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Global Pork Update & Outlook

November 21, 2019

Brett Stuart

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**

A full moon is centered in the upper half of the image, glowing against a dark, clear night sky. Below the moon, the silhouettes of rolling mountains are visible against a slightly lighter horizon. The overall scene is peaceful and serene.

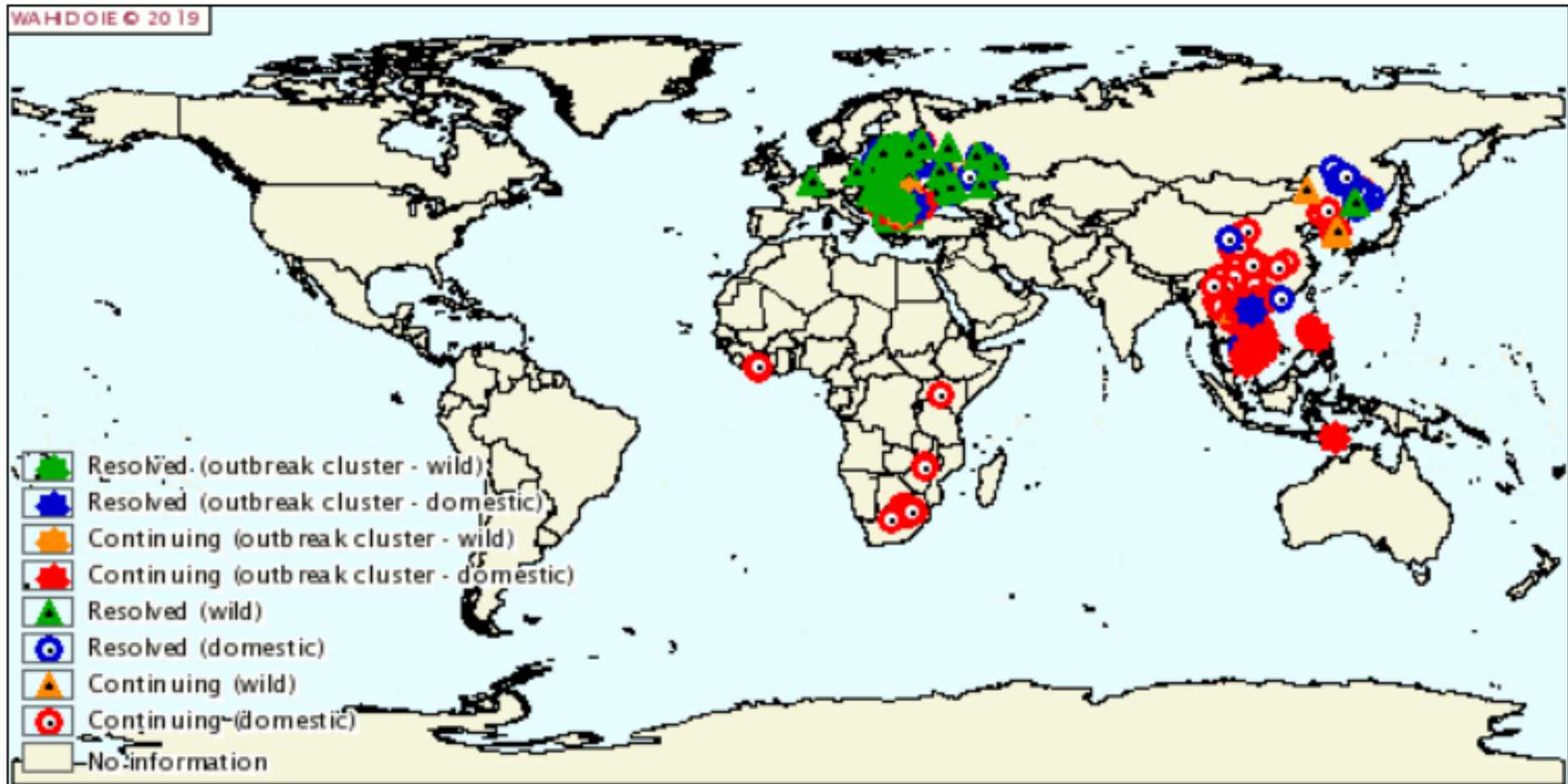
Three things
cannot be long hidden:
the sun,
the moon,
and the truth.
- Buddha

ASF – Current Situation

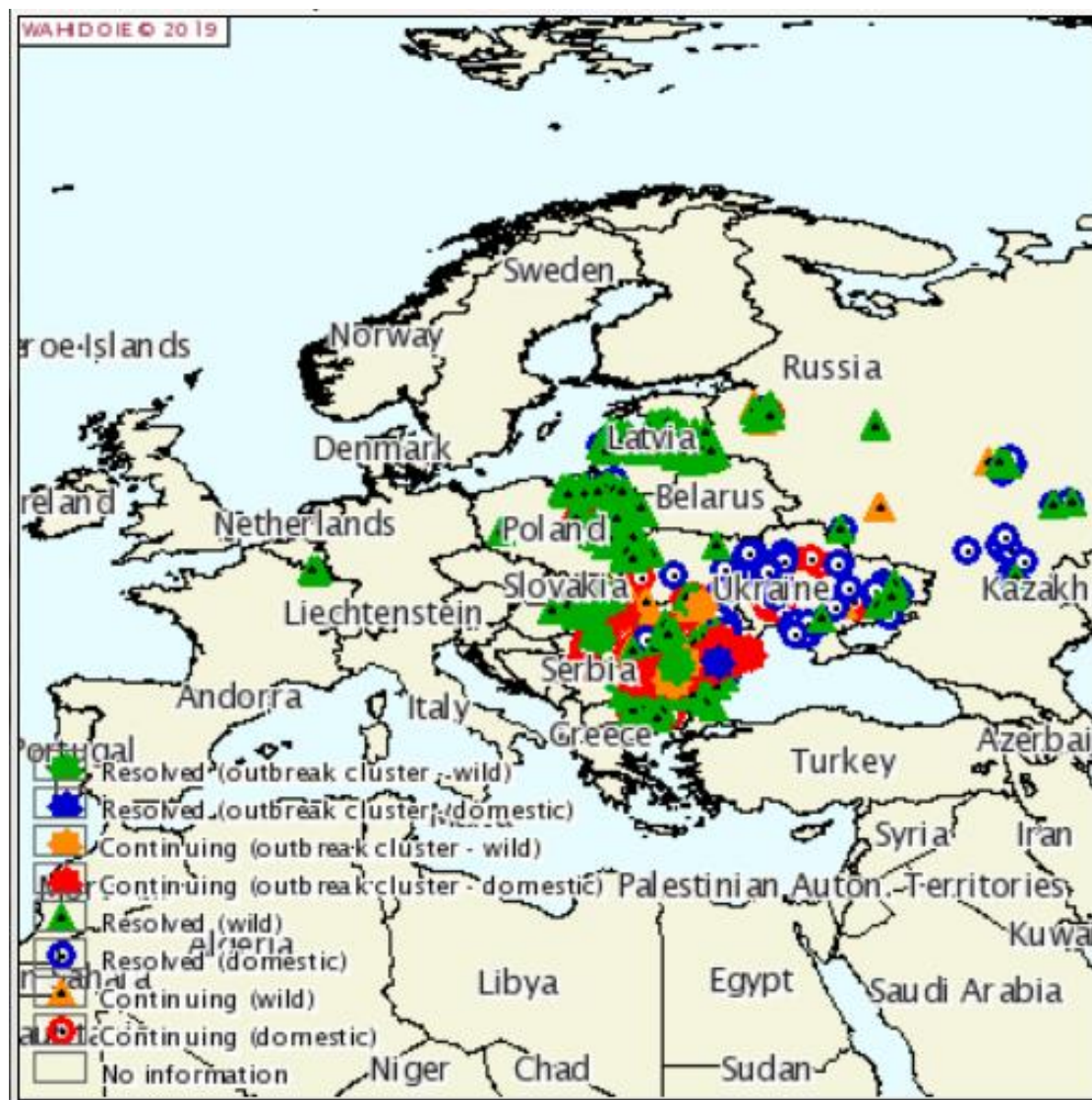
- Asia **falling**:
 - New cases in the Philippines and South Korea
- Europe **fighting**:
 - Belgium seeing reduced cases; can they contain it?
- Everyone **fearing**:
 - Measures being imposed globally
 - The virus knows no borders



OIE Outbreak Map (6 mos)



OIE Outbreak Map – Europe (6 mos)



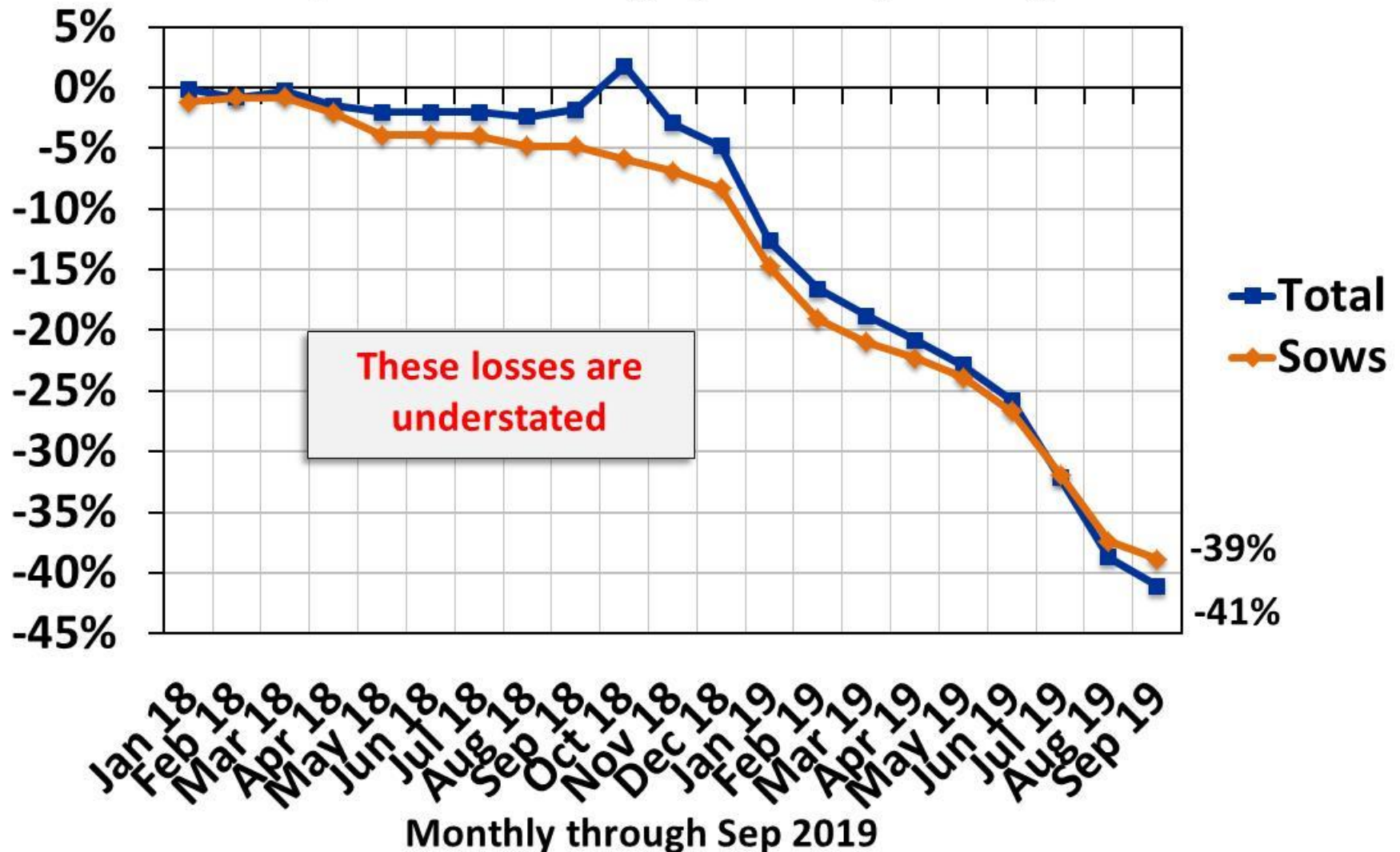
Source: OIE (www.oie.int)

