

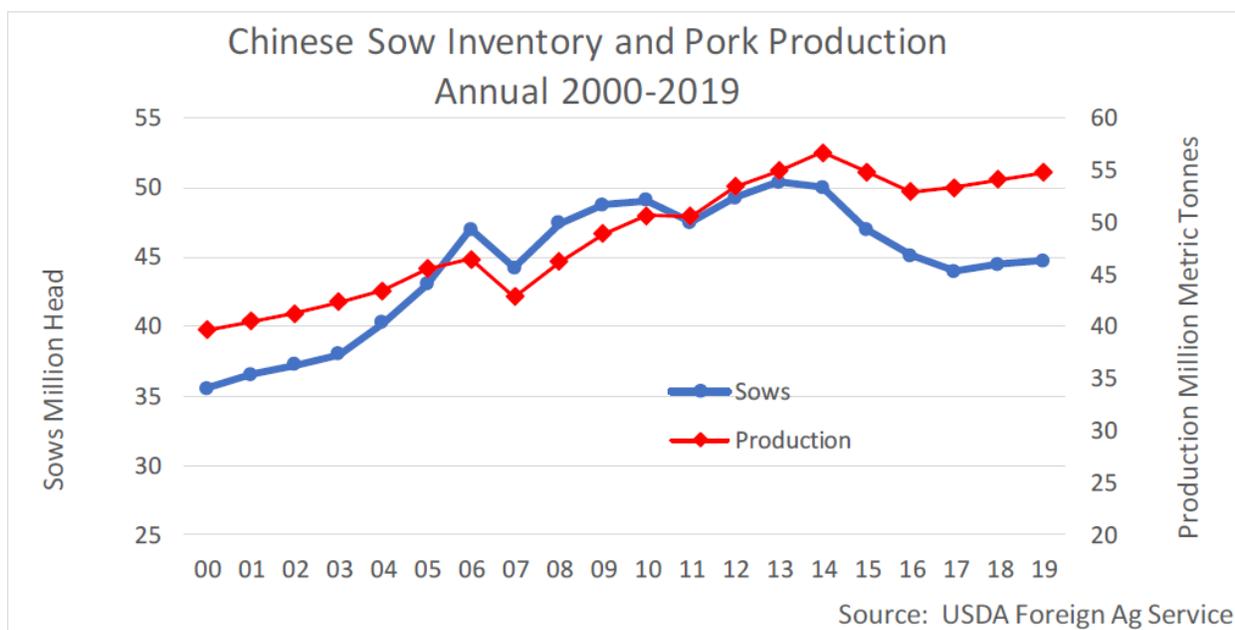


Perspective on African Swine Fever Scope

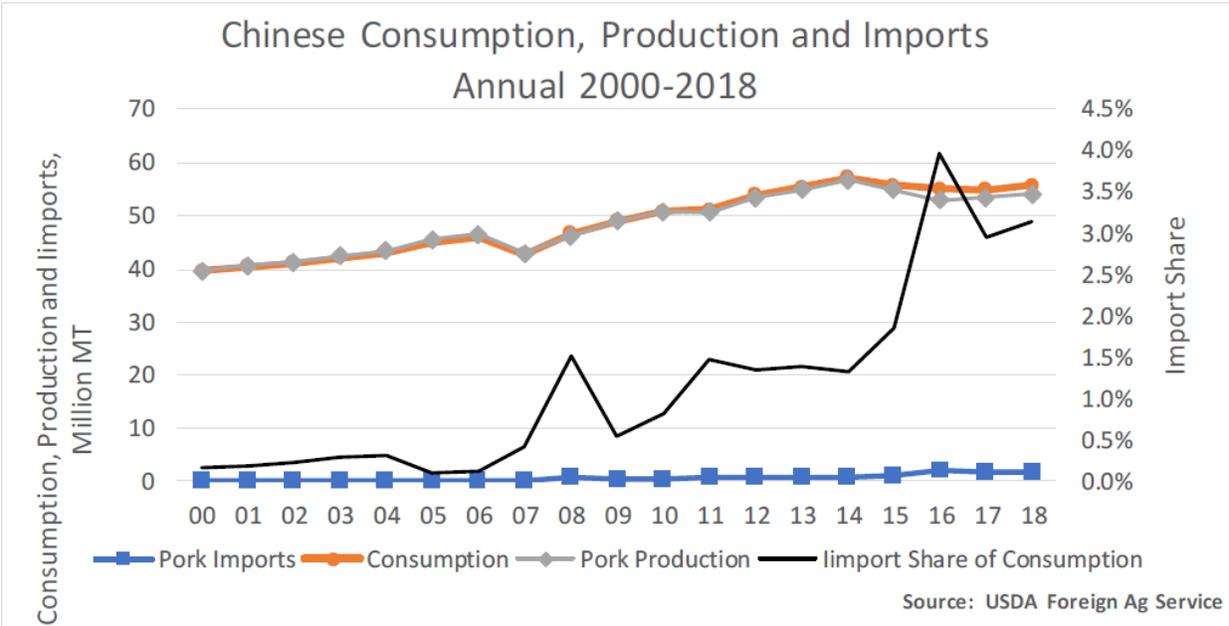
Kevin Grier, March 2019

The following are some factors pertaining to ASF in China:

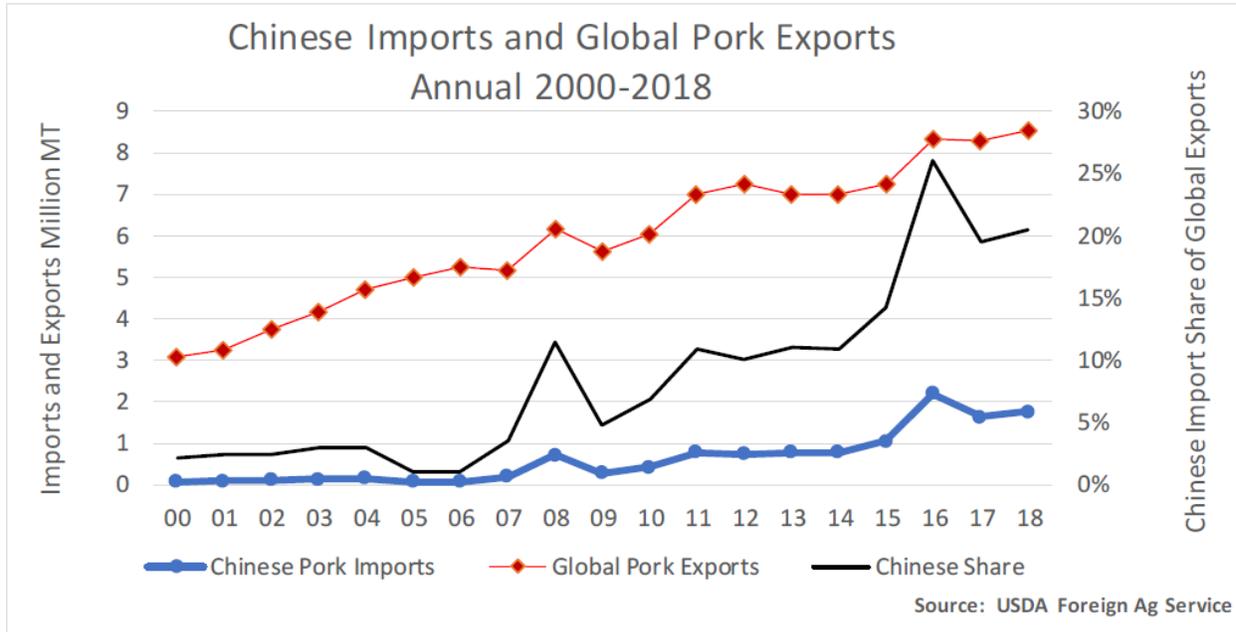
- The Chinese government said the February sow herd was down 19% compared to a year ago. That is a reduction of 8.5 million sows based on the USDA Chinese sow inventory estimate of 44.5 million head for January 1, 2018. As a point of reference, the total U.S. sow herd is about 6.3 million head. For further perspective, the January Chinese Government estimate was a decrease of 15% year over year.
- The Chinese Swine Association is estimating the 30% of the total Chinese hog numbers are already gone.
- Based on the progress of the disease, I believe it is reasonable to assume that 40% or more of the sow herd will be lost over the remainder of this year.



- There is a close correlation between the Chinese sow herd and Chinese pork production. If there is a 40% reduction in the sow herd due to ASF, it is reasonable to assume or estimate that Chinese pork production could begin to decline by over 40% from mid-2019 to mid-2020.
- A 40% reduction in production in 2019/2020 versus 2018 would amount to a loss of 20-22,000,000 metric tonnes. That potential loss in production is nearly two times total U.S. pork production.
- Chinese consumption has been largely supplied by domestic production. Chinese imports comprised 3% of Chinese consumption in recent years. China is the biggest importer in the world, followed by Japan. Despite being the biggest importer, the Chinese consumption is based on domestic production.

