

# Pig Market Trends

November 2013, Issue 102

## In this issue

Regular readers of Pig Market Trends will notice some differences in this month's edition. PMT will still provide a summary of developments in the UK and EU pig markets and the global feed market over the last month. However, from this month, each edition will also include a number of more detailed articles, providing analysis and insight about particular issues affecting the UK and global pig market. In this issue, you will find articles on the following:

### International Costs of Production

The latest in AHDB/BPEX's series of annual reports comparing production costs internationally has been published this month. It shows that GB costs were still higher than elsewhere in the EU. An article analysing the reasons for this and what British producers would need to do to close the gap can be found on page 4.

### Market impact of notifiable disease

There has been a lot of interest in the industry recently on the risk of a notifiable disease outbreak. If one was to occur it would have a major impact on the UK pig market. An article examining the scale of the potential impact on export markets and the domestic market can be found on page 5. The article also considers what it might mean for pig prices.

### Global market outlook

USDA has recently published its biannual outlook for the global meat sector. An article looking at what the report says about production levels around the world and what this might mean for international trade is on page 7. The article considers the implications of the forecasts for the EU market.

### EU-Canada Free Trade Agreement

The EU and Canada have agreed terms for a Free Trade Agreement, likely to come into force in 2015. This will provide Canada with greater access to the EU pork market, with potentially significant implications for European producers. The impact of the agreement is examined on page 8.

### Common Agricultural Policy

Although it doesn't directly affect many pig producers, reform of the Common Agricultural Policy will have an impact on all agricultural markets. Read about the latest developments on page 10.

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## Key data

	Oct-13	Change since Sep-13	Change since Oct-12
GB DAPP (euro-spec) – p/kg dw	171.87	+1.80	+14.13
Average GB carcase weight – kg	80.22	+0.30	+0.98
30kg weaner price - £/head	54.26	+0.23	+12.99
GB cull sow price – p/kg dw	na	na	na
EU Reference price – €/100kg dw	180.45	-10.59	-8.64
UK Reference price – €/100kg dw	198.86	+1.62	+8.08
UK weekly clean pig kill – 000 head	202.3	+4.0	+1.2
UK weekly pig meat production – 000 tonnes	17.0	+0.5	+0.3
UK pork imports – 000 tonnes*	28.8	+0.7	-0.2
UK bacon imports – 000 tonnes*	22.7	+3.2	+1.4
UK pork exports – 000 tonnes*	17.2	+2.2	+1.5
Retail pig meat sales – 000 tonnes†	54.7	+1.6	-0.2
LIFFE feed wheat futures - £/tonne	162.76	+8.45	-40.20
CBOT Soyameal futures - \$/tonne	418.06	-26.64	-53.59

\* Figures relate to September 2013

† Figures include household purchases of pork, bacon, sausages and ham and relate to 4 weeks to 13 October 2013

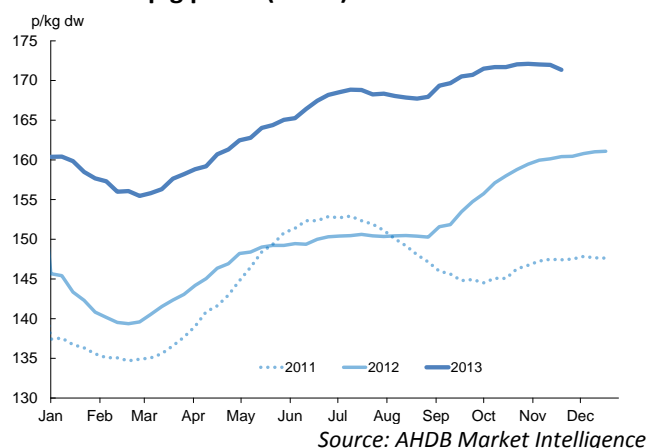
Interested in data? Get more detail about these and other areas from the [BPEX website](http://www.bpex.org.uk)

We are now on Twitter. For regular updates about the UK pig market and related publications, follow us @HowarthStephen

## UK Market Snapshot

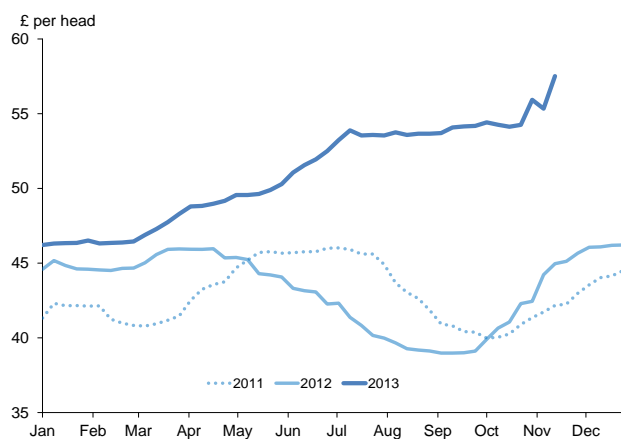
GB finished pig prices in October averaged a record 171.87p per kg. Prices in the latest month increased steadily, as is often the case during this time of the year. Pig prices in October recorded a month-on-month change of almost 2p and were around 14p above 2012 levels for the same month. The rise came despite falling EU prices and stable supplies. This indicated firm demand for UK pigs continued, as has been the case for most of the year. In early November, pig prices began to edge down and in the week ended 16 November, the EU-spec DAPP stood at 171.35p per kg.

### GB finished pig prices (DAPP)



The weaner market followed a similar trend to finished pig prices in October. The monthly average price for a 30kg weaner was only marginally up on the previous month at £54.26 per head. This was £13 higher compared with the same period in 2012. In the past, weaner prices have normally started to pick up from early October but this year the market remained somewhat balanced. In the early weeks of November, weaner prices recorded a sharp rise and reached £57.51 per head for the week ended 16 November 2013. However, the large increase is probably partly due to a change in how prices are collected, although increasing prices are normal at this time of year. BPEX has also introduced a new 7kg weaner price which will be published weekly and which stood at £42.37 in the latest week.

