

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY  
USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT  
POLICY

Required Report - public distribution

**Date:** 2/27/2019

**GAIN Report Number:** BR 1904

## **Brazil**

### **Livestock and Products Semi-annual**

#### **2019 Semiannual Livestock**

**Approved By:**

Oliver Flake, Agricultural Counselor

**Prepared By:**

Joao F. Silva, Agricultural Specialist

**Report Highlights:**

Post forecasts beef production in 2019 at 10.2 million metric tons, which is an increase of 3 percent, mostly driven by strong exports to China and Hong Kong, and higher domestic demand. Post also forecasts pork production to increase by 4 percent and reach nearly 3.9 million metric tons, reflecting a rebound in exports, a moderate increase in domestic demand, and favorable feed costs in 2019. The expected growth of the Brazilian economy in 2019, with declining inflation and unemployment rates, support optimism in the animal protein sector in Brazil.

## **Executive Summary:**

Post maintains the previous forecast for beef production in 2019 at 10.2 million metric tons, which is an increase of 3 percent from last year driven by strong exports, mostly to China and Hong Kong, and higher domestic demand. Post revised our previous forecast for pork production to increase by 4 percent and reach 3.9 million metric tons, reflecting a rebound in exports, a moderate increase in domestic demand, and favorable feed costs in 2019. The expected growth of the Brazilian economy of 2.5 percent in 2019 with declining inflation and unemployment rates supports optimism in the animal protein sector in Brazil.

There are three “caveats” that could affect the overall outlook for beef and pork in 2019:

First, an agreement between the United States and China could push down the price of Brazilian soybeans and, thus reduce further the cost of inputs for the pork industry. In addition, traders are also concerned about competition from the U.S beef and pork exports to China if both countries reach an agreement.

Second, Brazil’s Ministry of Agriculture (MAPA) intentions to implement “self-monitoring” inspection procedures for the inspection of meat in Brazil, as currently described in various media accounts, could have adverse consequences for exports to several countries, including the United States. Such a major change would require importing countries to review Brazil’s export requirements to adapt the “equivalence system” in meat inspection.

Third, rumors that Brazil could move its embassy in Israel from Tel Aviv to Jerusalem, which could affect exports Brazilian animal protein to Middle-Eastern markets. Although this political issue could affect poultry exports the most, the impact on beef could also be critical, since Muslim markets import nearly 40 percent of all Brazilian beef.

## Commodities: Animal Numbers, Cattle

Animal Numbers, Cattle Market Begin Year Brazil	2017		2018		2019	
	Jan 2017		Jan 2018		Jan 2019	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
<b>Total Cattle Beg. Stks</b>	226045	226045	232350	232350	238150	238158
<b>Dairy Cows Beg. Stocks</b>	39685	39685	41250	41820	42250	43105
<b>Beef Cows Beg. Stocks</b>	55850	55850	56500	58080	58000	59775
<b>Production (Calf Crop)</b>	48735	48735	49500	49500	50700	50490
<b>Total Imports</b>	0	0	0	0	0	0
<b>Total Supply</b>	274780	274780	281850	281850	288850	288648
<b>Total Exports</b>	407	407	850	790	900	1000
<b>Cow Slaughter</b>	9500	9500	9700	9600	10250	9500
<b>Calf Slaughter</b>	300	300	300	300	300	300
<b>Other Slaughter</b>	28923	28923	29505	29702	30185	30990
<b>Total Slaughter</b>	38723	38723	39505	39602	40735	40790
<b>Loss</b>	3300	3300	3345	3300	3315	3300
<b>Ending Inventories</b>	232350	232350	238150	238158	243900	243558
<b>Total Distribution</b>	274780	274780	281850	281850	288850	288648
(1000 HEAD)						

Note: Not Official USDA Data.

### Production:

Post forecasts calf crop production in 2019 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, and crossbreeding programs using imported cattle genetics. The weather pattern in 2019 calls for more precipitation benefiting pastures in the Midwest and northern regions, which account for more than 40 percent of the cattle production in Brazil. This is an important production factor for Brazil's grass fed cattle. The volatility of the exchange rate is a concern for cattle producers, which could affect imports of genetic materials and other imported inputs, such as vaccines.

