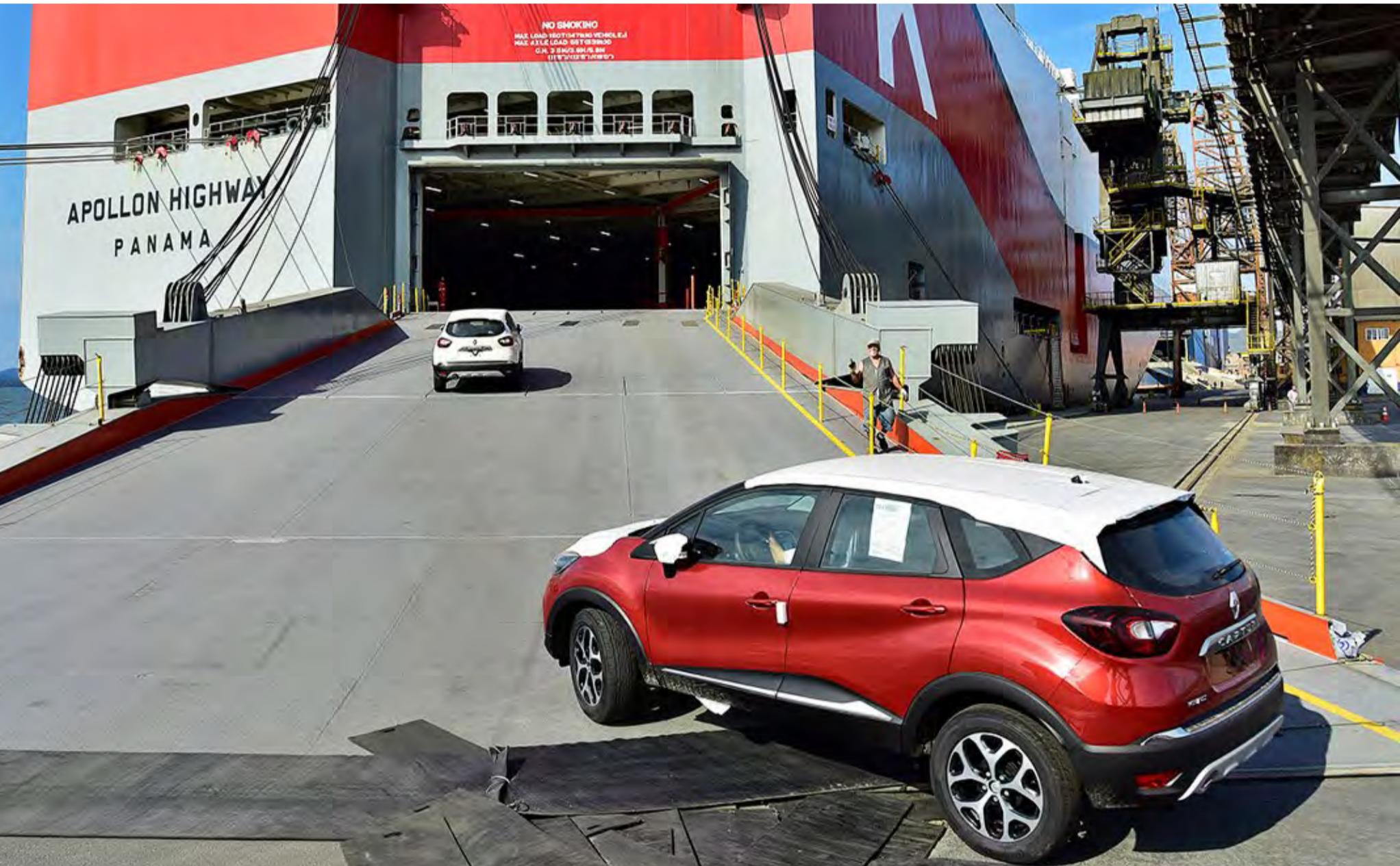




WEEKLY Edition



BRAZIL AND MEXICO TO RESUME DISCUSSIONS

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Brazil and Mexico to resume discussions on the trade agreement

São Paulo – Governments of Brazil and Mexico will return to the negotiation table to review some of the terms of the bilateral automotive trade agreement, which from last March on started to operate under the free trade system. According to Anfavea president, Antonio Megale, the main issue involves rules for the origin of local content, whose current format satisfies none of the sides.

