Pig Market Trends

December 2014, Issue 115

Consumer confidence

The UK economy is picking up speed, with GDP growth, low inflation, and falling unemployment. Pay growth has slowed considerably since 2008 but earnings are now rising again in real terms. So, will this favourable news lead to a rise in retail sales? To find answers to this question and further analysis of consumer confidence and its impact on grocery sales, turn to **page 4**.

Cost of production

The estimated average cost of pig production during the third quarter was at its lowest level since 2010 and average producer margins remained positive. However, since then pig prices have continued to fall while feed prices have started to rise again, so many producers are likely to be close to their break-even point. Further analysis of the latest cost of production estimates can be found on **page 5**.

Emerging markets

Russia's ban on EU pork imports has had a major impact on the pig market. However, EU exports have held up relatively well, showing the adaptability of exporters. Much of the excess pork was diverted to established Asian markets but most of the rest found markets elsewhere. Read analysis of these emerging markets and how sustainable they may be going forward on **page 7**.

Spain

The June census suggests some optimism in the Spanish pig industry, due to good producer margins in the first half of the year. However, since the summer, prices have fallen to their lowest point in four years. Nevertheless, Spain's export success and low production costs could mean it is better placed to weather the current storm in the EU pig market than some of its competitors. To read our analysis of the Spanish pig market in more detail, turn to **page 8**.

EU medium-term outlook

The latest EU Commission Outlook forecasts a recovery for EU meat markets in the medium term. Pig meat is expected to show some production growth before levelling over the next decade. However, consumption is set to fall, meaning a need to increase exports. You can read more about prospects for the EU pork sector on **page 10**.

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Key data

	Nov-14	Change since Oct-14	Change since Nov-13
Average GB carcase weight - kg	82.03	-0.10	na
30kg weaner price - £/head	49.07	+0.08	-7.53
7kg weaner price - £/head	34.84	-2.32	-8.09
GB APP (Euro-spec) - p/kg dw	150.35	-5.79	na
GB SPP (Euro-spec) - p/kg dw	146.64	-5.97	na
EU Reference price - €/100kg dw	140.85	-2.64	-30.70
UK Reference price - €/100kg dw	183.71	-6.63	-16.11
UK weekly clean pig kill - 000 head	216.8	+10.8	+9.7
UK weekly pig meat production - 000 tonnes	18.5	+0.9	+1.2
UK pork imports - 000 tonnes*	29.9	-0.8	-2.0
UK bacon imports - 000 tonnes*	23.7	-0.2	-0.4
UK pork exports - 000 tonnes*	17.4	-0.4	+0.3
Retail pig meat sales - 000 tonnes†	55.2	+1.5	-0.2
LIFFE feed wheat futures - £/tonne	123.70	+7.59	-40.53
CBOT Soyameal futures - $/tonne	383.97	+40.31	-34.83

** Figures relate to October 2014*

† Figures include household purchases of pork, bacon, sausages and ham and relate to 4 weeks to 9 November 2014

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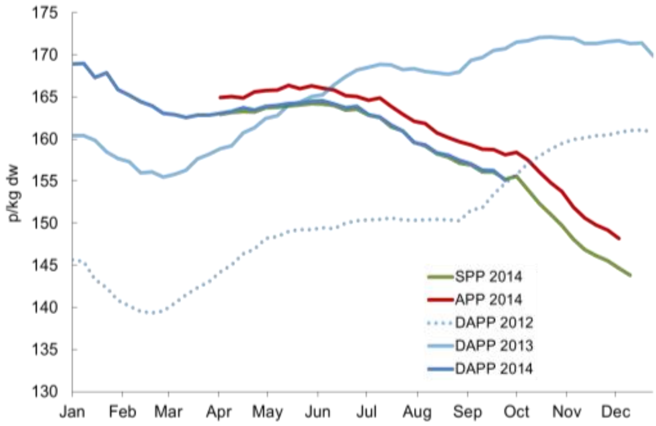
UK Market Snapshot

A different story to last year is reported for November 2014 finished pig prices. The EU-spec GB SPP averaged 146.64p per kg, down just under 6p on the month and as much as 25p lower than the DAPP in November 2013. This puts the price at its lowest since the SPP began reporting in April, with the producer receiving nearly 17p less per kilo than in that month. The 6p fall represented the largest month-on-month decrease in pig prices in more than a decade and appears to be a continuing trend; in the week ended 13 December the SPP had fallen to 143.84p per kg. There have been plentiful supplies of pigs on the market recently, with slaughterings reaching levels not seen since before the 2001 FMD outbreak. Demand has not increased to match the higher supply, with low EU prices also weighing on the market.

GB finished pig prices



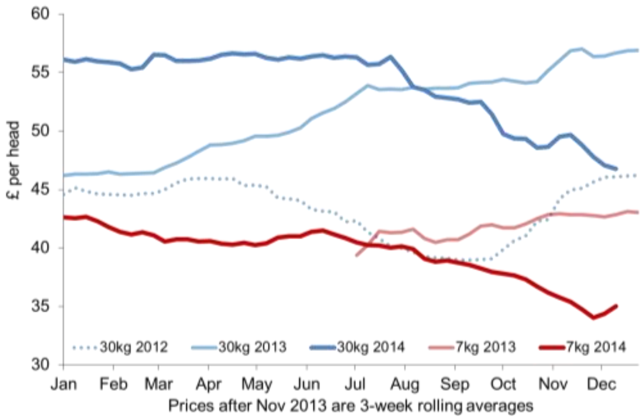
Source: AHDB Market Intelligence

The average EU-spec GB APP during the month was 150.35p per kg, a 5.79p drop since October. Whilst still following similar downward trends, the differential between the SPP and the APP grew to 3.71p, suggesting 'premium' pigs are holding their value marginally better.

The average APP carcase weight in November was 82.03kg, similar to the previous month and well above the highest average ever recorded from the DAPP sample. These heavier weights are contributing to increased pig meat production. Good growing conditions throughout the summer, along with low feed prices have contributed to the rise in weights. In addition, some pigs have reportedly been rolled by a week or more during the autumn, although the backlog had reportedly been cleared by mid-December. Certainly carcase weights began to fall again, dropping to 81.08kg in week ended 6 December, the lowest average since August.

