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Export Concentration a Potential Long-Term Risk

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Global pork demand rebounded following Covid-19 disruption in most geographies, yet supply remains constrained in many Asian markets. This imbalance continues to support strong export demand from the rest of the world, resulting in sharply higher pork values. Globally, processors' ability to respond also remains constrained by labor availability, which limits packer capacity and efficiency, while in Europe, new African swine fever (ASF) outbreaks add further limitations. Hog producers face a challenging outlook, given rising feed costs, weaker economic trends, and slower export growth as China rebuilds its domestic hog supply.

China: Hog prices moderate as first signs of recovery take hold

Pork demand remains constrained by relatively high prices and slow economic growth. We expect pork prices to remain high, but anticipate a decline in 2021 as domestic supplies improve. Hog prices have moderated with the increase in supply, pressuring margins for producers paying record prices for piglets. Producers will remain vigilant to avoid new ASF outbreaks over the winter months.

US: Strong exports and tight stocks send pork prices sharply higher

Hog prices are up sharply as limited evidence of pent up inventories remains while packer interest remains high. Pork prices are also higher on strong retail demand and a rebound in export sales that helped boost ham and belly values. Months of disappointing returns will drive a modest contraction in the herd in 2021.

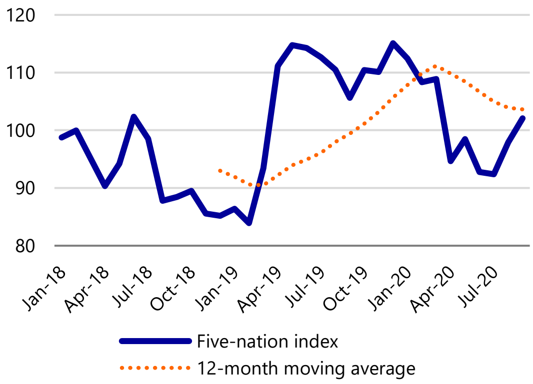
EU 27+UK: Market disruption following ASF discovery in Germany

Hog markets fell sharply following the discovery of ASF in a wild boar in Germany in September. Subsequent trade bans on German pork exports are forcing a redistribution of pork within the EU and creating additional supply chain disruption. Exporters in Spain, Denmark, and the Netherlands are likely to benefit, whereas German producers are likely to see prolonged market disruption.

Brazil: Exports through Q3 exceed full year 2019

Exports have grown steadily throughout the year, reaching record levels and surpassing 2019's full year volumes by August. Strong global demand and higher average pork values drove record sales in August, despite the strong devaluation of the Brazilian real this year, rising feed prices, and soft domestic demand.

Figure 1: Rabobank Five-Nation Hog Price Index, 2018–2020 (Jan 2015 = 100)



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

Figure 2: Rabobank currency forecast to Oct 2021

	Oct 16	3M	6M	12M
EUR/USD	1.17	1.16	1.14	1.18
USD/JPY	105.3	105.0	105.0	110.0
USD/CAD	1.32	1.34	1.36	1.36
USD/BRL	5.63	5.35	5.4	5.05
USD/MXN	21.2	24	24	24.5
USD/CNY	6.70	7.07	7.30	7.60

Source: Rabobank 2020

Feature Story: Concentration of Global Pork Trade Poses Risks to the Global Pork Balance

Record Chinese pork imports and double-digit increases in shipments to other Asian nations hit hard by ASF have buoyed the fortunes of the global pork industry since 2019. Stronger Asian demand has been extraordinarily timely as it helped to offset lost domestic demand and weaker exports due to Covid-19. With this shift, China now accounts for over 40% of global pork imports, over four times larger than its nearest competitor. However, as China restores its domestic hog production and gradually weans itself off the global market, exporters will be hard-pressed to find alternative markets for these volumes. Markets glimpsed how integral the Chinese market has become to the global trade balance following the trade dispute with Canada in 2019 and following the recent discovery of ASF in Germany.

Since its initial ASF outbreak in 2018, China has moved aggressively to re-establish local supplies, and it's already seeing a rebound in domestic availability. As detailed in our earlier reports, China began restocking its farms in late 2019 and is now transitioning a large share of its backyard hog production into state-of-the-art, biosecure facilities. Rabobank estimates that the Chinese breeding herd is currently 15% above trough levels and will continue to expand. China is ramping up imports of its breeding stock and making sizable investments in its genetic base, reaffirming our view that it is now able to manage any future ASF outbreaks and limit additional herd losses. Although the reestablishment of China's breeding herd and production assets is a multi-year process, it is now apparent that China is confident in its ability to manage additional virus events.

