



SHORT-TERM OUTLOOK

FOR EU AGRICULTURAL MARKETS
IN 2019 AND 2020

SUMMER 2019

Edition N°24

Agriculture
and Rural
Development

Executive Summary

The **uncertainty surrounding Brexit** renders **outlook** exercises even more difficult. These market forecasts **relate to the EU-28** as the UK is still a member at the date of the publication.

EU cereal production for 2019/2020 is expected to **recover from last year's low** and reach 311 million t, if good weather conditions prevail until the end of the harvest. Total wheat production should increase by 10%, barley by 7% and maize by 0.5%. This ampler supply should allow EU cereal net trade balance to recuperate.

Oilseeds production, forecast at 32.3 million t, is likely to **further decrease in 2019/2020** due to the small EU rapeseed sowing area (-10% compared to average). **In 2019/2020, EU protein crop production should recover from last year's low** to 5.1 million t.

Sugar imports are forecast at a similar level as EU exports in 2018/2019. While the **contraction in 2019/2020 sugar beet area is estimated at 4%**, and

under the assumption of a yield close to average, sugar production could reach 18.3 million t (4% above last year's). The global sugar market is expected to return into deficit in 2019/2020.

Large availability and lower prices continue to **boost EU exports of olive oil** in 2018/2019. The EU production expected for the next season is around **average**, driven mainly by a recovery in Italy and Greece, while in Spain production should be lower than in 2018/2019.

EU production of peaches and nectarines could reach around 4.1 million t, an **above average level**, driven by favourable weather conditions. This level is expected to drive higher exports.

Sustained demand for EU dairy products (EU exports are forecast 4% up in 2019) and favourable weather conditions are likely to support **EU milk production growth (+1% in 2019)**. Global demand for **SMP** is high, **public stocks are now empty** and, by the end of the year, private stocks are expected back to low levels.

EU beef exports are likely to increase significantly in 2019 (+15%) thanks to opportunities in existing and new markets. **EU beef slaughterings are expected to decline in 2019 (-1.1%)**, following a reduction in cow herds and a low number of store cattle.

The **surge of pigmeat demand from China** due to the spread of African Swine Fever will push EU exports **(+12%) and prices up in 2019**. Production will **nevertheless remain stable in 2019**, limited by a reduced breeding herd and environmental restrictions. Production **growth should pick up in 2020 (+1.4%)** as Chinese demand continues.

Poultry production will keep growing in the EU in 2019 (+2.5%) thanks to good demand and high prices. These price levels will also favour import growth in 2019 (+5%).

EU sheep meat gross production is expected to slightly recover in 2019 (+0.5%), thanks to favourable weather conditions in spring and a high number of ewes put to the ram.

MACRO- ECONOMIC OUTLOOK

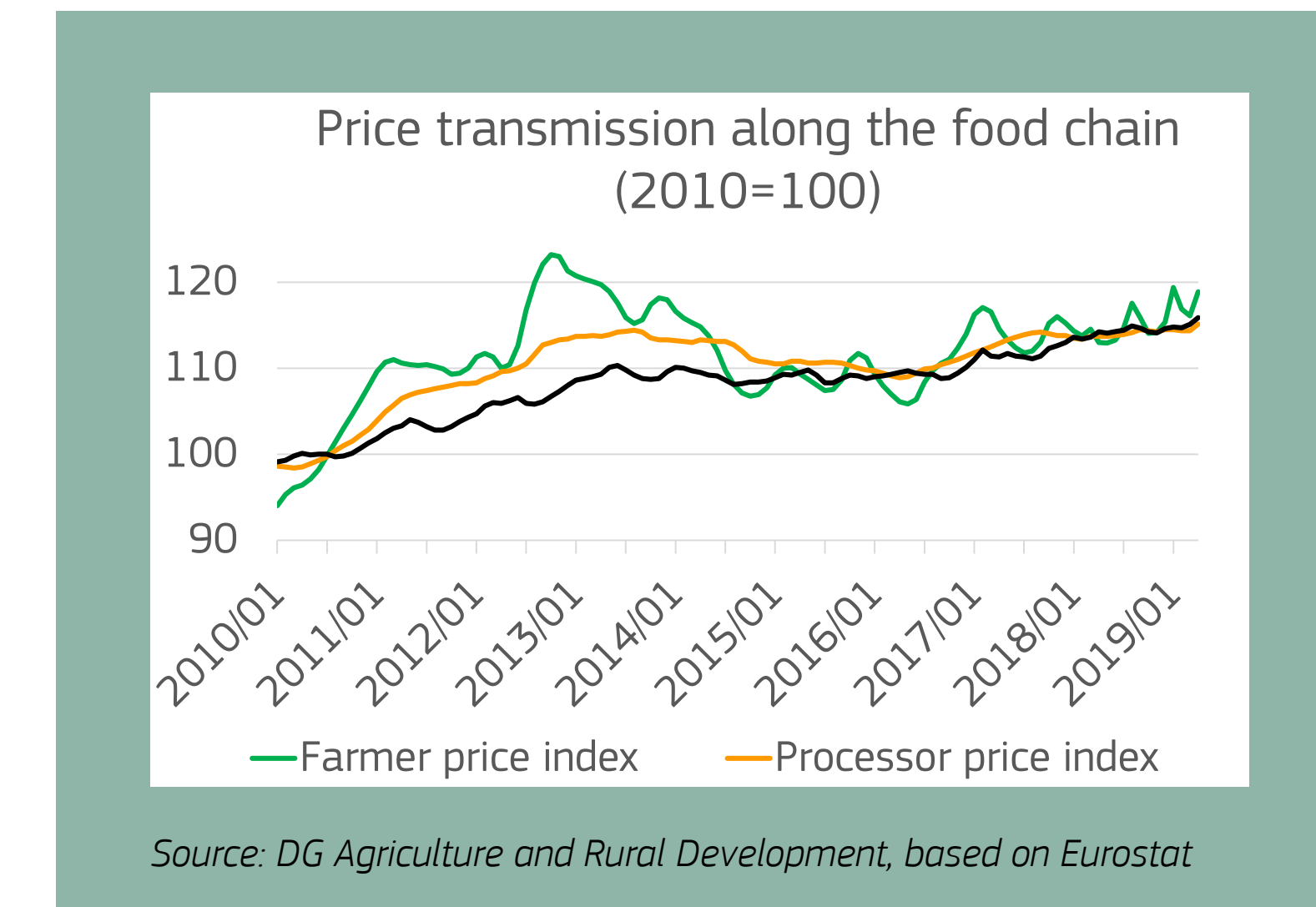
Macroeconomic background and food prices

Still clouds on the horizon...

- € A continued slowdown of the world economy during summer/autumn of 2019 is anticipated. The general uncertainty following the trade frictions between the US and its main trading partners remains high and weakens market confidence. Due to this slower growth, previous guidance from the ECB and the US Federal Reserve on interest rates in 2019-2020 have been revised into a first cut of the rates in autumn 2019. **The USD/EUR exchange rate is expected to remain stable.**
- € A slight pick up, from a very low level, of EU growth was recorded in May. Uncertainty on Brexit and threats on US tariffs persist. Exports of manufactured goods are expected to continue struggling, holding back EU growth in 2019. For agri-food the situation is different, with higher exports foreseen in 2019, despite the existence of similar trade related threats.
- € **Despite considerable production cuts**, the oil price declined sharply in May. The slowdown of global growth is holding back demand and geopolitical developments are adding uncertainty to supply. The US oil production is foreseen to increase and **oil prices are expected to remain at USD 65-70/barrel in 2019-2021.**


Food prices steadily up


- € The price transmission along the food chain shows an **increasing trend for EU food prices** at all stages of the chain. Prices paid to farmers are also relatively stable compared to the higher volatility observed in the past.
- € In April 2019, the **farmer's price index** was more than **6% above** the level of the same month last year, mainly due to firming of milk, pork and cereal prices, whereas prices of beef and sugar are declining. This development is in line with the world prices captured by the FAO Food Price Index.

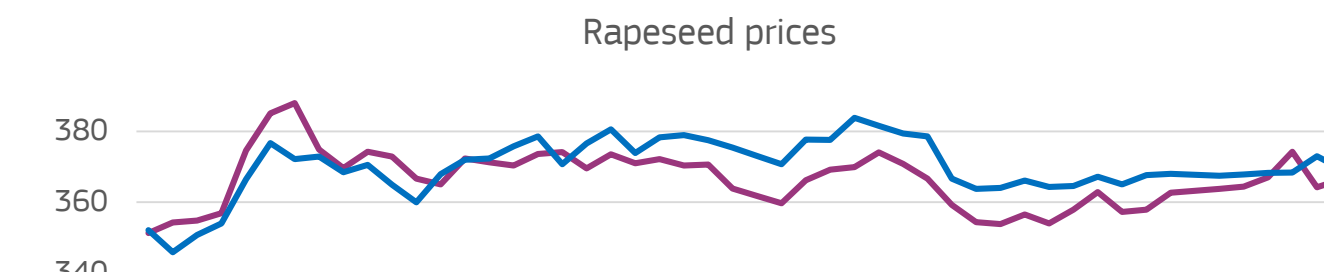
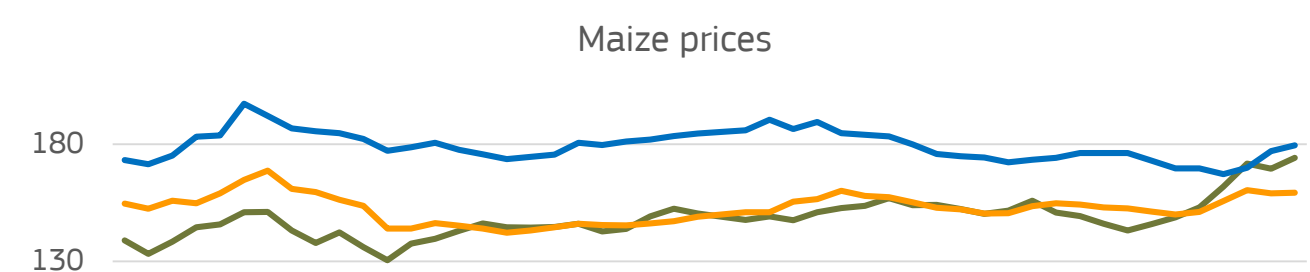
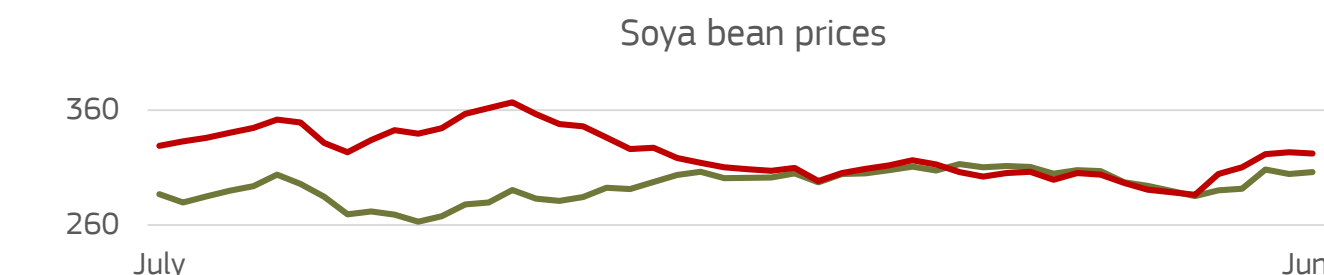
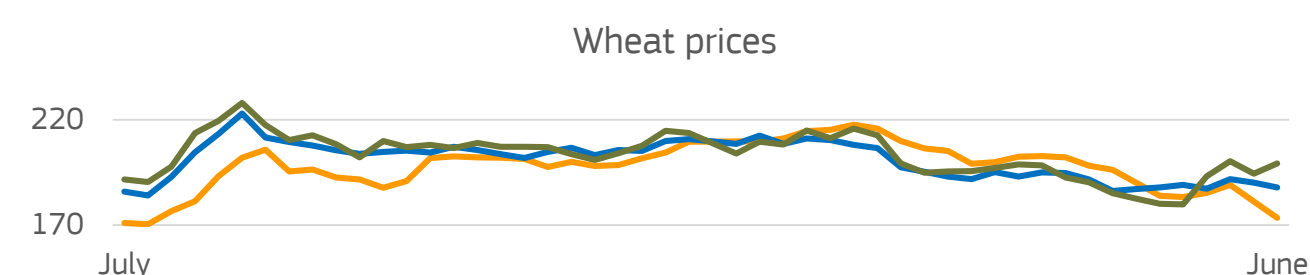



ARABLE CROPS


Market developments in the EU

CEREALS 	2018/2019	2019/2020
Production	👇 -4.9%	👆 +7.1%
Exports	👇 -2.8%	👆 +19%
Imports	👆 +26%	👇 -31%
Consumption	➡ +0.3%	➡ +2.2%

OILSEEDS 	2018/2019	2019/2020
Production	👇 -6.4%	👇 -1.7%
Exports	👇 -24%	👆 +18%
Imports	👆 +6.5%	➡ +0.5%
Consumption	➡ +3.6%	➡ +0.1%



PROTEIN CROPS 	2018/2019	2019/2020
Production	👇 -22%	👆 +7.7%
Exports	👇 -49%	👆 +55%
Imports	👆 +18%	👇 -8.1%
Consumption	👇 -7.6%	➡ -0.3%

SUGAR 	2018/2019	2019/2020
Production	👇 -17%	➡ +3.7%
Exports	👇 -49%	👇 -12%
Imports	👆 +32%	➡ +0.0%
Consumption	👇 -2.6%	➡ -0.1%

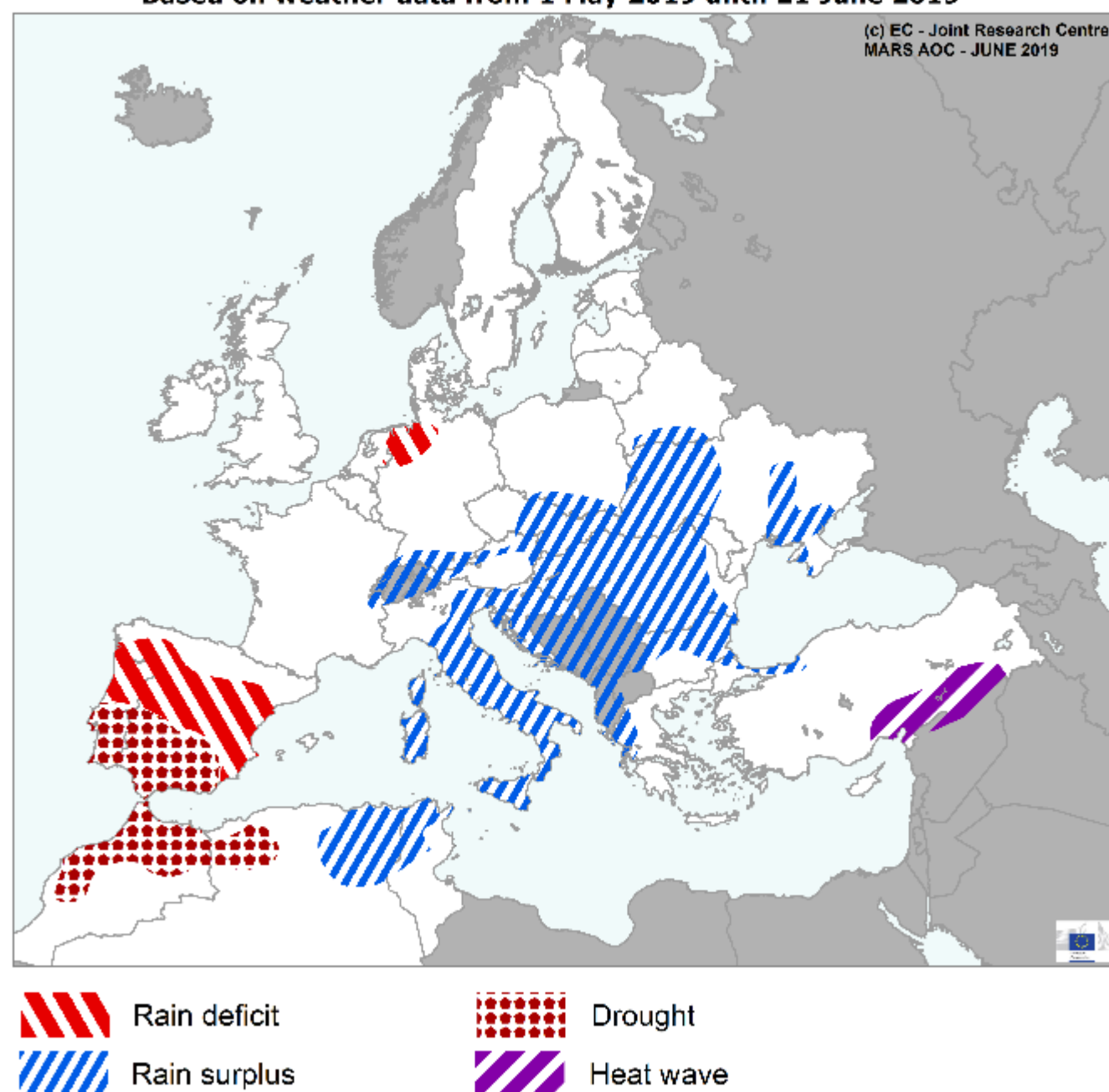
Note: % compared with previous marketing year. Prices refer to marketing year 2018/2019, all are export prices in EUR/t (blue: EU; yellow: Black Sea; green: US; red: Brazil; violet: Ukraine; grey: London)