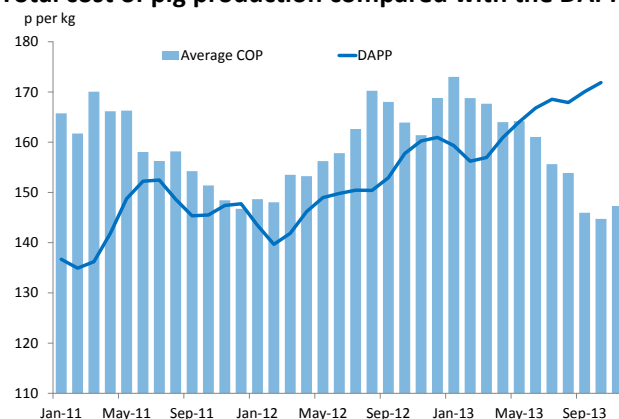
### GB 30kg weaner prices



According to AHDB provisional estimates, the cost of pig production increased slightly in November with the latest estimate putting the full production cost at 147.3p per kg. This was around 3p higher than the estimate for October but was more than 14p down from November 2012. Reduced costs can be attributed to lower feed prices in recent months but a slight increase in recent weeks has led to higher overall costs. The latest cost of production figure is 26p per kg down on the peak recorded in January.

With rising costs and stronger pig prices the gap between the two narrowed slightly in November. However, producers are still making positive net margins. In the latest month, the producer was estimated to receive around £19 more per pig sold than they paid out during the month. However, recent positive margins have not yet come close to offsetting the losses accumulated by producers over the years when costs were above their returns.

### Total cost of pig production compared with the DAPP

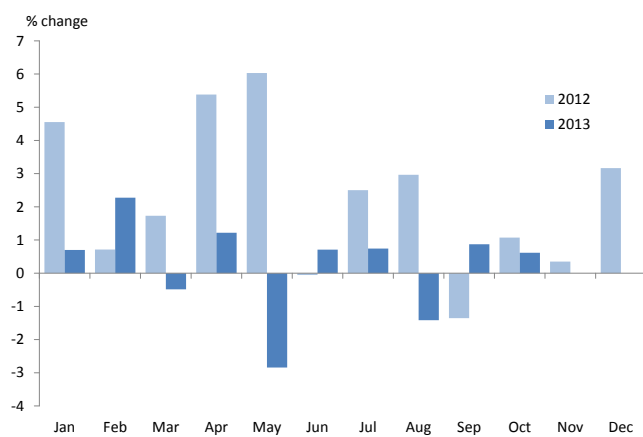


According to the latest figures, UK clean pig slaughterings in October totalled just over 1 million head. This was less than 1% up on the same month in 2012. However, the year to date total showed that UK pig supplies remained somewhat tight, with only a very marginal rise for the January to October period this year. Following the historical trend, October recorded the highest kill so far this year. The number of sows and boars culled in October was down by 12% on the year to 2012. Last year, cullings were inflated in response to the high feed prices at the time.

For the first time in history, carcase weights topped 80kg in October. The latest monthly average weight reached 80.28kg. This was over a kilo heavier compared with the same month in 2012. Carcase weights have generally remained above last year's level for most of this year as a result of lower feed costs and processors looking to offset tight pig supplies. As a result of increased throughputs and higher carcase weights, pig meat production in October reached 84,900 tonnes. This was 1,600 tonnes (2%) above the previous year's level. This level of pig meat production was the highest recorded for October since 1999.

# UK Market Snapshot

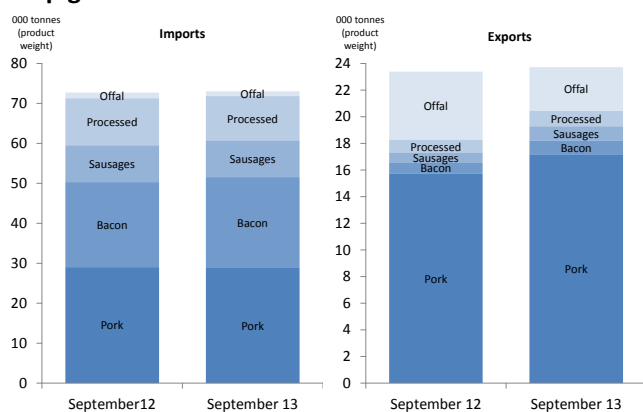
## Annual change in UK clean pig slaughterings



Source: DEFRA

UK pork exports continued their strong performance in September, 9% above 2012 levels. At 17,200 tonnes, this was the highest monthly figure since 2000. The ongoing tight supply situation elsewhere in the EU continued to create opportunities for UK exporters. Ireland overtook Germany as the leading destination. Denmark also received significantly more pork, with September shipments around 4 times 2011 levels. While China imported 60% more UK pork than last September, volumes to Hong Kong fell by almost as much. Sausage, bacon and processed pig meat exports all rose on the year. Offal exports continued their recent year-on-year decline, despite increasing shipments to both China and Hong Kong, due to continued weakness in European offal demand.

## UK pig meat trade

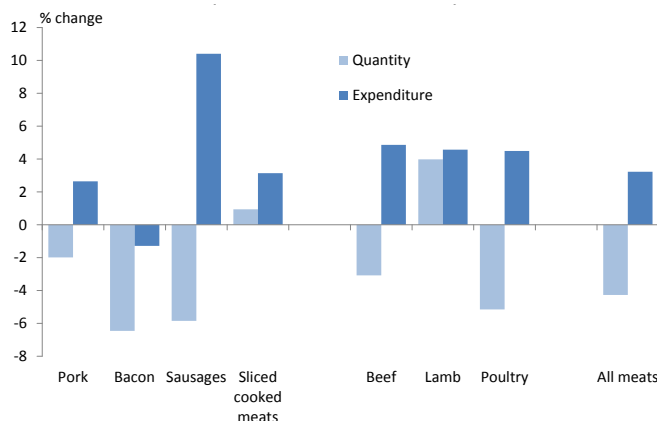


Source: Her Majesty's Revenue & Customs

The UK imported 200 tonnes less pork this September compared with a year earlier, a smaller decline than seen over the last few months. Most major suppliers increased shipments to the UK, other than Denmark and Ireland who both reduced volumes following lower production. Germany was again the principal source. Imports of cured pig meat increased, with Denmark strengthening its position as the UK's prime supplier, while imports from the Netherlands continued to slowly decline. Sausage imports were marginally down on last year and imports of processed pig meat fell on the back of lower Irish imports.

