BRAZIL: Market and prices developments potencial

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CEPEA/ESALQ/USP - Brazil

Agri Benchmark June 2011

CONTENT

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1. OVERVIEW OF GLOBAL ECONOMICS

Economics – foreign market

Country	Public Debt*	Unemployment Rate
Austria	72,3	4,2
Belgium	103,1	8,4
France	87,5	9,7
Germany	76,5	7,1
Greece	139,3	14,6
Ireland	101,5	13,0
Italy	119,6	8,6
Japan	234,1	4,9
Netherlands	69,3	4,4
Portugal	87,0	10,8
Spain	70,2	19,3
USA	99,3	9,5
Brazil	39,6**	7,0

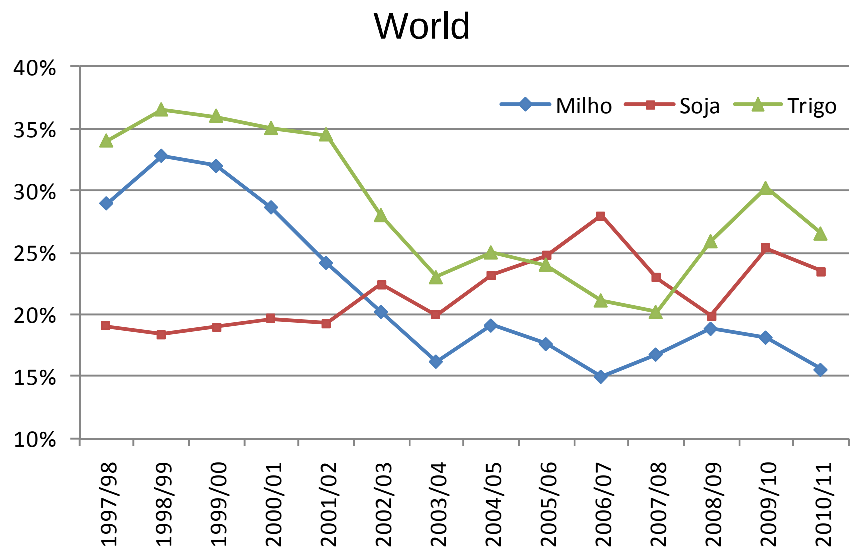
* In percentagem of GDP

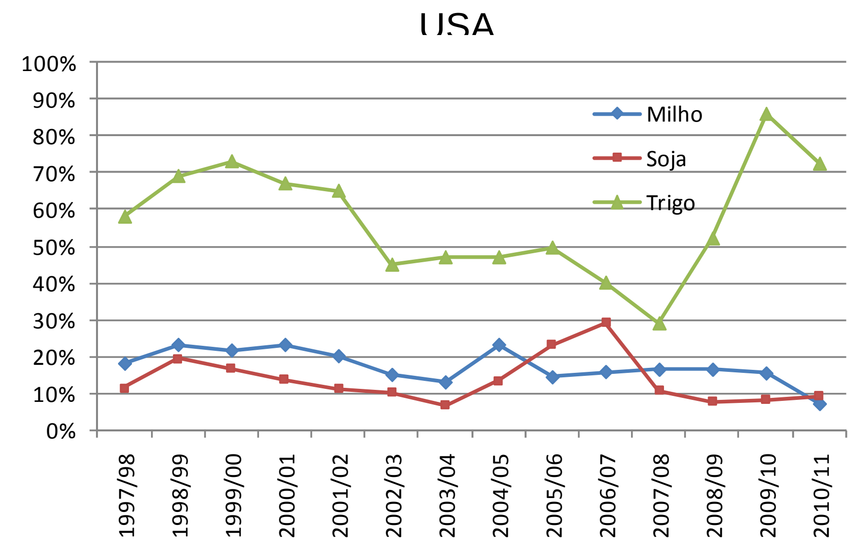
**2010

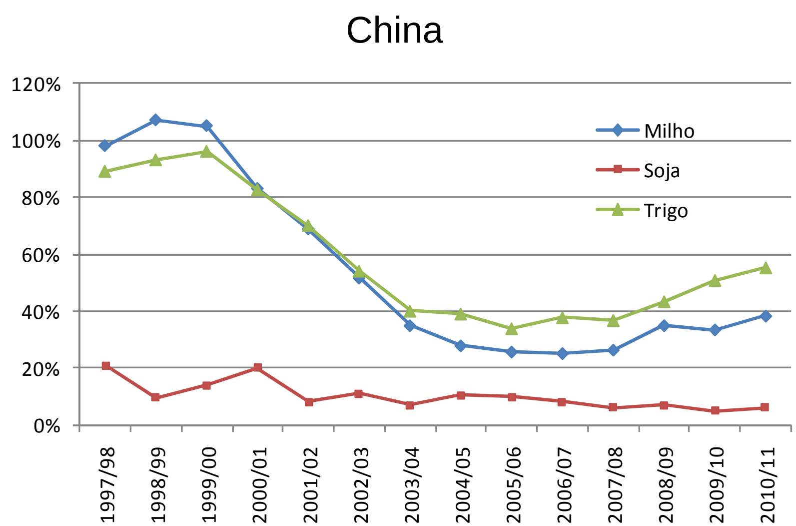
Source: FMI

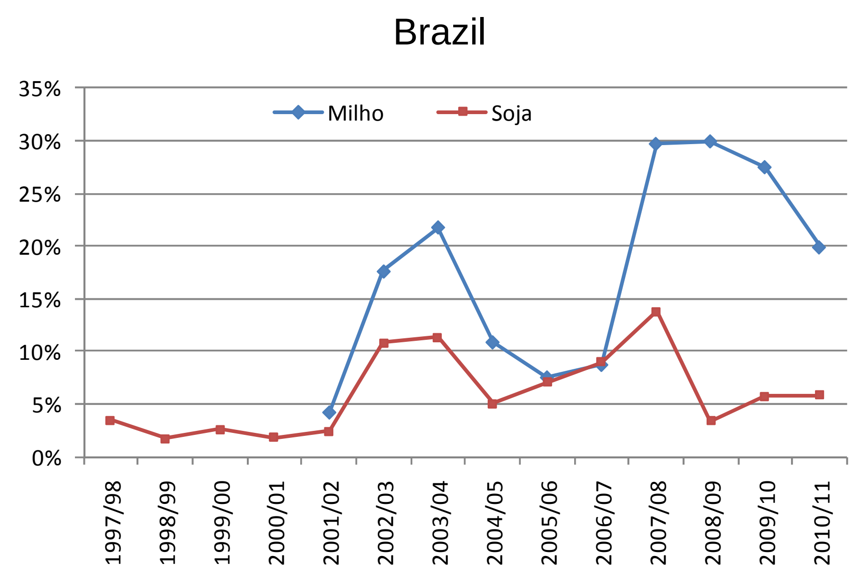
- **Recovery shy;**
- **European Crisis**
  - **Is it a fiscal crisis? What will affect the midle term cattle productions in Europe?**
- **Japan;**
- **Clashes – Libya and Egypt - oil**
- **Inflation in China – market opening;**
- **Economic Growth;**
- **Capital flows;**

Relation inventory/consumption for corn, soybean and wheat World, USA, China and Brazil