Weather

Rainfall: beneficial in northern and central EU – needed in Spain

AREAS OF CONCERN - EXTREME WEATHER EVENTS

Based on weather data from 1 May 2019 until 21 June 2019



RAINFALL

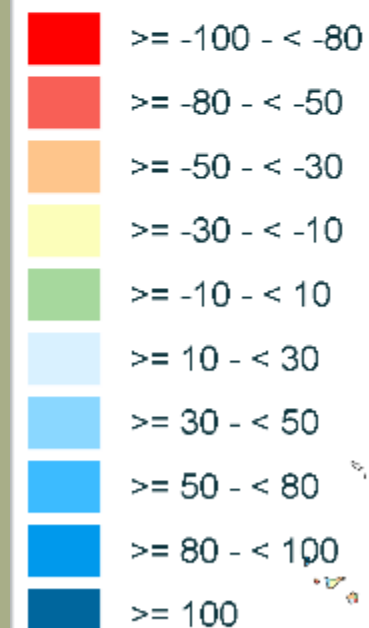
Cumulated values

from : 01 May 2019
to : 10 June 2019

Deviation:

Year of interest - LTA

Unit: %



12/06/2019
resolution: 25x25 km



© European Union 2019
Source: Joint Research Centre (JRC MARS4CAST)
Processed by: Alterra consortium

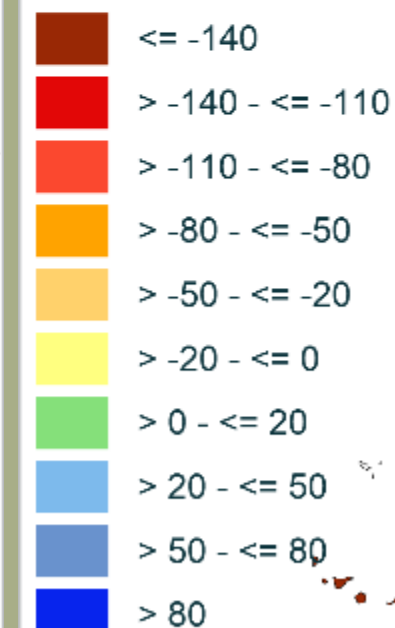
CLIMATIC WATER BALANCE

Cumulated values

from : 01 May 2019
to : 10 June 2019

Year of interest (CUR)

Unit: mm



13/06/2019
resolution: 25x25 km



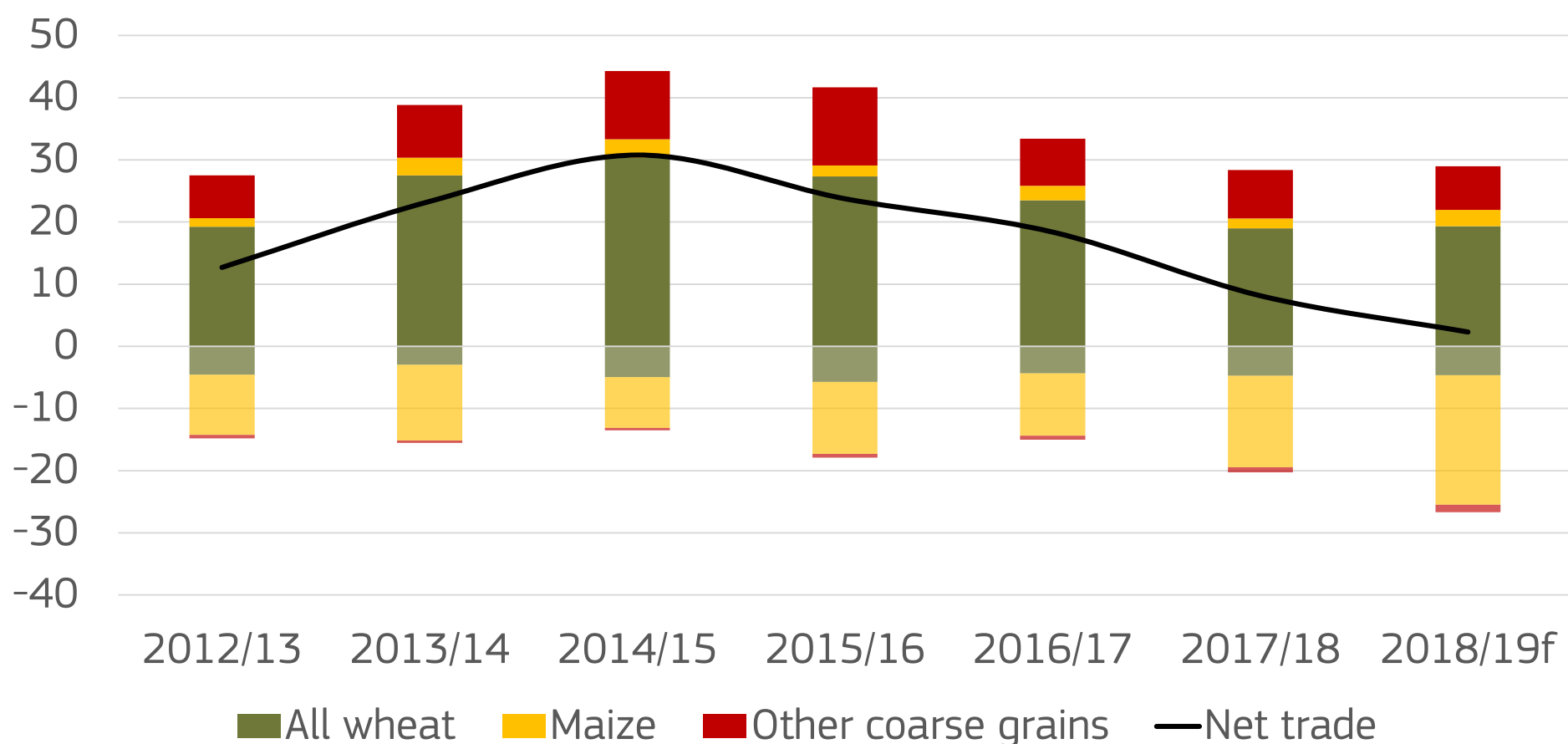
© European Union 2019
Source: Joint Research Centre (JRC MARS4CAST)
Processed by: Alterra consortium

Source: MARS bulletin crop monitoring in Europe 27(6), Joint Research Centre

- Weather conditions over the spring were mixed across the EU with a significantly diverse water balance.
- The dry spell in April was followed by **beneficial rainfall** for winter crops in northern and central Europe.
- In parts of **eastern and southern central Europe abundant rainfall hampered plant development** for winter and spring crops. However, they partly restored water reserves, providing a favourable outlook for the vegetative development of summer crops.
- Early June, heavy rainfall coupled with **thunderstorms** have negatively affected winter crops development in France and the Benelux.
- Regarding crop quality, cold snaps were beneficial (e.g. IT) as they **extended the grain-filling period**.

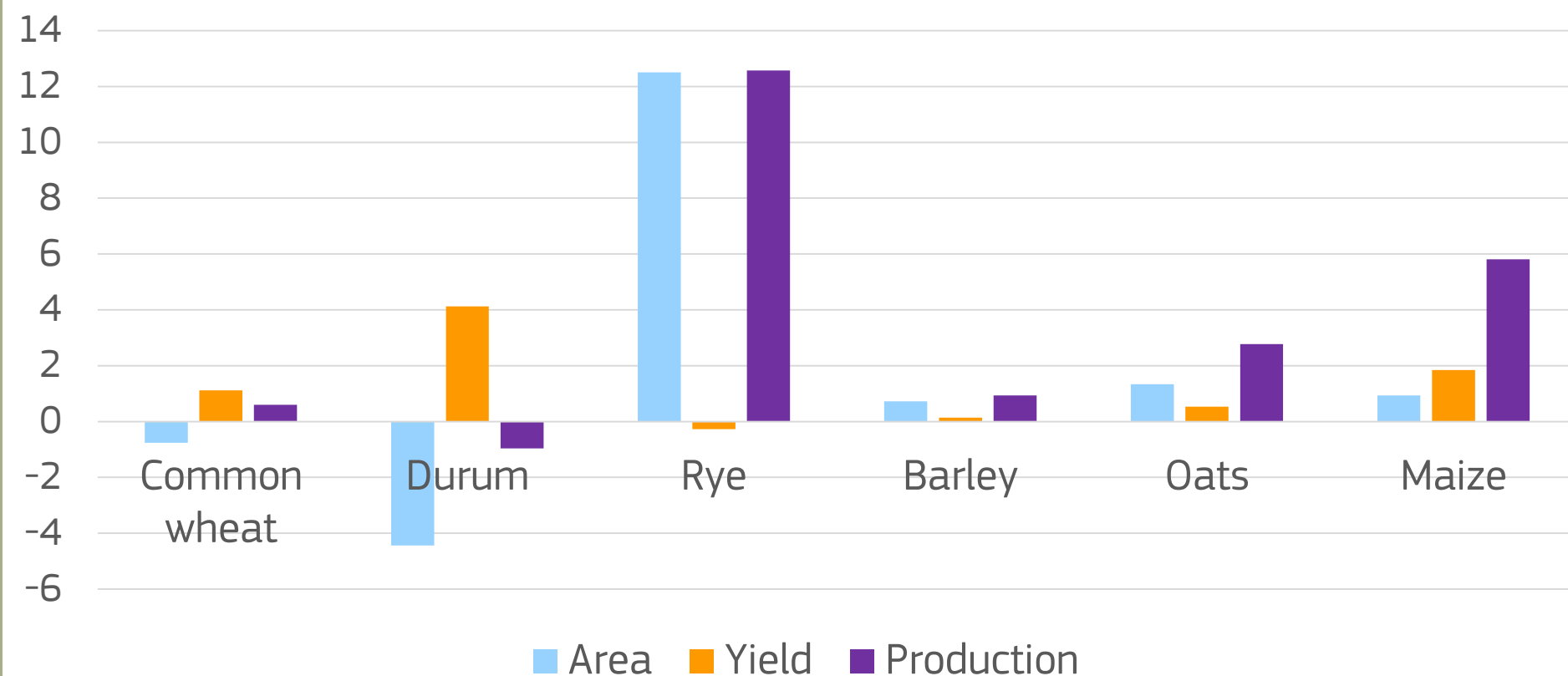
- There are **concerns for the Iberian peninsula, as the rain deficit and high temperatures** lowered significantly yield expectations for spring crops.
- The development of summer crops is also likely to be impacted negatively by continued warm conditions including heat waves.

EU cereal trade (July-April) – million t



Source: DG Agriculture and Rural Development, based on Eurostat

Area, yield and production change in 2019/2020 compared to the 5-year average (%)



Source: DG Agriculture and Rural Development

Contraction of net trade following low EU production in 2018/2019



Drought conditions across the EU significantly affected **cereal production in 2018/2019**, which **dropped to a 6-year low**. As a result, EU prices peaked over the summer, but then stabilised and ultimately declined at the beginning of 2019 thanks to good global availability.



EU exports faced fierce competition from other exporting countries. Wheat from the Black Sea region remained very competitive until the first quarter of 2019, when lower availability in the region allowed EU exporters to regain some market share.



Feed grain prices remained relatively **low** throughout 2018/2019, partly due to maize being particularly competitive until recently, which resulted in significantly higher EU maize imports from Brazil and Ukraine. The EU continues to be the first maize importer in the world. As a consequence of the higher imports, **EU cereal net exports reach only 2 million t**.

Higher sowing area and yield prospects in 2019/2020



In 2019/2020, cereal sowing area is expected to **recover** from the low of the previous marketing year to **56 million ha** (wheat: +3%; maize: +6%), a similar level to the 5-year average. EU cereal production is expected to be 311 million t (2% above average).



Yield prospects for EU wheat are fairly good, even though in spring some countries experienced dry weather (DE, PL) or wet and stormy conditions (FR, RO). **EU wheat production should reach 142 million t** (11% recovery compared to the previous marketing year).



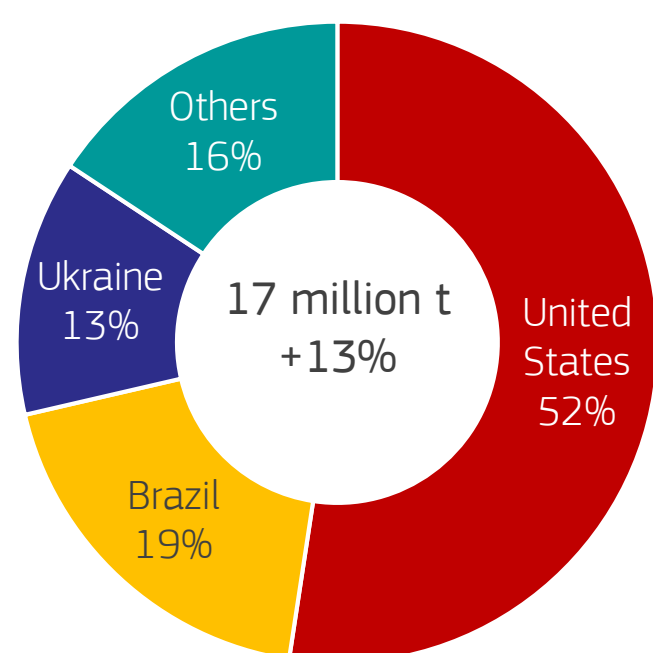
Barley production should reach **60 million t** with a positive outlook in major producing countries. However, Spain's winter barley production will be low, hampered by dry conditions. **Maize** production is forecast at **69 million t** (+0.5% year-on-year). **Durum wheat** area declines but production benefits from the above-average rainfall, which could lead to volumes of **8.5 million t**. Rye area picks up by 13% after a 4-year low.



Feed use is expected to remain **stable** compared to 2018/2019 (in view of the expected livestock production developments). Thanks to larger supplies, cereal **net trade** should **recover** over the next marketing year to 17 million t.

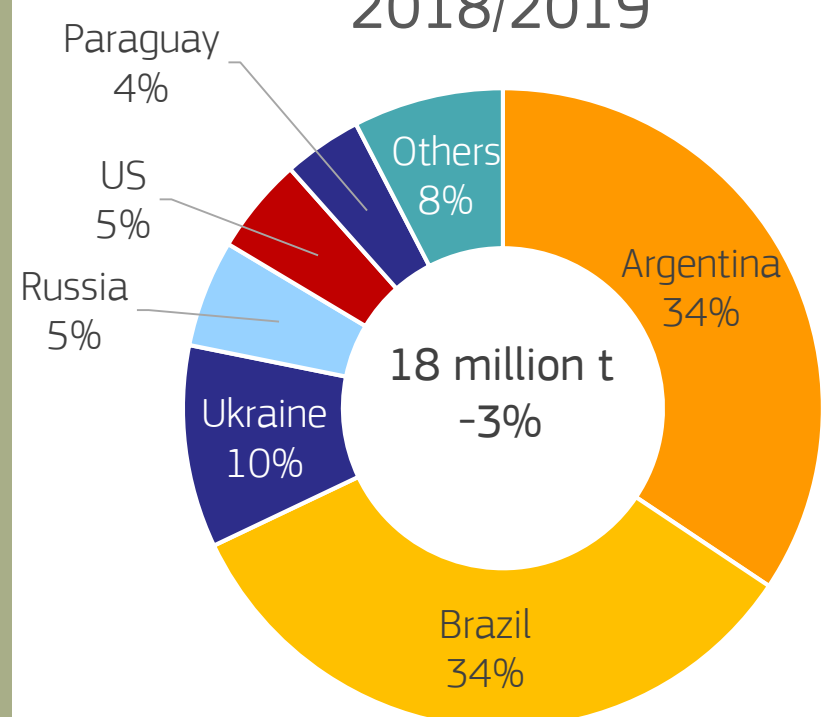
Oilseeds – Oilmeals – Vegetable oils

EU oilseed imports
2018/2019



Note: marketing year from July to April % compared to 5-year average

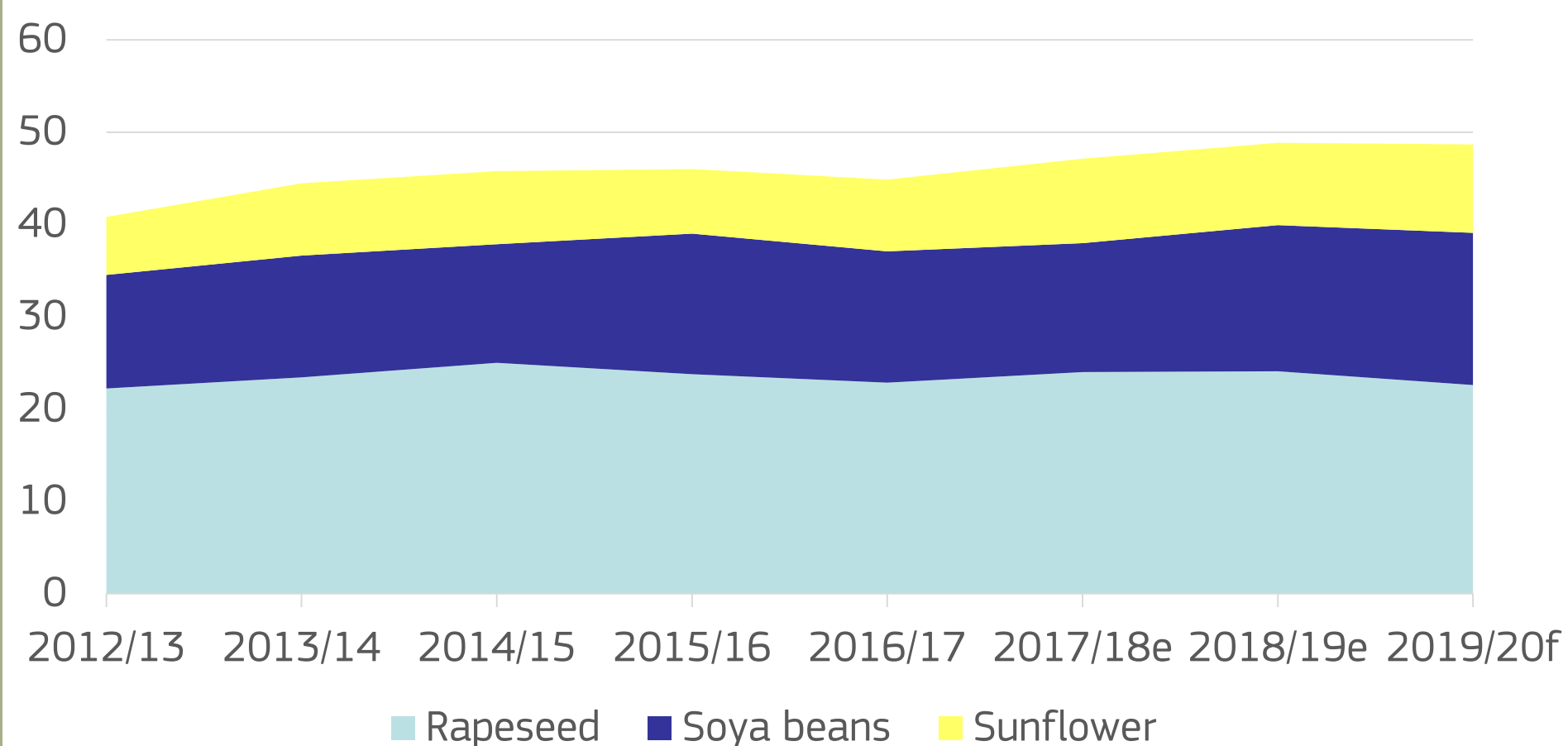
EU oilmeal imports
2018/2019



Note: marketing year from July to April % compared to 5-year average

Source: DG Agriculture and Rural Development, based on Eurostat

EU crushing volumes (million t)



