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Brazil

Oilseeds and Products Update

Soybean Harvest Forecast to Set Another Record, Exports to Rebound in 2019/20

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Report Highlights:

For the 2019/20 harvest, Post forecasts a modest soybean planted area expansion to 37 million hectares, up from 36.2 million hectares in the current season. With a return to average yields, production is forecast at 124 million metric tons (mmt), yet another record for Brazil. Post maintains its soybean export forecast at 75 mmt for 2019/20, on the expectation of subsiding demand from China, which should be negated, to a degree, by higher overall global consumption. For 2018/19, Post revised the production estimate to 116 mmt, as a result of improved weather late in the season.

PRODUCTION

2019/20 Planted Area to Post Meager Gains, but Production Set to Increase

For the 2019/20 marketing year (MY), Post forecasts a slight increase in the planted area to 37 million hectares, a two-and-a-half percent expansion on the current season. It should be noted that more than half of all the cultivated crop area in Brazil is dedicated to soybeans. Producers and traders continue to stress to Post that soybeans are by far the most liquid agricultural commodity in Brazil, and therefore, as a rule of thumb, planted area should continue to increase, even if marginally, with every new season.

The planted area expansion rate is constrained by the fact that Brazilian farmers in key soybean producing areas are close to capacity for land expansion that does not involve the costly, multi-year process of converting degraded pasture land. In addition, planting decisions next year are more likely to be conservative given the expected diminished soybean demand from the world's leading importer – China – where swine production has been ravaged by the on-going outbreak of African Swine Fever (ASF).

Post forecasts that Mato Grosso will remain by far the largest producer of soybeans in Brazil. According to the forecast from the Mato Grosso Institute for Agricultural and Livestock Economics (IMEA), next season planted area is expected to reach 9.72 million hectares (MHa), an increase of less than one percent over area planted in MY 2018/19. IMEA attributed the sluggish area expansion to lower international soybean prices and to demand volatility, on the back of U.S.-China trade tensions. The majority of area expansion is forecast in the northern region of the state, with an increase of over 6 percent or 24.24 MHa, as a result of ongoing efforts to bring degraded pasture land into crop production.

TABLE 1.

Mato Grosso Soybean Harvest 2018/19 Estimate and 2019/20 Forecast

Region	Planted Area (mn ha)			Production (mmt)		
	2018/19	2019/20	% change	2018/19	2019/20	% change
Center-South	737,103	737,155	0.01%	2,405,126	2,444,938	1.66%
Mid-North	3,254,117	3,272,298	0.56%	10,995,502	11,200,683	1.87%
Northeast	1,654,023	1,662,193	0.49%	5,536,872	5,481,240	-1.00%
Northwest	647,488	650,605	0.48%	2,196,647	2,194,138	-0.11%
North	374,242	398,481	6.48%	1,312,151	1,364,763	4.01%
West	1,049,514	1,052,465	0.28%	3,554,858	3,583,010	0.79%
Southeast	1,949,471	1,949,471	0.00%	6,499,646	6,562,457	0.97%
Mato Grosso Total	9,665,958	9,722,668	0.59%	32,500,802	32,831,229	1.02%

Source: IMEA

Going forward, the Post forecast for planted area may be revised if there is a conclusive end to the ongoing U.S.-China trade tensions. Should the U.S.-China talks be concluded, market analysts in Brazil expect that Beijing will decrease its soybean purchases from Latin America (Brazil and Argentina) in favor of sourcing more beans from the United States. In this event, the 2019/20 forecasted planted area

in Brazil may be revised slightly lower. However, in the event that the United States and China cannot find common ground, producers in Brazil may elect to sow somewhat larger area in order to take advantage of China’s search for alternative sources to the U.S. soybeans. Farmers will begin sowing in key states by mid September after the end of the mandatory sanitary period to guard against the spread of fungal diseases.

The 2019/20 soybean production is forecast at 124 million metric tons (mmt), a rebound from the current 2018/19 production projection of 116 mmt. Post forecasts next season’s yield at 3.4 metric tons per hectare (mt/ha), which is near average productivity recorded in the two seasons prior to the current crop.

