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Report Highlights:

Brazil is forecast to overtake the United States as the leading soybean producer in the world during the 2019/20 season. Post revised up forecast for 2019/20 soybean planted area to 36.8 million hectares. The revision is based on the market exuberance over soybean prices in the last several months. Production is forecast at 123.5 million metric tons (mmt) based on trend yields. The delayed pace of planting should not significantly impact the harvest timeline, with the first soybeans harvested ready to ship in January. Soybean exports are forecast at 75 mmt for 2019/20. Post revised 2018/19 export estimate to 73 mmt based on record volume of exports in October and November. Post maintains the 2019/20 forecast of 44 mmt of soybeans destined for processing next season, driven by rising domestic demand for soy oil.

SOYBEAN PRODUCTION

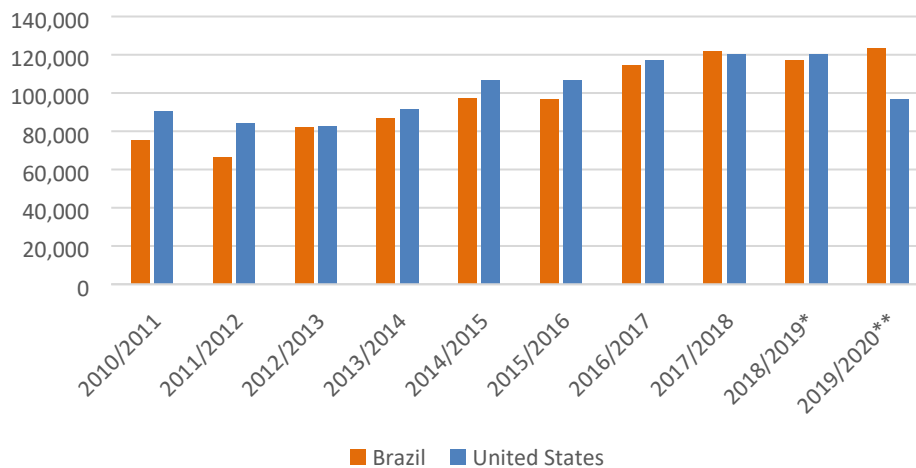
Brazil Forecast to Overtake the United States as Leading Soybean Producer in 2019/20

Post forecasts planted area at 36.8 million hectares (ha) for the 2019/20 season, in line with local market expectations. Post raised its forecast for planted area slightly from the last update, given the market exuberance over soybean prices in the last several months. The Brazilian real has weakened against the dollar from about R\$4.09 in October to R\$4.17 to the dollar for the first two weeks of December. Post believes these price developments pushed some producers to sow a slightly larger area than they otherwise would have.

Notably, the area expansion could have been larger if the local market believed that global soybean consumption would be higher. There is still a lot of consternation over dampened Chinese demand due to the widespread prevalence of African Swine Fever (ASF), which has decimated swine herds and curbed feed needs. Additionally, producers are keenly following the emerging trade truce between the United States and China. Producers are cognizant that a trade accord between Washington and Beijing is almost certain to lessen Brazilian exports and exert downward pressure on Brazil's soybean prices.

Post forecasts a record crop for the 2019/20 year, at 123.5 million metric tons (mmt). Brazil's previous record crop was 122 mmt, recorded in 2017/18 season. The 2019/20 production forecast is based on a return to trendline yields after the current season was adversely affected by inclement weather. Post forecasts yield at 3.36 metric tons per hectare. Notably, according to the forecast from the World Agricultural Supply and Demand Estimate (WASDE) issued by the U.S. Department of Agriculture (USDA), U.S. soybean harvest will be less than 100 mmt in 2019/20, a drop of almost 20 percent on the previous season. Thus, as long as local weather across the key producing states does not deteriorate significantly, Brazil is expected to overtake the United States as the leading soybean producer in the world this coming season.

