Pig Market Trends

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AHDB PORK

In this issue

Red meat promotions

The major multiples are moving away from multibuy and Y for £X promotions as they look to simplify their offering and focus more on an everyday low pricing strategy in order to compete with the Hard Discounters. This is one of the biggest changes occurring in grocery as a whole and it's definitely affected meat, which has historically relied on these promotions in order to boost volume. To read what these effects may be, turn to **page 4.**

Will tariffs disrupt post-Brexit pork trade?

The UK's decision to leave the European Union will have far-reaching effects on the pork sector. Perhaps the most important factor will be the UK's future trading relationships with the EU. Trade between the UK and other EU countries is currently largely unrestricted under the single market. However, it's a very different story for pork entering the EU from outside, which is subject to sizeable tariffs. Further analysis can be found on **page 5.**

Spanish exports continue to grow

According to the latest census results, Spain now has the largest pig herd in Europe, after overtaking Germany. It has, for many years, had the biggest sow herd in the EU, and December census figures showed that numbers continue to increase, while other major producing states were declining in numbers. To read more, turn to **page 7.**

WTO rule Russian ban unlawful

A WTO review panel have declared that the import ban on EU live pigs, fresh pork and other pig products imposed by Russia in early 2014 is against international trade rules. The ban was originally imposed over what the EU stated were a limited number of cases of African Swine Fever (ASF) in areas in the EU close to the border with Belarus. Now that the WTO has ruled the ban unlawful, it is worth considering the options that may avail themselves as a result of this decision. To read an in-depth analysis of some of these options, turn to **page 8.**

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Key data

	Jul-16	Change since Jun-16	Change since Jul-15
Average GB carcase weight - kg	80.53	-0.21	+1.11
30kg weaner price - £/head	42.71	+2.57	-1.58
7kg weaner price - £/head	31.20	+1.14	-1.65
GB APP (Euro-spec) - p/kg dw	130.67	+6.32	-6.51
GB SPP (Euro-spec) - p/kg dw	128.05	+7.17	-4.97
EU Reference price - €/100kg dw	161.56	+10.18	+17.31
UK Reference price - €/100kg dw	149.77	-2.46	-36.31
UK weekly clean pig kill - 000 head	212.2	+16.0	+11.6
UK weekly pig meat production - 000 tonnes	17.8	+1.0	+1.0
UK pork imports - 000 tonnes*	40.6	+6.2	+9.1
UK bacon imports - 000 tonnes*	21.3	+5.3	+0.1
UK pork exports - 000 tonnes*	18.4	+1.8	+3.8
Retail pig meat sales - 000 tonnes†	52.2	-0.8	-0.6
LIFFE feed wheat futures - £/tonne	120.60	+11.78	-3.10
CBOT Soyameal futures - $/tonne	365.86	-36.40	+7.85

** Figures relate to June 2016*
† Figures include household purchases of pork, bacon, sausages and ham and relate to 4 weeks to 17 July 2016

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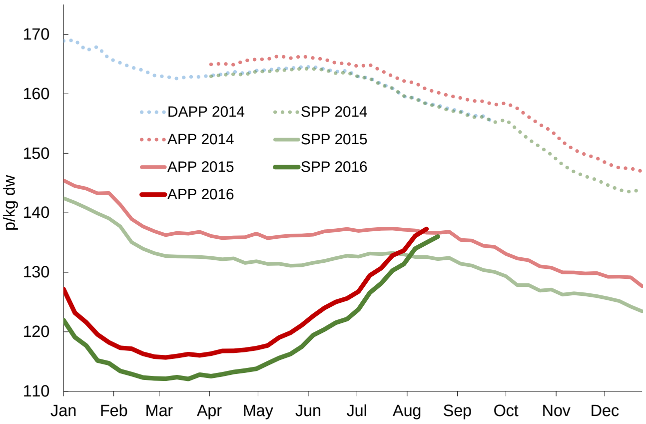
UK Market Snapshot

GB pig prices increased significantly in July, with the monthly average EU-spec APP up 6.32p, to 130.67p/kg. The price increases have now been sustained for four consecutive months. The July price increase was the highest average monthly rise since the pricing reporting system changed, and the highest recorded since May 2011. The current quote now stands at only 6.51p behind the same point a year earlier. The weakening of sterling against both the euro and the dollar has ensured that UK pork remains competitive on both the domestic and international markets, which has increased demand and supported the price. Strong growth has been recorded into the first two weeks of August and by week ended 13 August, the APP had overtaken last year's levels, by 0.64p, and returned the APP to levels last seen in June 2015.

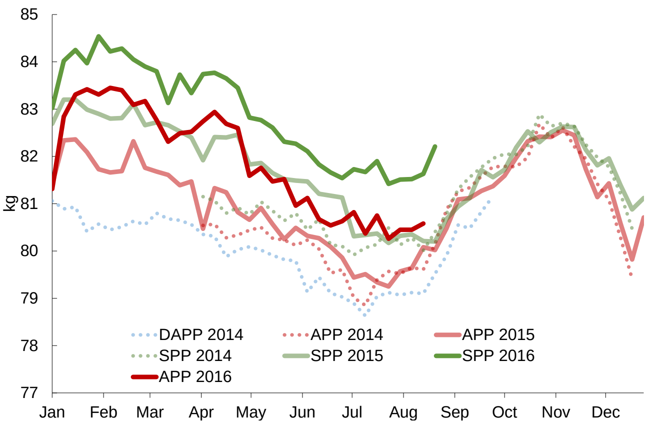
GB finished pig prices



Source: AHDB Market Intelligence

The SPP also grew strongly during July, increasing by over 7p on the previous month, to average at 128.05p/kg. The gap between the APP and SPP reduced throughout the month, starting at 3p and closing the period at 2.27p. The latest SPP, for week ended 20 August, stood at 136.01p/kg, which is almost 4p higher than the same period a year earlier.

