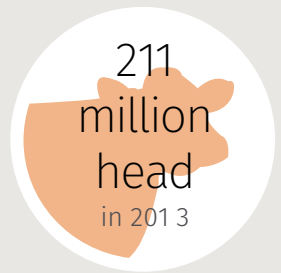


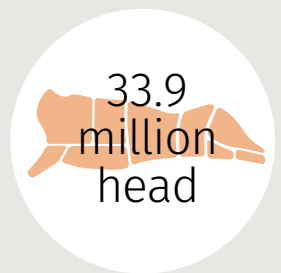


# supplier snapshot

cattle herd



cattle slaughter



production (beef)



beef exports



## BRAZIL



## BEEF

### Market overview

- **Brazil has the second largest cattle herd in the world** (only behind India), with approximately 211 million head (2013, Brazilian Institute of Geography and Statistics - IBGE).
- **A phase of cattle herd rebuilding is imminent for Brazil**, with female cattle slaughter registering a decline for the first time in three years.
- Brazilian beef production declined slightly in 2014, driven by tight supplies and record cattle prices. **In 2015, slaughter and beef production remains subdued and is expected to end the year with a further decline.**
- Similarly, beef exports have also recently been subdued, with declines in shipments to their major markets of Russia and Venezuela.
- **A recovery in Brazilian beef production is expected for 2016 and a further increase forecast over the long term.** The forecast is driven by high international demand, improved genetics, increased availability of cattle ready for slaughter, and improved feeding regimes.
- Likewise, **the feedlot sector will continue to develop**, accounting for 11% of total slaughter in 2014 to an expected 20% by 2024.
- As domestic consumption, which accounts for approximately 80% of production, is expected to remain stagnant due to the weak economy, **exports are set to recover in 2016 and continue increasing over the long term.** The forecast is underpinned by Real devaluation and higher demand from Asia.





The  
**Brazilian Real**  
has depreciated  
significantly against the  
USD, recently dropping  
to its lowest  
value since  
**1994**



Brazilian Real vs USD



Source: Cepea/Esalq

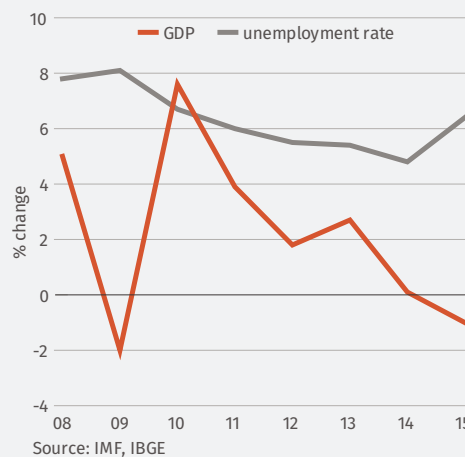
According to the United States Agriculture Department (USDA), the Brazilian cattle herd is expected to reach 219 million head in 2016. The expansion will be supported by higher investments in productivity, pasture improvements and genetic gains.

## Economy

### lower than expected growth

➔ **Brazil's economic growth has decelerated in recent years.** The impulse from decade-old reforms, expanding labour income, and favourable external conditions, which enabled consumption and credit-led growth, has lost momentum (International Monetary Fund – IMF). Furthermore, led by weak investment and confidence, economic growth came to a virtual halt in 2014 (0.1%), after slowing markedly in mid-2013.

GDP growth and unemployment rate



Source: IMF, IBGE

➔ **Consumer expenditure has moderated,** as job creation has halted and financial conditions have tightened household income and consumer confidence, which is now below levels seen during the global financial crisis.

➔ Economic activity will remain subdued in the near term. According to IMF projections, **Brazil's GDP is estimated to contract 1% in 2015,** with private consumption forecast to remain flat throughout the year, reflecting tight financial conditions and rise in unemployment.

