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Another Uncertain Year – With More Complex Disease and Trade Issues

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Rising disease pressures are challenging the global market. While African swine fever (ASF) is spreading in China and eastern Europe, diseases such as classical swine fever and foot-and-mouth disease (FMD) are threatening other regions. China’s need to lift imports will incentivise continued growth in key exporting countries, but how much pork China will import remains uncertain. The ongoing US-China trade talks add uncertainty to the international trade dynamics – will US pork be shipped to China without retaliatory tariffs in 2019? – as do Brexit and the new Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). The Rabobank Five-Nation Hog Price Index dropped below the average 2015-2017 level, reflecting market sentiment (see Figure 1).

China: ASF spreading fast

Entering 2019, ASF outbreaks on large, modern farms have astonished the market. ASF is reshaping the industry. Production expansion and replenishment are expected to markedly slow due to great concerns over biosecurity measures. While pork supply is believed to be sufficient in Q1, the big supply issue will arise later in the year, with pork imports expected to increase substantially due to local supply shortages.

EU: Relatively stable despite the threat of ASF

The EU pork market has mixed signals entering 2019. While the expected higher imports by China encourage production expansion, Belgium and eastern Europe are still shrouded in ASF threats. Rising piglet prices in recent months signal tight piglet supply, but also strong production intentions. Brexit is another wild card for EU trade which is expected to play out in Q2 and beyond.

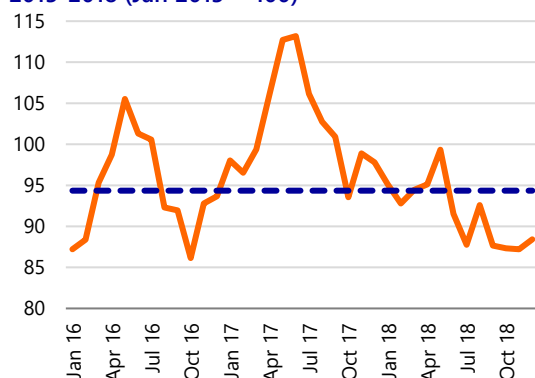
US: Continued production growth in 2019

Pork production is expected to rise 4% in 2019, driven by a large breeding herd and widely held expectations of stronger demand from China. While pork exports fell in some markets in 2018, overall exports managed to grow marginally, driven by strong shipments to Japan and South Korea. Exports are expected to improve in 2019, despite the uncertainty of the US-China trade talks. Hog prices continue to be strong, supported by improved export access.

Brazil: Better results expected in 2019

After experiencing a bumpy and challenging 2018, Brazil’s pork industry has more promising prospects in 2019. China is expected to drive export growth. The recent return to the Russian market – through recertification of a limited number of plants – will also contribute to rising exports. Local demand has the potential to improve further due to the more positive economic landscape.

Figure 1: Rabobank Five-Nation Hog Price Index, 2015-2018 (Jan 2015 = 100)



Source: national statistics, Rabobank 2019

Figure 2: Rabobank currency forecasts, Jan 2019-Jan 2020

	Jan 11	3M	6M	12M
EUR/USD	1.15	1.13	1.12	1.15
USD/JPY	108.3	108	106	105
USD/CAD	1.32	1.34	1.32	1.33
USD/BRL	3.71	3.8	3.7	3.7
USD/MXN	19.1	19.8	20	21.0
USD/CNY	6.74	6.95	7	7.5

Source: Rabobank 2019

Feature: Rising disease pressures are the new reality

Disease pressures are rising – and are set to be the major change driver in global animal protein in 2019 (see Figure 3). In this article, we summarise the rising pressures, along with their potential implications.

Rising disease pressures

Over 100 cases of African swine fever have been reported in China so far, spanning 24 provinces. Most cases have affected small, informal farms, but some large, modern farms have also been affected, along with some wild boars. The disease has also spread to neighbouring Mongolia.

ASF is also spreading in eastern Europe – especially in Romania, where all but three regions now fall under EU restrictions. In Poland, infected wild boars have been found on the western edge of the outbreak zone. The outbreak in Belgium is currently contained, although the most recent cases at the border of the restricted zone – only 1km from France – signal the ongoing threat.

In Vietnam, outbreaks of FMD have been reported in the north and centre in recent weeks: a result of earlier vaccine shortages. This has prompted some sow and hog liquidation on small farms, as the infected herd would be culled.

Classical swine fever was reported in Japan last September and has since spread in the area surrounding the initial case, with domesticated pigs and wild boars affected. Affected pigs have been culled, although containment efforts have not been fully effective.

Since 2016, PEDv has not appeared in Mexico thanks to improved biosecurity measures. However, PRRS in Mexico continues to take a toll on daily productivity – yet commercial farms have been able to work around this ongoing virus as production continues to increase.