In the 12 weeks to 13 October, consumer spending on pork increased 3% compared with last year. Volume sales dipped 2% over the same period, with fewer shoppers buying pork. Pork chops and steaks, which account for almost 40% of sales, recorded a 2% fall in purchases. British pork has outperformed the market, however, with volumes up 7% and expenditure increasing 13%, with more shoppers buying British more frequently.

## Annual percentage change in retail meat purchases (12 weeks to 13 October 2013)



Source: Kantar Worldpanel

In the latest four weeks, pork made strong volume purchase and spending gains of 10%. Gains have been due to the performance of leg and shoulder joints, in particular, as a result of increased promotions at the major retailers.

A 6% reduction in purchases of bacon meant the value of sales dipped 1% in the 12-week period. All cuts recorded declines, with rashers down 5%. Spending on sausages increased again, driven by a 17% rise in the average price paid. Volume sales have continued to fall, although premium sausages are still performing well. Low fat sausages, although a much smaller share of the market, have also shown strong growth. After a strong summer, volume growth for sliced cooked ham has slowed to 1%, with spending up 3%.

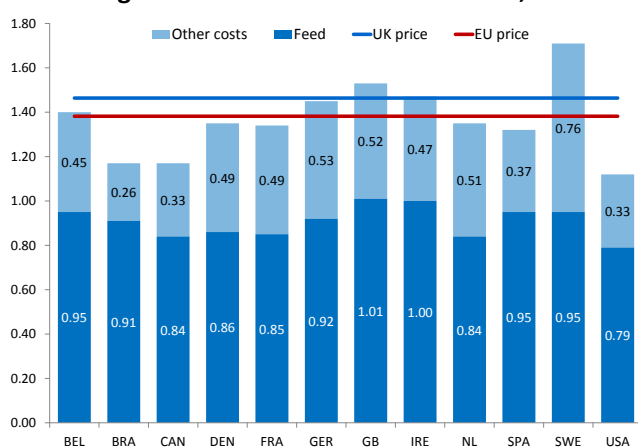
In contrast to the record farmgate price in October, the average retail price during the same month fell marginally. As a result, the producer share of the final retail price increased from September, to stand at over 43%. This was an increment of almost 2% compared with the same period in 2012 and represented the highest producer share since the mid-1990s. The average bacon retail price for October is not yet available but the producer share in September stood at 38%. This was 1% up on the same month last year.

# UK Market Analysis

## Production costs, how can we compete?

Earlier in November, AHDB/BPEX published the latest in its [series of annual reports](#) comparing costs of pig production internationally in 2012. The report is based on data from InterPIG, an international group of pig economists. As in previous years, the report shows that costs in Great Britain were higher than in most other major producing countries. This includes all of the main suppliers of pork imports. At 153p per kg, GB costs were nearly 20p higher than in Denmark, France, the Netherlands and Spain. Costs were lower still in Brazil, Canada and the US, which could have long-term implications (see page 8).

### Cost of Pig Production in selected Countries, 2012



Source: InterPIG

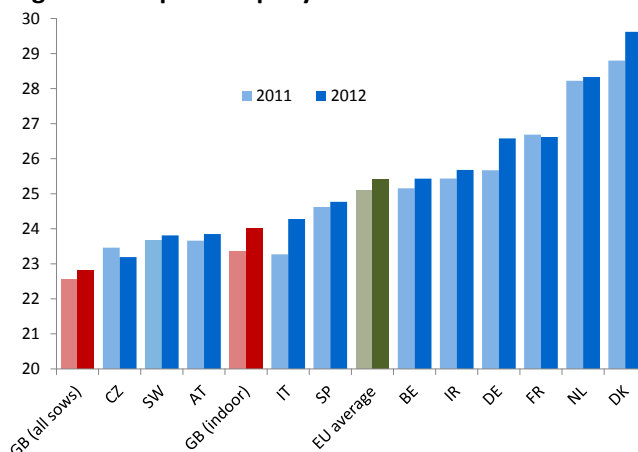
So how do these countries achieve such low costs? In fact, there is no one model, with each having different strengths. For **Denmark**, the key is its high sow productivity. On average, the Danes weaned almost 30 pigs per sow per year in 2012; GB managed less than 23. This was supported by lower than average feed prices but was offset by high wage rates and environmental costs. **The Netherlands** also had relatively high sow productivity, weaning 28 pigs per sow per year. However, the key to its low costs was feed efficiency. Its feed conversion ratios were the lowest in Europe at 1.62 for the rearing stage and 2.60 for finishers. This compares with 1.77 and 2.72 in Great Britain.

No single area stands out in **France**. It performed better than average for most aspects of physical performance but wasn't exceptional in any. Prices, including for feed, were lower than in some other EU countries too. Lower prices were the key factor in **Spain**, where fixed costs (buildings, equipment and labour), in particular, were the cheapest in the EU. It also used less feed than most other EU countries, meaning slower growth rates, less of an issue when pig places come cheaper. Lower fixed costs were also a key reason why production costs in the American countries were below those in the EU.

So why are GB costs so much higher? The main contributory factor is our low sow productivity, making it

the focus of BPEX's [Breed +3 initiative](#). Overall, the number of pigs weaned per sow per year was the lowest of the countries covered in the report. Our unique outdoor breeding system contributes to this but even GB indoor sows are less productive than the average.

### Pigs weaned per sow per year in selected EU Countries



Source: InterPIG

Three main factors contribute to overall productivity; piglets born alive per litter, litters per sow per year and pre-weaning mortality. GB is close to the EU average for mortality rates and only slightly below on litters per sow. Therefore, the main reason for our low productivity is small litter sizes. At 11.5 piglets, our average litter is 3.5 below the Danish average and more than one below the EU average of 12.7. Even our indoor figure of 12.1 is below par.

