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## **Brazil**

### **Livestock and Products Annual**

#### **2019 Annual Livestock Report**

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**Report Highlights:**

Post forecasts beef production in 2020 at 10.5 million metric tons, which is an increase of 3 percent. The increase is driven by solid exports, mostly to China and Hong Kong, and higher domestic demand. Post forecasts pork production to increase by 4.5 percent and reach a record of nearly 4.1 million metric tons, reflecting continued strong exports to China, higher domestic demand, and stable feed costs next 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 optimism in the animal protein sector in Brazil. However, trade dispute between the United States and China and exchange rate fluctuations remain uncertainties for the industry.

**Executive Summary:**

The outlook for beef and pork production in 2020 calls for an increase of 3 and 4.5 percent, respectively. The main drivers supporting this production outlook are projected record exports of both beef and pork in 2020, mostly to China, and the strengthening in domestic demand due to a rebound in economic activity expected next year. Production factors for both beef and pork, such as stable feed costs due to a projected bumper soybean and corn crops, and increased carcass weights, are fueling optimism for the both industries next year. The uncertainties facing the sector are fluctuations in the exchange rate and a possible agreement between the United States and China. The announcement of a trade agreement between MERCOSUL and the European Union is not a driver in Post projections because it is not expected to enter into force next year, as the agreement needs to be ratified by all parties.

**Commodities:**

Animal Numbers, Cattle

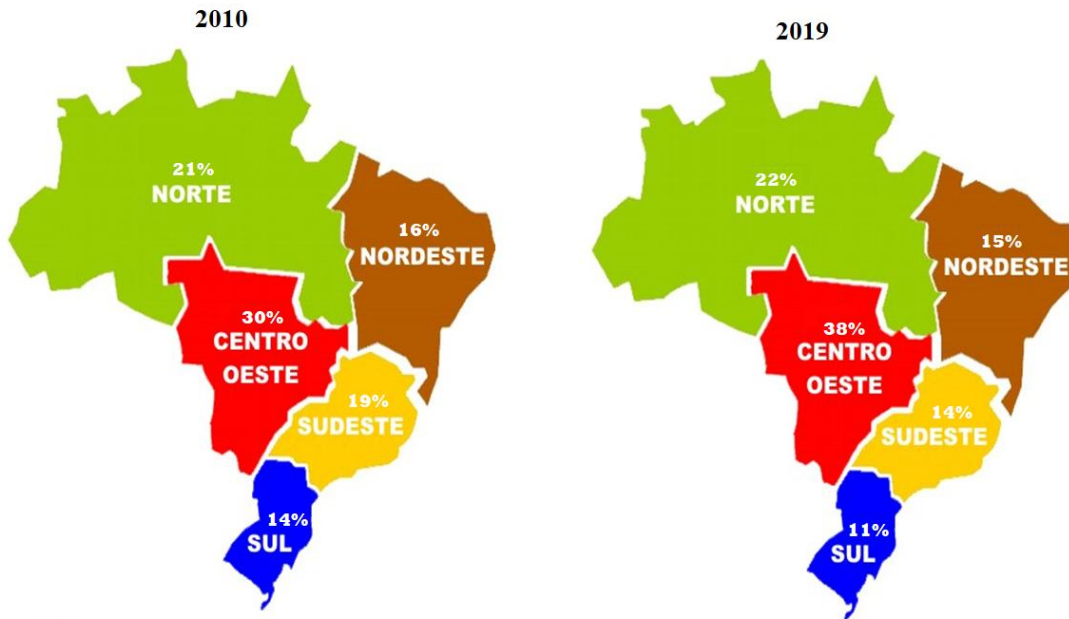
**Production:**

Post forecasts calf crop production in 2020 to increase by two percent as herd expansion continues in Brazil along with increasing productivity. Cattle production will continue to be supported by several government programs, such as subsidized agricultural credit for pasture improvement, recovery of degraded pastures, crossbreeding programs using imported cattle genetics, proper nutrition, health and increasing use of reproductive technologies. The projected weather pattern for 2020 calls for more precipitation benefiting pastures in the Center-West regions, which account for about 40 percent of the cattle production in Brazil. This is an important production factor for Brazil's grass-fed cattle.

