

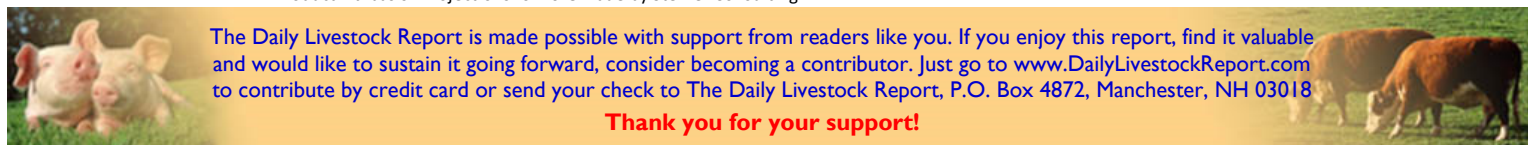
Much of the talk in the financial and popular press yesterday focused on the **potential slowdown in the Chinese economy and the impact this could have on global growth in 2019**. We will not go over all the arguments on this topic, a quick google search can give you a lot more information than this two paragraph letter. Rather, we thought it would be interesting to put some numbers forward regarding the relative size of China demand in the global meat market. As Chinese consumers have become more prosperous in the last two decades, meat consumption in China has increased sharply. Per FAO data, pork is by far the most commonly consumed protein, accounting for over 60% of meat consumption. Much of the demand for pork consumption in China is filled through domestic production although imports have increased in recent years. In 2000, pork imports accounted for just 0.2% of Chinese pork consumption (source: USDA) while in 2018 forecasts are for imports to account for 3.1% of all the pork consumed there. How will Chinese pork consumption be impacted by the spread of ASF in the country? At this time it appears the disease is everywhere you look and Chinese authorities have decided to close the barn door after all the horses are long gone. Now we wait for the fallout. In 2007 the spread of blue ear disease in China caused production there to decline by 7.8% and pork consumption declined 7.2%. **Will China consumers look to replace more of a potential shortfall in pork supplies by importing more from the rest of the world?** That is likely although we don't expect a 1:1 replacement. There is simply not enough pork available in the global trade to replace the potential shortfall in Chinese pork production this year.

As Chinese consumers include more meat protein in their diets, this includes more beef, traditionally a very expensive option. According to the latest USDA data, **Chinese beef consumption today is up about 67% compared to where it was back in 2000. And yet, beef accounts for less than 10% of the overall consumption of red meat and poultry in the country.** We think this growing demand for beef has been driven by affluent shoppers that purchase goods in high end, westernized grocery stores as well as the expansion of western style foodservice operations. Pork imports have accounted for about 10% of the overall increase in domestic pork consumption in China. Beef imports have accounted for about 35% of the growth in imports. We estimate that last year China beef imports increased 30% compared to the previous year. Mainland China + Hong Kong beef imports in 2018 are forecast (source: Steiner) at 1.368 million MT, an increase of 286k MT compared to the previous year. Beef exports from the top beef exporting countries in 2018 (see table) are forecast to show an increase of 365k MT compared to the previous year. In other words, about 78% of all the additional beef that top exporting countries shipped in 2018 went to China and Hong kong. China demand was critical for the global beef market last year and it will continue to be a critical factor this year as well. Will a slowdown in the Chinese economy cause a slump in global beef demand and thus lower prices? Or will the spread of ASF in China and shortfall in pork availability lead Chinese consumers to continue to buy more beef? These will be critical questions that markets will ponder in the new year.

Global Beef Trade in 2018. Sources: USDA, GTIS, MLA, SAGARPA, China Ministry of Commerce, COMEX

	Countries	% of global export	% of global imports	Trade Flow	Most Recent Month	Y/Y Ch.	Y/Y % ch.	2017 Actual	2018 Forecast	ch.
Exporting Countries	Australia	19%	0%	Nov. 2018 Exports	95,469	7,619	9%	1,014,911	1,116,402	101,491
	Argentina	2%	0%	Oct. 2018 Exports	33,150	12,075	57%	134,048	149,464	15,416
	New Zealand	7%	0%	Nov. 2018 Exports	32,632	7,489	30%	410,266	438,985	28,719
	Brazil	18%	1%	Nov. 2018 Exports	130,571	14,399	12%	1,210,723	1,325,234	114,511
	USA	11%		Oct. 2018 Exports	86,938	4,254	5%	911,635	1,016,473	104,838
Importing Countries	USA		20%	Oct. 2018 Imports	75,212	-5,814	-7%	968,867	971,773	2,907
	China	0%	9%	Oct. 2018 Imports	92,400	40,711	79%	694,541	902,903	208,362
	Hong Kong			Oct. 2018 Imports	37,725	-4,730	-11%	387,877	465,453	77,575
	Japan	0%	9%	Oct. 2018 Imports	51,420	8,074	19%	572,915	595,832	22,917
	Russia	0%	8%	Aug. 2018 Imports	26,407	-3,521	-12%	385,514	339,252	-46,262

*** Product wt. basis. Projections for 2018 made by Steiner Consulting.



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