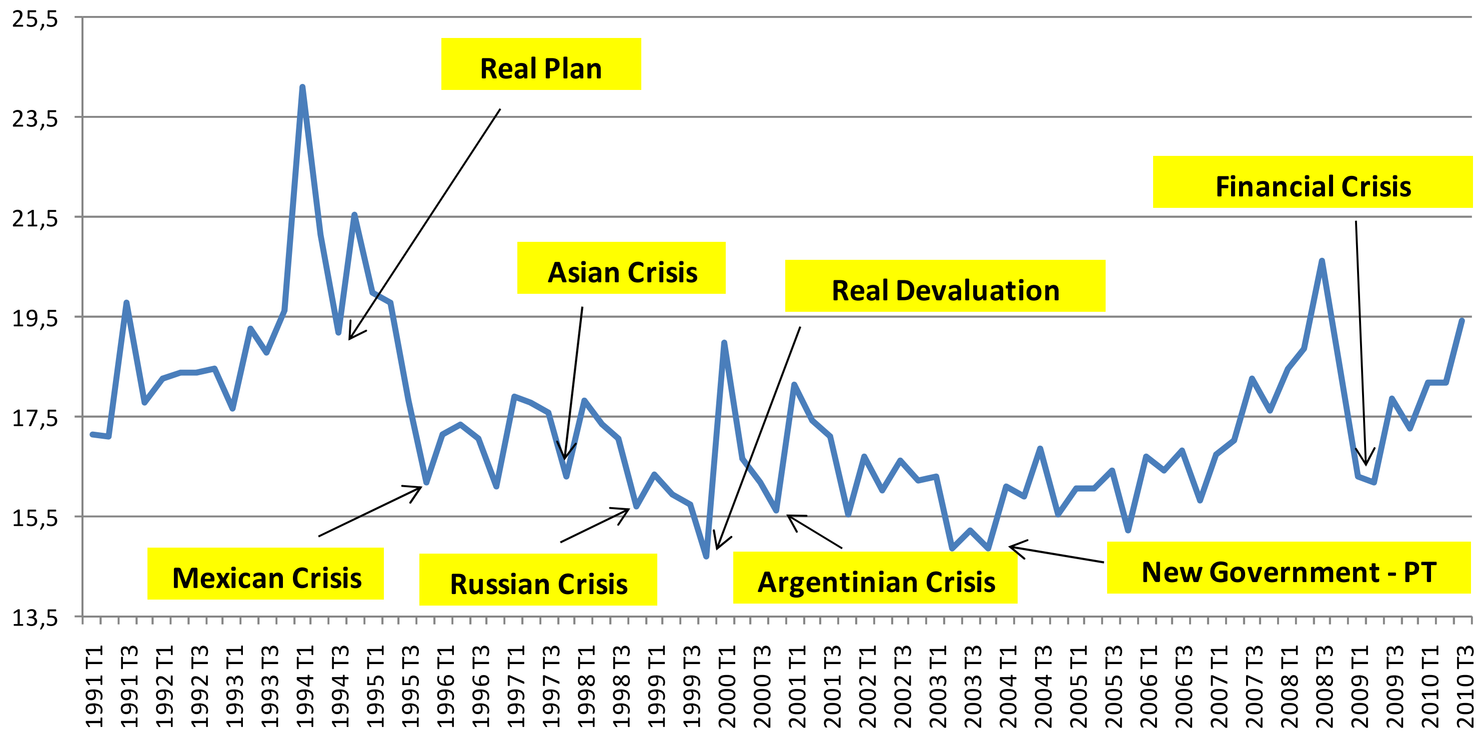




Source: USDA

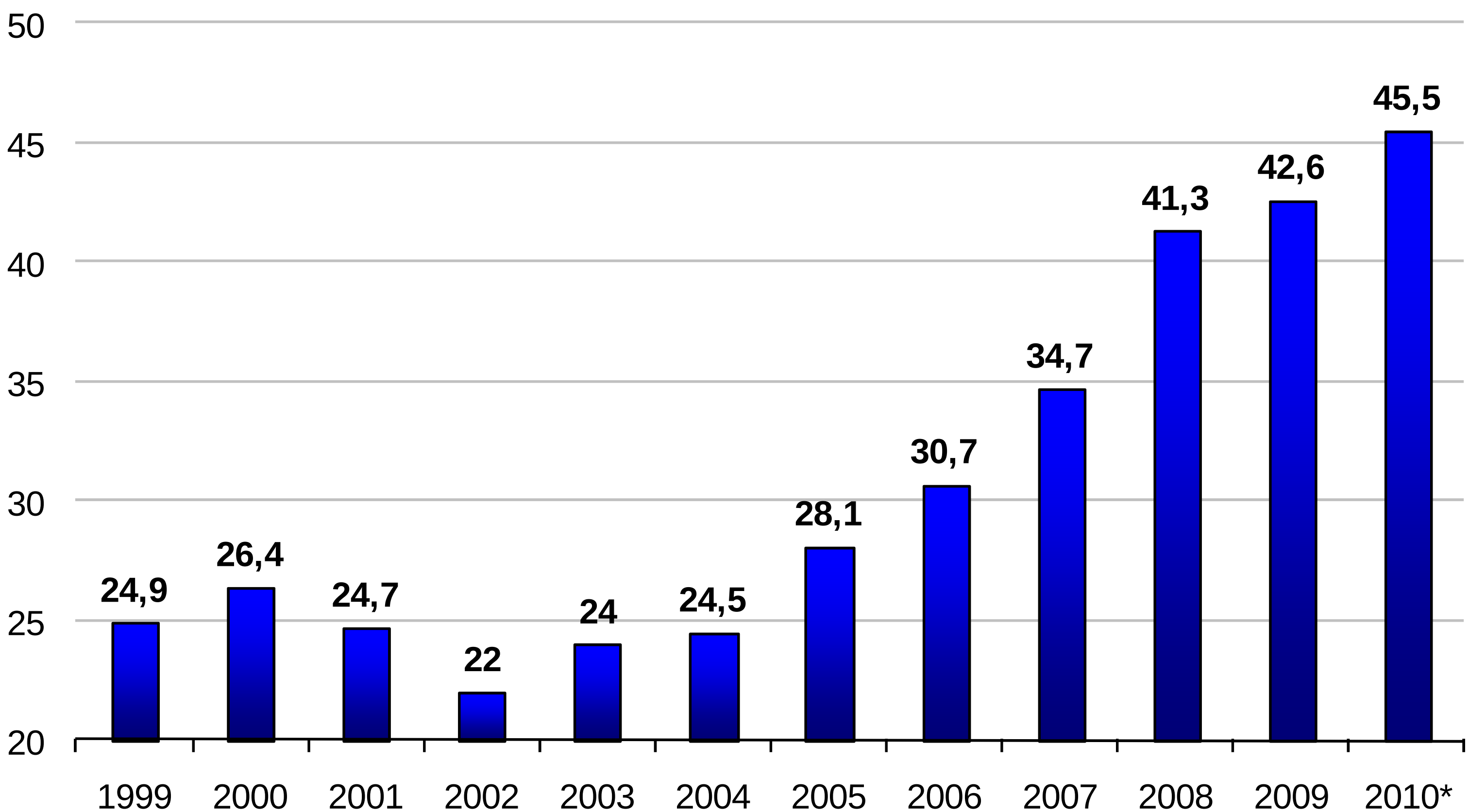
1.1. OVERVIEW OF BRAZILIAN ECONOMY

Real Investiment in Brazil – (% a.a.)



Source: Ipea/Bacen

Credit / GDP – in %



Source: Bacen

Summary of Projections
Main Economics Indicators

	2010	2011
GDP (Focus)	7,61	3,96
Unemployment rate (average)	6,3	7,0
Trade Balance (US$ bi)	16,9	20,0
Exchane (R$/US$) - Average	1,76	1,60
Exchange (R$/US$) - Final Period	1,70	1,61
Selic (in the year)	10,03	12,50
Selic (Final period)	10,75	12,16
IPCA	5,9	6,19
Foreign Direct Investment (US$ bi)	33	50

Source: Bacen, Ipeadata

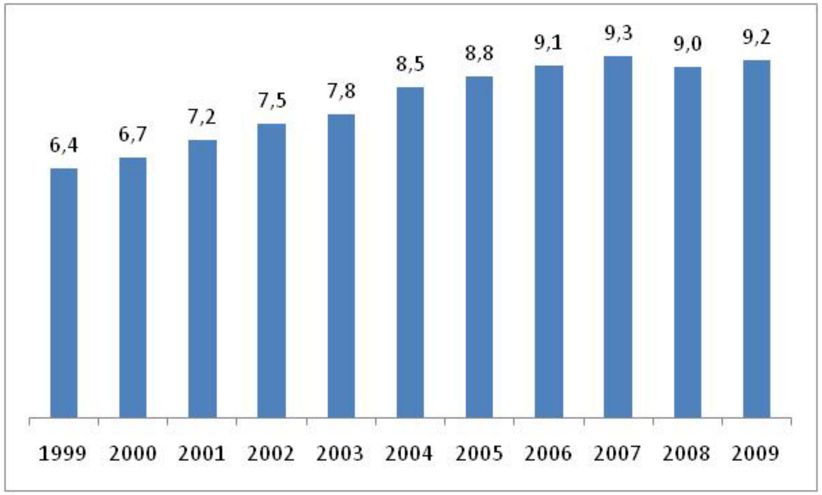
Brazilian Market

- Income increase:
  - **The new consumers - 50 million of consumers:**
    - First steep – chance poultry to beef;
    - Second steep – they want more quality beef;
    - Decrease the surplus to export to right value beef market – like European market.
    - More ship meat to export;

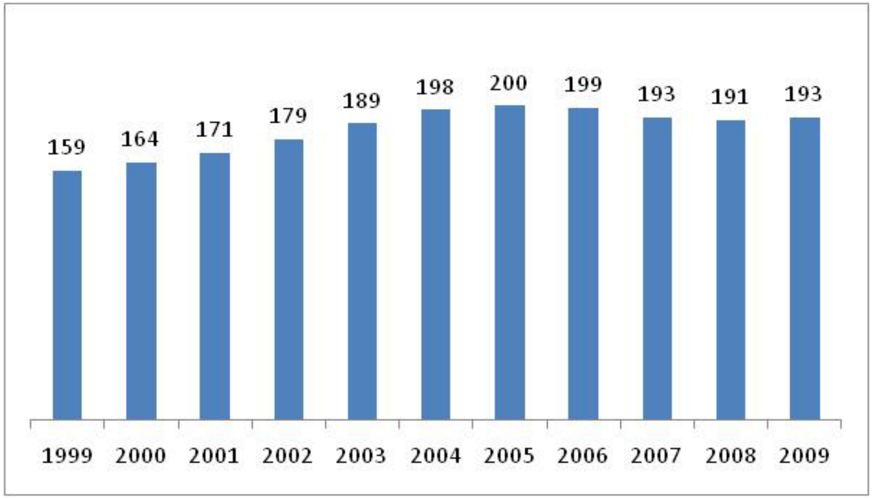
2. OVERVIEW OF BRAZILIAN BEEF SECTOR

Brazilian Overview

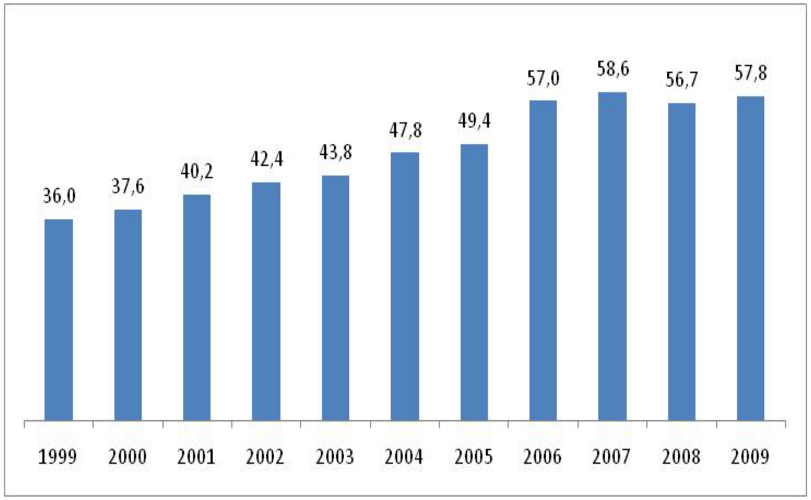
Production (millions tons)



