

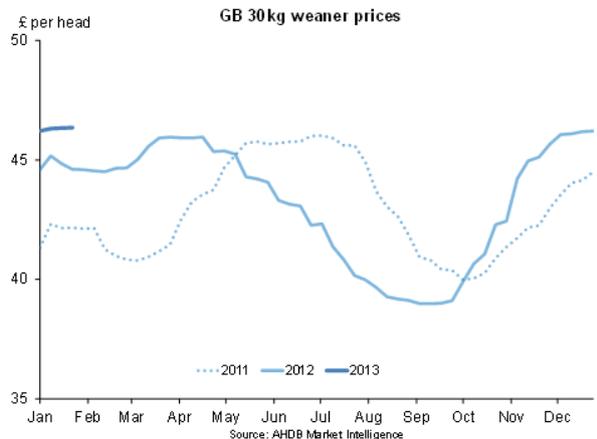
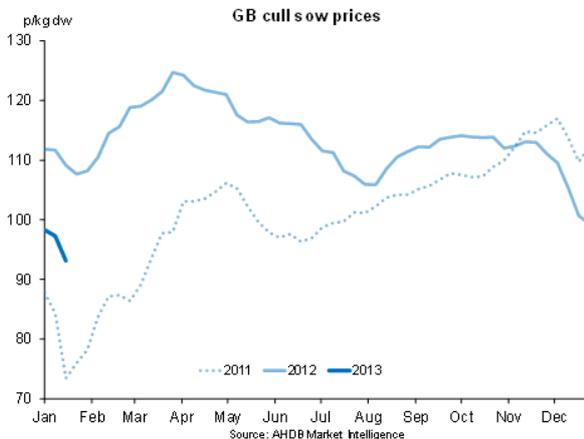
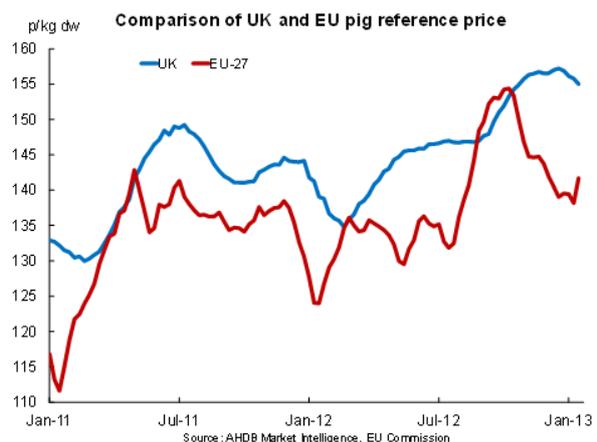
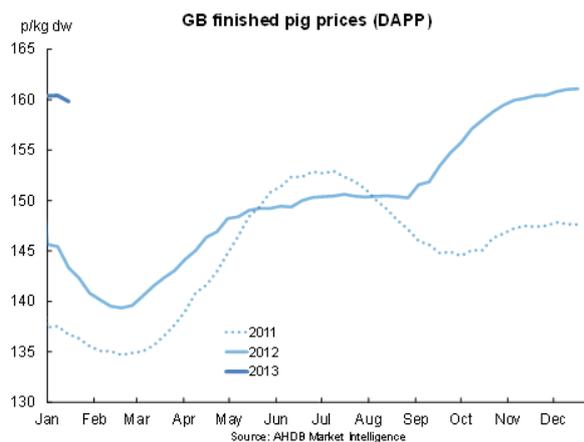


United Kingdom Pig Meat Market Update

February 2013

UK PRICES

GB finished pig prices continued to rise in December, with the EU-spec DAPP averaging 160.95p per kg. However, the rate of increase was slower than the month before, with the average only 0.70p higher in December compared with the month before. This is the typical seasonal pattern as rising demand for the Christmas period is matched by higher supply as producers market pigs earlier before the holiday period. The year on year increase remained steady, as pig producers were paid just over 13p more compared with December 2011. The latest weekly figures for the week ended 19 January show that the DAPP dropped to 159.84p per kg but the fall in the first half of January was much lower than in the last two years. This was reportedly because processors and retailers were holding lower stocks post-Christmas.



