

Required Report: Required - Public Distribution

Date: October 15, 2020

Report Number: BR2020-0042

Report Name: Dairy and Products Annual

Country: Brazil

Post: Brasilia

Report Category: Dairy and Products

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Report Highlights:

Post forecasts milk production in 2020 down 3 percent, to 23.5 million metric tons (MMT). Brazil's 2020 factory milk consumption is also lowered, to 15.3 MMT due to continued economic contraction related to the COVID-19 pandemic. The outlook for 2021 is uncertain as the pandemic has spurred a major recession in Brazil. However, Post forecasts milk production will reach 23.8 MMT, which would represent an increase of 1.3 percent compared to 2020, as the country will try to recover its production levels.

Introduction

In the 2019 Dairy Annual Report, which was published long before the onset of the COVID-19 pandemic, Post anticipated an improvement in economic conditions in Brazil, which would allow dairy production to grow. However, the economic effects of the viral outbreak have driven the Brazilian economy into recession, affecting demand trends. In March 2020, Brazil announced its first case of COVID-19 and several states announced lockdowns that curtailed economic activity. Now, authorities are permitting more freedom of movement throughout the country, but the economy remains fragile with many Brazilians out of work for months.

The outbreak initially led to increased purchases of fluid milk, as consumers prepared for quarantine by stocking up on important items. However fluid milk consumption is now projected to drop sharply as restrictive measures remain in place and the purchasing power of ordinary Brazilians has eroded through a lack of income, exhaustion of savings, and inflation decreasing purchasing power, especially for imported items. Despite government assistance payments to the poorest Brazilian families, the general population continues to have less purchasing power than they did before the pandemic. As a result, dairy categories such as cheese and butter are being tremendously affected. At this point, it's hard to predict the final numbers, as Brazil does not have official data for several of these other dairy categories, so Post is making its forecast based on the best available data. However, the unpredictable nature of the global pandemic and associated economic downturn give the market little stability on which to base Post's forecast.

Fluid Milk

Production

Post forecasts milk production in 2020 will fall by 3 percent, to 23.5 MMT. Due to the pandemic, the outlook for 2020 has been uncertain for the Brazilian dairy sector, and tight milk supplies have pushed up retail prices. The first five months of calendar year (CY) 2020 started on a bullish note for production, compared to 2019. However, the month of June showed a considerable decrease of 3.4 percent in milk production compared to the same period in 2019, according to the Brazilian Institute for Geography and Statistics (IBGE). This drop in supply is the result of drought conditions in the south of the country, which diminished pasture grass and postponed the beginning of the harvest in the region.

With the onset of the COVID-19 pandemic, consumption of chilled dairy products, such as cheese, has sharply decreased with the closure of food service networks. About 30 percent of milk is used for cheese production in Brazil. Thus, the dairy industry has faced lower revenue in the short term as the sector struggles to divert that milk production for other purposes. Many small and medium producers have tried to create innovative ways to sell their dairy products, but milk collection has been interrupted in some regions, especially those that direct a greater share of milk toward cheese production. Although comprehensive data are not yet available, the situation could have a massive effect on production levels for 2020. By comparison, during the 2018 trucker driver strike, dairy farmers were forced to dispose of more than 300 million liters of milk, leading to losses of R\$1 billion.



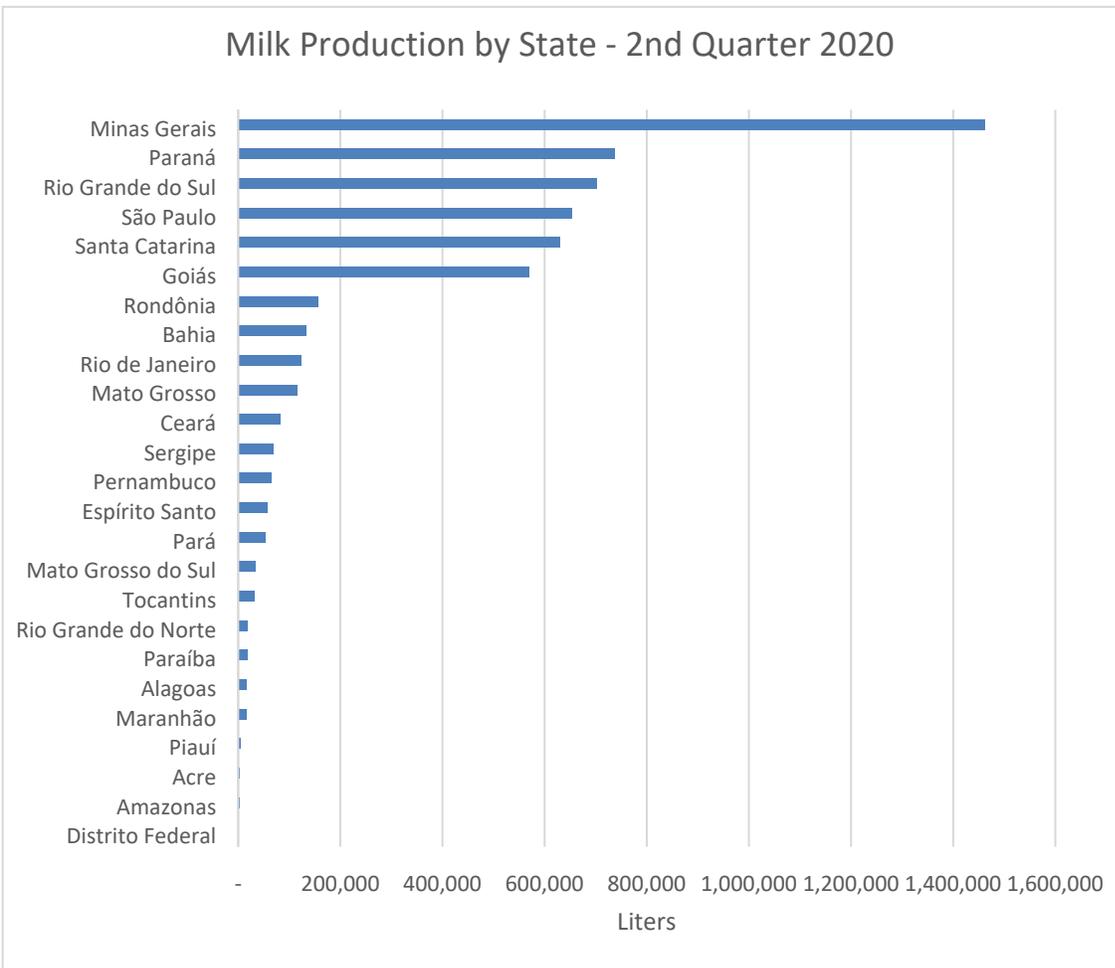
Region	Total 2019 Cow Milk Production, by Region (MMT)
North	987
Northeast	1,505
Central-West	3,176
Southeast	9,513
South	9,079
TOTAL	24,262

Source: IBGE

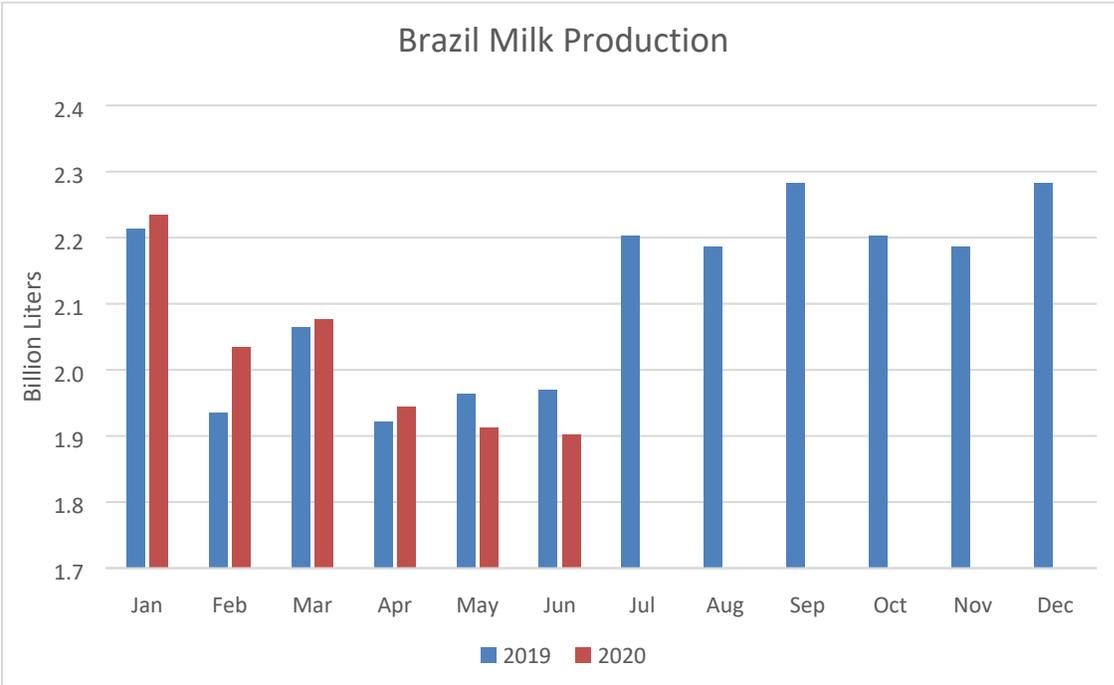
About three-fourths of Brazil’s milk production is concentrated in the country’s southeastern and southern regions. Total milk production in Brazil reached 24,262 MMT in 2019, an increase of 2 percent compared to the previous year. In 2019, the Southeast produced 9,513 MMT of cow milk, while the South produced 9,079 MMT. The southeastern state of Minas Gerais was Brazil’s largest milk producer last year, accounting for 25 percent of total milk production in 2019. Rio Grande do Sul and Parana

accounted for 13 percent and 11 percent, respectively, of total milk production. In 2020, dairy producers have seen rising operating costs, especially for feed and labor, but thus far increases in milk prices has been enough to maintain farmer margins at positive levels.