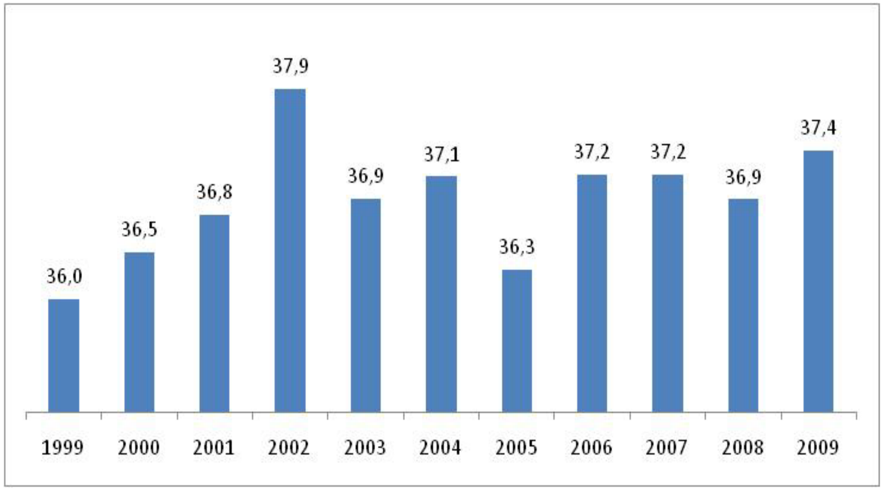
Cattle (millions of herds)



Productivity (kg/ha)



Consumption (kg per capita)



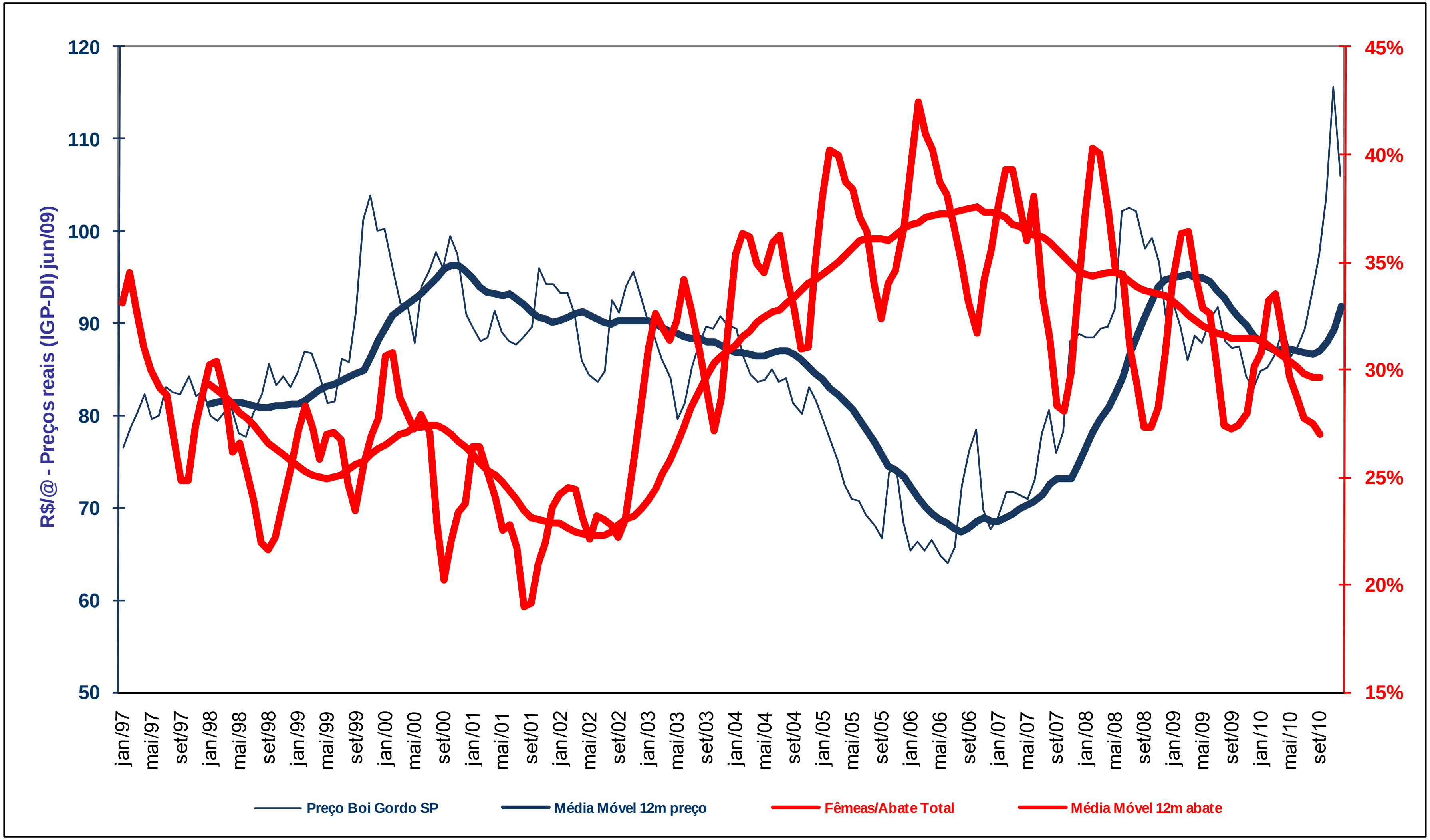
Source: CNPC, CNA and IBGE

Brazilian Overview

	2009 arrobas/heads	2010 arrobas/heads	Variation 2010/2009	2009 Number of heads	2010 Number of heads	Variation 2010/2009
jan	15,65	16,03	2,47%	2.206.733	2.338.000	5,95%
fev	15,56	15,86	1,95%	2.039.241	2.196.000	7,69%
mar	15,54	15,90	2,32%	2.243.560	2.541.000	13,26%
abr	15,62	15,97	2,21%	2.183.464	2.458.000	12,57%
mai	15,72	16,08	2,29%	2.348.953	2.584.000	10,01%
jun	15,80	16,08	1,82%	2.367.483	2.544.000	7,46%
jul	15,94	16,02	0,48%	2.428.941	2.564.000	5,56%
ago	16,01	15,97	-0,25%	2.377.424	2.405.000	1,16%
set	16,01	15,90	-0,70%	2.397.191	2.425.000	1,16%
out	16,17	15,78	-2,36%	2.519.059	2.323.000	-7,78%
nov	15,81	15,61	-1,28%	2.345.263	2.358.000	0,54%
dez	15,96	15,41	-3,41%	2.605.376	2.502.000	-3,97%
Average						

