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## **Brazil**

### **LOCK-UP REPORT**

#### **Soybean Planting Update**

**Approved By:**

Alan D. Hrapsky, Agricultural Counselor

**Prepared By:**

Jeff Zimmerman, Agricultural Attaché

**Report Highlights:**

Brazil soybean planted area has reached 76 percent, well ahead of the 5-year average of 66 percent at this point in time. Post projects record soybean production in 2009/10 at 63.6 million metric tons (mmt) based on a record estimated 22.85 million hectares area planted. Early El Nino rains aided early planting in the Center-west region of Brazil, while crop planting substitution from corn to soybeans in the south is increasing as harvest progresses. Profitability remains a concern with unfavorable currency exchange rates and downward pressure on harvest prices based on potential record 2009/10 South American soybean crop.

**Post:**

Brasilia

**Record soybean area planted signals upcoming record crop for Brazil in 2009/10**

Post now forecasts record 2009/10 soybean area planted at nearly 22.85 million hectares and record production at 63.6 million metric tons based on a 2.785 mt/ha yield estimate. These forecasts represent a 5 percent increase in area planted and an 11.5 percent increase in production from 2008/09, 21.7 million hectares and 57.1 million metric tons, respectively. Post's projection is similar to that of public and private analysts in Brazil. The Brazilian Institute of Geography and Statistics (IBGE) projects 2009/10 production at 63.7 mmt on 22.7 million hectares. Conab's (Brazilian Food Supply Company) second survey projects 2009/10 production in the range of 62.5-63.6 mmt while Celeres private consultants forecast 64.6 mmt produced on 22.86 million hectares.

Higher projected profitability of soybeans vis-à-vis corn, mainly due to a 30 percent production cost difference, spurred significant acreage substitution leading to record soybean planting intentions for 2009/10. This substitution escalated over the past month in the southern region of Brazil as wet conditions extended beyond the corn planting window and resulted in a delayed wheat harvest.

The national planting pace in 2009/10 continues 10 percentage points ahead of the 5-year average with 76 percent of area already planted. Safras private consultancy reports the center-west region is further advanced at over 90 percent planted with Mato Grosso state 96 percent planted. The southern region is lead by Parana at 88 percent planted with Rio Grande do Sul and Santa Catarina, 37 and 45 percent planted, respectively. The Northeast region is around 50 percent planted and includes Bahia state and the "Mapito" region (adjoining area of Maranhao, Piaui, and Tocantins). Weather permitting; planting should be completed by mid-December.

### **Early El Nino weather pattern points toward record production, despite early rust**

El Nino rains arrived in August this year, earlier than historic norms for El Nino weather patterns. This aided early planting and germination across the Center-west and Northeast regions. The El Nino weather pattern brings increased regular rains extending from the Southern to Center-west regions and irregular rains ending earlier in the season to the Northeast region. In most states, sprouting began just after the lifting of the *vazio sanitario* – a 60- or 90-day period in which planting is prohibited to control soybean rust. Soybean rust remains a concern with 19 official detections confirmed compared to only 1 detection at this time last season. Rust appears well managed in Brazil with negligible affect on yields; however, increased fungicide applications could impact producer's returns under current tight profitability margins.

Post estimates national average yields at 2.785 mt/ha, slightly lower than good season norms above 2.8 mt/ha due to increased usage of lower yielding early maturing soybean varieties and of lower yielding

acreage substitution in southern Brazil.

