



USDA Foreign Agricultural Service

# GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - public distribution

**Date:** 7/1/2005

**GAIN Report Number:** BR5617

## Brazil

### Grain and Feed

### Corn Update

### 2005

**Approved by:**

William Westman, Agricultural Counselor  
U.S. Embassy

**Prepared by:**

Oliver Flake, Agricultural Attaché

---

**Report Highlights:**

Post forecasts 2004/05 production at 36.5 million tons, which is 2 million tons less than the previous Post forecast. The production forecast for 2005/06 is reduced slightly to 43.0 million tons. Restrictions on imports of GMO corn are forecast to lead to only 600,000 tons of imports for the 2004/05 trade year. Trade year exports are also reduced to just 1.0 million tons as supplies are tight and prices high.

---

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

## PS&amp;D

<b>Brazil</b>							
<b>Corn</b>							
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		03/2004		03/2005		03/2006	MM/YYYY
Area Harvested	12440	12800	11700	11750	13000	12900	(1000 HA)
Beginning Stocks	4798	5440	4108	5230	1308	790	(1000 MT)
Production	42000	42000	35500	36500	44000	43000	(1000 MT)
TOTAL Mkt. Yr. Imports	350	300	1500	800	600	400	(1000 MT)
Oct-Sep Imports	677	625	1000	600	800	500	(1000 MT)
Oct-Sep Import U.S.	0	0	0	0	0	0	(1000 MT)
TOTAL SUPPLY	47148	47740	41108	42530	45908	44190	(1000 MT)
TOTAL Mkt. Yr. Exports	4440	4400	700	800	1600	1700	(1000 MT)
Oct-Sep Exports	5818	5818	1700	1500	1000	1500	(1000 MT)
Feed Dom. Consumption	33000	31400	33500	34000	36000	35000	(1000 MT)
TOTAL Dom. Consumption	38600	38110	39100	40940	41800	41500	(1000 MT)
Ending Stocks	4108	5230	1308	790	2508	990	(1000 MT)
TOTAL DISTRIBUTION	47148	47740	41108	42530	45908	44190	(1000 MT)

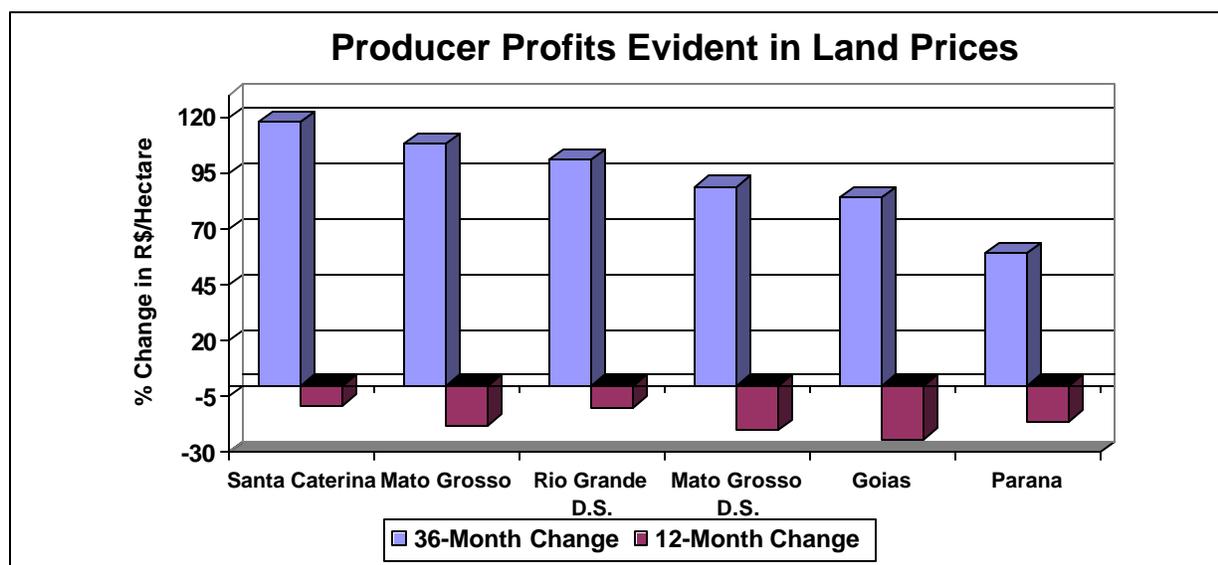
## Production

Production for 2004/05 is forecast at 36.5 million tons with the winter crop forecast at 9 million tons, 2.0 tons lower than the previous Post forecast. Planted area was much lower than expected due to poor producer prices and low soil moisture at planting. However, weather during development has been mostly conducive as much of the crop received beneficial rains in May and June allowing for a partial recovery from early drought damage. Post estimates summer corn production at 27.5 million tons, which is down 2 million tons from the Post forecast in March. The fall in production was due to a severe drought in southern Brazil, which especially devastated the crop in Rio Grande do Sul (RGDS).

