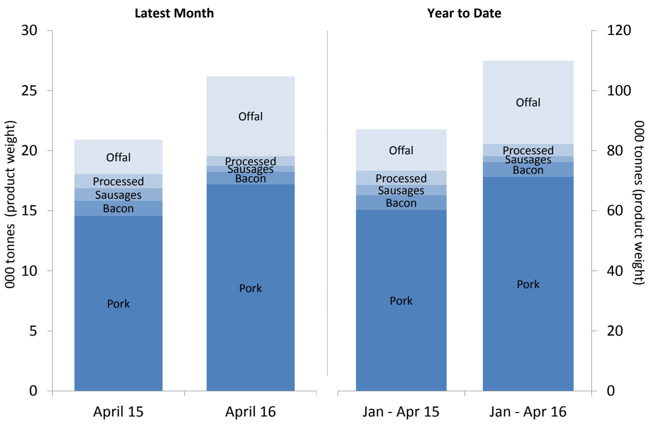


Source: Her Majesty's Revenue & Customs

UK exports of fresh/frozen pork continued to grow significantly in April, to 17.2 thousand tonnes. This was an 18% increase on the same period a year earlier. Once again, China was the main driver behind this growth, with shipment levels almost doubling versus April 2015. The increase in sow slaughterings saw shipment volumes to Germany increase by almost 12%. Export volumes to the United States, Philippines and Poland also recorded strong growth, albeit in smaller absolute volumes. US and Polish shipments more than doubled and exports to the Philippines increased over seven-fold on April 2015.

The value of UK fresh/frozen pork exports increased by over 29%, to £19.3 million, when compared with April 2015. The strong pig price in China has largely driven this value growth, coupled with increased shipments of high value cuts to countries such as the United States and Australia.

UK Pig Meat Exports

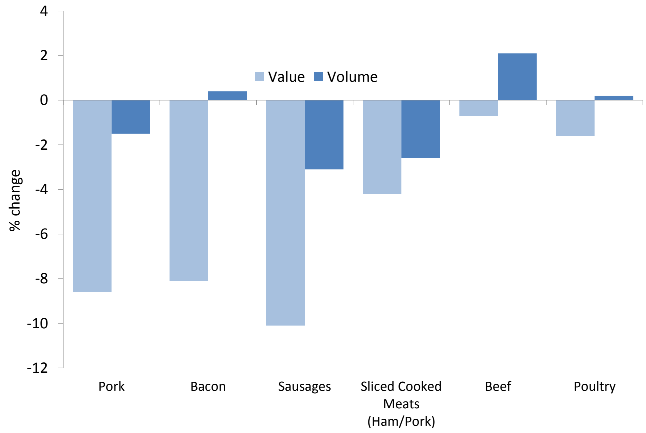


Source: Her Majesty's Revenue & Customs

Offal export levels also continued to rise in April, more than doubling to 6.6 thousand tonnes. The Asian markets were the main driver of this growth, with China accounting for half of all UK shipments. Sausages and processed products saw export volumes fall, by 45% and 13% respectively, although overall volumes were relatively small.

In the four weeks to 22 May, volume sales of fresh/frozen pork fell by 6% on the year earlier, according to the data from Kantar Worldpanel. This decrease also translated into the longer-term view, with volume sales of fresh/frozen pork in the 12 weeks to 22 May down by a more modest 2%. The decrease in volume sales, particularly in the shorter-term period, coincides with the running of the first wave of the AHDB Pulled Pork campaign in 2015. Therefore, a fall in comparison volumes should come as little surprise. Encouragingly, volume sales of shoulder roasting joints were still up over the 12-week period, by 5%. This period will incorporate the third wave of the Pulled Pork campaign this year, compared with the start of the first wave in 2015. However, with the exception of marinades, all other cuts recorded a decrease in volume sales over the 12-week period.

Annual percentage change in retail meat purchases (12 weeks to 22 May 2016)



Source: Kantar Worldpanel

Bacon recorded a marginal increase in sales over the full twelve-week period to 22 May. However, the shorter 4-week view saw sales fall by 1%. Sausages and sliced cooked meats saw declines in volume sales over both the four and twelve-week periods. More encouragingly, pork pies and sausage rolls have been continuing their growth over both time frames. The average unit price of all pork cuts, bar ribs and mince, and processed products were all down in the 12-week period, highlighting the deflationary effect that is still apparent in the pork category.

The producer's share of the retail pork price recorded another modest increase in May, to 32%. While this was one percentage point higher than April, levels are still at historical lows, and producers' share is 3 percentage points behind May 2015. These figures are still around the lowest levels for over a decade. While the farmgate price has continued to increase slightly through May, retail prices fell overall, down 3% on the same period a year earlier. Although it is encouraging that farmgate prices are not following the same trend as the retail price, they are still 12% behind May 2015. There was also a marginal improvement in the producer's share of the retail bacon price in April but it was still down two percentage points on April last year.