Average carcase weights for GB finished pigs



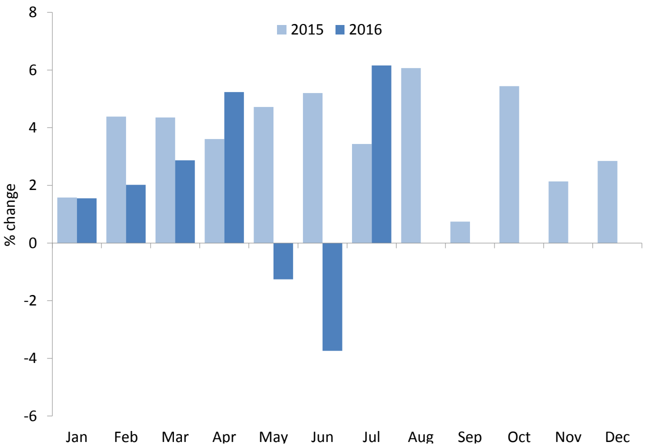
Source: AHDB Market Intelligence

The average carcase weight continued to fall through July, although at a decreasing weight. The APP sample finished the month at 80.53kg, which was 0.21kg back on June 2016. There were modest fluctuations throughout the month, but at no point were weights north of 81kg, suggesting that pigs are continuing to come forward when they are ready, as the demand is there for them. Average carcase weights are, however, 1.11kg heavier than the same point a year earlier.

The GB weaner market followed the same trend as the pig price, with increases recorded in both weaner categories. 30kg weaners increased by £2.57 on the previous month, to £42.71/head in July, while 7kg weaners recorded a slightly more modest increase of £1.14, to £31.20/head. Weekly prices have continued to rise into August, and by week ended 20 August, both the 30kg and 7kg weaner prices were in excess of those recorded at the same point a year earlier.

At 891,200 head, UK clean pig slaughterings were up 6% year on year in July, once figures are adjusted for a change in methodology, according to latest figures from Defra. However, this follows two months when slaughterings were lower than a year earlier. This amount of volatility is unusual and so the latest figures should be treated with some caution for the time being. Taking the last three months together, overall throughputs were only marginally up on the same period in 2015, which may be a more reliable indication of trends. The relatively tight supply situation this suggests matches recent industry reports and is consistent with the rising trend of pig prices throughout this period.

Annual change in UK clean pig slaughterings



Source: Defra

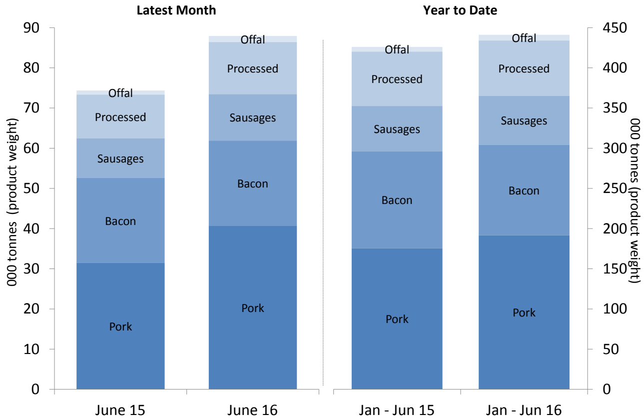
The new figures show a fall in sow slaughterings, compared with a year earlier, for the first time since last May. Throughputs totalled 18,600 head, 4% down on July 2015, perhaps indicating that rising pig prices have created a more optimistic climate for producers. Clean pig carcase weights remained above last year's levels, averaging 80.6kg, 700g more than a year before. Added to the rise in slaughterings, this meant that pig meat production was reported to be up 7%, at 74,600 tonnes. As with the slaughtering figures, though, this should be treated with some caution; the rise over the last three months was a much more modest 1%.

Imports of fresh/frozen pork increased by 29%, to 41 thousand tonnes, versus the same period a year earlier.

UK Market Snapshot

This was predominantly driven by Danish imports more than doubling. The average unit price of imports was broadly the same as June 2015, with both the UK and EU price recovering after two years of decline. Bacon imports largely stood on last year's levels, while increases were recorded in sausages, processed meat and offal imports.

UK Pig Meat Imports

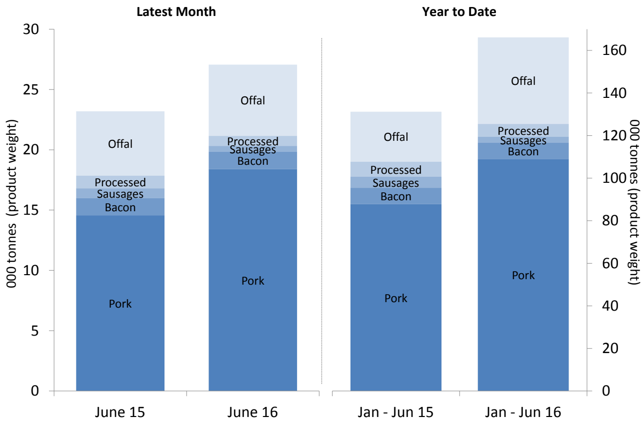


Source: Her Majesty's Revenue & Customs

UK exports continued to increase into June, with fresh/ frozen pork volumes up 26%, to 18.4 thousand tonnes, on the year earlier. Chinese shipments continued to be the main driver behind this growth, with volumes up 81%. Exports to Ireland were also up 28%, while shipments to Denmark, largely for re-export, increased 30% on June 2015. While smaller in absolute volume, higher value US exports more than doubled.

The value of UK exports increased ahead of volume, up 30% to £45.9million, on June 2015. A growth of shipments to China capitalising on the strong pig price, coupled with increased shipments of higher value cuts to the US, assisted this value growth.

UK Pig Meat Exports

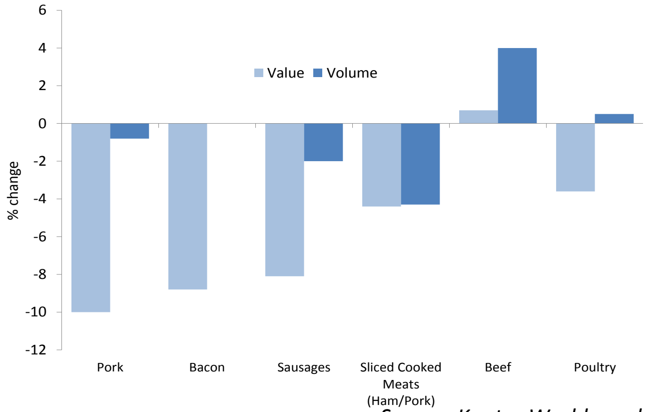


Source: Her Majesty's Revenue & Customs

Offal shipments continued to grow, up 11% to 5.9 thousand tonnes, on the year earlier. Exports to China accounted for over half of the volume, and grew by 11%. Although from a smaller base, shipments to the Philippines almost trebled versus June 2015.