How diseases affect global animal protein

Disease pressures affect global animal protein in two ways. Severe disease outbreaks can lead to local production losses, especially in cases where there is no cure, no vaccine, or limited vaccine stocks for the disease. This impact can last for some time – in the case of ASF in China, infected zones are prohibited from restocking animals for at least six months.

The second area of impact is trade – and this is arguably more significant than production losses. The outbreak of disease brings restrictions on trade from the affected

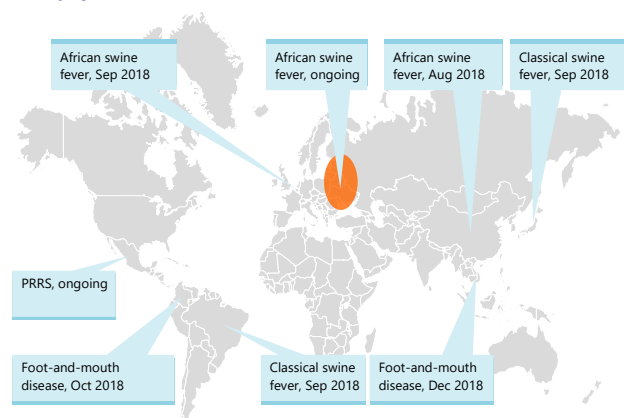
country, in order to manage the risks of the disease spreading. The WTO and the World Organisation for Animal Health (OIE) have agreed on norms to manage the risk of diseases spreading through trade, known as the Agreement on the Application of Sanitary and Phytosanitary Measures (SPS Agreement). Countries may choose to adopt measures that are more stringent than these standards – if considered necessary to protect the health status and if justified by a risk analysis.

The management of ASF pressures is evolving

China's government responded to ASF by banning the live transportation of hogs, in order to restrict disease distribution. This created a huge hog price difference between the north and south, due to a mismatch between hog production and slaughter capacity. The approach is currently changing: sows and piglets can now be transported under certain circumstances, live hogs can be transported from adjacent provinces, and pork products can be transported more widely. More change is expected, including a regionalisation approach. The policy change reflects government intention shifting from disease eradication within a short timeframe to managing risks over the longer term.

Regionalisation is the model adopted in the EU, so that the disease status of specific regions within the EU can be recognised by trading partners, rather than the EU being treated as a single entity under the SPS Agreement. The regionalisation approach continues to be refined, with new 'regions' being added. EU member states are also investing in disease control measures. Poland, for example, plans to greatly reduce its wild boar population, and some countries, such as Denmark and France, have erected fences to control the movement of wild boars.

Figure 3: Disease pressures have risen around the world in 2018



Source: OIE, Rabobank 2019

Dashboard

Legend and units

Production	Exports	Imports	Hog price	Piglet/feeder price	Feed price
1,000 tonnes carcass weight equivalent (CWE)			kg CWE	kg	kg

Δ = year-on-year change

All prices in local currencies

EU: Flat prices amid high production, exports at focus

Production	Exports	Class E price	Piglet price	Feed price
Stabilising	Upside expectations	Flat	Rising	Stabilising
Sep 2018: 1,875 Δ -1.1%	Sep 2018: 690.76 Δ -1.99%	Nov 2018: 1.36 Δ -1.6%	Dec 2018: 39.5 Δ +10.7%	Dec 2018: 2.63 Δ +0.8%
YTD: 17,6903 Δ +2.39%	YTD: 6,294 Δ 0.61%	YTD: 1.42 Δ -12.1%	YTD: 42.3 Δ +5.6%	YTD: 2.48 Δ +4.7%

China: Prices are under pressure in Q1, but will likely soar afterwards

Herd (Nov)	Pork meat imports	Hog price	Piglet price	Corn price
To decline	Rising after Q1	Stable for Q1	Decline in Q1	To stabilise
Hogs: 401 Δ -1.57%	Nov: 914 Δ -8.6%	Dec: 13.3 Δ -12.5%	Dec: 21.4 Δ -30%	Dec: 1.9 Δ +10.9%
Sows: 40.8 Δ -2.1%	Jan-Nov: 1,097 Δ -7%	Jan-Dec: 12.7 Δ -17%	Jan-Dec: 25.5 Δ -29%	Jan-Dec: 1.82 Δ -11.5%

US: Production growth continues despite weaker prices – ASF-related export hopes

Production	Exports	Hog price	Sow price	Feed price
Expanding	Stable	Declining	Falling	Rise slowing
Oct 2018: 1,106 Δ +5.2%	Oct 2018: 227 Δ +1.5%	Nov 2018: 0.95 Δ -7%	Nov 2018: 0.95 Δ -2.6%	Nov 2018: 0.56 Δ +3%
YTD: 9,808 Δ +3%	YTD: 2,192 Δ +5.4%	YTD: 1.01 Δ -10.4%	YTD: 0.94 Δ -13.5%	YTD: 0.49 Δ +4.5%

