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Outlook for UK pig meat supplies

The UK pork market has entered a period of tighter supply, following the low prices recorded in 2015 and early 2016. According to latest forecasts from AHDB Pork, this situation is likely to continue into the first half of 2017 but production will start to grow again later in the year. Although much uncertainty remains, not least because of the UK's decision to leave the EU, this should mean that the market remains firm for some months to come. To read more about the latest supply forecasts, turn to **page 4**.

Comparing UK and EU pig prices

Since June, AHDB has been reporting that UK pig prices have fallen behind the EU average price. This represents a significant change from last year when UK prices averaged almost 30p/kg higher than EU levels. However, do these figures, based on comparing UK and EU reference prices, give a fair reflection of the true difference between prices on the GB market and those on the continent? Find out on **page 5**.

EU forecasts

The reduction in the EU pig breeding herd in the year to June 2016 is expected to lead to some reduction in supplies over the coming months. However, uncertainty about future export prospects and subdued EU consumer demand may prevent prices rising any further. These were among the conclusions drawn from this week's meeting of the EU Commission's pig meat forecasts working group. To read more, turn to **page 7**.

Global outlook

Total global pig meat production is forecast to be down 2% this year, relative to 2015, according to the US Department of Agriculture's latest global outlook report. However, looking forward to 2017, production is predicted to not only recover but increase above 2015 levels, to a record 111.0 million tonnes. Total global export volumes are now forecast to increase well ahead of previous expectations during 2016 and a further 1% increase is anticipated during 2017. More analysis of the global pork market outlook can be found on **page 8**.

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Key data

	Sep-16	Change since Aug-16	Change since Sep-15
Average GB carcass weight - kg	81.67	+0.98	+0.46
30kg weaner price - £/head	47.40	+1.44	+3.03
7kg weaner price - £/head	34.89	+1.78	+2.20
GB APP (Euro-spec) - p/kg dw	141.93	+4.08	+7.05
GB SPP (Euro-spec) - p/kg dw	139.91	+4.34	+9.16
EU Reference price - €/100kg dw	165.65	+2.18	+19.00
UK Reference price - €/100kg dw	161.62	+6.27	-14.56
UK weekly clean pig kill - 000 head	206.9	+7.5	-0.0
UK weekly pig meat production - 000 tonnes	17.7	+1.0	+0.2
UK pork imports - 000 tonnes*	39.9	+3.1	+9.4
UK bacon imports - 000 tonnes*	21.5	+1.6	+1.6
UK pork exports - 000 tonnes*	15.9	+1.3	+0.4
Retail pig meat sales - 000 tonnes†	50.7	-0.6	-2.1
LIFFE feed wheat futures - £/tonne	123.90	-4.68	+11.19
CBOT Soyameal futures - \$/tonne	310.48	-20.17	-0.64

* Figures relate to August 2016
† Figures include household purchases of pork, bacon, sausages and ham and relate to 4 weeks to 11 September 2016

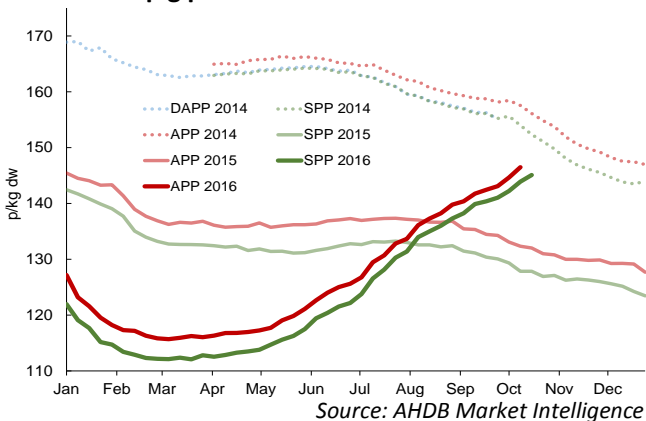
Interested in data? Get more detail about these and other areas from the [AHDB Pork website](#)

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UK Market Snapshot

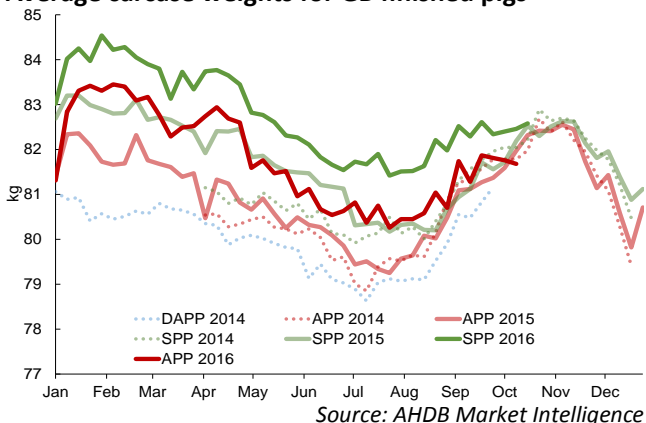
GB pig prices continued to climb during September, with the monthly average EU-spec APP rising by 4.08p to reach 141.93p/kg. This is the first month the average APP has been above 140p/kg since January 2015 and follows prices continually rising over 6 consecutive months. With sterling remaining weak against both the euro and the dollar, UK pork has stayed competitive on both the domestic and international marketplace. Strong export demand, coupled to a tightening supply situation, supported the pig price. Growth has not slowed into the first two weeks of October; the APP exceeded 146p/kg for the week ended 8 October. This price level has not been seen since the end of 2014.

GB finished pig prices



The SPP also continued climbing during September, reaching 139.91p/kg following a 4.34p growth on the previous month. Throughout September, the gap between the APP and the SPP narrowed from 2.13p to 2.07p. However, this gap has since widened again to 2.59p. For the most recent week ended 15 October, the SPP stood at 145.08p/kg, 17p more than the same period last year.