Retail pork sales remained largely static in the 12 weeks to 17 July, according to the latest data from Kantar Worldpanel. Volume sales were down 0.8% compared with a year earlier, despite the average price falling by over 9%. This resulted in the overall pork spend falling by 10% on the same period a year earlier. Leg roasting joints were the only cut to record significant volume sales growth, up 12% on the year earlier. However, with the average unit price down over 14%, this growth was largely at the expense of price. The volume sales of chops/steaks largely stood on, with only a 0.4% increase. All other cuts recorded a decrease in volume sales, albeit at a slightly slower rate than the preceding 12-week period. The shorter-term 4-week picture was marginally more positive, with pork sales only back 0.1% on the same period a year earlier, and leg roasting joints up 31% during the same period.

Annual percentage change in retail meat purchases (12 weeks to 17 July 2016)



Source: Kantar Worldpanel

Bacon sales remained static over the 12-week period on last year's levels, but posted an increase of 3% over the shorter-term view. Sausages and sliced cooked meats both recorded decreases over the medium and shorter-term view, with sliced cooked meats posting sharper decreases over the 4-week period. While pork pie sales largely stood on over the 12-week period, the 4-week period recorded sharper declines of over 12% on the year earlier.

The sustained recovery of GB pig prices since the spring has come at a time when retail pork prices have been fairly stable. As a result, the share of the retail price received by producers has risen from a low point of 30% to reach 35% in July. This was the highest figure since last September and almost the same as in July 2015. Nevertheless, it remains well below the 40%+ share received by producers for much of 2014. While pig prices in July were still 5% lower than the same month last year, retail prices had also fallen by the same percentage, on average.

Although overall retail prices were stable in July, there was some movement for individual cuts, according to AHDB's retail price survey. In particular, loin steaks were 4% cheaper than in June, while pork mince was 2% more expensive. Prices for diced pork and shoulder rose by a little over 1% but movements for other cuts were smaller. Compared with July 2015, prices for all monitored cuts were lower this year. The biggest falls were for boneless shoulder (-9%), loin chops (-7%) and steaks (-6%) and traditional pork sausages (also -6%).

UK Market Analysis

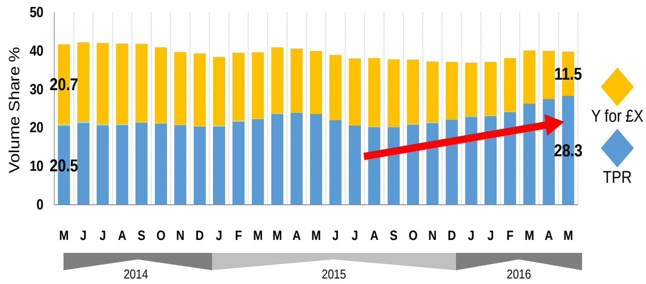
Red meat hit by reduction in volume-driving deals

The major multiples are moving away from multibuy and Y for £X promotions as they look to simplify their offering and focus more on an everyday low pricing strategy in order to compete with the Hard Discounters. This is one of the biggest changes occurring in grocery as a whole and it's definitely affected meat, which has historically relied on these promotions in order to boost volume.

Around 40% of grocery sales are through promotions; this is also the case for meat, fish and poultry (MFP). This proportion has been consistent for a number of years, but what is changing are the promotional mechanics. Retailers are moving away from Y for £X deals (e.g. 3 for £10) and multibuys (e.g. buy one, get one free), to simpler temporary price reductions (TPRs).

There has also been some growth in non-promoted product sales as retailers move towards an everyday low pricing (EDLP) strategy. The focus for the major multiples is on pricing in order to better compete with the Hard Discounters, while Aldi and Lidl themselves look to areas such as more store openings for further growth.

Y for £X and TPR promotions in meat, fish and poultry



Y for £X includes 3 for £10 deals
TPR = Temporary Price Reduction

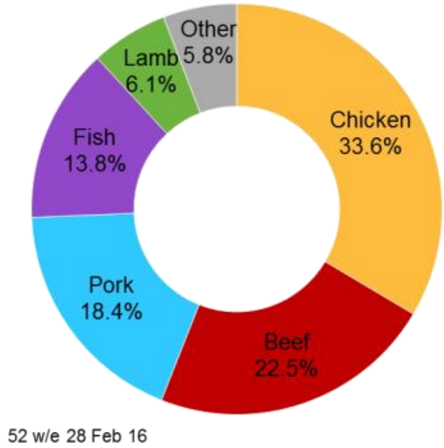
Source: AHDB/Kantar Worldpanel

The cutting of Y for £X deals has been led by Sainsbury's, which has cited direct competition from the discounters as a driving force behind this. Sainsbury's decision was based on its customers need for simpler, clearer prices and it has reported increased customer satisfaction during the time it phased out multibuys. Although the offer is still present at a number of retailers, Tesco recently joined Sainsbury's in phasing out the deal. Together, these two retailers have almost 45% market share of grocery.

Meat, fish and poultry are more reliant on promotions than other categories and the leading 3 for £10 offer is well recognised by shoppers. This type of deal is also featured in sausages and bacon, with 2 for £4/£5 offers.

The most popular way for shoppers to fulfil the 3 for £10 deal was bulk buying three packs of chicken breasts, followed by three steaks or packs of mince. Pork is often a later consideration, making up the final product to fulfil the deal. Without this offer, shoppers need more persuasion to add pork to their baskets.

3 for £10 deals in Meat, Fish and Poultry Spend Share



Source: AHDB/Kantar Worldpanel

The reduction in Y for £X deals resulted in a loss to MFP of £272 million; in volume this equates to 28,000 tonnes annually. Around 40% of the loss in spend is solely from 3 for £10. The categories most affected by the decline of Y for £X are red meat and sausages, as poultry has managed to negate much of the decline through TPR deals.

Retailers are looking to simplify their offering for an overarching increase in customer satisfaction and long-term trust. Many individual categories, such as meat, are suffering the impact of this, at least in the short term. If other major multiples move this way and shoppers react in a similar way, it could result in a further loss to MFP of over £100m.

