Impacts of African Swine Fever on China's Feed Industry and Soy Demand

Summary

• In the short term, outbreaks of African swine fever will depress China’s feed consumption, especially hog feed. As a result of higher inclusion ratios in feed rations and a growing poultry sector, soymeal usage will only experience a modest decline.

• In our base scenario, Rabobank expects China’s total feed/soybean demand to decline in 2019 – albeit significantly less than the decline in pork production – followed by a slight recovery in 2020.

• African swine fever will act as a catalyst to speed up feed industry upgrades – including, but not limited to, a diversified product mix, the higher adoption of commercial compound feed, and ongoing industry consolidation.

Impacts Beyond Hog Farming

African swine fever (ASF) is spreading across China, with no signs of abating. In Rabobank’s recent report, ‘Rising African Swine Fever Losses to Lift All Protein Boats’, we expect China’s pork production to see an unprecedented decline of 25% to 35% in 2019. Since the epidemic is hitting market confidence severely, the slower-than-expected herd rebuilding will lead to an even lower pork production in 2020. Meanwhile, the production of other animal proteins is projected to increase in 2019 and 2020.

In addition to meat production, ASF will have profound impacts on animal feed use; imports of soybeans and other feedstuffs; and the evolving dynamics of China’s feed industry.

Short-Term Pain Owing to Declining Feed Consumption

Rabobank conducts scenario analysis on China’s feed demand and soymeal usage in 2019 and 2020. Despite the fact that the country’s hog farming could take years to fully recover, China’s total feed consumption is expected to rebound in 2020.

Base Scenario

Hog feed consumption is expected to drop by 30% in 2019, as a result of the fast liquidation of hog inventory. Commercial feed penetration is increasing, as the government bans the use of food waste to feed pigs, which partly offsets negative impacts from the herd loss. The hog herd will continue to decline at a much slower pace in 1H 2020, before rebuilding kicks off in 2H 2020. Therefore, a further drop of 5% in hog feed usage is projected in 2020. By contrast, other feed species – such as broiler feed, layer feed, and aqua feed – will experience positive growth rates for a consecutive two years. In our base scenario, total feed consumption will drop by 13% in 2019, before marginally rebounding by 2% in 2020 (see Figure 1).

The Chinese soymeal price has stayed at its low level in recent months. Because of the cost advantage per protein basis, low-priced soymeal will be able to achieve a higher inclusion ratio, replacing rapeseed meal, cottonseed meal, and other protein meals in feed rations.
In the base scenario, 2019 soymeal usage will reach 67m metric tons, down 4% YOY, which equals 86m metric tons of soybeans that need to be crushed. Taking into consideration 2m metric tons of domestic soybeans that are used in crushing, this indicates that – without the consideration of a potential US-China trade deal – China only needs to import 84m metric tons in calendar year 2019, down from 88m metric tons in 2018. As for 2020, the base scenario projects soymeal usage at 71m metrics tons, up 6% YOY, and imported soybean needs at 90m metric tons, up 7% YOY (see Figure 2).

**Extreme Scenario**

1. If ASF impacts were even more severe and hog feed was down 40% YOY in 2019, total complete feed would drop by 18% YOY, with soymeal usage at 63m metric tons, requiring 80m metric tons of imported soybeans.

2. An additional 1% of soymeal inclusion rate in all feed will boost soymeal usage by 3m metric tons and raise soybean imports by almost 4m metric tons.

**In Long Term, ASF Will Speed up Industry Upgrades**

The ASF epidemic will impede short-term feed consumption and put margin pressure on industry players, resulting in the following changes:

- Leading Chinese feed players are implementing stricter biosecurity measures, in a bid to halt disease.
- Feed manufacturers are striving to diversify their product mix – for example, by investing more in poultry and aqua feed – to mitigate the losses in hog feed. Some are able to transform to accommodate a faster pace, due to their strength when it comes to technical know-how, distribution networks, and capital.
- The commercial compound feed share will increase to avoid viral infestation. Self-made feed, which was widely used before the outbreak of ASF, is more likely exposed to the virus.
- In 2019 and 2020, industry consolidation will speed up. Amid the projected low feed demand and weak margins, leading enterprises – with better cost management – will continue to seize market share. With small and medium-size feed companies phased out, the number of feed companies will be cut in half by 2020 (see Figure 3).
Figure 3: The number of feed companies will decrease rapidly

Figure 4: The share of large-scale feed mills (annual production over 1m metric tons) will further expand

Source: China Feed Industry Association, Rabobank 2019