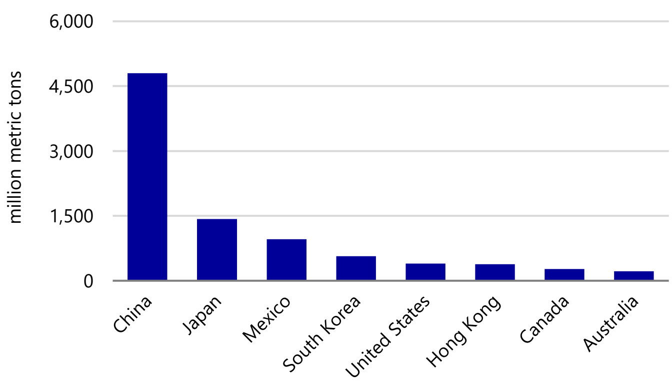
The Chinese government has reiterated its intention to become largely self-sufficient in its pork supply, meaning a gradual reduction in its pork imports. Rabobank believes that, on its current course, China could return to 95% self-sufficiency as soon as 2024/25. This provides a window of continued opportunity for global pork exporters to see incremental demand increases, but this window is likely to close in the coming years.

China's Return to Pork Self-Sufficiency Will Leave a Global Supply Overhang

As detailed in earlier reports, Rabobank expects Chinese pork production to normalize by 2024. We estimate Chinese production in 2021 will be more than 10%, or nearly 4m metric tons, larger than levels recorded in 2020 – a reflection of early progress. While still a deficit relative to historic consumption, we expect this to result in a 20% to 30% drop in pork imports, or about 1m metric tons, in 2021. To put this in perspective, a drop of this magnitude equals about 10% of global pork trade or more than is imported by all but the top two importers. With five countries responsible for 85% of total pork imports annually, it may be increasingly difficult to redistribute the pork no longer needed by China (*see Figure 3*).

The drop in Chinese demand will likely force many exporting nations to refocus efforts on secondary trade markets and ultimately result in larger domestic supplies. Given slower projected import demand in the coming years, as most economies are currently facing less robust growth in the interim, this may leave more sizable volumes on the domestic market. This is likely to translate into weaker product pricing and lower hog values.

Figure 3: China dominates global pork imports



Source: USDA, Rabobank 2020

Figure 4: Germany's ASF outbreaks are along its eastern border with Poland

Source: Rabobank 2020

Global Pork Production Growth Accelerated to Meet Chinese Demand

Pork production in key export markets was already in expansion mode prior to the added stimulus of stronger export demand. Low feed costs, strong herd health, new packing capacity, ongoing gains in herd performance, and good global demand based on steady economic growth drove an acceleration in hog production from 2015 to 2018. Just as the industry was hitting a new record for total production, the news of herd losses in China and Southeast Asia sent a signal to producers in the rest of the world to sustain production growth. In response, production in countries excluding ASF-affected regions rose 4.8%.

The challenge is how to offset the expected decline in Chinese demand with a combination of larger exports into alternative destinations and accelerating domestic demand growth, while also slowing the growth in supply. With export growth more limited in the next few years, due to a slowing economic outlook, this may be more challenging. Developing secondary export markets and expanding domestic opportunities will be critical to bridge this gap. Ultimately, though, we believe it will result in a less robust production pipeline and a smaller sow base in countries outside those impacted by ASF in recent years.

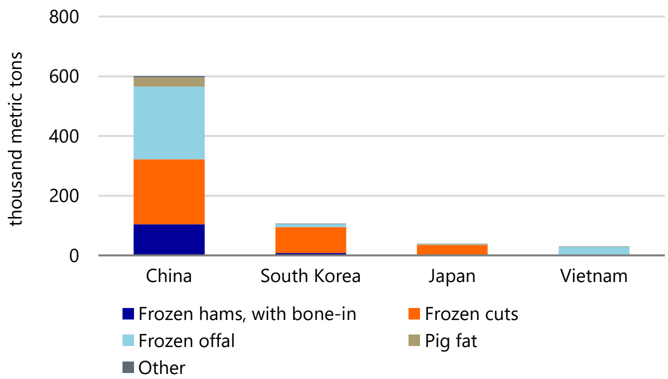
German Discovery of ASF Disrupts Global Trade Balance

On September 10, 2020, the first case of ASF in a wild boar was confirmed in the state of Brandenburg in Germany, adjacent to the Polish border. We believe the risk to commercial pig production remains low, based on current biosecurity measures and low commercial pig farm density in the affected state. Since the initial case, a total of 70 wild boars have been discovered near this initial carcass. The wide area in which these early cases were discovered is concerning, and it is likely there will be additional cases found, as German authorities estimate the ASF-affected animal likely entered as early as July 2020. To limit the spread, German authorities established zones to contain the virus, intensified the hunt for wild boars, and set up fences to limit the movement of wild boars.

Intra-EU exports are expected to continue without significant disruption, as regionalization principles are accepted within the EU, allowing Germany to export from non-affected regions. The regionalization principles adopted by the EU 27 were established by the World Health Organization (OIE) to delineate the health status of animal populations, and are used for the surveillance and control of disease. By establishing zones around the affected area, it is possible to minimize the impact on production and trade in areas where no outbreaks have occurred, while implementing more restrictive measures in high-risk, infected areas. Extra-EU trade, though, is heavily disrupted. To date, ten non-EU countries banned pork imports from Germany, with China, South Korea, Japan, and Vietnam representing 76% of extra-EU pork exports in 2019 (*see Figure 5*). Without access to these export markets, about 75,000 metric tons of pork each month need to find an alternative market, primarily in the EU.