Deals ensured that shoppers were putting a fair amount of meat in their baskets but now the purchase will be more considered. Shoppers may move away from their default bulk-buy and become more susceptible to other messaging and more varied purchases. Volumes are likely to take a hit, as they have already. The long-term impact of this change remains to be seen and will continue to be monitored

With the loss of the multibuy promotional mechanism, it has become more critical than ever to bring pork to the front of the consumer mind-set and make it more of a destination or dish-based purchase than an additional buy in an X for Y deal. The recent AHDB Pulled Pork Campaign provided an ideal opportunity to fulfil this criteria. The full analysis of the impact of the second wave of the Pulled Pork campaign is due to be published soon but the first wave led to a significant uplift in pork sales.

Despite the reduction in pork sold on Y for £X deals, the amount sold overall has only declined slightly. However, this is partly because the retail price of pork has been falling over the last two years. The recent rise in farmgate prices may eventually lead to pressure for retail prices to rise too. Already, producers' share of the final price has started to increase, from historic lows of 31% in the first quarter of 2016 to 35% in the latest figures. In a retail environment that is still applying deflationary pressure, any price rise for pork will mean it will have to fight even harder to maintain retail sales amid the changed promotional mix.

UK Market Analysis

Will tariffs disrupt post-Brexit pork trade?

The UK's decision to leave the European Union will have far-reaching effects on the pork sector. The most immediate impact has come from the weakening of the pound, which has helped to push pig prices (and input prices) higher. In the longer-term, decisions about agricultural and environmental policy and movement of labour will also be influential.

However, perhaps the most important factor will be the UK's future trading relationships with the EU. Before examining what the future might hold, it is worth reviewing the current EU arrangements for trade in pig meat. Trade between the UK and other EU countries is largely unrestricted under the single market. However, it's a very different story for pork entering the EU from outside.

Pig meat imports, apart from offal, are subject to sizeable import tariffs. Tariffs for selected cuts and products are listed in the table below. Tariff rates are the same for fresh, frozen and salted/brined cuts.

Examples of EU import tariffs for pig meat products

Product	Tariff rate (per 100kg)	Sterling value (per kg)
Carcases/half-carcases	€53.60	45.0p
Bone-in hams and cuts	€77.80	65.3p
Bone-in shoulders and cuts	€60.10	50.4p
Fore-ends and cuts	€60.10	50.4p
Bone-in loins and cuts	€86.90	72.9p
Bellies and cuts	€46.70	39.2p
Boneless cuts	€86.90	72.9p
Other bone-in cuts	€86.90	72.9p
Uncooked sausages	€149.40	125.3p
Other sausages	€100.50	84.3p
Processed hams	€156.80	131.5p
Processed shoulders	€129.30	108.5p
Unprocessed pig fat	€21.40	17.9p
Processed pig fat (incl. lard)	€17.20	14.4p

Source: EU Commission

The high level of these tariffs effectively means that most imported pork is uncompetitive on the EU market, even though production costs and wholesale prices are lower in other exporting countries such as the US, Canada and Brazil. Tariffs are not the only thing limiting imports, though. Sanitary and Phytosanitary (SPS) measures, such as the widespread use of Ractopamine, are also an issue.

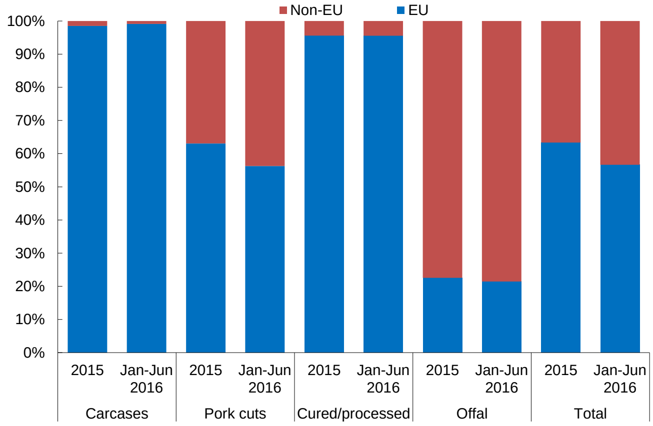
Nevertheless, without tariffs, products from these countries would undoubtedly reach the EU (and the UK) and would drive prices for domestic pork down. Although the impact may be mitigated if retailers were unwilling to sell non-EU pork, it would still find buyers in foodservice or manufacturing, displacing EU pork from these markets.

So, how will Brexit change the situation? The truth is, we don't know yet. However, AHDB's recent Horizon Report identifies various options for the UK's trading relationship with the EU in the future. At one end of the scale, the UK may remain a part of the single market or, at least, the EU Customs Union. In these cases, existing EU tariffs will remain in place and goods may still be able to move freely between the UK and EU. In other words, little may change.

However, these options will probably come with strings attached, for example around free movement of labour, which may be unpalatable to the UK government. Therefore, a different kind of trade deal may be required. The problem is that agreements of this kind normally take many years to negotiate and so no deal may be in place when the UK leaves the EU.

In that case, UK exports will be subject to the same EU import tariffs as other countries with no trade agreement, at least until a deal is agreed. In other words, UK exports to the EU could become uncompetitive. Given that 74% of pork exports are to the EU (or at least are routed through it), this could have a dramatic impact on the UK industry. A particular concern will be over exports of sow carcases, which would be subject to a tariff of 45p/kg. This could mean cull sows have little or no value, hitting producer returns and effectively raising the cost of producing piglets.

EU/Non-EU split for UK pig meat exports



Source: HMRC, GTIS

In this situation, the UK may decide to impose its own tariffs on imports from the EU. If these were at similar levels to the EU tariffs, this could mean much less imported pork reaching the UK and whatever does being significantly more expensive. This could lead to higher pig prices. However, it would also mean higher prices for consumers, which may be politically unacceptable.

Therefore, there is a chance that the UK will choose to have lower tariffs or even remove them completely. In that case, the new rates would automatically apply to imports from outside the EU too. This could lead to lower pig prices, affecting the long-term sustainability of UK pig production.