Average carcass weights for GB finished pigs

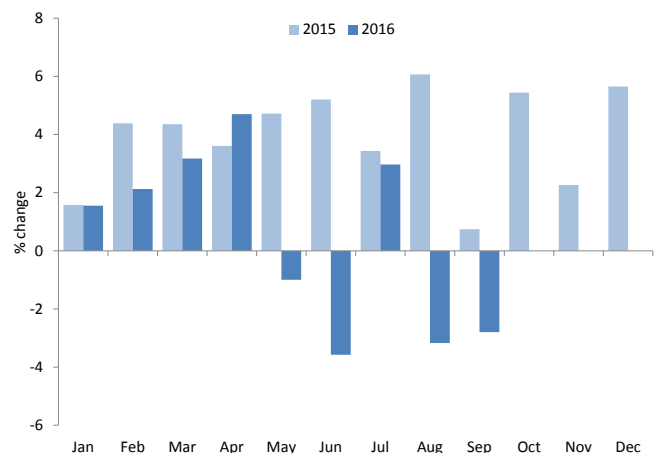


Average carcass weights followed the usual seasonal trend and increased during September; the APP sample rose by just under 1kg to reach 81.67kg. This put average carcass weights 0.46kg higher than September 2015. Weights fluctuated slightly week-on-week but remained south of the 82kg mark which was breached in spring this year when low demand meant producers had to roll their pigs. Moving into the first two weeks of October, carcass weights have declined slightly, countering the usual seasonal trend.

Price increases were also seen in the GB weaner market during September. 7kg weaners recorded a price rise of £1.78 on the previous month to reach £34.89/head, while 30kg weaners also rose in price by £1.44 to £47.40/head. These prices are on a par with those seen at the end of 2014. There have been further increases moving into October, though both markets have tailed off slightly in recent weeks. For 7kg weaners in particular, this may reflect caution in the market, as these pigs will not be finished until the traditionally slower post-Christmas period.

According to the latest figures from Defra, UK clean pig slaughtering were back 3% during September compared to a year earlier, at 910.5 thousand head. This allows for adjustments to the 2015 figure to account for the change in the Defra reporting method earlier this year. Declining slaughter rates support anecdotal evidence of tightening supplies- which is further evidenced by buoyant pig prices.

Annual change in UK clean pig slaughtering



The fall in slaughter number was partially counteracted by increasing SPP average carcass weights; up by 1.1kg on the previous month and 1kg on September last year to reach 82.0kg. Sow slaughterings were also reportedly up 1% during September relative to 2015, at 22,900 head.

However, this follows two months of lower slaughterings and, with market prices currently positive, optimism amongst producers may encourage maintenance of the breeding herd. Altogether, the above figures translate into a 2% decline in pork production on year earlier figures during September 2016, at 78.0 thousand tonnes.

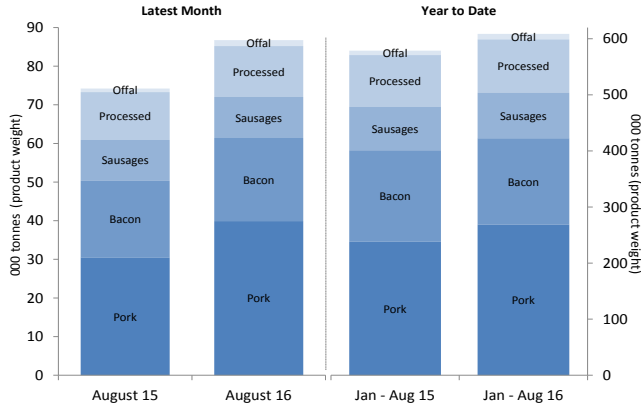
Imports of fresh/frozen pork to the UK during August followed a similar trend to July, increasing by 31% year on year to 39,900 tonnes. This continues to be driven by a rise in imports from Denmark, which more than doubled compared to the previous year. Reflecting the currently high pork prices and weak pound, the average unit price of imports was up by 15% year on year. This resulted in the overall value of imports rising by 50% to £75.1 million.

Imports of cured and processed pig meat also increased during the month. Danish supplies drove the rise in

UK Market Snapshot

bacon imports, with other suppliers sending less to the UK. Higher sausage imports were mainly sourced from Germany and Poland, while the increase in other processed products came primarily from Ireland.

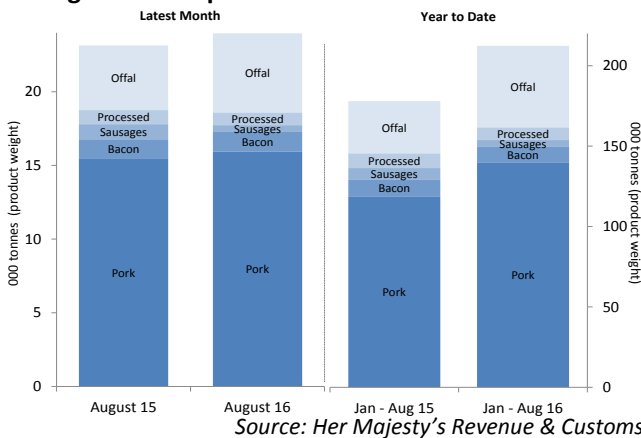
UK Pig Meat Imports



Source: Her Majesty's Revenue & Customs

UK fresh/frozen pork exports began to increase again in August, up 3% on 2015 at 15,900 tonnes. China continues to account for most of the rise, with shipments up 68%. Declines in shipments to Ireland and Germany, of 11% and 7% respectively, drove a fall in exports to the EU during the month. Volumes going to the Netherlands and Denmark also declined. These falls are potentially due to UK pig meat production being 2% lower in August, combined with higher volumes going to China, leaving less to be exported to other destinations. The average value of shipments was up during the month, helped by the post-Brexit devaluation of sterling. This meant that the total value of UK exports in August was up 20% at £20.1 million. The value of exports going to China more than doubled compared to the previous year.

UK Pig Market Exports



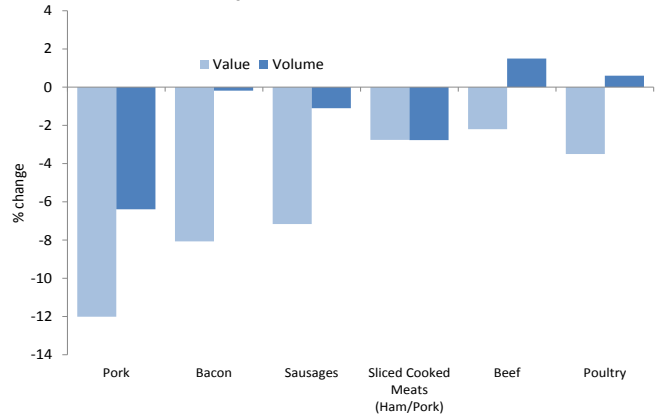
Source: Her Majesty's Revenue & Customs

Offal shipments in August were up by 23% year on year at 5,400 tonnes, driven by higher sales to China which accounted for over half of total offal shipments.

