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Report Highlights:
Uruguayan beef exports for 2018 are forecast to decline by almost 3 percent to 420,000 tons. This volume is slightly lower the volumes of the past two years, but still one of the highest on record. China will continue to be the top market, followed by the EU and the United States. Exporters are looking forward to the opening of the Japanese market. Beef production in 2018 is projected to drop marginally to 570,000 tons due to slightly lower slaughter. Domestic consumption is also expected to decline.

Executive Summary:

Commodities:

Animal Numbers, Cattle
Meat, Beef and Veal

Author Defined:

Production

Beef production in Uruguay in 2018 is forecast to fall to 570,000 tons carcass weight equivalent (cwe) because of the drop in the number of slaughtered cattle. Local analysts project a lower slaughter of cows than the previous years, maintaining a relatively stable slaughter of steers. The average carcass weight is forecast to increase moderately.

The Uruguayan livestock sector is expected to remain stable, with relatively small production variations from one year to the other. The cattle ending stock in 2018 is forecast at almost 12 million head. Despite large exports of live cattle, representing 12-14 percent of the annual slaughter, the calving seasons of 2017 and 2018 are forecast to be more abundant than normal. Excellent weather since autumn 2016, with good rainfall and mild winters, have made pastures produce more than normal, resulting in excellent cow conditions and possibly high calving rates.

Cow calf operations are expected to continue with positive returns as feeder cattle prices are strong and are expected to continue so throughout 2018. Calf demand is projected to remain high due to: 1) continued exports of live cattle, 2) demand from landowners who are expanding area for cattle production after some years of bad returns from crop production (estimated in 150,000-250,000 hectares, generally in marginal crop areas but very good land for cattle), and 3) good pasture conditions which is making some breeders background some of their calves. Cattle fattening is expected to continue with tight returns as feeder cattle prices are significantly higher than fed cattle prices ($2.15 vs. $1.70 per live kilo). Uruguay's cattle are more expensive than its neighbors (especially Brazil and Paraguay), with high production costs in dollar terms. However, contacts believe that the doubts about the possible interruption of the European 481 beef quota have eased somewhat, giving producers some more certainty about shipments of one of the most profitable businesses in the sector.

Due to tight returns in the fattening business, many producers are investing less in inputs to reduce production costs. More cattle are being fed on natural pastures, making cattle remain more time in production, and ending in the market with a few more months of age. On the feedlot business, the local sector believes that production in 2017 and 2018 will be smaller than in 2016, in which some 250,000-260,000 head were marketed. The uncertainty of the 481 quota makes producers put fewer cattle in feedlots. This quota demands cattle to be less than 26 months of age and be finished the last 100 days with grain. Uruguay has been exporting 12,000-13,000 tons per year of beef under this quota. The Ministry of Agriculture has some 150 feedlots registered (with an instant capacity of 250,000 head) of which many are currently closed. Of the total, about 50 percent have less

than 1,000 head capacity, 35 percent have a capacity between 1,000-3,000 head and the balance can feed over 3,000 animals at a time. Of the total production from local feedlots, roughly 70 percent is to supply the 481 quota, 10 percent for cattle for the domestic market and the rest is for fattening calves for exports and backgrounding. Sorghum and corn (of which some is imported) are widely used in local feedlots. Since a few years ago, Uruguay is importing DDGS from the bioethanol industry in Argentina. Some contacts believe that Uruguay should expand the use of grains to produce larger volumes of beef, but so far, this sector is relatively stable.

There are 36 slaughter plants in Uruguay. In 2017, NH, a Japanese food company purchased one of the country's largest and more modern plants (accounting for approximately 9 percent of the country's total slaughter). Many speculate that this acquisition is related to the opening of the Japanese market in the near future. Minerva, a Brazilian company which already had two plants, recently purchased the only plant JBS had in the country. Under the new configuration, Brazilian Marfrig has 4 plants and this accounts for 21 percent of the total slaughter, while Minerva now has 3 plants and accounts for 19 percent. The sector's processing capacity is estimated between 3.0-3.5 million head. The industry in general is in good conditions, although the business typically varies throughout the year.