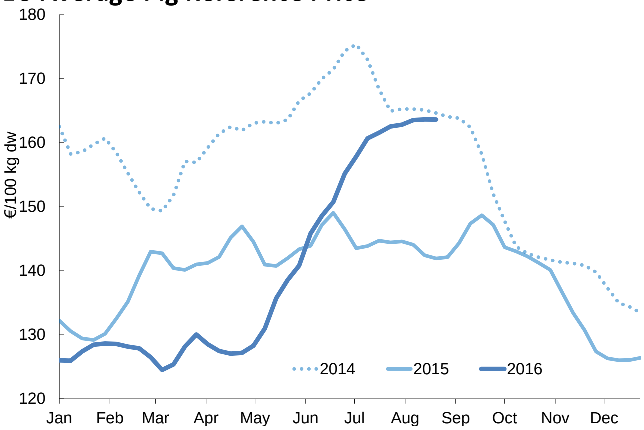
It is clear that the outcome of trade negotiations will be crucial to the pig industry. Further analysis of the implications for pork and other agricultural sectors will be published next month by AHDB and the situation will be kept under review as more information becomes available.

EU Market Snapshot

The rise in EU pig prices began to slow going through July and August, with the reference price closing at €163.62/100kg for week ended 21 August. This week was the first time a weekly decline, albeit a modest one of €0.05/100kg, had been recorded since April 2016. However, the reference price is still €21.71/100kg more than at the same point a year earlier, having risen €1.09/100kg over the latest four-week period.

This price increase rate was significantly slower than that recorded over the four weeks prior to this period. The slowing of the price increase suggests that supply is now at a balance with demand. While supplies have been tightening among many member states, there has also been a decrease in demand. There have been reports of a disappointing barbecue season, particularly in Germany, which has affected domestic demand. However, strong export volumes to the Far East have helped to offset this drop in domestic consumption.

EU Average Pig Reference Price



Source: EU Commission

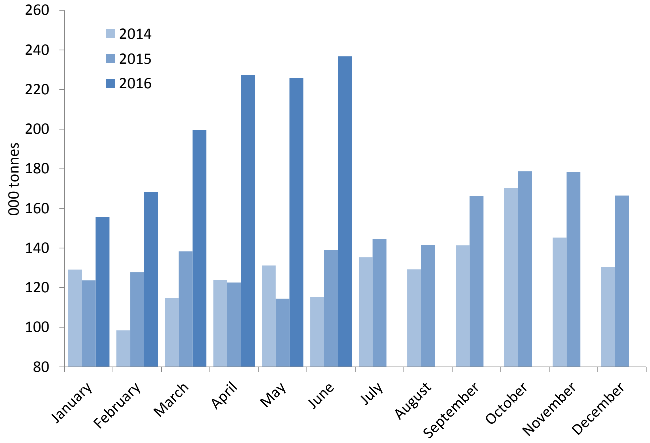
There were fluctuations in the price changes from major producing member states over the latest four weeks. Germany, Spain and France all recorded modest price increases, but none of them over €1/100kg, while Denmark and the Netherlands saw their pig prices fall back, by €2.60 and €1.99 respectively.

While the UK reference price continues to stand behind the EU price, by just under 9p/kg for week ended 21 August, this gap has not been exacerbated over the latest four-week period, despite the continued weakness of sterling against the euro.

The strong run of EU pork exports continued in June, reaching another new record of 236,800 tonnes. This was 70% up on the same month last year and a little under 10,000 tonnes more than the previous high point in April. As has been the case all year, sales to China drove the growth, with more than half of total exports destined for that market. Volumes were more than treble their level in June 2015. Hong Kong and the US also took more than twice as much EU pork as a year earlier. Shipments to most major markets held up but with little or no growth, compared with last June. Despite the rising EU pig price, export prices were slightly down on last year but the value of shipments was still up by more than half at €514.5 million. This was also a record for a single month.

The latest figures took total exports for the first half of the year to 1.2 million tonnes, nearly 60% up on the same period last year. The value generated was over €800 million more than in 2015, at just under €2.6 billion.

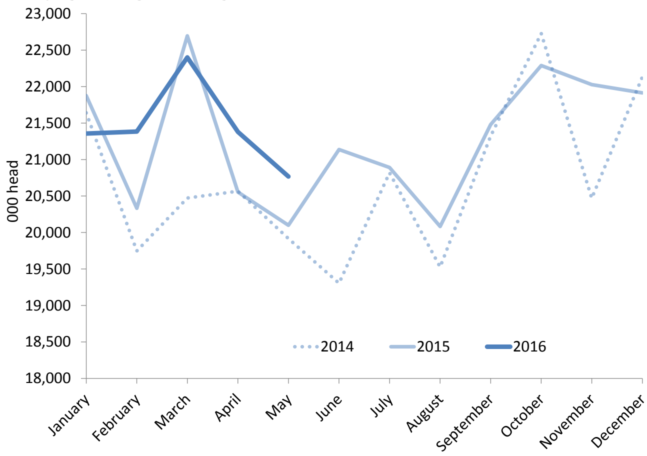
EU monthly pork exports



Source: Eurostat

Provisional figures from the EU Commission show that EU pig meat production increased year-on-year in May, up 3% to 1,873 thousand tonnes. However, when adjusted to the same working days, production levels were slightly back on 2015 levels, by 2%. The May 2016 figure includes an imputed figure for the Netherlands, as no official data from there has been published to date. Similarly, clean pig slaughterings were also up in May on the year earlier, by 3% to 20.8 million head, and slightly down when adjusted to the same number of working days, by 2%. The decrease in slaughterings and production illustrates the tightening of supplies during May, which assisted a sharp increase in the EU pig price that was recorded through the same period.

EU pig slaughtering trends



Source: Eurostat

There were fluctuations in production levels from the member states. German production was up 1% year-on-year, while Spanish production increased by 11% over the same period. Denmark posted the most significant fall in production levels, at 16%.