Brazil & United States Soybean Production



Data source: FAS PSD

Note that 2018/19* and 2019/20** represent USDA estimate and forecast for the United States, and Post estimate and forecast for Brazil.

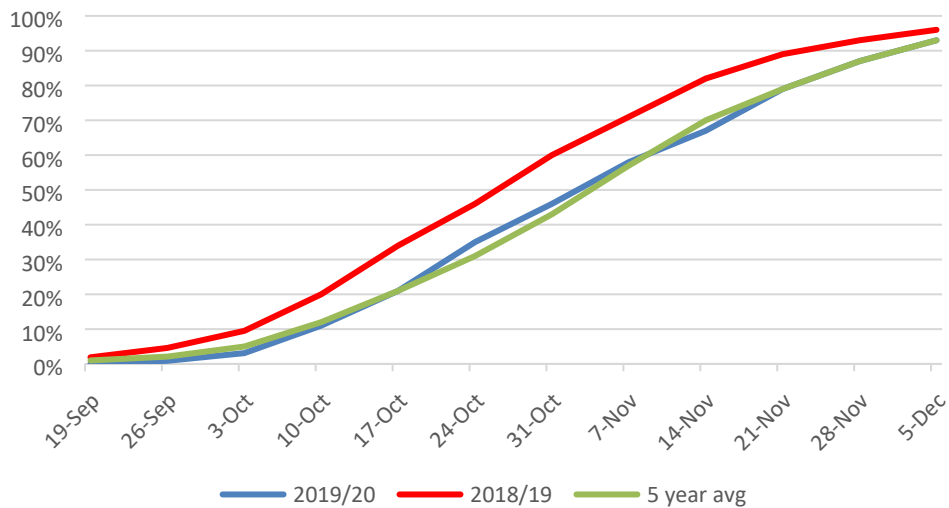
Weather Factors for the 2019/20 Crop

Early in the season, producers grappled with much-drier-than-average conditions in key growing states. Due to the resulting lack of soil moisture, farmers in Mato Grosso, the largest soybean producing state in Brazil, did not begin planting their fields until the end of September. Typically, producers like to sow right at the end of the mandatory sanitary period, the so-called *vazio sanitário*, which in Mato Grosso ended on September 16. This regulation prohibits crop planting for several months in between harvests in order to mitigate incidence of fungal diseases in the absence of cold weather. In the state of Paraná, Brazil's second-largest producer, the *vazio sanitario* ended on September 12, but a lack of rain did not permit farmers to plant until November.

The same variable weather has also affected the North and Northeast states of Bahia, Piauí, Tocantins and Maranhao, collectively known as Matopiba. Matopiba is a key growth region for soybean production. Analysts indicate that due to irregular rainfall in October and November, some producers in that area will have to replant their soybeans, while others may miss the soybean planting window altogether and instead move on to planting corn, which allows for a longer planting window. As a consequence, Post believes that productivity in the Matopiba region may be below average in 2019/20. More broadly, however, Post forecasts yields across most of the soybean growing states will improve over last season.

Nationwide, according to Brazilian agricultural consultant AgRural, as of the first week of December, producers in Brazil had planted 93 percent of their total projected area, compared to 96 percent a year ago and in a line with the five-year average. In fact, although the pace of soybean planting has been significantly below what was recorded in the 2018/19 season, 2019/20 sowing progress is on par with the historical average. As a result, the delayed pace of planting should not significantly impact the harvest timeline, with the first soybeans harvested ready to ship in January.

Pace of Soybean Area Planted



Data source: AgRural

Production Estimate Unchanged for the 2018/19 Season

Post maintains its estimate of 36.2 million ha area planted for the 2018/19 season, with production estimated at 116 mmt, based on lower-than-trend yield. Despite the promising early start to planting in the 2018/19 season,

adverse weather affected yields across most soybean-producing states. (See GAIN BR 1909 for expanded coverage.)

