

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Required Report - public distribution

Date: 11/1/2010

GAIN Report Number: BR 0622

Brazil

Grain and Feed Update

Quarterly Grains Report

Approved By:

Alan Hrapsky, Agricultural Counselor

Prepared By:

Julie Morin, Agricultural Attaché

Report Highlights:

Post raised its 2010/11 corn export forecast by 1 million metric ton (mmt) to 8 mmt as attractive prices for exports are expected to boost corn shipments. Post raised its 2010/11 wheat production forecast by 150,000 metric tons to 5.45 mmt due to favorable weather conditions at harvest. Post now forecasts 2010/11 rice planted area at 2.83 million hectares and production at 8.6 mmt (milled basis).

Post:
Brasilia

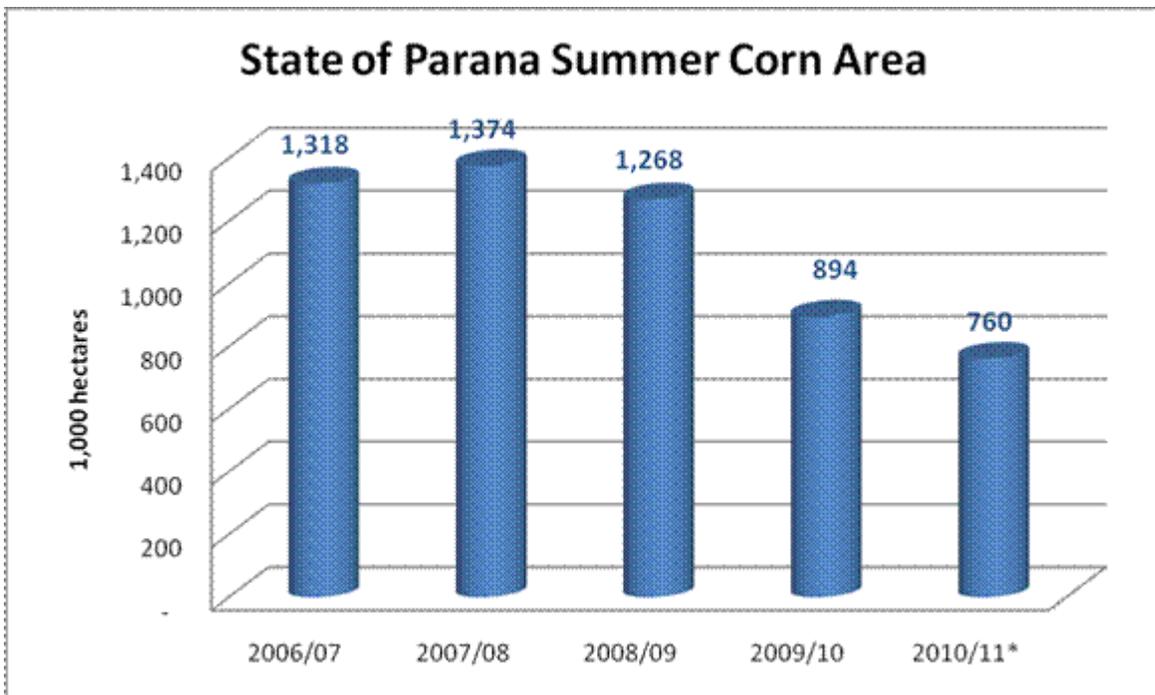
Commodities:
Corn

CORN

Post maintains its forecast of 2010/11 corn planted area at 12.6 million hectares and corn production at 51 million metric tons (mmt). Compared to 2009/10, these forecasts represent a 3 percent reduction in area planted and a 9 percent decrease in production. Trade sources and Brazil's Ministry of Agriculture forecast 2010/11 corn production in the 50-52.5 mmt range.

