## Rabobank Pork Quarterly Report: production cutbacks to support strong prices into 2013

**It can be said that the global pork sector is experiencing one of its most turbulent years in history, with dramatically contrasting price movements among pork producing regions worldwide. Rabobank expects global hog prices to remain under pressure in the first part of Q4 followed by a price recovery towards the end of the year and into 2013 as the current supply boost from the feed price-induced herd liquidation fades.** **Agricultural commodity price volatility, exchange rate movements and fluctuating Chinese pork imports look set to drive global pork market in coming years.**

The consequences of the worst drought in the United States (US) in nearly a century were further exacerbated by droughts in South America and Russia. This will result in historically low stocks-to-use ratios for feed crops and high costs for at least the coming 12 months. Further demand rationing for feed crops will be required for the biofuel producers and animal protein industries, including the pork industry. A continuation of tight global beef supplies will also provide a pricing umbrella for pork.

Contrasting price developments between pork producing regions has resulted in turbulence for the industry as a whole. For instance, US, Canadian and South Korean markets have all witnessed large price drop. This is due to the combination of a relatively large (seasonal) supply boost after the very hot summer and the beginning of herd liquidation intended to limit hog farmers’ losses as a result of rising feed costs.

In contrast, prices strengthened in Brazil and the EU. In Brazil, prices increased due to supply reductions following herd liquidation, combined with normal seasonality. In the EU, poor profitability in recent years combined with new regulations banning crate gestation—effective 1 January, 2013—have driven heavy herd liquidation, with the sow population down 3.9% in the recently released mid-year survey. In addition, export demand from both Brazil and the EU remained strong because of the relatively low value of their respective currencies. As always, China imports remain a wild card, but with recent herd expansion (despite low profitability), and a benign disease environment, large increases in imports are not expected in the short term.

A key unknown for pricing in 2013 will be the impact of a weak economic environment on demand. Soft economies from Europe to China may impact what consumers are willing to pay for pork. The highest degree of elasticity to pricing tends to be in developing markets where incomes are at low levels. The balance between tight supplies and a difficult economic environment we believe will result in record pork prices, and for some cuts very big increases. Disease issues as always will play a role, such as the continued expansion of African swine fever (ASF) in Russia.

Diverging price trends in key markets were the distinguishing feature of the global pork trade in Q3. A lack of synchronisation in global supply cycles creates opportunities for those with flexible procurement and sales operations. That said global pork prices will remain pressured in Q4 with production cutbacks to support strong prices into 2013.

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