USMEF… and FAS Partnership

USMEF’s Global Reach

Key locations include:
- Denver
- Mexico City
- Guatemala
- Lima
- Caribbean
- Colombia
- Tokyo
- Beijing
- Shanghai
- Guangzhou
- Taipei
- Manila
- Ho Chi Minh City
- Hong Kong
- Seoul
- Beirut
- Eastern Europe
- Moscow
- London
- Africa
Driving the global meat trade

Animal disease and tariffs...and demand

**Pork**
- China & Vietnam – ASF & tariffs
- Europe – ASF & Brexit
- Mexico – tariffs
- Japan – Japan-U.S. urgency

**Beef**
- China
- Global supplies – drought
- Economic growth – demand
- FTAs

- Maximizing carcass values and adding value through the chain, from corn and soybean farmers to processors and exporters
- Providing customers around the world with affordable, high quality red meat
Pork trade in the year of the pig

• Global pork trade will set new records this year
• The degree to which the U.S. benefits will depend largely on tariffs

Four key areas:
• China & Vietnam – ASF & tariffs
• Europe – ASF & Brexit
• Mexico – tariffs
• Japan – Japan-U.S. urgency

• Strong demand remains in the rest of world, But will be impacted by above & economy
A 15% drop in China’s & Vietnam’s production means 7% decrease globally...back to 2010-11 levels

Source: USDA/FAS fall 2018 & USMEF estimates
U.S. to continue to lead production growth for top exporters

Source: USDA/FAS fall 2018 & USMEF estimates
In a scenario where China’s production drops by 15% (-8 million mt), exports to China could increase by +1.5 mmt. Maximum increase is about 2.7 mmt—requires surge in U.S. pork.

U.S. is best positioned to fill China’s shortfall but not with a 62% tariff.

Source: GTA and USMEF estimates
Driving global pork trade to a record 9-10 million mt ... max is 11.5 mmt, +40%

Global Pork & Variety Meat Exports, annual

2019f is assuming a 15% drop in China’s production; would be similar to the shift in 2016 trade

Source: GTA and USMEF estimates
Pork exports mostly flat outside China... Because growth across most markets has offset the loss of Russia & Ukraine buying.
China already the largest importer of pork but growth last year was in the rest of the world.

Expect continued growth in the major import markets, but could come down to price if China/global supply shortage materializes later this year.

Source: GTA and USMEF estimates
As of January, hog prices reflected abundant supplies ... and retaliatory tariffs; Vietnam as the exception
U.S. futures now waiting for something more tangible? China March 1 Deal?

*CME Lean Hog Futures, February 19, 2018*
Expect continued market volatility

Uncertain Times
President Trump's ambitious plans to remake U.S. commercial policy have churned up uncertainty about the global trading system.

Uncertainty Times

Trade-policy uncertainty index

Note: Based on search results from 10 large U.S. newspapers, measuring the volume of articles discussing economic policy uncertainty.
Hog prices rebounding after CNY; spread narrows

China’s Hog Prices in January 2019

First cases in Shandong, Guangxi, and Vietnam this week!
Record chicken prices as pork substitute

China’s Broiler Prices

China’s Live Hog Prices, Weekly

China’s per capita consumption

2019e shows 15% decrease in China’s pork production
ASF in Eastern Europe

EU ASF-infected countries=

- 4.4 million mt pork
- 50 mil head slaughter
- 19% of EU 2017 production
- Poland, Hungary & Belgium are/were major pork exporters
- Most major importers have not recognized regionalization for ASF and impose country-wide import bans after findings
- Remains active in 2019
Brexit and especially a Hard Brexit could impact over 1 million tons of pork trade.

Net UK imports from EU member states of about $2 billion

Source: GTA and USMEF estimates
U.S. pork industry expansion is built on export potential. U.S. must be seen as reliable supplier again.

Pork exports accounted for 22.4% of production and 25.7% when adding variety meats as compared to 22.2% and 26.5% last year.