30kg weaner prices in November averaged £49.07 a head. This is a minor increase on the month but was almost £8 less than this time last year. Similarly, 7kg prices have followed the finished pig price as well, dropping to £34.84 a head, giving the breeder £8 a head less than a year ago. 7kg prices have stabilised somewhat into December, perhaps in anticipation of better finished pig prices later in the spring. However, 30kg prices have continued to fall.

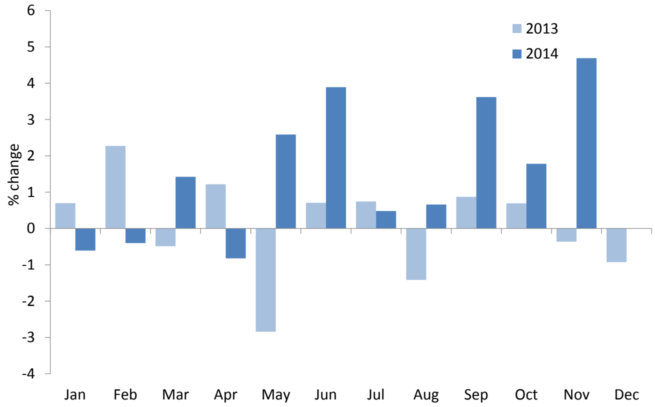
GB weaner prices



Source: AHDB Market Intelligence

November slaughtering figures confirm that there were plentiful supplies on the UK market. The number of clean pigs slaughtered in the latest month was 5% higher than the same month in 2013, at 867,300 head. This was the biggest annual increase for any month since May 2012 and the average weekly kill during the month was the highest since December 2000, helped particularly by improved sow productivity and better growth rates this year. There was a 5% year-on-year increase in throughputs in England and a 4% rise in Northern Ireland slaughterings, while the numbers killed in Scotland remained unchanged from last year.

Annual change in UK clean pig slaughterings



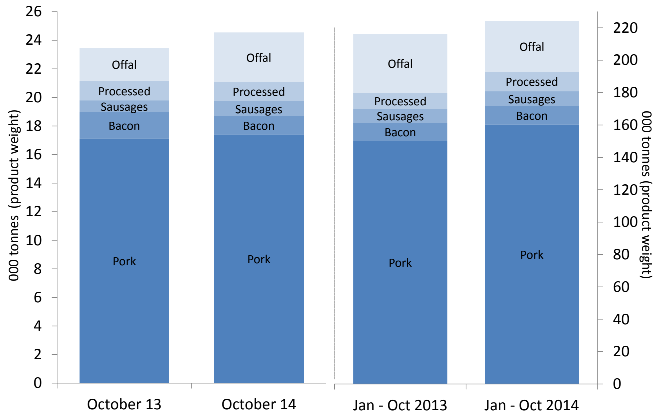
Source: DEFRA

The number of adult boars and sows culled in November totalled 18,500 head, down 5% compared with the same period in 2013. This is probably the result of low cull sow prices, meaning producers are retaining sows which might ordinarily have been slaughtered. Certainly there is no sign that low pig prices are yet leading to producers reducing their sow herds. With clean pig carcase weights up by more than 2% in November to 82.2kg, another record, monthly pig meat production totalled 74,100 tonnes, the highest November figure since 1999. As such, pig meat production in November was 7% higher than the same month in 2013.

UK Market Snapshot

Latest figures published by HMRC show a 2% year-on-year increase in October pork exports, to 17,400 tonnes. In fact, this was a 17% rise compared with the same month in 2012, following a strong performance last October. For the first time in six months, Germany held the position as the UK's number one market for exports. Volumes exported to Germany increased by 4% compared with a year earlier. However, the amount exported to the EU declined by 5% overall. This came as higher supplies available on the continent reduced import requirements. This meant that China moved into second position as its purchases increased by 12%, which contributed to the overall increase in shipments. Despite the increment in volumes exported, the value of supplies totalled £19.9 million, marginally down on October 2013, as a result of lower export prices.

UK Pig Meat Exports



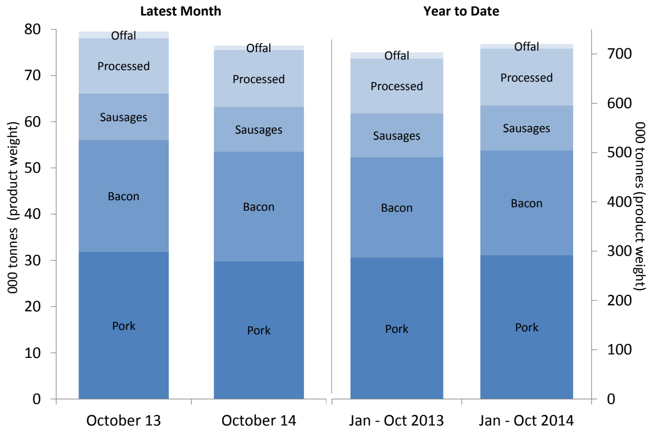
Source: Her Majesty's Revenue & Customs

Total offal exports in October reportedly rose by almost 50%, from 2,300 tonnes in October 2013 to 3,500 in 2014. This stemmed from a significant increase in shipments to China/Hong Kong, although industry reports do not support such rapid growth.

With UK supplies outstripping demand, UK pork imports in October were 6% lower than last year, at 29,900 tonnes. This was the lowest October figure since 2009 and came despite the record difference between UK and EU pig prices during the month. With the exception of Belgium and Ireland, imports from all the key suppliers were lower. Denmark, Germany and the Netherlands account for almost two thirds of the total imports and supplies were down by 2%, 12% and 2% respectively. Given the price drops across the European Union, the value of imports came down by 19% to £55.1 million.

Bacon imports fell by 2% in October, compared with a year earlier, largely due to a 15% decline in supplies from Holland. Imports of sausages fell by 4% on October 2013, given a 10% fall in volumes from Germany. Processed pig meat was the only category to record an increase in imports, up 3% year on year, despite a 22% fall in supplies from Ireland.