Canada: Improved export demand amid better trade outlook – continue to see limited herd growth

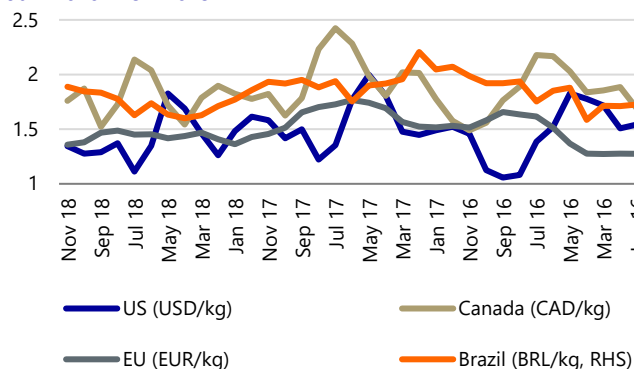
Production	Exports	Hog price	Feeder hog price	Feed price
Stable to own	Rising	Declining	Rising	Rising
Nov 2018: 172 Δ -0.7%	Nov 2018: 108 Δ 3.9%	Nov 2018: 1.68 Δ -6.7%	Nov 2018: 0.75 Δ -3.3%	Nov 2018: 0.82 Δ +3.1%
YTD: 1,186 Δ -0.9%	YTD: 1,045 Δ -2%	YTD: 1.82 Δ -9.9%	YTD: 0.52 Δ -9.9%	YTD: 0.85 Δ +3%

Brazil: Pork exports expected to increase during 2019

Production	Exports	Pork price	Hog price	Feed price*
Expected to increase	Expected to stabilize	Expected to increase	Expected to increase	Expected to decline
Sep 2018: 308.9 Δ -1.1%	Dec 2018: 55.1 Δ +5.2%	Dec 2018: 6.47 Δ +1.7%	Dec 2018: 3.92 Δ +0.8%	Dec 2018: 0.85 Δ +17%
YTD: 2,965.9 Δ +4.5%	YTD: 635.4 Δ -6.8%	YTD: 5.49 Δ -13.8%	YTD: 3.47 Δ -15.4%	YTD: 0.87 Δ +33%

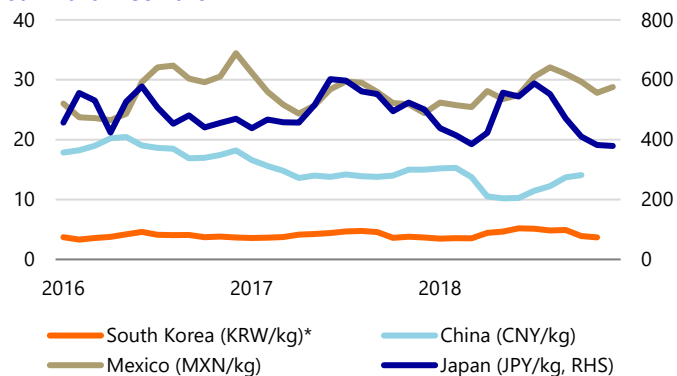
* feed price: 60% corn, 40% soymeal; herd: million head

Figure 4: Pork prices in exporting countries, Jan 2016-Nov 2018



Source: Thomson Reuters Eikon, Macrobond, Porcimex, ALIC, Rabobank 2019

Figure 5: Pork prices in importing countries, Jan 2016-Dec 2018



*Note: For display purposes, the South Korean won has been divided by 1,000. Source: Thomson Reuters Eikon, Macrobond, Porcimex, ALIC, Rabobank 2019

China

African swine fever is reshaping China's pork industry in a number of ways. First, farming is consolidating, with many small farms closing amid both disease and price pressures. Medium-sized farms in the north and north-east have made heavy losses as a result of the very low market prices – a consequence of transportation restrictions and local oversupply. We estimate that about 30% of these farms have liquidated sows due to financial stress.

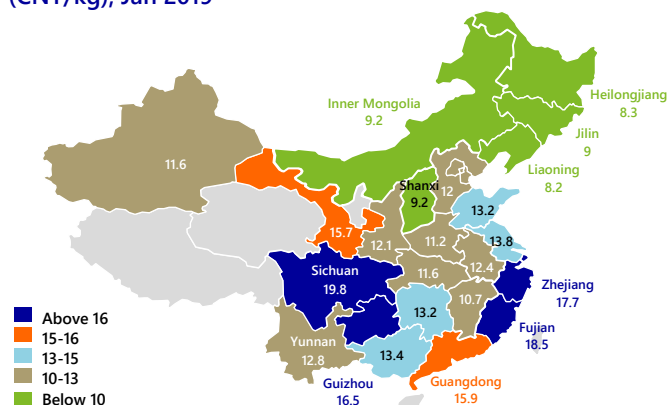
Second, the hog and meat distribution pattern is changing from hog transport to meat transport, with more hogs slaughtered in the north instead of being transported south for slaughtering. However, the geographical distribution of slaughtering capacity and cold chain capacity is not currently aligned with this change, suggesting an ongoing mismatch between supply and demand across the country for the coming one to two years, until new capacity is added.