A Note on Financing: Local press reports that this season there has been an increase in farmers defaulting on loans to banks, as well as to grain companies. Producers in Brazil often rely on loans from traders to purchase seed, fertilizers, fungicides, and herbicides. The loans from traders are secured by agreement that farmers deliver a portion of their crops as a repayment for the loans. Some Post contacts have confirmed this occurrence, noting that some farmers are choosing not to deliver soybeans at the previously negotiated contract price given the spike in both global soybean prices and Brazilian premiums in the wake of renewed U.S.-China tensions. Post contacts have also noted that this situation will likely lead to tighter credit conditions – though perhaps the effect would be most pronounced one season out, rather than in 2019/20 MY for which contract negotiations are already well underway. At this point, Post does not forecast tighter credit rules to have notable impact on input use, and therefore on yields.

Current Crop Estimate Revised Up

The Post estimate for area harvested in 2018/19 is revised to 36.1 mn ha, inline with the USDA estimate, and up from previous estimate of 36 mn ha. The planted area has increased 2.7 percent on the previous season. The production estimate has been raised to 116 mmt, up from 113.6 mmt projected in the previous report. In the current season, severe weather affected producers in the states of Mato Grosso do Sul, Sao Paulo and Parana, leading a reduction in the soybean crop of as much 15 percent season-on-season. The overall revised production takes into account slightly larger area, as well as improved yields across a number of states such as Rio Grande do Sul, where late-maturing soybean varieties fared much better with return to normal weather patterns to close out the current harvest season.

Table 2.

Region/ State	2018/19 Soybean Harvest		
	Area	Yield	Production
Center West	16,103	3.30	53,145

MT	9,700	3.35	32,500
MS	2,850	3.12	8,900
GO	3,480	3.30	11,500
Other (DF)	73	3.35	245
South	11,905	3.18	37,850
PR	5,440	2.99	16,250
RS	5,800	3.31	19,200
Other (SC)	665	3.61	2,400
North East	3,362	3.20	10,756
BA	1,600	3.38	5,400
MA	1,000	2.95	2,950
PI	760	3.16	2,400
Other (AL)	2	2.50	6
South East	2,680	3.10	8,300
MG	1,580	3.23	5,100
SP	1,100	2.91	3,200
North	2,050	2.93	6,000
TO	1,050	2.86	3,000
Other (RR, RO, AC, AM, AP, PA)	1,000	3.00	3,000
BRAZIL	36,100	3.215	116,051

Source: Post Estimate

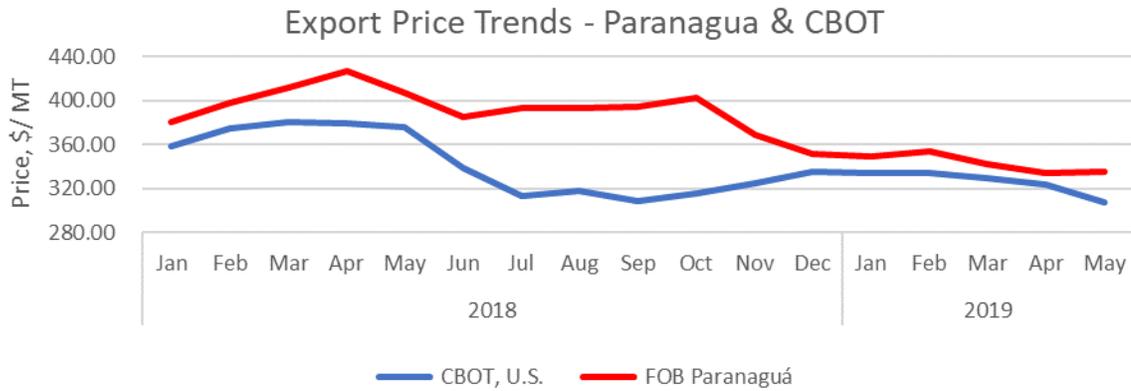
Overall, estimated production of 116 mmt is still about five percent lower than the record 122 mmt of soybean crop harvested during the 2017/18 season.

