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Uncertainties Threaten Optimism in Global Pork Trade

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Uncertainty in global markets – due to disease risk, trade disputes, and feed availability – will create opportunities and challenges for the pork industry in the coming months. Impacts of the China/US trade dispute will distort markets and weigh on pork values in North America, while creating some potential upside for producers in Asia, Europe, and South America. The potential escalation of the dispute – along with ongoing NAFTA modernisation talks – creates a heightened sense of risk. Disease is also part of this uncertainty, including the threat of African swine fever (ASF) spreading in Europe. With so many threats, agility will be a key asset for producers in a volatile operating environment. The Rabobank Five-Nation Hog Price Index shows a softening trend, suggesting potential weakness in near-term returns *(see Figure 1)*.

China: trade policy supportive to price

Steep hog price declines (-30% YTD) are pressuring margins as the market remains oversupplied. Announced tariffs on US pork help to stabilise markets near-term, but are unlikely to fully offset market pressures. Potential tariffs on US soybeans add further cost pressure. We expect losses to continue, but gradually improve as the industry right-sizes production. Demand for pork will remain good, helped by spring festivals and low costs.

US: production and trade weigh on markets

The follow-through on planned growth in 2018 is resulting in seasonal production records, at the same time delays in the ramp-up of new capacity and trade disruption soften demand. We see little immediate change in production plans, as the industry has built a financial war chest to withstand the current downturn. With NAFTA renegotiations underway and the trade war with China heating up, plans to add production may be reconsidered until there is improved visibility.

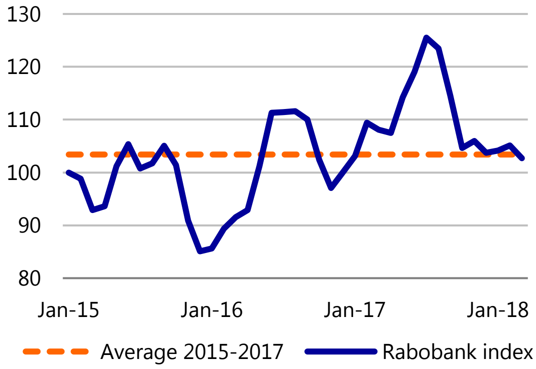
EU: rising supply pressuring prices

Production growth and weaker exports are expected to limit the upside in margins in 2018. Gradual growth in pig herds reflects good returns over the past year and a rebound in productivity. The EU is not expected to see a big pick-up in demand from China, but should pick up some growth to Japan and South Korea. The threat of ASF (and the risk to exports in that eventuality) remains an overhang on the market.

Brazil: Chinese exports help cushion the blow

A surge in exports to China and Hong Kong is helping offset lost access to the nation's primary export market in Russia. Even so, Brazilian producers continue to struggle with weak pork prices and higher feed costs (following a moderately disappointing growing season). Based on current profit levels, we expect slower growth in production in the year ahead.

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



Source: national statistics, Rabobank 2018

Figure 2: Rabobank currency forecasts, Apr 2018-Apr 2019

	16-Apr	*3M*	*6M*	*12M*
EUR/USD	1.23	1.22	1.22	1.21
USD/JPY	107.5	107	109	110
USD/CAD	1.26	1.27	1.28	1.3
USD/BRL	3.42	3.3	3.35	3.2
USD/MXN	18.1	20.5	20	19.8
USD/CNY	6.28	6.40	6.45	6.7

Source: Rabobank 2018

Feature: the ASF threat

Global herd health issues have the potential to slow pork production and disrupt traditional trade flows. While no current outbreak is expected to have the distortionary impact of AI in poultry or BSE in cattle, the spread of African swine fever (ASF) into Central Europe is generating some concern. Export-dependent countries in the EU are moving quickly to defend against its spread.

African swine fever: a hot-button issue

ASF is a highly virulent swine disease, with no effective treatment and no available vaccine. The mortality rate for infected animals is close to 100%. While not a new disease in many parts of the world, its recent spread to the border of the large pork-exporting countries of Germany and Denmark is cause for concern. There are no known human health risks, but the disease is also known to be carried in contaminated pork products. This makes cross-border control more critical.

Endemic in Africa and the Mediterranean island of Sardinia for many years, ASF spread to the Caucasus in 2007, but was initially misdiagnosed. By 2013, ASF had spread to wild and domesticated pig populations throughout Russia. Ironically, Russia banned EU pork exports after ASF was discovered in Lithuania and Poland in 2014. In June 2017, ASF was detected in the Czech Republic, undoubtedly spread by discarded food products (see *Figure 3*). In response, a wild-boar hunting programme has been introduced; so far, the virus is contained in the eastern part of the country. The Czech outbreak is just 300km from the German border.

Endemic in wild pigs, difficult to control

ASF is commonly spread through wild boars, ticks, and increasingly through discarded pork products from contaminated pigs. The disease also can live for many weeks in the remains of deceased and manure of live infected pigs. More recently, there has been some evidence that feed from infected areas could also be a possible source of contamination.