TRADE

2019/20 Export Forecast Unchanged

Post forecasts soybean exports for market year (MY) 2019/20 (February 2020 to January 2021) to reach 75 mmt. Post's export forecast is based on recovery in available supplies, but also anticipates subdued demand from China for several reasons. First, China will continue to grapple with the adverse effects of ASF and the resulting drop in feed demand. Secondly, Post anticipates Brazil will lose some portion of its China export share to the United States in the wake of a trade deal between Washington and Beijing that was announced in mid-December 2019.

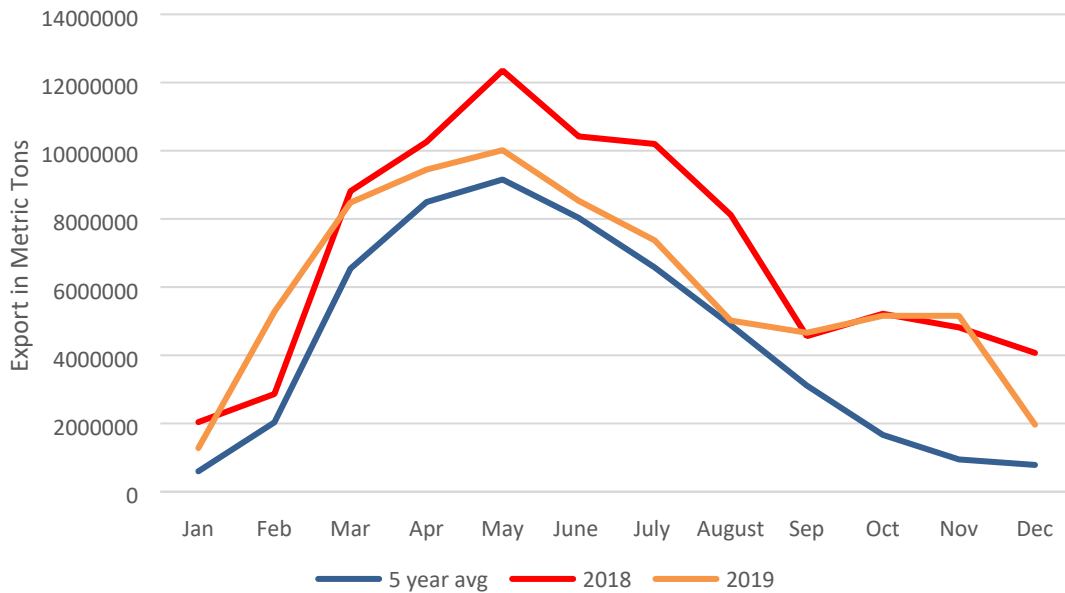
The initial reaction of the Brazilian market to the U.S.-China trade accord has been muted, despite reports that the deal includes a pledge from China to buy \$40 billion to \$50 billion of U.S. agricultural products within two years, compared with \$24 billion in purchases before the trade dispute erupted. At this point, Post contacts have not revised their soybean export estimates for 2019/20. Instead, most have adopted a wait-and-see approach, in anticipation of next season's harvest coming online in January 2020. Local analysts also point to the fact the forecast shift in global supply may benefit Brazilian exports. For example, the soybean crop in the United States is forecast 20 percent less than last season due to inclement weather negatively affecting both planted area and yields. Meanwhile, higher export taxes in Argentina may also make Brazilian soybean exports more attractive.

2018/19 Export Estimate Revised Up on Strong Q4

Post revised up soybean exports for MY 2018/19 (February 2019 to January 2020) to 73 mmt. Although yields have been disappointing this season, Brazil still produced ample supplies to satisfy both domestic and external demand. This calendar year, soybean exports followed in line with five-year average month-to-month, until final quarter of the year, when exports surged. Thus, Post's upward revision is based on this record volume of exports in October and November 2019.