So what difference does this make to production costs? Calculations show that raising our performance to match the EU average would shave around 5p per kg of the cost of production. For a unit producing 10,000 pigs a year, that would equate to an annual cost saving of around £40,000. Matching the best performers would lower our costs to just above the best in the EU at around 139p per kg.

Another key factor in high GB costs, albeit one which producers have much less control over, is carcase weights. Our pigs are killed at a lighter weight than in most of the rest of Europe (79kg, compared with an EU average of 86.5kg, excluding Italy which has unusually heavy pigs). Increasing weights to the EU average would cut costs by around 5p per kg, assuming no impact on feed conversion ratios or daily weight gains. However, this is unlikely to be the case and, in reality, the impact would be smaller.

On a brighter note, performance of the GB rearing and finishing herds was at or better than the EU average. Even so, there is some room for improvement. Cutting FCR to match the best in the EU has the potential to reduce production costs by 5p per kg, with most of the benefit coming from reducing finishing FCR.

## UK Market Analysis

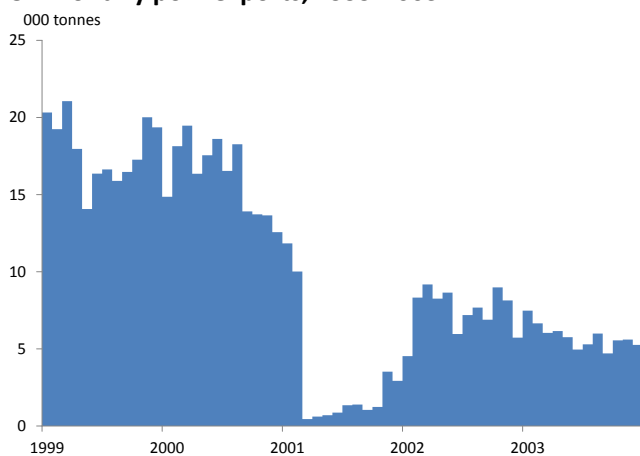
### How would a disease outbreak affect the pig market?

Over the last few months, there has been a lot of talk in the pig industry about the risk of a notifiable disease outbreak. Earlier in the year, [Exercise Walnut](#) simulated an outbreak of Classical Swine Fever (CSF), providing some useful lessons for government and for the industry. More recently, [the Pig Idea](#) campaign has been promoting feeding of treated food waste to pigs. Most pig farmers are [opposed to the idea](#) because of the risk that it could lead to a disease outbreak; swill feeding was thought to be responsible for the major Foot and Mouth Disease (FMD) outbreak in 2001.

The impact of a notifiable disease outbreak on the industry would be dramatic. Of course, there would be a massive personal impact on those directly affected. There would also be major challenges for those caught up in the incident through movement bans or other restrictions put in place to control the spread of the disease. However, even producers not affected in these ways would be hit by the impact of disease on the market.

Perhaps the most significant impact would arise from the loss of export markets. In a major outbreak, this would likely be immediate and sustained. In 2001, pork exports fell virtually overnight from well over 10,000 tonnes per month to virtually nothing. They took almost a year to start to recover and much longer to reach anything like the levels recorded before the outbreak.

#### UK monthly pork exports, 1999-2003



Source: HMRC, GTIS

Last year, pig meat exports were worth about £310 million to the UK. This year, the figure is set to be closer to £350 million. This is equivalent to around a quarter of the total value of pigs slaughtered, which was a little over £1.2 billion last year.

In the event of a complete closure of export markets, some products would find alternative buyers in the UK, either in the consumer market or for other uses. In a few cases, this might replace imported products.

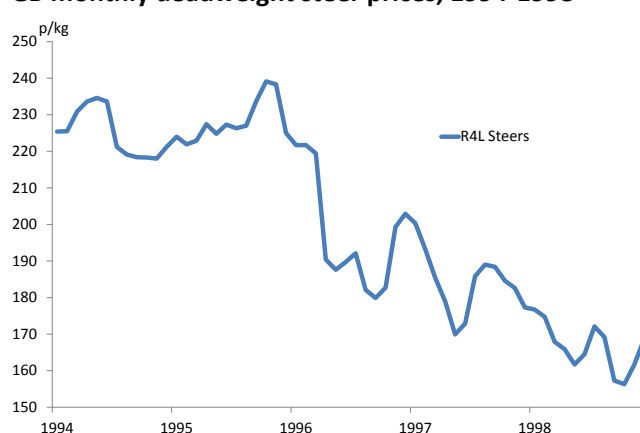
However, most UK exports are cuts which have a limited market here, while imports comprise cuts for which demand exceeds supplies. Thus, the increase in products on the domestic market would add to the overall supply, bringing prices down for all pig meat. It is difficult to estimate the scale but a 10% drop, which is at the lower end of the likely range, would mean a loss of £90 million from the market, on top of the value of lost exports.

Those products which were unable to find a market would have to be sent for rendering or disposed of in some other way. This would mean that they would achieve a fraction of the value that they would have been sold for on export markets. Estimates suggest that the loss of value from the products which could no longer be exported would be at least £200 million.

Lower prices might help to offset any consumer “turn-off” from pig meat products. The extent of this would depend on the disease involved; it would likely be higher for a pig-specific disease than for a multi-species one like FMD, where consumers would have fewer alternatives to switch to. However, for an outbreak of a disease like CSF or African Swine Fever, lower consumer demand could add to losses.

Combining the losses above, suggests an impact on the industry of close to £300 million. If this was passed on to producers in full, it would be equivalent to a fall in the pig price of between 30p and 40p per kg. In reality, some of the loss would probably be absorbed elsewhere in the supply chain but pig prices would still fall sharply. The drop would probably be large enough to return most producers to a loss-making position and would certainly leave them particularly vulnerable to any increase in input costs.