### Prices

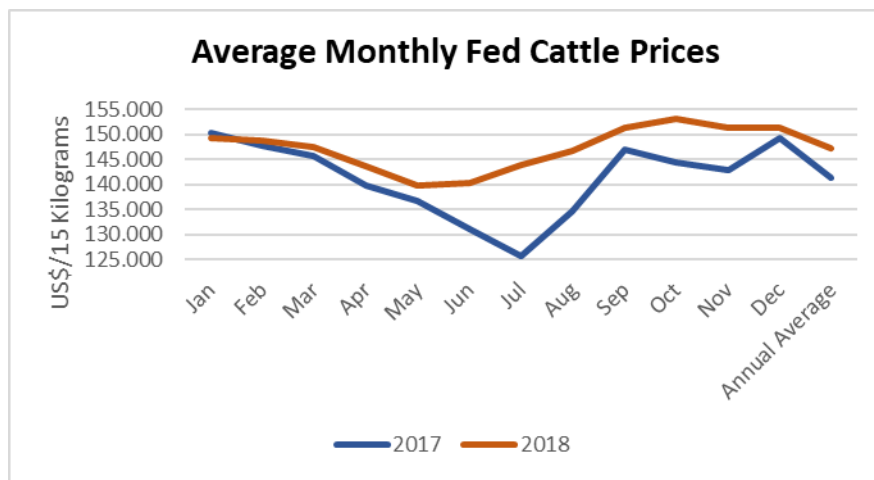
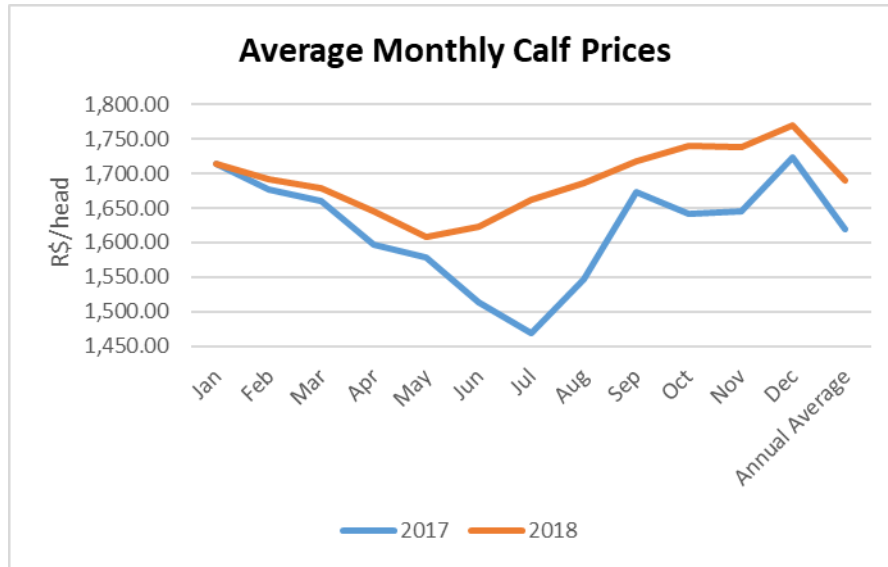
The outlook for cattle prices in 2019 calls for a small increase in the price of fed cattle supported by higher beef exports and firm domestic demand. In addition, the increase in cow culling in the second half of last year will likely contribute to higher cattle prices, combined with increased costs for feedlots in the first half of the year. In 2018, there was a small increase in the fed cattle/calf ratio.

### Cattle Profitability Measure

Description	2017	2018
How many calves (Nelore breed 8 to 12 months) can be purchased with the sale of fed cattle weighing 16.5 "arrobas"?	1.85	1.87*

\* In 2018, 1.87 calves could be purchased with the sale of one head ready for slaughter

Note: In Brazil, fed cattle is sold by "arroba", a measure equivalent to 15 kilograms (33 pounds). Source: CEPEA



**Trade**

Imports: Brazil is not a significant importer of live cattle, but is a major importer of beef cattle genetics and the United States is a traditional supplier of cattle semen to Brazil. However, in 2018, imports of semen from the United States dropped by 54 percent, while imports from Canada increased by 34 percent. The average market share of the United States in the Brazilian semen market dropped from 81 percent in 2017 to 48 percent last year, while Canada’s market share increased from 13 percent in 2017 to 22 percent in 2018. Traders expect cattle semen imports to increase in 2019, due to the availability of government funds at subsidized interest rates for the cattle genetic improvement program, but the volatility of the exchange rate could become a constraint.