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



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...

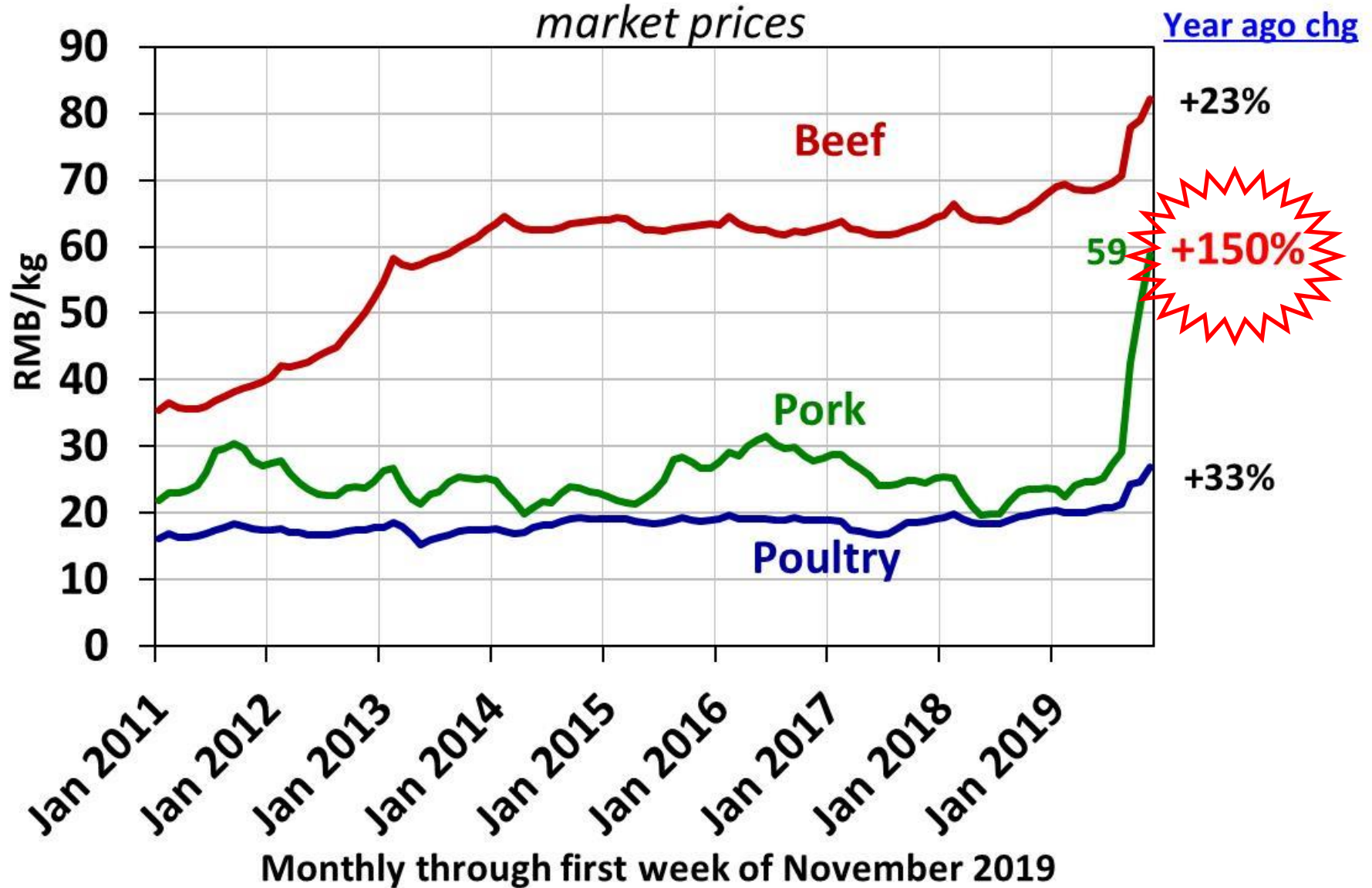


A large crowd of people is gathered in a field, with the Tiananmen Gate visible in the background. The crowd is dense, and many people are holding red flags. The scene is captured from a high angle, showing the vastness of the gathering.