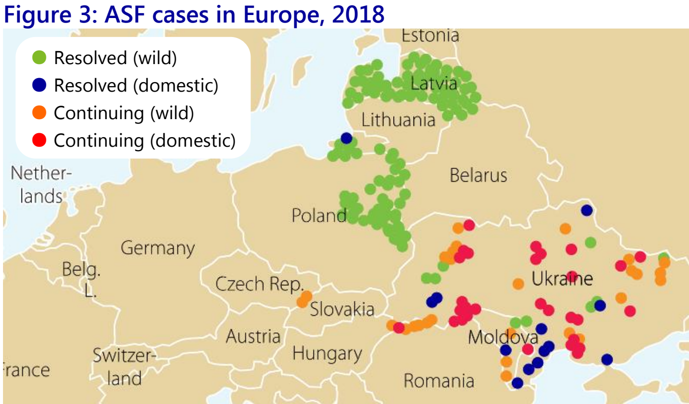
To control the spread of ASF into its domestic herd, Denmark recently announced the construction of a 70km-long fence along the German border. The fence is designed to keep wild pigs from moving across borders, in an effort to limit the spread of the disease. Germany has also stepped up the hunting of its large and rapidly growing wild boar population to control the spread of ASF (*see Figure 4*). Both nations are also focused on increased control of live animal transport. Denmark exports around 9m piglets to Germany annually, along with an increasing number (6m) to Poland. Workers from ASF regions also pose a growing risk to the EU pork industry, as contaminated food items are a carrier of the disease.

Potential consequences for global trade flows

Given the potential for the disease to not only be spread through live animal transmission, but also fresh and processed pork, exports from infected regions are quickly quarantined within a buffer zone, until the spread of the disease is fully contained. Based on recent outbreaks, this could be a period of several years.

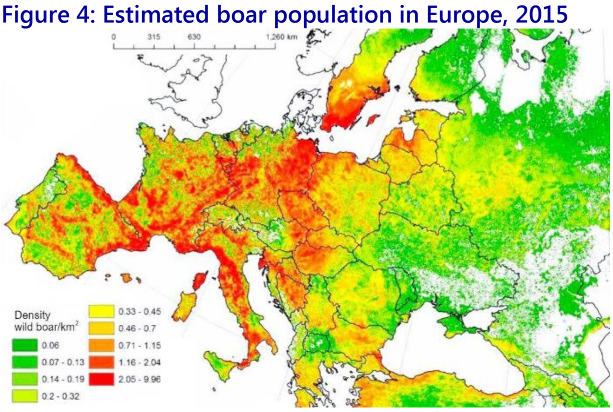
The near-term risk is that ASF spreads into more densely populated commercial production regions in the EU, and trade flows are interrupted. Given the proximity of current outbreaks, we believe Germany and Denmark are most at risk. There is no guarantee, however, that ASF will be contained to neighbouring countries, given the ease of transmission through unprocessed pork products. As the potential economic implications of an outbreak are so severe, EU and international animal health officials have a coordinated effort to prevent cross-border transmission via live-animal and processed meat products. It is unclear, however, if a viable vaccine to combat ASF's spread is nearing commercialisation.

Figure 3: ASF cases in Europe, 2018



Source: World Organisation for Animal Health 2018

Figure 4: Estimated boar population in Europe, 2015



Source: Food and Agriculture Organization of the United Nations 2015

Dashboard

Legend and units

Production	*Exports*	*Imports*	*Hog price*	*Piglet/feeder price*	*Feed price*
1,000 tonnes carcass weight equivalent (CWE)			kg CWE	kg	kg

Δ = year-on-year change   All prices in local currencies

EU: rebound in supply pressuring prices

Production	*Exports*	*Class E price*	*Piglet price*	*Feed price*
Rising	*Declining*	*Under pressure*	*Declining*	*Rising*
Jan 2018: 2,189 Δ +9%	Jan 2018: 326 Δ -5.4%	Mar 2018: 1.47 Δ -6.4%	Mar 2018: 51.57 Δ -7.8%	Mar 2018: 0.24 Δ +1.2%
YTD: 2,189 Δ +9%	YTD: 326 Δ -5.4%	YTD: 1.41 Δ -8.4%	YTD: 47.76 Δ -3.3%	YTD: 0.23 Δ +1.1%

China: Hog prices stabilize after sharp declines

Herd (Feb)	*Pork meat imports*	*Hog price*	*Piglet price*	*Corn price*
To stabilise	*To rebound*	*Stays strong in Q2*	*To stabilise*	*To stabilise*
Hogs: 338 Δ -4.7%	Feb: 72 Δ -62%	Mar: 10.5 Δ -35%	Mar: 28.6 Δ -29%	Feb: 1.83 Δ +14%
Sows: 34 Δ -5%	Jan-Feb: 188 Δ -37%	Jan-Mar: 13.2 Δ -23%	Jan-Mar: 37 Δ -25%	Jan-Feb: 1.81 Δ +19%

