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Poultry and Products Semi-annual

2019 Poultry and Poultry Products Semi-Annual Report

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Report Highlights:

Chicken meat production is forecast to grow 1.8 percent in 2019 to nearly 13.6 million metric tons. Domestic demand should drive growth due to a projected 2.5 percent increase in gross domestic product and a lower inflation rate. Exports are to increase, but at a slower pace due to constraints in major import markets, such as Saudi Arabia and the European Union. Feed costs are likely to remain stable, despite a small reduction in the corn and soybean crops. The exchange rate is expected to be less volatile in 2019.

Executive Summary:

Post revised downward the forecast for chicken meat production, and now forecasts growth of 1.8 percent in 2019 to nearly 13.6 million metric tons (MT), mostly driven by a rebound in domestic consumption and to a lesser extent exports. The revised forecast is supported by higher consumer income derived from economic growth estimated at 2.5 percent and an expectation for inflation to remain under control. In addition, the outlook for production factors is for stable feed costs and improved producer's margin costs. Exports are also forecast to rebound from last year's poor performance, but at a lower rate of growth than previously forecasted.

Commodities:

Poultry, Meat, Broiler

Production:

Chicken meat production in 2019 is revised down from the previous forecast of 13.9 to 13.6 million metric tons. Post believes that a lower production estimate reflects the current expectation of producers to continue with a strategy to adjust supply and demand for chicken meat, and maintain their profit margins. The lower forecast also reflects concerns of exporters with restrictions in traditional import markets, mostly from Saudi Arabia and the European Union. However, economic growth, estimated at 2.5 percent in 2019, and an inflation rate under control are likely to improve consumer income and cause a rebound in domestic demand of chicken meat in 2019. Post also expects lower competition from beef and pork. In addition, feed costs are expected to increase less in 2019 than last year, which saw the second highest cost of production on record.

Downward adjustments for the 2018 estimates were made for production, exports and domestic consumption of chicken meat to reflect new trade data. Producers and exporters faced, in 2018, a myriad of problems, such as an unexpected national truck drivers' strike which hit hard the poultry and swine sectors in Brazil with losses estimated at US\$ 1 billion. In addition, international restrictions on Brazilian chicken exports to China (*anti-dumping measures*), European Union (*ban on imports from major chicken packers in Brazil due to fraud in laboratory tests*), and Saudi Arabia (*stunning requirements*), caused a major drop in chicken exports for the first time in decades.

Production Costs:

In Brazil, corn and soybean meal represent about 70 percent of the cost of chicken meat. Initial projections for the 2018/19 crop season called for a bumper crop of grains and oilseeds due to the large use of biotechnology and subsidized credit. However, a major dry spell during the growing season of these crops has reduced the estimated volume of grains and oilseeds currently being harvesting. Although such losses are, still being surveyed, possible increases in the price of feed in 2019 is already a factor of concern to chicken producers.

During 2018, the cost of production of chicken meat increased by nearly 15 percent, the second largest increase on record. The table below is the cost of production for the state of Parana, which is the largest producer in Brazil. The increase in the cost of production was due mostly to an increase of nearly 12 percent in nutrition expenses, followed by the increase in the cost of day old chicks.

Month	Live Chicken (R\$/kg)		Corn (R\$/60 Kg bag)		Soybean Meal (R\$/kg)		Cost of Production (R\$/Kg)	
	2017	2018	2017	2018	2017	2018	2017	2018
Jan	2.65	2.57	37. 36	34.5 9	1.02	1.04	2.47	2.61
Feb	2.63	2.48	37. 47	36.8 6	1.00	1.15	2.53	2.58
Mar	2.69	2.36	35. 83	44.7 4	0.97	1.27	2.42	2.70
Apr	2.50	2.20	30. 29	42.4 3	0.93	1.30	2.35	2.84
May	2.50	2.37	29. 66	45.2 9	0.98	1.44	2.31	2.92
Jun	2.50	3.07	28. 14	44.1 9	0.99	1.43	2.30	2.91
Jul	2.50	3.00	27. 53	39.6 4	0.99	1.41	2.29	2.84
Aug	2.50	3.00	27. 32	44.1 1	0.97	1.39	2.25	2.87
Sep	2.50	3.19	29. 85	43.0 5	0.96	1.39	2.30	2.95
Oct	2.63	3.19	32. 54	38.5 2	0.99	1.37	2.37	2.90
Nov	2.70	3.02	33. 08	38.4 8	1.00	1.28	2.38	2.82
Dec	2.70	2.94	33. 40	39.9 8	1.04	1.26	2.46	2.82

Notes
:

(A) All prices for the interior of São Paulo

(B) Cost of Production is per kilogram of live-weight, aviary type air-conditioned under positive pressure, state of Parana.