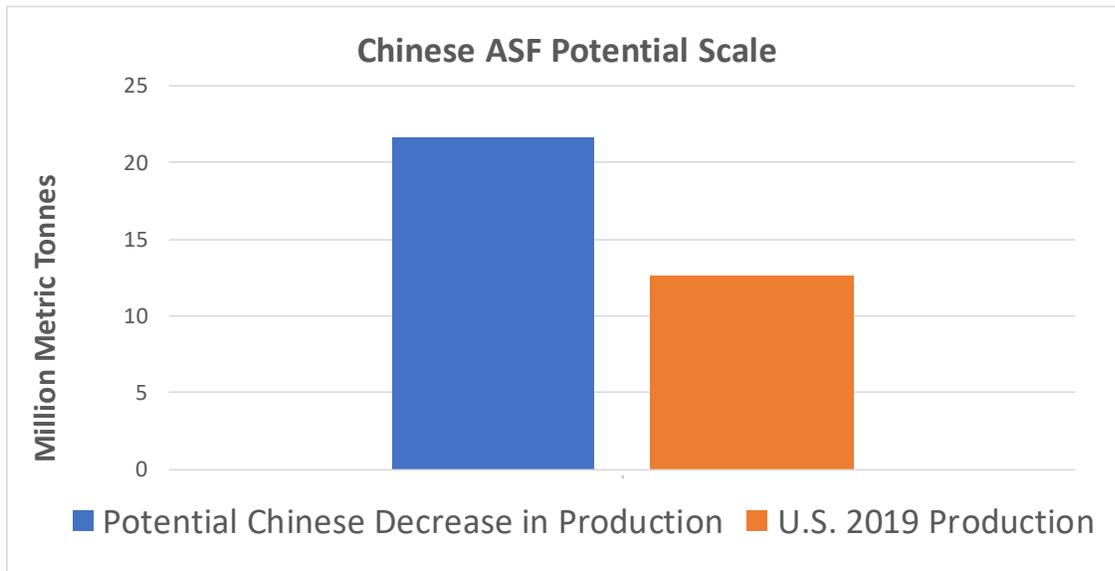


- Chinese imports have represented about 20% of global exports over the past five years. In 2016 Chinese imports were over 25% of global exports.
- The possible loss of Chinese production is 2-3 times greater than total global pork exports.



Perspective on the Magnitude

The purpose of the above exercise is to demonstrate the enormity of the losses, and to provide perspective. It is important to note that the losses are not going to be filled by global exports to China. Rabobank had stated earlier this year that they expected 2019 Chinese imports would be two times the tally in 2018. That, I assume was based on a 20% sow herd reduction. Even if the imports are three times the 2018 tally, they fall dramatically short of the consumption gap.



A loss of production of that scale means that there will be scarcity. Wealthier markets globally will be supplied at very high prices. Chinese consumption will decline, as will previously growing markets in southeast Asia. Poorer markets within China and southeast Asia will not be able to afford the product. Secondary market countries for global exporting nations will be shorted.

Canadian buyers will also find that domestic North American buyers that are on the lower end of the customer list priority ladder are going to go without. They are already finding that out the hard way.

It can be expected that part of China's decline will be offset by U.S. poultry meat. That product had been banned by Chinese non-tariff barriers, but I expect that those will be lifted in the U.S.-China trade talks.

China is not a big U.S. market due to the ractopamine non-tariff barrier imposed by the Chinese. Nevertheless, U.S. exports can be expected to increase dramatically for the rest of 2019 and into 2020. Even if the U.S. and China do not come to terms in negotiations, the U.S. will back-fill other markets shorted by Chinese exports from other nations. Grey market movement into China through Hong Kong and other ports will increase.

Over the next twelve months, I am putting Chinese imports of 2.5-3 times greater than 2018. That is, imports of 4.8 million metric tonnes versus 1.8 million in 2018. I expect to see global exports to all nations up by 30-35% year over year over the next twelve months and U.S. exports up by 20-25%.

Kevin Grier
March 2019

This note first appeared in the Canadian Pork Market Report. If you would like a free two month trial subscription please send me an email at kevin@kevingrier.com