

Brazilian Feed Figures

December, 2013



2013 FEED AMOUNT NOT RECOVERED AFTER 2012 DROP

INCREASED PRODUCTION OF SOME SEGMENTS DID NOT OFFSET THE SETBACK OF OTHERS

As a matter of fact, the global economy remained still little fragile along 2013, from the rich world through third world nations, and affecting emerging countries, as well. In Latin America, India and China, GDP was forecast to advance at most 2.6%, 7.5% and 2.9%, respectively.

Ever under the same affliction, the growth estimated for Brazil was even worse, and the supposed rate, slight above 2%, has reflected the pressure of local ordinary infrastructure bottlenecks and inefficient diplomacy devoted to international trade, only focused in the apathetic multilateralism and distracted to the benefits of the bilateral agreements.

The worrying loss of industrial yield and livestock production chains competitiveness drop have jeopardized the animal feed industry performance, also drowned by legal uncertainty, dimness about rights and duties, successive changes in the legislation and regulatory frameworks, excessive bureaucracy and

complex procedures, as well as, the heavy charge on costs and prices due the cumulative system of taxes.

This unreliable and unfriendly business contemporary environment and deterrent to investment, has affected agribusiness entrepreneurs who still find breath and optimism to continue betting on a political upheaval able to raise the recognition of this multiplier-effect activity, consumer and supplier of goods for the overall industry, provider of capital for expansion and financial resources for imports of non-agricultural sector, indeed, an employment generator and mainly food producer that supplies domestic and worldwide consumers.

In regard to cereals and oilseed, the early hypothesis of weak harvest performance vaunted by pessimistic during 2013/2014 lose credibility along past year. It was based on supposed abundant amount of 960 million MT of corn and over 283 million MT in the case of soybeans. Nevertheless, to emphasize the pressure relief on the stock piles converged to other factors capable to

mitigate the "agro inflation" calculated by Eastern Food Price Index/FAO, once in late November reached 206.3 points, or actually 9.5% below that one measured a year ago.

Although this downward trend has modulated the agriculture commodity prices in Brazil and allowed containment of the local prices (81 million MT for corn and for soybeans, according to the Official Supplier Company/CONAB estimates for 2012/2013 harvest). It is worth recalling that the attenuating effect was partially lost, because domestic currency devaluation, that fell quite like many others compared to U.S. dollar.

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Moreover, the Brazilian feed industry has been affected by a particular set of taxes, mainly the combination of the PIS/COFINS on production livestock chains, such as dairy and beef cattle, goat, sheep, fish and shrimp, and most of the feedstuffs used for poultry and swine. Just to recall that almost four years ago, the commitment established between the private sector and the Treasury, in order to reducing tax rate and simplifying accounting procedures, unfortunately got hit into the policy makers House and the requested relief was only partial.

Given the erosion of profitability for the full loss absorption of not taking advantage of the credits paid to acquired feedstuffs, and considering mandatory to extent the benefit toward those livestock chains not yet covered, the Brazilian Feed Industry Association disclosed the newest modeling tax study and its solution to offset any tax waiver. It was supposed to be the reason that allowed congressmen to approve the exemption in the middle of 2013. Unlikely, the Treasury frustrated the expectations of the private sector and chose to contest the desire of the policy makers.

It is striking to notice that the Brazilian government needs to spend much less in cost and urgently correct infrastructural deficiencies to enable private sector to put money again on productivity resumption. Instead, the adopted tactic has privileged financing operations, through public debt and capitalization of state institutions that benefit only a few sectors, at the expense of many others or less fortunate entrepreneurs who end up subsidizing the credit.

This cloudy scenario, full of uncertainties, has limited the advance of livestock production chain, and therefore the production of complete feed and supplements, from January through September/2013, was not able to offset the slump in the same period of 2012.

Although the celebration of Christmas and New Year Eve could strengthen retail sales and support subtle boost on food consumption, the apathy that supposed prevailed during last quarter should not surprise feed entrepreneurs upon the hypothesis of mere stability along 2013.

