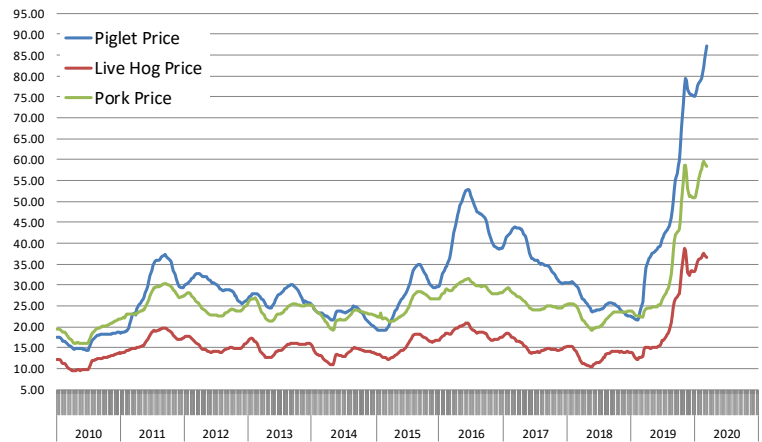


My favorite quote back in college was the following from Niccolo Machiavelli (had to look it up to get it right): “How we live is so different from how we ought to live that he who studies what ought to be done rather than what is done will learn the way to his downfall rather than to his preservation.” I thought about this as I was getting ready to write today for one simple reason. It does not matter what you think of the Coronavirus, what you think of the media, what you think of Trump. **It does not matter what you think ought to be done. What matters is that you look at the world for what it is and act accordingly.** Also one more thing. This letter has never pretended to be an advice report for the simple reason that many people reading it are on opposite sides of a trade. There’s people that are bullish and want to buy the market and for everyone of them there are others that want to sell a hedge or simply spec short it. **Our goal is to present as accurate a picture of fundamentals as we are able to. You choose how that information helps your decision making.**

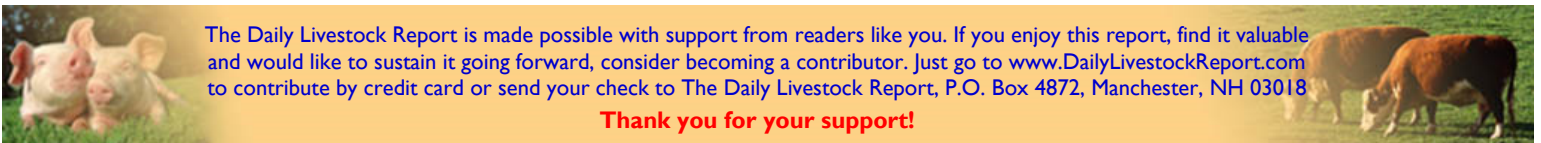
Demand will be a critical factor for the market in the next few weeks/months. But **it is almost impossible to measure demand in real time as some of the information needed is available with a significant delay.** Often analysts will look at historical relationships and estimate shifts in demand during times of crisis (short term demand shocks) and long term demand shifts (changes in consumer preferences). We will try to present some of that evidence as appropriate but again, the goal is not to tell you where we think prices need to be. Exports are a big part of the demand picture for the simple reason that **in recent years we have counted on export demand to absorb the additional supply coming to market.** Nowhere is this more salient than in the pork market. In the last decade or so, exports have accounted for over 2/3 of the additional supply that US pork producers have brought to market. As we pointed out a couple of days ago, China has become a major part of the demand picture for US pork. **In January about a third of US pork exports went to the Chinese market and 1 out of every 4 pounds of pork produced went to markets outside the US.** Hence it was quite unsettling this morning when **USDA reported that China had cancelled almost 50,000 MT of pork that was previously sold but had yet to deliver.** Please note that net sales to China were a negative -45,222 MT but there were about 4,564 new sales so the cancellation was about 50k. As to why China cancelled this product is open to interpretation (or speculation). It is possible that Chinese buyers had secured pork at prices far higher than where the market is currently trading and this means they want to renegotiate previous deals. Remember that June hogs were trading as high as \$90/cwt in late December even as hog slaughter was at all time record levels. Prices last week were under \$80/cwt and, with Coronavirus risks, overseas buyers may have sensed an opportunity. But we don’t know this for a fact and those that know surely will not send us an email update.

