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Brazil

Grain and Feed Update

July 2010

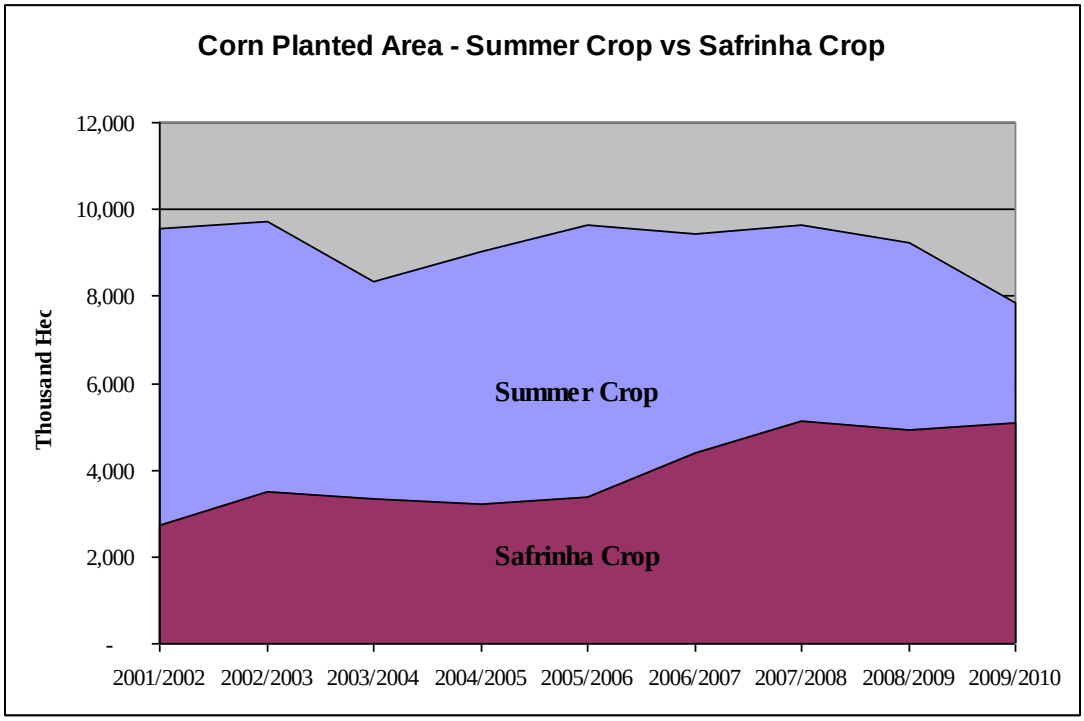
Approved By:
Alan D. Hrapsky, Agricultural Counselor
Prepared By:
Julie Morin, Agricultural Attaché

Report Highlights:
Post lowered its 2010/11 projection of corn area planted to 12.6 million hectares from 12.9 million based on a strong domestic currency and lower estimated returns to producers. Post reduced 2010/11 wheat planted area 11 percent to 2.17 million hectares as producers switched from planting wheat to canola, rye and oats. Milled rice exports for January-June 2010 are 60 percent lower compared with the same period in 2009.

Post: Brasilia

Commodities: Corn

Production



Source: CONAB

2009/10 Corn Crop Production

Post maintained its 2009/10 corn production estimate at 53 million metric tons (mmt). While Brazilian producers reduced corn acreage by 9 percent this season, their increased use of genetically engineered seed along with favorable weather due to El Nino helped push production 4 percent above last season. Brazil will produce 34 mmt of first-crop or "summer crop" corn and 19 mmt of second crop or "safrinha" corn.