There are an estimated 1,921 dairies in Brazil. The state of Minas Gerais has the largest number of dairies, as well as some of the largest operations in the country, with 44 dairies among the 100 largest milk-producing farms nationwide, according to research by dairy industry news site MilkPoint. The size of dairy farms in the state of Minas Gerais reaches up to a 100 hectares. In contrast, the state of Parana has less than half the number of large operations as Minas Gerais, with 19 farms ranking among the 100 largest in Brazil. Rio Grande do Sul is the third-largest milk-producing state by volume, due to a large number of medium and small properties. Dairy farms in the state have an average size of just 30 hectares.

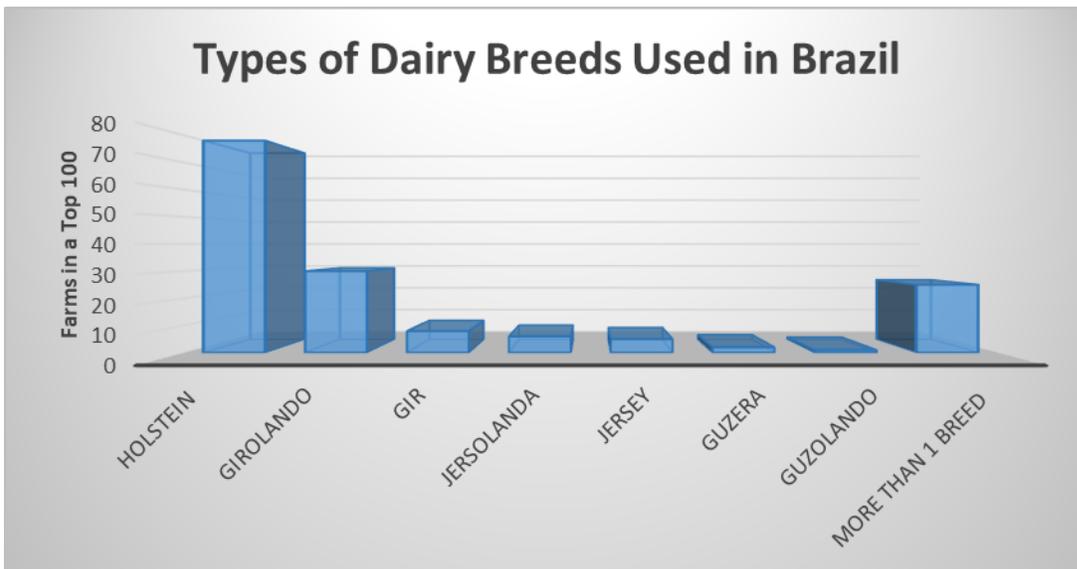


Data source: IBGE

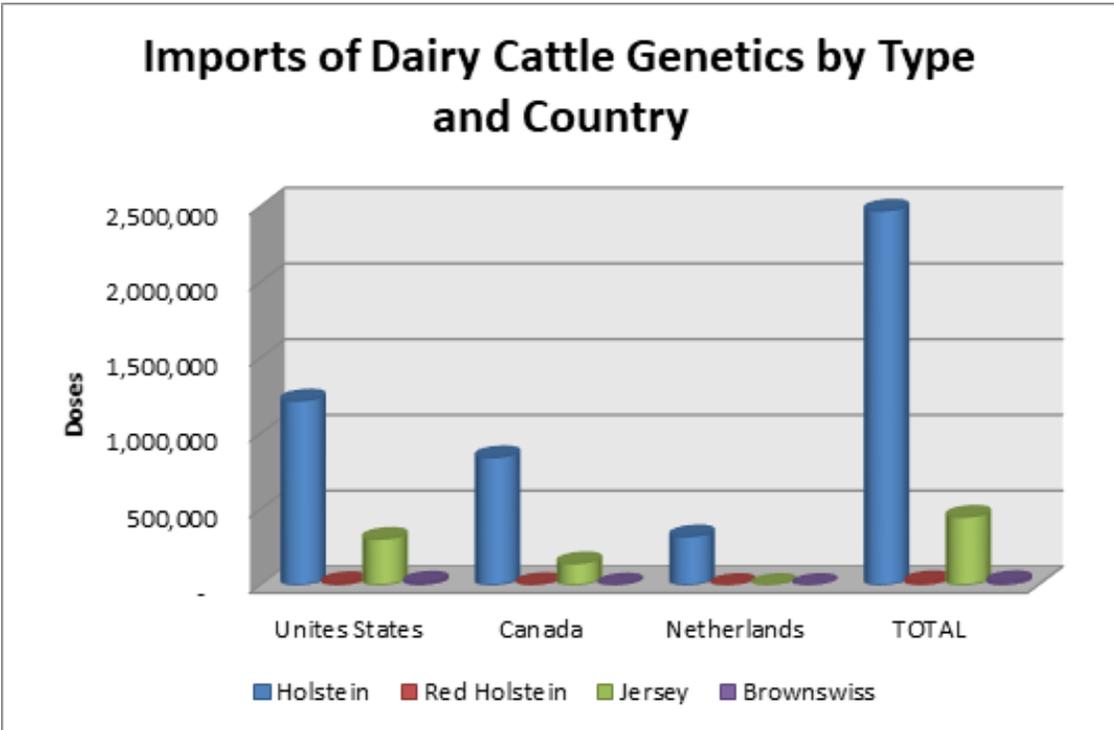


Data Source: IBGE

The Holstein breed remains the most popular among dairies in Brazil, with 70 of the 100 largest farms in the country using at least some cows from the breed, according to data collected by MilkPoint. The Girolando breed is used by 20 of the top 100 dairies. A quarter of the 100 biggest dairies report using more than one breed on their farm. With improving genetics and the use of the Holstein breed, productivity is on the rise. The top ten farms produced an average of 20,905 liters of milk per day, while the single largest farm in the country produced more than 75,000 liters/day in 2019. Brazil is not a significant importer of live cattle, but a major importer of beef and dairy cattle genetics, and the United States has been the traditional supplier.



Data source: MilkPoint



Data source: Brazilian Artificial Insemination Association (ASBIA)

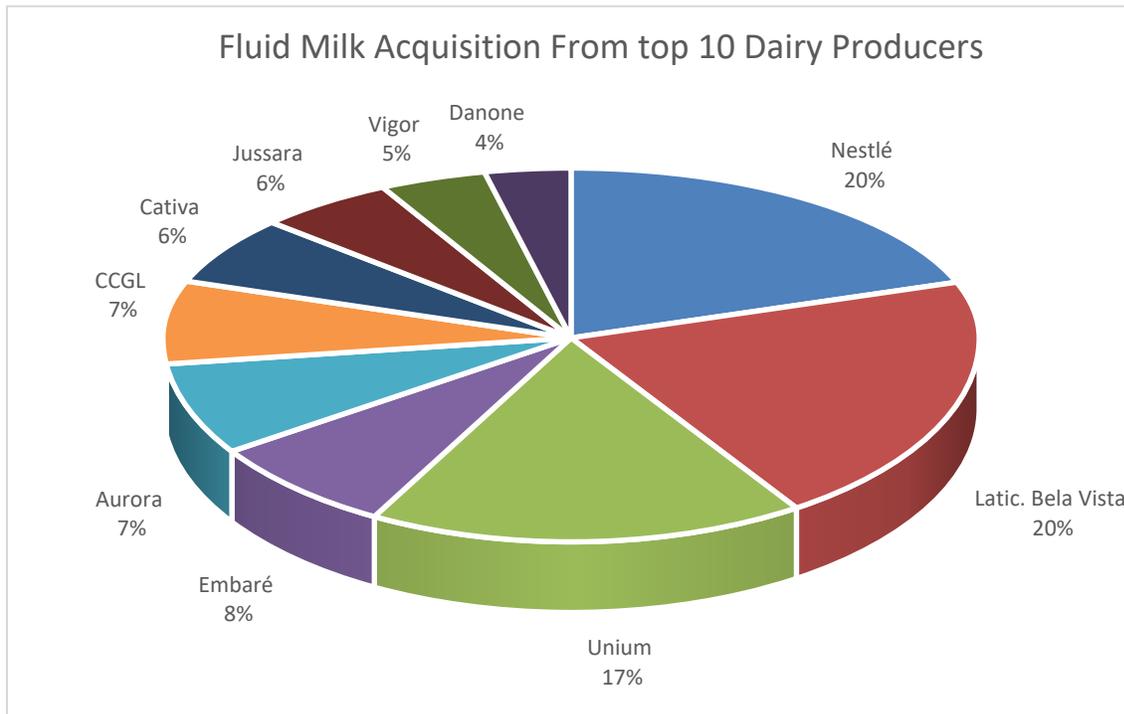
Most of the dairy farms in Brazil are confinement operations, while 14 percent have a pasture-based system, and 22 percent have mixed systems, where pasture assumes variable importance but is not the main source of feed. In the Northeast region, lactating cows generally have access to pasture, while in the South and Southeast regions, where most Brazilian milk is produced, it is more common to use a confined feeding system, with animals not exposed to grazing throughout the year. Dairy cows on large properties located in the South and Southeast regions are commonly housed in free-stall barns. The compost dairy barn is another system used in many dairy farms and some experts recommend this as a housing method to prevent mastitis. Other farms use the more economical system of loose housing, which is defined as a system where animals are kept loose except for milking and at the time of treatment.