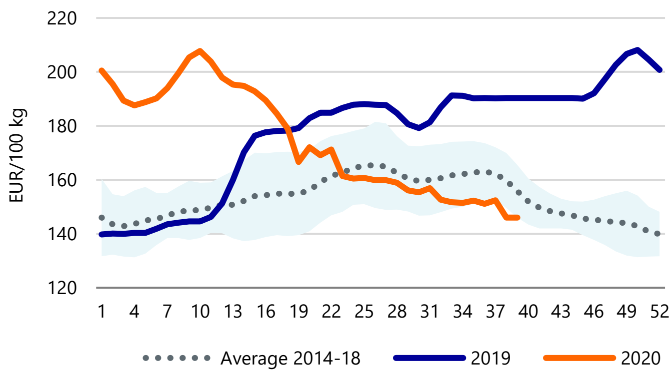
Increasing exports to Denmark and the Netherlands would be a logical option in the short term, due to established business relationships – Dutch processor VION and Danish processor Danish Crown are both active in Germany. On the other hand, specific market standards for pork in Dutch retail outlets and constraints on foodservice demand may potentially limit the possibility of scaling up these export flows.

Figure 5: Bone-in product likely to find its way onto the EU market, but additional pork will pressure prices



Source: Eurostat, Rabobank 2020

Figure 6: Average pig price in Germany down 6% from five-year average



Source: Eurostat, Rabobank 2020

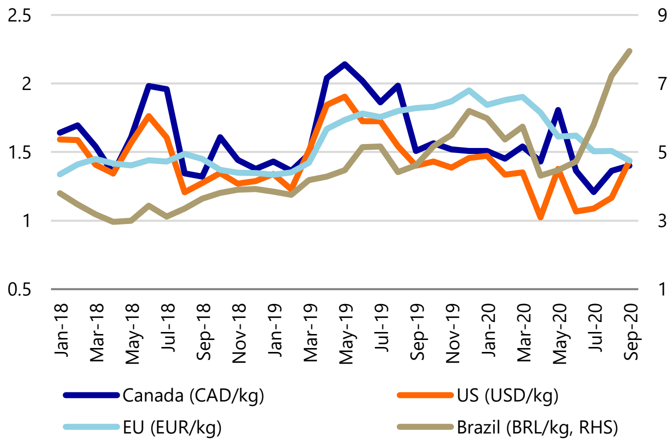
EU Supply Chain Disruption Will Weigh on Producer Returns

Limited EU freezer capacity will constrain processors' ability to adapt to the short term-disruption and to prevent congestion at the farm level, likely resulting in an oversupply of pork in the German and EU markets. The early disruption has already driven a 13% drop in German pork prices compared with pre-ASF levels (*see Figure 6*). Rabobank expects ongoing disruption, as alternative export markets remain limited and domestic demand remains strained from Covid-19-related disruptions.

We expect stronger exports from other EU markets to partially compensate for the loss of German exports, although their ability to shift production to meet these export market opportunities is relatively limited in the near term.

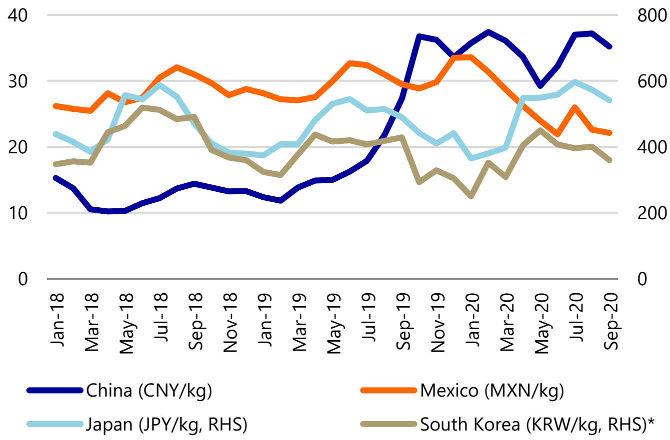
In 2021, pork production in the EU 27+UK is expected to be flat to down slightly. The rate of decline largely depends on what happens with the import bans on German pork in the coming months. If China does not accept the EU regionalization policy this year, that would imply a prolonged period of sustained low prices, which will likely accelerate farm exits in Germany. The current average piglet price, 27% below pre-ASF levels, is already pointing to reluctance to restock at the farm level. Even if China accepts German regionalization, however, we do not expect EU pig prices to return to 2019 highs, as China's import demand is expected to gradually soften, also limiting potential production growth (*see Figures 7 and 8*).