Safrinha corn planted area as a percentage of total planted corn area has been increasing. In 2009/10, the safrinha crop accounted for 40 percent of the total crop area compared with 35 percent in 2008/09. The state of Mato Grosso has been a primary driver in safrinha area expansion as demonstrated by its

2009/10 safrinha acreage increase of over 20 percent compared with the previous year. Nearly three-quarters of the safrinha crop is grown in the states of Parana and Mato Grosso, where approximately 6 and 7 mmt were produced, respectively. Mato Grosso was adversely affected by dry weather during June and July reducing yields to 3.82 metric tons/hectare (mt/ha). On the other hand, Parana expects yields to reach 4.3 mt/ha benefiting from evenly distributed rains.

Post's Forecasts for 09/10 & 10/11 Corn Production

	2009/10	**2010/11**
Summer Crop Area	*7.85 mn ha*	*7.55 mn ha*
Summer Crop Yield	*4.31 mt/ha*	*4.33 mt/ha*
Summer Production	*33.85 mmt*	*32.7mmt*
Safrinha Area	*5.08 mn ha*	*5.05 mn ha*
Safrinha Yield	*3.77 mt/ha*	*3.6 mt/ha*
Safrinha Production	*19.15 mmt*	*18.3 mmt*
Total Area	***12.94 mn ha***	***12.6 mn ha***
Yield	***4.1 mt/ha***	***4.0 mt/ha***
Total Production	***53 mmt***	***51 mmt***

2010/11 Corn Crop Production

Post lowered its 2010/11 projection of corn area planted to 12.6 million hectares from 12.9 million hectares based on a strong domestic currency and lower estimated returns to producers. Summer corn is expected to lose acreage to soybeans in the southern states for the second consecutive year. The La Nina phenomenon may create drier-than-normal weather conditions which would negatively impact yields.

Corn and Soybean Crop Area (1,000 Hectares)			
	2007/08	2008/09	2009/10
Corn Area	14,765	14,170	12,900
Soybean Area	21,315	21,745	23,360
Total Area	36,080	36,915	36,260
Corn Percent of Total Area	**41%**	**40%**	**36%**

Source: CONAB

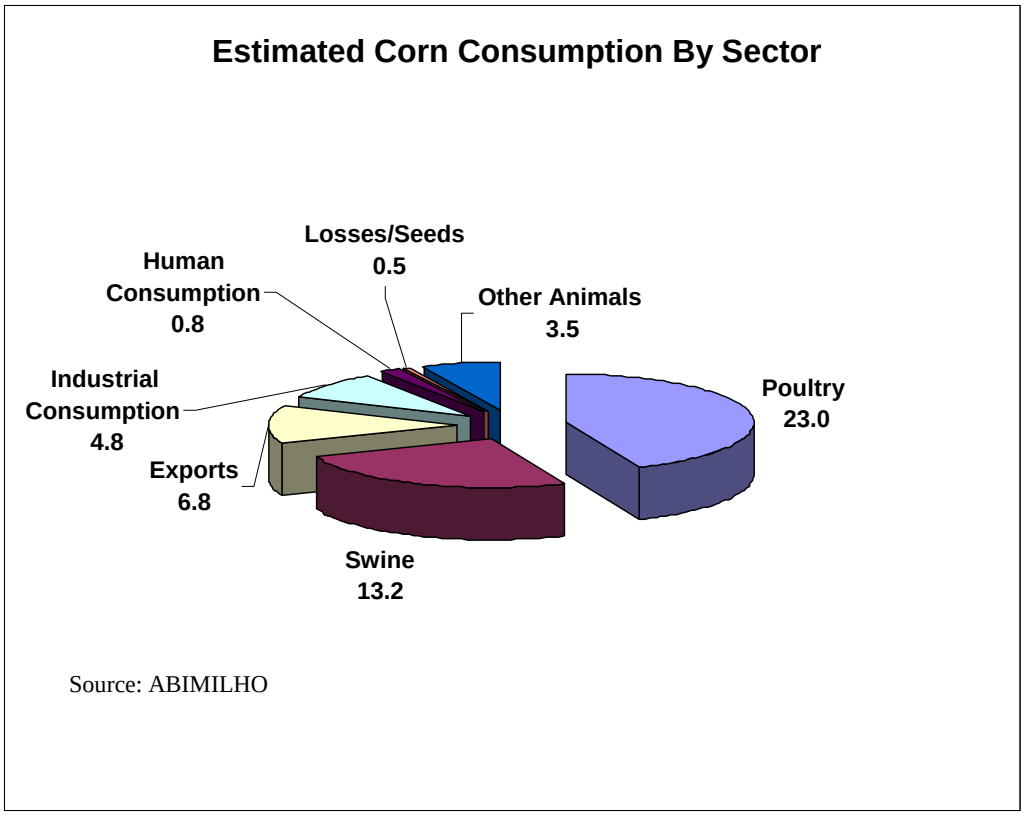
The National Agriculture and Livestock Confederation of Brazil (CNA) reported that the price for corn remains below the cost of production in most regions of the country. CNA's June analysis of price and cost of production in six regions had only one region with positive returns for corn. Various estimates put the cost of producing safrinha corn in Mato Grosso at between R$12-15 (US$6.90-8.60) per sack (60 kgs). This cost is well above the cash price for corn in Mato Grosso of R$7-9 (US$4-5.15) per sack and on average above the government minimum price of R$13.05 (US$7.47). Other sources have estimated that corn farmers in Mato Grosso are losing on average US$500 per hectare.