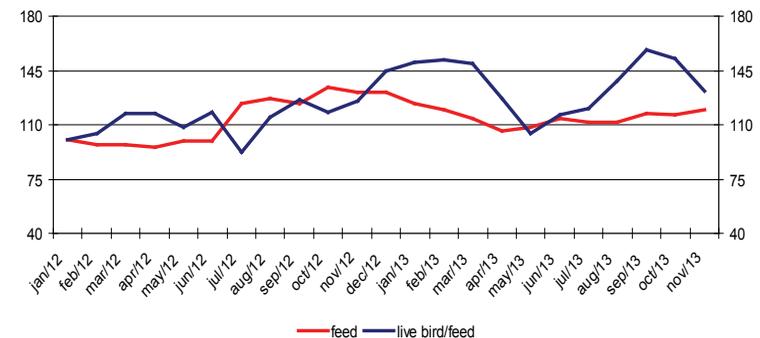
FEED AMOUNT ESTIMATES/2013			
Million MT			
(from January through September)			
Segment	Jan thru Sept/12	Jan thru Sept/13	% 13/12
Broiler	22,4	22,1	-1,3
Layer	3,98	4,18	5,0
Beef Cattle	2,17	2,08	-4,2
Dairy Cattle	3,79	3,88	2,5
Swine	10,96	10,89	-0,6
Dog And Cat	1,83	1,92	5,1
Equine	0,40	0,42	4,2
Fish And Shrimp	0,49	0,55	12,2
Others	0,50	0,50	0
Overall	46,5	46,5	0

Source: Brazilian Feed Industry Association/Sindirações

BROILER FEED

The expressive increase in cost of corn and soybeans in the second half of 2012 sucked the capital of poultry producers and generated a decline in the breeders yield and fertile eggs, as well. Although the feed cost cooled along the first three quarters of 2013, the demand of poultry feed fell by 1.3% and consumed 22.1 million MT until September, mainly because of the scarce supply of chicks for housing.

INDEX VARIATION - POULTRY FEED COST AND LIVE BIRD PRICE

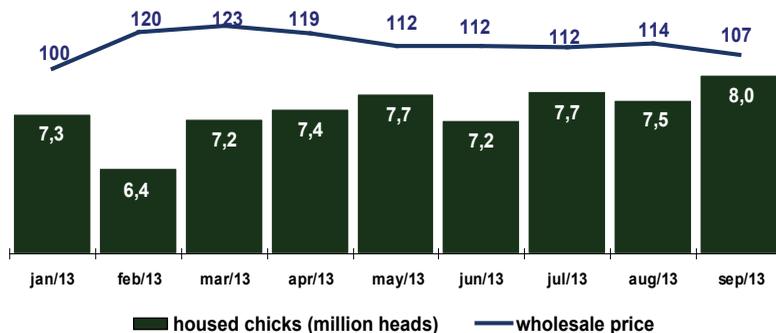


Source: Brazilian Feed Industry Association/Sindirações

Layer Feed

In opposite, the production of laying feed grew 5% and amounted 4.2 million MT until September, in response to vigorous housing laying chicks. However, this oversupply of eggs pressured their wholesale price enough to drive a reduction in the farms activity and a decrease feeding appetite in the last quarter of 2013.

EGGS - OFFERING EFFECT ON PRICE

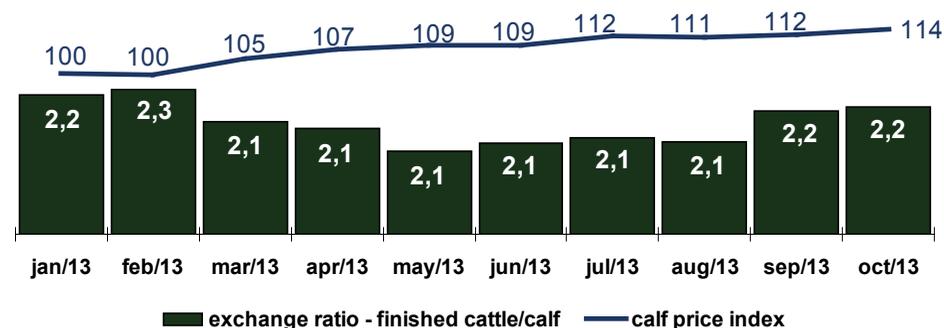


Source: Brazilian Feed Industry Association/Sindirações

Beef Cattle Feed

Despite feeding have weighed less cost since January and to represent, on average, only 25% of the cost for feedlot operation, the demand reached 2.1 million MT until September/2013, i.e., a setback of 4.2%, compared to the same period in 2012. The finding of steers and valued calves, combined with unattractive price of the finished ones that determined an exchange ratio below expectations, have deterred replacement; and even ended the last quarter of 2013, it is quite possible that no more than 3.3 million heads remains into the feedlot and entail on a consecutive setback on feed consumption.

