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Covid-19 Crisis Disrupts Global Pork Industry

RaboResearch
Food & Agribusiness
far.rabobank.com

Lead Author

Christine McCracken
Senior Analyst – Animal Protein
+1 (212) 574-7588

For a full list of authors, please see the back page.

Consumer pork demand has suffered a near-term shock due to global quarantine measures, while the production and packing sectors struggle with supply chain disruption. The sharp Q1 drop in pork demand in North America due to quarantine measures, and similar softening in Europe, may soon expand to newly affected regions. Asian pork demand is recovering but remains limited by availability and price. Rabobank expects continued volatility in pork prices in 2020, as disruption in local markets is balanced with product shortfalls in Asia (*see Figure 1*). The combined effect of near-term demand destruction and processing interruptions due to labor constraints has weakened producer returns and will slow production growth. Weaker GDP growth could further pressure pork demand, compounding an already challenging operating environment.

China: Hog price strength reflects slow herd recovery and demand recovery

Hog prices remain elevated on African swine fever (ASF) herd losses and a gradual recovery in the production sector. Producer interest in rebuilding remains good, resulting in a sharp upward trend in piglet costs. Continued outbreaks of ASF remain a concern and limit growth for smaller operations. Pork demand has recovered, albeit more slowly than anticipated.

Europe: ASF and Covid-19 production issues and strong exports deliver a volatile outlook

Asian demand drove a 25% YOY increase in exports, helping offset Covid-19 disruption. Two cases of ASF at commercial barns in Poland on the border with Germany raise new concerns.

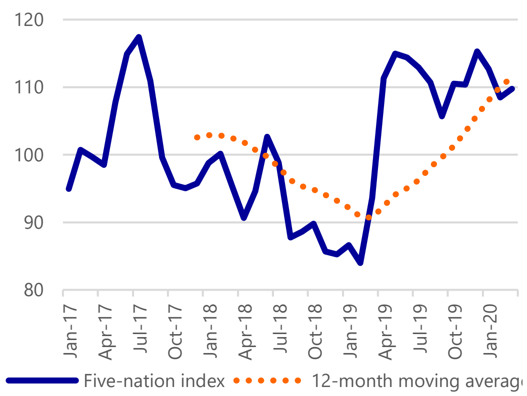
US: Plant closures and weak foodservice demand drive sharp market downturn

Two plant closures and critical labor shortages at many others created uncertainty and forced a 35% drop in hog prices in recent weeks. This has created a backlog of hogs, which will quickly reach critical levels given record supplies. Pork values have dropped but have seen some support from exports.

Brazil: Exports continue at a strong pace

Despite Covid-19 disruption, pork exports remain strong, driven by demand from China. Weakness in the BRL and a shortfall in supply in Asia will support continued growth, helping to offset weaker domestic markets. Producers face higher corn costs, which should limit production.

Figure 1: The Rabobank Five-Nation hog index has been supported, but will soften on coronavirus



Source: CME Group, CEPEA, CANSIM, EU Commission, Macrobond, Rabobank 2020

Figure 2: Rabobank currency forecasts, Apr 2020-Apr 2021

	Apr 21	*3M*	*6M*	*12M*
EUR/USD	1.06	1.1	1.12	1.15
USD/JPY	109	112	112	115
USD/CAD	1.42	1.38	1.38	1.36
USD/BRL	4.85	4.6	4.45	4.3
USD/MXN	24.5	23	20	21
USD/CNY	7.3	7.6	7.75	8

Source: Rabobank 2020

Feature Story: Covid-19 Threatens to Overtake African Swine Fever as the Main Driver in Global Pork Markets

The impacts of the Covid-19 pandemic are monopolizing attention across all pork markets at present and will continue for at least the coming quarter. While ASF continues to pressure pork production in much of Asia and some parts of Europe, Covid-19 is restricting both pork production and consumption.

Section 1: Coronavirus Is Currently Reshaping Pork Market Dynamics in Three Main Areas

A. Labor challenges in plants

The spread of coronavirus is reducing labor availability at plants, and minimizing the risk of infection is restricting plant capacity in many markets. Right now, this is a particular challenge in the US, where packing/processing capacity was already tight relative to hog supply and where several plants have been temporarily closed due to high numbers of worker absences. We expect the situation to gradually improve as the rate of infections eases in the coming months, and plants are working hard to ensure the timely slaughter of pigs and to limit a backlog of inventory. However, in the short run, this has put considerable pressure on producers and has reduced processing volumes.

B. Channel shift from foodservice to food retail

The channel shift from foodservice to food retail has immediately benefited consumer-friendly items, such as sausages and shelf-stable goods, while products with greater exposure to foodservice, such as bacon in the US, have suffered. The backlog of supply creates inefficiencies for the packer/processor, with additional costs for reprocessing, repackaging, and redistribution of products to suit food retail needs. Not all products can be repurposed for food retail, resulting in higher inventory and associated storage costs. The effects of the channel shift will likely remain through 2020, with the first signs of recovery in foodservice in late Q2 and inventories starting to fall in Q3.

C. Logistics, distribution, and trade

The industry faces the challenges of plant closures, channel shifts, driver shortages, and reduced shipping. While there was concern over the availability of feed and feed additives, this has now eased. The disruption of trade flows now represents the biggest challenge for global pork markets, which is mainly due to reduced shipping availability. Ship movements between Europe and Asia are reportedly down 20%, while movements between North America and Asia are down 10%. This shift will require changes in inventory management, adding cost to trade. The WTO has forecast world merchandise trade to decline by 13% to 32% in 2020 due to Covid-19, implying ongoing challenges for trade into 2021 (*see Figure 3*).