Biotechnology

Planted area using genetically engineered (GE) corn of all varieties is estimated at 55 percent. Monsanto is marketing a new second generation genetically-engineered corn variety for the 2010/11 summer crop that is expected to be planted on 10 percent of the total corn planted area. Although there is strong demand for new GE varieties, seed availability is a limiting factor. Analysts suggest that productivity gains should offset the cost of the more expensive seed. Yield survey statistics indicate a gain of 6-10 percent for first-generation GE corn varieties compared to conventional hybrids. Preliminary studies demonstrate gains between 3-7 percent for second-generation GE corn varieties compared to first generation.

Consumption

Domestic demand for corn is estimated at 46.5 mmt. Corn production will benefit from expected growth in the pork and poultry sector; however, the corn sector will continue to rely heavily on export demand. According to the Brazilian Corn Association (Abimilho), the corn consumption by sector is poultry (28 percent), swine (18 percent), exports (8 percent), industrial consumption (4.8 percent) and other animals (3.5 percent), human consumption (0.8 percent) and loss/seeds (0.5 percent).



Government Support Programs Stimulate Corn Exports

Post's forecast for 2009/10 corn exports remained unchanged at 8mmt based on expected government auctions via the Premio de Escoamento de Produto (PEP) that should stimulate exports. Corn exports from January-May 2010 were 35 percent below those of the same period in 2009. Although shipments were initially strong in January and February, they drastically fell in April and May, with less than 300,000 total tons exported those months. The Government of Brazil (GOB) has been pressured to support corn sales due to high carryover stock from the summer crop as well as a bumper safrinha crop coupled with low prices. A reported 5 mmt of corn stored in the open air in Mato Grosso is at risk of quality deterioration if not shipped expeditiously.

In response, the GOB announced that it would use the PEP Program to conduct 12 auctions. Each auction will offer 1 mmt of corn. This program provides the minimum guaranteed price to producers and cooperatives by paying the difference between the minimum guaranteed price and the market price. The objective is to assist in the flow of grain from the production areas to consumption areas. The supply is sent to areas of the country considered to be deficient in agricultural production, such as the Northeast of Brazil and exported. This subsidy is particularly valuable this year with reports that it costs nearly as much to transport a sack of corn from central Brazil to port as it does to purchase corn in Central Brazil.

While some of this grain is exported, this program is not considered an export subsidy since the recipient

is not required to export the product. Several sources have noted that if the auctions continue to be well-subscribed exports could reach 9-10 mmt.

In addition to government support, corn exports may be helped by the recent rally in wheat prices, which could make Brazilian corn more competitive as a feed substitute in several of its top export markets including Iran, the Middle East and Europe.