Uruguay's beef sector has a robust traceability program from the ranch to the customer. Cattle is identified and traced as well as each beef cut which can be traced back to the animal from which it was originated.

Uruguay has been very successful in positioning its beef as natural, together with its strong traceability system and its good sanitary status. The World Organization for Animal Health (OIE) recognizes Uruguay as free of Foot and Mouth Disease (FMD) with vaccination and with negligible risk to BSE. Japan is still the only major importing market closed to Uruguayan beef. However, the animal sanitary services of the two countries are working closely to allow trade. The private sector is quite confident that the market will be open in 2018.

Consumption

Uruguayan beef consumption for 2018 is forecast at 162,000 tons cwe, marginally lower than the previous two years. An expected lower beef output is projected to negatively affect Uruguay's beef exports and domestic consumption. Larger beef imports plus a growth in alternative meats is expected to offset the drop.

The apparent domestic consumption in 2016 was 164,000 tons, but contacts report that beef produced in late 2015 for exports primarily to China rolled into the following year as shipments slowed down significantly in the last part of the year. Therefore, the domestic consumption in 2016 could have been larger than Post's estimated volume.

Contacts report that Uruguayans are consuming better beef than a few years ago when a lot of meat of cull cows was consumed. Presently, the local market is also well supplied with fed heifers. Beef short ribs and point of rump continue to be very popular cuts, especially in weekend barbecues. These cuts have better prices domestically than if exported. Ground beef and round cuts are also widely consumed.

Since 2013, meat packers and large meat distributors are importing beef from neighboring countries. This is to offset somewhat larger exports, to keep pressure off retail prices when they rise and to keep a well-supplied local market. Meat is imported from Paraguay and Brazil. They are generally a variety of boneless, vacuum-packed cuts, a little less expensive than locally-produced cuts. Some industry contacts indicate that the

business of importing less expensive beef could continue growing in the future, allowing larger exports of higher-value cuts.

Pork consumption continues to expand significantly. Most of it is imported frozen from Brazil. Some products also come in from Spain, Chile and the United States. Per capita consumption of poultry is estimated at 20 kilos, while pork consumption is close to 18 kilos (roughly 20-25 percent is processed products) and sheep meat consumption is estimated at about 4 kilos.

Trade

Uruguay beef exports in 2018 are forecast at 420,000 tons cwe. This is a smaller volume than what it is expected in 2017, because of a projected lower beef supply. Despite the drop, this volume is still one of the highest volumes in history. The export industry claims that they are undergoing a difficult situation because the Uruguayan peso is very strong and therefore, most of their costs are high in dollar terms, making local products less competitive in world markets. Cattle prices are, together with Argentina, the highest in the region. Utilities and labor costs are also increasing significantly.

The two most positive developments for Uruguay's beef export sector was the rising importance of shipments to China and the possible opening of the Japanese market in the near future. Since 2008/2009, China began to import beef from Uruguay and every year it has increased its purchases. In 2017, almost 50 percent of the country's exports are expected to go to that market. Japan is a market which pays good prices and could offer a good alternative to local exporters. Uruguay began to export to this market in 1998 when it was FMD free. In 1999 it exported almost 5,000 tons with expectations of rapid growth However, the FMD outbreak of 2000 led to the suspension of these exports. Now, Uruguay believes it will soon become the first country to export beef to Japan being FMD-free with vaccination.

Through June 2017, Uruguay exported 156,600 tons (product weight) of beef, for a total of $762 million. This represents a 15 percent increase in volume from the same period last year. Of this volume, 85 percent was frozen beef (of which 86 percent was boneless and 14 percent bone in) and 14 percent chilled beef. Thermoprocessed beef exports were small, with 2,200 tons. In volume, China ranked first with 51 percent of all shipments, followed by the EU with 16 percent, the United States with 14 percent, and Israel with 7.5 percent.