US: record production and trade tensions pressure prices

Production	*Exports*	*Hog price*	*Sow price*	*Feed price*
Hitting new records	*Could slow on China*	*Trade uncertainty*	*Good demand*	*Uncertainty on trade*
Feb 2018: 934 Δ +3.6%	Feb 2018: 165 Δ +8.8%	Mar 2018: 1.44 Δ +23%	Mar 2018: 0.90 Δ +67.5%	Mar 2018: 0.88 Δ -3.7%
YTD: 1,972 Δ -0.4%	YTD: 329 Δ +7%	YTD: 1.59 Δ +7%	YTD: 0.94 Δ +15.7%	YTD: 0.91 Δ -3.8%

Canada: a return to herd growth possible

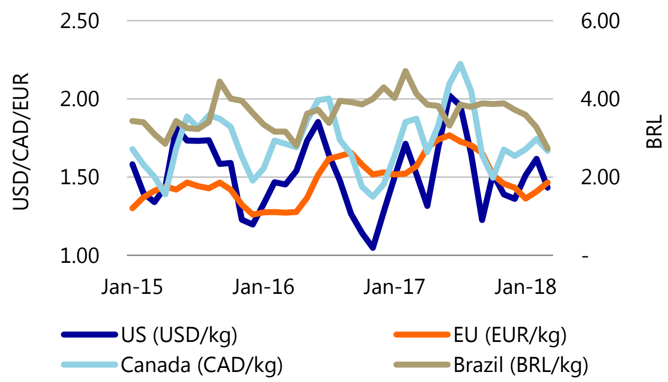
Production	*Exports*	*Hog price*	*Feeder hog price*	*Feed price*
Stabilizing	*Rising*	*Rising*	*Rising*	*Declining*
Mar 2018: 42 Δ +2.6%	Mar 2018: 115 Δ -2%	Mar 2018: 1.80 Δ +20%	Mar 2018: 0.61 Δ +5%	Mar 2018: 0.91 Δ -4%
YTD: 450,045 Δ +2.9%	YTD: 1,179 Δ +4%	YTD: 2.00 Δ +6.8%	YTD: 0.64 Δ +5%	YTD: 0.92 Δ -7%

Brazil: second (winter) corn crop will be key for feed prices in Brazil

Production	*Exports*	*Pork price*	*Hog price*	*Feed price**
Expected to increase slightly	*Expected to decline during Q2 2018*	*Expected to stabilize*	*Expected to stabilize*	*Expected to stabilize*
Dec 2017: 318.4 Δ -1.6%	Feb 2018: 41.9 Δ -17%	Feb 2018: 5.22 Δ -30%	Feb 2018: 3.47 Δ -30%	Feb 2018: 0.79 Δ +10%
2017: 3,814 Δ +2.8%	YTD: 95.1 Δ -16%	YTD: 5.46 Δ -23%	YTD: 3.64 Δ -21%	YTD: 0.77 Δ +5.6%

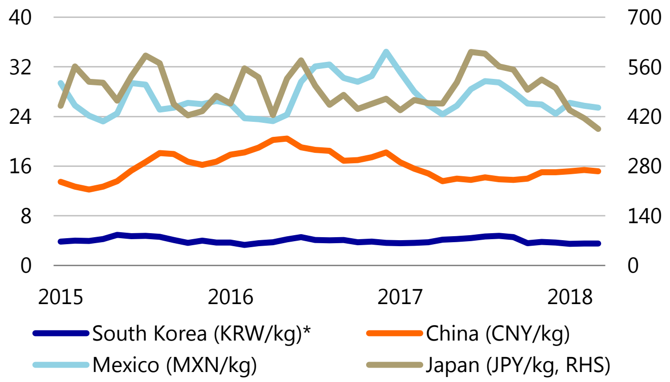
* feed price: 60% corn, 40% soymeal; herd: million head

Figure 3: Pork prices in exporting countries, Jan 2015-Mar 2018



Source: Bloomberg, European Commission, Agriculture and Agri-Food Canada, Rabobank 2018

Figure 4: Pork prices in importing countries, Jan 2015-Mar 2018



*Note: For display purposes, the South Korean won has been divided by 1,000.
Source: Bloomberg, European Commission, ALIC, Rabobank 2018

China

Live hog prices hit a decade-low in March. Average prices were below CNY 10/kg in most regions – lower than the previous low in 2014 (*see Figure 7*). As a result, producers have been recording a loss of CNY 200/head to CNY 300/head.

On 23 March, China's government announced that it would impose an additional 25% tariff on US pork imports, in response to the US announcement of trade sanctions on Chinese imports. Chinese hog prices have since rebounded slightly in some regions, as the news signalled that supply pressure might ease due to a potential decline in imports. But prices continued to fall the following week, suggesting that oversupply and negative market sentiment are overwhelming. We believe weak demand, rapid expansion of large farms, and the delay of hog slaughtering before Chinese New Year all contributed to the price weakness.

We expect prices to remain weak in Q2, but see limited downside from current levels. Demand is expected to improve in the coming months, due to forthcoming festivals in May, though supply will likely continue to be sufficient. Beyond Q2, prices will likely rebound if the pace of farmers exiting production exceeds the pace at which large farms expand. Reports are that some farmers have already begun liquidating operations and are exiting, but large farms continue to expand.