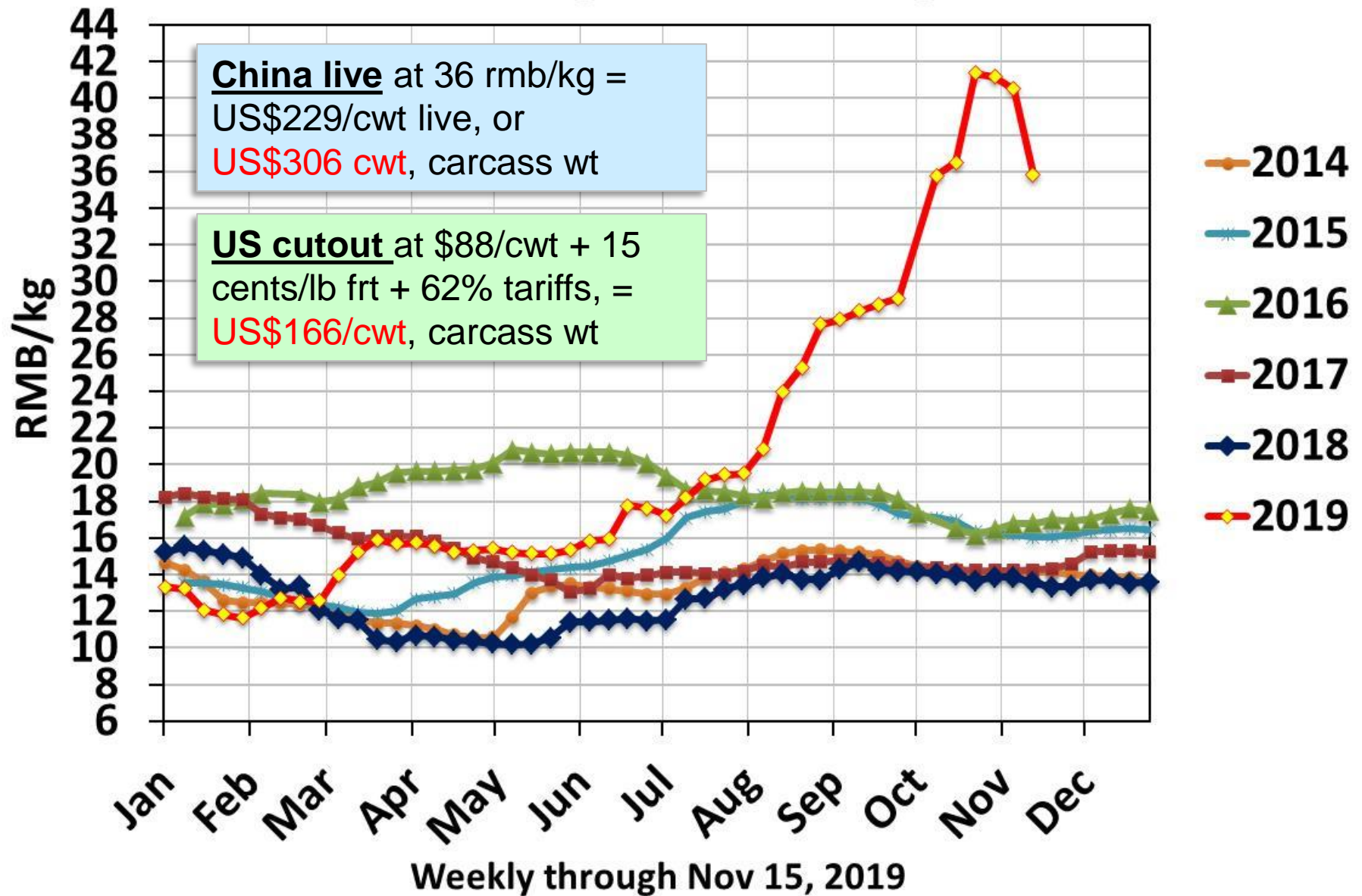
China Economy

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

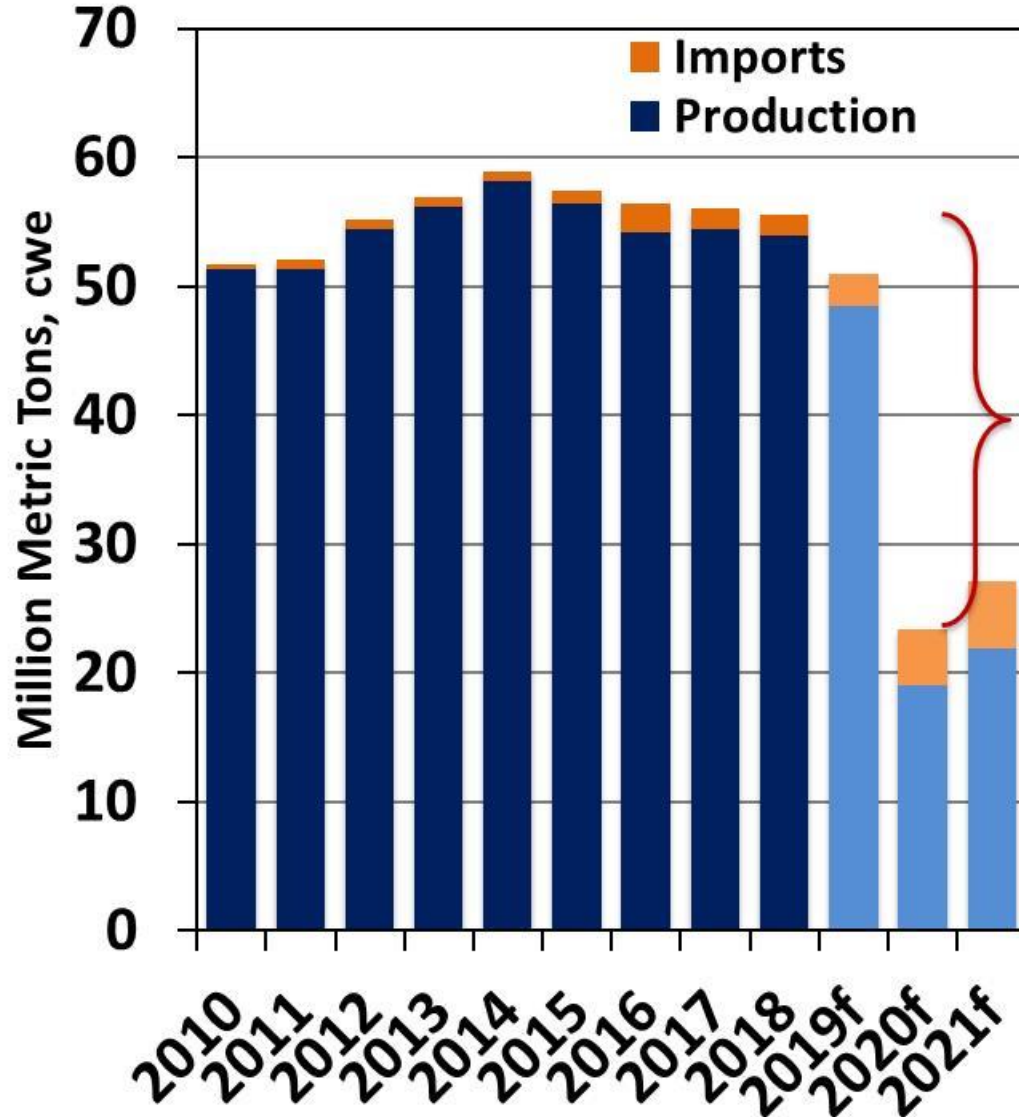
China Meat & Poultry Prices



China Average Live Hog Prices



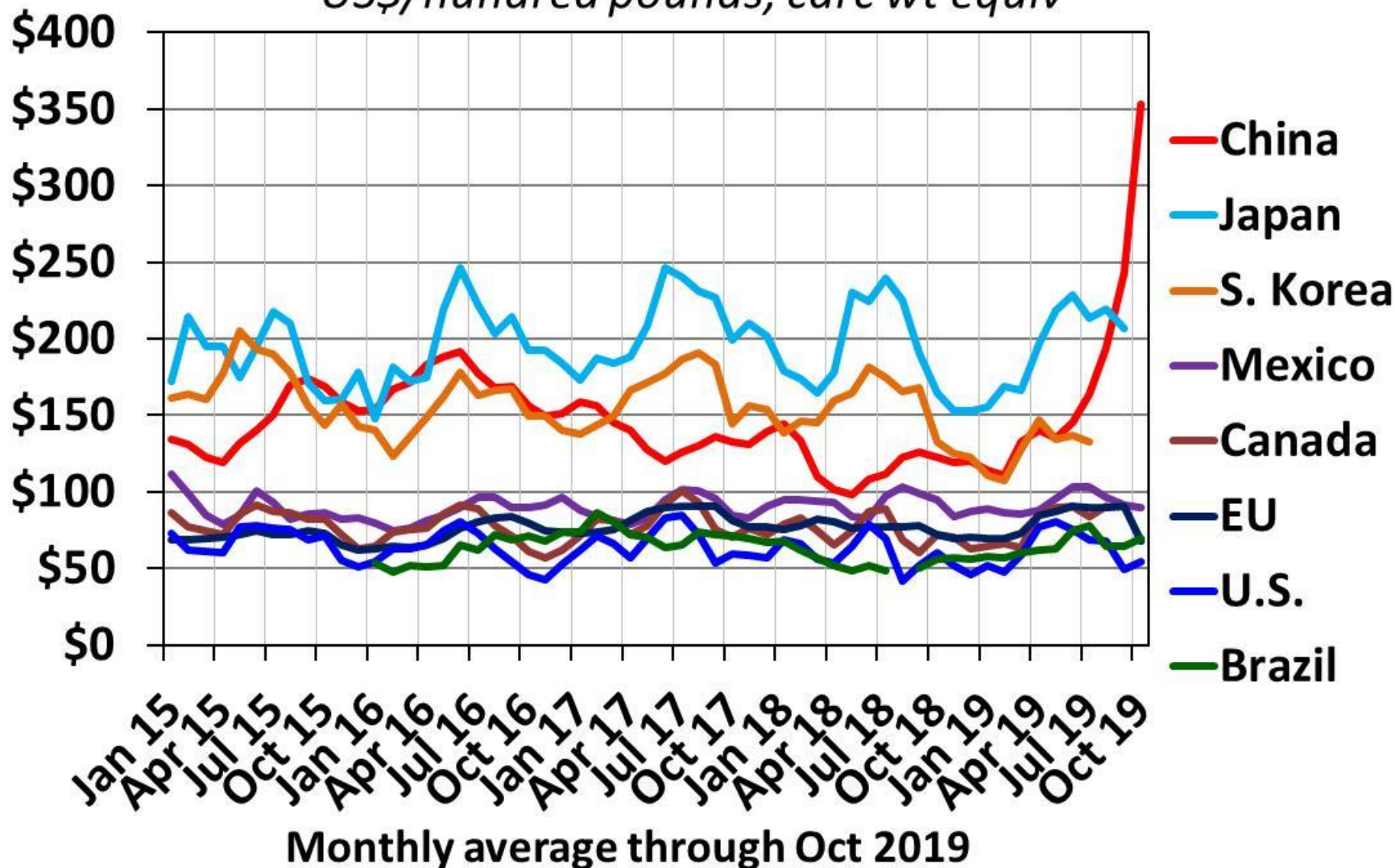
China Pork Supplies



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

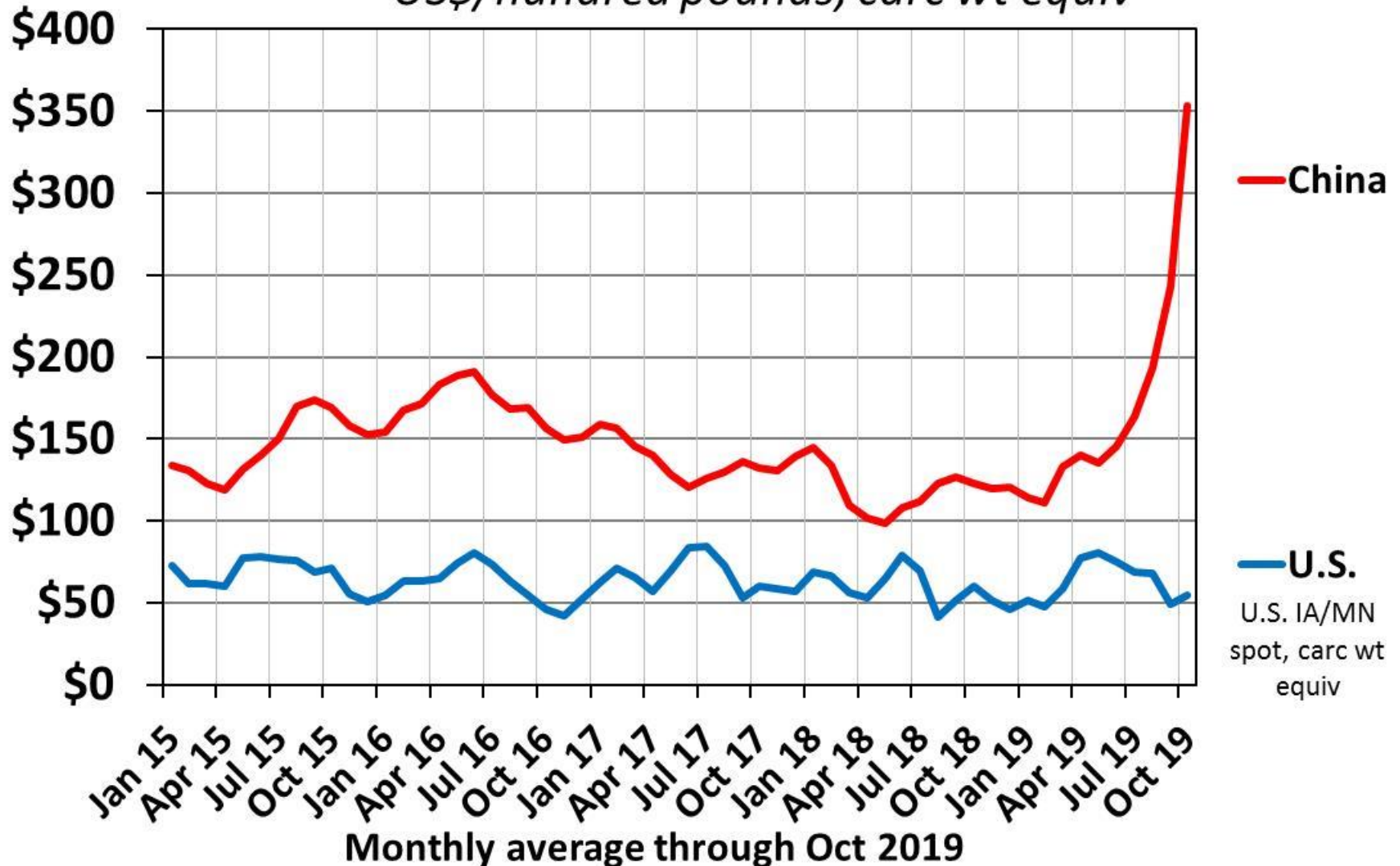
Global Hog Prices

US\$/hundred pounds, carc wt equiv

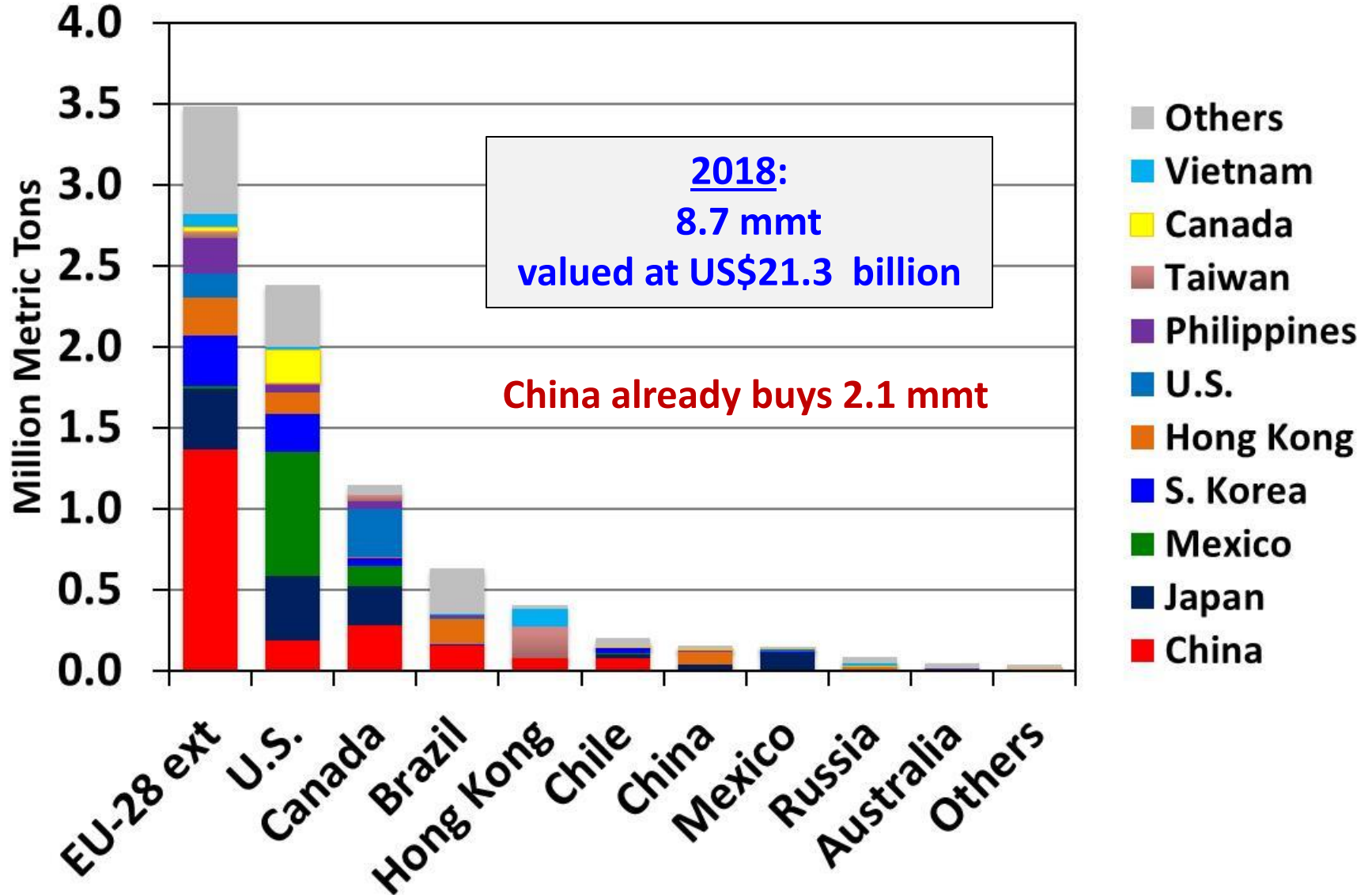