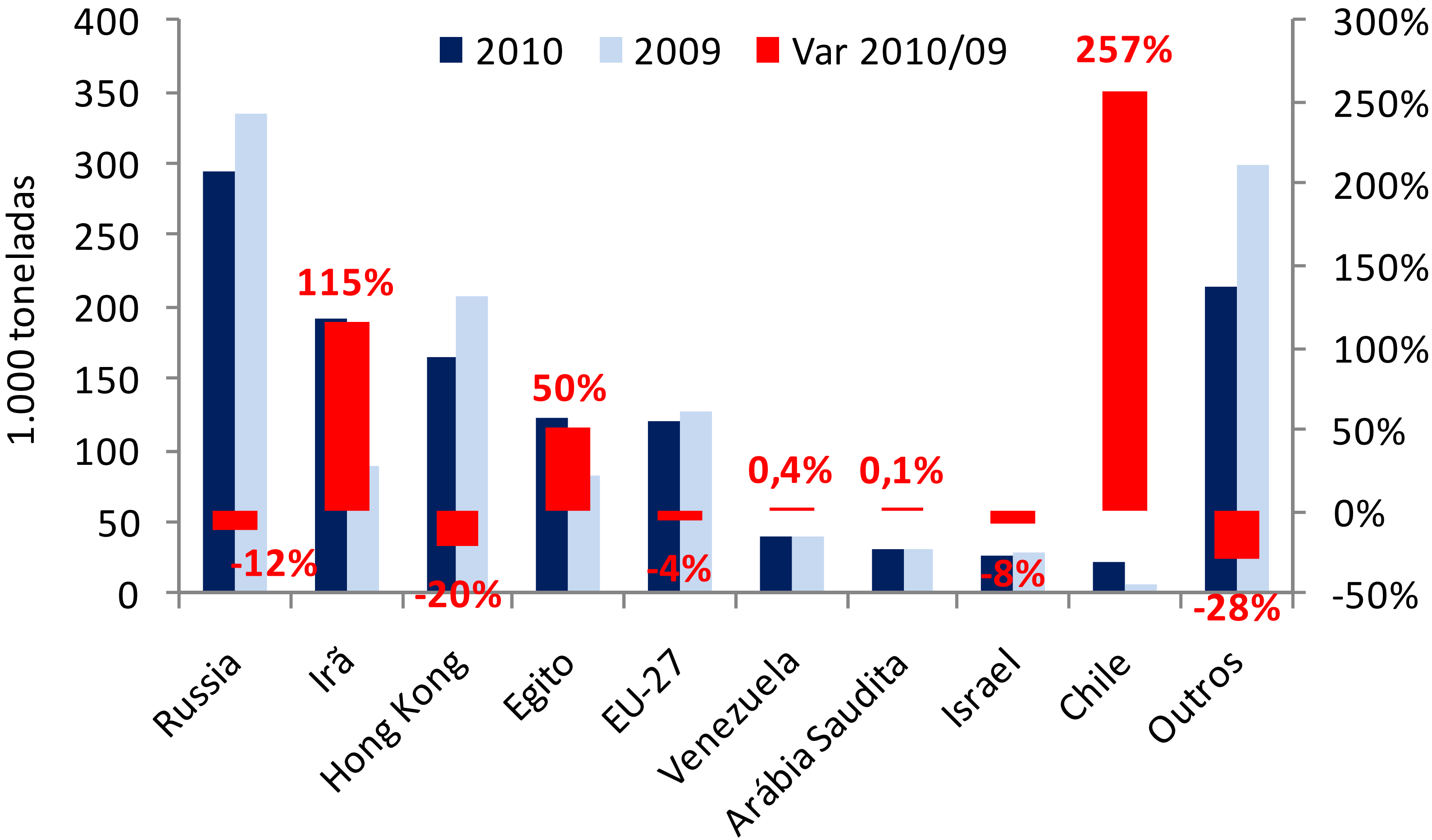
Source: IBGE

Participation slaughter Females (%) x total slaughter on the Live Cattle Prices (U.S. $ / @ - deflated IGP-DI)



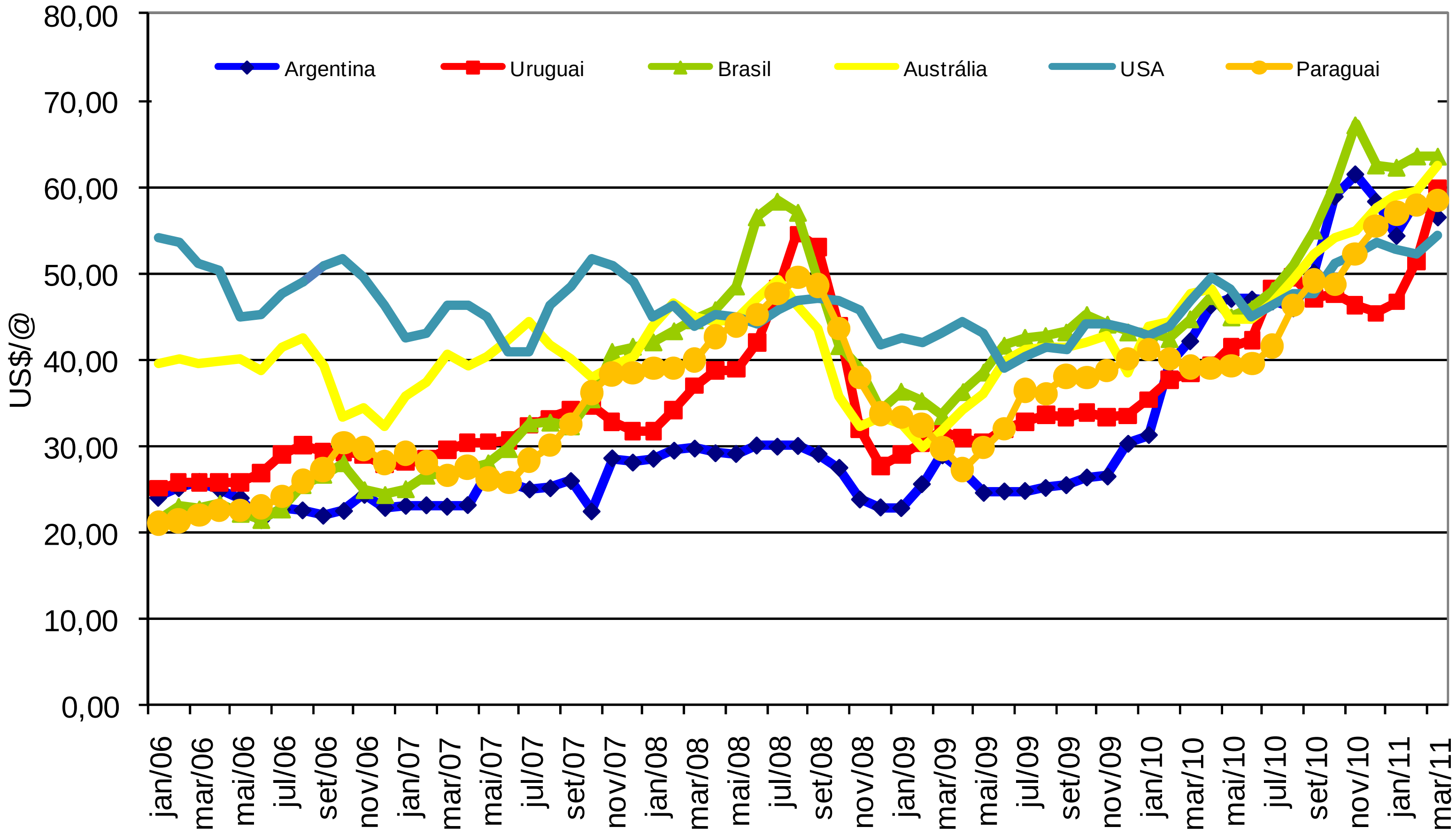
Fonte: IBGE e CEPEA

Brazilian Exports Beef
By destination



Source: Abiec, 2011

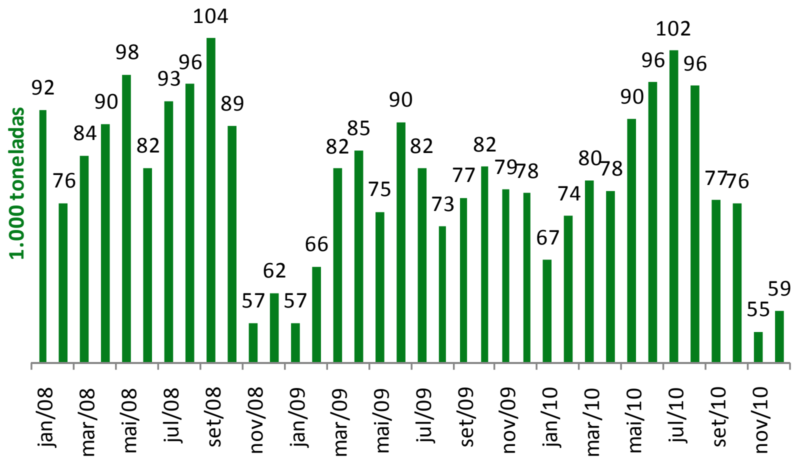
Cattle Prices in US$/@: WORLD



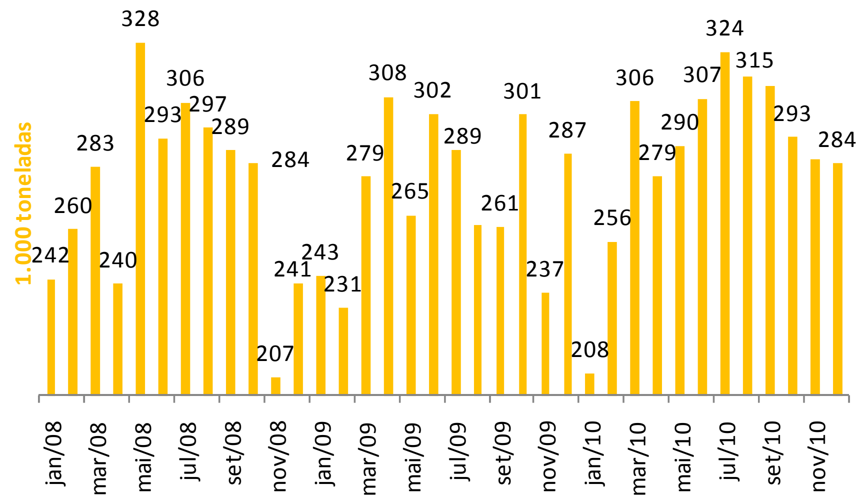
Source: CEPEA, SAGPYA, INAC, MLA and USDA

