

In this issue

Comparing UK and EU pig prices

Last month, we published analysis looking at how GB pig prices compare with the EU average price. That analysis concluded that the EU Commission's reference prices overstate the price premium of domestic pigs relative to EU ones by between 5-6p/kg. However, in reality British pork is mainly competing with product from fewer countries. So how do GB prices compare with those countries? To find out and see what it means for the real level of the price premium, turn to **page 4**.

Long-term price trends

Back in April, we published the results of analysis of the factors affecting GB pig prices over the long-term. This showed that historical prices could be modelled fairly closely using factors such as exchange rates, supply levels and prices for global commodities, EU pigs and imported pork. Since then, a lot has changed, with the Brexit vote meaning, in particular, that exchange rates are more volatile. So what does the same model tell us about the situation now? Read about updated results on **page 5**.

US and global prices

US hog prices have fallen sharply in recent months, meaning that they are now well below the levels recorded in the EU for the first time since before the PEDv outbreak in 2014. This is being driven by an unexpectedly large surge in pig meat production. At the same time, easing Chinese pork prices may be a sign that export demand is beginning to cool. To read what these trends could mean for the global pork trade and for the EU market, turn to **page 7**.

International costs of production

GB production costs were the second highest of all member countries in 2015, according to the latest pig production costs report from InterPIG. This meant GB producers made a net loss last year, despite the maintenance of a pig price premium. However, the economic situation has changed significantly since last year. Not only have pig prices been rising but sterling has declined significantly against the euro. You can find out what this could mean for the competitiveness of GB production on **page 8**.

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Key data

	Oct-16	Change since Sep-16	Change since Oct-15
Average GB carcass weight - kg	82.16	+0.49	+0.01
30kg weaner price - £/head	49.65	+2.25	+6.25
7kg weaner price - £/head	36.62	+1.73	+4.37
GB APP (Euro-spec) - p/kg dw	147.26	+5.33	+15.43
GB SPP (Euro-spec) - p/kg dw	144.84	+4.93	+17.03
EU Reference price - €/100kg dw	158.14	-7.50	+16.17
UK Reference price - €/100kg dw	160.24	-1.38	-12.04
UK weekly clean pig kill - 000 head	206.0	-1.0	-11.3
UK weekly pig meat production - 000 tonnes	17.5	-0.2	-1.0
UK pork imports - 000 tonnes*	38.5	-1.6	+8.0
UK bacon imports - 000 tonnes*	21.2	-0.3	-0.4
UK pork exports - 000 tonnes*	16.4	+0.1	-1.5
Retail pig meat sales - 000 tonnes†	51.2	+0.5	-0.1
LIFFE feed wheat futures - £/tonne	133.46	+9.56	+18.41
CBOT Soyameal futures - \$/tonne	305.83	-4.65	-0.99

* Figures relate to September 2016
 † Figures include household purchases of pork, bacon, sausages and ham and relate to 4 weeks to 9 October 2016

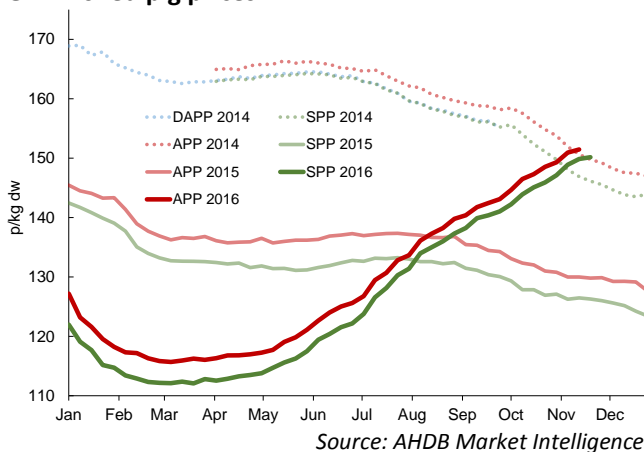
Interested in data? Get more detail about these and other areas from the [AHDB Pork website](#)

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UK Market Snapshot

GB pig prices continued to rise during October. The monthly average EU-spec APP climbed 5.33p on the previous month to reach 147.26p/kg, the highest since December 2014. Further weakening of sterling against the euro and the dollar provided support to price competitiveness, on both domestic and export markets, during this period, boosting demand. Tightening production has also supported pig prices. The price has continued to climb in more recent weeks, reaching 151.46p/kg and overtaking the two-year earlier figure for the first time, during week ended 12 November.

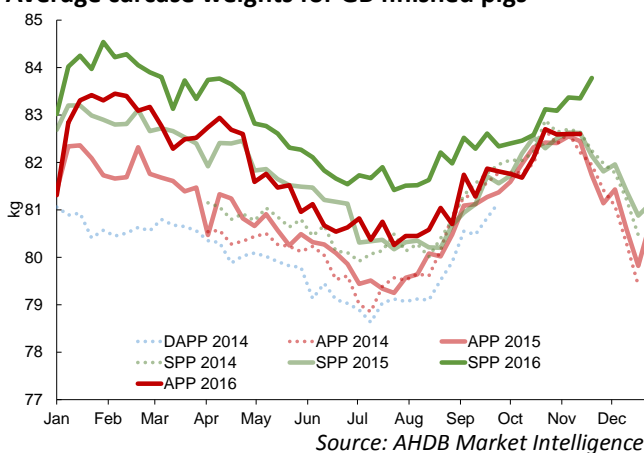
GB finished pig prices



Source: AHDB Market Intelligence

The SPP also increased during October, climbing 4.93p on the previous month to average 144.84p/kg. The figure has since increased further, standing at 150.16p/kg for week ended 19 November. This is nearly 24p more than the year earlier figure and over 4p more than the same week in 2014. The gap between the APP and the SPP fluctuated somewhat during October, but decreased overall and the gap has subsequently continued to narrow to 1.60p, the smallest it has been since June 2014.