The Brazilian dairy sector has undergone a consolidation process in recent years. The French company Lactalis announced in 2019 that it had taken control over Itambé brand, which was created by Cooperativa Central de Produtores Rurais de Minas Gerais (CCPR). Itambé was half-owned by Vigor, which Lala purchased in 2017. With the acquisition, Lactalis’s Brazil business is now expected to reach annual revenues of US\$2.1 billion and process 2.3 billion liters of milk each year.

A survey carried out by “Leite Brasil” indicated that milk acquisition of the 13 largest dairy companies in Brazil totaled 7.87 billion liters in 2019, representing 4.1 percent growth over 2018 (7.56 billion liters). Nestlé maintained its leadership in milk collection in 2019, with 1.48 billion liters. Laticínios Bela Vista, maintained the second position in the ranking, reaching 1.45 billion liters, which was 5.1 percent larger year-over-year. Leite Brasil's ranking does not include important names, such as Lactalis,

Italac, and Tirol, which did not provide their numbers. Lactalis would be in the first position of this national ranking, with an intake of more than 2.5 billion liters per year, after the purchase of Itambé.

French multinational Danone recently closed its yogurt factory in Maracanau, Ceara, in response to stunted sales, despite efforts by the Economic Development Secretariat of the state of Ceara to find an alternative. The government of Ceara wanted to maintain the unit to preserve jobs and a sales outlet for small milk producers. Betânia Lácteos, leader of the dairy market in the Northeast, is interested in acquiring the factory, if its French owners wish to sell it with their modern equipment and machinery included. Another possible solution, surveyed by an authority of the state government, could be to merge six small dairy companies in a pool to take over the factory.

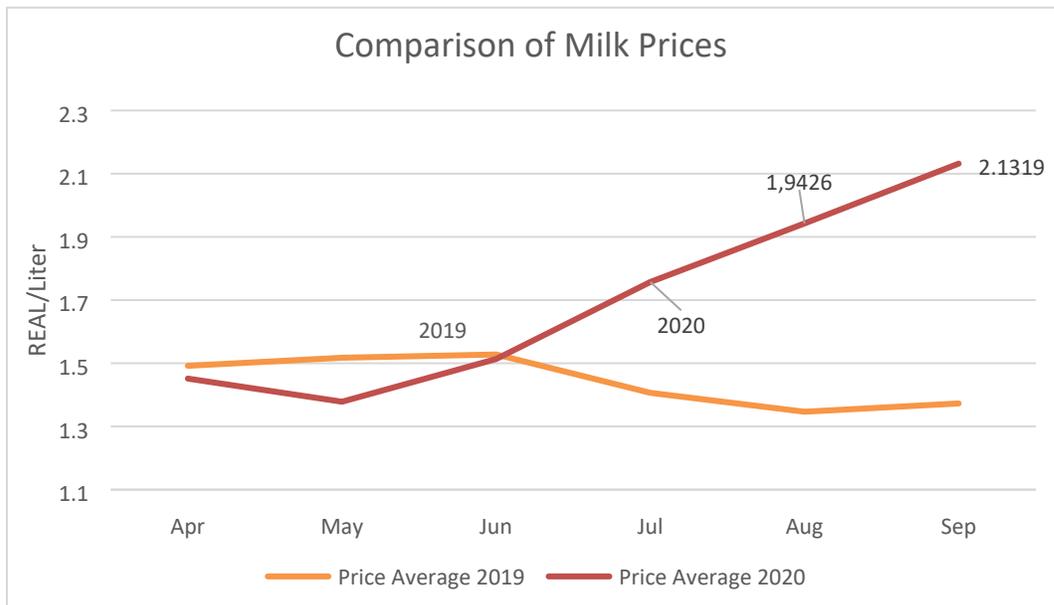


Data Source: Embrapa (Anuario do Leite)/Leite Brasil

Prices

Historically, milk prices paid to producers follow a specific seasonality, related to rainfall and, consequently, the availability of pastures. August is typically the peak month, with prices falling in September in response to rising production levels. This year, the combination of reduced supply, rising demand, unfavorable climate conditions, and a good dose of uncertainty led milk prices to hit record levels in terms of Brazilian reals, according to a data series maintained by the University of Sao Paulo’s Center for the Advanced Study of Applied Economics (CEPEA). The price paid to the producer for a liter of milk in August increased by 10.5 percent from the previous month, to R\$1.94, which set a new record. Then average prices rose again in September, hitting R\$2.13 per liter, another historic value.

Another important factor to consider was the worsening of the COVID-19 pandemic in the second quarter of 2020, which brought more uncertainty to Brazil’s dairy industry. From March 2-27, the average wholesale price of UHT milk jumped 24.7 percent in the state of Sao Paulo. With a slight drop in consumption in April, some industries instructed farmers to reduce production. Many farmers sold cattle, taking advantage of the high price of beef. After that, consumption of fluid milk increased again, supported by the help of government support payments, and production was not able to keep up with the movement of the market. However, by September consumption rates were contracting, as the country fell deeper into economic recession.



Data Source: CEPEA/ESALQ

Consumption

Post forecasts fluid milk consumption in 2020 will fall by 3 percent, 26.5 MMT, a revised forecast from the previous projection. For CY 2021, Post forecasts fluid milk consumption to increase by 1 percent year-over-year, to 26.77 MMT, considering Brazil is likely to still be in the middle of an economic recession next year. Fluid milk usage is expected to increase mainly in the industrial sector.

Milk Alternatives - In Brazil there is several milk categories, whole fluid milk is the principal dairy product, but there is a second category that is increasing in popularity, called “milk derivatives” or “dairy drinks.” This category is composed of products that have no more than 50 percent fluid milk in the composition and contain chocolate, strawberry flavor, starch, fruit juice, or other non-dairy ingredients in the formulation. This is also a cheaper alternative to regular fluid milk. Consumption of ready-to-drink chocolate drinks, which represent almost the entire segment, grew by 4 percent in 2019. The popularity of other “milk alternatives” continues to expand, resulting in retailers dedicating more shelf space to these products instead of fluid milk.

Condensed Milk - This is one of the most expressive segments of the dairy market in Brazil, the destination of more than 1 billion liters of milk per year just for this product. In 2019, the category saw growth of 1.2 percent. Last year also saw the publication of condensed milk Technical Identity Regulation and Quality Standards (RTIQ) by the Ministry Agriculture, Livestock, and Food Supply (MAPA). This created more opportunities for companies to launch different products with different fat content levels, so long as it is declared on the front panel of the packaging, something that was not allowed before. However, it is difficult to predict how this category will perform during a year where the pandemic has dramatically shifted consumption patterns.

Cream - This segment grew about 3.5 percent in 2019, after suffering losses the previous two years due to the economic difficulties faced by consumers. While volume was up last year, prices suffered a significant reduction during the year. It is also difficult to predict how this category will react to the economic shift caused by the pandemic.

Effects of COVID-19 Pandemic

The COVID-19 pandemic arrived in Brazil in March 2020, and the country started to impose lockdowns soon after. Brazilians began stocking up on staple foods in response, driving up the price of fluid milk, among other products. As social-distancing measures became more widely adopted in March and April, wholesale and retail chains saw intensified demand for dairy products, especially for long-lasting UHT milk.

Despite the recent reopening of major metropolitan areas, Brazil has already entered an economic depression and lost some gains from the recovery of the last few years. Brazilian government analysts forecast Brazil's gross domestic product (GDP) will fall by about 5 percent in 2020, but some international organizations, such as the World Bank estimate the drop could be more than 8 percent. Job losses due to the pandemic raised the unemployment rate to 13.3 percent and provoked an unusual situation of deflation, by Brazilian standards, of 0.16 percent during the first five months of the year. Government assistance payments of about US\$120 per month were instituted for three months for the poor and those that lost their jobs. The program was renewed for two additional months but at half of the previous value. The contraction of household income trimmed demand for products and services in general. This also affected demand for dairy products.

Trade

Brazil imports and exports insignificant volumes of fluid milk while small volumes of packaged UHT milk are imported from Argentina and Uruguay. Brazilian food processors import milk powder due to its shelf life, quality, and versatility.