<b>Post Forecasts for 04/05 &amp; 05/06 Corn Production</b>		
	2004/05	2005/06
Summer Crop Area	8.90	9.50
Summer Crop Yield	3.09	3.42
Summer Production	27.5	32.50
Safrinha Area	2.85	3.40
Safrinha Yield	3.16	3.10
Safrinha Production	9.00	10.50
<b>Total Area</b>	<b>11.75</b>	<b>12.9</b>
<b>Yield</b>	<b>3.11</b>	<b>3.33</b>
<b>Total Production</b>	<b>36.50</b>	<b>43.0</b>

Post forecasts total 2005/06 production at 43.0 million tons on 12.9 million hectares. The slight reduction in area and yield forecast from the previous Post forecast is due in part to increasing interest rates that will impact planting decisions. The government subsidizes credit at 8.75 percent but this benefits primarily smaller producers, while large producers must obtain the majority of production financing on the market. High interest rates, poor yields in the south for the 2004/05 crop, and continued high input costs are expected to restrain the recovery in corn area.

While the 2005/06 forecast is 1.0 million tons less than the previous forecast, it is still 6.5 million tons more than the drought-devastated crop of 2004/05. Both the corn and soybean crops were devastated in the south and many producers are reported to be in a precarious financial situation since the 2003/04 crops were also hit hard by a drought. Evidence of the difficult situation of producers can be seen in land prices, which have fallen significantly over the past 12 months as producer's profits have vanished.



The price of corn, unlike competing summer crops, is being supported by the fall in the safrinha crop and by strong demand from the pork and poultry industries. If not for weekly government sales of very large stocks, prices would be even higher. Meanwhile, the price of soybeans is relatively low as is the resulting soy/corn price spread. The June spread was just R\$13 per sack, compared to R\$23 last year. This spread of R\$13 is the lowest in several years and well below what traders consider to be the "ideal" or normal spread of R\$20 per sack. Post believes that this spread, combined with a strong currency that impacts export-based soybeans more than corn, will lead to a shift from soybeans to corn in some areas of RGDS and Parana. Cooperatives recently visited by Post in RGDS confirm this and believe the area shift will be at a minimum between 5 to 10 percent.

Post believes that corn prices will increase further before harvest. The outlook for an increase in soybean prices is encouraging producers to withhold soybean sales and thus producers that need cash for payments are selling corn and thus restraining prices. However, with corn supplies diminishing, a spike in prices before planting in Oct/Dec is expected.

One indication that corn could replace some soy area is the increased planting of alternative winter crops. Wheat is generally the winter crop of choice when a producer plans to follow with summer soybeans, except in northern Parana where the normal rotation is winter corn

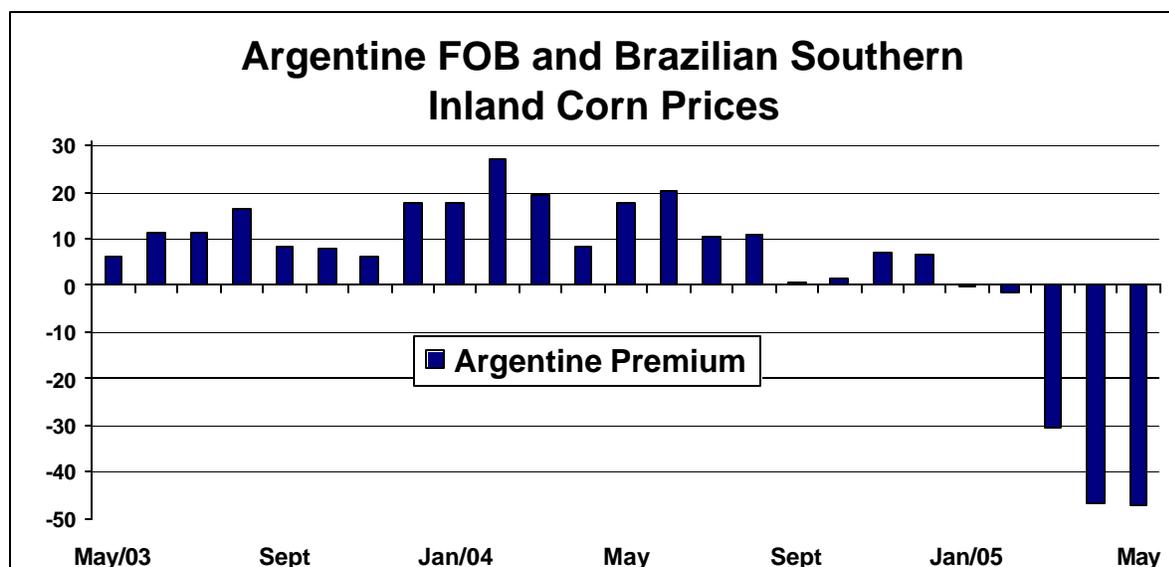
followed by soybeans. This is due primarily to the no-till and weed control advantages. However, when corn is planned as the summer crop producers tend to be less likely to plant wheat but rather plant oats, canola, or tittle. During a recent trip to Rio Grande do Sul we observed an increase in area of alternative winter crops. Cooperative agronomists reported that wheat plantings in some parts of the state are down as much as 20 percent and the situation is reported to be similar in portions of Parana.