Consumer spending on retail pork purchases was down 12%, compared with a year earlier, in the 12 weeks ending 11 September. Prices were down across most major cuts, with the biggest percentage drops coming in loin cuts and shoulders. Despite this, the overall amount sold was down 6% year on year. The volume of pork sold

on promotion was lower than a year ago. There was an increase in temporary price reductions (TPRs), while levels of Y for £X deals, important drivers of volume sales, continue to fall. Switching data shows that people who moved out of pork did so mainly to fresh chicken and chilled convenience products. However, pork did make gains from frozen chicken during the latest period.

Annual percentage change in retail meat purchases (12 weeks to 11 September 2016)



Source: Kantar Worldpanel

Expenditure on bacon continued to decline, down 9% on the back of a small fall in the amount purchased but mainly due to a drop in average retail prices of 7%. As for pork, the level of promotional activity was down year on year and the mix switching towards TPRs. Value sales of sausages were down 6%, with this again predominantly coming from lower retail prices. The one growth area for sausages continues to be low fat, albeit from a very small base. Sliced cooked meats were down 3% in spend for the 12-week period. Ham was down 4%, with retail prices virtually unchanged but the volume bought down 4%.

The producers' share of retail pork prices has now been rising for six consecutive months, reaching 37% during September. This was 1% up on the previous month, and 2% higher than the same period last year but remains 3% lower than the 40% stake enjoyed by producers during September 2014. The increase in producers share has been assisted by the rising GB pig prices while retail prices have remained more stable.

There was movement in the price of individual cuts, based on AHDB's retail price survey. Fillet end leg reported a price increase of 4% on the previous month, while boneless leg and shoulder showed increases of 2% and 1%, respectively. Most other cuts showed price falls of 1% during September, with the exception of minced pork which declined 2%.

Compared to September 2015, the trends were again mixed. The price of many cuts fell, including sausages, diced pork and loin steaks (-4%), loin chops (-3%) and minced pork (-2%). These price declines have been partially offset by other cuts increasing in value during this period. Fillet of pork showed the most substantial increase in retail price of 3%. Fillet end leg was also up 2% on the year, while boneless leg and shoulder increased in price by 1%.

UK Market Analysis

UK pig supplies to remain tight into 2017

The UK pork market has entered a period of tighter supply, following the low price recorded in 2015 and early 2016. According to latest forecasts from AHDB Pork, this situation is likely to continue into the first half of 2017 but production will start to grow again later in the year. Although much uncertainty remains, not least because of the UK's decision to leave the EU, this should mean that the market remains firm for some months to come.

The rising pig prices seen since the spring have been driven by a number of factors. Some of these are external ones – demand from China, the strengthening EU market and the weak pound. However, a slowdown in production has also contributed. In the early months of the year, production was already rising at a slightly slower rate than in recent years, around 2-3%, compared with last year. However, by the third quarter, pig meat output had dropped marginally below 2015 levels, the first year-on-year decline since 2009.

This slowdown is thought to have been driven by a reduction in the UK breeding herd in late 2015 and early 2016, when pig prices were at their lowest. However, this is contradicted by figures from Defra's June Survey, which show a rise in sow numbers. If those figures are correct, though, they would imply a sharp and unprecedented drop in herd productivity. There is no other evidence to support such a drop.

As other data support expectations of a lower breeding herd (e.g. increased sow slaughterings, reduced breeding pig feed production), the latest forecasts instead assume a 3% fall in the breeding herd in the year to June, with a lower figure used for December 2015 too. This assumption brings derived productivity growth back in line with historic trends. Looking ahead, the breeding herd is forecast to stabilise and perhaps even recover slightly.

Calculated UK breeding sow productivity based on different breeding herd sizes

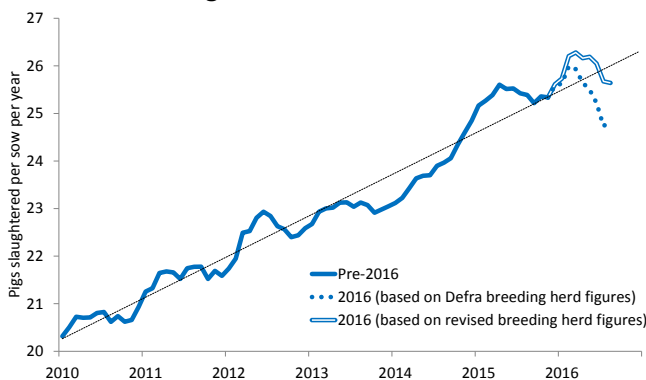


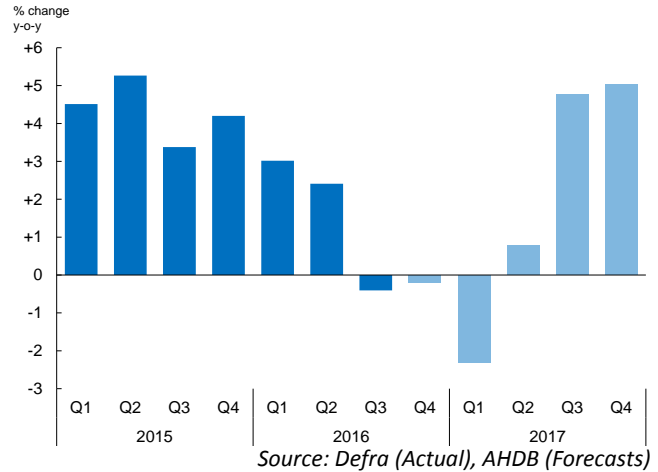
Chart: Number of pigs slaughtered per sow per year in the UK (deseasonalised and smoothed)

Source: AHDB Market Intelligence estimates based on Defra data

Based on these assumptions for the breeding herd, clean pig slaughterings are forecast to remain below

year earlier levels through to the spring, before starting to recover into the second half of next year. With sow slaughterings expected to remain close to normal and only a modest rise in carcase weights forecast, UK pig meat production is anticipated to decline over the next six months or so before returning to growth later next year.