Summer Corn Crop Area Continues to Shrink

The Brazilian Corn Growers Association (Abramilho) forecasts that 2010/11 summer corn area planted will be the lowest in history with the possibility having the lowest yields since 2004/05. Producers are expected to continue to reduce their summer corn area planted in 2010/11 in favor of additional soybean, cotton and dry bean acreage. Soybeans and cotton have better liquidity and higher expected profitability. The summer corn area planted is expected to decline 3 percent nationwide compared with 2009/10 and that is addition to 2008/09's 16.5 percent decline. Area planted in the state of Parana, the second-largest summer corn crop producer, is estimated at 750,000 hectares, a 15 percent decrease from 2009/10 making it the second in a row in which Parana area planted is below one million hectares. Yields are expected to decline more than acreage due to the anticipated dry weather associated with La Nina.



Source: CONAB

The Brazilian Seed Association (Abrasem) has reported that seed sales are down between 10-15 percent. Between May and August 2010, 1.49 million sacks of seed corn were sold compared to 1.78 million sacks sold during the same period last year.

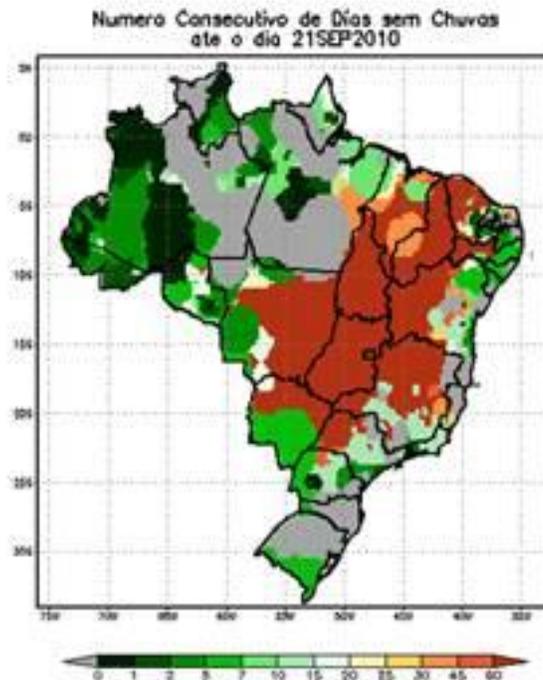
If dry weather conditions persist, there may be additional reductions in corn area planted as producers switch their unplanted corn area to soybean production since soybeans have a later planting window. Most of the grain-growing states faced hot and dry weather in September, the principal month for planting summer corn in Brazil, with some places getting little to no rainfall. Therefore, the planting pace is slower than last year's due to the difference in rainfall patterns caused by El Nino in 2009 and La Nina in 2010. For example, Parana received less than one-half inch of rain in September. As a result, as of mid-October, only 37 percent of the corn crop had been planted in the state of Parana compared to 52 percent this time in 2009.

Safrinha Corn Area May Be At Risk Due to Late Soybean Planting in Mato Grosso

Safrinha corn is planted in February and March, immediately behind the harvested soybeans. Therefore, a significant delay in soybean planting could result in a reduction in safrinha corn area planted. The national soybean planting pace in 2010/11 is well behind last year's record pace due to delayed rains. In Mato Grosso, which produced 40 percent of the 2009/10 safrinha crop, lighted and scattered rains are making producers hold off planting until the 50 millimeter threshold of rainfall preferred prior to planting is obtained.

Safrinha corn yields could also be negatively impacted as late planted safrinha corn would be more vulnerable to weather problems (excessive dryness in the Center-West and early frost in the South).

Number of Consecutive Days without Rain since September 21, 2010



Consumption

Mato Grosso Corn Ethanol Pilot Test Project

Producers in the state of Mato Grosso are exploring a new use for their corn. A lack of infrastructure in Mato Grosso makes it difficult and expensive to transport the large second-harvest or “safrinha” corn crop. In response, the Mato Grosso Soy and Corn Association (Aprosoja) is forming a partnership with the Brazilian Agricultural Research Corporation (Embrapa) to undertake pilot tests in Campos de Julio. If successful, corn-based ethanol production will be expanded to 40 plants with a potential to use 2 mmt of corn or about 20 percent of the corn produced in Mato Grosso.

Corn ethanol production could reduce the need for government incentive programs. In 2010, the government auctioned over 7.3 mmt of corn from Mato Grosso at subsidized prices that were significantly above the local cash price. The government then subsidized the transport of the corn to export facilities. This volume represented 80 percent of the state’s harvest.