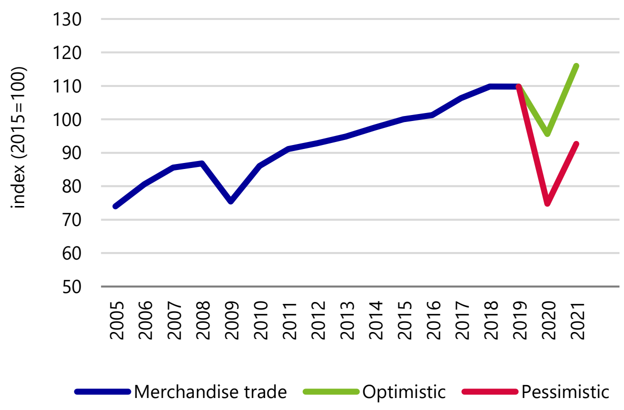
Section 2: Impacts by Region Lend Useful Insights

With global pork markets in different stages of the Covid-19 pandemic, it is useful to monitor how various regions emerge from the disruption (*see Figure 4*).

Stage 4: Managing (China, Vietnam) As the first region impacted by Covid-19 and the furthest along in the recovery, Asia is unique in that it is not only dealing with Covid-19, but is also short of pork due to ASF. Labor and logistical challenges are largely resolved, whereas sales at foodservice were slow to rebound due to lingering consumer fears. Lasting impacts will be trade-related and driven by weaker global GDP growth.

Stage 3: Ongoing (EU, US, Japan, Canada) Most of these markets are currently facing labor and supply chain disruption, together with a shift of sales to retail. Expect

Figure 3: World merchandise volume set to plummet in 2020



Source: World Trade Organization, Rabobank 2020

Figure 4: Covid-19 impact on pork industry

	Stage 1	*Stage 2*	*Stage 3*	*Stage 4*	*Stage 5*
	No impact	**Early**	**Ongoing**	**Managing**	**Recovery**
	Africa, Argentina	***Brazil, Mexico***	***EU, US, Canada, Japan***	***China, Vietnam***	
Domestic Pork Demand		Pantry loading; weaker foodservice	Foodservice stable; economic impact	Slow foodservice; higher prices	Higher protein prices, channel diversification
Supply Chain/ Disruption		Retail distribution, channel shift	Labor (plants distribution), supply chain	Freight	New investment, integration, automation
Hog Producer Impact		Labor, restricted movement, packer slowdown	Plant, feed, and supply interruption, herd liquidation	Tight hog supplies, higher piglet/breeding demand	Greater packer integration; shift to market-based contracts

Source: Rabobank 2020

producers to curb production in response to weaker domestic demand, with more pronounced cuts in the US tied to a backlog in market hogs due to plant closures. Expect producers to revisit industry integration, supply chain inefficiencies, and marketing arrangements.

Stage 2: Early (Brazil, Mexico) With few cases and limited disruption to date, we anticipate growing pressure on consumer demand and pork prices. With pantry loading complete and quarantine measures in place, processors are moving product to retail. Wet markets are not yet affected but could impact demand. Weaker economic growth could have a more lasting impact in these markets.

Section 3. Impact of Economic Contraction on Animal Protein

Rabobank forecasts the world economy will contract by 2.6% in 2020 (for a more detailed forecast, read our recent report). A sharp GDP decline in the US (-6.4%) and euro zone (-5.2%) is forecast. In emerging economies, the downturn is expected to be less severe. Brazil's GDP is set to decline by 1.8%, whereas a slight growth of 1.2% is projected for China (*see Figure 5*). A relatively sharp rebound is expected in 2021, in Rabobank's base case, with world economic growth up 5.3%. During the global financial crisis (GFC) in 2008-2009, a similar simultaneous contraction took place in these major economies, although China remained strong. The impact of the GFC on animal protein consumption volumes was relatively subtle (*see Figure 6*). In general, economic downturns have a bigger impact on the value of animal protein consumption than on the volume consumed. This is because discounting is usually needed when consumer confidence is low in order to stimulate demand for a volume of production that is not easily changed.

A primary difference of this current crisis, relative to the GFC, is that animal protein consumption is also being impacted by the severe dip in foodservice channels, such as hotels, tourism, and restaurants. How soon demand will improve in these sectors depends primarily on the duration of the lockdowns. Rabobank expects these quarantine measures to be lifted in Stage 3 countries (European countries, Canada, and the US) by the end of May. However, lingering uncertainty among consumers and businesses is likely to hinder the recovery of foodservice demand even after the lockdowns end.

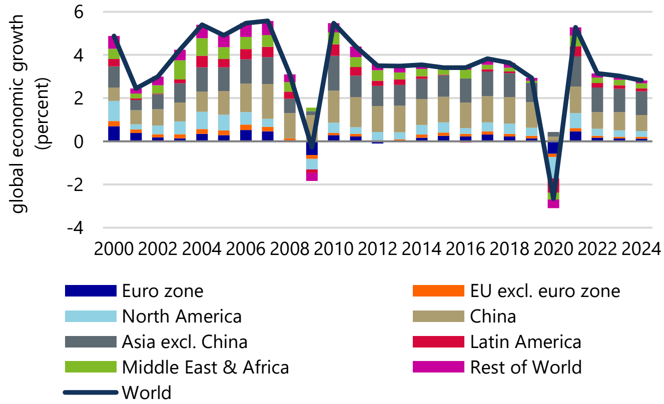
The recovery of the labor market could be another factor influencing foodservice and therefore animal protein consumption. Employment growth takes at least half a year following an economic recovery. This implies that, if lockdowns end in Q2 2020, it is possible that labor markets will recover before year end. Trade will also suffer as a result of the disruption. The WTO estimates a sharp contraction in trade volumes ranging from 13% (optimistic) to 32% (pessimistic) in 2020, with a strong rebound in 2021 (*see Figure 3*). In the optimistic outlook, the recovery in trade is expected to begin in late 2020, while a recovery in the pessimistic case may be more prolonged. The actual future trajectory of trade is influenced by the duration and recurrence of the pandemic.

Considering the need for the recovery of demand through foodservice channels, assisted by labor market recovery, and the need for trade to recover, we currently see animal protein demand remaining down on expectations through 2020 and into 2021.