Carcase weights averaged almost a kilo lower than in November, as the December average fell to 78.28kg. This was largely due to producers finishing their pigs earlier to meet demand for the festive season and to avoid the holiday shutdown. In particular, in the week before Christmas recorded

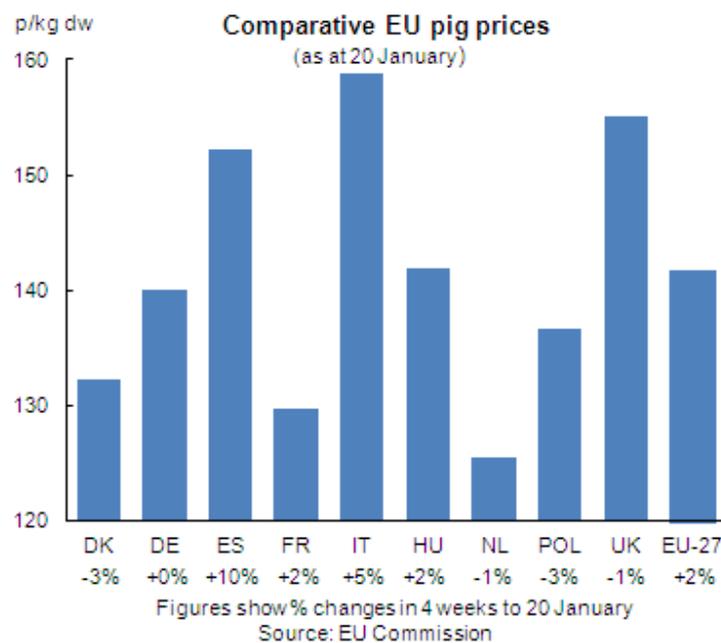
carcase weights were at their lowest in 18 months, averaging 77.58kg. However, the average weights picked up again in early January; in the first three weeks of the month, weights were up again to their level in the pre-holiday period at over 80kg.

The weaner market ended the year with prices remaining firm, as the average for December reached £46.14 per head. This was just over a pound more than the November quote. Weaner prices have consistently risen since the low point in early September. Between September and December, the value of an average 30kg weaner was £7 higher. This reflects some growing confidence for the direction of finished pig prices in the spring, as the demand for weaners is affected by producer expectations of higher returns. However, prices stabilised through December and early January as finishers waited to see the direction of pig prices in the New Year.

Cull sow prices dropped down to 105.08p per kg in December, around 7p lower than the previous month and nearly 9p lower than a year earlier. The reduction in cull sow prices has been evident since early November and continued into the New Year. Falling prices are normal at this time of year as demand drops once manufacturers have completed their Christmas orders, especially as many close down over the Christmas holidays. The fall has been particularly sharp this year, partly due to the weakness of the EU pig market. The cull sow market suffered further during early January and by week ended 19 January, prices hit the lowest point since March 2011, at 93.13p per kg.

EU PRICES

The recent downward trend continued as the EU average pig price in December dropped to €174.21 per 100kg, a difference of six euros month on month. Although prices have fallen steadily since October, the average remains well above 2011 levels. EU pig prices in December were €15 higher compared with the same month in 2011. The EU average pig reference price stabilised over the holiday period at just over €170 per 100kg, a similar level to before prices began rising over the summer. It even increased slightly in the first week of the New Year but this was a short week. Prices fell again in the following week but bounced back to just over €170 in week ended 19 January. While this was over €20 lower than October's peak, it was still €21 higher than a year earlier.



Prices in most of the major producing Member States have followed a similar trend to the EU average. December averages indicate that several countries, including Germany, Italy, Poland and the Netherlands, suffered price declines of between €10 and €15. However, Spanish prices were down by a much smaller amount. Only a few smaller countries, including Ireland, recorded small price rises. Prices in the first two weeks of the New Year were largely stable or drifting downwards, with Spain and Italy the main exceptions.

