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U.S. Beef Returns to China

Approved By:

Michael Ward

Prepared By:

Abraham Inouye

Report Highlights:

While U.S. beef producers and exporters celebrate the return of U.S. beef to the China market, initial trade volumes will be limited by the number of U.S. cattle eligible for export to China. Overall, Post forecasts that while China's domestic production will only see an incremental increase, imports in 2018 are forecast to increase by 15 percent to meet increasing consumer demand for this higher-end protein. In terms of pork, an increasing domestic supply and lackluster consumer demand is driving down prices and will limit the opportunity for imports, forecast to decrease 11 percent to 1.6 million metric tons in 2018.

CATTLE

China's cow herd will increase incrementally in 2018, with continued strong imports

Post forecasts China's calf crop will continue increasing in 2018 by 0.8 percent. The majority of investment is currently being funneled into improved beef cattle genetics, which will necessarily take a number of years before a noticeable increase in capacity is realized. In addition, the speed at which the cattle herd can increase is constrained by the strict implementation of China's environmental laws governing agriculture. Each province has indicated certain "forbidden zones," or areas in which farms face very strict size and operational standards or must be completely relocated. As a result, small producers continue to retreat from the market and are being replaced by scale farms. In 2015, farms with annual slaughter numbers of over 50 head accounted for nearly 30 percent of the total market. The majority of this growth in cattle farms is occurring in central and western China.

Map of China's Cow Herd



Source: China Ministry of Agriculture 2015, blank map from http://www.d-maps.com/carte.php?num_car=11570&lang=en

Legend:

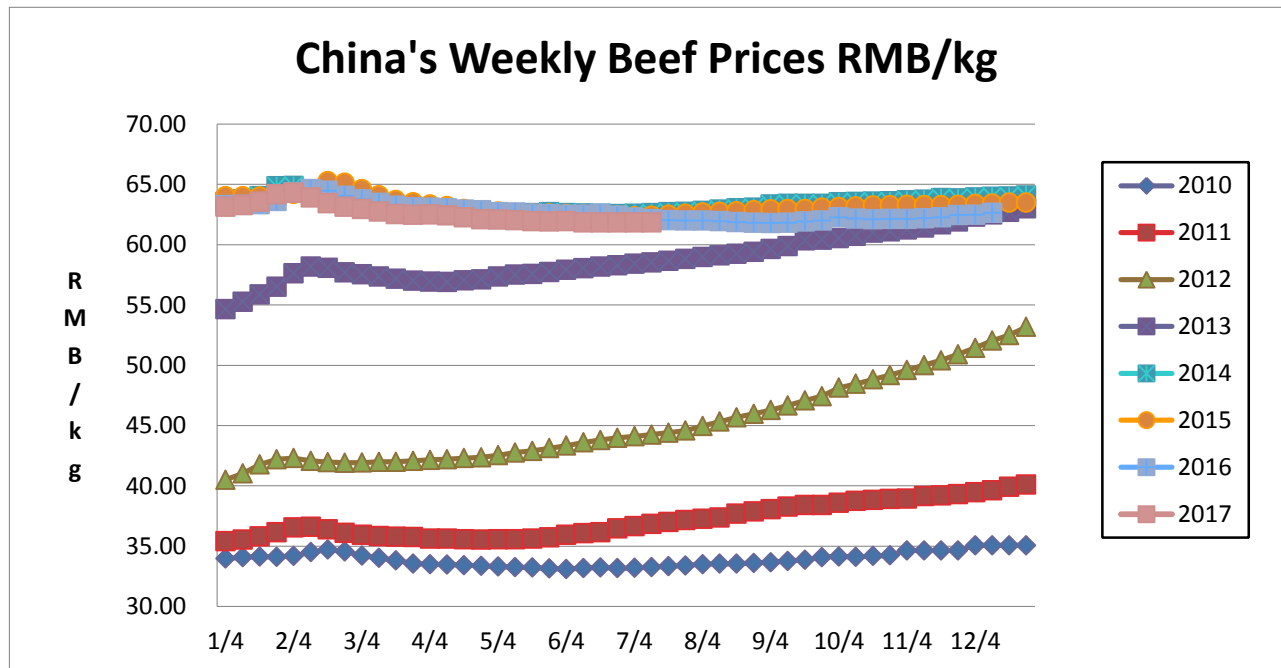
- Green = 5 to 10% (Neimenggu, Jilin, Henan, Sichuan, Yunnan, Xizang, Gansu, Qinghai)
- Lime = 3 to 5% (Liaoning, Heilongjiang, Jiangxi, Shandong, Hubei, Hunan, Guizhou)