Actual and forecast change in UK pig meat production



Source: Defra (Actual), AHDB (Forecasts)

With EU prices moving above UK ones, aided by the weak pound, UK pork should be more competitive at home and abroad. This would be expected to lead to lower imports and higher exports. However, to date, that hasn't really been apparent. UK pork exports have been rising but, if anything, the rate of growth has slowed in recent months. However, imports have started to increase, largely due to a sharp rise in Danish shipments since May. The reason for this is currently unclear, so it is unknown whether it will continue.

Although trade hasn't realigned yet, it seems reasonable to assume that it will do so over time, if the pound remains weak. Therefore, UK imports are forecast to fall back in the remainder of 2016 and most of 2017. As well as the exchange rate, this is reinforced by expectations of a decline in EU production following the 4% drop in the breeding herd recorded in the year to June.

At the same time, UK exports are predicted to increase over the coming months. Growth will, however, be constrained by the reduced level of production. This may limit the supplies available for export markets, so the UK is unable to take full advantage of the strength of demand for its more competitively-priced products.

Balancing all these factors out, supplies on the domestic market are forecast to tighten further into 2017, at least until the latter part of the year. This should ensure the UK pig market remains firm, although, as always, the direction of prices will depend on factors such as consumer demand and the state of the economy. The uncertainty around Brexit may also have an influence, beyond just the exchange rate.

To read more detail about the latest AHDB forecasts for pig meat supplies, [click here](#).

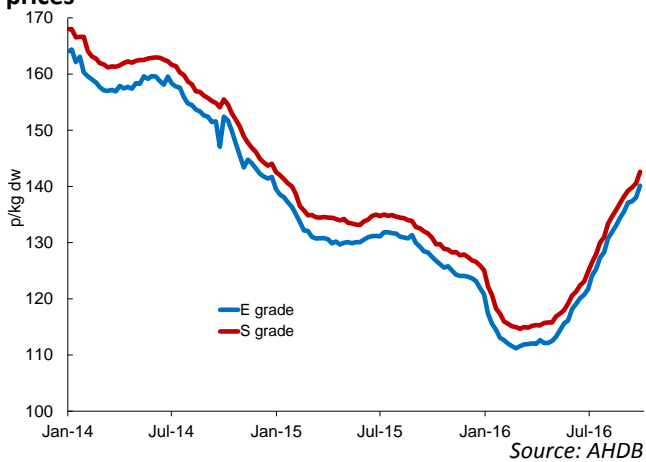
UK Market Analysis

How big is your premium? – comparing UK and EU pig prices

Since June, AHDB has been reporting that UK pig prices have fallen behind the EU average price. This represents a significant change from last year when UK prices averaged almost 30p/kg higher than EU levels. These conclusions are based on analysis of the reference prices published by the EU Commission, which are intended to provide a like-for-like comparison between prices in different countries. But do they really do so?

Before answering that question, it is worth pointing out that the EU Commission actually publishes three sets of reference prices, for pigs graded S, E and R. The latter only has a few countries contributing and is dominated by Italy. However, most Member States contribute to the S- and E-grade prices. Traditionally, comparisons have been based on the E-grade price, as publication of S-grade prices only began in 2014. However, given that over three-quarters of UK pigs are S-grade, this might provide a more meaningful comparison. In reality, though, there is little difference in the gap between UK and EU prices, as both UK and EU S-grade prices average around 3p/kg higher than the E-grade prices.

Comparison of S-grade and E-grade UK pig reference prices



When comparing GB prices with those in the EU, it is also worth remembering that the UK reference price includes pigs from Northern Ireland, where prices are typically lower. We estimate that if it was based on prices in GB alone, the reference price reported to the EU Commission would be 2-3p higher than the current UK one.

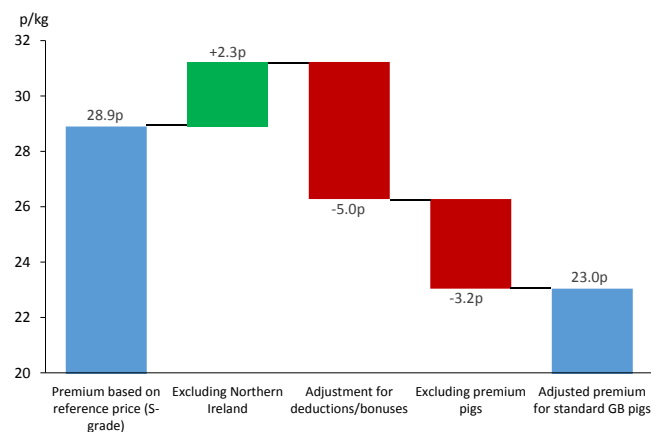
The main issue when comparing prices across EU countries is that the reference prices are 'gross prices', before deductions or retrospective bonuses. In some countries, such as the UK, significant amounts can be taken off the price received by producers before they are paid. This can cover charges for services such as transportation, meat inspection, classification and levies. In other countries, some or all of these are paid for by processors.

Furthermore, in some countries, such as Denmark and France, many producers receive annual bonuses from processors, typically where they are producer-owned co-operatives. As these bonuses are not paid until the end of the year, they can't be included in the gross price reported each week. Therefore, the reference prices for these countries understate the true price received by producers – in Denmark, this can amount to nearly 10p/kg in some years.

AHDB is currently undertaking work to understand the impact of these bonuses and deductions on the reference prices and, hence, on the gap between UK and EU prices. However, we can use data from the InterPIG group to estimate the effect. Although the group does not cover all EU Member States, it does include most of the main pig producing countries. Based on the group's data, in 2015, GB producers received around 26p/kg more than the EU average for their pigs, after accounting for deductions and bonuses. This is around 2-3p less than the premium reported by the UK reference price.

In other words, the reference price comparison appears to overstate the GB premium (or understate the deficit) by around 2-3p. However, this is not the full story. The GB/UK price includes premium pigs, mainly outdoor-bred. These face much less competition from EU pork than 'standard' indoor-bred pigs. Based on comparisons between the APP and SPP, these premium pigs will inflate the reference price by around 3p, on average.