Brazil is officially divided into five regions: North, Northeast, Center-West, Southeast and South. About 60 percent of Brazil's cattle herd is concentrated in the Center West and North regions, mostly in the state of Mato Grosso, Mato Grosso do Sul and Para, which are in the so-called pre-amazon area, but outside of the Amazon biome. Expansion in these areas was spurred by cheap land and deforestation by the wood industry. However, because of seasonal forest fires in the area, partly due to the annual dry period (June through August), cattle producers are under scrutiny from the international community.

Expansion of cattle breeding in these three states, which together account for nearly 40 percent of the cattle herd in Brazil, is estimated at 11 percent during the past ten years.

Cattle Herd by Region, 2010 & 2019

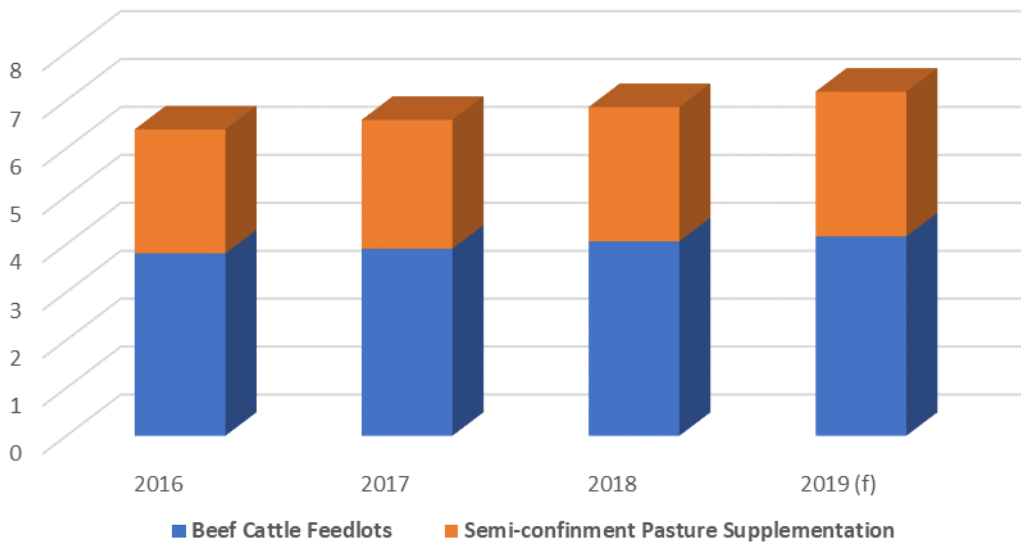


Source: ANUALPEC 2019

As the chart above illustrates, growth in cattle is focused in the Center-West region and to a lesser extent in the North. Only the south and southeast regions have seen an actual contraction in the size of the heard over the past decade while the Northeastern heard has expanded but comprises a percentage of the national share. Sao Paulo and Parana have seen the biggest decreases in beef cattle numbers while Mato Grosso and Mato Grosso do Sul have experienced the most growth.

Livestock production in Brazil is mostly grass fed. Feedlots only account for an estimated 10 percent of Brazil's meat production. However, trade analysts expect production of meat under some type of feedlot system to double in the next five years, mostly in the Center-West as a means to limit the weight loss common in the dry season (May through September).

Confinement Cattle Feeding in Brazil (million head)



Source: IEG/FNP

Confinement feeding in Brazil is estimated to have increased by about 12 percent since 2019. Feedlots are concentrated in Sao Paulo state and the Center-West states of Mato Grosso, Goias, and Mato Grosso do Sul. These four states alone account for 73 percent of all feedlots in Brazil. Semi-confinement systems where cattle are fed grain rations while on pasture (primarily in the dry season) are also increasing and concentrated in the Center-West.

