

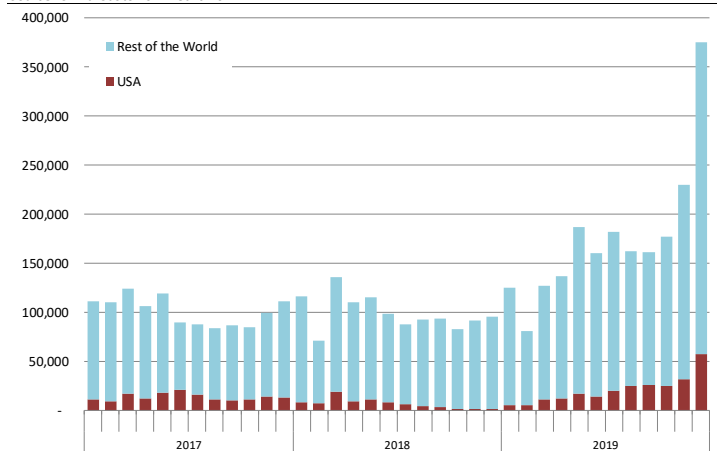
There was a lot of anticipation ahead of yesterday's signing of the US-China Phase 1 trade agreement but in the end **livestock and grain markets appeared to shrug off the result**. The text of the agreement did not contain any surprises and there are lingering concerns about a) the ability of China to fulfill its commitments and b) the lack of any discussion about current punitive tariffs on US ag. products. USDA published a concise summary of the key provisions regarding agriculture. [You can read that following this link.](#)

Going back to November of last year there was talk that China had committed to purchase between \$40 and \$50 billion of US agricultural products per year and the text of the final agreement did indeed include such commitments. **There were no specific targets for individual commodities so participants are now left guessing as to how these commitments will be achieved.** According to Annex 6.1 in the agreement, China commits to purchase an additional \$12.5 billion of agricultural products from the US in 2020 compared to the baseline 2017 year. The commitment is then increased to \$19.5 billion in 2021 again from the baseline 2017 year. The document did not include a reference for the baseline year but USDA trade data shows the value of US of agricultural product exports to China in 2017 was a combined \$24 billion. The commitments outlined above would put total US dollar sales to China in 2020 at around \$36.5 billion and then \$43.5 billion in 2021. On page 2 we have included a detailed table of China ag. purchases in 2017 based on USDA trade data for that year. Through November of 2019, USDA data shows the total value of US exports to China was 14.578 billion, with soybean sales at 7.991 billion and pork product sales at 1.042 billion. Going from say 16 billion for all of 2019 to 36.5 billion is quite a jump, hence all the speculation and uncertainty as to how that will be achieved.

Traders also reacted to what was not in the text of the agreement - namely a change in the punitive tariffs on imports of US beef and pork. So while China has made a commitment to purchase products in the US, US producers continue to face a significant disadvantage relative to other countries. One could argue that China may be able to meet some of these commitments by using government owned entities, which makes the tariff a non-issue. However, the existence of the tariff could continue to weigh on the value of US pork since private Chinese buyers will likely lower their bids in order to account for the value of the tariff. While many still talk about the consumer paying tariffs, on this side or that side of the ocean, the reality is always a bit more clouded. It all depends on who needs the other more. For instance, in the case of Mexico tariffs on US pork, we would argue that it was the US producers rather than the Mexican consumer that paid much of that tariff. The reason is that Mexico buys about a third of all the hams we produce and the domestic market simply could not absorb that supply. At this time the US market is awash in pork but China also needs a lot of pork. Time will tell which side will absorb the bulk of the tariffs but it certainly would have been preferable if

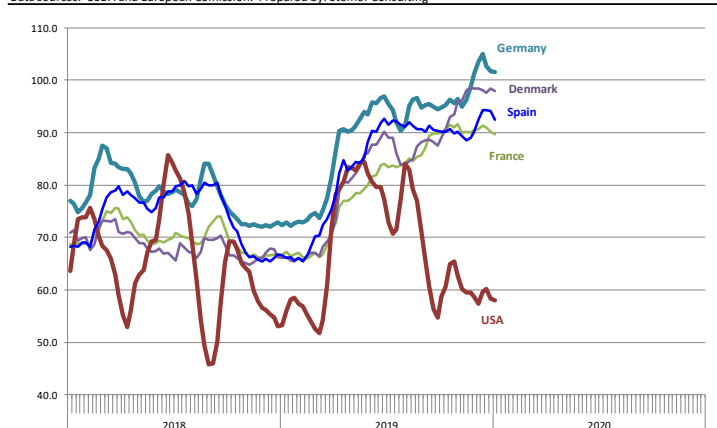
China Monthly Imports of Fresh/Frozen Pork