In the first seven months of this year, Brazil imported 492 million liters of dairy products, down 28.5 percent compared to the same period last year. Imports account for between 3-5 percent of Brazilian demand. However, the appreciation of the U.S. dollar against the Brazilian real has made imports more expensive.

In the past 5 years, Brazil has exported a total of around 8,000 MT of milk cream (Harmonized Tariff System: 0401.50), mainly to the Philippines and United Arab Emirates. This volume is insignificant when compared to total Brazilian milk production.

Stocks

Current milk and dairy product stocks held by major dairy companies are considered operating stocks to meet short-term demand. There are no government-held stocks of milk or milk products in Brazil.

Production, Supply, and Distribution Statistics

Fluid Milk (HTS: 0401.10; 0401.20)

PS&D data for fluid milk are reported in 1,000 metric tons and not in 1,000 kiloliters. One liter of cow's milk weighs approximately 1.03 kg.

Dairy, Milk, Fluid Market Begin Year	2019			2020		2021		
		Jan 2019		Jan 2020		Jan-21		
Brazil	USDA Official	Old Post	New Post	Old Post	New Post	Old Post	New Post	(Units)
Cows In Milk	16,300	16,300	16,500	16,850	16,200	-	16,400	(1000 HEAD)
Cows Milk Production	23,150	23,150	24,262	24,950	23,505	-	23,800	(1000 MT)
Other Milk Production	3,060	3,060	3,030	3,050	3,000	-	2,970	(1000 MT)
Total Production	26,210	26,210	27,292	28,000	26,505	-	26,770	(1000 MT)
Other Imports	-	-	-	-	-	-	-	(1000 MT)
Total Imports	-	-	-	-	-	-	-	(1000 MT)
Total Supply	26,210	26,210	27,292	28,000	26,505	-	26,770	(1000 MT)
Other Exports	-	6	8	-	-	-	-	(1000 MT)
Total Exports	-	6	8	-	-	-	-	(1000 MT)
Fluid Use Dom. Consum	10,050	10,050	10,900	11,155	11,010	-	11,100	(1000 MT)
Factory Use Consum.	15,970	15,964	16,195	16,650	15,310	-	15,490	(1000 MT)
Feed Use Dom. Consum	190	190	189	195	185	-	180	(1000 MT)
Total Dom. Consumptio	26,210	26,204	27,284	28,000	26,505	-	26,770	(1000 MT)
Total Distribution	26,210	26,210	27,292	28,000	26,505	-	26,770	(1000 MT)

Cheese

Production

Note 1: There are no official statistics on production and consumption of cheese in Brazil. FAS/Brasilia production estimates for cheese are based on trade sources and include “informal” cheese production.

Note 2: CY 2020 will be an atypical year because of the pandemic, which has affected cheese production in Brazil.

Post forecasts cheese production in CY 2020 to decrease to 730 MT, down 5.2 percent, when compared to CY 2019. In recent years, the increase in cheese production was mainly driven by the food service and restaurant sectors. Also in 2019, when the country was recovering from recession, cheese was more affordable in general. However, in CY 2020, the country entered a recession due the COVID-19 pandemic. Unemployment rates have risen and incomes are more limited than last year, which has resulted in decreased consumption of cheese, as well as fewer visits to food service establishments. Consumption levels are not expected to return to pre-pandemic levels until the country has an economy recovery. In a regular year, about 35 percent of milk production is destined for cheese production.

Consumption

In 2019, Brazilian cheese consumption was estimated at 5.5 kilograms per person/year, below the volume of 9 kg/year recommended by the UN Food and Agriculture Organization (FAO). Brazilian consumers generally prefer fresh white cheeses. The fast food service industry has also increased demand for “specialty” cheeses (gruyere, camembert, brie, gouda, and cheddar). Demand from the



Photo Source: *Wikipedia*

Brazilian fast-food industry mainly comes from a large number of pizzerias, snack shops, and bakeries. This year, Post forecasts food service demand will decrease because of the occurrence of lockdowns throughout the country, which shuttered some restaurants for several months.

Processed cheeses are also favored by Brazilians. A driver in processed cheese demand is “requeijao,” a type of spreadable, pasteurized processed cheese. This processed cheese has a variety of uses, including for breakfast and dinner meals as well as snacks. The other popular types of cheeses in Brazil are mozzarella, “queijo prato” (plate cheese), and “minas frescal” (fresh white cheese).

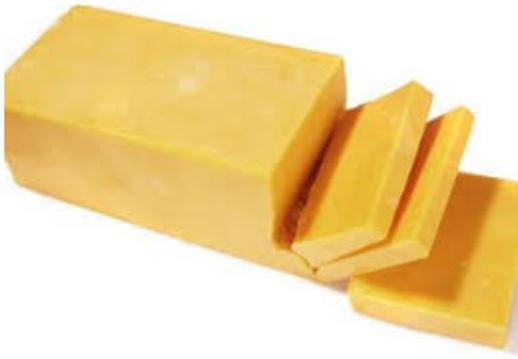
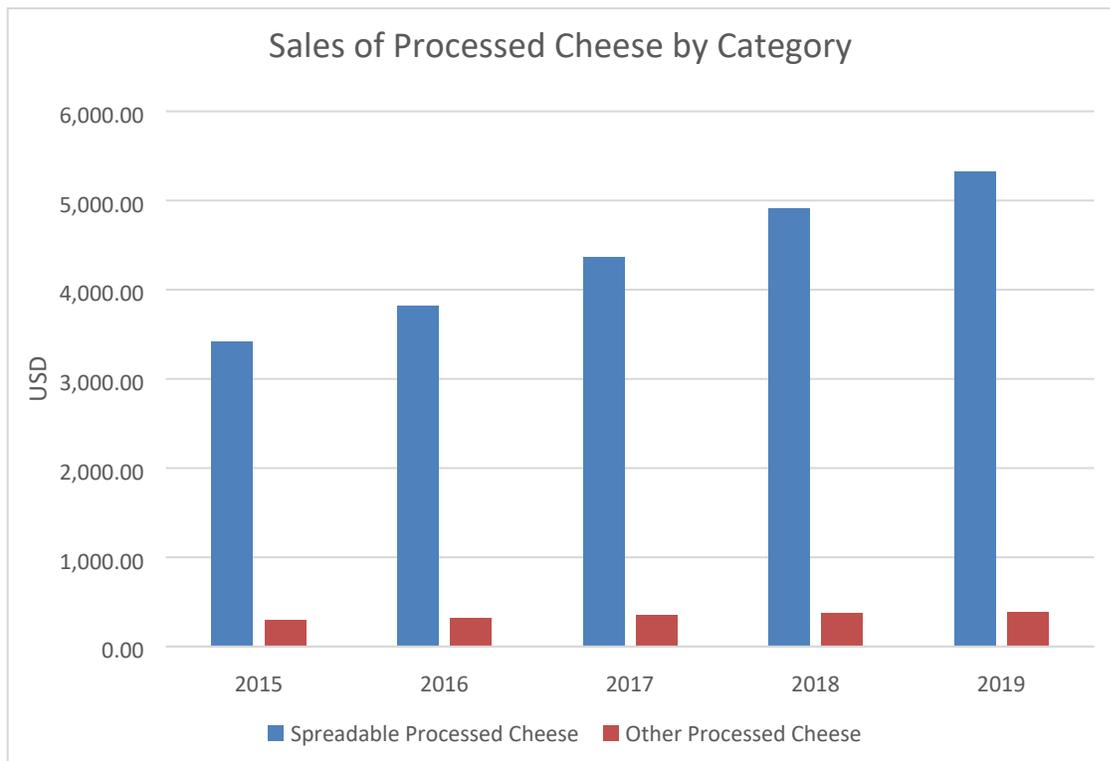