CALF INFLUENCE ON EXCHANGE RATIO*



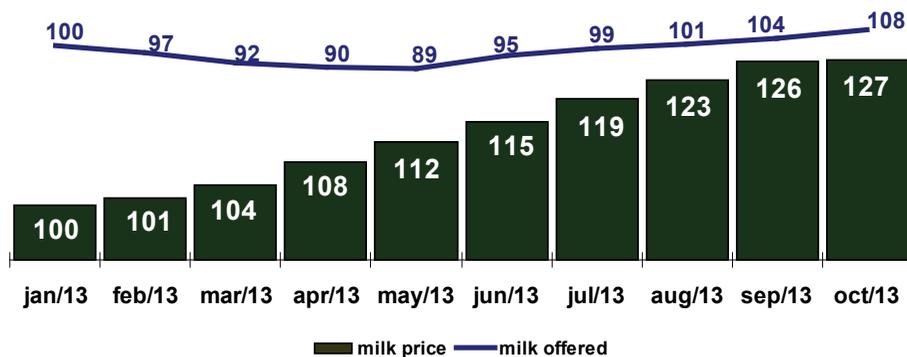
* Nice to have an exchange ratio at least 2.5

Source: Center for Advanced Studies on Applied Economics/CEPEA, adapted by Brazilian Feed Industry Association/Sindirações

Dairy Cattle Feed

Until September 2013, almost 3.9 million MT of feed were produced, an increase of 2.5 % in demand of dairy cattle, once producers that have paid less in regard to the herd nutrition, mainly because the corn and soybean price relief. This purchasing power recovery enabled the activity to drive investment again on technical nutrition, although, the increase in productivity wasn't enough to meet demand of dairy products. As a result, milk prices paid to producers followed an upward trend and reached the highest scores recorded. However, during last quarter, this high level suffered consumer rejection, and the seasonal effect of increased milk supply can pressure prices and somehow reduce the appetite for complete feed and concentrates.

INDEX VARIATION - MILK PRICE AND SUPPLY

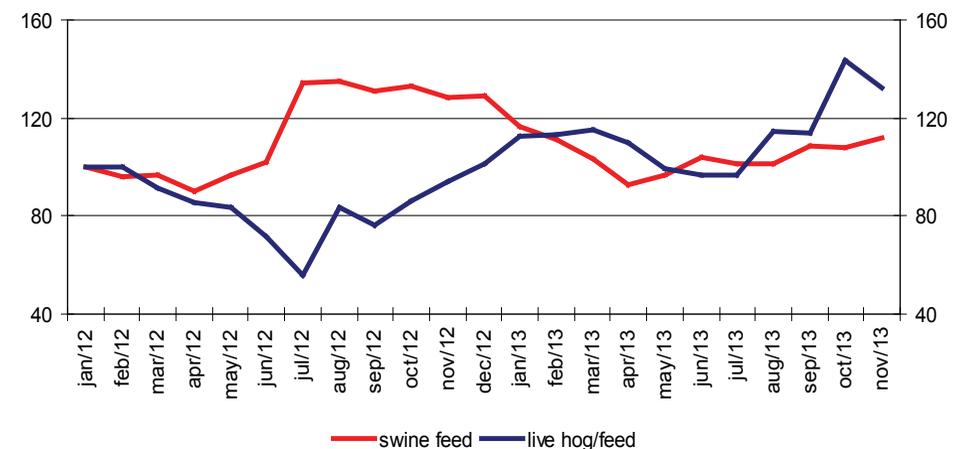


Source: Center for Advanced Studies on Applied Economics/CEPEA, adapted by Brazilian Feed Industry Association/Sindirações

Swine Feed

The crisis resulting from the cost of corn and soybean meal greatly distressed all the production chains of animal protein during 2012. The forced liquidation of breeders resulted scarce supply of piglets, which associated with the retraction of shipments overseas, contributed to the cooling demand for feed, which production fell more than 0.5% and accounted 10.9 million MT from January through September/2013. Given the continuous and uninterrupted consolidation of non-integrated producers and pork supply extremely adjusted to demand during the last quarter, it is possible to estimate that the amount of feed produced may tend for stability in 2013.