Exports: Post revised the forecast for cattle exports to increase by over 25 percent in 2019, and set an-all time record of one million head. According to Brazilian cattle exporters, the increased exports are due mostly to higher shipments to Turkey and Egypt, and new exports to Iran. 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**

Meat, Beef and Veal Market Begin Year	2017		2018		2019	
	Jan 2017		Jan 2018		Jan 2019	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	38723	38723	39505	39602	40735	40790
Beginning Stocks	0	0	0	0	0	0

<b>Production</b>	9550	9550	9900	9900	10200	10200
<b>Total Imports</b>	56	56	50	48	45	45
<b>Total Supply</b>	9606	9606	9950	9948	10245	10245
<b>Total Exports</b>	1856	1856	2100	2083	2200	2210
<b>Human Dom. Consumption</b>	7750	7750	7850	7865	8045	8035
<b>Other Use, Losses</b>	0	0	0	0	0	0
<b>Total Dom. Consumption</b>	7750	7750	7850	7865	8045	8035
<b>Ending Stocks</b>	0	0	0	0	0	0
<b>Total Distribution</b>	9606	9606	9950	9948	10245	10245
(1000 HEAD) ,(1000 MT CWE)						

*Note: Not Official USDA Data.*

### **Production:**

Post maintains unchanged the current forecast for beef production in 2019 to increase by 3 percent and reach 10.2 million metric tons (MT/CWE). Higher exports and increased domestic demand support our projected increase in beef production. Post also estimates an increase in carcass weights due to long-term programs aimed at improving the efficiency of the livestock sector in Brazil.

### **Consumption:**

Post estimates domestic beef consumption to continue to trend upward in 2019 and reach 8 million metric tons (MT/CWE). Most market analysts project that economic growth and lower inflation will lead to an increase in income and thus fuel growth in consumption. The animal protein sector is likely to benefit from this new trend after two years of slow economic growth and a high unemployment rate.

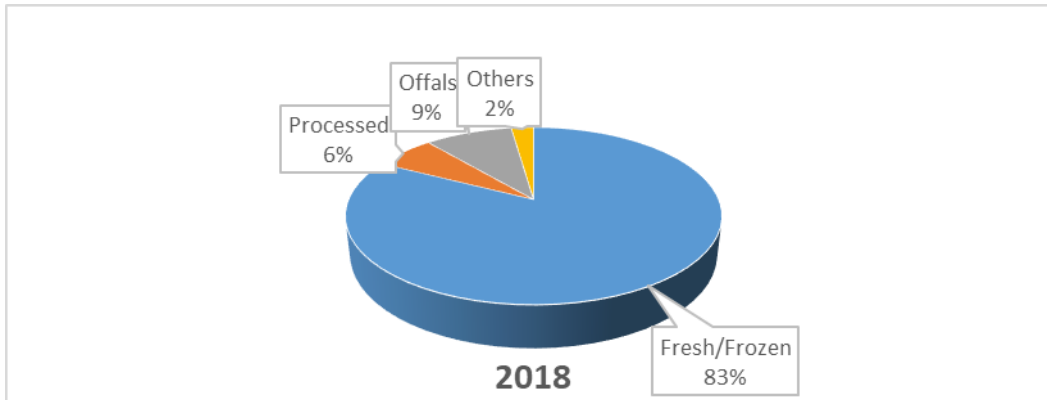
### **Trade:**

Post maintains unchanged the forecast for beef exports in 2019 to increase at a rate around 6 percent to another record of 2.2 million metric tons (CWE), driven by higher demand from Asia (mostly China and Hong Kong), and from Egypt and Chile. These four countries accounted for 61 percent of all beef exports from Brazil in 2018. Growth in these markets helped to offset the losses in the Russian market. With the reopening of the Russian market, local exporters believe that beef exports in 2019 will set another record in volume. Another record in value is also likely in 2019, because of higher world beef prices due to recent floods in Australia. Expectations are that export of Brazilian beef prices will remain competitive in 2019.

Local traders are also 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.

About 83 percent of record beef exports in 2018 were fresh/frozen beef with 9 percent variety meats (offal's), 6 percent processed beef, and 3 percent others (salted and tripe).

### **Brazilian Beef Exports by Type**



The following is a brief summary of the outlook for Brazil’s top markets in 2019:

**China/Hong Kong:** Trade sources are optimistic that beef exports will continue to increase in 2019 to these important markets after a significant increase in the number of beef plants authorized to export to China. Both markets combined accounted for nearly 44 percent of all Brazilian beef exports in 2018, including variety meats.

**Egypt and Chile:** According to trade sources, Brazilian beef is competitive in these markets and exports will likely continue to expand in 2019. Both countries accounted for 12 percent of all beef exports from Brazil.

**Russia:** Despite the small number of slaughter plants eligible to export beef to Russia, local traders are optimistic regarding resumption of beef exports to Russia.

**United States:** Brazil remains banned from exporting fresh beef to the United States, but exports of processed beef are likely to rebound in 2019.