Section 4: ASF Remains Top of Mind for Hog Producers

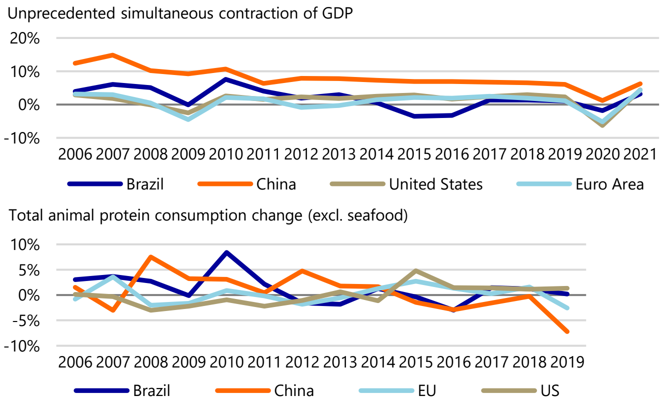
While Covid-19 impacts the pork supply chain of every corner in the world, ASF remains the key factor for several regions that continue to experience outbreaks in their commercial herds.

Figure 5: Global economic growth will drop markedly in 2020, before recovering strongly



Source: IMF, Macrobond, Rabobank 2020

Figure 6 The impact of the Global Financial Crisis on animal protein consumption



Source: IMF, USDA, Macrobond, Rabobank 2020

China

China has reported a number of ASF cases entering 2020, with a rising number in the recent weeks. The increase is notable as it follows a return to the free flow movement of livestock, products, and people following the lockdowns. Most of the cases have been traced back to the transport of live hogs. To prevent the disease spreading, the government has re-emphasized the management of live hog transportation from the affected regions, requiring strict inspections on both the selling side and the receiving side. While the policy is important to help slow the spread of the disease, it might also increase concerns of some producers who experienced losses due to the ban on live hog transport last year.

To boost domestic pork production, the Chinese government has released a series of policies, including more financial support for a wider range of farmers and the relaxation of previous strict environmental policies. However, restocking is still dominated by large hog farming companies, while smaller producers are cautious, given the resurgence of new ASF cases. In Q1, some large companies started to import purebred breeders from overseas, albeit in small quantities, indicating increased confidence in the long-term prospects for rebuilding. Even with current efforts, it will take two to three years for this production to reach the market.

Given continued ASF challenges in China, we maintain our view that pork production will decline by 15% to 20% in 2020, which will support strong pork prices and stronger pork imports in 2020 (*see Figure 7*).

We also maintain our view that China will increase its pork imports this year, and the latest available import data for Jan-Feb 2020 confirms the strong pace of trade despite interruptions from coronavirus (*see Figure 8*). In 2020, we see China's pork imports rising to between 3.5m and 4.0m metric tons, up from 3.1m metric tons in 2019.

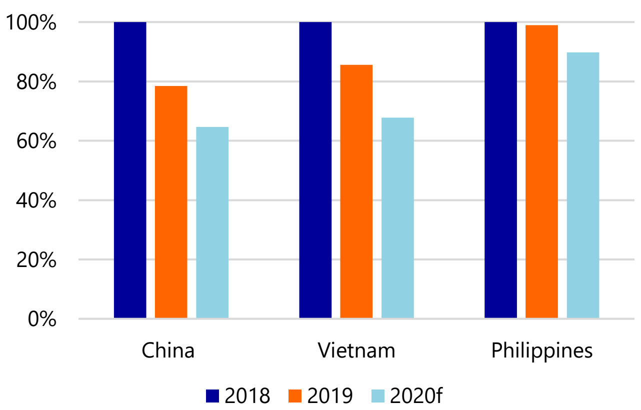
Europe

ASF remains a risk in Europe, especially as outbreaks in Poland have moved closer to critical production areas in Germany. The virus is spreading not only among wild boars, but recently was also found on two commercial operations. However, direct effects from these new developments are limited. They do add uncertainty to the outlook for the region, however, given current restrictions on trade with China from ASF-impacted countries. Based on these outbreaks, EU restrictions on the trade of products from the impacted zone of the region will limit movements of live animals and genetics until at least Q3 2020. Widespread acceptance of OIE regionalization standards will be needed to avoid disruption of trade from leading producing countries, should ASF spread further in Europe.

Vietnam

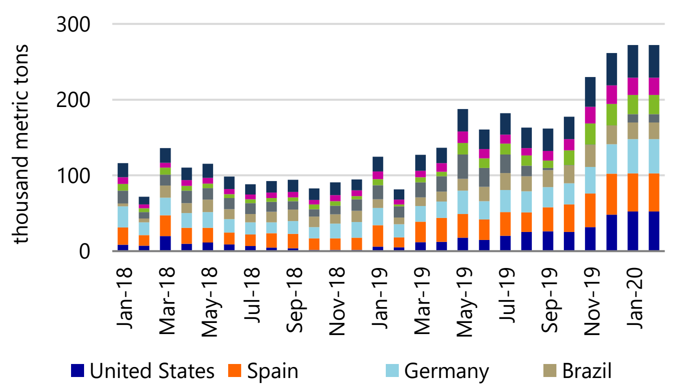
In Q1 2020, 44 out of 63 provinces declared themselves ASF-free. Restocking has been primarily undertaken by integrated and biosecure farms, with few investments being made by smaller operators. Small farms, which now account for roughly half of the country's hog production, remain constrained by lack of working capital to procure piglets at significantly higher costs. This is in addition to the sizeable investments needed to improve biosecurity and the demand uncertainties brought by Covid-19. Some farms that have lost their entire herd may have permanently switched to poultry or exited the industry entirely. The government remains committed to its target of balancing the country's pork supply by Q3 2020. Based on ASF losses and the drop in small producers, Rabobank maintains its outlook for a 21% to 25% YOY drop in production in Vietnam, to 1.8m to 1.9m metric tons cwt (*see Figure 7*).