These rules should have been addressed in last year's discussions -- which did not take place given that both countries were in an election year. In opting for the free trade, the countries had agreed on rising from 35% to 40% the level of local content, but many companies are struggling to get to that goal.

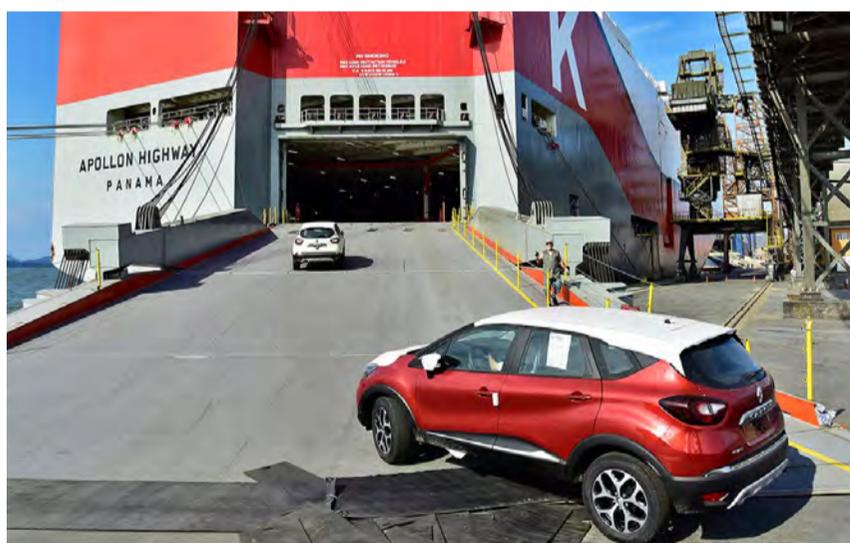


Photo: Ivan Bueno/APPA

“The biggest hurdles are in the trade flow from Mexico to Brazil, but some Brazilian companies are facing problems as well.”

The rule of origin established in the agreement defines a calculation based on the value of the original materials on the final price of the product, discarding potential production processes locally done. Should the steel be imported, for instance, the handling of raw material for the production of a component made on-premises is disregarded – and the price of the imported steel goes fully into the calculation.

To Megale, ideally, we should use the formula that applies to Mercosur, which includes these productive processes:

The purpose is to review the rules concerning the origin of local content; return to quotas for both sides is not to be ruled out

“Mexico agrees with our stance. We passed this on to the Government, which has nodded positively to a change”.

Anfavea asks for more: while both governments discuss the rule of origin, the quota system would again be put in place – with values higher than the ones practiced last year: “Last year’s quotas were not reached. We could even increase the value and it would not cause changes in the trade volume in the short term”.

Then again, the association is concerned with the medium and long term: with trade made free, the higher Mexican competitiveness could direct investment decisions towards the North American country rather than to Brazil. At any rate, the Brazilian government officials have at no point in time seemed inclined to follow this path.

Results – The difficulties in the Argentinian market are affecting exports from Brazil. In the first quarter, the reduction in sales volumes as compared to last year’s first quarter was 42%, with 104.5 thousand units shipped.

According to Megale, Argentina (which once meant 75% of our exports), closed this quarter at 60%: “The good news is that we doubled our volume to Colombia, who recently signed a trade deal with us, and that represented 10% of our exports in the period”.

In March, we exported 39 thousand vehicles, a volume that is 42.2% lower than the same month of 2018, and 3.7% lower than February’s. In net sales, the fall in billings was as much as 43.6% in the year-to-year comparison and 2.9% in the monthly comparison, to US\$ 850.8 million.

