

United Kingdom Pig Meat Market Update - July 2011

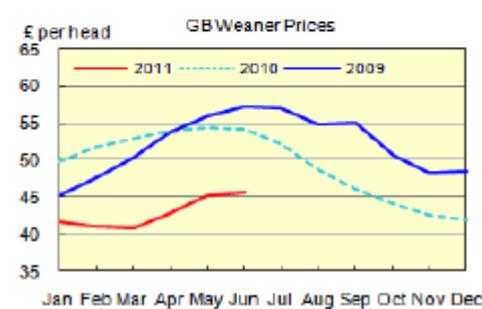
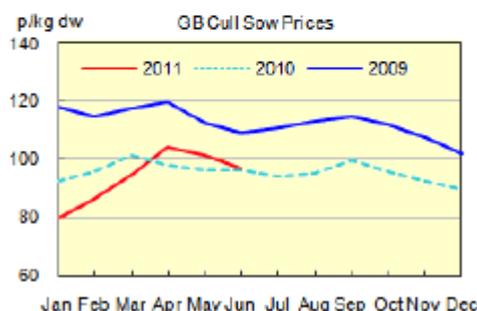
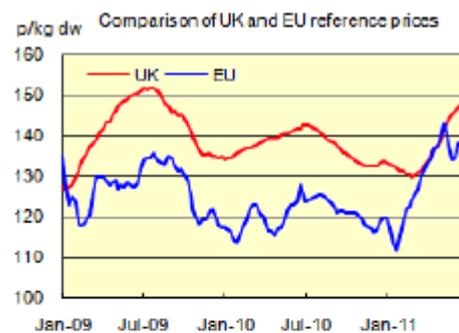
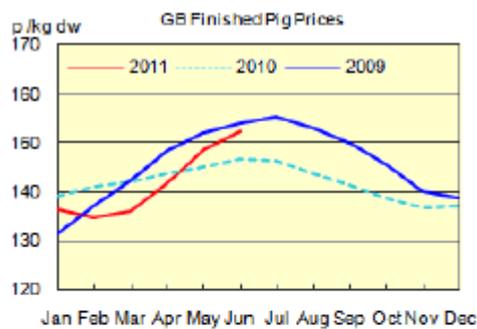
The DAPP in the UK has continued its upward trend in recent weeks, while the EU pig reference price moved up again in the first half of June, according to James Park, senior economic analyst with AHDB Meat Services Economic and Policy Analysis Group in his latest explanation of the trends in the UK and EU.



UK Prices

The DAPP has continued its upward trend in recent weeks, a development that started in March. The DAPP stood at 152.9p/kg deadweight (dw) in the week ended 2 June, two pence per kg above the level of four weeks earlier and nearly six pence per kg more than the corresponding week of 2010. This is the highest DAPP price seen since August 2009. This reflects tight supplies and steady demand and that the value of sterling remains weak. However despite recent increases, the DAPP is not offsetting the ongoing high input costs. July estimates put the cost of production at 161p per kg.

The steady increase in the UK reference price in recent weeks has helped restore some price premium on British pigs. By late June, the premium compared with the EU average price amounted to seven per cent, or €11 per 100kg dw, after having disappeared in mid-April.



Average carcass weights in the DAPP sample fell in May to just under 78kg, down from 80kg at the start of the year. The May 2011 figure was almost one per cent lower than the corresponding month last year. This downward trend has continued in recent weeks, with carcass weights averaging 77.4kg for the week ended 20 June 2011, but has since edged up. Producers are finishing at lower weights in

order to mitigate high feed costs and in some cases the impact of using lower quality feed.

The average weaner price has been fairly stable in recent weeks as feed costs remain high while the supply of weaners has been ample for the market. The June price increased marginally on the previous month, averaging £45.72 per head, almost £9 per head below the price seen in June 2010.