Typically, soybean volumes from Brazil trail off in the last quarter of the calendar year, with the harvest having wrapped up months earlier and most of the crop intended for export having been shipped already. This timeframe also coincides with peak exports from the United States. As the chart below shows, this scenario did not materialize in the 2017/18 season, as U.S.-China trade tensions prevented Chinese buyers from sourcing American soybeans. At the time, supplies from Argentina, the world's third largest exporter, were also constrained due to an extremely poor harvest. As a result, Brazil dominated global soybean sales in the fourth quarter of 2018.

Soybean Exports Monthly



Data Source: SECEX, with December 2019 data showing Post estimate

Notably, this calendar year saw a repeat of the 2018 scenario, despite the fact that vessels destined for China loaded soybeans both from the United States and Argentina. Post believes that October-November 2019 soybean sales from Brazil were driven to a large degree by extremely favorable local soybean price dynamics. Post estimates that December exports will benefit from this same dynamic and will likely reach well over two million metric tons as producers had contracted whatever volumes they had left in the previous months.

2019 Farmgate Soybean Prices in Brazil

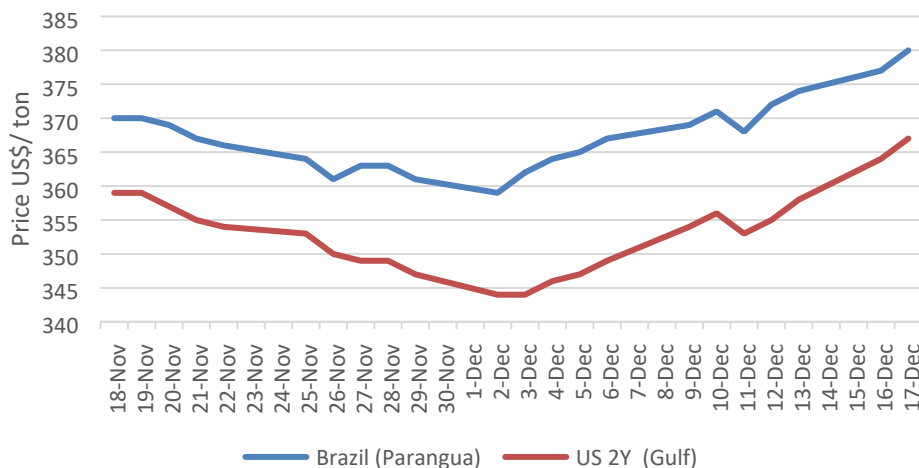
	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov
Maringá, PR	72.81	73.56	74.35	72.69	74.30	77.44	74.06	80.75	81.31	84.06	86.19
Mogiânia, SP	70.75	71.25	71.50	70.13	71.40	74.63	72.38	77.90	81.25	82.25	84.25
Passo Fundo, RS	77.88	76.38	75.05	73.75	75.85	80.00	77.81	81.75	82.63	85.13	86.50
Rondonópolis, MT	68.38	68.25	70.40	68.88	69.30	71.31	69.75	76.45	78.88	80.75	84.38
Prices in R\$/60-kilogram sack (not including ICMS tax)											

Source: Abiove

As the table above shows, farmgate soybean prices have been rising steadily since the start of the year, with only a slight dip during peak harvest in March and April. The surge in farmgate prices, denominated in the local currency, is partially attributed to devaluation of the Brazilian real (R\$), which started the year at around R\$3.75 to the U.S. dollar (USD), but has since depreciated to over R\$4.20/USD as of the end of November.

The other dynamic driving this phenomenon is the persistently high export prices of Brazilian soybeans, artificially boosted for most of the year by U.S.-China trade tensions that prevented Chinese buyers from sourcing beans in the United States. The below chart shows the Brazilian FOB premium (for soybeans loaded at Paranaguá vs U.S. soybeans shipped from Gulf) has remained stubbornly in the \$11-18/ton range over the last month.