Source: China Customs. Metric Ton

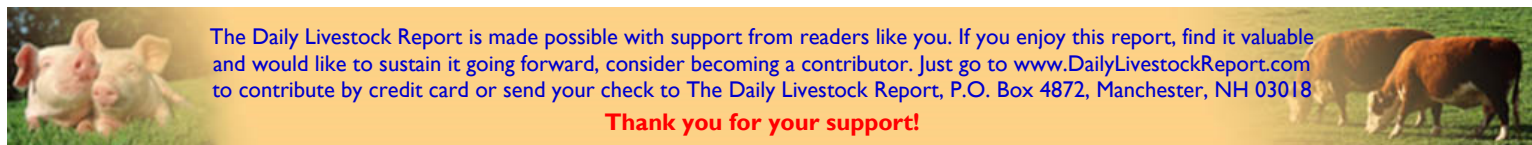


Hog Carcass Prices in USA and EU in US\$ Equivalent

Data sources: USDA and European Commission. Prepared by: Steiner Consulting



US producers competed with European or Brazilian producers on an even field. The charts above show that for much of 2019 the bulk of Chinese pork purchases were from other countries and not the US. While this is expected to change in 2020, it is unclear at what price this will take place. One statement in the agreement stood out to us: "The parties acknowledge that **purchases will be made at market prices based on commercial considerations** and that **market conditions**, particularly in the case of agricultural goods, **may dictate the timing of purchases within any given year.**" This will likely keep the market guessing as to when China orders will come in and continue to fuel volatility.



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Dollar Value of US Agricultural Exports to China in Baseline 2017 Year

Source: USDA-FAS. Analysis by Steiner Consulting

Bulk Products		Consumer Oriented		Intermediate Ag. Products		Ag. and Related Prod.	
	mil \$		mil \$		mil \$		mil \$
Soybeans	\$ 12,224.4	Pork & Pork Products	\$ 662.3	Hides & Skins	\$ 944.6	Forest Products	\$ 3,193.3
Cotton	\$ 977.7	Dairy Products	\$ 575.6	Other Intermediate Products	\$ 424.4	Fish Products	\$ 1,232.4
Coarse Grains (ex. corn)	\$ 838.2	Tree Nuts	\$ 242.9	Hay	\$ 340.4	Distilled Spirits	\$ 83.2
Wheat	\$ 351.1	Fresh Fruit	\$ 225.6	Feeds & Fodders NESOI	\$ 266.6	Ethanol (non-bev.)	\$ 12.4
Tobacco	\$ 162.3	Prepared Food	\$ 138.8	Planting Seeds	\$ 131.2	Biodiesel & Blends > B30	\$ 0.1
Corn	\$ 142.0	Processed Fruit	\$ 134.2	Distillers Grains	\$ 62.2		
Other Bulk Commodities	\$ 56.5	Processed Vegetables	\$ 117.0	Vegetable Oils (ex. soybean)	\$ 42.1		
Pulses	\$ 25.2	Wine & Beer	\$ 86.2	Soybean Oil	\$ 24.5		
Oilseeds (ex. soybean)	\$ 5.3	Poultry Meat & Prods. (ex. eggs)	\$ 35.7	Sugar, Sweeteners, Bev. Bases	\$ 11.3		
Rice	\$ 0.8	Snack Foods NESOI	\$ 34.4	Live Animals	\$ 10.4		
		Non-Alcoholic Bev. (ex. juices)	\$ 34.0	Soybean Meal	\$ 6.7		
		Beef & Beef Products	\$ 30.9	Animal Fats	\$ 1.9		
		Breakfast Cereals	\$ 30.3				
		Chocolate & Cocoa Products	\$ 27.4				
		Fruit & Vegetable Juices	\$ 14.2				
		Meat Products NESOI	\$ 11.7				
		Condiments & Sauces	\$ 11.2				
		Dog & Cat Food	\$ 6.5				
		Other Consumer Oriented	\$ 4.5				
		Eggs & Products	\$ 2.1				
		Fresh Vegetables	\$ 0.7				
Total	\$ 14,783.5	Total	\$ 2,426.3	Total	\$ 2,266.1	Total	\$ 4,521.3
						Combined total	\$ 23,997.23

LEAN HOGS FUTURES

Close on: 1/15/2020

	2018	2019	2020	2021
Jan				
Feb	73.50	55.10	67.25	72.45
Mar				
Apr	53.83	79.30	74.13	75.45
May	65.23	83.68	80.73	78.45
Jun	81.18	79.38	86.18	83.98
Jul	79.69	70.62	86.93	
Aug	55.23	79.40	85.98	
Sep				
Oct	68.75	63.08	74.93	
Nov				
Dec	54.95	60.48	69.08	
Annual	66.5	71.4	78.1	77.6
% ch.		7.3%	9.5%	