#### GB monthly deadweight steer prices, 1994-1998



Source: AHDB/EBLEX

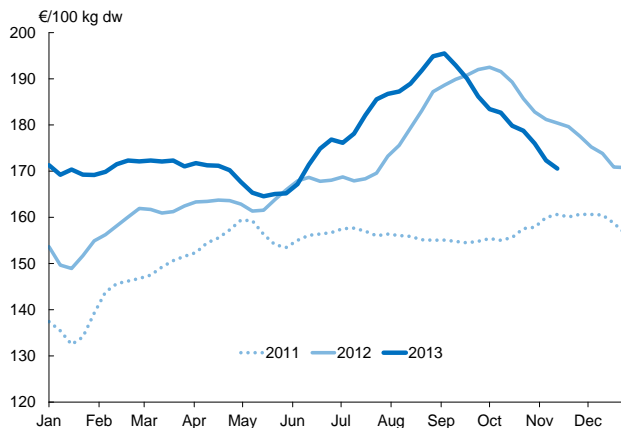
To illustrate the possible effect, during the BSE outbreak in 1996, when export markets were closed and consumer confidence hit, cattle prices immediately fell by 15% and then continued to fall away in subsequent years. Prices did not reach pre-outbreak levels again until 2008.



## EU Market Snapshot

Having reached a peak in early September, EU pig prices began to fall back as the month progressed. The EU average reference price for October fell by nearly €11 to €180.45 per 100kg. It continued to fall thereafter, reaching €170.56 per 100kg for the week ended 17 November. This was almost €25 down compared with the peak two months ago. Declining prices reflect a combination of some easing of the supply situation and subdued consumer demand in the EU, with reports also suggesting some worsening of the export situation.

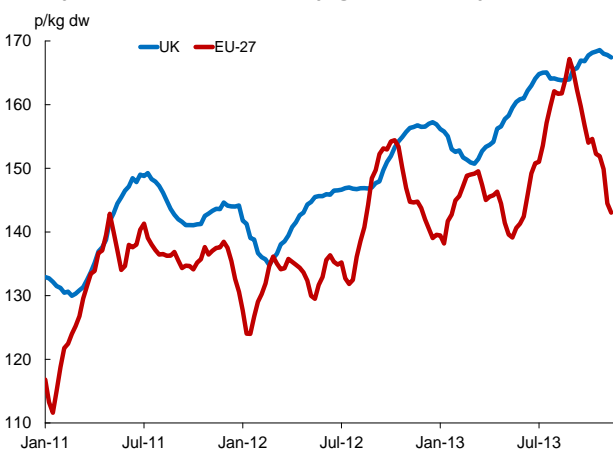
### EU average pig reference price



Source: EU Commission

Prices have generally fallen across all member states with the exception of Ireland, where prices increased by just over €10 in the 10 week period to 17 November. The largest recent decline was recorded in Poland, where pig prices fell by €14 (down 8%) in the month to 17 November. During the same four week period, pig prices in the Netherlands and Germany decreased by 7% and 6% respectively. Price reductions in other major member states varied between 3% and 5%. Given the recent stability in UK prices, the gap between the UK and EU prices has widened and in the latest week the difference reached €29 per 100 kg.

### Comparison of UK and EU pig reference price

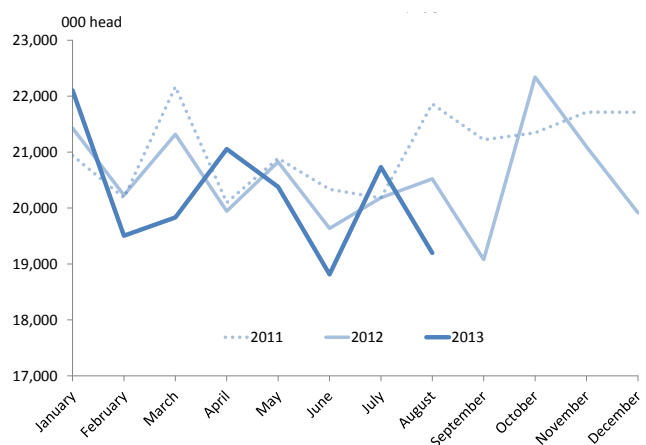


Source: AHDB Market Intelligence, EU Commission

Latest figures for August record a 6% year-on-year decline in EU-27 pig slaughterings, to 19.2 million head. Part of the annual decline is a result of an additional working day in August 2012 compared with the same

month this year but, even allowing for this, the trend was downward. The year to date figures showed a similar trend but throughputs declined at a slower rate of 2% compared with the January to August period in 2012. Carcase weights were little changed from the previous year. As a result, pig meat production in August was down by the same amount (6%) to 1.69 million tonnes.

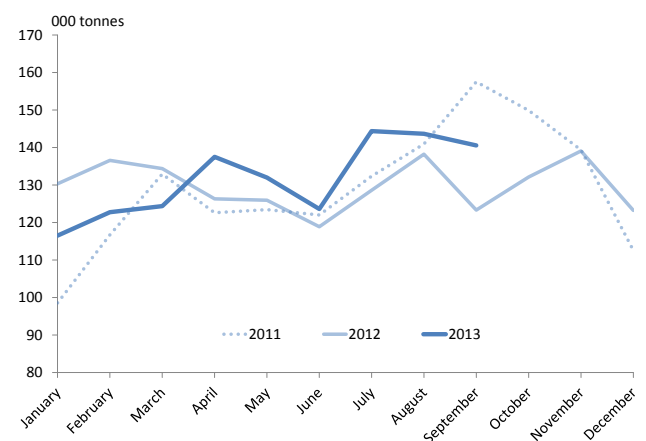
### EU pig slaughtering trends



Source: Eurostat

EU-28 pork exports in September reached 140,500 tonnes. This was an increment of 14% year on year. Growth was driven by strong performance in the leading market, Russia, where volumes were up by 26% from September 2012. The EU continued to fill the gap left by Russian restrictions on other suppliers, notably the US and Canada. Unlike the previous month, other major markets, including China and Japan, also purchased more EU pork compared with a year earlier. Total EU pork exports in the first nine months of this year were nearly 1.2 million tonnes, 2% up from the same period in 2012. The value of these supplies increased marginally to €2.82 billion.

### EU pork exports



Source: Eurostat, GTIS

Pig offal exports also strengthened by 5% compared with September 2012. The increment was largely a result of a rise in purchases from Hong Kong, which was the primary buyer of EU pig offal during the month.

