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Brazil

Oilseeds and Products Update

Record Production and Trade Forecast Amid Favorable Trade Environment

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Report Highlights:

Post forecasts 2018/19 production at 123 million metric tons (mmt), a three percent increase on the previous season. The increase in production is due to planting area expansion amid expectations of continued strong prices for Brazilian soybeans. Soybean exports are forecast at a record. In Marketing Year (MY) 2018/19, Brazil is forecast to export 75.5 mmt of soybeans, a slight increase over MY 2017/18 on the back of robust demand by China.

SOYBEAN PRODUCTION

2018/2019 Plantings Gear Up

Brazil's 2018/19 growing season got off to a good start in mid-September, with producers taking advantage of favorable weather in the South and Central-West of the country to get a jump start on plantings.

Post forecasts 2018/19 soybean planted area to increase by three percent from the 2017/18 USDA official estimate, to over 36 million hectares (ha). Keeping in line with area expansion and similar yield as current season, Post forecasts 2018/19 soybean production at 123 million metric tons (mmt), setting a new record.

During September 2018, Post traveled to three of Brazil's largest producing soybean states – Mato Grosso, Parana, and Rio Grande de Sul, as well as held meetings with traders in Sao Paolo.

Interlocutors almost universally expect soybean area expansion on the order of several percentage points in 2018/19. Over the longer term, most analysts believe that conversion of degraded pasture land will yield significant soybean hectares in the cerrado area of Brazil, spanning the states of Goiás, Mato Grosso do Sul, Mato Grosso, Tocantins and Minas Gerais. In Parana and Rio Grande de Sul, producers are already allocating 9 out of 10 ha of arable land for soybeans during first season plantings.

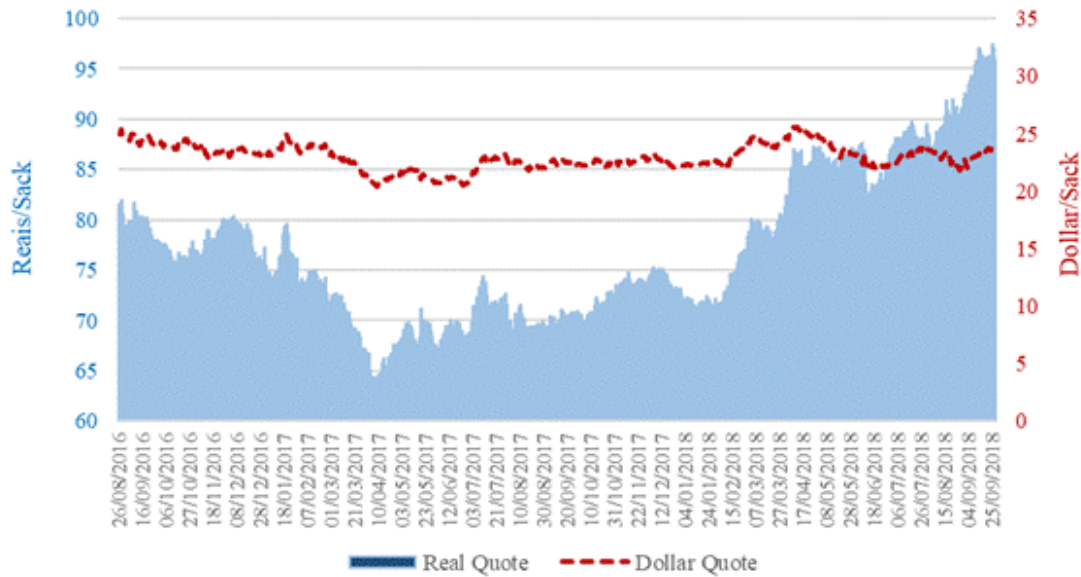
Planting Area Increase Driven by Valuation Expectations...

The increase in planted area for the 2018/19 crop is due, in large part, to producers' continued optimism about the valuation of Brazilian soybeans. Since the beginning of the calendar year, local soybean prices rose markedly on the back of robust demand from China, as well as the weak Real (R\$).