For the quarter, manufacturers of cars and agricultural machinery billed US\$ 2.4 billion in sales abroad, a reduction of 38.9% as compared to the first three months of last year. ■

Production is flat in the first quarter

São Paulo – The Brazilian automotive industry closed the first quarter stable in comparison to the first three months of last year. According to data published by Anfavea on Thursday 4, the production was 699.7 automobiles, light commercial vehicles, trucks, and bus chassis in the period, or 4 thousand fewer units than the January to March of 2018 period.

Even with the domestic market in an upwards swing, exports are down, hindered by the poor performance of the largest client of the local manufacturers, Argentina.

Domestic market expands but exports decline in the period

In March a total of 240.5 thousand vehicles were produced, a reduction of 10% compared to the same month of last year, and of 6.4% vis-à-vis February. Anfavea's president, Antonio Megale, traced the fall in sales to three factors:

"Besides that fact that March has one working day less than February and that exports have sustained a loss, last month one of our associates (Ford) faced a strike and another (Mercedes-Benz) was affected by a flood".

Anfavea's president mentioned data from a report from the Central Bank, comprising 2017 and 2018, which goes to highlight the importance of the automobile industry in overall Brazilian industrial production. According to the document, the sector accounted for one-third of the industrial growth in the period and one-fourth of GDP growth.

From February to March, the industry recorded a loss in personnel of a little more than 1 thousand jobs: at the end of March, it employed 129 thousand 980 people..

Daily average in March was the best since 2014

São Paulo – Daily average of vehicle sales in March, with nineteen working days, exceeded the mark of 12 thousand units, for the best result since 2014, according to information published by Anfavea, the entity that represents the domestic auto industry on Wednesday 4. According to its president, Antonio Megale, the industry is well on its way to come back to the level of 2014, and last month's numbers vouch for that.

Sales in the month totaled 209 thousand 165 units, an increase of 0.9% as compared to the same month of last year and of 5.3% in comparison to February. In the quarter, a total of 607.6 thousand vehicles were licensed, for an expansion of 11.4% over the same period in 2018, when 545 thousand 536 units were sold.

That was Megale's last meeting with the press as president of Anfavea. He highlighted the results achieved by the industry in the first quarter: "The growth rate we attained in the first quarter is our projection for the year, and I expect it to remain throughout the period".

As far as inventories, equivalent to 41 days of sales in the last day of March, Megale said that the volume is expected to decrease in April: "With sales picking momentum, the tendency is towards a reduction in inventories at the end of this month".



Photo: Publicity

Daily sales volume topped 12 thousand units



The internal market supports truck production

Results in the quarter show stability in comparison to the first three months of last year

São Paulo – Production of the truck manufacturers installed in the country seem to have gone unscathed by the effects of the retreat in the export of Brazilian vehicles. On the one hand, we do not produce more on account of the Argentinian crisis, our main local partner in the automotive industry, but on the other hand, we did not produce fewer vehicles in the quarter. Up to March, in the truck segment, 24 thousand 761 units rolled off production lines or 1.3% over the first quarter of last year.

This tepid performance, albeit positive, is the result of the offsetting of losses in external sales with gains in domestic demand. According



Photo: Publicity

to Marco Saltini, vice president of Anfavea, manufacturers are being successful in balancing the commercial flow so as to maintain production in a level above or similar to that of 2018: "There was a reversal in sales flow, and the manufacturers are currently focusing on the internal market. The heavy trucks are leading production, and as the year goes by the middle segment should play a key role in the lines".

According to data published by Anfavea Thursday 4, production performance for the quarter was negative in all segments but one, that of the heavy trucks. In the January-March period, production in this segment attained 13 thousand 67 units, for an increase of 20% over last year's first quarter. In the semi-heavy segment, in turn, production was 5 thousand 693 units, a reduction of 17.8%. The medium trucks, 1 thousand 117 units, a decrease of 20.6%. Light trucks, 4 thousand 637 units, a decline of 3%. Semi-light ones, 247 or 43.6% fewer than the same period last year.

