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Global AgriTrends

Global Pork Update & Outlook

Brett Stuart

December 11, 2019

Outline

2020: ASF Drives Global Protein Markets

- China situation
- Where is China Demand in the Markets?
- 2020 pork forecasts

Watchlist

Our Reporting on ASF

2018

August: ASF found in China (8/3); we host an ASF webinar

September: We warned that ASF is a “**global pork game-changer**” and that government efforts to control the spread would prove inadequate.

October: We identified **massive government ASF under-reporting**.

November: We suggested that **control is not possible in China**. We identified scenarios including large pork bookings for frozen boxed carcasses.

December: We stated that ASF’s “toll on global pork and protein markets will be staggering”.

2019

January: After a China trip, we identified **mass liquidation** and warned of impending price surges.

February: We noted a strong contra-seasonal China hog price move indicating a future supply gap.

March: I returned from China and sent my trip report to our clients stating that we expect massive losses, at least 30% already, and offered confirmation from contacts in China that **losses were staggering**..

Why ASF is A Global Protein Game Changer?

The virus is very strong (hard to kill)

Mortality rates > 95%

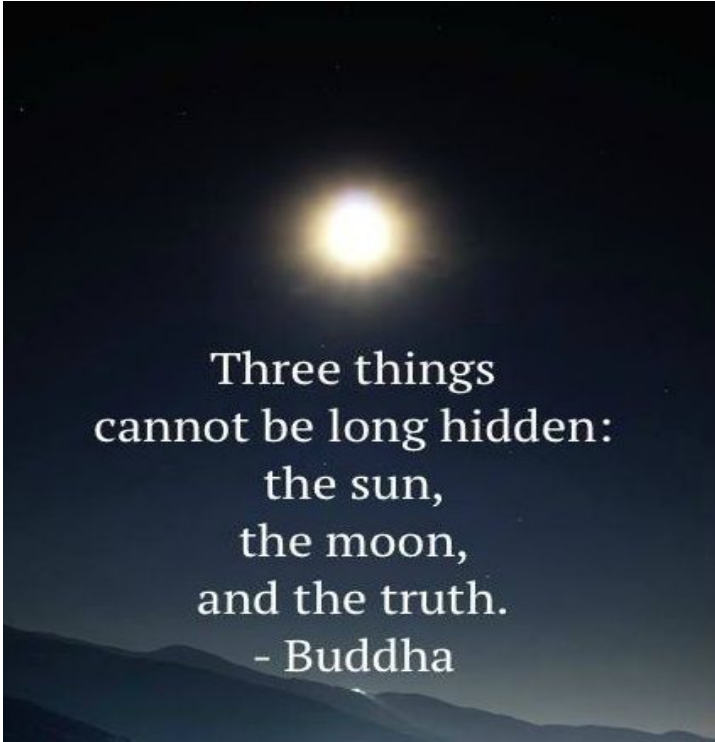
There is no vaccine

75% of the world's hogs are now threatened

- (EU and Asia)

**Chinese pork supplies = 20% of total global
meat/poultry**

The losses in China and Vietnam are massive



Three things
cannot be long hidden:
the sun,
the moon,
and the truth.
- Buddha

ASF – Current Situation

Asia falling:

- New cases in the Philippines and South Korea

Europe fighting:

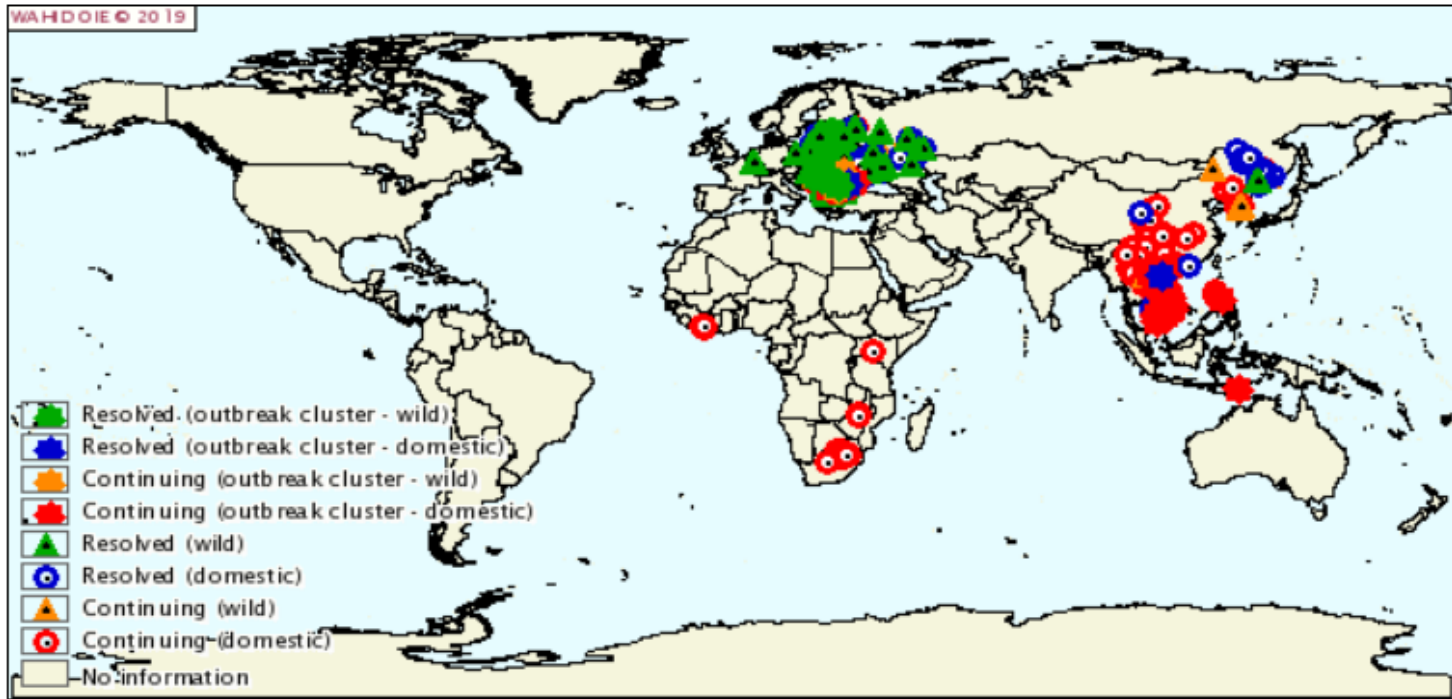
- Belgium seeing reduced cases; can they contain it?