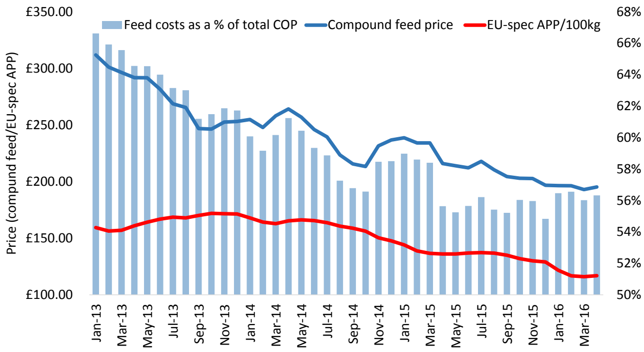
UK Market Analysis

The effect of feed ingredient price volatility

The estimated cost of pig production is published by AHDB each quarter. The latest figures show that, on average, producers continued to lose money going through Q1 2016. This was despite the cost of production falling to the lowest levels since before 2009. This is because, at the same time, the pig price was also falling, to the lowest levels in over 8 years. The falling cost of production helped somewhat to cushion the effect of the falling pig price and stopped more producers exiting the industry.

Since the end of Q1, the pig price has started to rise steadily and in week ending 11 June, stood at 124p/kg. This was the highest level recorded since the end of 2015. However, at the same time, feed ingredient prices have been creeping up, particularly for soya meal. This article looks to explain how such increases in feed ingredient prices can affect the overall cost of production.

Relationship of compound feed prices vs. pig prices



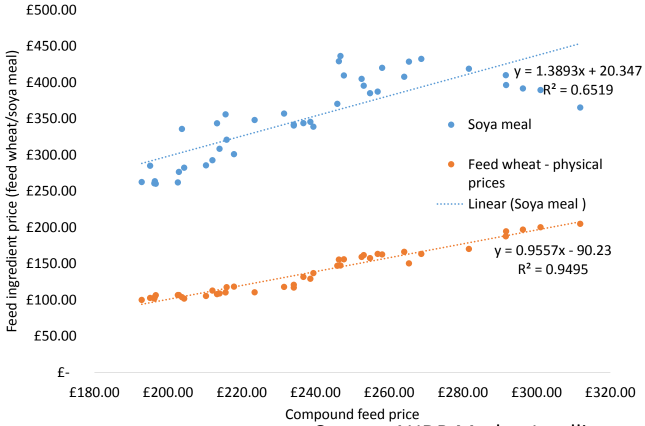
Source: AHDB Market Intelligence

Feed prices are a major driver of the cost of pig production and any changes to the price of feed ingredients can have a major impact on pig producers. Feed prices, as an overall percentage of the total cost of production, have been falling over the past 3 years, from 67% at the beginning of 2013, to 56% at the beginning of 2016. This has been driven by the drop in feed ingredient prices.

Feed wheat and soya meal are typically the most significant ingredients of compound feed and any movement in their prices will have an effect on the overall feed price. But what is the relationship between price movements of the feed ingredients versus the compound feed price? When plotting feed wheat prices against compound feed prices, it can be seen that the relationship between the two is very strong. This reflects the fact that prices for many other feed ingredients, such as other cereals and some by-products, follow similar trends. Therefore, any movement in the feed wheat price will have a direct impact on the compound feed price.

Soya meal is the other main ingredient in compound feed. When soya meal prices are plotted against the compound feed price it can be seen that, while there is a relationship between the two, it is much looser than the relationship between wheat and the feed price. The inference from this is that any movement in wheat prices will be more strongly felt in compound feed prices, than changes in the soya meal price.

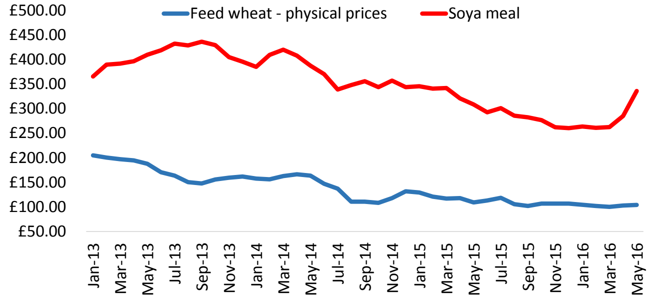
Compound feed price vs. feed ingredients



Source: AHDB Market Intelligence

The price of feed wheat has been falling steadily over the past 3 years, although it has started to firm of late and futures prices show it may continue to strengthen. These falling wheat prices have directly contributed to the lower price of animal feed and, therefore, reduced the cost of pig production accordingly. However, if feed wheat prices firm significantly, it will translate into an increased cost of production. The strengthening pig price will help to soften any of these increases but a return to positive margins might be delayed.

Feed ingredient prices



Source: AHDB Cereals

Soya meal prices have rallied significantly since March 2016, in response to South American crop losses and lower export supplies of soyabeans and soyameal. With higher prices making soyameal expensive to use in feed rations, there could be opportunities for different oilmeals and feed grains to fill the gap. However, as the analysis has shown, the relationship between soya meal prices and compound feed prices is less strong, compared with wheat, so increases in the price of soya meal will not be felt as directly in the overall compound feed price.

