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Brazil

Livestock and Products Semi-annual

Livestock

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Report Highlights:

Post forecasts both beef and pork production to continue to increase in 2016 to 9.6 million metric tons and 3.6 million metric tons, respectively. The increase in production is mostly driven by higher exports due to the depreciation of the Brazilian currency. In the domestic market, both animal proteins are suffering the impact of the current economic recession in the country and reduced purchasing power of consumers. Higher feed costs will likely reduce profitability in 2016.

Executive Summary:

The outlook for the Brazilian economy in 2016 is to continue in recession with another major drop in the Gross Domestic Product (GDP), rising inflation and unemployment. Domestic demand for animal proteins continues to feel the impact of the lower purchasing power of consumers, of which beef consumption is the most affected due to higher beef prices and competition from other meats, mostly chicken and to a lesser extent pork. On the positive side, Post expects higher exports of both beef and pork in 2016 due to the depreciation of the Brazilian currency (38% in the past twelve months) and new markets opened recently. The export outlook for 2016, however, can be tempered by the continued impact of the lower oil prices in some of the most important Brazilian markets for beef, such as Russia and Venezuela. In addition, higher feed costs, mostly high-priced corn in 2016 can impact on pork production. Small revisions in the 2015 S&D for beef and pork were made to incorporate final export data.

Commodities:

Animal Numbers, Cattle

Production:

Post forecasts a continued outlook of limited cattle supplies for slaughter in 2016. This is the result of two factors: high slaughter of cows in 2013-14 and insufficient volume of rains for nearly three years that is affecting the most important cattle producing areas in the center-west region. In addition, the price of calves reached a record price in May 2015 at approximately US\$ 506 stimulating retention of animals by Brazilian producers. Finished cattle prices also reached an all-time record in April of 2015 at US\$ 53 per “arroba” (each arroba equals 15 kilograms or 33 lbs). Cattle producers also complain that the devaluation of the Brazilian currency also contributes to their loss of profitability because of the increased costs of inputs (genetics, medication, feed ingredients) that are normally imported.

Trade:

Post revised our estimates for cattle exports in 2016 to increase by 50 percent. Exporters believe that the devaluation of the Brazilian currency, combined with new markets can offset reduced demand from Venezuela. Brazil reached sanitary agreements for cattle exports with Jordan, Turkey, Iraq and Bolivia, and it is close to reaching other agreements with Vietnam, China, Malaysia and Mauricio Islands.

A major constraint for cattle exports since the last quarter of 2015 was the incident on October 6, 2015 with a Lebanese ship that wrecked in the Port of Vila do Conde, state of Para, in the Amazon River, with more than 5,000 animals, of which an estimated 3,000 animals died, causing a major environmental impact in the area. This port is responsible for about 95 percent of all cattle exported from Brazil and there are reports that as of early 2016, more than 50,000 animals are still waiting to be exported in the region. Exporters are using the Port of Itaquí, also in the north of Brazil and are sourcing

for cattle in the south of Brazil at a higher cost, and to be exported by ports in the south as an alternative to fulfill contracts.

Production, Supply and Demand Data Statistics:

Animal Numbers, Cattle Market Begin Year Brazil	2014		2015		2016	
	Jan 2014		Jan 2015		Jan 2016	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Cattle Beg. Stks	207959	207959	213035	213035	219093	219180
Dairy Cows Beg. Stocks	38600	38600	38980	38980	39290	39290
Beef Cows Beg. Stocks	53660	53660	54210	54210	55025	55025
Production (Calf Crop)	49600	49600	48220	48220	48250	48250
Total Imports	10	10	3	2	3	3
Total Supply	257569	257569	261258	261257	267346	267433
Total Exports	649	649	300	212	300	300
Cow Slaughter	10585	10585	10600	10600	10500	10500
Calf Slaughter	350	350	300	300	300	300
Other Slaughter	29450	29450	27465	27465	27900	27920
Total Slaughter	40385	40385	38365	38365	38700	38720
Loss	3500	3500	3500	3500	3500	3500
Ending Inventories	213035	213035	219093	219180	224846	224913
Total Distribution	257569	257569	261258	261257	267346	267433
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Commodities:

Meat, Beef and Veal

Production:

Post forecasts beef production to rebound in 2016 and increase by around two percent to 9.6 million metric tons (MT/CWE), mostly driven by an estimated 10 percent increase in beef exports. Limited supplies of cattle for slaughter and high cattle prices will also continue to pressure packer's profit margins in 2016, which has been ameliorated by the significant devaluation of the Brazilian currency. Because of high cattle prices in Brazil, packers closed more than 30 plants in several states mostly because their margins reached critical levels. The state of Mato Grosso, which has the largest cattle herd in the country, closed 9 plants that were operating at idle capacity due to the limitation of cattle supplies. The outlook for calf production is expected to improve only in 2017.

Consumption:

Post projects domestic beef consumption to remain stagnant in 2016 at 7.8 million metric tons (MT/CWE). High retail prices of beef cuts combined with the drop in the purchasing power of Brazilian consumers is forcing consumers to switch to other meats, such as chicken and to a lesser extent pork. In 2015, the difference between retail beef cuts and chicken was above 60 percent higher for beef.

Trade:

Beef exports are expected to rebound in 2016 at a rate of nearly 10 percent to nearly 1.9 million metric tons (CWE), mostly driven by the devaluation of the Brazilian currency and higher demand from Asia. The Brazilian currency was devaluated by 38 percent in the past twelve months (ending in February 2016) making the Brazilian product more competitive in the world market and allowing beef packers to improve their revenues. Brazilian exporters also believe they will benefit throughout this year with the current lower cattle availability for slaughter both in the United States and Australia. They also do not see Argentina yet prepared to compete with Brazil in the short run (2 to 3 years). Promotional activities for beef are concentrated in Russia, Asia and Middle-East. The following is a brief summary of the main "drivers" that are helping beef exports in 2016:

China. Our trade contacts are optimistic that beef exports will significantly increase to China this year after the reopening of the market and the significant increase in the number of beef plants authorized to export to China. According to our trade source; the potential for beef exports to China in 2016 is nearly 200,000 metric tons per year.

Hong Kong: Local traders expect Hong Kong to continue as a major importer of Brazilian beef, but at lower levels than in the past. Meantime, Brazilian exporters believe that the decline in beef exports to Hong Kong in 2015 was due to the increased Chinese surveillance over meat trade to avoid "triangle" operations.

Russia: Local trade sources are more cautious about the Russian market in 2016 due the economic crisis, devaluation of the Ruble and lousy oil prices. However, because of the estimated lower beef stocks in Russia, Post was informed that the Russian Federation will likely regain market share as the largest market for Brazilian beef in 2016. Last year, Russian officials increased by over 100 percent the number of Brazilian plants approved to export to that country.

Saudi Arabia and Japan: These two countries were the last ones to reopen their markets to Brazilian beef since the outbreak of *Bovine Spongiform Encephalopathy* (BSE) in Parana in late 2012. Japan reopened the market for processed beef, while Saudi Arabia reopened for fresh beef..

United States: Brazilian beef exporters hope to begin exports of fresh and frozen beef to the United States in the second half of 2016. Currently, government officials from both governments are working on the certification requirements. Meanwhile, trade sources indicate that exports of processed beef to the United States will increase in 2016.

Other markets: South Africa, Iraq, Iran, Malaysia, Myanmar and Singapore not only resumed beef imports from Brazil, but mutual negotiations between these countries and the Brazilian government are centered in the eligibility of new Brazilian plants for exports. Other negotiations to open market access for Brazilian beef are concentrated in Thailand, Taiwan and Indonesia.