Source: DG Agriculture and Rural Development, based on Eurostat

Oilseeds: further decline of EU production in 2019/2020

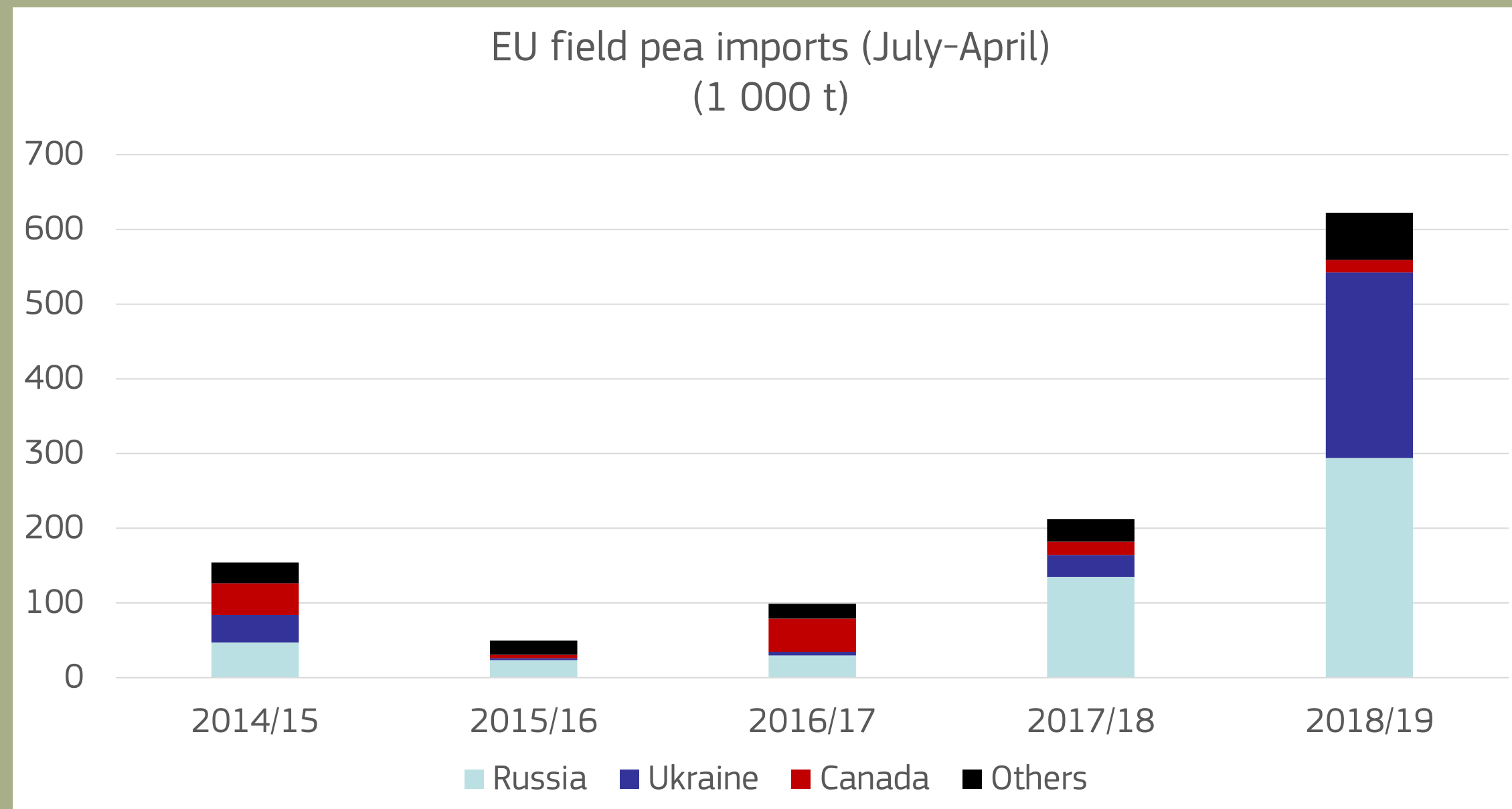
- The drop in EU **oilseeds** production in 2018/2019 gave room for more **imports**, which reached a **record level of 20 million t**. Imports rose particularly for soya beans (8% above the 5-year average) due to low world prices; such import levels had not been reached since 2007/2008.
- Trade frictions between the US and China and lower demand from China (African Swine Fever) have resulted in a significant global surplus that pushed **down global soya bean prices**. Prices have recently picked up again due to poor sowing conditions in the US (+EUR 16/t in June 2019 compared to June 2018).
- In 2019/2020, EU oilseed sowing area declined to **11.5 million ha**; EU production is expected to decrease by 1.7%. Rapeseed area was negatively affected by dry conditions at the sowing and crop emergence period, thus production should further decline to 19 million t. EU production of soya beans and sunflower is expected to rise, reaching 2.9 million t and 10.6 million t respectively.

More oilseeds crushed and increasing use of vegetable oils

- Crushing margins benefitted from the low soya bean prices. **Crushing of soya beans increased** by more than **10%** in the **2018/2019** marketing year. Despite the decline in EU rapeseed production, use for crushing has slightly increased in the EU (+0.4% year-on-year).
- Total crushing volumes** should remain **stable in 2019/2020**. The share of soya beans in the total is expected to continue increasing, though at a slower pace due to restricted crushing capacity and limited possibilities to switch between raw commodities. **Rapeseed crushing** is expected to **decline** due to lower availability.
- EU soya meal imports** dropped to a **5-year low** in 2018/2019 (6% below the 5-year average) and are expected to recover slightly in 2019/2020.
- EU domestic use of **vegetable oils** is reaching a new record high in 2018/19 (**24.2 million t**), driven by increasing biofuel production across the EU.

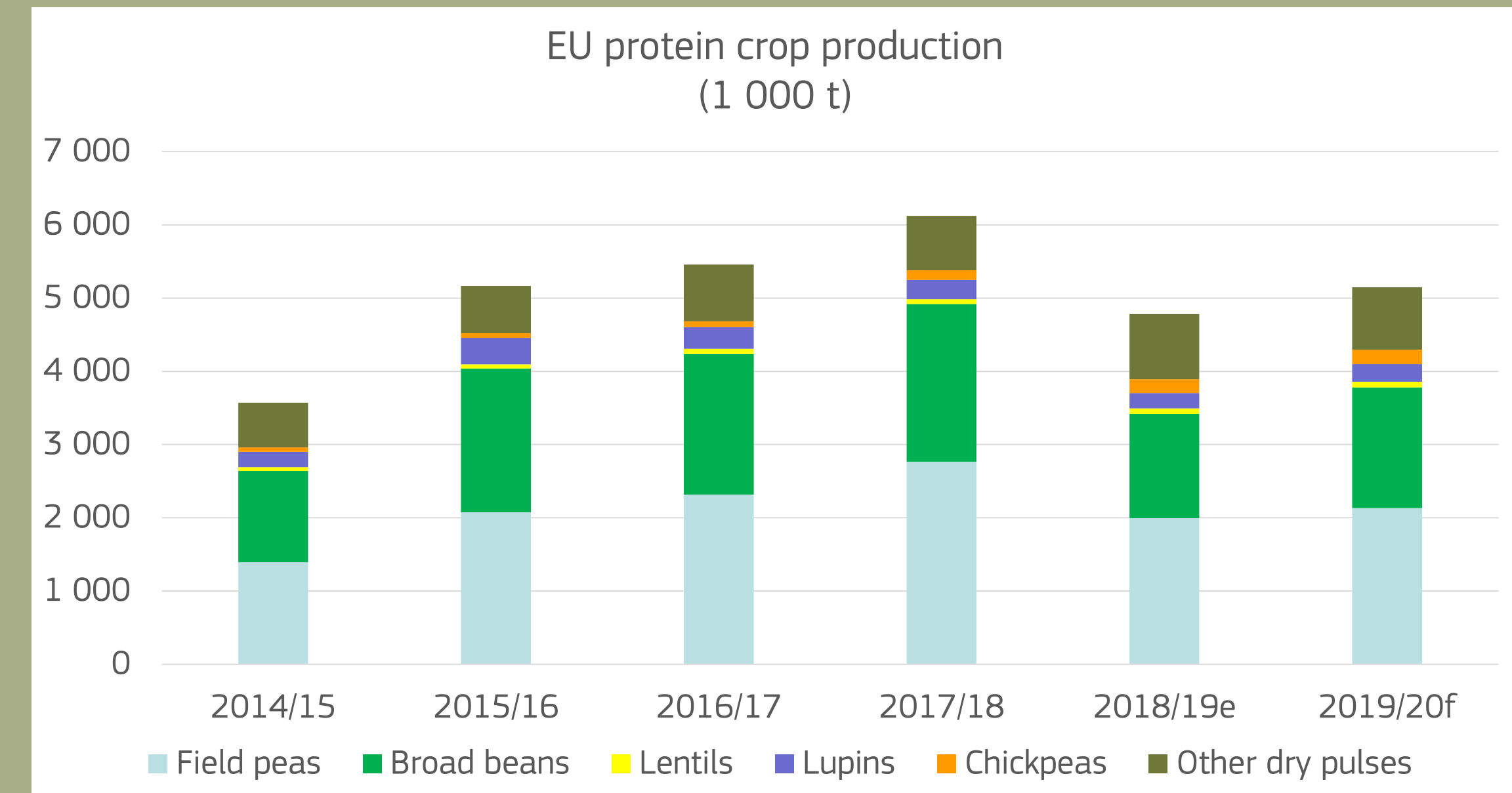
Protein crops

Low EU production in 2018/2019 triggered imports



Source: DG Agriculture and Rural Development, based on Eurostat

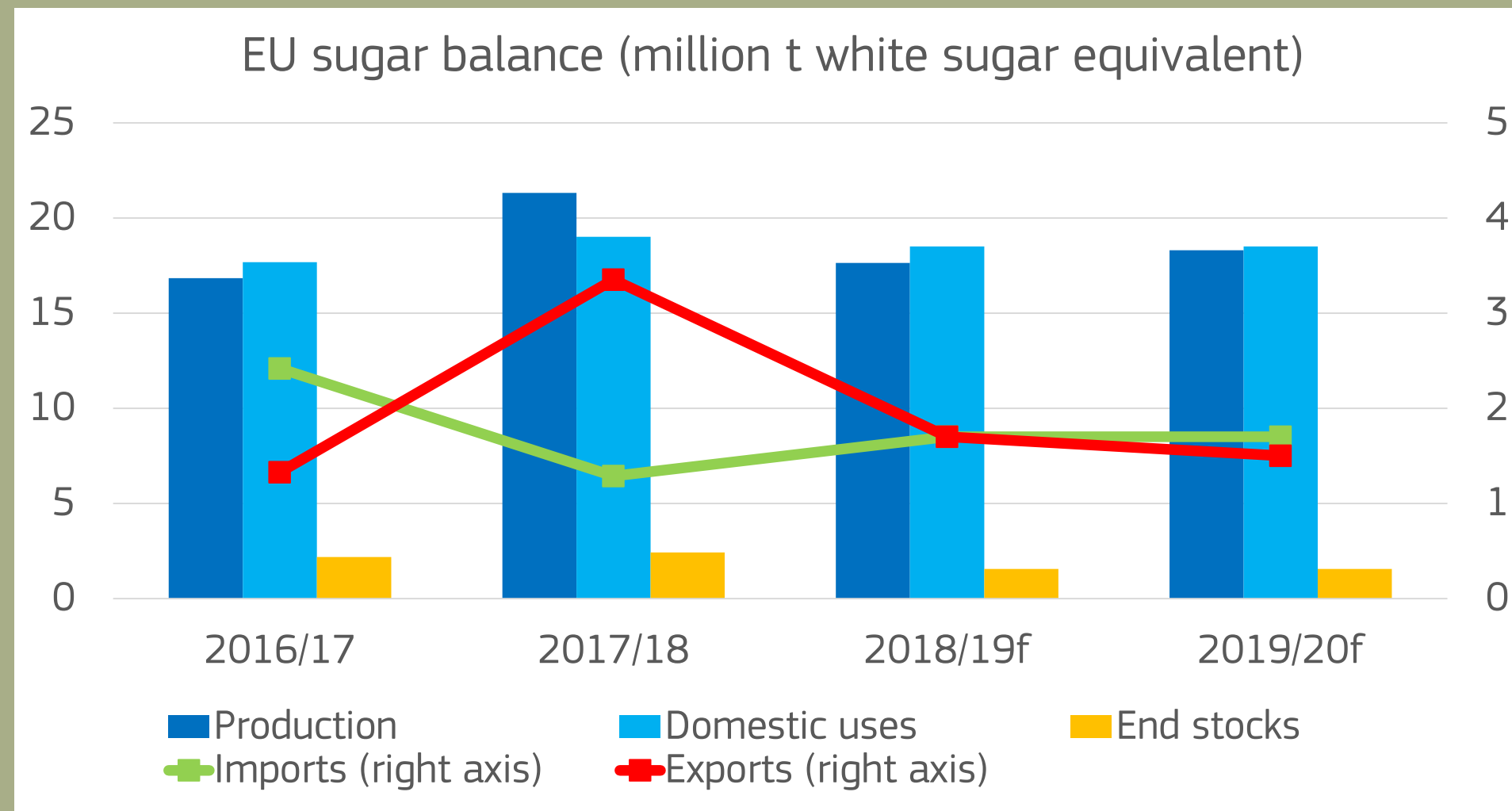
Small rebound in protein crop production in 2019/2020



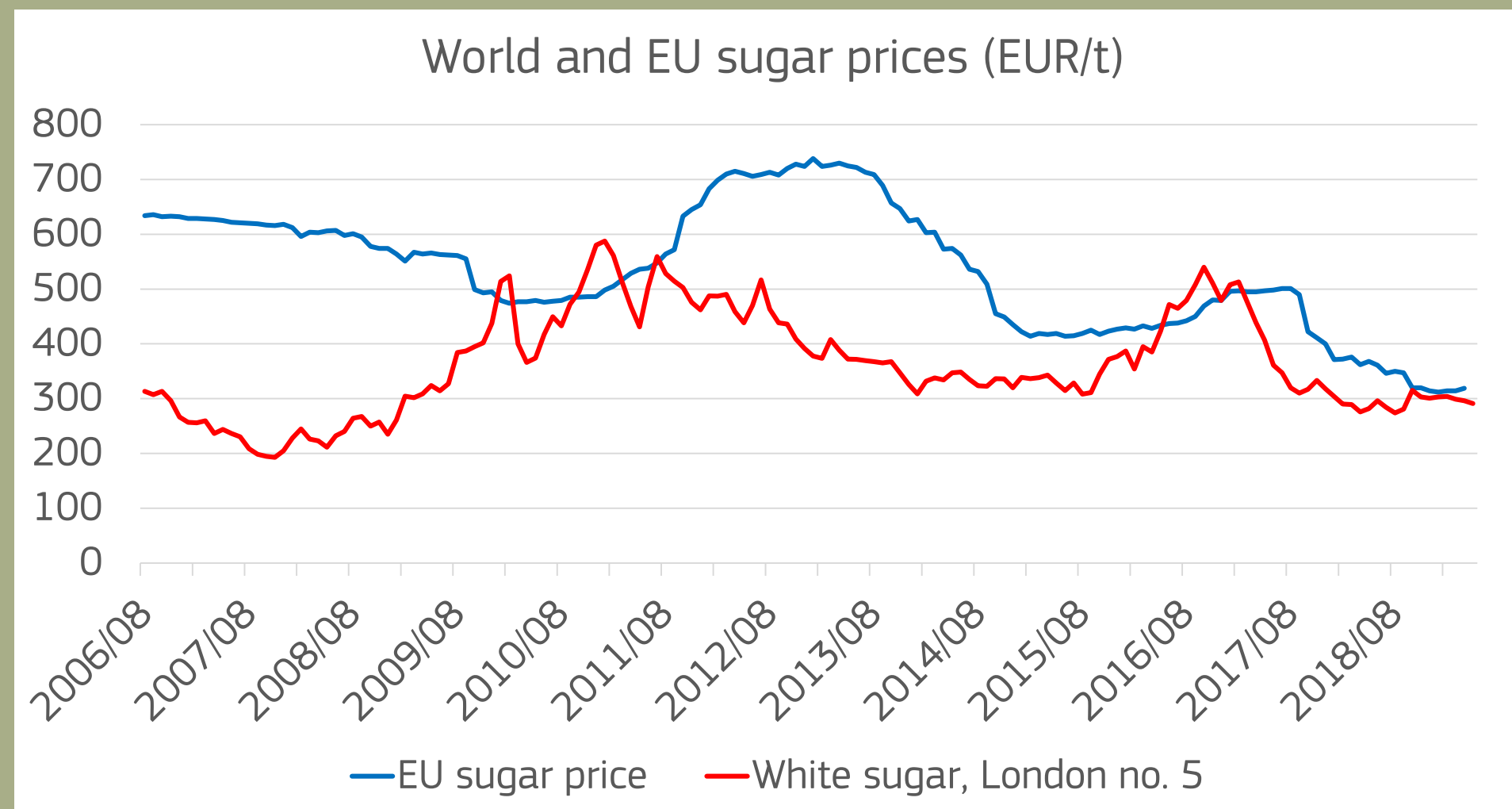
Source: DG Agriculture and Rural Development

- Adverse weather conditions at the time of sowing and cropping resulted in a **lower 2018/2019 protein crop production**, estimated at 4.8 million t (-22% year-on-year).
- A significant increase in EU imports (+20%) in 2018/2019 did not fully compensate the lower production. Field pea imports rose by 59% year-on-year. The **EU net trading position deteriorated** significantly. Broad bean imports remained stable.
- For the past 3 years, imported volumes of lupins as well as chickpeas kept on increasing. They have respectively increased by 10% and 2.5% annually.
- On the export side, protein crops exported volumes decreased by 40% in 2018/2019.