In summary, the feed price is the single most important factor to influence cost of production for pig producers. Fluctuations in feed wheat prices will have a more direct impact on the overall feed price than soya meal. So far, any upward movement in the former has been smaller than the latter. However, producers will need to watch wheat prices closely, particularly given the expectation of increased market volatility in the wake of the EU referendum.

UK Market Analysis

English pig industry becoming more concentrated

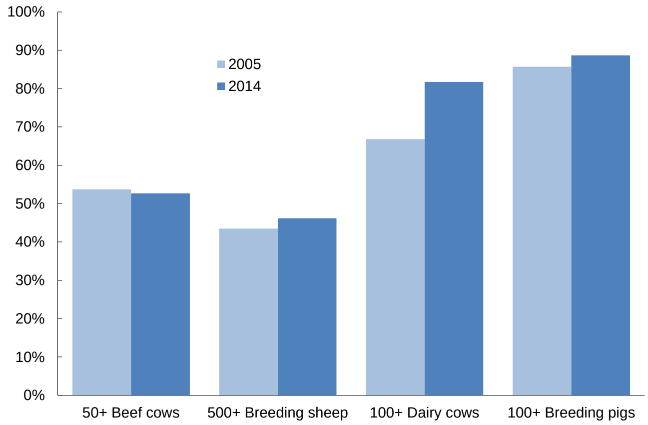
The English pig industry has become increasingly concentrated over time, a trend which is expected to continue. Production is significantly more consolidated than for other livestock sectors, especially when farm ownership is taken into account. The rest of the supply chain is also dominated by a small number of players. Although have a mixed effect on competitiveness, the industry's structure could make it more resilient to the challenges it faces.

The number of pig holdings in England reached 8,200 in 2014, the latest figures available. Of these, 4,400 had breeding pigs (slightly down since 2005 and around half the number in 1990) and 7,000 had feeding pigs. This implies that 3,200 holdings had both breeding and finishing pigs.

The majority of these holdings were small; over half of farms with breeding pigs had fewer than five. However, nearly 90 per cent of sows were on the 600 or so holdings with 100 or more sows, a share that has risen over time. There was a similar concentration among feeding pigs. This reflects the fact that pig producers have long had to survive without significant subsidy and have had to become more efficient.

The level of concentration at farm level is higher than other livestock sectors. For example, only around half of beef cows were on farms with 50 or more cows, while less than half of breeding ewes were in flocks of 500 or more. Around 80% of dairy cows were in herds of 100 head or larger. The number of farms involved was also higher, with 34,600 having breeding sheep, 26,500 beef cows and 12,800 dairy cows.

Percentage of English breeding animals on the largest holdings



Source: Defra

When ownership of these farms is taken into account, the consolidation is even more apparent. Data from AHDB's eAML2 database can tell us about the ownership of slaughter pigs. This shows that in 2015, the top 16 producing companies accounted for over half of the total kill in England and Wales. The top five companies made up 30% of the total between them. Only around a third of slaughter pigs came from independent producers.

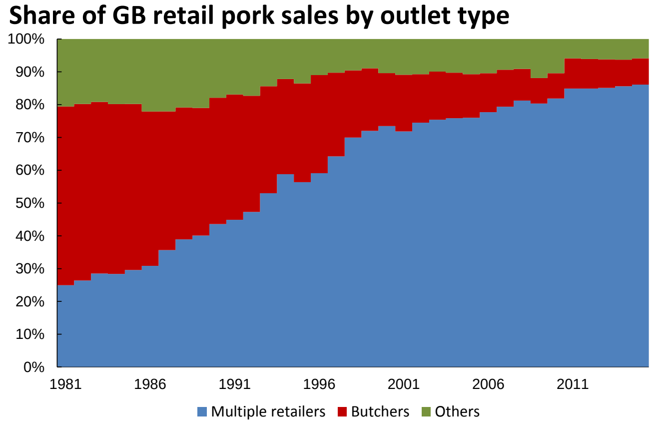
Some of the larger pig producing companies are owned by processors, a scale of 'vertical integration' which is not common in most other UK livestock sectors, except poultry.

The abattoir sector in England is also highly, and increasingly, concentrated. In 2015, there were 116 slaughterhouses in England killing pigs. While this is a modest fall over recent years, it is 30 fewer than a decade ago and almost 70 down on 2000. Those which remain are dominated, in terms of the number of pigs processed, by a few, mostly specialist, plants.

The eight largest slaughterhouses, handling 500,000 or more pigs in 2015, accounted for over three-quarters of the total kill. These plants were owned by only four companies. Although the number of the largest plants has been fairly stable, five years ago they processed just two-thirds of all slaughter pigs. Then, they were killing an average of 700,000 head each; last year that figure was close to 900,000.

Much of the consolidation among processors (and, to some extent, producers) has been driven by the increasing concentration of the retail sector. Prior to 1992, less than half of all pork retail sales were through multiple retailers, indeed they had only overtaken butchers a few years before. By last year, however, the multiples' share had risen to 86%.

Share of GB retail pork sales by outlet type



Source: Kantar Worldpanel

Although the foodservice and manufacturing sectors are more fragmented, they too have seen some consolidation over time. With fewer buyers in the market and all facing pressure to simplify supply chains, it is unsurprising that the whole industry has moved in the same direction. With the same drivers in place, the future will probably produce further moves towards consolidation.