Adjustments to UK/GB pig price premium over EU average price, 2015 (provisional)



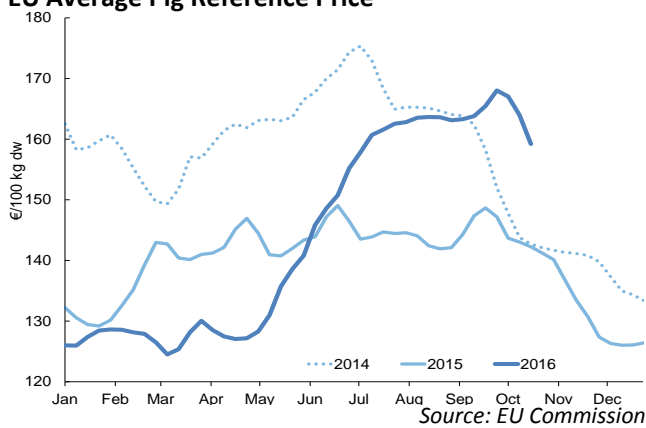
Based on this initial analysis, it appears that when comparing EU pig prices with those for standard GB pigs, the UK reference price should be reduced by an estimated 5-6p/kg to provide a more valid like-for-like comparison. This estimate will be refined once we have completed further analysis. Nevertheless, it would mean that for 2016 to date, GB and EU prices were roughly on a par, on average, and since June, EU prices have been even further ahead of GB ones than indicated by the reference prices.

EU Market Snapshot

The EU-average pig reference price tailed off in the latest three weeks. After peaking at €168.03/100kg in week ended 25 September, the price has fallen by a shade under €9 in the subsequent three weeks to €159.20/100kg (week ended 16 October). This remains 12%, or almost €17, up on the same period both last year and two years previously.

A seasonal increase in supplies is likely responsible for falling EU prices over recent weeks. Also, although Chinese demand has remained strong relative to previous years, latest export figures suggest demand has weakened compared to earlier months. With domestic demand remaining low, the increased availability of EU pork has enabled prices to fall.

EU Average Pig Reference Price



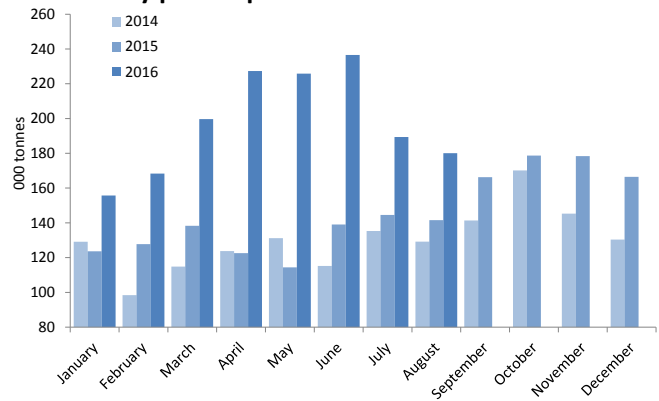
Decreasing prices in Northern Europe have driven the overall drop in the EU reference price. German prices have particularly declined, by nearly €14 from the peak three weeks ago. Danish, Belgian, Polish and Dutch prices have also fallen over the past three weeks, although by slightly less. Southern Europe has likewise been affected; the Spanish pig price declined by nearly €7 during the same period, for example.

The UK reference price remains below the EU average but as the latter price has fallen in euro terms over recent weeks this gap has narrowed. Three weeks ago, the difference was over 6p/kg, but for the most recent week, ended 16 October, the gap had fallen to just under 1p/kg.

EU pork exports appear to be slowing down, according to latest Eurostat figures. Since hitting a record in June, sales fell back nearly a quarter by August, to 180,000 tonnes. This is the lowest level since February but is higher than any month before the start of this year. It was also 27% more than in the same month last year. The drop in shipments is largely due to slower sales to China, although they remain well above last year's level. Exports to China were up by two-thirds, compared with August 2015, but this is much less than the near-trebling of volumes in the first half of this year. Sales to other Asian markets remained strong too, with higher exports to Japan, Korea, Hong Kong and the Philippines. Offal exports have been less affected by any slowdown, with shipments in August up 18% on the year.

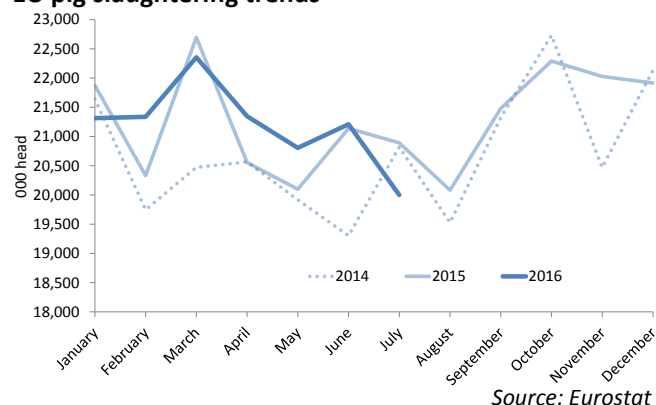
The higher EU pig price during August was reflected in increased unit prices for pork exports, compared with last year. As a result, the value of shipments was up by nearly a third year on year, to €411.3 million. Taking offal and other pig meat products into account, the total value of exports was €639.1 million, 28% up on August 2015.

EU monthly pork exports



At face-value, provisional figures from Eurostat show that EU pig meat production declined 4% on the previous year during July, to 1.78 million tonnes. However, when adjusted to take into account two extra working days in July 2015 compared to July this year, the trend is reversed. Per working day, pig meat production was up 5% during July 2016 relative to last year. However, production levels last July were particularly low and the latest figures probably represent a similar supply situation to last year. Clean pig slaughterings followed the same trends as production, with nearly a million fewer pigs killed this July, at 20 million head, but more slaughtered per working day. With more supplies available on the market, while domestic demand remained subdued, the EU pig price plateaued at this time. Export demand remained strong during the month, though, preventing prices from falling.

EU pig slaughtering trends



Southern Europe drove the increased EU pig meat production during July. Spanish production up 1%, even without adjusting the working days. Likewise, though a smaller player, Italian production recorded a substantial rise of 11% at this time. Northern European counties showed reduced production when the working days adjustment is not applied, with production from Germany back 4% on July last year, for example.