Plate cheese
(queijo prato)
Photo Source: *Wikipedia*

White fresh cheese
(queijo minas frescal)
Photo Source: *Wikipedia*



Data source: Euromonitor

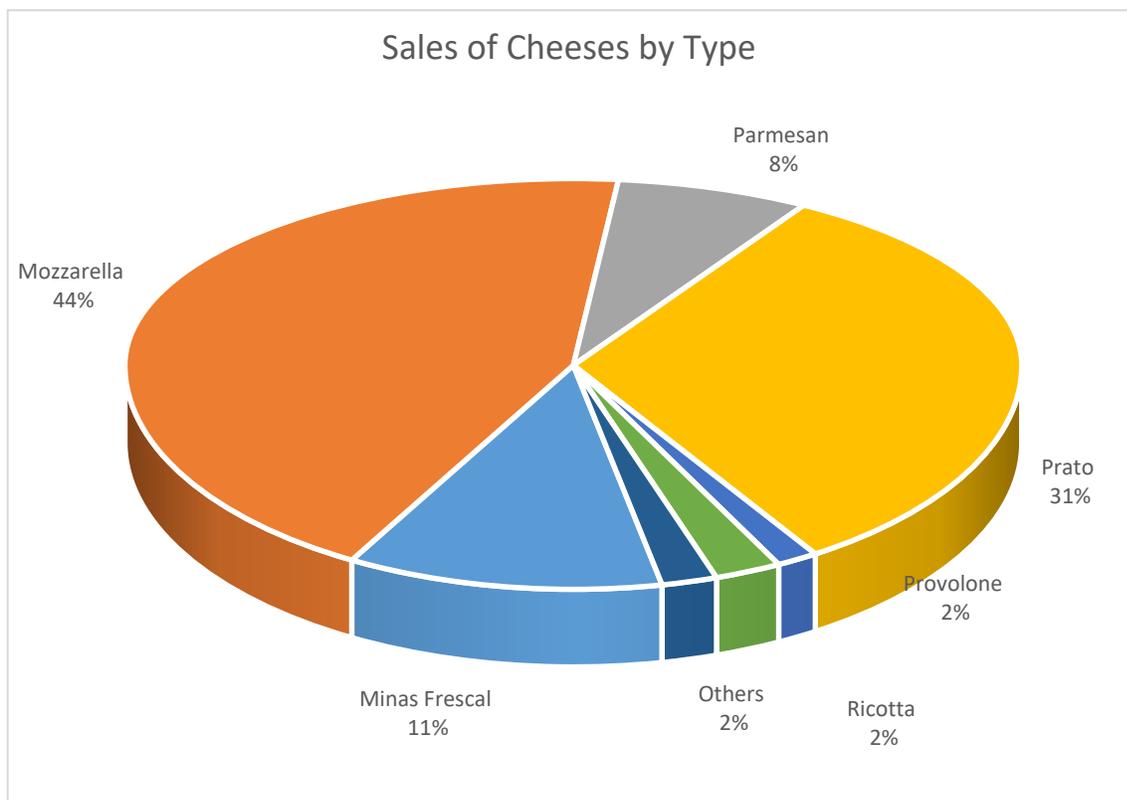
There is fierce competition within the cheese sector, characterized by a high degree of fragmentation. The bulk of sales are concentrated in products offering only low margins, such as mozzarella, “queijo prato,” and other semi-hard cheeses. This has stimulated manufacturers to invest in value-added products such as unprocessed cheese fortified with fiber or probiotics and reduced-fat spreadable processed cheese fortified with fiber.

The cheese sector in Brazil is dominated by domestic manufacturers that are launching new products in line with Brazilian needs. Pack size reduction, for example, is one of the strategies used by the industry to avoid increasing prices of their products and therefore maintain sales in terms of units.

Mozzarella remains the most popular type of matured and unprocessed cheese consumed in Brazil. It is mainly used for pizzas and sandwiches. Mozzarella accounts for 44 percent of total unprocessed cheese sales by value. However, it is notable that a local cheese variety, Minas Frescal, was the fastest-growing unprocessed cheese type in Brazil last year, with a 2 percent increase in sales. Another domestic variety, prato, also increased its share of the overall unprocessed cheese market.

Some cheese manufacturers are strengthening their business through acquisitions or joint ventures. This is likely to stimulate small and medium-sized companies to improve their operations by investing in machinery, broadening distribution channels, reducing costs and diversifying their product portfolio. Some of these medium-sized companies are investing in new types of artisanal cheeses, such as:

- “Canastra,” a hard cheese with geographical indication recognized;
- “Tulha,” a hard cheese with a red peel and aged 12 months; and
- “Giramundo,” a sweet artisanal cheese with a red peel colored by beets and aged 5 months.



Data Source: Euromonitor International

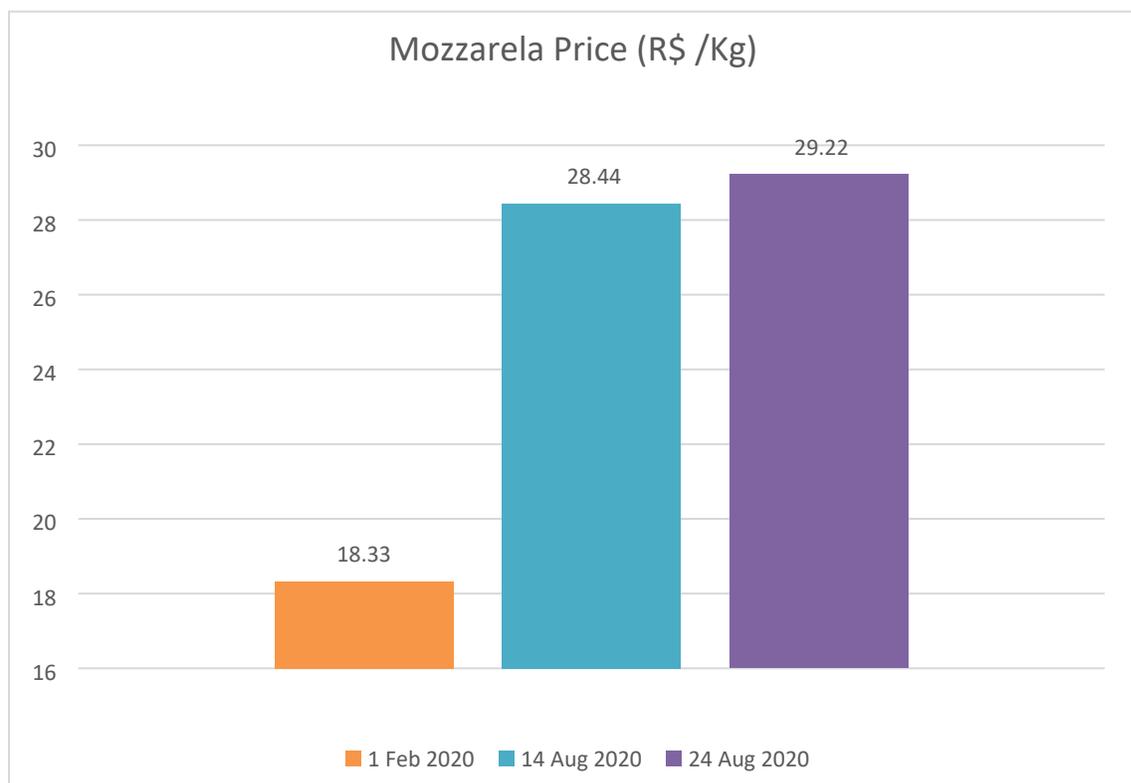
Brazil recently approved new regulations to control the manufacture of artisanal cheese, which is likely to spur growth in sales of these products during the forecast period. According to research by Euromonitor, currently the sales of artisanal cheese products are restricted to the city or state in which the product is manufactured and subsequently inspected by health authorities. With the approval of new regulations, these products will now be authorized for sale outside of their home city or state, provided

an “artisan product” stamp is included. This will benefit small producers throughout Brazil, offering them access to the large formal consumer market.

Many of these small producers are having to reinvent themselves in order to survive the economic hardships brought about by the pandemic. Many had to invest in distribution networks, such as delivery channels and or invest in e-commerce sales channels. Not all have been successful, though, and many of these small businesses have closed in 2020.

Prices

Following the same trend as fluid milk, cheese prices have registered a dramatic increase in 2020. As already explained, a series of factors, including less milk available in the market, led to an increase in milk prices for the industry. There was an increase of 59 percent in mozzarella prices between February and August 2020, as demonstrated in the chart below.



Data Source: CEPEA/Esalq

Trade

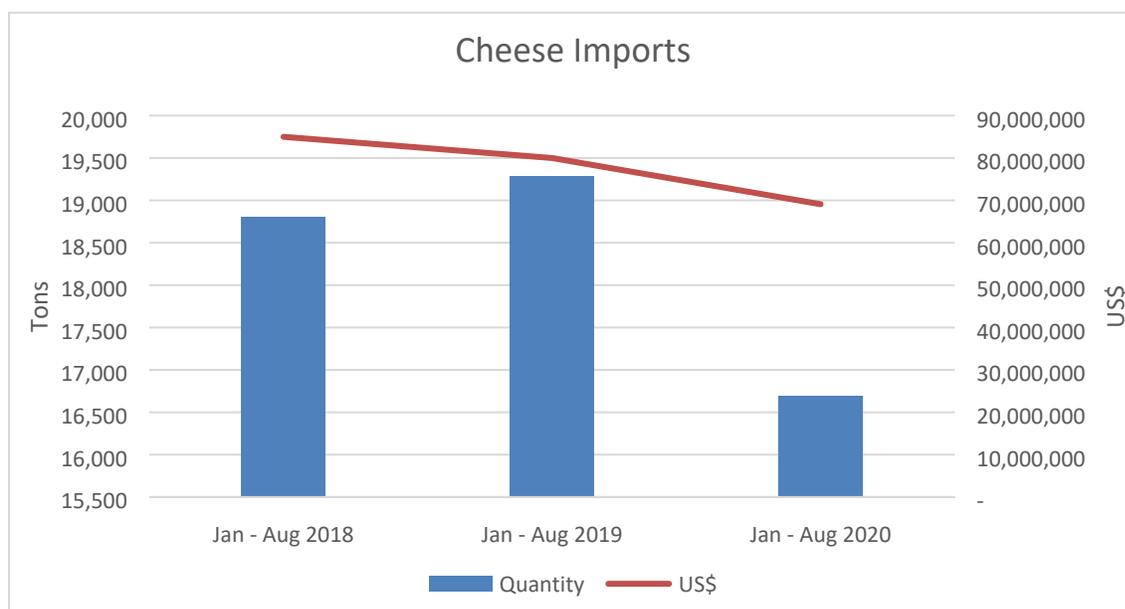
Imports

Post revised its estimate of cheeses imports in CY 2019, to 28.148 MT. Argentina and Uruguay remain the main suppliers of cheese to Brazil, due to preferential tariff treatment within the MERCOSUL trade bloc.

