

Required Report: Required - Public Distribution

Date: February 18,2020

Report Number: BR2020-0006

Report Name: Livestock and Products Semi-annual

Country: Brazil

Post: Brasilia

Report Category: Livestock and Products

Prepared By: Joao F. Silva

Approved By: Oliver Flake

Report Highlights:

Post forecasts beef production in 2020 at 10.5 million metric tons, which is an increase of 3.4 percent. This increase is driven by higher productivity, continued record exports, and stronger domestic demand. Post forecasts pork production to increase by 4.5 percent and reach a record of nearly 4.2 million metric tons, reflecting continued strong exports to China, higher domestic demand, and stable but somewhat higher feed costs this year. The expected growth of the Brazilian economy in 2020 by over 2 percent, with declining inflation and unemployment rates and higher consumer purchasing power, supports Post's current estimates for the animal protein sector in Brazil. Although the level of uncertainty has risen significantly since last month regarding the impact of the "Coronavirus" (COVID-19) in China, Brazilian packers remain optimistic about exports of beef and pork in 2020.

EXECUTIVE SUMMARY

The outlook for beef and pork production in 2020 calls for an increase of 3.4 and 4.5 percent, respectively. The main drivers supporting this production outlook are projected record exports of both beef and pork in 2020, and the strengthening in domestic demand due to an expected rebound in economic growth of over two percent this year. In addition, production factors for both beef and pork, such as higher carcass weights and stable feed costs, due to projected bumper soybean and corn crops, are positive factors fueling optimism for both industries. The uncertainties facing the sector are fluctuations in the exchange rate, the trade agreement between the United States and China, and the impact of the “*Coronavirus*”.

Cattle

2020							
Market Begin Year Brazil	Jan 2018		Jan 2019		Jan 2020		
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Total Cattle Beg. Stks	232350	232350	238158	238158	244150	244144	
Dairy Cows Beg. Stocks	41820	41820	42250	42250	43750	43750	
Beef Cows Beg. Stocks	58080	58080	57200	57200	58100	58100	
Production (Calf Crop)	49500	49500	50490	50490	51500	51500	
Total Imports	0	0	0	0	0	0	
Total Supply	281850	281850	288648	288648	295650	295644	
Total Exports	785	785	554	554	605	605	
Cow Slaughter	9600	9600	9500	9500	10100	9000	
Calf Slaughter	300	300	300	300	300	300	
Other Slaughter	29702	29702	30855	30850	31070	32290	
Total Slaughter	39602	39602	40655	40650	41470	41590	
Loss and Residual	3305	3305	3289	3300	3300	3300	
Ending Inventories	238158	238158	244150	244144	250275	250149	
Total Distribution	281850	281850	288648	288648	295650	295644	

(1000 HEAD)

Note: Not Official USDA data

Production

The PSD for cattle is unchanged since Post’s last report, except for some minor updates on exports and slaughter. Post forecasts calf crop production in 2020 to increase by two percent mostly due to increased productivity. Pasture conditions remain excellent in the main producing areas of the Center-West region of Brazil due to higher precipitation. This is an important production factor for Brazil’s grass-fed cattle in the Center-West region, which accounts for nearly half of cattle production in Brazil.

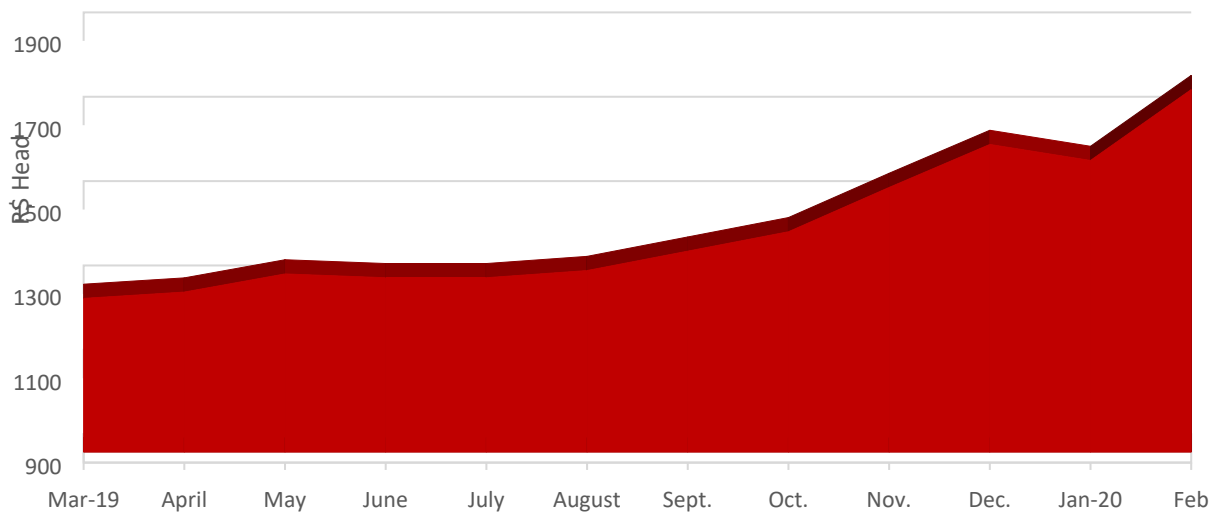
Brazilian cattle producers are currently retaining cattle on their premises due to excellent pasture conditions and are waiting for even higher calf prices (see below). This has temporarily reduced cattle supplies, which are likely to remain tight during the first quarter of the year. During the upcoming dry season, feedlot operators are projecting an increase of over 10 percent in their operations in 2020 to a record of over 6 million head of cattle under some type of confinement.