Market – Mercedes-Benz maintains leadership in the truck market, capping the quarter with total sales of 6 thousand 646 units. The company was a leader in the heavy segment, with 3 thousand 438 units licensed, which represents a growth rate of 77.5% compared to the first quarter of last year. It also leads in the semi-heavy, light and semi-light segments.

In the medium segment, the leader in this quarter was Volkswagen, with 1 thousand 158 licenses issued, or 60% over last year. Sales for this company were the only to exceed the one thousand units mark among all manufacturers. According to Saltini, who besides sitting at Anfavea board is also the director for institutional relations for VWCO, the growth in the segment occurred as a function of sales of the 11-ton Delivery model.

Total truck sales in the country, for the quarter, were equal to 21 thousand 464 units, which means a growth rate of 47.7% over the corresponding volume in the same period of last year. Saltini also stated that the tendency for the next couple of months is that of growth compared to 2018, although smaller than originally estimated:

"The tendency for the year, something we have already experienced in the first quarter, is for a decrease in growth of sales as the year goes on. In the first quarter of last year, the volume licensed meant a substantial growth in comparison to 2017. The basis, of course, was low. This year, however, we started at a stronger pace, so that in May or June the difference between what was sold this year as compared to last year will be smaller".

Plants reduce the pace in the bus lines



Photo: Publicity

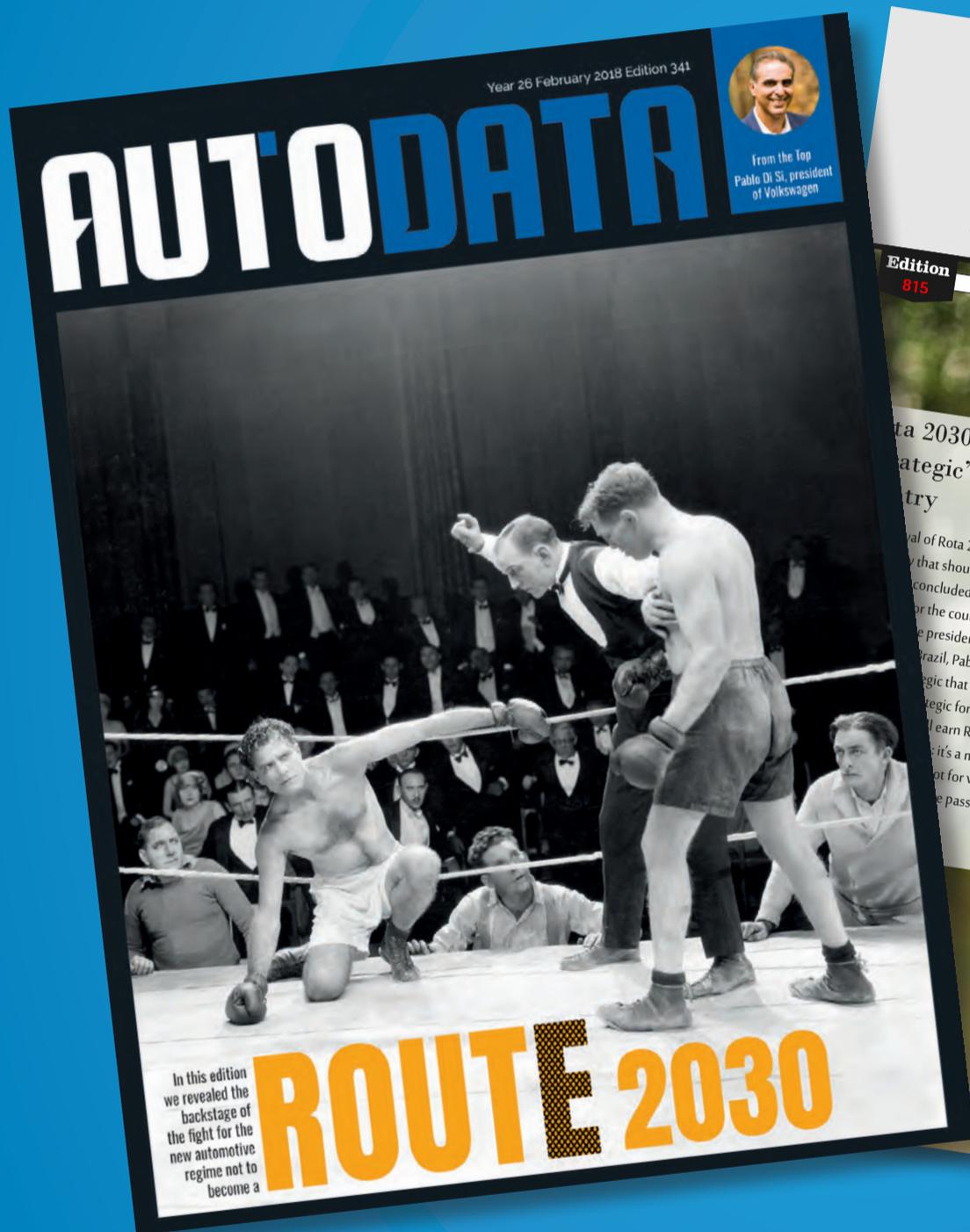
Production of chassis in the first quarter of this year was lower in comparison to the first quarter of 2018

