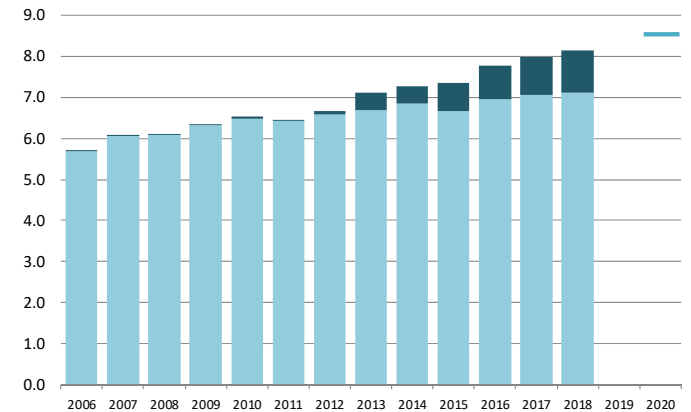


According to a number of media reports, **a major Chinese e-commerce company has agreed to purchase \$1.3 billion of US beef and pork products. Based on the reporting so far, it appears that the deal involves a \$300 million deal with the Montana Stockgrowers Association, \$100 million of that amount going towards a new packing plant.** Last summer there was a lot of excitement about the resumption of US beef exports to China, which has emerged as the largest global beef importer. In 2018, total beef consumption in China is expected to be 43% higher than where it was in 2006 and imports have helped fill over 40% of that increase in demand. Currently the main suppliers to the Chinese market are Uruguay, Brazil, Australia and Argentina. This deal will help bolster US shipments into this new market in the next few years but we think this is going to be a slower process than some expect. China does not accept beef that has been administered synthetic hormones and they test very aggressively. There are no USDA data on the supply of US cattle not treated with hormones (NHTC) but it is our understanding that the supply remains limited. Producing such cattle is a significant investment and producers want to have firm orders in hand before expanding these programs. The costs are not insignificant. The current premium for NHTC cattle is \$18.6/cwt (carcass wt. basis) or \$165/head for a 890 pound steer carcass. What makes it difficult to expand the program is how that \$18/cwt premium will be distributed. Putting the entire premium on the cuts that will go to China will likely make the price of those cuts significantly higher than what competitors offer. While there is a market for high quality, long fed beef in China, ultimately prices will need to be competitive in order to grab market share from incumbent suppliers. Chinese buyers are very price sensitive and selling beef at a 50% premium to what others are offering will likely limit potential growth.

**While many of the headlines focused on the beef portion of the deal, we think the recent announcement is more important for the pork market.** Based on the reporting we have seen so far, the Chinese purchase involves around a billion dollars worth of pork products, which is expected to go to a major US pork producer. Chinese authorities do not allow pork from hogs that have been treated with ractopamine but US hog producers in recent years have expanded the supply of such pork. Different from beef, where the demand will likely be for specific primals, it is likely that Chinese buyers will take most of the pork from the carcass, making it easier to justify the additional cost. The latest USDA report noted that the premium for beta agonist free pork is 80 cents per cwt (carcass wt.) or \$1.68 for a hog carcass. China has purchased an average of \$20 million worth of US fresh/frozen pork a month so far this year and an additional \$22 million/moth of US pork by-products. Total Chinese purchases of US pork and pork by products through September were \$374 million and we are on track to be at half a billion for the entire 2017. **If the Chinese pork deal comes to fruition, it would represent a 60% increase in US dollar exports to China and a 6% increase in total US export dollars.** China is for the most part self sufficient in pork but the sheer scale of consumption there implies that even small changes in imports can have very significant impacts in global pork trade. As US hog production continues to expand, such deals are critical to maintain this expansion on track.

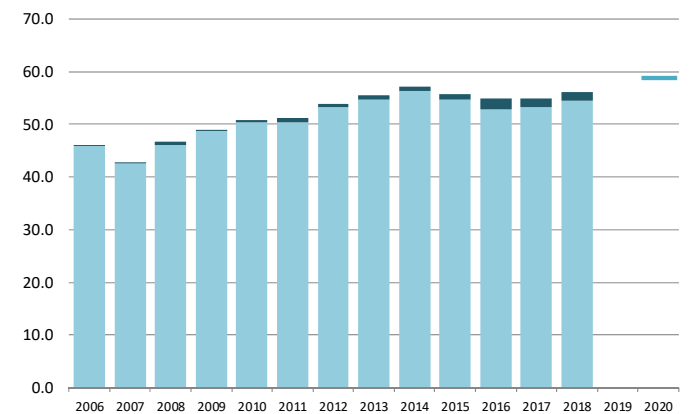
## China Beef Consumption & Import Share

Data Source: USDA Foreign Agricultural Service. Million MT. Carcass Wt. Basis

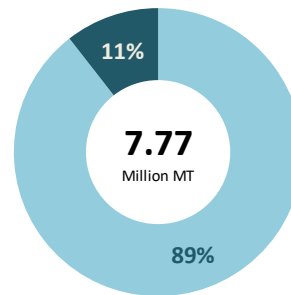


## China Pork Consumption & Import Share

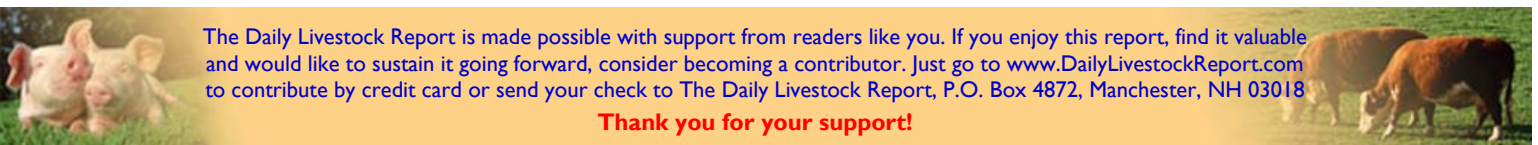
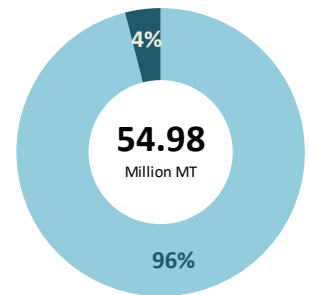
Data Source: USDA Foreign Agricultural Service. Million MT. Carcass Wt. Basis



**China Beef Imports Share of Domestic Consumption**  
Source: USDA/FAS



**China Pork Imports Share of Domestic Consumption**  
Source: USDA/FAS



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