Prices

During the past 12 months, the average price of calves in Brazil increased by 36 percent (see graphic below), while operational costs increased by over 2.5 percent. According to cattle specialists, the outlook for cattle prices in 2020 calls for an increase in the price of calves, even though ranchers are currently retaining more cows, but at a lower rate of increase than in 2019. The fed cattle/calf ratio during Jan-Dec 2019 reached 2.50 compared to 1.94 in 2018.

Calf Prices

Sao Paulo State Cash Price (R\$/Head)

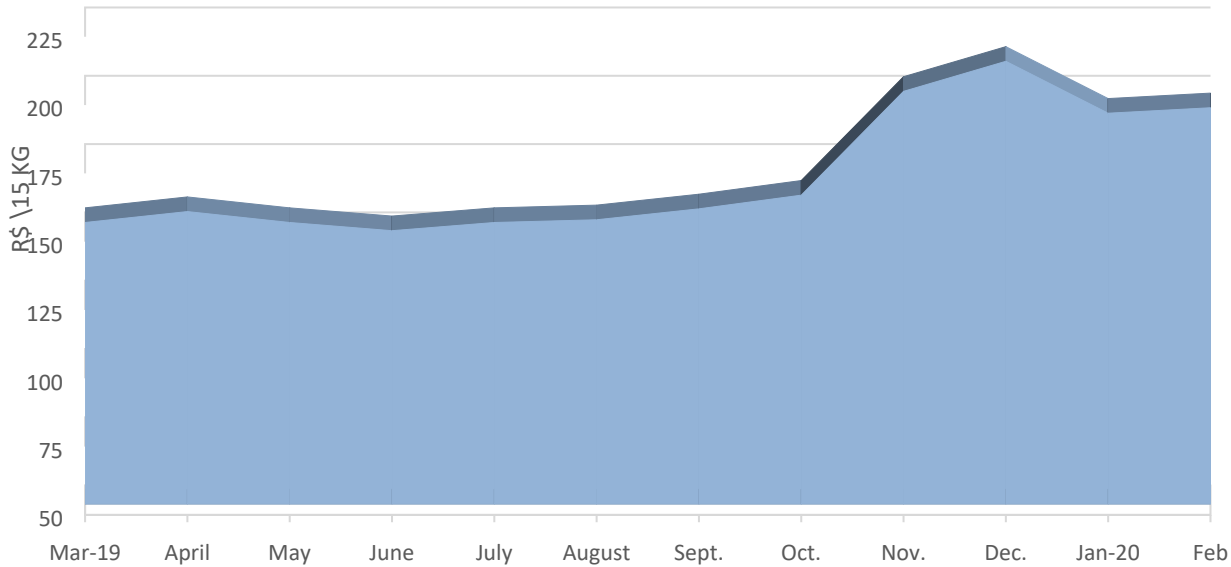


Data Source: CEPEA

During 2019, after nearly 10 months of small fluctuations in the price of fed cattle, prices jumped to an historical record of R\$ 231.35 per arroba (15 kilograms) in November 29 (see graphic below). This was the highest value for fed cattle in Brazil since the publication of price data began in 1994. The average annual price in 2019 was R\$ 163.15 per arroba, up 12.4 percent above 2018. Currently expectations are that fed cattle prices will average R\$ 200 per arroba in 2020. If this materializes, Brazilian beef export prices will remain competitive in 2020, assuming the current exchange rate holds.

