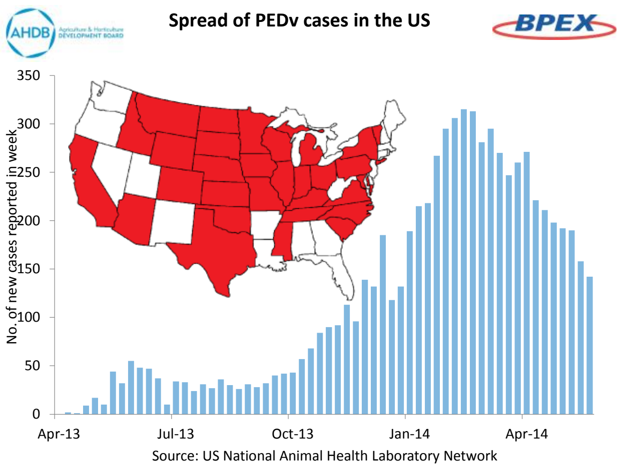
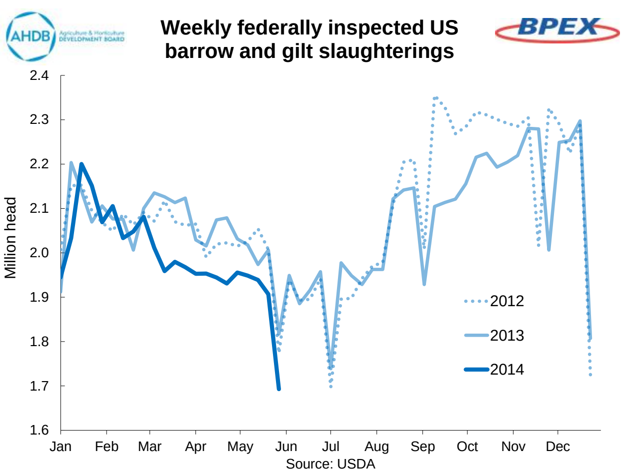
Impact of PEDv spreading beyond the US

Since last year, a new strain of Porcine Epidemic Diarrhoea Virus (PEDv) has been creating havoc in the US pig industry. Although the rate of new infections has declined, the impact is far from over. In addition, since the disease reached the US it has spread to several other countries in the Americas and Asia. It is now starting to cause disruption to markets in many parts of the world and will remain a key driver of the global market for the rest of this year and beyond.

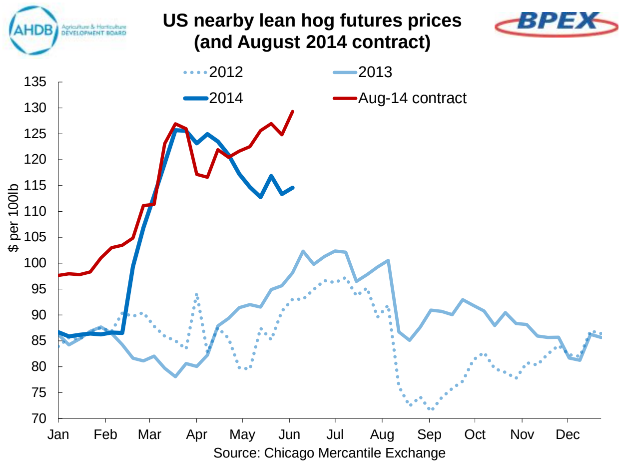
The total number of PEDv cases reported in the US has now topped 7,000, with 30 states affected. New outbreaks have slowed from the peak in February, as expected given PEDv is mainly a winter disease. However, recent reports that at least one farm has been infected for a second time suggest that the disease might be around for longer than previously thought. A further rise in cases next winter seems likely, although probably not reaching the same levels as this year and perhaps with lower mortality rates.



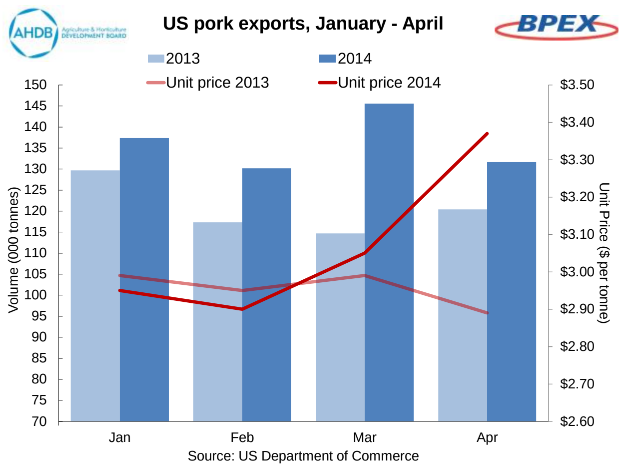
Having started the year close to year earlier levels, US clean pig slaughterings have been lower since March. During this time, throughputs have been down by over 5% year on year, with 1.4 million fewer pigs killed over three months. The shortfall in slaughterings is likely to increase until around August, when piglets lost at the peak of the outbreak in February would been expected to come to market.



Even before supplies started to tighten, expectations that they would do so caused a price reaction. Having been close to year earlier levels around the turn of the year, hog prices began to rise very rapidly from mid-February onwards. This is illustrated by Chicago lean hog futures prices, which started February at around $85 per 100lb (about 115p per kg) and by mid-March had reached $125 (about 166p per kg). This was, at least in part, due to processors seeking to secure product in anticipation of much tighter supplies later in the year.