In the wake of U.S.-China trade tensions and following implementation of a 25 percent duty on U.S. soybeans by China in April, Brazil saw a surge in Chinese demand for its crop. On the flip side, the United States saw dramatically lower demand for soybeans, exacerbating price pressures from this year's bumper crop. Holding everything else constant, had China continued to import both Brazilian and U.S. soybeans in line with historical trends, the U.S. dollar price for Brazilian soybeans (FOB Paranagua) would surely have been lower. Even in this scenario, Brazilian producers would have still seen strong returns due to the plunging value of the domestic currency.

Overall, as the chart below shows, the U.S. dollar price, FOB Paranagua, has remained relatively constant over the last two years, including since China first introduced tariffs. Yet, the Real has decreased in value versus the dollar by about 25 percent over the past 12 months. In January 2018, the FOB Parangua price for a sack of soybeans hovered around R\$70; by September 2018 it hit close to R\$ 100. These gains for Brazilian producers are a major factor leading to the expected increase in soybean planting this year.

Paranagua Soybean Price in Dollars and Reals

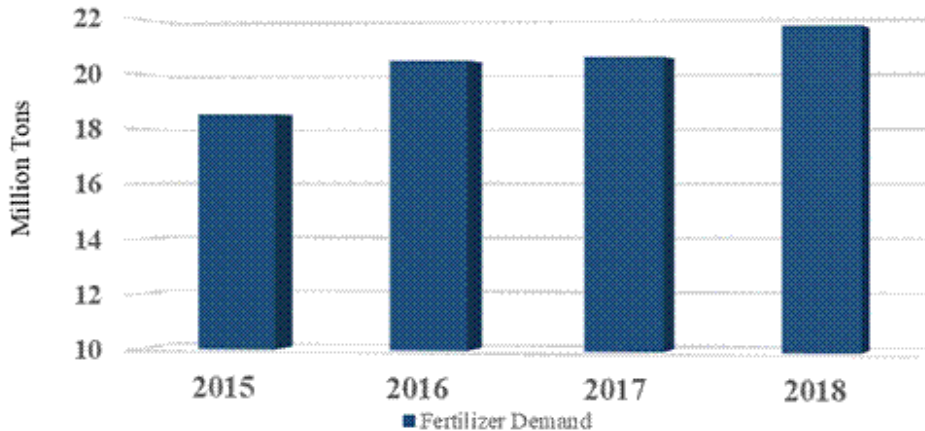


Data Source: CEPEA

The Post forecast yield of 3.4 mt/ha is based on the assumption that weather will remain favorable. However, given possibility of El Nino year, there is a risk that dry, hot weather may adversely affect plantings in the northeast of the country. That risk is counterbalanced with Post expectation that the general upward trend in productivity will continue as producers are unlikely to skimp on inputs given the expectations of continued strong margins.

As the chart below illustrates, fertilizer demand has been very strong for the first eight months of the year. Though deliveries to producers stalled in May, due to the truckers strike, deliveries in July and August were strong. Compared to the January-August period in 2017, fertilizer demand by producers is up 5.4 percent for the same time period this year. This demand strongly supports the Post expectation of both increased soybean plantings and healthy yields.

Fertilizer Delievered to Producers January - August (2015-2018)



Data Source: National Fertilizer Association (ANDA)

Furthermore, fertilizer is becoming cheaper in comparison to soybean prices. For example, while in 2017 it took 22.2 sacks of soybeans to buy a ton of fertilizer, in 2018, for first seven months, it was only 20.0 sacks for a 10 percent decrease.

...But Uncertain Outlook Reins In Expansion

Yet, even though things look very good for Brazilian producers in the current environment, the industry is aware that the situation could change substantially in the run up to the next harvest and export season. This, coupled with a lack of certainty over freight rates, leads to some caution on the part of producers and thus Post's area forecast is less than the five percent growth of some private forecasters in the market.