- Sowing areas** for protein crops are **declining** across the EU. Field pea and broad bean area is down respectively by 3% and 9% compared to the last marketing year.
- Weather conditions** across the EU allow **good yield prospects**, recovering from the quite significant drop in yields last marketing year.
- All in all, total **protein crop production** is expected to reach **5.1 million t**, an **8% increase** compared to the last campaign low.



Source: DG Agriculture and Rural Development



Source: DG Agriculture and Rural Development

EU sugar trade balancing out in 2018/2019

- Following the low 2018/2019 crop, **EU sugar trade is balancing out** with imports forecast at the same level as exports at 1.7 million t (+32% imports, -49% exports, compared to 2017/2018). High spot prices compared to EU prices under contracts favour the recent rising trend in imports.
- For 2019/2020, first estimates show a **contraction in the sugar beet area sown by 4%**. This would bring the EU sugar beet area to 1.67 million ha. Almost half of the decrease in area is expected in France (30 000 ha). Production area is seen to increase only in Poland (+2%).
- Sugar beet crops benefited from ample rainfall over the spring 2019, while the increase in temperatures and sun should further favour yields. Yields are currently forecast at 74.9 t/ha on average, which is 6 t/ha higher than in the previous year.
- The **forecast for 2019/2020 sugar production is set at 18.3 million t** (+4% compared to 2018/2019), assuming a sugar content in line with the 5-year average.

Deficit expected on global market in 2019/2020










- White sugar prices are still stagnating at low levels.** World white sugar prices were at EUR 296/t in April 2019; the EU price slightly increased to EUR 319/t in the same month, compared to EUR 362/t one year before. Increasing spot prices in the EU since the start of the marketing year may anticipate a likely increase in EU prices under 2019/2020 marketing year's contracts.
- EU imports in 2019/2020 are forecast to remain stable at 1.7 million t.** Exports could decrease to 1.5 million t (-12 %), considering currently low EU stock levels, but they will strongly depend on the final EU sugar production and the evolution of domestic/world white sugar prices.
- The global surplus for 2018/2019 is now estimated at 1.8 million t (ISO), strongly driven by high production in India and Thailand. The balance is forecast to reverse **in 2019/2020** and result in a **global deficit of 3 million t**, though depending on the final mix between ethanol and sugar in Brazil. This could possibly relieve pressure on world prices, with nevertheless remaining uncertainties on the possible release of Indian stocks on the world market.

Market developments in the EU










SPECIALISED CROPS



© ValentinVolkov iStock

OLIVE OIL 	2017/2018		2018/2019	
Production		+26%		+3.7%
Exports		+1.0%		+15%
Imports		+99%		-44%
Consumption		+14%		+0.8%

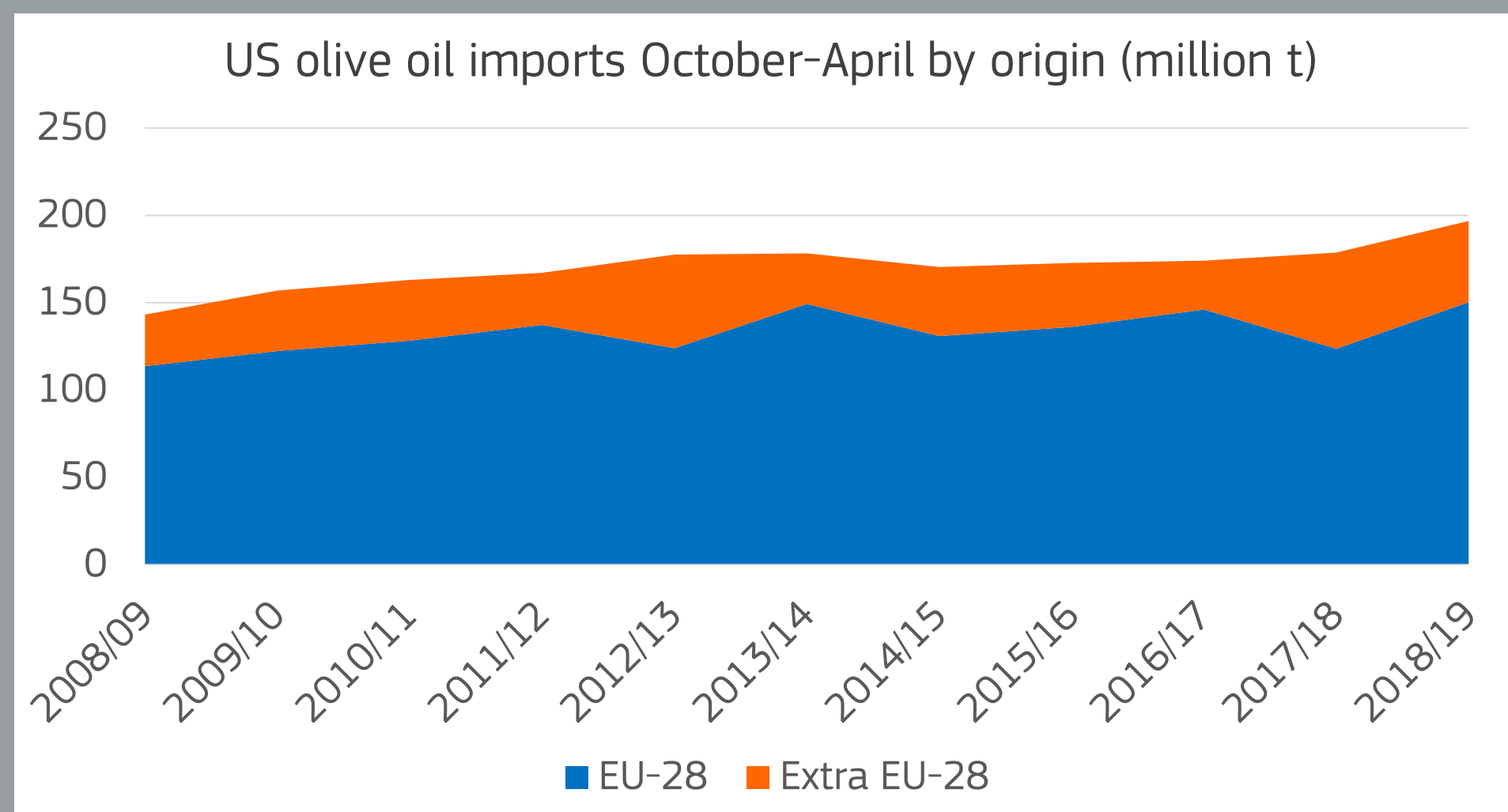
Note: compared with previous season

PEACHES NECTARINES 	2018		2019	
Production		-8.3%		+3.7%
Exports		-27%		+16%
Imports		+3.6%		+2.0%
Consumption		-6.4%		+2.7%

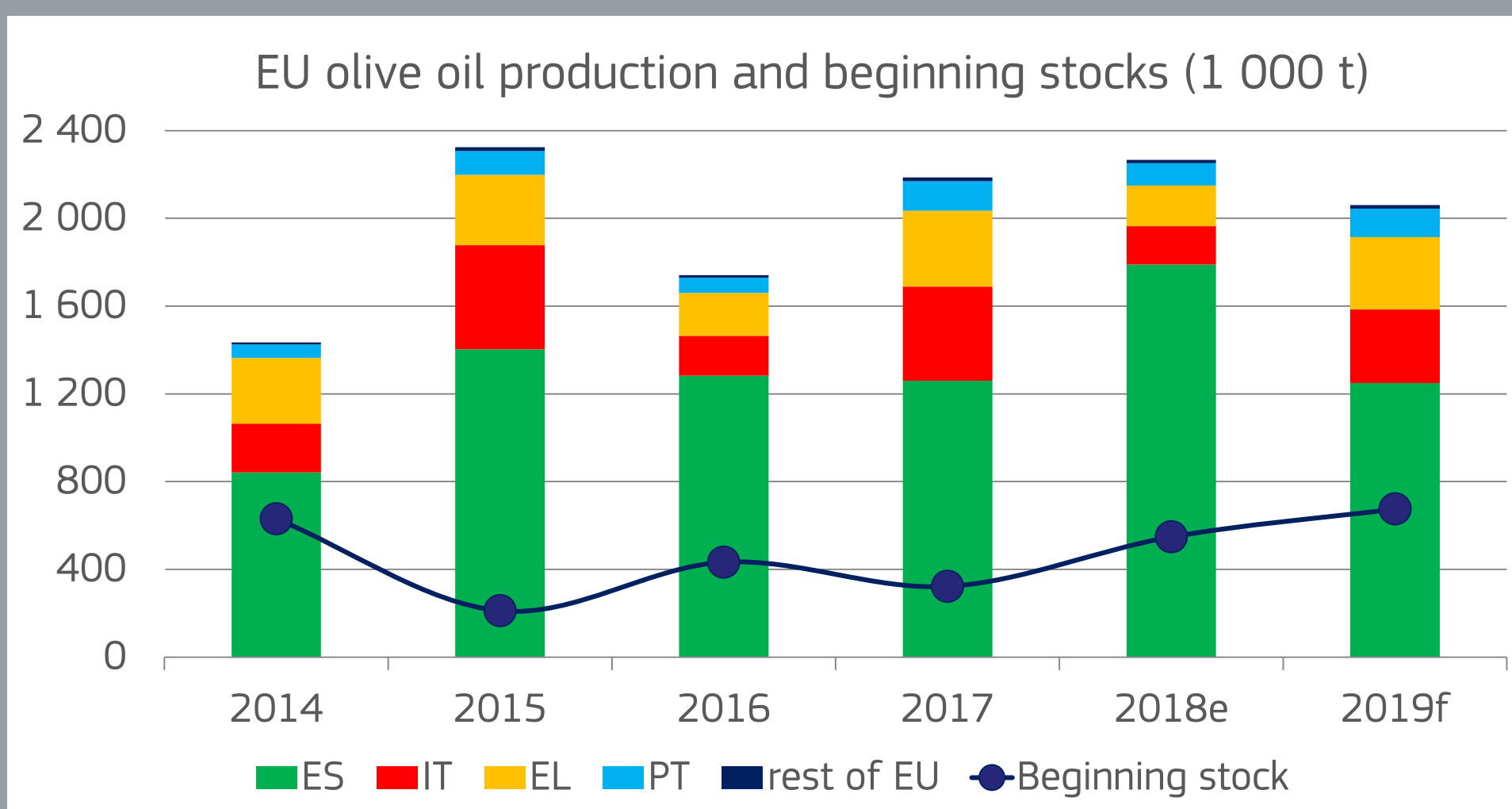
Note: compared with previous year



©olgakr iStock



Source: DG Agriculture and Rural Development, based on GTA and Eurostat



Note: 200X refers to the campaign 10/200X – 09/200X+1

Source: DG Agriculture and Rural Development, based on MS notifications

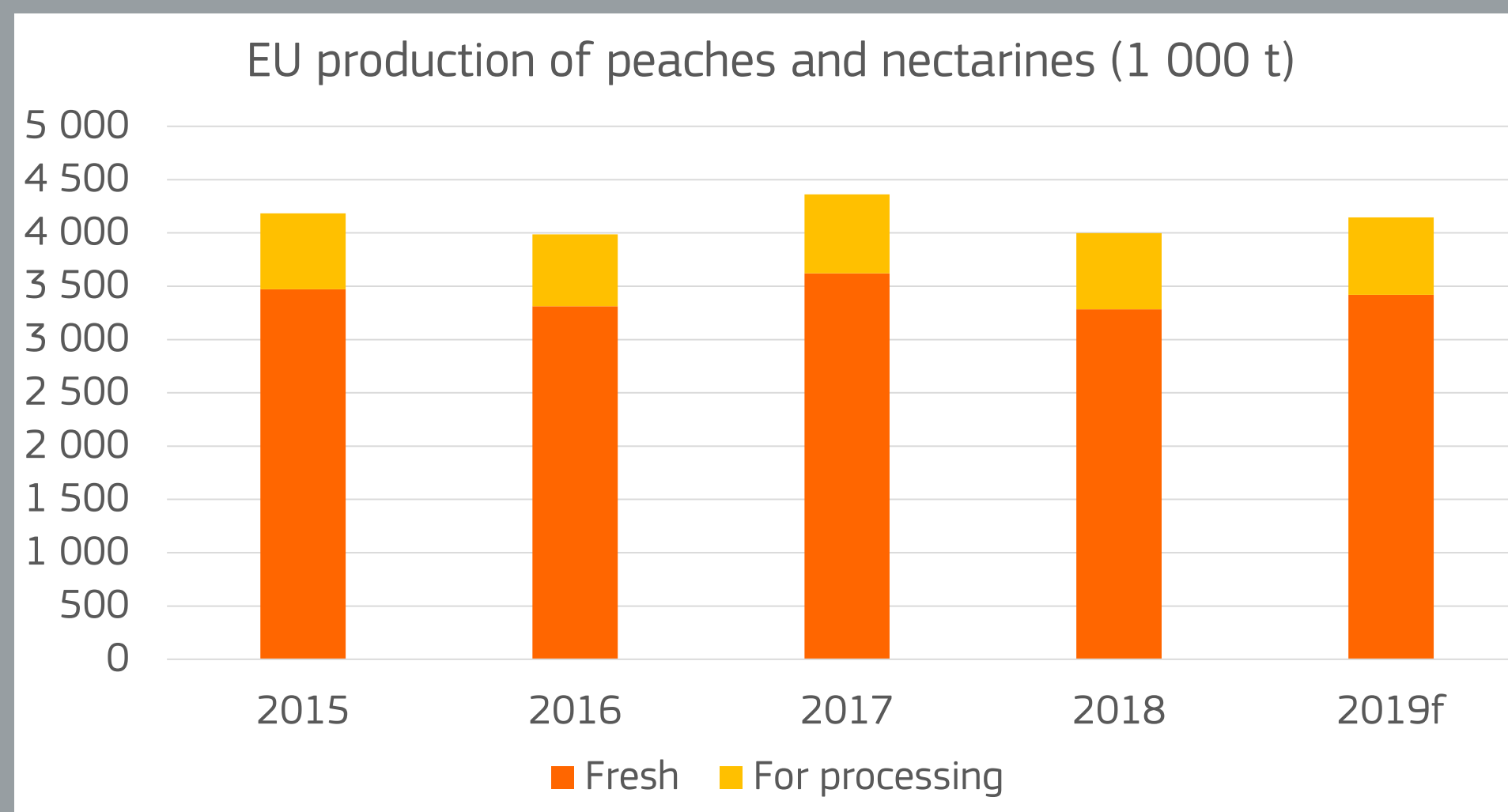
EU exports continue to grow in 2018/2019

- The EU olive oil production increase in 2018/2019 (+4% compared to the previous campaign) weighs on prices. In April, the EU average price of virgin olive oil was the lowest since October 2014 (EUR 265/100kg), 14% below the same month last year.
- Availability and lower prices are boosting trade. EU exports to the US (largest extra-EU market) grew by 23% over October-April, contributing to nearly half of the EU export growth. The EU contributed significantly to the growth of total US imports in the last 7 months, leading to a 10-year record for both EU exports and US imports.
- In October-April, shipments to Asian markets also grew (Japan +38%, China +30%). Together with increased shipments to Brazil (+4%), these markets are expected to sustain EU exports, estimated to reach 650 000 t in the current campaign, 15% above the previous campaign.
- Lower prices should also contribute to an increase in EU domestic consumption (+1%, 1 590 000 t).