Average carcass weights for GB finished pigs



Source: AHDB Market Intelligence

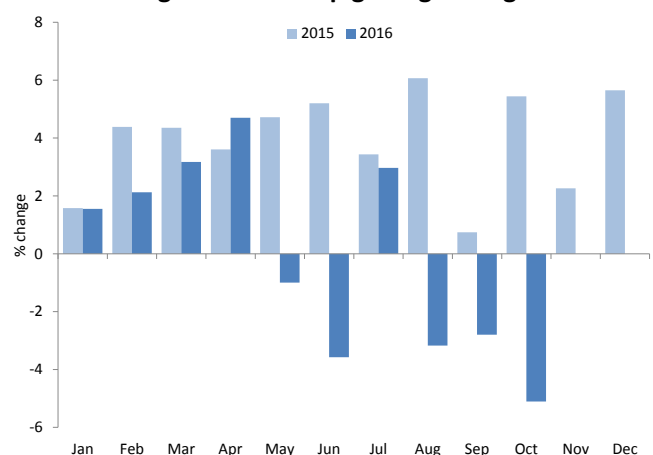
Average carcass weights showed a seasonal increase during October, with the APP sample rising by half a kilo on the previous month to stand at 82.16kg. This is on par with the year-earlier weight and has remained virtually static moving into the first two weeks of November. In contrast, the SPP sample weights have

been trending above year earlier levels and have continued rising into November. The currently high pig prices may be encouraging producers to finish standard pigs at higher weights in order to maximise returns.

Both categories of weaner also saw price increases in the GB market during October. The 7kg weaner price rose by £1.73 on the previous month to stand at £36.62/head. Meanwhile, the 30kg weaner price saw an increase of £2.25 to £49.65/head. These price levels were last seen during autumn 2014.

According to the latest figures released by Defra, at 865,100 head, UK clean pig slaughterings were back 5% during October compared to the month last year. This allows for adjustments to the 2015 data to account for the change in reporting methodology adopted by Defra earlier this year. This was the third consecutive month of falling throughputs. With UK pig prices remaining buoyant, a reduction in slaughterings backs up reports of tightening supplies.

Annual change in UK clean pig slaughterings



Source: Defra. Change to calendar months from statistical in Feb 2016

Sow slaughterings were also reportedly back by 11% on the adjusted year earlier figure during October, at 18,900 head. The extent of this decrease may partially be self-adjustment, following from the small increase in slaughterings seen during September, relative to 2015. However, with the market situation currently positive, it would be anticipated that producers will be maintaining their breeding herds.

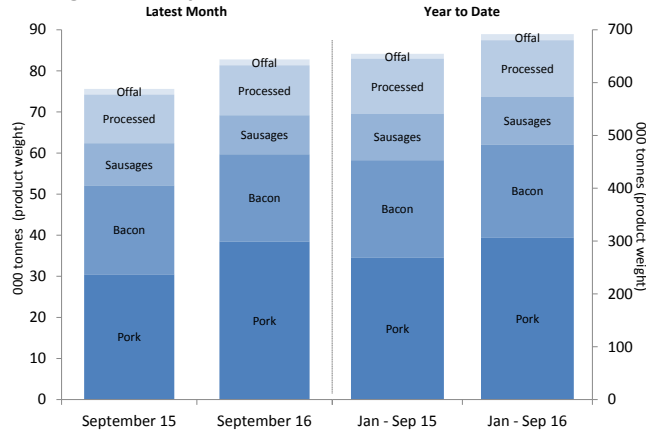
Total UK pig meat production during October 2016 totalled 73.5 thousand tonnes- a 5% decrease on the adjusted 2015 figure. This is the sharpest rate of year-on-year decline in output for any month since April 2009.

Imports of pork continued the trend seen in recent months, rising by 26% on September last year to 38.5 thousand tonnes. This was again driven by Danish imports almost doubling and now accounting for almost 40% of total imports. German volumes were also up, by 28% on the year. The weak pound and sharply rising unit prices meant that import value was up ahead of volume, rising 47% on 2015 to £73.7 million.

UK Market Snapshot

Volumes of other pig meat products imported were slightly lower than a year earlier, although higher unit prices meant they were up in value terms. Bacon imports fell by 2%, despite an increase in Danish volumes. Sausage shipments were lower by 8%, mainly due to decreases from Germany and Ireland. Other processed imports did rise slightly, boosted by a 40% rise in Irish supplies.

UK Pig Meat Imports

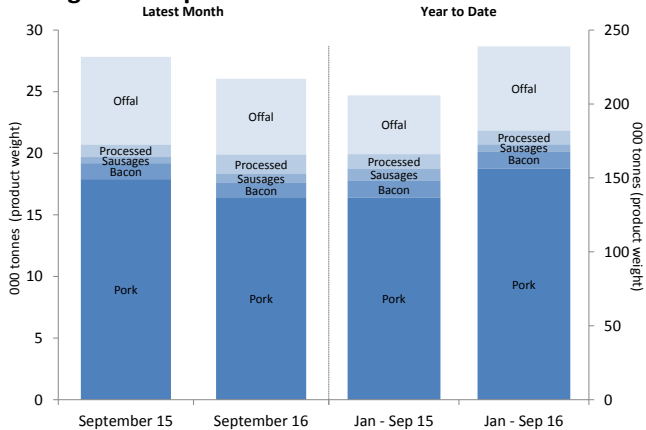


Source: Her Majesty's Revenue & Customs

During September, UK pork export value was up 16% on the year, reaching £21.7 million. This increase occurred despite volume being down 9%, at 16.4 thousand tonnes. A 26% rise in average unit prices supported total export value, aided by the weak pound which shielded most importing nations from rising prices. In euro terms, the price was only up 7%.

Shipments to China during September showed no growth on the same period in 2015, the first month for a year of no expansion. Exports to Denmark and the Netherlands, likely for re-export, and Hong Kong were back 20%, 22% and 37%, respectively. Offal exports were also down 14% on the year, as shipments to China fell back. A decline in UK production will also be limiting supplies available for export. Conversely, there was a 12% rise in UK pork exported to Germany, reflecting increased sow slaughterings during September. Processed product and sausage exports also countered the general decline. Increased competitiveness as a result of the weak pound likely influenced these trends.