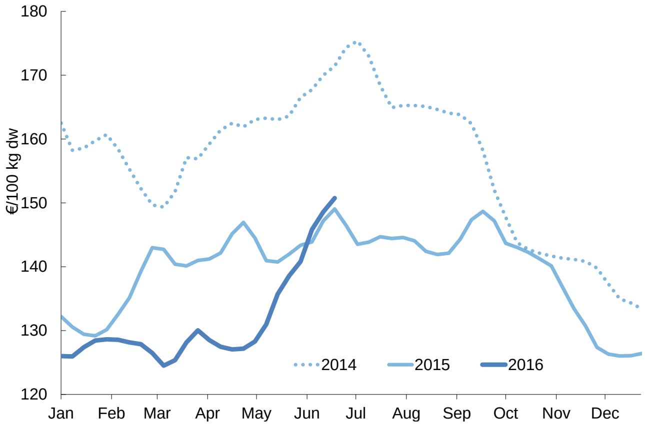
The structure of the English pig industry has advantages and disadvantages in terms of its competitiveness. However, the number of larger players in the market should help it achieve economies of scale and access tools to assist it through challenging periods. Therefore, it can make the industry more resilient and may help explain how it has come through the price volatility of recent years relatively unscathed.

EU Market Snapshot

The EU pig market has become increasingly buoyant throughout May and June, with the latest prices now in excess of 2015 levels. In the four weeks to 19 June, the EU average price increased by €12 to top €150/100kg. This was the highest level since September 2014. The improvement was largely assisted by the increasing demand from the Far East, notably China, with record export levels being recorded in the first four months of the year.

Furthermore, stronger consumer demand following improving weather in northern Europe and the start of the holiday season in the south of the continent has further increased demand, subsequently supporting pig prices.

EU Average Pig Reference Price



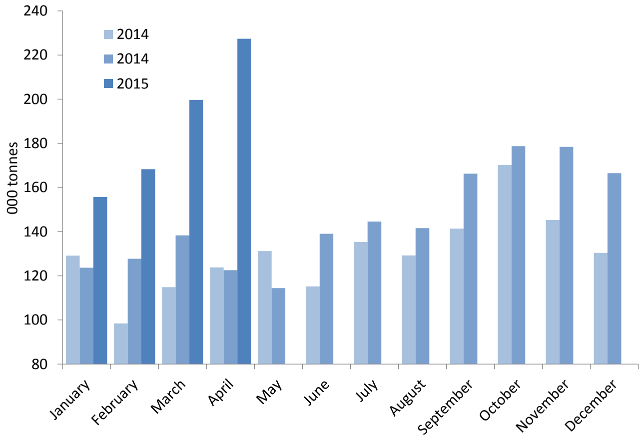
Source: EU Commission

All the major producing member states recorded price increases over the May-June period. The pivotal German price was up by over €12 per 100kg over the latest four weeks, while the Spanish price rose by nearly €18 per 100kg. Poland recorded the most modest price increase among major producers, but prices were still up almost €8 per 100kg.

With the EU price increasing at a greater rate than the UK pig price, the UK price premium was eroded over recent weeks, standing at less than a penny for week ending 19 June. This was the lowest level since September 2013. However, on the run-up to the EU referendum, exchange rates remained volatile, so the premium had been fluctuating slightly.

EU exports of fresh/frozen pork continued to show strong growth into April. Shipments were up 86% on the same period a year earlier, to 227 thousand tonnes. Exports to China from all the main producing member states have seen record growth, with shipments more than trebled in April 2016 versus a year earlier. All other Asian markets took more EU pork in April, with shipments to Hong Kong and Vietnam more than doubling on April 2015. Other pig products also recorded this growth trend. Offal exports were up 40% in April on the year earlier, with the Asian markets providing most of this growth. The value of offal exports grew ahead of volume, up 50% in April, buoyed by the strong unit price in China.

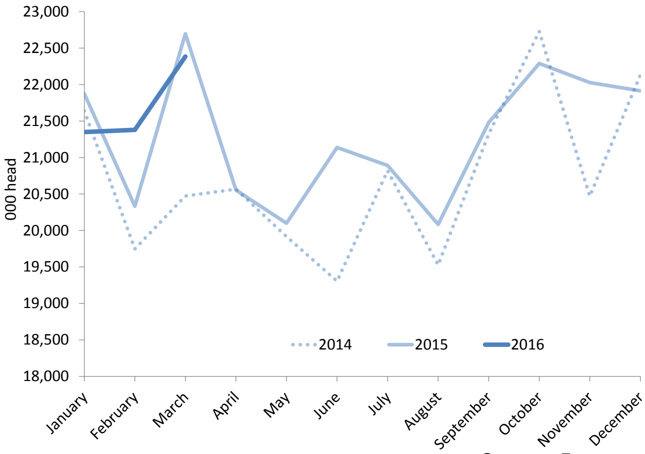
EU monthly pork exports



Source: Eurostat, GTIS

Provisional figures from the EU Commission show that EU pig meat production decreased year-on-year in March, by 1% to 2.02 million tonnes. This was despite there being an extra working day in 2016, versus 2015. Therefore, this represents a slowdown in growth compared with much of 2015, which supports forecasts that supplies will begin to tighten throughout 2016. Similarly, clean pig slaughterings were down 1% in March on the year earlier, to 22.4 million head, but this was effectively a slighter larger decrease.