Figure 7: ASF will pressure pork production in 2020



Source: Rabobank 2020

Figure 8: China's monthly pork imports continue to grow



Source: China Customs, Rabobank, 2020

Philippines

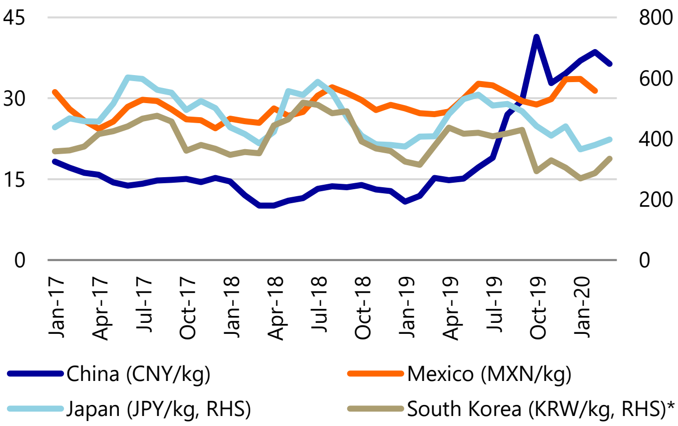
ASF continues to spread within backyard farms on the islands of Luzon and Mindanao. Based on our tally of OIE reports to date, Rabobank estimates pig losses have reached over 293,000 head (2.3% of the pig herd) since outbreaks began last year. These numbers are a lagging indicator and exclude unreported cases, which we understand could be much higher. Mitigation efforts continue, with mandatory inspection of vessels coming to Mindanao from ASF-affected zones/countries and bans on pork from all Mindanao in Visayas provinces. November and December 2019 pork imports, as reported by UN ComTrade, steadied at 12,800 to 12,900 metric tons per month, which is a significant decline from a relatively stable average monthly volume of 25,500 metric tons in the first nine months of 2019 (before reported ASF outbreaks). Conversely, monthly poultry imports jumped from a monthly average of 26,800 metric tons in the first nine months of 2019 to 37,000 to 38,000 metric tons in November and December 2019. Live hog prices may continue to see near-term liquidation pressure but are expected to rebound in 2H 2020. Our base case scenario is for a 9% YOY decline in pork production in the Philippines, to 1.44m metric tons cwt in 2020 (*see Figure 7*).

Price Developments in Global Markets

In most importing countries, the most recent price data shows firm or rising levels (*see Figure 9*). We expect to see some softening of prices in most importing markets over the coming quarter, based on uncertainty within global markets and the pressure of increased costs associated with trade. Currency movements will also play a role in affecting prices.

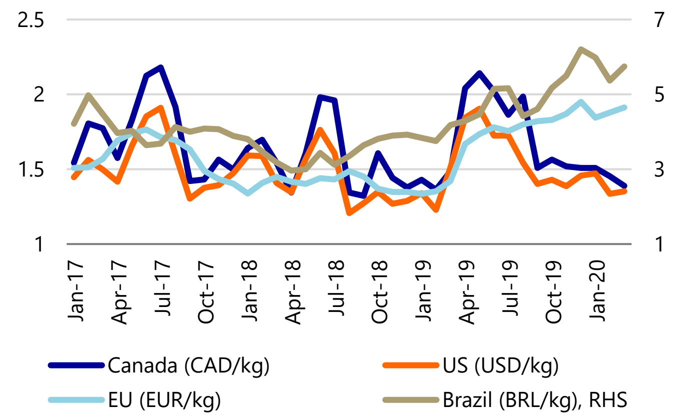
The uncertainty created by the coronavirus pandemic has pressured prices in major exporting countries in recent months (*see Figure 10*). We expect prices to remain under pressure in the coming months.

Figure 9: Price developments in major importing countries



Source: ALIC, Porcimex, Macrobond, Rabobank 2020
* note: for display purposes, the South Korean won has been divided by 10.

Figure 10: Price developments in major exporting countries



Source: CEPEA, CME Group, EU Commission, Macrobond, Rabobank 2020.

China

Live hog prices have fallen weekly since hitting a recent high of CNY 39/kg in mid-February. Despite the downward trend, hog prices are still well above historic averages and were above CNY 34/kg in early April, up 140% YOY (*see Figure 11*). Higher slaughter levels, heavier live weights, and weaker demand have jointly pressured market prices in recent weeks. However, the underlying supply shortage due to ASF remains supportive to prices. Piglet prices continue to move strongly higher, despite the weaker price performance in finished hogs, indicating an even tighter supply situation in sows/piglets. Piglet prices continue to set new records, reaching CNY 97/kg in the second week of April, up 165% YOY. The increase in piglet prices will drive up the cost of production for producers.

ASF remains the top factor shaping market developments in 2020. With more cases being reported recently, restocking is proceeding in a prudent way. Large players continue to dominate the rebuilding, whereas the smaller producers are more reluctant to invest.

With the national lockdown lifted, all retail markets have reopened. However, demand is slowly recovering, as consumers are still cautious about eating out or gathering. Sales in the foodservice channel are still struggling, with sales in many outlets only at two-thirds of pre-coronavirus crisis levels.

A number of leading hog farming companies reported a 40% to 50% YOY drop in production in Q1 2020. These declines are representative of the industry as a whole, reflecting the impact of ASF on 2019 herd losses. With demand expected to gradually recover in the coming quarter, we see additional upside in hog prices.

China's pork imports in the first two months of 2020 doubled the volume of the same period of 2019 and were 8% higher than November to December 2019. However, concerns are rising over imports in the coming weeks, due to disruptions to international shipments and plant operations in exporting countries.