Everyone fearing:

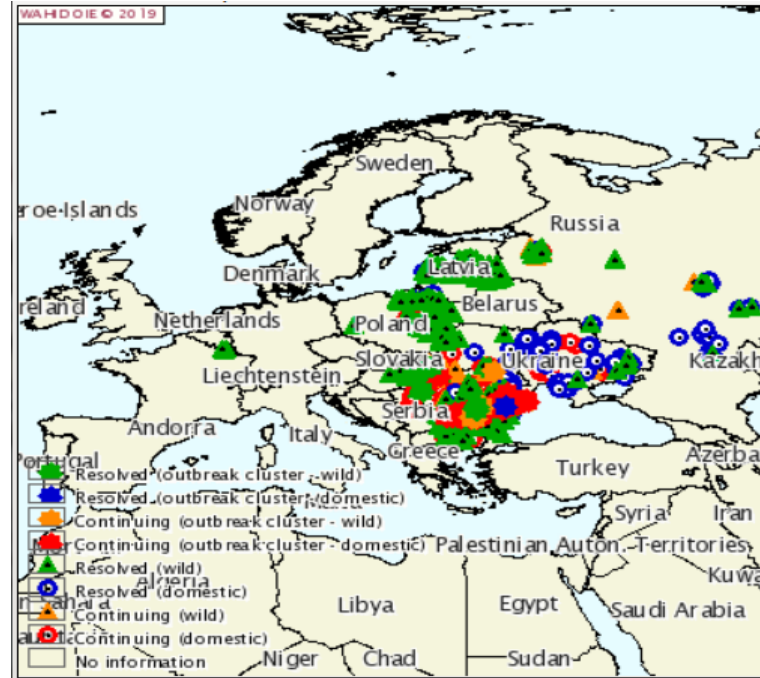
- Measures being imposed globally
- The virus knows no borders



OIE Outbreak Map (6 mos)

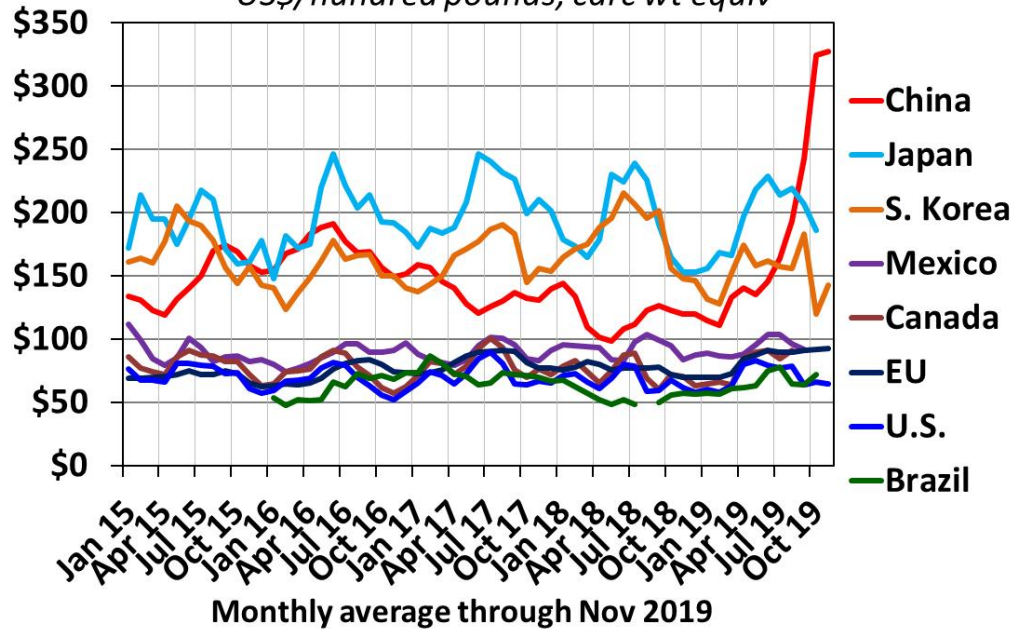


OIE Outbreak Map – Europe (6 mos)