China / U.S. Hog Prices

US\$/hundred pounds, carc wt equiv



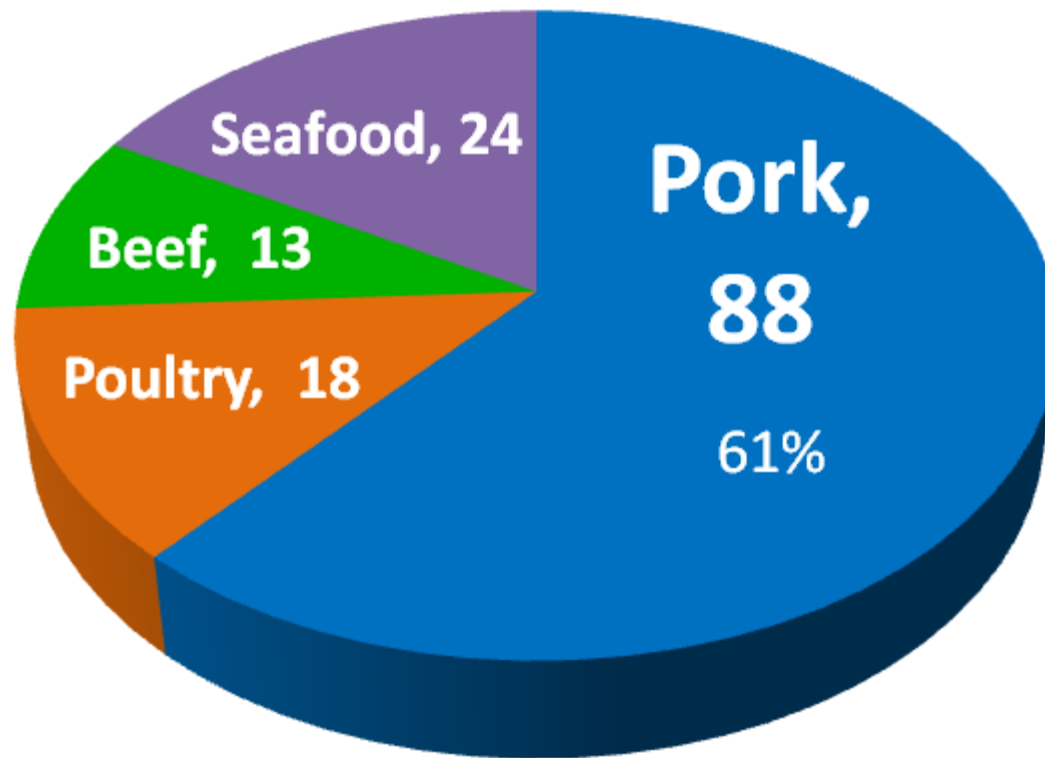
Global Pork Exports



Source: TDM, AgriTrends, includes offal

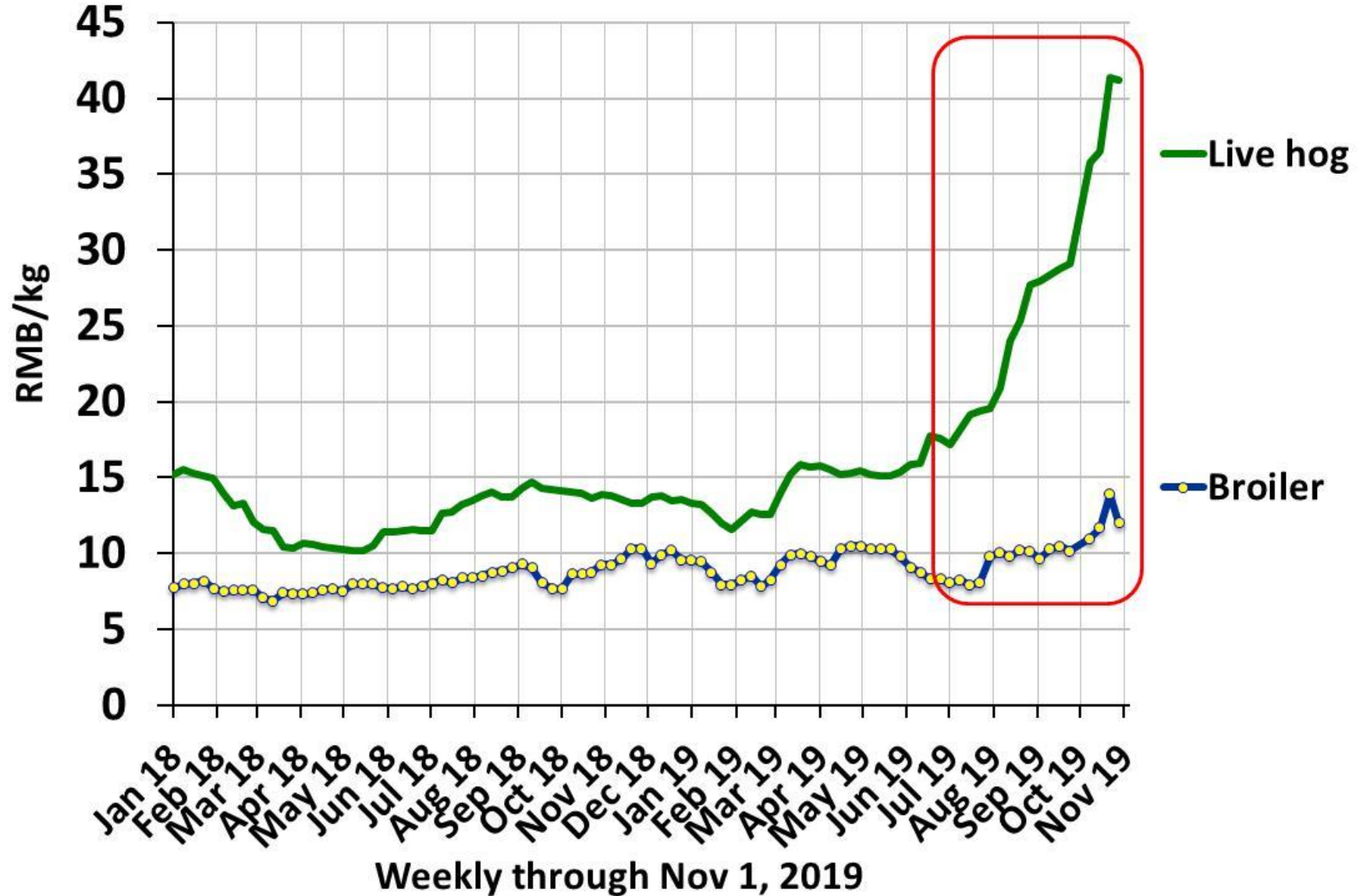
Chinese Per-Capita Consumption

2017 est: pounds/capita

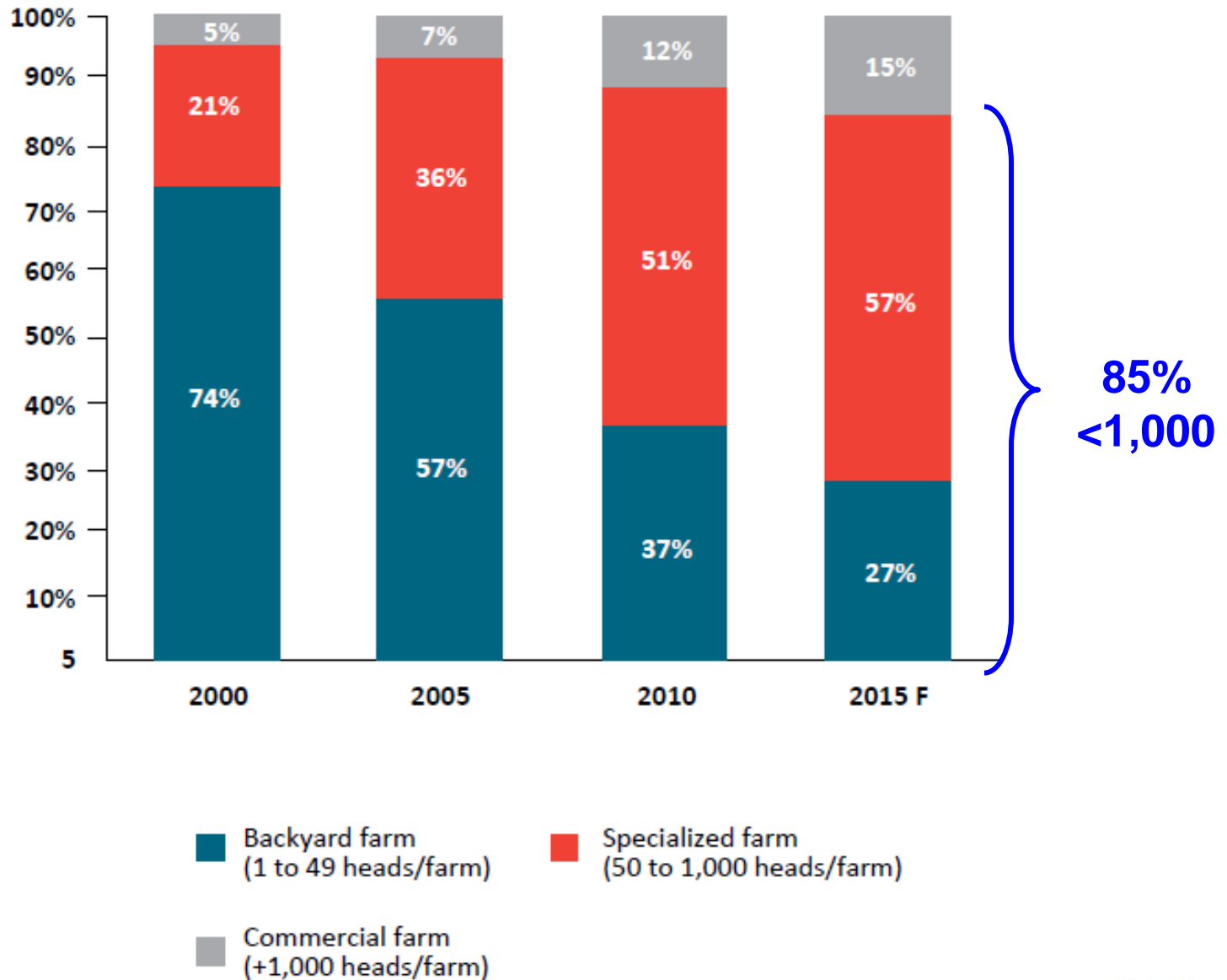


Source: USDA, pork and beef in carcass weight equiv, FAO

China Weekly Prices



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