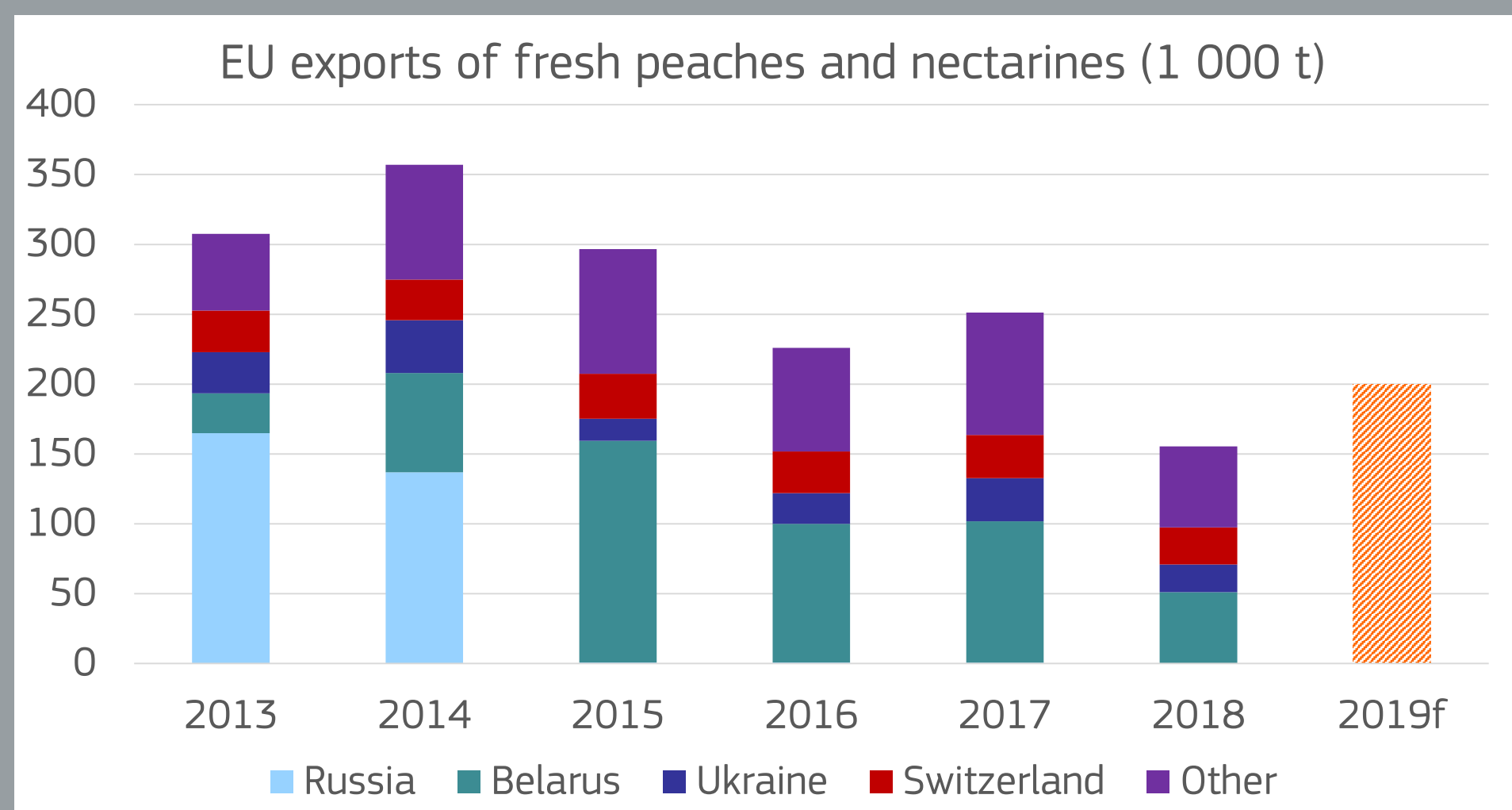
Weather conditions favour above-average 2019/2020 campaign

- In April-May, above-seasonal rainfall levels in Italy and Greece favoured the flowering of olive groves. In Spain, there was some recovery of water reservoirs thanks to some rain in April, but a hot and dry continuation of spring halted this development.
- Weather conditions are expected to support production recovery in Italy and Greece, and sustain the increasing production trend in Portugal. In Spain, water limitations as well as the natural interannual alternance of olive trees could result in a production level below the 5-year average.
- The 2019/2020 EU olive oil production could be around 2.1 million t (-8% year-on-year, but 4% above last 5-year average).
- The increased stocks at the end of the current campaign could contribute to satisfying domestic and export demand in the next campaign.

Peaches & Nectarines



Source: DG Agriculture and Rural Development, based on Eurostat



Source: DG Agriculture and Rural Development, based on Eurostat

Production slightly above average expected in 2019


- Production of peaches and nectarines could reach around 4.1 million t in 2019 (+4% compared to 2018, stable compared to the last 5-year average) driven by favourable weather conditions (no frost losses, good blossoming). However, weather conditions were not as optimal as in 2017 and some regions, in particular France, Italy and Spain, were impacted by heavy rains and hail in May. For this reason, production is not expected to reach the record level of 2017 (-5%).
- During the first weeks of the production season prices were lower than usual for the early-harvest varieties. Prices were negatively affected by delays in distribution and the cooler temperatures in certain eastern European regions that discouraged consumption, and thus demand.

Exports of fresh peaches and nectarines likely to recover


- In 2018, EU exports of fresh peaches and nectarines dropped by 38% to 155 000 t (-46% compared to 2013-2017 average). The reason was the reduction of exports to Belarus (-50%) and Ukraine (-36%), due to increased trade barriers and the development of new production areas in the south of Russia. These countries accounted for 54% of EU exports in 2017.
- Despite the above-described developments, it is expected that EU exports will increase in 2019 thanks to higher production volumes (+29% compared to 2018). However, they will remain below the last 5-year average (-22%).
- Imports of fresh peaches increased in 2018 (+29% to 35 000 t), with a stable share from Chile (32%) and a decreasing share from South Africa (31%, -4%) at the benefit of Turkey (18%, +8%). Imports are expected to remain stable in 2019 (+18% compared to last 5-year average).
- Imports of canned and dried peaches are expected to increase in 2019 (+8%, -22% compared to the last 5-year average) after a strong decline in 2018 (-34%). This decline of imports could be linked to the high stocks available thanks to high production in 2017. By contrast, exports of canned and dried peaches are expected to remain stable.

MILK AND DAIRY PRODUCTS

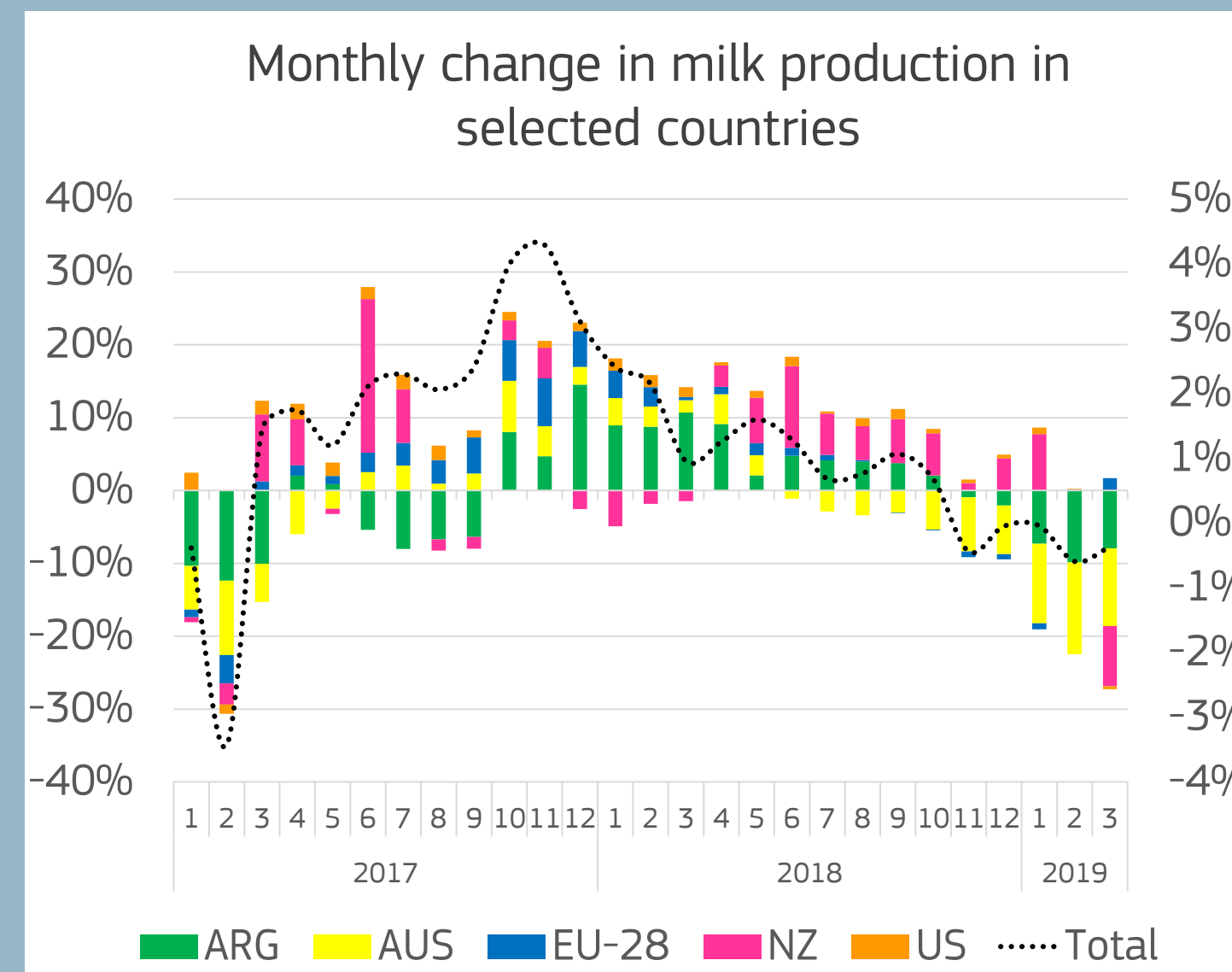
Market developments in the EU

MILK 	2018	2019
Milk collection	↗ +0.9%	↗ +0.9%
Dairy herd	↘ -1.6%	↔ -0.3%


Note: compared with previous year

DAIRY PRODUCTS 	2018	2019
Production	↔ -0.4%	↗ +0.6%
Exports	↔ +0.1%	↗ +4.5%
Imports	↗ +13%	↗ +5.0%
Consumption	↔ +0.3%	↗ +0.6%

Weather conditions impacting the EU and its main competitors differently



Source: DG Agriculture and Rural Development, based on AHDB

 Over the spring, favourable rains improved grass productivity in the main producing regions. The relatively low feed prices allowed farmers to use more compound feed, thus partially compensating for the lack of forage in winter. These two elements contributed to stable milk deliveries in the first quarter of 2019 (more than anticipated).

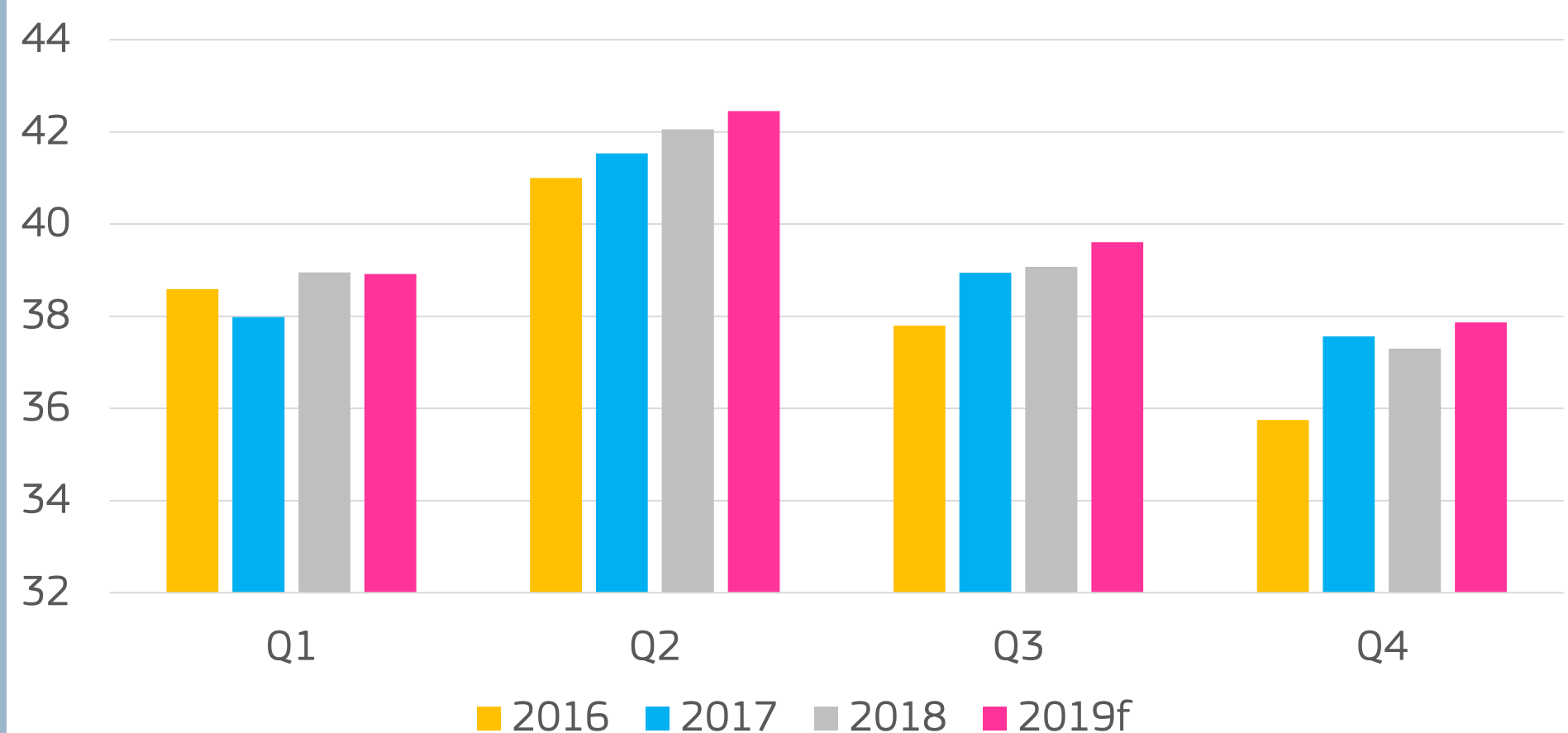
 By contrast, in the first 3 months of 2019, milk production of the main EU competitors was 1% below the same period last year due to several weather disruptions (flooding in the US, drought in New Zealand, flooding and high temperatures in Australia).

 Improved availability and grass quality should provide good pastures, allow building forage resources for the rest of the season and support EU milk production.