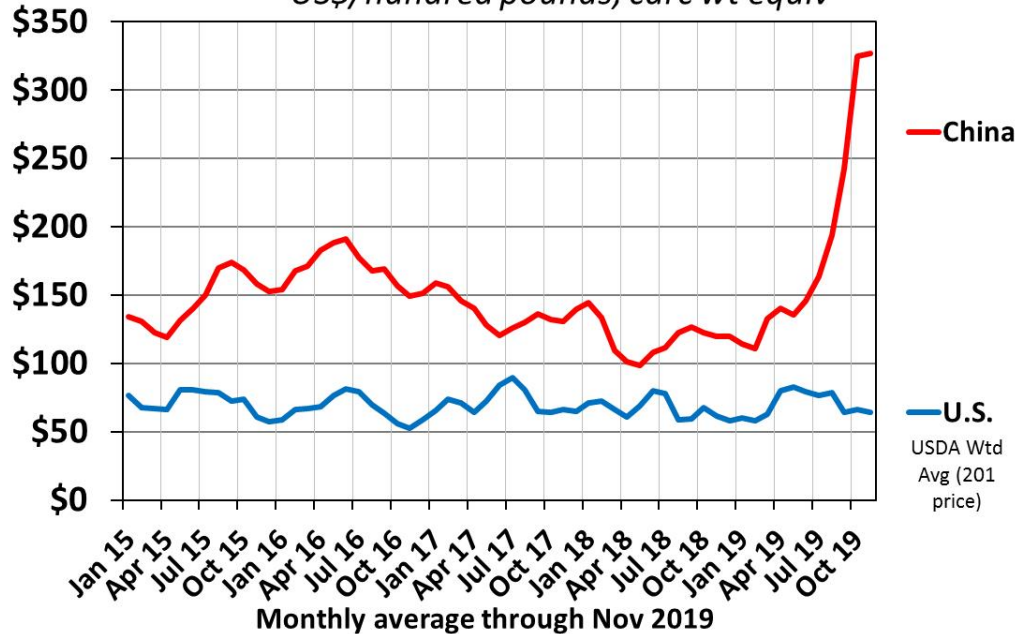
Global Hog Prices

US\$/hundred pounds, carc wt equiv

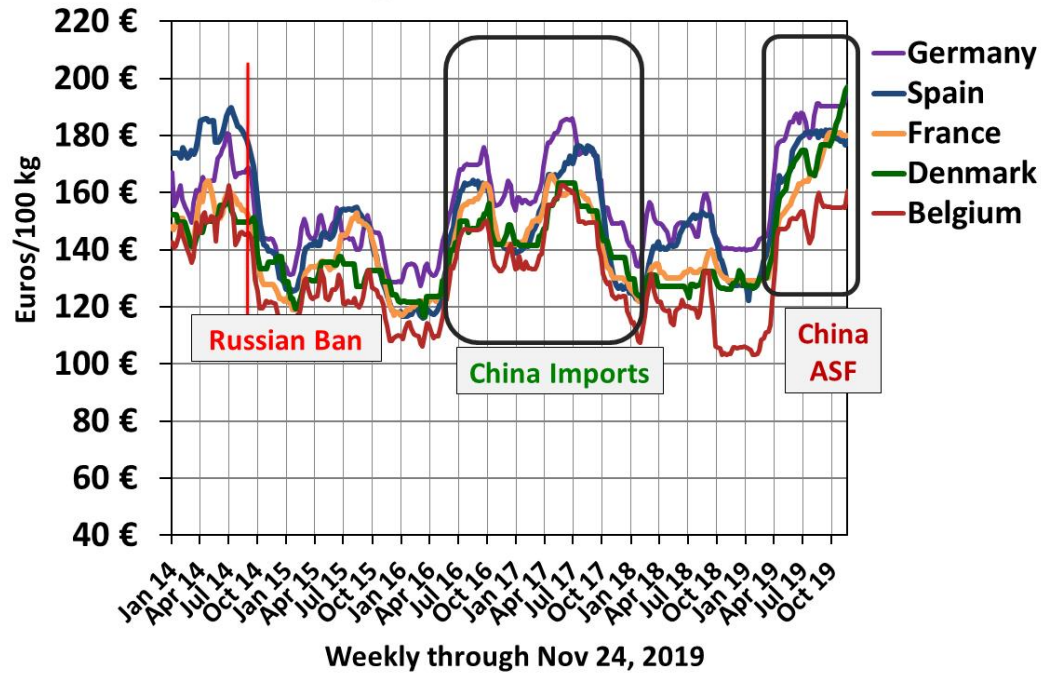


China / U.S. Hog Prices

US\$/hundred pounds, carc wt equiv



EU Pig Carcass Prices



Currently in China

> 50% of the swine herd is gone

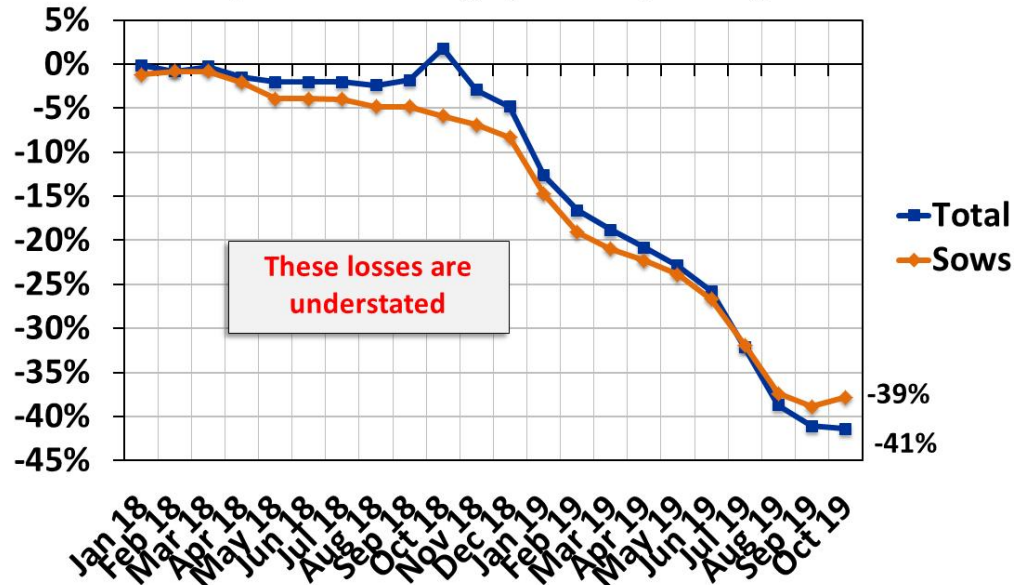
- >220 mil hogs, >22 million sows
- [One-fourth of the global swine herd is gone](#)

And the disease rages on:

- No vaccines, probably for years
- Repop success stories are scarce
- Hog profits are above **\$300/head**
 - If you can keep hogs alive for 10 months
 - Everyone wants to “roll the dice”; high return = high risk
- These desperate moves are making ASF control less likely

China Total Swine and Sows

percent change from a year ago



Monthly through Oct 2019

China's Shortages Are Now Here

Social media reports of shortages

Contacts “on the ground”...

Gov't actions:

- Direct provincial governments to increase pork output
- Released 30,000 mt of frozen pork from storage (5 hours of national consumption)

Food inflation is now **soaring**

But consumer pressure is different there...