Cheese imports from Argentina and Uruguay account for 66 percent and 24 percent of market share, respectively. Brazil is a buyer of low-cost cheeses produced in these two countries, mainly mozzarella, parmesan, and “prato” cheese. Mozzarella is used primarily in the food service sector, while parmesan and “prato” are sold at retail stores. The United States does not have significant market share, generally only small quantities of bulk cheeses for further processing or high-valued cheeses for specialty stores in Brazil.

Brazil imported an average of 18,640 tons of cheese, valued at US\$81.5 million over the last 5 years, at an average price of US\$4,372/ton. Imports increased significantly between 2000 to 2009 and 2010 to 2019, from 7,900 to 29,400 tons, a positive increase of 372 percent. By volume, cheeses are the second most imported dairy product since 2015.

Post forecasts cheese imports to decrease by 18 percent in volume in CY 2020, to 23 metric tons. Domestic cheeses dominate the Brazilian market, with imported cheese priced at up to 3 times higher than domestic varieties. The high price of imported product is due to tariffs and other taxes that importers pay. The difference in the currency value from the real to dollar is another determinant factor in a year that has seen a 30 percent devaluation of the Brazilian currency.



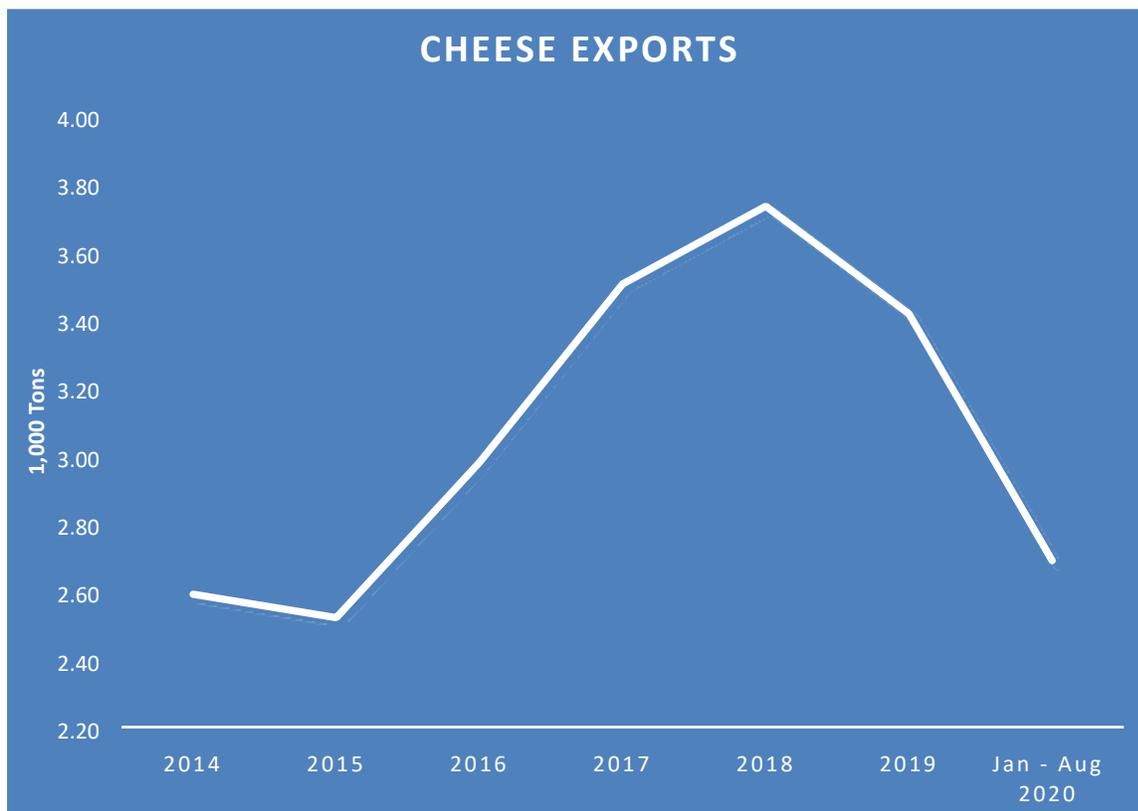
Data source: Trade Data Monitor, LLC

Exports

Without a well-defined standard, Brazilian dairy exports are opportunistic, occasional, and linked to the needs and circumstances of the domestic market. In the recent past, there has been a growing professionalization of the sector, but Brazil is still not prominent as an exporter, despite the large volume of dairy production. In the period from 2000-2019, the main dairy products for export were condensed milk, powdered milk, and cheeses, accounting for an average of 45 percent, 20 percent, and 9 percent, respectively. On average, Brazil exported less than 60,000 tons per year. On average, Brazil exported 25,000 tons of condensed milk, totaling US\$39.5 million, at an average price of US\$1,580/ton.

An average of 16,900 thousand tons of powdered milk were also exported, at an average price of US\$ 4,071/ton, with total revenues of US\$68.8 million. In cheeses, an average of 4,300 thousand tons of cheese, worth US\$15.7 million, at an average price of US\$3,651/ton. If the average annual revenue is considered, powdered milk was the main exported product, accounting for 44 percent of the total.

Brazil has good export potential for dairy commodities, especially given the devalued Brazilian real. Post forecasts cheese exports in CY 2020 at 3,000 MT, unchanged from 2019. Brazil is not a strong cheese exporter, but cheese manufacturers are trying to improve in terms of machinery and technology and are trying to target exports to Russia and Taiwan. The Russian market is now open to Brazilian product and exports have been increasing. However, the volume is still very low. Cheese manufacturers are taking advantage of the weakened Brazilian real, which is making Brazilian exports competitive in the international market for low-cost cheese. Although Brazil is a net importer, many processors are enthusiastic to capitalize on these new opportunities.



Data source: Trade Data Monitor, LLC

Stocks

There are no government stocks of cheese in Brazil.

Production, Supply, and Distribution Statistics

Cheese (HTS: 0406)

Dairy, Cheese	2019		2020		2021		
Market Begin Year	Jan 2019		Jan 2020		Jan 2021		
Brazil	Old Post	New Post	Old Post	New Post	Old Post	New Post	
							(Units)
Beginning Stocks	0	0	0	0		0	(1000 MT)
Production	775	770	790	730		730	(1000 MT)
Other Imports	29	28	29	23		22	(1000 MT)
Total Imports	29	28	29	23		22	(1000 MT)
Total Supply	804	798	819	753		752	(1000 MT)
Other Exports	4	3	4	3		3	(1000 MT)
Total Exports	4	3	4	3		3	(1000 MT)
Human Dom. Consumpt	800	795	815	750		749	(1000 MT)
Other Use, Losses	0	0	0	0		0	(1000 MT)
Total Dom. Consumptio	800	795	815	750		749	(1000 MT)
Total Use	804	798	819	753		752	(1000 MT)
Ending Stocks	0	0	0	0		0	(1000 MT)
Total Distribution	804	798	819	753		752	(1000 MT)

Butter

Production

Note 1: There are no official statistics on production and consumption of butter in Brazil. FAS/Brasilia production estimates for butter are based on trade sources and include “informal” butter production.

Note 2: CY 2020 will be an atypical year because of the pandemic, which has affected butter production in Brazil.

Post forecasts butter production to decrease by 6 percent in CY 2020, to 80,000 MT, reflecting the economic crises and the scarcity of milk supplies in the market. It is also a consequence of the COVID-19 situation, which caused lockdowns that limited industry processing of milk.

Consumption

The raw material for butter production is milk fat (Brazilian milk generally contains around 3 to 3.5 percent fat). Thus, the production of skim milk powder generates a surplus of fat, which is used to manufacture “requeijão,” butter, cream cheese, and sour cream. Even the production of long-life whole milk (UHT milk) generates excess fat, since the product is standardized at around 3 percent fat.

