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Brazil

Grain and Feed

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Report Highlights:

Post raised the 2003 wheat production forecast to 4.1 million tons and lowered 2003/04 imports to 6.1 million tons. The import forecast was raised for 2002/03 to 6.8 million tons. Post raised 2003 corn production to 43.5 million tons and increased 2002/03 exports to 5.0 million tons. Due primarily to low prices, the production forecast for 2004 was lowered to 38.0 million tons. Forecast 2004 rice production was increased to 11.0 million tons. Post raised the 2002/03 rice import forecast to 1.2 million tons and lowered the 2003/04 forecast to 500,000 tons.

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

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Wheat

Production

Post raised* the 2003 wheat production forecast to 4.1 million tons due to an expected increase in harvested area and favorable growing conditions to this point. However, post remains cautious and below CONAB's forecast of 4.5 million tons because of the possibility of frosts in September thereby reducing yields. Furthermore, rains often hinder the harvest in the three southernmost states reducing the area harvested and quality.

* References to Post lowering or raising forecasts refer to previous Post forecasts rather than USDA official forecasts found in the commodity tables.

Trade

Post raised 2002/03 marketing year (Oct/Sept) imports to 6.8 million tons based on buying pace over the past few months. Brazilian import data from SECEX (the Ministry of Foreign Trade) shows that final trade year (July/June) imports totaled 6.8 million tons. However, Brazilian imports, as reported by global wheat exporting countries and used for official USDA estimates, are forecast slightly lower by Post at 6.7 million tons. The discrepancy in figures is mostly due to differences in the amount Brazil reports as having been imported from Argentina versus export data cited in what Argentine customs reports.

From the total 6.8 million tons reported as imported by SECEX, Argentina supplied 5.2 million tons, followed by the U.S. with over 650,000 tons, Canada with 110,000 tons, and the non-traditional suppliers of Poland, Ukraine, and Kazakhstan providing a combined 550,000 tons. Imports from the FSU and Poland were made possible by the Ministry of Agriculture's relaxation of phytosanitary requirements at the request of millers. These countries enjoyed near-perfect growing conditions and bumper harvests. However, some millers reported dissatisfaction with the quality of this low-priced wheat. Therefore, continued imports, with the exception of some Kazak wheat, are highly unlikely as these countries face very tight supply situations and rising prices.

The Post 2002/03 wheat import estimate includes 310,399 tons of pre-mix flour. In 2002, at the height of the Argentine economic crisis the government decided to tax wheat flour exports at a rate of 20 percent, while pre-mixes were subject to just a 5 percent tax. As a result, Argentine flour exporters simply added salt to the flour to obtain a 0.5 percent salt mixture, though importers suggest it is closer to 0.3 percent. Since that time, Brazilian imports of pre-mix flour have soared from just 18,000 tons grain equivalent (GE) in 2001/02 (July/June) to 310,000 tons GE in 2002/03. Meanwhile imports of traditional flour have dropped from 239,561 tons GE in 2001/02 (July/June) to just 35,399 tons GE in 2002/03. Therefore, Post recommends including the HS code 190120 entitled "Mixes and Doughs for the Preparation of Bread, Pastry, Cakes, Biscuits and Other Bakers," when calculating total Brazilian wheat, flour, and product imports.

Trade year 2002/03 imports from the U.S. totaled 656,000 tons, more than three times last year's amount, making Brazil the third largest buyer of U.S. wheat in the Western Hemisphere after Mexico and Colombia. Much of the success of U.S. wheat was attributable to its competitive price versus traditional suppliers Argentina and Canada. Additionally, millers are expressing dissatisfaction with the quality and dockage levels of Argentine wheat which contains a growing percentage of European "Baguette" varieties.

Marketing and trade year 2003/04 import forecasts were lowered based on larger expected domestic production. However, post raised the 2003/04 U.S. import forecast to 550,000 tons as purchases have continued over the last few months and imports by the Northeast are expected later in the year. Furthermore, competition from non-traditional suppliers (FSU and E. Europe) is expected to fall. Nevertheless, imports of U.S. wheat should fall year-to-year in light of Brazil's large crop. Argentina and Canada are also expected to have larger crops than last year and therefore be even more aggressive in the market.

Consumption

Consumption of feed wheat in 2002/03 is forecast up 250,000 tons year-to-year due to an abundance of low-quality supplies resulting from rain in Southern Brazil during harvest. However, overall wheat consumption in 2002/03 is estimated down from last year due to lower bread consumption because of soaring prices. Devaluation of the local currency greatly increased the price of imported wheat which was passed on to consumers. However, consumption is expected to rebound in 2003/04 with a larger Brazilian harvest and lower expected prices for Argentine wheat. Argentine prices will be pressured by the large harvest as well as difficulty selling wheat into North Africa and Iran because of increased production in those regions.