Brasilian Export Meats

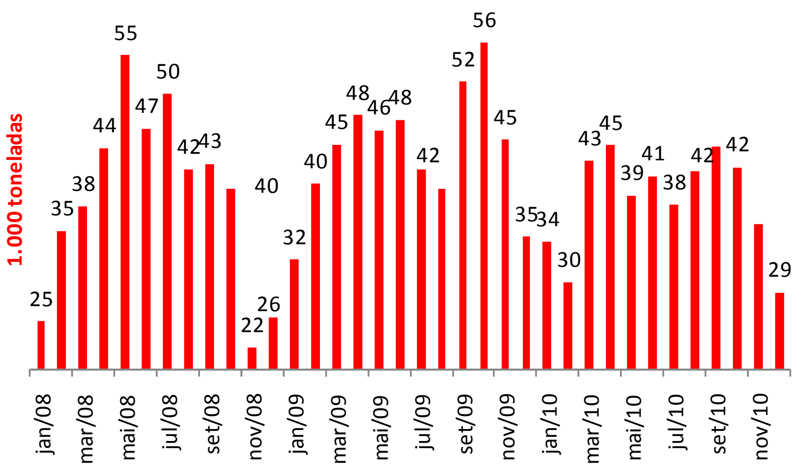
Beef *in natura*

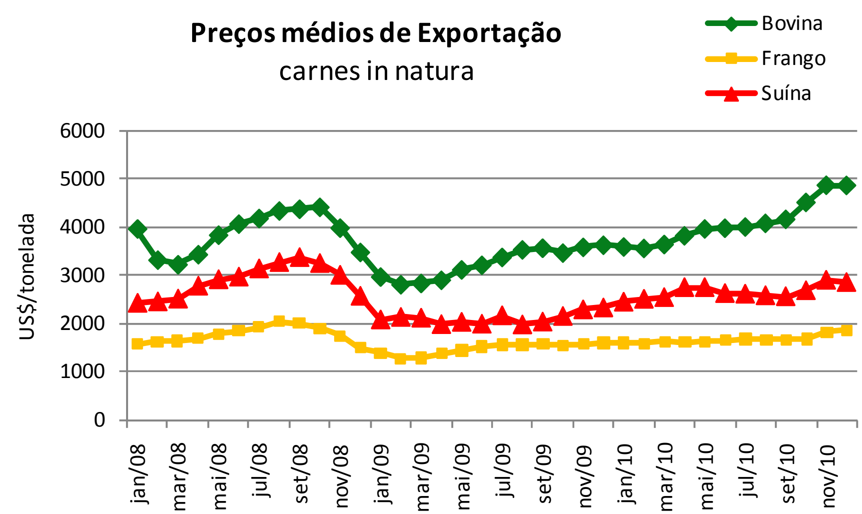


Chicken *in natura*



Swine *in natura*

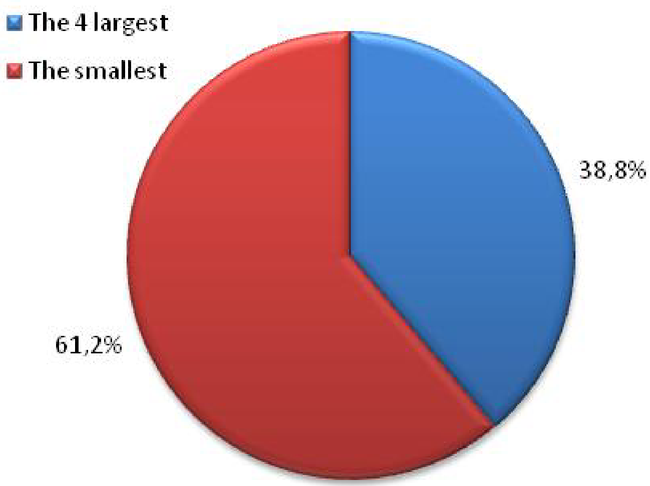




Source: Secex

3. THE BRAZILIAN INDUSTRY

- There are 183 slaughterhouses with SIF (Federal Sanitary Control)