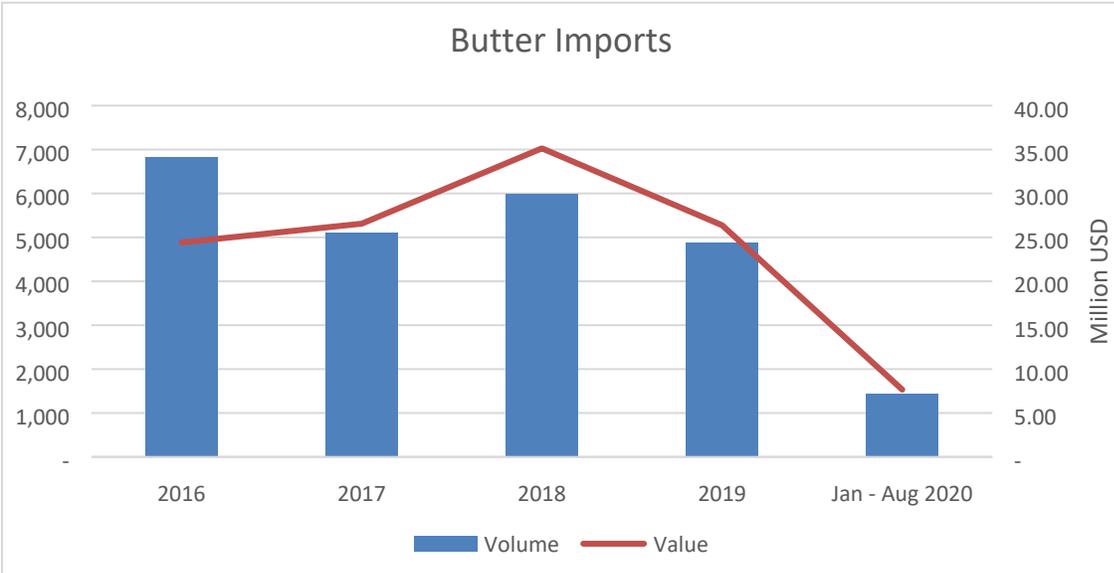
Brazil does not produce significant volumes of skim milk, as whole milk accounts for about 75 percent of milk consumed in the country. As the production of skim milk is limited, the supply of fat to manufacture butter and other items is restricted. As mentioned previously, Brazil is a large consumer of “requeijao,” and milk fat is primarily destined for the production of this processed cheese spread.

In CY 2020, with the recession and economic crises in place, consumers are looking for cheap alternatives for dairy products, and butter is too expensive.

Trade

Brazil typically imports around 5,500 MT of butter annually for industrial and retail purposes, as production in country is limited. The main supplier is Argentina. Due to the pandemic-induced economic recession and weakened Brazilian real, Post forecasts that imports will decrease by 60 percent in CY 2020, to 2,000 MT. It remains unclear whether Brazil will return to the trade levels seen in 2018, as this commodity does not have official data.

Export volumes of butter are insignificant. Brazil mainly produces butter for its own consumption, so there is little surplus butter production to export.



Data Source: Trade Data Monitor

Stocks

There are no government stocks of butter in Brazil.

Production, Supply, and Distribution Statistics

Butter (HTS: 0405)

Dairy, Butter	2019			2020		2021		
Market Begin Year	Jan-19			Jan-20		Jan-21		
Brazil	USDA Official	Old Post	New Post	Old Post	New Post	Old Post	New Post	
								(Units)
Beginning Stocks	0	0	0	0	0	0	0	0 (1000 MT)
Production	86	86	85	87	80	0	81	81 (1000 MT)
Other Imports	5	6	5	6	2	0	2	2 (1000 MT)
Total Imports	5	6	5	6	2	0	2	2 (1000 MT)
Total Supply	91	92	90	93	82	0	83	83 (1000 MT)
Other Exports	0	0	0	0	0	0	0	0 (1000 MT)
Total Exports	0	0	0	0	0	0	0	0 (1000 MT)
Domestic Consumption	91	92	90	93	82	0	83	83 (1000 MT)
Total Use	91	92	90	93	82	0	83	83 (1000 MT)
Ending Stocks		0	0	0	0	0	0	0 (1000 MT)
Total Distribution	91	92	90	93	82	0	83	83 (1000 MT)

Whole Milk Powder

Production

Note 1: There are no official statistics on production and consumption of milk powder in Brazil. FAS/Brasilia production estimates for milk powder are based on trade sources and include “informal” milk powder production.

Note 2: CY 2020 will be an atypical year because of the pandemic, which has affected milk powder production in Brazil.

Post estimates whole milk powder (WMP) production decreased to 596,000 MT in CY 2019 and forecasts another decrease by 4 percent in CY 2020, reaching 570,000 MT. Post also forecasts a decrease in CY 2021, to 560,000 MT.

An increase in milk prices caused increased competition for dairy plants trying to purchase milk in the first half of 2020. Fierce competition affected the ability of dairy plants to replenish inventories, which usually happens before April. However, this year, the negative consumption perspectives for the mid- and long-terms (because of the COVID-19 pandemic) worried buying agents, leading them to reduce investments in inventories. Prices usually rise between March and August, due to seasonality. In this period, milk production is usually lower, since pastures see lower feed volumes in the drier period in Brazil’s Southeast and Central-West regions. However, in CY 2020, sales of dairy products increased between May and June due to pandemic-induced lockdowns, lowering inventories even more. The low milk supply in June boosted milk prices in the spot market. In June, quotes in the spot market of Minas Gerais state were 45 percent higher than a year prior, reaching an average of R\$2.28 per liter. As such, prices for dairy products increased in June, with milk powder prices rising by 10 percent.

Another important factor that is leading to decreased production in CY 2020 has been the increased cost of production. Corn prices normally fall in June, as the bulk of the corn harvest hits the market. In June 2019, 24.9 liters of milk were worth one 60-kg bag of corn. However, in CY 2020, that ratio rose to 35.2 liters of milk per 60-kg bag of corn. Thus, farmers’ purchasing power decreased by almost 30 percent year-over-year.

Consumption

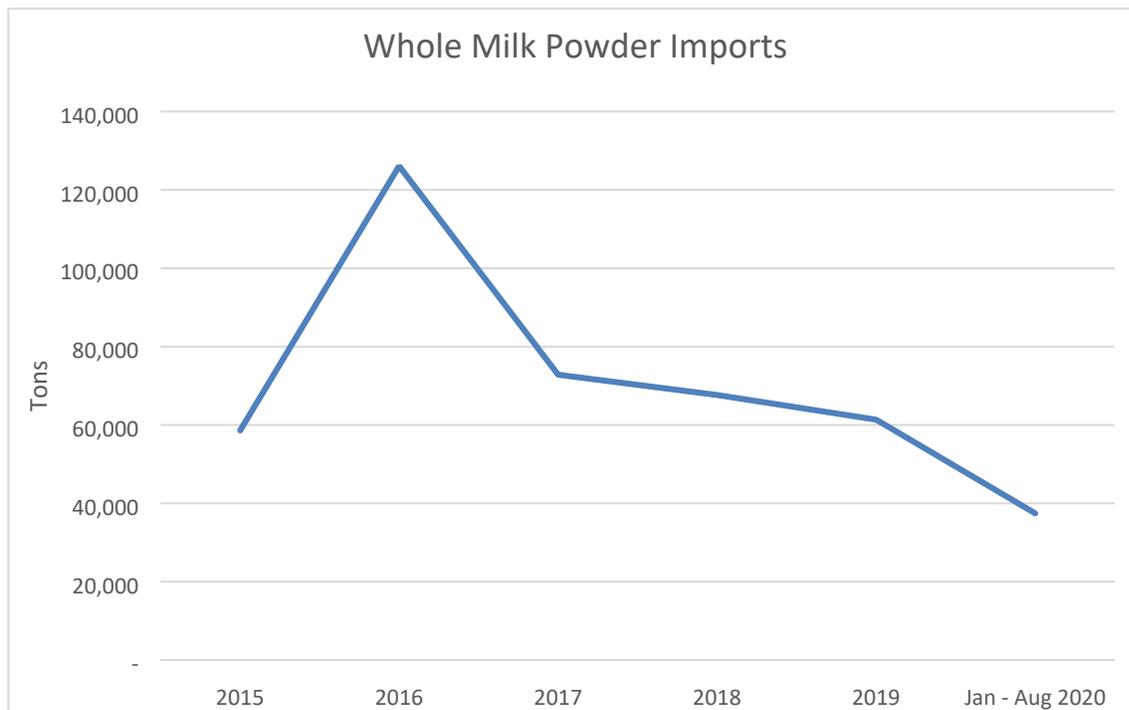
Post forecasts CY 2020 powdered milk consumption to decrease by 4 percent. This decrease is mainly in response to the economic recession that Brazil is facing due to the pandemic. Considering this situation, Post expects Brazilian consumers will prefer fluid milk or UHT milk, which is less expensive than milk powder.

Trade

Whole milk powder continues to be the main dairy product imported by Brazil, accounting for 61,347 MT, or 70 percent, of total dairy imports in 2019. In 2020, the low supply of milk and increased domestic demand boosted imports of dairy products in August, even with the dollar appreciating against the real. In total, Brazil imported 18,100 tons of dairy products, a volume 40 percent higher month-over-

month, and 77 percent higher year-over-year. The main product purchased in August was milk powder, which represented 70 percent of the total imported, totaling 12,700 tons, an increase of 63.1 percent compared to the previous month and 121 percent higher compared to August 2019.

Together, volumes acquired from Argentina and Uruguay represented 94 percent of the total milk powder imported by Brazil in August. As for the price of the imported product, the average was US\$6.81/kg, 18 percent lower than the previous month (US\$8.25/kg). Although the monthly imports increased, the pace of trade was slow in the first 8 months of 2020. However, Post expects milk powder imports will pick up speed through the end of the year due the lack of milk in the market.



Data Source: Trade Data Monitor, LLC

In the first quarter of 2020, Brazil exported very little WMP. Instead, this milk was sold to the domestic market. In the past, Venezuela was a major importer of WMP from Brazil, but imports have fallen due to the severe economic and political crisis seen in that country.

Stocks

There are no government stocks of whole milk powder in Brazil.