Post forecasts live cattle imports will decrease by 10 percent in 2018. In addition, Post adjusted 2017 imports down to 100,000 head, due to the continued herd contraction in Australia, which occupies about 70 percent of the Chinese market.

BEEF

Production will incrementally increase in 2018

Post forecasts 2018 production will reach 7.1 million tons, about a 0.5 percent increase from 2017. The majority of production gains will come from scale farms. Despite beef prices being down slightly in 2017, the price is still strong and has been stable since the end of 2013.



Consumption will increase 2.5 percent in 2018

Post forecasts consumption will continue to increase in 2018 to reach 8.2 million tons. With increasing living standards and urbanization, demand for premium proteins will continue to outstrip the current supply. China's per capita beef consumption was about 5.8kg in 2017 and industry estimates it will reach 6.0kg in 2018. Although this increase is significant, China's average per capita beef consumption still remains well below 8.6 kg/person—the current world per capita average. However, China is projected to continue increasing consumption, which bodes well for future growth in this market.

Currently, Chinese beef consumers are looking for high-quality and named brands. Proliferating e-commerce platforms offer increasingly convenient ways for retailers to market high-end beef through the internet. For example, the majority of steaks for in-home consumption are sourced from e-commerce platforms.

U.S. beef is back to China after 14 years



On May 24, 2017, China lifted the import ban on U.S. beef. After a 14-year absence from the market, U.S. exporters are very enthusiastic about returning to this restored market access. However, this enthusiasm is tempered by the reality that only a limited amount of the current U.S. beef cattle supply meet the protocol requirements to be eligible to ship to China. In addition to supply constraints, U.S. beef will compete with other high-end grain fed beef from markets like Australia and Canada. Both of these countries have already made inroads in the fresh and frozen premium beef market in China and new U.S. exports will have to compete. But because of the overall quality and strong consumer recognition of U.S. beef, U.S. beef exports are expected to continue growing steadily. For more information regarding U.S. beef exports to China, please see: *GAIN Report CH17033 Procedures for Exporting U.S. Beef to China*.¹

China's overall imports will increase by 15 percent to reach 1.1 million tons in 2018

Post forecasts imports will continuously grow to reach 1.1 million tons in 2018, a 15 percent year on year increase compared to 2017. Photo: USDA Secretary Sonny Perdue along with U.S. and Chinese beef industry representatives cutting into the first shipment of U.S. beef in 14 years. this While U.S. beef began shipping in June of this year, South American countries, led by Brazil, will still be the top suppliers for the China market and occupied a roughly 67 percent market share as of June. Although Australia has historically been a strong exporter, its exports remain constrained by the herd rebuilding process. Furthermore, almost a quarter of Australia's 28 meat processing facilities were delisted from China's export-eligible list in July due to labeling issues.