EU pig slaughtering trends



Source: Eurostat

There were fluctuations in the outputs from the member states in March. The UK had the largest increase, although once the change in reporting periods is taken into account, this represents an increase of about 5%, when compared with March 2015. The Netherlands and Spain also saw year-on-year growth in production volumes, of 9% and 2% respectively. However, other member states recorded a fall in production, most notably Germany and Poland, with volumes down 8% and 6% respectively on March 2015. These decreases were despite the longer working month, so may actually represent a greater fall than recorded.

Global Market Analysis

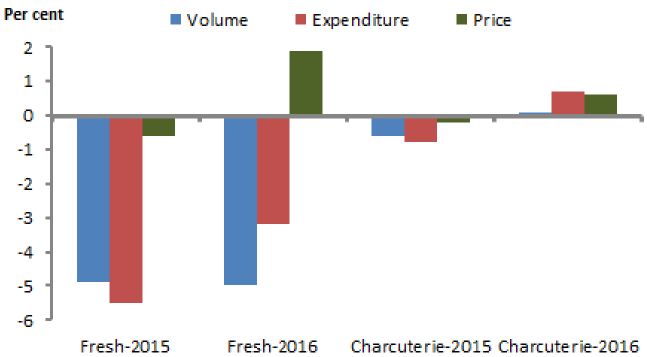
EU pig meat demand picking up

Demand for pig meat in the EU has been under some pressure in 2015 and into early 2016. This in turn has had an impact on pig prices with only export demand providing a degree of optimism on the EU market. It has not just been in the UK where the demand situation has been difficult but on the continent as well. In recent weeks, however, the situation has improved.

The warmer weather in May boosted demand in Germany, in particular, but also in other countries. This is given both the start of the barbecue season and the asparagus season, which has been somewhat later this year, as pig meat, both fresh pork and ham, is a popular accompaniment. The European football championships are now providing a further boost to demand in the EU for sausages and pork cuts for the barbecue. Summer weather will inevitably influence demand for cuts for the barbecue and last year demand was especially disappointing, given the poor summer in many parts of the EU. Unfortunately, already in early June this year, demand has edged back in response to poorer weather.

In 2015, in Germany, the largest market in the EU, household purchases of fresh pork were down by 3% by volume and charcuterie by almost 2% and there was a further decline of over 3% in fresh pork in the first quarter of 2016. Kantar Worldpanel data for France indicate that fresh pork household purchases in 2015 were down as much as 5% by volume, even though average retail prices were 1% lower. The charcuterie sector held up better, with a decline of just under 1% by volume, while prices were largely unchanged. Data for 2016 until the 17 April showed a further year on year reduction of 5% in fresh pork volume purchases, although charcuterie was unchanged.

Annual change in household pig meat purchases in France, 2015 and January -17 April 2016



Source: AgriMer based on Kantar Worldpanel

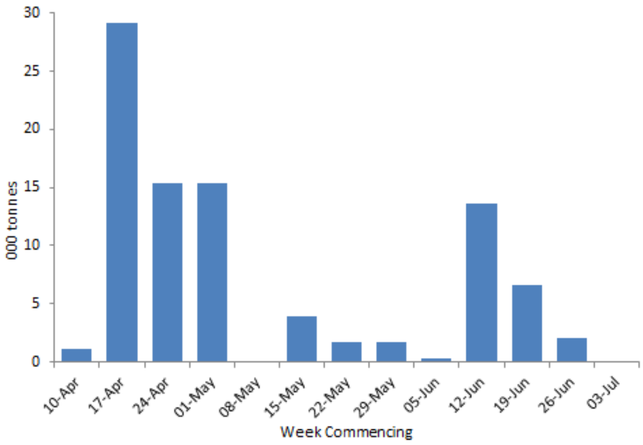
The market has remained under pressure in Italy and fresh pork household purchases were 8% lower in 2015, with charcuterie down by 3%. The International Agency for Research on Cancer (IARC) report of last November establishing the link between meat consumption and cancer has not helped the market in recent months.

In 2015, pig meat demand in Spain during the summer months was boosted by higher tourist numbers. Further increases in visitor numbers are taking place in 2016, as tourists switch to safer destinations rather than going to North Africa and Turkey. In 2015, fresh pork was the best performing meat in Spain, with household purchases up by 1% in volume, while the average price was up by 3%. Processed products, mainly charcuterie, were down by 2% by volume, though. Increased domestic demand at a time when production continues to rise could help to take some pressure off a need to increase exports.

The domestic market accounts for 90% of pig meat production in the EU and if it does improve, this will help to boost pig prices, coupled with the ongoing surging demand in China.

An increase in demand would be welcomed at a time when the pigmeat stored during the Private Storage Aid (PSA) initiative in January has started to be released onto the market.