Fed Cattle

Sao Paulo State Cash Price (R\$/15 KG Arroba)



Data Source: CEPEA

Trade

Imports: Brazil is not a significant importer of live cattle but is a major importer of beef and dairy cattle genetics and the United States is a traditional supplier of cattle semen to Brazil. Traders expect cattle semen imports to increase in 2020 due to an improvement in domestic cattle prices and availability of government funds at subsidized interest rates under the cattle genetic improvement program. Total imports of bovine semen in 2019 increased to US\$ 31 million, and the United States recovered its market share in the Brazilian market growing from 48 to 61 percent. However, a significant devaluation of the Brazilian currency could be a major constraint for a further increase in imports during this year.

Exports: Post revised down cattle exports in 2019 as final data became available and reduced the forecast for 2020, due to a projected reduction in cattle exports to Turkey, although Iraq has increased significantly imports of live cattle from Brazil. Brazilian traders also see an opportunity for increased cattle exports from Brazil due to the impact of the wildfires on beef and cattle production in Australia. The legal problem that caused the Port of Santos in São Paulo to remain closed through most of 2019 has been resolved and exporters are optimistic about resuming exports through that major port.

Beef

Meat, Beef and Veal Market Begin Year Brazil	2018		2019		2020	
	Jan 2018		Jan 2019		Jan 2020	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	39602	39602	40655	40575	41470	41590
Beginning Stocks	0	0	0	0	0	0
Production	9900	9900	10225	10200	10585	10550
Total Imports	48	46	45	43	42	40
Total Supply	9948	9946	10270	10243	10627	10590
Total Exports	2082	2021	2356	2314	2580	2530
Human Dom. Consumption	7866	7925	7914	7929	8047	8060
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	7866	7925	7914	7929	8047	8060
Ending Stocks	0	0	0	0	0	0
Total Distribution	9948	9946	10270	10243	10627	10590

(1000 HEAD) ,(1000 MT CWE)

Note: Not Official USDA data

Production

Post projects beef production in 2020 to achieve a new record by increasing 3.4 percent and reach 10.5 million metric tons carcass weight equivalent (MT/CWE). The increase in production will mostly come from expected gains in average carcass weights, projected record exports, mostly to China and Hong Kong, and higher domestic demand, as the Brazilian economy is forecast to grow by over two percent.

Domestic Consumption

Post projects beef consumption to increase by one and half percent in 2020. Most market analysts project that domestic demand for animal proteins will strengthen in 2020 due to a rebound in economic activity. The current outlook for Brazil's GDP in 2020 calls for an increase of 2.3 percent, with lower inflation and unemployment rates, and higher consumer purchasing power.

During 2019, average retail beef prices soared by 30 percent. The increase in retail beef prices was a result of a jump in exports of beef during the last part of the year, which was reflected in the historical increase of fed cattle (see section above). The increase in retail beef prices contributed to the overall rate of inflation in Brazil and lead consumers to promptly react. During Jan-Feb 2020, retail beef prices have dropped by over 15 percent. Brazilian consumers also reacted by switching to chicken and fish consumption, as pork prices are still high.

Trade

Beef exports are forecast to increase by a slower pace in 2020 (compared to 2019) by nearly 10 percent, to another record of 2.5 million metric tons (CWE), driven mostly by continued firm demand from China and Hong Kong. In 2019, Brazil hit a record in beef exports, both in volume and value. This was mostly attributed to the impact of African Swine Fever (ASF) in China, and increased exports to other markets, such as Egypt, Russia, Chile and Middle Eastern countries. In 2020, a combination of a devalued Brazilian currency and expected stable domestic prices will likely keep Brazilian beef export prices competitive in the world market.

Local traders are optimistic regarding an increase of Brazilian beef exports to the Muslim world since Brazil is the largest exporter of “Halal” beef. Indonesia is the current target market for Brazilian exporters since that country authorized beef imports from 10 Brazilian meat-packing plants. Local traders see an opportunity to increase exports to Indonesia this year due to the impact of the wildfires on beef and cattle production in Australia. However, the current number of Brazilian plants approved to Indonesia would limit exports around 20,000 metric tons (PWE). Recently, Kuwait also opened the market for Brazilian beef.

Impact of “Coronavirus” (COVID-19):

Currently, there is a lot of uncertainty among traders regarding beef exports to China due the outbreak of the “*Coronavirus*” (COVID-19) and how long the problem will last. However, despite the current logistical problems with the ports and the internal transportation system in China, Brazil’s beef exports soared to China during Jan-Feb 2020. Brazilian packers also expect higher beef exports to China throughout the year due to the continued problems derived from the outbreak of African Swine Fever and higher demand for beef. They also expect that the Chinese government will increase the number of Brazilian beef plants eligible to export to that country.

