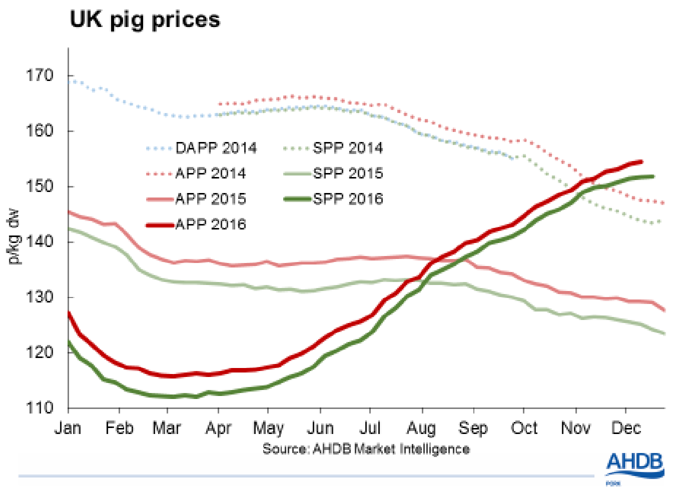
A roller coaster year with more uncertainty to come?

2016 was a year of highs and lows for the UK pork sector. In March prices fell to their lowest level since 2008. This was followed by 37 continuous weeks of price rises, the longest period of increases on record. Here we will recap some of the major market drivers for 2016 and suggest what might influence the market going forward.

The year started with slaughterings being higher than the same stage in 2015, which combined with increased average carcase weights led to higher production. This put further pressure on an already falling market and led to GB prices in March being at an eight year low.

However, the trend of increasing slaughterings which had been seen since mid-2014 came to an end in May, leading supplies to begin to tighten. At the same time Chinese import demand began to increase strongly. This combined with tightening supplies and rising prices across Europe led UK prices to begin to rise in April. This trend continued for the rest of the year. In late June the increase was accelerated by the fall in the value of the pound which followed the result of the EU referendum.



The fall in the value of the pound made imports to the UK more expensive, while making UK exports more competitive. Despite this, tighter domestic supplies led to a rise in UK pork imports. This was despite the EU average pig price moving above the UK price in sterling terms between September and October.

UK retail demand for pork continued to fall in 2016, with both the price and the volume of pork sold being lower for much of the year.

All of these factors have led to a different picture for UK pig prices at the end of 2016 when compared to the beginning. Even with low costs of production that were seen in 2016 producers were still losing money at the beginning of the year but by the end of the period they were back in profit.

As we look ahead to 2017 the factors driving the market have continued to shift, with cost of production, supplies and trade all likely to change compared to 2016.

The latest data from Defra shows that in June 2016 the sow herd had grown compared to June 2015. However, other evidence such as declining production of breeding pig feed and poor profitability for pig farming in the first half of 2016, suggest that the actual breeding herd has fallen in size during that period. This is likely to lead GB slaughterings to continue to fall in the first half of this year and providing some upward pressure to the market.

Falling supplies are also expected in the EU in the first half of 2017. However globally, supplies are expected to rise driven by higher production in China, the US, Brazil and Russia. Higher production in China could put pressure on exports from the EU. At the same time increased levels of production are likely to make US pork more competitive putting further pressure on EU exports. Further increases in Brazilian exports are also expected. This could potentially put pressure on both global and EU prices including on the UK market. The Chinese market in itself is one key area of uncertainty.

While UK production levels are likely to fall in the early part of 2017, the weaker pound is leading to an increase in the cost of production of pigs by driving up the cost of imported inputs and UK produced grains.

Looking further into the future, the negotiations surrounding Brexit are likely to be some of the major drivers for the pork industry in the medium to long term. The situation regarding trade will obviously be important. Other factors that will have an effect on the industry will be migrant labour, the future of agricultural policy and regulations surrounding production.

2016 was a year of two halves for the UK pig meat industry, with high supplies and falling prices characterising the situation in the first half of the year. The second half saw supplies tighten, high Chinese demand continuing and a weakening currency improve the UK's trade position. Moving forward supplies are expected to remain tight in the UK in the first half of 2017. Other than that there remains a great deal of uncertainty, particularly surrounding the UKs relationship with the EU. The weak pound, driven by this uncertainty, should continue to make UK exports more competitive as well as making imported product less competitive on the UK market. However this will also drive up the cost of inputs such as feed and fuel, making this a time when producers will need to ensure they have close control over their costs.