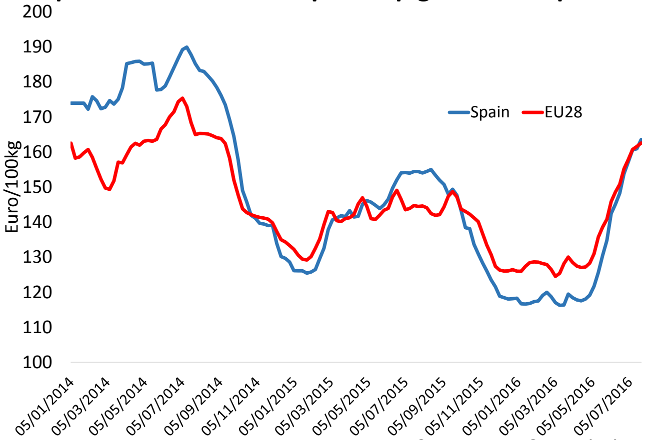
Global Market Analysis

Spanish exports continuing to grow

According to the latest census results, Spain now has the largest pig herd in Europe, after overtaking Germany. It has, for many years, had the biggest sow herd in the EU, and December census figures showed that numbers continue to increase, while other major producing states were declining in numbers. At 2.45 million head, the December 2015 sow herd was 5% up on the previous year. At the same time, the total herd increased 7%, to 28.4 million head.

Much of this increase is down to producers looking to make a return on the investments they made in the adaptation for EU animal welfare legislation in 2013. During most of 2013 and the first half of 2014, the Spanish pig price was in excess of the EU average. However, the slump in EU prices during 2015 and the first half of 2016 was felt more sharply by Spanish producers. Since the end of April, the Spanish price has recovered significantly, and now sits largely at parity with the EU reference price. The regular seasonal positive shift over the summer months, as the flow of tourists' moves south, may be exacerbated this year with holidaymakers preferring Western European destinations over Turkey or Egypt.

Comparison of EU28 and Spanish pig reference price



Source: EU Commission

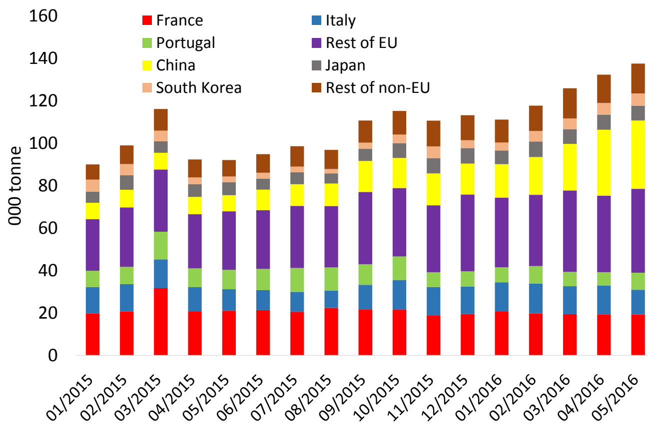
From the latest InterPIG figures, Spain has one of the lowest costs of production of all EU Member States. In 2014, this came in at €1.49 per kg. There are several reasons why the Spanish can keep their production costs so low. They have lower building and labour costs than in other parts of the EU. Furthermore, much of the production is vertically integrated, which helps to control costs. Therefore, while Spanish producers have been able to absorb more of the price volatility due to their low CoP, pig prices did not break even again after the price slump until June 2016.

However, this has not deterred the rate of production, with production levels increasing year-on-year over the last three years, reflecting the growth of the pig herd. Output is forecast to continue to increase throughout 2016, as a result of the internationalisation procedures undertaken by the pig industry, coupled with the support of the Spanish government to support increasing international demand for Spanish pork. During 2015, Spain produced 3.9 million tonnes of pigmeat, and looks set to overtake this in 2016, having produced 1.8 million tonnes in the first five months of the year. That is over 100,000 tonnes more than at the same point a year earlier. Volumes are now over double those of the early 1990's, which highlights the growth the pig industry has been though in the past two decades.

Spain is a net exporter of pork, with only a small proportion produced destined for the domestic market. Spanish consumption has shown a downwards trend over recent years, although it did recover slightly in 2015 and looks set to stabilise in 2016. This was aided by domestic promotional campaigns, run by Interporc and the Pork Producers Association.

These organisations have also put a large effort into promoting the quality of Spanish pork products to Asian markets, which has proved successful. Export growth has been steady for over a decade, and since the turn of the year, there has been a surge in shipments to China. In May and June, China imported more pork from Spain than anywhere else.

Spanish pork exports



Source: Agencia Tributaria, GTIS

In addition to the growing Far Eastern trade, Spain has also recently signed a trade deal with Mexico, which is a significant importer of pork. While Mexico currently sources the majority of its pork from the United States and Canada, this trade agreement opens up another, potentially very lucrative, market.

Spain has shown great success in developing and diversifying its export trade. The volume of fresh/frozen pork exports in May 2016 was almost one and a half times that of a year earlier and currently shows no signs of slowing. Currently the third largest global exporter of pork, behind Germany and the United States, the Spanish pig industry sold 1.23 million tonnes to 126 countries in 2015. It had an export turnover of more than €2.6 billion and, with the industry being the main contributor to the commercial surplus of the Spanish food and agricultural sector, the focus remains to grow this.

Global Market Analysis

WTO rule Russian ban unlawful

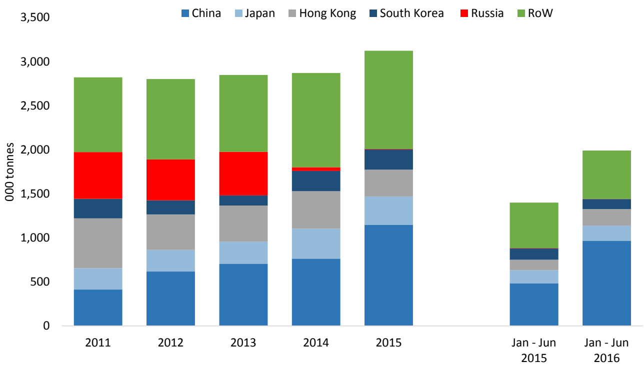
A WTO review panel have declared that the import ban on EU live pigs, fresh pork and other pig products imposed by Russia in early 2014 is against international trade rules. The ban was originally imposed over what the EU stated were a limited number of cases of African Swine Fever (ASF) in areas in the EU close to the border with Belarus.

The panel stated that the EU-wide import ban was not based on relevant international standards and violates the rules of the WTO Agreement on the Application of Sanitary and Phytosanitary Measures (SPS Agreement). This ruling can be appealed within 60 days. If no appeal is filed within this deadline, Russia will be bound to comply with the WTO recommendations. However, it is worth noting that most of the products dealt with will continue to be restricted due to the politically-motivated ban imposed on EU agri-food products in August 2014.