Sow prices in Great Britain fell by 5p in June from the previous month to average 97p per kg dw, the same level as a year earlier. This is partly in response to falling sow prices on the continent, especially in Germany, in the second half of May given the decline in the clean pig market.

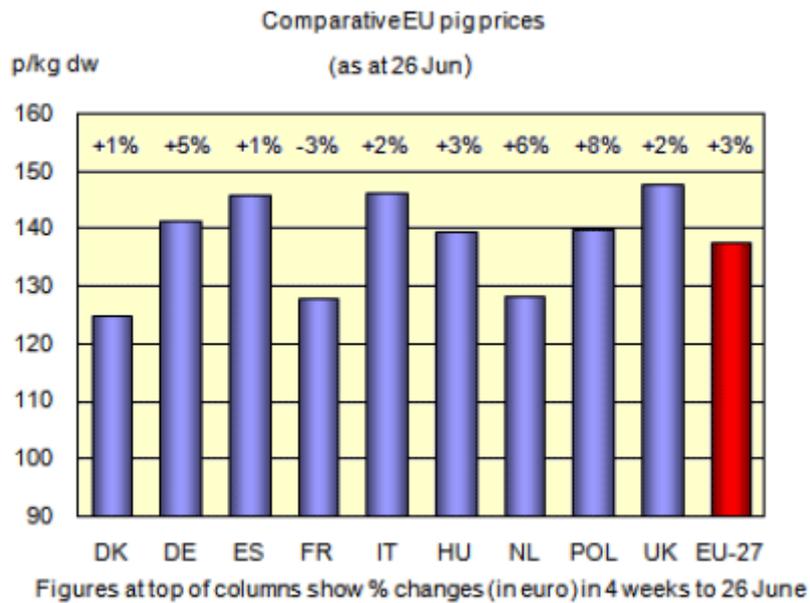
EU Prices and Exchange Rates

The EU pig reference price after falling back in May due to lacklustre demand moved up again in the first half of June helped by some seasonal upturn, especially in northern Member States, with the start of the barbecue season. This applied especially to Germany with the pig reference price rising three per cent in early June to €160.14 per 100kg dw where it has since remained. It was also unchanged compared with late June 2010.

The EU average increased by two per cent compared with its recent low point of early June and at €156.20 per 100kg dw in the week ended 26 June was also two per cent more than in late June last year. So the much higher EU price compared with year-earlier levels that had previously applied has now largely disappeared.

At present, the market is being affected by the release of stocks from the Private Storage Aid (PSA) scheme of February. The Danish price also moved up marginally in the first half of June although it remained slightly lower than in May. The Dutch price moved up four per cent in early June helped by the upturn in the German market. In contrast, the French price continued to fall and in late June was nine per cent down on mid-May although still three per cent more than in late June 2010.

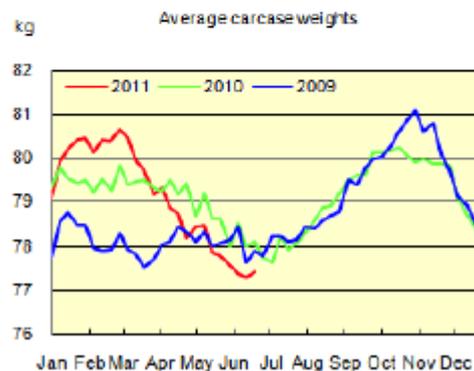
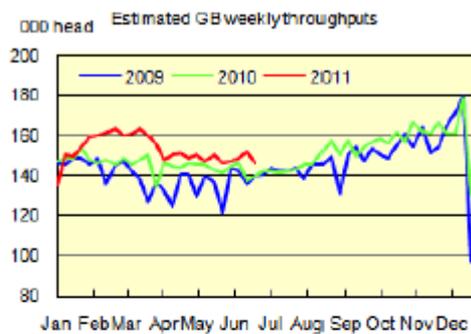
In June, there was a further easing back in the value of sterling against the euro to the extent it was down seven per cent on a year earlier and down five per cent compared with January.