Schedule for release of pig meat from Private Storage



Source: EU Commission

The majority of this product was released back onto the market during April, and there were concerns that extra product on the market would have a further detrimental effect on the pig price. Fortunately, much of this pigmeat has gone for export to China, with shipment volumes more than doubled in the first quarter of 2016 versus the same period a year earlier. With the current high pig price in China, this increase in export volumes, aided by the release of stored product, has not been at the expense of price. The EU average pig price has been quite buoyant since the end of April, and did not fall backwards during that month, when the majority of the stored pigmeat was released back on to the market.

The remainder of the PSA product was due to be released during June and, as demand remains high for exports and domestic demand does not seem to have fallen back too much, it seems that it has been absorbed back onto the market with little detrimental effect.

Global Market Analysis

Growing presence of Poland on UK market

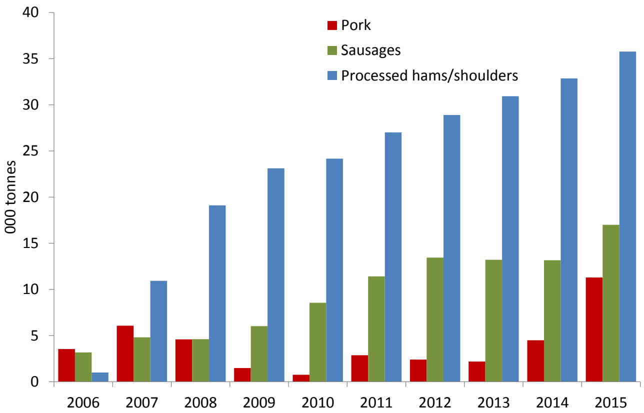
Poland has been steadily increasing its presence on the UK pig meat market, which seems set to continue. This article looks to explore some of the factors behind this movement.

There has been a steady growth for processed products, notably canned hams, following Poland's accession to the EU in 2004, while imports of fresh pork have started to take off. Imports of processed hams and shoulders amounted to 36,000 tonnes in 2015 and since 2007, when it really started to develop, has more than trebled. Sausages also account for a significant quantity of imports, 17,000 tonnes in 2015, although these have grown more slowly.

Such product is generally branded and sold not only through Polish retail outlets but increasingly through mainstream outlets. For example, the ASDA website includes "Authentic Polish Foods", with a wide range of processed pig meat products. Other multiples also sell a range of Polish processed meats. The number of UK residents born in Poland now amounts to 850,000, although the true figure for the Polish population will be higher, as families will have children born in the UK. Therefore, this accounts for a growing market for those customers seeking indigenous foodstuffs from the country in which they were born.

UK imports of fresh/frozen Polish pork more than doubled, to reach 11,300 tonnes, in 2015. As recently as 2010, imports only amounted to 750 tonnes. This pork is destined for secondary processing and mainly consists of chilled boneless cuts and bellies. However, one major Polish meat processor, ZM Wierzejki, which has 170 retail outlets in Poland, opened its first shop in East Acton, West London, at the end of last year. Its press release indicates it has plans to open a dozen new stores and attract not just Polish consumers.

UK pig meat imports from Poland



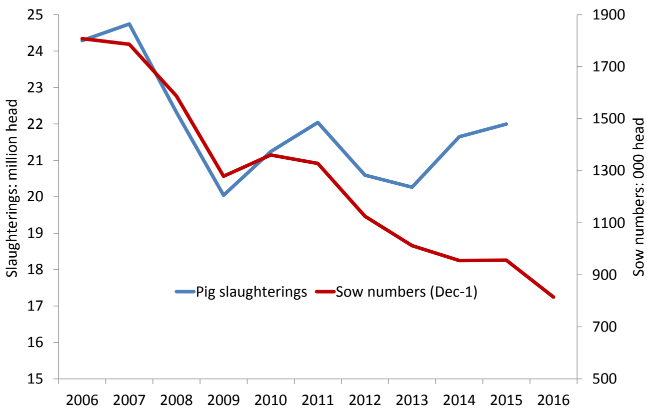
Source: HMRC, GTIS

The meat-processing sector in Poland is sourcing its raw material from both domestic producers and imported product, some of which is subsequently re-exported. Major investment is taking place, including by Scandinavian companies, some of which has yet to come on stream. According to IFIP in France, much of this investment is geared towards supplying the UK market and the premium prices that it can offer. This includes investment in cutting plants and further processing facilities.

For domestic production, the Polish breeding herd has been in steady decline, as the sector is very fragmented and suffers from low productivity. As many as 46% of sows were located on holdings with less than 100 sows in December 2013. The most recent census recorded a decline in the breeding herd of 16%, with total pig numbers falling by 12%.

However, pig slaughterings and production have been more stable since 2010, as Poland has been importing increasing numbers of finishers from other Member States to support production levels, notably from Denmark, which accounted for 80% of total trade in 2015. In 2006, only 168,000 weaners were imported by Poland but by 2015 official figures show a rise to 4.63 million. In reality, the true figure may be in excess of this, based on Danish export data. Polish slaughtering companies have also been sourcing more imported slaughter pigs, which reached a peak of almost 1.1 million head in 2014, but which fell back by one half in 2015.