# Global Market Analysis

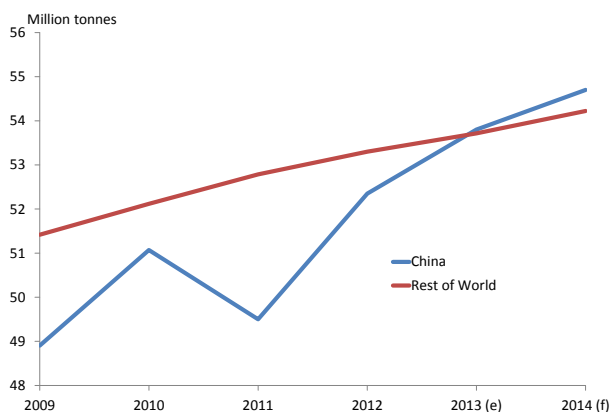
## World pig meat production set to rise in 2014

According to the latest [Livestock and Poultry: World Markets and Trade](#) report published by the USDA, global meat production (beef, pork and poultry) is forecast to increase to 260 million tonnes in 2014, almost 2% above the estimates for this year. Beef and veal production is expected to be up only marginally, the smallest increase amongst the three meats. A 1% increment is likely in pork production, while poultry output is forecast to grow fastest, with an expected increase of 3%.

Given the highly price competitive nature of poultry products, they have gained importance in recent years, especially during the economic downturn after 2008. The latest forecasts would mean a production expansion of 17% since 2009 and the coming year is expected to follow the long-term growth trend. Other forecasts suggest that poultry is set to overtake pig meat as the world's favourite protein in the next decade. Poultry and pig meat have a high substitution rate and, while consumers continue to buy the latter, over the years, the pig industry has lost market share to poultry.

The growth in global pig meat production is expected to continue with output expected to reach 108.9 million tonnes in 2014. However, the forecast growth rate is somewhat below the trend of recent years. With the rise in demand continuing, despite the pressure from poultry, this may help to keep prices firm globally, following the rises seen in during the third quarter of this year. Global trade in pork is expected to rise modestly, returning to a similar level to 2011, following a small fall in 2012, with the US and Brazil the main exporters benefitting.

## Global pork production - China's increasing dominance



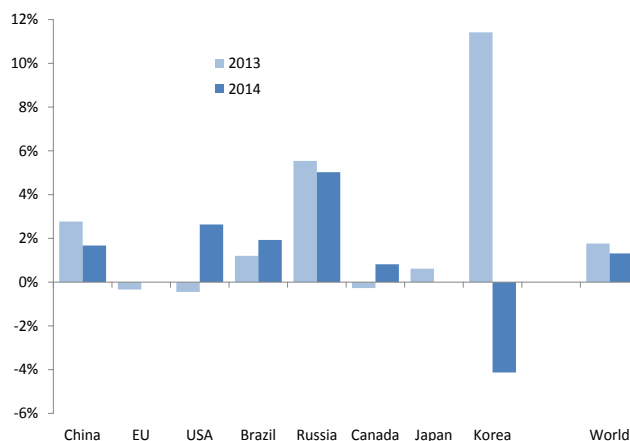
Source: USDA

Growth is expected to be largely driven by China, with the country projected to account for over half of the world's pig meat production for the first time. Rising incomes in China have driven the desire for a more protein-rich diet and therefore higher demand has encouraged production over the last few years. In spite of poor returns, government subsidies on sows have helped Chinese farmers to expand production. Over the

past few years, China has become an important market for EU exports. Despite the rise in Chinese production, strong import demand is likely to benefit the EU, including the UK, again in 2014.

Away from China, 2014 pig meat production in most key countries is set to record a modest increase on 2013. This is largely based on the expectations of lower feed costs in the coming year. The EU is one exception, with production here set to be little changed from 2013 levels on the back of further declines in the breeding herd during the last year.

## Annual change in pig meat production in selected countries



Source: USDA

The US is the third largest pig meat producer and output is likely to increase on higher slaughter rates and heavier carcase weights. Production in Brazil is also expected to rise marginally on the back of better producer returns. Similarly, pork production in Canada is also set to increase slightly on stronger domestic demand. This might act as a threat to the EU, given that these three countries are its main competitors on export markets. However, the impact will partly depend on how attitudes to Ractopamine develop, notably in Russia.

In Russia, the government's pork support programme, designed to subsidise interest rates on investment in pig production, is likely to boost output by 5% for a second successive year. This may subdue the Russian import requirement and since Russia is the primary market for EU exports, this could lead to increased supplies on the continent. Consequently, this may put extra pressure on EU pork prices, unless sufficient sales can be made to other markets.

In contrast, recovery of the South Korean pig industry may come to a halt with a likely decline in output due to a smaller breeding herd following profitability issues. As a result, South Korean import demand is expected to increase. This will particularly benefit the US and the EU given they have Free Trade Agreements in place. This might help to mitigate the impact of any reduction in demand from Russia. It could also directly benefit UK exporters, given they are already established in the

# Global Market Analysis

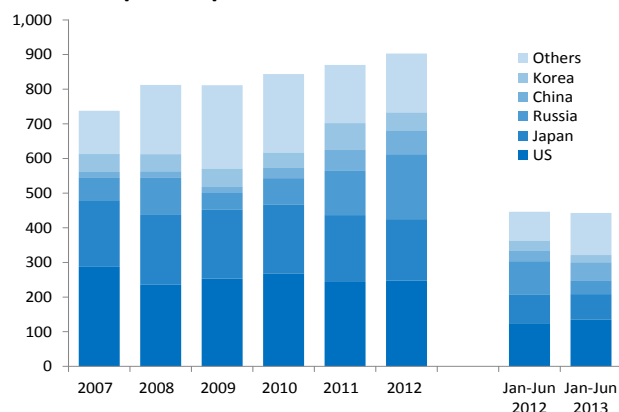
## EU-Canada Deal Set to Challenge Markets

The European Union and Canada have agreed on conditions for a new trade agreement, potentially worth an extra €26bn in trade between the two markets. The deal still has to be ratified and won't come into force until 2015 but it is thought that the details are unlikely to change significantly. The EU Commission claims that the agreement could potentially boost EU GDP by around €12bn per year, while the British government believes that the deal will be worth an extra £1.3bn a year to the UK.

