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Brazil

Grain and Feed

Update for October Lockup

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Approved by:

William W. Westman

U.S. Embassy

Prepared by:

Kimberly L. Svec

Report Highlights:

Post increased the 2001/02 wheat forecast to 3 million tons, lowered the import forecast to 7.2 million tons, and reduced the consumption forecast to 10.1 million tons. Post lowered the 2001/02 corn export forecast to 700,000 tons and increased the import forecast to 800,000 tons. There were no changes to the rice forecast.

Includes PSD changes: Yes
Includes Trade Matrix: No
Unscheduled Report
Brasilia[BR1], BR

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Executive Summary

Post increased the 2001/02 wheat production forecast to 3 million tons, as favorable weather conditions are boosting productivity. The 2001/02 wheat import forecast was lowered 400,000 tons to 7.2 million tons, due to a stronger domestic production forecast and weakening domestic wheat demand resulting from economic difficulties. The cost of imports increases as the Real weakens, while economic difficulties depress wheat consumption. Given the economic situation, post reduced the 2001/02 wheat consumption forecast 200,000 tons to 10.1 million tons.

The 2001/02 forecast for wheat imports from the United States was lowered to 200,000 tons. A strong crop in Argentina, as well as reduced domestic demand there due to economic difficulties, will benefit Argentine wheat exports at the expense of U.S. wheat, which is currently disadvantaged by a smaller crop and higher prices.

Post is maintaining its production forecast of 36 million tons of corn for 2001/02, representing a 10-percent decline in production. The corn export forecast was lowered to 700,000 tons for 2001/02. Roughly 500,000 tons are already committed for export in February 2002, and further exports will be constrained by higher domestic prices due to a shortfall in production. The expected decline in production will also increase the need for imports, particularly in the Northeast. Therefore, post is raising the 2001/02 corn import forecast to 800,000 tons, and increasing ending stocks to 1.44 million tons.

Wheat

Post increased the 2001/02 wheat production forecast to 3 million tons, as favorable weather conditions are boosting productivity. Frosts in late July in Parana were much less damaging than previously expected, and much of the wheat growing regions are reporting strong yields and quality.

Post lowered the 2001/02 wheat import forecast 400,000 tons to 7.2 million tons, due to a stronger domestic production forecast and weakening domestic wheat demand resulting from economic difficulties. Millers continue to buy hand-to-mouth, due to high wheat prices and weakening of the Brazilian Real relative to the U.S. dollar. Importers are reluctant to take longer-term positions, and are closely monitoring the exchange rate, economic problems domestically and in Argentina, and the Brazilian and Argentine wheat crop progress. Despite a much larger domestic crop, Brazil will still need to import roughly 70 percent of consumption needs. The cost of imports increases as the Real weakens, while economic difficulties depress wheat consumption. Given the economic situation, post reduced the 2001/02 wheat consumption forecast 200,000 tons to 10.1 million tons.

Post lowered the 2001/02 forecast for wheat imports from the United States to 200,000 tons. A strong crop in Argentina, as well as reduced domestic demand there due to economic difficulties, will benefit Argentine wheat exports at the expense of U.S. wheat, which is currently disadvantaged by a smaller crop and higher prices. Furthermore, Argentina enjoys advantages such as proximity, lower transportation costs, shorter delivery times, and protection from the 12.5 MERCOSUL common export tariff and 25 percent merchant marine tax.

On August 21, the Brazilian Government released Normative Instruction No. 7 in the Diario Oficial (Federal Register) which established new Technical Rules on Wheat Identification and Quality. As of January 1, 2002, imported wheat with more than 2 percent dockage and foreign material will be classified as substandard and banned from entry. The previous regulations allowed such wheat to be imported and marketed with the classification "substandard" (Fora de Tipo). The new regulations allow the Ministry of Agriculture to authorize the import of substandard wheat under "exceptional circumstances," although the regulations do not elaborate what constitutes such circumstances.

The new regulations were enacted largely due to complaints by ABITRIGO (the Brazilian Wheat Industry Association), wheat importers, and millers about high content of dockage and foreign material in Argentine wheat. Argentina's Secretary of Agriculture has stated that he will fight to delay the implementation of the new legislation until the 2002/03 crop year at the earliest, and may request a MERCOSUL arbitration panel regarding the issue.