UK Slaughterings and Pig Meat Supplies

During May UK clean pig slaughterings totalled 718,000 head, an increase of three per cent year on year. Slaughterings in Scotland were seven per cent higher at 45,000 head with those in England and Wales three per cent higher at 596,000 head. Northern Irish slaughterings were up four per cent at 122,000 head. Weekly throughput data for GB in recent weeks has shown no distinct trend and also still running just above that of a year earlier.

At 77.6kg, average carcass weights for clean pigs during May were one per cent lower compared with May 2010. This decline in weights only marginally offset the increased throughputs with pig meat production increasing three per cent to total 59,000 tonnes. Adult pig carcass weights in May showed little change compared with year earlier levels.



The latest trade data indicates that total exports of fresh and frozen pork from the UK in April 2011 remained stable at 11,000 tonnes compared with a year earlier. Increased exports to non-EU markets offset a decline in shipments to other EU Member States which were down six per cent.

In the first four months of 2011, exports of fresh and frozen pork totalled 45,000 tonnes, up almost six per cent year on year. Exports to Germany have steadily fallen since the beginning of the year and were down 11 per cent year on year in January to April although Germany remained the largest market. Volume sent to the Netherlands showed a substantial decline of one-third over this period. This fall was more than offset by increased demand from Hong Kong as shipments rose by 30 per cent in the first four months of the year compared with the corresponding period in 2010. Bacon exports over the same period were up 54 per cent to total over 11,000 tonnes.

Imports of fresh and fresh frozen pork during April were up almost five per cent on a year earlier at 30,000 tonnes. Importers sourced more product from Denmark and Ireland, but less from the Netherlands and Belgium. In contrast, bacon imports fell 18 per cent during April to total 21,000 tonnes. In January to April 2011, imports of fresh and frozen pork were up three per cent on year earlier levels at 117,000 tonnes. Volumes sourced from Denmark and Ireland were significantly higher, increasing by 42 and 15 per cent, respectively. However this increase was mostly offset by reduced shipments from the Netherlands, which were down 22 per cent. Bacon imports totalled 94,000 tonnes, 15 per cent lower on the year.

Feed Prices

Global grain markets have declined recently as a number of events have relieved the concerns for this season's harvest.

At the end of May, Russia announced its return to the world grain trade, with the export ban lifted on 1 July. This had an immediate effect on prices, with the UK and US markets falling by significant amounts when trading resumed following the announcement. The LIFFE wheat futures price for November 2011 dropped £7.50 per tonne to £189.50 in the immediate wake of the announcement before rallying slightly.

Industry sources suggest that the crop condition in Russia is good in the southern regions, and the harvest will be considerably above last year's but still well down on 2009. The harvest has begun in the Ukraine and the rain has reportedly had a positive impact on the condition of wheat in many areas although it has supposedly come too late for some areas.

In the US, the arrival of further wheat supplies from the harvest in southern states combined with the improving condition of the maize crop and a stronger US dollar all had a bearish influence on the market. Canadian plantings are expected to be considerably up on last year with wheat plantings up 12 per cent and barley up three per cent. In Australia, plantings have been at a record high and conditions have been very favourable in the eastern states with water levels good following heavy rainfall but this contrasts with difficult conditions in Western Australia.

The dry conditions in the UK, and also the wider EU, resulted in prices rising at the beginning of June as concerns over yields became apparent particularly in the worst-affected eastern England. Since then, increased rainfall has alleviated concerns for some areas of the UK and prices have followed downwards but uncertainty over yield levels remain.