Soybean Prices



Source: International Grains Council

CONSUMPTION AND PROCESSING

2019/20 Forecast

Post maintains the 2019/20 forecast of 44 mmt of soybeans destined for processing next season. The forecast is based on trend expansion of about 2 percent per year. Post forecasts 2019/20 production to reach 34.1 mmt of meal and 8.6 mmt of oil.

Post forecasts domestic meal consumption to increase by 4 percent, as livestock and poultry industries continue to expand production to meet rising global demand. As a result, Post forecasts that meal exports will remain nearly flat season-on-season. There is potential for positive upside if the real remains weak vis-à-vis the dollar, making meal exports more competitive. There is rising potential that Brazil and China will conclude an export agreement for soybean meal. However, in order for Brazil to be able to export to soybean meal to China, it would also need to conclude a separate sanitary and phytosanitary (SPS) agreement, meaning that Chinese market access is unlikely to come in the near future.

Post forecasts soy oil exports to level off in 2019/20 to half a million metric tons from one mmt in the current season. The forecast is based on the expected surge in demand from the domestic biodiesel industry. The next increase in biodiesel blend mandate is scheduled for March 2020, less than a year after the last increase that went into effect in September 2019. The biodiesel blending rate is slated to rise by 1 percent every year, reaching 15percent in 2023.

2018/19 Crush Lower Over Constrained Supplies

Post lowered slightly the 2018/19 soybean processing estimate to 42.6 mmt, contracting on last season's crush of 43.5 mmt. The estimated season-on-season decline is based on several factors, including a smaller overall supply due to the dip in soybean production this season, and higher than initially expected export volume of raw soybeans. In addition, persistently high soybean export prices further dampen domestic processing demand. The Brazilian crush industry is particularly sensitive to competition with traders. The government incentivizes

soybean exports via the so-called Kandir Law, which waves the export duty for raw commodities but not processed products. As such, the processing industry faces much tighter margins than producers.

Post estimates Brazil's soybean oil production at just under 8.2 mmt, with the majority of the product consumed domestically. Food use for soy oil is estimated to remain unchanged on last season due to the very sluggish domestic economy. However, industrial oil use is projected to increase to 3.7 mmt, from Post's estimate of 3.4 mmt in 2017/18, to accommodate the higher biodiesel mandate. Domestic demand for oil has surged as of August this year, when the government gave final approval to increase the biodiesel blend mandate from 10 to 11 percent on September 1, 2019. The biodiesel industry in Brazil relies primarily on soybean oil (about 70 percent) for blending.

Together with domestic demand, the local price of soy oil (with 12 percent ICMS tax) has registered a significant increase in Brazil, reaching R\$ 3,646.97/ton in the city of Sao Paulo as of the end of November, the highest nominal level of the Cepea data series, which began in July 1998. In November, soybean oil prices averaged R\$ 3,454.57/ton, the highest in nominal terms in the Cepea historical series, 4.9 percent higher than in October and the highest since December 2016, in real terms. According to Cepea researchers, the surging oil prices are linked to the low availability of the derivative, at a time when domestic demand is peaking.

Post estimates Brazil's soybean meal production will surpass 33 mmt for MY 2018/19. Domestic soybean meal consumption is estimated at 17.8 mmt, up from last season's 17.6 mmt. The increase in domestic meal consumption is based on higher projected demand from the domestic livestock and poultry industries, which have benefited from increased export demand out of China. Meal exports are projected to decrease to 16.1 mmt, from almost 17 mmt last season, in connection with tighter supplies.