Figure 7: Export Prices, Jan 2018–Sep 2020



Source: CEPEA, CME Group, European Commission, Macrobond, Rabobank 2020

Figure 8: Import Prices, Jan 2018–Sep 2020



Source: ALIC, Ekapepia, Macrobond, Rabobank 2020

China

Live hog prices declined to CNY 31/kg in the second half of September after hitting CNY 37/kg in August, the record-high monthly average in 2020 (*see Figure 9*). While we expect prices to rise seasonally over the balance of the year, pork prices are expected to normalize at lower levels in coming years. Production is expected to reverse the negative growth experienced year to date and turn positive in Q4 2020.

Given current production trends, we expect a further acceleration in 2021. The pace of growth in the coming year still depends heavily on continued control of ASF over the winter – the first test of biosecurity measures on many small and medium-sized farms. Although disease challenges will remain a critical driver of production, we continue to believe the impact of the disease will be significantly smaller than that experienced in 2018/19, when half the herd was lost to outbreaks. Investments made to improve biosecurity on large farms should limit herd losses in coming years.

Based on MARA's figures, the sow herd posted positive YOY growth beginning in June 2020, suggesting that piglet supply should begin to show YOY growth in Q4. Currently, piglet prices remain historically high at around CNY 100/kg in September, up 110% YOY, despite declining live hog prices. As piglet prices fall in response to expected larger supplies in the coming months, it will dramatically improve producer economics and help offset any reduction in live pig prices.

China's pork import volumes, including meat and offal, reached 3.72m metric tons in the first eight months of 2020 – double the imports of the same period in 2019. Total imports in 2020 are expected to reach 4.8m to 5m metric tons. China Customs has strengthened port inspection of packaging and products for Covid-19 and suspended the export licenses of a number of exporters. This increased scrutiny at the ports will slow down the import pace over the balance of the year. In 2021, we expect pork imports to decline significantly from 2020 levels, due to the recovery of local production.

Europe

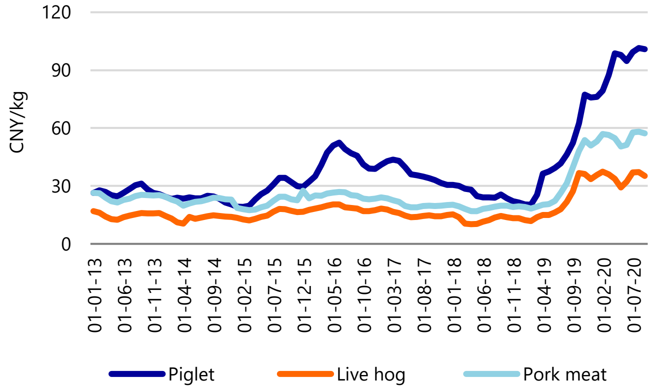
After successfully implementing measures to manage Covid-19 outbreaks within plants, European pork producers were challenged yet again after the discovery of a new case of ASF in Germany. Although the risk of an ASF outbreak in Germany was high, given cases in neighboring Poland, the reality of its spread is nevertheless disruptive.

The initial impact of the ban on German exports to key markets in Asia will force about 75,000 metric tons of pork per month to be redirected to other destinations. Even though some of this excess German pork will find other markets within the EU, cold storage capacity will be tested. Pig prices fell 13% on news of the ASF outbreak but have stabilized (*see Figure 10*). Piglet prices also declined by 10% in response to the ASF outbreak, signaling uncertainties over future production, given lower prices in the EU. We expect ongoing pressure on pork values and pig prices in the coming months as markets work to absorb the additional supplies and find alternative outlets.

To date, EU 27+UK pork production remains on track for a modest decline in 2020, with total volume down 0.9% YTD through June. Most countries posted a strong rebound in production in June, with big gains in Spain (+20% YOY), France (+12% YOY), Poland (+6% YOY), the Netherlands (+5% YOY), Denmark (+5% YOY), the UK (+5% YOY), and Germany (+2%). Growth through 1H 2020 was more mixed, with gains in Spain (+6% YTD), Denmark (+4% YTD), and the UK (+2%), offset by declines in Italy (-18% YTD), Poland (-6% YTD), and the Netherlands (-3%).

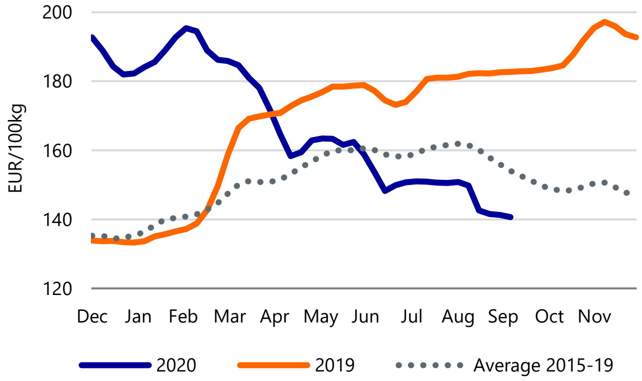
YTD exports of pork from the EU 27+UK to markets outside the EU are up 16%, to 3m metric tons, vs. year-ago levels for the period January to July. Of this, China was responsible for 65% of total exports. Spain reported a 20% sequential increase, with exports of 123,000 metric tons in July, and posted a 167% gain vs. the year-ago level. Exports from Germany (-5% YOY) and the Netherlands (-60% YOY) posted declines in July, after several plants were banned from exporting to China over Covid-19 cases in July and August. EU 27+UK pork exports to China are expected to decline over the balance of the year, despite the expected offset in shipments from other EU exporters.

