A turbulent period for the global pork trade

The global pork trade has been through a turbulent period during the last few months. Disease issues in various regions, restrictions relating to the use of feed additives and, more recently, international geopolitics, have all caused disruptions. Nevertheless, despite relatively tight supplies in many parts of the world and significantly higher prices, the amount of pork traded internationally during the first half of 2014 was higher than a year earlier.

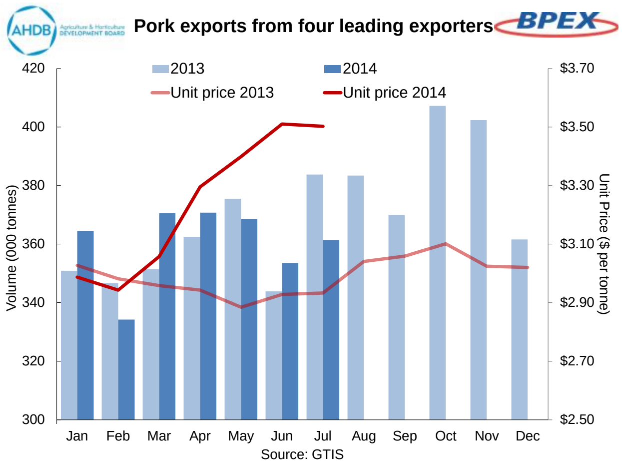
Last year, traded volumes fell slightly as lower shipments from the Americas, partly due to the use of the feed additive Ractopamine, could not be fully offset by higher EU supplies. Among importers, the biggest decline was in Russia, which excluded US and Canadian pork for periods during the year. Higher domestic production also reduced its need for imports. South Korea also imported less as its production had fully recovered from the 2010-11 FMD outbreak.

In January 2014, there was little sign of the disruptions ahead. Prices were similar to a year earlier and volumes were higher, as both the US and EU increased exports. There was also more pork traded between EU Member States during the month.

However, at the end of January, Lithuanian authorities confirmed the first ever case of African Swine Fever on the EU mainland. Further cases quickly followed and the disease has now spread to three other EU countries, Poland, Latvia and Estonia. This led to Russia, the largest buyer of EU pork, and several of its neighbours banning all imports of pork from the EU. As a direct result, EU pork exports in February were down 19% year on year, dropping below 100,000 tonnes for the first time since January 2011. Although they have since recovered some ground, the amount of pork leaving the EU during the first half of the year was down 5%.

Soon afterwards, the impact on the pork market of PEDv in North America and Asia started to become more apparent. Supplies began to tighten and prices to rise, notably in the US, Mexico, Japan and Korea. With three of these countries major importers, this actually led to an increase in exports, even from the US. The main effect, however, was on prices. Having fluctuated around $3 per kg for most of the last three years, average prices for pork exports from the four main global exporters began to rise in March. By June they had reached a record $3.51 per kg, 20% higher than a year earlier.

The extra demand from Asian markets, in particular, absorbed much of the EU pork displaced from Russia. There was still a 5% drop in shipments between March and June but this was much lower than in February. With some excess left in the EU, trade between Member States was somewhat higher than last year, being up 2% overall in the first half of the year. Most notably, 21% more Polish pork was sent to other Member States, as it was also excluded from export markets such as China and Japan.



By July, there were signs that the impact of tighter supplies and higher prices was starting to limit global trade. All the main exporters recorded lower volumes than a year earlier, with combined shipments down 6%. The average price was very similar to June, suggesting it may have reached a level high enough to bring demand into line with supply.

In early August, another development was added to the mix, as Russia announced that it was banning imports of most agricultural and food products from a number of countries in response to sanctions imposed over the situation in Ukraine. The countries affected include the EU, US and Canada, the three largest pork exporters; between them they make up over 80% of global trade (excluding intra-EU trade).

So where does this leave the global trade going forward? With the EU already banned from Russia and US shipments at a low level, the latest ban will mainly impact on Canada and Brazil. Canadian pork will need to find a new home but there should be opportunities in the US and Mexico, where PEDv means supplies are tight. Demand from Asian markets tends to be higher in the second half of the year so, with the US short of supplies and Brazil focusing on Russia, both Canada and the EU should be able to find markets there for their exports.

There will be increased demand for Brazilian pork from Russia but Brazil will struggle to match its requirements (click here for more). Russia is, therefore, looking to other potential suppliers, notably China, which could leave gaps for other exporters on the Chinese market. Overall, while there may be some short-term disruption, global trade should realign fairly quickly.

The impact of the Russian ban could be felt more as we move into next year and global supply levels increase as the impact of PEDv wanes. Unless demand picks up, there could be some oversupply on the global market, driving prices back towards $3 per kg and perhaps even lower. Demand from Asia may remain robust, especially if lower Chinese production stimulates import demand. However, this could be insufficient to match available supplies, if demand doesn't improve elsewhere. Even if Russia's market does re-open next summer, its requirements are likely to be lower than before as its production expands rapidly. All in all, the turbulence in the global trade looks to be far from over.