**Production, Supply and Demand Data Statistics:**

<b>Brazil</b>							
<b>Oilseed, Soybean (Local)</b>							
<b>1000 HA and 1000 MT</b>							
	<b>2007/2008</b>		<b>2008/2009</b>		<b>2009/2010</b>		<b>% (b/a)</b>
	<b>Official Data</b>	<b>Post</b>	<b>Official Data</b>	<b>Post (a)</b>	<b>Official Data</b>	<b>Post (b)</b>	
Market Year Begin		02/2008		02/2009		02/2010	
Area Planted	21,700	21,313	21,700	21,730	22,700	22,850	5.2
Area Harvested	21,300	21,313	21,700	21,730	22,700	22,850	5.2
Begin. Stocks	3,110	3,110	4,818	3,596	824	450	-87.5
Production	61,000	60,017	57,000	57,100	63,000	63,650	11.5
MY Imports	83	83	50	85	150	50	
MY Imp. from U.S.	0	0	0	0	0	0	
MY Imp. from EU	0	0	0	0	0	0	
Total Supply	64,193	63,210	61,868	60,781	63,974	64,150	5.5
MY Exports	24,515	24,514	28,300	28,200	25,300	25,500	-9.6
MY Exp. to EU	10,400	8,921	9,500	9,250	9,500	9,500	2.7
Crush	31,890	32,100	30,000	30,000	33,270	33,000	10.0
Food Use Dom. Cons.	0	0	0	0	0	0	
Feed Waste Dom. Cons.	2,970	3,000	2,744	2,750	2,975	3,500	27.3
Total Dom. Cons.	34,860	35,100	32,744	32,131	36,245	36,500	13.6
Ending Stocks	4,818	3,596	824	450	2,429	2,150	377.8
Total Distribution	64,193	63,210	61,868	60,781	63,974	64,150	5.5

**Committed future sales slowly advancing for 2009/10 soybean crop**

In contrast to the record planting pace this year, post contacts report committed future sales of the 2009/10 soybean crop have slowly returned to historic norms with approximately 20-25% of the future crop sold. Post contacts also report some early buying by China for beans to be delivered the beginning of February. Exports are commencing earlier in the year as advances in seed technology continue to shorten the growing period of early-maturing varieties.

**Profitability always a concern for farmers, exacerbated by exchange rate woes**

Lower production costs have improved margins for farmers this year. However, a potential record South America soybean crop has pressured futures market prices downward. Sophisticated well-capitalized producers have already hedged on a future price for adequate profit taking depending on their regional basis. The futures market has recently provided a few windows for profitable hedging,

due to fund buying. However, with only an estimated 25% of producers hedging, the physical market price at harvest time will continue to determine profitability across much of the sector.

The Brazilian Real vis-à-vis the U.S. dollar has remained stable, trading at R\$1.70 to US\$1.00, and continues to adversely impact profitability as producers hope for a more favorable exchange rate come harvest time. Debt, logistics, and lack of credit still plague the profitability of some producers in Mato Grosso, who produce 30% of the national crop. Soybeans still possess the most liquidity of any production crop in Brazil also contributing to the increased acreage this year.

#### Soybean Production Cost Estimates – Selected Brazil Locations

Location	Crop	Avg. Yield <i>mt/ha</i>	2008/2009 <i>R\$/ha (a)</i>	2009/2010 <i>R\$/ha (b)</i>	% <i>(b/a)</i>
Balsas, Maranhao	Traditional	2.70	1,955	1,498	-23%
Barreiras, Bahia	Traditional	2.88	1,335	1,224	-8%
Sapezal, Mato Grosso	Traditional	3.00	1,828	1,801	-1%
Sorriso, Mato Grosso	GMO	3.00	1,818	1,565	-14%
Primavera do Leste, Mato Grosso	Traditional	3.00	1,939	1,610	-17%
Primavera do Leste, Mato Grosso	GMO	3.00	1,999	1,658	-17%
Chapadao do Sul, M. Grosso do Sul	Traditional	3.00	1,763	1,657	-6%
Rio Verde, Goias	Traditional	3.25	1,687	1,424	-16%
Unai, Minas Gerais	Traditional	2.70	1,941	1,597	-18%
Londrina, Parana	Traditional	2.80	1,804	1,621	-10%
Londrina, Parana	GMO	2.90	1,818	1,594	-12%
Campo Mourao, Parana	Traditional	3.00	1,812	1,647	-9%
Campo Mourao, Parana	GMO	3.00	1,754	1,546	-12%
Santa Rosa, Rio Grande do Sul	GMO	2.40	1,441	1,489	3%
Average of Representative Locations		2.90	1,778	1,567	-11%

Source: CONAB