The UK reference price in euro terms continued to fall from the November level but this was largely the result of exchange rate movements, with the euro strengthening against the pound, a trend which continued into the New Year. Despite this, at the turn of the year the UK price was around €20 per 100kg higher than the EU average, a larger gap than for most of last year.

The EU weaner market remained firm in December, with a marginal increase in the average price compared with November 2011. The EU average was floating around €47 in December and has since moved up to just over €48 during January. This stability reflects a balance between supply and demand as the market awaits a clear direction for finished pig prices following the post-Christmas lull.

In common with the GB price, there were large reductions recorded in cull sow prices in the main EU markets. Over the month, Dutch and Danish producers received 16 cents and 12 cents less per kg than in November and the German M1 sow price fell 14 cents to average €1.40 per kg. Prices continued to fall in the New Year, with the German price as low as €1.27 per kg by week ended 19 January, the lowest level for nearly a year. The normal weak post-Christmas market has been exacerbated by higher throughputs in early January, possibly in response to the ban on the use of sow stalls.

UK SLAUGHTERINGS AND PIG MEAT SUPPLIES

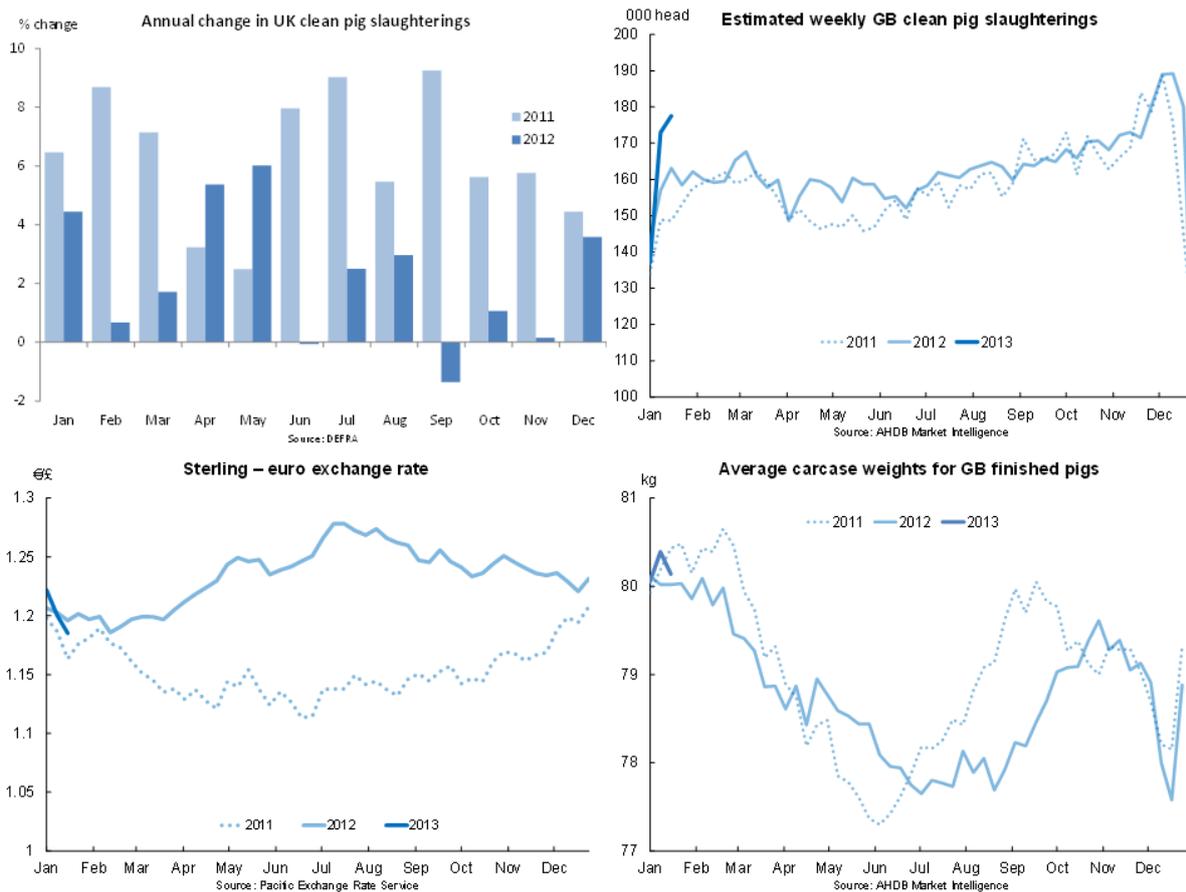
UK clean pig slaughterings during 2012 topped the 10 million mark for the first time in a decade. Throughputs were two per cent higher than in 2011, despite a stable breeding herd, as sow productivity increased. Slaughterings in December were nearly four per cent higher than in December 2011 at 769,000 head. Most of the increase was in England and Wales, where throughputs rose by over nine per cent year on year, partly due to an increase in Scottish pigs crossing the border following the closure of Halls of Broxburn. Scottish clean pig slaughterings were down by more than half on a year earlier, while Northern Ireland killed one per cent more.