Imports of pork in February (the month of Chinese New Year) declined sharply, down 38.7% MOM, or 35% YOY. While the month of Chinese New Year is typically the low season for imports, the rate of decline this year is much larger than in the previous two years. In 2016 and 2017, average February declines were 1% and 23% MOM, respectively. This weakness reflects soft early-2018 import demand due to low prices in the local markets. We expect 1H 2018 imports to fall more than 20% below the same period last year – but 2H imports in 2018 will likely rebound strongly, resulting in only a slight year-on-year decline.

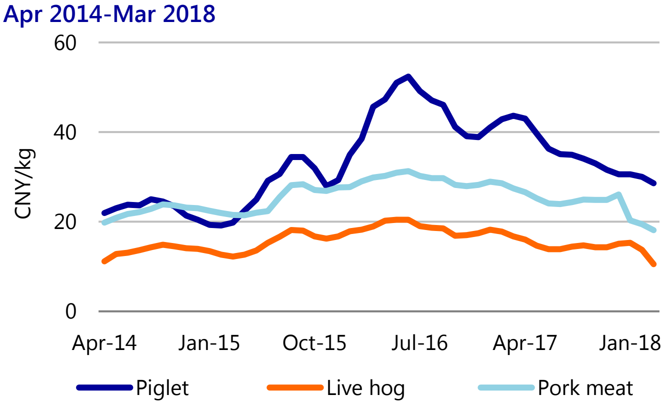
US

Record Q1 2018 hog inventories of 72.8m head (+3.1%) reflect industry expansion to meet the needs of recently added packer capacity and favourable costs of production. There was little evidence of rumoured disease-related losses, and productivity remains at historical highs. We remain comfortable with our 2018 outlook of 3.8% growth in hog supplies, even as returns have dropped in light of recent trade developments.

Recently imposed tariffs on US exports of pork and variety meats to China of 25% are expected to weigh on markets until there is improved visibility. China accounted for an estimated 12% of all pork and variety-meat exports from the US in 2017, and the loss of this market now appears to be fully priced into the market. The ultimate impact of the tariffs depends largely as to whether China chooses to crack down on product trans-shipped via Hong Kong in the grey channel. An estimated 25% of all US variety meats is destined for China, while another 25% enters through alternate channels like Hong Kong. With few alternate markets for this product, we believe producers will see at least a USD 2/head to USD 3/head loss from variety meats alone. In total, the loss of the Chinese export market alone could cost US producers USD 6/head to USD 8/head.

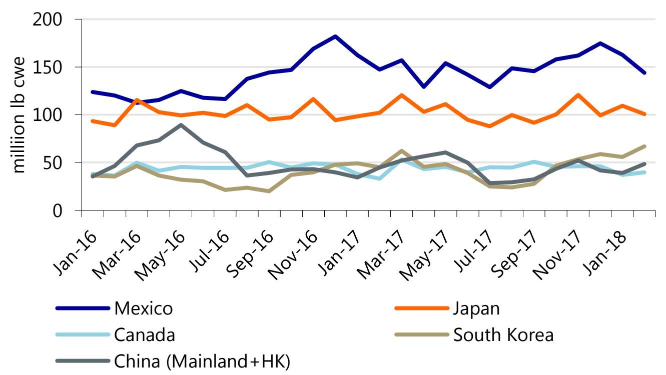
Strong exports of pork in January (+5% YOY) to all destinations, with the exception of Canada, drove relatively strong ham values to start the year (*see Figure 8*). Shipments slowed in recent weeks, however, as uncertainty over China's retaliatory trade measures grew. We expect no meaningful exports to China in light of announced tariffs, but expect to recoup a portion of lost sales in alternate markets. One bright spot is the third-largest US export market in South Korea. With the successful renegotiation of trade with South Korea (KORUS) last month, we expect good export demand into this and neighbouring Asian markets. The focus for US pork exporters will now shift to the ongoing NAFTA talks. With over 40% of all exports moving into Mexico and Canada, a successful conclusion to this free trade pact is critical to US pork prospects.

Figure 5: Chinese prices of piglets, live hogs, and pork, Apr 2014-Mar 2018



Source: Chinese Ministry of Agriculture, Rabobank 2018

Figure 6: US major export destinations in quantity, Jan 2016-Jan 2018



Source: USDA, Rabobank 2018

EU-28

EU pork markets strengthened in Q1, following a drop in German pork production, which was then followed by declines in other large EU production regions (*see Figure 9*). The EU-28 pig herd data from November/December 2017 confirms previous expectations that production continues to expand and that it will grow again in 2018. The total EU herd increased by 2% YOY, and the total sow herd gained 1.4% YOY. Rabobank expects EU production to reach a new record level in 2018: +2% compared to 2017. We expect pig availability to gradually increase throughout the year.

