

GLOBAL FEED MARKET COMMENT

Mother nature is making herself felt. ASF, Coronavirus, Avian Flu, Bushfires, Desert locusts, Fall Army worm – makes for a challenging market environment for January.

EUROPE

FEFAC reported a **flat feed volume for 2019**, (see December Feed Review) however growth in the North West of Europe was shadowed by the ASF crisis in Eastern Europe which had led to the slaughter of large numbers of pigs and therefore a fall in feed demand. However, EU Pork exports have consistently grown since the outbreak of ASF. The November shipments reported continue the trend. November shipments were up 54% on the year at 315,000MT mainly driven by increased Chinese demand. European exports are being pulled into China with prices rising accordingly. In November, the average price of EU pork exports was €3.10/kg – a 40% increase on the same period last year.

Despite the strong demand from China, the **German pig breeding herd size** continues to decline according to EuroStat. The number of sows in November 2019 totaled 1.78 million head, down 3% on the previous year – driven by an 8%

decrease in the number of pig holdings keeping sows.

Meanwhile in **European poultry**, 8 **HPAI outbreaks**, have been confirmed in Poland all of which occurred in the South-East in Lublin. Hungary, Romania, Slovakia, Czech Republic and the Ukraine have all recorded recent incidences of HPAI of the H5N8 subtype. County Fermanagh in Ireland is also on high alert for an outbreak of Avian Flu having had a few suspected cases. The outbreaks may lead to export bans for the countries with significant outbreaks, the European Commission has already suspended imports of poultry meat from the Ukraine

Cranswick in the UK have intimated that financial results for the year are expected to exceed expectations as the company sales to China have risen. Cranswick's interim results in November 2019 reported a 3.6% rise in pre-tax profits to £47.6 million, in the six months ended September 30, 2019, driven

by a 65% increase in total export revenue to the Far East.

UK based additives company **Anpario** is setting up a sales office in Cologne to target the pig producing markets of north western Germany, poultry markets of Switzerland and the ruminant markets of Austria and Denmark.

ABP in the UK have acquired **John Pointon and Sons** animal by-products business for an undisclosed sum, to be merged into their Advanced Proteins business.

Atria, the **Finnish poultry company** have lowered their forecast for 2019 full net sales, driven by weaker sales in Finland and Russia. The company, citing preliminary unaudited data, said net sales in 2019 are approximately EUR1.45 billion (US\$1.6 billion). At comparable exchange rates, net sales would increase by about 1.4%. In October, Atria announced a €130Million investment into the

expansion of their poultry production in Finland.

In **Russia**, **Cherkizovo Group** reported their operating results for 2019. Chicken sales were up 22%, pork sales rose 16%. For grain

production and sales Cherkizovo harvested 592,970 MT of grain in 2019, a 24% improvement over its 2018 harvest.

Russia has restricted the **import of L-Lysine** from US suppliers Evonik

and ADM to promote domestic production. Russia produces 110,000MT. 2020 domestic consumption is estimated to reach 150,000MT.

NORTH AMERICA

Phase I of the US-China trade deal has been signed and whilst the outlook for animal feed, soybean, pork, beef and dairy exports is favourable there are some issues which will limit China's purchases despite the buying obligations China has agreed to.

If measuring from a standard trading year (pre-trade war) such as 2017 – the increase in Chinese purchases are a US\$12.5billion increase on standard trading for 2020 and a further US\$7billion above that for 2021 – reaching a total buying obligation for 2021 of approximately US\$43billion.

The first questionable issue is whether the US can produce the volumes to fulfil China's buying obligations. As demand increases so too will US prices which creates another dilemma. According to the WTO regulations China is obliged to buy the produce from those with the most competitive price – e.g. Brazil. With the US so strongly back in the Chinese market it will cast a shadow on the suppliers that have until now enjoyed an export boom driven by ASF (Europe, Brazil and Argentina). The deal will take effect on February 3rd.

In November, the US reported steep increases (284%) in pork

exports to China/HongKong, a total volume of 82,213MT was recorded.