Global Market Analysis

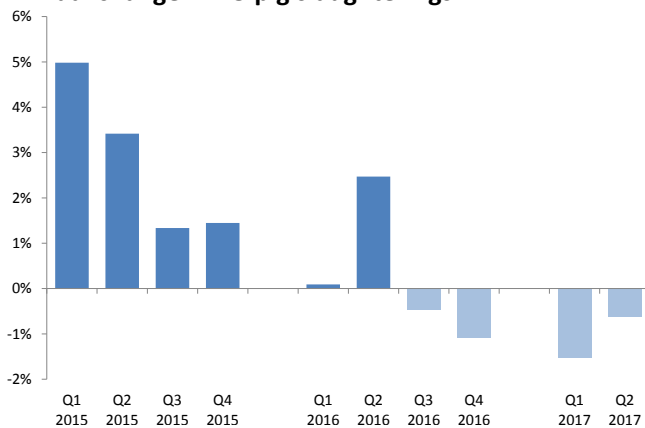
Tighter supplies ahead in EU but limited price support

The reduction in the EU pig breeding herd recorded in the year to June 2016 is expected to lead to some reduction in supplies over the coming months. However, uncertainty about future export prospects and subdued EU consumer demand may prevent prices rising any further. These were among the conclusions drawn from this week's meeting of the EU Commission's pig meat forecasts working group.

EU pig prices spent much of the last two years at very low levels, compared with the recent past. This was driven by increased supply, coupled with lower domestic demand and the ongoing impact of the Russian import ban. As a result, many pig producers suffered from negative margins, with some choosing to leave the industry or reduce their herds as a result. This particularly affected backyard farms in Eastern Member States.

As reported last month, the number of breeding sows in the major EU producers in June was 4% lower than a year before. The total number of pigs was also down year on year. As a result of this, total pig slaughterings are expected to be lower in the second half of this year and the first half of 2017. Not all countries forecasted numbers for the second half of next year but those which did suggested supplies would remain below this year's level in the third quarter before starting to recover in the final three months of next year.

Annual change in EU pig slaughterings



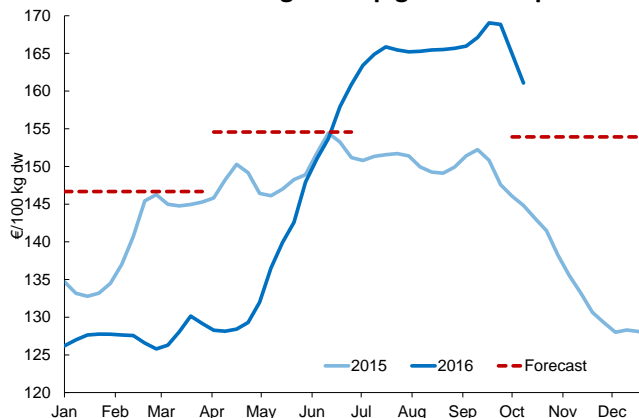
Given the extent of the breeding herd fall, a drop in slaughterings over the coming year was inevitable. Indeed, the fact that it is forecast to be a relatively modest 1% indicates further improvements in productivity across Europe. Among the major producing Member States, only Spain and the Netherlands are forecasting increased indigenous production between July 2016 and June 2017, compared with a year earlier. Some other countries may increase their slaughterings due to higher live pig imports.

In contrast, Germany, France and Denmark are all forecasting drops in pig production of around 2%.

Poland expects to produce 9% fewer pigs, although this will be largely offset by higher imports of weaners, particularly from Denmark, so its pig meat production may only reduce slightly.

The working group also forecasts prices. Here there is more uncertainty but the general view was that prices would fall seasonally between now and early next year, a trend which has already begun. However, they are expected to remain comfortably above the low levels recorded last winter.

Actual and forecast EU grade S pig reference price



How the market develops as we move through next year will depend in large part on export demand. This year, the market has been supported by booming exports to China. The EU was well placed to respond to increased Chinese demand for imports in 2016. EU pork was competitively-priced and the Chinese ban on Ractopamine limited imports from the US. However, with more hormone-free production across the Atlantic and falling US prices, EU exporters may not get such an easy ride next year, even if Chinese demand doesn't reduce. Good demand is expected from some other export markets, though.

On top of this, EU consumer demand remains a challenge. Most major markets are seeing falling consumption and sales of fresh pork are particularly struggling. Processed products are generally faring better, due to a good fit with busy modern lifestyles, but often deliver lower value to the industry.

Based on these concerns, forecasts suggest that seasonal price gains may be more modest next year than in 2016. Despite starting the year well above this year's level, prices are not expected to reach the same peak and are forecast to fall below 2016 levels in the second half of the year.

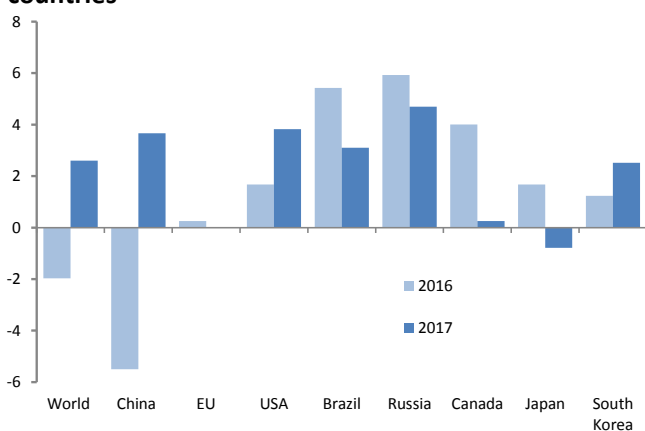
While these forecasts do suggest a reasonable year ahead for EU producers, there appears to be little prospect of a return to the high prices recorded in 2013 and early 2014. Of course, how this impacts on the UK market will depend, among other things, on the pound-euro exchange rate. However, if the pound remains weak or weakens further, a firm EU market could give support to UK prices.

Global Market Analysis

Global pork production and exports set to reach record highs in 2017

Total global pig meat production is forecast to be down 2% this year, relative to 2015, at 108.2 million tonnes, according to the US Department of Agriculture's latest global outlook report. However, looking forward to 2017, production is predicted to not only recover but increase above 2015 levels to a record 111.0 million tonnes. These trends are influenced predominantly by China, where production is expected to fall this year before increasing in 2017. Meanwhile, EU production is anticipated to remain steady over this timeframe.

Annual % change in pig meat production in selected countries



Source: USDA

USDA's forecasts record that China will continue to be the dominant producer of pork both this year and next, accounting for just under half of the total global pig meat production. Relative to 2015, a 6% decline in production is anticipated this year, down to 51.9 million tonnes. However, the recent rise in Chinese pig and pork prices is expected to drive herd expansion, leading to a 4% rise in production next year.