Jan – Nov export value per head averaged $51.46/head, down $1.72/head or -3%

Down $9.58/head for the month of Nov

Source: USDA/FAS & USMEF; fall 2018 forecasts
Top 2018 U.S. Export Growth Markets… the silver lining

Year-over-Year U.S. Pork Export Growth

Source: USDA/FAS & USMEF
Korea importing record volumes of pork; growing consumption & U.S. share

Total imports: 600,000 mt, +17%;
U.S.: 212,000 mt, +30%
U.S. market share increased from 31.6% to 35%

Source: GTA and USMEF estimates
Korea Meat – centric Home Meal Replacement
Growth did not fully offset the dramatic slowdown to Mexico & China

Year-over-Year U.S. Pork Export Growth

Jan – November 2017 and 2018

Source: USDA/FAS & USMEF
Loss summary: impact of retaliatory duties following U.S. Section 232 (China & Mexico) & 301 tariffs (China)

• U.S. ham primal -19% or -$6.63 per head
• U.S. picnic primal -22% or -$3.32 per head
• Loss in ham + picnic value = -$9.95 per head
• Front & hind feet & picnic hocks = -$1.80 per head
• Hams + picnics + feet lost value = -$11.75 per head
• $860 million loss when spread across June-Dec harvest

• SOME PACKERS ARE RENDERING CHINA PRODUCTS!
• Lost market share & customer efforts to diversify
• U.S. as a reliable supplier????
U.S. beef is #1 on a $ basis and global beef trade set a new record in 2018 at >$38 Billion, up 9%

Source: GTA and USMEF estimates
Overall beef export volume up 6% last year

Beef & Variety Meat Export Volume

Metric tons


Source: GTA and USMEF estimates
Driven largely by China’s buying

Beef & Variety Meat Imports

- 2013
- 2017
- 2018e

Source: GTA and USMEF estimates
Beef exports to the China region are now double the volume imported into the U.S.

Source: GTA and USMEF estimates
South America dominating China’s imports, accounting for ~70%

China’s Beef Imports

Grain-fed increases to around 6% or 70,000 mt

Source: Global Trade Atlas, USMEF
Australia shipping more grain-fed to China, even with limited plants approved

Australia’s grain-fed exports to top markets

Tariff advantages Aus vs. U.S.:
Japan 27.5% vs. 38.5%
Korea 24% vs. 18.7%
China 6% vs. 37%

But weather continues to limit Australia’s herd expansion

2018 main markets ~280,000 mt, +13%
China accounting for 80% of the increase in beef trade

The tonnage change in 2018 beef/bvm import volume

Source: GTA and USMEF estimates
But the growth for U.S. beef has been led by Korea, Japan, Taiwan & ASEAN

Jan-Nov 2017 and 2018 growth year-over-year in U.S. beef/bvm exports

Source: GTA and USMEF estimates
Underpinned by growing consumption...

<table>
<thead>
<tr>
<th></th>
<th>Per Capita Consumption (2016 and 2018est)</th>
<th>U.S. Share of Total Beef Consumption (2016 and 2018est)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>6.7 kg to 7.5 kg</td>
<td>23% to 27%</td>
</tr>
<tr>
<td>Korea</td>
<td>11.5 kg to 12.5 kg</td>
<td>27% to 33%</td>
</tr>
<tr>
<td>Taiwan</td>
<td>4.67 kg to 5.35 kg</td>
<td>38% to 42%</td>
</tr>
<tr>
<td>China HK</td>
<td>4.2 kg to 4.33 kg</td>
<td>2%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>17% to 18%</td>
</tr>
<tr>
<td>Mexico</td>
<td>14 kg to 14.15 kg</td>
<td>9%</td>
</tr>
<tr>
<td>Canada</td>
<td>18.4 kg to 18.9 kg</td>
<td>15%</td>
</tr>
</tbody>
</table>

Source: USDA/FAS, GTA & USMEF estimates
U.S. beef and variety meat exports set a new record in 2018...growth to continue

>Jan – Nov beef export value per head averaged $320.72, up $38.38 or +14%.

>Beef exports accounted for 11.1% of production and 13.4% when adding variety meats up from 10.3% and 12.8% last year.

Source: USDA/FAS & USMEF
Summary

• It will be another wild year, with trade driven by forces out of our control: disease and tariffs
• U.S. maintains supply advantage
• U.S. red meat exports will again be record-large, barring our own crisis
• Degree to which U.S. is able to supply the world depends on trade policy
• All meat producers globally are looking to sell more to China
• China’s pork supply “hole” will be partly offset by reduced consumption and larger imports of pork, poultry, beef, sheep- the big import surge might not happen until late 2019-2020
• Mexico’s domestic pork industry is growing
• Japan’s imports will continue to set new records, with growth going to our competitors until a U.S.-Japan trade agreement happens
• Longer-term potential is significant, as U.S. has the production base & natural resource advantages but must also have partnerships and trade agreements
• Opportunities for more branded and value-added products?
Thank You…and Happy Year of the Pig!