**Other markets:** The Brazilian government strategy is focused on market access in several countries, including South Africa, Iraq, Iran, Malaysia, Myanmar and Singapore. In these countries, the strategy is to maintain and/or increase the number of Brazilian plants authorized to export. Other negotiations to open market access for Brazilian beef are concentrated in Thailand and Taiwan. However, the most important negotiation is to open the market for Brazilian beef in Indonesia.

Commodity			
Meat, Beef and Veal			
Time Period	Jan-Dec	Units:	Metric Tons
Imports for:	2017		2018
U.S.	413		1,240
Others			
Argentina	6,834		8,082
Australia	1,572		1,670

Paraguay	21,411		14,925
Uruguay	10,068		8,605
Total for Others	39,885		33,282
Others not Listed	12		0
Grand Total	40,310		34,522
HTS: 0201,0202,021020,160250			
Quantity in Product Weight Equivalent (PWE)			
Updated February 20, 2019			

Export Trade Matrix			
Country			
Brazil			
Commodity			
Meat, Beef and Veal			
Time Period	Jan-Dec	Units:	Metric Tons
	2017		2018
U.S.	37,573		31,488
Others			



Angola	14,242		8,448
Algeria	10,212		15,944
Canada	2,213		4,442
China	211,247		322,297
Chile	64,673		114,936
Egypt	147,383		173,393
European Union	98,695		108,168
Hong Kong	251,021		281,426
Iran	133,193		84,045
Iraq	1,934		6,043
Israel	18,153		17,709
Lebanon	13,016		18,550
Libya	3,251		6,287
Jordan	12,394		18,408
Palestine	6,029		7,396
Philippines	9,743		27,262
Russian Federation	138,000		3,650
Saudi Arabia	41,642		42,273
Singapore	18,022		17,968
UAE	21,665		36,610
Venezuela	978		0
Total for Others	1,217,706		1,315,255
Others not Listed	44,619		111,870
Grand Total	1,299,898		1,458,613
HTS:0201,0202,021020,160250			
Quantity in Product Weight Equivalent (PWE)			
Updated: February 20, 2019			

**Commodities: Animal Numbers, Swine**

Animal Numbers, Swine Market Begin Year	2017		2018		2019	
	Jan 2017		Jan 2018		Jan 2019	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Beginning Stocks	39215	39215	38829	38829	38235	38427
Sow Beginning Stocks	2945	2945	2948	2950	2950	2955
Production (Pig Crop)	40230	40230	40000	40954	40400	42183
Total Imports	1	1	1	1	2	2
Total Supply	79446	79446	78830	79784	78637	80612
Total Exports	5	5	6	7	6	6
Sow Slaughter	160	160	160	160	150	150
Other Slaughter	39290	39292	39140	39990	39725	41390

<b>Total Slaughter</b>	39450	39452	39300	40150	39875	41540
<b>Loss</b>	1162	1160	1289	1200	1206	1200
<b>Ending Inventories</b>	38829	38829	38235	38427	37550	37866
<b>Total Distribution</b>	79446	79446	78830	79784	78637	80612
(1000 HEAD)						

Note: Not Official USDA Data.

### Production:

Post revised the forecast for the pig crop upwards to increase by three percent in 2019 supported mostly by a rebound in pork exports and a moderate increase in domestic demand.

### Production Factors

The cost of hog production (by kilogram, live weight) increased by 9.85 percent during Jan-Dec 2018, influenced mostly by an increase in nutrition costs, which accounts for 78 percent of the cost of hog production. According to the Brazilian Agricultural Research Company (EMRAPA), the outlook in the near future is for a moderate increase in the cost of production, due in part to a small decline in Brazil's 2019 grain and soybean crops. Large packers are importing corn from nearby Argentina to avoid any hike in the price of feed.

Month	Hog Live Weight (R\$/kg)		Corn (R\$/Kg)		Soybean Meal (R\$/kg)		Cost of Production (R\$/Kg)	
	2017	2018	2017	2018	2017	2018	2017	2018
Jan	3.38	3.32	0.69	0.59	1.18	1.20	3.70	3.49
Feb	3.52	3.15	0.59	0.59	1.21	1.26	3.52	3.63
Mar	3.65	3.08	0.53	0.56	1.15	1.45	3.37	3.89
Apr	3.59	3.06	0.51	0.69	1.07	1.48	3.26	3.96
May	3.49	3.06	0.50	0.69	1.12	1.58	3.24	4.07
Jun	3.37	3.08	0.49	0.72	1.14	1.68	3.23	4.17
Jul	3.22	3.06	0.45	0.70	1.15	1.63	3.16	4.10

Aug	3.30	3.06	0.47	0.70	1.14	1.60	3.18	4.06
Sep	3.32	3.06	0.53	0.72	1.16	1.59	3.33	4.08
Oct	3.35	3.06	0.57	0.68	1.16	1.53	3.41	3.97
Nov	3.32	3.08	0.58	0.65	1.20	1.49	3.48	3.89
Dec	3.32	3.09	0.58	0.64	1.22	1.49	3.49	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 in 2018: US\$1.00 = R\$3.65 and R\$3.19 in 2017.

