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# Brazil

**Post:**
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# Oilseeds and Products Update

# Higher Domestic Prices Encourage Slight Soybean Area Expansion

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**Report Highlights:**
A record Brazilian soybean crop of 97 million metric tons (mmt) is forecast for the 2015/16 marketing year (MY) as a result of a slight increase in planted area. Despite lower global soybean prices, the weak Brazilian Real is compensating with higher domestic prices and is encouraging farmers to increase area. Crush for the 2015/16 MY is forecast at 40 mmt to meet increased biodiesel mandate (B7) and demands from the animal feed sector. Post forecasts exports at a record of 53.5 mmt for 2015/16 MY due to the weaker Brazilian Real, which is making Brazilian soybeans more competitive.

| Oilseed, Soybean (Local) | 2013/2014 | | 2014/2015 | | 2015/2016 | |
|---|---|---|---|---|---|---|
| Market Begin Year | Feb 2014 | | Feb 2015 | | Feb 2016 | |
| Brazil | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| Area Planted | 30100 | 30100 | 31500 | 32000 | 32500 | 32600 |
| Area Harvested | 30100 | 30100 | 31500 | 32000 | 32500 | 32600 |
| Beginning Stocks | 1269 | 1269 | 1527 | 1527 | 3392 | 4102 |
| Production | 86700 | 86700 | 94500 | 96000 | 97000 | 97000 |
| MY Imports | 579 | 579 | 265 | 275 | 250 | 200 |
| MY Imp. from U.S. | 0 | 0 | 0 | 0 | 0 | 0 |
| MY Imp. from EU | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Supply | 88548 | 88548 | 96292 | 97802 | 100642 | 101302 |
| MY Exports | 45747 | 45747 | 50200 | 51000 | 54600 | 53500 |
| MY Exp. to EU | 6000 | 6000 | 6000 | 6000 | 6000 | 65000 |
| Crush | 38274 | 38274 | 39550 | 39550 | 39550 | 40000 |
| Food Use Dom. Cons. | 0 | 0 | 0 | 0 | 0 | 0 |
| Feed Waste Dom. Cons. | 3000 | 3000 | 3150 | 3150 | 3220 | 3150 |
| Total Dom. Cons. | 41274 | 41274 | 42700 | 42700 | 42770 | 43150 |
| Ending Stocks | 1527 | 1527 | 3392 | 4102 | 3272 | 4652 |
| Total Distribution | 88548 | 88548 | 96292 | 97802 | 100642 | 101302 |
| | | | | | | |
| (1000 HA) ,(1000 MT) | | | | | | |

**2015/16 Soybean Plantings Start Slow, but a Production Record is Expected**

The relative weak value of the Brazilian Real (Real) has created an interesting market dynamic. Since the beginning of the year, the Real has devalued by about 35 percent against the U.S. Dollar. At the same time, global soybean prices have dropped by over 12 percent within the same period. Since soybeans are priced in U.S. Dollars in the global market, domestic prices and forwarded contracting are relatively higher compared to last year, which have encouraged producers to add areas to soybeans as a first crop over corn. However, inputs have become more expensive since many are imported (a weaker Real makes these costs higher). As a result, there is a potential that farmers may be more conservative in the application of certain inputs as compared to last year in order to save on cost. The expectation by producers is that the value of the Real will stay close to 4 Reals per U.S. Dollar for the rest of the year, which will continue to support domestic prices for the 2015/16 crop. The current economic and political uncertainties in Brazil will definitely slow down the aggressive land expansion for soybeans as compared to previous years.

Post forecasts 2015/16 soybean production at 97 million metric tons (mmt), a new production record. The 2015/16 planted area is forecast to increase slightly to 32.6 million hectares (ha) compared to last year. Despite the relative low global soybean prices, the economic challenges in Brazil, and higher production costs, the weaker Real turned out to be a saving grace. The recent Real devaluation has pushed domestic soybean prices up compared to last year, which is incentivizing a slightly higher soybean area.