Third, markets are disaggregating due to disease control measures. In the past four months, hog prices in the north-east have dropped by 35%, while prices in the south increased by 30% (see Figure 6).

We expect pork production in 2019 to drop by 10% to 20% YOY, with the hog slaughter number dropping more, but carcass weights rising. We estimate that the sow herd in the north and north-east declined by about 30% by the end of 2018, and by 10% to 20% in other regions. That means the total herd has declined by around 15% across the country.

We maintain our view that China's pork imports will increase substantially in 2019, after Q1. Pork meat imports in the first 11 months of 2018 were at 1.09m tonnes, down 0.7% YOY. Pork offal imports fell further, down 20%, mainly due to the decline in US pork offal trade during the trade war. Germany and Spain continue to lead total imports, by shares of 19% and 18.5%, respectively. Brazil had the most outstanding performance, advancing its rank from #8 in 2017 to #3 in 2018. The share of Brazil in China's total imports improved from 4% in 2017 to 12.3% in 2018. The expected production growth in Brazil suggests potential to export more pork to China in 2019. But if the US and China reach an agreement on tariffs, US shipments would see the biggest change in trade flows to China in 2019.

Figure 6: Regional difference of Chinese live hog prices (CNY/kg), Jan 2019



Source: Boyar, Rabobank 2019

US

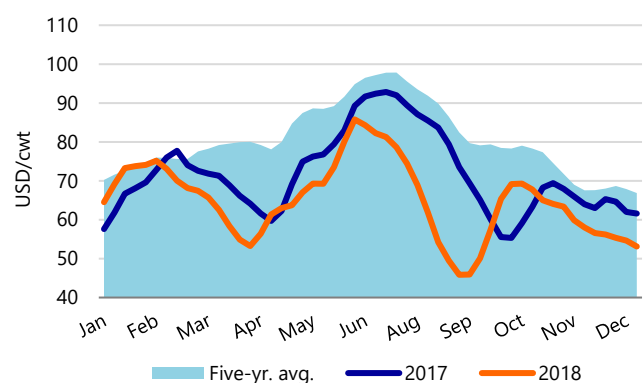
We continue to look for nearly 4% growth in US pork production in 2019, even as the USDA recently revised 2018 sow numbers and farrowing intentions lower. A record-large breeding herd (6.3m sows) and expectations for stronger export demand later this year incentivise continued growth.

Markets continue to discount improved Chinese pork demand in 2H 2019, as ASF-related herd losses constrain supply and force improved trade terms with leading production regions, including the US (see Figure 7). We believe China remains adequately supplied in the near term as producers liquidate herds to avoid disease-related losses. Nevertheless, strong markets have provided an opportunity for producers to limit risk and lock in profits for a majority of 2019. Stronger second-half export demand from China could provide additional upside to prices later this year, but the timing and magnitude remain difficult to estimate.

Pork exports fell marginally in October (-2% YOY in volume, -5% YOY in value) as trade restrictions continue to limit shipments. Shipments to China/Hong Kong in the month were sharply lower (-38% YOY), although exports picked up notably to Taiwan (+34% YOY) and the Philippines (+85% YOY) suggesting neighbouring countries may be stockpiling product amid ASF concerns. The US continues to gain market share in South Korea and hold share in Japan, driving sharply higher shipments in the month (+8% and +27%, respectively) and further highlighting the importance of continued access to the region. Lower shipments to Mexico, the largest export market in volume, in October (-4% YOY in volume, -18% in value) continue to reflect the ongoing impact of restrictive 20% tariffs on most US pork and are unlikely to improve in the near term. Despite the ongoing weakness, pork exports for the year are up 1% YOY in both volume and value.

Packer margins recovered in late Q4 2018 – after a stable, but lacklustre fall, and well below the exceptional early fall returns. Cut-out values should remain well-supported on strong bacon demand and good retail support, despite ongoing weakness in loins and exports. Stable pork demand in the short run may not be enough to fully compensate for the strength in hog prices, although improved export access should shift margins back in the packers' favour.

Figure 7: US hog prices, 2017-2018



Source: Bloomberg, Rabobank 2019

EU-28

The EU pork market has started the new year full of mixed signals. Export opportunities to China headline the positive signals, while ASF outbreaks in Belgium and eastern Europe are risking optimism.