Growth in herd sizes is relatively widespread, with stabilisation in the German hog supply following three years of herd reductions perhaps the most notable. We are expecting higher live piglet imports and better farm results to help boost herd growth in Germany. In Spain, growth will continue, but at a slower pace. Poland is also expected to show an uptick in production in 2018, after good producer returns in the past two years. Denmark and the Netherlands will produce more pigs in the next three to six months, although environmental restrictions in both countries will encourage the export of these piglets, mainly to Germany and Poland. Spain and Italy will also increase piglet imports.

In 2017, EU pork exports reached 3.7m tonnes, processed meats and by-products: -8% YOY, reflecting a stronger euro. Chinese exports (37% of the total) were particularly hard hit and are expected to remain weak through Q2 2018. Increasing flows to Japan, South Korea, and other Asian destinations have thus far been unable to compensate. We do not see a large rebound in exports in 2018 and note that recently imposed tariffs on US pork products are unlikely to generate much additional trade in the coming months.

Offsetting a portion of the decline in exports has been relatively stable EU consumption. We expect seasonal EU demand to support prices in the coming months, particularly given the more optimistic economic outlook for eastern member states, Spain, and Italy – even though western member states show a modest decline. The high consumer prices for beef are expected to be supportive, although generally more for poultry than pork.

Russia

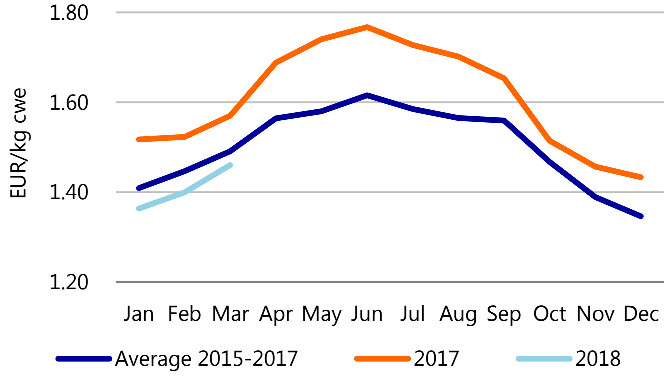
Russian production is estimated at 3m tonnes in 2017 (+4% YOY). The country is now approaching self-sufficiency (91%) and is less reliant on imports. Russia has seen tremendous gains in both total hog inventories and production practices in recent years. In 2018, pig production is expected to continue growing. Inventories were up 6% in January, with total pig numbers now at 23.5m.

With the tremendous growth in production, Russia is now considering the potential for exports. Initially it is focused on nearby countries like the Ukraine, but it has also targeted Asian markets, and is now establishing new relationships in Hong Kong and Vietnam. Total exports in 2017 were an estimated 65,000 tonnes (meats and by-products).

At the same time, Russia has become even more protective of its own market. In December, the country announced that it had banned shipments from Brazil, one of the last remaining importers, citing the presence of trace amounts of ractopamine in a shipment. With pork imports nearly non-existent, the Russian production industry remains very profitable. Not only do market prices for hogs remain very good, but the country continues to benefit from depressed feed costs.

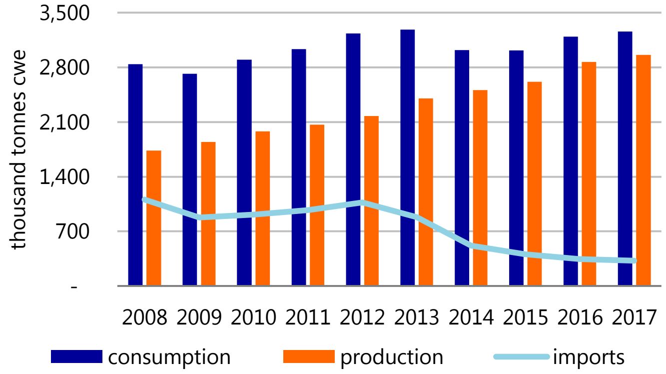
The greatest near-term threat to increased production is the spread of ASF in many regions of Russia. While it is believed to be under-reported, reports of thousands of observed cases over the last few years are cause for concern. Most of the affected operations are concentrated in the western part of the country and have not had a noticeable impact on total production. At the end of 2017, however, outbreaks of the ASF virus have been observed further east, close to the border with Kazakhstan, in the Omsk region, and more recently close to Irkutsk (close to the Mongolian border). Given the country's internal market, the only significant impact would likely be to limit the potential growth in exports in the coming years.

Figure 7: EU monthly hog prices, 2015-Mar 2018



Source: European Commission, Rabobank 2018

Figure 8: Russian pork production, consumption and imports, 2008-2017



Source: USDA, Rabobank 2018

Mexico

Hog production in Mexico started strong this year, with an increase of 9,000 tonnes cwe, or nearly 4% YOY. With total production now reaching 238,000 tonnes, the industry is poised for even greater growth in 2018. An increase in productivity and growth in hog inventories in the past several months drove the increase in slaughter, along with head processed at federally inspected plants of 12.2%, compared to the same period in 2017 (1,566 thousand head in 2018 vs. 1,397 thousand head in 2017). Heavier carcass weights also contributed to the increase, with average weights 2.2% higher (77.1kg in 2018 vs. 75.4kg in 2017).