Price Oscillation Affects Sales

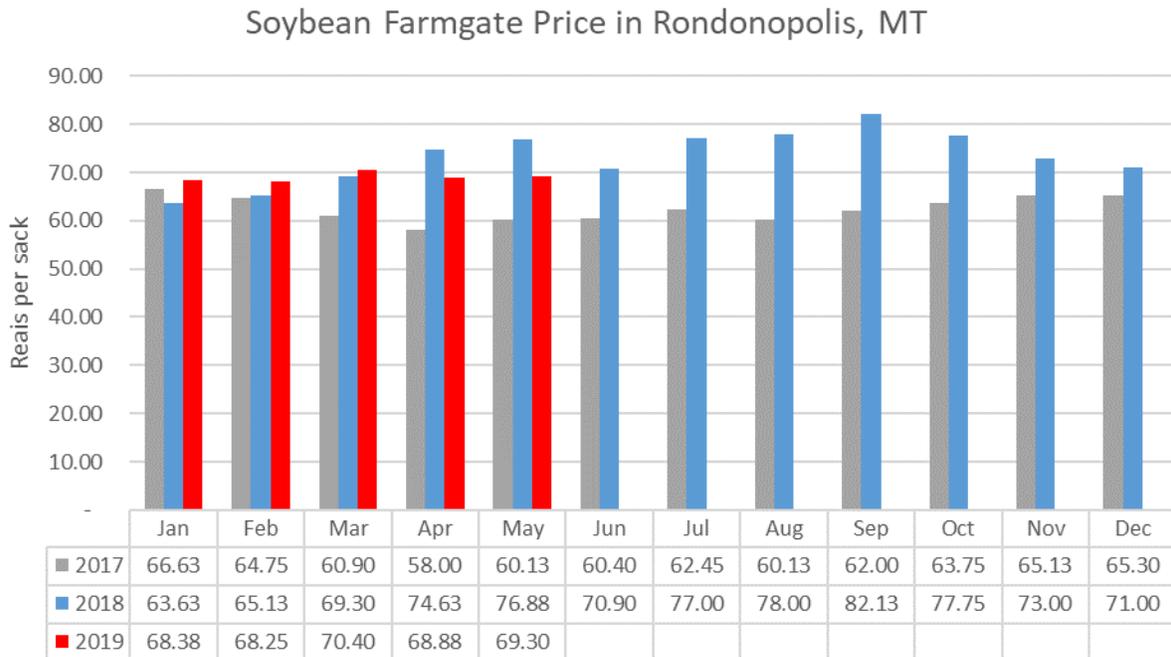
Domestic farmgate and free on board (FOB) export prices have decreased dramatically in the first several months of 2019, as compared to second half of 2018. Domestic soybean prices were weighed down by the Chicago Board of Trade (CBOT) prices, which rose on market expectation that the United States and China would resolve their on-going trade tensions, thereby leading Chinese traders to resume purchases of soybeans from the United States, where silos were burgeoning with excess stocks. In addition, during first quarter of 2019, Brazil's currency – the Real (R\$) – was trading around R\$ 3.7 to the U.S. dollar. Given that Brazilian farmers sell their product in dollars, but account for their bottom line in Reals, the exchange rate further eroded profitability for the farm.

The domestic soybean price situation changed dramatically by the end of May, with a shifting, negative outlook on the U.S.-China trade talks triggered by additional tariffs and increased uncertainty regarding the final deal. Prices jumped further as of the last several weeks on the back of poor spring weather in the United States, which is likely to affect both corn and soybeans planted area as well as this season's yields. In addition, the Real lost momentum, with the exchange rate decreasing to R\$4 to the U.S. dollar

on the back of weaker domestic economic performance and uncertainty surrounding passage of structural reforms.



GRAPH 1.
GRAPH 2.



Source for Graph 1 and 2: ABIOVE

Overall, weaker than initially expected domestic farmgate prices at the start of the current marketing season (February 2019) led to weaker than average sales. According to the Secretariat of Foreign Trade (Secex), for the month of May 2019, Brazilian farmers had sold 10.84 mmt of soybeans, 12 percent below the 12.35 mmt of soybeans sold at this time in 2018, and one percent less than 10.96 mmt sold in 2017 during the same timeframe. Post contacts indicate that farmers are not particularly keen to amp their sales right now, due to many believing that prices will continue to climb later on in the year, following the same trend line as in 2018.