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303-623-6328

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• Growth of Meat Trade

minutes

• Over the past 10 years, global exports of beef and pork have increased by more than one-third, supported by economic growth and an expanding middle class. Although demand is growing in most regions, much of the increase in exports is due to surging demand from China. During the same period, Russia drastically reduced imports of beef and pork, increasing competition for markets in Asia. This speaker will discuss expansion in red meat trade, focusing on future opportunities and challenges to growth.
South America’s reliance on China
Accounts for >50% of Arg. & Ur. exports

Exports to China/HK and to the Rest of the World, 2018

Source: GTA and USMEF estimates
U.S. and Brazil leading the growth in beef production for top exporters

Source: USDA/FAS fall 2018, USMEF estimates
Drives a 10%-15% increase in total U.S. exports vs. 5% baseline forecast

• The increase to China is 1.5 million mt, of which 900k mt can come from the EU
• Drives EU exports to 4.45 million mt, +27%
• Canada’s growth could be constrained

• And the hedge against EU ASF ... favors U.S. growth
• Latin America
• Korea, Japan
• Southeast Asia
• U.S. 2019 export potential scenario... 2.75 million mt, +15%
• It’s going to come down to tariffs and prices.

>>Retaliatory tariffs continue to limit U.S. export opportunities in China and Mexico
>>The “hole” in China’s supplies might not materialize until later in 2019, with a more significant import surge in 2020

*does not include HS 0504 variety meats
Booming Aussie grain-fed exports...weather continues to limit overall production expansion

- 2018 CY grain-fed exports >280,000 mt, accounting for a quarter of Australia’s total exports and a new record
  - Japan: up 8% to 153,000 mt (48% of exports to Japan)
  - Korea: up 15% to 57,600 mt (34%)
  - China: up 87% to 49,470 mt (30%)

Source: MLA
China’s situation
In 2017, there were 16 provinces transported pork out of the province, a total of 11.53 million MT.

There were 15 provinces transported pork into the province, a total of 13.54 million MT.
China’s hog prices low going into Chinese New Year

China's Live Hog Prices, Weekly

MARA data
China's Implied Per Capita Pork Consumption

Domestic is in carcass wt; Imports are product weight but include cuts & variety meat; 2019 shows 10% production decrease scenario

- Domestic
- Imports/capita
EU exports continued to grow, without access to Russia and despite ASF

Source: GTA and USMEF estimates
Especially to Asia...they remain key supplier to China and China is by far their biggest market.
EU pig prices remain low...waiting for the China buying

- With sharp increase in pork production (Jan-Oct 2018 +2.7%)
- Sluggish intra-EU demand and relatively steady exports

Risks for their production:
- ASF, high feed prices, low hog prices
- 2019F is for steady production
A bit of a rebound in EU piglet prices

EU evolution of the EU average piglet prices

(€/head)

Week 4 latest price ➞ 42.31 EUR/head

Evolution compared same period last year ➞ -4.5%

US$48/head

---

Canada’s exports slow to China & U.S. but growth to Japan, Mexico, elsewhere in Asia

China/HK accounted for 24% of Canada export volume, down from 29% in 2016

Canada’s pork & variety meat exports

2018: 1.15 MMT, -2.5%

Source: GTA
Mexico’s pork imports record-large again

Exports of pork/pvm to Mexico

U.S. market share dropped from 87% to 85%

U.S. includes HS 0504 variety meats
Mexico’s hog prices have remained strong
With a strong finish to 2018 as tariffs remained on U.S. pork
Mexico’s efforts to diversify suppliers

Pork exports to Mexico, excluding variety meats

- **Canada**: TRQ use: 6,430 mt/350,000 mt
- **EU**
Growth in Mexico’s pork exports...CPTPP

Source: Global Trade Atlas
U.S. - Japan trade agreement

- Urgency: all is not yet lost, but we are now way behind
- Japanese market booming / in transition
- Companies looking to invest for future – noting decrease in Japanese production expected, high labor costs, etc.
- Expect continued growth in Japanese red meat consumption and imports accounting for a larger share of the market
- Need assurance that U.S. will be FTA/TAG partner soon
- What is the reality for rapid progress / agreement scope?
- Exporter priorities conveyed to USTR= level playing field ASAP
- Near-term loss estimates: $600 million pork and $550 million beef ... lost opportunities exceed $1 billion each in 10 years
“Niku Boom” Japan imports record volumes of pork (> $5 billion)

Japan’s Pork & Variety Meat Imports

Total imports: 1.16 mil mt, +0.5%;
U.S.: 407,000 mt, steady
U.S. market share held at 35%
Japan’s imports of U.S. pork