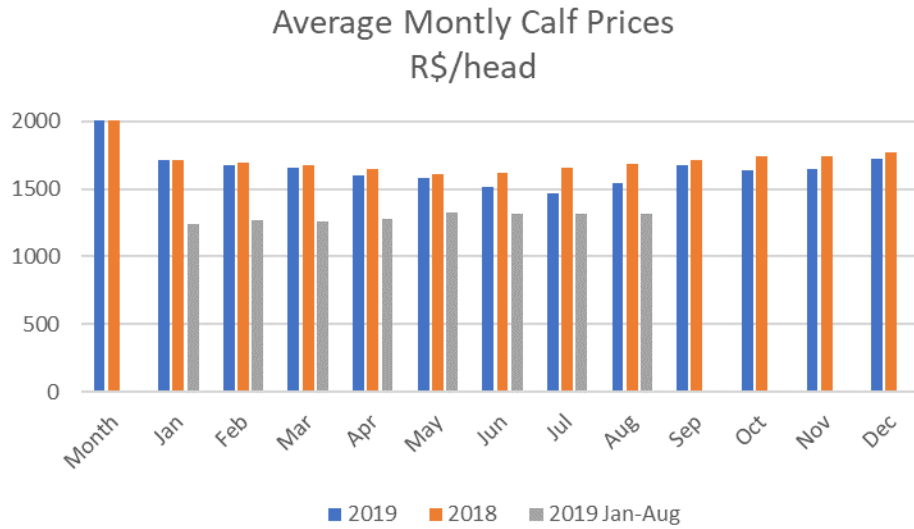
Post recently visited production areas in the state of Mato Grosso do Sul where beef feedlot operations are growing in size and efficiency. Increasingly livestock operations are using the “industrial cross” of the local Nelore with U.S. or Argentine Angus genetics. This industrial cross is both heat and tick tolerant (from the Nelore) while at the same time providing feed efficiency (Angus). Though generally in Brazil there is little premium paid for quality marbling, feedlots around the Campo Grande area in Mato Grosso do Sul reported minimal premiums for industrial cross cattle compared to straight Nelore.

<b>Animal Numbers, Cattle</b>	<b>2018</b>		<b>2019</b>		<b>2020</b>	
<b>Market Begin Year</b>	<b>Jan 2018</b>		<b>Jan 2019</b>		<b>Jan 2020</b>	
<b>Brazil</b>	<b>USDA Official</b>	<b>New Post</b>	<b>USDA Official</b>	<b>New Post</b>	<b>USDA Official</b>	<b>New Post</b>
<b>Total Cattle Beg. Stks</b>	232350	232350	238158	238158	0	244143
<b>Dairy Cows Beg. Stocks</b>	41820	41820	43105	42250	0	43750
<b>Beef Cows Beg. Stocks</b>	58080	58080	59775	57200	0	58100
<b>Production (Calf Crop)</b>	49500	49500	50490	50490	0	51500
<b>Total Imports</b>	0	0	0	0	0	0
<b>Total Supply</b>	281850	281850	288648	288648	0	295643
<b>Total Exports</b>	790	790	1000	630	0	820
<b>Cow Slaughter</b>	9600	9600	9500	9500	0	9500
<b>Calf Slaughter</b>	300	300	300	300	0	300
<b>Other Slaughter</b>	29702	29702	30990	30775	0	31750
<b>Total Slaughter</b>	39602	39602	40790	40575	0	41550
<b>Loss and Residual</b>	3300	3300	3300	3300	0	3300
<b>Ending Inventories</b>	238158	238158	243558	244143	0	249973
<b>Total Distribution</b>	281850	281850	288648	288648	0	295643
<b>(1000 HEAD)</b>						