## Cattle herd

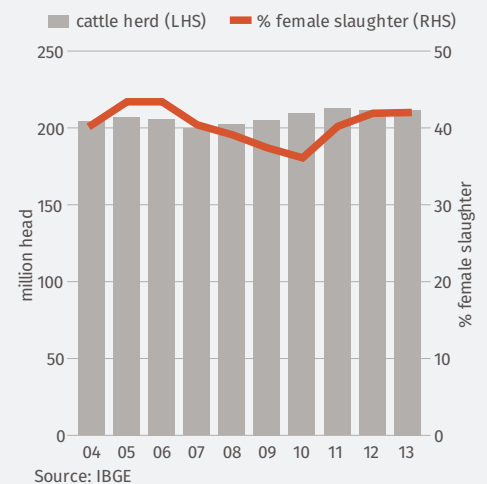
➔ Brazil has the second largest cattle herd in the world (only behind India), with approximately 211 million head (2013, IBGE). The herd mostly comprises of Bos Indicus (e.g: Nelore, Brahman) cattle, which accounts for approximately 85% of the total herd.

➔ After the herd declined in the second half of the 2000's, mostly driven by low cattle prices and farm profits, and a high Real against major currencies, the Brazilian cattle herd went through a rebuilding phase from 2008 to 2011.

➔ However, reflecting the unfavourable pasture conditions and rising female cattle slaughter from 2010, the Brazilian cattle herd declined during 2012 and 2013.

➔ The high number of cattle slaughtered in 2014 and the persistent lack of rain in major beef producing regions is expected to result in a smaller herd by the end of 2015.

### Cattle herd and female slaughter



Source: IBGE

➔ Nevertheless, the latest trends indicate a very likely phase of herd rebuilding ahead, as cattle slaughter has declined, with female cattle slaughter registering the first year-on-year decline in three years.

➔ Cattle prices were at record levels throughout 2014, which continued into 2015, while at the same time producers retained more cows led by the high calf prices.

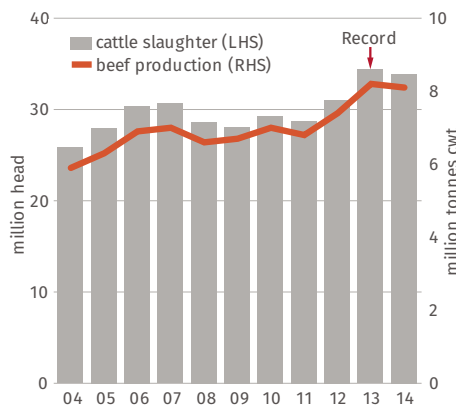


# Slaughter and beef production

➔ According to the Brazilian Institute of Geography and Statistics (IBGE), Brazilian cattle slaughter in 2014 was 33.9 million head, down 1.5% on a record year. Female slaughter declined slightly, accounting for 41.8% of the total.

➔ Beef production also decreased 1.3% year-on-year, to 8.06 million cwt, as a result of the lower number of slaughtered cattle. Offsetting a larger production decline was a slight increase in average carcass weights (up 0.5 kg) to 237.8 kg/head, mostly attributed to the higher proportion of males slaughtered.

Cattle slaughter and beef production



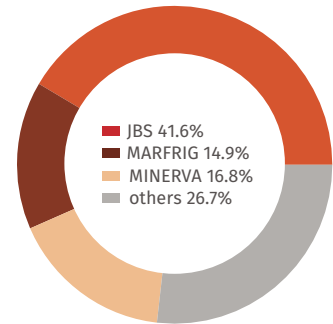
Source: IBGE

➔ Brazil has three major beef processors, JBS, Marfrig and Minerva, which combined account for 74% of cattle slaughter under SIF (Brazilian Federal Inspection Service). The remaining 26% is represented by second-tier players, mainly national companies that operate locally and export.

➔ Brazilian production systems are dominated by extensive models aimed at minimizing costs. This has however started to change with rising investments in pasture improvement on smaller holdings. Larger producers have also invested in nutrition and genetics to raise productivity (GIRA).

➔ Furthermore, nutrient supplement feeding for cattle on pasture is expanding, with the lower cost of implementation a key advantage for Brazilian producers over Australian. This may improve product quality, animal performance and represents a lower financial risk when compared to lotfeeding.