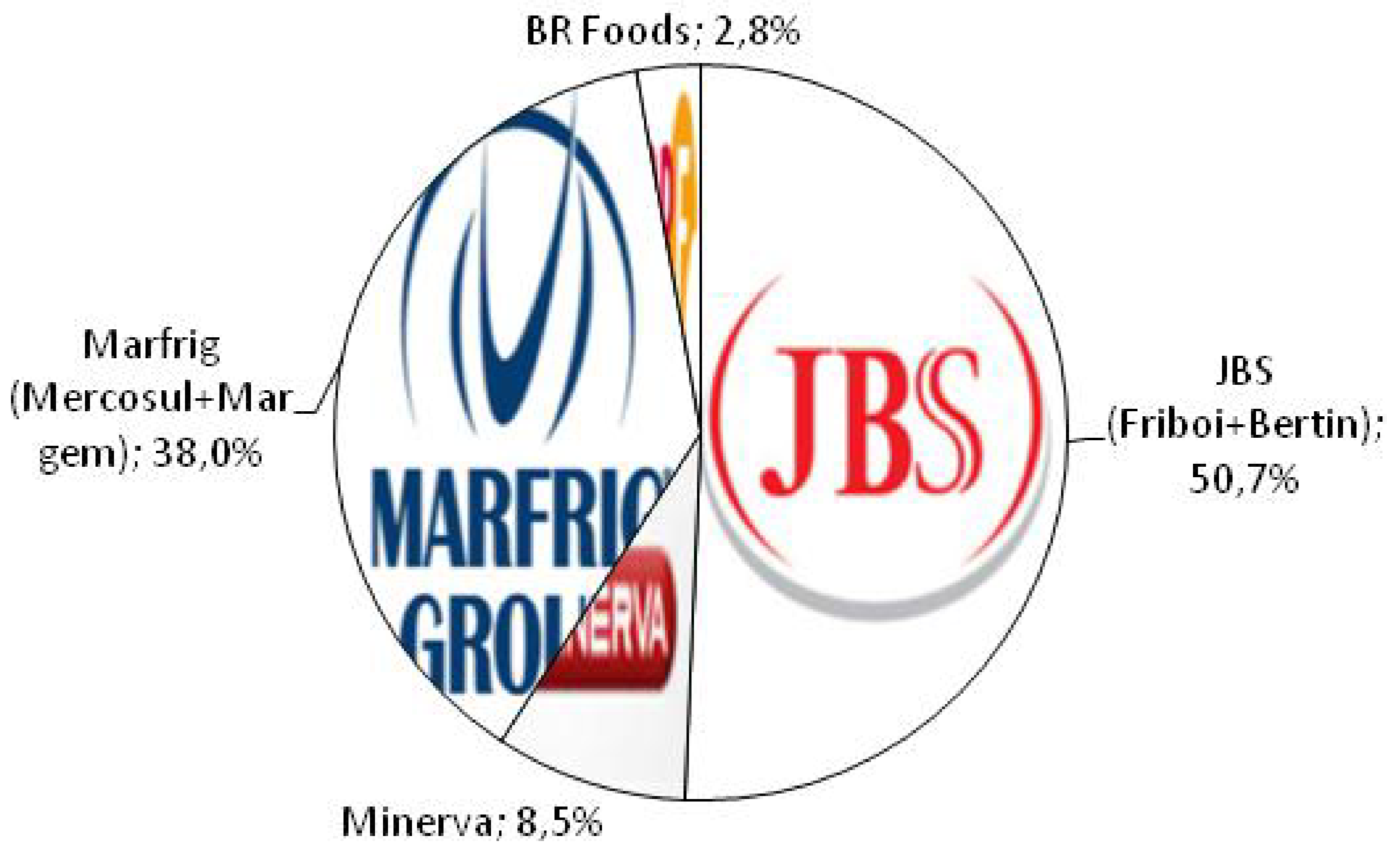


71 slaughterhouses

JBS
MINERVA
MARFRIG GROUP
BRF BRASIL FOODS

Source: CEPEA

Participation of the 4 largest groups in 71 slaughterhouses



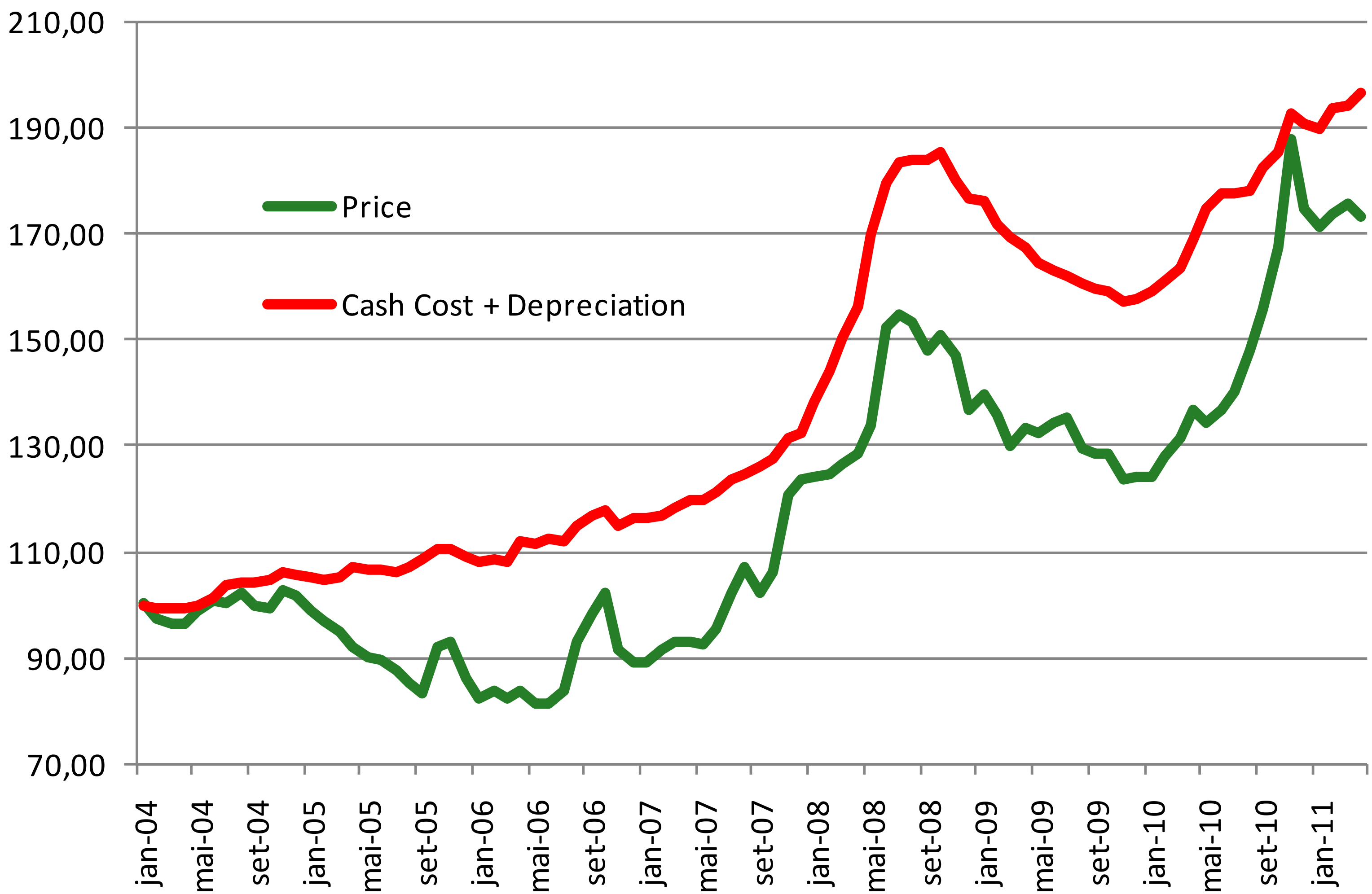
Source: CEPEA

- The total industry are slaughtered
    - 80.773 cattle/day
    - 1.777.006 cattle/month
- Their capacity are 2.887.830/month (slaughtered only 60% of their capacity)
- The four largest groups slaughtered 33% of total in Brazil

Source: CEPEA

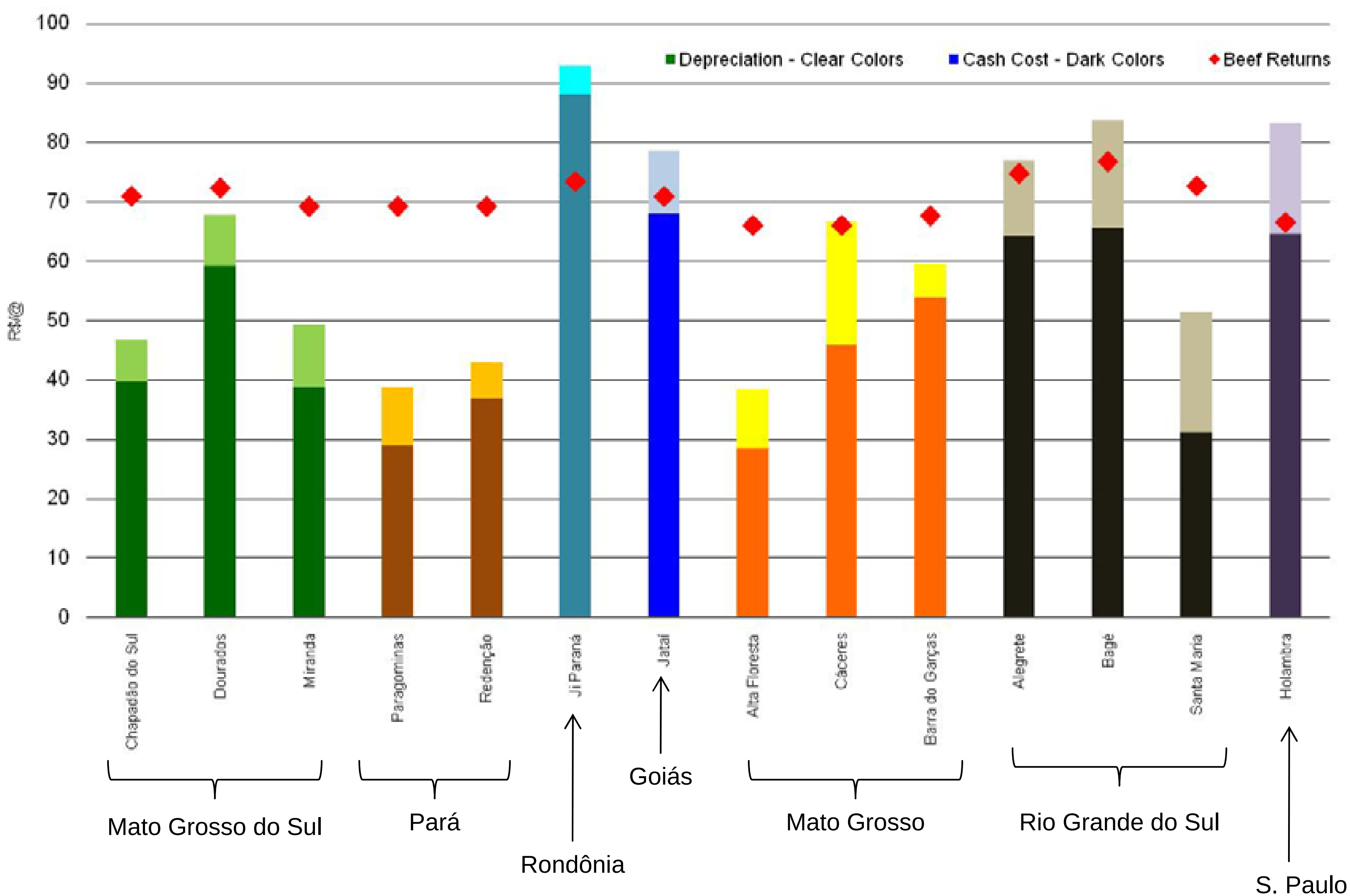
4. BRAZILIAN COSTS AND FARMS

Evolution of cost of production and beef price 2004-2011 (Index january 2004 = 100)