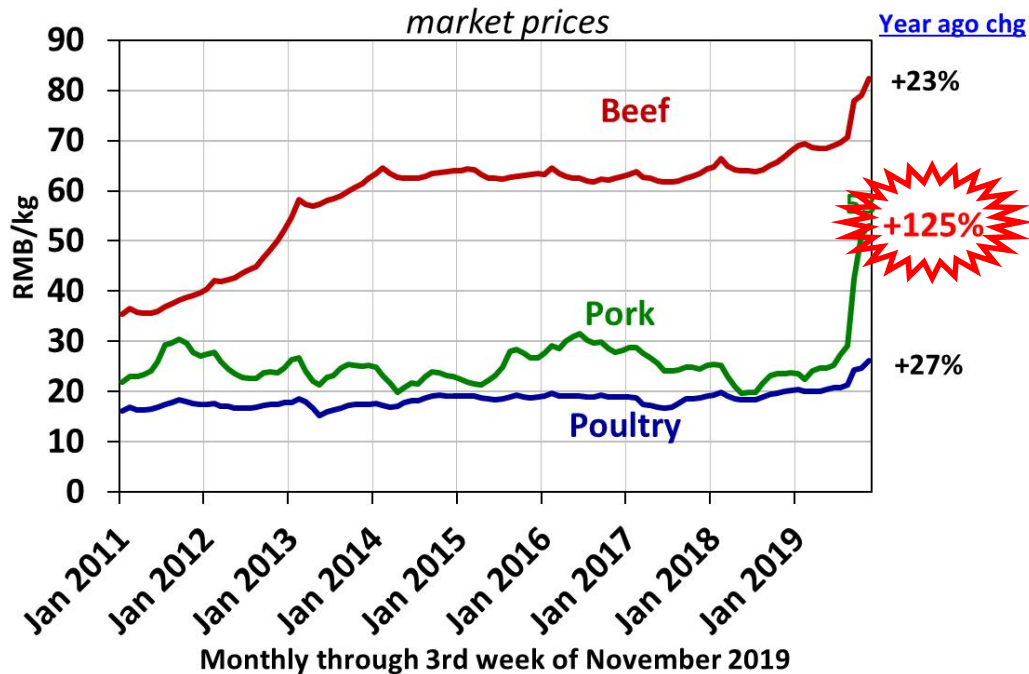




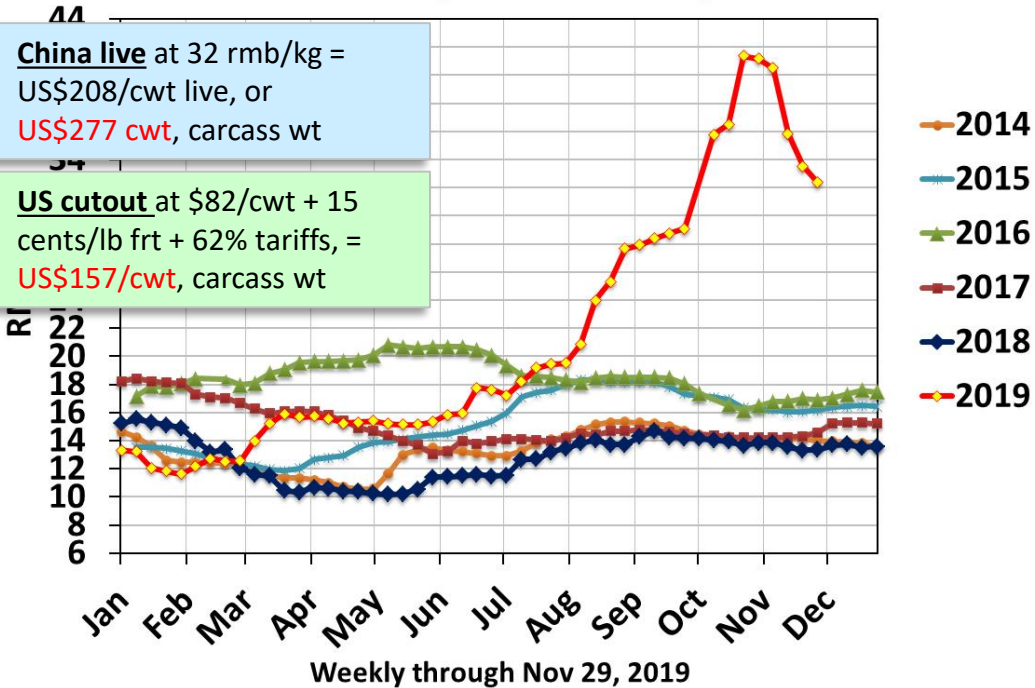
China Economy

**Hong Kong protests and US trade war no longer
China's top priorities as spiralling pork prices
dominate agenda**

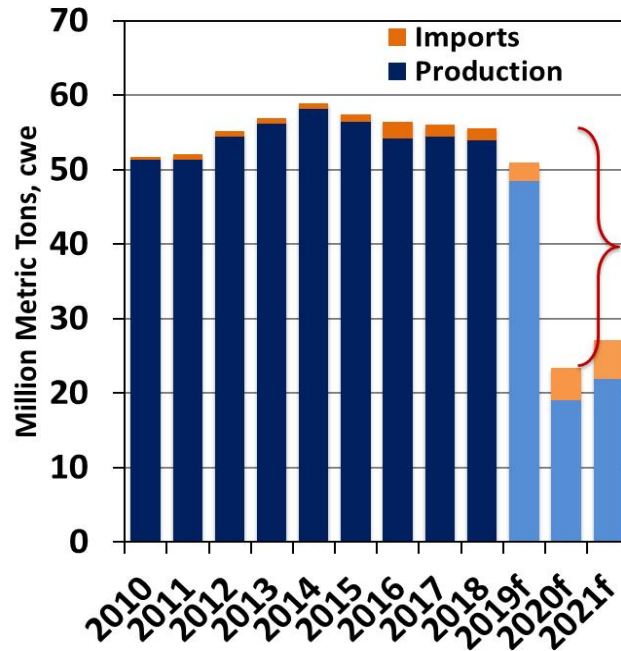
China Meat & Poultry Prices



China Average Live Hog Prices

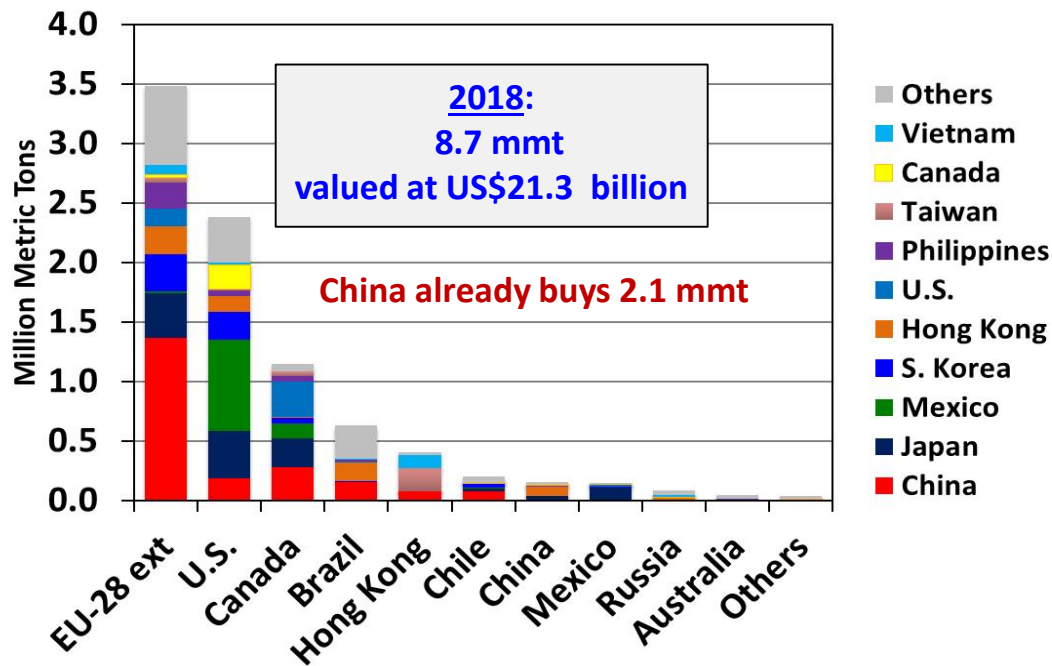


China Pork Supplies



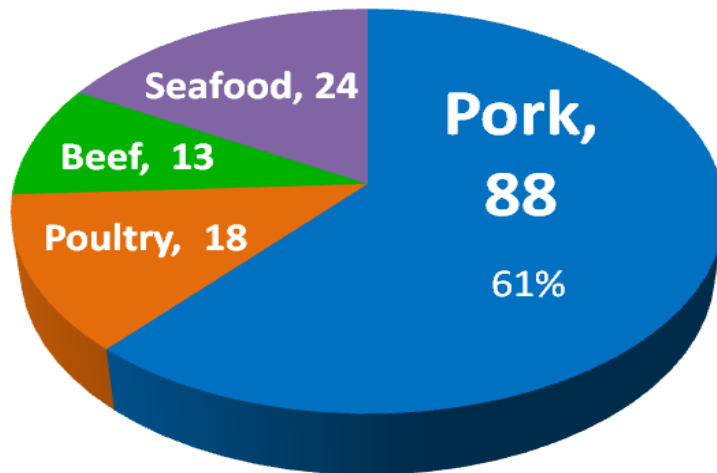
2020: Gap of -32 mmt
Imports: +274% (+2.7 mmt)