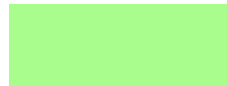


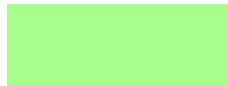















The ASF Waves

- **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

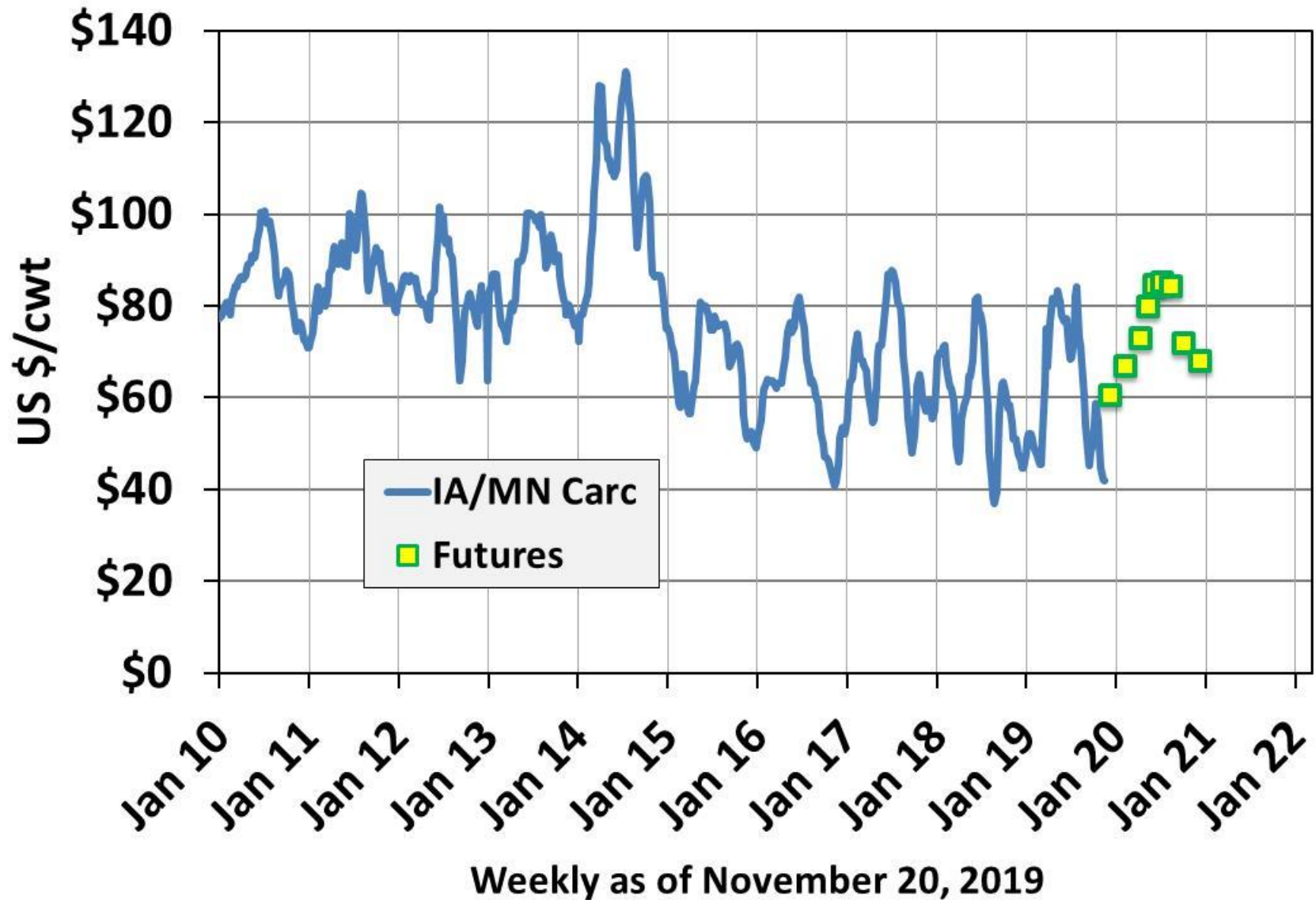
	China	EU	U.S.	Brazil
Land				
Capital				
Permitting				
Feed				
Labor				
Markets (China)				

Green: less constrained

Red: more constrained

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

IA/MN Carcass Price & Futures



“Step Right Up....”



