

UK Pig Meat Outlook Review– January 2018

Summary

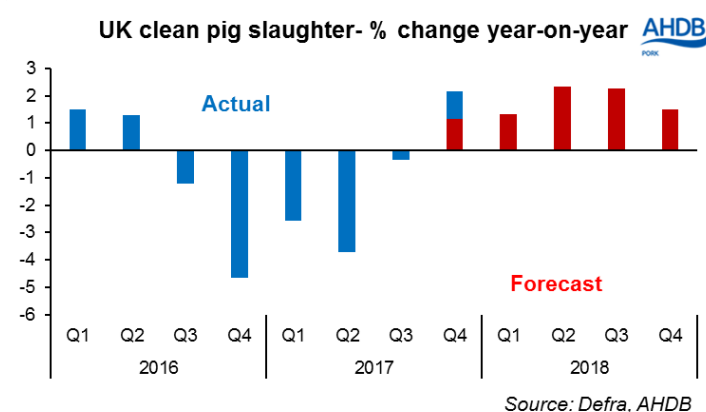
- Production is now trending above year earlier levels, with Q4 slaughterings slightly higher than anticipated
- Exports growing the on back of increasing supplies, but weaker Chinese demand now starting to bite
- Import volumes according to official HMRC data now seem to be falling. However, volumes may actually be growing given increasing EU supplies and falling prices
- With supplies increasing, demand growth will be needed to support the price

Slaughterings

Clean pigs

Clean pig throughputs were 2% higher than year earlier levels during Q4 2017, totalling 2.7 million head. This meant that for the year as a whole, slaughterings were just over 1% lower than in 2016 at 10.4 million head.

The increase in throughputs during Q4 was slightly larger than anticipated in the October forecast, with an extra 27,000 head killed during the period.



Additional slaughterings suggest that productivity and/or sow numbers have been higher than previously expected.

For the forecast, AHDB estimated UK sow numbers at 394,000 head, 1% higher than the AHDB estimate for June 2016. This followed from the 2017 Defra UK June Agricultural Survey reporting a 1% year-on-year increase in the female breeding herd. While Defra's absolute figures continued to appear overstated, the modest year-on-year growth was thought to be realistic, given industry reports. However, in light of higher slaughterings, the estimate for the size of the female breeding herd could have been slightly

low. A sow herd closer to 398,000 head would have produced a more accurate forecast for slaughterings. Stronger growth is reasonable, given significant improvements to producer profitability in 2017.

The average number of pigs weaned per sow per year used for the forecast could have also been slightly low. The latest Agrosoft figures indicate the 12 month average ending Q3 2017 was 25.5, slightly higher than the estimate used for Q4 in the forecast. Assuming productivity continued to follow an upward trend, the forecast may have been a little conservative. Agrosoft figures for Q4 2017, released later this year, will indicate whether productivity did pick up in the final quarter of the year.

With the potential for a modestly larger herd with better performance than expected in Q4, it could be anticipated that the forecast for 2018 may continue to be a little understated. If actual slaughterings remain consistently above the October outlook, throughputs in 2018 could reach 10.7 million head. This would be 3% higher than 2017 levels.

However, there have been some reports that seasonal infertility was a particular problem last year. While this has so far been difficult to quantify, it does mean there is a risk that slaughterings in Q2 might fall below the forecast. Weaner throughputs in the coming weeks may reveal more information about the extent of this challenge and how slaughterings might be affected.

Actual and October forecast for UK pig slaughterings

	Clean pigs				Sows and boars			
	'16	'17	'17	'18	'16	'17	'17	'18
000 head								
Q1	2623	2556		2590	67	59		62
Q2	2605	2509		2567	67	58		62
Q3	2620	2611		2665	59	60		61
Q4	2686	2744	2717	2758	64	61	61	62
Year	10535*	10420	10388	10579	257*	238	238	247

Source: Defra, AHDB. Figures have been converted back to statistical months. Figures in bold are the October forecasts *2016 has been converted to a 52-week statistical year for comparison purposes