On the domestic front, the outcome of the Presidential election this fall is far from clear. However, there is a substantial chance that it will result in weakening or strengthening of the Brazilian currency. The fallout in that scenario would not only impact the soybean price, but also the cost of production - from imported inputs, to seasonal labor remuneration, to transportation costs for soybeans, fertilizer and pesticides, which are all paid out in local currency.

At this time, transportation costs for next year's harvest are especially difficult to predict. The majority of contacts in Brazil have pointed out to Post that the industry is currently in wait-and-see mode on the fate of the bill setting minimum commercial transportation rates. This summer, in the wake of the truckers' strike, Brazil's lower house of Congress passed a bill to establish minimum freight rates to be formulated by the National Land Transport Agency (ANTT). The legislation forbids truckers from negotiating contract prices below the ANTT minimum. The National Association of Grain Exporters (Anec), estimates that the higher freight rates could lower prices paid to Brazilian farmers by R\$5 to R\$10 per sack of soybeans (see [GAIN BR1810](#) for expanded coverage). The legislation is facing numerous challenges, and the Supreme Court is expected to hand down a final decision after the presidential election results are finalized in October 2018.

On the external front, aside from the usual variability risk on the global supply side, there is now also greater uncertainty on the demand side that must be taken into account. Should China lift the duty levied on U.S. soybeans, demand and subsequent price dynamics would also shift, with potentially a very large negative impact for Brazilian producers. However, for this report, Post assumes the Chinese duty on U.S. soybeans stays in place for the coming season.

SOYBEAN TRADE

EXPORTS

2018/2019 Outlook:

Soybean exports for MY 2018/19 (February 2019 to January 2020) are forecast to reach a new record of 75.5 mmt. Post's export forecast is based on USDA methodology that assumes continuation of government policies currently in place. Assuming China continues to apply import duties to U.S. soybeans, demand for Brazilian soybeans will remain elevated. At the same

time, Post's sources indicate that for next year overall demand for soybeans in China will be down, while soybean exports to China from smaller suppliers, especially Argentina, will be up. Consequently, exports should increase only slightly compared to 2017/18, despite higher production.

Anecdotal evidence suggests that the current strength of the dollar is encouraging producers to forward price soybeans that will be planted over the next few months. There is much uncertainty regarding the upcoming presidential election and what might happen to the value of Real and thus producers are looking to lock in prices now. Notably, the forward sales are happening despite the uncertainty over freight costs this coming season. The minimum freight cost formula used by the ANTT is tied to market price of diesel in Brazil, making it even more difficult to forecast the impact on producers' margins.

2017/2018 Export Estimate:

Total soybean exports in MY 2017/18 (February 2018 to January 2019) are forecast to set a new record of 75 mmt on the back of robust demand from China. In the first seven months of 2017/18 MY, Brazil has already exported 63 mmt, as compared to just shy of 69 mmt exported in all of 2016/17. As the below chart shows, while the traditional peak for Brazilian soybeans is March through July, exports have continued at a stronger than usual pace in August. Post conversations with traders in mid-September also suggest that the pace for September exports is surpassing previous expectations but that demand will moderate in the last quarter of the year.



Data Source: Global Trade Atlas, Post estimates.

To close out the 2017/18 season, in addition to making use of higher exportable supplies due to a bumper crop this season, Brazil may further draw down stocks as well as marginally lower crush, compared to what was previously expected. Overall, Post forecasts that Brazil should be able to meet both domestic and export soybean demand through January 2019.

Despite some indications in the press that Brazil may import a large volume of soybeans from the United States., Post does not anticipate this. According to Post conversations with traders, the infrastructure in Brazilian ports is not adept for the import of grains. Post estimates 425,000 mt of

imports in 2017/18, almost double from the previous season, albeit below the 579,000 mt of imports recorded in 2013/14.

SOYBEAN CONSUMPTION

2018/2019 Outlook:

Post forecasts 44 mmt of soybeans destined for processing (crushing) in 2018/19. The increase compared to last year is a result of the historical trend of moderate growth and availability of supplies. Growth in processing will be constrained due to continued strong soybean exports that put pressure on crushers' margins.