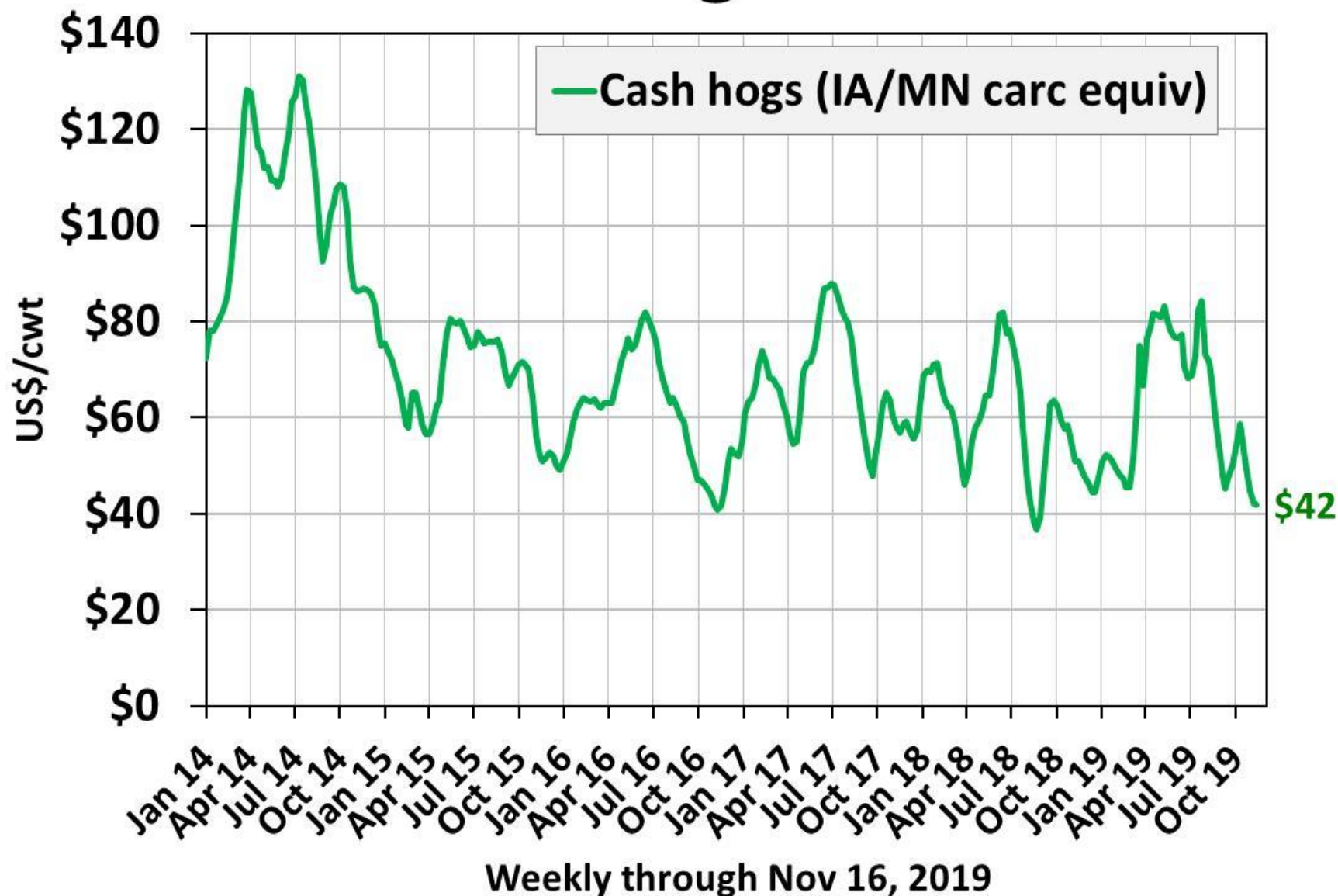
“Can you predict June LH
futures within \$100/cwt?”

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

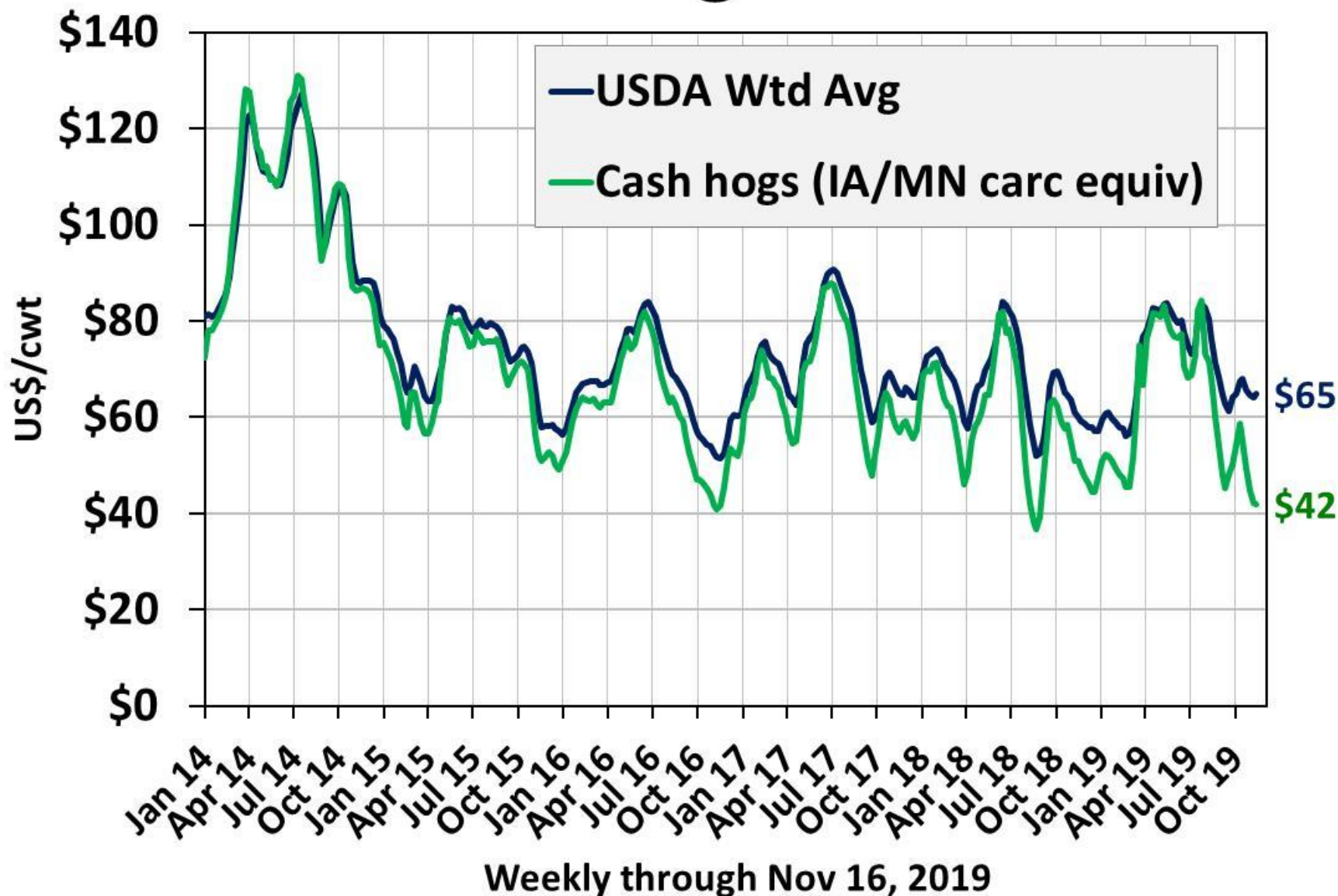
If so, the futures market will
give you **\$230** today; if
you’re right, you keep it*