Europe

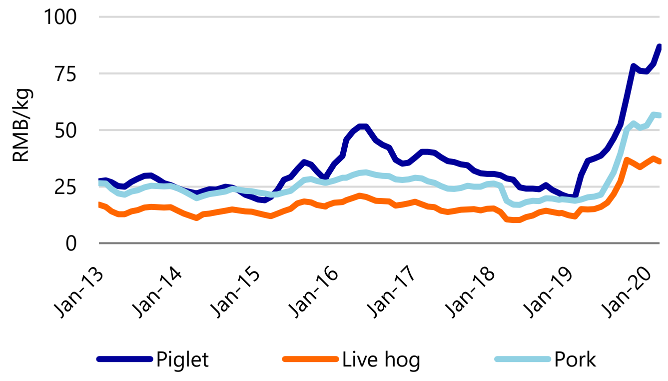
The global spread of coronavirus will cause temporary disruptions to Europe's pork supply and create a feeling of uncertainty in the market. In particular, slaughter and processing, where worker absences have the potential to limit production, are expected to suffer.

In January 2020, EU pork production was down by 1.7% YOY, with gains in some regions and losses in others. Production in Germany and Spain declined by 0.8% and 0.7%, respectively, compared to January 2019. Higher production in the Netherlands (up 10%) and Denmark (up 3%) more than offset the decline in the two major producing countries. However, a significant drop in Poland (down 14%), as a result of the ASF situation, and Italy (down 10%) drove a net reduction. ASF remains a source of uncertainty, as the virus spread to two commercial pig farms in western Poland and moved to just 10km from the German border.

Extra-EU pork exports started the year strong, with the EU-28 recording a 24% increase YOY and 13% increase MOM (426,000 metric tons) in January 2020. Exports to China accounted for 63% of total extra-EU exports, led by Spain (72,000 metric tons) and Germany (72,000 metric tons). We maintain our view that demand from China will be strong throughout the year and export opportunities to Vietnam will become more significant. EU pork exports to Vietnam increased by 41% YOY in January 2020 (10,000 metric tons). Increasing US pork exports to China in Q1 signal stronger competition for Europe in 2020. However, coronavirus is expected to complicate trade from the US and Europe in Q2 2020. Changes in Europe's export capacity, due to reduced ship movements to Asia, will test cold storage capacity.

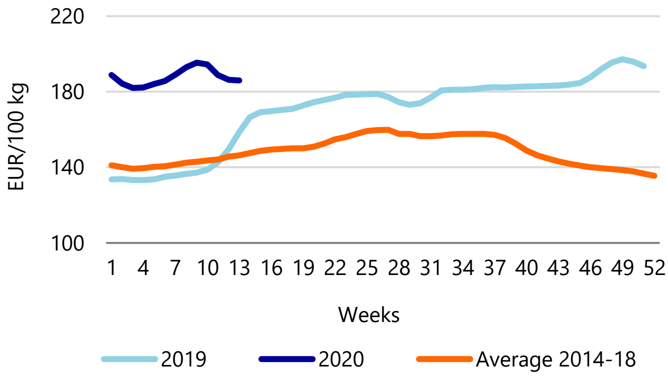
Disruptions to intra-EU pork trade are expected to persist over the next few months on falling demand from southern Europe. The uncertainty created by the spread of coronavirus and contracting foodservice demand put downward pressure on pork prices from early March (-5% from week 10 to week 14) (*see Figure 12*). At the same time, stronger at-home pork consumption will support retail demand and may provide support for falling carcass prices. The sharp decline in piglet prices (-8% from week 10 to week 14) may lead to improved producer margins, and reflects a more cautious outlook by producers.

Figure 11: China hog prices, 2013-Mar 2020



Source: Ministry of Agriculture, Rabobank 2020

Figure 12: EU weekly carcass price (Grade E), 2014-2020



Source: EU Commission, Rabobank 2020

US

US live hog and pork markets have rapidly deteriorated with the drop in US pork demand in foodservice, the devaluation of the Mexican peso, and the more recent Covid-19-related disruption in processing and logistics. Composite pork values fell 46% YTD, to levels not seen since 2009 (*see Figure 13*). Weakness in belly prices (down 54% in March to 17-year lows) reflects the product's heavy reliance on foodservice, resulting in burdensome inventories. Ham values also dropped sharply (down 34% in March), reflecting not only the weakness in domestic markets but the 25% drop in the value of the Mexican peso. The lone exception has been retail-oriented loins (up 25% in March and up 23% YOY). As foodservice disruption, logistical hurdles, and slower export sales negatively impact product flow, we expect burdensome inventories and lower product values for packers.

Hog markets also saw a rapid drop in value (down 33% in March) and may see further downside due to recent plant closures and related labor disruption. Packers attempted to pull production ahead in March (up 8.8% YOY), anticipating labor issues, but were unable to shift production schedules materially. Market hog inventories reported in the USDA's latest Hogs and Pigs report were up 4.3% in Q1, although producers had already taken steps to slow breeding herd growth (up 0.4% vs. 2% in 2019). Sow slaughter accelerated in March (up 9% YOY), and we expect to see continued liquidation in the coming weeks, although labor and capacity constraints are expected to limit the response.

Exports were robust to start the year, with YTD shipments up 42% YOY (or 178,000 metric tons) through February. Exceptional growth in YTD exports to China (up 631% YOY) contributed 86% of the total increase and 30% of total exports. Shipments to Japan, Mexico, and Canada were up 24%, 18%, and 17%, respectively. We continue to see solid export interest through the end of March, with the notable exception of South Korea (down 11% YOY). Exports should remain strong on lower product values, however they will face a slowdown in global growth, logistical challenges, and the stronger US dollar. We also expect higher freight rates to remain a challenge.