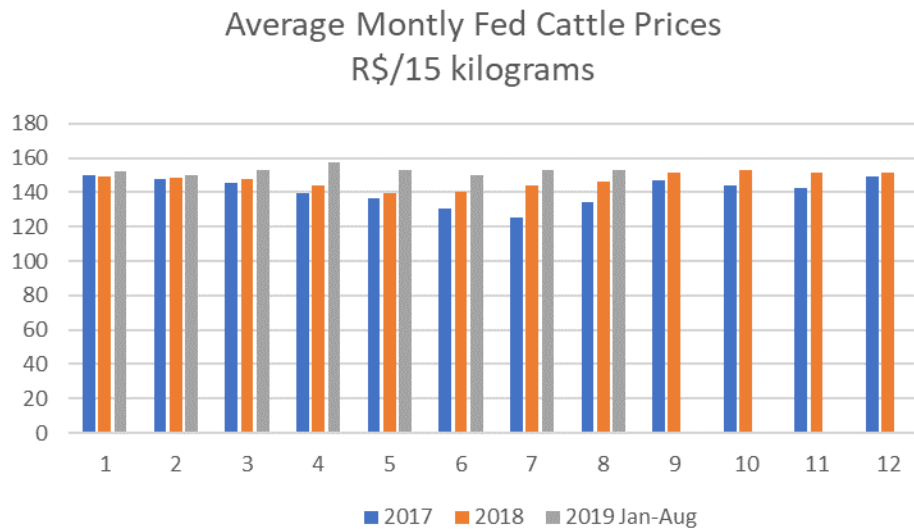
*Note: Not Official USDA Data.*

## Prices

During Jan-Aug 2019, the average price of fed cattle increased 5.3 percent, while operational costs increased by 2.3 percent. According to cattle specialists, the outlook for cattle prices in 2020 calls for a small increase in the price of fed cattle supported by strong beef exports and higher domestic demand. The fed cattle/calf ratio during Jan-August 2019 reached 1.93 compared to 1.87 in 2018. The futures price for fed cattle (October 2019) shows an increase of 2.5 percent over the August average, signaling a good price outlook for fed cattle.



*Note: Prices for São Paulo state. Source: CEPEA*



*Note: Prices for São Paulo state. Source: CEPEA*

## Trade:

**Imports:** Brazil is not a significant importer of live cattle, but 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 the improvement of domestic cattle prices, availability of government funds at subsidized interest rates under the cattle genetic improvement program and a stable exchange rate. The United States recovered market share in the Brazilian market growing by 22 percent

Jan-Jul 2018 and by 63 percent during the same period in 2019, as Canada lost sales in the Brazilian market.

**Exports:** Post revised the estimate for cattle exports in 2019 and lowered the forecast for cattle exports in 2020 due to reduced demand from Turkey, although Egypt and Iraq have increased significantly imports of live cattle from Brazil. In addition, logistical and legal problems with ports in Brazil (suspension of pre-shipment establishments) have become a major constraint to export live cattle in 2019 and may continue to hinder exports in 2020. Brazil finalized sanitary agreements last year with Vietnam and Saudi Arabia (genetic material), which promises new sales. Negotiations are ongoing for sanitary agreements with China, Malaysia and Mauritius Islands.

**Commodities:**

Meat, Beef and Veal

**Production:**

Post forecasts beef production in 2020 to increase by 3 percent and reach a record of 10.5 million metric tons carcass weight equivalent (MT/CWE). This projected increase in beef production is driven by the following factors:

- Record beef exports in 2019, which may continue next year, both in volume and receipts;
- an increase in domestic demand;
- an increase in carcass weights due to long-term programs aimed at improving the efficiency of the livestock sector in Brazil, specifically a successful cross breeding program using the Nelore breed with imported European type breeds, such as Angus and Brangus genetics, mostly imported from the United States;
- the government of Brazil continues to provide funds (estimated at US\$ 1.2 billion) at subsidized rates to increase cattle raising productivity, herd quality through pasture improvement, and acquisition of high-quality seed stock.
- feed lot operations are projected to increase by over five percent in 2020 from 5.5 million to nearly 6 million head. The increase is mostly attributed to higher cattle prices and lower feed costs. Most of the increase in feedlots are in the Center-West region, which is close to higher supplies of silage.

<b>Meat, Beef and Veal</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
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<b>Market Begin Year</b>	<b>Jan 2018</b>		<b>Jan 2019</b>		<b>Jan 2020</b>	
<b>Brazil</b>	<b>USDA Official</b>	<b>New Post</b>	<b>USDA Official</b>	<b>New Post</b>	<b>USDA Official</b>	<b>New Post</b>
<b>Slaughter (Reference)</b>	39602	39602	40790	40575	0	41550
<b>Beginning Stocks</b>	0	0	0	0	0	0
<b>Production</b>	9900	9900	10200	10210	0	10510
<b>Total Imports</b>	48	48	45	30	0	40
<b>Total Supply</b>	9948	9948	10245	10240	0	10550
<b>Total Exports</b>	2083	2083	2210	2220	0	2370
<b>Human Dom. Consumption</b>	7865	7865	8035	8020	0	8180
<b>Other Use, Losses</b>	0	0	0	0	0	0
<b>Total Dom. Consumption</b>	7865	7865	8035	8020	0	8180
<b>Ending Stocks</b>	0	0	0	0	0	0
<b>Total Distribution</b>	9948	9948	10245	10240	0	10550
<b>(1000 HEAD) ,(1000 MT CWE)</b>						

