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Brazil

Oilseeds and Products Update

Production Set to Decline Amid Adverse Weather

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Report Highlights:
Post maintains the 2018/19 marketing year (MY) forecast of just over 36 million hectares (ha) of area planted, but the soybean production forecast is reduced to 115.5 million metric tons (mmt). Dry and hot temperatures affected vast portions of key soybean growing regions, and as a result soybean yields are expected to drop across Brazil in 2018/19. Post cut the export forecast to 70 mmt for 2018/19 MY, which is a 16 percent reduction on the current season's projected blockbuster exports of 84 mmt.

Drought Conditions to Cut Yields

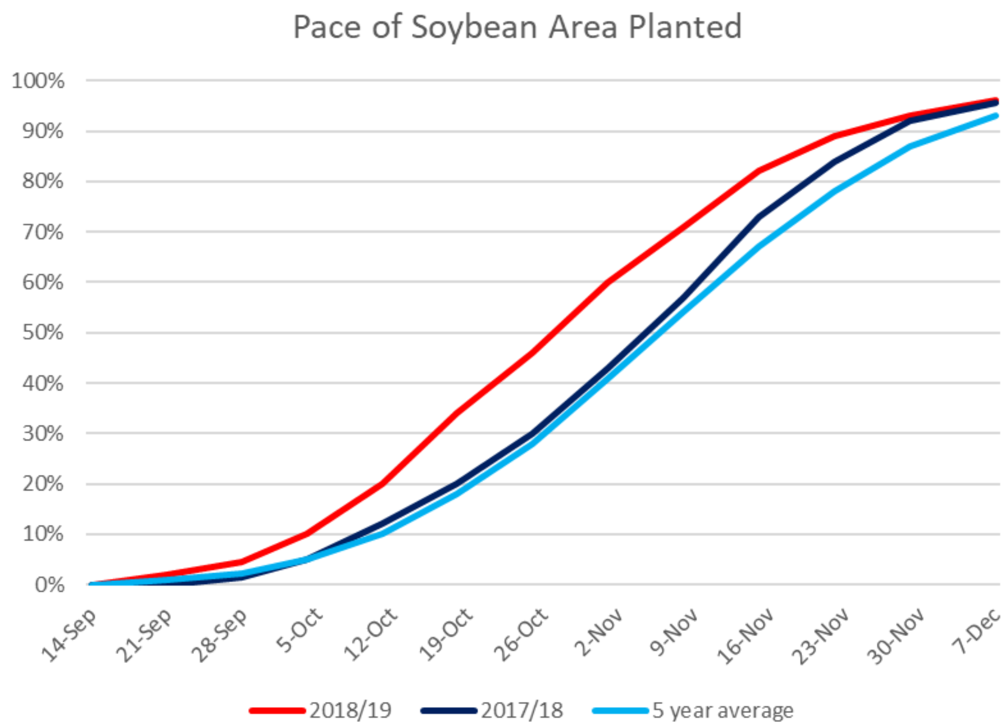
The Post forecast for the 2018/19 marketing year (MY) remains unchanged at just over 36 million hectares (ha) of planted area. However, drought conditions in key producing states are expected to reduce the yield to less than 3.2 mt/ha. As a result, Post has cut the soybean production forecast to 115.5 million metric tons (mmt) for 2018/19 MY, down from the record 120.3 mmt harvest estimate in the 2017/18 MY.

Scarce rains and hotter-than-normal temperatures impacted the majority of the key producing areas in the last several months. The drought-like conditions began in November in the south of the country in the second largest producing state of Parana, as well as in the southern states of Mato Grosso do Sul and Sao Paulo; from there, the same weather pattern spread further north into parts of Mato Grosso, Goias, Minas Gerais, and the northeast state of Bahia. According to the late January estimate from the soybean producers' association Aprosoja, most of the states are expected to see production reduced on the order of between 5 to 30 percent.