Figure 9: China hog prices, Jan 2013–Sep 2020



Source: Boyar, Rabobank 2020

Figure 10: EU weekly carcass price (Grade E), 2014–2020



Source: European Commission, Rabobank 2020

US

US hog markets moved higher in September (+24%), as counter-seasonal strength in pork prices caught buyers off guard (*see Figure 11*). Stronger export demand following an ASF-driven ban on German pork exports and lower slaughter due to labor constraints left many buyers short of product in front of planned retail features. Pork prices surged in September (+22% MOM) on stronger belly (+25%) and ham (+28%) values. Rabobank expects export interest to moderate as higher prices quell demand, but with lower domestic availability and strong retail support, pork values should remain ahead of year-ago levels through year end.

The September USDA hog inventory report had no immediate impact on markets, as it did not reflect the reported backlog in front-end hog supplies. Declining slaughter weights, ample barn space, and strong packer demand for pigs all suggest supplies are more than currently indicated. Even so, Rabobank continues to believe some producers are struggling to find shackle space, having effectively managed weights. Even assuming current hog supply, weekly harvest continues to trail year-ago levels and is unlikely to move significantly higher given ongoing labor constraints. This shortfall in slaughter will limit Q4 production and result in slightly higher Q1 2021 supplies. Total Q3 inventory of 79.1m was 0.7% above a year ago and in line with expectations, while the breeding herd fell below our estimates, down 1.5% to 6.3m. A 3% drop in farrowing intentions through February, while also slightly below expectations, suggests tighter market hog availability in 1H 2021.

U.S. pork exports slowed dramatically over the summer (+3.1% YOY), as demand from key markets in Mexico and South Korea fell by double digits and sales to China moderated. Weekly export sales appear to have stabilized in September, however. Sales to Mexico have shown a notable improvement in recent weeks, as importers worked to secure product before year end and offset stronger exports. Weekly sales figures also show steady demand from China, which is not surprising given the ASF-related ban on Germany's exports. We expect solid Q4 export growth, with higher prices to partially limit the upside potential. While we forecast 2020 export growth of 13%, we expect a decline in 2021, driven by lower demand from China.

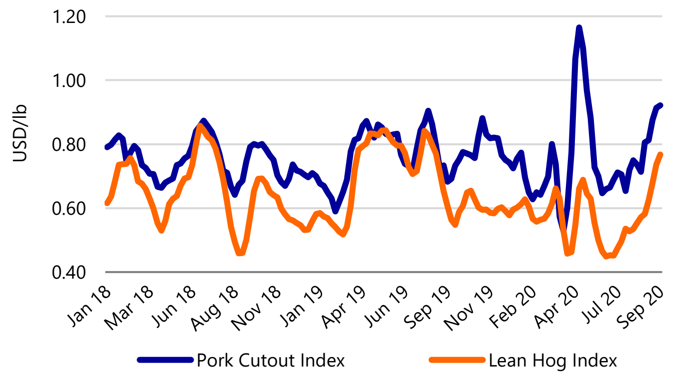
Mexico

Packer interest has waned on disappointing pork prices, keeping Mexican hog prices volatile, though above their spring lows. Mexican pork markets continue to drift lower on sluggish domestic demand and sizable imports of low-cost US pork. Current hog prices are down 15% from both the year-ago level and the five-year average. Producers also face rising feed costs, as US corn and soymeal prices were buoyed by late-season weather disruption and a disappointing US harvest. At current levels, most producers are operating at a loss, which is expected to moderate herd growth. Some expansion plans have already been put on hold, which should help balance industry supply with weaker demand.

Mexican pork production slowed further in August and September, as producers responded to the drop in profitability (*see Figure 12*). Production is now only 2.2% ahead of year-ago levels and down from the record production posted in July. Mexican hog production in 2020 is now expected to average 3.4% above year-ago levels, which is down from earlier expectations of +4.5% YOY growth.