Corn Exports by Month – January-May (000) tons

Corn	**2009**	**2010**
January	1,328	880
February	751	553
March	452	359
April	404	204
May	300	94
TOTAL	**3,225**	**2,070**

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	New Post	USDA Official	New Post	USDA Official	New Post	
Area Harvested	14,100	14,100	13,000	12,900	12,750	12,600	(1000 HA)
Beginning Stocks	12,579	12,579	12,084	11,679	11,084	10,679	(1000 MT)
Production	51,000	51,000	53,000	53,000	51,000	51,000	(1000 MT)
MY Imports	1,141	1,200	500	500	1,000	1,000	(1000 MT)
TY Imports	1,092	1,100	700	700	1,000	1,000	(1000 MT)
TY Imp. from U.S.	0	0	0	0	0	0	(1000 MT)
Total Supply	64,720	64,779	65,584	65,179	63,084	62,679	(1000 MT)
MY Exports	7,136	7,100	8,000	8,000	7,000	7,000	(1000 MT)
TY Exports	7,178	7,200	7,500	7,500	8,000	8,000	(1000 MT)
Feed and Residual	38,500	38,500	39,500	39,500	41,300	41,300	(1000 MT)
FSI Consumption	7,000	7,500	7,000	7,000	7,000	7,000	(1000 MT)
Total Consumption	45,500	46,000	46,500	46,500	48,300	48,300	(1000 MT)
Ending Stocks	12,084	11,679	11,084	10,679	7,784	7,379	(1000 MT)
Total Distribution	64,720	64,779	65,584	65,179	63,084	62,679	(1000 MT)
Yield	4.	3.617	4.	4.1085	4.	4.0476	(MT/HA)

Commodities: Wheat

Production

Post lowered its 2010/11 wheat production estimate to 5.3 mmt based on an 11 percent reduction in area planted compared to last year. Producers have shifted from planting wheat to canola, rye and oats. Overall production is expected to be 300,000 metric tons higher than in 2009/10 as the decline in area planted should be more than offset by normalized yields. The 2010/11 wheat crop's average yield is estimated at 2.53 mt/ha, representing a 22 percent increase over 2009/10's average yield of 2.07.

The La Nina weather pattern should allow for a dry harvest period resulting in higher quality wheat compared to last year. Last year's rainy harvest conditions reduced one-third of the crop to feed wheat quality and required government support for export. If the weather continues to be favorable through the harvest which typically begins in September in the key wheat producing states of Parana and Rio Grande do Sul, then the production estimate may increase slightly. The current quality of the 2010/11 wheat crop is considered excellent despite late planting. The major risk to the crop is rains during the harvest as has occurred during the last few years but which is considered less likely this La Nina year.

Wheat Crop Area (1,000 Hectares)			
	2009/10	**2010/11 (estimated)**	**Percentage Difference**
Parana	1,300	1,140	(12%)
Rio Grande do Sul	860	800	(7%)
Santa Cartarina	117	103	(12%)
Center West	67	57	(16%)
Sao Paulo	61	42	(30%)
Brazil	**2,430**	**2,170**	**(11%)**

Source: CONAB

Producers indicate they will shift more planted area to varieties of wheat used in bread production. The GOB set a higher minimum price for the type of wheat used in bread rather than cookie production and producers are reacting by increasing seed purchases of harder wheat varieties. This primarily affects the state of Rio Grande do Sul and also the southern part of the state of Parana where producers predominately plant soft wheat. Even though the Brazilian wheat industry generally has a use ratio of 85 percent hard wheat to 15 percent soft wheat, approximately 70 percent of Rio Grande do Sul's 2 mmt production is soft wheat. The GOB continues to promote policies to reduce the planting of soft wheat and stimulate planting of bread wheat.