Wheat PS&D

| PSD Table | | | | | | |
|------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Country | Brazil | | | | | |
| Commodity | Wheat | | | | | |
| | 2001 | Revised | 2002 | Estimate | 2003 | Forecast |
| | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] |
| Market Year Begin | | 10/2001 | | 10/2002 | | 10/2003 |
| Area Harvested | 1725 | 1710 | 2043 | 2043 | 2300 | 2300 |
| Beginning Stocks | 650 | 700 | 900 | 796 | 580 | 550 |
| Production | 3250 | 3194 | 2935 | 2925 | 4300 | 4100 |
| TOTAL Mkt. Yr. Imports | 7007 | 7007 | 6500 | 6800 | 6000 | 6100 |
| Jul-Jun Imports | 7202 | 7200 | 6200 | 6700 | 6000 | 6200 |
| Jul-Jun Import U.S. | 199 | 199 | 0 | 656 | 0 | 550 |
| TOTAL SUPPLY | 10907 | 10901 | 10335 | 10521 | 10880 | 10750 |
| TOTAL Mkt. Yr. Exports | 5 | 5 | 5 | 6 | 5 | 0 |
| Jul-Jun Exports | 4 | 4 | 5 | 6 | 5 | 0 |
| Feed Dom. Consumption | 400 | 200 | 300 | 450 | 350 | 250 |
| TOTAL Dom. Consumption | 10002 | 10100 | 9750 | 9865 | 9950 | 10100 |
| Ending Stocks | 900 | 796 | 580 | 550 | 925 | 650 |
| TOTAL DISTRIBUTION | 10907 | 10901 | 10335 | 10421 | 10880 | 10750 |

Corn

Production

Corn production in 2003 is forecast at 43.5 million tons from an area of 12.6 million hectares, largely due to a much larger second crop (safrinha). The production forecast of CONAB is 42.6 million tons, however, post believes their safrinha crop estimate is low given early yield reports in the South. Area and production in 2004 are forecast to fall with production at 38.0 million tons as producers react to very low prices by opting for soybeans in the summer crop since the price for soybeans tends to be more stable and is quoted in dollars. Additionally, low corn prices will likely lead many to opt for wheat as a winter crop. Post revised 2001/02 area to reflect final IBGE estimates.

Consumption

Food corn consumption in 2002/03 and 2003/04 is expected to get a minor boost from the government's "Zero Hunger" program under which it is expected to procure more than 500,000 tons before the end of the year. The economy is expected to improve in 2003/04 compared to last year when consumer real income dropped by more than 15 percent. Therefore, feed consumption is expected up in 2003/04 due to poultry demand rebounding. Corn stocks will be lower as result of the increased demand for corn as well as the significant year-to-year drop in production.

Trade

Post raised its 2002/03 marketing year (Beginning March 2003) export forecast to 5.0 million tons based primarily on a very large exportable supply resulting from an expected bumper safrinha crop. Currently there is a lack of available storage, particularly in the Center-West region which is due, in part, to the large corn harvest as well as slower than normal marketing of the soy crop. This, combined with competitive prices, will encourage exports over the next several months. In addition, demand for Brazilian corn from European feed compounders is expected to be strong with a much smaller EU corn crop and very tight global supplies of feed wheat. Sales of the safrinha crop to the EU are likely to get a short-term boost as strengthening U.S. prices lead to a lower EU import duty on Brazilian corn.

Brazil's corn exports could be somewhat mitigated by intensified competition from the United States, with its forecast large harvest, as well as continued competition from China. Additionally, many producers in southern Brazil will likely honor contracts to supply poultry producers thus somewhat limiting exportable supply. Post 2003/04 trade year (Oct/Sep) exports are forecast at 4.5 million tons with a heavy shipment pace expected in the first quarter of the year because of high stock levels and competitive prices.