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

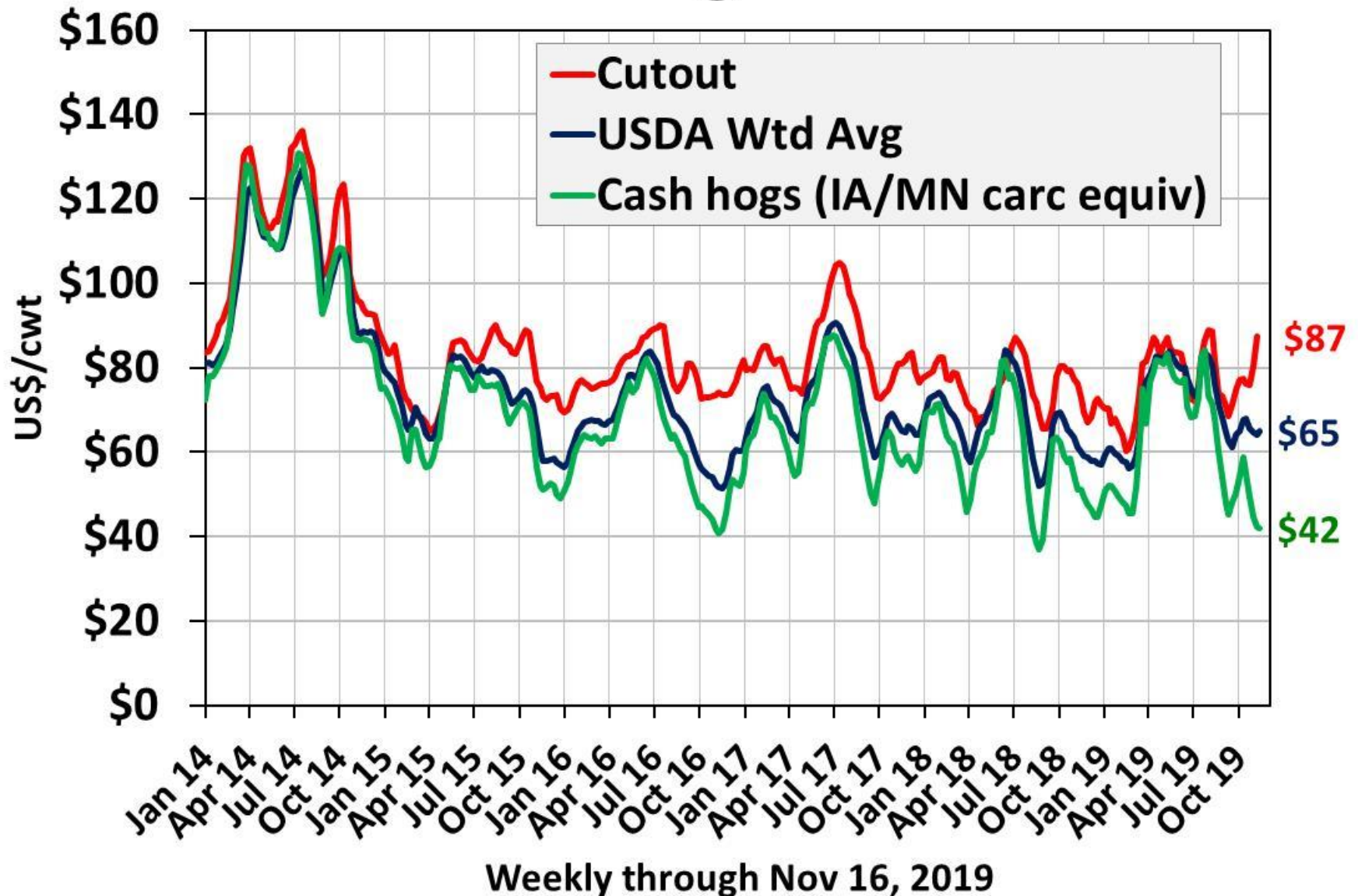
U.S. Hog Prices



U.S. Hog Prices



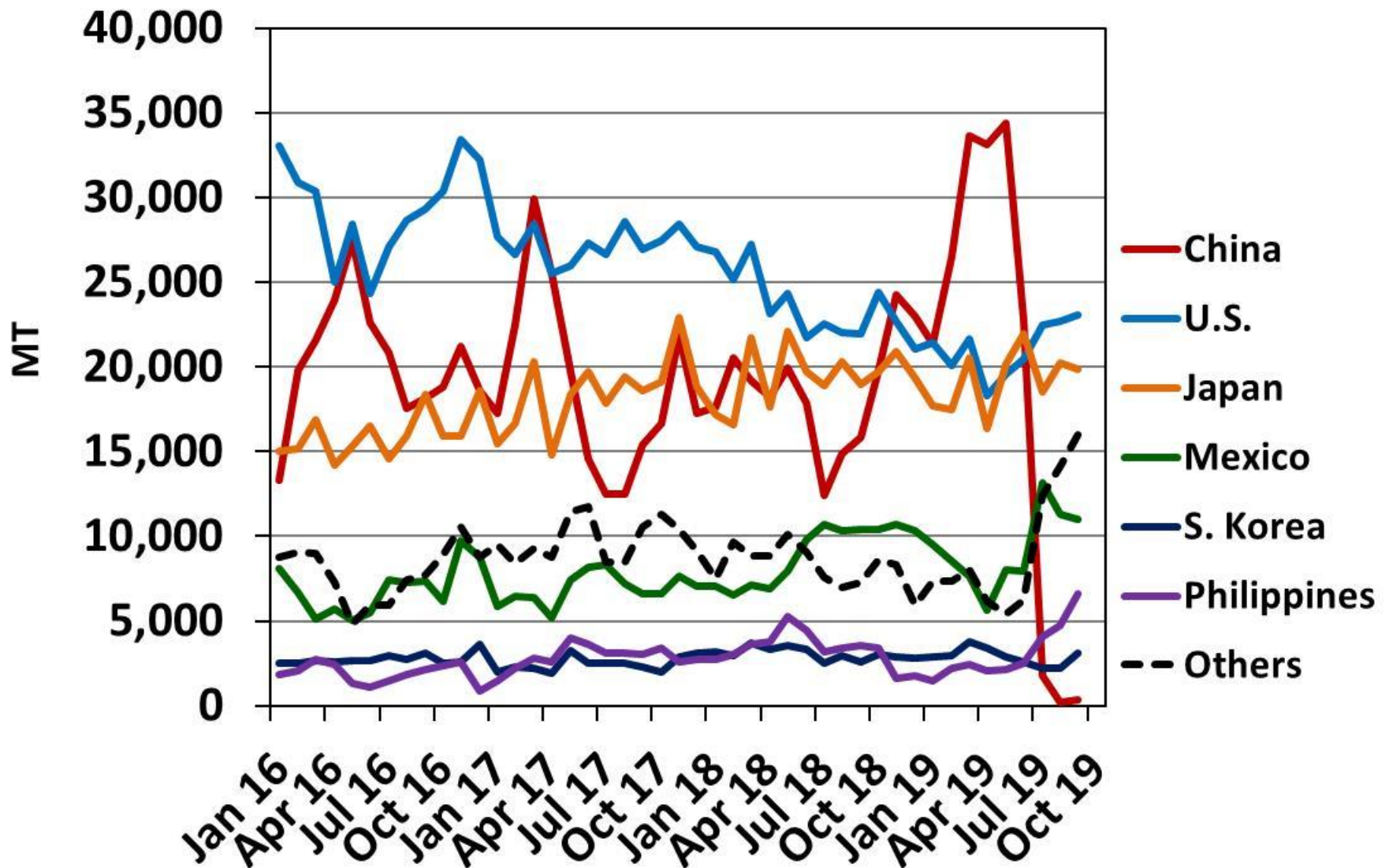
U.S. Hog Prices



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



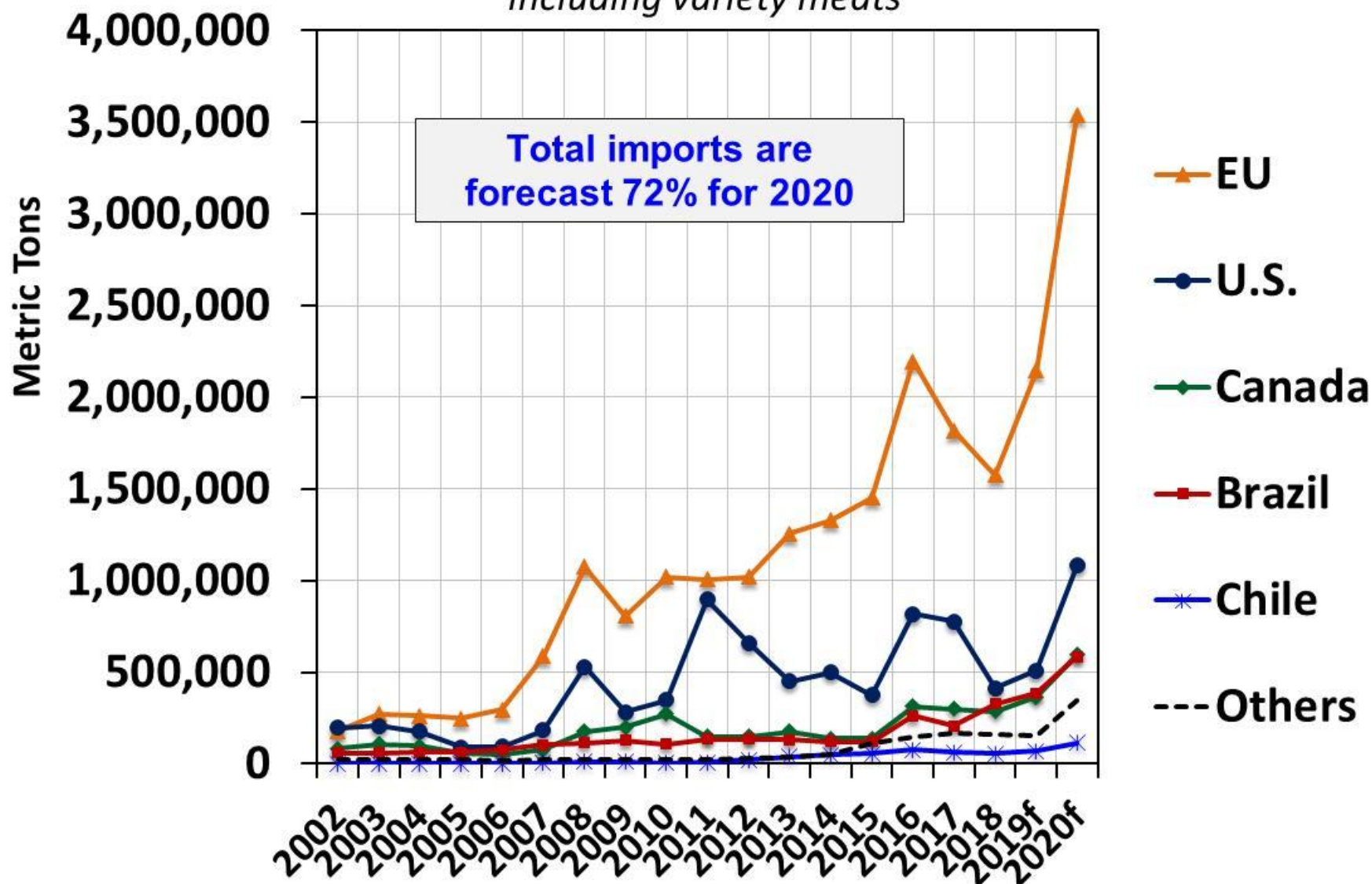
Source: TDM, AgriTrends, excluding offal

