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Livestock and Products Annual

Uruguayan Livestock Report 2018

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Report Highlights:
Uruguay’s beef exports for 2019 are forecast at a four year low of 415,000 tons carcass weight equivalent due to reduced slaughter inventory and loss of competitiveness in global markets due to currency fluctuations. Live cattle exports are expected to decline as demand slows in a key market. Despite a forecast marginal drop in domestic consumption in 2019, beef imports are expected to reach a record 30,000 tons carcass weight equivalent due to favorable currency impact on prices of regional suppliers.

Commodities:

Meat, Beef and Veal

Production

Beef

The Uruguayan cattle herd in 2019 is expected to grow to 4.38 million cows, including roughly 330,000 dairy cows. For cow-calf operations, high prices from strong export demand has insured positive operational returns. After several years of favorable economic conditions, ranchers' investment in herd improvement, including in the areas of genetics, nutrition and management, has risen. Cattle in Uruguay are finished on both grass and grain for slaughter and live-export purposes. Despite high prices for fed cattle, last year's drought increased feed ingredient costs thus reducing profitability and growth opportunities for expanding contained feeding facilities. Feeding operations are primarily targeted at steers but heavy heifer numbers are increasing.

2019 Uruguayan beef production is forecast to drop by 40,000 tons carcass weight equivalent (cwe) from 2018 to a five-year low of 535,000 tons cwe. The strong upward trend in live cattle exports continues to reduce domestic slaughter inventory but heavier weight cattle may offset the overall volume decline. Fed cattle supply approximately 15 percent of Uruguay's total slaughter, with 80 percent of the meat destined for export, such as for the E.U.'s High-Quality Beef (481 quota) program and 20 percent for domestic consumption.

Uruguay had 36 meatpacking plants in 2018 with a processing capacity in excess of 3 million head. For 2019, the meat packing industry is expecting an 8-10 percent fall in slaughter, from 2018 as live cattle exports, which have increased by roughly 100,000 head per year since 2014, continue to divert supply. In addition to this challenge, a strong currency rate, high cattle prices (in dollar terms) and high processing costs cumulatively contribute to an erosion of profits, with some plants operating under negative returns. Furthermore, steep currency depreciations in neighboring competitors, Argentina and Brazil, undercut the competitiveness of Uruguayan prices in global markets, a sector where packers compete to sell, on average, 70-75 percent of their products. Current fed steer prices (in carcass) in dollar terms in the region are as follows: Argentina and Brazil USD 2.40 per kilo and Uruguay USD 3.44 per kilo. Uruguayan cattle, in dollar terms, are roughly 40 percent more expensive than those of Argentina and Brazil.

Foreign investment in Uruguay's slaughter facilities accounts for roughly 54 percent of total slaughter. Brazilian company, Marfrig, operates four plants that accounted for 22 percent of the total, with another Brazilian company, Minerva, operating three plants that accounted for 17 percent. A Japanese company, Nipponham, recently purchased the largest and most modern meat plant in Uruguay and a Chinese group, Holding Foresun Group, purchased two medium-size plants. Three large plants are owned (mostly) by Uruguayan entities with the rest being medium and small-scale plants.

Live Cattle for Export

Cattle for export are fed grain for at least 25 days during a required quarantine period with roughly 100,000 head coming to the feedlot from a grain-feeding backgrounder. Although ranchers find strong trade in live exports crucial to maintaining high local fed cattle prices, Uruguay's meat packing industry would prefer to retain more value-added slaughter domestically by limiting the number of cattle exported.

Domestic Consumption

Based on official sources, Uruguayan's total consumption of animal protein in 2017 was 100 kilos, one of the world's highest. Per capita consumption was 59 kilos of beef, 20 kilos of poultry, 18 kilos of pork, 3 kilos of lamb and mutton and 10 kilos of fish. Uruguayan beef consumption for 2019 is projected to fall marginally to 150,000 tons due to lower supplies and an expected economic slowdown. In addition, competition from lower-priced pork, with consumption showing a growth trend over the past few years and rising 25 percent by volume in the first 7 months over the same period last year, is also a factor.

More than 60 percent of the beef sold domestically is through small butcheries with the balance through supermarkets. The beef marketed comes primarily from the ribs of the carcasses used for export and from the slaughter of finished heifers that weigh 300-400 kilos. Short ribs and point of rump are the most popular cuts. Round cuts are also very popular.

Trade

Uruguay continues to be very effective at positioning its cattle/beef sectors as providing natural products, with an efficient traceability program (from cattle to retail) and high food-safety sanitary status. The World Organization for Animal Health (OIE) recognizes Uruguay as free of foot and mouth disease (FMD) with vaccination and with negligible risk to BSE.

Beef Product Exports

Uruguayan beef exports for 2019 are forecast at 415,000 tons cwe. A reduced slaughter inventory plus the strong price competitiveness of Argentina and Brazil beef products are expected to negatively affect Uruguay's beef shipments.

Nevertheless, most brokers expect that Uruguayan beef export destinations will not vary significantly in 2019. China will continue to be the main market in volume and value accounting for roughly 50 percent of all exports. China is expected to buy a large volume of frozen, boneless forequarter cuts of, primarily, cow meat. Exports of bone-in forequarter cuts have grown significantly (23 percent in the first 7 months of 2018) and are expected to continue this upward trend. The local feedlot sector is looking to expand exports of better quality, grain-fed beef to China to capture higher prices.