Imports of US pork in January 2018 are flat compared to January 2017, reaching 74,000 tonnes. Pork imports for 2018 are expected to be around 1.2m tonnes. However, the volume could change, given the trade dispute between China and the US. Lower-cost US pork should compete effectively on the Mexican market and may displace some local production in the short run.

Margins have been strong for Mexican producers in recent months, yet they have dropped from the year-ago period, as supplies have increased substantially and as US markets have weakened. Average hog prices in the January-March period fell from MXN 30.6/kg to MXN 29.7/kg, while pork carcass prices fell from MXN 41.8/kg to MXN 40.9/kg, a decrease of 3% for live hogs and a 2% decrease for pork carcass, respectively (*see Figure 11*). We expect lower prices to weigh on returns for Mexican producers, likely slowing the pace of growth through 2018.

We expect incremental growth in domestic demand for pork as consumers react to lower costs and increased availability. We anticipate 3.5% growth in pork consumption in 2018, although this could accelerate should pork prices become even more attractive. But given that poultry and beef availability will also increase and be competitively priced, we believe all three proteins will compete for share of plate. Economic uncertainty – tied to the outcome of July elections and ongoing NAFTA negotiations – also has the potential to impact future consumption levels.

Canada

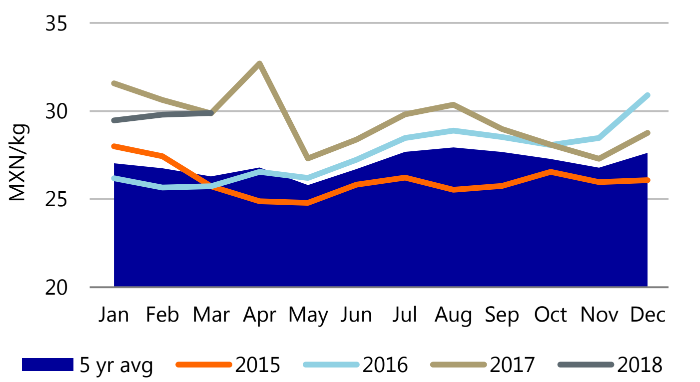
Canadian hog inventories are up +2.7% YOY in Q1 2018, to 14.3m head, while the sow herd remains constrained (+1.3% YOY). Ongoing productivity issues – due to the lagged impact of PEDv in the year-ago period, along with disruptive environmental controls and government intervention – have slowed herd expansion.

We continue to expect limited growth in the sow herd in 2018 (less than 1%), but note that conditions are becoming more favourable in the longer term. Fewer growth restrictions (Manitoba), good demand for weaned pigs from the US, recent packing capacity additions both in the US and Canada, and good demand for high-quality Canadian pork exports to Asia are all signalling a return to growth. The only limiting factor will be price.

Like the US, Canadian markets are struggling to quantify the impact of recently announced tariffs on US pork exports. While it is expected that Canada may benefit from the US trade dispute with China, weaker US markets will remain a drag on prices in the near term. Production margins have dropped below break-even in the past few weeks, in tandem with the declines in the US. This follows average margins of CAD 20/head through much of Q1 2018.

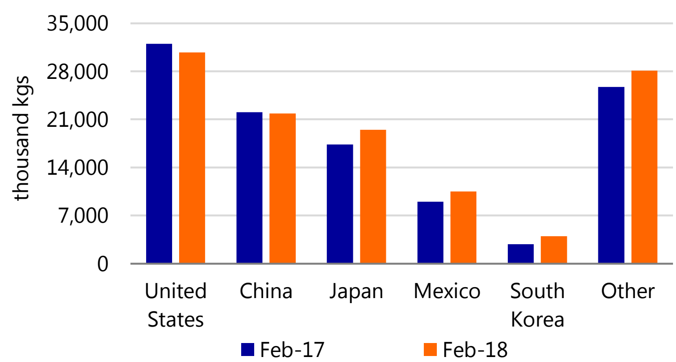
Canada remains heavily dependent on exports (70% of total), and exports were up 5% in 2017 (*see Figure 12*). January totals were flat – but more importantly, values were up 3%. There has been a shift toward higher-value fresh exports to Asia, and we believe this should improve industry fundamentals going forward. Exports of live swine (primarily feeders) remain good, although somewhat below expectations. Current market uncertainty is likely to slow trade flows, although we continue to forecast modest growth in exports for 2018. Like the US and Mexico, Canada's prospects hinge on a favourable conclusion to NAFTA modernisation.

Figure 9: Monthly hog prices Mexico, Jan 2015-Mar 2018



Source: USDA, Rabobank 2018

Figure 10: Canadian pork exports, by volume, Feb 2017 vs. Feb 2018



Source: Statistics Canada, Rabobank 2018

Japan

In 2017, Japan was about 47% self-sufficient in pork – and this level is expected to gradually decline, due to stagnating domestic production and stable consumption. Some consumption growth can be seen, potentially influenced by rising beef prices, as consumers move back to pork, despite its firm pricing in 2017. However, Q1 2018 prices have decreased towards the ten-year average (*see Figure 13*).