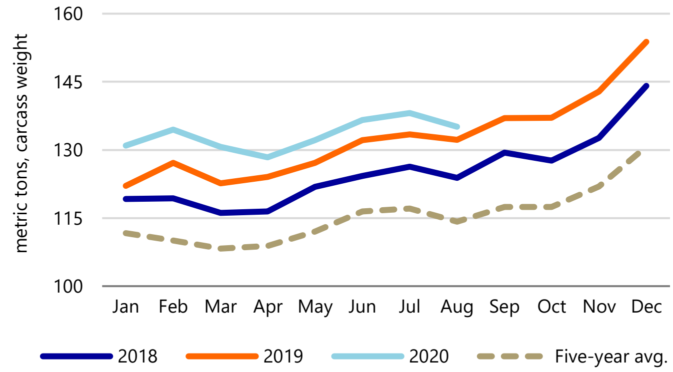
Mexican exports also remain somewhat volatile, with massive increases in July exports to China (+562% YOY) partially offset by weaker shipments to Japan (-11% YOY) and South Korea (-54%). Even with these mixed results, year-to-date shipments remain 56% above year-ago levels, at 142,000 metric tons, and are becoming a significant driver of pork demand. Given ongoing price weakness in Mexico and expectations of additional plants gaining approval to ship to China in the coming months, we expect exports into the pork-deficient region to remain strong through the balance of the year. Rabobank now projects full year exports of 255,000 metric tons in 2020, or 44% above 2019. At the levels currently expected, exports would account for 18% of total supply. Import demand has also been volatile, with volumes down 14% in the latest reported data. Imports of US pork through July were flat with year-ago levels, while imports from Canada for the same period were down 78%.

Figure 11: Lean hogs vs. pork cutout values, Jan 2018–Sep 2020



Source: CME, USDA, Rabobank 2020

Figure 12: Mexican pork production, 2018–2020



Source: Sader, Rabobank 2020

Canada

Canadian hog markets are above pre-Covid levels after bottoming in July. At current prices, most producers are operating at a CAD 15 to CAD 20/head profit, offsetting months of losses. Rabobank expects hog prices to moderate through year end on larger supplies, but losses will be significantly smaller than anticipated. This improved outlook will likely slow herd liquidation. Breeding herd inventories were up 1%, at 1.2m head on July 1, but will likely decline slightly in the January update. Sow harvest rose this fall after a sustained period of low feeder pig prices and sizable losses. Higher sow slaughter (+20% YOY) likely overstates the contraction, however, as it largely reflects a shift toward domestic harvest and away from live exports. Rabobank expects a 1% decline in Canada's breeding herd in 2021. Even with the drop in the sow herd, productivity gains and lower feeder pig exports continue to support increased production.

A small number of plants remain challenged by Covid-19's effects on their labor supplies and ability to export to China. This has resulted in some regional imbalances in hog supplies, but the industry has worked hard to clear live inventories by adding weekend shifts. Year-to-date production is up 4.9% to 1.6m metric tons, driven by a 3.6% YOY increase in slaughter and a 1.3% increase in weights. Assuming no additional disruptions, Rabobank anticipates a 4.5% YOY increase in 2020 pork production.

Both domestic and export demand have rebounded. While domestic markets remain challenged by weaker foodservice and slow economic growth, demand from at-home eating remains stable. Exports continue to recover after a multi-week port disruption and several voluntary plant de-listings to China. Exports are up 17% YTD vs. a year ago, and were up 10.6% YOY in August, reflecting favorable YOY comparison with 2019 volumes when China banned trade with Canada (*see Figure 13*). China now makes up 43% of Canadian pork exports and is one of only two major markets seeing YOY gains. Exports to the US and Japan were down more than 10% YOY in August, while shipments to the Philippines and Mexico were down over 40% YOY. Rabobank expects full year exports to total nearly 1.4m metric tons, up 12% YOY.

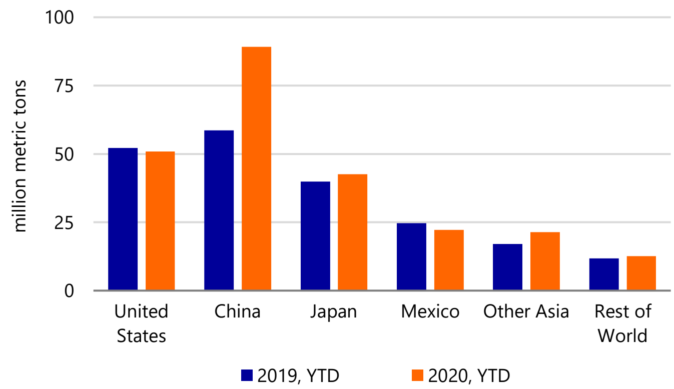
Japan

Japan's Q3 2020 hog slaughter volume is estimated to have reached 3.963m head (+1.4% YOY), while Q4 2020 volumes are expected to decline by 3.7% YOY, to 4.2m head (according to MAFF forecasts). The drop in production is principally due to the expected decline in December slaughter volumes.