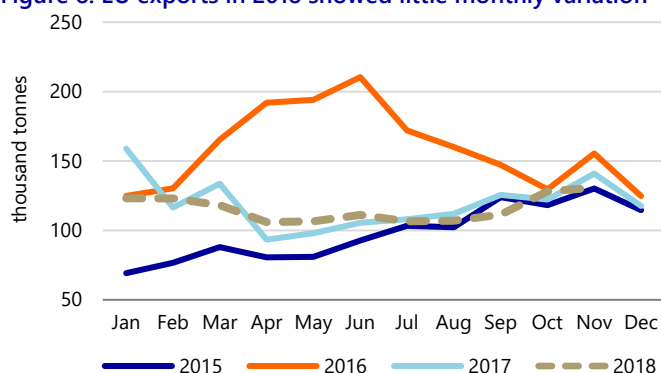
The disease continues to spread in eastern Europe – especially Romania, with Hungary and Poland also reporting new cases. Reports of wild boars immune to ASF in Poland point to a threat of the disease spreading even faster. In December, the EU extended its list of regions for disease control measures, including transport bans and eradication programmes. The outbreaks in Belgium appear to be contained, but worryingly, the most recent cases have been found close to the border with France.

Carcass prices remain on a flat trajectory entering 2019, while piglet prices have been rising quickly. This increase follows the seasonal pattern, but the magnitude signals production intentions. Tight piglet supply is also pushing up prices. We expect relatively strong production in the current winter season. The prospect of increased import demand in China is behind the positive production intentions, despite pork supplies currently being at high levels in Europe and despite import demand remaining seasonally consistent in 2018 (Jan-Nov data) (see Figure 8).

EU exports to China showed little month-by-month variation during 2018 – and while levels have risen in 2H, they are yet to show the strong demand from China that the market has been anticipating. The modest price levels in many parts of China, along with the frozen reserves, may explain the lower-than-expected trade demand in Q4 2018.

EU trade will also be impacted by Brexit. Given that the UK has been the largest pork importer in the EU, a 'hard Brexit' could mean that exports from the EU-27 to the UK will be disrupted in Q2 and beyond. The main points of interest for pork players are how sanitary checks and plant licencing will be undertaken, along with the sterling valuation. Rabobank expects sterling to soften markedly under a hard-Brexit scenario – and to strengthen if the UK signs the deal with the EU-27.

Figure 8: EU exports in 2018 showed little monthly variation



Source: Eurostat, Rabobank 2019

Mexico

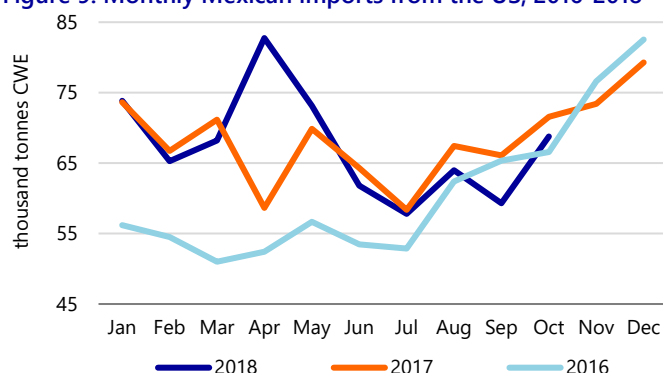
In 2018, Mexico's pork production is estimated to end close to 4% higher compared to 2017, with a total of 1.31m tonnes (CWE). Events of 2018 caused much uncertainty in Mexican markets, with the renegotiation of NAFTA and the introduction of retaliatory tariffs on US imports. This led to higher local production, as well as imports from new origins. In 2019, given that the renegotiations have concluded on the new USMCA deal, the only thing left to solve is the US import tariff. For 2019, production is expected to increase 3.8% to 4%, to around 1.36m tonnes (CWE).

Despite the trade uncertainty and tariffs, imports from the US in 2018 are estimated to be roughly 1.4% higher than 2017, with monthly imports in August falling to 2016 levels (see Figure 9). From January to October of 2018, imports reached 675,000 tonnes, compared to 668,000 tonnes (CWE) in 2017. Given the tariff introduction in July, Canada has benefited and increased its share to 15% of the total Mexican pork imports, compared with 13% during the same period in 2017. Imports are expected to grow by 4% in 2019, to a total of 1.22m tonnes (CWE).

While consumption grew by 6% from 2017 to 2018, from 2018 to 2019, consumption is expected to continue growing, but at a slower pace. Strong inflation and higher interest rates are beginning to put stress on families' purchasing power. However, Mexico continues to be one of the faster countries in terms of consumption growth in pork. Consumption per capita is expected to reach another record year, with 18.8 kg/capita compared to 18.3 kg/capita in 2018, with total consumption at 2.4m tonnes CWE.