For the first time since May, the number of adult sows and boars slaughtered during December was below year earlier levels at 17,200 head, five per cent lower than a year earlier. This suggests that producers may have been feeling a bit more comfortable than earlier in the year although lower cull sow prices will also have been an important factor. Nevertheless, cullings for the whole year were up 17,400 at 265,000 head. This represents an increase of seven per cent.

Across the UK, carcase weights were slightly lower than in December 2011 at 77.7kg. This was nearly a kilo lower than in November as some pigs were pulled forward in advance of the holiday period. Across the whole year, the average carcase weight was virtually the same as in 2011 at 78.2kg. Overall, pig meat production during December was three per cent higher than a year earlier at

62,500 tonnes. This brought the total for the year as a whole to 825,000 tonnes, two per cent up on 2011.

Based on the DAPP sample, estimated clean pig throughputs in the early part of the New Year were higher than in early 2012. Throughputs in the first three weeks of January were five per cent higher than in the equivalent weeks last year. Although reports suggest that there was less of a post-Christmas backlog of pigs, lower stocks held by processors meant they were willing to take on larger numbers.



In November, UK fresh and frozen pork imports totalled 33,500 tonnes, an increase of three per cent compared with the same month of 2011. This was also an increase from October when imports were above year earlier levels for the first time in 2012 and was the highest monthly figure since June 2011. Nevertheless, shipments for the first 11 months of the year were still six per cent lower year on year. Denmark was the only major supplier that reduced its shipments, by 11 per cent. In contrast, the UK imported 24 per cent and 15 per cent more pork from Germany and the Netherlands respectively. Ireland gained a slightly higher share in the UK market, shipping 15 per cent more than in November 2011. However Ireland was still far from reaching the same level as in November 2010, when it accounted for almost a fifth of the UK market.

Bacon and ham imports, at 22,700 tonnes, were 10 per cent lower compared with November 2011, in line with most of 2012. The UK continued to purchase more from the Netherlands, as imports were 10 per cent higher compared with the same month a year earlier. However, the majority of the reduction is a result of lower shipments from Denmark (down 18 per cent) and Germany (39 per

cent). The UK continued to pull in increased volumes of processed products as shipments of sausages were up 13 per cent and other processed volumes were 35 per cent higher than the same month in 2011.

UK exports recorded another increase in November 2012 as pork shipments were up 13 per cent compared with the same month a year earlier. However, at 14,000 tonnes, shipments were below the exceptional levels recorded in November 2010 and in September and October 2012. Shipments to China reached over 2,300 tonnes, continuing the upward trend since exports began in July 2012. There were some differing patterns of trade with individual EU markets, with an increase in shipments to Denmark and Germany but declines in trade with the Netherlands and France. Overall, there was a marginal reduction in total pork exports to the EU.

