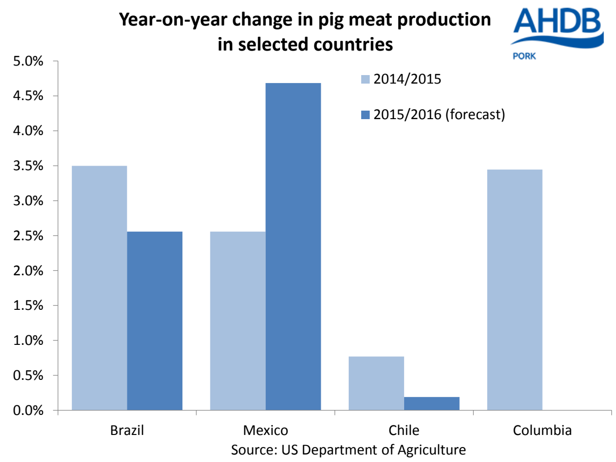
Focus on Latin America

Latin American countries have been increasing their pork production over recent years, with certain countries now becoming major players in the global market. There are a couple of countries which are major exporters – Brazil and Chile. While the net importing countries in the region may currently offer limited trade, there are potential opportunities for the future and it would be prudent to explore them further.

Brazil was the fourth largest global pork producer in 2015, after China, the EU and the United States. Production is forecast to increase once more in 2016, by 3%, to support higher pork exports and increasing domestic demand. Brazilian corn prices have increased over 60% in the last year due to the weakening currency and booming exports. The Brazilian government have responded to this by selling corn from government stocks at subsidised prices.

Brazilian pork consumption has continued to increase as the current economic climate has made consumers more price conscious. Pork prices remain firm and more competitive than beef. There has also been an extensive marketing campaign to improve the consumption of fresh pork

In 2015, Brazil exported 473,000 tonnes of fresh/frozen pork. This is forecast to increase again in 2016, supported by both the devaluation of the Brazilian currency and firm exports to Russia and China. The number of plants accredited to export to these countries has increased. Furthermore, Brazilian pork is expected to become more competitive in established markets such as Angola, Japan, Mexico and Singapore. South Korea has also opened its markets up to Brazilian pork after years of negotiation, so this will further support exports.

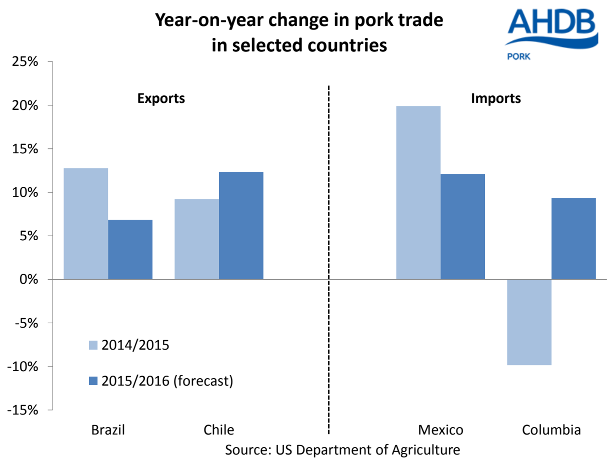


The Mercosur trade deal, which is currently in negotiation, may eventually provide limited access to the EU market for Brazilian pork. However, the quantities involved would still be relatively small compared with overall EU supply levels.

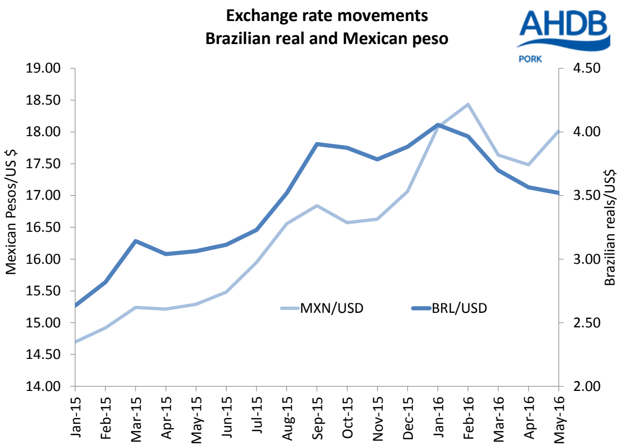
Mexico has also recorded increases in pork production over recent years and is forecast to grow by a further 5% in 2016. This growth will be driven by several factors, including continued recovery from PEDv, better genetics and an enlargement of the breeding herd. Improved genetics, combined with lower feed prices, are forecast to continue lowering production costs. Per capita consumption has grown to almost 19kg/head and has increased due to price competitiveness of pork over beef. Consumers continue to gain confidence in pork as a reliable, healthy protein source.

Mexico is a major importer of pork and is almost completely served by the United States, although Canada did increase its slice of the market in 2015. However, the Mexican market has recently been opened up for fresh pig meat from Spain, which may pave the way for exports from other EU Member States. Traditionally, the Mexican market imports cuts that are popular in the UK, particularly legs, so the UK may not be well placed to export to Mexico. However, the fact that other EU member states will, may reduce the supply of these cuts in the EU and hence support the price in the UK.