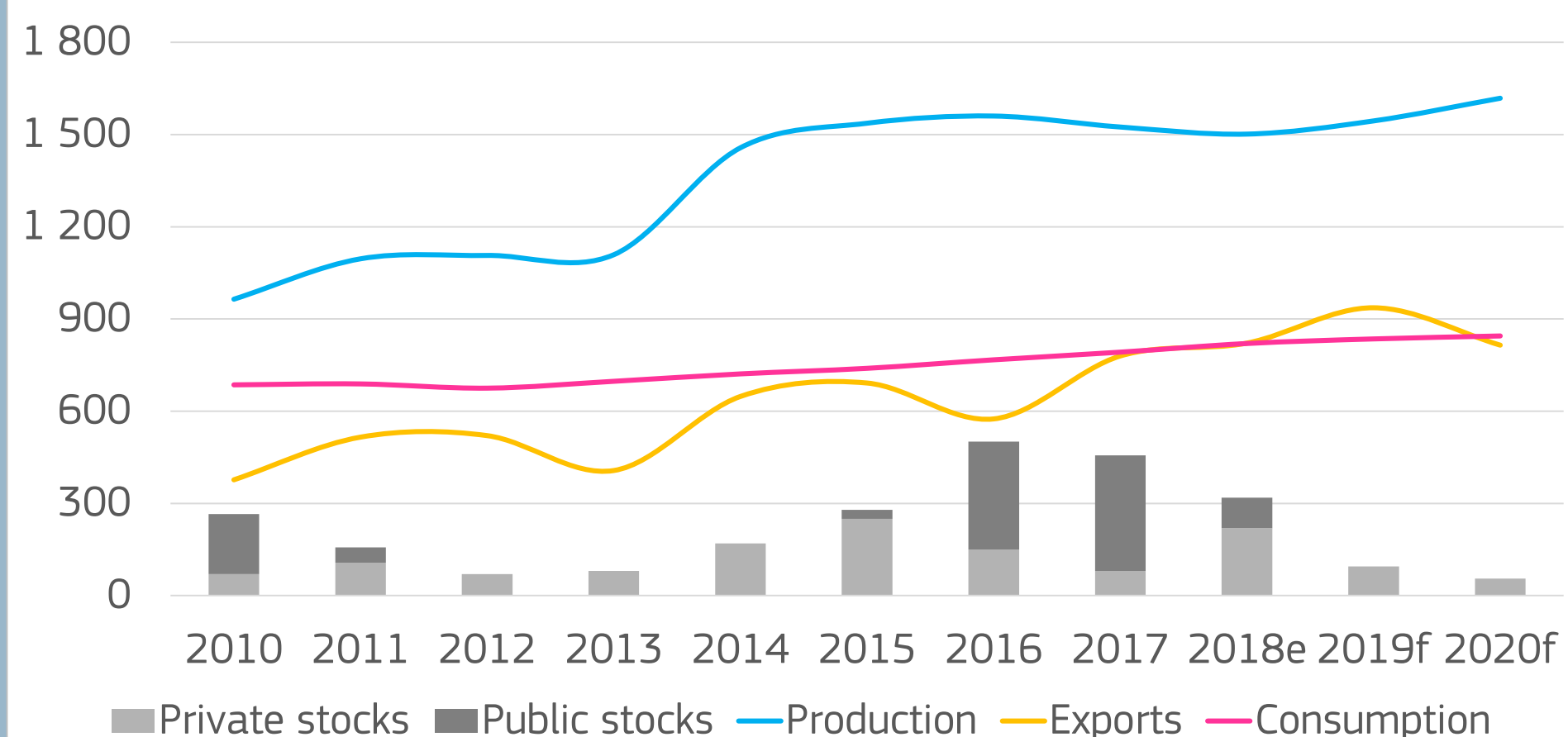
Milk and Dairy products

EU milk collection by quarter (million t)



Source: DG Agriculture and Rural Development, based on Eurostat and MS notifications

EU SMP balance sheet (1 000 t)



Source: DG Agriculture and Rural Development, based on Eurostat

Further increase in EU milk production

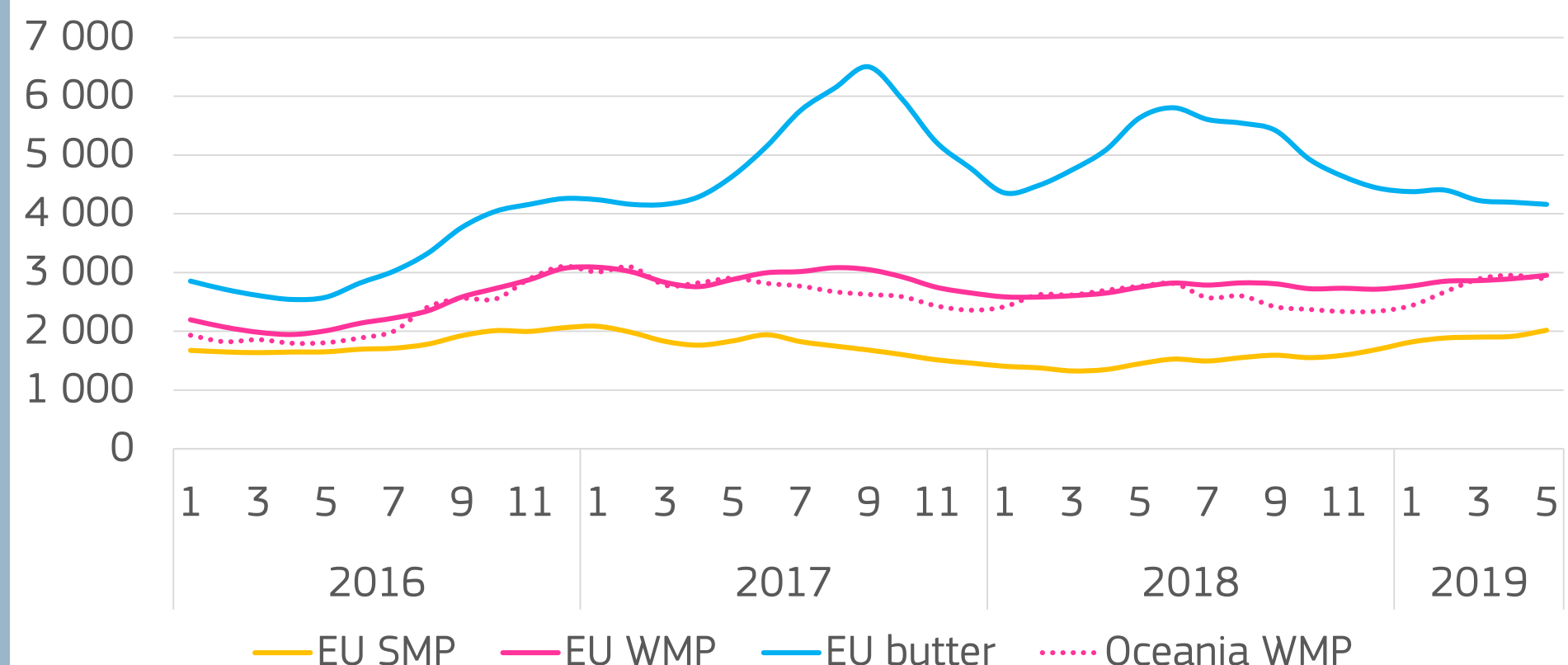
- Since the beginning of the year, the **average EU raw milk price** remained **above EUR 34/100kg**, 6% above last year and 7% above the 2014-2018 average.
- Sustained demand for EU dairy products, lower supply in the main EU competitors, favourable weather conditions and price environment are likely to favour **EU production growth**, expected at **close to 1% in 2019 and 2020**. Milk production will increase in Ireland, Poland, Denmark and the UK. By contrast, production in France and Germany is expected to remain stable.
- To some extent, growth could be **limited by processors' demand**, focusing more and more on adding value than on volume.

SMP exports sustaining EU production growth

- In 2019, the **full disposal of public intervention stocks** and a significant drop in private stocks are expected to release on the market 225 000 t of SMP. Despite this significant stock change, the sustained demand, both on domestic and world market, is expected to support **SMP production growth in 2019** (close to 3%).
- The **EU remains competitive** despite the increasing SMP price (2 044 EUR/t in mid-June, almost +20% since the beginning of the year and the highest price since January 2017). Until April, EU exports reached almost 350 000 t (+34%). Among the main importers, shipments to China, Indonesia and the Philippines more than doubled. At the same time, the US (EU's main competitor) declined its SMP exports by 15%. In 2019, **EU SMP exports are forecast 14% up**.
- Given the lower availability at the beginning of 2020 (stocks being low), **SMP production might further grow** (+5%) in order to satisfy global demand. Nevertheless, due to lower availability in the EU, EU SMP exports are expected to decline by more than 10% in 2020. However, they are likely to remain above the pre-crisis levels.
- With the **decreasing price of butter**, the EU is expected to become **more competitive** on the global market, leading to a 5% increase in EU butter exports and a further increase in domestic use (+1%) in 2019.

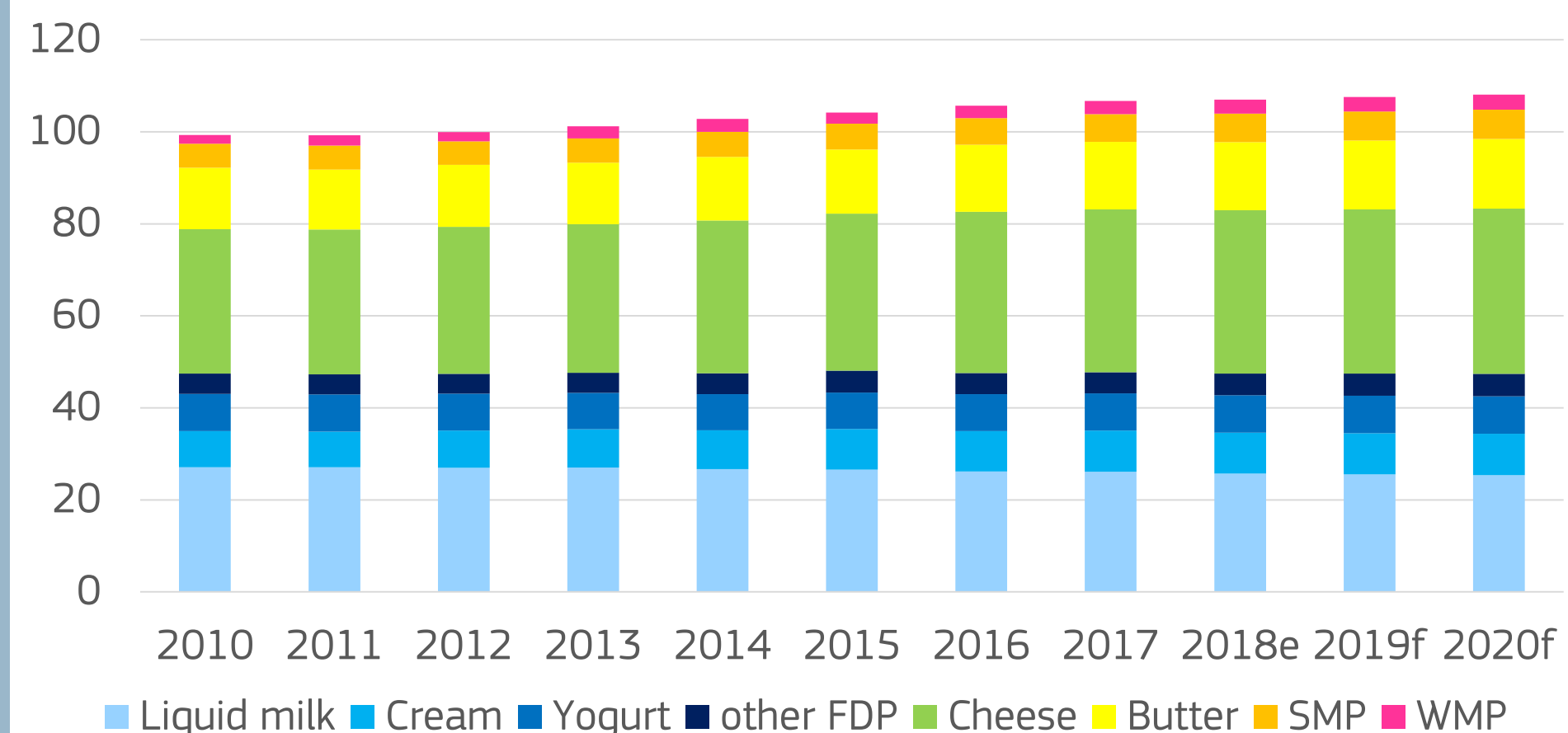
Dairy products

Monthly prices of SMP, butter and WMP of selected countries, EUR/t



Source: DG Agriculture and Rural Development, based on MS notifications and AHDB

EU domestic use of dairy products (million t of milk eq.)

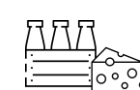


Source: DG Agriculture and Rural Development, based on Eurostat

EU WMP production and exports down



In the first 4 months of 2019, **EU WMP production continues declining** (by around 12%) despite an overall increasing world demand for WMP. China, the biggest importer, increased its imports (+33%), but only 1% was of European origin. The seasonal decline of milk production in New Zealand is expected to give the EU some market opportunities. Nevertheless, for the full year, the **decline in exports should reach 15% and in production 5%**, while EU domestic use (for chocolate) is expected to continue rising (above 3%).



In the same period, **exports of fat-filled powders**, and other products in the same product category, **increased by 12%** implying some shifts in export demand for EU powders.

Increasing demand for EU cheese



In January-April 2019, the EU recorded a **cheese export growth** of 3%, mainly driven by an increase of shipments to our top 3 markets: US (+7%), Japan (+18%) and Switzerland (+2%).



Expected **increases** in both **domestic** (+0.5%) and **export demand** (+3%) for EU cheeses in 2019 are likely to drive a **1% production increase**, in a context of stable returns compared to other dairy products.

Decline in drinking milk consumption pushing production down



The **continued decline in drinking milk consumption** in the EU is driving a **production drop in fresh dairy products**, expected at 0.2% in 2019. Drinking milk represents 25% of dairy domestic use.












By contrast, **EU drinking milk exports grew in January-April**, particularly to China (+24%). The growth towards China represented 32% of export growth of EU fresh dairy products (FDP) (+12% in milk eq.). This trend is likely to continue, leading to a 10% growth of FDP shipments in 2019.



















Overall, there is an **increasing trend in domestic use of dairy products**, driven by cheese in particular. In 2019, this domestic use could grow further by 0.5%.










MEAT PRODUCTS

Market developments in the EU

BEEF 	2018		2019	
Production	 +1.8%	 -1.1%		
Exports	 -7.3%	 +15%		
Imports	 +9.5%	 -2.0%		
Consumption	 +2.1%	 -1.9%		

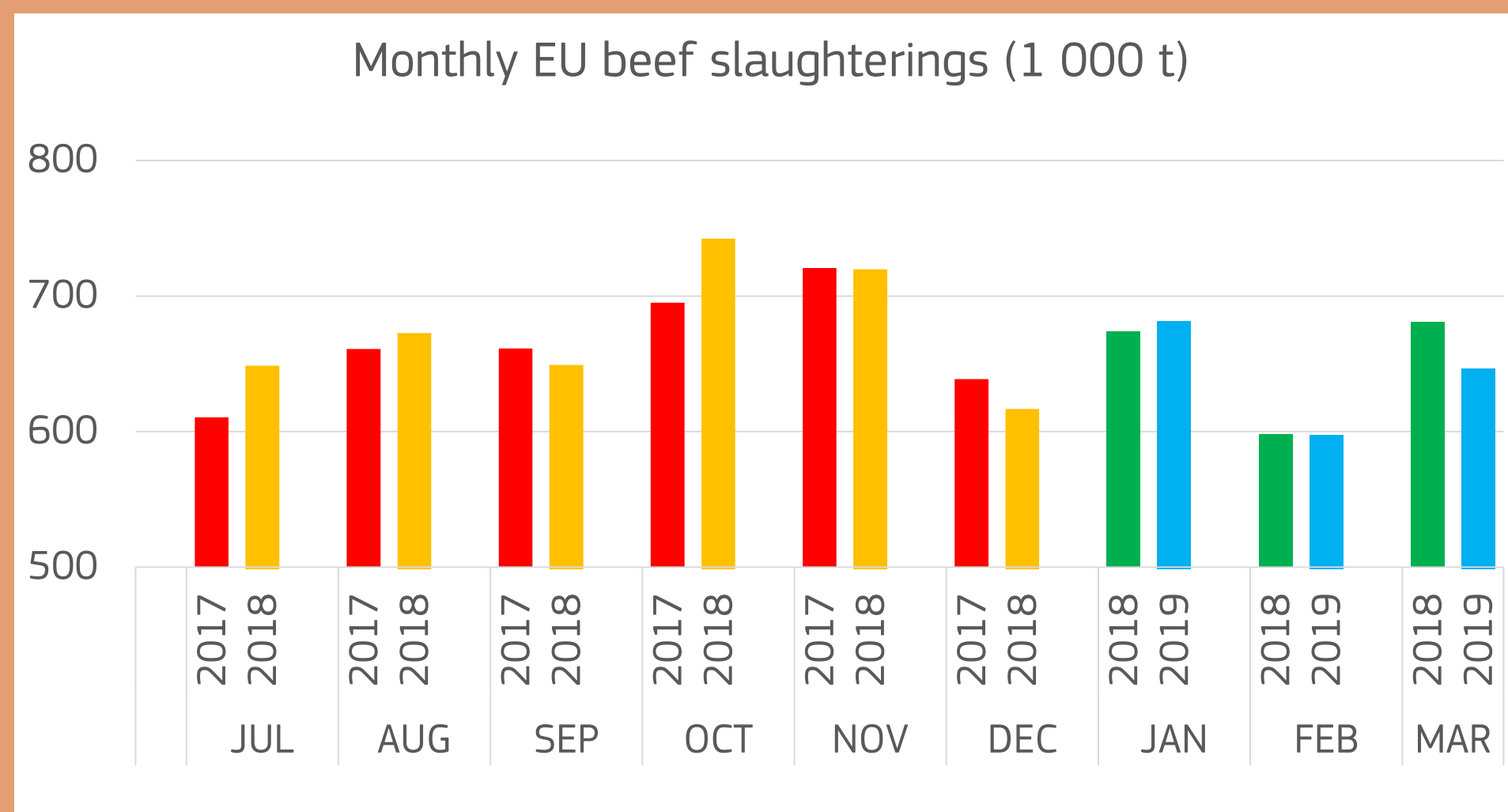
POULTRY 	2018		2019	
Production	 +4.7%	 +2.5%		
Exports	 +4.0%	 +3.0%		
Imports	 +1.7%	 +5.5%		
Consumption	 +4.3%	 +2.3%		

PIGMEAT 	2018		2019	
Production	 +2.0%	 +0.3%		
Exports	 +4.0%	 +12%		
Consumption	 +1.4%	 -1.4%		