Post forecasts soybean exports to decline slightly to 16.10 mmt from 16.75 mmt last season, on the expectation that other regional producers will recover from poor harvests this year and will return to the international market. With increased regional competition, product prices may see some downward pressure, further squeezing margins for Brazilian processors. Keeping with these expectations, Post forecasts soybean oil exports down slightly on last season to 1.50 mmt from 1.58 mmt.

Total soybean oil domestic consumption is forecast at 7.2 mmt, rising slightly on last season as Brazil continues to work towards higher blending biodiesel mandates currently set at B10. The National Committee of Energy Policies is conducting tests to see if the blending mandate will increase to 15 percent (B15). Most likely the decision will be made in the second half of 2019, after the new House and Senate have a chance to settle in following the election this fall.

2017/2018 Estimate:

Post estimates 43 mmt of soybeans destined for processing in 2017/18. The Post figure is just slightly below the USDA estimate, taking into account the stronger soybean export pace than was previously forecast. Nevertheless, the crush estimate is still about two percent higher than in 2016/17 and is in line with historical growth trends in recent years.

Brazil's exports of soybean products so far this season are very strong. In the first seven months of the MY, Brazil recorded an increase in month-on-month export sales of soybean meal in every month, with an average monthly increase of nearly 30 percent. As a result, Post estimates that exports will reach 16.75 mmt for this season, an increase of 20 percent on last year. Soybean oil exports have also kept pace, increasing month-on-month by an average of 17 percent so far this season. Post estimates that exports of soybean oil will reach close to 1.58 mmt by the end of the season.

As has been the case in recent years, domestic consumption of soybean meal will continue to make up slightly more than half of total production. For 2017/18, Post estimates 18 mmt in soybean meal consumption. The Post estimate for domestic consumption of soybean oil is 7 mmt.

STOCKS

The fact that China has been buying Brazilian soybeans so strong means that Brazilian stocks will remain fairly low, hovering around 1 per cent of domestic supply for MY 2017/18, as well as in 2018/19. In Post conversations, sources did not express any concern regarding the low stock to domestic supply ratio. The assumption in Brazil is that should there ever be a shortfall for domestic consumption, Brazil could always bring in additional supply from neighboring producers. Instead, traders and producers alike are clearing out every last bin in order to take advantage of the upside in prices stemming from international trade tensions.

STATISTICS

Oilseed, Soybean (Local)	2016/2017		2017/2018		2018/2019	
	Market Year begins		Market Year begins		Market Year begins	
	Feb 2017		Feb 2018		Feb 2019	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	34,000	34,000	35,100	35,100	37,500	36,100
Area Harvested	33,900	33,900	35,100	35,100	37,500	36,100
Beginning Stocks	2,230	2,230	2,575	2,575	1,000	1,000
Production	114,600	114,600	119,500	119,500	120,500	123,000
MY Imports	267	267	350	425	200	400
MY Imp. from U.S.	0	0	0	0	0	0
MY Imp. from EU	0	0	0	0	0	0
Total Supply	117,097	117,097	122,425	122,500	121,700	124,400
MY Exports	68,807	68,807	74,775	75,000	74,400	75,500
MY Exp. to EU	6,200	6,200	6,000	5,800	5,800	5800
Crush	42,312	42,312	43,200	43,000	42,700	44,000
Food Use Dom. Cons.	0	0	0	0	0	0
Feed Waste Dom. Cons.	3,403	3,403	3,450	3,500	3,500	3,500
Total Dom. Cons.	45,715	45,715	46,650	46,500	46,200	47,500
Ending Stocks	2,575	2,575	1,000	1,000	1,100	1,400
Total Distribution	117,097	117,097	122,425	122,500	121,700	124,400
CY Imports	250	250	300	350	225	275
CY Imp. from U.S.	0	0	0	0	0	0
CY Exports	68,155	68,155	75,300	75,000	74,300	75,500
CY Exp. to U.S.	0	0	0	0	0	0
Yield	3.3805	3.3805	3.4046	3.4046	3.2133	3.4072

(1000 HA), (1000 MT), (MT/HA)