Japan’s U.S. pork imports by category

- chilled
- frozen
- gsp
- other processed

Tariffs on competitor’s processed pork phasing to zero
Canadian pork gaining chilled market share

Japan’s Chilled Pork Imports

- Market Share
- Metric Tons

<table>
<thead>
<tr>
<th>Year</th>
<th>TTL Imports</th>
<th>Canada</th>
<th>U.S.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>60%</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td>2012</td>
<td>60%</td>
<td>25%</td>
<td>15%</td>
</tr>
<tr>
<td>2013</td>
<td>60%</td>
<td>30%</td>
<td>10%</td>
</tr>
<tr>
<td>2014</td>
<td>60%</td>
<td>35%</td>
<td>5%</td>
</tr>
<tr>
<td>2015</td>
<td>60%</td>
<td>40%</td>
<td>0%</td>
</tr>
<tr>
<td>2016</td>
<td>60%</td>
<td>45%</td>
<td>0%</td>
</tr>
<tr>
<td>2017</td>
<td>60%</td>
<td>50%</td>
<td>0%</td>
</tr>
<tr>
<td>2018f</td>
<td>60%</td>
<td>55%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: MAFF
Initial tariff reductions on implementation (Dec 30 for CPTPP and Feb 1 for EU) and again at start of JFY, April 1, 2019

Japan’s Tariffs on Pork Imports

Tariffs are eliminated by 2023 for prepared pork & sausages; and by 2027-2028 for chilled/frozen pork and ham & bacon.

Source: USMEF and agreement text
Record-large GSP imports, driven by EU, Mexico, Chile, Canada …FTA partners

Japan’s imports of ground seasoned pork

EU market share has increased to 18%

- Others
- Chile
- Mexico
- Canada
- EU-28
- United States

Source: MAFF
Korea producing & importing more pork

most imports duty-free
Many variables impacting U.S. hog prices
Crisis = opportunity?

U.S. Hog Carcass Price & Futures

PED prices 2014

2016 China shortage

*CME Lean Hog Futures, January 30, 2018
Europe’s cases mostly in wild boar; Romania most active in domestic, backyard & large farms.

**Cases of ASF in European Countries in 2018**

<table>
<thead>
<tr>
<th>Country</th>
<th>Domestic</th>
<th>Wild boar</th>
</tr>
</thead>
<tbody>
<tr>
<td>Romania</td>
<td>1,163</td>
<td>2,438</td>
</tr>
<tr>
<td>Poland</td>
<td>109</td>
<td>2,438</td>
</tr>
<tr>
<td>Ukraine</td>
<td>105</td>
<td>41</td>
</tr>
<tr>
<td>Lithuania</td>
<td>51</td>
<td>1,443</td>
</tr>
<tr>
<td>Belgium</td>
<td>161</td>
<td>161</td>
</tr>
<tr>
<td>Hungary</td>
<td>138</td>
<td>685</td>
</tr>
<tr>
<td>Latvia</td>
<td>10</td>
<td>10</td>
</tr>
</tbody>
</table>

Jan: 22 domestic; 44 wild boar  
Jan: 1 domestic; 223 wild boar  
Jan: 2 domestic  
Jan: 67 wild  
Jan: 67 wild  
Jan: 95 wild  
Jan: 70 wild
Europe’s big exporters

EU pork & variety meat exports to third countries

Metric tons

- Germany
- Spain
- Denmark
- Netherlands
- Poland
- France
- UK
- Ireland
- Hungary
- Others

Europe’s big exporters mostly producing more pork, except Germany
Australia cattle on feed set new record

• COF to a record 1.13 mil head (Q3 2018)
• Dry pastures and strong Asian market demand for grain-fed beef
• 2017-18 feedlot marketings were a record 2.83 mil head
• Total slaughter in 2019 estimated at 7.6 mil head, -3%; (following +9% in 2018)
• Production 2019 est. at 2.2 mmt, -4%
• Significant female slaughter (+22%) means smaller breeding herd.
• Feed stockpiles depleted and better than average Northern wet season needed
• Wheat A$432/mt, +36% yoy while grain-fed cattle prices were below year-ago in Q3

![Australia Cattle on Feed Quarterly Inventory](chart.png)

Source: MLA, ALFA survey; head
Australia’s chilled/frozen beef

- Total 1.125 mmt, +11% or +110,000 mt
- But still 20,000 mt below the 5-year
- 2019F: 1.03 mmt, -8%

(watch MLA update in late Jan)