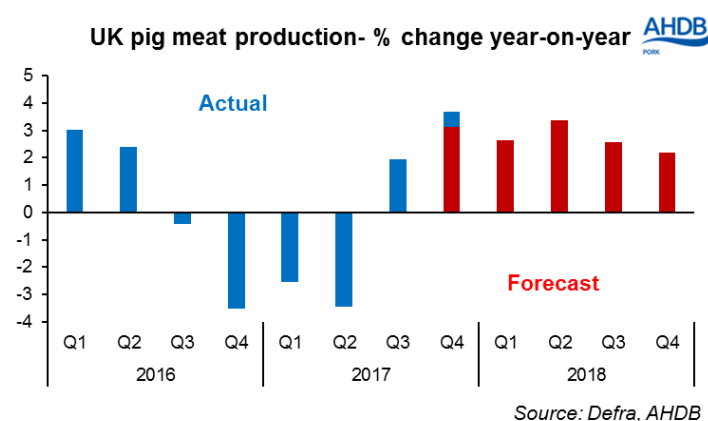
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Sows

Sow slaughterings totalled 61,000 head during Q4, 5% down on the same period in 2016. This was in line with expectations of cullings returning to a more normal level, having been unusually high during 2016 and subsequently low in the first half of 2017. Sow slaughterings are expected to remain at these more normal levels, as per the October forecast, this year.

Production

Despite slaughterings being higher than expected in Q4, pig meat production was more in line with expectations at 238,800 tonnes. This was 4% higher year-on-year. Overall pig meat production during 2017 therefore stood at 902,100 tonnes, just 700 tonnes less than in 2016.



Carcase weights were slightly lower than expected during the quarter, averaging 83.9kg. Weights dropped back considerably from the end of November, which may be related to poorer growing conditions due to the cold weather at the time. Previously, there had been concerns the increasing supplies and plant unreliability would limit the ability to pull pigs forward for Christmas, meaning weights remained elevated throughout the final quarter.

As carcase weights ended 2017 below the forecast level, it may be that weights during Q1 are also lower than anticipated. However, the long-term trend is for carcase weights to increase on the year by over half a kilo, reflecting genetic improvements and an increasing drive to finish at higher weights. It is therefore unlikely lower carcase weights will continue to counteract higher throughputs.

In October, 2018 production was estimated to reach 925,000 tonnes, 3% up on last year. If throughputs remained consistently above year earlier levels, an extra 10,000 tonnes could be produced on top of this. However, lower slaughterings in Q2 would limit this increase somewhat.

Trade

Imports

Official HMRC import figures have remained a challenge in recent months. Imports of fresh/frozen pork in September and October remained substantially above 2015 levels, despite falling back compared with 2016. Subsequently, November trade figures show a substantial drop (approximately 80% down year on year) in both imports and exports of all pig meat products traded with Denmark. HMRC are currently investigating these difficulties, but at present the ongoing problems make it difficult to assess the current trends in UK pig meat imports.

Nonetheless, looking at partner country export data from our seven largest pork suppliers, it seems shipments of fresh/frozen pork to the UK were around 2% higher than year earlier levels in Q3. It had been thought that increasing UK supplies might temper import volumes initially. However, it seems higher UK production was unable to counteract the widening gap between UK and EU pig prices, and expanding EU production. This will continue to be a key interaction for fresh/frozen pork in 2018. In the October forecast, higher UK supplies balance out the potential increase in EU production and lower prices. Whether this is the case remains to be seen, and will depend on exactly how EU production, and international demand for EU pork, develops this year.

When combined with UK import figures for bacon and processed products, it seems overall UK pig meat imports were only slightly higher than anticipated during Q3. This is because while processed and fresh/frozen pork shipments were above the forecast, bacon shipments were lower. Overall, this meant imports during the quarter are estimated to be around 2% back on year earlier levels.

Bacon shipments may continue to be below the forecast looking forwards, given that the trend reflects a switch towards increasing bacon production in the UK.

Exports

At 65,000 tonnes (cwe), UK pig meat exports during Q3 were 8% higher year-on-year. This was a smaller year-on-year growth than previously forecast, reflecting a decline in shipments to Ireland during the period.