2020 Pork Forecasts



China & Hong Kong Pork Imports

including variety meats

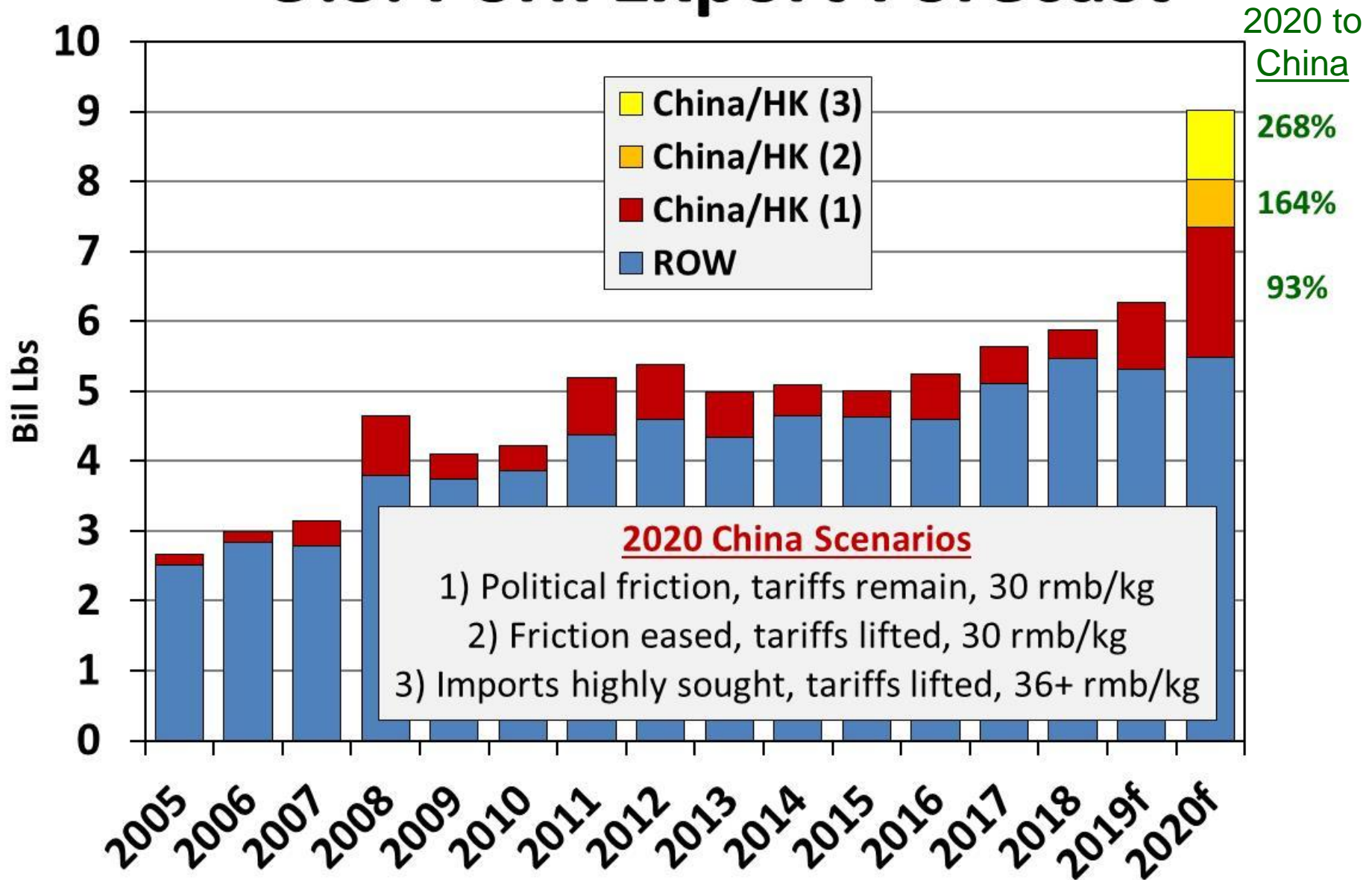


Politics: The “X” Factor

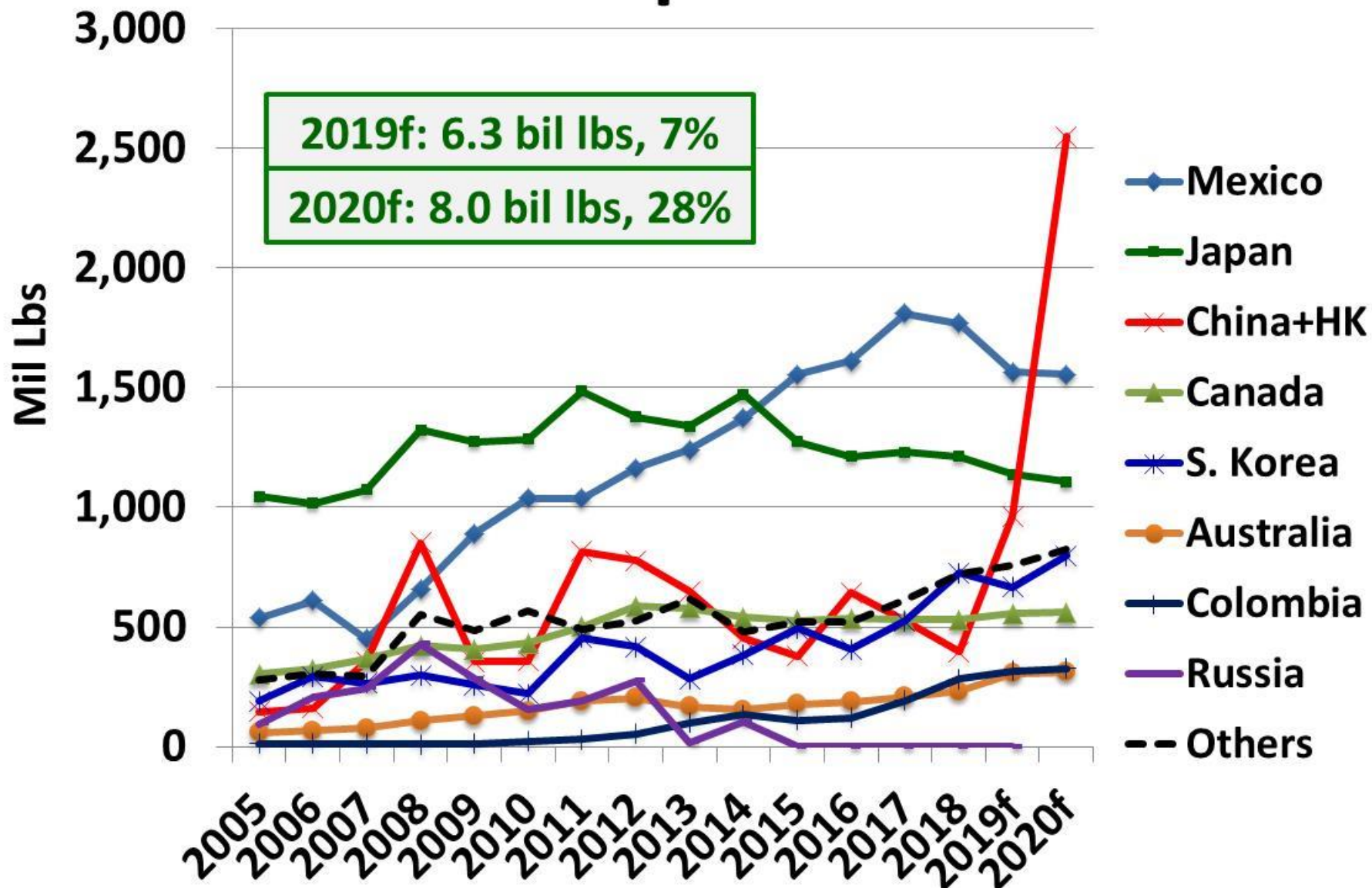
- How do the 50% retaliation tariffs affect US pork?
- The “Art of the Deal?”
 - Election:
 - China is a great “punching bag” ...
 - China is also very patient...
- Chinese pressure to ensure supplies is soaring



U.S. Pork Export Forecast

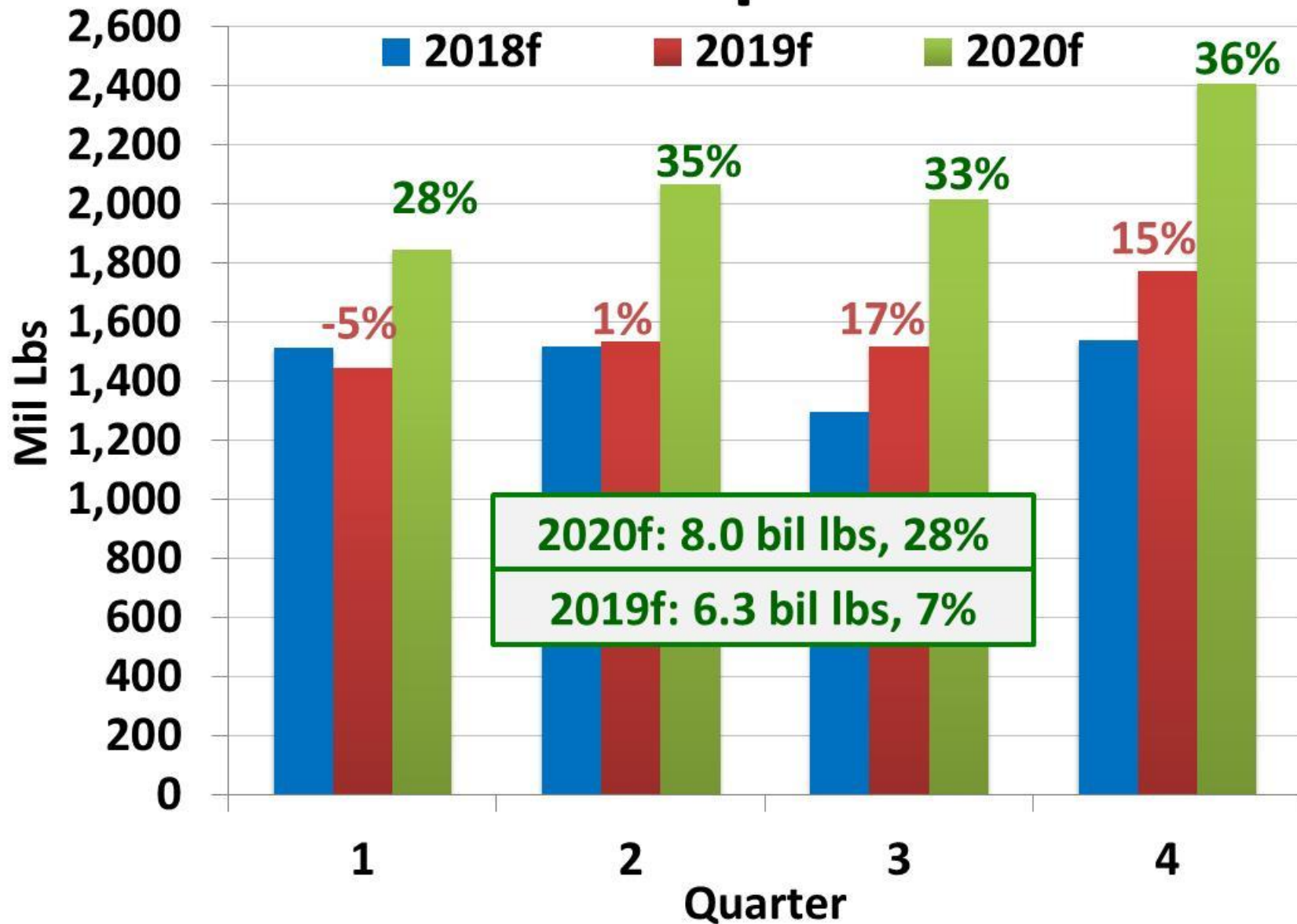


U.S. Pork Export Forecasts



Source: USDA/ERS, AgriTrends forecasts

U.S. Pork Export Forecasts



What If We Find ASF in N. America?

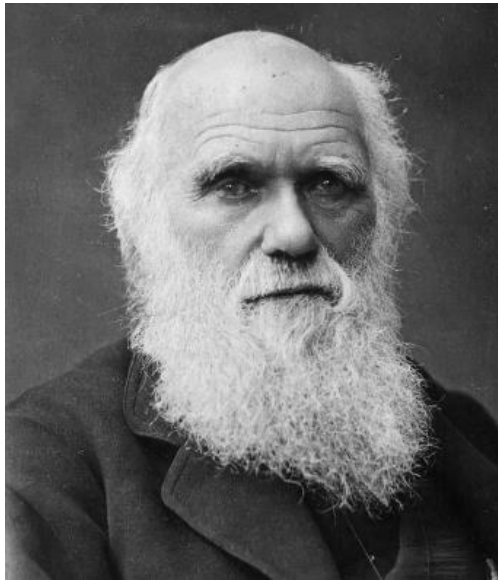
- **Export markets close instantly**
 - Some may regionalize within weeks
 - Canada, Mexico, U.S.?
 - At least a couple weeks to investigate and determine if it is contained
- But for weeks we have WAY too much pork
 - US exports 23% of production, Canada 68%
- And many export markets stay closed
 - 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**



Questions?

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