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COMMODITIES

Implications of the 50% Tariffs: All for the sake of the USD

LatAm Commodities

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Main takeaways:

On July 10, the **US government** announced that, **starting August 1**, it will impose **a 50% tariff** on all **Brazilian exports**. The measure excludes items already covered by specific tariff regimes, which remain subject to their own rates, such as steel, for example.

It is worth noting that, in 2024, Brazil **had a trade deficit** with the US **of US$280mn**. In this context, we understand that the tariff imposition was **predominantly politically motivated**, rather than economic or commercial. Among the main arguments presented by the US administration in a letter sent to the Ministry of Foreign Affairs (Itamaraty) addressed to the current president, Lula da Silva, are the perception that **(i)** the restrictions imposed by the Brazilian judiciary on US social media platforms represent a threat to freedom of expression and that **(ii)** the trial of former president Jair Bolsonaro should not be taking place.

On the more rational side, we believe that what may be behind the Trump administration's intention are **effects linked to the FX rate**, with the **strengthening of the USD**. This comes from a context in which the **BRICS summit** (held in Brazil) was recently held, ending on Monday, July 7, just two days before the announcement of the tariffs by the US. At this meeting, members of the Brazilian government made harsh statements about the tariff environment imposed by the Trump administration and, together with China, defended the **creation of a specific currency** for trade within the **BRICS economic bloc**.

If this idea goes ahead, we believe that the effect would be detrimental to the US, since China accounts for a very significant share of global trade, **removing demand from the USD**. Therefore, the Trump administration may be using the tariffs imposed on Brazil as a coercive measure to get Brazil to withdraw its support for the creation of a single BRICS currency.

Meatpackers (Moderate impact)

(i) Minerva: Although investors reacted very negatively at the opening (shares plunged by 7%), given that Minerva is the least diversified company in the protein portfolio compared to JBS and Marfrig + BRF, as it focuses solely on beef and is a predominantly export-oriented platform (~58% of total sales). The company's fragility could be interpreted as greater than that of its competitors, since chicken and pork are not exported on a large scale to the US. On the other hand, the company sought to calm the bearish market sentiment by disclosing a material fact commenting that Brazil's exposure to sales to the US is lower than the consensus estimate.

In other words, the US share of total net revenue is ~16% — of which ~30% originates in Brazil — so that the new tariff policy, in its most adverse scenario, could in turn affect up to 5% of total net revenue. In addition, the company also highlights the possibility of leveraging its other units (Argentina, Paraguay, Uruguay, and Australia) to offset this negative effect on its Brazilian operations. On the downside of this strategy, we consider that Uruguay is experiencing a negative cattle cycle, with low profitability. Therefore, investors should remain attentive to volume redirection via price arbitrage.

In addition, although the company's exposure is relatively low in red meat shipments from Brazil to the US, if there is a group of meatpackers with greater exposure, the redirection of more supply to the domestic market instead of exports could lead to a drop in cutout prices. Even if companies are forced to ease the cutout, the cattle cycle reversal process in Brazil is already underway—with a higher level of female retention expected for 2H25—which in turn will further compress the margin of domestic operations (42% of total sales volume).

(ii) Marfrig: We estimate that shipments to the US from Brazil account for ~8% of South America division revenue. If we look at total consolidated net revenue (including BRF's share), it represents less than 1%, so the direct effects of the 50% tariff should be basically nil for Marfrig. However, what we said about the cutout for the domestic market in the paragraph on Minerva obviously applies to all companies in the sector. With a possibly smaller cutout, via the redirection of more beef to Brazil instead of being exported — accumulating supply and leading to a drop in prices — the margin of domestic operations should narrow. We emphasize that ~60% of the South American unit's sales volume is domestic, but the company does not disclose how much of this volume is in turn made in Brazil.

(iii) BRF: Exports of chicken and pork from Brazil to the US are negligible. However, it is worth noting that the indirect impact of the oversupply of beef here in Brazil may lead to a decline in chicken prices due to increased competition with red meat, which is also priced lower in the domestic market, as mentioned above. This could discourage the tradedown movement that had been driving the company's volumes.