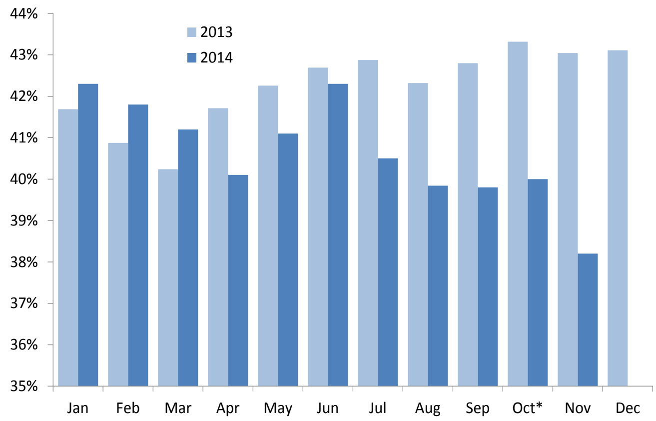
UK Pig Meat Imports



Source: Her Majesty's Revenue & Customs

Latest AHDB/BPEX information shows that in November the producer share of the retail price for pork continued its downward trend and fell to 38%. This is the lowest share since March 2012 and is the result of the biggest month on month fall of farmgate prices this year. In contrast, retail prices returned to levels seen in September, helped by the run up to Christmas. This put producers' share at five percentage points less than in November 2013. The producer share for bacon has also decreased, standing at 35% in October (November figures are not yet available), influenced by increasing retail prices. This represents a three point decrease in farmers' share since October 2013.

Percentage of pork retail price received by producers



Source: DEFRA ** figures from Oct-14 are based on APP*

Revisions to the final Defra June Survey figures do not materially alter the previously recorded trends in the UK pig herd. A slight decrease of 5,000 in the pig herd estimate was reported, keeping the change on the year at a reduction of 1%. Wales, Scotland and Northern Ireland had slightly more pigs than a year earlier, while England had fewer, bringing the revised UK total to 4.82 million head. The breeding herd fell more sharply, with the largest drop, of 13% year on year recorded for gilts in pig, suggesting a possible continuing decrease in the herd size. With maiden gilt numbers also decreasing on the year, there was evidently still some lack of producer confidence in the market.

UK Market Analysis

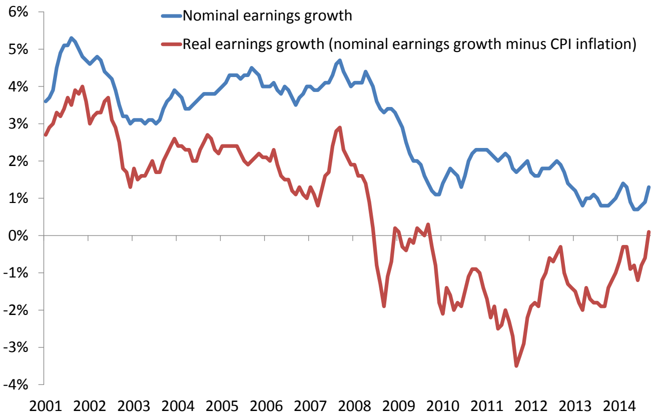
Will improving economic conditions increase food sales?

The UK economy is picking up speed; GDP growth, low inflation, and falling unemployment all point to a brighter economic future. This article examines whether this favourable news will lead to a rise in retail sales.

GDP grew by 0.7% in the third quarter of 2014, the seventh consecutive quarter of growth. Unemployment now stands at 6%, contrasting with September 2013 when 7.6% of the workforce were actively seeking work. Inflation is at a 5 year low - in September it stood at 1.2%. However, wage growth continued to lag behind inflation until September, when data recorded a positive move for the first time in four years.

Pay growth has slowed considerably since the financial crisis of 2008. Private sector pay increases have been hamstrung by weak productivity, making it difficult for employers to increase pay and remain competitive. The public sector, which employs 5.7 million people, accounting for around 20% of the working population, had pay frozen for 3 years in June 2010; pay rises for 2013/14 were capped at 1%. However, in the latest period earnings increased in real terms for the first time since September 2009.

UK earnings growth in nominal and real terms



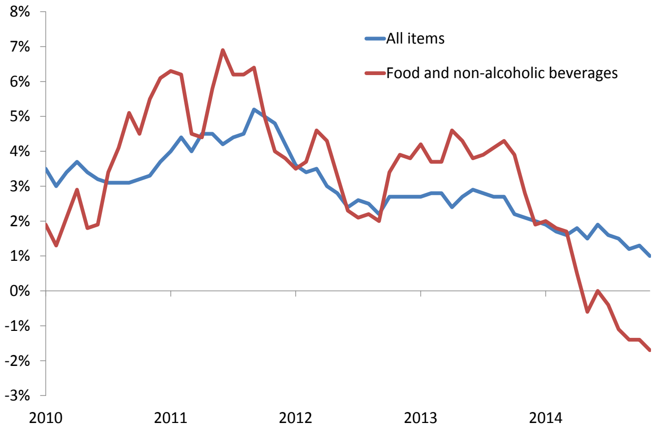
Source: Office for National Statistics

Consumer confidence is also improving; the GfK index, which has been carried out monthly for the European Commission since 1995, fell to -37 at the peak of the financial crisis but currently stands at -2. A separate consumer confidence survey from research group Nielsen showed consumer confidence in October at its highest level since the third quarter of 2007.

Evidence from the food retailer trade body IGD suggests that this improved confidence may not translate directly to increased spending. Over two thirds of shoppers still say that saving money is a priority when grocery shopping. Mintel report that, after bills, the most important spending priority for UK consumers is saving money and in-home food is not likely to be one of the main beneficiaries of any spending increase. A further look at some of the data collected by Mintel shows that a third of respondents would describe their financial position as 'tight', 'struggling' or 'in trouble'. IGD research shows a similar picture. When asked if they expected to be worse off than they were last year, a notable 33% of respondents agreed; this compares to 40% in 2013.

There is some optimism - less than 10% of shoppers expect prices to increase in the next year. This perception is confirmed by Kantar Worldpanel data which shows grocery inflation falling for 13 successive months to stand at -0.2% for the 12 week period ending 12 October 2014. This trend is backed up by other data sources, including official consumer price indices, which show declining food prices. Price competition among the 'big 4' supermarkets and hard discounters has been an important factor in this deflation.

Consumer price inflation



Source: Office for National Statistics

There seems to be a reluctance to stretch the family budget and the reason may lie in the protracted squeeze on pay packets since the financial crisis. The downturn bit hard and was long lasting, leaving the average worker in Britain approximately £5,000 a year worse off compared to 2008, nearly 20% below where their income level would be had wage growth continued in line with inflation. It is almost 100 years since similar economic conditions prevailed.