CONSUMPTION / PROCESSING

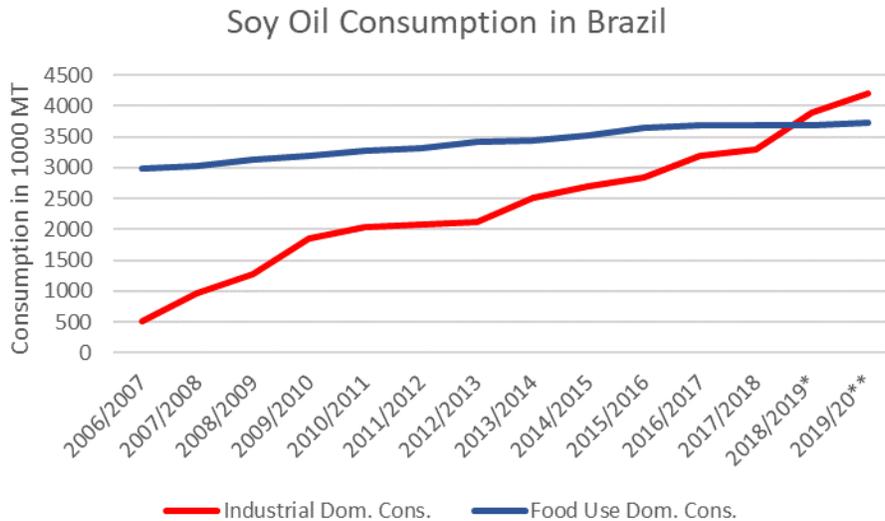
2019/20 Forecast: Soybean processing will continue to play second fiddle to raw exports

Post maintains the 2019/20 forecast of 44 mmt of soybeans destined for processing next season. This represents about a two percent increase on the estimated crush for the current season, and is inline with the average annual trend expansion rate. Demand for soybean meal and oil is mostly derived from the local market.

Post maintains 2019/20 soybean meal production at 34.1 mmt, with more than half consumed domestically. Soybean meal is a key feed ingredient for the domestic livestock and poultry sectors, which typically grows several percentage points annually. Post forecasts that domestic soybean meal consumption will increase next season to 19 mmt, up from 18.2 mmt this season. The four-and-half percent increase is slightly above trend for the last five- and ten-years, on average. The Post forecast for meal consumption is based on the expectation that domestic meat producers will continue to ramp up production to secure additional global meat market export share in the wake of the ongoing, widespread incidence of ASF in China. Post forecasts that meal exports will remain stagnant season-on-season at 16.2 mmt.

Post also maintains soy oil production forecast of 8.6 mmt, with close to 90 percent of the product consumed domestically. Domestic consumer consumption of soy oil is forecast to increase only marginally, but industrial use of the oil will continue to rise due to the government's policy requiring a gradual increase in biodiesel blending rates. The implementation of the newest blending mandate – from B10 to B11 – has been postponed from June 2019 to sometime later this fall. The delay is due to technical testing requirements that must still be concluded. However, once the higher blending mandate is finally authorized later this year, Post contacts expect no further testing-related delays until the mandate reaches the B15 level. The next step increase to B12 is scheduled for March 2020, though Post contacts indicate that it may be delayed until sometime in June-July 2020, pending the timeframe when the B11 mandate goes into effect.

GRAPH 3.



Source: USDA; 2018/19* Post estimate; 2019/20** Post Forecast

2018/19 Outlook: Domestic Crush Estimate Tracks Contraction in Production

Post maintains the 2018/19 soybean processing estimate at 43.1 mmt, which is a slight contraction on last season's crush of 43.4 mmt. The estimated season-on-season decline is based on contraction in available raw supplies in the current MY.

Post estimates Brazil's soybean meal production at 33.4 mmt for the current 2018/19 season, with about 18.2 mmt consumed domestically for feed, and 16.1 mmt of soybean meal exported. The domestic soybean meal consumption estimate has increased from last season's feed consumption of 17.8 mmt. The increase in domestic meal consumption is estimated based on higher projected demand from the domestic livestock and poultry industries, which are ramping up production to meet the growing meat export demand that has been stoked by the sharp contraction of global pork supplies due to ASF in China.

The soybean meal export estimate is down about five percent on the previous marketing year to 0.9 mmt, from 1.4 mmt. Post contacts note that Brazil has been seeking to increase soybean meal exports to China. Nevertheless, negotiations have not progressed very far. In the unlikely scenario that there were to be a breakthrough in talks with Beijing, soybean meal exports would be revised upwards.

Post estimates Brazil's soybean oil production at 8.4 mmt, with the majority of the product consumed domestically. Food use for soy oil is estimated to remain stagnant due to the very sluggish domestic economy. However, industrial oil use is projected to increase to accommodate the higher biodiesel mandate. Post contacts indicate that the timeline for the implementation of the new B11 biodiesel has shifted to the fall of 2019, from the legislated date of June 2019. There is disagreement in the market as to whether the B11 mandate will go into effect by September, or sometime in November of this year. However, despite the protracted timeline, no one expects the government to abandon planned increases. As a result of higher domestic consumption of oil, oil exports should decrease season-on-season to 0.9 mmt in the current season, down from 1.4 mmt in 2017/18.

