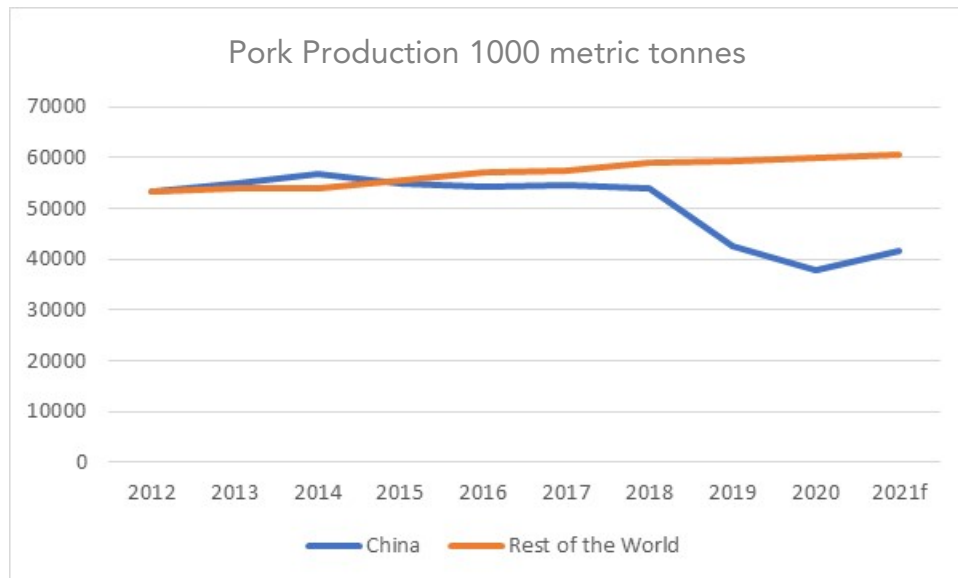


IS CHINA FOOD INFLATION GOING TO CAUSE GLOBAL FOOD INFLATION?



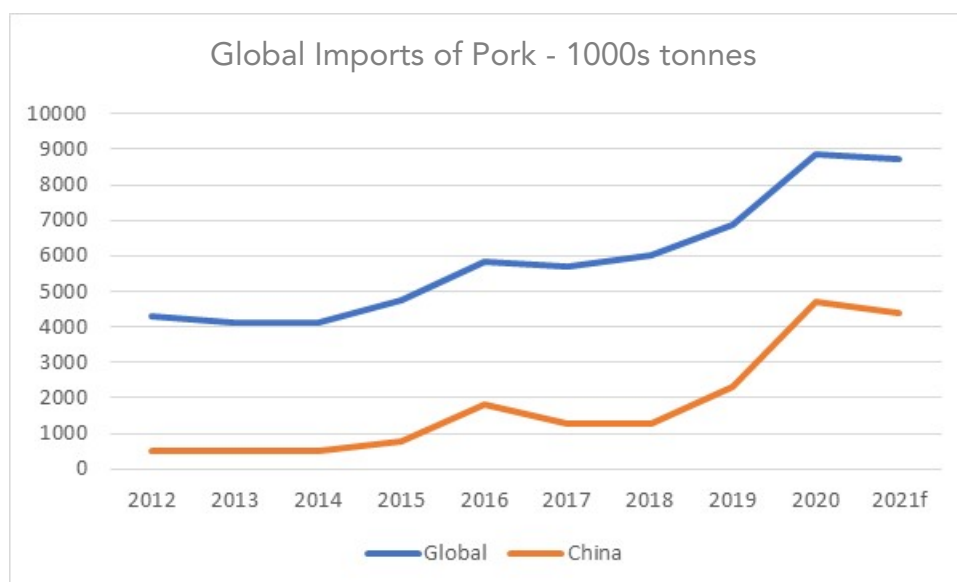
China has an outbreak of African Swine Flu (ASF), which has destroyed a large part of the pig herd. China is the dominant pig producer and consumer in the world.



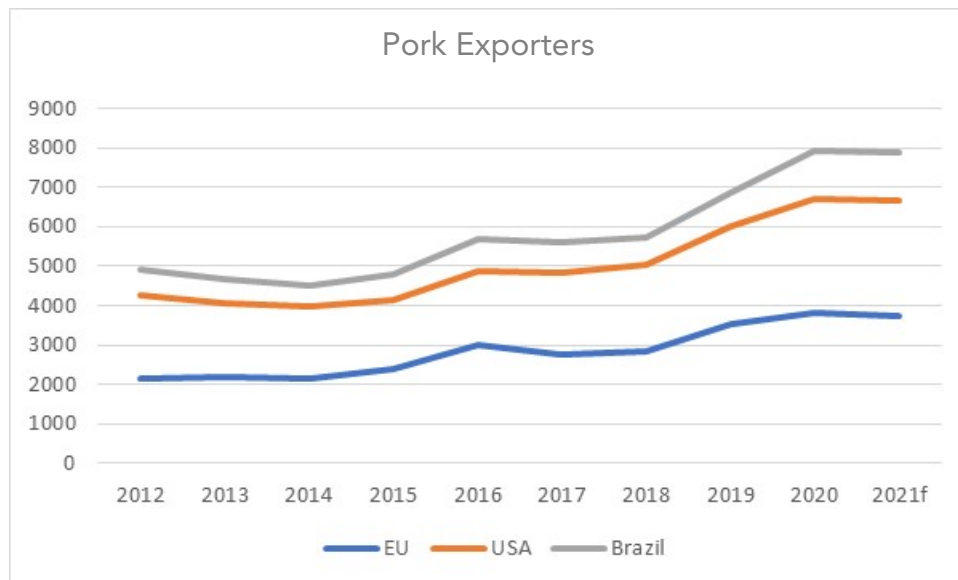
This has caused Chinese pork prices to double. Chinese pork price are now six times that of the US.