State	**Initial Estimate (mmt)**	**Loss**	**Current Estimate (mmt)**
Mato Grosso	32,100	8%	29,530
Parana	19,600	30%	13,720
Rio Grande do Sul	18,600	5%	17,670
Goias	11,800	15%	10,030
Mato Grosso do Sul	10,100	15%	8,585
Minas Gerais	5,500	15%	4,676
Bahia	5,250	20%	4,205
Sao Paulo	3,500	10%	3,150
Tocantins	3,000	10%	2,700
Maranhao	2,930	7%	2,725
Piaui	2,432	20%	1,946

Source: Aprosoja

The impact from adverse weather was exacerbated by the record fast planting pace for the 2018/19 crop. Ironically, at the beginning of the season, farmers benefited from an earlier than average onset of rains, which enabled them to sow immediately after the sanitary period – designed to tamp down on fungal disease – ended in September. Producers were highly motivated to sow as early as possible considering the planting timeframe of the second, or safrinha, crop. The majority of farmers in the main producing Center West and Southern regions sow twice a season, with the first crop usually being soybeans, followed by a safrinha harvest of corn or cotton. Earlier planting for the first crop increases the likelihood that the safrinha crop would be planted within an ideal timeframe and, therefore, would result in higher yields maximizing returns for producers.

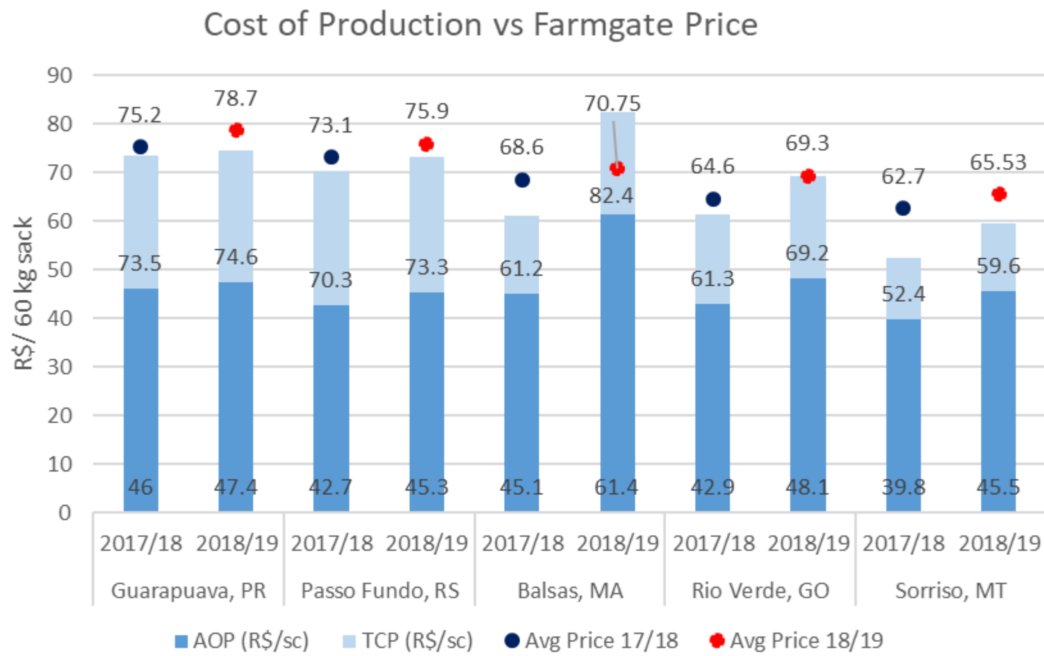


Data Source: AgRural; Chart: FAS Brasilia

Rising costs will further pressure margins

In addition to disappointing yields, producers are bracing for tighter margins as input and freight costs rise, while soybean premiums are leveling off.

In October 2018, Post attended the launch of the *Campo Futuro* project, a joint undertaking from Brazil's National Federation of Agriculture and Livestock Producers (CNA) and the Center for Advanced Studies in Applied Economics (CEPEA) at the University of Sao Paolo. The project examined the cost of agricultural production as it compares to farm gate prices. The study considered the actual operating cost (AOP) and the total cost of production (TCP), which includes AOP, plus land depreciation and an opportunity cost of using land for other purposes. According to Campo Futuro estimates for 2018/19 MY, production costs were to rise across all of the main soybean producing areas in Brazil. And, in the case of Balsas region in the northeast state of Maranhao, the TCP was expected to reach 82.4 reais per 60 kilogram sack of beans (R$/sc) and as such would actually exceed the farm gate price of R$ 70.75 /sc. The AOP in Balsas, as well as in other regions, was forecast to remain well below the forecast 2018/19 farm gate soybean price.



Data Source: Cepea and CNA

According to Post conversations with producers in Mato Grosso, they expected their fertilizer costs to increase on the order of 15 to 30 percent for the 2018/19 MY. The increase in fertilizer costs is associated with both rising product prices, and a stronger Real.