Market Investments: At the end of 2015, the state-owned Saudi Agricultural and Livestock Investment Company (SALIC), acquired nearly 20 percent of Brazil's third largest beef packer and third largest beef exporter called MINERVA. The company is also the largest exporter of Brazil's cattle. The value of the investment is estimated at US\$ 186 million. MINERVA has a significant market share in the middle-east market for fresh beef and this new partnership will strongly support their expansion in the area. In addition to Minerva, JBS and Marfrig have consolidated among themselves as the meat largest big packers in Brazil

Production, Supply and Demand Data Statistics:

Meat, Beef and Veal Market Begin Year	2014		2015		2016	
	Jan 2014		Jan 2015		Jan 2016	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	40385	40385	38365	38365	38700	38720
Beginning Stocks	0	0	0	0	0	0
Production	9723	9723	9425	9425	9600	9645
Total Imports	82	82	70	61	65	50
Total Supply	9805	9805	9495	9486	9665	9695
Total Exports	1909	1909	1625	1705	1775	1875
Human Dom. Consumption	7896	7896	7870	7781	7890	7820
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	7896	7896	7870	7781	7890	7820
Ending Stocks	0	0	0	0	0	0
Total Distribution	9805	9805	9495	9486	9665	9695

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Export Trade Matrix

Country

Brazil

Commodity

Meat, Beef and Veal

Time Period	Jan-Dec	Units:	Metric Tons
	2014		2015
U.S.	21,245	U.S.	30,052
Others		Others	
Angola	22,770		14,513
Algeria	20,930		19,880
Canada	3,083		1,767
China	106		97,478
Chile	55,210		54,894
Egypt	156,793		181,217
European Union	114,736		109,099
Hong Kong	252,704		165,909
Iran	61,178		97,792
Iraq	80		0
Israel	11,030		15,329
Lebanon	15,550		14,194
Libya	13,880		5,900
Japan	8		0
Jordan	11,194		12,206
Palestine	5,874		11,664
Phillippines	13,655		12,241
Russian Federation	310,264		169,511
Saudi Arabia	50		0
Singapore	11,563		15,737
Ukraine	335		0
UAE	16,105		16,870
Venezuela	170,187		93,905
Total for Others	1,267,285		1,110,106
Others not Listed	45,329		47,469
Grand Total	1,333,859		1,187,627

HTS:0201,0202,021020,160250

Quantity in Product Weight Equivalent (PWE)

Updated: February 1, 2016

Commodities:

Animal Numbers, Swine

Production:

Post forecasts hog production to increase by one and half percent in 2016 to support higher pork exports and domestic demand. Nearly 60 percent of hog production in Brazil is concentrated in the three southern states of Brazil, of which Santa Catarina is the only state in Brazil free of Foot-and-Mouth Disease. Production in this region is basically vertically integrated. However, this region is depended on corn imports from other states and this may be one of the main constraints to temper producers' optimism this year. Corn prices have increased by over 60 percent over the past 12 months due to booming corn exports and producers are being squeezed as cost of producing hogs have increased significantly. The Brazilian government has reacted by selling corn from government stocks at subsidized prices. Although the current situation resembles the 2012 high feed costs for hog production, producers and packers remain optimistic with the pork outlook for this year, mostly due to higher exports.

Production, Supply and Demand Data Statistics:

Animal Numbers, Swine Market Begin Year	2014		2015		2016	
	Jan 2014		Jan 2015		Jan 2016	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Brazil						
Total Beginning Stocks	38844	38844	39395	39395	40150	39422
Sow Beginning Stocks	2920	2920	2930	2930	2940	2940
Production (Pig Crop)	38470	38470	39050	39050	39635	39635
Total Imports	0	0	0	0	0	0
Total Supply	77314	77314	78445	78445	79785	79057
Total Exports	2	3	3	3	2	2
Sow Slaughter	150	150	160	160	160	160
Other Slaughter	36650	36650	37040	37768	37460	38522
Total Slaughter	36800	36800	37200	37928	37620	38682
Loss	1117	1116	1092	1092	1088	1150
Ending Inventories	39395	39395	40150	39422	41075	39223
Total Distribution	77314	77314	78445	78445	79785	79057
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Commodities:

Meat, Swine

Production:

Post increased our forecasts for an increase of two and half percent in pork production in 2016, at 3.6 million metric tons (MT/CWE). This forecast reflects the current optimism of the pork industry with the continued upsurge in the export markets and an increase in domestic demand.