UK Pig Meat Exports

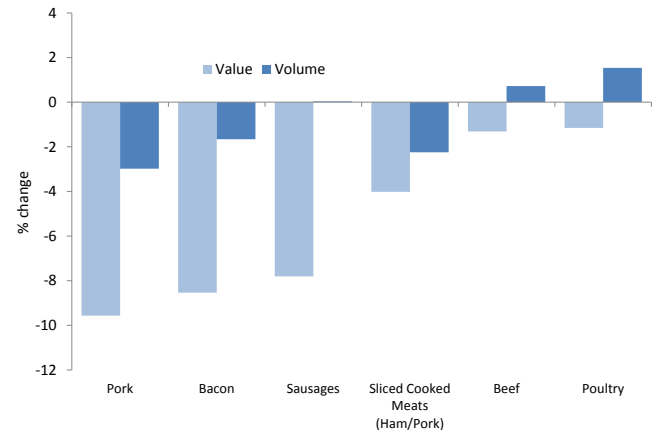


Source: Her Majesty's Revenue & Customs

Expenditure on retail pork purchases was down 13% compared with a year earlier for the 12 weeks ending 9 October, according to latest data from Kantar Worldpanel. This was driven by an 8% decline in volume sales, despite a 5% cut in average price paid. Additionally, there was a drop in numbers of people buying into the category, and those who did buy pork, bought less.

Pork volume sold on promotion was lower than a year ago, except for a slight increase for chops/steaks, as levels of Y for £X deals continue to fall. Pork volume and value sales were in decline across all cuts, led by pork leg and shoulder roasting joints. Switching data shows that people moved from pork mainly to fresh chicken and chilled convenience products. However, pork did make gains from fresh lamb in this period.

Annual percentage change in retail meat purchases (12 weeks to 09 October 2016)



Source: Kantar Worldpanel

The amount spent on bacon also continued to decline; it was down 9% year on year due to a small fall in amounts purchased and an 8% drop in average retail prices. Levels of retailer promotional activity were down year on year, with temporary price reductions continuing to rise but less Y for £X deals. Value sales of sausages were down 4%, predominantly coming from lower retail prices which also fell by 4%, alongside declining amounts purchased per trip. Premium sausages did show slight growth, with a 3% increase in amount sold and a 1% rise in spend. Expenditure on sliced cooked meats was almost unchanged for the 12-week period but ham was down 1%, with retail prices unchanged year on year but quantity bought down 1%.

Producers' share of retail pork prices continued to increase during October, rising 2 points on September, to 39%. This is on a par with levels from late 2014 and a substantial 4% higher than year earlier figures. Retail prices continued to remain static during October- 1% lower than the month in 2015, so further increases in GB pig prices were responsible for raising the producers' stake in retail pork prices. However, competition between retailers has led to a reluctance to pass this on to consumers.

UK Market Analysis

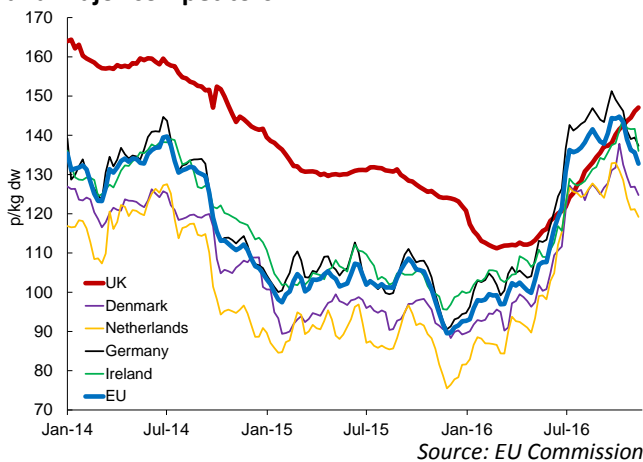
Comparing UK pig prices with competitors' prices

Last month, we [published analysis](#) looking at how GB pig prices compare with the EU average price. That analysis showed that the EU Commission's reference prices, which normally form the basis of any comparison, overstate the price premium which domestic producers receive relative to their EU counterparts. The analysis estimated that for standard UK production (mostly indoors), the UK reference price should be reduced by between 5-6p/kg to provide a more valid like-for-like comparison.

There are two main reasons why the reference prices overstate the GB price premium. First, they are gross prices, before deductions and bonuses are applied. Secondly, the UK reference price includes 'premium pigs', mainly those which are outdoor-bred, meat from which is not generally competing directly with imported pork. Partly offsetting this, the UK price includes pigs from Northern Ireland, where prices are typically lower than in Great Britain.

The earlier analysis shows how GB prices compare with the EU average. However, in reality British pork is mainly competing with product from a smaller number of countries; three-quarters of UK imports come from just four, Denmark, the Netherlands, Germany and Ireland.

Comparison of pig reference prices (grade E) in the UK and major competitors



So how do GB prices compare with these four countries? Based on their respective reference prices, the GB premium would be even larger than over the EU average, as their prices are close to or below the average. During 2015 the UK reference price averaged 26p higher than the German and Irish prices, similar to the gap to the EU average. It was 35p more than the Danish price and 42p above the Dutch quote.

However, in the UK, a range of deductions are made from the gross price to cover services such as transportation, meat inspection, classification and levies. The size of these deductions varies but they are estimated to average between £5 and £6 per head. This is larger than in many Member States, including those mentioned above. That is particularly due to transport costs, which are paid for by

processors in many other countries. Furthermore, in some countries, including Denmark, many producers receive annual bonuses from processors.