Export Trade Matrix

Country

Brazil

Commodity

Meat, Beef and Veal

Time Period	Jan-Dec	Units:	Metric Tons
	2018		2019
U.S.	31,538	U.S.	38,188
Others		Others	
Angola	8,448		9,418
Algeria	15,944		16,525
Canada	4,442		2,065
China	322,296		497,690
Chile	114,775		110,451
Egypt	173,313		152,269
European Union	108,168		97,293
Hong Kong	281,470		225,888
Iran	81,866		64,375
Iraq	6,043		3,778
Israel	17,676		25,680
Lebanon	18,550		17,497
Libya	6,287		8,298
Jordan	18,408		18,828
Phillippines	27,264		34,986
Russian Federation	3,650		63,693
Saudi Arabia	42,232		42,013
Singapore	17,967		20,697
Turkey	6,510		27,678
UAE	38,245		72,072
Total for Others	1,313,554		1,511,194
Others not Listed	113,033		122,448
Grand Total	1,458,125		1,671,830

HTS:0201,0202,021020,160250

Quantity in Product Weight Equivalent (PWE)

Updated: February 18,2020

Swine

Animal Numbers, Swine Market Begin Year Brazil	2018		2019		2020	
	Jan 2018		Jan 2019		Jan 2020	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Beginning Stocks	38829	38829	38427	38427	37725	37839
Sow Beginning Stocks	2950	2950	2975	2975	3005	3005
Production (Pig Crop)	40954	40954	42500	42200	44000	43990
Total Imports	1	1	2	1	1	1
Total Supply	79784	79784	80929	80628	81726	81830
Total Exports	8	8	10	9	8	11
Sow Slaughter	160	160	140	140	140	140
Other Slaughter	39990	39990	41860	41460	43760	42960
Total Slaughter	40150	40150	42000	41600	43900	43100
Loss and Residual	1199	1199	1194	1180	1218	1150
Ending Inventories	38427	38427	37725	37839	36600	37569
Total Distribution	79784	79784	80929	80628	81726	81830

(1000 HEAD)

Note: Not Official USDA data

Production

Post forecasts that the 2020 pig crop will increase by over 4 percent and reach a record production of nearly 44 million pigs, driven by stronger returns from record pork exports and growth in domestic demand. Pig producers are likely to face stable costs of production this year, but at a somewhat higher level, due to bumper corn and soybean crops. Stronger returns to producers are expected due to the continued impact of African Swine Fever (ASF) in China and the spread of the disease to Europe. In addition, large Brazilian packers are investing in pork production capacity to meet world demand for pork. Productivity is also expected to increase in 2020 by nearly 3 percent.

Prices

The cost of hog production (by kilogram, live weight) increased in 2019 over 8 percent, mostly due to an increase in feed costs. According to the Brazilian Agricultural Research Company (EMRAPA), the outlook for the near future is for some stability in the cost of production, due to projected higher corn and soybean crops, but at somewhat higher levels. Independent hog producers, however, remain skeptical about the outlook for reduced corn prices as Brazil is expected to export record amounts of corn in 2020 due to higher world demand and the competitive prices of Brazilian corn.

Month	Hog Live weight (R\$/kg)		Corn (R\$/Kg)		Soybean Meal (R\$/kg)		Cost of Production (R\$/Kg)	
	2018	2019	2018	2019	2018	2019	2018	2019
Jan	3.32	3.12	0.59	0.64	1.20	1.44	3.49	3.86
Feb	3.15	3.19	0.59	0.65	1.26	1.38	3.63	3.83
Mar	3.08	3.39	0.56	0.66	1.45	1.34	3.89	3.81
Apr	3.06	3.53	0.69	0.61	1.48	1.33	3.96	3.73
May	3.06	3.69	0.69	0.59	1.58	1.33	4.07	3.71
Jun	3.08	3.88	0.72	0.63	1.68	1.46	4.17	3.88
Jul	3.06	4.07	0.70	0.64	1.63	1.42	4.10	3.87
Aug	3.06	4.10	0.70	0.64	1.60	1.42	4.06	3.88
Sep	3.06	4.10	0.72	0.64	1.59	1.41	4.08	3.88
Oct	3.06	4.19	0.68	0.68	1.53	1.41	3.97	3.96
Nov	3.08	4.46	0.65	0.71	1.49	1.43	3.89	4.04
Dec	3.09	4.61	0.64	0.76	1.49	1.49	3.84	4.17

Notes:

(A) All prices for Santa Catarina

(B) Cost of Production is per kilogram of live weight produced in a full cycle system

