

USDA Foreign Agricultural Service

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## **Brazil**

### **LOCK-UP REPORT**

#### **Grain Quarterly**

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**Report Highlights:**

Post has lowered its CY 2009 corn export forecast to 9 mmt due to a weak export demand, increased worldwide supply, and a strengthening local currency. Wheat imports for marketing year 2008/09 are forecast to reach 6.7 mmt. Rice export shipments are not expected to reach 2008 levels, in spite of the strong increase in shipments the first half of the year.

**Post:**

Brasilia

**Commodities:**

Corn

Wheat

## Rice, Milled

### **Author Defined:**

## **CORN**

### **PRODUCTION**

The 2008/09 corn production estimate remains at 49.5 mmt, 16 percent below 2007/08's record harvest of 58.6 metric million tons (mmt). Reduced yields due to adverse weather conditions in the South accounted for most of the production decrease, although a 4 percent reduction in area planted also contributed to the decline. The summer corn (safrinha) crop fell to 33.2 mmt from 40 mmt due to a drought in the State of Parana. Safrinha crop production fell to 16 mmt below last year's crop of 19 mmt due to frost damage in Parana and the State of Mato Grosso do Sul.

The State of Mato Grosso performed well in an otherwise difficult year with safrinha production remaining stable at 6.5-7 mmt in spite of lower fertilizer use. Near perfect weather conditions have resulted in Mato Grosso's average corn yield leaping 50 percent to 90 bushels/acres from around 60 bushels/acre. However, a lack of local demand and high freight charges to transport corn to other areas within Brazil or to port for exports are leading to prices as low as US\$2.40 a bushel.

Low international prices are leading the Government of Brazil to intervene in the commercialization of corn. The Government of Brazil announced two auctions of 500,000 tons each as market prices have fallen below the minimum price, particularly in Mato Grosso.

Sources note that Brazil is not competitive in global markets with prices below US\$150/ton given current exchange rates and the current cost of production. Therefore, it is expected that the government will continue to provide support to producers.

Area planted in 2009/10 is expected to decrease as Brazilian farmers plant soybeans rather than corn because of good global prices for soybeans. Sources forecast that as many as 121,500 hectares (300,000 acres) could be converted from corn to soy production the coming crop year. However, the Government of Brazil's "Plano Safra" 2009/10 which increased lines of credit 21 percent and the minimum price of corn 6 percent may lead to a lesser than expected decrease in area planted. The new minimum price of R\$17.46 (US\$ 9.20)/sack in the Center-South, R\$13.98 (US\$7.35)/sack in Mato Grosso and R\$20.10 (US\$10.60)/sack in North/Northeast are reported to be close to the cost of production.

Planted area using genetically engineered (GE) corn was estimated at 30 percent of total area for the 2008/09 safrinha. According to official estimates, GE safrinha planting accounted for about 1.5 million hectares of a total safrinha area of 5 million hectares. Now that there is sufficient seed available, Brazil is expected to continue to adopt the technology rapidly with experts forecasting 40-60 percent GE use in the next crop year. Producers anticipate yield gains of 15-20 percent by switching to GE from conventional corn.

Some NGOs and producer groups have expressed concern that there has not been adequate segregation of GE corn from conventional corn in the harvest, transport, storage of the crop. Several producers and cooperatives in Parana have noted that there is a lack of infrastructure in the state to separate conventional from GE corn. Their concerns are two-fold. One concern is that a good part of the food industry including giant meat producers Sadia and Perdigao have policies to procure conventional corn containing less than 1 percent of GE corn so that their products will not require a product label indicating the presence of GE material. The second concern is that the lack of segregation could negatively impact exports particularly those to the European Union, which imported 6.4 mmt of Brazilian corn in 2007/08. In the past, Brazil's status as one of the few countries that did not produce GE varieties of corn made it a sought-after supplier of corn to the EU, which accounted for 16 percent of the total world imports of corn in 2007/08.

## **EXPORTS**

Post has lowered its CY 2009 corn export forecast to 9 mmt due to a weak export demand, increased worldwide supply, and a strengthening local currency. Although shipments in the first four months were 55 percent higher at around 2.9 mmt as exporters took advantage of slower sales from drought-stricken Argentina, they faded in May and June as infrastructure was used to move record soy exports (at 6.2 mmt June 2009 soybean exports were 2.7 mmt higher than those in 2008). Although traders expect corn shipments to pick up in the coming months as soybean exports slow and the safrinha is harvested, there is concern that exports may continue to be weak and could fall below the 7.7 mmt exported last marketing year. Sources note that there is considerable pressure to ship as a lack of storage space in Mato Grosso is pushing farmers to sell about 2 mmt of corn in the next few weeks, some of which should be exported. Although Brazilian corn exports have traditionally been stronger in the second half of the year, especially in November and December, the second half of the year could prove challenging if the local currency continues to strengthen. In spite of a slowdown in exports, Brazil is poised to become the world's second largest exporter this year overcoming Argentina whose exports have been cut by more than one-half to 6 mmt from 15 mmt last year.