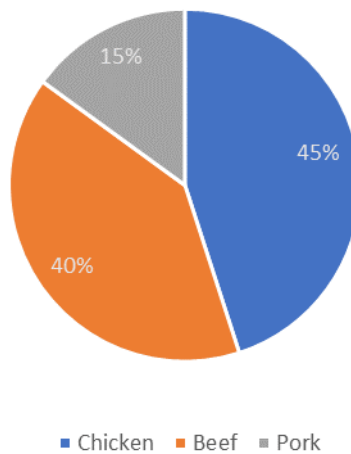
*Note: Not Official USDA Data.*

### **Domestic Consumption**

Post projects beef consumption to increase by nearly 2 percent in 2020. Most market analysts project that domestic demand for animal protein will strengthen in 2020 due to a rebound in economic activity. The 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. Industry sources report that growing beef consumption is partly a result of competition with other meats in the food service sector. The trend is to move from butcher shops to beef cuts sold in supermarkets. In addition, major packers have developed "house brands" for major restaurant and barbecue houses in Brazil. Beef consumption in Brazil remains second to chicken meat around 40 percent of total animal protein consumption in Brazil.



## Brazil: Consumer Meat Preference, 2018



### **Trade:**

Beef exports are forecast to increase at a slower pace in 2020, by 7 percent, to another record of nearly 2.4 million metric tons (CWE), driven mostly by higher exports to China and Hong Kong. In 2019, Brazil is expected to hit a record in beef exports, both in volume and receipts. This is mostly attributed to the impact of African Swine Fever (ASF) in China, but also to an increase in exports to other markets, such as Egypt, Russia, Chile and the Middle East countries. The following is a brief overview of the main markets for Brazilian beef in 2020:

China/Hong Kong: Despite a delay in the approval process of new plants to export to China/Hong Kong, Brazilian packers are optimistic that beef exports will increase to these two markets due to the negative impact of ASF, which is changing consumer preference in China toward consumption of chicken meat and beef. However, a wild card is a possible trade agreement between the United States and China.

Other markets: Post projects higher beef exports to growing markets, such as Egypt, Saudi Arabia, UAE, Russia, Iran, Turkey and Iran. Industry contacts expect that exports to these markets will increase based on the competitive prices of Brazilian beef, although exchange rate fluctuations remain an uncertainty.

New markets: Local traders are optimistic regarding an increase of Brazilian beef exports to the Muslim world. The current priority of exporters is to open the Indonesian market for Brazilian beef, which will likely occur this year. Currently, there are over 100 cattle slaughter plants in Brazil approved under the halal system. Packers are looking to increase productivity in this area by adopting the slaughter box system for cattle under the halal ritual. This would allow packers to meet higher demand from Muslim importers. Indonesia recently authorized beef imports from 10 Brazilian meat-packing plants, which offers a potential market estimated at 25,000 metric tons. Other negotiations are under way with additional Asian countries.

At the present time, Post does not foresee any major sanitary issues that could prevent an increase in beef exports next year. The recent trade agreement between MERCOSUL and the European Union is not included in the Post projections because it is not expected to enter into force next year, as ratification is still needed by parliaments of all country members. However, a possible consumer boycott of Brazilian beef in some European countries, in protest over the unsustainable agricultural practices in the Amazon , may impact exports. Recently, VF Corporation, responsible for the trademark brands of Timberland, the North Face, Kipling and Vans, stated that it has decided not to continue "purchasing direct leather and leather goods from Brazil for its international businesses until there is an assurance that the materials used in our products do not contribute towards furthering environmental damage in the country".