Global Pork Exports



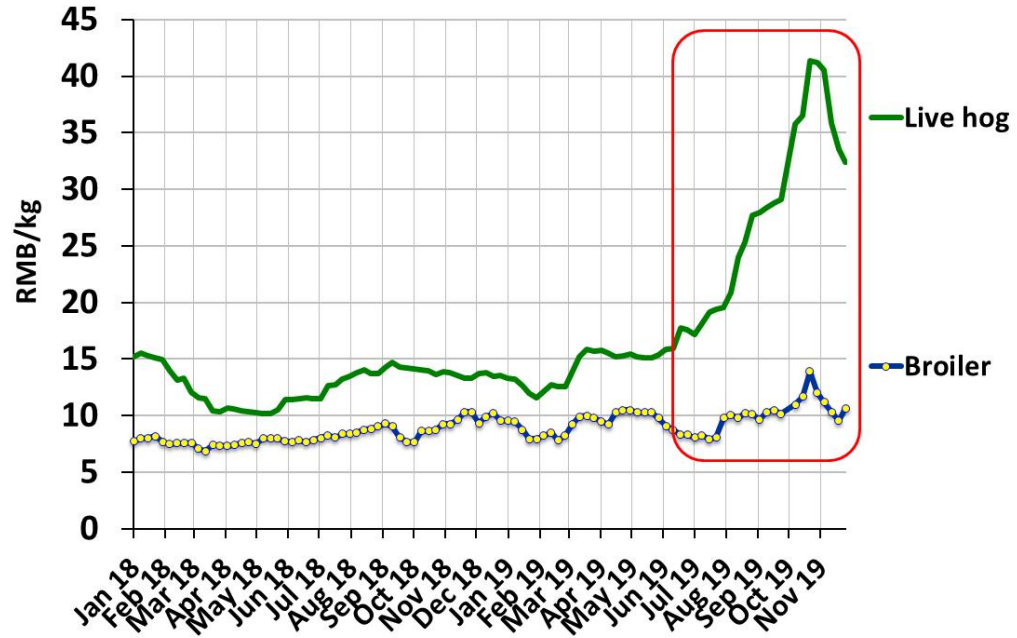
Chinese Per-Capita Consumption

2017 est: pounds/capita



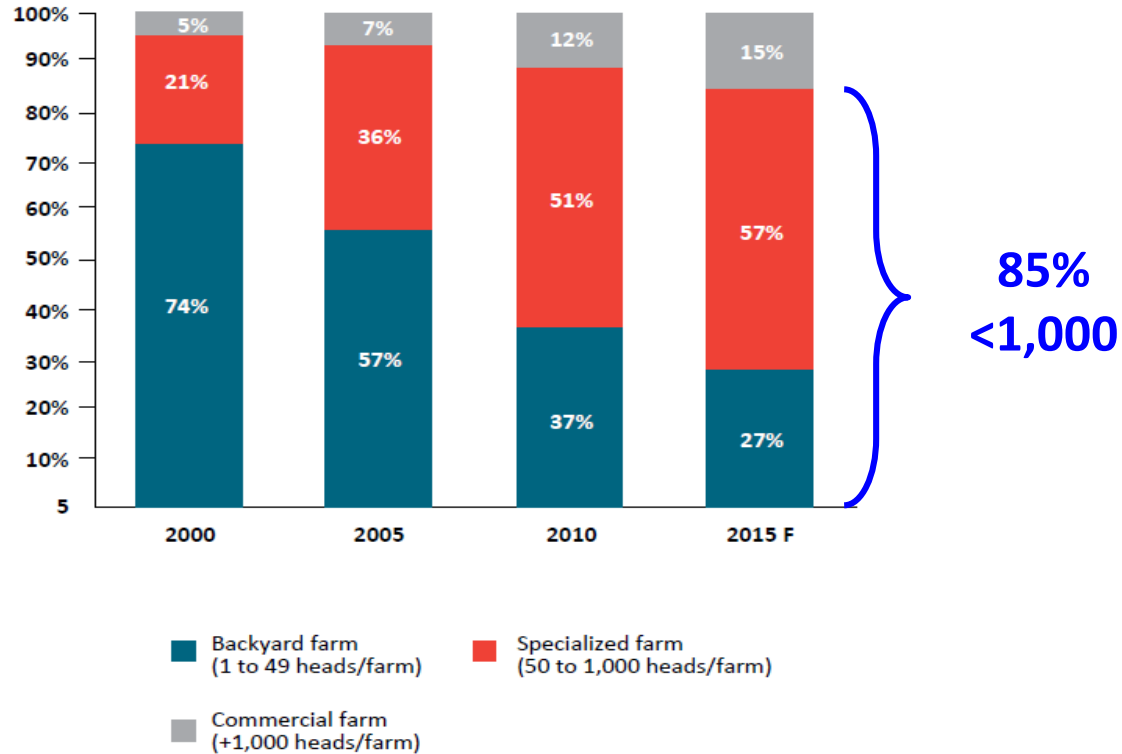
Source: USDA, pork and beef in carcass weight equiv, FAO

China Weekly Prices



Weekly through Nov 29, 2019

China Hog Farm Structure



The REAL Question

How/When Does China Recover?

I don't think they do, not to 100%

- They've never been globally competitive in pork
- Large-scale farms are now 15% of production
- **Finishing space is the bottleneck**

5+ years, vaccine found?

10 years?

- China has rebuilt 70% of prior production
- 30% outsourced
 - 16 mmt? That is 133% of current U.S. production...?

All Roads Lead to China



The ASF Waves

Wave 1: Chinese domestic markets, all protein

Wave 2: Global protein exporters...

- **WITH** direct access to China (EU pork, non-U.S. beef)

Wave 3: Global protein exporters...

- **WITHOUT** direct access to China
- 'Backfilling' exports into secondary markets
 - U.S. beef to Japan, Korea, others
 - EU, US, Canada pork into Japan, Korea, Australia

Wave 4: Secondary domestic markets of exporter nations

- U.S. chicken breasts, global tilapia, etc...

Global Implications - ASF

Expansion Opportunities: Global Protein

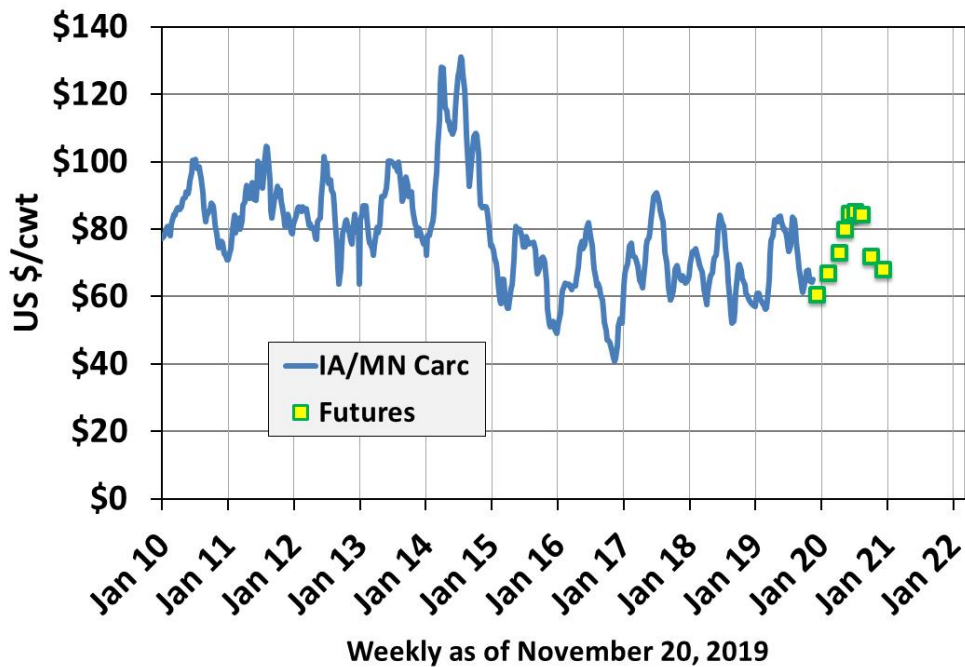
	China	EU	U.S.	Brazil
Land	Red	Light Red	Green	Green
Capital	Light Red	Green	Dark Green	Light Green
Permitting	Red	Light Red	Light Green	Green
Feed	Light Red	Light Green	Dark Green	Dark Green
Labor	Green	Light Red	Light Red	Green
Markets (China)	Dark Green	Dark Green	Red	Dark Green

Green: less constrained

Red: more constrained

Where is China Demand in the
U.S./Canada Markets?