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### Corn Exports by Month – Jan-June (000 tons)

Month	2008	2009
January	392	1,326
February	330	749
March	655	450
April	512	402
May	695	298
June	364	160
Jan-June	2,948	3,385

Brazil continues to export to destinations beyond its traditional EU markets. Sources note a trend in which Brazil ships more to countries in the Middle East, North Africa and Central Asia as well as to its neighbors such as Colombia, Venezuela and Chile. One reason is that countries in the Middle East, North Africa and Asia have had a 2.5 growth rate of corn imports in the past ten years. This year's data supports the trend as Iran has become the number one importer of Brazilian corn and Colombia and Malaysia are new buyers. EU sales are down because both Europe and the Ukraine had excellent harvests. So, 2008 top importers such as Spain, Germany, and the Netherlands are sourcing locally in 2009.

### Corn Exports by Country – Jan-June (000 tons)

Country	Jan-June 2008	Jan-June 2009
Iran	0	565
Colombia	0	397
Malaysia	61	386
South Korea	62	351
Saudi Arabia	0	322
Taiwan	0	247
Philippines	0	186
Spain	618	98
The Netherlands	597	4
Germany	498	10
Italy	321	0
Morocco	238	0

Source: Brazilian Customs Data

Corn Brazil	2007		2008		2009	
	2007/2008		2008/2009		2009/2010	
	Market Year Begin: Mar 2008		Market Year Begin: Mar 2009		Market Year Begin: Mar 2010	
	USDA Official Data	Post	USDA Official Data	Post	USDA Official Data	Post
		Data		Data		Data

Area Harvested	14,700	14,700	14,100	14,200	14,000	13,920	(1000 HA)
Beginning Stocks	3,592	3,592	12,579	12,559	9,079	10,309	(1000 MT)
Production	58,600	58,585	49,500	49,500	54,000	50,100	(1000 MT)
MY Imports	678	616	500	550	500	550	(1000 MT)
TY Imports	961	767	700	580	500	550	(1000 MT)
TY Imp. from U.S.	0	0	0	0	0	0	(1000 MT)
Total Supply	62,870	62,793	62,579	62,609	63,579	60,959	(1000 MT)
MY Exports	7,791	7,734	9,000	8,300	9,000	8,500	(1000 MT)
TY Exports	7,883	7,883	9,500	9,000	9,500	8,500	(1000 MT)
Feed Consumption	36,000	36,000	37,000	37,000	38,000	37,300	(1000 MT)
FSI Consumption	6,500	6,500	7,500	7,000	7,500	7,000	(1000 MT)
Total Consumption	42,500	42,500	44,500	44,000	45,500	44,300	(1000 MT)
Ending Stocks	12,579	12,559	9,079	10,309	9,079	8,159	(1000 MT)

## WHEAT

### PRODUCTION

With wheat planting almost complete in the southern region of Brazil, 2009/10 production is currently estimated at 5.7 mmt. Area planted is expected to be stable with an estimated 7 percent increase in the State of Parana being offset by a 20 percent decline in State of Rio Grande do Sul. In what may be the beginning of a new trend, producers are planting a greater area of varieties of wheat used in bread production. The Government of Brazil set a higher minimum price for the type of wheat used in bread rather than cookie production, producers are reacting by planting 50 percent of their area with wheat used in bread production in 2009, up from 33 percent in 2008.

### IMPORTS

Wheat imports for marketing year 2008/09 are forecast to reach 6.7 mmt. There has been a shift in suppliers as imports from Uruguay in the first half of the year are four times greater than what they were in 2008. Uruguay gained market share from the United States, whose imports are currently below the pace set in 2008. In 2008, the Government of Brazil temporarily lifted the 10 percent import tariff and created a 1 million ton quota for non-Mercosul wheat due to Argentine restrictions on wheat exports that fueled fears of inflation. Last year's government action led to complaints from producers that the large volume of imports and large domestic production meant that producers received lower prices and had difficulty getting rid of stock.

#### Wheat Imports HTS 1001 (000s)

Country	Jan-June 2008	Jan-June 2009
Argentina	2,504	2,333
Uruguay	91	392

Paraguay	313	330
United States	169	31
Total	3,228	3,087

As a result of pressure from producers, the Government of Brazil has not granted the Brazilian Wheat Industry Association's (Abitrigo) request to temporarily lift the Common External Tariff (CET) in 2009. In spite of the CET, North American imports are beginning to enter the market. Although the strengthening of the local currency makes US wheat more competitive, purchasers are cautious about stockpiling imports since domestic wheat prices may fall in August when the national harvest starts.