The decline in bacon and ham exports continued, as they were down by more than three-quarters. Major reductions were recorded for all the leading EU markets. In contrast, sausage shipments were up 78 per cent, with Ireland taking almost twice as much and many other markets taking increased volumes. Exports of other processed products were up seven per cent.

Although offal exports came down from the high point in October, there was a 43 per cent year on year increment in November to 5,800 tonnes. Developments in the offal trade largely reflect increased demand from the EU, notably Belgium and Germany. While China took considerably more UK offal, Hong Kong reduced its purchases by 46 per cent.

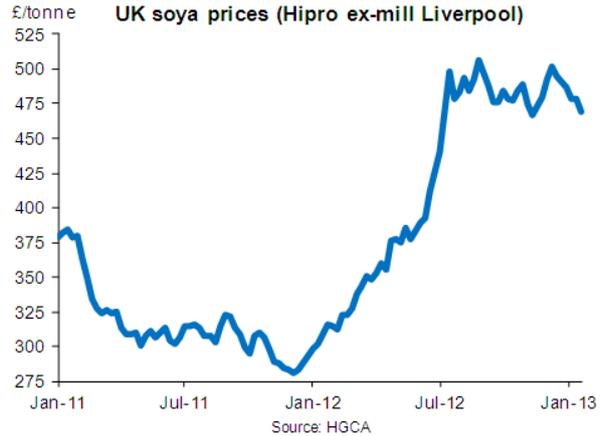
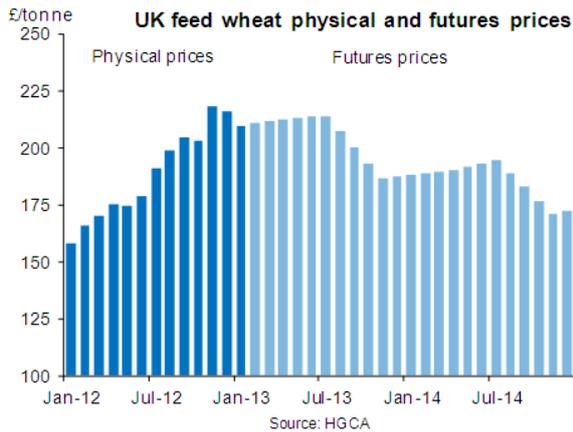
FEED PRICES

London feed wheat futures (May-13 contract) fell by £1.25 during the month, closing at £214.75 per tonne on Wednesday 23 January. US maize futures (March-13) gained just over £6.50 to close at £179.10 per tonne.

The International Grains Council increased forecast global wheat production by 2Mt to 656Mt in their latest report. Carry-out stocks were increased by 1Mt and now stand at 26 per cent of demand. World maize production was forecast up by 15Mt, mainly as a result of an extra Chinese production but also increases for the US and Argentina. Consumption was increased by 16Mt, however, reflecting higher than anticipated demand.

In data seen so far, global cereal consumption has shown little evidence of demand rationing as a result of the high prices seen this season. Domestically, UK animal feed production remains strong, with increases seen in compound feed production so far this season. Across the EU, pig feed production was down two per cent in 2012 compared with 2011, with small increases for cattle and poultry feed.

In the US, demand for cereals remains high according to the December stocks survey. Maize stocks were lower than last year, reflecting a difficult harvest, while wheat stocks were variable depending on location. US wheat prices could become more competitive on world markets in order to stimulate export demand. With most large importers now assumed to have covered requirements, however, the level of demand remains uncertain.