Since the start of April, nearby prices (which are typically in line with the actual price paid for pigs) have subsided somewhat, although they remain above previous record highs. This suggests that cold stores are filling up and so there is less demand than was the case a couple of months ago. Nevertheless, the market is still anticipating tightening supplies in the coming months, with August futures prices continuing to rise to over $130 per 100lb. This suggests that pig prices may not have reached their peak yet.



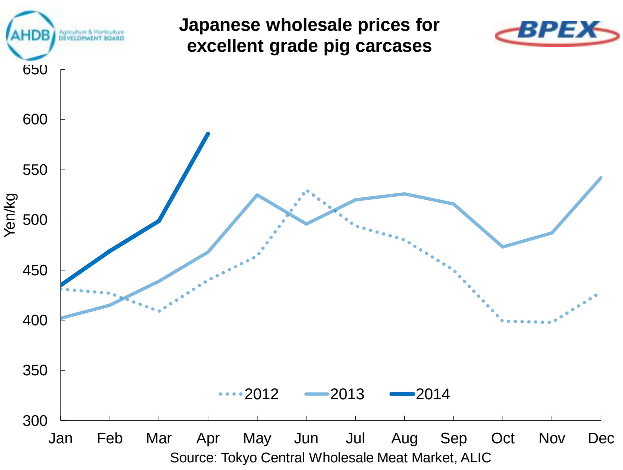
Recent US export figures confirm that supplies in cold stores may be higher than current domestic consumer demand requires, given that high retail prices are subduing sales. Shipments remained higher than last year in March and April, despite the lower slaughter. However, by April, rapidly rising prices were beginning to slow growth.

These higher prices will make US pork less competitive, although with supplies tight on many key export markets, there will still be some demand for it. Nevertheless, with US slaughterings expected to fall further, there will be opportunities for other major exporters, particularly the EU. The strong demand is partly because the impact of PEDv is now spreading beyond the US.

Outbreaks of PEDv have now been recorded in Canada, Mexico and several other Latin American countries. Canadian producers have done a good job of containing the disease, with fewer than 70 cases since the first report in January 2014 and only a handful since the end of April. Most have been in Ontario, with only single cases in three other provinces. This small number of cases is unlikely to have much impact on the market as a whole. However, given the close links with the US, Canadian pig prices have also risen dramatically.

Information from Mexico is harder to come by. At the end of May, tests confirmed 83 outbreaks in 17 states but, as PEDv is not a notifiable disease, it is not known whether this is an accurate reflection of the true extent or not. Rabobank suggest a near 10% decline in Mexican pork production is possible this year. This is supported by recent price movements as they have started to rise in anticipation of shortages ahead. In addition, Mexican pork imports, mainly from the US, were up 20% in the first quarter of the year and prices were 16% higher in US dollar terms.

As the US's leading export market, developments in Mexico will have an impact on the amount of American pork available on other global markets. However, as it is only a minor recipient of EU pork, developments in Asian markets will have far more of an impact on the European pig industry. Two of the main Asian importers, Japan and South Korea, have been affected by PEDv outbreaks in recent months, along with several other Far Eastern countries. The disease is thought to have originated in China, where it has been present, and affecting production, for several years.



In Japan, reports suggest that at least 220,000 piglets have been lost to the disease since it was first reported in October. By the end of March, this had had little effect on pig slaughterings – indeed it is equivalent to less than 2% of annual Japanese slaughterings. However, as in America, prices were starting to rise in anticipation of tighter supplies ahead. By April, wholesale carcase prices had reached their highest level since 2008 and prices would normally continue rising until the summer.

In the first four months of this year, Japan has imported 7% more pork than a year before. By April, the year-on-year rise was as much as 17%. With limited availability of US and Canadian supplies, the EU was the main beneficiary with a 19% rise in shipments overall and a 30% increase in April. This would have been very welcome to exporters who had been hit by the Russian ban on EU pork earlier in the year.

Opportunities were also available in South Korea, another country hit by PEDv. In the first quarter of this year, its imports were only up by 2% overall but shipments from the EU rose by more than a third.

The South Korean pig market has been highly volatile since a major Foot & Mouth Disease outbreak in late 2010. Once the herd had recovered from this, the younger, healthier animals led to a rise in productivity, resulting in over-production. Therefore, having experienced record prices in 2011, producers faced substantial losses in 2012-13. This meant reductions in the herd, which were already starting to lead to price inflation before PEDV hit. Increased demand, as consumers switch from poultry meat following several Avian Influenza outbreaks, have also contributed to rising prices.

At the start of June, Korean pig prices were reportedly around ₩5,600 (£3.30) per kg liveweight. This compares with around ₩3,500 (£2.00) at the turn of the year. Although this is partly a seasonal development, the latest price is well above the ₩4,507 (£2.60) a year ago. Prices have reportedly also risen sharply in a number of other Asian countries. While these have not traditionally been major pork importers, supply shortages could open their markets to some extent. One example is the Philippines; EU trade figures show a 69% year-on-year rise in exports to that country in the first quarter of 2014.

The strength of demand from Asian markets has helped to provide some support to EU pig prices at a time when they were vulnerable following the Russian ban. There is every prospect that demand will increase further during the summer and autumn, as the impact of PEDv last winter peaks in both Asia and the US. Although the UK is not a major exporter to Japan or Korea, the situation can only be of benefit to prices here too.