The area increase in Brazil is mainly attributed to the states of Mato Grosso, Parana, Rio Grande do Sul, and Goais, which are opting to add degraded pasture areas for soybeans or choosing to plant soybeans over corn as a first crop. Post also forecasts that Brazil's fertilizer market will stagnate for 2015/16 as a result of higher costs, as farmers may choose to apply fertilizers more conservatively in certain areas to save on costs. For the 2014/15 production year, post revised its planted area estimate to 32 million ha based on new estimates by the Brazilian National Food Supply Company (CONAB). Post also revised the 2014/15 production estimates to 96 mmt as a result of the latest estimates by CONAB, which reflects better than expected yields.

The seasonal planting moratorium (vazio sanitario) stipulated by the Government of Brazil (GOB) for phytosanitary reasons ended in most states on September 15; which marked the official start of the 2015/16 crop season. In Mato Grosso, the largest soybean producing state in Brazil, farmers are still cautiously waiting for rains to increase the planting progress. As of September 28, only 0.55 percent of the forecasted area (9.2 million ha forecasted) was planted, mainly by farmers with irrigation mechanisms. In Parana, the second largest producing state in Brazil, plantings are making good progress as a result of good early rains. As of September 28, 13 percent of the forecasted area (5.2 million ha forecasted) was planted. Other states like Goais (3.4 million ha forecasted) started the planting season on October 1. In total, Brazilian farmers planted about 2 percent of the forecasted total area as of the end of September.

**Consumption: Crush to Slightly Increase in a Challenging Economic Environment**

Total soybean consumption for 2015/16 MY is forecast at 43.15 mmt, with a crush forecast at 40 mmt. The slight growth reflects demands to meet the biodiesel mandate (B7) by the GOB and service marginal growth by the animal feed sector. Relatively low soybean prices are expected to lower the cost of soybean meal; however, sources indicate that the use of soybean meal for feed production will remain stable as a result of the marginal growth in the livestock sector.

Soybean meal is the most important feedstuff after corn for the Brazilian feed industry, representing about 22 percent of all ingredients. The marginal growth on the use of soybean meal for feed production is partly due to the poor economic scenario Brazil faces in 2015 and expected in 2016. Analysts forecast Brazil's Growth Domestic Product (GDP) to contract by at least 2 percent and consumer prices are expected to be double the upper limit of the central bank's inflation target band.

**2015/16 Exports Forecast at new Record**

Post forecasts exports at 53.5 mmt for the 2015/16 marketing year (MY) due to the relative weaker Real, which is making Brazil more competitive in the global market.  The weaker Real is accelerating the pace of forward contracts for a crop that just started to get planted.  In Mato Grosso for example, it is estimated that close to half of the soybeans have been contracted.  In contrast, about 11 percent of the crop last year was sold in Mato Grosso the same time last year.  Record exports are forecast on continued import demand by China.  Post also increased its forecast for the 2014/15 MY to 51 mmt.  Due to a slow pace of forward contracts early in the MY and delivery disruptions as a result of truck driver strikes, the pace of exports could be higher in the next few months unless new port disruptions take place.

Port disruptions or a strike by truck drivers are factors to keep on the radar in the new few months.  Due to the difficult economic situation in Brazil, many industries have suffered from labor strikes.  For example, since September 17, 2015, inspectors from the Ministry of Agriculture, Livestock, and Food Supply (MAPA), which oversees surveillance at ports, airports, borders, and inspectors located at meat plants, decided to go on a national strike.  According to the leader of the inspector's union, 2,800 inspectors are on a strike, which represents 90 percent of the entire workforce.  The strike affects both exports and imports of agricultural and food products and the Port of Santos, the largest in Brazil, is reportedly the most affected by the strike.  This has created delivery problems of inputs to the farms.  If the domestic conditions continue to get worse, more strikes closer to the export season could have the potential to impact soybean exports.