Market share - major beef slaughter players



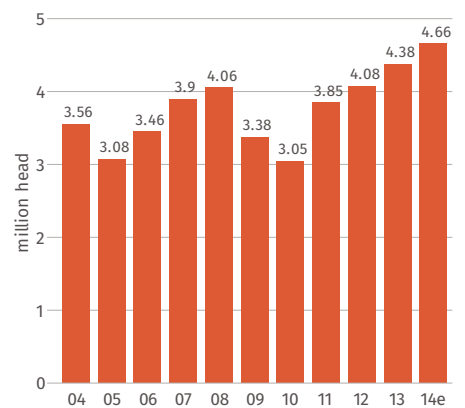
Source: FNP Economics

➔ Also influencing the beef industry is the increasing use of artificial insemination. The numbers of artificial insemination straws sold has increased considerably, from 3.9 million in 2009 to 7.5 million in 2013, with the greatest growth in the number of Angus straws. Most crosses are between Angus and Nelore cattle, maintaining the heat, disease and insect resistance of the Nelore breed, whilst improving the animal performance and quality with the Angus genetics.

➔ The focus on improving genetics (cattle performance and quality) has been largely driven by the major processors (particularly those with strong export business), which are increasingly working with quality management schemes. Processors are paying a premium price for certain animals (young, high weights, good fat cover) and using carcass grading as part of their reward system.

➔ The number of cattle in Brazilian feedlots has increased considerably in the past five years, from 3 million head in 2010 to an estimated 4.66 million head in 2014, up 56% for the period. The main feedlots are located at Goiás, São Paulo, Mato Grosso, Mato Grosso do Sul, Minas Gerais and Paraná states (major beef producing regions in Brazil).

Number of cattle finished on feedlot



Source: ASSOCON / GIRA

e = estimate

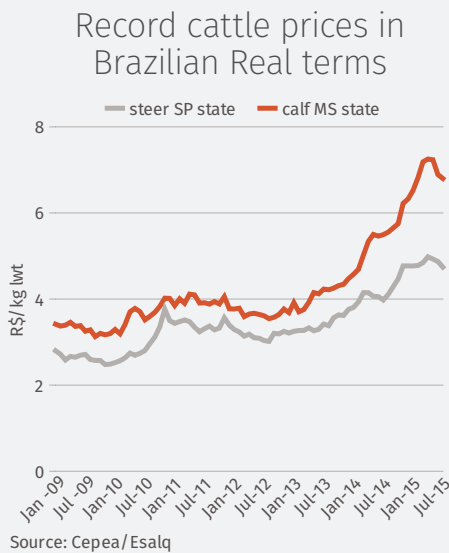
Around 10% of the Brazilian cattle herd currently has access to feed whilst on pasture, and is forecast to expand rapidly, reaching more than 15% in 2019.



Approximately 11% of finished cattle originated from feedlots in 2014, up from 7.8% in 2010. This percentage is forecast to increase with sustained investment, and expected to account for 20% in 2024.

# Brazilian cattle prices

➔ In Real terms, Brazilian live cattle price have consistently increased since 2009, recently hitting all-time records as a result of tightening supplies and high global beef prices. Steer prices in Real terms during August 2015 were 69% higher than in January 2009, however when compared in US\$ terms this drops to only 11%, as a consequence of the Real devaluation against the US\$.



➔ From the lows of early 2009, Brazil and Australian cattle prices (in US\$ terms) increased as a result of the appreciating local currencies and rising domestic prices. However, since mid-2011, Brazil and Australia lost ground in US\$ terms.

➔ Interestingly, when comparing in local currencies, Brazil and Australian cattle prices have mixed trends. While Brazil steer prices, in Real terms, reached all time-highs in 2014, Australia trade steer prices reached their five-year low in 2013 and early 2014. Nonetheless, Australian trade steer prices started to recover in mid-2014 and continued to increase in 2015, underpinned by strong demand from the key export destinations of Japan, Korea, the US and China and a weakening A\$.

➔ In contrast to 2014, the reduced number of finished Brazilian cattle has been the major reason for the persistent high cattle prices in 2015.