Polish sow herd and pig slaughterings



Source: Eurostat

In the case of imported pork, in 2015 Poland received 128,000 tonnes from Denmark, of which almost 60% was fresh bone-in cuts for cutting up. Of the 186,000 tonnes imported from Belgium, 90% was in fresh carcase form. As a result, Poland has been increasing both its imports and exports of fresh and frozen pork in recent years. In 2015 imports amounted to 676,000 tonnes and exports 404,000 tonnes. The difference will be partly the result of the growing export trade in processed pig meat products, led by hams and shoulders.

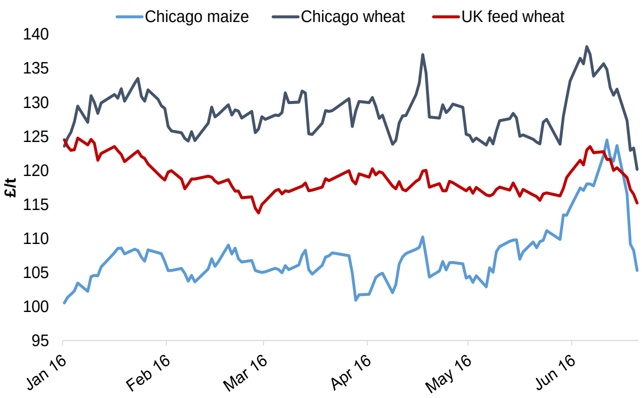
While Poland is not yet a major player on the UK market (its market share of all pig meat imports is still only 7%), it certainly is on the EU market. Even if its pig meat production is no longer expanding, its low labour rates and increased investment in processing is sucking in more imported product for subsequent re-export, including to the UK. Volumes of processed products have been rising year-on-year, and increasing investment would suggest that this is set to continue.

Feed Market

The price of maize has been a key focal point over the month to 23 June, with US maize futures (Dec 16) peaking at $176.66/t on 17 June before falling back down to $156.59/t on 23 June, a decrease of 3% from 26 May. The main catalyst behind the rise was concern over South American production combined with concerns over how drier than usual US weather could affect crop condition.

Output from the world's third largest maize producer, Brazil, is expected to fall by 9% this season (2015/16) compared to last, driven by reductions to the size of its second (safrinha) maize crop. Combined with weather concerns in the US, this added upward movement to prices. Nonetheless, these concerns were dampened by the latest USDA crop progress report, which showed no change in crop conditions (as at 19 June) from the previous week.

Nov/Dec-16 maize and wheat futures prices



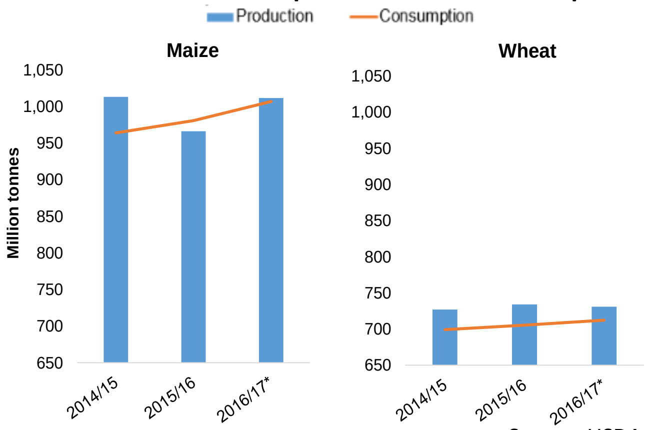
Source: AHDB

The upward movement to maize markets also pulled global wheat prices up with it, while UK prices received a further boost from a weakening in sterling against the euro to mid-June. As at 9 June, UK feed wheat futures (Nov-16) were at £123.50/t, an increase of 6% from 26 May.

Nevertheless, UK feed wheat futures prices (Nov-16) settled at £115.20/t on 23 June, a decrease of £1.35 on the month (26 May – 23 June). The fall in prices later in the month followed the easing in US weather concerns, which was compounded in the UK by a partial recovery in sterling, at least until 23 June.

Future price trends will depend, in part, on how markets react to the EU referendum result, with the initial response being a significant weakening of the pound. This has provided some support to UK feed wheat prices. Other than this, the maize situation is going to be a key watching point from a feed ingredient perspective. It is no secret that the global outlook for wheat remains heavy, due to forecasts of another bumper year of production forecast for next season. Globally, with higher priced maize and ample supplies of wheat, it could mean that wheat buys back some demand from maize.