(iv) JBS: The company has a diverse portfolio, both in terms of geography (Brazil, the US, and Australia) and proteins—in addition to beef, it produces chicken and pork, both in Brazil through Seara and in the US through PPC. Therefore, we believe that the impact of the tariff on consolidated business will be marginal, precisely because of this arbitrary redirection to other slaughterhouses. Although Friboi (within JBS Brazil) has 50% of its sales in the domestic market and 50% in exports, as the company has the Beef North America division, there is additional protection for sales in the local market without the intermediation of tariffs. Although there is movement of red meat shipments from Friboi to the US, given that the US cattle cycle is quite negative, the company has a strategy of exporting meat via Australia, which even has a more elastic quota than Brazil.

It is worth noting again the effect of the higher local beef supply, which would potentially be exported. Therefore, as we mentioned in the sections on other companies in the sector, there is a possible compression of margins via a reduction in the cutout in the domestic market, without a corresponding cooling in the price per arroba of cattle, which may rise further in 2H25 due to the level of female retention.

Pulp & Paper (Diffuse impact)
There is a notable dichotomy between Klabin and Suzano in terms of exposure to the US market.

(i) Klabin: In 2024, ~80% of kraftliner sales were directed at exports, with the US accounting for a significant share of destinations. Therefore, the company is likely to expand the strategy already adopted in 1Q25 of selling kraftliner to different locations, such as Southeast Asia and South America, even at lower prices, reducing its vulnerability to the US market. In paperboard, ~25% of sales were destined for export, and compared to kraftliner, we believe that the focus on the US is already reduced. Now, in packaging, the impacts will mostly be indirect. Our understanding is that, as various goods from different sectors are shipped to the US, mainly from agribusiness—such as fruit and red meat, their decline should negatively impact sales of corrugated boxes.

Even so, looking at the company, exposure to the US is less than 5% of total net revenue. Therefore, we believe that the tariff impact will tend to be scattered and of reduced magnitude for Klabin. In the case of pulp, the main sales flows for the company are Europe and the domestic market, in addition to China. Furthermore, the tariffs may have a positive net effect, since the withdrawal of capital flows from Brazil will put pressure on the USD/BRL FX rate, helping to price sales to other locations.

(ii) Suzano: Although ~40% of the company's BHKP shipments are destined for Asia (mainly China), the US still has a significant share of the sales portfolio. We estimate that ~15% of net revenue comes from the US, mainly because of a higher market price (~2x higher vs. the Chinese BHKP curve), even with the application of a discount (~48%). Therefore, the impact on the tariff should be felt by the company. In short, we believe that Suzano is the player most exposed to this additional tariff. The main challenge will be to reallocate these volumes to other markets, especially given the still sluggish global demand for pulp, particularly in China. On the other hand, the acceleration of the USD/BRL FX rate (+3% since the tariff announcement) may mitigate the effect of the eventual loss of market share in the US market.

In addition, the US Department of Commerce released preliminary results of an anti-dumping investigation involving Suzano's uncoated paper. According to the agency, the company exported the product to the US at a price 14.4% below the normal value between March 2023 and February 2024. Although this does not involve BHKP's core business, we believe that the case generates regulatory noise and may open the door for the application of countervailing tariffs if confirmed. We will continue to monitor developments.

Metals & Mining (Slight impact)

The sector was already burdened by tariffs of +50% on crude steel exports to the US (25% from the withdrawal of Section 232 exemptions + 25% tariffs announced in June). We understand that the **recently announced measure does not entail any additional increase**, thus preserving the current outlook unchanged. In 2024, the Brazilian steel market reached a value of ~US$73bn73 billion, with domestic production of ~32Mt and apparent consumption of 21Mt. In the same year, steel exports to the US totaled ~US$6bn6 billion (~5Mt or ~15% of domestic production). The largest share of these sales corresponds to slabs; an input produced predominantly by ArcelorMittal in Brazil. Within the scope of our coverage:

(i) Usiminas: Very low vulnerability, with less than 5% of its total net revenue coming from exports, mainly to South American countries. Volumes destined for the US are merely opportunistic and, when they occur, represent 1-2% of net revenue.;

(ii) CSN Holding: Volumes exposed to the US are very low, representing 250-300Ktpa (or ~8% of CSN's total shipments), accounting for less than 5% of the holding company's steel segment's net revenue and EBITDA.;

(iii) CMIN: Reduced sensitivity, also with less than 5% of net revenue in direct exports of iron ore to the US. The main destination for shipments is China.