Trade

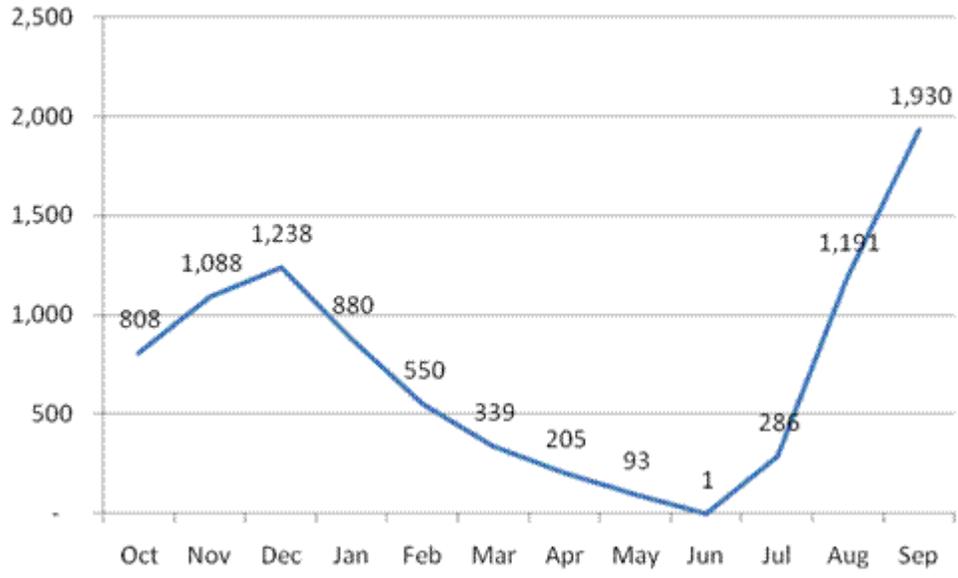
Post raised its 2010/11 corn export forecast by 1 mmt to 8 mmt as strong import demand and attractive prices for exports are expected to boost corn shipments by Brazil.

September Brazilian Corn Exports Set Record

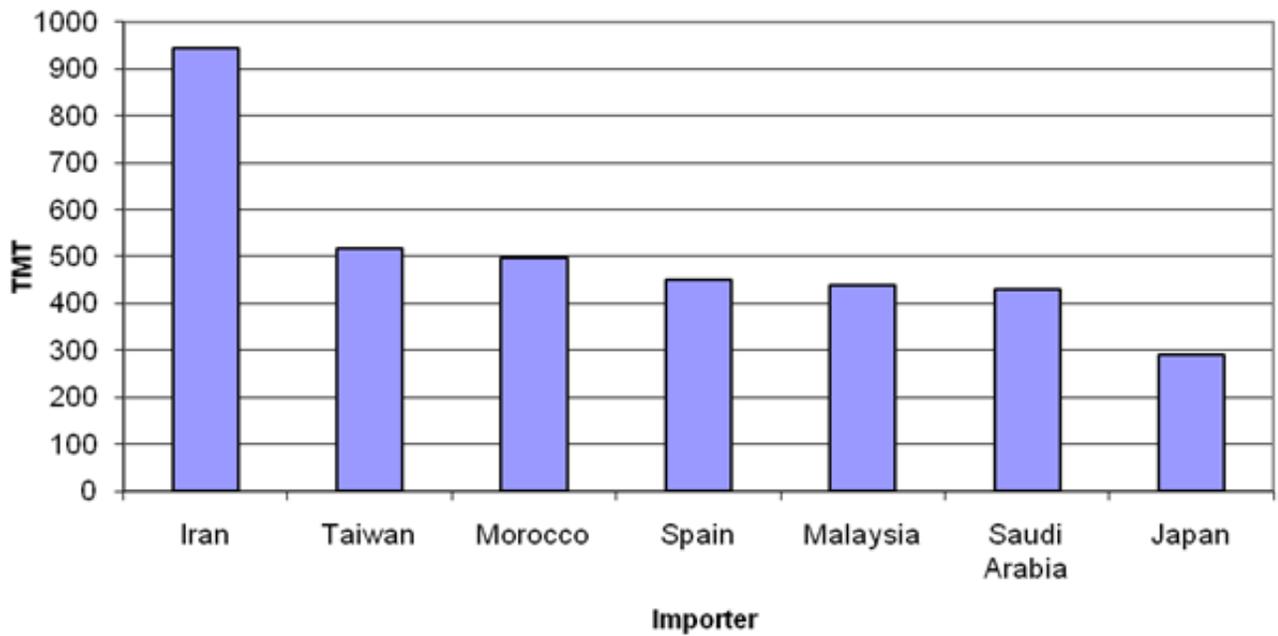
September corn exports reached a record 1.93 mmt as dry weather at the key ports of Paranagua and Santos allowed vessel loading to continue almost nonstop. This month broke the previous record of 1.8 mmt set in October 2007. The Premium for Marketing of Products (PEP) auctions have been the main drivers of exports. These government-held auctions assist with the flow of grain from production areas to consumption areas. The total purchases by the government under this program are about 11 mmt and 9 mmt of the purchased corn is destined for export.