The European Union is also forecast to maintain its second-place ranking for beef exports (by volume annually 35,000-45,000 tons, product weight) and first place ranking, by value. Most shipments are boneless, chilled hindquarter cuts with an average FOB prices close to USD 10,000 per ton. Uruguay is also active in supplying product to the EU under a 6,300-ton Hilton Quota for high-value cuts and the HQB (481 Quota) for grain-fed beef. The Netherlands, Germany, Italy and Spain are top buyers.

The United States is another top export destination in 2019 for Uruguayan beef. In 2017, it was the third largest market with 40,200 tons, product weight. Exports to the United States fluctuate annually between 25-45,000 tons, product weight. Frozen, boneless beef accounts for the greatest volume, followed by smaller shipments of thermos-processed (primarily corned beef) beef and minor exports of chilled, boneless beef. The United States provides Uruguay with a 20,000-ton quota that exporters' target with niche, higher-value cuts, such as organic, natural and kosher beef. Uruguay also exports beef outside the quota, subject to a 26.4 percent import duty, which is primarily frozen trimmings of lean beef.

Israel is expected to remain a stable market for Uruguayan beef importing annually 20,000-25,000 tons, product weight, and buying almost exclusively frozen, boneless forequarter cuts. As of mid-2018, Israel began requiring slaughter plants worldwide to incorporate knock boxes to improve animal welfare. Most Uruguayan plants that export to Israel will have these mechanisms in operation by October 2018.

Other small, but important, markets include Brazil, which primarily buys frozen and chilled sirloin cap, one of the most popular cuts, and Canada with annual purchases of 10,000-20,000 tons of frozen, primarily boneless forequarter cuts and trimming. Uruguay exports small volumes of processed beef to Japan. Contacts indicate that bilateral negotiations for Uruguay's market access for fresh beef products continues and could conclude in several months. Brokers speculate that Japan represents a niche market for frozen, boneless trimmings.

The Russian Federation, Uruguay's number one market in 2012, is expected to continue to demand low volumes of Uruguayan beef in 2019. Since 2015, shipments have averaged 6,000 tons, product weight, per year of frozen, boneless trimmings. Most contacts expect that Brazil will regain eligibility to export to Russia in the late 2018/early 2019 which will add strong competition to Uruguayan exports in that market.

Live Cattle Exports

Industry sources report that exports of calves could drop to 300,000 head in 2019, 130,000 head less than in 2018. Turkey has accounted for 70-90 percent of total Uruguayan live cattle exports for several years, but with its recent currency depreciation, demand is expected to decline. Sources also forecast a price impact as well and, in fact, feeder cattle prices have recently dropped from $2.20 per live weight kilo to somewhat less than $1.95 per kilo with some sources expecting further reductions.

Imports

Beef imports are expected to continue to grow in 2019 and reach a record 30,000 tons cwe, accounting for almost 20 percent of the total domestic beef consumption and equivalent to importing roughly 120,000 head of cattle. Imports in the first 7 months of 2018 increased 300 percent, mainly due to the very competitive beef prices in regional suppliers. Through July 2018, more than 80 percent of imports were from Brazil and the balance from Paraguay. In August, and for the first time in a decade, Uruguay imported beef from Argentina consisting of a container with two tons of chilled round cuts. Imports are primarily chilled, vacuum-packed round cuts and tail of rump. Butchers indicate that the imported beef is of very good quality and it has been well accepted by local consumers. Imported beef is normally less expensive than Uruguay's export prices. Most beef imports are handled by two major Brazilian meatpacking groups (which operate plants in the four Mercosur countries) and a few local beef distributors.

Statistical Tables

Animal Numbers, Cattle	2017		2018		2019	
Market Begin Year	Jan 2017		Jan 2018		Jan 2019	
Uruguay	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post

Total Cattle Beg. Stks	11864	11864	11754	11744	0	11500
Dairy Cows Beg. Stocks	340	320	340	320	0	330
Beef Cows Beg. Stocks	4100	4000	4100	4000	0	4050
Production (Calf Crop)	2850	2850	2700	2750	0	2800
Total Imports	0	0	0	0	0	0
Total Supply	14714	14714	14454	14494	0	14300
Total Exports	320	330	310	430	0	300
Cow Slaughter	1120	1150	1070	1120	0	1000
Calf Slaughter	15	11	15	16	0	15
Other Slaughter	1205	1179	1185	1164	0	1085
Total Slaughter	2340	2340	2270	2300	0	2100
Loss	300	300	264	264	0	250
Ending Inventories	11754	11744	11610	11500	0	11650
Total Distribution	14714	14714	14454	14494	0	14300
(1000 HEAD)						

Meat, Beef and Veal	2017		2018		2019	
Market Begin Year	Jan 2017		Jan 2018		Jan 2019	
Uruguay	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	2340	2340	2270	2300	0	2100
Beginning Stocks	0	0	0	0	0	0
Production	593	594	570	575	0	535
Total Imports	7	7	10	20	0	30
Total Supply	600	601	580	595	0	565
Total Exports	435	436	420	440	0	415
Human Dom. Consumption	165	165	160	155	0	150
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	165	165	160	155	0	150
Ending Stocks	0	0	0	0	0	0
Total Distribution	600	601	580	595	0	565
(1000 HEAD) ,(1000 MT CWE)						