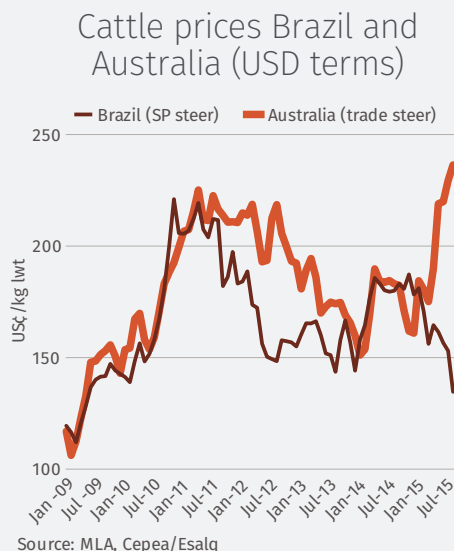
➔ Brazilian cattle prices continue to increase during the first half of 2015, with the São Paulo state steer indicator at record levels, averaging R4.86 kg/lwt (approximately US\$ 1.63 kg/lwt), an increase of 21% year-on-year in Real terms.

➔ Although Brazilian cattle prices have eased in recent months, it is expected to remain higher year-on-year.

## Beef prices

➔ Underpinned by high cattle prices and steady domestic demand, Brazilian wholesale beef prices have also increased considerably, with hindquarter hitting a record value in January 2015. Brazilian consumers typically prefer quality hind cuts for grills, however there has been increased demand in the past few years for minced meat and burgers, mostly due to the rise of the QSR (quick service restaurant) sector and retail sales of value added products.

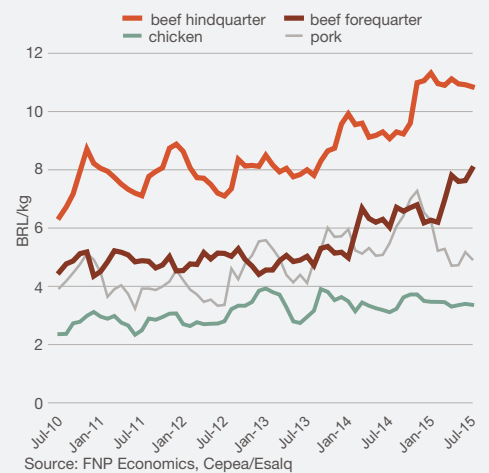
➔ According to IPCA/IBGE (Consumer Price Index – Brazilian inflation official indicator), in 2014 all beef cuts prices paid by consumers soared above the general inflation rate with blade and sirloin up 31% and 21%, respectively.



➔ During the first half of 2015, almost all beef cut prices continued to surge, with forequarter cuts registering the highest increase. The rise in forequarter cuts reflects lower consumer confidence, weak economy and therefore a higher demand for secondary cuts.

➔ High beef prices have also led Brazilian consumers to switch to cheaper proteins sources, like chicken and pork. Therefore, the expected increase in beef production from 2016 onwards, combined with the forecast weak economy is likely to result in a rise in exports.

## Brazilian wholesale meat prices (Brazilian Real terms)



# Beef exports

## Frozen and chilled

➔ The Real depreciation in 2014 (down 9% year-on-year, averaging 0.42 US¢), combined with strong demand from Russia, Hong Kong, Venezuela and Egypt helped Brazil register the highest annual beef shipments since 2007, at 1.22 million tonnes swt (up 4% on the previous year).

➔ Frozen (bone out) beef is the main product exported from Brazil, representing 87% of exports in 2014. A large portion is frozen forequarter, with particularly strong demand from Russia, which has been the major destination for Brazilian beef since 2005. Likewise, shipments to Hong Kong, Venezuela and Egypt mostly comprise of frozen (bone out) beef.

➔ Although fresh beef shipments only represent a small share of total exports, it has grown over the 2009 to 2013 period. Chile is the main market for Brazilian chilled product, followed by the EU and some countries in the Middle East (Algeria, Lebanon, Jordan).