USDA Wtd Avg Price & Futures



“Step Right Up....”



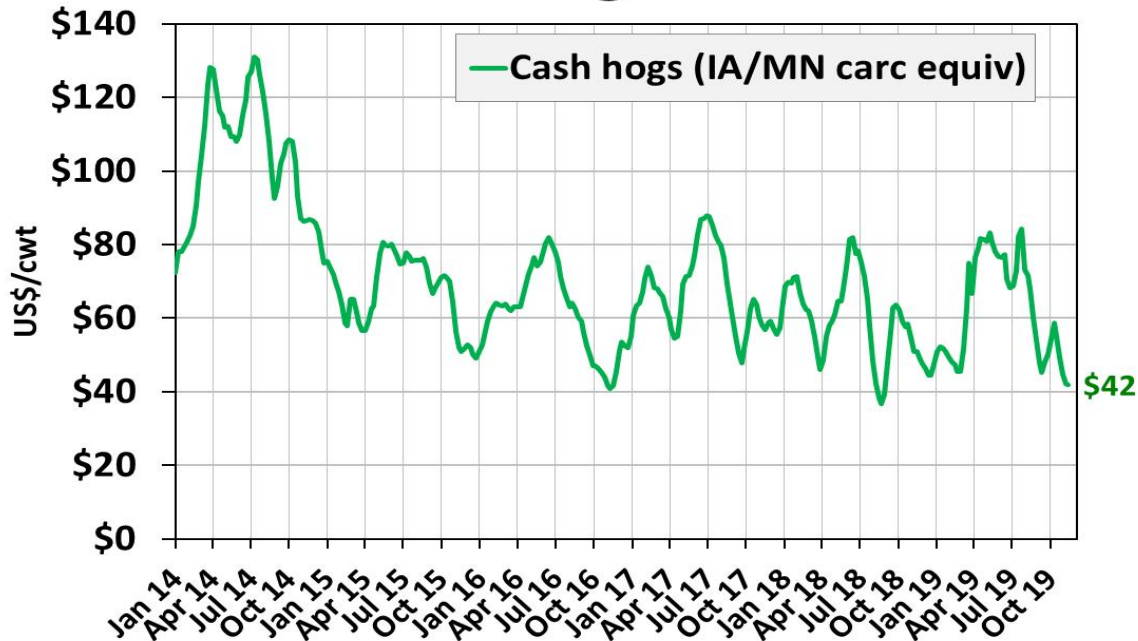
“Can you predict June LH futures within \$100/cwt?”

How about a range from \$50 to \$150?

If so, the futures market will give you **\$230** today; if you're right, you keep it*

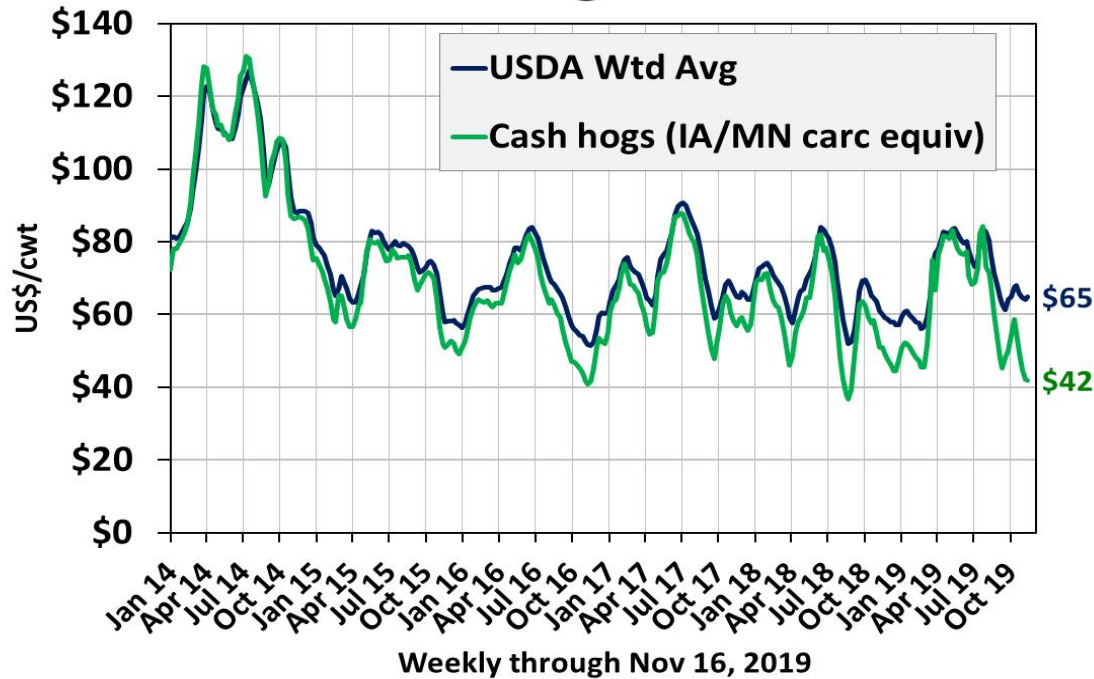
* But you front the losses above \$150 and below \$50