Oilseed, Soybean (Local)	2017/2018		2018/2019		2019/2020	
Market Begin Year	Feb 2018		Feb 2019		Feb 2019	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	35150	35150	36200	36200	37000	36800
Area Harvested	35150	35150	35900	35900	36900	36800
Beginning Stocks	9912	9912	2350	2771	1850	970
Production	122000	122000	117000	116000	123000	123500
MY Imports	185	190	136	135	200	200
MY Imp. from U.S.	0	0	0	0	0	0
MY Imp. from EU	0	0	0	0	0	0
Total Supply	132097	132102	119486	118906	125050	124670
MY Exports	84155	83734	72800	73000	76300	75000
MY Exp. to EU	5100	5100	3400	3400	3500	3500
Crush	43460	43465	42500	42600	43850	44000
Food Use Dom. Cons.	0	0	0	0	0	0
Feed Waste Dom. Cons.	2132	2132	2336	2336	2700	2700
Total Dom. Cons.	45592	45597	44836	44936	46550	46700
Ending Stocks	2350	2771	1850	970	2200	2970
Total Distribution	132097	132102	119486	118906	125050	124670
CY Imports	187	187	136	136	200	200
CY Imp. from U.S.	0	0	0	0	0	0
CY Exports	83609	83609	73575	73575	76200	76200
CY Exp. to U.S.	0	0	0	0	0	0
Yield	3.4708	3.4708	3.2591	3.2312	3.3333	3.356
1000 HA, 1000 MT, MT/HA						

Meal, Soybean (Local)	2017/2018		2018/2019		2019/2020	
Market Begin Year	Feb 2017		Feb 2018		Feb 2019	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Crush	43460	43465	42500	42600	43850	44000
Extr. Rate, 999.9999	0.775	0.7751	0.7751	0.7758	0.7754	0.775
Beginning Stocks	4430	4430	3554	3753	2404	2928
Production	33680	33690	32940	33050	34000	34100
MY Imports	20	13	25	25	26	25
MY Imp. from U.S.	0	0	0	0	0	0
MY Imp. from EU	0	0	0	0	0	0
Total Supply	38130	38133	36519	36828	36430	37053
MY Exports	16976	16780	16115	16100	15200	16200
MY Exp. to EU	8000	0	7500	0	7500	0
Industrial Dom. Cons.	0	0	0	0	0	0
Food Use Dom. Cons.	0	0	0	0	0	0
Feed Waste Dom. Cons.	17600	17600	18000	17800	18700	18500
Total Dom. Cons.	17600	17600	18000	17800	18700	18500
Ending Stocks	3554	3753	2404	2928	2530	2353
Total Distribution	38130	38133	36519	36828	36430	37053
CY Imports	20	20	25	25	25	25
CY Imp. from U.S.	0	0	0	0	0	0
CY Exports	16863	16863	16160	15675	15200	15200
CY Exp. to U.S.	0	0	0	0	0	0
SME	17600	17600	18000	17800	18700	18500
100 MT						

Oil, Soybean (Local)	2017/2018		2018/2019		2019/2020	
Market Begin Year	Feb 2017		Feb 2018		Feb 2019	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Crush	43460	43465	42500	42600	43850	44000
Extr. Rate, 999.9999	0.1919	0.192	0.1919	0.1919	0.1919	0.1955
Beginning Stocks	392	392	373	369	342	294
Production	8340	8345	8155	8175	8415	8600
MY Imports	41	41	50	50	50	50
MY Imp. from U.S.	0	0	0	0	0	0
MY Imp. from EU	0	0	0	0	0	0
Total Supply	8773	8778	8578	8594	8807	8944
MY Exports	1410	1409	1040	1000	1100	500
MY Exp. to EU	0	0	0	0	0	0
Industrial Dom. Cons.	3290	3400	3470	3700	3585	4300
Food Use Dom. Cons.	3700	3600	3726	3600	3775	3725
Feed Waste Dom. Cons.	0	0	0	0	0	0
Total Dom. Cons.	6990	7000	7196	7300	7360	8025
Ending Stocks	373	369	342	294	347	419
Total Distribution	8773	8778	8578	8594	8807	8944
CY Imports	35	35	50	0	50	0
CY Imp. from U.S.	0	0	0	0	0	0
CY Exports	1415	1375	1040	900	1100	950
CY Exp. to U.S.	0	0	0	0	0	0
100 MT						

Attachments:

No Attachments