Pork consumption in August is estimated to have declined 4% YOY (-11% MOM) to 141,100 metric tons. This increase was, however, realized through continued inventory drawdowns, in addition to increased share of domestic pork supply. Imports registered a 19% YOY decline for the month, to 68,000 metric tons, in line with weaker consumption (*see Figure 14*). This translated to a drop in imported stocks-to-use ratio to 12.0% at the end of August and brought January-August pork imports to 611,291 metric tons (-5% YOY). US and Canadian origins accounted for 53% of Japan's total pork imports YTD, although their combined YOY growth decelerated from 7% YOY in the first five months to 1% YOY.

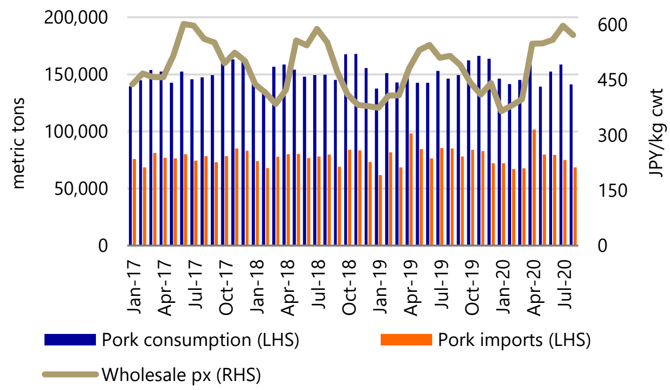
In August, pork retail sales were reported to have increased MOM, but this was not sufficient to lift YTD consumption, which is down as consumers continue to curb dining out due to Covid-19 concerns. Average pork wholesale prices remained relatively strong in July/August, averaging JPY 585/kg (+14% YOY), contrary to our expectations. We expect Q4 2020 pork imports to increase sequentially to replenish inventory but remain below year-ago levels.

Figure 13: Pork exports by volume, 2019 vs. 2020



Source: Trade Data Monitor, Rabobank 2020

Figure 14: Japan pork imports vs. average wholesale price



Source: ALIC, Rabobank 2020

South Korea

South Korean pork imports fell 27.4% to 227,523 metric tons in the first eight months (*see Figure 15*). Pork shipments from the US and Chile dropped by 28% and 7% YOY, respectively, over the same period. Collectively, they historically constitute almost half of South Korea's total pork imports.

South Korean pork consumption remains weak, due to high retail pork prices. Consumption through the first eight months of 2020 is estimated to have declined 7%, compared to the same period last year, to 885,300 metric tons. The sharp initial decline (-16% YOY) in pork consumption in May was not followed by a strong recovery, as retail prices remained significantly higher YOY. Pork demand in August saw another sharp decline of 11% YOY to 92,800 metric tons – the lowest level since ASF outbreaks were first reported in September 2019. Wholesale pork prices remained 20% higher YOY in July, before leveling off in August at KRW 4,304/kg cwt. However, retail pork prices were still 26% higher YOY in August at KRW 23,760/kg. South Korea's pork consumption should begin to pick up seasonally in Q4 2020, but is expected to remain well below year-ago levels given ongoing economic weakness and relatively high domestic pork prices.

A number of pig farms in Gyeonggi province that had participated in the liquidation and sale of pigs during the ASF counter-measures last year have recently submitted application for evaluation for restocking, and are reportedly scheduled to start in mid-October. However, new ASF outbreaks have been recorded in recent weeks. On October 8 and 9, ASF was reported on two domestic farms located in Hwacheon county, Gangwon province. In total, 4,077 pigs were destroyed, including 2,336 pigs in farms within 500 miles of the outbreaks. These new outbreaks will represent a set-back to South Korea's ASF recovery plans.

Vietnam

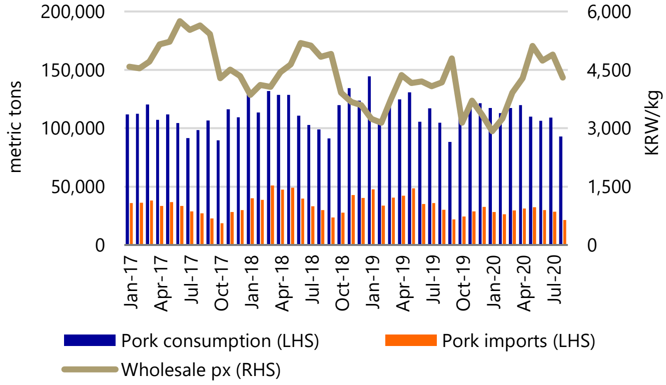
Live hog prices eased slightly in early October on the continued recovery in production, ranging between VND 72,000 and VND 80,000/kg live weight (*see Figure 16*). However, average piglet prices stayed firmly above VND 3.0m/head, given the reduced availability of piglets outside integrated farms. Restocking demand is due to pick up in October, in time for Tết lunar new year celebrations (mid-February 2021). We expect live hog prices to seasonally rebound on peak demand at year end.