Wheat Production as a Percentage of Total Supply			
Year	Production	Imports (Marketing Year)	**% Production/Total Supply**
2004/05	5,845	4,900	**54**
2005/06	4,875	6,235	**44**
2006/07	2,235	8,000	**22**
2007/08	3,825	6,775	**36**
2008/09	5,880	6,400	**48**
2009/10	4,910	6,500	**43**
2010/11*	5,300	6,300	**45**

*Post Forecast

Wheat Minimum Prices Lowered 10 Percent

On July 1, Brazil published the following new minimum prices:

Wheat Minimum Prices – Winter Harvest 2010

Regions/States	**Type**	**PH Minimum**	**Soft 60 kg/sack**	**Hard 60 kg/sack**	**Melhador/ Durum 60 kg/sack**
South	1	78	R$23.81	R$28.62	R$29.97
	2	75	R$22.19	R$26.30	R$27.54

Source: MAPA/SPA/DEAGRO

In June, Brazil announced that it was lowering 2010/11 wheat minimum prices 10 percent. The GOB stated that the change occurred because the previous minimum price was well-above market prices. For example, in June, in local currency Kansas hard wheat was quoted at R$315 per ton. The 2009/10 minimum price of bread wheat was R$530 per ton.

The GOB traditionally announces minimum prices in March and April at the start of the planting season. Producers in Parana are complaining that the GOB changed the minimum price when 90 percent of the wheat area was already planted. Since legislation requires the setting of the minimum price at least 60 days prior to planting, farmers in Parana have requested the Ministry of Agriculture review the price reduction. In addition, the Federation of Agriculture of Parana (Faep) has filed a suit in the Superior Court of Justice (STJ) to annul the reduction in minimum prices

Imports

Post's forecast of 2010/11 Brazilian imports of wheat (and flour in grain equivalent terms) remained at 6.3 mmt. Brazil should import less wheat in 2010/11 than 2009/10 as the amount of domestic bread quality wheat is expected to rebound. Mercosul is expected to produce sufficient wheat to supply Brazil's import needs. Mercosul Members Argentina, Uruguay and Paraguay are expected to have exportable balances of 5 mmt, 600,000 mt, and 1 mmt, respectively.

Brazil-Argentine Wheat Associations' Letter of Intent

The Brazilian Wheat Industry Association (Abitrigo) and the Argentine Wheat Industry Association (Aapotrigo) signed a letter of intent to establish common standards for marketing wheat. The objective is to classify Argentine wheat in a way that meets the needs of various industrial processes of Brazilian mills. In addition, the Research Agencies of Argentina and Brazil agreed to share production technology.

Abitrigo's President cited the main benefits as a predictable supply of wheat and an exchange of information regarding wheat quality and availability. Brazilian producers have expressed concern that this agreement would allow Brazilian industry to favor Argentine wheat over Brazilian wheat.

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	New Post	USDA Official	New Post	USDA Official	New Post	
Area Harvested	2,400	2,400	2,420	2,430	2,450	2,200	(1000 HA)
Beginning Stocks	344	447	1,527	1,647	667	847	(1000 MT)
Production	5,880	5,900	4,940	5,000	5,500	5,300	(1000 MT)
MY Imports	6,403	6,400	6,500	6,500	6,300	6,300	(1000 MT)
TY Imports	6,762	6,762	6,500	6,500	6,300	6,300	(1000 MT)
TY Imp. from U.S.	432	432	0	300	0	0	(1000 MT)
Total Supply	12,627	12,747	12,967	13,147	12,467	12,447	(1000 MT)
MY Exports	400	400	1,500	1,500	600	600	(1000 MT)
TY Exports	369	370	1,500	1,500	600	600	(1000 MT)
Feed and Residual	200	200	200	200	200	200	(1000 MT)
FSI Consumption	10,500	10,500	10,600	10,600	10,700	10,600	(1000 MT)
Total Consumption	10,700	10,700	10,800	10,800	10,900	10,800	(1000 MT)
Ending Stocks	1,527	1,647	667	847	967	1,047	(1000 MT)
Total Distribution	12,627	12,747	12,967	13,147	12,467	12,447	(1000 MT)
Yield	2.	2.4583	2.	2.0576	2.	2.4091	(MT/HA)

Commodities: Rice

Production

Rice production in 2009/10 is estimated at 7.7 mmt milled rice (11.36 mmt rough rice

equivalent). Production was down 9 percent from the 2008/09 crop year due mostly to excessive rains in the key rice producing state of Rio Grande do Sul. Rio Grande do Sul's average yields of 6.4 mt/ha were 10 percent below the state's 2008/09 yields.