Production, Supply, and Distribution Statistics:

Dry Whole Milk Powder (HTS: 0402.21; 0402.29)

Dairy, Dry Whole Milk Powder	2019			2020		2021		
Market Begin Year	Jan-19			Jan-20		Jan-21		
Brazil	USDA Official	Old Post	New Post	Old Post	New Post	Old Post	New Post	
								(Units)
Beginning Stocks	0	0	0	0	0	0	0	0 (1000 MT)
Production	596	598	596	610	570	0	560	(1000 MT)
Other Imports	66	65	61	63	64	0	64	(1000 MT)
Total Imports	66	65	61	63	64	0	64	(1000 MT)
Total Supply	662	663	657	673	634	0	624	(1000 MT)
Other Exports	1	1	0	1	0	0	1	(1000 MT)
Total Exports	1	1	0	1	0	0	1	(1000 MT)
Human Dom. Consumption	661	662	657	672	634	0	623	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	661	662	657	672	634	0	623	(1000 MT)
Total Use	662	663	657	673	634	0	624	(1000 MT)
Ending Stocks	0	0	0	0	0	0	0	(1000 MT)
Total Distribution	662	663	657	673	634	0	624	(1000 MT)

Nonfat Dry Milk

Production

Note 1: There are no official statistics on production and consumption of nonfat milk powder in Brazil. FAS/Brasilia production estimates for nonfat milk powder are based on trade sources and include “informal” nonfat milk powder production.

Note 2: CY 2020 will be an atypical year because of the pandemic, which has affected nonfat milk powder production in Brazil.

Post forecasts nonfat dry milk (NFDM) production in 2020 to decrease by 6 percent, to 149,000 MT.

Nestle Brazil recently announced the closure of its milk powder factory in Garanhuns, Pernambuco, just two years after it opened. The plant had produced milk powder under the “Ninho” brand and had an initial investment was R\$5 million. When announced, the project envisaged a total installed capacity of 10,000 tons per year, mainly serving the Northeast region. Nestlé Brazil explained that the “decision was made with a focus on business sustainability and maintaining the company’s competitiveness in the market.”

Consumption

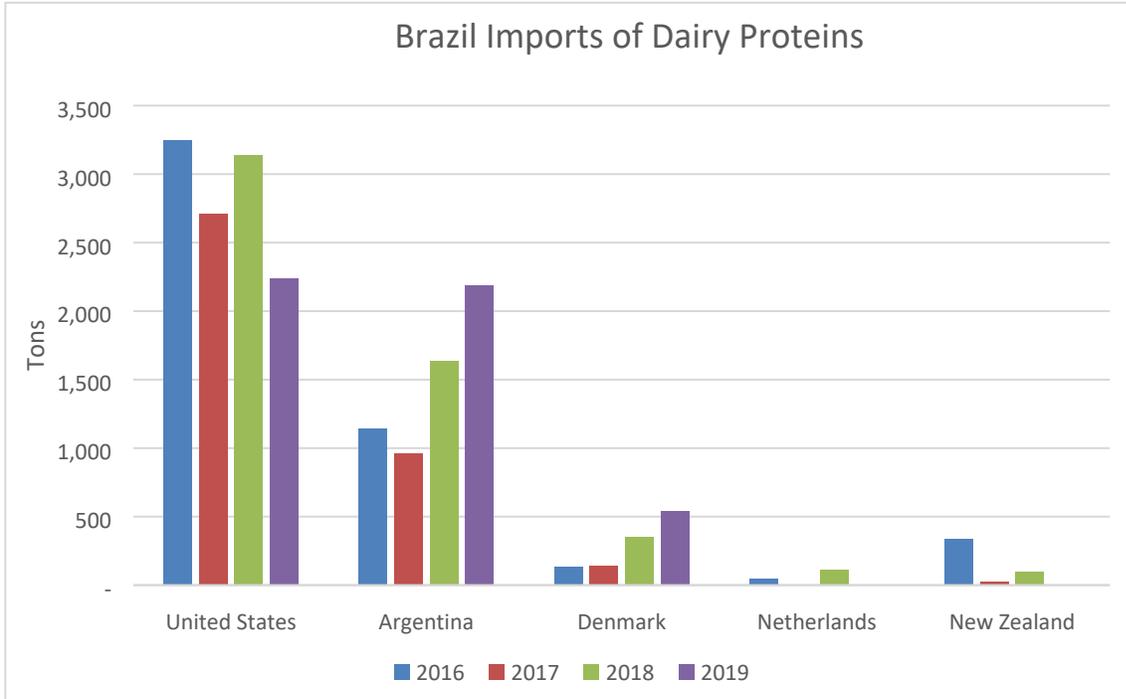
Post forecasts CY 2020 nonfat dry milk consumption to decrease by 7.7 percent. This decrease is mainly caused by the economic recession that Brazil is facing due to the pandemic.

Trade

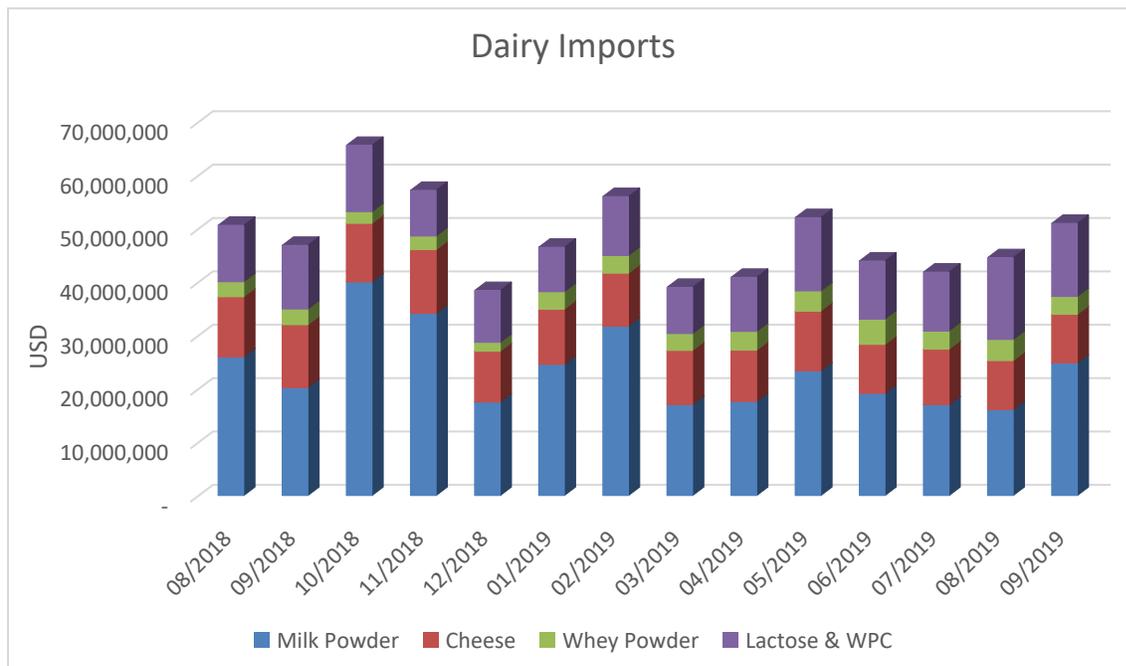
Post forecasts CY 2020 nonfat milk powder imports will decrease by 20 percent. Brazil’s nonfat dry milk imports largely come from Argentina and Uruguay. Depending on the type, some companies import from the United States to meet specific demand, such as special milk for infant formulas or milk for special diets. Brazil does not have a competitive industry or surplus NFDM supplies to export.

Imports from the United States

The United States continues to be competitive in other dairy categories, such as ingredients; sweet whey powder, lactose, and whey powder concentrate. The category in which the United States is the most competitive is whey protein concentrates/isolate (WPC/WPI), accounting for 43 percent of Brazilian market share. Most sweet whey and lactose are used in the feed sector, but WPC/WPI is also used in the supplement industry and some other food sectors.



Data source: Trade Data Monitor, LLC



Data source: Trade Data Monitor, LLC

Stocks

There are no government stocks of nonfat dry milk in Brazil.

Production, Supply, and Distribution Statistics

Nonfat Milk Powder (HTS: 0402.10)

Dairy, Milk, Nonfat Dry Market Begin Year	2019			2020		2021		
	Jan-19			Jan-20		Jan-21		
Brazil	USDA Official	Old Post	New Post	Old Post	New Post	Old Post	New Post	(Units)
Beginning Stocks	0	0	0	0	0	0	0	(1000 MT)
Production	158	158	158	161	149	0	150	(1000 MT)
Other Imports	26	29	25	29	20	0	20	(1000 MT)
Total Imports	26	29	25	29	20	0	20	(1000 MT)
Total Supply	184	187	183	190	169	0	170	(1000 MT)
Other Exports	0	0	0	0	0	0	0	(1000 MT)
Total Exports	0	0	0	0	0	0	0	(1000 MT)
Human Dom. Consumpt	184	187	183	190	169	0	170	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumptio	184	187	183	190	169	0	170	(1000 MT)
Total Use	184	187	183	190	169	0	170	(1000 MT)
Ending Stocks	0	0	0	0	0	0	0	(1000 MT)
Total Distribution	184	187	183	190	169	0	170	(1000 MT)

Attachments:

No Attachments