(C) Average exchange rate Jan-Dec 2018 for US\$1.00 = R\$3.65 and R\$3.95 in 2019. Source: EMBRAPA

Pork

Meat, Swine Market Begin Year Brazil	2018		2019		2020	
	Jan 2018		Jan 2019		Jan 2020	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	40150	40150	42000	41600	43900	43100
Beginning Stocks	0	0	0	0	0	0
Production	3763	3763	3975	3975	4155	4155
Total Imports	2	2	2	2	2	1
Total Supply	3765	3765	3977	3977	4157	4156
Total Exports	730	722	860	851	1000	980
Human Dom. Consumption	3035	3043	3117	3126	3157	3176
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	3035	3043	3117	3126	3157	3176
Ending Stocks	0	0	0	0	0	0
Total Distribution	3765	3765	3977	3977	4157	4156

(1000 HEAD) ,(1000 MT CWE)

Note: Not Official USDA data

Production

Pork production is forecasted to set another record in 2020 at nearly 4.2 million metric tons, an increase of 4.5 percent from last year. The following production factors support Post's forecast for this year:

- The outbreak of African Swine Fever (ASF) in China and other parts of Asia will continue to raise international demand for pork.
- Brazil is well positioned to meet Chinese demand because of the lack of any major sanitary issues. Preliminary reports indicate record sales of animal health products for the swine sector in 2019 due to stronger returns to producers. Packers are also renovating older plants and investing in new plants to increase production capacity.
- Productivity is expected to increase in 2020 as carcass weights are expected to grow by over 3.5 percent.
- Feed costs are expected to remain stable, although at somewhat higher levels in 2020 than in 2019. Stronger margins along the production chain are forecast to lead to healthier profits for the second year in a row.
- Domestic demand is expected to increase due to the ongoing economic growth.
- Recent devaluation of the Brazilian currency makes Brazilian product more competitive in world markets.

Consumption

Domestic consumption of pork is likely to grow further in 2020 and reach nearly 3.2 million metric tons (MT/CWE) based on the assumption that the Brazilian economy will increase by over two percent in 2020 and consumer purchasing power will grow. Currently, pork prices are less competitive than beef and chicken prices.

Trade

Post forecasts pork exports to increase by 15 percent in 2020 due to the impact of African Swine Fever (ASF) in China, Vietnam and other parts of the world. Brazil is currently facing a unique situation of supplying pork to the world without any major sanitary issues and it has taken significant steps forward in the sanitary status of the swine industry. According to the World Animal Health Organization (OIE), as of January 2020, there are more than 12,000 cases of ASF notified to the organization in more than 20 countries.

Trade sources foresee a continued increase in pork exports to China/Hong Kong in 2020, despite the current problems derived from the outbreak of the “*Coronavirus*” (COVID-19) in China (see section on beef exports). During Jan-Feb 2020, pork exports increased by over 41 percent, based on volumes exported daily, as compared to the same period in 2019. Brazilian pork packers believe that China will reach the peak of pork imports in 2020 and then stabilize in 2021.

Brazilian pork exporters are also focusing on other markets to expand exports and diversify away from dependence on China. The outbreak of ASF in China and in several other countries prompted Brazilian pork exporters to focus on exports to several Asian countries, such as Japan, South Korea, Singapore and Vietnam. Brazilian exporters and government officials are also engaging in market promotion in Angola, Chile and South Africa.

Export Trade

Matrix

Country

Brazil

Commodity

Meat, Swine

Time Period	Jan-Dec	Units:	Metric Tons
Exports for:	2018		2019
U.S.	5,093	U.S.	6,228
Others		Others	
Albania	7,005		2,848
Angola	26,627		17,287
Argentina	38,705		29,719
Armenia	3,474		1,882
Azerbaijan	548		596
Chile	34,532		44,513
China	155,938		247,561
Congo Dem. Rep.	4,998		7,077
Georgia	17,951		17,422
Hong Kong	115,533		115,321
Japan	1,735		5,768
Philippines	9,274		3,167
Puerto Rico	4,364		3,975
Russian Federation	6,660		35,281
Singapore	43,856		34,738
UAE	7,191		7,333
Uruguay	35,271		39,404
South Africa	7,061		4,989
South Korea	1,546		4,540
Vietnam	7,416		12,385
Total for Others	529,685		635,806
Others not Listed	26,649		19,178
Grand Total	561,427		661,212

HTS: 020311,020312,020319,020321,020322,020329,

and 021011,021012,021019,160241,160242,160249

Quantity in Product Weight Equivalent (PWE)

Updated: February 10, 2020

Attachments:

No Attachments