Smaller players are also forecast to make significant gains. A recovering economy and strong international demand are predicted to drive Brazilian production up by an estimated 5% in 2016 and 3% in 2017. Following from this, exports are forecast to increase by a substantial 44% in 2016, and a further 4% next year. Russia continues to be the primary destination for Brazilian pork, where it holds a favourable trading position as the import ban against EU, US and Canadian pork is planned to remain in place until December 2017.

Despite maintenance of the import ban and an anticipated 6% increase in domestic production, total pig meat volume imported into Russia is expected to remain stable this year. Into 2017, despite continuing outbreaks of African Swine Fever, investment and improvements in efficiency are expected to drive a further 5% increase in Russian production, to reach 2.9 million tonnes.

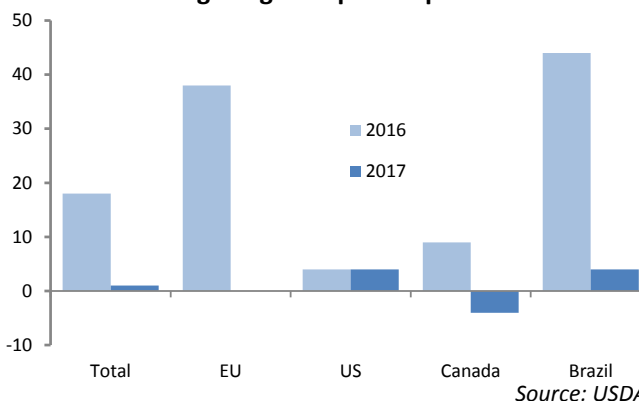
With the size of the US pig herd continuing to break

records, pork production in the US is also anticipated to increase both this year and in 2017, by 2% and 4% respectively. Moderate industry expansion and an increasing number of piglets per litter are expected take production volumes to a new record of 11.7 million tonnes next year. There are increasing fears that this could be beyond the capacity of existing processing plants, although some new ones are due to open next year.

Total global export volumes are now forecast to increase well ahead of previous expectations during 2016, up 18% on 2015 levels to a record 8.5 million tonnes. A further 1% increase is then anticipated during 2017. The slump in China's domestic production this year and previously has been the key driver behind these movements, and the strong demand has provided a welcome boost to global pig prices. Export volumes to China are expected to more than double this year to 2.4 million tonnes, overtaking Japan as the world's largest buyer of imported pig meat. This position is expected to be maintained into 2017.

Volumes from the largest global exporter, the EU, are anticipated to be up 38% this year to 3.3 million tonnes before stabilising next year. The EU has been particularly successful at capitalising on increased Asian demand, due to competitive prices and good availability of supply. Meanwhile, volumes from the US are predicted to increase by 4% in both 2016 and 2017, as increased supplies deflate prices leading to increased competitiveness on the global marketplace. Canadian exports are expected to show a short term rise of 9% this year before declining by 4% during 2017.

Forecast % change in global pork exports



Source: USDA

Moving into 2017, as the Chinese pig herd expands the demand for imported pig meat is expected to drop back slightly. While China will still remain an important destination for the increasing supplies of pig meat on the global market, it is anticipated that other destinations will also play a key role. It is expected that the EU and US will make up the shortfall by exporting increasing volumes to Japan, Korea, the Philippines, and also Mexico for the US. This will be important if the increased availability of supplies is to avoid putting pressure on global pig prices.

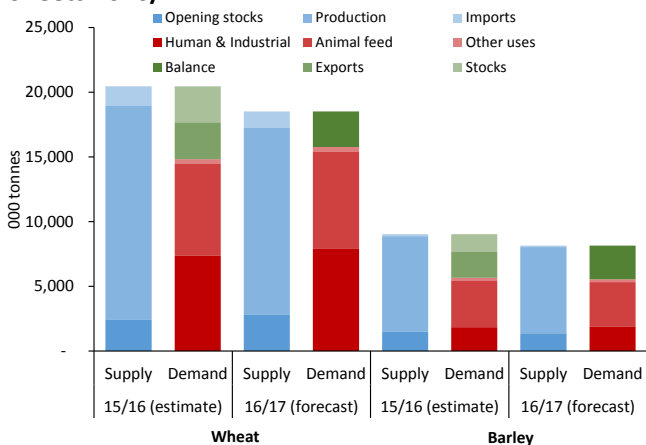
Feed Market

Over the past month, UK grain markets have risen, fuelled by the significant shifts in currency. Sterling hit historic lows against both the euro and the dollar on 17 October, at £1=€1.1052 and £1=\$1.2150, respectively. Also on 17 October, nearby UK feed wheat futures hit their highest point since December 2014, at £136/t. Further support was added to global wheat futures by boosted export demand for US and EU wheat.

Earlier this month AHDB released its Early Balance Sheets. These first estimates of UK 2016/17 wheat and barley supply and demand indicate tighter supplies than in the previous couple of years. Lower production is largely behind the decrease in availability, with 2016 UK wheat and barley production provisionally down 12% and 10%, respectively.

For wheat, the lower availability is compounded by increased demand, including from millers and bioethanol plants. Additionally, UK animal feed consumption of wheat is forecast to be 379kt higher than it was last season, partly due to relatively cheaper grain prices compared to other ingredients. As a result, the balance of wheat availability and domestic consumption is 2.75Mt, 51% lower year on year and only above 2013/14 within the past ten years.

AHDB Early Cereal Supply and Demand Balance Sheets 2016/17

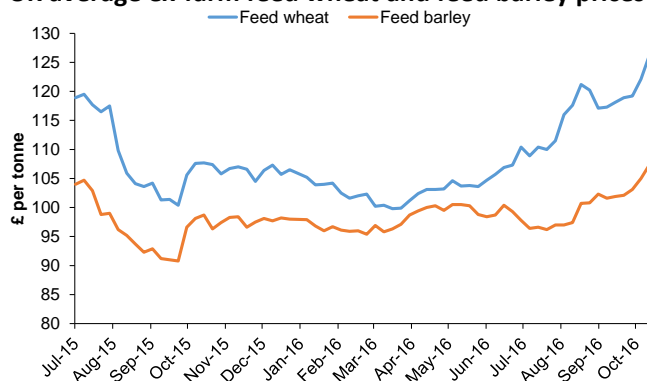


Source: AHDB Cereals & Oilseeds

Barley supply and demand is also forecast to be tighter than the last two seasons, as a result of the smaller crop, but less so than in 2013/14. Animal feed demand remains a key area of uncertainty due to the grain's wider price discount to wheat, which may encourage higher usage later in the season.