Export Trade Matrix			
Country			
Brazil			
Commodity			
Meat, Beef and Veal			
Time Period	Jan-July	Units:	Metric Tons
	2018		2019
U.S.	16,434	U.S.	20,492
Others		Others	
Angola	3,804		5,206
Algeria	10,217		11,065
Canada	2,191		931
China	157,720		174,968
Chile	60,803		62,883
Egypt	82,214		93,162
European Union	54,005		53,554
Hong Kong	151,818		133,752
Iran	41,471		46,051
Iraq	2,259		1,871
Israel	9,743		13,693
Lebanon	8,743		10,508
Libya	2,847		4,903
Jordan	9,337		12,100
Palestine	2,989		3,025
Phillippines	9,564		17,564
Russian Federation	121		33,762
Saudi Arabia	18,846		23,662
Singapore	8,699		10,287
Turkey	567		17,387
UAE	12,049		56,354
Total for Others	650,007		786,688
Others not Listed	56,179		63,416
Grand Total	722,620		870,596
HTS:0201,0202,021020,160250			
Quantity in Product Weight Equivalent (PWE)			
Updated: August 20, 2019			

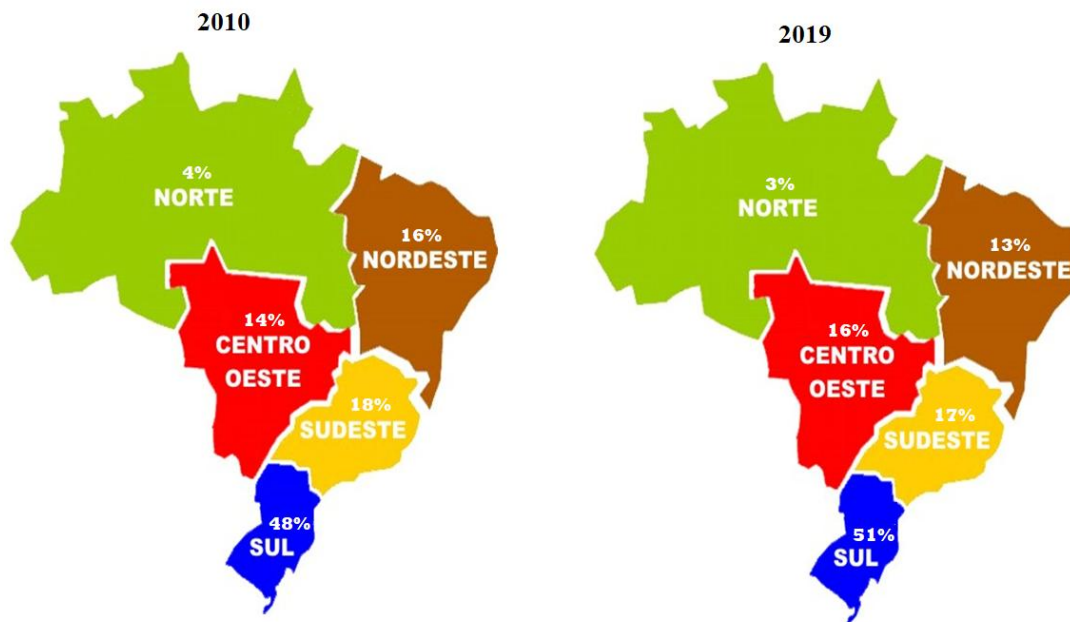
**Commodities:**

Animal Numbers, Swine

**Production:**

Post forecast that the 2020 pig crop will increase by 3.5 percent, driven by record pork exports as well as growth in domestic demand. Pig producers are likely to face continued lower costs of production next year and good returns from exports due to the 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. In Brazil, hog producers are concentrated in the three southern states of Santa Catarina, Paraná and Rio Grande do Sul, which account for 51 percent of hog production (see graphic below) and 46 percent of Brazil's sow herd. The production system in these areas is highly integrated receiving piglets, meal, vaccines and technical assistance from large packers and cooperatives. Independent producers are more concentrated in the south and center-west regions of the country.

Swine Herd by Region, 2010 & 2019



Source: ANUALPEC 2019

The cost of hog production (by kilogram, live weight) declined by 2.3 percent during Jan-Jul 2019, compared to the same period last year, influenced mostly by a decrease of 4.3 percent in nutrition costs, which accounted for 76.3 percent of the total cost of hog production in Santa Catarina state.