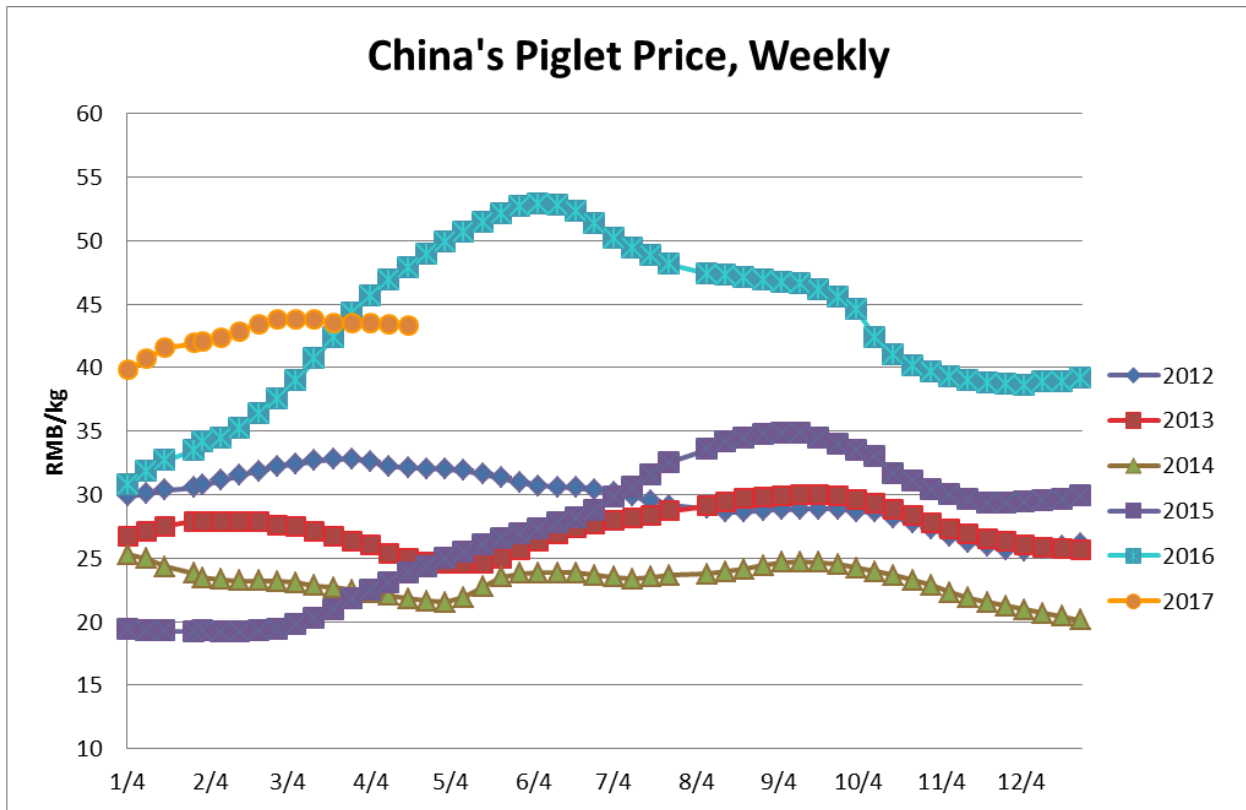
SWINE

Production

Post forecasts the 2018 sow beginning stocks at 43.5 million head and adjusted the 2017 sow beginning stock number to 42.5 million head. The piglet price remains high, reflecting the active replenishment occurring across the sector. Post adjusted its 2017 sow beginning stock number to 42.5 million head because the record high prices in 2016 have led many farmers to save as many sows as possible, even under the strict environmental rules.

