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Brazil

Livestock and Products Semi-annual

2015 Livestock and Products Semi-annual Report

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Report Highlights:

Post revised the 2015 outlook for production, consumption and exports of beef and pork, respectively. Our new forecast calls for lower production of beef and pork than previously reported, supported by lower availability of cattle and hogs for slaughter, higher cattle and hog prices, stagnant domestic demand due to the difficult economic environment, and high indebtedness of Brazilian consumers. Exports of beef and pork are likely to be higher than last year mostly supported by the depreciation of the Brazilian currency which makes Brazilian beef and pork more competitive in the world market.

Executive Summary:

The outlook for the Brazilian economy in 2015 is to head towards a recession. Post has revised its production and consumption forecast of both beef and pork due to the following constraints: unpopular government cuts and tax hikes, rising inflation, rising unemployment, power shortages, higher energy costs, and a possibility of energy rationing. On the positive side, Post expects higher exports of both beef and pork due to the depreciation of the Brazilian currency. Since our last annual report in August 2014, the Brazilian currency depreciated by 31.3 percent, which makes the Brazilian product more competitive in the world market.

Commodities:

Animal Numbers, Cattle

Production:

Post forecasts a continued outlook of limited cattle supplies for slaughter in 2015. The reason for this is the insufficient volume of rains for nearly two years that is affecting the most important cattle producing regions. Since most cattle in Brazil is grass-raised (feedlots account for only 4 percent of production), the droughts in the last two years has had a major impact. According to some analysts, dry weather has also affected the pregnancy rate and the development of calves. These factors combined with an outlook for higher beef exports are likely to contribute to maintain cattle prices at high levels in 2015, despite the negative economic outlook for Brazil.

Trade:

Although the depreciation of the Brazilian currency can support a recovery in cattle exports, which dropped by six percent last year, Post forecasts a drop in cattle exports in 2015 due to short supplies of slaughter cattle and default risks, mostly on exports of cattle to Venezuela.

Production, Supply and Demand Data Statistics:

Animal Numbers, Cattle Market Begin Year Brazil	2013/2014		2014/2015		2015/2016	
	Jan 2013		Jan 2014		Jan 2015	
	USDA Official	New post	USDA Official	New post	USDA Official	New post
Total Cattle Beg. Stks	203,273	203,273	207,960	207,959	212,700	213,035
Dairy Cows Beg. Stocks	38,259	38,259	38,854	38,600	39,435	38,980
Beef Cows Beg. Stocks	52,986	52,986	54,615	53,660	55,000	54,210
Production (Calf Crop)	50,185	50,185	50,940	49,600	51,705	49,900
Total Imports	0	0	17	10	5	10
Total Supply	253,458	253,458	258,917	257,569	264,410	262,945
Total Exports	689	689	760	649	820	610
Cow Slaughter	11,490	11,490	11,840	10,585	12,112	10,700
Calf Slaughter	300	300	300	350	300	300
Other Slaughter	29,800	29,800	30,115	29,450	30,658	29,600
Total Slaughter	41,590	41,590	42,255	40,385	43,070	40,600
Loss	3,219	3,220	3,202	3,500	2,970	3,300
Ending Inventories	207,960	207,959	212,700	213,035	217,550	218,435
Total Distribution	253,458	253,458	258,917	257,569	264,410	262,945
1000 HEAD, PERCENT						

Commodities:

Production:

Post revised beef production to increase only by half a percent in 2015 to 9.8 million metric tons (MT/CWE). The marginal increase in production is only supported by higher exports since domestic demand is expected to remain stagnant. Limited supplies of cattle for slaughter and high cattle prices will also reduce packer's profit margins in 2015, which will likely close some inefficient plants in certain areas of the country. Two important constraints can also adversely impact beef production in 2015: power shortages and higher energy costs, including a possibility of energy rationing.

Consumption:

Post projects domestic beef consumption to remain stagnant in 2015, at 7.9 million metric tons (MT/CWE), in view of the expected higher consumer prices for beef. In addition, a more difficult economic environment, including unpopular government cuts and tax hikes, rising inflation, rising unemployment, higher energy costs, and escalating indebtedness of Brazilian consumers is affecting consumer's confidence. Consumer confidence in Brazil plunged in January to the lowest level since the data series began in September 2005. The higher cost of retail beef cuts also makes Brazilian consumers to switch to other meats, such as chicken and pork.

Trade:

Beef exports are expected to grow at a rate of 5 percent to 2 million metric tons (CWE) in 2015, mostly driven by the devaluation of the Brazilian currency. The Brazilian currency was devaluated by 31.3 percent since August 2014. Brazilian exporters also expect another record in the value of beef exports in 2015 at US\$ 8 billion, up 11 percent from 2014.

The increase in beef exports is supported mostly by higher demand from Asia, mostly from Hong Kong and China. The Brazilian government announced the suspension of the embargo of Brazilian beef to China several months ago, but shipments have not been resumed yet due to the lack of a sanitary protocol. However, negotiations are well advanced and a high level visit of a Brazilian team chaired by the Minister of Agriculture is expected to arrive in China late in March or early April to conclude the agreement. It was reported that China will also authorize an increase in the number of Brazilian beef plants authorized to export.

The Russian Federation will likely remain as the largest market for Brazilian beef in 2015, which accounted for nearly one third of all beef exports in 2014. According to local trade sources, the Russian Federation has approved more than 100 Brazilian establishments to export beef and beef products to Russia, including variety beef. However, Brazilian exporters are more cautious about the Russian market in 2015 due the economic crisis in that country.

