



Brazilian Meat Monitor

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Highlights

JBS buys slaughterhouses in Northern Brazil	8
Beef exports in the first quarter of 2012 total US\$ 1.223 billion	8
Beef cattle industry needs investment	9
Brazilian government upbeat about meat trade with China	15
69.8% of chicken was sold on the domestic market in 2011	15
China destroys 95,000 chickens after bird flu outbreak	16
Aurora invests R\$ 40 million in reopening pig slaughterhouse	17
Pork industry forecasts slide in early 2013	18

Crop failure concerns poultry and pig farmers - costs to remain high *

When it comes to the chicken and pig markets, soybean meal and corn cannot be forgotten. According to the National Animal Feed Industry Association (Sindirações), these two inputs account for approximately 80% of the feed consumed by the sector, and last year 66.6 million tons of feed were produced. Of this total, 37.8 million tons went to poultry farming, and 15.4 million tons went to pig farming. In poultry farming, 61% of the feed was made up of corn, and 25% of soybean meal. In pig feed, 68% was corn and 16% soybean meal.

Moreover, with about 60% of poultry and pork production costs being feed-related, and the increase in consumption constantly exceeding supply, which in turn is being affected by severe weather and crop failures in the South, many farmers are on alert.

"The Brazilian animal feed industry depends on the food industry which, in turn, is modulated by domestic and international consumer demand," said Sindirações, in a statement. The executive vice president of the association, Ariovaldo Zani, says feed production this year will increase by 3% to 3.5%, at best.

Domestic market

Informa Economics FNP believes that the area planted with summer corn and soybeans for 2011/12 was up by 5.3% year on year, but that because of the serious drought in the South, production will be nearly 8% down on the previous season. FNP says the reduced estimated soybean harvested in the South will mean productivity will fall below the average of the recent years. For corn, the average productivity in the region will be much lower than last season, and even less than the average for the last ten years, increasing dependence on the winter corn crop, in the opinion of grain analyst at Informa Economics FNP, Aedson Pereira.

Zani says that winter corn will make up the difference and there will be no problems.

Informa Economics FNP says summer production will be 36 million tons in the 2011/12 harvest, which is 0.2% up on the previous season. The only reason there was not a fall in domestic production was that in other regions of Brazil there was a significant increase in productivity as a result of higher investments in the crop.

Continued on Page 2

"And even if it is not very big, the fall in production in the summer crop in 2011/12 in the South raises concerns as to the supply for Brazilian producers of poultry and pork," says Pereira. According to him, in the South, the main consumer hub for feed inputs, only Paraná can restore supply, increasing the area for the winter crop.

The average annual consumption in Santa Catarina is around 5 million tons, and production in the state varies from 3 to 3.5 million. With the losses caused by the drought, this year Santa Catarina poultry and swine farmers need to buy almost 2.5 million tons from other states, and even Paraguay.

The meat production chains in Rio Grande do Sul will consume 6.5 million tons of corn in 2012, but their production is limited to 3.5 million. The remaining three million tons will have to be bought from outside.

Pereira says that the fight for these 5.5 million tons needed by these two states will be tough. Mato Grosso will produce over 10 million tons, and consumes less than 2.5 million. "But 6.5 million tons are held by trading companies, which will earmark at least 5 million for the foreign market," he adds. Goiás and Mato Grosso do Sul also produce winter corn and will harvest, respectively, 3.2 million tons and 3.8 million tons. Deducting local consumption from each, there will be 2 million tons left over to sell.

Despite the large increase in the area of winter corn, it is too early to say how much more will be produced. The Center-West sells a significant volume of corn in advance. In 2011, much of the corn was sold abroad, since prices were favorable. Paraná traded 1.5 million tons, having produced over 8 million tons. "The numbers give the impression that the competition for corn will still be strong this year. The most optimistic scenario at **Infoma Economics FNP** indicates production of 28 million tons on an area of 6.8 million hectares," says Pereira.

High - but not stratospheric - costs

Although production costs are high in 2011/12, they should not be exaggerated. Pereira says that while soybeans have suffered crop failures and the price is high on the international market, the price of corn will fall, with an expected record winter harvest. "This will balance things out," says Pereira. He adds that even if farmers opt for the international market, the percentage of soybean meal in the production of feed for poultry and pork will be respected. "If not, they will have a smaller carcass yield," he explains.

In the same vein, Zani believes that next season production costs will be lower, but remain high. "There has been some relief for farmers," he says. "We do not see further increases in prices. However, they will remain high, mainly affecting pig farmers," Zani says.

The international scene

By mid-September, when the US harvest begins, competition between the domestic and international market will be fierce. The world's leading producers of corn and soybeans have limited supplies, after two poor seasons in a row.

In Argentina, the corn and soybean harvests in 2011 and 2012 were affected by La Niña. The country is the third-largest exporter of soybeans and second-largest exporter of corn in the world, but its international market share slipped in these years. This contributed to the increase in international prices of the commodities.

Argentine soybean production is also falling. In 2009/10 it was 54.5 million tons; in 2010/11, 49 million, and this current season, according to estimates by **FNP**, it is expected to reach 45 million tons.

The country's corn production is following a similar pattern. From 23.3 million tons harvested in 2010, it fell to 22.5 million the following year and this season it will be 20.5 million tons. Exports were 16.5 million tons in 2010, 15 million in 2011, and are expected to be 13.5 million this year.

The situation in the United States is no different from in Argentina. The largest producer of corn and soybeans in the world suffered sharp declines in harvest production in 2010/11 and 2011/12, reducing its international market share. For corn, large domestic demand for ethanol production has run down the country's stocks of the grain.

On the demand side, China, besides its huge purchases of soybeans, has resumed its corn imports for the first time since 1997, because of the fall in local production. The country is the largest consumer of corn in the world, feeding its huge numbers of birds and pigs. The Chinese government encourages the production of grain, to avoid dependence on imports. Brazilian agribusiness has increased sales to China by 3%, while Brazil's export revenue overall to the country has increased by 17.5%.

* By FNP