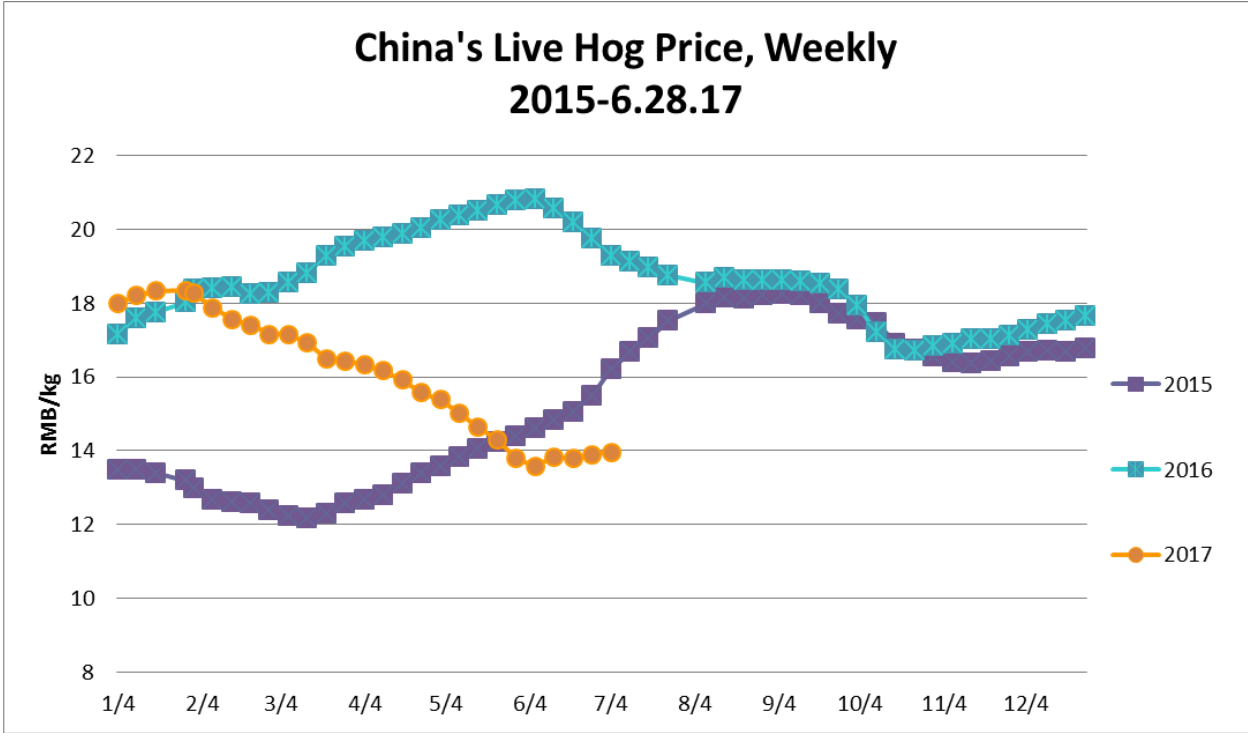
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<http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Procedures%20for%20Exporting%20U.S.%20Beef%20to%20China%20-%20Peoples%20Republic%20of%20China%20-%20Beijing%20-%207-13-2017.pdf>



This replenishment is being led by large scale hog farming companies. The downward live hog price also indicates increased pig supply and sow herd in this market. Large hog farming operations are still quickly expanding all over China, especially in the north eastern and western parts of China. Reports from Wen’s, Muyuan, and other large swine operations indicate that their combined total capacity in Northeastern China will reach 50 million head slaughtered per year. This increase is encouraged by the central and local governments, as China seeks to transform the “grain-basket” region in the Northeast into a national meat and dairy production base.