Meanwhile, there is also significant uncertainty regarding freight rates, which affect the farm gate price that traders are willing to pay to producers. In May 2018, in order to quell the truck drivers' strike that brought the country to a standstill for several weeks, Congress set a price floor under commercial freight rates (see GAIN BR1810 for expanded coverage). Trade contacts have indicated to Post that transportation contracts are still being concluded at market rates, as assuming the risk of fines outweighs the cost of paying the higher, government-mandated freight rates. However, the significant legal uncertainty surrounding future freight costs almost certainly weighs on current and future soybean prices. The new administration, inaugurated January 1, has indicated that the freight rates will remain in place at least through July. At this point, it is difficult to predict how this policy will evolve.

The pressure on producer margins would be exacerbated in the event of a slump in the soybean FOB prices. In April 2018, China imposed a 25 percent duty on U.S. soybeans, spurring its buyers to source a greater volume of soybeans from Brazil. This underpinned the premiums commanded by Brazilian soybeans in the second half of 2018. (See GAIN BR1816 for expanded coverage). Yet, the recent temporary truce between China and the United States, and the subsequent sales of U.S. soybeans to China through February 2019, saw Brazil's futures prices nosedive as much as 30 percent. Although, outside of the futures market, there has been relatively little activity in the actual forward sales (see export section below).

SOYBEAN TRADE

EXPORTS

2018/2019 Outlook:

Post revised the 2018/19 MY (February 2019 to January 2020) export forecast to 70 million metric tons (mmt), a decrease on past season's bumper exports, estimated at 84 mmt. The revised forecast is based on reduced harvest volume, and virtually non-existent stock carryover from the 2017/18 MY. As of mid January 2019, market analysts reported that Brazilian producers had sold 99 percent of their 2017/18 harvest, compared to 94 percent of the previous harvest sold at this time last year.

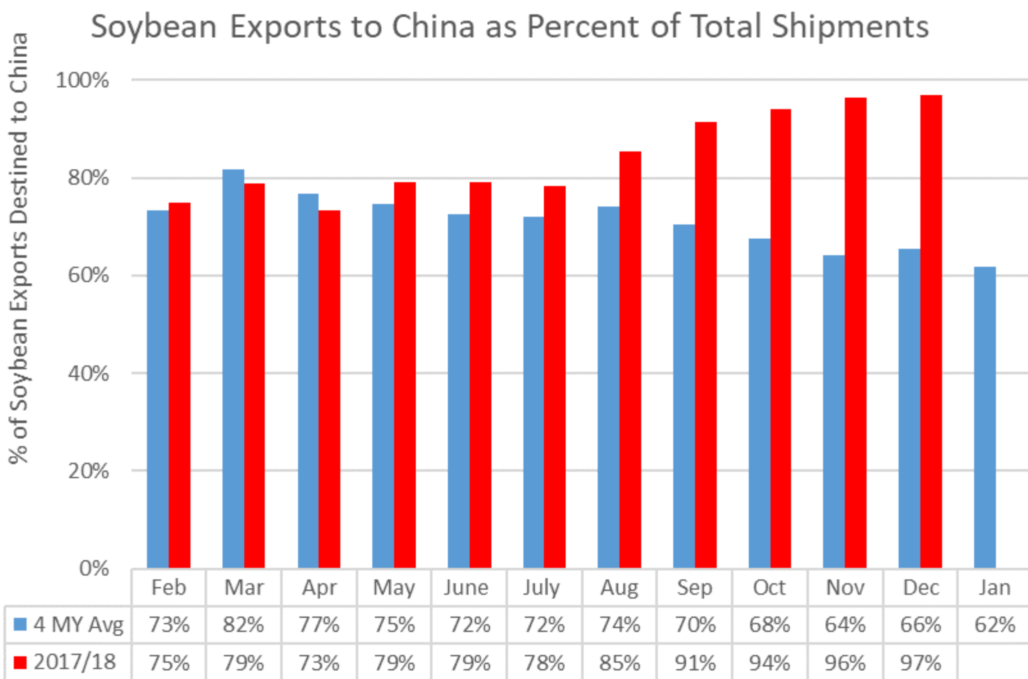
For the 2018/19 soybean crop, market analysts in Brazil report that by the third week of January, producers across Brazil sold 33.7 percent of the total 2018/19 soybean crop, a level nearly identical to the 32.6 percent sold at this time last year, but below the historic average of 36.6 percent for the same time frame. While the pace of sales indicates about average market activity for this time of the year, there are increasing reports that futures trades have slowed significantly recently as producers are in a wait-and-see mode, hoping to see better prices as a result of lower supplies.