Many British shoppers though, regardless of their current situation or how they see their future financial position, have acquired shopping habits during the recession that will take some time to change. The 'savvy shopper' might be here to stay. Shoppers are likely to continue to be less loyal to supermarkets and brands, may visit two or more stores on a shopping trip and use promotions and coupons more often.

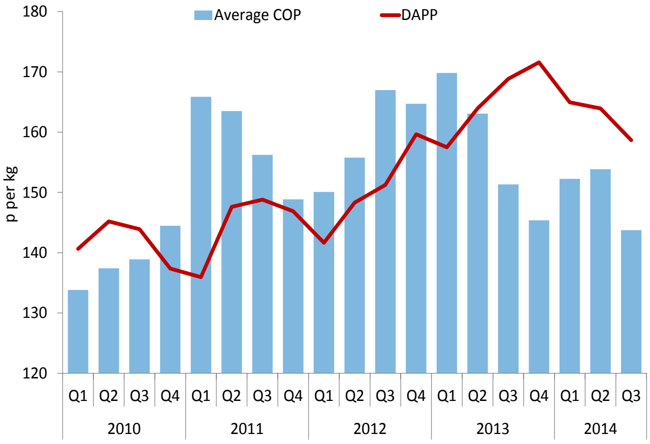
There is no doubt that the improvement in economic conditions is welcome, particularly the real terms pay increase. The problem is that consumers still do not have the disposable income that was available pre-recession. Although they expect things to improve in the future and they are better off than 6 months or a year ago, they are much worse off compared to 2008. Only a long-lasting, sustained economic recovery will solve this.

UK Market Analysis

Producer margins still positive in Quarter 3

Based on AHDB/BPEX estimates, the average cost of pig production in Great Britain during the third quarter of 2014 was just under 144p/kg (carcase weight). This was around 10p lower than the estimate for the previous quarter, driven by the fall in global cereals prices as this summer's harvest became reality. This is the lowest estimate of production costs since the final quarter of 2010. As a result, despite pig prices falling steadily between July and September, average producer margins remained positive. With the DAPP averaging nearly 159p/kg during the three month period, producers would have made a positive margin of around £12 per head during the quarter.

Total cost of pig production compared with pig prices



Source: AHDB Market Intelligence

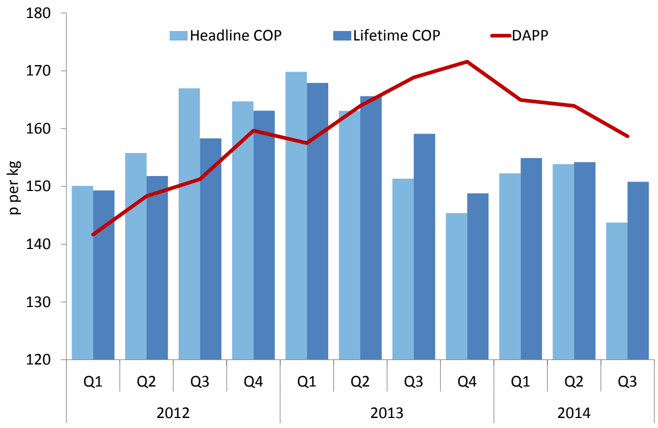
Although this paints a relatively positive picture for producers, since September pig prices have continued to fall while grain prices have started to rise again. With the APP falling below 150p/kg in mid-November and the SPP around 3-4p below that, many producers are likely to be close to their break-even point. Some, particularly those selling pigs through the spot market, are probably already losing money again. Unless the market direction changes, more producers will find themselves in this position by early 2015.

The better financial position of producers over the last 18 months has been insufficient to fully offset losses from the previous 2½ years. Between the start of 2011 and mid-2013, GB producers lost an estimated total of £170 million. Between then and the end of September, cumulative producer profits have amounted to around £140 million. Nevertheless, that still leaves an estimated net loss to the industry of around £30 million over the four year period.

The importance of the fall in feed prices is emphasised by looking at the breakdown of costs in more detail. This shows that the drop in production costs between the second and third quarters was entirely due to a 10p fall in feed costs. Feed made up just 58% of the total in quarter 3, down from a peak of 66% in January-March 2013. With little change in the amount of feed used, the fall is mainly due to lower prices.

The headline figures for cost of production and net margins quoted above compare costs incurred during the third quarter with the price of pigs sold during the same period. Of course, those pigs were born at a time when feed prices were higher and the sows were served when they were higher still. This means the 'lifetime' cost of producing the pigs sold in the third quarter was higher than the headline measure. The cost is estimated at 151p/kg, still below the pig price during the period but not to the same extent.

Headline and lifetime cost of pig production compared with pig prices



Source: AHDB Market Intelligence

Feed prices are not the only factor which influences the cost of production, of course. Another important one is carcase weights. Adding extra weight to a pig adds to the cost of feeding it. However, the extra cost will be relatively modest and so the cost per carcase kilo will be lower. The precise impact will vary but, at current price levels, adding 1kg to the average carcase weight reduces estimated costs by around 0.6p/kg. Pigs have been heavier in 2014 than 2013. Weights rose particularly sharply during the autumn, which will have had some impact on estimated costs in the third quarter and will have an even bigger effect in the fourth quarter. This might have helped to keep average costs below prices.

The other big influence on average production costs is the physical performance of the herd. Latest figures show a mixed picture. Sow productivity continues to improve, with the number of pigs weaned per sow in the year to September 2014 averaging 24.1. This compares with 22.8 in the preceding 12 months but was only slightly higher than in the previous quarter. A small increase in post-weaning mortality meant that the number of pigs finished per sow was similar to three months before.