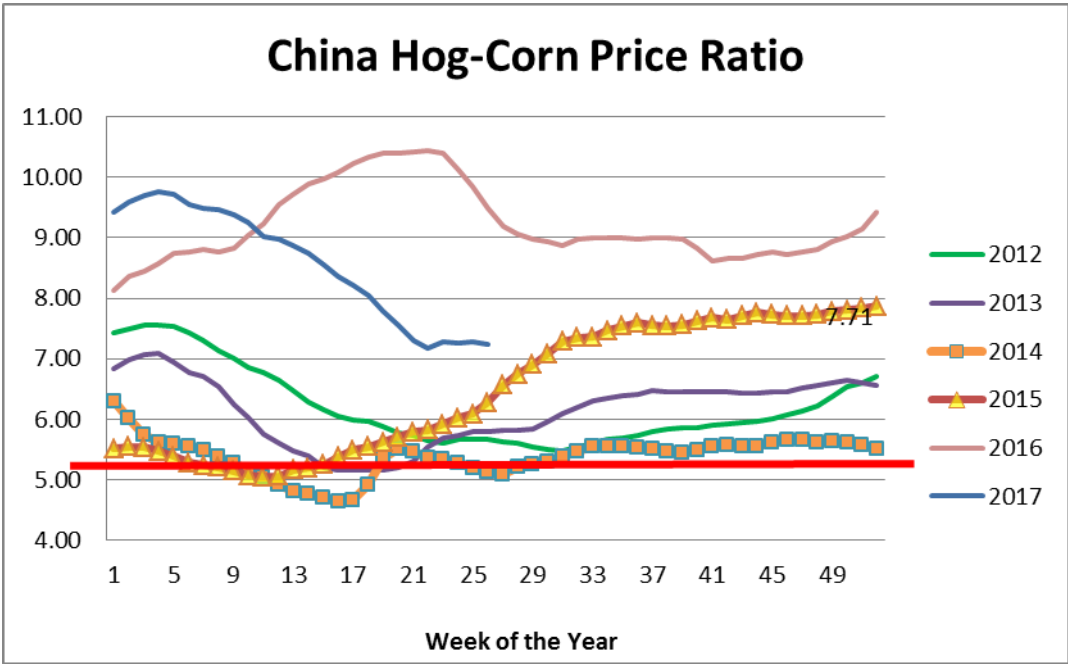
In this transition, small farms continue to retreat from the market as a result of the strict environmental rules. In the summer of 2017, China experienced its third round of farm closures and relocations. While the past two rounds mainly focused on southern and eastern China, the restrictions have now expanded to central China and include key swine production areas such as Henan, Hebei, and Shandong Provinces. Combined, these three provinces alone account for roughly 21 percent of the hog inventory in China. Industry further reports that there is still more room for continued consolidation in the swine breeding industry.



Source: Industry resources

The profitable hog-corn price ratio provides incentive for herd replenishment

Although China's hog-corn price ratio is decreasing in 2017, it remains above the profitability breakeven point of 6:1. With high state reserves, Post anticipates the corn price will remain low in 2018. With the downward pig price, the ratio may go below or close to the breakeven point by the end of 2018.



As the number of large farms increases, the overall herd quality is simultaneously improving. The majority of these large farms are using enhanced animal genetics and utilizing cutting edge farm technology. With these improvements, the average pigs per sow number continues to increase.

PORK

Production: Supply in 2018 up 1.1 percent from 2017

Post forecasts production in 2018 will increase slightly to 54.1 million tons. The sow herd replenishment will continue in 2018, forcing prices downward. As prices decrease, more pigs will be slaughtered and thus pork production will increase. However, this increase will be constrained by lackluster demand. As noted in previous GAIN reports, China's middle class is increasingly seeking out more expensive proteins like lamb, beef, and seafood.

Post adjusted its 2017 pork production number up to 53.5 million tons, about 0.9 percent higher than 2016. This upward adjustment is based on the production efficiency gains, such as increased pigs per sow numbers and heavier carcass weights. It is expected that these efficiency gains will continue in 2018, further increasing the supply.

Finally, in order to achieve environmental goals, a number of local governments are targeting the end of 2017 as the deadline for closing additional hog farm closures in designated "forbidden zones."² Although many pigs will be relocated to other farms, some farms will be unable to relocate and will close, sending their pigs to slaughter. This will also cause a temporary supply increase in 2018, adding to market volatility.

Consumption will slightly increase in 2018

Post forecasts consumption will increase to 55.5 million tons in 2018, about 0.7 percent increase in 2018. While pork is still the main meat protein source for Chinese consumers, its market share will slowly decrease, while beef, lamb, and seafood consumption are still on the rise. The slight increase in pork consumption is mainly driven by population growth and urbanization. But in large cities, pork consumption has already reached saturation levels. With enhanced living standards and income, middle class urban consumers are seeking out alternate proteins. To some extent, there is a perception that Chinese-raised pork has a negative reputation for food safety. As a result, many consumers are seeking out branded pork products.