However, the **Coronavirus outbreak** has led to a recent fall-off in corn, soybean and wheat futures

at the CBOT as investors fear for the global economy and sell risky assets.

On January 1st, 2020 the US also signed a **trade agreement with Japan** which is expected to boost exports for poultry. The agreement gives the US a tariff advantage over other suppliers (Brazil, Thailand and China).

Considering the flooding experienced in the US mid-west it is unsurprising that there were many reports of grain engulfment. The harvest was late and there is a high moisture content suspected, which in turn is raising awareness of potential **high mycotoxin content**.

Vermeer Corporation in Iowa has acquired Schuler Manufacturing which will expand Vermeer's feed production technology equipment line.

D&D Ingredient Distributors Inc have announced the full operation of its recently completed premix

plant built on the company headquarters site in Delphos, Ohio.

Darling Ingredients has announced a 50% joint venture with EnviroFlight LLC owned by Intrexon Corporation – thereby making it the full owner of the US insect protein producer.

According to a report released by Meticulous Research the global **black soldier fly market** is expected to reach a market value of US\$2.57billion by 2030. Although there is indeed steep growth, crystal ball forecasts must be seen for what they are.

Other alternative proteins are getting attention; the USDA has awarded US\$9.95Million to Cornell University and the University of Arkansas to develop poultry **feed ingredients from microalgae**.

Cargill has reported strong revenue increases in their second quarter ending on November 30th. Revenues rose 4% to US\$29.2billion for the quarter and up 3% to US\$58.2billion for the 6-month period. Sales were driven by increasing animal protein demand from China. However, according to a report from the Wall Street Journal, Nestle has stopped buying Cargill Brazilian soy due to concerns in

regards to deforestation. Cargill then clarified that Nestle is still sourcing Cargill soybeans but

buying soybeans originating in locations other than Brazil. Cargill has specified the volume of

soybeans they are sourcing from the Amazon basin and the Cerrado region.

LATAM

In 2019, Brazil experienced a 4% increase in production costs for poultry, driven mainly by feed, which was 4% more expensive in December 2019 than at the beginning of the year.

In Brazil, JBS Friboi has opened a new beef processing site after a R\$70million investment into a new site in Barra do Garças, Mato Grosso. The site has a capacity of 500 animals a day. The site is the latest in a total of R\$154million investment into beef processing in Brazil.

Brazilian soybean areas for the 2019/2020 season are thought to have expanded to 36.8Million hectares and harvest volumes are forecasted to be 123.5MMT.

Meanwhile, the US soybean harvest is expected to be down 20% on the previous harvest. Brazilians are watching closely the purchases of the Chinese from the US following the ratification of the Phase 1 of the new trade agreement between them. It could lead to a fall in demand for Brazilian producers and subsequent downward pressure on prices.

According to a forecast from Conab, the Brazilian first corn harvest of 2019/20 will total 26.3MMT, up 2.6% compared to that of the previous season. Meanwhile, consumption is forecast to rise 6.6% pulled through by the livestock sector and new ethanol refineries in the Centre-West of Brazil.

The Argentines, who welcomed a new president in 2019 (Alberto Fernandez) have altered the sales and marketing of their soybeans, according to the USDA. Many producers have sold forward their soybean crops before the inauguration of Alberto Fernandez who threatens to increase export taxes on row crops. The move may be a wise one considering the rehashed trade relationship between the US and China. Argentine soybean production is forecasted at 53MMT.

According to the USDA the Mexican feed market is expected to contract. Low prices for poultry & livestock together with falling sorghum availability compounded by a weakening economy will cause a market size reduction.

APAC

In India the Fall Army worm is expected to damage feed crops again and feed prices for 2020 are expected to remain high

HPAI has returned to India after an absence of 2 months in the Koriya district, in central-eastern India.

Taiwan is also experiencing new HPAI outbreaks in native chickens in Yunlin county where there have been 53 outbreaks, as of the end of December. Other Taiwanese regions affected by H5N2 HPAI in 2019 were Taipei (20 outbreaks), Changhua (19), and Chiayi (3).