INDEX VARIATION - SWINE FEED COST AND LIVE HOG PRICE

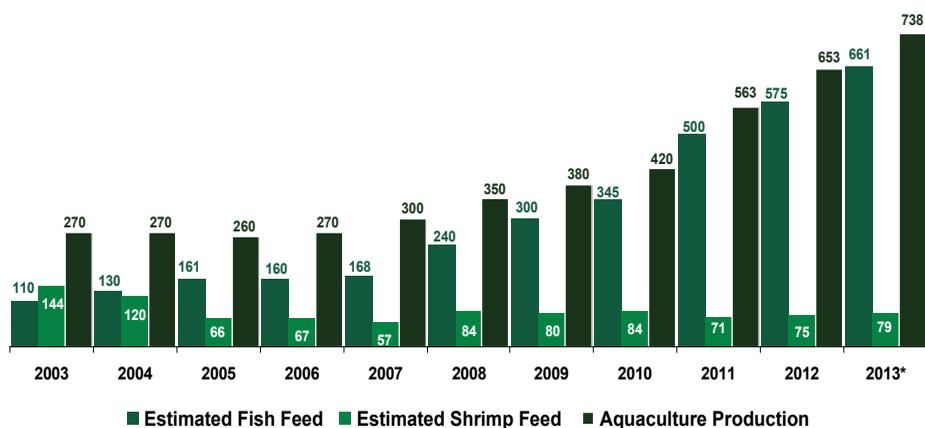


Source: Brazilian Feed Industry Association/Sindirações

Aqua Feed

From January through September/2013, the demand for fish and shrimp feed grew 11% and reached almost 550 thousand MT. The stimulus released by Official Harvest Plan to encourage aquaculture production and tendency to harmonize requirements for granting of environmental licenses, must maintain the vigorous momentum established in their supply chains and enable the production of almost 750 thousand MT of feed for fish and shrimp in 2013.

AQUA FEED AND FISH/SHRIMP PRODUCTION (thousand MT)



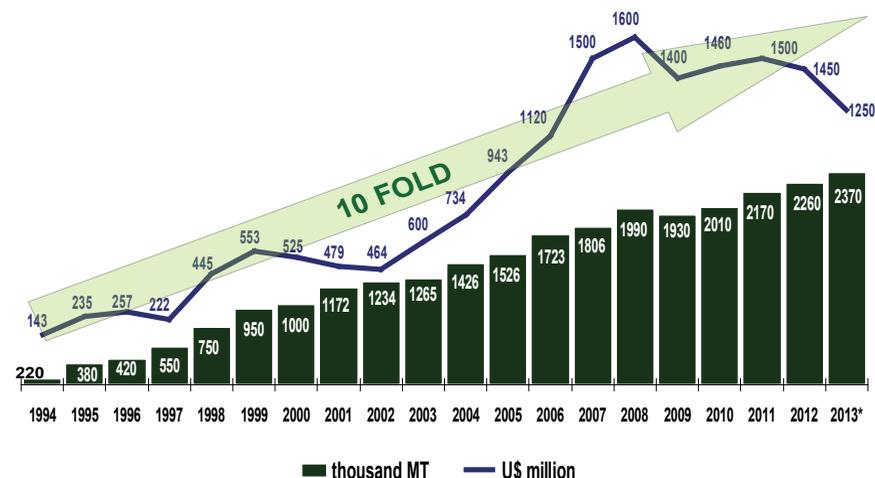
* Estimate

Source: Brazilian Feed Industry Association/Sindirações (feed); Ministry of Fishery and Aquaculture (fish and shrimp production)

Dog And Cat Food

Until September the production of dog and cat food grew 5.1 %, exceeding 1.9 million MT, mainly driven by the emerging middle class that already represents more than half of the Brazilian population. Pets are considered family members of those owners who settled in the formal labor market and had increased their income and found more access to credit, as well. This increased power consumption has allowed to exercise responsible ownership by offering industrialized pet food, visiting the veterinarian and enjoy specialized services in cosmetic and accessories. The growing concern for wellness and expansion of the anthropomorphizing phenomenon must have continuously leveraged demand during the last quarter of 2013.

PET FOOD - AMOUNT (thousand MT) and FOB PRICE (US\$/MT)



* Estimate

Source: Brazilian Feed Industry Association/Sindirações US\$ 1.00 = R\$ 2,20

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