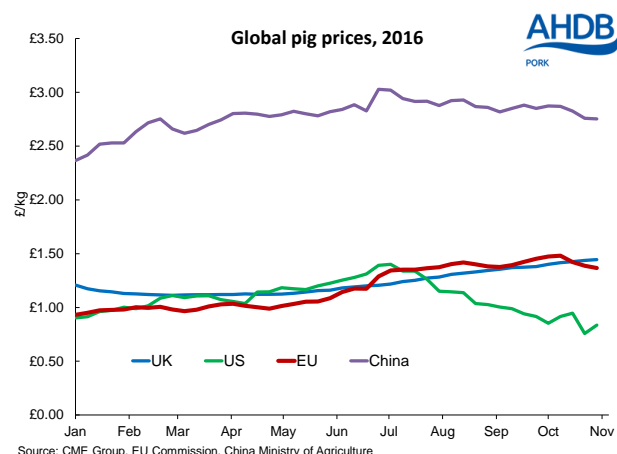


## Low US pig price could trump EU competitiveness

Cheap US pork could limit the competitiveness of EU and UK pig meat on the global marketplace in the coming months. Ultimately, this could begin to put pressure on the currently buoyant domestic pig prices.

Nearby US lean hog futures prices have fallen dramatically in recent months. Having dropped by \$0.86 since June, at \$1.03/kg for week ended 4 November the price undercut the UK average pig reference price by 61p/kg in sterling terms. Nearby futures prices tend to reflect the current US physical deadweight prices and so are comparable to EU prices.



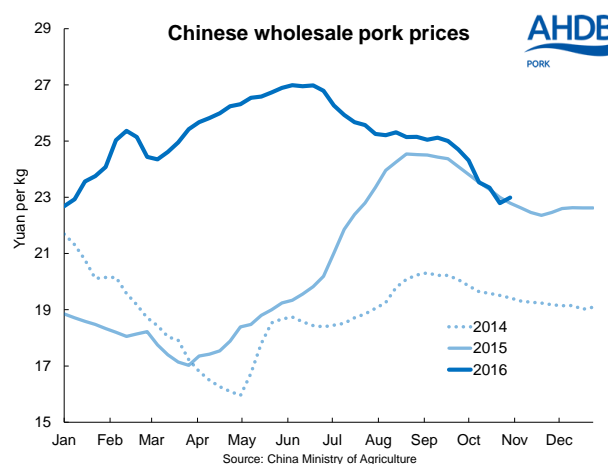
An unexpectedly large surge in pig meat production is responsible for driving down the US lean hog futures price. Though an increase in supply is normal during this period, at 2.8 million tonnes, US pork production was up by 2% relative to the same period in 2015. This increase has driven slaughter pig numbers close to the current processing capacity, giving processors the power to dictate prices.

The situation has been aggravated by Hurricane Matthew's impact on what is thought to be the world's largest pig processing plant in North Carolina. The plant has been operating at reduced throughput since and was even shut entirely for three days. This alone led to an estimated backlog of 90,000 pigs. Though more capacity is expected to arrive in 2017, the number of pigs coming forward is not expected to ease in the meantime. USDA anticipates that production in Q4 will be a record 3.0 million tonnes.

In contrast, EU prices rose during Q3, peaking at €1.68/kg for week ended 1 October. Though prices have since experienced a seasonal fall, they remain comfortably above the same point in 2014 and 2015. The EU price has been supported by strong demand from China, where a supply shortage led wholesale pork prices to rocket to a peak of almost ¥27/kg in June. The EU has successfully capitalised on increased Chinese demand, with prices earlier this year below the US level.

This left EU pork at an advantage for trading with China - now the largest global pig meat importer. Nonetheless, with US pork now at a significant discount to EU product, Chinese buyers may be tempted to source pig meat from the growing number of hormone-free producers in North America.

However, while Chinese import demand remains high, a reduction may be on the horizon as domestic production recovers. Imports were still up 88% on 2015 in September but this was well below the doubling and trebling seen earlier in the year. While this trend may not be fully realised until well into 2017, pig prices are beginning to tail off. Since June, the Chinese wholesale pork price has declined by ¥4 to stand at ¥23/kg for week ended 30 October.



With production expanding while access to the dominant Chinese market remains limited, the US did have success in increasing pork export volumes to alternative markets during the third quarter. Total export volume were up 6% on the year and, within this, Japanese and South Korean shipments were up 3% and 9%, respectively. Meanwhile, sales to the dominant Mexican market also grew by 9%. This could be a sign of things to come, as US prices have fallen further since.

The increase in US shipments has likely had little impact on the EU market so far, due to the continuation of demand from China. However, with this expected to fall back in 2017 and the Russian market remaining closed, the EU will be looking for alternative destinations to send its pork to. This is likely to bring it into more direct competition with the US. Mexico has already opened its market to fresh pork from Spain, which the EU Commission views as a stepping stone to greater market access for pork from other Member States.

With Japan and South Korea also potential growth markets in 2017, increased competition for market share is also anticipated there. Hefty price cuts may be required for EU pork to remain competitive, with a likely knock-on effect on EU pig prices. With UK pig prices generally higher than other EU countries, price declines could be felt there too, though some of this may be absorbed by the weakness of sterling.