(C) The average exchange rate in 2018 was US\$1.00 = R\$3.65, compared to R\$3.19 in 2017.

Source: Avisite and Embrapa

Consumption:

Domestic consumption of chicken meat in 2019 is forecast to rebound by two percent, after a small decline last year. The Post revised forecast reflects estimated economic growth of 2.5 percent in 2019, inflation below the government target rate of 4 percent and improved consumer income. The number of Brazilian families in debt declined by 3 percent at the end of 2018. In addition, chicken prices are

estimated to be more competitive in 2019 due to higher supply of chicken meat available in the domestic market and Brazilian consumer preference for chicken meat.

Trade:

Post revised down the forecast for chicken meat exports lower in 2019 but shipments are still expected to expand moderately at around 1.3 percent. The small increase in chicken meat exports is primarily due to projected higher shipments to new markets, such as South Korea, Chile and Mexico, and higher demand from China (see below). However, continued import constraints faced by Brazilian exporters in two major import markets, Saudi Arabia and the European Union (see below), remain a major impediment to expanded exports. In addition, a new concern for Brazilian traders is the intention of the Brazilian federal administration to move the Brazilian embassy in Israel from Tel Aviv to Jerusalem, which could affect Middle-East importers of Brazilian animal protein (see below). The expected lower volatility of the exchange rate foreseen in 2019 also contributes to making the Brazilian product more competitive in the world market.

In 2018, Brazil exported chicken meat to 163 countries, 15 percent above the previous year. Exports are concentrated in 10 major markets, which account for nearly 70 percent of all exports. The total volume exported in 2018, including those categories not covered by USDA data, declined by 5.2 percent to slightly over 4 million metric tons. Whole chicken meat accounted for 68 percent of all exports, followed by chicken parts, with 28 percent. High processed chicken meat, at 2.5 percent, and salted chicken meat, at 2.4 percent, accounted for the remaining chicken meat exports. Most of the decline for chicken meat exports in 2018, compared to the previous year, was in salted chicken meat (34 percent less), followed by high processed chicken meat (31 percent less) and whole chicken meat (11 percent less). Total receipts of Brazilian meat exports in 2018 reached nearly US\$6.5 billion, a drop of 4.2 percent over the previous year.

Chicken Exports	2017	2018
Total	4,234.1	4,013.1
- Whole Chicken	1,246.1	1,108.9
- Chicken Parts	2,700.6	2,709.2
- Processed Chicken Meat	144.9	99.0
- Salted Chicken Parts	142.6	95.0

Source: Brazilian Foreign Trade Office

The following is a brief 2019 outlook for major importers of Brazilian chicken meat:

China/Hong Kong: Trade sources project exports to continue to expand in 2019. This optimism reflects a higher number of plants approved to export to China and the recent agreement to end the anti-dumping dispute with China, which was resolved in Mid-January 2019 and will enter into force as of February 19, 2019. Post contacts report that China’s Ministry of Commerce accepted an offer made by the Brazilian exporters association to establish a minimum export price on all chicken meat exports to China. Local traders are optimistic about a recovery in Hong Kong imports, mostly chicken wings.

Saudi Arabia: In 2018, Brazilian chicken exporters faced import restrictions due to the poultry stunning issue. This resulted in a drop of 17 percent in chicken meat exports to Saudi Arabia last year. In mid-January 2019, Saudi Arabia trimmed the list of eligible Brazilian chicken meat exporters leaving only 25 packers, out of the original 55 plants previously approved. The ban included some major and traditional packers with a long history of exporting to Saudi Arabia.

Saudi Arabia has alleged “technical” reasons for downsizing the list. Both Brazilian officials and exporters believe that the real reason behind Saudi Arabia’s decision is a strategic plan of the Saudi Arabian government to reduce its dependence on imported chicken meat, with measures to protect local industry. Some private analysts estimate losses at 65,000 to 75,000 metric tons of chicken meat exports in 2019 to Saudi Arabia.