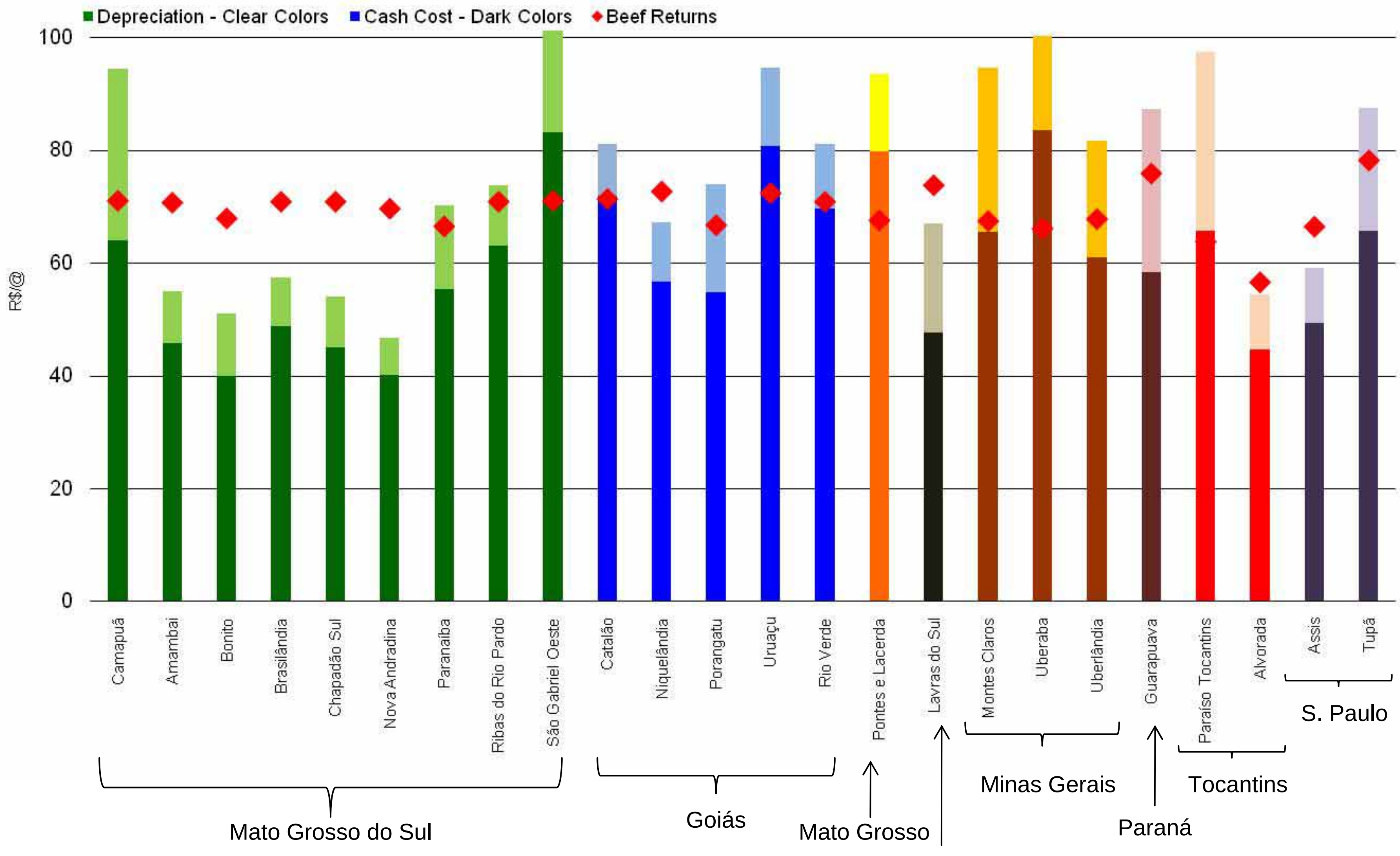
Source: CEPEA/CNA

Cash Costs, depreciation and returns in Brazilian Typical finishing farms



Source: CEPEA/CNA

Cash Costs, depreciation and returns in Brazilian Typical cow-calf farms



Source: CEPEA/CNA

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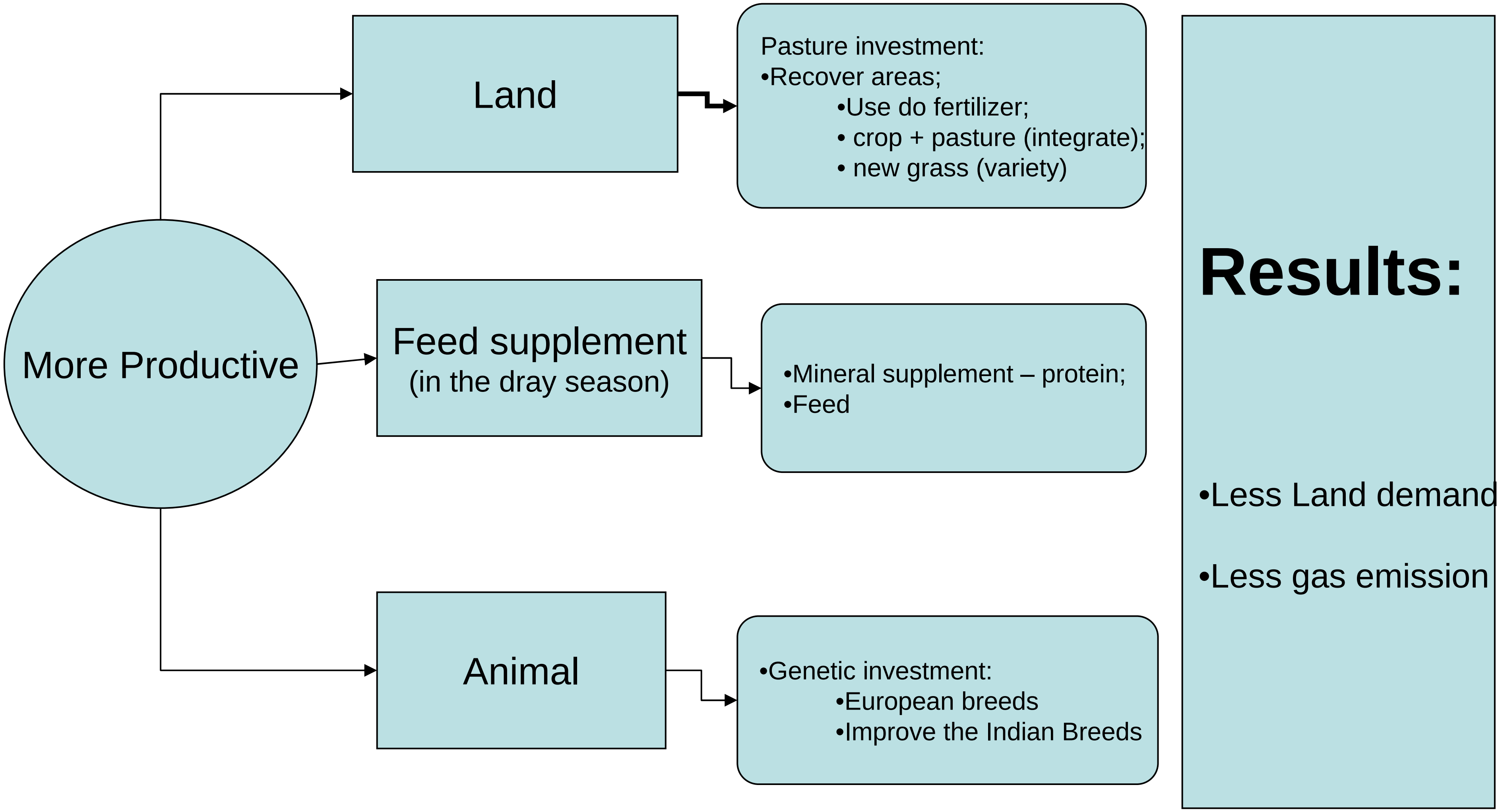
5. BRAZILIAN POTENTIAL TO BEEF PRODUCTION

Focal Studies: Mato Grosso do Sul's State

SUSTAINABILITY IN LIVESTOCK PRODUCTION



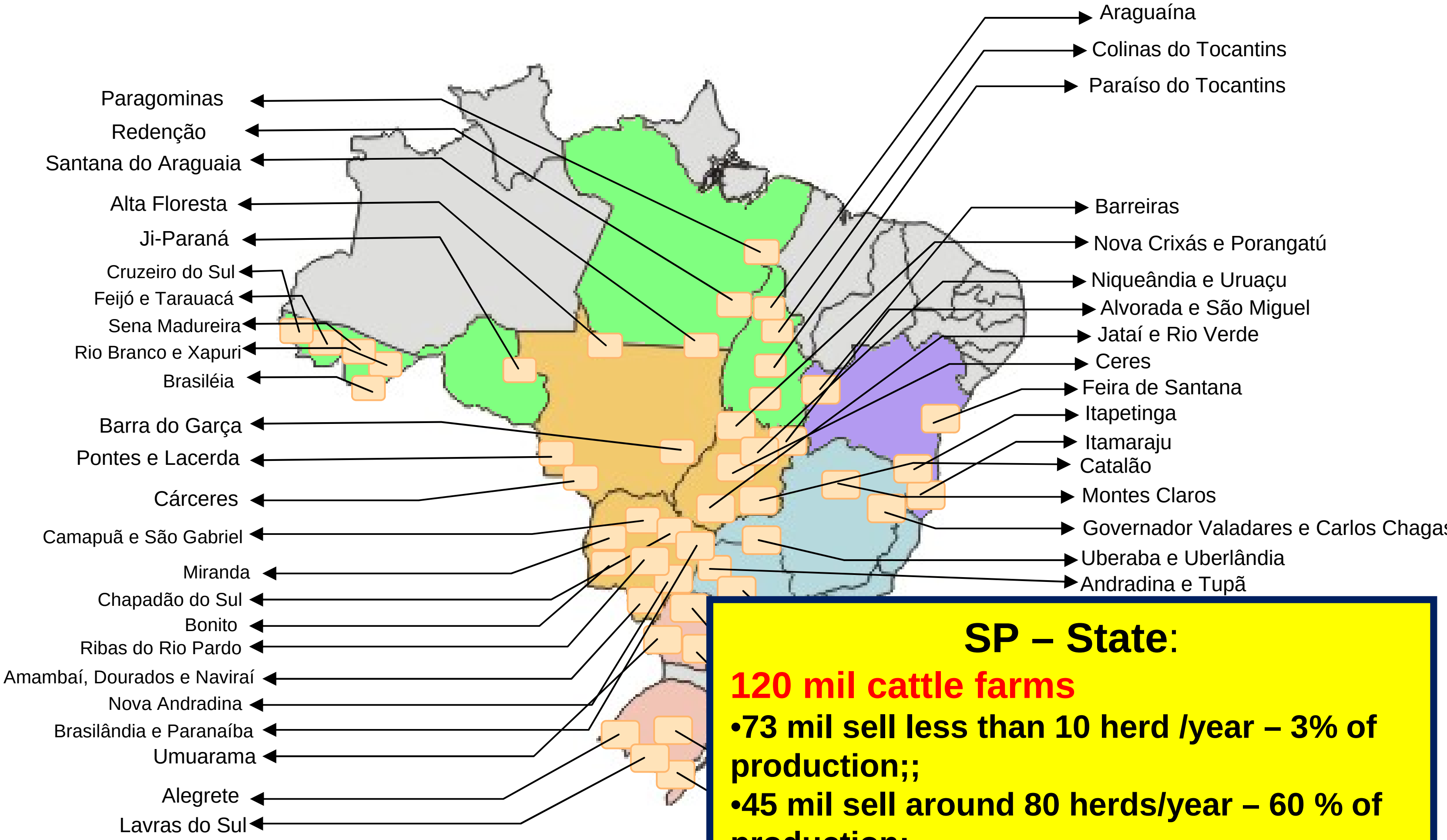
Brazilian Geographical Distribution

	Million of ha	%
Pasture	170	20,2
Conservation's Unity	176	20,7
Indians Lands	118	13,9
Social Lands (MST)	77	9,0
Cash Crop Lands	72	8,4
Cultivated Forests	5	0,6
Lands for another use	160	18,8
Unexplored Lands Available for Agriculture (not consider Amazonia Forest)	**106**	**12,5**
Total	**851**	**100**

Source: IBGE, MAPA, Conab e ABRAF.

