



How will China's growing appetite impact global markets?

China Commodities Report

China remains under "pork price shadow"

The surge of pork prices in China to record highs last year made the meat one of the country's hottest and most closely watched commodities. The rapid increase has been a major factor in the record breaking rise of domestic consumer prices, and a driver of government efforts to reduce inflationary pressure and cool economic growth.

By the end of 2007, live hog and pork prices soared to RMB 15.46 (\$2.16) and RMB 24.05 (\$3.37), respectively, up 68.41 percent and 67.01 percent year-on-year.

Both live hog and pork prices have remained at high levels in the first half of 2008. Even though some industry insiders are optimistic that pork prices will fall in the second half of this year, citing government statistics showing increasing sow numbers, it will take time for the country to dilute the cumulative impact of all the negative factors that helped drive the price rise.

Rising costs for farmers since last year, coupled with damage caused by disease outbreaks and cold weather led China to become a net pork importer during the first quarter of 2008. Factor in the impact from the earthquake in Sichuan Province last month, and the long production cycle for pigs, pork import growth can only accelerate in the second half of the year. Normally, a sow can give birth to about 24 piglets per year, and it takes each piglet at least 131 days to mature into a 100-kilogram adult pig.

Heavy snowfall in late January decimated hog and chicken production in much of central and southern China, and forced the government to tap strategic pork reserves to stabilize prices ahead of the Chinese New Year holiday, a peak pork consumption period.

Last month's devastating earthquake in Sichuan, a leading livestock producer, may cut pork output by 700,000 tons to about 6.7 million tons this year, local agricultural authorities said following a survey of the pig industry. Pig production may be reduced by nearly 10 million head to 90 million pigs this year.

An output reduction of 700,000 tons equals about 1.4 percent of China's total pork output last year. Before the Sichuan earthquake, experts were optimistic that pig numbers in China would recover in the second half of the year. But as the full impact of the quake is becoming clearer, many are now saying the recovery will be delayed until 2009.

Data from the Ministry of Commerce (MOFCOM) showed that the industry was already undergoing a general recovery before the Sichuan earthquake.

In late 2006, an outbreak of porcine reproductive and respiratory syndrome (PRRS), otherwise known as blue-eared pig disease, swept through domestic pig inventories and killed hundreds of thousands of animals. Although the outbreak was contained in late 2007, a MOFCOM survey showed that 78.6 percent of Chinese swine raisers believe the potential of future pig epidemics is the biggest disincentive for increasing livestock numbers.

Meanwhile, prices of major hog feedstuff raw material, such as corn and soy meal, skyrocketed last year amid a global commodities boom, and are still lingering at high levels. Hog raisers have passed raw material prices onto consumers in order to maintain already slim profit margins.

It is widely believed that international grain prices will continue to reach new highs, as global grain stocks have fallen to 20 percent of total consumption. In addition, international crude oil

prices have jumped to as high as \$139 per barrel, which will support investment in the ethanol industry, and raise the pressure on hog prices by way of increased competition for grain and soybeans.

Labor costs and encroaching urbanization are also pressuring the sector.

"Urbanization and industrialization are reducing farmland and decreasing the amount of available manpower in rural areas. These two factors are causing a growing number of farmers to withdraw from the animal husbandry industry," Deng Fujiang, secretary of the China Meat Association, said.

In light of the industry taking such a beating, the Chinese government last year formulated a series of policies designed to facilitate the hog raising industry. Future government policies, and the extent to which it will support the industry this year, remain open questions for the world's largest pork consumer.

Pork accounts for about three-fourths of China's domestic meat consumption, while the country is the world's largest pork consumer, requiring half

the globe's pork supplies. The price spike has affected the majority of domestic households, for whom pork is a key staple of their diet.

China's ambitious plan to boost annual meat production to 84 million tons by 2010 may not be achievable. The only way to fill the gap between the 2010 production target and production in 2007, at 68.65 million tons, is through the development of modern, large-scale farms, but expansion is progressing slowly, Deng said.

Modernizing the domestic animal husbandry industry remains the biggest challenge to satisfying growing meat demand in China. Nevertheless, there is the potential for increased pork and live hog imports to address domestic shortages and help rebuild the industry.

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Fig 3 Monthly price of hog and pork in comparison with feed price in 2007