Major buyers of Brazilian corn included Saudi Arabia, Spain, Portugal, Holland, Malaysia and Morocco. Demand was strong from EU countries due to reduced available worldwide grain supply. Brazilian corn is favored by EU countries because about 50 percent of the crop is non-GMO. In addition, according to sources, the varieties of GMO corn planted in Brazil do not meet with resistance from the EU.

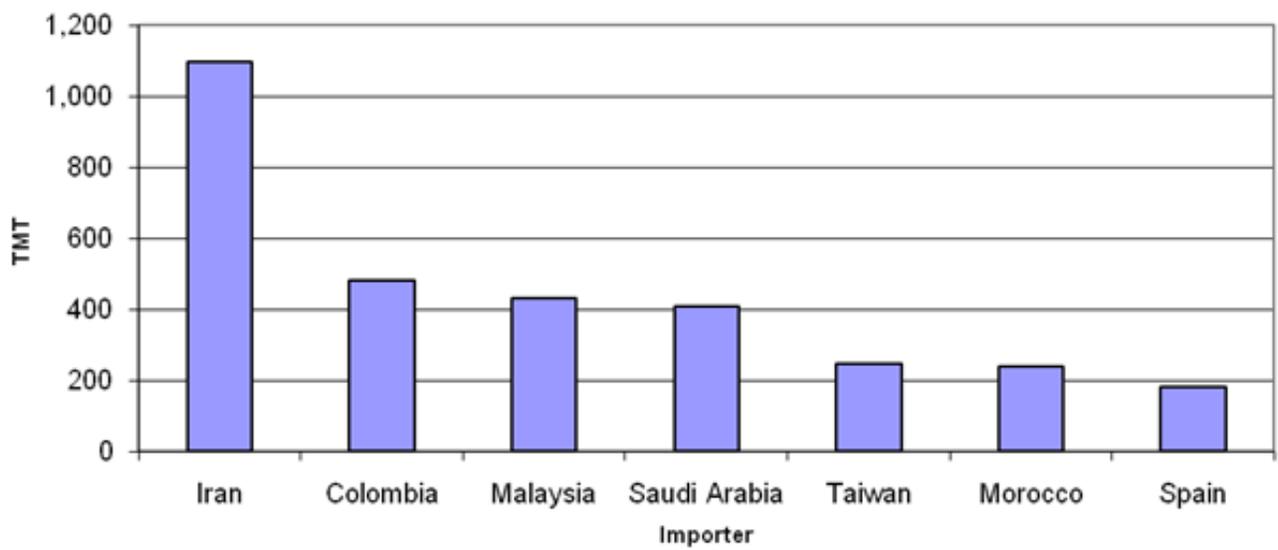
Brazilian Corn Exports by Month



Top Brazilian Corn Markets Jan-Sept 2010



Top Brazilian Corn Markets Jan-Sept 2009



Corn Brazil	2008/2009			2009/2010			2010/2011		
	Market Year Begin: Mar 2009			Market Year Begin: Mar 2010			Market Year Begin: Mar 2011		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	New Post	
Area Harvested	14,100	14,100	14,100	12,925	13,300	12,900	12,750	12,800	(1000 HA)
Beginning Stocks	12,579	12,559	12,579	12,084	12,459	12,179	12,884	12,829	(1000 MT)
Production	51,000	51,000	51,000	56,100	51,000	56,000	51,000	51,000	(1000 MT)
MY Imports	1,141	1,000	1,200	700	500	650	1,000	1,000	(1000 MT)
TY Imports	1,092	1,000	1,100	800	700	670	1,000	1,000	(1000 MT)
TY Imp. from U.S.	0	0	0	0	0	0	0	0	(1000 MT)
Total Supply	64,720	64,559	64,779	68,884	63,959	68,829	64,884	64,829	(1000 MT)
MY Exports	7,136	7,600	7,100	9,000	8,500	9,000	7,000	8,000	(1000 MT)
TY Exports	7,178	7,200	7,200	8,200	8,500	8,600	9,000	8,000	(1000 MT)
Feed and Residual	38,500	37,000	38,500	40,000	38,500	40,000	41,300	41,300	(1000 MT)
FSI Consumption	7,000	7,500	7,000	7,000	7,000	7,000	7,000	7,000	(1000 MT)
Total Consumption	45,500	44,500	45,500	47,000	45,500	47,000	48,300	48,300	(1000 MT)
Ending Stocks	12,084	12,459	12,179	12,884	9,959	12,829	9,584	8,529	(1000 MT)
Total Distribution	64,720	64,559	64,779	68,884	63,959	68,829	64,884	64,829	(1000 MT)
Yield	4.	4.	3.617	4.	4.	4.3411	4.	3.9844	(MT/HA)

WHEAT

Post raised its 2010/11 wheat production forecast by 150,000 metric tons to 5.45 mmt due to favorable weather conditions at harvest. Farmers in Parana, the top wheat-producing state, have harvested 60 percent of their wheat, which is 25 percent more than what was harvested last year at this time. The La Nina dry weather pattern has allowed harvest to continue at an accelerated pace. The quality of the wheat being harvested is also superior to last year. In 2009, heavy rains in October lowered the yield and quality of the crop to such an extent that half of the wheat harvest in Parana was only feed quality.