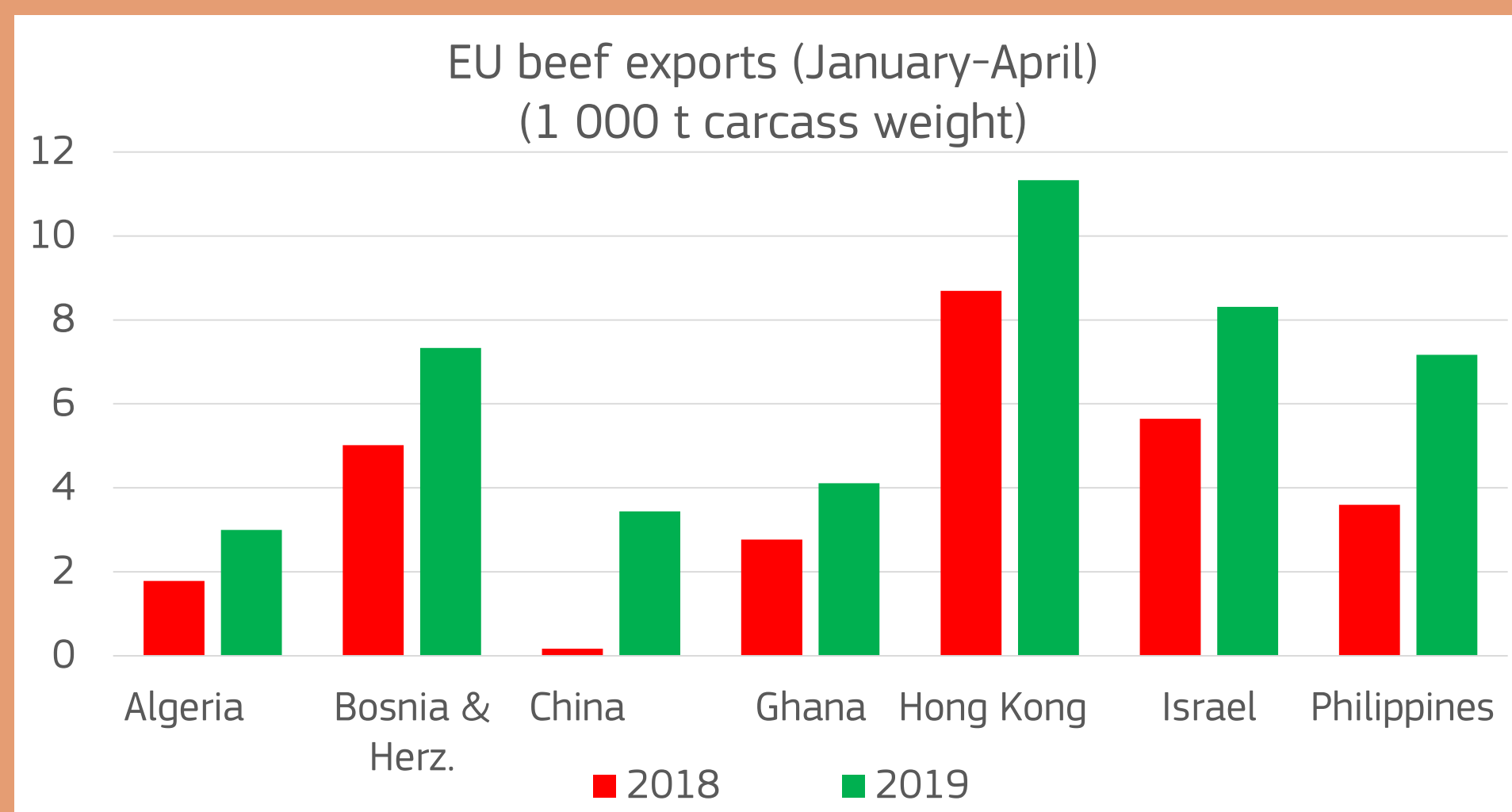
SHEEP & GOAT 	2018		2019	
Production	 +3.1%	 -0.9%		
Exports	 -17%	 +2.0%		
Imports	 +0.6%	 -15%		
Consumption	 +3.1%	 -3.5%		

*Note: compared with previous year.
Net production and meat trade.*

Beef and veal

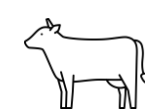


Source: DG Agriculture and Rural Development, based on Eurostat

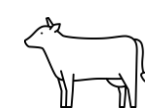


Source: DG Agriculture and Rural Development, based on Eurostat

EU beef production back on declining trend in 2019

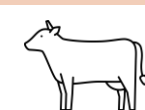


After exceptional high slaughterings in 2018 due to feed shortage, **EU net beef production is expected to decrease by 1.1% in 2019** and an additional 0.6% in 2020, following the downward trend in the EU cow herd. In the first quarter of 2019, EU slaughterings declined by 1.4%. This is mainly due to smaller breeding herds and lower numbers of store cattle in key producing countries (DE, FR, NL, UK). In the short run, the Polish beef scandal on illegal slaughterings, anticipation of a more difficult trade situation after Brexit in Ireland and the UK, and the sluggish Turkish market for live exports influenced the slaughterings in the first months in opposite ways.

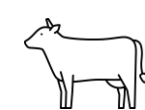


Despite the lower slaughterings, in 2019 **EU beef prices** are 2% to 7% **below last year's** prices and below the 3-year average 2016-2018. **Cow prices (D3)** are the exception and follow an **increasing path** since the beginning of the year.

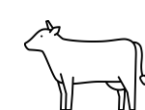
EU beef exports on the rise



EU beef exports increased by 14.5% in the first 4 months of 2019, thanks to an increase of volumes to existing partners (Philippines, Bosnia, Israel, ...) and access to new markets (China). This is expected to continue, resulting in an **increase of 15% in 2019** on a yearly basis. **EU exports of live animals** are affected by the continuation of difficulties in the Turkish market, which started in autumn 2018 and which are only partly compensated by exports to other outlets. This should lead to an expected decline of live exports by 2% in 2019.



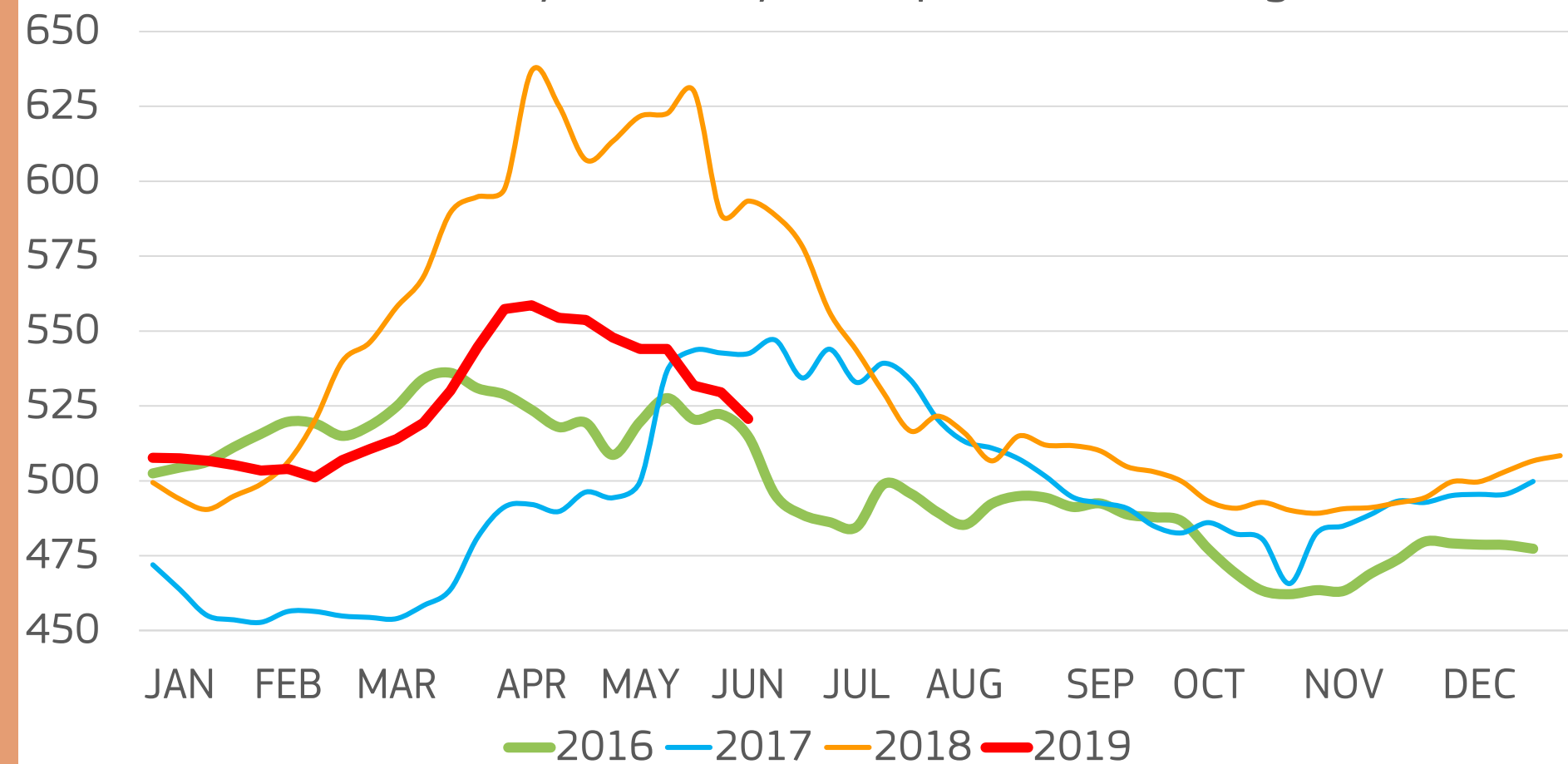
In the first 4 months of 2019, the decline in imports from Brazil (-16%) and Uruguay (-8%) was not compensated by increased imports from Argentina (+8%). The additional protein demand in Asia is expected to result in an overall **decrease of EU imports by 2% in 2019**.



After several years of higher consumption supported by higher supply, **lower meat availability** in the EU market will result in a **consumption reduction in 2019** (from 11.0 kg to 10.8 kg per capita).

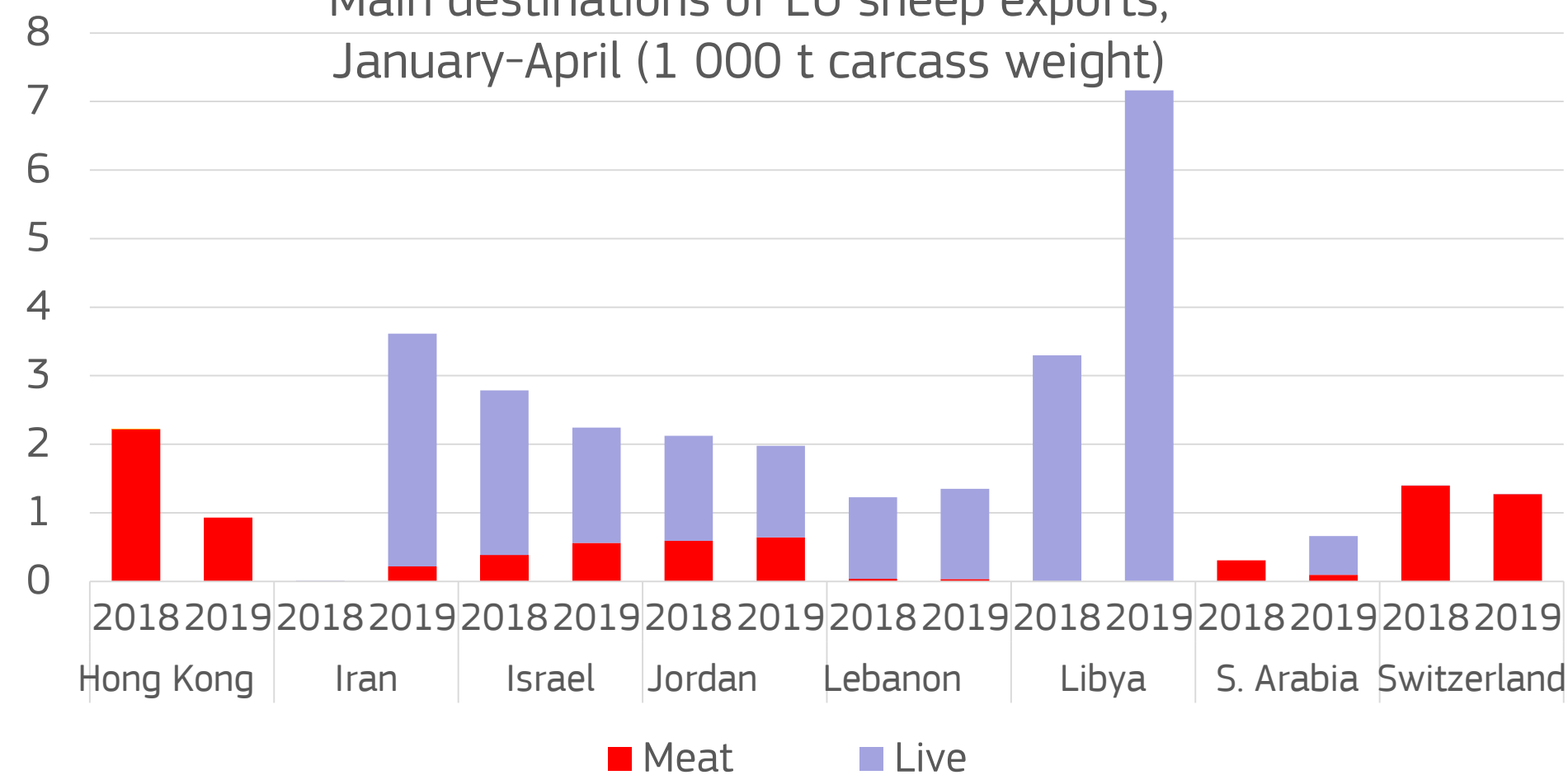
Sheep and goat

Weekly EU heavy lamb price (EUR/100kg)





Source: DG Agriculture and Rural Development, based on Eurostat

Main destinations of EU sheep exports, January-April (1 000 t carcass weight)



Source: DG Agriculture and Rural Development, based on Eurostat

Slight increase in EU sheep and goat production

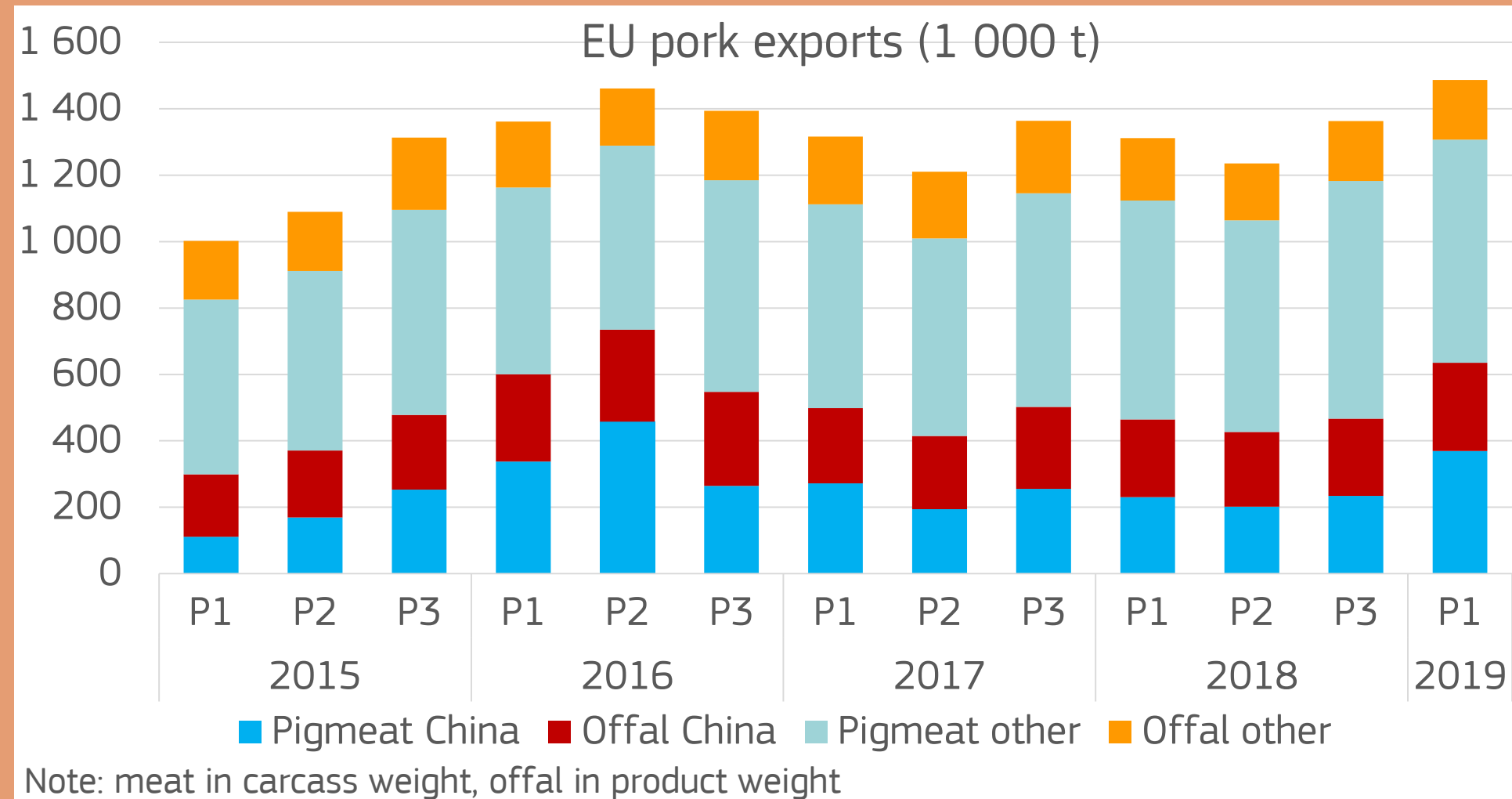
- 
EU sheep and goat production will increase slightly by 0.5% in 2019 thanks to favourable weather conditions and a higher number of ewes put to the ram, and despite the significant reduction in the herd size shown in the December 2018 livestock survey (-1.6 million heads or -1.6% year-on-year). On the other hand, **slaughterings¹** are expected to be almost **1% lower** in 2019 because of a much higher number of exported live animals.
- 
Prices of heavy lamb follow the classical seasonal pattern at a level **10-15% below the extreme high prices in 2018**.

¹ 2018 EU total slaughterings were revised upward because of change in the data on on-farm slaughterings in Romania.