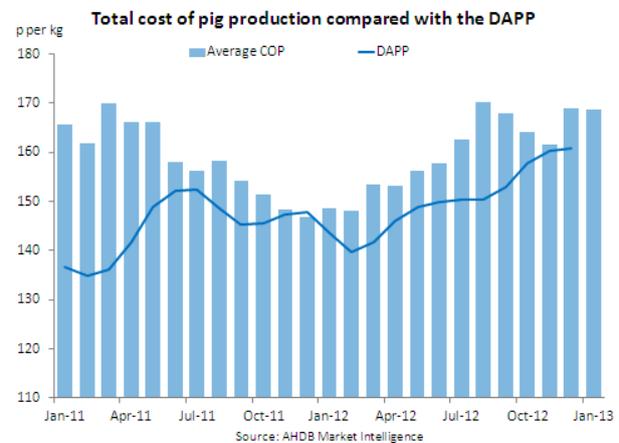
Oilseed prices have risen slightly from last month and, at close on 23 January, nearby CBOT soyabean futures were worth £333 per tonne, up by £3 on the month. In dollars, soyabeans have declined by nearly \$10 per tonne, with the change in sterling terms reflecting currency movements. UK imported Hi-Pro soyameal was available for £351 per tonne from the east coast on Friday 18 January, a £39 fall since mid December.

The USDA increased their 2012/13 world soyabean production forecast by 1.69Mt to 269.41Mt, with both US and Brazilian output higher. Domestic use was increased by 1.42Mt, while season opening stocks were reduced by 0.9Mt. The net result was a decrease in ending stocks by 0.47Mt.

Brazil's soyabean harvest has just begun, with early yields said to be variable. Higher yields are expected in fields yet to be harvested, as they will be less affected by the dry weather early in the growing season. Brazilian soyabean production is forecast to be a record 82.50Mt this year but concerns have been raised about the logistics of moving such a large crop from the interior to ports.

US stocks data show record soyabean use in the first quarter of the marketing year; at the start of January, 85 per cent of the US's exportable surplus had been committed or moved, compared with 66 per cent last year. This implies heightened reliance on South American production throughout the remainder of the season, meaning that below expectation production could result in market volatility.

According to AHDB's provisional estimates, the cost of pig production in January was little changed from December at just under 169p per kg. Quotes for compound pig feed were slightly higher than the previous month but this was offset by higher carcase weights. At their current level, costs are close to the record highs recorded over the summer of 2012 and were more than 20p higher than a year earlier, when costs were just starting to increase as soya prices began to rise.



Despite pig prices remaining close to record levels, high costs mean that producers remain in a loss-making position. Based on the current level of the DAPP, producers are losing an estimated £7 per

pig during January, equivalent to a weekly loss of over £1 million for the industry as a whole. Losses for 2012 as a whole are estimated at around £60 million. Forward feed quotes suggest that production costs are likely to remain at or above their current level until next summer, at least.

CONSUMPTION

In the 12 weeks to 23 December, consumer spending on fresh pork remained in line with last year. However, the amount purchased continued to decline, with consumers switching to fresh beef and chicken. Nevertheless, belly, marinades and loin roasting joints all recorded volume growth, with declines for frying/grilling cuts and leg & shoulder roasting joints. A third of pork was sold on promotion over the period, compared to under a quarter last year but, despite this, the average price paid was up eight per cent.

At the same time, expenditure on bacon grew two per cent but volumes purchased were down slightly, as prices were higher. This was driven by a decline in bacon joints; steaks and rashers on the other hand both recorded growth. Spending on sausages increased one per cent, again driven by higher prices as volumes were down three per cent. Both economy and premium sausages outperformed standard varieties. Sliced cooked meats continued to record volume growth. Ham in particular saw volume purchases increase by four per cent, although average price reductions meant that expenditure was down one per cent over the same period.

Trends in retail meat purchases (period ended 23 December 2012)