In 2018, national average hog prices and pork carcass prices ended respectively 2% and 4% higher compared to 2017 as demand for hogs in Mexico increased, helping to support domestic hog prices.

Figure 9: Monthly Mexican imports from the US, 2016-2018



Source: USDA, Rabobank 2019

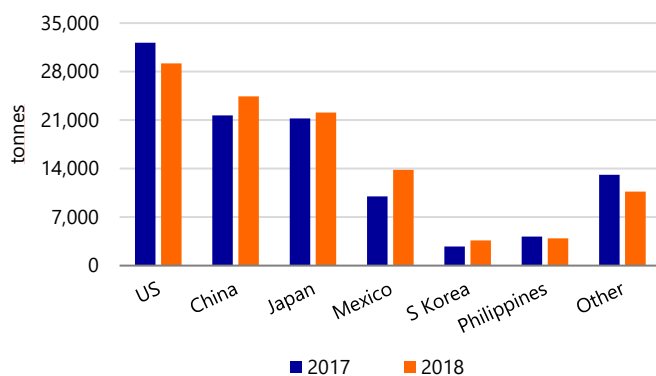
Canada

Canada's hog production was down slightly to end the year, but was flat for the full year, at 2m tonnes. Slaughter rates fell late in the year (down 1.5% to 2% for the quarter), as hog numbers continued to disappoint despite plentiful packing capacity. We continue to believe disease challenges have left herd numbers light, while government restrictions on expansion have limited growth in other regions. The early 2019 discovery of a PED-positive pig in Alberta, while not alarming on its own, has the potential to develop into yet another production challenge for the region.

Despite lacklustre production growth, exports have started to pick up (up 3% YOY in October, up 5% YOY in value) as Canada benefits from restrictions on US pork exports (see Figure 10). Canadian exports to China were up 13% YOY in October and appear to have strengthened further to end the year. Exports to Mexico, while small, were also up 39% YOY in volume, 54% YOY in value October, and were up 26% year-to-date. Canada's focus on high-quality pork exports continues to pay dividends in Japan and South Korea (+4% YOY and 32% YOY in October). After several months of declines (down 8% YTD), exports to the US were up 5% in value in October, on 9% less volume. Given ongoing disease challenges in China (ASF, CSF, FMD) and Japan (CSF), we continue to expect significantly stronger export demand later this year. We note, though, that Canada's growing political tensions with China following the arrest of the Huawei CFO have the potential to interfere with pork exports until these issues are resolved.

After several months of limited trade, US demand for Canadian feeder pigs has rebounded in recent weeks. We believe a late harvest in the US, disease pressure in some Midwestern operations, and ongoing uncertainty regarding the market outlook for pork likely slowed imports. With markets now rewarding US producers for growth, there has also been a notable pick-up in trade. Stronger production growth in the US would be supportive to herd expansion in Canada – but unless producers turn a profit consistently, we do not expect much change.

Figure 10: Canadian pork exports, 2017-2018



Source: Statistics Canada, Rabobank 2019

Japan

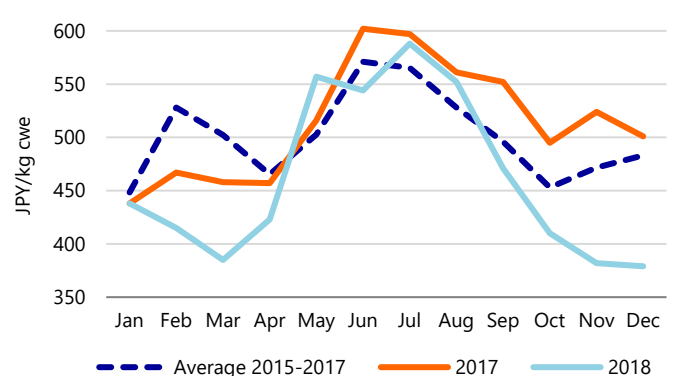
In 2H 2018, Japan was hit by a series of outbreaks of classical swine fever, which has not yet been effectively controlled. By the end of December, six outbreaks had been confirmed. In response, Taiwan has banned imports from Japan, even though these quantities are insignificant (36 tonnes in 2017).

Yet markets within the value chain have not directly reacted to these outbreaks. Consumer prices are at an all-time high, while import prices remain stable. The ever-volatile producer price index retreated early for the season, indicating a more general uncertainty and risk for primary producers. The domestic price for pork on the Tokyo market retreated, from a high peak in the summer to JPY 379/kg in December (see Figure 11).

However, the Japanese market remains full of opportunities, with high demand for top-value product and stable production of just over 800,000 tonnes in 2018.