Canada and the US have increased their share of imports in recent months and now account for more than 58% of the total. Both countries have a geographic advantage in supplying Japan's high-value market with fresh pork. Going forward, Canada is expected to benefit even more, as it will enjoy more favourable trade terms under the Comprehensive and Progressive Agreement for Trans-Pacific Partnership CPTPP (also known as TPP-11).

The EU industry is also eyeing Japan as a possible growth market for pork exports. Of Japan's current trading partners in Europe, Denmark is the largest, with total shipments of 119,000 tonnes in 2017. Even so, Denmark's exports to Japan were 7% lower YOY in 2017. The Netherlands (+28%), Spain (+21%), Germany (+23%), and Italy (+22%) all reported increased pork trade with Japan in 2017.

Even with the big gains in pork imports in Japan in 2017, trade sharply declined in December. Imports rebounded in January 2018, with quantities slightly above January 2017 levels (+3%), while values fell by 4%. We expect continued growth in pork imports in Japan in the intermediate term. This is especially the case for unspecified frozen cuts and whole carcasses, but also products such as salted, dried, or smoked ham (+9%) and bellies (+27%), which have seen big gains in imports in the past few years.

Future drivers of Japanese pork imports will likely be of a political origin. In particular, the tariff agreements with the CPTPP countries. These are expected to be similar to the EU-Japan agreement, which will be effective beginning in 2019. Japan's political commitment to CPTPP is high, and the government is moving quickly to ratify the trade deal.

South Korea

South Korean pork demand remains stable and is being matched by increasing imports. Domestic production growth is expected to slow in 2018. South Korea remains highly dependent on imports, with the current level of self-sufficiency estimated to be 66%. Based on our current outlook for production growth, we see little change to this in 2018.

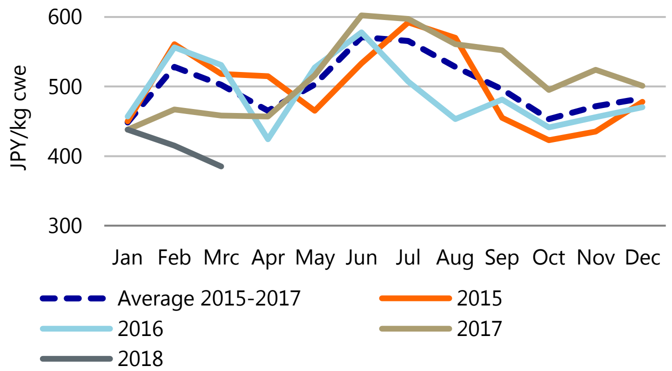
Total imports for 2017 reached 533,000 tonnes, up 12% compared to 2016 (*see Figure 14*). Similar to the past three years, imports peaked in December. Accordingly, imports in January 2018 started the new year with a solid 22% gain, compared to imports in January 2017.

South Korea's main pork trade partners increased their exports in 2017: Germany (+23%) and the US (+29%). Not only did volumes increase, but the value of imports for both countries rose as well (US +26%, Germany +31%). This trend extended into the first month of 2018 for most import origin countries. However, the value of German pork exports to South Korea fell by 13% YOY in January 2018.

In general, import patterns of South Korea are similar to Japan, with high-value cuts and salted, dried, or smoked meats being increasingly imported. The shift in imports to these high-value cuts also helps explain the rise in overall import values.

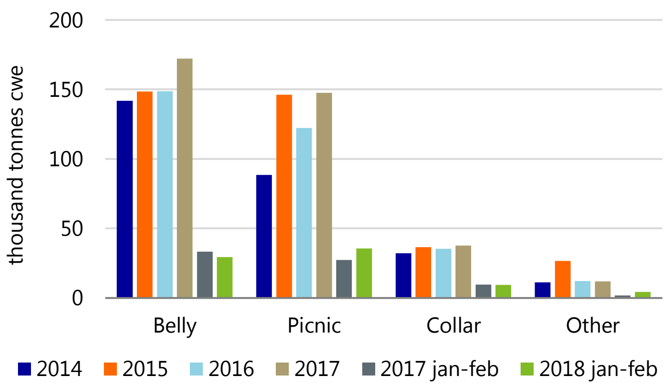
Political shifts with potential to impact South Korean pork trade will be a focus for 2018. As mentioned, the recent successful renegotiation of the US-South Korean trade agreement (KORUS) should keep US pork moving into South Korea, a clear positive for both countries.

Figure 11: Japanese pork prices, wholesale market Tokyo, 2007-Mar 2018



Source: ALIC, Rabobank 2018

Figure 12: South Korean pork imports by cut, 2014-Feb 2018



Source: Korean Meat Trade Association, Rabobank 2018

Vietnam

Weaker post-Tết demand weakened live hog prices in the last week of March 2018, to VND 30,000/kg in the north of Vietnam (-13% since January 2018) and to VND 29,000/kg in the south of Vietnam (-5% since January 2018). Comparatively, over the same period, live hog prices in China dropped by a steeper 30%, to CNY 10.3/kg – thus narrowing the price spread from ±VND 20,000/kg to

±VND 7,000/kg. Hence, at current levels, there would be little incentive for grey-channel arbitrage, in our view.