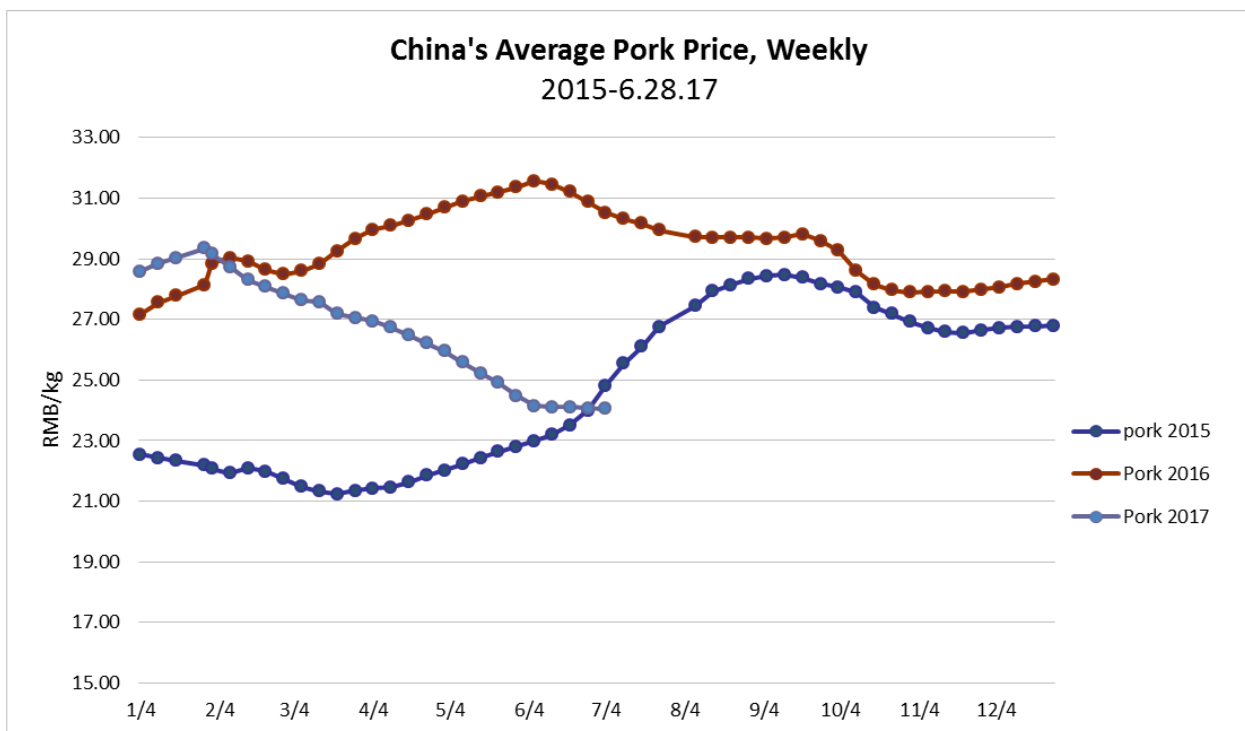
Post adjusted pork consumption in 2017 to 55.1 million tons, about 0.2 percent higher than 2016. This slight adjustment was necessary because consumption was boosted by unexpectedly low prices and consumer avoidance of poultry meat due to an avian-influenza outbreak in China.

² For more information on environmental zones, see GAIN Semi-Annual Livestock Report CH17005 https://gain.fas.usda.gov/Recent%20GAIN%20Publications/Livestock%20and%20Products%20Semi-annual_Beijing_China%20-%20Peoples%20Republic%20of_2-27-2017.pdf

Imports

Post forecasts imports will decrease by 11.1 percent in 2018 to about 1.6 million tons. With the increased supply of domestic production, the pork price will continue its downward trend, which will further narrow down the gap between domestic and imported products. Furthermore, Chinese consumers' pork consumption is already at a very high level and will remain flat. Thus the increased domestic supply will directly translated into reduced demand for imports.