Corn PS&D

| PSD Table | | | | | | |
|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| Country | Brazil | | | | | |
| Commodity | Corn | | | | (1000 HA)(1000 MT) | |
| | 2001 | Revised | 2002 | Estimate | 2003 | Forecast |
| | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] |
| Market Year Begin | | 03/2002 | | 03/2003 | | 03/2004 |
| Area Harvested | 11827 | 11791 | 12700 | 12600 | 12100 | 11900 |
| Beginning Stocks | 1648 | 4218 | 1020 | 2260 | 4320 | 4810 |
| Production | 35501 | 35501 | 45000 | 43500 | 37500 | 38000 |
| TOTAL Mkt. Yr. Imports | 425 | 396 | 300 | 250 | 300 | 250 |
| Oct-Sep Imports | 297 | 298 | 400 | 350 | 300 | 250 |
| Oct-Sep Import U.S. | 32 | 0 | 0 | 0 | 0 | 0 |
| TOTAL SUPPLY | 37574 | 40115 | 46320 | 46010 | 42120 | 43060 |
| TOTAL Mkt. Yr. Exports | 2054 | 2055 | 5500 | 5000 | 3000 | 3000 |
| Oct-Sep Exports | 3857 | 3858 | 4000 | 3500 | 5000 | 4500 |
| Feed Dom. Consumption | 30500 | 32500 | 32500 | 32500 | 33000 | 34300 |
| TOTAL Dom. Consumption | 34500 | 35800 | 36500 | 36200 | 37000 | 38200 |
| Ending Stocks | 1020 | 2260 | 4320 | 4810 | 2120 | 1860 |
| TOTAL DISTRIBUTION | 37574 | 40115 | 46320 | 46010 | 42120 | 43060 |

Rice

Production

Post revised 2001/02 area and production slightly to reflect final IBGE figures. Post raised 2003/04 production minimally to 11.029 million tons. Strong rice prices at planting (September through November) are likely to lure more producers to rice this year. However rice and soybeans will compete for planted area in the south and currently soybean prices are also attractive. In addition, producers are likely to feel more comfortable planting soybeans because of its relatively high liquidity compared to rice and corn.

Trade

Post raised 2002/03 marketing and trade year imports to 1.2 million tons and 1.1 million tons respectively. This is due to high domestic prices combined with the lowering of the Common External Tariff (TEC), see policy section below. Approximately 200,000 tons of this is forecast to come from the United States as competing Mercosul countries are faced with tight supplies. As a result of larger forecast production in 2004, marketing and trade year imports were reduced to 500,000 tons and 600,000 tons respectively.

Policy

Tight supplies in Brazil and throughout Mercosul along with rising prices led the Minister of Agriculture to announce in early August a reduction in the Common External Tariff (TEC) for rice to 4 percent, down from the previous 11.5 percent on paddy rice and 13.5 percent on milled. The tariff is expected to take effect the first of October and expire the last day of December 2003. The reduction is largely due to pressure from importers combined with the government's concern about the impact of high rice prices on inflation. Rice accounts for 12 percent of the "Cesta Basica" used in measuring inflation. However, at the request of Mercosul members, the quantity is limited to 500,000 tons of which paddy accounts for 400,000 tons and milled rice 100,000 tons.

Producers, particularly those in Rio Grande do Sul (RS), are unhappy with the measure and argue that tariff reductions are a disincentive to production. They insist that instead of reducing rates, they should be increased to the pre-December 2002 levels of 18 percent for rough and 21 percent for milled or even to the maximum of 35 percent. However, with the tariff rates set to be reduced in October, producers in RS and Uruguay are now focusing their efforts on pressing the government for the higher rates to be implemented at expiration of the reduced tariff on Jan 1, 2004. At that time, the government will be forced to set new rates at a time when stocks are expected to be tight and consumer rice prices high.

Rice PS&D

| | | | | | | |
|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| PSD Table | | | | | | |
| Country | Brazil | | | | | |
| Commodity | Rice, Milled | | | | | (1000 HA)(1000 MT) |
| | 2001 | Revised | 2002 | Estimate | 2003 | Forecast |
| | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] |
| Market Year Begin | | 04/2002 | | 04/2003 | | 04/2004 |
| Area Harvested | 3153 | 3148 | 3170 | 3164 | 3200 | 3350 |
| Beginning Stocks | 1171 | 1110 | 816 | 522 | 1041 | 711 |
| Milled Production | 7120 | 7121 | 7250 | 7219 | 7300 | 7500 |
| Rough Production | 10471 | 10472 | 10662 | 10616 | 10735 | 11029 |
| MILLING RATE (.9999) | 6800 | 6800 | 6800 | 6800 | 6800 | 6800 |
| TOTAL Imports | 625 | 625 | 1100 | 1200 | 650 | 500 |
| Jan-Dec Imports | 548 | 548 | 1000 | 1100 | 850 | 600 |
| Jan-Dec Import U.S. | 40 | 0 | 0 | 200 | 0 | 250 |
| TOTAL SUPPLY | 8916 | 8856 | 9166 | 8941 | 8991 | 8711 |
| TOTAL Exports | 25 | 34 | 25 | 30 | 0 | 50 |
| Jan-Dec Exports | 27 | 34 | 25 | 30 | 0 | 50 |
| TOTAL Dom. Consumption | 8075 | 8300 | 8100 | 8200 | 8125 | 8100 |
| Ending Stocks | 816 | 522 | 1041 | 711 | 866 | 561 |
| TOTAL DISTRIBUTION | 8916 | 8856 | 9166 | 8941 | 8991 | 8711 |