China Price of Baby Pigs, Live Hogs and Retail Pork, Yuan per KG.

Source: China Ministry of Agriculture. Analysis by: Steiner Consulting



Another possible reason for the cancellation may have to do with a recent decision by the Chinese government to allow buyers to apply for relief from retaliatory tariffs. The US Meat Export Federation had a very informative update on this topic and what was especially interesting to us was the note that **the tariff waiver applies only to part of the retaliatory tariffs.** USMEF calculates that the one year tariff exemption would lower the tariff on US pork to 33%. This is about 30pct points lower than the current effective rate but still far higher than the 8% tariff China applies to pork from other parts of the world. USMEF has created a very handy spreadsheet showing effective tariff rates for US products and it is available to the public so **we are linking here with their permission.** But returning to the point on the recent cancellation. It could well be that Chinese buyers may have cancelled some of what they have on the books in order to rebook and take advantage of the lower tariff rate. An importer has to apply for the one year tariff waiver and we understand that this is only for new orders. But we do not know for a fact this is the reason, simply a possibility. **What we do know is that China pork demand remains quite strong.** Shipments to China last week were still exceptional at over 16,000 MT and outstanding sales to China are now down to an 8.8 week supply. Ultimately what will determine China demand for US pork is a) the price of US pork relative to other markets (US pork is much cheaper at 33% tariff); b) pork prices in China (currently still record high as chart shows); c) the willingness of Chinese leaders to abide by the terms of the trade deal with the US (on paper they are still saying they will). All of the above would suggest that the recent cancellation does not signal a demand shift. But with equity markets cratering, fear of mass lockdowns, and reports of China cancelling pork orders, it is understandable why hog futures are currently locked limit down.



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USA Weekly Pork Muscle Cut Exports

Summary of Weekly USDA Thursday Report: Published by USDA on March 12, 2020 for week ending March 5, 2020. Prepared by: Steiner Consulting Group

	Weekly Exports							Net Sales for Current Year						
	6-Feb	13-Feb	20-Feb	27-Feb	4-wk Avg.	5-Mar	% ch vs. 4-wk avg.	6-Feb	13-Feb	20-Feb	27-Feb	4-wk Avg.	5-Mar	% ch vs. 4-wk avg.
Metric Ton, Shipped Weight Basis														
China	13,033	15,011	15,701	17,531	15,319	16,118	5.2%	3,715	1,073	7,223	4,475	4,257	(45,222)	-1162.3%
H. Kong	357	334	416	294	350	528	50.7%	408	54	412	143	203	256	26.1%
Mexico	13,074	10,689	10,875	10,826	11,366	10,724	-5.6%	6,822	7,418	11,830	17,454	12,234	5,838	-52.3%
Japan	6,006	5,157	5,766	4,672	5,400	5,309	-1.7%	4,447	3,258	3,304	3,819	3,460	4,214	21.8%
S. Korea	3,638	4,304	3,250	3,288	3,620	4,138	14.3%	3,593	1,033	8,775	3,287	4,365	78	-98.2%
Canada	2,232	2,357	2,526	2,611	2,432	2,572	5.8%	3,126	2,225	1,641	1,442	1,769	6,690	278.1%
Other	4,543	4,341	4,013	4,262	4,290	5,157	20.2%	6,474	8,686	5,737	3,093	5,839	1,543	-73.6%
Total	42,883	42,193	42,547	43,484	42,777	44,546	4.1%	28,585	23,747	38,922	33,713	32,127	(26,603)	-182.8%