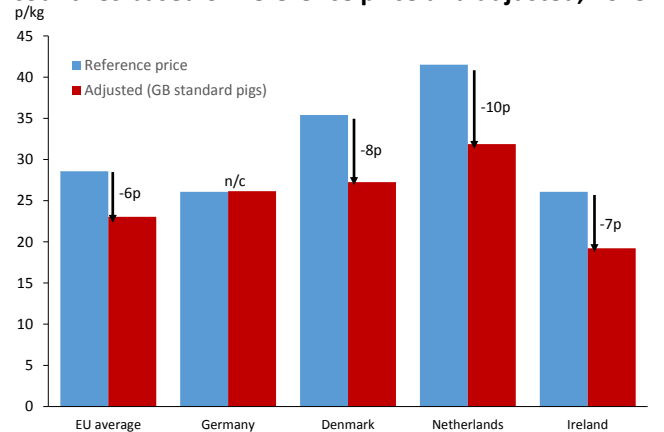
We have used figures from the InterPIG group to look at the actual price received by producers in the different countries, after deductions and bonuses.

German producers also face deductions from the gross price for transportation to the abattoir, along with other costs such as insurance, classification and a marketing fee. Total deductions are only slightly lower than those in Great Britain, which means that the relative price level indicated by the InterPIG data is similar to that based on the reference prices.

Unlike in Germany and the UK, Danish slaughterhouses pay the cost of transporting pigs, although a levy is deducted from the gross price. However, this is more than offset by the annual bonus paid to producer members of the co-ops which own most Danish processors. This varies from year to year but was substantial in 2015 (although reports suggest it will be lower in 2016). As a result, the gap between prices paid to Danish and GB producers for standard pigs was more like 27p, rather than the 35p based on the reference prices.

Based on the InterPIG datasets, the prices paid to producers in the Netherlands and Ireland were slightly higher than the quoted reference price. In addition, deductions from the gross price are much lower in both countries than in the UK. This means that the GB premium over Dutch and Irish prices is again overstated by the reference prices, with the true figures closer to 32p and 19p, respectively.

Premium of UK/GB pig price over selected EU countries based on reference price and adjusted, 2015



Overall, this analysis suggests the prices paid to producers across the countries examined are more consistent, and closer to the EU average, than the reference prices imply. This confirms that the adjusted premium for GB standard pigs over the EU average, described in the previous article, probably provides a realistic assessment of how British pig meat prices compare with its main domestic competitors.

UK Market Analysis

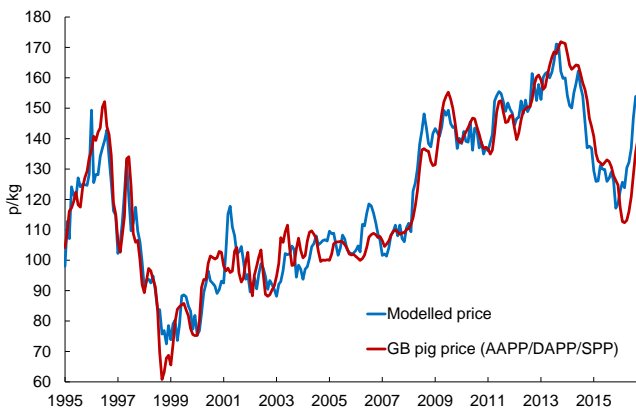
How high can the pig price go?

Back in April, we published the [results of analysis](#) of the factors affecting GB pig prices over the long-term. This showed that historical prices could be modelled fairly closely using factors such as exchange rates, production levels, imports and exports, global commodity prices, EU prices and the price of imported pork.

At that time, pig prices were at an eight-year low but the model showed that the direction of prices should have started to turn upwards. Sure enough, not long afterwards prices did, indeed, start to increase and have continued to do so. Since then, a lot has changed, with the Brexit vote meaning, in particular, that exchange rates are more volatile and likely to continue to be. So what does the same model tell us about the situation now?

The original model was based on data up to January 2016. We now have more data points available, so have updated the model. This confirms that prices might have been expected to start rising again at the start of this year and continued rising since. It also suggests that September prices might have been expected to be higher than they were.

Actual GB pig prices compared with modelled prices



Source: AHDB analysis based on data from various sources

However, one feature emerging recently is that the actual pig price appears to be lagging the modelled price by two or three months. In other words, the price level predicted by the model seems to be close to the actual level a little later. This seems to be true both when the market is falling and when it is rising. The reason for this is unclear but it may be because many contract prices now take account of a wider range of factors than just immediate market conditions.

Whatever the reason for the time lag in the model, it does suggest that prices might have been expected to continue rising since September. So far, that has proved to be the case, with the GB SPP approaching 150p/kg in early November. If the time lag continues, the model suggests that prices may continue to rise in the short-term but could begin to level off towards the end of the year.

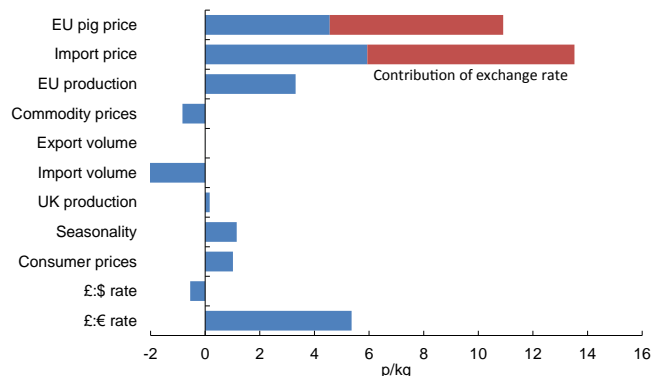
Of course, no model is perfect at predicting the future. A range of factors will affect pig prices and only some of them are included in the model. In any case, we don't know how the variables used in the model will develop in the future. History suggests short-term deviations from the model frequently happen, so there is still uncertainty about the future direction of the market.

Analysis of the modelled price can also tell us about the importance of different factors influencing the GB pig price. One thing which is immediately clear is the importance of the exchange rate between the pound and the euro.

The exchange rate itself is one of the variables included in the model and, this alone, accounts for around 5p of the rise in the modelled pig price between January and September. However, the value of the pound also influences both the EU pig price and the price of imported pork in sterling terms. Adding in these two contributions, the overall effect of the exchange rate may have been as high as 19p. That is more than half of the rise in the modelled price.