It has been reported that Abitrigo is planning to file an anti-dumping action against Argentine millers claiming that the Argentines are selling flour in Brazil for a price below cost. In addition, Abitrigo has taken issue with Argentina's differential export taxes that levies a flour export tax of 18 percent and a wheat export tax of 28 percent, Brazilian millers are increasingly finding it more economical to import Argentine flour and repackage it than to mill flour themselves. As a result Argentine flour exports to Brazil have increased from 213,000 tons in 2004 to 630,000 tons in 2008, an increase of 196% that represents 9 percent of the market.

Wheat Brazil	2007		2008		2009		
	2007/2008		2008/2009		2009/2010		
	Market Year Begin: Oct 2007		Market Year Begin: Oct 2008		Market Year Begin: Oct 2009		
	USDA Official Data	Post	USDA Official Data	Post	USDA Official Data	Post	
		Data		Data		Data	
Area Harvested	1,819	1,819	2,420	2,423	2,600	2,350	(1000 HA)
Beginning Stocks	981	1,160	447	0	1,397	1,550	(1000 MT)
Production	3,825	3,825	6,000	6,000	5,500	5,700	(1000 MT)
MY Imports	6,711	6,750	6,000	6,600	5,700	5,700	(1000 MT)
TY Imports	7,136	7,077	6,500	6,700	5,700	5,700	(1000 MT)
TY Imp. from U.S.	855	515	0	906	0	0	(1000 MT)
Total Supply	11,517	11,735	12,447	12,600	12,597	12,950	(1000 MT)
MY Exports	770	775	350	350	400	600	(1000 MT)
TY Exports	767	766	350	360	400	600	(1000 MT)
Feed Consumption	100	100	200	200	200	200	(1000 MT)
FSI Consumption	10,200	10,200	10,500	10,500	10,700	10,500	(1000 MT)
Total Consumption	10,300	10,300	10,700	10,700	10,900	10,700	(1000 MT)
Ending Stocks	447	0	1,397	1,550	1,297	1,650	(1000 MT)
Total Distribution	11,517	11,075	12,447	12,600	12,597	12,950	(1000 MT)
Yield	2.	2.1028	2.	2.4763	2.	2.4255	(MT/HA)

## RICE

## EXPORTS

Rice exports in the first half of 2009 continued to be strong. A traditional importer of rice, Brazil has become an exporter of rice in the past few years. Producers express optimism in assuming the role of one of the top second-tier exporters. While Brazil can't compete with top exporting countries such as Thailand or Vietnam, producers use exports as a hedge in price risk management. Brazil became the 8<sup>th</sup> largest exporter in 2008 with 511,000 tons and for the first half of the year sales have reached a record volume 280,000 tons, an increase of 80% compared to 2008.

Brazil exports principally in African countries such as Nigeria, South Africa and Senegal. The African countries account for 65% of imports. In spite of the strong increase in shipments the first half of the year, shipments are not expected to reach 2008 levels. In 2008, the majority of shipment occurred in the second half of the year which is not expected to be repeated in 2009 as the local currency has strengthened considerably in the past few months.

Rice, Milled Brazil	2007		2008		2009		
	2007/2008		2008/2009		2009/2010		
	Market Year Begin: Apr 2008		Market Year Begin: Apr 2009		Market Year Begin: Apr 2010		
	USDA Official Data	Post Data	USDA Official Data	Post Data	USDA Official Data	Jan Data	
Area Harvested	2,874	2,874	2,920	2,900	2,920	2,920	(1000 HA)
Beginning Stocks	1,156	1,156	973	973	1,123	933	(1000 MT)
Milled Production	8,199	8,199	8,840	8,650	9,000	8,800	(1000 MT)
Rough Production	12,057	12,057	13,000	12,721	13,235	12,941	(1000 MT)
Milling Rate (.9999)	6,800	6,800	6,800	6,800	6,800	6,800	(1000 MT)
MY Imports	422	422	470	470	600	600	(1000 MT)
TY Imports	417	417	470	470	650	650	(1000 MT)
TY Imp. from U.S.	0	0	0	0	0	0	(1000 MT)
Total Supply	9,777	9,777	10,283	10,093	10,723	10,333	(1000 MT)
MY Exports	550	550	450	450	450	450	(1000 MT)
TY Exports	511	511	450	450	400	400	(1000 MT)
Total Consumption	8,254	8,254	8,710	8,710	8,800	8,800	(1000 MT)
Ending Stocks	973	973	1,123	933	1,473	1,083	(1000 MT)
Total Distribution	9,777	9,777	10,283	10,093	10,723	10,333	(1000 MT)
Yield (Rough)	4.	4.1952	4.	4.3866	5.	4.4318	(MT/HA)