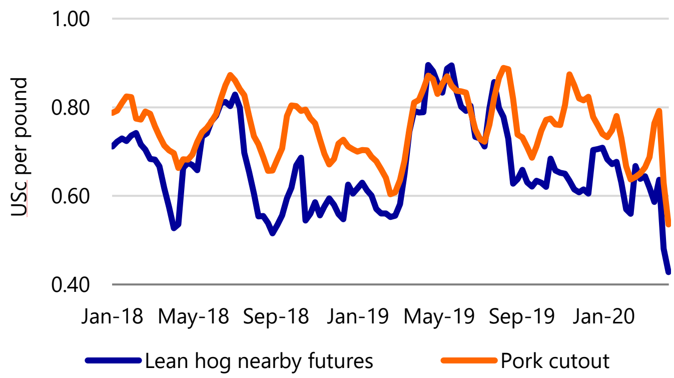
Mexico

The outlook for Mexican pork demand has deteriorated since the end of Q1 2020. Delayed quarantine measures limited the consumer impact of Covid-19 on pork consumption in Q1 2020, yet the 25% devaluation of the peso relative to the US dollar has left the consumer with limited purchasing power. Weakness in oil markets (8% of Mexican GDP) and the anticipated slowdown in tourism will further depress economic growth, and with no announced financial stimulus program, the impact on demand may be prolonged. This rapid financial slowdown, combined with the Covid-19-related closure of Mexican stores and restaurants is expected to drive a decline in Q2 2020 consumption and a resulting drop in pork values.

Mexican pork production in Q1 2020 had reached record levels, up 4.2% through February (*see Figure 14*). While off the 6% to 7% pace of 2019, supplies are higher on the expansion of the breeding herd together with continued gains in productivity and higher weights. Rabobank anticipates a drop in 2H 2020 production to reflect the slowdown in demand and the sharp increase in expected feed costs (due to the unfavorable MXP/USD move). For the year, Rabobank anticipates a 400-basis point decline in production growth, to 3.2%, as the industry responds to a contraction in margins.

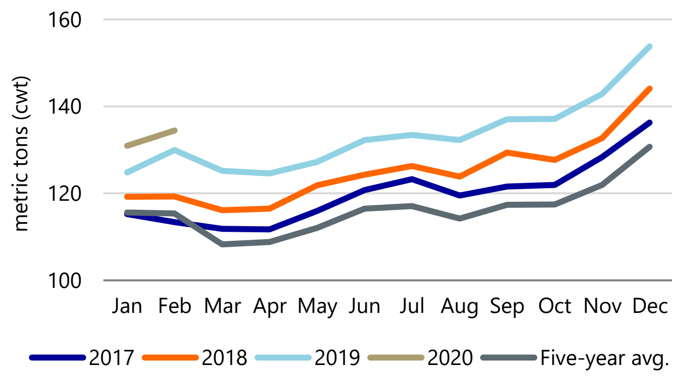
Pork imports were up 6% YOY in January, and, while trending lower seasonally, they remained above year-ago levels through the quarter. Imports from the US jumped sharply in January and February on good demand. Canadian imports did not fare as well through Q1 2020, down 10% YOY and yielding 5% market share to the US. We expect further moderation in pork imports but, at current levels, recognize that US hams remain competitive. Mexico historically relies on imported pork for roughly 40% of its needs. Export markets remain exceptionally strong (up 24% through January), driven by a tenfold increase in shipments to China. Exports to China made up nearly 26% of total exports YTD, while Japan remains the dominant export destination with 61%. Exports to both Japan and China were steady through the quarter but could soften as economic growth slows and freight rates rise materially. For the year, Rabobank projects a 20% increase in exports vs. year-ago levels.

Figure 13: Lean hogs vs. pork cutout values



Source: CME, USDA, Rabobank 2020

Figure 14: Mexican pork production, 2017-2020



Source: SADER, Rabobank 2020

Canada

Late quarter disruption due to the Covid-19 closure of the Olymel Yamachiche pork plant in Quebec drove a modest decline in hog markets, while the cutout fell in response to weaker foodservice values and the rapid decline in US pork markets. Canadian hog prices started the year well ahead of year-ago levels, with Canadian slaughter averaging above expectations (up 5% YOY). Hog prices weakened mid-quarter, before rebounding to levels in line with a year ago. While hog prices moved higher during March, pork values continue to reflect the weakness in foodservice and soft US markets.

Like its North American neighbors, Canada saw another big increase in exports to China in Q1 2020, with shipments up 52% YOY through February (*see Figure 15*). Shipments to other Asian nations, including Japan and the Philippines, also strengthened (up 7% and 9% YOY, respectively). Total exports through February were up 16% YOY, to 238,000 metric tons. Exports to the US fell in February (down 6.1%), and we expect little or no improvement in the coming months, given surplus pork supplies in the US and ongoing processing disruption. We remain bullish on prospects for the continued strength of exports to China, however, given strong demand from China and other Asian nations.

Canada's latest inventory numbers were slightly below expectations, down 1% to 13.9m pigs. The breeding herd saw similar declines, with a 2% drop in the eastern provinces and a modest 1% gain in the west. Nevertheless, we could see a slowdown in weaned pig exports to the US in 2020, which could increase available slaughter in the coming months. Given current market weakness and prospects for weaker live pig trade, we expect a 3% decline in industry growth in 2020.

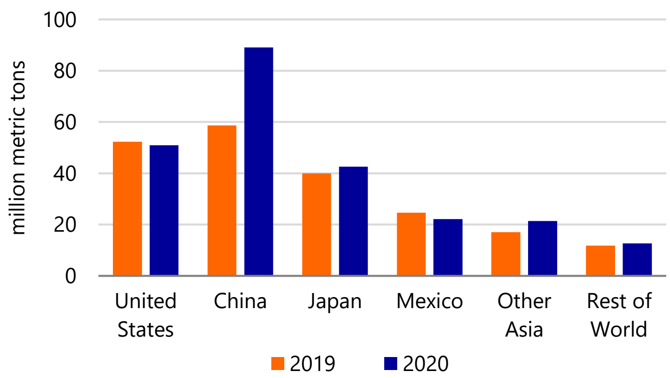
Japan

Japan's Q1 2020 hog slaughter number rose 3% YOY, to 4.19m head. However, according to MAFF forecasts, hog shipments are due to decline YOY in April and May, before recovering in June. Wholesale pork prices were in a downward trend in Q1 2020, easing 3% YOY to average JPY 456/kg cwt, as late-March inventories of both imported and domestic pork remained relatively high (11% of consumption) vs. the same period last year (9% of consumption). In line with reduced shipments, prices are due to seasonally increase in April and May, though remain below 2019 levels.