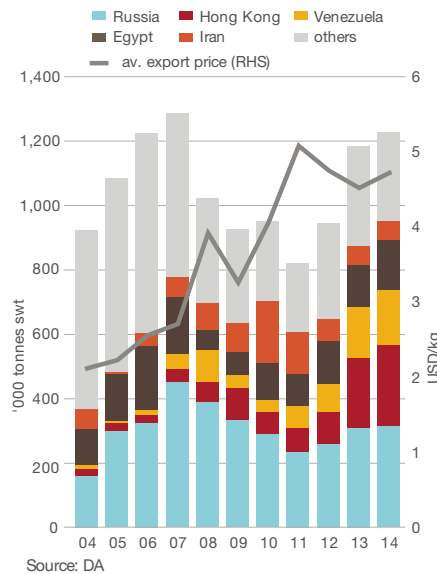
➔ In 2014, there was a decline in fresh (bone out) exports, as a result of lower shipments to Chile. This was mostly due to an increase in Paraguayan market share in Chile.

➔ Brazilian beef export values hit record highs in 2014, at US\$5.8 million, an increase of 8% on the previous year. Similar to Australia, the EU is the highest value export market on a per tonne basis, with shipments averaging US\$ 8,610/tonne last year (Australia averaged \$9,540/tonne).

➔ Overall, 2014 export prices have increased across all product categories (fresh, processed, frozen and offal), with average exports price up 4.4% on the previous year, at US\$ 4.72 kg/swt.

➔ Despite the substantial Real depreciation during the first half of 2015 (down 23% year-on-year, averaging 33US¢), the strong reliance on markets like Russia and Venezuela (which represented 40% of total beef exports in 2014) and the tight availability of finished cattle, beef shipments declined 18% over the first half of 2015 (in comparison to the same period in 2014) to 490,794 tonnes swt.

## Brazilian beef exports



## Offal

➔ Beef offal exports have grown very quickly over the past five years, from 74,861 tonnes swt in 2010 to 118,729 tonnes in 2014.

➔ However, reflecting the decline in cattle slaughter, offal exports during the first half of 2015 declined 15% year-on-year, to 50,850 tonnes swt.

➔ Hong Kong is the major market and accounted for 71% of total exports in 2014. Egypt is also an important destination for Brazilian beef offal, particularly for bovine liver.

➔ Furthermore, Brazil has become the largest beef offal supplier to Cote d'Ivoire, surpassing France and volumes are forecast to increase.

## Live cattle exports

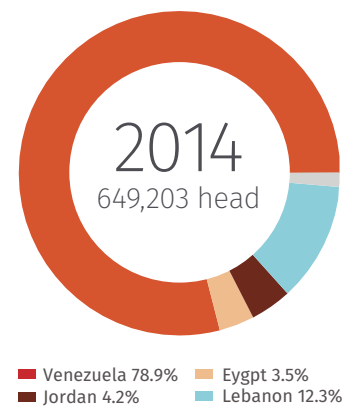
➔ In 2014, Brazilian live cattle exports were 649,203 head, down 6% on the previous year (MDIC/Secex). The decline was driven by the high cattle prices throughout the year, combined with lower shipments to Lebanon and Jordan.

➔ Despite the reduction in shipments, live cattle exports to Venezuela were high, up 6.5%, to 512,358 head – remaining the primary destination and accounting for 79% of total exports. Shipments to Egypt were up 19% year-on-year, to 22,999 head.

➔ In 2014, 96% of live cattle were exported from a major port in the state of Para.

➔ In line with the continued high cattle prices in 2015 and the strong reliance on Venezuela, live cattle shipments during the first half of 2015 declined 69% year-on-year, to 127,043 head, due mostly to weak demand from Venezuela, Lebanon and Egypt.