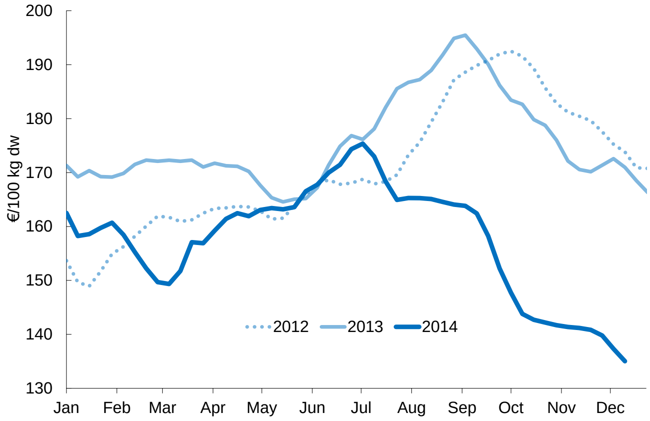
Feed efficiency in the rearing herd also improved, although daily weight gain was little changed on recent periods. However, feed conversion in the finishing herd worsened, partly due to the heavier finished weights. Nevertheless, with daily weight gain slightly higher, the overall amount of feed used to produce each pig was little changed. With margins tightening, the focus on improving physical performance will need to be even sharper going forward.

EU Market Snapshot

The average EU finished pig reference price continued to fall throughout November to average €140.85 per 100kg, nearly €3 down on the previous month. With constant decreases since June this year, November's price is over €30 down on a year earlier. Ample supplies throughout the continent are the main contributing factor to this continued downward trend, as productivity remains strong. The average UK reference price mirrors the EU price trend but at a slightly slower rate, losing €16 on the year to stand at €183.71 per 100kg. Consequently, the gap between the two prices was at the top end of the €25-€45 range seen throughout the year.

Having stabilised somewhat during November, prices began to fall more quickly again in December, dropping to an average of €135 per 100kg in week ended 14 December, the lowest level recorded since early 2011.

EU Average Pig Reference Price

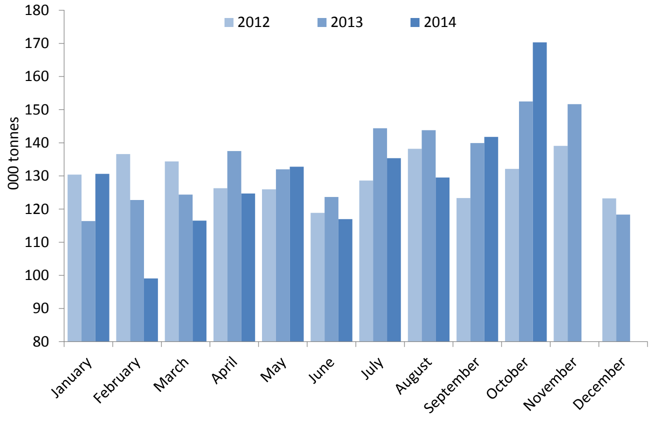


Source: EU Commission

All the major EU producers saw a drop in price in the year to November. For some, like Spain, favourable weather conditions have aided productivity and conditioning, increasing availability. This has caused a fall in the Spanish price of €46 since the peak in June. In the latest month, however, some countries, like Belgium, Denmark and Austria, recorded a slight increase in price as supply tightens. The German price cuts seen in recent months have slowed. However, its quote remains €26 down on the year, having fallen just over a euro between October and November. Several other key countries, including the Netherlands and Poland had prices back around €30 on the year as well.

October figures published by Eurostat show a 12% year-on-year increase in EU pork exports, to 170,300 tonnes. This was the highest monthly figure in records back to 2002. In October China held the number one position in line with the previous month, with a 10% year-on-year increase in shipments. Trade with South Korea also strengthened, making it the second most important market for the EU. As Japan begins to pull in more imports from the US, the EU's share is falling, with volumes down 11% on last October. Hong Kong and the Philippines are also included in the top five destinations for EU exports in the month. The value of EU exports in October totalled €399.9 million, up 9% year on year.

EU monthly pork exports

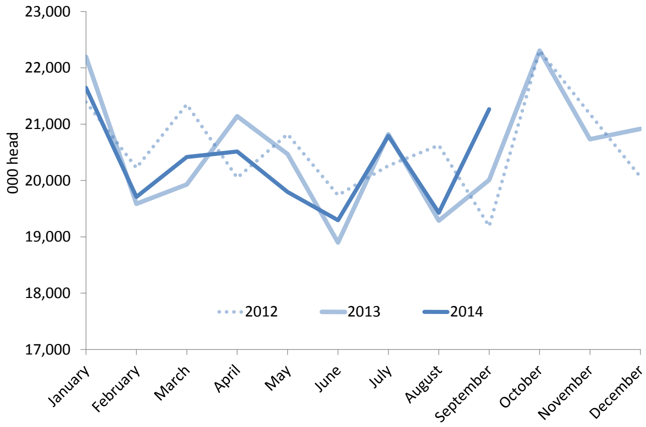


Source: Eurostat, GTIS

Similarly, at 113,400 tonnes, EU offal exports also recorded an increase, up 24% compared with October 2013. The Asian countries also performed strongly in the offal market, with China and Hong Kong taking over two thirds of shipments. Volumes to China rose by 39%, while the increase to Hong Kong was smaller at 5%. The value of offal exports in October totalled €140.6 million, up 26% on the previous year.

At 21.3 million head, September EU pig slaughterings showed an increase of 6% on the year, to the highest level since January. Consequently, pig meat production increased significantly on the year, by 10%, with the higher throughput added to by heavier carcases. However, for the year to date, EU-28 production remained marginally behind the same period in 2013. The increased availability for slaughtering was driven by increases across all the large producers, particularly 17% increases in the Polish and Irish kills, with good weather and falling feed prices allowing pigs to grow well. Smaller slaughtering increases in other large producers, such as 5% in Denmark, France and Germany, 7% in the Netherlands and Spain, also contributed to the overall upward trend.

EU pig slaughtering trends



Source: Eurostat

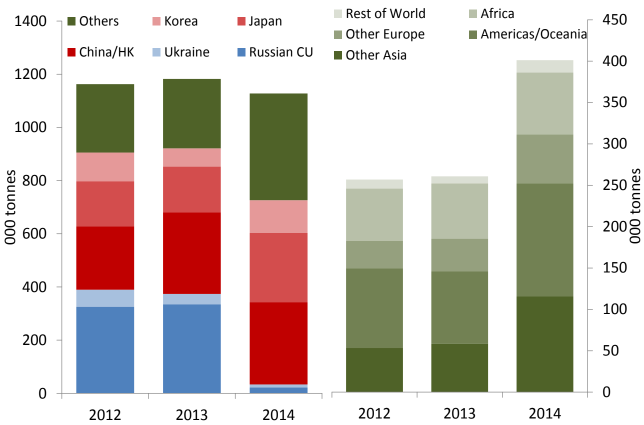
Global Market Analysis

Emerging markets support EU exports but for how long?