TRADE

2019/20 Exports Forecast to Rebound

Post maintains its forecast of 75 mmt of soybean exports in 2019/20. This represents a very strong rebound on the current season expectation of 69 mmt in soybean exports. The forecast takes into the account increase in available supplies due to a return to a normal yield. The Post forecast also assumes the local market expectation of a return to more or less typical soybean sourcing patterns by China, supplemented by higher global demand from other markets.

Excluding the previous marketing year, Brazilian soybeans accounted for about 50-55 percent of total soybean purchases by China. As of early June, Post contacts forecast that China will purchase around 87 mmt in the 2019/20 season. Assuming that, around or slightly more than half of that is expected to come from Brazil, that would account for about 44-48 mmt of Brazilian exports. The remaining soybeans would be exported to other destinations such as the EU, where demand is expected to rise on the account of both contraction in less expensive supplies from the United States, and an overall increase in demand.

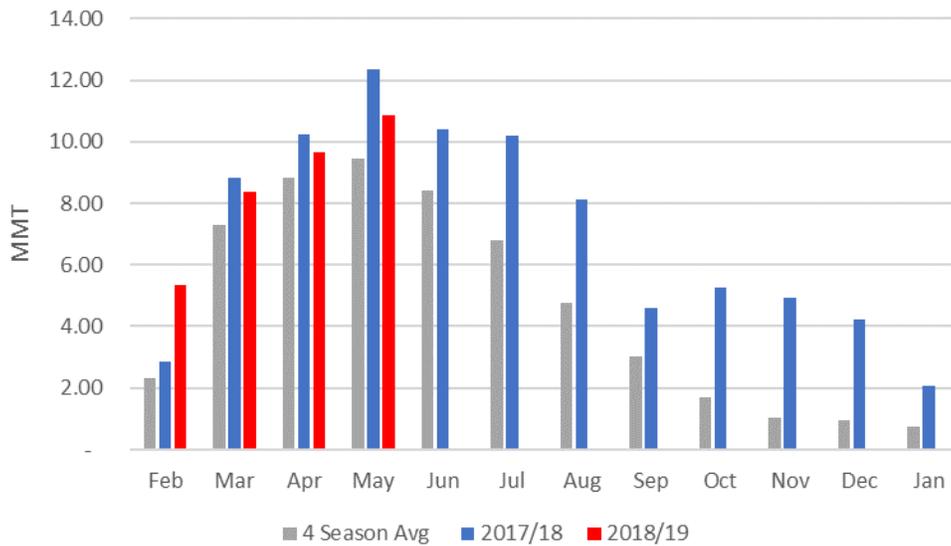
It should be noted that the forecast may change pending the outcome of the trade deal between the United States and China. Post contacts indicate that the Brazilian industry is watching closely the exact terms of the potential U.S.-China trade deal, including if stipulated volumes of certain commodities are to be purchased. In addition, there is a lot of market uncertainty surrounding domestic demand for soybeans and feed in China in the coming year. Post contacts offered various estimates on how much African Swine Fever (ASF) will continue to impact China's soybean sourcing decisions, though one factor that everyone agreed on is that all estimates are just that – and that more precise numbers are difficult to gauge.

2018/19 Exports to Remain Subdued

Post maintains its export estimate for the current 2018/19 MY at 69 mmt, down almost 20 percent on the previous season. It should be noted that 69 mmt in exports would still top all other previous seasons, with the exception of the last marketing years. The export projection is based on lower supplies, due to current season harvest yields being affected by adverse weather, as well as due to almost non-existent carryover stocks from the previous season. The estimate is in line with the export pace evident on the graph below. In the first four months of the current MY, Brazil's monthly exports were higher than the average recorded in the last four seasons (excluding the 2017/18 season), but lower than during this timeframe in the last MY. For the month of June, the market indicates that Brazil may ship more than 10 mmt, which would also be inline with the charted trend.

GRAPH 4.

Brazil's Monthly Soybean Exports



Source: SECEX

It is important to note, however, that the majority of the soybean shipments through June are tied to previously signed deals. Furthermore, according to Post conversations with contacts, the outlook for sales in the second half of the marketing season remains uncertain with both producers and buyers preferring to take a wait-and-see approach to have more clarity on U.S.-China trade negotiations, China's domestic feed demand, and the production outlook in the United States.