Wheat PS&D

PSD Table						
Country	Brazil					
Commodity	Wheat				(1000 HA)(1000 MT)	
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		10/1999		10/2000		10/2001
Area Harvested	1252	1252	1468	1468	1600	1535
Beginning Stocks	775	846	1250	932	610	90
Production	2403	2403	1660	1658	3200	3000
TOTAL Mkt. Yr. Imports	7555	7733	7200	7700	6500	7200
Jul-Jun Imports	7196	7227	7300	7700	6500	7200
Jul-Jun Import U.S.	79	150	0	100	0	200
TOTAL SUPPLY	10733	10982	10110	10290	10310	10290
TOTAL Mkt. Yr. Exports	4	0	0	0	0	0
Jul-Jun Exports	4	0	0	0	0	0
Feed Dom. Consumption	200	200	200	500	200	200
TOTAL Dom. Consumption	9479	10050	9500	10200	9600	10100
Ending Stocks	1250	932	610	90	710	190
TOTAL DISTRIBUTION	10733	10982	10110	10290	10310	10290

Corn

The effects of the recent tragic events in the United States on Brazilian crop production will be mostly attributed to the further devaluation of the Brazilian Real against the dollar. The Real has devalued significantly since the beginning of the year, and the recent events have worsened the situation, as it dims investment hopes in the region and increases the possibility of a U.S. and worldwide recession.

The weakening of the Real against the U.S. dollar has mixed effects on the agricultural sector. The cost of imported inputs, such as fertilizer and fuel, rise, thereby increasing the cost of production. However, export commodities, such as soybeans, become more competitive as their prices are based in dollars.

Therefore, soybean production is likely to increase at the expense of corn and cotton due to the recent events because soybeans have a lower cost of production than corn, higher yield potential, and prices are quoted in dollars. Furthermore, weak corn prices and low liquidity were already encouraging producers to shift production into soybean for 2001/02. Studies indicate a considerable drop in corn production next year, thereby prompting the Government to announce a minimum price program to provide incentives for corn production in order to ensure enough sufficient domestic production to meet demand. However, the measures were

inadequate and too late to deter a significant drop in production. Many farmers have already purchased seeds and inputs, and the south has already begun planting.

Post is maintaining its forecast of 36 million tons of corn for 2001/02, representing a 10-percent decline in production. However, post is lowering the corn export forecast to 700,000 tons for 2001/02. Roughly 500,000 tons are already committed for export in February 2002, and further exports will be constrained by higher domestic prices due to the shortfall in production. The expected decline in production will also increase the need for imports, particularly in the Northeast, where it is historically cheaper to import corn from Argentina due to high internal freight costs. Given a depreciating currency, rising fuel costs, and higher corn prices, the Northeast will return to its traditional role as a corn importer. Therefore, post is raising the 2001/02 corn import forecast to 800,000 tons, and increasing ending stocks to 1.44 million tons.

Corn PS&D

PSD Table						
Country	Brazil					
Commodity	Corn					
					(1000 HA)(1000 MT)	
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		04/2000		04/2001		04/2002
Area Harvested	12490	12490	14000	13570	12800	12213
Beginning Stocks	1000	1416	600	677	3300	1841
Production	31641	31641	41000	40000	36000	36000
TOTAL Mkt. Yr. Imports	1500	2100	300	400	500	800
Oct-Sep Imports	1789	2000	650	400	500	800
Oct-Sep Import U.S.	43	79	20	50	0	0
TOTAL SUPPLY	34141	35157	41900	41077	39800	38641
TOTAL Mkt. Yr. Exports	497	0	3550	3000	1000	700
Oct-Sep Exports	50	0	3700	3000	1300	700
Feed Dom. Consumption	27853	29300	31050	32000	33000	32500
TOTAL Dom. Consumption	33044	34480	35050	36236	37000	36500
Ending Stocks	600	677	3300	1841	1800	1441
TOTAL DISTRIBUTION	34141	35157	41900	41077	39800	38641

Rice

There are no changes to the rice PS&D.

Rice PS&D

PSD Table						
Country	Brazil					
Commodity	Rice, Milled			(1000 HA)(1000 MT)		
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		04/2000		04/2001		04/2002
Area Harvested	3678	3678	3250	3250	3300	3300
Beginning Stocks	1205	1285	1616	1641	1173	1067
Milled Production	7768	7768	7050	7050	7200	7200
Rough Production	11424	11424	10368	10368	10588	10588
MILLING RATE (.9999)	6800	6800	6800	6800	6800	6800
TOTAL Imports	621	602	490	490	525	500
Jan-Dec Imports	612	700	500	500	500	500
Jan-Dec Import U.S.	2	2	0	2	0	0
TOTAL SUPPLY	9594	9655	9156	9181	8898	8767
TOTAL Exports	22	58	25	156	25	100
Jan-Dec Exports	26	50	25	0	25	100
TOTAL Dom. Consumption	7956	7956	7958	7958	8000	7960
Ending Stocks	1616	1641	1173	1067	873	707
TOTAL DISTRIBUTION	9594	9655	9156	9181	8898	8767