Russia's ban on imports of EU pork has undoubtedly had a major impact on the pig market. However, EU pork exports have held up relatively well, with volumes down only 5% during the first nine months of the year and prices down less than 1%. Given that the Russian Customs Union accounted for 28% of EU pork exports (335,000 tonnes, equivalent to 2% of EU production) in January-September 2013, this shows the adaptability of EU exporters.

Much of the excess pork was diverted to the established markets in Asia, China/Hong Kong, Japan and Korea. The last two were suffering supply shortages due to PEDv outbreaks, as was the US, traditionally their main supplier. These three markets took 145,000 tonnes more EU pork between January and September this year. However, that still left nearly 200,000 tonnes of EU pork requiring a new home.

EU pork exports by destination, January - September



Source: GTIS

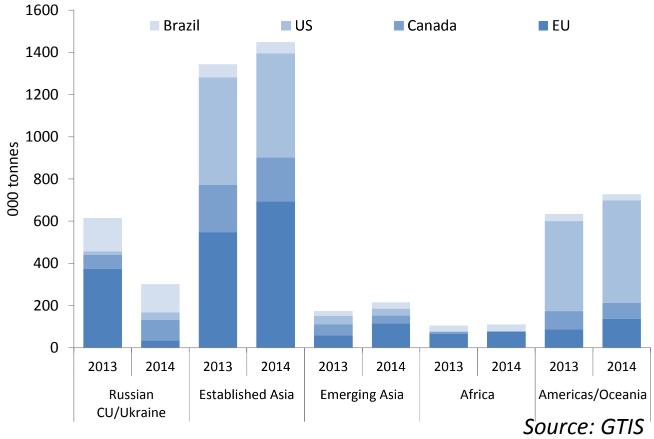
Nearly two-thirds of this product found another market somewhere outside the EU. At least for most of the period, this gave support to prices. So where are these new markets and how sustainable are they?

The biggest growth came from smaller Asian markets. The most important were the Philippines, Singapore and Taiwan. Like their more established neighbours, some of these countries have been affected by PEDv, which contributed to an increase in demand. With EU pork more price-competitive this year against US and Canadian product, its market share rose. Last year, of pork supplies to these countries from the world's major exporters, only around a third came from the EU. This year, the EU share was over half.

Although relatively small at the moment, imports to these countries are projected to grow. Philippine imports are set to rise by 50% over the next decade, for example, and possibly even more if its economy grows faster than expected. However, they are likely to remain price sensitive, for now, at least. Therefore, the EU may struggle to maintain volumes once North American prices fall back, as they are sure to do.

The other major growth markets this year have been in the Americas and Oceania. Australia, the US and New Zealand have all taken at least 50% more EU pork this year. However, with the possible exception of Australia, these increases have been driven by the tight supply and high prices in the US. This is unlikely to continue for much longer and the EU will struggle to sustain higher sales in these regions. Even this year, it accounted for less than 20% of imports, even when cross-border trade between the US and Canada is excluded.

Origin of pork exports by destination region, Jan - Sep



Source: GTIS

Some growth has also come from elsewhere in Europe, mostly in the former Yugoslavia, and Africa. Although this trade is relatively small, the EU has a geographical advantage over other exporters here. Future growth in Europe is likely to be limited. However, Africa may offer opportunities. Growth this year has been modest - EU shipments are up just 12%. However, the FAO projects a doubling of African pork imports over the next decade. The EU is well placed to meet this demand, with Brazil the main competition.

Russia was also a significant importer of pig offal and fats. EU offal exports have actually been higher this year as Asian markets, including emerging ones such as the Philippines, Taiwan and, in this case, Thailand, have increased purchases. However, fats have proved more problematic. Russia was the dominant buyer of EU pig fat. While other markets have taken much higher volumes this year, they are well short of the amount which Russia bought in the past. This amounts to a loss of around €200 million to the EU industry, contributing to the pig price falls this year.

The tight global supply situation this year has helped EU exporters to find new markets. However, many of these markets can't be relied upon in the longer term unless the EU can continue to compete with supplies from the Americas once prices there fall back. With Russia likely to require less pork, even once it reopens to EU imports, a more challenging trading environment in the future remains a distinct possibility. This suggests that EU pork production may struggle to recover from its decline of recent years and could fall further if domestic demand doesn't pick up.

Global Market Analysis

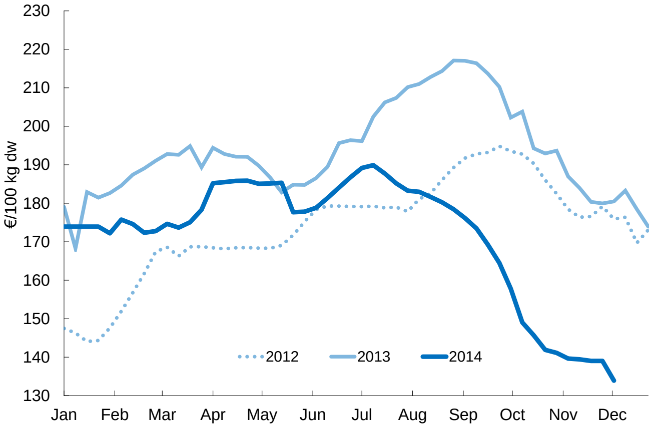
Spanish growth tempered by falling prices

The Spanish economy was one of the worst hit by the Eurozone crisis since 2008. The situation is now improving, with Spain outperforming some of the bigger European economies, including Germany and France. However, the recovery has not yet been reflected in consumer demand for pig meat. According to the latest figures published by Spain's Ministry of Agriculture, Food and Environment, fresh pork consumption in the year to September fell by 1% year on year, although pork outperformed other fresh meats. Spending on pork was 0.3% lower, indicating a small increase in prices. Spanish consumers have a higher preference for processed meat, which is mainly pig meat, than fresh pork (consuming 12.1kg per capita of the former and 10.6kg of the latter). The fall in processed meat consumption was more evident, with a decline of 4% on a year earlier.