## Brazilian live cattle exports



Source: Secex



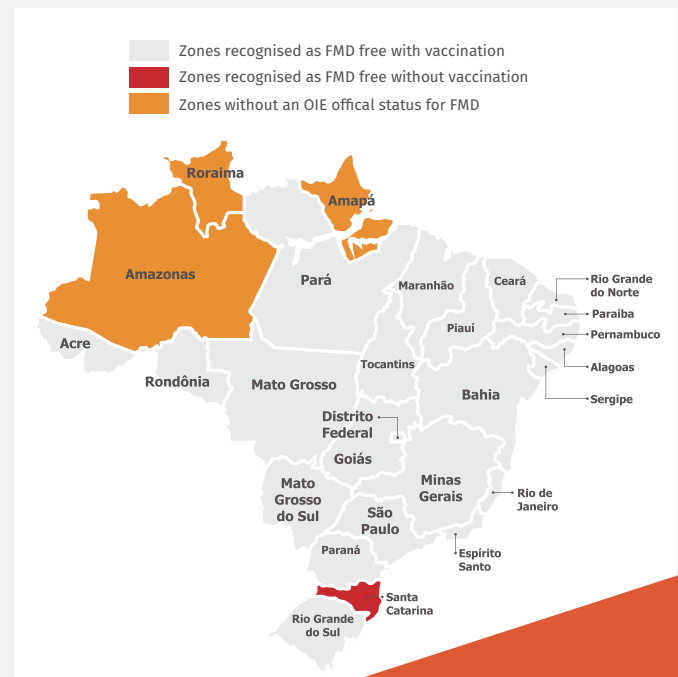
## Market Access

- The atypical BSE (bovine spongiform encephalopathy) case registered in Brazil in December 2012 didn't affect Brazil's risk status, and hence remains recognized by OIE (World Organisation for Animal Health) as a BSE negligible risk country.
- Brazil currently has no access to supply beef or live cattle to Australia's key beef or live export markets such as Japan, Korea and Indonesia, however, Brazil is reported approaching such markets to gain access in the future.
- After a three-year embargo on Brazilian beef due to the atypical BSE case registered in December 2012, China lifted the ban in May 2015. Nevertheless, Brazil is restricted by the number of beef plants approved to supply the market, with eleven plants currently approved.
- The US has recently approved fresh beef imports from Brazil, after negotiations dating back to 1999. Brazil has no specific quota and in order to avoid the out-of-quota tariff (26.5%) will share access under the "other countries" quota of 64,805 tonnes /year. However, every Brazilian beef plant will have to go through US evaluation on sanitary and safety issues, with the US senate and parliament requesting further evaluation on the risks of purchasing fresh beef from Brazil, which is likely to postpone the entry in the US market.
- After a new international sanitary certification was agreed and signed by both governments, Saudi Arabia has lifted the ban on Brazilian beef in early November 2015. With the end of the embargo, the Brazilian Agriculture Ministry suggests that Brazil has the potential to ship around 50,000 beef tonnes per year, valued at US\$170 million.

The Brazilian System of Identification and Certification of Bovine and Buffaloes (SISBOV) is only used by a small number of farms, mostly certified to export to the EU and it is not mandatory.

## Foot-and-Mouth disease (FMD)

- The last FMD case registered in Brazil was in 2006 in Mato Grosso state.
- Santa Catarina is the only state FMD free without vaccination.
- In May 2014, eight regions were incorporated as FMD free with vaccination (Alagoas, Ceará, Maranhão, Paraíba, Pernambuco, Piauí, Rio Grande do Norte and north region of Pará states).
- Currently, 99% of the Brazilian cattle herd is located in areas classified as FMD-free with vaccination, and represents 77% of the national territory.
- In recent years, the Brazilian government has invested highly in a restructuring program to eradicate FMD and since 2008 has intensified sanitary surveillance and actions in the northern regions.



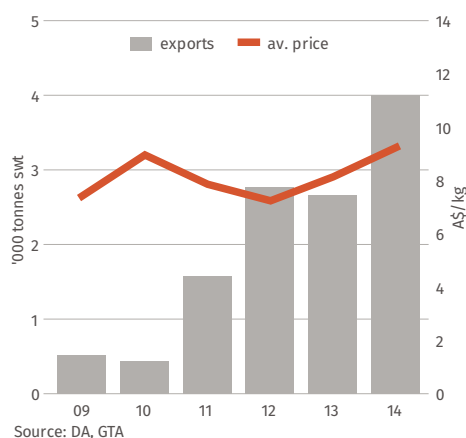
The Brazilian government aims to have the entire country Foot-and-Mouth disease free with vaccination by May 2016.