However, despite the rising worry over production volumes, so far this year soybean prices in Brazil have come under pressure from the devaluation of the U.S. dollar against the Real, as well as reports of softening demand in China and strong stocks / lackluster soybean exports from the United States. Overall, soybean prices have decreased sharply in the Brazilian market in January. According to CEPEA soybean Index at the southern port of Parangua, prices have decreased over five percent between December and January, averaging 76.89 Real ($20.57) per 60-kilo bag – the lowest level since January 2018.

Barring a substantial additional slump in soybean prices due to a potential U.S.- China truce, the exchange rate is likely to be a key determinant in how profitable Brazilian producers will be next season. In 2018/19, producers benefited from an ideal fluctuation in the exchange rate, with a strong real to purchase inputs (R$3.2/USD in June-August 2017) and a weak real to sell product (R$4/USD by August 2018). The situation may well be reversed this season, with inputs purchased at the time when the Real weakened to around R$4/USD in Q3 2018, and forthcoming 2019 sales that will almost certainly occur with the Real in a stronger position. Overall market consensus is that the exchange rate will average about R$3.8/USD in 2019, with current rate hovering around R$ 3.7/ USD. Looking out to the rest of the year, the exchange rate will be strongly correlated with how the market views the performance of the new administration, which is attempting to complete ambitious structural reforms in first half of 2019.

2017/2018 Export Estimate:

Total soybean exports in MY 2017/18 (February 2018 to January 2019) are revised upward to 84 mmt, on the back of very robust demand from China.



Source: GATS

Brazilian customs data indicates that soybean exports topped 5 mmt in November, setting a new record for the month and surpassing the previous record of just over 2 mmt set in the same month last year. Year-to-date, and with another month still left in the MY, Brazilian soybean exports are at almost 84 mmt, far surpassing the original market expectations. Strong export sales are driven by Chinese demand, amid U.S.- China trade tensions. In December 2018, some 97 percent of Brazil's total soybean exports were destined for China, surpassing the record share of 96 percent of total soybean exports destined for China in November, 94 percent in October, and 91 percent September of 2018. For comparison, just 67 percent of Brazil's exported soybeans were destined for China, on average, in that same timeframe during the last four years.

SOYBEAN CONSUMPTION

2018/2019 Outlook:

Post reduced the crush forecast to 43 mmt for 2018/19 MY. The forecast assumes a slight increase in total soybeans processed from 2017/18 MY based on the expected uptick in economic activity, and, thus, in domestic demand for soybean products. However, lower overall production volume for the season is expected to constrain both the export and domestic sales.

Post forecasts soymeal exports to decrease to 16.0 mmt in 2018/19, from 16.75 mmt in 2017/18, on the expectation that other regional producers will recover from poor harvests this year, and their soymeal product will return to the international market. With increased regional competition, product prices may see some downward pressure, squeezing already tight margins for Brazilian processors. Meanwhile, domestic demand for soymeal product is expected to rise just slightly to 18.2 mmt, up from 17.8 mmt as domestic economic growth drives a slight increase in demand for meat and poultry products.

The Post forecast for soy oil exports remains even with last year at 1.4 mmt, with domestic consumption forecast at 7.1 mmt, up 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 and deal with lager legislative initiatives.

2017/2018 Estimate:

Post reduced its crush estimate to 42 mmt for 2017/18 MY. The crush estimate is just slightly below the 2016/17 volume processed of 42.3 mmt.

In the first 11 months of MY 2017/18, Brazil recorded a strong pace of soybean product exports. During this timeframe, soybean meal exports were up on average 31 percent monthly, while export sales of soy oil were up by an average of more than 25 percent month-on-month. As a result, Post estimates that soybean meal exports will reach 16.75 mmt this season, an increase of more than 20 percent on last season when Brazil exported just under 14 mmt of soybean meal. Post maintains its estimate that exports of soybean oil will reach 1.4 mmt by the end of the season, up from 1.3 mmt in exports recorded in 2016/17 MY.

As has been the case in recent years, the domestic consumption of soybean meal will continue to make up slightly more than a half of total production. For 2017/18, Post revised domestic soymeal consumption downward to 17.8 mmt, which is in line with the USDA estimate. The revision takes into account the still sluggish economy, which has struggled to gain a stronger footing after a deep recession in 2017. Post estimates domestic soybean oil consumption at almost 7 mmt, also in line with USDA estimate.