São Paulo – Production of bus chassis closed the first quarter with 6 thousand 116 units, according to data published by Anfavea on Thursday 4. This volume represents a reduction of 11.2% in comparison to the volume produced by the installed lines last year.

Breaking it down by segment, the production of road-bound bus chassis was 1 thousand 278 thousand units, a reduction of 19%. Production of chassis for urban buses, in turn, was 4 thousand 838 units, a fall of 8.7%.

Licensing of buses in the first quarter of this year reached 4 thousand 680 units, for an increase of 70% over last year. According to Marco Saltini, vice president of Anfavea, this increase occurred as a result of sales to the government, especially for the Heading for the School program. ■

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Sales of machinery grow, but production and exports shrink.

São Paulo – The agricultural and road machinery sector registered a growth rate of 7% in its March sales, when compared to last year's same period, reaching 3 thousand 768 units, as per data released by Anfavea on Thursday 4. In comparison to February, the increase was 31.6%.

In the quarter, 7 thousand 523 pieces of machinery were billed, an increase of 23.5% vis-à-vis the same period of last year. Antonio Megale, president of Anfavea, stated that the positive numbers in the sector are the result of one very good grain harvest, second largest on record:

Reduction in exports is already affecting the number of units produced

“Another factor which was instrumental for the good results of the agricultural sector was the sale of soya to China at premium prices”.

For this year, Megale believes in a good volume, should credit be available to the producers – there is concern with the Harvest Plan: “We will have to see how we will survive at the end of this Harvest Plan and what the next one will look like, for government has already indicated that there may be a lack of resources to finance the last three months. Moreover, for the next one, there may be a reduction in the amount of funds. But we are already in conversations with the government in identifying a solution”.

The export volume in March was 1 thousand 111 units, for a reduction of 9.5% in comparison with March of last year. Compared to February, there was an increase of 33.5%. For the year to date figures, 2 thousand 683 machines were sold abroad, a reduction of 8.6% compared to the same period of 2018 -- according to Megale, the decline in exports was brought about by the economic crisis in Argentina, that is the main buyer of machines produced in Brazil.

Machine production totaled 4 thousand 514 units, a reduction of 16% compared to the same period of last year – in comparison to February, it went up by 30.9%. For the year, production was 10 thousand 868 machines, a reduction of 9.4% in comparison to the first quarter of 2018. According to Megale, the lower production level is attributable to the decrease in exports. ■