However, pig farmers within the EU are less likely to be celebrating the outcome of the trade deal. The change to the current pig meat quotas is only one-way; Canada will receive an 80,000 tonne (carcase weight equivalent) duty-free quota for import of pig meat to the EU, while the EU's export quota to Canada will not change. If taken up in full, this would more than quadruple annual EU pork imports (from any source).

Canada is the world's third largest pork exporter after the US and EU, with volumes increasing steadily in recent years to top 900,000 tonnes last year for the first time. However, despite having a small quota, currently around 6,000 tonnes (carcase weight), it has not been a significant supplier to the EU market due to both tariff and non-tariff barriers. Only a handful of Canadian plants are approved for export to the EU but more are likely to seek approval. The most significant issue is the requirement that pork destined from the EU be kept isolated from any supplies which contain Ractopamine, widely used by Canadian pig producers but banned in the EU.

### Canadian pork exports



Source: Statistics Canada, GTIS

The US and Japan have traditionally been Canada's two major pork markets but Russia has increased in importance and was the second largest buyer of Canadian pork last year. However, this year, Russia has imposed trade restrictions on Canada over its use of Ractopamine, leading to a sharp fall in shipments. With the Japanese market also subdued, Canada will be on the lookout for new markets. While China and a number of smaller markets have taken up much of the surplus Canadian pork this year, they are lower value

markets. Therefore, the trade deal with the EU could result in Canadian pig meat exports being increasingly targeted towards European consumers.

Although it is equivalent to less than 0.5% of EU production, the addition of 80,000 tonnes of additional pig meat potentially could have a significant effect on prices. The sensitivity of prices to supply levels is illustrated by a 2% drop in EU production between 2011 and 2012 leading to an 11% increase in average pig prices. Past experience suggests that this is not unusual, with small changes in output leading to big price movements.

Costs of production in Canada are around 20% lower than in the EU, according to data from InterPIG, an international group of pig economists. This allows farmgate pig prices to be lower; the average Canadian hog price last year was around C\$1.75 per kg deadweight (about 110p per kg). This is also around 20% below the EU average price for 2012. Even with higher Canadian prices so far this year, the price difference remains significant.

Analysis from Canada suggests that exports to the EU would initially be mainly targeted at foodservice and manufacturers of processed products, which are highly price-focused and less concerned with provenance than the retail sector. Germany is likely to be the main country receiving Canadian exports, given the concentration of processing capacity there. Shipments would primarily consist of hams and shoulders.

Wholesale prices for hams and shoulders in the US are currently around 70-90 cents per pound (£1.15-£1.45 per kg). Canadian prices are likely to be similar to these, given the close relationship between the markets. Prices vary across the EU but are typically significantly higher than this, often as much as twice as high. This means that, even allowing for transport costs, estimated at around €0.15 per kg, and the requirement for pork to be Ractopamine-free, Canadian pig meat imports would be competitive on the EU market. This would probably mean that EU suppliers for these sectors would have to reduce prices to compete with the imported product. This would have a knock-on effect on carcase values and, hence, producer prices.

The deal with Canada may serve as a point of reference for similar trade agreements in the future. Notably, the EU has recently started negotiations with the US, which is expected to ask for a significantly larger quota than the one agreed with Canada, perhaps as much as five times higher. With US costs and prices similar to those in Canada, this could present a much more significant challenge to the EU pork industry, although an agreement is still some way off.

The impact of Free Trade Agreements and other developments in global trade will be examined in more detail at the AHDB Outlook Conference on 12 February 2014. To book a place at the conference, please [click here](#).



## Feed Market

The UK feed wheat Nov-13 futures price closed at £163.50/t on Wednesday 20 November, a £2 decrease on the closing price a month earlier. The Chicago maize Dec-13 futures price settled \$10.63 lower over the month at \$164.17/t, slightly up on the close on 18 November which, at \$162.2/t was the lowest closing price since July 2010.

Global grain markets remain on a downward trend as US farmers wrap up the record maize harvest. According to the USDA, the US maize harvest was 91% complete, as at 17 November, 5 points ahead of the five-year average.

Early indications look good for the 2014 US wheat harvest. This suggests that wheat prices, which have been less influenced by maize than in recent seasons, could generally stay on a downward trend but there is still a very long way to go. 63% of the US winter wheat crop for 2014 was in good/ excellent condition as at 17 November. This is a vast improvement on a year ago (34%). Favourable rains have been supportive of the establishment of winter wheat this autumn. In contrast, autumn 2012 presented very dry conditions which set the crop back.

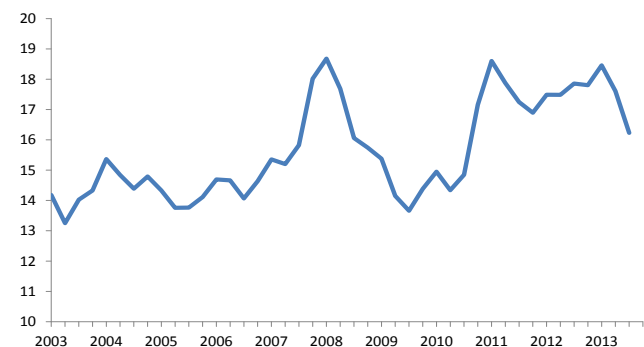
As reported previously, the lowest UK wheat crop in over 10 years means that considerable substitution from wheat to other grains is expected in feed rations, depending on price and nutritional constraints. The latest data published by Defra for the first quarter of the 2013/14 season (Jul-Sep) confirms some substitution. As expected, given the price differential to wheat, GB feed compounders used more barley this year, compared to the same period in 2012. However, technical limitations in pig/poultry diets means that exports and stocks will be important in balancing the largest barley crop in 15 years.

AHDB/HGCA's Early Bird Survey of farmers' planting intentions shows a sharp rise in the total area of wheat and winter barley for harvest 2014 compared to last year. The total wheat area (including spring wheat) is estimated to increase by 22% to 1.98Mha, at the UK level. The winter barley area is projected to increase by 55% to 484Kha, compared with 2013, and is the highest UK winter barley area seen in a decade.