While Mexico is a net importer of pork, its exports have been increasing over recent years and shipments are forecast at a record 150,000 tonnes for 2016. Mexico recently received recognition from Japan as free of Classical Swine Fever, and is now able to export pork from all states. Japan is the largest market for Mexican pork, accepting over 80% of all Mexican pork shipments. The Trans-Pacific Partnership (TPP) agreement, of which both countries are members, will provide an opportunity for Mexico to increase its shipment levels. In addition to this, Mexico continues to pursue exports to other Asian countries, in particular South Korea.



Both the Brazilian real and the Mexican peso have weakened against the US dollar over the past year. This has had a significant effect on the global pork market. The depreciation of the real has been exacerbated by the current Brazilian economic recession. This has led to higher export volumes, as Brazilian pork has become extremely competitive on the global stage. However, this price drop has compounded the global depreciation of pork. Forecasts for 2016 show the Brazilian economy remaining in recession, and therefore downwards pressure will remain on the real.



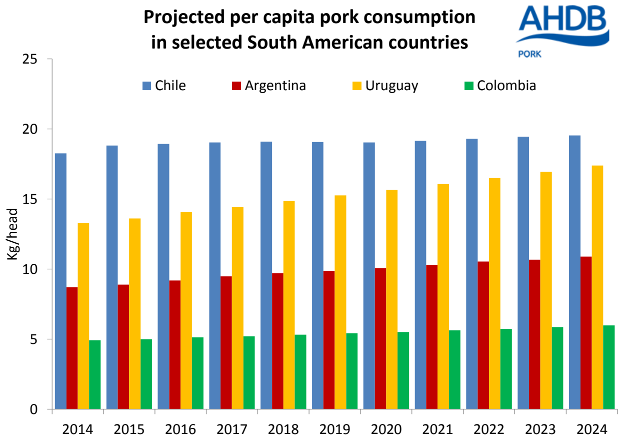
Source: Pacific Exchange Rate Service

The weakening peso in Mexico should, in theory, help reduce import levels as domestic product becomes more competitive. However, Mexican production is unable to keep pace with demand, so this deficit needs to be filled by imports. Coupled with this, low US pork prices will mitigate the inflationary effects of the strong dollar and shipment levels are forecast to continue to rise.

Chile's pork production has increased significantly over the past 10 years, although it is still some way behind other protein sources. However, production growth has slowed in the past couple of years as the industry has faced some challenges. Price increases have been recorded in the imported raw ingredients of animal feed. In addition, since 2013, the Chilean herd has suffered PRRS, and currently no vaccines are allowed in Chile.

OECD-FAO projections forecast a modest increase in per capita pork consumption in Chile, which may provide an import opportunity, especially if production growth continues to stagnate. Nevertheless, the Chilean pork industry achieved strong growth in export volumes in 2015, up 10% on a year earlier, with large volumes of pork being exported to Japan, South Korea, China and Russia.

There has also been a strong growth in Argentinian pork production, although volumes remain well behind those of beef. The majority of this growth has been consumed domestically, with limited offal exports. Exports are restricted due to the use of the FMD vaccine. The industry has almost doubled in size over the past few years, driven by domestic demand. Booming inflation is pushing consumers towards cheaper protein sources, such as pork and poultry, and away from beef. In addition, the government is also promoting pork consumption in an attempt to free up beef supplies for the more lucrative export market. Per capita consumption is forecast to increase over the next eight years and may provide an opportunity for exporters, if domestic production fails to keep pace.



Source: OECD-FAO Agricultural Outlook

Colombia has recently come onto the radar as a potential market for EU pork exports. Its pig industry has grown rapidly to over 4.6 million pigs in 2015, although more than a third are housed in backyard systems. In 2015, the pig industry in Colombia was in crisis. Exchange rate volatility put pressure on the market, causing the cost of production to rise.

These challenges may cause the slowdown of domestic pork production, which could potentially be filled by imported product if the demand was there. Import levels are relatively low (53,000 tonnes in 2014), and the market is largely served by the United States and Canada. Domestic consumption is low, but it is growing in popularity as consumers' confidence in pork increases and is forecast to rise.

While Uruguay could potentially be a strong pork producer, there is little government stimulus to grow the industry. There has historically been low domestic consumption of pork but it is forecast to increase relatively strongly over the next 8 years. Much of the pork is imported from Brazil, so if demand continues to be stimulated, there would be a need to be filled which cannot currently be serviced domestically.

There are potentially further opportunities in other, smaller Latin American countries. Most are currently supplied primarily by the US but EU exporters may be able to fill gaps if increased demand is stimulated. However, many of these markets are small and are unlikely to require significantly increased volumes in the near future.

It is clear that Latin America is a region with potential to become more important in the global pork market. Brazil and Chile are competitors for the EU in lucrative Far East market, aided by currency devaluation. Mexico represents both an opportunity and a potential competitor, while other countries in the region could also provide export opportunities in the years ahead.