U.S. Hog Prices

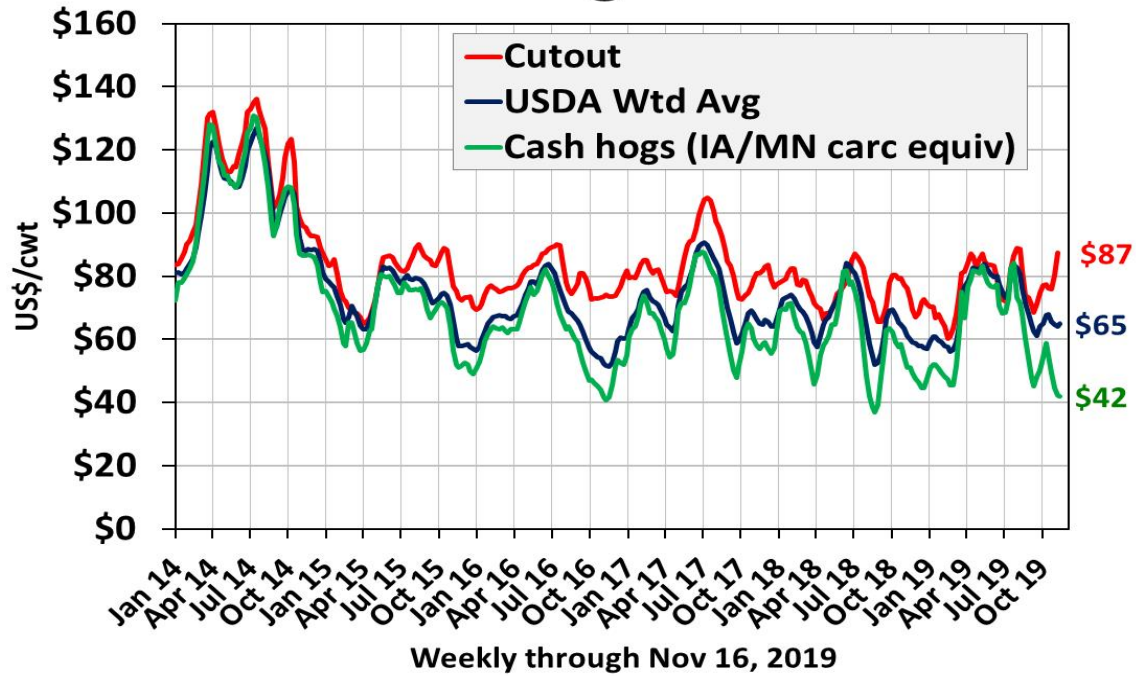


Weekly through Nov 16, 2019

U.S. Hog Prices



U.S. Hog Prices



U.S. Hog Markets and CHINA

U.S. pork production (past 10 weeks): +6.3%

U.S. pork cutout last week: +26%

U.S. ham prices up +97% from a year ago

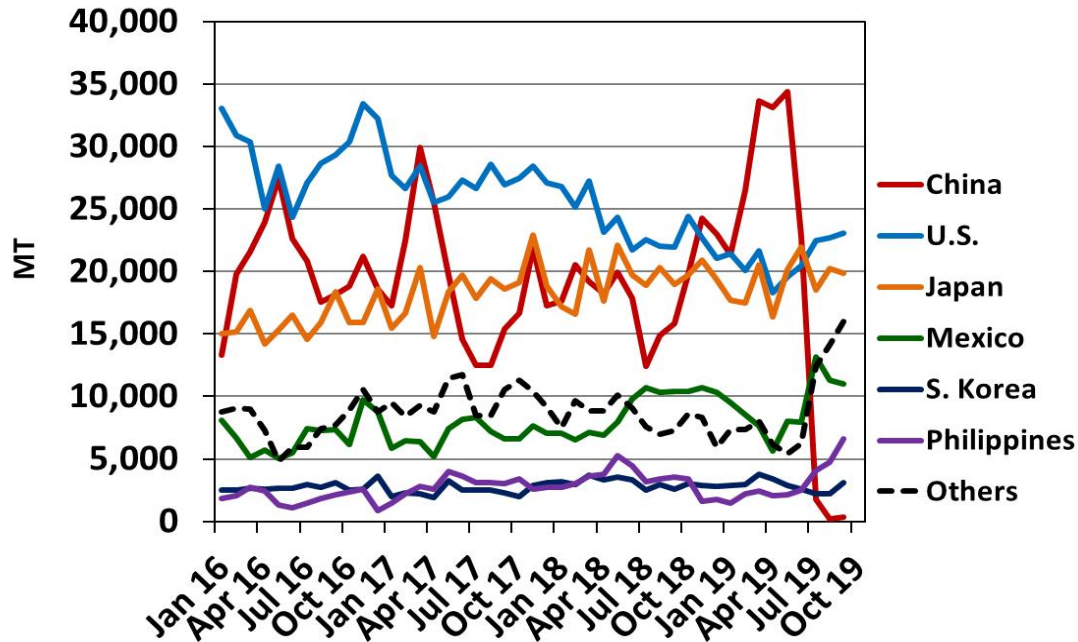
- Up +70% in 5 weeks

U.S. pork exports up +17% in Q3

- Likely well above that level now in November

China is having an impact on the markets.

Canada Pork Exports



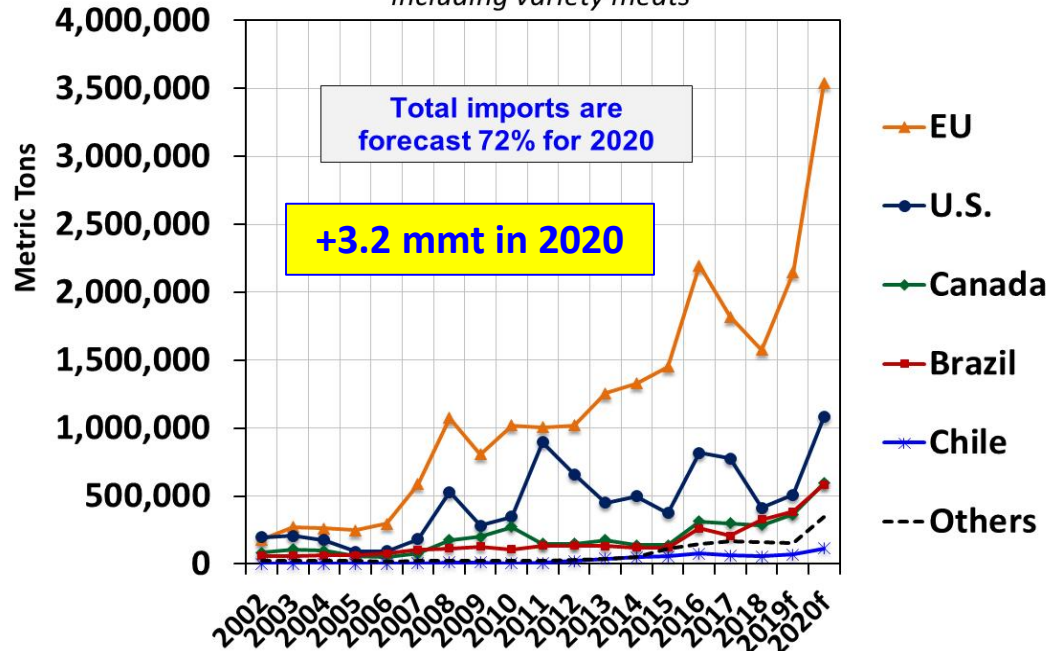
Source: TDM, AgriTrends, excluding offal

2020 Pork Forecasts



China & Hong Kong Pork Imports

including variety meats



Politics: The “X” Factor

How do the 50% retaliation tariffs affect US pork?

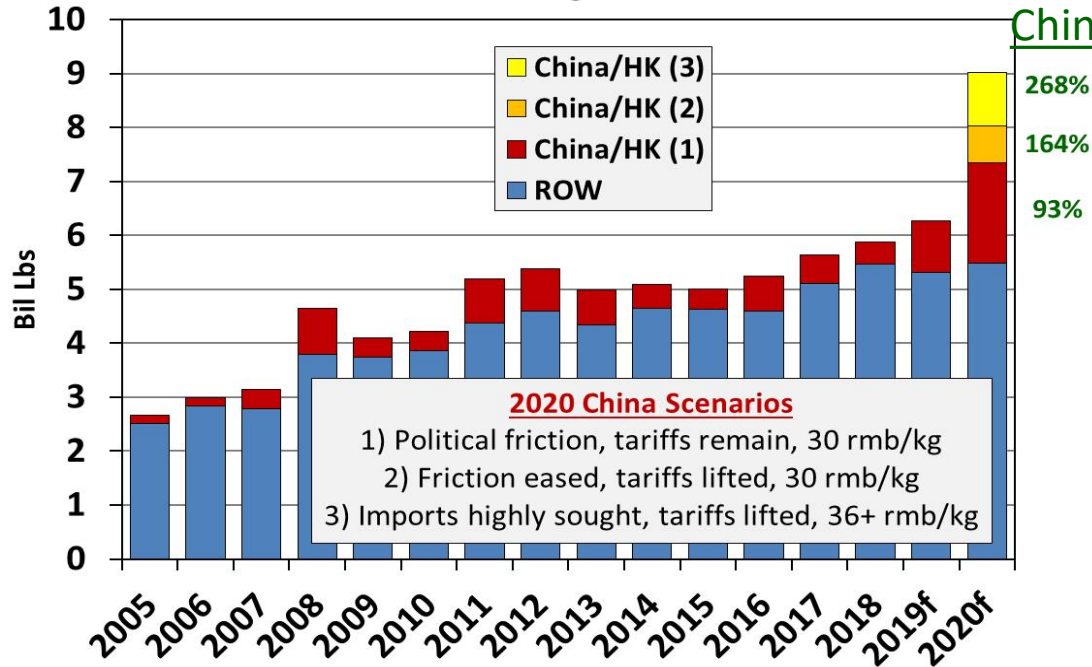
The “Art of the Deal?”