(iv) Gerdau: Remains successful in the segment, with more than 50% of its EBITDA coming from operations within the US. ON North America's steel sales represent ~6Mtpa (42% of Gerdau's total shipments) + 300Ktpa exported from Canada to the US. Therefore, the company does not need to ship steel from Brazil to the US for further rolling, as other mills — including ArcelorMittal — do. The presence of mills located on US soil in its asset portfolio allows Gerdau to be one of the beneficiaries of the tariff increase, as much as mills that operate and were founded in the US. This will enable the company to effectively protect itself in the short term against increased penetration of imported steel, whose share of apparent consumption, according to the American Iron and Steel Institute, reached 23% in 2024 (vs. 21% in 2023).

(v) Vale: Exports of iron ore + pellets to the US accounted for ~3% of its shipments. It is important to mention that the negative impact of the 50% tariffs imposed by the US on Brazil is almost non-existent for Vale, since the global iron ore market remains dominated by China (~70% of *seaborne* demand). We believe that the tariffs may even help the company, since the withdrawal of capital flows from Brazil will put pressure on the USD/BRL FXexchange rate. Therefore, the depreciation of the BRL vs. the USD should reinforce the dilution of *C1/t* — the main production cost metric — translating into a unit cost reduction of -US$0.25/t for each +R$0.10 increase in the USD/BRL FXexchange rate.;

This combination of reduced exposure (Usiminas, CSN, CMIN, Vale) and operational depth in the US (Gerdau) outlines a sector with asymmetric tariff impacts, in which only players with consolidated operations on US soil — and not merely exporters — see their business model substantially affected by the framework derived from the 50% duty imposition.

Oil & Gas (Slight impact)

The oil and gas sector in Brazil has **limited direct impacts** from the +50% US tax. In 2024, the US accounted for ~13% of Brazilian crude oil exports. Most **exports are destined for China**, representing **44% of total Brazilian oil exports**. The other destinations are more scattered. Thus, even with the loss of competitiveness, Brazilian oil can be redirected to other markets with greater flexibility.

It is also worth noting that Brazilian oil has a predominantly heavy profile and low sulfur content, a type of oil that is highly sought after by Asian refineries. When we look at the US, another point stands out: the increase in domestic production (shale oil) and logistical changes, **factors that reduce Brazil's share** among the main destinations for Brazilian oil.

In the oil and gas (upstream) sector:

(i) Petrobras — the company sells only 2.5% of its oil and oil products to the US. The impact is limited for the company.

(ii) Junior Oils (Prio, Brava, and PetroReconcavo) — Junior Oils in Brazil do not have the same scale as Petrobras. These companies have almost all of their operations in Brazil. Their activities are highly exposed to Petrobras through the sale of their production to the state-owned company.

Agricultural (Slight impact)

We believe that, with regard to grains, although Brazil and the US are among the world's largest producers, bilateral trade in 2024 was practically insignificant: the US does not even rank among the top ten destinations for Brazilian corn in the year, and international trade data (UN COMTRADE and USDA) indicate that the volume exported to the US market did not exceed 1Mnt, corresponding to less than 1% of Brazil's total shipments; therefore, we do not foresee any significant impacts in this segment.

We also see that for soybeans, the US is an even more irrelevant destination, with the focus being much more on the US. As for cotton, although the US is an important market for clothing, shipments are much more directed to China, and from there, the clothes are exported to the US. To put this into context with figures, in 2024, Brazil exported only US$400mn in raw cotton to the US, representing only ~8% of US$5bn in total cotton exports by the country in the same period, confirming the marginal nature of this trade relationship. Therefore, companies under our coverage (SLC and Brasil Agro) should not suffer any significant negative impacts. On the other hand, they may benefit from the acceleration of the USD/BRL FX rate.

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