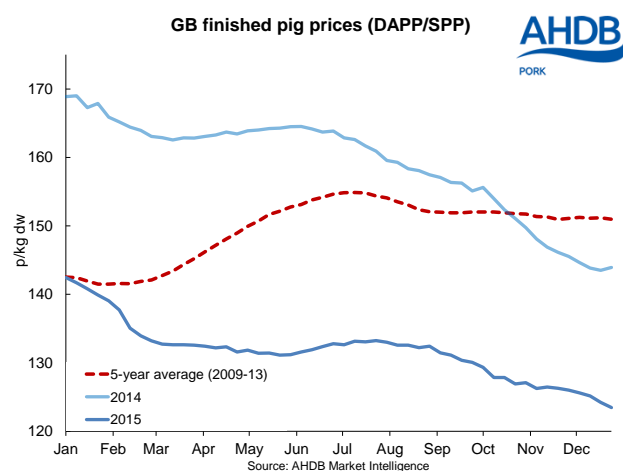


Will 2016 be another year to forget for producers?

In terms of price, 2015 was a year to forget for pig producers. A combination of factors throughout the year contributed to the steadily declining price. Things could have been worse though, really they could have been!

At the start of 2015 the EU-spec SPP was at 142p/kg, the highest price recorded all year, and then experienced its usual post-Christmas decline. Unlike other years, however, spring recovery was undetected and prices fell to just above 131p/kg in May. The price picked up somewhat throughout the summer, albeit remaining under 134p/kg, peaking at the end of July. Thereafter it slowly fell for the remainder of the year. The last recorded price in 2015 was 19p less than the start of the year at 123p/kg. Not only was this the lowest price of 2015, but comparing it against the DAPP, this quote was the lowest since May 2008.



Pig meat production for 2015 was over 4% higher than 2014 at just under 900,000 tonnes, while sow slaughterings were little changed. Therefore, the increase in production is attributed to a slight increase in weight and better productivity.

The increase in domestic supply was added to by a rise in imports but, similarly to 2014, the amount could have been higher considering how much lower EU prices were throughout the year. A smaller increase in exports was recorded for 2015, although the majority of cuts exported were those with little demand domestically. The strength of the pound against the euro was the main factor limiting UK exports last year.

The increase in supply was met by reduced demand in 2015, with retail sales of pig meat down on the year before, which was regarded a fairly low year, particularly for fresh pork. Increased supply and poor demand inevitably had an effect on prices. The balance between supply and demand will have to even out somewhat if there is any hope of prices picking up throughout this year.

If UK producers had it bad, their EU counterparts had it worse from a price perspective. The average EU reference price ended the year at just over €1.26/kg, which is 93p/kg in sterling terms and 4% lower than the price at the start of the year, although

the price had been higher during the year. Due to the weakness of the euro, in sterling terms the decrease was even larger at 10%. Not only has the EU recorded lower pig prices, feed prices have also held up due to the weak euro, which has pushed many farmers back into the red. For the UK, however, although pig prices are at the lowest point in nearly eight years, animal feed prices are at multi-year lows too. This means that, despite the low pig prices, the financial position of producers has not been as bad as for their counterparts across the channel.

The Russian import ban was still in place throughout 2015 and is unlikely to be lifted anytime soon. With pig supplies still relatively high and consumer demand subdued, this has put even more pressure on EU prices. There have been additional worries over high global supply outstripping demand in 2015, with the important exception of China.

So what do the trends in 2015 tell us about 2016? Well, for 2016 supplies available for consumption are forecast to increase again, with both domestic production and imports expected to rise. This will keep pressure on the UK pig price unless demand increases accordingly. So far, however, consumer demand has not increased in response to low prices. With UK feed prices low, producer margins could be worse but they are vulnerable to sustained falls in pig prices or to any rise in feed prices.

Low global demand, relative to supply, is still going to be a focus point for the year. China, now the UK's second largest export destination for pig meat (and the EU's largest), is expected to record a slowdown in imports as 2016 progresses. With strong Chinese demand providing some support to the EU market in 2015, this must be a concern. Other major importers are forecast to show at most modest growth and these may be offset by further reductions in Russia's demand.

The EU private storage aid scheme may reduce supplies on the market but a similar scheme in 2015 had little effect on EU pig prices. Nevertheless, this year's scheme is thought to be better designed. The reported contraction in the German breeding herd could lead to tightening supplies in the EU, if replicated elsewhere. Even so, no major reduction in EU output is likely at least until the middle of the year, so demand will need to be found from somewhere for a significant EU market recovery.

The impact of the weak EU market on the UK pig price has been enhanced over the last year by the strength of the pound against the euro. Nevertheless, some commentators feel the pound is over-priced and indeed it has weakened since the turn of the year. As more information on the EU referendum and which way the vote may swing becomes available, it could influence the value of the pound. Despite this uncertainty, a strong pound could continue to be an issue for much of 2016.

At the beginning of 2015, the message was that the year could easily be one that producers would want to forget. Overall, it seems that, unfortunately, that may be the case again in 2016.