- Election:
 - China is a great “punching bag”...
 - China is also very patient...

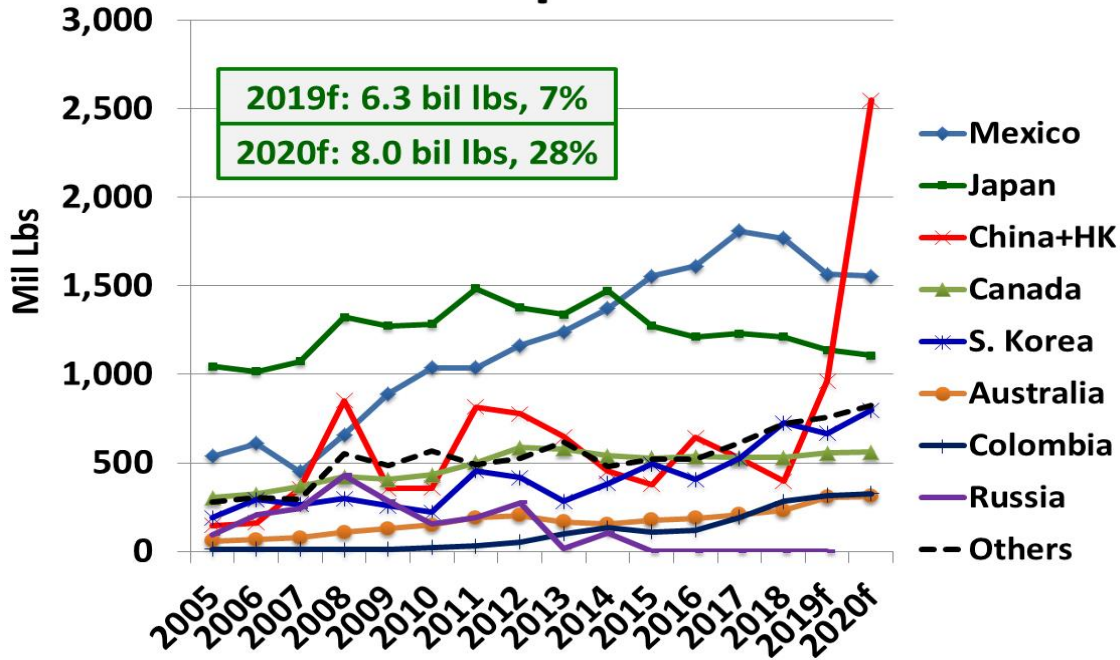
Chinese pressure to ensure supplies is soaring



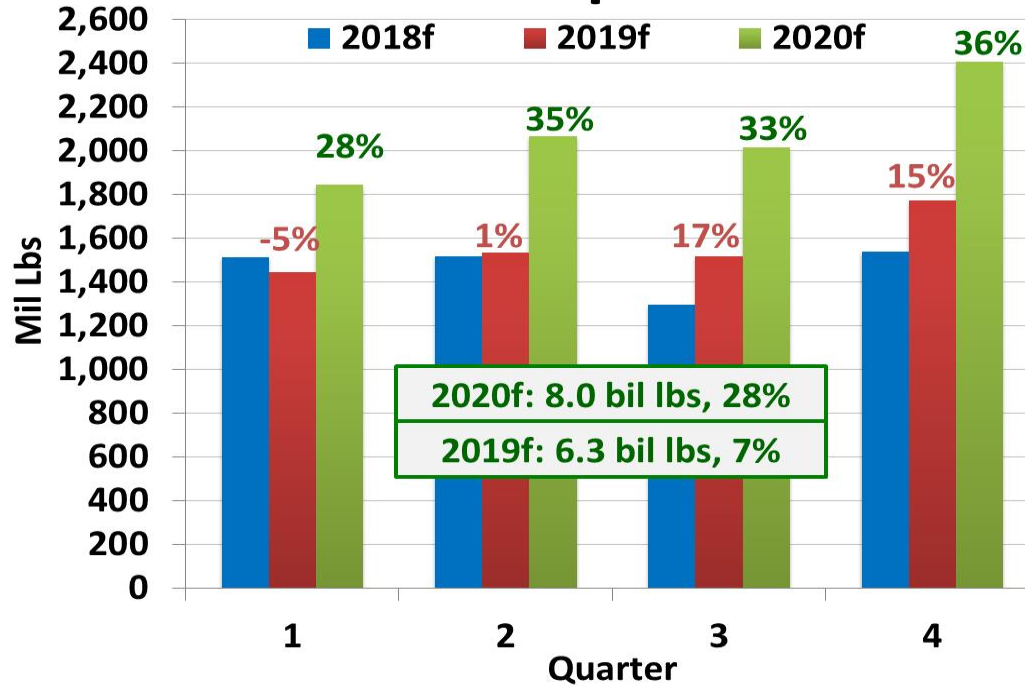
U.S. Pork Export Forecast 2020 to China



U.S. Pork Export Forecasts



U.S. Pork Export Forecasts



What If We Find ASF in N. America?

Export markets close instantly

- Some may regionalize within weeks
 - Canada, Mexico, U.S.?
- At least a couple weeks to investigate and determine if it is contained



But for weeks we have WAY too much pork

- US exports 23% of production, Canada 68%

And many export markets stay closed

- Even with ASF in China? YES

**Massive culling is not the risk; we could manage ASF.
Exports are the risk**

Watchlist

ASF

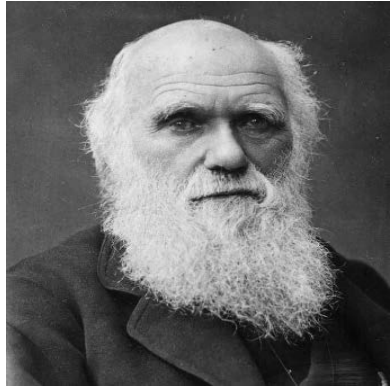
- China live hog and pork prices
- EU prices, global pork exports
- Further ASF spreading (EU, Asia, ?)

Caution warranted to any commodity with exposure to China's pork gap

- All global protein, soybeans?

U.S. pork, poultry, beef access to China...

The Future...



“... it is not the most intellectual of the species that survives; it is not the strongest that survives; but **the species that survives is the one that is able best to adapt and adjust to the changing environment** in which it finds itself.” - *Charles Darwin*

Adapt... **or** **Perish**

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Merci Beaucoup

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