Biotechnology

In June 2010, Bayer withdrew its request to register genetically-engineered (GE) rice (LibertyLink) with the national biotechnology regulatory agency (CTNBio). Bayer has opted instead to engage in further discussions with rice producers as a means to reduce their resistance to its product. Brazil has been in the process of evaluating LibertyLink since 2003.

Imports

During January-June 2010, Brazil imported 310,000 metric tons of rice, milled basis. The principal suppliers were Uruguay (40 percent) and Argentina (30 percent) and Paraguay (20 percent). Due to the domestic production shortfall, milled rice imports have increased almost 40 percent. Rice imports may increase in July-August as a protective measure against any shortfalls. Carryover stocks are estimated at 885,000 MT, the lowest in seven years.

Brazilian rice growers have been lobbying the government to increase the Common Export Tariff (TEC) to 35 percent for rice imported outside of Mercosul. At this point, the GOB has not indicated that it will increase the TEC.

Rice Imports By HS Code (in tons, rough basis)

Rice – HS Code	Jan-June 2009	Jan-June 2010
1006.10 (Broken)	34,700	26,100
1006.20 (Brown)	112,700	60,450
1006.30 (Milled)	**175,200**	**240,200**
1006.40 (Paddy)	700	1,000
Total	**323,300**	**327,750**

Source: Secretaria de Comércio Exterior

Exports

During January-June 2010, Brazil exported 208,000 metric tons of rice, milled basis, down 30 percent from the same period in 2009. A decrease of 60 percent in milled rice exports accounted for most of

the drop in overall exports. The lack of milled rice supply for exports may make it more difficult for Brazil to meet its goal of becoming a reliable and consistent rice exporter. Gambia, Senegal and Nigeria were the top three export markets.

Rice Exports By HS Code (in tons, rough basis)

Type of Rice	Jan-June 2009	Jan-June 2010
1006.10 (Broken)	41	0
1006.20(Brown)	12,000	13,000
1006.30 (Milled)	**181,900**	**69,100**
1006.40 (Paddy)	104,100	128,000
Total	**298,000**	**210,100**

Source: Secretaria de Comércio Exterior

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	New Post	USDA Official	New Post	USDA Official	New Post	
Area Harvested	2,909	2,910	2,800	2,760	2,850	2,830	(1000 HA)
Beginning Stocks	973	973	1,118	1,148	988	898	(1000 MT)
Milled Production	8,569	8,600	7,820	7,700	8,400	8,300	(1000 MT)
Rough Production	12,601	12,647	11,500	11,324	12,353	12,206	(1000 MT)
Milling Rate (.9999)	6,800	6,800	6,800	6,800	6,800	6,800	(1000 MT)
MY Imports	675	675	950	950	650	650	(1000 MT)
TY Imports	650	650	850	850	600	600	(1000 MT)
TY Imp. from U.S.	1	0	0	0	0	0	(1000 MT)
Total Supply	10,217	10,248	9,888	9,798	10,038	9,848	(1000 MT)
MY Exports	569	570	300	300	500	500	(1000 MT)
TY Exports	591	590	300	300	500	500	(1000 MT)
Consumption and Residual	8,530	8,530	8,600	8,600	8,650	8,600	(1000 MT)
Ending Stocks	1,118	1,148	988	898	888	748	(1000 MT)
Total Distribution	10,217	10,248	9,888	9,798	10,038	9,848	(1000 MT)
Yield (Rough)	4.	4.346	4.	4.1029	4.	4.3131	(MT/HA)