There is some room for the Post export estimate to be revised up, pending Chinese demand. However, any increase would be just on the order of a few mmt, given Brazil's supply constraints – both, in terms of production and carry over stocks - this season. It should also be noted that there is potential for the 2019/20 harvest to come online in late December 2019 / early January 2020 allowing for a higher export figure this MY.

TABLE 3.

Oilseed, Soybean (Local)	2017/2018		2018/2019		2019/2020	
Market Begin Year	Feb 2018		Feb 2019		Feb 2020	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	35150	35150	36200	36200	37000	37000
Area Harvested	35150	35150	36100	36100	36900	36900
Beginning Stocks	9761	9761	2352	2407	5000	3955
Production	122000	122000	117000	116000	123000	124000
MY Imports	185	185	150	200	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	131946	131946	119502	118607	128200	128155
MY Exports	84155	84100	69000	69000	77800	75000
MY Exp. to EU	5100	5100	3400	0	3500	0
Crush	43425	43425	42850	43100	43850	44000
Food Use Dom. Cons.	0	0	0	0	0	0
Feed Waste Dom. Cons.	2014	2014	2652	2552	2750	2600
Total Dom. Cons.	45439	45439	45502	45652	46600	46600
Ending Stocks	2352	2407	5000	3955	3800	6555
Total Distribution	131946	131946	119502	118607	128200	128155
CY Imports	187	187	150	150	200	200
CY Imp. from U.S.	0	0	0	0	0	0
CY Exports	83609	83609	70200	70200	77600	77600
CY Exp. to U.S.	0	0	0	0	0	0
Yield	3.4708	3.4708	3.241	3.2133	3.3333	3.3604
1000 HA, 1000 MT, MT/HA						

TABLE 4.

Meal, Soybean (Local)	2017/2018		2018/2019		2019/2020	
Market Begin Year	Feb 2018		Feb 2019		Feb 2020	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Crush	43425	43425	42850	43100	43850	44000
Extr. Rate, 999.9999	0.7749	0.7749	0.7746	0.7749	0.7754	0.775
Beginning Stocks	4430	4430	3324	3321	3149	2446
Production	33650	33650	33190	33400	34000	34100
MY Imports	20	13	25	25	26	0
MY Imp. from U.S.	0	0	0	0	0	0
MY Imp. from EU	0	0	0	0	0	0
Total Supply	38100	38093	36539	36746	37175	36546
MY Exports	16976	16972	15200	16100	15200	16200
MY Exp. to EU	8000	8000	7500	7500	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.	17800	17800	18190	18200	18975	19000
Total Dom. Cons.	17800	17800	18190	18200	18975	19000
Ending Stocks	3324	3321	3149	2446	3000	1346
Total Distribution	38100	38093	36539	36746	37175	36546
CY Imports	20	20	25	0	25	0
CY Imp. from U.S.	0	0	0	0	0	0
CY Exports	16863	16863	15275	0	15200	16000
CY Exp. to U.S.	0	0	0	0	0	0
SME	17800	17800	18190	18200	18975	19000
1000 MT						

TABLE 5.

Oil, Soybean (Local)	2017/2018		2018/2019		2019/2020	
Market Begin Year	Feb 2018		Feb 2019		Feb 2020	
Brazil	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Crush	43425	43425	42850	43100	43850	44000
Extr. Rate, 999.9999	0.1917	0.1917	0.1918	0.1949	0.1919	0.1955
Beginning Stocks	442	442	408	409	302	349
Production	8325	8325	8220	8400	8415	8600
MY Imports	41	41	50	50	50	70
MY Imp. from U.S.	0	0	0	0	0	0
MY Imp. from EU	0	0	0	0	0	0
Total Supply	8808	8808	8678	8859	8767	9019
MY Exports	1410	1409	1250	910	1250	1000
MY Exp. to EU	0	0	0	0	0	0
Industrial Dom. Cons.	3290	3290	3400	3900	3425	4200
Food Use Dom. Cons.	3700	3700	3726	3700	3775	3725
Feed Waste Dom. Cons.	0	0	0	0	0	0
Total Dom. Cons.	6990	6990	7126	7600	7200	7925
Ending Stocks	408	409	302	349	317	94
Total Distribution	8808	8808	8678	8859	8767	9019
CY Imports	35	35	50	50	50	0
CY Imp. from U.S.	0	0	0	0	0	0
CY Exports	1415	1415	1250	1250	1250	1275
CY Exp. to U.S.	0	0	0	0	0	0
1000 MT						