Post adjusted the 2017 imports down to 1.8 million tons. In 2017, Spain surpassed Germany as the largest pork exporter to China. Overall, the EU supplies nearly two-thirds of all China's pork imports. Most imported pork is imported frozen and because Chinese consumers prefer fresh pork to frozen, most imported pork is consumed by processing facilities.



Exports

Post forecasts export will increase to 220,000 tons in 2018 due to reduced prices. China mainly exports to Hong Kong, which accounts for over 50 percent of all Chinese pork exports.

Cattle Production Supply Demand Table

Animal Numbers, Cattle Market Begin Year China	2016		2017		2018	
	Jan 2016		Jan 2017		Jan 2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Cattle Beg. Stks	100275	100275	99173	99173	0	98100
Dairy Cows Beg. Stocks	15600	15600	14000	14500	0	14000
Beef Cows Beg. Stocks	52000	52000	53000	53000	0	53500
Production (Calf Crop)	50000	50000	50500	50500	0	50900
Total Imports	133	120	145	100	0	90
Total Supply	150408	150395	149818	149773	0	149090
Total Exports	17	17	17	15	0	13
Cow Slaughter	0	0	0	0	0	0
Calf Slaughter	0	0	0	0	0	0
Other Slaughter	50000	50000	50500	50500	0	50800
Total Slaughter	50000	50000	50500	50500	0	50800
Loss	1218	1205	1201	1158	0	1077
Ending Inventories	99173	99173	98100	98100	0	97200
Total Distribution	150408	150395	149818	149773	0	149090

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Note: Estimates included in this report are not USDA's official figures, which can be found at <http://www.fas.usda.gov/psdonlineonline>

Meat, Beef, and Veal Production Supply Demand Table

Meat, Beef and Veal Market Begin Year	2016		2017		2018	
	Jan 2016		Jan 2017		Jan 2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
China						
Slaughter (Reference)	50000	50000	50500	50500	0	50800
Beginning Stocks	0	0	30	30	0	20
Production	7000	7000	7070	7070	0	7110
Total Imports	812	820	950	950	0	1095
Total Supply	7812	7820	8050	8050	0	8225
Total Exports	23	24	20	20	0	15
Human Dom. Consumption	7759	7766	8010	8010	0	8210
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	7759	7766	8010	8010	0	8210
Ending Stocks	30	30	20	20	0	0
Total Distribution	7812	7820	8050	8050	0	8225

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Note: Estimates included in this report are not USDA's official figures, which can be found at <http://www.fas.usda.gov/psdonlineonline>

Beef Price Table

China National Retail Beef Prices on Average, 2013-2017						
(RMB /KG)	2013	2014	2015	2016	2017	% Change 2017/16
January	55.26	63.87	63.99	63.38	63.54	0.25%
February	57.89	64.39	64.75	64.36	63.69	-1%
March	57.27	63.32	63.97	63.31	62.68	-1%
April	56.99	62.59	63.02	62.85	62.32	0.8%
May	57.48	62.57	62.61	62.55	61.98	-0.9%
June	58.09	62.56	62.44	62.35	61.84	-0.8%
July	58.56	62.64	62.44	61.98		
August	59.17	62.94	62.78	61.83		
September	60.07	63.35	63.02	62.12		
October	60.78	63.56	63.20	62.15		
November	61.56	63.76	63.29	62.49		
December	62.63	63.97	63.46	62.86		

Source: The Ministry of Agriculture collected from over 400 markets of farm produce.

Swine Production Supply Demand Table

Animal Numbers, Swine Market Begin Year China	2016		2017		2018	
	Jan 2016		Jan 2017		Jan 2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Beginning Stocks	451130	451130	435040	435040	0	417220
Sow Beginning Stocks	44000	44000	41000	42500	0	43500
Production (Pig Crop)	671500	671500	650000	673500	0	696000
Total Imports	8	8	20	5	0	10
Total Supply	1122638	1122638	1085060	1108545	0	1113230
Total Exports	1552	1552	1300	1300	0	1450
Sow Slaughter	0	0	0	0	0	0
Other Slaughter	685020	685020	672000	689000	0	694000
Total Slaughter	685020	685020	672000	689000	0	694000
Loss	1026	1026	1110	1025	0	1020
Ending Inventories	435040	435040	410650	417220	0	416760
Total Distribution	1122638	1122638	1085060	1108545	0	1113230