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 a projected higher corn and

soybean crops. Independent hog producers, however, are skeptical about the outlook for reduced corn prices as Brazil is expected to export record amounts of corn in 2019 and 2020 due to higher world demand and the competitive prices of Brazilian supplies.

<b>Animal Numbers, Swine</b>	<b>2018</b>		<b>2019</b>		<b>2020</b>	
<b>Market Begin Year</b>	<b>Jan 2018</b>		<b>Jan 2019</b>		<b>Jan 2020</b>	
<b>Brazil</b>	<b>USDA Official</b>	<b>New Post</b>	<b>USDA Official</b>	<b>New Post</b>	<b>USDA Official</b>	<b>New Post</b>
<b>Total Beginning Stocks</b>	38829	38829	38427	38427	0	37718
<b>Sow Beginning Stocks</b>	2955	2950	2975	2975	0	3005
<b>Production (Pig Crop)</b>	40954	40954	42500	42500	0	43990
<b>Total Imports</b>	1	1	2	1	0	0
<b>Total Supply</b>	79784	79784	80929	80928	0	81708
<b>Total Exports</b>	8	7	7	10	0	8
<b>Sow Slaughter</b>	160	160	140	140	0	140
<b>Other Slaughter</b>	39990	39990	41860	41860	0	43750
<b>Total Slaughter</b>	40150	40150	42000	42000	0	43890
<b>Loss and Residual</b>	1199	1200	1197	1200	0	1200
<b>Ending Inventories</b>	38427	38427	37725	37718	0	36610
<b>Total Distribution</b>	79784	79784	80929	80928	0	81708
<b>(1000 HEAD)</b>						

*Note: Not Official USDA Data.*

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		0.70		1.60		4.06	
Sep	3.06		0.72		1.59		4.08	
Oct	3.06		0.68		1.53		3.97	
Nov	3.08		0.65		1.49		3.89	
Dec	3.09		0.64		1.49		3.84	

Notes:

(A) All prices for Santa Catarina

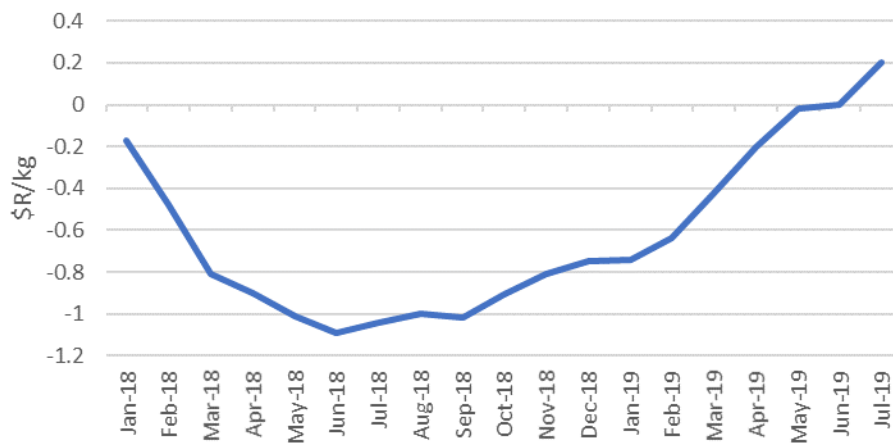
(B) Cost of Production is per kilogram of live weight produced in a full cycle system

(C) Average exchange rate Jan-Jul 2018: US\$1.00 = R\$3.38 and R\$3.83 in 2019.

Source: EMBRAPA

### Hog Production Breakeven Analysis

Hog live weight/cost of production



**Commodities:**

Meat, Swine

**Production:**

Pork production is forecasted to set another record in 2020 due to Brazilian producers responding to higher world demand in view of the outbreak of African Swine Fever (ASF) in China and the spreading of ASF to Europe. Improved pork prices in both domestic and international markets, stable feed costs, and new investments in plants to increase production capacity (see export section) are all factors encouraging a further increase in production next year.

The pork production forecast for 2019 is unchanged. Strong export demand, mostly from China and the sharp increase in pig prices has significantly improved producer margins. This combination led to a 3.5 percent increase in pork production for the first semester of the year, according to preliminary estimates from the industry. The increase is mostly driven by integrated producers in the south of Brazil.