In 2018, China is expected to continue to be the number one market for Uruguayan beef. Prices are somewhat recovering, although local traders follow closely what Brazil will do. China buys primarily short ribs bone in, round cuts, chuck and blade, trimmings, and shin shank.

Exports to the United States are also expected to remain stable. The majority of these exports are frozen 90 chemical lean trimmings for manufacturing but some are forequarters and round cuts. There is a niche market developing for organic trimmings. Uruguay beef has great competition from Australia and New Zealand. Local traders believe they need to focus on niche markets in the US with differentiated beef such as organic, no-antibiotics and certified Angus. Uruguay exports some 5,000-6,000 tons (product weight) of thermoprocessed beef to the United States every year. It is mostly corned beef and Jerky. These exports are in combination with sister companies in Brazil. The FOB prices of these products range between $5,000 and $5,500 per ton.

Israel is a very important market which typically imports frozen, boneless forequarters. These shipments are produced under Kosher certification. However, local sources report that this market could suffer beginning in mid-2018 when new animal welfare requirements are put in place. Israel is demanding all beef exporters to set up new knocking boxes which make for animal welfare reasons. However, apart from the investment at the plants (which will vary significantly depending on each layout) it makes the speed of slaughter drop significantly adding extra costs to the process. Market observers are waiting to see if plants in the region make these changes and how this will affect availability of product and if there are price changes.

The EU is a very important market because it takes high value cuts under the Hilton Quota (Uruguay has 6,300 tons), the 481 quota for grain fed beef and exports outside these quotas. This market is expected to continue to be significant in 2018.

The Russian Federation, once Uruguay's top market (then replaced by China), is expected to continue to be marginal and be supplied by other countries in the region.

Brazil continues to be a stable market for some few specific cuts which are very popular, such as sirloin cap and point of rump. Exports are chilled or frozen.

Uruguay cattle exports for 2018 are projected at 300,000 head. The local government closely tracks these shipments. Turkey is the number one market by far and usually takes young bulls to feed in their country. These exports keep domestic prices of calves high, resulting in good returns for cow calf operations.

Statistical Tables

Animal Numbers, Cattle	2016		2017		2018	
Market Begin Year	Jan 2016		Jan 2017		Jan 2018	
Uruguay	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Cattle Beg. Stks	11950	12016	11785	11864	0	11804
Dairy Cows Beg. Stocks	350	350	350	340	0	340
Beef Cows Beg. Stocks	4150	4150	4200	4100	0	4100
Production (Calf Crop)	2770	2720	2900	2800	0	2900
Total Imports	0	0	0	0	0	0
Total Supply	14720	14736	14685	14664	0	14704
Total Exports	295	307	307	280	0	300
Cow Slaughter	1175	1150	1135	1100	0	1030
Calf Slaughter	16	15	15	15	0	15
Other Slaughter	1130	1115	1225	1185	0	1155
Total Slaughter	2321	2280	2375	2300	0	2200
Loss	319	285	280	280	0	270
Ending Inventories	11785	11864	11800	11804	0	11934
Total Distribution	14720	14736	14685	14664	0	14704
(1000 HEAD)						

Meat, Beef and Veal	2016		2017		2018	
Market Begin Year	Jan 2016		Jan 2017		Jan 2018	
Uruguay	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	2321	2280	2375	2300	0	2200
Beginning Stocks	0	0	0	0	0	0
Production	590	580	605	590	0	570
Total Imports	6	6	6	10	0	12

Total Supply	596	586	611	600	0	582
Total Exports	422	422	430	432	0	420
Human Dom. Consumption	174	164	181	168	0	162
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	174	164	181	168	0	162
Ending Stocks	0	0	0	0	0	0
Total Distribution	596	586	611	600	0	582
(1000 HEAD) ,(1000 MT CWE)						