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Will the Trade War Truce Boost China's Pork Imports from the US?

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Chenjun Pan

Senior Analyst
+852 21032430

Market participants have mixed interpretations of what the current trade truce between the US and China could mean for pork trade between the two countries. We expect some US pork imports into China, but there is uncertainty around how much will be imported, due to weak demand.

China agreed to import a substantial amount of US products from 1 December 2018 to 1 March 2019. Pork was the second-largest US agricultural export product to China before 2018. Given the serious ASF situation in China and the approaching Spring Festival, many people expect pork to be one of the major agricultural goods shipped from the US to China during the truce.

Rabobank expects to see some pork shipments, but we are uncertain as to how large these shipments could be. Overall, Chinese demand for pork is weak at the moment, even with the approaching festivals.

In the south, while prices stay high, there is strong consumer preference for fresh meat rather than frozen meat. Frozen meat can be supplied from the north at present, so imported pork, which is frozen, cannot meet the market needs.

In the north, we believe storage of frozen meat is high, as there is an oversupply of live hogs which cannot be transported, so these have to be slaughtered in the region. The high storage levels are expected to take a few more months to lower, meaning limited additional imports will be needed before the end of the 90-day truce.

Additional imports from the US are possible during the trade truce, but they will reflect political rather than market needs.

African Swine Fever caused a drop in both production and consumption in China

As of 11 December 2018, over 90 cases of African swine fever (ASF) have been reported in China. There is no sign that the disease will stop spreading, despite government measures. With more cases reported in more provinces, live hog transportation continues to be banned in most regions. The Chinese hog industry relies on the transportation of live hogs from north to south (see the RaboResearch report [Structural Changes in China's Hog Industry](#)), so the transport ban hit the industry harder than the disease itself. Market developments have become unpredictable, as every new case causes the supply-and-demand relationship in that region to change immediately.

The price difference between north and south China has been widening as a result of the uneven distribution of hogs and slaughtering capacity, as there is surplus in the north and a deficit in the south. Pork prices in some northern and northeast provinces have been lower than production costs for months, while prices in some southern provinces have increased by 50% since the ban on live hog transportation. But piglet prices have dropped by 20% in the north between early August and the end of November. This indicates that replenishment is slow at the moment, as piglets cannot be moved around due to the ban on live hog transportation.

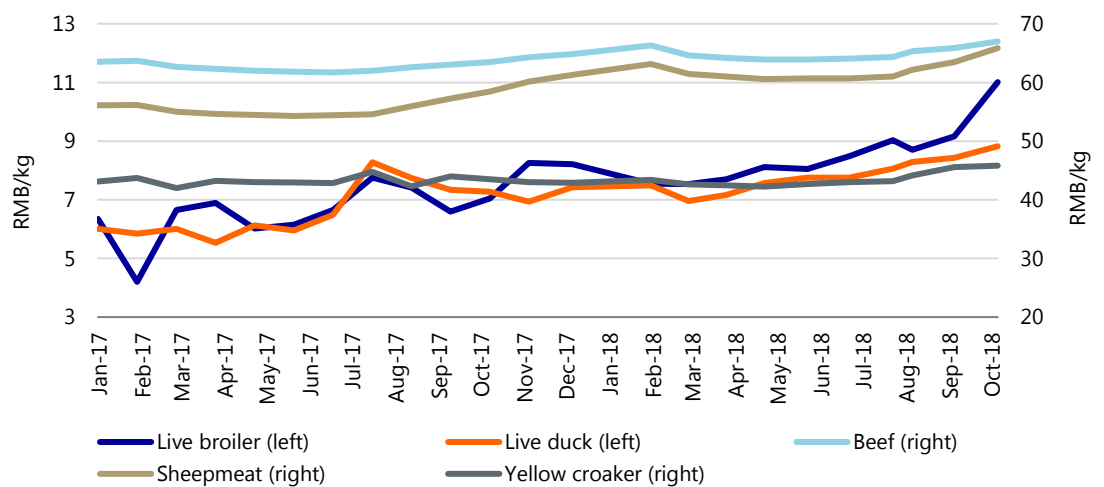
Rabobank's view is that China will see a big drop in pork production in 2019, along with a drop in pork consumption. How quickly and majorly production and consumption will drop is not certain. Given that the majority of production is based on fragmented, small farms, there is no complete picture of how many sows have been culled due to disease, and more importantly, slaughtered due to decisions to exit the industry. But it is believed that very few farms are liquidating sows at the moment, as the commonly shared view is that next year will see supply shortages and rising pork prices. So all the farms, as long as they remain financially viable, are trying every possible means to keep their sow herds.

Pork consumption has already dropped

Pork consumption has already dropped, with high prices in the south partially responsible for this. Another reason is that people simply want to avoid any food safety risks. We believe there has been a consumption shift from pork to other proteins in all channels, but particularly in group dining, where public health is a prominent consideration. Prices of live broiler and live duck are rising, as broiler and duck are mainly substitutes for pork at a wholesale level (see Figure 1). Retail prices of beef, sheepmeat, and yellow croaker (one of most widely consumed fish in China) are rising, as they may substitute pork in retail (see Figure 1). Clear price rises for all proteins since the first outbreak of ASF suggests strong substitution of pork by other proteins.

Some people are comparing the current situation with 2016. In 2016, China's pork production dropped by 4% YOY, or by 2.5 million tonnes, and prices rose 80% YOY, with imports increasing 100% YOY, or by 1.5m tonnes. But in 2016 there were no diseases or food safety concerns, and the economy was stronger than now. This suggests that China's pork supply gap in 2019 may be smaller than expected.

Figure 1: Prices of other proteins are all rising



Source: MOA, BOYAR, BOABC, Rabobank 2018

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Food & Agribusiness
far.rabobank.com

Chenjun Pan

Senior Analyst

Chenjun.pan@rabobank.com
+852 21032430

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