Although overall wheat quality is higher this crop, producers, mainly in the north of the state of Parana, planted a wheat variety that is resistant to fungus and sprouting but has a low milling quality. Since there is no storage segregation, there is concern that it could lower the overall quality of Parana's wheat. Millers may source more of their bread-quality wheat from Rio Grande do Sul, the other key wheat-producing state, since the state's quality is excellent this crop year.

Brazil Wheat Production			
1,000 tons			
	2009/10	2010/11(f)	Change %
Parana	2540	3200	21
Rio Grande do Sul	1800	1640	-9
Santa Catarina	280	230	-18
Center-West	170	175	3
Southeast	225	185	-18
Total	5015	5450	9

Source: CONAB

Wheat Brazil	2008/2009			2009/2010			2010/2011			
	Market Year Begin: Oct 2008			Market Year Begin: Oct 2009			Market Year Begin: Oct 2010			
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	
Area Harvested	2,400	2,200	2,400	2,428		2,430	2,155		2,200	(1000 HA)
Beginning Stocks	344	660	447	1,527		1,647	1,553		1,797	(1000 MT)
Production	5,880	4,600	5,900	5,026		5,000	5,150		5,400	(1000 MT)
MY Imports	6,403	7,000	6,400	7,000		7,100	6,500		6,500	(1000 MT)
TY Imports	6,762	7,000	6,762	6,667		6,670	6,500		6,500	(1000 MT)
TY Imp. from U.S.	432	0	432	294		370	0		0	(1000 MT)
Total Supply	12,627	12,260	12,747	13,553		13,747	13,203		13,697	(1000 MT)
MY Exports	400	600	400	1,200		1,150	600		600	(1000 MT)
TY Exports	369	600	370	1,195		1,200	600		600	(1000 MT)
Feed and Residual	200	100	200	200		200	200		200	(1000 MT)
FSI Consumption	10,500	10,300	10,500	10,600		10,600	10,600		10,600	(1000 MT)
Total Consumption	10,700	10,400	10,700	10,800		10,800	10,800		10,800	(1000 MT)
Ending Stocks	1,527	1,260	1,647	1,553		1,797	1,803		2,297	(1000 MT)
Total Distribution	12,627	12,260	12,747	13,553		13,747	13,203		13,697	(1000 MT)
Yield	2.		2.4583	2.		2.0576	2.		2.4545	(MT/HA)