The weakening of the pound against the euro compounded the impact of higher continental prices and their effect on the value of imported pork. However, the tight supplies and higher prices on the EU market appear to be the other major drivers of the rise in UK pig prices over the last six months. This is partly offset by the unexpected increase in the amount of pork imported, based on official figures.

Factors contributing to rise in modelled pig prices, January - September 2016



Source: AHDB analysis based on data from various sources

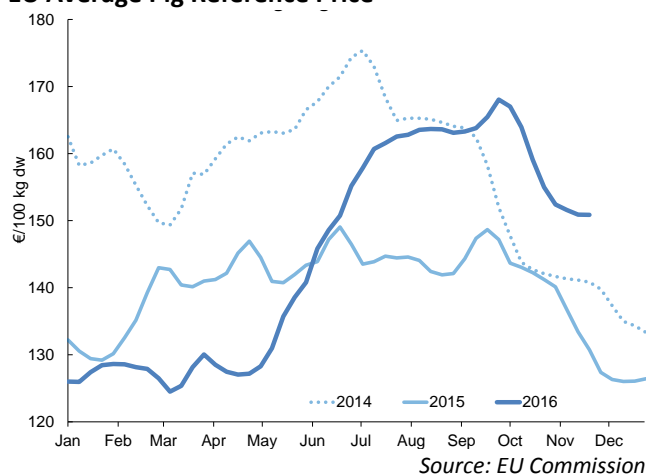
Based on the model, other factors to which some of the rise in prices have been attributed may have been less influential. These include exports and lower domestic production. However, these factors will be related to others in the model, so their true influence may have been stronger. Nevertheless, this analysis illustrates the key role which the exchange rate and the EU market still has on the UK pig price. In that context, the recent strengthening of the pound and drop in continental prices could sound a note of caution around prospects for pig prices into 2017, although the outlook still looks positive in other respects.

EU Market Snapshot

The EU average pig reference price continued to fall over the past four weeks, declining just over €4 to €150.86/100kg for week ended 20 November. More significant price falls occurred during this period last year, so the price was over €20 more than the 2015 equivalent. A seasonal supply increase has likely driven recently falling prices. However, with the strong Christmas demand period approaching and key producing states' breeding herds reported back in June, some price upturn could be anticipated in coming weeks.

A slight price rise has recently been seen by dominant Germany. Though the price fell to its lowest since June for week ended 30 October, it has since increased by €1.50 to €157.03/100kg for week ended 20 November. The Dutch price has also inclined slightly. Other key producing nations, such as Spain, France, Poland and Denmark are yet to show any significant rises, though the rate of decline has been slowing, suggesting a revival may be on the horizon.

EU Average Pig Reference Price



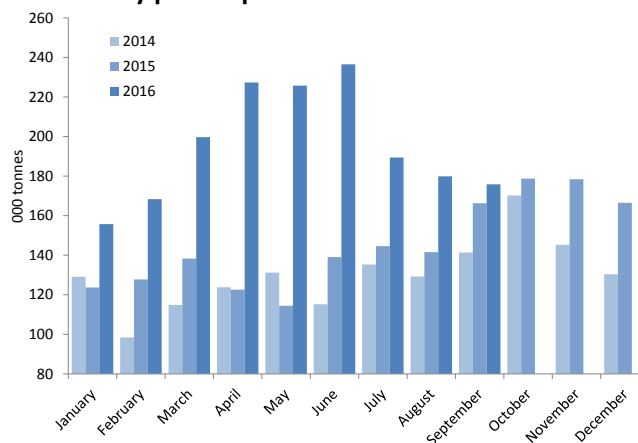
While the EU reference price has been in decline, the UK figure has continued to increase. Consequently, the UK reference price has been above EU levels for the past four weeks and the price premium has been widening, aided by some recovery in the pound. In sterling terms, the UK figure for week ended 20 November is over 18p/kg more than the EU average price, the largest price premium since January.

EU pork exports cooled in September, influenced by falling Chinese demand and higher supplies of cheaper US and Brazilian pork. Total EU pork exports did continue to increase during the month but, at 175,800 tonnes, the 6% year-on-year increase was considerably slower compared to earlier this year. Volumes going to China, the largest market for EU pig meat, continued to rise but the increase was smaller, up 6% at 64,700 tonnes. Shipments to Japan, South Korea and Hong Kong were also higher than in September 2015.

The average unit price of EU pork exports followed the trend seen in EU pork prices and increased. This left the total value of EU exports up 13% on a year earlier, at

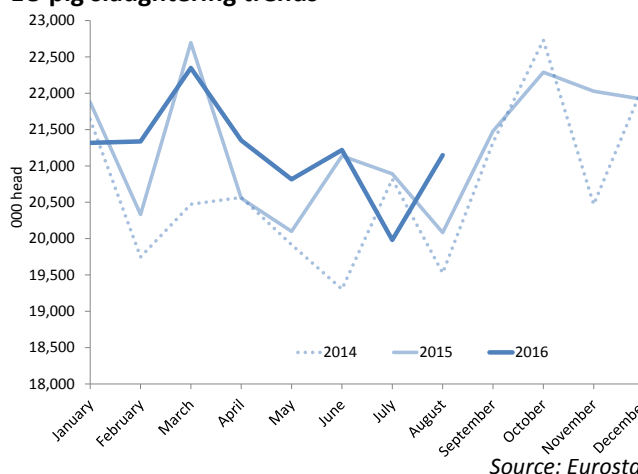
€416.1 million. Pig offal exports continued to rise; volumes were up 15% year on year at 130,500 tonnes. All major Asian markets took more EU offal. Unit prices also continued to rise, by 11%, so the overall offal export value rose 28% to €171.9 million. This continued trends seen throughout the year so far.