With schools closed since March 3 and social distancing measures being enforced in Kanto area, demand has shifted to different products. Demand for spare ribs was reportedly weak, while that for pork loin was strong on increased household consumption. February sales of all livestock products through supermarket chains reportedly grew 7% YOY. This situation is expected to continue through the end of Golden Week, if movement restrictions remain in place.

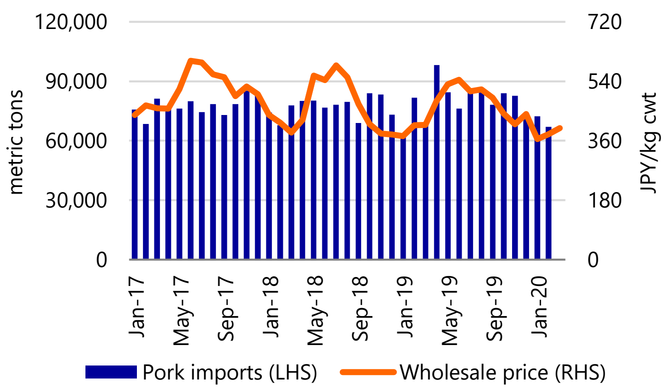
Pork imports in the first two months of the year dipped 3% YOY, to 139,267 metric tons (*see Figure 16*). Imported volumes from the US and Canada gained 3,627 metric tons (+9% YOY) and 1,680 metric tons (+5% YOY), respectively at the expense of imports from Denmark, which dropped by 6,710 metric tons (-41% YOY). Much of this year's import weakness occurred in February, particularly in frozen pork (-38% YOY) that is mostly used for processed products. The drop was attributed to price competition with China in October/November 2019 (when import contracts were secured) and unusually high arrivals in February 2019 (when the Japan-EU Economic Partnership Agreement came into force).

Figure 15: Jan-Feb 2019-20 exports, by volume



Source: Statistics Canada, Rabobank 2020

Figure 16: Japan pork imports vs. average wholesale price



Source: ALIC, Rabobank 2020

South Korea

Following confirmation of the first Covid-19 cases, South Korea's wholesale pork prices dropped to a low of KRW 2,087/kg cwt in the last week of January (*see Figure 17*). Eating out decreased significantly, although at-home meat consumption picked up, as revealed through higher sales in hypermarkets, butchers, as well as e-commerce. But not all pork products are in demand. Sales of pork cuts for household consumption have increased, while those of ham and sausage have dropped, resulting in weak demand for by-products.

This shift in consumption affected processors' operations and caused a surge in cold storage inventories. Shipment delays subsequently caused wholesale pork prices to rebound, peaking at KRW 4,389/kg in early March. Prices have since eased, as seasonal demand from the institutional channel did not materialize at the start of the new school year (March 2), which was delayed by social distancing measures (partially lifted on April 19). Wholesale pork prices are expected to recover during the peak demand season beginning in May, ushering in a more profitable outlook for processors.

In the first two months of 2020, South Korea's pork imports dropped by 33% YOY, to 54,489 metric tons (*see Figure 17*), reflecting weaker domestic demand and reduced reliance on imports. At 44%, pork imports from the US accounted for the largest share of South Korea's total pork imports YTD, followed by imports from Canada at 9%. Over the same period, beef and chicken imports also dipped by 1% and 17% YOY, respectively.

South Korea continues to report ASF cases in wild boars this year, although there have not been any reported cases in commercial hog operations since October 2019.

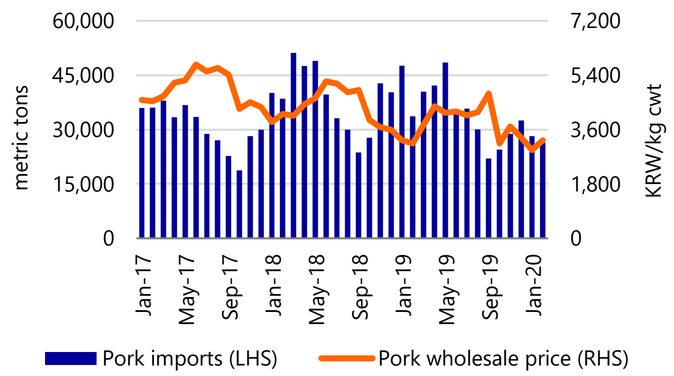
Vietnam

Q1 2020 hog production dropped 19.3% YOY, to 811,000 metric tons live weight, from 1.004m metric tons live weight in the same period last year. The pig herd was reported to have declined 17.5% YOY vs. the year-ago period. We continue to expect Vietnam's 2020 pork production to decline 21% YOY, to 1.91m metric tons cwt (base case), given a 32% YOY drop in the 2019 sow herd. Much of the decline is attributable to herd losses due to ASF.

While sporadic outbreaks continue, to date, 44 out of 63 provinces have reported no recurrence of ASF in the previous 30 days. The Ministry (MARD) has been encouraging farmers to restock with improved biosecurity. At the same time, the government also guided the country's 15 largest hog producers to reduce their farmgate prices to a maximum of VND 70,000/kg live weight beginning April 1 – 7% below the previous reference price of VND 75,000/kg live weight. As these producers account for 35% to 40% of supply, average hog prices in the second week of April declined slightly to VND 75,200 to VND 76,100/kg live weight nationwide (*see Figure 18*), while retail pork prices were reportedly unchanged. While large hog producers should remain profitable under the new price guideline, smaller producers may see less incentive to increase production, due to the higher cost of production (i.e. working capital constraints) and the high risk of ASF recurrence.