*** 106 million of ha to produce others things (ethanol, cash crops, etc), without beef production**

Mapeamento das fazendas típicas



SP – State:

120 mil cattle farms

•73 mil sell less than 10 herd /year – 3% of production;;

•45 mil sell around 80 herds/year – 60 % of production;

•1,7 mil sell more than 350 herd/year – 37% of production.

Fonte: CEPEA / CNA

24/6/2011

Emission

	Brazil Average	Semi intensive	Intensive
Emission per GEE			
Methane (kg CH_4)	91.926,78	157.493,85	343.232,70
N_2O - Animal (kg N_2O)	25,49	42,68	92,89
N_2O - Soil (kg N_2O)	0,232	569,59	82.487,29
CO_2 - Management (kg CO_2)	0,000	111.222,22	610.347,22
Emission/ kg of produced beef			
CH_4 (kg CH_4/unity)	1,42463	1,24823	1,15
N_2O - Animal (kg N_2O/unity)	0,00040	0,00034	0,00
N_2O - Soil (kg N_2O/unity)	0,00000	0,00451	0,28
CO_2 - Management (kg CO_2/unity)	-	0,88150	2,05
Emission in t.CO_2eq.			
CH_4	2.114,32	3.622,36	7.894,35
N_2O - Animal	7,902	13,23	28,79
N_2O - Soil	0,072	176,57	25571,06
CO_2 - Management	-	111,22	610,35
Emission (kg CO_2 eq/kg beef)			
CH_4	32,77	28,71	26,53
N_2O - Animal	0,12	0,10	0,10
N_2O - Soil	0,00	1,40	85,94
CO_2 - Management	-	0,88	2,05
Total (kg CO_2 eq./kg beef)	**32,89**	**31,10**	**114,62**

Kg of produced beef	64.526,67	126.173,33	297.556,15
Ureia (kg/ha)	0	80	412,5

Source: CEPEA

- C and CO_2 Rate of Sequestration and Maintence of Pasture
  - Mg C ha^{-1} ano^{-1} = **1,7 to 3,5**
  - Mg CO_2 ha^{-1} ano^{-1} = **6,1 to 12,8**

Source: UFSCAR

- Balance

	Brazil Average	Semi intensive	Intensive
Total (kg CO_2 eq./kg beef)	32,89	31,10	114,62
Kg of produced beef	64.526,67	126.173,33	297.556,15
Total of CO_2 (tons)	2.122,29	3.923,39	34.104,55
Sink (tons)	6.000	6.000	12.800
Balance	**3.877,71**	**2.076,61**	**-21.304,55**

Source: CEPEA

5. DEMAND AND SUPPLY IN THE FUTURE

Expectation of production, consumption and the surplus of beef - BRAZIL

Years	Growth Rate of GDP	Production (tons)	Consumption in tons	Surplus in tons
		Growth rate of production 3,5%		
2.010	7,6%	9.583.920,00	7.472.872,81	**2.111.047,19**
2.011	4,0%	10.005.612,48	7.668.303,14	**2.337.309,34**
2.012	4,0%	10.445.859,43	7.868.844,35	**2.577.015,08**
2.013	4,5%	10.905.477,24	8.086.681,22	**2.818.796,02**
2.014	5,0%	11.385.318,24	8.322.933,28	**3.062.384,96**
2.015	5,0%	11.886.272,25	8.566.087,44	**3.320.184,80**

Source: CEPEA and Bacen

Growth rate of Production 3,5%: last 10 years

Expectation of production, consumption and the surplus of beef - World

Years	Growth Rate of GPD	Production (tons)	Consumption (tons)	Surplus (tons)
		Growth Rate of Production 1,01%		
2.010	5,1%	57.570.064,90	57.959.860,74	**-389.795,84**
2.011	4,3%	58.128.494,53	59.448.986,51	**-1.320.491,98**
2.012	4,5%	58.692.340,93	61.014.784,79	**-2.322.443,86**
2.013	4,5%	59.261.656,63	62.621.823,88	**-3.360.167,25**
2.014	5,0%	59.836.494,70	64.372.348,73	**-4.535.854,03**
2.015	5,0%	60.416.908,70	66.171.807,59	**-5.754.898,89**

Source: CEPEA , USDA and FMI

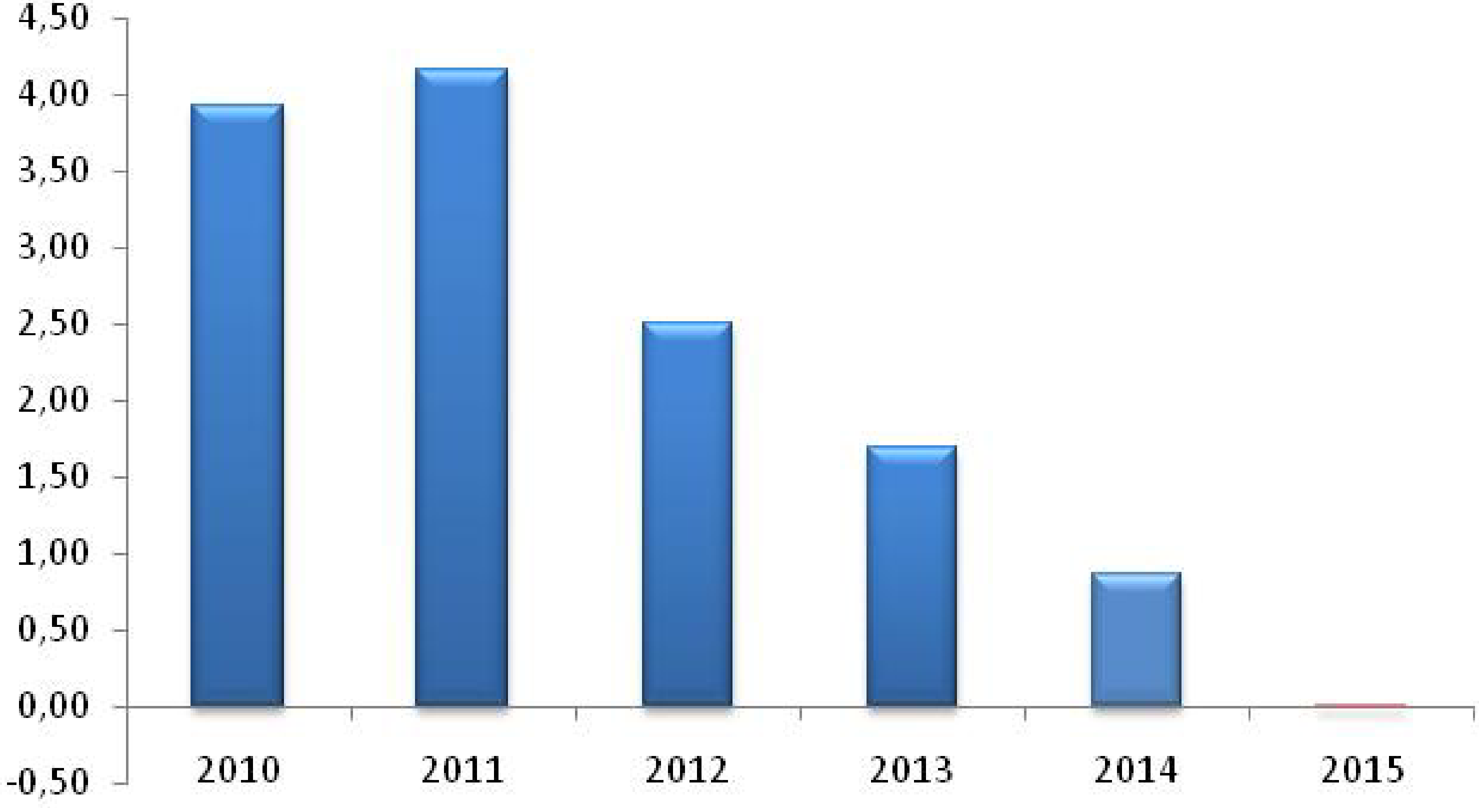
Growth rate of Production 1,01%: last 10 years

GROWTH SCENARIO OF SOUTH AMERICA PRODUCTION

	ACTUAL SCENARIO	GROWTH SCENARIO
Argentina	2,15%	7,00%
Brazil	3,50%	10,30%
Chile	1,47%	6,00%
Paraguay	6,68%	10,00%
Uruguay	4,49%	9,00%

Source: CEPEA

Expectation of surplus of beef – WORLD – Growth Scenario millions of tons



Source: CEPEA

Challenges and Opportunities

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