EU monthly pork exports



Latest slaughtering and production data from Eurostat indicate a tightening of EU supplies. Though headline figures show a 5% annual rise in August slaughterings, to 21.1 million head, there were two more working days in the month this year. On a like-for-like basis, this equates to a reduction in throughputs, consistent with reports indicating that tight supplies were contributing to the firm EU price. It was a similar picture for pig meat production, up 6% at headline level to 1.87 million tonnes. The slightly faster growth rate indicates a modest rise in average carcase weights, compared to 2015.

EU pig slaughtering trends



Most EU countries recorded rising headline production figures in August, with German output up by 5% and most other major producers recording even stronger growth (Spain +10%, France +9%, Netherlands +14%, Poland +12%). Denmark recorded a sharp fall in production, likely due to different reporting periods in the two years. Early results from a small number of Member States show an annual decline in output in September, though again Denmark was an exception.

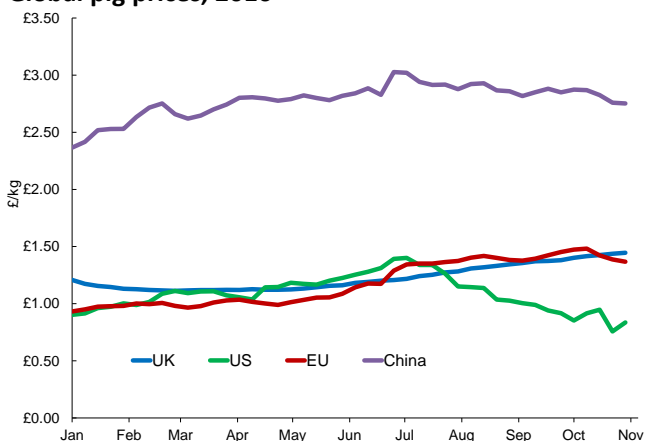
Global Market Analysis

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.

Global pig prices, 2016



Source: CME Group, EU Commission, China Ministry of Agriculture

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.

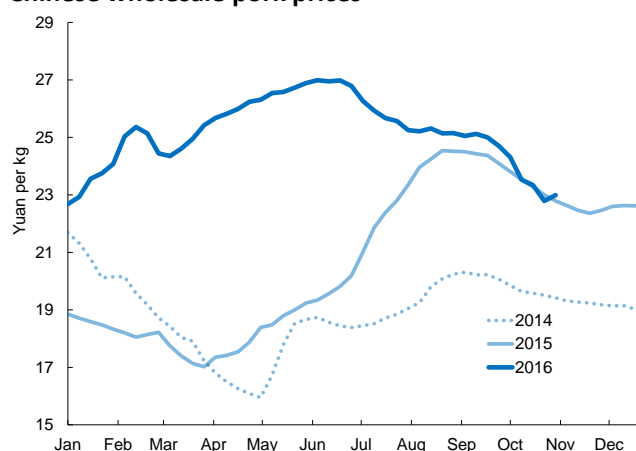
In contrast, EU prices rose during Q3, peaking at €1.68/kg for week ended 1 October. Though prices have since experienced a seasonal fall, they remain comfortably above the same point in 2014 and 2015. The EU price has been supported by strong demand from China, where a supply shortage led wholesale 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.

Chinese wholesale pork prices



Source: China Ministry of Agriculture

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.

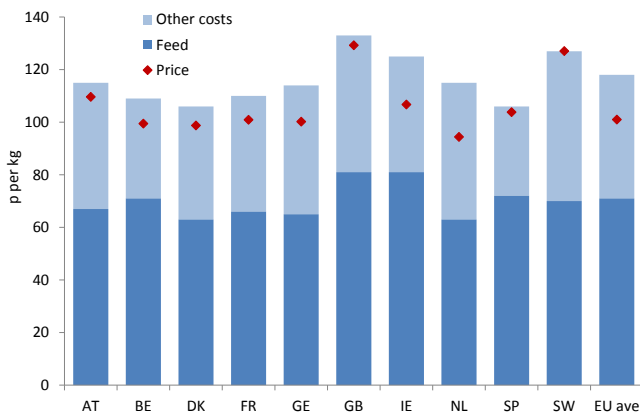
Global Market Analysis

Will weak pound make GB pig production competitive?

Despite a 6% decline on the year-earlier figure, GB production costs were the second highest of all member countries in 2015, at 133p/kg dw, according to the latest pig [production costs report](#) from InterPIG. The InterPIG group consists of a selection of pig economists from key producing countries, with AHDB representing GB. With British costs less than 1p/kg below the most expensive producer, Italy, a net loss of around 3p/kg was made by GB producers last year, despite the maintenance of a pig price premium.

With EU pig prices low during 2015, losses were actually made by all the key European producing states. This occurred despite the EU cost of production declining ahead of the GB figure, down 12% on the year to average 118p/kg. As the EU pig price was well below the GB level, losses were generally more significant on the continent, averaging 17p/kg.

Cost of pig production and average pig prices in selected EU countries, 2015



Source: InterPIG, EU Commission

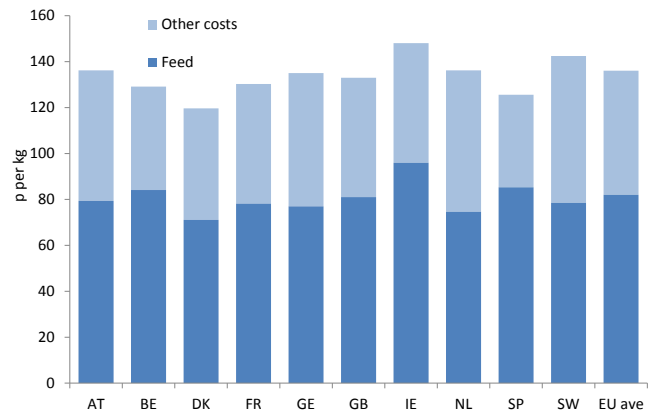
Feed costs limited the ability of GB to reduce overall production costs in line with the rest of Europe. The average EU feed cost fell by 14% relative to 2014, whereas GB only saw a reduction of 5% as feed prices were slower to respond to declining global cereal and oilseed prices. Sow productivity also remained a problem for Britain, with pigs weaned per sow continuing to be below the EU average, even when outdoor breeding sows are excluded. If GB had been able to achieve even half the tightening in production costs attained by the EU as a whole, a net loss could have been avoided.