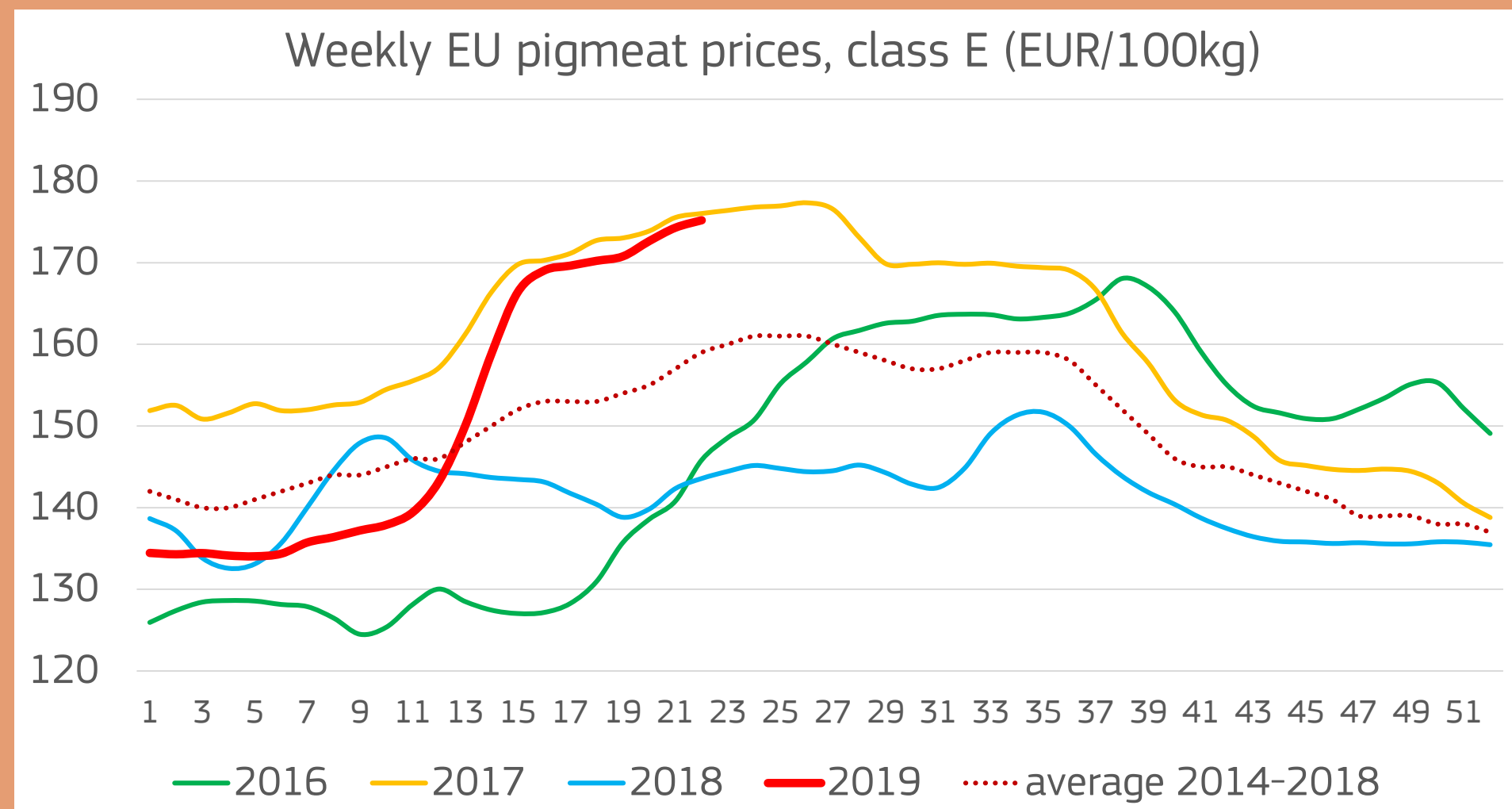
Trade balance improves but still negative

- 
EU sheep meat imports are showing a **19% decline** year-on-year in the first 4 months of 2019, mainly due to a diversion of trade from New Zealand to China, and a less favourable exchange rate between the pound sterling and the New Zealand dollar.
- 
EU sheep meat exports are currently 1% lower than the same period last year. Huge decline in exports to Hong Kong (-60%) is compensated by exports to other destinations. Overall, exports are expected to stay relatively **stable in 2019**.
- 
EU live sheep exports are expected to **increase by 25%**, following additional demand in Libya, and new destinations such as Iran and Saudi Arabia.
- 
EU consumption will **drop in 2019** (more than 3%), because of lower supply in the EU market (higher exports while production is stable).

Pigmeat

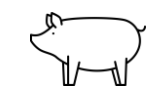


Source: DG Agriculture and Rural Development, based on Eurostat

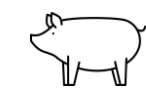


Source: DG Agriculture and Rural Development

Rising exports in 2019, driven by surge in Chinese demand

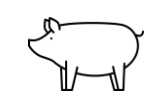


The spread of African Swine Fever (ASF) in China has created a gap between production and consumption levels that cannot be compensated by imports in the short term. Experts estimate a **drop of 20-35% of Chinese production in 2019**, which would represent up to twice the current pork world trade. ASF is also spreading to other Asian countries, such as Vietnam and Cambodia. Consumers will therefore need to shift part of their pork consumption to other products. This should result in a higher demand for other proteins, particularly poultry meat.



In the first 4 months of 2019, EU pork exports to China have grown by 37% year-on-year (to a 43% share of total exports), driven by rising pigmeat exports (+60%). Likewise, shipments to Vietnam have almost doubled, to a share of 2%. Total EU pigmeat exports in the period grew by 17% (+6% for offal). By the end of 2019, **EU pigmeat exports are expected to be 12% above last year**, supported by Chinese demand but constrained by a limited supply. Export growth should continue at a similar rate in 2020.

Export demand will reflect on production growth only in 2020



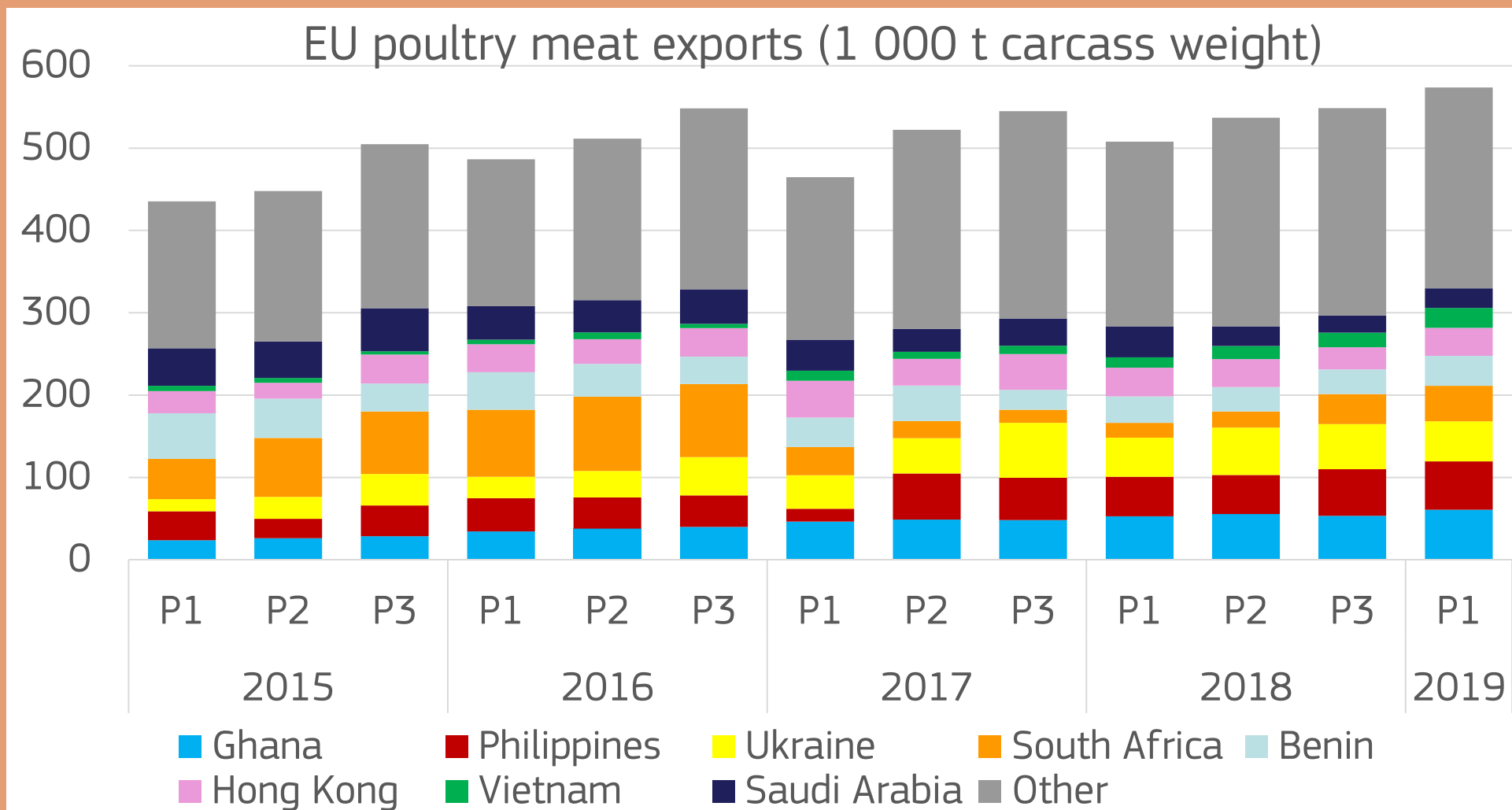
The December 2018 livestock survey showed a reduction of the EU breeding herd by 3%, which is limiting the development of EU production despite the increasing world demand and rising prices. As a result, in the first quarter of 2019, EU pigmeat production fell by 0.7% year-on-year. Among the main EU producers, only Spain increased production encouraged by rising exports. By contrast, production fell significantly in Germany, the Netherlands and Poland. **By the end of the year, EU pigmeat supply is expected to remain stable.** In 2020, as EU production capacity is restored, production should grow moderately (around 1.4%) despite the high prices, limited by other factors such as environmental regulations and social concerns.



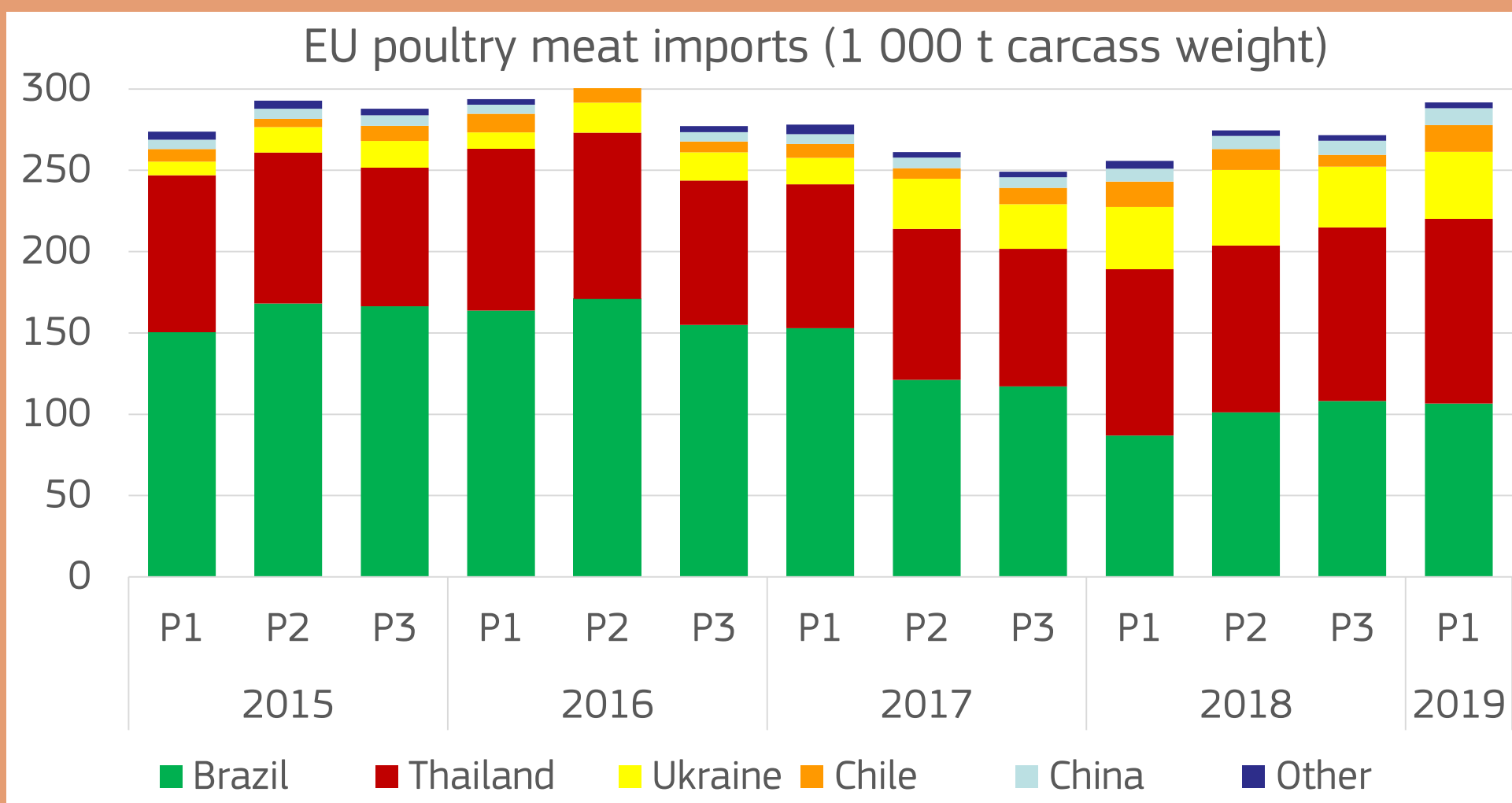
Prices have risen sharply since mid-March, for both pigmeat and piglets, driven by the surge of Chinese exports, reaching the high levels of 2017.



Apparent consumption per capita is expected to fall by 0.5 kg in 2019 (to 32.1 kg) as high prices favour other meats, particularly poultry.



Source: DG Agriculture and Rural Development, based on Eurostat



Source: DG Agriculture and Rural Development, based on Eurostat

Production rising in 2019, particularly in the East



After the strong production growth in 2018 (+5%), EU poultry meat production still grew by 2% year-on-year in the first quarter of 2019. For the full year, a **2.5% increase in supply is expected supported by high prices**, with stronger growth in the eastern EU countries.



Broiler prices started the year with levels below the 5-year average, but from April they have been well above it.



Per capita consumption is expected to continue on its rising trend in 2019, up to 25.4 kg (+0.6 kg). If the high producer prices of pigmeat are transferred to retail prices, this will likely shift additional consumption to poultry.

Exports and imports on the rise



2019 started with a strong export performance in the first 4 months (+13% year-on-year). Around 40% of the growth is due to increasing shipments to South Africa (+140% to a 8% share), despite the safeguard measures in place (35% duty on bone-in cuts). However, these shipments are still far from those of 2016. Exports to the two main destinations of EU poultry also grew significantly: Ghana (+12%, share of 11%) and the Philippines (+16%, share of 10%), while demand from Vietnam doubled (share of 4%). Given its ASF situation, China's poultry demand has also risen (2% share) but, for now, Poland is the only EU country that benefits from it after having regained market access in November 2018. For the full year, **EU poultry exports should grow by around 3%**.



Imports also grew strongly in the first 4 months of 2019 (+14%) driven by rising shipments from the two main EU partners: Thailand (+11%) and Brazil (+23%). Imports from Brazil are still well below the levels of 2017 due to the sanitary restrictions in place, however its exports of frozen poultry are rising, sometimes out of existing quotas, thanks to high EU breast prices. In April, Ukraine reached a record level in its exports to the EU under the liberalised tariff line for 'other cuts'. However, a provisional agreement has been reached with Ukraine on a ceiling of 50 000 t on imports under this tariff line. **By the end of the year, EU imports are expected to grow by more than 5%, driven by high EU prices.**

Trade diversion due to increased tariffs...



Impact of US-CHINA trade frictions on Agri-food trade

© aflo-FlickrR



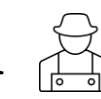
In July 2018, the US imposed import tariffs on steel and aluminium from all origins. In response, China increased tariffs for several US agri-food products (**over 1 000** from June 2019). **Tariffs applied grew** by 15 to 25% in several steps, to reach currently 28% for soya beans, 62% for frozen deboned pigmeat, 35% for SMP...



As a result, **Chinese imports of US products declined, especially for soya beans (-70% in January-April 2019 year-on-year). China increased imports from other origins:** e.g. soya beans from Brazil (+50%) and from Canada (+265%). Chinese imports of **other products** also grew: e.g. maize from Ukraine (+80%), rapeseed from Canada (+20%), as well as sunflower meal (x11). The jump in maize imports can be linked to increased tariffs on US ethanol and Chinese ethanol blending ambition. Similarly, the US diverted part of soya bean trade to other destinations, such as the EU (+126%) or Mexico (+33%), but still, US soya bean exports dropped by 13%.



In the **pork sector, the story is not straightforward.** US pork exports to China are historically less significant (notably for growth promoter issues). At the moment, the spread of ASF is rising Chinese demand and pork prices, but due to the tariffs the US is not benefitting from this demand compared to its competitors. US pork exports to China fell considerably at the end of 2018, to partially recover in 2019. As trade frictions



go on the uncertainty on this flow remains high. In the dairy sector, US exports of SMP to China fell by 90%, while for cheese the US still supplied 8% of Chinese import demand in January-April 2019.