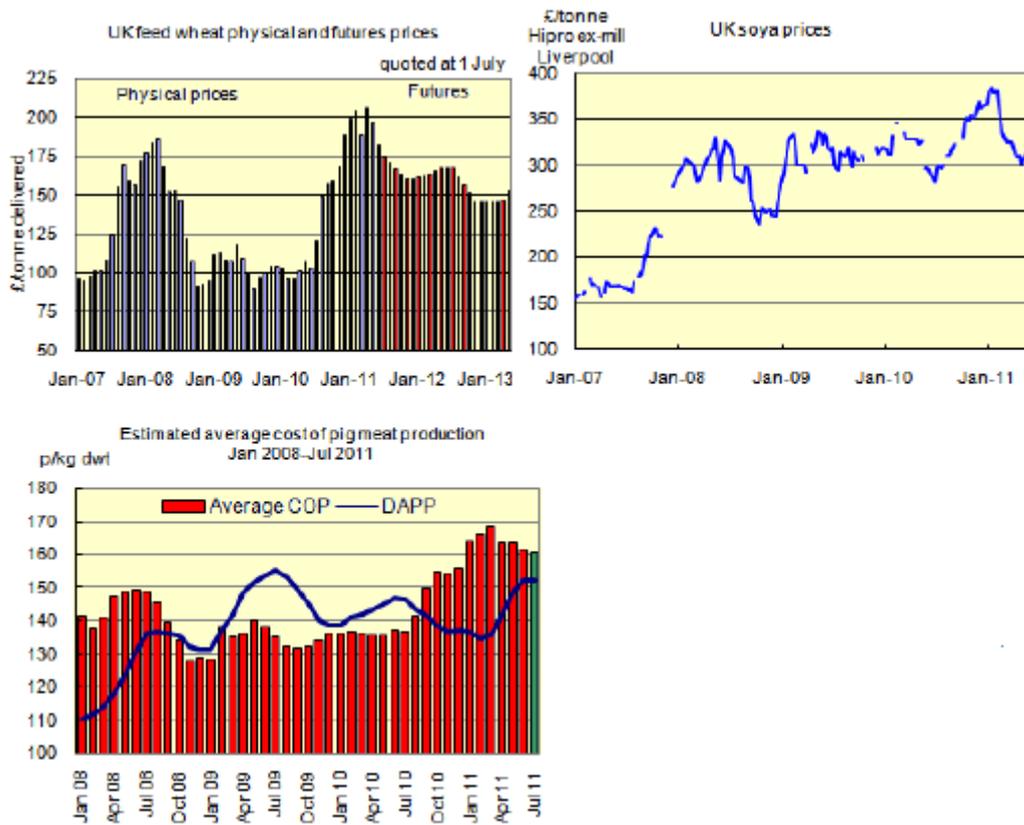
Recent rains across Europe have also alleviated some concerns but the full effect of the dry conditions remains to be seen. In Spain, harvest is underway with early yield indications good, however, delays may develop if rain persists. In France, the barley harvest is underway across central and southern areas. As the wheat crop is generally more advanced than it would normally be, the point has passed when the increased rainfall is likely to be of benefit to yields. In Germany, rains were beneficial to 'still filling' winter wheat crops. The rains were also reported to have been beneficial to crops in Eastern Europe.

By 24 June, the UK LIFFE wheat futures price for November 2011 was at £163.50 per tonne and similar to the levels recorded at the end of March. MATIF wheat futures for November 2011 were also at the lowest level since March hitting €195.25 per tonne at 23 June before rallying marginally to €195.75 on 24 June.

With global economic concerns currently affecting the markets, particularly as a result of the ongoing situation in Greece, speculators have sought to reduce their position in the world grain market. This has been another key factor in exerting downwards pressure on global grain prices.

BOT wheat futures for December 2011 were at their lowest point for the year so far

on 24 June at \$259.2 per tonne while CBOT maize future for December 2011 were at a six week low of \$248.8 per tonne on the same day.



Given that the estimated cost of production has edged back in recent months and the ongoing upturn in pig prices, on average in July, producers are now estimated to be losing less than £10 per pig. This represents a considerable improvement on the loss of £25 earlier in the year.