Middle Eastern Markets: There are rumors in Brazil that link the downsizing of Brazilian plants by Saudi Arabia to the Brazilian government’s intention to move its embassy in Israel from Tel Aviv to Jerusalem, which could also affect other Middle-Eastern importers of Brazilian animal protein. Currently, this is the major concern of Brazilian chicken exporters who are lobbying the Brazilian government to end this Embassy change, which was part of the presidential campaign in 2018 by the current administration. The Union of the Arab Chambers of Commerce has come out against this idea, which could be a major hurdle for chicken exporters to Middle-Eastern markets.

European Union: The E.U. continues to restrict imports of Brazilian chicken meat from Brazil due to health problems derived from the meat inspection scandal, which involved laboratory fraud with risks of salmonella in chicken exports. The European Union maintains the suspension of 20 Brazilian plants to export chicken meat to the bloc. The suspension affects most of the traditional and large Brazilian packers.

Production, Supply and Demand Data Statistics:

Meat, Chicken Market Begin Year	2017			2018			2019				
	Jan 2017			Jan 2018			Jan 2019				
	Brazil	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post		New Post
											(Units)
Beginning Stocks	0	0	0	0	0	0	0	0	0	0	(1000 MT)
Production	13612	13612	13612	13550	13550	13355	13800	13860	13595	13595	(1000 MT)
Total Imports	3	3	3	1	1	3	1	1	3	3	(1000 MT)
Total Supply	13615	13615	13615	13551	13551	13358	13801	13861	13598	13598	(1000 MT)
Total Exports	3847	3847	3847	3685	3685	3687	3775	3795	3735	3735	(1000 MT)
Human Consumption	9768	9768	9768	9866	9866	9671	10026	10066	9863	9863	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	9768	9768	9768	9866	9866	9671	10026	10066	9863	9863	(1000 MT)
Total Use	13615	13615	13615	13551	13551	13358	13801	13861	13598	13598	(1000 MT)
Ending Stocks	0	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Distribution	13615	13615	13615	13551	13551	13358	13801	13861	13598	13598	(1000 MT)
Balance	0	0	0	0	0	0	0	0	0	0	(1000 MT)
Inventory Balance	0	0	0	0	0	0	0	0	0	0	(1000 MT)
Production Change	1	0	0	0	0	-2	2	2	2	2	(PERCENT)
Import Change	0	0	0	-67	-67	0	0	0	0	0	(PERCENT)
Export Change	-1	0	0	-4	-4	-4	2	3	1	1	(PERCENT)
Consumption Change	1	0	0	1	1	-1	2	2	2	2	(PERCENT)
Imports Percent Consum	0	0	0	0	0	0	0	0	0	0	(PERCENT)
Exports Percent Product	28	28	28	27	27	28	27	27	27	27	(PERCENT)
Population	207353391	0	0	208846892	0	0	210301591	0	0	0	(PEOPLE)
Per Capita Consumption	47.1	0	0	47.2	0	0	47.7	0	0	0	(KG)
Annual % Change Per Ca	0.6	0	0	0.2	0	0	1.1	0	0	0	(PERCENT)
TS=TD	0	0	0	0	0	0	0	0	0	0	
Post Notes											

Notes: Not Official USDA Data; Excludes chicken feet and paws exports to China and Hong Kong.

Export Trade Matrix

Country	Brazil		
Commodity	Poultry, Meat, Chicken		
Time Period	Jan - Dec	Units:	Metric Tons
Exports for:	2017		2018
U.S.	0	U.S.	0
Others		Others	
Angola	68,444		64,747
Chile	44,156		50,083
China	391,037		438,866
Cuba	61,726		73,453
Egypt	162,775		58,457
European Union	185,017		175,330
Hong Kong	250,145		212,510
Ghana	12,257		16,162
Iraq	120,797		104,107
Japan	445,373		398,376
Jordan	42,963		48,915
Kuwait	116,209		123,265
Mexico	94,584		111,318
Oman	79,498		74,643
Peru	16,751		21,612
Phillippines	35,531		52,455
Qatar	77,693		63,378
Russia	83,027		64,506
Saudi Arabia	589,575		486,859
Singapore	81,981		96,777
South Africa	344,525		332,068
South Korea	88,947		113,244
UAE	300,114		309,817
Yemen	67,984		85,530
Venezuela	20,708		114
Total for Others	3,781,817		3,576,592
Others not Listed	307,224		346,121
Grand Total	4,089,041		3,922,713

Note: Includes HTS Codes: 0207.11; 0207.12; 0207.13; 0207.14; and 1602.32

Quantity in Product Weight Equivalent (PWE)

Updated: January 28, 2019