Recently, South Africa and Iraq resumed imports of beef from Brazil. Malaysia and Singapore are also working with the Brazilian government to increase the number of plants eligible for exports. Saudi Arabia and Japan, which embargoed Brazilian beef because of the outbreak of *Bovine Spongiform*

Encephalopathy (BSE) in Parana in late 2012, are also priorities for this year. Other negotiations to open market access for Brazilian beef are concentrated in Thailand, Myanmar, Taiwan and Indonesia.

Production, Supply and Demand Data Statistics:

Meat, Beef and Veal Market Begin Year Brazil	2013/2014		2014/2015		2015/2016	
	Jan 2013		Jan 2014		Jan 2015	
	USDA Official	New post	USDA Official	New post	USDA Official	New post
Slaughter (Reference)	41,590	41,590	42,255	40,385	43,070	40,600
Beginning Stocks	0	0	0	0	0	0
Production	9,675	9,675	9,920	9,723	10,215	9,820
Total Imports	59	59	65	82	75	90
Total Supply	9,734	9,734	9,985	9,805	10,290	9,910
Total Exports	1,849	1,849	2,030	1,909	2,235	2,005
Human Dom. Consumption	7,885	7,885	7,955	7,896	8,055	7,905
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	7,885	7,885	7,955	7,896	8,055	7,905
Ending Stocks	0	0	0	0	0	0
Total Distribution	9,734	9,734	9,985	9,805	10,290	9,910

1000 HEAD, 1000 MT CWE, PERCENT, PEOPLE, KG

Commodities:
Animal Numbers, Swine

Production:

Post forecasts hog production to increase by one and half percent in 2015 to support higher pork exports since domestic demand remains slow. Nearly 60 percent of hog production in Brazil is concentrated in the three southern states of Santa Catarina (which is the only state in Brazil free of Foot-and-Mouth Disease (FMD) without vaccination, Parana and Rio Grande do Sul. Because production in these states is highly vertically integrated, high returns are likely expected for hog producers in these areas due to the strong support from large pork packers. During 2014, hog producers experienced so far one of the best years in terms of profitability due to lower costs of inputs (corn and soybeans) combined with an adjustable supply and demand of hogs, keeping prices at high levels throughout the year. These factors are likely to continue in 2015.

Production, Supply and Demand Data Statistics:

Animal Numbers, Swine Market Begin Year Brazil	2013/2014		2014/2015		2015/2016	
	Jan 2013		Jan 2014		Jan 2015	
	USDA Official	New post	USDA Official	New post	USDA Official	New post
Total Beginning Stocks	38,577	38,577	38,844	38,844	39,042	39,395
Sow Beginning Stocks	2,910	2,910	2,910	2,910	2,900	2,890
Production (Pig Crop)	37,900	37,900	38,250	38,470	38,400	39,050
Total Imports	1	1	1	1	1	1
Total Supply	76,478	76,478	77,095	77,315	77,443	78,446
Total Exports	4	4	3	3	3	3
Sow Slaughter	150	150	160	160	150	160
Other Slaughter	36,280	36,280	36,790	36,657	37,650	36,940
Total Slaughter	36,430	36,430	36,950	36,817	37,800	37,100
Loss	1,200	1,200	1,100	1,100	1,100	1,100
Ending Inventories	38,844	38,844	39,042	39,395	38,540	40,243
Total Distribution	76,478	76,478	77,095	77,315	77,443	78,446

1000 HEAD, PERCENT

Commodities:

Meat, Swine

Production:

Post forecasts an increase of nearly one percent in pork production in 2015, at 3.3 million metric tons (MT/CWE). This forecast reflects the current optimism of the pork industry with a rebound in the export markets and a marginal increase in domestic demand. Packers are also confident due to expected lower feed costs and sustainable domestic and export prices next year. However, the devaluation of the Brazilian currency, although helps pork exports, can adversely impact on production costs this year, mostly on imported medications and additives.

Consumption:

Post forecasts a marginal increase in domestic consumption of pork, at 2.7 million metric tons (MT/CWE), as Brazilian consumers will likely remain price conscious in 2015 due to firm market prices for pork, more competitive than beef, but less than chicken, and the overall indebtedness of Brazilian consumers. In 2014, pork prices were more competitive than beef for approximately 10 percent, but higher than chicken prices by 7 percent. Packers believe that these conditions will likely prevail in 2015.

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 rebound by two percent in 2015, mostly due to the projected higher exports to Russia. The continued import ban on several countries imposed by the Russian Federation is benefitting Brazilian exporters. In 2014, market share of Brazilian pork exports reached 43 percent in Russia. Local exporters believe that they will maintain this market share in 2015

Except for Ukraine, due to the political uncertainties in that market, pork exporters also look forward to increases in pork exports to their major markets such as Angola, Hong Kong, Chile, Japan, and South Africa, who recently allowed access for Brazilian pork. South Korea remains a priority in trade negotiations.

Production, Supply and Demand Data Statistics:

Meat, Swine	2013/2014	2014/2015	2015/2016
Market Begin Year	Jan 2013	Jan 2014	Jan 2015

Brazil	USDA Official	New post	USDA Official	New post	USDA Official	New post
Slaughter (Reference)	36,430	36,430	36,950	36,817	37,800	37,100
Beginning Stocks	0	0	0	0	0	0
Production	3,280	3,280	3,344	3,313	3,494	3,345
Total Imports	1	1	1	2	1	2
Total Supply	3,281	3,281	3,345	3,315	3,495	3,347
Total Exports	585	585	585	556	700	570
Human Dom. Consumption	2,696	2,696	2,760	2,759	2,795	2,777
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	2,696	2,696	2,760	2,759	2,795	2,777
Ending Stocks	0	0	0	0	0	0
Total Distribution	3,281	3,281	3,345	3,315	3,495	3,347
1000 HEAD, 1000 MT CWE, PERCENT, PEOPLE, KG						