The price decoupling reflects the closure of some 30% of pig-breeding households and small-scale breeders since last year. This liquidation weighed on markets in early 2017, but its impact has since weakened. We expect a more stable market as it moves toward a more balanced supply, yet the continued expansion of industrialised farms is expected to partly negate this ongoing consolidation. We anticipate prices to remain below, or at, breakeven point in Q2 2018. A deeper attrition among small-scale and household pig breeders this year could be a catalyst for any price strength beyond our current outlook. Vietnam's hog supply could potentially increase 4% YOY, to 41.3m hogs this year. Based on domestic per capita consumption of 44kg cwt, we expect Vietnam's pork demand to reach 2.7m tonnes cwt in 2018 (equivalent to approximately 39.1m hogs).

Pork imports remained relatively small (±0.3% of production) over the last 12 months (*see Figure 15*). Rapid growth in US imports since September 2017 continued through January 2018 (+287% YOY). Imports from Brazil remained absent in Q4 2017, but recovered in January and February 2018. Vietnam's sizeable trade surplus with the US is expected to allow more US pork into Vietnam this year (vs. 3,440 tonnes in 2017) – although the volumes should remain small enough not to impact domestic prices.

Brazil

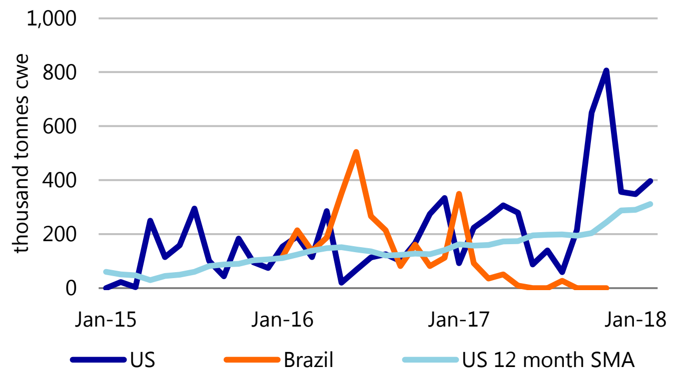
With Russian restrictions on Brazilian imports still in place, total Brazilian pork exports declined by 16% YOY in the first two months of the year, in volume terms (*see Figure 16*). Actually, the results could be even worse, as Russia represented around 40% of total Brazilian pork exports in 2017. Despite the loss of Russia, exports were significantly better than early expectations, reflecting stronger exports to China and Hong Kong. China grew its imports from Brazil by around 140%, while exports into Hong Kong were 12% above year-ago levels. We expect the recent trade dispute between the US and China to remain supportive of Brazilian exports into these markets in the year ahead.

Regarding supply, according to IBGE, Brazilian pork production increased by almost 3% in 2017, compared to 2016. However, during 2018, pork supply is likely to suffer some adjustments, particularly if the ongoing challenges in exports to Russia persist.

In fact, margins have already come under pressure in Q1 2018, due to both higher feed costs and lower pork prices (a result of the additional volume in the domestic market, which would otherwise have been sent to Russia). To put it into perspective, in February 2018, pork prices were around 30% lower than February 2017, while feed prices were around 10% higher in the same period. However, given the more positive Brazilian economic outlook for 2018, Rabobank expects an increase in local meat consumption, particularly as of 2H 2018.

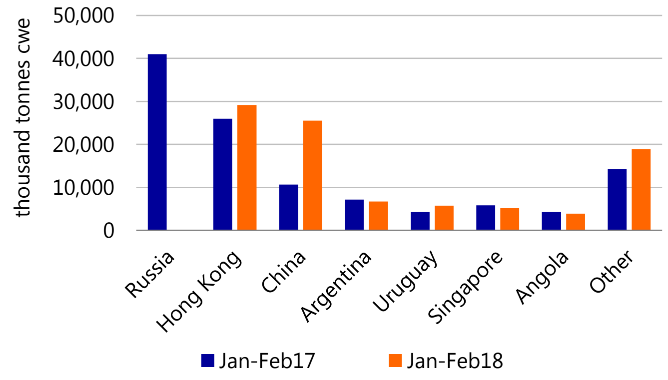
Overall, the forecast for the pork sector in Brazil in 2018 is still quite uncertain, despite an expected increase in local consumption. Pork prices are likely to remain under pressure if the situation in the Russian market is not resolved in the short run. Additionally, concerns over the performance of the second corn crop could remain a source of uncertainty around feed prices during Q2 2018.

Figure 13: Vietnamese pork imports shift from Brazil to US, Jan 2015-Feb 2018



Source: USDA ERS, Rabobank 2018

Figure 14: Brazilian exports of pork meats, 2017-2018



Source: ABPA, Rabobank 2018

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