Significantly, from September, the UK has also started to be impacted by the slowdown in Chinese import demand. If this continues, UK exports in 2018 may not reach the levels previously anticipated. Potential supply limitations in Q2

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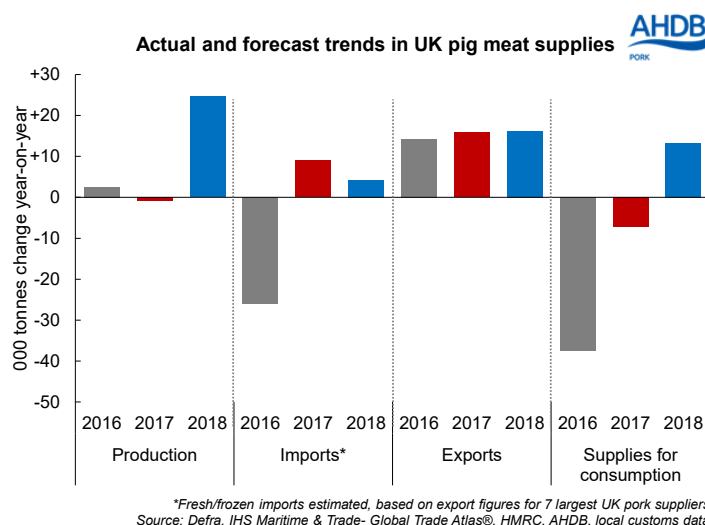
could also impact volumes traded. Nonetheless, some reports have suggested Chinese import demand may start to pick up again, and for the year as a whole, the UK should have a larger supply of exportable product this year.

Overall market supply

Overall, as projected in the October outlook, supplies on the domestic market look set to increase for this year as a whole. For much of the year, this increase could potentially be larger than anticipated, reflecting the potential for higher production and downside risks to export volumes. However, during the second quarter seasonality challenges may lead to a temporary tighter supply situation. This could lend some support to prices at this time.

Retail performance during the year will likely also be key to market dynamics. Pork retail sales volumes have been

picking up since August, according to Kantar Worldpanel. If this continues, this could also lend some welcome support to the market.



Actual and October forecast for supplies of pig meat in the UK

000 tonnes (cwe)	2016					2017					2018	2019	2020	
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q3	Q4	Year	Year	Year	Year
Production	228	223	221	230	903**	223	215	225	225	239	902	925	945	966
Imports*	248	262	268	290	1066	262	270	262	260	282	1075	1079	1092	1097
(Fresh/frozen)*	120	128	125	136	508	124	128	127	123	137	516	513	517	521
(Bacon)	67	65	73	79	284	70	60	63	71	77	269	272	270	262
(Processed)	61	69	69	75	274	68	82	72	66	68	291	294	304	314
Exports	65	66	60	60	251	64	68	65	70	70	267	283	296	308
Available for consumption*	411	419	429	460	1718	421	417	422	415	451	1711	1721	1740	1755

*Fresh/frozen imports estimated, based on export figures for 7 largest UK pork suppliers

** 2016 has been converted back to a 52-week statistical year, for comparison purposes

Source: Defra, IHS Maritime & Trade– Global Trade Atlas®, HMRC, local customs data. Figures in bold are the October forecasts

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Appendix: Actual and forecast supplies of pig meat in the UK using official fresh/frozen pork import figures

000 tonnes (cwe)	2016					2017						2018	2019	2020
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q3	Q4	Year	Year	Year	Year
Production	228	223	221	230	903**	223	215	225	225	239	902	925	945	966
Imports	224	250	274	301	1048	273	274	260	264	293	1100	1110	1122	1128
(Fresh/frozen)	96	116	131	147	490	135	132	125	127	148	540	544	548	552
(Bacon)	67	65	73	79	284	70	60	63	71	77	269	272	270	262
(Processed)	61	69	69	75	274	68	82	72	66	68	291	294	304	314
Exports	65	66	60	60	251	64	67	65	70	70	267	283	296	308
Available for consumption	387	407	435	471	1700	432	421	419	418	462	1735	1751	1771	1786

** 2016 has been converted back to a 52-week statistical year, for comparison purposes

Source: Defra, IHS Maritime & Trade– Global Trade Atlas®, HMRC. Figures in bold are the October forecasts