Now that the WTO has ruled the ban unlawful, it is worth considering the options that may avail themselves as a result of this decision.

Firstly, Russia may abide with the WTO ruling and lift the sanctions that had been applied. However, the implication of lifting this ban will have less of an impact that it may have had 12 months ago, due to the burgeoning trade with the Far East.

EU28 exports of total pig meat (including offal)



Source: Eurostat, GTIS

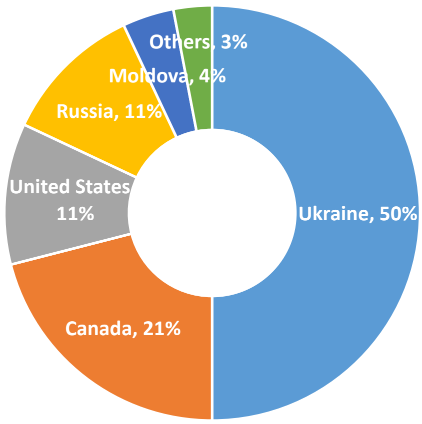
While the trade with the Far East shows no signs of slowing in the short term, it is still not known for how long it will stay buoyant. Thus, should trade with Russia open up again for the EU, it could provide another welcome market. This would be especially true with trade for fats and offal, which are products that have proved difficult to find an alternative market for since the Russian ban.

It is worth noting that Russia has significantly stepped up its production levels since 2014 to satiate the shortfall that was compounded due to the ban. Russia has claimed that it will be self-sufficient by 2020, and there has been significant investment in the pig production industry, with the government heavily subsidising pig production investment projects. However, at the same time, Russian pork consumption has fallen and, if the current growth rate continues, it runs the risk of over-supply. Imports from non-EU countries have increased since the EU-ban, most notably from Brazil, which almost doubled its export volumes in 2015 versus pre-ban 2013 levels. However, total Russian import levels in 2015 were less than half that of 2013. Therefore, should the Russian market be open to the EU again, it may not be at the size it was previously.

The second outcome that may occur is that Russia may choose to ignore the outcome and keep its sanctions in place. Should this be the case, the EU may impose retaliatory sanctions in place on Russian products. However, what goods might be sanctioned remains a topic for debate, as the impact would need to be greater for Russia than it would be for the EU.

Crude petroleum is the largest Russian export, accounting for 35% of the value of all Russian exports in 2014. However, the European Union has a huge reliance on Russian oil, so any sanctions on this may be potentially detrimental to the EU. If any retaliatory sanctions were restricted to agri-food products, then wheat is the largest Russian agricultural export, accounting for 1.6% of the Russian export value in 2014.

EU common wheat imports by origin - 2014-15



Source: Eurostat (Comext)

Russia accounted for 11% of common wheat imports for the EU over the 2014-15 growing year. This was down two percentage points against the previous five-year average. However, over the same period, the import volume from Ukraine has increased from 24% to 50%, and reports are that there has been another bumper harvest this year, so there are other viable source countries for this commodity.

In summary, the WTO ruling is more a political win for the EU than one that will see a material step-change in the market flow. Primarily, this is due to the politically motivated ban still being in place. However, the ruling does highlight that members of the WTO must operate within the predefined frameworks, so it is with interest that we wait and see Russia's response.

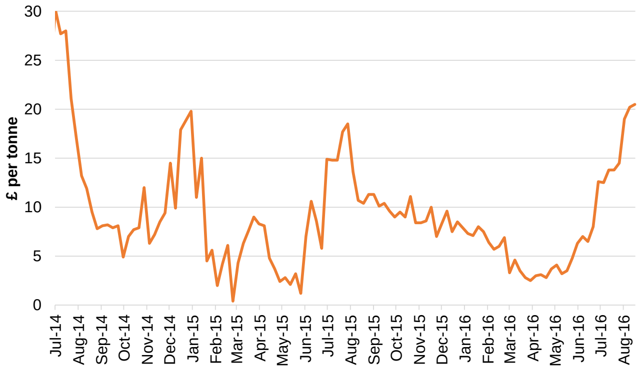
Feed Market

We're in the midst of harvest and markets have mainly been reacting to news of poor conditions in Europe, with many analysts reducing their yield estimations. On 5 August, FranceAgriMer cut its yield and output forecasts for a number of French crops for harvest 2016. The largest decrease was to the soft wheat yield, which was reduced from July's estimate of 7.1t/ha to 5.57t/ha. Strategie Grains went further and also reduced its German output estimate. It now estimates EU soft wheat output 7.7Mt lower than it did in July at 137.9Mt (151.2Mt in 2015/16).

On the UK side of things, feed wheat prices have been supported by the weakening of sterling, European crop concerns and by the domestic harvest picture. UK feed wheat futures (Nov-16) rose by over £6/t over the period 19 July to 23 August, with sterling weakening to below the £1=€1.16 mark for a time. An expectation that the UK will have lower feed wheat supplies in 2016/17 (fuelled by quality and the change in variety mix) was also a factor.

The rally in futures lifted UK average ex-farm feed wheat prices, causing a spread between spot feed wheat and feed barley prices. The spread in average ex-farm prices, for week ending 18 August, reached its widest level since July 2014.

Gap between UK ex-farm feed wheat and feed barley prices



Source: AHDB Corn Returns

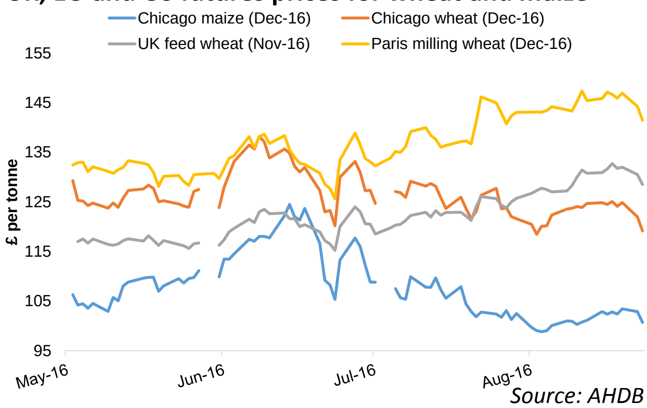
The UK harvest is well underway with mixed initial results. As of 23 August, the winter wheat harvest was 60% complete, winter barley 99% and oats 50%. In terms of quality, ADAS reports winter barley samples have relatively poor quality. For wheat, early indications of quality have been good with the majority of milling wheat crops meeting specification.