| | 4 weeks 2012/11 | | | 12 weeks 2012/11 | | | 52 weeks 2012/11 | | |
|---|---------------------------------------|-----------|-----------|---------------------|-----------|-----------|---------------------|-----------|-----------|
| | Q | E | P | Q | E | P | Q | E | P |
| | % change compared with a year earlier | | | | | | | | |
| Fresh and Frozen Meat, Poultry and Bacon | -0 | +5 | +5 | -0 | +4 | +4 | +1 | +5 | +3 |
| Pork | -1 | +7 | +8 | -7 | +0 | +8 | -3 | +3 | +6 |
| <i>Belly</i> | +12 | +24 | +11 | +13 | +20 | +6 | +13 | +20 | +6 |
| <i>Chops</i> | -3 | +3 | +6 | -16 | -8 | +9 | -9 | -6 | +4 |
| <i>Steak</i> | -11 | -6 | +5 | -8 | -8 | +0 | -5 | -6 | -1 |
| <i>Leg Roasting Joint</i> | -17 | -16 | +2 | -23 | -17 | +8 | -22 | -10 | +15 |
| <i>Loin Roasting joint</i> | +26 | +48 | +18 | +19 | +37 | +15 | +22 | +31 | +7 |
| <i>Shoulder Roasting joint</i> | -5 | +20 | +27 | -20 | -5 | +20 | -12 | -2 | +11 |
| Pork Marinade | +61 | +53 | -5 | +31 | +32 | +0 | +24 | +30 | +5 |
| Bacon | -1 | +4 | +4 | -1 | +2 | +3 | +1 | +3 | +2 |
| Beef | +3 | +11 | +8 | +3 | +8 | +5 | -3 | +5 | +9 |
| Lamb | +7 | +9 | +2 | +7 | +5 | -2 | +5 | +4 | -1 |
| Poultry | -2 | +1 | +3 | +0 | +3 | +3 | +4 | +6 | +1 |
| Processed products | | | | | | | | | |
| Pork Sausages | -5 | +3 | +8 | -3 | +1 | +4 | -2 | +1 | +3 |
| Fresh Pre-packed Pork Pies | -12 | -7 | +5 | -10 | -5 | +6 | -2 | +1 | +3 |
| Fresh Pre-packed Sausage Rolls | -16 | -7 | +10 | -13 | -6 | +8 | -10 | -5 | +6 |
| Pork Chilled Ready Meals | +27 | +31 | +3 | +14 | +25 | +9 | +1 | +12 | +11 |
| Pork Sliced Cooked Meats | +2 | -0 | -3 | +4 | +0 | -4 | +3 | +2 | -1 |

Q = quantity purchased, E = expenditure, P = price
Source: Kantar Worldpanel

In the latest four weeks (ending 23 December), the decline in fresh pork volume purchases slowed to one per cent, despite prices remaining higher. The value of bacon and sausage sales were up four per cent and three per cent respectively, driven by average price increases, although volumes

declined. Ham, again, saw volume growth while spending was down as a result of a reduced average price.

The Christmas period this year failed to follow some of the usual trends as consumers did not trade up and treat themselves with premium products. Instead they appear to have generally traded down to ensure their Christmas came in on budget. This meant that the discount sector gained heavily from the more established retailers and even the more upmarket premium retailers. The online sector continued to build, with sales up 23 per cent year on year following similar growth last December. Price cuts were a feature of this, as any other Christmas trading period, but this year more people were buying cheaper products at full price rather than on promotion.

In the key product areas there was substantial year on year growth in 2011 but in 2012 the party atmosphere appeared more subdued. Growth across all sectors was around two per cent, rather than the high levels of 2011, when there was growth of seven per cent or more on party food, treat items and alcohol.

In meat terms, beef, lamb and chicken all saw volume growth over the month. Turkey sales declined but this is largely because Christmas Eve is excluded from this year's figures while it was included last year. Roast leg of pork is a traditional alternative or extra meat served at Christmas dinner and generally sales through the Christmas period are strong. This year, despite a much higher levels of sales being on promotion, pork leg roasting sales fell by 17 per cent, suggesting consumers were sticking with one type of protein for Christmas dinner.

Ham/Gammon joints are also popular at Christmas. Although more households bought them this year and spending rose by seven per cent, the amount purchased fell by seven per cent, indicating that consumers were being offered and buying smaller packs. While bacon rashers performed well, fresh sausages suffered a fall in sales, entirely driven by a poor performance of cocktail sausages. Sausage meat saw modest volume growth whilst fresh stuffing sales fell by 18 per cent, suggesting that more households were making their own stuffing rather than buying readymade.

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The United Kingdom pig meat situation and outlook is analysed in more detail in "Pig Market Trends", published monthly. For further information, [click here](#).

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