

EU capitalises on tightening of Chinese supplies

During 2015, much of the global pig market has been experiencing low pig prices and a plentiful supply, bolstered by improved efficiencies and a low feed price. The opposite has been true in China, which experienced a significant drop in its breeding sow herd, in turn leading to a tightening of supplies and an increase in the pig price. With demand for pork outstripping domestic supplies, export opportunities were evident to the Chinese market.

From April 2015 onwards, the wholesale pig price rose steadily, greatly exceeding levels seen in 2013 and 2014. During the last quarter of the year, levels did decline slightly but remained strong compared to the previous two years. This increase in wholesale price reflected the tightening of supplies following the large scale rationalisation of the breeding herd. However, the slight decline in price at the end of 2015 suggests that there may be some increase in supply to the domestic market. A slight growth in the breeding sow herd is forecast due to cheaper feed and higher pig prices, but production efficiencies will also have a big part to play. Quality is improving through imported genetics, industry consolidation and new investment.



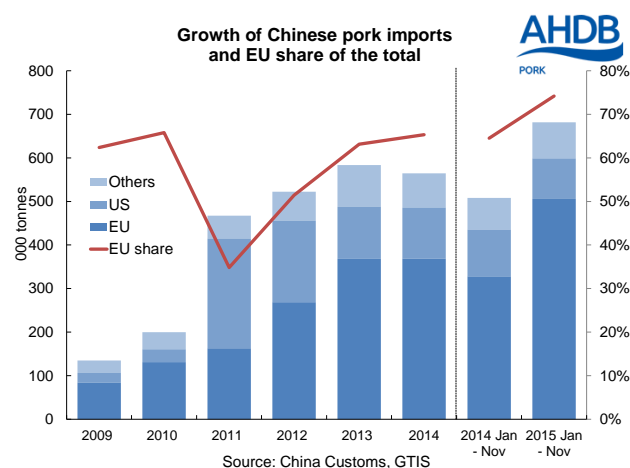
Whilst we are starting to see a slight recovery in pig numbers, demand is still outstripping supply. The shift from small holdings to larger scale production continues, often driven by high production costs and stringent environmental regulations being used to shut down or relocate pig farms – especially those near densely populated areas. The pig herd is predicted to recover by the end of 2016, driven by the high prices. The government is also encouraging the development of large scale pig farms which benefit from better technology and management and a higher sow production ratio.

Demand for pork in China is likely to have been negatively affected by the economic slowdown and the internal fight against corruption reducing the number of official banquets, especially at high end hotels and restaurants. Pork prices look set to stay high into 2016, which may drive more

consumers towards poultry and fish. However, the fact that the population is still growing and becoming more urbanised will support pork consumption. Coupled with this, urban consumers are paying more attention to food safety, which has led to an increase in popularity of branded products.

The slight increase in production into 2016, in line with stabilised consumption, may start to reduce the levels of imports needed. However, the predicted continued high pork price and relatively low levels of trust in the domestic product will continue to make imports an attractive option.

Imports to China grew significantly during 2015 compared to the same period a year before (682,000 tonnes up to November vs. 508,000 tonnes in 2014). This growth was largely bolstered by the increase in EU imports – accounting for 74% of all imported pork. EU pork was attractive due to the weak euro and the glut of supply, exacerbated by the trade ban imposed by Russia.



Going forward, export opportunities to China should remain strong for much of 2016, as pig numbers are not predicted to recover until the end of the year. Consumption is forecast to remain stable, ensuring that demand will still exceed supply, although the rate of growth is likely to slow and may fall below 2015's inflated levels as the year progresses. Even though the UK does not have quite the same exchange rate advantage as the EU, high Chinese production costs and limited supply still makes UK pork competitive.

In conclusion, China looks set to remain a strong export partner for both the UK and the rest of the EU but we are unlikely to see the same growth as in 2015, especially in the second half of the year. As well as domestic supplies coming forward at a greater rate, the slowdown of the Chinese economy may limit demand to some extent. Historically, the Chinese market has always shown a degree of volatility, although the trend has been of a growing market. Therefore, whilst the Chinese market has been a lifeline during a difficult period in the EU pig market, we should not rely on it to be the golden goose throughout 2016 and beyond.