Consumption:

Post maintains our forecasts for domestic consumption of pork to continue to increase in 2016 and reach 2.9 million metric tons (MT/CWE), as Brazilian consumers will likely remain price conscious in 2016 due to firm market prices for pork, more competitive than beef, but less than chicken. In 2015, pork prices were more competitive than beef by approximately 10 percent, but higher than chicken prices by 7 percent. Packers believe that these conditions will likely prevail in 2016.

An intense marketing campaign in the past years has improved fresh consumption of pork, but pork utilization in Brazil is estimated at 67 percent for industrial/processing and only 33 percent for fresh consumption. Promotional activities in Brazil are trying to address constraints affecting fresh pork consumption, such as a concentration during the winter months (June-August) and regional concentration of pork consumption in the southern regions of the country

Trade:

Brazilian pork exports are forecast to increase by 6 percent in 2016 supported by the devaluation of the Brazilian currency of 38 percent in the past twelve months and firm exports of pork to Russia and China. Brazilian negotiators were able to increase the number of plants approved to export pork to these countries. In addition, exporters expect exports to increase to Angola, Japan, Mexico and Singapore next year as the Brazilian product becomes more competitive in these markets.

After ten years of negotiation, South Korea opened the market for Brazilian pork, and according to Brazilian officials, the potential of exports to South Korea is 35,000 metric tons per year. Brazil also opened the market for pork in South Africa.

Production, Supply and Demand Data Statistics:

Meat, Swine Market Begin Year Brazil	2014		2015		2016	
	Jan 2014		Jan 2015		Jan 2016	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	36800	36800	37200	37928	37620	38682
Beginning Stocks	0	0	0	0	0	0
Production	3400	3400	3451	3519	3510	3609
Total Imports	2	1	1	1	1	1
Total Supply	3402	3401	3452	3520	3511	3610
Total Exports	556	556	565	627	580	670
Human Dom. Consumption	2846	2845	2887	2893	2931	2940
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	2846	2845	2887	2893	2931	2940
Ending Stocks	0	0	0	0	0	0
Total Distribution	3402	3401	3452	3520	3511	3610
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Export Trade Matrix

Country

Brazil

Commodity

Meat, Swine

Time Period	Jan-Dec	Units:	Metric Tons
Exports for:	2014		2015
U.S.	35	U.S.	288
Others		Others	
Albania	5,839		3,108
Angola	40,623		27,217
Argentina	7,934		10,889
Armenia	4,704		4,171
Azerbaijan	1,895		4,256
Chile	8,078		8,274
China	842		5,225
European Union	793		202
Georgia	8,410		7,288
Kazakhstan	813		482
Kyrgyzstan	1,763		877
Hong Kong	71,770		90,447
Japan	4,214		2,234
Moldova	5,733		640
Philippines	1,838		612
Russian Federation	185,936		236,527
Singapore	32,276		28,028
UAE	4,592		4,814
Ukraine	5,490		79
Uruguay	20,118		21,660
Venezuela	4,098		9,949
Total for Others	417,759		466,979
Others not Listed	10,164		14,962
Grand Total	427,958		482,229

HTS: 020311,020312,020319,020321,020322,020329,
and 021011,021012,021019,160241,160242,160249

Quantity in Product Weight Equivalent (PWE)

Updated February 1, 2016