

Hogging the limelight

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The world's deadliest virus – African swine fever has taken root in the world's biggest producer and consumer of pork and is decimating China's hog population. The African swine fever is an extremely resilient virus for which there is no vaccine or treatment. Although it poses no danger to humans, it is easy to transmit and can only be controlled by blocking it from spreading via tight decontamination methods at the hog farms. The African swine fever was first detected in China in August 2018. While the government responded quickly to contain its spread, widespread underreporting and lax biosecurity measures have resulted in the disease spreading across the country at a much faster rate than official reports indicate. China is home to nearly 26mn hog farms that raise nearly 1bn hogs annually. The rapid spread of the disease is likely to result in the death of hundreds of millions of pigs in China, as the process to stop the virus usually takes at least five years. The US Department of Agriculture (USDA) recently forecast that swine herd in China would shrink by only 13% in 2019 and hog supply would decline by only 5%. This is a fairly optimistic estimate when compared to the projections by Chinese industry analysts who are expecting hog production to fall by 15-20% in 2019.

Figure 1: Historical Price versus speculative futures positioning of Lean Hog futures

Source: Bloomberg, WisdomTree data available as of close of 25 April 2019. CFTC: US Commodity Futures Trading Commission. Please note: Stdv = Standard Deviation is used to measure the amount of variation or dispersion of a set of data values. Price on the Right-hand side.

Historical performance is not an indication of future performance and any investments may go down in value.

Consequently, pork prices have spiked and US pork exports to China have hit a record high. According to the Commodity Futures Trading Commission (CFTC), net speculative positioning on lean hog futures are now 1-standard deviation above its 5-year average reflecting the bullish sentiment towards lean hog prices. The consumer price index (CPI) for pork jumped 5.1% year-on-year in March, after 2 consecutive years of decline. It is unlikely for pork price inflation to feed into broader inflation as non-food inflation remains low and other commodity prices are fairly muted.

Figure 2: Consumer Price Index of pork year-on-year percentage change

Source: National Bureau of Statistics of China, Bloomberg, WisdomTree, data available as of close 25 April 2019.

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The bigger concern in our opinion is filling the pork supply deficit. Since total global trade volume of pork accounts for only 20% of China's domestic consumption¹, there is a strong likelihood for trade patterns to shift dramatically. Consumer demand for pork is changing. As incomes rise Chinese consumer tastes are evolving and poultry, lamb and beef have been gaining popularity. That being said, pork remains the mainstay of local cuisine, accounting for 50% of household meat consumption². This has already become evident from official export data from the US which highlighted US pork exports to China hit a record high of 77,732 metric tons as of April 4, 2019. Interestingly, the 62% tariff imposed by China on US pork imports have been unable to deter US pork sales to China. As some European and Asian countries continue to deal with African swine fever outbreaks the US has become the greatest beneficiary of the extreme pork shortage in China. There is a strong likelihood that the tariff could be removed in the coming months given the rising pork exports from the US and the ongoing trade negotiations between the two countries.

1 Organisation for Economic Co-operation and Development (OECD) & Food and Agriculture Organisation (FAO)

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