Consumption

In the latest four-week period to 12 June 2011, data from Kantar Worldpanel showed the volume of pork increased by six per cent to 13,000 tonnes compared with the same period last year. Average purchase price over the period fell two per cent, driven by continued strong promotional activity by the major retailers. These promotions have been particularly strong on shoulder roasting joints and frying/grilling steaks. Shoulder roasting joints continue to be the best performing pork cut, up 12 per cent. Belly and loin roasting also performed strongly up six and 10 per cent, respectively, driven by significant increases in the volume sold on promotion compared to the same period last year.

In the 12 weeks to 12 June, pork purchases showed an increase of four per cent year on year. Pork had a considerably better performance over this period than the other red meats as it did not suffer the declines that beef and especially lamb experienced over the Easter period when the warm and dry weather reduced the amount of roasting meal occasions. The increased barbecue and outside eating occasions over the period also had a positive impact on processed pork products with bacon, pork sausages and pork sliced cooked meats all increasing volume

sales by six per cent compared to the same period last year.

Pork expenditure in the 12 weeks to 12 June grew behind volume sales, increasing by two per cent as a result of the average price decreasing by two per cent. Average prices have fallen as a result of increased promotional activity, mainly with shoulder roasting joints on temporary price reduction promotions and the inclusion of steaks and chops in '3 for £10' or '4 for £12' promotions. These promotions have increased the volume bought by consumers on each shopping trip.

All cuts except leg roasting joints showed increased purchases in the 12 weeks ended 12 June compared to the same period last year. Shoulder roasting joints continue to be the best performing cut, up 12 per cent, and this will have offset some of leg's lost purchase volume, which was down eight per cent year-on-year. Loin roasting increased year-on-year volume for the first time in 2011, up 10 per cent due to significant promotions by the major retailers in the past month.

Meat and poultry purchases continue to be driven by promotional activity in order to ensure volumes sales to price-conscious consumers. In the 12 weeks to 12 June 2011, 32 per cent of all pork was sold on promotion, similar to the proportion of a year earlier. The proportion for steaks and chops was even higher at 41 and 35 per cent, respectively. The high levels of promotional activity especially on steaks and shoulder roasting joints over the past year has been a key factor in pork's relative success.

Trends in retail meat purchases (period ended 12 June 2011)

	4 weeks 2011/10			12 weeks 2011/10			52 weeks 2011/10		
	Q	E	P	Q	E	P	Q	E	P
% change compared with a year earlier									
All fresh / frozen meat and bacon	+5	+8	+3	+0	+3	+3	+0	+2	+2
Pork	+6	+4	-2	+4	+2	-2	+3	+0	-3
Belly	+5	+7	+2	+6	+8	+2	+0	+2	+2
Chops	+23	+9	-12	+3	-6	-8	-6	-9	-3
Steak	-11	-12	-0	+2	-3	-5	+10	+3	-6
Roasting joints	+21	+29	+7	+3	+4	+0	+2	-0	-2
Bacon	+12	+15	+2	+6	+6	+1	+5	+4	-1
Beef	+4	+4	-3	-2	-1	+1	-1	+0	+1
Lamb	-13	+1	+16	-21	-5	+20	-18	-7	+13
Poultry	+5	+11	+5	+2	+7	+6	+2	+5	+4
Processed products									
Pork Sausages	-4	+4	+8	+6	+6	-0	+3	+3	+1
Fresh Pre-packed Pork Pies	-2	-5	-3	+0	+3	+2	+0	+2	+2
Fresh Pre-packed Sausage Rolls	-8	-2	+6	-11	+3	+16	+4	+4	+1
Pork Chilled Ready Meals	+64	+57	-4	+25	+22	-2	+33	+20	-10
Pork Sliced Cooked Meats	+0	+4	+3	+6	+9	+3	+4	+7	+2

Q = quantity purchased, E = expenditure, P = price

Source: Kantar Worldpanel