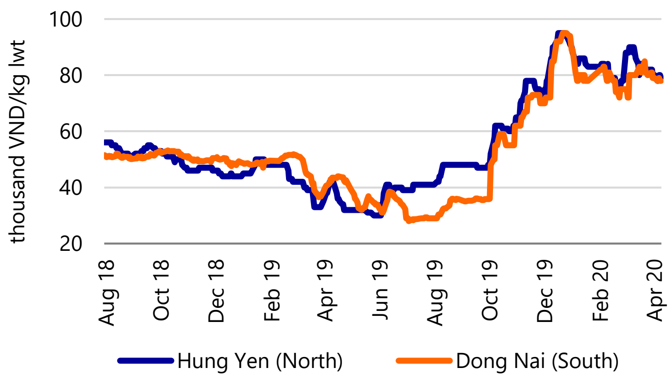
Vietnam's pork imports (as monitored via originating countries) increased 20% YOY in 2019, to nearly 150,000 metric tons, representing 6% of total consumption. This momentum continued with 7% YOY growth in January 2020, to 9,408 metric tons. In January, the share of EU imports shrank to 35% (from 79% in the previous year), while Brazil and Russia imports jumped to 21% and 22% (from 6% and 4%, respectively). Imported pork is normally delivered to canteens, processors, and foodservice, but closures due to Covid-19 quarantine measures have shifted more supplies to the retail channel. To help reduce retail prices, MARD has also proposed a reduction in pork import taxes.

Figure 17: South Korean pork imports vs. wholesale price



Source: KMTA, Rabobank 2020

Figure 18: Vietnam live hog prices, 2018-2020



Source: Anova Feed, Rabobank 2020

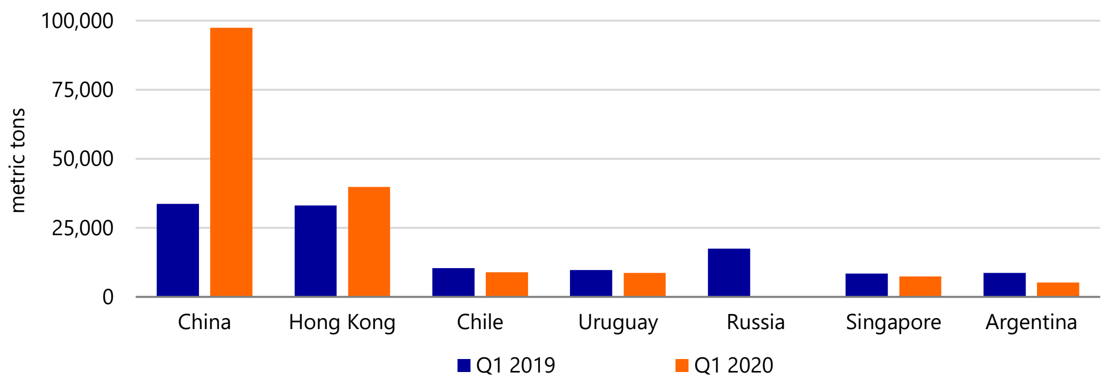
Brazil

Brazilian pork exports jumped 33% in volume and 63% in value in Q1 2020, reflecting strong global demand, particularly from China (*see Figure 19*). Shipments to China in the quarter were up 190% vs. the same period a year ago, while average export values rose 29% YOY, to USD 2,600/metric ton. In our view, this significant increase in shipments suggests that, despite the disruption of trade flows to China in January, demand for Brazilian pork remains strong, given the sizable gap in Chinese pork availability. One additional pork plant is awaiting approval from the Chinese government, which is expected to be announced later this year.

Strong export demand stands in direct contrast to the rapid decline in domestic demand in recent weeks due to the government-mandated quarantine. The lockdown began at the end of March in the State of São Paulo and will remain in place through April 21, with the possibility of extension. The foodservice sector was hardest hit. Rabobank currently estimates that, from the end of March until the second week of April, consumption in bars and restaurants was down 44%, while retail sales increased 19%. Pork prices were up 39% YTD in March but fell 20% to the second week of April, from the previous month's average.

Feed prices have been the main concern of hog producers. In March, feed costs rose 21%, primarily due to corn, which increased 35% in the same period. Packers serving the export markets remain profitable, given the strength in demand from Asia and the devaluation of the Brazilian real. As a result, pork production remains in-line with year-ago levels and is even higher in some regions. Plants serving only domestic markets are in a much weaker position, given the drop in foodservice demand, as are independent producers. These operations have sharply reduced production in the past few weeks and are likely to moderate plans until market conditions improve.

Figure 19: Brazilian pork exports, by volume, Q1 2019 vs. 2020



Source: SECEX, Rabobank 2020

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far.rabobank.com

Animal Protein Global Sector Team

Justin Sherrard	Global Strategist	justin.sherrard@rabobank.com
Christine McCracken	North America	christine.mccracken@rabobank.com
Matz Beuchel	Europe	matz.beuchel@rabobank.com
Chenjun Pan	China	chenjun.pan@rabobank.com
Ben Santoso	Southeast Asia	ben.santoso@rabobank.com
Eva Gocsik	Europe	eva.gocsik@rabobank.com
Wagner Yanaguizawa	Brazil	wagner.yanaguizawa@rabobank.com
Andrick Payen	North America	andrick.payen@rabobank.com
Angus Gidley-Baird	Australia	angus.gidley-baird@rabobank.com
Beyhan de Jong	Europe	beyhan.de.jong@rabobank.com
Blake Holgate	New Zealand	blake.holgate@rabobank.com
Dennis Voznesenski	Australia	dennis.voznesenski@rabobank.com
Don Close	North America	don.close@rabobank.com
Dustin Aherin	North America	dustin.aherin@rabobank.com
Gorjan Nikolik	Europe	gorjan.nikolik@rabobank.com
Nan-Dirk Mulder	Europe	nan-dirk.mulder@rabobank.com
Shiva Mudgil	India	shiva.mudgil@rabobank.com

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