Based on General Statistics Office monthly estimates, Vietnam's pork production for the first nine months reached 1.813m metric tons cwt (-3.2% YOY), indicating that Q3 2020 production expanded by 9.7% YOY to 0.62m metric tons cwt. This suggests 2020 pork production will exceed our initial projection of 2.2m metric tons cwt. Taking into account the jump in sow imports and retained gilts YTD, Vietnam's live hog production is now expected to reach 2.3m to 2.4m metric tons cwt this year (-2% to +1% YOY).

Sporadic ASF outbreaks were still reported in several areas in northern Vietnam in September. For the year to August 2020, Vietnam reported cumulative losses of 43,150 pigs from ASF outbreaks.

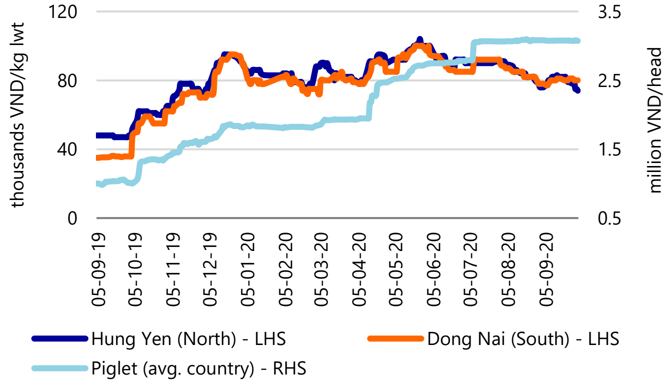
Preliminary data, as monitored through originating countries, indicates year-to-July pork imports into Vietnam have expanded 31% YOY, to 99,000 metric tons. Since June, origination has also shifted on availability and pricing considerations from the EU to Russia and Brazil. Imports of live hogs from Thailand through late August had reportedly exceeded 113,000 head. However, as the recent drop in hog prices has narrowed margins, live hog imports are expected to slow in Q4 2020.

Figure 15: South Korean pork imports vs. wholesale price, Jan 2017–Aug 2020



Source: KMTA, Rabobank 2020

Figure 16: Vietnam live-hog prices, 2018–2020



Source: Anova Feed, Rabobank 2020

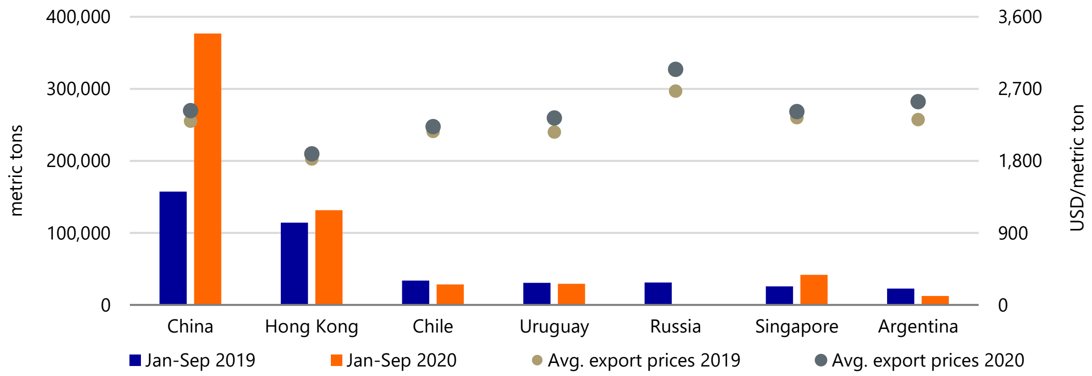
Brazil

Brazil's pork exports continue at a surprising pace, with shipped volumes at 857,000 metric tons, up 44% YTD through September and up 52% in value (*see Figure 17*). Thus, in just nine months, exports set a new yearly record and exceeded the total shipped in 2019. China remains the top importer, representing 50% of sales and posting a 139% YOY increase in volume. Hong Kong (17% of exports) and Singapore (6% of total) also posted sizable gains, as did Vietnam (4% of total), which more than doubled imports in the past year. Export values are also increasing, as average prices on shipments to China rebounded in August after falling in earlier months. Strong exports helped drive a 72% YOY increase in Brazilian live hog prices and a 69% YOY increase in pork values.

Pork production in 1H 2020 was up 7% YOY, but is expected to moderate on more difficult conditions in the coming months. Rabobank is currently projecting a 4.5% YOY jump in 2020 production and a record 32% YOY increase in exports. Continued government support for the industry has helped to stabilize production, yet slaughter-ready pig supplies remain limited. Lower levels of financial support to households, beginning in September, have moderated market prices, suggesting further upside in live and wholesale markets is limited.

Producers are also facing higher feed costs in the intermediate term, with prices 40% higher YTD in September. While most large producers have already secured their feed needs for the balance of the year, lower stocks and a higher risk of a disappointing crop, given La Niña weather patterns, remain a potential headwind for production expectations.

Figure 17: Brazilian pork exports, by volume, Q1 2019 vs. 2020



Source: Secex, Rabobank 2020

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