However, the rise in wheat prices could be suppressed by world grain supplies. The USDA's August report painted a heavy picture, with total global grain stocks at the end of 2016/17 forecasted over 12Mt higher than a month ago at 508Mt (487Mt in 2015/16). The increase comes as US maize and Russian wheat production both look set to break records, more than offsetting large cuts to EU wheat output on the back of adverse weather.

Indeed, US maize futures (Dec-16) have remained historically low, at around £100/t, throughout the time period (19 July-23 August), decreasing by around £4/t. In dollar terms, it dropped by around $4.43 to $132.77/t. Chicago wheat futures (Dec-16) fell by £4.56/t ($5.51/t) over the period.

Recent currency fluctuations have meant that prices for all markets have fallen in sterling terms. This highlights how currency is also a factor driving markets, along with supply and demand fundamentals.

UK, EU and US futures prices for wheat and maize



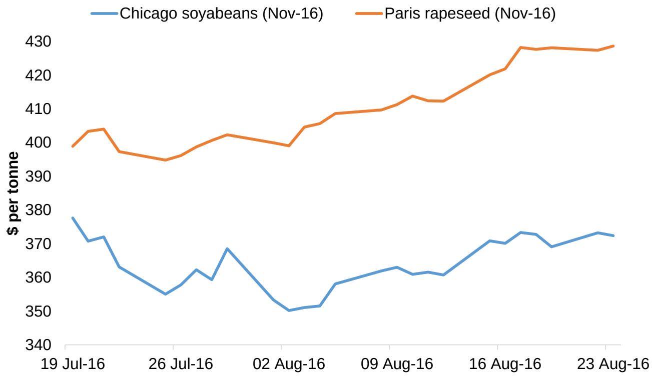
Source: AHDB

UK winter oilseed rape harvest results are also looking disappointing. 97% was harvested as at 23 August according to ADAS, with the current yield estimate at 3-3.2t/ha, lower than the five year average of 3.6t/ha. This, along with upward movements in EU markets, has caused UK delivered prices to rise. Delivered rapeseed (Erith, Nov) increased by £26.50 between 22 July and 19 August, to £328.50/t.

In terms of the European rapeseed crop, output expectations have been lowered, compounded by FranceAgriMer cutting its French output estimates, now 15% lower than 2015. This has given support to prices.

Soyabeans have had an interesting month, with strong Chinese demand for US soyabeans giving US futures a boost at the end of July. However, recently prices have begun to sink again due to favourable weather in the US Midwest. The expected record high US soyabean output is becoming more likely, which has weighed down the oilseed complex, essentially capping any gains in the European market.

US soyabeans and Paris rapeseed futures



Source: AHDB

In Brief

Agricultural policy models around the world

Brexit has created the opportunity for the UK to create its own Agricultural Policy. To date, there have been no official announcements on a future UK agricultural policy. However, the latest edition of AHDB's Horizon series looks at different agricultural support models from specific countries around the world, and evaluates their impact on the agricultural industry. The report is not intended to predict in which direction UK Government may choose to go, but to outline examples of the alternative models that currently exist.

Agricultural policy exists for two main reasons: to ensure food security and for the provision of public goods. The weight that these two objectives are given varies by country. Here in the UK, post war, food security was the objective of the UK, and subsequently EU policy. However, in more recent times, the emphasis has been shifting towards more environmental aspects and the provision of public goods.

In the process of creating a new post-Brexit agricultural policy, the Government may look towards models elsewhere in the world. Government spokespeople have indicated a preference for a more market-oriented policy, with lower support.

The report reviews the public instruments that are used to tackle price and income volatility in the United States, Canada, Australia and New Zealand. These are all countries that have a lower level of support than the EU. The report also reviews the nature and importance of current support arrangements (under the CAP) and looks at how World Trade Organisation (WTO) rules will constrain the UK government's options.

The new report and other AHDB publications about the implications of the UK's decision to leave the EU can be downloaded by clicking here.

Pig feed production up in the first half of 2016

Total GB compound pig feed production for the first half of 2016 totalled 916,000 tonnes, a slight increase (0.4%) on the same point in 2015, according to latest data released by Defra. Breaking it down by feed type, grower feed production increased by 1% to 230Kt and finishing feed production increased by 4% to 451,000 tonnes, in the first half of 2016 compared to Jan-Jun 2015. However, pig breeding feed production decreased by 4% to 203,500 tonnes over the same period.

Danish breeding herd still shrinking

Provisional figures from the 1 July pig census showed that the number of pigs fell at the start of Q3 2016 versus the same period a year earlier, by 3%, to 12.3 million head. This continues the year-on-year decline that has been recorded in the pig herd each quarter in 2016. The breeding herd was also back by 3% on 2015 levels, and for the first time this century, total sow numbers fell below 1 million. Both in-pig sows and in-pig gilts were down 3%, while maiden gilts recorded a modest rise of 1%. All of this is indicative of a continuing tightening of supplies in the second half of the year. The number of young pigs fell modestly by 1%, while slaughter pig volumes were back slightly more at 3%. Therefore, it may be expected that production volumes will fall both in the shorter and longer term.

US exports largely stable over the first six months

US exports of fresh/frozen pork remained largely stable in the first half of 2016 on last year, at 784 thousand tonnes. However, the value of these exports fell just under 6% to $1,989 million over the same period. This stability in export volumes was largely supported by an increase in shipments to China, as the other large importers of US pork all recorded decreases over the first six months of the year. Mexico remained the largest importer of US pork, accounting for just under a third of all shipments. However, export volumes to Mexico recorded a 4.5% decrease on 2015 levels.

Global prices starting to pick up

Having reached their lowest point for many years earlier in 2016, global pork export prices have started to pick up more recently. Although not perfect, export prices give a good indication of how farmgate prices will have developed on a global basis. Having started the year at a fraction over US$2.30 per kg, the average value of pork traded from the four major global exporters (EU, US, Canada and Brazil) reached $2.52 in June. This was the highest level since last October but was still 12 cents below June 2015.

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