However, the economic situation has changed significantly since last year. Not only have pig prices been rising but sterling has declined significantly against the euro from its strong 2015 position. If the pound had been weaker last year, how might this have impacted the GB position within the InterPIG group and what might this imply for British producers this year?

The weakening of sterling seen in the second half of

2016 has the potential to significantly alter the relationship between GB production costs and the rest of the EU. If the value of the pound is reduced from the actual 2015 level to the level since the Brexit referendum, last year's production costs in sterling terms would be higher for all other EU countries.

2015 cost of pig production in selected EU countries, using 2016 exchange rates



Source: InterPIG, EU Commission

Interestingly, this transformation brings the GB production cost in slightly below the EU average. This is not intended to predict how the situation might look in 2016. However, it does demonstrate the capability of a weaker pound to significantly increase the competitiveness of GB production costs and, hence, potential profitability, in relation to other European countries.

The impact of exchange rates is particularly significant to Ireland, where a weak pound could lead already relatively high production costs to soar above GB levels. At the other end of the spectrum, Danish and Spanish production costs would remain the lowest in the EU but would be closer to those in GB.

Of course, this does not take into account the impact of the weak pound on GB prices for imported inputs, such as feed and energy. The full impact of sterling's depreciation would not be felt in these areas initially, though. Calculations suggest that if 50% of the currency effect was passed on, this would not be sufficient for GB costs to rise above the Irish. Nonetheless, these cost increases will limit the extent to which the fall in sterling can aid GB pig production cost competitiveness.

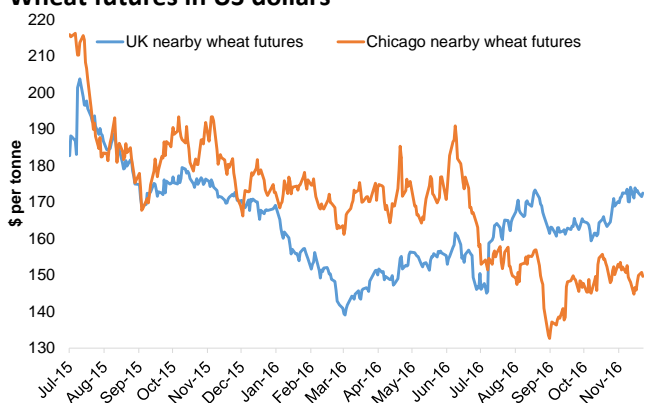
Looking forward, it will be interesting to see how these factors translate into the actual 2016 production costs, which will be covered in next year's report. With rising pig prices, it might be anticipated that GB producers could return to net profit, despite the GB price premium over the EU being eroded. Ultimately however, the final balance will be determined by movements in the feed market and the extent to which producers have been able to progress sow productivity, while limiting outgoing costs on farm.

Feed Market

UK feed wheat futures (nearby) over the past month (21 Oct- 22 Nov) have increased by 4% in sterling terms. A couple of factors have contributed to the rise, including currency movements and the tighter UK supply and demand situation. This has prevented UK prices from tracking the declines recorded in global markets.

Looking at UK prices in US dollar terms, prices have also risen by 6% over the month. However, other global grain futures have decreased over the same timeframe; for example, Chicago wheat futures (nearby) fell 2%. The implication is that the UK could become less competitive on the global market, which trades in dollars.

Wheat futures in US dollars

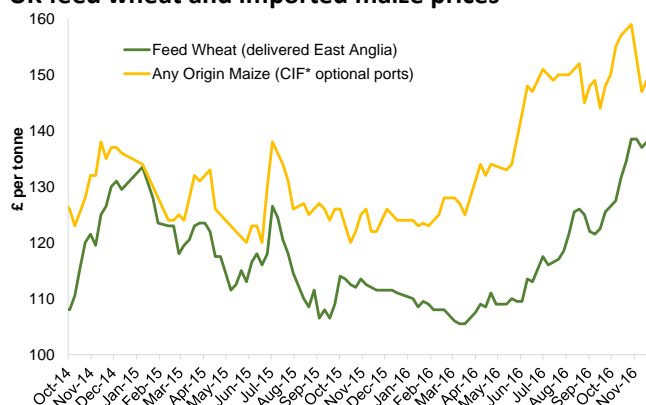


Source: AHDB, ECB

The final results of the AHDB Cereal Quality Survey indicate good quality wheat this season. A substantial 45% of samples of nabim Group 1 varieties hit a typical bread wheat specification, the highest since 2003. A higher quality domestic crop this season could encourage UK millers to use more domestic wheat, displacing imports. With a greater proportion of milling wheat varieties also planted, more of the UK crop is going into milling uses.

The record global maize supplies this season are increasing the competitiveness of maize prices in the UK feed market. In contrast, the relatively tight UK wheat crop combined with good quality is reducing the pressure for UK wheat to look for feed demand this season. The relative price of imported maize to UK feed wheat may well impact usage decisions for both animal feed and bioethanol.

UK feed wheat and imported maize prices



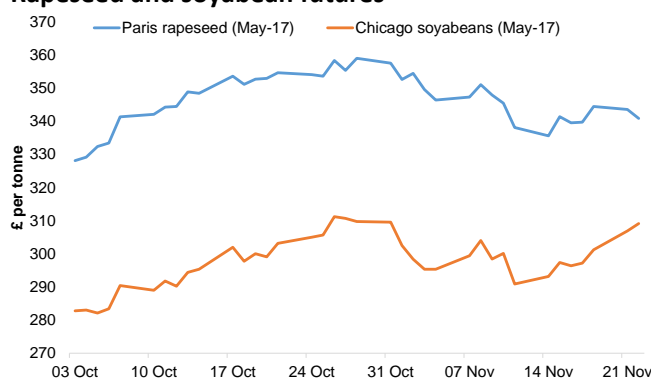
*Cost, Insurance and Freight

Source: AHDB

As a result, UK feed wheat prices have risen to their narrowest discount to imported maize for nearly a year. Delivered feed wheat prices into East Anglia were £137/t (18 Nov), only £10/t lower than imported maize. Normally, French maize values would be a key influence on the UK market but recently other origins (including Argentina, Ukraine, Canada, Russia and the US) have been important for the market.