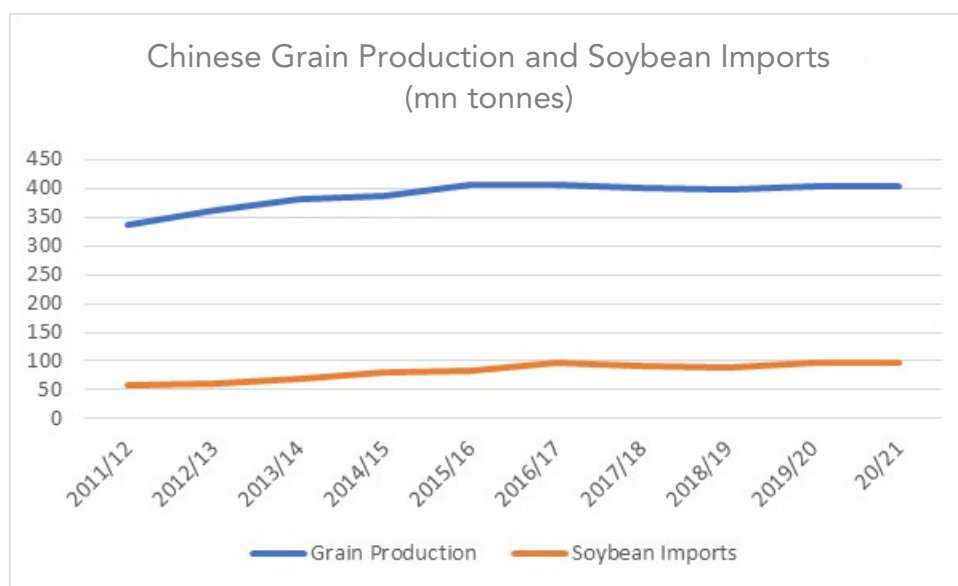
Even with high prices and falling pork consumption, China has become the major importer of pork.



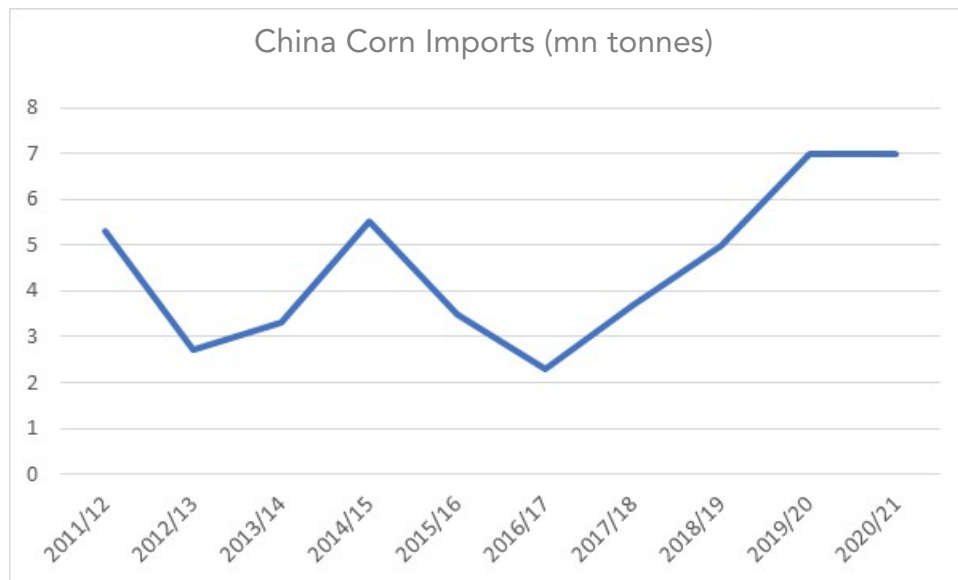
Pork exports are dominated by the EU, USA and Brazil in that order. Germany has also had an outbreak of African Swine Flu, which means the EU will be unlikely to grow exports. The most likely outcome is that the pork market stays very tight for a prolonged period of time as pig herds are rebuilt.



