

## Will Chinese trade absorb the bumper US pig crop?

US hog prices started 2016 in a somewhat sluggish fashion, at levels well below those recorded in recent years, but have shown a gradual increase throughout the year. However, of late there has been a certain amount of volatility in these prices. There have been two factors that have led to this. Firstly, there has been increasing optimism surrounding exports, with the strong Chinese demand now being accessed by US pork producers. On the other hand, there has been some uncertainty regarding supply, precisely oversupply, and this has kept prices back.

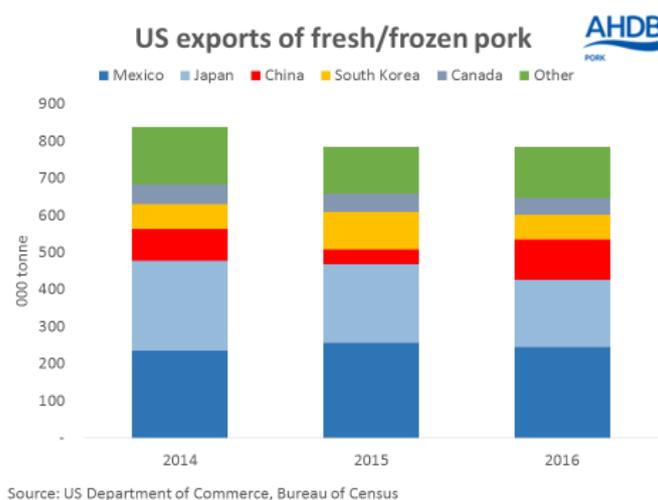
The volume of slaughterings in the first half of the year has largely fluctuated around 2015 levels. 2015 increases on the previous year were exacerbated by the PEDv outbreak in 2014. The current pig slaughter volumes are well under the estimated capacity, of 2,500 thousand head a month, so there is room for growth. If the bumper pig crop of the latest inventory comes to fruition, then it may be expected that production will rise, especially as the new processing capacity in the Mid-West comes on-line in the next of couple of years.



According to the latest hog inventory, total pig numbers were up 2% on June 2015, and up 1% from the previous quarter. This was the highest June inventory since records began. The breeding herd was also up, although only slightly, inferring that the increased productivity is driving the rise in the total pig herd, illustrating the increase in productivity being recorded in the US pig herd. Supplies onto the market have increased of late as a result of increased growth rates. Cooler weather and the new crop of corn coming in off the fields have aided these. Combined with typically higher pig numbers at this time of year, and higher supplies of competing meats, this may have triggered the price decline that has been recorded since mid-July. Reportedly, slaughter volumes have rapidly picked up in late July and into August, therefore putting further significant pressure on the market.

For the first half of the year, US exports have largely stood on last year's levels. However, within that overall figure, there has been a large shift in the destinations for fresh/frozen pork. Continuing the global macro-economic

trend, exports to China are up 2.5 times that on the same point a year earlier. Historically, the key barrier limiting pork exports to China has been the use of ractopamine in US pig production. Ractopamine is banned in China, therefore inhibiting US exports. However, since the end of 2015, there have been a growing number of US plants who are now listed as ractopamine free, and thereby have been accredited to trade with China. The EU is fully ractopamine free, and the decline in the value of the euro has meant that the EU has led the march to China. It now controls over two thirds of this lucrative trade. However, since the spring, the EU pig price has risen significantly, while supplies have started to tighten slightly, so this may affect the attractiveness of EU pork to the Chinese market. Should this be the case, the US may be in the position to gain back market share, especially if more plants become accredited as ractopamine free.



The growth in Chinese exports has come at the same time that shipments to Mexico have drawn back, by 4.5%. Mexico is the largest volume customer for US pork, accounting for almost a third of all shipments in the first half of 2016. One reason for the decline in Mexican shipments is the domestic growth of the pork industry in Mexico. The Mexican domestic herd has increased by around 15% over the last two years, which has lifted domestic pork production and pressurised imports. In addition, the strength of the dollar against the peso has also pegged back shipment volumes.

The success of US exports over the years has largely been assisted by the government's determination to push through Free Trade Agreements (FTA's). The US is currently exploring a number of FTA's, including the Transatlantic Trade and Investment Partnership (TTIP). However, the future of the TTIP looks less certain now, with the EU centring its focus on Brexit negotiations, and both the US presidential candidates rather cooler on the TTIP premise than the outgoing incumbent.

The effect of the bumper pig crop remains to be seen, but it might be expected to put further pressure on prices, unless current and further export opportunities can be shored up.