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Note: Estimates included in this report are not USDA's official figures, which can be found at <http://www.fas.usda.gov/psdonlineonline>

Pork PS&D Table

Meat, Swine Market Begin Year	2016		2017		2018	
	Jan 2016		Jan 2017		Jan 2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
China						
Slaughter (Reference)	685020	685020	672000	689000	0	694000
Beginning Stocks	0	0	0	0	0	0
Production	52990	52990	52750	53500	0	54100
Total Imports	2181	2181	2300	1800	0	1600
Total Supply	55171	55171	55050	55300	0	55700
Total Exports	191	191	175	210	0	220
Human Dom. Consumption	54980	54980	54875	55090	0	55480
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	54980	54980	54875	55090	0	55480
Ending Stocks	0	0	0	0	0	0
Total Distribution	55171	55171	55050	55300	0	55700

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Note: Estimates included in this report are not USDA's official figures, which can be found at <http://www.fas.usda.gov/psdonlineonline>

China National Retail Pork Prices on Average, 2013-2017						
(RMB /KG)	2013	2014	2015	2016	2017	% Change 2017/16
January	26.43	24.37	22.37	27.66	28.95	4.7%
February	26.32	22.98	22.02	28.86	28.57	-1%
March	23.96	21.49	21.44	28.97	27.43	-5.3%
April	22.03	19.70	21.54	30.20	26.59	12.3%
May	21.48	20.86	22.33	30.97	25.23	18.5%
June	22.81	21.69	23.30	37.66	24.11	35.9%
July	23.43	21.91	25.81	30.24		
August	24.72	23.23	28.06	29.70		
September	25.39	23.90	28.27	29.6		
October	25.24	23.60	27.54	28.24		
November	25.07	23.17	26.69	27.93		
December	25.22	22.88	26.76	28.21		

Source: The Ministry of Agriculture collected from over 400 markets of farm produce.

China Live Hog Prices on Average, 2013-2017						
(RMB /KG)	2013	2014	2015	2016	2017	% Change 2017/16
January	17.04	14.46	13.38	17.62	18.2	3.3%
February	16.09	13.11	12.71	18.37	17.8	-3.1%
March	14.07	12.05	12.27	18.90	16.8	-11.1%
April	12.80	11.12	12.91	19.84	16	-19.4%
May	12.48	12.79	13.92	20.45	14.6	-28.6%
June	14.10	13.06	14.87	20.41	13.8	-32.4%
July	14.61	13.34	16.86	19.03		
August	15.70	14.56	18.15	18.62		
September	16.04	14.88	17.86	18.36		
October	15.86	14.42	17.10	16.88		
November	15.77	14.09	16.45	16.98		
December	15.92	13.81	16.71	17.46		

Source: The Ministry of Agriculture collected from over 400 markets of farm produce.

China Piglet Prices on Average, 2013-2017 (Year to Date)						
(RMB /KG)	2013	2014	2015	2016	2017	% Change 2017/16
January	27.41	24.36	19.29	32.18	41	27.4%
February	27.79	23.22	19.21	35.05	42.7	21.8%
March	26.90	22.76	20.09	40.77	43.7	7.2%
April	25.26	21.84	23.07	47.30	43	-9%
May	24.89	22.99	25.75	51.01	39.9	-21.8%
June	27.09	23.79	27.78	52.39	36.2	-30.9%
July	28.44	23.55	31.13	49.11		
August	29.71	24.29	34.33	47.06		
September	29.87	24.53	34.16	45.7		
October	28.30	23.20	31.99	41.15		
November	26.43	21.38	29.73	39.06		
December	25.72	20.14	29.62	38.88		

Source: The Ministry of Agriculture collected from over 400 markets of farm produce.