

Lean hog futures opened limit up this morning on a combination of sharply higher cash prices paid in the spot market yesterday, robust cutout values and news of a potential case of ASF in Germany. We think the news about Germany poured gasoline on the fire, with significant implications for global pork trade flows. So we will focus on that topic today with the understanding that at this time the situation is still developing. **We have yet to see confirmation of a positive case of ASF in a wild boar in Germany and we do not yet know how other countries will respond.** In the past the knee jerk reaction from some countries has been to immediately suspend imports from a country when a positive is found within borders even though the risk to commercial supply is extremely small. In recent years US, EU and some countries have pushed for the idea of regionalization. This would do away with bans based on national borders and rather limit them to the immediate area affected by the disease. Germany and other EU countries have been pushing hard for this because they have had ASF knocking at their door for quite some time. It was not long ago when ASF infected boars were found only a few miles from the German border. Wildlife tends to move around without regard to political borders. Indeed, the finding of ASF infected wild boars in Belgium a couple of years ago was clear evidence that the disease may be present in European forests. In the meantime, commercial farms in the region have enhanced biosecurity measures. **At this time we do not see a positive finding as having a material impact on pork supplies in Europe. However, if countries that currently buy from Germany decide to suspend trade, it could bolster demand for US pork.**

China is by far the biggest player in the global pork market at this time as ASF induced supply shortages have forced it to step into the global pork market (see our discussion yesterday). According to Chinese trade data, **Chinese pork imports for the period Jan-Jul 2020 were 2.498 million MT, 150% higher than the same period a year ago.** The US has become the top pork supplier to China this year. Imports from the US in the first seven months of the year were 477,694 MT, a four fold increase compared to a year ago. Imports from the EU have accounted for 53% of total Chinese pork imports so far this year. Germany was the second largest supplier from the EU, with Spain claiming the top spot. So far this year Germany has accounted for almost 14% of all Chinese pork imports. At this time we think Spain is shipping all they can to Germany although higher prices could induce a few more Spanish loads to go to China. Denmark and France are also significant suppliers but product availability for export is far lower than Germany. Poland is also a significant pork producer in the EU but due to the presence of ASF, it is not allowed to ship to China. **Brazil and the US are two countries that could replace German pork supply in China if pork trade is suspended.** It used to be that Ractopamine was a limiting factor for US exports to China but that is no longer the case as most large suppliers have already taken it out. We think the US has both the infrastructure and ability to better respond to a potential jump in demand. However, higher prices will be needed in order to ration out some domestic demand. This could be even more significant if packers are not able to ramp up slaughter as they seasonally do in Q4. Pork cutout is currently at around 80 cents but in large part that is due to the supply disruptions caused by the Labor Day holiday. **Futures are currently higher in anticipation of potential strong demand as well as a bet that hog producers will continue to successfully manage the supply flow as they did over the summer.**

China Pork Import Update: Latest Data is for July 2020. MT (sw)

Source: China Customs Statistics. Analysis by Steiner Consulting

	7/1/2019	7/1/2020		Jan-Jul 2019	Jan-Jul 2020			
European Union	100,545	213,774	113,230	113%	574,329	1,329,410	755,081	131%
Spain	31,553	84,583	53,030	168%	190,054	455,253	265,199	140%
Germany	29,115	52,757	23,642	81%	166,724	346,403	179,679	108%
Netherlands	11,649	24,573	12,924	111%	75,961	179,215	103,254	136%
Denmark	14,551	30,499	15,949	110%	65,478	210,355	144,878	221%
France	6,088	9,200	3,111	51%	41,076	67,963	26,887	65%
Ireland	6,257	6,861	605	10%	28,356	37,533	9,177	32%
Austria	1,179	2,760	1,581		5,529	19,348	13,819	
Portugal	152	847	695		1,150	7,445	6,295	
Belgium	-	-	-		-	40	40	
Hungary	-	-	-		-	-	-	
Romania	-	-	-		-	-	-	
Italy	-	1,693	1,693		-	5,854	5,854	
Lithuania	-	-	-		-	-	-	
Estonia	-	-	-		-	-	-	
United Kingdom	6,350	10,450	4,099	65%	40,186	60,201	20,015	50%
Brazil	22,095	50,425	28,330	128%	101,686	239,013	137,326	135%
Canada	24,490	45,177	20,687	84%	154,772	222,092	67,320	43%
United States	20,162	69,869	49,707	247%	87,771	477,694	389,923	444%
Chile	6,810	19,131	12,322	181%	35,772	91,787	56,015	157%
Finland	462	1,427	965	209%	2,158	10,181	8,023	372%
Mexico	1,313	11,951	10,638	810%	4,256	55,846	51,590	1212%
New Zealand	-	-	-		-	-	-	
Total	182,227	424,495	242,268	133%	1,000,930	2,498,631	1,497,701	150%

German Pork Exports in First Half of 2020. Fr/Frz/Proc. and Fat

Source: European Commission. Analysis by Steiner Consulting