STOCKS

Brazilian soybean stocks are at an all-time low, given the very strong uptick in demand from China during the 2017/18 MY. As noted in the previous Post update, Brazilian contacts are not concerned regarding the almost non-existent stock-to-use ratio. In fact, as outlined in the above report, extremely low stocks may provide some support for domestic soybean prices cushioning the impact from the strengthening Real, rising transportation costs, and softening demand in China.

Oilseed, Soybean (Local)	2016/2017		2017/2018		2018/2019	
Market Begin Year	Feb 2017		Feb 2018		Feb 2019	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	34000	34000	35150	35150	36200	36100
Area Harvested	33900	33900	35150	35150	36100	36100
Beginning Stocks	8663	8663	9761	9311	1152	1500
Production	114600	114600	120800	120300	117000	115500
MY Imports	267	267	185	181	250	300
MY Imp. from U.S.	0	0	0	0	0	0
MY Imp. from EU	0	0	0	0	0	0
Total Supply	123530	123530	130746	129792	118402	117300
MY Exports	68807	68807	84199	84000	70000	70000
MY Exp. to EU	5225	5225	5100	6000	3400	3400
Crush	42312	42312	43425	42000	42700	43000
Food Use Dom. Cons.	0	0	0	0	0	0
Feed Waste Dom. Cons.	2650	3100	1970	2292	2352	3000
Total Dom. Cons.	44962	45412	45395	44292	45052	46000
Ending Stocks	9761	9311	1152	1500	3350	1300
Total Distribution	123530	123530	130746	129792	118402	117300
CY Imports	254	250	187	175	250	200
CY Imp. from U.S.	0	0	0	0	0	0
CY Exports	68155	68155	83609	83000	71050	75800
CY Exp. to U.S.	0	0	0	0	0	0
Yield	3.3805	3.3805	3.4367	3.4225	3.241	3.1994
(1000 HA) ,(1000 MT) ,(MT/HA)						

Meal, Soybean (Local)	2016/2017		2017/2018		2018/2019	
Market Begin Year	Feb 2017		Feb 2017		Feb 2018	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Crush	42312	42312	43425	42000	42700	43000
Extr. Rate, 999.9999	0.7747	0.7747	0.7749	0.7738	0.7752	0.7744
Beginning Stocks	2891	2891	4430	4430	3303	2392
Production	32780	32780	33650	32500	33100	33300
MY Imports	35	35	20	12	25	20
MY Imp. from U.S.	0	0	0	0	0	0
MY Imp. from EU	0	0	0	0	0	0
Total Supply	35706	35706	38100	36942	36428	35712
MY Exports	13915	13915	16997	16750	15100	16000
MY Exp. to EU	7365	7365	8000	10700	7500	7500
Industrial Dom. Cons.	0	0	0	0	0	0
Food Use Dom. Cons.	0	0	0	0	0	0
Feed Waste Dom. Cons.	17361	17361	17800	17800	18190	18200
Total Dom. Cons.	17361	17361	17800	17800	18190	18200
Ending Stocks	4430	4430	3303	2392	3138	1512
Total Distribution	35706	35706	38100	36942	36428	35712
(1000 MT) ,(PERCENT)						

Oil, Soybean (Local)	2016/2017		2017/2018		2018/2019	
Market Begin Year	Feb 2016		Feb 2017		Feb 2018	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Crush	42312	42312	43425	42000	42700	43000
Extr. Rate, 999.9999	0.1919	0.1919	0.1917	0.1964	0.1919	0.1947
Beginning Stocks	471	471	442	442	402	332
Production	8120	8120	8325	8250	8195	8370
MY Imports	51	51	35	35	50	60
MY Imp. from U.S.	0	0	0	0	0	0
MY Imp. from EU	0	0	0	0	0	0
Total Supply	8642	8642	8802	8727	8647	8762
MY Exports	1323	1323	1410	1400	1250	1400
MY Exp. to EU	0	0	0	0	0	0
Industrial Dom. Cons.	3190	3190	3290	3300	3365	3400
Food Use Dom. Cons.	3687	3687	3700	3695	3726	3700

Feed Waste Dom. Cons.	0	0	0	0	0	0
Total Dom. Cons.	6877	6877	6990	6995	7091	7100
Ending Stocks	442	442	402	332	306	262
Total Distribution	8642	8642	8802	8727	8647	8762
(1000 MT) ,(PERCENT)						