Meat, Swine	2018		2019		2020	
	Jan 2018		Jan 2019		Jan 2020	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	40150	40150	42000	42000	0	43890
Beginning Stocks	0	0	0	0	0	0
Production	3763	3763	3975	3975	0	4157
Total Imports	2	2	2	1	0	1
Total Supply	3765	3765	3977	3976	0	4158
Total Exports	730	730	900	900	0	1035
Human Dom. Consumption	3035	3035	3077	3076	0	3123
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	3035	3035	3077	3076	0	3123
Ending Stocks	0	0	0	0	0	0
Total Distribution	3765	3765	3977	3976	0	4158
(1000 HEAD) ,(1000 MT CWE)						

Note: Not Official USDA Data.

**Consumption:**

Domestic consumption of pork is likely to grow further in 2020 and reach nearly 3.1 million metric tons (MT/CWE) based on the assumption that the Brazilian economy will increase by over two percent next year. Additionally, producers will likely be able to keep feed costs under control thus making retail prices of pork more competitive.

Roughly 70 percent of consumption of pork in Brazil is in the form of processed meats like ham and sausage, which is more expensive, and consequently, less competitive compared to beef and chicken. Pork consumption remains third to chicken and beef in Brazil's consumer preference with 15 percent of total animal protein consumption in Brazil. The Brazilian pork industry has invested heavily in a domestic marketing campaign to increase consumption of fresh pork cuts, mostly in the foodservice.

**Trade:**

Post forecasts pork exports to increase by 15 percent in 2020 due to the impact of the African Swine Fever (ASF) in China and other parts of the world. Brazil is currently facing a unique situation of supplying pork to the world without any major sanitary issues. Brazil has taken significant steps forward in the sanitary status of the swine industry, such as the recognition by the World Organization for Animal Health (OIE) of 17 states as free from Foot-and-Mouth Disease (FMD) with vaccination, and the state of Santa Catarina being free of FMD without vaccination. In addition, Brazil has not had any outbreak of major diseases, such as African Swine Fever (ASF), Classical Swine Fever (CSF), Porcine Epidemic Diarrhea (PED), or other critical illness.

China: Trade sources foresee a continued increase in pork exports to China/Hong Kong in 2020. During the first seven months of 2019, half of Brazil's exports were destined to these markets. The major concern of Brazilian packers is the approval of new plants to export to China. The Brazilian government expected these approvals earlier this year. This situation has prompted major packers in Brazil to invest in current plants eligible to export to China. According to trade sources, these new investments will increase the production capacity of these plants by 15 percent during 2019/2020.

Russia: Trade with Russia is also growing in importance after Russia reopened the market for Brazilian pork in November 2018. However, the market opened with a lower number of both beef and pork plants eligible to export than previously approved. Traders expect Russia to regain importance in Brazil's pork export mix, but at a lower volume than in previous years.

Other markets: 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 several 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. Trade sources continue to forecast a trend upward in these markets due to the quality and safety of Brazil's pork product and its price competitiveness, assuming less volatility in the exchange rate.



Export Trade Matrix			
Country			
Brazil			
Commodity			
Meat, Swine			
Time Period	Jan-Jul	Units:	Metric Tons
Exports for:	2018		2019
U.S.	1,931	U.S.	3,936
Others		Others	
Albania	3,772		2,344
Angola	13,689		12,193
Argentina	21,255		19,141
Armenia	1,730		1,106
Azerbaijan	361		511
Chile	17,254		26,433
China	89,220		115,723
Congo Dem. Rep.	2,433		3,032
Georgia	8,164		11,027
Hong Kong	72,379		66,065
Japan	920		2,387
Philippines	3,953		1,717
Puerto Rico	2,307		3,114
Russian Federation	136		27,730
Singapore	21,649		22,020
UAE	4,222		4,203
Uruguay	21,070		24,315
South Africa	3,295		2,429
South Korea	662		2,796
Vietnam	1,652		8,881
Total for Others	290,123		357,167
Others not Listed	10,092		8,186
Grand Total	302,146		369,289
HTS: 020311,020312,020319,020321,020322,020329, and 021011,021012,021019,160241,160242,160249			
Quantity in Product Weight Equivalent (PWE)			
Updated: August 16, 2019			