As well as H5N2, Taiwan has confirmed to the OIE three further outbreaks of HPAI linked to the H5N5 virus subtype. All were in native chickens, with almost 28,300 birds directly impacted.

Two of the outbreaks were on farms where clinical signs and elevated mortality had been noted. Suspicious signs were also observed in a small group of birds at the Taipei slaughterhouse. These latest outbreaks bring Taiwan's total to six since the first H5N5 cases were identified in September of 2019.

Evidence of China's effort to restock their sow herd is emerging. Sow inventory rose 2.2% in December, now 7% above sow inventories in September 2019. Also shown in December was an increase in pig slaughter, but this is driven by preparations for the Chinese New Year celebrations. ASF reduced China's pork output by 21.3% in 2019. Overall, according to NBS data the country's pig herd declined 27.5% from 2018 to 310.41 million by the end of 2019. In Indonesia, Farmsco Feed (a subsidiary of South Korea's

Harim Group) announced they have sold 500,000MT of feed in its two years of existence. Farmsco also stated their intention to increase feed sales a further 135% in 2020 to achieve a profit of US\$9.7Million. To meet the new target Farmsco Feed will build a new feedmill in East Java. Indonesia's feed production to grow.

The Indonesian Feed Millers Association have projected feed production to reach 20.67MMT, an increase of 5-6% driven by the growing poultry industry.

In Vietnam the Ministry for Agriculture has projected feed production 40-45MMT by 2030 up from 30.8MMT in 2019. The ministry also announced production targets of 29-30 million pigs (up from 28.1 million in 2018) and 400-450 million broilers (up from 358 million in

2019). However, according to the USDA feed demand in 2020 is expected to remain flat at 3.5MMT.

Also, in Vietnam, a new joint venture has been announced between Truong Hai Automobile JSC (Thaco) and Vuong Seafood Corporation (HVG) to produce 45,000 parental stock pigs and 1.2 million finishers/year. HVG also have feedmills with a total capacity of 1.5MMT and hi-tech breeding farms with 45,000 pigs from Denmark.

CP Pokphand Co Ltd in Vietnam has announced it is expecting a consolidated profit of between US\$330Million to US\$350Million for the year ending 31st of December, compared to US\$282 for the previous year – driven by increasing meat prices.

Olam International is preparing for an IPO listing by restructuring their operating groups into 2 divisions. One will be ingredients, called OFI and will consist of cocoa, coffee, edible nuts, spices and dairy. The other unit will be international agriculture called OGA consisting of grains and animal feed.

In Australia, an estimated 6 million hectares have been ravaged by colossal bush fires. Apparently, of these 6 million hectares most of the damage was done to grazing lands and bushlands so the impact of crops has been less. Livestock losses have not yet been established but are thought to be high. According to the Meat and Livestock Australia (MLA). Within the regions impacted 9% of the national cattle reside in the areas impacted and 11% of the herd live in regions partially impacted.

ME&AFRICA

In Ghana, the Broiler Revitalisation Project launched by the Ministry of Food and Agriculture intends to make Ghana self-sufficient in chicken meat. The ministry will distribute 20 million day old chicks to selected poultry farmers nationwide. Poultry feeds are expensive and no details are given in regards to providing these farmers with the feed for the distributed chickens.

In the Horn of Africa- (Ethiopia, Somalia, Djibouti, Kenya and Eritrea)

an outbreak of desert locust is threatening to devastate crops. Maize prices are rising rapidly in the region.

At the same time Fall Armyworm is also on the march and spreading across Africa. In Zimbabwe the pest has already damaged 15 to 20% of all crops.

There is a developing trade war between Uganda and Kenya. Kenya standards authorities have seized 3,000 packets of Ugandan milk

powder. The argument extends to beef and chicken also.

Rwanda's first integrated poultry farm has already achieved 65% market share. Poultry East Africa Ltd (PEAL) has a 50,000-bird capacity and a 5-ton/hour feedmill. PEAL also has 25 contract supply farms. 60% of the production is contracted out.