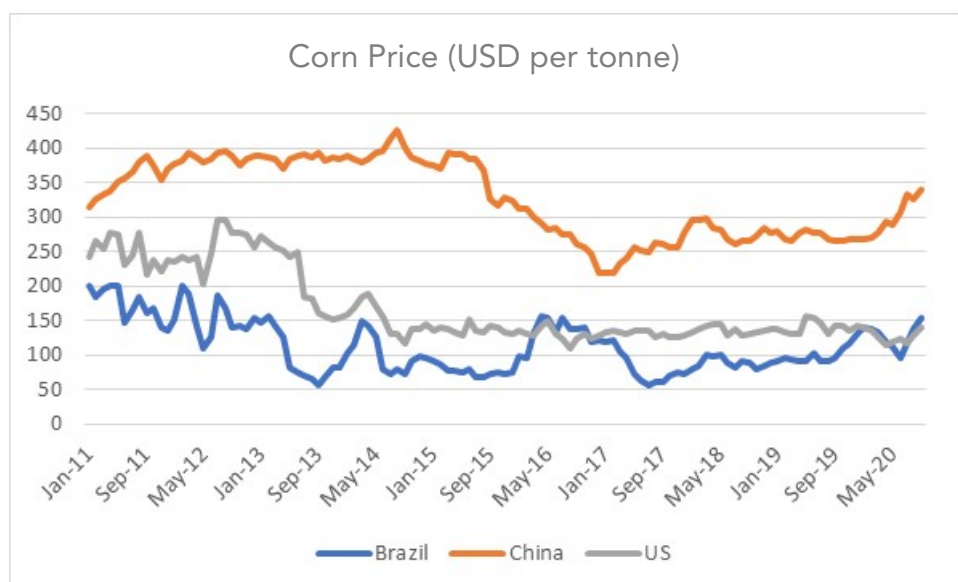
China is a large producer of grain, but in recent years has become a large importer of soybean as feed for its pigherd. Pork makes up most of China’s meat production.



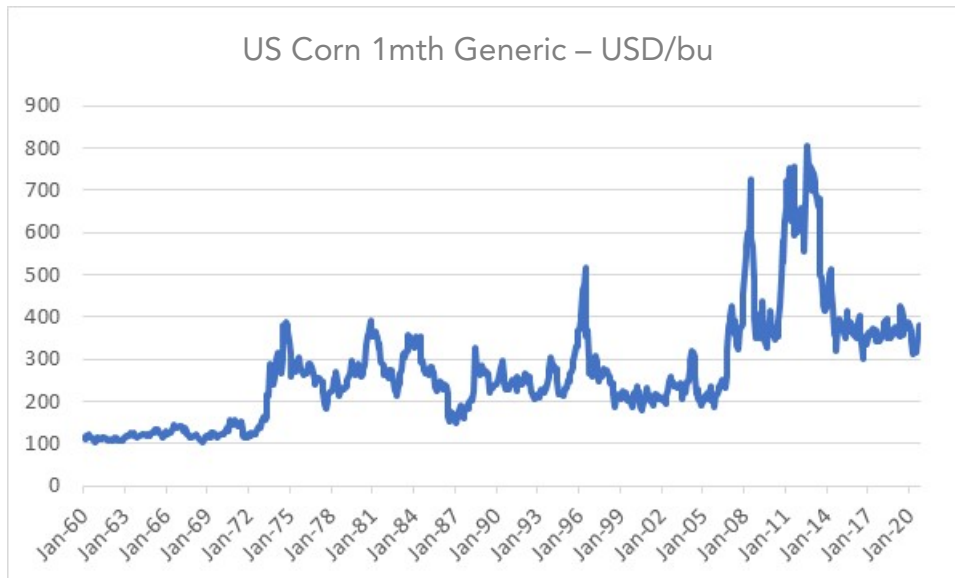
If you think of a grown pig that is culled, that is lost feed (or a lost investment) to the farmer. The feed conversion ratio for grain to pork is around 4 to 5, implying that the 15m tonnes of lost pork production is equal to 60 to 75m tonnes of grain. When the pigherd is rebuilt, the lost feed must be made up in addition to the usual amount of feed that is needed. China is reluctant to become a large grain importer and imposes tariffs on corn when imports exceed 7 m tonnes in a year. Imports of corn have already reached 7m tonnes this year.



Tariffs of 65% have been placed on corn imports. China corn prices are now much higher than global prices.



China seems to be much more willing to be a pork importer than a grain importer. The implication is that high pork prices are here to stay. One amazing thing is that agricultural crops, such as corn, trade at a price first seen in 1974.



The risk is that rather than Chinese pork prices falling, other food prices rise due to the Chinese pork supply shock. If Chinese prices start to influence pork prices globally, then pork farmers everywhere will be incentivised to increase pigherds. Grain demand would likely increase and agricultural crop prices would look likely to increase as a result.

INFORMATION

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