Despite lower domestic demand for pig meat, Spain slaughtered 3% more pigs in the first nine months of this year than in the same period of 2013. During this time, pig meat production also rose by 3%, to 2.61 million tonnes. Over the last few years, abattoir capacity to slaughter animals has increased rapidly. In addition, the June 2014 census showed a 7% rise in the number of piglets. Given little change in the live pig trade, the increase recorded in the census is likely to translate into higher throughputs for the rest of this year and the start of 2015.

The June census also showed a rise in gilts numbers, with maiden gilts up by around a quarter compared with a year earlier. This suggests some optimism in the industry at the time, partly a result of good producer margins in the first half of the year. The recent InterPIG report shows that in 2013, Spain had the lowest cost of production among the EU countries represented, mainly due to its low fixed costs. Pig prices were also among the highest in the EU. Latest figures show a decline in feed prices since 2013, which will have reduced costs still further. Combined with firm prices in the first half of this year, this will have ensured producers remained profitable and were confident to expand.

Spanish pig reference prices

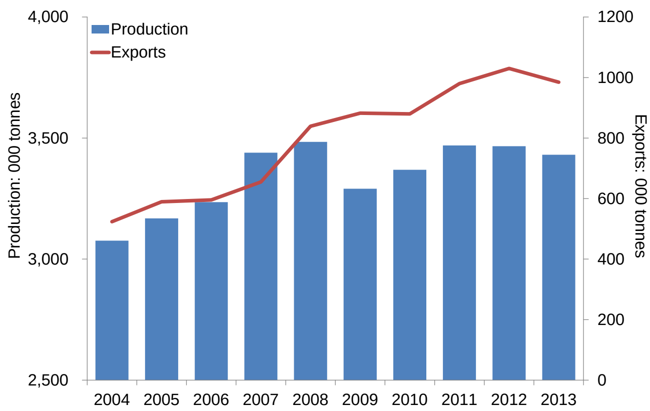


Source: EU Commission

Spanish pig prices peaked for the year at just under €190 per 100kg in mid-July. However, from having some of the highest finished pig prices in the EU over the summer, quotations have fallen to their lowest point in four years; at €134 per 100kg in early December the Spanish price was below the EU average. Pig prices in Spain fell sharply in the autumn. This is partly seasonal but the decline has been very marked this year. As well as the crash in the wider EU market, high stock levels and increased pig supplies in Spain have contributed to this development. There was also a sharp autumn fall in wholesale prices for some cuts, especially belly and shoulder.

As a direct consequence of higher supplies and lower domestic demand, Spanish pork exports for January to September showed a 5% year-on-year increase, to 759,400 tonnes. This continues the long-term trend which has seen Spanish pork exports virtually double over the last decade.

Spanish pork production and exports



Source: EU Commission, GTIS

Around three quarters of exports are destined for the wider EU market, a share which has fallen over time; volumes sent to other EU countries edged down marginally compared with the first nine months of 2013. At the same time, exports to non-EU markets increased by 28%. Unlike most EU countries, Spanish access to the Russian market was already restricted before the start of this year. However, it has been particularly successful at finding other markets for its exports. Among them, volumes shipped to Japan so far this year have more than doubled. Shipments to China increased by 27%, while trade with South Korea and the Philippines also more than doubled in the nine month period.

The optimistic figures from the June Census suggest Spanish pork production will continue to grow in the short-term. With domestic demand subdued, this will mean more pork available for export. Spain's success at diversifying its markets may act as a potential threat to other pork exporters, including the UK; lower prices will only make it more competitive on export markets. Coupled with its low production costs, this could mean the Spanish industry is better placed to weather the current storm in the EU pig market than some of its competitors.

Feed Market

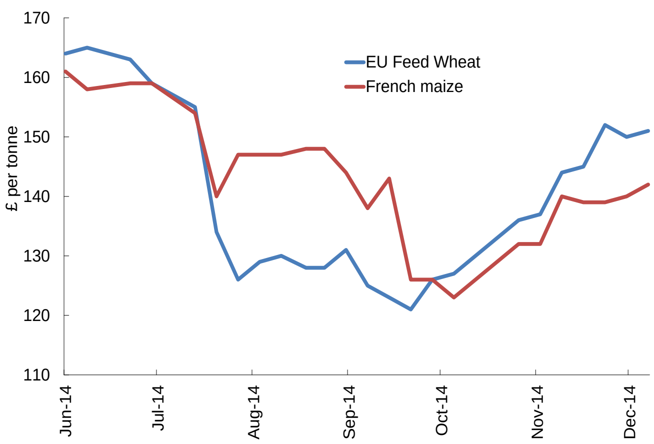
May-15 UK feed wheat futures settled at £139/t on Tuesday 16 December, up by 25p on the 1 December price. However, this marginal change masks quite a lot of volatility in wheat markets throughout December. On 2 December, the May-15 contract closed above £140/t for the first time since early July, before declining to a monthly low of £131.65/t on 11 December. In recent days, prices have found support again.

The focus of the wheat market has predominantly been on events in Russia. Earlier threats of restrictions to Russian exports introduced a risk premium to futures markets. This has since dissipated, as one of the world's biggest trading houses revealed it hadn't seen any intervention in trade. However, concerns have since resurfaced that Russia may lower grain exports to help deal with its high inflation. The markets will continue to keep a close eye on events in Russia, which appear to have been the main market mover lately.

With geopolitics currently playing such a role in price direction, market sentiment is not just following the fundamentals, which remain bearish. In its latest World Agricultural Supply and Demand Estimates (WASDE), the USDA lifted forecasts for wheat and maize. Global wheat output is now forecast at a record 722.2Mt, with maize pegged at 991.58Mt. The latest estimates resulted in higher stocks to use ratios for both grains, further increasing the confidence in global volumes this season.

According to the latest UK trade data from HMRC, the UK was a net-exporter of wheat in October, for the first time since May 2012. The UK exported 218.6Kt of wheat, the highest monthly total so far this season. However, there is still a lot of work to be done, as the export pace is lagging behind that of previous large production years. In addition, the UK has imported 486Kt of maize so far this season, just 30Kt less than at the same point in 2013/14, a record year for maize imports. The price competitiveness of maize relative to feed wheat has improved further in recent weeks.