The US remains the leading pork exporter to Japan (398,000 tonnes), dominating the fastest-growing export markets of chilled pork and ground seasoned pork (GSP), but it is quickly losing share to competitors. While US trade officials remain committed to a US-Japan FTA in 2019, progress currently appears to have stalled. At the same time, the EU (specifically Spain and Denmark) should immediately benefit from lower duties on frozen pork into Japan beginning in April 2019. Germany and the Netherlands should see a similar relative improvement in trade terms for GSP. Canada – currently the second-largest exporter to Japan (234,000 tonnes) – should continue to gain share of the fresh pork market and is likely to overtake the US as the leading supplier within a few years, given its preferential position under the CPTPP. Mexico should also be a net beneficiary of its participation in CPTPP, as its volume of GSP, chilled, and frozen pork exports to Japan is likely to grow.

Figure 6: Japanese pork prices, 2017-2018



Source: Alic, Rabobank 2019

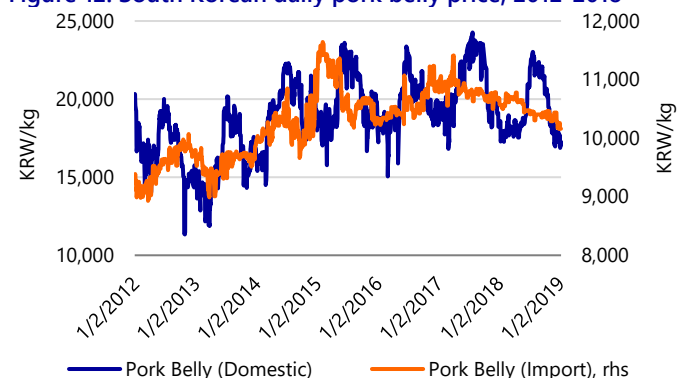
South Korea

Biosecurity is also troubling South Korea, though not yet directly. The peninsula is facing the threat of ASF outbreaks at any time, given its close proximity to ASF-riddled China and frequent cross-border traffic. For now, the only ASF contamination was found during airport luggage inspections. Any foreign animal disease outbreak in South Korea would further jeopardise the local herd (currently 67% self-sufficient) and force the country to become even more reliant on outside sources.

As one of the fastest-growing pork consumption markets in the world, South Korea has become increasingly reliant on imported product. The EU-28 as a whole remains the largest exporting region, but the US should benefit from lower tariff rates following the recently-updated KORUS FTA agreement. The EU currently benefits from a nearly 10% to 15% tariff advantage relative to Canada and Mexico, in line with the US. Germany (109,000 tonnes, 2018) and increasingly Spain (110,000 tonnes, 2018) are expected to remain key suppliers of high-value product in 2019. The US is quickly gaining share in South Korea as it continues to benefit from the gradual reduction of duties on fresh product (frozen duties are already at zero). Total shipments of roughly 650,000 tonnes in 2018, up 40% YOY, make South Korea the third-largest market for US pork. To date, Canadian exports have not been able to compete with these growth rates, with shipments nearing 46,000 tonnes in 2018.

Prices for imported bellies are under pressure, but are not as volatile as domestic pork (see Figure 12). Currently Germany and Spain will be looking to retain their comparative advantage of providing value-added processed pork. The US remains an important supplier of butts and picnics.

Figure 12: South Korean daily pork belly price, 2012-2018



Source: Korean Agro-Fisheries & Food Trade Corporation, Macrobond, Rabobank 2019

Vietnam

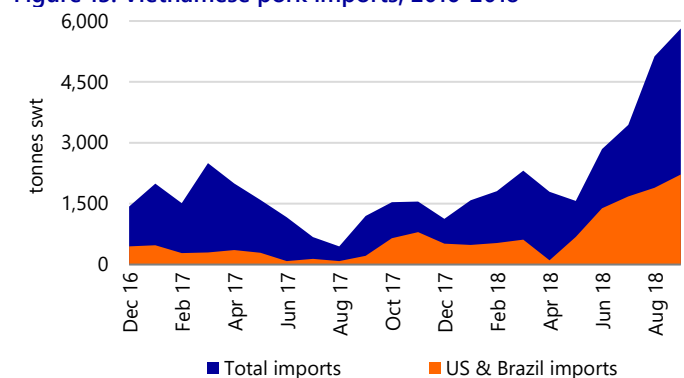
24 outbreaks of foot-and-mouth disease (FMD) among pigs in six provinces and cities in north and central Vietnam have been reported since December 2018, the result of an earlier shortage of vaccines. The risk of further FMD cases in unvaccinated swine/cattle is high in areas with previous outbreaks. Disinfection of affected farms has been undertaken, along with vaccinations of both cattle and swine populations in the area.

No ASF outbreaks have been recorded in Vietnam, even though cases have been reported in China's Yunnan province, immediately north of the country, increasing the risk of disease.