Global maize and wheat production and consumption



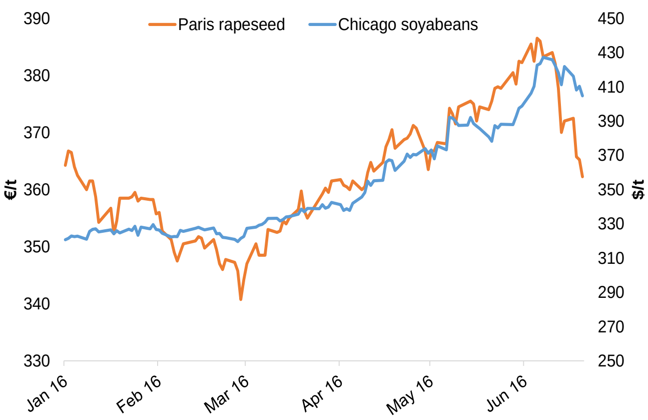
Source: USDA

South America hasn't just been dominating the grains markets, it has been a key talking point in the proteins market once again this month. Earlier in the month, prices were driven by concerns over both the quality and quantity of soyabean stocks, specifically in Argentina. Reports of restricted supplies from one of the world's largest grower of soyabeans led to sharp price rises.

Nov-16 Chicago soyabean futures prices peaked at $427.24/t (10 June) up almost $40 on the position on the 25 May. This contract settled at $404.74/t on 23 June, an increase of 5% ($18.74/t) from 26 May. Concerns over the South American crop and subsequent price rises also had a large impact on the price of soyameal. UK delivered soyameal prices have followed a similar trend, rising £13/t in the week 27 May to 3 June.

We have also seen changes in the value of rapeseed over the month to 23 June. Paris rapeseed futures prices (Nov-16) followed a similar trend to other oilseeds in the complex and increased midmonth. Nonetheless, from May 26 – June 23 the Nov-16 contract recorded a decrease of 4% to settle at €362.25/t.

Nov-16 soyabean and rapeseed futures prices



Source: AHDB

In Brief

FAO Food Outlook

The FAO has published its 2016 Food Outlook report this month, so it is timely to review some of the points the report highlights.

Overall global meat production is anticipated to stagnate in 2016, rising by only 0.3% to 320.7 million tonnes. Increases in output are expected in the United States, Brazil, the EU, India and Russia, while reduced production is foreseen for China, Australia and South Africa. However, global production of pig meat in 2016 is forecast to decrease marginally, by 0.7% to 116.4 million tonnes. This will be a second year of virtual stagnation, with the lower output in China being the main reason for this contraction.

Global meat trade is forecast to recover in 2016, growing by 2.8% to 30.6 million tonnes. This represents a return to trend, after a fall in 2015. Pig meat trade could experience a second year of growth, increasing by 4.4% to 7.5 million tonnes. Most of the principal importing countries are anticipated to increase their purchases, including Mexico, China, Russia, United States, Japan, South Korea and Australia. In response to rising demand, exports are projected to grow, in particular those of the dominant exporters, the United States, Canada, the EU and Brazil.

To read the full report, click here

Organic pig numbers rise slightly

Latest figures from DEFRA showed a small rise in the number of organically farmed pigs in the UK in 2015, for the first time since 2011. Nevertheless, at 30,000 head, the organic pig herd is the second lowest in records back to 2003 and less than half its size at the peak in 2008. Organic pigs continue to make up less than 1% of the national herd. Latest data from the EU show that the UK's organic pig herd was the seventh largest in the EU in 2014 but was much smaller than the herds in Denmark, France and Germany. Each of these numbered around 200,000 head and, between them, they accounted for over two-thirds of the EU's organic pigs.

GB sow productivity continues to improve

Performance results for the twelve months ending March 2016 show continued improvement in GB sow herds. For indoor sows, a slight increase in numbers born alive and a small improvement in pre-weaning mortality resulted in the number of pigs weaned per sow per year continuing to increase. The average is 26.4 piglets weaned per sow per year, with the top 10% achieving just over 30 for a second time. For outdoor sows, a small increase in litters per sow per year and pigs born alive, together with an improvement in pre-weaning mortality, resulted in an average of 22.5 pigs weaned per sow per year, with the top 10% achieving 26.57.

Brazilian maize price hinders livestock producers

Tight supplies of maize from Brazil, the world's second largest exporter, have had substantial knock-on effects on its livestock sectors. For the pig sector, a combination of record high feed prices and a reduction in domestic demand due to the country's poor economic state, is pushing producers out of business because many are in a loss making situation. Furthermore, there have been reports of increased sow slaughterings in some states. According to Reuters, it is estimated that up to 15% of pig and poultry processing capacity in the country has shut, which equates to around 225 thousand tonnes of meat production a month. However, as the harvest of the countries safrinha maize crop gets well under way, it should relieve the tight situation slightly. Nevertheless, livestock producers could still lose money as supply will remain tighter than usual.

Global prices stabilise as trade booms

Global pork export prices have been relatively stable over recent months, albeit at a lower level than for many years. Analysis of figures from the four leading global exporters shows the average price during the first quarter of this year was just over $2.30 per kg, with similar levels in each of the three months. This was slightly lower than at the end of 2015 and around 35 cents down on the first quarter of last year.

The price fall since late 2015 is largely due to a sharp reduction in the dollar price of Brazilian pork exports, given the depreciation of the Brazilian real. Prices from the other three exporters, the EU, US and Canada have been largely stable since November. While the price has levelled, the volume of pork being traded has boomed. The amount shipped by the four main exporters during January to March 2016 was up by almost a quarter from the same period last year. The growth began in the second half of 2015 but has accelerated significantly since the New Year, and is predominantly driven by rising Chinese imports.

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