<b>Corn and Soybean Crop Area</b>			
<b>(1,000 Hectares)</b>			
	2003/04	2004/05	2005/06
Corn Area	12,800	11,700	13,000
Soybean Area	21,500	22,800	23,000
Total Area	34,300	34,500	36,000
<b>Corn Percent of Total Area</b>	<b>37.3</b>	<b>33.9</b>	<b>36.1</b>

Along with a forecast increase in summer corn area, Post expects an increase in yields. Though import costs are still high, they have fallen over the past few months as the strong currency has reduced the price of imported fertilizers and chemicals. Therefore, the fall in costs should not only stimulate area to corn, as corn is a much more input intensive crop compared to soybeans, but lead to higher yields. Furthermore, reduced yields from the last harvest means that there are higher fertilizer residue levels in the soil than in normal crop years. This is particularly true in fields where a winter crop was not planted following summer corn or soybeans last year. Cooperative agronomists in the south recently reported to Post that although purchases of inputs for the summer crop are behind pace, they are expected to pick up and a reduction in inputs is not expected. Producers need a good corn crop to alleviate their financial troubles and are doing everything possible to achieve higher yields. This is contrary to the situation for winter crops, particularly wheat, where input use was reduced dramatically.

### Trade

Post forecasts 2004/05 (Oct/Sept) exports at just 1.5 million tons compared to 5.8 million tons in 2003/04. Exports were strong in February and March with nearly 800,00 tons shipped. However, shipments drastically fell in April and May with only 23,000 tons exported, which is only three percent of exports during the previous two months. Almost no additional exports are expected through the end of the trade year due to the strong Brazilian currency, rising internal prices due to strong internal demand and short crops, and very competitive prices for Argentine supplies (see chart below). Marketing year (March 2005 to February 2006) exports are forecast at just 800,000 tons. Meanwhile, Post lowered the 2005/06 trade and marketing year exports to 1.5 and 1.7 million tons respectively.



Despite the drastic drop in production, the internal supply situation is tempered by large carryin stocks, which are estimated by industry contacts at nearly 6.0 million tons. The government is selling stocks at low prices in order to compensate for the a restrictive import policy (see explanation below). Also aiding the internal supply situation is that exports are forecast to drop significantly (as mentioned above) due to intense international competition from low-priced supplies and an unfavorable exchange rate. While the current exchange rate is R\$2.40 to the dollar, the consensus among traders is that only at a rate above R\$2.90 to the dollar are exports possible. However, given the expected rise in prices, even at a very favorable exchange rate it is unlikely that Brazilian supplies will be competitive on the international market.

Post lowered the 2004/05 marketing and trade year import forecasts to 800,000 tons and 600,000 tons respectively. Purchases are impeded by the government's tight regulations on imports of biotech corn despite strong pressure from the powerful pork and poultry industries to allow imports. They argue that unless imports are allowed, the price of corn will increase and thus the higher prices for poultry will be passed on to consumers thereby impacting inflation. However, others in the poultry industry worry that imported biotech corn will impact sales to EU countries concerned over "GMO-raised" meat. One option is for imported corn to be segregated for poultry destined for internal use with conventional supplies set aside for production of exported poultry. However, the government policy now does not allow for further importation of roundup ready corn, thus effectively blocking all foreign supplies.

As the chart above illustrates, Argentine prices are currently more attractive in southern Brazil. The chart does not include freight and charges for the Argentine corn to arrive in southern Brazil, but traders estimate that the final price of Argentine corn after freight and charges is about U.S. \$135 to U.S. \$145 per ton. The chart shows the opposite direction in prices in the two countries. In December of 2003, the FOB Argentine price was over U.S. \$117 per ton but has now fallen to just U.S. \$87 per ton. Meanwhile, over the same period the price of Brazilian corn has risen from U.S. \$90 per ton to U.S. \$134 per ton. Part of the increase in Brazilian prices in U.S. dollar terms is due to the valuation of the Brazilian currency, which has risen nearly 25 percent over the past 12 months. The diminished summer and winter corn crops in Brazil and the large harvest in Argentina have also contributed to the current discount for Argentine corn.