RICE

Post now forecasts 2010/11 rice planted area at 2.83 million hectares and production at 8.6 mmt (milled basis). These forecasts represent a stable area planted and a 12 percent increase in production compared to 2009/10. A 9 percent increase in Rio Grande do Sul; yields from 6.41 kg/hectare to 7 kg/hectare would account for most of the production gain.

Brazil's Ministry of Agriculture forecasts 2010/11 production forecast is between 8.2 mmt milled basis. Industry sources estimate that rice production could be much higher. They estimate that it could reach 8.9 mmt milled basis. The major difference in these forecasts is that the Ministry of Agriculture estimates a 2 to 4 percent in planted area in the state of Rio Grande do Sul, while the other analysts estimate a 10 percent increase.

The La Nina weather phenomenon is favorable to irrigated rice production which accounts for about 80 percent of national rice production. In irrigated areas, principally the states of Rio Grande do Sul and Santa Catarina, extended daylight hours could boost yields to 7 to 7.2 kg/ha. However, La Nina may present problems in central and northern Brazil where rain fed rice is grown.

Trade

A strong Brazilian currency is making Brazilian rice exports less competitive in the world market. On October 1, the exchange rate reached R\$1.679/US\$1, the lowest level since September 3, 2008. The Instituto Rio Grandense do Arroz (IRGA) estimates that Brazilian rice is competitive in the international rice market at a rate of R\$1.80/US\$1.

Conversely, imports are becoming more competitive. The cost of production in Brazil (in dollars) is one of the highest in Latin America. According to IRGA, the production cost in the south of Brazil is US\$2,200 per hectare; significantly higher than Uruguay's US\$1,600 and Argentina's US\$1,300.

A factor that will influence rice imports is the behavior of the Brazilian government with regard to public stock management. Currently, the government controls 800,000 tons of rice, which represent 83 percent of the total carryover stock. The volume is equivalent to one month of domestic demand.

If the government does not draw down on its intervention stocks, there may be a window of opportunity for U.S. exports in September-November. Brazil usually sources from its Mercosul partners. However, Uruguay and Paraguay do not currently have a large supply and Argentina has had problems with its ports.

Rice, Milled Brazil	2008/2009			2009/2010			2010/2011			
	Market Year Begin: Apr 2009			Market Year Begin: Apr 2010			Market Year Begin: Apr 2011			
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	
Area Harvested	2,909	2,910	2,910	2,765	2,830	2,760	2,850		2,850	(1000 HA)
Beginning Stocks	973	973	973	1,119	1,013	1,148	860		798	(1000 MT)
Milled Production	8,570	8,600	8,600	7,657	8,000	7,700	8,400		8,600	(1000 MT)
Rough Production	12,603	12,647	12,647	11,260	11,765	11,324	12,353		12,647	(1000 MT)
Milling Rate (.9999)	6,800	6,800	6,800	6,800	6,800	6,800	6,800		6,800	(1000 MT)
MY Imports	675	650	675	950	800	900	650		650	(1000 MT)
TY Imports	650	550	650	850	750	800	600		600	(1000 MT)
TY Imp. from U.S.	1	0	0	0	0	0	0		0	(1000 MT)
Total Supply	10,218	10,223	10,248	9,726	9,813	9,748	9,910		10,048	(1000 MT)
MY Exports	569	650	570	300	300	350	500		500	(1000 MT)
TY Exports	591	550	590	325	300	400	500		500	(1000 MT)
Consumption and Residual	8,530	8,560	8,530	8,566	8,600	8,600	8,600		8,600	(1000 MT)
Ending Stocks	1,119	1,013	1,148	860	913	898	810		948	(1000 MT)
Total Distribution	10,218	10,223	10,248	9,726	9,813	9,748	9,910		10,048	(1000 MT)
Yield (Rough)	4.	4.	4.346	4.	4.	4.1029	4.		4.4375	(MT/HA)