The gap between UK average ex-farm feed wheat and feed barley prices has increased to nearly £19/t, larger than most of last season (2015/16). The gap in mid-October was some £4/t larger than at the beginning of September and over £6/t wider than at the start of July. With feed wheat holding a relatively large premium over feed barley, this could suggest that for this season we could see higher proportions of feed barley used in animal feed rations.

UK average ex-farm feed wheat and feed barley prices



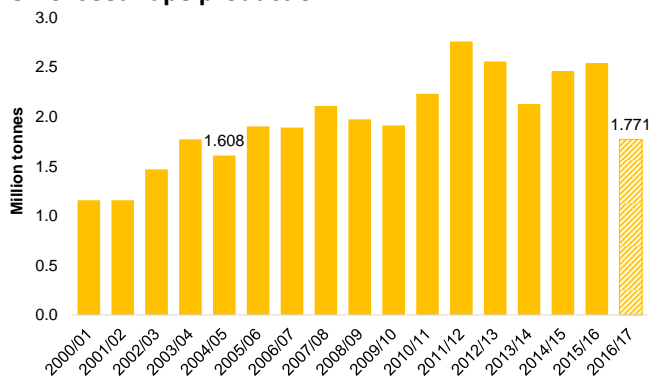
Source: AHDB

Protein prices over the past month have also moved upwards, driven by higher oilseed values and weaker sterling. Hi-pro soyameal (spot, ex-store East Coast) was reported at £314/t on 14 October, up £18/t compared to 23 September.

Oilseed prices tracked the movements of vegetable oil prices. Concerns over the impact of adverse weather on the rapeseed harvest in Canada and on early soyabean planting in South America were also factors. Paris rapeseed futures (Nov-16) increased by €18.25/t over the month (26 September to 18 October) to close at €392/t on 18 October. Similarly Chicago soyabean futures (Nov-16) increased by \$10.01/t to close at \$357.33/t.

UK oilseed rape production in 2016 is estimated at the lowest level since 2004, according to Defra's provisional crop areas. Production from this year's harvest is estimated at 1.77Mt, down from 2015's 2.54Mt and with average yields at 3.1t/ha (3.9t/ha last year).

UK oilseed rape production



Source: Defra

The lower production will come as little surprise to the industry, after reports of lower than average yields throughout harvest, in addition to the recorded drop in planted area. In Defra's release, they estimate oilseed rape area (both winter and spring) at 0.58Mha, down 11% from 2015.

Potential reasons for the lower than average yields seen this harvest include a high pest pressure, due to the mild winter, short rotations and a dull June which limited seed filling. All of this means that the 2016/17 season is looking tight, with prices already seeing the effect.

In Brief

New report explores Brexit impacts sector by sector

The implications of future trade policy for the UK's farming and growing industries are examined in the latest edition of [AHDB's Horizon series](#). The report explores how trade deals with the EU and the rest of the world following Brexit may impact UK agriculture and horticulture on a sector-by-sector basis. It profiles each sector's current trading position in the global arena and highlights the opportunities and threats associated with various potential terms of trade. The report covers all AHDB's levy-paying sectors.

Some of the key points from the report's section on the pork sector included:

- The EU currently supplies around 60% of UK pork demand
- Exports are important to add value to cuts unpopular with UK consumers
- Any tariff or quota limits on pork traded between the EU and UK could mean sharp price movements, affecting demand
- In contrast, any reduction in tariffs on imports from outside the EU could increase competition from low-cost producers like the US and Brazil
- In the absence of a trade deal at Brexit, EU import tariffs could curb sow meat exports to the UK's main customer, Germany, seriously reducing the value of UK sows
- Regulatory and trading agreements with individual non-EU countries may bypass the need for complex FTA negotiations

The new report joins the suite of [Horizon publications](#), produced by AHDB in the wake of the EU referendum and focussing on key issues for UK agriculture and horticulture.

US pig herd continues to break records

In the year to September 1, the US pig herd increased by 2% to 70.9 million head, according to the USDA. This figure was the highest September count since records began in 1988. This means slaughterings will likely be up both in the short term and into the beginning of next year. The June-August 2016 pig crop, at 32.0 million head, was the highest pig crop reported for the time of year since the series began in 1970. The number of sows farrowed was static so the increasing pig crop was due to the number of pigs weaned per litter increasing by 2% to 10.6, yet another record high.

EU pig meat demand still in decline

Consumer demand for pig meat in key EU markets has remained under pressure in 2016, with consumption generally falling back in spite of favourable prices. This, in turn, contributed to the low EU pig price earlier in the year. Such developments apply to the key markets of Germany, France and Italy, for which consumer panel data is available. For fresh pork, the summer barbecue season in northern Europe got off to a slow start, despite the European football championships, but, as the weather improved, demand for grilling cuts subsequently rose.

Russia appeals WTO ruling on EU pork import ban

As was widely anticipated, Russia has appealed against the World Trade Organisation (WTO)'s judgement that its ban on imports of EU pig meat products was against WTO rules. Appeals can take up to three months to complete. If the original judgement is upheld, Russia will have to remove the ban within a 'reasonable period of time' or face retaliatory measures. The ban covers not just fresh/frozen pork, which is further restricted by the wider political ban imposed later in 2014, but also other uncooked pig meat products, including offals and fats.

Mid-week roast opportunity for red meat

With an increasing shift towards convenient meal solutions for today's time-poor consumers, the traditional roast dinner is coming under increasing pressure. Despite the challenges, there are opportunities for red meat, not least to challenge chicken's dominance of mid-week roast meals. These are growing by 2% year on year and convenience products such as ready to cook roasts are growing at the same rate. While almost half of all roast meals take place on Sunday, they are declining. This is offset by growth in the rest of the week, fuelled by chicken. By contrast, red meat roasts are still heavily reliant on Sunday.

Sterling continues to weaken

The continued weakness of the pound against the euro is helping to support prices for agricultural outputs, including pigs. The EU referendum result has been the biggest single influence this year, meaning the pound has fallen below £1 = €1.10 at times recently, a five-year low and is now worth around €1.12. A year ago, £1 was worth around €1.35. The exchange rate is significant because it makes imported pork more expensive in the UK and, although the EU price is not the only factor influencing UK pig prices, it is an important one.

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

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