## Aussie beef exports to Brazil

- ➔ Australian beef and veal exports to Brazil have surged in recent years, increasing from 456 tonnes swt in 2010 to 4,005 tonnes swt in 2014, and valued at \$36 million in 2014. Shipments primarily comprise of frozen rump, of which rump cap represents 70%, and is mostly used in high-end foodservice.
- ➔ A large share of higher quality beef produced in Brazil is reportedly consumed in the local market, suggesting strong demand, primarily from the upper and middle classes. This has continued through 2015 despite the weak economy.

### Aussie beef exports to Brazil



## What next?

### ....for 2015 & 2016

- ➔ Brazilian cattle prices are at record levels in 2015, driven by the continued tight availability of cattle ready to slaughter. Although prices have eased recently they will remain higher year-on-year.
- ➔ As a result, cattle slaughter and beef production remains subdued, with a large number of plants temporarily closed in 2015. The lower beef supply combined with the high reliance on markets such as Russia and Venezuela, has also driven shipments down.
- ➔ Despite the ongoing Real depreciation against the USD, the tight beef supply and current market access conditions, exports are likely to remain weak through to the end of 2015.

➔ In contrast, Brazilian beef production is expected to increase in 2016, mostly driven by the high international demand, as domestic consumption is likely to remain stagnant. However, limited supply of finished cattle and high prices will continue to pressure processor margins in 2016.

➔ Beef prices are expected to remain high, which will likely result in lower domestic consumption. Additionally, the outlook for the economy in 2016 remains weak with rising inflation, unemployment, interest rates and escalating debt levels of Brazilian consumers. The higher cost of retail beef cuts also entices Brazilian consumers to switch to other meats, such as chicken and pork.

➔ Therefore, given the higher expected production and weaker domestic demand, Brazilian beef exports are likely to increase in 2016, mostly driven by the Real devaluation, higher demand from Asia, possible re-entry into Saudi Arabia and the potential for more plant approvals for export to China.

➔ Despite the economic crisis and weak oil prices, Russia is likely to remain the main market for Brazilian beef in 2016 (at lower levels than previous years), mostly due to forecast lower beef stocks in Russia.

➔ South Africa, Iraq, Malaysia and Singapore have already resumed beef imports from Brazil, and negotiations with these countries are now focusing on expanding the number of eligible beef plants for export. Other negotiations to open market access for Brazilian beef are focused on Thailand, Taiwan and Indonesia.

## ....longer term

➔ According to OECD-FAO Agricultural outlook 2015, Brazilian beef production is expected to increase to 11 million tonnes cwe by 2024, driven by improved animal genetics, better management of forage, greater availability of cattle for slaughter, stable domestic prices.

➔ Rising consumer prices in an environment of relatively low income deflates domestic consumption potential, with 8.4 million tonnes cwe anticipated in 2024.

➔ Even with rising domestic consumption, Brazil's competitiveness in the beef and veal international markets is forecast to increase with a depreciating currency bolstering price competitiveness. An increase share of production is forecast to be exported enabling Brazil to potentially expand international market share.

## Beef profile industry 2014 – Brazil and Australia

	Brazil	Australia
Population	200 million	23.1 million
Area (km2)	8.51 million	7.69 million
Cattle herd (head)	211 million (2013)	29 million
Cattle slaughter (head)	33.9 million	9.9 million
Average carcase weight (per head)	237.8/kg	276.8/kg
Beef production (tonnes cwt)	8.06 million	2.60 million
Domestic consumption (tonnes cwt)	6.3 million	717,000
Domestic per capita consumption (cwe)	39 kg/year	31 kg/year
Live animal exports (head)	649,203	1.29 million
Beef exports (tonnes swt)	1.22 million	1.29 million
Fresh (% of total exports)	13%	24%
Frozen (% of total exports)	87%	76%
Top 5 export markets	Russia, Hong Kong, Venezuela, Egypt, EU-25	US, Japan, Korea, China, Middle East