Weekly UK imported prices



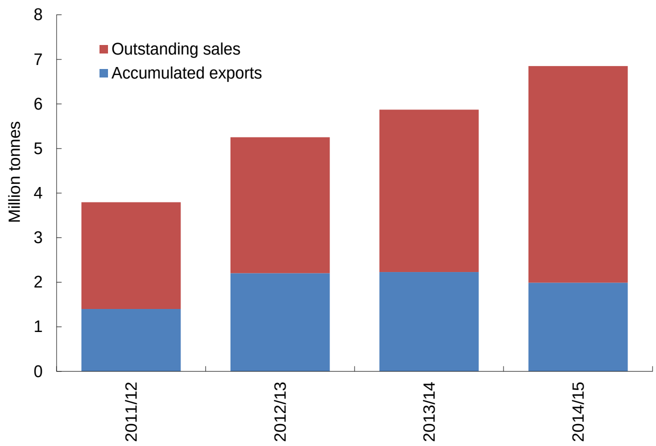
Source: AHDB/HGCA

This suggests increased competition between wheat and maize for animal feed demand. Defra's animal feed statistics for October indicate that total GB retail animal feed production was down by 3.1%, compared with October 2013. Raw material usage in animal feed production was also down, by 3.7%, with a slightly higher cereal incorporation rate.

Looking ahead, FAO cereal supply and demand estimates reveal an increase to global production in 2015, with total cereals output expected to reach 2.53Bt, up 6.9Mt on this season's current estimate. In the UK, drilling conditions have been favourable for growers so far this year, according to the November crop report from ADAS.

The oilseeds complex has received some support during December, with futures prices for both Paris rapeseed and Chicago soyabeans up since 1 December. The support has come mainly from strong demand for US soyabeans. Accumulated exports of US soyameal for the current marketing year had reached 1.99Mt by 4 December, an increase of 307Kt since the previous week, but behind the amount exported by the same time last year. However, total export commitments stand at 6.9Mt, ahead of the 5.9Mt committed by the same point in 2013/14.

Total US soyameal export commitments



Source: USDA

However, in recent days there has been a downward trend for futures prices, following higher global soyabean production forecasts by the USDA and crush data for US soyabeans. In December, the USDA increased their estimates for global soyabean production by 0.75Mt, to 312.8Mt. In addition, US soyabean stock estimates were higher than many trade expectations, resulting in pressure on futures prices. In addition, while the volume of soyabeans crushed was the largest on record for November, this was also lower than the average trade estimates.

Rapemeal (34%, Ex-mill Erith, December delivery) is currently £186/t, up by £8 from the price at the end of November. Hi-Pro soyameal (Ex-store, East Coast, December delivery), was £338/t on 12 December, down £2 on the end of November.

In Brief

Increasing volumes of EU pig meat destined for export

The latest EU Commission Medium-Term Outlook report paints a picture of recovery for EU meat markets in the medium term. Total meat production could reach 44.9 million tonnes by 2024. With a possible decline in internal demand, EU exports will need to increase, with new trade partners ever more sought after. Unsurprisingly, poultry will retain its position as the dominant meat thus driving production figures, as the only sector set to increase in both production and internal consumption.

Pig meat, the largest meat sector in the EU, is expected to show some recovery in the short term, as feed prices are low and herds stabilise, before levelling over most of the next decade. This is forecast to result in a 2% increase in output to 22.6 million tonnes in 2024, still below the peak of production in 2011. This is a slower increase than in the previous decade and has in part been dictated by new legislation in welfare and environmental practices requiring restructuring of the industry.

Increased production, however, will not be reflected in internal consumption trends, which are projected to fall despite recovering economies and increasing populations. Pig meat will continue to be outcompeted by the poultry sector. While economic recovery in the short term should equate to increased meat consumption, longer term trends suggest a decrease to 29.7kg per capita. However, there is a split internally as the new member states, such as Poland, are projected to increase their consumption, whilst the EU-15 countries reduce theirs.

With production increasing but demand decreasing, exports have the potential to grow by 20%. The EU will be in a position to maintain a 50% share of China's import market, despite growing competition from the US. Exports to Russia face an interesting future. Even if the import ban is lifted in 2015, Russia is expected to have increased its own production, reducing its requirement from the EU. Expanding Asian markets such as the Philippines and Vietnam will offset this, contributing to growth.

As global demand rises, the EU can expect an increase in pig meat prices. An average increase of 11% on current levels is estimated but the confidence is low as it is dependent on feed prices, as well as a combination of other economic factors.

Gammon – not just for Christmas?

Gammon joints have been a Christmas food staple for centuries. The versatility of gammon joints is a contributing factor as it can be eaten hot or cold. When glazed then roasted is an attractive centrepiece to a yuletide buffet and if any is left, it can be included in pies, soups or sandwiches. Figures show that sales are maintained at a steady level from January to November and then rise considerably in the run up to Christmas. Opportunities for growth exist by strengthening the association of gammon with family gatherings and celebrations, not just at Christmas.

Global prices falling from record high

This year, global pork prices have reached unprecedented levels as PEDv hit slaughter pig numbers in the US, Mexico and Asia, meaning both tighter supplies and increased demand on the global market. Although they remain above the previous record, prices have fallen back since the summer, driven by the Russian ban on imports from the US and Canada (as well as the EU) and the lower than expected impact of PEDv in the US. Unlike the other major players, EU exporters have not seen the benefit of higher prices, with the Russian ban meaning that this year's average dollar price for EU pork exports was only slightly higher than last year's, with the euro price 1% down on the year.

Further improvements in physical performance

The number of pigs weaned per indoor sow in GB during the year to September 2014 averaged 25.8, up from 24.1 in the preceding 12 months. In contrast, productivity from outdoor sows was little changed at 21.7 pigs per sow per year. The indoor increase was driven by more than half an extra piglet born alive per litter. Feed efficiency in the rearing herd also improved, while for the finishing herd it was little changed on a year earlier.

German pork trade stable

Latest German pork trade figures for January to September showed only a 1% decline in exports, despite the Russian ban; Russia was Germany's largest non-EU market last year. Shipments to other EU markets rose by 2%, driven by increased exports to Italy. Non-EU exports declined by 16%, as shipments to China also dropped. German pork imports were also little changed. The live pig trade also remained relatively static overall, with imports moving downwards by just 1%. However, weaner imports increased by 3%, while slaughter pig imports fell by 9%.

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