At the end of December 2018, finished hog prices were quoted at VND 49,000/kg lwt in the south and VND 43,000/kg lwt in the north – easing from VND 52,000/kg and VND 51,500/kg, respectively, at the end of September 2018. The lower prices reflected some liquidation due to FMD outbreaks. The price differential also suggests more supply movements from the north to the south. Rabobank expects live pig prices for Tết to recover, to between VND 45,000/kg lwt and VND 48,000/kg lwt in Q1 2019. Prices may strengthen further after Tết, due to the earlier liquidation and the slower sow replenishment over fears of ASF. Fattening farms' Q1 2019 margins should remain good on peak Tết demand and lower feed cost –; partially offset by still relatively high piglet prices in July 2018.

Rabobank expects pork demand this year to increase by 2%, to 2.8m tonnes cwt, with per capita consumption rising to ±46 kg cwt. Having reportedly booked GDP growth of 6.5% to 6.7% in 2018, the government expects 2019 GDP to expand by 6.6% to 6.8%. Pork production is also forecast to expand by 2%, to 2.9m tonnes cwt this year – the slight excess supply mostly going to higher inventory and some exports. Jan-Sep 2018 pork imports reached 26,300 tonnes swt (Jan-Sep 2017: 13,100 tonnes swt), in response to domestic supply shortages (see Figure 13). Over the same period, imported volume of US and Brazil origins jumped 436% YOY.

Figure 13: Vietnamese pork imports, 2016-2018



Source: USDA-ERS, Rabobank 2019

Brazil

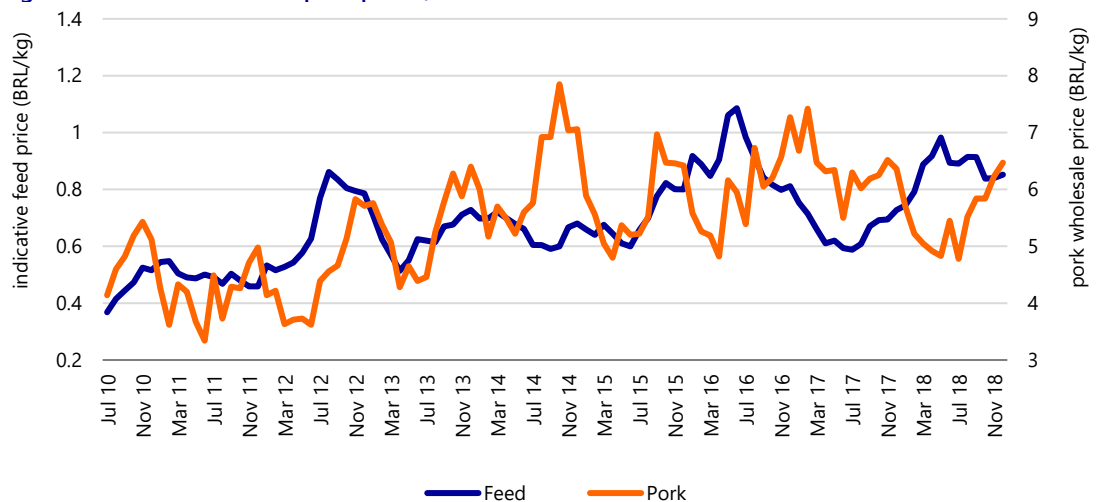
The Brazilian pork sector starts 2019 with optimism on the demand side, but with attention to costs. On international demand, after seeing exports decline by around 7% in volume during 2018, Brazilian pork exports are expected to accelerate. China will probably be the main driver of this growth after Q1 2019, due to challenges with ASF. Additionally, Russia lifted the embargo on Brazilian pork in November 2018 – and although only a limited number of plants are being allowed to export pork to Russia, this is an important destination that is likely to contribute to increasing Brazilian exports during 2019.

Meanwhile, local demand is expected to continue to recover, particularly due to the more positive economic landscape. On supply, according to the Brazilian Institute of Geography and Statistics (IBGE), pork production increased by around 4% in the first nine months of 2018 YTD, compared to 2017. However, some decline is estimated for Q4 2018. During 2019, we project a supply growth of about 4%.

On prices, after a weak start, pork values recovered during Q4 2018, finishing the year slightly above December 2017 levels (see Figure 14). Moreover, pork prices are expected to sustain higher levels during 2019, particularly due to the good prospects for demand. On costs, despite the excellent weather during the summer planting season, some producing regions are reporting erratic rainfall, which could impact soybean yields and also reduce the window for corn winter planting. Although feed price projections are unclear for the year, we still expect lower corn prices in 2019, compared to 2018.

All in all, 2019 seems to be more promising than 2018 for the Brazilian pork industry. The uncertainty on feed prices is likely to diminish in the coming weeks, when the summer harvest starts in Brazil.

Figure 7: Brazilian feed and pork prices, 2010-2018



Source: CEPEA, Rabobank 2019

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