Protein prices over the past month have dropped slightly, with hi-pro soyameal (spot, ex-store East Coast) reported at £306/t on 18 November, down £8 compared to 14 October. Paris rapeseed futures (May-16) dropped 4% over the month (21 Oct-22 Nov), in sterling terms, to £340.84/t. However, over the same period Chicago soyabean prices (May-16) saw a 2% increase to £309.09/t.

Rapeseed and soyabean futures



Source: AHDB

Soyabean prices have been seeing support in recent weeks, despite the huge US soyabean harvest, due to strong export demand, especially from China. Total commitments of US soyabeans to China reached 22.5Mt (12 Nov), which is 4.8Mt higher than the same point this time last year.

In September, the UK imported a total of 14.3Kt of rapeseed and only exported 2Kt, making it a net importer during the first month of post-harvest trade. This was the largest monthly net imports since December 2013. It is likely that this situation will be a continuing trend for the rest of the season, as supplies are brought in to meet crushing demand. In terms of prices, in September delivered rapeseed prices (Erith) were at a premium to delivered Hamburg values, reaching £8/t higher in early September, making imports more attractive. Since then, the premium has narrowed slightly but still UK rapeseed delivered prices are around £5/t above Hamburg (11 Nov).

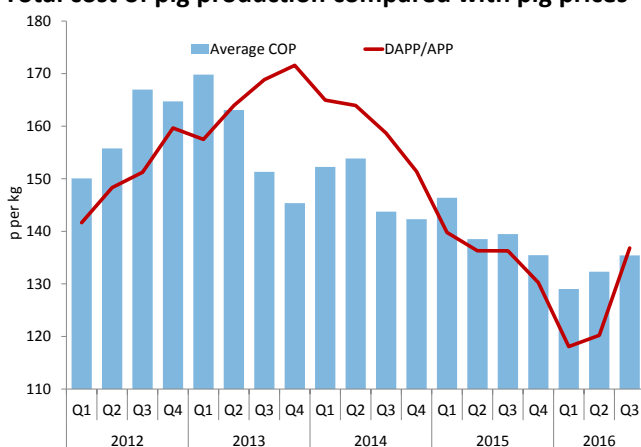
The focus for oilseed markets, in particular soyabeans, has started to swing towards South America. Soyabean planting has begun with good conditions seen in Brazil. However, Argentina has not seen as good a start; wet weather has caused delays to planting and there is a risk that the optimal planting window will be missed. Given South America's importance to global soyabean supplies, weather conditions in the region will be closely watched over the coming months.

In Brief

Producers back in the black

Pig production costs in Great Britain rose again in the third quarter of 2016, to an average of 135p/kg, according to latest estimates from AHDB Pork. Despite this, a more rapid rise in pig prices meant that producer margins were positive for the first time since 2014. Based on the latest estimates, production costs were 3p higher than in the previous three months, although they were still lower than the same point last year. However, a 17p rise in the average pig price during the quarter was sufficient to turn a £10 per pig loss during the second quarter into a small profit.

Total cost of pig production compared with pig prices



Source: AHDB Market intelligence

As is usually the case, feed prices were the main driver of the increased production costs in the latest quarter. There were modest improvements in feed efficiency, which partly offset the higher prices. However, herd productivity was little changed, while somewhat higher post-weaning mortality rates will have added to costs.

Although feed prices have continued to rise since September, partly due to the weak pound, pig prices have increased steadily too, so producer margins are likely to have improved further. While this may be insufficient to lead to any significant expansion of the breeding herd, it should at least have ensured that sow numbers have stabilised. This adds weight to expectations that pig supplies may return to growth as we progress through 2017.

Chinese import boom continues into Q3

Chinese imports of pork continued to be significantly

elevated in quarter 3, increasing by 160% to reach 516,000 tonnes. This takes imports for the first nine months of 2016 to 1.28 million tonnes, well over double last year's figure. Chinese pork imports have escalated this year due to lower domestic production, driving the Chinese pork price to record highs, though it has subsequently declined. The EU was the dominant provider, with a 68% market share, 5% lower than a year earlier as the US and Canada made gains. Pig offal imports also grew strongly.

EU and Canada sign free trade deal

The EU and Canada signed a Free Trade Agreement, CETA, earlier this month. The deal still needs approval from the EU parliament, 28 EU Member States and Canadian provinces. Subject to this, the agreement should enter into force next year. Canada is the third largest global exporter of pork but shipments to the EU have been negligible in recent years. Under CETA, a zero duty will apply to Canadian pork exported to the EU but it will be limited by tariff rate quotas (TRQs) to be phased in over six years. To read more about the Canadian pork sector and the potential implications of CETA, [click here](#).

Pig farm incomes plummet in 2015/16

The average Farm Business Income (FBI) for specialist pig farms in England fell by 56% in 2015/16, from £49,400 in 2014/15 to £26,500, according to the latest data from Defra. This is the largest year on year decrease on record and represents the lowest FBI for pig farms since 2007/2008. Low prices were part of the reason for the fall but costs also rose. The decline was the largest proportional fall for any type of farm.

Danish pig herd in decline

The number of pigs in Denmark on 1 October was 4% lower than a year before, according to new figures from Statistics Denmark. There were reductions across all categories of pigs. A 3% fall in the breeding herd, is likely to be sufficient to ensure that fewer piglets are produced in the coming months, keeping supplies relatively tight through the first half of 2017, at least. These new figures reinforce the trend reported in Denmark and across the EU in the June census and give little indication that production is set to return to growth in the immediate future.

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

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