The UK has been a net importer of wheat since the 2012/13 season so the return to a typical UK wheat area is the first step to the UK returning to the export market in 2014, although yields and quality remain weather dependent. This implies that UK wheat would have to increase its competitiveness relative to wheat of European origins to secure export business. This would suggest that UK feed producers will once again be able to access competitively-priced feed wheat relative to European neighbours. However, there is still some time to go and prices will be highly dependent on the growing season.

The graph below plots the quarterly average compound pig feed price (in £ per tonne) as a proportion of the average pig price (DAPP, converted to £ per tonne). It shows that the ratio has been declining recently in line with a combination of lower feed prices and higher pig prices. This implies that the returns for pig producers have been on the upward trend recently. However, the ratio still has some way to go to return to the levels seen for most of the period up to 2010. It is also clear that there has been increased volatility in the ratio from 2008-2013 than there was prior to 2008. This suggests that pig producer margins remain vulnerable should there be either an increase in feed prices or a decrease in pig prices.

**Average compound pig feed price to pig price ratio**



Source: Defra, AHDB/BPEX

The Dec-13 Chicago soyameal futures price closed at \$448.64/t on Wednesday 20 November, a decline on \$458.23/t, a month before. In the UK, the Hi pro soyameal (Ex-store, East Coast) price for November delivery was £375/t as at 14 November, down from the nearby price of £405 reported as at 11 October.

The US soyabean harvest is nearing completion and was 95% complete as at 17 November, close to the five-year average. Despite the delayed start, soyabean planting in Argentina is back on track with 22% of the projected area sown as at 14 November, similar to the same time last year. Argentina is the world's top soyameal exporter and so is a price driver globally.

With the US harvest nearing completion and South American plantings reported to be going well, the global soyabean market will most likely be driven by demand, unless anything radical happens to South American weather. Lower global prices might be supportive of China buying a lot of soyabeans this season. Chinese traders estimate that the country will import 63-68.5Mt of soyabeans this year, a record amount. The Chinese government has been buying home-grown soyabeans for state reserves, which has led to higher domestic prices compared to world market price, making imports attractive.

The latest US export sales data show that soyabean exports have been strong so far this season, with total commitments now at 34.1Mt (86% of the total season export forecast). 21.8Mt of the total commitments were to China. The strong demand for US soyabeans means that the South American crop will be closely monitored.

## In Brief

### Common Agricultural Policy Update

After months of political wrangling, the future of the EU's Common Agricultural Policy (CAP) has gradually taken shape. Negotiations have reached their final stage with only formal agreement required from EU Ministers for its legal adoption and entry into force on 1 January 2015. This article looks at some of the key aspects of the reforms and what happens next.

The CAP will keep its basic structure of a two pillar system. Pillar 1 will be used to provide income support for farmers, while Pillar 2 will support rural development. In comparison to the current system, however, the reform of the CAP has been designed to increase the level of flexibility to national governments in its implementation. Among the reforms, Member States are to be given the ability to transfer (some) funds between pillars and to 'target' resources to specific groups or sectors. This is to allow Member States to tailor the CAP to meet their own needs.

The CAP has also introduced the concept of 'greening' to direct payments. Farmers will have to meet certain environmental requirements in order to receive the full level of support. Further details on this and other key aspects of the reforms can be accessed through the [AHDB website](#).

Defra started its consultation process at the end of October on how it should implement CAP in England. Many aspects of the reform package are set out in the European regulations and there will be no choice other than to follow them. For aspects where Member States have various options on how to implement elements of CAP nationally, Defra's consultation document either sets out the Government's intentions or seeks input in order to make an informed decision. The consultation process will run until 28 November and is accessible through the [Defra website](#).

AHDB's Market Intelligence team have looked at the potential impact of reform on direct payments to farms in the UK and other Member States. The analysis examines a range of scenarios and the impact on direct payments and can be accessed through the [AHDB website](#).

### Food and Farming Minister to speak at AHDB Outlook 2014

Food and Farming Minister George Eustice will open the AHDB Outlook 2014 conference at One Great George Street in Westminster on Wednesday, 12 February 2014.

Other speakers include Warren Anderson, Vice President, Supply Chain for McDonald's UK and Richard Brown, Director of GIRA. Separate breakout sessions will follow, with one covering the outlook for the pig sector and, for the first time, an overview and outlook for the poultry sector. To book your place at the conference, please [click here](#).

### Firm US pig price despite stable production

US pork production has been little changed this year. However, third quarter pig prices were unexpectedly high, especially in September. Indications suggest tightened supply in that month, perhaps due to the PEDV outbreak, although demand certainly encouraged the price up to a record level of \$83 per 100lb lw. Latest USDA forecasts estimate a 2.5% increase in fourth quarter production and a further rise in 2014.

### Government policies hold back Russian pork imports

Russian pork imports fell 15% on the year between January and September. Increased production, helped by government subsidies has reduced import requirements, while Ractopamine-related restrictions have hit some suppliers. Imports from the EU were 60% of the total this year, compared with 43% last year.

### Small rise in pig farm incomes but many still losing money

Latest Defra figures show that average Farm Business Income for specialist pig farms in 2012/13 was slightly higher than the previous year at £41,000. Nevertheless, pig farm incomes remained below average and over a quarter had negative incomes, while more than half had incomes below £25,000.

### Further small decline in Danish breeding herd

Provisional figures from Statistics Denmark indicate a national herd of 12.26 million pigs on 1 October 2013, 1% below last year. The breeding herd declined by 1% on the year and piglet and weaner numbers were stable. However, there were 3% fewer slaughter pigs, reflecting the high level of weaner exports.

### Slow export market for Canada and the US

US pork exports weakened between January and September, with exports down 11%. Ractopamine-related restrictions contributed, with lower shipments to China and Russia. Japan also took less US pork. Canadian pork exports were also subdued, despite a weaker Canadian dollar.

Read more about these and other stories in Pig Market Weekly. To view past editions or to subscribe, [click here](#).

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