Source: EMBRAPA

## Commodities: Meat, Swine

Meat, Swine Market Begin Year	2017		2018		2019	
	Jan 2017		Jan 2018		Jan 2019	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Brazil						
Slaughter (Reference)	39450	39452	39300	40150	39875	41540
Beginning Stocks	0	0	0	0	0	0
Production	3725	3725	3675	3763	3775	3915
Total Imports	2	2	2	2	2	2
Total Supply	3727	3727	3677	3765	3777	3917
Total Exports	786	786	685	730	735	805
Human Dom. Consumption	2941	2941	2992	3035	3042	3112
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	2941	2941	2992	3035	3042	3112
Ending Stocks	0	0	0	0	0	0
Total Distribution	3727	3727	3677	3765	3777	3917

--	--	--	--	--	--	--

(1000 HEAD) ,(1000 MT CWE)

*Note: Not Official USDA Data.*

**Production:**

Post revised upwards pork production in 2019 from the previous forecast of 3.8 to 3.9 million metric tons. The change reflects new expectations of producers and exporters with bumper exports of pork in 2019 and a continued increase in domestic demand this year, although at a slower pace than last year.

**Consumption:**

Domestic consumption of pork is likely to moderately increase in 2019 and reach nearly 3.1 million metric tons (MT/CWE) based on the assumption that the Brazilian economy will increase by two and half percent in 2019. Additionally, producers will likely be able to maintain feed costs under control thus making retail prices of pork competitive with beef.

In addition to the poor economic performance of the past two years, the high rate of unemployment, and stagnant consumer income, another constraint to increased pork consumption in Brazil is the pork product breakdown. Roughly 70 percent of consumption is in the form of processed meats, which is more expensive, and consequently, less competitive compared to beef and chicken.

**Trade:**

Post forecasts pork exports to increase by 5 percent in 2019 supported by firm exports to China/Hong Kong. In 2018, Brazilian market share increased significantly in these two countries, which helped to offset part of the losses due to the closure of Russia last year. Local trade sources are confident that exports of pork will increase by 10 percent in 2019 to these markets, assuming that China continues to face problems with the outbreak of African swine fever.

Russia reopened the market for Brazilian pork in November 2018, but with a lower number of both beef and pork plants eligible to export to that market. Before the ban in 2017, there were 48 plants eligible to export to Russia, of which 18 plants for the export of pork and 30 plants to export beef. Currently there are only nine plants with no restrictions to export beef and pork to Russia, of which six plants can export pork and pork products. Despite the reduced number of plants, pork exporters are optimistic about the return of the Russian market. Russia's veterinary authorities reported a case of classical swine fever (CSF) to the World Organization for Animal Health (OIE), on Feb 25, 2019.

Trade sources continue to forecast a trend upward in exports to Angola, Japan, Mexico and Singapore next year as Brazilian product is 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 could reach 35,000 metric tons per year. Brazil also opened the market for pork in South Africa.

Export Trade Matrix			
Country			
Brazil			
Commodity			
Meat, Swine			
Time Period	Jan-Dec	Units:	Metric Tons
Exports for:	2017		2018
U.S.	3,681		4,760
Others			
Albania	3,528		7,004
Angola	22,591		26,629
Argentina	32,403		38,748
Armenia	3,298		3,474
Azerbaijan	906		591
Chile	23,414		34,543

China	48,914		155,925
Congo Dem. Rep.	3,908		4,998
Georgia	10,544		17,951
Hong Kong	103,607		115,531
Japan	1,725		1,741
Moldova	1077		2,265
Philippines	953		9,274
Puerto Rico	3250		4,364
Russian Federation	252,430		6,660
Singapore	31,917		43,869
UAE	6,533		7,191
Uruguay	30,490		35,228
South Africa	2,990		7,061
South Korea	267		1,546
Vietnam	375		7,416
Total for Others	585,120		532,009
Others not Listed	15,742		24,522
Grand Total	604,543		561,291

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

Quantity in Product Weight Equivalent (PWE)

Updated: February 22, 2019