Source: IBGE, SECEX/MDIC, ASSOCCO, MLA, ABS, ABARES

## Top ten destinations for Brazilian and Australian beef (volume & unit value)

### BRAZIL EXPORT STATISTICS – Commodity: Total beef, Brazil, Annual Series: 2010 - 2014

Partner Country	2010		2011		2012		2013		2014	
	VOLUME (KG)	VALUE (USD/KG)	VOLUME (KG)	VALUE (USD/KG)	VOLUME (KG)	VALUE (USD/KG)	VOLUME (KG)	VALUE (USD/KG)	VOLUME (KG)	VALUE (USD/KG)
World	951,254,795	4.06	820,239,037	5.08	945,482,300	4.75	1,184,533,351	4.52	1,228,144,463	4.72
Russia	284,909,350	3.59	228,821,589	4.43	253,924,475	4.16	303,597,478	3.95	310,264,363	4.18
Hong Kong	66,722,428	3.53	73,851,198	4.44	99,719,863	4.34	217,032,879	4.51	252,030,562	4.66
Venezuela	40,125,398	4.64	70,901,355	5.31	87,181,656	5.14	156,951,549	5.38	170,187,012	5.31
Egypt	113,227,846	3.62	96,937,056	4.27	132,963,505	4.00	133,793,314	3.47	153,672,957	3.80
EU-25	44,197,715	7.79	48,276,516	9.88	56,568,451	8.23	70,227,077	7.52	67,563,723	8.61
Iran	191,180,877	4.22	130,649,365	5.27	67,768,353	4.78	58,962,646	4.52	61,177,591	4.46
Chile	19,901,844	4.90	34,244,387	5.85	65,479,934	5.76	74,765,743	5.18	53,515,608	5.16
Italy	18,697,147	7.59	19,257,363	8.37	23,799,356	7.29	26,481,274	7.12	27,803,489	7.76
Algeria	30,143,649	3.40	7,218,172	5.31	11,149,589	5.14	20,897,908	5.38	20,720,022	5.31
Angola	5,294,944	3.78	6,369,476	4.57	9,230,800	3.74	12,576,266	3.24	16,670,930	3.39

Source: GTA

### AUSTRALIA EXPORT STATISTICS – Commodity: Total beef and veal, Australia, Annual Series: 2010 - 2014

Partner Country	2010		2011		2012		2013		2014	
	VOLUME (KG)	VALUE (USD/KG)	VOLUME (KG)	VALUE (USD/KG)	VOLUME (KG)	VALUE (USD/KG)	VOLUME (KG)	VALUE (USD/KG)	VOLUME (KG)	VALUE (USD/KG)
World	960,483,939	4.15	995,140,060	4.84	989,830,176	4.93	1,122,018,860	4.83	1,298,775,661	5.32
United States	184,504,659	3.79	168,070,464	4.57	224,576,058	4.67	210,010,190	4.66	392,873,061	5.52
Japan	361,044,984	4.38	349,660,162	4.88	310,732,453	5.02	291,612,066	4.71	284,166,262	5.17
Korea South	140,460,330	4.14	161,239,013	4.94	140,789,440	4.72	154,132,976	4.87	155,718,736	5.39
China	10,104,397	3.69	14,176,651	4.23	34,829,871	4.43	151,749,756	4.53	127,295,236	4.61
Indonesia	49,761,629	3.33	43,344,942	4.09	26,897,580	4.56	40,041,472	4.60	56,667,045	4.41
Philippines	22,466,317	2.56	24,339,254	3.05	27,866,397	3.04	29,711,244	3.06	38,952,112	3.62
Taiwan	31,957,919	4.10	37,616,258	5.39	39,732,052	5.46	36,311,970	5.39	37,452,361	5.46
Canada	6,892,688	3.82	9,839,949	4.24	15,243,129	4.16	17,707,602	3.96	31,697,976	4.55
Saudi Arabia	3,215,820	3.06	5,684,407	3.23	5,399,139	3.52	30,942,498	4.61	30,536,561	5.01
EU-25	11,170,642	8.32	13,973,701	9.64	15,940,723	9.32	20,632,401	9.32	26,197,191	9.56

Source: GTA

